



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

July 30, 2019

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
 Securities code: 7823 URL: <https://www.artnature.co.jp/english/index.html>
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 Scheduled date of filing the quarterly financial report: August 7, 2019
 Scheduled date to start dividends distribution: —
 Supplementary quarterly materials prepared: No
 Explanation meeting for quarterly financial results: No

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated results for the first quarter ended June 30, 2019 (April 1, 2019 – June 30, 2019)

(1) Consolidated operating results

(Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2019	8,598	1.2	365	(30.0)	371	(34.2)	207	(43.4)
Three months ended June 30, 2018	8,496	3.1	521	—	564	—	367	—

Note: Comprehensive income: Three months ended June 30, 2019: ¥250 million (-0.6%)
 Three months ended June 30, 2018: ¥251 million (—%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2019	6.38	6.35
Three months ended June 30, 2018	11.24	11.20

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2019	41,459	24,563	59.0	750.96
As of March 31, 2019	42,971	24,767	57.4	757.39

(Reference) Equity capital: As of June 30, 2019: ¥24,447 million As of March 31, 2019: ¥24,655 million

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	—	14.00	—	14.00	28.00
Year ending March 31, 2020	—				
Year ending March 31, 2020 (Forecast)		14.00	—	14.00	28.00

Note: Revisions to the most recently announced dividend forecast during the period: No

3. Consolidated financial forecast for the fiscal year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	39,368	3.6	3,377	4.7	3,425	3.5	2,031	9.0	62.40

Note: Revisions to the most recently announced earnings forecasts during the period: No

Notes:

(1) Significant changes to subsidiaries during the period (Transfers of specific subsidiaries with changes in the scope of consolidation): No

(2) Application of specific accounting methods for preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, accounting estimates and restatement of revisions

- 1) Changes in accounting policies due to revision of accounting standard, etc.: No
- 2) Changes in accounting policies other than 1): No
- 3) Changes in accounting estimates: No
- 4) Restatement of revisions: No

(4) Number of outstanding shares (common stock):

1) Number of shares issued and outstanding (including treasury shares)	As of June 30, 2019	34,393,200 shares	As of March 31, 2019	34,393,200 shares
2) Number of treasury shares	As of June 30, 2019	1,837,639 shares	As of March 31, 2019	1,839,739 shares
3) Average number of shares issued and outstanding in each period	Three months ended June 30, 2019	32,554,402 shares	Three months ended June 30, 2018	32,653,735 shares

* **This quarterly kessan tanshin document is outside the scope of audit procedures conducted by certified public accountants or the independent auditor.**

* **Explanation of appropriate use of forecasts of financial results; other important items**

(Cautionary statement with regard to the forward-looking statements, etc.)

The forward-looking statements in this document, including forecasts, are based on information available at the time of disclosure and on certain assumptions deemed to be reasonable by the Company. Actual results may differ materially from forward-looking statements due to a number of factors. For more details about these assumptions and other conditions that form the basis of these forecasts, please refer to page 2 of the supplementary materials, "1. Analysis of operating results and financial position, (3) Qualitative information on consolidated financial forecasts."

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1. Analysis of operating results and financial position

(1) Analysis of operating results

Operating results for the first three months of fiscal 2020

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

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) continued to implement its three-year medium-term management plan, the “ARTNATURE REBORN Plan,” which concludes in fiscal 2020. Specifically, the ARTNATURE Group is implementing a range of initiatives to expand the business base and increase productivity as part of stepped-up efforts to convert the plan’s four key areas of focus – customer satisfaction, systemic reform, personnel training and employee satisfaction – into four outcomes.

As a result, consolidated net sales in the first quarter of the fiscal year increased 1.2% year on year to ¥8,598 million. However, selling, general and administrative expenses increased year on year. As a result, operating income fell 30.0% year on year to ¥365 million, ordinary income declined 34.2% to ¥371 million, and net income attributable to owners of the parent company fell 43.4% to ¥207 million.

< Men’s business >

Sales in the men’s business increased 2.2% year on year to ¥4,856 million. The business implemented a range of initiatives, such as measures to attract and retain customers in all age brackets and to strengthen cooperation between sales staff to improve retention of new customers. Those efforts led to an increase in sales from new customers and from repeat customers.

< Ladies’ business >

Sales in the ladies’ business fell 1.8% year on year to ¥2,770 million. The business implemented various initiatives, such as holding efficient and effective sales shows and trial fitting events and building systems to create lasting long-term relationships with customers. As a result, sales from new customers increased, but sales from repeat customers declined.

< Ladies’ ready-made wigs business >

Sales in the JULLIA OLGIER business, which sells ladies’ ready-made wigs, increased 17.8% year on year to ¥727 million. Sales growth was supported by various measures to strength the sales capabilities of salons, such as highly targeted sales promotions run by each salon and the introduction of a new unit-based store operations system to rapidly address issues at individual salons.

(2) Analysis of financial position

Assets, liabilities and net assets

(Assets)

As of the end of the first quarter, total assets were ¥41,459 million, a decrease of ¥1,511 million compared with the end of the previous fiscal year. Current assets decreased ¥1,504 million, mainly due to decreases in cash and deposits and accounts receivable - trade, while non-current assets decreased ¥6 million, primarily due to decreases in property, plant and equipment and intangible assets.

(Liabilities)

As of the end of the first quarter, liabilities totaled ¥16,895 million, a decrease of ¥1,307 million compared with the end of the previous fiscal year. This mainly reflected a decrease of ¥1,367 million in current liabilities due to decreases in accounts payable – other and income taxes payable and an increase of ¥60 million in non-current liabilities.

(Net Assets)

As of the end of the first quarter, net assets were ¥24,563 million, a decrease of ¥203 million from the end of the previous fiscal year. This largely reflected a decrease in retained earnings.

(3) Qualitative information on consolidated financial forecasts

The Company has not revised its consolidated forecasts for fiscal 2020 announced on May 15, 2019.

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	18,275	16,875
Accounts receivable - trade	3,109	2,659
Securities	42	31
Merchandise and finished goods	1,430	1,669
Work in process	129	120
Raw materials and supplies	1,324	1,270
Others	902	1,081
Allowance for doubtful accounts	(7)	(6)
Total current assets	25,206	23,702
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,285	5,244
Others, net	3,996	3,991
Total property, plant and equipment	9,282	9,235
Intangible assets		
Others	744	705
Total intangible assets	744	705
Investments and other assets		
Others	7,793	7,871
Allowance for doubtful accounts	(56)	(56)
Total investments and other assets	7,737	7,815
Total non-current assets	17,764	17,757
Total assets	42,971	41,459

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Accounts payable – trade	210	333
Current portion of long-term loans payable	398	298
Accounts payable – other	2,368	1,243
Income taxes payable	1,198	271
Advances received	4,770	5,085
Provision for bonuses	878	1,319
Provision for directors' bonuses	132	37
Provision for product warranties	35	41
Provision for point card certificates	93	97
Others	1,126	1,117
Total current liabilities	11,213	9,846
Non-current liabilities		
Net defined benefit liability	3,714	3,764
Asset retirement obligations	1,400	1,420
Others	1,874	1,864
Total non-current liabilities	6,989	7,049
Total liabilities	18,203	16,895
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,558
Retained earnings	18,510	18,262
Treasury shares	(960)	(959)
Total shareholders' equity	24,775	24,528
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	15
Foreign currency translation adjustment	(3)	11
Remeasurements of defined benefit plans	(117)	(107)
Total accumulated other comprehensive income	(119)	(81)
Subscription rights to shares	99	99
Non-controlling interests	12	16
Total net assets	24,767	24,563
Total liabilities and net assets	42,971	41,459

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

	(Millions of yen)	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	8,496	8,598
Cost of sales	2,894	2,868
Gross profit	5,602	5,729
Selling, general and administrative expenses	5,080	5,364
Operating income	521	365
Non-operating income		
Interest income	20	17
Foreign exchange gains	23	—
Others	12	12
Total non-operating income	56	29
Non-operating expenses		
Interest expenses	1	0
Foreign exchange losses	—	11
Guarantee commission	11	9
Others	1	2
Total non-operating expenses	14	23
Ordinary income	564	371
Extraordinary losses		
Impairment loss	2	5
Total extraordinary losses	2	5
Income before income taxes	561	365
Income taxes – current	311	211
Income taxes – deferred	(117)	(53)
Total income taxes	194	157
Net income	367	208
Net income attributable to non-controlling interests	0	0
Net income attributable to owners of the parent company	367	207

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Net income	367	208
Other comprehensive income		
Valuation difference on available-for-sale securities	(9)	13
Foreign currency translation adjustment	(116)	18
Remeasurements of defined benefit plans	10	10
Total other comprehensive income	(115)	41
Comprehensive income	251	250
(Comprehensive income attributable to)		
Owners of the parent company	251	246
Non-controlling interests	(0)	3

(3) Notes on quarterly consolidated financial statements

(Notes on the going concern assumption)

There is no related information.

(Notes on significant fluctuation in amounts of shareholders' equity)

There is no related information.

(Material subsequent events)

Business combination through acquisition

At a meeting of the Board of Directors on July 30, 2019, the Company passed a resolution to make NAO-ART CO.,LTD. a subsidiary through an acquisition of shares.

For more details, please refer to the press release, "Notice of acquisition of shares in NAO-ART CO.,LTD. (conversion to subsidiary)" issued July 30, 2019.