Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 [J-GAAP]

May 15, 2020

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 holding the ordinary general meeting of shareholders:		June 23, 2020
Scheduled date to start dividends distribution:		June 24, 2020
Scheduled date of filing the financial report:		June 24, 2020
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, 2020 (April 1, 2019 – March 31, 2020)

(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, 2020	39,484	3.9	2,919	(9.5)	3,006	(9.1)	1,542	(17.3)
Year ended March 31, 2019	37,985	2.0	3,227	25.1	3,308	22.2	1,864	107.8

Note: Comprehensive income: Year ended March 31, 2020: ¥1,573 million (-10.7%) Year ended March 31, 2019: ¥1,761 million (101.8%)

	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, 2020	47.40	47.07	6.2	7.0	7.4
Year ended March 31, 2019	57.23	56.94	7.7	7.9	8.5

(Reference) Equity in earnings of affiliates: Year ended March 31, 2020: ¥— million Year ended March 31, 2019: ¥— 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, 2020	43,163	25,337	58.3	777.92
As of March 31, 2019	42,971	24,767	57.4	757.39

(Reference) Equity capital: As of March 31, 2020: ¥25,179 million As of March 31, 2019: ¥24,655 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, 2020	2,516	(2,299)	(1,463)	16,736
Year ended March 31, 2019	4,449	(1,333)	(1,481)	17,986

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, 2019	—	14.00	—	14.00	28.00	911	48.9	3.8
Year ended March 31, 2020	—	14.00	—	14.00	28.00	908	59.1	3.6
Year ending March 31, 2021 (Forecast)	—	—	—	—	—		—	

Note: The dividend forecast for the fiscal year ending March 31, 2021 is undetermined.

3. Consolidated financial forecast for the fiscal year ending March 31, 2021 (April 1, 2020 – March 31, 2021)

Consolidated financial forecast and the dividend forecast for the fiscal year ending March 31, 2021 are undetermined, as estimating reasonably the impact of the global COVID-19 outbreak on the domestic economy and the Group's earnings is problematic at this stage. The Company plans to disclose its forecasts as soon as conditions allow.

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 standards, 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, 2020	34,393,200	shares	As of March 31, 2019	34,393,200	shares
2) Number of treasury shares	As of March 31, 2020	2,026,239	shares	As of March 31, 2019	1,839,739	shares
3) Average number of shares issued and outstanding in each period	Year ended March 31, 2020	32,536,418	shares	Year ended March 31, 2019	32,573,647	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. 2

(1) Analysis of operating results 2

(2) Analysis of financial position 2

(3) Anaysis of cash flows 2

(4) Business forecasts 3

(5) Basic policy on distribution of profits and dividends for fiscal 2020 and fiscal 2021 3

2. Management policies 4

(1) Basic management policy 4

(2) Management indicators and targets 4

(3) Medium- and long-term management strategy 4

(4) Issues to be resolved 4

3. Basic stance on selection of accounting standards 5

4. Consolidated financial statements and related notes 6

(1) Consolidated balance sheets 6

(2) Consolidated statements of income and comprehensive income 8

(Consolidated statements of income) 8

(Consolidated statements of comprehensive income) 9

(3) Consolidated statements of changes in net assets 10

(4) Consolidated statements of cash flows 12

(5) Notes on consolidated financial statements 14

(Notes related to the going concern assumption) 14

(Basic important matters for preparing the consolidated financial statements) 14

(Additional information) 16

(Consolidated balance sheets) 16

(Consolidated statements of income) 17

(Consolidated statements of cash flows) 19

(Segment information, etc.) 19

(Per share information) 21

(Significant subsequent events) 21

5. Other 22

1. Analysis of operating results, etc.

(1) Analysis of operating results

In fiscal 2020, ended March 31, 2020, the Japanese economy continued to recover at a moderate pace, supported by an ongoing improvement in corporate earnings and the employment environment. However, the impact of the consumption tax hike in Japan, concerns about a global slowdown due to trade friction between the US and China, the global COVID-19 pandemic, and other factors contributed to a very uncertain outlook.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) implemented its three-year medium-term management plan, the "ARTNATURE REBORN Plan," which concluded in fiscal 2020. Specifically, the ARTNATURE Group implemented 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 fiscal 2020 increased 3.9% year on year to ¥39,484 million, reflecting firm sales of new products, as well as the consolidation of a subsidiary involved in the sale of ladies' ready-made wigs. Despite the higher sales, operating income declined 9.5% year on year to ¥2,919 million, ordinary income dropped 9.1% to ¥3,006 million, and net income attributable to owners of the parent company declined 17.3% to ¥1,542 million, due to the aggressive investment of management resources for expansion into new business domains.

< Men's business >

Sales in the men's business increased 1.3% year on year to ¥22,369 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 1.7% year on year to ¥11,737 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.

< Ladies' ready-made wigs business >

Sales in the ladies' ready-made wigs business increased 24.5% year on year to ¥3,982 million. This result largely owed to new salon openings and various measures to strengthen the sales capabilities of salons in the JULLIA OLGER business, 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. Performance was also supported by the consolidation of a sales company in ladies' ready-made wigs.

(2) Analysis of financial position

(Assets)

As of the fiscal year-end, total assets were ¥43,163 million, an increase of ¥192 million compared with the end of the previous fiscal year. Although merchandise and finished goods increased, current assets declined ¥653 million year on year due to a drop in cash and deposits. However, non-current assets rose ¥845 million, mainly reflecting an increase in intangible assets due to a rise in goodwill.

(Liabilities)

As of the fiscal year-end, liabilities totaled ¥17,825 million, a decrease of ¥377 million compared with the end of the previous fiscal year. Although there was an increase in advances received, current liabilities fell ¥690 million year on year, largely due to declines in accounts payable – other and income taxes payable. However, non-current liabilities rose ¥313 million, mainly due to an increase in net defined benefit liability.

(Net Assets)

As of the fiscal year-end, net assets totaled ¥25,337 million, an increase of ¥569 million compared with the end of the previous fiscal year. This primarily reflected an increase in retained earnings.

(3) Analysis of cash flows

As of the fiscal year-end, cash and cash equivalents (cash) totaled ¥16,736 million, a decrease of ¥1,249 million compared with the end of the previous fiscal year. The Company's cash flow position and factors behind changes in cash flows were as follows:

(Cash flows from operating activities)

Operating activities provided net cash of ¥2,516 million, compared with ¥4,449 million in the previous fiscal year. This mainly reflected income before income taxes of ¥2,567 million, depreciation of ¥970 million, impairment loss of ¥438 million, increase in net defined benefit liability of ¥280 million, decrease in notes and accounts receivable – trade of ¥313 million and increase in advances received of ¥499 million, versus income taxes paid of ¥1,772 million and increase in inventories of ¥562 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥2,299 million, compared with ¥1,333 million in the previous fiscal year. This mainly reflected purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥1,055 million, purchase of property, plant and equipment of ¥787 million and purchase of intangible assets of ¥154 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥1,463 million, compared with ¥1,481 million in the previous fiscal year. This mainly reflected repayments of long-term loans payable of ¥398 million, purchase of treasury shares of ¥146 million and cash dividends paid of ¥910 million.

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

Year ended March 31,	2016	2017	2018	2019	2020
Equity ratio (%)	58.0	58.5	58.6	57.4	58.3
Market value-based equity ratio (%)	82.4	59.2	57.0	48.0	48.2
Cash flows to interest-bearing debt (%)	51.6	27.9	21.7	9.0	–
Interest coverage ratio (times)	261.3	468.3	566.6	1,161.7	1,980.5

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 flows 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

In fiscal 2021, ending March 31, 2021, the Group's operating environment 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 that backdrop, the Group has formulated a new medium-term management plan called "ARTNATURE Challenge Plan," starting from fiscal 2021. During the three years of the plan, the Group aims to build the foundations for a new ARTNATURE capable of opening up the next phase in the Group's history, by enhancing our position in existing business fields and expanding the reach of new businesses.

However, consolidated financial forecasts for fiscal 2021 are undetermined, as estimating reasonably the impact of the global COVID-19 outbreak on the Group's earnings is problematic at this stage. The Company plans to disclose its forecasts as soon as conditions allow.

(5) Basic policy on distribution of profits and dividends for fiscal 2020 and fiscal 2021

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 2020, ended March 31, 2020, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥14 per share.

The dividend forecast for fiscal 2021 is undetermined at this stage, for the same reasons preventing the disclosure of fiscal 2021 consolidated financial forecasts. The dividend forecast will be announced as soon as possible after consolidated financial forecasts for fiscal 2021 can be disclosed.

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).

(3) Medium- and long-term management strategy

Based on the above management indicators and targets, the Group has formulated a new three-year medium-term management plan called “ARTNATURE Challenge Plan,” starting from fiscal 2021.

Specifically, the Group will steadily implement six priority challenge initiatives to build the foundations for a new ARTNATURE capable of opening up the next phase in the Group’s history: (1) grow the Group’s earnings, (2) develop new business fields, (3) reinforce recruitment, (4) cultivate human resources, (5) encourage dialogue with capital markets, and (6) drive business innovation.

(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 aims to grow earnings 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 target business opportunities in new fields outside the Group’s existing businesses. We will continue to work on putting new businesses on track, such as the affordable wig business, pharmaceutical sales business and medical support business, while also seeking M&A opportunities in Japan and overseas and launching new businesses as part of efforts to establish our presence in new fields that can drive the Group’s future growth.

Third, 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.

Fourth, we aim to enhance our ability to meet the needs of diverse customers and strengthen the planning and management capabilities of head office departments. As of March 31, 2020, 1,880 employees, or roughly 80% of the Company’s permanent employees, were qualified as barbers or hairdressers. We aim to improve the basic capabilities of those employees – technical skills, customer service skills and product proposal capabilities – to better address customer needs, and cultivate human resources who are trusted by and can empathize with customers. For employees working in non-sales divisions, we aim to cultivate human resources capable of formulating a wide range of business plans and managing Grmeoup companies. To develop experts in those fields, we will establish training programs and create a framework to support self-education and improvement.

Fifth, we aim to raise the corporate value of the ARTNATURE Group over the medium- and long-term. The Group is already implementing a range of initiatives related to the SDGs, but we will also start work on reducing the use of plastic in our business and build a new customer service framework, while also stepping up dialogue with capital markets through IR activities and other approaches.

Sixth, 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 drive innovation in our business by adopting paperless processes, systemization and other approaches in order to improve productivity.

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, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	18,275	17,096
Accounts receivable – trade	3,109	2,887
Securities	42	22
Merchandise and finished goods	1,430	2,095
Work in process	129	143
Raw materials and supplies	1,324	1,312
Others	902	1,003
Allowance for doubtful accounts	(7)	(6)
Total current assets	25,206	24,553
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,189	13,228
Accumulated depreciation	(7,903)	(8,212)
Buildings and structures, net	5,285	5,015
Machinery equipment and vehicle	105	147
Accumulated depreciation	(84)	(94)
Machinery equipment and vehicle, net	21	52
Land	3,525	3,526
Construction in progress	95	8
Others	2,721	3,018
Accumulated depreciation	(2,366)	(2,522)
Others, net	355	496
Total property, plant and equipment	9,282	9,099
Intangible assets		
Goodwill	4	774
Others	739	648
Total intangible assets	744	1,422
Investments and other assets		
Investment securities	2,056	1,928
Deferred tax assets	3,029	3,181
Lease and guarantee deposits	2,343	2,411
Net defined benefit asset	15	33
Others	348	588
Allowance for doubtful accounts	(56)	(55)
Total investments and other assets	7,737	8,087
Total non-current assets	17,764	18,610
Total assets	42,971	43,163

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Accounts payable – trade	210	218
Current portion of long-term loans payable	398	–
Accounts payable – other	2,368	2,140
Income taxes payable	1,198	574
Advances received	4,770	5,270
Provision for bonuses	878	954
Provision for directors' bonuses	132	100
Provision for product warranties	35	38
Provision for point card certificates	93	96
Others	1,126	1,130
Total current liabilities	11,213	10,523
Non-current liabilities		
Net defined benefit liability	3,714	3,935
Asset retirement obligations	1,400	1,452
Others	1,874	1,914
Total non-current liabilities	6,989	7,302
Total liabilities	18,203	17,825
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,558
Retained earnings	18,510	19,141
Treasury shares	(960)	(1,099)
Total shareholders' equity	24,775	25,268
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	(49)
Foreign currency translation adjustment	(3)	37
Remeasurements of defined benefit plans	(117)	(76)
Total accumulated other comprehensive income	(119)	(89)
Subscription rights to shares	99	145
Non-controlling interests	12	13
Total net assets	24,767	25,337
Total liabilities and net assets	42,971	43,163

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Net sales	37,985	39,484
Cost of sales	11,756	12,320
Gross profit	26,228	27,163
Selling, general and administrative expenses	23,001	24,243
Operating income	3,227	2,919
Non-operating income		
Interest income	78	70
Foreign exchange gains	21	–
Commission fee	15	15
Compensation income	–	19
Others	25	42
Total non-operating income	140	146
Non-operating expenses		
Interest expenses	4	1
Foreign exchange losses	–	11
Guarantee commission	44	37
Others	11	10
Total non-operating expenses	59	60
Ordinary income	3,308	3,006
Extraordinary income		
Gain on sales of non-current assets	0	–
Total extraordinary income	0	–
Extraordinary losses		
Loss on sales of non-current assets	–	0
Loss on retirement of non-current assets	0	0
Impairment loss	307	438
Total extraordinary losses	307	438
Income before income taxes	3,000	2,567
Income taxes – current	1,408	1,166
Income taxes – deferred	(272)	(140)
Total income taxes	1,136	1,025
Net income	1,864	1,542
Net income attributable to non-controlling interests	0	0
Net income attributable to owners of the parent company	1,864	1,542

(Consolidated statements of comprehensive income)

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Net income	1,864	1,542
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(51)
Foreign currency translation adjustment	(92)	40
Remeasurements of defined benefit plans	(11)	41
Total other comprehensive income	(103)	30
Comprehensive income	1,761	1,573
(Comprehensive income attributable to)		
Owners of the parent company	1,761	1,572
Non-controlling interests	(0)	0

(3) Consolidated statements of changes in net assets

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

Year ended March 31, 2020

(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	18,510	(960)	24,775
Change of items during the period					
Dividends from surplus			(911)		(911)
Net income attributable to owners of the parent company			1,542		1,542
Purchase of treasury shares				(146)	(146)
Disposal of treasury shares		0		7	8
Net changes of items other than shareholders' equity					
Total change of items during the period	-	0	630	(138)	492
Balance at the end of the period	3,667	3,558	19,141	(1,099)	25,268

	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	(3)	(117)	(119)	99	12	24,767
Change of items during the period							
Dividends from surplus							(911)
Net income attributable to owners of the parent company							1,542
Purchase of treasury shares							(146)
Disposal of treasury shares							8
Net changes of items other than shareholders' equity	(51)	40	41	30	46	0	77
Total change of items during the period	(51)	40	41	30	46	0	569
Balance at the end of the period	(49)	37	(76)	(89)	145	13	25,337

(4) Consolidated statements of cash flows

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Cash flows from operating activities		
Income before income taxes	3,000	2,567
Depreciation	975	970
Impairment loss	307	438
Amortization of goodwill	4	90
Increase (decrease) in allowance for doubtful accounts	5	(1)
Increase (decrease) in provision for bonuses	32	75
Increase (decrease) in provision for directors' bonuses	22	(32)
Increase (decrease) in provision for product warranties	(3)	2
Increase (decrease) in provision for point card certificates	0	2
Increase (decrease) in net defined benefit liability	225	280
Interest income	(78)	(70)
Interest expenses	4	1
Loss on retirement of non-current assets	0	0
Loss (gain) on sales of non-current assets	(0)	0
Decrease (increase) in notes and accounts receivable – trade	(217)	313
Decrease (increase) in inventories	93	(562)
Increase (decrease) in notes and accounts payable – trade	61	(7)
Increase (decrease) in advances received	194	499
Others	92	(351)
Subtotal	4,719	4,217
Interest income received	77	72
Interest expenses paid	(3)	(1)
Income taxes paid	(415)	(1,772)
Income taxes refund	71	－
Net cash provided by (used in) operating activities	4,449	2,516
Cash flows from investing activities		
Payments into time deposits	(334)	(323)
Proceeds from withdrawal of time deposits	275	268
Purchase of property, plant and equipment	(1,112)	(787)
Proceeds from sales of property, plant and equipment	0	0
Purchase of intangible assets	(151)	(154)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	－	(1,055)
Long-term loan advances	－	(225)
Collection of long-term loans receivable	0	0
Payments for lease and guarantee deposits	(81)	(114)
Proceeds from collection of lease and guarantee deposits	91	55
Others	(20)	36
Net cash provided by (used in) investing activities	(1,333)	(2,299)

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Cash flows from financing activities		
Repayments of long-term loans payable	(400)	(398)
Repayments of lease obligations	(19)	(7)
Purchase of treasury shares	(147)	(146)
Cash dividends paid	(914)	(910)
Net cash provided by (used in) financing activities	(1,481)	(1,463)
Effect of exchange rate change on cash and cash equivalents	(49)	(3)
Net increase (decrease) in cash and cash equivalents	1,585	(1,249)
Cash and cash equivalents at the beginning of period	16,401	17,986
Cash and cash equivalents at the end of period	17,986	16,736

(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: 12

Name of important consolidated subsidiaries

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

NAO-ART Corp., which became a subsidiary through the acquisition of all shares in the company, and newly established company Art Medical Service Inc. have been included in the scope of consolidation.

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

The Company has nine 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. For consolidated subsidiaries, allowance for doubtful accounts is provided for based on the recoverability of specific doubtful receivables.

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 attribution 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 attribution 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 within 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

(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; hereinafter referred to as the "Scheme") 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 ¥275 million in the previous fiscal year and ¥270 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 402,800 at the end of the previous fiscal year and 394,300 at the end of the fiscal year under review. The average number of shares held in trust was 404,820 during the previous fiscal year and 399,117 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 contracts at the end of the fiscal year was as follows:

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
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, 2019	Year ended March 31, 2020
	90	77

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

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Advertising expenses	6,531	6,860
Salaries	3,382	3,769
Provision for bonuses	322	342
Provision for point card certificates	0	2
Retirement benefit expenses	133	176
Provision for directors' bonuses	122	100
Depreciation	933	921
Rent expenses	3,231	3,248

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

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
	173	163

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

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Machinery, equipment and vehicles	0	–

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

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Other property, plant and equipment	–	0

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

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Other property, plant and equipment	0	0

*7 Impairment loss

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

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
Consolidated subsidiary ANTH (Thailand)	Stores (Business assets)	Buildings and structures, etc.

*ANSG: ARTNATURE SINGAPORE PTE. LTD., ANTH: ARTNATURE (THAILAND) CO., LTD.

(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 application

- 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 and plants is estimated based on value in use. The discount rate has been omitted, as undiscounted future cash flow is negative.

Year ended March 31, 2020

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

Company / location	Application	Type
ARTNATURE INC. (Tokyo and 21 other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANCN (China)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANMY (Malaysia)	Stores (Business assets)	Other property, plant and equipment
Consolidated subsidiary ANTH (Thailand)	Stores (Business assets)	Buildings and structures, etc.

*ANMY: ARTNATURE MALAYSIA SDN. BHD.

(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.	438
Total		438

* Breakdown of impairment losses by application

- Stores ¥438 million (comprising ¥382 million for buildings and structures, ¥47 million for other property, plant and equipment and ¥7 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. 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, 2019	Year ended March 31, 2020
Cash and deposit account	18,275	17,096
Deposit account (over 3 months)	(331)	(381)
Securities account	42	22
Cash and cash equivalents	17,986	16,736

(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, 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

Year ended March 31, 2020

(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	22,369	11,737	3,982	38,090	1,394	39,484	–	39,484
Intersegment sales and transfers	–	–	–	–	1,919	1,919	(1,919)	–
Total	22,369	11,737	3,982	38,090	3,313	41,403	(1,919)	39,484
Segment income	14,619	7,959	3,535	26,115	1,118	27,233	(70)	27,163

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, 2019	Year ended March 31, 2020
Intersegment eliminations*	(79)	(70)
Total	(79)	(70)

*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, 2019	Year ended March 31, 2020
Total for reportable segments	25,338	26,115
Other*[1]	969	1,118
Total	26,307	27,233
Adjustment*[2]	(79)	(70)
Gross profit in consolidated financial statements	26,228	27,163
Selling, general and administrative expenses	23,001	24,243
Operating income in consolidated financial statements	3,227	2,919

(Per share information)

(Yen)

Year ended March 31, 2019		Year ended March 31, 2020	
Net assets per share	757.39	Net assets per share	777.92
Net income per share	57.23	Net income per share	47.40
Fully diluted net income per share	56.94	Fully diluted net income per share	47.07

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

	Year ended March 31, 2019	Year ended March 31, 2020
Net income per share		
Net income attributable to owners of the parent company (millions of yen)	1,864	1,542
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)	1,864	1,542
Average number of shares of common stock during fiscal year (thousands of share)	32,573	32,536
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)	164	231
(of which, subscription rights to shares)	(164)	(231)
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) (402,800 shares as of March 31, 2019, 394,300 shares as of March 31, 2020). 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) (404,820 shares during fiscal year ended March 31, 2019, 399,117 shares during fiscal year ended March 31, 2020).

(Significant subsequent events)

There is no related information.

5. Other

(1) Top management changes

1) Changes to representatives

There is no related information.

2) Changes to other directors and auditors

- New candidate for substitute auditor

Substitute auditor, Yoshiaki Honbo (currently certified public accountant)

3) Scheduled date of appointment

June 23, 2020