Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2017 [J-GAAP]

July 29, 2016

Name of listed company:	ARTNATURE INC.	Listed on: Tokyo Stock Exchange	
Securities code:	7823	URL: http://www.artnature.co.jp/english/index.html	
Representative:	Yoshikata Igarashi, Chairman and President		
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Scheduled date of filing the quarterly financial report:		August 10, 2016	
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, 2016 (April 1, 2016 – June 30, 2016)

(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, 2016	8,733	(9.1)	321	(61.5)	191	(78.7)	156	(67.9)
Three months ended June 30, 2015	9,605	0.6	837	(20.3)	902	(11.7)	487	(22.1)

Note: Comprehensive income: Three months ended June 30, 2016: ¥156 million (-67.0%)
Three months ended June 30, 2015: ¥474 million (-19.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2016	4.72	4.71
Three months ended June 30, 2015	14.74	14.68

(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, 2016	39,582	23,721	59.8	714.84
As of March 31, 2016	40,734	23,653	58.0	712.77

(Reference) Equity capital: As of June 30, 2016: ¥23,677 million As of March 31, 2016: ¥23,608 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, 2016	—	14.00	—	14.00	28.00
Year ending March 31, 2017	—				
Year ending March 31, 2017 (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, 2017 (April 1, 2016 – March 31, 2017)

(Percentage figures show changes from the same period in 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
First six months	20,612	3.9	1,773	3.9	1,813	2.0	1,150	19.8	34.75
Full year	43,079	6.3	3,844	11.2	3,925	13.5	2,533	46.3	76.48

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.: Yes
2) Changes in accounting policies other than 1): No
3) Changes in accounting estimates: No
4) Restatement of revisions: No

Note: For more details, please refer to page 3 of the supplementary materials, "2. Summary (notes) information, (3) Changes in accounting policies, accounting estimates and restatement of revisions."

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

1) Number of shares issued and outstanding (including treasury shares)	As of June 30, 2016	34,393,200	shares	As of March 31, 2016	34,393,200	shares
2) Number of treasury shares	As of June 30, 2016	1,271,238	shares	As of March 31, 2016	1,271,238	shares
3) Average number of shares issued and outstanding in each period	Three months ended June 30, 2016	33,121,962	shares	Three months ended June 30, 2015	33,046,162	shares

* Disclosures related to the implementation of audit procedures

The audit procedures for these quarterly consolidated financial statements in accordance with the Financial Instruments and Exchange Act had not been completed at the time of disclosure.

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

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

The forward-looking statements in this document, including forecasts, are based on information available at the time of disclosure and on certain assumptions deemed to be reasonable by the Company. Actual results may differ materially from forward-looking statements due to a number of factors. For more details about these assumptions and other conditions that form the basis of these forecasts, please refer to page 3 of the supplementary materials, "1. Analysis of operating results 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 2017

In the first three months of fiscal 2017 (April – June 2016), the Japanese economy showed signs of improvement in areas such as employment conditions. However, the economic outlook remained uncertain due to instability in share prices and exchange rates, concerns about a downturn in the global economy and persistently sluggish consumer spending.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) targeted a return to sales and profit growth, based on five pillars: establish a sales system that balances efficiency with high levels of customer satisfaction; create a global manufacturing system capable of rapidly delivering high-quality products at low cost; build a robust earnings structure by encouraging a greater emphasis on profits and by boosting productivity; cultivate personnel that are resilient to change and establish a motivating workplace; and create a healthy management structure that wins the trust of the public by addressing their needs. Guided by these policies, the Group implemented a range of initiatives, such as improving customer retention by regulary launching innovative products and by enhancing the technical skills, customer service and product proposal capabilities of sales staff. The Group also reinforced the sales structure in the JULIA OLGER business, which sells ladies' ready-made wigs.

However, for the first three months of the fiscal year, net sales declined 9.1% year on year to ¥8,733 million due to the impact of sluggish consumer spending, intensifying competition with other companies and other factors. The Group reduced sales-related expenses and other costs, but this was insufficient to offset the drop in sales and the increase in cost of sales. As a result, operating income declined 61.5% year on year to ¥321 million, ordinary income fell 78.7% to ¥191 million and net income attributable to owners of the parent company fell 67.9% to ¥156 million.

< Men's business >

Sales in the men's business declined 5.6% year on year to ¥5,004 million. The business implemented initiatives such as reinforcing the customer supervisor system to improve customer retention and strengthening the technical skills, customer service and product proposal capabilities of sales staff to increase customer satisfaction. However, these measures were insufficient to offset a drop in sales of custom-made wigs.

< Ladies' business >

Sales in the ladies' business declined 15.0% year on year to ¥2,838 million. The business implemented a range of initiatives, such as efficiently holding trial fitting events, enhancing the skills of sales staff, improving customer follow-up support in stores and encouraging customers to visit stores more regularly, but sales were affected by competition with other companies and other factors.

< Ladies' ready-made wigs business >

Sales in the JULIA OLGER business, which sells ladies' ready-made wigs, declined 6.3% year on year to ¥721 million, mainly due to sluggish sales at existing stores.

(2) Analysis of financial position

1) Assets, liabilities and net assets

(Assets)

As of the end of the first quarter, total assets were ¥39,582 million, a decline of ¥1,151 million from the end of the previous fiscal year. That reflected a drop in current assets of ¥1,317 million, mainly due to declines in cash and deposits and accounts receivable – trade.

(Liabilities)

As of the end of the first quarter, liabilities totaled ¥15,861 million, a decline of ¥1,220 million from the end of the previous fiscal year. That mainly reflected a drop of ¥1,065 million in current liabilities due to declines in accounts payable – other, income taxes payable and other items.

(Net Assets)

As of the end of the first quarter, net assets were ¥23,721 million, an increase of ¥68 million from the end of the previous fiscal year, mainly due to an increase in retained earnings.

2) Cash flow position

As of the end of the first quarter, cash and cash equivalents (cash) totaled ¥14,958 million, a decrease of ¥1,113 million compared with the end of the previous fiscal year. The Company's cash flow position and factors behind changes in cash flows were as follows:

(Cash flows from operating activities)

Operating activities provided net cash of ¥2 million, compared with net cash used of ¥271 million in the same period a year earlier. That mainly reflected income before income taxes and minority interests of ¥183 million, depreciation of ¥323

million, increase in provision for bonuses of ¥452 million, decrease in notes and accounts receivable – trade of ¥276 million and increase in advances received of ¥114 million, versus income taxes paid of ¥529 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥361 million, compared with ¥688 million in the same period a year earlier. That mainly reflected purchase of property, plant and equipment of ¥162 million and purchase of intangible assets of ¥163 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥571 million, compared with ¥633 million in the same period a year earlier. That mainly reflected repayments of long-term loans payable of ¥100 million, dividends paid of ¥448 million and repayments of lease obligations of ¥22 million.

(3) Qualitative information on consolidated financial forecasts

The Company has not revised its consolidated forecasts for fiscal 2017 announced on May 13, 2016.

2. Summary (notes) information

(1) Significant changes to subsidiaries during the period

There is no related information.

(2) Application of the specific accounting methods for preparing the quarterly consolidated financial statements

There is no related information.

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

Changes in accounting policies

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the current fiscal year, the Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016), resulting in certain changes to accounting treatment related to the recoverability of deferred tax assets.

In accordance with provisional accounting treatment provided for in Article 49-4 of the Guidance, the difference in amounts between deferred tax assets and deferred tax liabilities classified under categories (i)–(iii) in Article 49-3 of the Guidance as of the start of the first quarter and those deferred tax assets and deferred tax liabilities as of the end of the previous fiscal year is added to retained earnings at the start of the first quarter of the current fiscal year.

As a result, at the start of the first quarter, deferred tax assets increased by ¥375 million and retained earnings increased by ¥375 million.

(Application of Practical Solution on Change in Depreciation Method due to Tax Reform 2016)

Following revisions to the Corporation Tax Act, the Company has applied the Practical Solution on Change in Depreciation Method due to Tax Reform 2016 (Accounting Standards Board of Japan (ASBJ), PITF No. 32, June 17, 2016), effective from the first quarter of the current fiscal year. As a result, the depreciation method for building fixtures and structures purchased on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

This change in depreciation method had an immaterial impact on operating income, ordinary income and income before income taxes and minority interests in the first quarter of the current fiscal year.

3. Going concern assumptions, etc.

There is no related information.

4. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2016	As of June 30, 2016
Assets		
Current assets		
Cash and deposits	14,050,920	12,937,415
Accounts receivable – trade	3,024,585	2,742,197
Securities	2,021,488	2,021,488
Merchandise and finished goods	1,959,211	1,992,818
Work in process	122,470	125,418
Raw materials and supplies	1,821,481	1,744,014
Others	1,472,486	1,591,563
Allowance for doubtful accounts	(5,242)	(4,993)
Total current assets	24,467,400	23,149,924
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,973,952	6,823,941
Others, net	4,228,956	4,217,491
Total property, plant and equipment	11,202,909	11,041,433
Intangible assets		
Others	934,930	895,627
Total intangible assets	934,930	895,627
Investments and other assets		
Others	4,194,263	4,560,559
Allowance for doubtful accounts	(64,848)	(64,758)
Total investments and other assets	4,129,414	4,495,801
Total non-current assets	16,267,254	16,432,861
Total assets	40,734,655	39,582,786

(Thousands of yen)

	As of March 31, 2016	As of June 30, 2016
Liabilities		
Current liabilities		
Accounts payable – trade	314,102	217,445
Current portion of long-term loans payable	401,364	401,364
Accounts payable – other	1,921,385	1,095,506
Income taxes payable	681,130	139,777
Advances received	4,288,745	4,403,630
Provision for bonuses	815,827	1,267,994
Provision for directors' bonuses	150,000	37,500
Provision for product warranties	46,231	46,557
Provision for point card certificates	81,868	84,497
Others	1,332,435	1,272,827
Total current liabilities	10,033,090	8,967,100
Non-current liabilities		
Long-term loans payable	1,200,404	1,100,063
Provision for directors' retirement benefits	1,283,252	1,174,300
Net defined benefit liability	3,203,880	3,254,874
Asset retirement obligations	1,217,011	1,228,513
Others	143,580	136,356
Total non-current liabilities	7,048,128	6,894,107
Total liabilities	17,081,219	15,861,208
Net assets		
Shareholders' equity		
Capital stock	3,667,245	3,667,245
Capital surplus	3,556,426	3,556,426
Retained earnings	16,815,192	16,883,152
Treasury shares	(502,610)	(502,610)
Total shareholders' equity	23,536,254	23,604,213
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,644	3,644
Foreign currency translation adjustment	368,615	353,803
Remeasurements of defined benefit plans	(300,275)	(284,659)
Total accumulated other comprehensive income	71,984	72,788
Subscription rights to shares	31,570	31,570
Non-controlling interests	13,626	13,004
Total net assets	23,653,435	23,721,578
Total liabilities and net assets	40,734,655	39,582,786

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Thousands of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Net sales	9,605,806	8,733,813
Cost of sales	2,759,355	2,813,812
Gross profit	6,846,451	5,920,000
Selling, general and administrative expenses	6,009,310	5,598,055
Operating income	837,140	321,944
Non-operating income		
Interest income	31,450	32,219
Foreign exchange gains	23,839	—
Others	36,308	23,933
Total non-operating income	91,598	56,153
Non-operating expenses		
Interest expenses	3,256	2,589
Foreign exchange losses	—	152,193
Guarantee commission	17,701	14,675
Others	5,011	16,682
Total non-operating expenses	25,969	186,140
Ordinary income	902,769	191,957
Extraordinary income		
Gain on sales of non-current assets	—	287
Total extraordinary income	—	287
Extraordinary losses		
Loss on retirement of non-current assets	3,383	8,335
Total extraordinary losses	3,383	8,335
Income before income taxes and minority interests	899,385	183,910
Income taxes – current	387,970	80,283
Income taxes – deferred	23,456	(52,275)
Total income taxes	411,426	28,007
Net income	487,958	155,902
Net income (loss) attributable to non-controlling interests	695	(393)
Net income attributable to owners of the parent company	487,263	156,296

(Quarterly consolidated statements of comprehensive income)

(Thousands of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Net income	487,958	155,902
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,253)	—
Foreign currency translation adjustment	(35,601)	(15,039)
Remeasurements of defined benefit plans	29,070	15,616
Total other comprehensive income	(13,785)	576
Comprehensive income	474,173	156,479
(Comprehensive income attributable to)		
Owners of the parent company	473,088	157,100
Non-controlling interests	1,085	(621)

(3) Quarterly consolidated statements of cash flows

(Thousands of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Cash flows from operating activities		
Income before income taxes and minority interests	899,385	183,910
Depreciation	291,022	323,684
Increase (decrease) in allowance for doubtful accounts	(4,340)	(338)
Increase (decrease) in provision for bonuses	443,507	452,183
Increase (decrease) in provision for directors' bonuses	(112,500)	(112,500)
Increase (decrease) in provision for product warranties	5,736	325
Increase (decrease) in provision for point card certificates	7,945	2,629
Increase (decrease) in provision for directors' retirement benefits	12,610	(108,952)
Increase (decrease) in net defined benefit liability	65,906	50,993
Interest income	(31,450)	(32,219)
Interest expenses	3,256	2,589
Loss on retirement of non-current assets	3,383	8,335
Loss (gain) on sales of non-current assets	—	(287)
Decrease (increase) in notes and accounts receivable – trade	434,781	276,127
Decrease (increase) in inventories	(301,328)	17,450
Increase (decrease) in notes and accounts payable – trade	(96,630)	(93,207)
Increase (decrease) in advances received	(153,972)	114,884
Others	(707,214)	(570,892)
Subtotal	760,100	514,713
Interest income received	13,854	19,585
Interest expenses paid	(3,207)	(2,540)
Income taxes paid	(1,042,046)	(529,658)
Net cash provided by (used in) operating activities	(271,299)	2,101
Cash flows from investing activities		
Purchase of property, plant and equipment	(631,113)	(162,419)
Proceeds from sales of property, plant and equipment	—	287
Purchase of intangible assets	(63,959)	(163,462)
Collection of long-term loans receivable	120	105
Payments for lease and guarantee deposits	(25,282)	(14,702)
Proceeds from collection of lease and guarantee deposits	19,551	9,726
Others	12,580	(30,804)
Net cash provided by (used in) investing activities	(688,103)	(361,269)
Cash flows from financing activities		
Repayments of long-term loans payable	(100,341)	(100,341)
Repayments of lease obligations	(56,086)	(22,285)
Cash dividends paid	(476,967)	(448,918)
Net cash provided by (used in) financing activities	(633,395)	(571,545)
Effect of exchange rate change on cash and cash equivalents	(8,063)	(182,791)
Net increase (decrease) in cash and cash equivalents	(1,600,861)	(1,113,504)
Cash and cash equivalents at beginning of period	16,309,599	16,072,409
Cash and cash equivalents at end of period	14,708,737	14,958,904

(4) 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.