

Milbon Co., Ltd.

FY2017 Second Quarter (December 21, 2016 – June 20, 2017)

Financial Results Presentation Materials



June 28, 2017

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Find Your Beauty **MILBON**

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Fiscal Year 2017 (58th term) Operating Results for the Second Quarter

Masahiro Murai, Managing Director

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Consolidated Operating Results (FY2017 6 months)

While sales are recovering steadily, profits declined due to plant extension work

(Unit: million yen)

	Amount		Increase/ Decrease	Increase/ Decrease ratio (%)
	FY2016 6 months	FY2017 6 months		
Net sales	14,218	14,956	738	5.2
Gross profit	9,787	10,069	281	2.9
SG&A expenses	7,364	7,736	372	5.1
Operating income	2,423	2,333	(90)	(3.7)
Ordinary income	2,188	2,147	(41)	(1.9)
Profit attributable to owners of parent	1,464	1,508	43	3.0

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Consolidated Sales by Product Category [Hair Care Product]

Sales increased slightly despite the introduction of new products under professional brands

(FY2017 6 months)

(Unit: million yen)

	FY2016 6 months	FY2017 6 months	Increase/Decrease	Increase/Decrease ratio (%)
Hair Care Product	8,511	8,680	169	2.0

- Sales have been steady for the premium brands Aujua and “milbon.” Sales of professional brands, which have seen the introduction of new products also in the period under review, were not as expected.

New

Elujuda

Mellow Serum/Limber Serum

Leave-in treatment for developing hair one can lightly run fingers through and is easily managed from the roots.

(Unit: million yen)



FY target	Results	Prog. rate
600	235	39.2%

Mar. 30 Debut

PLARMIA

Enriched

Shampoo and treatment that provide the feeling of elasticity demanded by women in their 50s who are no longer satisfied with simple moisturizing.

(Unit: million yen)



FY target	Results	Prog. rate
500	149	30.0%

Mar. 1 Debut

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A Premium Brand, Aujua

Sales increased amid the challenging market environment

Number of Aujua salons

FY2016 year-end	FY2017 Q2-end	Increase/ Decrease ratio (%)
2,779 salons	2,963 salons	6.6

Sales (FY2017 6 months)

(Unit: million yen)

FY2016 6 months	FY2017 6 months	Increase/ Decrease ratio (%)
2,187	2,309	5.6

Brand concept

A hair care brand that nurtures the beauty of Japanese women's hair, born from the climate, culture and hair characteristics of Japan

What is Aujua?

A hair care series that responds to hair concerns by creating and evolving a program just for one individual. This is Aujua.

Product range

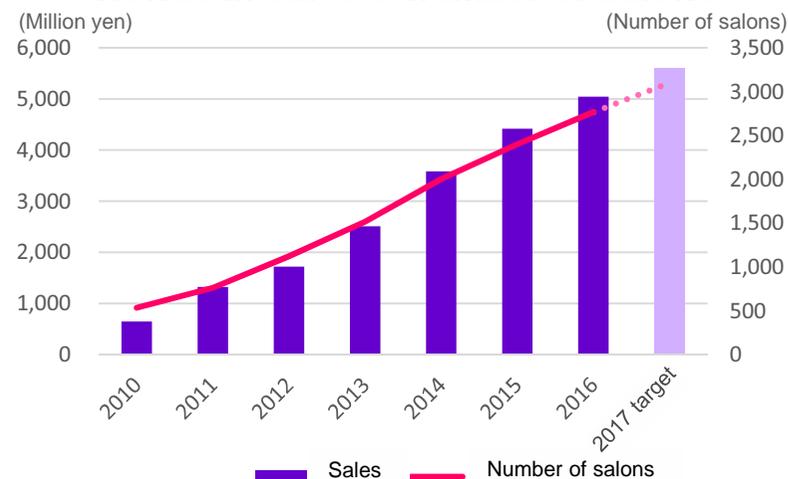
A wide-ranging line-up that suits the hair texture of individual customers

- 4 series
 - Aging care series
 - Hair care series
 - Scalp care series
 - Climatic care series
- 15 lines •96 items

A tailor-made hair care program that nurtures beauty of each and everyone



Trends in sales & number of salons



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Consolidated Sales by Product Category [Hair Coloring Product]

New products aimed at the young demographic were well received, driving sales of hair color products

(FY2017 6 months)

(Unit: million yen)

	FY2016 6 months	FY2017 6 months	Increase/Decrease	Increase/Decrease ratio (%)
Hair Coloring Product	4,944	5,462	517	10.5

- We introduced a new brand, "ORDEVE Addicthy," to respond to the desires of women who want to continue to display freedom in their hair color design. Sales have significantly exceeded annual targets, thanks to a positive reception for its ability to easily express color by eliminating red tones.

New

ORDEVE Addicthy

Erases red-tinged brown with high saturation blue. With clear and transparent color expression, it lets customers freely realize individual hair color designs.

(Unit: million yen)

FY target	Results	Prog. rate
755	921	122.1%



Feb. 1 Debut

ORDEVE's additional color FEMININITY LINE

Expresses stylish femininity to suit each individual through "transparent pink" with adjustable saturation.

(Unit: million yen)

FY target	Results	Prog. rate
400	158	39.7%



Feb. 1 Debut

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A Premium Organic Brand, Villa Lodola (1)

Villa Lodola Color continues to be well received and to drive sales

Number of Villa Lodola salons

FY2016 year-end	FY2017 Q2-end	Increase/ Decrease ratio (%)
5,632 salons	6,236 salons	10.7

Sales (FY2017 6 months)

(Unit: million yen)

FY2016 6 months	FY2017 6 months	Increase/ Decrease ratio (%)
363	444	22.3

Brand concept

Nurtured in the soil of Italy, these *gifts from nature* bring out the authentic beauty of your hair and scalp.

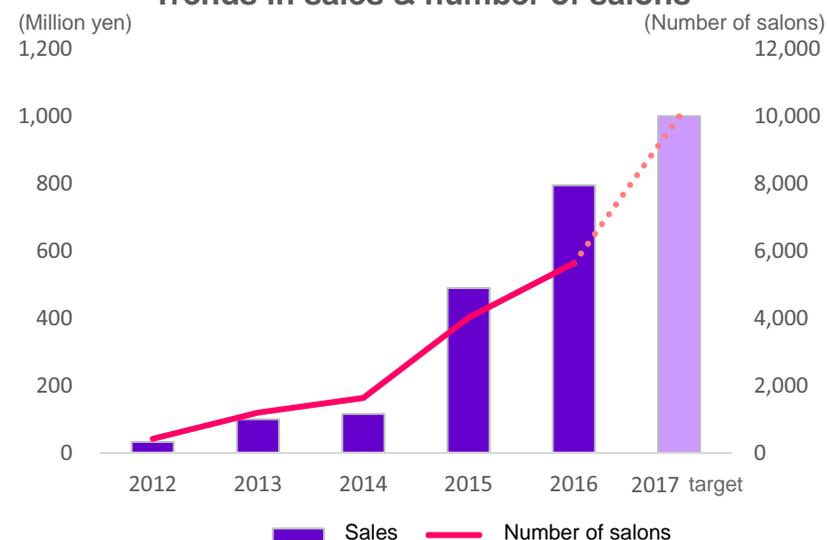
What is Villa Lodola?

Based on the concept of "Beauty, the Organic Way," Villa Lodola is a true organic brand that thoroughly cares about the natural environment not only for the product itself but also in its container, production phase and promotional tools. All of the products are certified by ICEA, an Italian authority.

Villa Lodola supports organic choices, with hair care products nurtured in the soil of Italy, bringing out true beauty.



Trends in sales & number of salons



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A Premium Organic Brand, Villa Lodola (2)

Core Product

Villa Lodola Color

With 92% natural ingredients, the product's formulation utilizes the power of plants. It brings comfort of an organic product across all aspects, including during application, the finish and continued use.

(Unit: million yen)



FY target	Results	Prog. rate
516	316	61.2%

FY2015 Debut

Consolidated Statement of Earnings (FY2017 6 months)

(Unit: million yen)

	Amount		Increase/ Decrease	Increase/ Decrease ratio (%)
	FY2016 6 months	FY2017 6 months		
Sales	14,218	14,956	738	5.2
Cost of sales	4,430	4,887	456	10.3 ^{*1}
Gross profit	9,787	10,069	281	2.9
SG&A expenses	7,364	7,736	372	5.1 ^{*2}
Operating income	2,423	2,333	(90)	(3.7)
Ordinary income	2,188	2,147	(41)	(1.9)
Profit attributable to owners of parent	1,464	1,508	43	3.0

<Breakdown of net sales by product category>

(Unit: million yen)

	FY2016 6 months	FY2017 6 months	% total sales	Increase/ Decrease	Increase/ Decrease ratio (%)
Hair care products	8,511	8,680	58.0	169	2.0
Hair coloring products	4,944	5,462	36.5	517	10.5
Permanent wave products	664	709	4.8	45	6.8
Others	98	104	0.7	6	6.3

<Major factors for the increase/decrease>

^{*1} Cost of sales: Increase in depreciation and amortization associated with start of operations at new Yumegaoka Plant, etc.

^{*2} SG&A expenses:

- Higher personnel expenses due to an increase in personnel and salary hikes.
- Increase in sales promotion costs associated with creation of sales promotion tools, etc.

Supplemental Info. – Return to shareholders

(Unit: yen)

<Dividends>	FY2015	FY2016	FY2017 plan
End of 2Q	35	38	40
End of FY	39	40	42
Total	74	78	82

Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category		FY2013	FY2014	FY2015	FY2016	FY2017 Jan.–Jun.	FY2017 Plan*)
Capital expenditures		1,680	1,028	2,779	4,262	469	1,760
Depreciation and amortization		878	1,004	1,033	1,077	550	1,240
R&D exp.	Amount	969	1,168	1,214	1,232	645	1,372
	% to sales	4.1%	4.6%	4.4%	4.2%	4.3%	4.2%

FY2017 CAPEX Main Items

- Development expenses for sales management system
- Establishment of a new domestic base (Shizuoka Sales Office)
- Interior, equipment, etc., due to relocation of domestic bases (Fukuoka Branch, Okayama Sales Office, Yokohama Sales Office)

*) Figures reflect the revision of operating forecasts announced on February 24.

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Trends in Market Related Data, Trends in Fieldpersons (FPs)

Market trends (Japan)

	2012	2013	2014	2015	2016	2017	Remarks
Number of salons (salons)	231,134	234,089	237,525	240,299	—	—	Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services Number of beauty salon facilities / number of employees (year-end)
Number of hair dressers (people)	479,509	487,636	496,697	504,698	—	—	
Number of beauty customers (thousand people)	39,076	38,468	37,847	37,395	37,023	36,980 (As of Jan. 1)	Statistics Bureau, Ministry of Internal Affairs and Communications: Population statistics as of October 1 st of each year Population statistics for females aged 15 to 64

Fieldpersons trends (by country)

(Number of FPs / As of the beginning of the fiscal year (December 21))

	2013	2014	2015	2016	2017
JAPAN Milbon Co., Ltd.	210	216	237	249	258
	104	104	100	102	
USA MILBON USA, INC.	12	12	12	9	12
	36	40	53	63	
CHINA Milbon Trading (Shanghai) Co., Ltd	16	17	18	18	19
	17	25	36	40	
KOREA Milbon Korea Co., Ltd.	17	17	19	20	23
	41	64	75	80	
THAILAND Milbon (Thailand) Co., Ltd	3	6	6	6	9
	6	8	15	14	
Others*)	7	12	16	19	24
	63	46	42	47	

Upper column: Number of FPs (persons)
Lower column: Sales per FP (million yen)

8 FPs assigned on March 21, 2017
25 FPs joined in April 2017, and are currently in training

(The above 33 FPs are not included in the left chart.)

*) Taiwan, Hong Kong, Vietnam, Malaysia, Turkey, Indonesia, the Philippines, Singapore and others

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Outlook of Milbon Group

Overseas continues to drive growth

	Sales (million yen)		Increase/ Decrease ratio (%)	Start operations	Forex rates	
	FY2016 6 months	FY2017 6 months			FY2016	FY2017
Japan Milbon Co., Ltd	12,330	12,847	4.2	1960	-	-
USA MILBON USA, INC	285	276	(3.1)	2004	1 dollar = 118.41	111.59
CHINA Milbon Trading (Shanghai) Co., Ltd.	370	431	16.5	2009	1 yuan = 18.24	16.27
KOREA Milbon Korea Co., Ltd.	788	886	12.3	2009	1 won = 0.1012	0.0959
THAILAND Milbon (Thailand) Co., Ltd.	39	53	34.9	2013	1 baht = 3.33	3.14
Others^{*)}	403	460	14.2	-	-	-

^{*)} Taiwan, Hong Kong, Vietnam, Malaysia, Turkey, Indonesia, the Philippines, Singapore and others

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Outlook of Overseas Subsidiaries (1)

USA (MILBON USA, Inc.)

In-salon training for “milbon,” launched last year, is progressing smoothly, and our hair care series is spreading steadily. In addition, we launched the “milbon” styling series which includes volume control products in its line-up, must-have items in the US market. They have been well received in the market and sales are expected to grow going forward.

CHINA (Milbon Trading (Shanghai) Co., Ltd.)

The strengthening of relationships with salons is progressing smoothly due to marketing activities centered on training. In addition, meeting the market needs of our target customers in their 30s and 20s, we conducted policy briefings in the Shanghai, Beijing, and Chengdu areas, which were well received.

In hair color products, ORDEVE proposals were effective through introducing new colors and holding color specialist seminars, and sales were steady.

KOREA (Milbon Korea Co., Ltd.)

In the hair color product category, ORDEVE (fashion color) continued to perform well, partly due to our unique and appealing additional color proposals, and together with ORDEVE beauté (gray-hair coloring product) drove overall sales.

In hair care products, the market reception has been positive for Aujua, which we began full-scale sales of in the period under review, and sales were steady as its new introduction into 10 salons was confirmed in the second quarter.

Outlook of Overseas Subsidiaries (2)

THAILAND (Milbon (Thailand) Co., Ltd.)

[Sales division]

Hair color and perm products for business use performed well and sales increased by 43.0% year on year. This was likely due mainly to gradually increasing brand awareness in the market as a result of the ongoing implementation of small-scale seminars on style design that involve our products.

The finish texture and feel of “milbon,” launched in the period under review, has been highly rated and, despite a slow rate of increase in the number of salons due to the holding of introductory seminars, performance looks promising going forward.

[Production division]

Production amounts were substantially higher than planned and, as the local procurement rate for both materials and raw materials exceeded 50%, the manufacturing cost ratio has improved more than expected.

Milbon Group

FY2017 (58th term) and Medium-term Management Plan

Ryuji Sato, President and CEO

FY2017 Domestic Environment - Medium-term Management Plan

■ Domestic market

1. From the market environment to the second quarter

2. Progress of brand product line-ups

(1) Hair Care Product

- **Aujua**
- **“milbon”**
- **Villa Lodola**

(2) Hair Coloring Product

- **ORDEVE Addicthy**
- **ORDEVE**
- **ORDEVE Crystal**
- **ORDEVE beauté**

Domestic Market Initiatives for FY2017

Exclusive advertising at Stations



Sony Building, Ginza



Tokyo Metro's Ginza Station

▼Umeda area



Hankyu Umeda grand staircase



Hankyu Umeda moving walkway vicinity

▲Ginza area

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Domestic Market Initiatives for FY2017

- Publication of Web magazine Find Your Beauty MAGAZINE (<http://www.milbon.co.jp/fyb-magazine/>)



**We want all women to enjoy their hair more and live beautifully
A web magazine targeted to women to stimulate more interest in their hair and want to visit salons more**

[TOPICS]

1. **Creating a new hair culture together with hair dressers**
2. **Answering questions many women normally have on their hair troubles and maintenance**
3. **Providing various information such as hair dresser stories and street hair snaps, and event reports which offer glimpses into the daily lives of hair models and hair trends**

Medium-term Management Plan Themes and Initiatives

Current status of business strategy initiatives

1. **Space is necessary for enhancing the structure and increasing the personnel of the Central Research Institute (Research and Development Division)**



Specialize the “Head Office & Central Research Institute” as the “Central Research Institute”

(Basic research, skin care products, hair color products for European and US markets, etc.)

2. **Investing in human resources for the full-scale roll out of the cosmetic products business**

(Fieldpersons = field salespersons + field educators + (tentative name) beauty educators)

Medium-term Management Plan Themes and Initiatives

Forward investment in cosmetic products business and business strategy

- 1. Preparation for full-scale roll out of the cosmetic products business (human resource training structure)**
- 2. Promotion of overseas business (Asia + European and US hair color products)**
- 3. Promotion of corporate and product branding**
- 4. Further enhancement of Tokyo metropolitan area**

Opportunity to relocate the head office function to Tokyo

Revision of Medium-term Management Plan FY2019 Performance Targets

1 billion yen increase in SG&A expenses due to forward investment with an eye to the next Medium-term Management Plan

(Unit: million yen)

	FY2019 targets (before the revision)		FY2019 targets (after the revision)		Increase/ Decrease
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Net sales	35,000	100.0	35,000	100.0	0
Domestic	28,500	81.4	28,500	81.4	0
Overseas	6,500	18.6	6,500	18.6	0
Gross profit	24,500	70.0	24,500	70.0	0
SG&A expenses	17,500	50.0	18,500	52.9	1,000
Operating income	7,000	20.0	6,000	17.1	(1000)
Ordinary income	6,630	18.9	5,600	16.0	(1,030)
Profit attributable to owners of parent	4,130	11.8	3,850	11.0	(280)

■ No change in return to shareholders regarding policy of dividend payout ratio of 40%
However, the actual dividend amount will be decided in a stable manner regardless of policy

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FY2017 Overseas Business Initiatives

■ Overseas markets:

Overseas bases in 16 locations and 13 countries

- 1. East Asia region (Milbon Trading (Shanghai) Co., Ltd., Milbon Korea Co., Ltd., Taiwan, Hong-Kong)**

- 2. Southeast Asia region (Milbon (Thailand) Co., Ltd., Malaysia, Vietnam, Indonesia, the Philippines, Singapore)**
 - **Thailand Plant**

- 3. North America region (MILBON USA, INC.)**

- 4. Europe region (Turkey, Germany)**



Statements concerning the future such as the earnings forecasts given in this document are based on information currently in the possession of the Company and on assumptions that the Company considers reasonable.