

MILBON CO., LTD (4919 JP)

NO CHANGE IN FY24 GUIDANCE DESPITE BETTER-THAN-EXPECTED 1H RESULTS, THANKS TO SALES GROWTH OF HAIRCARE PRODUCTS

FY24 1H EARNINGS RESULTS SUMMARY

Milbon Co., Ltd (4919 JP) reported FY24 1H (Dec year-end) earnings with gross profit [GP] of ¥15,755mil (+6.4% YoY) and operating profit [OP] of ¥3,178mil (+2.8% YoY) on sales of ¥24,526mil (+8.0% YoY). 1H RP improved +6.3% YoY to ¥3,324mil, thanks to net FOREX gains of ¥96mil.

Both sales and OP landed better than the firm expected thanks primarily to:

1. Solid growth in Haircare products sales in Japan. 1H Domestic sales rose +6.9% YoY to ¥18,367mil.
2. Strong sales in US and Korea offset weakness in China. 1H overseas sales improved +11.4% YoY to ¥6,159mil.
3. The gross profit margin [GPM] improved from 63.0% in Q1 to 65.4% in Q2, thanks to the rise in raw material costs easing. As a result, 1H GPM landed 64.2%.
4. 1H OP overshoot the firm's guidance (NB: the figures in parenthesis show the improvement vs the firm's original forecast) as follows:
 - The increase in GP (+¥362mil),
 - Cost reductions in Q1 (+¥125mil),
 - Sales promotion costs delayed to 2H (+¥118mil), and
 - R&D costs pushed back to 2H (+¥115mil).

Milbon (4919 JP): Earnings Summary (Cumulative)						
¥mil	FY23		FY24			
	1H	FY	1H	YoY (%)	1H CE	1H vs 1HCE(%)
Sales	22,703	47,762	24,526	8.0	23,964	2.3
COGS	7,893	18,237	8,770	11.1	N/A	N/A
GP	14,809	29,525	15,755	6.4	15,453	2.0
GPM (%)	65.2	61.8	64.2	-1.0ppt	64.5	-0.3ppt
SG&A	11,719	24,000	12,577	7.3	12,845	-2.1
SG&A / Sales (%)	51.6	50.2	51.3	-0.3ppt	53.6	-2.3ppt
OP	3,090	5,525	3,178	2.8	2,608	21.9
OPM (%)	13.6	11.6	13.0	-0.6ppt	10.9	+2.1ppt
RP	3,129	5,586	3,324	6.3	2,561	29.8
RPM (%)	13.8	11.7	13.6	-0.2ppt	10.7	+2.9ppt
NP*	2,195	4,001	2,280	3.9	1,823	25.1

Source: Nippon-IBR based on Milbon's FY23 & FY24 1H earnings presentation materials
* NP attributed to the parent's shareholders

FY24 1H OP rose +2.8% YoY / +¥87mil YoY to ¥3,178mil. The +8.0% YoY increase in sales led to a +¥1,189mil YoY improvement in GP, though it was slightly offset by rising raw materials costs (-¥189mil) and a change in product mix (-¥91mil). However, higher SG&A costs – personnel (-¥388mil) and physical distribution (-¥124mil) – resulted in a slower pace of growth in OP (+2.8% YoY) than that of sales.

EXECUTIVE SUMMARY

- Milbon Co., Ltd (4919 JP) reported FY24 1H (Dec year-end) earnings with gross profit [GP] of ¥15,755mil (+6.4% YoY) and operating profit [OP] of ¥3,178mil (+2.8% YoY) on sales of ¥24,526mil (+8.0% YoY). 1H RP improved +6.3% YoY to ¥3,324mil, thanks to net FOREX gain of ¥96mil.
- Both sales and OP landed better than expected thanks to: (1) solid sales growth in Japan, Korea and US, offsetting weakness in China, and (2) the surge in raw materials costs eased off in Q2, which improved GPM from FY24 Q1's 63.0% to 65.4% in Q2, taking the 1H GPM to 64.2%.
- The Overseas business enjoyed an expanding customer base, and higher sales volumes, mainly due to solid growth in South Korea and improved sales in the US. In Japan, sales growth of premium haircare range offset sluggish sales of hair colour products.
- Although 1H earnings landed better than Milbon's forecast, Milbon is guiding for FY24 GP of ¥32,400mil (+9.7% YoY) and OP of ¥6,600mil (+19.5% YoY) on sales of ¥50,620mil (+6.0% YoY).
- Milbon's medium-term (FY22~FY26) targets remain unchanged with OP of ¥10,800mil on sales of ¥58,000mil (respective CAGR +25.0% and +6.7%, for the remaining 3 years of the Plan), on Domestic sales of ¥43,700mil (CAGR +6.1%) and Overseas sales of ¥14,300mil (CAGR of +8.3%). Revised numbers for the medium-term targets will be disclosed with FY24 full-year results.
- During the medium-term plan, management aims to achieve an ROE of 13.9% and ROIC of 13.6% vs 8.9% and 8.6% in FY23, respectively. The firm has not yet disclosed capital costs.
- In FY24, Milbon plans to make an annual dividend payment of ¥88.00/share. The firm commits not to reduce dividend going forward.

Earnings by Country

Japan

Milbon reported FY24 1H Domestic [Japan] OP of ¥2,534mil (+5.1% YoY) on sales of ¥18,367mil (+6.9% YoY), which produced an OPM of 13.8% – just shy of FY23 1H's 14.0%. In Q2 alone, the firm reported Domestic OP of ¥1,614mil (+5.5% YoY / +75.4% QoQ) on sales of ¥9,995mil (+5.0% YoY / +19.4% QoQ).

FY24 1H Domestic sales were better than Milbon's expectations thanks to solid sales of haircare products (+9.0% YoY). In particular, sales of premium haircare products performed well, with premium brand Aujua, for example, enjoying a +7.8% YoY rise FY24 1H sales to ¥5,244mil. Hair colour product sales, however, peaked out (+0.1% YoY). In Q2 alone, hair colour products sales dipped -0.5% YoY.

Sales of Cosmetics Products surged approx. +2.1x YoY thanks to newly launched eyebrow and lash colouring products, which boosted FY24 1H sales by +¥330mil (sales of eyebrow and lash products were nil in FY23 1H, though Skin Care product sales fell -3.9% YoY to ¥268mil).

The number of salons that registered with *milbon:iD* hit 6,292 in FY24 1H, up from 1,300 in FY20, 3,200 in FY21, 4,800 in FY22, and 5,930 in FY23, though the 1H registrations have almost achieved the FY24 target of 6,500. Customers are also registered with *milbon:iD* through a QR code provided by their salons. The number of registered customers hit 761,000 in FY24 1H, compared to 670,000 in FY23 and 450,000 in FY22 (only 30,000 in FY20 and 170,000 in FY21). Consequently, Milbon's FY24 1H e-commerce revenues reached ¥780mil (+25.1% YoY) vs FY24 sales forecast of ¥1,950mil (+18.9% YoY).

The firm estimates that approx. 70% of its Domestic Haircare shipments are from salon sales of haircare products. Moreover, the spend per person continues to remain above the ¥10,000-mark at approx. ¥12,000, which compares to the typical charge of ¥7,000~8,000 for a hair cut in a Central Tokyo salon. However, only around 20% of the 761,000 registered users of *milbon:iD* are active. Mobilising those dormant customers will be the next step for *milbon:iD*'s further success.

Another initiative to promote its haircare products is via its Smart Salons; this is where customers can try out Milbon's haircare products and buy trial size products with advice from hairdressers. There are 44 Smart Salons as of the end of Q2 (up from 23 as of the end of FY23) vs. FY24 target of 100. Smart Salons are increasing especially in regional cities and most hair salons operating Smart Salons have reported that their in-store product sales do improve after customers have tried out Milbon's products.

In FY23, Milbon wrote down costs related to the hair dryer that was co-developed with Panasonic. Hence, there will unlikely be further write-downs going forward.

Overseas

FY24 1H Overseas earnings outperformed Milbon's expectations, generating OP of ¥ 643mil (-5.3% YoY% YoY YDB [yen-denominated basis]) on sales of ¥6,159mil (+11.4% YoY / +2.8% YoY LCY [local currency basis]). Although there was positive FOREX impact, the LCY-based sales growth suggests that the firm enjoyed (1) solid sales growth in South Korea and (2) steady sales growth of haircare products amid increasing number of customers (salons) in the US.

Details by country are as follows:

South Korea: Milbon Korea – the largest part of the firm's overseas operations comprising 10.8% of FY24 1H total consolidated net sales – produced FY24 1H OP of ¥743mil (+19.6% YoY) on sales of ¥2,662mil (+16.5% YoY YDB / +7.5% YoY LCY), with FY24 1H sales surpassing the firm's expectations by 14.1%.

FY24 1H Haircare product sales improved +17.1% YoY thanks to solid sales of Global Milbon products through the firm's local distributors. The Korean operations generated 71.2% of 1H sales from hair colour sales, which were up +2.9% YoY in FY24 1H. 1H OPM improved by +0.7ppt YoY to 27.9% on the back of delays in recruitment – costs [SG&A] of which have been deferred to 2H onwards.

US: Milbon USA 1H sales improved +18.5% YoY YDB to ¥922mil, by continuing cultivating new salons with local distributors. The number of salons selling Global Milbon, one of Milbon's premium global haircare products, reached 9,618, the second largest in number of salons only after Japan (10,555 salons). Although the high YoY growth reflects the positive impact from the weak yen, US sales rose +5.0% YoY [LCY] thanks to the strong sales performance of haircare products – comprising 84.9% of the US sales – led by Global Milbon.

Hair colour product *Sophistone* is also proving popular and has helped cultivate new customers, especially on the West Coast. However, overall sales of hair colour products remained sluggish due to an apparent lack of variety of colours compared to products on offer by other brands. Milbon plans to launch new colours sequentially to improve hair colour products sales. In June 2024, Milbon participated in the largest trade expo in the US to promote its products. Although sales have been steadily growing, the FY24 1H operating loss expanded to -¥71mil from loss of -¥30mil in FY23 1H. In Q2 alone, the operating loss expanded to -¥54mil due to cost associated with the trade show.

China: FY24 1H sales in China were hit by macroeconomic weakness. 1H sales increased +3.5% YoY YDB to ¥1,211mil (-6.0% YoY in LCY). 1H OP improved from ¥40mil in FY23 1H to ¥77mil, to produce an OPM of 6.4% (+2.9ppt YoY). Although consumer sentiment is low, sales of products in the Global Milbon range held up well (+38.6% YoY), compared to +1.6% YoY [LCY] sales growth in overall haircare products in China. On the other hand, hair colour products sales declined -17.4% [LCY] as customers were colouring their hair less frequently. In Q2 alone, Milbon's China business reported an operating loss of -¥17mil on sales of ¥547mil (-6.0% YoY), down from Q1's OP of ¥95mil (+4.3% YoY / N/A QoQ) on sales of ¥664mil (+12.9% YoY / +29.7% QoQ).

Sales and OP Breakdown by Country - Results and Guidance										
(¥mil)		FY22		FY23		FY24				
		1H	FY	1H	FY	Q1	1H	YoY (%) *	FYCE	YoY (%) *
Japan	Sales	16,627	35,334	17,175	36,502	8,371	18,367	6.9	38,620	5.8
	OP	3,201	6,194	2,411	4,231	920	2,534	5.1	5,522	30.5
	OPM (%)	19.3	17.5	14.0	11.6	11.0	13.8	-0.2ppt	14.3	+2.7ppt
US	Sales	603	1,328	778	1,624	414	922	18.5	1,811	11.5
	OP	-125	-168	-30	-89	-17	-71	N/A	-106	N/A
	OPM (%)	-20.7	-12.7	-4.0	-5.5	-4.2	-7.8	-3.8ppt	-5.9	-0.4ppt
China	Sales	1,058	2,114	1,171	2,241	664	1,211	3.5	2,460	9.8
	OP	-76	-9	40	68	95	77	91.5	197	189.2
	OPM (%)	-7.2	-0.4	3.5	3.1	14.3	6.4	+2.9ppt	8.0	+4.9ppt
South Korea	Sales	2,043	4,159	2,286	4,715	1,266	2,662	16.5	4,784	1.5
	OP	693	1,351	621	1,284	369	743	19.6	1,068	-16.8
	OPM (%)	34.0	32.5	27.2	27.3	29.2	27.9	+0.7ppt	22.3	-5.0ppt
Others	Sales	1,133	2,301	1,293	2,678	791	1,362	5.4	2,945	9.9
	OP	130	184	48	30	-30	-105	N/A	-81	N/A
	OPM (%)	11.5	8.0	3.7	1.1	-3.8	-7.7	-11.4ppt	-2.8	-3.9ppt
Overseas Total	Sales	4,839	9,904	5,528	11,260	3,136	6,159	11.4	12,000	6.6
	OP	622	1,357	679	1,294	417	643	-5.3	1,077	-16.7
	OPM (%)	12.9	13.7	12.3	11.5	13.3	10.5	-1.8ppt	9.0	-2.5ppt

Source: Nippon-IBR based on Milbon's FY22, FY23 & FY24 H1 earnings results material
* YoY figures are based on Japanese yen denominated sales and OP numbers

Net Sales Breakdown by Products (Cumulative)											
¥mil	FY22		FY23				FY24				
	1H	FY	1Q	1H	FY	YoY (%)	Q1	1H	YoY (%)	FYCE	YoY (%)
Haircare products	12,218	26,312	5,969	13,339	28,355	7.8	6,670	14,682	10.1	30,200	6.5
Hair colouring products	8,148	16,631	3,922	8,238	16,953	1.9	4,044	8,346	1.3	17,600	3.8
Permanent wave products	751	1,450	301	714	1,463	1.0	350	799	12.0	1,480	1.1
Cosmetic products	262	572	126	267	571	-0.1	369	566	111.9	820	43.4
Others	87	272	20	144	418	53.6	73	131	-9.0	520	24.4
Total	21,467	45,238	10,340	22,703	47,762	5.6	11,508	24,525	8.0	50,620	6.0

Source: Nippon-IBR based on Milbon's earnings presentation materials (FY22, FY23 & FY24 1H)

FY24 OUTLOOK

Although 1H earnings overshot Milbon's guidance by 2.3% in sales and 21.9% in OP, the firm has not changed its FY24 full-year earnings forecast which calls for FY24 GP of ¥32,400mil (+9.7% YoY) and OP of ¥6,600mil (+19.5% YoY) on sales of ¥50,620mil (+6.0% YoY).

Earnings Results and Guidance							
¥mil	FY22		FY23		FY24		
	1H	FY	1H	FY	1H	FYCE	YoY (%)
Sales	21,467	45,238	22,703	47,762	24,526	50,620	6.0
COGS	7,198	15,729	7,893	18,237	8,770	N/A	N/A
GP	14,269	29,509	14,809	29,525	15,755	32,400	9.7
GPM (%)	66.5	65.2	65.2	61.8	64.2	64.0	+2.2ppt
SG&A	10,444	21,957	11,719	24,000	12,577	25,800	7.5
SG&A / Sales (%)	48.7	48.5	51.6	50.2	51.3	51.0	+0.8ppt
OP	3,824	7,551	3,090	5,525	3,178	6,600	19.5
OPM (%)	17.8	16.7	13.6	11.6	13.0	13.0	+1.4ppt
RP	4,137	7,829	3,129	5,586	3,324	6,560	17.4
RPM (%)	19.3	17.3	13.8	11.7	13.6	13.0	+1.3ppt
NP*	2,875	5,577	2,195	4,001	2,280	4,650	16.2

Source: Nippon-IBR based on Milbon's FY22, FY23 & FY24 1H earnings presentation materials

* NP attributed to the parent's shareholders

The FY24 guidance is based on the following assumptions:

- Milbon is forecasting a +5.8% YoY rise in Domestic sales to ¥38,620mil, with OP up +30.5% YoY to ¥5,522mil, mainly due to (1) a rebound from FY23's write-downs for the hair dryer product, (2) raw materials price hikes easing.
- The firm is guiding for overseas sales to rise +6.6% YoY to ¥12,000mil, with Korea, China, and US Milbon's main focus among the seven key regions in which it operates. However, given continued sales promotion of hair colour products in US and expansion of operations in Korea, overseas OP is expected to decline -16.7% YoY to ¥1,077mil. However, due to the weaker yen and steady sales growth in Korea and US, there could be upside to the overseas performance.
- Raw material costs will remain high, although in 1H, the impact of rising prices to earnings is less severe.

4. The firm incurred total product disposal-related losses of -¥1,186mil – including the disposal for hair care and hair colour products (-¥289mil) and write downs for hair dryers (-¥897mil) in COGS – in FY23. In FY24, the firm estimates disposal losses of approx. -¥230mil. which implies a +¥956mil rebound from the disposal losses and write-downs reported the year before.
5. In both Japan and overseas, marketing and sales promotion costs are expected to rise by +¥208mil YoY.
6. Higher logistics costs (+¥211mil YoY) are expected as well, reflecting the 2024 Problem surrounding the Japan's logistics industry, caused by structural shortage of drivers.

UPDATE ON MEDIUM-TERM PLAN (FY22~FY26)

Milbon's medium-term (FY22~FY26) targets remain unchanged at OP of ¥10,800mil on sales of ¥58,000mil (CAGR of +25.0% and +6.7%, respectively, for the remaining 3 years of the Plan), with Domestic sales of ¥43,700mil (CAGR +6.1%) and Overseas sales of ¥14,300mil (CAGR +8.3%). Although the sales performance has been progressing in line with plan, OP has been below expectations due to the surge in costs such as raw materials, personnel, and logistics. Revisions to the medium-term targets will likely be disclosed in February 2025 with the release of the firm's FY24 full-year results.

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

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

To tackle the issues related to the surge in costs – higher raw material, personnel and logistics costs – Milbon plans to:

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

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

SHAREHOLDER RETURN

In FY24, Milbon plans to make an annual dividend payment ¥88.00/share, which the firm identifies as the minimum level. Milbon commits to not reduce the dividend going forward.

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For further enquiry, please contact:

Nippon Investment Bespoke Research UK Ltd
118 Pall Mall
London SW1Y 5EA
TEL: +44 (0)20 7993 2583
Email: enquiries@nippon-ibr.com



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Japanese Equity Specialist

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