

FY2024 Third Quarter Financial Results Presentation Q&A (Summary)

Friday, November 15, 2024, 16:00-16:40

Responses by:

Masahiro Murai, Managing Executive Director

■ Full-year Outlook

1. Could you please provide the details and amount of the anticipated inventory loss for Q4?

There is a possibility of recording an inventory loss for hair dryers depending on the Q4 results, as sales are projected to be lower than this year's plan of 120 million yen. We estimate that the loss could be up to 100 million yen.

■ Results in the Domestic Market

2. Could you explain why the growth rate of domestic haircare products is higher than last year and how you view the sustainability of this strong growth into Q4?

While both new products launched this year and existing products are performing well, we believe this year's results also reflect a rebound from last year's decline in salon visits and spending, which was impacted by the reclassification of COVID-19 to Class 5 in May.

* In May 2023, the Japanese government reclassified COVID-19 to Class 5 under the Infectious Diseases Control Law, treating it similarly to seasonal influenza. This change reduced restrictions, allowing businesses and social activities to normalize, which boosted the economy. However, salon visits and spending weakened as people preferred to travel or dine out.

3. Will the price increase of haircare products starting next year address the issue of the deteriorating COGS ratio caused by a shift in the sales mix, where hair coloring products' share decreases and haircare products' share increases?

The gross profit margin disparity between hair coloring and haircare products has diminished from approximately 5 points to around 2 points, due to the development and sale of lower COGS products, such as this year's new Aujua products. Additionally, we plan to increase the prices of existing haircare products in the first half of next year, which will further reduce the margin gap and lessen the impact of the product mix.

4. In Japan, the prices of haircare products in the public market are rising, and value-added products are becoming more prevalent. Do you believe this trend in the public market could weaken the professional market for haircare products?

No, it could actually be a tailwind for us as consumers become accustomed to using high-priced haircare products. The key differentiation of professional market haircare products is that they are provided through hair stylists with expertise. We take pride in our top-tier knowledge and research

capabilities in haircare in Japan. The high-functionality products developed from our research can be confidently purchased by salon customers, even at high prices, thanks to the counseling provided by hair stylists. Therefore, the increase in high-priced products in the public market is positive, and we believe this trend will ultimately enhance the value of our salon-exclusive products.

■ Results in the Overseas Market

5. Net sales of Milbon China in local currency terms decreased YoY in Q2 but were flat in Q3. Could you explain your evaluation of this trend and your perspective on future growth potential in China?

We believe it is performing well despite the poor market environment. With salon visit frequency lengthening, there remains uncertainty from Q4 onwards. Looking ahead, we expect the market to grow in the long term due to China's large population. Currently, we aim to achieve future growth by developing and supplying products better suited to the Chinese market through our established R&D and manufacturing plant in China.

6. Could you provide an overview of the scale of the South Korean perm market and share your insights on its outlook?

While our primary product in the South Korean market is hair coloring, perm products are utilized in salons to a comparable extent, and we anticipate the market size to be similar. Historically, we have not actively pursued the perm segment as we have with hair coloring and haircare products. However, we are now recognizing the significant growth potential in perms and will consider introducing new products in this category in the future.

■ Revision of the Medium-Term Management Plan (2022-2026)

7. You have already mentioned you will disclose the revision of mid-term management plan in February next year. Could you provide an update of this matter?

In addition to the forecast for FY2025, the forecast for FY2026 will also be announced. While it has not yet been decided whether specific figures will be disclosed, we are considering including projections for the next five to ten years.

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