

ARTNATURE

7823

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■ Summary

Leads the industry as Japan's first comprehensive hair consultancy business

1. Proposes lifestyles as a total hair consultant company

ARTNATURE INC. <7823> (hereafter, also "the Company") is a major comprehensive hair consultancy business that leads the sector of hair products and services. As a total hair consultant company with the motto "Your best smile is what we want," it proposes to customers lifestyles that are more positive, bright and beautiful. Its main business is the manufacture and sale of high-end, custom-made wigs for both men and women, but it also handles a wide range of other hair-related products and services and provides individually optimized solutions for each customer, regardless of gender, to meet their diversified and high-level needs. The Company's strong points include manufacturing high-quality wigs at its own plants in the Philippines and the barbers and hairdressers at its 275 stores nationwide (as of the end of March 2021) holding national qualifications and possessing specialist skills that focus on providing a relaxing experience for customers with comprehensive support from purchase through to after-sales services and everyday advice.

2. Strengths include product development capabilities, technical abilities, and customer service

In addition to custom-made wigs, the Company's products and services include original-style, high-end ready-made wigs, standard ready-made wigs that are easy to use, hair-addition products that offer a natural finish and a high degree of freedom, hair growth tonics that contain ingredients that effectively stimulate hair growth, and hair growth services to maintain a head and scalp environment that fosters an abundance of hair. The Company's business model to develop these products and services includes appealing to customers through advertising media, including television and the internet; "reaction sales" to entice those who have made contact by telephone, email and other means to become new customers; building relationships of trust with new customers, including through after-sales services; and focusing on securing customers as "repeat contracts and regular customers." The driving forces that smoothly turn this cycle of "reaction sales" → "repeat contracts and regular customers" are the Company's product development capabilities, technical abilities, and customer service. Moreover, its brand power, excellent financial structure, and profitability supported by its social standing as the only listed company in its industry are the major sources for the trust that customers place in it.

3. In the ARTNATURE Challenge Plan, is pioneering next-generation businesses

Various issues are occurring in the environment surrounding the Company, including the sense of uncertainty about the future of the Japanese and overseas economies, the maturation of the sector of hair products and services, and the intensification of competition with other companies and adjacent industries. In order to resolve these issues and build a foundation for "ARTNATURE pioneering next-generation businesses" to continue to grow, the Company has formulated the ARTNATURE Challenge Plan, its three-year medium-term management plan with FY3/21 as its first fiscal year. To achieve the plan, it is implementing six priority challenge policies: (1) performance growth, (2) pioneering new fields, (3) stronger hiring practices, (4) employee training, (5) market interaction, and (6) business innovation. However, the impact of the novel coronavirus pandemic (hereafter, COVID-19) has been greater than anticipated, and while there has been no change to the medium-term management plan's objectives of resolving issues and securing sustainable growth in order to achieve the targets for FY3/23, including net sales of ¥44bn, even greater efforts will be needed for both existing businesses and new businesses.

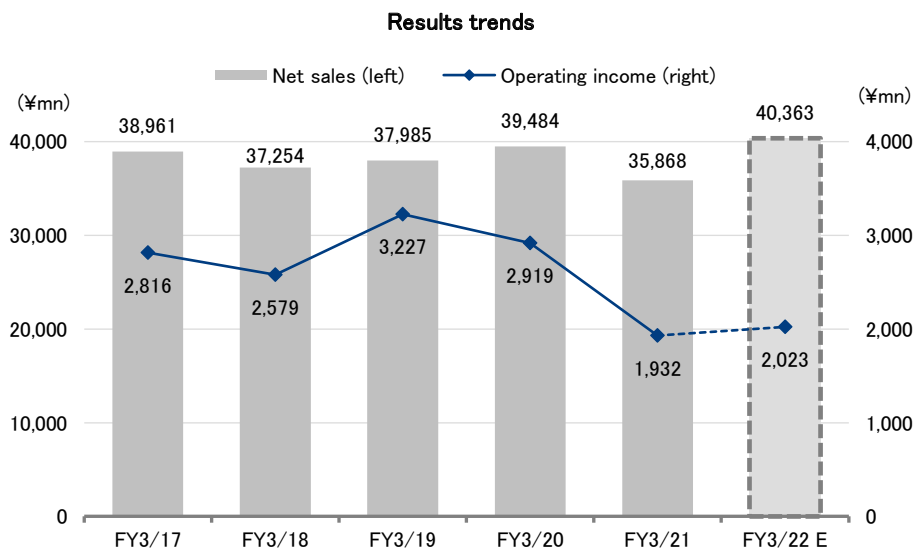
Summary

4. Due to expectations for new products, plenty of room to upwardly revise the full-fiscal-year results forecasts

In the 1H FY3/22 results, net sales were ¥19,329mn (up 30.7% year on year (YoY)) and operating income was ¥1,561mn (up ¥2,153mn). Results recovered strongly, as sales grew swiftly in response to the absence of the declaration of a state of emergency implemented in the same period in the previous year, and the previous operating loss became operating income. For the full-fiscal-year results for FY3/22, the Company is forecasting net sales of ¥40,363mn (up 12.5% YoY) and operating income of ¥2,023mn (up 4.7%). However, for the 2H results forecasts, not only is the profit level low compared to the same period in the previous fiscal year, it is also low compared to 1H. Although the Company's forecasts appear conservative, it plans to aggressively expand sales as new products such as Feelin are attracting attention. It is also forecasting that SG&A expenses will grow significantly in 2H. Therefore, it can be said that there is plenty of room for the full-fiscal-year results forecasts to be upwardly revised.

Key Points

- A comprehensive hair consultancy business that proposes lifestyles as a total hair consultant
- Has formulated a medium-term management plan to build a foundation for “ARTNATURE pioneering next-generation businesses” to continue to grow
- Results recovered steadily in 1H FY3/22, while there is also room for the full-fiscal-year results forecasts to be upwardly revised



Source: Prepared by FISCO from the Company's financial results

■ Company summary

“Your best smile is what we want” through wigs

1. Company summary

The Company is Japan's first comprehensive hair consultancy business whose main business is the manufacture and sale of custom-made wigs in the Men's business and women. Based on its motto “Your best smile is what we want,” its mission as a total hair consultant company is to propose to customers lifestyles that are more positive, bright and beautiful. For custom-made wigs, its stores use a 3D system to measure the customer's head, and based on the created data, the wig is manufactured by hand at its own plants overseas. Alongside the times, customers' hair-related needs are diversifying and becoming more sophisticated, and in addition to custom-made wigs, the Company currently provides individually optimized solutions to each customer, regardless of their gender, by providing a wide range of hair-related products and services, including ready-made wigs and hair-addition products, hair growth services, and hairdressing and beauty services.

Has refined its product development capabilities and is entering new areas towards achieving further growth

2. Company history

The Company, which was founded as ARTNATURE for individual sales in 1965, was established as a corporation in 1967. In 1969 with the aim of wig sales in the Men's business, it established a structure of stores equipped with a barber room that were able to provide a one-stop service, from consultations through to after-sales services. In 1980, it established a nationwide sales company structure and its brand became widely known as its MRP hair-addition system was a hit and it conducted advertising. Against the backdrop of this brand power, it made a full-fledged entry into the Ladies' business in 1987, including with Ladies' ARTNATURE. In 2002, it merged and integrated its nationwide sales companies and built a structure fully capable of demonstrating its comprehensive strengths, and began in-house manufacturing by making a subsidiary of a third-party manufacturers in the Philippines. The Company was listed on the stock market in 2007, and subsequently expanded its production structure while utilizing the expertise it had accumulated up to that time to expand its business scope, including entering the fields of ready-made wigs for women and medical wigs, and establishing its own online retailing website. Since 2019, it has conducted M&A to acquire a company that sell wigs in comparatively inexpensive price ranges, started sales of hair growth tonics as class 1 OTC drugs, established a company to conduct work contracted from medical facilities, and decided to invest in companies in order to develop new products and services in the hair and beauty fields. In such ways, the Company is strengthening its entry into new areas for further growth. Conversely, during this period, it has been further refining its product development capabilities, including market launching new products at a pace of twice a year, and it currently leads the industry as Japan's first major comprehensive hair consultancy business.

Company summary

History

Year	Event
1965	Started business of custom-made wigs for men
1967	Established ARTNATURE INC. (location: 4-5 Kojimachi, Chiyoda Ward, Tokyo)
1969	Established a one-stop structure from counseling through to manufacturing and after-sales services
1970	Developed proprietary special artificial skin
1973	Developed the Triple Hair-addition System for gradually increasing hair volume
1980	Established a nationwide sales company structure and built a sales network rooted in local communities
1983	Developed the synthetic hair Artron
1984	Launched MRP, a hair-addition system that uses no base materials
1987	Launched Ladies' ARTNATURE, marking its full-fledged entry into the women's market
1989	Launched the Ladies' MRP Hair-addition System for women
1990	Constructed and relocated to the new head office
2001	Established Ladies' ARTNATURE Ginza Salon in Ginza as its first ladies' salon
2002	Integrated all sales companies in Japan Made a subsidiary of EUROTECH HAIR SYSTEMS, INC. (currently, ARTNATURE PHILIPPINES INC.) in the Philippines
2003	Launched Hair for Life Original, a hair-addition product that realizes a natural hairline and sense of fit
2005	Launched Cellaire custom-made wigs for women
2006	Introduced the industry's first 3D measuring system
2007	Listed on the JASDAQ Stock Exchange
2008	Established a second manufacturing subsidiary in the Philippines Started a business for JULLIA OLGIER ready-made fashion wigs for women
2009	Launched ANCS medical wigs from Jullia Olger
2011	Established ARTNATURE (SHANGHAI) INC. as a Chinese subsidiary Established ARTNATURE ONLINE Shop, its own online retailing website
2012	Established ARTNATURE SINGAPORE PTE. LTD., as its Singapore subsidiary
2013	Listing was upgraded to the Tokyo Stock Exchange (TSE) 1st Section
2014	Made a subsidiary of Mikaway Inc. (currently ART MIKAWAYA INC.), which manufactures and sells wigs for entertainment Established ARTNATURE MALAYSIA SDN. BHD. as its Malaysian subsidiary
2015	Established ARTNATURE (THAILAND) CO., LTD. as its Thai subsidiary
2016	Launched Beauty Up, a hair-addition system for women
2019	Made a wholly owned subsidiary of NAO-ART CO., LTD., which sells comparatively inexpensive wigs Opened LABOMO Ginza, a salon dedicated to hair growth for men Launched the LABOMO Hair Grow MINOXI 5 hair growth tonic for men, thereby establishing a pharmaceutical sales business
2020	Established Art Medical Service Inc. to conduct a medical facilities support business
2021	Invested in Think-Lands Co., Ltd. to progress R&D into "hollow-type micro needles"

Source: Prepared by FISCO from the Company's securities report, etc.

Holds the leading position in the sector of hair products and services

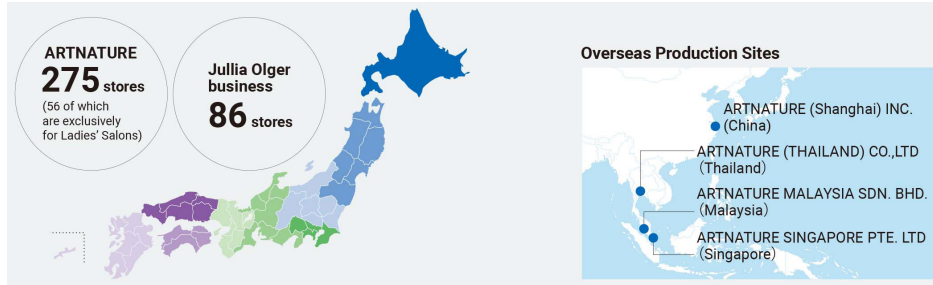
3. The sector of hair products and services and organizational structure

The hair market, such as for wigs, had slumped against the backdrop of sluggish consumption since the Lehman Shock in the fall of 2008; intensifying competition in adjacent markets, such as for hair care formulas, hair stimulants and hair growth tonics; and rising social awareness of the skinhead style. However, the efforts made by various companies in the sector of hair products and services to strengthen sales of women's wigs and for repeat business to male customers bore fruit, and the market changed direction and began expanding from FY2012. That said, from FY2016, new-entrant companies increased and sales of inexpensive wigs from SMEs grew, and the hair market changed direction again and began to contract. But currently, this round of new entrants and inexpensive wigs has abated and the market has calmed down, with the market scale trending basically unchanged YoY at around ¥129.1bn since FY2019. In FY2020, customer visits to stores declined or were postponed from the start of the year due to COVID-19 and infection-prevention measures were also taken, which had an impact on sales involving direct contact with customers and treatment operations throughout the hair care industry, including on hair-related work, hair care products, and clinics. At the present time, the industry is gradually recovering from the risk of COVID-19. During the period in which this risk was high, many major companies with a strong constitution were able to demonstrate their competitive advantages and increase their market shares. Among them, the Company, which ranks first for share in the men's market and second in the women's market, was able to steadily increase its shares and is estimated to hold the leading position for share when combining the men's and women's markets. This sense of stability for the Company will be touched on later, but it can be said the differences in the strategies and strengths of the two major comprehensive hair consultancy businesses can be expressed in their sales growth and profitability.

Features of the Company's organizational structure that support its leading position in the hair market include a system for producing high-quality products established over more than 50 years, a network of stores that covers the entire country, and highly skilled barbers and hairdressers who hold national qualifications. Backing its structure for producing products is a focus on details, such as on the hairline and hair whirls, fringe, and natural volume, and creative product development capabilities cultivated through developing high-performance products, such as artificial hair that offers both naturalness and functionality, and materials so thin that the color of the skin can be seen through them. Also, a feature of its mainstay business of custom-made wigs is an SPA (manufacture and retail business) model that vertically integrates coordination between Group companies, from planning and development through to manufacturing and sales, enabling it to respond quickly to consumer needs. Currently, it is market launching new products at a pace of twice a year, in the spring and fall. The venue where it provides these high-quality custom-made wigs is its network of stores that are equipped with the best environments and services and that cover all prefectures in Japan. Within the stores, the focus is on providing customers with a relaxing experience that gives them peace of mind, and they offer private rooms in consideration of customer privacy. Approximately 80% of the full-time employees, 1,856 people (as of March 31, 2021), are highly skilled barbers and hairdressers that hold national qualifications, and they provide thorough support, from the delivery of the contracted product through to after-sales services. The Company has two plants in the Philippines as its manufacturing bases and 275 stores in Japan (as of March 31, 2021) as its sales bases. Also, ready-made wigs are manufactured by its third-party manufacturers, including in China and Vietnam. For its sales bases, it has 120 stores in Japan (86 JULLIA OLGIER stores and 34 NAO-ART stores, as of March 31, 2021) and overseas bases in four countries.

Company summary

Store network



Source: The Company's Corporate Profile

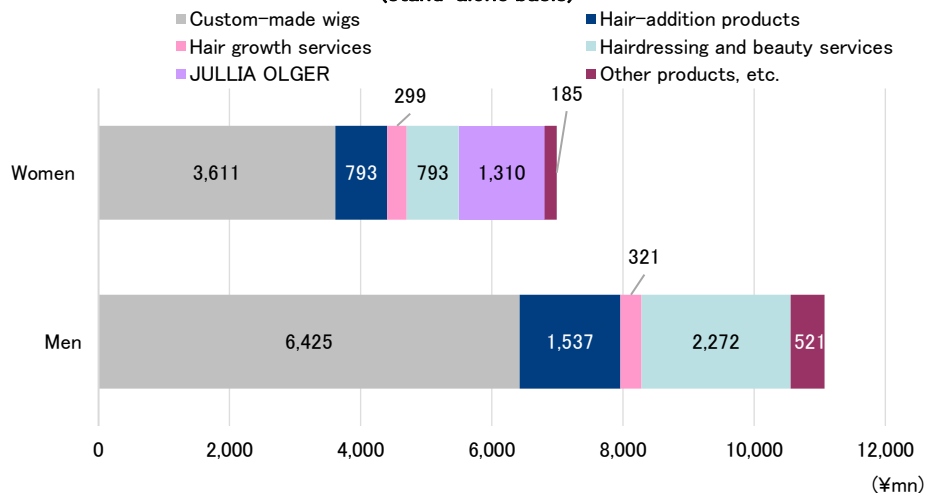
Business summary

Provides various hair-related products and services

1. Description of services

The Company provides products and services that meet the various needs of customers, ranging from people with hair-related concerns to those who want to enjoy fashionable hair. These products and services include custom-made wigs, ready-made wigs and hair-addition agents for people who “want to have more hair,” pharmaceutical sales, hair growth services for people who “want to grow hair,” after-sales services for people who “want to maintain their hair,” and hair care products and health products for people who “want to be beautiful and healthy.” Its main customer groups are men aged 40 to 69 and women aged 60 to 89.

Breakdown of sales in 1H FY3/22 by product and service for men and women (stand-alone basis)



Source: Prepared by FISCO from the Company's results briefing materials

Business summary

(1) Custom-made wigs

Since the Company's foundation, its product lineup has been focused on high-end, custom-made wigs. Under the brands ARTNATURE and Ladies' ARTNATURE, it manufactures high-end products that are optimized to meet the preferences and the hair conditions of each individual customer. When manufacturing a wig, the staff first carefully ascertain the customer's preferences and then measure the shape of their head. In order to realize the most comfortable fit, measuring the base net that will fit on the head can be said to be the most important task. For this, the Company introduced the industry's first 3D measuring system capable of quickly conducting highly accurate measurements in 2006. Various other specifications, such as style and color, are added to these measurements on the order. This data is sent to the Company's plant in the Philippines and used to create the base net, then highly skilled craftspeople work by hand on hair transplants for each individual strand of hair to create a wig that looks natural, from hair color to hair flow. Therefore, some time and effort are required before the product can be delivered to the customer, so prices* are comparatively high, ranging from ¥500,000 to ¥600,000 for men and ¥400,000 to ¥500,000 for women. However, it can be said that these high-quality, custom-made wigs realize a natural finish just like the customer's own hair and an outstanding sense of fit that only the Company can offer. The usage period differs depending on the individual, but it tends to be around two years.

| * Prices differ depending on the circumstances of the individual customer (so please inquire to the Company (same below)). |

High-end wigs produced by craftspeople



Example of a fitting



Source: Prepared by FISCO from the Company's homepage

Business summary

(2) Ready-made wigs

The Company utilizes the advanced product development capabilities it has cultivated in custom-made wigs to provide ready-made wigs for customers who want to casually enjoy different hairstyles under the MJO brand in the Men's business, and the high-end JO (JULLIA OLGIER) brand and the standard NAO-ART brand in the Ladies' business. It also provides the ANCS brand of medical wigs. Under MJO, it provides high-quality, ready-made wigs that are reasonably priced, from ¥100,000 to ¥300,000 and higher. It operates 5 stores near terminal stations in metropolitan Tokyo, and in addition to offering an abundance of ready-made wigs of different colors and sizes, it also handles semi-customized wigs that combine patterned parts, such as the size and hair volume. Under the JULLIA OLGIER brand, it provides high-quality, ready-made wigs finished with an original style at prices that are more affordable than custom-made wigs, ranging from ¥100,000 to ¥200,000, at 86 stores, mainly in department stores and shopping malls nationwide. Under the ANCS brand, it sells medical wigs that use materials that are kind to the skin and can be adjusted for hair volume and size, including at its nationwide stores, JULLIA OLGIER stores, and salons within ANCS hospitals. NAO-ART Co., Ltd., which was made a subsidiary in 2019, handles ready-made wigs in an even more affordable price range, and it operates 34 stores, mainly within comprehensive supermarkets in major cities, including metropolitan Tokyo.






Source: The Company's homepage

(3) Hair-addition products

In hair-addition products, the Company develops the MRP brand in ARTNATURE and the Beauty Up brand in Ladies' ARTNATURE. ARTNATURE stylists who have acquired specialist skills conduct hair addition through a method of attaching multiple artificial hairs to the roots of the customer's own hair. By increasing the number of units of multiple hairs, it is possible to increase the hair in the desired part little by little, and the hair can be increased without the customer feeling uncomfortable while adjusting to the preferred volume. Also, because the shape remains stable even with sweat and rain, the customer can shampoo and style the hair just like it was their own natural hair, and its features include a natural finish and a high degree of freedom. The Company is able to respond to the wide-ranging preferences of customers through an abundant lineup that focuses on details, including areas of hair addition, the number of hairs attached at one time, knotting, the thickness of the artificial hair and hair color.

History of MRP so far

 <p style="text-align: center;">1984 A revolutionary, base-free hair-addition system Launch of MRP</p>	<p style="color: #0070C0;">2019</p> <p>Looks even more natural thanks to a processing technology that attaches hairs only with fine knots Launch of MRP Advanced</p>  <p style="text-align: right; font-size: small;">Image</p>	<p style="color: #0070C0;">2021 Spring</p> <p>The processing of unevenness at the knot parts eliminates loosening Launch of MRP Real</p>  <p style="text-align: right; font-size: small;">Image</p>	<p style="color: #0070C0;">2021 Fall</p> <p>Pursuit of shortened attachment time Launch of MRP WONDER</p>  <p style="text-align: right; font-size: small;">Image</p>
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Source: Materials provided by the Company

Business summary

(4) Pharmaceutical sales (hair growth tonics) / medical facility support

In order to respond to diversifying needs as a comprehensive hair consultancy business, the Company has entered the fields of pharmaceutical sales and medical facility support. In 2019, it launched sales of a hair growth tonic (class 1 OTC drug) that contains minoxidil as the active ingredient in order to promote hair growth through stimulating cell proliferation and protein synthesis that act directly on the hair follicles. Currently under the LABOMO brand, it sells the LABOMO Hair Grow MINOXI 5 hair growth tonic for men and the LABOMO Hair Grow Hanaminoki hair growth tonic for women, with sales being conducted mainly through the Company's own online retailing website. For customers who want to buy LABOMO Hair Grow MINOXI 5 over the counter, it is also handled by the ARTDRUG Ginza store, where a pharmacist is stationed. In addition, with the aims of conducting pharmaceutical sales to and contracting operations from medical facilities, Art Medical Service was established in January 2020. The idea is to utilize ARTNATURE's knowledge on hair to provide products and services other than for medical practice.

LABOMO Hair Grow MINOXI 5



LABOMO Hair Grow Hanaminoki



Source: The ARTNATURE ONLINE shop

(5) Hair growth services

The Company develops hair growth services under the LABOMO brand in order to promote the normalization of the hair cycle and to maintain an environment to foster an abundance of hair through continuous care of the scalp and hair. It is said that factors such as scalp damage due to lifestyle habits and a disturbance of the hair cycle cause hair loss and thinning. However, by finding and suppressing such causes, the aim is to return the scalp and hair environment to a state in which hair once again grows abundantly. The Company's store staff, who are hair professionals, check the condition of the scalp and hair using dedicated devices and give their best advice and propose the optimal hair care based on their experience and the data. In October 2019, the Company opened LABOMO Ginza, a salon specializing in men's hair growth that provides a personalized course tailored to each individual customer.

Business summary

(6) After-sales services

In addition to wig maintenance, the Company provides a wide range of other after-sales services. At stores, each individual customer is assigned a stylist who has national qualification as barbers and hairdressers, and they perform treatments such as haircuts and dyeing. For customers who cannot visit a store for various reasons, there is a service for customers who have purchased custom-made wigs to send them in for maintenance. Events are held from time to time where customers who have purchased a product can receive advice not only on how to use and maintain their wig, but also on wigs as a fashion item, such as color coordination with clothes. At these venues for after-sales services, the Company builds excellent relationships with customers through communication, which can be said to be an effective method of increasing the repeat rate.

(7) Hair care products / health foods

The Company also has a lineup of own products, focusing on hair care products and health foods. It conducts sales via its own online retailing website and other sites, and utilizes media, to enable customers to easily make purchases. On its own online retailing website, the ARTNATURE ONLINE Shop, it sells hair care products, such as shampoos and conditioners, and health foods. It also provides the same products on the EC malls of other companies, including Rakuten and Amazon. On TV shopping channels, it sells products such as ARTMICRON, a popular foundation for concealing grey hairs, and LABOMO Hair Color Treatment, which simultaneously acts as both a gray hair concealer and a treatment. These channels also present an opportunity to demonstrate how to use products and show their effects in an easy-to-understand manner. In addition to hair care products that the stores nationwide are focusing on, it also sells various products through the catalogs of general mail order companies. In addition, the Company has opened its overseas flagship store on Tmall Global, which is a cross-border e-commerce site for China managed by the Alibaba Group. Going forward, its policy is to expand sales channels to increase sales of hair care products and health foods.

Acquiring new customers through “reaction sales”

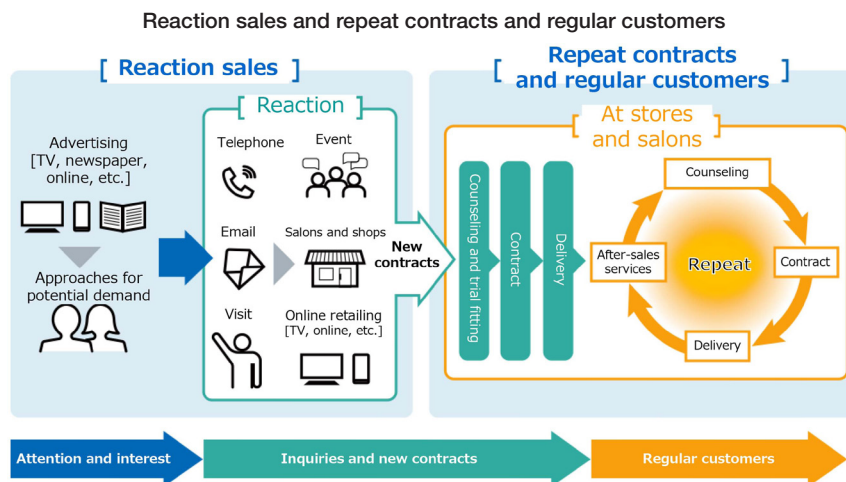
2. Business model

The aforementioned Company organizational structure, including the structure for producing high-quality products; its store network covering the entire country; and its highly skilled barbers and hairdressers holding nationally-recognized qualifications lead to improved earnings and growth consisting of “reaction sales” and “repeat contracts and regular customers,” and these form the foundation of the Company’s business model. First, targeting people with various hair-related concerns and those who want to enjoy wigs for fashion, the Company will use the strengths of various advertising media, such as TV, newspapers, and internet, to appeal to each target group. As a result, the people who have an interest in the Company’s products and services and with whom it is in contact, such as via telephone, emails, or store visits, are captured as new customers. It calls this “reaction sales.” Moreover, through its complete lineup of after-sales services provided at its stores nationwide and elsewhere, and by proposing various solutions that are tailored to meet customer needs, it builds relationships of trust with new customers that lead to repeat contracts. It calls this “repeat contracts and regular customers.”

Business summary

The Company is working on various projects to make this business model more effective and to function more efficiently. The first such project is to increase the sophistication of the customer management method. In January 2005, it introduced a customer management system that enables it to centrally manage all information, from requests for materials from potential customers and the provision of products to existing customers to the histories of every service and treatment for customers. This makes it possible to provide product proposals that more accurately meet customer needs compared to previously. The second project is to secure a stable supply of high-quality products through its own plant system. In April 2006, the Company acquired and made a wholly owned subsidiary of a third-party manufacturer in the Philippines, and then in February 2008, it established a manufacturing subsidiary through a 100% investment by the Company. As a result, it has secured stable suppliers of its own products and is also able to develop products that meet customer needs, thereby securing a supply of high-quality products in accordance with specifications and realizing a reduction in purchasing costs. The third project is to strengthen the protection of personal information. In August 2006, it acquired the Privacy Mark certification, and currently also it is strengthening the personal information management system, including by regularly acquiring updates, thereby solidifying the trust customers place in it.

Moreover, the Company's customers are members of the general public who have hair-related concerns, and as information about them is confidential, it pays extremely close attention to managing that information. Therefore, it has formulated the Personal Information Protection Management System in compliance with Personal Information Protection Management Systems - Requirements (JIS Q 15001), and it has acquired and maintains the Privacy Mark certification of the Japan Institute for Promotion of Digital Economy and Community (JIPDEC). For customer data, the Company is also making every effort to strengthen the system for managing customer information, including digitalization of customer information and conducting centralized management. When it consigns customer information to an external party, in accordance with the Personal Information Protection Management Systems - Requirements (JIS Q 15001), the Company confirms in advance that the consignee's personal information management system is enhanced with the personal information protection standards stipulated by the Company, and it exchanges contracts with the other party on the protection of confidential information. In addition, the Company's responsible person implements various measures, including inspection visits and regular reviews of its consignees.



Source: The Company's homepage

Demonstrates strengths for new customer acquisition and repeat contracts

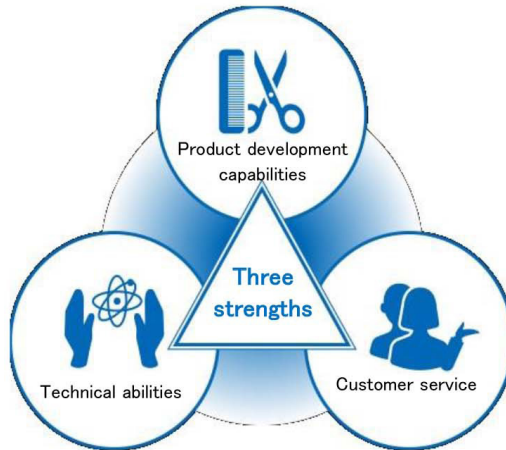
3. The Company's strengths

The Company's strengths, which promote differentiation from other companies, are important elements in the process of acquiring new customers through "reaction sales" and "repeat contracts and regular customers." In addition to the three strengths that are described on the Company's homepage, product development capabilities, technical abilities, and customer service, it can also be said to boast brand power, an excellent financial structure, and profitability. Thanks to product development capabilities based on a system for producing high-quality products, it can respond quickly to the times and customer needs by speedily developing products and services. Staff acquire technical abilities such as skills and expertise, and customer service is comprised of the communication skills and counseling abilities they acquire through various training in accordance with job type and level. Store staff who became hair professionals in this way contribute to turning customers into regular customers by wholeheartedly providing services at stores in an environment in which customers can feel relaxed and have peace of mind. Moreover, its brand power supported by its social standing as a reliable wig business with a history of over 50 years and as the only listed company in its industry are the major sources for the trust that customers place in it.

However, the sector of hair products and services' environment is currently severe, mainly due to COVID-19. Even in this situation, the Company's financial structure was excellent in FY3/21, notably the equity ratio (55.8%) and free cash flow (continuing surplus), and profitability is stable, indicated by the operating income margin (5.4%). In contrast, the results of its biggest rival, Aderans Company Limited, have been extremely severe, such as its mandatory financial reporting, and currently its financial structure and profitability are considered to be inferior to those of the Company. For example, in FY2/21, Aderans' stand-alone net sales in Japan were ¥32.1bn, and it had 491 stores and 2,630 full-time employees. In contrast, in FY3/21, the Company's stand-alone net sales in Japan were ¥34.6bn, and it had 361 stores and 2,291 full-time employees. Simply calculated, Aderans' net sales per store are ¥65.40mn and net sales per employee are ¥12.20mn, while the Company's net sales per store and net sales per employee are ¥95.80mn and ¥15.10mn, respectively. From this, we understand there is a major difference in their productivity, but as productivity is based on initiatives and leadership, this can be said to indicate the difference in their management capabilities. These differences, such as in productivity, also appear in the differences in investment, which particularly in the case of the sector of hair products and services affect the quality and volume of advertising for "reaction sales." There can be no appeal to customers without profits, and if the appeal is without substance the company's virility will decline, and subsequently widening gaps in brand power and profitability will appear. Although difficult to understand in general, this excellent financial structure and profitability can also be said to be the Company's strengths.

Business summary

“Three strengths”+ brand power, financial structure, and profitability



+

brand power,
financial structure,
and profitability

Source: Prepared by FISCO from the Company's homepage

Medium-term management plan

There are various issues in the internal and external environments

1. Environment surrounding the Company

As was partially touched upon previously, there are various issues occurring in the internal and external environments surrounding the Company. From a macro perspective, against the backdrop of factors such as COVID-19 and the US-China trade friction, the sense of uncertainty about the future of the Japanese and overseas economies is increasing. In the sector of hair products and services in Japan, demand is expected to increase, due to such trends as the aging of society and prolonged life expectancy, women taking a more active role in the workplace, and people's rising awareness of anti-aging treatments. On the other hand, the severity of conditions is increasing, including the maturation of the sector of hair products and services, intensification of competition with other companies and adjacent industries, and rise of alternative products and services. In addition, it can be said that issues that need to be addressed include the contraction of the labor market and securing excellent employees, the direction being taken by stock markets and society such as in relation to SDGs, and the rapid changes due to technological innovation (progress of DX).

Building a foundation for “ARTNATURE pioneering next-generation businesses”

2. Medium-term management plan

To resolve these issues and build a foundation for “ARTNATURE pioneering next-generation businesses” to continue to grow, the Company has formulated the ARTNATURE Challenge Plan, its three-year medium-term management plan (FY3/21 to FY3/23). To achieve the plan, it is implementing six priority challenge policies: (1) performance growth, (2) pioneering new fields, (3) stronger hiring practices, (4) employee training, (5) market interaction, and (6) business innovation. Specifically, for (1) performance growth, it is aiming to continue to develop and regularly market launch high-quality products and services that meet customer needs, while at the same time, it will expand the product lineup, uncover demand through “reaction sales,” and implement initiatives to turn customers into regular customers. It will also further uncover demand through measures that are tailored to each media and region, such as e-commerce websites and overseas markets, and it plans to increase customer numbers in both the domestic and overseas markets. For (2) pioneering new fields, on the one hand, it is steadily getting businesses launched in recent years on track, including those focused on wigs in a comparatively inexpensive price range, pharmaceutical sales, and medical facilities support. On the other hand, it is aiming to further expand its business scope, including through M&A in Japan and overseas and by launching new businesses.

For (3) stronger hiring practices and (4) employee training, the Company will first conduct various training and initiatives to help the 1,856 barbers and hairdressers who hold national qualifications (as of March 31, 2021), around 80% of all employees, perform to the best of their abilities. Also, as an excellent company based on the Act on the Promotion of Female Participation and Career Advancement in the Workplace, it will actively promote diversity management and reforms to ways of working that prioritize a work-life balance. Through these initiatives, it will stably secure excellent human resources and promote employees remaining with the Company for long periods, and aim to improve workplace potential and customer-attraction capabilities. For employees in departments other than the sales department as well, it is establishing a system for education and training and will support self-study to develop human resources responsible for various planning and the management and administration of Group companies. It is also building a mechanism to increase the number of experts in various fields in order to enhance the planning and business management capabilities in the head office. For (5) market interaction, it is already implementing various initiatives relating to SDGs, while taking on the new challenges of reducing plastic and constructing a new service system. In addition, through IR activities, it is strengthening dialogue with the market and corporate governance toward improving enterprise value in the medium to long term. For (6) business innovation, by reviewing various systems, including shifting to paperless and creating systems, and conducting business innovation at the head office, it plans to reduce waste and fixed costs, lower the profit-loss breakeven point, and improve productivity, and thereby convert to a structure that can generate even greater earnings.

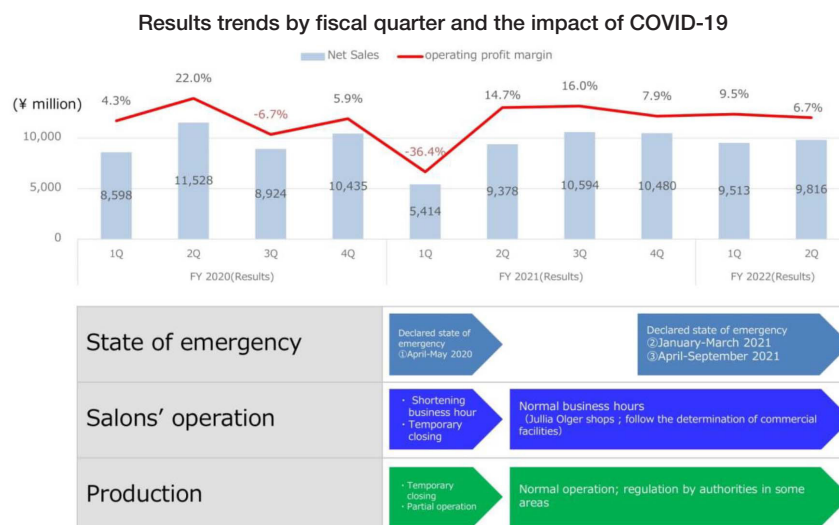
Medium-term management plan

No change to the medium-term management plan’s objectives of resolving issues and continuing to grow even during the COVID-19 pandemic

3. Priority items and progress made

In the ARTNATURE Challenge Plan, the Company has set targets for each individual fiscal year. For the first fiscal year, Challenge 2020, it aimed to reestablish the business foundation of existing businesses, and took on the challenge of enhancing the foundation of new businesses, which include standard wigs, hair growth tonics, and medical facility support. In the second fiscal year, Challenge 2021, it took on the challenge of regrowing existing businesses and establishing a structure for further expansion into new fields. In the final fiscal year, Challenge 2022, it will take on the challenge of stably expanding existing businesses and progressing entry into new areas. By steadily implementing the plans in each year, the Company is aiming to achieve the targets for FY3/23 of net sales of ¥44bn, an ordinary income margin of 8.5% (approximately ¥3.85bn), and ROE of 9.1%. However, because the impact of COVID-19 has been greater than expected, and while there has been no change to the medium-term management plan’s objectives of resolving issues and continuing to grow in order to achieve the targets, even greater efforts will be needed for both existing businesses and new businesses.

In terms of the impact of COVID-19 in 1Q FY3/21, which was the first fiscal year of the medium-term management plan, the first wave of COVID-19 occurred in Japan and the first state of emergency was declared (April to May 2020). This was a period in which infections spread rapidly on a global scale, so the sales bases in Japan were required to shorten their business hours or temporarily close, while the plants in the Philippines were required to temporarily close or conduct partial operations. As the process from production to sales, which forms the foundation of the Company’s organizational structure, temporarily ceased to function, unfortunately it was unavoidable that a corresponding impact was felt in terms of the progress made in the medium-term management plan. Conversely, from 2Q onwards, all stores, except some JULLIA OLGIER stores, returned to normal business hours, and the plants in the Philippines also basically returned to normal operations, although some restrictions remained. So the favorable impression is that the impact on customers was kept down to the absolute minimum, as the Company was able to return to normal operations comparatively quickly. Therefore, as described below, results recovered and trended solidly. Results after the third declaration of a state of emergency (April to September 2021) also trended comparatively steadily.



Source: The Company’s results briefing materials

We encourage readers to review our complete legal statement on “Disclaimer” page.

Results trends

Net sales increased greatly YoY and operating income recovered to achieve profitability

1. 1H FY3/22 results

In the 1H FY3/22 results, net sales were ¥19,329mn (up 30.7% YoY), operating income was ¥1,561mn (up ¥2,153mn), ordinary income was ¥1,492mn (up ¥1,923mn), and net income attributable to owners of parent was ¥857mn (up ¥1,303mn). Net sales increased greatly YoY, and the Company has in sight recovering sales to the same level as before COVID-19. Profits also recovered from losses in the same period in the previous fiscal year and profitability was achieved.

1H FY3/22 results

(unit: ¥mn)

	1H FY3/20	1H FY3/21	% of sales	1H FY3/22	% of sales	Change rate	Change rate compared to 2 years ago
Net sales	20,126	14,793	100.0%	19,329	100.0%	30.7%	-4.0%
Gross profit	14,117	9,083	61.4%	13,019	67.4%	43.3%	-7.8%
SG&A expenses	11,210	9,675	65.4%	11,457	59.3%	18.4%	2.2%
Operating income (loss)	2,907	-592	-4.0%	1,561	8.1%	-	-46.3%
Ordinary income (loss)	2,941	-431	-2.9%	1,492	7.7%	-	-49.3%
Net income (net loss) attributable to owners of parent	1,925	-446	-3.0%	857	4.4%	-	-55.5%

Source: Prepared by FISCO from the financial results

On entering the current period, net sales in April and May increased as a reaction to the decline in the same period in the previous fiscal year due to the first declaration of a state of emergency. They also increased greatly due to progress in delivery of orders received in the previous period. From June onwards when infections began to spread once again, sales trended at about the same level as in the same months in the previous year. In profits, the gross profit margin improved significantly due to the rise in the plant-operation rate following the easing of restrictions and the increase in sales. SG&A expenses, which were kept down in the same period in the previous fiscal year, trended at a higher level YoY, mainly consisting of advertising expenses. Even so, the SG&A expenses ratio improved greatly due to the sales recovery and as some costs were pushed back until 2H. The Accounting Standards for Recognizing Revenue, etc. were adopted from the start of 1Q, and as a result, net sales declined ¥74mn by 2Q.

Results trends

Sales in both the Men's and Ladies' segments are close to levels seen before COVID-19

2. Results by segment

Net sales in both the Men's and Ladies' businesses have grown greatly and recovered to levels close to those seen before COVID-19, as a result of the elimination of issues such as self-restraint on sales and temporary closures of plants. In particular, in the Ladies' business, launches of new products and reopening of trial fitting events have contributed to results. In the others segment, growth has been relatively low. In the online business, which is included in others, demand had grown in the same period in the previous fiscal year mainly because of the nesting (stay-at-home) demand, so growth was sluggish in the current period, including due to a decline in the number of broadcasts of TV sales. The growth of sales of hair-addition products and hair growth services was also relatively low, but this was because the tendency to avoid contact with others has persisted throughout the COVID-19 pandemic, and the growth of new customers for each declined by around 20%. The call centers, which receive inquiries from customers, have introduced an AI automated response system on a trial basis from the current period. This will make it possible to deal with a momentary increase in the number of incoming calls and inquiries when an operator is not present, which will lead to an increase in acquisitions of "reaction" customers. It began fully fledged operations in October and a system is now in place for receiving inquiries 24 hours a day, which is expected to lead to a further increase in orders.

Net sales in 1H FY3/22 by Men's and Ladies' businesses and by product and service

(unit: ¥mn)

By Men's and Ladies' businesses (consolidated)	1H FY3/20	1H FY3/21	% of sales	1H FY3/22	% of sales	Change rate	Change rate compared to 2 years ago
Men's	11,576	8,743	59.1%	11,078	57.3%	26.7%	-4.3%
Ladies'	7,938	5,288	35.7%	7,485	38.7%	41.5%	-5.7%
Others	611	761	5.1%	766	4.0%	0.7%	25.4%

By product and service (stand-alone)	1H FY3/20	1H FY3/21	% of sales	1H FY3/22	% of sales	Change rate	Change rate compared to 2 years ago
Custom-made wigs	11,132	6,822	47.4%	10,036	53.8%	47.1%	-9.8%
Hair-addition products	2,733	1,984	13.8%	2,331	12.5%	17.5%	-14.7%
Hair growth services	604	567	3.9%	621	3.3%	9.5%	2.8%
Hairdressing and beauty services	2,786	2,672	18.6%	3,065	16.4%	14.7%	10.0%
JULLIA OLGGER	1,550	1,008	7.0%	1,310	7.0%	30.0%	-15.5%
Other products, etc.	1,172	1,322	9.2%	1,281	6.9%	-3.1%	9.3%

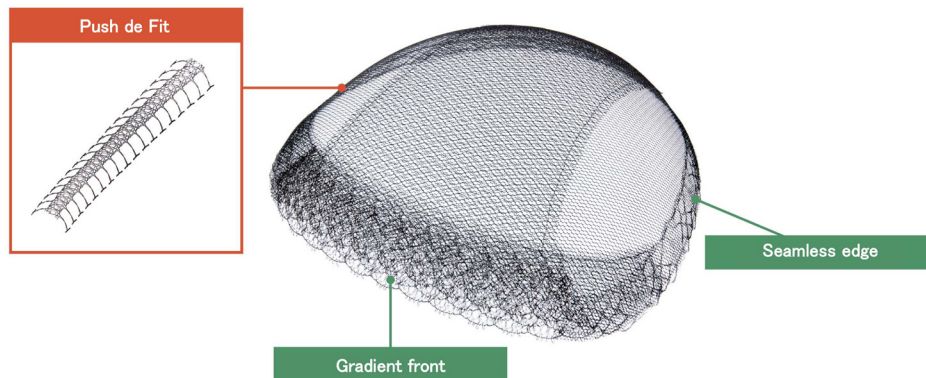
By new and repeat customers (stand-alone)	1H FY3/20	1H FY3/21	% of sales	1H FY3/22	% of sales	Change rate	Change rate compared to 2 years ago
New	2,710	1,660	11.5%	2,281	12.2%	37.4%	-15.8%
Repeat	15,254	11,046	76.8%	14,480	77.7%	31.1%	-5.1%
JULLIA OLGGER	1,550	1,008	7.0%	1,310	7.0%	30.0%	-15.5%
Others	464	663	4.6%	575	3.1%	-13.3%	23.9%

Source: Prepared by FISCO from the Company's results briefing materials

Results trends

Within the segments, net sales from the Men’s business were ¥11,078mn (up 26.7%). The Company struggled to acquire new “reaction” customers, but sales to repeat customers trended strongly and it achieved steady results even during the COVID-19 pandemic. MRP WONDER is a hair-addition product launched in September, and through the newly developed WONDER Attachment System (patent pending) for knotting, attaching hair to short natural hair is easier, such as to the top of the head and on the periphery of the parting, and the previous treatment period can be cut in half, even while maintaining product quality. Dramatically improving the time needed to provide the service not only reduces the burden on the customer receiving the treatment, but also leads to improved work efficiency for employees. Net sales from the Ladies’ business were ¥5,683mn (up 43.4% YoY). It seems there was a decline in opportunities to use the Company’s products due to COVID-19, such as due to self-restraint on going out and the cancellation of events. However, the number of new “reaction” customers was extremely positive, leading to orders exceeding the forecast. In particular, the Feelin custom-made wigs were launched in September, and through the newly developed Push de Fit (patent pending) system, for the first in the history of Ladies’ ARTNATURE, the wig does not require a pin to keep it in place and can be easily secured by attaching it to natural hair, and these wigs realize a level of fit that allows peace of mind even in wind. Therefore, the degree of attention on these wigs is extremely high, and in September, a record-high number of monthly reaction customers were acquired and it seems this strong performance was maintained in October and onwards as well.

Functions of Feelin wigs that “do not require a pin to keep them in place”



Source: The Company's homepage

For new customers, postings of advertisements increased in both the Men’s and Ladies’ businesses. In the Men’s business, the Company struggled as a whole to acquire new “reaction” customers, but progress was made in acquiring wig customers through new advertisement postings and the hair-addition contract completion rate improved with the launch of the Premium Hair-addition Experience. In the Ladies’ business, new “reaction” customers increased, mainly for wigs including Freedia 3 launched in March and Feelin launched in September. For repeat customers, the state of emergency lasted basically throughout all of 1H, centered on metropolitan areas, and while the number of store visitors in the Men’s business was able to maintain at the same level as in the same period in the previous fiscal year, the impact of self-restraint on going out and the cancellation of events was greater in the Ladies’ business. The Sogo Omiya store was opened as a new format store that goes beyond the boundary of the Company’s own brands to offer a wide range of products and services. The Company also built a training system for use during the COVID-19 pandemic and is flexibly conducting online training and working to maintain and improve the skills of staff.

Results trends

Plenty of room to upwardly revise the full-fiscal-year results forecasts

3. FY3/22 results forecasts

For the FY3/22 results, the Company is forecasting net sales of ¥40,363mn (up 12.5%), operating income of ¥2,023mn (up 4.7%), ordinary income of ¥2,088mn (up 4.1%), and net income attributable to owners of parent of ¥1,045mn (up 24.3%). In terms of the assumptions used to formulate these forecasts, for the external environment, social restrictions, such as the declaration of a state of emergency in Japan, were not anticipated. For the production system, while the Company would respond in accordance with the instructions of authorities in the Philippines, it anticipated that normal operations would continue from October onwards, and that for the sales system as well, normal operations would continue from October onwards. For measures in 2H, on the one hand, the Company will focus on sales of new products, such as Feelin, and implementing various measures for further growth in existing businesses. On the other hand, it plans to also strengthen new businesses, which include standard wigs, hair growth tonics, and medical facility support. SG&A expenses are expected to be in line with the initial forecast, but the growth rate of costs overall will grow significantly alongside measures for strategy implementation, including to acquire new customers, increase recruitment of barbers and hairdressers, and conduct priority challenge measures.

FY3/22 results forecasts

(unit: ¥mn)

	FY3/21	% of sales	FY3/22 forecast	% of sales	Change rate
Net sales	35,868	100.0%	40,363	100.0%	12.5%
Gross profit	23,911	66.7%	27,286	67.6%	14.1%
SG&A expenses	21,979	61.3%	25,262	62.6%	14.9%
Operating income	1,932	5.4%	2,023	5.0%	4.7%
Ordinary income	2,005	5.6%	2,088	5.2%	4.1%
Net income	840	2.3%	1,045	2.6%	24.3%

Source: Prepared by FISCO from the Company's results briefing materials

For the Company's forecasts by segment, the 1H forecast progress rate for the mainstay custom-made wigs was 50.1%, which can be thought to be good progress for both Men's and Ladies' businesses, but the Company is aiming to get even more on track for Ladies' in 2H, particularly following the launch of Feelin in September. The progress for hair-addition products was sluggish at 43.5%, but it is targeting a recovery in the Men's business through the launch of MRP WONDER in September. Conversely in the Ladies' business, the trend for new customers to select custom-made wigs is strengthening, and therefore it is better to evaluate the total of custom-made wigs and hair-addition products. The JULLIA OLGGER progress rate was 38.2% and it is being forced to struggle because of the decline in the customer-attraction capabilities of commercial facilities due to COVID-19. However, it is considered to be within the scope of recovery, assuming a return of foot-traffic customers to commercial facilities alongside the increase in people receiving a vaccination. Hairdressing and beauty services were affected by the adoption of the Accounting Standards for Recognizing Revenue, but the progress rate can still be said to be steady at 55.4%. Based on the above, there is still a sense of uncertainty about consumption trends toward the New Year period, and the current period's end and the next period's start. However, in addition to the effects of the above measures in the future, in a typical year, sales tend to be greater in 2H than in 1H, so we think that the full-fiscal-year net sales forecast is fully within an achievable range.

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Results trends

FY3/22 net sales forecasts, by Men's and Ladies' businesses and by products and services

(unit: ¥mn)

By Men's and Ladies' businesses (consolidated)	FY3/21	% of sales	FY3/22 forecast	% of sales	Change rate	1H progress rate
Men's business	21,322	59.4%	22,366	55.4%	4.9%	49.5%
Ladies' business	13,060	36.4%	16,052	39.8%	22.9%	46.6%
Other	1,485	4.1%	1,945	4.8%	31.0%	39.4%

By products and services (stand-alone)	FY3/21	% of sales	FY3/22 forecast	% of sales	Change rate	1H progress rate
Custom-made wigs	18,584	53.6%	20,016	51.8%	7.7%	50.1%
Hair-addition products	4,165	12.0%	5,364	13.9%	28.8%	43.5%
Hair growth services	1,195	3.4%	1,369	3.5%	14.6%	45.4%
Hairdressing and beauty services	5,373	15.5%	5,534	14.3%	3.0%	55.4%
JULLIA OLGIER	2,761	8.0%	3,434	8.9%	24.4%	38.1%
Other products, etc.	2,569	7.4%	2,942	7.6%	14.5%	43.5%

Source: Prepared by FISCO from the Company's results briefing materials

For the 2H results forecasts, which are obtained by subtracting the 1H results from the full-fiscal-year results forecasts, not only is the profit level extremely low compared to in the same period in the previous fiscal year, but the profit level is also low compared to in 1H, despite the fact that needs for wigs tend to be stronger in the winter than in the summer. This seems to be because at the current time, the Company has left unchanged its conservative results forecasts for the full fiscal year because as before, consumer trends remain uncertain on the lifting of the declaration of a state of emergency. The Company has stated the net sales forecast is fully achievable and the profit forecasts are conservative, and in addition, new products, MRP WONDER and Feelin, are attracting a lot of attention, and its policy is to actively conduct sales for them. Also, even with the portion delayed from the previous period, the anticipated growth of SG&A expenses in 2H seems large enough to be considered abnormal. From the above, it can be said that there is plenty of room for the Company to upwardly revise the full-fiscal-year results forecasts.

2H FY3/22 results forecasts

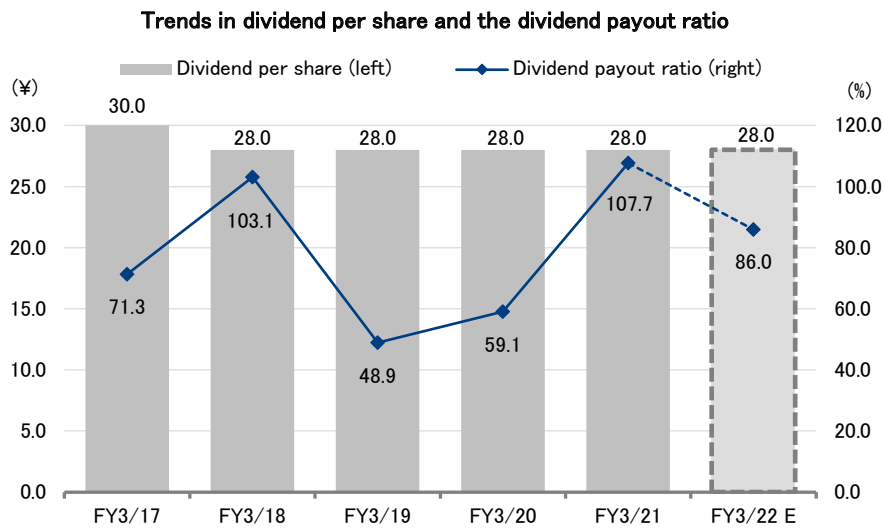
(unit: ¥mn)

	2H FY3/21	% of sales	2H FY3/22 Forecasts	% of sales	Change rate
Net sales	21,075	100.0%	21,033	100.0%	-0.1%
Gross profit	14,828	70.4%	14,267	67.8%	-3.8%
SG&A expenses	12,304	58.4%	13,805	65.6%	12.2%
Operating income	2,524	12.0%	461	2.2%	-81.7%
Ordinary income	2,436	11.6%	596	2.8%	-75.5%
Net income	1,286	6.1%	188	0.9%	-85.4%

Source: Prepared by FISCO from the Company's results briefing materials

Returns to shareholders

The Company considers returning profits to shareholders to be one of its most important management issues. Its basic policy is to work to maintain a stable dividend while considering supplementing retained earnings in order to strengthen its management foundation and financial structure, and with an eye to business expansion in the future. In accordance with this basic policy, it plans to pay a total annual dividend per share of ¥28 in FY3/22, comprised of an interim dividend of ¥14 and a period-end dividend of ¥14.



Source: Prepared by FISCO from the Company's financial results, etc.

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