

REGIS CORP
Form 10-K
August 23, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended June 30, 2018

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-12725

Regis Corporation
(Exact name of registrant as specified in its charter)

Minnesota 41-0749934
State or other jurisdiction of (I.R.S. Employer
incorporation or organization Identification No.)
7201 Metro Boulevard, Edina, Minnesota 55439
(Address of principal executive offices) (Zip Code)

(952) 947-7777
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered
Common Stock, par value \$0.05 per share New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Emerging growth
(Do not check if a company company

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smaller reporting
company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter, December 31, 2017, was approximately \$550,996,588. The registrant has no non-voting common equity.

As of August 15, 2018, the registrant had 44,265,743 shares of Common Stock, par value \$0.05 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the annual fiscal 2018 meeting of shareholders (the "2018 Proxy Statement") (to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year-end of June 30, 2018) are incorporated by reference into Part III.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report, as well as information included in, or incorporated by reference from, future filings by the Company with the Securities and Exchange Commission and information contained in written material, press releases and oral statements issued by or on behalf of the Company contains or may contain "forward-looking statements" within the meaning of the federal securities laws, including statements concerning anticipated future events and expectations that are not historical facts. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this document reflect management's best judgment at the time they are made, but all such statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed in or implied by the statements herein. Such forward-looking statements are often identified herein by use of words including, but not limited to, "may," "believe," "project," "forecast," "expect," "estimate," "anticipate," and "plan." In addition, the following factors could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include the continued ability of the Company to implement its strategy, priorities and initiatives; our ability to attract, train and retain talented stylists; financial performance of our franchisees; acceleration of sale of certain salons to franchisees; The Beautiful Group's ability to transition and operate its salons successfully, as well as maintain adequate working capital; the ability of the Company to maintain a satisfactory relationship with Walmart; marketing efforts to drive traffic; changes in regulatory and statutory laws including increases in minimum wages; our ability to maintain and enhance the value of our brands; premature termination of agreements with our franchisees; our ability to manage cyber threats and protect the security of sensitive information about our guests, employees, vendors or Company information; reliance on information technology systems; reliance on external vendors; consumer shopping trends and changes in manufacturer distribution channels; competition within the personal hair care industry; changes in tax exposure; changes in healthcare; changes in interest rates and foreign currency exchange rates; failure to standardize operating processes across brands; financial performance of Empire Education Group; the continued ability of the Company to implement cost reduction initiatives; compliance with debt covenants; changes in economic conditions; changes in consumer tastes and fashion trends; exposure to uninsured or unidentified risks; reliance on our management team and other key personnel or other factors not listed above. Additional information concerning potential factors that could affect future financial results is set forth under Item 1A of this Form 10-K. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made in our subsequent annual and periodic reports filed or furnished with the SEC on Forms 10-Q and 8-K and Proxy Statements on Schedule 14A.

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REGIS CORPORATION

FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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PART I

Item 1. Business

General:

Regis Corporation owns, franchises and operates beauty salons. The Company is listed on the NYSE under the ticker symbol "RGS." Unless the context otherwise provides, when we refer to the "Company," "we," "our," or "us," we are referring to Regis Corporation, the Registrant, together with its subsidiaries.

As of June 30, 2018, the Company-owned, franchised or held ownership interests in 8,168 locations worldwide. The Company's locations consist of 3,966 company-owned salons, 4,114 franchised salons and 88 locations in which we maintain a non-controlling ownership interest of less than 100%. Each of the Company's salon concepts generally offer similar salon products and services.

The major services supplied by the Company's salons are haircutting and styling (including shampooing and conditioning), hair coloring and other services. Service revenues comprise approximately 81% of total company-owned revenues. The percentage of company-owned service revenues in fiscal year 2018 attributable to haircutting and styling, hair coloring and other services were 77%, 16% and 7%, respectively.

In fiscal year 2017, we announced plans to expand the franchise side of our business, through organic growth and by selling certain company-owned salons to franchisees over time, as well as our review of strategic alternatives for company-owned mall-based locations. In January 2017, we began franchising the SmartStyle brand throughout the U.S. for the first time. In fiscal year 2018, the Company began to consider additional options to further expand its franchise business within its Supercuts company-owned salon portfolio.

In October 2017, the Company sold substantially all of its mall-based salon business in North America, representing 858 salons, and substantially all of its previous International segment, representing 250 salons in the UK, to The Beautiful Group ("TBG"), an affiliate of Regent, a private equity firm based in Los Angeles, California, who operates these locations as franchise locations. See Note 2 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K for further discussion on the sale of our mall-based salon business and the previous International segment, which are now reported as a discontinued operation. As a result of this transaction, the Company redefined its operating segments to reflect how the chief operating decision maker now evaluates the business. The Company now reports its operations in two operating segments: Company-owned salons and Franchise salons. Prior to this change, the Company had four operating segments: North American Value, North American Premium, North American Franchise and International. See Note 14 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

In January 2018, the Company closed 597 non-performing company-owned SmartStyle salons. The 597 non-performing salons generated negative cash flow of approximately \$15 million during the twelve months ended September 30, 2017. The Company anticipates this action will allow the Company to reallocate capital and human resources to strategically grow its remaining SmartStyle salons with creative new offerings.

The Company's Company-owned salon operations are comprised of 3,966 company-owned salons operating in the United States (U.S.), Canada, and Puerto Rico. The Company's Franchise salon operations are comprised of 4,114 franchised salons operating in the United States, Canada, the United Kingdom and Puerto Rico. The Company's salons operate primarily under the trade names of SmartStyle, Supercuts, MasterCuts, Regis Salons, and Cost Cutters, and they generally serve two categories within the industry, value and premium. SmartStyle, Supercuts, MasterCuts, Cost Cutters, and other regional trade names are generally within the value category, offering high quality, convenience, and affordably priced hair care and beauty services and retail products. Regis Salons, among other trade names, are in the premium category, offering upscale hair care and beauty services and retail products. The Company's Company-owned business is primarily located mainly in strip center locations and Walmart Supercenters. The Company's Franchise business is primarily located in strip center locations, Walmart Supercenters and mall-based locations. During fiscal years 2018 and 2017, the number of guest visits at the Company's company-owned salons

approximated 50 and 57 million, respectively.

Financial information about our segments and geographic areas for fiscal years 2018, 2017, and 2016 are included in Note 14 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

As we continue to evaluate our business and our mix of company-owned and franchise locations, future sales of company-owned salons to franchisees could impact our operations by decreasing total revenues and operating expenses.

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Industry Overview:

The hair salon market is highly fragmented, with the vast majority of locations independently owned and operated. However, the influence of salon chains, both franchised and company-owned, continues to grow within this market. Management believes salon chains will continue to have significant influence on this market and will continue to increase their presence.

In every area in which the Company has a salon, there are competitors offering similar hair care services and products at similar prices. The Company faces competition from chains, such as Great Clips, Fantastic Sams, Sport Clips and Ulta Beauty, independently owned salons, department store salons located within malls, in-home hair services, booth rentals and blow dry bars.

At the individual salon level, barriers to entry are low; however, barriers exist for chains to expand nationally due to the need to establish systems and infrastructure, to recruit franchisees, experienced field and salon management and stylists, and to lease quality sites. The principal factors of competition in the hair care category are quality and consistency of the guest experience, convenience, location and price. The Company continually strives to improve its performance in each of these areas and to create additional points of brand differentiation versus the competition.

2018 Strategy:

The Company is focused on maximizing shareholder value. In order to successfully maximize shareholder value we place a balanced approach to our guests, employees and stylists, franchisees and shareholders. Our multi-year renewal strategy and key priorities are focused on loving our guests and stylists and initiatives to enhance shareholder value. Achieving our strategy requires a disciplined and thoughtful approach to investing and disinvesting in programming. We are focused on accelerating the growth of our franchise business, where we believe it enhances shareholder value, while materially improving the performance of our company-owned salons.

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In fiscal year 2018, the Company has executed on various management initiatives to help stabilize performance and establish a platform for longer term revenue and earnings growth in company-owned salons and expanding its franchise business in order to maximize shareholder value. The core components of the various management initiatives are focused on improving upon our performance by better aligning company resources to demand while continuing to provide an exceptional guest experience, simplification of our business to grow revenues and disinvestment of certain programs that do not create value. As part of the various management initiatives, the Company has appointed several new key executives and personnel, including President of Franchise (in fiscal year 2017), Chief Financial Officer, Chief Marketing Officer, Chief Human Resources Officer, General Counsel, Chief Technology Officer, Senior Vice President, Merchandising and Vice President Creative.

In order to continue providing an exceptional guest experience, we have invested in salon technology by launching SmartStyle online same-day check-in, which allows our guests in Walmart locations to find a location near them, view wait times, check-in via our website or mobile application and upgrading our point-of-sale (POS) hardware to facilitate an efficient guest experience within the salons and deploying tablets in corporate-owned salons to open a channel of direct communication with our stylists, including technical education.

To maximize shareholder value, we are focused on simplification, variable labor management, quality revenue growth, and the allocation of our capital to value-maximizing initiatives. Our business historically has been structured geographically. To simplify and better focus our business on our guests, effective August 1, 2017, we re-aligned the existing field leadership team into three distinct field organizations based on our core brands: SmartStyle, Supercuts and Signature Style. This enables our field leaders to focus on specific brands. We continue to focus on managing variable stylist staffing in our corporate salons to improve financial results and in certain markets may execute price increases in our company-owned salons.

We continue to evaluate our investments and disinvest in non-value generating programs while investing in other value generating initiatives. In January 2018, we closed 597 non-performing company-owned SmartStyle salons. The 597 non-performing salons generated negative cash flow of approximately \$15 million during the twelve months ended September 30, 2017. This action will allow us to reallocate capital and human resources to strategically grow our remaining SmartStyle salons with creative new offerings. In addition, we repurposed certain corporate programs and have invested in our creative digital capabilities to re-position Regis as the leading operator of value brands and technical education. Furthermore, we have launched a national SmartStyle digital advertising campaign to drive traffic to our SmartStyle locations in Walmart Supercenters and leverage our relationship with Walmart. We will continue this evaluation as we make decisions in the business.

At the same time, we are making thoughtful decisions to accelerate the growth of our franchise business, if we believe it enhances shareholder value, including the promotion of Eric Bakken to President of our Franchise business. This strategic initiative is intended to facilitate an ongoing multi-year transformation of our operating platform that balances our commitment to high-performing company-owned salons while enabling strategic optionality and the ongoing growth of our franchise business, where we believe it enhances shareholder value. In October 2017, we sold substantially all of our mall-based salon business in North America, representing 858 salons, and substantially all of our previous International segment, representing 250 salons in the UK, to TBG, who operates these locations as franchise locations.

Guests

Among other factors, consistent delivery of an exceptional guest experience, haircut quality, convenience, competitive pricing, salon location, inviting salon appearance and atmosphere, differentiating benefits and guest experience elements and comprehensive retail assortments, all drive guest traffic and improve guest retention.

Guest Experience. Our portfolio of salon concepts enable our guests to select different service scheduling options based upon their preference. We believe that in the value category, the ability to serve walk-in appointments and minimize guest wait times is an essential element in delivering an efficient guest experience. Our mobile applications

and online check-in capabilities allow us to capitalize on our guests' desire for convenience. We continue to focus on stylist staffing and retention, optimizing schedules and leveraging our POS systems to help us balance variable labor hours with guest traffic and manage guest wait times. In the Premium category, our salons generally schedule appointments in advance of service. Our salons are located in high-traffic strip centers, Walmart Supercenters and shopping malls, with guest parking and easy access, and are generally open seven days per week, offering guests a variety of convenient ways to fulfill their beauty needs.

Affordability. The Company strives to offer an exceptional value for its services. In the value category, our guests expect outstanding service at competitive prices. These expectations are met with average service transactions ranging from \$19 to \$21. During fiscal year 2018, we greatly reduced the complexity of the service offerings within our SmartStyle portfolio with the introduction of "Everyday Simple Pricing" while also introducing a new "Express Haircut" service targeted towards the

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male guests who shop at Walmart and simplified the service offerings within our Signature Style portfolio. Pricing decisions are considered on a salon level basis and established based on local conditions.

Salon Appearance and Atmosphere. The Company's salons range from 500 to 5,000 square feet, with the typical salon approximating 1,200 square feet. Our salon repairs and maintenance program is designed to ensure we invest in salon cleanliness and safety, as well as in maintaining the normal operation of our salons. Our annual capital expenditures include funds to refresh the appeal and comfort of our salons.

Retail Assortments. The Company's salons sell nationally recognized hair care and beauty products, as well as a complete assortment of owned brand products. The Company's stylists are compensated and regularly trained to sell hair care and beauty products to their guests. Additionally, guests are encouraged to purchase products after stylists demonstrate their efficacy by using them in the styling of our guests' hair. The top selling brands within the Company's retail assortment include Regis DESIGNLINE, Paul Mitchell, Biolage, Redken, Sexy Hair Concepts, Nioxin, Kenra, It's a 10, Total Results, and Tigi. We also continued to expand our e-commerce initiative to distribute our Regis DESIGNLINE brand through new distribution channels to supplement our existing in-salon sales and raise brand awareness.

Technology. Our point of sale (POS) systems have the ability to collect guest and transactional data and enable the Company to invest in guest relationship management, gaining insights into guest behavior, communicating with guests and incenting return visits. Leveraging this technology allows us to monitor guest retention and to survey our guests for feedback on improving the guest experience. Our mobile applications allow guests to view wait times and interact in other ways with salons. We are currently making further investments to improve the speed of our POS technology, improving the overall guest experience.

Marketing. We are investing in advertising to drive traffic. This includes leveraging advertising and media, guest relationship management programs, digital programs, one-on-one communications and local tactical efforts (e.g., couponing), among other programs. Traffic driving efforts are targeted vs. a one-size-fits-all approach. Annual advertising and promotional plans are based on seasonality, consumer mindset, competitive positioning and return on investment. In fiscal year 2018, we entered into an industry-exclusive, multi-year sponsorship between Supercuts and Major League Baseball and select local club partnerships. We continually reallocate marketing investments into opportunities we believe represent the highest return to our shareholders.

Stylists

Our organization depends on its stylists to help deliver great guest experiences.

Field Leadership. As of August 1, 2017, we reorganized our field leadership by brand. This change will simplify and better focus our business by re-aligning the existing field leaders into three distinct field organizations: SmartStyle, Supercuts and Signature Style. Previously, these field leaders were responsible for a variety of brands, with different business models, services, pay plans and guest expectations. Post-reorganization, each field leader is dedicated to a specific brand. We believe the new structure will further enable our field leadership to focus on quality guest experiences, enable improved salon execution, drive same-store sales traffic growth and simplify our operations. Development of our field leaders is a high priority because stylists depend on their salons and field leaders for coaching, mentoring and motivation. Our training curriculum serves as the foundation for ongoing leadership development. Role clarity and talent assessments help us identify ways to develop and upgrade field leadership. Execution disciplines are used to drive accountability, execution and business performance. Incentives are designed to align field interests with those of the Company's shareholders by rewarding behaviors focused on revenue and EBITDA growth. This organization structure also provides a clear career path for our people who desire to ascend within the Company.

Technical Education. We place a tremendous amount of importance in ongoing development of our stylists' craft. We intend to be the industry leader in technical training, including the utilization of digital training. Our stylists deliver a superior experience for our guests when they are well trained technically and experientially. We employ technical trainers who provide new hire training for stylists joining the Company from beauty schools and training for all stylists in current beauty care and styling trends. We supplement internal training with targeted vendor training and external trainers who bring specialized expertise to our stylists. We utilize training materials to help all levels of field employees navigate the running of a salon and essential elements of guest service training within the context of brand

positions.

Recruiting. Ensuring that we attract, train and retain our stylists is critical to our success. We compete with all service industries for our stylists; to that end, we continue to enhance our recruiting efforts across all levels within our organization and are focused on showing our stylists a path forward. We cultivate a pipeline of field leaders through succession planning and recruitment venues from within and outside the salon industry. We also leverage beauty school relationships and participate in job fairs and industry events.

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Technology. Our POS systems and salon workstations throughout North America enable communication with salons and stylists, delivery of online and digital training to stylists, salon level analytics on guest retention, wait times, stylist productivity, and salon performance. We are currently making further investments in our POS hardware and salon technology to improve the speed of our systems allowing for stylists to be more productive and improve overall guest and stylist satisfaction. We are also deploying tablets to salons to enhance the channel of communication with our stylists and enable digital training.

Salon Support

Our corporate headquarters is referred to as Salon Support. This acknowledges that loving our guests and stylists mandates a service-oriented, guest and stylist-focused mentality in supporting our field organization.

Organization. Salon Support and our associated priorities are aligned to our field organization to enhance the effectiveness and efficiency of the service we provide and optimize the guest experience.

Simplification. Our ongoing simplification efforts focus on improving the way we plan and execute across our portfolio of brands. Every program, communication, and report that complicates our operations and takes time away from our guests is being assessed for simplification or elimination. Simplifying processes and procedures around scheduling, inventory management, day-to-day salon execution, communication and reporting improve salon service. Our organization also remains focused on eliminating non-essential costs and on profit enhancing initiatives that do not harm the guest experience.

Salon Concepts:

The Company's salon concepts focus on providing high quality hair care services and professional hair care products. A description of the Company's salon concepts are listed below:

SmartStyle. SmartStyle salons offer a full range of custom styling, cutting, and hair coloring, as well as professional hair care products and are currently located exclusively in Walmart Supercenters. SmartStyle has primarily a walk-in guest base with value pricing. Service revenues represent approximately 69% of total company-owned SmartStyle revenues. Additionally, the Company has 561 franchised SmartStyle and Cost Cutters salons located in Walmart Supercenters.

Supercuts. Supercuts salons provide consistent, high quality hair care services and professional hair care products to its guests at convenient times and locations at value prices. This concept appeals to men, women, and children. Service revenues represent approximately 91% of total company-owned Supercuts revenues. Additionally, the Company has 1,739 franchised Supercuts locations throughout North America.

Signature Style. Signature Style salons are made up of acquired regional company-owned salon groups operating under the primary concepts of Hair Masters, Cool Cuts for Kids, Style America, First Choice Haircutters, Famous Hair, Cost Cutters, BoRics, Magicuts, Holiday Hair, Head Start, Fiesta Salons, Roosters and TGF, as well as other concept names. Most concepts offer a full range of custom hairstyling, cutting and coloring services, as well as professional hair care products. Service revenues represent approximately 89% of total company-owned Signature Style salons revenues. Additionally, the Company has 745 franchised locations of Signature Style salons.

MasterCuts. MasterCuts salons are a full service, mall-based salon group which focuses on the walk-in consumer who demands moderately priced hair care services. MasterCuts salons emphasize quality hair care services, affordable prices, and time saving services for the entire family. These salons offer a full range of custom styling, cutting and hair coloring services, as well as professional hair care products. The Company has 302 franchised MasterCuts locations throughout North America.

Regis Salons. Regis Salons are primarily mall-based, full service salons providing complete hair care and beauty services aimed at moderate to upscale, fashion conscious consumers. At Regis Salons both appointments and walk-in guests are common. These salons offer a full range of custom styling, cutting and hair coloring services, as well as professional hair care products. Regis Salons compete in their existing markets primarily by providing high quality services. Included within the Regis Salon concept are various other trade names, including Carlton Hair, Sassoon salons and academies, Hair by Stewarts, Hair Excitement, and Renee Beauty. The Company has 505 franchised Regis Salons locations throughout North America.

International Salons. International salons are now franchised locations operating in the United Kingdom and Germany primarily under the Supercuts, Regis, and Sassoon concepts. These salons offer similar levels of service as

our North American salons. Sassoon is one of the world's most recognized names in hair fashion and appeals to women and men looking for a prestigious full service hair salon. Salons are usually located in prominent high-traffic locations and offer a full range of custom hairstyling, cutting and coloring services, as well as professional hair care products.

The tables on the following pages set forth the number of system-wide locations (company-owned and franchised) and activity within the various salon concepts.

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System-wide location counts

	June 30, 2018		2017		2016
Company-owned salons:					
SmartStyle/Cost Cutters in Walmart stores	1,660		2,652		2,683
Supercuts	928		980		1,053
Signature Style	1,378		1,468		1,604
Mall locations (Regis and MasterCuts)(1)	—		898		1,124
Total North American salons	3,966		5,998		6,464
Total International salons(1)(2)	—		275		328
Total, Company-owned salons	3,966		6,273		6,792
as a percent of total Company-owned and Franchise salons	49.1 %		70.3 %		73.1 %
Franchised salons:					
SmartStyle/Cost Cutters in Walmart stores(3)	561		176		125
Supercuts	1,739	1,716	M	\$	422M
Gross Margin			93%		93%
Operating Income	\$		599M	\$	75M
Operating Margin			35%		18%
Net Income	\$		459M	\$	63M

The information provided on this slide is presented in non-GAAP format for Adobe, non-GAAP excludes, as applicable, investment gains/losses and a net tax benefit from foreign earnings repatriation; for Macromedia, non-GAAP excludes amortization and impairments developed technology and intangible assets, gains and losses on investments, write-offs of acquired in-process technology, a non-cash gain for the reduction in fair value of a liability assumed in an acquisition and the non-cash impact of re-measuring certain foreign-denominated tax assets and liabilities. Reconciliation of GAAP on a quarterly basis to non-GAAP can be found on each company's investor relations website.

Financial Summary

Other Highlights

	[LOGO] 3/4/2005	[LOGO] 12/31/2004
Cash & Cash Equivalents	\$ 1,467M	\$ 341M
Deferred Revenue	\$ 57M	\$ 49M
Headcount	4,016	1,417

Leadership

Bruce Chizen will remain CEO

Rob Burgess to join Adobe s Board of Directors

Shantanu Narayen will remain President and Chief Operating Officer of Adobe

Stephen Elop will become Adobe s President of Worldwide Field Operations

Murray Demo will remain CFO of Adobe

Betsy Nelson to co-lead integration team

Senior leaders from both companies will have leadership positions in the combined company

Adobe and Macromedia

Summary

Shared vision and complementary strategies

Industry-defining technology platform

More complete, integrated solutions

Emerging growth opportunities

Coming together from positions of financial strength

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