

MEDIROM HEALTHCARE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)—CONTINUED FOR THE SIX MONTHS ENDED JUNE 30,
2020 AND 2019
(Yen in thousands)

	Six Months Ended June30,	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net (loss) income	(442,971)	54,045
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	33,105	22,793
Losses on sales of directly-operated salons to franchisees	65	8,721
(Recovery of) provision for bad debt	(5,295)	6,895
Losses on disposal of long-lived assets, net	26,913	540
Impairment loss on long-lived assets	—	23,604
Gain from bargain purchases	(1,624)	(4,343)
Deferred income tax expense	11,046	6,318
Other non-cash expense (gains) – net	121	(156)
Changes in operating assets and liabilities:		
Accounts receivable-trade, net	192,093	108,749
Accounts receivable-other	89,518	108,501
Inventories	(369)	777
Prepaid expenses and other current assets	(37,422)	(1,570)
Lease and guarantee deposits	84,323	51,050
Accounts payable	(52,394)	42,184
Accrued expenses	(62,280)	(78,015)
Accrued income taxes	3,105	(8,523)
Advances received	(124,828)	(160,286)
Other current liabilities	(23,476)	2,790
Deposit received	(66,195)	2,323
Other assets and other liabilities – net	1,704	(4,836)
Net cash (used in) provided by operating activities	<u>(374,861)</u>	<u>181,561</u>
Cash flows from investing activities:		
Purchases of time deposits	(13,500)	(18,700)
Proceeds from maturities of time deposits	10,000	—
Proceeds from sale of affiliated company securities	50,000	—
Acquisition of investment securities	—	(8,544)
Acquisition of property and equipment	(70,803)	—
Proceeds from sale of property and equipment	3,227	—
Cost additions to internal use software	(9,492)	(6,473)
Acquisition of businesses – net of cash acquired	(42,393)	(3,201)
Proceeds from due from shareholder	7,966	1,793
Payment received on short-term loans receivable	225	225
Payment received on long-term accounts receivable-other, net	7,515	9,126
Net cash used in investing activities	<u>(57,255)</u>	<u>(25,774)</u>
Cash flows from financing activities:		
Proceeds from long-term borrowings	330,000	—
Repayment of long-term borrowings	(114,657)	(121,260)
Payment of installment payables related to business acquisitions	(30,199)	(16,000)
Payment of deferred offering costs	(41,589)	—
Repayment of corporate bonds	—	(7,500)
Net cash provided by (used in) financing activities	<u>143,555</u>	<u>(144,760)</u>
Net (decrease) increase in cash and cash equivalents	<u>(288,561)</u>	<u>11,027</u>
Cash and cash equivalents at beginning of period	513,621	211,688
Cash and cash equivalents at end of period	<u>225,060</u>	<u>222,715</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	4,896	6,579
Income taxes	4,953	13,634
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease liabilities	189,240	240,790
Purchases of property and equipment included in accrued expenses	9,548	—
Payables related to acquisition of businesses included in accrued expenses	60,902	95,101
Deferred offering costs included in accrued expenses	26,476	15,184