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## Financial Analysis and Valuation of Regis Corporation

Kristi Engquist  
engquistkr@mnstate.edu

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# Regis Corporation

RGS / New York Stock Exchange (NYS)

## Initiating Coverage

### Investment Rating: Underperform

PRICE: USD 18.27 S&P 500: 2,760.17 DJIA: 25,538.46 RUSSELL 2000: 1,533.27

- Continuing on “financial road to recovery”
- Restructuring to increase performance and long-term growth
- Closing under-performing stores will drive revenue growth and reallocate capital
- Moving away from company-owned stores to more franchised stores

| Valuation | 2018 A | 2019 E | 2020 E |
|-----------|--------|--------|--------|
| EPS       | .72    | .18    | .51    |
| P/E       | 23.72  | 33.4   | 22.4   |
| CFPS      | 1.09   | 1.01   | 1.30   |
| P/CFPS    | 16.80  | 15.57  | 13.12  |

| Market Capitalization       | Stock Data                                    |
|-----------------------------|---|
| Equity Market Cap (USD):    | 752,674,000 52-Week Range (USD): 22.40/14.31  |
| Enterprise Value (USD):     | 757,094,000 12-Month Stock Performance: 18.27 |
| Shares Outstanding (M):     | 44,265.7 Dividend Yield: 0.0                  |
| Estimated Float (M):        | 32.77 Book Value Per Share (USD): 10.57       |
| 6-mo Avg. Daily Volume (M): | 265.37 Beta: .85                              |

### Company Quick View:

**Location:** 7201 Metro Blvd, Minneapolis, MN 55439

**Industry:** Miscellaneous Personal Services (SIC 7299) / All Other Personal Services (NAICS 812990)

**Description:** Regis Corporation is a leading owner and franchisor of hair and retail product locations and salons worldwide. Their primary business involves owning, operating, and franchising hair salons. Regis Corporation has many company-owned and franchised salon locations worldwide. The company was founded in 1922 and is based out of Minneapolis, MN.

**Key Products & Services:** The main services Regis Corporation offers at each of their salons includes: haircutting and styling, hair coloring, and waxing

**Website:** <http://www.regiscorp.com>

**Analyst:** Kristi Engquist



## STOCK PRICE PERFORMANCE

Shown below is a figure of Regis' 5-year stock price performance. Based on this figure, it is evident that Regis hit an all time low at the end of fiscal year 2017 and began to restructure because stock prices increased significantly after that.

*Figure 1: 5-year Stock Price Performance*



*Source: Yahoo Finance 11/30/2018*

Regis Corporation's YTD total return is 16.41 percent with an annualized return edging that at 17.88 percent. Within the last year, Regis Corporation has been going through a restructuring phase. Their stock price gradually increased from fiscal year end June 2017 to fiscal year end June 2018. Currently, the stock price is holding steady around the USD 17-18 range. Compared to their main competitor, Ulta, Regis Corporation. YTD return is about one-half of Ulta's. Ulta's YTD return is 34.30 percent and its annualized return is 37.37 percent.

## INVESTMENT SUMMARY

I give the recommendation of underperformance for Regis Corporation stock within the next 12-month period. I have decided to provide this recommendation because within the next year Regis' sales are expected to be flat, but then sales will start to grow at a faster rate. Based on my valuation, Regis' net income is expected to drop a little from June 30<sup>th</sup>, 2018 fiscal year end and then significantly increase from 2019 on. According to my valuation model, the price I am obtaining as of November 30, 2018 is in the USD 14-15 range. The price in the market as of November 30, 2018 was USD 18.27.

## **INVESTMENT THESIS**

I have established a target price for Regis as of November 30, 2018 to be USD 14.91 and as of June 30, 2019 to be USD 15.43. Despite recent decline in sales growth, I believe that Regis will continue to slowly increase profits by closing under-performing stores and switching their focus to franchised stores. Additionally, this will reallocate capital and increase their value in the future.

### **Financial Road to Recovery**

Since Regis is on a financial road to recovery, they are facing many issues that their competitors are not. Regis began restructuring starting in April 2017 and has showed improved results as of their most recent quarter ending September 30, 2018. In my opinion, the road to recovery is still far from complete and the market price has already incorporated all the potential benefits of the restructuring process.

### **Closing company-owned stores and moving to franchising**

Regis has closed company-owned stores in hopes this will cut down on costs for them and increase company profits. They are moving to a more franchised approach. In the future, Regis believes they will close mostly all company-owned stores and turn them into franchised stores. This has also led to my recommendation of underperforming because the near future could bring multiple changes that involve a lot of unknowns and risk.

### **No growth this coming year, then increasing growth thereafter**

My analysis and the latest Value Line report about the company show that Regis will have virtually no growth this coming year. Their sales will remain almost the same because they will be focusing on closing more stores and restructuring. After this fiscal year, sales are expected to increase again. I base my investment recommendation in a scenario with virtually no growth in the coming fiscal year, and a very sensitive equity market.

### **Closing under-performing stores will drive revenue growth and reallocate capital**

Regis has been closing under-performing stores in order to drive revenue growth and reallocate capital. By closing under-performing stores, Regis' management hopes to increase their sales in the coming years as well as cut down on many unnecessary costs. This is a big factor when determining whether to sell Regis stock because in the future if they continue to close under-performing stores, it is important to take into effect what this will do for the industry and the company. Closing under-performing stores may not necessarily increase their profits or decrease expenses.

## **COMPANY DESCRIPTION**

Regis Corporation is a leading owner and franchisor of hair and retail product locations and salons worldwide. Regis has 3,966 company-owned salons in the United States, Canada, and

Puerto Rico and 4,114 franchised salons located in the United States, Canada, the United Kingdom, and Puerto Rico. There are also 88 locations that include a non-controlling ownership interest of less than 100 percent. The business segments in which Regis Corporation has operated since formation include North American Value Salons, North American Franchise Salons, North American Premium Salons, and International Salons. The company's salons generally fall under value or premium.

## **History**

Regis Corporation is based in Minneapolis, Minnesota. The Company was founded in 1922 when Paul and Florence Kunin traveled to Minnesota looking to start a business. Although Regis Corporation is now the current title, they had originally named their business Kunin Beauty Salon. This business quickly expanded into a chain of affordable value-priced salons located throughout multiple department stores nationwide. In 1958, their son Myron acquired the chain and renamed it to Regis Corporation. Myron decided that in order for the company to grow, he would need to expand the operations into shopping malls and not just department stores. The company was primarily designed to own, franchise, and operate beauty salons. Regis Corporation made their initial public offering on June 21, 1991 where they originally began trading at USD 13.00.

## **Products and Services**

Regis Corporation operates in the Miscellaneous Consumer Services sector. They are apart of the miscellaneous personal services and all other personal services industries. They can also be categorized in the toiletries/cosmetics industry based on certain products that their salons provide or offer customers. The main services that the company's salons provide are haircutting and styling, hair coloring, and waxing to nearly 155 million clients each year. Each of Regis Corporation's salons offers similar professional beauty products. Regis Corporation salons are a significant contributor to their stability and growth since incorporation. Regis sets out to target and provide affordable salon products and services that appeal to a large, stable middle-class market.

## **Corporate Strategy**

Regis Corporation's strategy for the remainder of 2018 and 2019 is focused on maximizing shareholder value. As stated in their 10-K annual report where they reassess their corporate strategy, they are promoting an ownership mentality long-term incentive plan. They are aiming for a long-term management perspective that will support Regis' growth for many years. Under the long-term incentive plan, executive equity grants have changed. Instead of receiving automatic annual equity grants, shareholders will each be eligible to receive a larger initial equity grant over a five-year period. This will create a stronger alignment with shareholder interests. Regis has also created a matching share program where senior executives are encouraged to buy shares of stock with a portion of their own money. They will have a larger matching grant in years of strong performance by the company and lower in years of below-target performance.

Regis Corporation has also contributed to their corporate strategy by closing under-performing

company-owned salons and converting company-owned salons to franchised locations. They are now able to reallocate their remaining resources and capital to optimize continued growth. This change is consistent with Regis' strategic plan aimed at restructuring its salon portfolio to improve and maximize shareholder value and position the company for long-term growth and expansion.

## **Competitors**

Regis Corporation is faced with many competitors within the same industry. These include: Ulta Beauty, Great Clips, Fantastic Sams, and Sport Clips, independently owned salons, department store salons located within malls, in-home hair services, booth rentals, and blow dry bars. The principal factors that affect competition in the hair care category are quality and consistency of the guest experience, convenience, location, and price. The Company continually strives to improve its performance in each of these areas and to create additional points of brand differentiation versus the competition.

## **Recent News and Mergers & Acquisitions**

As Regis Corporation relates to the toiletries/cosmetics industry, the last couple of years the rank of this group has decreased significantly. Investors are investing in industries where there is greater growth and more innovation. As far as the personal services industry, there is significant growth potential for the future due to new developing technologies and the increase in franchise opportunities.

Since incorporation, Regis Corporation has been involved in multiple mergers and acquisitions. A pivotal moment for Regis Corporation came in 1996 with the acquisition of Supercuts. This allowed them to expand into strip mall centers and street locations. This was a starting point in their franchising expansion. In the few years following, there were acquisitions that allowed the Company to expand into Canada and the United Kingdom as well as more locations within the United States. The most successful merger thus far has been the acquisition of The Barbers, Hairstyling for Men & Women, Inc in 1999. This acquisition resulted in the issuance of 2,000,000 shares of common stock and it was accounted for as a pooling of interests.

Within the last 10-12 years, Regis Corporation merged its accredited cosmetology schools with Empire Education Group, Inc (EEG) creating the largest beauty school operator in North America at the time. They maintain a 49 percent equity interest. Regis Corporation's most recent changes took place in 2017. In fiscal year 2017, Regis Corporation sold its 21.7 percent ownership interest in My Style to My Style's parent company. Also in 2017, Regis, Inc sold to The Beautiful Group Management, LLC nearly all the assets related to the salon locations in malls within the United States.

## **INDUSTRY ANALYSIS**

### **Industry Overview**

Regis Corporation operates under the broad Industry Miscellaneous Personal Services (SIC code

7299). Their Industry NAICS code is All Other Personal Services (812990). Demand in this industry is especially driven by demographics, population growth, and personal income. Regis Corporation operates in the hair salon market. This market involves competition from a wide array of businesses including franchised salons, independently-owned salons, blow dry bars, and department store salons. Throughout their lifetime, Regis Corporation has redefined and come up with more efficient ways of conducting business in the Personal Services industry.

### **Threat of New Entrants**

When new entrants enter the Personal Services industry, Regis Corporation is forced to implement a strategy to edge the competition. They must overcome this adversity and build barriers to maintain a competitive advantage.

In the Personal Services industry, the barriers to entry are low. It is very easy for personal service companies to grow and establish themselves in this industry. Even though the threat of new entrants brings more competition to the industry, Regis can look at it as a positive addition. To edge the competition, they could innovate new products and services to attract new customers. Another way for Regis to adapt to the threat of new entrants is to build economies of scale. They can save on cost by increasing their service reach.

### **Bargaining Power of Suppliers**

The bargaining power of suppliers is important because nearly all of the companies in the Personal Services industry buy their material from many different suppliers. Suppliers are able to decrease the margins that these companies earn by increasing their prices.

In the Personal Services industry, the bargaining power of suppliers is high. A major way for Regis Corporation to decrease the prices with their suppliers is to build a supply chain with multiple suppliers. This will allow Regis to negotiate with each supplier and ultimately bring down costs. Regis will also be able to increase their profitability through this process.

### **Bargaining Power of Buyers**

Buyers within this industry will most likely be very demanding and want to pay the minimum price. This is why the bargaining power of buyers within the Personal Services industry is high. Even though buyers do not have much negotiation power in terms of the prices they pay, they can easily go somewhere else to find a cheaper price.

In order for Regis to reduce the bargaining power of buyers as an individual company, they must build a large customer base. They must have those guaranteed solid customers that will come to them no matter what. They can also limit the bargaining power of buyers by introducing new products to their product lines so that customers are limited in their bargaining power. Regis is also able to keep the bargaining power of buyers low because they are able to offer a loyalty program with rewards to frequent customers.

## **Threat of Substitutes**

The threat of substitutes in the Personal Services industry is moderate to high. Products or services that Regis Corporation offers can be substituted with a similar product or service from a different company. It is important for Regis Corporation to focus on being service oriented rather than just product oriented alone. Service would be considered a part of their competitive advantage.

## **Rivalry among Existing Competitors**

The Personal Services industry is very competitive because it is so broad. The companies within this industry ranges from dating services, babysitting services, tuxedo rentals, to personal beauty. There are many different companies that operate in this industry and this competition affects the overall profitability of Regis Corporation. Regis Corporation must continue to build scale to be greater competition in the market. Regis can also look for resourceful ways to differentiate themselves.

## **Industry Trends**

A common industry trend shown in the Personal Services industry involves increasing technology. Many companies in the Personal Services industry are using more technology-based material to conduct their business. This includes the technology used at the corporate level to help the company function from day to day. It is important for companies in this industry to establish and maintain human connection, which Regis Corporation is doing based on their hair salon market. Another industry trend related to the Personal Services industry is the emergence and popularity of retailers that offer a wide variety of beauty products as well as services within the same building. This includes Ulta Beauty, Inc and Sephora. The convenience of this has become more popular for consumers in today's society.

## **PEER ANALYSIS**

Regis Corporation's peer group includes multiple companies that have similar target customers and business models. Regis' SIC and NAICS codes are very broad and many different companies fall under the same categories as them. Regis Corporation's SIC code is Miscellaneous Personal Services (7299) and their NAICS code is All Other Personal Services (812990). One thing among their competitors that differs significantly is market capitalization. Three competitors that are listed in Regis Corporation's peer group on their DEF 14A – Other Definitive Proxy Statements Annual Report are Ulta Beauty, Inc, Revlon, Inc, and Sally Beauty Holdings, Inc. There are numerous other peer group competitors, but these three relate the most to Regis Corporation. I chose this peer group from broad retail industry data.

## **Ulta Beauty, Inc (ULTA/NMS)**



Ulta Beauty, Inc (ULTA/NMS) is the largest beauty retailer in the United States. They provide cosmetics, fragrances, skincare products, hair care products, and salon services. ULTA opened their first store in 1990 and since then has grown to offer more than 20,000 products from many beauty brands. One interesting point to note about ULTA is they operate their business with zero debt. Compared to Regis Corporation, ULTA has a much larger Market Cap as well as a higher P/BV Ratio. ULTA also has a very large Return on Asset and Return on Equity Ratio compared to that of Regis Corporation. They are very profitable relative to their total assets and they are able to generate a lot of profit with the money invested by shareholders.

### **Revlon, Inc (REV/NYS)**

Revlon, Inc (REV/NYS) is a manufacturer of beauty and personal care products. Through its subsidiaries, the company manufactures, markets, distributes, and sells beauty and personal care products worldwide. Revlon, Inc was founded in 1932 and is headquartered in New York, New York. Their products range from cosmetics, hair color, hair care and hair treatments, beauty tools, fragrances, and skincare. In Table 1, the debt to asset ratio of Revlon is much higher than that of Regis Corporation meaning Regis has more financial flexibility due to a lower debt level, even though Revlon is more recognized and a larger company.

### **Sally Beauty Holdings, Inc (SBH/NYS)**

Sally Beauty Holdings, Inc (SBH/NYS) is a global retailer and distributor of professional beauty supplies and products to retail and salon professionals. They sell and distribute to over 5,000 stores worldwide. Sally Beauty Holdings, Inc was founded in 1964 and located their first store in New Orleans, Louisiana. As portrayed in Table 1, Sally Beauty Holdings P/E Ratio is significantly lower than that of Regis Corporation. A low P/E ratio like Sally Beauty Holdings suggests that Regis is overvalued.

**Table 1: Regis Corporation and Peer Ratios**

| Company                    | Ticker Symbol | Market Cap (In Millions) | PE Ratio | P/BV | EV/EBI TDA | Debt/ Assets | ROA %  | ROE % |
|----------------------------|---------------|--------------------------|----------|------|------------|--------------|--------|-------|
| Regis Corp.                | RGS           | 753                      | 27.42    | 1.70 | 9.90       | .10          | 6.45   | 12.26 |
| Ulta Beauty, Inc           | ULTA          | 17,400                   | 26.59    | 9.08 | 14.62      | -            | 20.01  | 32.86 |
| Revlon, Inc                | REV           | 1,400                    | (3.97)   | -    | 17.40      | .86          | (6.03) | -     |
| Sally Beauty Holdings, Inc | SBH           | 2,400                    | 9.08     | -    | 6.82       | .88          | 10.11  | -     |

Source: MergentOnline as of November 30, 2018

## MANAGEMENT BACKGROUND AND PERFORMANCE

### Executives & Key Executives' Backgrounds

Members of the Executive Team at Regis Corporation are portrayed in Table 2:

**Table 2: Regis Corporation's Executive Team**

|                 |   |
|-----------------|---|
| Hugh E. Sawyer  | President, Chief Executive Officer,<br>Member of the Board of Directors |
| Rachel Endrizzi | Senior Vice President, Chief Marketing<br>Officer                       |
| Jim Lain        | Executive Vice President, Chief Operating<br>Officer                    |
| Kersten Zupfer  | Senior Vice President, Chief Accounting<br>Officer                      |
| Laura Alexander | Senior Vice President, Merchandise                                      |
| Chad Kapadia    | Executive Vice President and Chief<br>Technology Officer                |
| Shawn Moren     | Senior Vice President, Chief Human<br>Resources Officer                 |
| Eric A. Bakken  | Executive Vice President, President of<br>Franchise                     |
| Andrew Lacko    | Executive Vice President, Chief Financial<br>Officer                    |
| Amanda P. Rusin | Senior Vice President, General Counsel<br>and Secretary                 |

*Source: Regis Corporation's Website*

Hugh E. Sawyer has been with Regis Corporation since April 2017 serving as President and CEO along with being a member of the Board of Directors. Mr. Sawyer has nearly 40 years of experience leading operating improvement initiatives and mergers and acquisitions involving many different industries for both public and private companies. He has served as the President or CEO in other companies besides Regis Corporation. He has also served on the Board of Directors at his prior company, Huron.

Andrew Lacko is currently serving as the Executive Vice President, CFO of Regis Corporation. He first started at Regis Corporation in July 2017. Prior to joining Regis Corporation he held Vice President positions in Financial Planning & Analysis at Hertz Global Holdings, Inc and First Data Corp.

## **Management Incentives**

Regis Corporation has undergone important and pivotal changes within the last couple of years in order to maximize growth. Hugh E. Sawyer became the President and Chief Executive Officer (CEO) and a member of the Board of Directors in April 2017. This transition created more opportunities related to business strategy. It also was a turning point in that the company began expanding operations.

Since April 2017, Regis Corporation has been involved in a transformation. They have reorganized their structure by brand/concept and sold almost all of their mall-based salons in North America as well as their market position in the United Kingdom to the Beautiful Group. They closed nearly 600 under-performing company-owned SmartStyle salons. This restructuring was intended to increase performance and maximize long-term growth.

## **Management Training**

Management is equipped with multiple years of experience in order to provide their staff members with the highest level of expertise. They are well aware of the goals set in place in order for the company to grow and evolve. They are able to oversee and provide new franchisees with training that focuses on the various aspects of salon management. This includes, but is not limited to, operations, personnel management training, marketing fundamentals, and financial controls. Existing franchisees receive training, counseling and information from the management team regularly. The management team is very active.

## **Future Performance Plans**

Regis Corporation's future performance plans depend on the effectiveness and efficiency of their efforts to create more awareness and attract more customers to their salons. They want to be able to increase guest experience ratings in order to increase customers and increase profits. Their marketing strategies include national and local campaigns to increase traffic to the franchised salons. Their succession plans also involve continuing to attract qualified franchisees and work with them to make their business not only profitable, but successful as well. By moving salons from company-owned to franchise-owned, they expect to reduce consolidated revenues and decrease operating costs.

Regis Corporation has claimed they must maintain and enhance the value of their brands in order to generate success. Increasing brand value will be dependent on the ways they manage their relationships with the franchisees, their growth strategies, and their development efforts. They want to generate an increase in royalty income in order to increase their operating profits. The adoption of these steps will materially affect their business strategy.

## **Board of Directors**

There are currently eight members on the Board of Directors for Regis Corporation. The Chairman of the Board is David P. Williams. He has served as the Executive Vice President and CFO of Chemed Corporation since February 2004. Williams has been a member of the Board of

Directors at Regis Corporation since 2011. The Board Committees that he is involved in include Audit, Nominating, and Corporate Governance.

Currently, 87.5 percent of directors are considered independent directors. There is only one director that works for Regis, Hugh E. Sawyer, President and CEO of Regis Corporation. There are currently 2 female members serving on the Board and 6 male members. A full list of the Board of Directors and their roles is listed in Table 3:

**Table 3: Regis Corporation's Board of Directors**

|                             |                             |
|-----------------------------|-----------------------------|
| David P. Williams (57)      | Chairman                    |
| Hugh E. Sawyer (63)         | Director; President and CEO |
| Daniel Gordon Beltzman (43) | Independent Director        |
| Virginia Gambale (58)       | Independent Director        |
| David J. Grissen (61)       | Independent Director        |
| Mark S. Light (56)          | Independent Director        |
| Michael J. Merriman (62)    | Independent Director        |
| M. Ann Rhoades (73)         | Independent Director        |

*Source: Regis Corporation's Website*

Table 4 displays Regis Corporation and their main competitor's return on invested capital (ROIC). I used this ratio to determine how efficiently management is able to turn invested capital into profits for the company.

**Table 4: Regis Corporation vs. Ulta ROIC**

| Year | ROIC (%)<br>Regis Corporation | ROIC (%)<br>ULTA |
|------|-------------------------------|------------------|
| 2018 | (9.29)                        | 46.48            |
| 2017 | .58                           | 43.88            |
| 2016 | 1.44                          | 37.74            |
| 2015 | 1.82                          | 36.57            |
| 2014 | (3.32)                        | -                |

*Source: MergentOnline*

These results show that Regis Corporation is not performing well in turning investor capital into profits. Regis' Net Operating Profit After-Tax (NOPAT) continued to fall in years 2014-present. Decreasing margins and inefficient capital use explain the drop of ROIC.

## **SHAREHOLDER ANALYSIS**

Regis Corporation's ownership is split into four main categories. These include: institutions, mutual fund/active investors, company insiders, and the general public. Institutions make up 74.91%, mutual fund holders are 23.07%, company insiders are significantly below that at 1.76%, and the general public holds a .27% stake. Table 5 portrays the top mutual fund

shareholders in Regis Corporation as shown on NASDAQ and Yahoo Finance. Overall, individual mutual fund shareholders hold a smaller percentage of shares outstanding for Regis Corporation compared to institutional shareholders.

**Table 5: Top 10 Mutual Fund Shareholders**

| No | Holder Name                     | % Shares Outstanding | Shares Held at 6/30/2018 | Total Value (USD) |
|----|---------------------------------|----------------------|--------------------------|-------------------|
| 1  | iShares Core S&P Small cap ETF  | 4.24                 | 1,846,963                | 30,604,176        |
| 2  | Brown Advisory Small Cap Fund   | 3.52                 | 1,622,693                | 26,888,022        |
| 3  | DFA U.S. Small Cap Value Series | 2.75                 | 1,267,641                | 20,409,020        |
| 4  | CRM Mutual Fd Tr-Small Cap Fd   | 2.66                 | 1,229,117                | 18,780,907        |
| 5  | Vanguard Small-Cap Index Fund   | 1.90                 | 876,028                  | 13,771,160        |

Source: Yahoo Finance

The percentage of institutional holdings is 74.91 percent with a total number of holders equaling 152. This percentage is larger than what is typical for companies in the Miscellaneous Personal Services industry, which means this stock is an important holding option. Table 6 displays the top 5 institutional investors. The total shares held between all institutional holders are 44 million and the total value of these holdings equates to USD 783 million as of November 30, 2018. The total shares outstanding as of November 30, 2018 were 44,265.7 million.

**Table 6: Top 5 Institutional Investors**

| No | Holder Name                    | % Shares Outstanding | Shares Held at 6/30/2018 | Total Value (USD) |
|----|--------------------------------|----------------------|--------------------------|-------------------|
| 1  | Birch Run Capital Advisors, LP | 23.13                | 10,655,170               | 176,556,163       |
| 2  | Blackrock Inc                  | 10.68                | 4,919,119                | 81,509,800        |
| 3  | Dimensional Fund Advisors LP   | 8.42                 | 3,877,961                | 64,257,812        |
| 4  | Vanguard Group, Inc.           | 7.28                 | 3,351,386                | 55,532,464        |
| 5  | Cramer Rosenthal McGlynn LLC   | 6.18                 | 2,844,819                | 47,138,649        |

Source: Yahoo Finance and NASDAQ.com

Within the last twelve months, there have been 30 trades for a net activity total of 975,309 shares traded by insiders. Out of these thirty trades, twenty-one were open market buys and nine were insider sells. Table 7 lists the top five insider transactions in 2018 involving acquisitions by top executives for Regis Corporation.

**Table 7: Top 5 Insider Trades and Acquisitions 2018**

| No | Holder Name       | Shares Traded/Acquired |
|----|-------------------|------------------------|
| 1  | Hugh E Sawyer III | 425,432                |
| 2  | Hugh E Sawyer III | 89,686                 |
| 3  | Eric Bakken       | 86,273                 |
| 4  | Chad Kapadia      | 76,057                 |
| 5  | Andrew H Lacko    | 76,057                 |

Source: NASDAQ.com

According to MarketWatch, during Regis' most recent quarter, insiders purchased 883,000 common shares for a total of USD 15.2 million. In August 2018, the Company's Board of Directors authorized an additional USD 200 million for share repurchases. A large transaction that took place was in February 2018 when David Patrick Williams (Chairman of the Board of Directors for Regis Corporation) purchased/acquired 5,000 shares for a total of USD 77,500. This sale increased Regis' stock price by 14.63 percent. The most recent transaction that just occurred on November 12, 2018, was with Jim Brian Lain (Chief Operating Officer) involving a disposition of 143 shares at USD 17.80 per share.

## INVESTMENT RISK

### Risk Overview

Like many other companies, Regis Corporation is exposed to multiple types of risks. Regis wants to manage potential risks as much as possible in order to improve its profitability / risk tradeoff. Regis is in the process of improving the performance of its company-owned stores. This change involves numerous risks related to operational, financial, regulatory, and strategic business.

### Operational Risk

Within the last year, Regis Corporation has been on a "financial road to recovery." The company had to redefine their strategy and began cutting employees and salons to increase profits. When the current President and CEO took over, the company began restructuring, increasing risks. Management is trying to move at a fast pace and cut expenses without sacrificing revenue. The management is also trying to manage operational risk by striving to improve the performance of company-owned stores, internal operations systems, and guest experiences.

Regis Corporation has reorganized their structure by brand/concept and sold almost all of their mall-based salons in North America as well as their market in the United Kingdom to the Beautiful Group. They closed nearly 600 under-performing company-owned SmartStyle salons in January 2018. The purpose of this was to increase performance and maximize long-term growth. Regis made this move in order to reallocate capital and human resources to grow their remaining SmartStyle salons with new offerings.

According to an article in the Star Tribune, at Regis Corporation's Minneapolis headquarters, they cut nearly 75 workers in September of this year. They did this of improving profits during their restructuring process. They want to focus on the growth of their franchise platform. Their restructuring plan also involves a turnaround plan for underperforming company-owned stores, investments in technology, improved advertising, and the elimination of nonessential and noncustomer costs.

A large operational risk for Regis Corporation is the under-performing salons. They are making strategic business decisions in order to manage this risk. They began by closing nearly 600 SmartStyle salons that generated negative cash flow of USD 15 million for the preceding 12 months. By closing these salons, Regis should be able to reallocate capital and human resources to grow the remaining SmartStyle salons.

### **Financial Risk**

Liquidity ratios and capital structure statistics are essential in determining the financial risks of a company. The total debt to equity and debt to assets ratios are ideal in seeing that the company is in a restructuring phase. Regis is trying to manage its debt load and turning its operations around. Regis' current ratio is slightly above the industry average, which is a good sign, given the current debt levels. Regis Corporation's return on invested capital (ROIC) is currently very low. As mentioned before, the company is currently restructuring, and its ROIC is expected to increase in the next fiscal year.

### **Change in the Compensation System**

A change in the compensation system that is being implemented is a new management incentive program. This new change means that executives will no longer receive automatic annual equity grants, but instead they will each be eligible to receive one larger initial equity grant within a five-year period. Performance requirements must be met before these grants will be awarded. This regulatory change with management by Regis Corporation will be able to better align management with shareholder interests.

### **Strategic Business Risks**

There is significant business risk for Regis Corporation because they are in the restructuring stage. They may have lower than anticipated profits at this stage because they are working to turnaround and transform their business. Their strategic business risk will continue to decrease the farther they get into their restructuring stage. They will strive to keep their business risk low in order to look more profitable to investors.

## FINANCIAL RATIO ANALYSIS

Ulta is a close competitor for Regis Corporation even though they have much greater market cap and produce higher revenues. Ulta operates in the Miscellaneous Apparel & Accessory Stores industry (SIC 5699) and All Other General Merchandise Stores (NAICS 452990). Ulta is similar to Regis Corporation because they offer similar products and services, but large differences in market capitalization exist between the two companies.

Historically, Regis' growth in sales has been declining. Most recently, their growth was a negative 28.2 percent. This decline in sales growth can be explained by Regis' restructuring process. When they started restructuring in 2017, they expected they would not be able to turnaround sales immediately. The decline in the number of salons explains the decline in overall sales.

Compared to benchmark, Regis is not performing as well. They have a much lower ROIC (-9.29 percent) compared to benchmark (45 percent). Regis' gross profit margin increased from 40 percent in 2017 to 43.2 percent in 2018. Compared to Ulta's, Regis had about an 8 percent higher gross profit margin in 2018. Regis' liquidity ratios are very comparable to benchmarks with their quick ratio in 2018 being 1.87 and Ulta's being 2.64 in 2018.

In regards to Regis' productivity performance, their sales growth percentage and receivables turnover ratio has decreased significantly within the last five years. I attribute these decreases to the fact that Regis had historically bad performance in the past. As of 2017, they are in a turnaround phase and continuing to restructure. Their revenues are expected to hold with the closing of under-performing stores because they will be able to focus more on franchised stores and better perfect their business strategy.

Regis' financial risk (leverage) ratios overall are historically decreasing, but not significantly. They are very similar to Ulta's, besides the interest coverage ratio. The interest coverage ratio is 3.78 compared to Ulta's, which is 500 as of June 30, 2018. With a low interest coverage ratio, this means that Regis' ability to meet interest expenses is questionable compared to the benchmark, yet it still might be sufficient because Ulta may not have debt. It might also mean that their interest is low compared to EBIT.

Overall, by performing financial ratio analysis with Regis and the benchmark (ULTA), it is evident that the benchmark is outperforming in many categories. Regis needs to strive to be like the benchmark and in the future turn around their sales to increase profits.

## FINANCIAL PERFORMANCE AND PROJECTIONS

Regis reported improved fourth quarter results at their most recent conference in September 2018. They announced their continued progress with respect to its transformation. President Hugh Sawyer believes that although they have more work to do, they are pleased there is



progress in their financial performance and ongoing transformation efforts remain in place. The first start to the financial performance and projections was calculating and evaluating WACC. Based on this information along with historical inputs, I calculated the target price as of November 30, 2018 to be USD 14.91 and at the end of the fiscal year June 30, 2019, I expect the price to be USD 15.73. I have made several operating, investing, and financing assumptions.

### **Operating Activities:**

By looking at historical data, reading available public information about the company, and analyzing historical ratios, I was able to project pro-forma financial statements for Regis. In the 2018 Value Line report for Regis Corporation, sales were expected to be steady with little or no growth through the end of June 30, 2019 and then increase from there. I used the percentage of sales approach to estimate most of the operating accounts. I estimate that Regis sales will grow at 1 percent in 2019 and then increasing to 3 percent in 2020, 4 percent in 2021, and 5 percent thereafter. I consider my sales somewhat on the optimistic side if the company only grows organically.

The Company's cost of goods sold (COGS) and selling, general, and administrative (SG&A) expenses had little variation in historical data so I projected using the most recent fiscal year's ratio of COGS to revenue of 56.8 percent. I expect SG&A expenses as a proportion of sales to decrease to 39 percent in 2019, 38 percent in 2020, 37 percent in 2021, 36 percent in 2022, and 35 percent thereafter. I expect these expenses to decrease marginally because Regis Corporation is closing under-performing stores and changing to a growth model based on franchising.

### **Investing and Financing:**

As Regis is planning to change from company-owned stores to franchised location, their investment focus will be a little different. I projected their long-term debt and investments to fluctuate in the years to come because they are closing under-performing stores and switching their focus. They are reallocating capital and that is why I believe their investing activity totals could span a large amount from year to year. From a financing perspective, their ending cash per year from here on is expected to increase slowly for the next 3 years and then more significantly thereafter.

## **VALUATION**

I determined the price to be USD 14.91 per share at November 30, 2018 and USD 15.73 at the end of the fiscal year June 30, 2019. I used a Corporate Valuation Model that discounts free cash flows at the Weighted Average Cost of Capital (WACC). I also completed relative valuation with Regis' main competitor ULTA to determine its value. The discounted free cash flow method creates a fundamentals-based valuation that theoretically is less sensitive to fluctuations in market sentiment.

### **Discounted Free Cash Flow Method and Relative Valuation**

I calculated the cost of equity using the Capital Asset Pricing Model assuming a market risk premium of 6 percent, a beta of .85, and a risk free rate of 4 percent. I estimated the cost of long-term and short-term debt before taxes to be 5.93 percent and 5.25 percent, respectively, and a tax rate of 21 percent. Given this information and using market weights to estimate the proportion of debt and equity, I obtained a WACC of 8.84 percent.

The model I used estimates Free Cash Flows for an explicit period and then it estimates the Horizon Value using perpetuity with growth. The implicit price per share as of November 30, 2018 is USD \$14.91.

I also calculated the price of Regis using relative valuation. Specifically, I used the EV/EBITDA multiple, which for Ulta is 14.62. Using Ulta as a benchmark, the associated stock price for Regis is USD 11.08. This also supports my underperformance recommendation because the stock is overvalued.

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*INSERT HISTORICAL AND FORECAST EARNINGS STATEMENT, BALANCE SHEET, CASH FLOW STATEMENT AND RATIOS.***Regis Corp. (NYS: RGS)***In thousands of USD*

| <b>Income Statement</b>                            | <b>06/30/2016</b>   | <b>06/30/2017</b>   | <b>06/30/2018</b> | <b>6/30/19</b>    | <b>6/30/20</b>    | <b>6/30/21</b>    | <b>6/30/22</b>      | <b>6/30/23</b>      |
|--|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| Sales  | \$ 1,790,869        | \$ 1,691,888        | \$ 1,214,074      | \$ 1,226,215      | \$ 1,263,001      | \$ 1,313,521      | \$ 1,379,197        | \$ 1,448,157        |
| Costs of goods sold (COGS)                         | \$ 1,058,007        | \$ 1,015,902        | \$ 689,977        | \$ 696,877        | \$ 717,783        | \$ 746,494        | \$ 783,819          | \$ 823,010          |
| Sales, general and administrative expense (SGA)    | \$ 658,256          | \$ 622,229          | \$ 484,390        | \$ 478,224        | \$ 479,940        | \$ 486,003        | \$ 496,511          | \$ 506,855          |
| Depreciation                                       | \$ 56,992           | \$ 54,961           | \$ 39,433         | \$ 36,541         | \$ 35,048         | \$ 34,020         | \$ 33,170           | \$ 34,828           |
| <b>Operating profit</b>                            | <b>\$ 17,614</b>    | <b>\$ (1,204)</b>   | <b>\$ 274</b>     | <b>\$ 14,573</b>  | <b>\$ 30,229</b>  | <b>\$ 47,004</b>  | <b>\$ 65,697</b>    | <b>\$ 83,464</b>    |
| Interest expense                                   | \$ 9,317            | \$ 8,703            | \$ 10,492         | \$ 5,337          | \$ 4,249          | \$ 4,554          | \$ 4,899            | \$ 5,164            |
| Interest income                                    | \$ 4,219            | \$ 3,072            | \$ 6,670          | \$ 1,104          | \$ 2,776          | \$ 4,186          | \$ 9,253            | \$ 13,027           |
| Nonoperating income (Expense)                      | \$ (53,367)         | \$ (34)             | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                |
| Earnings before taxes (EBT)                        | \$ (40,851)         | \$ (6,869)          | \$ (3,548)        | \$ 10,340         | \$ 28,756         | \$ 46,636         | \$ 70,051           | \$ 91,327           |
| Tax expense  | \$ (29,535)         | \$ 9,271            | \$ (65,434)       | \$ 2,171          | \$ 6,039          | \$ 9,794          | \$ 14,711           | \$ 19,179           |
| Net income before extraordinary items              | \$ (11,316)         | \$ (16,140)         | \$ 61,886         | \$ 8,169          | \$ 22,718         | \$ 36,842         | \$ 55,340           | \$ 72,148           |
| After-tax extraordinary income (Expense)           | \$ -                | \$ -                | \$ (53,185)       | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                |
| <b>Net income (NI)</b>                             | <b>\$ (11,316)</b>  | <b>\$ (16,140)</b>  | <b>\$ 8,701</b>   | <b>\$ 8,169</b>   | <b>\$ 22,718</b>  | <b>\$ 36,842</b>  | <b>\$ 55,340</b>    | <b>\$ 72,148</b>    |
| Dividends-- preferred                              | \$ -                | \$ -                | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                |
| Dividends-- common                                 | \$ -                | \$ -                | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                |
| Additions to RE                                    | \$ (11,316)         | \$ (16,140)         | \$ 8,701          | \$ 8,169          | \$ 22,718         | \$ 36,842         | \$ 55,340           | \$ 72,148           |
| <b>Balance Sheet</b>                               | <b>06/30/2016</b>   | <b>06/30/2017</b>   | <b>06/30/2018</b> | <b>6/30/19</b>    | <b>6/30/20</b>    | <b>6/30/21</b>    | <b>6/30/22</b>      | <b>6/30/23</b>      |
| <b>Assets</b>                                      |                     |                     |                   |                   |                   |                   |                     |                     |
| Cash   | \$ 147,346          | \$ 172,396          | \$ 110,399        | \$ 111,503        | \$ 114,848        | \$ 119,442        | \$ 125,414          | \$ 131,685          |
| Inventory  | \$ 134,212          | \$ 122,104          | \$ 79,363         | \$ 80,157         | \$ 82,561         | \$ 85,864         | \$ 90,157           | \$ 94,665           |
| Accounts receivable                                | \$ 24,691           | \$ 23,475           | \$ 52,430         | \$ 24,007         | \$ 24,727         | \$ 25,716         | \$ 27,002           | \$ 28,352           |
| Other short-term operating assets                  | \$ 51,765           | \$ 52,172           | \$ 47,867         | \$ 48,346         | \$ 49,796         | \$ 51,788         | \$ 54,377           | \$ 57,096           |
| Short-term investments                             | \$ -                | \$ -                | \$ -              | \$ 127,765        | \$ 145,341        | \$ 171,599        | \$ 210,372          | \$ 259,636          |
| Total current assets                               | \$ 358,014          | \$ 370,147          | \$ 290,059        | \$ 391,777        | \$ 417,273        | \$ 454,409        | \$ 507,322          | \$ 571,434          |
| Net plant, property, & equipment (PPE)             | \$ 183,321          | \$ 146,994          | \$ 105,860        | \$ 98,097         | \$ 94,725         | \$ 91,946         | \$ 89,648           | \$ 94,130           |
| Other long-term operating assets                   | \$ 529,845          | \$ 529,286          | \$ 495,755        | \$ 391,163        | \$ 402,897        | \$ 419,013        | \$ 439,964          | \$ 461,962          |
| Long-term investments                              | \$ 520              | \$ -                | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                |
| <b>Total assets</b>                                | <b>\$ 1,071,700</b> | <b>\$ 1,046,427</b> | <b>\$ 891,674</b> | <b>\$ 881,037</b> | <b>\$ 914,896</b> | <b>\$ 965,369</b> | <b>\$ 1,036,934</b> | <b>\$ 1,127,526</b> |
| <b>Liabilities and Equity</b>                      |                     |                     |                   |                   |                   |                   |                     |                     |
| Accounts payable (AP)                              | \$ 59,884           | \$ 56,049           | \$ 57,738         | \$ 58,858         | \$ 60,624         | \$ 63,049         | \$ 66,201           | \$ 69,512           |
| Accruals   | \$ 135,431          | \$ 122,013          | \$ 97,630         | \$ 98,097         | \$ 101,040        | \$ 105,082        | \$ 110,336          | \$ 115,853          |
| Other operating current liabilities                | \$ -                | \$ -                | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                |
| All short-term debt                                | \$ -                | \$ -                | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                |
| Total current liabilities                          | \$ 195,315          | \$ 178,062          | \$ 155,368        | \$ 156,955        | \$ 161,664        | \$ 168,131        | \$ 176,537          | \$ 185,364          |
| Long-term debt                                     | \$ 120,435          | \$ 120,599          | \$ 90,000         | \$ 71,650         | \$ 76,802         | \$ 81,653         | \$ 86,068           | \$ 90,044           |
| Deferred taxes                                     | \$ 100,169          | \$ 108,119          | \$ 32,229         | \$ 29,429         | \$ 28,418         | \$ 27,584         | \$ 26,894           | \$ 28,239           |
| Preferred stock                                    | \$ -                | \$ -                | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                |
| Other long-term liabilities                        | \$ 101,441          | \$ 96,487           | \$ 75,646         | \$ 76,402         | \$ 78,695         | \$ 81,842         | \$ 85,934           | \$ 90,231           |
| Total liabilities                                  | \$ 517,360          | \$ 503,267          | \$ 353,243        | \$ 334,437        | \$ 345,579        | \$ 359,210        | \$ 375,434          | \$ 393,878          |
| Par plus PIC Less treasury (and other adjustments) | \$ 707,079          | \$ 712,039          | \$ 698,609        | \$ 698,609        | \$ 698,609        | \$ 698,609        | \$ 698,609          | \$ 698,609          |
| Retained earnings (RE)                             | \$ (152,739)        | \$ (168,879)        | \$ (160,178)      | \$ (152,009)      | \$ (129,292)      | \$ (92,449)       | \$ (37,109)         | \$ 35,039           |
| Total common equity                                | \$ 554,340          | \$ 543,160          | \$ 538,431        | \$ 546,600        | \$ 569,317        | \$ 606,160        | \$ 661,500          | \$ 733,648          |
| <b>Total liabilities and equity</b>                | <b>\$ 1,071,700</b> | <b>\$ 1,046,427</b> | <b>\$ 891,674</b> | <b>\$ 881,037</b> | <b>\$ 914,896</b> | <b>\$ 965,369</b> | <b>\$ 1,036,934</b> | <b>\$ 1,127,526</b> |

**Regis Corp. (NYS: RGS)***In thousands of USD*

| <b>Statement of Cash Flows</b>              | <b>06/30/2016</b>  | <b>06/30/2017</b>  | <b>06/30/2018</b>  | <b>6/30/19</b>      | <b>6/30/20</b>     | <b>6/30/21</b>     | <b>6/30/22</b>     | <b>6/30/23</b>     |
|---|--------------------|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Operating Activities</b>                 |                    |                    |                    |                     |                    |                    |                    |                    |
| Net income                                  | \$ (11,316)        | \$ (16,140)        | \$ 8,701           | \$ 8,169            | \$ 22,718          | \$ 36,842          | \$ 55,340          | \$ 72,148          |
| Depreciation                                | \$ 56,992          | \$ 54,961          | \$ 39,433          | \$ 36,541           | \$ 35,048          | \$ 34,020          | \$ 33,170          | \$ 34,828          |
| Change in deferred tax                      | \$ 8,972           | \$ 7,950           | \$ (75,890)        | \$ (2,800)          | \$ (1,012)         | \$ (834)           | \$ (690)           | \$ 1,345           |
| Change in inventory                         | \$ (5,602)         | \$ 12,108          | \$ 42,741          | \$ (794)            | \$ (2,405)         | \$ (3,302)         | \$ (4,293)         | \$ (4,508)         |
| Change in accounts receivable               | \$ (60)            | \$ 1,216           | \$ (28,955)        | \$ 28,423           | \$ (720)           | \$ (989)           | \$ (1,286)         | \$ (1,350)         |
| Change in other short-term operating assets | \$ 10,997          | \$ (407)           | \$ 4,305           | \$ (479)            | \$ (1,450)         | \$ (1,992)         | \$ (2,589)         | \$ (2,719)         |
| Change in accounts payable                  | \$ (3,418)         | \$ (3,835)         | \$ 1,689           | \$ 1,120            | \$ 1,766           | \$ 2,425           | \$ 3,152           | \$ 3,310           |
| Change in accruals                          | \$ (17,931)        | \$ (13,418)        | \$ (24,383)        | \$ 467              | \$ 2,943           | \$ 4,042           | \$ 5,254           | \$ 5,517           |
| Change in other current liabilities         | \$ -               | \$ -               | \$ -               | \$ -                | \$ -               | \$ -               | \$ -               | \$ -               |
| <b>Net cash from operating activities</b>   | <b>\$ 38,634</b>   | <b>\$ 42,435</b>   | <b>\$ (32,359)</b> | <b>\$ 70,648</b>    | <b>\$ 56,888</b>   | <b>\$ 70,212</b>   | <b>\$ 88,059</b>   | <b>\$ 108,571</b>  |
| <b>Investing Activities</b>                 |                    |                    |                    |                     |                    |                    |                    |                    |
| Investment in PPE                           | \$ (22,156)        | \$ (18,634)        | \$ 1,701           | \$ (28,778)         | \$ (31,676)        | \$ (31,242)        | \$ (30,871)        | \$ (39,311)        |
| Investment in other long-term oper. ass.    | \$ 5,349           | \$ 559             | \$ 33,531          | \$ 104,592          | \$ (11,735)        | \$ (16,116)        | \$ (20,951)        | \$ (21,998)        |
| <b>Net cash from investing activities</b>   | <b>\$ (16,807)</b> | <b>\$ (18,075)</b> | <b>\$ 35,232</b>   | <b>\$ 75,814</b>    | <b>\$ (43,411)</b> | <b>\$ (47,357)</b> | <b>\$ (51,822)</b> | <b>\$ (61,309)</b> |
| <b>Financing Activities</b>                 |                    |                    |                    |                     |                    |                    |                    |                    |
| Change in short-term investments            | \$ -               | \$ -               | \$ -               | \$ (127,765)        | \$ (17,576)        | \$ (26,259)        | \$ (38,772)        | \$ (49,264)        |
| Change in long-term investments             | \$ 14,801          | \$ 520             | \$ -               | \$ -                | \$ -               | \$ -               | \$ -               | \$ -               |
| Change in short-term debt                   | \$ (2)             | \$ -               | \$ -               | \$ -                | \$ -               | \$ -               | \$ -               | \$ -               |
| Change in long-term debt                    | \$ 435             | \$ 164             | \$ (30,599)        | \$ (18,350)         | \$ 5,152           | \$ 4,850           | \$ 4,416           | \$ 3,976           |
| Preferred dividends                         | \$ -               | \$ -               | \$ -               | \$ -                | \$ -               | \$ -               | \$ -               | \$ -               |
| Change in preferred stock                   | \$ -               | \$ -               | \$ -               | \$ -                | \$ -               | \$ -               | \$ -               | \$ -               |
| Change in other long-term liabilities       | \$ (5,267)         | \$ (4,954)         | \$ (20,841)        | \$ 756              | \$ 2,292           | \$ 3,148           | \$ 4,092           | \$ 4,297           |
| Change in common stock (Par + PIC)          | \$ (96,727)        | \$ 4,960           | \$ (13,430)        | \$ -                | \$ -               | \$ -               | \$ -               | \$ -               |
| Common dividends                            | \$ -               | \$ -               | \$ -               | \$ -                | \$ -               | \$ -               | \$ -               | \$ -               |
| <b>Net cash from financing activities</b>   | <b>\$ (86,760)</b> | <b>\$ 690</b>      | <b>\$ (64,870)</b> | <b>\$ (145,358)</b> | <b>\$ (10,132)</b> | <b>\$ (18,261)</b> | <b>\$ (30,265)</b> | <b>\$ (40,992)</b> |
| Net cash flow                               | \$ (64,933)        | \$ 25,050          | \$ (61,997)        | \$ 1,104            | \$ 3,345           | \$ 4,594           | \$ 5,972           | \$ 6,271           |
| Starting cash                               | \$ 212,279         | \$ 147,346         | \$ 172,396         | \$ 110,399          | \$ 111,503         | \$ 114,848         | \$ 119,442         | \$ 125,414         |
| <b>Ending cash</b>                          | <b>\$ 147,346</b>  | <b>\$ 172,396</b>  | <b>\$ 110,399</b>  | <b>\$ 111,503</b>   | <b>\$ 114,848</b>  | <b>\$ 119,442</b>  | <b>\$ 125,414</b>  | <b>\$ 131,685</b>  |

**Regis Corp. (NYS: RGS)**

In thousands of USD

| <b>Ratios</b>   | <b>6/30/2018</b> | <b>06/30/2017</b> | <b>6/30/2016</b> | <b>6/30/2017</b> | <b>6/30/2014</b> |
|---|------------------|-------------------|------------------|------------------|------------------|
| <b>Productivity Ratios</b>                            |                  |                   |                  |                  |                  |
| Growth in sales                                       | -28.24%          | -5.53%            | -2.53%           | -2.91%           | N/A              |
| Receivables turnover                                  | 23.16            | 72.07             | 72.53            | 74.59            | 73.33            |
| Inventory turnover                                    | 15.30            | 13.86             | 13.34            | 14.29            | 13.80            |
| Operating working capital turnover                    | 9.01             | 8.81              | 11.01            | 8.68             | 4.72             |
| Net fixed asset turnover                              | 2.02             | 2.50              | 2.51             | 2.44             | 2.34             |
| Total asset turnover                                  | 1.36             | 1.62              | 1.67             | 1.53             | 1.30             |
| Invested capital turnover                             | 1.65             | 1.95              | 2.04             | 1.90             | 1.56             |
| <b>Liquidity Ratios</b>                               |                  |                   |                  |                  |                  |
| Current ratio   | 1.87             | 2.08              | 1.83             | 1.98             | 1.59             |
| Quick ratio   | 1.36             | 1.39              | 1.15             | 1.38             | 1.24             |
| Cash ratio  | 0.71             | 0.97              | 0.75             | 0.98             | 0.99             |
| Short-term investments over invested capital          | 0.00             | 0.00              | 0.00             | 0.00             | 0.00             |
| <b>Financial Risk (Leverage) Ratios</b>               |                  |                   |                  |                  |                  |
| Total debt-to-equity ratio                            | 0.66             | 0.93              | 0.93             | 0.81             | 0.92             |
| Total debt-to-equity ratio (excluding deferred taxes) | 0.60             | 0.73              | 0.75             | 0.67             | 0.81             |
| Total financial debt-to-equity ratio                  | 0.17             | 0.22              | 0.22             | 0.18             | 0.39             |
| Interest coverage ratio (accounting-based)            | 0.03             | -0.14             | 1.89             | 0.35             | 0.04             |
| Interest coverage ratio (cash-based)                  | 3.78             | 6.18              | 8.01             | 7.03             | 3.69             |
| Total debt-to-assets ratio                            | 0.40             | 0.48              | 0.48             | 0.45             | 0.48             |
| Total financial debt over invested capital            | 0.10             | 0.12              | 0.11             | 0.10             | 0.20             |
| Long-term financial debt over invested capital        | 0.12             | 0.14              | 0.14             | 0.12             | 0.10             |
| <b>Profitability/Valuation Ratios</b>                 |                  |                   |                  |                  |                  |
| Gross profit margin                                   | 43.17%           | 39.95%            | 40.92%           | 41.33%           | 41.20%           |
| EBITDA margin   | 3.27%            | 3.18%             | 4.17%            | 3.91%            | 4.35%            |
| Operating profit margin                               | 0.02%            | -0.07%            | 0.98%            | 0.19%            | 0.05%            |
| NOPAT margin  | -6.64%           | 0.30%             | 0.77%            | 1.20%            | 2.09%            |
| Earnings before taxes margin                          | -0.29%           | -0.41%            | -2.28%           | -0.46%           | -1.29%           |
| Net margin  | 0.72%            | -0.95%            | -0.63%           | -1.84%           | -5.33%           |
| Return on Assets                                      | 0.03%            | -0.12%            | 1.64%            | 0.29%            | 0.07%            |
| Net investment rate                                   | 98.66%           | -146.45%          | -643.30%         | -1146.95%        | 2961.44%         |
| Dividend payout ratio                                 | 0.00%            | 0.00%             | 0.00%            | 0.00%            | -6.74%           |
| ROIC  | -9.29%           | 0.58%             | 1.44%            | 1.82%            | N/A              |