

**MILBON CO., LTD (4919 JP)**

1H RESULTS PROVED RETURN TO THE PRE-COVID LEVEL OF EARNINGS WITH A REMARKABLE OVERSEAS EARNINGS GROWTH.

**FY21 1H EARNINGS RESULTS**

Milbon Co., Ltd (4919 JP) reported FY21 1H (Dec year-end) earnings with operating profit [OP] of ¥3,659mil (+53.2% YoY) on sales of ¥19,558mil (+23.3% YoY). Despite repeated State of Emergency closures, customer traffic to beauty salons steadily recovered throughout 1H. Furthermore, a steady increase in home-use haircare product sales at salons also contributed to domestic sales growth. Milbon estimates that approx. 70% of the firm's total haircare products sales come from salon sales. *milbon:iD* – the firm's e-commerce platform that supports beauty salons in the sale of salon haircare products supplied by Milbon – also saw a rise in registered salons and users (customers to beauty salons).

In addition to a solid recovery in Domestic sales (+17.7% YoY), Overseas sales saw a stronger-than-expected recovery (+44.0% YoY). In all three overseas markets – the US, China, and Korea – sales rose more than 30% compared to the pre-COVID FY19 1H, which suggests that the FY21 1H performance in Overseas Business sales growth was more than just a recovery from the weakness seen in the same period last year.

**Sales by Country****1. Japan**

During 1H, the firm reported Japan OP of ¥3,074mil (+30.2% YoY) on sales of ¥15,742mil (+17.7% YoY), which produced an OPM of 19.5%, up from FY20 1H's 17.7% and FY19's pre-Covid OPM of 18.9%. Although the OPM improved along with sales growth, there was a bit of a cushion on the cost side as the firm did not use its planned SG&A budget due restrictions on business activities under COVID. However, even though overall SG&A costs rose 13.5% YoY due to an increase in personnel costs, such as hiring new Field Persons [FPs] and logistics costs, that was more than offset by the improvement in sales.

A primary reason for the domestic sales growth came from haircare product sales at salons for their customers to use at home. Given COVID restrictions has led to customers not frequenting salons as regularly as they used to, especially in the urban areas, it has become vital that hairdressers encourage sales of salon-bought haircare products in an effort to maintain their business. As a result, the number of salons that registered with *milbon:iD* reached 2,000 in 1H vs. 1,300-as of the end of FY20. Milbon also saw an increase in the e-commerce sales ratio of premium brands sold via *milbon:iD* rising to 5.5% from 1.5% as of the end of FY20. The number of users (salon customers) registered with *milbon:iD* also rose to approx. 70,000, a substantial jump from 27,000 as of the end of FY20 and exceeding management's original FY21 forecast for 60,000 users.

**2. US**

Thanks to the end of lockdown, marketing activities resumed during 1H. Milbon teamed up with local distributors to cultivate new salons. As a result, US sales surged 114.0% YoY to ¥406mil. Although the

**EXECUTIVE SUMMARY**

- Milbon reported better-than-expected FY21 (Dec year-end) 1H results with OP of ¥3,659mil (+53.2% YoY) on sales of ¥19,558mil (+23.3% YoY).
- Sales in Japan rose 17.7% YoY thanks to a recovery in customer traffic to salons and a steady rise in haircare products sales through the firm's e-commerce platform *milbon:iD*. The E-commerce sales ratio of Milbon's premium brand reached 5.5%, a +4ppt rise HoH.
- Overseas sales saw a strong recovery from the COVID-hit performance of FY20 1H. In fact, sales growth in the US, Korea and China are all performing above pre-COVID levels.
- Milbon revised up its full-year FY21 guidance from OP of ¥6,420mil (+0.4% YoY) on sales of ¥38,200mil (+6.9% YoY) to ¥7,800mil (+22.0%) on sales of ¥40,600mil (+13.6% YoY), which renews the record earnings achieved in FY19.
- The annual dividend was also raised from ¥56/share to ¥63/share.
- Both sales in Japan and overseas will likely hit new record revenues in FY21.
- Introduced at the release of FY20 1H results, Milbon has initiated an 18-month review period (*Change the Stage 18-month Missions*) which ends in FY21, in preparation for the new medium-term business strategy that will commence from FY22. Management states that the transitions planned for the 18-month have been progressing in line with their expectations.

high YoY growth reflects a recovery from the weak sales in FY20 1H under the pandemic, US sales were up 31.3% compared to FY19 1H. Sales of Global Milbon a premium haircare range, contributed to the sales growth. Hair colour product *Sophistone* proved popular and helps cultivate new customers. However, the US business remains loss making as of the 1H.

### 3. China

FY21 1H OP rose 183.9% YoY to ¥269mil on sales of ¥1,091mil (+55.9% YoY / +69.9% YoY on a yen-denominated basis). The number of salons that use Milbon products steadily increased on the back of the firm's successful education support for hairdressers. Over the past years, Milbon has expanded its regional coverage by expanding the number of distributors. Compared to FY19, sales are up 39.1%.

### 4. Korea

Milbon Korea – the largest part (8.2% of total consolidated net sales) of the firm's overseas operations – generated FY21 1H OP of ¥544mil (+97.4% YoY) on sales of ¥1,609mil (+26.9% YoY / +38.1% YoY on a yen-denominated base). Some 70% of sales in Korea is derived from hair colour products. Sales of premium brands, such as Global Milbon and Aujua, trended favourably as more salons had the products in stock.

### Sales by products

1H Haircare product sales rose 20.2% YoY to ¥11,288mil. Premium brands sales improved 33.8% YoY to ¥6,200mil as customers in Japan spent more on salon-bought high-end products such as Aujua (sales +30.1% YoY), for use at home. Global Milbon, another premium haircare brand, continue to grow in China, US and Korea. Sales of haircare premium brand products now comprises more than half of Milbon's total haircare products sales.

Hair colour products were particularly hit from the pandemic during FY20, but sales recovered 27.3% YoY to ¥7,124mil in 1H FY21 and they are up 10.9% from pre-COVID FY19 1H levels. Since wearing a mask has become the norm and since half of one's face is hidden, customers are now choosing to add hair colour as part of their fashion repertoire. Fashion colour products that offer a wider variety of colours rose +40.7% YoY or +25.6% compared to FY19 1H.

Sales of Imprea (only in Japan), a cosmetics series sold through hair salons, surged 114.6% YoY to ¥293mil. The number of salons selling Imprea reached 890, +245 salons compared to the end of FY20. Several new products in the Imprea range – a new eyebrow mascara, an eyebrow pencil that customers can choose to match their hair colour, and a skin whitening care serum – also contributed to the boost in sales.

## **FY21 OUTLOOK**

The better-than-expected 1H results, led Milbon to revise up its full-year FY21 guidance from an OP of ¥6,420mil (+0.4% YoY) on sales of ¥38,200mil (+6.9% YoY) to an OP of ¥7,800mil (+22.0% YoY) on sales of ¥40,600mil (+13.6% YoY), which renews the record earnings achieved in FY19.

Milbon terminated the previous medium-term business plan at the time of FY20 1H results announcement due to the lack of visibility surrounding the beauty salon industry under the pandemic. The five years sales CAGR to FY19 was 7.5%. The company expects the FY20~FY21 2-year CAGR will likely be 5.8% due to COVID and management has based the FY21 full year revised guidance on this forecast. Milbon's assumptions also include higher travelling and subsistence costs, along with (1) higher costs associated with recommencing marketing activities and (2) a temporary increase in logistics-related costs – especially for air freight to the US to meet the rapid increase in haircare product demand. Milbon is reviewing its global distribution network and looking to create a more optimal solution to address this issue.

### Japan

Milbon is guiding for FY21 Japan sales of ¥33,100mil (+10.8% YoY), renewing the record level of revenues of ¥30,409mil achieved in FY19.

The company has initiated an 18-month review period (*Change the Stage 18-month Missions*) which was introduced at the release of FY20 1H results and will last until the end of this fiscal year. Management has identified four stages and 25 missions to work on during that period, based on the key question: How can Milbon support the beauty industry's survival post COVID. For the details of Change the Stage 18-Month Mission, please check our previous report on Milbon ([https://www.milbon.co.jp/english/ir/upload\\_file/m000-/20210331\\_SponsoredResearchReport.pdf](https://www.milbon.co.jp/english/ir/upload_file/m000-/20210331_SponsoredResearchReport.pdf)).

The environment surrounding the Japan's beauty industry had entered a period of transition even before the pandemic hit. COVID, however, has accelerated the transition. For example, with the mandatory wear of face masks, consumers' interest in beauty has changed from not just make-up but to include haircare. With reduced customer traffic to salons, the importance of selling haircare products and establishing an online shopping infrastructure has become key to salons being able to boost revenues and to retain customers. This trend was particularly apparent at salons in the rural areas. While customer traffic in rural areas fell 10~15% on the back of the increase in remote working during 1H, the average spend/customer at the salon improved by 10% thanks to customers choosing to have more treatments (e.g., a haircut and hair colour) when they visit the salon, they are also buying hair care products. In contrast, salons in suburban residential areas saw an increase in both customer traffic and sales compared to pre-COVID time. Due to continued remote working, many people stay home and choose to go to a hair salon in their neighbourhood.

### Overseas

On the back of the stronger-than-expected 1H growth, Milbon also revised up its FY21 Overseas sales guidance from ¥6,882mil (17.8% YoY) to ¥7,500mil (+28.3% YoY), and assumes that the economic activities will remain at the current level despite the impact of COVID. Overseas sales are also likely to renew record sales, exceeding the current record FY19 sales of ¥5,857mil. The Overseas sales ratio in FY21 will improve to 18.5% from 16.4% in FY20 and 16.2% in FY19.

### Sales by Product

Hair care products sales were revised up by 4.5% from ¥22,768mil to ¥23,798mil (+12.6% YoY) thanks to a steady increase in sales at salons and home-use haircare products. Hair colours are expected to see a recovery from a dip in FY20, with the company guiding for sales of ¥14,400mil (+14.3% YoY). The company has high hopes for its new hair colour product launched in the US, *Sophistone*, which offers vivid colours and less odour, to become a salon favourite and therefore encourage other salons to stock the product.

### CAPEX

Towards the end of the 18-month transition period, Milbon has several investment plans in Japan and overseas. The firm is guiding for CAPEX of ¥7,488mil, a substantial jump from FY20's ¥1,917mil. Approx. ¥5,000mil will be spent on land for a new training centre and an R&D centre in Japan (approx. ¥3,000mil), and a factory in China (approx. ¥2,000mil). Furthermore, some ¥240mil will be spent on a new Aoyama sales office with studio facilities. During 1H, the firm spent ¥2,292mil. The actual amount of CAPEX for the year depends on whether Milbon can find a suitable and well-located plot of land for the new training centre, which, as of 1H end, the firm has yet to secure a site.

### Revision on Dividend Payment

Milbon also revised the annual dividend forecast from the previous ¥56/share (+0.0% YoY) to ¥63/share (+12.5% YoY). The firm's shareholder return principle is a pay-out ratio of approx. 40%. Management is willing to revise the policy in the next medium-term business strategy which will likely be announced at the time of FY21 earnings results.

<b>Milbon (4919 JP): Earnings Summary (Cumulative)</b>											
(¥mil)	FY19		FY20		FY21						
	1H	FY	1H	FY	1H	YoY (%)	FYCE (Old)	FYCE (New)	Chg (%) (New/Old)	YoY (%)	
Sales	17,242	36,266	15,869	35,725	19,558	23.3	38,200	40,600	6.3	13.6	
COGS	5,746	12,554	5,329	12,340	6,650	24.8	12,890				
GP	11,496	23,711	10,540	23,385	12,907	22.5	25,310				
GPM (%)	66.7	65.4	66.4	65.5	66.0	-0.4pp	66.3				
SG&A	8,406	16,959	8,151	16,991	9,248	13.5	18,890				
SG&A / Sales (%)	48.8	46.8	51.4	47.6	47.3	-4.1pp	49.5				
OP	3,089	6,751	2,388	6,394	3,659	53.2	6,420	7,800	21.5	22.0	
OPM (%)	17.9	18.6	15.1	17.9	18.7	+3.6pp	18.6	19.2	+0.6pp	+1.3pp	
RP	2,824	6,231	2,102	5,791	3,355	59.5	5,710	7,120	24.7	22.9	
RPM (%)	16.4	17.2	13.3	16.2	17.2	+3.9pp	14.9	17.5	+2.6pp	+1.3pp	
NP for the parent's s/holders	1,999	4,517	1,451	4,204	2,413	66.3	4,050	5,100	25.9	21.3	

Source: Nippon-IBR based on Milbon's earnings presentation materials (FY19, FY20 & FY21 1H)

<b>Sales and OP Breakdown by Country (Cumulative: JPY basis)</b>											
(¥mil)		FY19		FY20		FY21					
		1H	FY	1H	FY	1H	YoY (%)	FYCE (Old)	FYCE (New)	Change (%)	YoY (%)
Japan	Sales	14,383	30,409	13,373	29,880	15,742	17.7	31,318	33,100	5.7	10.8
	OP	2,723	6,177	2,360	5,989	3,074	30.2	n/a	n/a	n/a	n/a
	OPM(%)	18.9	20.3	17.7	20.0	19.5	+1.8pp	n/a	n/a	n/a	n/a
Overseas	Sales	2,859	5,857	2,495	5,844	3,816	52.9	6,882	7,500	9.0	28.3
	OP	365	574	27	405	585	2024.0	n/a	n/a	n/a	n/a
	OPM(%)	12.8	9.8	1.1	6.9	15.3	+14.2pp	n/a	n/a	n/a	n/a
Total	Sales	17,242	36,266	15,869	35,725	19,558	23.3	38,200	40,600	6.3	13.6
	OP	3,089	6,751	2,388	6,394	3,659	53.2	n/a	n/a	n/a	n/a
	OPM(%)	17.9	18.6	15.1	17.9	18.7	+3.6pp	n/a	n/a	n/a	n/a

Source: Nippon-IBR based on Milbon's earnings presentation materials (FY19, FY20 & FY21 1H)

<b>Net Sales Breakdown by Products (Cumulative)</b>											
(¥mil)		FY19		FY20		FY21CE					
		1H	FY	1H	FY	1H	YoY (%)	FYCE (Old)	FYCE (New)	New/Old (%)	YoY (%)
	Hair care products	9,897	21,328	9,391	21,135	11,288	20.2	22,768	23,798	4.5	7.7
	Hair colouring products	6,423	12,994	5,594	12,594	7,124	27.3	13,112	14,400	9.8	4.1
	Permanent wave products	770	1,515	660	1,372	740	12.0	1,416	1,485	4.9	3.2
	Cosmetic products	47	165	136	360	293	114.6	640	640	0.0	77.8
	Others	103	263	85	262	111	31.3	264	277	4.9	0.8
	Total	17,242	36,266	15,869	35,725	19,558	23.3	38,200	40,600	6.3	13.6

Source: Nippon-IBR based on Milbon's earnings presentation materials (FY19, FY20 & FY21 1H)

## GENERAL DISCLAIMER AND COPYRIGHT

*This report has been commissioned by Milbon Co., Ltd (the Sponsor), and prepared and issued by Nippon Investment Bespoke Research UK Ltd (Nippon-IBR), in consideration of a fee payable by Milbon Co., Ltd. Fees are paid on delivery of the report in cash without recourse. Nippon-IBR may seek additional fees for the provision of follow-up research reports and associated IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options, or warrants for any of our services.*

**Accuracy of content:** *All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however Nippon-IBR does not guarantee the accuracy or completeness of this report and has not sought for this information to be independently verified. Opinions contained in this report represent those of the Nippon-IBR analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of their subject matter to be materially different from current expectations.*

**Exclusion of Liability:** *To the fullest extent allowed by law, Nippon-IBR shall not be liable for any direct, indirect, or consequential losses, loss of profits, damages, costs, or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.*

**No personalised advice:** *The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Nippon-IBR's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.*

**Investment in securities mentioned:** *Nippon-IBR has a restrictive policy relating to personal dealing and conflicts of interest. It does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees, and contractors of Nippon-IBR may have a position in any or related securities mentioned in this report, subject to its policies on personal dealing and conflicts of interest.*

**Copyright:** *Copyright 2021 Nippon Investment Bespoke Research UK Ltd.*

For further enquiry, please contact:

Nippon Investment Bespoke Research UK Ltd  
First Floor,  
35 Little Russell Street  
London WC1A 2HH  
TEL: +44 (0)20 7993 2583  
Email: [enquiries@nippon-ibr.com](mailto:enquiries@nippon-ibr.com)



Research Beyond Horizons  
Japanese Equity Specialist

*Nippon Investment Bespoke Research UK Ltd (formerly known as NIB Research UK Ltd.) is registered in England and Wales (9100028) and is authorised and regulated by the Financial Conduct Authority (FRN: : 928332).*