



Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019 [J-GAAP]

October 30, 2018

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
 Securities code: 7823 URL: <http://www.artnature.co.jp/english/index.html>
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 Scheduled date of filing the quarterly financial report: November 14, 2018
 Scheduled date to start dividends distribution: December 3, 2018
 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, 2018 (April 1, 2018 – September 30, 2018)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2018	17,927	0.6	1,418	35.6	1,489	32.9	920	137.8
Six months ended September 30, 2017	17,822	(4.7)	1,045	(7.4)	1,120	11.5	387	(38.5)

Note: Comprehensive income: Six months ended September 30, 2018: ¥834 million (187.9%)
 Six months ended September 30, 2017: ¥289 million (-30.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2018	28.25	28.12
Six months ended September 30, 2017	11.69	11.65

(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, 2018	41,066	24,296	58.9	743.01
As of March 31, 2018	40,888	24,021	58.6	731.51

(Reference) Equity capital: As of September 30, 2018: ¥24,182 million As of March 31, 2018: ¥23,946 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, 2018	—	14.00	—	14.00	28.00
Year ending March 31, 2019	—	14.00	—	—	—
Year ending March 31, 2019 (Forecast)	—	—	—	14.00	28.00

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

3. Consolidated financial forecast for the fiscal year ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	38,000	2.0	2,796	8.4	2,813	3.9	1,517	69.1	46.34

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

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.: | No |
| 2) Changes in accounting policies other than 1): | No |
| 3) Changes in accounting estimates: | No |
| 4) Restatement of revisions: | No |

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

1) Number of shares issued and outstanding (including treasury shares)	As of September 30, 2018	34,393,200 shares	As of March 31, 2018	34,393,200 shares
2) Number of treasury shares	As of September 30, 2018	1,846,838 shares	As of March 31, 2018	1,657,038 shares
3) Average number of shares issued and outstanding in each period	Six months ended September 30, 2018	32,598,381 shares	Six months ended September 30, 2017	33,143,005 shares

* **This quarterly kessan tanshin document is outside the scope of audit procedures conducted by certified public accountants or the independent auditor.**

* **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."

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1. Analysis of operating results and financial position

(1) Analysis of operating results

Operating results for the first six months of fiscal 2019

In the first six months of fiscal 2019 (April – September 2018), domestic corporate earnings strengthened, the employment environment continued to improve and consumer spending increased, albeit at a moderate pace. However, a string of natural disasters, including record rainfall in many regions, typhoons and earthquakes, and growing concerns about a downturn in the global economy caused by a trade dispute between the US and China contributed to an uncertain outlook.

Against this backdrop, the Group worked towards the goals of its medium-term management plan, the “ARTNATURE REBORN Plan” launched at the start of fiscal 2018. Specifically, the Company implemented a range of initiatives to progress the plan’s four key areas of focus – customer satisfaction, systemic reform, personnel training and employee satisfaction – into four outcomes.

As a result, consolidated net sales in the second quarter of the fiscal year increased 0.6% year on year to ¥17,927 million. Supported by the increase in net sales and efficient control of business costs, the Company reported operating income of ¥1,418 million (up 35.6%), ordinary income of ¥1,489 million (up 32.9%) and net income attributable to owners of the parent company of ¥920 million (up 137.8%).

< Men’s business >

Sales in the men’s business rose 2.9% year on year to ¥10,616 million. The business implemented a range of initiatives such as reinforcing the customer supervisor system to improve customer retention and strengthening the technical skills and customer service of sales staff to increase customer satisfaction.

< Ladies’ business >

Sales in the ladies’ business declined 1.6% year on year to ¥5,619 million. The business implemented various initiatives, such as efficiently and effectively holding trial fitting events, enhancing the skills, customer service and product proposal capabilities of sales staff, and building systems to create lasting long-term relationships with customers. However, sales were mainly affected by sluggish orders at trial fitting events.

< Ladies’ ready-made wigs business >

Sales in the JULLIA OLGIER business, which sells ladies’ ready-made wigs, declined 8.2% year on year to ¥1,179 million due to weak sales at existing stores, despite various initiatives such as highly targeted sales promotions at each salon and efforts to improve the skills, customer service and product proposal capabilities of sales staff.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the end of the second quarter, total assets were ¥41,066 million, an increase of ¥178 million from the end of the previous fiscal year. Current assets increased ¥140 million, and non-current assets increased ¥38 million.

(Liabilities)

As of the end of the second quarter, liabilities totaled ¥16,770 million, a decline of ¥95 million from the end of the previous fiscal year. That mainly reflected decreases of ¥16 million in current liabilities and ¥79 million in non-current liabilities.

(Net Assets)

As of the end of the second quarter, net assets were ¥24,296 million, an increase of ¥274 million from the end of the previous fiscal year. This largely reflected an increase in retained earnings, which outweighed a decline due to the purchase of treasury shares and a drop in foreign currency translation adjustment.

2) Cash flow position

As of the end of the second quarter, cash and cash equivalents (cash) totaled ¥17,303 million, an increase of ¥901 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 ¥2,217 million, compared with ¥1,497 million in the same period a year earlier. That mainly reflected income before income taxes of ¥1,480 million, depreciation of ¥487 million, decrease in notes and accounts receivable – trade of ¥614 million, and increase in net defined benefit liability of ¥114 million, versus decrease in provision for directors’ bonuses of ¥35 million and payments for other operating activity of ¥578 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥490 million, compared with ¥679 million in the same period a year earlier. That mainly reflected purchase of property, plant and equipment of ¥452 million and purchase of intangible assets of ¥76 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥818 million, compared with ¥748 million in the same period a year earlier. That mainly reflected repayments of long-term loans payable of ¥200 million, repayments of lease obligations of ¥12 million, purchase of treasury shares of ¥147 million and dividends paid of ¥458 million.

(3) Qualitative information on consolidated financial forecasts

The Company has not revised its consolidated forecasts for fiscal 2019 announced on May 15, 2018.

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

	(Millions of yen)	
	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	16,530	17,509
Notes and accounts receivable - trade	2,895	2,275
Securities	140	20
Merchandise and finished goods	1,385	1,417
Work in process	105	116
Raw materials and supplies	1,510	1,422
Others	859	806
Allowance for doubtful accounts	(1)	(1)
Total current assets	23,426	23,566
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,210	5,308
Others, net	3,957	3,912
Total property, plant and equipment	9,167	9,221
Intangible assets		
Others	846	781
Total intangible assets	846	781
Investments and other assets		
Others	7,504	7,553
Allowance for doubtful accounts	(56)	(56)
Total investments and other assets	7,447	7,497
Total non-current assets	17,462	17,500
Total assets	40,888	41,066

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Accounts payable – trade	151	242
Current portion of long-term loans payable	400	400
Accounts payable – other	2,413	1,625
Income taxes payable	162	713
Advances received	4,576	4,660
Provision for bonuses	845	854
Provision for directors' bonuses	110	75
Provision for product warranties	39	32
Provision for point card certificates	93	100
Others	995	1,067
Total current liabilities	9,788	9,772
Non-current liabilities		
Long-term loans payable	398	198
Net defined benefit liability	3,472	3,558
Asset retirement obligations	1,332	1,381
Others	1,873	1,859
Total non-current liabilities	7,077	6,998
Total liabilities	16,866	16,770
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,558
Retained earnings	17,560	18,022
Treasury shares	(821)	(963)
Total shareholders' equity	23,963	24,284
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	6
Foreign currency translation adjustment	88	(22)
Remeasurements of defined benefit plans	(106)	(86)
Total accumulated other comprehensive income	(16)	(102)
Subscription rights to shares	61	101
Non-controlling interests	13	12
Total net assets	24,021	24,296
Total liabilities and net assets	40,888	41,066

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

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	17,822	17,927
Cost of sales	5,696	5,776
Gross profit	12,126	12,150
Selling, general and administrative expenses	11,080	10,732
Operating income	1,045	1,418
Non-operating income		
Interest income	49	40
Foreign exchange gains	27	34
Others	36	26
Total non-operating income	113	101
Non-operating expenses		
Interest expenses	3	2
Guarantee commission	23	20
Others	11	7
Total non-operating expenses	38	30
Ordinary income	1,120	1,489
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Impairment loss	674	9
Total extraordinary losses	674	9
Income before income taxes	445	1,480
Income taxes – current	444	607
Income taxes – deferred	(386)	(47)
Total income taxes	57	559
Net income	387	920
Net income (loss) attributable to non-controlling interests	0	(0)
Net income attributable to owners of the parent company	387	920

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Net income	387	920
Other comprehensive income		
Valuation difference on available-for-sale securities	20	5
Foreign currency translation adjustment	(144)	(111)
Remeasurements of defined benefit plans	26	20
Total other comprehensive income	(97)	(85)
Comprehensive income	289	834
(Comprehensive income attributable to)		
Owners of the parent company	289	835
Non-controlling interests	0	(0)

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Income before income taxes	445	1,480
Depreciation	600	487
Impairment loss	674	9
Increase (decrease) in allowance for doubtful accounts	(7)	(0)
Increase (decrease) in provision for bonuses	(134)	8
Increase (decrease) in provision for directors' bonuses	(38)	(35)
Increase (decrease) in provision for product warranties	(3)	(6)
Increase (decrease) in provision for point card certificates	4	6
Increase (decrease) in provision for directors' retirement benefits	(1,664)	—
Increase (decrease) in net defined benefit liability	139	114
Interest income	(49)	(40)
Interest expenses	3	2
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable – trade	462	614
Decrease (increase) in inventories	167	17
Increase (decrease) in notes and accounts payable – trade	(1)	93
Increase (decrease) in advances received	91	84
Others	1,340	(578)
Subtotal	2,031	2,258
Interest income received	53	42
Interest expenses paid	(3)	(2)
Income taxes paid	(584)	(81)
Net cash provided by (used in) operating activities	1,497	2,217
Cash flows from investing activities		
Payments into time deposits	(110)	(225)
Proceeds from withdrawal of time deposits	110	274
Purchase of property, plant and equipment	(437)	(452)
Purchase of intangible assets	(224)	(76)
Collection of long-term loans receivable	0	0
Payments for lease and guarantee deposits	(9)	(33)
Proceeds from collection of lease and guarantee deposits	31	25
Others	(39)	(3)
Net cash provided by (used in) investing activities	(679)	(490)
Cash flows from financing activities		
Repayments of long-term loans payable	(200)	(200)
Repayments of lease obligations	(18)	(12)
Purchase of treasury shares	—	(147)
Cash dividends paid	(529)	(458)
Net cash provided by (used in) financing activities	(748)	(818)
Effect of exchange rate change on cash and cash equivalents	(32)	(6)
Net increase (decrease) in cash and cash equivalents	37	901
Cash and cash equivalents at beginning of period	15,515	16,401
Cash and cash equivalents at end of period	15,552	17,303

(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.

(Additional information)

Effective from the first quarter of the current fiscal year, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). As a result, the Company now classifies deferred tax assets as investments and other assets, and deferred tax liabilities as non-current liabilities.