



ARTNATURE INC.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

November 1, 2022

Event Summary

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[Participants]		
[Number of Speakers]	2	
	Isao Naito	Managing Director
	Toshio Honda	Senior Corporate Officer, General Manager of Management Planning Division

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Presentation

Noshita: Hello, everyone. We are pleased to present the Q2 Financial Results Briefing for the Fiscal Year Ending March 2023 of ARTNATURE INC. Thank you very much for your participation today.

Now, without further ado, I would like to introduce today's attendees.

Mr. Isao Naito, Managing Director.

Naito: My name is Naito of ARTNATURE. Thank you for your participation today.

Noshita: And Mr. Toshio Honda, Senior Corporate Officer, General Manager of Management Planning Division.

Honda: My name is Honda from ARTNATURE INC. Thank you for your participation today.

Noshita: My name is Noshita, and I am the moderator for today's meeting. Appreciate your kind cooperation until the end.

Now today's agenda will start with Managing Director Naito, who will give an overview of the financial results for H1 of the fiscal year ending March 31, 2023, and the forecast for H2. Followed by an explanation of the financial results for Q2 of the fiscal year ending March 31, 2023, and the outlook for the full year by General Manager Honda. We will then move on to the question-and-answer session. We would appreciate your candid comments as well.

I would now like to shift to the explanation of the financial results.

Managing Director Naito, if you would kindly begin.

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1H FY2023 : Highlights



1H FY 2023 Financial Results

(¥ million)

	1H FY2022 (Results)	1H FY2023 (Results)	YoY Change	Original Plan	Progress rate
Net Sales	19,329	21,288	+10.1%	41,991	50.7%
Men's Business	11,078	11,556	+4.3%	22,896	50.5%
Ladies' Business	7,485	8,833	+18.0%	17,034	51.9%
Others	766	898	+17.3%	2,061	43.6%
Operating Income	1,561	2,372	+51.9%	2,105	112.7%

※Ladies' Business including JULLIA OLGER, NAO-ART CO.,LTD

Changes in sales and operating income margin * Quarterly



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Naito: Once again, my name is Naito from ARTNATURE INC. Thank you very much for taking time out of your busy schedules to participate in the presentation of our financial results today.

Now, let me begin the briefing. Firstly, let me get the ball rolling with an overview of the H1 financial results, followed by an outline of H2.

Please turn to page two, an explanation of the highlights of the H1 financial results.

The table on the top of the slide. Results for H1 of the fiscal year as shown in the second column from the left. Net sales increased compared with the same period of the previous year. Operating income also exceeded the annual plan.

The graph at the bottom shows quarterly changes in net sales and operating profit margins. In Q1 of the current fiscal year, sales of women's custom-made wigs and FEELIN products were very strong, and sales increased significantly compared to the previous year due to the delivery of more products than in the previous year. Operating income also increased, mainly due to the increase in sales, and the operating profit margin was 11.8%.

In Q2, supported by continued strong orders, we were able to achieve YoY increases in net sales and a profit margin of 10.5%.

Honda will explain the details later.

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| ARTNATURE 「Challenge」 Plan Key Challenge Measures to Achieve |



Continuing on page three is a table summarizing the key measures for H1 of this fiscal year.

The current fiscal year is positioned as the final year of the medium-term management plan, ARTNATURE's Challenge Plan.

As you can see on the lower left side of the slide, Challenge 2022 is a plan to expand existing businesses stably while at the same time stepping into new areas of business.

Unfortunately, we have no concrete information to present regarding the development of new business areas, but we have been able to achieve stable growth in existing businesses, both men's and women's wear.

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Men's Department

Mostly achieved the targets for orders and sales. Successfully increased more loyal wig customers introducing new items

Topics of the first half of the fiscal year ending March 31, 2023	
Advertising and Sales	<p>Strengthening of promotional and sales activities had a positive effect.</p> <p>Commercials on wigs were placed not only on terrestrial televisions but on satellite television, YouTube and many other media.</p> <p>A combination of building up working-level skills with strengthened promotion increased the number of new introductions among wig customers.</p>
Products	<p>A new product was released, featuring a technology unavailable from competitors.</p> <p>In March, a hair addition product of MRP PRIME was released. It was created after the persistent pursuit of naturalness.</p> <p>In June, a custom-made wig of NATURE ONE was released. It is designed to take advantage of users' own hair.</p>



(Features of MRP PRIME, a new product released in March)
It persistently pursued ARTNATURE's most natural feel ever with just 0.049 mm in thickness attained by the wet blast technology for thinning down the joints with hair extensions.



(Features of NATURE ONE, released in June)
It is a wig that takes advantage of users' own hair to provide an easier wearing experience and a natural look.
It is so thin, light and high in air permeability that users may feel as if they are wearing nothing.

Page four. Let's take a look at the men's department

In summary, as shown at the top, both orders and sales were generally in line with the initial plan.

In the men's business, we have struggled to attract new customers in the past, but in H1, we were able to increase the number of wig customers thanks to attractive new products, promotions centering on wigs, and proposals by our front-line staff.

This increase in new customers is expected to lead to repeat sales in the men's department in the coming year and beyond.

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Ladies' Department

The ladies' business achieved highest H1 net sales since the listing of the stock.

Sales Progress in Ladies Business (million)



The release of FEELIN solved the problems with the use of conventional wigs, namely difficulties in attaching pins and concern about using wigs for extended periods. That led to a surge in demand.

We will now look at H1 in the ladies' department.

The graph at the top shows our sales for the most recent seven years. In H1, we recorded the highest net sales in the ladies' business since the Company was listed on the stock exchange.

This was mainly due to continued strong sales of the made-to-order wig FEELIN, which was launched last year. The product FEELIN is a wig that does not use pins like in conventional wigs. We believe that our customers have highly praised this pinless attachment method of the FEELIN wigs.

We believe that we were able to stimulate this demand by eliminating the concerns of customers who thought it would be difficult to wear a wig until they actually held it in their hands.

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Proactive initiatives towards growth of the ladies' business

Topics of the first half of the fiscal year ending March 31, 2023	
Store	<p>Ladies ARTNATURE Ginza Platinum Garden inaugurated In Ginza, a district filled with flagship shops of the world's popular brands, a store was launched. It deals with a broad array of products and services, including custom-made wigs, ready-made wigs dealt with at JULLIA OLGIER and salon-quality hair care items.</p>
Advertising and Sales	<p>Advertising and sales strategy implemented to transcend ARTNATURE's brands Ryoko Moriyama and Michiko Shimizu, starring in commercials for Ladies ARTNATURE, are also cast for the ready-made brand of JULLIA OLGIER.</p> <p>Inter-brand customer referral measures implemented for new inquiries and events Synergy is produced for eliminating lost opportunities.</p>
Products	<p>A ready-made wig featuring a pin-free technology released In September, LEFIA PURE BEAUTE was released. It is a ready-made wig incorporating renowned technology used in custom-made wigs</p>



Continuing on to page six is a summarization of the initiatives towards the growth of the ladies' business, with the exception of new products.

At the Top Under Store in Ginza, where popular brands from around the world line up, we were able to open a new store that offers custom-made wigs, ready-made wigs, and a variety of hair care items.

In addition, to further enhance the recognition of ARTNATURE's wigs, we adopted the commercial character of Ladies' ARTNATURE for JULLIA OLGIER, our ready-made wig brand, to unify the characters.

As noted on the slide, other initiatives are underway to further develop the ladies' business.

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Prerequisites to planning

Formulate a revised full-year plan in accordance with the following conditions.

[External environment]

- Social restrictions such as declaration of a state of emergency in Japan are not presumed.

[Production system]

- Normal operation is continued.

[Sales system]

- Normal operation is continued.

Plan for the second half

For the second half, we will operate as initially planned.

[Net sales]

- Men's/Ladies'/Ladies' ready-made wigs businesses: Stable growth.
- Other business: Double-digit growth (aims for expansion and growth driven by mail-order sales business).

[Expenses]

- Take into account the rise in transaction costs and impacts of foreign exchange rates.
- Take into consideration strengthening of recruitment and concentrated investment in areas that should be cultivated.

[Investment]

- Consider investing management resources on the basis of selection and concentration.

On page seven, I will discuss a bit about our full-year plan for FY2023.

When we announced our financial results on October 28, we simultaneously announced a revision to our full-year earnings forecast.

The top graph shows net sales on the left and operating income on the right, with the actual results for H1 and the revised full-year plan for H2 minus the H1 results, outlined in the red boxes.

As for the net sales on the left, we plan to increase sales in H2 compared to H1 and also compared to the previous year.

On the other hand, operating income on the right side is projected to grow slightly slower. The reason for the decrease in operating income in H2 is due to external factors, such as the impact of foreign exchange rates, and internal factors, such as the concentrated investment of management resources, which were incorporated into the plan.

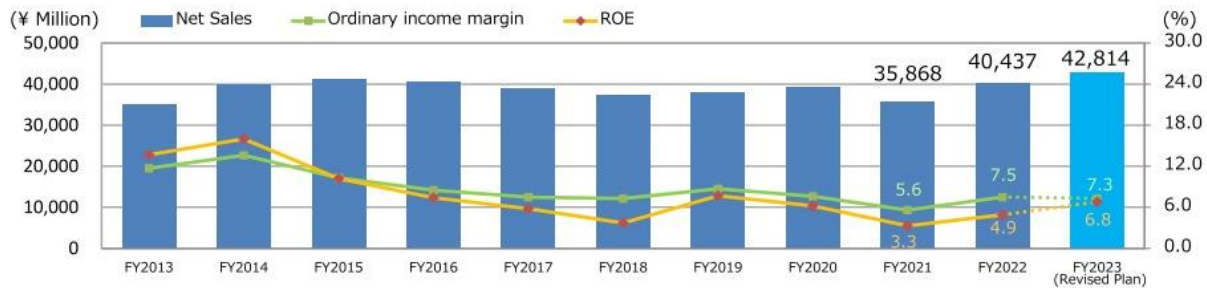
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Medium-term Management Plan: Targets for FY2023 /Dividends

FY2023 (Revised Plan)
Net Sales: ¥42.8 billion Ordinary Income Margin: 7.3% ROE: 6.8%



Maintain Stable and Continuous Dividends



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

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The eighth page will be the last page for my explanation of the primary management indicators and dividend policy in the medium-term management plan.

Net sales, ordinary income margin, and ROE for the fiscal year ending March 31, 2023, the final year of the medium-term management plan, are shown on the far right of the graph at the top.

Both the bar and line graphs here reflect the revised plan. The ordinary income margin, which was 5.1% before the revision, has been revised upward to 7.3%, and the ROE has been revised upward from 4.7% to 6.8%.

As for dividends, based on our basic policy of maintaining stable dividends, we intend to pay an interim dividend of JPY14 and a year-end dividend of JPY14, for a total dividend of JPY28 for the full year.

The entire company will continue to work together to achieve our goal of double-digit profitability and ROE as soon as possible.

This concludes my explanation.

General Manager of Management Planning Division, Honda, will continue with a detailed explanation of the financial results.

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1H FY2023 : Financial Highlights



(¥ million)

	1H FY2022 (Results)	1H FY2023 (Results)	1H FY2023 (Revised Plan)	Major Factors behind YoY Change
Net Sales	19,329	21,288	42,814	Net Sales : +10.1% Men's Business : +4.3% Ladies' Business : +18.0%
Men's Business	11,078	11,556	23,168	
Ladies' Business	7,485	8,833	17,650	
Others	766	898	1,994	
Cost of Sales	6,310	6,792	13,912	Cost of Sales Ratio : (0.7)Pt (Product Cost : +0.8Pt) (HR : (1.6)Pt)
Gross Profit	13,019	14,496	28,901	
SG&A Expenses	11,457	12,123	25,774	SG&A Expenses : +5.8% Ad Spending : +2.3% HR : +4.3% Others : +8.4%
Ad Spending	2,884	2,950	6,873	
HR	2,926	3,052	6,214	
Operating Income	1,561	2,372	3,126	
Ordinary Income	1,492	2,374	3,106	
Net Income	857	1,463	1,698	
Depreciation	402	389	795	
CAPEX	608	697	2,522	CAPEX Store facilities : ¥226million System related : ¥325million

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Honda: Once again, my name is Honda from ARTNATURE.

Let me now begin.

Page 10 summarizes the Q2 results of the fiscal year ending March 31, 2023, and the consolidated income statement.

As you can see, net sales increased in Q2. Net sales increased 10.1%, totaling to JPY21.2 billion, operating income increased 51.9%, totaling to JPY2.3 billion, and operating margin was 11.1%. The cost of sales decreased by 0.7 percentage points to JPY6.7 billion due to sales expansion.

Stylist labor costs have a fixed solid cost component, and the stylist labor cost ratio decreased by 1.6 percentage points due to sales expansion, while the cost of product ratio increased by 0.8 percentage points due to the depreciation of the Japanese yen and higher prices of commodities. The cost to income ratio decreased.

SG&A expenses were JPY12.1 billion, higher than in the same period last year in almost all expense categories. In addition, HR expenses increased by 4.3% due to the strengthening of headcount.

The bottom row CapEx increased by JPY0.09 billion YoY totaling to JPY690 million.

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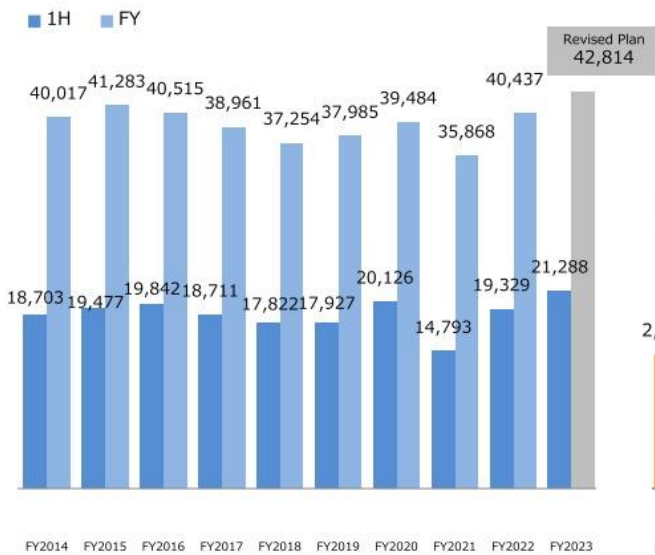
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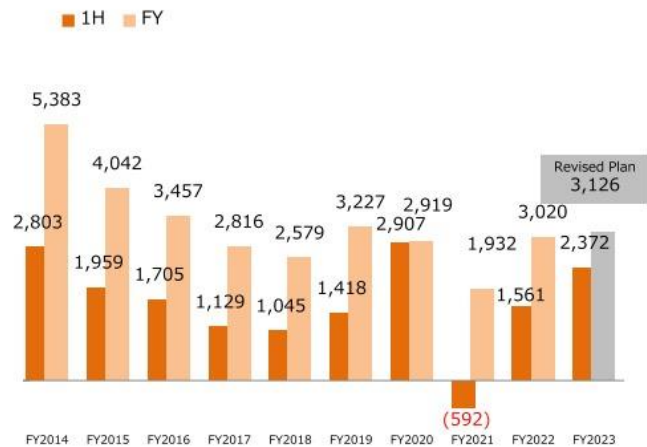
Net Sales and Operating Income Trends



Net Sales (¥ million)



Operating Income (¥ million)



Page 11 shows the consolidated H1 and full-year results.

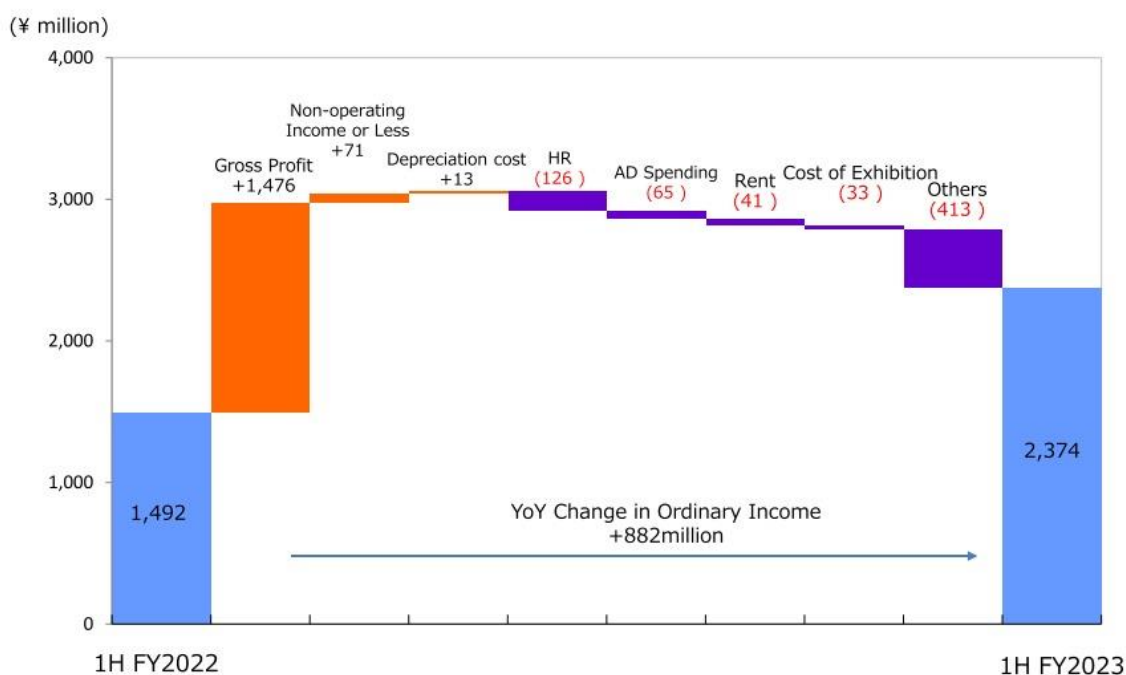
As you can see, both sales and operating income have steadily recovered since COVID-19.

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Page 12 shows the factors for changes in the consolidated ordinary income for Q2 of the fiscal year ending March 31, 2023.

The orange area on the left are the positive factors for profit. The purple area on the right are the negative factors for profit.

Mainly due to the increase in sales, gross profit increased by JPY1.4 billion YoY, and expenses overall increased by JPY0.7 billion YoY, resulting in an ordinary income of JPY2.3 billion, an increase of JPY0.8 billion YoY.

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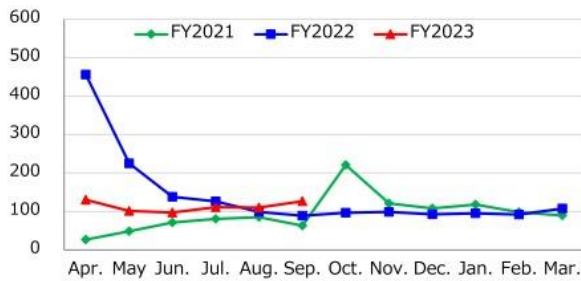
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Monthly Trend: Sales of Major Products (YoY base)



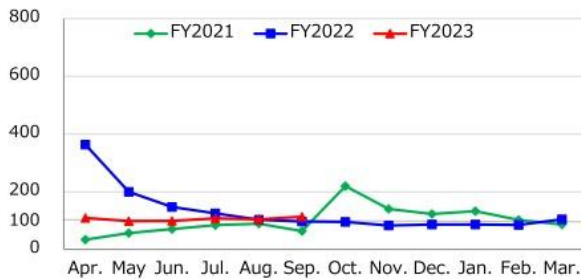
(%) **Total Sales of Major Products**



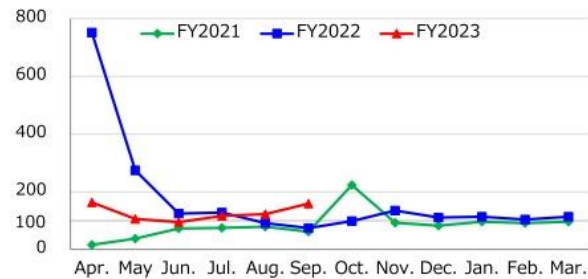
Total Sales of Major Products (Half-year)

	Total	Men	Ladies
1H FY2021	64.8	68.3	59.4
1H FY2022	138.6	138.0	139.6
1H FY2023	112.6	105.4	125.3

(%) **Sales of Major Products (Men)**



(%) **Sales of Major Products (Ladies)**



Page 13 shows monthly sales trends for significant products.

The following table shows the sales of primary products for the past three years as compared to the same period of the previous year from the monthly sales data disclosed every month. The red line shows the current period, the blue line indicates the previous period, and the green line shows the previous two periods, so you can see the approximate trend as such.

As shown in the table at the top right, the average and primary product sales for H1, men and ladies, accounted for 105.4% and 125.3% of total sales, respectively, this quarter. The increase in the number for ladies is due to strong sales of the FEELIN series.

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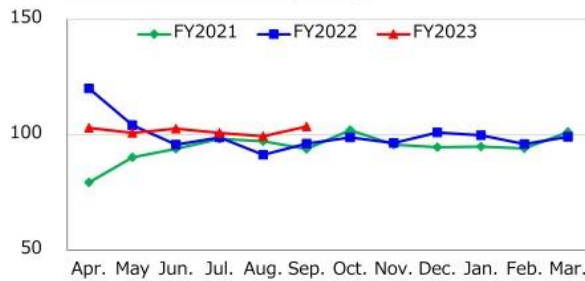
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Monthly Trend: Customer Traffic (YoY base, accumulated)



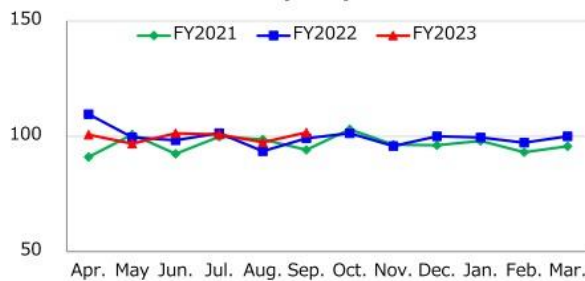
(%) **Customer Traffic (Total)**



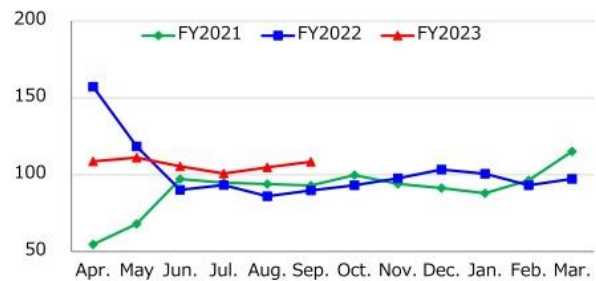
The number of customer traffic (Half-year)

	Total	Men	Ladies
1H FY2021	92.2	96.1	83.6
1H FY2022	100.4	100.0	101.1
1H FY2023	101.7	99.7	106.5

(%) **Customer Traffic (Men)**



(%) **Customer Traffic (Ladies)**



Page 14 shows the monthly total numbers for customer traffic.

The following table shows the number of customers who visited our stores in the past three years. The graphs are similar to the previous slide.

As shown in the table at the top right, the average demographic of customers who visited the store were 99.7% male, and 106.5% were female this quarter. We believe the increase in the number of women is due to the absence of the state of emergency this quarter and the receding mood of curtailment of outings in society as a whole.

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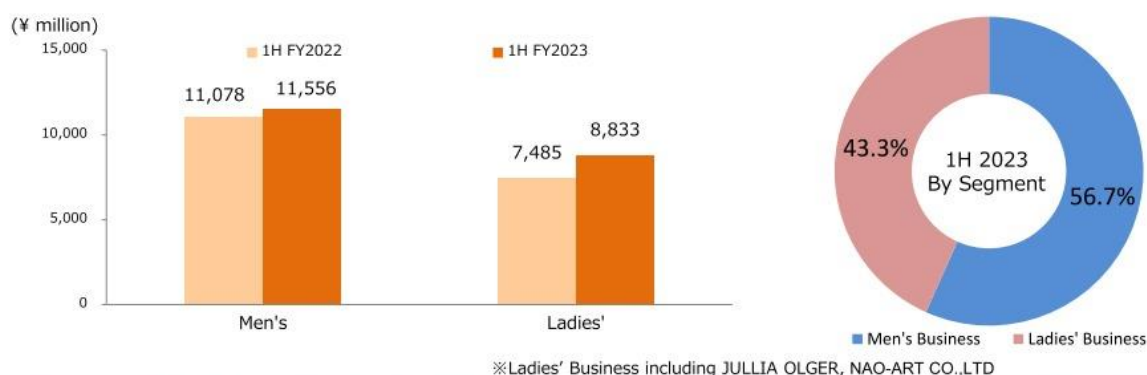


1H FY2023 : Breakdown of Sales by Segment



(¥ million)

	1H FY2022 (Results)	1H FY2023 (Results)	YoY Change	Year-end (Revised Plan)	
				Year-end (Revised Plan)	Progress rate
Net Sales	19,329	21,288	+10.1%	42,814	49.7%
Men's Business	11,078	11,556	+4.3%	23,168	49.9%
Ladies' Business	7,485	8,833	+18.0%	17,650	50.0%
Others	766	898	+17.3%	1,994	45.0%



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Page 15 shows the consolidated sales trends by segment.

The breakdown is as shown. Details are explained on the next page and beyond.

As shown in the table above, sales in the ladies' business were up 18% YoY due to the strong performance of the FEELIN series.

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1H FY2023 : Breakdown of Sales by Product & Services (Non-consolidated Basis)



(¥ million)

Net Sales		1H FY2022	1H FY2023	YoY Change	
Custom-made Wigs	New Customers	1,661	2,579	+918	+55.3%
	Repeat Business	8,375	9,037	+662	+7.9%
	Total	10,036	11,617	+1,581	+15.8%
Hair Addition Products	New Customers	578	536	(41)	(7.2%)
	Repeat Business	1,752	1,651	(100)	(5.8%)
	Total	2,331	2,188	(142)	(6.1%)
Hair Growth Services	New Customers	41	31	(9)	(23.1%)
	Repeat Business	579	551	(28)	(4.9%)
	Total	621	583	(37)	(6.1%)
Styling Services		3,065	3,195	+129	+4.2%
JULLIA OLGIER		1,310	1,588	+278	+21.2%
Others		1,281	1,440	+158	+12.4%
All Products & Sevices	New Customers	2,281	3,148	+867	+38.0%
	Repeat Business	14,480	15,157	+677	+4.7%
	JULLIA OLGIER (Ladies' ready-made wigs)	1,310	1,588	+278	+21.2%
	Others	575	720	+144	+25.1%
	Total	18,647	20,614	+1,967	+10.5%

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

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Page 16 shows the non-consolidated total sales by product & services.

The bottom row shows that all product services achieved higher revenues in all segments, exceeding the original plan.

In the top row, under the segments, all product & services, new customers of made-to-order wigs, the Company's main product line, increased significantly, up 55.3%.

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1H FY2023 : Breakdown of Sales by Product & Services in Men's Business (Non-consolidated Basis)



(¥ million)

Net Sales		1H FY2022	1H FY2023	YoY Change	
Custom-made Wigs	New Customers	259	369	+110	+42.6%
	Repeat Business	6,166	6,519	+353	+5.7%
	Total	6,425	6,889	+463	+7.2%
Hair Addition Products	New Customers	487	489	+2	+0.5%
	Repeat Business	1,050	1,050	+0	+0.1%
	Total	1,537	1,540	+2	+0.2%
Hair Growth Services	New Customers	36	28	(7)	(20.6%)
	Repeat Business	285	284	(1)	(0.6%)
	Total	321	312	(9)	(2.9%)
Styling Services		2,272	2,287	+15	+0.7%
Others		521	526	+5	+1.1%
All Products & Services	New Customers	782	887	+105	+13.5%
	Repeat Business	10,296	10,669	+373	+3.6%
	Total	11,078	11,556	+478	+4.3%

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

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Page 17 is the non-consolidated sales by product & services in the men's business.

As you can see, there was a significant increase in the new customers' custom-made wigs, up 42.6%.

At the bottom, the total under all product & services increased 4.3%, totaling to JPY11.5 billion.

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1H FY2023 : Breakdown of Sales by Product & Services in Ladies' Business (Non-consolidated Basis)



(¥ million)

Net Sales		1H FY2022	1H FY2023	YoY Change	
Custom-made Wigs	New Customers	1,402	2,210	+808	+57.6%
	Repeat Business	2,209	2,518	+308	+14.0%
	Total	3,611	4,728	+1,117	+30.9%
Hair Addition Products	New Customers	91	47	(44)	(48.1%)
	Repeat Business	702	600	(101)	(14.5%)
	Total	793	648	(145)	(18.4%)
Hair Growth Services	New Customers	5	3	(2)	(40.0%)
	Repeat Business	294	267	(26)	(9.0%)
	Total	299	270	(28)	(9.5%)
Styling Services		793	907	+114	+14.4%
Others		1,496	1,782	+286	+19.2%
All Products & Services	New customers	1,499	2,261	+761	+50.8%
	Repeat business	4,184	4,488	+304	+7.3%
	JULLIA OLGIER	1,310	1,588	+278	+21.2%
	Total	6,993	8,337	+1,344	+19.2%

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

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Page 18 is the non-consolidated sales by product & services in the ladies' business.

As you can see, as with the men's business on the previous page, there was a significant increase in the new customers' custom-made wigs at 57.6%.

New customers under hair addition products decreased significantly by 48.1%, but this was due to the impact of promotions and such. New customers were more likely to choose wigs instead of hair extensions, which the Company considers a good trend. The JULLIA OLGIER increased 21.2% this quarter due to the effect easing of COVID-19 had on the business, which was affected by the declaration of a state of emergency and other factors in the previous quarter.

At the bottom, the total under all product & services increased 19.2%, totaling to JPY8.3 billion.

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Revision of FY2023 forecast



(¥ million)

	Original Plan	Revised Plan	YoY Change	
Net Sales	41,991	42,814	+822	+2.0%
Operating Income	2,105	3,126	+1,021	+48.5%
Ordinary Income	2,155	3,106	+950	+44.1%
Net Income	1,137	1,698	+561	+49.3%
Net income per share	35.40	52.77	+17.37	+49.1%

Reason for upward revision

Sales of custom-made wigs "Feerin" were strong, and both men's and women's sales are expected to exceed the initial plan.

Sales of both men's and women's wear are expected to exceed the initial plan.

Profitability will increase mainly due to the increase in net sales.

Page 19 is a revision of the full-year earnings forecast for the fiscal year ending March 31, 2023.

On October 28, 2022, we upwardly revised our full-year forecasts for the fiscal year ending March 31, 2023, and now expect an increase in both sales and profit.

We aim to achieve net sales of JPY42.8 billion, exceeding the record high of JPY41.2 billion in the fiscal year ended March 31, 2016, and an operating income of JPY3.1 billion, an increase of JPY100 million from the previous fiscal year. The breakdown is explained on the next page.

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**FY2023 : Breakdown of Sales Forecast by Products and Services
(Non-consolidated Basis/Total number of Men and Ladies)**



(¥ million)

	FY2022		FY2023				
	1H (Results)	Year-end (Results)	1H (Results)	YoY Change	Year-end (Revised Plan)	YoY Change	Progress rate
Custom-made Wigs	10,036	21,283	11,617	+15.8%	22,706	+6.7%	51.2%
Hair Addition Products	2,331	4,413	2,188	(6.1%)	4,467	+1.2%	49.0%
Hair Growth Services	621	1,218	583	(6.1%)	1,152	(5.4%)	50.6%
Styling Services	3,065	6,134	3,195	+4.2%	6,532	+6.5%	48.9%
JULLIA OLGER	1,310	3,287	1,588	+21.2%	3,347	+1.8%	47.5%
Others	1,281	2,580	1,440	+12.4%	3,018	+17.0%	47.7%
Total	18,647	38,917	20,614	+10.5%	41,225	+5.9%	50.0%

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Page 20 shows the non-consolidated/total sales forecast by product & services for both the men's and ladies' businesses.

As you can see, we aim to achieve a total of JPY41.2 billion, up 5.9% from the previous year. The Company plans to revive its hair-growth services business with hair-addition products and to expand its business mainly in the area of custom-made wigs.

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1H FY2023 : Breakdown of Sales Forecast by Products and Services Men's Business (Non-consolidated Basis)



(¥ million)

	FY2022		FY2023				
	1H (Results)	Year-end (Results)	1H (Results)	YoY Change	Year-end (Revised Plan)	YoY Change	Progress rate
Custom-made Wigs	6,425	13,315	6,889	+7.2%	13,620	+2.3%	50.6%
Hair Addition Products	1,537	3,184	1,540	+0.2%	3,216	+1.0%	47.9%
Hair Growth Services	321	631	312	(2.9%)	648	+2.8%	48.2%
Styling Services	2,272	4,499	2,287	+0.7%	4,646	+3.3%	49.2%
Others	521	1,029	526	+1.1%	1,036	+0.7%	50.8%
Total	11,078	22,660	11,556	+4.3%	23,168	+2.2%	49.9%

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Page 21 is the sales forecast by product and service for the men's business.

As you can see, we aim to achieve a total of JPY23.1 billion, up 2.2% from the previous year.

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1H FY2023 : Breakdown of Sales Forecast by Products and Services Ladies' Business (Non-consolidated Basis)



(¥ million)

	FY2022		FY2023				
	1H (Results)	Year-end (Results)	1H (Results)	YoY Change	Year-end (Revised Plan)	YoY Change	Progress rate
Custom-made Wigs	3,611	7,968	4,728	+30.9%	9,086	+14.0%	52.0%
Hair Addition Products	793	1,228	648	(18.4%)	1,250	+1.8%	51.8%
Hair Growth Services	299	587	270	(9.5%)	503	(14.2%)	53.8%
Styling Services	793	1,635	907	+14.4%	1,886	+15.4%	48.1%
JULLIA OLGIER	1,310	3,287	1,588	+21.2%	3,347	+1.8%	47.5%
Others	185	336	194	+4.7%	375	+2.4%	51.7%
Total	6,993	15,073	8,337	+19.2%	16,450	+9.1%	50.7%

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Page 22 is the sales forecast by product and service for the ladies' business.

As you can also see here, we aim to achieve a total of JPY16.4 billion, up 9.1% from the previous year.

For the ladies' business, we planned a 9.1% increase in overall sales over the previous year.

JULLIA OLGIER weighs conservatively, as it depends on customer traffic to commercial facilities and the possibility of the eighth wave of COVID-19.

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FY2023 : Financial Forecast



(¥ million)

	FY2022		FY2023			
	1H FY2022 (Results)	Year-end (Results)	1H FY2023 (Results)	YoY Change	Year-end (Revised Plan)	YoY Change
Net Sales	19,329	40,437	21,288	+10.1%	42,814	+5.9%
Men's Business	11,078	22,660	11,556	+4.3%	23,168	+2.2%
Ladies' Business	7,485	16,227	8,833	+18.0%	17,650	+8.8%
Others	766	1,548	898	+17.3%	1,994	+28.8%
Cost of Sales	6,310	12,698	6,792	+7.6%	13,912	+9.6%
Gross Profit	13,019	27,739	14,496	+11.3%	28,901	+4.2%
SG&A Expenses	11,457	24,719	12,123	+5.8%	25,774	+4.3%
Ad Spending	2,884	6,556	2,950	+2.3%	6,873	+4.8%
HR	2,926	5,790	3,052	+4.3%	6,214	+7.3%
Operating Income	1,561	3,020	2,372	+51.9%	3,126	+3.5%
Ordinary Income	1,492	3,038	2,374	+59.2%	3,106	+2.2%
Net Income	857	1,204	1,463	+70.7%	1,698	+41.0%
Depreciation	402	827	389	(3.3%)	795	(3.8%)
CAPEX	608	1,359	697	+14.6%	2,522	+85.5%

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Page 23 shows the consolidated financial forecast for the full year ending March 31, 2023.

To reiterate, our full-year consolidated earnings forecast for the fiscal year ending March 31, 2023, calls for net sales of JPY42.8 billion and an operating income of JPY3.1 billion, with an increase in both sales and income. The cost of sales is measured by the growth rate above net sales, taking into account domestic and foreign conditions.

This is a breakdown of the expenses.

As for the breakdown of SG&A expenses, advertising expenses aligned with the plan at the beginning of the period, HR expenses will incorporate an increase in the number of sales staff and strengthen recruiting activities, while other expenses are planned to be incurred through an aggressive investment of management resources, mainly for priority challenge measures. The CapEx forecast is in line with the plan at the beginning of the period.

This concludes my explanation.

Thank you all for your attention.

Noshita: Thank you very much for your explanation, Managing Director Naito and General Manager Honda.

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Question & Answer

Noshita [Q]: I will now move on to the question-and-answer session.

Let me move on to the first question.

Regarding the cost of sales forecast, it appears to be deteriorating compared to the original plan. I would like to know the reasons for this deterioration.

Please kindly respond to this question.

Naito [A]: For this question, I will answer.

Cost of sales has two major components: one is the cost of merchandise, and the other is the labor cost of the stylists who are in charge of delivering the products to customers in stores.

First of all, the cost of goods is considered to be increased by weighing the effects of higher prices due to overseas conditions and the impact of foreign exchange rates. In addition, we also expect stylist personnel costs to increase more than net sales due to the cost of recruiting and hiring new stylists and other expenses associated with the replacement of stylists. As a result, the cost of goods sold increased at a rate higher than the rate of increase in net sales.

That is all.

Noshita [Q]: Thank you very much.

Now, the next question is about the significant and rapid depreciation of the yen. I would like to know the impact of the exchange rate on your company.

Please kindly provide an answer.

Naito [A]: I would like to explain this as well.

First of all, for custom-made wigs, which are our main product line, we have been operating while keeping several years' worth of raw materials for the manufacture of wigs in stock, so the impact of the recent depreciation of the yen is not that great, and some factors have been accumulated from the past.

Ready-made wigs are purchased in US dollars from outside contract manufacturers, so they have a slightly greater impact than custom-made wigs. We also have a reasonable number of ready-made wigs in stock in various lengths, sizes, and colors. Therefore, we expect to be moderately affected by the depreciation of the Japanese yen.

At the end of H1, we estimated the impact of the Japanese yen depreciation on P&L for H1 to be approximately JPY100 million on an ordinary income basis, which is about the same as the impact on earnings.

In preparing the revised plan, we reviewed the assumed exchange rate for the US dollar, which was initially assumed to be JPY117 for the full year but was revised to JPY140.

That is all.

Noshita [Q]: Thank you very much.

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Now we come to the next question. I believe that the cost of raw materials and labor has risen, but have you been able to pass on the cost of these items to customers? The question is could you tell us about your future pricing strategy?

Please kindly provide an answer.

Naito [A]: I would like to explain this as well.

As I mentioned earlier, we are increasing the number of stylists, and to accommodate the increase in personnel costs associated with this increase in staff, we have raised some of our after-sales service fees for cutting customers' own hair from H2, starting in October.

We notified our customers early on, around April, the beginning of the term, so there were no major problems, and we have the impression that our customers have accepted our services. Other fees are not being raised at this time.

That is all.

Noshita [Q]: Thank you very much.

The next question is, I think the revised full-year forecast, or H2 forecast, is conservative, but I would like to know more specifically about H2 and the current situation. The question also asks for information on customer consumption trends.

Please kindly provide an answer.

Naito [A]: I would like to explain this as well.

In terms of the current situation and business performance, the men's business has continued to show stable growth in H2, as was the case in H1.

In the field of ladies' custom-made products, we continue to receive steady support from our FEELIN series. The sales of the first FEELIN have increased considerably since its release in October last year, and since the one-year cycle has just ended, the sales have been steadily increasing, although the growth in numbers alone has not been as significant as last year.

In September, the Company will also introduce a new product line for JULLIA OLGER, an off-the-shelf product. As explained earlier, we have also worked to unify our characters, and I consider October to have gotten off to a good start.

As I have been saying for some time, competition with neighboring markets such as hair-growth agents and hair-growth products is intensifying, but at the same time, the merits of wigs are being reevaluated. On the other hand, the quality of wigs is also being reevaluated. We believe that the needs for wigs and hair growth are solid.

In addition, in recent trends, especially among female customers, the fact that restrictions on going out and various events being canceled due to COVID-19 have more or less been resolved, and opportunities to go out have increased. On top of that, with various forms of travel support being provided, more female customers will have more opportunities to go out, which means more opportunities for them to wear our wigs. I believe that this is a tailwind for us.

That is all.

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Noshita [Q]: Thank you very much.

We will then move on to the next question. The next question is, I assume you are planning to increase revenue and decrease profit in H2 compared to the same period last year, but could you elaborate on the details?

Please kindly respond to this question.

Naito [A]: I would like to explain this as well.

As you pointed out, we are weighing an increase in sales and a decrease in profit for H2. As Honda explained earlier, the cost of sales and SG&A expenses will be higher than the increase in net sales, resulting in an increase in sales and a decrease in income.

As for the cost of sales, while net sales will increase by about JPY400 million, the cost of sales will increase by about JPY700 million. As for SG&A expenses, advertising and HR expenses are expected to increase by more than JPY300 million, which we believe is a factor in the planned decrease in profit. That is all.

Noshita [Q]: Thank you very much.

Now for the next question. I believe the impact of COVID-19 has calmed down, but again, please tell us about the impact on the current fiscal year's performance. I would also like to know if the effects will likely remain in the next fiscal year and beyond.

Please kindly provide an answer.

Naito [A]: I would like to explain this as well.

Firstly, our production system was unaffected during the current fiscal year, and our manufacturing subsidiary in the Philippines was able to continue normal operations. We have no concerns here at this time.

As for the business system, there was no emergency declared for Japan as a whole; hence all stores were able to continue normal business operations.

In terms of total performance, as I have explained, net sales and the total number of customers traffic increased, but we also saw an increased impact, especially in the seventh wave of COVID-19. In July and August, employees would take a leave of absence due to COVID-19, or family members of employees would become ill, and the employees themselves would not be able to come to the office, making it difficult to secure some personnel, especially in stores. Although we have been doing a lot of work in support of the project, I think this has had some negative effects on the project. On the other hand, if this had not been the case, I wonder if we would have been able to accommodate a few more customer reservations; that said, in total, the results were, as I mentioned earlier.

In terms of costs, we have stockpiled various sanitary supplies and specifications for the prevention of COVID-19, but we believe that the impact of these costs has been minor in terms of numerical values.

This depends on what happens in the eighth and ninth waves in the next fiscal year. In addition to such factors as COVID-19 and the pandemic, there are various other factors, such as the recent rise in resource prices, rising labor costs, and the unstoppable depreciation of the Japanese yen. We will weigh up these factors in the next fiscal year. That will be all.

Noshita [Q]: Thank you very much.

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Now the next question. You mentioned that the Challenge 2022 policy is to step into new business areas, but I would like to know the progress throughout the year.

Please kindly provide an answer.

Naito [A]: I would like to explain this as well.

We have been considering various domestic and international M&A projects, but nothing can be disclosed at this time. I am very sorry, but this is our progress so far.

In terms of progress throughout the year, we still have six months left in H2, so we are continuing to see if we can make any announcements. As in the past, we would like to consider various angles of M&A deals, both domestic and international, as well as the search for new business start-ups.

That is all.

Noshita [M]: Thank you very much.

Well, since there seem to be no other questions, I would like to end the question-and-answer session.

This concludes the Q2 financial results briefing for ARTNATURE INC.

Thank you very much for your participation today.

[END]

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