



Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2022

[J-GAAP]

January 27, 2022

Name of listed company: ARTNATURE INC. Listed on: Tokyo Stock Exchange
 Securities code: 7823 URL: <https://www.artnature.co.jp/english/index.htm>
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 Senior Corporate Officer
 Scheduled date of filing the quarterly financial report: February 14, 2022
 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 nine months ended December 31, 2021 (April 1, 2021 – December 31, 2021)

(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	%
Nine months ended								
December 31, 2021	30,075	18.5	2,782	151.3	2,757	117.8	1,674	151.0
December 31, 2020	25,387	(12.6)	1,106	(52.1)	1,266	(46.5)	667	(54.0)

Note: Comprehensive income: Nine months ended December 31, 2021: ¥1,738 million (106.1%)
 Nine months ended December 31, 2020: ¥843 million (-43.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended		
December 31, 2021	52.15	51.59
December 31, 2020	20.61	20.42

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of				
December 31, 2021	45,676	25,073	54.4	773.73
March 31, 2021	44,919	25,255	55.8	781.00

(Reference) Equity capital: As of December 31, 2021: ¥24,850 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	—	14.00	—		
Year ending March 31, 2022 (forecast)				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	40,219	12.1	2,798	44.8	2,759	37.6	821	(2.2)	25.60

Note: Revisions to most recently announced results forecasts: Yes

For the revision to the results forecast, see the Notice Regarding the Revision of the Financial Forecast for the Fiscal Year Ending March 31, 2022 announced on January 27, 2022.

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, 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 8 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 December 31, 2021	34,393,200 shares	As of March 31, 2021		34,393,200 shares
2) Number of treasury shares				
As of December 31, 2021	2,274,939 shares	As of March 31, 2021		2,297,539 shares
3) Average number of shares issued and outstanding in each period				
Nine months ended December 31, 2021	32,106,053 shares	Nine months ended December 31, 2020		32,373,456 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 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 nine months of fiscal 2022

In the first nine months of fiscal 2022 (April-December 2021), economic activity began to recover as progress was made in COVID-19 vaccination despite the impact of the prolonged pandemic, which had continued since the previous fiscal year. However, the emergence of a new variant led to concern about stagnation due to a resurgence of COVID-19, and the outlook for the Japanese economy remains uncertain.

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 nine months under review increased 18.5% year on year to ¥30,075 million. In terms of profits, operating income stood at ¥2,782 million (increasing 151.3% year on year), and ordinary income came to ¥2,757 million (increasing 117.8% year on year) due to an increase in net sales. Net income attributable to owners of the parent company was ¥1,674 million (increasing 151.0% year on year).

Business results by segment are as follows.

< Men's business >

Sales in the men's business increased 11.2% year on year, to ¥16,963 million, as a result of eliminating the significant fall in sales in the first nine months 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 strong sales of new products and the promotion of measures to retain customers, etc.

< Ladies' business >

Sales in the ladies' business rose 33.7% year on year, to ¥8,813 million, as a result of eliminating the significant fall in sales in the first nine months 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 strong sales 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 29.1% year on year to ¥3,230 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 nine months of the previous fiscal year.

(2) Analysis of financial position

Assets, liabilities and net assets

(Assets)

As of the end of the third quarter, total assets were ¥45,676 million, an increase of ¥756 million compared with the end of the previous fiscal year. Current assets increased ¥392 million, mainly due to increases in accounts receivable - trade and merchandise and finished goods and non-current assets increased ¥364 million, primarily reflecting an increase in investments and other assets.

(Liabilities)

As of the end of the third quarter, liabilities totaled ¥20,602 million, an increase of ¥938 million compared with the end of the previous fiscal year. Although accounts payable - other, income taxes payable and provision for bonuses decreased, current liabilities increased ¥754 million mainly due to an increase in other current liabilities associated with the application of the accounting standard for revenue recognition.

(Net Assets)

As of the end of the third quarter, net assets were ¥25,073 million, a decrease of ¥181 million from the end of the previous fiscal year. 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

The Company revised its consolidated financial forecasts for the fiscal year ending March 31, 2022 on January 27, 2022. For details of the revision, see the Notice Regarding the Revision of the Financial Forecast for the Fiscal Year Ending March 31, 2022 announced on January 27, 2022.

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	19,073	18,602
Accounts receivable – trade	2,914	3,252
Securities	22	23
Merchandise and finished goods	2,394	2,780
Work in process	172	185
Raw materials and supplies	1,084	1,157
Others	930	982
Allowance for doubtful accounts	(5)	(5)
Total current assets	26,586	26,979
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,755	4,789
Others, net	3,919	3,911
Total property, plant and equipment	8,674	8,700
Intangible assets		
Goodwill	602	473
Others	519	436
Total intangible assets	1,121	909
Investments and other assets		
Others	8,772	9,451
Allowance for doubtful accounts	(235)	(364)
Total investments and other assets	8,536	9,086
Total non-current assets	18,332	18,697
Total assets	44,919	45,676

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Accounts payable – trade	327	363
Accounts payable – other	1,947	1,340
Income taxes payable	1,053	523
Advances received	6,464	6,661
Provision for bonuses	996	527
Provision for directors' bonuses	130	112
Provision for product warranties	31	36
Provision for point card certificates	107	—
Others	1,088	3,336
Total current liabilities	12,147	12,902
Non-current liabilities		
Net defined benefit liability	4,078	4,211
Asset retirement obligations	1,511	1,523
Others	1,927	1,965
Total non-current liabilities	7,517	7,700
Total liabilities	19,664	20,602
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,558	3,557
Retained earnings	19,075	18,778
Treasury shares	(1,289)	(1,277)
Total shareholders' equity	25,011	24,725
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	96	122
Foreign currency translation adjustment	(5)	17
Remeasurements of defined benefit plans	(35)	(14)
Total accumulated other comprehensive income	55	124
Subscription rights to shares	180	219
Non-controlling interests	8	3
Total net assets	25,255	25,073
Total liabilities and net assets	44,919	45,676

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

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	25,387	30,075
Cost of sales	8,731	9,460
Gross profit	16,655	20,615
Selling, general and administrative expenses	15,548	17,833
Operating income	1,106	2,782
Non-operating income		
Interest income	39	35
Foreign exchange gains	—	36
Subsidy income	160	15
Others	32	45
Total non-operating income	232	133
Non-operating expenses		
Interest expenses	6	—
Foreign exchange losses	28	—
Provision of allowance for doubtful accounts	2	128
Guarantee commission	23	20
Others	12	8
Total non-operating expenses	73	157
Ordinary income	1,266	2,757
Extraordinary income		
Gain on sales of non-current assets	1	0
Total extraordinary income	1	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Impairment loss	24	21
Total extraordinary losses	24	21
Income before income taxes	1,243	2,737
Income taxes – current	436	944
Income taxes – deferred	142	124
Total income taxes	579	1,068
Net income	664	1,668
Loss attributable to non-controlling interests	(2)	(5)
Net income attributable to owners of the parent company	667	1,674

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net income	664	1,668
Other comprehensive income		
Valuation difference on available-for-sale securities	141	25
Foreign currency translation adjustment	7	23
Remeasurements of defined benefit plans	30	21
Total other comprehensive income	179	70
Comprehensive income	843	1,738
(Comprehensive income (loss) attributable to)		
Owners of the parent company	846	1,743
Non-controlling interests	(2)	(5)

(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, 2020; hereinafter the "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter of the current fiscal year 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 of the current fiscal year are adjusted in retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policy is applied from this initial balance.

As a result, net sales in the first nine months under review decreased ¥173 million, and operating income, ordinary income and income before income taxes decreased ¥173 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 "Others" 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 of the current fiscal year 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, etc. has no impact on the quarterly financial statements.