

**ADERANS**8170 Tokyo Stock Exchange  
First Section

27-Jul.-15

Important disclosures  
and disclaimers appear  
at the end of this document.FISCO Ltd. Analyst  
Hiroyuki Asakawa**■ Expanding overseas business through subsidiaries as no Japanese competitor can**

Aderans (8170) is Japan's leading provider of wigs. In Japan, it offers a wide range of products, including custom-made wigs for men and women, ready-made wigs for women, hair growth services and haircare products. Aderans is proactive in expanding overseas and in North America has taken controlling interests in the largest maker of custom-made wigs, HC (USA) Inc., and the largest provider of hair transplantation services, Bosley. In the leading countries of Europe, it has taken controlling interests in several wig makers.

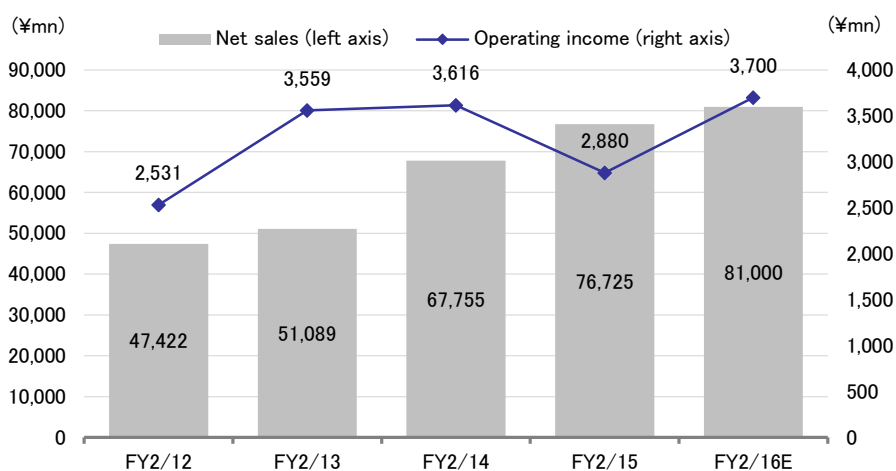
The wig market depends on overall population trends. Japan's population is declining, and accompanying this decline, the Japanese market for men's wigs is shrinking. However, the Japanese market for women's wigs is likely to expand gradually as Japanese women tend to use wigs at an older age than Japanese men. The total Japanese wig market is not likely to grow, so the company is concentrating on expanding its overseas business, which its Japanese competitors lack. The company's growth hereafter will be led by its overseas business and its domestic business for women.

The company has announced a new medium-term plan, which includes performance targets and the means of achieving them. This plan draws on the successes of the company through the fiscal year ended in February 2015 (FY2/15), to suggest ways to stimulate new demand. To date, the company has basically assumed an attitude of normal progress with little business risk. In addition, from now on, the company will probably also have to invest more to acquire companies overseas and to increase the number of its stores in Japan. Thus, investment efficiency will become more important.

In FY2/15, operating income declined y-o-y and fell short of the company's forecast, for several reasons. In previous years, the company had thoroughly cut costs, so in FY2/15, it invested heavily in new stores in Japan. Furthermore, to counter intensifying competition in Japan, the company increased its expenditure on advertising, sales promotions and opening new stores. In FY2/16, the company plans to concentrate on increasing sales. In Japan, it will promote sales to women, and, as called for in its new medium-term plan, it will expand business overseas. The results are anticipated.

**■ Check Point**

- The value of a wig depends on personal preference; there is no absolute standard by which to evaluate a wig.
- Overseas subsidiaries expanded their sales and reduced their losses.
- The new medium-term plan calls for expanding the sales and profits of overseas operations and investing in the development of new salons in Japan.

**Consolidated Net Sales and Operating Income (¥mn), FY2/12–FY2/16E**


## ■ Business Trends

**Aderans entered overseas markets early, and it now has two large overseas subsidiaries, one supplying custom-made wigs, the other, hair implants**

### (1) Overview of Businesses

Established in 1968, Aderans initially specialized in producing custom-made wigs for men. It subsequently bought Fontaine Co. from Kaneka Chemical Co. (4118) and entered the business of ready-made wigs for women on a full scale. Aderans entered the overseas markets early and now conducts business in North America and Europe.

### 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 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

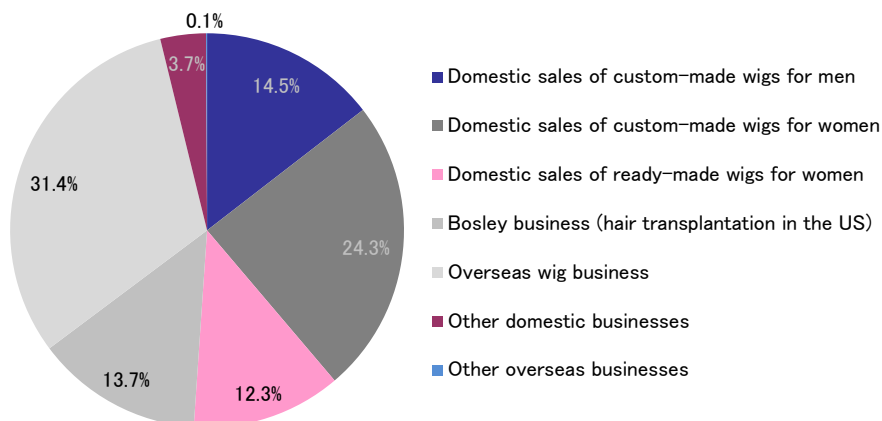
Wigs for men and women can be custom-made or ready-made. Aderans sells custom-made wigs under the Aderans brand name at directly operated hair salons, and these wigs are priced at about ¥500,000 each. They can be purchased outright or in annual increments, similar to a car lease agreement. The directly operated salons also offer hair growth services, sell hair-volumizing and haircare products, and provide haircuts for men and women.

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**Breakdown of FY2/15 Net Sales by Product and Market**



Aderans sells ready-made wigs for women under the Fontaine brand at leading department stores and directly operated salons throughout Japan. In recent years, it has gradually expanded sales of this brand at major retailing outlets and other sales channels. The Fontaine brand sold at department stores and directly operated salons has established a high-grade image, so Aderans sells ready-made wigs for women at major retailing outlets and supermarkets under the Swanee by Fontaine brand, or, for women in their 40s and 50s, under the René of Paris by Fontaine brand.

**Number of Outlets by Sales Route in Japan for Ready-made Wigs for Women**

Sales route	No. of outlets		Brand	Remarks
	2/2014	2/2015		
Department stores	148	153	Fontaine	Sales staff work in designated areas
Major retailing outlets/ supermarkets	13	29	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 Isetan Mitsukoshi Holdings.
Directly operated salons	30	35	Fontaine	
Beauty supply route	-	-	Fontaine	Direct sales to beauty salons totaled ¥727mn in FY2/15.
<b>Total</b>	<b>191</b>	<b>217</b>		

A significant overseas business distinguishes Aderans from its rivals. U.S. subsidiary Bosley Inc. provides hair transplantation service, which is a surgical procedure, unlike wigs or hair volumizing products. Bosley is the largest provider of this service in North America, with an estimated market share of 10%. Another U.S. subsidiary, HC (USA) Inc., acquired in 2013, operates as Hair Club Inc. and is the largest provider of wigs in North America. Its main product is custom-made wigs for men, and 80% of its sales are to men. Thus, the company should be able to increase its sales weighting to women, we believe. A third U.S. subsidiary, Aderans Hair Goods, Inc. (AHG), sells ready-made wigs, primarily in North America. However, it is also achieving name recognition in Europe. As the European wig market is fragmented by country, AHG has set up subsidiaries in the leading countries to serve their markets.

The wig business is labor-intensive, and labor cost accounts for a large portion of the overall cost of goods sold. Therefore, Aderans produces all its wigs in countries with low labor costs. Its two main production centers are in the Philippines and Thailand, but it is developing another plant in Laos, which should expand its production capacity and lower its production cost, making it more competitive.

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**Production Bases and Output**

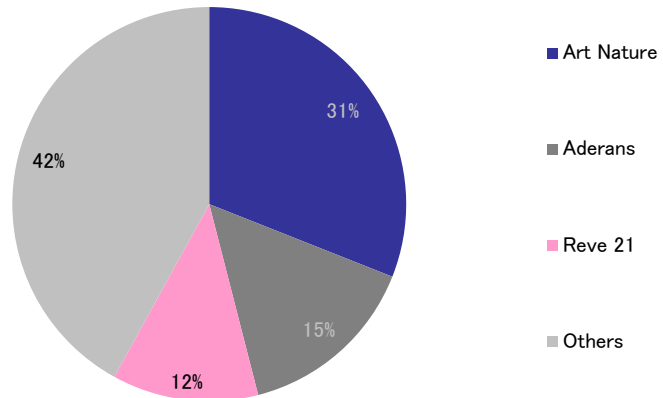
	Company name	Remark	Output in F2/15
Thailand	Aderans Thai Ltd.		Custom-made wigs: 106,357 Ready-made wigs: 575,969
	World Quality Co., Ltd.		
The Philippines	Aderans Philippines, Inc.		
	Jointly owned plant		
Laos	Aderans Lao	Scheduled for completion in July 2015	

**The value of a wig depends on personal preference; there is no absolute standard by which to evaluate a wig**

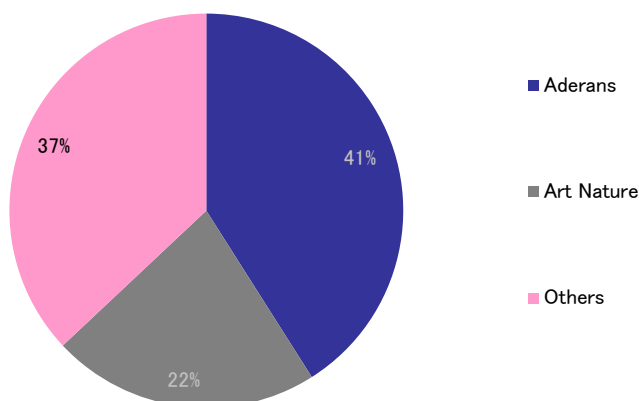
**(2) Structure of the Wig Industry**

Until the early 2000's, Aderans was Japan's largest maker of men's wigs and women's wigs. From that period, competition intensified and Aderans's market shares decreased. Now, Art Nature Inc. (7823) is Japan's leading maker of wigs for men, and Aderans is second. Aderans remains the top maker of wigs for women. Excluding Aderans and Art Nature, the Japanese markets for men's wigs and women's wigs are fragmented among small makers. This industry structure reflects the fact that the value of a wig depends on individual preferences and there is no absolute standard by which to judge a wig.

**Share of Japan's Market of Wigs for Men, 2014**



### Share of Japan's Market of Wigs for Women, 2014



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### Japanese market for men's wigs is shrinking, while women's market continues to grow

#### (3) Market Environment

Prospects for the wig market depend most on population trends. Japan's population is declining, so prospects for the market are not good. As the male population falls, the number of men who use wigs is likely to drop further. We estimate that the number of men in Japan who might buy a wig for the first time will decline by at least 20% between 2013 and 2023, and the number of men who use wigs will contract by 5-10% over the same period. In other words, we see the Japanese market for men's wigs shrinking by about 1% per year.

#### Population of Japanese Men Age 10-89

Age range	Male Population (thousand persons)				
	Current	10 years from now		20 years from now	
	Oct. 2013	Oct. 2023	Change	Oct. 2033	Change
10-19	6,105	5,340	-12.5%	4,508	-15.6%
20-29	6,803	6,163	-9.4%	5,470	-11.2%
30-39	8,750	6,696	-23.5%	6,208	-7.3%
40-49	8,914	8,350	-6.3%	6,590	-21.1%
50-59	7,789	8,803	13.0%	8,067	-8.4%
60-69	8,960	7,105	-20.7%	8,184	15.2%
70-79	6,178	7,493	21.3%	6,047	-19.3%
80-89	2,729	3,895	42.7%	4,841	24.3%
Total (10-89)	56,228	53,846	-4.2%	49,916	-7.3%
Total of wig-buying ages (40-89)	41,216	37,117	-9.9%	34,519	-7.0%

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

The Japanese market for women's wigs differs from the market for men's wigs. Women tend to start using a wig from their 60's, whereas use among men peaks in the 40-50 age range. Furthermore, women tend to use a wig for the rest of their lives, whereas men stop using one in older age. We project that the number of Japanese women using a wig will grow over the next 10 years, but only by about 3%, not enough to offset the decline in the number of men users.



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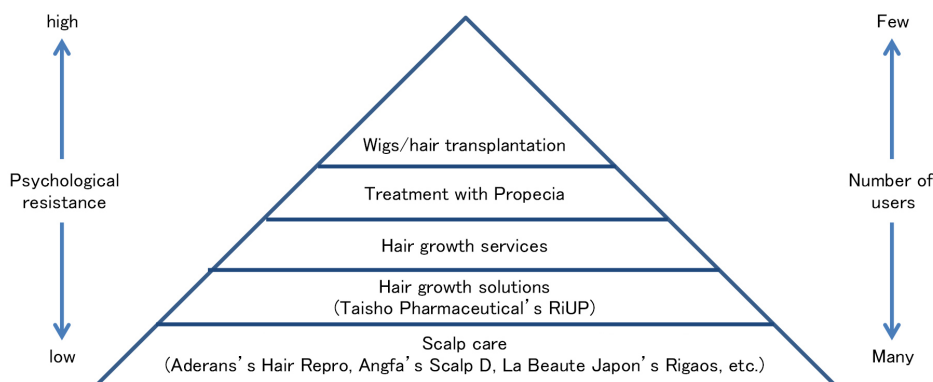
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Population of Japanese Women Age 10-89

Age range	Female Population (thousand persons)				
	Current	10 years from now		20 years from now	
	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%

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

The wig market is part of the broader haircare market, located in a position with high psychological and financial barriers. Wigs effectively increase a person's hair, but they are expensive and many people resist using a wig for psychological reasons. Thus, wigs compete with hair growth solutions and services. If a medicine that generates hair growth were to be invented, the wig market might shrink drastically. Currently, though, there is a clear distinction between wigs and medicinal hair growth stimulants, such as Propecia and RiUP, and other haircare products, such as hair transplantation.



### Overseas subsidiaries expanded their sales and reduced their losses

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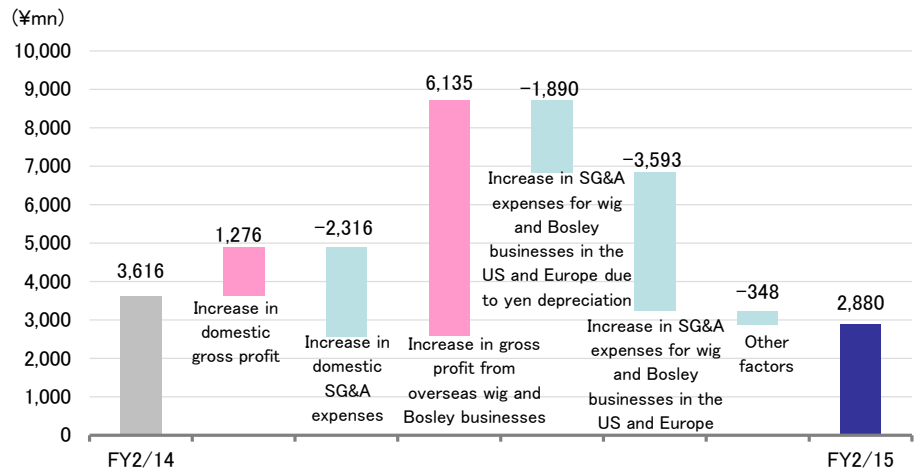
\* EBITDA is the abbreviation for Earnings Before Interest, Taxes, Depreciation and Amortization. It is operating income plus depreciation and amortization expenses, a measure of profit that omits taxes and interest expense, for which the accounting standards vary by country. It is a useful measure of a multinational company and can be used to compare the performance of companies operating in different countries.

#### (1) Summary

In FY2/15, consolidated net sales grew 13.2% y-o-y to ¥76,725mn, operating income declined 20.3% to ¥2,880mn, ordinary income grew 33.8% to ¥5,997mn, and net income climbed 18.5% to ¥5,075mn. Operating income fell ¥1,220mn short of the company's forecast of ¥4,100mn, but because the company logged a non-operating currency translation gain of ¥3,431mn, ordinary income exceeded the company's forecast by ¥1,997mn, and net income surpassed its projection by ¥675mn. The company's key performance indicator, EBITDA\*, increased 6.5% y-o-y to ¥7,204mn.

Aderans explains that operating income decreased in FY2/15 because the company increased its expenditures on advertising and sales promotion in Japan to expand its domestic business. In other words, the company responded to increasing competition aggressively.

Factors Contributing to Operating Income Decline



In overseas business, which distinguishes Aderans from its Japanese rivals, Hair Club Inc. and Bosley increased their sales and reduced their aggregate loss, which persisted because of the large expense for amortizing goodwill and intangible fixed assets acquired with the purchase of Hair Club.



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**Segment Results**

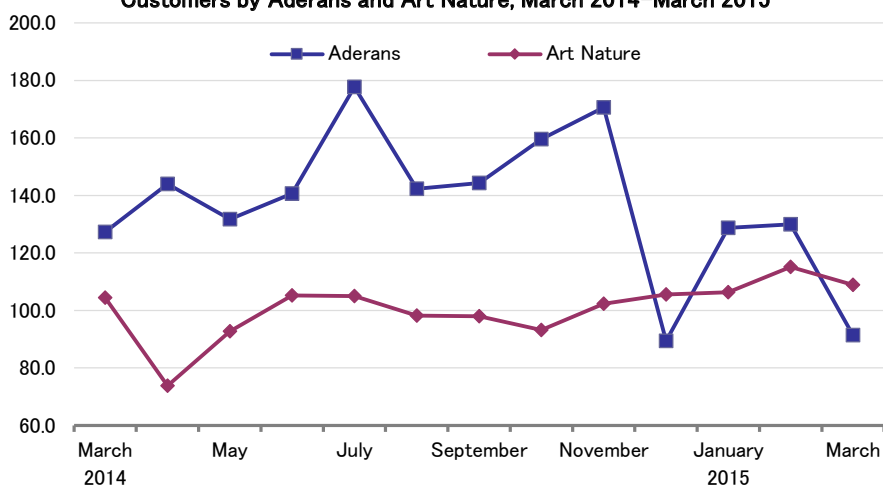
(¥mn)

		FY2/13		FY2/14		FY2/15	
		Full-year	Change	Full-year	Change	Full-year	Change
Net sales	Aderans Business	25,644	10.6%	28,234	10.1%	29,759	5.4%
	Fontaine Business	8,536	-16.6%	8,987	5.3%	9,433	5.0%
	Bosley Business	8,401	4.2%	9,320	10.9%	10,510	12.8%
	Overseas Wig Business	5,214	-	17,992	245.1%	24,086	33.9%
	Other Operations	3,293	-44.6%	3,219	-2.2%	2,935	-8.8%
	Total net sales	51,089	7.7%	67,755	32.6%	76,725	13.2%
Operating income	Aderans Business	6,793	26.4%	7,703	13.4%	6,843	-11.2%
	Fontaine Business	3,168	-21.0%	2,051	-35.3%	1,732	-15.6%
	Bosley Business	764	16.3%	457	-40.2%	462	1.1%
	Overseas Wig Business	-293	-	-1,234	-	-892	-
	Other Operations	-259	-	-476	-	-317	-
	Total segment operating income	9,889	4.5%	8,501	-14.0%	7,827	-7.9%
	Eliminations	-6,614	-	-4,884	-	-4,946	-
Total operating income	3,559	40.6%	3,616	1.6%	2,880	-20.4%	

**Aderans Business: custom-made wigs for men**

Total sales of custom-made wigs for men in Japan, including those to new and repeat customers, increased 5.7% y-o-y to ¥11,152mn in FY2/15. Sales to repeat customers, which are more profitable than sales to new customers, grew only 2.5% y-o-y, but sales to new customers rose 38.4%. Competition with Art Nature was strong, so Aderans spent heavily on advertising for and promotions of its hair volumizing products, its hair vitalization products, and its hair growth services, which convey a comfortable sense of partial hair increase. The large number of new customers gained in FY2/15 bodes well for greater sales to repeat customers in FY2/16 and ensuing years.

**Y-o-y Change in Monthly Sales of Custom-made Wigs for Men to New Customers by Aderans and Art Nature, March 2014–March 2015**







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**Aderans Business Sales**

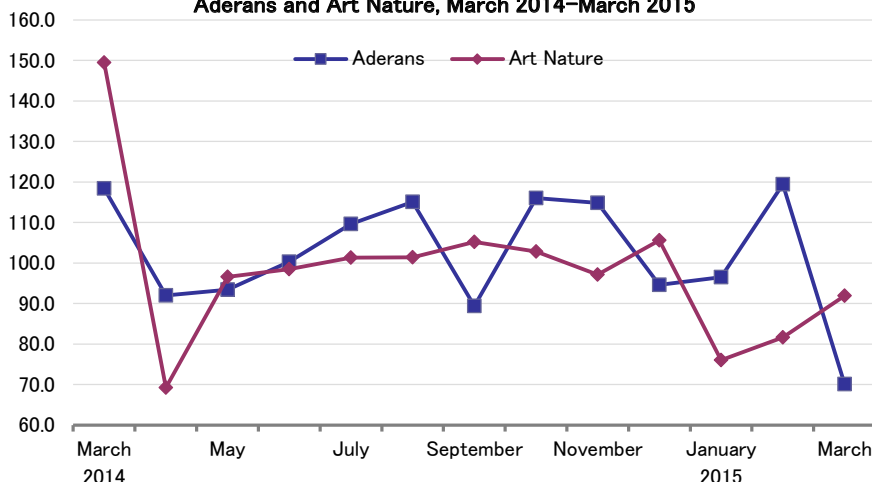
(¥mn)

	FY2/13	FY2/14		FY2/15	
		Full-year	Change	Full-year	Change
Sales to men	9,736	10,554	8.4%	11,151	5.7%
New customers	885	928	4.9%	1,284	38.4%
Repeat customers	8,851	9,626	8.8%	9,867	2.5%
Sales to women	15,907	17,679	11.1%	18,607	5.2%
New customers	6,287	6,477	3.0%	6,604	2.0%
Repeat customers	9,620	11,201	16.4%	12,003	7.2%
Total sales	25,644	28,234	10.1%	29,759	5.4%
New customers	7,172	7,405	3.2%	7,888	6.5%
Repeat customers	18,471	20,827	12.8%	21,870	5.0%

**Aderans Business: custom-made wigs for women**

The overall demand for women’s wigs has been weak since Japan raised its consumption tax from 5% to 8% as of April 2014. To generate demand, Aderans increased the number of exhibitions it sponsored at leading department stores throughout Japan and introduced new products. As a result, its sales of custom-made wigs for women grew 5.2% y-o-y to ¥18,607mn in FY2/15. In contrast, sales of these wigs by Art Nature declined almost 10% y-o-y in that company’s fiscal year through March 2015, so by comparison Aderans was highly regarded

**Y-o-y Change in Monthly Sales of Custom-made Wigs for Women by Aderans and Art Nature, March 2014–March 2015**



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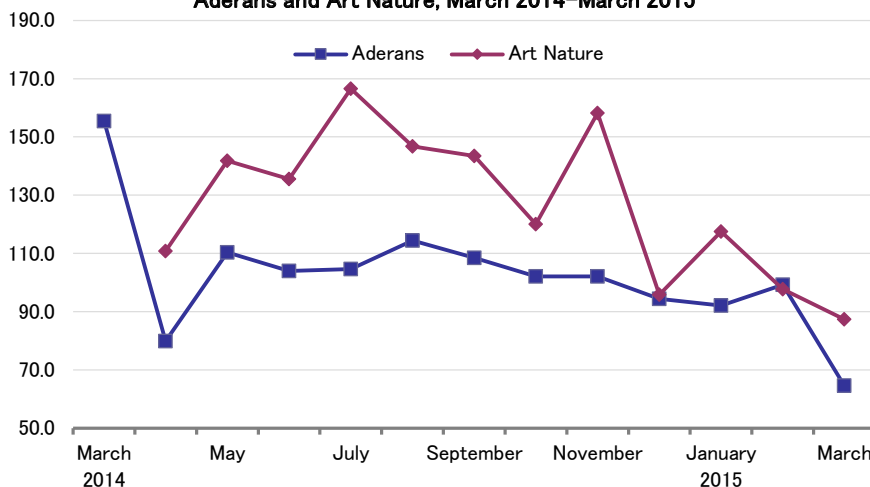
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**Fontaine Business**

The Fontaine business increased its sales of ready-made wigs for women by 5.0% y-o-y to ¥9,433mn in FY2/15. Ready-made wigs are an important product because they induce women to advance to custom-made wigs. Aderans develops many brands of wigs for sale through department stores and major retailing outlets, but in FY2/15, its Fontaine business promoted sales of the René of Paris by Fontaine brand at stores operated by Isetan Mitsukoshi Holdings (3099) and the Swanee by Fontaine brand at major retailing outlets operated by Aeon (8267).

**Y-o-y Change in Monthly Sales of Ready-made Wigs for Women by Aderans and Art Nature, March 2014–March 2015**



**Bosley Business**

The Bosley business raised its sales by 12.8% y-o-y to ¥10,510mn and its operating income by 1.1% to ¥462mn in FY2/15. In US dollars, its sales rose 3.8% to \$98.7mn. This growth was achieved by investing in new commercials and renovating the company’s website. Although preceded by other companies, the company also adopted the follicular unit extraction (FUE) method of hair transplantation using the customer’s own hair, giving greater choice of procedures to its customers.

**Bosley Business Results, FY2/12–2/15**

	(¥mn)			
	FY2/12	FY2/13	FY2/14	FY2/15
Yen net sales	8,059	8,401	9,320	10,510
US Dollar net sales (\$ mn)	101.4	104.8	95.1	98.7
Operating income	657	764	457	462

**Overseas Wig Business**

Net sales in the overseas wig business rose 33.9% y-o-y to ¥24,086mn, reflecting the expansion of Hair Club Inc., of the U.S., purchased in April 2013, and reflecting brisk sales of medical-use wigs in Europe. Hair Club Inc. bought some of its franchised stores and converted them into directly operated stores. It also carried out a campaign to sell some wigs for women on a trial basis. These measures contributed to sales growth. Because of the amortization of goodwill and intangible fixed assets acquired with Hair Club Inc., this company suffered an operating loss of ¥706mn, accounting for most of the ¥892mn operating loss suffered by the overseas wig business in FY2/15.



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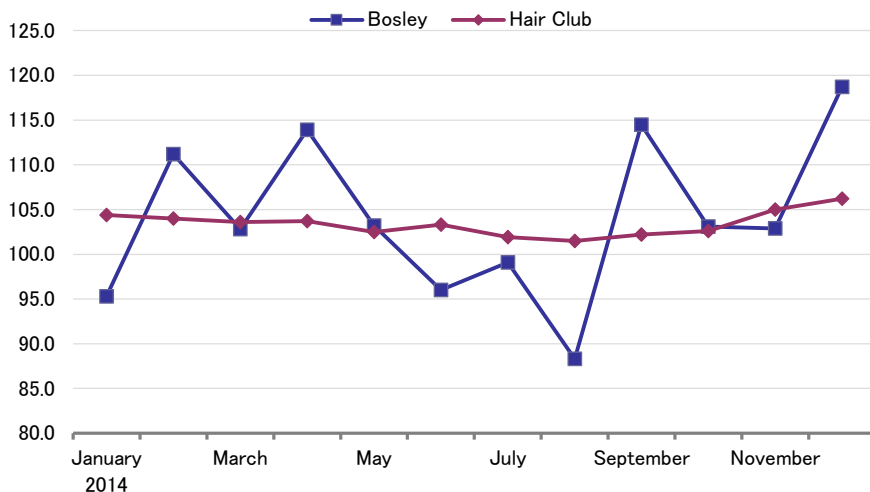
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**Overseas Wig Business Results, FY2/12-2/15**

	(¥mn)			
	FY2/12	FY2/13	FY2/14	FY2/15
North America	2,028	2,174	13,302	18,743
Europe	3,039	3,051	4,440	4,984
China	56	68		
Other			547	764
<b>Total</b>	<b>5,124</b>	<b>5,293</b>	<b>18,290</b>	<b>24,492</b>
<b>Hair Club Inc.'s Results</b>				
Net sales			10,642	16,610
Operating income			-747	-706
Depreciation and amortization			1,916	2,825
EBITDA			1,168	2,119

**Y-o-y Change in Monthly Sales by Bosley and Hair Club, 2014**



**Other Businesses**

Other businesses include the sale of ready-made wigs for women and other products in the beauty supply route business, the operation of salons in hospitals, and e-commerce business (the online sale of haircare products, wigs, etc.). In FY2/15, sales by all other businesses decreased 8.8% y-o-y to ¥2,935mn, and these businesses suffered an aggregate operating loss of ¥317mn, less than the ¥476mn operating loss reported in FY2/14. Due to weak demand for women's wigs, sales in the beauty supply route business dropped 9.6% to ¥2,136mn.

## ■ New Medium-term Plan

### Stresses growth of overseas business and investment in new salons in Japan

Aderans reviews its medium-term plan and goals every year and modifies them accordingly. The new medium-term plan it announced in April 2015 lowered the profit targets that had been proposed earlier, in light of the profits earned in FY2/15. The new plan aims to achieve profit growth by increasing sales, which may be a challenge. It envisions growth being led by overseas business.

**Targets in the New Medium-Term Plan and for FY2/21**

		FY2/15		Medium-term Plan					FY2/21	
		Forecast	Result	FY2/16		FY2/17		FY2/18		
				Previous plan	New plan	Previous plan	New plan	Previous plan		Target
Business performance	Net sales	(¥mn)	74,000	76,725	79,000	81,000	84,000	85,000	89,000	100,000
	Domestic	(¥mn)	42,200	42,064	44,100	43,800	46,300	44,800	46,000	50,000
	Overseas	(¥mn)	32,800	34,661	34,900	38,500	37,700	41,400	44,300	51,500
	Operating income	(¥mn)	4,100	2,880	5,100	3,700	6,300	4,800	6,200	-
	Ordinary income	(¥mn)	4,000	5,997	-	-	-	-	-	-
	Net income	(¥mn)	4,400	5,075	-	-	-	-	-	-
Management measures	EBITDA	(¥mn)	7,600	7,204	8,700	8,200	10,000	9,300	10,800	-
	Operating income margin	%	5.5%	3.8%	6.5%	4.6%	7.5%	5.6%	7.0%	-
	EBITDA margin	%	10.3%	9.4%	11.0%	10.1%	11.9%	10.9%	12.1%	-
	Return on equity (ROE)	%	-	14.0%	-	-	at least 10%	-	-	-

To achieve the goals of the new medium-term plan, each business has been assigned an action plan. These plans are basically revisions of previous plans, but there is an increased emphasis on opening new salons in Japan. Thus, it is important for the company to earn a return on this increased investment. Our appraisal of the action plan for each business follows.

#### Custom-made Wig Salon Business in Japan

This business is tasked with expanding its sales by improving advertising efficiency, strengthening sales promotions, developing and selling new goods and services, assigning appropriate personnel to needed jobs, expediting training to improve quality, and aggressively developing stores and salons. We are most concerned about this last mission because the new stores and salons will have to generate enough profit to cover their costs. The sponsorship of exhibits and a stress on more efficient advertising and sales promotion are already contributing to sales growth, and they will have to continue to do so.

#### Ready-made Wig Business in Japan

Ready-made wigs are sold at shops in department stores and major retailing outlets. The company plans to open shops in rural branches of department stores where it does not already have shops. It also intends to reappraise its current shops in major retailing outlets to make them more efficient, increase their product offerings or concentrate the shops in certain locations. The company aims to sell designer brand wigs at its shops in department stores to attract the next generation of wig users. We are interested to see how well designer brand wigs will sell at department stores. The company plans to strengthen its e-retailing at major retailing outlets, and we wonder whether wigs will sell well online.



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### Other Businesses in Japan

We feel that sales of wigs through the beauty supply route could be increased, but they have been falling steadily in recent years. The new medium-term plan calls for the periodic introduction of products that are superior to competing products because they reflect the company's production and sales capabilities. The plan also advocates expanding the company's market share through promotions to other businesses and through more events and the results are anticipated. The company's medical-related business is small, but it has great growth potential. To promote this business, the company plans to develop more items for medical treatment, to open more salons in hospitals, and to publish more pamphlets and point of purchase ads.

### US Business

The three U.S. subsidiaries, Bosley, Hair Club, and AHG, have been given specific goals to pursue. The one that interests us most is for Hair Club to increase its sales of custom-made wigs for women. The company now derives only 20% of its annual sales from women. If it could lift this proportion to 50%, it might achieve annual sales of ¥30bn. We will monitor how the company attempts to increase its sales to women, whether through greater advertising and sales promotion or developing new products, and the sales that result from these attempts. We think it is also important to check the impact of converting Hair Club franchises into directly operated stores as it involves investment for acquisitions.

### Business in Europe, China, and Other Parts of Asia

The new plan envisions the opening of at least 10 new stores per year in Europe. As the European market is segmented by country and by consumer taste, business expansion there will probably require the gradual opening of stores, but this will complicate their management and erode efficiency. Thus, it will be important to keep tabs on the effectiveness of investment in new stores.

Aderans plans to open more stores at efficient department stores and commercial facilities in China and other parts of Asia. We doubt that this is a wise approach, for two reasons. First, most residents of these countries do not seem to be so concerned about haircare. Second, wigs are too expensive for most of these residents to buy. In other words, we think it is too early to develop wig business in these countries. However, there is some demand for wigs in these countries, and we think that the best way for the company to tap this demand would be to market aggressively to tourists to Japan from these countries. By allowing these tourists to experience wigs in Japan through medical tourism, the company could build demand in these countries.

### Production Sites

Aderans Lao plans to start operating its new plant in July 2015. This unit is now operating a temporary plant and training workers there, so the new plant should be able to open smoothly. The new plant will start with the integrated manufacture of custom-made wigs, then expand into the production of ready-made wigs. It will be interesting to see how much this new plant lowers production costs for Aderans.

## ■ Company Forecasts for FY2/16

### Aiming for operating income growth through sales expansion

For FY2/16, the company projects consolidated net sales of ¥81.0bn (up 5.6% y-o-y), operating income of ¥3.7bn (up 28.4%), ordinary income of ¥3.3bn (down 45.0%), and net income of ¥2.8bn (down 44.8%).

The company aims to increase its sales by about ¥4.3bn in FY2/16. In Japan, it targets a sales rise of ¥1.7bn, and overseas, it looks for a sales rise of ¥3.7bn. The sum of these geographical sales increases exceeds the increase targeted for the company because it includes some sales that are eliminated upon consolidation. The achievement of the targeted sales increase in Japan requires a recovery of demand for women's wigs, both custom-made and ready-made. The new medium-term plan specifies a notable increase in the number of salons selling ready-made wigs for women and more exhibitions to promote the sale of custom-made wigs for women.

For its overseas business, Aderans has great expectations of Hair Club because it foresees potential for greater sales of wigs for women and of hair-volumizing products. Furthermore, the conversion of franchised stores into directly operated stores is projected to lift overall sales. However, Hair Club is projected to remain unprofitable in 2015 (its fiscal year corresponds with the calendar year) because of heavy amortization costs. Aderans foresees continued growth for Bosley, based on that company's top share of the North American market and on its name recognition. Furthermore, the follicular unit extraction (FUE) method of hair transplantation using the customer's own hair that Bosley adopted in 2014 is popular because it requires no incision into the scalp. This popularity should support sales and profit growth for Bosley.

The company aims to raise its consolidated operating income by ¥800mn y-o-y in FY2/16, primarily by increasing its sales. As in FY2/15, the company plans to spend notably on advertising, sales promotions, and opening new salons. If these costs were reduced, profits would temporarily expand, but without them, the company is likely to lose market share over the medium term. We agree with the company's decision to forego cost cuts and to rely on sales growth to yield profit growth.

The company forecasts declines in ordinary and net incomes because it does not foresee any currency exchange gains in FY2/16. During FY2/15, the yen weakened against the US dollar by ¥17.2, from ¥102.20 to ¥119.40. As a result, the company claimed a currency exchange gain of ¥3,431mn in FY2/15. Given the current weakness of the yen against the US dollar, the company does not project further weakening.



**ADERANS**

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First Section

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**Summary Consolidated Income Statement, FY2/12-FY2/16E**

	(¥mn)				
	FY2/12	FY2/13	FY2/14	FY2/15	FY2/16E
Net sales	47,422	51,089	67,755	76,725	81,000
yoy	-1.6%	7.7%	32.6%	13.2%	5.6%
Gross profit	38,862	41,704	53,938	61,380	-
yoy	0.0%	7.3%	29.3%	13.8%	-
SG&A expenses	36,330	38,145	50,321	58,500	-
yoy	-18.8%	5.0%	31.9%	16.3%	-
Ratio	76.6%	74.7%	74.3%	76.2%	-
Operating income	2,531	3,559	3,616	2,880	3,700
yoy	-	40.6%	1.6%	-20.3%	28.4%
Margin	5.3%	7.0%	5.3%	3.8%	4.6%
Ordinary income	2,547	3,849	4,481	5,997	3,300
yoy	-	51.1%	16.4%	33.8%	-45.0%
Margin	5.4%	7.5%	6.6%	7.8%	4.1%
Net income	1,134	3,301	4,281	5,075	2,800
yoy	-	191.1%	29.7%	18.5%	-44.8%
Margin	2.4%	6.5%	6.3%	6.6%	3.5%
EPS (¥)	30.83	89.69	116.32	142.43	78.58
DPS (¥)	0.00	10.00	10.00	15.00	15.00
Capital expenditure	1,249	1,782	2,011	2,919	-
Depreciation and amortization	1,170	1,061	3,149	4,323	-
EBITDA	3,701	4,621	6,766	7,204	8,200
EBITDA margin	7.8%	9.0%	10.0%	9.4%	10.1%

**Summary Balance Sheet, FY2/12-FY2/15**

	(¥mn)			
	FY 2/12	FY 2/13	FY 2/14	FY 2/15
Current assets	20,390	24,845	27,111	32,837
Cash and deposits	11,495	14,001	10,755	14,558
Sales receivable	4,220	4,961	6,248	6,952
Fixed assets	15,306	16,059	36,780	39,611
Tangible fixed assets	8,725	9,047	11,723	12,871
Intangible fixed assets	2,661	3,072	20,292	20,977
Long-term investments and other fixed assets	3,919	3,939	4,764	5,762
Total assets	35,697	40,904	63,892	72,448
Current liabilities	6,467	7,852	11,036	12,496
Accounts payable	257	483	1,174	1,437
Short-term borrowings	-	8	1,051	1,232
Fixed liabilities	3,068	2,833	17,032	22,809
Bonds and long-term borrowings	-	1	8,662	12,813
Shareholders' equity	30,048	33,349	37,348	39,198
Common stock	12,944	12,944	12,944	12,944
Capital surplus	13,157	13,157	13,157	13,157
Earned surplus	10,934	14,268	18,268	17,378
Treasury stock	-6987	-7020	-7022	-4282
Other comprehensive income	-3902	-3261	-1788	-2327
Stock acquisition rights	15	48	154	270
Minority interests	-	83	109	1
Total net assets	26,161	30,219	35,823	37,142
Liabilities & net assets	35,697	40,904	63,892	72,448

**Summary Cash Flow Statement, FY2/12-FY2/15**

	(¥mn)			
	FY2/12	FY2/13	FY2/14	FY2/15
Cash flow from operations	-61	4,378	6,325	5,495
Cash flow from investing	689	-2238	-18036	-2915
Cash flow from financing	-85	-180	9,036	1,002
Gain or loss on translation of foreign currency cash and deposits	-215	279	-401	311
Change in cash and deposits	328	2,239	-3076	3,894
Cash and deposits at the start of the fiscal year	11,037	11,365	13,604	10,528
Cash and deposits at the end of the fiscal year	11,365	13,604	10,528	14,422

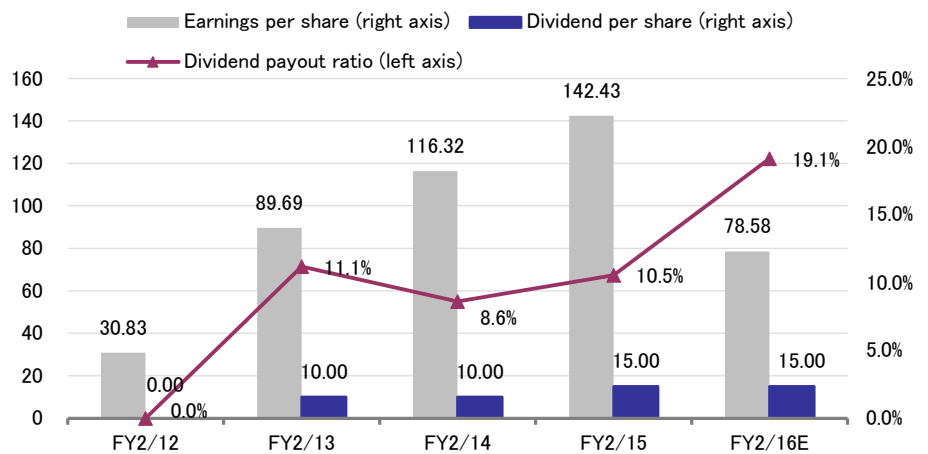
## Shareholder Return Policy

### With growing EBITDA and other profits, the company is likely to increase its dividend

Aderans raised its dividend payment for the end of FY2/15 by ¥5 y-o-y to ¥15 per share. The company needs cash to invest in new stores and plants in Japan and overseas, but it is committed to rewarding its shareholders, and its EBITDA continues to grow, so it raised its dividend.

The company's new medium-term plan envisions a cumulative EBITDA of ¥28.3bn in FY2/16-2/18, while its capital expenditure will amount to ¥10-12bn over these three years. Aderans still carries ¥18bn of cumulative losses from previous years, which will reduce its tax payments for several years. Thus, the company will be able to pay regular dividends, and it will probably increase its dividend payments as its profits grow.

**Earnings Per Share, Dividends Per Share, and Dividend Payout Ratio**





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