

FY2025 Second Quarter Financial Results Presentation Q&A (Summary)

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Responses by:

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■ Domestic Business

1. Could you provide details on how the May price revision of existing hair care products influenced first-half profitability?

Ahead of the price revision implemented on May 1st, we saw a surge in demand in April. Shipments in May and June declined in response, resulting in only a limited positive impact on first-half profits. We expect the effect to materialize in the second half, contributing approximately ¥200 million to full-year operating income, in line with our initial forecast.

2. Regarding the post-revision decline in shipments, have you observed any signs of end-users switching to alternative products?

We believe the impact has been minimal. While shipments to our direct customers—distributors—declined following the surge in demand in April, this was not due to resistance to the price revision. We expect the positive effect on profitability to emerge once the temporary demand surge subsides.

3. Could you explain the background behind the inventory losses? Additionally, what measures do you take in order to prevent similar losses going forward?

The inventory losses were primarily related to cosmetics. The eyebrow mascara launched last year under the IM brand was a major success, leading to stock shortages and additional orders. After the initial sales cycle, repeat demand did not materialize, resulting in excess inventory of existing products. In February, we introduced new shades with the aim of stimulating shipments of existing items, but the new shades underperformed. As a result, the outlook for selling the remaining inventory weakened, and we recorded an impairment. In past cases as well, impairments have often been related to new products, and we recognize challenges in the accuracy of both production and sales planning, as well as in the number of new product launches. Going forward, we aim to improve planning accuracy, control inventory levels more effectively, and reduce impairments by narrowing the range of cosmetic items.

■ **Revision of Full-Year Earnings Forecast**

4. While domestic sales growth in the second half is expected to be in line with the first half, how are you assessing macro-level risks, including trends in beauty-related consumer behavior?

We believe consumer sentiment improved in the second quarter compared to the first, but we remain cautious. As shown on page 20 of the presentation materials, beauty-related spending appears to be subdued due to rising prices. Based on this outlook, we have revised our domestic sales plan downward, as we do not anticipate a significant recovery in the near term.

5. Could you explain the rationale behind the relatively significant downward revision to the gross profit margin forecast?

We have incorporated all foreseeable additional risks into the revised forecast, with a particular focus on inventory valuation losses and foreign exchange effects. Among these, we have factored in the maximum expected impact from inventory valuation losses.

6. There appears to be a considerable gap between the revised FY2025 forecast and the FY2026 ROE target of 11.3%. How do you plan to bridge this gap and achieve the target?

We recognize the need to address this through both improving profitability and enhancing capital efficiency. We are focused on narrowing the gap and progressing toward the target. On the profitability side, we expect several positive factors next fiscal year, including the absence of temporary expenses such as inventory losses and costs related to the EXPO. Additionally, performance will depend on the extent of sales growth, particularly in the domestic market.

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