

ARTNATURE

7823

Tokyo Stock Exchange Prime Market

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■ Summary

Performance improving on an accelerating basis thanks to new products and effective promotions

1. Proposes individual 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 to meet their diversified and high-level needs. The Company manufactures high-quality wigs, each of which is hand-made at its own plants in the Philippines and the barbers and hairdressers at its 277 stores nationwide (as of the end of March 2022) holding national qualifications and possesses 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. Business model that demonstrates results against a backdrop of product development capabilities, technical abilities, and customer service, which are the Company’s strengths

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, and hair growth tonics that contain ingredients that effectively stimulate hair growth. The Company’s business model includes promoting these products and services 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 sales.” The business model produces appreciable effects as it is driven by the Company’s strengths, its product development capabilities that anticipate customer needs, its technical abilities for the satisfaction of customers, and its customer service that earns the trust of customers.

3. Steady progress on priority policies of the medium-term management plan; momentum building toward the next medium-term management plan

With the maturation of the sector of hair products and services and intensifying competition with other companies and adjacent industries, the environment surrounding the Company presents a number of issues. To overcome them and continue to grow, the Company created the ARTNATURE Challenge Plan, a medium-term management plan that runs through FY3/23. To achieve the goals of the plan, six priority Challenge policies, which include performance growth, pioneering new fields and employee training, were carried out. However, because the impact of the COVID-19 pandemic was more prolonged than anticipated, it seems to have become difficult to achieve the goals of the medium-term management plan. The priority Challenge policies themselves however have made fairly steady progress, and recently a tailwind has arisen from restrictions on movement being relaxed and it is growing stronger, so momentum is building for the Company’s next medium-management plan, which is expected to start in the upcoming term.

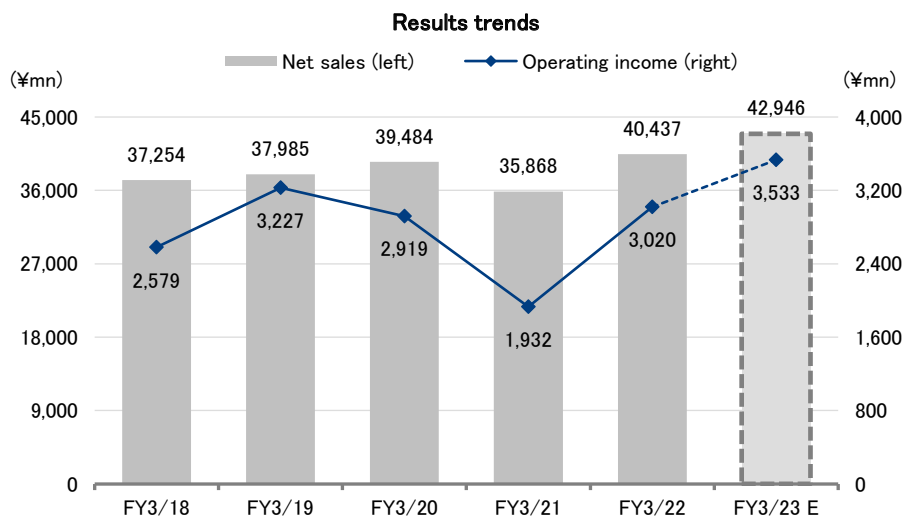
Summary

4. Upwardly revised the FY3/23 results forecast with successful launch of new products and promotions

In the 1H FY3/23 results, net sales totaled ¥21,288mn (up 10.1% year on year (YoY)) and operating income was ¥2,372mn (up 51.9%). Both results were very good and show how performance is improving at an accelerating rate. With restrictions on movement due to the pandemic being relaxed, new product and promotion measures paid dividends, which led to sales growth that was able to absorb stylist personnel expenses and other fixed costs. For the full fiscal-year results for FY3/23, the Company upwardly revised its forecasts by a considerable margin owing to its strong first-half performance, projecting net sales of ¥42,814mn (up 5.9% YoY) and operating income of ¥3,126mn (up 3.5%). Moreover, with SG&A expenses being reined in, on January 31, 2023, FY3/23 results were upwardly revised a second time to net sales of ¥42,946mn (up 6.2% YoY) and operating income of ¥3,533mn (up 17.0%). Though competition is intensifying, when considering such factors as the tailwind from relaxed restrictions on movement and the effects of new products and promotions, the forecasts for JULLIA OLGIER brand sales are somewhat conservative, so further upward revisions can be expected.

Key Points

- A comprehensive hair consultancy business that proposes individual lifestyles as a total hair consultant
- Priority policies making steady progress despite prolonged COVID-19 pandemic; momentum building for next medium-term management plan
- Upwardly revised the FY3/23 results forecast as results are improving at an accelerating rate owing to new products and effective promotions



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

■ Company summary

Mission of proposing lifestyles that are more positive, bright and beautiful

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 rolling out a wide range of hair-related products and services, including ready-made wigs and hair-addition products, hair growth services, and after services.

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, sales of hair growth tonics as class 1 OTC drugs, and established a subsidiary to conduct work contracted from medical facilities. In such ways, the Company is strengthening its entry into new areas for further growth. At the same time, it has been further refining its product development capabilities, including market launching new products at a constant pace of twice a year despite the impact of the COVID-19 pandemic being more prolonged than expected, and it currently leads the industry as a major comprehensive hair consultancy business.

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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" Launched Feelin, custom-made wigs for women not fastened with pins Launched MRP WONDER hair-addition product with new attachment method Introduced automated AI response system at call centers
2022	Introduced industry's first portable 3D scanner (head shape measuring device) Developed industry's first automated wig transplantation device Switched to Prime Market in conjunction with the Tokyo Stock Exchange's market restructuring Launched LEFIA PURE BEAUTE, a wig in the JULLIA OLGIER brand that does not use pins for fastening Launched Hair for Life Sergio with a more comfortable fit

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

Company summary

3. The sector of hair products and services

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. Thereafter, this round of new entrants and inexpensive wigs abated and the market calmed down. At the same time, the market stopped contracting at a level of around ¥130.0bn due to the aging population and other factors, but in FY2020, it again faced challenging circumstances under the impact of reduced opportunities to go out due to the pandemic. Since FY2021, the market has been in the process of recovering from COVID-19, and in FY2022, restrictions on movement were relaxed, so opportunities to go out increased, and the industry is benefiting from this tailwind of society reopening. During this highly volatile period, many major companies with generally strong constitutions were able to demonstrate their competitive advantages and increase their market shares. In the sector of hair products and services, the Company is said to have the highest share of the men's market and second highest of the women's market, and looking at the situation of its rivals, it can be said that the Company is steadily increasing its share and is now estimated to hold the leading position on a combined men's and women's basis.

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 respond to diverse individual needs that include custom-made wigs, ready-made wigs, hair-addition products, and pharmaceutical products for people who "want to have more hair." 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. In terms of the direction of business development, in Japan, the Company will grow its main business in a stable manner and will work to enter new fields to develop a business to be its second pillar. Overseas, it has manufacturing plants in the Philippines and is working to increase brand recognition in China and Southeast Asia.

Business summary

Product and service lineup

Needs	Services provided	Domestic	Overseas
Want to have more hair	High standard wigs	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p><i>ARTNATURE</i></p> <p>Custom-made wigs</p> <p>Hair care Hair-addition and hair growth</p> <p>After-sales services</p> </div> <div style="text-align: center;"> <p><i>LADIES' ARTNATURE</i></p> <p>Custom-made wigs</p> <p>Hair care Hair-addition and hair growth</p> <p>After-sales services</p> </div> </div>	<div style="border: 1px solid black; border-radius: 10px; padding: 5px; width: fit-content; margin: 10px auto;">High-end ready-made wigs</div>
	Hair-addition	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p><i>Julia Olger</i></p> <p>High-end ready-made wigs</p> </div> <div style="text-align: center;"> <p><i>NAO-ART</i></p> <p>Standard ready-made wigs</p> </div> </div>	
	Pharmaceutical sales Medical facilities support	<p>アートドック <i>AI</i> アートメディカルサービス Pharmaceutical sales</p>	
Want to grow hair	Hair growth services	<p>アートネイチャー・オンラインショップ ARTNATURE ONLINE SHOP</p>	<div style="border: 1px solid black; border-radius: 10px; padding: 5px; width: fit-content; margin: 10px auto;">Hair care Hair-addition and hair growth</div>
Want to maintain their hair	After-sales services	<p>アートドック <i>AI</i> アートメディカルサービス Pharmaceutical sales</p>	
Want to be beautiful and healthy	Hair care products Health products	<p>アートネイチャー・オンラインショップ ARTNATURE ONLINE SHOP</p>	<div style="border: 1px solid black; border-radius: 10px; padding: 5px; width: fit-content; margin: 10px auto;">Equipment sales</div>

Source: The Company's homepage

(1) Custom-made wigs

Since the Company's foundation, its product lineup has been focused on high-end, custom-made wigs, 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.

High-end wigs produced by craftspeople



Example of a fitting



Salon (Ladies' ARTNATURE)



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 JULLIA OLGGER 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 OLGGER brand, it provides high-quality, ready-made wigs finished with an original style at prices that are affordable, ranging from ¥100,000, 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 OLGGER stores, and salons within ANCS hospitals. NAO-ART Co., Ltd. handles ready-made wigs in an even more affordable price range, and it operates stores, mainly within comprehensive supermarkets in major cities, including metropolitan Tokyo.

JULLIA OLGGER shop



Source: JULLIA OLGGER’s homepage

NAO-ART shop

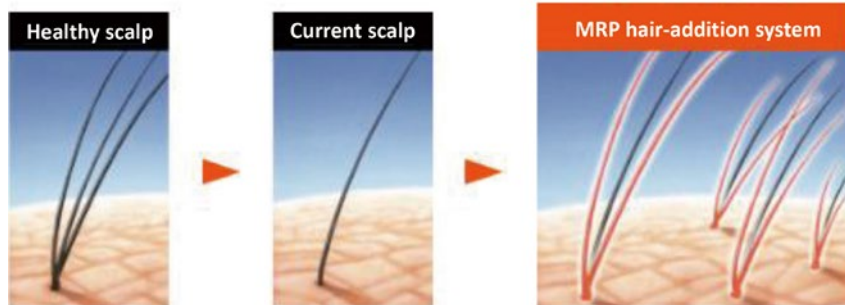


(3) Hair-addition products

In hair-addition products, the Company develops the MRP brand in ARTNATURE and the Beauty Up brand in Ladies’ ARTNATURE. Company’s 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.

Business summary

MRP Hair-Addition System Diagram



Source: The Company's homepage

(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 pharmaceutical, 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. 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.

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 is 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 LH Scalp Head Spa Plus, which makes it easy to have a full-scale head spa at home, 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 handling 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 T-mall 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” and retaining them through “repeat sales”

2. Business model

The Company's business model is characterized by generating successful sales outcomes through “reaction sales” and “repeat sales” and pivots on its own plants in the Philippines, a nationwide store network, and barbers and hairdressers with national qualifications and specialist skills. This business model requires the trust of customers, so careful attention is paid to information management.

The following is based primarily on the Company's ARTNATURE business and JULLIA OLGIER business, which account for a majority of its sales.

Business summary

(1) Manufacturing system and store network

Underpinning the Company’s leading position in the hair market are a high-quality manufacturing system with over 50 years of history, a store network that covers all of Japan, and an organizational system consisting of barbers and hairdressers with national qualifications and specialist skills. The Company’s products are characterized by a strong attention to detail, bangs and natural volume, for example, and high levels of quality, including synthetic hair that combines naturalness and functionality and ultra-thin functional materials that allow the color of the skin to show through. In particular, in the area of custom-made wigs, the Company has a manufacturing and sales system in the format of a specialty store retailer of private-label apparel (SPA) that maintains every process within the Group, from planning and development to manufacturing and sales. Manufacturing takes place at two subsidiary plants in the Philippines, which enables high quality and stable supply to be maintained and costs to be reduced and which also makes it possible to constantly launch new products in the spring and fall that meet customer needs. Incidentally, ready-made wig products are manufactured in close coordination with partner plants in China, Vietnam and elsewhere. The Company’s high-quality, custom-made wigs are provided by its nationwide network of stores that combine an optimal environment with the best possible service. Store interiors are designed with a focus on relaxation and tranquility and feature individual rooms out of respect for customers’ sense of privacy. The Company has around 1,800 nationally qualified barbers and hairdressers, which accounts for 80% of its employees, and they provide thoroughgoing support for everything from delivery of contracted products to after-sales service. Sales are handled by the Company’s 277 ARTNATURE stores located nationwide in 47 prefectures (as of March 31, 2022), 87 JULLIA OLGIER stores for ready-made wigs, and sales outlets in four countries overseas.

Store network



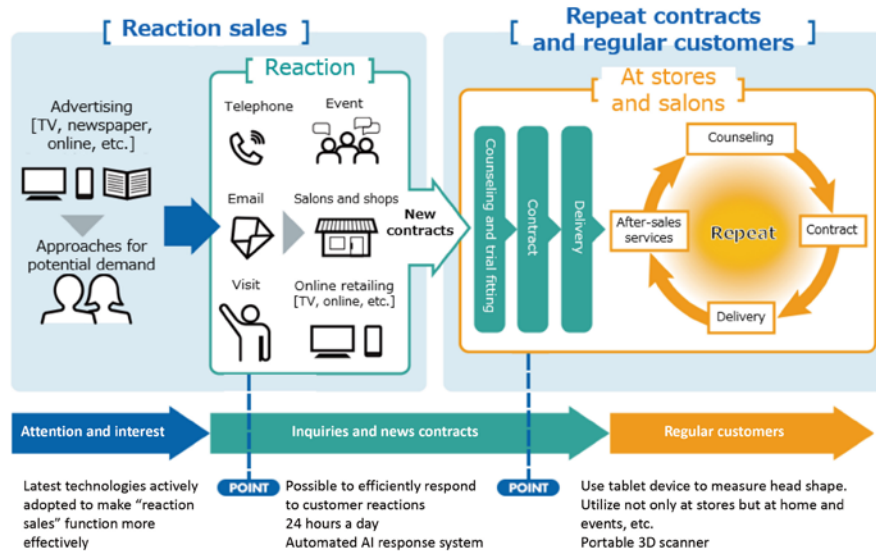
Source: The Company’s Corporate Profile

(2) Reaction sales and repeat sales

The aforementioned Company organizational structure, including the structure for producing high-quality products; its store network; and its highly skilled barbers and hairdressers holding nationally-recognized qualifications lead to improved earnings and growth consisting of “reaction sales” and “repeat sales,” 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 who 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 sales.” In order to make “reaction sales” function more effectively, the Company is actively introducing the latest technologies, including an automated AI response system for call center reception.

Business summary

Reaction sales and repeat sales



Source: The Company's homepage

(3) Customer management system and information security

In order to make its business model function more effectively, the Company has worked since 2005 to increase the sophistication of its customer management methods. Currently, the Company uses a customer management system to conduct integrated management of document requests by latent customers, products provided to existing customers, and service and treatment records for each customer. This system has made it possible for optimal product proposals to be made based on the needs of individual customers. However, the Company's customers are regular people who have concerns about their hair, and information on them is important information. For this reason, the Company pays careful attention to information management and earns greater trust from customers by continuing to strengthen its personal information management system. The Company created a personal information protection management system in conformance with Personal Information Protection Management System – Requirements (JIS Q 15001) and has acquired the Privacy Mark certification from the Japan Information Processing Development Center (JIPDEC), which it renews regularly. In addition, for data related to customer information, the Company makes every effort to continue to strengthen its management system. This includes digitalization and centralized management with its customer management system. In outsourcing personal information to outside companies, the Company verifies in advance that the personal information management system at the vendor satisfies the personal information protection standards stipulated by the Company in accordance with Personal Information Protection Management System – Requirements (JIS Q 15001) and has the vendor sign a confidentiality agreement. Additionally, onsite audits are conducted by Company personnel and regularly reviews are also conducted of the vendors.

Three strengths; product development capabilities, technical abilities, and customer service

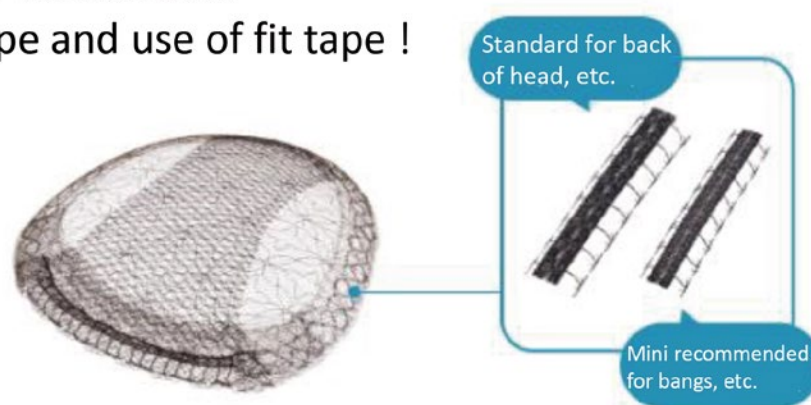
3. The Company's strengths

The Company's three strengths provide the driving force for implementing the Company's business model of "reaction sales" for acquiring new customers and "repeat sales" for creating repeat customers. These strengths are product development capabilities that anticipate customer needs, technical abilities for the satisfaction of customers, and customer service that earns the trust of customers. The Company's product development capabilities have been cultivated through an over 50-year history of high-quality manufacturing. They are evident in the Company's quick accommodation of the needs of the times and individual customers and its attention to detail, including hairlines and parts and the transplanting of fine and thick hairs in random arrays, and they have enabled the Company to develop groundbreaking products, including the MRP series, the Hair for Life series and Feelin series. In addition, the Company's approximately 1,800 nationally qualified barbers and hairdressers undergo various training programs based on their job type and level. This gives them the skills and know-how to set natural hair and wigs as well as customer service capabilities in the form of communication and counseling ability for making product proposals. These professional hair stylists provide service with sincerity in stores that are tranquil and relaxing, and this promotes customer retention.

To put it another way, the Company's brand power, which is underpinned by trust from having been in the wig business continuously for over 50 years and the social credibility from being the industry's only publicly listed company, is a major factor behind its differentiation from competitors. Another of the Company's strengths is its financial position. Even in FY3/22, affected by the protracted pandemic, it had a good equity ratio (52.4%) and free cash flow (maintained positive cash flow), and its operating income margin (7.5%) continued to be high. Going forward, the Company is expected to further widen the gap with rival companies in brand power through advertising and in terms of its financial strength as well.

Example of product development capabilities: Push de Fit 3 in support of the latest Feelin products

Better fit thanks to T-shape and use of fit tape !



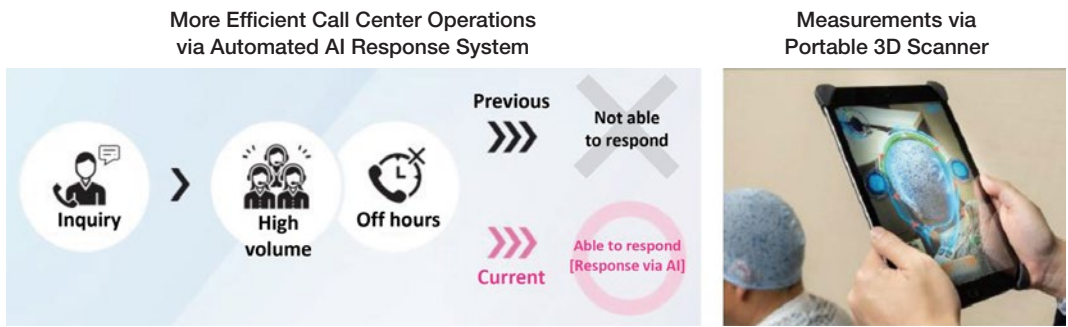
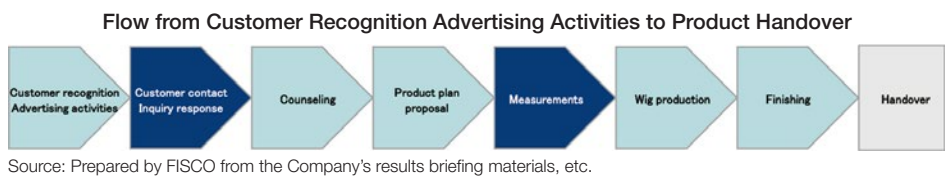
Source: The Company's homepage

Business summary

4. Business model evolution

The Company is evolving its business model by actively adopting the latest technologies and methods, which is leading to higher profitability. For example, in order to further increase the efficiency of the process from customer contact to product provision, in October 2021 it put in an automated AI response system for call reception at call centers. When calls come in to request catalogs, make an appointment for a consultation or store visit, or ask another type of question, AI automatically recognizes the nature of the call and responds. The service can respond in early morning hours or late at night when operators are absent or at times when call volume is heavy, which is increasing the efficiency of call center operations. In addition, in January 2022, the Company became the first company in the industry to introduce portable 3D scanners that allow measurements of the heads of customers using tablet devices (iPads), and using the scanners it began holding exhibitions and trial fitting events at all stores that offer custom-made wigs and at department stores and other establishments nationwide. The device has made it possible to simply and accurately measure 3D data of the part of the head where the wig is worn, and this can be done at any location, whether on a customer visit or at an event venue. It also greatly increases the efficiency of head measuring and provides various other advantages as well, including being portable and taking up less space at stores than large 3D scanners. Moreover, in 2024 the Company plans to introduce automated wig transplantation devices for wig production. Currently, skilled craftspeople make each wig by hand one hair at a time, which creates a natural finish from hair color to hair flow, but each wig takes around 40 to 50 days to complete and the Company makes over 60,000 per year, so it faces the issues of hiring and training craftspeople, delivery schedule problems due to natural disasters, and country risk. Introducing automated wig transplantation devices is expected to eliminate these issues and make it possible to stabilize both quality and supply.

The Company opened Ladies' ARTNATURE Ginza Platinum Garden in Ginza in September 2022, selling at this one store both custom-made wigs and ready-made wigs, which had been sold at separate stores previously. The first floor is sales space for ready-made wigs, and the second floor is a custom-made wig salon and lounge/event space. There are full-time "executive counselors" who respond in detail to hair-related concerns and consultations and help customers select the optimal wig. Seminars on hair and related topics and wig trial fitting events and consultation sessions are also held. Combined Ladies' ARTNATURE and JULLIA OLGIER complexes have also been opened in Omiya Sogo, Hiroshima Sogo, and the Teikoku Hotel.



■ Medium-term management plan

Resolving various issues through six priority Challenge policies

1. Medium-term management plan

There are various issues in the internal and external environment surrounding the Company. With the outlook becoming increasingly uncertain due to the protracted COVID-19 pandemic, the Ukraine situation, and other developments, in the hair market in Japan, demand is expected to grow as a result of the ongoing aging of the population, the retirement age being extended, more active participation by women in the workforce, and an increasing anti-aging orientation among consumers. At the same time, with the sector of hair products and services maturing, competition with other companies and adjacent industries intensifying, and alternative products and services coming to the fore, the business is becoming more challenging as well. Other issues include the shrinking labor market, securing talented personnel, accommodating the stock market and society related to the SDGs, and addressing rapid changes from technology innovations (digital transformation). The Company created the ARTNATURE Challenge Plan, a medium-term management plan that covers the three years from FY3/21 to FY3/23 in order to solve these issues, build a foundation for “ARTNATURE pioneering next-generation businesses” and sustain growth. To achieve the goals of the plan, the Company is carrying out 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 expands the product lineup, uncover demand through “reaction sales,” and implement initiatives to turn customers into regular customers through “repeat sales.” 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 around 1,800 barbers and hairdressers who hold national qualifications, 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 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. In (6) business innovation, the Company is revising its various systems for paperless, digital administration, and innovating business processes at its head office to eliminate inefficiencies and rein in fixed costs in order to thereby lower its breakeven point. By raising productivity, the Company is working to convert to a system that more readily generates earnings.

Medium-term management plan

2. Priority policies 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 was aiming to achieve the targets for FY3/23 of net sales of ¥44.2bn, an ordinary income margin of 8.7%, and ROE of 8.7%. However, due to the pandemic being more protracted than expected, achieving the plan's goals does not look likely, but there has been no change in the objective of the medium-term management plan to resolve issues and achieve sustained growth, and the six priority Challenge policies are also making fairly steady progress, as is discussed below.

Progress made on the medium-term management plan is as follows. For (1) performance growth, in the Men's business, enhanced promotions centered on wigs resulted in an increase in new wig customers with a high retention rate, so progress is being made more or less according to plan, and there are high expectations that it will be maintained going forward. In the Ladies' business, Feelin custom-made wigs that are not fastened with pins have performed well, and as a result of such active initiatives for growth, progress is outstripping the goals of the plan. For (2) pioneering new fields, the Company considered various M&A deals domestically and overseas, but due in part to the prolonged pandemic, no concrete progress was made. For (3) stronger hiring practices and (4) employee training, hiring activities are being strengthened, including by revising salary levels and other aspects of job descriptions, and training continues to be conducted to enhance frontline employee abilities and develop head office personnel. In (5) market interaction, the Company responded actively by conducting perception surveys of institutional investors, administering latent shareholder questionnaires to individual investors, and also by holding online briefings for individual investors. For (6) business innovation, the Company continues to increase operational efficiency and is considering innovations for personnel programs and other systems. As a result of these developments, for FY3/23, the final year of its medium-term management plan, the Company is aiming for net sales of ¥42.9bn, an ordinary income margin of 8.1% and ROE of 7.3%. The steady progress made on priority Challenge policies is benefiting from an increasingly strong tailwind supplied by the elimination of restrictions on movement put in place during the pandemic and is creating momentum toward the next medium-term management plan, which is scheduled to start the next term. In this next plan, the Company will maintain steady growth in the Men's business and in the Ladies' business, its growth strategy is expected to pursue the top share on the strong performance of Feelin, which is becoming a standard product.

Results trends

Major operating income growth on a strong performance from men's and women's wigs

1. 1H FY3/23 results

In the 1H FY3/23 results, net sales were ¥21,288mn (up 10.1% YoY), operating income was ¥2,372mn (up 51.9%), ordinary income totaled ¥2,374mn (up 59.2%), and net income attributable to owners of parent was ¥1,463mn (up 70.7%), so the Company performed extremely well. The Japanese economy showed signs of a recovery in consumer spending in step with restrictions on movement caused by the protracted pandemic being relaxed, but the prolongation of the Ukraine situation caused high oil prices and surges in raw materials prices and the yen depreciated rapidly, and these developments are impacting consumer spending, so the outlook for the future remained unclear. Facing this environment, in FY3/23, the final year of its medium-term management plan ARTNATURE Challenge Plan, the Company steadily implemented its six priority Challenge policies in order to build a foundation for "ARTNATURE pioneering next-generation businesses." As a result, the Ladies' business, where demand had stagnated due to the protracted COVID-19 pandemic, improved substantially to achieve record-high sales thanks to new products and effective promotions, which led the Company to upwardly revising its full-year forecasts.

1H FY3/23 results

(unit: ¥mn)

	1H FY3/22	% of sales	Progress rate	1H FY3/23	% of sales	Change rate	Progress rate
Net sales	19,329	100.0%	47.8%	21,288	100.0%	10.1%	49.7%
Gross profit	13,019	67.4%	46.9%	14,496	68.1%	11.3%	50.2%
SG&A expenses	11,457	59.3%	46.3%	12,123	56.9%	5.8%	47.0%
Operating income	1,561	8.1%	51.7%	2,372	11.1%	51.9%	75.9%
Ordinary income	1,492	7.7%	49.1%	2,374	11.2%	59.2%	76.4%
Net income (net loss) attributable to owners of parent	857	4.4%	71.2%	1,463	6.9%	70.7%	86.2%

Source: Prepared by FISCO from the financial results

Net sales in 1H FY3/23 by Men's and Ladies' businesses and by product and service

(unit: ¥mn)

By Men's and Ladies' businesses (consolidated)	1H FY3/22	% of sales	Progress rate	1H FY3/23	% of sales	Change rate	Progress rate
Men's	11,078	57.3%	48.9%	11,556	54.3%	4.3%	49.9%
Ladies'	7,485	38.7%	46.1%	8,833	41.5%	18.0%	50.0%
Others	766	4.0%	49.5%	898	4.2%	17.3%	45.0%

By product and service (stand-alone)	1H FY3/22	% of sales	Progress rate	1H FY3/23	% of sales	Change rate	Progress rate
Custom-made wigs	10,036	53.8%	47.2%	11,617	56.4%	15.8%	51.2%
Hair-addition products	2,331	12.5%	52.8%	2,188	10.6%	-6.1%	49.0%
Hair growth services	621	3.3%	51.0%	583	2.8%	-6.1%	50.6%
After-sales services	3,065	16.4%	50.0%	3,195	15.5%	4.2%	48.9%
JULLIA OLGER	1,310	7.0%	39.9%	1,588	7.7%	21.2%	47.5%
Other products, etc.	1,281	6.9%	49.7%	1,440	7.0%	12.4%	47.7%

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

Results trends

In 1H FY3/23, the Company strengthened new product development and its marketing strategy. In the Men's business, it launched MRPPRIME in March 2022, a hair-addition product that rigorously pursues naturalness through utilizing technologies not possessed by other companies, including making finer knots in synthetic hair added via "wet blast" treatment. It also launched Nature One in June, a custom-made wig with a more comfortable fit and distinctively natural look thanks to use of the customer's own hair. In addition, the Company ran commercials featuring the musician Shigeru Joshima as spokesperson not only on terrestrial television but also on BS satellite TV, YouTube and other media as a part of efforts to strengthen promotions. It also further enhanced the skills of frontline employees per its training policy, and through these initiatives it successfully increased the number of new wig customers.

In the Ladies' business, the Push de Fit function served to stimulate demand for Feelin by eliminating the difficulty of fastening with pins, which had been an issue when wearing conventional wigs, as well as concerns about long-term use. In September 2022, the Company launched LEFIA PURE BEAUTE, a ready-made JULLIA OLGIER wig that uses Clip Catch instead of pins to fasten. In addition, Ryoko Moriyama and Michiko Shimizu, the popular spokespeople used in Ladies' ARTNATURE commercials, were employed as ambassadors for JULLIA OLGIER, as this and other measures, including new consultations and marketing events, were taken in order to refer customers between the two brands. This advertising and sales strategy that breaks down the barriers between the two internal brands is being applied to store development as well. In September 2022, the Company opened Ladies' ARTNATURE Ginza Platinum Garden with a wide array of products and services in Ginza, which is home to the flagship stores of popular global brands. The new establishment handles not only custom-made wigs sold under the Ladies' ARTNATURE brand but also ready-made wigs under the JULLIA OLGIER brand, plus a variety of salon-quality haircare products.

Enhancements to New Products and Promotions

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

As a result of this marketing strategy, sales increased 4.3% YoY in the Men's business for stable growth and increased 18.0% in the Ladies' business for high growth. The other category grew by 17.3%, which is attributable to a strong performance from haircare products sold online like LH Scalp Head Spa Plus. In addition, looking at sales by product and service, new customer acquisition in the Men's business and the strong performance of Feelin in the Ladies' business led to double-digit growth for custom-made wigs, and JULLIA OLGIER, which had struggled in particular due to the state of emergency declarations during the pandemic and other such developments, recorded over 20% growth. Sales of hair-addition products declined, but this was because new customers tended to choose wigs over hair-addition as a result of the Company having run promotions focused on wigs, so it could be said that the decrease was consistent with the Company's strategy.

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

Results trends

Regarding profits, the stylist personnel expense ratio, which is a strong fixed-cost factor, declined with the increase in sales despite improving compensation and this offset yen depreciation and an increase in the product cost ratio from higher raw material prices. These factors led to an 0.7 percentage point increase in the gross profit margin. With respect to the impact of foreign currency exchange, there was nearly no impact on custom-made wigs because the Company has several years' supply of raw materials, but ready-made wigs were impacted somewhat because some purchases are denominated in U.S. dollars and many items have short inventory periods. Yen depreciation in the first half had an impact of around ¥100mn, which put downward pressure on earnings. SG&A expenses increased in nearly all items, centering on personnel expenses as the workforce continues to be bolstered, but thanks to the increase in sales, the SG&A expense ratio improved by 2.4 percentage points. As a result, operating income increased 51.9%, a substantial gain, and it can be said that performance improvement has accelerated. Against forecasts, net sales in both Men's and Ladies' businesses exceeded forecasts thanks to new products and effective promotions, improvement in the business environment post-pandemic, and the strong performance of Feelin. With this, profit also came in above forecasts.

Even after second set of upward revisions, possibility of further upside

2. FY3/23 results forecasts

For its FY3/23 results, thanks to a strong performance, the Company forecasted net sales of ¥42,814mn (up 5.9% YoY), operating income of ¥3,126mn (up 3.5%), ordinary income of ¥3,106mn (up 2.2%), and net income attributable to owners of parent of ¥1,698mn (up 41.0%) at the time of its first-half earnings announcement. These were major upward revisions against initial forecasts, net sales by ¥822mn, operating income by ¥1,021mn, ordinary income by ¥950mn, and net income attributable to owners of parent by ¥561mn, but because reductions to advertising expenses and other SG&A expenses made further progress, the forecasts were upwardly revised again on January 31, 2023. As a result, the new results forecasts for FY3/23 are net sales of ¥42,946mn (up 6.2% YoY), operating income of ¥3,533mn (up 17.0%), ordinary income of ¥3,474mn (up 14.4%), and net income attributable to owners of parent of ¥1,817mn (up 50.9%). These figures represent upward revisions against initial forecasts of ¥955mn for net sales, ¥1,428mn for operating income, ¥1,319mn for ordinary income, and ¥680mn for net income attributable to owners of parent. An impairment loss was recorded in extraordinary losses in FY3/22, but it will contract, so the forecast for net income attributable to owners of parent shows major growth. At the same time, the Company is planning impairment losses on stores, etc. and intends to disclose them promptly when their recording is finalized and if disclosure standards are met.

FY3/23 results forecasts

(unit: ¥mn)

	FY3/22	% of sales	FY3/23 forecasts	% of sales	Change rate	Initial forecasts	Revised rate
Net sales	40,437	100.0%	42,946	100.0%	6.2%	41,991	2.3%
Gross profit	27,739	68.6%	-	-	-	27,961	-
SG&A expenses	24,719	61.1%	-	-	-	25,855	-
Operating income	3,020	7.5%	3,533	8.2%	17.0%	2,105	67.8%
Ordinary income	3,038	7.5%	3,474	8.1%	14.4%	2,155	61.2%
Net income attributable to owners of parent	1,204	3.0%	1,817	4.2%	50.9%	1,137	59.8%

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

Results trends

The business environment continues to be challenging due to competition with rival companies and new entrants from the broader haircare industry, but there is also a tailwind from the increase in opportunities to leave the house thanks to restrictions on movement caused by the pandemic being relaxed, and amid this the Company will continue to execute its basic strategy in line with its medium-term management plan, ARTNATURE Challenge Plan. Regarding the business environment in the second half, the revised second-half plan is generally in line with the initial plan and assumes restrictions on movement will continue to be relaxed and that normal production and sales systems will be maintained. In this business environment, the Company is seeking stable growth in net sales in both Men's and Ladies' businesses and double-digit growth in the other segment, which centers on the online business. Regarding costs, the Company will take into account rising raw material prices and the impact of currency exchange rates, but it plans to continue focused investment in management resources, specifically training and strengthening hiring.

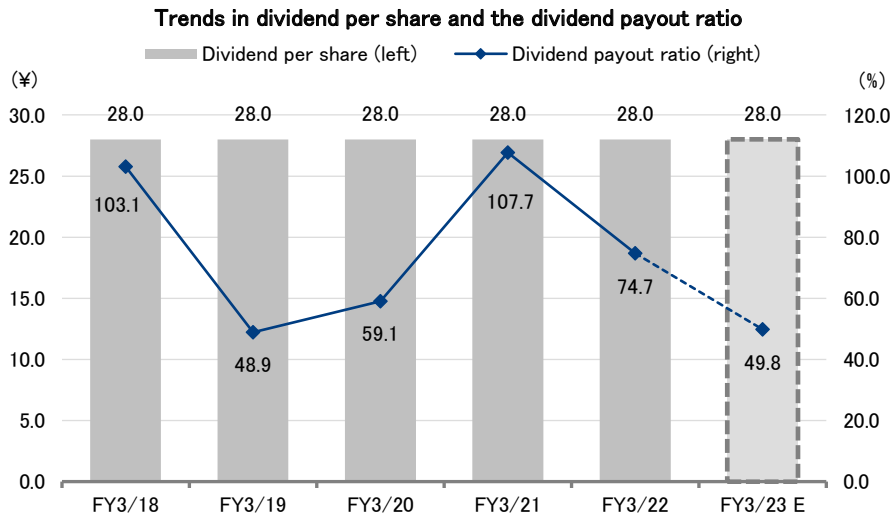
Regarding the Company's forecasts for the second half, which are its full-year forecasts minus its first half results, there is expected to be sales growth in custom-made wigs and a recovery in sales of hair-addition products, but given that Feelin brand products will be launched for a second time, JULLIA OLGGER forecasts are conservative out of concern over the protracted pandemic, and new men's customers, which increased in the first half, is forecast for net sales to increase 2% YoY, which is conservative as repeat business is conceived in the next two years. The gross profit margin is projected to decline by 2.9 percentage points due to the impact on product prices of high raw material prices and yen depreciation and the impact on stylist personnel expenses of staffing reinforcements and other measures. However, the exchange rate assumption going from ¥117 to ¥140 is a somewhat conservative assumption. Against rising costs, the price for a haircut (an after-sales service) will be raised in some cases in October, but the Company has no plans to raise the prices of its other products and services. Regarding SG&A expenses, advertising expenses will be used for ready-made products and the online retailing in accordance with the initial plan, and personnel expenses will be used to increase sales staff and strengthen hiring activities. The Company also plans to actively use expenditures with a view to the next term and beyond, centering on its priority Challenge policies, but it has been reining in costs recently and this led to the upward revisions in results forecasts released on January 31, 2023.

Looking at the most recent results, the growth in Feelin custom-made wigs, which began a second phase, declined according to projections in November 2022, but the Men's business maintained stable growth, and JULLIA OLGGER recorded high growth of around 20% in October and November as new products and spokesperson integration paid dividends. In addition, regarding new products for the second half and beyond, in the Ladies' business, the Company in September launched the Feelin 3 custom-made wig with an evolved stopper shape and better fit and LEFIA PURE BEAUTE, a JULLIA OLGGER wig not fastened with pins, and in November launched Hair for Life Sergio, a wig that uses an improved adhesive for a more comfortable fit and better scalp integration. Competition is intensifying, but wig and hair-addition demand is well rooted, and JULLIA OLGGER sales forecasts are somewhat conservative, so further upward revisions can be expected.

Returns to shareholders

For FY3/23, planning an interim dividend of ¥14 and period-end dividend of ¥14 for a total annual dividend of ¥28

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 FY3/23, 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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