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### **“DIO” Management Reform Plan Outline for the Aderans Group**

Tokyo, July 15, 2009—The Board of Directors at Aderans Holdings (hereafter, “the Company”) approved at its meeting yesterday, July 14, 2009, Outline for the “DIO” Management Reform Plan to be implemented throughout the Aderans Group. Background, reasons and the outline of the plan are described below.

#### **Background to Making the Outline for “DIO” Management Reform Plan**

Based on the results of voting at the 40th Ordinary General Shareholders’ Meeting on May 28, 2009, the Aderans Group embarked on the next chapter of its corporate history with a new management structure. Under this structure, which hinges on new directors and executive officers, the companies of the Aderans Group will strive to contribute to higher corporate and shareholder values, enabling the Company to fully meet the expectations of all stakeholders, and all the Group employees will work as a cohesive unit, addressing day-to-day business issues with a renewed commitment to the customer-comes-first spirit that infused the original Aderans at its establishment.

Soon after taking office, the new management team came to the conclusion that sweeping business reforms and clear-cut measures to improve profitability, pursued with swift and bold action, would be critical if the Group was to consistently raise corporate and shareholder values.

Toward this end, the Company began forming the building blocks of a foundation to ascertain the viability of management reforms. The process is complete and the building blocks include four advisory committees (Personnel/Compensation Committee, Finance/Capital Committee, Marketing Committee, and Compliance/Governance Committee)—with most seats filled by outside directors to offer the Board of Directors insight from respective expert perspectives—as well as the Corporate Marketing Office, and Team DIO, a “do-it-ourselves” management reform team built on the participation of young employees who share a strong desire “to accomplish business reform by ourselves.” Hence the name, Team DIO.

In addition, acknowledging that the old corporate structure precluded sufficient input from a female perspective, management will actively encourage women to contribute ideas and reflect their opinions in the management reform plan. This progressive approach is substantiated by the assignment of Junko Miwa, an executive

officer, to the Corporate Marketing Office, and the selection of women to participate in such key reform support groups as Team DIO.

The next step will be to flesh out action plans with concrete measures for implementation based on Outline for the “DIO” Management Reform Plan. , We will facilitate recovery of business performance by raising customer satisfaction levels through a return to the Group’s starting point—that is, the core operations of hair-related products and services, namely, custom-made wigs, ready-made wigs, healthy hair-growth services and hair transplants—and by emphasizing growth-oriented investments, and execute an aggressive return to shareholders.

### **Causes of the Performance Slump and Responses**

Management has identified the primary causes for the Group’s persistently lackluster net sales, profits and stock price over the past few years.

1. Failed marketing strategy, including methods applied to advertising and promotions, product development, pricing, and salon and sales routes.
2. Failed diversification outside core operations.
3. Over-emphasis on sales in the personnel system and spread of the malaise that often affects large corporations.

Despite these issues, the Group stands at the forefront of the industry in terms of high-quality products and services—backed by solid technological capabilities and know-how—and the wide selection of products and services available. The Group also enjoys a top market share, supported by a network of sales channels that stretches throughout Japan and to many points abroad.

Management believes the obvious and only course of action to halt further decay of the Group’s corporate and shareholder values and put values back on an upward path is to concentrate management resources into core operations, that is, hair-related products and services.

Therefore, operational restructuring will be the pillar of management reform efforts, fueled by a return to the corporate starting point— core operations —and growth-oriented investment as well as a groupwide commitment to raising customer satisfaction levels.

The spotlight will be on revamped marketing strategies; aggressive growth-oriented investment; rigorous salon management and a scrap-and-build process that emphasizes return on investment; a solid corporate structure built through these administrative reforms; the disposal of noncore operations and associated assets; the pursuit of synergies among Group companies; efficient use of capital through the introduction of group cash management; a reconfigured personnel system and thorough employee training; an enhanced compliance structure; stronger corporate governance; and improved shareholder returns.

In addition, proceeds from the disposal of noncore operations and associated assets as well as profits from operating activities will be invested in sustainable growth opportunities, and strict standards for return on investment will be set and followed. Surplus assets will be actively converted to cash for return to shareholders.

All told, these measures will underpin higher shareholder value and, by extension, boost corporate value.

## **“DIO” Management Reform Plan Outline**

### **1. Improve customer satisfaction by revamping marketing strategy and pursuing growth-oriented investment**

The Group will focus on three areas—the market, competition and client trends—in putting a new marketing strategy to work. The Group will also strive to achieve sustainable profit increases by communicating, conclusively, to clients and prospective clients, the superior features of the Group’s products and services, and seek to raise customer satisfaction levels.

To facilitate the creation and implementation of an effective marketing strategy, the Company established the Marketing Committee, which offers advice to the Board of Directors, and the Corporate Marketing Office. And, to ensure that the Company’s return-on-investment standard is strictly applied and that targets are thoroughly considered, from the perspective of enhanced corporate and shareholder values, the Company established the Finance/Capital Committee.

The key growth strategies for domestic operations are

- (1) To reinforce branding in market segments with growth potential.
- (2) To accurately identify client needs through market research and enhance product appeal.
- (3) To clarify sales prices so that clients feel comfortable with their product choices and view the purchasing process and the Aderans name with greater trust.
- (4) To make advertising and promotional materials more appealing and thereby attract wider interest.

### **2. Take a scrap-and-built approach to salons and execute thorough salon management practices**

In the Domestic Core Business—essentially, the activities of Aderans Co., Ltd.—and the Fontaine Business as well as the salon business, about 30 unprofitable locations will be closed, streamlined or integrated. This will shrink annual aggregate operating expenses by about ¥600 million by February 28, 2011, compared with the amount booked in fiscal 2009, the year ended February 28, 2009.

Following this realignment of the existing salon network, the Company will aggressively but selectively develop the network, with an emphasis on expansion at top-performing salons and the establishment of new locations where and when appropriate.

The Company will continue to stress numerical achievements, based on key performance indicators, and encourage underperforming salons to embrace the practices that have made highly efficient salons so successful.

### **3. Build a solid management structure by improving operating and administration practices**

- (1) When sales have recovered, the Group should produce higher operating profit than in past fiscal years. This will be achieved by cutting fixed expenses.

- (2) Management is already considering the possibility of integrating subsidiaries at home and abroad. This would include Aderans and Fontaine Co., Ltd, Bosley, Inc., and MHR, Inc., and companies involved in the Overseas Core Business in North America and in Europe. The integration of the two key hair transplant providers—Bosley and MHR—along with integration of region-specific Overseas Core Business companies, could dramatically shrink fixed expenses and underpin a higher operating profit margin.
- (3) The Company seeks to maximize the Group's supply chain to reduce cost of sales, trim inventories and cut lead time on custom-made products.

Through the three steps described above, the Company expects to see aggregate annual expenses drop by about ¥1.5 billion and the amount of working capital required to decrease.

- (4) The Company intends to introduce various systems, including a consolidated tax return system, as soon as possible and expects corporate taxes to decrease by about ¥1.0 billion in the fiscal year that such systems are applied.

#### **4. Disposal of noncore operations and associated assets**

Businesses that fall outside the scope of core operations will be sold or liquidated. Noncore assets, including real estate (book value about ¥4.0 billion) and securities (book value about ¥9.5 billion) used in or associated with business areas outside core operations will be sold. This will decrease aggregate annual expenses by about ¥300 million and generate cash for the Company. The proceeds will be earmarked for investment, according to the aforementioned growth-oriented strategy, and surplus funds will be returned to shareholders as dividends.

#### **5. Generating synergies within the Group**

To reinforce the holding company function, the Company has created the position of group financial officer, recently set up the Corporate Marketing Office and plans to put in place its own personnel office on August 1<sup>st</sup>, 2009. These structures will maximize opportunities to generate synergies among Group companies, especially in sharing salon-development know-how and operating expertise in finance, marketing, personnel, information systems and overall supply chain optimization.

#### **6. Efficient use of capital through group cash management**

Cash and deposits currently held by our Group subsidiaries in countries all over the world will be collectively managed by the Company, and utilized for growth-oriented investment and return to shareholders.

#### **7. Revamped personnel system and thorough employee training**

The Company will set up an evaluation system linked to improved customer satisfaction and strive to create a work environment with a challenging, energetic atmosphere that motivates employees to do well in their assigned responsibilities. The Company will also oversee comprehensive training for employees of all career levels, from executives to salon technicians and counselors, but will focus on the frontline

professionals who deal directly with clients so that they may extend services of the highest quality.

To facilitate changes in the old personnel system and ensure thorough employee training, the Company established the Personnel/Compensation Committee to advise the Board of Directors. The Company also plans to install its own personnel office, which will draft and implement a groupwide personnel system.

#### **8. Enhanced compliance structure**

The Company has already put in place the Compliance/Governance Committee, with mostly outside director participation. Now, the Company seeks to reinforce the role of the Legal Office, primarily to improve the internal communication structure and ensure adherence to the Group's code of conduct through employee training, which will elicit greater awareness of compliance issues among employees and create a stronger compliance structure.

#### **9. Stronger corporate governance and efforts to build shareholder value**

- (1) The Company established the Compliance/Governance Committee to function in an advisory capacity to the Board of Directors.
- (2) Firmly believing that the best defense against a takeover bid is enhanced shareholder value, management abolished the Company's measures for countering large-scale acquisitions of its own shares, effective June 18, 2009.
- (3) Buyback and cancellation of treasury stock: Management closely examined such factors as the amount of financial assets held by the Group, the current consolidated equity ratio, and the need for funds to pursue such strategies as growth-oriented investment, and decided to purchase up to two million shares of its own stock—approximately 5% of total outstanding shares—at a maximum payout of ¥2.5 billion from the market. Then, except for a portion of treasury stock to be used as management incentives, these shares along with treasury stock already held by the Company, will be promptly cancelled.

#### **Performance Forecast**

The executive team elected at the General Shareholders' Meeting on May 28, 2009, is currently fine-tuning the content of the management reform plan, and performance estimates attendant upon the plan have not been set for the first two quarters of the consolidated fiscal year ending February 28, 2010, or for the full-year, because the extent of discrepancy with the initial forecast announced on April 16, 2009, is still unclear.

When performance trends become known, probably in early October, through an update on the progress of management reforms, the Company will issue an announcement on performance estimates.

Further information pertaining to the measures outlined above will be disclosed in a timely manner as decisions are finalized.