



Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2022 [J-GAAP]

July 30, 2021

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 10, 2021
 Scheduled date of the start of dividends distribution: —
 Supplementary quarterly materials prepared: None
 Explanation meeting for quarterly financial results: None

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

1. Consolidated results for the first quarter ended June 30, 2021 (April 1, 2021 – June 30, 2021)

(1) Consolidated operating results (Percentage figures show changes from the previous year.)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss) attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2021	9,513	75.7	904	—	842	—	488	—
June 30, 2020	5,414	(37.0)	(1,971)	—	(1,963)	—	(1,439)	—

Note: Comprehensive income: Three months ended June 30, 2021: ¥584 million (—%)
 Three months ended June 30, 2020: ¥-1,398 million (—%)

	Net income (loss) per share	Diluted net income per share
	Yen	Yen
Three months ended June 30, 2021	15.22	15.07
June 30, 2020	(44.46)	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	
As of June 30, 2021	44,515	24,318	54.2	751.82
As of March 31, 2021	44,919	25,255	55.8	781.00

(Reference) Equity capital: As of June 30, 2021: ¥24,131 million As of March 31, 2021: ¥25,066 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, 2021	—	14.00	—	14.00	28.00
Year ending March 31, 2022	—				
Year ending March 31, 2022 (forecast)		14.00	—	14.00	28.00

Note: Revisions to dividend forecasts published most recently: None

3. Consolidated financial forecast for the fiscal year ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(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	40,363	12.5	2,023	4.7	2,088	4.1	1,045	24.3	32.56

Note: Revisions to most recently announced results forecasts: None

Notes:

- (1) Significant changes to subsidiaries during the period (Transfers of specific subsidiaries with changes in the scope of consolidation): None
- (2) Application of specific accounting methods for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies and accounting estimates, and restatement of revisions
- 1) Changes in accounting policies due to revision of accounting standards, etc.: Yes
 - 2) Changes in accounting policies other than 1): None
 - 3) Changes in accounting estimates: None
 - 4) Restatement of revisions: None

Note: More information is provided on page 7 of the supplementary materials, “2. Quarterly consolidated financial statements and related notes, (3) Notes on quarterly consolidated financial statements (Changes in accounting policies).”

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

1) Number of shares issued and outstanding (including treasury shares)			
As of June 30, 2021	34,393,200 shares	As of March 31, 2021	34,393,200 shares
2) Number of treasury shares			
As of June 30, 2021	2,295,239 shares	As of March 31, 2021	2,297,539 shares
3) Average number of shares issued and outstanding in each period			
Three months ended June 30, 2021	32,097,256 shares	Three months ended June 30, 2020	32,367,442 shares

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

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

(Cautionary statement regarding forward-looking statements, etc.)

Forward-looking statements in this document, including forecasts, are based on information available at the time of disclosure and on certain assumptions deemed reasonable by the Company. Actual results may differ materially from forward-looking statements due to a number of factors.

For more information about these assumptions and other conditions that form the basis of these forecasts, please see page 2 of the supplementary materials, “1. Analysis of operating results and financial position, (3) Quarterly 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 2022

In the first three months of fiscal 2022 (April-June 2021), economic activities were restricted in Japan due to the impact of the prolonged COVID-19 pandemic, which had continued since the previous fiscal year, and the declaration of a state of emergency. As consumer spending is sluggish, the outlook for the Japanese economy remains uncertain because there are still no prospects for the end of the COVID-19 pandemic, despite vaccination and other measures taken to prevent the spread of infections.

Against this backdrop, ARTNATURE INC. and its consolidated subsidiaries (the ARTNATURE Group) saw the ARTNATURE Challenge Plan, the three-year medium-term management plan, mark its second year. Under the plan, we have been implementing six priority challenge initiatives, as we did in the first year: (1) grow the Group's earnings, (2) develop new business fields, (3) reinforce recruitment, (4) cultivate human resources, (5) encourage dialogue with capital markets, and (6) drive business innovation, with the aim of strengthening the ARTNATURE Group's position in existing businesses and further expanding new businesses to build the foundations for a new ARTNATURE capable of opening up the next phase in the Group's history. At the same time, we have continued to take comprehensive measures to prevent COVID-19 infections in our business activities since the previous fiscal year.

As a result, consolidated net sales in the first three months under review increased 75.7% year on year to ¥9,513 million. In terms of profits, operating income stood at ¥904 million (compared with an operating loss of ¥1,971 million in the first quarter of the previous fiscal year), and ordinary income came to ¥842 million (compared with an ordinary loss of ¥1,963 million in the first quarter of the previous fiscal year) due to an increase in net sales. Net income attributable to owners of the parent company was ¥488 million (compared with a net loss attributable to owners of the parent company of ¥1,439 million in the first quarter of the previous fiscal year).

Business results by segment are as follows.

< Men's business >

Sales in the men's business increased 62.7% year on year, to ¥5,313 million, as a result of eliminating the significant fall in sales in the first quarter of the previous fiscal year that had been caused by the temporary closure of production sites in the Philippines associated with the COVID-19 pandemic and other factors, in addition to the sale of new products and the promotion of measures to retain customers, etc.

< Ladies' business >

Sales in the ladies' business rose 124.0% year on year, to ¥2,981 million, as a result of eliminating the significant fall in sales in the first quarter of the previous fiscal year that had been caused by the temporary closure of production sites in the Philippines associated with the COVID-19 pandemic and other factors, similarly to sales in men's business, in addition to the sale of new products and the holding of exhibition and trial fitting events, among other measures.

< Ladies' ready-made wigs business >

Sales in the ladies' ready-made wigs business increased 63.3% year on year to ¥851 million, despite the impact of the temporary closure of the retail facilities in which the Company's stores are located due to the spread of COVID-19, because the impact was relatively limited compared with the first quarter of the previous fiscal year.

(2) Analysis of financial position

Assets, liabilities and net assets

(Assets)

As of the end of the first quarter, total assets were ¥44,515 million, a decrease of ¥404 million compared with the end of the previous fiscal year. Current assets decreased ¥998 million, mainly due to a fall in cash and deposits, while non-current assets increased ¥594 million, primarily reflecting an increase in investments and other assets.

(Liabilities)

As of the end of the first quarter, liabilities totaled ¥20,196 million, an increase of ¥532 million compared with the end of the previous fiscal year. Although accounts payable - other, income taxes payable and advances received decreased, current liabilities increased ¥425 million mainly due to increases in provision for bonuses and other current liabilities associated with the application of the accounting standard for revenue recognition.

(Net Assets)

This largely reflected a decrease in retained earnings associated with the application of accounting standard for revenue recognition.

(3) Qualitative information on consolidated financial forecasts

Consolidated financial forecasts for the fiscal year ending March 31, 2022 remain the same as those announced on May 15, 2021.

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	19,073	17,846
Accounts receivable – trade	2,914	2,663
Securities	22	24
Merchandise and finished goods	2,394	2,644
Work in process	172	187
Raw materials and supplies	1,084	1,046
Others	930	1,179
Allowance for doubtful accounts	(5)	(4)
Total current assets	26,586	25,588
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,755	4,799
Others, net	3,919	3,920
Total property, plant and equipment	8,674	8,719
Intangible assets		
Goodwill	602	559
Others	519	490
Total intangible assets	1,121	1,049
Investments and other assets		
Others	8,772	9,475
Allowance for doubtful accounts	(235)	(316)
Total investments and other assets	8,536	9,158
Total non-current assets	18,332	18,927
Total assets	44,919	44,515

(Millions of yen)

	As of March 31, 2021	As of June 30, 2021
Liabilities		
Current liabilities		
Accounts payable – trade	327	143
Accounts payable – other	1,947	1,063
Income taxes payable	1,053	533
Advances received	6,464	6,132
Provision for bonuses	996	1,509
Provision for directors' bonuses	130	37
Provision for product warranties	31	35
Provision for point card certificates	107	—
Others	1,088	3,117
Total current liabilities	12,147	12,573
Non-current liabilities		
Net defined benefit liability	4,078	4,149
Asset retirement obligations	1,511	1,512
Others	1,927	1,961
Total non-current liabilities	7,517	7,623
Total liabilities	19,664	20,196
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,558	3,558
Retained earnings	19,075	18,041
Treasury shares	(1,289)	(1,288)
Total shareholders' equity	25,011	23,979
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	96	109
Foreign currency translation adjustment	(5)	71
Remeasurements of defined benefit plans	(35)	(28)
Total accumulated other comprehensive income	55	152
Subscription rights to shares	180	180
Non-controlling interests	8	7
Total net assets	25,255	24,318
Total liabilities and net assets	44,919	44,515

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

	(Millions of yen)	
	Three months ended June 30, 2020	Three months ended June 30, 2021
Net sales	5,414	9,513
Cost of sales	2,601	3,085
Gross profit	2,813	6,428
Selling, general and administrative expenses	4,784	5,523
Operating income (loss)	(1,971)	904
Non-operating income		
Interest income	14	11
Gain on investments in investment partnerships	—	10
Others	9	14
Total non-operating income	23	36
Non-operating expenses		
Interest expenses	0	—
Foreign exchange losses	0	9
Provision of allowance for doubtful accounts	2	81
Guarantee commission	8	6
Others	2	1
Total non-operating expenses	15	99
Ordinary income (loss)	(1,963)	842
Extraordinary income		
Gain on sales of non-current assets	0	—
Total extraordinary income	0	—
Extraordinary losses		
Impairment loss	—	0
Total extraordinary losses	—	0
Income (loss) before income taxes	(1,962)	841
Income taxes – current	37	459
Income taxes – deferred	(560)	(104)
Total income taxes	(522)	354
Net income (loss)	(1,440)	487
Loss attributable to non-controlling interests	(0)	(1)
Net income (loss) attributable to owners of the parent company	(1,439)	488

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Three months ended June 30, 2020	Three months ended June 30, 2021
Net income (loss)	(1,440)	487
Other comprehensive income		
Valuation difference on available-for-sale securities	60	12
Foreign currency translation adjustment	(29)	77
Remeasurements of defined benefit plans	10	7
Total other comprehensive income	41	97
Comprehensive income (loss)	(1,398)	584
(Comprehensive income (loss) attributable to)		
Owners of the parent company	(1,397)	585
Non-controlling interests	(0)	(1)

(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.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Group has decided to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2018; hereinafter the "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter under review and recognize revenue from goods or services which the Group promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services has been transferred to a customer. Major changes as a result of the application are as follows.

(1) Sales of hair-addition products

With regard to sales of hair-addition products, in the past we recognized revenue for unused hair-addition products at the time of sale and revised the amount if products were returned subsequently. However, for the products that are expected to be returned, we have changed it to a method of not recognizing revenue at the time of sale but recognizing refund liabilities at the amount of consideration received for the products, in accordance with the provisions for variable consideration.

(2) Periodic check service of custom-made wigs for ladies and ready-made wigs for ladies

For the periodic check service of custom-made wigs for ladies and ready-made wigs for ladies, in the past we recognized revenue including consideration for the service at the time of sale of products, but we have changed it to a method of identifying the service separately from the sale of products and recording net sales when we provide customers with the check service.

(3) Points

For points given to customers at the time of selling products and providing services, in the past we recorded unused points which were expected to be used in the future as provision for point card certificates and recognized expenses, but we have changed it to a method of identifying the given points as performance obligations separately from the sale of products and the provision of services and recognizing them as net sales when customers used the points (or when the points disappeared).

The application of the Revenue Recognition Accounting Standard follows the provisional treatment provided for in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effects in case of retroactively applying the new accounting policy to before the beginning of the first quarter under review are adjusted in retained earnings at the beginning of the first quarter under review, and the new accounting policy is applied from this initial balance. However, applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the new accounting policy is not applied to contracts in which almost all revenues were recognized according to the previous treatment before the beginning of the first quarter under review. In addition, applying the method stipulated in the in-addition clause (1) of Paragraph 86 of the Revenue Recognition Accounting Standard, changes in contracts made prior to the beginning of the first quarter under review are accounted for based on the contractual terms after reflecting all the changes in the contracts, and the cumulative effects of such changes are adjusted in retained earnings at the beginning of the first quarter under review.

As a result, net sales in the first quarter under review decreased ¥36 million, and operating income, ordinary income and net income before taxes decreased ¥36 million, respectively. In addition, the beginning balance of retained earnings decreased ¥1,072 million.

As a result of applying the Revenue Recognition Accounting Standard, we have decided to present the provision for point card certificates, which was presented in current liabilities in consolidated balance sheet for the previous fiscal year, by including it in "Other" of current liabilities from the first quarter of the current fiscal year. In accordance with the provisional treatment stipulated in Paragraph 89-2 of the Revenue Recognition Accounting Standard, no reclassification has been made to the consolidated financial statements for the previous fiscal year based on the new presentation method.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Group has decided to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter the "Fair Value Measurement Accounting Standard"), etc. from the beginning of the first quarter under review and apply the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. according to the

provisional treatment provided for in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019) into the future. The application of the Fair Value Measurement Accounting Standard and others mentioned above have no impact on quarterly consolidated financial statements.