

MEDIROM HEALTHCARE TECHNOLOGIES INC. CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020
(Yen in thousands, except share data)

	Years Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net (loss) income	148,965	(990,731)	(539,170)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	184,056	126,243	62,290
Losses on sales of directly-owned salons to franchisees	—	2,692	—
Gain from sales of directly-owned salons	(858,548)	(541,472)	
Bad debt	(36,355)	28,808	(11,376)
Stock-based compensation	—	196,853	10,544
Losses on disposal of property and equipment, net, other intangible assets, net and goodwill	12,908	3,614	33,841
Impairment loss on long-lived assets	—	63,211	106,501
Deferred income tax expense (benefit)	—	551,483	(107,264)
Other non-cash (gains) losses – net	—	819	1,903
Changes in operating assets and liabilities:			
Accounts receivable-trade, net	(222,384)	(37,024)	189,143
Accounts receivable-other, net	(210,476)	(87,148)	(48,031)
Inventories	(95,406)	(2,441)	(2,445)
Prepaid expenses and other current assets	(181,477)	(74,799)	(8,167)
Lease and guarantee deposits	(27,185)	(70,662)	58,468
Accounts payable	(23,318)	58,437	(55,574)
Accrued expenses	517,714	195,541	206,706
Accrued income taxes	19,173	(2,897)	25,364
Contract liability	(82,636)	(162,793)	(160,595)
Advances received	(111,109)	96,198	(15,322)
Other current liabilities	254,742	130,110	(3,389)
Deposit received	(24,411)	(46,501)	(98,925)
Other assets and other liabilities – net	50,050	5,228	(10,922)
Net cash (used in) provided by operating activities	<u>(685,697)</u>	<u>(557,231)</u>	<u>(366,420)</u>
Cash flows from investing activities:			
Purchases of time deposits	—	(26,402)	(26,703)
Proceeds from maturities of time deposits	—	6,000	10,000
Proceeds from sale of investments	—	—	53,000
Acquisition of investments	—	(52,520)	—
Acquisition of property and equipment	(120,740)	(95,651)	(73,556)
Proceeds from sale of property and equipment	40,620	—	3,227
Cost additions to internal use software	(45,761)	(18,127)	(30,569)
Proceeds from sale of salons	851,719	430,000	
Acquisition of businesses – net of cash acquired	(148,000)	(375,757)	(99,195)
Proceeds from due from shareholder	—	—	8,267
Payment received on short-term loans receivable	—	450	900
Payment received on long-term accounts receivable-other, net	2,599	9,488	15,030
Proceeds from insurance cancellations	—	38,583	
Net cash used in investing activities	<u>580,437</u>	<u>(83,936)</u>	<u>(139,599)</u>
Proceeds from issuance of common stock in initial public offering – net of underwriting discounts and commissions	—	—	1,168,627
Proceeds from issuance of common stock for exercise of over-allotment, net of issuance costs	—	87,642	—
Net repayment of short-term borrowings	(162,252)	—	(180,000)

Proceeds from long-term borrowings	547,619	—	775,000
Repayment of long-term borrowings	(45,270)	(251,084)	(206,440)
Payment of installment payables related to business acquisitions	—	(2,888)	(33,949)
Payment of deferred offering costs	—	(261,619)	(97,857)
Proceeds from issuance of stock options	—	—	6,750
Net cash (used in) provided by financing activities	<u>340,097</u>	<u>(427,949)</u>	<u>1,432,131</u>
Net (decrease) increase in cash and cash equivalents	234,837	(1,069,116)	926,112
Cash and cash equivalents at beginning of year	<u>370,617</u>	<u>1,439,733</u>	<u>513,621</u>
Cash and cash equivalents at end of year	<u><u>605,454</u></u>	<u><u>370,617</u></u>	<u><u>1,439,733</u></u>

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	7,535		10,219
Income taxes	30,809		7,005
Non-cash investing and financing activities:			
Right-of-use assets obtained in exchange for lease liabilities	673,468	917,135	604,703
Purchases of property and equipment included in accrued expenses	—	23,488	29,244
Purchases of intangible assets included in accrued expenses	—	14,236	1,535
Payables related to acquisition of businesses included in accrued expenses	—	—	1,667
Sales of salons included in accounts receivable	134,876	129,000	—
Payable related to acquisition of noncontrolling interests included in mandatorily redeemable noncontrolling interests	—	148,000	—
Deferred offering costs included in accrued expenses	—	—	261,619