

Milbon Co., Ltd.

FY2018 Second Quarter (January 1, 2018 – June 30, 2018)

Financial Results Presentation Materials



July 25, 2018

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Find Your Beauty **MILBON**

Table of Contents

P3	Consolidated Operating Results
P4	Consolidated Sales by Product Category
P10	Consolidated Statement of Earnings
P11	Consolidated Trends in Capital Expenditures and R&D Expenses
P12	Trends in Market Related Data, Trends in FPs
P13	Outlook of Milbon Group
P14	Outlook of Overseas Subsidiaries
P16	Progress in FY2018 (59 th Term)

Starting in the previous fiscal year, the Company changed its fiscal year end from December 20 to December 31. Additionally, the Company's consolidated subsidiaries changed their fiscal year end from September 30 to December 31. While the second quarter of the fiscal year under review covers the six month period from January 1, 2018 to June 30, 2018, the second quarter of the previous fiscal year covered the six month period from December 21, 2016 to June 20, 2017 (for consolidated subsidiaries, the period of October 1, 2016 to March 31, 2017).

	Notation in these materials	Respective periods	Periods for subsidiaries
Second quarter of the fiscal year under review	FY2018 6 months	January 1, 2018 to June 30, 2018 (6 months)	January 1, 2018 to June 30, 2018 (6 months)
Second quarter of the previous fiscal year	FY 2017 6 months	December 21, 2016 to June 20, 2017 (6 months)	October 1, 2016 to March 31, 2017 (6 months)

Consolidated Operating Results (FY2018 6 months)

Sales grew steadily both in Japan and overseas

(Unit: million yen)

	FY2017 6 months *)	FY2018 6 months *)	Increase/ Decrease	Increase/ Decrease ratio (%)
Net sales	14,956	16,802	1,846	12.3
Gross profit	10,069	11,752	1,683	16.7
SG&A expenses	7,736	8,777	1,041	13.5
Operating income	2,333	2,975	642	27.5
Ordinary income	2,147	2,746	599	27.9
Profit attributable to owners of parent	1,508	2,137	628	41.7

*) See page 3 for the corresponding periods.

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Consolidated Sales by Product Category [Hair Care Product]

Premium brands continued strong performance

(FY2018 6 months)

(Unit: million yen)

FY2017 6 months *)	FY2018 6 months *)	Increase/Decrease	Increase/Decrease ratio (%)
8,680	9,995	1,315	15.1

- Sales have been steady for the premium brands Aujua and “milbon.”
- The upgrade of the full Aujua line was completed with the scalp care series in May. This upgrade invigorated activities aimed at client salons and enhanced scalp care proposals, which had faced issues, resulting in significantly increased sales.

*) See page 3 for the corresponding periods.

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A Premium Brand, Aujua

Upgraded scalp care series launched in May is also well received

Number of salons*1)

(Unit: salons)

FY2017 year-end	FY2018 Q2-end	Increase/Decrease	Increase/Decrease ratio (%)
3,166	3,513	347	11.0

Sales (FY2018 6 months)

(Unit: million yen)

FY2017 6 months*2)	FY2018 6 months*2)	Increase/Decrease	Increase/Decrease ratio (%)
2,299	2,886	587	25.5

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?

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.

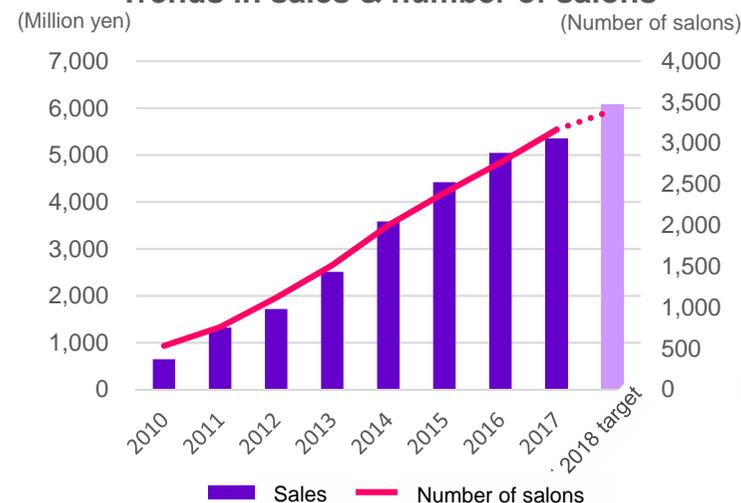
Product range

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

- 4 series
 - Aging care series
 - Hair care series
 - Scalp care series
 - Climatic care series
- 12 lines
- 80 items



Trends in sales & number of salons



*1) Figures for Japan are the number of registered salons. Figures for overseas are calculated based on shipments over a one-year period.

*2) Figures are on a non-consolidated basis. See page 3 for the corresponding periods.

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A Premium Brand, “milbon”

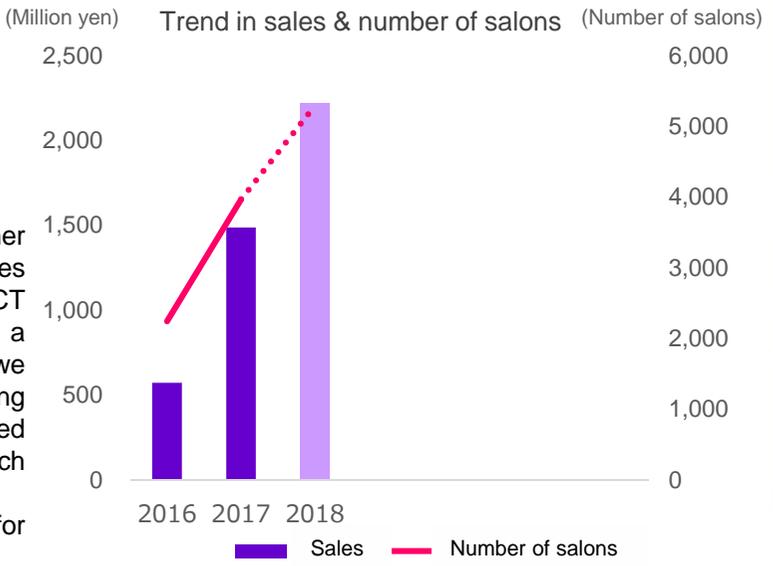
Steady progress in salons, overseas rollout in 11 countries

Number of salons *1) (Unit: salons)

FY2017 year-end	FY2018 Q2-end	Increase/Decrease	Increase/Decrease ratio (%)
3,966	4,996	1,030	26.0

Sales (FY2018 6 months) (Unit: million yen)

FY2017 6 months*2)	FY2018 6 months*2)	Increase/Decrease	Increase/Decrease ratio (%)
594	948	353	59.5



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 Japan are the number of registered salons. Figures for overseas are calculated based on shipments over a one-year period.

*2) Figures are on a non-consolidated basis. See page 3 for the corresponding periods.

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Consolidated Sales by Product Category [Hair Coloring Product]

With additional color, Addicthy, which was launched last year, drove sales of hair coloring products

(FY2018 6 months)

(Unit: million yen)

FY2017 6 months *)	FY2018 6 months *)	Increase/Decrease	Increase/Decrease ratio (%)
5,462	5,886	424	7.8

- Ordeve Addicthy, launched in February 2017, was well received. We added a new color that eliminates any shades of yellow, broadening the scope of proposals with vibrant shades of colors unique to Addicthy. At Addicthy introduced salons, this additional color has been steadily introduced, and with increasing repeat rates of existing colors, driving sales growth.

*) See page 3 for the corresponding periods.

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A Premium Organic Brand, Villa Lodola (1)

Villa Lodola Color continues to be well-received and to drive brand sales

Number of salons

(Unit: salons)

FY2017 year-end	FY2018 Q2-end	Increase/Decrease	Increase/Decrease ratio (%)
6,895	7,507	612	8.9

Sales (FY2018 6 months)

(Unit: million yen)

FY2017 6 months*)	FY2018 6 months*)	Increase/Decrease	Increase/Decrease ratio (%)
444	510	65	14.7

Brand concept

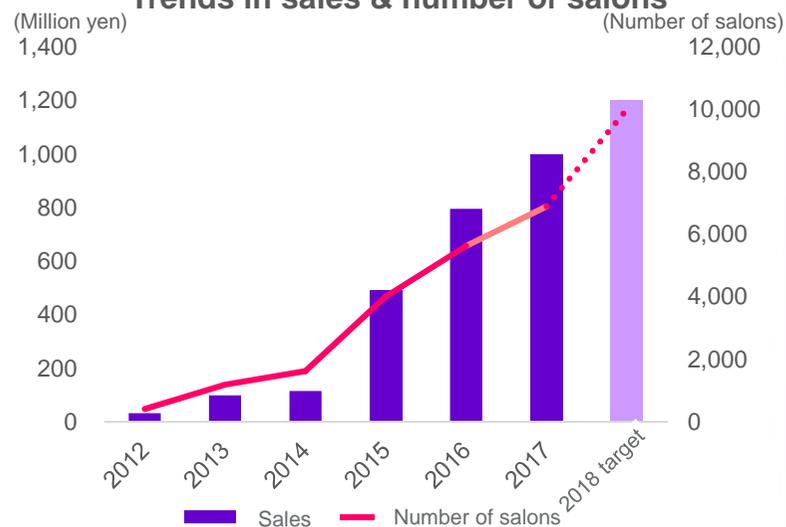
Nurtured in the soil of Italy, these *gifts from nature* bring out the authentic beauty of your hair and scalp.

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



*) Figures are on a non-consolidated basis. See page 3 for the corresponding periods. Find Your Beauty **MILBON**

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.



FY2015 Debut

Sales (FY2018 6 months)

(Unit: million yen)

FY2017 6 months *)	FY2018 6 months *)	Increase/ Decrease	Increase/ Decrease ratio (%)
316	371	55	17.5

*) See page 3 for the corresponding periods.

Consolidated Statement of Earnings (FY2018 6 months)

<Consolidated Statement of Earnings> (Unit: million yen)

	Amount		Increase/ Decrease	Increase/ Decrease ratio (%)
	FY2017 6 months ^{*)}	FY2018 6 months ^{*)}		
Sales	14,956	16,802	1,846	12.3
Cost of sales	4,887	5,050	162	3.3 ^{*1}
Gross profit	10,069	11,752	1,683	16.7
SG&A expenses	7,736	8,777	1,041	13.5
Operating income	2,333	2,975	642	27.5 ^{*2}
Ordinary income	2,147	2,746	599	27.9
Profit attributable to owners of parent	1,508	2,137	628	41.7 ^{*3}

^{*)} See page 3 for the corresponding periods.

<Breakdown of net sales by product category>

	(Unit: million yen)				
	FY2017 6 months ^{*)}	FY2018 6 months ^{*)}	% total sales	Increase/ Decrease	Increase/ Decrease ratio (%)
Hair care products	8,680	9,995	59.5	1,315	15.1
Hair coloring products	5,462	5,886	35.0	424	7.8
Permanent wave products	709	819	4.9	109	15.4
Others	104	101	0.6	(3)	(2.9)

<Major factors for the increase/decrease>

^{*1} Cost of sales: Impact of much fewer returns of previous version of Aujua than expected, etc.

^{*2} Operating income: Increase due to sales growth and above factor

^{*3} Profit attributable to owners of parent: Increase due to above factors and sale of a portion of cross-held shares

*Supplemental Info. – Return to shareholders <Dividends>

	(Unit: yen)		
	FY2016	FY2017	FY2018
End of 2Q	38	40	24
End of FY	40	52	(Plan) 24
Total	78	92	(Plan) 48

Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category		FY2014	FY2015	FY2016	FY2017	FY2018 Jan.–Jun.	FY2018 Plan
Capital expenditures		1,028	2,779	4,262	1,570	670	1,668
Depreciation and amortization		1,004	1,033	1,077	1,272	666	1,376
R&D exp.	Amount	1,168	1,214	1,232	1,422	712	1,448
	% to sales	4.6	4.4	4.2	4.3	4.2	4.3

FY2018 CAPEX Main Items (Plan)

- Compounding equipment for plant (4-ton vacuum tank)
- Relocation and expansion of Fukuoka Branch
- Relocation and expansion of Okayama Sales Office
- Renovation of Central Research Institute

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

Market trends (Japan)

	2012	2013	2014	2015	2016	2017	Remarks
Number of salons (salons)	231,134	234,089	237,525	240,299	243,360	—	Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services
Number of hair dressers (people)	479,509	487,636	496,697	504,698	509,279	—	Number of beauty salon facilities / number of employees (year-end)
Number of beauty customers (thousand people)	39,076	38,468	37,847	37,395	37,023	36,526 (As of Feb. 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 January 1, the beginning of the fiscal year (As of December 21 for 2017 and before))

	2014	2015	2016	2017 *1)	2018	
JAPAN Milbon Co., Ltd.	216	237	249	258	269	Upper column: Number of FPs (persons) Lower column: Sales per FP (million yen)
	104	100	102	105		
USA MILBON USA, INC.	12	12	9	12	13	13 FPs joined in October 2017, and are currently in OJT on site 31 FPs joined in April 2018, and are currently in training
	40	53	63	48		
CHINA Milbon Trading (Shanghai) Co., Ltd.	17	18	18	19	22	(The above 44 FPs are not included in the left chart.)
	25	36	40	50		
KOREA Milbon Korea Co., Ltd.	17	19	20	23	25	
	64	75	80	84		
THAILAND Milbon (Thailand) Co., Ltd.	6	6	6	9	7	
	8	15	14	13		
Others *2)	12	16	19	24	26	
	46	42	47	38		

*1) Calculations are based on values adjusted for 12 months.

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

Double-digit growth in Japan

(comparison periods differ for overseas subsidiaries due to change to fiscal year end; see next page)

(FY2018 6 months)

(Unit: million yen)

	FY2017 6 months *1)	FY2018 6 months *1)	Increase/ Decrease ratio (%)	Start operations	Forex rates FY2017 (Yen)	Forex rates FY2018 (Yen)
Japan Milbon Co., Ltd.	12,847	14,188	10.4	1960	-	-
USA MILBON USA, INC.	276	305	-	2004	1 dollar = 111.59	108.67
CHINA Milbon Trading (Shanghai) Co., Ltd.	431	706	-	2009	1 yuan = 16.27	17.09
KOREA Milbon Korea Co., Ltd.	886	981	-	2009	1 won = 0.0959	0.0999
THAILAND Milbon (Thailand) Co., Ltd.	53	55	-	2013	1 baht = 3.14	3.44
Others *2)	460	565	22.7	-	-	-

*1) See page 3 for the corresponding periods.

*2) Taiwan, Hong Kong, Vietnam, Malaysia, Turkey, Indonesia, the Philippines, Singapore, Germany and others
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Outlook of Overseas Subsidiaries (1)

- ◆ For the outlook of overseas subsidiaries, comments are based on year-on-year comparisons for the period of January through June (6 months), with figures in local currencies.

	Currencies (unit)	FY2017 (Jan.–Jun.)	FY2018 (Jan.–Jun.)	Increase/ Decrease ratio (%)
USA MILBON USA, INC.	US dollar (thousand)	2,629	2,821	7.3
CHINA Milbon Trading (Shanghai) Co., Ltd.	Yuan (thousand)	30,692	41,351	34.7
KOREA Milbon Korea Co., Ltd.	Won (million)	9,909	9,827	(0.8)
THAILAND Milbon (Thailand) Co., Ltd.	Baht (thousand)	18,699	16,164	(13.6)

USA (MILBON USA, Inc.)

The direct sales category is performing well as our sales strategy of targeting 25 high-end Manhattan salons succeeded. In the distributor category as well, efforts to strengthen relationships with distributors are beginning to show results. On the product front, “milbon” is growing significantly as a result of focused activities and a positive reception for proposals suited to each season. In the second half, we plan to introduce the fashion color Ordeve Addicthy and gray-hair coloring product Ordeve beauté for the Asian black hair market, and market expansion is anticipated. This introduction will precede the launch of hair coloring products for European and US markets in 2019.

Outlook of Overseas Subsidiaries (2)

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

The direct sales and distributor areas both grew substantially, increasing by 30% year on year. By product, the fashion color Ordeve is progressing steadily, partly due to the results of holding seminars for color specialists in each area. In hair care products, we have begun to generate reliable repeats for “milbon” by focusing educational activities on 40 salons and launching the styling series Creative Style.

KOREA (Milbon Korea Co., Ltd.)

Milbon distributors are being affected by the continuous entry into the market of low-priced hair coloring products from competitors, and we are struggling somewhat. We are competing on our superiority with respect to quality and education. Still, winning customers back is expected to take some time. In hair care products, the upgrade of Aujua was completed for the hair care series in April and is scheduled for the scalp care series in September. The Nigelle jelly series launched in May has also been well received in the market. With regard to perms, Neo Liscio, which is highly regarded in Japan, is scheduled for introduction in August, and strong performance is expected going forward.

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

Although sales fell significantly year on year in the first quarter of FY2018 owing to the impact of a large order at the end of the previous fiscal year as a result of a narrowing of our focus to a single distributor, performance is beginning to recover steadily due to the introduction of the new “milbon” line and continued implementation of perm workshops. One factor in the recovery is that distributors have become able to confidently conduct Milbon product seminars, thanks to a stronger collaborative structure that includes training conducted in Japan for educators who work at the distributors.

Milbon Group

Progress in FY2018 (59th Term)

Ryuji Sato, President and CEO

FY2018 Domestic Environment (1)

■ Growth factors based on current situation

(1) Product capabilities

<Hair care products>

Aujua

“milbon”

Elujuda, Jemile Fran

<Hair coloring products>

Ordeve Addicthy

<Permanent products>

Neo Liscio

(2) Salon market

- Leading salons: Grew as Aujua contributed to higher productivity
- Young salons: New salons acquired through Addicthy and “milbon”

(3) Collaboration with distributors

- Project to create successful salons, etc.

FY2018 Overseas Markets (1)

■ East Asia

◆ Continued growth in Chinese market

[Market changes]

Change in awareness at leading salons and young salons

- (1) Awareness regarding service and customer contact
- (2) Awareness regarding human resources development efforts

◆ Korean Market is recovering steadily from a temporary drop

■ Southeast Asia

- ◆ Malaysia Plan to convert to local subsidiary in 2019
Established new representative office in Singapore in March 2018
- ◆ Vietnam Plan to convert to local subsidiary during the year

◆ Designer education event aimed at Japan and rest of Asia

DA Inspire^{*)} Area competitions held in FY2017

8 areas in Japan (Sapporo, Sendai, Tokyo, Kanazawa, Nagoya, Osaka, Hiroshima, Fukuoka)

3 areas overseas (Malaysia, Taiwan, Korea)

- **June 19: DA Grand Prix Finals**

*DA of the Year selected from Grand Prix winners in each DA area

- **Evening of June 19: Milbon Designers Award**

*Award ceremony for DA of the Year

Photo Revolution of the Year awarded at same time after selection by screening committee



◆ DA scheduled to be held in Shanghai starting in FY2018, expanding to 4 areas overseas

*) DA (Designer's Ability) Inspire is an educational event aimed at allowing hair designers to expand their potential by reflecting on their own sensitivity.

FY2018 Overseas Markets (2)

■ North America

- ◆ “milbon”: Introduction in high-end Manhattan salons begins
- ◆ Development of hair coloring products for European and US markets: steady progress
- ◆ Ordeve Addicthy, Ordeve beauté: Launch scheduled for Asian black hair market at the end of 2018, prior to launch of hair coloring products for European and US markets

FY2018 Cosmetic Products Business Progress

■ Sales – Education System

[Toward establishment of education system]

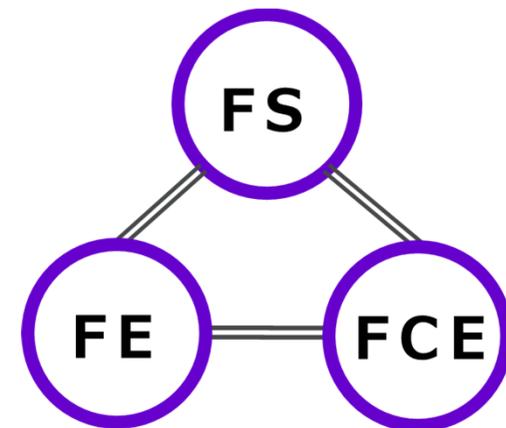
- ◆ 21 FCEs (Field Cosmetics Educators) selected
 - Plan to assign 7 units, each consisting of 3 FCEs for one branch

- ◆ Start of training
 - Six months, starting in October 2018
 - FCE (Field Cosmetics Educator)

 - 3 or 4 courses, starting in 2018
 - FS (Field Sales)
 - FE (Field Educator)

Advance launch scheduled for spring 2019

▼FP (Fieldperson)
Triangular structure



Outlook of consolidated operating forecasts for FY 2018

- ◆ The consolidated operating forecasts have been revised upward, taking into consideration the first half results and stable growth in the second half.

(Unit: million yen)

	FY2018 1H		FY2018 full-year targets (before revision)		FY2018 full-year targets (after revision)		
	Amount	Increase/ Decrease ratio (%) (Year-on-year)	Amount (A)	Increase/ Decrease ratio (%) (Year-on-year)*	Amount (B)	Amount change from targets before revision (B-A)	Increase/ Decrease ratio (%) (Year-on-year)*
Net sales	16,802	12.3	34,000	7.2	34,700	700	9.4
Operating income	2,975	27.5	5,740	8.0	6,160	420	15.9
Ordinary income	2,746	27.9	5,270	5.8	5,640	370	13.2
Profit attributable to owners of parent	2,137	41.7	3,990	5.4	4,240	250	12.0

*Because FY2017 was an irregular accounting period, values are compared with adjusted amounts for a 12-month period calculated for comparison.



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.