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Milbon Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending December 2024

August 9, 2024

Event Summary

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	Hidenori Sakashita President and CEO
	Masahiro Murai Managing Executive Director

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Presentation

Today's Message

- Both sales and profits increased, surpassing the initial plan. Domestic haircare products and South Korean business drove growth. We are making steady progress toward achieving our full-year forecast.
- The gross profit margin is showing a recovery trend from the first to the second quarter, due to the mitigation of rising raw material costs.
- Operating profit exceeded the plan due to favorable sales and expense deferrals.
- Domestic sales and profits increased. Growth was driven by haircare products, including Aujua, sufficiently offsetting the delay in hair coloring products.
- Overseas sales and profits exceeded the plan. The weaker yen contributed to the sales increase. Additionally, strong performances in South Korea and the USA offset the weak sales in China, where market conditions continued to deteriorate.
- The FY2024 full-year forecasts remain unchanged.

Murai: Now, I would like to begin by explaining our consolidated financial results at the end of Q2. First of all, this page is a summary of today's important points.

The results exceeded the plan at the beginning of the period, with an increase in both sales and profit. Domestic haircare products and South Korean businesses performed particularly well. In that sense, I think we can say that we are on track to meet the consolidated financial results for the full year.

The high cost of raw materials had a considerable impact on us, but this was gradually mitigated, and the gross profit margin showed a recovery trend from Q1 to Q2.

Due in part to strong sales and expenses deferral, operating income was well above projections.

Then, in Japan, we had increased sales and profits. Haircare products such as Aujua have grown very rapidly. In contrast, unfortunately, hair coloring products delayed a bit.

And as for overseas, both sales and profits have been exceeding the plan. While South Korea and the US businesses have been very well, China, as you all know, has been in a bit of a difficult situation, and these two countries, which have been doing very well, made up for it. We believe that we will be able to achieve our full year forecast as expected.

Consolidated Statement of Earnings

Both sales and profits surpassed the plan. Gross profit margin has improved from 63.0% in 1Q to 64.2% in 2Q, due to the mitigation of rising raw material costs.

(Unit: million yen)	FY2023 2Q YTD	% Total	FY2024 2Q YTD	% Total	Gap	Gap (%)	FY2024 2Q YTD Plan	Vs. Plan (%)
Net Sales	22,703	100.0%	24,526	100.0%	1,822	8.0%	23,964	102.3%
Gross Profit	14,809	65.2%	15,755	64.2%	946	6.4%	15,453	102.0%
SG&A Expenses	11,719	51.6%	12,577	51.3%	858	7.3%	12,845	97.9%
Operating Income	3,090	13.6%	3,178	13.0%	87	2.8%	2,608	121.9%
Ordinary Income	3,129	13.8%	3,324	13.6%	195	6.3%	2,561	129.8%
Profit Attributable to Owners of Parent	2,195	9.7%	2,280	9.3%	85	3.9%	1,823	125.1%

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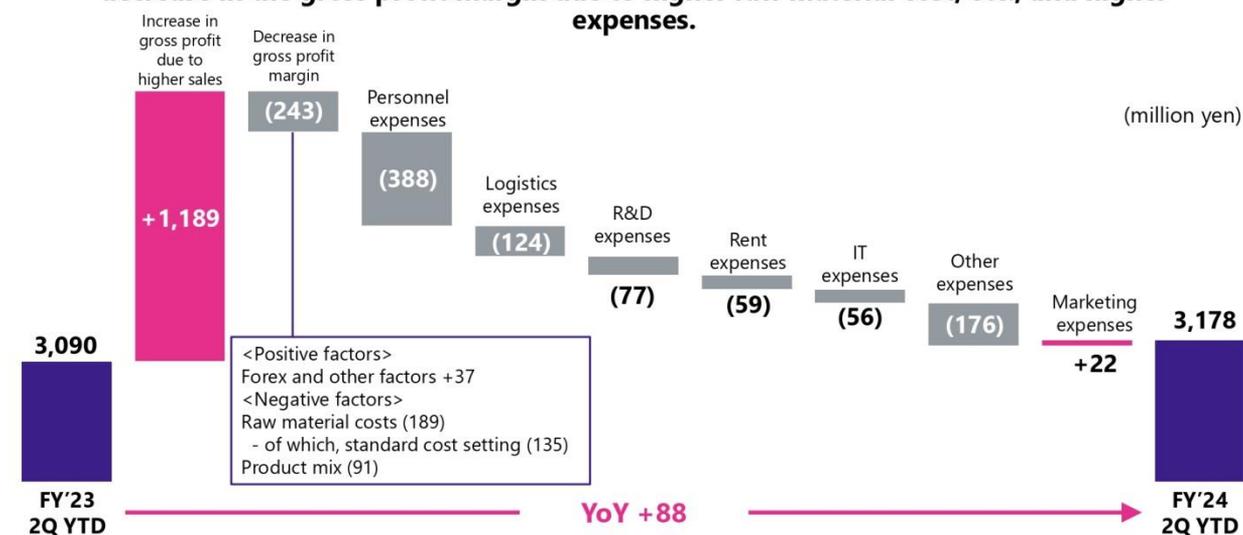
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Here is about consolidated P&L.

As I mentioned earlier, gross profit improved significantly from Q1 to Q2. In terms of profit, we have been able to significantly exceed the plan partly because we did not use up all of our expenses.

Factors in YoY Changes in Consolidated Operating Income

Operating income increased. The higher-than-expected revenue growth has offset the decrease in the gross profit margin due to higher raw material cost, etc., and higher expenses.



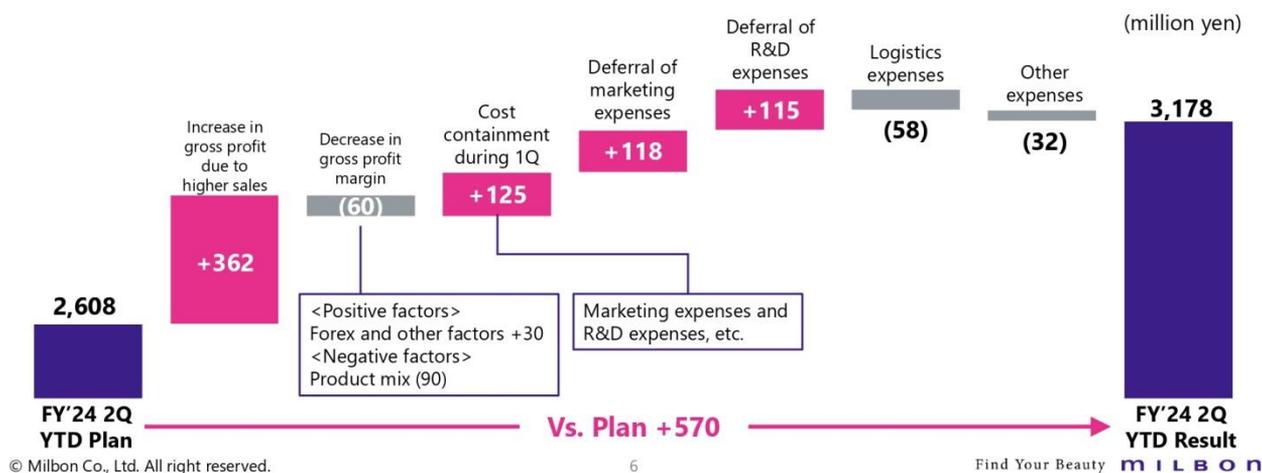
Then I show you the waterfall chart of operating income compared to the same period last year.

As you can see, the biggest factor for the increased income is the increase in gross profit due to higher sales.

Personnel expenses have increased compared to the previous fiscal year due to an increase in personnel, salary raises, and base salary increases. Although these items had negative impact, we ended up with an increase in profit compared to the previous period.

Factors in Vs. Plan Changes in Consolidated Operating Income

Operating profit exceeded the plan due to favorable sales and some cost deferrals.



In comparison with the plan, although this was largely due to the increased sales, the decline in the gross profit margin has eased considerably, and the impact was slight.

As I mentioned earlier, we were relatively able to contain the costs. I am using the expressions of “cost containment” and “deferral of expenses.”

The “deferral of expenses” means that expenses will be used this fiscal year, and the “cost containment” means we are now assuming that it is not yet certain that it will be used.

Net Sales and Operating Income by Region

**Both domestic and overseas sales and profits exceeded the plan.
The weak yen boosted overseas sales growth.**

(Unit: million yen)		FY2023 2Q YTD	FY2024 2Q YTD	Gap	Gap (%)	Actual gap Rate* ¹ (%)	FY2024 2Q YTD Plan	Exchange Rate FY23 2Q	Exchange Rate FY24 2Q
Japan	Net Sales	17,175	18,367	1,192	6.9%	6.9%	18,135		
	Operating Income	2,411	2,534	123	5.1%	—	2,081	—	—
	Margin (%)	14.0%	13.8%	—	—	—	11.5%		
Overseas	Net Sales	5,528	6,159	630	11.4%	2.8%	5,828		
	Operating Income	679	643	(35)	(5.3%)	—	526	—	—
	Margin (%)	12.3%	10.5%	—	—	—	9.0%		
South Korea	Net Sales	2,286	2,662	376	16.5%	7.5%	2,333	KRW	KRW
	Operating Income	621	743	121	19.6%	—	554	0.104 yen	0.113 yen
	Margin (%)	27.2%	27.9%	—	—	—	23.8%		
China	Net Sales	1,171	1,211	40	3.5%	(6.0%)	1,222	RMB	RMB
	Operating Income	40	77	37	91.5%	—	87	19.54 yen	21.51 yen
	Margin (%)	3.5%	6.4%	—	—	—	7.2%		
USA	Net Sales	778	922	144	18.5%	5.0%	907	USD	USD
	Operating Income	(30)	(71)	(41)	—	—	(66)	136.54 yen	154.06 yen
	Margin (%)	(4.0%)	(7.8%)	—	—	—	(7.3%)		
Other* ²	Net Sales	1,293	1,362	69	5.4%	1.1%	1,364		
	Operating Income	48	(105)	(153)	(316.8%)	—	(49)	—	—
	Margin (%)	3.7%	(7.7%)	—	—	—	(3.7%)		

*1 Figures are the rates of change in real terms on a local currency basis
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*2 Thailand, Vietnam, Malaysia, Taiwan, Hong Kong, Turkey, Indonesia, Philippines, Singapore, and Germany
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I would like to continue with the results by region.

Businesses in Japan have been strong. The sales increase was 6.9%, which is doing well.

Overseas sales also increased by 11.4%. However, this was considerably affected by the depreciation of the yen, and excluding this factor, the actual increase was 2.8%.

Looking at it by country, China was still tough. The actual rate of gap was negative, but this was covered by South Korea and the US businesses.

Financial Results by Region: Japan

Growth in haircare and cosmetics products led to increased sales and profits, compensating for the slower progress in hair coloring products.

YoY Growth Rate of Sales by Product Category*

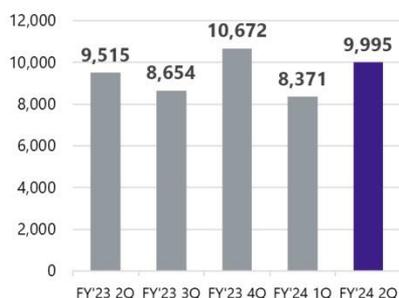
Haircare sales, led by "Aujua," remain robust. "IM" brand's new products significantly boosted cosmetics sales.

Change in Sales	FY2024	
	2Q	2Q YTD
Haircare	+8.9%	+9.0%
Hair Coloring	(0.5%)	+0.1%
Cosmetics	+40.4%	+114.4%
% to Sales	2Q	2Q YTD
Haircare	64.7%	63.1%
Hair Coloring	29.9%	30.9%
Cosmetics	1.8%	2.9%

* Based on shipment value
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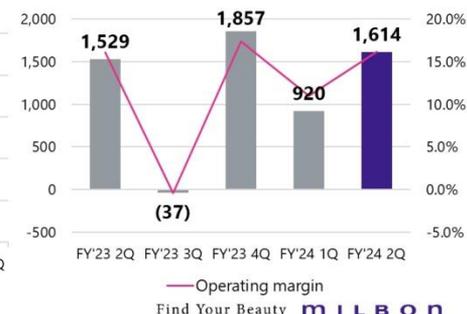
Quarterly Net Sales (mil. yen)

Domestic sales tend to be higher in the second quarter due to seasonal factors.



Quarterly Operating Income (mil. yen)

Domestic profits tend to be higher in the second quarter, driven by higher sales.



— Operating margin
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Then, in Japan, haircare products have been doing very well here, with a 9% increase.

Although the figures were small, the cosmetics business has been doing very well this fiscal year. Unfortunately, however, there has not been much growth in hair coloring products.

Financial Results by Region: Japan / Progress of Key Strategies

Key Strategies		Progress up to 2Q	Results and Outlook																		
Promoting Smart Salon	milbon:iD		<table border="1"> <thead> <tr> <th></th> <th>FY'23</th> <th>FY'24 2Q YTD</th> <th>FY'24 Plan</th> </tr> </thead> <tbody> <tr> <td>Members</td> <td>670,000</td> <td>761,000</td> <td>870,000</td> </tr> <tr> <td>Salons</td> <td>5,930</td> <td>6,292</td> <td>6,500</td> </tr> <tr> <td>EC Sales</td> <td>1,640 mil. yen</td> <td>780 mil. Yen</td> <td>1,950 mil. yen</td> </tr> </tbody> </table>				FY'23	FY'24 2Q YTD	FY'24 Plan	Members	670,000	761,000	870,000	Salons	5,930	6,292	6,500	EC Sales	1,640 mil. yen	780 mil. Yen	1,950 mil. yen
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	FY'23	FY'24 2Q YTD	FY'24 Plan																		
Number of Smart Salons	23	44	100																		
Recovery of hair coloring products sales through promotion of high-value hair color			<ul style="list-style-type: none"> The number of touchpoints for "Villa Lodola," our organic brand, increased due to intensified sales activities. Going forward, we will promote educational efforts for salons, with the aim of fostering repeat business. Despite our proposals linking hair and eyebrow color and enhancing salon education, we have not fully countered the intensifying competition. We will strengthen hair color branding for salon customers and gradually work to revitalize sales. 																		

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I would like to explain the situation in Japan based on what we outlined at the beginning of the year. The progress of milbon:iD has been very good. Both the number of salons and sales has been favorable.

Then, for Smart Salon, we planned to launch 100 salons this year in terms of the progress of store development. Our priority is not so much to meet this number, but to make each salon a success, and I can say without a doubt that we are beginning to see positive results, as Mr. Sakashita will explain later.

We have been also promoting high-value hair coloring, but the results have yet to reach the point of being successful, as I have described in my presentation as cloudy.

Financial Results by Region: South Korea

Sales have been robust, driven by strengthened haircare and perm sales initiatives. Operating income surpassed the plan due to sales growth and cost containment.

YoY Growth Rate of Sales by Product Category*

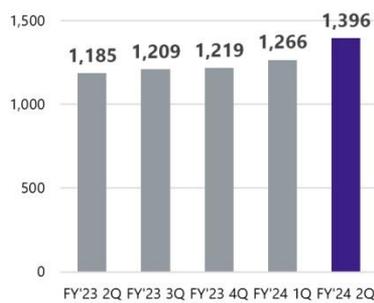
Growth in hair coloring products is showing signs of improvement due to our activities that capture changes in color trends.

FY2024		
Change in Sales	2Q	2Q YTD
Haircare	+14.5%	+17.1%
Hair Coloring	+4.6%	+2.9%
Perm	+37.5%	+35.6%
% to Sales	2Q	2Q YTD
Haircare	23.0%	23.1%
Hair Coloring	71.3%	71.2%
Perm	4.8%	4.9%

* Based on local currency
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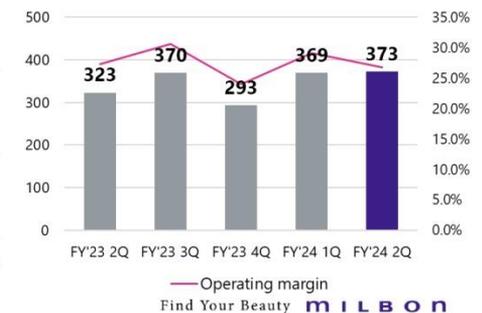
Quarterly Net Sales (mil. yen)

Haircare and perm products are driving growth, with sales consistently rising.



Quarterly Operating Income mil. yen

Although profit was expected to decrease due to higher expenses for increased staff, etc., the delay in hiring and higher-than-expected sales led to an increase in profit.



— Operating margin
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South Korean business has been continuing to do well.

Haircare products have been going very well. Also, although the figures here are not very large, there has been a very strong growth in perm.

The growth of hair coloring products, which has a significant weighting, had been stagnant for some time. However, in Q2 of this fiscal year, growth appears to have picked up slightly. Q2 ended with a positive 4.6% sales growth rate, contributing to a full-year increase of 2.9%.

Profits were also favorable, but we had expected to incur considerable expenses for hiring additional employees, but we have not yet been able to recruit smoothly, and this has resulted in an increase in profits. However, we are planning to increase the number of employees, so it will be delayed but appear later in the future.

Financial Results by Region: China

We have been impacted by the deteriorating market environment, including declining consumer confidence. In the second half of the fiscal year, we plan to recover by reassessing the salons on which we will focus our activities.

YoY Growth Rate of Sales by Product Category*

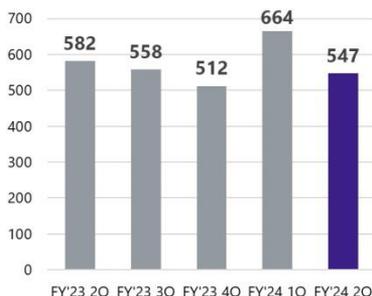
Haircare performance remained steady due to the introduction of brands, including "Global Milbon," to salons. Conversely, reduced frequency of hair coloring among salon customers has led to decreased sales of hair coloring products.

Change in Sales	FY2024	
	2Q	2Q YTD
Haircare	(3.3%)	+1.6%
Hair Coloring	(33.7%)	(17.4%)
% to Sales	2Q	2Q YTD
Haircare	62.0%	58.5%
Hair Coloring	33.1%	35.6%

* Based on local currency
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Quarterly Net Sales (mil. yen)

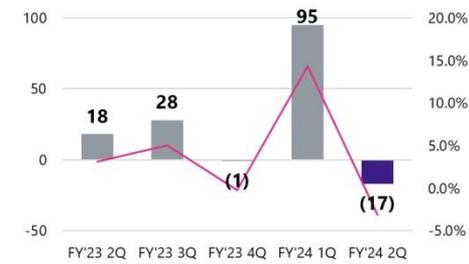
Sales in the 1Q increased due to a rise in salon customers before the Lunar New Year. However, a decline in salon customers following it led to decreased sales in the 2Q.



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Quarterly Operating Income (mil. yen)

Although profits decreased in the second quarter due to lower sales, they increased in the first half overall.



— Operating margin
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Then in China, the situation has been very difficult.

It seems that the salons which had been performing well are no longer doing so. We are making our best efforts to increase sales in this challenging situation by changing our target salons and implementing various other strategies, but we have not yet seen positive results.

Financial Results by Region: USA

Sales remained steady due to the stable growth of mainstay haircare products. Following our debut at one of the largest U.S. beauty trade fairs in June, we anticipate further growth in the second half of the year.

YoY Growth Rate of Sales by Product Category*

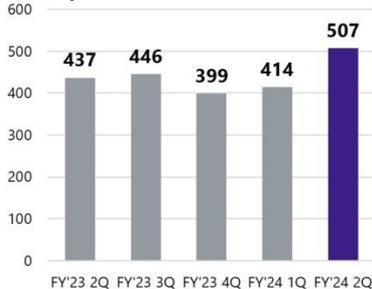
Haircare sales, led by "Global Milbon," remained firm. Although hair coloring product sales were lower due to an insufficient range of tones, we plan to launch additional tones in the 3Q and strengthen educational activities to encourage retention and increase repeat business in salons.

Change in Sales	FY2024	
	2Q	2Q YTD
Haircare	+4.8%	+5.3%
Hair Coloring	(6.2%)	+7.8%
% to Sales	2Q	2Q YTD
Haircare	85.9%	84.9%
Hair Coloring	8.9%	9.7%

* Based on local currency
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Quarterly Net Sales (mil. yen)

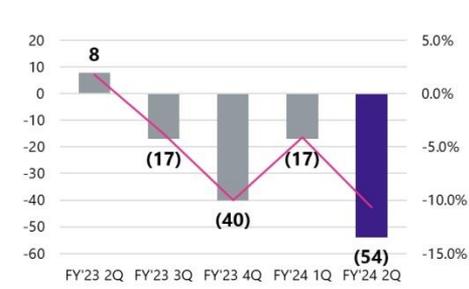
Sales slightly fell in the 4Q of last year due to a decrease in shipments amid distributor transitions, yet they are showing signs of recovery.



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Quarterly Operating Income (mil. yen)

Marketing expenses increased in the second quarter due to participation in large trade fairs aimed at expanding brand recognition.



— Operating margin
Find Your Beauty MILBON

Then, business in US has greatly expanded.

Haircare products have been growing, and hair coloring has been also beginning to grow. As you can see from the chart in the middle of the sales figures, things are going very well.

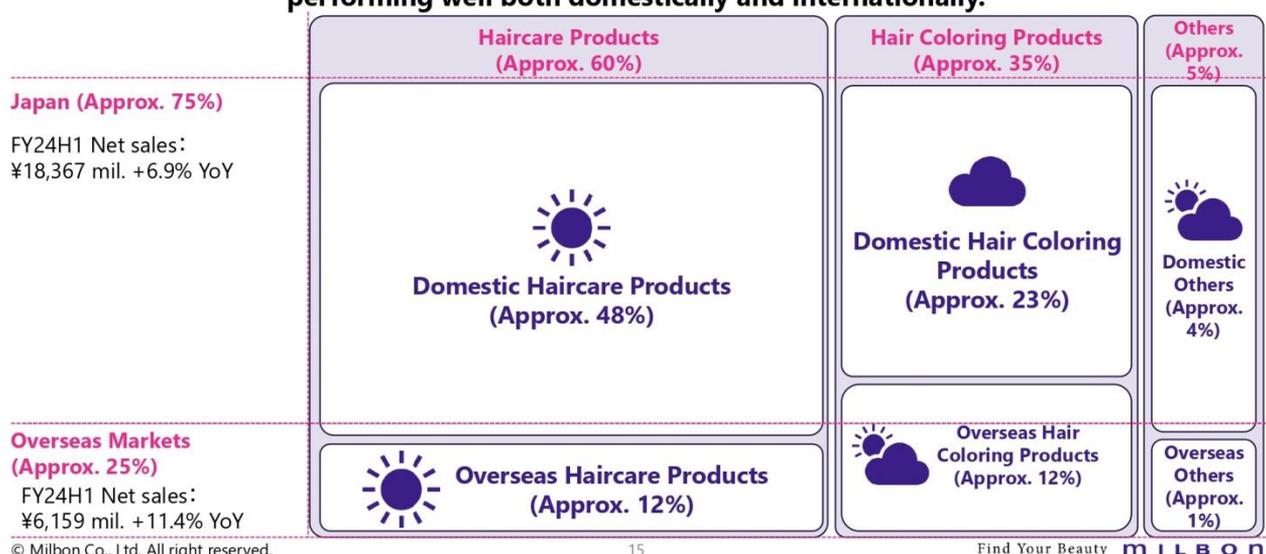
However, in terms of operating income, this quarter's figure was a little negative because we participated in the largest trade fair in the US, which cost us a considerable amount of money.

In the US, our top priority is to continue growing sales. Therefore, we are focusing our efforts on this goal rather than on immediate profits. I hope you understand the results presented here.

That's all for me, and now Mr. Sakashita will explain the progress made in FY2024. Thank you.

Our Sales Composition Ratio

Haircare products, accounting for over 60% of our consolidated net sales, are performing well both domestically and internationally.



Sakashita: I will now explain the progress made in FY2024.

First of all, let's look at the overall picture of consolidated sales.

As reported earlier, consolidated net sales increased 8% to JPY24,526 million and are on pace to exceed the initial plan by 2.3%. Domestic sales, which account for about 75% of total sales, were JPY18,367 million, up 6.9%.

In Japan, we have been growing strongly in the area of haircare products, which accounts for a large proportion of our sales. Sales of hair coloring products remained almost unchanged and struggled against the plan, but sales of cosmetics, which are included in other sales, were strong, leading to an increase in sales in the domestic market.

Meanwhile, overseas sales, which account for about 25% of sales, totaled JPY6,159 million, an increase of 11.4%. Overseas, both haircare products and hair coloring products performed well, but haircare products performed particularly well, resulting in an increase in sales. I would like to add a few more details later on for the figures by the countries.

Domestic Market Environment

The domestic hair salon market is estimated to be growing moderately and is showing a recovery trend from the slowdown caused by the COVID-19 reclassification in May last year.



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Now, I would like to explain what kind of market environment we are facing in Japan.

The chronological order is from left to right, with the top being the hair salon market as a whole, followed by hair color and haircare.

On the far right is the current situation. We estimate that the market as a whole will remain unchanged, but in terms of content, the impact of the declining population and the high ratio of hair coloring customers remain high. The hair coloring customer ratio is the percentage of customers who have had their hair colored out of the total number of customers who visited a hair salon, and this ratio has been increasing over the past decade.

And that figures have already risen to nearly 50%. While there is still room for growth, we expect growth to be moderate. In addition, considering the decline in the number of customers themselves, such as the decline in the population and the peak passed for the number of workers, we believe that the hurdles to growth through hair coloring will become even higher.

However, the market environment for haircare products remains very favorable. There is still room for growth in product sales from hair salons to customers, as only about 15% of customers currently purchase products at salons. Many customers do not buy haircare products at hair salons, so by creating an environment where they can easily try salon-exclusive haircare products and encounter products that suit their hair, the market is expected to continue growing.

Financial Results in the Domestic Market

Haircare and cosmetics products drove sales growth, offsetting delays in hair coloring products sales. The company is making steady progress toward achieving full-year forecasts.

Progress in Net Sales and Operating Profit

(Unit: million yen)	FY2023 2Q YTD	FY2024 2Q YTD	Gap	Gap (%)	FY2024 Plan	Progress Rate
Net Sales	17,175	18,367	1,192	+6.9%	38,620	47.6%
Operating Profit	2,411	2,534	123	+5.1%	5,522	45.9%
Margin (%)	14.0%	13.8%	—	—	14.3%	—

Percentage Change and Composition of Sales by Product Category

	FY2023 2Q YTD	% to Sales	FY2024 2Q YTD	% to Sales
Net Sales	+3.3%	—	+6.9%	—
Haircare	+5.7%	62.2%	+9.0%	63.1%
Hair Coloring	(1.0%)	33.1%	+0.1%	30.9%
Perm	(13.3%)	2.7%	+7.5%	2.7%
Cosmetics	+6.6%	1.4%	+114.4%	2.9%
Others	+77.5%	0.6%	(17.2%)	0.4%

*The figures for percentage change and composition of sales by product category are based on shipment value.

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In this situation, in Japan, as I mentioned earlier, we ended H1 of the year with a 6.9% increase in net sales and a 5.1% increase in operating income. The operating margin was 13.8%, 0.2% lower than last year's 14%, but as explained earlier, this is an improving trend from the gross profit stage.

By category, hair coloring products sales remained unchanged at 0.1%, while haircare products, which account for more than 60% of sales, grew 9%, driving overall sales.

Also, for a new eyebrow product launched from IM, the concept of “If you dye your hair, change the color of your eyebrows as well; hair-eyebrow color matching” has been highly praised. This product effectively addresses the struggling area of hair coloring products and is significantly boosting the domestic market as a whole.

Status of Domestic Haircare Products

Sales remain strong, centered on Aujua and Elujuda

Aujua

FY24H1 Gross Sales in Japan +7.8% YoY

The increase in the number of touchpoints and the new product "Aujua Scalp Care Series Presedia," launched in February, drove the growth of the entire brand.



*The figures are based on shipment value.
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Elujuda

FY24H1 Gross Sales in Japan +24.5% YoY

The new product "Elujuda Frizz Fixer," launched in March, was praised for its effectiveness in making frizzy hair more manageable and drove the growth of the entire brand.



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Now, the growth of haircare products is driven by the functioning of both the strategy for premium-priced haircare products and the strategy for sales from hair salons to customers, which are on a growth trajectory.

First, in terms of our strategy for premium-priced products, the new Aujua series, Presedia, launched in February, has been performing well and driving overall brand growth.

This series is a scalp care line, and it is the most expensive pricing Aujua has ever implemented. The high perceived effectiveness and expectations for our cutting-edge technology have led many Aujua salons to offer it as a menu item and recommend it to their customers, resulting in positive outcomes.

Elujuda, shown on the right, is a brand with shipments amount exceeding JPY4 billion. This brand launched a new product called Elujuda Frizz Fixer in March. The recommended retail price for this is JPY3,000 for the first time for Elujuda, and it has been performing very well.

As a supplementary note, Elujuda has set the recommended retail price in two price ranges, JPY2,600 and JPY2,800. This new product has a recommended retail price of JPY3,000. The more you use it, the more it reduces hair frizz, which is quite excellent. Aujua's Presedia and Elujuda Frizz Fixer, our ability to develop high-value-added haircare products, and our commensurate value-based pricing have been working well.

Status of Domestic Haircare Products – Aiming for Mid- to Long-Term Profitability Improvement

To address the deterioration of the product mix due to the lower sales composition of hair coloring products, we will implement measures to enhance the profitability of haircare products.



Pricing Strategy

Price Revision of Existing Products

Starting in the first half of next year, we will revise the prices of certain mid-priced haircare products in line with rising manufacturing costs.

Value-Based Pricing

We will continue to set prices for new products based on customer value and promote the turnover of new products.



Measures for Raw Materials

Reduction in the Use of Packaging Materials

Further promotion of refill specifications for professional in-salon treatments / standardization of packaging materials

Unified Procurement of Raw Materials Across Three Global Factories

We are leveraging economies of scale through collaboration among manufacturing bases in Japan, Thailand, and China for procurement.

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That said, the product mix associated with the decline in the sales composition of hair coloring products due to strong haircare products sales still needs to be addressed. The product mix also had a negative impact of JPY91 million on gross profits during this half year. In the medium term, however, the negative effects of the product mix will be eliminated by developing measures to increase the profitability of haircare products.

In other words, we will reform our business model to consistently generate high gross profit margins, regardless of whether we sell hair color or haircare products.

As a specific measure and pricing strategy, we will revise the prices of some haircare products brands whose cost ratio have risen for existing products in H1 of next year. This timing is set to coincide with the current inventory of products and materials that have the current recommended price printed on them, to minimize waste.

Including price revisions for these existing products, we will enhance our earning capability in haircare products by implementing value-based pricing for high-value-added products, while also working on increasing the sales composition of new, highly profitable products.

The new premium-priced products we have just mentioned are products with a manufacturing cost ratio equal to or lower than that of hair coloring products. Aujua's Presedia and Elujuda Frizz Fixer, which I mentioned earlier, already have a lower cost ratio than hair coloring products. I would like to emphasize that our ability to develop value-added haircare products and implement value-based pricing is effective.

As measures for raw materials, we will strive to use common containers for some of our professional-use products and reduce the amount of materials used.

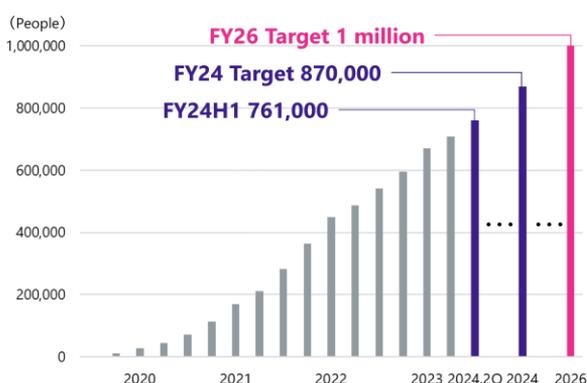
For example, to reduce the resin used in hair color product caps, we can make the cap slightly smaller, ensuring it has minimal impact on opening and closing. This change can reduce the amount of resin used by about half, leading to cost savings of tens of millions of yen. We aim to proactively implement a series of small improvements that do not affect quality and design.

We also intend to firmly manage procurement costs by improving our procurement capabilities through collaboration among our three factories, such as by researching raw material procurement routes that take advantage of our global three-factory system and by taking advantage of economies of scale.

Smart Salon Strategy – milbon:iD

The milbon:iD membership is steadily advancing towards the milestone of 1 million members. To foster further growth, we are intensifying initiatives aimed at increasing the number of active purchasers.

Progress of the milbon:iD Membership



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Initiatives to Increase the Active Purchasers

Style Stock – Service will be launched in phases starting in Oct.

Style Stock promotes EC purchases by displaying in-salon-used and recommended home care products on each customer's milbon:iD My Page. This information is entered by the stylists.



Live Commerce

We aim to enhance milbon:iD member engagement and create product purchase opportunities through streaming on both the official Milbon channel and each salon's original channel.

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Now, I would like to report on our mid-term sales strategy to expand these haircare products to the market, the Smart Salon Strategy.

First of all, the progress of our e-commerce platform milbon:iD is steadily on track toward our mid-term target of 1 million members by 2026, and we are also on track to surpass 1 million members by 2025, ahead of schedule.

In the future, we will strengthen measures to improve not only the number of members but also the active ratio, or the ratio of members who purchase products to the number of members.

As a new service, information on products used during the salon experience will be displayed on the customer's smartphone, providing a seamless and stress-free purchasing experience. This service, called Style Stock, will be launched in phases starting this fall.

In addition, live commerce through the official Milbon channel has been performing well. Last year, the annual sales of retail products were approximately JPY 50 million, whereas this year's sales are expected to be around JPY 100 million. By providing product information through our live commerce to customers who have undergone counseling at hair salons, and encouraging them, these sales are contributing directly to the salons' revenue. Given that the sales from live commerce alone are JPY 100 million, I believe this is quite an achievement.

Through these efforts, milbon:iD will become more than just an e-commerce service, but will create a new purchase experience and new product information contact points, thereby increasing the active rate.

Smart Salon Strategy – Brick-and-Mortar Smart Salons

The expansion of Smart Salons in various regions is progressing steadily with the cooperation of salons that support our concept.

44 salons in Japan

(as of June 30, 2024)



*Please refer to this link for the latest Smart Salon locations (Japanese only):
<https://www.milbon.co.jp/fyb-magazine/smartsalon/>
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A Success Story from One Salon

● Acquiring first-time retail customers through “DAGASHI”



“DAGASHI” lets customers choose and buy a one-day supply of haircare sachets, lowering the barrier to purchasing retail products in salons.

● Converting samplers to full-size product buyers and fostering repeat business through customer nurturing



Enhancing customer counseling through digital content and creating product purchase opportunities with milbon:iD increase touchpoints between retail products and salon customers.

● Result: Product Sales Increased

15% Products Sales Increase

(compared to the same period last year)

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In the Smart Salon Strategy, which is built on the milbon:iD system, we had 23 salons by the end of last year, but as of the end of June, we had 44 salons.

The map of Japan is on the left, and the Smart Salons in the area plotted with reddish dots have already opened.

It has only been about a year and a half since we started the development, and since Smart Salons are opening steadily, it is difficult to provide statistical data yet. However, I would like to introduce one successful example of an individual salon. The Smart Salon offers various product experience contents, one of which is called DAGASHI. The strategy of using DAGASHI as an opportunity to purchase products has been very successful.

DAGASHI involves selling mini-sachets for a fee. This content matches the needs of customers who want to try high-value-added and expensive products before purchasing them. Some salons sell sets of four different types of Aujua mini-sachets, marketed as ‘Your Aujua in 4 Days,’ and they sell these mini-sachets to nearly 500 customers each month, leading to actual product purchases on milbon:iD.

Since the first Smart Salon was launched in February of last year, it is difficult to provide statistical results and direction, but after two full years, we will be able to provide a more comprehensive report, and we hope you will look forward to it.

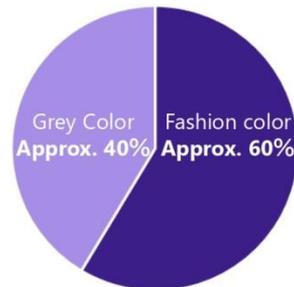
Status of Domestic Hair Coloring Products

The growth rate of hair coloring products is currently below expectations. Strengthening fashion color products is essential for recovery, and we will gradually work to improve the situation towards next year.

Sales Composition Ratio of Domestic Hair Coloring Products

Sales of grey color increased 7% YoY for the first half

- Sales of "Ordeve Crystal High Bright," launched last year to align with the trend of brighter grey colors, have continued to perform well.
- Sales of "Villa Lodola Color," which focuses on darker tones, have stabilized. We plan to strengthen educational efforts to revitalize sales.



Sales of fashion color decreased 4% YoY for the first half

- Despite implementing strategies such as coordinated proposals with eyebrow colors, sales of our mainstay product "Ordeve Addicthy" have declined due to heightened competitive pressure.
- We are initiating **comprehensive reforms** in fashion colors, focusing on R&D, sales activities, and branding.

*The figures are based on shipment value.
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Looking at the detail of hair coloring, the left side is gray color and the right side is fashion color in the chart. Gray color, which accounts for 40% of sales, increased 7%. Fashion color, which accounts for 60% of total sales, showed a 4% decrease in sales, resulting in a slight increase in total sales.

In the realm of gray hair coloring, both the organic Villa Lodola Color and the Ordeve Crystal High Bright, which was launched last year, have been performing well. Their added value propositions, beyond merely dyeing gray hair, have been well received.

Until last year, Villa Lodola had a dedicated sales force of eight people, but this year the Company switched to a sales structure with more than 300 field persons, gradually increasing the number of touchpoints. We plan to slowly put the Company on a solid growth trajectory toward H2 of the year.

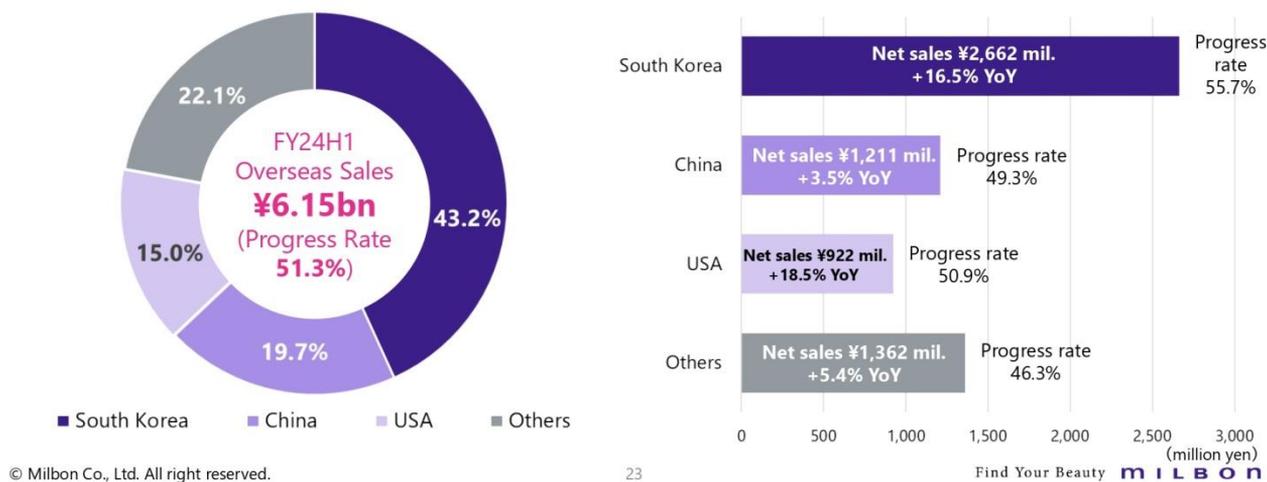
Meanwhile, in the realm of fashion coloring, we have been promoting a proposal to link eyebrow and hair color, initiated by the cosmetics brand IM this year. The concept of matching hair and eyebrow color has been highly praised by both hair salons and customers, significantly contributing to the growth of cosmetics sales.

However, it has been challenging to introduce our hair colorants, and we continue to struggle with fashion colors. As a result, while the idea of matching hair and eyebrow colors is accepted as a suggestion, it is unlikely to lead to an increase in shipments of our hair coloring products.

We will take these results seriously and proceed with a fundamental reform of our fashion colors. We will thoroughly review our hair color marketing strategy and promote branding that resonates with consumers, aiming to propose increased sales and profit growth for hair salons that are not caught up in price competition.

Current Status of Overseas Market

Our overall overseas business is making solid progress towards achieving the full-year forecast, although we have been impacted by a deteriorating market environment in China.



Regarding the situation in overseas markets, we are on track to achieve our full-year forecasts, with the poor market environment in China being compensated for by other regions. The pie chart shows the sales composition by country or region, with South Korea, China, and the US together accounting for just under 80% of the total.

By country, our business in South Korea has been performing very well in haircare products, as mentioned earlier. Hair coloring products are also on the road to recovery and have now become the driving force behind overseas sales.

The Chinese market, which poses a challenge, has been experiencing a decline in the frequency of visits to hair salons. Sales of hair coloring products, which are directly related to the number of salon customers, have declined, and the Company continues to face a difficult situation. There is a lot of concern about the Chinese market in the cosmetics industry, but the Company does not have travel retail in the first place. Additionally, since our business is only for hair salons, there is the issue of visit frequency. However, since customers always come to hair salons, we have maintained our position with a minimal negative margin.

In any case, we are in a difficult situation in terms of sales, but now is the time to focus on improving the content of our business. Together with Milbon China and local hairstylists, we will pursue a consumer-oriented approach and prepare for growth.

In North America, our strength in haircare products has expanded steadily. Hair coloring products, which we focus on to create a further growth trajectory, have also been performing well. In June, as mentioned earlier, we participated in the largest trade show, Premiere Orlando, in the US to increase the visibility of Sophistone and other products.

In the EU, we sell directly to hair salons, mainly in Germany, and we are beginning to grasp the key to success in switching from other companies' products to Milbon's products, gaining a winning edge in salon activities. Although still small in scale, we have been expanding points of contact with customers and sales.

Based on the results and know-how gained from these salon activities, we will conduct market research in countries other than Germany and promote the expansion of sales channels for Milbon products in the EU

by signing distributorship agreements in each EU region. We aim to find distributors who share Milbon's business model and agree with our growth through educational activities for hair salons and hairstylists, concluding contracts gradually and without haste.

Long-Term Growth Story for Overseas Markets

Our mid- to long-term milestone is to achieve the No.1 position in Asia, excluding Japan, where black hair is predominant.



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Now, let me explain our thoughts on the long-term growth of overseas markets.

We are already number one in Japan, but the next stage is to become number one in the Asian market, excluding Japan. To achieve this, we will aim for the top position in the South Korean market, which is a trendsetter in Asian beauty. Many young salons in urban areas of South Korea already use our hair coloring products. We also hold beauty events for young hairstylists and have received increasing offers from young salons to associate with Milbon. We aim to become number one in South Korea while promoting a growth strategy for haircare products based on hair coloring.

With our influence in both South Korea and Japan, as well as our local education system, we will strive to become number one in Asia, excluding Japan, leveraging the ripple effect of our brand in conjunction with trends in East Asia and ASEAN.

Simultaneously, in the EU and US markets, we will increase our presence through the success of hair coloring products, while building on our foundation in haircare products. Milbon has reached a position where it can aim for the top share among brands handled by distributors in the US, particularly in California on the West Coast, in the coming years. By accumulating number one positions in specific areas, we will enhance our presence as a global player.

Enhancement of ESG External Evaluation Agency's Ratings

Our enhanced sustainability efforts have improved our FTSE ESG score. We also aim to improve ratings from other agencies through appropriate initiatives and disclosures.

	2021	2022	2023	2024	Future Outlook
FTSE	1.1/5.0	1.5/5.0	2.3/5.0 FTSE Blossom Japan Sector Relative Index	3.5/5.0 FTSE Blossom Japan Index / Sector Relative Index	We will continue to enhance our ratings through appropriate disclosures.
MSCI	CCC	B	B MSCI Empowering Woman Index	B MSCI Empowering Woman Index (WIN/Select)	We will enhance our disclosures on "Chemical Safety" and "Packaging Materials & Waste." Having completed our Scope 3 emissions disclosure, we expect to improve our ratings
CDP	—	D	C	To be published at the end of 2024	We will enhance our disclosures on "Water" and promote initiatives on "Biodiversity" to improve our ratings.
Ecovadis	—	Silver	Gold	To be published at the end of 2024	We will continue to enhance our ratings through appropriate disclosures.

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Next, I would like to report on our ESG-related initiatives.

Newly updated are the FTSE and MSCI. MSCI continuously rated us as B, but we received 3.5 points from the FTSE, up from 2.3 last year. We consider this a positive evaluation.

Status of ESG Index Inclusion

We have been designated as a constituent of several ESG indices by the GPIF. We are included in the FTSE Blossom Japan Index from this fiscal year.

ESG Indices We Are Included in

Since 2023



2024 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)



FTSE Blossom Japan Sector Relative Index

Since 2024



FTSE Blossom Japan Index

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FTSE Blossom Japan Index Series
: <https://www.iaseg.com/en/ftse-russell/indices/blossom-japan>

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Regarding the ESG investment indexes that we have been continuously included in since 2023, we have been included in the FTSE Blossom Japan Index following this high evaluation. We will continue to make appropriate disclosures to remain eligible for ESG investment and to be included in the stock market for their evaluations.

Outlook for After 3Q

		Outlook for After 3Q
Sales	Japan	<ul style="list-style-type: none"> Haircare products are expected to grow steadily due to consistent demand. The efforts regarding hair coloring products are expected to have some positive effects, but sales are not anticipated to meet our expectations. Strong performance in haircare and cosmetics products, including new eyebrow products, is expected to offset delays in hair coloring products.
	Over seas	<ul style="list-style-type: none"> The negative impact of the deteriorating market environment in China is expected to persist. We will offset the negative impact from China with strong growth in South Korea and the US, especially in haircare products.
Profits		<ul style="list-style-type: none"> The gross profit margin is recovering due to the alleviation of soaring raw material costs. We will utilize our expenses as planned.

We will continue with the forecast for Q3 and beyond.

First, domestic sales of hair coloring products are expected to grow in the gray color market, but there are still no signs of recovery in fashion colors. However, strong performance from new haircare products and cosmetic eyebrow products is expected to continue, effectively covering the delay in hair coloring products.

As for overseas sales, although there are still no signs of recovery in the market environment in China, sales in South Korea and the US continue to be strong, especially in haircare products, and are expected to drive overall overseas growth.

On the other hand, regarding profits, the gross profit margin is on a recovery trend as the impact of the sharp rise in raw material prices has eased. SG&A expenses will be allocated as planned, but we will make progress toward achieving the reported full-year operating income.

Outlook for Full-year Forecasts

Full-year forecasts remain unchanged. We have made solid progress toward achieving them.

(unit: million yen)	FY2023	FY2024 Plan	Gap	Gap (%)	FY2024 2Q YTD	Progress Rate (%)
Net Sales	47,762	50,620	2,857	6.0%	24,526	48.5%
Gross Profit	29,525	32,400	2,874	9.7%	15,755	48.6%
Margin(%)	61.8%	64.0%			64.2%	
SG&A Expenses	24,000	25,800	1,799	7.5%	12,577	48.7%
SG&A Ratio(%)	50.2%	51.0%			51.3%	
Operating Income	5,525	6,600	1,074	19.5%	3,178	48.2%
Margin(%)	11.6%	13.0%			13.0%	
Ordinary Income	5,586	6,560	973	17.4%	3,324	50.7%
Margin(%)	11.7%	13.0%			13.6%	
Profit Attributable to Owners of Parent	4,001	4,650	648	16.2%	2,280	49.0%
Margin(%)	8.4%	9.2%			9.3%	

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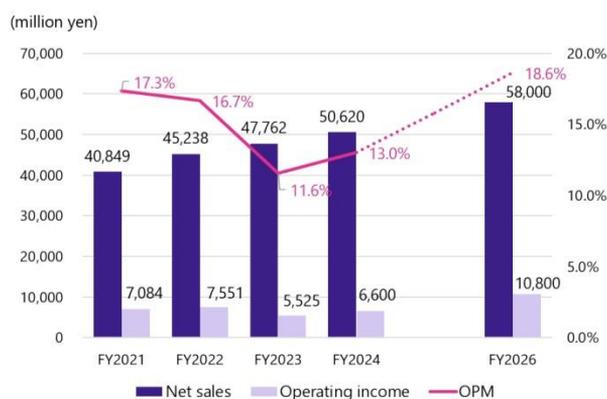
Based on the above, we maintain our full-year forecasts. We will make solid progress toward achieving this goal.

These are the progress made in FY2024.

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

Sales are progressing well, but profit growth is delayed. We will disclose specific figures on the full-year financial results announcement next February.

Progress of Sales and Profits



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Cost Issues to Address



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Regarding the forecast for the 2026 mid-term management plan, sales are progressing as planned, but as you know, there is a delay in the progress of profits.

As we reported in financial results in this February, in 2021, when we created the mid-term management plan, we had not anticipated at this time the challenges in our cost structure, mainly cost of goods, distribution costs, and personnel costs. Personnel cost, in other words, relates to productivity. I would like to report on the status of our discussions regarding improvement measures for these three issues.

First, regarding the cost of sales, as mentioned in the haircare products business results report, we are developing high-value-added products, implementing value-based pricing, and revising the prices of existing products. By doing so, we aim to improve the cost ratio. We will also continue to reduce procurement prices through our three-plant system.

Additionally, as stated earlier, the hurdles to growth in hair coloring products will increase in the future. We have already transitioned from making money from hair coloring products to focusing on haircare products. In this situation, we will strive to improve the profitability of the haircare products category so that haircare products become the company's primary revenue source.

Second, we expect a certain level of improvement in logistics costs by reviewing the number of orders, minimum order quantity, and other aspects of logistics services provided to distributors and hair salons. Currently, orders can be placed daily without a minimum order quantity per order for distributors, leading to some inefficient deliveries. To address environmental issues, driver shortages, and social issues, we will request the consolidation of orders within a week. This alone will improve logistics costs.

Furthermore, we aim to reduce logistics costs by sharing variable costs among customers, salons, distributors, and Milbon, based on the concept of sharing variable costs in logistics for end users, milbon:iD, and e-commerce logistics.

We will fully consider these measures and thoroughly estimate the percentage improvement we can expect in relation to the sales ratio, incorporating this into our plan.

Third, productivity improvement is about enhancing sales per personnel cost. The idea is to focus on increasing sales for each salon, meaning the amount of products purchased at one salon will increase. Since our activities at each salon are our field activities, this concept leads to maximizing results and significantly contributes to improving productivity.

We have always conducted our business in this manner, resulting in a highly manpower-intensive model, making it difficult to exceed sales of around JPY100 million per salesperson. However, by growing the smart salon strategy, milbon:iD, and the cosmetics business, we will effectively increase sales and profits in hair salons that struggle with securing human resources and customers. This, in turn, will lead to higher productivity per employee and an improvement in the personnel-cost ratio.

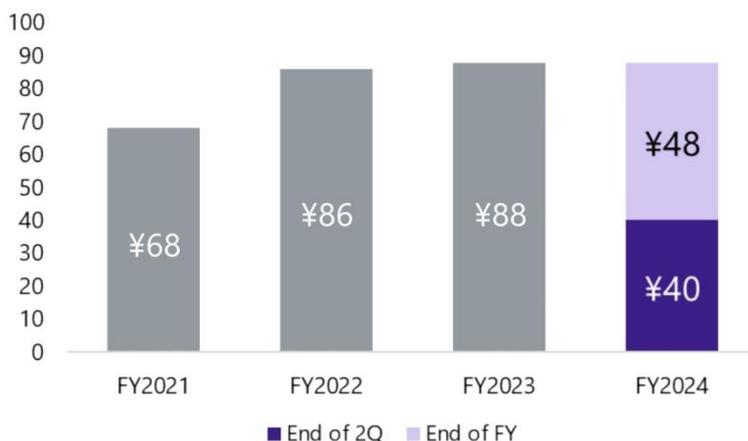
The smart salon experience will encourage purchases from people who might not have bought otherwise. Cosmetics will become a new selling point and a tool in the hair salon's arsenal. With milbon:iD, the company will be able to build continuous purchases. These positive developments represent the future of salons. We hope you will take note of these drivers of productivity improvement.

As for the key medium-term management plan results in 2026, we will disclose them together with the 2025 plan at the time of the announcement of full-year financial results next February. We will quantify the impact of the improvements in cost, distribution cost, and productivity that we have mentioned and make

an announcement.

Return to Shareholders: Dividend

The interim dividend for FY2024 is set at 40 yen per share, with a projected year-end dividend of 48 yen. During the current Medium-Term Management Plan period, we will adhere to the policy of maintaining an annual dividend of at least 88 yen and will not reduce dividends, even after this period.



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Finally, regarding dividends, the interim dividend for FY2024 will be JPY40 per share, and the year-end dividend is expected to be JPY48 per share. During the period of the 2026 medium-term management plan, the minimum dividend will be JPY88, and we do not intend to further reduce the dividend in the future.

This concludes my presentation. Thank you very much.

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