



Consolidated Financial Results for the Second quarter of the Fiscal Year Ending March 31, 2015 [J-GAAP]

October 30, 2014

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
 Securities code: 7823 URL: <http://www.artnature.co.jp/>
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 Scheduled date of filing the quarterly financial report: November 14, 2014
 Scheduled date to start dividends distribution: December 2, 2014
 Supplementary quarterly materials prepared: No
 Explanation meeting for quarterly financial results: Yes (for institutional investors and analysts)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated results for the second quarter ended September 30, 2014 (April 1, 2014 – September 30, 2014)

(1) Consolidated operating results (Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2014	19,477	4.1	1,959	(30.1)	2,052	(27.5)	1,254	(22.5)
Six months ended September 30, 2013	18,703	14.7	2,803	39.5	2,833	39.5	1,618	35.0

Note: Comprehensive income: Six months ended September 30, 2014: ¥1,160 million (-31.4%)
 Six months ended September 30, 2013: ¥1,691 million (36.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2014	76.01	75.55
Six months ended September 30, 2013	102.11	101.45

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2014	36,589	22,156	60.4	1,338.19
As of March 31, 2014	37,754	21,408	56.5	1,294.23

(Reference) Equity capital: As of September 30, 2014: ¥22,097 million As of March 31, 2014: ¥21,349 million

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2014	—	25.00	—	30.00	55.00
Year ending March 31, 2015	—	25.00	—	—	—
Year ending March 31, 2015 (Forecast)	—	—	—	15.00	—

Note: 1. Revisions to the most recently announced dividend forecast during the period: No

2. The Company plans to conduct a 2-for-1 stock split of common shares with an effective date of November 1, 2014. The year-end dividend (forecast) for the fiscal year ending March 31, 2015 is based on the number of shares after the stock split. For more details, please refer to the section below, "(Reference) Earnings and dividend forecasts after the stock split."

3. Consolidated financial forecast for the fiscal year ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(Percentage figures show changes from the same period in the previous year.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	43,840	9.6	5,528	2.7	5,597	2.5	3,286	4.9	99.60

Note: 1. Revisions to the most recently announced earnings forecasts during the period: No

2. The Company plans to conduct a 2-for-1 stock split of common shares with an effective date of November 1, 2014. The year-end dividend (forecast) for the fiscal year ending March 31, 2015 is based on the number of shares after the stock split. For more details, please refer to the section below, "(Reference) Earnings and dividend forecasts after the stock split."

Notes:

(1) Significant changes to subsidiaries during the period (Transfers of specific subsidiaries with changes in the scope of consolidation): No

(2) Application of specific accounting methods for preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, accounting estimates and restatement of revisions

- | | |
|---|-----|
| 1) Changes in accounting policies due to revision of accounting standard, etc.: | Yes |
| 2) Changes in accounting policies other than 1): | No |
| 3) Changes in accounting estimates: | No |
| 4) Restatement of revisions: | No |

Note: For more details, please refer to page 3 of the supplementary materials, "2. Summary (notes) information, (3) Changes in accounting policies, accounting estimates and restatement of revisions."

(4) Number of outstanding shares (common stock):

1) Number of shares issued and outstanding (including treasury shares)	As of September 30, 2014	17,170,200 shares	As of March 31, 2014	17,167,800 shares
2) Number of treasury shares	As of September 30, 2014	657,569 shares	As of March 31, 2014	672,069 shares
3) Average number of shares issued and outstanding in each period	Six months ended September 30, 2014	16,501,137 shares	Six months ended September 30, 2013	15,855,150 shares

* **Disclosures related to the implementation of audit procedures**

The audit procedures for these quarterly consolidated financial statements in accordance with the Financial Instruments and Exchange Act had not been completed at the time of disclosure.

* **Explanation of appropriate use of forecasts of financial results; other important items**

(Cautionary statement with regard to the forward-looking statements, etc.)

The forward-looking statements in this document, including forecasts, are based on information available at the time of disclosure and on certain assumptions deemed to be reasonable by the Company. Actual results may differ materially from forward-looking statements due to a number of factors. For more details about these assumptions and other conditions that form the basis of these forecasts, please refer to page 3 of the supplementary materials, "1. Analysis of operating results and financial position, (3) Qualitative information on consolidated financial forecasts."

(Reference) Earnings and dividend forecasts after the stock split

At a meeting on October 15, 2014, the Board of Directors approved a resolution to conduct a 2-for-1 stock split of common shares with an effective date of November 1, 2014. Excluding the impact of the stock split, the Company's consolidated earnings and dividend forecasts for the fiscal year ending March 31, 2015 are as follows:

1. Consolidated earnings forecast for the fiscal year ending March 31, 2015 (net income per share)
Full year: ¥199.20
2. Dividend forecast for the fiscal year ending March 31, 2015 (dividend per share)
Year-end: ¥30.00

Note: Excluding the impact of the stock split, the Company's annual dividend forecast for the fiscal year ending March 31, 2015 is ¥55.00 per share.

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1. Analysis of operating results and financial position

(1) Analysis of operating results

In the first six months of fiscal 2015 (April – September 2014), the Japanese economy showed signs of recovery, supported by the government's economic policies and monetary easing measures. However, the outlook remained uncertain due to factors such as concerns about weaker consumer spending amid a pullback in demand after the consumption tax hike, and rising prices in Japan caused by the weak yen.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted further growth, based on four basic policies: establish a sales system that balances efficiency with high levels of customer satisfaction; create a global manufacturing system capable of rapidly delivering high-quality products at low cost; build a robust earnings structure by encouraging a greater emphasis on profits and by boosting productivity; and cultivate personnel that are resilient to change and establish a motivating workplace. Guided by these policies, the Group worked to improve customer retention by reinforcing product development capabilities and by improving the skills, customer service and product proposal capabilities of sales staff. The Group also actively held trial fitting events, expanded its network of JULIA OLGER salons, which sell ladies' ready-made wigs, made preparations for the startup of a new production site in Cambodia and implemented a range of other initiatives.

As a result, for the first six months of fiscal 2015, the Group reported net sales of ¥19,477 million, up 4.1% year on year. Operating income fell 30.1% year on year to ¥1,959 million, mainly due to the drop in sales and aggressive spending on sales promotion. Ordinary income declined 27.5% to ¥2,052 million and net income dropped 22.5% to ¥1,254 million.

Performances for each business segment were as follows

< Men's business >

Sales in the men's business rose 5.8% year on year to ¥11,463 million, due to initiatives such as reinforcing the customer supervisor system to improve customer retention and strengthening the skills, customer service and product proposal capabilities of sales staff.

< Ladies' business >

In the ladies' business, the Group implemented various initiatives. These included actively holding trial fitting events, working to improve customer satisfaction by enhancing the skills of sales staff, reinforcing customer follow-up support in stores, and enhancing technical capabilities to encourage customers to visit stores more regularly. However, these initiatives failed to offset the impact of the hike to consumption tax, with sales in the ladies' business declining 4.5% year on year to ¥6,223 million.

< Ladies' ready-made wigs business >

Sales in the JULIA OLGER business, which sells ladies' ready-made wigs, increased 39.8% year on year to ¥1,489 million, mainly due to aggressive new salon openings in shopping malls and other locations.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the end of the second quarter, total assets were ¥36,589 million, a decline of ¥1,165 million from the end of the previous fiscal year. This mainly reflected a drop in current assets of ¥1,745 million due to declines in cash and deposits and notes and accounts receivable – trade, versus an increase in non-current assets of ¥580 million due to increases in property, plant and equipment and intangible assets.

(Liabilities)

As of the end of the second quarter, liabilities totaled ¥14,433 million, a decline of ¥1,912 million from the end of the previous fiscal year. This mainly reflected a drop of ¥1,852 million in current liabilities, such as accounts payable – other, income taxes payable and advances received.

(Net Assets)

As of the end of the second quarter, net assets totaled ¥22,156 million, an increase of ¥747 million from the end of the previous fiscal year. This primarily reflected an increase of ¥829 million in retained earnings.

2) Cash flow position

As of the fiscal year-end, cash and cash equivalents (cash) totaled ¥16,131 million, a decrease of ¥578 million compared with the end of the previous fiscal year. The Company's cash flow position and factors behind changes in cash flows were as follows:

(Cash flows from operating activities)

Operating activities provided net cash of ¥1,074 million, compared with ¥181 million in the same period a year earlier. This mainly reflected income before income taxes and minority interests of ¥2,140 million, depreciation of ¥455 million and

decrease in notes and accounts receivable – trade of ¥1,406 million, versus decrease in accounts payable – other of ¥636 million, income taxes paid of ¥1,458 million, and other cash used of ¥574 million to support operating activities.

(Cash flows from investing activities)

Investing activities used net cash of ¥981 million, compared with ¥1,636 million in the same period of the previous fiscal year. This mainly reflected purchase of property, plant and equipment of ¥635 million, purchase of intangible assets of ¥293 million, and payments for lease and guarantee deposits of ¥144 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥619 million, compared with ¥462 million in the same period a year earlier. This mainly reflected cash dividends paid of ¥494 million and repayments of lease obligations of ¥125 million.

(3) Qualitative information on consolidated financial forecasts

The full-year financial forecasts announced on May 14, 2014 are unchanged.

2. Summary (notes) information

(1) Significant changes to subsidiaries during the period

There is no related information.

(2) Application of the specific accounting methods for preparing the quarterly consolidated financial statements

There is no related information.

(3) Changes in accounting policies, accounting estimates and restatement of revisions

(Application of “Accounting Standard for Retirement Benefits,” etc.)

Effective from the first quarter of fiscal 2015, the Company has applied the provisions in paragraph 35 of “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No.26, May 17, 2012) and the provisions in paragraph 67 of “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25, May 17, 2012). Accordingly, the Company reviewed the calculation method for retirement benefit obligations and service costs, retaining the straight-line method to attribute projected retirement benefit obligations to each fiscal period and changing the method for determining the discount rate to multiple discount rates for each period.

The application of the accounting standard for retirement benefits, etc. conforms with the transitional treatment stipulated in Item 37 of the Accounting Standard for Retirement Benefits, and the effect of the change in calculation method of retirement benefit obligations and service costs is adjusted in retained earnings at the start of the first quarter of the current fiscal year.

As a result, at the start of the first quarter of the current fiscal year, net defined benefit liability decreased by ¥109,439,000 and retained earnings increased by ¥70,435,000. The application of the accounting standard for retirement benefits, etc. had an immaterial impact on operating income, ordinary income and net income in the second quarter of the current fiscal year.

(Application of “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts”)

Effective from the first quarter of the current fiscal year, the Company adopted the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (Accounting Standards Board of Japan Practical Issues Task Force No. 30, December 25, 2013). However, the Company has continued to apply existing accounting policy to trust contracts that were concluded before the start of the first quarter of the fiscal year under review.

3. Going concern assumptions, etc.

There is no related information.

4. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2014	As of September 30, 2014
Assets		
Current assets		
Cash and deposits	14,690,314	14,111,526
Accounts receivable – trade	4,950,216	3,541,337
Securities	2,019,818	2,020,287
Merchandise and finished goods	1,511,546	1,560,320
Work in process	124,072	110,166
Raw materials and supplies	1,034,979	1,013,826
Others	1,541,692	1,768,975
Allowance for doubtful accounts	(19,677)	(18,988)
Total current assets	25,852,963	24,107,451
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,062,714	4,281,302
Others, net	2,772,537	2,807,456
Total property, plant and equipment	6,835,251	7,088,758
Intangible assets		
Others	445,670	664,478
Total intangible assets	445,670	664,478
Investments and other assets		
Others	4,684,435	4,792,117
Allowance for doubtful accounts	(63,527)	(63,178)
Total investments and other assets	4,620,907	4,728,938
Total non-current assets	11,901,830	12,482,176
Total assets	37,754,793	36,589,627

(Thousands of yen)

	As of March 31, 2014	As of September 30, 2014
Liabilities		
Current liabilities		
Notes and accounts payable – trade	358,818	205,023
Accounts payable – other	2,013,447	1,642,444
Income taxes payable	1,557,281	866,929
Advances received	4,802,951	4,166,447
Provision for bonuses	905,878	818,410
Provision for directors' bonuses	150,000	75,000
Provision for product warranties	31,206	28,861
Provision for point card certificates	67,760	70,491
Others	1,411,324	1,572,421
Total current liabilities	11,298,669	9,446,028
Non-current liabilities		
Provision for directors' retirement benefits	1,202,065	1,207,454
Net defined benefit liability	2,496,107	2,482,519
Asset retirement obligations	1,067,620	1,106,640
Others	281,382	190,802
Total non-current liabilities	5,047,176	4,987,416
Total liabilities	16,345,845	14,433,444
Net assets		
Shareholders' equity		
Capital stock	3,662,925	3,663,285
Capital surplus	3,550,447	3,551,434
Retained earnings	14,626,624	15,456,422
Treasury shares	(531,433)	(519,967)
Total shareholders' equity	21,308,564	22,151,175
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,329	4,944
Foreign currency translation adjustment	167,253	45,667
Remeasurements of defined benefit plans	(129,939)	(104,670)
Total accumulated other comprehensive income	40,643	(54,058)
Subscription rights to shares	51,368	49,563
Minority interests in income	8,371	9,501
Total net assets	21,408,947	22,156,182
Total liabilities and net assets	37,754,793	36,589,627

(2) Quarterly consolidated statements of income and comprehensive income
(Quarterly consolidated statements of income)

	(Thousands of yen)	
	Six months ended September 30, 2013	Six months ended September 30, 2014
Net sales	18,703,390	19,477,575
Cost of sales	4,956,401	5,292,790
Gross profit	13,746,988	14,184,785
Selling, general and administrative expenses	10,943,140	12,225,048
Operating income	2,803,848	1,959,737
Non-operating income		
Interest income	37,146	48,669
Dividend income	701	—
Gain on valuation of investment securities	7,909	45,329
Others	30,789	41,142
Total non-operating income	76,546	135,141
Non-operating expenses		
Foreign exchange losses	11,058	—
Guarantee commission	28,501	30,510
Others	7,754	11,668
Total non-operating expenses	47,315	42,179
Ordinary income	2,833,079	2,052,699
Extraordinary income		
Gain on sales of non-current assets	—	890
Compensation income	—	112,018
Total extraordinary income	—	112,909
Extraordinary losses		
Loss on retirement of non-current assets	9,427	24,848
Total extraordinary losses	9,427	24,848
Income before income taxes and minority interests	2,823,651	2,140,761
Income taxes – current	1,151,127	823,348
Income taxes – deferred	51,914	61,728
Total income taxes	1,203,041	885,076
Income before minority interests	1,620,610	1,255,684
Minority interests in income	1,718	1,449
Net income	1,618,891	1,254,234

(Statements of comprehensive income)

	(Thousands of yen)	
	Six months ended September 30, 2013	Six months ended September 30, 2014
Income before minority interests	1,620,610	1,255,684
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,158)	1,614
Foreign currency translation adjustment	72,492	(121,904)
Remeasurements of defined benefit plans	—	25,268
Total other comprehensive income	71,333	(95,021)
Comprehensive income	1,691,943	1,160,663
(Comprehensive income attributable to)		
Owners of the parent	1,689,903	1,159,532
Minority interests	2,040	1,130

(3) Quarterly consolidated statements of cash flows

	(Thousands of yen)	
	Six months ended September 30, 2013	Six months ended September 30, 2014
Cash flows from operating activities		
Income before income taxes	2,823,651	2,140,761
Depreciation	502,511	455,682
Increase (decrease) in allowance for doubtful accounts	3,556	(1,036)
Increase (decrease) in provision for bonuses	(6,490)	(87,479)
Increase (decrease) in provision for directors' bonuses	(75,000)	(75,000)
Increase (decrease) in provision for product warranties	(893)	(2,345)
Increase (decrease) in provision for point card certificates	7,688	2,731
Increase (decrease) in provision for retirement benefits	133,564	—
Increase (decrease) in provision for directors' retirement benefits	25,835	5,389
Increase (decrease) in net defined benefit liability	—	95,850
Interest and dividend income	(37,848)	—
Interest income	—	(48,669)
Loss on retirement of non-current assets	9,427	24,848
Loss (gain) on sales of non-current assets	—	(890)
Loss (gain) on valuation of investment securities	(7,909)	(45,329)
Decrease (increase) in notes and accounts receivable – trade	52,907	1,406,090
Decrease (increase) in inventories	(254,223)	(22,696)
Increase (decrease) in notes and accounts payable – trade	37,966	(152,571)
Increase (decrease) in advances received	(584,242)	(636,504)
Others	(1,335,382)	(574,622)
Subtotal	1,295,121	2,484,205
Interest and dividend income received	37,803	—
Interest income received	—	48,500
Income taxes paid	(1,151,844)	(1,458,107)
Net cash provided by (used in) operating activities	181,080	1,074,598
Cash flows from investing activities		
Purchase of securities	(2,000,000)	—
Proceeds from redemption of securities	1,000,000	—
Purchase of property, plant and equipment	(507,159)	(635,928)
Proceeds from sales of property, plant and equipment	—	1,507
Purchase of intangible assets	(65,204)	(293,781)
Collection of long-term loans receivable	723	388
Payments for lease and guarantee deposits	(79,584)	(144,507)
Proceeds from collection of lease and guarantee deposits	16,904	83,525
Others	(1,822)	7,771
Net cash provided by (used in) investing activities	(1,636,143)	(981,023)
Cash flows from financing activities		
Repayments of lease obligations	(66,136)	(125,153)
Proceeds from issuance of common shares	—	720
Purchase of treasury shares of subsidiaries	(58)	—
Cash dividends paid	(396,473)	(494,723)
Net cash provided by (used in) financing activities	(462,668)	(619,157)
Effect of exchange rate change on cash and cash equivalents	30,587	(52,736)
Net increase (decrease) in cash and cash equivalents	(1,887,143)	(578,319)
Cash and cash equivalents at beginning of period	14,885,330	16,710,133
Cash and cash equivalents at end of period	12,998,186	16,131,813

(4) Notes on quarterly consolidated financial statements

(Notes on the going concern assumption)

There is no related information.

(Notes on significant fluctuation in amounts of shareholders' equity)

There is no related information.