
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2021

OR

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

OR

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

Commission file number 001-39809

MEDIROM HEALTHCARE TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

Japan

(Jurisdiction of incorporation or organization)

2-3-1 Daiba,
Minato-ku

Tokyo 135-0091, Japan

(Address of principal executive offices)

Fumitoshi Fujiwara
Chief Financial Officer

Telephone: +81-(0)3-6721-7364

Email: ir@medirom.co.jp

2-3-1 Daiba, Minato-ku,

Tokyo 135-0091, Japan

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--|----------------|---|
| American Depositary Shares, each representing one common share | MRM | The Nasdaq Stock Market LLC |
| Common Shares, no par value* | | The Nasdaq Stock Market LLC |

* Not for trading, but only in connection with the listing of the American Depositary Shares on The Nasdaq Stock Market LLC.

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 4,882,500 Common Shares

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

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, 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.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this annual report, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. These forward-looking statements may include projections and estimates concerning our possible or assumed future results of operations, financial condition, business strategies and plans, market opportunity, competitive position, industry environment, and potential growth opportunities. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “believe”, “expect”, “could”, “intend”, “plan”, “anticipate”, “estimate”, “continue”, “predict”, “project”, “potential”, “target,” “goal” or other words that convey the uncertainty of future events or outcomes. You can also identify forward-looking statements by discussions of strategy, plans or intentions. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, because forward-looking statements relate to matters that have not yet occurred, they are inherently subject to significant business, competitive, economic, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors, including, among others, those discussed in this annual report under the headings “Risk Factors”, “Operating and Financial Review and Prospects”, and “Business Overview” may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by the forward-looking statements in this annual report. Some of the factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements in this annual report include:

- our ability to attract and retain customers;
- our ability to successfully enter new markets and manage our business expansion;
- our ability to develop or acquire new products and services, improve our existing products and services and increase the value of our products and services in a timely and cost-effective manner;
- our ability to compete in the relaxation salon market;
- our expectations regarding our customer growth rate and the usage of our services;
- our ability to increase our revenues and our revenue growth rate;
- our ability to timely and effectively scale and adapt our existing technology and network infrastructure;
- our ability to successfully acquire and integrate companies and assets;
- our ability to respond to national disasters, such as earthquakes and tsunamis, and to global pandemics, such as COVID-19, including the emergence of COVID variants, and its impact on our business and results of operations;
- our future business development, results of operations and financial condition; and
- the regulatory environment in which we operate.

Given the foregoing risks and uncertainties, you are cautioned not to place undue reliance on the forward-looking statements in this annual report. The forward-looking statements contained in this annual report are not guarantees of future performance and our actual results of operations and financial condition may differ materially from such forward-looking statements. In addition, even if our results of operations and financial condition are consistent with the forward-looking statements in this annual report, they may not be predictive of results or developments in future periods.

Any forward-looking statement that we make in this annual report speaks only as of the date of this annual report. Except as required by law, we do not undertake any obligation to update or revise, or to publicly announce any update or revision to, any of the forward-looking statements in this annual report, whether as a result of new information, future events or otherwise, after the date of this annual report.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. [Reserved]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

RISK FACTORS

We operate in a dynamic and rapidly changing industry that involves numerous risks and uncertainties. You should carefully consider the factors described below, together with all of the other information contained in this annual report, including the audited and unaudited financial statements and the related notes included in this annual report. These risk factors are not presented in the order of importance or probability of occurrence. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected. Some statements in this annual report, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled “Cautionary Note Regarding Forward-Looking Statements.”

As used in this annual report, the terms “the Company”, “Medirom”, “we”, “our” or “us” may, depending upon the context, refer solely to the Company, to one or more of the Company’s consolidated subsidiaries or to all of them taken as a whole.

Our functional currency and reporting currency is the Japanese yen (which we refer to as “JPY” or “¥”). The terms “dollar,” “USD,” “US\$” or “\$” refer to U.S. dollars, the legal currency of the United States. Convenience translations included in this annual report of Japanese yen into U.S. dollars have been made at the exchange rate of ¥115.170 = US\$1.00, which was the foreign exchange rate on December 30, 2021 as reported by the Board of Governors of the Federal Reserve System (which we refer to as the “U.S. Federal Reserve”) in weekly release on January 3, 2022. Historical and current exchange rate information may be found at www.federalreserve.gov/releases/h10/.

Summary Risk Factors

Investing in our company involves significant risks. You should carefully consider all of the information in this annual report before making an investment in our company. These risks include the following:

Risks Related to Our Company and Our Business

Risks and uncertainties related to our Company and our business include, but are not limited to, the following:

- We may not achieve our development goals, which could adversely affect our operations and financial results;
- We are implementing new growth strategies, priorities and initiatives and any inability to execute and evolve our strategy over time could adversely impact our financial condition and results of operations;
- We are actively expanding mainly in Japan and overseas markets, and we may be adversely affected if Japanese and global economic conditions and financial markets deteriorate;
- We have generated only limited revenue from our Digital Preventative Healthcare Segment, and we may never achieve or sustain profitability;
- Our system-wide relaxation salon base is geographically concentrated in the Tokyo metropolitan area of Japan, and we could be negatively affected by conditions specific to that region;
- Our success depends substantially on the value of our brands;
- The failure to enforce and maintain our trademarks and protect our other intellectual property could materially adversely affect our business, including our ability to establish and maintain brand awareness;
- We may need to raise additional capital to meet our business requirements in the future, and such capital raising may be costly or difficult to obtain and could dilute current shareholders' ownership interests;
- If we fail to obtain necessary funds for our operations, we will be unable to maintain and improve our services, other businesses, and technology, and we will be unable to develop and commercialize our services, other businesses, and technologies;
- Our level of indebtedness could materially and adversely affect our business, financial condition and results of operations;
- Our outstanding debt agreements may limit our flexibility in operating and expanding our business;
- We depend on key members of our management and advisory team and will need to add and retain additional leading experts;
- We may suffer losses from liabilities or other claims if our services cause harm to customers;
- Our prepaid cards are heavily regulated under Japanese law and violations of the relevant law could subject us to sanctions;
- If we or our franchisees face labor shortages or increased labor costs, our results of operations and our growth could be adversely affected;

- We are exposed to the risk of natural disasters, unusual weather conditions, pandemic outbreaks such as COVID-19, political events, war and terrorism that could disrupt business and result in lower sales, increased operating costs and capital expenditures;
- As we expand our businesses internationally, we will become subject to foreign laws and regulations, and we could be adversely affected by violations of these laws as well as the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery and anti-kickback laws; and
- There is a risk that we will be a passive foreign investment company (which we refer to as "PFIC") for the current or any future taxable year, which could result in material adverse U.S. federal income tax consequences if you are a U.S. holder.

Risks Related to Our Relationships with Franchisees

Risks and uncertainties related to our relationships with franchisees include, but are not limited to, the following:

- The financial performance of our franchisees can negatively impact our business;
- We have limited control with respect to the operations of our franchisees, which could have a negative impact on our business;
- We rely on franchise agreements that could be breached and may be difficult to enforce, which could result in franchisees improperly managing relaxation salons;
- We rely in part on the financial health of our franchisees. If we do not screen and monitor them appropriately, it could adversely affect our operations and financial results if they experience financial hardship;
- Franchisee turnover could affect our ability to recruit new franchisees;
- Premature termination of franchise agreements can cause losses;
- The interests of our franchisees may conflict with ours in the future and we could face liability from our franchisees or related to our relationship with our franchisees; and
- We are subject to various Japanese laws that may affect our relationship with our franchisees.

Risks Related to Our Industry

Risks and uncertainties related to our industry include, but are not limited to, the following:

- We are vulnerable to changes in consumer preferences and economic conditions that could harm our business, financial condition, results of operations and cash flow;
- We may not be able to compete successfully with other relaxation salon businesses, which could materially and adversely affect our results of operations; and
- We face significant competition and continuous technological change.

Risks Related to Ownership of the ADSs

Risks and uncertainties related to our ownership of the American Depositary Shares (the “ADSs”) include, but are not limited to, the following:

- We are an “emerging growth company” and, as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common shares and ADSs may be less attractive to investors;
- As a “foreign private issuer” we are permitted, and intend, to follow certain home country corporate governance and other practices instead of otherwise applicable SEC and NASDAQ requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers;
- Our Chief Executive Officer owns a “golden share” with key veto rights, thereby limiting a shareholder’s ability to influence our business and affairs;
- The requirements of being a U.S. public company may strain our resources and divert management’s attention;
- If we fail to maintain an effective system of internal control to remediate our material weakness over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud;
- We cannot assure you that the ADSs will remain liquid or that it will remain listed on NASDAQ;
- The price of the ADSs may fluctuate substantially; and
- We do not intend to pay dividends on our common shares for the foreseeable future.

Risks Related to Japan

Risks and uncertainties related to Japan include, but are not limited to, the following:

- We are incorporated in Japan, and it may be more difficult to enforce judgments against us that are obtained in courts outside of Japan;
- Substantially all of our revenues are generated in Japan, but an increase of our international presence could expose us to fluctuations in foreign currency exchange rates, or a change in monetary policy may harm our financial results; and
- Rights of shareholders under Japanese law may be different from rights of shareholders in other jurisdictions.

General Risk Factors

Other general risk factors include, but are not limited to, the following:

- Third party claims with respect to intellectual property assets, if decided against us, may result in competing uses or require adoption of new, non-infringing intellectual property, which may in turn adversely affect sales and revenues; and
- Information technology system failures or breaches of our network security could interrupt our operations and adversely affect our business.

Risks Related to Our Company and Our Business

We may not achieve our development goals, which could adversely affect our operations and financial results.

Our number of relaxation salons has increased from 290 as of December 31, 2020 to 312 as of December 31, 2021. We intend to continue our growth either through developing additional directly-operated salons or through new salon development by acquisition, both in existing markets and in new markets, particularly in Japan. Such rapid development involves substantial risks, including the risk of:

- the inability to identify suitable franchisees;
- limited availability of financing for our Company and for franchisees at acceptable rates and terms;
- development costs exceeding budgeted or contracted amounts;
- delays in completion of construction;
- the inability to identify, or the unavailability of, suitable sites at acceptable cost and other leasing or purchase terms;
- developed properties not achieving desired revenue or cash flow levels once opened;
- the negative impact of a new salon upon sales at nearby existing salons;
- the challenge of developing in areas where competitors are more established or have greater penetration or access to suitable development sites;
- incurring substantial unrecoverable costs in the event a development project is abandoned prior to completion;
- impairment charges resulting from underperforming salons or decisions to curtail or cease investment in certain locations or markets;
- in new geographic markets where we have limited or no existing locations, the inability to successfully expand or acquire critical market presence for our brands, acquire name recognition, successfully market our products or attract new customers;
- operating cost levels that reduce the demand for, or raise the cost of, developing new salons;
- the challenge of identifying, recruiting and training qualified salon management;
- the inability to obtain all required permits;
- changes in laws, regulations and interpretations; and
- general economic and business conditions.

Although we manage our growth and development activities to help reduce such risks, we cannot provide assurance that our present or future growth and development activities will perform in accordance with our expectations. Our inability to expand in accordance with our plans or to manage the risks associated with our growth could have a material adverse effect on our results of operations and financial condition.

We are implementing new growth strategies, priorities and initiatives and any inability to execute and evolve our strategy over time could adversely impact our financial condition and results of operations.

We seek to accelerate the growth of our acquisition model while at the same time improve the performance of directly-operated salons. Our success also depends, in part, on our ability to grow our franchise model, including attracting and retaining qualified franchisees. Our ability to open new relaxation salons is dependent upon a number of factors, many of which are beyond our control, including our and our franchisees' ability to:

- identify available and suitable relaxation salon sites;
- successfully compete for relaxation salon sites;
- reach acceptable agreements regarding the lease or purchase of locations;
- obtain or have available the financing required to acquire and operate a relaxation salon, including construction and opening costs, which includes access to build-to-suit leases at favorable interest and capitalization rates;
- respond to unforeseen engineering or environmental problems with leased premises;
- avoid the impact of inclement weather, natural disasters and other calamities;
- hire, train and retain the skilled management and other employees necessary to meet staffing needs;
- obtain, in a timely manner and for an acceptable cost, required licenses, permits and regulatory approvals and respond effectively to any changes in law and regulations that adversely affect our and our franchisees' costs or ability to open new relaxation salons; and
- control construction cost increases for new relaxation salons.

The growth of our acquisition model will take time to execute and may create additional costs, expose us to additional legal and compliance risks, cause disruption to our current business and impact our short-term operating results. Further, in order to enhance services to its franchisees, we may need to invest in certain new capabilities and/or services.

Our success also depends, in part, on our ability to improve sales, as well as both cost of service and product and operating margins at our directly-operated salons. Same-store sales are affected by average ticket and same-store guest visits. A variety of factors affect same-store guest visits, including the guest experience, salon locations, staffing and retention of therapists and salon leaders, price competition, current economic conditions, marketing programs and weather conditions. These factors may cause our same-store sales to differ materially from prior periods and from our expectations.

As part of our new growth strategy, we have sold, and plan to continue to sell, certain of our owned salons to investors and charge management fees from such sold salons. Our revenue from salon sales was JPY559 million (US\$4.9 million) for the year ended December 31, 2021. Our revenue from salon sales will depend on a number of factors including the interest of potential investors, financial market conditions, available interest rates, and expected return of other comparable types of investments, none of which we will have control over. In addition, our management fees from the sold salons will depend on the actual contractual terms subject to our negotiation with potential investors in the future.

As part of our longer-term growth strategy, we plan to enter new geographical markets, including the United States and Southeast Asia, where we have little or no prior operating or franchising experience. The challenges of entering new markets include: difficulties in hiring experienced personnel; unfamiliarity with local real estate markets and demographics; consumer unfamiliarity with our brand; and different competitive and economic conditions, consumer

tastes and discretionary spending patterns that are more difficult to predict or satisfy than in our existing markets. Consumer recognition of our brand has been important in the success of both directly-operated and franchised relaxation salons in our existing markets. Relaxation salons that we open in new markets may take longer to reach expected sales and profit levels and may have higher construction, occupancy and operating costs than existing relaxation salons, thereby negatively affecting our operating results. Any failure on our part to recognize or respond to these challenges may adversely affect the success of any new relaxation salons. Expanding our franchise system could require the implementation, expense and management of enhanced business support systems, management information systems and financial controls as well as additional staffing, franchise support and capital expenditures and working capital.

We are actively expanding in Japan and overseas markets, and we may be adversely affected if Japanese and global economic conditions and financial markets deteriorate.

We seek to proactively expand our business overseas in the future including into new regions for us, particularly the United States and Southeast Asia. We also intend to explore growth opportunities in other markets where we assess primarily on low cost of entry, friendly franchising or partnership relationships and believe there is an economic staying power of our relaxation salon brand locally. We remain opportunistic on strategic mergers and acquisitions, joint ventures, and partnerships in these international markets. As a result, our financial condition and results of operations may be materially affected by general economic conditions and financial markets in Japan and foreign countries, which would be influenced by the changes of various factors. These factors include fiscal and monetary policies, and laws, regulations and policies on financial markets. In the event of an economic downturn in Japan or the United States, consumer spending habits could be adversely affected, and we could experience lower than expected net sales, which could force us to delay or slow our growth strategy and have a material adverse effect on our business, financial condition, profitability and cash flows. In addition, we could be impacted by labor shortages in Japan or other markets. The deterioration of Japanese and global economic conditions, or financial market turmoil, could result in a worsening of our liquidity and capital conditions, an increase in our credit costs, and, as a result, adversely affect our business, financial condition and results of operations.

We have generated only limited revenue from our Digital Preventative Healthcare Segment, and we may never achieve or sustain profitability.

Substantially all of our revenue is generated in Japan from the Relaxation Salon Segment. We have not yet generated material revenue from our Digital Preventative Healthcare Segment. We believe that the early-stage businesses, such as applications Lav[®] supporting the Specific Health Guidance Program and our MOTHER Bracelet[®], have a good potential to grow. However, we cannot guarantee that these businesses or any other businesses we develop will gain market acceptance. The degree of market acceptance of our businesses will depend on a number of factors, including the competitive landscape and the adequacy and success of distribution, sales and marketing efforts. Customers, third party payors or advertisers in general may be unwilling to accept, utilize or recommend any of our businesses. As a result, we are unable to predict the extent of future losses or the time required to achieve profitability in that business unit, if at all.

Our system-wide relaxation salon base is geographically concentrated in the Tokyo metropolitan area of Japan, and we could be negatively affected by conditions specific to that region.

Approximately 64.4% of our directly-operated and franchised relaxation salons are located in the Tokyo metropolitan area of Japan as of December 31, 2021. Adverse changes in demographic, unemployment, economic, regulatory or weather conditions or natural disasters affecting the Kanto region of Japan have had, and may continue to have, material adverse effects on our business. As a result of our concentration in this market, we have been, and in the future may be, disproportionately affected by these adverse conditions compared to other chain relaxation salons with a greater national footprint.

In addition, our competitors could open additional relaxation salons in Kanto region of Japan, which could result in reduced market share for us and may adversely impact our profitability.

Our success depends substantially on the value of our brands.

Our success is dependent, in large part, upon our ability to maintain and enhance the value of our brands, our customers' connection to our brands, and a positive relationship with our franchisees. Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity, including via social media, or result in litigation. Some of these incidents may relate to the way we manage our relationship with our franchisees, our growth strategies, our development efforts, or the ordinary course of our, or our franchisees', business. Other incidents may arise from events that are or may be beyond our ability to control and may damage our brands, such as actions taken (or not taken) by one or more franchisees or their employees relating to health, safety, welfare, or otherwise; litigation and claims; security breaches or other fraudulent activities associated with our payment systems; and illegal activity targeted at us or others. Consumer demand for our products and services and our brands' value could diminish significantly if any such incidents or other matters erode consumer confidence in us or our products or services, which would likely result in lower sales and, ultimately, lower royalty income, which in turn could materially and adversely affect our business and operating results.

The failure to enforce and maintain our trademarks and protect our other intellectual property could materially adversely affect our business, including our ability to establish and maintain brand awareness.

We regard our trademarks, trade secrets, know-how, and similar intellectual property as critical to our success. We have registered 35 trademarks as of December 31, 2021, and other names and logos used by our Company as trademarks with the Japan Patent Office. Our standard character trademark application for MOTHER Bracelet[®] was approved and registered by the Japan Patent Office in February 2022. Two of our trademarks are currently registered with the U.S. Patent and Trademark Office. Our principal intellectual property rights include copyrights in our website and mobile applications content for Lav[®], rights to our domain name <https://medirom.co.jp>, and trade secrets and know-how with respect to our training, servicing, sales and marketing and other aspects of our business, and our digital innovations such as the Lav[®] application. The success of our business strategy depends on our continued ability to use our existing intellectual property in order to increase brand awareness and develop our branded services. If our efforts to protect our intellectual property are not adequate, or if any third party misappropriates or infringes on our intellectual property, whether in print, on the Internet or through other media, the value of our brands may be harmed, which could have a material adverse effect on our business, including the failure of our brands and branded services to achieve and maintain market acceptance. There can be no assurance that all of the steps we have taken to protect our intellectual property in Japan or outside Japan in relevant foreign countries will be adequate. In addition, in light of our intention to expand internationally, the laws of some foreign countries may not protect intellectual property rights to the same extent as do the laws of Japan. If any of our trademarks, trade secrets or other intellectual property are infringed, our business, financial condition and results of operations could be materially adversely affected.

We may need to raise additional capital to meet our business requirements in the future, and such capital raising may be costly or difficult to obtain and could dilute current shareholders' ownership interests.

Our future capital requirements will depend on many factors, including the speed and geographic area of relaxation salon and other business growth, progress and results of our businesses, the number and development requirements of other business that we pursue, and the costs of commercialization activities, including marketing and sales. Because of the numerous risks and uncertainties associated with the development and commercialization of our businesses, we are unable to reasonably estimate the amounts of increased capital outlays and operating expenditures that our business will require. It is likely that we will need to raise additional funds through public or private debt or equity financings to meet various objectives including, but not limited to:

- pursuing growth opportunities;
- acquiring complementary businesses;
- making capital improvements to our infrastructure;
- hiring qualified management and key employees;

- responding to competitive pressures;
- complying with regulatory requirements; and
- maintaining compliance with applicable laws.

Any additional capital raised through the sale of equity or equity-linked securities may dilute our current shareholders' ownership in us and could also result in a decrease in the market price of the American Depositary Shares (which we refer to as "ADSs"). The terms of those securities issued by us in future capital transactions may be more favorable to new investors and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, which may have a further dilutive effect. Debt securities convertible into equity could be subject to adjustments in the conversion ratio pursuant to which certain events may increase the number of equity securities issuable upon conversion. Preferred shares, if issued, could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of the ADSs.

Furthermore, any debt or equity financing that we may need may not be available on terms favorable to us, or at all. If we are unable to obtain required additional capital, we may have to curtail our growth plans or cut back on existing business, and we may not be able to continue operating if we do not generate sufficient revenues from operations needed to stay in business.

We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we issue, such as convertible notes and warrants, which may adversely impact our financial condition. Thus, holders of the ADSs bear the risk that our future offerings may reduce the market price of the ADSs and dilute their shareholdings in us.

If we fail to obtain necessary funds for our operations, we will be unable to maintain and improve our services, other businesses, and technology, and we will be unable to develop and commercialize our services, other businesses, and technologies.

Our present and future capital requirements depend on many factors, including:

- future revenues and profits generated from the expected launch of new services;
- the level of research and development investment required to develop our services, and maintain and improve our technology positions;
- our ability and willingness to enter into new agreements with strategic partners and the terms of these agreements;
- the costs of recruiting and retaining qualified personnel;
- the time and costs involved in obtaining regulatory approvals should such be required; and
- the costs of filing, prosecuting, defending, and enforcing trademark, patent claims and other intellectual property rights.

If we are unable to obtain the funds necessary for our operations, we will be unable to develop and commercialize our services and technologies, which would materially and adversely affect our business, liquidity and results of operations.

Our level of indebtedness could materially and adversely affect our business, financial condition and results of operations.

The total principal outstanding under our credit facilities as of December 31, 2021 was JPY913,486 thousand (US\$7,932 thousand) on a consolidated basis. Our indebtedness could have significant effects on our business, such as:

- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, acquisitions, debt service requirements, execution of our growth strategy and other purposes;
- requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on our debt, which would reduce availability of our cash flow to fund working capital, capital expenditures, acquisitions, execution of our growth strategy and other general corporate purposes;
- making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our ability to plan for and react to changing conditions;
- diluting the economic and voting rights of our existing shareholders or reduce the market price of the ADSs or both upon redemption of the convertible bonds; and
- placing us at a competitive disadvantage compared with our competitors that have less debt.

In addition, we may not be able to generate sufficient cash flow from our operations to repay our indebtedness when it becomes due and to meet our other cash needs. If we are not able to pay our debts as they become due, we will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional debt or equity securities. We may not be able to refinance our debt or sell additional debt or equity securities or our assets on favorable terms, if at all, and if we must sell our assets, it may negatively affect our ability to generate revenues.

Our outstanding debt agreements may limit our flexibility in operating and expanding our business.

As of December 31, 2021, we had a total of 23 loans with five Japanese financial institutions for an aggregate principal amount of JPY913,486 thousand (US\$7,932 thousand) on a consolidated basis. None of the loan agreements contain any material financial covenants, although certain of the government-sponsored loans set a limit on the total loan amount we may borrow from other government-sponsored lenders. However, 12 of the loan agreements have our Chief Executive Officer as a personal guarantor of such debt obligations of our Company. In addition, Kazuyoshi Takahashi, the representative director of ZACC Kabushiki Kaisha (“ZACC”), is also a guarantor with respect to two out of six corporate loans of ZACC. If we release our Chief Executive Officer or Mr. Takahashi from such a guarantor burden, the lenders may request us to provide them with alternative collateral and/or seek additional negative covenants on the existing loan agreements. This could limit our discretion to invest, utilize, and/or dispose of our assets for business.

Furthermore, the potential restrictive covenants to be contained in our existing and future loan agreements may restrict our access to future debt financing, on which our business operations and expansion plans, in part, depend. If our revenues decrease materially or we experience a significant increase in our interest expenses, we may not have enough available cash or be able to raise additional funds on satisfactory terms, if at all, through equity or debt financings to make any required prepayment or repay such indebtedness at the time any such event of default occurs. In such an event, we may be required to delay, limit, reduce or terminate our business development or expansion efforts. Our business, financial condition and results of operations could be materially adversely affected as a result.

We depend on key members of our management and advisory team and will need to add and retain additional leading experts.

We are highly dependent on our executive officers, including our Chief Executive Officer, Mr. Kouji Eguchi, our Chief Financial Officer, Mr. Fumitoshi Fujiwara, and other key management and technical personnel. We do not have employment agreements with either Mr. Kouji Eguchi or Mr. Fumitoshi Fujiwara.

Furthermore, our ability to manage our salon expansion will require us to continue to train, motivate, and manage our associates. We will need to attract, motivate, and retain additional qualified executive, managerial, and merchandising personnel and salon associates. Competition for this type of personnel is intense, and we may not be successful in attracting, assimilating, and retaining the personnel required to grow and operate our business profitably. We presently maintain a "key person" life insurance policy only for our Chief Executive Officer. There can be no assurance that we will be able to retain our existing personnel, including our Chief Executive Officer, Chief Financial Officer and other key management personnel, or attract additional qualified employees. The loss of key personnel or the inability to hire and retain additional qualified personnel in the future could have a material adverse effect on our business, financial condition and results of operation.

We may suffer losses from liabilities or other claims if our services cause harm to customers.

Although we screen our customers for major illnesses and injury, our services could potentially cause harm or injury to customers. Unexpected and undesirable side effects caused by our services for which we have not provided sufficient warnings, which may have been performed negligently, could result in the discontinuance of our relaxation services or prevent us from achieving or maintaining market acceptance of our services. Such side effects or injury incidents could also expose us to liability lawsuits. We currently maintain a comprehensive general liability policy; however, if any general liability lawsuits or claims are successfully brought against us, we could suffer from increased insurance premiums. Moreover, if damages exceed our policy limits, we may incur substantial financial losses. These claims could cause negative publicity regarding our Company, or brand, which could in turn harm our reputation and net revenue, which could have a material adverse effect on our business, financial condition, profitability, and cash flows.

Our prepaid cards are heavily regulated under Japanese law and violations of the relevant law could subject us to sanctions.

We began issuing prepaid cards called "Re.Ra.Ku[®] Cards" to relaxation salon customers on December 1, 2008. Re.Ra.Ku[®] Card users can continuously use and also replenish the card at most of our Company's relaxation salons. Prepaid cards are generally considered "prepaid payment methods" (which we refer to as "PPMs") under the Act on Settlement of Funds (Act No. 59 of 2009) (which we refer to as the "Settlement Act"). PPMs are regulated under the Settlement Act so long as there is a possibility the cards could be valid for a period of more than six months. The Re.Ra.Ku[®] Cards do not have expiration dates and therefore are regulated under the Settlement Act. Moreover, the Re.Ra.Ku[®] Cards can be used at salons operated by franchisees, and because the franchisees are considered third parties for the purposes of the Settlement Act, we fall under the category of a Public Use PPM Provider.

A Public Use PPM Provider must be registered with the relevant Local Financial Bureau and follow rather detailed deposit procedures to assure that there are adequate funds for the individuals who are effectively loaning their money to the Public Use PPM Provider. If we fail to comply with these procedures, there is some possibility that we will be assessed a monetary fine, and in certain circumstances, a member of our Company could face a criminal penalty of imprisonment. If such results were to occur, it could adversely impact our financial results as well as our brand image.

Furthermore, one of the requirements for issuers of prepaid cards under the Settlement Act is to maintain net assets of not less than JPY100 million based on Japanese GAAP. As of December 31, 2021, our net assets have fallen below JPY100 million based on Japanese GAAP on a standalone basis. We have recently reported the issue to the Kanto Local Financial Bureau and are currently in consultation with the regulatory authority for administrative guidance. If we fail to show a concrete plan to rectify the situation in the foreseeable future, our license granted as the issuer of the prepaid cards may be revoked and we may be required to refund any unused prepaid card balance to customers who have purchased the prepaid cards.

If we or our franchisees face labor shortages or increased labor costs, our results of operations and our growth could be adversely affected.

Labor is a primary component in the cost of operating our directly-operated and franchised relaxation salons. As of December 31, 2021, we had 368 full-time employees, 257 of which were relaxation therapists who provide services to customers directly. If we or our franchisees face labor shortages or increased labor costs because of increased competition for employees, higher employee-turnover rates, or increases in the relevant minimum wage, change in employment status standards, or other employee benefits costs (including costs associated with health insurance coverage or workers' compensation insurance), our and our franchisees' operating expenses could increase, and our growth could be adversely affected.

If such events occur, we may be unable to increase our prices in order to pass future increased labor costs on to our customers, in which case our margins would be negatively affected. Also, reduced margins of franchisees could make it more difficult to sell franchises. If prices are increased by us and our franchisees to cover increased labor costs, the higher prices could adversely affect transactions which could lower sales and thereby reduce our margins and the royalties that we receive from franchisees.

In addition, our success depends in part upon our and our franchisees' ability to attract, motivate and retain a sufficient number of well-qualified relaxation salon operators, management personnel and other employees, including relaxation therapists. Qualified individuals needed to fill these positions can be in short supply in some geographic areas. In addition, relaxation salons have traditionally experienced relatively high employee turnover rates. Our and our franchisees' ability to recruit and retain such individuals may delay the planned openings of new relaxation salons or result in higher employee turnover in existing relaxation salons, which could increase our and our franchisees' labor costs and have a material adverse effect on our business, financial condition, results of operations or cash flows. If we or our franchisees are unable to recruit and retain sufficiently qualified individuals, our business and our growth could be adversely affected. Competition for these employees could require us or our franchisees to pay higher wages, which would also result in higher labor costs and adversely affect our results of operation.

We are exposed to the risk of natural disasters, unusual weather conditions, pandemic outbreaks such as COVID-19, political events, war and terrorism that could disrupt business and result in lower sales, increased operating costs and capital expenditures.

Our headquarters, directly-operated and franchised relaxation salon locations and other businesses, as well as certain of our vendors and customers, are located in areas which have been and could be subject to natural disasters such as floods, typhoons, tsunamis, tornadoes, fires or earthquakes, as well as global pandemics such as COVID-19. Adverse weather conditions or other extreme changes in the weather, including resulting electrical and technological failures and even nuclear leaks, as a result of the concentration of our relaxation salons, may disrupt our and our franchisees' business and may adversely affect our and our franchisees' ability to sell services. Our business may be harmed if our or our franchisees' ability to sell services is impacted by any such events, any of which could influence customer trends and purchases and negatively impact our and our franchisees' revenues, properties or operations.

During 2021, the Japanese Government issued three series of Declaration of Emergency (which we refer to as the "Declarations"), whereby the Japanese Government requested the closing of non-essential activities and businesses across the country as a preemptive safeguard against the COVID-19 pandemic. This adversely impacted businesses across the nation, particularly in the retail segment in which we operate.

During the period, the COVID-19 pandemic and the Government-driven or voluntary closure of workplaces and public spaces, the general public's reluctance or inability to commute on public transportation, shop, or enjoy outdoor leisure activities have negatively affected our business operations and liquidity position.

During first half of 2021, we estimated approximately one-fourth of the salons on average had voluntarily shortened operating hours by 2 hours per day, and approximately 5% of the outlets on average were closed due to the Declarations and local governments' requests. During second half of 2021, we estimated approximately one-fifth of the salons on

average had voluntarily shortened operating hours, and below 1% of the outlets on average were closed due to the Declarations and local governments' requests.

Although the Declarations have adversely affected our business, we are managing our operations by relocating therapists from salons that were closed or operating on shortened hours to those lacking enough therapists, or issuing furlough to those who cannot be relocated to other open salons and applying for governmental subsidies.

After the first series of Declarations (which we refer to as the "First Declaration") was lifted on May 25, 2020, the number of our served customers recovered gradually. From January 8 to March 21, 2021, when the government issued the second series of Declarations (which we refer to as the "Second Declaration"), Tokyo, Kanagawa, Saitama, and Chiba prefectures, where the majority of our salons are located, were all included within the scope of the Second Declaration. While this adversely affected our business, the negative impact on our number of customers served decreased from that during the First Declaration. The number of customers served had dropped to an average of approximately fifty-thousand customers in January and February 2021, but subsequently recovered to more than sixty thousand customers in March 2021.

The third series of Declarations (which we refer to as the "Third Declaration") was issued on April 25, 2021, and the scope was expanded to ten prefectures including Tokyo, which was finally released from the declaration on June 20, 2021. Even with the Third Declaration, the numbers of customers served has not been adversely affected. On July 8, 2021, the government issued the series of Declarations (which we refer to as the "Fourth Declaration") applicable to Tokyo during the period from July 12 to August 12, 2021. During such period, the City had the Summer Olympic games. On July 30, 2021, the government announced it would add Saitama, Chiba, Kanagawa, and Osaka prefectures to the scope of the declaration from August 2 to 31, 2021. On August 17, 2021, the government announced it would add Ibaraki, Tochigi, Gunma, Shizuoka, Kyoto, Hyogo, and Fukuoka prefectures to the scope of the declaration from August 20 to September 12, 2021, and also announced it would extend the declaration applicable to the six prefectures already under the declaration until September 12, 2021. On August 25, 2021, Aichi, where many of our directly-operated salons in spa facilities were located, and other seven prefectures were added to the scope from August 27 to September 12, 2021, resulting in totaling 21 prefectures under the Third and Fourth Declarations. On September 9, 2021, the government announced it would extend the declarations to 19 prefectures with exception of two prefectures until September 30, 2021. The Third and Fourth Declarations were fully lifted on September 30, 2021.

In addition, if we experience the effects of other events, such as natural or other disasters, we could suffer physical damage to one or more of our or our franchisees' properties, the temporary closure of some or all of our directly-operated relaxation salons and franchised relaxation salons, the temporary lack of an adequate work force in a market, temporary or long-term disruption in the transport of goods, delay in the delivery of goods and supplies to our directly-operated and franchised relaxation salons, disruption of our technology support or information systems, or fuel or electricity shortages or dramatic increases in fuel or electricity prices, all of which would increase the cost of doing business. These events also could have indirect consequences such as increases in the costs of insurance or taxes if they result in significant loss of property or other insurable damage. Any of these factors, or any combination thereof, could adversely affect our operations and our financial results.

As we expand our businesses internationally, we will become subject to foreign laws and regulations, and we could be adversely affected by violations of these laws as well as the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery and anti-kickback laws.

As we expand our business in Japan and other parts of the world, including in the United States in the future, we become subject to risks customarily associated with such global operations, including the complexity of laws, regulations, and markets in the countries in which we operate; the uncertainty of enforcement of remedies in certain jurisdictions; the effect of currency exchange rate fluctuations; export control laws; the impact of foreign labor laws and disputes; the ability to attract and retain key personnel; the economic, tax, and regulatory policies of local governments; compliance with applicable anti-money laundering, anti-bribery, and anti-corruption laws, including the Foreign Corrupt Practices Act and other anti-corruption laws that generally prohibit persons and companies and their agents from offering, promising, authorizing, or making improper payments to foreign government officials for the purpose of obtaining or retaining business; and compliance with applicable sanctions regimes regarding dealings with certain

persons or countries. Certain of these laws also contain provisions that require accurate recordkeeping and further require companies to devise and maintain an adequate system of internal accounting controls. We cannot assure you that we will be successful in preventing our franchisees or other agents from taking actions in violation of these foreign laws or regulations. Such violations, or allegations of such violations, could disrupt our business and result in a material adverse effect on our financial condition, results of operations and cash flows.

There is a risk that we will be a passive foreign investment company (which we refer to as "PFIC") for the current or any future taxable year, which could result in material adverse U.S. federal income tax consequences if you are a U.S. holder.

A non-U.S. corporation, such as our Company, is classified as a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of its subsidiaries, either: (i) 50% or more of the value of the corporation's assets either produce passive income or are held for the production of passive income, based on the quarterly average of the fair market value of such assets; or (ii) at least 75% of the corporation's gross income is passive income. "Passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions. In determining the value and composition of our assets, the cash we raise in this offering will generally be considered to be held for the production of passive income and thus will be considered a passive asset.

The determination of whether a corporation is a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules that are subject to differing interpretations. In addition, the determination of whether a corporation will be a PFIC for any taxable year can only be made after the close of such taxable year. Our PFIC status will depend, in part, on the amount of cash that we raise in this offering and how quickly we utilize the cash in our business. Furthermore, because we may value our goodwill based on the market price of the ADSs in this offering, a decrease in the market price of our ADSs may also cause us to be classified as a PFIC for the current or any future taxable year. Based upon the foregoing, it is uncertain whether we will be a PFIC for our current taxable year or any future taxable year.

If we are a PFIC for any taxable year during which a U.S. holder (as defined below) owns common shares or ADSs, certain adverse U.S. federal income tax consequences could apply to such U.S. holder. See "Item 10.E. Taxation—Certain U.S. Federal Income Tax Considerations for U.S. Holders" for further information. We have not determined, if we were to be classified as a PFIC for a taxable year, whether we will provide information necessary for a U.S. holder to make a "qualified electing fund" election which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs. Accordingly, U.S. holders should assume that they will not be able to make a qualified electing fund election with respect to the common shares or ADSs. The PFIC rules are complex, and each U.S. holder should consult its own tax advisor regarding the PFIC rules, the elections which may be available to it, and how the PFIC rules may affect the U.S. federal income tax consequences relating to the ownership and disposition of our common shares or ADSs.

Risks Related to Our Relationships with Franchisees

The financial performance of our franchisees can negatively impact our business.

Approximately 39.7% of our relaxation salons were franchised locations as of December 31, 2021. We derive revenues associated with our franchised locations from royalty fees and other fees to franchised locations. Our financial results are therefore dependent in part upon the operational and financial success of our franchisees. We have established operational standards and guidelines for our franchisees; however, we have limited control over how our franchisees' businesses are run. While we are responsible for ensuring the success of our entire system of relaxation salons and for taking a longer-term view with respect to system improvements, our franchisees have individual business strategies and objectives, which might conflict with our interests. Our franchisees may not be able to secure adequate financing to continue operating their relaxation salons. If they incur too much debt or if economic or sales trends deteriorate such that they are unable to repay existing debt, our franchisees could experience financial distress or even bankruptcy. If a significant number of franchisees become financially distressed, it could harm our operating results through reduced royalty revenues, and the impact on our profitability could be greater than the percentage decrease in the royalty

revenues. Closure of franchised relaxation salons would reduce our royalty revenues and could negatively impact margins, because we may not be able to reduce fixed costs which we continue to incur.

We have limited control with respect to the operations of our franchisees, which could have a negative impact on our business.

Franchisees are independent business operators and are not our employees. Though we have established operational standards and guidelines, they own, operate and oversee the daily operations of their salon locations. We provide training and support to franchisees and set and monitor operational standards, but the quality of franchised relaxation salons may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate relaxation salons in a manner consistent with our standards and requirements or may not hire and train qualified managers and other relaxation salon personnel, including relaxation therapists. If franchisees do not operate to our expectations, our image and reputation, and the image and reputation of other franchisees, may suffer materially, and franchise-wide sales could decline significantly, which would reduce our royalty revenues, and the impact on profitability could be greater than the percentage decrease in royalties and fees.

In addition, our franchisees are subject to the same general economic risks as our Company, and their results are influenced by competition for both guests and therapists, market trends, price competition and disruptions in their markets due to severe weather and other external events. Like us, they rely on external vendors for some critical functions and to protect their company data. They may also be limited in their ability to open new locations by an inability to secure adequate financing, especially since many of them are small businesses with much more limited access to financing than our Company, or by the limited supply of favorable real estate for new salon locations. They may experience financial distress as a result of over-leveraging, which could negatively affect our operating results as a result of delayed payments to us.

We rely on franchise agreements that could be breached and may be difficult to enforce, which could result in franchisees improperly managing relaxation salons.

Although we believe that we take reasonable steps to protect the quality of services provided at our franchised locations, including the use of franchise agreements with detailed and rigorous obligations on the part of franchisees, the agreements can be difficult and costly to enforce. Although we seek to require strict adherence to properly structured franchise agreements, disputes may arise related to revenue, financing, or intellectual property rights associated with our franchise. If a dispute arises, a court may determine that a third party's rights were infringed. In addition, enforcement of our rights can be costly and unpredictable. We also rely on trade secrets and proprietary know-how that we seek to protect in part by confidentiality agreements with our franchisees, employees, contractors, consultants, advisors or others. Despite the protective measures we employ, we still face the risks that:

- these agreements may be breached;
- these agreements may not provide adequate remedies for the applicable type of breach;
- our trade secrets or proprietary know-how will otherwise become known; and
- our competitors will independently develop similar technology or proprietary information.

We rely in part on the financial health of our franchisees. If we do not screen and monitor them appropriately, it could adversely affect our operations and financial results if they experience financial hardship.

We rely in part on our franchisees and the manner in which they operate their locations to develop and promote our business. It is possible that some franchisees could under-report sales, file for bankruptcy or become delinquent in their payments to us, which could have a significant adverse impact on our business due to loss or delay in payments of royalties and other fees. Bankruptcies by our franchisees could negatively impact our market share and operating results as we may have fewer well-performing relaxation salons, and adversely impact our ability to attract new franchisees.

Although we have developed criteria to evaluate and screen prospective franchisees, we cannot be certain that the franchisees we select will have the business acumen or financial resources necessary to open and sustainably operate successful franchises in their franchise areas, and Japanese contract laws may limit our ability to terminate or modify these franchise arrangements. Moreover, franchisees may not hire qualified managers or may not successfully operate relaxation salons in a manner consistent with our standards and requirements. The failure of developers and franchisees to open and operate franchises successfully could have a material adverse effect on us, our reputation, our brand and our ability to attract prospective franchisees and could materially adversely affect our business, financial condition, results of operations and cash flows.

Franchisees may not have access to the financial or management resources that they need to open the relaxation salons contemplated by their agreements with us. Franchisees may not be able to negotiate acceptable lease or purchase terms for relaxation salon sites, obtain the necessary permits and government approvals or meet construction schedules. Any of these problems could slow our growth and reduce our franchise revenues. Additionally, our franchisees typically depend on financing from banks and other financial institutions, which may not always be available to them, in order to construct and open new relaxation salons. For these reasons, franchisees may not be able to meet the new relaxation salon opening dates required under franchise agreements.

Franchisee turnover could affect our ability to recruit new franchisees.

Although we make great efforts with the aid of our franchise support team to help franchisees who run into difficulties, we may suffer from franchisee retention. Low franchisee retention could harm our image and deter prospective franchisees. If franchisee turnover increases and we begin to struggle to recruit new franchisees to take over relinquished salon locations or establish new ones, such an occurrence could harm our financial results.

Premature termination of franchise agreements can cause losses.

Our franchise agreements may be subject to premature termination in certain circumstances, such as failure of a franchisee to cure a monetary default or abandonment of the franchise. If terminations occur for this or other reasons, we may need to enforce our right to damages for breach of contract and related claims, which may cause us to incur significant legal fees and expenses and/or to take back and operate such salons as directly-operated. Any damages we ultimately collect could be less than the projected future value of the fees and other amounts we would have otherwise collected under the franchise agreement. In addition, with many of our brands, we remain liable under the lease and, therefore, will be obligated to pay rent or enter into a settlement with the landlord, and we may not be made whole by the franchisee. A significant loss of franchise agreements due to premature terminations could hurt our financial performance or our ability to grow our business.

The interests of our franchisees may conflict with ours in the future and we could face liability from our franchisees or related to our relationship with our franchisees.

Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under the respective franchise agreements and the terms and conditions of the franchisee/franchisor relationship. This may lead to disputes with our franchisees, and we expect such disputes to occur from time to time in the future as we continue to offer franchises. Such disputes may result in legal action against us. To the extent we have such disputes, the attention, time and financial resources of our management and our franchisees will be diverted from our relaxation salons and other businesses, which could have a material adverse effect on our business, financial condition, results of operations and cash flows even if we have a successful outcome in the dispute.

We are subject to various Japanese laws that may affect our relationship with our franchisees.

Various Japanese laws govern our relationship with our franchisees and our potential sale of a franchise. A franchisee and/or a government agency may bring legal action against us based on the franchisee/franchisor relationships that could result in the award of damages to franchisees and/or the imposition of fines or other penalties against us.

The Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947, as amended) (which we refer to as the "Antimonopoly Act") prohibits any activities that inappropriately induce or mislead customers to enter into a business relationship by demonstrating seemingly preferable trade terms and conditions that could create a false impression over other competitor franchisors. The Japan Fair Trade Commission (which we refer to as the "JFTC"), which enforces the Antimonopoly Act and other Japanese antitrust laws, set forth "Guidelines Concerning the Franchise System Under the Antimonopoly Act" which suggest that a franchisor adequately disclose and explain material trade terms to a potential franchisee (willing to join the franchise relationship) to prevent any material terms and conditions inappropriately inducing or misleading such potential franchisee. In addition, when a franchisor markets its franchise, in the event a franchisor provides a prospective franchisee with an estimate of the revenue or profit that might possibly be earned upon becoming a franchisee, such estimated revenue or profit must be based on a reasonable method of calculation and established facts, such as the results of an existing franchise operating in a similar environment. The franchisor is required to present to the prospective franchisee such methods and facts. If the JFTC finds that any of our activities violate the Antimonopoly Act, including any "deceptive customer inducement", then the JFTC may order us to cease and desist from engaging in such unlawful activities, delete any relevant unlawful clauses from the franchise contract, or carry out any other measures necessary to eliminate such unlawful activities.

In the event the JFTC suspects any violation of the Antimonopoly Act or alleges our Company has misled or wrongly induced based on any particular trade terms, our Company could be exposed to risks including governmental action against our Company.

Risks Related to Our Industry

We are vulnerable to changes in consumer preferences and economic conditions that could harm our business, financial condition, results of operations and cash flow.

Relaxation salon businesses depend on discretionary consumer spending and are often affected by changes in consumer tastes, national, regional and local economic conditions, and demographic trends. Factors such as traffic patterns, weather, local demographics, and the type, number and locations of competing salons may adversely affect the performance of individual locations. In addition, economic downturns, rapid inflation, tight labor market conditions and the resulting increase of general wage levels and increases in salon lease expenses could harm the relaxation industry in general and our relaxation salon locations in particular. Adverse changes in any of these factors could reduce consumer traffic or impose practical limits on pricing that could harm our business, financial condition, results of operations and cash flow. There can be no assurance that consumers will continue to regard our brand of relaxation salons favorably or that we will be able to develop new services that appeal to consumer preferences. Our business, financial condition and results of operations depend in part on our ability to anticipate, identify and respond to changing consumer preferences and economic conditions. If we are unable to adapt to changes in consumer preferences and trends, we may lose customers and our revenues may decline.

We may not be able to compete successfully with other relaxation salon businesses, which could materially and adversely affect our results of operations.

We may not be able to compete successfully with other relaxation salon businesses. Intense competition in the relaxation industry could make it more difficult to expand our business and could also have a negative impact on our operating results if customers favor our competitors, or if we are forced to change our pricing and other marketing strategies.

The relaxation industry, particularly in Japan, is intensely competitive. In addition, the Tokyo metropolitan area (consisting of Tokyo, Kanagawa, Saitama, and Chiba) of Japan, the primary market in which we compete, contains what we believe to be the most competitive relaxation services market in Japan. We expect competition in this market to continue to be intense because relaxation salons are comparatively inexpensive to start and operate, and new competitors are regularly entering the market. Competition in our industry is primarily based on price, convenience, quality of service, brand recognition, and location of the relaxation salons. If our directly-operated and franchised relaxation salons cannot compete successfully with other relaxation salon companies in new and existing markets, we could lose customers and our revenues could decline. Our directly-operated and franchised relaxation salons compete with national

and regional relaxation salon chains for customers, relaxation salon locations and qualified management and other staff, including licensed relaxation therapists. Some of our competitors may have substantially greater financial and other resources, may have been in business longer, may have greater brand recognition, or may be better established in the markets where our relaxation salons are located or are planned to be located. Any of these competitive factors may materially adversely affect our business, financial condition or results of operations.

We face significant competition and continuous technological change.

In our Digital Preventative Healthcare Segment, if our competitors develop and commercialize services faster than we do or develop and commercialize services that are superior to ours, our commercial opportunities will be reduced or eliminated. The extent to which any of our services achieve market acceptance will depend on competitive factors, many of which are beyond our control. Competition in the relaxation and health technology industries is intense. Our main competitors in the Specific Health Guidance Program, promoted by the Ministry of Health, Labor and Welfare of Japan, include SOMPO Health Support, Benefit One Inc., and FitsPlus Inc.

Negative publicity could reduce sales at some or all of our relaxation salons.

Although we actively screen all personnel and staff members, including relaxation therapists, who interact with customers, we cannot guarantee that our staff or customers will not engage in illegal or inappropriate behavior that could have a negative effect on our brand image, as well as the health and well-being of our customers or staff, as the case may be. In addition, negative publicity may adversely affect us, regardless of whether the allegations are valid or whether we are held to be responsible. Any such negative impact of adverse publicity relating to one relaxation salon may extend far beyond the relaxation salon involved, especially due to the high geographic concentration of many of our relaxation salons, to affect some or all of our other relaxation salons, including our franchised relaxation salons. The risk of negative publicity is particularly great with respect to our franchised relaxation salons because we are limited in the manner in which we can regulate them, especially on a real-time basis, and negative publicity from our franchised relaxation salons may also significantly impact directly-operated relaxation salons. In addition, the relaxation industry can often be held under legal and legislative scrutiny as a result of some fringe relaxation businesses that engage in illegal or anti-social activities.

Employee claims against us based on, among other things, wage and hour violations, discrimination, harassment, wrongful termination, or similar claims may also create not only legal and financial liability but negative publicity that could adversely affect us and divert our financial and management resources that would otherwise be used to benefit the future performance of our operations. Certain of these types of employee claims, such as tort claims, could be asserted against us by employees of our franchisees. A significant increase in the number of these claims or an increase in the number of successful claims could materially adversely affect our business, financial condition, results of operations and cash flows.

We are potentially subject to government regulations, and we may experience delays in obtaining required regulatory approvals, if required, to market our proposed businesses.

Various aspects of our operations are or may become subject to Japanese law or the laws of another relevant country or jurisdiction, any of which may change from time to time. Costs arising out of any regulatory developments could be time-consuming, expensive and could divert management resources and attention and, consequently, could adversely affect our business operations and financial performance.

Delays in regulatory clearance, approval, limitations in regulatory approval and withdrawals of regulatory approval, if any are required, may have a negative impact on our results. If we experience significant delays in obtaining any regulatory approvals, our business development costs will increase and our ability to commercialize future businesses will be adversely affected.

Risks Related to Ownership of the ADSs

We are an "emerging growth company" and, as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common shares and ADSs may be less attractive to investors.

We are an "emerging growth company," as defined in the U.S. Jumpstart Our Business Startups Act of 2012 (which we refer to as the "JOBS Act"), and we are eligible to take advantage of certain exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including, but not limited to, an exemption from the auditor attestation requirement of Section 404 of the Sarbanes-Oxley Act of 2002 (which we refer to as the "Sarbanes-Oxley Act"), reduced disclosure about executive compensation arrangements, no requirement to seek non-binding advisory votes on executive compensation or golden parachute arrangements, and not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding a supplement to the auditor's report providing additional information about the audit and the financial statements. We have elected to adopt these reduced disclosure requirements.

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a registration statement declared effective under the Securities Act of 1933, as amended (which we refer to as the "Securities Act"), or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended (which we refer to as the "Exchange Act")) are required to comply with the new or revised financial accounting standards. In addition, Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised financial accounting standards. An emerging growth company can, therefore, delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(2) of the JOBS Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result, our financial statements may not be comparable to companies that comply with public company effective dates.

We would cease to be an "emerging growth company" upon the earliest of (i) December 31, 2025, (ii) the last day of the fiscal year during which our annual gross revenues are US\$1.07 billion or more, (iii) the date on which we have, during the previous three-year period, issued more than US\$1.0 billion in non-convertible debt securities, or (iv) as of the end of any fiscal year in which the market value of our common shares held by non-affiliates exceeded US\$700 million as of the end of the second quarter of that fiscal year (and we have been a public company for at least 12 months and have filed at least one annual report on Form 20-F).

We cannot predict if investors will find the ADSs less attractive as a result of our taking advantage of these exemptions. If some investors find the ADSs less attractive as a result of our choices, there may be a less active trading market for the ADSs and our stock price may be more volatile.

As a "foreign private issuer" we are permitted, and intend, to follow certain home country corporate governance and other practices instead of otherwise applicable SEC and NASDAQ requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers.

Our status as a foreign private issuer exempts us from compliance with certain SEC laws and regulations and certain regulations of The Nasdaq Capital Market (which we refer to as "NASDAQ"), including certain governance requirements such as independent director oversight of the nomination of directors and executive compensation. Further, consistent with corporate governance practices in Japan, we do not have a standalone compensation committee or nomination and corporate governance committee under our board. In addition, we are not required under the Exchange Act to file current reports and financial statements with the U.S. Securities and Exchange Commission (which we refer to as the "SEC") as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act, and we are generally exempt from filing quarterly reports with the SEC. Also, we are not required to provide the same executive compensation disclosures regarding the annual compensation of our five most highly compensated senior executives on an individual basis as are required of U.S. domestic issuers. As a foreign private

issuer, we are permitted to disclose executive compensation on an aggregate basis and need not supply a Compensation Discussion & Analysis, as is required for domestic companies. Furthermore, as a foreign private issuer, we are also not subject to the requirements of Regulation FD (Fair Disclosure) promulgated under the Exchange Act. These exemptions and accommodations will reduce the frequency and scope of information and protections to which you are entitled as an investor.

Our Chief Executive Officer owns a "golden share" with key veto rights, thereby limiting a shareholder's ability to influence our business and affairs.

Kouji Eguchi, our Chief Executive Officer and director, is the sole holder of our Class A common share, which we refer to as a "golden share," entitling him to certain veto rights on key matters presented to our shareholders. Consequently, Mr. Eguchi is able to control key corporate decisions, thus limiting the ability of the holders of the ADSs to influence matters affecting our Company. As a shareholder, Mr. Eguchi may be able to influence the outcome of matters submitted to shareholders for approval, including amendments of our organizational documents, issuance of additional common shares, approval of any merger, sale of assets, or other major corporate transactions. This may prevent or discourage unsolicited acquisition proposals or offers for our common shares or ADSs that you may feel are in your best interest as one of our shareholders. Circumstances may occur in which the interests of our Chief Executive Officer could be in conflict with your interests or the interests of other shareholders. Accordingly, a shareholder's ability to fully influence our business and affairs through voting its common shares may be limited.

The requirements of being a U.S. public company may strain our resources and divert management's attention.

As a public company with ADSs listed on NASDAQ, we incur significant legal, accounting, and other expenses that we did not incur as a private company. The reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, and the listing standards of NASDAQ as applicable to a foreign private issuer, which are different in some material respects from those required for a U.S. public company, impose various requirements on the corporate governance practices of public companies. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly after we are no longer an "emerging growth company." Further, these rules and regulations may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage, which could make it more difficult for us to attract and retain qualified members of our board of directors.

Pursuant to Section 404 of the Sarbanes-Oxley Act, once we are no longer an emerging growth company, we may be required to furnish an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. When our independent registered public accounting firm is required to undertake an assessment of our internal control over financial reporting, the cost of complying with Section 404 of the Sarbanes-Oxley Act will significantly increase, and management's attention may be diverted from other business concerns, which could adversely affect our business and results of operations. We may need to hire more employees in the future or engage outside consultants to comply with the requirements of Section 404 of the Sarbanes-Oxley Act, which will further increase our cost and expense. In addition, enhanced legal and regulatory regimes and heightened standards relating to corporate governance and disclosure for public companies result in increased legal and financial compliance costs and make some activities more time-consuming.

As a result of disclosure of information in this annual report and in filings required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors, shareholders or third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, financial condition and results of operations.

We have identified material weaknesses in our internal control over financial reporting. If we fail to maintain an effective system of internal control to remediate our material weakness over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud.

In connection with the preparation of our financial statements for the fiscal year ended December 31, 2021, we have identified several material weaknesses and other control deficiencies including significant deficiencies in our internal control over financial reporting. As defined in the standards established by the Public Company Accounting Oversight Board of the United States, or PCAOB, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. As of and for the fiscal year ended December 31, 2021, we have identified material weaknesses in our financial reporting related to the following:

- our lack of sufficient knowledge of and approval/review process in accordance with the U.S. GAAP related to asset acquisitions and business combinations, which resulted in untimely accounting book closing in relation to valuation work.
- our lack of sufficient post-acquisition integration of the acquired entities, which resulted in insufficient collection of accounting details, performance reporting and review process for financial reporting purpose.
- our lack of integration between our operating software and accounting software. Despite our efforts to integrate our operating software with accounting software by replacing the existing accounting software with an ERP system, we have not successfully implemented the ERP system yet.
- the valuation allowance on our deferred tax assets. We have not developed an internal accounting policy to assess the recoverability of our deferred tax assets to determine if, and how much, valuation allowance should be recognized on the deferred tax assets.

We have already taken some steps and have continued to implement measures to remediate the material weaknesses identified, including but not limited to (i) reinforcing our internal resources/contractors to complete the implementation of the ERP system as well as continuing to improve the integration of the ERP system with our existing POS system and workflow system for more accelerated account closing, (ii) having assigned a special staff member who will handle the administrative work of ZACC and will be the primary liaison between the parent company and that subsidiary, (iii) hiring highly capable accounting personnel who can handle account closing work, with existing personnel focusing on the ERP implementation work, and (iv) developing a new accounting policy to assess the recoverability of the deferred tax assets. See “Item 15. Controls and Procedures—Management’s Annual Report on Internal Control over Financial Reporting.”

Section 404 of the Sarbanes-Oxley Act (which we refer to as “Section 404”), requires that as a U.S. public company, we assess the effectiveness of our internal control over financial reporting at the end of each fiscal year. In addition, once we cease to be an “emerging growth company” as defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal control or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

We cannot assure you that our remedial measures will successfully remediate the material weaknesses identified so far, or that other material weaknesses will not be discovered in the future. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our

results of operations, and lead to a decline in the trading price of the ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from NASDAQ, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements for prior periods.

We cannot assure you that the ADSs will remain liquid or that they will remain listed on NASDAQ.

Our ADSs representing our common shares are listed on The Nasdaq Capital Market; however, we cannot assure you that we will be able to maintain such listing. In addition, if we fail to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling ADSs representing our common shares, which may further affect the liquidity of the ADSs. This would also make it more difficult for us to raise additional capital or attract qualified employees or partners.

Although the ADSs are currently listed on NASDAQ under the symbol “MRM”, an active trading market for the ADSs may never develop or be sustained. If an active trading market does not develop or is not sustained, you may have difficulty selling your ADSs at an attractive price, or at all. An inactive market may also impair our ability to raise capital by selling our common shares or ADSs, and it may impair our ability to attract and motivate our employees through equity incentive awards and our ability to acquire other companies, products or technologies by using our common shares or ADSs as consideration.

The price of the ADSs may fluctuate substantially.

The stock market in general, and the price for the ADSs are subject to fluctuation, and changes in the price of our ADSs may be unrelated to our operating performance. Some factors that may cause the market price of the ADSs to fluctuate, in addition to the other risks mentioned in this section of the annual report, are:

- any failure to meet or exceed revenue and financial projections we provide to the public;
- actual or anticipated variations in our quarterly financial condition and operating results or those of other companies in our industry;
- our failure to meet or exceed the estimates and projections of the investment community;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
- additions or departures of our key management personnel;
- issuances by us of debt or equity securities;
- litigation involving our Company, including shareholder litigation; investigations or audits by regulators into the operations of our Company; or proceedings initiated by our competitors, franchisees, or customers;
- changes in the market valuations of similar companies;
- ADS price and volume fluctuations attributable to inconsistent trading volume levels of the ADSs;
- significant sales of the ADSs or common shares by our insiders or our shareholders in the future;
- the trading volume of the ADSs in the United States; and
- general economic and market conditions.

These and other market and industry factors may cause the market price and demand for the ADSs to fluctuate substantially, regardless of our actual operating performance, which may limit or prevent investors from readily selling their ADSs and may otherwise negatively affect the liquidity of the ADSs. Future market fluctuations may also materially adversely affect the market price of the ADSs.

In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. Any such class action suit or other securities litigation would divert the attention of our senior management, require us to incur significant expense and, whether or not adversely determined, could materially adversely affect our business, financial condition, results of operations and prospects.

We do not currently intend to pay dividends on our common shares for the foreseeable future.

We currently do not intend to pay any dividends to holders of our common shares for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Any determination to pay dividends in the future will be at the discretion of our board of directors and subject to limitations under applicable law. Therefore, you are not likely to receive any dividends on your ADSs for the foreseeable future, and the success of an investment in the ADSs will depend upon any future appreciation in its value. Moreover, any ability to pay may be restricted by the terms of any future credit agreement or any future debt or preferred equity securities of us or our subsidiaries. Consequently, investors may need to sell all or part of their holdings of our common shares after price appreciation, which may never occur, as the only way to realize any future gains on their investment. There is no guarantee that the ADSs will appreciate in value or even maintain the price at which our shareholders have purchased the ADSs.

The future issuance of additional common shares in connection with our stock option plan, convertible bonds, acquisitions or otherwise may adversely affect the market of the ADSs.

We currently have an aggregate of 599,800 common shares issuable upon exercise of outstanding stock options, at a weighted average exercise price of JPY857 (US\$7.44) per share. If and when these options are exercised for our common shares, the number of common shares outstanding will increase. Such an increase in our outstanding securities, and any sales of such shares, could have a material adverse effect on the market for the ADSs, and the market price of the ADSs.

We provide a stock option plan for our Company's directors, internal corporate auditors, employees and external consultants. We currently plan to continue granting stock options and other incentives so that we can continue to secure talented personnel in the future. We may issue all of these common shares without any further action or approval by our shareholders, subject to certain exceptions. Any common shares, issued in connection with our stock option plan, the exercise of outstanding stock options, or otherwise, would dilute your ownership interest.

The right of holders of ADSs to participate in any future rights offerings may be limited, which may cause dilution to their holdings and holders of ADSs may not receive cash dividends if it is impractical to make them available to them.

We may, from time to time, distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make any such rights available to the ADS holders in the United States unless we register such rights and the securities to which such rights relate under the Securities Act or an exemption from the registration requirements is available. In addition, the deposit agreement provides that the depositary bank will not make rights available to ADS holders unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act.

The depositary has agreed to pay ADS holders the cash dividends or other distributions it or the custodian receives on our common shares or other deposited securities after deducting its fees and expenses. However, because of these deductions, ADS holders may receive less, on a per share basis with respect to their ADSs than they would if they owned the number of shares or other deposited securities directly. ADSs holders will receive these distributions in proportion to

the number of common shares the ADSs represent. In addition, the depository may, at its discretion, decide that it is not lawful or practical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property and ADS holders will not receive such distribution.

Holders of ADSs may be subject to limitations on transfer of their ADSs.

ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

We may amend the deposit agreement without consent from holders of ADSs and, if such holders disagree with our amendments, their choices will be limited to selling the ADSs or withdrawing the underlying common shares.

We may agree with the depository to amend the deposit agreement without consent from holders of ADSs. If an amendment increases fees to be charged to ADS holders or prejudices a material right of ADS holders, it will not become effective until 30 days after the depository notifies ADS holders of the amendment. At the time an amendment becomes effective, ADS holders are considered, by continuing to hold their ADSs, to have agreed to the amendment and to be bound by the amended deposit agreement. If holders of ADSs do not agree with an amendment to the deposit agreement, their choices will be limited to selling the ADSs or withdrawing the underlying common shares. No assurance can be given that a sale of ADSs could be made at a price satisfactory to the holder in such circumstances.

Holders of ADSs may not receive distributions on our common shares or any value for them if it is illegal or impractical to make them available to such holders.

The depository of ADSs has agreed to pay holders of ADSs the cash dividends or other distributions it or the custodian for the ADSs receives on common shares or other deposited securities after deducting its fees and expenses. Holders of ADSs will receive these distributions in proportion to the number of our common shares that such ADSs represent. However, the depository is not responsible for making such payments or distributions if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act, but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depository is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts made by the depository. We have no obligation to take any other action to permit distributions on our common shares to holders of ADSs. This means that holders of ADSs may not receive the distributions we make on our common shares if it is illegal or impractical to make them available to such holders. These restrictions may materially reduce the value of the ADSs.

ADS holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our common shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial for any claim they may have against us or the depository arising out of or relating to our common shares, the ADSs or the deposit agreement, which may include any claim under the U.S. federal securities laws.

If we or the depository were to oppose a jury trial based on this waiver, the court would have to determine whether the waiver was enforceable based on the facts and circumstances of the case in accordance with applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However,

we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, or by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this would be the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before investing in the ADSs.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depository in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us or the depository. If a lawsuit is brought against us or the depository under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have, including outcomes that could be less favorable to the plaintiff(s) in any such action. Nevertheless, if this jury trial waiver is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or the ADSs serves as a waiver by any holder or beneficial owner of ADSs (including purchasers of our ADSs in the secondary market) or by us or the depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

Risks Related to Japan

We are incorporated in Japan, and it may be more difficult to enforce judgments against us that are obtained in courts outside of Japan.

We are incorporated in Japan as a joint stock corporation (*kabushiki kaisha*) with limited liability. All of our directors are non-U.S. residents, and a substantial portion of our assets and the personal assets of our directors are located outside the United States. As a result, when compared to a U.S. company, it may be more difficult for investors to effect service of process upon us in the United States, or to enforce against us, or our directors or executive officers, judgments obtained in U.S. courts predicated upon civil liability provisions of U.S. federal or state securities laws or similar judgments obtained in other courts outside of Japan. There is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon U.S. federal and state securities laws.

Substantially all of our revenues are generated in Japan, but an increase of our international presence could expose us to fluctuations in foreign currency exchange rates, or a change in monetary policy may harm our financial results.

Our functional currency and reporting currency is the Japanese yen. Substantially all of our revenues are generated in Japan, but an increase in our international presence could expose us to fluctuations in foreign currency exchange rates. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies which, among other factors, may be influenced by governmental policies and domestic and international economic and political developments. If our non-Japanese revenues increase substantially in the future, any significant change in the value of the currencies of the countries in which we do business against the Japanese yen could adversely affect our financial condition and results of operations due to translational and transactional differences in exchange rates.

We cannot predict the effects of exchange rate fluctuations upon our future operating results because of the number of currencies involved, the amount of our revenues that will be generated in other countries, the variability of currency exposures, and the potential volatility of currency exchange rates. We do not take actions to manage our foreign currency exposure, such as entering into hedging transactions.

Rights of shareholders under Japanese law may be different from rights of shareholders in other jurisdictions.

Our articles of incorporation and the Companies Act of Japan (which we refer to as the "Companies Act") govern our corporate affairs. Legal principles relating to matters such as the validity of corporate procedures, directors' fiduciary duties and obligations, and shareholders' rights under Japanese law may be different from, or less clearly defined than, those that would apply to a company incorporated in any other jurisdiction. Shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the laws of other countries. For example, under the Companies Act, only holders of 3% or more of our total voting rights or our outstanding shares are entitled to examine our accounting books and records. Furthermore, there is a degree of uncertainty as to what duties the directors of a Japanese joint stock corporation may have in response to an unsolicited takeover bid, and such uncertainty may be more pronounced than that in other jurisdictions.

Holders of ADSs have fewer rights than shareholders under Japanese law, and their voting rights are limited by the terms of the deposit agreement.

The rights of shareholders under Japanese law to take actions, including with respect to voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records, and exercising appraisal rights, are available only to shareholders of record. Because the depositary, through its custodian agents, is the record holder of our common shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. ADS holders will not be able to bring a derivative action, examine our accounting books and records, or exercise appraisal rights through the depositary.

Holders of ADSs may exercise their voting rights only in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from the ADS holders in the manner set forth in the deposit agreement, the depositary will make efforts to vote the common shares underlying the ADSs in accordance with the instructions of the ADS holders. The depositary and its agents may not be able to send voting instructions to ADS holders or carry out their voting instructions in a timely manner. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast, or for the effect of any such vote. As a result, holders of ADSs may not be able to exercise their right to vote.

Direct acquisition of our common shares, in lieu of ADSs, is subject to a prior filing requirement under recent amendments to the Japanese Foreign Exchange and Foreign Trade Act and related regulations.

Under recent amendments in 2019 to the Japanese Foreign Exchange and Foreign Trade Act and related regulations (which we refer to as "FEFTA"), direct acquisition of our common shares, in lieu of ADSs, by a Foreign Investor (as defined herein under "Memorandum and Articles of Association—Exchange Controls") could be subject to the prior filing requirement under FEFTA. A Foreign Investor wishing to acquire direct ownership of our common shares, rather than ADSs, will be required to make a prior filing with the relevant governmental authorities through the Bank of Japan and wait until clearance for the acquisition is granted by the applicable governmental authorities, which approval may take up to 30 days and could be subject to further extension. The requisite approval relating to our initial public offering was received on December 4, 2020. Without such clearance, the Foreign Investor will not be permitted to acquire our common shares directly. As such, prior to accepting our common shares for deposit, the depositary obtained such pre-clearance from the applicable Japanese governmental authority. In addition, any Foreign Investor expecting to receive delivery of our common shares upon surrender of ADSs must also obtain pre-clearance from the applicable Japanese governmental authority prior to accepting delivery, which approval may take up to 30 days and could be subject to further extension. Although such prior filing requirement is not triggered for trading our ADSs once the depositary receives clearance for the deposit of the underlying common shares, we cannot assure you that there will not be delays for additional Foreign Investors who wish to acquire our common shares or for holders of the ADSs who are Foreign Investors and who wish to surrender their ADSs and acquire the underlying common shares. In addition, we cannot assure you that the applicable Japanese governmental authorities will grant such clearance in a timely manner or at all. See "Item 10.D. Exchange Controls" and "Item 12.A. American Depositary Shares."

Dividend payments and the amount you may realize upon a sale of ADSs that you hold will be affected by fluctuations in the exchange rate between the U.S. dollar and the Japanese yen.

Cash dividends, if any, in respect of our common shares represented by the ADSs will be paid to the depositary in Japanese yen and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Japanese yen and the U.S. dollar will affect, among other things, the amounts a holder of ADSs will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that a holder of ADSs would receive upon sale in Japan of our common shares obtained upon surrender of ADSs, and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of common shares.

General Risk Factors

Third party claims with respect to intellectual property assets, if decided against us, may result in competing uses or require adoption of new, non-infringing intellectual property, which may in turn adversely affect sales and revenues.

There can be no assurance that third parties will not assert infringement or misappropriation claims against us, or assert claims that our rights in our trademarks, patents and other intellectual property assets are invalid or unenforceable. Any such claims could have a material adverse effect on us or our franchisees if such claims were to be decided against us. If our rights in any intellectual property were invalidated or deemed unenforceable, it could permit competing uses of intellectual property which, in turn, could lead to a decline in relaxation salon, Preventative Healthcare business, and other revenues. If the intellectual property became subject to third party infringement, misappropriation or other claims, and such claims were decided against us, we may be forced to pay damages, be required to develop or adopt non-infringing intellectual property or be obligated to acquire a license to the intellectual property that is the subject of the asserted claim. There could be significant expenses associated with the defense of any infringement, misappropriation, or other third-party claims.

Information technology system failures or breaches of our network security could interrupt our operations and adversely affect our business.

We and our franchisees rely on our computer systems and network infrastructure across our operations, including point-of-sale processing at our relaxation salons. We use Amazon's AWS as our cloud service provider. Our and our franchisees' operations depend upon our and our franchisees' ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, worms and other disruptive problems. Any damage or failure of our computer systems, network infrastructure, or AWS cloud servers that cause an interruption in our operations could have a material adverse effect on our business and subject us to litigation or actions by regulatory authorities. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, or a material network breach in security of these systems as a result of cyber-attack or any other failure to maintain a continuous and secure cyber network could further result in substantial harm, or in delays in customer service and reduce efficiency in our and our franchisees' operations. This could include the theft of our intellectual property or trade secrets, or the improper use of personal information or other "identify theft." While we utilize our personnel, as well as a variety of hardware and software, to monitor our systems, controls, firewalls and encryption and intend to maintain and upgrade our security technology and operational procedures to prevent damage, breaches or other disruptive problems, there can be no assurance that these security measures will be successful. Any such claim, proceeding or action by a regulatory authority, or any adverse publicity resulting from these allegations, could adversely affect our business and results of operations.

Cybersecurity breaches and other disruptions could compromise our information, result in the unauthorized disclosure of confidential guest, employee, Company and/or business partners' information, damage our reputation, and expose us to liability, which could negatively impact our business.

In the ordinary course of our business, we collect, process, and salon sensitive and confidential data, including our proprietary business information and that of our guests, suppliers and business partners, and personally identifiable

information of our guests and employees, in our data centers and on our networks. For example, our customers are asked to complete a survey, often digitally on iPads, prior to first receiving services at our relaxation salons. The surveys contain questions requesting private health-related information of our relaxation salon patrons. In connection with credit and debit card sales, we and our franchisees transmit confidential credit and debit card information by way of secure private retail networks.

The secure processing, maintenance, and transmission of this information is critical to our operations. We rely on commercially available systems, software, tools, and monitoring to provide security for processing, transmission, and storage of confidential information. Despite the security measures we have in place and continual vigilance in regard to the protection of sensitive information, our systems and those of our third-party service providers may be vulnerable to security breaches, attacks by hackers, acts of vandalism, computer viruses, misplaced or lost data, human errors, or other similar events. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost, or stolen. Any such access, disclosure, or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations, damage our reputation, and cause a loss of confidence in our business, products, and services, which could adversely affect our business, financial condition, profitability, and cash flows.

Furthermore, although we currently carry cyber liability insurance, such insurance has limited coverage to cover liabilities incurred by breaches of our customers' data caused by security breaches, attacks by hackers, acts of vandalism, computer viruses, misplaced or lost data, human errors, or other similar events. A significant claim not covered by our insurance, in full or in part, may result in significant expenditures by us. Moreover, we may not be able to maintain insurance policies in the future at reasonable costs or on acceptable terms, which may adversely affect our business and the trading price of the ADSs.

Changes in regulatory requirements, or in application of current regulatory requirements, may have an adverse effect on our business and results of operations.

Relaxation salons such as ours are not currently regulated by the Japanese government. The main law in Japan governing the massage industry is the Act on Practitioners of Massage, Acupressure, Acupuncture and Moxibustion, and etc. (Act No. 217 of 1947) (which we refer to as the "Massage Act"). However, our Company does not market or provide massage, acupressure, acupuncture, moxibustion or other services regulated under the Massage Act, and this information is clearly provided to all customers prior to receiving our services, as well as all franchisees to prevent unauthorized services. Moreover, all of our customers are required to sign a waiver acknowledging this prior to receiving our services. Nevertheless, the Japanese government could later include our industry within the meaning of the Massage Act, or enact a separate law to regulate our industry. If such an occurrence were to happen, our costs associated with licensing and training staff, as well as any additional wages required for hiring licensed staff, as necessary, could add to our expenses and harm our results of operation.

Matters relating to employment and labor law may adversely affect our business.

Various Japanese labor laws govern our relationships with our employees and affect operating costs. These laws include employment classifications of employee, independent contractor, or contract worker; minimum wage requirements; employer contributions to social security, unemployment insurance, and workers' accident compensation insurance, and other wage and benefit requirements. Significant additional government regulations and new laws, including mandating increases in minimum wages, changes in employment status requirements, or other labor law changes could materially affect our business, financial condition, operating results or cash flow. Additionally, if our or our franchisees' employees unionize, it could materially affect our business, financial condition, operating results or cash flow.

We are also subject in the ordinary course of business to employee claims against us based, among other things, on discrimination, harassment, wrongful termination, or violation of labor laws. Such claims could also be asserted against us by employees of our franchisees. These claims may divert our financial and management resources that would otherwise be used to benefit our operations. The ongoing expense of any resulting lawsuits, and any substantial

settlement payment or damage award against us, could adversely affect our business, brand image, employee recruitment, financial condition, operating results or cash flows.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the price of the ADSs and trading volume could decline.

The trading market for the ADSs depends in part on the research and reports that securities or industry analysts publish about us or our business. If few or no securities or industry analysts cover us, the trading price for the ADSs could be negatively impacted. If one or more of the analysts who covers us downgrades the ADSs, publishes incorrect or unfavorable research about our business, ceases coverage of our Company, or fails to publish reports on us regularly, demand for the ADSs could decrease, which could cause the price of the ADSs or trading volume to decline.

Sales of a substantial number of our common shares or ADSs in the public markets by our existing shareholders in the future could cause the price of the ADSs to fall.

Sales of a substantial number of our common shares or ADSs in the public market in the future or the perception that these sales might occur, could depress the market price of the ADSs and could impair our ability to raise capital through the sale of additional equity securities from time to time. We are unable to predict the effect that any such sales may have on the prevailing market price of the ADSs.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our Company was originally incorporated in Japan on July 13, 2000 under the name “Kabushiki Kaisha Young Leaves.” In January 2017, we changed our name to “MEDIROM Inc.” In April 2018, we established three wholly-owned subsidiaries, Bell Epoc Wellness Inc., JOYHANDS WELLNESS Inc., and Medirom Human Resources Inc. In October 2018, we acquired our fourth wholly-owned subsidiary, Decollte Wellness Corporation. In March 2020, our Company’s English name was changed to “MEDIROM Healthcare Technologies Inc.” In December 2020, the Company listed its ADSs representing its common shares on The Nasdaq Capital Market. We are a joint-stock corporation incorporated in Japan under the Companies Act.

On May 6, 2021, the Company acquired control of SAWAN CO. LTD. (“SAWAN”) by purchasing 100% ownership interest of SAWAN for cash. As a result, “Ruam Ruam”, which is a luxury relaxation salon brand held by SAWAN, has become part of the Company’s directly-operated salons.

Effective July 1, 2021, Bell Epoc Wellness Inc., a subsidiary of the Company, was merged with Decollte Wellness Corporation, another subsidiary of the Company, pursuant to an absorption-type company split agreement, with Bell Epoc Wellness Inc. being the successor entity. Bell Epoc Wellness Inc. changed its name to Wing Inc. effective November 1, 2021.

On October 1, 2021, the Company acquired 60% of the ownership interest in ZACC, a high-end hair salon company, and acquired the remaining 40% of the ownership interest in ZACC in January 2022. ZACC owns and operates four luxury hair salons under three brands (ZACC vie, ZACC raffine, and ZACC ginza), all of which have been recognized by customers for over 30 years for their high level of techniques and hospitality.

As of December 31, 2021, the Company had the following subsidiaries: JOYHANDS WELLNESS Inc., Wing Inc., Bell & Joy Power Partners, Inc., SAWAN, ZACC, and Medirom Human Resources Inc.

Our agent for service of process in the United States is Cogency Global Inc., located at 122 East 42nd Street, 18th Floor, New York, NY 10168. Our principal executive offices are located in 2-3-1 Daiba, Minato-ku, Tokyo 135-0091, Japan, and our main telephone number is +81(0)3-6721-7364. Our website is <https://medirom.co.jp/en/>. The information contained in, or that can be accessed through, our website is not incorporated by reference into, and is not a part of, this

annual report. You should not consider any information on our website to be a part of this annual report. We have included our website address in this annual report solely for informational purposes.

The SEC maintains an internet site (<http://www.sec.gov>), which contains reports, information we are required to provide to our shareholders or otherwise make public under our home country laws, and other information regarding us that file electronically with the SEC.

B. Business Overview

We are one of the leading holistic health services providers in Japan. Medirom is a franchiser and operator of healthcare salons across Japan and is a preferred platform partner for healthcare service providers and government entities to affect positive health outcomes. Through our well-known retail salon brands, including primarily Re.Ra.Ku[®], nascent tech platforms, and targeted health consulting and marketing, we have formed a "healthtech" segment. The healthtech segment's goal is to improve health outcomes and the satisfaction of our customers, as well as offer corporations data-rich, targeted advertising and promotional opportunities.

We operate three synergistic lines of businesses: (1) Relaxation Salon Segment (retail); (2) Luxury Beauty Segment (retail); and (3) Digital Preventative Healthcare Segment (healthtech). By combining brand strength and core retail competencies, including a broad physical footprint in population dense areas across the country, with proprietary technologies and partnerships, our business provides unique, value-added healthcare services to our customers with scale, customization, and cross-network effects that we believe few other companies in the industry can emulate.

As of December 31, 2021, the Relaxation Salon Segment has 312 locations across Japan, located within the country's major cities. Our customer management system is a cloud-based customer relationship management system which we use to record all customer data and which facilitates reservation, point-of-sale and business intelligence functions. Our salons are generally located in metro stations/subways, shopping malls, plazas and high-traffic streets. The Relaxation Salon Segment is our core business and accounted for ¥5,197 million (US\$45.1 million), or 96.1% of our total revenue for the year ended December 31, 2021 and ¥3,316 million (US\$28.8 million), or 99.2%, of our total revenue for the year ended December 31, 2020.

The Luxury Beauty Segment is a new business segment. In October 2021, the Company acquired 60% of the ownership interest in ZACC, a high-end hair salon company, and acquired the remaining 40% of the ownership interest in ZACC in January 2022. The Luxury Beauty Segment accounted for ¥169 million (US\$1.5 million), or 3.1% of our total revenue for the year ended December 31, 2021.

The Digital Preventative Healthcare Segment mainly consists of the following operations: government-sponsored Specific Health Guidance program, utilizing our internally-developed on-demand health monitoring smartphone application, Lav[®]; our MOTHER Bracelet[®] for fitness applications; and preventative healthcare services utilizing our experienced nutritionists and health nurses. The Digital Preventative Healthcare Segment is a growing business line and accounted for ¥44 million (US\$0.4 million), or less than 1% of our total revenue for the year ended December 31, 2021, and ¥26 million (US\$0.2 million), or less than 1% of our total revenue for the year ended December 31, 2020.

Operations in 2021 have been affected by the global COVID-19 pandemic. During 2021, the Japanese Government issued multiple series of Declaration of Emergency (which we refer to as the "Declarations"), whereby the Japanese Government requested the closing of non-essential activities and businesses across the country as a preemptive safeguard against the COVID-19 pandemic. This adversely impacted businesses across the nation, particularly in the retail segment in which we operate. During the period, the COVID-19 pandemic and the Government-driven or voluntary closure of workplaces and public spaces, the general public's reluctance or inability to commute on public transportation, shop, or enjoy outdoor leisure activities have negatively affected our business operations and liquidity position. During first half of 2021, we estimated approximately one-fourth of the salons on average had voluntarily shortened operating hours by 2 hours per day, and approximately 5% of the outlets on average were closed due to the Declarations and local governments' requests. During second half of 2021, we estimated approximately one-fifth of the salons on average had voluntarily shortened operating hours, and below 1% of the outlets on average were closed due to the Declarations and local governments' requests. Our back-office operations, such as accounting, were also affected by the pandemic. See

“Item 5. Operating and Financial Review and Prospects —Assessment of Impact of the COVID-19 to the Company’s Business Operations, Liquidity, and Capital Resources.”

Consumers increasingly recognize the value of services in the relaxation sector. While the COVID-19 pandemic may have led to structural changes in demand in the United States, including a shift in preferences toward digital commerce per traditional retail brick and mortar, we view the effects as much more muted in Japan. The relaxation sector continues to offer a nearly non-discretionary service, as bodily health, joint alignment, and therapeutic bodyworks impact the health wellness of our customers and require physical contact—continuing to buoy our core Salon business. We believe the COVID-19 pandemic has intensified public perception of the importance of health and wellness. In particular, based upon our observations, we believe that consumers are increasingly seeking services and adopting personal measures to address their health and wellness with greater priority. In light of our recovery rate in both customers and revenues over the course of the pandemic in Japan, we believe services such as ours are being viewed as a more necessary item of consumer spend that we expect will increase demand for our services given the strength of our brand.

Relaxation Salon Segment

The Relaxation Salon Segment is the core of our business consisting of directly-operated as well as franchised relaxation salons in Japan. Our salon locations cover major cities throughout Japan, with strong market presence in the Tokyo metropolitan area, which includes Tokyo, Kanagawa and Saitama. According to the Survey on Basic Resident Registration System as of January 1, 2020, by the Ministry of Internal Affairs and Communications, the population (registered residents) of the Tokyo metropolitan area was estimated to be 36.7 million, making it the most populous metropolitan area in the world. According to the 2022 Yano Report issued by Yano Research Institute, one of the leading market research firms (the “Yano Report”), in terms of the number of salons, we are one of the top three companies, on a consolidated basis, in the Kanto region (Tokyo, Kanagawa, Saitama, Chiba, Gunma, Ibaraki and Tochigi), and in the top four nationwide.

Our goal is to improve our customers' quality of life by providing alternative, non-invasive wellness care. We use therapeutic techniques encompassing finger-pressure style bodywork therapy, stretch therapy, posture and joint alignment, as well as physical therapy elements. Our salons are designed to appeal to individuals seeking to improve their mental and/or physical well-being. Our customers vary from individuals seeking stress and pain relief to other individuals who are just looking to improve their overall mental and physical health. We offer a variety of individual services at our salons, including anti-fatigue therapy, athletic support therapy, slim-down therapy and reflexology. Each therapy is unique and designed to target specific areas of the body.

Our salons operate under several brand names. Our core brand is Re.Ra.Ku[®]. Our salons are generally located in metro stations/subways, shopping malls, plazas and high-traffic streets. On average, our salons measure approximately 670 square feet and contain a reception area and treatment space. A typical salon under the Re.Ra.Ku[®] brand is staffed by six relaxation therapists.

Since our founding in 2000, we have steadily increased the number of Re.Ra.Ku[®]-branded salons. We intend to continue to grow our salon business over time through both organic growth, including acquisition and turnaround of underperforming franchised salons, and opportunistic acquisition and consolidation of competitor salons. As of December 31, 2021, we had 312 salons in operation throughout Japan under all of our brands. However, the rate of growth of our Re.Ra.Ku[®]-branded salons in recent years has slowed due to our focus on the acquisition of third-parties' salons.

To achieve our mid-term goal of 1,000 salons, we intend to allocate more resources for the acquisition of competitors' salons and brands.

Our largest source of revenue derives from our directly-operated salons. Revenue from our directly-operated salons accounted for 70.9% of our consolidated revenue for the year ended December 31, 2021. Revenue from our franchise business consists of recurring franchise royalty, franchise membership fees, staffing services fees, sublease revenue and other franchise revenues and accounted for 25.1% of our consolidated revenue for the year ended December 31, 2021.

Our franchisees are expected to meet the same quality and customer service standards as our Company-operated locations. We select potential franchisees based on a set of strict qualification criteria which includes background checks, financial net worth assessment and personal interviews. We enter into a franchise agreement with each of our franchisees, stipulating a standard set of terms and conditions for operating the salons and each party's duties and responsibilities.



Customers

Our relaxation salons are designed to appeal to individuals seeking to improve their mental and/or physical well-being. Our customers include individuals who are health conscious and other individuals seeking stress and pain relief, therapeutic reflexology, or to improve their overall mental and physical health. The majority of our customers are employed females with disposable income, but our demographic mix varies by salon and geography. Our customer base has grown each year with the opening of new salons. We benefit from and rely on the value and recognition of our Re.Ra.Ku[®] and other brands which drive word of mouth and direct referrals. Additionally, we utilize an omnichannel advertising strategy across print, affiliate referrals and digital marketing to reach out to and cultivate potential customers.

Services

Our relaxation salons offer a variety of individual services, each with multiple price ranges, including: anti-fatigue therapy; athletic support therapy; slim-down therapy; and reflexology. Anti-fatigue therapy is designed to relieve fatigue and discomfort, and concentrates on the shoulder blade, neck, lower back and posture. We suggest that first-time customers begin with anti-fatigue therapy because most new customers visit our salons with stiff muscles and are unable to do more difficult stretches. Anti-fatigue therapy helps enhance the customer's stretching ability. Athletic support therapy is intended to provide quick gains in active and passive range of motion to help improve athletic performance and increase flexibility, by performing shoulder blade alignment adjustments and resistance exercise. Slim-down therapy focuses on pelvic and shoulder blade alignment and is intended to help dieting by moving the muscles near the pelvis, which normally get little exercise, thereby increasing metabolism and improving posture. Our reflexology therapy is designed to target specific pressure points and areas on the feet to promote relaxation, improve circulation and reduce pain. While most Re.Ra.Ku[®] locations offer these four therapies, some individual salons offer other select therapy methods, such as Thai traditional stretching. Pursuant to the terms of our standard franchise agreements, our approval is required for any changes to the services provided in franchised salons.

Our customers can arrive at our salons with or without appointments at times convenient to their schedule. Upon checking-in, salon staff provides customers with a questionnaire that asks for their contact information and certain health information to help the therapist identify the service that is most appropriate for the customer and whether the customer is experiencing muscle pain or other health problems. Upon completion of the therapy, the therapist will meet with the customers to obtain feedback on the services provided.

In December 2008, we began issuing prepaid cards, called the Re.Ra.Ku[®] Card, to relaxation salon customers. Users of the Re.Ra.Ku[®] Card can continuously use and replenish the card at most of our Company's relaxation salons. The customer receives rewards on a tiered basis, so the more the customer spends on the Re.Ra.Ku[®] Card, the greater the reward that can be used at Re.Ra.Ku[®] locations. In addition, following the acquisition of SAWAN, we started to issue another line of prepaid cards, called the Free Pass, which can be used at Ruam Ruam branded salons. As of December 31, 2021, the aggregate prepaid amounts by customers on the Re.Ra.Ku[®] Cards and the Free Pass were approximately

JPY509 million (US\$4.4 million), partially as a result of our seasonal promotions. Except for limited circumstances, the prepaid amounts on the Re.Ra.Ku® Card and the Free Passes are generally non-refundable.

Market

Most of our relaxation salons are located in the Kanto region of Japan. Kanto is commonly considered the economic and political center of Japan, and includes cities such as Tokyo, Yokohama, and Saitama, among other large cities and prefectures. According to the Statistics Bureau of Japan, as of October 1, 2021, the population of Kanto was 43.6 million, which accounted for 34.7% of the total population of Japan (125.5 million). According to the 2022 Yano Report, in terms of the number of salons, we are one of the top three companies, on a consolidated basis, in the Kanto region (Tokyo, Kanagawa, Saitama, Chiba, Gunma, Ibaraki and Tochigi) and in the top four nationwide.



Our mid-term goal is to have 1,000 salons nationwide and become the number one salon network in Japan. In addition, we are currently exploring opportunities in the United States and Southeast Asia.



Seasonality

Our Relaxation Salon Segment experiences seasonal trends due primarily to changes in weather and in line with holiday schedules. Generally, our revenue is strongest from May to October. Sales tend to slow in November due to the shorter day length and lower temperatures in Japan, but then increase in December for the holiday season. Fewer operating days and cold weather lead to weaker sales figures in January and February. March and April are transition months before the high season. We carry out spring sales promotion in April to boost the sales in May.

Franchises

As of December 31, 2021, 124 of our 312 salons were operated by franchisees. We strive to ensure that each of our franchise locations meets the same quality and customer service standards as our directly-operated locations in order to preserve the consistency and reliability of our brand and earn the trust of our customers.

We are committed to providing the tools that our franchisees need to succeed before, during and after a salon opening, including guidance with site selection and development, training, operations and marketing support. We have a franchisee support team that we use to help provide continuous assistance to franchisees. This support team is sent directly to meet with franchisees to help identify any areas that could be improved with regard to the franchisee's business, and devise strategies to overcome such obstacles the franchisees may be facing.

We identify potential franchisees through a variety of methods, including word-of-mouth and referrals from existing franchise owners. We also employ qualification criteria in the selection of franchisees, including reviewing the candidates' backgrounds and net worth, conducting interviews and determining the candidates' compatibility with our Company's culture. Our franchise agreements set forth a high standard of conduct across all franchised locations. As such, our franchisees are curated to confirm with the high standards of quality, expertise, and customer centricity which form the core of our brand and culture. We provide our franchisees with ongoing training and advertising support. We continuously monitor the financial performance of each franchised location using a customized software called Peak Manager.

Additionally, all of our franchisees join an organization, "Franchisees' Friendship Club", that facilitates discussion among the franchisees regarding our Company's business model and shared know-how. The Club also makes proposals to our Company regarding the franchise agreement, Company business and other matters related to the franchisor-franchisee relationship, to maximize mutual benefits. The Franchisees' Friendship Club holds a meeting once per month. Apart from the Franchisees' Friendship Club, our Company holds "Franchise Owners Meeting" every quarter to share our Company's salon business strategy, key performance indicators, and other matters of common interest. Our Chief Executive Officer attends meetings to interact directly with the franchisees.

Franchise Agreements

Our franchise model requires minimal capital expenditures by our Company while generating recurring revenue streams from franchise fees and salon sales. For each franchised salon, we enter into a franchise agreement stipulating a standard set of terms and conditions.

A franchise agreement allows an owner to open a single salon at a specific location. The initial term of a franchise agreement is five years from the salon's opening date. Unless either party provides notice of nonrenewal by at least six (6) months prior to the franchise agreement's expiration, the franchise term extends for an additional five-year period, and the same provision applies thereafter. Franchisees must pay an initial fee for our salons at the time the franchise agreement is signed. Franchisees that renew their franchises after the initial term must pay a renewal fee on a per salon basis. Under our standard franchise agreements, franchisees are also required to pay a monthly royalty fee. The royalty rates vary depending on the number of salons operated by a franchisee, ranging from 6-8% of the total revenue of the franchisee.

Our franchise agreements set forth certain material duties and responsibilities of the franchisees, including, but not limited to: (i) cooperating with our Company's advertising initiatives prior to and after the opening of a salon; (ii) maintaining the design, layout and equipment of a salon as designated by our Company; (iii) undergoing periodic skills training in accordance with our policies; and (iv) complying with restrictions on transfer of the franchise. We provide our franchisees with license to use our registered marks, including CLP CARE LIFE PLANNER®, in connection with the operation of their franchised salons. We utilize this mark in our franchise agreements to define therapists who have completed a required technique training program. We retain the right to approve any change to a salon location, the service menu and the types of products sold at the salon other than those products supplied or purchased from us. Franchisees are subject to non-compete provisions during the term of the franchise agreement and for one year after termination thereof. Franchisees are responsible for hiring and compensating their own employees. However, Company

employees may be dispatched to franchise locations as needed. In such cases, franchisees must pay dispatch fees in accordance with the dispatched employees' position.

We have the right to terminate the franchise agreement for cause, including failure of the franchisees to pay our fees as set forth in the franchise agreement or failing to meet our established profitability metrics. Either we or the franchisee may terminate the franchise agreement without cause upon six months' prior written notice to the other party and prior consultation to attempt to resolve any disputes and prior consultation with the franchisees. The franchisee may be required to pay us a termination fee under certain circumstances. The franchise agreement may only be amended upon mutual consent of both parties in writing.

Site Selection, Design and Construction

Our real estate department identifies and recommends the salon sites for directly-operated and franchise locations. The real estate department analyses the sites based on criteria such as the average population, income and gender demographics, proximity to train stations and foot traffic in front of the salon. A score is then assigned to each potential site location. Once our Company identifies a potential site, it will enter into a lease agreement with the landlord. Street locations generally have a three-year lease term, while locations inside train stations or shopping centers have a five-year lease term. Our Company subleases salon locations to franchisees and passes through all of the associated rental costs. Franchisees are required to pay us an upfront fee for design and construction of the leased location as well as a nominal monthly management fee during the term of the lease to cover processing and service charges. It takes approximately 90 days to complete the design and construction of a new salon. We believe the sublease arrangements are more suitable for our business because our reputation and size allow us to negotiate for more favorable lease terms than would otherwise be provided to individual franchisees.

Recruiting and Training

As a complement to our salons, we also operate Re.Ra.Ku[®] College (which we refer to as the "College"). The College is located in the Odaiba area in Tokyo. The College offers continuing training for franchise owners, home office staff, and salon staff, covering topics such as customer service, salon operations, and relaxation techniques. The College also provides training for students who wish to become qualified as "Relaxation Therapists", which is a private qualification granted by the Association of Japan Relaxation Industry, an industry group for relaxation services providers. In addition, franchise owners, salon managers and relaxation therapists engage in recurring monthly education at the College. We do not charge students any fees for the training provided at the College. However, upon completion of the initial training program, we assist students with obtaining employment at our franchised salons in exchange for a fixed monthly payment from the franchise owners. We also employ students at our directly-operated salons. The College enables us to implement and promote our corporate culture and mission and we believe it helps improve job satisfaction and employee retention.



To be admitted into the College, students must pass a qualification check and an interview. This initial qualification program consists of thirty-two courses that typically extend for a month. The curriculum used at the College teaches 120 skills to students via a combination of live training and online videos. Although there is no qualification requirement for a therapist in Japan, students have to pass this initial qualification program before working at our salons. Currently, our Company has College campuses in Tokyo, Nagoya and Osaka.

Luxury Beauty Segment

Our new Luxury Beauty Segment mainly consists of the management and operations of the high-end hair salon brands under ZACC. We acquired 60% of the ownership interest in ZACC in October 2021 and the remaining 40% of the ownership interest in ZACC in January 2022. Revenue contributed by ZACC branded salons was JPY169,320 thousand (US\$1,470 thousand) for the year ended December 31, 2021.

Digital Preventative Healthcare Segment

Our Digital Preventative Healthcare Segment consists of the following businesses.

Specific Health Guidance Program. We serve small businesses, large corporations, and government entities in their implementation of health and wellness programs as outlined by the Ministry of Health, Labor and Welfare of Japan's Specific Health Guidance Program. Japan is confronting a super-aging society, as well as inflation of medical expenses from the increasing number of fatal diseases, such as diabetes, heart attack and stroke. To tackle this nationwide issue, the government initiated the Specific Health Guidance Program in April 2008. In this program, 40-through-74-year-old people who have received a diagnosis alerting lifestyle diseases at a health check-up are requested by a doctor to take a series of courses that are tailored to reduce the risk of developing certain lifestyle diseases. Because Japanese citizens and permanent residents are required to maintain health insurance through government or employer sponsored programs, it is generally the health insurance providers' responsibility to have participants take the courses if they are requested to do so. By partnering with a number of health insurance providers, we provide support to connect those who need to take the courses with health care professionals via our on-demand health monitoring application for smartphones called Lav[®]. We charge fees to health insurance providers, depending on how many participants take the program and which type of program is taken. A portion of these fees is subsidized by the Japanese government. In July 2021, we also started promoting the application as a fee-based service to the ordinary consumers.

MOTHER Bracelet[®]. In 2019, we acquired a minority interest in Matrix Industries, Inc. ("Matrix") based in California, United States, a developer of a thermoelectric generator and boost converter. In furtherance of our relationship, we entered into a production and development agreement with Matrix in August 2020 to develop and manufacture a health monitoring wearable device called MOTHER Bracelet[®]. Our MOTHER Bracelet[®] fitness device is designed to track and collect the health data of the wearer, such as calorie consumption, activity and sleep patterns.

The agreement grants us exclusivity as to third parties in the Asia territory, except for certain prior contractual obligations of Matrix, for use of their thermoelectric power module and software in our MOTHER Bracelet[®] wearable device for one year following receipt of the sample product, or end of 2022, whichever is earlier.

We believe the MOTHER Bracelet[®] will be the only fitness tracker that requires no electric charging, as it will utilize innovative technology such as Gemini TEG (Thermoelectric Generator) and Mercury Boost Converter to enable the user's body heat to generate electricity. We are not aware of any other wearable devices equipped with NFC currently in the market with equivalent capabilities at this time. MOTHER Bracelet[®] is our registered trademark in Japan. We intend to pursue other opportunities in Japan and the United States for large-scale private label contracts for our device.

Our Digital Preventative Healthcare Segment are currently entering into a growth phase. We have entered into contracts with 43 corporate insurance associations for our Specific Health Guidance Program provided by Lav[®], our on-demand training app, as of December 31, 2021. In addition, we launched an upgraded version of Lav[®] as a subscription-based B2C application on July 1, 2021. The updated Lav[®] application offers menus such as detox, weight control, and exercise programs. We continued to develop our MOTHER Bracelet[®] in 2021. We launched a crowdfunding campaign

for individual consumers in July 2021 and started shipping of MOTHER Bracelet® to those customers in March 2022. We hope that our diverse health related services and products offering will help us collect and manage healthcare data from users and customers and enable us to become a leader in big data in the healthcare industry.

Customers

Specific Health Guidance Program. Although we have developed an on-demand health monitoring application, this business sector has not adopted a subscription business model to date. We charge fees to health insurance providers, depending on how many participants take the program and which type of program is taken. We plan on continuing to grow both provider count (including corporate sponsors, insurance providers, and government entities) as well as the end-participant pool (which are end users under our Lav® application), the latter of which commenced in the second half of 2021.

MOTHER Bracelet®. Our prospective clients are hospitals, clinics, department stores, sports clubs (gyms), electronics volume stores, foreign embassies (commercial division), trading firms, life insurance companies, human resource service companies, beverage makers, and so on, as well as individual consumers.



Services

Specific Health Guidance Program. Through our Lav® application, we provide participants in their health insurance providers the ability to search for professionals tailored to each individual's preferences, lifestyle, and health conditions. Participants can enjoy benefits from specific health guidance based on provided information. In addition, our therapists, composed of licensed nutritionists and registered dietitians, provide coaching services to program participants. This allows us to leverage idle time from therapists to generate additional revenue, which effectively results in improved efficiency ratios. We will continue to favor recruiting recent graduates with an added preference for those with nutritionist or dietetics pedigrees.



MOTHER Bracelet®. Our MOTHER Bracelet® is designed to monitor and collect the health data of the wearer and can work seamlessly with our Lav® application and most of the other health monitoring applications that are available on

the market. We also offer a Software Development Kit, or SDK, to our partners for their application or software development convenience.

Market

Our Lav[®] healthcare app and its Specific Health Guidance Program competes in the Preventative Care sub-segment (US\$3 billion) of the broader Medical Treatment Market in Japan (US\$100 billion). This sub-segment of the market receives proportionally increasing funding from the Japanese government's health insurance budget and its respective participants within the Specific Health Guidance Program. Secular shifts toward prevention versus treatment, increasing insurance premiums and greater government subsidies make this a growing and attractive submarket to capture.

The Japanese healthcare system itself is well-regarded worldwide, leading most other countries on key outcomes including availability of hospital beds, public expenditure as a percentage of GDP, and infant mortality. These qualities allow leaders in the market to capture significant revenues and prioritize of budgets from both the public and private sectors. One notable deficiency is in the low number of practicing physicians per population density, which reflects both the highly populous cities of Japan and the relative dearth in medical practitioners.

Our Lav[®] app was created to address the aforementioned shortfall by leveraging co-medical practitioners and therapists to advise patients digitally. This telehealth approach to medical service and healthcare is further fortified by our strong brand, retail scale which allows for drop-in appointments, and both technical and live support leveraging our broad employee base and scope of customer service.

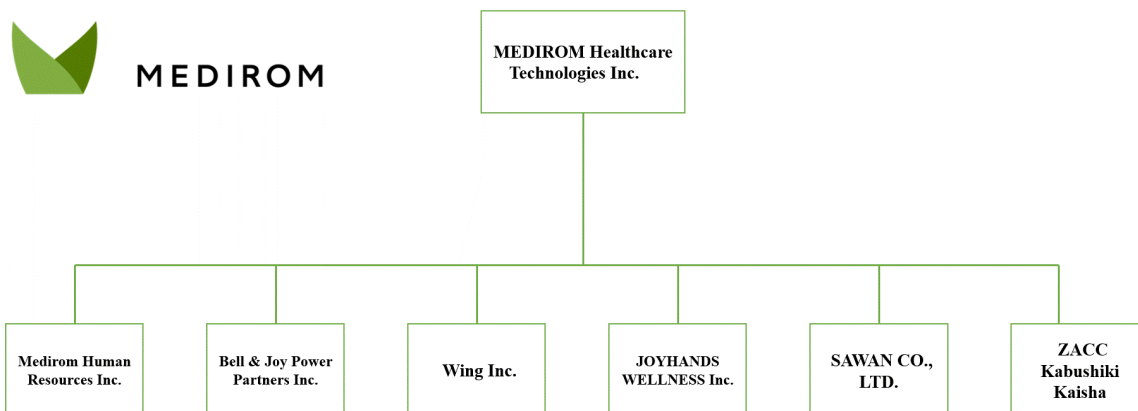
Our MOTHER Bracelet[®] operates in the wearable device space though we focus on specific market segments tailored towards corporate clientele, hospitals, nursing homes and medical facilities serving the elderly population, and labs and research facilities. We will opportunistically sell direct to consumers in Japan to begin with through distributors, online commerce, and strategic partners including retail placements at select big box stores before moving into B2B market.

The Roots of our Business

Our Company was originally incorporated as "Kabushiki Kaisha Young Leaves" in Japan on July 13, 2000. On January 1, 2017, our Company's name was changed to MEDIROM Inc. and on March 26, 2020, our Company's English d/b/a name was changed to MEDIROM Healthcare Technologies Inc.

Through a series of transactions in 2018, we expanded our relaxation salon business by acquiring three branded businesses: Bell Epoc Wellness Inc. (which we refer to as "BEW"), Decollte Wellness Corporation (which we refer to as "DW"), JOYHANDS WELLNESS Inc. (which we refer to as "JW"). We operate these businesses through three separate wholly-owned subsidiaries, along with an additional subsidiary, Medirom Human Resources Inc. (which we refer to as "MHR"). All of the foregoing subsidiaries are organized and existing under the laws of Japan. BEW, DW, and JW each operate relaxation salons and MHR operates a therapist dispatch business. Our Company provides administrative

functions, such as accounting, finance, human resources, and legal affairs to each of the subsidiaries. In exchange for such administrative functions, we receive a monthly service fee from each subsidiary.



On April 17, 2018, we established BEW. On May 28, 2018, 46 relaxation salons with the brand name "Bell Epoc" were transferred from Kabushiki Kaisha Bell Epoc to BEW for cash. Pursuant to an operating agreement entered into in 2018, by and between Kabushiki Kaisha Bell Epoc and BEW, Kabushiki Kaisha Bell Epoc has continued to manage the relaxation salons and BEW pays operation fees to Kabushiki Kaisha Bell Epoc based on revenue.

On April 20, 2018, we formed JW to acquire the relaxation business operated by Kabushiki Kaisha Joyhands. Kabushiki Kaisha Joyhands is party to a number of outsource agreements with various public bath operators, whereby Kabushiki Kaisha Joyhands provided relaxation services to customers of public bath houses. JW began entering into assignment and novation agreements with such public bath service providers, whereby Kabushiki Kaisha Joyhands would be substituted by JW as the counterparty to the existing outsource agreements with the public bath operators.

On April 27, 2018, we established MHR under the trade name Re.Ra.Ku Wellness Inc. MHR operates our therapist dispatch business. Previously, we hired therapists pursuant to an exemption that allowed us to forego obtaining permission from the Ministry of Health, Labor and Welfare of Japan under the Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers and dispatched such therapists to our franchisees. When the Ministry of Health, Labor and Welfare of Japan eliminated the exemption in September 2018, we created MHR and transferred the therapist dispatch business to it.

On October 1, 2018, we acquired DW from Decollte Corporation for cash.

2021 Reorganization and Acquisition

On May 6, 2021, we acquired 100% of the interests in SAWAN, a relaxation salon operator of “Ruam Ruam” from BOX GROUP Co., Ltd., a Japanese holding company specializing in beauty and spa products and services. Ruam Ruam is a luxury relaxation salon brand, which is characterized with oriental relaxation techniques to fit the needs and preferences of the Japanese consumer. This acquisition resulted in the addition of 13 directly-operated salons under the brand of “Ruam Ruam” to our relaxation salon segment.

In July 2021, in order to speed up the decision-making process, improve business efficiency, and maximize business value, we reorganized and re-designated certain parts of our wholly-owned subsidiaries by business functions.

As part of the reorganization, DW merged with and into BEW with BEW being the surviving entity. As a result of the merger between DW and BEW, BEW (currently known as Wing Inc.) now operates the salons previously owned by DW, and since July 1, 2021, it has been managing a majority of our relaxation salon operations, excluding those located in spa facilities or under “Ruam Ruam” brand. In addition, we established Bell Epoc Power Partners Inc., which

succeeded to the rights and obligations relating to the salon management entrusted division previously operated by BEW.

On October 1, 2021, we acquired 60% of the ownership interest in ZACC, a high-end hair salon company recognized by customers for their high-level techniques and hospitality for over 30 years. ZACC's flagship hair salon is located in Omotesando, one of the fashion centers in Tokyo. ZACC recently opened its Ginza salon prior to the acquisition. We plan to help and facilitate ZACC's multi-store management and opening of new ZACC branded salons by sharing our expertise in store management, franchising and employee independence programs. We acquired the remaining 40% of the ownership interest in ZACC in January 2022.

In November 2021, BEW changed its name to "Wing Inc." and Bell Epoc Power Partner Inc. changed its name to "Bell & Joy Power Partner Inc."

Our Growth Strategy

Our goal is not only to capture a significant share of the existing market for relaxation salons but also to expand our Digital Preventative Healthcare business lines. We expect to employ a variety of strategic initiatives, including increasing the number of directly-operated and franchised salons and expanding marketing and advertising efforts throughout strategic locations.

Organic Growth in the Japanese Market. According to the 2022 Yano Report, in terms of the number of salons, we are one of the top three companies, on a consolidated basis, in the Kanto region (Tokyo, Kanagawa, Saitama, Chiba, Gunma, Ibaraki and Tochigi), and in the top four nationwide. The total number of relaxation salons under major brands in Japan, according to the 2022 Yano Report, was 2,944, with the largest operator having 613 salons. We believe that the Japanese market has capacity for approximately 1,000 of our salons in the future, based upon our assessment of suitable real estate that fits the underwriting requirements for our business. We aim to achieve this capacity goal through a combination of franchising, direct ownership, and our new salon sales and management contract model. If we are able to achieve this goal, we believe that we would then have the largest salon network in Japan.

Lead Industry Consolidation Via Targeted Acquisitions. As the domestic Japanese relaxation sector faces structural changes that accelerate consolidation, we believe that we are positioned strategically to harness value, acquire synergies, and maximize our pipeline of suitable bids at bargain prices. Our corporate acquisitions team aims to buy businesses at a small multiple to ours, leveraging our brand, the well-regarded reputation of our founder CEO, and the halo effect of joining Japan's first publicly listed relaxation company in the United States. We believe we have a competitive advantage and significant negotiating power to structure accretive deals, integrate both culture and operations of target companies, and grow long-term value. In May 2021, we acquired 100% of the ownership interests in SAWAN, a relaxation salon operator of "Ruam Ruam," a luxury relaxation salon brand. This acquisition resulted in the addition of 13 directly-operated salons under the brand of "Ruam Ruam" to our relaxation salon segment.

Update of Business Model. Currently, Wing Inc. (fka Bell Epoc Wellness, Inc.), our wholly owned subsidiary, manages a majority of our relaxation salon operations, excluding those located in spa facilities or under "Ruam Ruam" brand. While we continue to grow the total number of our franchised salons, we expect to become more selective in new franchise salon owners. In the fourth quarter of 2021, we sold 12 salons that were previously owned by us to investors for aggregate gross contractual value of JPY559 (US\$4.9) million, or net proceeds of JPY502 (US\$4.4) million. Such investors are required to enter into Service Agreements with Wing Inc. to manage the operation of the purchased salons, pursuant to which we are entitled to a contingent fee equal to 80% of the amount of profit that exceeds 6% to 8% investment yield on the purchase price of each purchased salon. We believe this model will maximize the return on capital investment in our relaxation salon segment, accelerate salon openings by reinvesting the proceeds from the sales of salons, improve operational efficiency by focusing on salon operations, and generate additional income from the salons that were sold to investors and are under our management.

Focus on Margin Improvement and Leveraged Use of Infrastructure. We believe our corporate infrastructure is positioned to support a customer base greater than our existing footprint. As we are still recovering from the impact of the COVID-19 pandemic, we believe we have a great potential to attract more customers, utilize our currently idle

capacities at certain salons, and improve our workforce management. We plan to closely monitor our operational metrics such as sales per salon, number of customers served per salon, sales per customer, total working hours per salon and total hours in service per salon. We also plan to replace our existing employee evaluation and incentive systems to better motivate our employees to meet certain performance targets assigned to them.

As we continue to grow, we expect to drive greater efficiencies across our operations and development and marketing organizations and further leverage our technology and existing support infrastructure. We believe we will be able to reduce the percentage of corporate costs to revenue over time to enhance margins as general and administrative expenses are expected to grow at a slower rate due to expected efficiencies of scale as we expand our salon network.

Marketing and Advertising Strategy. We conduct most of our marketing and advertising on our website and through print advertisements in magazines. In addition, our salons are strategically located in areas near train stations and shopping centers that are advertising and marketing drivers. Furthermore, in addition to our effort to improve margins at our relaxation salons, we will enhance our digital marketing initiatives to increase revenue, including launching our brands' smart phone apps to retain our repeat customers and improve the frequency of customer visits.

Healthtech Strategy. We plan to invest in and grow the Digital Preventative Healthcare Segment with a higher margin. We intend to increase the number of Lav[®] users via the Specific Health Guidance Program promoted by the Ministry of Health, Labor and Welfare of Japan. In addition, we expect to expand the billing user base for the upgraded Lav[®] application. We also intend to accelerate the production of our MOTHER Bracelet[®]. Our original sales and distribution model was primarily B2B with an emphasis on large and recurring contract orders placed by corporate sponsors, healthcare and medical facilities, and government entities, who in turn distribute to the end consumer. Due to the global semiconductor shortage, we have pivoted to selling directly to consumers in Japan first through online commerce, and strategic partners including retail placements at select big box stores, instead of the bulk sale towards the business entities.

Competition

The relaxation industry in Japan is highly competitive. The size of the relaxation market in Japan was estimated at US\$1.059 billion or JPY122 billion in 2019 and is expected to grow up to US\$1.103 billion or JPY127 billion in 2023, according to the 2022 Yano Report. While 51% of the market is occupied by mid to large chains like us, a significant portion of the market consists of small, locally-owned salons, 68.9% of which are estimated to be individual-run single outlets. Out of the 2,944 major bodywork therapy salons in Japan as of December 31, 2021, 312 salons were operated by us or our franchisees, 607 by Raffine, 322 by Karada Factory, 613 by Riracle, 166 by Dr. Stretch, and 147 by Temomin. We expect competition in this market to continue to be intense because relaxation salons are comparatively inexpensive to start and operate, and new competitors are regularly appearing in the market. The expected annual growth rate of the Japanese relaxation industry is 1.75% through the period between 2022 and 2025. We operate at a slight premium (approximately JPY378 (US\$3.28)) price point relative to the market, which we believe is justified by our strong brand and service value. We generally do not engage in price-reduction strategies, although uncertain future economic conditions may create circumstances requiring us to reconsider our strategy in certain markets line with our growth profile.

We experience significant competition, in all aspects of our business, including for highly skilled relaxation therapists and for the best salon locations. Our directly-operated and franchised relaxation salons compete with national and regional relaxation salon chains for customers, relaxation salon locations and qualified management and other staff, including relaxation therapists. Competition in our industry is primarily based on price, convenience, quality of service, brand recognition, and location. We consider our biggest competitors to be K.K. Factory Japan (Karada Factory) and K.K. Bodywork (Raffine), both of which are operators of relaxation salons in Japan.

Although the Luxury Beauty Segment also experiences competition, ZACC does not enter into price competition due to the strength of its brand. A key factor for brand strength is the retention rate of the senior hair stylists employed by ZACC.

In our Digital Preventative Healthcare segment, we face competition from large incumbents in the traditional and digital advertising space and, to a lesser extent, startups in the health tech industry. Given the unique value proposition and startup nature of our growth segments, we remain focused on transaction level priorities, winning clients through our platform capabilities and features and benefits and leveraging relationships over what other incumbents may be doing in the space.

Our Competitive Strengths

We are a defined leader in Japan's health and wellness space. We provide ground-up educational and training services for aspiring specialists, as well as top of the line health services for our customers. As we continue to grow and expand, the brand recognition that we enjoy across Japan will help promote our new digital business lines. We believe the following strengths have contributed to our initial success and will position us well for future growth:

Innovative Services. Our salon services are innovative and differ from traditional *shiatsu*-style bodywork. For example, we created our unique wing stretch method, which focuses especially on the shoulder blades. This is important because the shoulder blades are a critical part of the body, as they connect and balance the bones from the neck to the lower back and support the body to ensure the body moves smoothly. Further, traditional *shiatsu*-style bodywork therapists typically use their body weight to put pressure on the muscles, which can cause damage. Our relaxation therapists use stretch techniques on the muscles, rather than body weight pressure, thereby preventing damage. We believe our non-pressure method mitigates the risk of severe malpractice and other similar claims. Finally, our relaxation therapists are trained to converse with our customers, to ask our customers questions in order to tailor the therapy to the customers' unique needs, and to promote self-care by communicating with our customers about their current body ailments and to give advice for future visits.



Brand Value. We believe our trademarks and other intellectual property create a strong competitive advantage in our Relaxation Salon Segment, Luxury Beauty Segment and Digital Preventative Healthcare Segment. With widespread recognition in the Kanto region and across Japan, our Company, benefits from a loyal customer base and brand recognition that allows for smooth scaling of growth businesses.

Employee Satisfaction. We employ a majority of our therapists on a salaried basis, rather than a commission-based contractor model normally used in the industry. We have also invested culturally and economically in creating a career progression for therapists, which helps give structure, purpose, and incentives to stay with the Company and improve skills. While this increases our operating leverage, we believe it a core strategic need and advantage as labor is a key gating factor currently in the relaxation sector. We believe that our industry-leading employee satisfaction levels contributed to employees' high morale, which is evidenced by the fact that we were awarded the Grand Prix for the relaxation sector's top therapist and best salon award in Japan in 2019, as well as the Semi-Grand Prix for the individual therapist and the Grand Prix for the best salon award in 2021. This is particularly important as high turnover reduces or disrupts available investment in capital because of the costs associated with hiring and training new employees. We

continue to optimize our working environment for therapists in an effort to improve morale, productivity and a long-term orientation to their work and status within the Company.

Hiring Activities. We own and run our own job portal website targeting prospective therapist candidates. The job portal website was launched on February 1, 2020 and, as of December 31, 2021, 32.5% of our new employees during fiscal year 2021 have been hired through the website. As labor shortages and costly recruiting of therapists remain the primary gating factors for a successful salon operation, we believe our streamlined and cost-efficient recruiting method allows continued operating strength at expanded profit margins. Combined with our brand, this hiring approach at scale puts us in an advantageous position relative to our peers in the industry.

Re.Ra.Ku® College. We believe we own the largest in scale and best in class education and training facility for relaxation therapists in the Japanese relaxation industry, which enables us to provide continuous training to our franchise owners and salon staff, as well as continuous direct access to a pool of newly trained and job-ready staff. We believe that regular training ensures that quality service and therapy are consistently provided to our customers throughout all of our salons. The strength of our Company's training and education program is in providing our therapists learning opportunities to keep improving their service skills after commencing at our Company's salons. Medirom requires a higher threshold of training before allowing students to work with our clients in our salons. We find that this rigorous skill grading system better prepares our students and has proven effective for our salons. We provide one of the longest training programs (54 hours) in the industry. Each training module can be taken randomly, rather than in a series, for the trainees' convenience. Moreover, we provide the follow-up training courses, based on which we evaluate and grade the practitioners' skills. We believe this is a different approach from certain of our competitors, who tend to utilize practitioners on a contract basis. Our training package enables our therapists to improve their treatment skills continuously and, importantly, to maintain high morale.



Specific Health Guidance Program. As a leading provider of holistic health services, we support the government-initiated program, Specific Health Guidance Program. Other notable supporters include SOMPO Health Support, Benefit One Inc., and FitsPlus Inc. As a government (Ministry of Health, Labour and Welfare)-subsidized program, participating companies need to maintain quality controls. Partners and service providers are vetted and must adhere to standards that are established by each of the health insurance providers. By satisfying each standard, we have been engaged in supporting the program by health insurance providers and continues to expand its prospective clients. In addition, we have an on-demand health monitoring application, Lav®, which can provide user-friendly interfaces and experiences. This application, among other digital tools, allows for seamless functionality with our partners and service providers as well as optionality in future monetization of the end user base. As a result, we have successfully managed to acquire several corporate clients, including blue chip companies' and local governments' health insurance providers. We believe this B2G/B2B business provides opportunities for multi-year contracts and high margins, particularly given the significant barriers to entry that require a well-recognized health and consumer brand and blue-chip enterprise relationships. We launched the upgraded version of Lav® as a subscription-based B2C application on July 1, 2021. The updated Lav® application offers menus such as detox, weight control, and exercise programs.

Until recently, the goals of health checkups and health guidance have been early identification and treatment of sickness. By focusing on visceral-fat obesity, specific health checkups and specific health guidance are intended to decrease the numbers of those who suffer from, or are at risk for, lifestyle-related conditions such as diabetes, through

providing health guidance to help them improve the living habits that cause visceral-fat obesity (i.e., disease prevention). Since lifestyle-related conditions progress with no visible symptoms, specific health checkups, which are comprised of health screenings intended to identify those who require health guidance to prevent lifestyle-related conditions, are considered to be an excellent opportunity to review the individual's living habits. Health guidance is provided to help the individual change his or her behavior. All those who have undergone specific health checkups are provided with information suited to their own individual circumstances.

Based on the results of specific health checkups, persons eligible for specific health guidance are identified by level (that is, those eligible for motivational support and those eligible for active support) in accordance with their risk levels, by focusing on the degree of visceral fat buildup and numbers of risk factors. The goals of specific health guidance are to enable eligible persons to be aware of their own health conditions and make voluntary efforts, on a continual basis, to improve their own living habits. Participants are provided with a variety of motivational information and advice to help them live healthier lifestyles on their own. Motivational support provides support to encourage improvements in living habits, in principle, one time. An action plan is prepared with the guidance of doctors, health nurses, and a senior nutritionist; specialists provide motivational support for efforts to improve living habits. Evaluations are performed to determine whether results have been achieved as planned.

Active support provides continual support in multiple sessions over three months or longer. An action plan is prepared with the guidance of doctors, health nurses, and a senior nutritionist. We retain several experienced nutritionists and healthcare professionals, by entering into service agreements with workers dispatching companies. These therapists and nutritionists help provide an integrated bodywork (physical body), encouragement and inspiration (mental), and dietary guidelines (metabolic/diet). Specialists provide regular, continual support for efforts to improve living habits over a period of three months or longer.

We have received subscription orders from 43 corporate insurance associations for our Specific Health Guidance Program as of December 31, 2021. Other individual consumers can also purchase the program and access it via the upgraded Lav[®] app. For the consumer version of the Lav[®] app, we expect to engage our in-house therapists as coaches to increase such therapists' income. We also aim to leverage our existing salon customer base to accelerate the program's development.



MOTHER Bracelet[®]. Our MOTHER Bracelet[®] fitness device is designed to track and collect the health data of the wearer, such as calorie consumption, activity and sleep patterns. We believe our MOTHER Bracelet[®] will be the only fitness tracker that requires no electric charging as it will utilize innovative technology such as Gemini TEG (Thermoelectric Generator) and Mercury Boost Converter to enable the user's body heat to generate electricity. We are not aware of any other wearable devices equipped with NFC currently in the market with equivalent capabilities at this time. We believe we are the first relaxation salon operator in Japan to launch a health-monitoring wearable device. We believe our MOTHER Bracelet[®] is an important complement to our holistic approach to providing health services.



We intend to pursue other opportunities in Japan and the United States for large-scale private label contracts for our device. MOTHER Bracelet[®] received an encouraging response from the crowd-funding campaign in Japan, where we have succeeded in getting a reservation sale totaling JPY56 million from 1,292 supporters on the crowdfunding site MAKUAKE. It has been featured in various Japanese media and was ranked 24th in “the Nikkei Trend 2022 Hit Predictions 30.”

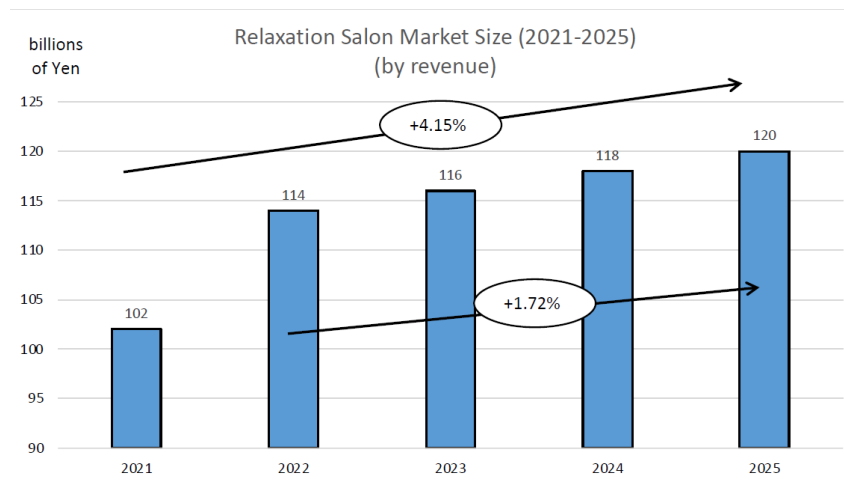
In May 2021, we entered into a Master Manufacturing Agreement with Sanei Electronics Inc. in Tokyo, Japan, with respect to the production of the MOTHER Bracelet[®] and commenced preparations for production and shipment. MOTHER Bracelet[®] is unique in its SDK open policy. The policy is intended to increase the use of the device among medical institutions and other corporations in future, and we have received inquiries on the device across a number of business segments. By opening up the SDK, we allow and encourage software and hardware developers to customize the management of healthcare data for their own purposes. We are building this data management platform to serve the various lifestyles of users. We are planning to upgrade the device for the medical field by incorporating the requests from medical institutions in the future. MOTHER Bracelet[®] records wearers’ activities, sleep duration and pattern, body temperature, and heart rate 24/7 without losing data. We are planning to apply for the license for the next generation of the device. The production for a small batch of the MOTHER Bracelet[®] has commenced in 2022, and the MOTHER Bracelet[®] brand website and e-commerce website are currently under development. Our standard character trademark application for MOTHER Bracelet[®] was approved and registered by the Japan Patent Office in February 2022.

In late March 2022, we started shipping out MOTHER Bracelet[®] to those who placed the orders via the crowd-funding platform in the previous year. Larger scale distribution is expected once the semiconductor shortage and global uncertain situation is solved.

Attractive Market Opportunity

Relaxation Industry Growth

According to the 2022 Yano Report, the Japanese relaxation sector is expected to continue to lead overall GDP growth, which is expected to increase 1.72% from JPY114 billion (US\$990 million) in 2022 to JPY120 billion (US\$1 billion) in 2025, while national GDP is expected to grow by 1.2% from 2022 to 2026, according to Daiwa Research Institute Economic Report (dated January 24, 2022).



Source: 2022 Yano Report

We believe the sector continues to see outsized growth as consumers in an already health-conscious country increasingly value health and wellness of both body and mind. Concurrently, large companies, in partnership with or through subsidies received from the government, increasingly factor in employee wellness for both productivity and for retention, loyalty, and satisfaction with the employer. This has led to the creation of corporate budgets, often with government subsidies, earmarked for employee health and wellness programs, insurance programs, fitness and gym memberships which further increases spend in the market. While 51% of the market is occupied by mid to large chains like ours, most of the market consists of small, locally-owned salons, 68.9% of which are estimated to be individual-run single outlets.

M&A, Consolidation, and Industry Rationalizations

The relaxation sector in Japan faces structural changes that have accelerated mergers and acquisitions and consolidations. As smaller, private operators either fail to grow sufficient revenue to cover costs and owners of larger, established companies seek to exit for retirement or other reasons, an increasing number of sellers have attracted both industry players as well as financial sponsors. We believe the gating factors remain synergies between the acquirer and target, including a pragmatic approach to M&A integration, post-acquisition operations, and preservation of brand and customer base. Purchase price remains a more muted factor which affords compelling valuation creation for the right strategic acquirer.

According to publicly-available data, industry wide fees have halved over the past decade to approximately ¥3,000 (US\$26) for 60 minutes on most conventional services and demand has become bifurcated between a highly-price conscious mass market and a more discerning brand conscious consumer. We operate in-between high volume/low price point/low service intensity operations and high touch point /specialized services providers. Our services lie in the spectrum of affordable value and, we believe, capture the largest portion of the demand curve. Additionally, consumers have increasingly sought specialized services including stretching therapy (tendons and ligaments, in addition to muscles) and bathhouses.

Integrated Health Solutions, Analytics and Targeting

The Japanese government and major corporate sponsors in the country have accelerated needs for preventative care and ascribing key factors affecting health outcomes. As demographics continue to focus on the elderly and insurance plans face uncertain or insufficient returns relative to premiums, major health insurance companies and the government require solutions to target problems, streamline costs, and save lives through a preventative focus. This has resulted in government budgets and subsidies earmarked for improving employee health and increased incentives for understanding,

diagnosing, and creating action plans to address health issues. We believe our platform and technology allow us to serve government and corporate entities with a one-stop shop, data-driven and targeted solution service.

Global Expansion Opportunities

We focus on core competencies within the local markets of Japan, although we opportunistically assess franchising or partnerships abroad for our core salon business, and B2B2C distribution models for MOTHER Bracelet® and other digital businesses through online marketing, commerce, and joint ventures. We believe the wearables market and omnichannel distribution trends, particularly online commerce, remain attractive avenues of growth for our Digital Preventative Healthcare Segment.

Employees

Most of our Company's group employees are employed by our wholly-owned subsidiary, Medirom Human Resources Inc. As of December 31, 2021, we had 368 employees on a full-time basis, 480 employees on a part-time basis, and 65 employees on a fixed-term basis. Our Company is not currently, and has not in the past, been unionized. As such, neither we nor our franchisees are required to engage in collective bargaining procedures with any unions under Japanese labor laws.

We do not use contract employees hired by any third-party agencies in the relaxation salon. We dispatch therapists and other employees to our franchisees from time to time and receive a fee for such services. Our employees are paid on a salary basis. We also offer an incentive program whereby relaxation therapists earn points for various reasons such as continuing as a Medirom relaxation therapist for certain designated periods of time or taking additional relaxation courses at our College. As the number of collected points increase, the relaxation therapist's salary also increases.

Property and Equipment

As of December 31, 2021, we have 312 relaxation salons, each of which is leased at train and subway stations, shopping malls, plazas, and high-traffic streets throughout Japan. We invest in leasehold improvement, equipment, and furniture in our directly-operated salons. The terms and conditions of the lease arrangements varies by agreement.

Our corporate headquarters are located at 2-3-1 Daiba, Minato-ku, Tokyo, Japan. The term of our lease for this location expires on November 30, 2022, although there is a renewal provision in the lease agreement whereby the lease will automatically renew for an additional two years unless one of the parties provides notice of termination at least six months prior to the expiration of the current lease term. Our Re.Ra.Ku® College is annexed to our corporate headquarters, and we also have branch school locations at Nagoya and Osaka.

Intellectual Property

To establish and protect our proprietary rights, we rely on a combination of trademarks, confidentiality policies and procedures, non-disclosure agreements with third parties, employee non-disclosure agreements, and other contractual and implicit rights worldwide. We have 35 registered trademarks as of December 31, 2021, and other names and logos used by our Company as trademarks with the Japan Patent Office. Two of our trademarks are currently registered with the U.S. Patent and Trademark Office. Our standard character trademark application for MOTHER Bracelet® was approved by the Japan Patent Office in February 2022. Additionally, we registered the trademark Re.Ra.Ku in 2009. Our principal intellectual property rights include copyrights in our website and mobile applications content for Lav®, rights to our domain name <https://medirom.co.jp>, and trade secrets and know-how with respect to our training, servicing, sales and marketing and other aspects of our business, and our digital innovations such as the Lav® application. The success of our business strategy depends on our continued ability to use our existing intellectual property in order to increase brand awareness and develop our branded services. If our efforts to protect our intellectual property are not adequate, or if any third party misappropriates or infringes on our intellectual property, whether in print, on the Internet or through other media, the value of our brands may be harmed, which could have a material adverse effect on our business, including the failure of our brands and branded services to achieve and maintain market acceptance. There can be no assurance that all of the steps we have taken to protect our intellectual property in Japan or outside Japan in relevant foreign countries will

be adequate. In addition, in light of our intention to expand internationally, the laws of some foreign countries do not protect intellectual property rights to the same extent as do the laws of Japan. If any of our trademarks, trade secrets or other intellectual property are infringed, our business, financial condition and results of operations could be materially adversely affected.

In addition, third parties may assert infringement or misappropriation claims against us, or assert claims that our rights in our trademarks, patents and other intellectual property assets are invalid or unenforceable. Any such claims could have a material adverse effect on us or our franchisees if such claims were to be decided against us. If our rights in any intellectual property were invalidated or deemed unenforceable, it could permit competing uses of intellectual property which, in turn, could lead to a decline in relaxation salon and other revenues. If the intellectual property became subject to third party infringement, misappropriation or other claims, and such claims were decided against us, we may be forced to pay damages, be required to develop or adopt non-infringing intellectual property or be obligated to acquire a license to the intellectual property that is the subject of the asserted claim. There could be significant expenses associated with the defense of any infringement, misappropriation, or other third-party claims.

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of our business, including matters involving our franchisees, among others. Any litigation or other legal or administrative proceedings, regardless of the outcome, are likely to result in substantial costs and a diversion of our resources, including our management's time and attention.

Subsequent Event

Nasdaq Notification Letters

On January 18, 2022, the Company received a written notification (the "Notification Letter") from The Nasdaq Stock Market LLC ("Nasdaq"), notifying the Company that it is not in compliance with the minimum market value requirement set forth in Nasdaq Listing Rules for continued listing on The Nasdaq Capital Market. Nasdaq Listing Rule 5550(b)(2) requires companies to maintain a minimum market value of US\$35 million and Nasdaq Listing Rule 5810(c)(3)(C) provides that a failure to meet the minimum market value requirement exists if the deficiency continues for a period of 30 consecutive business days. Based on the market value of the Company from November 23, 2021 to January 14, 2022, the Company no longer meets the minimum market value requirement. The Notification Letter did not impact the Company's listing on The Nasdaq Capital Market at that time. In accordance with Nasdaq Listing Rule 5810(c)(3)(C), the Company has been provided 180 calendar days, or until July 18, 2022, to regain compliance with Nasdaq Listing Rule 5550(b)(2). To regain compliance, the Company's market value must exceed US\$35 million for a minimum of 10 consecutive business days. The Company's business operations were not affected by the receipt of the Notification Letter.

On April 19, 2022, Nasdaq issued a notice to the Company which announces that Nasdaq has determined that for 10 consecutive business days, from April 10, 2022 to April 19, 2022, the Company's market value of listed securities has been US\$35,000,000 or greater. Accordingly, the Company has regained compliance with the Rule.

On June 29, 2022, the Company received a second written notification letter (the "Second Notification Letter") from Nasdaq, notifying the Company that it is not in compliance with the minimum market value requirement set forth in Nasdaq Listing Rules for continued listing on The Nasdaq Capital Market. Based on the market value of the Company from May 9, 2022 to June 28, 2022, the Company no longer meets the minimum market value requirement. The Second Notification Letter did not impact the Company's listing on The Nasdaq Capital Market at that time. In accordance with Nasdaq Listing Rule 5810(c)(3)(C), the Company has been provided 180 calendar days, or until December 27, 2022, to regain compliance with Nasdaq Listing Rule 5550(b)(2). To regain compliance, the Company's market value must exceed US\$35 million for a minimum of 10 consecutive business days. The Company's business operations were not affected by the receipt of the Second Notification Letter.

On May 10, 2022, the Company issued a corporate bond to help with its short-term working capital needs and received proceeds of JPY50,000 thousand. The corporate bond had a maturity date of August 15, 2022 and bore an interest rate of 5.0% per annum. The corporate bond was redeemed in a lump sum on the maturity date.

On August 31, 2022, the Company issued a corporate bond to help with its short-term working capital needs and received proceeds of JPY40,000 thousand. The corporate bond has a maturity date of December 31, 2022 and bears an interest rate of 5.0% per annum.

Net Assets Requirements Related to Our “Re.Ra.Ku Cards”

One of the requirements for issuers of prepaid cards under the Settlement Act is to maintain net assets of not less than JPY100 million based on Japanese GAAP. As of December 31, 2021, our net assets have fallen below JPY100 million based on Japanese GAAP on a standalone basis. We have recently reported the issue to the Kanto Local Financial Bureau and are currently in consultation with the regulatory authority for administrative guidance. See “Item 4. Regulations Governing Prepaid Cards” for more detail.

For further information regarding these subsequent events, please see Note 20. Subsequent Events to our audited consolidated financial statements for the years ended December 31, 2021, 2020 and 2019 included elsewhere in this annual report.

Regulations Governing our Relaxations Salons

Relaxation salons such as ours are not currently regulated by the Japanese government. The main law in Japan governing the massage industry is the Act on Practitioners of Massage, Acupressure, Acupuncture and Moxibustion, and etc. (Act No. 217 of 1947). However, we do not market or provide massage, finger pressure, acupuncture, moxa-cauterization or other services regulated under this Act, and this information is clearly provided to all customers prior to them receiving our salon services.

Regulations Governing our Franchises

Japan has antitrust laws that protect consumers and regulate how companies operate their businesses. Among the various Japanese antitrust laws, the seminal antitrust law is the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947, as amended) (which we refer to as the “Antimonopoly Act”). The Antimonopoly Act prohibits certain activities that inappropriately induce or mislead persons into entering into a business relationship with us through our granting of seemingly preferable trade terms and conditions that could create false impressions in relation to other franchisors we compete with.

The Japan Fair Trade Commission (which we refer to as the “JFTC”) enforces the Antimonopoly Act and other Japanese antitrust laws. The JFTC issued the “Guidelines Concerning the Franchise System Under the Antimonopoly Act” on April 24, 2002 (last amended on June 23, 2011) (which we refer to as the “Guidelines”), under which the JFTC suggests that, prior to entering into a franchise relationship, a franchisor should adequately disclose and explain material trade terms to a potential franchisee in order to prevent any misunderstanding of the material trade terms, and to prevent such potential franchisee from being misled or improperly induced into entering into such franchise relationship. Material trade terms include terms relating to the following:

- the supply of products after the party becomes a franchisee (such as a system for recommending suppliers);
- guidance, procedures, frequency, and cost to the franchisee relating to the business activities of the franchise;
- nature and amount of payments to be collected when the party joins the franchise, whether the payments are refundable or may be returned, and the conditions for refunding or returning the payments;

- royalties that the franchisee pays to the franchisor for use of trademarks and trade names and for guidance relating to management procedures, including the amount of, procedure for calculating, and the time and method of payment, of royalties;
- loans the franchisor extends to the franchisee, including the interest rate and the mechanism and conditions of settlement;
- compensation for any losses the business incurs, including the details of such compensation and whether there is management support from the franchisor in the event of a decline in business;
- terms of the franchise agreement and the conditions and procedures for renewing or terminating the franchise agreement, including early termination prior to the expiration of its term; and
- restrictions with respect to the franchisor or other franchisees of the franchise setting up an identical or similar business near the proposed business of the potential party to join the franchise, including whether there are any plans to set up additional businesses and the details of such plans.

In addition, when a franchisor markets its franchise, in the event such franchisor provides a prospective franchisee with an estimate of the revenue or profit that could possibly be generated upon becoming a franchisee, such estimated revenue or profit must be based on a reasonable method of calculation and established facts, such as the results of an existing franchise operating in a similar environment. The franchisor is required to present to the prospective franchisee such methods and facts.

If the JFTC finds any activities that violate the Antimonopoly Act, including any “deceptive customer inducement”, then the JFTC may order the offending franchisor to cease and desist from engaging in such unlawful activities, delete any applicable unlawful clauses from the franchise contract, or carry out any other measures necessary to eliminate such unlawful activities.

In the event the JFTC suspects any violation of the Antimonopoly Act or alleges that we have misled or wrongly induced any of our franchisees based upon any particular trade terms, we could be exposed to risks, including governmental action against us.

Regulations Governing Prepaid Cards

We began issuing our prepaid Re.Ra.Ku[®] Cards to relaxation salon customers starting in December 2008. Re.Ra.Ku[®] Card users can continuously use and also replenish the card at our relaxation salons. Prepaid cards are generally considered “prepaid payment methods” (which we refer to as “PPMs”) under the Act on Settlement of Funds (Act No. 59 of 2009) (which we refer to as the “Settlement Act”). PPMs are regulated under the Settlement Act so long as there is a possibility that the cards could be valid for a period of more than six months. The Re.Ra.Ku[®] Cards do not have expiration dates and therefore are regulated under the Settlement Act.

Issuers of prepaid cards with a validity of longer than six months are referred to as “PPM Providers.” There are two categories of PPM Providers:

- (i) a provider of prepaid cards that can only be used to purchase goods or services from that same provider or its affiliates, referred to as a “Private Use PPM Provider”; and
- (ii) a provider of prepaid cards that can be used at third party establishments, referred to as “Public Use PPM Providers.”

The Re.Ra.Ku[®] Card can be used at salons operated by our franchisees, which are considered third parties for the purposes of the Settlement Act. As such, we are considered a Public Use PPM Provider. A Public Use PPM Provider

must file an application with the Kanto Local Financial Bureau and receive a license to issue PPM cards. On September 30, 2016, we received our license from the Kanto Local Financial Bureau.

A PPM Provider typically holds a certain amount of its customers' cash in the form of prepaid amounts on the cards that have not yet been exchanged for goods or services. The total of such amounts for all customers of a PPM Provider is referred to as the "Outstanding Amount." A Public Use PPM Provider is required to maintain deposits of at least half of its Outstanding Amount at the local Legal Affairs Bureau (although other arrangements are possible), in order to ensure that there are adequate funds for the card holders who are effectively loaning their money to the Public Use PPM Provider through their purchase of the prepaid card. At the end of March and September each year, the Public Use PPM Provider must calculate its Outstanding Amount and deposit half that amount at the Legal Affairs Bureau within two months. In the following year, if the Outstanding Amount has increased, the Public Use PPM Provider must pay the difference between such Outstanding Amount and the amount deposited with the Legal Affairs Bureau. We made our initial deposit of our Outstanding Amount with the Legal Affairs Bureau on November 28, 2016, in the amount of JPY125,261,250 (US\$1,087,620), and made additional deposits and adjustments with each semi-annual reporting.

One of the requirements for issuers of prepaid cards under the Settlement Act is to maintain net assets of not less than JPY100 million based on Japanese GAAP. As of December 31, 2021, our net assets have fallen below JPY100 million based on Japanese GAAP on a standalone basis. We have recently reported the issue to the Kanto Local Financial Bureau and are currently in consultation with the regulatory authority for administrative guidance. If we fail to show a concrete plan to rectify the situation in the foreseeable future, our license granted as the issuer of the prepaid cards may be revoked and we may be required to refund any unused prepaid card balance to customers who have purchased the prepaid cards.

Regulations Governing Dispatched Employees for Franchisees

In April 2018, we established our wholly-owned subsidiary, Medirom Human Resources Inc. (which we refer to as "MHR") under the trade name Re.Ra.Ku Wellness Inc. MHR currently operates our therapist dispatch business. Previously, we hired therapists pursuant to an exemption that allowed us to forego obtaining permission from the Ministry of Health, Labor and Welfare of Japan under the Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers (which we refer to as the "Dispatch Act"), and dispatched such therapists to our franchisees. When the Ministry of Health, Labor and Welfare of Japan eliminated the applicable exemption in September 2018, we decided to transfer the therapist dispatch business to MHR. MHR has obtained a worker dispatch license from the Ministry of Health, Labor and Welfare of Japan under the Dispatch Act, which is valid through July 31, 2026.

Regulations Governing our Recruiting License

In August 2013, we obtained a recruiting agency license (which we refer to as a "Recruiting License") from the Ministry of Health, Labor and Welfare of Japan under the Employment Security Act. We are required to obtain the Recruiting License because certain members of our staff, mostly consisting of relaxation therapists, are introduced to and placed at our franchisees. Such staff members typically provide training and relaxation services to salons managed by our franchisees.

Personal Information Protection

We are subject to laws and regulations regarding privacy and protection of user data and personal information, due to our customer data collection operations in connection with our Digital Preventative Healthcare Segment. The application and interpretation of these and other similar international laws and regulations regarding privacy and protection of user data and personal information is often uncertain, particularly with respect to the new and rapidly evolving industry in which we operate.

In Japan, the Act on the Protection of Personal Information (which we refer to as the "APPI") and its related guidelines impose various requirements on businesses, including us, that use databases containing personal information. Under the APPI, we are required to lawfully use personal information we have obtained within the purpose of use we

have specified and take appropriate measures to maintain the security of such personal information. We are also restricted from providing personal information to third parties without the consent of such user. The APPI also includes regulations relating to the handling of sensitive personal data and anonymous personal data and the transfer of personal information to foreign countries. We collect information from our relaxation salon customers through the questionnaire completed by each first-time customer. Some of the information we collect through that questionnaire could fall under the category of sensitive personal data under the APPI.

We are in the process of applying for “PrivacyMark” certification in Japan. “PrivacyMark” is a certification which is given to enterprises that take appropriate measures to protect personal information. The “PrivacyMark” System was established by the Japan Information Processing Development Corporation (JIPDEC) in April 1998, and the “PrivacyMark” is certified and granted by JIPDEC as well as other designated organizations. Such private enterprises are granted the right to display “PrivacyMark” in the course of their business activities. The system is in compliance with Japan Industrial Standards (JIS Q 15001: [Personal Information Protection Management System - Requirements]). We believe this “PrivacyMark” certification is highly valued and is often required by our customers including health insurance providers. In order to generate more business for our Lav[®] application, we have decided to pursue this certification. Thus, we anticipate a positive impact on the Lav[®] application business once we receive the “PrivacyMark” certification.

C. Organizational Structure

Our principal operating subsidiaries at December 31, 2021 are as follows:

| | <u>Jurisdiction</u> | <u>Percentage Interest Held</u> |
|--------------------------------|---------------------|---------------------------------|
| Bell & Joy Power Partners Inc. | Japan | 100% |
| WING Inc. | Japan | 100% |
| JOYHANDS WELLNESS Inc. | Japan | 100% |
| Medirom Human Resources Inc. | Japan | 100% |
| SAWAN CO. LTD. | Japan | 100% |
| ZACC Kabushiki Kaisha | Japan | 60% |

D. Property, Plants and Equipment

Please see a detailed discussion of our property, plants and equipment under “Item 4. Information of the Company— Property and Equipment”.

ITEM 4.A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the sections of this annual report entitled “Selected Financial Data” and “Business”, and our consolidated financial statements and related notes thereto, included elsewhere in this annual report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our current plans, expectations, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this annual report, particularly in the sections entitled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.”

We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on December 31 and references to fiscal years 2019, 2020, and 2021 are to the fiscal years ended December 31, 2019, 2020 and 2021, respectively. In accordance with Instruction 6 to Item 5 of Form 20-F, we are omitting from this annual report a discussion of our results of operations for fiscal year 2019. For a discussion of our results of operations for the

fiscal year ended December 31, 2019 compared with the fiscal year ended December 31, 2020, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results” from our Annual Report on Form 20-F for the fiscal year ended December 31, 2020, as filed with the SEC on May 17, 2021.

Overview

Our principal business is to own, develop, operate, manage, and support relaxation salons through the franchising and through direct ownership of such salons throughout Japan. We seek to be the leading provider of relaxation and bodywork services in the markets we serve and to become the most recognized brand in our industry through the steady and focused expansion of relaxation salons in key markets throughout Japan and potentially abroad.

As of December 31, 2021, we and our franchisees operated 312 salons, of which 184 were operated as Company-operated salons, 124 were operated by our franchisees, and 4 were investor-owned salons which the Company operated on their behalf. We consider both Company-owned salons and investor-owned salons which are managed by us as “directly-operated salons”.

Our current strategy is to grow our business through development of additional franchises, and to continue to expand the number of our directly-operated salons in a deliberate and measured manner. In addition, we believe that we can continue the development of, and revenue generation from, Company-operated salons through further selective acquisition of existing franchised salons and the opening of greenfield units. We will seek to acquire existing franchised salons that meet our criteria for demographics, site attractiveness, proximity to other salons, and other suitability factors.

Key Financial Definitions

Revenue. Revenue consists of the following items: revenue from directly-operated salons, franchise revenue, and other revenues.

Cost of Revenue. The total cost of delivering services to customers consists of the following items: cost of goods sold, subcontract expenses, cost of franchise royalty and affiliation revenue, salon operating cost, salaries for therapists, legal and welfare expenses, provision for paid annual leave, travelling expenses, salon rent, depreciation and amortization, gain/loss from asset retirement obligation, interest expenses for asset retirement obligation, business consignment expenses, and others.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, or SG&A, includes the costs to sell and deliver services and the costs to manage the company as follows: directors’ compensations, salaries and allowances, bonuses, legal welfare expenses, provision for paid annual leave, recruiting expenses, travel expenses, advertising expenses, rent, taxes and duties, commission fees, compensations, depreciation and amortization, provision for doubtful accounts, and others.

Impairment Loss on Long-lived Assets. Long-lived assets include property and equipment, right-of-use lease assets, internal use software, and definite-lived intangible assets. The Company reviews the carrying value of long-lived assets for impairment whenever events or circumstances occur that indicate that the carrying value of the assets may not be recoverable. If the assets are not deemed to be recoverable, an impairment is recorded if the fair value of the asset grouping is less than the carrying value.

Non-U.S. GAAP Measures

Financial Expense and Income. We define financial expense and income as dividend income plus interest income less interest expense and use it to measure net financial burden of our borrowings.

Adjusted EBITDA. We define Adjusted EBITDA as net income (loss), adjusted to exclude: (i) dividend and interest income, (ii) interest expense, (iii) gain from bargain purchases, (iv) other, net, (v) income tax expense, (vi) depreciation and amortization, (vii) losses on sales of directly-owned salons to franchisees, (viii) gains (losses) on disposal of property and equipment, and other intangible assets, (ix) impairment loss on long-lived assets and (x) stock-

based compensation expense. Management considers Adjusted EBITDA to be a measurement of performance which provides useful information to both management and investors. Adjusted EBITDA should not be considered an alternative to net income or other measurements under GAAP. Adjusted EBITDA is not calculated identically by all companies and, therefore, our measurements of Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.

We use Adjusted EBITDA to enhance our understanding of our operating performance, which represents our views concerning our performance in the ordinary, ongoing and customary course of our operations. We historically have found it helpful, and believe that investors have found it helpful, to consider an operating measure that excludes certain expenses relating to transactions not reflective of our core operations. Stock-based compensation expense represents non-cash charges related to equity awards granted by us. Prior to 2021, we did not recognize any stock-based compensation expense. Our management believes the measurement of these amounts can vary considerably from period to period and depend substantially on factors that are not direct consequences of the performance of our Company and are not within our management's control. Therefore, our management believes that excluding these expenses facilitates comparisons of our operational results and financial performances in different periods, as well as comparisons against similarly determined non-GAAP financial measures of comparable companies.

The information about our operating performance provided by this financial measure is used by our management for a variety of purposes. We regularly communicate Adjusted EBITDA results to our board of directors, and we discuss with the board our interpretation of such results. We also compare our Adjusted EBITDA performance against internal targets as a key factor in evaluating our periodic operating performance at each salon level, segment level, and consolidated level, largely because we believe that this measure is indicative of how the fundamental business is performing and is being managed.

Adjusted EBITDA Margin. Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA for a period by total revenue for the same period.

CAPEX. Capital expenditure, or CAPEX, is the sum of investment amounts on tangible fixed assets and intangible assets during the period. These investment activities consist of acquisitions of property and equipment, acquisitions of businesses, and cost additions to internal use software. CAPEX—paid-out cash basis is the cash amount actually paid during the period to the CAPEX investments defined above, while CAPEX—paid-out cash plus future payment obligation basis is the sum of CAPEX—paid-out cash basis and the unpaid but obliged to pay amounts in the future to the same capital investments which remain on our consolidated balance sheet as accounts payable or accrued expenses.

Key Performance Indicators

In assessing the performance of our relaxation business, we consider several key performance indicators used by management. We receive monthly performance reports from our system and our relaxation salons which include key performance indicators per salon including sales, number of customers, number of newly-acquired customers, number of repeat customers, sales per customer, and operation ratio. We believe these indicators provide us with useful data with which to measure our performance and to measure the performance of our own and our franchisees' relaxation salons.

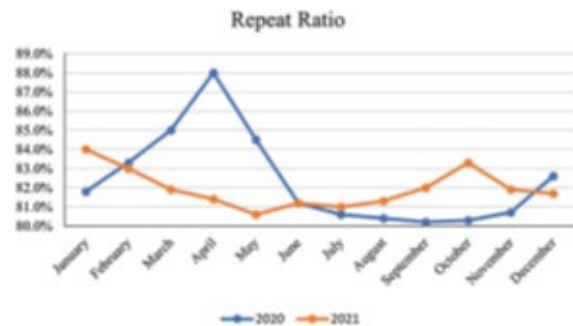
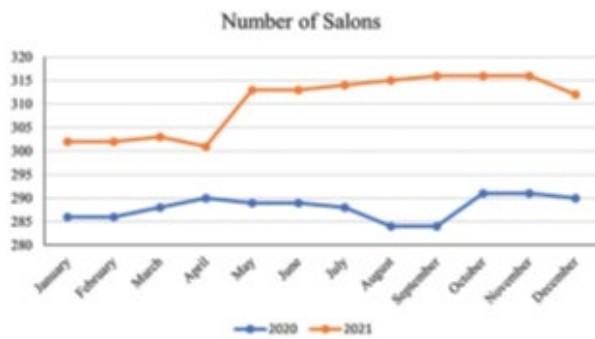
These key indicators include:

- **Number of Salons.** Directly-operated salons, and franchisees' relaxation salons.
- **Number of Salons with Data.** The number of relaxation salons for which comparable financial and customer data is available.
- **Total Customers Served.** The number of customers serviced at relaxation salons (other than JOYHANDS WELLNESS, SAWAN, and certain other salons in which our point-of-sale system is not installed and therefore, comparative financial and customer data is not available).

- **Sales Per Customer.** The ratio of total salon sales to number of treated customers at relaxation salons (other than JOYHANDS WELLNESS, SAWAN, and certain other salons for which comparative financial and customer data is not available).
- **Repeat Ratio.** The ratio of repeat customer visits to total customer visits in the applicable month or other stated period for all relaxation salons for which comparable financial and customer data is available.
- **Operation Ratio.** The ratio of therapists' in-service time to total therapists' working hours (including stand-by time) for the applicable month or other stated period for all relaxation salons for which comparable financial and customer data is available.

The following table sets forth the above key performance indicators for the periods presented:

| | Number of Salons | Number of Salons with Data | Total Customers Served | Sales Per Customer | Repeat Ratio | Operation Ratio |
|--------|------------------------|----------------------------------|------------------------------|-----------------------|-----------------|--------------------|
| 20-Jan | 286 | 222 | 64,914 | JPY 6,164 | 81.8% | 46.7% |
| 20-Feb | 286 | 222 | 61,307 | JPY 6,235 | 83.3% | 45.5% |
| 20-Mar | 288 | 222 | 52,612 | JPY 6,313 | 85.0% | 38.9% |
| 20-Apr | 290 | 224 | 13,381 | JPY 6,209 | 88.0% | 19.7% |
| 20-May | 289 | 222 | 19,451 | JPY 6,244 | 84.5% | 29.0% |
| 20-Jun | 289 | 221 | 51,686 | JPY 6,234 | 81.2% | 40.8% |
| 20-Jul | 288 | 221 | 60,964 | JPY 6,276 | 80.6% | 43.3% |
| 20-Aug | 284 | 221 | 66,464 | JPY 6,351 | 80.4% | 47.5% |
| 20-Sep | 284 | 221 | 64,809 | JPY 6,245 | 80.2% | 48.1% |
| 20-Oct | 291 | 221 | 65,820 | JPY 6,269 | 80.3% | 47.0% |
| 20-Nov | 291 | 220 | 63,993 | JPY 6,312 | 80.7% | 47.6% |
| 20-Dec | 290 | 221 | 64,649 | JPY 6,486 | 82.6% | 48.2% |
| 21-Jan | 302 | 218 | 56,557 | JPY 6,443 | 84.0% | 44.6% |
| 21-Feb | 302 | 218 | 56,370 | JPY 6,443 | 83.0% | 47.6% |
| 21-Mar | 303 | 217 | 62,441 | JPY 6,352 | 81.9% | 47.0% |
| 21-Apr | 301 | 219 | 63,682 | JPY 6,250 | 81.4% | 46.3% |
| 21-May | 313 | 212 | 66,604 | JPY 6,370 | 80.6% | 48.7% |
| 21-Jun | 313 | 219 | 68,069 | JPY 6,350 | 81.2% | 48.6% |
| 21-Jul | 314 | 220 | 70,912 | JPY 6,498 | 81.0% | 48.1% |
| 21-Aug | 315 | 221 | 66,323 | JPY 6,592 | 81.3% | 46.5% |
| 21-Sep | 316 | 221 | 65,130 | JPY 6,428 | 82.0% | 46.7% |
| 21-Oct | 316 | 221 | 68,608 | JPY 6,486 | 83.3% | 48.9% |
| 21-Nov | 316 | 221 | 65,569 | JPY 6,466 | 81.9% | 47.7% |
| 21-Dec | 312 | 221 | 71,173 | JPY 6,634 | 81.7% | 50.5% |



Factors Impacting our Operating Results

We expect that our results of operations will be affected by a number of factors and will primarily depend on the global economy, issues related to the COVID-19 pandemic in Japan and elsewhere, general market conditions, customer preference, and the competitive environment.

Our revenues, operating results and financial performance are impacted by a multitude of factors, including, but not limited to:

Business Environment. According to the 2022 Yano Report, the relaxation market continues to see industry consolidation and notable category entrants from low-price, high turnover service providers, athletic and personal training services, and body stretching. We anticipate that market share will be further transferred to the category leaders in the industry, as smaller, private operators sell their businesses for retirement and/or market competition reasons. We believe that we stand to benefit from these industry trends.

Our Achievements. To date, we have not engaged in price competition, which we believe will damage the reputation of our industry in the long run. We try to increase the revenue per customer by providing quality services. The year over year comparison between December 2020 and December 2021 shows that our average revenue per customer had grown by 1.9%, from JPY6,234 (US\$54.13) to JPY6,350 (US\$55.14). We also control the opening of new salons and focus on improving profitability, which we believe will eventually contribute to the higher customer satisfaction. In the future, we may raise the prices of our services over time to keep up with increases in minimum wage and to maintain an appropriate margin. Our repeat ratio was 81.2% in June 2021, unchanged from the same month last year, and further increased to 81.7% in December 2021. As a result of our organic development and further consolidation through acquisitions, the number of salons in our group increased to 312 as of December 31, 2021, up from 290 in the year-ago period. Total customers served increased to 71,173 in December 2021 from 64,649 in the year-ago period. Our operation ratio was 50.5% in December 2021, increasing from 48.2% in the year-ago period.

New Business. In our Digital Preventative Healthcare Segment, we have been continuously involved in the Specific Health Guidance Program, promoted by the Ministry of Health, Labor and Welfare of Japan, which utilizes our upgraded Lav[®] application, and have developed what we believe will be the only self-charging wearable activity device called MOTHER Bracelet[®], which was introduced at the Consumer Electronics Show in Las Vegas in January 2020. The distribution of the device started in March 2022. The Lav[®] application was upgraded to version 2 and became more user-friendly to cater to the individual consumers.

In October 2021, we acquired 60% of the ownership interest in ZACC, a high-end hair salon company, and acquired the remaining outstanding common stock in January 2022. ZACC owns and operates four luxury hair salons under three brands (ZACC vie, ZACC raffine, and ZACC ginza), all of which have been recognized by customers for over 30 years for their high level of techniques and hospitality. As a result of the acquisition, we created a new Luxury Beauty Segment. Our primary strategy for this segment is to install our franchise management know-hows and help ZACC keep relationship with its formerly employed hair stylists as its franchisees in order to enable ZACC to continue to generate franchise revenue even after such stylists resign and become independent.

Issues to be Solved. The relaxation industry is expected to face a difficult business environment due to a shortage of therapists and increased hiring costs. Under these circumstances, we have set the goal of “No. 1 Quality”, in addition to replenishing our workforce by hiring a large number of fresh graduates. We own and operate our proprietary job portal website, targeting prospective therapist candidates. The job portal website was launched on February 1, 2020 and, as of December 31, 2021, 32.5% of our new employees during fiscal year 2021 have been hired through the website. By introducing the service, we expect to reduce our hiring costs paid to manpower agencies. One of the primary reasons for small independent salons’ exiting from the sector is the difficulty in securing sufficient employees for the salons.

Assessment of Impact of the COVID-19 to the Company’s Business Operations, Liquidity, and Capital Resources

The global outbreak of COVID-19 has continued to impact Japan throughout 2021. During 2021, the Japanese Government issued several series of Declaration of Emergency, whereby the Japanese Government requested the closing of non-essential activities and businesses across the country as a preemptive safeguard against the COVID-19 pandemic. This adversely impacted businesses across the nation, particularly in the retail segment in which we operate.

During the period, the COVID-19 pandemic and the Government-driven or voluntary closure of workplaces and public spaces, the reluctance or inability to commute on public transportation, shop, or enjoy outdoor leisure activities has affected our business operations and liquidity position. We undertook several measures to mitigate the impact on our Company and our employees. For example, we relocated therapists from salons that were closed or operating at a shortened hour to those lacking enough therapists, or issued furlough to those who cannot be relocated to other open salons, and we also applied for governmental subsidies.

Closure of Operations or Shortened Operations at Our Salons

During first half of 2021, we estimated approximately one-fourth of the salons on average had voluntarily shortened operating hours by 2 hours per day, and approximately 5% of the outlets on average were closed due to the Declarations and local governments’ requests. During second half of 2021, we estimated approximately one-fifth of the salons on

average had voluntarily shortened operating hours, and below 1% of the outlets on average were closed due to the Declarations and local governments' requests.

Although the declarations have been adversely affecting our business, we are managing our operations by relocating therapists from closed or shortened salons to those lacking enough therapists, or issuing furlough to those who cannot be relocated to other open salons and applying for governmental subsidies.

Fluctuation in Number of Served Customers and Sales Per Customer

After the First Declaration was lifted on May 25, 2020, the number of our served customers recovered gradually. From January 8 to March 21, 2021, the government issued the Second Declaration. Tokyo, Kanagawa, Saitama, and Chiba prefectures, where the majority of our salons are located, were fully included within the scope of the Second Declaration. While this adversely affected our business, the negative impact on our number of customers served was smaller than the those during the First Declaration. The number of customers served dropped to the higher range of fifty-thousand customers in January and February 2021, but recovered to the level of more than sixty thousand customers in March 2021.

The Third Declaration was issued on April 25, 2021 and the scope was expanded to ten prefectures including Tokyo, which was finally released from the declaration on June 20, 2021. The total number of customers served was not adversely affected by the Third Declaration. On July 8, 2021, the government issued the Fourth Declaration applicable to Tokyo during the period from July 12, 2021 to August 12, 2021. During such period, the City of Tokyo had the Summer Olympic games.

On July 30, 2021, the government announced it would add Saitama, Chiba, Kanagawa, and Osaka prefectures to the scope of the declaration from August 2 to 31, 2021. On August 17, 2021, the government announced it would add Ibaraki, Tochigi, Gunma, Shizuoka, Kyoto, Hyogo, and Fukuoka prefectures to the scope of the declaration from August 20 to September 12, 2021, and also announced it would extend the declaration applicable to the six prefectures already under the declaration until September 12, 2021. On August 25, 2021, Aichi, where many of our directly-operated salons in spa facilities were located, and the other seven prefectures were added to the scope from August 27 to September 12, 2021, resulting in a total of 21 prefectures under the Third and Fourth Declarations. On September 9, 2021, the government announced it would extend the declarations to 19 prefectures with exception of two prefectures until September 30, 2021. The Third and Fourth Declarations were fully lifted on September 30, 2021.

A. Operating Results

Comparison of the Results for the Year Ended December 31, 2021 and December 31, 2020

| (in thousands, except change % data and Adjusted EBITDA margin) | Year ended December 31, | | | Change (2021 vs 2020) | | |
|---|-------------------------|-------------|-------------|-----------------------|-------------|----------|
| | 2021(\$) | 2021(¥) | 2020(¥) | \$ | ¥ | % |
| Consolidated Statement of Operations: | | | | | | |
| Revenues: | | | | | | |
| Relaxation Salon | \$ 45,121 | ¥ 5,196,540 | ¥ 3,315,947 | \$ 16,329 | ¥ 1,880,593 | 56.7 % |
| Luxury Beauty | 1,470 | 169,320 | — | 1,470 | 169,320 | 100.0 % |
| Digital Preventative Healthcare | 382 | 43,965 | 25,670 | 159 | 18,295 | 71.3 % |
| Total revenue | 46,973 | 5,409,825 | 3,341,617 | 17,958 | 2,068,208 | 61.9 % |
| Cost of revenues and operating expenses: | | | | | | |
| Cost of revenues | 34,683 | 3,994,414 | 2,912,667 | 9,393 | 1,081,747 | 37.1 % |
| Selling, general and administrative expenses | 15,827 | 1,822,787 | 1,068,537 | 6,549 | 754,250 | 70.6 % |
| Impairment loss on long-lived assets | 549 | 63,211 | 106,501 | (376) | (43,290) | (40.6)% |
| Total cost of revenues and operating expenses | 51,059 | 5,880,412 | 4,087,705 | 15,566 | 1,792,707 | 43.9 % |
| Operating loss | (4,086) | (470,587) | (746,088) | 2,392 | 275,501 | (36.9)% |
| Other income (expenses): | | | | | | |
| Dividend income | — | 2 | 2 | — | — | — % |
| Interest income | 7 | 839 | 1,332 | (4) | (493) | (37.0)% |
| Interest expense | (104) | (11,950) | (13,234) | 11 | 1,284 | (9.7)% |
| Other, net | 584 | 67,215 | 131,299 | (557) | (64,084) | (48.8)% |
| Total other income | 487 | 56,106 | 119,399 | (550) | (63,293) | (53.0)% |
| Income tax expense (benefit) | 5,003 | 576,250 | (87,519) | 5,763 | 663,769 | (758.4)% |
| Net loss | (8,602) | (990,731) | (539,170) | (3,921) | (451,561) | 83.8 % |
| Adjusted EBITDA(1) | \$ (677) | ¥ (77,974) | ¥ (543,456) | \$ 4,194 | ¥ 483,010 | (88.9)% |
| Adjusted EBITDA margin(2) | (1.4)% | (1.4)% | (16.3)% | — | — | 15.1 pt. |

(1) For a reconciliation of Adjusted EBITDA to net loss, the most comparable U.S. GAAP measure, see the following table.

| Reconciliation of non-GAAP measures: (in thousands, except Adjusted EBITDA margin) | Year ended December 31, | | |
|--|-------------------------|-------------|-------------|
| | 2021(\$) | 2021(¥) | 2020(¥) |
| Net loss | \$ (8,602) | ¥ (990,731) | ¥ (539,170) |
| Dividend income and interest income | (7) | (841) | (1,334) |
| Interest expense | 104 | 11,950 | 13,234 |
| Other, net | (584) | (67,215) | (131,299) |
| Income tax expense (benefit) | 5,003 | 576,250 | (87,519) |
| Operating income | (4,086) | (470,587) | (746,088) |
| Depreciation and amortization | 1,096 | 126,243 | 62,290 |
| Losses on sales of directly-owned salons to franchisees | 24 | 2,692 | — |
| Losses on disposal of property and equipment, net, other intangible assets, net and goodwill | 31 | 3,614 | 33,841 |
| Impairment loss on long-lived assets | 549 | 63,211 | 106,501 |
| Stock-based compensation expense | 1,709 | 196,853 | — |
| Adjusted EBITDA | \$ (677) | ¥ (77,974) | ¥ (543,456) |
| Adjusted EBITDA margin | (1.4)% | (1.4)% | (16.3)% |

- (2) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA for a period by total revenue for the same period.

| | Number of Salons | Number of Salons with Data | Total Customers Served | Sales Per Customer | Repeat Ratio | Operation Ratio |
|--------|------------------|----------------------------|------------------------|--------------------|--------------|-----------------|
| 20-Jan | 286 | 222 | 64,914 | JPY 6,164 | 81.8% | 46.7% |
| 20-Feb | 286 | 222 | 61,307 | JPY 6,235 | 83.3% | 45.5% |
| 20-Mar | 288 | 222 | 52,612 | JPY 6,313 | 85.0% | 38.9% |
| 20-Apr | 290 | 224 | 13,381 | JPY 6,209 | 88.0% | 19.7% |
| 20-May | 289 | 222 | 19,451 | JPY 6,244 | 84.5% | 29.0% |
| 20-Jun | 289 | 221 | 51,686 | JPY 6,234 | 81.2% | 40.8% |
| 20-Jul | 288 | 221 | 60,964 | JPY 6,276 | 80.6% | 43.3% |
| 20-Aug | 284 | 221 | 66,464 | JPY 6,351 | 80.4% | 47.5% |
| 20-Sep | 284 | 221 | 64,809 | JPY 6,245 | 80.2% | 48.1% |
| 20-Oct | 291 | 221 | 65,820 | JPY 6,269 | 80.3% | 47.0% |
| 20-Nov | 291 | 220 | 63,993 | JPY 6,312 | 80.7% | 47.6% |
| 20-Dec | 290 | 221 | 64,649 | JPY 6,486 | 82.6% | 48.2% |
| 21-Jan | 302 | 218 | 56,557 | JPY 6,443 | 84.0% | 44.6% |
| 21-Feb | 302 | 218 | 56,370 | JPY 6,443 | 83.0% | 47.6% |
| 21-Mar | 303 | 217 | 62,441 | JPY 6,352 | 81.9% | 47.0% |
| 21-Apr | 301 | 219 | 63,682 | JPY 6,250 | 81.4% | 46.3% |
| 21-May | 313 | 212 | 66,604 | JPY 6,370 | 80.6% | 48.7% |
| 21-Jun | 313 | 219 | 68,069 | JPY 6,350 | 81.2% | 48.6% |
| 21-Jul | 314 | 220 | 70,912 | JPY 6,498 | 81.0% | 48.1% |
| 21-Aug | 315 | 221 | 66,323 | JPY 6,592 | 81.3% | 46.5% |
| 21-Sep | 316 | 221 | 65,130 | JPY 6,428 | 82.0% | 46.7% |
| 21-Oct | 316 | 221 | 68,608 | JPY 6,486 | 83.3% | 48.9% |
| 21-Nov | 316 | 221 | 65,569 | JPY 6,466 | 81.9% | 47.7% |
| 21-Dec | 312 | 221 | 71,173 | JPY 6,634 | 81.7% | 50.5% |

- (1) We define sales per customer as the ratio of total relaxation salon sales to number of treated customers at salons (other than JOYHANDS WELLNESS for which comparative financial and customer data is not available).
- (2) Total customers served excludes JOYHANDS WELLNESS as comparative financial and customer data is not available.

The number of our relaxation salons increased by 22 salons to 312 as of December 31, 2021 from 290 salons as of December 31, 2020. The increase is attributed to the opening of nine net new salons in spa facilities and the acquisition of another brand, SAWAN, which had 13 salons.

Total customers served was 781,438 for the year ended December 31, 2021, compared to 650,050 in the year ended December 31, 2020. The increase is attributed to the recovery from the COVID-19.

Average sales per customer was JPY6,445 (US\$56) in the year ended December 31, 2021, increased from JPY6,286 (US\$55) in the year ended December 31, 2020. The increase is attributed to the promotion of value-added services. We define sales per customer as the ratio of total salon sales to number of treated customers at salons (other than JOYHANDS WELLNESS, SAWAN, and a few other salons for which comparative financial and customer data is not available).

Average repeat ratio, a measure of repeat customers, was 81.9% in the year ended December 31, 2021, consistent with 81.8% in the year ended December 31, 2020. We define the repeat ratio as the ratio of repeat customer visits to total

customer visits in the applicable month or other stated period for all salons for which comparable financial and customer data is available.

Average operation ratio was 47.6% in the year ended December 31, 2021, up from 43.5% in the year ended December 31, 2020. The increase is attributed to the recovery from the COVID-19 impact. We define the operation ratio as the ratio of therapists' in-service time to total therapists' working hours (including stand-by time) for the applicable month or other stated period for all salons for which comparable financial and customer data is available.

The total number of salons with data was 221 in December 2021, no change from December 2020.

Revenues

Revenues derived from our Relaxation Salon Segment were JPY5,196,540 thousand (US\$45,121 thousand) in the year ended December 31, 2021 and JPY3,315,947 thousand (US\$28,792 thousand) in the year ended December 31, 2020.

The revenue from our Relaxation Salon Segment consists of revenue from directly-operated salons and revenue from franchising. In the year ended December 31, 2021, our revenue from directly-operated salons and from franchising increased to JPY3,837,514 thousand (US\$33,320 thousand) and JPY1,359,026 thousand (US\$11,800 thousand), respectively. In the year ended December 31, 2020, our revenue from directly-operated salons and from franchising was JPY2,026,806 thousand (US\$17,598 thousand) and JPY1,289,141 thousand (US\$11,193 thousand), respectively.

The primary factor for the increase in revenues from directly-operated salons between 2020 and 2021 was the increase in the number of customers visits due to the recovery from COVID-19 pandemic and increase in the directly-operated salons through acquisitions and opening of new salons. In the year ended December 31, 2020, our salons had customer visits of 650 thousand (total of directly-operated and franchised salons), while in the same period of 2021, the figure was 781 thousand excluding visitors to our JOYHANDS WELLNESS salons located in spa facilities, SAWAN salons, and a few other salons in which our point-of-sale system is not installed and therefore, comparative financial and customer data is not available). In addition, we introduced a new business model in the fourth quarter of 2021, pursuant to which we sold 12 salons that were previously owned by us to third-party investors. Such investors are required to enter into Service Agreements with us to allow us to manage the operations of the salons and we will charge a fee for the management services to be provided. We recognized revenue from such sales of salons of JPY559,000 thousand (US\$4,854 thousand) in 2021.

The primary reason for the increase in revenues from franchising was also the increase in the number of customers due to the recovery from COVID-19 pandemic as described about revenue from directly-operated salons above. As of December 31, 2021, the number of franchised salons decreased to 124 from 140 salons as of December 31, 2020, due to our acquisitions of franchised salons and franchisees' withdrawal from the business. We believe that the increase in franchise revenue despite the decreased number of franchised salons suggests our customer base has strongly recovered.

We recognize revenue from initial franchise membership on the opening date of the new franchised salons. In addition, our revenue from franchise royalties includes revenues from recurring royalty income, rental income from subleased salon properties, construction of franchised salons, uniforms and training sales.

Revenue from our Preventative Healthcare Segment increased 71.3% for the year ended December 31, 2021 compared to the same period in 2020, as a result of an increase in the number of participants in the Health Guidance Program and launch of Lav[®] app services to consumers. Our MOTHER Bracelet[®] was still at the development stage and as such generated no revenue as of December 31, 2021.

Revenue from our Luxury Beauty Segment was JPY169,320 thousand (US\$1,470 thousand), as a result of the acquisition of 60% of ownership interest in ZACC, which we were required to consolidate the financial results of ZACC as of October 1, 2021.

Cost of Revenues

For the year ended December 31, 2021 and 2020, the cost of revenues was JPY3,994,414 thousand (US\$34,683 thousand) and JPY2,912,667 thousand (US\$25,290 thousand), respectively. Total cost of revenues increased by 37.1% primarily due to the acquisitions of SAWAN and ZACC and opening of new salons, an increase in personnel-related costs due to the increased number of employee/contract-based therapists in order to meet the increased demand during the recovery from COVID-19, and an increase in rent expense due to the increased number of directly-operated salons by acquisitions and new salon development. The cost of revenue as a percentage of revenue was 87.2% during the year ended December 31, 2020 and 73.8% during the year ended December 31, 2021. Total cost of revenues as a percentage of revenue decreased from the prior year as a result of higher revenue levels due to the recovery from COVID-19, which outpaced the increase in cost of revenues.

The cost of revenue from directly-operated salons increased by JPY1,131,938 thousand (US\$9,828 thousand) from JPY2,149,843 thousand (US\$18,667 thousand) in the year ended December 31, 2020 to JPY3,281,781 thousand (US\$28,495 thousand) in the year ended December 31, 2021. The cost of revenue from franchising activities decreased by JPY53,816 thousand (US\$468 thousand) from JPY745,102 thousand (US\$6,470 thousand) in the year ended December 31, 2020 to JPY691,286 thousand (US\$6,002 thousand) in the year ended December 31, 2021. The increase in cost of revenues from directly-operated salons and the corresponding decrease in cost of revenues from franchised salons was due to the acquisition of franchised salons and conversion into directly-operated salons.

Selling, General, and Administration Expenses

For the years ended December 31, 2021 and 2020, the selling, general, and administration expenses were JPY1,822,787 thousand (US\$15,827 thousand) and JPY1,068,537 thousand (US\$9,278 thousand), respectively. The percentage of revenue of selling, general, and administration expenses in the years ended December 31, 2020 and 2021 was 32.0% and 33.7%, respectively. The increase in 2021 was primarily a result of an increase in professional fees in connection with our financial reporting activities as well as financing activities, and an increase in stock compensation expenses in 2021 as compared to 2020.

Impairment Loss on Long-lived Assets

Only Wing Inc. recorded impairment losses of JPY63,211 thousand (US\$549 thousand) in 2021, while in 2020 MEDIROM Healthcare Technologies Inc. and Decolte Wellness Corporation recorded impairment losses of JPY93,589 thousand (US\$813 thousand) and JPY12,912 thousand (US\$112 thousand), respectively, in 2020. The impairment losses in 2021 primarily consist of JPY39,067 thousand (US\$339 thousand) for intangibles primarily related to the trade name of “Bell Epoc” as we decided to rebrand such salon brand into “Re.Ra.Ku” in 2021 and JPY21,011 thousand (US\$182 thousand) for right-of-use asset-operating leases.

Interest Expense

Interest expense slightly decreased in 2021 compared with that of 2020.

Other Income—Net

Total other income decreased in 2021 by JPY63,293 thousand (US\$550 thousand) to JPY56,106 thousand (US\$487 thousand) from JPY119,399 thousand (US\$1,037 thousand). The decrease in other income was primarily due to a decrease in the government subsidies received from JPY111,581 thousand (US\$969 thousand) in 2020 to JPY27,846 thousand (US\$242 thousand) in 2021, partially offset by an increase in other miscellaneous income, net primarily attributable to an increase in foreign exchange income.

Income Tax Expense

Income tax expense for 2021 was JPY576,250 thousand (US\$5,003 thousand), an increase of JPY663,769 thousand (US\$5,763 thousand), from an income tax benefit of JPY87,519 thousand (US\$760 thousand) in 2020. This was

primarily due to the recognition of a full valuation allowance against our deferred tax assets of JPY785,164 thousand (US\$6,817 thousand) as of December 31, 2021, as a result of cumulative losses and our management's assessment that the deferred tax assets may not be realized on a more likely than not basis.

Net Loss and Adjusted EBITDA

Our consolidated net loss in the year ended December 31, 2021 was JPY990,731 thousand (US\$8,602 thousand), or (18.3)% of consolidated revenue, while our consolidated net loss for the comparable period in 2020 was JPY539,170 thousand (US\$4,682 thousand), or (16.1)% of consolidated revenue, as a result of the key factors described above. Our Adjusted EBITDA significantly improved from a loss of (JPY543,456 thousand) (US\$4,719 thousand) to a loss of (JPY77,974 thousand) (US\$677 thousand), resulting in an increase in Adjusted EBITDA margins from (16.3) % in 2020 to (1.4)% in 2021. The key factors behind this improvement include increases in revenues, partially offset by an increase in cost of revenues, and selling, general and administrative expenses, which was partially driven by an increase in stock-based compensation expense of JPY196,853 thousand (US\$1,709 thousand).

Comparison of the Results for the Year Ended December 31, 2020 and December 31, 2019

For a discussion of our results of operations for the fiscal year ended December 31, 2019 compared with the fiscal year ended December 31, 2020, see "Item 5. Operating and Financial Review and Prospects—A. Operating Results" from our Annual Report on Form 20-F for the fiscal year ended December 31, 2020, as filed with the SEC on May 17, 2021.

B. Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements. As of December 31, 2021, we had cash and cash equivalents of JPY370,617 thousand (US\$3,218 thousand). We have generally funded our operations with cash flow from operations and sales of relaxation salons, and, when needed, with borrowings from Japanese financial institutions and other debt or equity financings. Our principal uses for liquidity have been to fund development of new salons, acquisitions of salons or relaxation businesses from franchisees or third parties, our daily operations, and general working capital purposes. In order to accelerate our growth strategy, particularly through the development of our new businesses, acquisitions of franchised or third-party relaxation salons, and/or organic development of new salons, and to fund our general working capital, we plan to continuously sell our existing salons to investors under the new operating model as described in "Our Growth Strategy" in Item 4. Information on the Company.

Going Concern

We expect that our cash and cash equivalents as of December 31, 2021 of JPY370,617 thousand will not be sufficient to fund our operating expenses, capital expenditure requirements, and debt service obligations for the 12 months following the issuance date of the audit opinion for the financial statements contained in this annual report and that we will require additional capital. Management believes that we will be able to raise capital in the short-term through the sales of certain of our owned salons, which represent approximately 53.3% of the total number of our directly-operated salons as of December 31, 2021. We implemented this new business model in the fourth quarter of 2021 and had sold 12 salons that were previously owned by us for aggregate gross proceeds of JPY559 million in the year ended December 31, 2021. From January 2022 to June, 2022, we have entered into 14 salon sales agreements with investors for aggregate gross contractual value of JPY548,895 thousand (US\$4,766 thousand), or net proceeds of JPY356,986 thousand (US\$3,100 thousand). We have identified additional owned salons for sale in 2022 and 2023, and are currently marketing them to investors. We believe this model will provide upfront capital as well as maximize the return on capital investment in our relaxation salon segment, accelerate salon openings by reinvesting the proceeds from the sales of salons, and generate additional income from the salons that were sold to investors and are under management by us. We may also consider additional financings through the issuance and sale of our common shares or through other equity or debt financings, and we may also look into refinancing our existing debt obligations. However, there can be no assurances that we will be successful in securing any debt or equity financing on terms favorable to us, or at all, and it is not possible to predict whether any financing efforts will be successful or if we will obtain the necessary financing.

For more information, see “Recent Developments and Liquidity” in Note 1: Basis of Presentation and Summary of Significant Accounting Policies to our audited consolidated financial statements for the years ended December 31, 2021, 2020 and 2019 included elsewhere in this annual report.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

| (in thousands) | Year ended December 31, | | | |
|--|-------------------------|-------------|-------------|------------|
| | 2021(\$) | 2021(¥) | 2020(¥) | 2019(¥) |
| Net (loss) income | \$ (8,602) | ¥ (990,731) | ¥ (539,170) | ¥ 17,355 |
| Net cash (used in) provided by operating activities | (4,838) | (557,231) | (366,420) | 7,870 |
| Net cash used in investing activities | (729) | (83,936) | ¥ (139,599) | ¥ (37,931) |
| Net cash (used in) provided by financing activities | (3,716) | (427,949) | 1,432,131 | 331,994 |
| Net (decrease) increase of cash and cash equivalents during the period | (9,283) | (1,069,116) | 926,112 | 301,933 |
| Cash and cash equivalents at beginning of period | \$ 12,501 | ¥ 1,439,733 | ¥ 513,621 | ¥ 211,688 |
| Cash and cash equivalents at end of period | \$ 3,218 | ¥ 370,617 | ¥ 1,439,733 | ¥ 513,621 |

Operating Activities

Net cash flows used in operating activities increased from JPY366,420 thousand (US\$3,182 thousand) in the year ended December 31, 2020 to JPY557,231 thousand (US\$4,838 thousand) in the year ended December 31, 2021, primarily due to an increase in net loss and changes in operating assets and liabilities, including an increase in accounts receivable and a decrease in contract liabilities.

Net cash flows provided by operating activities decreased from JPY7,870 thousand (US\$76 thousand) in the year ended December 31, 2019 to negative JPY366,420 thousand (US\$3,551 thousand) in the year ended December 31, 2020, primarily due to decrease in net income, decrease in contract liabilities, decrease in deposits received, while partially offset by decrease in accounts receivable, increase in accrued expenses, increase in lease and guarantee deposits, and add-back of impairment loss on long-lived assets and depreciation and amortization.

Investing Activities

Net cash flows used in investing activities improved from JPY139,599 thousand (US\$ 1,212 thousand) in the year ended December 31, 2020 to JPY83,936 thousand (US\$729 thousand) in the year ended December 31, 2021, primarily due to proceeds from the sales of salons in 2021, partially offset by an increase in acquisitions of businesses, property and equipment, and investment securities. For more details about the classification of sale of salon proceeds, see Note 1. Basis of Presentation and Summary of Significant Accounting Policies, Revenue Recognition to our audited consolidated financial statements for the years ended December 31, 2021, 2020 and 2019 included elsewhere in this annual report.

The total amount of capital investments made in the year ended December 31, 2021 was JPY489,535 thousand (US\$4,251 thousand). The main investments were JPY375,757 thousand (US\$3,263 thousand) for acquisitions of businesses, JPY95,651 thousand (US\$831 thousand) for acquisitions of properties and equipment, and JPY18,127 thousand (US\$157 thousand) for cost additions for internal use software.

Net cash flows used in investing activities increased from JPY37,931 thousand (US\$ 368 thousand) in the year ended December 31, 2019 to JPY139,599 thousand (US\$1,353 thousand) in the year ended December 31, 2020, primarily due to acquisitions of businesses, acquisitions of property and equipment, cost additions to internal use software, partially offset by proceeds from sale of affiliated company securities and payment received on long-term accounts receivable-other, net.

The total amount of capital investment made in the year ended December 31, 2020 was JPY203,320 thousand (US\$1,970 thousand). The main investments were JPY99,195 thousand (US\$961 thousand) for acquisitions of

businesses, JPY73,556 thousand (US\$713 thousand) for acquisition of property and equipment, and JPY30,569 thousand (US\$296 thousand) for additional development of internal use software.

Financing Activities

Net cash flows from financing activities decreased from JPY1,432,131 thousand (US\$12,435 thousand) in 2020 to negative JPY427,949 thousand (US\$3,716 thousand) in 2021, primarily due to the payment of deferred offering costs of JPY261,619 thousand (US\$2,272 thousand) and repayment of long-term borrowings of JPY251,084 thousand (US\$2,180 thousand), partially offset by proceeds from the issuance of common stocks for exercise of over-allotment – net of issuance costs of JPY87,642 thousand (US\$761 thousand).

Net cash flows from financing activities increased from JPY331,994 thousand (US\$3,217 thousand) in 2019 to JPY1,432,131 thousand (US\$13,879 thousand) in 2020, primarily due to proceeds from the initial public offering of JPY1,168,627 thousand (US\$11,325 thousand) in December 2020, proceeds from long-term borrowings of JPY775,000 thousand (US\$7,510 thousand), partially offset by the repayment of long-term loans of JPY206,440 thousand (US\$2,001 thousand), repayment of short-term loans of JPY180,000 thousand (US\$1,744 thousand), payment of deferred offering costs of JPY97,857 thousand (US\$948 thousand), and payment of installment payables related to business acquisitions of JPY33,949 thousand (US\$329 thousand).

Business Loans

As of December 31, 2021, we have 23 business loans outstanding from five Japanese financial institutions. The balance on the outstanding principal as of December 31, 2021 was JPY913,486 thousand (US\$7,932 thousand), with interest rates ranging from 0.21% to 3.98%, and a weighted average interest rate of 0.66%. The loans mature at various dates through 2035. Our Chief Executive Officer and a director, Kouji Eguchi, is a guarantor with respect to 12 of our 23 outstanding loans. Additionally, Kazuyoshi Takahashi, the representative director of ZACC, is a personal guarantor of two of six outstanding loans for ZACC.

In addition, we have a fundamental funding and treasury policy of (i) maintaining a balanced ratio of debt to equity, and (ii) aligning our repayment of loans with our cash flow from business. Our primary use of funds from our loans is capital expenditures on newly opened directly-owned salons. Therefore, we have sought debt financing with longer than three-year terms and equal monthly repayment amounts of principal and interest in order to align our debt repayment schedule with our cash flow from our salon business operations. In order to avoid interest rate risk during the terms of the loans, we usually borrow money with fixed interest rates, and do not enter into hedging arrangements. Since our primary business operations are in Japan, our borrowings have been made to date only in Japanese yen with Japanese financial institutions.

Convertible Note with Matrix

On February 3, 2021, we acquired a convertible note from Matrix Industries, Inc. for JPY52,520 thousand. The convertible note was issued to us in connection with financing the further development and manufacturing of certain modules in the MOTHER Bracelet[®]. The convertible note is unsecured, has an initial maturity of six months, accrues interest at a rate of 5.0% per annum, and will convert automatically at their next qualified financing (total proceeds not less than \$5 million), or at our election in the event of a non-qualified financing (total proceeds less than \$5 million), into the same equity securities as those sold in the equity financing. On July 31, 2022, both parties agreed to extend the maturity date to August 3, 2023.

Cash Commitments from Contractual and Other Obligations

Payments of contractual obligations and commitments will require considerable resources. In our ordinary course of business, we routinely enter into commercial commitments and financial obligations for various aspects of our operations. The following table sets forth the amount of our contractual obligations as of December 31, 2021.

| (in thousands JPY) | Payments due by period: | | | |
|-----------------------------|--------------------------------|-------------------------|------------------|--------------------------|
| | Total | Less than 1 year | 1-3 years | More than 3 years |
| Debt obligations | 913,486 | 162,168 | 284,308 | 467,010 |
| Operating lease obligations | 1,949,351 | 773,383 | 949,355 | 226,613 |
| Other obligations | 156,719 | 150,005 | 6,714 | 0 |
| Total | 3,019,556 | 1,085,556 | 1,240,377 | 693,623 |

* Other obligations include the JPY148,000 thousand to purchase the remaining 40% of ZACC's ownership interest payable in January 2022.

C. Research and Development, Patents and Licenses, etc.

Our research and development activities have been focusing on development of our on-demand health monitoring smartphone application, Lav[®], which has already been released and is capitalized as a software asset. This software asset is amortized over three years. We anticipate incurring expense costs for further development of our MOTHER Bracelet[®], including embedded software development and product design, in 2022.

D. Trend Information

For a discussion of material trends, uncertainties and other events that are reasonably likely to have a material impact on the Company, see "Operating Results" in Item 5.A. and "Liquidity and Capital Resources" in Item 5.B. above.

E. Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. We base our accounting estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. However, actual results may differ from those estimates. Our critical accounting policies are those that materially affect our consolidated financial statements and are subject to complex judgment by our management.

Revenue Recognition

Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

The Company determines revenue recognition through the following steps:

- Step 1: identification of the contract with a customer;
- Step 2: identification of the performance obligations in the contract;
- Step 3: determination of the transaction price;
- Step 4: allocation of the transaction price to the performance obligations in the contract;
- Step 5: recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenue from Directly-Operated Salons

Revenues from directly-operated salons (including sales in the Luxury Beauty segment) are recognized when services are provided at the salons. The promised services for directly operated studios are the services ordered by the end customer from the service menu. The services are provided in one appointment. Therefore, there is only one performance obligation. As the customer simultaneously receives and consumes the benefits of the relaxation services, the revenue is recognized over time using the delivery output method.

Revenue from prepaid cards is recognized when the services are transferred. When value is added to a prepaid card, the Company records a contract liability for its performance obligation to stand ready to transfer services in the future (or transfer funds to franchisee who provides service). When the services or funds are transferred, it derecognizes the contract liability and correspondingly recognizes revenue net of any funds transferred to franchisees. The Company expects to be entitled to a certain amount of breakage and recognizes revenue from breakage proportionately to the redemptions exercised by the customer.

The Company also sells salons that were previously owned to third-party investors. Such investors are required to enter into Service Agreements with the Company to allow it to manage the operations of the salons and the Company will charge a fee for the management services to be provided. As this is a recurring source of income for the Company as part of the larger strategy for the relaxation salons segment, the sale of salons is considered part of the Company's ongoing major or central operations and thus ordinary activities for the Company. Therefore, the Company applies ASC 606 to these contracts. Revenue from the sale of directly-owned salons is comprised of the (i) transfer of the salon assets and business rights and (ii) outsourced salon operation services. The revenue for the transfer of salon assets and business rights is recognized at a point in time when the agreement is signed, and control is transferred to the customer. The consideration for the transfer of the salon is generally collected upfront. There is no significant financing component. The proceeds from the transfer of the salon are presented as cash flows from investing activities on the consolidated statements of cash flow to be consistent with how the cash outflows and inflows are classified related to the salon's purchase and sale. Revenue from the Service Agreement are recognized over the term of the agreement as services are provided. The customer benefits from the integrated service over the contract term and each time increment is substantially the same. Therefore, the outsourced salon operations are considered a "series" of distinct services and are treated as a single performance obligation. The term of the Service Agreement is typically five years. Under the Service Agreement, the Company is reimbursed for the costs of operating the salon and will recognize revenue from the reimbursement of costs using the as-invoiced practical expedient. Furthermore, the Company will receive a certain portion of the excess profit, which is considered variable consideration. This success fee will be constrained until there is greater than 70% probability that there will be no future reversal of revenue.

Franchise Revenue

Franchise revenue is comprised of (i) franchise fees, (ii) royalty income, (iii) staffing service revenue, (iv) sublease revenue, and (v) other franchise revenues. The Company and the franchisee enter into a franchise agreement which sets forth the standard terms and conditions of operating the franchised salon, as well as the fees and royalties over the term of the agreement. In most cases, an outsourcing agreement, is also entered into in conjunction with the franchise agreement that specifies the terms of the sublease arrangement with the franchisee. Upon the franchisee's request, the Company's therapists are dispatched to franchise locations and franchisees must pay dispatch fees in accordance with the dispatched employees' position.

(i) Franchise fees

The Company receives the entire non-refundable initial franchise fees from the franchisee based on franchise agreement. The franchise agreement typically has an initial term of five years. The services for operating the franchised salon provided by the Company under franchise contract are not separately identifiable within the contract, and are interrelated with the franchise right granted in the franchise agreement. As such the services are considered to represent a single performance obligation. The franchise agreement could be renewed prior to expiration by mutual consent and renewal franchise fees are paid by franchisee upon renewal of agreement. Initial franchise fees and expected renewal

franchise fees are recognized as revenue ratably using the time-based input method over the expected average contract life (7-10 years), instead of the contract term, as there is a material right related to renewals.

(ii) Royalty income

The Company collects royalties, an amount calculated by multiplying a certain percentage to gross sales, on a monthly basis. The royalties are subject to the sales- and usage-based royalties constraint and are recognized as revenues based on the monthly royalty earned where such amount is determined on the basis of gross sales made from each salon.

(iii) Staffing service revenue

The Company also generates revenue from providing its therapists to franchisees, which are recognized as revenues based on the total number of working hours of the agency worker during the dispatched period. The Company has elected the 'as-invoiced' practical expedient for its staffing services where the fixed rate per hour is invoiced to the customer.

(iv) Sublease revenue

The Company leases the premises in which the majority of its franchisees operate, where the Company retains the head lease primary obligation, and has entered into corresponding sublease arrangements with franchisees. Revenues from sublease transactions with franchisees are recognized on a straight-line basis over the respective operating lease terms, or at the time of the underlying sales for variable lease payments, in accordance with Accounting Standards Codification ("ASC") 842 Leases ("ASC 842").

(v) Other franchise revenues

Other franchise revenues include other services provided to franchisees separately from the franchise agreements and include advertising, training, studio construction and hiring support. These services are primarily recognized as revenues when services are provided. The Company has elected the 'as-invoiced' practical expedient for its studio construction services where the consideration is invoiced to the customer.

Other Revenues

Other revenues are primarily from the Digital Preventive Healthcare segment, which include revenues from serving implementation of health and wellness programs (Specific Health Guidance Program), and are recognized when services are provided. Health monitoring wearable device service (MOTHER Bracelet[®]) is still at the development stage as of December 31, 2021 and as such generates no revenue.

See Note 13 to the consolidated financial statements under Item 18 for further disclosures required under ASC 606.

Revenue is recognized net of consumption tax collected from customers and subsequently remitted to governmental authorities.

Leases

The Company considers whether a contract is a lease or if it contains a lease element when a contract is executed. If a contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration, such contract is determined to contain a lease element. When the contract contains a lease element, a lease is either classified as operating lease or finance lease when the Company is a lessee, and a sales-type lease or direct financing lease when the Company is a lessor.

The Company, as a lessee, applies the right-of-use model to account for lease transactions. Under the right-of-use model, right-of-use asset and lease liability are recognized at commencement date. The Company measures its lease

liability at present value of future lease payments over the remaining term. The Company uses its incremental borrowing rate for the discount rate to calculate the present value of the payments since it is difficult and not practical to determine the interest rate implicit in the lease. The Company's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Right-of-use asset is initially measured as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. When the Company determines a lease term, if a lease contract contains an option to extend its lease term, the Company is reasonably certain to exercise such option. This is mainly due to the severe economic loss the Company may face for not exercising the right of extension, such as recognizing impairment loss of attached facilities and loss resulting from failure to receive the franchise fee originally obtainable. Therefore, the lease term includes the extended term if the option to extend is exercised. Initial lease terms are generally between 3 and 10 years.

For operating leases, the Company recognizes the minimum lease payments where it is the lessee and the minimum lease income where it is the lessor on a straight-line basis over the lease term, and reflects them as rental expenses and rental revenues, respectively, in the consolidated statements of operations. The Company elected to separate lease and non-lease components and not to recognize leases with an initial term of 12 months or less.

Operating rental expense includes amortization of right-of-use assets and interests on lease liability. Variable lease expenses are primarily linked to sales and are excluded from the measurement of lease liability.

Rental expenses are recorded in the consolidated statements of (loss) income based on the nature of the underlying lease. Rental expense related to leases for directly-operated salons and for leased properties that are subsequently subleased to franchisees are recorded to "Cost of revenues," and rental expense related to leases for corporate offices is recorded to "selling, general and administrative expenses."

Rental income for operating leases on properties subleased to franchisees is recorded to "Franchise revenue". Terms and conditions of the sublease agreements are arranged to pass through lease obligations under head leases to the franchisees. Sublease income is presented on a gross basis on the accompanying consolidated statements of income, as the Company remains the primary obligor.

For newly executed contracts, renewal and revision related to leases, estimates and certain assumptions are used to determine asset value, useful lives, discount rate, lease term, etc. and these have effects on (1) classification of lease, (2) measurement of rental payments and (3) measurement of lease asset. These results may differ if varying estimates and assumptions are used.

Impairment of Long-lived Assets, Excluding Goodwill

The Company assesses impairment of long-lived assets at the individual salon level, as this is the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities. Long-lived assets include property and equipment, right-of-use lease assets, internal use software, and definite-lived intangible assets. The Company reviews the carrying value of long-lived assets for impairment whenever events or circumstances occur that indicate that the carrying value of the assets may not be recoverable. The assets are considered to be impaired when the estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition are less than their carrying values. The impairment loss is measured as the amount by which the carrying value of the asset or asset group exceeds its fair value. In determining the fair value, the Company uses present value techniques, if appropriate, based on the estimated future cash flows expected to result from the use of the assets and their eventual dispositions. During 2021, long-lived assets impairment charges related to continuing operations of JPY3,165 thousand (US\$27 thousand), JPY39,067 thousand (US\$339 thousand) and JPY20,979 thousand (US\$182 thousand) were recorded on property and equipment, other intangible assets and right-of-use asset—operating leases, respectively. During 2020, long-lived assets impairment charges related to continuing operations of JPY36,512 thousand (US\$317 thousand) and JPY69,989 thousand (US\$608 thousand) were recorded on property and equipment and right-of-use asset—operating leases, respectively. During 2019, long-lived assets impairment charges related to continuing operations of JPY9,825 thousand (US\$85 thousand) and JPY34,721 thousand (US\$301 thousand) were recorded on property and equipment and

right-of-use asset—operating leases, respectively. Long-lived assets impairments are recorded in impairment loss on long-lived assets in the consolidated statements of operation.

Income Taxes

Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes and tax loss carryforwards. These deferred taxes are measured using the currently enacted tax rates in effect for the year in which the temporary differences or tax loss carryforwards and tax credits are expected to reverse.

Valuation allowances are provided against deferred tax assets when it is more likely than not that a tax benefit will not be realized. The Company considers all available evidence (both positive and negative) when determining whether a valuation allowance is required, with emphasis on its past operating results, the existence of cumulative losses in the most recent years and its forecast of near-term taxable income. The Company recognizes the financial statement effect of uncertain tax positions when it is more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50% likelihood of being realized upon settlement. Accrued interest and penalties related to the unrecognized tax benefits are included in income tax benefit in the consolidated statements of operations.

Acquisitions

The Company evaluates acquisitions of assets and other similar transactions to assess whether or not the transaction should be accounted for as a business combination or asset acquisition by first applying a screen test to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the screen is met, the transaction is accounted for as an asset acquisition. If the screen is not met, further determination is required as to whether or not we have acquired inputs and processes that have the ability to create outputs which would meet the definition of a business. Significant judgment is required in the application of the screen test to determine whether an acquisition is a business combination or an acquisition of assets.

If an acquisition is determined to be a business combination, the assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill.

If an acquisition is determined to be an asset acquisition, the cost of the asset acquisition, including transaction costs, are allocated to identifiable assets acquired and liabilities assumed based on a relative fair value basis. If the cost of the asset acquisition is less than the fair value of the net assets acquired, no gain is recognized in earnings. The excess fair value of the acquired net assets acquired over the consideration transferred is allocated on a relative fair value basis to the identifiable net assets (excluding non-qualifying assets).

Determining estimated fair value requires a significant amount of judgment and estimates. If assumptions change or errors are determined in our calculations, the fair value could materially change resulting in a change in goodwill or identifiable net assets acquired.

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASC 606”). The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Additionally, the guidance requires improved disclosure to help users of financial

statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance supersedes most current revenue recognition guidance, including industry-specific guidance. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (ASC 606) and Leases (ASC 842) -Effective Dates for Certain Entities*. The standard permits private entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020 to adopt ASC 606 for annual reporting periods beginning after December 15, 2019.

The Company adopted ASU 606 as of January 1, 2020 using the modified retrospective method of adoption for contracts that were not completed as of the adoption and recognized a cumulative-effect adjustment to accumulated deficit of ¥(458,823) thousand. Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. As a result, the Company has changed its accounting policy for revenue recognition of franchise fees as detailed below. The adoption of this new guidance did not have a material impact for revenue recognition of other than franchise fees. The comparative periods have not been adjusted and continue to be reported under the previous revenue recognition guidance. The details of the significant changes are discussed below.

Franchise fees

The adoption of the new revenue recognition guidance changed the timing of recognition of initial franchise fees and renewal franchise fees. Prior to the adoption of ASC 606, the Company recognized revenue under FASB Topic 605 Revenue Recognition (“ASC 605”). Under ASC 605, initial franchise fees are recognized as revenue when the franchised relaxation salon is opened as all material services and conditions related to the initial franchise fee have been substantially performed by the opening date. In addition, under ASC 605, renewal franchise fees are recognized as revenues at the beginning of the renewal term. Under the new revenue recognition guidance, the services for operating the franchised salon provided by the Company under franchise contract are not separately identifiable within the contract and are interrelated with the franchise right granted in the franchise agreement. As such the services are considered to represent a single performance obligation. Therefor initial franchise fees and expected renewal franchise fees are recognized as revenue ratably over the expected average contract life (7 -10 years), instead of the contract term, as there is a material right related to renewals.

Income Taxes

In December 2019, the FASB issued ASU 2019-12 *Income Taxes - Simplifying the Accounting for Income Taxes (Topic 740)*, which simplifies various aspects of the income tax accounting guidance and will be applied using different approaches depending on what the specific amendment relates to and, for public entities, are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company adopted this standard on January 1, 2021. The adoption of this standard did not have a material effect on its financial position or results of operations.

Acquired Contract Assets and Contract Liabilities

In October 2021, the FASB issued ASU 2021-08 *Business Combinations (Topic 805): Accounting for Acquired Contract Assets and Contract Liabilities*, which improves comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination by providing consistent recognition guidance. This standard is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted, including in an interim period, for any period for which financial statements have not yet been issued. The Company early adopted this standard as of January 1, 2021 and applied the adoption to its acquisitions in 2021. The adoption of this standard did not have a material effect on its financial position or results of operations.

Recently Issued Accounting Pronouncements Not Yet Adopted

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires measurement and recognition of expected credit losses for financial assets measured at amortized cost, including accounts receivable, upon initial recognition of that financial asset using a forward-looking expected loss model, rather than an incurred loss model. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. The standard defers the effective dates of ASU 2016-13 for SEC filers that are eligible to be smaller reporting companies, non-SEC filers and all other companies. As a result, Topic 326 is effective for interim and annual reporting periods beginning in 2023. The Company is currently evaluating the impact of adoption of the new standard on its consolidated financial statements.

Investments

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topics 321, 323 and 815*. The new standard addresses accounting for the transition into and out of the equity method and measurement of certain purchased options and forward contracts to acquire investments. The standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2021, with early adoption permitted. Adoption of the standard requires changes to be made prospectively. The Company is currently evaluating the impact of adoption of the new standard on its consolidated financial statements.

Reference Rate Reform

On January 7, 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which refines the scope of Accounting Standards Codification Topic 848, *Reference Rate Reform*, and clarifies some of its guidance as part of the FASB's ongoing monitoring of global reference rate reform activities. The standard permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, computing variation margin settlements, and calculating price alignment interest in connection with reference rate reform activities under way in global financial markets. The Company is currently evaluating the impact of adoption of the new standard on its consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth the names, ages and positions of our executive officers and members of our board of directors and of our board of corporate auditors as of the date of this annual report. The business address of all of persons identified below is 2-3-1 Daiba, Minato-ku, Tokyo 135-0091, Japan.

| Name | Age | Position(s) with our Company |
|--------------------|-----|---|
| Kouji Eguchi | 48 | Chief Executive Officer and Representative Director |
| Fumitoshi Fujiwara | 56 | Chief Financial Officer and Director |
| Akira Nojima | 57 | Independent Director |
| Tomoya Ogawa | 45 | Independent Director |
| Tsukasa Karyu* | 66 | Corporate Auditor |
| Osamu Sato* | 62 | Corporate Auditor |
| Toshiaki Komatsu* | 48 | Corporate Auditor |

* Members of our statutory Board of Corporate Auditors are not members of our Board of Directors.

Biographical Information

The following is a summary of certain biographical information concerning our executive officers, directors, and corporate auditors.

Kouji Eguchi. Mr. Eguchi is the founder of our Company and has served as our Chief Executive Officer and as the representative director since our inception. Prior to founding our Company, he served as the head of the internet division at Carchs Co., Ltd (formerly Jac Holding Co., Ltd.) from April 1998 to April 1999, and as a board member of a subsidiary of Jac Holding Co., Ltd. from 1998 to 2002. Mr. Eguchi has also served as a director of the Association of Japan Relaxation Industry since 2010 and as a director of the Japan Agriculture Kabushiki Kaisha since 2019. Mr. Eguchi received a Bachelor of Science degree in Marine Science and Technology from Tokai University.

Fumitoshi Fujiwara. Mr. Fujiwara has served as our Chief Financial Officer and a director on our board of directors since March 2017. Mr. Fujiwara founded Eaglestone Capital Management and has served as its Chief Executive Officer since 2009. Prior to Eaglestone, Mr. Fujiwara founded AC Capital Inc., a private equity company, in 2003. During his time at AC Capital, Mr. Fujiwara was instrumental in raising JPY20 billion of investment in Tully's Coffee Japan leading up to its initial public offering, and also served as a representative director of AC Capital Inc. from June 2002 to June 2009. Prior to AC Capital, Mr. Fujiwara founded Star Capital Partners, Inc. in 2000 and served as its Chief Executive Officer until October 2001. Prior to Star Capital Partners, Mr. Fujiwara served as an executive partner and director of Spiralstar Japan, Inc. from October 2000 to October 2001. Prior to Spiralstar Japan, Mr. Fujiwara founded other companies and also held numerous positions at Shuwa Corporations and Koei Tecmo Holdings Co., Ltd. (formerly Koei Co. Ltd.), including those in the finance, real estate and investor relations departments. Mr. Fujiwara served as a director of the Japanese Association of Turnaround Professionals from 2003 to 2018, and also as an absentee director at Due Diligence Meister Inc., from October 2000 to March 2009. Mr. Fujiwara received a Bachelor of Arts degree in Law from Meiji Gakuin University.

Akira Nojima. Mr. Akira Nojima is an independent director and has served on our board of directors since April 2020. Mr. Nojima is also currently the Chief Executive Officer of No Track Inc. He is concurrently a professor at May Ushiyama Academy's Hollywood Graduate School, teaching courses including management strategy of beauty salon, creative business theory, salon marketing theory, and bridal business theory. Prior to his current positions, Mr. Nojima worked at Recruit Holdings Co., Ltd. (formerly known as Recruit Co., Ltd.) for 27 years, where he held various positions, including officer in charge of education and learning, branch office president, and media production manager. Mr. Nojima has served as the vice president of Japan Cosmetic Licensing Association and a director of Academy of Beauty Business. Mr. Nojima holds the national license of career consultant and has received the Global Career Development Facilitator (Japan) credential. He is also a licensed workers' health and safety manager in Japan. Mr. Nojima received a Bachelor of Arts degree in Law from Meiji Gakuin University.

Tomoya Ogawa. Mr. Ogawa is an independent director and has served on our board of directors since March 2014. Mr. Ogawa has diverse professional experience, including serving as the general manager of corporate planning at DeNA Inc. from 2010 to 2014, an attorney at the Abe, Ikubo & Katayama Law Firm from 2007 to 2010, and as a management consultant at Monitor Group from 2001 to 2004. Mr. Ogawa served as a director of Akatsuki Inc. until June 2020 and has been serving as an outside director of iSGS Investment Works Inc. since 2016. Mr. Ogawa currently serves as the CEO of Kreation Inc. Mr. Ogawa received a juris doctorate degree from Hitotsubashi University School of Law, and a Bachelor of Arts degree in Economics from the University of Tokyo.

Tsukasa Karyu. Mr. Karyu has served as a corporate auditor of our Company since May 2018. Mr. Karyu founded the Karyu Tsukasa Tax Advisor Office in 2016, where he has been serving as outside tax advisor and providing tax related accounting services to various companies in Japan. Prior to founding Karyu Tsukasa Tax Advisor Office, he held various positions, including as Chief Tax Counselor at the Tokyo National Tax Bureau and its tax offices for 42 years until his retirement in 2016. Mr. Karyu received a Bachelor of Business and Commerce degree from Senshu University.

Osamu Sato. Mr. Sato has served as a corporate auditor of our Company since March 2014. Mr. Sato has served as a professor, director and research manager at Aoyama Gakuin University's School of Business since April 1997. Prior to Aoyama Gakuin University, Mr. Sato was an assistant professor at Aomori Kouritsu University's Economics

Department from April 1993 to March 1997, and an assistant professor at Meijo University’s Commercial Science Department from 1991 to 1993. Mr. Sato has served as an outside director of Sanko Techno Co., Ltd., a Japanese company publicly listed on the Tokyo Stock Exchange, and as a non-executive corporate auditor of I.G.M. Holdings Inc. and Associa Small Amount and Short-Term Insurance Inc. Mr. Sato received a Doctor of Philosophy degree in Economics and Management from Tohoku University.

Toshiaki Komatsu. Mr. Komatsu was elected as a corporate auditor of the Company at the Ordinary General Meeting of Shareholders on March 29, 2021. Previously, Mr. Komatsu worked for Fujitsu Limited, and founded Photocreate Co., Ltd. In 2020. Currently, Mr. Komatsu serves as the chairman of the board of directors at Photocreate Taiwan Corp. Mr. Komatsu received a Master of Science from Graduate School of Engineering Science, Osaka University.

Board Diversity

On August 6, 2021, the SEC approved NASDAQ’s proposal to amend its listing standards to encourage greater board diversity and to require board diversity disclosures for NASDAQ-listed companies. Pursuant to the amended listing standards, our Company, as a “foreign private issuer” with a board of directors of five or fewer members, is required to have at least one diverse board member or explain the reasons for not meeting this objective by the end of 2022. The table below provides certain demographic information regarding our current board of directors:

| Board Diversity Matrix (As of July 1, 2022) | | | | |
|--|---------------|-------------|-------------------|--------------------------------|
| Country of Principal Executive Offices | Japan | | | |
| Foreign Private Issuer | Yes | | | |
| Disclosure Prohibited under Home Country Law | No | | | |
| Total Number of Directors | 4 | | | |
| | Female | Male | Non-Binary | Did Not Disclose Gender |
| Part I: Gender Identity | | | | |
| Directors | — | 4 | — | — |
| Part II: Demographic Background | | | | |
| Underrepresented Individual in Home Country Jurisdiction | | | — | |
| LGBTQ+ | | | — | |
| Did Not Disclose Demographic Background | | | — | |

While we have not adopted a formal board diversity policy, we are mindful of the benefit that diversity can provide in maximizing the effectiveness and decision-making abilities of our board. In this regard, we are committed to increasing diversity on our board. In searches for new director candidates, we will consider the level of diversity, including representation of underrepresented individuals and female representation, on the board, which will be one of several factors used in the search process. Further, we will continuously monitor the level of diversity and recruit qualified diverse candidates, including underrepresented individuals and/or female candidates, as part of our overall recruitment and selection process to fill openings, as the need arises, through vacancies, growth or otherwise.

B. Compensation

Compensation of our Directors and Corporate Auditors

In accordance with the Companies Act and our articles of incorporation, the amount of compensation for our directors and corporate auditors is decided by first setting the maximum amount of total compensation for all of our directors and corporate auditors through a resolution adopted by our shareholders at a shareholders meeting. The representative director authorized by our board of directors and our board of directors then decide on the amount of compensation for each director based on certain criteria established by our Company, and the amount of compensation for each corporate auditor is decided through discussions among the corporate auditors.

In December 2016, our shareholders approved an aggregate compensation allowance of no more than JPY200,000,000 per year for our directors, and no more than JPY50,000,000 per year for our corporate auditors.

Remuneration to our directors and corporate auditors is comprised of base compensation. In the fiscal year ended December 31, 2021, we paid an aggregate of approximately JPY61,366,000 (US\$532,829) to our directors, and an aggregate of approximately JPY6,000,000 (US\$52,097) to our corporate auditors. We granted stock options but did not provide discretionary bonuses during the fiscal year ended December 31, 2021. We have not set aside pension, retirement, or other benefits for our directors, corporate auditors or executive officers.

The following table summarizes the total amount of remuneration paid to each category of our directors and corporate auditors in fiscal year 2021, including by the type of remuneration and the number of persons in each category.

| (in thousands, except stock options and number of persons in category) Category of directors and corporate auditors | Total amount of remuneration | | Base compensation | | Number of persons in category |
|--|------------------------------|--------|-------------------|--------|-------------------------------|
| Executive directors(1) | ¥ | 61,366 | ¥ | 61,366 | 3 |
| Outside directors(2) | | — | | — | 2 |
| Full-time corporate auditor(3) | ¥ | 4,800 | ¥ | 4,800 | 1 |
| Outside corporate auditors(4) | ¥ | 1,200 | ¥ | 1,200 | 2 |

- (1) Consist of Messrs. Kouji Eguchi, Fumitoshi Fujiwara and Ms. Miki Aoki, a former director.
- (2) Our outside directors received no direct payments in 2021. Messrs. Ogawa and Nojima receive indirect payments of JPY300,000 (US\$2,604) and JPY50,000 (US\$434) per month from us through Kabushiki Kaisha LTW and Kabushiki Kaisha No Track, respectively, as consulting fees.
- (3) Our full-time corporate auditor was Minekazu Shimada who retired in March 2022.
- (4) Consists of Tsukasa Karyu and Osamu Sato. We indirectly pay Mr. Sato's compensation through Ebis 20 Co., Ltd., where he works on a part-time basis.

Employees Stock Options

We have granted stock options to purchase our common shares, as authorized by our shareholders in December 2015, December 2016, and August 2020. The purpose of these grants is to enable our directors, corporate auditors, and employees to share in our success and to reinforce a corporate culture that aligns employee interests with those of our shareholders. Stock options granted prior to 2015 have all expired without having been exercised. Our stock option grants generally prohibit transfers of options. A stock option holder forfeits such stock options if they are no longer a director, corporate auditor, or employee of our Company, except under limited circumstances or as otherwise determined by our board of directors. The following table summarizes the stock options we have issued since 2015.

| Name of Issuance | Issuance Date | Expiration Date | Exercise Price (per share) | Number of Common Shares Granted |
|------------------|---------------|-----------------|----------------------------|---------------------------------|
| Fifth Series | 12/24/2015 | 12/21/2025 | ¥ 400 | 285,500 |
| Seventh Series | 12/22/2016 | 12/21/2026 | ¥ 2,000 | 174,000 |
| Eighth Series | 10/30/2020 | 9/30/2026 | ¥ 2,000 | 150,000 |
| Ninth Series(1) | 10/30/2020 | 9/30/2024 | ¥ 128 | 300,000 |

- (1) The exercise can take place only when the Company achieves an annual consolidated revenue target of JPY3,908,264 thousand (US\$33,935 thousand) under U.S. GAAP, with the revenue from sublease of franchised salon properties being recalculated on a net basis for satisfying this condition, in any of our 2020, 2021 or 2022 fiscal years.

Of the stock options granted pursuant to the above-mentioned grants, stock options to acquire an aggregate of 361,500 of our common shares have been extinguished, and stock options to acquire an aggregate of 599,800 of our common shares remain outstanding as of December 31, 2021. For additional details, see Notes 10 to our audited consolidated financial statements as of and for the years ended December 31, 2021 and 2020 included elsewhere in this annual report.

The following table summarizes the outstanding stock options with respect to our common shares that we have granted to our directors and corporate auditors:

| Name | Grant Date | Beginning of Exercise Period | End of Exercise Period | Exercise Price (per share) | Total Number of Stock Options Granted | Total Number of Common Shares Underlying Stock Options |
|--------------------|------------|------------------------------|------------------------|----------------------------|---------------------------------------|--|
| Tomoya Ogawa | 12/24/2015 | 12/22/2017 | 12/21/2025 | ¥ 400 | 25 (1) | 12,500 |
| Fumitoshi Fujiwara | 12/22/2016 | 12/31/2021 (3) | 9/30/2024 | ¥ 128 | 40,000 (2) | 40,000 |
| Kouji Eguchi | 10/30/2020 | 10/1/2021 | 9/30/2026 | ¥ 2,000 | 150,000 (2) | 150,000 |

- (1) Each stock option is exercisable for 500 common shares.
- (2) Each stock option is exercisable for one common share.
- (3) The exercise can take place only when the Company achieves an annual consolidated revenue target of JPY3,908,264 thousand (US\$33,934 thousand) under U.S. GAAP, with the revenue from sublease of franchised salon properties being recalculated on a gross basis for satisfying this condition, in any of our 2020, 2021 or 2022 fiscal years.

In December 2015, Mr. Eguchi was granted 3,000 stock options (each option exercisable for 500 common shares). Mr. Eguchi has subsequently waived his rights to the grant of the 3,000 stock options, which are no longer outstanding.

C. Board Practices

Our board of directors has the ultimate responsibility for the administration of our affairs. Our board of directors meets no less than once every three months. Under the Companies Act and our articles of incorporation, our Company must have at least three, but no more than ten, directors on our board of directors. Our board of directors is currently comprised of five directors. Directors are typically nominated at the board level and are elected at general meetings of the shareholders. The term of office of any director expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within one year after such director's election to office. Our directors may, however, serve any number of consecutive terms.

Our board of directors appoints from among its members one or more representative directors, who serve as head administrator(s) over our Company's affairs and represent our Company in accordance with the resolutions of our board of directors. Mr. Kouji Eguchi, our Chief Executive Officer and a director, is currently the sole representative director of our Company. Our board of directors may appoint from among its members a chairman, a president or one or more deputy presidents, senior managing directors, or managing directors.

Under our Company's current corporate structure, the Companies Act does not require our board of directors to have any independent directors. However, our board of directors is currently comprised of four directors, two of which (Messrs. Akira Nojima and Tomoya Ogawa), are considered "independent", as determined in accordance with the applicable NASDAQ rules, and also satisfy the requirements for an outside (or independent) director under the Companies Act.

Board of Corporate Auditors

As permitted under the Companies Act, we have elected to structure our corporate governance system as a company with a separate board of corporate auditors instead of an audit committee of our board of directors. Our articles of incorporation provide for not more than three corporate auditors. Corporate auditors are typically nominated at the board level and are elected at general meetings of shareholders by a majority of shareholders entitled to vote, where a quorum is established by shareholders holding one-third or more of the voting rights of those who are entitled to vote are present at the shareholders' meeting. The normal term of office of any corporate auditor expires at the close of the annual general meeting of shareholders held with respect to the last fiscal year ended within four years after such corporate auditor's election to office. Our corporate auditors may, however, serve any number of consecutive terms. Corporate auditors may be removed by a special resolution of a general meeting of shareholders.

Our corporate auditors are not required to be certified public accountants. Our corporate auditors may not concurrently serve as directors, employees or accounting advisors (*kaikei sanyo*) of our Company or any of our subsidiaries or serve as corporate officers of our subsidiaries. Under the Companies Act, at least one-half of the corporate auditors of a company must be persons who satisfy the requirements for an outside corporate auditor, and at least one of the corporate auditors must be a full-time corporate auditor.

The function of our board of corporate auditors and each corporate auditor is similar to that of independent directors, including those who are members of the audit committee of a U.S. public company. Each corporate auditor has a statutory duty to supervise the administration by the directors of our affairs, to examine our financial statements and business reports to be submitted by a representative director at the general meetings of shareholders, and to prepare an audit report. Our corporate auditors are obligated to participate in meetings of our board of directors and, if necessary, to express their opinion at such meetings, but are not entitled to vote. Our corporate auditors must inspect the proposals, documents and any other materials to be submitted by our board of directors to the shareholders at the shareholders' meeting. If a corporate auditor finds a violation of statutory regulations or our articles of incorporation, or another significant improper matter, such auditor must report those findings to the shareholders at the shareholders' meeting.

Furthermore, if a corporate auditor believes that a director has engaged in, or is likely to engage in, misconduct or acts that are significantly improper, or that there has been a violation of statutory regulations or our articles of incorporation, the corporate auditor: (i) must report that fact to our board of directors; (ii) can demand that a director convene a meeting of our board of directors; and (iii) if no such meeting is convened in response to the demand, can convene the meeting under the corporate auditor's own authority. If a director engages in, or is likely to engage in, an activity outside the scope of the objectives of our Company or otherwise in violation of laws or regulations or our articles of incorporation, and such act is likely to cause significant damage to our Company, then a corporate auditor can demand that the director cease such activity.

Our board of corporate auditors has a statutory duty to prepare an audit report based on the audit reports issued by the individual corporate auditors and submit such audit reports to a relevant director and, in the case of audit reports related to financial statements, the independent auditors of our Company each year. A corporate auditor may note an opinion in an audit report issued by our board of corporate auditors, if the opinion expressed in such corporate auditor's individual audit report is different from the opinion expressed in the audit report issued by our board of corporate auditors. Our board of corporate auditors is empowered to establish the audit principles, the method of examination by our corporate auditors of our affairs and financial position, and any other matters relating to the performance of our corporate auditors' duties.

Additionally, our corporate auditors must represent our Company in: (i) any litigation between our Company and a director; (ii) dealing with shareholders' demands seeking a director's liability to our Company; and (iii) dealing with notices of litigation and settlement in a derivative suit seeking a director's liability to our Company. A corporate auditor can file court actions relating to our Company within the authority of our corporate auditors, such as an action to nullify the incorporation of our Company, the issuance of shares, or a merger, or to cancel a resolution at a shareholders' meeting.

Risk Management

One of the key functions of our board of directors is informed oversight of our risk management process. Our board of directors does not have a standing risk management committee, but rather administers this oversight function directly through our board of directors as a whole, as well as through various standing committees of our board of directors that address risks inherent in their respective areas of oversight. In particular, our board of directors is responsible for monitoring and assessing strategic risk exposure, including risks associated with cybersecurity and data protection, and our board of corporate auditors is responsible for overseeing and evaluating our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. Our board of corporate auditors also reviews legal, regulatory and compliance matters that could have a significant impact on our financial statements. While each standing committee of our board of directors will be responsible for evaluating certain risks and overseeing the management of such risks, our entire board of directors will be regularly informed through committee reports about such risks.

Limitation of Liability of Directors and Corporate Auditors

In accordance with Article 27 and Article 35 of our articles of incorporation, and pursuant to the provisions of Article 427 of the Companies Act, we are authorized to enter into agreements with our non-executive directors and corporate auditors, respectively, to limit his or her liability to our Company for any losses or damages arising from the conduct specified under Article 423 of the Companies Act; provided, that, the amount of such limited liability is either: (i) an amount set out in an agreement which shall be not less than one million (1,000,000) yen, or (ii) the amount stipulated in applicable laws and regulations, whichever is higher. Messrs. Akira Nojima and Tomoya Ogawa are considered independent, non-executive directors within the meaning of the Companies Act. We have not, however, executed any such limitation of liability agreements with any of our non-executive directors or corporate auditors.

Our articles of incorporation include limitation of liability provisions for independent directors and corporate auditors, pursuant to which our board of directors can authorize our Company to exempt the independent directors and corporate auditors from liabilities arising in connection with any failure to execute their respective duties in good faith or due to simple negligence (excluding gross negligence and willful misconduct), within the limits stipulated by applicable laws and regulations, including Article 426, Paragraph 1 of the Companies Act.

D. Employees

Most of our Company's group employees are employed by our wholly-owned subsidiary, Medirom Human Resources Inc. As of December 31, 2021, Medirom Human Resources Inc. had 257 employees on a full-time basis, 364 employees on a part-time basis, and 64 employees on a fixed-term basis. As of December 31, 2021, our Company had 49 employees on a full-time basis, no employees on a part-time basis and a fixed-term basis. Our Company is not currently, and has not in the past, been unionized. As such, neither we nor our franchisees are required to engage in collective bargaining procedures with any unions under Japanese labor laws.

We do not use contract employees hired by any third-party agencies in the relaxation salon. We dispatch therapists and other employees to our franchisees from time to time and receive a fee for such services. Our employees are paid on a salary basis. We also offer an incentive program whereby relaxation therapists earn points for various reasons such as continuing as a Medirom relaxation therapist for certain designated periods of time or taking additional relaxation courses at our College. As the number of collected points increase, the relaxation therapist's salary also increases.

E. Share ownership

For information regarding the share ownership of our directors and executive officers, please see "Item 7.A. Major Shareholders."

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table and accompanying footnotes set forth certain information with respect to the beneficial ownership of our common shares as of December 31, 2021:

- each of our named executive officers, directors, and corporate auditors;
- all of our named executive officers, directors, and corporate auditors as a group; and
- each person or entity (or group of affiliated persons or entities) known by us to be the beneficial owner of 5% or more of our common shares.

To our knowledge, each shareholder named in the table has sole voting and investment power with respect to all of our common shares shown as “beneficially owned” (as determined by the rules of the SEC) by such shareholder, except as otherwise set forth in the footnotes to the table. The SEC has defined “beneficial” ownership of a security to mean the possession, directly or indirectly, of voting power and/or investment power.

The percentages reflect beneficial ownership (as determined in accordance with Rule 13d-3 under the Exchange Act).

The calculations of percentage ownership in the table below are based on (i) 5,482,300 common shares issued and outstanding, and (ii) 599,800 common shares that are immediately issuable upon exercise of certain stock options as of December 31, 2021. Except as noted in the footnotes to the table below, the address for all of the shareholders in the table below is c/o MEDIROM Healthcare Technologies Inc., 2-3-1 Daiba, Minato-ku, Tokyo 135-0091, Japan.

| Name of Beneficial Owner | Common Shares Beneficially Owned(1) | |
|--|-------------------------------------|------------|
| | Shares | Percentage |
| Named Executive Officers, Directors, and Corporate Auditors: | | |
| Kouji Eguchi(2) | 2,034,960 | 37.12% |
| Fumitoshi Fujiwara (3) | 80,000 | 1.46% |
| Akira Nojima | — | * |
| Tomoya Ogawa(4) | 41,000 | * |
| Tsukasa Karyu | — | * |
| Osamu Sato | 17,500 | * |
| Minekazu Shimada | — | * |
| All named executive officers, directors, and corporate auditors as a group (seven persons) | 2,173,460 | 39.65% |
| 5% or more Shareholders: | | |
| Kouji Eguchi(2) | 2,034,960 | 37.12% |

* Represents less than 1% of the number of common shares outstanding.

- (1) Beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act. A person is deemed to be the beneficial owner of any common shares if that person has or shares voting power or investment power with respect to those shares or has the right to acquire beneficial ownership at any time within 60 days.
- (2) Mr. Kouji Eguchi also holds one Class A Share with special voting rights. See “Item 10.B. Memorandum and Articles of Association.” The aggregate number of common shares beneficially owned by Mr. Kouji Eguchi reflects (i) 1,884,960 common shares, and (ii) an aggregate of 150,000 common shares that may be issued upon exercise of stock options, held by Mr. Eguchi.

- (3) The aggregate number of common shares beneficially owned by Mr. Fumitoshi Fujiwara reflects (i) 40,000 common shares, and (ii) an aggregate of 40,000 common shares that may be issued upon exercise of stock options, held by Mr. Fujiwara.
- (4) The aggregate number of common shares beneficially owned by Mr. Tomoya Ogawa reflects (i) 28,500 outstanding common shares, and (ii) an aggregate of 12,500 common shares that may be issued upon exercise of stock options, held by Mr. Ogawa.

As of December 31, 2021, we have 38 common shareholders, none of which are record holders in the United States.

We are not aware of any arrangement that may, at a subsequent date, result in change of control of our Company.

For additional information about our principal shareholders, please see “Item 7.B. Related Party Transactions.”

B. Related Party Transactions

The following includes summaries of transactions or agreements, during our last three fiscal years, to which we have been a party, in which the amount involved in the transaction exceeded US\$120,000, and in which any of our directors, corporate auditors, executive officers or beneficial owners of more than 5% of our capital stock, affiliates of our directors, corporate auditors, executive officers and holders of more than 5% of our voting securities or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than equity and other compensation, termination, change in control and other similar arrangements, which are described under “Management” and “Principal Shareholders.”

Arrangements with our Founder

Mr. Eguchi is a guarantor for twelve bank loans on behalf of our Company. As of December 31, 2021, the outstanding amount of loans guaranteed by the CEO was JPY314,700,000 (US\$2,732,482).

In June 2020, we entered into a Trademark License Agreement with Mr. Eguchi, pursuant to which Mr. Eguchi has granted us a non-exclusive, non-royalty bearing license to use CLP CARE LIFE PLANNER® in connection with the operation of our franchised salons in Japan. We utilize this mark in our franchise agreements to define therapists who have completed a required technique training program. The term of the Trademark License Agreement will expire upon the expiration of the trademark registration on October 24, 2023. We may not grant a sub-license to use the trademark to a third party without the prior written consent of Mr. Eguchi. Either party may terminate the Trademark License Agreement without notice in the event of a breach by the other party of its obligations (without cure) under the agreement, bankruptcy, reorganization, insolvency, dissolution, fraud, and criminal acts, among others, as set forth in further detail in the Trademark License Agreement.

Agreements with Directors, Corporate Auditors, and Officers

Tomoya Ogawa, an independent director of our Company, is the sole owner of Kabushiki Kaisha LTW, a Japanese company. Kabushiki Kaisha LTW currently receives JPY250,000 (US\$2,171) per month (plus 10% consumption tax) from our Company as a consulting fee. As of December 31, 2021 and 2020, the outstanding accrued expenses to Kabushiki Kaisha LTW are JPY330 thousand and JPY110 thousand (included in accrued expenses), respectively.

Akira Nojima, an independent director of our Company, is the sole owner of Kabushiki Kaisha No Track, a Japanese company. Kabushiki Kaisha No Track currently receives JPY50,000 (US\$434) per month (plus 10% consumption tax) from our Company as a consulting fee. As of December 31, 2021 and 2020, the outstanding accrued expenses to Kabushiki Kaisha No Track are JPY110 thousand and JPY110 thousand, respectively.

Osamu Sato, a corporate auditor of our Company, is a part-time employee of Ebis 20 Co., Ltd., a Japanese company. Ebis 20 Co., Ltd. currently receives JPY100,000 (US\$868) per month (plus 10% consumption tax) from our Company as

a consulting fee. As of December 31, 2021 and 2020, the outstanding accrued expenses to Ebis 20 Co., Ltd are JPY110 thousand and JPY110 thousand, respectively.

ZACC Loan Guarantees

Mr. Kazuyoshi Takahashi, the representative director of ZACC, is the guarantor for four bank loans on behalf of ZACC, which were borrowed by ZACC from two banks prior to the acquisition of ZACC. As of December 31, 2021, Mr. Takahashi's guarantee has not been released and the outstanding amount of the loans guaranteed by Mr. Takahashi was JPY99,706 thousand (US\$866 thousand).

Underwriting of our Corporate Bonds by ZACC Representative Director – Recent Event

Mr. Kazuyoshi Takahashi, the representative director of ZACC, underwrote the Company's corporate bond of JPY50,000 thousand (US\$434 thousand) issued on May 10, 2022. The maturity date was August 15, 2022 at an annual interest rate of 5% without any collateral. On August 15, 2022, he underwrote the Company's second corporate bond of JPY40,000 thousand (US\$347 thousand) to be matured on December 31, 2022, with all the other conditions substantially the same as the first bond.

For further information regarding the issuance of our corporate bonds, please see Note 20. Subsequent Events to our audited consolidated financial statements for the years ended December 31, 2021, 2020 and 2019 included elsewhere in this annual report.

There is no family relationship among any of the directors, corporate auditors and officers.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements and Financial Statements Schedules in Item 18 of this annual report.

B. Significant Changes

See Note 20 to the Consolidated Financial Statements in Item 18 for a disclosure of events subsequent to year end and prior to the date of filing.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ADSs have been listed on The Nasdaq Capital Market under the symbol "MRM" since December 29, 2020. Prior to that date, there was no public trading market for our ADSs.

B. Plan of Distribution

Not applicable.

C. Markets

See “Item 9.C. Offer and Listing Details” above.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The information set forth in Exhibit 2.3 “Description of Securities” to the Company’s Annual Report on Form 20-F filed with the SEC on May 17, 2021 is incorporated herein by reference.

C. Material Contracts

Development and Production Agreement

In 2019, we acquired a minority interest in Matrix, a developer of a thermoelectric generator and boost converter. In furtherance of our relationship, we entered into a production and development agreement with Matrix on August 9, 2020 to develop and manufacture a health monitoring wearable device called MOTHER Bracelet[®]. Our MOTHER Bracelet[®] fitness device is designed to track and collect the health data of the wearer, such as calorie consumption, activity and sleep patterns. The agreement grants us exclusivity as to third parties in the Asia territory, except for certain prior contractual obligations of Matrix, for use of their thermoelectric power module and software in our MOTHER Bracelet[®] wearable device for one year following receipt of the sample product, or end of 2022, whichever is earlier.

D. Exchange Controls

The Foreign Exchange and Foreign Trade Act and related regulations (which we refer to as “FEFTA”) regulate certain transactions involving a “Non-Resident of Japan” or a “Foreign Investor”, including “inward direct investments” by Foreign Investors, and payments from Japan to foreign countries or by residents of Japan to Non-Residents of Japan.

“Non-Residents of Japan” are defined as individuals who are not residents in Japan and corporations whose principal offices are located outside of Japan. Generally, branches and other offices of Japanese corporations which are located outside of Japan are regarded as Non-Residents of Japan, and branches and other offices of non-resident corporations which are located within Japan are regarded as residents of Japan.

“Foreign Investors” are defined as:

- individuals who are Non-Residents of Japan;

- entities which are organized under the laws of foreign countries or whose principal offices are located outside of Japan;
- companies of which 50% or more of their voting rights are held by individuals who are Non-Residents of Japan and/or corporations which are organized under the laws of foreign countries or whose principal offices are located outside of Japan;
- partnerships engaging in investment activities and investment limited partnerships (including partnerships formed under the laws of foreign countries) which satisfy one of the following conditions:
 - 50% or more of contributions to the partnership were made by (i) individuals who are Non-Residents of Japan, (ii) entities which are organized under the laws of foreign countries or whose principal offices are located outside of Japan, (iii) companies of which 50% or more of their voting rights are held by individuals who are Non-Residents of Japan and/or corporations which are organized under the laws of foreign countries or whose principal offices are located outside of Japan, (iv) entities a majority of whose officers, or officers having the power of representation, are individuals who are Non-Residents of Japan, or (v) partnerships a majority of whose executive partners fall within items (i) through (iv) above;
 - a majority of the executive partners of the partnership are (A) any persons or entities who fall within items (i) through (v) above, (B) any partnerships to which 50% or more of contribution were made by persons or entities who fall within items (i) through (v) above, or (C) limited partnerships a majority of whose executive partners fall within Non-Residents of Japan, persons or entities who fall within (A) or (B), or any officers of entities which fall within (A) or (B); and
- entities, a majority of whose officers are individuals who are Non-Residents of Japan.

Under FEFTA, among other triggering events, a Foreign Investor who desires to acquire shares in a Japanese company which is not listed on any stock exchange in Japan, is subject to a prior filing requirement, regardless of the acquired amount of shares, if such Japanese company engages any business in certain industries related to the national security. Such industries include, among other things, manufacturing in relation to weapons, aircraft, space, and nuclear power, as well as agriculture, fishery, mining, and utility service. Additionally, due to today's growing awareness of cybersecurity, the recent amendment to FEFTA expanded the scope of the prior filing requirement, broadly covering industries related to data processing businesses and information and communication technologies service. Since our Digital Preventative Healthcare Segment could potentially involve the processing of data by collecting, processing, and retaining customers' health information, direct acquisition of our common shares, rather than ADSs, by a Foreign Investor could be subject to the prior filing requirement under FEFTA.

A Foreign Investor wishing to acquire or hold our common shares directly will be required to make a prior filing with the relevant government authorities through the Bank of Japan and wait until clearance for the acquisition is granted by the applicable governmental authorities. Without such clearance, the Foreign Investor will not be permitted to acquire or hold our common shares directly. Once clearance is obtained, the Foreign Investor may acquire shares in the amount and during the period indicated in the filing. While the standard waiting period to obtain clearance is 30 days, the waiting period could be expedited to two weeks, at the discretion of the applicable governmental authorities, depending on the level of potential impact to national security.

In addition to the prior filing requirement above, when a Foreign Investor who completed a prior filing and received clearance has acquired shares in accordance with the filed information, such Foreign Investor will be required to make a post-acquisition notice filing to report the completed purchase. Such post-acquisition notice filing must be made no later than 45 days after the acquisition of the shares.

Under FEFTA, in each case where a resident of Japan receives a single payment of more than JPY30 million from a Non-Resident of Japan for a transfer of shares in a Japanese company, such resident of Japan is required to report each receipt of payment to the Minister of Finance of Japan.

E. Taxation

The following description is not intended to constitute a complete analysis of all tax consequences relating to the ownership or disposition of our common shares, including the ADSs. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any local, state, foreign, including Japan, or other taxing jurisdiction.

Taxation in Japan

Generally, a non-resident of Japan or non-Japanese entity (which we refer to as a “Non-Resident Holder”) is subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits are not subject to Japanese income tax. A conversion of retained earnings or legal reserve (but not additional paid-in capital, in general) into stated capital (whether made in connection with a stock split or otherwise) is not treated as a deemed dividend payment to shareholders for Japanese tax purposes. Thus, such a conversion does not trigger Japanese withholding taxation (Article 2(16) of the Japanese Corporation Tax Law and Article 8(1)(xiii) of the Japanese Corporation Tax Law Enforcement Order).

Pursuant to the Convention Between the Government of the United States of America and the Government of Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (which we refer to as the “Treaty”), dividend payments made by a Japanese corporation to a U.S. resident or entity, unless the recipient of the dividend has a “permanent establishment” in Japan, and the common shares or ADSs with respect to which such dividends are paid are effectively connected with such “permanent establishment”, are generally subject to a withholding tax at rate of: (i) 10% for portfolio investors who are qualified U.S. residents eligible for benefits of the Treaty; and (ii) 0% (*i.e.*, no withholding) for pension funds which are qualified U.S. residents eligible for benefits of the Treaty, provided that the dividends are not derived from the carrying on of a business, directly or indirectly, by such pension funds. Japan is a party to a number of income tax treaties, conventions and agreements, (which we refer to collectively as the “Tax Treaties”), whereby the maximum withholding tax rate for dividend payments is set at, in most cases, 15% for portfolio investors who are Non-Resident Holders. Specific countries with which such Tax Treaties have been entered into include Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Republic of Singapore, and Spain. Japan’s income tax treaties with Australia, Belgium, France, The Netherlands, Sweden, Switzerland and the United Kingdom have been amended to generally reduce the maximum withholding tax rate to 10%.

On the other hand, unless one of the applicable Tax Treaties reducing the maximum rate of withholding tax applies, the standard tax rate applicable to dividends paid with respect to listed shares, such as those paid by our Company on shares or ADSs, to Non-Resident Holders is 15% under the Japanese Income Tax Law, except for dividends paid to any individual shareholder who holds 3% or more of the issued shares, in which case the applicable rate is 20% (Article 182(2) of the Japanese Income Tax Law and Article 9-3(1)(i) of the Japanese Special Tax Measures Law, including its relevant temporary provision for these withholding rates). On December 2, 2011, the “Special measures act to secure the financial resources required to implement policy on restoration of the East Japan Earthquake” (Act No. 117 of 2011) was promulgated and special surtax measures on income tax and withholding tax were introduced thereafter to fund the restoration effort for the earthquake. Income tax and withholding tax payers need to pay a surtax, calculated by multiplying the standard tax rate by 2.1% for 25 years starting from January 1, 2013 (which we refer to as “Surtax”). As a result, the withholding tax rate applicable to dividends paid with respect to listed shares to Non-Resident Holders increased to 15.315% (which we refer to as “Withholding Tax Rate”) which is applicable for the period from January 1, 2014 until December 31, 2037.

Taking this Withholding Tax Rate into account, the treaty rates such as the 15% rate (or 10% for eligible U.S. residents subject to the Treaty and/or eligible residents subject to other similarly renewed treaties mentioned above) apply, in general, except for dividends paid to any individual holder who holds 3% or more of the total issued shares, in which case the applicable rate is 20.42% (standard tax rate of 20% imposed by Surtax). The treaty rate normally overrides the domestic rate, but due to the so-called “preservation doctrine” under Article 1(2) of the Treaty, and/or due to Article 3-2 of the Special Measures Law for the Income Tax Law, Corporation Tax Law and Local Taxes Law with respect to the Implementation of Tax Treaties, if the tax rate under the domestic tax law is lower than that promulgated

under the applicable income tax treaty, then the domestic tax rate is still applicable. Currently, the tax rate under the applicable tax treaty is lower than that under the domestic tax law and thus the treaty override treatment applies. As such, the tax rate under the Treaty applies for most holders of shares or ADSs who are U.S. residents or entities. In the case where the treaty rate is applicable, no Surtax is imposed, but in order to enjoy the lower treaty rate, the taxpayer must file a treaty application in advance with the Japanese National Tax Agency through our Company. Gains derived from the sale outside Japan of a Japanese corporation's shares or ADSs by Non-Resident Holders, or from the sale of a Japanese corporation's shares or ADSs within Japan by a non-resident of Japan as an occasional transaction or by a non-Japanese entity not having a permanent establishment in Japan, are generally not subject to Japanese income or corporation taxes, provided that the seller is a portfolio investor. Japanese inheritance and gift taxes at progressive rates may apply to an individual who has acquired a Japanese corporation's shares or ADSs as a distributee, legatee or donee.

Certain U.S. Federal Income Tax Considerations for U.S. Holders

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of our common shares or ADSs by a U.S. holder (as defined below). This summary is for general information purposes only and does not purport to be a complete discussion of all potential tax considerations that may be relevant to a particular person's decision to acquire common shares or ADSs.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated under the Code (the "U.S. Treasury Regulations"), the income tax treaty between Japan and the United States (the "Treaty"), published rulings of the U.S. Internal Revenue Service (the "IRS"), published administrative positions of the IRS, and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date hereof. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. We have not requested a ruling from the IRS with respect to any of the U.S. federal income tax considerations described below and, as a result, the IRS could disagree with portions of this discussion.

For purposes of this discussion, a "U.S. holder" is a beneficial owner of the common shares or ADSs that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (i) the administration of which is subject to the primary supervision of a court within the United States and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust, or (ii) that has validly elected to be treated as a U.S. person under the Code.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds the common shares or ADSs, the U.S. federal income tax consequences to such partnership and its partners of the ownership and disposition of the common shares or ADSs generally will depend in part on the activities of the partnership and the status of such partners. This summary does not address the tax consequences to any such partner or partnership. Partners of entities or arrangements that are classified as partnerships for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of the common shares or ADSs.

This discussion applies only to a U.S. holder that holds common shares or ADSs as "capital assets" under the Code (generally, property held for investment). Unless otherwise provided, this summary does not discuss reporting requirements. In addition, this discussion does not address any tax consequences other than U.S. federal income tax

consequences, such as U.S. state and local tax consequences, U.S. estate and gift tax consequences, and non-U.S. tax consequences, and does not describe all of the U.S. federal income tax consequences that may be relevant in light of a U.S. holder's particular circumstances, including alternative minimum tax consequences, the Medicare tax on certain net investment income, and tax consequences to holders that are subject to special provisions under the Code, including, but not limited to, holders that:

- are tax exempt organizations, qualified retirement plans, individual retirement accounts, or other tax deferred accounts;
- are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies;
- are brokers or dealers in securities or currencies or holders that are traders in securities that elect to apply a mark-to-market accounting method;
- have a "functional currency" for U.S. federal income tax purposes that is not the U.S. dollar;
- own common shares or ADSs as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position;
- acquire common shares or ADSs in connection with the exercise of employee stock options or otherwise as compensation for services;
- are partnerships or other pass-through entities for U.S. federal income tax purposes (or investors in such partnerships and entities);
- are required to accelerate the recognition of any item of gross income with respect to the common shares or ADSs as a result of such income being recognized on an applicable financial statement;
- own or will own (directly, indirectly, or constructively) 10% or more of our total combined voting power or value;
- hold the common shares or ADSs in connection with trade or business conducted outside of the United States or in connection with a permanent establishment or other fixed place of business outside of the United States; or
- are former U.S. citizens or former long-term residents of the United States.

Each U.S. holder is urged to consult its tax advisor regarding the application of U.S. federal taxation to its particular circumstances, and the state, local, non-U.S. and other tax considerations of the ownership and disposition of our common shares or ADSs.

Treatment of ADSs

For U.S. federal income tax purposes, a U.S. holder of ADSs generally will be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of common shares for ADSs generally will not be subject to U.S. federal income tax.

Passive Foreign Investment Company Considerations

A non-U.S. corporation, such as our company, is classified as a passive foreign investment company ("PFIC") for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of its subsidiaries, either: (i) 50% or more of the value of the corporation's assets either produce passive income or are held for

the production of passive income, based on the quarterly average of the fair market value of such assets; or (ii) at least 75% of the corporation's gross income is passive income. "Passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions. In determining the value and composition of our assets, the cash we raise in this offering will generally be considered to be held for the production of passive income and thus will be considered a passive asset.

The determination of whether a corporation is a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules that are subject to differing interpretations. In addition, the determination of whether a corporation will be a PFIC for any taxable year can only be made after the close of such taxable year. Our PFIC status will depend, in part, on the amount of cash that we raise in this offering and how quickly we utilize the cash in our business. Furthermore, because we may value our goodwill based on the expected market price of the ADSs in this offering, a decrease in the market price of our ADSs may also cause us to be classified as a PFIC for the current or any future taxable year. Based upon the foregoing, it is uncertain whether we will be a PFIC for our current taxable year or any future taxable year.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. If we are a PFIC for any year during which you hold the common shares or ADSs, we will generally continue to be treated as a PFIC for all succeeding years during which you hold such common shares or ADSs. However, if we cease to be a PFIC, provided that you have not made a mark-to-market election, as described below, you may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the common shares or ADSs, as applicable.

The discussion below under "*Distributions on the Common Shares or ADSs*" and "*Sale or Other Disposition of the Common Shares or ADSs*" is written on the basis that we will not be classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that generally would apply if we are treated as a PFIC are discussed below under "*Passive Foreign Investment Company Rules*."

Distributions on the Common Shares or ADSs

The gross amount of any distributions paid on our common shares or ADSs will generally be included in the gross income of a U.S. holder as dividend income on the date actually or constructively received by the U.S. holder, in the case of common shares, or by the depository, in the case of ADSs, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (computed on the basis of U.S. federal income tax principles). Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, we expect that distributions will generally be reported to U.S. holders as dividends. Dividends received on our common shares or ADSs generally will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations.

Individuals and other non-corporate U.S. holders will be subject to tax on any such dividends at the lower capital gains tax rate applicable to "qualified dividend income," provided that certain conditions are satisfied, including that (i) the common shares or ADSs on which the dividends are paid are readily tradable on an established securities market in the United States or we are eligible for the benefits of the Treaty, (ii) we are not a PFIC nor treated as such with respect to a U.S. holder (as discussed below) for either our taxable year in which the dividend was paid or for the preceding taxable year, and (iii) certain holding period requirements are met. For this purpose, ADSs listed on the NASDAQ will generally be considered to be readily tradable on an established securities market in the United States. You should consult your tax advisor regarding the availability of the lower rate for dividends paid with respect to our common shares or ADSs.

For U.S. foreign tax credit purposes, dividends paid on our common shares or ADSs generally will be treated as foreign source income and generally will constitute passive category income. The amount of a dividend will include any amounts withheld by us in respect of Japanese income taxes. Subject to applicable limitations, some of which vary depending upon the U.S. holder's particular circumstances, Japanese income taxes withheld from dividends on the common shares or ADSs, at a rate not exceeding any reduced rate pursuant to the Treaty, will be creditable against the U.S. holder's U.S. federal income tax liability. In lieu of claiming a foreign tax credit, U.S. holders may, at their

election, deduct foreign taxes, including any Japanese income taxes, in computing their taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued in the taxable year. The rules governing foreign tax credits are complex and U.S. holders should consult their tax advisers regarding the creditability or deductibility of foreign taxes in their particular circumstances.

The amount of any dividend paid in Japanese yen will equal the U.S. dollar value of the Japanese yen received, calculated by reference to the exchange rate in effect on the date the dividend is received by you, in the case of common shares, or by the depository, in the case of ADSs, regardless of whether the Japanese yen are converted into U.S. dollars. If the Japanese yen received as a dividend are converted into U.S. dollars on the date of receipt, a U.S. holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the Japanese yen received as a dividend are not converted into U.S. dollars on the date of receipt, a U.S. holder will have a basis in the Japanese yen equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Japanese yen will be treated as U.S. source ordinary income or loss.

Sale or Other Disposition of the Common Shares or ADSs

A U.S. holder will recognize gain or loss on the sale or other disposition of a common share or ADS equal to the difference between the amount realized for the common share or ADS and the holder's tax basis in the common share or ADS. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. holder's holding period for such common share or ADS was more than one year as of the date of the sale or other disposition. Long-term capital gain recognized by a non-corporate U.S. holder is subject to U.S. federal income tax at rates lower than the rates applicable to ordinary income and short-term capital gains, while short-term capital gains are subject to U.S. federal income tax at the rates applicable to ordinary income. The deductibility of capital losses is subject to various limitations. Any gain or loss recognized will generally be U.S. source gain or loss for foreign tax credit purposes. Consequently, a U.S. holder may not be able to use the foreign tax credit arising from any Japanese tax imposed on the disposition of the common share or ADS unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from non-U.S. sources.

Passive Foreign Investment Company Rules

If we are a PFIC for any taxable year during which you hold our common shares or ADSs, you will be subject to special tax rules with respect to any "excess distribution" that you receive and any gain you realize from a sale or other disposition (including a pledge) of the common shares or ADSs, unless you make a mark-to-market election as discussed below. Distributions you receive from us in a taxable year that are greater than 125% of the average annual distributions you received from us during the shorter of the three preceding taxable years or your holding period for the common shares or ADSs will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the common shares or ADSs,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and
- the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for you for such year and will be increased by an additional tax calculated as an interest charge on the resulting tax deemed deferred with respect to each such other taxable year at the rates generally applicable to underpayments of tax payable in those years.

If we are a PFIC for any taxable year during which a U.S. holder holds our common shares or ADSs and any of our subsidiaries or other corporate entities in which we own equity interests is also a PFIC, such U.S. holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. holders are urged to consult their tax advisers regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. holder may make a mark-to-market election with respect to our common shares or ADSs, provided such common shares or ADSs are treated as “marketable stock.” The common shares or ADSs generally will be treated as marketable stock if the common shares or ADSs are regularly traded on a “qualified exchange or other market,” as defined in applicable U.S. Treasury Regulations. Our ADSs will be marketable stock as long as they remain listed on the NASDAQ, which is a qualified exchange for this purpose, and are regularly traded. We anticipate that our ADSs should qualify as being regularly traded but no assurances can be given in this regard. Only the ADSs and not the common shares will be listed on the NASDAQ. Consequently, a U.S. holder of common shares that are not represented by ADSs generally will not be eligible to make the mark-to-market election.

If a U.S. holder makes a valid mark-to-market election with respect to the ADSs, the holder generally will (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss in each such taxable year the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. holder’s adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. holder makes a mark-to-market election in respect of our ADSs and we cease to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. holder makes a mark-to-market election, any gain such U.S. holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. holder may continue to be subject to the general PFIC rules described above with respect to such U.S. holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We have not determined whether, if we were to be classified as a PFIC for a taxable year, we will provide information necessary for a U.S. holder to make a “qualified electing fund” election which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above. Accordingly, U.S. holders should assume that they will not be able to make a qualified electing fund election with respect to the common shares or ADSs.

If a U.S. holder owns common shares or ADSs during any year in which we are a PFIC, the holder generally must file an annual report containing such information as the U.S. Treasury may require on IRS Form 8621 (or any successor form). A failure to file this report generally will suspend the statute of limitations with respect to any tax return, event, or period to which such report relates (potentially including with respect to items that do not relate to a U.S. holder’s investment in common shares or ADSs).

The PFIC rules are complex, and each U.S. holder should consult its own tax advisor regarding the PFIC rules, the elections which may be available to it, and how the PFIC rules may affect the U.S. federal income tax consequences relating to the ownership and disposition of common shares or ADSs.

Information Reporting and Backup Withholding

Payments of dividends or sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. holder is a corporation or other exempt recipient, or (ii) in the case of backup withholding, the U.S. holder provides a correct U.S. taxpayer identification number and certifies that it is not subject to backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the U.S. backup withholding rules will be allowed as a credit against a U.S. holder’s U.S. federal income tax liability, if any, or will be refunded, if such U.S. holder furnishes required information to the IRS in a timely manner. Each U.S. holder should consult its own tax advisor

regarding the information reporting and backup withholding rules in their particular circumstances and the availability of and procedures for obtaining an exemption from backup withholding.

Reporting Obligations for Certain Owners of Foreign Financial Assets

Certain U.S. holders may be required to file information returns with respect to their investment in common shares or ADSs. For example, U.S. return disclosure obligations (and related penalties) are imposed on individuals who are U.S. holders that hold certain specified foreign financial assets in excess of certain thresholds. The definition of “specified foreign financial assets” includes not only financial accounts maintained in non-U.S. financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person, and any interest in a non-U.S. entity.

U.S. holders may be subject to these reporting requirements unless their common shares or ADSs are held in an account at certain financial institutions.

The discussion of reporting obligations set forth above is not intended to constitute an exhaustive description of all reporting obligations that may apply to a U.S. holder. A failure to satisfy certain reporting obligations may result in an extension of the period during which the IRS can assess a tax, and under certain circumstances, such an extension may apply to assessments of amounts unrelated to any unsatisfied reporting obligation. Penalties for failure to comply with these reporting obligations are substantial. U.S. holders should consult with their own tax advisors regarding their reporting obligations under these rules, including the requirement to file an IRS Form 8938.

U.S. Holders should consult their tax advisors regarding any reporting obligations that may arise with respect to the acquisition, ownership or disposition of our common shares or the ADSs. Failure to comply with applicable reporting requirements could result in substantial penalties.

The foregoing discussion of certain U.S. federal income tax considerations is for general information only and is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our common shares or the ADSs. U.S. Holders should consult their own tax advisors concerning the tax consequences applicable to their particular situations.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the information reporting requirements of the Exchange Act applicable to foreign private issuers and under those requirements will file reports with the SEC. Those reports may be inspected without charge on the websites described below. As a foreign private issuer, we are exempt from the rules under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. Nevertheless, we will file with the SEC an Annual Report on Form 20-F containing financial statements that have been examined and reported on, with an opinion expressed by an independent registered public accounting firm.

We maintain a corporate website at <https://medirom.co.jp/en/>. We intend to post our Annual Report on our website promptly following it being filed with the SEC. Information contained on, or that can be accessed through, our website

does not constitute a part of this Annual Report. We have included our website address in this Annual Report solely as an inactive textual reference.

The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants, such as Medirom, that file electronically with the SEC.

With respect to references made in this Annual Report to any contract or other document relating to Medirom, such references are not necessarily complete and you should refer to the exhibits attached or incorporated by reference to this Annual Report for copies of the actual contract or document.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include borrowings and other financial liabilities. The sensitivity analyses in the following sections relate to our positions as of December 31, 2021.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives, and the proportion of financial instruments in foreign currencies are all constant, and on the basis of the hedge designations in place as of December 31, 2021. The analyses exclude the impact of movements in market variables on provisions. The analyses also assume that the sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held on December 31, 2021, including the effect of hedge accounting.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate risk by having a balanced portfolio of fixed and variable rate borrowings.

Japanese interest rates have been at historically low levels during the past two decades. We operate our business under the stimulus monetary policy. We do not expect dramatic changes to such low interest rates in the near future. In addition, with respect to most of our borrowings, our interest rates have been fixed to mitigate interest rate risk. Therefore, we believe that our present exposure to interest rate risk is manageable, as is reflected in the sensitivity analysis below.

Our borrowings of JPY913,486 thousand (US\$7,931 thousand) as of December 31, 2021 consist of fixed interest rate loans of JPY861,700 thousand (US\$7,482 thousand) and variable interest rate loans of JPY51,786 thousand (US\$450 thousand). An increase of interest rates by 100 basis points on our variable interest rate loans would increase our interest expense by JPY708 thousand (US\$7 thousand). If the increase were applied to all the fixed interest rate loans, the total impact to our interest expense would be JPY7,789 thousand (US\$75 thousand).

Foreign Currency Exchange Risk

Our foreign currency exposures give rise to market risk associated with exchange rate movements of the Japanese yen mainly against the U.S. dollar, and vice versa, because most of our expenses are denominated in Japanese yen. Our

Japanese yen expenses consist principally of compensation, subcontractor expenses, and rent. We anticipate that a sizable portion of our expenses will continue to be denominated in Japanese yen. Our financial position, results of operations and cash flow are subject to fluctuations due to changes in foreign currency exchange rates. Our results of operations and cash flow are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign currency exchange rates.

To date, we have not engaged in hedging our foreign currency exchange risk. In the future, we may enter into formal currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of our principal operating currencies. These measures, however, may not adequately protect us from the adverse effects of such fluctuations.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. We are exposed to credit risk from our operating activities (primarily trade receivables) and from our financing activities, including deposits with banks and financial institutions, and other financial instruments.

Our primary customers are consumers who visit our Company-owned relaxation salons, franchisees who have payment obligations for our franchise services (e.g., initial membership fees, recurring royalties, training fees, therapist staffing fees, etc.), public bath operators and other business clients for whom we operate their salons on their behalf. With respect to consumer credit risk, consumers pay in cash or with credit cards for the services we provide them. If the salons are located in shopping malls, all the daily service fees are collected by the shopping mall operators, reported to us as revenue on a monthly basis, and paid to us in the following month. As such, we are exposed to credit risk of the shopping mall operators and credit card companies for our salon services.

With respect to credit risk of our franchisees, we are at risk of unpaid franchise services charges. However, in most cases, we control the daily bank accounts of franchised salons, from which we can collect our franchise service charges and pay to franchisees their net proceeds after such deductions. We believe this can mitigate the credit risk with respect to our franchisees. Regardless of that, we are still exposed to credit risk with respect to our franchisees, especially in cases where they terminate their franchise contracts or declare bankruptcy without paying franchise service charges which exceed their bank balances under our control, and without paying their salon lease obligations and restoration obligations they owe to us in cases where they subleased salons which we have leased from property owners.

With respect to credit risk of public bath operators and other business clients, we serve as salon operators. We are exposed to the risk of uncollectible receivables to the extent that these clients delay payments to us after their salons under our operation have collected relaxation service fees from consumers.

Customer credit risk is managed by each business unit subject to our established policies, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard, and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

An impairment analysis is performed at each reporting date for major accounts on an individual basis. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 1 to our audited consolidated financial statements as of and for the years ended December 31, 2021 and 2020 included elsewhere in this annual report. We do not hold collateral as security. We believe that the concentration of risk with respect to trade receivables is low, since our receivables from consumers are collected directly at salons or through credit card companies or shopping malls, whose credit ratings are quite high, we control the daily bank accounts of our franchisees, and the geographic location of public bath operators and other business clients are highly diversified. No single customer accounted for 10% or more of our total revenue for the years ended December 31, 2019, 2020 and 2021.

Financial instruments and cash deposits

We manage credit risk with respect to balances with banks and financial institutions in accordance with our policies. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimize the concentration of risks, and therefore mitigate financial loss through a counterparty's potential failure to make payments.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

The Bank of New York Mellon, as depositary, registers and delivers American Depositary Shares, also referred to as ADSs. Each ADS represents one common share (or a right to receive one common share) deposited with MUFG Bank Ltd., as custodian for the depositary in Japan. Each ADS also represents any other securities, cash or other property that may be held by the depositary. The deposited shares together with any other securities, cash or other property held by the depositary are referred to as the deposited securities. The depositary's office at which the ADSs will be administered and its principal executive office are located at 240 Greenwich Street, New York, New York 10286.

The form of deposit agreement for the ADSs and the form of ADRs that represents an ADS have been incorporated by reference as exhibits to this annual report.

Fees and Expenses

| Persons depositing or withdrawing common shares or ADS holders must pay: | For: |
|---|--|
| \$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) | Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates |
| \$0.05 (or less) per ADS | Any cash distribution to ADS holders |
| A fee equivalent to the fee that would be payable if securities distributed to you had been common shares and the common shares had been deposited for issuance of ADSs | Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depository to ADS holders |
| \$0.05 (or less) per ADS per calendar year | Depository services |
| Registration or transfer fees | Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares |
| Expenses of the depository | Cable (including SWIFT) and facsimile transmissions (when expressly provided in the deposit agreement) Converting foreign currency to U.S. dollars |
| Taxes and other governmental charges the depository or the custodian has to pay on any ADSs or common shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes | As necessary |
| Any charges incurred by the depository or its agents for servicing the deposited securities | As necessary |

The depository collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depository may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depository or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depository may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depository and that may earn or share fees, spreads or commissions.

The depository may convert currency itself or through any of its affiliates, or the custodian or we may convert currency and pay U.S. dollars to the depository. Where the depository converts currency itself or through any of its affiliates, the depository acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depository or its affiliate receives when buying or selling foreign currency for its own account. The depository makes no representation that the exchange rate used or obtained by it or its affiliate in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depository's obligation to act without negligence or bad faith. The methodology used to determine exchange rates used in currency conversions made by the depository is available upon request. Where the custodian converts currency, the custodian has no obligation to obtain the most favorable rate that could be obtained at the time or

to ensure that the method by which that rate will be determined will be the most favorable to ADS holders, and the depository makes no representation that the rate is the most favorable rate and will not be liable for any direct or indirect losses associated with the rate. In certain instances, the depository may receive dividends or other distributions from the us in U.S. dollars that represent the proceeds of a conversion of foreign currency or translation from foreign currency at a rate that was obtained or determined by us and, in such cases, the depository will not engage in, or be responsible for, any foreign currency transactions and neither it nor we make any representation that the rate obtained or determined by us is the most favorable rate and neither it nor we will be liable for any direct or indirect losses associated with the rate.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depository may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depository sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

PART II.

ITEM 13. DEFAULTS, DIVIDENDS ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have performed an evaluation of the effectiveness of our disclosure controls and procedures that are designed to ensure that the material financial and non-financial information required to be disclosed to the SEC is recorded, processed, summarized and reported timely. Based on our evaluation, our management, including the chief executive officer and chief financial officer, has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report were not effective due to a material weakness over financial reporting arising out of the failure to timely close the books due to a delay in receipt of a third-party valuation report. Such a material weakness was partially overcome by engaging third-party professional consultants who were specialists in SEC financial reporting. The Company believes our financial reports fairly present our operational performance and financial position during the disclosed years. As a newly public company, we are still in an on-going process to improve our report-generation, reviewing, and approval process through introducing integrated core systems, hiring and training accounting/disclosure professionals, and designing and implementing more systematic review and approval processes over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934, as amended). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

During the year ended December 31, 2021, we acquired ZACC and SAWAN. Please refer to “Item 18: Financial Statements, Note 2: Business Combination” for further information on the acquisitions of ZACC and SAWAN. The SEC permits the management of a company to exclude an acquired business’s internal control from its assessment of internal control over financial reporting within one year from the date of acquisitions, and our management has elected to exclude ZACC and SAWAN from our assessment as of December 31, 2021. ZACC accounted for approximately 6.1% of our consolidated total assets as of December 31, 2021 and approximately 3.0% of our total revenues for the year ended December 31, 2021. SAWAN accounted for approximately 3.1% of our consolidated total assets as of December 31, 2021 and approximately 5.8% of our total revenues for the year ended December 31, 2021.

Our management evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Based on this evaluation, our management has concluded that our internal control over financial reporting had the following material weaknesses:

Material weaknesses

- We identified a material weakness in internal control related to the accounting for business combinations. The material weakness, which was identified in connection with the audit of our 2021 consolidated financial statements, related to the lack of sufficient knowledge of and approval/review process in accordance with the U.S. GAAP related to asset acquisitions and business combinations. This material weakness resulted in multiple post-closing adjustments and delayed the finalization of valuations of intangible assets acquired during 2021, which adjustments and delay, in turn, led to the delay in closing of our financial reporting.
- In addition, we identified a material weakness in internal control related to insufficient post-acquisition integration of the acquired entities, which resulted in insufficient collection of accounting details, performance reporting and review process for financial reporting. This material weakness resulted in multiple post-closing entries for account reclassification due to a misunderstanding of usage of accounts by the acquired entity and inconsistent accounting policies and chart of accounts, particularly as it related to ZACC.
- Moreover, we identified a material weakness related to the lack of integration between our operating software and accounting software. Despite our efforts to integrate our operating software with accounting software by replacing the existing accounting software with an ERP system in 2021, we have not successfully implemented the ERP system yet. This lack of integration between operating software and accounting software has contributed to the delay in our financial closing and resulted in certain human errors that we later discovered and had to correct.
- Finally, we identified a material weakness in internal control related to the valuation allowance on our deferred tax assets. We have not developed an internal accounting policy to assess the recoverability of our deferred tax assets to determine if, and how much, valuation allowance should be recognized on the deferred tax assets. This lack of policy led to a material post-closing adjustment impacting our deferred tax expense.

Notwithstanding the material weaknesses discussed above, our management, including our CEO and CFO, has concluded that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Remediation Plan

- Our management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weaknesses are remediated, such that these controls are designed,

implemented, and operating effectively. The remediation actions include: we are in the process of replacing our current accounting system with an ERP system for more accelerated account closing and will implement an approval and review procedure for each journal entry within the new accounting system. In order to accelerate the implementation of the ERP system as well as integration of operating software, we have reinforced our accounting professional resources, and segregated the work between account closing work and ERP installation work among those professionals.

- We plan to employ and/or engage personnel/consultants who have sufficient knowledge of not only U.S. GAAP but also are more familiar with accounting customs and practices among companies listed on stock exchanges in the United States – especially in the area of business combinations.
- We have assigned a special staff member who will handle the administrative work of ZACC and will be the primary liaison between the parent company and the subsidiary. In addition, the Company is in the process of replacing our current accounting system with an ERP system, which will help to standardize the group accounting policies and chart of accounts.
- We will develop an accounting policy to assess the recoverability of the deferred tax assets.

Changes in Internal Control over Financial Reporting

Other than the material weaknesses as described in this Item 15, there were no other changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Under the Companies Act, we have elected to structure our corporate governance system as a company with a separate board of corporate auditors and therefore do not have an audit committee. The function of our board of corporate auditors and each corporate auditor is similar to that of independent directors, including those who are members of the audit committee of a U.S. public company. Our board of corporate auditors is comprised of three directors, each member of which will meet the requirements of Rule 10A-3 under the Exchange Act.

ITEM 16B. CODE OF ETHICS AND BUSINESS CONDUCT

Our board of directors has adopted a written code of ethics and business conduct that applies to our directors, corporate auditors, officers, and employees (including our principal executive officer, principal financial officer, principal accounting officer or controller, and other persons performing similar functions), and our agents. Our code of ethics and business conduct is available on our website at <https://medirom.co.jp/en/>. If we amend the provisions of our code of ethics and business conduct that apply to our directors, corporate auditors, officers, and employees (including our principal executive officer, principal financial officer, principal accounting officer or controller, and other persons performing similar functions), and our agents, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Baker Tilly US, LLP (which we refer to as “Baker Tilly”) has served as our independent registered public accounting firm for the year ended December 31 2021. The following table sets out the aggregate fees for professional audit services and other services rendered by Baker Tilly and Squar Milner for each of the years ended December 31, 2021 and 2020. The engagement of the auditor is pre-approved by the Board of the Company’s Corporate Auditors with

consideration of the auditor’s independence, capabilities, understanding of our business and Japanese commercial customs, and audit and other audit-related service fees.

Year ended December 31
(in thousands)

| | 2021 | 2020 |
|------------------------|----------|----------|
| Audit Fees (1) | ¥ 55,491 | ¥ 86,255 |
| Audit-Related Fees (2) | — | — |
| Tax Fees (3) | — | — |
| All Other Fees (4) | — | — |

- (1) Audit Fees of Baker Tilly for 2021 and 2020 were for professional services associated with the annual audit of our audited consolidated financial statements, the reviews of our semi-annual condensed consolidated financial statements and the issuance of consents and comfort letters in connection with registration statement filings with the SEC.
- (2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under “Audit Fees.” No such services were incurred in 2021.
- (3) Tax Fees consist of fees for tax compliance, tax advice and tax planning. No such services were incurred in 2021 or 2020.
- (4) All Other Fees include any fees billed that are not audit, audit-related or tax fees. No such services were incurred in 2021 or 2020.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Under the Companies Act, we have elected to structure our corporate governance system as a company with a separate board of corporate auditors and therefore do not have an audit committee. For foreign private issuers, use of a board of corporate auditors in compliance with home country rules is permitted under Rule 10A-3(c)(3) of the Exchange Act. Our reliance on Rule 10A-3(c)(3) does not, in our opinion, materially adversely affect the ability of our board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are a “foreign private issuer” as defined under the federal securities laws of the United States and the NASDAQ listing standards. Under the federal securities laws of the United States, foreign private issuers are subject to different disclosure requirements than U.S.-domiciled public companies. We intend to take all actions necessary for us to maintain our status as a foreign private issuer under the applicable corporate governance requirements of the Sarbanes-Oxley Act, the Exchange Act and other applicable rules adopted by the SEC, and the NASDAQ listing standards. Under the SEC rules and the NASDAQ listing standards, a foreign private issuer is subject to less stringent corporate governance requirements. Subject to certain exceptions, the SEC and the NASDAQ permit a foreign private issuer to follow its home country practice in lieu of their respective rules and listing standards. In general, our articles of incorporation and the Companies Act of Japan (which we refer to as the “Companies Act”) govern our corporate affairs.

In particular, as a foreign private issuer, we will follow Japanese law and corporate practice in lieu of the corporate governance provisions set out under NASDAQ Rule 5600, the requirement in NASDAQ Rule 5250(b)(3) to disclose third party director and nominee compensation, and the requirement in NASDAQ Rule 5250(d) to distribute annual and interim reports. Of particular note, the following rules under NASDAQ Rule 5600 differ from Japanese law requirements:

- NASDAQ Rule 5605(b)(1) requires that at least a majority of a listed company's board of directors be independent directors, and NASDAQ Rule 5605(b)(2) requires that independent directors regularly meet in executive session, where only independent directors are present. Under our current corporate structure, the Companies Act does not require independent directors. However, our board of directors is currently comprised of five directors, two of which are considered "independent", as determined in accordance with the applicable NASDAQ rules. We expect our independent directors to regularly meet in executive sessions, where only the independent directors are present.
- NASDAQ Rule 5605(c)(2)(A) requires a listed company to have an audit committee composed entirely of not less than three directors, each of whom must be independent. Under Japanese law, a company may have a statutory auditor or a board of auditors. We have a three-member Board of Corporate Auditors, each member of which will meet the requirements of Rule 10A-3 under the Exchange Act. See "—Board of Corporate Auditors" below for additional information.
- NASDAQ Rule 5605(d) requires, among other things, that a listed company's compensation committee be comprised of at least two members, each of whom is an independent director as defined under such rule. Our board of directors will collectively participate in the discussions and determination of compensation for our executive, directors and corporate auditors, and other compensation related matters.
- NASDAQ Rule 5605(e) requires that a listed company's nomination and corporate governance committee be comprised solely of independent directors. Our board of directors will not have a standalone nomination and corporate governance committee. Our board of directors will collectively participate in the nomination process of potential directors and corporate auditors and oversee our corporate governance practices.
- NASDAQ Rule 5620(c) sets out a quorum requirement of 33 1/3% applicable to meetings of shareholders. In accordance with Japanese law and generally accepted business practices, our articles of incorporation provide that there is no quorum requirement for a general resolution of our shareholders. However, under the Companies Act and our articles of incorporation a quorum of not less than one-third of the total number of voting rights is required in connection with the election of directors, statutory auditors and certain other matters.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

See Item 18 of this annual report.

ITEM 18. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this annual report, beginning on page F-1.

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS OF MEDIROM HEALTHCARE TECHNOLOGIES INC.

Audited Consolidated Financial Statements as of and for the years ended December 31, 2021, 2020 and 2019

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|--|-----|
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of MEDIROM Healthcare Technologies Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of MEDIROM Healthcare Technologies Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive (loss) income, shareholders' (deficit) equity and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BAKER TILLY US, LLP

We have served as the Company's auditor since 2019.

Irvine, California
November 14, 2022

MEDIROM HEALTHCARE TECHNOLOGIES INC.

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2021 AND 2020
(Yen in thousands, except share data)**

| | December 31, | |
|---|--------------|-------------|
| | 2021 | 2020 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | ¥ 370,617 | ¥ 1,439,733 |
| Time deposits | 26,526 | 32,524 |
| Accounts receivable-trade, net | 312,302 | 148,540 |
| Accounts receivable-other, net | 542,988 | 411,278 |
| Inventories | 18,703 | 7,956 |
| Prepaid expenses and other current assets | 111,166 | 47,193 |
| Total current assets | 1,382,302 | 2,087,224 |
| Property and equipment, net | 424,996 | 235,930 |
| Goodwill | 600,329 | 150,720 |
| Other intangible assets, net | 391,038 | 97,615 |
| Investments | 53,020 | 500 |
| Long-term accounts receivable-other, net | 101,898 | 116,942 |
| Right-of-use asset - operating lease, net | 1,824,095 | 1,578,828 |
| Lease and guarantee deposits | 868,159 | 710,636 |
| Deferred tax assets, net | — | 655,591 |
| Other assets | 107,224 | 79,480 |
| Total assets | ¥ 5,753,061 | ¥ 5,713,466 |
| LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY | | |
| Current liabilities: | | |
| Accounts payable | ¥ 230,899 | ¥ 67,016 |
| Accrued expenses | 865,865 | 889,112 |
| Current portion of borrowings | 162,252 | 242,281 |
| Accrued income taxes | 40,721 | 43,198 |
| Current portion of contract liability | 104,182 | 172,063 |
| Advances received | 618,514 | 461,665 |
| Current portion of lease liability | 755,219 | 658,320 |
| Mandatorily redeemable noncontrolling interests | 148,000 | — |
| Other current liabilities | 270,821 | 118,933 |
| Total current liabilities | 3,196,473 | 2,652,588 |
| Borrowings - net of current portion | 746,588 | 668,380 |
| Deposit received | 328,962 | 375,463 |
| Contract liability - net of current portion | 239,067 | 333,978 |
| Lease liability - net of current portion | 1,128,737 | 992,892 |
| Asset retirement obligation | 296,401 | 191,192 |
| Other liabilities | 25,176 | 7,716 |
| Total liabilities | 5,961,404 | 5,222,209 |
| COMMITMENTS AND CONTINGENCIES (NOTE 18) | | |
| SHAREHOLDERS' (DEFICIT) EQUITY: | | |
| Common stock, no par value; 19,899,999 shares authorized; 4,975,000 shares issued and 4,882,500 shares outstanding at December 31, 2021; 9,999,999 shares authorized; 4,915,000 shares issued and 4,822,500 shares outstanding at December 31, 2020 | 1,223,134 | 1,179,313 |
| Class A common stock, no par value; 1 share authorized; 1 share issued and 1 share outstanding at December 31, 2021 and 2020 | 100 | 100 |
| Treasury stock, at cost- 92,500 common shares at December 31, 2021 and 2020 | (3,000) | (3,000) |
| Additional paid-in capital | 1,265,456 | 1,018,146 |
| Accumulated deficit | (2,694,033) | (1,703,302) |
| Total shareholders' (deficit) equity | (208,343) | 491,257 |
| Total liabilities and shareholders' (deficit) equity | ¥ 5,753,061 | ¥ 5,713,466 |

The accompanying notes are an integral part of the consolidated financial statements.

MEDIROM HEALTHCARE TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATION
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Yen in thousands, except share and per share data)

| | Years Ended December 31, | | |
|---|---------------------------------|--------------------|------------------|
| | 2021 | 2020 | 2019 |
| Revenues: | | | |
| Revenue from directly-operated salons | ¥ 4,006,834 | ¥ 2,026,806 | ¥ 2,031,155 |
| Franchise revenue | 1,359,026 | 1,289,141 | 1,833,501 |
| Other revenues | 43,965 | 25,670 | 43,608 |
| Total revenues | 5,409,825 | 3,341,617 | 3,908,264 |
| Cost of revenues and operating expenses: | | | |
| Cost of revenue from directly-operated salons | 3,281,781 | 2,149,843 | 1,912,893 |
| Cost of franchise revenue | 691,286 | 745,102 | 1,019,956 |
| Cost of other revenues | 21,347 | 17,722 | 24,657 |
| Selling, general and administrative expenses | 1,822,787 | 1,068,537 | 871,862 |
| Impairment loss on long-lived assets | 63,211 | 106,501 | 44,546 |
| Total cost of revenues and operating expenses | 5,880,412 | 4,087,705 | 3,873,914 |
| Operating (loss) income | (470,587) | (746,088) | 34,350 |
| Other income (expense): | | | |
| Dividend income | 2 | 2 | 2 |
| Interest income | 839 | 1,332 | 1,336 |
| Interest expense | (11,950) | (13,234) | (13,591) |
| Gain from bargain purchases | — | — | 6,487 |
| Subsidies | 27,846 | 111,581 | — |
| Foreign exchange income | 14,992 | — | — |
| Other, net | 24,377 | 19,718 | 4,153 |
| Total other income (expense) | 56,106 | 119,399 | (1,613) |
| (Loss) income before income tax expense (benefit) and equity in earnings of investment | (414,481) | (626,689) | 32,737 |
| Income tax expense (benefit) | 576,250 | (87,519) | 15,961 |
| Equity in earnings of investment | — | — | 559 |
| Net (loss) income | ¥ (990,731) | ¥ (539,170) | ¥ 17,335 |
| Net (loss) earnings per share attributable to shareholders of the Company | | | |
| Basic | ¥ (203.13) | ¥ (133.97) | ¥ 4.63 |
| Diluted | ¥ (203.13) | ¥ (133.97) | ¥ 4.06 |
| Weighted average shares outstanding | | | |
| Basic | 4,877,404 | 4,024,692 | 3,747,296 |
| Diluted | 4,877,404 | 4,024,692 | 4,272,302 |

The accompanying notes are an integral part of the consolidated financial statements.

MEDIROM HEALTHCARE TECHNOLOGIES INC.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Yen in thousands)**

| | Years Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2021 | 2020 | 2019 |
| Net (loss) income | ¥ (990,731) | ¥ (539,170) | ¥ 17,335 |
| Foreign currency translation adjustments, net of tax | — | — | 278 |
| Comprehensive (loss) income | ¥ (990,731) | ¥ (539,170) | ¥ 17,613 |

The accompanying notes are an integral part of the consolidated financial statements.

MEDIROM HEALTHCARE TECHNOLOGIES INC.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Yen in thousands, except share data)**

| | Common stock | | Class A common stock | | Treasury stock | | Additional paid-in capital | Accumulated other comprehensive income (loss) | Accumulated deficit | Total |
|--|--------------|------------|----------------------|--------|----------------|----------|----------------------------|---|---------------------|------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balance, January 1, 2019 | 3,765,000 | ¥ 245,000 | 1 | ¥ 100 | 92,500 | ¥(3,000) | ¥ 363,267 | ¥ (278) | ¥ (722,644) | ¥(117,555) |
| Issuance of common shares for cash | 350,000 | 350,000 | — | — | — | — | 350,000 | — | — | 700,000 |
| Net income | — | — | — | — | — | — | — | — | 17,335 | 17,335 |
| Foreign currency translation adjustments | — | — | — | — | — | — | — | 278 | — | 278 |
| Balance, December 31, 2019 | 4,115,000 | 595,000 | 1 | 100 | 92,500 | (3,000) | 713,267 | — | (705,309) | 600,058 |
| Cumulative effect of adoption of ASC 606 | — | — | — | — | — | — | — | — | (458,823) | (458,823) |
| Issuance of common stock upon initial public offering, net of offering costs | 800,000 | 584,313 | — | — | — | — | 304,879 | — | — | 889,192 |
| Net loss | — | — | — | — | — | — | — | — | (539,170) | (539,170) |
| Balance, December 31, 2020 | 4,915,000 | 1,179,313 | 1 | 100 | 92,500 | (3,000) | 1,018,146 | — | (1,703,302) | 491,257 |
| Issuance of common stock for exercise of over-allotment, net of issuance costs | 60,000 | 43,821 | — | — | — | — | 43,821 | — | — | 87,642 |
| Net loss | — | — | — | — | — | — | — | — | (990,731) | (990,731) |
| Stock-based compensation | — | — | — | — | — | — | 196,853 | — | — | 196,853 |
| Vesting of option purchase consideration (Note 10) | — | — | — | — | — | — | 6,636 | — | — | 6,636 |
| Balance, December 31, 2021 | 4,975,000 | ¥1,223,134 | 1 | ¥ 100 | 92,500 | ¥(3,000) | ¥1,265,456 | ¥ — | ¥ (2,694,033) | ¥(208,343) |

The accompanying notes are an integral part of the consolidated financial statements.

MEDIROM HEALTHCARE TECHNOLOGIES INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Yen in thousands)**

| | Years Ended December 31, | | |
|---|---------------------------------|--------------------|-------------------|
| | 2021 | 2020 | 2019 |
| Cash flows from operating activities: | | | |
| Net (loss) income | ¥ (990,731) | ¥ (539,170) | ¥ 17,335 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 126,243 | 62,290 | 46,174 |
| Losses on sales of directly-owned salons to franchisees | 2,692 | — | 9,600 |
| Gain from sales of directly-owned salons | (541,472) | — | — |
| Bad debt | 28,808 | (11,376) | 271 |
| Stock-based compensation | 196,853 | — | — |
| Impairment loss on investments | — | 10,544 | — |
| Losses on disposal of property and equipment, net, other intangible assets, net and goodwill | 3,614 | 33,841 | 4,631 |
| Impairment loss on long-lived assets | 63,211 | 106,501 | 44,546 |
| Gain from bargain purchases | — | — | (6,487) |
| Deferred income tax expense (benefit) | 551,483 | (107,264) | 5,739 |
| Other non-cash (gains) losses – net | 819 | 1,903 | (895) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable-trade, net | (37,024) | 189,143 | (66,877) |
| Accounts receivable-other, net | (87,148) | (48,031) | (36,190) |
| Inventories | (2,441) | (2,445) | 892 |
| Prepaid expenses and other current assets | (74,799) | (8,167) | (39,698) |
| Lease and guarantee deposits | (70,662) | 58,468 | (14,163) |
| Accounts payable | 58,437 | (55,574) | (18,729) |
| Accrued expenses | 195,541 | 206,706 | 116,856 |
| Accrued income taxes | (2,897) | 25,364 | 4,200 |
| Contract liability | (162,793) | (160,595) | — |
| Advances received | 96,198 | (15,322) | (39,177) |
| Other current liabilities | 130,110 | (3,389) | 10,226 |
| Deposit received | (46,501) | (98,925) | (20,871) |
| Other assets and other liabilities – net | 5,228 | (10,922) | (9,513) |
| Net cash (used in) provided by operating activities | <u>(557,231)</u> | <u>(366,420)</u> | <u>7,870</u> |
| Cash flows from investing activities: | | | |
| Purchases of time deposits | (26,402) | (26,703) | (37,900) |
| Proceeds from maturities of time deposits | 6,000 | 10,000 | 6,000 |
| Proceeds from sale of investments | — | 53,000 | — |
| Acquisition of investments | (52,520) | — | (13,544) |
| Acquisition of property and equipment | (95,651) | (73,556) | (7,406) |
| Proceeds from sale of property and equipment | — | 3,227 | 5,000 |
| Cost additions to internal use software | (18,127) | (30,569) | (12,068) |
| Proceeds from sale of salons | 430,000 | — | — |
| Acquisition of businesses – net of cash acquired | (375,757) | (99,195) | (3,201) |
| Proceeds from due from shareholder | — | 8,267 | 8,412 |
| Payment received on short-term loans receivable | 450 | 900 | 450 |
| Payment received on long-term accounts receivable-other, net | 9,488 | 15,030 | 16,326 |
| Proceeds from insurance cancellations | 38,583 | — | — |
| Net cash used in investing activities | <u>¥ (83,936)</u> | <u>¥ (139,599)</u> | <u>¥ (37,931)</u> |

The accompanying notes are an integral part of the consolidated financial statements.

MEDIROM HEALTHCARE TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS—(CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Yen in thousands)

| | Years Ended December 31, | | |
|--|---------------------------------|--------------------|------------------|
| | 2021 | 2020 | 2019 |
| Cash flows from financing activities: | | | |
| 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 | — | — | 700,000 |
| Proceeds from issuance of common stock for exercise of over-allotment, net of issuance costs | 87,642 | — | — |
| Net repayment of short-term borrowings | — | (180,000) | — |
| Proceeds from long-term borrowings | — | 775,000 | — |
| Repayment of long-term borrowings | (251,084) | (206,440) | (234,411) |
| Payment of installment payables related to business acquisitions | (2,888) | (33,949) | (82,812) |
| Payment of deferred offering costs | (261,619) | (97,857) | (43,283) |
| Repayment of corporate bonds | — | — | (7,500) |
| Proceeds from issuance of stock options | — | 6,750 | — |
| Net cash (used in) provided by financing activities | <u>(427,949)</u> | <u>1,432,131</u> | <u>331,994</u> |
| Net (decrease) increase in cash and cash equivalents | (1,069,116) | 926,112 | 301,933 |
| Cash and cash equivalents at beginning of year | 1,439,733 | 513,621 | 211,688 |
| Cash and cash equivalents at end of year | <u>¥ 370,617</u> | <u>¥ 1,439,733</u> | <u>¥ 513,621</u> |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | ¥ 10,865 | ¥ 10,219 | ¥ 11,872 |
| Income taxes | 45,505 | 7,005 | 24,344 |
| Non-cash investing and financing activities: | | | |
| Right-of-use assets obtained in exchange for lease liabilities | 917,135 | 604,703 | 749,008 |
| 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 | 3,321 |
| Payables related to acquisition of businesses included in accrued expenses | — | 1,667 | 48,901 |
| Sales of salons included in accounts receivable | 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 | 14,226 |

Refer to Note 8, "Leases" for supplemental cash flow information related to leases.

The accompanying notes are an integral part of the consolidated financial statements.

MEDIROM HEALTHCARE TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

1. Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

MEDIROM Healthcare Technologies Inc. ("Parent") and its six subsidiaries (collectively, the "Company") are one of the leading holistic health services providers in Japan. The Company is a franchisor and operator of healthcare salons across Japan and is a preferred platform partner for large consumer brands, healthcare service providers, and government entities to affect positive health outcomes. The Company primarily engages in three lines of business: Relaxation Salon Segment (retail), Luxury Beauty (retail) and Digital Preventative Healthcare Segment (healthtech). Refer to description below and Note 11 for segment information.

Parent was originally incorporated in Japan on July 13, 2000 under the name "Kabushiki Kaisha Young Leaves." In January 2017, Parent changed Parent's name to "MEDIROM Inc." In March 2020, Parent changed Parent's name to "MEDIROM Healthcare Technologies Inc."

Relaxation Salon Segment (See Note 11 for segment information)

The Relaxation Salon Segment is the core of our business, whereby we own, develop, operate, or franchise and support relaxation salons. The salon locations cover major cities throughout Japan, with strong market presence in the Tokyo metropolitan area. The Segment includes several Relaxation Salon brands including Re.Ra.Ku[®], and as of December 31, 2021, 2020 and 2019, it has a total of 312, 290 and 283 salons, respectively. The following table presents total number of salons by operation type:

| | Number of Relaxation Salons | | |
|-------------------|--------------------------------|------|------|
| | 2021 | 2020 | 2019 |
| Directly-operated | 188 | 150 | 107 |
| Franchised | 124 | 140 | 176 |
| Total | 312 | 290 | 283 |

See Note 2, "Business Combination" for the number of salons acquired during each year. The results of operations of directly-operated salons converted to franchised salons in sale transactions with franchisees were not material either individually or in the aggregate to the consolidated financial statements.

Digital Preventative Healthcare Segment (See Note 11 for segment information)

The Digital Preventative Healthcare Segment mainly consists of the following operations: government-sponsored Specific Health Guidance program, utilizing our internally-developed on-demand health monitoring smartphone application, or Lav[®]; our MOTHER Bracelet[®] for fitness applications.

Luxury Beauty Segment (See Note 2 for business combination and Note 11 for segment information)

In October 2021, the Company acquired 60% of the ownership interest in ZACC Kabushiki Kaisha ("ZACC"), a high-end hair salon company, and acquired the remaining outstanding common stock in January 2022. ZACC owns and operates 3 luxury hair salon brands (ZACC vie, ZACC raffine, and ZACC ginza), all of which have been recognized by customers for over 30 years for their high level of techniques and hospitality.

MEDIROM HEALTHCARE TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

Basis of Presentation

The accompanying consolidated financial statements are presented in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP").

Recent Developments and Liquidity

In the years ended December 31, 2020 and 2021, the Company experienced negative cash flows from operations and also used a significant amount of cash for acquisitions and investments. In addition, it has had losses from operations since 2020, and has had a working capital deficit and an accumulated deficit for the past three years.

In evaluating the Company's ability to continue as a going concern, management considered the conditions and events that could raise substantial doubt about the Company's ability to continue as a going concern for one year after the Company's consolidated financial statements are issued. Management considered the Company's current financial condition and liquidity sources, including current funds available, forecasted future cash flows, and the Company's conditional and unconditional obligations due.

During 2021, the Japanese government issued multiple Declarations of Emergency for COVID-19, which impacted Tokyo and other prefectures where our salons are located. This affected the operation of our salons located in shopping malls and spa facilities. Under Declarations of Emergency, up to 28 salons had shortened operation and 36 salons temporarily closed their operation. As a result, our sales and profitability have not fully recovered. We have managed our operations by relocating therapists from closed or shortened salons to those lacking enough therapists, or issuing furlough to those who cannot be relocated to other open salons and applying for governmental subsidies. As of the date of this report, all Declarations of Emergency were lifted nationwide. However, the duration and extent of COVID-19's impact is not reasonably possible to estimate due to the uncertainty about the spread of the virus. This could lead to lower sales, further relaxation salon closures, delays in development of the Company's business, which could continue to materially affect our financial condition and results of operations. In addition, pursuant to the Settlement Act, issuers of prepaid cards are required to maintain net assets of more than JPY 100 million. As of December 31, 2021, the Company's net assets have fallen below JPY 100 million under Japanese GAAP ("JGAAP") on a standalone basis. The Company is currently in consultation with the regulatory authority. See "Item 4. Regulations Governing Prepaid Cards" for more detail.

The Company expects that its cash and cash equivalents as of December 31, 2021 of ¥370,617 thousand will not be sufficient to fund its operating expenses, capital expenditure requirements, and debt service obligations for the twelve months after the consolidated financial statements are issued and that the Company would require additional capital. Management believes it will be able to raise capital in the short-term through the sales of directly-owned salons, which represent 53.3% of the total number of Company's directly-operated salons as of December 31, 2021. The Company implemented this new business model in the fourth quarter of 2021 and had sold 12 directly-owned salons for aggregate gross proceeds of JPY 559 million in the year ended December 31, 2021. The Company has identified additional directly-owned salons in 2022 and 2023 for sale and is currently marketing them to investors. We believe this model will provide upfront capital as well as maximize the return on capital investment in our relaxation salon segment, accelerate salon openings by reinvesting the proceeds from the sales of salons, and generate additional income from the salons that were sold to investors and are under management by us.

We may also consider obtaining additional financing through the issuance of our common stock, including a public offering of our ADSs, or through other equity or debt financings, and we may also look into refinancing our existing debt obligations. The Company, however, is dependent upon its ability to secure equity and/or debt financing and there are no assurances that the Company will be successful.

MEDIROM HEALTHCARE TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

In addition, management is actively pursuing restoring profitability of our relaxation salon business and started shipping units of Mother Bracelet® in March 2022. As we continue to grow, we expect to drive greater efficiencies across our operations and development and marketing organizations and further leverage our technology and existing support infrastructure. We believe we will be able to reduce the percentage of corporate costs to revenue over time to enhance margins as general and administrative expenses are expected to grow at a slower rate due to expected efficiencies of scale as we expand our salon network.

Consolidation and Variable Interest Entities

The consolidated financial statements for the year ended December 31, 2020 include the accounts of Parent and the following wholly owned subsidiaries: JOYHANDS WELLNESS Inc., Bell Epoc Wellness Inc., Decollte Wellness Corporation, and Medirom Human Resources Inc. Effective July 1, 2021, Bell Epoc Wellness Inc., a subsidiary of the Company, was merged with Decollte Wellness Corporation, another subsidiary of the Company pursuant to an absorption-type company split agreement, with Bell Epoc Wellness Inc. being the successor entity. The purpose of this reorganization is to achieve more efficiency in training therapists and operating the relaxation salons, and to integrate the brands. As these subsidiaries were under common control, there was no impact to the consolidated financial statements. Bell Epoc Wellness Inc. changed its name to Wing Inc. effective November 1, 2021. The consolidated financial statements for the year ended December 31, 2021 include the accounts of Parent and the following subsidiaries: JOYHANDS WELLNESS Inc., Wing Inc., Bell & Joy Power Partners, Inc., SAWAN Co., Ltd., ZACC Kabushiki Kaisha (“ZACC”), and Medirom Human Resources Inc. All intercompany transactions have been eliminated in consolidation. Investments in companies over which the Company has significant influence but not control are accounted for by the equity method. The Company evaluates its investments and other significant relationships to determine whether any investee is a variable interest entity (“VIE”). If the Company concludes that an investee is a VIE, the Company evaluates its power to direct the activities of the investee, its obligation to absorb the expected losses of the investee and its right to receive the expected residual returns of the investee to determine whether the Company is the primary beneficiary of the investee. If the Company is the primary beneficiary of a VIE, the Company consolidates such entity and reflects the noncontrolling interest of other beneficiaries of that entity. There is no VIE where the Company is the primary beneficiary as of December 31, 2021 and 2020.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions reflected in the consolidated financial statements include, but are not limited to, the allowance for doubtful accounts, fair value of intangible assets acquired through business combination, impairment of long-lived assets and goodwill, asset retirement obligations, valuation of stock-based compensation, going concern and valuation of deferred tax assets. Management bases these estimates on assumptions that it believes to be reasonable under the circumstance, including considerations for the impact from the outbreak of the COVID-19 pandemic on the Company's business. Actual results may differ from these estimates in future periods when the COVID-19 pandemic continues to evolve and additional information becomes available.

Foreign Currency Translation

The assets and liabilities of an equity method investee are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at weighted average rates. Translation adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income within shareholders' (deficit) equity.

MEDIROM HEALTHCARE TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

Exchange gains and losses resulting from foreign currency transactions and the conversion of monetary assets and liabilities denominated in foreign currencies are included in foreign exchange income in the consolidated statements of operation.

Mandatorily Redeemable Noncontrolling Interests

Mandatorily redeemable noncontrolling interests represent equity interests in ZACC owned by outside parties. Noncontrolling interests are considered mandatorily redeemable when they are subject to an unconditional obligation to be redeemed by the Company on a specified date and are presented as a liability. As of December 31, 2021, the noncontrolling interest related to ZACC was classified as a current liability based on the terms of the purchase agreement.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand or other highly liquid investments placed with banks or other financial institutions which are unrestricted as to withdrawal or use and have original maturities of less than three months. There are no cash equivalents balances for the periods presented.

Time Deposits

Time deposits presented in the consolidated balance sheets are short-term investments, whose maturity dates are longer than three months but less than one year. Time deposits with maturity dates of longer than one year are included in other assets in the consolidated balance sheets.

Accounts Receivable—Trade, Net

The accounts receivable-trade on the Company's consolidated balance sheets primarily includes accounts receivables from franchisees. The balance is presented net of an allowance for expected losses (i.e., doubtful accounts), primarily related to receivables from the Company's franchisees. The Company monitors the financial condition of its franchisees and records provisions for estimated losses on receivables when it believes franchisees are unable to make their required payments based on factors such as delinquencies and aging trends. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses incurred related to existing accounts and receivables. As of December 31, 2021 and 2020, the allowance for doubtful accounts related to accounts receivable-trade was ¥6,689 thousand and ¥4,426 thousand, respectively.

Accounts Receivable—Other, Net and Long-Term Accounts Receivable—Other, Net

The accounts receivable—other on the Company's consolidated balance sheets primarily includes accounts receivable from commercial facility landlords and credit card companies related directly-operated salon's revenue and franchisee's revenue collected by these entities on behalf of the Company. As of December 31, 2021 and 2020, accounts receivable from commercial facilities and credit card companies of ¥457,642 thousand and ¥302,227 thousand, respectively, are included in the accounts receivable—other, net on the consolidated balance sheets. The balance is presented net of an allowance for expected losses (i.e., doubtful accounts). The Company monitors the financial condition of its debtor and records provisions for estimated losses on receivables when it believes debtors are unable to make their required payments based on factors such as delinquencies and aging trends. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses incurred related to existing accounts and receivables. As of December 31, 2021, the allowance for doubtful accounts related to accounts receivable-other was ¥23,337 thousand. There was no allowance for doubtful accounts related to accounts receivable-other as of December 31, 2020.

MEDIROM HEALTHCARE TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

Long-term accounts receivable—other mainly consists of a non-interest bearing receivable due from an unrelated business entity, with a maturity of July 31, 2038, monthly repayment amounts of ¥1,200 thousand until January 2021, ¥720 thousand beginning in February 2021 until December 2021 and ¥1,200 thousand beginning in January 2022. As of December 31, 2021 and 2020, the principal balance due was ¥223,945 thousand and ¥235,945 thousand, respectively. As of December 31, 2021 and 2020, the short-term principal balance due was ¥14,400 thousand and ¥11,520 thousand, respectively, which are included in accounts receivable-other, net in the consolidated balance sheets. As of December 31, 2021 and 2020, long-term accounts receivable—other includes other long-term accounts receivable of ¥13,019 thousand and ¥12,756 thousand, respectively. The Company monitors the financial condition of its obligor and records provisions for estimated losses on receivables when it believes the obligors are unable to make their required payments. As of December 31, 2021 and 2020, the related allowance for doubtful accounts on long-term accounts receivable—other was ¥135,066 thousand and ¥131,759 thousand, respectively.

Concentrations

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash. The Company primarily places its cash with high-credit quality financial institutions. The Company's cash deposits, of up to ¥10,000 thousand are insured by the Japanese government. From time to time, the Company has deposits in excess of the insured amounts.

Inventories

Inventories consist principally of merchandise. A portion of inventories are also used for salon services. Inventories are stated at the lower of cost or net realizable value, cost being determined by the first-in, first-out method for merchandise.

Investments

The Company uses the equity method to account for equity investments over which it has significant influence but does not own a majority equity interest or otherwise control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The share of earnings or losses of the investee are included in equity in earnings of investment in the consolidated statements of operation. Equity method adjustments include the company's proportionate share of investee income or loss and other adjustments required by the equity method. The Company evaluates its equity method investments for impairment whenever an event or change in circumstances occurs that may have a significant adverse impact on the fair value of the investment. If a loss in value has occurred and is deemed to be other than temporary, an impairment loss is recorded. Several factors are reviewed to determine whether a loss has occurred that is other than temporary, including absence of an ability to recover the carrying amount of the investment, the length and extent of the fair value decline, and the financial condition and future prospects of the investee.

Investments in equity securities, in which the Company does not have significant influence, and for which there is not a readily determinable fair value, are recorded at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments in the same issuer.

When the Company evaluates whether these non-marketable equity securities are impaired or not, the Company evaluates first whether an event or change in circumstances has occurred in the period that may have significant adverse effect on the fair value of the securities (an impairment indicator).

The Company uses such impairment indicators as follows:

- (1) A significant deterioration in the earnings performance or business prospects of the investee.
- (2) A significant adverse change in the regulatory, economic, or technological environment of the investee.

MEDIROM HEALTHCARE TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

- (3) A significant adverse change in the general market condition of either the geographic area or the industry in which the investee operates.
- (4) A recent example of the new issuance of a security, in which the issue price is less than our cost.

The Company estimates the fair value of the non-marketable equity securities when an impairment indicator is present. The fair value is determined as a result of considering various unobservable inputs which are available to the Company, including expectation of future income of the investees, net asset value of the investees, and material unrealized losses to be considered in assets and liabilities held by the investees. The Company recognizes impairment of non-marketable equity securities when the fair value is below the carrying amount and the decline in fair value is considered to be other-than-temporary.

Leases

The Company considers whether a contract is a lease or if it contains a lease element when a contract is executed. If a contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration, such contract is determined to contain a lease element. When the contract contains a lease element, a lease is either classified as operating lease or finance lease when the Company is a lessee, and a sales-type lease or direct financing lease when the Company is a lessor.

The Company, as a lessee, applies the right-of-use model to account for lease transactions. Under the right-of-use model, right-of-use asset and lease liability are recognized at commencement date. The Company measures its lease liability at present value of future lease payments over the remaining term. The Company uses its incremental borrowing rate for the discount rate to calculate the present value of the payments since it is difficult and not practical to determine the interest rate implicit in the lease. The Company's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Right-of-use asset is initially measured as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. When the Company determines a lease term, if a lease contract contains an option to extend its lease term, the Company is reasonably certain to exercise such option. This is mainly due to the severe economic loss the Company may face for not exercising the right of extension, such as recognizing impairment loss of attached facilities and loss resulting from failure to receive the franchise fee originally obtainable. Therefore, the lease term includes the option to extend. Initial lease terms are generally between 3 and 10 years.

For operating leases, the Company recognizes the minimum lease payments where it is the lessee and the minimum lease income where it is the lessor on a straight-line basis over the lease term, and reflects them as rental expenses and rental revenues, respectively, in the consolidated statements of operation. The Company elected to separate lease and non-lease components and not to recognize leases with an initial term of 12 months or less.

Operating rental expense includes amortization of right-of-use assets and interests on lease liability. Variable lease expenses are primarily linked to sales and are excluded from the measurement of lease liability.

Rental expenses are recorded in the consolidated statements of operation based on the nature of the underlying lease. Rental expense related to leases for directly-operated salons and for leased properties that are subsequently subleased to franchisees are recorded to cost of revenue from directly-operated salons and cost of franchise revenue, respectively, and rental expense related to leases for corporate offices is recorded to selling, general and administrative expenses.

Rental income for operating leases on properties subleased to franchisees is recorded to franchise revenue. Terms and conditions of the sublease agreements are arranged to pass through lease obligations under head leases to the franchisees. Sublease income is presented on a gross basis on the accompanying consolidated statements of operation, as the Company remains the primary obligor.

MEDIROM HEALTHCARE TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

For newly executed contracts, renewal and revision related to leases, estimates and certain assumptions are used to determine asset value, useful lives, discount rate, lease term, etc. and these have effects on (1) classification of lease, (2) measurement of rental payments and (3) measurement of lease asset. These results may differ if varying estimates and assumptions are used.

Property and Equipment, Net

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation of property and equipment is computed principally using the straight-line method based on the estimated useful life of the assets.

The useful lives for depreciation by major asset classes are as follows:

| | |
|-------------------------------|--|
| Leasehold improvements | Lesser of 15 years or the remaining lease term |
| Vehicles | 2-6 years |
| Tools, furniture and fixtures | 2-13 years |

Other Intangible Assets, Net

Other intangible assets with finite useful lives consist primarily of capitalized software, reacquired franchise rights, definite-lived trademarks, and customer relationships. The Company capitalizes both eligible internal and external costs of developing or obtaining computer software for internal use. Costs incurred to develop internal-use software during the application development stage are capitalized until the software is substantially complete and ready for its intended use. Costs related to data conversion, training and maintenance costs associated with internal-use software are expensed as incurred. Capitalized software is amortized over the estimated useful life (3-5 years) using the straight-line method. The Company amortizes the fair value of reacquired franchise rights over the remaining contractual terms of the reacquired franchise rights at the time of the acquisition, which generally range from 1-5 years. The Company amortizes the fair value of trademarks over the estimated useful life (10 years). The Company amortizes the fair value of customer relationships over the estimated useful life (3-7 years). Other intangible assets with indefinite useful lives consist primarily of trademarks that are generally recorded in connection with business combinations at their fair value. Indefinite-lived intangibles should be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. Due to the Company's internal reorganization in July 2021, the Company is no longer using the indefinite-lived trademark and therefore recorded an impairment of ¥38,922 thousand in 2021 which is included in impairment loss on long-lived assets in the consolidated statements of operation.

Impairment of Long-lived Assets, Excluding Goodwill

The Company assesses impairment of long-lived assets at the individual salon level, as this is the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities. Long-lived assets include property and equipment, right-of-use lease assets, internal use software, and definite-lived intangible assets. The Company reviews the carrying value of long-lived assets for impairment whenever events or circumstances occur that indicate that the carrying value of the assets may not be recoverable. The assets are considered to be impaired when the estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition are less than their carrying values. The impairment loss is measured as the amount by which the carrying value of the asset or asset group exceeds its fair value. In determining the fair value, the Company uses present value techniques, if appropriate, based on the estimated future cash flows expected to result from the use of the assets and their eventual dispositions. During 2021, long-lived assets impairment charges related to continuing operations of ¥3,165 thousand, ¥39,067 thousand and ¥20,979 thousand were recorded on property and equipment, other intangible assets and right-of-use asset—operating leases, respectively. During 2020, long-lived assets impairment charges related to continuing operations of ¥36,512 thousand and ¥69,989 thousand were recorded on property and equipment and right-of-use asset—operating leases, respectively. During 2019, long-lived assets impairment charges related to continuing operations of

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¥9,825 thousand and ¥34,721 thousand were recorded on property and equipment and right-of-use asset—operating leases, respectively. Long-lived assets impairments are recorded in impairment loss on long-lived assets in the consolidated statements of operation.

Acquisitions

The Company evaluates acquisitions of assets and other similar transactions to assess whether or not the transaction should be accounted for as a business combination or asset acquisition by first applying a screen test to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the screen is met, the transaction is accounted for as an asset acquisition. If the screen is not met, further determination is required as to whether or not we have acquired inputs and processes that have the ability to create outputs which would meet the definition of a business. Significant judgment is required in the application of the screen test to determine whether an acquisition is a business combination or an acquisition of assets.

If an acquisition is determined to be a business combination, the assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill.

If an acquisition is determined to be an asset acquisition, the cost of the asset acquisition, including transaction costs, are allocated to identifiable assets acquired and liabilities assumed based on a relative fair value basis. If the cost of the asset acquisition is less than the fair value of the net assets acquired, no gain is recognized in earnings. The excess fair value of the acquired net assets over the consideration transferred is allocated on a relative fair value basis to the identifiable net assets (excluding non-qualifying assets).

Determining estimated fair value requires a significant amount of judgment and estimates. If assumptions change or errors are determined in our calculations, the fair value could materially change resulting in a change in goodwill or identifiable net assets acquired.

Goodwill

Goodwill represents the excess of cost over fair value of identifiable net assets acquired and assumed in business combinations. The Company generally records goodwill in connection with the acquisition of relaxation salons from franchisees. Upon the sale of relaxation salons to franchisees, goodwill is decremented. In addition, the Company records goodwill when the Company acquires other entities. Goodwill and intangible assets that are deemed to have indefinite useful lives are subject to impairment testing. Impairment testing is performed annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill impairment assessments are performed at the reporting unit level, which is the same as the Company's operating segments. The Company utilizes a qualitative assessment for determining whether step one of the goodwill impairment analysis is necessary. If a step one test is considered necessary based on the qualitative factors, the Company compares the estimated fair value of a reporting unit to its carrying value. The carrying value of each reporting unit is based on the assets and liabilities associated with the operations of the reporting unit. The Company calculates estimated fair values of the reporting units based on discounted future cash flows utilizing estimates in annual revenue, service and product margins, fixed expense rates, allocated corporate overhead, directly-operated and franchise salon counts, and long-term growth rates for determining terminal value. If the carrying amount of a reporting unit exceeds its fair value, a loss will be recorded for the excess of the carrying value of the reporting unit over the fair value of the reporting unit. The Company did not recognize impairment losses for any goodwill during the years ended December 31, 2021, 2020 and 2019.

Asset Retirement Obligations

The Company records asset retirement obligations when the obligation is incurred. The obligation is measured at fair value and included in other current liabilities and asset retirement obligations. When the liability is initially recorded,

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the Company capitalizes the related cost by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value, and the capitalized cost is depreciated over the asset's useful life.

Revenue Recognition

Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

The Company determines revenue recognition through the following steps:

- Step 1: identification of the contract with a customer;
- Step 2: identification of the performance obligations in the contract;
- Step 3: determination of the transaction price;
- Step 4: allocation of the transaction price to the performance obligations in the contract;
- Step 5: recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenue from Directly-Operated Salons

Revenues from directly-operated salons (including sales in the Luxury Beauty segment) are recognized when services are provided at the salons. The promised services for directly operated studios are the services ordered by the end customer from the service menu. The services are provided in one appointment. Therefore, there is only one performance obligation. As the customer simultaneously receives and consumes the benefits of the relaxation services, the revenue is recognized over time using the delivery output method.

Revenue from prepaid cards is recognized when the services are transferred. When value is added to a prepaid card, the Company records a contract liability for its performance obligation to stand ready to transfer services in the future (or transfer funds to franchisee who provides service). When the services or funds are transferred, it derecognizes the contract liability and correspondingly recognizes revenue net of any funds transferred to franchisees. The Company expects to be entitled to a certain amount of breakage and recognizes revenue from breakage proportionately to the redemptions exercised by the customer.

The Company also sells salons that were previously owned to third-party investors. Such investors are required to enter into Service Agreements with the Company to allow it to manage the operations of the salons and the Company will charge a fee for the management services to be provided. As this is a recurring source of income for the Company as part of the larger strategy for the relaxation salons segment, the sale of salons is considered part of the Company's ongoing major or central operations and thus ordinary activities for the Company. Therefore, the Company applies ASC 606 to these contracts. Revenue from the sale of directly-owned salons is comprised of the (i) transfer of the salon assets and business rights and (ii) outsourced salon operation services. The revenue for the transfer of salon assets and business rights is recognized at a point in time when the agreement is signed, and control is transferred to the customer. The consideration for the transfer of the salon is generally collected upfront. There is no significant financing component. The proceeds from the transfer of the salon are presented as cash flows from investing activities on the consolidated statements of cash flow to be consistent with how the cash outflows and inflows are classified related to the salon's purchase and sale. Revenue from the Service Agreement are recognized over the term of the agreement as services are provided. The customer benefits from the integrated service over the contract term and each time increment is substantially the same. Therefore, the outsourced salon operations are considered a "series" of distinct services and are treated as a single performance obligation. The term of the Service Agreement is typically five years. Under the Service Agreement, the Company is reimbursed for the costs of operating the salon and will recognize revenue from the reimbursement of costs using the as-invoiced practical expedient. Furthermore, the Company will receive a certain portion of the excess profit, which is considered variable consideration. This success fee will be constrained until there is greater than 70% probability that there will be no future reversal of revenue.

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Franchise Revenue

Franchise revenue is comprised of (i) franchise fees, (ii) royalty income, (iii) staffing service revenue, (iv) sublease revenue, and (v) other franchise revenues. The Company and the franchisee enter into a franchise agreement which sets forth the standard terms and conditions of operating the franchised salon, as well as the fees and royalties over the term of the agreement. In most cases, an outsourcing agreement, is also entered into in conjunction with the franchise agreement that specifies the terms of the sublease arrangement with the franchisee. Upon the franchisee's request, the Company's therapists are dispatched to franchise locations and franchisees must pay dispatch fees in accordance with the dispatched employees' position.

(i) Franchise fees

The Company receives the entire non-refundable initial franchise fees from the franchisee based on franchise agreement. The franchise agreement typically has an initial term of five years. The services for operating the franchised salon provided by the Company under franchise contract are not separately identifiable within the contract and are interrelated with the franchise right granted in the franchise agreement. As such the services are considered to represent a single performance obligation. The franchise agreement could be renewed prior to expiration by mutual consent and renewal franchise fees are paid by franchisee upon renewal of agreement. Initial franchise fees and expected renewal franchise fees are recognized as revenue ratably using the time-based input method over the expected average contract life (7-10 years), instead of the contract term, as there is a material right related to renewals.

(ii) Royalty income

The Company collects royalties, an amount calculated by multiplying a certain percentage to gross sales, on a monthly basis. The royalties are subject to the sales- and usage-based royalties constraint and are recognized as revenues based on the monthly royalty earned where such amount is determined on the basis of gross sales made from each salon.

(iii) Staffing service revenue

The Company also generates revenue from providing its therapists to franchisees, which are recognized as revenues based on the total number of working hours of the agency worker during the dispatched period. The Company has elected the 'as-invoiced' practical expedient for its staffing services where the fixed rate per hour is invoiced to the customer.

(iv) Sublease revenue

The Company leases the premises in which the majority of its franchisees operate, where the Company retains the head lease primary obligation, and has entered into corresponding sublease arrangements with franchisees. Revenues from sublease transactions with franchisees are recognized on a straight-line basis over the respective operating lease terms, or at the time of the underlying sales for variable lease payments, in accordance with Accounting Standards Codification ("ASC") 842 Leases ("ASC 842").

(v) Other franchise revenues

Other franchise revenues include other services provided to franchisees separately from the franchise agreements and include advertising, training, studio construction and hiring support. These services are primarily recognized as revenues when services are provided. The Company has elected the 'as-invoiced' practical expedient for its studio construction services where the consideration is invoiced to the customer.

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Other Revenues

Other revenues are primarily from the Digital Preventive Healthcare segment, which include revenues from serving implementation of health and wellness programs (Specific Health Guidance Program), and are recognized when services are provided. Health monitoring wearable device service (MOTHER Bracelet[®]) is still at the development stage as of December 31, 2021 and as such generates no revenue.

See Note 13 for further disclosures required under ASC 606 and Recently Adopted Accounting Pronouncements below for impacts of the ASC606 adoption.

Revenue is recognized net of consumption tax collected from customers and subsequently remitted to governmental authorities.

Advertising Expenses

Advertising costs are expensed as incurred and are recorded in selling, general and administration expenses in the consolidated statements of operation. Advertising expenses for the years ended December 31, 2021, 2020 and 2019 were ¥130,959 thousand, ¥92,460 thousand and ¥77,911 thousand, respectively.

Stock-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments at the fair value of the award on the grant date and recognizes the cost over the requisite service period which the employee is required to provide services in exchange for the award. Compensation expenses are recognized on a straight-line basis over the requisite service period of the awards which are expected to be vested. The Company accounts for forfeitures as they occur. The Company uses option pricing methods that require the input of subjective assumptions, including the expected term, expected volatility, dividend yield and risk-free interest rate.

The Company estimates the likelihood and the rate of achievement for performance sensitive stock-based awards at the end of each reporting period. Changes in the estimated rate of achievement can have a significant effect on the recorded stock-based compensation expense as the effect of a change in the estimated achievement level is recognized in the period the change occurs.

Income Taxes

Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes and tax loss carryforwards. These deferred taxes are measured using the currently enacted tax rates in effect for the year in which the temporary differences or tax loss carryforwards and tax credits are expected to reverse.

Valuation allowances are provided against deferred tax assets when it is more likely than not that a tax benefit will not be realized. The Company considers all available evidence (both positive and negative) when determining whether a valuation allowance is required, with emphasis on its past operating results, the existence of cumulative losses in the most recent years and its forecast of near-term taxable income. The Company recognizes the financial statement effect of uncertain tax positions when it is more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Accrued interest and penalties related to the unrecognized tax benefits are included in income tax expense (benefit) in the consolidated statements of operation.

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The Company recognizes penalties related to income taxes within the selling, general and administrative expenses line in the consolidated statements of operations. Interest related to income taxes will be recognized in interest expense in the consolidated statements of operations.

(Loss) Earnings Per Share

Basic and diluted (loss) earnings per common share are presented in conformity with the two-class method required for participating securities. Basic net (loss) income attributable to the Company per common share is computed by dividing net (loss) income attributable to the Company by the weighted-average number of shares of common stock outstanding during the year. Diluted net income attributable to the Company per common share reflects the potential dilutive effect of stock options. (See Note 15)

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASC 606”). The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Additionally, the guidance requires improved disclosure to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance supersedes most current revenue recognition guidance, including industry-specific guidance. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (ASC 606) and Leases (ASC 842) -Effective Dates for Certain Entities*. The standard permits private entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020 to adopt ASC 606 for annual reporting periods beginning after December 15, 2019.

The Company adopted ASU 606 as of January 1, 2020 using the modified retrospective method of adoption for contracts that were not completed as of the adoption and recognized a cumulative-effect adjustment to accumulated deficit of ¥(458,823) thousand. Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. As a result, the Company has changed its accounting policy for revenue recognition of franchise fees as detailed below. The adoption of this new guidance did not have a material impact for revenue recognition other than franchise fees. The comparative periods have not been adjusted and continue to be reported under the previous revenue recognition guidance. The details of the significant changes are discussed below.

Franchise fees

The adoption of the new revenue recognition guidance changed the timing of recognition of initial franchise fees and renewal franchise fees. Prior to the adoption of ASC 606, the Company recognized revenue under FASB Topic 605 Revenue Recognition (“ASC 605”). Under ASC 605, initial franchise fees are recognized as revenue when the franchised relaxation salon is opened as all material services and conditions related to the initial franchise fee have been substantially performed by the opening date. In addition, under ASC 605, renewal franchise fees are recognized as revenues at the beginning of the renewal term. Under the new revenue recognition guidance, the services for operating the franchised salon provided by the Company under franchise contract are not separately identifiable within the contract, and are interrelated with the franchise right granted in the franchise agreement. As such the services are considered to represent a single performance obligation. Therefore initial franchise fees and expected renewal franchise fees are recognized as revenue ratably over the expected average contract life (7 -10 years), instead of the contract term, as there is a material right related to renewals.

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Income Taxes

In December 2019, the FASB issued ASU 2019-12 *Income Taxes - Simplifying the Accounting for Income Taxes (Topic 740)*, which simplifies various aspects of the income tax accounting guidance and will be applied using different approaches depending on what the specific amendment relates to and, for public entities, are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company adopted this standard on January 1, 2021. The adoption of this standard did not have a material effect on its financial position or results of operations.

Acquired Contract Assets and Contract Liabilities

In October 2021, the FASB issued ASU 2021-08 *Business Combinations (Topic 805): Accounting for Acquired Contract Assets and Contract Liabilities*, which improves comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination by providing consistent recognition guidance. This standard is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted, including in an interim period, for any period for which financial statements have not yet been issued. The Company early adopted this standard as of January 1, 2021 and applied the adoption to its acquisitions in 2021. The adoption of this standard did not have a material effect on its financial position or results of operations.

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Recently Issued Accounting Pronouncements Not Yet Adopted

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires measurement and recognition of expected credit losses for financial assets measured at amortized cost, including accounts receivable, upon initial recognition of that financial asset using a forward-looking expected loss model, rather than an incurred loss model. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. The standard defers the effective dates of ASU 2016-13 for SEC filers that are eligible to be smaller reporting companies, non-SEC filers and all other companies. As a result, Topic 326 is effective for interim and annual reporting periods beginning in 2023. The Company is currently evaluating the impact of adoption of the new standard on its consolidated financial statements.

Investments

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topics 321, 323 and 815*. The new standard addresses accounting for the transition into and out of the equity method and measurement of certain purchased options and forward contracts to acquire investments. The standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2021, with early adoption permitted. Adoption of the standard requires changes to be made prospectively. The Company is currently evaluating the impact of adoption of the new standard on its consolidated financial statements.

Reference Rate Reform

On January 7, 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which refines the scope of Accounting Standards Codification Topic 848, *Reference Rate Reform*, and clarifies some of its guidance as part of the FASB's ongoing monitoring of global reference rate reform activities. The standard permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, computing variation margin settlements, and calculating price alignment interest in connection with reference rate reform activities under way in global financial markets. The Company is currently evaluating the impact of adoption of the new standard on its consolidated financial statements.

2. Business Combination

Acquisition of ZACC

On August 31, 2021, the Company entered into a share transfer agreement with all the existing shareholders of ZACC, a Japanese hair salon operator of “ZACC” brand, pursuant to which it will acquire 100% of the outstanding shares of ZACC for cash consideration of ¥370,000 thousand. The total consideration net of the settlement of a pre-existing borrowing was ¥270,000 thousand. ZACC owns and operates 3 luxury hair salon brands (ZACC vie, ZACC raffine, and ZACC ginza), all of which have been recognized by customers for over 30 years for their high level of techniques and hospitality. The purchase price was paid by cash on hand, and an initial payment of ¥69,014 thousand was made on August 31, 2021. The acquisition date was October 1, 2021, when the Company acquired a controlling interest (60% of the common shares) for ¥152,986 thousand and was required to consolidate ZACC. The remaining shares of ZACC were transferred to the Company on January 1, 2022 for ¥148,000 thousand. The acquisition was accounted for by the acquisition method. The consideration paid by the Company approximated the Company's total fair value. Therefore, the price per share paid by the Company equals the mandatorily redeemable noncontrolling interest per share fair value.

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The allocation of the purchase price was based on the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

The estimated fair values of the assets acquired and liabilities assumed at the acquisition date were as follows:

| | Thousands of Yen | |
|---|---|------------------|
| | <u>Fair value of assets/liabilities</u> | |
| Cash | ¥ | 81,802 |
| Accounts receivable-other | | 49,573 |
| Inventories | | 5,408 |
| Prepaid expenses and other current assets | | 2,234 |
| Property and equipment | | 39,232 |
| Other intangible assets | | 240,000 |
| Right-of-use asset-operating lease | | 202,196 |
| Other assets | | 68,497 |
| Total assets acquired | | <u>688,942</u> |
| Accounts payable | | (6,041) |
| Accrued expenses and other current liabilities | | (42,168) |
| Mandatorily redeemable noncontrolling interests in ZACC | | (148,000) |
| Lease liability | | (201,076) |
| Borrowings | | (249,263) |
| Asset retirement obligation | | (14,147) |
| Deferred tax liability | | (73,488) |
| Total liabilities assumed | | <u>(734,183)</u> |
| Net liabilities assumed | | <u>(45,241)</u> |
| Fair value of the consideration transferred | | <u>122,000</u> |
| Goodwill | ¥ | 167,241 |

The intangibles of ¥240,000 thousand is comprised of customer relationships of ¥150,000 thousand and ¥90,000 thousand of tradename. The goodwill recorded primarily relates to the growth potential from expanding ZACC's presence in Japan by implementing a franchising model with the help of the Company's expertise in this area and the acquired assembled workforce. Almost all of the goodwill is expected to be nondeductible for income tax purposes.

There were no acquisition-related costs incurred. The amount of revenue and earnings from the acquisition included in the Company's results of operations for the year ended December 31, 2021 was ¥169,320 thousand and ¥174 thousand, respectively. Pro forma revenue and earnings amounts on a combined basis have not been presented as it is impracticable due to the lack of availability of historical financial statements that comply with U.S. GAAP.

Acquisition of SAWAN

On May 6, 2021, the Company acquired control of SAWAN CO. LTD. ("SAWAN") by purchasing all outstanding shares for cash consideration of ¥140,697 thousand. As a result, "Ruam Ruam," which is a luxury relaxation salon brand held by SAWAN, has become part of the Company's directly-operated salons. The acquisition was accounted for by the acquisition method. Acquisition-related costs of ¥12,000 thousand were recognized as expenses when incurred, which is included in selling, general and administrative expenses in the consolidated statements of operation.

The allocation of the purchase price was based on the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

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The estimated fair values of the assets acquired and liabilities assumed at the acquisition date were as follows:

| | Thousands of Yen |
|--|---|
| | <u>Fair value of assets/liabilities</u> |
| Cash | ¥ 7,824 |
| Accounts receivable-other | 18,228 |
| Inventories | 3,391 |
| Prepaid expenses and other current assets | 16,643 |
| Property and equipment | 70,497 |
| Other intangible assets | 100,000 |
| Right-of-use asset-operating lease | 168,242 |
| Other long-term assets | 57,259 |
| Total assets acquired | 442,084 |
| Accounts payable | (99,405) |
| Accrued expenses | (16,271) |
| Advances received | (60,651) |
| Lease liability | (165,560) |
| Asset retirement obligation | (25,060) |
| Deferred tax liabilities | (30,620) |
| Other liabilities | (14,701) |
| Total liabilities assumed | (412,268) |
| Net assets acquired | 29,816 |
| Fair value of the consideration transferred | 140,697 |
| Goodwill | ¥ 110,881 |

The intangibles of ¥100,000 thousand is comprised of customer relationships of ¥30,000 thousand and ¥70,000 thousand of tradename intangibles. The goodwill recorded primarily relates to the sales growth potential of the relaxation salons held by SAWAN and acquired assembled workforce. Almost all of the goodwill is expected to be nondeductible for income tax purposes.

The amount of revenue and earnings from the acquisition included in the Company's results of operations for the year ended December 31, 2021 was ¥307,141 thousand and ¥(28,988) thousand, respectively. Pro forma revenue and earnings amounts on a combined basis have not been presented as it is impracticable due to the lack of availability of historical financial statements that comply with U.S. GAAP.

Acquisition of relaxation salons

During 2021, 2020 and 2019, the Company acquired 18 relaxation salons, 16 relaxation salons and 17 relaxation salons, respectively, for cash consideration of ¥202,686 thousand, ¥86,916 thousand and ¥23,813 thousand, respectively. The cash consideration paid in these transactions is included within acquisition of businesses - net of cash acquired in the investing activities, payment of installment payables related to business acquisitions in the financing activities and payables related to acquisition of businesses included in accrued expenses in the non-cash investing and financing activities sections of the consolidated statements of cash flows.

Acquisition-related costs were recognized as expenses when incurred, which were immaterial in amount. The results of operations, and assets and liabilities, of these relaxation salons were included in the consolidated financial statements from the date of acquisition. The purchase price allocation was based on the estimated fair values of the assets acquired and liabilities assumed, as of the acquisition date.

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The estimated fair values of the assets acquired and liabilities assumed at the acquisition date were as follows:

| | Thousands of Yen | | |
|---|----------------------------------|----------|----------|
| | Fair value of assets/liabilities | | |
| | 2021 | 2020 | 2019 |
| Property and equipment | ¥ 36,299 | ¥ 51,005 | ¥ 27,567 |
| Other intangible assets | 15,000 | 12,690 | 6,519 |
| Total assets acquired | 51,299 | 63,695 | 34,086 |
| Asset retirement obligation | (33,876) | (49,217) | (25,942) |
| Total liabilities assumed | (33,876) | (49,217) | (25,942) |
| Net assets acquired | 17,423 | 14,478 | 8,144 |
| Fair value of the consideration transferred | 202,686 | 86,916 | 23,813 |
| Goodwill | 185,263 | 72,438 | 22,156 |
| Gain from bargain purchases | ¥ — | ¥ — | ¥ 6,487 |

The goodwill recorded primarily relates to the sales growth potential of the relaxation salon locations acquired and is expected to be deductible for income tax purposes. In 2021, 2020 and 2019, the fair value of the reacquired franchise rights was estimated using the excess earnings method and relief from royalty method with Level 3 unobservable inputs. In order to develop these Level 3 fair value measurements, the Company used 1.2% - 6.0% royalty rate and 11.3% - 25.0% discount rate as significant unobservable inputs. The amount of reacquired franchise rights was ¥15,000 thousand, ¥12,690 thousand and ¥6,519 in 2021, 2020 and 2019, respectively. Reacquired franchise rights are subject to amortization and are amortized over an estimated useful life of approximately one to three years.

For some relaxation salons acquired, the Company recognized the excess of the fair value of the net assets assumed over the fair value of the consideration transferred as a gain from bargain purchases of nil, nil and ¥6,487 thousand in 2021, 2020 and 2019 respectively, which is separately presented in the consolidated statements of operation.

The amount of revenue from the acquired relaxation salons included in the Company's results of operations for the years ended December 31, 2021, 2020 and 2019 was ¥208,660 thousand, ¥375,148 thousand and ¥799,788 thousand, respectively. The amount of earnings (loss) from the acquired relaxation salons included in the Company's results of operations for the years ended December 31, 2021, 2020 and 2019 was ¥(13,788) thousand, ¥(26,595) thousand and ¥107,145 thousand, respectively. Disclosure of pro forma information is omitted as the information is not easily available.

3. Property and Equipment, Net

As of December 31, 2021 and 2020, property and equipment, net consist of the following:

| | Thousands of Yen | |
|---|------------------|-----------|
| | 2021 | 2020 |
| Leasehold improvements | ¥ 472,872 | ¥ 272,756 |
| Vehicles | 23,219 | 9,548 |
| Tools, furniture and fixtures | 87,034 | 37,480 |
| Total | 583,125 | 319,784 |
| Accumulated depreciation and amortization | (158,129) | (83,854) |
| | ¥ 424,996 | ¥ 235,930 |

Depreciation and amortization expense was ¥80,463 thousand, ¥41,691 thousand and ¥29,557 thousand for the years ended December 31, 2021, 2020 and 2019, respectively.

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For the years ended December 31, 2021, 2020 and 2019 the Company recognized impairment loss of ¥3,165 thousand, ¥36,512 thousand and ¥9,825 thousand for the Relaxation Salon segment on leasehold improvements used in certain relaxation salons, respectively. The Company conducted strategic reviews of its future profitability forecast. Following these reviews, the Company reduced the corresponding estimated future cash flows of these assets and the estimated ability to recover the carrying amount of the long-lived assets within the period applicable to the impairment determination, resulting in the impairment charges.

4. Goodwill and Other Intangible Assets, Net

The components of intangible assets as of December 31, 2021 and 2020 are as follows:

| | Thousands of Yen | |
|--|------------------|------------------|
| | 2021 | 2020 |
| Intangible assets subject to amortization: | | |
| Software for internal use | ¥ 113,345 | ¥ 84,152 |
| Reacquired franchise rights | 19,343 | 17,973 |
| Customer relationship | 180,000 | — |
| Trademark | 160,000 | — |
| Other | 750 | 750 |
| Total | <u>473,438</u> | <u>102,875</u> |
| Accumulated amortization | <u>(82,769)</u> | <u>(44,330)</u> |
| Net carrying amount | <u>390,669</u> | <u>58,545</u> |
| Intangible assets not subject to amortization: | | |
| Trademark | — | 38,922 |
| Goodwill | 600,329 | 150,720 |
| Telephone rights | 369 | 148 |
| Total | <u>600,698</u> | <u>189,790</u> |
| Total intangible assets | <u>¥ 991,367</u> | <u>¥ 248,335</u> |

The aggregate amortization expense was ¥45,780 thousand, ¥20,599 thousand and ¥16,617 thousand for the years ended December 31, 2021, 2020 and 2019, respectively. As of December 31, 2021, the weighted average amortization period for internal-use software, reacquired franchise rights, customer relationships and trademarks was 4 years, 1 year, 6 years and 10 years, respectively.

The indefinite-lived trademark intangible relates to the relaxation salon segment and was considered abandoned due to the internal reorganization in 2021. The Company recorded an impairment charge for the full carrying value of ¥38,922 thousand in the year ended December 31, 2021. In addition, the Company recorded an impairment loss of ¥145 thousand on reacquired rights of certain relaxation salons in the relaxation segment for the year ended December 31, 2021. The Company conducted strategic reviews of its future profitability forecast. Following these reviews, the Company reduced the corresponding estimated future cash flows of these assets and the estimated ability to recover the carrying amount of the reacquired rights within the period applicable to the impairment determination, resulting in the impairment charges.

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The estimated aggregate amortization expense for other intangible assets for the next five years and thereafter is as follows:

| | Thousands of Yen |
|--------------------------|-------------------------|
| Year ending December 31: | |
| 2022 | ¥ 76,336 |
| 2023 | 65,756 |
| 2024 | 55,641 |
| 2025 | 41,919 |
| 2026 | 39,570 |
| Thereafter | 111,447 |
| Total | <u>¥ 390,669</u> |

The following table shows changes in carrying amount of goodwill for the years ended December 31, 2021, 2020 and 2019:

| | Thousands of Yen |
|---|-------------------------|
| Balance at December 31, 2019 | ¥ 78,282 |
| Acquisitions of relaxation salons*1 | 72,438 |
| Balance at December 31, 2020 | 150,720 |
| Acquisitions of relaxation salons*1 | 185,263 |
| Acquisition of SAWAN's shares*3 | 110,881 |
| Acquisition of ZACC's shares*2 | 167,241 |
| Sale of directly-owned salons, and closure of directly-owned salons | (13,776) |
| Balance at December 31, 2021 | <u>¥ 600,329</u> |

- *1 Acquisitions for the years ended December 31, 2021 and 2020 relate to relaxation salon acquisitions in the relaxation salon segment. Refer to Note 2.
- *2 Acquisition for the year ended December 31, 2021 relates to ZACC's shares acquisition in the luxury beauty segment. Refer to Note 2.
- *3 Acquisition for the year ended December 31, 2021 relates to SAWAN's shares acquisitions in the relaxation salon segment. Refer to Note 2.

No impairment losses on goodwill were recognized for the years ended December 31, 2021, 2020 and 2019.

The Company performed a step 1 quantitative assessment for its annual goodwill impairment test on December 31, 2021. Based on the results of the step 1 test, the fair value of the reporting unit exceeded the carrying value and no impairment was recorded. The Company performed a qualitative assessment for its annual goodwill impairment test on December 31, 2020 and December 31, 2019. Based on the results of the qualitative assessment, a step one test was not considered necessary. The fair value of all reporting units was determined using an income approach based upon estimates of future discounted cash flows. Significant judgments and unobservable inputs categorized as Level III in the fair value hierarchy are inherent in the impairment tests performed and include assumptions about the amount and timing of expected future cash flows, growth rates, and the determination of appropriate discount rates. The Company believes that the assumptions used in its annual impairment test are reasonable, but variations in any of the assumptions may result in different calculations of fair values and impairment charges. The impacts of any adverse business and market conditions which impact the overall performance of the Company's reporting units will continue to be monitored. If the Company's reporting units do not achieve the financial performance that the Company expects, it is possible that goodwill impairment charges may result. There can therefore be no assurance that future events will not result in an impairment of goodwill.

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5. Investments

Equity Method Investments

In December 2019, the Company sold all of its investment in Re.Ra.Ku (Hong Kong) Health Science and Technology Co., Limited, for ¥50,000 thousand, for a gain of ¥559 thousand. As of December 31, 2021, 2020 and 2019, the Company had zero ownership interest in equity method investments.

Investments at Cost

The carrying amount of non-marketable securities are recorded at cost as fair value is not readily determinable. The amount is ¥53,020 thousand and ¥500 thousand as of December 31, 2021 and 2020, respectively. The Company did not recognize any impairment for the year ended December 31, 2021. For the year ended December 31, 2020, impairment charges of ¥5,544 thousand and ¥5,000 thousand were recorded on the Matrix Industries, Inc. and other non-marketable securities, respectively. The Company did not recognize any impairment for the year ended December 31, 2019.

The breakdown of non-marketable securities as of December 31, 2021, 2020 and 2019 are as follows:

| | <u>Carrying amount</u> | | <u>Ownership</u> | |
|-------------------------|-------------------------|--------------|------------------|-------------|
| | <u>Thousands of Yen</u> | | <u>2021</u> | <u>2020</u> |
| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
| Matrix Industries, Inc. | ¥ 52,520 | ¥ — | 0.09% | 0.09% |
| Other | 500 | 500 | — | — |
| Total | ¥ 53,020 | ¥ 500 | | |

In February 3, 2021 the Company acquired a convertible note from Matrix Industries, Inc. for ¥52,520 thousand.

6. Borrowings

The Company has borrowings with financial institutions. Some borrowings are secured. As of December 31, 2021, time deposits with an aggregating book value of ¥81,526 thousand are pledged as collateral (the amounts of ¥20,026 thousand and ¥61,500 thousand are included in time deposits and other assets, respectively, in the consolidated balance sheets). Some borrowings are guaranteed by Credit Guarantee Association, a Japanese governmental affiliate agency which supplements private companies with credit. The borrowings accrue interest using fixed interest rates of 0.21% – 3.98%, per annum as of December 31, 2021 and 2020. Debt issuance costs related to these borrowings are immaterial.

The carrying value of the Company's borrowings as of December 31, 2021 and 2020 are as follow:

| | <u>Thousands of Yen</u> | |
|---|-------------------------|------------------|
| | <u>2021</u> | <u>2020</u> |
| Borrowings (Due through 2035 with weighted average interest rates of 0.66% as of December 31, 2021, due through 2035 with weighted average interest rates of 1.33% as of December 31, 2020) | ¥ 908,840 | ¥ 910,661 |
| Current portion of borrowings | (162,252) | (242,281) |
| Total borrowings | ¥ 746,588 | ¥ 668,380 |

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As of December 31, 2021, the carrying value is comprised of the principal amount of ¥913,486 thousand less a fair value valuation discount of ¥4,646 thousand.

As of December 31, 2020, the carrying value is the same as the principal amount of the borrowings of ¥910,661 thousand.

The following is a summary of maturities of borrowings subsequent to December 31, 2021:

| | Thousands of Yen | |
|---------------------------------|-------------------------|----------------|
| Year ending December 31: | | |
| 2022 | ¥ | 162,252 |
| 2023 | | 99,252 |
| 2024 | | 96,918 |
| 2025 | | 88,438 |
| 2026 | | 94,460 |
| 2027 and thereafter | | 367,520 |
| Total | ¥ | 908,840 |

Parent has long-term borrowings. These borrowings are primarily made under general agreements, which are to provide security and guarantees for present and future indebtedness or to secure a guarantor upon request of the bank, and that the banks shall have the right to offset cash deposits against any debts and obligations that have become due or, in the case of default, against all obligations to the banks. Kouji Eguchi, the representative director and the shareholder of Parent (holds 38.61% of common stock and all Class A common stock as of December 31, 2021) is a guarantor for twelve bank loans on behalf of our Company. As of December 31, 2021, the outstanding amount of loans guaranteed by Mr. Eguchi was ¥314,700 thousand. Kazuyoshi Takahashi, the representative director of ZACC and shareholder of ZACC (holds 26.00% of common stock as of December 31, 2021), is the guarantor for four bank loans on behalf of ZACC, which were borrowed by ZACC from two banks prior to the acquisition of ZACC. As of December 31, 2021, Mr. Takahashi's guarantee has not been released and the outstanding amount of loans guaranteed by Mr. Takahashi was ¥99,706 thousand. None of the borrowing agreements contain any financial covenants.

7. Asset Retirement Obligation

Asset retirement obligation primarily consists of estimated costs arising from a contractual obligation to a landlord to remove leasehold improvements from leased properties at the end of the lease contracts for its headquarters and directly-operated salons.

Reconciliation of the beginning and ending amount of asset retirement obligation for the years ended December 31, 2021 and 2020 is as follows:

| | Thousands of Yen | |
|-----------------------|-------------------------|------------------|
| | 2021 | 2020 |
| Beginning balance | ¥ 191,192 | ¥ 127,411 |
| Liabilities incurred | 114,946 | 80,056 |
| Liabilities settled | (9,316) | (16,870) |
| Accretion expense | 2,172 | 595 |
| Ending balance | ¥ 298,994 | ¥ 191,192 |

As of December 31, 2021, the amounts of ¥2,593 thousand and ¥296,401 thousand asset retirement obligation are included in other current liabilities and asset retirement obligation, respectively, in the consolidated balance sheets.

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As of December 31, 2020, the amounts of ¥191,192 thousand asset retirement obligation are included in asset retirement obligation, in the consolidated balance sheets.

8. Leases

The Company mainly leases commercial space for its relaxation salon from external third parties, which are either operated by the Company or a franchisee and also enters into contracts with franchisees subleasing partial spaces of leased properties under the terms and conditions that are substantially the same as the head lease contracts. As of December 31, 2021, 2020 and 2019, the Company had 235, 213 and 220 leased salons, respectively, of which 115, 130 and 165 salons, respectively were subleased.

Operating Leases

Lessee

There are no lease transactions classified as finance leases for the years ended December 31, 2021, 2020 and 2019.

The table below summarizes the components of operating lease costs related to operating leases for the year ended December 31, 2021, 2020 and 2019:

| | Thousands of Yen | | |
|-------------------------|------------------|-----------|-----------|
| | 2021 | 2020 | 2019 |
| Fixed lease cost (a) | ¥ 801,292 | ¥ 748,230 | ¥ 851,555 |
| Variable lease cost (b) | 33,167 | 24,484 | 30,901 |
| Short-term cost | 38,876 | 11,669 | 10,979 |
| Total | ¥ 873,335 | ¥ 784,383 | ¥ 893,435 |

- (a) This includes the amount of ¥420,138 thousand, ¥478,225 thousand and ¥580,074 thousand recoverable from sublessees for the years ended December 31, 2021, 2020 and 2019, respectively.
- (b) This includes the amount of ¥17,838 thousand, ¥14,146 thousand and ¥27,606 thousand recoverable from sublessees for the years ended December 31, 2021, 2020 and 2019, respectively.

There are no sale-and leaseback transactions conducted in the years ended December 31, 2021, 2020 and 2019.

Supplementary information on cash flow and other information for leasing activities for the year ended December 31, 2021, 2020 and 2019 are as follows:

| | Thousands of Yen | | |
|---|------------------|-----------|-----------|
| | 2021 | 2020 | 2019 |
| Cash paid for amounts included in the measurement of lease liabilities: | | | |
| Operating cash flows | ¥ 881,822 | ¥ 797,623 | ¥ 375,270 |
| Right-of-use assets obtained in exchange for lease liabilities | 917,135 | 604,703 | 749,008 |
| Weighted average remaining lease term (in years) | 3.2 | 2.8 | 3.3 |
| Weighted average discount rate | 1.64% | 1.45% | 1.45% |

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Maturity analysis of future minimum lease payments under non-cancellable leases subsequent to December 31, 2021 are as follows:

| | Thousands of Yen | |
|---|------------------|-----------|
| Year ending December 31: | | |
| 2022 | ¥ | 773,383 |
| 2023 | | 490,042 |
| 2024 | | 278,068 |
| 2025 | | 181,245 |
| 2026 | | 112,678 |
| 2027 and thereafter | | 113,935 |
| Total | | 1,949,351 |
| Less: Interest component | | (65,395) |
| Present value of minimum lease payments | ¥ | 1,883,956 |

The amount of ¥755,219 thousand and ¥1,128,737 thousand of the discounted present value of minimum lease payment are included in current portion of lease liability and lease liability — net of current portion, respectively, in the consolidated balance sheets.

Subleases

The Company leases space from commercial facility landlords which in turn it subleases to certain franchisees of its relaxation salons. Sublease revenues are as follows for the years ended December 31, 2021, 2020 and 2019, and included in franchise revenues:

| | Thousands of Yen | | |
|--------------------------|------------------|-----------|-----------|
| | 2021 | 2020 | 2019 |
| Fixed sublease income | ¥ 420,138 | ¥ 478,225 | ¥ 580,074 |
| Variable sublease income | 17,838 | 14,146 | 27,606 |
| Total | ¥ 437,976 | ¥ 492,371 | ¥ 607,680 |

Expected future minimum lease collections to be received under non-cancellable subleases subsequent to December 31, 2021 are as follows:

| | Thousands of Yen | |
|--------------------------|------------------|---------|
| Year ending December 31: | | |
| 2022 | ¥ | 328,989 |
| 2023 | | 225,351 |
| 2024 | | 92,165 |
| 2025 | | 45,374 |
| 2026 | | 23,279 |
| 2027 and thereafter | | 18,267 |
| Total | ¥ | 733,425 |

There are no lease transactions classified as sale-type leases and direct financing leases for the years ended December 31, 2021, 2020 and 2019.

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9. Shareholders' (Deficit) Equity

Common stock and Class A common stock

Parent's capital consists of common stock and Class A common stock. On March 29, 2021, the Company held its 21st Ordinary General Meeting of Shareholders, whereby the proposal to amend the Articles of Incorporation to increase the total number of authorized shares was approved. The total number of authorized shares increased to 19,900,000 shares, and the total number of authorized class shares increased to 19,899,999 common shares and one (1) Class A common share.

The same rights are granted to common stock and Class A common stock on the right to claim a dividend and to claim a liquidation distribution.

Class A common stock is entitled to no voting rights at ordinary shareholders' meetings. However, when Parent makes decisions on the following matters stipulated in laws or regulations or the articles of incorporation that need to be approved by the resolution of the Board of Directors, in addition, Parent needs approval at the Class General Meetings of respective shareholders, which is constituted by the shareholders of Class A common stock.

1. Subject to a demand for sale of treasury stock from inheritors;
2. Reverse stock split, stock split, issuance of stock and issuance of stock acquisition right;
3. Dismissal of Parent's corporate auditor;
4. Decrease of common stock;
5. Dividend paid in property other than money;
6. Change in the articles of incorporation, business transfer, dissolution and liquidation of Parent; and
7. Organizational change, merger, stock exchange and stock transfer;

All issued Class A common stock are held by Parent's representative director, Kouji Eguchi. The holders of Class A common share can claim anytime to acquire Class A common share at market price.

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

Common stock

Under the Companies Act, issuances of common stock are required to be credited to the common stock account for at least 50% of the proceeds and to the additional paid-in capital account for the remaining amounts.

Dividends

Under the Companies Act, companies can pay dividends at any time during the year in addition to the year-end dividend upon resolution at the shareholders' meeting. The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders' subject to certain limitations and additional requirements. Semiannual dividends may also be paid upon resolution by the Board of Directors. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity

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account charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, and other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

Treasury Stock

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

10. Stock-based Compensation

The fair value of stock options as part of employee incentive plans is estimated at the date of grant of the purchase rights using the Black-Sholes option-pricing model. The model requires the input of highly subjective assumptions such as the expected stock price volatility and the expected term.

According to the resolutions at the general meetings of shareholders held in December 2015, as Fourth Series of Stock Subscription Rights, stock options to purchase 1,539,500 shares of common stock were granted to the Company's director and the Company's corporate auditor on December 21, 2015. The exercise term of stock options is 8 years commencing from December 22, 2017 and they must hold positions in the Company at the time of exercise to exercise their rights. The stock option's fair value as of grant date was ¥2.45 per share. The exercise price of the stock option is ¥400 per share.

According to the resolutions at the general meetings of shareholders held in December 2015, as Fifth Series of Stock Subscription Rights, stock options to purchase 285,500 shares of common stock were granted to the Company's employees on December 21, 2015. The exercise term of stock options is 8 years commencing from December 22, 2017 and they must be employed by the Company at the time of exercise to exercise their rights. The stock option's fair value as of grant date was ¥2.96 per share. The exercise price of the stock option is ¥400 per share.

According to the resolutions at the general meetings of shareholders held in December 2016, as Sixth Series of Stock Subscription Rights, stock options to purchase 230,000 shares of common stock were granted to the Company's corporate auditor on December 21, 2016. The exercise term of stock options is 8 years commencing from December 22, 2018 and they must hold positions in the Company at the time of exercise to exercise their rights. The stock option's fair value as of grant date was ¥0.67 per share. The exercise price of the stock option is ¥2,000 per share.

According to the resolutions at the general meetings of shareholders held in December 2016, as Seventh Series of Stock Subscription Rights, stock options to purchase 174,000 shares of common stock were granted to the Company's director and the Company's employees on December 21, 2016. The exercise term of stock options is 8 years commencing from December 22, 2018 and they must be employed by the Company at the time of exercise to exercise their rights. The stock option's fair value as of grant date was ¥0.82 per share. The exercise price of the stock option is ¥2,000 per share.

According to the resolutions at the extraordinary general meetings of shareholders held in August 2020, as Eighth Series of Stock Subscription Rights, stock options to purchase 150,000 shares of common stock were granted to the Company's director on October 2, 2020. The amount to be paid in for the stock option was ¥1.00 per share. The exercise term of stock options is 5 years commencing from October 1, 2021 and they must be employed by the Company at the time of exercise to exercise their rights. The stock option's fair value as of grant date was ¥104.64 per share. The exercise price of the stock option is ¥2,000 per share.

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According to the resolutions at the extraordinary general meetings of shareholders held in August 2020, as Ninth Series of Stock Subscription Rights, stock options to purchase 300,000 shares of common stock were granted to the Company's director, the Company's corporate auditor, the Company's employees and outside service providers on October 2, 2020. The amount to be paid in for the stock option was ¥22.00 per share. The exercise term of stock options is 3 years commencing from October 1, 2021 and they must be employed by the Company at the time of exercise to exercise their rights (however, this shall not apply to outside service providers). In addition, the exercise can take place only when the Company achieves an annual consolidated revenue target of ¥3,908,264 thousand under U.S. GAAP in any of our 2020, 2021 or 2022 fiscal years. The stock option's fair value as of grant date was ¥637.02 per share. The exercise price of the stock option is ¥128 per share.

The Company did not grant any stock options during 2021 and 2019.

Cash received from stock options granted during 2020 was ¥6,750 thousand, which are included within other current liabilities in the consolidated balance sheets until the options vest. As the stock options vested during 2021, the liability for the non-forfeited options was reclassified to additional paid-in capital.

The fair value of the Company's stock option was estimated on the date of grant using the Black-Sholes option-pricing model that incorporates the assumptions presented below:

| | Year ended | |
|------------------------------------|------------|-----------------|
| | 2021 | 2020 |
| Expected term of option (in years) | — | 2 –3 |
| Expected volatility | — % | 58.21 – 65.93 % |
| Expected dividend yield | — % | — % |
| Risk-free interest rate | — % | 0.17 – 0.19 % |

Expected term of option

The expected term of option represents the period of time that the stock options granted are expected to be outstanding. The expected term of option was estimated utilizing the simplified method because the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The simplified method primarily is calculated as the midpoint between the requisite service period and the contractual term of option.

Expected volatility

Since the Company does not have a trading history of its common stock, the expected volatility is based on average volatility of comparable publicly traded companies within the Company's industry. Therefore, the Company used the average of their historical volatilities over the respective expected option terms as an estimate of the expected volatility of its own share price.

Expected dividend yield

The expected dividend yield is assumed to be zero as the Company has no current plans to pay any dividends in the foreseeable future.

Risk-free interest rate

The risk-free interest rate is based on market yield curve of the U.S. Treasury securities for the respective expected terms of options.

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A summary of the activity of the Company's employee stock option plans as of and for the years ended December 31, 2021, 2020 and 2019 is presented below:

| | Number of shares | Yen Weighted-average exercise price | Years Weighted- average remaining contractual term | Thousands of Yen Aggregate intrinsic value |
|----------------------------------|---------------------|--|---|--|
| Outstanding at December 31, 2018 | 549,500 | ¥ 1,552 | 7.6 | ¥ — |
| Forfeited/Expired | (30,000) | 800 | | |
| Outstanding at December 31, 2019 | 519,500 | 1,595 | 6.7 | — |
| Exercisable at December 31, 2019 | 519,500 | 1,595 | 6.7 | — |
| Granted | 450,000 | 752 | — | |
| Forfeited/Expired | (290,000) | 1,903 | | |
| Outstanding at December 31, 2020 | 679,500 | 905 | 4.3 | 531,518 |
| Exercisable at December 31, 2020 | 229,500 | 1,205 | 5.4 | 123,891 |
| Forfeited/Expired | (79,700) | 1,266 | | |
| Outstanding at December 31, 2021 | 599,800 | 857 | 3.5 | 192,570 |
| Exercisable at December 31, 2021 | 599,800 | ¥ 857 | 3.5 | ¥ 192,570 |

For the year ended December 31, 2021, there was ¥ 15,545 thousand of compensation cost recognized for the 8th stock options. As of December 31, 2021, the performance condition for the 9th series stock option was deemed probable and the full compensation cost of ¥ 181,308 thousand for the non-forfeited options was recorded in the year ended December 31, 2021. As of December 31, 2021, there was no unrecognized compensation cost.

For the year ended December 31, 2020, there was no material compensation cost recognized for the 8th stock options. As of December 31, 2020, the performance condition for the 9th series of stock option was not deemed probable due to the impacts of COVID-19 and no compensation cost was recorded.

For the year ended December 31, 2019, there were no compensation cost recognized for these stock options.

11. Segment Information

The Company operates its business in three segments: Relaxation Salon, Digital Preventative Healthcare, and Luxury Beauty, which are based on the organizational structure and information reviewed by the Company's Chief Operating Decision Maker, who is the Chief Executive Officer, to evaluate its operating results and allocation of resources.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1.

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Information about operating results and assets for each segment as of and for the years ended December 31, 2021, 2020 and 2019 is as follows:

| | Thousands of Yen | | | | |
|-------------------------------------|---------------------|---------------------------------------|------------------|---------------------------------|--------------|
| | Relaxation Salon | Digital Preventative Healthcare | Luxury Beauty | Corporate and elimination | Consolidated |
| Year ended December 31, 2021 | | | | | |
| Revenues | ¥ 5,196,540 | ¥ 43,965 | ¥ 169,320 | ¥ — | ¥ 5,409,825 |
| Operating income (loss) | 699,105 | (144,857) | (6,538) | (1,018,297) | (470,587) |
| Depreciation and amortization | 80,917 | 11,113 | 10,736 | 23,477 | 126,243 |
| Total assets | 4,002,005 | 161,945 | 701,172 | 887,939 | 5,753,061 |
| Year ended December 31, 2020 | | | | | |
| Revenues | ¥ 3,315,947 | ¥ 25,670 | ¥ — | ¥ — | ¥ 3,341,617 |
| Operating loss | (140,866) | (66,100) | — | (539,122) | (746,088) |
| Depreciation and amortization | 32,261 | 8,007 | — | 22,022 | 62,290 |
| Total assets | 3,096,094 | 34,247 | — | 2,583,125 | 5,713,466 |
| Year ended December 31, 2019 | | | | | |
| Revenues | ¥ 3,864,656 | ¥ 43,608 | ¥ — | ¥ — | ¥ 3,908,264 |
| Operating income (loss) | 279,439 | (43,056) | — | (202,033) | 34,350 |
| Depreciation and amortization | 34,025 | 4,764 | — | 7,385 | 46,174 |
| Total assets | 3,346,739 | 29,565 | — | 1,381,161 | 4,757,465 |

Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable. Corporate expenses include certain corporate general and administrative expenses and back-office expenses.

Assets attributed to each segment are accounts receivable-trade, net, accounts receivable-other, net, inventories, prepaid expenses, right-of-use asset - operating lease, property and equipment, goodwill, intangible assets, investments, and lease and guarantee deposits. Corporate assets primarily consist of cash and cash equivalents, time deposits, long-term accounts receivable-other, net, deferred tax assets, and property and equipment.

Substantially all revenues are from customers operating in Japan. Geographic information is omitted due to immateriality of revenue and operating income attributable to international operations for the years ended December 31, 2021, 2020 and 2019.

12. Income Taxes

The following table shows a summary of income taxes for the years ended December 31, 2021, 2020 and 2019:

| | Thousands of Yen | Thousands of Yen | Thousands of Yen |
|-----------------------------------|---------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 |
| | Total | Total | Total |
| (Loss) income before income taxes | ¥ (414,481) | ¥ (626,689) | ¥ 32,737 |
| Income taxes | | | |
| Current | 24,767 | 19,745 | 10,222 |
| Deferred | 551,483 | (107,264) | 5,739 |
| Total | ¥ 576,250 | ¥ (87,519) | ¥ 15,961 |

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Parent and its subsidiaries are subject to a number of taxes based on income, in the aggregate resulted in an effective statutory rate of approximately 30.6% for the years ended December 31, 2021, 2020 and 2019.

A reconciliation of the differences between the effective income tax rates reflected in the accompanying consolidated statements of operation and Japanese statutory tax rates for the years ended December 31, 2021, 2020 and 2019 is as follows:

| | 2021 | 2020 | 2019 |
|---|----------|--------|--------|
| Statutory tax rate | 30.6 % | 30.6 % | 30.6 % |
| Increases (reductions) in taxes due to: | | | |
| Change in valuation allowance | (155.9) | (13.2) | (10.2) |
| Nondeductible expenses | (1.1) | (0.3) | 3.2 |
| Inhabitant tax-per capita* | (3.9) | (3.2) | 24.5 |
| Stock-based compensation | (14.5) | — | — |
| Use of operating loss carryforwards | 3.9 | — | — |
| Other-net | 1.9 | 0.1 | 0.7 |
| Effective income tax rate | (139.0)% | 14.0 % | 48.8 % |

* Inhabitants tax is imposed on resident corporations in Japan. It consists of the corporation tax calculated as a percentage of national corporation tax and the per capita levy determined based on capital and the number of employees. For the year ended December 31, 2021, the impact of inhabitant tax per capita on the effective tax rate decreased due to fluctuation of (loss) income before income taxes.

The tax effects of the major items of temporary differences giving rise to the deferred tax assets and liabilities as of December 31, 2021, 2020 and 2019 are as follows:

| | Thousands of Yen | | |
|---|------------------|-----------|-----------|
| | 2021 | 2020 | 2019 |
| Deferred tax assets: | | | |
| Accounts receivable-trade | ¥ 13,485 | ¥ 13,485 | ¥ 13,485 |
| Provision for bad debt | 50,551 | 41,700 | 50,271 |
| Goodwill | — | — | 1,135 |
| Other prepaid expenses - currently not deductible | — | — | 54,235 |
| Contract liability | — | 154,950 | — |
| Asset retirement obligation | 91,552 | 58,543 | 39,013 |
| Operating lease liability | 576,867 | 505,601 | 563,660 |
| Operating loss carryforwards | 716,518 | 484,040 | 95,490 |
| Other | 69,603 | 60,392 | 51,485 |
| Gross deferred tax assets | 1,518,576 | 1,318,711 | 868,774 |
| Valuation allowance | (771,441) | (125,376) | (42,395) |
| Total deferred tax assets | 747,135 | 1,193,335 | 826,379 |
| Deferred tax liabilities: | | | |
| Property and equipment | (65,590) | (32,433) | (18,141) |
| Goodwill | (15,018) | (4,073) | — |
| Intangible assets | (101,025) | (15,285) | (6,485) |
| Right-of-use asset - operating lease | (558,538) | (483,437) | (560,336) |
| Deferred offering costs | — | — | (17,609) |
| Advances received | — | (1,311) | (1,303) |
| Other | (6,964) | (1,205) | — |
| Total deferred tax liabilities | (747,135) | (537,744) | (603,874) |
| Net deferred tax assets | ¥ — | ¥ 655,591 | ¥ 222,505 |

Valuation allowance for deferred tax assets have increased by ¥646,065 thousand, increased by ¥82,981 thousand and decreased by ¥3,355 thousand for the years ended December 31, 2021, 2020 and 2019, respectively.

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At December 31, 2021, the Company has provided a full valuation allowance against all of its deferred tax assets. The Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets. In making such assessments, more weight was given to evidence that could be objectively verified. Under this approach the recent cumulative losses are a significant piece of significant negative evidence and was given more weight than projected future income. Based on the Company's review of this evidence, management believes that a full valuation allowance against all of the Company's deferred tax assets as of December 31, 2021 is appropriate.

At December 31, 2021, the Company had operating loss carryforwards of ¥2,340,033 thousand, which are available to offset future taxable income. These carryforwards are scheduled to expire as follows:

| | <u>Operating loss carryforwards</u> (Thousands of Yen) |
|---------------------------|---|
| Years ending December 31: | |
| Between 2022 and 2025 | ¥ 133,695 |
| Between 2026 and 2029 | 160,948 |
| 2030 and thereafter | 2,045,390 |
| Total | <u>¥ 2,340,033</u> |

The Company does not recognize any deferred tax liabilities for undistributed earnings of domestic subsidiaries since dividends from these subsidiaries are not subject to taxation under Japanese tax law.

At December 31, 2021, 2020 and 2019, current unrecognized tax benefit is not material in amount. Even in the next twelve months after the end of 2021, it is unlikely that the total amount would change dramatically.

The penalties and interest expenses related to income taxes are recognized in the consolidated statements of operation as of December 31, 2021, 2020 and 2019, however, the amounts are immaterial.

Parent and its subsidiaries are subject to taxation in Japan and in the local Japanese governments where the Company's salons or offices are located. As of December 31, 2021, the fiscal year ending December 31, 2016 and subsequent years remain open to examination by the tax authority (National Tax Agency and Tokyo Metropolitan Government).

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13. Revenue Recognition

Disaggregation of revenue

For the year ended December 31, 2021 and 2020, revenues are disaggregated by revenue stream and reconciled to reportable segment revenues as follows.

| Revenue Stream* | Thousands of Yen | | | |
|--|--------------------|---------------------------------------|------------------|--------------------|
| | Relaxation Salon | Digital Preventative Healthcare | Luxury Beauty | Consolidated |
| Year ended December 31, 2021 | | | | |
| Revenue from directly-operated salons | ¥ 3,278,514 | ¥ — | ¥ 169,320 | ¥ 3,447,834 |
| Revenue from the sale of directly-owned salons | 559,000 | — | — | 559,000 |
| Franchise fees | 199,889 | — | — | 199,889 |
| Royalty income | 209,848 | — | — | 209,848 |
| Staffing service revenue | 263,962 | — | — | 263,962 |
| Sublease revenue | 437,976 | — | — | 437,976 |
| Other franchise revenues | 247,351 | — | — | 247,351 |
| Other revenues | — | 43,965 | — | 43,965 |
| Total revenues | ¥ 5,196,540 | ¥ 43,965 | ¥ 169,320 | ¥ 5,409,825 |

| Revenue Stream* | Thousands of Yen | | | |
|---------------------------------------|--------------------|---------------------------------------|------------------|--------------------|
| | Relaxation Salon | Digital Preventative Healthcare | Luxury Beauty | Consolidated |
| Year ended December 31, 2020 | | | | |
| Revenue from directly-operated salons | ¥ 2,026,806 | ¥ — | ¥ — | ¥ 2,026,806 |
| Franchise fees | 175,445 | — | — | 175,445 |
| Royalty income | 179,745 | — | — | 179,745 |
| Staffing service revenue | 254,282 | — | — | 254,282 |
| Sublease revenue | 492,371 | — | — | 492,371 |
| Other franchise revenues | 187,298 | — | — | 187,298 |
| Other revenues | — | 25,670 | — | 25,670 |
| Total revenues | ¥ 3,315,947 | ¥ 25,670 | ¥ — | ¥ 3,341,617 |

* All revenue streams are recognized over time, with the exception of hiring support within other franchise revenues and revenue from the sale of directly-owned salons, which are recognized at a point in time. Revenue related to hiring support was not material in the periods presented.

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Contract balance

Information about receivables and contract liabilities from contracts with customers is as follows:

| | <u>Thousands of Yen</u> | | <u>Balance sheet classification</u> |
|------------------------------|--|--|---|
| | <u>As of December 31, 2021</u> | <u>As of December 31, 2020</u> | |
| Receivables | ¥ 312,302 | ¥ 148,540 | Accounts receivable-trade, net |
| Contract liabilities: | | | |
| Current | 104,182 | 172,063 | Current portion of contract liability |
| Long-term | 239,067 | 333,978 | Contract liability - net of current portion |
| Total | ¥ 343,249 | ¥ 506,041 | |
| Prepaid card liability | ¥ 509,355 | ¥ 403,229 | Advances received |

Receivables relate primarily to payments due for royalty income, staffing service revenue and sublease revenue. With respect to the payment term, payment for these revenues is generally collected monthly. As such, no significant finance component has been identified. The receivables balance is presented net of an allowance for expected losses (i.e., doubtful accounts), and are primarily related to receivables from the Company's franchisees. Refer to "Accounts Receivables – Trade, Net" on Note 1 for details on the components of the receivables balance and the allowance. Contract liabilities primarily represents the Company's remaining performance obligations under its franchise agreement at the end of the year, for which consideration has been received and revenue had not been recognized, and is generally recognized as revenues ratably over the remaining customer life that the expected services are expected services are expected to be provided. Prepaid card liabilities mainly relate to the unused balance of ReRaKu and SAWAN cards that can be redeemed at company-operated salons for services. Revenue for prepaid cards is recognized and the corresponding liability is reduced as the services are provided. As of December 31, 2021, contract assets under contracts with customers were immaterial and they are included in prepaid expenses and other current assets and other assets in the consolidated balance sheets.

Changes in the Company's contract liabilities for the year ended December 31, 2021 are as follows:

| | <u>Thousands of Yen</u> <u>Contract liabilities</u> |
|--|--|
| Balance at December 31, 2020 | ¥ 506,041 |
| Revenues recognized during 2021 which were included in the contract liabilities balance at December 31, 2020 | (201,074) |
| Remaining amounts at December 31, 2021 which were newly recognized as contract liabilities during 2021 | 38,282 |
| Balance at December 31, 2021 | ¥ 343,249 |

For the year ended December 31, 2021, there were no revenues recognized under performance obligations which were satisfied for past fiscal years by change of transaction price, etc. Changes in receivables and contract liabilities are primarily due to the timing of revenue recognition, billings and cash collections.

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Transaction price allocated to remaining performance obligations

Estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied as of December 31, 2021 is as follows:

| | <u>Thousands of Yen</u> |
|--------------------------|-------------------------|
| Year ending December 31: | |
| 2022 | ¥ 104,182 |
| 2023 | 100,357 |
| 2024 | 86,118 |
| 2025 | 42,201 |
| 2026 | 8,734 |
| 2027 and thereafter | 1,657 |
| Total | <u>¥ 343,249</u> |

14. Other Comprehensive Income (Loss)

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the year ended December 31, 2019 are as follows:

| | <u>Thousands of Yen</u> | | |
|--|------------------------------|------------------------|------------------------------|
| | <u>Before Tax Amount</u> | <u>Tax Expense</u> | <u>Net of Tax Amount</u> |
| Year ended December 31, 2019 | | | |
| Foreign currency translation adjustments | | | |
| Reclassification adjustments for gains and losses realized in net income | ¥ 400 | ¥ (122) | ¥ 278 |
| Other comprehensive income (loss) | <u>¥ 400</u> | <u>¥ (122)</u> | <u>¥ 278</u> |

There were no such amounts recognized for the year ended December 31, 2021 and 2020.

Changes in accumulated other comprehensive income (loss) for the year ended December 31, 2019 are as follows

| | <u>Thousands of Yen</u> |
|---|---|
| | <u>Foreign currency translation adjustments</u> |
| Balance at December 31, 2018 | ¥ (278) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 278 |
| Net change during the year | 278 |
| Balance at December 31, 2019 | <u>¥ —</u> |

There was no accumulated other comprehensive income (loss) as of December 31, 2021 and 2020 and no changes for the year ended December 31, 2021 and 2020.

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Reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2021, 2020 and 2019 are as follows:

| | Thousands of Yen | | | Affected line items in consolidated statements of (loss) income |
|--|------------------|------|-------|--|
| | 2021 | 2020 | 2019 | |
| Foreign currency translation adjustments | ¥ — | ¥ — | ¥ 400 | Other – net |
| | — | — | (122) | Income tax expense |
| | — | — | 278 | Net income |
| Total amount reclassified, net of tax | ¥ — | ¥ — | ¥ 278 | |

15. (Loss) Earnings Per Share

(Loss) earnings per common share is allocated based on each right of common stock and Class A common stock, on the assumption that (loss) income from current year has been distributed. Common stock and Class A common stock have equal rights with respect to surplus dividend and residual assets distribution as net (loss) income attributable to shareholders of the Company is allocated proportionally.

Reconciliations of net (loss) income and weighted average number of common shares outstanding used for the computation of basic (loss) earnings per common share for the years ended December 31, 2021, 2020 and 2019 are as follows:

| | 2021 | | 2020 | | 2019 | |
|---|--------------------|------------|--------------------|------------|--------------------|---------|
| | Common | Class A | Common | Class A | Common | Class A |
| | (Thousands of Yen) | | (Thousands of Yen) | | (Thousands of Yen) | |
| Income (Numerator) | | | | | | |
| Net (loss) income attributable to shareholders of the Company | ¥ (990,731) | — | ¥ (539,170) | — | ¥ 17,335 | — |
| Shares (Denominator) | | | | | | |
| | (Number of shares) | | (Number of shares) | | (Number of shares) | |
| Weighted average common shares outstanding | 4,877,404 | 1 | 4,024,692 | 1 | 3,747,295 | 1 |
| Effect of dilutive instruments: | | | | | | |
| Stock options | — | — | — | — | 525,007 | — |
| Weighted average common shares for diluted computation | 4,877,404 | 1 | 4,024,692 | 1 | 4,272,302 | 1 |
| (Loss) earnings per common share attributable to shareholders of the Company | | | | | | |
| | (Yen) | | (Yen) | | (Yen) | |
| Basic | ¥ (203.13) | ¥ (203.13) | ¥ (133.97) | ¥ (133.97) | ¥ 4.63 | ¥ 4.63 |
| Diluted | ¥ (203.13) | ¥ (203.13) | ¥ (133.97) | ¥ (133.97) | ¥ 4.06 | ¥ 4.06 |

For periods in which the Company reports net loss, diluted net loss per common share attributable to common shareholders is the same as basic net loss per common share attributable to common shareholders. Options to purchase 599,800 shares and 799,500 shares have been excluded from the diluted net loss per common share attributable to common shareholders calculation for the year ended December 31, 2021 and 2020, respectively because the effect of inclusion would have been anti-dilutive.

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16. Fair Value of Financial Instruments

Fair value of financial instruments

The estimated fair values of the Company's financial instruments at December 31, 2021 and 2020 are set forth below:

The following summary excludes cash and cash equivalents, time deposits, accounts receivable-trade, accounts receivable-other, investments, long-term accounts receivable-other, lease and guarantee deposits, current portion of borrowings, accounts payable-trade, accrued expenses, mandatorily redeemable noncontrolling interests, deposit received and operating lease liability for which fair values approximate their carrying amounts. The summary also excludes investments which are disclosed in Note 5.

| | Thousands of Yen | | | |
|-------------------------------------|------------------|----------------------|-----------------|----------------------|
| | 2021 | | 2020 | |
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| Borrowings - net of current portion | ¥ (746,588) | ¥ (759,185) | ¥ (668,380) | ¥ (644,499) |

The following methods and assumptions are used to estimate the fair value in the above table.

Borrowings

The Company's borrowings instruments are classified as Level 2 instruments and valued based on the present value of future cash flows associated with each instrument discounted using current market borrowing rates for similar borrowings instruments of comparable maturity. The classification of levels is fully described in Note 17.

Assumptions used in fair value estimates

Fair value estimates are made at a specific point in time, based on relevant market information available and details of the financial instruments. These estimates are practically conducted by the Company which involve uncertainties and matters of significant judgment; therefore, these cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

17. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy that prioritizes the inputs used to measure fair value is as follows:

Level 1

Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2

Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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Level 3

Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity's own assumptions about the assumptions that market participants would use in establishing a price.

The only asset or liability to be measured at fair value on a "recurring" basis during 2021 related to the mandatorily redeemable noncontrolling interest as part of the ZACC acquisition in October 2021, which is considered a level 3 input. As of December 31, 2021, the carrying value approximated the fair value due to the short timeframe before redemption and there were no other adjustments during the year. The Company subsequently purchased the shares related to the noncontrolling interest in January 2022. There were no assets or liabilities to be measured at fair value on "recurring" basis during 2020 and 2019.

Long-lived assets and liabilities that have been measured at fair value on "nonrecurring" basis include leasehold improvements, right-of-use assets — operating lease, trademark, and reacquired franchise rights. Assets and liabilities measured at fair value on "nonrecurring" basis as of December 31, 2021, 2020 and 2019 are as follows:

| | Thousands of Yen | | | Impairment loss |
|--------------------------------------|------------------|------------|-------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | |
| Year ended December 31, 2021 | | | | |
| Assets | | | | |
| Leasehold improvements | ¥ — | ¥ — | ¥ 359,376 | ¥ 3,165 |
| Right-of-use asset - operating lease | — | — | 1,824,095 | 20,979 |
| Trademark | — | — | 153,458 | 38,922 |
| Reacquired franchise rights | — | — | 8,639 | 145 |
| Total | ¥ — | ¥ — | ¥2,345,568 | ¥ 63,211 |
| Year ended December 31, 2020 | | | | |
| Assets | | | | |
| Leasehold improvements | ¥ — | ¥ — | ¥ 213,314 | ¥ 36,512 |
| Right-of-use asset - operating lease | — | — | 1,578,828 | 69,989 |
| Total | ¥ — | ¥ — | ¥1,792,142 | ¥ 106,501 |
| Year ended December 31, 2019 | | | | |
| Assets | | | | |
| Leasehold improvements | ¥ — | ¥ — | ¥ 161,330 | ¥ 9,825 |
| Right-of-use asset - operating lease | — | — | 1,829,968 | 34,721 |
| Total | ¥ — | ¥ — | ¥1,991,298 | ¥ 44,546 |

Impairment of long-lived assets

Significant judgments and unobservable inputs categorized as Level 3 in the fair value hierarchy are inherent in the impairment tests performed and include assumptions about the amount and timing of expected future cash flows, growth rates, and the determination of appropriate discount rates. The Company believes that the assumptions used in its annual and any interim date impairment tests are reasonable, but variations in any of the assumptions may result in different calculations of fair values and impairment charges.

The Company's primary business is the operations of Relaxation Salons. It regularly conducts reviews of past performances and future profitability forecast for individual Salons. Based on the evaluation, if the Company determines that the Salon assets are impaired and not fully recoverable, it reduces the carrying amounts of the Salon's long-lived

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assets to the estimated fair value. Fair value is determined based on income approach using Level 3 inputs under ASC 820 *Fair Value Measurement*. The income approach is calculated using projected future (debt-free) cash flows that are discounted to present value. The future cash flows are based on the estimates made by management concerning forecast of sales, operating expenses and operating profit and loss, etc. with due consideration of industry trend and market circumstances, business risks and other factors, adjusted by market participants assumptions, if different from the Company's assumptions. These cash flows are then discounted at the reporting unit's calculated weighted average cost of capital ("WACC") of 11.3% - 21.0%. The discount rate (WACC) takes into consideration the characteristics of relevant peer companies, market observable data, and company-specific risk factors. Because of changing market conditions (i.e., rising interest rates and/or less marketplace demand), it is reasonably possible that the estimate of expected future cash flows may change resulting in the need to adjust our determination of fair value in the future.

For the year ended December 31, 2021, the Company recognized impairment loss of ¥24,289 thousand on leasehold improvements, right-of-use asset — operating lease and reacquired franchise rights directly related to certain relaxation salons. The Company conducted strategic reviews of its future profitability forecast for the salons. Following these reviews, the Company reduced the corresponding estimated future cash flows of these assets and the estimated ability to recover the carrying amount of the long-lived assets within the period applicable to the impairment determination, resulting in the impairment charges. The company also recognized an impairment loss of ¥38,922 thousand related to the Bell Epoque trademark. As a result of the Company's internal reorganization in July 2021, the Company will no longer use the trademark.

For the year ended December 31, 2020, the Company recognized impairment loss of ¥106,501 thousand on leasehold improvements and right-of-use assets — operating lease directly related to certain relaxation salons. The Company conducted strategic reviews of its future profitability forecast for the salons. Following these reviews, the Company reduced the corresponding estimated future cash flows of these assets and the estimated ability to recover the carrying amount of the long-lived assets within the period applicable to the impairment determination, resulting in the impairment charges.

For the year ended December 31, 2019, the Company recognized impairment loss of ¥44,546 thousand on leasehold improvements and right-of-use assets — operating lease directly related to certain relaxation salons. The Company conducted strategic reviews of its future profitability forecast for the salons. Following these reviews, the Company reduced the corresponding estimated future cash flows of these assets and the estimated ability to recover the carrying amount of the long-lived assets within the period applicable to the impairment determination, resulting in the impairment charges.

18. Commitments and Contingencies

Operating leases

The Company mainly in addition to its headquarters facility, leases salon spaces from external third parties, which are either directly-operated salons or franchised salons. Refer to Note 8 "Leases" and Note 7 "Asset Retirement Obligation" for details on the components of operating lease costs and future minimum lease payments under non-cancellable leases and asset retirement obligation, respectively.

Borrowings

The Company has borrowings that are primarily made under general agreements. Refer to Note 6 Borrowings for future debt payments.

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Litigation

The Company is involved in various claims and legal actions arising in the ordinary course of business. The Company has recorded provisions for liabilities when it is probable that liabilities have been incurred and the amount of loss can be reasonably estimated. The Company reviews these provisions at least on a yearly basis and adjusts these provisions to reflect the impact of the negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Based on its experience, although litigation is inherently unpredictable, the Company believes that any damage amounts claimed in outstanding matters are not a meaningful indicator of the Company's potential liability. In the opinion of management, any reasonably possible range of losses from outstanding matters would not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

19. Related Party Transactions

Transactions with the Company's representative director

The interest received on the short-term loans from Kouji Eguchi, the representative director and the shareholder of Parent (holds 48.05% of common stock and all Class A common stock as of December 31, 2019), was ¥189 thousand for the year ended December 31, 2019, which is included under interest income in the consolidated statements of operation. The balance was repaid in full in 2020. Mr. Eguchi is also the guarantor with respect to some of the Company's borrowings. See Note 6, "Borrowings" for more detail.

Transactions with the Company's director

Akira Nojima, Parent's independent director, is the sole owner of Kabushiki Kaisha No Track.

As of December 31, 2021 and 2020, the outstanding accrued expenses to Kabushiki Kaisha No Track are ¥110 thousand and ¥110 thousand (included in accrued expenses). The Company paid consulting fees of ¥600 thousand, ¥600 thousand and ¥600 thousand (included in selling, general and administrative expenses) to Kabushiki Kaisha No Track, in the years ended December 31, 2021, 2020 and 2019, respectively.

Tomoya Ogawa, Parent's independent director and the shareholder of the Company (holds 0.58%, 0.59% and 0.71% of common stock as of December 31, 2021, 2020 and 2019 respectively), is the sole owner of Kabushiki Kaisha LTW.

As of December 31, 2021 and 2020, the outstanding accrued expenses to Kabushiki Kaisha LTW are ¥330 thousand and ¥110 thousand (included in accrued expenses). The Company paid consulting fees of ¥3,000 thousand, ¥1,200 thousand and ¥1,200 thousand (included in selling, general and administrative expenses) to Kabushiki Kaisha LTW, in the years ended December 31, 2021, 2020 and 2019, respectively.

Kazuyoshi Takahashi, the representative director of ZACC and the shareholder of ZACC is the guarantor with respect to some of the Company's borrowings. See Note 6, "Borrowings" for more detail. Mr. Takahashi also underwrote the Company's corporate bond of JPY50,000 thousand issued on May 10, 2022. The maturity date was August 15, 2022 at an annual interest rate of 5% without any collateral. On August 15, 2022, he underwrote the Company's second corporate bond of JPY40,000 thousand to be matured on December 31, 2022, with all the other conditions substantially the same as the first bond.

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Transactions with the Company's corporate auditor

Osamu Sato, Parent's corporate auditor and the shareholder of Parent (holds 0.36%, 0.36% and 0.44% of common stock as of December 31, 2021, 2020 and 2019 respectively), is the president and representative director of Ebis 20 Co., Ltd.

As of December 31, 2021 and 2020, the outstanding accrued expenses to Ebis 20 Co., Ltd are ¥110 thousand and ¥110 thousand (included in accrued expenses). The Company paid consulting fees of ¥1,200 thousand, ¥1,200 thousand and ¥1,200 thousand (included in selling, general and administrative expenses) to Ebis 20 Co., Ltd in the years ended December 31, 2021, 2020 and 2019, respectively.

20. Subsequent Events

Acquisition of Remaining ZACC shares

The remaining shares of ZACC were transferred to the Company on January 1, 2022 for ¥148,000 thousand. Refer to Note 2 for more detail.

Receipt of Nasdaq Notification Regarding Minimum Market Value Deficiency

On January 18, 2022, the Company received a written notification (the "Notification Letter") from The Nasdaq Stock Market LLC ("Nasdaq"), notifying the Company that it is not in compliance with the minimum market value requirement set forth in Nasdaq Listing Rules for continued listing on The Nasdaq Capital Market. Nasdaq Listing Rule 5550(b)(2) requires companies to maintain a minimum market value of US\$35 million and Nasdaq Listing Rule 5810(c)(3)(C) provides that a failure to meet the minimum market value requirement exists if the deficiency continues for a period of 30 consecutive business days. Based on the market value of the Company from November 23, 2021 to January 14, 2022, the Company no longer meets the minimum market value requirement. The Notification Letter did not impact the Company's listing on The Nasdaq Capital Market at that time. In accordance with Nasdaq Listing Rule 5810(c)(3)(C), the Company has been provided 180 calendar days, or until July 18, 2022, to regain compliance with Nasdaq Listing Rule 5550(b)(2). To regain compliance, the Company's market value must exceed US\$35 million for a minimum of 10 consecutive business days. The Company's business operations were not affected by the receipt of the Notice.

On April 19, 2022, Nasdaq issued a notice to the Company which announces that Nasdaq has determined that for 10 consecutive business days, from April 10, 2022 to April 19, 2022, the Company's market value of listed securities has been US\$35,000,000 or greater. Accordingly, the Company has regained compliance with the Rule and the matter was now closed.

On June 29, 2022, the Company received a second Notification Letter from Nasdaq, notifying the Company that it is not in compliance with the minimum market value requirement set forth in Nasdaq Listing Rules for continued listing on The Nasdaq Capital Market. Based on the market value of the Company from May 9, 2022 to June 28, 2022, the Company no longer meets the minimum market value requirement. The Notification Letter did not impact the Company's listing on The Nasdaq Capital Market at that time. In accordance with Nasdaq Listing Rule 5810(c)(3)(C), the Company has been provided 180 calendar days, or until December 27, 2022, to regain compliance with Nasdaq Listing Rule 5550(b)(2). To regain compliance, the Company's market value must exceed US\$35 million for a minimum of 10 consecutive business days. The Company's business operations were not affected by the receipt of the Notice.

Potential deficiency in the net asset required for Issuer of Prepaid Cards "Re.Ra.Ku Cards"

One of the requirements for Issuers of prepaid cards under the Settlement Act is to maintain the net asset of the issuer being more than JPY100 million (based on Japanese GAAP). As of December 31, 2021, the Company's net assets

MEDIROM HEALTHCARE TECHNOLOGIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

have fallen below JPY100 million under JGAAP on a standalone basis. The Company has recently reported the issue to the Kanto Local Financial Bureau and is currently in consultation with the regulatory authority to potentially receive any administrative guidance. See “Item 4. Regulations Governing Prepaid Cards” for more detail.

Issuance of a corporate bond

On May 10, 2022, the Company issued a corporate bond to help with short-term capital needs and received proceeds of ¥50,000 thousand based on the face value of the bond. The maturity date of the corporate bond is August 15, 2022. The corporate bond was redeemed in a lump sum on August 15, 2022, the maturity date.

On August 31, 2022, the Company issued a corporate bond to help with short-term capital needs and received proceeds of ¥40,000 thousand based on the face value of the bond. The maturity date of the corporate bond is December 31, 2022.

Mr. Takahashi, the representative director of ZACC, underwrote both of the Company’s corporate bonds. See Note 19, “Related Party Transactions” for more detail.

ITEM 19. EXHIBITS

EXHIBIT INDEX

| <u>Exhibit</u> | <u>Description</u> |
|----------------|--|
| 1.1 | Articles of Incorporation of the Registrant (English translation), filed as Exhibit 3.1 to Form F-1 (File No. 333-250762) filed on December 22, 2020 and incorporated herein by reference. |
| 2.1 | Form of Deposit Agreement among the Registrant, the depository, and holders of the American Depositary Receipts, filed as Exhibit 4.1 to Form F-1 (File No. 333-250762) filed on December 22, 2020 and incorporated herein by reference. |
| 2.2 | Specimen American Depositary Receipt of the Registrant, included as Exhibit A in Exhibit 4.1 to Form F-1 (File No. 333-250762), filed on December 22, 2020 and incorporated herein by reference. |
| 2.3 | Description of Securities, filed as Exhibit 2.3 to the Company's Form 20-F filed on May 17, 2021 and incorporated herein by reference. |
| 8.1 | List of Subsidiaries of the Registrant, filed as Exhibit 21.1 to Form F-1 (File No. 333-250762) filed on December 22, 2020 and incorporated herein by reference. |
| 11.1 | Code of Ethics and Business Conduct of the Registrant, filed as Exhibit 11.1 to the Company's Form 20-F filed on May 17, 2021 and incorporated herein by reference. |
| 12.1 | Certification of the Chief Executive Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934, filed herewith. |
| 12.2 | Certification of the Chief Financial Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934, filed herewith. |
| 13.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, furnished herewith. |
| 13.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, furnished herewith. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

+ Portions of this exhibit indicated by asterisks have been omitted because the Registrant has determined they are not material and would likely cause competitive harm if publicly disclosed.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

MEDIROM Healthcare Technologies Inc.

November 14, 2022

By: _____ /s/ Fumitoshi Fujiwara
Name: **Fumitoshi Fujiwara**
Title: **Chief Financial Officer and Director**

| | |
|---------------------------|------------|
| EntityCentralIndexKey | 0001819704 |
| CurrentFiscalYearEndDate | |
| DocumentFiscalYearFocus | 2021 |
| DocumentFiscalPeriodFocus | FY |
| AmendmentFlag | False |
| No trading symbol | true |

Description of Securities

Our ADSs have been trading on The Nasdaq Capital Market under the symbol “MRM” since December 29, 2020. Prior to that date, there was no public trading market for our ADSs. Our initial public offering was priced at \$15.00 per share on December 28, 2020.

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--|-----------------------|--|
| American Depositary Shares, each representing one common share Common Shares, no par value* | MRM | The Nasdaq Stock Market LLC The Nasdaq Stock Market LLC |

The following is a summary of the material terms of our capital stock and our articles of incorporation, including a summary of the relevant provisions of applicable share handling regulations, of the Companies Act and the Act on Book-Entry Transfer of Company Bonds, Shares, etc. of Japan (Shasai Kabushiki tou no Furikae ni kansuru Houritsu) (Act No. 75 of 2001, as amended) (including regulations promulgated thereunder, the “Book-Entry Act”) relating to joint-stock corporations (kabushiki kaisha), and of certain related laws and legislation, each as currently in effect. Because it is a summary, this discussion should be read together with our articles of incorporation and the applicable share handling regulations.

We are a joint-stock corporation incorporated in Japan under the Companies Act. The rights of our shareholders are represented by our common shares and one Class A share as described below, and our shareholders’ liability is limited to the amount of their respective holdings in such shares. Our Articles of Incorporation has been filed as exhibit 3.1 to Form F-1 (File No. 333-250762) filed with the SEC on December 22, 2020 and is hereby incorporated by reference into this Annual Report.

Description of Our Share Capital (Item 9.A.5 of Form 20-F)

As of December 31, 2020, our authorized capital stock consisted of 10,000,000 shares, of which 9,999,999 were common shares and one was the Class A share, and there were 4,737,500 common shares and one Class A share outstanding.

All currently outstanding common shares and the Class A share are fully-paid and non-assessable, and our common shares underlying the ADSs to be issued in this offering will be fully-paid and non-assessable.

Changes in Capital

Under our articles of incorporation, any changes in capital, such as a share issuance, stock split, consolidation of shares, or issuance of share options, among others, require a majority vote of our common shareholders and a resolution of the Class A shareholder(s), as set described under “—Voting Rights and Shareholder Meetings” below.

Voting Rights and Shareholder Meetings (Item 10.B.3 of Form 20-F)

Our articles of incorporation provide that each annual meeting of our shareholders must be held within three months after the end of each fiscal year. Our fiscal year ends on December 31, and therefore, we must hold our annual shareholders’ meeting by the end of March of each following year. In addition, shareholders meetings to consider and vote on extraordinary matters may be held as necessary, provided that we satisfy all of the procedural requirements under both our articles of incorporation and the Companies Act.

Our common shares allocate one vote per share at shareholders’ meetings. Our articles of incorporation provide for a simple majority approval on most matters submitted for shareholder vote, unless otherwise required by laws or regulations. As required by law, and as referenced in our articles of incorporation, a two-thirds majority approval is required for any votes on matters specified in Article 309, Paragraph (2) of the Companies Act, which cover, in

relevant part, stock purchase requests, treasury stock purchases, purchases of an entire class of shares, demands for share sales by heir, stock consolidations, and amounts paid for the offered shares. Any amendment to our articles of incorporation must be approved by our shareholders at a shareholders' meeting.

Special Voting and Consent Rights (9.A.6 of Form 20-F)

Class A Voting Rights. Our founder, Mr. Kouji Eguchi, who is also our Chief Executive Officer and a director, holds a single Class A share of our Company. The Class A share is the only Class A share outstanding and was issued to Mr. Eguchi in December 2015. Under our articles of incorporation, the Class A shareholder generally does not have any voting rights at general shareholders' meetings. However, under our articles of incorporation, when a decision-making body of our Company is to adopt a resolution on any of the matters listed in (i) to (ix) below, such a resolution requires the Class A shareholder's approval, which means that Mr. Eguchi has veto rights with respect to these matters. The following matters require Mr. Eguchi's approval as the holder of the Class A share:

- (i) request to sell shares to an heir, etc.;
- (ii) consolidation of shares;
- (iii) issuance of shares;
- (iv) issuance of share options;
- (v) dismissal of a corporate auditor;
- (vi) reduction of stated capital;
- (vii) issuance of a dividend of property other than cash;
- (viii) amendment to our articles of incorporation, transfer of business, dissolution, or liquidation; and
- (ix) change in organization, merger, share split, share exchange, or share transfer.

Consent Rights under Investment Agreements

Pursuant to the Investment Agreement, dated May 10, 2016, between us and Social Entrepreneur 2 Investment Limited Partnership (which we refer to as "SE 2 LP"), when a decision-making body of our Company is to adopt a resolution on any of the following matters, such a resolution requires the prior written approval of SE 2 LP: (i) filing for bankruptcy (or other similar procedures) by our Company; (ii) issuance of securities (including new shares) with a purchase price (or strike price, in the case of stock options or convertible bonds) of less than JPY2,000 (US\$18.56) per share; and (iii) resignation of Mr. Eguchi as a director of our Company. This agreement will terminate upon consummation of the IPO and have no further effect.

Pursuant to the Investment Agreement, dated December 22, 2016, between us and CCC Marketing Co., Ltd. (which we refer to as "CCC"), when a decision-making body of our Company is to adopt a resolution on any of the following matters, such a resolution requires the prior written approval of CCC: (i) filing for bankruptcy (or other similar procedures) by our Company; (ii) acquisition of our own shares; and (iii) merger, share exchange, share transfer, business transfer, acceptance of business transfer, company split, or any other business combination or capital alliance with a third party. This agreement will terminate upon consummation of the IPO and have no further effect.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Pre-Emptive Rights (Item 9.A.3 of Form 20-F)

Holders of common shares have no pre-emptive rights under our articles of incorporation.

Dividend Rights

We may issue dividends upon a resolution of our common shareholders. However, if the dividend is to be issued in property other than cash, the approval of the Class A shareholder(s) is also required. We have not issued dividends to our shareholders since the incorporation of our Company.

Liquidation Rights

In accordance with the Companies Act and the Articles of Incorporation, liquidations must be approved by common shareholders holding at least a two-thirds majority of the shares present at a meeting where a quorum of one-third of the issued and outstanding shares with voting rights is present. Liquidation is also a matter that requires the approval of the Class A shareholder(s).

Transfer Agent

Under Article 8 of our articles of incorporation, we are required to have a shareholder registry administrator. The shareholder registry administrator and the shareholder registry administrator's location for handling share-related affairs must be determined pursuant to a resolution of our board of directors. All affairs related to our shareholder and share option registries are delegated to the shareholder registry administrator and are not to be handled by our Company. The current shareholder registry administrator for our Company is Tokyo Securities Transfer Agent Co., Ltd.

Limitations on Liability

Our articles of incorporation permit us to exempt, by resolution of our board of directors, corporate auditors from liabilities arising in connection with their failure to execute their duties in good faith (but without gross negligence), to the fullest extent permitted by the Companies Act. In addition, our articles of incorporation permit us to exempt, by resolution of our board of directors, directors from liabilities arising in connection with any failure to execute their duties in good faith or due to simple negligence (excluding gross negligence and willful misconduct), to the fullest extent permitted by the Companies Act. Should our board of directors, exempt a corporate auditor or director from any such liabilities, our rights and those of our shareholders to file shareholders' derivative suits on behalf of our Company to recover monetary damages from such director or corporate auditor for breach of their duties under the Companies Act will be eliminated or reduced. However, exculpation does not apply to any director or corporate auditor if they have breached their duties under the Companies Act intentionally (*koi*) or by gross negligence (*ju-kashitsu*). Furthermore, we may enter into agreements for the limitation of liabilities with our independent directors and corporate auditors. If we do so, we expect that these agreements will eliminate or reduce our rights and those of our shareholders as described above.

Articles of Incorporation

Objective of our Company under our Articles of Incorporation

We have broad authority under Article 2 of our articles of incorporation to conduct our lines of business.

Provisions Regarding Our Directors

With respect to the election of directors of our Company, each director must be voted in by a majority of our common shareholders entitled to vote at a common shareholders meeting where shareholders holding one-third or more of the voting rights entitled to vote are present. Additionally, any resolution regarding the election of a director cannot be adopted by cumulative voting.

Rights of Shareholders of our Common Shares (Item 10.B.3 and 10.B.4 of Form 20-F)

Under the Companies Act and our articles of incorporation, holders of our common shares have, among others, the following rights:

- the right to receive dividends when the payment of dividends has been approved at a shareholders' meeting, with this right lapsing three years after the due date for payment according to a provision in our articles of incorporation;
- the right to vote at a shareholders' meeting (cumulative voting for the election of directors is not allowed under our articles of incorporation);
- the right to receive surplus in the event of a liquidation; and
- the right to require us to purchase shares subject to certain requirements under the Companies Act when a shareholder opposes certain resolutions, including (i) the transfer of all or material part of our business, (ii) an amendment to our articles of incorporation to establish a restriction on share transfer, (iii) a share exchange or share transfer to establish a holding company, (iv) a company split, or (v) a merger, all of which must, as a general rule, be approved by a special resolution adopted at a shareholders' meeting.

Under the Companies Act, a company is permitted to make a distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount provided for under the Companies Act and the applicable ordinance of the Ministry of Justice as of the effective date of such distribution of surplus. The amount of surplus at any given time shall be the amount of the company's assets and the book value of the company's treasury stock after subtracting and adding the amounts of the items provided for under the Companies Act and the applicable ordinance of the Ministry of Justice.

A shareholder is generally entitled to one vote per share at a shareholders' meeting. In general, under the Companies Act and our articles of incorporation, a shareholders' meeting may adopt an ordinary resolution by a majority of the voting rights presented at the meeting. The Companies Act and our articles of incorporation require a quorum of not less than one-third of the total number of voting rights in connection with the election of directors and statutory auditors. Under the Companies Act, to avoid exercising improper control in a form of mutual shareholding, an institutional shareholder, 25% or more voting rights of which are directly or indirectly held by us, does not have voting rights at our shareholders' meeting. We have no voting rights with respect to our own common shares that we hold. Shareholders may exercise their voting rights through proxies, provided that a shareholder may appoint only one other shareholder who has voting rights as its proxy.

With respect to a special resolution, while the Companies Act generally requires a quorum of the majority of the total number of voting rights and approval of two-thirds of the voting rights presented at the meeting in connection with any material corporate actions, it allows a company to reduce the quorum for such special resolutions pursuant to its articles of incorporation to one-third (or greater than one-third) of the total number of voting rights. We adopted a quorum of not less than one-third of the total number of voting rights in our articles of incorporation for special resolutions for material corporate actions, such as:

- a reduction of the stated capital (except when a company reduces the stated capital within a certain amount as provided for under the Companies Act);
- an amendment to our articles of incorporation;
- establishment of a 100% parent-subsidary relationship through a share exchange or share transfer requiring shareholders' approval;
- a dissolution, merger, or consolidation requiring shareholders' approval;
- a company split requiring shareholders' approval;
- a transfer of all or an important part of our business;
- a takeover of the entire business of any other corporation requiring shareholders' approval;
- issuance of new shares at a substantially favorable price, or issuance of stock acquisition rights or bonds with stock acquisition rights with substantially favorable conditions, to persons other than our shareholders; and

- other material corporate actions provided in the Companies Act.

The Companies Act provides additional specific rights for shareholders owning a substantial number of voting rights.

A shareholder holding 90% or more of the total number of voting rights of all shareholders has the right to demand that all other shareholders sell their shares to such shareholder who holds 90% or more of the voting rights.

Shareholders holding 10% or more of the total number of voting rights of all shareholders, or 10% or more of the total number of our outstanding shares, have the right to apply to a court of competent jurisdiction for our dissolution.

Shareholders who have held 3% or more of the total number of voting rights of all shareholders for six months or more have the right to demand the convening of a shareholders' meeting.

Shareholders who have held 3% or more of the total number of voting rights of all shareholders, or 3% or more of the total number of our outstanding shares, for six months or more have certain rights under the Companies Act, which include the right to:

- apply to a competent court for removal of a director or a corporate auditor; and
- apply to a competent court for removal of a liquidator.

Shareholders holding 3% or more of the total number of voting rights of all shareholders have the right to object to the exculpation of a director or a corporate auditor from certain liabilities.

Shareholders holding 3% or more of the total number of voting rights of all shareholders, or 3% or more of the total number of our outstanding shares, have certain rights under the Companies Act, which include the right to:

- examine our accounting books and documents and make copies of them; and
- apply to a competent court for the appointment of an inspector to inspect our operation and/or financial condition.

Shareholders who have held 1% or more of the total number of voting rights of all shareholders for six months or more have the right to apply to a competent court for the appointment of an inspector to review the correctness of the convocation and voting procedures of a shareholders' meeting.

Shareholders who have held 1% or more of the total number of voting rights of all shareholders, or 300 or more voting rights, for six months or more have the right to demand that certain matters be added to the agenda items at a shareholders' meeting.

Shareholders who have held any number of shares for six months or more have the right to demand that we take certain actions under the Companies Act, which include the rights to demand:

- the institution of an action to enforce the liabilities of our directors or corporate auditors;
- the institution of an action to disgorge from a recipient the benefit of a proprietary nature given in relation to the exercise of the right of a shareholder; and
- on our behalf, that a director cease an illegal or ultra vires action.

There are no provisions under the Companies Act or our articles of incorporation which forces shareholders to make additional contributions when requested by us.

Under the Companies Act, in order to change the rights of shareholders which are stipulated and defined in our articles of incorporation, we must amend our articles of incorporation. Amendments must, as a general rule, be approved by a special resolution of our shareholders.

Annual meetings and special meetings of shareholders are convened by our Chief Executive Officer based on a resolution of our board of directors. Under our articles of incorporation, shareholders of record as of December 31 of each year have the right to attend our annual shareholders' meeting. We may, by prescribing a record date, determine the shareholders who are stated or recorded in the shareholder registry on the record date as the shareholders entitled to attend and take action at a special shareholders' meeting, and in this case, we are required to make a public notice of the record date at least two weeks prior to the record date. A convocation notice will be sent to these shareholders at least two weeks prior to the date of the shareholders' meeting.

Our Acquisition of our Common Shares

Under applicable laws of Japan, we may acquire our common shares:

- (i) from a specific shareholder (other than any of our subsidiaries), pursuant to a special resolution of a shareholders' meeting; or
- (ii) from any of our subsidiaries, pursuant to a resolution of our board of directors.

In the case of any acquisition made by way of (i) above, any other shareholder may request within a certain period of time provided under the applicable ordinance of the Ministry of Justice before a shareholders' meeting that we also purchase the shares held by the requesting shareholder, unless the purchase price or any other consideration to be delivered in exchange for the acquisition of common shares does not exceed the market price of our common shares calculated by the method prescribed in the applicable ordinance of the Ministry of Justice.

In general, an acquisition by us of our common shares must satisfy certain requirements, including that the total amount of the acquisition price may not exceed the distributable amount.

We may hold the common shares which we acquired pursuant to (i) and (ii) above, or we may cancel such shares by a resolution of our board of directors. We may also dispose of such shares pursuant to a resolution of our board of directors, subject to other requirements applicable to the issuance of shares under the Companies Act.

Restrictions on Holders of our Common Shares (Item 10.B.6, 10.B.7, 10.B.8, and 10.B.10 of Form 20-F)

There are no restrictions with respect to non-residents of Japan or foreign shareholders holding our common shares or on the exercise of voting rights, except for filing requirements with respect to an acquisition of shares by a Non-Resident of Japan under the Foreign Exchange and Foreign Trade Act of Japan and related regulations. However, pursuant to a provision of our share handling regulations, a shareholder who does not have an address or residence in Japan is required to file with our transfer agent its temporary address to receive notices in Japan or that of a standing proxy having any address or residence in Japan.

There are no provisions in our articles of incorporation that would have the effect of delaying, deferring or preventing a change in control that would operate only with respect to a merger, acquisition or corporate restructuring involving us.

There are no provisions in our articles of incorporation or other subordinated rules regarding an ownership threshold, above which shareholder ownership must be disclosed.

There are no provisions in our articles of incorporation governing changes in our Company's capital more stringent than is required by law.

Differences between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

With respect to Items 10.B.2-10.B.8, the Company has identified in the responses above where provisions of the Companies Act applicable to the Company is significantly different from the comparable Delaware law.

Exchange Controls

The Foreign Exchange and Foreign Trade Act and related regulations (which we refer to as "FEFTA") regulate certain transactions involving a "Non-Resident of Japan" or a "Foreign Investor", including "inward direct

investments” by Foreign Investors, and payments from Japan to foreign countries or by residents of Japan to Non-Residents of Japan.

“Non-Residents of Japan” are defined as individuals who are not residents in Japan and corporations whose principal offices are located outside of Japan. Generally, branches and other offices of Japanese corporations which are located outside of Japan are regarded as Non-Residents of Japan, and branches and other offices of non-resident corporations which are located within Japan are regarded as residents of Japan.

“Foreign Investors” are defined as:

- individuals who are Non-Residents of Japan;
- entities which are organized under the laws of foreign countries or whose principal offices are located outside of Japan;
- companies of which 50% or more of their voting rights are held by individuals who are Non-Residents of Japan and/or corporations which are organized under the laws of foreign countries or whose principal offices are located outside of Japan;
- partnerships engaging in investment activities and investment limited partnerships (including partnerships formed under the laws of foreign countries) which satisfy one of the following conditions:
 - 50% or more of contributions to the partnership were made by (i) individuals who are Non-Residents of Japan, (ii) entities which are organized under the laws of foreign countries or whose principal offices are located outside of Japan, (iii) companies of which 50% or more of their voting rights are held by individuals who are Non-Residents of Japan and/or corporations which are organized under the laws of foreign countries or whose principal offices are located outside of Japan, (iv) entities a majority of whose officers, or officers having the power of representation, are individuals who are Non-Residents of Japan, or (v) partnerships a majority of whose executive partners fall within items (i) through (iv) above; and
- a majority of the executive partners of the partnership are (A) any persons or entities who fall within items (i) through (v) above, (B) any partnerships to which 50% or more of contribution were made by persons or entities who fall within items (i) through (v) above, or (C) limited partnerships a majority of whose executive partners fall within Non-Residents of Japan, persons or entities who fall within (A) or (B), or any officers of entities which fall within (A) or (B).
- entities, a majority of whose officers are individuals who are Non-Residents of Japan.

Under FEFTA, among other triggering events, a Foreign Investor who desires to acquire shares in a Japanese company which is not listed on any stock exchange in Japan, is subject to a prior filing requirement, regardless of the acquired amount of shares, if such Japanese company engages any business in certain industries related to the national security. Such industries include, among other things, manufacturing in relation to weapons, aircraft, space, and nuclear power, as well as agriculture, fishery, mining, and utility service. Additionally, due to today’s growing awareness of cybersecurity, the recent amendment to FEFTA expanded the scope of the prior filing requirement, broadly covering industries related to data processing businesses and information and communication technologies service. Since our Digital Preventative Healthcare Segment could potentially involve the processing of data by collecting, processing, and retaining customers’ health information, direct acquisition of our common shares, rather than ADSs, by a Foreign Investor could be subject to the prior filing requirement under FEFTA.

A Foreign Investor wishing to acquire or hold our common shares directly will be required to make a prior filing with the relevant government authorities through the Bank of Japan and wait until clearance for the acquisition is granted by the applicable governmental authorities. Without such clearance, the Foreign Investor will not be permitted to acquire or hold our common shares directly. Once clearance is obtained, the Foreign Investor may acquire shares in the amount and during the period indicated in the filing. While the standard waiting period to obtain clearance is 30 days, the waiting period could be expedited to two weeks, at the discretion of the applicable governmental authorities, depending on the level of potential impact to national security.

In addition to the prior filing requirement above, when a Foreign Investor who completed a prior filing and received clearance has acquired shares in accordance with the filed information, such Foreign Investor will be required to make a post-acquisition notice filing to report the completed purchase. Such post-acquisition notice filing must be made no later than 45 days after the acquisition of the shares.

Under FEFTA, in each case where a resident of Japan receives a single payment of more than JPY 30 million from a Non-Resident of Japan for a transfer of shares in a Japanese company, such resident of Japan is required to report each receipt of payment to the Minister of Finance of Japan.

American Depositary Shares (Item 12.D.1 and 12.D.2 of Form 20-F)

The Bank of New York Mellon, as depositary, register and deliver American Depositary Shares, also referred to as ADSs. Each ADS represents one common share (or a right to receive one common share) deposited with MUFG Bank Ltd., as custodian for the depositary in Japan. Each ADS also represents any other securities, cash or other property that may be held by the depositary. The deposited shares together with any other securities, cash or other property held by the depositary are referred to as the deposited securities. The depositary's office at which the ADSs will be administered and its principal executive office are located at 240 Greenwich Street, New York, New York 10286.

You may hold ADSs either (A) directly (i) by having an American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by having uncertificated ADSs registered in your name, or (B) indirectly by holding a security entitlement in ADSs through your broker or other financial institution that is a direct or indirect participant in The Depository Trust Company, also called DTC. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Registered holders of uncertificated ADSs will receive statements from the depositary confirming their holdings.

As an ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Japanese law governs shareholder rights. The depositary will be the holder of our common shares underlying your ADSs. As a registered holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary, ADS holders and all other persons indirectly or beneficially holding ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of ADR. For directions on how to obtain copies of those documents, see the section entitled "Memorandum and Articles of Association—Documents on Display" in the Company's annual report on Form 20-F.

Dividends and Other Distributions

How will you receive dividends and other distributions on our common shares?

The depositary has agreed to pay or distribute to ADS holders the cash dividends or other distributions it or the custodian receives on common shares or other deposited securities, upon payment or deduction of its fees and expenses. You will receive these distributions in proportion to the number of common shares your ADSs represent.

Cash. The depositary will convert any cash dividend or other cash distribution we pay on the common shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid will be deducted. See “Certain Tax Considerations.” The depositary will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some of the value of the distribution.*

Shares. The depositary may distribute additional ADSs representing any common shares we distribute as a dividend or free distribution. The depositary will only distribute whole ADSs. It will sell common shares which would require it to deliver a fraction of an ADS (or ADSs representing those common shares) and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new common shares. The depositary may sell a portion of the distributed common shares (or ADSs representing those common shares) sufficient to pay its fees and expenses in connection with that distribution.

Rights to purchase additional shares. If we offer holders of our common shares any rights to subscribe for additional shares or any other rights, the depositary may (i) exercise those rights on behalf of ADS holders, (ii) distribute those rights to ADS holders or (iii) sell those rights and distribute the net proceeds to ADS holders, in each case after deduction or upon payment of its fees and expenses. To the extent the depositary does not do any of those things, it will allow the rights to lapse. *In that case, you will receive no value for them.* The depositary will exercise or distribute rights only if we ask it to and provide satisfactory assurances to the depositary that it is legal to do so. If the depositary will exercise rights, it will purchase the securities to which the rights relate and distribute those securities or, in the case of shares, new ADSs representing the new shares, to subscribing ADS holders, but only if ADS holders have paid the exercise price to the depositary. U.S. securities laws may restrict the ability of the depositary to distribute rights or ADSs or other securities issued on exercise of rights to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.

Other distributions. The depositary will send to ADS holders anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to ADS holders unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution. U.S. securities laws may restrict the ability of the depositary to distribute securities to all or certain ADS holders, and the securities distributed may be subject to restrictions on transfer.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. *This means that you may not receive the distributions we make on our common shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit, Withdrawal and Cancellation

How are ADSs issued?

Subject to the pre-clearance requirement described below, the depositary will deliver ADSs if you or your broker deposits our common shares or evidence of rights to receive common shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons that made the deposit.

What are the pre-clearance requirements for Foreign Investors to acquire or hold the underlying common shares directly rather than through the depositary?

Under recent amendments in 2019 to FEFTA, a proposed transferee of our common shares who is a Foreign Investor (as defined under FEFTA) must submit an application for pre-clearance to the applicable Japanese governmental authority prior to the transfer of our common shares, which approval may take up to 30 days and

could be subject to further extension. Prior to accepting common shares for deposit in return for the issuance of ADSs, the depositary, which is considered a Foreign Investor for purposes of FEFTA, must obtain pre-clearance from the Japanese governmental authority. Accordingly, investors wishing to deposit common shares with the depositary for the issuance of ADSs should notify the depositary at least 30 days prior to such deposit to allow time for the depositary to apply for any required pre-clearance, if not already obtained. The depositary will not accept any common shares for deposit until any required pre-clearance has been obtained. In addition, any Foreign Investor expecting to receive delivery of our common shares upon surrender of ADSs must also obtain pre-clearance from the applicable Japanese governmental authority prior to accepting delivery, which approval may take up to 30 days and could be subject to further extension. Accordingly, ADS holders who are Foreign Investors wishing to surrender ADSs for the purpose of withdrawing the underlying deposited common shares should apply for pre-clearance at least 30 days in advance of such surrender. The depositary will not accept surrender of ADSs for the purpose of withdrawal of common shares until it receives assurances satisfactory to the depositary that any required pre-clearance for the delivery of the common shares to a Foreign Investor has been obtained.

How can ADS holders withdraw the deposited securities?

Subject to the pre-clearance requirement described above, you may surrender your ADSs to the depositary for the purpose of withdrawal. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver our common shares and any other deposited securities underlying the ADSs to the ADS holder or a person the ADS holder designates at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if feasible. However, the depositary is not required to accept surrender of ADSs to the extent it would require delivery of a fraction of a deposited share or other security. The depositary may charge you a fee and its expenses for instructing the custodian regarding delivery of deposited securities.

How do ADS holders interchange between certificated ADSs and uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send to the ADS holder a statement confirming that the ADS holder is the registered holder of uncertificated ADSs. Upon receipt by the depositary of a proper instruction from a registered holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to the ADS holder an ADR evidencing those ADSs.

Voting Rights

How do you vote?

ADS holders may instruct the depositary how to vote the number of deposited shares their ADSs represent. If we request the depositary to solicit your voting instructions (and we are not required to do so), the depositary will notify you of a shareholders' meeting and send or make voting materials available to you. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the depositary how to vote. For instructions to be valid, they must reach the depositary by a date set by the depositary. The depositary will try, as far as practical, subject to the laws of Japan and the provisions of our articles of association or similar documents, to vote or to have its agents vote the common shares or other deposited securities as instructed by ADS holders. If we do not request the depositary to solicit your voting instructions, you can still send voting instructions, and, in that case, the depositary may try to vote as you instruct, but it is not required to do so.

Except by instructing the depositary as described above, you won't be able to exercise voting rights unless you surrender your ADSs and withdraw the common shares. However, you may not know about the meeting enough in advance to withdraw the common shares. The depositary will not exercise any discretion in voting deposited securities and it will only vote or attempt to vote as instructed, with the exception that, under certain circumstances, the depositary may give a discretionary proxy to a person designated by us to vote the number of ADSs of certain ADS holders.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your common shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be*

able to exercise voting rights and there may be nothing you can do if your common shares are not voted as you requested.

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to Deposited Securities, if we request the Depositary to act, we agree to give the depositary notice of any such meeting and details concerning the matters to be voted upon at least 45 days in advance of the meeting date.

Fees and Expenses

Persons depositing or withdrawing common shares or ADS holders must pay:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been common shares and the common shares had been deposited for issuance of ADSs

\$.05 (or less) per ADS per calendar year

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or common shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

For:

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution to ADS holders

Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders

Depositary services

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Cable (including SWIFT) and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

As necessary

As necessary

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depositary may convert currency itself or through any of its affiliates, or the custodian or we may convert currency and pay U.S. dollars to the depositary. Where the depositary converts currency itself or through any of its affiliates, the depositary acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depositary or its affiliate receives when buying or selling foreign currency for its own account. The depositary makes no representation that the exchange rate used or obtained by it or its affiliate in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depositary's obligation to act without negligence or bad faith. The methodology used to determine exchange rates used in currency conversions made by the depositary is available upon request. Where the custodian converts currency, the custodian has no obligation to obtain the most favorable rate that could be obtained at the time or to ensure that the method by which that rate will be determined will be the most favorable to ADS holders, and the depositary makes no representation that the rate is the most favorable rate and will not be liable for any direct or indirect losses associated with the rate. In certain instances, the depositary may receive dividends or other distributions from the us in U.S. dollars that represent the proceeds of a conversion of foreign currency or translation from foreign currency at a rate that was obtained or determined by us and, in such cases, the depositary will not engage in, or be responsible for, any foreign currency transactions and neither it nor we make any representation that the rate obtained or determined by us is the most favorable rate and neither it nor we will be liable for any direct or indirect losses associated with the rate.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until those taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

Tender and Exchange Offers; Redemption, Replacement or Cancellation of Deposited Securities

The depositary will not tender deposited securities in any voluntary tender or exchange offer unless instructed to do so by an ADS holder surrendering ADSs and subject to any conditions or procedures the depositary may establish.

If deposited securities are redeemed for cash in a transaction that is mandatory for the depositary as a holder of deposited securities, the depositary will call for surrender of a corresponding number of ADSs and distribute the net redemption money to the holders of called ADSs upon surrender of those ADSs.

If there is any change in the deposited securities such as a sub-division, combination or other reclassification, or any merger, consolidation, recapitalization or reorganization affecting the issuer of deposited securities in which the depositary receives new securities in exchange for or in lieu of the old deposited securities, the depositary will hold those replacement securities as deposited securities under the deposit agreement. However, if the depositary decides it would not be lawful and practical to hold the replacement securities because those securities could not be distributed to ADS holders or for any other reason, the depositary may instead sell the replacement securities and distribute the net proceeds upon surrender of the ADSs.

If there is a replacement of the deposited securities and the depository will continue to hold the replacement securities, the depository may distribute new ADSs representing the new deposited securities or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

If there are no deposited securities underlying ADSs, including if the deposited securities are cancelled, or if the deposited securities underlying ADSs have become apparently worthless, the depository may call for surrender of those ADSs or cancel those ADSs upon notice to the ADS holders.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depository to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depository for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depository notifies ADS holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depository will initiate termination of the deposit agreement if we instruct it to do so. The depository may initiate termination of the deposit agreement if

- 60 days have passed since the depository told us it wants to resign but a successor depository has not been appointed and accepted its appointment;
- we delist the ADSs from an exchange in the United States on which they were listed and do not list the ADSs on another exchange in the United States or make arrangements for trading of ADSs on the U.S. over-the-counter market;
- we delist our common shares from an exchange outside the United States on which they were listed and do not list the common shares on another exchange outside the United States;
- the depository has reason to believe the ADSs have become, or will become, ineligible for registration on Form F-6 under the Securities Act;
- we appear to be insolvent or enter insolvency proceedings;
- all or substantially all the value of the deposited securities has been distributed either in cash or in the form of securities;
- there are no deposited securities underlying the ADSs or the underlying deposited securities have become apparently worthless; or
- there has been a replacement of deposited securities.

If the deposit agreement will terminate, the depository will notify ADS holders at least 90 days before the termination date. At any time after the termination date, the depository may sell the deposited securities. After that, the depository will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, unsegregated and without liability for interest, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. Normally, the depository will sell as soon as practicable after the termination date.

After the termination date and before the depository sells, ADS holders can still surrender their ADSs and receive delivery of deposited securities, except that the depository may refuse to accept a surrender for the purpose of withdrawing deposited securities or reverse previously accepted surrenders of that kind that have not settled if it would interfere with the selling process. The depository may refuse to accept a surrender for the purpose of withdrawing sale proceeds until all the deposited securities have been sold. The depository will continue to collect

distributions on deposited securities, but, after the termination date, the depository is not required to register any transfer of ADSs or distribute any dividends or other distributions on deposited securities to the ADSs holder (until they surrender their ADSs) or give any notices or perform any other duties under the deposit agreement except as described in this paragraph.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depository; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depository. It also limits our liability and the liability of the depository. We and the depository:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith, and the depository will not be a fiduciary or have any fiduciary duty to holders of ADSs;
- are not liable if we are or it is prevented or delayed by law or by events or circumstances beyond our or its ability to prevent or counteract with reasonable care or effort from performing our or its obligations under the deposit agreement;
- are not liable if we or it exercises discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person;
- may rely upon any documents we believe or it believes in good faith to be genuine and to have been signed or presented by the proper person;
- are not liable for the acts or omissions of any securities depository, clearing agency or settlement system; and
- the depository has no duty to make any determination or provide any information as to our tax status, or any liability for any tax consequences that may be incurred by ADS holders as a result of owning or holding ADSs or be liable for the inability or failure of an ADS holder to obtain the benefit of a foreign tax credit, reduced rate of withholding or refund of amounts withheld in respect of tax or any other tax benefit.

In the deposit agreement, we and the depository agree to indemnify each other under certain circumstances.

Requirements for Depository Actions

Before the depository will deliver or register a transfer of ADSs, make a distribution on ADSs, or permit withdrawal of common shares, the depository may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depository may refuse to deliver ADSs or register transfers of ADSs when the transfer books of the depository or our transfer books are closed or at any time if the depository or we think it advisable to do so.

Your Right to Receive the Common shares Underlying your ADSs

ADS holders have the right to cancel their ADSs and withdraw the underlying common shares at any time except:

- when temporary delays arise because: (i) the depositary has closed its transfer books or we have closed our transfer books; (ii) the transfer of common shares is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our common shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of common shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the Direct Registration System, also referred to as DRS, and Profile Modification System, also referred to as Profile, will apply to the ADSs. DRS is a system administered by DTC that facilitates interchange between registered holding of uncertificated ADSs and holding of security entitlements in ADSs through DTC and a DTC participant. Profile is a feature of DRS that allows a DTC participant, claiming to act on behalf of a registered holder of uncertificated ADSs, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register that transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depositary will not determine whether the DTC participant that is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery as described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depositary's reliance on and compliance with instructions received by the depositary through the DRS/Profile system and in accordance with the deposit agreement will not constitute negligence or bad faith on the part of the depositary.

Shareholder communications; inspection of register of holders of ADSs

The depositary will make available for your inspection at its office all communications that it receives from us as a holder of deposited securities that we make generally available to holders of deposited securities. The depositary will send you copies of those communications or otherwise make those communications available to you if we ask it to. You have a right to inspect the register of holders of ADSs, but not for the purpose of contacting those holders about a matter unrelated to our business or the ADSs.

Jury Trial Waiver

The deposit agreement provides that, to the extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depositary arising out of or relating to our common shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws. If we or the depositary opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable in the facts and circumstances of that case in accordance with applicable case law. You will not, by agreeing to the terms of the deposit agreement, be deemed to have waived our or the depositary's compliance with U.S. federal securities laws or the rules and regulations promulgated thereunder.

CODE OF ETHICS AND BUSINESS CONDUCT

1. Introduction.

1.1 The Board of Directors of MEDIROM Healthcare Technologies Inc., a corporation with limited liability organized under the laws of the Japan (together with its subsidiaries, the “**Company**”) are committed to conducting the businesses of the Company in accordance with applicable laws, rules and regulations and the highest standards of business conduct. This Code of Ethic and Business Conduct (this “**Code**”) covers a wide range of business practices and procedures. It does not cover every issue that may arise, but it sets out basic principles to guide all directors, corporate auditors, officers, and employees of the Company. The Company has adopted this Code in order to:

- (a) promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest;
- (b) promote full, fair, accurate, timely and understandable disclosure in our communications with and reports to our stockholders, including reports filed with the U.S. Securities and Exchange Commission (the “**SEC**”) and, if applicable, the securities regulators in Japan, and in other public communications made by the Company;
- (c) promote compliance with applicable governmental laws, rules and regulations, including compliance with rules and regulations of the SEC and the NASDAQ Stock Market LLC (“**NASDAQ**”);
- (d) promote the protection of Company assets, including corporate opportunities and confidential information;
- (e) promote fair dealing practices;
- (f) deter wrongdoing; and
- (g) ensure accountability for adherence to this Code.

1.2 All directors, corporate auditors, officers and employees are required to be familiar with this Code, comply with its provisions and report any suspected violations as described below in Section 12. All directors, corporate auditors, officers and employees are required to sign and return an Acknowledgment of Receipt and Review of this Code set forth on Appendix A attached hereto to the Human Resources Group of the Company.

2. Honest and Ethical Conduct.

2.1 The Company’s policy is to promote high standards of integrity by conducting its affairs honestly and ethically. This Code applies to all directors, corporate auditors, officers and employees of the Company, whether they work for the Company on a full-time, part-time, consultative or temporary basis.

2.2 Each director, officer and employee must act with integrity and observe the highest ethical standards of business conduct in his or her dealings with the Company's customers, suppliers, partners, service providers, competitors, employees and anyone else with whom he or she has contact in the course of performing his or her job.

3. Conflicts of Interest.

3.1 A conflict of interest occurs when an individual's private interest (or the interest of a member of his or her family) interferes, or even appears to interfere, with the interests of the Company as a whole. A conflict of interest can arise when an employee, officer or director (or a member of his or her family) takes actions or has interests that may make it difficult to perform his or her work for the Company objectively and effectively. Conflicts of interest also arise when an employee, officer or director (or a member of his or her family) receives improper personal benefits as a result of his or her position in the Company. In general, the following are considered conflicts of interest:

(a) Competing Business. No director, officer or employee may be employed by a business that competes with the Company or deprives the Company of any business.

(b) Corporate Opportunity. All directors, corporate auditors, officers and employees owe a duty to the Company to advance its interests when the opportunity arises. No director, officer or employee may take for themselves personally (or for the benefit of friends or family members) opportunities that are discovered through the use of Company assets, property, information or position. No directors, corporate auditors, officers and employees may use Company assets, property, information or position for personal gain (including gain of friends or family members).

(c) Financial Interests.

- i. No director, officer or employee may have any financial interest (ownership or otherwise), either directly or indirectly through a spouse or other family member, in any other business or entity if such interest adversely affects such person's performance of duties or responsibilities to the Company, or requires such person to devote time to it during his or her working hours at the Company;
- ii. No director, officer or employee may hold any ownership interest in a privately held company that is in competition with the Company. Notwithstanding the foregoing, directors, corporate auditors, officers and employees may hold less than 5% ownership interest in a publicly traded company that is in competition with the Company; *provided that* if such person's ownership interest in such publicly traded company increases to 5% or more, he or she must immediately report such ownership to the General Affairs Group of the Company (the "**General Affairs Group**");

- iii. No director, officer or employee may obtain loans or guarantees of personal obligations from, or enter into any other personal financial transaction with, any company that is a material customer, supplier or competitor of the Company. This guideline does not prohibit arms-length transactions with recognized banks or other financial institutions. Loans by the Company to, or guarantees by the Company of obligations of, employees or their family members are of special concern and could constitute improper personal benefits to the recipients of such loans or guarantees, depending on the facts and circumstances; and
- iv. Unless pre-approved by the General Affairs Group, no director, officer or employee may hold any ownership interest in a company that has a business relationship with the Company if such person's duties at the Company include managing or supervising the Company's business relations with that company.

(d) Service on Boards and Committees. No director, officer or employee may serve on a board of directors or trustees or on a committee of any entity (whether profit or not-for-profit) whose interests could reasonably be expected to conflict with those of the Company. Directors, corporate auditors, officers and employees must obtain prior approval from the Board of Corporate Auditors before accepting any such board or committee position. The Company may revisit its approval of any such position at any time to determine whether such person's service in such position is still appropriate.

3.2 Whether or not a conflict of interest exists or will exist can be unclear. Conflicts of interest should be avoided unless specifically authorized as described in Sections 3.3 and 3.4.

3.3 Persons other than directors, corporate auditors, and executive officers who have questions about a potential conflict of interest or who become aware of an actual or potential conflict should discuss the matter with, and seek a determination and prior authorization or approval from the General Affairs Group. A supervisor or an officer may not authorize or approve conflict of interest matters or make determinations as to whether a problematic conflict of interest exists without first providing the General Affairs Group with a written description of the activity and seeking the General Affairs Group's written approval. If the supervisor or officer is himself involved in the potential or actual conflict, the matter should instead be discussed directly with the General Affairs Group.

3.4 Directors, corporate auditors, and executive officers must seek determinations and prior authorizations or approvals of potential conflicts of interest exclusively from the Board of Corporate Auditors.

4. Compliance.

4.1 Employees, officers, corporate auditors, and directors should comply, both in letter and spirit, with all applicable laws, rules and regulations in the cities, states and countries in which the Company operates.

4.2 Although not all employees, officers, corporate auditors, and directors are expected to know the details of all applicable laws, rules and regulations, it is important to know enough to determine when to seek advice from appropriate personnel. Questions about compliance should be addressed to the General Affairs Group.

5. Disclosure.

5.1 The Company strives to ensure that the contents of and the disclosures in any reports and documents that the Company files with the SEC or other regulatory authorities, and other public communications, shall be full, fair, accurate, timely and understandable in accordance with applicable disclosure standards, including standards of materiality, where appropriate. Material information with respect to the Company must be promptly disclosed.

5.2 The Company's periodic reports and other documents filed with the SEC, including all financial statements and other financial information, must comply with applicable federal securities laws and SEC rules.

5.3 Each director, officer and employee who contributes in any way to the preparation or verification of the Company's financial statements and other financial information must ensure that the Company's books, records and accounts are accurately maintained. Each director, officer and employee must cooperate fully with the Company's accounting and internal audit departments, as well as the Company's independent public accountants and counsel.

5.4 Each director, officer and employee who is involved in the Company's disclosure process must:

(a) be familiar with and comply with the Company's disclosure controls and procedures and its internal control over financial reporting; and

(b) take all necessary steps to ensure that all filings with the SEC and all other public communications about the financial and business condition of the Company provide full, fair, accurate, timely and understandable disclosure.

6. Insider Trading. The U.S. federal and applicable Japanese securities laws are built on the premise that a purchaser and a seller of securities should have equal access to important information regarding the company whose securities they are trading. Consequently, securities laws generally forbid an investor from purchasing or selling securities based upon inside information not available to the other party.

The consequences of insider trading violations can be severe. Directors, corporate auditors, officers and employees who trade on inside information, or who communicate (or tip) this information to others so that they may trade on it, may face a civil penalty of up to three times the

profit gained (or loss avoided), a substantial criminal fine and a jail term of up to twenty years. Additionally, if the Company or its senior officers do not take appropriate steps to prevent a director, officer or employee from insider trading, the Company may also face severe legal consequences, including, among other things, substantial criminal penalties.

6.1 Policy Statement.

(a) Directors, corporate auditors, officers and employees who have material, non-public (i.e., inside) information about the Company must not buy or sell Company securities until a reasonable time after the inside information has been publicly disclosed. Directors, corporate auditors, officers and employees are only allowed to trade in Company securities during certain designated periods, known as “Trading Windows”, and also are required to obtain prior clearance from the General Affairs Group before engaging in any trades in Company securities. You also must not disclose inside information to others outside the Company until a reasonable time after the information has been publicly disclosed.

(b) In addition, it is never appropriate for you to advise others to buy or sell Company securities, and you are prohibited from doing so while in possession of any material inside information.

(c) The Company further prohibits any directors, corporate auditors, officers or employees to sell “short” Company securities, or engage in other transactions where the person will earn a profit based on a decline in the Company’s stock price.

(d) The Company also prohibits all directors, corporate auditors, officers or employees from engaging in any speculative trading involving Company securities, including purchasing or selling “put” options, “call” options or other publicly-traded options or derivatives on Company securities.

(e) These rules also apply to the use of material, non-public information about other companies (including, for example, the Company’s clients, competitors and potential business partners).

(f) In addition to you, these rules apply to your spouse, children and any other family members living with you in your household.

6.2 Further Explanation.

(a) Inside information is material information about a company, including the Company, that has not been publicly disclosed.

(b) Information is material if there is a likelihood that a reasonable investor would consider it important in making an investment decision to purchase, sell or hold securities. It includes any information that could reasonably affect the price of a security and may be either positive or negative information. Examples of information that may be material include, among others, financial results or projections; proposed mergers,

acquisitions or other changes in assets or business; events regarding the Company's securities, such as redemption, changes in dividends or stock splits; changes in customary earnings trends, and information relating to the Company's products, services, intellectual property or research and development efforts; developments regarding our partners, agents, distributors or customers; changes in senior management, key personnel or the Board; and litigation.

(c) Information is non-public until the time it has been effectively disclosed to the public. Effective disclosure generally occurs when information is included in a press release, is revealed during a conference call to which the general public has been invited to participate, or, when required, is included in the Company's public filings with the SEC. Under certain circumstances, effective disclosure may occur by other means.

(d) The investing public must have sufficient time to analyze and absorb the information that has been disclosed before those possessing previously non-public information can trade. For matters disclosed in a Company's press release or conference call, a good rule of thumb is that purchases and sales can be made beginning two (2) full trading days after the disclosure. In any event, all directors, corporate auditors, officers and employees are prohibited from carrying out any trades in Company securities (save for certain exempt transactions such as exercise of stock options without sale of the underlying stock) other than within the quarterly Trading Window established by the Company, and only after seeking and obtaining pre-clearance for the trade from the General Affairs Group.

(e) A director, officer or employee who has inside information about the Company or another company is prohibited from: (a) trading in the Company's or the other company's securities (including derivative securities such as put and call options); (b) having others trade in the Company's or the other company's securities for his or her benefit; and (c) disclosing the inside information to (or tipping) anyone else who might then trade. These prohibitions apply during Trading Windows as well, and continue for as long as the information remains material and non-public, including after termination for any reason of the director, officer or employee's employment or other relationship with the Company.

(f) A director, officer or employee who has inside information about the Company may, nonetheless, usually exercise the Company's stock options for cash (but may not sell the option shares he or she receives upon the exercise). These cash option exercises purchases are allowed because the other party to the transactions is the Company itself, and because the option exercise purchase price does not vary with the market, but, rather, is fixed in advance under the terms of the option plan. You may also engage in "net exercises" and have the Company withhold shares to satisfy your tax obligations. You should contact the General Affairs Group with any questions.

7. Protection and Proper Use of Company Assets.

7.1 All directors, corporate auditors, officers and employees should protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability and are prohibited.

7.2 All Company assets should be used only for legitimate business purposes. Any suspected incident of fraud or theft should be reported for investigation immediately.

7.3 The obligation to protect Company assets includes the Company's proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks, and copyrights, as well as business and marketing plans, engineering and manufacturing ideas, designs, databases, records and any nonpublic financial data or reports. Unauthorized use or distribution of this information is prohibited and could also be illegal and result in civil or criminal penalties. All inventions, creative works, computer software, and technical or trade secrets developed by a director, officer or employee in the course of performing such person's duties or primarily through the use of the Company's assets or resources while working at the Company are the property of the Company.

8. Company Records. All company records must be complete, accurate and reliable in all material respects. There is never an acceptable reason to make false or misleading entries. Undisclosed or unrecorded funds, payments or receipts are strictly prohibited. Directors, corporate auditors, officers and employees are required to understand and comply with the Company's recordkeeping policy. Directors, corporate auditors, officers and employees should contact the General Affairs Group if he/she has any questions regarding the recordkeeping policy.

9. Confidentiality. Directors, corporate auditors, officers and employees should maintain the confidentiality of information entrusted to them by the Company or by its customers, suppliers or partners, except when disclosure is expressly authorized or is required or permitted by law. Confidential information includes all nonpublic information (regardless of its source) that might be of use to the Company's competitors or harmful to the Company or its customers, suppliers or partners if disclosed.

10. Fair Dealing. Each director, officer and employee must deal fairly with the Company's customers, suppliers, partners, service providers, competitors, employees and anyone else with whom he or she has contact in the course of performing his or her job. No director, officer or employee may take unfair advantage of anyone through manipulation, concealment, abuse or privileged information, misrepresentation of facts or any other unfair dealing practice. Directors, corporate auditors, officers and employees should contact the General Affairs Group if he/she has any questions regarding the Fair Dealing policy.

11. Compliance with Laws and Regulations. Each director, officer and employee have an obligation to comply with the laws of the cities, states and countries in which the Company operates. This includes, without limitation, laws covering commercial bribery and kickbacks, patent, copyrights, trademarks and trade secrets, information privacy, insider trading, offering or receiving gratuities, employment harassment, environmental protection, occupational health and safety, false or misleading financial information, misuse of corporate assets and foreign currency exchange activities. Directors, corporate auditors, officers and employees are expected to understand and comply with all laws, rules and regulations that apply to their positions at the

Company. If any doubt exists about whether a course of action is lawful, the employee should seek advice immediately from the General Affairs Group.

12. Discrimination and Harassment. The Company is firmly committed to providing equal opportunity in all aspects of employment and will not tolerate any discrimination or harassment based on race, ethnicity, religion, gender, age, national origin or any other protected class. For further information, directors, corporate auditors, officers and employees should consult the Human Resources Group.

13. Health and Safety. The Company strives to provide each employee with a safe and healthy work environment. Each director, officer or employee has responsibility for maintaining a safe and healthy workplace for all employees by following safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices or conditions. Violence and threatening behavior are not permitted. Directors, corporate auditors, officers and employees should report to work in condition to perform their duties, free from the influence of illegal drugs or alcohol. The use of illegal drugs in the workplace will not be tolerated. Directors, corporate auditors, officers and employees should contact the Welfare Group if he/she has any questions regarding the recordkeeping policy.

14. Reporting and Enforcement.

14.1 Reporting and Investigation of Violations.

(a) Actions prohibited by this Code involving directors or executive officers must be reported to Internal Audit Office or the external Legal Firm which is described in Whistleblowing Rule.

(b) Actions prohibited by this Code involving anyone other than a director or executive officer must be reported to the General Affairs Group.

(c) After receiving a report of an alleged prohibited action, Internal Audit Office, the external Legal Firm or Corporate Auditors must promptly take all appropriate actions necessary to investigate.

(d) All directors, corporate auditors, officers and employees are expected to cooperate in any internal investigation of misconduct.

14.2 Enforcement.

(a) The Company must ensure prompt and consistent action against violations of this Code.

(b) If, after investigating a report of an alleged prohibited action by a director or executive officer, Internal Audit Office or Corporate Auditors determines that a violation of this Code has occurred, the Internal Audit Office or Corporate Auditors will report such determination to the Board of Directors.

(c) If, after investigating a report of an alleged prohibited action by any other person, Internal Audit Office or Corporate Auditors determines that a violation of this Code has occurred, Internal Audit Office or Corporate Auditors will report such determination to the Board of Directors.

(d) Upon receipt of a determination that there has been a violation of this Code, the Board of Directors will take such preventative or disciplinary action as it deems appropriate, including, but not limited to, reassignment, demotion, dismissal and, in the event of criminal conduct or other serious violations of the law, notification of appropriate governmental authorities.

14.3 Waivers.

(a) The Board of Directors may, in its discretion, waive any violation of this Code.

(b) Any waiver for a director or an executive officer shall be disclosed as required by the SEC and NASDAQ.

14.4 Prohibition on Retaliation.

The Company does not tolerate acts of retaliation against any director, officer or employee who makes a good faith report of known or suspected acts of misconduct or other violations of this Code.

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a) or 15d-14(a)

I, Kouji Eguchi, certify that:

1. I have reviewed this annual report on Form 20-F of Medirom Healthcare Technologies, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 14, 2022

/s/ Kouji Eguchi

Kouji Eguchi
Chief Executive Officer

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a) or 15d-14(a)

I, Fumitoshi Fujiwara, certify that:

1. I have reviewed this annual report on Form 20-F of Medirom Healthcare Technologies, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 14, 2022

/s/ Fumitoshi Fujiwara
Fumitoshi Fujiwara
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350**

In connection with the filing of the Annual Report on Form 20-F for the period ended December 31, 2021 (the “Report”) by Medirom Healthcare Technologies, Inc. (the “Company”), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2022

/s/ Kouji Eguchi
Kouji Eguchi
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. Section 1350**

In connection with the filing of the Annual Report on Form 20-F for the period ended December 31, 2021 (the “Report”) by Medirom Healthcare Technologies, Inc. (the “Company”), the undersigned, as Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2022

/s/ Fumitoshi Fujiwara
Fumitoshi Fujiwara
Chief Financial Officer