

# Milbon Co., Ltd.

## FY2019 First Quarter (January 1, 2019 –March 31, 2019) Financial Results Presentation Materials



May 7, 2019

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Find Your Beauty **MILBON**

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## Consolidated Operating Results (FY2019 3 months)

Although increase in sales secured, income decreased due to impact of special factors during the previous fiscal year

(Unit: million yen)

	FY2018 3 months*	FY2019 3 months*	Increase/ Decrease	Increase/ Decrease ratio (%)
Net sales	7,592	7,886	293	3.9
Gross profit	5,170	5,313	142	2.8
SG&A expenses	3,780	4,048	267	7.1
Operating income	1,390	1,265	(124)	( 9.0)
Ordinary income	1,208	1,162	(46)	(3.8)
Profit attributable to owners of parent	1,074	841	(232)	(21.7)

\*The "Accounting Standard for Revenue Recognition," etc., has been adopted since the first quarter of FY2019. The results for the first quarter of FY2018 have also been reclassified based on the same standard.

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# Consolidated Sales by Product Category [Hair Care Product]

While premium brands have continued to grow, there was a slight decrease overall due to a decrease in revenue for professional brands

## Consolidated Sales (FY2019 3 months)

(Unit: million yen)

FY2018 3 months*	FY2019 3 months*	Increase/ Decrease	Increase/ Decrease ratio (%)
4,358	4,323	(34)	(0.8)

- The special demand for the upgrade of the premium brand Aujua has run its course. The Eternal Stage Series has been added from the current fiscal year to expand the range of support for adult women who seek further beauty. The new Diorum Line that is the first part of this series was introduced in March, and we are working to propose high unit price menus for salons.
- The acquisition of new salons led by distributors has progressed for the premium brand “milbon”, and growth has been achieved through an increase in new salons. Going forward, we will strengthen efforts aimed at increasing sales per store through repeat orders.
- Sales have decreased for professional brands due to a lack of new product launches. Preparations including product study sessions for distributors are underway for the new brand CRONNA for adult women scheduled to be released in April.

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# A Premium Brand, Aujua

Upgrades have run their course, new series and new line added in March

## Number of salons

(Unit: salons)

FY2018 *1	FY2019 *1	Increase/ Decrease	Increase/ Decrease ratio (%)
3,271	3,353	82	2.5

## Consolidated Sales (FY2019 3 months)

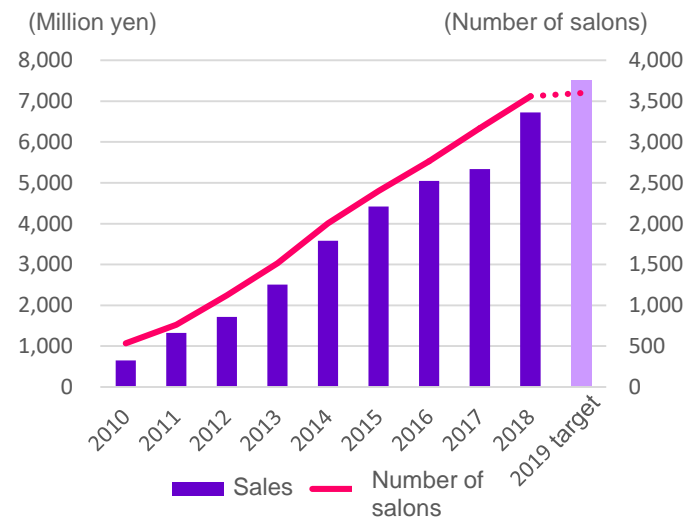
(Unit: salons)

FY2018 3 months*2	FY2019 3 months*2	Increase/ Decrease	Increase/ Decrease ratio (%)
1,250	1,312	62	5.0

# Aujua



Trends in sales & number of salons



## 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?

Hair care that supports beauty, now and into the future, by addressing each individual's hair and skin concerns and choosing the most appropriate item for that time. This is Aujua.

## Product range

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

- 5 series
- Eternal stage series (new)
- Aging care series
- Hair care series
- Scalp care series
- Climatic care series
- 13 lines
- 86 items

\*1 Figures for both Japan and overseas are calculated based on shipments over a one-year period.

\*2 Gross sales figures are on a non-consolidated basis.

# A Premium Brand, “milbon”

Growth with more salons both in Japan and overseas

## Number of salons

(Unit: salons)

FY2018 *1	FY2019 *1	Increase/ Decrease	Increase/ Decrease ratio (%)
5,571	6,581	1,010	18.1

## Consolidated Sales (FY2019 3 months)

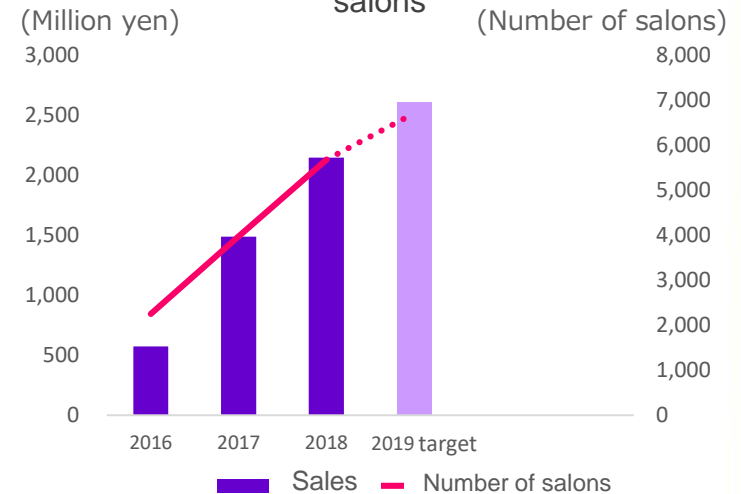
(Unit: salons)

FY2018 3 months*2	FY2019 3 months*2	Increase/ Decrease	Increase/ Decrease ratio (%)
434	570	136	31.3

## MILBON



Trends in sales & number of salons



## Brand concept

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

## Countries with salons

USA, Hong Kong, China, Thailand, Taiwan, Turkey, Malaysia, Vietnam, Indonesia, Singapore, and Germany

## 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 a universal form of hair damage. Accordingly, we developed a hair care line containing ingredients capable of repairing such damaged 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.

\*1 Figures for both Japan and overseas are calculated based on shipments over a one-year period.

\*2 Gross sales figures are on a non-consolidated basis.

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## Consolidated Sales by Product Category [Hair Coloring Product]

Ordeve Addicthy has grown and driven sales for the product category

### Consolidated Sales (FY2019 3 months)

(Unit: million yen)

FY2018 3 months*	FY2019 3 months*	Increase/ Decrease	Increase/ Decrease ratio (%)
2,848	3,175	326	11.5

- Sales for Ordeve Addicthy have continued to grow. Meanwhile, the decline in sales of Ordeve that was seen since the launch of Addicthy is beginning to come to a halt, and we are beginning to see some segregation in these products.
- The new acid color Ordeve Ledress has been introduced as a gray-hair coloring product. Acid color sales for this product combined with the existing item FARGLAN have grown, and income also increased for gray-hair coloring products.

\*The "Accounting Standard for Revenue Recognition," etc., has been adopted since the first quarter of FY2019. The results for the first quarter of FY2018 have also been reclassified based on the same standard.

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# Consolidated Sales by Product Category [Hair Coloring Product]

Ordeve Addicthy has grown and driven sales for the product category

## Core Product

### Ordeve Addicthy

Erases red-tinged brown with high saturation blue.  
With clear and transparent color expression, it lets customers freely realize individual hair color designs.

(Unit: million yen)

FY2018 3 months*	FY2019 3 months*	Increase/ Decrease	Increase/ Decrease ratio (%)
588	904	316	53.8



FY2017 Debut

### Ordeve Ledress

Gives color and shine to hair while increasing the density within each strand of hair.

It supports the needs of customers who want to continue to enjoy a salon color while taking care of their hair.

(Unit: million yen)

FY2019 target*	FY2019 3 months*	Increase/ Decrease	Progress rate (%)
700	90	-	12.9



ORDEVE  
*Ledress*

March 2019 Debut

\*Gross sales figures are on a non-consolidated basis

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# A Premium Organic Brand, Villa Lodola (1)

Connection born between Villa Lodola Color and hair care products for colored hair, sales growth achieved

## Number of salons

(Unit: salons)

FY2018 year-end	FY2019 Q1-end	Increase/Decrease	Increase/Decrease ratio (%)
8,085	8,362	277	3.4

## Consolidated Sales (FY2019 3 months)

(Unit: million yen)

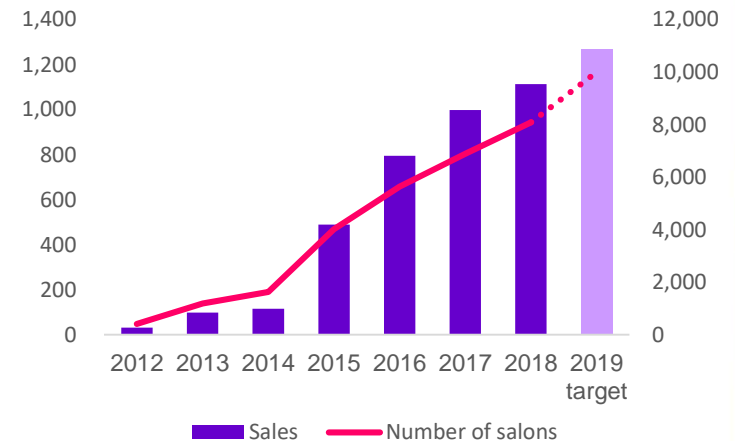
FY2018 3 months*	FY2019 3 months*	Increase/Decrease	Increase/Decrease ratio (%)
233	264	30	13.0



(Million yen)

(Number of salons)

## Trends in sales & number of salons



## 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.

\*Gross sales figures are on a non-consolidated basis.

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# A Premium Organic Brand, 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.

### Consolidated Sales (FY2019 3 months)

(Unit: million yen)

FY2018 3 months*	FY2019 3 months*	Increase/ Decrease	Increase/ Decrease ratio (%)
176	204	27	15.8



FY2015 Debut

\*Gross sales figures are on a non-consolidated basis.

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# Consolidated Statement of Earnings (FY2019 3 months)

## <Consolidated Statement of Earnings>

(Unit: million yen)

	FY2018 3 months*	% to sales	FY2019 3 months*	% to sales
Sales	7,592	100.0	7,886	100.0
Cost of sales	2,422	31.9	2,573	32.6
Gross profit	5,170	68.1	5,313	67.4
SG&A expenses	3,780	49.8	4,048	51.3
Operating income	1,390	18.3	1,265	16.0
Ordinary income	1,208	15.9	1,162	14.7
Profit attributable to owners of parent	1,074	14.2	841	10.7

## <Breakdown of net sales by product category>

(Unit: million yen)

	FY2018 3 months *	FY2019 3 months *	% total sales	Increase/ Decrease	Increase/ Decrease ratio (%)
Hair care products	4,358	4,323	54.8	(34)	(0.8)
Hair coloring products	2,848	3,175	40.2	326	11.5
Permanent wave products	341	337	4.3	(3)	(1.1)
Others (including cosmetics)	44	50	0.7	5	12.1

## <Major factors for the increase/decrease>

### Cost of sales

While there was a special factor of the reversal of provision for sales returns of the previous version of Aujua in FY2018, no special factors in FY2019

### SG&A expenses

Personnel expenses: Increased due to increase in number of personnel and system changes (change from corporate housing to housing allowance system, etc.)

### Profit attributable to owners of parent

While there was a gain from the sale of cross-shareholdings in FY2018, no such gain in FY2019

\*The "Accounting Standard for Revenue Recognition," etc., has been adopted since the first quarter of FY2019. The results for the first quarter of FY2018 have also been reclassified based on the same standard.

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# Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category		FY2015	FY2016	FY2017	FY2018	FY2019 Jan.–Mar.	FY2019 Plan
Capital expenditures		2,779	4,262	1,570	1,149	469	1,710
Depreciation and amortization		1,033	1,077	1,272	1,370	350	1,498
R&D exp.	Amount	1,214	1,232	1,422	1,479	371	1,535
	% to sales	4.4	4.2	4.3	4.2	4.7*	4.2

## FY2019 CAPEX Main Items (Plan)

- Establishment of a new domestic base (Matsuyama Sales Office)
- Compounding equipment for plant (automatic dye weighing machines)
- Build system infrastructure
- EC site platform

\*The “Accounting Standard for Revenue Recognition,” etc., has been adopted since the first quarter of FY2019. The results for the first quarter of FY2018 have also been reclassified based on the same standard.

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

## Market trends (Japan)

	2013	2014	2015	2016	2017	2018	Remarks
Number of salons (salons)	234,089	237,525	240,299	243,360	247,578	—	Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services
Number of hair dressers (people)	487,636	496,697	504,698	509,279	523,543	—	Number of beauty salon facilities / number of employees (year-end)
Number of beauty customers (thousand people)	38,468	37,847	37,395	37,023	36,643	36,282 (As of Nov. 1)	Statistics Bureau, Ministry of Internal Affairs and Communications: Population statistics as of October 1st of each year Population statistics for females aged 15 to 64

## Fieldpersons trends (by country)

(Number of FPs / As of January 1, the beginning of the fiscal year (As of December 21 for 2017 and before))

	2015	2016	2017*1	2018	2019
JAPAN	237	249	258	269	279
	100	102	105	111	-
USA	12	9	12	13	13
MILBON USA, INC.	53	63	48	48	-
CHINA	18	18	19	22	21
Milbon Trading (Shanghai) Co., Ltd.	36	40	50	62	-
KOREA	19	20	23	25	30
Milbon Korea Co., Ltd.	75	80	84	82	-
THAILAND	6	6	9	7	7
Milbon (Thailand) Co. Ltd.	15	14	13	17	-
VIETNAM					7
MILBON VIETNAM CO., LTD					-
Others *2	16	19	24	26	21
	42	47	38	43	-

Upper column: Number of FPs (persons)  
Lower column: Sales per FP (million yen)

6 FPs joined in October 2018, and are currently in OJT on site  
31 FPs joined in April 2019, and are currently in training  
(The above 37 FPs are not included in the left chart.)

\*1 Because FY2017 was an irregular accounting period, performance is calculated with adjusted amounts for a 12-month period.

\*2 Taiwan, Hong Kong, Malaysia, Turkey, Indonesia, the Philippines, Singapore, Germany and others  
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# Outlook of Milbon Group

- ◆ Results were negative during first three months of 2019 as a result of the receipt of inventory returns from conventional general agents along with the establishment of the subsidiary MILBON VIETNAM CO., LTD. (Unit: million yen)

	FY2018 3 months <sup>*1</sup>	FY2019 3 months <sup>*1</sup>	Increase/Decrease ratio (%)	Start operations	Forex rates FY2018 (yen)	Forex rates FY2019 (yen)
JAPAN	6,282	6,428	2.3	1960	-	-
USA MILBON USA, INC.	131	133	1.7	2004	<sup>1 dollar=</sup> 108.23	110.22
CHINA Milbon Trading (Shanghai) Co., Ltd.	373	425	13.8	2009	<sup>1 yuan=</sup> 17.15	16.42
KOREA Milbon Korea Co., Ltd.	485	569	17.3	2009	<sup>1 won=</sup> 0.1017	0.0980
THAILAND Milbon (Thailand) Co., Ltd.	17	37	114.0	2013	<sup>1 baht=</sup> 3.45	3.5
VIETNAM MILBON VIETNAM CO., LTD.	29	(10)	(136.6)	2013	<sup>1 dong=</sup> -	0.0048
Others <sup>*2</sup>	272	302	11.1	-	-	-

<sup>\*1</sup> The "Accounting Standard for Revenue Recognition," etc., has been adopted since the first quarter of FY2019. The results for the first quarter of FY2018 have also been reclassified based on the same standard.

<sup>\*2</sup> Taiwan, Hong Kong, Malaysia, Turkey, Indonesia, the Philippines, Singapore, Germany and others

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# Outlook of Overseas Subsidiaries (1)

## ◆ Sales of overseas subsidiaries (local currency basis)

	Currencies (unit)	FY2018 (Jan.-Mar.)	FY2019 (Jan.-Mar.)	Increase/ Decrease ratio (%)
USA MILBON USA, INC.	US dollar (thousand)	1,212	1,211	(0.1)
CHINA Milbon Trading (Shanghai) Co., Ltd.	Yuan (thousand)	21,806	25,906	18.8
KOREA Milbon Korea Co., Ltd.	Won (million)	4,777	5,810	21.6
THAILAND Milbon (Thailand) Co., Ltd.	Baht (thousand)	5,083	10,721	110.9
VIETNAM MILBON VIETNAM CO., LTD	Dong (million)	-	245	-

### USA MILBON USA, INC.

In the direct sales category in Manhattan, a large salon was opened, results continued to be strong for Global Milbon, and the fashion color Addicthy that was launched for Japanese salons was well received. Performance in the distributor category was strong as a result of the area expansion by existing distributors following the northeast area of the US. In addition, there has been a smooth start for Chinese distributors in New York that we started transactions with in the second half of the previous fiscal year and distributors following the north central area of the US that we started transactions with from the current fiscal year. However, as a result of factors including struggling sales by a distributor in an area of California that we started transactions with during the second half of the previous fiscal year as a result of abnormal weather, revenue has decreased. For the distributor category overall, it was not possible to compensate for decrease in revenue from a transfer in transactions from direct sales to distributors by a small margin.

## Outlook of Overseas Subsidiaries (2)

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

The local branch managers of the Beijing Branch and Chengdu Branch are beginning to fully understand the approach and way of thinking of Milbon, which is starting to have a positive effect on the branches and leading to results. In addition, in the area supervised by Shanghai where a market has already been acquired to some degree, steady efforts such as those to improve the quality of activities by distributor personnel are underway with a view to future growth, not just short-term results. By product, the fashion color Ordeve is progressing steadily, partly due to the introduction of a new color. In hair care product category, Global Milbon performed strongly, partly due to efforts to acquire customers for salon treatments.

### KOREA (Milbon Korea Co., Ltd.)

After our struggle with the continuous entry into the market of low-priced hair coloring products from competitors, salons steadily recovered ground due to our superiority in terms of product quality and education, and hair coloring product category grew 18.6% year on year. In hair care, growth was 34.5% for hair care as a whole as a result of an increase in sales of Aujua in recognition of its quality and the high quality of education. Neo Liscio, a straightener introduced last year, has been highly regarded in the market for its soft finish, and results for permanent wave product category increased 115.1% year on year.

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

Sales decreased 46.1% in the first quarter of FY2018 because it was a quarter that was significantly affected by a narrowing of our focus to a single distributor, and the results of the first quarter of FY2019 are compared with this quarter. Performance was strong in the hair coloring product category as a result of activities to clarify the difference between Ordeve and Addicthy and the introduction of a new color for Ordeve. In the hair care product category, the number of salons grew steadily as a result of the Global Milbon line of repair products being highly regarded.



# Outlook of Overseas Subsidiaries (3)

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## VIETNAM (MILBON VIETNAM CO., LTD)

In Vietnam, much of the population is in the 20s to 30s age group, and it is a market where growth can be expected in the future because members of this generation are core customers for beauty salons. In hair coloring product category, Ordeva and Addicthy were both highly regarded, and market deployment is being promoted while clarifying the respective positions of these products. In the hair care product category, LINKAGE-μ and DEESSE'S NEU are being leveraged to acquire new salons. In addition, Global Milbon is being deployed mainly to limited high-quality salons.