Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 [J-GAAP]

May 15, 2019

Name of listed company:	ARTNATURE INC.	Listed on: Tokyo Stock Exchange
Securities code:	7823	URL: https://www.artnature.co.jp/english/index.html
Representative:	Yoshikata Igarashi, Chairman and President	
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Scheduled date of holding the ordinary general meeting of shareholders:		June 20, 2019
Scheduled date to start dividends distribution:		June 21, 2019
Scheduled date of filing the financial report:		June 21, 2019
Supplementary documents for this summary of financial statements:		No
Explanation meeting for financial results:		Yes (for institutional investors and analysts)

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

1. Consolidated results for the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(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	%
Year ended March 31, 2019	37,985	2.0	3,227	25.1	3,308	22.2	1,864	107.8
Year ended March 31, 2018	37,254	(4.4)	2,579	(8.4)	2,707	(7.4)	897	(35.6)

Note: Comprehensive income: Year ended March 31, 2019: ¥1,761 million (101.8%) Year ended March 31, 2018: ¥872 million (-34.4%)

	Net income per share	Fully diluted net income per share	Return on shareholders' equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2019	57.23	56.94	7.7	7.9	8.5
Year ended March 31, 2018	27.17	27.08	3.7	6.6	6.9

(Reference) Equity in earnings of affiliates: Year ended March 31, 2019: ¥— million Year ended March 31, 2018: ¥— million

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2019	42,971	24,767	57.4	757.39
As of March 31, 2018	40,888	24,021	58.6	731.51

(Reference) Equity capital: As of March 31, 2019: ¥24,655 million As of March 31, 2018: ¥23,946 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2019	4,449	(1,333)	(1,481)	17,986
Year ended March 31, 2018	3,686	(1,000)	(1,756)	16,401

2. Dividends

	Dividends per share					Total dividends (annual)	Dividends payout ratio (consolidated)	Dividends on net assets (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2018	—	14.00	—	14.00	28.00	922	103.1	3.8
Year ended March 31, 2019	—	14.00	—	14.00	28.00	911	48.9	3.8
Year ending March 31, 2020 (Forecast)	—	14.00	—	14.00	28.00		44.9	

3. Consolidated financial forecast for the fiscal year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(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	39,368	3.6	3,377	4.7	3,425	3.5	2,031	9.0	62.40

Notes:

(1) Significant changes to subsidiaries during the term (Transfers of specific subsidiaries with changes in the scope of consolidation): None

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

1) Changes in accounting policies due to revision of accounting standard, etc.: None
2) Changes in accounting policies other than 1): None
3) Changes in accounting estimates: None
4) Restatement of revisions: None

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

1) Number of shares issued and outstanding (including treasury shares)	As of March 31, 2019	34,393,200 shares	As of March 31, 2018	34,393,200	shares
2) Number of treasury shares	As of March 31, 2019	1,839,739 shares	As of March 31, 2018	1,657,038	shares
3) Average number of shares issued and outstanding in each period	Year ended March 31, 2019	32,573,647 shares	Year ended March 31, 2018	33,029,633	shares

*** This 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, etc., (4) Business forecasts.”

Contents

1. Analysis of operating results, etc.

(1) Analysis of operating results

In fiscal 2019, ended March 31, 2019, 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, had a negative impact on the Japanese economy, and growing uncertainties about the global economy caused by a trade dispute between the US and China contributed to an unpredictable 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 fiscal 2019 rose 2.0% year on year to ¥37,985 million. Operating income increased 25.1% to ¥3,227 million, supported by growth in sales and efficient cost control. Ordinary income rose 22.2% to ¥3,308 million and net income attributable to owners of the parent company increased 107.8% to ¥1,864 million, with sales and profits both rising compared with the previous fiscal year.

< Men’s business >

Sales in the men’s business increased 2.4% year on year to ¥22,086 million. The business implemented a range of initiatives, such as reinforcing the customer supervisor system to improve customer retention and strengthening the skills and customer service capabilities of sales staff to improve customer satisfaction, leading to an increase in sales from repeat customers.

< Ladies’ business >

Sales in the ladies’ business rose 0.2% year on year to ¥11,541 million due to an increase in sales from repeat customers. The business implemented various initiatives such as holding efficient and effective sales shows and 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.

< Ladies’ ready-made wigs business >

Sales in the JULLIA OLGER business, which sells ladies’ ready-made wigs, increased 3.1% year on year to ¥3,199 million due to an increase in same-store sales. Sales growth was supported by various measures, such as highly targeted sales promotions at each salon and efforts to improve the skills, customer service and product proposal capabilities of sales staff, and by a successful tenth anniversary campaign.

(2) Analysis of financial position

(Assets)

As of the fiscal year-end, total assets were ¥42,971 million, an increase of ¥2,082 million compared with the end of the previous fiscal year. Current assets increased ¥1,780 million, mainly due to increases in cash and deposits and accounts receivable - trade, while non-current assets increased ¥302 million, primarily due to an increase in deferred tax assets.

(Liabilities)

As of the fiscal year-end, liabilities totaled ¥18,203 million, an increase of ¥1,336 million compared with the end of the previous fiscal year. This mainly reflected an increase of ¥1,424 million in current liabilities due to an increase in income taxes payable and a decrease of ¥87 million in non-current liabilities due to a decrease in long-term loans payable.

(Net Assets)

As of the fiscal year-end, net assets totaled ¥24,767 million, an increase of ¥746 million compared with the end of the previous fiscal year. This primarily reflected an increase of ¥950 million in retained earnings.

(3) Analysis of cash flow

As of the fiscal year-end, cash and cash equivalents (cash) totaled ¥17,986 million, an increase of ¥1,585 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 ¥4,449 million, compared with ¥3,686 million in the previous fiscal year. This mainly reflected income before income taxes of ¥3,000 million, depreciation of ¥975 million, impairment loss of ¥307 million, increase in net defined benefit liability of ¥225 million and increase in advances received of ¥194 million, versus income taxes paid of ¥415 million and increase in notes and accounts receivable - trade of ¥217 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥1,333 million, compared with ¥1,000 million in the previous fiscal year. This mainly reflected purchase of property, plant and equipment of ¥1,112 million and purchase of intangible assets of ¥151 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥1,481 million, compared with ¥1,756 million in the previous fiscal year. This mainly reflected repayments of long-term loans payable of ¥400 million, purchase of treasury shares of ¥147 million and cash dividends paid of ¥914 million.

The Group's cash flow-related indicators are as follows:

Year ended March 31,	2015	2016	2017	2018	2019
Equity ratio (%)	55.8	58.0	58.5	58.6	57.4
Market value-based equity ratio (%)	88.4	82.4	59.2	57.0	48.0
Cash flow to interest-bearing debt (%)	59.9	51.6	27.9	21.7	9.0
Interest coverage ratio (times)	2,889.2	261.3	468.3	566.6	1,161.7

Notes: The above indicators are calculated as follows:

Equity ratio: Equity capital / total assets
Market value-based equity ratio: Market capitalization / total assets
Cash flow to interest-bearing debt: Interest-bearing debt / cash flow from operating activities
Interest coverage ratio: Cash flow from operating activities / interest payments

* All indicators are calculated using consolidated financial data.
* Market capitalization is calculated by multiplying the number of shares outstanding at the fiscal year end (excluding treasury shares) by the closing share price at the fiscal year end.
* Cash flow is "Cash flows from operating activities" shown on the consolidated statements of cash flows.
* Interest-bearing debt is all liabilities on which interest is paid shown under liabilities on the consolidated balance sheet. Interest payments are "Interest paid" shown on the consolidated statement of cash flows.

(4) Business forecasts

The Japanese economy and consumer spending continue to grow at a moderate pace, but the Group's operating environment in fiscal 2020, ending March 31, 2020, is likely to remain challenging, due mainly to intensifying competition from companies in the same sector and from new market entrants from peripheral and other sectors.

Against this backdrop, the Group formulated a medium-term management plan called "ARTNATURE REBORN Plan," which was launched in fiscal 2018. In the plan's first year, the Group focused on building the foundations for an earnings recovery, and in the second year, worked to use those foundations to deliver stable growth. In fiscal 2020, the plan's third year, the Group aims to sustain that growth and move into new business fields. In custom-made wigs, our mainstay product category, the men's business and the ladies' business will both work to increase the number of customers by continuing to focus on raising customer satisfaction. In the JULLIA OLGER ladies' ready-made wigs business, we will work closely with the ladies' business and step up efforts to provide personalized customer service to expand the customer base. We are also targeting growth by focusing on the online business and the overseas business.

Based on these initiatives, for fiscal 2020, we forecast consolidated net sales of ¥39,368 million, up 3.6% year on year, operating income of ¥3,377 million, up 4.7%, ordinary income of ¥3,425 million, up 3.5%, and net income attributable to owners of the parent company of ¥2,031 million, up 9.0%.

(5) Basic policy on distribution of profits and dividends for fiscal 2019 and fiscal 2020

ARTNATURE Group believes that returning profits to shareholders is one of the most important issues for management. The Company's basic policy is to pay stable dividends to shareholders while ensuring there are sufficient internal reserves to reinforce the Group's management base and financial position and to invest in future business expansion.

In line with this policy, the Company will pay a full-year dividend of ¥28 per share for fiscal 2019, ended March 31, 2019, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥14 per share.

For fiscal 2020, ending March 31, 2020, the Company plans to pay a full-year dividend of ¥28 per share, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥14 per share.

2. Management policies

(1) Basic management policy

As a comprehensive hair consultancy business, ARTNATURE strives to help all customers with concerns about their hair by providing them with the highest-quality products and services for their needs. Our management philosophy is to "foster a culture of hair that satisfies customers."

To make this philosophy a reality, the Group is reinforcing its product development capabilities, upgrading its manufacturing framework, and improving its sales service system in areas such as counseling, customer support and styling skills, while also striving to operate its business in a way that wins the trust of shareholders, investors and all other stakeholders by strengthening its compliance system and actively disclosing corporate information.

(2) Management indicators and targets

The Group is working to expand its comprehensive hair consultancy business and boost profitability as well as capital efficiency by increasing sales and promoting efficient management.

We are therefore focusing on three key performance indicators: sales, ordinary margin (ratio of ordinary income to net sales) and ROE (return on equity).

We aim to steadily grow sales by continuously upgrading our sales structure. Based on that approach, we are targeting sales of ¥39,368 million in fiscal 2020.

We also aim to steadily increase the ordinary margin by continuing to overhaul our earnings structure to create an efficient and effective framework for earnings.

In addition, we will accurately grasp the Group’s cost of capital and operate our business with an emphasis on ROE, to ensure we use capital entrusted by shareholders efficiently and increase corporate value.

(3) Medium- and long-term management strategy

We have formulated a three-year medium-term management plan called the “ARTNATURE REBORN Plan,” starting in fiscal 2018, based on the above performance indicators.

Specifically, we will establish initiatives in four key areas – customer satisfaction, systemic reform, personnel training and employee satisfaction – aiming for consolidated net sales of ¥39,368 million, an ordinary margin of 8.7% and ROE of 8.0% in fiscal 2020.

(4) Issues to be resolved

In the domestic hair products and services market, the ARTNATURE Group’s main business field, we forecast rising demand due to trends such as population aging, delayed retirement, growth in the number of women in the workplace and rising interest in anti-aging treatments. However, we anticipate intensifying competition from companies in the same sector and from companies in peripheral sectors. In this environment, we plan to work on the following key issues in order to generate stable growth and boost corporate value.

First, we will increase the number of customers in domestic and overseas markets. We will generate new demand by developing and regularly launching the highest-quality products and services in line with customer needs, and by devising advertising campaigns that resonate more closely with customers. In both the men’s category and the ladies’ category, we aim to generate stable growth by focusing on improving customer satisfaction to increase the number of “true ARTNATURE fans,” while also implementing a range of initiatives to strengthen customer retention. The ladies’ ready-made wigs business (JULLIA OLGER) has marked its 10th anniversary. Going forward, we aim to grow earnings in the business by reinforcing cooperation with the ladies' business through integrated marketing activities and by stepping up efforts to offer personalized products and services for each customer. In hair dressing product sales, we also plan to grow earnings by broadening the lineup with new products and offering a wider choice, and by expanding sales channels, such as increasing the number of e-commerce sites that sell our products. In overseas markets, we will work to expand our business by raising brand awareness and implementing sales initiatives tailored to local markets in China, Singapore, Thailand and Malaysia in order to capture potential demand.

Second, we will switch to a business structure that enables the Group to generate stronger earnings. We will overhaul the Group’s earnings structure and rigorously eliminate waste in all areas of our business to reduce fixed costs and lower the breakeven point, resulting in an efficient and effective earnings structure. Also, we will work to improve productivity by adopting paperless processes and systemization to improve efficiency and by pushing ahead with rationalization. We also intend to move into new business fields.

Third, we will improve our capacity to address the needs of all types of customers. As of March 31, 2019, 1,899 employees, or roughly 80% of the Company’s permanent employees, were qualified as barbers or hairdressers. We aim to increase customer trust and satisfaction by enhancing the basic capabilities of those employees – their technical skills, customer service skills and product proposal capabilities – allowing us to better address customer needs. Also, to transform our employees in non-sales divisions into experts in their respective fields, we will establish training courses and build systems to support self-study as part of wider efforts to upgrade personnel training.

Fourth, we aim to retain high-level human resources. We have developed a range of initiatives to increase the motivation of all our employees and ensure they reach their maximum potential. We are promoting diversity management, illustrated by ARTNATURE's certification as an "Eruboshi" company, which recognizes the Company's efforts in promoting the active involvement of female employees in line with the Act on Promotion of Women's Participation and Advancement in the Workplace. Also, amid the current focus on "workstyle reforms," we emphasize work-life balance, such as eliminating long overtime hours and providing support so that employees can balance work and family commitments, while also actively promoting health management. We plan to introduce various other initiatives to foster a shared sense of unity with our employees and create more rewarding workplaces.

3. Basic stance on selection of accounting standards

The Group uses Japanese accounting standards, as many shareholders, creditors, business partners and other stakeholders are based in Japan, and there is limited need for the Group to procure funds overseas.

4. Consolidated financial statements and related notes

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	16,530	18,275
Notes and accounts receivable - trade	2,895	−
Accounts receivable – trade	−	3,109
Securities	140	42
Merchandise and finished goods	1,385	1,430
Work in process	105	129
Raw materials and supplies	1,510	1,324
Others	859	902
Allowance for doubtful accounts	(1)	(7)
Total current assets	23,426	25,206
Non-current assets		
Property, plant and equipment		
Buildings and structures	12,891	13,189
Accumulated depreciation	(7,681)	(7,903)
Buildings and structures, net	5,210	5,285
Machinery equipment and vehicle	106	105
Accumulated depreciation	(82)	(84)
Machinery equipment and vehicle, net	24	21
Land	3,530	3,525
Construction in progress	−	95
Others	2,620	2,721
Accumulated depreciation	(2,218)	(2,366)
Others, net	402	355
Total property, plant and equipment	9,167	9,282
Intangible assets		
Others	846	744
Total intangible assets	846	744
Investments and other assets		
Investment securities	2,064	2,056
Deferred tax assets	2,752	3,029
Lease and guarantee deposits	2,352	2,343
Net defined benefit asset	13	15
Others	321	348
Allowance for doubtful accounts	(56)	(56)
Total investments and other assets	7,447	7,737
Total non-current assets	17,462	17,764
Total assets	40,888	42,971

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Accounts payable – trade	151	210
Current portion of long-term loans payable	400	398
Accounts payable – other	2,413	2,368
Income taxes payable	162	1,198
Advances received	4,576	4,770
Provision for bonuses	845	878
Provision for directors' bonuses	110	132
Provision for product warranties	39	35
Provision for point card certificates	93	93
Others	995	1,126
Total current liabilities	9,788	11,213
Non-current liabilities		
Long-term loans payable	398	–
Net defined benefit liability	3,472	3,714
Asset retirement obligations	1,332	1,400
Others	1,873	1,874
Total non-current liabilities	7,077	6,989
Total liabilities	16,866	18,203
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,557
Retained earnings	17,560	18,510
Treasury shares	(821)	(960)
Total shareholders' equity	23,963	24,775
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	88	(3)
Remeasurements of defined benefit plans	(106)	(117)
Total accumulated other comprehensive income	(16)	(119)
Subscription rights to shares	61	99
Non-controlling interests	13	12
Total net assets	24,021	24,767
Total liabilities and net assets	40,888	42,971

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Net sales	37,254	37,985
Cost of sales	11,594	11,756
Gross profit	25,659	26,228
Selling, general and administrative expenses	23,080	23,001
Operating income	2,579	3,227
Non-operating income		
Interest income	75	78
Foreign exchange gains	15	21
Commission fee	18	15
Insurance return	59	–
Others	36	25
Total non-operating income	206	140
Non-operating expenses		
Interest expenses	6	4
Loss on redemption of investment securities	9	–
Guarantee commission	52	44
Others	9	11
Total non-operating expenses	78	59
Ordinary income	2,707	3,308
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	1	0
Impairment loss	1,266	307
Loss on sales of shares of subsidiaries and associates	96	–
Total extraordinary losses	1,364	307
Income before income taxes	1,343	3,000
Income taxes – current	646	1,408
Income taxes – deferred	(200)	(272)
Total income taxes	446	1,136
Net income	897	1,864
Net income attributable to non-controlling interests	0	0
Net income attributable to owners of the parent company	897	1,864

(Consolidated statements of comprehensive income)

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Net income	897	1,864
Other comprehensive income		
Valuation difference on available-for-sale securities	11	0
Foreign currency translation adjustment	(119)	(92)
Remeasurements of defined benefit plans	83	(11)
Total other comprehensive income	(24)	(103)
Comprehensive income	872	1,761
(Comprehensive income attributable to)		
Owners of the parent company	872	1,761
Non-controlling interests	0	(0)

(3) Consolidated statements of changes in net assets

Year ended March 31, 2018

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of period	3,667	3,557	17,657	(494)	24,387
Change of items during the period					
Dividends from surplus			(994)		(994)
Net income attributable to owners of the parent company			897		897
Purchase of treasury shares				(331)	(331)
Disposal of treasury shares		0		4	4
Net changes of items other than shareholders' equity					
Total change of items during the period	-	0	(97)	(326)	(423)
Balance at the end of the period	3,667	3,557	17,560	(821)	23,963

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of period	(10)	207	(189)	7	24	12	24,432
Change of items during the period							
Dividends from surplus							(994)
Net income attributable to owners of the parent company							897
Purchase of treasury shares							(331)
Disposal of treasury shares							4
Net changes of items other than shareholders' equity	11	(119)	83	(24)	37	0	12
Total change of items during the period	11	(119)	83	(24)	37	0	(410)
Balance at the end of the period	1	88	(106)	(16)	61	13	24,021

Year ended March 31, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of period	3,667	3,557	17,560	(821)	23,963
Change of items during the period					
Dividends from surplus			(913)		(913)
Net income attributable to owners of the parent company			1,864		1,864
Purchase of treasury shares				(147)	(147)
Disposal of treasury shares		(0)		8	8
Net changes of items other than shareholders' equity					
Total change of items during the period	-	(0)	950	(138)	811
Balance at the end of the period	3,667	3,557	18,510	(960)	24,775

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of period	1	88	(106)	(16)	61	13	24,021
Change of items during the period							
Dividends from surplus							(913)
Net income attributable to owners of the parent company							1,864
Purchase of treasury shares							(147)
Disposal of treasury shares							8
Net changes of items other than shareholders' equity	0	(91)	(11)	(102)	37	(0)	(65)
Total change of items during the period	0	(91)	(11)	(102)	37	(0)	746
Balance at the end of the period	1	(3)	(117)	(119)	99	12	24,767

(4) Consolidated statements of cash flows

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from operating activities		
Income before income taxes	1,343	3,000
Depreciation	1,179	975
Impairment loss	1,266	307
Increase (decrease) in allowance for doubtful accounts	(8)	5
Increase (decrease) in provision for bonuses	(134)	32
Increase (decrease) in provision for directors' bonuses	(3)	22
Increase (decrease) in provision for product warranties	(5)	(3)
Increase (decrease) in provision for point card certificates	0	0
Increase (decrease) in provision for directors' retirement benefits	(1,664)	–
Increase (decrease) in net defined benefit liability	279	225
Interest income	(75)	(78)
Interest expenses	6	4
Loss on retirement of non-current assets	1	0
Loss (gain) on sales of non-current assets	(0)	(0)
Loss (gain) on redemption of investment securities	9	–
Loss (gain) on sales of shares of subsidiaries and associates	96	–
Decrease (increase) in notes and accounts receivable – trade	(137)	(217)
Decrease (increase) in inventories	468	93
Increase (decrease) in notes and accounts payable – trade	(77)	61
Increase (decrease) in advances received	46	194
Others	2,266	97
Subtotal	4,859	4,719
Interest income received	73	77
Interest expenses paid	(6)	(3)
Income taxes paid	(1,240)	(415)
Income taxes refund	–	71
Net cash provided by (used in) operating activities	3,686	4,449
Cash flows from investing activities		
Payments into time deposits	(384)	(334)
Proceeds from withdrawal of time deposits	217	275
Purchase of property, plant and equipment	(874)	(1,112)
Proceeds from sales of property, plant and equipment	0	0
Purchase of intangible assets	(324)	(151)
Purchase of investment securities	(53)	–
Proceeds from redemption of investment securities	300	–
Collection of long-term loans receivable	0	0
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	226	–
Payments for lease and guarantee deposits	(80)	(81)
Proceeds from collection of lease and guarantee deposits	55	91
Others	(84)	(20)
Net cash provided by (used in) investing activities	(1,000)	(1,333)

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from financing activities		
Repayments of long-term loans payable	(401)	(400)
Repayments of lease obligations	(30)	(19)
Purchase of treasury shares	(331)	(147)
Cash dividends paid	(993)	(914)
Net cash provided by (used in) financing activities	(1,756)	(1,481)
Effect of exchange rate change on cash and cash equivalents	(43)	(49)
Net increase (decrease) in cash and cash equivalents	885	1,585
Cash and cash equivalents at the beginning of period	15,515	16,401
Cash and cash equivalents at the end of period	16,401	17,986

(5) Notes on consolidated financial statements

(Notes related to the going concern assumption)

There is no related information.

(Basic important matters for preparing the consolidated financial statements)

1. Items related to the scope of consolidation

All the Company’s subsidiaries are consolidated.

Number of consolidated subsidiaries: 10

Name of important consolidated subsidiaries

ARTNATURE PHILIPPINES INC., ARTNATURE MANUFACTURING PHILIPPINES INC.
ARTNATURE (SHANGHAI) INC. (ANCN)

2. Notes related to fiscal years and other details of consolidated subsidiaries

The Company has eight consolidated subsidiaries with December 31 fiscal year ends. The Company’s consolidated financial statements are prepared based on the financial statements of those companies at their fiscal year-ends. Where necessary, any significant transactions that occur between their fiscal year-ends and the Company’s consolidated balance sheet date are reflected in the consolidated financial statements.

All other consolidated subsidiaries have the same fiscal year-ends as the Company’s consolidated balance sheet date.

3. Items related to accounting policies

(1) Valuation standards and methods for important assets

1) Securities

Other marketable securities

With market value

Market value method based on market prices on the fiscal year closing date. (All valuation differences are booked directly to net assets, while cost of sales is calculated using the moving average method.)

Without market value

Moving average cost method

2) Derivatives

Market value method

3) Inventories

Products

Wigs

Custom-made wigs

Cost method based on the specific cost method

Other wigs

Moving average cost method

Other products

Moving average cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

Products, materials, work-in-process

Cost method mainly based on the moving average cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

Inventory goods

Loaned products

Moving average cost method

Sample products

Cost method based on the specific cost method

Other inventory goods

Last cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

(2) Depreciation and amortization methods for important depreciable assets

1) Property, plant and equipment (Excluding lease assets)

Declining balance method

However, the straight-line method is used for buildings (excluding attached facilities) purchased after April 1, 1998 and for attached facilities and structures purchased after April 1, 2016. At overseas consolidated subsidiaries, the straight-line method is used for property, plant and equipment.

Expected useful lives of assets are principally as follows:

Buildings and structures: 10 – 50 years

2) Intangible assets (Excluding lease assets)

Straight-line method

Software for use by the Company is based on estimated usable life within the Company (five years).

3) Lease assets

Lease assets related to the finance lease transactions other than those where the ownership of the lease assets is deemed to be transferred to the lessee

Straight-line method assuming the lease period as the useful life and no residual value

4) Long-term prepaid expenses

Straight-line method

(3) Accounting standards for important allowances and provisions

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at an amount determined based on the loan loss ratio with respect to general receivables, plus an estimate of unrecoverable amounts determined by reference to specific doubtful receivables from customers experiencing financial difficulties.

2) Provision for bonuses

Provision for employee bonuses is provided for at the expected payment amount.

3) Provision for directors' bonuses

Provision for director bonuses is provided for at the expected payment amount.

4) Provision for point card certificates

Provision for the use of points given to customers under the point card system is provided for at the amount expected to cover the estimated cost of points used in the future based on historical rates of point usage.

5) Provision for product warranties

Provision for product warranties is provided for at an expected amount to cover repair costs under free repair guarantees, based on historical repair rates.

(4) Accounting for retirement benefits

1) Allocation of expected benefit payments

When calculating retirement benefit liabilities, the straight-line method is used to allocate expected benefit payments to the period until this fiscal year-end.

2) Actuarial differences

Actuarial differences are amortized mainly using the straight-line method over a period within the average remaining service years for employees (six years) at the time of recognition, and recorded as expenses from the fiscal year following the fiscal year of recognition.

(5) Standards for translation of foreign currency-denominated assets and liabilities into Japanese yen

Foreign currency receivable and payable is converted into Japanese yen at the exchange rates prevailing at the consolidated balance sheet date, and translation is recorded as income or expenses.

The assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen based on spot exchange rates at their respective balance sheet dates, while revenues and expenses at overseas consolidated subsidiaries are converted based on average exchange rates during the fiscal year. Differences arising from such translations are included in both "Foreign currency translation adjustments" and "Non-controlling interests" in the net assets section of the balance sheet.

(6) Scope of funds in the consolidated statements of cash flows

Funds include cash at hand, demand deposits at banks and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of less than three months.

(7) Goodwill amortization method and period

Goodwill is amortized using the straight-line method over a period of five years.

(8) Additional information related to the preparation of consolidated financial statements

Accounting treatment of consumption and other taxes

Tax exclusion method

(Change in presentation method)

Effective from the start of the fiscal year under review, 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.

As a result, deferred tax assets of ¥516 million presented under current assets in the consolidated balance sheets for the previous fiscal year, are now included in deferred tax assets of ¥2,752 million presented under investments and other assets, and deferred tax liabilities (current liabilities, others) of ¥0 million presented under current liabilities in the consolidated balance sheets for the previous fiscal year, are now included in deferred tax liabilities (non-current liabilities, others) of ¥1,873 million presented under non-current liabilities.

Total assets have declined by ¥9 million compared with before the application of the new accounting standard, as deferred tax assets and deferred tax liabilities arising from the same taxable entity have been offset on the balance sheets.

(Additional information)

(Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts)

(1) Summary of transactions

The Company has introduced an Employee Stock Ownership Plan (J-ESOP) to motivate and incentivize employees to increase the share price and results. The scheme is designed to create a closer link between employee remuneration and the Company’s share price and results so that economic benefits are shared among shareholders. In accordance with the provisions of the Company’s stock benefit regulations, employees that satisfy certain criteria are granted shares in the Company.

Specifically, employees are awarded points based on performance, and accumulated points can be converted into shares of the Company once certain conditions are met. Shares granted to employees, including shares to be granted in the future, are acquired using funds held in trust and managed independently as trust assets. In addition to increasing the motivation of employees and encouraging greater interest in the Company’s share price, this scheme is also expected to help the Company retain and attract high-caliber personnel.

(2) Accounting treatment related to transactions for granting shares to employees through trusts

The Company has applied the provisions in paragraph 20 of the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ Practical Issues Task Force No. 30, March 26, 2015) and continued to use existing accounting treatment.

(3) Items related to shares of the Company held in trust

The book value of shares held in trust was ¥281 million in the previous fiscal year and ¥275 million in the fiscal year under review. In addition, shares of the Company held in trust were recorded under net assets as treasury shares at book value in the trust (excluding associated costs). Shares held in trust totaled 409,100 at the end of the previous fiscal year and 402,800 at the end of the fiscal year under review. The average number of shares held in trust was 320,510 during the previous fiscal year and 404,820 during the fiscal year under review. These shares are included in treasury shares, which is deducted from calculations of per share data.

(Consolidated balance sheets)

1 Commitment line

The Company has concluded commitment line contracts with three financial institutions in order to secure efficient fund procurement.

The balance of available funds under these contacts at the end of the fiscal year was as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Total amount of commitment line	5,000	5,000
Funds borrowed	–	–
Balance	5,000	5,000

(Consolidated statements of income)

*1 Inventory amounts at the fiscal year-end are after writedowns to book value related to declines in profitability and the following valuation loss on inventories is included in the cost of sales.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
	218	90

*2 The main components in selling, general and administrative expenses and their amounts are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Advertising expenses	6,335	6,531
Salaries	3,826	3,382
Provision for bonuses	376	322
Provision for point card certificates	0	0
Retirement benefit expenses	165	133
Provision for directors’ bonuses	110	122
Depreciation	1,077	933
Rent expenses	3,160	3,231

*3 Total research and development expenses included in general and administrative expenses are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
	133	173

*4 Breakdown of gain on sales of non-current assets is as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Machinery, equipment and vehicles	0	0

*5 Breakdown of loss on retirement of non-current assets is as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Buildings and structures	1	–
Other property, plant and equipment	0	0
Total	1	0

*6 Impairment loss

The Company has booked impairment losses on the following asset groups.

Year ended March 31, 2018

(1) Main assets for which impairment losses have been recognized

Company / location	Application	Type
ARTNATURE INC. (Tokyo and 25 other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANCN (China)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANSG (Singapore)*	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANMY (Malaysia)*	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANTH (Thailand)*	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANKH (Cambodia)*	Plants (Business assets)	Buildings and structures, etc.

*ANSG: ARTNATURE SINGAPORE PTE. LTD., ANMY: ARTNATURE MALAYSIA SDN. BHD., ANTH: ARTNATURE (THAILAND) CO., LTD., ANKH: ARTNATURE (CAMBODIA) INC.

(2) Reasons for recognition of impairment losses

Impairment losses were recognized on the business assets due to sustained losses arising from operating activities at those business sites. Also, following a decision to sell ANKH, the Company booked impairment losses on ANKH business assets, as recoverable value was calculated as lower than the carrying amount.

(3) Breakdown of impairment losses

Main purpose	Type	Amount (Millions of yen)
Stores and plants	Buildings and structures, etc.	1,266
Total		1,266

* Breakdown of impairment losses by applications

- Stores and plants ¥1,266 million (comprising ¥1,105 million for buildings and structures, ¥141 million for other property, plant and equipment and ¥18 million for other intangible assets)

(4) Asset grouping method

The Group groups its business assets on a single store or plant basis.

(5) Recoverable value calculation method

The recoverable value of stores and plants is estimated based on value in use or net sales value. The sale of the business assets to a third party has been finalized, so the sales amount has been used to determine net sales value. The discount rate has been omitted, as undiscounted future cash flow is negative.

Year ended March 31, 2019

(1) Main assets for which impairment losses have been recognized

Company / location	Application	Type
ARTNATURE INC. (Tokyo and 17 other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANSG (Singapore)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANTH (Thailand)	Stores (Business assets)	Buildings and structures, etc.

(2) Reasons for recognition of impairment losses

Impairment losses were recognized on the business assets due to sustained losses arising from operating activities at those business sites.

(3) Breakdown of impairment losses

Main purpose	Type	Amount (Millions of yen)
Stores	Buildings and structures, etc.	307
Total		307

* Breakdown of impairment losses by applications

- Stores ¥307 million (comprising ¥259 million for buildings and structures and ¥48 million for other property, plant and equipment)

(4) Asset grouping method

The Group groups its business assets on a single store or plant basis.

(5) Recoverable value calculation method

The recoverable value of stores is estimated based on value in use. The discount rate has been omitted, as undiscounted future cash flow is negative.

(Consolidated statements of cash flows)

* The relationship between the balance of cash and cash equivalents at the end of the fiscal year and the amount shown on the consolidated balance sheet is shown below:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash and deposit account	16,530	18,275
Deposit account (over 3 months)	(269)	(331)
Securities account	140	42
Cash and cash equivalents	16,401	17,986

(Segment information, etc.)

Segment information

1. Overview of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available. These segments are regularly reviewed to enable the Company's Board of Directors to decide how to allocate resources and assess operating performance.

The Group develops business strategy and conducts business activities related to hair products and services for general customers based on the gender of the customer.

Consequently, the Group has classified its operations into three reportable segments: the men's business, the ladies' business and the ladies' ready-made wigs business. In the men's business, the Company supplies male customers with custom-made wigs and other products and services. In the ladies' business, the Company supplies female customers with custom-made wigs and other products and services. In the ladies' ready-made wigs business, the Company supplies female customers with ready-made wigs and other products and services.

2. Method used to calculate sales, income (loss), assets, liabilities and other items by reportable segment

Accounting policies for the reportable segments are the same as those described in "Basic important matters for preparing the consolidated financial statements."

Intersegment sales are based on prices determined through negotiations.

3. Information regarding sales, income (loss), assets, liabilities and other items by reportable segment

Year ended March 31, 2018

(Millions of yen)

	Reportable segment				Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Ladies' ready-made wigs business	Total				
Net sales								
Sales to external customers	21,573	11,515	3,102	36,191	1,063	37,254	–	37,254
Intersegment sales and transfers	–	–	–	–	2,007	2,007	(2,007)	–
Total	21,573	11,515	3,102	36,191	3,071	39,262	(2,007)	37,254
Segment income	14,544	8,032	2,367	24,944	763	25,707	(47)	25,659

Year ended March 31, 2019

(Millions of yen)

	Reportable segment				Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Ladies' ready-made wigs business	Total				
Net sales								
Sales to external customers	22,086	11,541	3,199	36,828	1,157	37,985	–	37,985
Intersegment sales and transfers	–	–	–	–	1,825	1,825	(1,825)	–
Total	22,086	11,541	3,199	36,828	2,983	39,811	(1,825)	37,985
Segment income	14,715	7,977	2,645	25,338	969	26,307	(79)	26,228

Notes:1. Others is not a reportable segment and mainly includes manufacturing subsidiaries.

2. Details of adjustments are as follows:

Segment income

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Intersegment eliminations*	(47)	(79)
Total	(47)	(79)

*Intersegment eliminations refers to the elimination of inventory asset adjustments related to intersegment transactions, etc.

3. Segment income have been adjusted to reconcile with gross profits on the consolidated financial statements.
4. Assets and liabilities have not been shown, as they are not allocated to each segment.
5. Adjustments to reconcile total segment income for reportable segments with operating income in the consolidated financial statements

(Millions of yen)

Income	Year ended March 31, 2018	Year ended March 31, 2019
Total for reportable segments	24,944	25,338
Other*1	763	969
Total	25,707	26,307
Adjustment*2	(47)	(79)
Gross profit in consolidated financial statements	25,659	26,228
Selling, general and administrative expenses	23,080	23,001
Operating income in consolidated financial statements	2,579	3,227

(Per share information)

(Yen)

Year ended March 31, 2018		Year ended March 31, 2019	
Net assets per share	731.51	Net assets per share	757.39
Net income per share	27.17	Net income per share	57.23
Fully diluted net income per share	27.08	Fully diluted net income per share	56.94

Note: The basis for calculating net income per share and fully diluted net income per share is as follows:

	Year ended March 31, 2018	Year ended March 31, 2019
Net income per share		
Net income attributable to owners of the parent company (millions of yen)	897	1,864
Amounts not attributable to owners of common stock (millions of yen)	–	–
Net income attributable to owners of the parent company associated with common stock (millions of yen)	897	1,864
Average number of shares of common stock during fiscal year (thousands of share)	33,029	32,573
Fully diluted net income per share		
Adjustment to net income attributable to owners of the parent company (millions of yen)	–	–
Increase in number of shares of common stock (thousands of share)	103	164
(of which, subscription rights to shares)	(103)	(164)
Summary of residual shares not included in calculations of fully diluted net income per share due to no dilutive effect	–	–

Note: Treasury shares, which is excluded from the number of shares issued and outstanding at the end of the fiscal year for the purposes of calculating "Net assets per share," includes shares of the Company held by the Trust & Custody Services Bank, Ltd. (trust account E) (409,100 shares as of March 31, 2018, 402,800 shares as of March 31, 2019). In addition, treasury shares, which is excluded from the average number of shares during the fiscal year for the purposes of calculating "Net income per share" and "Fully diluted net income per share," includes shares of the Company held by the Trust & Custody Services Bank, Ltd. (trust account E) (320,510 shares during fiscal year ended March 31, 2018, 404,820 shares during fiscal year ended March 31, 2019).

(Significant subsequent events)

There is no related information.