

MEDIROM HEALTHCARE TECHNOLOGIES INC. CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Yen in thousands, except share data)

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net income	(539,170)	17,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	62,290	46,174
Losses on sales of directly-operated salons to franchisees	0	9,600
Provision for bad debt	(11,376)	271
Stock-based compensation	10,544	0
Losses on disposal of property and equipment, net and other intangible assets, net	33,841	4,631
Impairment loss on long-lived assets	106,501	44,546
Gain from bargain purchases	0	(6,487)
Deferred income tax expense	(107,264)	5,739
Other non-cash (gains) expense-net	1,903	(895)
Changes in operating assets and liabilities:		
Accounts receivable-trade, net	189,143	(66,877)
Accounts receivable-other	(48,031)	(36,190)
Inventories	(2,445)	892
Prepaid expenses and other current assets	(8,167)	(39,698)
Lease and guarantee deposits	58,468	(14,163)
Accounts payable	(55,574)	(18,729)
Accrued expenses	206,706	116,856
Accrued income taxes	25,364	4,200
Contract liability	(160,595)	0
Advances received	(15,322)	(39,177)
Other current liabilities	(3,389)	10,226
Deposit received	(98,925)	(20,871)
Other assets and other liabilities-net	(10,922)	(9,513)
Net cash provided by operating activities	<u>(366,420)</u>	<u>7,870</u>
Cash flows from investing activities:		
Purchases of time deposits	(26,703)	(37,900)
Proceeds from maturities of time deposits	10,000	6,000
Acquisition of affiliated company securities	53,000	0
Acquisition of investment securities	0	(13,544)
Acquisition of property and equipment	(73,556)	(7,406)
Proceeds from sale of property and equipment	3,227	5,000
Cost additions to internal use software	(30,569)	(12,068)
Acquisition of businesses-net of cash acquired	(99,195)	(3,201)
Proceeds from due from shareholder	8,267	8,412
Payment received on short-term loans receivable	900	450
Payment received on long-term accounts receivable-other, net	15,030	16,326
Net cash used in investing activities	<u>(139,599)</u>	<u>(37,931)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock in initial public offering – net of underwriting discounts and commissions	1,168,627	0
Proceeds from issuance of common stock	0	700,000
Net proceeds from short-term borrowings	(180,000)	0
Proceeds from long-term borrowings	775,000	0
Repayment of long-term borrowings	(206,440)	(234,411)
Payment of consideration of business acquisitions	(33,949)	(82,812)
Payment of deferred offering costs	(97,857)	(43,283)
Repayment of corporate bonds	0	(7,500)
Proceeds from issuance of stock options	6,750	0
Net cash provided by (used in) financing activities	<u>1,432,131</u>	<u>331,994</u>
Net increase (decrease) in cash and cash equivalents	926,112	301,933
Cash and cash equivalents at beginning of year	513,621	211,688
Cash and cash equivalents at end of year	<u>1,439,733</u>	<u>513,621</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	10,219	11,872
Income taxes	7,005	24,344
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease liabilities	604,703	749,008
Purchases of property and equipment included in accrued expenses	29,244	0
Purchases of intangible assets included in accrued expenses	1,535	3,321
Acquisition of businesses included in accrued expenses	1,667	48,901
Deferred offering costs included in accrued expenses	261,619	14,226