

MEDIROM HEALTHCARE TECHNOLOGIES INC. CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Yen in thousands, except share data)

	Years Ended December 31,	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income	17,335	66,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,174	44,267
Losses on sales of directly-operated salons to franchisees	9,600	4,057
Provision for bad debt	271	10,237
Stock-based compensation	—	149
Losses on disposal of property and equipment, net and other intangible assets, net	4,631	17,627
Impairment loss on long-lived assets	44,546	40,778
Gain from bargain purchases	(6,487)	(33,218)
Deferred income tax expense	5,739	18,468
Other non-cash (gains) expense – net	(895)	565
Changes in operating assets and liabilities:		
Accounts receivable-trade, net	(66,877)	30,170
Accounts receivable-other	(36,190)	(66,331)
Inventories	892	6,921
Prepaid expenses and other current assets	(39,698)	(31,357)
Lease and guarantee deposits	(14,163)	35,488
Accounts payable	(18,729)	88,512
Accrued expenses	116,856	(89,935)
Accrued income taxes	4,200	4,510
Advances received	(39,177)	20,654
Other current liabilities	10,226	(9,878)
Deposit received	(20,871)	(20,034)
Other assets and other liabilities – net	(9,513)	3,912
Net cash provided by operating activities	<u>7,870</u>	<u>141,872</u>
Cash flows from investing activities:		
Purchases of time deposits	(37,900)	(40,002)
Proceeds from maturities of time deposits	6,000	82,100
Acquisition of affiliated company securities	—	(49,240)
Acquisition of investment securities	(13,544)	(500)
Acquisition of property and equipment	(7,406)	(34,298)
Proceeds from sale of property and equipment	5,000	—
Cost additions to internal use software	(12,068)	(15,817)
Proceeds from sale of intangible assets	—	2,430
Acquisition of businesses – net of cash acquired	(3,201)	(60,271)
Proceeds from due from shareholder	8,412	—
Payment received on short-term loans receivable	450	2,310
Payment received on long-term accounts receivable-other, net	16,326	33,900
Net cash used in investing activities	<u>(37,931)</u>	<u>(79,388)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	700,000	—
Net proceeds from short-term borrowings	—	180,000
Proceeds from long-term borrowings	—	90,000
Repayment of long-term borrowings	(234,411)	(327,475)
Payment of consideration of business acquisitions	(82,812)	—
Payment of deferred offering costs	(43,283)	—
Repayment of corporate bonds	(7,500)	(17,000)
Net cash provided by (used in) financing activities	<u>331,994</u>	<u>(74,475)</u>
Net increase (decrease) in cash and cash equivalents	301,933	(11,991)
Cash and cash equivalents at beginning of year	211,688	223,679
Cash and cash equivalents at end of year	<u>513,621</u>	<u>211,688</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	11,872	17,010
Income taxes	24,344	14,778
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease liabilities	749,008	766,827
Purchases of intangible assets included in accrued expenses	3,321	791
Acquisition of businesses included in accrued expenses	48,901	111,101
Deferred offering costs included in accrued expenses	14,226	—