

Milbon Co., Ltd.

FY2016 Financial Results

Presentation Materials



Find Your Beauty

A salon is a place to meet a new you.

Find Your Beauty **MILBON**
milbon.co.jp

January 25, 2017

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Find Your Beauty **MILBON**

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Fiscal Year 2016 (57th term) Operating Results

Masahiro Murai, Managing Director

Consolidated Operating Results

Sales have continued to be strong in East Asia
and remained steady in Japan particularly in hair care

(Unit: million yen)

	Amount		Increase/ Decrease	YoY comparison (%)
	FY2015	FY2016		
Net sales	27,377	29,134	1,757	106.4
Gross profit	18,681	20,100	1,418	107.6
SG&A expenses	13,954	14,986	1,032	107.4
Operating income	4,727	5,113	385	108.2
Ordinary income	4,427	4,733	306	106.9
Net income	2,950	3,069	118	104.0

Consolidated Sales by Product Category [Hair Care Product] (1)

Sales of premium brands have grown significantly and sales of new leave-in treatment products have been strong

(Unit: million yen)

FY2015	FY2016	Increase/Decrease	YoY Comparison (%)
16,195	17,711	1,516	109.4

- We have launched new products that match the needs of two demographic stages: the turning point for women in their 20s, who are regarded as “awakening to the notion of beauty,” and women in their 50s, “embarking on a quest for beauty.” We have developed activities to support the creation of various stages of beauty for women by a single designer, while revealing specific examples such as “communication that captures the demographic turning points” and “from design proposals to proposals for the future.”
- “Elujuda Sun Treatment,” which is effective in providing protection against UV rays, has been added to the Elujuda line, which has been popular since its launch. The product’s abilities to both protect hair against damaging UV rays and provide texture care were well-received, leading to strong sales.

Core Products

New - DEESSE'S Elujuda Sun Treatment

Leave-in treatment that moisturizes while protecting hair from UV rays.

(Unit: million yen)

FY target	Results	Achievements
700	721	103.0%



Mar. 31 Debut

New - PLARMIA Volumizer

Leave-in treatment foam that makes women's hair stand from the roots and creates a silhouette with natural volume they can run their fingers through.

(Unit: million yen)

FY target	Results	Achievements
250	320	128.3%



Mar. 1 Debut

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Consolidated Sales by Product Category [Hair Care Product] (2)

New - Jemile Fran Hair Care Series Melty Butter

Leave-in treatment retains the memory of the blow-dried style from the night before until the next morning and allows for quick styling in the morning. This product helps working women during their busy mornings. (Unit: million yen)

FY target	Results	Achievements
350	338	96.7%



Jan. 28 Debut

A Premium Brand, Aujua

Sales grew mainly in the line-ups that meet the growing needs for aging care

Number of salons

FY2015 year-end	FY2016 year-end	Comparison with FY2015 year-end
2,399 salons	2,779 salons	115.8%

Sales^{*)}

(Unit: million yen)

FY2015	FY2016	YoY comparison
4,445	5,043	113.5%

Brand concept

A hair care brand that nurtures the beauty of Japanese women's hair, born from the climate, culture and hair characteristics of Japan

What is Aujua?

A hair care series that responds to hair concerns by creating and evolving a program just for one individual. This is Aujua.

Product range

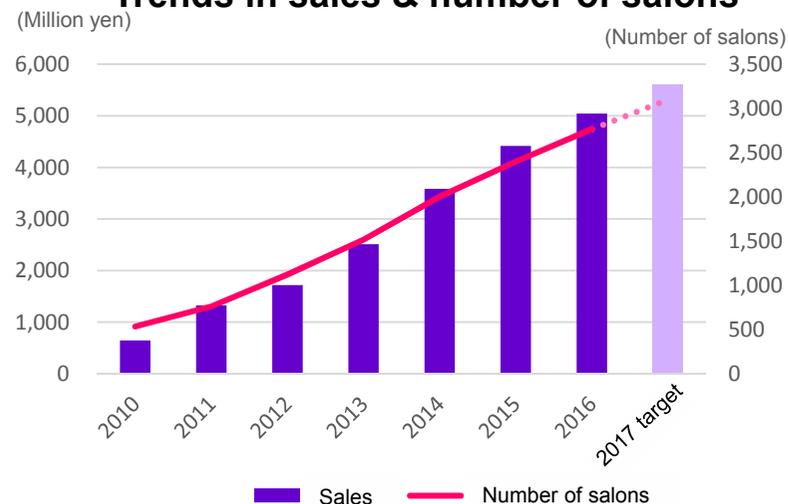
A wide-ranging line-up that suits the hair texture of individual customers

- 4 series
 - Aging care series
 - Hair care series
 - Scalp care series
 - Climatic care series
- 15 lines • 96 items

A tailor-made hair care program that nurtures beauty of each and everyone



Trends in sales & number of salons



^{*)} Figures are on a non-consolidated basis.

A Premium Brand, “milbon”

Approaches to salons shift into high gear, accelerating the growth of the number of contracted salons

Brand concept

A system hair care brand that cultivates the “unique beauty” of each individual, with 360° shiny hair

What is “milbon”?

We conducted an in-depth analysis of the inner structure of the hair of women from 20 countries around the world, using our proprietary CT scanning technology, and discovered SSVs (Sticked-Shaped Voids). SSVs are hollow, tubular gaps that form in damaged hair. Accordingly, we developed a hair care line containing ingredients capable of repairing such hollowed out hair and increasing the density within each strand of hair. “milbon” is a system hair care product for developing shiny, beautiful hair from the core.

Number of salons

As of December 20, 2016.....2,242 salons

Sales*)

FY2016.....571 million yen

MILBON



360° BEAUTIFUL HAIR

Launched consecutively in 12 countries around the world, from June 1

*) Figures are on a non-consolidated basis.

Consolidated Sales by Product Category [Hair Coloring Product]

Sales boosted by well-received gray-hair coloring products launched last year

(Unit: million yen)

FY2015	FY2016	Increase/Decrease	YoY Comparison (%)
9,506	9,892	386	104.1

- The “ORDEVE MODE LINE,” a new color line to match Fall/Winter 2016 trends, has been launched. Its clear, cold shades that do not have a hard look and express an air of the casual mode were well received, and sales significantly exceeded its targets.
- We have added new colors to “ORDEVE CRYSTAL,” a gray-hair coloring product launched in FY2015, to increase the variety of cold shades, along with non-alkaline colors to protect color and hair by controlling damage from repeated hair coloring. We further enhanced support activities to increase the value of gray-hair coloring at salons.

Core Products

ORDEVE CRYSTAL

A hybrid color for dyeing long hair for mature women, with a beautiful finish from the roots to the tips. ORDEVE CRYSTAL has the brightness of fashion colors, and it dyes both black and gray hairs evenly for a long-lasting finish.

(Unit: million yen)

FY target	Results	Achievements	
1,980	1,772	89.5%	FY2015 Debut



New - ORDEVE's additional color MODE LINE

Navy color with striking cold shades expressing a sense of modish trendiness.

(Unit: million yen)

FY target	Results	Achievements	
220	306	139.2%	Sep. 1 Debut



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A Premium Organic Brand, Villa Lodola (1)

Villa Lodola Color, which was launched last year, continues to drive sales and the number of salons

Number of salons

FY2015 year-end	FY2016 year-end	Comparison with FY2015 year-end
4,014 salons	5,632 salons	140.3%

Sales

(Unit: million yen)

FY2015	FY2016	YoY comparison
489	795	162.5%

Brand concept

Nurtured in the soil of Italy, these *gifts from nature* bring out the authentic beauty of your hair and scalp.

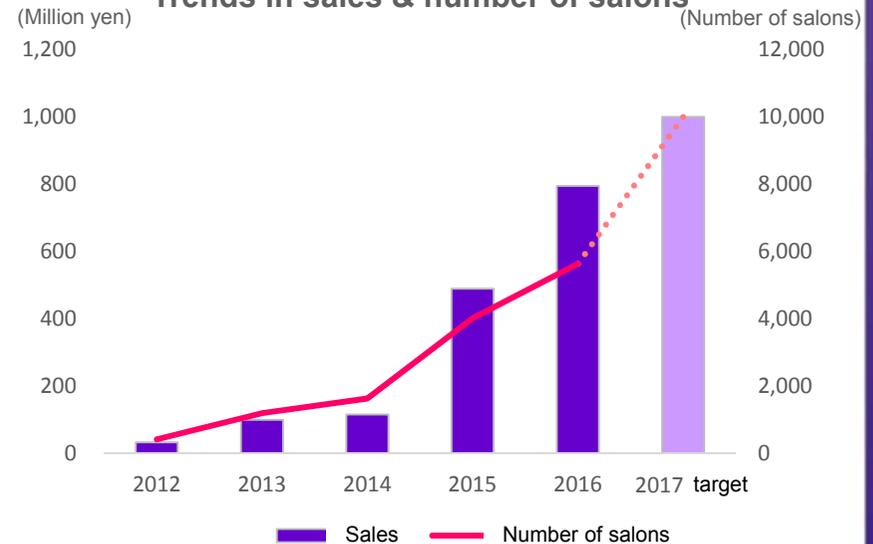
What is Villa Lodola?

Based on the concept of "Beauty, the Organic Way," Villa Lodola is a true organic brand that thoroughly cares about the natural environment not only for the product itself but also in its container, production phase and promotional tools. All of the products are certified by ICEA, an Italian authority.

Villa Lodola supports organic choices, with hair care products nurtured in the soil of Italy, bringing out true beauty.



Trends in sales & number of salons



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Villa Lodola (2)

Core Product

Villa Lodola Color

With 92% natural ingredients, the product's formulation utilizes the power of plants. It brings comfort of an organic product across all aspects, including during application, the finish and continued use.

(Unit: million yen)



FY target	Results	Achievements
315	518	164.6%

FY2015 Debut

Consolidated Statement of Earnings

(Unit: million yen)

	Amount		Increase/ Decrease	YoY compari- son (%)
	FY2015	FY2016		
Sales	27,377	29,134	1,757	106.4
Cost of sales	8,695	9,034	339	103.9
Gross profit	18,681	20,100	1,418	107.6
SG&A expenses	13,954	14,986	1,032	107.4 ^{*1}
Operating income	4,727	5,113	385	108.2
Ordinary income	4,427	4,733	306	106.9
Net income	2,950	3,069	118	104.0 ^{*2}

<Breakdown of net sales by product category>

(Unit: million yen)

	FY2015	FY2016	% total sales	YoY change	YoY comparison (%)
Hair care products	16,195	17,711	60.8	1,516	109.4
Hair coloring products	9,506	9,892	34.0	386	104.1
Permanent wave products	1,410	1,260	4.3	(150)	89.3
Others	264	270	0.9	5	102.2

<Major factors for the increase/decrease>

*1 SG&A expenses: Higher personnel expenses due to an increase in personnel and salary hikes
Higher sales promotion and advertising expenses due to branding strategy

*2 Extraordinary income (loss): Recording of impairment loss associated with closure of the Aoyama plant

* Supplemental Info. – Return to shareholders

<Dividends>

(Unit: yen)

	FY2014	FY2015	FY2016
End of 2Q	34	35	38
End of FY	34	39	40
Total	68	74	78

Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 plan
Capital expenditures		840	1,680	1,028	2,779	4,262	1,751
Depreciation and amortization		947	878	1,004	1,033	1,077	1,144
R&D exp.	Amount	873	969	1,168	1,214	1,232	1,331
	% to sales	4.0%	4.1%	4.6%	4.4%	4.2%	4.3%

FY2017 CAPEX Main Item

- Development expenses for new sales management system
- Interior, equipment, etc., due to relocation of domestic bases (Fukuoka Branch, Okayama Sales Office, Yokohama Sales Office)
- Establishment of a new domestic base (Shizuoka Sales Office)

Trends in Market Related Data, Trends in Fieldpersons (FPs)

Market trends (Japan)

(Unit: Number of salons: salons / Number of hairdressers: people / Number of beauty customers: thousand people)

	2011	2012	2013	2014	2015	2016	Remarks
Number of salons	228,429	231,134	234,089	237,525	240,299	—	Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services Number of beauty salon facilities / number of employees (year-end)
Number of hairdressers	471,161	479,509	487,636	496,697	504,698	—	
Number of beauty customers	39,640	39,076	38,468	37,847	37,395	37,129 (As of Jul. 1)	Statistics Bureau, Ministry of Internal Affairs and Communications: Population statistics as of October 1 st of each year Population statistics for females aged 15 to 64

Fieldpersons trends (by country)

*Number of FPs / As of the beginning of the fiscal year (December 21)

	2012	2013	2014	2015	2016	
JAPAN Milbon Co., Ltd.	200	210	216	237	249	Upper column: Number of FPs (persons) Lower column: Sales per FP (million yen)
	102	104	104	100	102	
USA MILBON USA, INC.	10	12	12	12	9	* 8 FPs in training as of the end of FY2016 26 FPs expected to join in April 2017
	35	36	40	53	63	
CHINA Milbon Trading (Shanghai) Co., Ltd.	13	16	17	18	18	(The above 34 FPs are not included in the left chart.)
	14	17	25	36	40	
KOREA Milbon Korea Co., Ltd.	13	17	17	19	20	
	34	41	64	75	80	
THAILAND Milbon (Thailand) Co., Ltd.	-	3	6	6	6	
	-	6	8	15	14	
Others	4	7	12	16	19	
	101	63	46	42	47	

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Outlook of Milbon Group (1)

East Asia, including Japan, continues to drive growth

	Number of employees*1)	Sales (million yen)		YoY comparison (%)	Start operations	Forex rates	
	Number of FPs*1)	FY2015	FY2016			FY2015	FY2016
Japan Milbon Co., Ltd.	597	23,880	25,287	105.9	1960	-	-
	269						
USA MILBON USA, INC.	17	642	571	89.0	2004	1 dollar = 119.33	111.81
	12						
CHINA Milbon Trading (Shanghai) Co., Ltd.	29	665	737	110.8	2009	1 yuan = 19.32	16.97
	19						
KOREA Milbon Korea Co., Ltd.	34	1,425	1,603	112.5	2009	1 won = 0.1076	0.0997
	23						
THAILAND Milbon (Thailand) Co., Ltd.	69	90	86	95.7	2013	1 baht = 3.58	3.18
	9						
Others*2)	25	672	847	126.1	-	-	-
	24						

*1) Number of employees and FPs are as of the end of FY2016.

*2) Taiwan, Hong Kong, Vietnam, Malaysia, Turkey, Indonesia, the Philippines, Singapore and others

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Outlook of Milbon Group (2)

JAPAN (Milbon Co., Ltd.)

New products targeting two generations of women, those in their 20s, “awakening to the notion of beauty,” and in their 50s, “embarking on a quest for beauty,” were launched. By proposing activities linking hair color with hair care, sales of products in both categories have steadily increased.

In particular, sales in the hair care product category increased significantly, due to growing sales of Aujua, a premium brand, and strong performance by new leave-in treatment products in professional brands.

The pace of increase in the number of contracted salons is beginning to accelerate for “milbon,” a premium brand launched in June, as approaches to salons have moved into high gear.

USA (MILBON USA, Inc.)

Following the launch of premium brand “milbon,” efforts were focused on promoting the switchover from existing hair care products, and, as a result, activities to capture new salons weakened somewhat. In addition, salon sales have fallen owing to closures and consolidations among the high-end salons in the Manhattan area that were our key customers, due to business difficulties caused by soaring rents.

As a result of activities to promote the switchover to the premium brand “milbon,” contracts have expanded to approximately 700 salons. We aim to increase sales in the next fiscal year by effectively promoting the launch of a new styling series and a new hair care series.

Outlook of Milbon Group (3)

CHINA (Milbon Trading (Shanghai) Co., Ltd.)

On-site fieldpersons have been carrying out seminars and study groups so that salons can thrive in the medium to long term without relying on simple discounts or promotions. These efforts have been well received by the top salons in each area.

In direct sales areas, we established a new office in the inland city of Chengdu, Sichuan Province, and commenced sales activities, which have gotten off to a smooth start. Performance has also been strong in the existing areas of Shanghai and Beijing.

Sales in distributor areas such as Jiangsu Province, Zhejiang Province, and Guangdong Province have also grown by over 20%, owing to deeper collaborative relationships.

KOREA (Milbon Korea Co., Ltd.)

The addition of new colors for ORDEVE hair coloring products allows us to propose new colors to salon customers who are always looking for something new. This unique strategy, not found at other companies, drives overall sales of hair color products.

Meanwhile, we have been carrying out market development focused on our hair care products with the aim of transitioning our market reputation from the “Milbon of hair color products” to the “Comprehensive Milbon brand.” Introduction of Plarmia is progressing smoothly, owing to proposals for quick and easy care from the scalp to the tips of the hair, which have been received positively.

Test marketing of Aujua has also been favorable, and a full-scale rollout is anticipated for the next fiscal year.

Outlook of Milbon Group (4)

THAILAND (Milbon (Thailand) Co., Ltd.)

[Sales division]

The number of contracting salons and net sales both progressed favorably for hair coloring products due to steady implementation of seminar activities focused on ORDEVE's new colors by various distributors.

The Liscio Atenje brand of straight perm products has grown significantly thanks to the positive response to seminars given by external Japanese hairdressers.

Salon treatment sales declined, owing to the number of competitors and inadequate understanding of the menu system. We aim to make a recovery in the next fiscal year through the launch of premium brand "milbon."

[Production division]

Production volume grew considerably (up 337.3% year-on-year) due to the introduction of new hair colors in each country and the production launch of premium brand "milbon."

Improvement in the manufacturing cost ratio progressed ahead of plan due to an increase in the local procurement rate and the transfer of a high-speed production line from Japan.

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Milbon Group

2015-2019 Medium-Term Management Plan & Progress Initiatives for FY2017 (58th term)

Ryuji Sato, President & CEO

2015-2019 Medium-Term Management Plan ~Progress at the end of FY2016~

2015-2019 Medium-Term Management Plan

~Progress at the end of FY2016~

**Targets were met for net sales, operating income, net income, etc.
Steady progress was made toward achieving the medium-term management plan**

(Unit: million yen)

	Medium-term management plan FY2016 target		FY2016 results		Achievements (%) *1	Growth rate from previous year (%)	FY2019 target (medium-term end)	
	Amount	% to sales	Amount	% to sales			Amount	% to sales
Net sales	28,800	100.0	29,134	100.0	101.2	106.4	35,000	100
Domestic	24,865	86.3	25,287	86.8	101.7	105.9	28,500	81.4
Overseas	3,935	13.7	3,847	13.2	97.8	110.0	6,500	18.6
Gross profit	19,440	67.5	20,100	69.0	103.4	107.6	24,500	70.0
SG&A	14,360	49.9	14,986	51.4	104.4	107.4	17,500	50.0
Operating income	5,080	17.6	5,113	17.6	100.7	108.2	7,000	20.0
Ordinary income	4,780	16.6	4,733	16.2	99.0	106.9	6,630	18.9
Net income	2,890	10.0	3,069	10.5	106.2	104.0	4,130	11.8

*1 FY2016 results to FY2016 targets of the medium-term management plan

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2015-2019 Medium-Term Management Plan

~Progress in net sales by country~

Steady progress overseas despite impact of foreign exchange rate

(Unit: million yen)

	Medium-term management plan FY2016 target	FY2016 results	Achievements (%) *1	Growth rate from previous year (%)	FY2019 target (medium-term end)	Exchange rate	
						FY2016 actual	FY2019 estimate
JAPAN Milbon Co., Ltd.	24,865	25,287	101.7	105.9	28,500	-	-
USA MILBON USA, INC.	575	571	99.3	89.0	840	1 dollar = 111.8	105.0
CHINA Milbon Trading (Shanghai) Co., Ltd.	765	737	96.4	110.8	1,350	1 yuan = 16.97	17.00
KOREA Milbon Korea Co., Ltd.	1,600	1,603	100.2	112.5	2,500	1 won = 0.0969	0.1000
THAILAND Milbon (Thailand) Co., Ltd.	130	86	66.8	95.7	250	1 baht = 3.18	3.20
Other areas*2	865	847	98.0	126.1	1,560	-	-

<Reference>

East Asia*3 total	2,860	2,886	100.9	112.8	4,490	-	-
South-east Asia*4 total	430	384	89.4	131.0	1,020	-	-

*1 FY2016 results to FY2016 target s of the medium-term management plan

*2 Taiwan, Hong Kong, Vietnam, Malaysia, Turkey, Indonesia, the Philippines, Singapore and others

*3 China, Korea, Taiwan and Hong Kong

*4 Thailand, Vietnam, Malaysia, Indonesia, the Philippines, Singapore and others

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2015-2019 Medium-Term Management Plan

~CAPEX FY2016~

**Establishing new domestic branches and expansion of production site
to be ready for the future 10 years**

Use	FY2015-FY2016	FY2019
Investment in future growth	7,040 million yen	10,000 million yen
Main items	<ul style="list-style-type: none"> • Construction of new Yumegaoka Plant • Establishment and expansion of new domestic branches (Ginza, Sapporo, Kumamoto and Okayama) • Establishment of new foreign rep office (in the Philippines) • Expansion of Thai warehouse 	<ul style="list-style-type: none"> • Construction of new Yumegaoka Plant • Expansion of Thai Factory • Establishment and expansion of new domestic branches (8 domestic locations including Ginza and Yokohama and several foreign locations including the Philippines) • M&A investment in the US and Europe • Business in cosmetics
Return to shareholders	2,480 million yen	7,000 million yen
	<ul style="list-style-type: none"> • Dividend payout ratio FY2015 41.1% FY2016 41.6% 	<ul style="list-style-type: none"> • Stable return to shareholders targeting a dividend payout ratio of 40%
Increase in R/E	- 2,400 million yen	3,000 million yen
Capital efficiency	ROE 11.4% *FY2016	ROE 12% or over *FY2019 target

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Initiatives for FY2017 (58th term)

Domestic Market Environment (1)

1. Trends among ordinary consumers

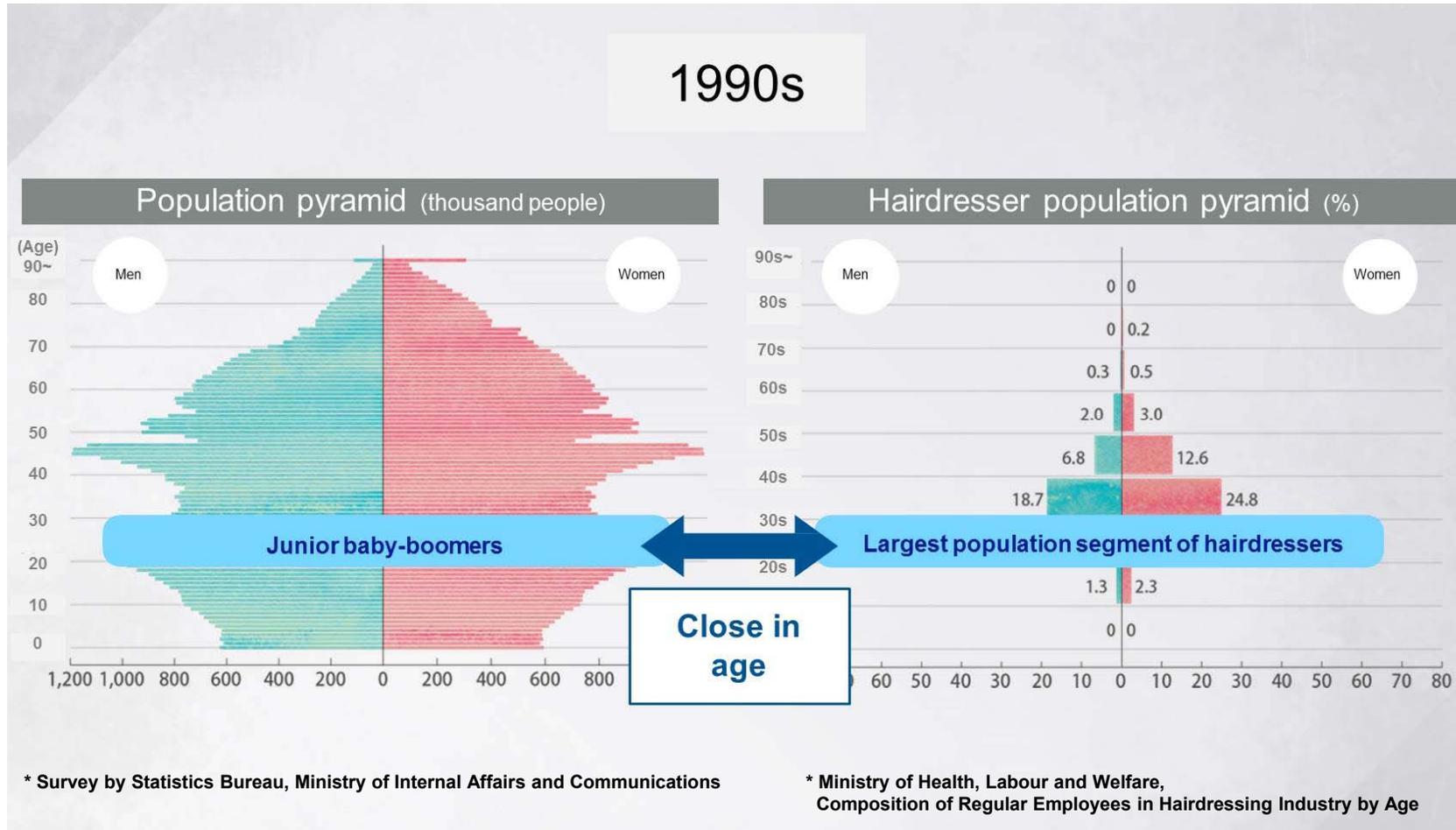
- **Adult society/individual society**
- **Generational perspectives and values; selective, modulated consumption**

2. Issues for salons – 4 perspectives

- (1) Hiring challenges**
- (2) Increasing sales and securing profit**
- (3) Strengths and uniqueness of individual salons**
- (4) State of the organization and human resources**

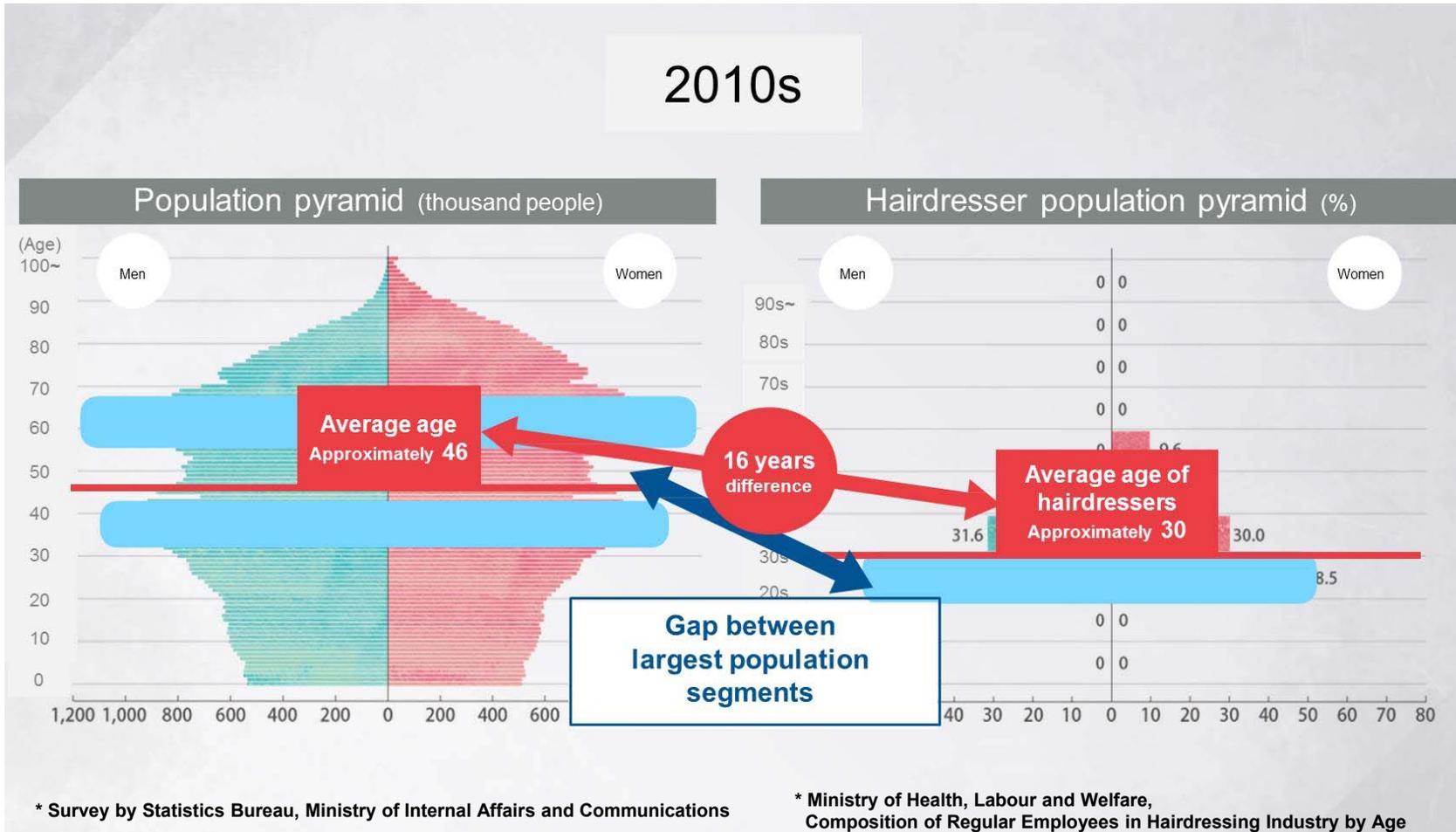
Domestic Market Environment (2)

3. Focus on gaps in population pyramids



Domestic Market Environment (2)

3. Focus on gaps in population pyramids



**“Lifelong customers are created by
lifelong hair designers.”**

**Supporting the “development of lifelong hair designers” who create
lifelong customers by understanding their generational perspectives
and values, with the aim of improving productivity through
consumption that spreads across generations.**

Initiatives for FY2017 (1)

1. Hair color proposals that respond to generational perspectives

- Total hair color brand ORDEVE

- New** ○ ORDEVE ADDICTHY 750 million yen 15,000 salons

- ORDEVE

- ORDEVE CRYSTAL

- ORDEVE BEAUTÉ

Initiatives for FY2017 (2)

2. Hair care proposals based on understanding of generational perspectives and values

● Premium brands

	Sales (million yen)*		Number of salons (salons)	
	FY2016 results	FY2017 plan	FY2016 results	FY2017 plan
○ Aujua	5,043	5,600	2,779	3,153
○ "milbon"	571	1,270	2,242	3,990
○ Villa Lodola	795	1,000	5,632	10,000

● Professional brands

- Jemile Fran
- PLARMIA
- Elujuda

Establishing the “salon take-home product business”

* Figures are on a non-consolidated basis.

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A salon is a place to meet a new you.

Initiatives for FY2017 (3)
Corporate Branding

Initiatives for FY2017 (3) Product Branding

A u j u a

An Aujua for the hair of each individual



aujua.com

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Initiatives for FY2017 (3) Product Branding

MILBON

Hair that's beautiful through and through



global.milbon.com



Initiatives for FY2017 (3)

Exclusive advertising at Ginza and Umeda stations

Ginza Station area

Dates: Feb. 10 (Fri.) – Feb. 16 (Thu.)

Tokyo Metro Ginza Station, Ginza 4-chome area

Large billboard in front of Sony Building



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Initiatives for FY2017 (3)

Exclusive advertising at Ginza and Umeda stations

Umeda Station area

Dates: Feb. 13 (Mon.) – Feb. 19 (Sun.)

Hankyu Umeda Station area

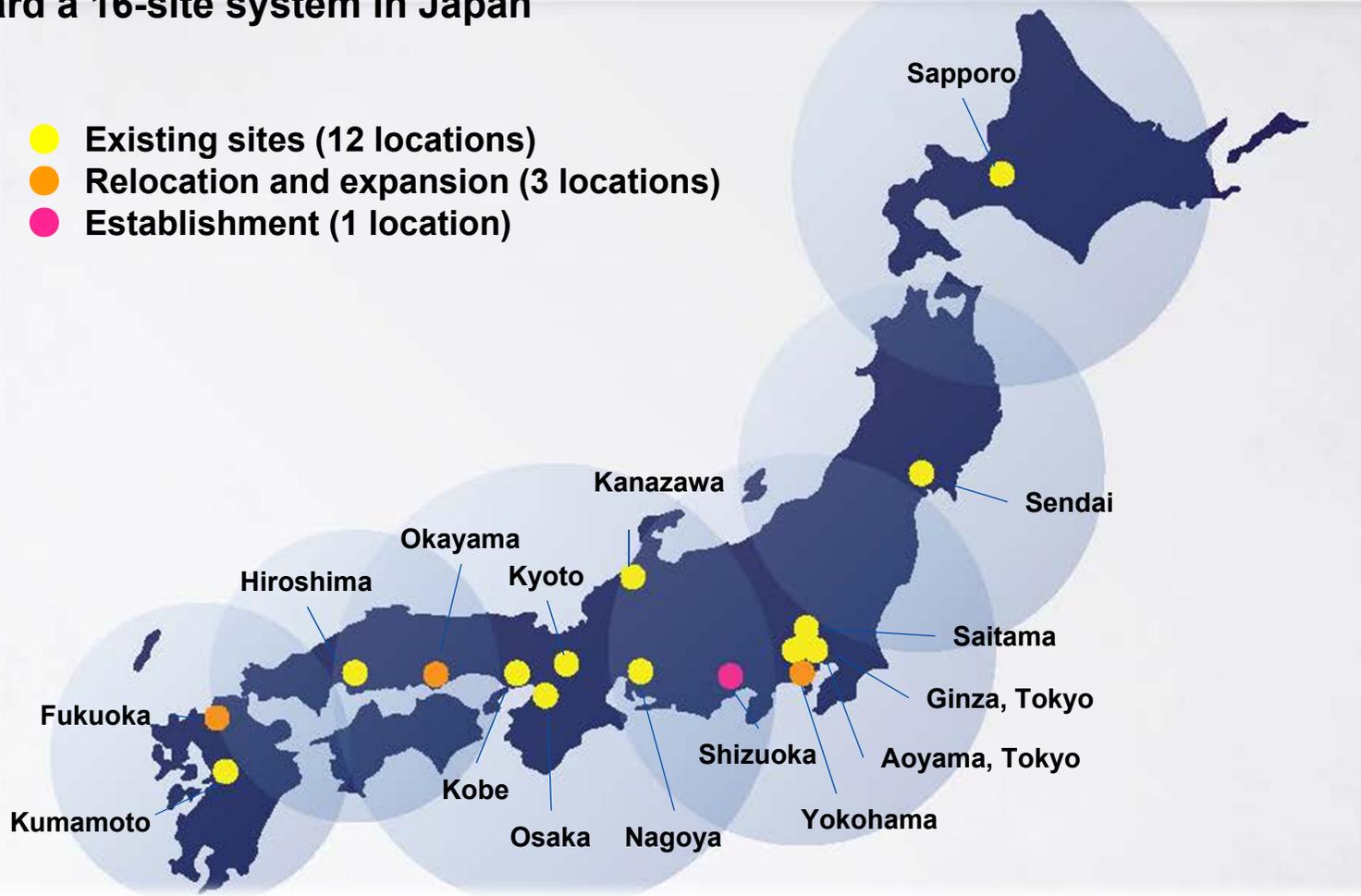


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Initiatives for FY2017 (4)

Relocating, expanding and establishing studio sites
Toward a 16-site system in Japan

- Existing sites (12 locations)
- Relocation and expansion (3 locations)
- Establishment (1 location)



Initiatives for FY2017 (5)

Overseas markets: Overseas bases in 15 locations in 13 countries

1. **East Asia region (Milbon Trading (Shanghai) Co., Ltd., Milbon Korea, Co., Ltd., Taiwan, Hong Kong)**
2. **South-east Asia region (Milbon (Thailand) Co., Ltd., Malaysia, Vietnam, Indonesia, the Philippines, Singapore)**
 - **Thailand Plant**
3. **North America region (MILBON USA, INC.)**
4. **Europe region (with new sites scheduled to open in Turkey and Germany)**

Initiatives for FY2017 (6)

Securing outstanding human resources and reforming working style

- **Launching a system that hires in spring and fall and trains recruits twice a year**

Consolidated targets for FY2017

Achieving net sales of 30.0 billion yen. Challenge is to improve productivity at new Yumegaoka Plant for the next fiscal year.

(Unit: million yen)

	Amount		Increase	Growth rate (%)
	FY2016 results	FY2017 target		
Net sales	29,134	31,000	1,865	106.4
Domestic	25,287	26,560	1,272	105.0
Overseas	3,847	4,440	592	115.4
Gross profit	20,100	21,040	939	104.7
SG&A	14,986	15,740	753	105.0
Operating income	5,113	5,300	186	103.6
Ordinary income	4,733	4,890	156	103.3
Net income	3,069	3,450	380	112.4

Capital expenditures and others

(Unit: million yen)

Classification	FY2016 results	FY2017 plan
Capital expenditures	4,262	1,751
Depreciation and amortization	1,077	1,144
R&D expenses	Amount	1,232
	% to sales	4.2%
		1,331
		4.3%

Return to shareholders

<Dividend forecast>

(Unit: yen)

	FY2015	FY2016	FY2017 plan
End of 2Q	35	38	40
End of FY	39	40	42
Total	74	78	82



Statements concerning the future such as the earnings forecasts given in this document are based on information currently in the possession of the Company and on assumptions that the Company considers reasonable.