



Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020 [J-GAAP]

October 30, 2019

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
 Securities code: 7823 URL: <https://www.artnature.co.jp/english/index.html>
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 Scheduled date of filing the quarterly financial report: November 14, 2019
 Scheduled date to start dividends distribution: December 2, 2019
 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, 2019 (April 1, 2019 – September 30, 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	%
Six months ended September 30, 2019	20,126	12.3	2,907	105.0	2,941	97.6	1,925	109.1
Six months ended September 30, 2018	17,927	0.6	1,418	35.6	1,489	32.9	920	137.8

Note: Comprehensive income: Six months ended September 30, 2019: ¥1,968 million (135.9%)
 Six months ended September 30, 2018: ¥834 million (187.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2019	59.13	58.75
Six months ended September 30, 2018	28.25	28.12

(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, 2019	43,525	26,331	60.1	803.69
As of March 31, 2019	42,971	24,767	57.4	757.39

(Reference) Equity capital: As of September 30, 2019: ¥26,168 million As of March 31, 2019: ¥24,655 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, 2019	—	14.00	—	14.00	28.00
Year ending March 31, 2020	—	14.00	—	—	—
Year ending March 31, 2020 (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, 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

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, 2019	34,393,200 shares	As of March 31, 2019	34,393,200 shares
2) Number of treasury shares	As of September 30, 2019	1,832,339 shares	As of March 31, 2019	1,839,739 shares
3) Average number of shares issued and outstanding in each period	Six months ended September 30, 2019	32,556,507 shares	Six months ended September 30, 2018	32,598,381 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 2020

In the first six months of fiscal 2020 (April – September 2019), the Japanese economy recovered at a moderate pace, supported by a sustained improvement in corporate earnings and the employment environment. However, consumer spending in Japan lacked momentum and the outlook remained uncertain due to the consumption tax hike in October 2019 and concerns about a slowdown in the global economy caused by the trade dispute between the US and China.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) continued to implement its three-year medium-term management plan, the “ARTNATURE REBORN Plan,” which concludes in fiscal 2020. Specifically, the ARTNATURE Group is implementing a range of initiatives to expand the business base and increase productivity as part of stepped-up efforts to convert 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 first six months increased 12.3% year on year to ¥20,126 million, reflecting firm sales of new products, as well as a spike in demand ahead of the consumption tax hike. Supported by the higher sales, operating income increased 105.0% year on year to ¥2,907 million, ordinary income rose 97.6% to ¥2,941 million, and net income attributable to owners of the parent company increased 109.1% to ¥1,925 million.

< Men’s business >

Sales in the men’s business increased 9.0% year on year to ¥11,576 million. The business implemented a range of initiatives, such as rolling out effective advertising campaigns and measures to attract and retain customers in all age brackets and strengthen cooperation between sales staff to improve customer retention. Those efforts supported firm sales of new products and led to higher sales from new customers and repeat customers.

< Ladies’ business >

Sales in the ladies’ business increased 13.7% year on year to ¥6,387 million. The business implemented various initiatives, such as rolling out effective advertising campaigns, continuing to hold efficient and effective sales shows and trial fitting events, and building systems to create lasting long-term relationships with customers. Those measures supported strong sales of new products and led to higher sales from new customers and repeat customers.

< Ladies’ ready-made wigs business >

Sales in the JULLIA OLGIER business, which sells ladies’ ready-made wigs, increased 31.4% year on year to ¥1,550 million. Sales growth was supported by new salon openings and by various measures to strengthen the sales capabilities of salons, such as highly targeted sales promotions run by each salon and the introduction of a new unit-based store operations system to rapidly address issues at individual salons.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the end of the second quarter, total assets were ¥43,525 million, an increase of ¥554 million compared with the end of the previous fiscal year. Current assets increased ¥507 million, mainly due to an increase in cash and deposits, while non-current assets increased ¥46 million, primarily due to an increase in property, plant and equipment.

(Liabilities)

As of the end of the second quarter, liabilities totaled ¥17,193 million, a decrease of ¥1,009 million compared with the end of the previous fiscal year. This mainly reflected a decrease of ¥1,144 million in current liabilities due to decreases in accounts payable – other and advances received and an increase of ¥135 million in non-current liabilities, mainly due to an increase in net defined benefit liability.

(Net Assets)

As of the end of the second quarter, net assets were ¥26,331 million, an increase of ¥1,563 million from the end of the previous fiscal year. This largely reflected an increase in retained earnings.

2) Cash flow position

As of the end of the second quarter, cash and cash equivalents (cash) totaled ¥18,408 million, an increase of ¥421 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 ¥1,459 million, compared with ¥2,217 million in the same period a year earlier. That mainly reflected income before income taxes of ¥2,935 million, depreciation of ¥446 million, decrease in notes and accounts receivable – trade of ¥263 million, increase in notes and accounts payable – trade of ¥208 million and increase in net defined benefit liability of ¥116 million, versus increase in inventories of ¥363 million, decrease in advances received of ¥265 million and income taxes paid of ¥1,071 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥362 million, compared with ¥490 million in the same period a year earlier. That mainly reflected purchase of property, plant and equipment of ¥283 million and purchase of intangible assets of ¥60 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥662 million, compared with ¥818 million in the same period a year earlier. That mainly reflected repayments of long-term loans payable of ¥200 million and dividends paid of ¥455 million.

(3) Qualitative information on consolidated financial forecasts

The Company has not revised its forecasts for fiscal 2020, ending March 31, 2020, released on May 15, 2019, as it anticipates a pullback in demand after the consumption tax hike and it plans to invest various management resources in its business from the third quarter of the fiscal year.

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	18,275	18,701
Accounts receivable - trade	3,109	2,844
Securities	42	31
Merchandise and finished goods	1,430	1,798
Work in process	129	127
Raw materials and supplies	1,324	1,319
Others	902	897
Allowance for doubtful accounts	(7)	(5)
Total current assets	25,206	25,714
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,285	5,285
Others, net	3,996	4,090
Total property, plant and equipment	9,282	9,376
Intangible assets		
Others	744	675
Total intangible assets	744	675
Investments and other assets		
Others	7,793	7,814
Allowance for doubtful accounts	(56)	(55)
Total investments and other assets	7,737	7,758
Total non-current assets	17,764	17,810
Total assets	42,971	43,525

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Accounts payable – trade	210	418
Current portion of long-term loans payable	398	198
Accounts payable – other	2,368	1,662
Income taxes payable	1,198	1,134
Advances received	4,770	4,504
Provision for bonuses	878	902
Provision for directors' bonuses	132	75
Provision for product warranties	35	40
Provision for point card certificates	93	100
Others	1,126	1,031
Total current liabilities	11,213	10,068
Non-current liabilities		
Net defined benefit liability	3,714	3,802
Asset retirement obligations	1,400	1,424
Others	1,874	1,897
Total non-current liabilities	6,989	7,124
Total liabilities	18,203	17,193
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,557
Retained earnings	18,510	19,980
Treasury shares	(960)	(956)
Total shareholders' equity	24,775	26,248
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	18
Foreign currency translation adjustment	(3)	(1)
Remeasurements of defined benefit plans	(117)	(97)
Total accumulated other comprehensive income	(119)	(79)
Subscription rights to shares	99	145
Non-controlling interests	12	16
Total net assets	24,767	26,331
Total liabilities and net assets	42,971	43,525

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

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	17,927	20,126
Cost of sales	5,776	6,008
Gross profit	12,150	14,117
Selling, general and administrative expenses	10,732	11,210
Operating income	1,418	2,907
Non-operating income		
Interest income	40	36
Foreign exchange gains	34	—
Others	26	28
Total non-operating income	101	65
Non-operating expenses		
Interest expenses	2	1
Foreign exchange losses	—	7
Guarantee commission	20	17
Others	7	5
Total non-operating expenses	30	30
Ordinary income	1,489	2,941
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Impairment loss	9	6
Total extraordinary losses	9	6
Income before income taxes	1,480	2,935
Income taxes – current	607	1,006
Income taxes – deferred	(47)	2
Total income taxes	559	1,009
Net income	920	1,925
Net income (loss) attributable to non-controlling interests	(0)	0
Net income attributable to owners of the parent company	920	1,925

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Net income	920	1,925
Other comprehensive income		
Valuation difference on available-for-sale securities	5	17
Foreign currency translation adjustment	(111)	5
Remeasurements of defined benefit plans	20	20
Total other comprehensive income	(85)	42
Comprehensive income	834	1,968
(Comprehensive income attributable to)		
Owners of the parent company	835	1,965
Non-controlling interests	(0)	3

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Income before income taxes	1,480	2,935
Depreciation	487	446
Impairment loss	9	6
Increase (decrease) in allowance for doubtful accounts	(0)	(1)
Increase (decrease) in provision for bonuses	8	24
Increase (decrease) in provision for directors' bonuses	(35)	(57)
Increase (decrease) in provision for product warranties	(6)	4
Increase (decrease) in provision for point card certificates	6	6
Increase (decrease) in net defined benefit liability	114	116
Interest income	(40)	(36)
Interest expenses	2	1
Loss on retirement of non-current assets	0	0
Decrease (increase) in notes and accounts receivable – trade	614	263
Decrease (increase) in inventories	17	(363)
Increase (decrease) in notes and accounts payable – trade	93	208
Increase (decrease) in advances received	84	(265)
Others	(578)	(797)
Subtotal	2,258	2,490
Interest income received	42	41
Interest expenses paid	(2)	(0)
Income taxes paid	(81)	(1,071)
Net cash provided by (used in) operating activities	2,217	1,459
Cash flows from investing activities		
Payments into time deposits	(225)	(212)
Proceeds from withdrawal of time deposits	274	213
Purchase of property, plant and equipment	(452)	(283)
Purchase of intangible assets	(76)	(60)
Collection of long-term loans receivable	0	0
Payments for lease and guarantee deposits	(33)	(43)
Proceeds from collection of lease and guarantee deposits	25	35
Others	(3)	(11)
Net cash provided by (used in) investing activities	(490)	(362)
Cash flows from financing activities		
Repayments of long-term loans payable	(200)	(200)
Repayments of lease obligations	(12)	(6)
Purchase of treasury shares	(147)	—
Cash dividends paid	(458)	(455)
Net cash provided by (used in) financing activities	(818)	(662)
Effect of exchange rate change on cash and cash equivalents	(6)	(13)
Net increase (decrease) in cash and cash equivalents	901	421
Cash and cash equivalents at beginning of period	16,401	17,986
Cash and cash equivalents at end of period	17,303	18,408

(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.

(Material subsequent events)

Business combination through acquisition

At a meeting of the Board of Directors on July 30, 2019, the Company passed a resolution to make NAO-ART CO., LTD. a subsidiary through an acquisition of shares and concluded a share transfer agreement with it on the same day. The shares were acquired on October 16, 2019.

(1) Summary of business combination

1. Name and business of acquired company

Name: NAO-ART CO., LTD.

Business: Manufacture and sale of wigs, sale of wig accessories, operation of medical wig rental business, and department store event organization

2. Main reasons for business combination

To expand its business in the ladies' wig market, which is expected to see further growth, the Company plans to acquire product brands that address the increasingly diverse needs of women. As part of that approach, the Company made the decision to acquire shares in NAO-ART CO., LTD. and make it a subsidiary, due to its position in the ladies' wig market, centered on the Tokyo metropolitan area.

3. Date of business combination

October 16, 2019 (date of share acquisition)

October 1, 2019 (deemed date of acquisition)

4. Legal form of business combination

Share acquisition

5. Name of company after acquisition

NAO-ART CO., LTD.

6. Ratio of voting rights acquired

100%

7. Basis for determining company has been acquired

Cash acquisition of shares by the Company

(2) Breakdown of acquisition costs and types of payment

Details have not been disclosed due to a confidentiality agreement with the acquired company.

(3) Breakdown and amounts of main acquisition-related costs

Not yet confirmed

(4) Amount and reasons for goodwill, and amortization method and schedule

Not yet confirmed

(5) Breakdown and amounts for main assets and liabilities transferred on day of business combination

Not yet confirmed