

M I L B O N



MILBON REPORT 2023

Integrated Report

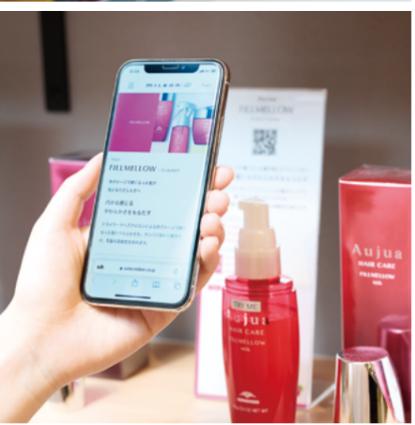
Finding Beauty Across the Globe to Pioneer an Innovative Beauty Industry

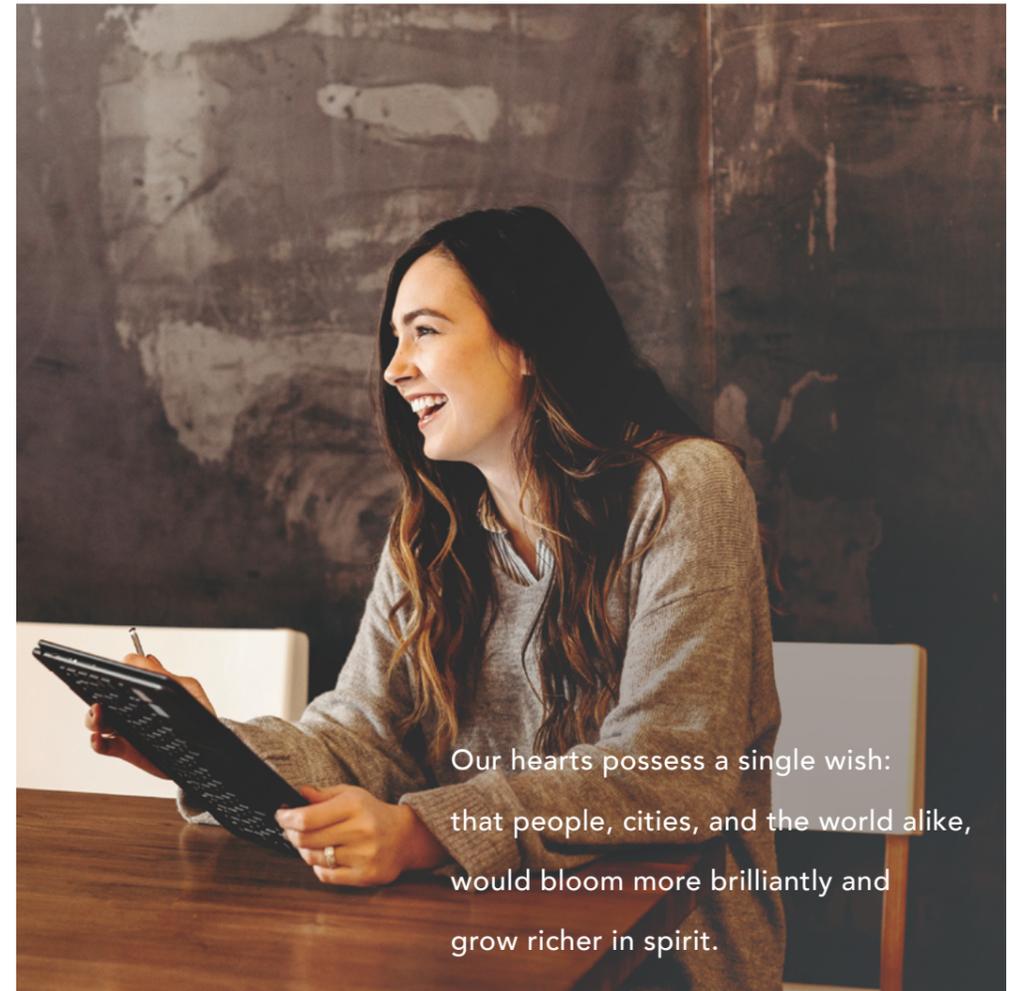
Decoding Milbon's present and future strategies as a global professional haircare manufacturer



The desire for beauty is eternal.

Milbon strives to fill that desire,
harnessing the power of the salon's
physical presence,
combined with novel experiences
engendered by the digital realm.





Our hearts possess a single wish:
that people, cities, and the world alike,
would bloom more brilliantly and
grow richer in spirit.

Unveil your beauty
with us as your guide
as we illuminate beauty's hidden joys.

The future of beauty starts here.

Continuously Shaping the Future of Beauty to Pioneer an Industry

Making an industry out of beauty... Founded in 1960, Milbon has consistently enjoyed sustainable growth by using hair salons to inspire beauty in people's lives. Over that time, we have been driven by an enduring commitment to building "a solid company that won't collapse"—one that is sustainable and remains essential to society—and in doing so have helped shape the ever-evolving future of beauty. A New Stage for the Future envisaged in our current medium-term management plan, launched in 2022, is beginning to take shape. Representative Director, President & CEO Ryuji Sato comments.

Food, clothing, shelter...and now beauty—an oft overlooked necessity for enriching our lives

Thank you for taking the time to read our integrated report.

Milbon is a global professional hair-care manufacturer based in Japan. Since the company's founding in 1960, we have manufactured and distributed a product range centered on salon-exclusive hair cosmetics. Hair salons are ubiquitous across the globe—Japan is home to more than 200,000—and consistently focusing on them as a business domain has allowed us to deliver unique value. Through beauty, we have continued to provide spiritual richness to individual consumers and, in turn, society as a whole. Milbon is now a leader in the domestic salon-use hair cosmetics market, while globally we

have a presence in 14 countries and regions, including Japan. Our comprehensive global strategy, the Seven Regions, aligned with notions of beauty in each of those countries and regions, is making steady progress.

To remain essential to society, we must keep pace with society's rapidly changing demands. We have increased our revenue in every term since our listing on the stock market (excepting FY2020, the first year of the COVID-19 pandemic) because we have continuously and successfully innovated to address those societal shifts. As a result, our growth curve has outperformed pre-pandemic expectations. Following a slight contraction in FY2020 due to Japan's state

of emergency, consolidated net sales topped 40 billion yen for the first time in FY2021. We improved on that again in FY2022 with 45.2 billion yen.

Factors underlying this sustainable growth include both the perseverance of each of our more than 1,000 employees in their thorough implementation of *The Milbon Way*—Milbon's clearly defined vision and set of action guidelines—and the fact that people everywhere, in every age, wish to be beautiful. If food, clothing, and shelter are the basic necessities for life, beauty has become an ever more important factor for enriching it. And I believe Milbon, a beauty provider, can fulfill the instinctive human desire to be beautiful.

The time for preparing is over—this year, our future becomes a reality

Hair salons, our most important partners, not only fulfill people's desire for beauty, but they remain physical spaces regularly frequented by customers. In fact, we expect the value of hair salons to increase as personal relationships become ever more tenuous in our modern day. As a manufacturer of products supplied exclusively to hair salons, Milbon will continue to maximize the value that salons provide so we may continue to grow alongside them.

Meanwhile, the new future of beauty that Milbon envisages in partnership with hair salons is clearly beginning to take shape. Details of the plan and its progress can be found in the STRATEGY section of this integrated report. There are two pillars to the Beauty Platform Plan within the Salon-based Social Innovation, our domestic market strategy (included in the current medium-term management plan). The first pillar is our Smart Salon Strategy, which proposes a new format for salons that fuses the physical and digital realms. This initiative is already underway. The second pillar is our Lifetime Beauty Care Strategy, where we have commenced exploring approaches to beauty-related fields beyond hair in collaboration with companies that possess their own unique technologies. In addition, milbon:iD, our official online stores that were launched during the 2020 pandemic to connect hair salons with customers, now have close to 500,000 registered members. Milbon's future of beauty is

already in motion.

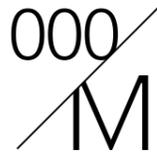
The theme for the current medium-term management plan is "Stage for the Future." Following a period of preparation in FY2022, in FY2023, the future envisaged by Milbon for the beauty industry now begins to take shape. For Milbon, this truly is the starting point for our goal of harnessing the power of beauty so people around the world can shine.

To embody our commitment to building "a solid company that won't collapse," we must persist with our endeavors to fulfill people's desire to be beautiful.

Ryuji Sato
Representative Director, President & CEO,
Milbon Co., Ltd.

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Editorial Policy

This integrated report follows the International Integrated Reporting Framework proposed by the Value Reporting Foundation (VRF). FY2023 is the second year in the five-year medium-term management plan Milbon announced in 2022. With various strategies now underway in Japan and overseas, this report primarily covers initiatives undertaken in FY2022. However, we also strive to communicate clearly to stakeholders about the sources of our sustainable growth, management strategy, and our medium-to-long-term outlook for sustainability promotion and other such matters. As was the case in 2022, the overall design of this report follows “global” and “borderless” themes, giving expression to our goal of becoming a Japan-based (Japan-first) world-leading professional haircare manufacturer. Additionally, we have attempted to create a flat design utilizing squares and a one-tone color scheme to enhance readability for a wider audience. This marks Milbon’s fourth integrated report.

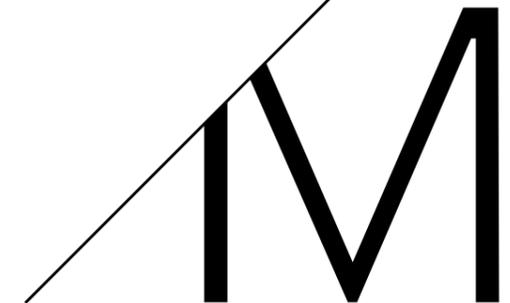
Our editorial policy for the first report in FY2019 included an emphasis on employee understanding to facilitate their communication with stakeholders. The FY2020 report, in the first year of the COVID-19 pandemic, was written like a letter to employees’ families, providing an explanation of COVID-19’s impact on the business. The previous report, in FY2021, aimed to promote a greater understanding of our company among a broader range of stakeholders. For this year’s report, we sought to communicate our company’s value from a more objective standpoint, enlisting the help of such outside parties as collaborating partners and institutional investors. Feel free to contact us with any questions, recommendations, or other feedback you may have about the contents of the report.

Department in Charge: Corporate Communications Department

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Introducing the three interlinked sources creating new value in support of sustainable growth: *The Milbon Way*, our unique business model, and the five-year medium-term management plan

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Corporate Slogan

美しさを拓く。Find Your Beauty



Milbon x Salons

To be beautiful

=

To live your life radiantly

People living beautifully and radiantly are capable of creating a peaceful and enriched society

Milbon is a Japan-based global professional haircare manufacturer working with the haircare industry to inspire beautiful living worldwide

Inspiring people to live beautifully through hair salons

Milbon is a global professional haircare manufacturer based in Japan working with the haircare industry worldwide to inspire beautiful living by people everywhere under the corporate slogan, "Find Your Beauty." Our aim is to enrich society as a whole.

Ever since our founding in 1960, we have consistently limited our market to focus on haircare professionals and salons, with the central strategy of increasing salon sales and profits. This drive is based on the firm belief that hair salons are essential for enriching society and realizing individual beauty, and in keeping with the philosophy that "Everything we do, we do for and with hair profes-

sionals." This approach has earned us solid trust, allowing Milbon to become the leader in Japan's salon-exclusive hair cosmetics market. In the global market, Milbon has grown steadily, with its sales, production, and development presence now extending to 14 countries and regions, including Japan.

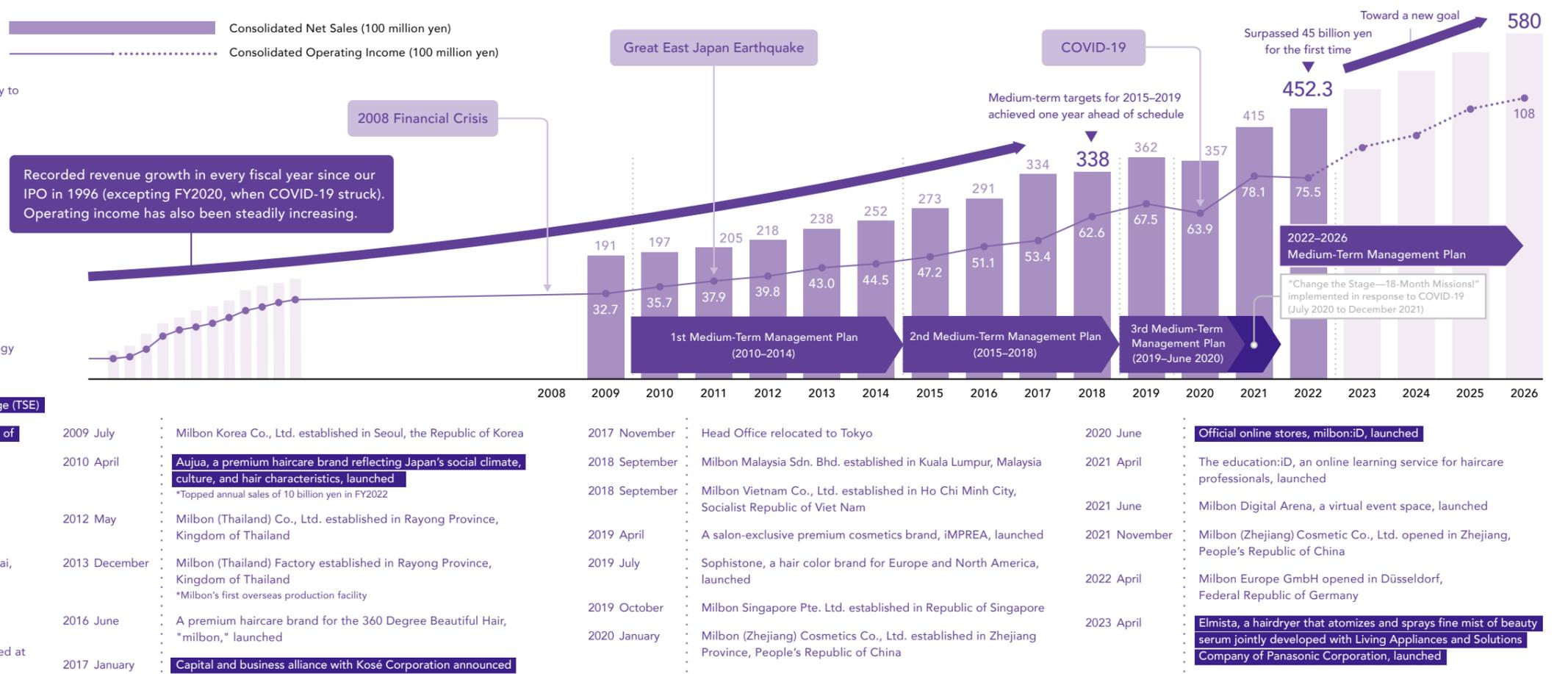
Our customers are haircare professionals and salons, as well as those people who visit salons. Consequently, we strive to always adopt two viewpoints: a customer (haircare professional and salon) perspective, and the perspective of those who visit hair salons (a consumer/societal view). Putting this into practice, we have developed our own unique framework

for enabling the ongoing provision and enhancement of beauty services that are truly needed, even encompassing training and digital transformation support for salons.

Though Milbon is a manufacturer involved in the production and sale of hair cosmetics, we offer more than just physical products. We provide beauty, craft individuality, enrich people's spirits, and brighten their lives. To us, the world's hair salons are vital partners for supplying these benefits. Milbon will continue pursuing sustainable growth, working with haircare professionals worldwide to shape a future where people can lead beautifully enriched lives.

Milbon history

- 1960 July: Yutaka Beauty Chemicals Co., Ltd. established in Osaka City to manufacture and sell cosmetics
- 1965 January: Company renamed Milbon Co., Ltd.
- 1970 May: Tokyo Branch opened
- 1984 March: Training Center opened in Osaka City
- 1984 April: Field Person (FP) System introduced
- 1987: TAC Product Development System introduced
- 1993 April: Nigelle, for creating natural-looking hairstyles, launched
*Milbon's first product marketed outside Japan
- 1997 April: Central Research Institute opened in Osaka City
- 1998 October: Liscio hair straightening system based on ironing technology launched
*Became a major hit in the United States
- 2001 June: Company listed on First Section of the Tokyo Stock Exchange (TSE)
- 2004 March: Milbon USA, Inc. established in New York, the United States of America
*Milbon's first overseas subsidiary
- 2005 July: Yumegaoka Factory established in Mie Prefecture
- 2007 April: Ordeve hair coloring compatible with foiling launched
*Watched for symbolizing the shift from perming to coloring
- 2007 November: Milbon Trading (Shanghai) Co., Ltd. established in Shanghai, People's Republic of China
- 2008 December: Milbon Trading (Shanghai) Studio opened in Shanghai, People's Republic of China
- 2009 July: Manufacturing Technology Development Center established at Yumegaoka Factory



- 2009 July: Milbon Korea Co., Ltd. established in Seoul, the Republic of Korea
- 2010 April: Aujuu, a premium haircare brand reflecting Japan's social climate, culture, and hair characteristics, launched
*Topped annual sales of 10 billion yen in FY2022
- 2012 May: Milbon (Thailand) Co., Ltd. established in Rayong Province, Kingdom of Thailand
- 2013 December: Milbon (Thailand) Factory established in Rayong Province, Kingdom of Thailand
*Milbon's first overseas production facility
- 2016 June: A premium haircare brand for the 360 Degree Beautiful Hair, "milbon," launched
- 2017 January: Capital and business alliance with Kosé Corporation announced

- 2017 November: Head Office relocated to Tokyo
- 2018 September: Milbon Malaysia Sdn. Bhd. established in Kuala Lumpur, Malaysia
- 2018 September: Milbon Vietnam Co., Ltd. established in Ho Chi Minh City, Socialist Republic of Viet Nam
- 2019 April: A salon-exclusive premium cosmetics brand, iMPREA, launched
- 2019 July: Sophistone, a hair color brand for Europe and North America, launched
- 2019 October: Milbon Singapore Pte. Ltd. established in Republic of Singapore
- 2020 January: Milbon (Zhejiang) Cosmetics Co., Ltd. established in Zhejiang Province, People's Republic of China

- 2020 June: Official online stores, milbon:iD, launched
- 2021 April: The education:iD, an online learning service for haircare professionals, launched
- 2021 June: Milbon Digital Arena, a virtual event space, launched
- 2021 November: Milbon (Zhejiang) Cosmetic Co., Ltd. opened in Zhejiang, People's Republic of China
- 2022 April: Milbon Europe GmbH opened in Düsseldorf, Federal Republic of Germany
- 2023 April: Elmista, a hairdryer that atomizes and sprays fine mist of beauty serum jointly developed with Living Appliances and Solutions Company of Panasonic Corporation, launched

Milbon and Sustainable Growth — Three Interlinked Value-Creating Sources

Realizing sustainable growth through three interlinked sources with thoroughness as a common thread

Source



Our Philosophy

The Milbon Way

Structure for disseminating Milbon-isms as our corporate philosophy

The Milbon Way is not only a handbook that defines the ideal Milbon employee, or “Milbon-ism,” but it is an important method of disseminating our corporate philosophy. First compiled in 2012 under the leadership of president Ryuji Sato, it has been continually revised in tune with the changing times based on the theme of Continuity and Change. From the moment our employees join, the philosophies at the heart of our business strategy—a focus on hair professionals and salons, our goal to achieve sustainability by building “a solid company that won’t collapse”—are covered in structured, ongoing educational programs provided both in Japan and overseas and continuing throughout each employee’s career. Even in our employee awareness surveys, we consistently maintain a high level of understanding and resonance among employees, aiming for thorough permeation.



Building “a solid company that won’t collapse”

Begun by founder Ichiro Konoike, Milbon’s company-wide belief in sustainability persists to this day. We limit the business domain and continuously generate business that will keep growing.



“Be in the field” “Pay attention” “Be independent”

A Milbon-ism that all Milbon employees embrace and strive to implement. Whether employed in sales or product development, each employee must spend time in the field, listen attentively and absorb customer feedback, and learn to act independently.



Continuing education and diffusion of core principles

We provide new employees with post-entry training for a total of nine months, including trainings during their onboarding period, annual trainings in the second and fifth years, and promotion-related trainings. Additionally, we regularly organize study sessions at each business location to ensure continuous learning of The Milbon Way.

Source



Our Approach

Unique business models

Embracing change and continuously evolving: the structure of our unique business model

“Everything we do, we do with and for haircare professionals.” Etched into *The Milbon Way*, this corporate philosophy is embodied in our unique business models that consistently focuses on hair professionals and salons. It has allowed us to continue delivering value that leads to greater sales and profits for salons, and to continue enjoying their trust and support.



Field Person System

A unique sales and education support system for hair salons embodying the phrase, “Don’t sell products, sell concepts.” This system is a three-way collaborative effort specializing in identifying salon issues and providing educational support, both of which contribute to greater sales and profits for hair salons.



TAC Product Development System

Milbon’s unique product development system that seeks to fuse science and sensibility. In aiming to provide enhanced beauty to a broader audience, we seek to incorporate the technical skills and other expertise possessed by top-class hairstylists into our products and services. Importantly, we seek to do so from the perspectives of both hairstylists and consumers within a BtoBtoC context.

Source



Our Vision

Five-year medium-term management plan

Structure for formulating medium-to long-term visions and medium-term management plans that deliver continuous innovation

Since 2010, Milbon has been formulating a medium-term management plan every five years to reflect the latest trends and anticipate societal changes in the next 10 years. Doing so allows us to deliver continuous innovation to realize the ideal and desired state of the beauty market in keeping with *The Milbon Way*.



Annual market strategy and annual business plans

Specific activities are planned for each year based on the medium-term management plan. Briefings for management personnel are given each business year. Briefings on annual market strategy for realizing annual plans are provided to salon partners and distributors, and efforts are made to implement medium-term management plans.



Micro and macro perspectives

To survey market trends, the president personally visits more than 400 salons each year in various countries and regions. His research is reflected in the formulation of plans and strategies that align with general economic and other trends of this global age.

We achieve sustainable growth by thoroughly implementing these three structures.

Milbon in the Eyes of a Competitive Strategy Expert

Interview with Ken Kusunoki, Business Scholar

Business scholar
Specially Appointed Professor, PDS Endowed Course –
Competitive Strategy, Hitotsubashi University Business School



Milbon received the Porter Award (organized by Hitotsubashi ICS) in 2020, which is presented to businesses that have a unique and outstanding business model, competitive strategy, and sustainably high profitability. Here, we invited Professor Ken Kusunoki, a renowned business scholar and the specially appointed professor for competitive strategy at Hitotsubashi Business School, who also serves as a member of the award selection committee. He provided further explanation of the importance of business models and competitive strategies, and he further elaborated on our company's uniqueness and future prospects.

A business model as a format and competitive strategy as a clear point of difference

As a competitive strategy specialist, I keep an eye on the strategies of numerous corporations on a daily basis. However, there are some wonderful strategies out there waiting to be discovered. I was reminded of that when I first encountered Milbon while serving as judge for the Porter Prize. That is how fabulous I found Milbon's competitive strategy and it did not surprise me at all to learn that Milbon was on a growth trajectory over and above what they had projected prior to the COVID-19 pandemic.

Before I provide commentary on Milbon's competitive strategy, let me go over the difference between a business model and a competitive strategy. For

starters, a business model, in my view, is a format for doing business that a company adopts within their particular domain. While there are various ways to classify them, there are in fact only around 30 different types. In other words, a business model may be important, but it alone will not be the fundamental factor in the ability to maintain profitability over the long term.

So, what is needed? Competitive strategy—a clear point of difference with other companies. There are basically two ways of looking at this difference. One is to view it as variation along a yardstick, in which, for example, company A possesses better products than company B.

Generally speaking, it would be difficult to call this a strategy because the relative superiority of a product's performance ultimately only comes to bear on competition in product development. A difference in positioning, on the other hand, is a clear strategic difference. Or, to use Milbon's own wording, it is a narrowing of focus. By delimiting the scope of one's focus, one develops criteria for passing judgment—not on what will be done, but on what will not be done. That is a clear point of difference. What impressed me about Milbon was not the business model—the format—but the competitive strategy of creating original value.

A tightly delimited domain and thorough approach define Milbon's originality

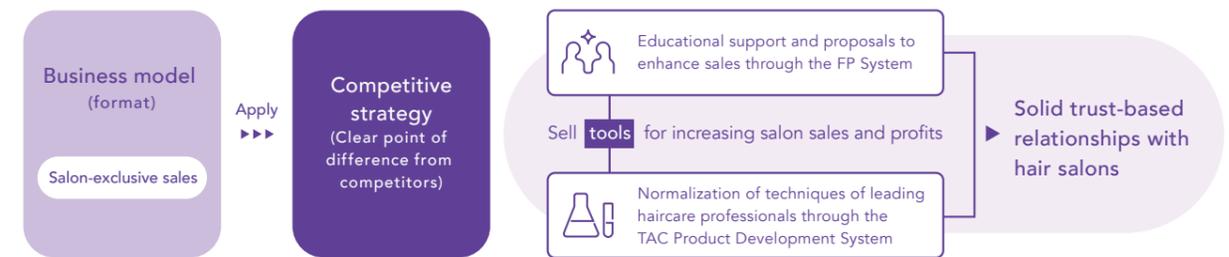
That is not all that is original about Milbon's competitive strategy. I see the idea of increasing the sales and profit of hair salons as central to the strategy's originality. It is true that as a manufacturer Milbon generates profit by selling products, but embodied in the company's motto of "Don't sell products, sell concepts," Milbon is essentially selling an effective means for hair salons to increase profit. A competitive strategy is a narrative that stems from the question, "What are we really selling?" and in

Milbon's case, it is higher sales and profit for hair salons. And what is more, Milbon's consistent stance in following this strategy has been crucial to its success.

A lot of companies talk about concentrating on the intangible rather than the tangible, yet so few manage to pull it off. Milbon, though, embodies this concept through and through, which explains what the company was able to do with milbon:iD, their official online stores. Officially launched in 2020, milbon:iD already has close to 500,000 registered

users, and it is more than just an e-commerce service. Milbon has realized a system that both upholds the existing profit structure, whereby sales revenue is shared with hair salons and distributors, and improves convenience for general consumers. All manner of strategic decision-making at Milbon takes place in this way, originating with a concept. And I get the sense that the thoroughness of Milbon's approach, in contrast to other companies, reaches a whole new level.

Milbon's unique strategic narrative centered on increasing salon sales and profits



Tools for realizing both higher sales and profits for salons and solid trust-based relationships

Milbon also has very efficient mechanisms among its tools for increasing salon sales and profits. One is the Field Person (FP) System, an original sales system for supporting skills training by hair salons. It involves the deployment of FPs who are well-acquainted with the beauty field after extended training. Together with distributors, they visit salons on a regular basis to make recommendations that will result in higher salon revenue.

But as we all know, haircare professionals are inevitably very busy people. Within such an environment, it is vital to be able to produce worthwhile proposals. Milbon has a very attractive mechanism for this, too—the TAC Product Development

System. This system involves joining forces with top-class haircare professionals to develop products drawing on their skills.

Techniques used by leading haircare professionals are often based on their personal sensitivities and are thus not easily replicated by other practitioners in the field. Additionally, these leading professionals rarely share their techniques with others. Milbon, however, has spent many years building its R&D capabilities and has established solid trust-based relationships with hair salons. If techniques based on the sensitivities of leading professionals were to be normalized, more salons would be better at their craft and

attract a reputation, leading to higher sales and profit from their business. Furthermore, satisfied customers would buy related products, and salons would earn more retail sales as a result, lifting productivity. Such increased productivity would be repaid to Milbon in the form of increased sales. The company has realized quite an ideal cycle here. I am also aware that salons share business and other data with Milbon so the latter can help resolve their issues. That is extremely unusual. I find this the most obvious example demonstrating the robust trust Milbon has earned.

Global demand exists, awaiting Milbon

Though the domestic market is said to be maturing as the population decline gathers speed, Milbon is a company that has grown on the back of an excellent competitive strategy, as opposed to external factors. Indeed, a scenario where there are no tailwinds is precisely the time for a competitive strategy, which leads me to believe that now might be the time for a company like Milbon, possessing a superior competitive strategy, to shine.

One domestic Milbon initiative that I am watching with particular interest is Smart Salons. These are spaces providing a new kind of buying experience that combine digital and real-world elements. It stands on the milbon:iD platform, which I have already noted shows solid potential. If the Smart Salon Strategy, launched in January of this year, shows repeated success, I sense the potential for its development into a sales platform for not just haircare products, but all kinds of beauty products.

In the global market, too, growth and advancement are by no means improba-

ble in countries where Milbon can faithfully replicate its competitive strategy. Of course, there are bound to be places where the strategy would be unsuccessful due to varying hair types and the different functions performed by local hair salons. But at the same time, there are definitely countries and regions out there that require a competitive strategy like Milbon's.

Each country and region will undoubtedly have its own local manufacturers, but although Milbon is also a manufacturer, it is competing under completely different concepts. For that very reason, the future that awaits cannot be defined solely in terms of a supply of shampoo for professional use, for example. I believe Milbon's competitive strategy has a much better chance of pulling in big business opportunities in overseas markets than in Japan.

Hair salons will be around as long as human hair continues to grow. And most of the time, haircare professionals and customers encounter each other one-

on-one. They stay in one place and communicate over an extended period, even partaking in small talk. There are very few places quite like that in any other industries. To me, the world's hair salons offer a most-favorable setting for engaging with customers. Not only that, but the world is also already full of hair salons that could become partners of Milbon. In other words, there is ample demand—demand that is yet to be fully tapped. That is why I eagerly look forward to watching Milbon transform the world with its excellent competitive strategy.



Value Creation Model

Value Creation Process

Based on the management philosophy of "focus" and "deciding what not to do," we have consistently positioned the provision of products and services through salons as our business domain since our foundation. With focused capital investment, a five-year medium-term management plan, and digital transformation (DX) promotion as driving forces, we are creating continuous value and contributing to enriching spirit and society through beauty.





Realizing medium- to long-term ambitions and building further trust through tireless business and system innovation

Milbon invited Shinichiro Hyogo of Mitsubishi UFJ Trust and Banking Corporation—Chief Analyst and Chief Fund Manager of the Asset Management Division—to join Representative Director, President & CEO Ryuji Sato for a dialogue. Presenting views and questions from an investor’s perspective, Mr. Hyogo provided the cues for a discussion about Milbon’s strategy for realizing a desired future supported by the additional trust of stakeholders.

Ryuji Sato

Representative Director, President & CEO,
Milbon Co., Ltd.



Shinichiro Hyogo

Chief Analyst and Chief Fund Manager of the Asset
Management Division
Mitsubishi UFJ Trust and Banking Corporation

Achieving balanced expansion in both Japan and worldwide

Accurately capture social changes and seize the opportunities for further growth

Hyogo: First and foremost, I would like to ask you about your reflections on Milbon’s growth since your appointment as President & CEO in 2008?

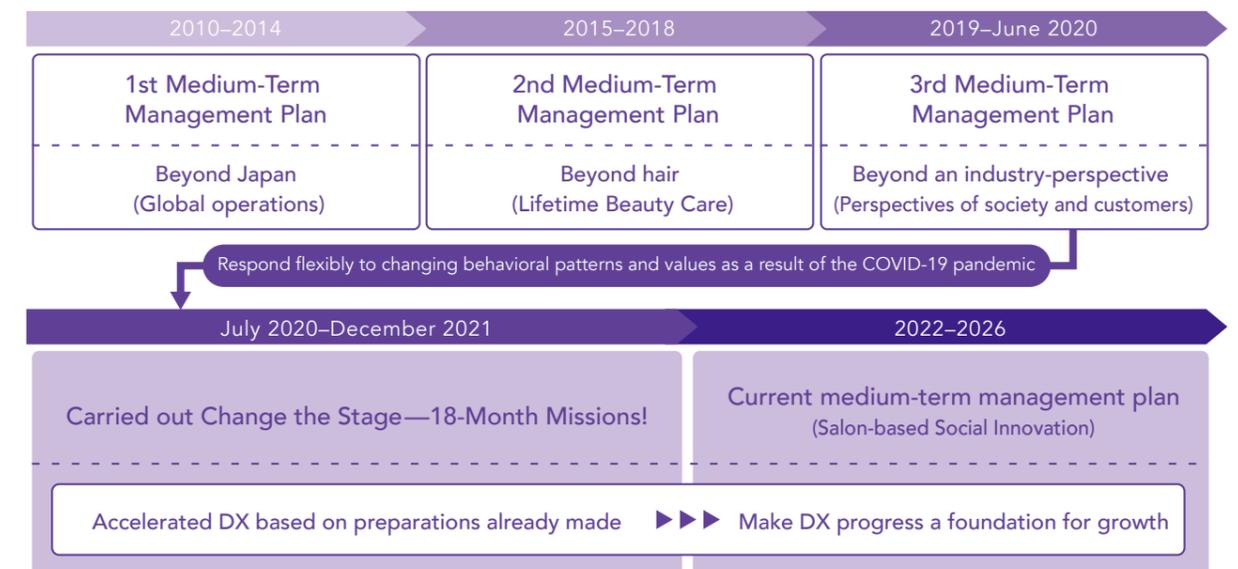
Sato: I have a strong sense that we have been steadily progressing toward the future we envisioned. In particular, since the transition from rolling medium-term management plans to five-year commitments starting in 2010, that sense has become even stronger. On the other hand, it is also a fact that we faced challenges posed by the difficulties of the COVID-19 pandemic in 2020, a year and half into the implementation of the 3rd Medium-Term Management Plan. Instead of fixating on our initial plan at that point, we introduced a new metric called the “Change the Stage—18-Month Missions!” This enabled us to adapt flexibly to the rapidly changing behavioral patterns and values of people. Despite the

inconveniences caused by restrictions such as stay-at-home advisories during those 18 months, we accelerated the digital transformation (DX) we had been quietly preparing for, laying key foundations that would manifest as the Salon-based Social Innovation concept in our current medium-term management plan, which commenced in 2022. This progress is evident in our consolidated net sales topping 40 billion yen for the first time in FY2021 and exceeding 45 billion yen in FY2022, surpassing the growth trajectory we had envisaged prior to the pandemic. From this, too, we take pride in our ability to effectively grasp social changes, including the pandemic, and turn them into opportunities for further growth.

Hyogo: What do you perceive to be the key factors for business expansion?

Sato: Speaking about our domestic business, the strengthening of our focus

on haircare products, rather than solely emphasizing hair coloring products, has become the driving force for growth. However, if we focused only on hair, we cannot expect significant growth in the future domestic market. That is why Milbon has started to expand into the cosmetics business in collaboration with Kosé Corporation and is venturing into the beauty healthcare domain in partnership with Kao Corporation. We have also jointly developed beauty appliances with Panasonic Corporation. Although our cosmetics business is still in the early stages of development, we believe it will take about 10 years to see substantial returns, just like our organic business and our operations in South Korea, which currently leads our global business. We consider ourselves in the process of laying the foundation for that future growth.



A system of local production for local consumption is taking shape in the beauty domain

Hyogo: How would you look back on the overseas operations?

Sato: Overseas operations started in 2010, and by FY2022, overseas sales had grown to account for 21.9% of consolidated net sales. While it is true that the overseas sales ratio increases when domestic sales remain stagnant, Milbon’s domestic sales also experienced a 5%

improvement compared to FY2021. **Hyogo:** Indeed, your overseas business has grown steadily, particularly led by South Korea. It appears that your plans in China did not unfold as envisaged due to the country’s zero-COVID policy in 2022. Nonetheless, I understand that efforts have been made to establish a solid foundation, such as setting up an

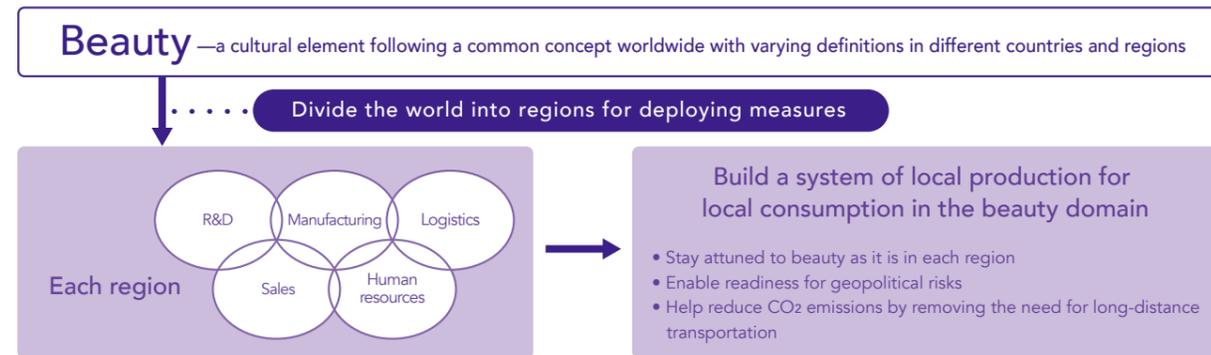
R&D base. Could you please elaborate further on Milbon’s future vision for global operations?

Sato: Milbon divides areas of the world where we operate, including Japan, into seven regions to drive our initiatives. This is because the definition of beauty, as a cultural element, varies in different countries and regions, despite it being

a universal concept. Like food, it needs to be attuned to that region. Having said that, there are limits to how far we can subdivide the products we manufacture for each area. That is why we divide areas into regions and pursue a vision of local production for local consumption in the beauty domain whereby each region undertakes all processes, including research and development, manufacturing, logistics, sales, and human resources. This approach not only enhances our preparedness for geopolitical risks but also

contributes to sustainability by eliminating the need for long-distance transportation, leading to a reduction in CO2 emissions. **Hyogo:** I find that to be a sensible approach—aligning with the culture of each region, preparing for geopolitical risks, and committing to sustainability initiatives. Meanwhile, from an investor's perspective, I would like to closely monitor how Milbon handles this in the next one to two years. **Sato:** While these are medium- to long-term plans, they are already taking shape. Take manufacturing functions, for exam-

ple. We have put in place manufacturing and R&D bases in China that will now be able to carry out research, development, and manufacturing functions for the Greater China region. In the future, if we set up a factory in the United States, it could also provide manufacturing for Europe, in which case the Thailand Factory would be repositioned as a manufacturing facility for the ASEAN region. In this way, we are seeing the beginnings of a system of local production for local consumption that also helps us hedge risks.



The key to sustainable growth is to disseminate and embody *The Milbon Way*

Generating uniqueness by strengthening basic research

Hyogo: It is obvious that Milbon has excellent sales capabilities underpinned by an original sales system, but I would like to hear about your stance on the other essential source of competitiveness—research and development.

Sato: As a manufacturer, the success of our products in the market is crucial for our growth. Research and development play a fundamental role in this, which is

why our R&D expenses accounted for 4.6% of consolidated net sales last year, demonstrating a higher investment compared to others in the industry. Bolstering basic research, in particular, is in our view, key to the future development of unique products. In fact, around one fifth of our 100 or so researchers, or around 20 people, are engaged in basic research. On top of that, we have plans to

establish an innovation center in Haneda by the end of 2023. This center will not only facilitate developments from a medium- to long-term perspective, but also serve as a hub for promoting collaboration with other companies. It is expected to become a base for innovative creation over the long term, helping Milbon to grow sustainably.

Fair rather than equal growth opportunities for human resources

Hyogo: Deciding where to allocate your budget, including expenses for R&D activities you have just explained, is an important business decision. Investment in human resources is especially crucial. What aspects does Milbon particularly prioritize in terms of human resource investment?

Sato: I believe our ability to sustain growth comes from the dissemination and thorough embodiment of *The Milbon Way*, our set of action guidelines, among all employees. Regarding my approach to

human resources development, I believe the ultimate goal is to enable the emergence of people who can lead. The main idea here is not about raising leaders, but rather allowing them to grow into leaders. Previously, Milbon had a system that focused on providing equal training to all employees, but I introduced changes to pursue a style of human resources development that is fair rather than equal. Instead of uniform training, we respect the will of employees with credentials and passion, and place importance

on creating an environment and providing opportunities where such employees can envision the future and pursue their ambitions.

Hyogo: Providing opportunities for growth is indeed very important. I imagine that up ahead Milbon will also need to focus on developing the overseas workforce. Do you have any specific ideas or plans in mind for this?

Sato: In South Korea and China, where the number of employees has been steadily increasing, we have started

implementing condensed versions of training programs conducted in Japan. At smaller bases, trainings are still administered by personnel in charge at the locality, though training in Japan for locally recruited employees, suspended

during the COVID-19 pandemic, is set to resume soon and the program is to be enhanced. Additionally, in July 2023, construction of a new Human Resources Development Center with around three times more space than the current

Training Center in Osaka is scheduled to begin in Odawara, Kanagawa Prefecture. It should allow us to enhance training for global human resources and all other kinds of training programs.

Digital transformation demands the foremost attention

Hyogo: We must not overlook the policy of talent acquisition, which is a prerequisite for development. From a competitive advantage perspective, I would say acquisition and development of DX personnel will hold the key.

Sato: At Milbon, digital transformation truly demands our foremost attention and we are already making progress, for example in the form of milbon:iD, our official online stores. And through initiatives like education:iD, a platform supporting the training of haircare professionals, and the Digital Arena virtual event space, we enable forging of relationships unconstrained by time or place to complement face-to-face communication. Therefore, we are considering various approaches for securing DX personnel, including mid-career recruitment, and we are also open to collaborating with external partners when swift action is required.

Hyogo: Considering all that, what methods do you use during recruitment, or after employees join the company, to reduce employee turnover?

Sato: During recruitment, our foremost effort is to effectively communicate our vision, as we highly value employees resonating with our corporate philosophy and culture. This effort has yielded positive results, as we have managed to maintain a relatively low company-wide turnover rate of 5.1%. However, it is important to acknowledge that, like many other companies, a certain number of employees will opt to follow a separate path three or four

years after joining. We address this through ongoing efforts during recruitment and by following up with employees after they join the company, as well as through training for supervisors, to create an environment where employees can carry on working, feeling fulfilled.

Hyogo: How do you analyze the factors behind the low ratios for mid-career hires and foreign nationals at your company?

Sato: To begin with, Milbon sees beauty as deeply rooted in the cultures of each country and region. Therefore, we believe local human resources should be recruited in their respective regions. In Japan, this leads us to consider individuals who were born and raised in Japan, including those of foreign nationality, as suitable candidates. As a result, the ratio of foreign nationals within Japan is low. At overseas bases, we primarily hire employees from

each respective country or region. As for mid-career hires, we continuously hire people with the necessary skills to address areas requiring improvement. On the other hand, if we are able to train and develop talent internally, including DX personnel, we anticipate that the ratio of mid-career hires will naturally decrease.

Hyogo: I understand your viewpoint. However, there is a concern, especially from a diversity perspective, that the low proportion of mid-career hires and other factors may be perceived as indicative of a closed organization. If the reasons behind this situation are as you have explained, I believe it would be beneficial for Milbon to publicly disclose this information with sufficient explanation.

Sato: You are right. We should always be mindful of providing sufficient explanations for what we do.



Aiming to gain further trust through improved financial strategy

Providing transparency of processes alongside our targets

Hyogo: As someone who has observed your company for many years, I believe that there are still challenges in your financial strategy. Specifically, I don't sense that you are effectively utilizing your balance sheet. While you have set

targets for return on equity (ROE) and return on invested capital (ROIC) under the current medium-term management plan, these targets are merely numerical outcomes without clear visibility into the underlying details. How do you perceive

your financial strategy?

Sato: Regarding our financial strategy, I am aware that there are challenges, particularly in how we present our plans. Looking at the numbers alone, our ROE is 13.2% and ROIC is 12.5%, which are

by no means low. However, as you pointed out, it is undeniable that these figures are merely outcomes. Nevertheless, we are actively working on improving in this aspect, as it will contribute to a better understanding of our company's



solid foundation. We consider it a forward-looking endeavor.

Hyogo: Whenever a company ventures into a new business, investors pay particular attention to both the efficiency of that business and its profitability over a specific period. In addition to the five-year financial targets, providing insights into the internal discussions that led to the determination of targets such as ROIC would enhance your credibility.

Sato: From a management perspective, as I mentioned earlier, it takes around 10 years to launch and solidify a business. While I believe people understand this concept, I recognize that there is still a lack of suffi-

cient explanation regarding how we envision and navigate through this process.

Hyogo: I look forward to seeing those improvements. However, there is a risk that an excessive focus on cash flow conservatism may result in missed opportunities for business expansion that could have been possible through investments. Additionally, in a global enterprise, you inevitably have to pay attention to profitability in each region. You will need to take action on this, too.

Sato: Your feedback and expectations are greatly appreciated. I would be delighted if you could continue to provide guidance on those aspects in the future.

Realizing a Board of Directors conducive to lively and multi-angled debate

Improving effectiveness through reform of director ratios

Hyogo: Regarding Milbon's governance structure, could you please provide an explanation for the background and objectives behind the addition of three external board directors, including two women, as well as the increase in two internal board directors, to your company's governance structure between 2021 and 2022?

Sato: As a company listed on the TSE Prime Market, there was a significant need to reform the ratio of executives. Regarding female board directors, while considering the eventual appointment of our internal employees who have gained experience, we first decided to appoint outside board directors. The selection criteria for outside board directors mainly focused on individuals with experience in the food-related industry. The reason

for this choice is that food, like beauty, is a cultural element rooted in each country and region. We believed that their knowledge and insights in the food industry could be beneficial for our current global expansion.

Hyogo: While I can see the consistencies with your company's business, I also sense some degree of imbalance. In that regard, how do you envision the future?

Sato: We do not impose industry-specific requirements even now. It is simply a matter of understanding that beauty, relatively speaking, is a cultural element. Overall, we consider appointments based on a skill matrix perspective, taking into account individuals who have relevant experiences as business leaders and possess expertise in areas where we believe reform

is necessary for our company.

Hyogo: Could you please share with me the atmosphere within Milbon's Board of Directors and any specific areas that you consider as challenges?

Sato: The feedback from the Board of Directors' survey indicates positive evaluations regarding active discussions and progress. However, as you mentioned earlier, there are challenges to address. Specifically, the measurement of return on investment in our financial strategy has been raised by outside board directors. The fact that such opinion are being expressed indicates that the Board of Directors is functioning, but at the same time, it does mean there is still room for improvement regarding the quality of discussions.

The importance of striking a balance between active listening and making executive decisions

Hyogo: Have there been any instances where you had to change your approach or decision-making based on opposition from other board directors?

Sato: When discussing the collaboration with Kosé, there were both consenting and dissenting views. As a result, I decided to postpone the decision. Over the course of about a year, we engaged in discussions about the future possibilities of collaboration, including scenarios without collaboration. Ultimately, we reached a consensus to proceed with the collaboration. I recognize that it was an essential time for dialogue. On the other hand, I also believe that there are moments

when, as the leader of a company, I have to take responsibility and make decisions. This relates to a time when I became President & CEO shortly after the global financial crisis when there was strong opposition within the Board of Directors regarding the continuation of our business in South Korea, which now propels our global business. Naturally, everyone's opinions should be respected, so I did not make a decision at that moment. Instead, I immediately flew to South Korea to visit commercial centers and hair salons and observe the South Korean market with my own eyes. South Korea was in the midst of a financial crisis at the time, so

I even visited banks to understand the situation and met with our local Milbon employees. I got a first-hand feel for the great expectations that salons there had for Milbon and I made up my mind: "We absolutely have to do this." I returned to Japan and explained this to the Board of Directors. Sincerely listening to opinions and making independent judgments are not necessarily contradictory, but require a balance. If, at that time, I had only listened to opposing views without visiting the country, and had given up on continuing our business in South Korea, we would not have achieved the global expansion we have today.

Successor development is starting to pay off

Hyogo: I understand that not all opinions from board directors are necessarily correct, which is precisely why I would like to see more emphasis on securing talent through the utilization of the skills matrix to gain diverse and objective perspectives. Another factor you will have to consider is finding a successor to you, the Representative Director, President & CEO, given the extent to which business has developed since you came to the role and the considerable influence you must have gained inside the company as a result. Could you please share your thoughts on the succession plan?

Sato: We have been engaging in ongoing discussions about successor development, mainly involving board directors from inside the company. Progress that we have made includes the establishment of Milbon Corporate University, a training program launched in 2015. Over

the course of four years, 42 people took part in the program—around 10 people each year. Our current executive officers came from the pool of human resources who completed the program. Two of them were appointed board directors in 2022, which demonstrates the positive outcomes of the program.

Hyogo: What qualities do you consider important for the current and future senior management team to further grow the company?

Sato: I would seek for individuals with the ability to bring about transformation with confidence and conviction while also making it clear what should not be changed. It is essential that they can take full responsibility for carrying that through. Experience on the global stage is also important, though you might argue it need not be a requirement for the whole team.

Hyogo: Additionally, Milbon currently

takes the form of a company with an Audit & Supervisory Board. Do you intend to retain that system, or are there any plans to transition to a committee-based system in the future? How do you foresee this?

Sato: I do feel that we should consider the possibility of a committee-based structure when our overseas business grows in the future. It is something we have in mind, but I wouldn't say we are rushing into it.



Challenges open up potential for enhanced evaluation from a medium- to long-term perspective

To build "a solid company that won't collapse"

Hyogo: Lastly, do you have a message for the capital market?

Sato: As a business leader, I would like to emphasize the importance of not only short-term performance but also how we envision the company in 5 years, and even 10 years, and the measures we are taking to achieve it. In particular, our business model centers on providing support for individual salons, and

cultivating strong relationships of trust with them, rather than solely focusing on product sales. This model requires time to establish and solidify. However, it will prove to be a more resilient and effective approach in the long run. The Salon-based Social Innovation concept we are striving for is not something that can be achieved in just a few months. Rather, it is a major vision that involves

making an industry out of beauty. I would greatly appreciate it if you could evaluate Milbon from a medium- to long-term perspective.

Hyogo: For that purpose, too, you will want to make improvements in areas such as disclosure of financial figures. While there can be no doubt about Milbon's achievements, the past is indeed the past, so if you can disclose appropriate quantitative financial information relevant to your future targets, it will surely provide different insight. And if that happens to coincide with the company's achievements, it should bolster your credibility further.

Sato: Thank you. I would like to take steps to ensure we can convey not only the changes that realization of our plans will bring, but also a logical explanation of the process involved. I think that to build "a solid company that won't collapse," there is naturally a need to go beyond continuous innovation in business and to also transform our posture toward the capital market through our organizational framework and accountability. This offers an area of vast potential and I would like to continue with our business activities while coordinating more closely with all our stakeholders.



STRATEGY

Milbon's Strategy

P28

2022-26 Overview of Medium-Term Management Plan

Overview and progress of the five-year medium-term management plan, launched in FY2022 under the slogan "Stage for the Future," to make Milbon a truly global business entity

P30

Comprehensive Global Strategy: Seven Regions

Our comprehensive global strategy of the Seven Regions (based on 14 countries and regions we operate in) and promoting a local production for local consumption system in the beauty industry, tailored to the specific beauty of each region

P32

Domestic Market Strategy: Salon-Based Social Innovation

Our domestic market strategy for transforming hair salons into a "beauty platform" centered on Milbon's Smart Salon Strategy and Lifetime Beauty Care Strategy together with its Sustainability Commitment

P36

Milbon in the Eyes of Our Collaborating Partners

Discussion about Milbon by collaborating partners working together to create new value through the Lifetime Beauty Care Strategy, a core domestic market strategy of Milbon

P38

R&D Strategy

Our research and development strategy for promoting the development of products that excite customers in Japan and overseas under the slogan "fusion of science and sensibility"

P40

Financial Strategy

Our financial strategy for driving change to further improve corporate value and realize Milbon's belief in building "a solid company that won't collapse"

[Click to jump to the relevant page](#)

2022–26 Medium-Term Management Plan

Two strategies at the center of our efforts to become a global company

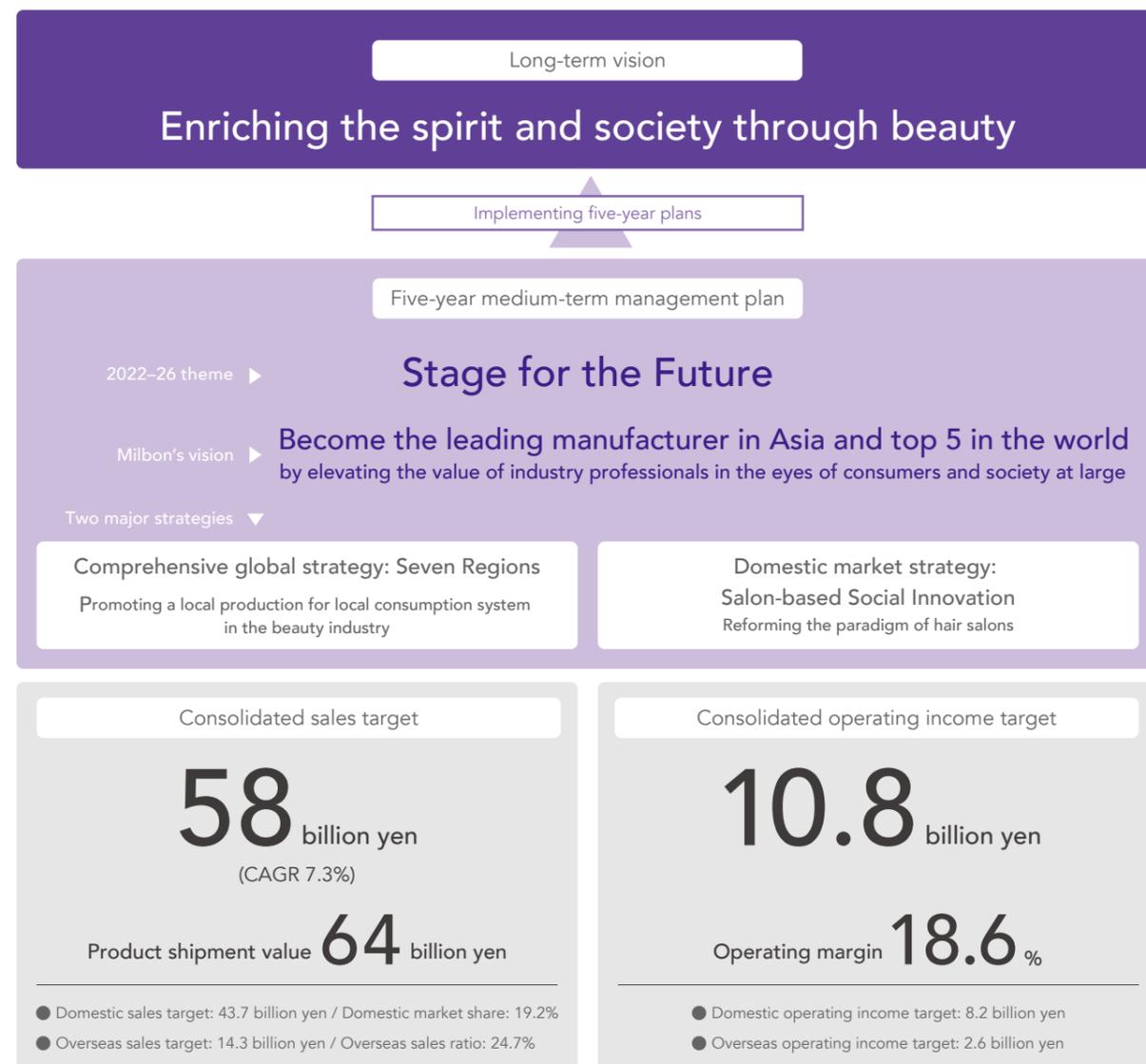
Outline of 2022–26 Medium-Term Management Plan

Milbon establishes a medium-term management plan every five years to help realize its long-term vision of “Enriching the spirit and society through beauty.” Through these plans, it has achieved sustainable growth. Most recently, the 2022–26 Medium-Term Management Plan named “Stage for the Future,” we

have outlined our goal to become the leading manufacturer in Asia and top 5 in the world by elevating the value of industry professionals in the eyes of consumers and society at large.

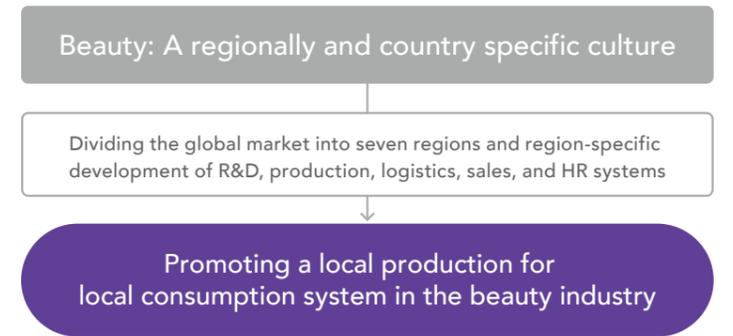
We aim to become a company delivering beauty to the world by achieving our targets of 58 billion yen in consolidated

net sales and 10.8 billion yen in consolidated operating income through the implementation of two strategies—the Seven Regions, our comprehensive global strategy and the Salon-based Social Innovation, our domestic market strategy.



Outline of comprehensive global strategy, the Seven Regions

Beauty is global; its specific form, however, is local. With this fact in mind, we have developed a presence in 14 countries and regions globally (including Japan), which we have divided into seven regions: Japan, South Korea, Greater China, ASEAN, North America, the EU, and the Middle East. Our Seven Regions Strategy both responds to differences in hair types, cultures, and values, and contributes to the development of the beauty industry in each region through region-specific development of R&D, production, logistics, sales, and HR systems.



* See pp. 30–31 for details on our comprehensive global strategy, the Seven Regions

Outline of domestic market strategy, the Salon-based Social Innovation

Hair salons are currently facing structural issues, including a decreasing population and such productivity-related industrial problems. To address both kinds of issues, this strategy aims to transform hair salons into a Beauty Platform by leveraging two key strategies: the Smart Salon Strategy, which connects with consumers through the fusion of physical and digital experiences at salon-based locations, and the Beauty Life Care Strategy, which expands the business scope from hair care to include skin care and beauty health care.

Furthermore, by placing our Sustainability Commitment at the core of this strategy, we aim to tackle important sustainability issues within our company and the beauty industry. Through this commitment, we contribute to the realization of a rich and sustainable society, facilitated by hair salons.



* See pp. 32–35 for details on our domestic market strategy, the Salon-based Social Innovation.

Results for FY2022 (first year of current medium-term management plan) and management targets, etc. for FY2023

	FY2021 results	FY2022 results	FY2023 target	FY2026 target
Consolidated net sales	41.58 billion yen	45.23 billion yen	49.2 billion yen	58.0 billion yen
Domestic	33.64 billion yen	35.33 billion yen	38.02 billion yen	43.7 billion yen
Overseas	7.93 billion yen	9.9 billion yen	11.17 billion yen	14.3 billion yen
Gross profit	27.49 billion yen	29.5 billion yen	32.16 billion yen	38.16 billion yen
Operating income	7.81 billion yen	7.55 billion yen	8.3 billion yen	10.8 billion yen
Operating margin	18.8%	16.7%	16.9%	18.6%
Main growth factors in FY2022	<ul style="list-style-type: none"> Steady growth of hair coloring business due to popularity of such techniques as bleach-on-color and double-color Increased haircare needs accompanying greater popularity of hair coloring Increased sales overseas, especially in South Korea, the United States, and Southeast Asia Increased use of milbon:iD (Milbon's official online store), with 448,000 registered users as of the end of FY2022 			
Main expected growth factors in FY2023	<ul style="list-style-type: none"> Launch of Smart Salons in Japan after preparatory stage in FY2022 Launch of products developed jointly with collaborating partners as part of the Lifetime Beauty Care Strategy Strong growth in South Korea and United States markets The full-scale operation of research, development, and production bases in the Chinese market, along with the revitalization of the market after the lifting of the Zero COVID-19 policy 			

Global Strategy: Seven Regions

Contributing to the expansion of local beauty industries through local production for local consumption

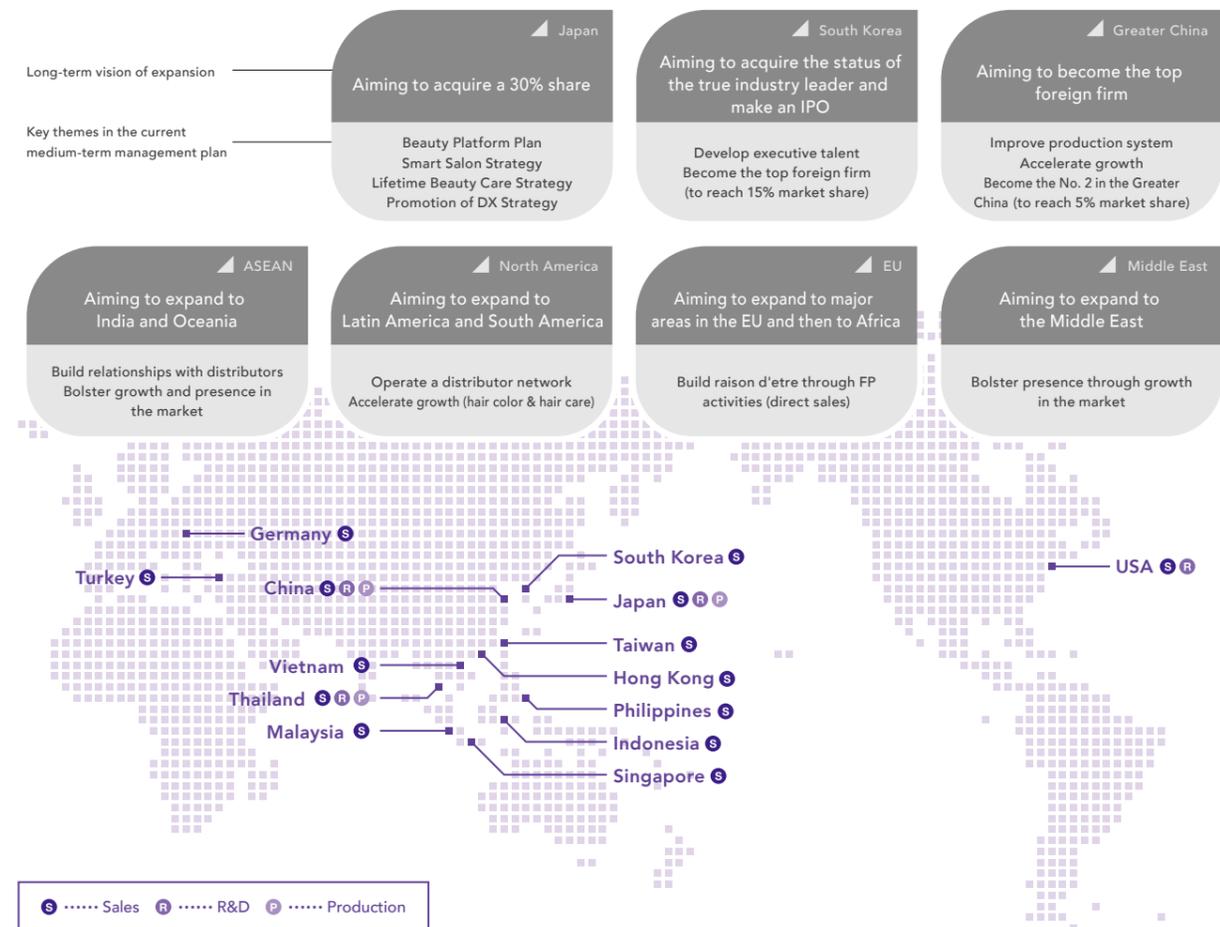
Global vision We aim to become the world's No. 1 professional haircare manufacturer through our dedication and educational support toward local beauty industry across the globe.

Outline of Seven Regions Strategy

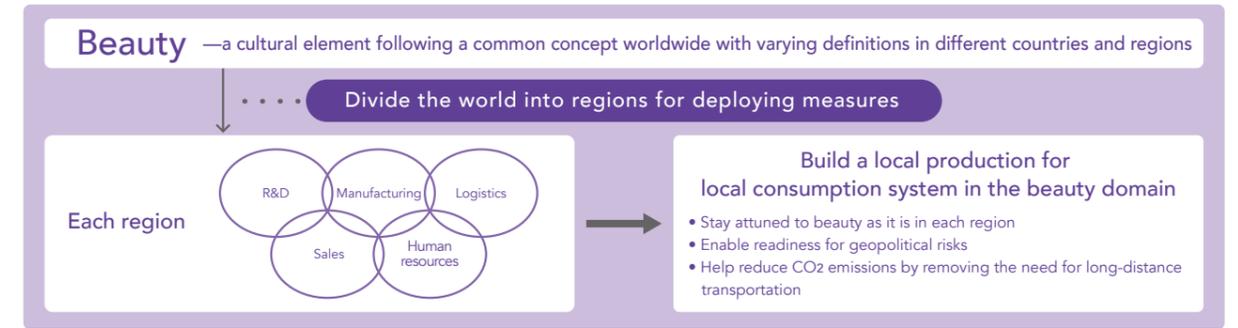
We have established the Seven Regions in which we already have a presence (based on 14 countries and regions, including Japan), and we are promoting a local production for local consumption system in the beauty industry, tailored to the individual beauty of each region. To realize this system, we are developing sales, R&D, and production bases within each region, with the following graphic

illustrating the current state of affairs. The future plan is to build capacity so that everything from R&D to production, logistics, and sales can be conducted independently in each region. This will not only create beauty products tailored to the specific beauty of each region, which varies according to culture, but will also guard against geopolitical risks and enable a flexible response to laws and trade-

related regulations. From the perspective of sustainability as well, this system will also reduce CO2 emissions as the need for long-distance transportation is eliminated. Furthermore, we anticipate using these regions to gain footholds in neighboring countries and regions where we do not yet have a presence. We aim to realize our global vision through our comprehensive global strategy, the Seven Regions.

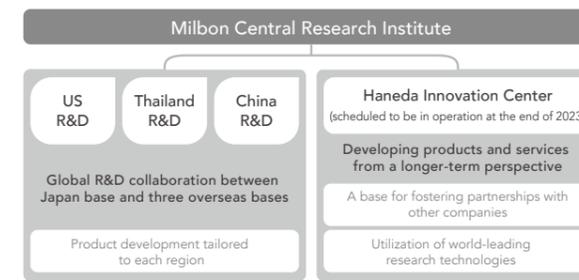


Global system for promoting local production for local consumption in the beauty industry



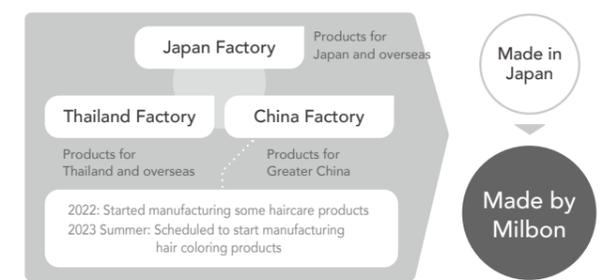
Global R&D

Milbon's global R&D system promotes R&D in each region and creates the buds of new R&D that will lead to innovative products and services.



Global production

Milbon's three factories are collaborating to strengthen local production for local consumption in the beauty industry with the aim of developing trust through a "Made by Milbon" philosophy instead of "Made in Japan."



Global logistics

Milbon is promoting mutual trade systems and logistics strategies in Japan and overseas to achieve a Global 2-Week Delivery standard.



Global HR

As part of efforts to enhance its global HR development program, Milbon is building the Human Resources Development Center in Odawara City, Kanagawa Prefecture, with the new center being about three times larger than the current Training Center in Osaka City.



Important progress made in 2022-23



- 1. Started operation at China Factory**
We completed work on our China Factory, which is our second overseas factory after the Thailand Factory, and started production of some haircare products for the China market. We are also currently gearing up to start production of hair coloring products, which will become mainstay products for us.
- 2. Expanded global R&D to four bases**
We established new R&D bases in Thailand and China. Through a global four-base system, including Japan and the United States, we aim to develop products tailored to the specific beauty of each region.

3. Established subsidiary in Germany as the first Milbon subsidiary in Europe

We established Milbon Europe GmbH in Germany as our first subsidiary in Europe. We will use this subsidiary to strengthen our development efforts in Europe.

Domestic Market Strategy: Salon-Based Social Innovation

Transforming hair salons into Beauty Platforms

Salon-based Social Innovation Strategy outline

Hair salons today are facing significant, structural issues, including a decreasing population and productivity-related industrial problems. To meet these problems, we have developed the Salon-based Social Innovation, our domestic market strategy, to transform hair salons into an essential beauty platform to help people live enriched lives.

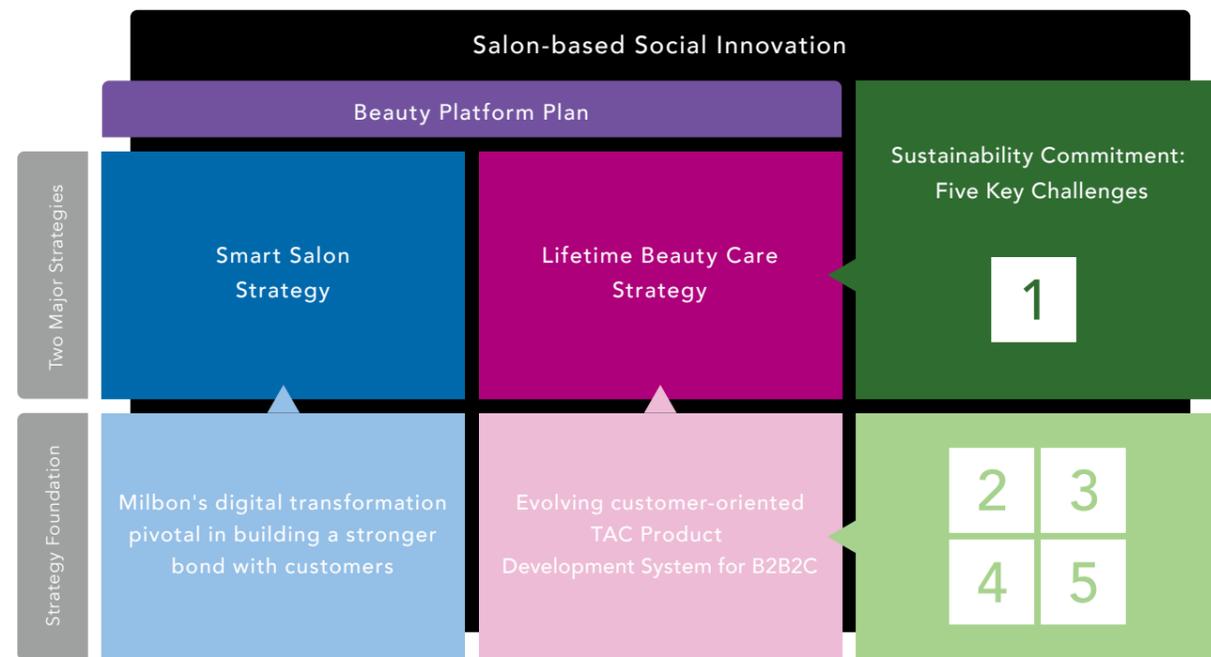
We have two specific strategies to reform

the format of hair salons. The first is the Smart Salon Strategy, a salon-driven plan to connect with consumers by fusing physical and digital worlds. The second is the Lifetime Beauty Care Strategy, a plan to expand from a haircare-centered business to one that includes the fields of skin care and beauty health care.

With the addition of our central Sustainability Commitment to this domestic market

strategy, we will work as one to address key sustainability challenges for both Milbon and the beauty industry more broadly.

Through these strategies and initiatives, we aim to maximize the value of hair salons, which enable frequent and extended in-person visits, transform hair salons into beauty platforms, and further contribute to enriching society and realizing sustainability through hair salons.



*The Five Key Challenges include: 1) Enriching the spirit through beauty, 2) Promoting recycling in manufacturing and consumption activities, 3) Practicing people-friendly procurement, 4) Constructing a fair and flexible management structure, 5) Realizing work environments with enhanced job satisfaction. See P42-, SUSTAINABILITY & ESG for details.

Factors and initiatives underpinning the Beauty Platform Plan

<p>Changing market needs</p> <p>Increasing haircare needs in line with increasing in-salon hair-coloring needs</p> <ul style="list-style-type: none"> Percentage of women aged 10–60 who receive coloring treatment at salons grew to 74.8%, up from 70.6% in 2017 (According to an NBBA survey in 2022; including people who also use home coloring) 	<p>Supporting stylists' expertise development</p> <p>Creating a human resource training program to improve expertise among hair professionals</p> <ul style="list-style-type: none"> Evolution of the Beauty Sommelier Training System Number of registered hair professionals using the education:iD service reached 23,000 	<p>Utilizing digital elements</p> <p>Achieving seamless communication with a focus on milbon:iD</p> <ul style="list-style-type: none"> Number of registered users of milbon:iD as of the end of FY2022 grew to approximately 448,000 people, up from 170,000 for FY2021. Number of hair salons using milbon:iD grew to 4,800
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Smart Salon Strategy: Fusing physical and digital worlds

Domestic launch of Smart Salons: Expansion to 100 cities in Japan by FY2026

The Smart Salon Strategy will create a new hair salon experience that fuses physical and digital worlds. After a preparatory stage in FY2022, we launched the strategy in January 2023 with the cooperation of participating hair salons. From the first salon in Shibuya, Tokyo, we have opened a total of eight salons as of June 30, 2023, in Osaka, Fukuoka, Kyoto and other cities. The future of hair salons has become reality.



MINX shibuya smart salon (Tokyo)



GIEN Smart Salon by milbon NU Chayamachi+ (Osaka)



lili by Ciel Smart Salon (Kyoto)

Challenges to growing knowledge-based product sales according to a haircare awareness survey

Q. How do you feel about haircare products sold in salons?



Value experience realized by Smart Salons

<p>KAORIUM —letting your nose be the guide</p> <p>AI-based expression and diagnosis of your fragrance preferences. By transforming the act of product selection from one based on effect alone to one that includes scent, KAORIUM not only engenders a more enjoyable purchasing experience, but it also guarantees encounters with novel products.</p> <p><small>*KAORIUM is a registered trademark of SCENTMATIC Corporation.</small></p>	<p>DAGASHI —search and sample</p> <p>Just like choosing candies in a penny candy store, DAGASHI enables you to casually try products recommended by your hairstylists or items of your interest at special trial prices.</p>
<p>Smart Salon Viewer —investigate and discover</p> <p>The tablet-based Smart Salon Viewer enables on-the-spot discovery of information about products used during treatments. People can also enjoy watching hair coloring simulations and other content, which raises the value of time spent in hair salons.</p>	<p>STYLESTOCK —suggestions from haircare professionals for you</p> <p>This new milbon:iD service delivers information on shampoos, cosmetics, styling techniques, and other recommendations from hairstylists direct to the customer's smartphone.</p>

Expo 2025 Osaka, Kansai: to Japan and the World

Smart Salon will be exhibited at Expo 2025 Osaka, Kansai. Many people will be able to experience this innovative salon model, providing broad exposure to society and customers, both in Japan and abroad.



Overview of Expo 2025 Osaka, Kansai
 Theme : Designing Future Society for Our Lives
 Exhibition : OSAKA Healthcare Pavilion—Nest for Reborn
 Period : April - October, 2025
 Venue : Yumeshima, Osaka
 No. of projected visitors : Approx. 28 million
 Provided by Japan Association for the 2025 World Exposition

Lifetime Beauty Care Strategy: Extending beauty to other fields

Developing innovative products and services in collaboration with companies possessing their own unique technologies

The Lifetime Beauty Care Strategy is our plan to expand from a haircare-centered business to the fields of skin care and beauty health care. By collaborating with companies that possess their own unique technologies, we seek to promote the development of innovative products that expand the potential of hair salons.

One of the pillars of this strategy is the cosmetics business that we launched in 2019 through Kosé Milbon Cosmetics Co., Ltd., a joint venture company es-

tablished in a capital and business alliance with Kosé Corporation. Through this alliance, we continue to launch new skin care products onto the market. Today in 2023, we are jointly developing new beauty equipment with Panasonic Corporation, and we are partnering with Kao Corporation to develop products in the beauty health care field.

Hair salons are spaces that enable frequent and extended in-person visits. If hair professionals use the trust they have developed with their customers

to discuss skin care and beauty health care in addition to haircare, hair salons themselves can become spaces for a lifelong partnership in beauty.

At the same time, these knowledge-based product sales can improve the productivity of hair salons where technical services contribute to a large portion of sales. They can also lead to sustainable growth of hair salons as a beauty platform together with Milbon.

Community characteristics unique to salons

The need for in-person service	The need for repeated, periodic visits	The need for an extended stay
Average rate of use in the past 1 year	Average number of visits per year	Average time spent per visit
Women 81.3%	Women 4.15 times	Women 85 minutes
Men 33.5%	Men 5.37 times	Men 51 minutes

(Source: Beauty Industry Census, First Half of FY2022 (Hair Salons), Recruit Co., Ltd.)

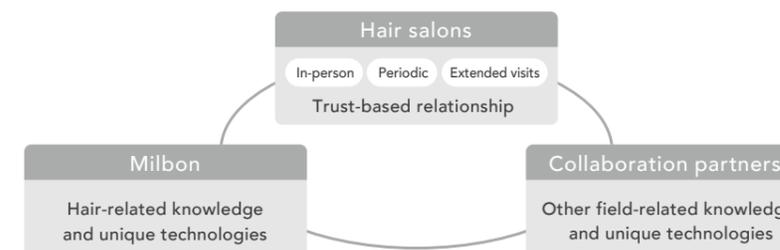
Utilizing unique community characteristics to expand in the value of hair salons



Collaborative innovation

To implement our Lifetime Beauty Care Strategy, we are collaborating with companies possessing their own unique technologies to develop skin care and beauty health care products and beauty equipment. 2023 saw the launch of jointly developed products, and going forward, we will use the technical innovation resulting from these collaborations to create new business models, products, and services for hair salons.

The formula for creating innovation through collaboration



Collaborative products launched and services provided beginning in 2023

Skin Care

Becoming Milbon's second business pillar through synergies with Smart Salons



Feb. 2023 Launch

iMPREA, Milky Soufflé UV

(Kosé Milbon Cosmetics)

iMPREA is brand of salon-exclusive cosmetics created by Milbon and Kosé and combining the respective strengths of each company. Taking advantage of the ability of hair professionals to propose products that accurately match the individuality and preferences of each customer, iMPREA currently offers a range of skin care, foundation, blush, highlighter, contour, eyebrow mascaras, and other products under the concept "Revolutionize Your Aura with your Professional Stylist."



Jul. 2023 Launch

New brand: im (Kosé Milbon Cosmetics)

First product: im Beauty Up Mist

Targeting the younger generation, with plans for widespread rollout through distributors

Beauty Equipment

Working to expand the range of beauty products and services that customers can experience in hair salons



Apr. 2023 Launch

ELMISTA, hair dryer with beauty serum atomizing function

(Panasonic and Milbon)

ELMISTA is a next-generation hair dryer possessing a beauty serum atomizing function, a product that combines the beauty appliance technologies of industry leader Panasonic and the hair science knowledge of Milbon. ELMISTA not only dries hair to a silk-smooth finish, but it also replenishes each strand of hair from the root to the tip with beauty serums tailored to concerns and desired textures, creating beautiful, smooth, and shiny hair.



Beauty Health Care

Promoting supplement-based health support for beautiful living

Sep. 2023 Launch

ALANOUS, beauty supplements

ALANOUS is a beauty supplement that has emerged as a result of approximately 20 years of research and development in the field of hair growth utilizing 5-ALA (aminolevulinic acid = a natural amino acid found in the body). Through this extensive research, new benefits such as improved skin and enhanced immunity were discovered, giving birth to ALANOUS as a beauty supplement.

Currently Under Development

Precision health care through sebum RNA monitoring (Kao and Milbon)

This collaboration aims to establish new, hair salon-based beauty health care services by leveraging Kao's advanced health care technologies and Milbon's extensive hair salon network. We are actively working to develop products and services that utilize sebum RNA for monitoring lifestyle habits, aiming to provide cutting-edge solutions in beauty and health care domains.

Milbon in the Eyes of Our Collaborating Partners

Toward the creation of a beauty consortium for Japan that resonates with the world



Koichi Shibusawa

Executive Director, Kosé Corporation



A partnership stemming from likeminded philosophies

The origins of the joint venture Kosé Milbon Cosmetics date back to 2007 and a dialogue between Reijiro Kobayashi, then Kosé chairman, and Ichiro Konoike, then president of Milbon, for a magazine. During the discussion, Kobayashi spoke of Milbon's corporate philosophy and how it resonated strongly with him. Following the global financial crisis and the Great East Japan Earthquake which demanded a response to continuing societal changes, Kosé reached a point where we needed to consider new avenues of business. While mulling our options, the sale of cosmetics

via hair salons emerged as a promising business strategy, and Milbon was the first name put forward as an ideal partner.

We knew that if we teamed up with Milbon, the domestic leader in selling exclusively to hair salons, we could create an immensely unique and novel business. Kosé, too, had a special attachment to salons, having previously collaborated with other companies in that industry. Milbon's integrity as a corporation also fit well with us, and we had a clear sense that we could keep pace with one another, working side-by-side to build a robust future.

Systems and ambitions generating a comprehensive, hands-on approach

During the process of developing our first joint product, iMPREA, we had a variety of realizations. Milbon's comprehensive, hands-on approach was particularly striking. One example is the role of Milbon employees under the Field Person (FP) System, the company's original sales system. As FPs, they are responsible for providing technical instruction and even business assistance to haircare professionals. Additionally, we were surprised to learn that, as a part of the TAC Product Development System which combines scientific expertise with the sensitivities and the stylistic techniques of hairstylists to create new products, Milbon's researchers were personally visiting salons to interview cli-

ents. What made it even more impressive was that their hair research is unparalleled in the domestic market.

Milbon has crafted a system based on its attitude of engaging seriously with hair salons, and you can sense that the company is endeavoring to take full advantage of those benefits. Milbon has long possessed a reputation for its superb training, and we came away feeling we had witnessed precisely that. The entire workforce embodies this set of corporate philosophies so consistently. This undoubtedly stems from their employees' deep-seated belief in the power of hair salons.

Furthermore, when it comes to haircare, skincare and other cosmetics, the count-

less items available render it difficult for customers to choose the product that is right for them, a fact we at Kosé are well aware of. With more than 200,000 hair salons nationwide, we recognize Milbon's enormous potential as a new sales channel, and we recognize the appeal within the cosmetics world of a space that can uphold the universal consumer mentality of wanting to buy items recommended by trusted professionals. From Milbon's point of view, too, sincerely engaging with haircare professionals equates to a similar engagement with the end consumer, and they manage to do this compellingly with ease. Such philosophy resonates with our own at Kosé.

Changing the mindset of salons to open up new channels

The number of items in the iMPREA line and the number of outlets stocking the brand are steadily increasing. At the same time, the attempt to establish hair salons as a new retail channel for cosmetics is going to necessitate changes in the long-held habits and mindset of salons, and many challenges still remain. In Japan, where population decline continues, hair

salons face limitations in securing revenue solely through the provision of services. That is why it is crucial for us to establish a retail sales strategy going forward. We recognize that it is our mission to ensure hair salons can operate with peace of mind and pursue their aspirations, while also providing customers with a fulfilling lifestyle.

In entering our business alliance, Kosé

and Milbon envision a future in which a large number of domestic corporations come together to form a globally recognized, Japanese beauty consortium. Through this collaboration, Kosé hopes to establish a set of best practices and proceed to collaborate with Milbon to further develop a beauty industry centered on hair salons.

Milbon collaborates with other companies as part of a multifaceted approach to beauty, aiming to turn hair salons into platforms for lifelong beauty that encompass more than just hair. Here, two companies with whom we formed partnerships with to explore new markets explain the story behind our collaboration and the value beginning to emerge as a result.

Innovative products born from rugged enthusiasm

Masaharu Nakamura

Director of Beauty Business Unit, Beauty and Personal Care Business Division, Living Appliances and Solutions Company, Panasonic Corporation

Milbon: the ideal business partner

We had long been aware of Milbon as a leading brand of salon-exclusive hair cosmetics. Many Panasonic employees are regular users of Milbon products, and they believed in the value of Milbon's products. For example, during the prototype stage of our hair dryers, some members of our staff damaged their hair by repeatedly testing the dryers on themselves, but one would often hear them saying, "It's okay—I use Milbon's products." In that sense, it would not be an exaggeration to say that Milbon's contribution to our product development was indispensable even before our collaboration began.

Given the accelerated changes in consumer needs—and thus the demand for rapid product development—Panasonic has been

proactive in seeking out collaborative business opportunities. I personally began to recognize the value of collaboration when assigned to our factory in China, where I witnessed the active use of external resources by local companies.

However, beginning a collaboration with another business is no small decision. Within our company, we place the utmost importance on whether the collaborative partner develops products backed by solid technology. Both Milbon's track record and our own employees' positive experiences with Milbon's products assured us that they were the right partner. And to achieve significant synergy, another obvious requirement is the combination of expertise from different in-



dustries. In that aspect as well, collaborating with Milbon, a professional in hair cosmetics, was ideal. Now, having engaged in joint development, I am confident that our collaboration with Milbon was the right decision.

Air that hair professionals demand—a revolutionary idea

The joint development of ELMISTA with Milbon has brought our company previously unimaginable value and experience. For example, the long-standing issue we had within our company regarding the relationship between the method of use and the optimal air was resolved within a few years with the introduction of the concept of the "air that hair professionals demand" proposed by Milbon. By combining it with the novel method of mixing air with Milbon's beauty serum mist, we were able to produce new value for our company. The significance of this collaboration cannot be overstated. This

idea, a humbling experience for our employees who prided themselves as "experts in airflow," could only be born out of the trust-based relationships Milbon had established with salons.

Furthermore, we were greatly inspired by the unwavering attitude of each and every individual at Milbon. It is evident that each person at Milbon carries a strong sense of responsibility, and they are driven by the understanding that the products they develop impact the trust relationship between hairstylists and customers. Even for hairdryers, a consumer electronic device outside

their typical area of expertise, they spared no efforts in attempting to understand its mechanisms. Furthermore, in keeping with the attitude of "anything for the customer," they willingly redesigned the product from scratch when the decision was made to do so. We know we can trust Milbon, for in search of the best outcome, their employees were always willing to express their opinions, even when they clashed with our own. Resting beneath the sleek image they project to consumers, in other words, we discovered a passion for excellence, leaving us with the sense that Milbon is an invaluable partner.

Choosing salons as a sales channel to communicate the real value of products

Because Panasonic primarily targets mass retailers, ELMISTA is the first product we have sold solely via hair salons. This was an undertaking only made possible due to our partnership with Milbon, which has built robust, trust-based relationships with salons, and one we settled on precisely because Milbon had systems in place for effectively communicating product information

to those salons. For a product with a new feature such as ELMISTA, it was essential to communicate both the product's value and its proper methods of use to haircare professionals, and it was equally vital that they communicated the same information to consumers to fully tap the ELMISTA's potential and to help people shine with beauty.

We do not want to see this collaboration

as a one-off and hope to continue working with Milbon to create value. We also want to extend a hand toward other Japanese corporations in the beauty domain and help Japanese beauty products take off in the global market. This has been a strong ambition of mine since my time in China. Naturally, though, I believe Milbon will play a central role within such a circle.

R&D Strategy

Continuing to sow the seeds of the future through inheritance, evolution, and external partnerships

Basic policies for R&D strategy

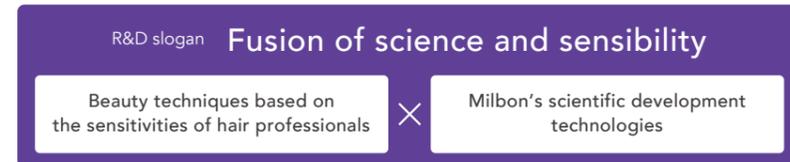
With the slogan "fusion of science and sensibility" as our guiding aim, Milbon works to develop products that leave a lasting impression on our customers by fusing beauty techniques based on the sensitivities of hair professionals with our own scientific development technologies. To realize this goal, we have spent years developing the TAC Product Development System, which seeks to devel-

op unique products in collaboration with hair professionals. As the foundation of our product development, this system will lead to sustainable growth for our company.

We have also established our R&D Vision 2026, which is based on our current medium-term management plan, and we are also developing an R&D system with both short-term and medium- to

long-term perspectives. Especially now, with our full-scale global expansion underway, we are driving the development of both global products based on global beauty needs and localized products based on the needs of each region. To develop necessary and beloved, we are using our Central Research Institute in Japan as a hub while simultaneously strengthening collaborations with our three R&D bases overseas.

Furthermore, to promote our Beauty Platform Plan, we are building a system to continually sow the seeds of new development, while actively supporting the expansion of R&D systems to accompany an expansion in our fields of business.



Evolution of the TAC Product Development System incorporating consumer perspectives

Because it incorporates hair salon and hair professional perspectives, our unique TAC Product Development System has traditionally enjoyed the support of hair salons and their customers (consumers).

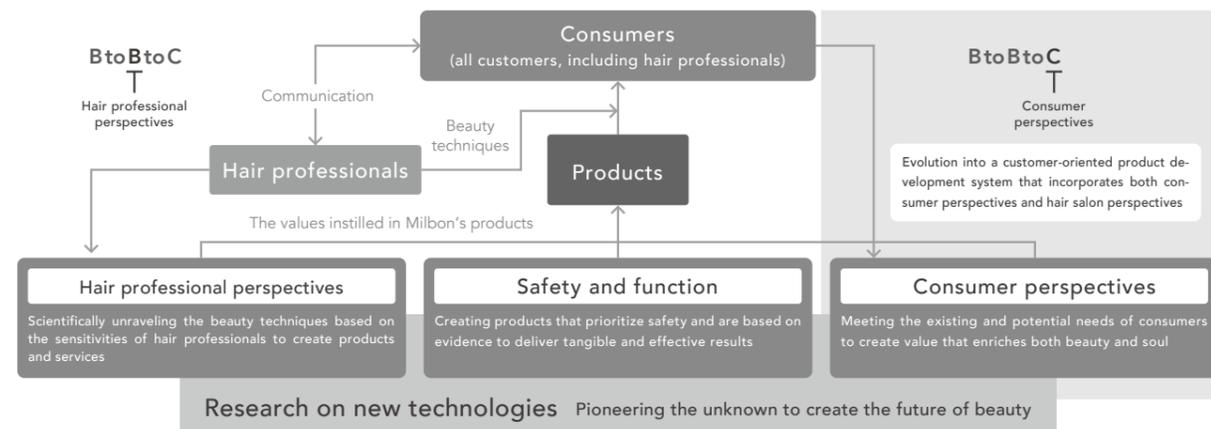
At the same time, the most common service conducted in hair salons has shifted from perms to hair coloring. Amidst this increasing need for haircare, it is not hair coloring and other professional-use products, but rather, haircare and knowledge-based products sold for home use that are central to our sales revenues.

Against this backdrop, we are currently advancing customer-oriented product development by thoroughly incorporating not only the traditional hair professional perspectives but also the consumer perspectives. By doing so, we aim to create products that will resonate with both hairstylists and consumers, and leave a lasting impression.

To achieve that, we have evolved our development structure to be based on evidence from both the hair professional perspective and the consumer perspec-

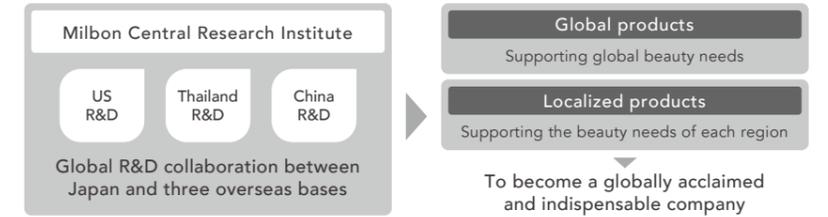
tive. This structure includes not only the thorough implementation of a field-oriented approach, where our research and development staff regularly visit salons, as well as verification by hairstylists, but also the increased frequency of customer surveys, group interviews, and other methods of gathering feedback. By incorporating insights from both perspectives, we are enhancing our development system to be more evidence-based.

*Knowledge-based product sales: A sales method where products are sold alongside valuable information based on the knowledge and insights of hairstylists.



Promoting a global R&D system in collaboration with overseas R&D bases

We are advancing the development of a global R&D system that caters to various beauty needs by focusing on our Central Research Institute in Japan and collaborating with R&D bases in the United States, Thailand, and China. Through this collaboration, we aim to create global products that capture beauty needs shared worldwide, as well as localized products tailored to specific countries and regions considering factors such as



climate, local customs, and regulatory requirements. This enables us to meet the

diverse beauty needs through a global R&D framework.

R&D at Haneda Innovation Center to help realize medium- to long-term plans

To realize our Beauty Platform Plan, we have to not only deepen our involvement in the hair domain, but expand our business into other fields as well. In R&D, it

is essential to acquire knowledge from other fields and collaborate with unique companies when needed. To this end, we will open the Haneda Innovation Center

at the end of 2023 and conduct highly confidential medium- to long-term researches that will produce the seeds of our future businesses.



Internal research system and external collaboration

With a strong recognition that research and development shape the future of our company, we allocate over 4.0% of consolidated net sales annually to R&D expenses. Among these, we place particular importance on fundamental research and have secured a team of around 20 researchers, accounting for one-fifth of our approximately 100 R&D staff. Since 2012, we have been conducting unique hair research utilizing the large-

scale synchrotron radiation facility called SPRing-8, and we possess top-class technology in fundamental hair research in Japan. The research outcomes we have obtained are not only utilized in the development of new products but are actively shared through external publications.

Furthermore, in addition to collaboration with companies possessing unique technologies, we have established partnerships

with public institutions and multiple universities to foster collaboration between industry, government, and academia. In FY2022, we established a Pharmacology & kinetics Collaborative Research Division in the Graduate School of Medicine at Osaka Metropolitan University, and we plan to further accelerate such collaborations through the establishment of the aforementioned Haneda Innovation Center.

Research achievements		Awards received	
Number of presentations at academic conferences	78	<ul style="list-style-type: none"> ● Outstanding Paper Incentive Award (23rd Journal of the Society of Cosmetic Chemists of Japan) ● Best Presentation Award (30th Annual Meeting of the Japanese Society for Pigment Cell Research) ● Hiroshi Itagaki Student Encouragement Award (33rd Annual Meeting of the Japanese Society for Alternatives to Animal Experiments) ● Young Scientist Support Scheme Award (14th Conference of the Asian Societies of Cosmetic Scientists, 2019) ● IFSCC Poster Award (30th Congress of the International Federation of Societies of Cosmetic Chemists, Munich, Germany, 2018) ● Award for the Outstanding Paper in JFST (43rd Annual Meeting of the Society of Fiber Science and Technology, Japan, 2016) ● Award for the Outstanding Paper in JFST (42nd Annual Meeting of the Society of Fiber Science and Technology, Japan, 2015) 	
		Japanese societies	60
		International societies	18

Performance indicators		FY2018 result	FY2019 result	FY2020 result	FY2021 result	FY2022 result	FY2023 plan
R&D expenses	Total amount	1.47 billion yen	1.53 billion yen	1.58 billion yen	1.74 billion yen	2.07 billion yen	2.37 billion yen
	Percentage of sales	4.2	4.2	4.4	4.2	4.6	4.8

Intellectual property rights strategy

At our company, our mission is to protect Milbon and Milbon's products, with our vision being to ensure the ability to provide products to the market with confidence. In line with this, we actively engage in activities such as patent applications for new technologies and investigations into patents held by other companies.

Furthermore, in addition to promoting our global R&D framework, we are also implementing a patent strategy that takes advantage of digital transformation, including AI-based patent searches and patent mapping software. Our aim is to incorporate intellectual property in diversifying R&D, including collaborative

research with industry, government, and academia.



Financial Strategy

Visualizing financial indicators centered on ROIC, and improving long-term corporate value

Basic philosophy of the financial strategy

According to our belief that “we will build a solid company that won’t collapse,” we have established a sustainable financial strategy for the five-year medium-term management plan, that works backward from our stated path of becoming the world’s No. 1 professional haircare manufacturer based (and first) in Japan.

The financial philosophy at the core of

our efforts is to maintain an equity ratio of at least 70%. We have established this goal not only to realize our belief to “build a solid company that won’t collapse,” but also taking into account research that found companies with an equity ratio between 60% and 80% have the highest profit growth potential.

While our current equity ratio is 83.4%,

we established the “at least 70%” standard to achieve sustainable management that maintains an optimum balance of readiness and growth allowing for unexpected events and ensures that overly focusing on maintaining a high ratio over 80% does not hinder growth. In this way, we are implementing a financial strategy that contributes to improved corporate value.

Financial philosophy	Maintain an equity ratio of at least 70%		
	FY2021 results	FY2022 results	FY2026 target
Cash position	13.3 billion yen	12.2 billion yen	18.3 billion yen
Equity ratio	83.33%	83.38%	85.5%
ROE	13.4%	13.2%	13.9%
ROIC	12.9%	12.5%	13.6%
Dividend payout ratio	43.3%	50.2%	50.0%
Investment amount	4.64 billion yen	4.09 billion yen	5-year total: 23 billion yen

Shifting from a cash-flow focus to utilization of ROIC, which emphasizes the balance sheet

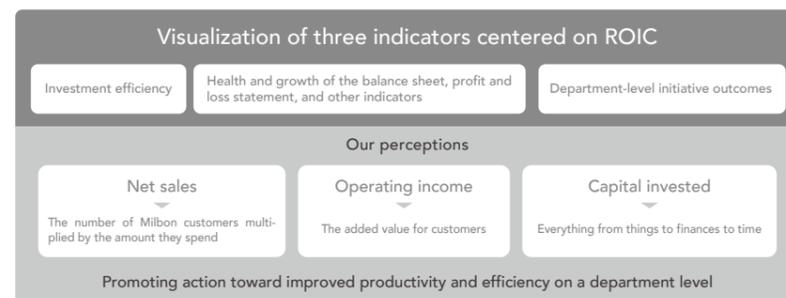
Until now, we have followed a growth strategy that sustainably achieves greater sales, profits, and dividends. However, considering potential future changes and the discontinuous nature of the social and economic environment, we have realized that a change in mindset from the financial perspective is also required. Considering future turning points we face as well, we also recognize an increasing need to anticipate changes in our profit and loss structure, and balance sheet structure, resulting from large growth investments and new business entries.

From financial analyses we have conducted in the past, there is a clear downward trend in our total asset turnover ratio and upward trends in our selling, general and administrative expense ratio and cost of sales ratio. Therefore, a major change in mindset is essential going forward in terms of efficiency and mea-

suring the effect of growth investments, and labor productivity.

Accordingly, we are shifting from our previous cash flow-focused approach to an approach that utilizes ROIC, which emphasizes the balance sheet as well. In this way, we are trying to visualize investment efficiency; health and growth of the balance sheet, profit and loss statement, and other indicators; and department-level initiative outcomes.

Furthermore, we aim to generate positive action toward improved productivity and efficiency on a department level, not just for management. We will do this by changing our perception of ROIC indicators, treating net sales as “the number of Milbon customers multiplied by the amount they spend,” operating income as “the added value for customers,” and capital invested as “everything from things to finances to time.”



Strategies and plans in the 2022–26 Medium-Term Management Plan

With these things in mind, we have established implementation of stakeholder capitalism and creation of long-term corporate value as the basic policy of our current medium-term management plan. By focusing on

(1) creating growth investments and a strong company through emphasis on investment efficiency, (2) achieving sustainable growth through optimization of profit sharing, and (3) building a financial base that can with-

stand unexpected events through financial management, we aim to improve long-term value for the company based on people (Human Capital), things (Manufacturing Capital), and finances (Financial Capital).



(1) Creating growth investments and a strong company through emphasis on investment efficiency

We are promoting the utilization of ROIC as previously explained, and implementation of appropriate investment strategies through visualization of investment efficiency to achieve our target indicator of ROIC of at least 13.6% in FY2026. As specific plans in our current medium-term management plan, we plan to invest 9.8 billion yen on enhancing production systems in Japan and overseas, including expanding production capacity of the Yumeogaoka Factory production base in Japan; 4.5 billion yen on improving training and other education

functions and facilities; and 1.7 billion yen on promoting digital technologies.

Of this investment, we are spending about 4.1 billion yen on capital expenditure in FY2022, with this plan currently 17.8% complete. Our main investments in FY2022 are detailed in the following chart. This includes 80 million yen in digital transformation in addition to 1.44 billion yen in land acquisition for the Human Resources Development Center in Odawara City, which is scheduled to begin construction in July 2023. We are planning to invest a total

of 2.9 billion yen in FY2023 as well. While enhancing production systems through expenditure on machines and equipment at our Thailand Factory, and continuing our program of investing in digital technologies, we are also funding development of our Haneda Innovation Center, which is scheduled to open at the end of FY2023, as a base for long-term R&D.

Throughout implementation of these plans, we will continually refine the effect and efficiency (profitability) of our investments.

	FY2021 results	FY2022 results	FY2023 plan	Through to FY2026 plan
Main investments	<ul style="list-style-type: none"> ● Sales and studio bases <ul style="list-style-type: none"> • Aoyama Sales Office establishment ● Production system <ul style="list-style-type: none"> • Thailand Factory building expansion • China Factory building development ● Digital <ul style="list-style-type: none"> • Milbon Digital Arena (virtual space system) • education:iD (Educational video platform for hair salons) 	<ul style="list-style-type: none"> ● Sales and studio bases <ul style="list-style-type: none"> • Base development (relocation of Kobe Sales Office, etc.) ● Production system <ul style="list-style-type: none"> • Yumeogaoka Factory machine and equipment cyclical investment • Thailand Factory machines and equipment ● Training <ul style="list-style-type: none"> • Human Resources Development Center land acquisition ● Digital <ul style="list-style-type: none"> • Milbon Digital Arena, education:iD, and milbon:iD related 	<ul style="list-style-type: none"> ● Sales and studio bases <ul style="list-style-type: none"> • Base development (relocation of Fukuoka Sales Office, etc.) ● Production system <ul style="list-style-type: none"> • Yumeogaoka Factory machine and equipment cyclical investment • Thailand Factory machines and equipment ● Digital <ul style="list-style-type: none"> • education:iD, milbon:iD, and Smart Salon (digital marketing) related ● Other <ul style="list-style-type: none"> • Haneda Innovation Center related 	<ul style="list-style-type: none"> ● Sales and studio bases <ul style="list-style-type: none"> • Domestic base development (new and relocation) • Overseas base development (new and expansion) ● Production system <ul style="list-style-type: none"> • Yumeogaoka Factory production system expansion • Yumeogaoka Factory machine and equipment cyclical investment ● Training <ul style="list-style-type: none"> • Human Resources Development Center related ● Digital <ul style="list-style-type: none"> • Milbon Digital Arena, education:iD, and milbon:iD related • Smart Salon (knowledge-based product sales software development) related
Investment amount	4.64 billion yen	4.09 billion yen	2.93 billion yen	5-year total: 23.0 billion yen

(2) Achieving sustainable growth through optimization of profit sharing

In terms of profit sharing, we will review the labor participation rate, improve productivity, and give back to our employees. To achieve this, we are currently investigating appropriate distribution levels while reviewing our remuneration policy.

In terms of shareholder and dividend policy, on the other hand, we are trying to improve shareholder returns by lifting the dividend payout ratio from 40% to 50% from the current medium-term management plan. Annual dividends per share for FY2022 were 86 yen, represent-

ing an increase of 18 yen from the previous year and a dividend payout ratio of 50.2%, which was our target. We expect to pay 88 yen as annual dividends per share in FY2023, as a yearly increase of 2 yen, which we expect to be a dividend payout ratio of 49.3%.

(3) Building a financial base that can withstand unexpected events through financial management

While continuing to apply our philosophy of maintaining an equity ratio of at least 70%, as previously explained, we are building a robust financial base as a

long-term growth investment fund and in anticipation of unexpected events. With an expected cash position in FY2026 of at least 13 billion yen under the current

medium-term management plan, we will continue striving to achieve an appropriate cash balance.

Through implementation of these strategies, we aim to build positive relationships with every stakeholder and improve the long-term corporate value of Milbon.

SUSTAINABILITY & ESG

Milbon and Social Challenges / Management Structure

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Overview of Sustainability Promotion and Progress of Initiatives

Overview of the Five Key Challenges centered on beauty, chosen to realize a sustainable society, and KPI progress and future initiatives for each challenge

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Disclosures Based on TCFD Recommendations

Milbon's climate change-related strategy, results of scenario analysis, and metrics and targets in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

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Sustainability Highlights

Activities related to sustainability from 2022 to 2023 in four categories: Environment, Society, Governance, and Education and Promotion

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Initiatives to Strengthen Corporate Governance

Milbon's approach to strengthening corporate governance, and progress toward system reform and other efforts to improve the effectiveness of the Board of Directors

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A Discussion by Outside Board Directors

Taizo Hamaguchi and Etsuhiro Takato

A discussion on Milbon's corporate governance initiatives, featuring Taizo Hamaguchi and Etsuhiro Takato, two outside board directors possessing extensive management experience at leading Japanese companies

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Governance Promotion Framework, etc.

List of board members and executive officers, and overview of the governance promotion framework, etc.

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COMMITMENT

Overview of Sustainability Promotion at Milbon

Enriching society and realizing sustainability through beauty

The Five Key Challenges for achieving a sustainable society

Milbon views sustainability as central to its strategy and pursues sustainability throughout all its business operations. Among those activities, we have identified Five Key Challenges requiring particular focus, and we are actively prioritizing those areas.



Key Performance Indicators for the Five Key Challenges

Priority themes	KPI [Medium- to long-term theme]	KPI progress information	2026 target	2030 target
Challenge 1: Enrich the spirit through beauty				
		KPI progress (as of Dec. 31, 2022)	From cultivating empathetic stylists to fostering sustainable cities and communities	
Establishment of knowledge-based product sales business utilizing both the physical and digital realms	① Number of registered milbon:iD members ② Number of cities in Japan where Milbon deploys knowledge-based product sales	448,618 0 (started deploying nationwide from 2023)	▶ 1 million ▶ 100 cities in Japan	—
Fostering lifetime beauty partners	① Total number of annual users of our studios, events, and educational videos ② Number of registered education:iD members	187,108 23,069	▶ 335,000 ▶ 100,000	—
Challenge 2: Promote recycling in manufacturing and consumption activities				
			Carbon neutrality as a response to the climate change crisis	
Establishment of a carbon-neutral production system	① Reduction rate of CO ₂ emissions at Yumegaoka Factory	59.7% reduction (compared to 2019 levels)	▶ 75% reduction (compared to 2019 levels)	Achieve carbon neutrality
Sustainable container and packaging design	① Reduction rate of petroleum-derived virgin plastic use (compared to 2020 levels, per unit sales)	0.4% reduction (compared to 2020 levels)	▶ 15% reduction in use (compared to 2020 levels, per unit sales)	30% reduction in use (compared to 2020 levels, per unit sales)
Challenge 3: Practice people-friendly procurement				
			Fair supply chain and responsible raw material procurement	
Sustainable procurement of palm oil	① RSPO certified palm oil adoption rate	4.47%	▶ 50% (MB+B&C)	100% (MB+B&C)
Respect for human rights in the supply chain	① Number of cases of human rights violations identified	0	▶ Keeping human rights violations as close to zero as possible	Keeping human rights violations as close to zero as possible
Challenge 4: Construct a fair and flexible management structure				
			Fair and flexible management structure	
Promoting diversity among the Board of Directors	① Appointment of outside board directors ② Active appointment of female board members ③ Securing diverse skills, including internationality	5 outside board directors (5 out of 11) 2 female board members (2 out of 14) 0 foreign board members (0 out of 14)	▶ Continuously appoint over 1/3 outside board directors ▶ Continuously appoint female board members ▶ Ensure diverse skills, including internationality	—
Improving the effectiveness of the Board of Directors	Progress in selecting and improving key challenges through third-party evaluations	Continuing	▶ Continuous improvement activities for setting annual challenges	—
Challenge 5: Realize work environment with enhanced job satisfaction				
			Establishment of an HR system that facilitates diverse working styles	
Achieving systems and framework that encourage employees to continue working	① Turnover rate of junior employees (new graduates to 3rd year) ② Paid leave utilization rate ③ Progress of engagement survey	10.0% 64.0% System design completed and first survey conducted	▶ Turnover rate 9% ▶ 70% paid leave utilization rate ▶ System design in 2022, target setting in 2023	Turnover rate 6% 80% paid leave utilization rate

Approach and framework for promoting sustainability

Milbon encourages all its employees, including senior management, to contribute to realizing a sustainable society. In an effort to enhance employee knowledge and awareness of the Sustainable Development Goals, Milbon held a company-wide workshop on SDGs, and has

since included sustainability workshops in all new employee training efforts. We also regularly publish an in-house web magazine to share the latest developments and company efforts related to SDGs to continuously raise awareness of the importance of sustainability. Fur-

thermore, the Sustainability Committee, chaired by the Managing Executive Director, was created to provide regular reports to the Board of Directors, allowing senior management to monitor and improve SDG-related activities.



Process for determining the Five Key Challenges

To determine the Five Key Challenges, in 2019 we debated the issues that Milbon should promote from three separate perspectives—ISO 26000, the 17 Sustainable Development Goals (SDGs), and environmental, social, and governance (ESG) perspectives—and arranged them within an SDGs/ESG matrix. The Sustainability Committee played a central role in this process, gathering input from various departments, outside experts, and senior management. Subse-

quently, we reassessed those themes within the matrix to identify those with high relevance to Milbon's business activities and those for which stakeholders have high expectations. The Five Key Challenges were then selected based on three areas: solving societal issues, achieving sustainable business growth, and establishing internal foundations.

In addition, we have designated "Enrich the spirit through beauty,"—one of the Five Key Challenges—as our core

issue, labelled Key Challenge 1. Providing beauty is not only integral to Milbon's business activities, but it also contributes to emotional well-being. We believe that a spiritually enriched society will engender a sustainable society. If Key Challenges 4 and 5 ensure that Milbon can continue to be sustainable, Key Challenges 2 and 3 will ensure that the entire supply chain encompassed by our business activity can continue to be sustainable.



Initiatives for the Five Key Challenges

KPI status and outlook for each of the Five Key Challenges



1. Enrich the spirit through beauty

Significant progress has been made in establishing platforms that aim to enrich people's hearts through beauty, resonating with both consumers and haircare professionals

Target 1: Establishment of knowledge-based product sales business utilizing both the physical and digital realms

Exceeding expected progress toward achieving 1 million members in 2026

Since the official launch of milbon:iD, our official online stores in June 2020, this new tool for communication between hair salons and consumers, fusing physical and digital worlds, has enjoyed a rapid rise in support. We are making steady progress toward achieving 1 million registered members by 2026.



Target 2: Fostering lifetime beauty partners

Enhancing effectiveness and efficiency of learning by haircare professionals using digital technology

The education:iD, our online service for haircare professionals, enhances learning effectiveness and efficiency through the utilization of digital technology, thereby supporting improvements in their work environment. We strive to foster Lifetime Beauty Partners who will provide lifelong support to customers.



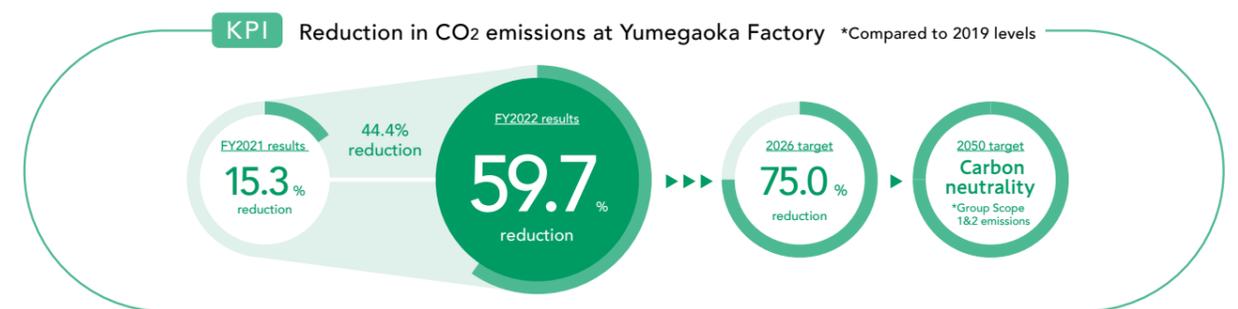
2. Promote recycling in manufacturing and consumption activities

Steadily address issues to minimize the environmental impact of production and consumption activities

Target 1: Establishment of a carbon neutral production system

Renewable energy use to allow attainment of the 75% reduction in 2023

At Milbon's core production facility, the Yumegaoka Factory, we have been adopting renewable energy since April 2022. In relation to the target of achieving a 75.0% reduction in CO₂ emissions (compared to 2019 levels) by 2026, a significant reduction of 59.7% was achieved in 2022. With the use of renewable energy throughout 2023, the prospect of achieving the 2026 target is in place. Meanwhile, in our pursuit of carbon neutrality by 2050, we have initiated the calculation of CO₂ emissions for all overseas facilities in addition to domestic operations. We will continue to advance measures and efforts toward achieving carbon neutrality.

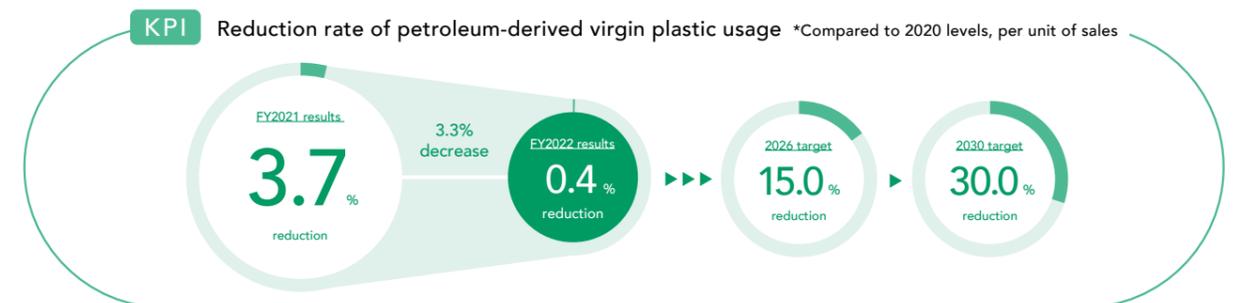


Target 2: Sustainable container and packaging design

While reduction in new products is progressing steadily, challenges remain for existing products

Milbon aims for a 15% reduction in plastic use by 2026 through implementation of the 4Rs. While progress was slow in 2022, we expect to achieve a reduction of at least 10% from 2020 levels from 2023 onward in all new products through introduction of capless products and aluminized plastic products. Issues remain, however, for existing products. Alongside efforts targeting new products, we will make progress on specific measures by gaining expertise from a variety of undertakings, such as the Kobe Plastic Next initiative pursued in collaboration with Kobe City.

Example) Improvements include eliminating caps





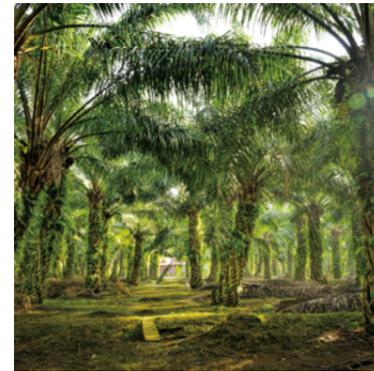
3. Practice people-friendly procurement

Progress made in establishing foundations for socially and environmentally friendly procurement throughout the supply chain

Target 1: Sustainable procurement of palm oil

Factory certification enables higher adoption rate

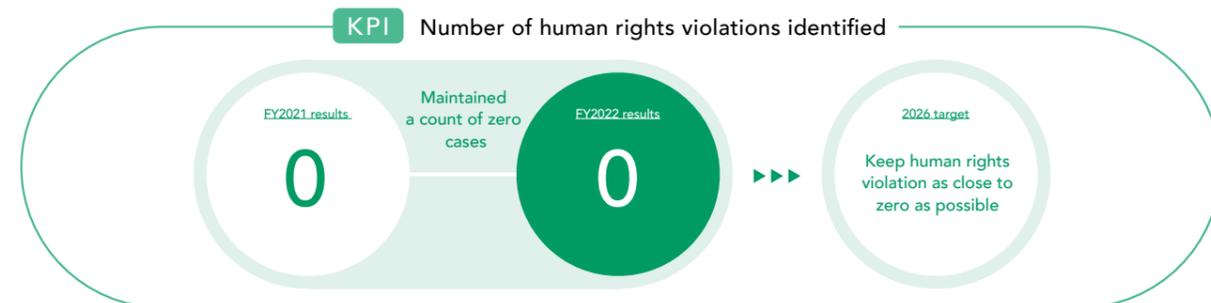
In FY2022, Yumegaoka Factory successfully obtained RSPO Supply Chain Certification. While the adoption rate itself saw a slight increase due to the need for preparations in purchasing certified raw materials, we plan to further improve it from FY2023 by gradually incorporating certified raw materials. Despite the challenges posed by the global increase in raw material costs, we will strengthen collaboration with our suppliers and strive to achieve our goals.



Target 2: Respect for human rights in the supply chain

Sustain zero human rights violations through establishment of Milbon Group Human Rights Policy

In FY2022, we established the Milbon Group Human Rights Policy as a shared understanding and commitment to respecting human rights throughout the entire value chain. We have also implemented measures such as establishing the Milbon Report/ Consultation Counter in collaboration with external partners to ensure that human rights issues are not overlooked. Moving forward, we will enhance our domestic human rights due diligence system and work toward building a due diligence framework that includes both domestic and international operations. We will continue our pursuit of zero human rights violations.



4. Construct a fair and flexible management structure

Making steady progress on securing diversity to bolster internal foundations for sustainable business growth

Target : Promoting diversity among the Board of Directors

Look to maintain diversity by increasing ratios of outside board directors and female board members

We are promoting the diversity of the Board of Directors by appointing outside board directors and female board members. We have already achieved our target of having five outside board directors out of a total of eleven. In 2022, we appointed one new female outside board director, bringing the number of female board members to two. To enhance the effectiveness of the Board of Directors, a system has been established to review the board's agenda in March every year. Through ongoing discussions, we will clearly define the management structure we should aim for as a company and continue to explore organizational structures that encompass diversity.





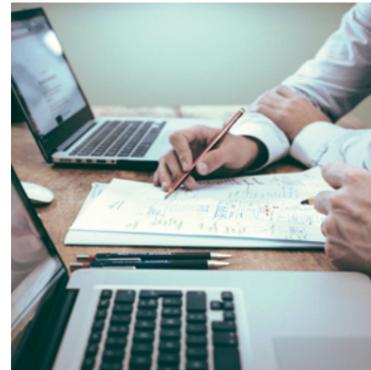
5. Realize work environments with enhanced job satisfaction

Advance efforts to establish work environments allowing employees who sense job fulfillment to keep working

Target : Achieving systems and framework that encourage employees to continue working

Plans for diverse initiatives in recruiting and for new employees to help minimize turnover

Most recently, the turnover rate for young employees is trending between 9% and 14%. Hearings with departing employees reaffirmed that mismatched placement was a major factor and further steps to lower the turnover rate were introduced in FY2022. To prevent mismatching in the recruitment stage, we are implementing measures tied to human resources criteria consistent with Milbon's plans for the future and to portfolio design. We will implement initiatives from diverse angles, for example through provision of adaptability support for employees on joining the company through training not only for new employees, but also for supervisors.



KPI Turnover rate of junior employees

*Average turnover rate for junior employees (new graduates to third year) over the past five years

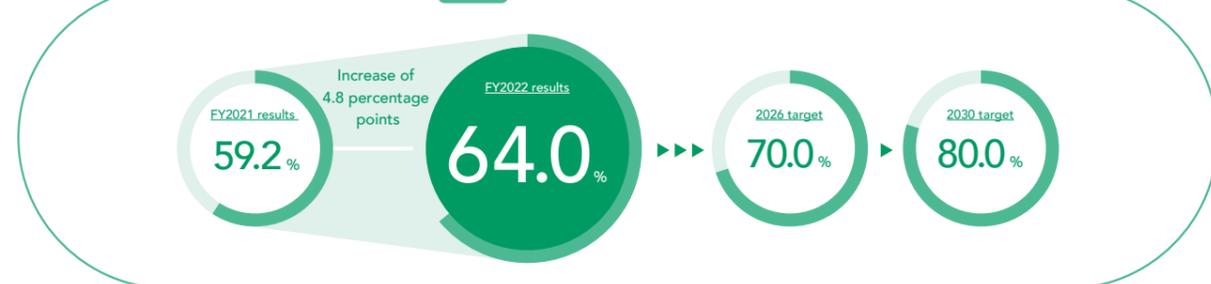


Paid leave utilization to be improved through flextime and visualization of utilization rates

Paid leave utilization improved 4.8 percentage points between FY2021 and FY2022. One likely factor behind this is an increase in leave options as part of a more flexible work style following the introduction of flextime in July 2022. And in December, we introduced a system allowing employees to visualize their paid leave utilization rates or those of their subordinates. Looking ahead to achieving our targets, we will advance efforts from two vantages—culture and systems—for instance by conducting detailed analyses of obstacles to leave utilization and by nurturing a mentality of setting an example, especially among managers.

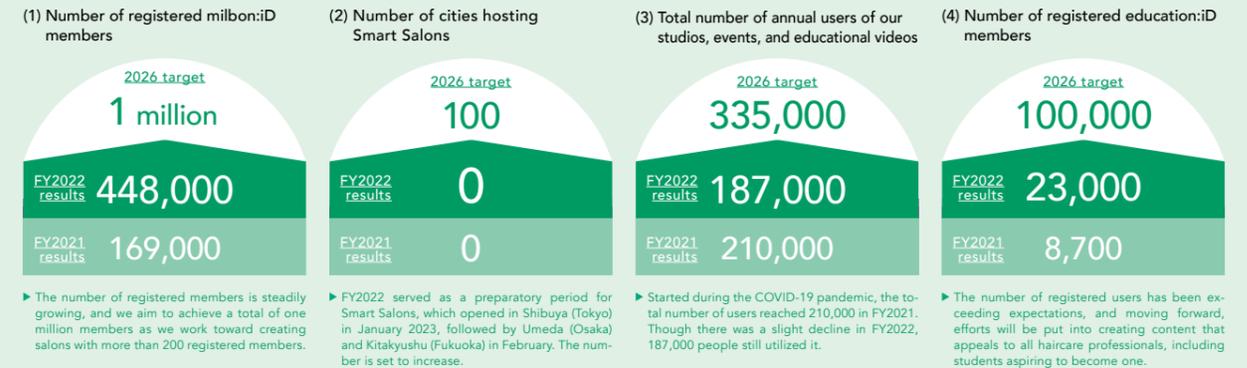


KPI Paid leave utilization rate

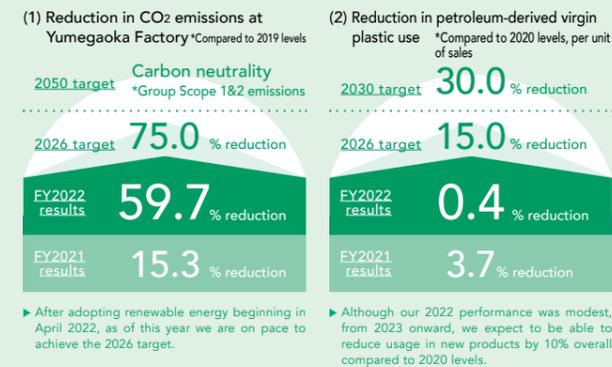


Five Key Challenges—Summary of KPI Progress

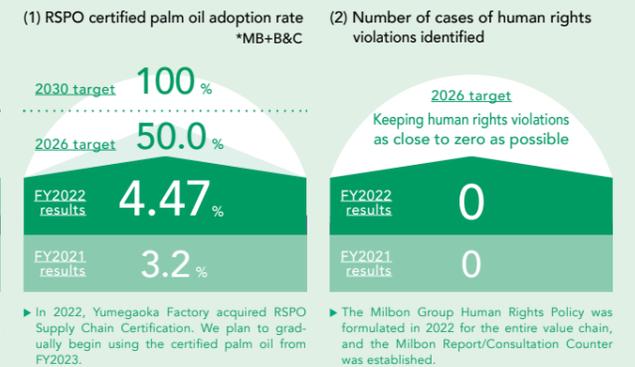
1. Enrich the spirit through beauty



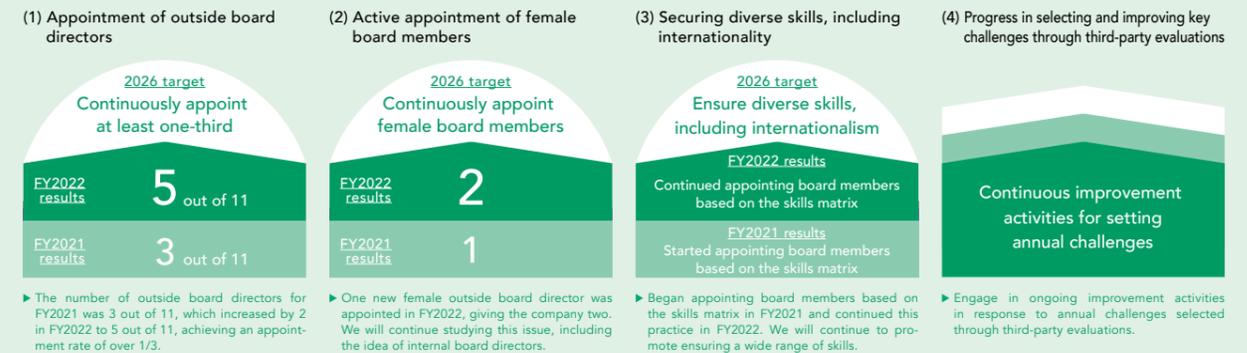
2. Promote recycling in manufacturing and consumption activities



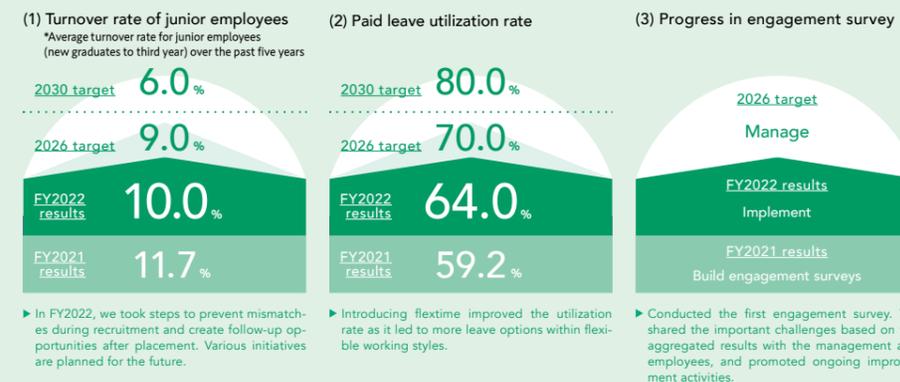
3. Practice people-friendly procurement



4. Construct a fair and flexible management structure



5. Realize work environment with enhanced job satisfaction



Disclosure Based on TCFD Recommendations

Response to climate change

Background to initiatives

The Paris Agreement entered into force in 2016 called for efforts to support the transition to a decarbonized society in the face of advancing climate change. As a long-term goal, signatories reached a global consensus to keep the average temperature rise to well below 2°C. In 2021, the Intergovernmental Panel on Climate Change (IPCC) published its Sixth Assessment Report containing the latest scientific findings relating to climate change, while at the COP26 United Nations Climate Change

Conference, nations adopted the Glasgow Climate Pact with a goal to limit the average global temperature rise to no more than 1.5°C above pre-industrial levels. It was against this backdrop that Milbon recognized climate change as a real risk with implications for management strategy and financial planning over the medium to long term and positioned it as a Key Challenge as part of its Sustainability Commitment.

The Milbon Group has set a target to achieve carbon neutrality of Scope 1 and 2

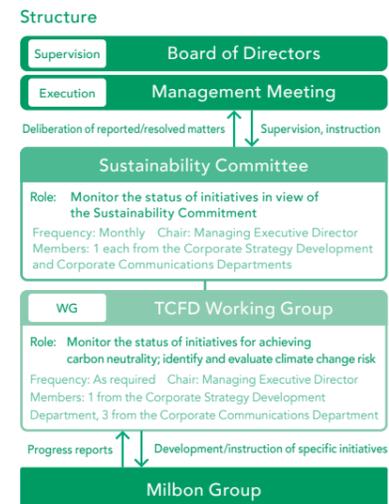
emissions by 2050. To meet this target, we believe we need to both put in place organizational structures that can make quick decisions for progress on decarbonization and to work together with all stakeholders. Through disclosure of information to, and dialogue with, all stakeholders relating to climate change, we aim to ensure information transparency while elevating our climate change activities and disclosure to a new level, thereby stepping up our contribution to realizing a sustainable society.

Milbon declared its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in December 2022 and became a member of the TCFD Consortium, a Japanese organization comprised of corporations supporting the TCFD recommendations, in January 2023. Milbon will continue to take proactive steps to address climate change while disclosing information in line with the TCFD recommendations.

Governance and risk management

Milbon views sustainability-related issues as significant business challenge and has put in place a promotion framework for resolving those issues. Specifically, the Sustainability Committee, chaired by the Managing Executive Director, meets once a month. The Sustainability Committee examines and discusses policy on climate change action and issues around implementation of related measures with details reported, or submitted for discussion, to the Management Meeting and the Board of Directors as required. The Board of Directors regularly supervises this process, instructing courses of action and adjusting strategy accordingly. Installed beneath the

Sustainability Committee, the TCFD Working Group is responsible for exploring specific measures for realizing the organization's carbon neutrality target, deploying those measures across the Milbon Group, and managing and monitoring the progress of initiatives, as well as reporting to the Sustainability Committee on the progress or status of initiatives. The TCFD Working Group also identifies climate change-related risks to the organization. Once every half year, the TCFD Working Group reports on the status of its activities to the Management Meeting and the Board of Directors via the Sustainability Committee and receives supervision from the Board of Directors.

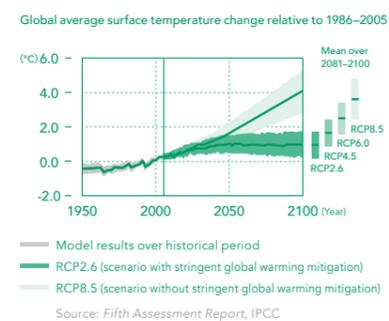


*Matters covered in deliberation by the Sustainability Committee and the TCFD Working Group in FY2022 include the formulation of ethics, human rights, and environmental policies; management of progress of the Five Key Challenges under the Sustainability Commitment; implementation of scenario analyses and reporting on findings; and formulation of annual targets supporting attainment of carbon neutrality by the Milbon Group.

Strategy

For this, the first fiscal year of TCFD disclosure, we conducted a scenario analysis of Milbon Co., Ltd., the standalone core of the Milbon Group. For the scenario analysis, we envisaged temperature rises of 1.5°C and 4°C and examined the risks and opportunities presented by climate change at three points in time—the years 2025 (short-term), 2030 (medium-term), and 2050 (long-term). Scenarios provided by the IPCC and the International Energy

Agency (IEA) were used for the analysis. For the 1.5°C temperature rise scenario, we analyzed the impact of changes in policy, regulations, technology, markets, and consumer perceptions associated with a transition to a decarbonized society. For the 4°C temperature rise scenario, we analyzed physical impacts resulting from both acute change (e.g. heavy rainfall, floods) and chronic change (e.g. increases in average temperature, changes in annual rainfall).



Results of scenario analysis

Scenario analysis revealed around 40 risks and opportunities for Milbon Co., Ltd. The impacts of these risks and opportunities for Milbon were evaluated, and responses were considered. Results of scenario analysis showed that Milbon would potentially be significantly impacted by increases

in raw material procurement costs under both 1.5°C and 4°C scenarios and would potentially be significantly impacted by an increase in the costs of the company's own operations under the 1.5°C scenario. The results also showed that progress on promoting recycling in manufacturing and

consumption activities and practicing people-friendly procurement, as prescribed in Milbon's Sustainability Commitment, would help minimize identified risks and capture identified opportunities. Measures will also be advanced as part of efforts in other areas.

Description of opportunity-risk	Classification	Time frame	Impact	Envisaged responses		
1.5°C temperature rise scenario						
Raw material procurement	Increase in procurement costs due to the introduction or expansion of carbon pricing applicable to suppliers	Risk	2030	Large	Plant-derived raw materials	<ul style="list-style-type: none"> Survey procurement channels and traceability in the context of risk related to climate change and the international situation Investigate efficient procurement and purchasing methods for securing raw materials Estimate the increase in costs to suppliers due to carbon pricing, investigate passing on costs to product prices, and investigate alternative raw materials Actively use RSPO certified palm oil. Target 100% use of Mass Balance certified palm oil by 2030.
	Increase in procurement costs resulting from land use constraints due to laws and regulations for protecting forests	Risk	2025	Medium		
	Increase in procurement costs due to strengthening of laws and regulations relating to raw material traceability	Risk	2030	Medium	Containers and packaging materials	<ul style="list-style-type: none"> Actively use plant-derived plastic and resin-reducing molding methods for packaging of new products with the aim of reducing petroleum-derived virgin plastic use by 30% by 2030 Research plastic container recycling methods Estimate the increase in costs of containers and packaging materials due to carbon pricing, investigate passing on costs to product prices, and investigate alternative raw materials
Milbon's operations	Increase in operating costs due to the introduction or expansion of carbon pricing applicable to Milbon	Risk	2030	Small	Use of our own energy	<ul style="list-style-type: none"> Estimate the cost of carbon pricing for Scope 1 and 2 emissions using carbon prices under the NZE scenario in WEO 2021, 2022 Increase the percentage of electricity generated in-house based on projections of rising electricity costs
	Increase in energy costs due to rising retail electricity prices	Risk	2030	Medium		
	Increase in compliance costs due to more stringent laws and regulations at various worldwide locations	Risk	2030	Medium		
	Increase in costs for adapting to a circular economy	Risk	2030	Medium	Response to laws and regulations	<ul style="list-style-type: none"> Identify the various regulations and envisage switching to other raw materials or passing on costs to products depending on the impact of rising costs Secure costs and establish internal systems for adapting to laws and regulations, particularly in the EU
	Increase in sales due to a rise in competitiveness as a result of the impact of carbon pricing on competitors	Opportunity	2030	Medium		
Decrease in emissions and energy costs due to the introduction of in-house power generation	Opportunity	2030	Medium			
Demand for products	Increase in sales of environmentally friendly products	Opportunity	2030	Medium	Product development	<ul style="list-style-type: none"> Develop products that respond to the needs of consumers' daily lives, enhance functionality, and reduce environmental impact
4°C temperature rise scenario						
Raw material procurement	Increase in the cost of procuring palm oil and other plant-derived raw materials due to climate change	Risk	2050	Large	Procurement	<ul style="list-style-type: none"> Research palm oil alternatives and investigate adapting by altering the existing formula Estimate fluctuations in the price of procuring palm oil due to climate change Research raw materials and securing of procurement channels Ascertain the impact of climate change on each raw material Survey climate change in countries where principal natural raw materials originate and undertake activities to protect those materials
	Decrease in procurement costs due to initiatives for ensuring stable procurement of raw materials	Opportunity	2030	Medium		
Milbon's operations	Increase in costs for repairing damaged manufacturing facilities	Risk	2050	Small	Disaster response	<ul style="list-style-type: none"> Confirm that insurance will cover repairs to manufacturing facilities damaged in a disaster Prepare alternative transportation arrangements in readiness for disaster due to concerns about the impact on some logistics warehouses
	Decrease in sales due to impacts on deliveries and increase in costs due to damaged inventories as a result of flooding and typhoon damage	Risk	2050	Small		

Metrics and targets

Activities to minimize the risk of increases in raw material procurement costs, which scenario analysis results indicate would have the largest impact on our business, will continue through efforts to achieve targets for reduction of petroleum-derived plastic containers and packaging and for procurement of RSPO certified palm oil. To address the risk of increased

operating costs due to the introduction of carbon pricing and escalating electricity prices, in addition to our CO2 emission reduction targets for 2030, we have set a new goal for the Milbon Group to achieve carbon neutrality by 2050. With regard to the Milbon Group's Scope 1 and 2 emissions, first we will aim to achieve carbon neutrality at Yumegaoka Factory,

our manufacturing base and the Japanese business location with the highest CO2 emissions, by 2030. We will then aim to achieve carbon neutrality across the Milbon Group by 2050. We will continue our efforts to minimize risk by regularly monitoring the status of initiatives for achieving carbon neutrality and developing measures to address risks.

	2026	2030	Recorded emissions (t-CO ₂)			
Targets for reduction of petroleum-derived virgin plastic (compared to 2020, volume used per unit of net sales)	15% reduction in the use of petroleum-derived virgin plastic	30% reduction in the use of petroleum-derived virgin plastic	2019	2020	2021	2022
RSPO certified palm oil adoption rate (MB+B&C)	50%	100%	1,248	1,205	1,300	1,357
Yumegaoka Factory			3,151	2,707	2,829	1,531
Milbon Group			502	471	503	530
Targets for reduction of CO ₂ emissions (Scope 1 and 2)	2026: 75% reduction (compared to 2019) 2030: Carbon neutrality	2050: Carbon neutrality	1,931	1,739	1,560	450
Yumegaoka Factory emissions as a percentage of Milbon Co., Ltd. emissions			55.3%	56.5%	51.5%	33.9%

2022-2023 Sustainability Highlights

2022	Environment	Social	Governance	Sustainability education and promotion
Jan	Villa Lodola COLOR Interval Re-Care won the Jury's Award at the Sustainable Cosmetics Award 2021, and Milbon Co., Ltd. won the International Award in the corporate category for its efforts to promote SDGs	Released the 2021-2022 special brand film "Words I Encountered at the Salon"	Appointed two female executive officers for the first time	
Feb		Launched MILBON BEAUTY MOVIES, a "Find Your Beauty" short film project, in collaboration with Short Shorts Film Festival & Asia	Completed third-party questionnaire and interviewed outside board members to evaluate Board effectiveness in FY2022	Positioned our Sustainability Commitment at the core of our strategies, and updated KPIs, in the new medium-term management plan
Mar	Developed a system to predict the result of alternative methods to animal testing on eye irritation using the HSP method	Resolved to donate 100,000 euros to the Office of the United Nations High Commissioner for Refugees to provide humanitarian assistance to victims of the military conflict in Ukraine and neighboring regions	Appointed one new female outside board director	Began publishing FY2022 editions of <i>Yomu Milbon</i> , an internal web magazine continuously published since 2020 to support employee efforts toward sustainability
Apr	Adopted smaller caps (54% less plastic) for new hair color line, ENOG	Recognized as a Certified Health & Productivity Management Outstanding Organization for 2022	Appointed two new outside board directors, bringing the total number of outside board directors to five (ratio of outside board directors: 45%)	
Apr	Switched all electricity used at the Yumegaoka Factory, our core domestic plant, to RE100 standard renewable energy	Formulated and announced the Milbon Group Human Rights Policy	Invited an external presenter to provide Human Rights Training for board directors, Audit & Supervisory Board members, and executive officers	
May		Set a target of 20% ratio of female in management positions by 2030 in order to secure diversity of core human resources	Established the Risk Management Committee comprised of internal board members, Audit & Supervisory Board members, and executive officers	
Jun		Awarded the MILBON BEAUTY AWARD to the short film that most embodied "beauty" from among films presented at Short Shorts Film Festival & Asia 2022	Outsourced Milbon's internal contacts for whistleblowers to a third-party organization and promoted it to employees	
Jul	Acquired RSPO Supply Chain Certification at the Yumegaoka Factory, our core domestic plant			Established the TCFD Working Group within the Sustainability Committee
Aug	Adopted new packaging using a plant-derived plastic blend for new products, COLOR GADGET Color Shampoo and Mizulisse			

Main sustainability-related initiatives in 2022 and 2023

	Environment	Social	Governance	Sustainability education and promotion
Sep			Invited an external presenter to offer a TCFD Study Session for board directors, Audit & Supervisory Board members, and executive officers	
Oct		Conducted an employee engagement survey for FY2022	Invited an external lawyer to offer a Corporate Governance Study Session for board directors, Audit & Supervisory Board members, and executive officers	
Nov	Awarded a Silver EcoVadis Sustainability Rating			
Dec			Established the voluntary Governance Committee to discuss medium- to long-term improvements for corporate governance	
2023	Became a signatory to the recommendations of the TCFD	Launched Smart Salon as a new hair salon format that fuses physical and digital worlds to satisfy the customer's desire for more		Revised our structure for promoting sustainability and added the Education and Promotion Working Group in addition to the TCFD Working Group within the Sustainability Committee. Also assigned sustainability promotion members within each business division and strengthened collaborations
Jan	Joined the TCFD Consortium			
Feb	Changed container specifications for haircare products to reduce the amount of plastics used, aiming to reduce by approx. 10 tons per year	Donated 10 million yen to Japan Platform's Emergency Response to Southeast Turkey Earthquake 2023 program to support disaster relief and recovery efforts for those suffering from the earthquake in Turkey and Syria		
Mar	Formulated and announced the Milbon Group Environmental Policy	Recognized as a Certified Health & Productivity Management Outstanding Organization for 2023	Formulated and announced the Milbon Ethics and Code of Conduct	
Apr	Participated in Kobe Plastic Next, a program for recycling refill packs and cleaning up Kobe City	Extended new sports sponsorships with female professional golfers to inspire future-focused people to live beautifully		
Apr	Announced our climate change policy on the corporate website in line with the TCFD recommendations			Began publishing FY2023 editions of <i>Yomu Milbon</i>
May	Adopted new containers, that use 75% less plastic than existing containers, for the new Villa Lodola RENOVO product series			
Jun		Held the second MILBON BEAUTY AWARD ceremony		

Initiatives to Strengthen Corporate Governance

Realizing comprehensive evolution and transformation of organizational governance in anticipation of the next stage

Masahiro Murai

Managing Executive Director in charge of Sustainability Promotion

For Milbon, enhancing corporate governance is a critical management challenge. Through greater transparency, fairness, and management efficiency, we aim for ongoing improvements to corporate value. Reexamining the results of FY2022, Managing Executive Director Masahiro Murai explains initiatives underway to bring about better and stronger corporate governance.

Strengthening corporate governance in preparation for the future

Milbon views sustainability as one of its most important goals, and we are taking steps to “construct a fair and flexible management structure” that allows us to fulfill our commitment to all the various stakeholders in society and deliver lasting value. We believe that a company’s corporate governance system must function accurately and reliably for it to achieve sustainable corporate growth.

With the exception of FY2020, the beginning of the COVID-19 pandemic, Milbon has been on a consistent growth trajectory, enjoying revenue increases in every year following the company’s listing

on the stock exchange. With regard to corporate governance, however, we were initially slow to make reforms—something we deeply regret. One of the main reasons underlying this slow adoption of corporate governance was that our business was growing and our share price was steadily growing even without actively focusing on corporate governance. However, in light of changing social conditions and the speed of our corporate and business expansion, it became necessary to overhaul both the corporate governance system and the foundations we had established if we wished to entrust Milbon

to the next generation. At present, we are pushing ahead with various reforms.

As we transition to a new stage of growth, the next few years will be crucial for determining how to transform our management framework and heighten the effectiveness of our corporate governance. We are engaging in discussions from various perspectives, looking ahead to the future of Milbon in the next five years, ten years, and beyond. Our focus is on reviewing our management structure and strengthening corporate governance to align with our vision of the future.

Advancing initiatives aimed at improving corporate governance effectiveness

In FY2022, we carried out a significant number of reforms to strengthen the corporate governance system. First, we increased the number of outside board directors in line with Japan’s Corporate Governance Code as it applies to the Prime Market with the aim of improving the effectiveness of the Board of Directors and ensuring its transparency. All outside board directors elected to date have possessed extensive experience, with some even having served as representative directors of prominent Japa-

nese companies. With the inclusion of insights and opinions from executives and experts, we have experienced a steady evolution toward a Board of Directors that fosters lively discussions. This has enabled us to hold more accurate and well-informed deliberations.

We also took steps to strengthen the monitoring function of the Board of Directors and promote greater separation between management and supervision. This involved the establishment of a new Management Meeting made up of board

directors, Audit & Supervisory Board members and executive officers from within the company, the aim being to create an organizational framework allowing both the Board of Directors and the Management Meeting to perform their respective functions effectively. There are also benefits to the dissemination of information given that Management Meeting members are also heads of departments and can clearly communicate contents of Management Meeting deliberations and the processes behind them within their

departments. This helps to ensure that decision-making by management is appropriately conveyed to employees.

Following implementation of the FY2022 plan, in FY2023 we sought to enhance the effectiveness and efficien-

cy of meetings by creating a bureau for the Board of Directors, the Management Meeting, and the Nominations and Compensation Committees. Structures put in place to enable the smooth performance of tasks, such as arranging meeting agen-

das, implementing activities according to annual schedules, making preparations, and following up on proceedings, have started making a difference through greater effectiveness of the different organizations.

The growing importance of comprehensive governance management due to global expansion

Between FY2019 and FY2022, three new committees were established—the Sustainability Committee, Risk Management Committee, and Governance Committee.

The Sustainability Committee, which I chair, was established in FY2019. It promotes companywide implementation of sustainability activities centering on the Five Key Challenges and bears a duty to report to the Board of Directors and the Management Meeting. Coordinating with both management and employees, it serves as a hub organization within the company.

The Risk Management Committee, established in FY2022, is chaired by the President & CEO and comprises board directors, Audit & Supervisory Board

members and executive officers from within the company. The committee designates risks that need to be tackled as a company due to their importance and priority as companywide risks, and advances measures after selecting representatives for each type of risk from among Risk Management Committee members. Companywide risks currently being addressed include: (1) risks relating to confidentiality; (2) risks relating to governance of overseas subsidiaries; (3) risks relating to appropriate communication of information to consumers; and (4) risks relating to disasters caused by major earthquakes and business continuity.

The Governance Committee, also formed in FY2022, is chaired by the Pres-

ident & CEO and comprises three board directors from inside the company, including the President & CEO, and one outside board director. It undertakes deliberations contributing to corporate governance improvements over the medium to long term, primarily regarding the effectiveness of the Board of Directors.

Each of these three committees is closely involved with the Board of Directors and the Management Meeting. As such, we have created a framework enabling comprehensive governance management, and we are reviewing the corporate governance system to reflect a fresh stage of growth awaiting us.

Aiming for corporate governance that keeps evolving

I have talked here about initiatives for making corporate governance at Milbon stronger and better, but there is no one correct format for corporate governance, and the Corporate Governance Code is merely presented as one set of guidelines. This became increasingly apparent to us during observational visits to several companies recognized as corporate governance leaders. We believe that

for Milbon to enhance its corporate value over the medium to long term, it is essential that we establish a framework that allows us to reach for even greater heights. We will do that by laying foundations enabling ongoing discussion about Milbon’s corporate governance priorities and by improving effectiveness while referring to outside parties for judgment and evaluation.

Milbon will continue its quest to establish a sound management framework by persisting with efforts to realize stronger and better corporate governance that results in high stakeholder regard for our management transparency, fairness, efficiency and objectivity and enables strategic decision-making by senior management after active deliberation.

New initiatives in FY2022–23

Increase the number of outside board directors	Enhance lively, accurate debate from management and specialist’s perspectives
Newly establish the Management Meeting comprising board directors, Audit & Supervisory Board members and executive officers from within the company	(1) Strengthen monitoring by the Board of Directors (2) Run the Board of Directors and Management Meeting effectively (3) Adequate companywide communication concerning decision-making
Newly establish a bureau	(1) Improve the effectiveness and efficiency of such meetings as the Nominations and Compensation Committees (2) Implement activities according to annual schedules (3) Enhance meeting preparations and follow-up
Newly establish the Risk Management Committee	Designate risks that need to be tackled as a company due to their importance and priority as companywide risks and advance measures
Newly establish the Governance Committee	Undertake discussions contributing to corporate governance improvements over the medium to long term, primarily regarding the effectiveness of the Board of Directors

A Discussion by Outside Board Directors

Driving steady reform in line with the changing stages of Milbon

At Milbon, we engage the services of outside board directors with extensive experience and knowledge to supervise management and offer advice from their multifaceted and objective perspectives. In this way, we strive to ensure transparency and improve efficiency of management. We invited Taizo Hamaguchi and Etsuhiro Takato, two outside board directors with management experience at leading Japanese companies, to provide their opinion on our corporate governance initiatives and to discuss such things as challenges to future sustainable growth for our company.



Taizo Hamaguchi, Outside Board Director

(Executive Director of ITOCHU Corporation) After joining ITOCHU Corporation, he served as Executive Officer of ITOCHU Corporation, and separately as President and CEO, Chairman, and Advisor of ITOCHU-SHOKUHIN Co., Ltd. He currently works as Executive Director of ITOCHU Corporation.



Etsuhiro Takato, Outside Board Director

(Advisor to Ajinomoto Co., Inc.) After joining Ajinomoto Co., Inc., he served as President and Director of various overseas subsidiaries, President of Ajinomoto SEA Regional Headquarters Co., Ltd., and Representative Director of Ajinomoto Co., Inc. He currently works as an advisor to the company, and as an outside board director for Seven Bank, Ltd. and TOKYO VERDY, Inc.

A series of steady, flexible improvements

Takato: I was invited to join Milbon as an outside board director in FY2022, so I would like to ask you, since you have held this role since 2016, for your opinion of governance at Milbon.

Hamaguchi: I remember that Milbon was still a developing company when I was first invited to be an outside board director. Over the six years of my engagement, I have seen the company make steady improvements in the areas that needed improving.

Takato: Even over the year since I took up this post, I have noted changes that are happening. Corporate governance is a term that has gained a lot of attention again recently, but can I ask when you first became aware of this concept?

Hamaguchi: I think it was at the beginning of the new century. Prior to that, we used

the term “management” in the same context. The term “governance,” which is originally a Western concept, started to appear around the turn of the century. During that time, the business community was talking about the need for companies to focus on compliance as social entities and, in turn, society also started to see companies from that perspective. Companies started thinking about what concrete action they should take, and the concept of governance became a necessary part of that. So, it might be more accurate to say that “management” turned into “compliance” and then into the popular concept of “governance.”

Takato: I think you are right. Until that time, many companies believed that profits were all-important, but there was a gradual shift among the general population toward thoughts of the earth and society as a

whole. This brought companies to a crossroad requiring a change in mindset where they also had to contribute to society, as social entities, to achieve growth. I think it was this change in mindset that was behind the popularization of governance. Having said that, my understanding is that this was just a restating of the commonsense reality that companies also have to operate honestly, for the sake of society.

Hamaguchi: In other words, companies that do not contribute to the earth and society in an honest manner will no longer be deemed necessary by society, so governance is implemented to ensure this accountability.

Takato: Nonetheless, companies nowadays are faced with a wide array of requirements, including Japan’s Corporate Governance Code, so they need to respond flexibly

depending on their circumstances, rather than just accept everything. What are your thoughts on how Milbon is responding?

Hamaguchi: First of all, I think the recent governance-related demands on companies might be somewhat rigid and a little too rushed, so each company should consider responding or implementing them in accordance with their own circumstances

and stage of development. My impression is that, while delivering a sound response to external demands, Milbon is clarifying important areas within the company that need to be improved, and then steadily working on those challenges. In other words, we can be confident in its response.

Takato: That is right. There is a significant difference between accepting any demand

Responding with an eye on stage and generational changes

Hamaguchi: While Milbon’s governance is steadily improving, I still believe that there are specific challenges to address. For example, it appears that the audit function is preoccupied with accounting audits, indicating a need to strengthen the aspects of management audits.

Takato: Yes, you are right. I believe it is crucial to always maintain a third-party perspective that allows for a multifaceted and objective view of the organization. In this regard, I find it very positive that the internal board directors actively participate in discussions within Milbon’s Board of Directors. What are your thoughts on this?

Hamaguchi: I share the same view. When a company expands and has multiple busi-

ness units, it’s possible for discussions to become less active due to conflicting interests. However, in the case of Milbon, although there are new business ventures, it is still in a transitional phase from a single-business structure centered around hair, so I don’t have such concerns at the moment. On the other hand, precisely because of this, President Sato’s presence is undoubtedly overwhelming. Of course, I believe President Sato is aware of this as well and takes care in his speech and attitude to ensure it doesn’t become an issue.

Takato: Indeed, Milbon’s previous structure may have involved the president taking on a role similar to that of a director of operations. However, as the cosmetics business grows to become the second pil-

Enhancing educational opportunities to broaden perspectives

Takato: I believe that growth of the younger generation is the result of Milbon’s investment in education. I am particularly impressed by the long-term training system for new employees. It vividly reflects Milbon’s corporate culture of valuing its people. I look forward to seeing future enhancements of these systems to foster the growth of executives and beyond.

Hamaguchi: I think that’s absolutely right. In such cases, it would be advisable to incorporate not only practical skills but knowl-

edge related to broader societal issues like ESG. Individuals working in a corporate environment often find it challenging to access external knowledge. Therefore, I believe it is crucial to establish a structured curriculum framework to address this issue.

Takato: Among these considerations, I believe that education for potential board members should be given greater emphasis. At Ajinomoto, where I worked before, they had a well-established framework for this, and I personally benefited from it.

Continuing to grow into a company that benefits society

Hamaguchi: Finally, what aspects would you like our stakeholders to pay attention to in terms of Milbon’s future governance promotion efforts?

Takato: As you mentioned earlier, while there are still some remaining challenges in promoting governance at Milbon, I have a strong sense that the company is steadily improving. Reflecting on my experience with other companies, I find that Milbon has a highly dedicated workforce who genuinely engages with governance. On the other hand, given that Milbon is undergoing a significant trans-

formation and entering a new stage as a company, it may take some time. Therefore, I believe it would be beneficial for stakeholders to observe the company’s progress with a long-term perspective. What are your thoughts on this?

Hamaguchi: Amidst these circumstances, there is no doubt that the next few years are crucial for Milbon. It is a time of significant generational transition. Conversely, if Milbon fails to implement the necessary changes during this period, it will have a profound impact on the Company’s future. Furthermore, while man-

agement has been successful thus far, we must not assume that it will automatically continue to thrive. This principle applies not only to the beauty industry but also to businesses in any sector.

Takato: That is right. It is important for Milbon to always have the mindset of evolving toward the future and to continue growing on a daily basis in order to achieve the society it envisions.

Hamaguchi: Exactly. We would like to support and accompany Milbon as it diligently strives to create an organization that contributes to society.

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Board of Directors



(From the left)

Chisa Hayakawa Outside Board Director	Shoichiro Takahata Outside Board Director	Ryuji Sato Representative Director, President & CEO	Hidenori Sakashita Board Director
Etsuhiro Takato Outside Board Director	Kazunobu Konoike Board Director	Yasufumi Takeda Board Director	Mitsuru Oshio Standing Audit & Supervisory Board Member
Tsuneko Murata Outside Board Director	Masahiro Murai Managing Executive Director	Junji Morimoto Board Director	Keisuke Endo Outside Audit & Supervisory Board Member
Taizo Hamaguchi Outside Board Director			Yoshihiko Okuda Outside Audit & Supervisory Board Member

Common standards for all board directors and Audit & Supervisory Board Members

Board directors and Audit & Supervisory Board Members shall understand and take the initiative in practicing *The Milbon Way*, the action guideline for all employees of the Company, and thereby contribute to the development of a sustainable beauty market.

Skill selection

The skills considered necessary for our Board of Directors were reviewed and selected by the same Board of Directors in October 2021, taking into account the opinions of each board member.

Skill plotting criteria for each board director

The skill plot of each board director was determined based on the extent of work experience in the relevant skill area.

Corporate Governance Structure Quick Reference Table (as of March 31, 2023)

Institutional design	Company with an Audit & Supervisory Board system
Term of office of Board Directors	2 years
Adoption of Executive Officer system	Yes
Voluntary Committee of the Board of Directors	Nominations Committee, Compensation Committee, Governance Committee
Accounting Auditor	GYOSEI & CO.

Areas of expectation for Board Directors and Audit & Supervisory Board Members (use of skills matrix)

In order to continuously improve the Board of Directors' required supervisory functions, we have created a matrix of the various skills possessed by board directors and Audit & Supervisory Board Members, and are using this matrix as a criterion for determining candidates.

	Name	Corporate management	Finance/Accounting	Legal/Risk	Global	ESG/SDGs	R&D	Production/Logistics	Sales/Marketing	IT/Digital	HR/Labor	Qualifications	
Board Director	Ryuji Sato	●	●		●		●		●		●		
	Masahiro Murai		●	●		●					●		
	Yasufumi Takeda						●						
	Kazunobu Konoike	●			●			●		●			
	Junji Morimoto								●				
	Hidenori Sakashita	●			●				●	●			
	Taizo Hamaguchi (Outside)	●							●				
	Shoichiro Takahata (Outside)	●	●		●							Certified Public Accountant	
	Tsuneko Murata (Outside)			●	●	●							
	Etsuhiro Takato (Outside)	●			●								
Chisa Hayakawa (Outside)		●						●	●			Tax Accountant	
Audit & Supervisory Board Member	Mitsuru Oshio								●				
	Keisuke Endo (Outside)			●		●						Lawyer	
	Yoshihiko Okuda (Outside)		●									Tax Accountant	

Expertise and experience details

Corporate Management: Experience in corporate management / Finance and Accounting: Expertise and experience in corporate finance and accounting / Legal and Risk: Expertise and experience in corporate legal affairs, risk management, BCP, etc. / Global: Overseas experience / ESG/SDGs: Expertise in general sustainability and ESG issues including environmental, social, and governance issues / R&D: Expertise and experience in R&D and product development in the cosmetics industry / Production and Logistics: Expertise and experience in manufacturing, production, and logistics management in Japan and abroad / Sales and Marketing: Expertise and experience in sales activities and marketing / IT and Digital: Expertise and experience in IT utilization, DX promotion, and information security / HR and Labor: Expertise and experience in human resources development, HR strategy, and improving job satisfaction

Overview of Executive Officer System and list of executive officers

Milbon adopted an Executive Officer System in FY2021 in anticipation of an enhanced monitoring function for the Board of Directors in the future. In FY2022, we established the Management Meeting comprising internal board directors, standing Audit & Supervisory Board members, and executive officers. As an organization tasked with deliberating on business execution-level agenda

items, the Management Meeting encourages a division of roles with the Board of Directors to mutually enhance management supervision and execution functions and strengthen effectiveness. With many of the executive officers also being the heads of their respective departments, there is a deep understanding of resolutions taken by the Management Meeting, which helps to facilitate correct

understanding and communication of each employee in the workplace.

We have also introduced a stock compensation scheme into the compensation system to encourage executive officers to perform their duties, as our internal board directors do, with an awareness of sustainable improvement of corporate value.



(From the left)

- Hiroyuki Ogata**
Executive Officer, General Manager of Corporate Strategy Development
- Haramichi Okazaki**
Executive Officer, Director of International FP Sales and Marketing
- Hiroe Fujiwara**
Executive Officer, General Manager of Organic Brand
- Akiko Nishioka**
Executive Officer, Deputy Director of FP Sales and Marketing and General Manager of Tokyo Aoyama Branch
- Isao Oka**
Executive Officer, Deputy Director of FP Sales and Marketing
- Masayoshi Okada**
Executive Officer, Deputy Director of FP Sales and Marketing and General Manager of Nagoya Branch
- Toshihiko Suzuki**
Executive Officer, General Manager of Education Planning
- Masaya Tanaka**
Executive Officer, Deputy Director of Research and Development and General Manager of Global R&D

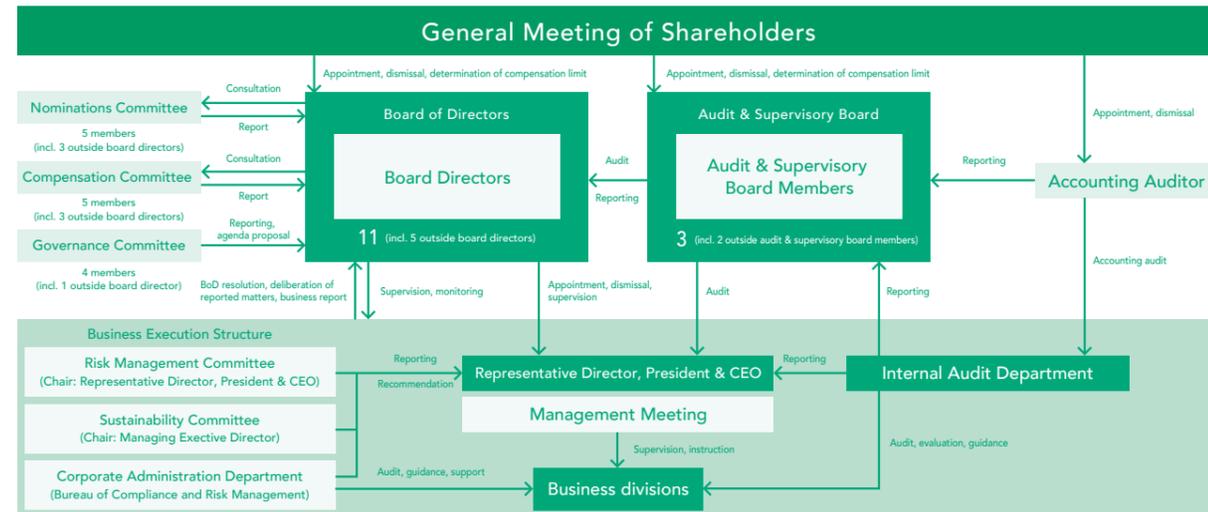
See Corporate Governance Report for details. (Japanese only)

<https://www.milbon.com/ja/docs/287f2dad845b561c82f641d3dfe4e88a85d854e7.pdf>

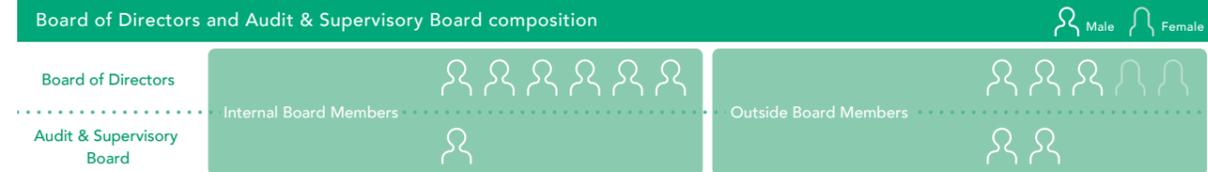


Milbon's Governance Promotion Framework

Corporate governance system



Board of Directors and Audit & Supervisory Board composition



Our Board of Directors conducts an annual external survey on the effectiveness of the board, which includes outsourcing questionnaire surveys and interviews with outside board members. The results of these surveys and interviews are shared within the Board of Directors, and improvement measures are discussed and considered. For an outline of the corporate governance framework in FY2023, please refer to the Corporate Governance Report.

Outline and composition of each committee

Committee	FY2023 Committee members	Number of meetings in FY2022 / attendance	Principal matters of discussion in FY2022
Nomination Committee	Outside Board Director Taizo Hamaguchi (chair); Representative Director, President & CEO Ryuji Sato; Executive Managing Board Director Masahiro Murai; Outside Board Director Tsuneko Murata; Outside Board Director Etsuhiro Takato	2 / 100%	Advice on proposed internal organizational framework
Compensation Committee	Outside Board Director Taizo Hamaguchi (chair); Representative Director, President & CEO Ryuji Sato; Executive Managing Board Director Masahiro Murai; Outside Board Director Etsuhiro Takato; Outside Board Director Chisa Hayakawa	2 / 100%	Consideration of details of basic policy on board member compensation and deliberation/consideration for determination of board member compensation
Governance Committee	Representative Director, President & CEO Ryuji Sato (chair); Executive Managing Board Director Masahiro Murai; Board Director Hidenori Sakashita; Outside Board Director Etsuhiro Takato	1 / 100%	Discussion concerning methods for running the Board of Directors and Management Meeting

Compensation for board members

(1) Basic policy for board director compensation

- Compensation for board directors (excluding outside board directors) shall consist of base compensation, performance-linked compensation, and stock-based compensation as an incentive to continuously increase corporate value, in order to encourage each board director to perform his/her duties with an awareness of business performance and sustainable improvement of corporate value.

- The Board of Directors consults the Nominations and Compensation Committees, which are comprised mainly of outside board directors, on proposed compensation amounts, and determines individual compensation amounts after obtaining advice as necessary.
- Outside board directors and Audit & Supervisory Board Members shall receive only base compensation, as they are independent from the execution of business operations, and compensation linked to performance is not appropriate for them.

(2) Method of calculating compensation for board directors (excluding outside board directors)

- 1) Basic compensation: The amount of basic compensation is determined in accordance with the board director's position and paid in cash.
- 2) Performance-linked compensation: In order to raise awareness of the need to improve the Company's performance in each fiscal year, performance-linked compensation is calculated by adding up the percentage of achievement of each performance indicator target multiplied by the weighting ratio, and then multiplying the performance-linked coefficient corresponding to the percentage of achievement of the target by the performance-linked standard amount corresponding to the position, and is paid in cash. The performance indicators, performance-linked coefficients, and actual performance-linked compensation are as follows.
 <Performance indicator> Consolidated net sales: Weight 60% / Consolidated operating income: Weight 30% / Consolidated profit: Weight 10%
- 3) Stock-based compensation: Stock-based compensation is granted once a year (around May) with a restriction on transfer until retirement of the Company's shares equivalent to the amount obtained by multiplying the base compensation plus the performance-linked compensation by 20%.

Performance-linked coefficient

Achievement of targets	Over 120%	Over 115%, less than 120%	Over 110%, less than 115%	Over 105%, less than 110%	Over 100%, less than 105%	Over 95%, less than 100%	Over 90%, less than 95%	Less than 90%
Performance-linked coefficient	200%	175%	150%	125%	100%	80%	50%	0%

(3) Ratio of each type of compensation, etc.

The ratio of each type of compensation, etc. for board directors (excluding outside board directors) is as follows

Basic compensation: Performance-linked compensation = 70% : 30%

Stock-based compensation = (Basic compensation + Performance-linked compensation) x 20%.

Performance-linked compensation for the fiscal year ended December 31, 2022

Performance metric	Fiscal year ended Dec. 31, 2022 (63rd term)			Weighting
	Target (million yen)	Actual (million yen)	Achievement (%)	
Consolidated net sales	43,900	45,238	103.0	60%
Consolidated operating income	7,550	7,551	100.0	30%
Consolidated net income	5,230	5,577	106.6	10%

(Note) Achievement of targets for year ended Dec. 31, 2022: (103.0% x 60%) + (100.0% x 30%) + (106.6% x 10%) = 102.8%

(4) Total amount and number of Board Directors' and Audit & Supervisory Board Members' compensation, etc. for the fiscal year ending December 31, 2022

Board Directors / Audit & Supervisory Board Members	Number of persons	Total amount of compensation, etc. (thousand yen)	Amount of compensation, etc. by type (thousand yen)			
			Basic compensation	Performance-linked compensation	Total (monetary)	Restricted stock compensation
Board Directors (including Outside Board Directors)	13 (5)	405,007 (45,036)	272,615 (45,036)	78,600 (—)	351,215	53,792 (—)
Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members)	3 (2)	48,012 (16,008)	48,012 (16,008)	—	—	—

*1. Amounts of compensation paid to board directors include compensation paid, during terms of office, to two board directors who left the board at the conclusion of the 62nd Ordinary General Meeting of Shareholders on March 29, 2022. 2. Cash compensation for board directors of an amount up to 500 million yen (up to 70 million yen for outside board directors) per year was approved at the 62nd Ordinary General Meeting of Shareholders on March 29, 2022. Amounts do not include remuneration received by board directors who also serve as employees of the company. The number of board directors at the conclusion of the 62nd Ordinary General Meeting of Shareholders was 11 (including five outside board directors). 3. Stock compensation for board directors of a value up to 100 million yen, but a quantity of no more than 100,000 shares, per year was approved at the 60th Ordinary General Meeting of Shareholders on March 26, 2020. The number of board directors at the conclusion of the 60th Ordinary General Meeting of Shareholders was nine (including two outside board directors). 4. Compensation for Audit & Supervisory Board members of an amount up to 70 million yen per year was approved at the 56th Ordinary General Meeting of Shareholders on March 17, 2016. The number of Audit & Supervisory Board members at the conclusion of the 56th Ordinary General Meeting of Shareholders was three (including two outside Audit & Supervisory Board members).

Succession plan

The Company considers succession planning for the CEO as one of its most important management strategies. Since 2015, we have been implementing a unique CEO successor development program, which aims to cultivate potential candidates for the next CEO position. Under this program, a total of 42 candidates have been selected and divided into four groups, each undergoing a two-year program starting from 2015. The program focuses on developing and selecting the future CEO. Each board director serves as a lecturer in their respective jurisdiction and area of expertise, ensuring active participation and supervision by the Board of Directors. The program concluded in 2019, and the selected candidates currently hold positions as department heads within the company. Going forward, we will further narrow down the candidates and formulate a future development plan, continuing the process of selecting the next CEO.



PERFORMANCE

Milbon's Performance Data

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Financial Highlights

Financial summary of operating results, per-share information, financial indicators, and other information for the 11-year period 2012 to 2022

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Non-Financial Highlights

Quantitative data for the 3-year period 2020 to 2022 from the perspectives of people and society, environment, and governance

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Company Overview and Stock Information

Company overview and stock information

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External Assessments and Participating Organizations, etc.

Cooperation with external assessments and society

[Click to jump to the relevant page](#)

Financial Highlights

*1: FY2017 was irregularly closed, and the financial figures are for the 12 months and 11 days from December 21, 2016 to December 31, 2017. In addition, upon consolidation, the figures for overseas consolidated subsidiaries are based on the non-consolidated financial figures for the 15-month period from October 1, 2016 to December 31, 2017.

*2: Effective from the beginning of FY2019, the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and the Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) were adopted early, and FY2018 amounts were retrospectively applied.

*3: Earnings per share and net assets per share have been retroactively adjusted for the three stock splits during the below period. The relevant stock splits are as follows (1) 1.1 for 1 stock split on December 21, 2010; (2) 1.2 for 1 stock split on December 21, 2013; and (3) 2 for 1 stock split on January 1, 2018.

Financial summary of operating results, financial indicators, etc. for the 11-year period from 2012 to 2022

	2012	2013	2014	2015	2016	2017 *1	2018 *2	2019	2020	2021	2022
Operating results (million yen)											
Net Sales	21,887	23,829	25,226	27,377	29,134	33,456	33,882	36,266	35,725	41,582	45,238
Gross profit	14,833	16,174	17,281	18,681	20,100	22,797	22,189	23,711	23,385	27,498	29,509
Operating income	3,986	4,302	4,451	4,727	5,113	5,345	6,260	6,751	6,394	7,817	7,551
Ordinary income	3,735	4,059	4,218	4,427	4,733	4,997	5,811	6,231	5,791	7,158	7,829
Profit attributable to owners of parent	2,128	2,516	2,621	2,950	3,069	3,817	4,495	4,517	4,204	5,109	5,577
Net assets	20,367	22,149	24,104	26,212	27,706	31,103	33,151	35,882	36,308	40,197	43,991
Total assets	23,662	26,321	28,138	30,799	32,444	37,642	39,634	41,912	43,075	48,238	52,760
Cash flows from operating activities	2,977	3,511	2,766	3,895	3,355	4,346	6,487	4,486	6,548	6,636	5,008
Cash flows from investing activities	(1,506)	(1,198)	(1,236)	(2,834)	(4,366)	(1,919)	(1,202)	(2,777)	(161)	(3,995)	(3,865)
Cash flows from financing activities	(910)	(1,387)	(1,052)	(1,135)	(1,262)	(1,317)	(1,639)	(1,869)	(3,416)	(1,919)	(2,578)
Depreciation	952	882	1,008	1,038	1,083	1,278	1,380	1,493	1,609	1,777	2,026
Capital expenditure	840	1,680	1,028	2,779	4,262	1,570	1,149	1,605	1,917	4,644	4,097
Per-share information (yen) *3											
Earnings per share	64.35	63.69	80.03	90.10	93.73	116.58	137.31	137.99	129.24	157.17	171.49
Net assets per share	615.84	563.48	736.05	800.51	846.16	949.99	1,012.58	1,096.02	1,117.10	1,236.41	1,352.52
Dividends per share	27.50	28.33	34.00	37.00	39.00	46.00	54.00	56.00	56.00	68.00	86.00
Financial indicators (%)											
Equity ratio	86.1	84.1	85.7	85.1	85.4	82.6	83.6	85.6	84.3	83.3	83.4
Return on equity (ROE)	10.8	11.8	11.3	11.7	11.4	13.0	14.0	13.1	11.6	13.4	13.2
Return on assets (ROA)	9.2	10.1	9.6	10.0	9.7	10.9	11.6	11.1	9.9	11.2	10.6
Gross profit margin	67.8	67.9	68.5	68.2	69.0	68.1	65.5	65.4	65.5	66.1	65.2
Operating margin	18.2	18.1	17.6	17.3	17.6	16.0	18.5	18.6	17.9	18.8	16.7
Ordinary margin	17.1	17.0	16.7	16.2	16.2	14.9	17.2	17.2	16.2	17.2	17.3
Net profit margin	9.7	10.6	10.4	10.8	10.5	11.4	13.3	12.5	11.8	12.3	12.3
Dividend payout ratio (Consolidated)	42.7	37.1	42.5	39.3	41.6	39.5	39.3	40.6	43.3	43.3	50.2
Sales by category (million yen)											
Haircare products	11,069	12,616	14,597	16,195	17,711	19,511	20,222	21,328	21,135	24,466	26,312
Hair coloring products	8,820	9,288	8,817	9,506	9,892	12,095	11,857	12,994	12,594	14,813	16,631
Permanent wave products	1,678	1,623	1,520	1,410	1,260	1,569	1,544	1,515	1,372	1,449	1,450
Cosmetic products								165	360	579	572
Other	318	301	291	264	270	279	257	263	262	273	272
Overseas sales and operating income (million yen)											
Overseas sales ratio (%)	6.4	7.9	10.4	12.8	13.2	16.4	15.7	16.2	16.4	19.1	21.9
United States (net sales)	359	435	482	642	571	736	632	657	464	905	1,328
United States (operating income)	(24)	1	(32)	80	(19)	(36)	(49)	(252)	(302)	(561)	(168)
China (net sales)	184	281	430	665	737	1,208	1,368	1,488	1,528	2,148	2,114
China (operating income)	(51)	(63)	(23)	149	81	231	320	343	292	449	(9)
South Korea (net sales)	451	703	1,099	1,425	1,603	2,440	2,064	2,334	2,543	3,368	4,159
South Korea (operating income)	30	141	192	383	229	534	515	678	645	1,109	1,351
Other overseas (net sales)	407	461	600	763	934	1,089	1,246	1,377	1,307	1,487	2,301
Other overseas (operating income)	(1)	(136)	(165)	(267)	(233)	(315)	(168)	(195)	(230)	(20)	184

Company Overview and Stock Information

As of December 31, 2022

Company overview

Trading Name : Milbon Co., Ltd.
 Established : July 1960
 Capital : 2.0 billion yen
 Number of employees : Non-consolidated – 842
 Consolidated - 1,097
 Head Office : Kyobashi Edogrand, 2-2-1 Kyobashi, Chuo-ku, Tokyo
 Central Research Institute : 2-3-35 Zengenji-cho, Miyakojima-ku, Osaka-shi, Osaka
 Branches : Saitama / Tokyo Aoyama / Tokyo Ginza / Nagoya / Osaka / Hiroshima / Fukuoka
 Sales Offices : Sapporo / Sendai / Niigata / Jingumae / Yokohama / Kanazawa / Shizuoka / Kyoto / Kobe / Okayama / Matsuyama / Kumamoto
 Factories : Yumeaoka Factory / Thailand Factory / China Factory
 Subsidiaries : MILBON USA, INC.
 Milbon Trading (Shanghai) Co., Ltd.
 Milbon Korea Co., Ltd.
 MILBON (THAILAND) CO., LTD.
 MILBON MALAYSIA SDN. BHD.
 MILBON VIETNAM CO., LTD.
 MILBON SINGAPORE PTE. LTD.
 Milbon (Zhejiang) Cosmetics Co., Ltd.
 Milbon Europe GmbH
 Affiliated Company : Kosé Milbon Cosmetics Co., Ltd
 Representative Offices : Taiwan / Hong Kong / Turkey / Indonesia / Philippines

Stock information

Listed Stock Exchange: Prime Market, Tokyo Stock Exchange

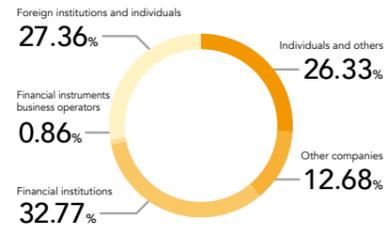
Stock code : 4919
 Total number of shares authorized : 120,408,000
 Number of shares outstanding : 33,117,234
 Number of shareholders : 14,580

Principal shareholders (Top 10)

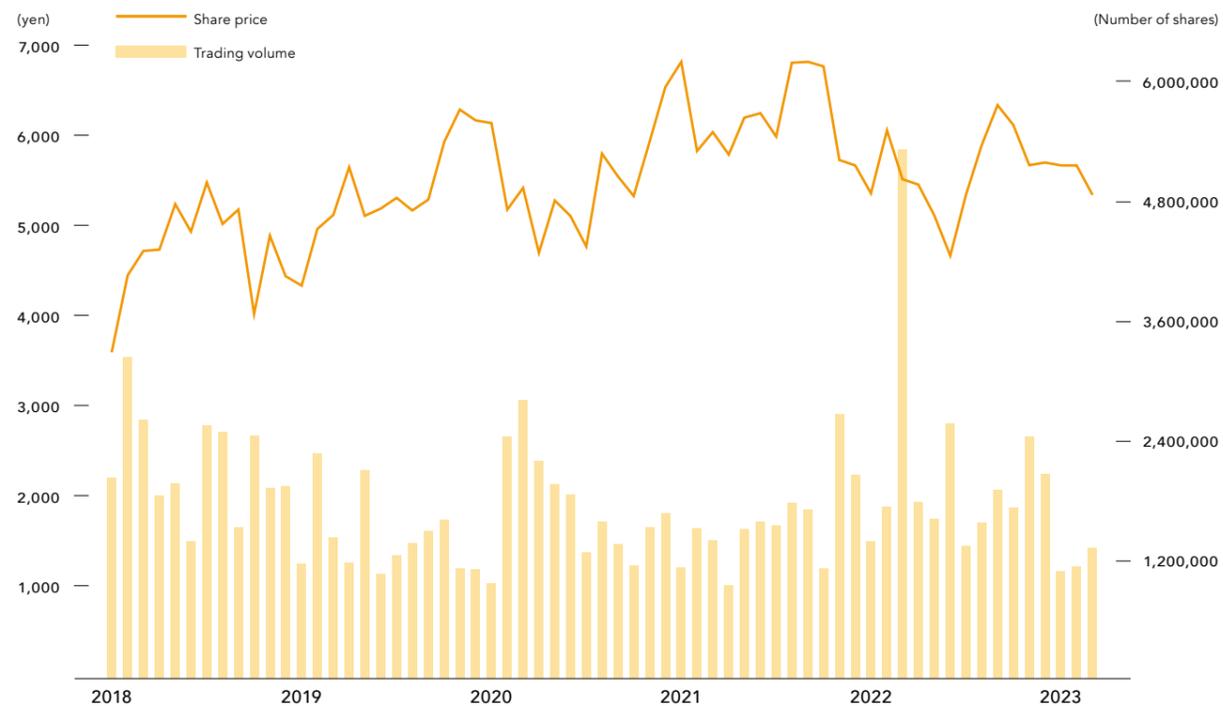
Shareholder	Number of shares held	Shareholding ratio
The Master Trust Bank of Japan, Ltd.	5,783,600	17.78%
SSBTC CLIENT OMNIBUS ACCOUNT	2,571,867	7.91%
Konoike Asset Management Company	1,920,000	5.90%
Custody Bank of Japan, Ltd. (Trust account)	1,683,000	5.17%
SMBC Trust Bank Ltd. Designated Securities Trust	1,328,000	4.08%
MILBON Cooperating Companies Shareholding Association	1,004,056	3.09%
Kazunobu Konoike	865,718	2.66%
MILBON Employee Stock Ownership Association	605,320	1.86%
Keiko Murai	483,624	1.49%
Maiko Kitajima	482,424	1.48%

*Shareholding ratio is calculated excluding treasury stock (591,511 shares).

Shareholding ratio by type of shareholder



Share price and trading volume



External Assessments and Participating Organizations, etc.

External assessments



Our unique business model wins the Porter Prize

Milbon was awarded the Porter Prize 2020, a program sponsored by the School of International Corporate Strategy, Hitotsubashi University Business School. Since our establishment in 1960, we have been consistently focused on stylists and salons. Revenues have increased for 23 consecutive years since the Company's listing to 2019, and Milbon has been recognized for the uniqueness of its business strategy which supports this level of growth and maintains high profitability. Going forward, we will continue to use a business model focused on stylists and salons and contribute to enriching society through beauty.



EcoVadis Sustainability Rating: Silver

EcoVadis ratings evaluate a company's sustainability efforts according to 21 CSR criteria across four themes—Environment, Labor & Human Rights, Ethics, and Sustainable Procurement—for the purpose of promoting sustainability within global supply chains. More than 100,000 companies spanning 200 industries in 175 countries and regions have been assessed to date. Milbon was awarded a Silver rating, placing it in the top 25% of all companies evaluated. We received particularly high marks for Labor & Human Rights.



Recognized as a Certified Health & Productivity Management Outstanding Organization for 2023

Milbon has been recognized as a Certified Health & Productivity Management Outstanding Organization for 2023 under a program run by Japan's Ministry of Economy, Trade and Industry (METI) and the Nippon Kenko Kaigi. Following on from 2022, this is the third year in a row that Milbon has been recognized. We will continue efforts in the area of health and productivity management as a way of invigorating and motivating the workforce.

Cooperation with society



Joined the United Nations Global Compact

Milbon endorsed the United Nations Global Compact (UNGC) proposed by the United Nations and signed it in May 2020. UNGC is a voluntary initiative in which companies and organizations participate in the creation of a global framework for sustainable growth by acting as good members of society through responsible leadership. Based on its own basic sustainability policy, Milbon supports the UNGC's 10 principles related to human rights, labor, environment, and anti-corruption as a participating company that works with salons and haircare professionals to solve social issues, thereby contributing to the realization of a sustainable society.



Ordinary member of the Roundtable on Sustainable Palm Oil (RSPO)

In March 2022, Milbon was approved as an Ordinary Member of the Roundtable on Sustainable Palm Oil (RSPO), an organization initiated by concerned groups that include the World Wildlife Fund, among others. Milbon has also been a member of the Japan Sustainable Palm Oil Network (JaSPON), participating in information exchange and other activities, since January 2020.

*Check out our progress at www.rspo.org



Support for TCFD recommendations and TCFD Consortium membership

In January 2023, Milbon declared its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and became a member of the TCFD Consortium, a Japanese organization comprised of corporations supporting TCFD recommendations. Milbon views action on climate change as a pressing issue for management and has incorporated it into the Five Key Challenges for achieving sustainability. We set goals and implement initiatives aimed at lowering our environmental impact and proactively disclose information to all stakeholders.

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