

ADERANS8170 Tokyo Stock Exchange First
Section

24-Dec.-15

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Hiroyuki Asakawa**■ Q2 results were below the initial forecasts, but the domestic women's wigs market is expanding**

Aderans (8170) (hereafter, also "the Company") is Japan's leading provider of comprehensive hair related products. In Japan, it offers a wide range of products, including custom-made wigs for men and women, ready-made women's wigs, hair growth services and haircare products. Aderans is proactively expanding its overseas business and has positioned it as a next generation growth area, and in each of the regions of North America, Europe, and Asia it is currently deploying various wig and hair volumizing products and hair transplantation services.

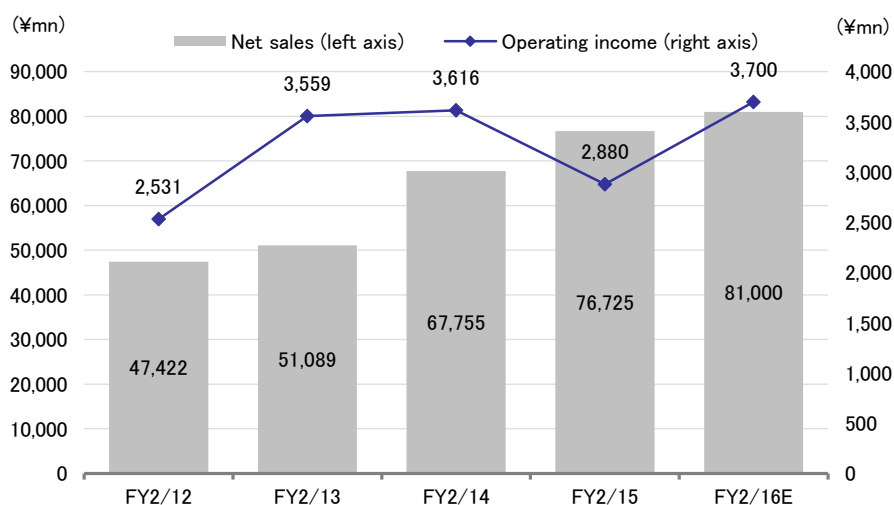
The Company's FY2/16 Q2 results were significantly below the initial forecasts, with income substantially down year-on-year (y-o-y). The main reasons for this was the struggles of its domestic women's wigs business. Based on its Q2 results, there are likely some investors who are concerned about the Company's medium-term growth potential, but our understanding at FISCO is different. What is clear from the current Q2 results is that the domestic women's wigs market is expanding and that this is creating a favorable situation for the Company. In other words, our understanding is that what the current Q2 results make clear is in fact the Company's medium-term growth potential has risen even higher.

At FISCO, we consider the Company's regrowth scenario to be a "second lap strategy" to respond to the above-described expansion of the domestic women's market. The opening lap was for users that had not previously worn a wig to buy a lower-price product and be newly added to the user group, and in this lap the Company has lagged behind. However, our opinion is that it is highly possible that the Company will recover its market share by capturing demand in the second lap; specifically, by meeting maintenance demand to capture replacement purchases and additional purchases.

The Company has maintained its previous forecasts for its FY2/16 full-year results outlook, but following the major decline in income in 1H, our impression at FISCO is that an amber light is flashing for it to achieve its full-year forecasts. But as previously stated, we have not changed our opinion on the Company's growth potential in the medium term. It is currently implementing its three-year medium-term management plan for FY2/16 to FY2/18, but for example even if it does not achieve its targets in this fiscal period, we believe it is fully possible it will recover its results to the level of the initial forecasts by the time of the plan's final fiscal year.

■ Check Point

- One of the medium- to long-term scenarios is being realized
- Has launched measures to create an omni-channel to induce customers to stores after a purchase
- Sufficient room for dividend growth and is expected to provide returns to shareholders in accordance with profit growth in the future

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


■ FY2/16 Q2 Results Overview

Net sales were above target, but income items failed to achieve their targets

In the FY2/16 Q2 results, net sales were ¥39,842mn (up 7.0% y-o-y), operating income ¥459mn (down 66.5%), ordinary income ¥821mn (down 50.3%), and net income ¥349mn (down 74.9%), meaning income items declined significantly. Compared to the initial forecasts, net sales exceeded the target by ¥1,842mn (up 4.8%), but operating income and ordinary income failed to reach their targets, by ¥641mn (down 58.3%) and ¥179mn (down 17.9%) respectively.

FY2/16 Q2 (1H) Results Overview

	FY2/15		FY2/16			(¥mn)
	1H	1H forecast	1H result	vs. target	y-o-y	
Net sales	37,246	38,000	39,842	4.8%	7.0%	
Operating income	1,371	1,100	459	-58.3%	-66.5%	
Ordinary income	1,652	1,000	821	-17.9%	-50.3%	
Net income	1,394	800	349	-56.4%	-74.9%	
EBITDA	3,495	-	2,806	-	-19.7%	

Source: Compiled by FISCO Ltd. based on the financial results summary and the financial reports briefing materials

By segment and by product, in the custom-made wig business in the Aderans Business, men's wigs net sales declined slightly to ¥5,638mn (down 1.8% y-o-y), but in contrast, in women's wigs, net sales fell significantly to ¥8,865mn (down 5.4%). As a result, in this business segment as a whole, net sales declined 4.0%. Also, in the ready-made wig businesses, domestically the Company only offers women's wigs, and their sales declined by double digits to ¥3,958mn (down 12.1%) for a segment operating loss. In the overseas business (the Bosley Business and the Overseas Wig Business), the weakened yen had an effect and sales increased significantly y-o-y. So the main reason for the slump in the Q2 results can be said to be the Company's struggles in the domestic market for women's products (both custom-made wigs and ready-made wigs).

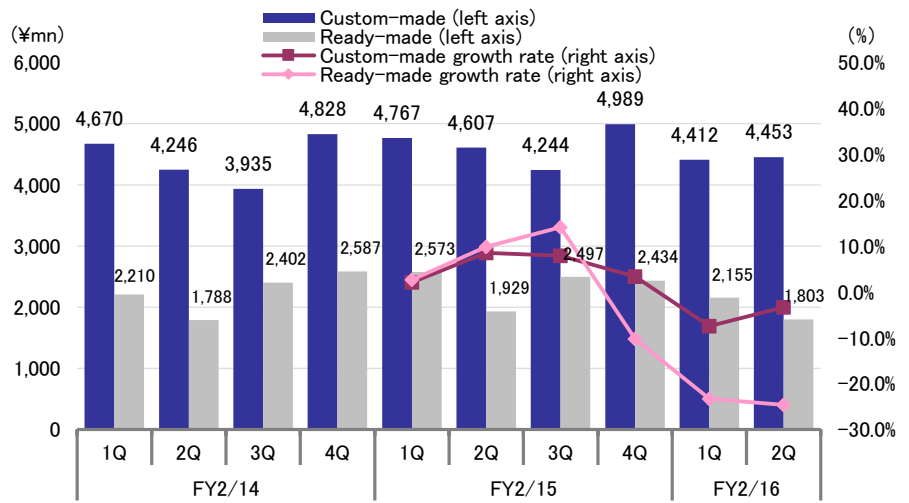


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Trend in Domestic Net Sales for Women's Wigs, FY2/14-FY2/16



Source: Compiled by FISCO Ltd. based on the financial reports briefing materials

Results Trends by Segment and by Product

		¥mn			
		FY2/15		FY2/16	
		1H	1H	Change	
Net sales	Aderans Business	15,113	14,503	-4.0%	
	Fontaine Business	4,502	3,958	-12.1%	
	Bosley Business	5,051	6,143	21.6%	
	Overseas Wig Business	11,473	14,117	23.0%	
	Other Businesses	1,106	1,119	1.2%	
	Total net sales	37,246	39,842	7.0%	
Operating income	Aderans Business	4,121	3,384	-17.9%	
	Fontaine Business	838	-45	-	
	Bosley Business	123	259	109.7%	
	Overseas Wig Business	-693	-520	-	
	Other Businesses	-398	-326	-	
	Total segment operating income	3,991	2,751	-31.1%	
	Eliminations	-2,620	-2,292	-	
	Total operating income	1,371	459	-66.5%	

Source: Compiled by FISCO Ltd. based on the financial results summary

Scenario for the recovery of the domestic women's market

One of the medium- to long-term scenarios is being realized

(1) Overview

At FISCO, we do not necessarily view the FY2/16 Q2 results as a cause for pessimism. Undeniably, the results were negative in terms of the short-term results outlook and the short-term impact on share price. But the reason we remain optimistic is that these results represent the realization of one of the Company's medium-term growth scenarios that we previously envisaged. This is the scenario of "After acquiring a foothold through low-priced ready-made wigs, the expansion and activation of the domestic women's market."

In terms of the difference between what we envisaged at FISCO and the reality, we expected the Company itself to demonstrate leadership and actively embark on measures to expand the market, such as by launching market-penetration products in the low-price range (thereby producing results). But in reality, new market entrants, including from other business categories, have launched low-price products and become the driving force behind market expansion, at the same time as stealing market share from the Company (thereby causing the Company's results to deteriorate).

But as is explained below, at FISCO we believe it is fully possible for the Company to recover. The point that should be prioritized at the current stage is steadily increasing the number of wig users; or in other words, expanding the market. The domestic women's market is developing alongside the aging of the population and therefore it is considered that it will continue to grow. But what we think will be most important for the Company are answering the questions of how to accelerate this growth and how to connect it to an expansion in market scale. Compared to men, women start using wigs at an older age, and therefore naturally one measure to expand the market is lowering the age at which women start using wigs. We expected the trigger for this to be low-priced products and the spread of fashion wigs, and indeed these developments are already occurring. We consider these to be positive developments not just for the Company, but for the entire wig industry.

(2) The current state of and outlook for the domestic wig market

Japan is experiencing both an aging and a declining population. But our analysis at FISCO is that even within this situation, the women's wigs market still has room for growth. Women tend to start using wigs at an older age (in their fifties to sixties) than men, and on the point that they continue to use them throughout their life, they are significantly different to men. Women are also considered to be more conservative than men on the point of thinning hair (it is noticeable that in many cases men choose to do absolutely nothing to address their thinning hair, but that such cases are rare among women).

In terms of demographics also, women have a longer life expectancy than men and constitute more of the population. According to the population statistics of the Ministry of Internal Affairs and Communications and others, the population of women aged from 10 years to 89 years will decline by 4.3% in the 10 year period from 2013 to 2023. However, during the same period, women aged from 40 years to 89 years, who can be defined as the "population of potential wig users," will increase 2.5%. Moreover, when looking at the number of actual wig users, this rate of increase is even higher. In addition, the growth in active seniors who have many opportunities to go out and high purchasing power is expected to result in an expansion of the women's wigs market.

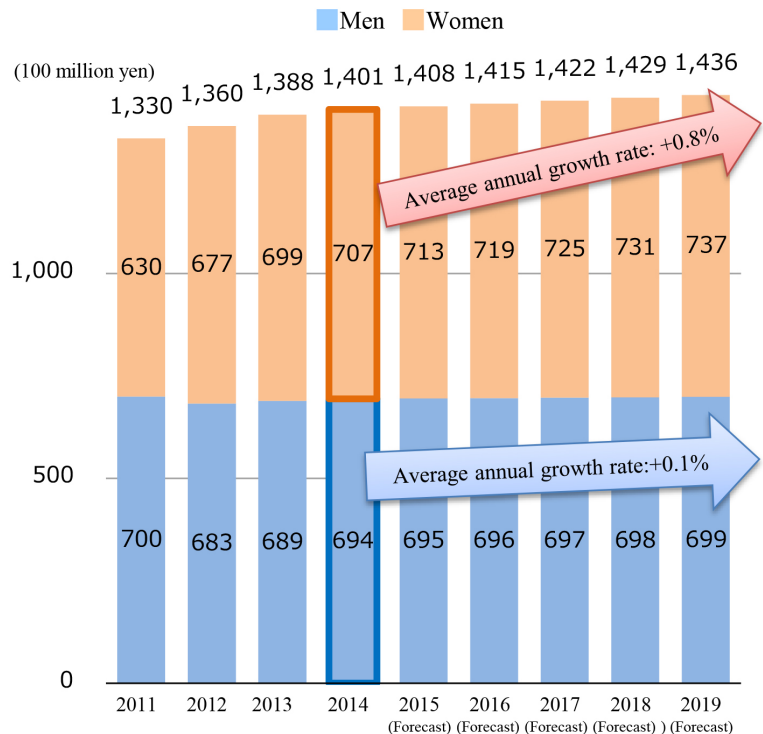
Population of Japanese Women Age 10-89

	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%

Source: Compiled by FISCO Ltd. based on "Population Estimates" by the Statistics Bureau, Ministry of Internal Affairs and Communications, and "Japan's Future Estimated Population (January 2012 estimate)" by the National Institute of Population and Social Security Research. Future estimate population statistics adopt the median estimate for a certain number of deaths per births.

The Company's opinion is that the domestic women's wigs market will continue to grow stably and it has indicated its agreement with the results of a third-party survey, which found that the market will continue to expand by an annual average rate of 0.8% from 2014 to 2019.

Changes in Size of Men's and Women's Markets in the Domestic Hair Business



Source: the FY2/16Q2 financial reports briefing materials

(Original text: Hair Care Industry Market Report Overview by Yano Research Institute Ltd.)

Has launched measures to create an omni-channel to induce customers to stores after a purchase

(3) Aderans' competitive environment in FY2/16 Q2

Domestically, the Company has a line-up of both custom-made wigs and ready-made wigs for women and holds the top shares in both these domestic markets. Its products in custom-made and ready-made have different characteristics and in response to this, it also changes their methods of sales and marketing. But in FY2/16 Q2, sales of both custom-made and ready-made wigs were sluggish, leading to the disappointing results.

The Company now has two major sales strategies for custom-made wigs. The first is a "direct response" strategy, which entails investing in commercials on TV and selling custom-made wigs to customers from the telephone inquiries that result from these commercials. The second strategy is exhibition and try-on event marketing, in which it sells products to customers who visit and attend at exhibitions and try-on events hold in department stores for the "Ladies Aderans" brand.

The current situation for the direct response strategy is that the number of inquiries from people who have seen a commercial are declining. The Company has not fully ascertained the clear reason for this, but it is considered that one reason is the reduction in the effectiveness of TV as a marketing channel due to changes in social conditions. The Company holds around 300 exhibitions a year. However, nationwide there are only around 130 department stores that can serve as the venues for these exhibitions, so it is not unusual for it to hold an exhibition several times at the same store during a single year. It seems that as a result, these events have become stuck in a rut and consumers are becoming tired of them.



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(New original) Marketing Sales Methods and Competitive Situations by Main Products —Custom-made

Wig type	Sales method		FY2/16 Q2 conditions
	Name	Description	
Custom-made	Direct response	Sales are via viewers seeing a commercial mainly on TV or elsewhere and telephoning the call center for a purchase.	The number of telephone inquiries from viewers and the response rate are both declining.
	Exhibition method	It holds exhibition and try-on events in department stores and sells products to the events' visitors.	The exhibitions are being held three or four times a year in the same venue, which seems to be reducing their appeal.

Source: Compiled by FISCO Ltd.

The sales outlet for ready-made wigs is in department ,directly operated shops and GMS. The Company is a pioneer in ready-made wigs and holds the top market share. The main price range of its ready-made wigs is ¥100,000 to ¥150,000. Recently, the Company has begun selling ready-made wigs via TV shopping and catalogue sales, and when sending products, it has launched a policy toward creating an omni-channel of including a coupon that can be used for wig maintenance at its stores in order to induce customers to visit these stores after they have made a purchase.

Sales Routes in Japan for Ready-made Women's wigs

Sales route	No. of outlets (end of)				Brand	Remarks
	2/2014	8/2014	2/2015	8/2015		
Department stores	148	151	153	158	Fontaine	Network covering nearly all department stores in Japan
Major retailing outlets/supermarkets	13	22	29	35	Swanee by Fontaine	The Swanee by Fontaine brand is sold through Aeon stores. A new brand, René of Paris by Fontaine, was launched for sale through stores operated by Isetan Mitsukoshi Holdings.
Directly operated shops	30	31	35	37	Fontaine	

Source: Compiled by FISCO Ltd. based on interviews

The two major companies in the women's wigs market, the Company and Art Nature, Inc. <7823>, have been shared monopoly of the market. But recently, a trend of new market entrants from other business categories and emerging powers has become conspicuous. The background to this is the rapid expansion in the "anti-aging" product market. Consumers are sufficiently aware of the Company and Art Nature due to the TV commercials they have broadcast. But the current situation is that the market shares of these two companies that were the pioneers in this market are being stolen by new entrants that are using low priced ready-made wigs as a sales weapon. Comparing the price ranges, the cheapest product from the emerging powers is sold for much lower than ¥10,000, which is significantly cheaper than the Company's products. Even their more expensive products are typically in a price range of ¥30,000 to ¥40,000, which is overwhelming less than the Company's main price range described above.

(New original) Marketing Sales Methods and Competitive Situations by Main Products —Ready-made

Wig type	Sales method		FY2/16 Q2 conditions
	Name	Description	
Ready-made	Shop sales	Conducts shop sales through shops in locations like department stores, GMS, and supermarkets. While "Fontaine" is the core brand, it has multiple brands that it allocates as appropriate to the shops.	Its acquisition of new customers is being impacted by factors such as the low-priced products of new entrants, EC of fashion wigs, catalogue sales, and TV sales.

Source: Compiled by FISCO Ltd.

Capturing the maintenance demand of wigs sold by competitors

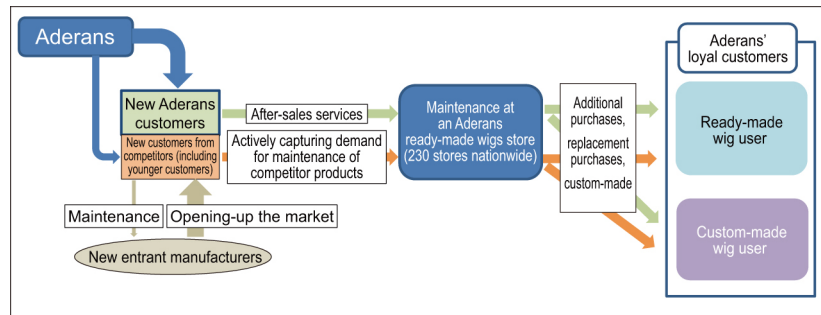
(4) A future recovery scenario

At FISCO, we consider it fully possible that in the future the Company will once again increase its share of the domestic women's wigs market and recover it to be a growth business. As previously explained, conditions in the custom-made wigs market and the ready-made wigs market are different. We think that a pressing task for the Company is to reorganize its business in the ready-made wigs market. The reason for this is that we believe it must recover its presence quickly because of the fast pace of the expansion of the ready-made wigs market and the rise of emerging powers in this market.

It is possible to take various measures for the Company to recover its share of the ready-made wigs market. At FISCO, we think one such possibility, as the simplest measure, is capturing the maintenance demand for wigs sold by competitors. Currently, the emerging powers that are steadily stealing demand for ready-made wigs from the Company sell their products via online sales, TV shopping, or at part-time stores. The use cycle for ready-made wigs is short and this creates maintenance demand, for example to adjust the size or to repair the wig. It is not thought that the emerging forces are able to sufficiently respond to this maintenance demand. By capturing this demand in its nationwide network of 230 stores, the Company will also be able to convert some customers and thereby capture demand for replacement purchases and additional purchases, and also for custom-made wigs when customers decide to upgrade. At FISCO, we envisage this to be one recovery scenario.

Previously, regular dealers of imported vehicles would refuse to perform maintenance on parallel-import vehicles. But today, they have a greater understanding of the need to supplement their list of customers and on the quality of products and services, so have decided it is a good idea in the long run to provide maintenance services toward establishing a trend of customers coming to a regular dealer when making a replacement purchase. So now these dealers provide maintenance even for parallel-import vehicles. Similarly, the Company has previously not provided maintenance for the ready-made wigs of competitors, but recently to a certain extent it has been showing a more flexible response. At FISCO, we expect a situation in which the Company captures the maintenance demand for competitors' products, clearly positions this as one part of its sales strategy, and actively publicizes this service. While at present the Company's awareness does not seem to have developed as far as this, we will be paying attention to developments in the future.

Flow of Low-price Products → Maintenance → Aderans user



Source: Compiled by FISCO Ltd.

The Company has embarked on concrete improvement measures for custom-made wigs. For the direct response field, it has begun changing the advertising medium from TV to other medium such as the Internet. While it is supposed to take some times in order to verify the effects of this, at FISCO we think that immediate effects can be expected from the reduction in direct advertising expenses. For the exhibition-type marketing also, it is focusing on developing more effective types of exhibition, including implementing wig & talk shows using brand image characters. The Company is also currently investigating measures for custom-made wigs, including opening new stores and reforming the store format (Aderans Salon).

For custom-made wigs, at FISCO we consider that the near monopoly status of two strong market participants of the Company and Art Nature will not waver, and even if there are temporary changes, it will return to its previous growth trajectory. Currently, it has positioned as separate the customer groups for ready-made and custom-made wig for its marketing. But in the future, if it can establish a flow of customers who upgrade from ready-made to custom-made wigs, we also think that this could become a new growth scenario.

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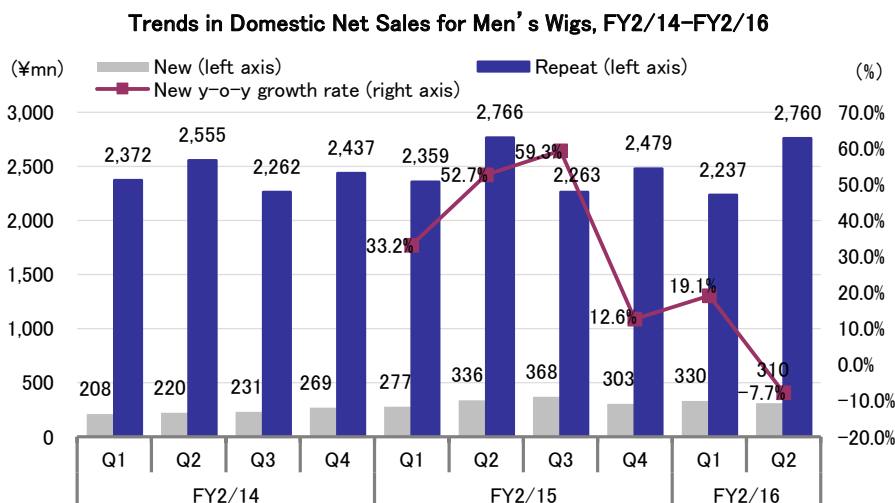
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■ **Results Trends**

A steady recovery in new customer net sales

(1) Domestic business trends

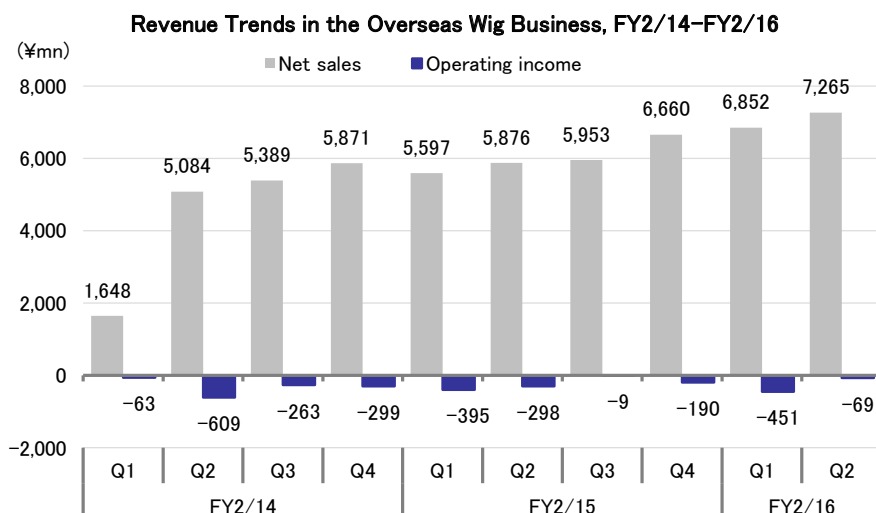
In the Company's domestic business, the conditions in the women's wigs market are as previously described. Conversely, in the domestic men's wigs business within the Aderans Business, it provides custom-made wigs only. Its FY2/16 Q2 net sales were ¥5,638mn (down 1.8% y-o-y). Breaking this down, new customer net sales were ¥640mn (up 4.4%) and repeat net sales were ¥4,997mn (down 2.5%). As a certain percentage of wig customers stop wearing a wig or change to the product of a competitor, it is inevitable that repeat net sales change each fiscal period. However at FISCO, we highly evaluate the Company on the point of the steady recovery in new customer net sales.



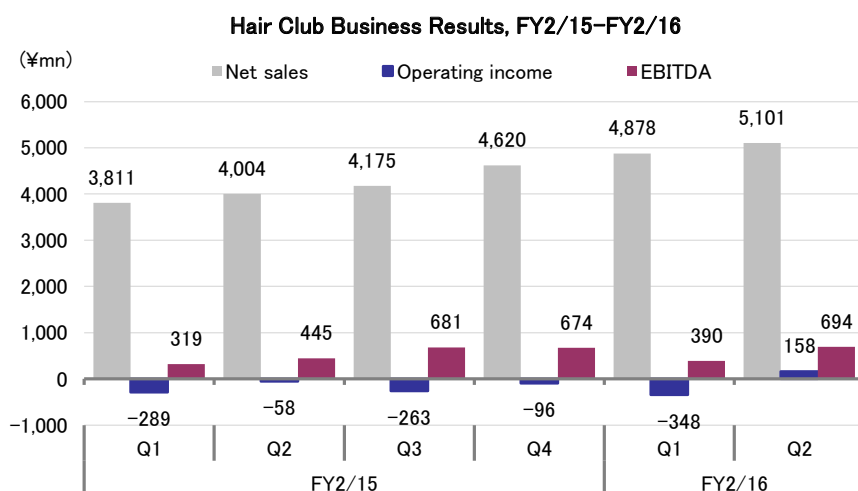
Source: Compiled by FISCO Ltd. based on the financial reports briefing materials

(2) Overseas Business trends

The Company's Overseas Business can be broadly divided into two businesses; the wig business and the hair transplantation business. It is deploying its wig business in three regions, North America, Europe, and Other (mainly Asia), but this business is centered on North America. In April 2013, the scope of this business was instantly expanded with the acquisition of Hair Club (USA), Inc., which is the largest provider of men's custom-made wigs in North America. Due to the recording of significant expenses for amortizing goodwill and intangible fixed assets from the acquisition of Hair Club, the segment operating loss has continued, but currently achieving profitability is in sight. On a FY2/16 Q2 stand-alone (three months) basis, Hair Club achieved an operating profit, and in addition the operating loss in the overseas wig business segment shrank to ¥69mn. The Company is focusing on improving profitability through acquiring FC stores, opening new stores, and enhancing the product lineup (including releasing hair volumizing products and women's products).



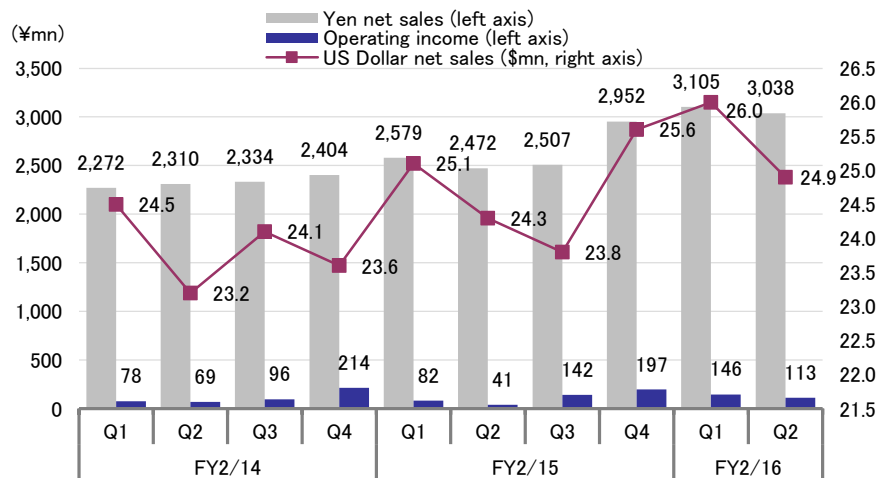
Source: Compiled by FISCO Ltd. based on the financial reports briefing materials



Source: Compiled by FISCO Ltd. based on the financial reports briefing materials

Hair transplantation is essentially different from sales of wigs and is the medical practice of transplanting hair follicles (tissue containing hair roots) to the scalp. The Company entered the hair transplantation business through its acquisition in 2001 of Bosley, Inc. Bosley is the leading company in the North America market in the hair transplantation field with a share of around 10%. Supported by the Company, such as for releasing new commercials and upgrading its website, Bosley is enhancing its service menu by adding a new hair follicular unit extraction (FUE) method of hair transplantation to its usual methods, and is continuing to steadily expand its business scope.

Bosley Business Results, FY2/14–FY2/16



Source: Compiled by FISCO Ltd. based on the financial reports briefing materials

In 2H, attention will be focused on results that can be read as a counter attack

(3) Company forecast for FY2/16

The FY2/16 full-year forecast remains unchanged from the initial forecast, of net sales of ¥81,000mn (up 5.6% y-o-y), operating income of ¥3,700mn (up 28.4%), ordinary income of ¥3,300mn (down 45.0%), and net income of ¥2,800mn (down 44.8%). As the Q2 results were significantly below the targets, the hurdles the Company must clear in 2H to reach its full-year targets have grown higher. But as there will not be any dramatic changes, for example to the business environment or product lineup, our impression at FISCO is that an amber light is flashing toward it achieving its targets in the full-year results outlook.

Overview of the FY2/16 Forecast

	FY2/15			FY2/16				
	1H	2H	Full year	1H forecast	1H result	2H initial forecast	2H new forecast	Full year forecast
Net sales	37,246	39,478	76,725	38,000	39,842	43,000	41,158	81,000
y-o-y	20.6%	7.0%	13.2%	2.0%	7.0%	8.9%	4.3%	5.6%
Operating income	1,371	1,509	2,880	1,100	459	2,600	3,241	3,700
y-o-y	-21.7%	-19.1%	-20.4%	-19.8%	-66.5%	72.3%	114.8%	28.4%
Ordinary income	1,652	4,345	5,997	1,000	821	2,300	2,479	3,300
y-o-y	-15.9%	72.6%	33.8%	-39.5%	-50.3%	-47.1%	-42.9%	-45.0%
Net income	1,394	3,680	5,075	800	349	2,000	2,451	2,800
y-o-y	-48.4%	133.6%	18.5%	-42.6%	-74.9%	-45.7%	-33.4%	-44.8%

Source: Compiled by FISCO Ltd. based on the financial results summary

Looking at the results in this fiscal period, what we consider to be important at FISCO is whether or not the Company can achieve its initial target (operating income of ¥2,600mn) in its 2H results. Or in other words, whether or not it can suppress the attacks from its competitors in the domestic women's business that occurred up to Q2 and moreover launch a counterattack. We will be paying close attention to its results to see if we can clearly read from them whether it has achieved this.



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

(¥mn)

	FY2/12	FY2/13	FY2/14	FY2/15			FY2/16		
	Full year	Full year	Full year	1H	2H	Full year	1H	2H (E)	Full year (E)
Net sales	47,422	51,089	67,755	37,246	39,478	76,725	39,842	41,158	81,000
y-o-y	-1.6%	7.7%	32.6%	20.6%	7.0%	13.2%	7.0%	4.3%	5.6%
Gross profit	38,862	41,704	53,938	30,009	31,371	61,380	31,642	-	-
y-o-y	-0.0%	7.3%	29.3%	21.8%	7.0%	13.8%	5.4%	-	-
SG&A expenses	36,330	38,145	50,321	28,638	29,862	58,500	31,183	-	-
y-o-y	-18.8%	5.0%	31.9%	25.2%	8.8%	16.3%	8.9%	-	-
Ratio	76.6%	74.7%	74.3%	76.9%	75.6%	76.2%	78.3%	-	-
Operating income	2,531	3,559	3,616	1,371	1,509	2,880	459	3,241	3,700
y-o-y	-	40.6%	1.6%	-21.7%	-19.1%	-20.3%	-66.5%	114.8%	28.4%
Margin	5.3%	7.0%	5.3%	3.7%	3.8%	3.8%	1.2%	7.9%	4.6%
Ordinary income	2,547	3,849	4,481	1,652	4,345	5,997	821	2,479	3,300
y-o-y	-	51.1%	16.4%	-15.9%	72.6%	33.8%	-50.3%	-42.9%	-45.0%
Margin	5.4%	7.5%	6.6%	4.4%	11.0%	7.8%	2.1%	6.0%	4.1%
Net income	1,134	3,301	4,281	1,394	3,680	5,075	349	2,451	2,800
y-o-y	-	191.1%	29.7%	-48.4%	133.6%	18.5%	-74.9%	-33.4%	-44.8%
Margin	2.4%	6.5%	6.3%	3.7%	9.3%	6.6%	0.9%	6.0%	3.5%
EPS (¥)	30.83	89.69	116.32	37.87	104.56	142.43	10.00	68.58	78.58
DPS (¥)	0.00	10.00	10.00	0.00	15.00	15.00	0.00	15.00	15.00
Capital expenditure	1,249	1,782	2,011	1,355	1,564	2,919	1,675	-	-
Depreciation and amortization	1,170	1,061	3,149	2,124	2,199	4,323	2,347	-	-
EBITDA	3,701	4,621	6,766	3,495	3,709	7,204	2,806	5,394	8,200
EBITDA margin	7.8%	9.0%	10.0%	9.4%	9.4%	9.4%	7.0%	13.1%	10.1%

Summary Balance Sheet, FY2/12-FY2/16E

(¥mn)

	FY2/12	FY2/13	FY2/14	FY2/15
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
Other current assets	4,675	5,883	10,108	11,327
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
Other current liabilities	6,210	7,361	8,811	9,827
Fixed liabilities	3,068	2,833	17,032	22,809
Bonds and long-term borrowings	-	1	8,662	12,813
Other fixed liabilities	3,068	2,832	8,370	9,996
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	-6,987	-7,020	-7,022	-4,282
Other	-3,902	-3,262	-1,788	-2,327
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

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Summary Cash Flow Statement, FY2/12-FY2/16E

	(¥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	-2,238	-18,036	-2,915
Cash flow from financing	-85	-180	9,036	1,002
Gain or loss on translation of foreign currency cash and deposits	-213	279	-401	311
Change in cash and deposits	327	2,239	-3,076	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

(4) Medium-term management plan

The Company is implementing a three-year medium-term management plan for the period FY2/16 to FY2/18. It has set the long-term target of “consolidated net sales of ¥100bn in fiscal 2020 (FY2/21),” and as the interim process leading to it, has also set numerical targets for the final year of the medium-term plan, fiscal 2017 (FY2/18), of net sales of ¥89,000mn, operating income of ¥6,200mn, and EBITDA of ¥10,800mn. Currently, as of the end of FY2/16 Q2, it has made no changes to its medium-term management targets. While these targets in its medium-term management plan may be adjusted or changed depending on how results trend, at FISCO we consider that the timing of such changes will most likely be at the earliest when it announces this fiscal period’s full-year results.

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

			FY2/15		Medium-term Plan			FY2/21
			Forecast	Result	FY2/16	FY2/17	FY2/18	
					New plan	New plan	Previous plan	
Business performance	Net sales	(¥mn)	74,000	76,725	81,000	85,000	89,000	100,000
	Domestic	(¥mn)	42,200	42,064	43,800	44,800	46,000	50,000
	Overseas	(¥mn)	33,800	34,661	38,500	41,400	44,300	51,500
	Operating income	(¥mn)	4,100	2,880	3,700	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	8,200	9,300	10,800	-
	Operating income margin	%	5.5%	3.8%	4.6%	5.6%	7.0%	-
	EBITDA margin	%	10.3%	9.4%	10.1%	10.9%	12.1%	-
	Return on equity (ROE)	%	-	14.0%	-	-	-	-

Source: Compiled by FISCO Ltd. based on Medium-term Management Plan material

At the stage of 1H in the first year of the medium-term management plan, already it seems that the Company is going to have to play catchup toward achieving its results targets. But as previously explained, at FISCO we don’t believe there is any need to be excessively pessimistic about the current situation. In its medium-term management plan, it has positioned the women’s market and overseas market as the sources of growth, and the overseas market is trending steadily. Conversely, in order for the domestic women’s market to function as a growth market, expanding the scope of wig users is essential, and a consequence of the new market entrants is without question that the scope of the market is being expanded. In the future, the Company must find an answer to the question of how to convert users of competitors’ wigs to its own users, but the battle has only just begun. However, going forward we consider that it is entirely possible that the Company will recover and achieve its FY17 results targets.

■ Shareholder Return Policy

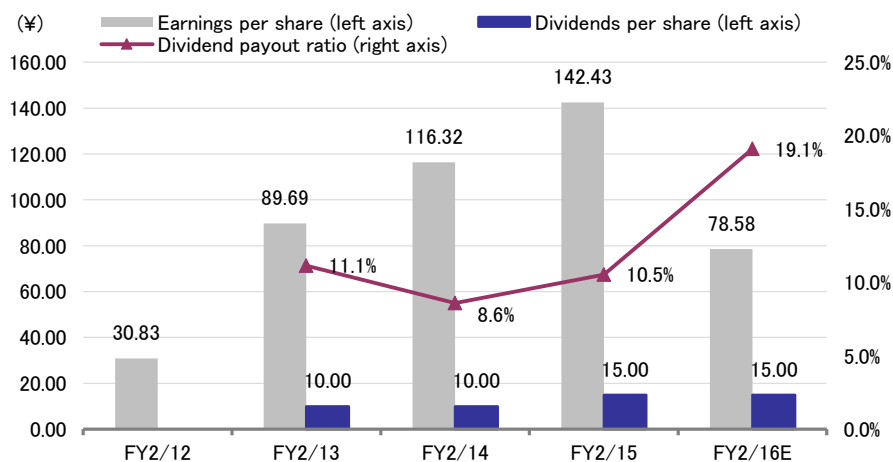
Sufficient room for dividend growth and is expected to provide returns to shareholders in accordance with profit growth in the future

The Company is very conscious of providing returns to shareholders. Even though it has many investment projects domestically and overseas, including to open stores and for corporate acquisitions, it still has steadily grown EBITDA and is achieving both financial strengthening and enhancing returns to shareholders.

In FY2/16, the Company is forecasting a dividend of ¥15, which is unchanged y-o-y. As previously explained, currently an amber light is flashing in terms of the Company achieving its FY2/16 results forecasts. Although the Company's policy is to raise the dividend in a form that reflects results growth, at FISCO we think that even if income declines in this fiscal period, the likelihood that it will reduce the dividend is small. The reason is that its dividend payout ratio is not high. The Company is maintaining its initial dividend forecast and based on the forecast earnings per share (EPS) (¥78.58), the forecast dividend payout ratio is 19.1%. Conversely, the total EPS from the current Q2 result and the 2H initial forecast is ¥66.13, and based on this, the dividend payout ratio will be 22.7%. In this way, the dividend payout ratio will not be extremely high and there remains sufficient room for the Company to pay a dividend, so consequentially we expect it to maintain its dividend forecast.

The Company's medium-term plan envisions a cumulative EBITDA of ¥28.3bn in FY2/16 to FY 2/18, while its capital expenditure will amount to ¥10bn to ¥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, even when incorporating the fact that it failed to achieve its results targets in this period, at FISCO we think there remains sufficient room for dividend growth and in the future, we expected the Company to provide returns to shareholders in accordance with profit growth.

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



Source: Compiled by FISCO Ltd. based on the financial results summary

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