

ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

Important disclosures
and disclaimers appear
at the end of this document.

FISCO Ltd. Analyst
Hiroyuki Asakawa

■ Domestic business prospering due to effective advertising and sales promotion

Since its establishment, Aderans has remained the top provider of wigs in Japan in terms of sales. The company produces and sells custom-made wigs for men and women and ready-made wigs for women in Japan, the US, the main countries of Europe, China, Taiwan and Singapore. It also offers a wide range of hair care services other than wigs, including hair-growth services, hair-volumizing products, hair growth, partial hair supplementation, and hair transplantation services and hair care products.

Due to a decline in the Japanese population and to changes in the mentalities of Japanese men, the Japanese market for men's wigs has been shrinking, and it will probably continue to shrink. However, Aderans holds the top share of the Japanese market for women's wigs and plans to expand sales of these wigs over the medium to long term by attracting new customers and by expanding its overseas business, in which it greatly outstrips Japanese competitors. Japanese women in their 60s comprise the company's main customer segment, but Aderans is also appealing to women in their 40s with low-cost, easy-to-use, readymade wigs. In April 2013, Aderans purchased HC (USA) Inc., the largest provider of wigs in the US.

In the first half of the fiscal year through February 2015, i.e., in H1 FY2/15, Aderans' domestic business remained strong due to the company's effective advertising and sales promotion activities. HC (USA) Inc. increased its sales and contributed to consolidated revenue in overseas business. Because Aderans' depreciation and amortization cost increased with the purchase of HC (USA) Inc., its operating profit declined by 21.7% year on year (y o y) in H1 FY2/15, but Aderans considers earnings before interest expense, taxes, depreciation and amortization expenses (EBITDA) the most meaningful measure of profit, and EBITDA increased by 18.4% y o y to ¥3,495 mn in H1 FY2/15.

It is difficult to appraise the business performance of Aderans because of factors such as the increase in depreciation and amortization cost cited above and the company's use of tax-effective accounting. EBITDA seems to be an appropriate measure by which to judge a company like Aderans, which is pursuing profit growth through aggressive acquisitions. EBITDA is widely used globally, and by discounting this profit by applying a normal tax rate, a measure of net profit reflecting the company's true strength can be calculated. Using this measure of net profit, we estimate Aderans' FY2/15 ROE at 14.3%, which is close to the 15% ROE target that many companies worldwide are striving to attain. If equity investors were aware of this strength, Aderans' share price valuations would probably rise.

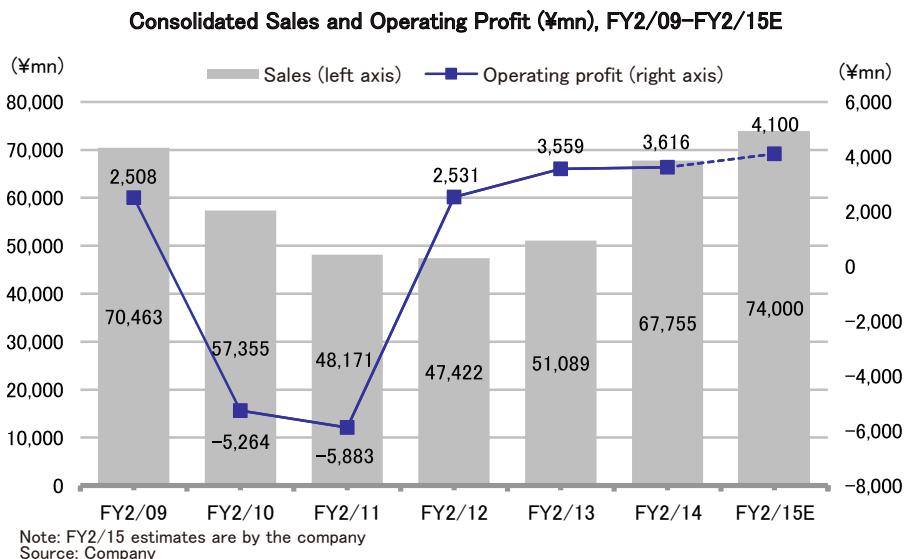
■ Check Point

- Overseas wig sales grew strongly in H1 FY2/15, reflecting the full-scale contribution of HC (USA) Inc.
- As investor awareness of Aderans' EBITDA and ROE based on EBITDA grows, the company's share price valuations are likely to rise
- The company plans to pay a dividend of ¥15 per share for FY2/15, and there appears to be ample room to raise the dividend

ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14



■ Company Outline

While expanding business in Japan, Aderans entered overseas markets at earlier stage of history

(1) Company History

Aderans was founded in 1968 by current representative director, chairman and president Nobuo Nemoto and two colleagues as a specialized provider in custom-made wigs for men. In 1985, the company entered the women's wig market on a large scale by buying Fontaine Co., which had been selling the Fontaine brand of ready-made wigs for women since 1970 as a subsidiary of Kaneka Chemical Co., now called Kaneka Corp. (4118).

While expanding its domestic operations, Aderans entered overseas markets at earlier stage of history. In 1979, it set up its first overseas subsidiary, Aderans Corporation of America. Aderans had to revamp its US business about a decade later, but it set up production bases in Asia and bought sales companies in Europe.

After peaking in the early 2000s, the company's sales and profits declined, primarily because the growth of Japan's wig market slowed, the share of Japan's hair care market accounted for by the wig market declined, and new wig makers entered the market. The company restructured its operations in Japan and overseas, overcame the economic impact of the global financial crisis after the Lehman shock and other factors, returned to profitability in FY2/12, and has expanded its profits since then.



ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

History

Sept. 1968	Started business
Mar. 1969	Established as a company
Mar. 1970	Mr. Nobuo Nemoto became president. Established Fontaine Co. to sell the Fontaine brand of ready-made wigs for women, which was made by Kaneka Chemical Co., now Kaneka Corp. Kaneka Chemical Co. Bought Fontaine Co. in August 1970.
Jul. 1979	Established Aderans Corporation of America
Aug. 1985	Took a controlling equity interest in Fontaine Co., making it a subsidiary
Sept. 1985	Registered shares on Japan's over-the-counter equity market
Apr. 1990	Started operating custom-made wig salons for women only
Jan. 1992	Established Aderans Europe
Mar. 1992	Made the Comaflex companies in France, Germany and Belgium subsidiaries
Nov. 1994	Established Aderans Holding Co., now Aderans America Holding Co.
Dec. 1994	Registered shares of Fontaine Co. on Japan's over-the-counter equity market
Aug. 2001	Made Bosley Medical Institute (now Bosley) and Bosley Medical Canada Co. subsidiaries
Jan. 2002	Established Aderans Philippines
Sept. 2007	Aderans renamed Aderans Holdings Co., and Aderans Co. reestablished as an operating company.
Sept. 2010	Aderans Holdings merged Aderans Co. and Fontaine Co. and renamed the merged company Unihair Co.
Feb. 2011	Mr. Nobuo Nemoto becomes president and chairman of Unihair Co.
July 2011	Unihair Co. renamed Aderans Co.
Sep. 2012	Made Le Nouvelle Espace Beauté in France a subsidiary
April 2013	HC (USA) Inc., of the US, made a subsidiary
May 2014	Aderans Lao Co., Ltd. established

Source: Fisco Inc. from company information and other materials

Company developed Aderans brand of custom-made wigs and Fontaine brand of ready-made wigs

(2) Description of Businesses

The company's main product is wigs. The wig market in Japan is divided by gender and by product specification, i.e., ready-made or custom-made. The company includes in its Aderans business the sale of all custom-made wigs in Japan and related services, for both men and women. Its Fontaine business sells ready-made wigs for women in Japan.

The company sells other brands of ready-made wigs for women in Japan, depending on the sales channel. However, its main sales channel is department stores, through which, it sells the Fontaine brand, and the company refers to all of its brands of ready-made wigs for women as the Fontaine brand.

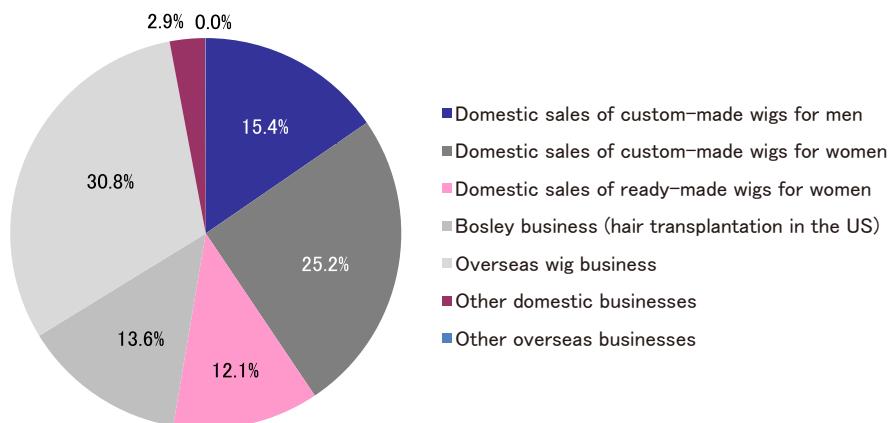
Overseas, Aderans develops both wig and hair transplantation businesses. The wig business, both custom-made and ready-made, is undertaken mainly by HC (USA) Inc., which was acquired by Aderans in April 2013 and operates as Hair Club Inc. Aderans also develops wig business in Europe and East Asia, primarily China. The hair transplantation service is provided by subsidiary Bosley, Inc., of the US. Unlike the wig business, hair transplantation is a surgical procedure of attaching healthy hair follicles, which include hair roots, into the scalp. This procedure costs less overseas than it does in Japan, and there is a steady demand for it overseas. Bosley, Inc. is the most experienced and most trusted provider of hair transplantations, with an approximately 10% share of the US market.

ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

Breakdown of H1 FY2/15 Sales by Product and Market



Source: compiled by Fisco based on company materials

█ Growth Strategy

Focus on the promotion for increasing target customers in the Japanese market for women's wigs

The growth of different segments of the wig market varies substantially, depending on such factors as population change, perceptions of the need for hair care, and as a result of these factors, changes in the segment of a population that is likely to use hair restoration services. Based on its analyses and forecasts, Aderans has concluded that there is significant growth potential in the Japanese market for women's wigs and in the overseas wig market. Consequently, the company is concentrating on expanding its profits in these markets. We concur with the company's analysis and believe that its growth strategy is rational and is likely to succeed.

(1) Domestic Wig Business for Women

The age range of Japanese women who buy wigs is 40–89. As detailed in the table below, this segment of Japan's population is projected to grow by 3% in the 10 years through October 2023. Aderans holds the top share of the Japanese market for women's wigs, of about 40%, and in order to expand its profits, it is promoting sales routes through which it can increase sales to the target market segment.



ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

Japan's Female Population Over Age 10 and Under Age 90, 2013–2033

Age range	Current	10 years after		20 years after	
	Oct. 2013	Oct. 2023	change	Oct. 2033	change
10–19	5,811	5,094	-12.3%	4,285	-15.9%
20–29	6,518	5,884	-9.7%	5,237	-11.0%
30–39	8,504	6,394	-24.8%	5,913	-7.5%
40–49	8,760	8,137	-7.1%	6,321	-22.3%
50–59	7,843	8,780	11.9%	7,988	-9.0%
60–69	9,492	7,504	-20.9%	8,521	13.6%
70–79	7,470	8,784	17.6%	7,017	-20.1%
80–89	4,682	5,982	27.8%	7,115	18.9%
Total (10–89)	59,080	56,559	-4.3%	52,396	-7.4%
Total of wig-buying ages (40–89)	38,247	39,187	2.5%	36,962	-5.7%

Note: Population projections are based on the most likely fertility and mortality rates

Sources: Compiled by Fisco, Inc. based on Population Estimates by the Statistics Bureau of the Ministry of Internal Affairs and Communications and Population Projections for Japan as of January 2012 by the National Institute of Population and Social Security Research

In Japan, Aderans sells its custom-made wigs through directly operated salons, which numbered 149 at the end of August 2014. It sells its ready-made wigs through department stores, directly operated shops, and major distribution chains. At the end of August 2014, there were 204 such outlets. Aderans prices its ready-made wigs much lower than its custom-made wigs to entice women to try the ready-made wigs initially, hoping that they will advance to custom-made wigs after they become accustomed to wearing a wig.

Sales Routes for Ready-made Wigs for Women in Japan

Sales route	No. of outlets		Brand	Remarks
	2/2014	8/2014		
Department stores	148	151	Fontaine	Fontaine Company gives demonstrations at areas of department stores for this purpose. In H1 FY2/15, 151 demonstrations were given.
Major distribution chains	13	22	Swanee by Fontaine	The Swanee by Fontaine brand is sold through Aeon stores. A new brand, René of Paris by Fontaine, was launched on Sept. 26, 2014 for sale through stores operated by Mitsukoshi Isetan Holdings.
Directly operated shops	30	31	Fontaine	
Beauty salons	–	–	Fontaine	Direct sales to beauty salons totaled ¥727mn in H1 FY2/15.
Total	191	204		

As Aderans operates corners in major of Japan's department stores that sell the Fontaine brand of ready-made wigs for women, the company has a strong connection with these department stores. So Aderans holds try-on fairs at department stores across Japan where products are displayed and easily accessible to touch and try on under the connection. Through this approach, the company avoids paying for the event space and its only cost is for the transportation of products, tables, chairs and promotional materials. Therefore, Aderans aggressively hold the try-on events in the current fiscal year. In H1 FY2/15, Aderans held 151 events. This was 74% more than the 87 demonstrations it gave in H1 FY2/14.

In H1 FY2/15, Aderans added 13 new outlets to its sales channels, and it plans to add 10 more in H2 FY2/15. It is concentrating on increasing the number of outlets at major distribution chains because it has fewer outlets at these locations than at department stores, and therefore, a greater potential for increase. While it sold through corner of 151 department stores at the end of H1 FY2/15, it sold through only 22 outlets at major distribution chains.

More importantly, the brand of ready-made wigs sold at major distribution chains, called Swanee by Fontaine, and the brand sold at small to medium-sized stores in residential area, called René of Paris by Fontaine, are cheaper than the Fontaine brand sold at department stores. They are targeted to price-sensitive women in their 40s, who may eventually decide to buy a custom-made wig.

We encourage readers to review our complete legal statement on "Disclaimer" page.

**ADERANS**

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

The René of Paris by Fontaine brand is new. The first store to sell it began to do so on September 26, 2014. This store is part of a small to medium-sized stores called MI Plaza. MI Plaza is operated by Mitsukoshi Isetan Holdings (3099), and targets consumers in their 50s–60s. However, Aderans is also trying to attract more customers in this age group with low-priced products.

These marketing efforts by Aderans yielded results in H1 FY2/15, when sales of custom-made wigs for women grew 5.1% y o y to ¥9,374mn and sales of ready-made wigs for women increased 7.6% y o y to ¥5,229mn.

Sales of Wigs and Related Services for Women, FY2/13–H1 FY2/15

Product line	FY2/13	FY2/14			FY2/15	
		H1 FY2/14	H2 FY2/14	FY2/14	H1 FY2/15	y o y
Custom-made wigs (Aderans business)						
Sales to new customers	6,287	3,069	3,408	6,477	3,242	5.6%
Sales to repeat customers	9,620	5,847	5,354	11,201	6,131	4.9%
Total sales	15,907	8,916	8,763	17,679	9,374	5.1%
Ready-made wigs						
Sales through dept. stores, major distribution chains, and directly operated shops (Fontaine business)	8,536	3,998	4,989	8,987	4,502	12.6%
Sales to beauty salons	2,441	860	1,504	2,364	727	-15.5%
Total sales	10,977	4,858	6,493	11,351	5,229	7.6%

Overseas wig sales grew strongly in H1 FY2/15, reflecting the full contribution of HC (USA) Inc.**(2) Overseas Wig Business**

In H1 FY2/15, Aderans' overseas wig business generated sales of ¥11,656mn, which was 69.4% more than its sales in H1 FY2/14 (the above net sales is based on a simple sum of the financial data for subsidiaries in overseas wig business. Therefore, the figures may differ from the sales of reporting segment in the financial statements). This large growth reflected the full-term contribution of HC (USA) Inc. Although Aderans purchased this company in April 2013, it contributed only three months of sales in H1 FY2/14. US sales of wigs by company other than HC (USA) Inc. fell 17.0% y o y, while wig sales in Europe rose 15.3% y o y, and wig sales in other overseas markets increased 26.6% y o y.

Overseas Sales of Wigs and Related Services, FY2/13 – H1 FY2/15

Market	Company	Business	FY2/13	FY2/14			FY2/15	
				H1 FY2/14	H2 FY2/14	FY2/14	H1 FY2/15	y o y
North America	AHG	ready-made wigs	2,174	1,220	1,440	2,660	1,013	-16.3%
	HC (USA) Inc.	custom-made wigs	–	3,235	7,407	10,642	7,815	–
	North America total		2,174	4,455	8,847	13,302	8,828	98.1%
Europe	–	–	3,051	2,161	2,279	4,440	2,492	15.3%
Other	–	–	283	264	283	547	335	26.6%
Total			5,509	6,881	11,409	18,290	11,656	69.4%

Aderans has greater expectations of HC (USA) Inc. than for its other overseas wig subsidiaries. HC (USA) Inc. holds the largest share of the US market for custom-made wigs for men and generates annual sales of about ¥16bn. This subsidiary also produces custom-made wigs for women, but 80% of its sales come from wigs for men, and only 20% from wigs for women. It operates about 100 stores throughout the US.

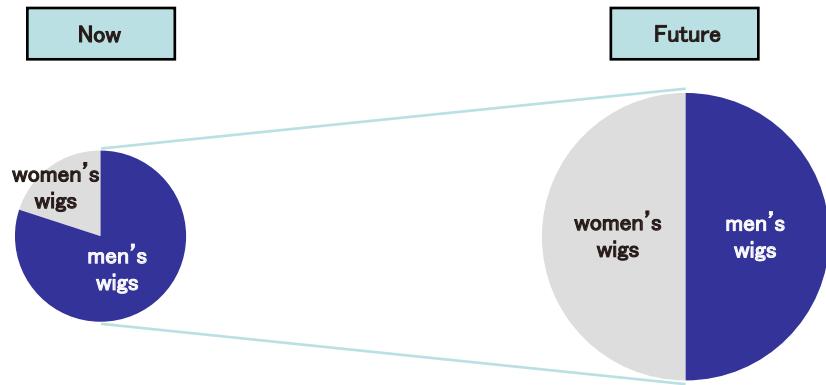
ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

The management of Aderans foresees great growth potential for HC (USA) Inc., especially when compared with the severe share competition in Japan's wig market. The first source of growth it anticipates, based on its experience in Japan, is in expanding HC (US) Inc.'s sales to women to at least match those of its sales to men. We agree that this is a realistic target. Aderans aims to achieve this goal as soon as possible. If it accomplishes this as planned, it could easily add about ¥10bn to annual sales.

Image of Sales Breakdown for HC (USA) Inc. by Gender



The second source of growth Aderans projects for HC (USA) Inc. is in increasing the number of its stores. In Japan, Aderans sells its custom-made wigs through 155 salons, which is more than 50% higher than the number of stores operated by HC (USA) Inc. Considering that the land area of the US is many times the land area of Japan, HC (USA) Inc. is much less represented in the US than Aderans is in Japan. Of course, it is important to train personnel to effectively operate new stores. Therefore, Aderans is planning to increase the number of HC (USA) Inc. stores by about 10 per year. This restrained rate of expansion should reduce the business risk inherent in expansion.

The third way in which Aderans plans to expand the business of HC (USA) Inc. is to increase the type of products it offers. Specifically, the company plans to test the US market for its receptiveness to hair-volumizing products. In Japan, Aderans sells these products under the Pinpoint brand. In the US, consumers tend to migrate from hair-growth services directly to wigs, but Aderans believes that these consumers may be attracted to hair-volumizing products because they cost less than wigs and are easy to apply.

HC (USA) Inc. appears to be growing. It is impossible to compare its H1 FY2/15 results with its results in H1 FY2/14 because it contributed to Aderans' sales and profits for only the final three months of H1 FY2/14. However, based on its monthly sales growth, it appears that its sales in US dollars are growing by about 4% per year. Aderans overhauled the advertising of HC (USA) Inc. and some of its other functions, which may be contributing to the subsidiary's growth. In H1 FY2/15, HC (USA) Inc.'s cost of depreciating tangible and intangible fixed assets, plus its cost of amortizing goodwill totaled ¥1,361mn. Therefore, the company reported an operating loss of ¥597mn for H1 FY2/15. However, its EBITDA, which reflects its cash from operations, amounted to ¥764mn, and its EBITDA margin was almost 10%.



Business Results of HC (USA) Inc., H1 FY2/14–H1 FY2/15

	(¥mn)			
	FY2/14		FY2/15	H1 FY2/15
	H1 FY2/14	H2 FY2/14	FY2/14*	H1 FY2/15
Sales	3,235	7,407	10,642	7,815
Operating profit	-352	-395	-747	-597
Depreciation & amortization cost	606	1,310	1,916	1,361
EBITDA	253	915	1,168	764

Note: H1 FY2/14 contained only 3 months of operations, so FY2/14 contained 9 months.

Source: Company materials

ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

■ Business Trends and Financial Analysis

As investor awareness of Aderans' EBITDA and ROE based on EBITDA grows, the company's share price valuations are likely to rise

(1) Financial Analysis

At the end of FY2/14, the company's ROE was 13.0%, which is relatively high for a Japanese company, but we estimate that its ROE at the end of FY2/15 will drop to 11.7%. The company uses tax-effective accounting, which should raise its net profit compared to its level without tax-effective accounting, implying that its ROE in FY2/15 without tax-effective accounting would be lower than 11.7%. However, we take a different view.

The company's depreciation and amortization cost makes it difficult to analyze its financial condition. Because Aderans is growing through acquisitions, its profit margins from the operating profit margin to lower levels on an income statement will remain low for several years. Thus, the company places greater importance on its EBITDA than on other profit levels.

We estimate Aderans' FY2/15 EBITDA margin at 11.3%, which would be about double its operating profit margin based on the company's forecasts. Discounting our estimate of EBITDA by the company's effective tax rate of 35% produces a measure of net profit, exclusive of extraordinary factors, that is a more precise measure of the company's strength than the net profit forecast by the company. This procedure yields a "real" net profit of ¥5,426mn. Applying this figure to our estimate of total equity at the end of FY2/15 produces an ROE of 14.3%, which Aderans considers to be its actual ROE. The company's share price valuations, however, indicate that equity investors do not share this appraisal. If investors were to understand these measures, the company's valuations would probably rise.



ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

Financial Measures for Aderans, FY2/12–FY2/15E

		FY2/12	FY2/13	FY2/14	FY2/15E	Remarks
Principal measures	Sales	(¥mn)	47,422	51,089	67,755	74,000 Company forecast
	SG&A costs	(¥mn)	36,330	38,145	50,321	54,959 Assumes same SG&A cost ratio in FY2/15 as in FY2/14
	Operating profit	(¥mn)	2,531	3,559	3,616	4,100 Company forecast
	Recurring profit	(¥mn)	2,547	3,849	4,481	4,000 Company forecast
	Net profit	(¥mn)	1,134	3,301	4,281	4,400 Company forecast
	Total assets	(¥mn)	35,697	40,904	63,892	62,604 Assumes same asset turnover ratio in FY2/15 as in H1 FY2/15 (1.17x)
	Total equity	(¥mn)	26,145	30,086	35,560	39,408 Assumes dividend payments are the only external flow from equity
	Depreciation & amortization cost	(¥mn)	1,170	1,061	3,149	4,248 Assumes FY2/15 cost is twice the cost in H1 FY2/15
Measures of profitability and operational efficiency	Return on equity	%	4.4%	11.7%	13.0%	11.7% ROE
	Recurring profit/total assets	%	6.8%	10.0%	8.6%	6.3% ROA
	Net profit margin	%	2.4%	6.5%	6.3%	5.9% Margin
	Total assets/total equity	(times)	1.46	1.36	1.60	1.69 Leverage
	Asset turnover ratio	(times)	1.26	1.33	1.29	1.17
	Recurring profit margin	%	5.4%	7.5%	6.6%	5.4%
	Gross profit margin	%	81.9%	81.6%	79.6%	79.8%
	SG&A cost ratio	%	76.6%	74.7%	74.3%	74.3%
Growth rates	Operating profit margin	%	5.3%	7.0%	5.3%	5.5%
	Sales	%	—	—	—	16.0% Estimated average annual rates in FY2/13–FY2/15
	Operating profit	%	—	—	—	17.4% Estimated average annual rates in FY2/13–FY2/15
	Recurring profit	%	—	—	—	16.2% Estimated average annual rates in FY2/13–FY2/15
	Net profit	%	—	—	—	57.1% Estimated average annual rates in FY2/13–FY2/15

Both Aderans and Fontaine businesses are steadily recovering

(2) H1 FY2/15 Results

In H1 FY2/15, Aderans' consolidated sales increased by 20.6% y o y to ¥37,246mn, but its operating profit fell 21.7% to ¥1,371mn, its recurring profit dropped 15.9% to ¥1,652mn, and its net profit plunged 48.4% to ¥1,394mn. The main cause of the operating profit decline was a large increase in depreciation and amortization cost accompanying the purchase of HC (USA) Inc. in April 2013. The company's EBITDA increased by ¥543mn, or by 18.4% y o y to ¥3,495mn in H1 FY2/15 from ¥2,952mn in H1 FY2/14. Net profit in H1 FY2/14 increased owing to a drop in income taxes-deferred after examining recoverability of deferred tax assets, but the current H1 didn't have these extraordinary factors, which led to lower net profit.

In Japan, sales in the Aderans business (custom-made wigs for men and women) and in the Fontaine business (ready-made wigs for women) increased y o y in H1 FY2/15, reflecting the effectiveness of the company's spending on advertising and sales promotions.

Of particular interest is the 7.1% y o y rise in sales of custom-made wigs for men in Japan to ¥5,739mn in H1 FY2/15. Sales to repeat customers grew 4.0% y o y to ¥5,125mn and sales to new customers surged 43.1% y o y to ¥613mn. The acquisition of new customers is essential to the business of selling custom-made wigs because without new customers, the number of repeat customers dwindles. The number of new customers for sales of custom-made wigs for men in Japan has been declining for several years. However, half-year sales of ¥613mn indicate full-year sales of more than ¥1.2bn, which would be the highest level in six years. We consider this strong recovery in sales to new men's customers to be the most significant development in the company's H1 FY2/15 results and intend to monitor this recovery hereafter.

We encourage readers to review our complete legal statement on "Disclaimer" page.

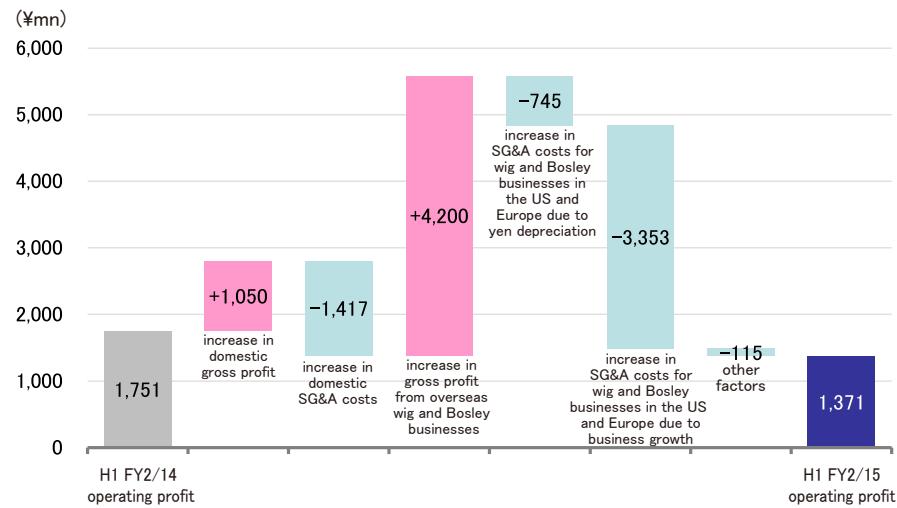
ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

HC (USA) Inc. increased its US dollar sales by about 4% y o y in H1 FY2/15 to the equivalent of ¥7,815mn. This growth is one reason that Aderans expects this subsidiary to lead growth over the medium term. HC (USA) Inc. reported an operating loss of ¥597mn for H1 FY2/15 but an EBITDA of ¥764mn.

Factors (¥mn) Contributing to Aderans' Consolidated Operating Profit in H1 FY2/15



Sales seen growing due to full contribution of HC (USA) Inc. and recovery of domestic businesses

(3) Company Forecasts for FY2/15

For FY2/15, Aderans left its original forecasts unchanged, projecting a 9.2% y o y rise in sales to ¥74.0bn, a 13.4% increase in operating profit to ¥4.1bn, a 10.7% decline in recurring profit to ¥4.0bn, and a 2.8% upturn in net profit to ¥4.4bn.

It expects sales to rise as a result of the full contribution of HC (USA) Inc. and of the recovery in its domestic businesses. The rise in sales should lift operating and recurring profits, but the company projects a decline in recurring profit because it does not expect a non-operating foreign exchange gain similar to the gain it reported in FY2/14.

The wig business is stronger in winter than in other seasons, and the company's forecasts reflect this seasonality, as they originally called for sales of ¥33bn in H1 FY2/15 and ¥41bn in H2 FY2/15. The company reported sales of ¥37,246mn for H1 FY2/15 but left its forecast for H2 unchanged. It seems possible that FY2/15 sales will exceed the company's forecast by the amount by which H1 sales surpassed its forecast.

However, we doubt that profits in FY2/15 will surpass the company's forecasts because the yen is weaker against the US dollar than the average rate of ¥97 that the company had assumed in making its forecasts. Aderans expects HC (USA) Inc. to suffer another operating loss in H2 FY2/15, but this loss could be larger than Aderans expects if converted into yen at the current yen-dollar exchange rate.



ADERANS
8170 Tokyo Stock Exchange
First Section

27-Nov.-14

Summary Consolidated Income Statement, FY2/11– FY2/15E

	FY2/11	FY2/12	FY2/13	FY2/14			FY2/15E			(¥mn)
				H1	H2	Full-year	H1	H2e	Full-year	
Sales	48,171	47,422	51,089	30,875	36,880	67,755	37,246	36,754	74,000	
y o y	-16.0%	-1.6%	7.7%	-	-	32.6%	20.6%	-0.3%	9.2%	
Gross profit	38,877	38,862	41,704	24,629	29,309	53,938	30,009	-	-	
y o y	-12.6%	-0.0%	7.3%	-	-	29.3%	21.8%	-	-	
SGA costs	44,760	36,330	38,145	22,878	27,443	50,321	28,638	-	-	
y o y	-10.0%	-18.8%	5.0%	-	-	31.9%	25.2%	-	-	
ratio	92.9%	76.6%	74.7%	74.1%	74.4%	74.3%	76.9%	-	-	
Operating profit	-5,883	2,531	3,559	1,751	1,865	3,616	1,371	2,729	4,100	
y o y	-	-	40.6%	-	-	1.6%	-21.7%	46.3%	13.4%	
margin	-12.2%	5.3%	7.0%	5.7%	5.1%	5.3%	3.7%	7.4%	5.5%	
Recurring profit	-6,317	2,547	3,849	1,964	2,517	4,481	1,652	2,348	4,000	
y o y	-	-	51.1%	-	-	16.4%	-15.9%	-6.7%	-10.7%	
margin	-13.1%	5.4%	7.5%	6.4%	6.8%	6.6%	4.4%	6.4%	5.4%	
Net profit	-23,213	1,134	3,301	2,705	1,576	4,281	1,394	3,006	4,400	
y o y	-	-	191.1%	-	-	29.7%	-48.5%	90.7%	2.8%	
margin	-48.2%	2.4%	6.5%	8.8%	4.3%	6.3%	3.7%	8.2%	5.9%	
EPS (¥)	-630.65	30.83	89.69	73.50	42.82	116.32	37.87	81.67	119.54	
DPS (¥)	0.00	0.00	10.00	0.00	10.00	10.00	0.00	15.00	15.00	
Capital expenditure	2,150	1,249	1,782	491	1,520	2,011	1,355	-	-	
Depreciation & amortization expense	1,894	1,170	1,061	1,201	1,948	3,149	2,124	2,176	4,300	
EBITDA	-4,001	3,701	4,621	2,952	3,814	6,766	3,495	4,905	8,400	
EBITDA margin	-8.3%	7.8%	9.0%	9.6%	10.3%	10.0%	9.4%	13.3%	11.4%	

Summary Balance Sheet, FY2/10 – H1 FY2/15

	FY2/10	FY2/11	FY2/12	FY2/13	FY2/14	H1 FY2/15	(¥mn)
Current assets	26,738	19,669	20,390	24,845	27,111	27,889	
Cash and deposits	15,381	11,174	11,495	14,001	10,755	11,222	
Sales receivable	4,120	4,016	4,220	4,961	6,248	5,642	
Other current assets	7,237	4,479	4,675	5,883	10,108	11,025	
Fixed assets	36,631	19,876	15,306	16,059	36,780	35,207	
Tangible fixed assets	21,913	11,930	8,725	9,047	11,723	11,819	
Intangible fixed assets	4,363	3,336	2,661	3,072	20,292	18,540	
Long-term investments and other fixed assets	10,354	4,609	3,919	3,939	4,764	4,847	
Total assets	63,369	39,546	35,697	40,904	63,892	63,097	
Current liabilities	9,813	10,189	6,467	7,852	11,036	10,659	
Accounts payable	473	389	257	483	1,174	1,196	
Short-term borrowings	-	-	-	8	1,051	1,050	
Other current liabilities	9,340	9,800	6,210	7,361	8,811	8,413	
Fixed liabilities	4,137	3,884	3,068	2,833	17,032	16,867	
Bonds and long-term borrowings	-	-	-	1	8,662	8,137	
Other fixed liabilities	4,137	3,884	3,068	2,832	8,370	8,730	
Shareholders' Equity	52,186	28,958	30,048	33,349	37,348	38,501	
Capital stock	12,944	12,944	12,944	12,944	12,944	12,944	
Additional paid-in capital	13,193	13,036	13,157	13,157	13,157	13,157	
Retained earnings	33,035	9,966	10,934	14,268	18,268	19,226	
Treasury stock	-6,986	-6,987	-6,987	-7,020	-7,022	-6,826	
Other equity	-2,863	-3,486	-3,902	-3,261	-1,788	-3,128	
Stock acquisition rights	-	-	15	48	154	196	
Minority interests	95	0	0	83	109	1	
Total net assets	49,418	25,472	26,161	30,219	35,823	35,570	
Liabilities & net assets	63,369	39,546	35,697	40,904	63,892	63,097	

We encourage readers to review our complete legal statement on “Disclaimer” page.

Summary Cash Flow Statement, FY2/10–H1 FY2/15

	FY2/10	FY2/11	FY2/12	FY2/13	FY2/14	H1 FY2/15	(¥mn)
Cash flow from operations	-1,886	-7,186	-61	4,378	6,325	2,696	
Cash flow from investing	7,610	3,579	689	-2,238	-18,036	-1,134	
Cash flow from financing	-3,064	-23	-85	-180	9,036	-945	
Gain or loss on translation of foreign currency cash and deposits	582	-448	-215	279	-401	-92	
Change in cash and deposits	3,242	-4,078	328	2,239	-3,076	525	
Cash and deposits at the start of the fiscal year	11,873	15,115	11,037	11,365	13,604	10,528	
Cash and deposits at the end of the fiscal year	15,115	11,037	11,365	13,604	10,528	11,053	

ADERANS

8170 Tokyo Stock Exchange
First Section

27-Nov.-14

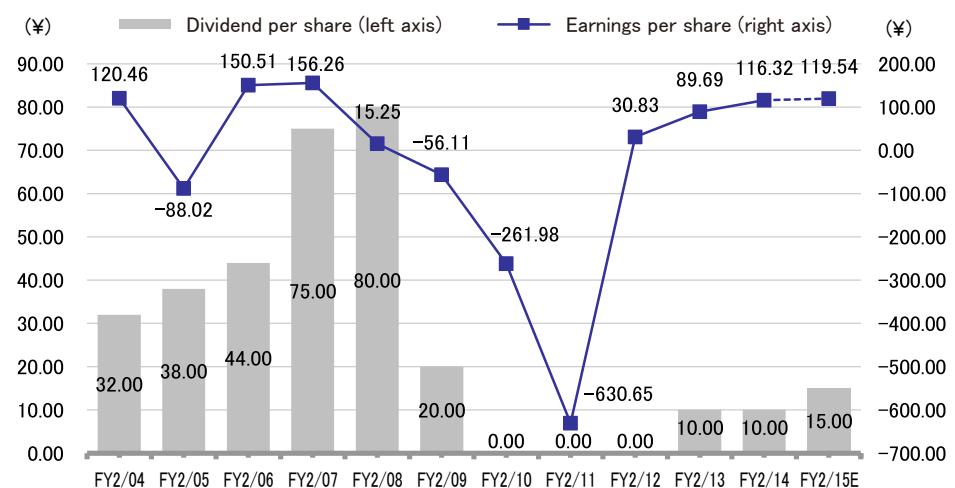
■ Shareholder Return Policy

**Company plans to pay a dividend per share of ¥15 for FY2/15,
likely to raise its dividend in coming years**

Aderans plans to raise its dividend per share for FY2/15 to ¥15, from ¥10 in FY2/14. The company needs funds to invest in expanding its overseas businesses and other sources of future growth. Nonetheless, it is increasing its dividend, which shows management's solicitude for shareholders. The dividend payout ratio for FY2/15, based on the company's projection of EPS, will remain low, at 12.5%. However, EPS this fiscal year will be lifted by the carry forward of past cumulative losses.

In FY2/15–FY2/17, the company aims for a cumulative EBITDA of ¥26.3bn, while it plans capital investment of about ¥10bn. Given its accumulated losses, the company should pay almost no taxes in FY2/15–FY2/17. Therefore, it should generate free cash flow equal to about the cumulative EBITDA minus the capital investment planned. It should have ample cash with which to increase its dividend per share.

Aderans' Earnings per Share and Dividend per Share (¥), FY2/04 – FY2/15E



We encourage readers to review our complete legal statement on “Disclaimer” page.

Disclaimer

FISCO Ltd. (the terms "FISCO", "we", mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the "JASDAQ INDEX" are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.