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**Presentation Material**

**1H FY2019 (April 1<sup>st</sup>, 2018 to September 30<sup>th</sup>, 2018)**

***ARTNATURE INC.***

# **Overview of 1H FY2019 Results & Financial Forecast**

## Net Sales & Operating Income

(¥ million)

	1H FY2018 (Results)	1H FY2019 (Results)	YoY Change	Year-end (Plan)	Progress rate
Net Sales	17,822	17,927	+0.6%	38,000	47.2%
Operating Income	1,045	1,418	+35.6%	2,796	50.7%

## Breakdown of Net Sales

(¥ million)

	1H FY2018 (Results)	1H FY2019 (Results)	YoY Change	Year-end (Plan)	Progress rate
Men's Business	10,318	10,616	+2.9%	21,907	48.5%
Ladies' Business	6,997	6,799	(2.8%)	14,924	45.6%
Others	506	511	+0.9%	1,169	43.7%

※Ladies' Business including JULLIA OLGIER

■ Men's Business, ● Ladies' Business, ▲ JULLIA OLGIER, ◆ Other

## **【New products】**

- March, new release of hair addition system "MRP REBORN" .
- March, new release of custom-made wig "Pufeel Airlyfit".
- ◆ June, new release of haircare products "LABOMO/Cool Cube" .
- August, new release of custom-made wig "AIRYS".
- September, new release of hair addition system "MRP CONTROL SYSTEM".
- September, new release of custom-made wig "Pufeel Fuwari ".
- ▲ October, new release of ready-made wig "SARARA".

## **【New salon openings】**

- ▲ July, first Kansai in-hospital salon Hair Salon ANCS opens at Nara Medical University Hospital.

## Four key areas



## Boost profitability

**1st year**  
Foundation building

**2nd year**  
Sustainable growth

**3rd year**  
Recovery the result

**Sales  
and  
profit  
growth**

## Updates for Management Plans of FY2019

### Systemic reform of sales infrastructure

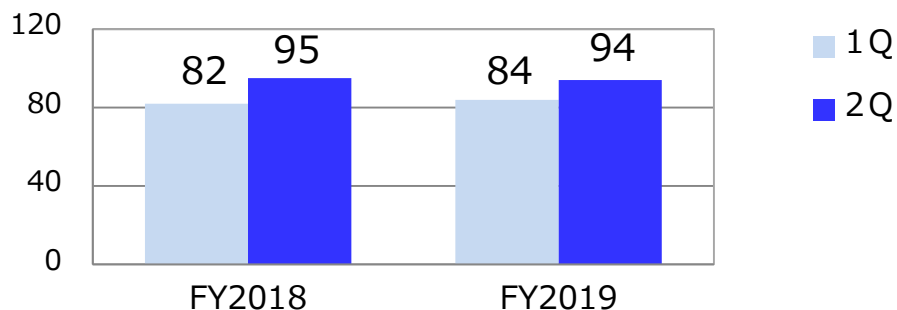
- The maintenance of the company systems is favorable
- The number of our customers leaving is decreasing

### Transition to a high earnings structure

- Integrating the business headquarters of Jullia Olger with Artnature and activating and improving efficiency of business activities

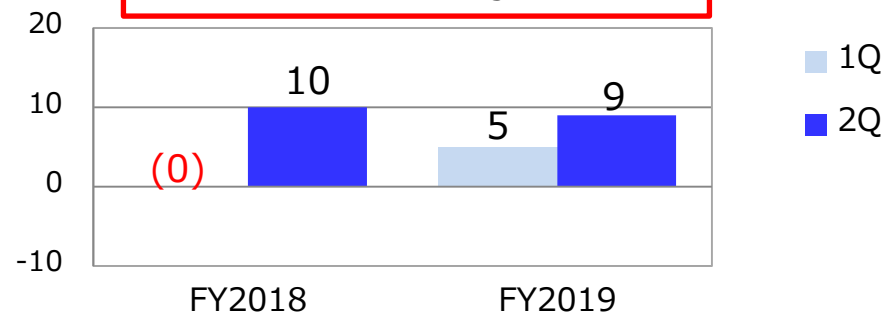
First Half Sales (¥ billion)

Proceeding according to plan



First Half Operating Profit (¥ billion)

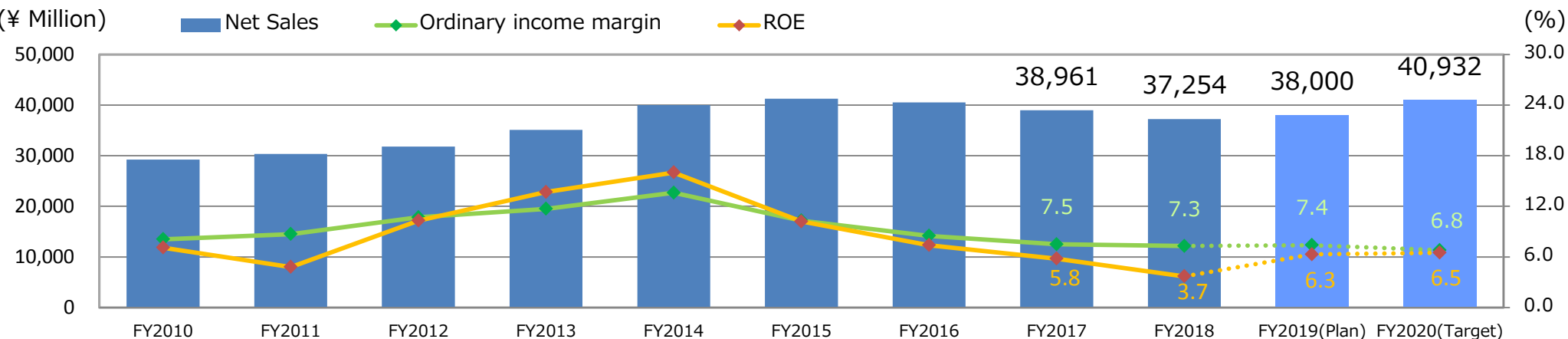
Large increase in profit due to controlling costs



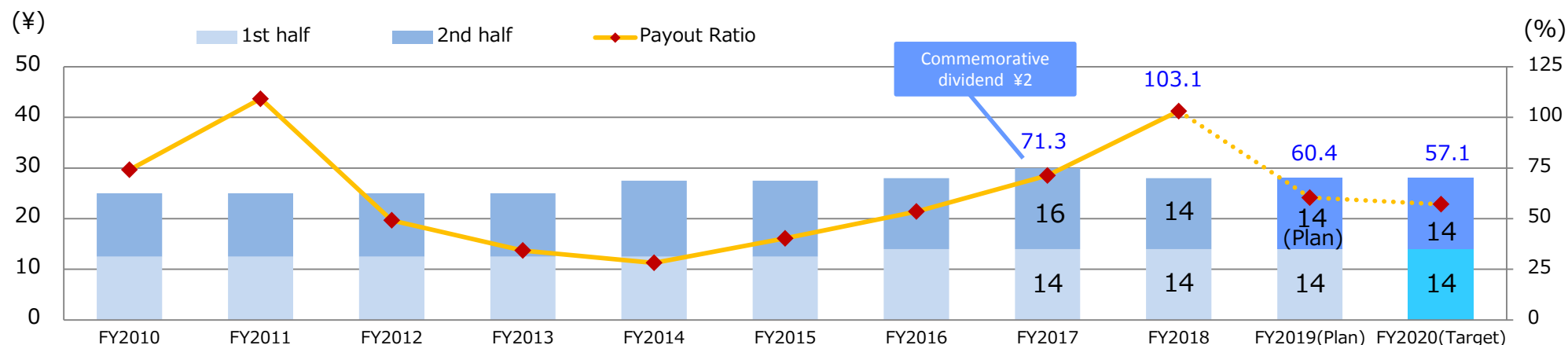
## Initiatives for second half

- ① Continuing to strengthen the business infrastructure for FY2019.
- ② Improving operation efficiency to strengthen profit structure.
- ③ Enhancement of human resource development and improvement of working conditions.
- ④ Continuing to prepare for new business startups

## FY 2020 (Target) Net Sales: ¥409 billion Ordinary Income Margin: 6.8% ROE: 6.5%



## Maintain Stable and Continuous Dividends



Artnature implemented a 2-for-1 stock split in November 2014.  
Retroactive revision of related financial indicators due to this stock split is reflected.



**Financial Results 1H FY2019  
&  
Financial Forecast FY2019**

# 1H FY2019: Financial Highlights

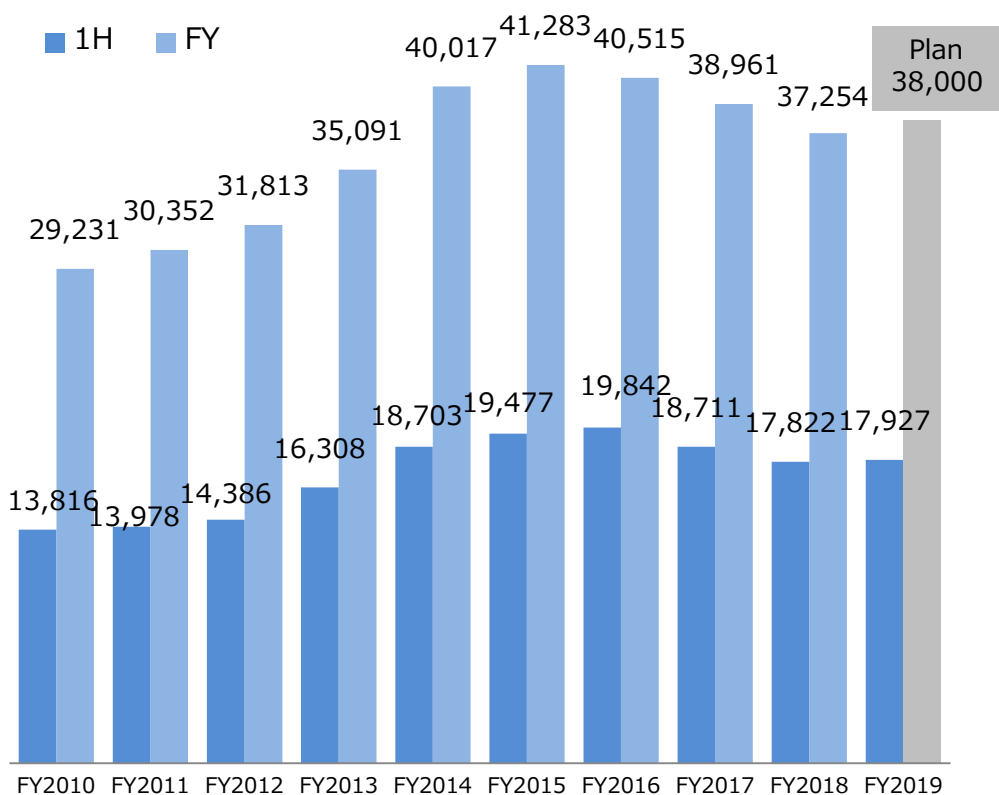


(¥ million)

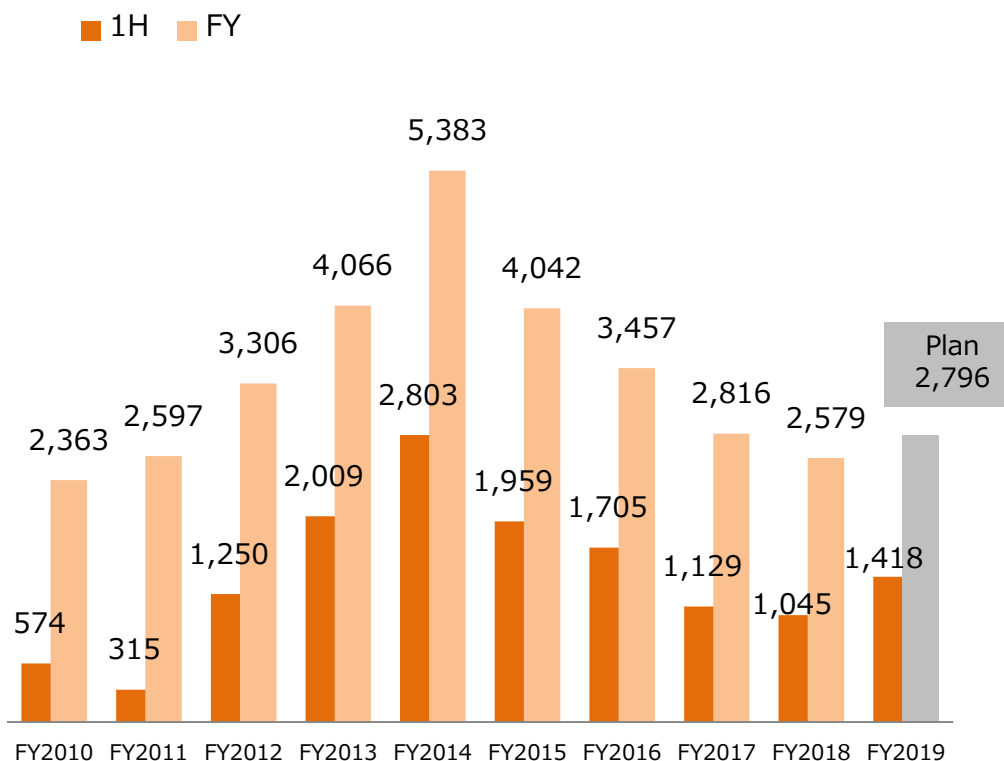
	1H FY2018 (Results)	1H FY2019 (Results)	FY2019 (Plan)	Major Factors behind YoY Change
Net Sales	17,822	17,927	38,000	Net Sales : Up 0.6% Men's Business : Up 2.9% Ladies' Business : Down 2.8%
Men's Business	10,318	10,616	21,907	
Ladies' Business	6,997	6,799	14,924	
Others	506	511	1,169	
Cost of Sales	5,696	5,776	12,024	Cost of Sales Ratio : Up 0.2 pt Product Cost : Down 1.1 pt HR : Up 1.4 pt
Gross Profit	12,126	12,150	25,976	
SG&A Expenses	11,080	10,732	23,179	SG&A Expenses Ratio : Down 2.3 Pt Ad Spending : Up 3.9% HR : Down 10.3% Other : Up 4.7%
Ad Spending	2,880	2,993	6,339	
HR	2,777	2,490	5,179	
Operating Income	1,045	1,418	2,796	
Ordinary Income	1,120	1,489	2,813	CAPEX
Net Income	387	920	1,517	Store facilities : ¥388 million System related : ¥60 million
Depreciation	526	461	1,001	
CAPEX	635	539	2,013	

# Net Sales and Operating Income Trends

Net Sales (¥ million)

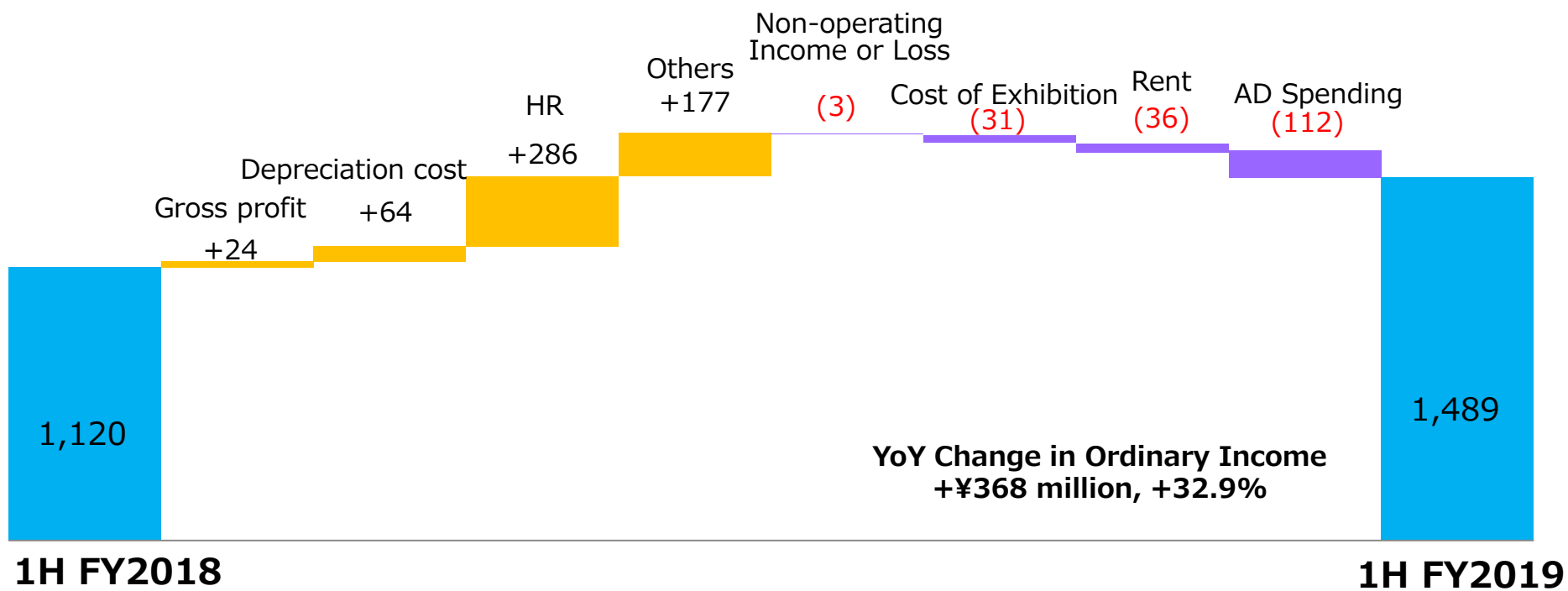


Operating Income (¥ million)

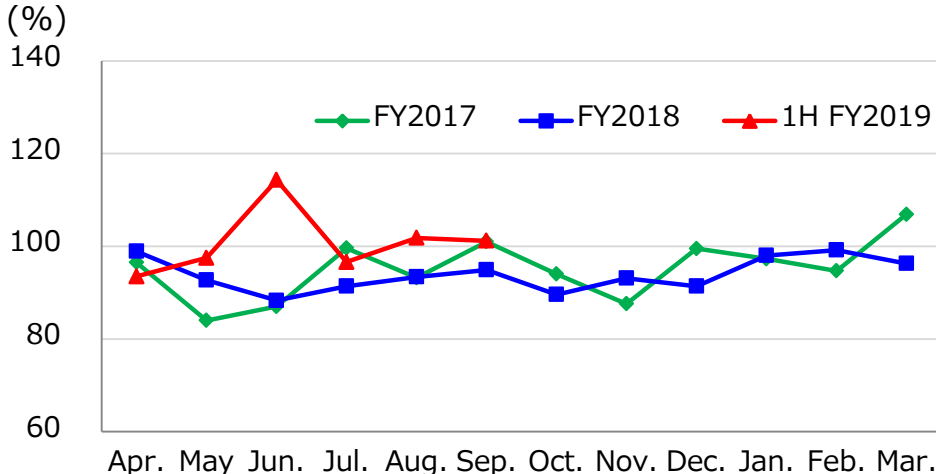


# 1H FY2019: Analysis of SG&A Expenses

(¥ million)



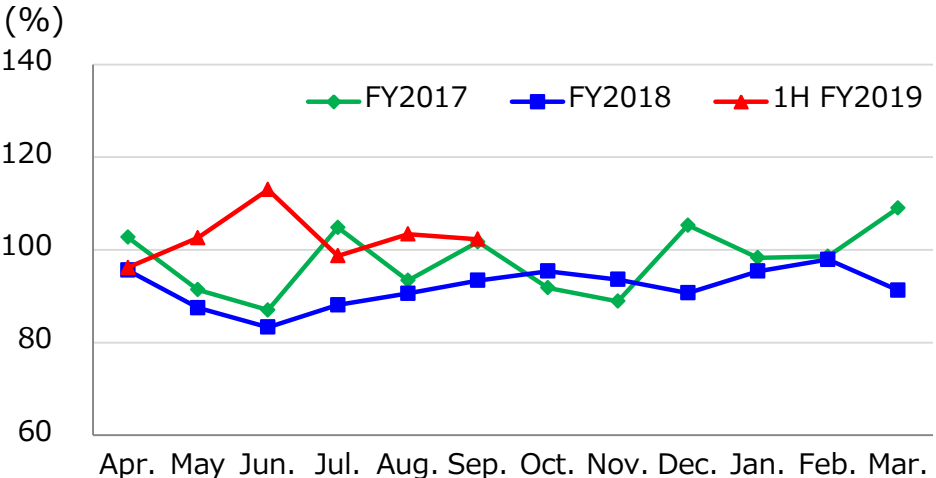
## Total Sales of Major Products



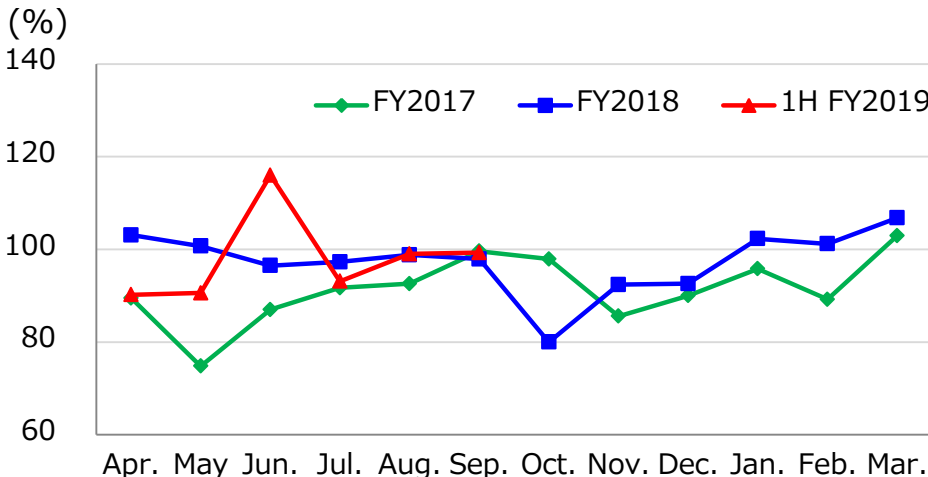
## Total Sales of Major Products (Half-year)

	Total	Men	Ladies
1H FY2017	93.5	96.6	88.7
1H FY2018	93.2	89.7	99.0
1H FY2019	100.8	102.7	97.8

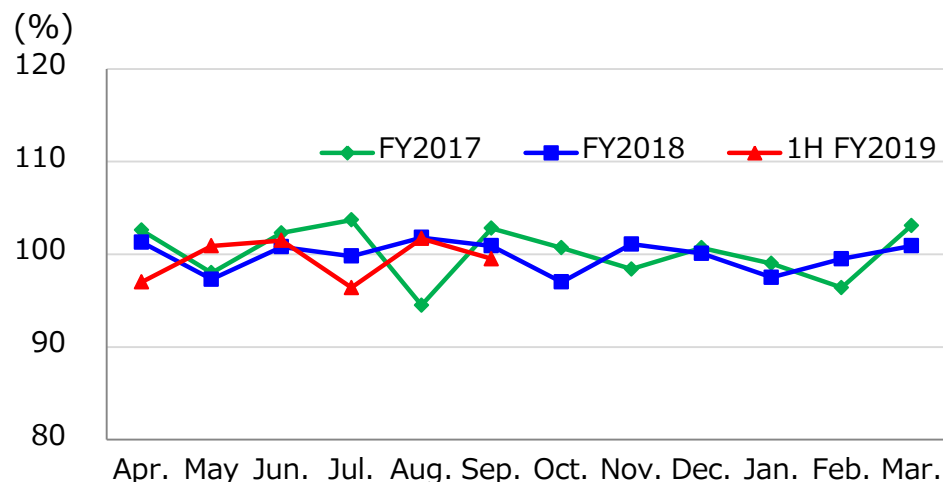
## Sales of Major Products (Men)



## Sales of Major Products (Ladies)



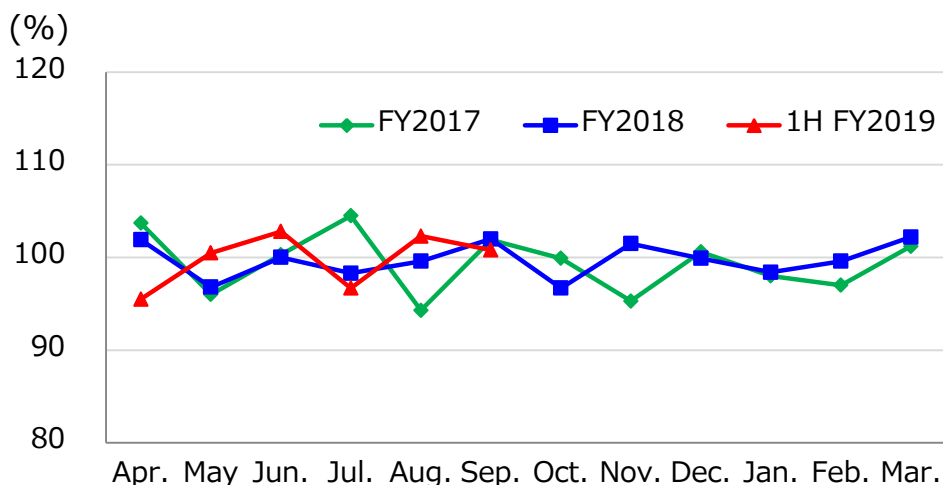
## Customer Traffic (Total)



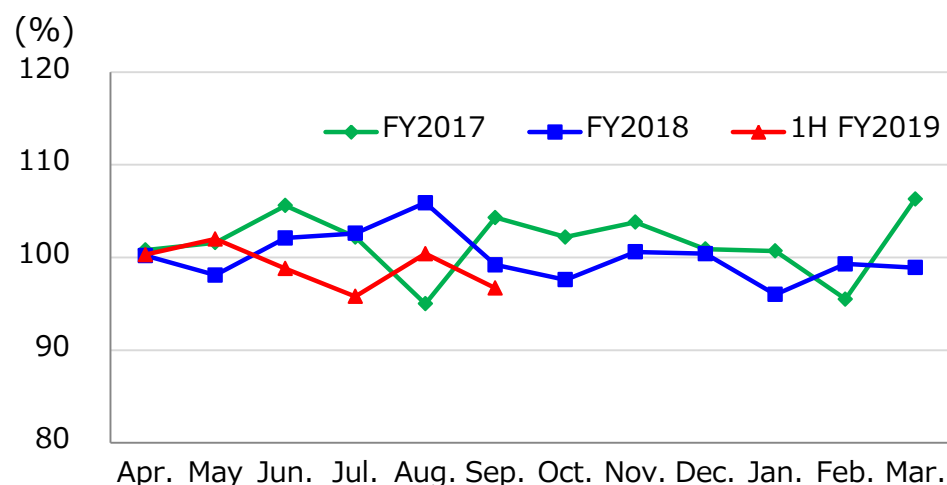
## Customer Traffic (Total, Half-year)

	Total	Men	Ladies
1H FY2017	100.6	100.0	101.6
1H FY2018	100.3	99.7	101.2
1H FY2019	99.5	99.7	99.0

## Customer Traffic (Men)



## Sales of Major Products (Ladies)



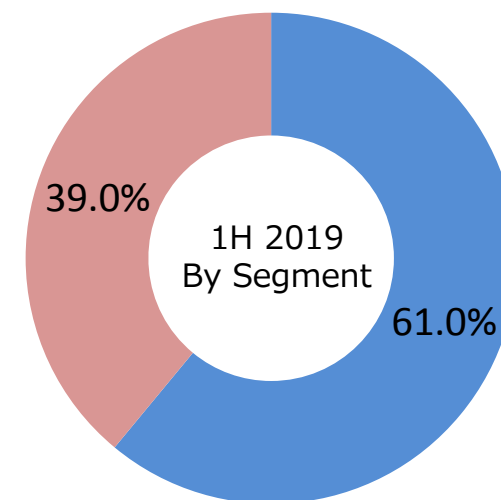
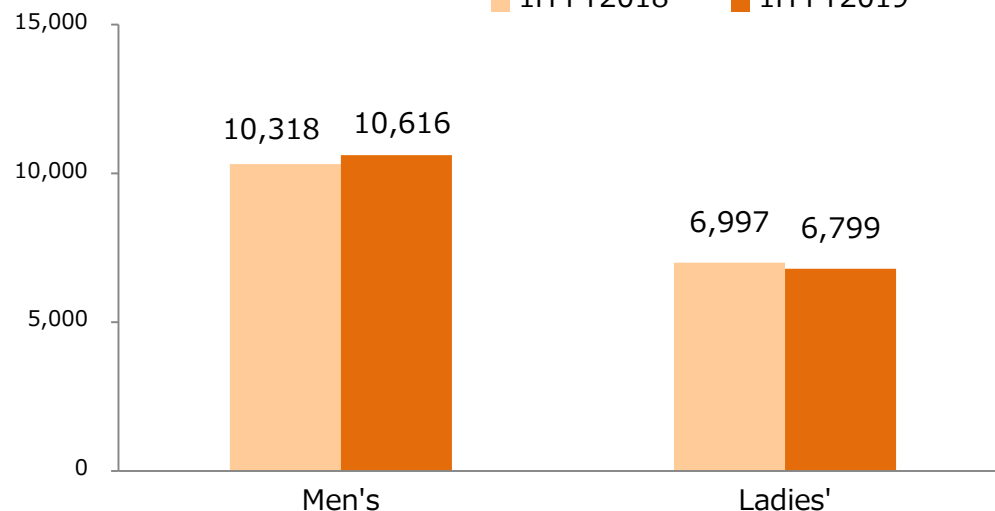
# 1H FY2019: Breakdown of Sales by Segment

(¥ million)

	1H FY2018 (Results)	1H FY2019 (Results)	YoY Change	Year-end (Plan)	Progress rate
Net Sales	17,822	17,927	+0.6%	38,000	47.2%
Men's Business	10,318	10,616	+2.9%	21,907	48.5%
Ladies' Business	6,997	6,799	(2.8%)	14,924	45.6%
Others	506	511	+0.9%	1,169	43.7%

(¥ million)

■ 1H FY2018 ■ 1H FY2019



■ Men's Business ■ Ladies' Business inc. JULLIA ORGER

# 1H FY2019: Breakdown of Sales Forecast by Product and Services (Non-consolidated Basis)



(¥ million)

Net Sales		1H FY2018	1H FY2019	YoY Change	
Custom-made Wigs	New Customers	1,525	1,537	+12	+0.8%
	Repeat Business	8,420	8,650	+229	+2.7%
	Total	9,945	10,187	+242	+2.4%
Hair Addition Products	New Customers	940	795	(144)	(15.4%)
	Repeat Business	1,250	1,258	+8	+0.7%
	Total	2,190	2,054	(136)	(6.2%)
Hair Growth Services	New Customers	68	56	(11)	(16.6%)
	Repeat Business	470	472	+1	+0.3%
	Total	538	528	(9)	(1.9%)
Styling Services		2,673	2,754	+80	+3.0%
JULLIA OLGER		1,284	1,179	(105)	(8.2%)
Others		1,088	1,123	+35	+3.2%
All Products & Services	New Customers	2,533	2,390	(143)	(5.7%)
	Repeat Business	13,497	13,846	+348	+2.6%
	JULLIA OLGER (Ladies' ready-made wigs)	1,284	1,179	(105)	(8.2%)
	Others	406	412	+6	+1.6%
	Total	17,722	17,828	+106	+0.6%

※Repeat business of all products including part of styling services and others.



# 1H FY2019: Breakdown of Sales by Product & Services in Men's Business (Non-consolidated Basis)

(¥ million)

Net Sales		1H FY2018	1H FY2019	YoY Change	
Custom-made Wigs	New Customers	380	358	(22)	(5.8%)
	Repeat Business	5,643	5,780	+136	+2.4%
	Total	6,024	6,138	+113	+1.9%
Hair Addition Products	New Customers	552	601	+48	+8.7%
	Repeat Business	725	782	+56	+7.8%
	Total	1,278	1,383	+105	+8.2%
Hair Growth Services	New Customers	60	51	(8)	(14.7%)
	Repeat Business	312	306	(5)	(1.7%)
	Total	372	358	(14)	(3.8%)
Styling Services		2,148	2,225	+77	+3.6%
Others		494	510	+16	+3.2%
All Products & Services	New Customers	993	1,011	+17	+1.7%
	Repeat Business	9,324	9,605	+280	+3.0%
	Total	10,318	10,616	+298	+2.9%

※Repeat business of all products including part of styling services and others.

## Men's Business

	Sales	Progress	Initiatives for Second Half
New Customers	Enhance customer service and product proposal capabilities	Enforcement of individual training for counseling skill reinforcement	Meetings or individual training reinforcement for area managers and sales staff  Strengthening instruction about management for area managers
	Establish a stronger sales district structure	Furthering activities of area managers to solve district problems	
	Improve customer retention	Confirmation of customer satisfaction by sales staff	
Repeat Customers	Increase customer satisfaction by reinforcing customer supervisor system	Strengthening instructions for individual stores by the head office based on the analysis of reinforcing customer supervisor system	Continuing appropriate advice and product-related suggestions  Improvement of shop training in the shops to reinforce ability to deal with customers  Improve business efficiency and reduction of overtime
	Enhance product proposal capabilities based on appropriate sales cycle	Normalization of the sale cycle based on the information associated with customers	
	Enhance technical and service skills for higher customer satisfaction	Implemented staff training to enhance haircut techniques and dealing with customers	
	Focus on effective salon management	Headquarters heightened staff awareness for sales volume and profits per person	

## Key product

◆ New hair addition system "MRP CONTROL SYSTEM"

Features : New hair addition system by gathering the technique of "MRP Series" which utilize own hair. "MRP CONTROL SYSTEM" is available freely to put back the hair restoring position to hair roots even when the own hair grows.



# 1H FY2019: Breakdown of Sales Forecast by Products and Services Men's Business (Non-consolidated Basis)



(¥ million)

	FY2018		FY2019				
	1H (Results)	Year-end (Results)	1H (Results)	YoY Change	Year-end (Plan)	YoY Change	Progress rate
Custom-made Wigs	6,024	12,990	6,138	+1.9%	12,604	(3.0%)	48.7%
Hair Addition Products	1,278	2,642	1,383	+8.2%	3,101	+17.4%	44.6%
Hair Growth Services	372	725	358	(3.8%)	882	+21.5%	40.7%
Styling Services	2,148	4,247	2,225	+3.6%	4,374	+3.0%	50.9%
Others	494	966	510	+3.2%	943	(2.3%)	54.1%
<b>Total</b>	<b>10,318</b>	<b>21,573</b>	<b>10,616</b>	<b>+2.9%</b>	<b>21,907</b>	<b>+1.5%</b>	<b>48.5%</b>

# 1H FY2019: Breakdown of Sales Forecast by Products and Services

## Ladies' Business (Non-consolidated Basis)



(¥ million)

Net Sales		1H FY2018	1H FY2019	YoY Change	
Custom-made Wigs	New Customers	1,145	1,179	+34	+3.0%
	Repeat Business	2,776	2,870	+93	+3.4%
	Total	3,921	4,049	+128	+3.3%
Hair Addition Products	New Customers	387	194	(193)	(49.8%)
	Repeat Business	524	475	(48)	(9.3%)
	Total	912	670	(241)	(26.5%)
Hair Growth Services	New Customers	7	4	(2)	(32.9%)
	Repeat Business	158	165	+6	+4.2%
	Total	165	170	+4	+2.6%
Styling Services		525	529	+3	+0.7%
Others		1,472	1,380	(92)	(6.3%)
All Products & Services	New customers	1,539	1,379	(160)	(10.4%)
	Repeat business	4,173	4,240	+67	+1.6%
	JULLIA OLGIER	1,284	1,179	(105)	(8.2%)
	Total	6,997	6,799	(198)	(2.8%)

※Repeat business of all products including part of styling services and others.

## Ladies' Business

	Sales	Progress	Initiatives for second half
New Customers	Plan effective fitting trial events (preparing proper timing / location / contents based on form data)	Achieved certain result at the events held in the department stores, but struggled at the events held in other places because of difficulties of differentiation products from competitors.	Differentiating service from others in special events and cooperating positively with Jullia Olger
	Repeat Customers	Enhance technical skills, customer service and product proposal capabilities	
JULLIA OLGER . Others	Increase sales for repeat customers by making good use of customer management systems	Improving efficiency in sales for repeat customers through reservation function of customer management system Contributing to become regular customers by a timely approach	Strengthening follow up activities for repeat customers through customer management system  Seeking alternative terrestrial broadcasting marketing channels  Continue to open in-hospital salons / Enhancing cooperation with two insurance companies
	Increase TV shopping broadcasts and seek alternative marketing channels	Securing broadcasting rights in TV shopping programs such as "Shop Channel" in the previous year	
	Promote medical wigs and increase marketing opportunities	Second in-hospital salon opened /Improving recognition of medical wigs by cooperating with two insurance companies	

## Key product

◆ New Custom-made wig "Pufeel Fuwari"  
Features: In addition to keeping the feature of "Pufeel series" of "light, soft, and thin", this new products accomplish more fluffy volume due to using the fine mesh net.



◆ New Ready-made wig "SARARA"  
Features: The raw material of Japanese paper is used as the base net of this product. The positive points of this product are: absorbent, comfortable, deodorant, and UV protection."



# 1H FY2019: Breakdown of Sales Forecast by Products and Services Ladies' Business (Non-consolidated Basis)



(¥ million)

	FY2018		FY2019				
	1H (Results)	Year-end (Results)	1H (Results)	YoY Change	Year-end (Plan)	YoY Change	Progress rate
Custom-made Wigs	3,921	8,165	4,049	+3.3%	8,256	+1.1%	49.0%
Hair Addition Products	912	1,581	670	(26.5%)	1,501	(5.0%)	44.7%
Hair Growth Services	165	332	170	+2.6%	348	+4.9%	48.9%
Styling Services	525	1,043	529	+0.7%	1,084	+4.0%	48.8%
JULLIA OLGER	1,284	3,102	1,179	(8.2%)	3,308	+6.6%	35.7%
Others	187	393	200	+6.8%	424	+8.0%	47.2%
<b>Total</b>	<b>6,997</b>	<b>14,617</b>	<b>6,799</b>	<b>(2.8%)</b>	<b>14,924</b>	<b>+2.1%</b>	<b>45.6%</b>

# FY2019: Breakdown of Sales Forecast by Products and Services (Non-consolidated Basis)



(¥ million)

	FY2018		FY2019				
	1H (Results)	Year-end (Results)	1H (Results)	YoY Change	Year-end (Plan)	YoY Change	Progress rate
Custom-made Wigs	9,945	21,156	10,187	+2.4%	20,861	(1.4%)	48.8%
Hair Addition Products	2,190	4,223	2,054	(6.2%)	4,603	+9.0%	44.6%
Hair Growth Services	538	1,057	528	(1.9%)	1,230	+16.3%	43.0%
Styling Services	2,673	5,291	2,754	+3.0%	5,459	+3.2%	50.5%
JULLIA OLGER	1,284	3,102	1,179	(8.2%)	3,308	+6.6%	35.7%
Others	1,088	2,215	1,123	+3.2%	2,242	+1.2%	50.1%
<b>Total</b>	<b>17,722</b>	<b>37,047</b>	<b>17,828</b>	<b>+0.6%</b>	<b>37,705</b>	<b>+1.8%</b>	<b>47.3%</b>

# FY2019: Financial Forecast



(¥ million)

	FY2018		FY2019			
	1H FY2018 (Results)	Year-end (Results)	1H FY2019 (Results)	YoY Change	Year-end (Plan)	YoY Change
Net Sales	17,822	37,254	17,927	+0.6%	38,000	+2.0%
Men's Business	10,318	21,573	10,616	+2.9%	21,907	+1.5%
Ladies' Business	6,997	14,617	6,799	(2.8%)	14,924	+2.1%
Others	506	1,063	511	+0.9%	1,169	+9.9%
Cost of Sales	5,696	11,594	5,776	+1.4%	12,024	+3.7%
Gross Profit	12,126	25,659	12,150	+0.2%	25,976	+1.2%
SG&A Expenses	11,080	23,080	10,732	(3.1%)	23,179	+0.4%
Ad Spending	2,880	6,335	2,993	+3.9%	6,339	+0.1%
HR	2,777	5,480	2,490	(10.3%)	5,179	(5.5%)
Operating Income	1,045	2,579	1,418	+35.6%	2,796	+8.4%
Ordinary Income	1,120	2,707	1,489	+32.9%	2,813	+3.9%
Net Income	387	897	920	+137.8%	1,517	+69.1%
Depreciation	526	1,077	461	(12.3%)	1,001	(7.1%)
CAPEX	635	1,359	539	(15.0%)	2,013	+48.1%





<http://www.artnature.co.jp/english/index.html>

#### **Forward-looking Statements**

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.

#### **ARTNATURE INC. Investor Relations Office**

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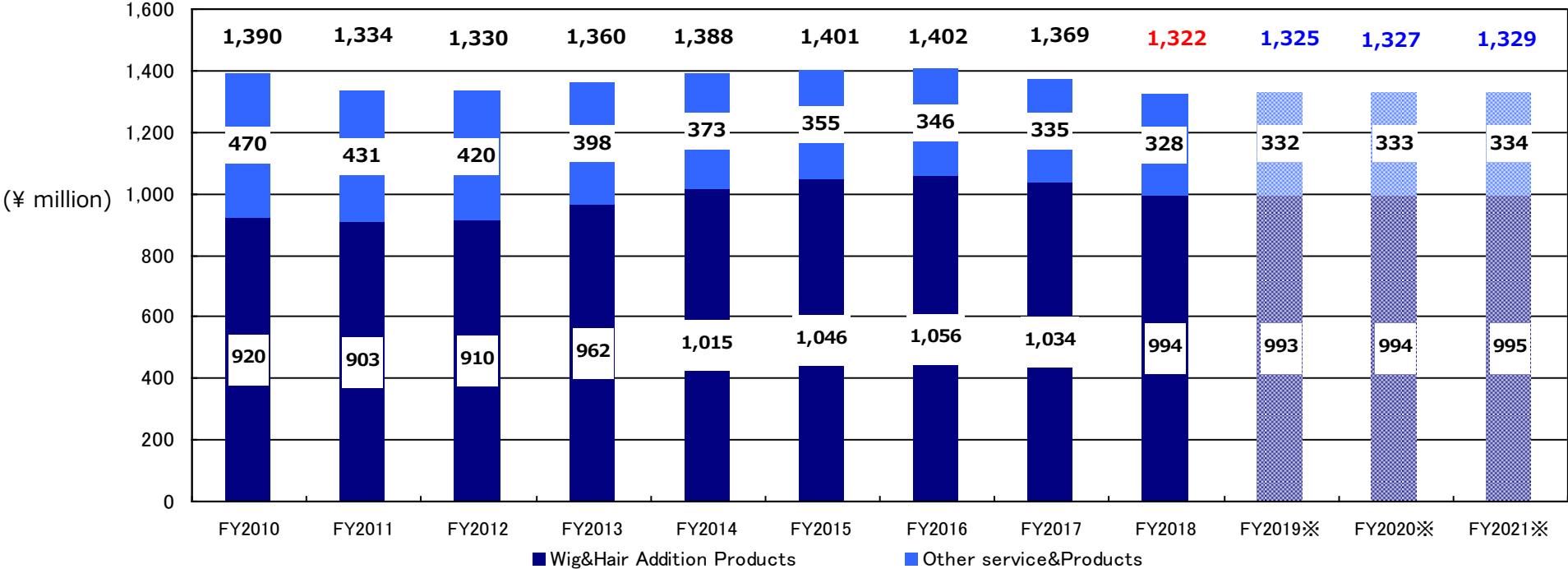
# Reference Material

## Hair Product Manufacturing Market

The economic downturn caused by the Lehman shock in the autumn of 2008 caused sluggishness in consumer spending. In addition, the adjacent market increased competition. The market was able to expand from 2012 as companies enhanced the promotion of ladies' wigs, and repeat sales for men's wigs expanded. In 2016 new entrants and small/medium-sized businesses introduced low priced products to the market, which caused a fall in sales to 132,200 million yen, 96.6% of the total in the previous year.

### Market Issues • Issues and Prospects

- Ladies' market expanded by recognized and penetrated the low priced products. The issue is the differentiation from its homogeneous.
- The demand stimulation in men's market and advance into overseas potential markets.
- Expansion of sales in hair care products and effect of synergies. The aging of society and the growing interest in aging care products creates potential demand in the market. The market is expected to gradually expand from 2018.



Source of: Yano Research Institute Ltd.「Hair care marketing general view」\*1. Based on companies \*2. \* Predicted value

(¥ million)(lower part composition ratio)

	1H FY2018	1H FY2019	YoY Change
Net Sales	17,822 (100.0%)	17,927 (100.0%)	+0.6%
Gross Profit	12,126 (68.0%)	12,150 (67.8%)	+0.2%
SG&A Expenses	11,080 (62.2%)	10,732 (59.9%)	(3.1%)
Operating Income	1,045 (5.9%)	1,418 (7.9%)	+35.6%
Ordinary Income	1,120 (6.3%)	1,489 (8.3%)	+32.9%
Net Income	387 (2.2%)	920 (5.1%)	+137.8%

(¥ million)(lower part composition ratio)

	FY2019				
	1H FY2019 (Results)	YoY Change	Year-end (Plan)	YoY Change	Progress rate
Net Sales	17,927 (100.0%)	+0.6%	38,000 (100.0%)	+2.0%	47.2%
Gross Profit	12,150 (67.8%)	+0.2%	25,976 (68.4%)	+1.2%	46.8%
SG&A Expenses	10,732 (59.9%)	<b>(3.1%)</b>	23,179 (61.0%)	+0.4%	46.3%
Operating Income	1,418 (7.9%)	+35.6%	2,796 (7.4%)	+8.4%	50.7%
Ordinary Income	1,489 (8.3%)	+32.9%	2,813 (7.4%)	+3.9%	52.9%
Net Income	920 (5.1%)	+137.8%	1,517 (4.0%)	+69.1%	60.7%

# Consolidated Balance Sheets

(¥ million)

	As of March 31, 2018		As of September 30, 2018		Rate of change	Major Factors behind YoY Change
		Composition ratio		Composition ratio		
Total Current Assets	23,426	57.3%	23,566	57.4%	+0.6%	Current assets
Cash and Deposits	16,530	40.4%	17,509	42.6%	+5.9%	<ul style="list-style-type: none"> <li>• Cash and deposits +978</li> <li>• Accounts receivable – trade</li> </ul>
Total Non-current Assets	17,462	42.7%	17,500	42.6%	+0.2%	(620)
Total Property, Plant and Equipment	9,167	22.4%	9,221	22.5%	+0.6%	<ul style="list-style-type: none"> <li>• Securities (199)</li> <li>• Inventory (44)</li> </ul>
Total Assets	40,888	100.0%	41,066	100.0%	+0.4%	Non-current assets
Total Current Liabilities	9,788	23.9%	9,772	23.8%	(0.2%)	<ul style="list-style-type: none"> <li>• Investment securities (2)</li> <li>• Property, plant and equipment +53</li> </ul>
Advances Received	4,576	11.2%	4,660	11.3%	+1.8%	• Intangible assets (64)
Total Non-current Liabilities	7,077	17.3%	6,998	17.0%	(1.1%)	Current liabilities
Total Liabilities	16,866	41.2%	16,770	40.8%	(0.6%)	<ul style="list-style-type: none"> <li>• Advances received +84</li> <li>• Accrued income taxes +551</li> <li>• Accounts payable (788)</li> </ul>
Total Net Assets	24,021	58.8%	24,296	59.2%	+1.1%	Net assets
Retained Earnings	17,560	42.9%	18,022	43.9%	+2.6%	<ul style="list-style-type: none"> <li>• Retained earnings +462</li> </ul>
Total Liabilities and Net Assets	40,888	100.0%	41,066	100.0%	+0.4%	(Net income +920) (Cash dividends paid (458) )

(¥ million)

	As of September 30, 2017	As of September 30, 2018	Major Factors behind YoY Change
Net cash provided by (used in) operating activities	1,497	2,217	Net cash provided by (used in) operating activities
Net cash provided by (used in) investing activities	(679)	(490)	<ul style="list-style-type: none"> <li>• Impairment loss (665)</li> <li>• Advances received (6)</li> <li>• Decrease (increase) in notes and accounts receivable – trade +152</li> <li>• Income before income taxes +1,034</li> </ul>
Free cash flow	818	1,726	
Net cash provided by (used in) financing activities	(748)	(818)	Net cash provided by (used in) investing activities
Cash and cash equivalents at the beginning of period	15,515	16,401	<ul style="list-style-type: none"> <li>• Purchase of property, plant and equipment (15)</li> <li>• Purchase of investment securities +147</li> </ul>
Cash and cash equivalents at the end of period	15,552	17,303	Net cash provided by (used in) financing activities
Net increase (decrease) in cash and cash equivalents	37	901	<ul style="list-style-type: none"> <li>• Cash dividends paid +71</li> <li>• Treasury stock acquisition (147)</li> </ul>