

July 16, 2013

ADERANS CO., LTD.
Financial Statements (Unaudited)
For the Fiscal Year ending February 28, 2014
(Translated from the Japanese original)

Corporate Information

Code: 8170 Listings: First Section of the Tokyo Stock Exchange
 (URL <http://www.aderans.com/english/index.html>)
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Anticipated date for filing *Shihanki Hokokusho* (a Japanese-language quarterly business report): July 16, 2013

Expected date of payment for dividends: —

Preparation of supplementary explanation material for quarterly financial results: Yes

Holding of presentation meeting for quarterly financial results: No (For institutional investors and analysts)

(Amounts rounded down)

1. Consolidated Performance (March 1, 2013 through May 31, 2013)**(1) Consolidated Operating Results (accumulated total)**

(Percentages represent changes from corresponding period of previous year)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss)	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended May 31, 2013	14,101	8.4	1,061	(39.6)	1,829	6.9	1,598	4.2
Three months ended May 31, 2012	13,011	10.4	1,758	262.4	1,712	231.8	1,534	682.6

(Note) Comprehensive income: 822 million yen (-61.0%) (as of May 31, 2013)
 2,110 million yen (+353.1%) (as of May 31, 2012)

	Net income (loss) per share	Fully diluted net income per share
	Yen	Yen
Three months ended May 31, 2013	43.44	43.37
Three months ended May 31, 2012	41.68	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of May 31, 2013	58,974	30,772	51.9
As of February 28, 2013	40,904	30,219	73.6

(Note) Equity capital: 30,620 million yen (as of May 31, 2013)
 30,086 million yen (as of February 28, 2013)

2. Payment of Dividends

	Dividends per share				
	First quarter-end	At end of first half	Third quarter-end	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Fiscal 2013	—	0.00	—	10.00	10.00
Fiscal 2014	—				
Fiscal 2014 (Estimated)		0.00	—	10.00	10.00

(Notes) Change in the current quarter to dividend forecast: None

3. Anticipated Consolidated Results for Fiscal 2014 (March 1, 2013 through February 28, 2014)

(Percentages represent changes from corresponding period of previous year)

	Net sales		Operating income (loss)		Ordinary income (loss)	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
First two quarters	30,000	21.2	1,800	(29.8)	1,700	(34.6)
Full year	64,500	26.2	4,100	15.2	4,000	3.9

	Net income (loss)		Net income (loss) per share
	Millions of yen	%	Yen
First two quarters	1,600	(31.6)	43.47
Full year	3,600	9.1	97.80

(Notes) Change in the current quarter to consolidated results forecast: None

Note

(1) Changes in significant subsidiaries during this quarter: Yes

(Changes in specified subsidiaries involving change in consolidation scope)

Newly included: 1 (HC (USA) Inc.) Excluded: None

(2) Application of simplified accounting and specific accounting: Yes

(3) Changes in accounting policy, changes in accounting estimate and retrospective restatement

1. Changes associated with revision of accounting standards, etc: Yes

2. Changes other than 1: None

3. Changes in accounting estimates: Yes

4. Restatements: None

(4) Number of shares outstanding (Common stock)

1. Number of shares outstanding at end of period (including treasury stock)

40,213,388 shares at May 31, 2013

40,213,388 shares at February 28, 2013

2. Number of treasury shares at end of period

3,405,451 shares at May 31, 2013

3,405,226 shares at February 28, 2013

3. Average number of shares (Quarterly cumulative period)

36,808,040 shares at May 31, 2013

36,808,292 shares at May 31, 2012

Note: Status of quarterly review procedures

This quarterly financial report falls outside the quarterly review procedures stipulated by the Financial Instruments and Exchange Law, and as of the disclosure date of this report, review procedures for quarterly financial statements as described under the Financial Instruments and Exchange Law had not been completed.

Note: Comment regarding appropriate use of performance forecasts, and other special remarks

Forward-looking statements, such as performance forecasts, described in these materials are based on information currently available to the Company and certain reasonable assumptions by management, and these forward-looking statements are not guarantees of future performance. Actual business results could be significantly different than expected due to a variety of factors.

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1. Qualitative information on quarterly consolidated performance

(1) Consolidated business results

In the first quarter—March 1, 2013 to May 31, 2013—of fiscal 2014, ending February 28, 2014, the domestic economy began to show signs of improvement in business conditions. The yen dropped and stock prices rose, mainly because of aggressive economic and financial policies introduced by the new administration of Prime Minister Shinzo Abe, and corporate performance forecasts acquired a rallying tone.

Against this backdrop, the Aderans Group worked to achieve announced performance targets for fiscal 2014, the last year of its medium-term management plan. In the domestic market, efforts were directed toward reinforcing the revenue base by increasing the number of new clients through proactive advertising and promotional activities and by enhancing customer services at salons. Overseas, the emphasis was on boosting profitability by expanding market share. On the cost front, approaches to attract new clients in Japan inevitably caused advertising and personnel expenses to go up, but the Group will continue to pursue effective cost control for other selling and administrative expenses to keep expenses in check.

For the first quarter, net sales grew 8.4% year-on-year, to ¥14,101 million. Operating income tumbled 39.6%, to ¥1,061 million, but ordinary income increased 6.9%, to ¥1,829 million. Net income for the quarter rose 4.2%, to ¥1,598 million.

A summary of business results by each reporting segment is provided below.

Our reporting segments have been reclassified, effective from the first quarter of fiscal 2014.

(i) The Aderans Business (Custom-made wigs)

Sales increased on the men's side of the Aderans Business, with solid interest from new customers for hair-growth services and hair volumizing products and steady demand for custom-made wigs from repeat customers. Sales of custom-made wigs for women were also good, buoyed by a positive response to television commercials and favorable interest at try-on events held at department stores all over Japan. The segment posted sales of ¥7,251 million, up 8.7% year-on-year, and operating income of ¥2,258 million, up 0.8%.

(ii) Fontaine Business (Ready-made wigs)

In the Fontaine Business, sales climbed 5.3%, to ¥2,210 million, and operating income tumbled 31.8% year-on-year, to ¥566 million. Improved business results are mainly due to the introduction of new products at department stores and directly operated salons and a positive effect from new store openings by retailers that offer Fontaine products.

(iii) Bosley Business (Hair transplantation)

The Bosley Business, which undertakes hair transplantation services in North America, generated ¥2,272 million in sales, up 2.0% year-on-year. Inquiries were down, owing to a reduction in the budget for advertising over the corresponding period a year ago, and sales retreated on a local currency basis. However, a weaker yen led to higher sales on a yen basis. Operating income tumbled 68.7%, to ¥78 million.

(iv) Overseas Wig Business

In Europe, the focus is on medical-use wigs. Sales in this region got a boost from the inclusion of Le Nouvel Espace Beauté SA, which became an Aderans subsidiary in fiscal 2013. Sales were up in the United States and China, as well. Overall, segment sales settled at ¥1,648 million, climbing 35.2% year-on-year, but the segment's operating loss reduced to ¥63 million in the first quarter of fiscal 2014 from ¥73 million in the corresponding quarter of fiscal 2013.

(v) Other Operations

Other Operations is essentially the beauty supply route business. In the previous fiscal year, these operations were included in the Fontaine Business. The market environment remained challenging in the first quarter of fiscal 2014, leading to a drop in sales of beauty supplies.

In the end, the segment saw sales slip 0.5%, to ¥1,431 million, and instead of operating income, at ¥32 million in the first quarter of fiscal 2013, the segment showed an operating loss of ¥171 million.

(2) Consolidated financial position

Total assets stood at ¥58,974 million as of May 31, 2013, up ¥18,069 million from February 28, 2013, primarily owing to an ¥11,477 million increase in other intangible fixed assets and a ¥5,743 million increase in goodwill.

Total liabilities stood at ¥28,202 million, up ¥17,516 million, from February 28, 2013, largely because of a ¥9,449 million increase in long-term loans payable and a ¥4,549 million increase in deferred tax liabilities.

Total net assets settled at ¥30,772 million, up ¥553 million, from February 28, 2013, mainly reflecting a ¥1,317 million increase in earned surplus.

(3) Consolidated performance forecasts

There is no change to the consolidated performance forecasts announced on April 15, 2013.

2. Miscellaneous

(1) Significant changes in subsidiaries

The company acquired all shares in HC (USA) Inc. and the 10 subsidiaries and included them in the scope of consolidation from the first quarter of fiscal 2014.

(2) Application of special accounting treatment for quarterly consolidated financial statements

a. Calculation of income tax expense

The Company reasonably estimated the effective tax rate following application of tax-effect accounting on income before income taxes for the fiscal year, which includes the first quarter of fiscal 2014, and applied this percentage to quarterly income before income taxes to determine income tax expense.

(3) Changes in accounting policy, changes in accounting estimates and retrospective restatement

a. Change in depreciation method

As a result of revision to the Corporation Tax Law, regarding tangible fixed assets acquired on or after March 1, 2012, the Company has adopted the depreciation method based on the Corporation Tax Law after revision, effective from the first quarter of fiscal 2014. The effect of this change on operating income, ordinary income, and income before income taxes in the current first quarter is minor.

4. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

	As of February 28, 2013	As of May 31, 2013
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and deposits	14,001	9,395
Notes and accounts receivable - trade	4,961	5,691
Commercial goods and finished goods	2,882	3,883
Work in process	235	249
Raw materials and supplies	858	850
Deferred tax assets	851	851
Other current assets	1,266	1,455
Allowance for doubtful accounts	(213)	(240)
Total current assets	24,845	22,136
Fixed assets		
Tangible fixed assets	9,047	11,408
Buildings and structures (net)	2,993	4,379
Land	4,081	4,088
Lease assets (net)	805	791
Other tangible fixed assets (net)	1,167	2,150
Intangible fixed assets	3,072	20,292
Goodwill	522	6,265
Other intangible fixed assets	2,549	14,027
Investments and other fixed assets	3,939	5,136
Investment securities	207	998
Deferred tax assets	259	483
Guarantee deposits	3,222	3,384
Other fixed assets	825	822
Allowance for doubtful accounts	(576)	(553)
Total fixed assets	16,059	36,837
Total assets	40,904	58,974

	As of February 28, 2013	As of May 31, 2013
	Millions of yen	Millions of yen
Liabilities		
Current liabilities		
Notes and accounts payable – trade	483	997
Current portion of long-term loans payable	8	1,064
Accounts payable	2,129	1,820
Accrued corporate and other taxes	242	316
Deferred tax liabilities	2	3
Advances received	1,105	2,158
Allowance for employees' bonuses	1,172	627
Allowance for product guarantees	78	84
Allowance for returned goods	132	112
Other allowances	21	12
Other current liabilities	2,475	4,072
Total current liabilities	7,852	11,269
Fixed liabilities		
Long-term loans payable	1	9,450
Lease obligations	335	328
Deferred tax liabilities	56	4,605
Employees' severance and retirement benefits	1,064	1,179
Asset retirement obligations	1,019	1,018
Other fixed liabilities	356	350
Total fixed liabilities	2,833	16,933
Total liabilities	10,685	28,202
Net Assets		
Shareholders' equity		
Common stock	12,944	12,944
Capital surplus	13,157	13,157
Earned surplus	14,268	15,586
Treasury stock	(7,020)	(7,021)
Total shareholders' equity	33,349	34,666
Other comprehensive income		
Unrealized gains (losses) on investment securities	11	26
Foreign currency transaction adjustments	(3,274)	(4,072)
Total other comprehensive income	(3,262)	(4,046)
Stock acquisition rights as stock options	48	61
Minority interests	83	90
Total net assets	30,219	30,772
Total liabilities and net assets	40,904	58,974

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

Quarterly consolidated statements of income

	Three Months ended May 31, 2012	Three Months ended May 31, 2013
	Millions of yen	Millions of yen
Net sales	13,011	14,101
Cost of sales	2,238	2,753
Gross profit	10,773	11,347
Selling, general and administrative expenses	9,015	10,286
Operating income (loss)	1,758	1,061
Non-operating income	52	1,037
Interest received	4	13
Dividends received	0	0
Rent on real estate	14	14
Foreign exchange gains	—	981
Others	33	27
Non-operating expenses	97	268
Interest paid	8	49
Rent on real estate	3	4
Commissions paid	19	213
Foreign exchange losses	51	—
Transfer to allowance for doubtful accounts	11	—
Others	5	1
Ordinary income (loss)	1,712	1,829
Extraordinary income	0	0
Gains on sales of fixed assets	—	0
Others	0	—
Extraordinary expenses	102	17
Losses on store closing	—	12
Losses on sales of fixed assets	0	—
Impairment loss	84	—
Valuation loss on investment securities	14	—
Others	3	4
Income before income taxes	1,610	1,813
Income taxes	76	214
Income before minority interests	1,534	1,598
Net income (loss)	1,534	1,598

Quarterly consolidated statements of comprehensive income

	Three Months ended May 31, 2012	Three Months ended May 31, 2013
	Millions of yen	Millions of yen
Income before minority interests	1,534	1,598
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	3	14
Foreign currency translation adjustments	572	(790)
Total other comprehensive income	576	(776)
Comprehensive income	2,110	822
Comprehensive income attribute to:		
shareholders of Aderans Co., Ltd.	2,110	815
Minority interests	—	7

(3) Notes on going concern assumptions

Not applicable

(4) Segment Information

I. First Three Months of Fiscal 2013 (March 1, 2012 through May 31, 2012)

1. Information related to sales and profit or loss amounts for each reporting segment

Millions of yen

	Reporting segments				Other Operations (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income amount (Note 3)
	Aderans Business	Fontaine Business	Bosley Business	Overseas Wig Business				
Sales								
External customers	6,667	2,099	2,228	1,218	797	13,011	—	13,011
Inter-segment	—	—	—	0	640	640	(640)	—
Total	6,667	2,099	2,228	1,219	1,437	13,652	(640)	13,011
Segment income (loss)	2,241	830	250	(73)	32	3,281	(1,523)	1,758

- Notes:
1. The classification “Other Operations” represents business segments not included under other reporting segments and is mainly the beauty supply route business.
 2. The ¥ (1,523) million segment income (loss) adjustment includes ¥ (29) million in inter-segment elimination and ¥ (1,494) million in corporate expenses not included in any segment. Primary corporate expenses are general administrative expenses which are not associated with reporting segments.
 3. Segment income has been reconciled with operating income on the quarterly Consolidated Statements of Income.

2. Information regarding impairment loss and goodwill on fixed assets for each reporting segment

Not applicable.

II. First Three Months of Fiscal 2014 (March 1, 2013 through May 31, 2013)

1. Information related to sales and profit or loss amounts for each reporting segment

Millions of yen

	Reporting segments				Other Operations (Note 1)	Total	Adjustment (Note 2)	Quarterly Consolidated Statements of Income amount (Note 3)
	Aderans Business	Fontaine Business	Bosley Business	Overseas wig Business				
Sales								
External customers	7,251	2,210	2,272	1,648	719	14,101	—	14,101
Inter-segment	—	—	—	—	711	711	(711)	—
Total	7,251	2,210	2,272	1,648	1,431	14,813	(711)	14,101
Segment income (loss)	2,258	566	78	(63)	(171)	2,668	(1,607)	1,061

- Notes:
1. The classification “Other Operations” represents business segments not included under other reporting segments and is mainly the beauty supply route business.
 2. The ¥ (1,607) million segment income (loss) adjustment includes ¥ (16) million in intersegment elimination and ¥ (1,590) million in corporate expenses not included in any segment. Primary corporate expenses are general administrative expenses which are not associated with reporting segments.
 3. Segment income has been reconciled with operating income on the quarterly Consolidated Statements of Income.

2. Matters regarding changes in reporting segments

Previously, the Company had three reporting segments—the Aderans Business, the Fontaine Business and the Bosley Business—but from the first quarter of fiscal 2014, a fourth segment—the Overseas Wig Business—has been added.

This change reflects a review of overseas subsidiaries according to performance results, prompted by the addition of HC (USA) Inc. to the Group as a subsidiary from the first quarter of fiscal 2014.

Also, the beauty supply route, which previously fell under the Fontaine Business, is now under Other Operations due to organizational changes.

Segment information for the corresponding quarter of fiscal 2012 is reflected under the new segment names.

3. Information regarding impairment loss and goodwill on fixed assets for each reporting segment

(Required changes in goodwill amount)

Goodwill of \$61 million was booked under the Overseas Wig Business following the change of HC (USA) Inc. to subsidiary status during the first quarter of fiscal 2014. The amount of goodwill is a provisional amount.

(5) Notes on significant changes to shareholders' equity

Not applicable

(6) Business combination

On July 13, 2012, an Aderans Group company signed a letter of intent—a basic agreement—with Regis Corporation for all shares in HC (USA), Inc., which is involved in the wig and hair transplantation businesses in the United States. In accordance with this agreement, all shares were acquired on April 9, 2013, through BosHC Co., a U.S subsidiary of an Aderans subsidiary, and the company became a wholly owned subsidiary.

1. Outline of business combination

(1) Name and business of the acquired company

Name of the acquired company: HC (USA) Inc.

Business: Custom-made wigs, healthy hair-growth services, hair transplantation

(2) Reason for business combination

The Company is working to enhance corporate value by pursuing business from a customer perspective as the head of a global group fully engaged in total hair-related solutions emphasizing the provision of wigs, men's and ladies' haircuts and healthy hair-growth services as well as hair transplantation services.

In Aderans' business strategies for the Group, the overseas wigs business and the hair transplantation business are priority business domains that form a vital core of operations. But both markets are rife with competitors, making the battle for clients very fierce. As part of its effort to reinforce business results from operations in North America, Aderans authorized the acquisition of all shares in HC (USA) Inc., which is involved in wig and hair-transplantation businesses. The company was then made a subsidiary.

(3) Business combination date: April 9, 2013

(4) Legal form of business combination: Acquisition of shares

(5) Company name after company combination: No change

(6) Voting ratio acquired: 100%

(7) Main reason for deciding to acquire the company

Due to cash purchase of shares in Regis Corporation by Aderans.

2. Period covering results of acquired company that are included in the quarterly Consolidated Statements of Income for the quarterly period in review

The quarterly Consolidated Statements of Income for the quarterly period in review does not include the performance results of the acquired company.

3. Acquisition price of the acquired company and the breakdown

Acquisition price: US\$163.5 million

4. Amount of goodwill, reason for goodwill, amortization method and period

i. Amount of goodwill

US\$61 million

This is a provisional amount since allocation and other factors related to the acquisition cost have not been finalized yet.

ii. Reason for goodwill

Goodwill derives from the difference between the acquisition cost and the net amount allocated to acquired assets and accepted liabilities, with the excess amount booked as goodwill.

iii. Amortization method and period

The Company plans to amortize the amount equally over the period that the effects of investment appear. The amortization period remains under review at this time.

(7) Significant subsequent events

First Three Months of Fiscal 2014 (March 1, 2013 through May 31, 2013)

(Issuance of Subscription Rights as Stock Options)

The Company announces that the Board of Directors resolved at a meeting held on May 23, 2013 to issue subscription rights as stock options (hereafter, "Subscription Rights") for the Company's directors and employees.

1. Number of people to be granted Subscription Rights and number of Subscription Rights allotted

Directors of the Company: 6 people, 1,035 subscription rights

Employees of the Company: 53 people, 1,895 subscription rights

2. Type and number of shares to be issued upon exercise of Subscription Rights

Common stock: 293,000 shares (the number of shares granted per unit shall be 100)

3. Allotment Date of Subscription Rights: July 5, 2013

4. Amount of money to be paid in exchange for Subscription Rights

No payment of money shall be required in exchange for Subscription Rights. Note that Subscription Rights shall be granted as consideration for the execution of duties.

5. Value of assets invested upon exercise of Subscription Rights

138,100 yen per Subscription Rights

6. Exercise period for Subscription Rights

From July 5, 2015 to May 23, 2023

7. Matters concerning the increase in paid-in capital and capital surplus upon exercise of Subscription Rights

a) The amount of paid-in capital increase in the event new shares are issued upon exercise of Subscription Rights shall be half of the maximum amount of capital increase calculated in accordance with Article 17, Paragraph 1 of Regulations for Corporate Accounting, and any fractions less than a whole yen upon calculation shall be rounded up.

b) An increase in capital surplus in the event shares are issued upon exercise of Subscription Rights shall be the amount obtained by subtracting the amount of paid-in capital increase from the maximum amount of capital increase, as set forth in a) above.