

ARTNATURE

7823

Tokyo Stock Exchange Standard Market

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FISCO Ltd. Analyst

Kimiteru Miyata



FISCO Ltd.

<https://www.fisco.co.jp>

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■ Summary

Formulation of the new medium-term management plan, ARTNATURE Advance Plan

1. Proposes individual lifestyles as a total hair consultant company

ARTNATURE <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 278 stores nationwide (as of the end of March 2023) hold national qualifications and possess 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 centered on “reaction sales,” “repeat sales,” with strengths in product development capabilities, technical abilities, and customer service

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 is centered on promoting these products and services to customers through advertising media, including television and the internet; “reaction sales” to lead 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 backed 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. Aiming for net sales of ¥52.3bn for FY3/26 under ARTNATURE Advance Plan

The Company has formulated the medium-term management plan, ARTNATURE Advance Plan, starting in FY3/24, under which it aims to achieve FY3/26 net sales of ¥52.3bn with an ordinary income margin of 10.0% and ROE of 10.3%. Under the plan, the Company will focus on the three key themes of value creation, sustainability promotion, and dialogue with the market. In value creation, the Company will establish a position as a market leader in the domestic hair business industry and acquire and expand business in new areas. While it appears to have achieved the top share in the hair business market already, the Company aims to expand its share even further to 40% and capture top share in the market for women, where it is currently estimated to rank second. In addition, the Company has already made considerable progress in sustainability promotion and dialogue with the market, including establishment of a new plant in Bangladesh to help distribute risk, which had been concentrated in the Philippines, and deciding on a new dividend policy to strengthen shareholder returns.

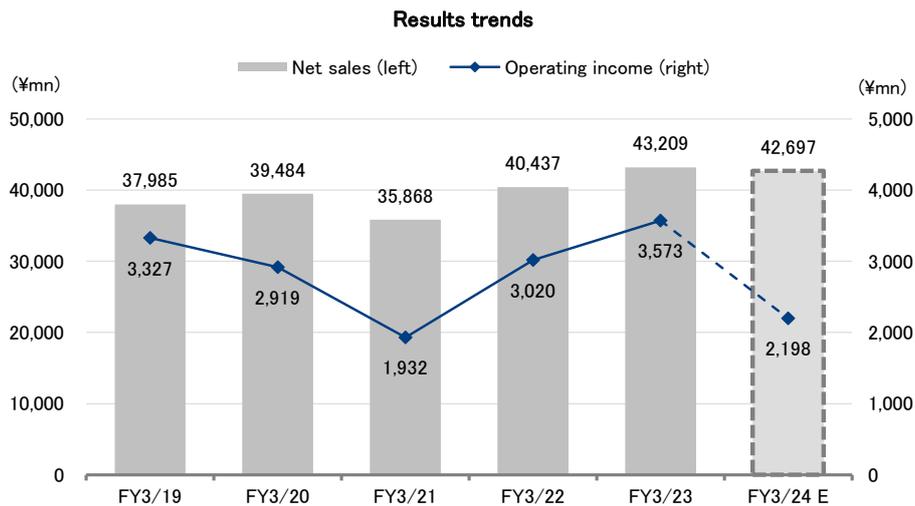
Summary

4. Lower sales and profits expected for FY3/24, despite forecast for second-highest net sales on record

In the 1H FY3/24 results, net sales totaled ¥21,270mn (down 0.1% year on year (YoY)) and operating income was ¥1,914mn (down 19.3%). Sales fell slightly short of target due to a struggle to introduce new customers, but operating income has been largely in line with the plan thanks to strong “repeat sales” and cost controls. The Company announced a revision of its results forecast for FY3/24 on January 30, 2024. Net sales are now forecast to be ¥42,697mn (down 1.2% YoY) and operating income is forecast to be ¥2,198mn (down 38.5%). The reasons for the revision were decreases expected for both sales and profits due to a slump in new sales in the Men’s and Ladies’ businesses, while profits are expected to decline due to the decrease in net sales as well as inability to recover increases in various expenses, mainly associated with high prices.

Key Points

- A comprehensive hair consultancy business that proposes individual lifestyles as a total hair consultant
- Under ARTNATURE Advance Plan, aiming for market share of 40% and net sales of ¥52.3bn in FY3/26
- Lower sales and profits expected for FY3/24, despite forecast for second-highest net sales on record



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

■ Company summary

A comprehensive hair consultancy business with a leading industry position

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 for men and women, and it holds the top position in the hair products and services sector. 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.

Continuing a proactive approach to management even in a challenging industry environment

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 manufacturer 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 sells 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. Meanwhile, the unexpectedly prolonged spread of the novel coronavirus (hereinafter the "COVID-19 pandemic") has created a challenging business environment for the industry as a whole, and the Company continues to take a proactive approach to management, including constant twice-yearly launches of new products. Currently, the Company has formulated a new medium-term management plan towards achieving its long-term vision, and is promoting growth strategies.

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 OLGIER
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 Mikawayaya Inc. (currently ART MIKAWAYAYA 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
2023	ARTNATURE Festival 2023 in Osaka, featuring a line-up of all popular products held Launched the Feelin Ultra Fit custom-made wig JULLIA OLGIER Touche de Beaute non-pinning wig launched sold exclusively through TV shopping channels Switched listing to Tokyo Stock Exchange Standard Market Launched REQUA PHANTOM, a new male hair-addition product employing technology from NICCA CHEMICAL CO., LTD.

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

The sector of hair products and services is expected to grow steadily after the COVID-19 pandemic

3. The sector of hair products and services

The hair business 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, the number of new-entrant SMEs selling inexpensive wigs grew, and competition from adjacent sectors became more intense, so that the hair business market changed direction again and began a long-term contraction. 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 said to be around ¥130.0bn due to the aging population and other factors. However, in FY2020, the sector again faced challenging circumstances under the impact of reduced opportunities to go out due to the COVID-19 pandemic.

In overcoming this difficult 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. Since FY2021, the market has been in the process of recovering from COVID-19, and the hair products and services sector appears set to grow steadily over the medium term due to the economic recovery and increased activity among seniors.

Business summary

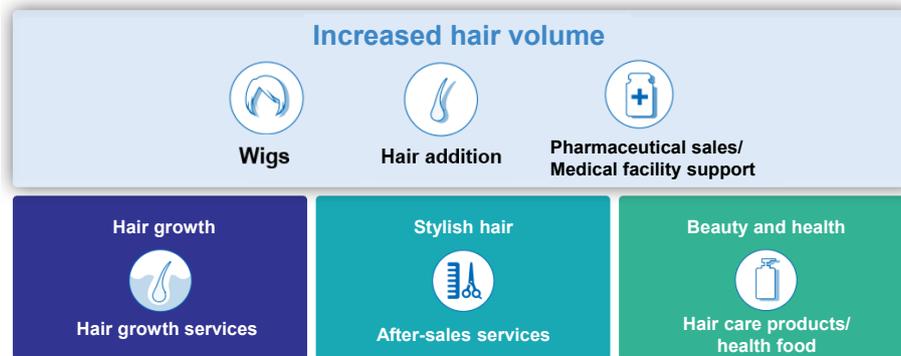
Provides various hair-related products and services

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 "increased hair volume." Hair growth services for people seeking "hair growth," after-sales services for people seeking "stylish hair," and hair care products and health food for people seeking "beauty and health." 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 Southeast Asia.

Business summary

Service domain



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 in 2006, which has enabled rapid, highly accurate measurements. 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. However, it can be said that these high-end, 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 five 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. 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. Under the ANCS brand, it sells medical wigs that use materials that are gentle on the skin and can be adjusted for hair volume and size through outlets including its nationwide stores, JULLIA OLGGER stores, and ANCS hair salons inside hospitals.

JULLIA OLGGER shop



Source: JULLIA OLGGER’s homepage

NAO-ART shop

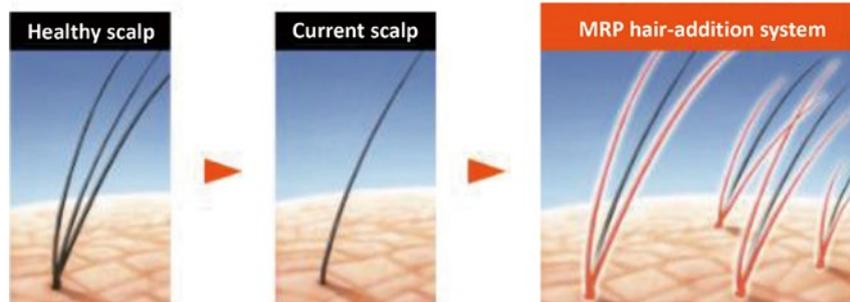


(3) Hair-addition products

In hair-addition products, the Company develops the MRP brand in ARTNATURE and the Beauty Up brand in Ladies’ ARTNATURE. The 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. The idea is to utilize ARTNATURE's knowledge on hair to provide products and services other than for medical practice.

(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.

(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.

Business summary

(7) Hair care products / health foods

The Company conducts sales via its own online retailing website and other companies' e-commerce malls, and utilizes media, to enable customers to easily purchase its high products. On its own online retailing website, the ARTNATURE ONLINE Shop, it sells products ranging from hair growth tonics to shampoos and conditioners, and beauty appliances. 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. Going forward, its policy is to expand sales channels to increase sales of hair care products and health foods.

Business model centered on “reaction sales” and “repeat sales”**2. Business model**

The Company's ARTNATURE business and JULLIA OLGIER business account for a majority of its sales. Their business model is characterized by attracting new customers and increasing “repeat sales” through “reaction sales” and “repeat sales” based on an infrastructure of proprietary 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.

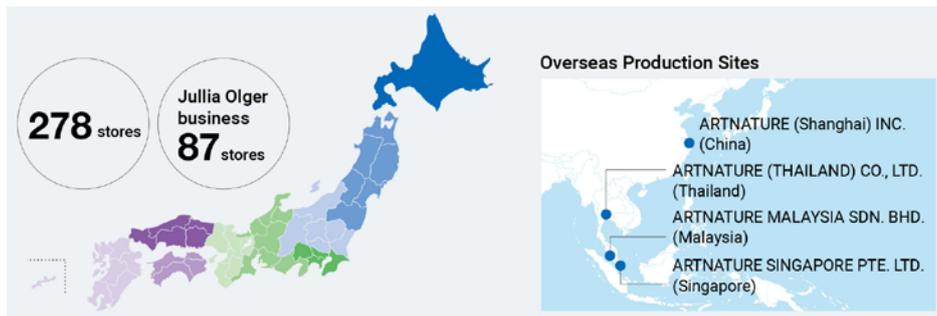
(1) Manufacturing system and store network

Underpinning the Company's leading position in the hair business market are a high-quality manufacturing system with over 50 years of history, a store network that covers all of Japan, and an infrastructure 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.

Business summary

Manufacturing takes place at two subsidiary plants in the Philippines, through which the Company maintains high quality and stable supply and works to reduce costs. This makes it possible to constantly launch new products that meet customer needs twice a year, in the spring and fall. 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, which combine an optimal environment with the best possible service. Store interiors are designed with a focus on relaxation and tranquility and feature individual rooms that respect customers’ sense of privacy. The Company has around 1,800 nationally qualified barbers and hairdressers, which account 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 278 ARTNATURE stores located nationwide in 47 prefectures, 87 JULLIA OLGIER stores for ready-made wigs, and sales outlets in 4 countries overseas (as of March 31, 2023). In November 2023, the Company dissolved its wholly owned subsidiary ARTNATURE (SHANGHAI) INC., which conducted sales of wigs at department stores in China, and withdrew from sales operations inside China in light of changes in the business environment due to factors such as the zero-COVID-policy and an economic slowdown. The impact on the Company’s results is expected to be negligible and we have a positive impression of the Company’s stance on careful selection of investments, even in markets where growth is expected.

Store network



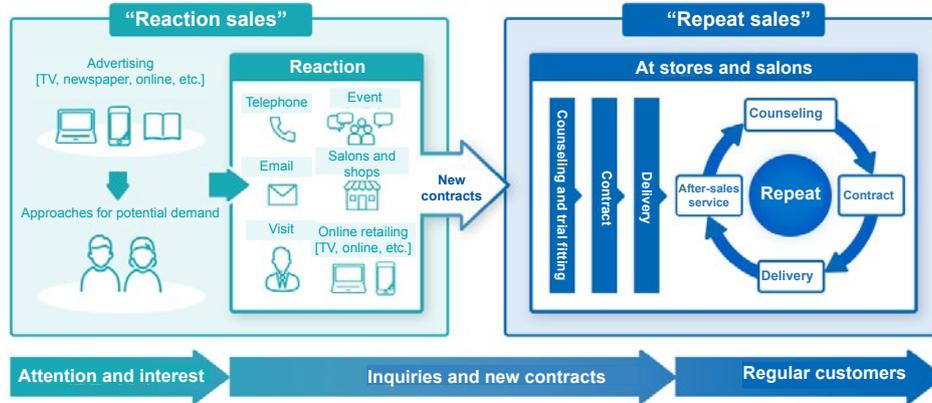
Source: The Company’s Corporate Profile

(2) “Reaction sales” and “repeat sales”

The aforementioned Company infrastructure, 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 various advertising media, such as TV, newspapers, and internet, suitable for 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, by providing a complete lineup of after-sales services, 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 Systems – 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 Systems – Requirements (JIS Q 15001) and has the vendor sign a confidentiality agreement. Additionally, onsite audits are conducted by Company personnel and regular reviews are also conducted of the vendors.

Strengths include product development capabilities, technical capabilities, and customer service capabilities, as well as brands and financial strength

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 factors including trust from having been in the wig business continuously for over 50 years, social credibility from being the industry's only publicly listed company, and its constant investment in advertising, is a major factor behind its differentiation from competitors. Another of the Company's strengths is its financial position. Even in FY3/23, affected by the protracted impact of the COVID-19 pandemic, it had good financial figures such as its equity ratio (53.5%) and free cash flow (maintained positive cash flow), and its profitability, such as its operating income margin (8.3%), also continued to be high. Going forward, the Company is expected to further widen the gap with rival companies, driven not only by aspects such as product development capability, technical capability, and customer service capability, but also through its brand power and its financial strength as well.

Business summary

Automation of hair transplantation and development of hybrid stores

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 by replacing large 3D scanners. The Company is currently continuing to improve and develop the scanners in order to make the equipment for measuring head shape even more accurate.

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. In September 2022, the Company opened Ladies' ARTNATURE Ginza Platinum Garden as its flagship store in Ginza. This one store sells both custom-made wigs and ready-made wigs, which had been sold at separate stores previously, with the first floor serving as sales space for ready-made wigs, and the second floor is a custom-made wig salon and lounge/event space. At these hybrid stores, which combine Ladies' ARTNATURE and JULLIA OLGIER, there are full-time executive counselors who respond in detail to hair-related concerns and consultations and help customers select the optimal wig. The stores also hold seminars on hair and related topics and wig trial fitting events and consultation sessions, which have been extremely well received. Hybrid stores have also been opened at Omiya Sogo, Hiroshima Sogo, and the Imperial Hotel, with a recent opening at Nihombashi Mitsukoshi in August 2023.

Introduction of automated wig transplantation devices

Present



Skilled craftspeople carefully transplant one hair at a time



Future



Automation of the hair transplantation process using automated wig transplantation device

Source: The Company's Corporate Profile

■ Medium-term management plan

Some degree of results from the previous medium-term management plan, with results surpassing pre-COVID-19 levels

1. Review of the previous medium-term management plan

Reviewing the results for FY3/23, the final year of the previous medium-term management plan, net sales were ¥43.2bn, the ordinary income margin was 8.2%, and ROE was 7.5%, all of which were below the initial targets of ¥44.2bn, 8.7%, and 8.7%, respectively. However, the results did surpass pre-COVID-19 levels, and net sales in particular achieved a new record high. As such, the plan can be said to have delivered some degree of quantitative results. On the other hand, in the qualitative evaluation, the new businesses such as the pharmaceutical sales business, medical facility support business, and standard wig sales business, continued to face challenges in pioneering new domains such as overseas markets.

For existing businesses, the Company aimed to stabilize and strengthen the customer base by emphasizing customer satisfaction; and although the number of salon visitors, both male and female, did not reach pre-COVID-19 pandemic levels and fell short of the initial plan, net sales reached new record highs and the Feelin custom-made wig for women launched in September 2021 helped to dramatically advance the business for women. In new business, the Company worked to expand recognition by expanding the product line-up and sales channels, and through brand penetration. The Company made progress on expanding the product lineup and sales channels, with the launch of a hair growth agent for women in August 2020 contributing to results. However, partly due to the impact of the COVID-19 pandemic, recognition did not expand. In addition, in terms of stepping into new business areas, although the Company considered various M&As to lay the foundation for the next generation, none led to an entry into new business areas.

Looking at the internal environment, although challenges remain in strengthening recruitment and business innovation, the Company made progress on personnel training and dialogue with the market. In terms of strengthening recruitment, the Company aimed to build a stable recruitment system and increase job satisfaction. Its measures included raising starting salaries for new hires and revising recruitment channels; however, challenges remain with employee retention support measures. In personnel training, the Company aimed to develop the on-site workforce and develop head-office staff who will lead the next generation. Its measures included reviewing training programs, implementing video/remote training sessions, as well as holding the nationwide Technical Competition 2022, and also developing head-office personnel for next-generation leadership. In efforts for business innovation, including updating routine business operations, information systems, and the human resource system, the Company digitized documents and visualized business workflows, but in its information system, its efforts only extended to identifying issues in digital transformation (DX), and it failed to achieve a radical renewal of the human resource system. In terms of dialogue with the market, the Company strengthened its IR initiatives, including providing external reports, hosting online briefings, and conducting investor surveys, and launched sustainability initiatives to fulfill the Sustainable Development Goals (SDGs), including plastic reduction, responding to the Task Force for Climate-Related Financial Disclosures (TCFD), and respecting human rights.

Continued demand expected in the market in the post-COVID-19 era

2. Assessment of the business environment

Currently the hair business market in Japan is on a long-term declining trend as mentioned above. In the short term, the market is recovering gradually from the COVID-19 pandemic, but the scale has not returned to pre-pandemic levels, and the Company's current environment contains both opportunities and risks. Opportunities include expansion in demand for wigs due to the revision of the Act on Stabilization of Employment of Elderly Persons, which will lead to growth in occasions for wig use, revision of the Act on the Promotion of Women's Active Engagement in Professional Life, which will lead to an increase in female customers due to workstyle reforms, expansion of the main customer base with increase in the number of active seniors, and an increase in opportunities for spending time outside arising from the reclassification of COVID-19 to a Class V infectious disease. Other opportunities arising from the Company's funding capabilities include the strengthening of technological capabilities and promotion of DX and the spread of social media, which will facilitate diversification of sales channels. Risks include a chronic labor shortage resulting in intensifying competition for hiring hairdressers, increases in cost of sales and SG&A expenses due to a weak yen and soaring resource prices, and a decrease in the number of customers in the future due to population decline. However, looking ahead, Japan's hair market is expected to see continuing demand, driven by increases in the number of active seniors, who are the main customer base, expansion of consumption after the COVID-19 pandemic, capturing of demand from the baby boomer junior generation, and the integration of digital and real life in the Japanese hair market.

Aiming for FY3/26 net sales of ¥52.3bn and ordinary income margin of 10%

3. New medium-term management plan, ARTNATURE Advance Plan

In 2017, the Company formulated a long-term vision A Decade to Open the Future based on its Group Motto "Your best smile is what we want," with a target year of 2027, the Company's 60th founding anniversary. The vision aims to open up a new future by shifting to a management style emphasizing customer satisfaction and profitability, while exploring new business areas. The long-term vision is divided into three medium-term visions. Under the 1st step, Medium-Term Management Plan 2017-2019, the Company strove to recover from a slump in earnings by building a solid foundation under the vision of "Pioneering the Next Generation: The Birth of ARTNATURE." Under the 2nd step, Medium-Term Management Plan 2020-2022, the Company embraced challenges to enhance business value in spite of an uncertain future, as explained previously, under the vision "Pioneering the Next Generation: ARTNATURE's Challenge." The 3rd step, Medium-Term Management Plan 2023-2025, ARTNATURE Advance Plan beginning in FY3/24, the Company intends to leverage its achievements and challenges to date to make a further leap forward towards realizing the long-term vision, which has now become much closer, aiming to achieve the vision "Pioneering the Next Generation: ARTNATURE's Leap Forward."

Medium-term management plan

Under ARTNATURE Advance Plan, the Company aims to reach the next major milestone of more than ¥50.0bn by increasing earnings, expanding market share, and developing its business in new areas, despite the rapidly changing operating environment. The Company will focus on the key themes of value creation, sustainability promotion, and dialogue with the market. In the area of value creation, it will work to establish a position as a market leader in the domestic hair business industry and to acquire and expand business in new areas. In sustainability promotion, it will work to create a sustainable society by promoting compliance with the Corporate Governance Code and implementing SDG initiatives. It will also aim to achieve sustainable growth in corporate value by improving labor productivity, production stability, and administrative efficiency. In dialogue with the market, the Company will work to further improve information disclosure and consider additional shareholder return policies. Through these measures, the Company aims to achieve the following financial targets in FY3/26: net sales of ¥52.3bn, ordinary income margin of 10.0% (ordinary income of ¥5.23bn), and ROE of 10.3%. The Company's non-financial indicators are a hair business market share of 40% or more, establishment of GHG emission target (by 2025), and a percentage of female managers at 22% or higher, decrease the wage gap between male and female employees by 1% or more than the current level, and percentage of male employees taking childcare leave of 82% or more.

ARTNATURE Advance Plan target indicators

Financial targets for FY3/26		Financial targets for FY3/26	
Net sales (CAGR)	¥52.3bn (6% or more)	Hair business market share	40% or more
Ordinary income margin	10.0%	GHG emissions target	To be established by 2025 (FY2021 domestic non-consolidated scope 1 & 2 emissions: 6,076 t-CO ₂)
ROE	10.3%	Percentage of female managers	22% or more
		Wage gap between male and female employees	Decrease gap by 1.0% or more than the current level
		Percentage of male employees taking childcare leave	82% or more

Source: Prepared by FISCO from medium-term management plan, ARTNATURE Advance Plan

Deployment of growth strategies for medium-term value creation

4. Growth strategies

Based on the environmental assessment and the Company's strengths as discussed above, it plans to deploy growth strategies for value creation. Having steadily captured demand even during the COVID-19 pandemic, the Company now has an opportunity to deploy an offensive strategy against its competitors. To this end, as described below, in the Men's business the Company will promote strategies to differentiate from its competitors. In the Ladies' business, it will create new points of contact with customers and foster collaboration among its businesses, while in the Ladies' ready-made wigs business it will expand store numbers and strengthen sales strategies for existing customers. In the Others business, the Company will step up initiatives to expand recognition, and also has plans to promote business development in new areas. In addition to this, while the Company is already estimated to have the top share in the hair business market (approximately 35%), the Company aims to expand its share to 40%, and achieve top position in the market for women, in which it has been a late entrant.

Medium-term management plan

In the Men's business, the Company plans to maintain a CAGR of 1.5% by promoting strategies to differentiate from other companies. To this end, where it has previously provided high-added-value projects, it will now develop competitively priced high-value-added products, and other initiatives will include revising the prices of existing models to manage rising costs of raw materials, create a salon environment where customers feel safe and secure, increase the number of employees to accommodate more customers, strengthen promotional activities for wigs (using new characters for commercials), and step-up initiatives to expand brand recognition beyond seniors. Competitors in the industry appear to be lacking the capacity to develop new products after suffering during the COVID-19 pandemic, and it seems that the Company has established an overwhelming lead over its rivals with its internally accumulated technologies in the area of wigs, where there is a particularly strong demand for high quality as the products are worn constantly, along with its development capability enabling the launch of new products twice a year.

In the Ladies' business, the Company plans to secure CAGR of 5.4% by generating new customer contacts and strengthening collaboration among businesses. Initiatives to achieve this include developing and launching a megahit that will surpass the success of Feelin, revising prices of existing models to manage the rising costs of raw materials, creating new customer contact opportunities, for example by enhancing the Company's app, developing hybrid stores and advertising by strengthening collaboration with the Ladies' ready-made wigs business, and developing new events. In particular, replacement demand for Feelin, a hit product launched during the previous medium-term management plan, is beginning to emerge, and securely capturing this demand is an important target. Moreover, in the area of creating new opportunities for customer contact, the Company's policy is to build new sales channels using social media and online sales in addition to "reaction sales" through advertising. In the area of collaboration with the Ladies' ready-made wigs business, limited coordination to date resulted in cases where alternative ready-made products were not proposed and contracts were lost. Therefore, the Company will seek to prevent opportunity losses by strengthening hybrid stores and so forth.

In the Ladies' ready-made wigs business, the Company plans to achieve CAGR of 12.7% by expanding the number of new stores and strengthening its sales strategy for existing customers. Initiatives to achieve this include introducing custom-made quality products to stimulate potential demand from users of ready-made wigs, revising prices of existing models to manage the rising costs of raw materials, opening new stores in areas the Company has not reached yet (nine more stores by the end of March 2026), strengthening collaboration among businesses for women, and strengthening the "repeat sales" system. In particular, the Company plans to bolster "repeat sales" by having customers return to the store for maintenance and encouraging further purchases at the appropriate time. To expand "repeat sales," it is important to have a system for securely following up on customers. By taking steps to improve productivity, such as reviewing the product supply system and the content of after-sales maintenance services, the Company will free up response time, and work to increase its successful contract rate by revising human resource training and customer approach methods.

In the Others business, in the online sales and overseas business, the Company will step up initiatives to expand recognition of the ARTNATURE brand, resume overseas travel and other sales activities in the post-pandemic period, and rigorously emphasize profitability in business operations. As a result, as described above, the Company has withdrawn from its sales business inside China. Moreover, in the new business domains, it will develop and expand business related to beauty and health, areas adjacent to its core business, aiming to achieve net sales of ¥3.0bn (up to ¥10.0bn) by FY3/26.

Medium-term management plan

In the area of sustainability initiatives, the Company has recently made an important decision to establish a new plant in Bangladesh. The purpose of establishing the plan is to distribute production risk due to concentration of production in the Philippines, which has experienced a prolonged lockdown during the COVID-19 pandemic, as well as to prepare against natural disasters and political risks, and to secure labor in conjunction with economic development. The new plant is also intended to secure production lines to cope with business expansion and increased production volume, and to increase the production capacity for custom-made and ready-made wigs. Meanwhile, the capital plan under the medium-term management plan calls for ¥3.0bn per year in aggressive investment in the Ladies' business, and aggressive business investment for sustainable growth, including relocation, renewal, and modification of existing stores and IT system investments. The plan also sets aside ¥1.0bn for improving shareholder returns, such as attractive dividends, which the Company plans to fund through operating cash flows estimated at around ¥3.0bn to ¥5.0bn per year. Furthermore, the Company is considering up to ¥10.0bn investment over three years for acquiring and expanding businesses in new domains, which it plans to fund through cash on hand (balance of cash and deposits at end of 1H FY3/24: ¥20.2bn).

Results trends

Based on the 3Q financial results and future outlook, the Company announced a revision to its results forecast

1. Summary of business results for 3Q FY3/24

In the 3Q FY3/24 results, net sales totaled ¥31,913mn (down 1.3% YoY), and operating income was ¥2,652mn (down 20.6%), ordinary income was ¥2,713mn (down 17.2%), and net income attributable to owners of parent was ¥2,002mn (down 0.7%). The Company announced a revision to its results forecast for FY3/24 on the same date as its financial results announcement. Based on its 3Q results and trends going forward, the Company now expects its net sales and profits to be lower than the initial plan.

Business results for 3Q FY3/24

	3Q FY3/23			3Q FY3/24			YoY
	Results	% of sales	Progress rate	Results	% of sales	Progress rate	
Net sales	32,337	100.0%	75.3%	31,913	100.0%	74.7%	-1.3%
Gross profit	22,029	68.1%	75.9%	21,454	67.2%	75.4%	-2.6%
SG&A expenses	18,690	57.8%	73.4%	18,802	58.9%	71.6%	0.6%
Operating income	3,338	10.3%	94.5%	2,652	8.3%	120.6%	-20.6%
Ordinary income	3,275	10.1%	94.3%	2,713	8.5%	118.0%	-17.2%
Net income attributable to owners of parent	2,017	6.2%	111.0%	2,002	6.3%	172.9%	-0.7%

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

Results trends

The Japanese economy is gradually normalizing, partly due to the reclassification of COVID-19 from Class II to Class V under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases in May 2023, with consumer spending and inbound tourism demand on a recovery track. On the other hand, prices are also rising due to factors such as the further depreciation of the yen and soaring prices of raw materials and energy. As a result, the future remains as uncertain as ever. Despite this business environment, the Company formulated the medium-term management plan, ARTNATURE Advance Plan, which starts in FY3/24, and plans to take on various challenges by leveraging its strengths with the aim of increasing earnings and growing its market share of the hair business industry, while acquiring and expanding businesses in new areas. This represents an aggressive advance of business activities with the goal of making a leap forward under the slogan “Pioneering the Next Generation: ARTNATURE.”

As a result, while the Company struggled to make sales for custom-made wigs for both men and ladies, sales of ladies’ ready-made wigs (JULLIA OLGIER) performed favorably. The struggle with custom-made wigs appears mainly to have been due to the upturn in personal consumption being focused mainly in travel and dining, with wigs taking a lower priority, a subsiding in the reaction to the ladies’ custom-made wig Feelin, two years after its launch, and a lack of innovative strategies for responding to the middle- to senior-aged customers, who are the main target. Furthermore, the favorable performance in ladies’ ready-made wigs (JULLIA OLGIER) appears mainly to have been due to an increase in sales at commercial facilities where new stores opened and an increase in the number of people trying them on following an increase in the number of store visitors, strengthening of the sales system for repeat customers by increasing staff motivation and sales skills and reviewing instore operations, and the recruitment of celebrities featured in successful sales promotions for ladies’ custom-made wigs to promote ready-made wigs also. In addition, while the decrease in other sales has worsened, this was mainly due to a focus on profitability in online sales, which are currently in a trial-and-error phase.

Net sales in 3Q FY3/24 by Men’s and Ladies’ businesses and by product and service

By Men’s and Ladies’ businesses (consolidated)	3Q FY3/23		3Q FY3/24		YoY
	Results	% of sales	Results	% of sales	
Men’s	17,519	54.2%	17,222	54.0%	-1.7%
Ladies’	13,506	41.8%	13,619	42.7%	+0.8%
Others	1,311	4.1%	1,071	3.4%	-18.3%

By product and service (stand- alone)	3Q FY3/23		3Q FY3/24		YoY
	Results	% of sales	Results	% of sales	
Custom-made wigs	17,217	55.2%	16,558	54.0%	-3.8%
Hair-addition products	3,258	10.4%	2,956	9.6%	-9.2%
Hair growth services	868	2.8%	820	2.7%	-5.6%
After-sales services	4,896	15.7%	5,332	17.4%	8.9%
Other products, etc.	2,191	7.0%	1,834	6.0%	-16.3%
JULLIA OLGIER	2,785	8.9%	3,174	10.3%	14.0%

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

As a result of the above, overall net sales decreased slightly. In addition, operating income recorded a double-digit decline as the cost of sales increased due to the impact of high commodity prices, mainly due to the yen’s depreciation and high raw material prices, and with an increase in personnel expenses due to the first increase in base pay, despite efforts to control various expenditures on the expenses front, such as advertising and promotion expenses.

Results trends

In addition, through its business activities, the Company has continued to launch new products on the market twice a year. Among these, the Feelin series has been a major sales driver, and in spring the Company launched Feelin 4, with even better ventilation and sense of fit, followed in autumn by Feelin Ultra Fit, offering even stronger wind resistance. At the strong-performing JULLIA OLGA, the Company launched the Touche de Beaute line of relatively affordable, non-pinning wigs (sold exclusively through TV shopping channels), and in Men's wigs, a new character was adopted for commercials starting in autumn. The Company also advanced aggressively with new store openings, relocations, and renewals, opening two new stores: JULLIA OLGER Aeon Mall Takasaki Store and Ladies ARTNATURE Mitsukoshi Nihombashi Salon. The Ladies ARTNATURE Mitsukoshi Nihombashi Salon store combined custom-made wigs and ready-made wigs at a department store with a strong high-end customer base to offer high convenience. The Company also increased its activity level in events, which included the JULLIA OLGER 15th Anniversary Gratitude Festival and the first general exhibition featuring a full lineup of popular products, ARTNATURE Festival 2023 in Osaka. These events appear to have been well received.

Steady progress on establishment of new plant and enhancement of shareholder returns

2. Progress on themes of the medium-term management plan

Although it has only just begun, the Company has made some progress with ARTNATURE Advance Plan. With regard to value creation, sales of ready-made wigs have been favorable, despite struggling to make new sales in custom-made wigs and lacking progress on acquisition of businesses in new areas. With regard to sustainability promotion, the Company has taken steps towards realizing a sustainable society, in the area of climate change by announcing its agreement with the TCFD recommendations, in the area of respecting human rights by formulating a Human Rights Basic Policy, and in the area of human capital by making improvements to working conditions of employees. Furthermore, in initiatives to create a sustainable production system, the Company has announced the establishment of a new plant in Bangladesh, as described above. In the area of dialogue with the market, the Company will change from the Prime Market to the Standard Market in order to engage in efforts to increase its corporate value over the medium to long term, and it has also established a new dividend policy to strengthen shareholder returns, which will be described below.

Results trends

Based on the recent financial results trends and future outlook, the Company revised its results forecast

3. FY3/24 results forecast

The Company announced a revision to its results forecast for FY3/24 on January 30, 2024. It is forecasting net sales of ¥42,697mn (down 1.2% YoY), operating income of ¥2,198mn (down 38.5%), ordinary income of ¥2,299mn (down 34.9%, and net income attributable to owners of parent of ¥1,158mn (down 38.2%). Net sales appear to have been affected by a slump in new sales caused by prioritizing of personal consumption on travel, events, and other items that had been suppressed now that COVID-19 has been reclassified as a Class V infectious disease, and an increase in new inquiries made online, which inhibits two-way communication, as the number of smartphone users increases among the senior generation, making it difficult to respond to them. In addition, on the expenses front, the forecast includes unexpected increases in expenses, such as a revision in the unit price for asset retirement obligations in light of recent commodity price increases and recording of impairment losses on stores and so forth. As a result, both sales and profit forecasts have been revised downward compared to the initial forecast. Furthermore, at this point, impairment losses have not yet been recognized, and the Company's policy is to promptly disclose the confirmation of any impairment losses that meet the standard for disclosure.

FY3/24 results forecasts

(unit: ¥mn)

	FY3/23		FY3/24		YoY
	Results	% of sales	Forecasts	% of sales	
Net sales	43,209	100.0%	42,697	100.0%	-1.2%
Gross profit	29,156	67.5%	28,464	66.7%	-2.4%
SG&A expenses	25,582	59.2%	26,265	61.5%	2.7%
Operating income	3,573	8.3%	2,198	5.1%	-38.5%
Ordinary income	3,534	8.2%	2,299	5.4%	-34.9%
Net income attributable to owners of parent	1,874	4.3%	1,158	2.7%	-38.2%

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

The external business environment continues to be uncertain, and the Company's environment is currently becoming increasingly adverse, with intensifying competition from new entrants, including others in the same industry and adjacent industries. Despite this environment, in 2H FY3/24, the Company will steadily carry out its medium-term management plan, ARTNATURE Advance Plan, with a view to capturing the true top brand position in the hair business industry and expanding its business into new areas related to beauty and health.

Sales forecast for FY3/24 by Men's and Ladies' business

(unit: ¥mn)

By Men's and Ladies' businesses (consolidated)	FY3/23		FY3/24		YoY
	Results	% of sales	Forecasts	% of sales	
Men's	23,237	53.8%	22,660	53.1%	-2.5%
Ladies'	18,195	42.1%	18,549	43.4%	1.9%
Others	1,775	4.1%	1,487	3.5%	-16.2%

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

Results trends

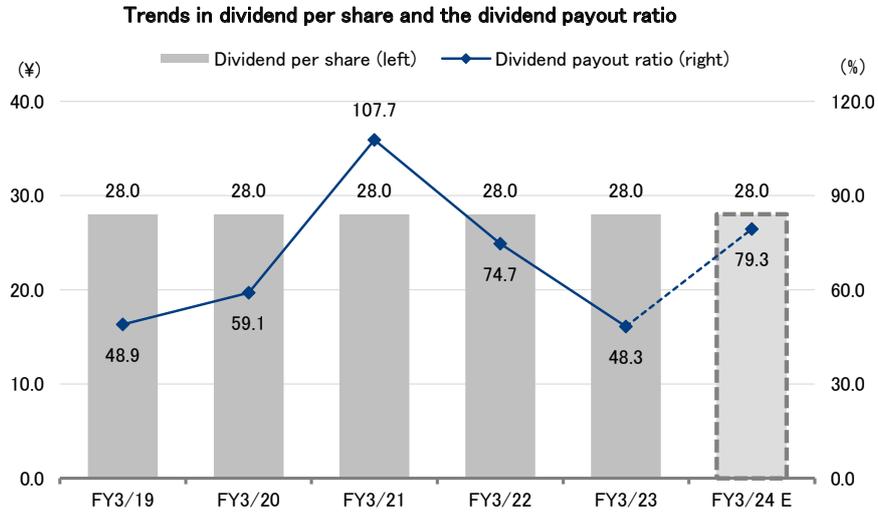
The Company' strategy for 2H aims recover new sales, which struggled during 1H, by launching key new products in each business and conducting new promotions. In the Men's business, the Company will develop various strategies and services centered around customer satisfaction, while focusing on differentiation strategies to increase new sales. Specifically, the Company will continue to develop and launch new products aiming to highlight its marketing capabilities, such as MRP RUSH PREMIUM, and it plans to start a new promotion strategy by introducing new commercial characters, and new tools aimed at streamlining sales talks and increasing customer satisfaction, executing projects to address issues across departments, and launching a new service focused on increasing customer satisfaction. In the Ladies' business, the Company will move aggressively to expand the business. Its measures will include capturing replacement demand for the custom-made wig Feelin, which was launched two years ago, and continuing to develop and launch new products designed to highlight its marketing capabilities, centered on preparing a system for hybrid stores and a system for customer referrals between custom-made and ready-made wigs. It will also introduce online sales consulting tools aimed at increasing customer satisfaction, deploy strategies attuned to consumer behavior after the summer heat, strengthen business operations that are responsive to customer needs, and continue to strengthen the system for "repeat sales." While securing net sales through the above measures, the Company will also secure profitability despite cost increases arising from strengthening recruitment and system investment, as well as concentrating management resources in growth areas, by controlling other expenses and also giving consideration to unexpected impacts such as transaction costs and foreign exchange rate fluctuations.

■ Returns to shareholders

Decision on a new dividend policy

In its basic policy on shareholder returns, the Company "recognizes that returning profits to shareholders is one of the most important management priorities, and will strive to maintain stable dividends to shareholders while giving consideration to expanding internal reserves to strengthen the management foundation, enhance its financial constitution, and support future business expansion, conducting dividends of surplus twice a year, as an interim and a year-end dividend." Furthermore, the Company has established a new dividend policy as follows: "Based on a consolidated payout ratio of 40% or higher, we will strive to increase dividends in line with consolidated performance (increase in increments of 1 yen), with the current annual dividend of 28 yen as the minimum limit. However, until we achieve an ROE of over 10%, the consolidated payout ratio will be set to 50% or higher. If consolidated net income fluctuates significantly, we may adjust the dividends to account for these fluctuations." In accordance with this dividend policy, the Company has forecast a dividend per share for FY3/24 of ¥28 for the year (¥14 at the end of 1H, and ¥14 at the fiscal year-end) following the revision of its results forecast announced on January 30, 2024.

Returns to shareholders



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



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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp