

MILBON CO., LTD (4919 JP)

FY21 EARNINGS SURPASSED THE PRE-COVID LEVEL. STARTING A NEW MEDIUM-TERM PLAN AFTER THE 18-MONTH TRANSITION

FY21 EARNINGS RESULTS

Milbon Co., Ltd (4919 JP) reported FY21 (Dec year-end) earnings with operating profit [OP] of ¥7,817mil (+22.3% YoY) on sales of ¥41,582mil (+16.4% YoY). Despite repeated State of Emergency closures, customer traffic to beauty salons steadily recovered during the year and was least affected by the closures. FY21 sales are 14.7% above pre-COVID FY19 sales level of ¥36,266mil. Moreover, thanks to the steady increase in the sale of home-use haircare product at salons, overall domestic sales are up 12.6% over the past year.

Milbon estimates that approx. 70% of its haircare products revenue comes from salon sales. Thanks to *milbon:iD* – the company's e-commerce platform that supports beauty salons in the sale of its salon haircare products – haircare product revenues also saw higher sales from registered salons and users (customers to beauty salons). The number of registered salons signed up to *milbon:iD* reached 3,254, a sharp increase from the 2,000 registered in the 1H, and the number of *milbon:iD* users reached approx. 170,000, well above the firm's target of 60,000 users.

In addition to a solid recovery in Domestic sales (+12.6% YoY), Overseas sales saw a stronger-than-expected recovery (+35.8% YoY). In all three overseas markets – the US, China, and Korea – overseas sales and OP rose by 35.5% and 75.2% respectively compared to the pre-COVID FY19 results (OP of ¥574mil on sales of ¥5,857mil), which suggests that the FY21 Overseas performance was more than just a recovery from the weakness seen in FY20.

Milbon (4919 JP): Earnings Summary (Cumulative)						
(¥mil)	FY20		FY21			
	FY	1H	FYCE (New)	FY	Results vs CE (%)	YoY (%)
Sales	35,725	19,558	40,600	41,582	2.4	16.4
COGS	12,339	6,650		14,083		14.1
GP	23,385	12,907		27,498		17.6
GPM (%)	65.5	66.0		66.1		+0.6pp
SG&A	16,990	9,248		19,681		15.8
SG&A / Sales (%)	47.6	47.3		47.3		-0.3pp
OP	6,394	3,659	7,800	7,817	0.2	22.3
OPM (%)	17.9	18.7	19.2	18.8	-0.4pp	+0.9pp
RP	5,791	3,355	7,120	7,158	0.5	23.6
RPM (%)	16.2	17.2	17.5	17.2	-0.3pp	+1.0pp
NP for the parent's s/holders	4,204	2,413	5,100	5,109	0.2	21.5

Source: Nippon-IBR based on Milbon's earnings presentation materials (FY19, FY20 & FY21)

EXECUTIVE SUMMARY

- Milbon reported FY21 (Dec year-end) results with OP of ¥7,817mil (+22.3% YoY) on sales of ¥41,582mil (+16.4% YoY). The firm saw FY21 sales growth of 14.7% compared to the pre-COVID FY19 sales.
- In addition to the solid 12.6% YoY recovery in Domestic (Japan) sales, Overseas sales were stronger-than-expected, up 35.8% YoY. Together with the performance from all of the overseas businesses combined, OP rose 75.2% YoY on a 35.5% YoY rise in sales – well above pre-Covid levels.
- Based on the new cost recognition method, Milbon is guiding for FY22 OP of ¥7,550mil on sales of ¥43,900mil. Excluding the impact of those changes, sales and OP would have risen by 7.5% YoY and 6.6% YoY, respectively.
- Milbon announced a new medium-term business strategy that covers five years between FY22~FY26 with the release of its FY21 results. The new plan primarily focuses on three areas:
 - 1) The global market strategy,
 - 2) Beauty Platform Concept, and
 - 3) Sustainability Commitment.
- Milbon aims to achieve FY26 OP of ¥10,800mil (5-yr CAGR of 8.8%) on sales of ¥58,000mil (5-yr CAGR of 7.3%) and to generate total operating cash flow of ¥44bil+ over the period. The firm also reviewed its capital allocation policy. Under the new policy, Milbon plans to pay out 50% of net profit as dividends every year over the five years, an improvement from 40% target of the previous plan.

Sales by Country

1. Japan

Milbon reported FY21 Japan OP of ¥6,811mil (+13.7% YoY) on sales of ¥33,643mil (+12.6% YoY), which produced an OPM of 20.2%, slightly up from FY20's 20.0% and just shy of FY19's pre-Covid OPM of 20.3%. There was a bit of a cushion on the cost side as the firm did not use its planned SG&A budget due to restrictions on business activities under COVID. Even though overall SG&A costs rose 15.8% YoY due to an increase in personnel costs, such as hiring new Field Persons [FPs] and logistics, it was more than offset by the improvement in sales, thanks to Milbon's efforts to support beauty salons to overcome pandemic-related obstacles. Given COVID restrictions led to customers not frequenting salons as regularly as they used to, especially in the urban areas, it has become vital that hairdressers encourage sales of salon-bought haircare products in an effort to maintain their business. The benefits of the firm's efforts can be seen in the number of salons that registered with *milbon:iD*, its unique e-commerce platform, which hit 3,254 as of the end of Dec 2021, a rapid increase from 1H's 2,000. Milbon also saw an rise in the e-commerce sales ratio of premium brands sold via *milbon:iD* rising to 5.8% in FY21 from 1.5% as of the end of FY20. The number of users (salon customers) registered with *milbon:iD* also rose to approx. 170,000 users, a substantial jump from 70,000 as of the end of FY21 1H and exceeding management's original FY21 forecast for 60,000 users.

2. US

By teaming up with local distributors to cultivate new salons, FY21 US sales surged 89.3% YoY to ¥905mil. Although the high YoY growth reflects a recovery from the weak sales in FY20 under the pandemic, US sales were up 36.7% (LCY basis) compared to FY19 levels thanks to strong sales of Global Milbon, a premium haircare range. Hair colour product *Sophistone* is also proving popular and has helped cultivate new customers. The firm plans a full-scale rollout of *Sophistone's* permanent color this FY. However, the US business remained loss making in FY21.

3. China

FY21 China OP rose 53.6% YoY to ¥449mil on sales of ¥2,148mil (+40.5% YoY / +26.9% YoY in local currency [LCY]) and was 31.1% above the FY19 pre-COVID FY19 level. Marketing activities were restricted due to repeated restrictions which affected customer traffic to beauty salons. However, the number of salons that use Milbon products steadily increased on the back of the firm's successful education support for hairdressers. Over the past year, Milbon has expanded its regional coverage by expanding the number of distributors.

4. Korea

Milbon Korea – the largest part (8.2% of total consolidated net sales) of the firm's overseas operations – generated FY21 OP of ¥1,138mil (+76.4% YoY) on sales of ¥3,396mil (+33.5% YoY / LCY +25.1% YoY). Close to 80% of sales in Korea is derived from hair colour products. Sales of premium brands, such as Global Milbon and Aujua, trended favourably as more salons had the products in stock.

Sales by Product

FY21 Haircare product sales rose 15.8% YoY to ¥24,466mil. Premium brands sales improved 25.6% YoY as customers in Japan spent more on salon-bought high-end products such as Aujua (sales +21.9% YoY), for use at home. Global Milbon, another premium haircare brand, continues to grow in China, US, and Korea. Sales of haircare premium brand products now comprises more than half of Milbon's total haircare products sales. Hair colour product sales were particularly hit from the pandemic during FY20, but recovered 17.6% YoY to ¥14,813mil in FY21. Since wearing a mask has become the norm and with half of one's face hidden, customers are now choosing to add hair colour as part of their fashion repertoire. The sale of colour products such as Ordeve Addicthy that offer a wider variety of colours rose +34.2% YoY.

Sales of Imprea (only in Japan), a cosmetics series sold through hair salons, surged 60.6% YoY to ¥579mil in FY21. The number of salons selling Imprea reached 1,104 (+459 salons YoY). Although several new products in the Imprea range, such as a new eyebrow mascara, an eyebrow pencil that customers can choose to match their hair colour, and a skin whitening care serum, also contributed to the growth in sales, annual revenues fell short of the firm's target of ¥640mil because of restrictions on demonstrating skin care products by touching a customer's face.

FY22 OUTLOOK

Milbon is guiding for FY22 OP of ¥7,550mil on sales of ¥43,900mil. However, due to a change in how sales discounts are treated – formerly reflected as a non-operating cost to now directly discounting from the sales figure – the guidance cannot be compared to FY21 figures on a like-for-like basis. Excluding the new cost recognition method, sales and OP YoY growth would be 7.5% YoY and 6.6% YoY, respectively. In this section, unless otherwise stated, the past numbers will be readjusted to the new recognition method of sales discount. Milbon had already introduced the new cost recognition method as of FY19 (except for the treatment of sales discount).

Japan

Milbon is guiding for FY22 Japan OP of ¥6,706 (+9.8% YoY) on sales of ¥35,150mil (+6.7% YoY), renewing the record level of revenue achieved in FY19. The firm reckons that FY22 growth will mainly come from by hair care and hair colour products.

The company completed an 18-month review period (*Change the Stage 18-month Missions*) which was introduced at the release of FY20 1H results and lasted until the end of this fiscal year. Management has identified four stages and 25 missions to work on during that period, based on the key question: How can Milbon support the beauty industry's survival post COVID? For the details of Change the Stage 18-Month Mission, please check our previous report on Milbon (https://www.milbon.co.jp/english/ir/upload_file/m000-/20210331_SponsoredResearchReport.pdf).

The environment surrounding the Japan's beauty industry had entered a period of transition even before the pandemic hit. COVID, however, has accelerated the transition. For example, with the mandatory wear of face masks, consumers' interest in beauty has changed from not just make-up but to include haircare. With reduced customer traffic to salons, the importance of selling haircare products and establishing an online shopping infrastructure such as *milbon:iD* has become key to boosting salon revenues and to retain customers, both now and in the future.

Overseas

FY22 Overseas sales guidance is for OP of ¥843mil (-13.8% YoY) on sales of ¥8,750mil (+10.6% YoY), and assumes that the economic activity will remain at current level despite the impact of COVID. Overseas sales are also likely to renew record sales. Although each overseas operation will see sales growth, due to planned investment in a new factory and R&D, along with depreciation costs in China, the China business will likely see FY22 OP fall by more than half, to ¥206mil.

Sales by Product

FY22 hair care products sales are forecast to rise 6.4% YoY to ¥25,570mil thanks to a steady increase in sales at salons and home-use haircare products. The company guiding for sales of ¥15,570mil (+7.0% YoY). Milbon has high hopes for its new hair colour product launched in the US, *Sophistone*, which offers vivid colours and less odour, and hopes for it to become a salon favourite and to encourage other salons to stock the product.

CAPEX

With FY22 being the first year of the new medium-term management plan, Milbon has several investment plans in Japan and overseas, including those related to digital shift (DX). The firm is guiding for FY22 CAPEX of ¥5,080mil, up from FY21's ¥4,644mil. This year's CAPEX projects include the purchase of land for a new training centre in Japan, and a production facility in Thailand. There will also be investments on DX which we discuss further below.

Revision on Dividend Payment

In FY22, Milbon aims to pay out 50% of net profit and aims for a cash dividend of ¥80/share, up from FY21's ¥68/share.

Milbon (4919 JP): Earnings Results and Guidance					
(¥mil)	FY21			FY22	
	Results	YoY (%)	Adjusted ¹	CE (adjusted)	YoY (%)
Sales	41,582	16.4	40,849	43,900	7.5
DM	33,643	12.6	32,938	35,150	6.7
Overseas	7,983	35.8	7,910	8,750	10.6
GP	27,498	17.6	26,765	29,140	8.9
GPM (%)	66.1	+0.6pp	65.5	66.4	+0.9pp
SG&A	19,681	15.8	19,681	21,590	9.7
SG&A / Sales (%)	47.3	-0.3pp	48.2	49.2	+1.0pp
OP	7,817	22.3	7,084	7,550	6.6
OPM (%)	18.8	+0.9pp	17.3	17.2	-0.1pp
RP	7,158	23.6	7,158	7,410	3.5
RPM (%)	17.2	+1.0pp	17.5	16.9	-0.6pp
NP for the parent's s/holders	5,109	21.5	5,109	5,230	2.4

Source: Nippon-IBR based on Milbon's earnings presentation materials FY21

Sales and OP Breakdown by Country - Results and Guidance						
(¥mil)	Sales / OP / OPM (%)	FY20	FY21	YoY (%) ¥based	FY22CE	YoY (%) ¥based
Japan	Sales	29,880	32,938	10.2	35,150	6.7
	OP	5,989	6,106	2.0	6,706	9.8
	OPM (%)	20.0	18.5	-1.5pp	19.1	+0.6pp
US	Sales	464	905	95.0	1,052	16.2
	OP	-302	-561	n/a	-260	n/a
	OPM (%)	n/a	n/a	n/a	n/a	n/a
China	Sales	1,528	2,148	40.6	2,487	15.8
	OP	292	449	53.8	206	-54.2
	OPM (%)	19.2	20.9	+1.7pp	8.3	-12.6pp
Korea	Sales	2,543	3,368	32.4	3,604	7.0
	OP	645	1,109	71.9	1,055	-4.8
	OPM (%)	25.4	32.9	+7.5pp	29.3	-3.2pp
Others	Sales	1,307	1,487	13.8	1,607	8.0
	OP	-230	-20	n/a	-158	n/a
	OPM (%)	n/a	n/a	n/a	n/a	n/a
Overseas Total	Sales	5,844	7,910	35.4	8,750	10.6
	OP	405	977	141.2	843	-13.8
	OPM (%)	6.9	12.4	+5.5pp	9.6	-2.8pp

Source: Nippon-IBR based on Milbon's FY21 earnings results material

Net Sales Breakdown by Products (Cumulative)										
(¥mil)	FY19		FY20		FY21				FY22CE	
	1H	FY	1H	FY	1H	FY	Results vs. CE(%)	YoY (%)	FYCE	YoY (%)
Hair care products	9,897	21,328	9,391	21,135	11,288	24,466	2.8	15.8	25,570	4.5
Hair colouring products	6,423	12,994	5,594	12,594	7,124	14,813	2.9	17.6	15,570	5.1
Permanent wave products	770	1,515	660	1,372	740	1,449	-2.4	5.6	1,510	4.2
Cosmetic products	47	165	136	360	293	579	-9.5	60.6	900	55.4
Others	103	263	85	262	111	273	-1.4	4.3	350	28.2
Total	17,242	36,266	15,869	35,725	19,558	41,582	2.4	16.4	43,900	5.6

Source: Nippon-IBR based on Milbon's earnings presentation materials (FY19, FY20 & FY21)

¹ Milbon changes the cost recognition method for discounts which used to be a non-operating expense. From FY22, discounts will be directly deducted from sales. Therefore, FY21 results figures are adjusted to the new method here.

MEDIUM-TERM MANAGEMENT PLAN FY22~FY26

Milbon announced the new medium-term business strategy that covers five years between FY22~FY26. The firm terminated the previous medium-term management plan that commenced in FY19 early amid a need to adapt to changes that surfaced during the pandemic, such as adaptation to change in lifestyle and value, and digital transformation at beauty salons whose services can only be provided physically, not virtually. After the termination of the plan, the firm placed an 18-month transformation period to prepare for the new medium-term plan that was launched together with the FY21 results and covers five years starting from FY22.

Under the new plan, Milbon's focus will be on the follow three areas:

1) Global Market Strategy

Milbon aims to hold its top position in Asia and to be one of the top five companies globally in the professional use beauty market. The firm identified seven regions in the global beauty market: Japan, Korea, Chinese-speaking (China, Hong Kong, and Taiwan), ASEAN, North America, EU, and Middle East (Turkey) where it plans to offer region-specific products. Milbon will likely establish R&D and production bases in these locations.

2) Beauty Platform Concept

The concept is explained by two strategies:

1. Smart Salon Strategy, which transforms the beauty salon to a place where a combined digital and real customer experience is offered. Milbon will offers various DX opportunities to beauty salons. One example is *milbon:iD*. During the 18-month transformation period, Milbon successfully launched *milbon:iD* and achieved a greater number of users than expected. During the new medium-term plan, the firm aims to achieve 1mil users of *milbon:iD*. Other examples include *Education:iD*, which offers education programmes to hairdressers, and Digital Arena, which offers digital hair styling demonstration by famous hairdressers who are involved in the hosting of the largest competition for hairdressers in the Asian region.

2. Beauty Life Care Strategy that supports beauty salons to provide beauty platform to their customers.

3) Sustainability Commitments

Milbon reckons that it can realise a sustainable society through creating a beauty industry that contributes to people's beauty and wealth of mind. It identified five key sustainability achievement targets:

1. The realisation of the wealth of mind through beauty,
2. Recyclable production and consumption activities,
3. Human-friendly procurement activities through a fair supply chain,
4. Fair and flexible management,
5. Encouraging a flexible work environment by offering personnel system such as offering variety of workstyles.

Numerical Targets

Milbon is targeting FY26 OP of ¥10,800mil (5-yr CAGR of 8.8%) on sales of ¥58,000mil (5-yr CAGR of 7.3%) and aims to generate total operating cash flow of ¥44bil+ over the five years. The firm also reviewed its capital allocation policy. Under the new policy, Milbon plans to pay out 50% of net profit as a dividend every year during the five years, an improvement from 40% target of the previous plan.

Milbon (4919 JP): CAPEX Plan (FY22~26 total / ¥bil)	
(¥bil)	FY22~FY26
Marketing / Studio	1.9
Production System	9.8
Training Centre	4.8
Digital	1.7
Others	4.8
Total	23.0

Source: Milbon Co., Ltd. New Medium-term Business Plan FY22~26

Milbon (4919 JP): Capital Allocation Policy			
(¥bil)	Previous Plan (FY19~23)	FY19~21 incl. 18-mo transition	New Plan FY22~26 (5 years)
Operating Cash Flow	26.0	17.7	44.0
CAPEX	12.0	8.2	23.0
Shareholder Return Target	10.0	5.9	16.0
Shareholder Return Target (Dividend P/O ratio)	40%	40.6% in FY19	50.0%
		43.3% in FY20	
		43.3% in FY21	
Financial Base Maintenance	4.0	3.6	5.0
Cash Position		13.3	18.3
ROE (%)		13.1% in FY19	13.9%
		11.6% in FY20	
		13.4% in FY21	
ROIC (%)		12.9%	13.6%

Source: Milbon Co., Ltd. New Medium-term Business Plan FY22~26

UPDATE ON CROSS-HELD SHARES

On 11 March 2022, Milbon announced the offering of 934,400 shares (2.82% of total outstanding) which were held by Sumitomo Mitsui Trust Bank (8309 JP). In the past, when Milbon's cross shareholding counter parties have sold their stake in the firm, block trades are made directly between the sellers and the buyers outside the market via ToSTNeT (Tokyo Stock Exchange Trading Network System).

Milbon also bought back some shares. However, given the limited opportunity to improve the number of liquid shares as approx. 20% is owned by founding family members, family office and employees, Milbon agreed that the 2.82% stake owned by Sumitomo Mitsui Trust would be sold as an offering via an underwriter (Daiwa Securities). This offering has not caused any dilution to existing shareholders. The only other holding Milbon currently has is a 4.0% stake in Kose (4922 JP) which is recorded in the investment security line on the BS. Milbon works in alliance with Kose over its skin care business.

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