

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

FY24 WILL BE A YEAR TO RECREATE VALUE OF BEAUTY SALON EXPERIENCES UNDER THE NEW TOP MANAGEMENT.

**FY23 EARNINGS RESULTS SUMMARY**

Milbon Co., Ltd (4919 JP) reported FY23 (Dec year-end) earnings with gross profit [GP] of ¥29,525mil (+0.1% YoY) and operating profit [OP] of ¥5,525mil (-26.8% YoY) on sales of ¥47,762mil (+5.6% YoY).

FY23 sales were in line with expectations thanks to solid growth in both domestic and overseas sales of haircare products, which hit record sales. On the other hand, FY23 OP came in -7.9% below the firm's guidance that was revised at the time of Q3 results, due to:

1. Production adjustments of hair colour products resulted in fixed costs not being absorbed. This led to a rise of the manufacturing cost ratio.
2. The sales mix also deteriorated on the back of a shortfall in sales of hair colour products, and
3. Higher raw material costs pushing up production costs.

Milbon (4919 JP): Earnings Summary (Cumulative)							
(¥mil)	FY22		FY23				
	1H	FY Actual	1H	FY Actual	YoY (%)	FYCE (Revised at Q3)	FY v. FYCE
Sales	21,467	45,238	22,703	47,762	5.6	47,820	-0.1
COGS	7,198	15,729	7,893	18,237	15.9	NA	NA
GP	14,269	29,509	14,809	29,525	0.1	29,900	-1.3
GPM (%)	66.5	65.2	65.2	61.8	-3.4ppt	62.5	-0.7ppt
SG&A	10,444	21,957	11,719	24,000	9.3	23,900	0.4
SG&A / Sales (%)	48.7	48.5	51.6	50.2	+1.7ppt	50.0	+0.2ppt
OP	3,824	7,551	3,090	5,525	-26.8	6,000	-7.9
OPM (%)	17.8	16.7	13.6	11.6	-5.1ppt	12.5	-0.9ppt
RP	4,137	7,829	3,129	5,586	-28.6	6,160	-9.3
RPM (%)	19.3	17.3	13.8	11.7	-5.6ppt	12.9	-1.2ppt
NP*	2,875	5,577	2,195	4,001	-28.3	4,260	-6.1

Source: Nippon-IBR based on Milbon's FY21, FY22 & FY23 earnings presentation materials  
\* NP attributed to the parent's shareholders

FY23 OP declined -¥2,026mil YoY / -26.8% YoY, despite the positive impact from a +¥1,646mil improvement in sales. GP was negatively affected by:

1. A surge in the price of raw materials (-¥385mil).  
Milbon had stockpiled extra inventory of some core raw materials during FY22, which had cushioned earnings from the impact of the cost increases. However, given management had anticipated the rise in materials costs would likely continue in FY23, the firm reported a +¥385mil YoY rise in raw material costs, which resulted in a +¥700mil increase in COGS together, in addition to the weaker sales mix.

**EXECUTIVE SUMMARY**

- Milbon Co., Ltd (4919 JP) reported FY23 (Dec year-end) earnings with gross profit [GP] of ¥29,525mil (+0.1% YoY) and operating profit [OP] of ¥5,525mil (-26.8% YoY) on sales of ¥47,762mil (+5.6% YoY). Sales landed in line, but OP fell short of guidance revised as of Q3 results.
- FY23 Domestic sales were supported by solid sales of haircare products. However, with hair colour product sales peaking, profitability fell.
- The Overseas business enjoyed an expanding customer base, and higher sales volumes, mainly due to solid growth in South Korea and improved sales in the US.
- Milbon is guiding for FY24 GP of ¥32,400mil (+9.7% YoY) and OP of ¥6,600mil (+19.5% YoY) on sales of ¥50,620mil (+6.0% YoY).
- Milbon's medium-term (FY22~FY26) targets remain unchanged with OP of ¥10,800mil on sales of ¥58,000mil (respective CAGR +25.0% and +6.7%, for the remaining 3 years of the Plan), on Domestic sales of ¥43,700mil (CAGR +6.1%) and Overseas sales of ¥14,300mil (CAGR of +8.3%). Revised numbers for the medium-term targets will be disclosed in due course.
- During the medium-term plan, management aims to achieve an ROE of 13.9% and ROIC of 13.6% vs 8.9% and 8.6% in FY23, respectively. The firm has not yet disclosed capital costs.
- The firm has earmarked a dividend pay-out ratio of 50%. In FY24, Milbon plans to make an annual dividend payment of ¥88.00/share or pay out 61.6% of net profit to shareholders in dividends.

- The decline in higher-margin hair colour product sales (-¥348mil) led to a deterioration in sales mix. With restrictions under COVID, the use of hair colour became a fashion staple because people had to wear face masks. However, demand for hair colour peaked as COVID-related restrictions were lifted.
- Write-downs on hair dryers (-¥897mil) due to disappointing sales.

As a result, FY23 gross profit margin [GPM] deteriorated -3.4ppt YoY to 61.8%.

FY23 SG&A rose +9.3% YoY, mainly due to the following increases in costs:

- Event and sales promotions (+¥835mil YoY).  
With the reopening after COVID, Milbon proactively held large-scale educational events for hairdressers both in Japan and in overseas.
- Personnel (+¥366mil YoY)  
In addition to an increase in hiring, the firm also raised salaries for existing employees.
- Travel and subsistence (+¥256mil YoY)  
Business trips recommenced after the reopening and transportation fares rose.
- Others (+¥326mil YoY).

Net Sales Breakdown by Products (Cumulative)										
(¥mil)	FY21		FY22		FY23				FY24 CE	
	1H	FY	1H	FY	1H	FY Actual	YoY (%)	FYCE (Revised at Q3)	FY24 CE	YoY (%)
Hair care products	11,087	24,029	12,218	26,312	13,339	28,355	7.8	NA	30,200	6.5
Hair colouring products	6,999	14,549	8,148	16,631	8,238	16,953	1.9	NA	17,600	3.8
Permanent wave products	727	1,424	751	1,450	714	1,463	1.0	NA	1,480	1.1
Cosmetic products	293	579	262	572	267	571	-0.1	NA	820	43.4
Others	109	266	87	272	144	418	53.6	NA	520	24.4
Total	19,217	40,849	21,467	45,238	22,703	47,762	5.6	47,820	50,620	6.0

Source: Nippon-IBR based on Milbon's earnings presentation materials (FY21, FY22 & FY23)

## Sales by Country

### Japan

Milbon reported FY23 Japan OP of ¥4,231mil (-31.7% YoY) on sales of ¥36,502mil (+3.3% YoY), which produced an OPM of 11.6%, down from FY22's 17.5% and FY23 1H's 14.0%. FY23 domestic sales were in line with expectations, thanks to solid sales of haircare products, although sales of hair colour products peaked out, leading to a deterioration in the domestic OPM.

Given many people in Japan still wear masks, the use of hair colour became a type of fashion item and offered individuals ways to express themselves. This trend led to hair colour sales rising +12.4% YoY in FY22. Moreover, the boost in demand for hair colouring, such as double colour and bleach on colour, resulted in distributors stockpiling hair colour products at the end of FY22. Although stockpiling by distributors ran its course, sales of hair colour products declined -0.8% YoY as demand for hair colour as a fashion staple peaked.

Milbon co-developed a hairdryer with Panasonic, which incorporates a function to spray Milbon's hair serum while the hair is being dried. Milbon planned to sell the dryer through its network of salons, including those that are registered with *milbon:iD* – Milbon's original product sales support e-commerce platform for hair salons. Dryer sales have been disappointing due to usability not fit for demonstrating at salons, which did not lead to successful promotion. FY23 sales of the hair dryer itself were ¥119mil, just shy of meeting the target of ¥120mil – though the sales forecast had been revised down from ¥300mil at the time of FY23 1H results – by promoting sales and rentals at the end of the year.

On the other hand, haircare product sales remain steady with FY23 sales (net basis) of ¥28,355mil (+7.8% YoY), of which sales in Japan alone rose +4.9% YoY. Premium brand sales improved +12.6% YoY globally, of which domestic sales rose +8.4% YoY.

The number of salons that registered with *milbon:iD* hit 5,930 in FY23, up from 1,300 in FY20, 3,200 in FY21, and 4,800 in FY22. Salon customers are registered with *milbon:iD* through a QR code provided by their salons. The number of registered users of *milbon:iD* hit 670,000 in FY23, vs 450,000 in FY22 (only 30,000 in FY20 and 170,000 in FY21). Consequently, Milbon's FY23 e-commerce revenues surged +42.2% YoY to ¥1,640mil.

The firm estimates that approx. 70% of the Domestic Haircare shipments of its haircare products comes from salon sales. Moreover, the spend per person continues to remain above the ¥10,000-mark at approx. ¥12,000, which compares to the typical charge of ¥7,000~8,000 for a hair cut in a Central Tokyo salon. However, only around 30% of the 670,000 registered users of *milbon:iD* are active. Mobilising those dormant customers – which the company hopes to do with its Smart Salon concept (we discuss this further below) – will be the next step for *milbon:iD*'s further success.

The Domestic business OPM fell back -5.9ppt YoY to 11.6%. The largest impact came from write downs of the hair dryer product, which is reported as a cost associated with Milbon's domestic operations.

### Overseas

FY23 Overseas earnings were largely in line with Milbon's expectations, generating OP of ¥1,294mil (-4.7% YoY) on sales of ¥11,260mil (+13.7% YoY YDB [yen-denominated basis] / +8.8% YoY LCY [local currency basis]). Although there was some FOREX impact, the LCY-based sales growth suggests that the firm enjoyed 1) an expanding customer base, and 2) higher sales volumes, mainly due to a) solid growth in South Korea and b) improved sales in the US.

### Details by country are as follows:

**US:** In Q4 alone, Milbon USA sales fell -15.9% YoY [LCY] on tough comps as sales expected in FY22 Q3 were delayed to FY22 Q4. However, by continuing to expand its alliances with local distributors to cultivate new salons, full-year FY23 US sales surged +22.3% YoY [YDB] to ¥1,624mil, surpassing Milbon's forecast by +6.8%. Although the high YoY growth reflects the positive impact from the weak yen, US sales rose +13.9% YoY [LCY] thanks to the strong sales performance of haircare products – comprising approx. 80% of the US sales – led by the premium haircare range Global Milbon.

Hair colour product *Sophistone* is also proving popular and has helped cultivate new customers, especially in the West Coast. Thanks to educational events held in US, hair colour products sales expanded +18.8% YoY and US operating losses contracted from -¥168mil in FY22 to -¥89mil in FY23. Milbon intends to further promote the Global Milbon brand and highlight *Sophistone* through the use of high-profile hairdressers in FY24. Consequently, the US operation will likely remain in the red due to the related costs, despite higher sales.

**China:** FY23 sales rose +6.0% YoY YDB to ¥2,241mil (+3.8% YoY LCY) and moved into the black with an OP of ¥68mil, vs an operating loss of -¥9mil in FY22.

Although haircare product sales improved +12% YoY in FY23, proactive support to salons, helping them create treatment menus and to train staff, led to an increase in demand for hair treatment products. However, hair colour products sales were down -5.1% YoY on the back of slow traffic to salons, triggered by customers tightening their purse strings in the wake of a tougher macroeconomic environment in China.

**South Korea:** Milbon Korea – the largest part of the firm's overseas operations comprising 9.9% of FY23 total consolidated net sales – generated FY23 OP of ¥1,284mil (-4.9% YoY) on sales of ¥4,715mil (+13.4% YoY YDB / +7.4% YoY LCY), with FY23 sales surpassing the firm's expectations by 2.0%.

FY23 Haircare product sales improved +13.9% YoY thanks to solid sales of Global Milon products through Milbon's local distributors. The Korean operations earns 70% of sales from hair colour sales, which were up +4.3% YoY in FY23. However, OP fell -4.9% YoY [YDB] due to costs for reopening activities, an increase in number of staff, and a deterioration in the sales mix as sales of lower-margin haircare products outweighed that of high-margin hair colour sales. Consequently, the FY23 OPM contracted -5.2ppt YoY to 27.3%.

## FY24 OUTLOOK

Milbon is guiding for FY24 GP of ¥32,400mil (+9.7% YoY) and OP of ¥6,600mil (+19.5% YoY) on sales of ¥50,620mil (+6.0% YoY). The FY24 guidance is based on the following assumptions:

1. Milbon is forecasting a +5.8% YoY rise in Domestic sales to ¥38,620mil, with OP rising +30.5% YoY to ¥5,522mil, thanks primarily to (1) a rebound from FY23's write-downs for the hair dryer product, (2) an improved sales mix through the launch of high value-added products such as new haircare / hair colour products with matching coloured products for eyebrows.
2. The firm is guiding for overseas sales to rise +6.6% YoY to ¥12,000mil, with Korea, China and US Milbon's main focus among the seven key regions in which it operates. However, given continued sales promotion of hair colour products in US and expansion of operations in Korea, overseas OP is expected to decline -16.7% YoY to ¥1,068mil.
3. Cost of raw materials will remain at high level. Milbon assumes the impact of cost hikes will remain during 1H.
4. The firm incurred total losses of ¥1,186mil – including the disposal for hair care and hair colour products (-¥289mil) and write downs for hair dryers (-¥897mil) – in FY23. In FY24, the firm estimates disposal loss of approx. -¥230mil. which implies a +¥956mil rebound from the disposal losses and write-downs reported the year before.
5. In both Japan and overseas, marketing and sales promotion costs are expected to rise by +¥208mil YoY.
6. Consolidated cost of logistics will increase by ¥211mil YoY, which reflect likely increase in domestic cost of logistics on the back of the 2024 Problem surrounding the Japan's logistics industry.

### FY24 Forecast by Region

Milbon identifies seven key regions representing the global market for its products. Those seven regions are:

1. Japan,
2. South Korea,
3. Greater China
4. ASEAN,
5. North America (US and Canada),
6. EU, and
7. Middle East (Turkey).

The firm promotes “local production and local consumption” and aims to 1) establish a dedicated sales infrastructure, 2) have localised R&D, and 3) set up manufacturing and distribution facilities in each region. Milbon has identified that each region has its own preference for hair care due to differences in culture and hair quality, hence it is important to tailor its products to match local demands.

### Japan

Milbon is guiding for FY24 Japan OP of ¥5,522mil (+30.5% YoY) on sales of ¥38,620mil (+5.8% YoY). This will be a new record level of sales for the firm, bolstered by 1) higher value-added sales of hair colour products, and 2) continued growth in product sales through *milbon:iD* and Smart Salon.

The firm took further steps to promote product sales at salons by introducing the Smart Salon concept in FY23, which was designed to enhance product sales. Smart Salon is a salon space that offers a new product-buying experience that combines real and digital under professional advice. Salons best suited to adopt the Smart Salon concept are those planning to refurbish their shopfloor space and open new branches. This means that as well as taking their stylists advice, the Smart Salon experience allows customers to try the products themselves either in store, or buy a trial size, before making a full product purchase.

In FY23, 23 Smart Salons were opened. In FY24, Milbon is aiming to establish 100 Smart Salons. Management anticipates Smart Salons will likely boost the number of registered users of *milbon:iD* to 1mil by FY26, up from 670,000 as of FY23 and increase to 870,000 in FY24. As noted above, the key to boosting salon product sales growth will be to mobilise

dormant *milbon:iD* users. The firm is confident that the Smart Salon concept will improve the active user ratio of *milbon:iD*.

### Overseas

Milbon is guiding for FY24 Overseas OP of ¥1,077mil (-16.7% YoY) on sales of ¥12,000mil (+6.6% YoY YDB / +10.1% YoY LCY).

FY24 main expected developments overseas are as follows:

- In South Korea, sales of hair colour products will likely remain solid, however, due to increase in costs to hire staff and expand, the region's OPM being squeezed from 27.3% in FY23 to 22.3% in FY24 on sales of ¥4,784mil (+1.5% YoY YDB / +9.1% YoY LCY).
- Steady FY24 sales growth in China (+9.8% YoY YDB / +9.2% YoY LCY) to ¥2,460mil, despite the country's weak economic environment. Milbon also managed to obtain approvals to sell locally produced hair colour products. Production at the firm's China factory began in July 2023, six months earlier ahead of schedule.
- Promote hair colour products in US. The US operation will remain in the red at -¥106mil (vs. ¥89mil in FY23), albeit on a record level of sales – forecast to reach ¥1,811mil (+11.5% YoY YDB / +12.4 YoY LCY) – due to higher marketing and logistics costs.

Sales and OP Breakdown by Country - Results and Guidance										
(¥mil)		FY22		FY23				FY24 CE		
		1H	FY	1H	FY Actual	YoY (%) *	FYCE (as of FY22 FY announcement)	YoY (%) *	FYCE	YoY (%) *
Japan	Sales	16,627	35,334	17,175	36,502	3.3	38,021	7.6	38,620	5.8
	OP	3,201	6,194	2,411	4,231	-31.7	7,021	13.4	5,522	30.5
	OPM (%)	19.3	17.5	14.0	11.6	-5.9ppt	18.5	+1.0ppt	14.3	+2.7ppt
US	Sales	603	1,328	778	1,624	22.3	1,430	7.6	1,811	11.5
	OP	-125	-168	-30	-89	-NA	-160	NA	-106	NA
	OPM (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA
China	Sales	1,058	2,114	1,171	2,241	6.0	2,641	24.9	2,460	9.8
	OP	-76	-9	40	68	NA	240	NA	197	189.2
	OPM (%)	NA	NA	3.5	3.1	NA	9.1	NA	8.0	+4.9ppt
South Korea	Sales	2,043	4,159	2,286	4,715	13.4	4,543	9.2	4,784	1.5
	OP	693	1,351	621	1,284	-4.9	1,212	-10.3	1,068	-16.8
	OPM (%)	33.9	32.5	27.2	27.3	-5.2ppt	26.7	-5.8ppt	22.3	-5.0ppt
Others	Sales	1,133	2,301	1,293	2,678	16.4	2,565	11.4	2,945	9.9
	OP	130	184	48	30	-83.6	-12	NA	-81	NA
	OPM (%)	11.5	8.0	3.7	1.1	-6.9ppt	NA	NA	NA	NA
Overseas Total	Sales	4,839	9,904	5,528	11,260	13.7	11,179	12.9	12,000	6.6
	OP	622	1,357	679	1,294	-4.7	1,278	-5.8	1,077	-16.7
	OPM (%)	12.9	13.7	12.3	11.5	-2.2ppt	11.4	-2.3ppt	9.0	-2.5ppt

Source: Nippon-IBR based on Milbon's FY21, FY22 Q2 & Q4 and FY23 Q2 & Q4 earnings results material  
 \* YoY figures are based on Japanese yen denominated sales and OP numbers

## UPDATE ON MEDIUM-TERM PLAN (FY22~FY26)

Milbon's medium-term (FY22~FY26) targets remain unchanged at OP of ¥10,800mil on sales of ¥58,000mil (CAGR of +25.0% and +6.7%, respectively, for the remaining 3 years of the Plan), with Domestic sales of ¥43,700mil (CAGR +6.1%) and Overseas sales of ¥14,300mil (CAGR +8.3%). Although sales have been growing in line with the medium-term growth, OP has been below expectations due to the surge in raw material costs. Revisions to the medium-term targets will be disclosed in due course.

Medium-term management plan (FY22~26)				
(¥mil)	FY21	FY26	FY22~FY26 CAGR (%)	
Sales	40,849	58,000	7.3	
Japan	32,938	43,700	5.8	
Overseas	7,910	14,300	12.6	
Gross Profit [GP]	26,765	38,160	7.4	
GPM (%)	65.5	65.8	+0.3ppt	
SG&A	19,681	27,360	6.8	
Operating Profit [OP]	7,084	10,800	8.8	
OPM (%)	17.3	18.6	+1.3ppt	
Recurring Profit [RP]	7,158	10,810	8.6	
NP attributed to the parent	5,109	7,670	8.5	
NPM (%)	12.5	13.2	+0.7ppt	

Source: Milbon Co., Ltd. FY22~26 New medium-term plan press release

The firm identified issues related to the surge in costs such as: 1) higher raw materials, 2) increase in personnel costs, and 3) an expected surge in logistics costs on the back of the "2024 problem" caused by structural shortage of drivers. To tackle those issues, Milbon plans to the followings:

- Launch high value-added new products. Pricing at the time of new product launches tends to timely reflect trends in costs, which makes it easier to absorb changes in raw materials costs.
- Review prices of existing products, especially in haircare products that are sold to salon customers.
- Review CAPEX previously planned in the medium-term plan. In FY23, Milbon generated CFO of ¥4,765mil, while investing ¥3,109mil in CAPEX and returned ¥2,863mil in shareholder returns, generating a dividend pay-out ratio of 71.6%. For FY24, the firm is guiding for CAPEX of ¥4,258mil, which includes projects including facilitating the firm's Yumegaoka and Thai factories, as well as digital platform-related investments such as *milbon:iD*, and digital marketing of Smart Salon. Depreciation is estimated at ¥2,404mil (+8.6% YoY).

During the medium-term plan, Milbon aims to achieve ROE of 13.9% and ROIC of 13.6% vs 8.9% and 8.6% achieved in FY23, respectively. The firm has not yet disclosed its capital cost.

## SHAREHOLDER RETURN

The firm has earmarked a dividend pay-out ratio of 50%. In FY24, Milbon plans to make an annual dividend payment of ¥88.00/share or pay out 61.6% of net profit to shareholders in dividends.

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