

REGIS CORP
Form 10-K
August 26, 2014

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

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

For the fiscal year ended June 30, 2014

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

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

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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

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

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

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

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

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

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smaller reporting company)

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

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter, December 31, 2013, was approximately \$670,414,816. The registrant has no non-voting common equity.

As of August 15, 2014, the registrant had 55,641,456 shares of Common Stock, par value \$0.05 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the annual meeting of shareholders to be held on October 28, 2014 (the "2014 Proxy Statement") (to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year-end of June 30, 2014) are incorporated by reference into Part III.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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 FORM 10-K
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PART I

Item 1. Business

General:

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

As of June 30, 2014, the Company owned, franchised or held ownership interests in 9,674 locations worldwide. The Company's locations consist of 9,456 company-owned and franchised salons and 218 locations in which we maintain a non-controlling ownership interest of less than 100%. Each of the Company's salon concepts generally offer similar salon products and services and serve the mass marketplace.

The major services supplied by the Company's salons are haircutting and styling (including shampooing and conditioning), hair coloring and other services. The percentage of company-owned service revenues in each fiscal year 2014, 2013 and 2012 attributable to haircutting and styling, hair coloring and other services were 72%, 19% and 9%, respectively.

During the second quarter of fiscal year 2014, the Company redefined its operating segments to reflect how the chief operating decision maker evaluates the business as a result of restructuring the Company's North American field organization. The Company now reports its operations in three operating segments: North American Value, North American Premium and International. Prior to this change in organizational structure, the Company had two reportable operating segments: North American salons and International salons.

The Company's North American Value salon operations are comprised of 6,116 company-owned salons and 2,179 franchised salons operating in the United States, Canada, and Puerto Rico. The Company's North American Premium salon operations are comprised of 801 company-owned salons operating in the United States, Canada, and Puerto Rico. The Company's International operations are comprised of 360 company-owned salons in the United Kingdom. The Company's salons operate primarily under the trade names of SmartStyle, Supercuts, MasterCuts, Regis Salons, and Cost Cutters, and they generally serve two categories within the industry. SmartStyle, Supercuts, MasterCuts, Cost Cutters, and other regional trade names are generally within the value category, offering high quality, convenience, and affordably priced hair care and beauty services and retail products. Regis Salons, among other trade names, are in the premium category offering upscale hair care and beauty services and retail products. The Company's North American Value business is located mainly in strip center locations and Walmart Supercenters and the North American Premium business is primarily in mall based locations. During fiscal years 2014 and 2013, the number of guest visits at the Company's company-owned salons approximated 79 and 85 million, respectively. Concurrent with the change in reportable operating segments, the Company revised its prior period financial information to conform comparable financial information to the new segment structure. Historical financial information presented herein reflects this change.

Financial information about our segments and geographic areas for fiscal years 2014, 2013, and 2012 are included in Note 14 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

Since fiscal year 2012, the Company has been evaluating its portfolio of assets, investments, and businesses, with the strategic objective of simplifying our business model, focusing on our core business of operating beauty salons, improving our long-term profitability and maximizing shareholder value. This evaluation led to several disposals during fiscal year 2013. In April 2013, the Company sold Hair Club for Men and Women (Hair Club) for \$164.8 million. See Note 2 to the Consolidated Financial Statements for further discussion on Hair Club. In September 2012, the Company sold its 46.7% equity interest in Provalliance for \$103.4 million. See Note 5 to the Consolidated Financial Statements for further discussion on Provalliance. As the Company continues this strategic evaluation, future sales of non-core assets could impact our operations by decreasing total revenues, operating expenses, and income or loss from equity method investments.

Industry Overview:

The hair salon market is highly fragmented, with the vast majority of locations independently owned and operated. However, the influence of salon chains, both franchised and company-owned, continues to grow within this market.

Management believes that salon chains will continue to have significant influences on this market and will continue to increase their presence.

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

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

Mission and Strategies:

The Company's long-term mission is to create guests for life. To successfully achieve our mission and build a winning organization, we must help our stylists have successful and satisfying careers, which will drive great guest experiences and in turn, guests for life. Over the last year we simplified and focused the way we delineate our key strategies, our priorities and efforts around them remain the same and are well aligned, focusing on people, processes and metrics to drive execution and performance. Our key strategies follow:

1. Earn the Hearts and Minds of Our Team
2. Develop Positive, Professional and High Performing Salon Leaders
3. Drive Guest Trial and Loyalty
4. Standardize Operating Procedures Across Brands

Our stylists' ability to serve our guests in a professional, courteous, and friendly manner is the most critical element of our service model in cultivating strong guest relationships. Great stylists, coupled with high quality service, convenience, affordability, an inviting salon appearance and atmosphere, and comprehensive retail assortments create guests for life. We are committed to providing an outstanding guest experience that drives guest loyalty and repeat business. To that end, we are investing in a number of areas focused on delivering that promise and helping our stylists have successful careers, including investments in organization, training and technology.

Stylists

Creating an organization where stylists can have successful and satisfying careers leads to improved execution, and in turn, great guest experiences.

Field Leadership. In fiscal year 2014, we completed the reorganization of our field organization to enable localized mentoring and decision making, improve geographic proximity and increase local market efficiency. Development of our field leaders is a high priority because stylists depend on their salon and field leaders for coaching, mentoring and motivation. We developed training curriculum to serve as the foundation for ongoing leadership development. Role clarity and talent assessments help us identify ways to develop and upgrade field leadership. Execution disciplines are used to drive accountability, execution and business performance. Incentives are designed to align field interests with those of the Company's shareholders by rewarding behaviors focused on profitable revenue growth. This new organization structure also provides a clear career path for our people who desire to ascend within the Company.

Training. Our training program will become a key point of difference in attracting and retaining stylists. Stylists place a tremendous amount of importance in ongoing development of their craft. They deliver a superior experience for our guests when they are well trained technically and experientially. We employ technical trainers who provide new hire training for stylists joining the Company from beauty schools and training for all stylists in current beauty care and styling trends. We supplement internal training with targeted vendor training and external trainers who bring specialized expertise to our stylists. We have begun to utilize training materials to help all levels of field employees navigate the running of a salon. Our experiential training program will provide stylists with essential elements of guest service training within the context of brand positions.

Recruiting. Ensuring we keep our salons fully staffed with great stylists is critical to our success. To that end, we are enhancing our recruiting efforts across all levels within our organization. We are in the process of proactively cultivating a pipeline of field leaders through succession planning and recruitment venues from within and outside the salon industry. We are also leveraging beauty school relationships and participating in job fairs and industry events.

Technology. The recent installation of a new point-of-sale (POS) systems and salon workstations throughout North America enables communication with salons and stylists, delivery of online and digital training to stylists, real-time salon level analytics on guest retention, wait times, stylist productivity, and salon performance. We are also using technology to provide asset protection dashboards and analytics to help prioritize efforts against our most compelling opportunities to reduce loss in our salons.

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Guests

Great stylists, coupled with high quality service, convenience, affordability, an inviting salon appearance and atmosphere, and comprehensive retail assortments, create guests for life.

Convenience. Our different salon concepts enable our guests to select different service scheduling options based upon their preference. In the value category, the ability to serve walk-in appointments and minimize guest wait times is an essential element in delivering upon convenience. We have invested in staffing by increasing stylists' hours and have begun to optimize schedules and leverage recently installed point-of-sale systems to help us balance stylist hours with guest traffic and manage guest wait times. In the premium category, our salons generally schedule appointments in advance of service. Our salons are located in high-traffic strip centers, Walmart Supercenters and shopping malls, with guest parking and easy access, and are generally open seven days per week, offering guests a variety of convenient ways to fulfill their beauty needs.

Affordability. The Company strives to offer an exceptional value for its services. In the value category, our guests expect outstanding service at affordable prices. These expectations are met with average service transactions ranging from \$16 to \$20. In the premium category, our guests expect upscale, full service beauty services at reasonable prices. Average service transactions approximate \$45 in this category. Pricing decisions are considered on a market-by-market basis and established based on local conditions.

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

Retail Assortments. The Company's salons sell nationally recognized hair care and beauty products, as well as a complete assortment of own-branded products. Retail products offered by the Company are intended to be sold only through professional salons, and complement its salon services business. The Company's stylists are compensated and regularly trained to sell hair care and beauty products to their guests. Additionally, guests are encouraged to purchase products after stylists demonstrate their efficacy by using them in the styling of our guests' hair. The top selling brands within the Company's retail assortment include Biolage, Paul Mitchell, Regis designLINE, Redken, Nioxin, Tigi, It's a 10, Sexy Hair Concepts, Kenra, and Moroccanoil.

Technology. The new POS systems increase our ability to collect guest and transactional data and enable the Company to invest in Guest Relationship Management, gaining insights into guest behavior, communicating with guests and incenting return visits. Leveraging this technology allows us to monitor guest retention and to survey our guests for feedback on improving the guest experience, and allows guests to use mobile apps to schedule appointments, view wait times and interact in other ways with salons.

Marketing. The Company is focused on driving local traffic at the most efficient cost. This includes leveraging media, guest relationship management programs, digital channels, local tactical efforts (e.g., couponing) among other programs. Traffic driving efforts are targeted vs. a one-size-fits all approach. Annual traffic plans are based on seasonality, consumer mindset, competitive positioning and return on investment. The Company continually reallocates marketing investments into vehicles with known, strong returns.

Salon Support

Our corporate headquarters is referred to as Salon Support. This acknowledges that creating guests for life mandates a service-oriented, guest-focused mentality in supporting our field organization to grow our business profitably.

Organization. In addition to investments made by the Company to reorganize the field organization and to help our stylists develop professionally, Salon Support and associated priorities are aligned to our new field structure to enhance the effectiveness and efficiency of the service provided to our field organization. During fiscal year 2014, we enhanced Salon Support capabilities in several areas. We created a human resources organization to help transform the Company into an organization where stylists can have successful and satisfying careers. We enhanced our asset protection capabilities by building a strong asset protection team and establishing standard operating procedures to support field and salon leaders.

Simplification. Since fiscal year 2012, the Company has been evaluating its portfolio of assets, investments, and businesses, with the strategic objective of simplifying our business model, focusing on our core business of operating

beauty salons and improving our long-term profitability and maximizing shareholder value. This evaluation led to the sale of our Hair Club and Provalliance businesses during fiscal year 2013. The Company also standardized retail plan-o-grams and eliminated products in an effort to simplify and manage our ongoing retail inventory assortment. Simplification and standardization reduces inventory management time in our salons and throughout our supply chain and enables distribution efficiencies.

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Ongoing simplification focuses on improving the way we plan and execute across our many brands. Standardizing processes and procedures around scheduling, day to day salon execution and reporting will make it easier to lead and execute in a multi-unit organization.

Our organization also remains focused on identifying and driving cost saving and profit enhancing initiatives.

Salon Concepts:

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

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

Additionally, the Company has 126 franchised Cost Cutters salons located in Walmart Supercenters.

Supercuts. Supercuts salons provide consistent, high quality hair care services and professional products to its guests at convenient times and locations at value prices. This concept appeals to men, women, and children. Service revenues represent approximately 91% of total company-owned Supercuts revenues. Additionally, the Company has 1,213 franchised Supercuts locations.

MasterCuts. MasterCuts salons are a full service, mall based salon group which focuses on the walk-in consumer who demands moderately priced hair care services. MasterCuts salons emphasize quality hair care services, affordable prices, and time saving services for the entire family. These salons offer a full range of custom styling, cutting and hair coloring services, as well as professional hair care products. Service revenues comprise approximately 82% of the concept's total revenues.

Other Value. Other Value salons are made up of acquired regional company-owned salon groups operating under the primary concepts of Hair Masters, Cool Cuts for Kids, Style America, First Choice Haircutters, Famous Hair, Cost Cutters, BoRics, Magicuts, Holiday Hair, Head Start, Fiesta Salons, and TGF, as well as other concept names. Most concepts offer a full range of custom hairstyling, cutting and coloring services, as well as hair care products. Hair Masters offers moderately-priced services, while the other concepts primarily cater to time-pressed, value-oriented families. Service revenues represent approximately 90% of total company-owned Other Value salons revenues. Additionally, the Company has 840 franchised locations of Other Value salons. Other Value salons were previously referred to as Promenade salons.

Regis Salons. Regis Salons are primarily mall based, full service salons providing complete hair care and beauty services aimed at moderate to upscale, fashion conscious consumers. At Regis Salons both appointments and walk-in guests are common. These salons offer a full range of custom styling, cutting and hair coloring services, as well as professional hair care products. Service revenues represent approximately 82% of the concept's total revenues. Regis Salons compete in their existing markets primarily by providing high quality services. Included within the Regis Salon concept are various other trade names, including Carlton Hair, Sassoon, Hair by Stewarts, Hair Excitement, and Renee Beauty.

International Salons. The Company's International salons are comprised of company-owned salons operating in the United Kingdom primarily under the Supercuts, Regis, and Sassoon concepts. These salons offer similar levels of service as our North American salons. Sassoon is one of the world's most recognized names in hair fashion and appeals to women and men looking for a prestigious full service hair salon. Salons are usually located in prominent high-traffic locations and offer a full range of custom hairstyling, cutting and coloring services, as well as professional hair care products. Service revenues comprise approximately 75% of total company-owned international locations. The tables on the following pages set forth the number of system wide locations (company-owned and franchised) and activity within the various salon concepts.

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System-wide location counts(1)(2)

	June 30, 2014	2013	2012
Company-owned salons:			
SmartStyle/Cost Cutters in Walmart stores	2,574	2,490	2,441
Supercuts	1,176	1,210	1,228
MasterCuts	505	532	569
Other Value	1,846	1,990	2,133
Regis	816	862	953
Total North American salons(3)	6,917	7,084	7,324
Total International salons(4)	360	351	398
Total, Company-owned salons	7,277	7,435	7,722
Franchised salons:			
SmartStyle/Cost Cutters in Walmart stores	126	123	122
Supercuts	1,213	1,116	1,040
Other Value	840	843	854
Total North American salons	2,179	2,082	2,016
Total International salons(4)			