REGIS CORP
Form 10-K
August 29, 2012

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Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2012

OR

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

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 o No ý

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 ý No o

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 ý No o

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. ý

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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, 2011, was approximately $902,940,461. The registrant has no non-voting common equity.

As of August 13, 2012, the registrant had 57,407,876 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 25, 2012 (the "2012 Proxy Statement") (to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year-end of June 30, 2012) are incorporated by reference into Part III.

Table of Contents

REGIS CORPORATION
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
INDEX

Table of Contents

PART I

Item 1. Business

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.

General Development of Business

In 1922, Paul and Florence Kunin opened Kunin Beauty Salon, which quickly expanded into a chain of value priced salons located in department stores. In 1958, the chain was purchased by their son and renamed Regis Corporation. On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc (EEG). On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group in the newly formed entity, Provalliance. The Company acquired an additional equity interest in Provalliance in March 2011. On February 20, 2008, the Company acquired the capital stock of Cameron Capital I, Inc. (CCI), a wholly-owned subsidiary of Cameron Capital Investments, Inc. CCI owned and operated PureBeauty and BeautyFirst salons. On February 16, 2009, the Company sold its Trade Secret salon concept (Trade Secret), which included CCI.

During the fiscal year ended June 30, 2012, the Company began reviewing alternatives for non-core assets to focus on our core salon business. In April 2012, the Company entered into a Share Purchase Agreement (Agreement) to sell the Company's 46.7 percent equity interest in Provalliance to the Provost Family for a purchase price of €80 million. The transaction is expected to close no later than September 30, 2012 and is subject to the Provost Family securing financing for the purchase price. On July 13, 2012, the Company entered into a definitive agreement to sell its Hair Club for Men and Women business (Hair Club) for $163.5 million, a provider of hair restoration services. The transaction is expected to close during the first half of fiscal year 2013.

Regis Corporation is listed on the NYSE under the ticker symbol "RGS." Discussions of the general development of the business take place throughout this Annual Report on Form 10-K.

Financial Information about Segments

Segment data for the years ended June 30, 2012, 2011 and 2010 are included in Note 15 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

Table of Contents

Narrative Description of Business

The following topical areas are discussed below in order to aid in understanding the Company and its operations:

Background:

Based in Minneapolis, Minnesota, the Company's primary business is owning, operating and franchising hair and retail product salons. In addition to the primary hair and retail product salons, during fiscal years 2012 and 2011 the Company owned Hair Club. As of June 30, 2012, the Company owned, franchised or held ownership interests in approximately 12,600 worldwide locations. The Company's locations consisted of 9,738 company-owned and franchise salons, 98 hair restoration centers, and 2,811 locations in which the Company maintains a non-controlling ownership interest of less than 100 percent. Each of the Company's salon concepts offer similar salon products and services and serve the mass market consumer marketplace. The Company's hair restoration centers offer three hair restoration solutions; hair systems, hair transplants and hair therapy, which are targeted at the mass market consumer.

The Company is organized to manage its operations based on significant lines of business salons and hair restoration centers. Salon operations are managed based on geographical location North America and International. The Company's North American salon operations are comprised of 7,324 company-owned salons and 2,016 franchise salons operating in the United States, Canada and Puerto Rico. The Company's International operations are comprised of 398 company-owned salons in the United Kingdom. The Company's worldwide salon locations operate primarily under the trade names of Regis Salons, MasterCuts, SmartStyle, Supercuts, Cost Cutters, and Sassoon. The Company's hair restoration centers are located in the United States and Canada. During fiscal years 2012 and 2011, the number of guest visits at the Company's company-owned salons approximated 90 and 91 million, respectively. The Company had approximately 52,000 corporate employees worldwide during fiscal year 2012.

On August 1, 2007, the Company contributed 51 of its wholly-owned accredited cosmetology schools to EEG in exchange for a 49.0 percent equity interest in EEG. EEG is the largest beauty school operator in North America with 105 accredited cosmetology schools with revenues of approximately $180 million annually and is overseen by the Empire Beauty School management team.

Table of Contents

In January 2008, the Company's effective ownership interest increased to 55.1 percent related to the buyout of EEG's minority interest shareholder. The Company accounts for the investment in EEG under the equity method of accounting as Empire Beauty School retains majority voting interest and has full responsibility for managing EEG. The Company recorded a $19.4 million other than temporary impairment charge in its fourth quarter ended June 30, 2012 on its investment in EEG. Refer to Note 6 to the Consolidated Financial Statements for additional information.

On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed entity, Provalliance. The merger agreement contains a right (Equity Put) to require the Company to purchase additional ownership interest in Provalliance between specified dates in 2010 to 2018. The merger with the operations of the Franck Provost Salon Group, which are also located in continental Europe, created Europe's largest salon operator with approximately 2,600 company-owned and franchise salons as of June 30, 2012.

The Company contributed to Provalliance the shares of each of its European operating subsidiaries, other than the Company's operating subsidiaries in the United Kingdom and Germany. The contributed subsidiaries operate retail hair salons in France, Spain, Switzerland and several other European countries primarily under the Jean Louis David and Saint Algue brands.

On February 16, 2009, the Company sold its Trade Secret concept. The Company concluded, after a comprehensive review of its strategic and financial options, to divest Trade Secret. The sale of Trade Secret included 655 company-owned salons and 57 franchise salons, all of which had historically been reported within the Company's North America reportable segment.

In March of 2011, the Company elected to honor and settle a portion of the Equity Put and acquired approximately 17 percent additional equity interest in Provalliance for $57.3 million (approximately € 40.4 million), bringing the Company's total equity interest to 46.7 percent.

On April 9, 2012, the Company entered into the Agreement to sell the Company's 46.7 percent equity interest in Provalliance to the Franck Provost family (Provost Family) for a purchase price of €80 million. The transaction is expected to close no later than September 30, 2012 and is subject to the Provost Family securing financing for the purchase price. The purchase price was negotiated independently of the Equity Put and the Equity Put will automatically terminate upon completion of the Agreement. If the completion of the Agreement does not occur by September 30, 2012, the Provost Family will not be entitled to exercise their Equity Put rights until September 30, 2014. During fiscal year 2012, the Company recorded a $37.4 million other than temporary impairment charge on its investment in Provalliance and $20.2 million reduction in the fair value of the Equity Put in conjunction with the Agreement, resulting in a net impairment charge of $17.2 million recorded within the equity in (loss) income of affiliated companies in the Consolidated Statement of Operations.

During the fiscal year ended June 30, 2012, the Company began reviewing alternatives for non-core assets to focus on our core salon business. On July 13, 2012, the Company entered into a definitive agreement to sell Hair Club for $163.5 million, a provider of hair restoration services. The transaction is expected to close during the first half of fiscal year 2013.

Industry Overview:

Management estimates that annual revenues of the hair care industry are approximately $50 to $60 billion in the United States and approximately $160 billion worldwide. The Company estimates that it holds approximately two percent of the worldwide market. The hair salon and hair restoration markets are each highly fragmented, with the vast majority of locations independently owned and operated. However, the influence of salon chains on these markets, both franchise and company-owned, has increased substantially. Management believes that salon chains will continue to have a significant influence on these markets and will continue to increase their presence. As the Company is the principal consolidator of these chains in the hair care industry, it prevails as an established exit strategy for independent salon owners and operators, which affords the Company numerous opportunities for continued selective acquisitions.

Salon Business Strategy:

The Company's long-term goal is to provide high quality, affordable hair care services and products to a wide range of mass market consumers, which enables the Company to expand in a controlled manner. The key elements of the Company's strategy to achieve these goals are taking advantage of (1) salon growth opportunities, (2) economies of scale and (3) centralized control over salon operations in order to ensure (i) consistent, quality services and (ii) a superior selection of high quality, professional products. Each of these elements is discussed below.

Salon Growth Opportunities. The Company's salon expansion strategy focuses on organic (new salon construction and same-store sales growth of existing salons) and salon acquisition growth.

Organic Growth. The Company executes its organic growth strategy through a combination of new construction of company-owned and franchise salons, as well as same-store sales. The square footage requirements related to opening new salons allow the Company great flexibility in securing real estate for new salons as the Company has small or flexible square footage requirements for its salons. The Company's long-term outlook for organic expansion remains strong. The Company has at least one salon in all major cities in the U.S. and has penetrated every viable U.S. market with at least one concept. However, because the Company has a variety of concepts, it can place several of its salons within any given market.

A key component to successful North American organic growth relates to site selection, as discussed in the following paragraphs.

Salon Site Selection. The Company's salons are located in high-traffic locations such as regional shopping malls, strip centers, lifestyle centers, Walmart Supercenters, high-street locations and department stores. The Company is an attractive tenant to landlords due to its financial strength, successful salon operations and international recognition. In evaluating specific locations for both company-owned and franchise salons, the Company seeks conveniently located, visible sites which allow guests adequate parking and quick and easy location access. Various other factors are considered in evaluating sites, including area demographics, availability and cost of space, the strength of the major retailers within the area, location and strength of competitors, proximity of other company-owned and franchise salons, traffic volume, signage and other leasehold factors in a given center or area.

Pricing is a factor in same-store sales growth. The Company actively monitors the prices charged by its competitors in each market and makes every effort to maintain prices which remain competitive with prices of other salons offering similar services. Price increases are considered on a market-by-market basis and are established based on local market conditions.

Salon Acquisition Growth. In addition to organic growth, another key component of the Company's growth strategy is the acquisition of salons. With an estimated two percent worldwide market share, management believes the opportunity to continue to make selective acquisitions exists.

Over the past 18 years, the Company has acquired 8,052 salons, expanding both in North America and internationally. When contemplating an acquisition, the Company evaluates the existing salon or salon group with respect to the same characteristics as discussed above in conjunction with site selection for constructed salons (conveniently located, visible, strong retailers

Table of Contents

within the area, etc.). The Company generally acquires mature strip center locations, which are systematically integrated within the salon concept that it most clearly emulates.

In addition to adding new salon locations each year, the Company has an ongoing program of remodeling its existing salons, ranging from redecoration to substantial reconstruction. This program is implemented as management determines that a particular location will benefit from remodeling, or as required by lease renewals. A total of 235 and 271 salons had major remodels in fiscal years 2012 and 2011, respectively.

Recent Salon Additions. During fiscal year 2012, the Company constructed 319 new salons (209 company-owned and 110 franchise). Additionally, the Company acquired 13 company-owned salons, including 11 franchise salon buybacks, and purchased a 60.0 percent ownership interest in a franchise network consisting of 31 locations.

During fiscal year 2011, the Company constructed 213 new salons (146 company-owned and 67 franchise). Additionally, the Company acquired 105 company-owned salons, including 78 franchise salon buybacks.

Salon Closures. The Company evaluates its salon performance on a regular basis. Upon evaluation, the Company may close a salon for operational performance or real estate issues. In either case, the closures generally occur at the end of a lease term and typically do not require significant lease buyouts.

During fiscal year 2012, 384 salons were closed, including 333 company-owned salons and 51 franchise salons (excluding 11 franchise buybacks).

During fiscal year 2011, 305 salons were closed, including 245 company-owned salons and 60 franchise salons (excluding 78 franchise buybacks).

Economies of Scale. Management believes that due to its size and number of locations, the Company has certain advantages which are not available to single location salons or small chains. Economies of scale are realized through the centralized support system offered by the home office. Additionally, due to its size, the Company has numerous financing and capital expenditure alternatives, as well as the benefits of buying retail products, supplies and salon fixtures directly from manufacturers. Furthermore, the Company can offer employee benefit programs, training and career path opportunities that are often superior to its smaller competitors.

Centralized Control Over Salon Operations. During fiscal year 2012 the Company implemented a new field structure to support our long-term strategy. The Company manages its expansive salon base through a combination of district leaders, regional directors, vice presidents and chief operating officers. Each district leader is responsible for the management of approximately 12 to 15 salons. Regional directors oversee the performance of six to nine district leaders or approximately 80 to 130 salons. Vice presidents manage approximately 700 to 1,000 salons while chief operating officers are responsible for the oversight of an entire consumer concept. During fiscal year 2012 the Company also created Field Human Resources and Corporate Operations departments to support salon operations. The operational hierarchy is key to the Company's ability to expand successfully.

The Company also has an extensive training program, including the production of training DVDs for use in the salons, to ensure its stylists are knowledgeable in the latest haircutting and fashion trends and provide consistent quality hair care services. Finally, the Company tracks salon activity for all of its company-owned salons through the utilization of daily sales detail delivered from the salons' point of sale system. This information is used to reconcile cash on a daily basis.

Consistent, Quality Service. The Company is committed to meeting its guests' hair care needs by providing competitively priced services and products with professional and knowledgeable stylists. The

Table of Contents

Company's operations and marketing emphasize high quality services to create guest loyalty, to encourage referrals and to distinguish the Company's salons from its competitors. To promote quality and consistency of services provided throughout the Company's salons, the Company employs full and part-time artistic directors whose duties are to train salon stylists in current styling trends. The major services supplied by the Company's salons are haircutting and styling (including shampooing and conditioning), hair coloring and waving. During fiscal years 2012, 2011, and 2010, the percentage of company-owned service revenues attributable to each of these services was as follows:

	2012	2011	2010
Haircutting and styling (including shampooing & conditioning)	72%	72%	72%
Hair coloring	19	18	18
Hair waving	3	3	4
Other	6	7	6
	100%	100%	100%

High Quality, Professional Products. The Company's salons sell nationally recognized hair care and beauty products as well as a complete line of private label products sold under the Regis, MasterCuts and Cost Cutters labels. The retail products offered by the Company are intended to be sold only through professional salons. The top selling brands include Paul Mitchell, Biolage, Redken, It's a 10, Nioxin, Regis designLINE, Sexy Hair Concepts, Kenra, Tigi Bedhead, Moroccanoil, and the Company's various private label brands.

The Company has the most comprehensive assortment of retail products in the industry. Although the Company constantly strives to carry an optimal level of inventory in relation to consumer demand, it is more economical for the Company to have a higher amount of inventory on hand than to run the risk of being under stocked should demand prove higher than expected. The extended shelf life and lack of seasonality related to the beauty products allows the cost of carrying inventory to be relatively low and lessens the importance of inventory turnover ratios. The Company's primary goal is to maximize revenues rather than inventory turns.

The retail portion of the Company's business complements its salon services business. The Company's stylists and beauty consultants are compensated and regularly trained to sell hair care and beauty products to their guests. Additionally, guests are enticed to purchase products after a stylist demonstrates its effect by using it in the styling of the guest's hair.

Salon Concepts:

The Company's salon concepts focus is on providing high quality hair care services and professional products, primarily to the middle consumer market. The Company's North American salon operations consist of 9,340 salons (including 2,016 franchise salons), operating under several concepts, each offering attractive and affordable hair care products and services in the United States, Canada and Puerto Rico. The Company's international salon operations consist of 398 hair care salons located in Europe, primarily in the United Kingdom. The number of new salons expected to be opened within the upcoming fiscal year is discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition to these openings, the Company typically acquires salons each year. The number of acquired salons, and the concept under which the acquisitions will fall, vary based on the acquisition opportunities which develop throughout the year.

Salon Development

The table on the following pages sets forth the number of system wide salons (company-owned and franchise) opened at the beginning and end of each of the last five fiscal years, as well as the number of salons opened, closed, relocated, converted and acquired during each of these periods.

Table of Contents

COMPANY-OWNED AND FRANCHISE SALON SUMMARY

NORTH AMERICAN SALONS:	2012	2011	2010	2009	2008
REGIS SALONS					
Open at beginning of period	1,023	1,049	1,071	1,078	1,099
Salons constructed	12	12	14	20	14
Acquired		9	3	23	4
Less relocations	(9)	(10)	(11)	(14)	(11)
Salon openings	3	11	6	29	7
Conversions		(1)			1
Salons closed	(73)	(36)	(28)	(36)	(29)
Total, Regis Salons	953	1,023	1,049	1,071	1,078
MASTERCUTS					
Open at beginning of period	588	600	602	615	629
Salons constructed	11	6	15	14	7
Acquired					
Less relocations	(9)	(5)	(7)	(10)	(6)
Salon openings	2	1	8	4	1
Conversions		1			
Salons closed	(21)	(14)	(10)	(17)	(15)
Total, MasterCuts	569	588	600	602	615
TRADE SECRET					