

m i l b o n

Milbon Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending December 2023

August 10, 2023

Event Summary

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[Date]	August 10, 2023
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[Number of Speakers]	2
	Ryuji Sato Masahiro Murai
	Representative Director, President & CEO Managing Executive Director

Presentation

Murai: My presentation will cover the financial results for the second quarter of fiscal year 2023.

Consolidated Operating Results (FY2023 6 months)

- ◆ Sales grew thanks to the strong performance of domestic haircare products and favorable sales in the U.S., South Korea, and other regions, however, the target was not met due to poor progress in beauty equipment and domestic hair coloring products.
- ◆ Rising raw material costs pushed down the gross profit margins and SG&A expenses increased due to increased sales activities.

(Unit: million yen)

	FY2022 6 months	% total	FY2023 6 months	% total	Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
Net sales	21,467	100.0	22,703	100.0	1,236	5.8	(3.3)
Gross profit	14,269	66.5	14,809	65.2	540	3.8	(3.8)
SG&A expenses	10,444	48.7	11,719	51.6	1,274	12.2	(1.0)
Operating income	3,824	17.8	3,090	13.6	(733)	(19.2)	(13.1)
Ordinary income	4,137	19.3	3,129	13.8	(1,008)	(24.4)	(11.2)
Profit attributable to owners of parent	2,875	13.4	2,195	9.7	(679)	(23.6)	(15.6)

First are the full fiscal year results.

As you can see, first half net sales increased by 5.8%, year-on-year.

Sales grew thanks to the strong performance of domestic haircare products and favorable sales in the U.S., South Korea, and other regions.

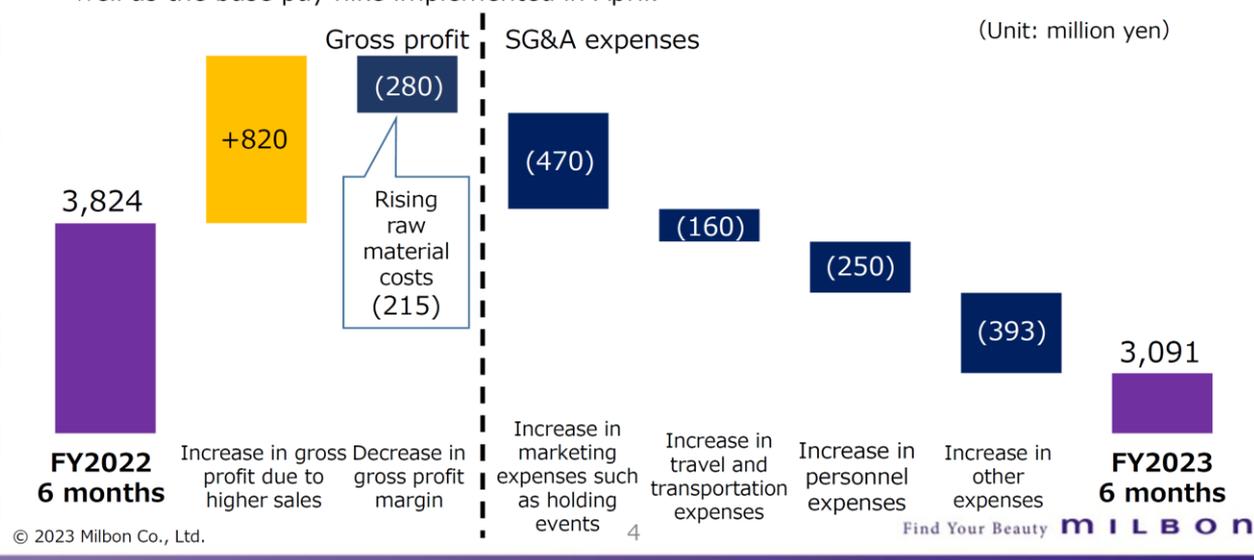
However, the Company target was not met due to less than satisfactory progress in beauty equipment - more specifically our hair dryer - and domestic hair coloring products.

Additionally, rising raw material costs pushed down the gross profit margin, and SG&A expenses also increased due to increased sales activities.

As such, unfortunately, operating income decreased on a year-on-year basis.

Factors in YoY Changes in Consolidated Operating Income

- Rising raw material costs, which had not emerged in 2Q last year, are pushing down the gross profit margin.
- Marketing expenses increased due to proactive hosting of educational seminars and large-scale events both in Japan and overseas against the backdrop of the improved situation of the COVID-19 pandemic.
- Travel expenses increased due to higher airfares and other transportation costs, in addition to more business travel.
- Personnel expenses increased due to an increase in personnel, annual salary increases, as well as the base pay hike implemented in April.



This waterfall chart breaks down the factors in year-on-year change in consolidated operating income.

End of first-half results for fiscal year 2022 form a starting baseline of 3.824 billion yen.

While higher sales led to an increase in gross profit of 820 million yen, rising raw material costs, among other factors, weighed down on gross profit margin by 280 million yen.

We additionally saw an increase in expenses of 470 million yen, resulting from greater activity in the form of events, etc.

There was an increase in travel and transportation expenses of 160 million yen, and of 250 million yen in personnel expenses, on account of a higher employee headcount, annual salary increases, as well as the base pay hike implemented in April.

Taking all of these factors into account, operating income as of the first half stood at 3.091 billion yen.

Consolidated Sales by Product Category [Hair Care Products (1)]

Consolidated Net Sales (FY2023 6 months)

(Unit: million yen)

FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
12,218	13,339	1,121	9.2	1.1

- Premium Brands saw a strong performance, up 14.7% YoY. The Inmmetry Line, Aujua's new product, has been well-received for its remarkable effectiveness. Global Milbon boosted its sales by launching the new product "Milbon &" and by increasing the number of touchpoints in each country.
- The milbon:iD has 540,000 registered members, 5,450 registered salons, and 620 million yen in EC sales (430 million yen at the end of the 2Q of FY2023) .
- Sales of Professional Brands rose 0.9% YoY. Sales remained firm thanks to the introduction of new products such as Elujuda Sun Protect and Miincurl, while Field Person's activities focused more on Premium Brands.

* Sales growth by brand is based on consolidated gross sales.

I would now like to go over consolidated sales by product category, starting with hair care products.

Premium brands saw a strong performance, with Aujua and Global Milbon growing sales at a robust pace.

milbon:iD continues to grow at a robust pace and had 540,000 registered members and 5,450 registered salons as of the end of June.

Lastly, while overall sales of professional brands haven't increased much, some of our new product releases have been very well received, so we have seen higher sales from these.

Consolidated Sales by Product Category [Hair Care Products (2)]

New Products FY 2023 6 months

Aujua Hair Care Series Inmmetry Line

A new line that corrects distortion*¹ in the hair and frees from the habit of blow drying and ironing to condition hair, leading to lustrous and manageable hair with just a dry.

(Unit: million yen)

FY2023 target	FY2023 6 months	Progress rate (%)
1,100	517	47.1



Debut on February 11, 2023

Global Milbon Milbon& Aromatic Series

A haircare brand tailored to a variety of hair types, providing moisture, smoothness, and manageability while offering a selection of fragrances.

(Unit: million yen)

FY2023 target	FY2023 6 months	Progress rate (%)
250	50	20.3



Debut on April 11, 2023

*1 A condition in which curly or wavy hair suffers from damage, losing its shine and smoothness
* Sales figures for each brand are based on shipment value.

Page 6 deals with new products from the Aujua and Global Milbon brands, with the results being as shown here.

Consolidated Sales by Product Category [Hair Care Products (3)]

Miincurl Iron Keep Primer

A pre-ironing primer oil that protects hair from the heat of the iron and keeps the ironed hair design soft and hydrated for a long time.

(Unit: million yen)

FY2023 target	FY2023 6 months	Progress rate (%)
150	123	82.6



Debut on March 11, 2023

Elujuda Sun Protect

Elujuda's new sun care products that shield hair from the harmful rays of the sun while maintaining its moisture throughout day. Four items with different forms and usage timings to choose from.

(Unit: million yen)

FY2023 target	FY2023 6 months	Progress rate (%)
400	380	95.1



Debut on March 11, 2023

* Sales figures for each brand are based on shipment value.

Next are new hair care products from our professional brands.

These products show a very high progress rate versus the fiscal year 2023 target - at around 82% and 95%, respectively..

Premium Brand: Aujua

New "Inmmetry Line" continues to perform well

Number of Salons*1

(Unit: salons)

FY2022	FY2023	Increase/ Decrease	Increase/ Decrease ratio (%)
6,022	6,420	398	6.6

Consolidated Gross Sales (FY2023 6 months)

(Unit: million yen)

FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)
4,538	4,999	460	10.1

Brand Concept

A premium hair care brand born in consideration of Japan's social climate, culture, and characteristics of the hair of the Japanese people.

What is Aujua?

A wide range of product lineups offering personalized treatment for each individual's needs and hair type.

Product Range

Aujua supports diverse perspectives on beauty, now and into the future, by addressing each individuals' hair and skin concerns and offering the most appropriate item for that time.

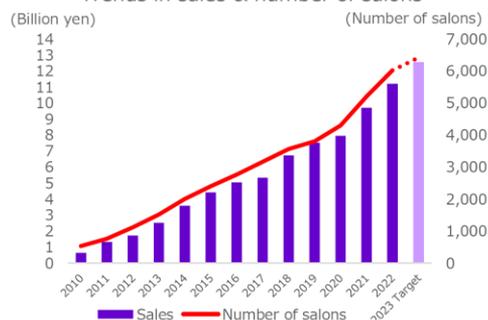
• 5 series / 17 lines / 112 items

Eternal stage series
Aging care series
Hair care series
Scalp care series
Climatic care series

Aujua



Trends in sales & number of salons



* Figures in the graph are based on non-consolidated total sales through 2018 and on consolidated total sales since 2019.

*1 Calculated based on the past year's shipment results for both Japan and overseas.
* Sales figures are based on shipment value.

Aujua - which is one of our flagship brands - registered a year-on-year sales increase of 10.1%, accompanied by an increase of 6.6% in the number of salons.

Our new "Inmmetry Line" has posted very strong results, and these contributed to the aforementioned increases.

Premium Brand: Global Milbon

Growth in Japan was driven by increased touchpoints due to the new product "Milbon&," and overseas growth was driven by the U.S.

Number of Salons*1

(Unit: salons)

FY2022	FY2023	Increase/ Decrease	Increase/ Decrease ratio (%)
18,400	21,010	2,610	14.2

Consolidated Gross Sales (FY2023 6 months)

(Unit: million yen)

FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)
2,358	2,931	572	24.3

Brand Concept

A system hair care brand that cultivates the "unique beauty" of each individual, achieving "360 Degree Beautiful Hair."

Countries and regions with Salons

The brand is available in the following countries and regions:
Japan, USA, Hong Kong, China, Thailand, Taiwan, Turkey, Malaysia, Vietnam, Indonesia, the Philippines, Singapore, Germany, Korea, Canada

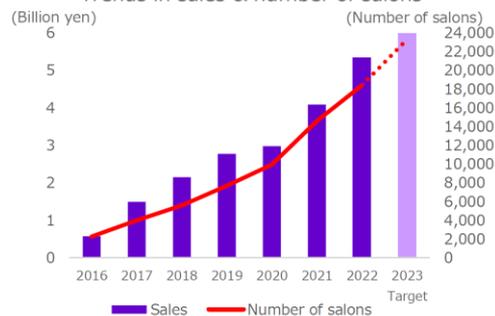
What is "Global Milbon"?

Based on the hair research technology we have cultivated since our founding, we analyzed diverse hair characteristics from 20 countries. Our analysis broke down the factors for common hair damage phenomena derived from our research, leading to the establishment of a new hair care system. This line contains ingredients that penetrates the shaft with its high affinity to repair hair's inner porosity and to improve hair's overall integrity, from the inside out.

MILBON



Trends in sales & number of salons



* Figures in the graph are based on non-consolidated total sales through 2018 and on consolidated total sales since 2019.

* Sales figures are based on shipment value.

Next is Global Milbon.

Growth in Japan was driven by increased touchpoints due to the release of "Milbon&," and overseas growth was driven by the U.S.

The number of salons therefore grew by 14.2% and consolidated gross sales grew even more - by 24.3%.

Consolidated Sales by Product Category [Hair Coloring Products]

Consolidated Net Sales (FY2023 6 months)

(Unit: million yen)

FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
8,148	8,238	89	1.1	(2.2)

- Sales of hair coloring products in Japan were down 1.0% YoY. Excess inventory at distributors since the end of last year affected sales over the first half of the year.
- Overseas, sales remained steady with a 9.1% increase YoY.

* Sales growth by brand is based on consolidated gross sales.

Next is the category of hair coloring products.

Sales of hair coloring products in Japan were down 1.0%, year-on-year, as excess inventory at distributors since the end of last year negatively affected sales over the first half.

Overseas, sales remained steady with a 9.1% increase, year-on-year.

Premium Organic Brand: Villa Lodola (1)

Launched new products, "Tempus" and "Fulgens," from the Renovo haircare series

Number of Salons*1

(Unit: salons)

FY2022	FY2023	Increase/ Decrease	Increase/ Decrease ratio (%)
12,458	12,996	538	4.3

Consolidated Gross Sales (FY2023 6 months)

(Unit: million yen)

FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)
623	644	20	3.3

Brand Concept

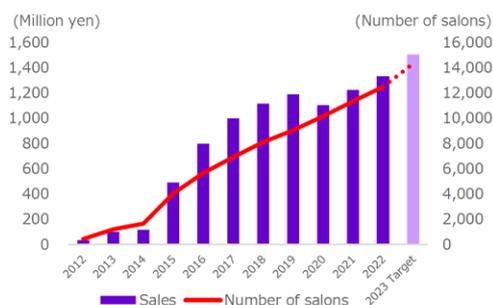
Organic brand that proposes lifestyles that fulfill the beauty of people and the environment

What is Villa Lodola?

Based on the philosophy of "Beauty, the Organic Way", the brand is fully committed to the natural environment not only in its products, but also in its manufacturing process, packaging, and promotional tools. All products are certified by ICEA, an Italian organic certification organization. Organic hair care born in Italy, where nature's blessings bring beauty to hair and skin.



Trends in sales & number of salons



* Figures in the graph are based on non-consolidated total sales through 2018 and on consolidated total sales since 2019.

*1 Number of contracted salons

* Sales figures are based on shipment value.

We invite you to review this slide for the results for Villa Lodola.

Premium Organic Brand: Villa Lodola (2)

New Products FY 2023 6 months

Villa Lodola Renovo Tempus / Fulgens

A series that extends hair color longevity with the reparative effects of nature's blessings, promoting healthy beauty in both the scalp and hair. Two types of shampoos and treatments to choose from, each tailored to different hair types.

(Unit : million yen)

FY2023 target	FY2023 6 months	Progress rate (%)
100	24	24.8



Debut on April 11, 2023

* Sales figures for each brand are based on shipment value.

Page 12 discusses new products for the Villa Lodola brand.

Consolidated Sales by Product Category [Cosmetic Products (1)]

Consolidated Net Sales (FY2023 6 months)

(Unit: million yen)

FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
262	267	4	1.9	(12.5)

- The number of touchpoints continued to increase driven by makeup items that can easily coordinate with hair color. Additionally, the release of new products that naturally synchronize with hair and are easily recommended by hairstylists during salon sessions has contributed to increased sales.
- Repeat sales of skincare products have been a challenge, and the sales of cosmetics category has not reached the planned target.

New Products FY 2023 6 months

iMPREA Milky Soufflé UV

An airy, soufflé-textured sunscreen cream that blocks powerful ultraviolet rays and protects the skin from damage caused by dryness and other factors to the stratum corneum.

(Unit: million yen)

FY2023 target	FY2023 6 months	Progress rate (%)
32	41	129.4



Debut on February 11, 2023

* Sales figures for each brand are based on shipment value.

Next is the category of cosmetic products.

While results are starting to show year-on-year growth, this product category nevertheless still fell short of the plan.

With that being said, a new product released in this category has been very well received, with the progress rate already exceeding the plan target by 29.4%.

Premium Brand: iMPREA

Strong sales of new products led to a year-on-year increase in sales

Number of Salons*1

(Unit: salons)

FY2022	FY2023	Increase/ Decrease	Increase/ Decrease ratio (%)
1,601	1,862	261	16.3

Consolidated Gross Sales (FY2023 6 months)

(Unit: million yen)

FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)
262	279	17	6.6



Brand Concept

The brand concept of iMPREA is "Revolutionize Your Aura with your Professional Stylist". We will provide new beauty value by leveraging Professional Stylists' ability to provide solutions, by utilizing their strengths.

What is iMPREA?

iMPREA is a salon exclusive brand created through joint research by KOSÉ, which specializes in skin research, and Milbon, which specializes in hair research. We will improve the complexion by establishing a good balance of moisture in the "horny layer keratin" on the surface of the skin, which holds the key to complexion.

"Revolutionize Your Aura with your Professional Stylist"

This is a communication method that takes advantage of the unique strengths of hair salons, in which the hair stylist crafts your aura by approaching a total impression of both the hair and face. We deliver an aura change that is unique to you.

*1 Calculated based on the past year's shipment results.
* Sales figures are based on shipment value.

As we wrote here, strong sales of new products led to a year-on-year increase in sales, and additionally, the number of salons also grew by 16.3%, in what was also a strong performance.

Consolidated Sales by Product Category [Other]

New Products FY 2023 6 months

Elmista (Results for dryer unit only)

A hair dryer, jointly developed with Panasonic, that micronizes and atomizes beauty serum.

Five types of serums are available to choose from according to hair concerns and desired texture.

(Unit: million yen)

FY2023 target	FY2023 6 months	Progress rate (%)
1,215	57	4.7



Debut on April 11, 2023

- The Group's first hair dryer sales fell significantly short of projections. This was largely due to limited opportunities for salon customers to experience the product as the Group was unable to introduce it to hair salons as much as anticipated.
- Going forward, the Group will generate opportunities for salon customers to experience the hair dryer in hair salons and communicate the hair dryer's value through initiatives like promoting it for professional use.

* Sales figures for each brand are based on shipment value.

Unfortunately, the sales progress rate for Elmista - a hair dryer jointly developed with Panasonic - has been lackluster.

The fiscal year 2023 target is 1.215 billion yen in sales, but realized sales figures through to the end of the first half only amounted to 57 million yen.

President Sato will be going over the details later on, but one thing that can be said is that realized results deviated significantly from Company expectations.

Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category	FY2019	FY2020	FY2021	FY2022	FY2023 6 months	FY2023 Plan	
Capital expenditures	1,605	1,917	4,644	4,097	1,704	2,927	
Depreciation and amortization	1,453	1,562	1,777	2,026	1,071	2,301	
R&D exp.	Amount	1,534	1,581	1,741	2,074	1,062	2,372
	% to sales	4.2	4.4	4.2	4.6	4.7	4.8

FY2023 CAPEX Main Items (Plans)

Sales Offices, Studios	<ul style="list-style-type: none"> Establishment and maintenance of business locations (Relocation of Fukuoka Sales Office, etc.) 	Digital	<ul style="list-style-type: none"> milbon:iD education:iD Smart Salon (Digital marketing, etc.)
Production system	<ul style="list-style-type: none"> Yumegaoka Factory (Machinery and equipment) Thailand Factory (Machinery and equipment) 	Others	<ul style="list-style-type: none"> Internal infrastructure, production equipment, etc. Innovation Center

Next are the consolidated trends in capital expenditures and R&D expenses.

As of the end of the first half, we had executed 1.704 billion yen in capital expenditures, more or less according to plan.

There have been some partial delays in terms of investment in factories, but there haven't been any plan changes.

As such, we believe that ultimately things will progress according to the plan.

Trends in Fieldpersons (FPs)

Fieldpersons Trends (by Country) (Average number of FPs during the period)

	FY2021	FY2022	FY2023
JAPAN	328.2	335.4	349.7
	102	105	-
USA MILBON USA, INC.	13.2	13.0	12.7
	68	102	-
CHINA Milbon Trading (Shanghai) Co., Ltd.	29.8	31.6	34.0
	72	66	-
SOUTH KOREA Milbon Korea Co., Ltd.	26.0	32.8	34.7
	130	126	-
Others *1	36.0	36.2	36.7
	41	63	-

The number of Fieldpersons reported represents the average number during the period and is not as of January 1. Please note that the calculation method was changed starting from FY2022 3Q, and the figures for 2021 have been recalculated accordingly based on the new method.

Upper column: Average number of FPs during the period (persons)

Lower column: Net sales per FP (million yen)

(As of June 30, 2023)

-10 FPs joined in October 2022, and are currently in OJT on site.

-28 FPs joined in April 2023, and are currently in training.

(The above 38 FPs are not included in the left chart.)

*1 Thailand, Vietnam, Malaysia, Taiwan, Hong Kong, Turkey, Indonesia, the Philippines, Singapore, Germany and others

Next are trends in fieldpersons, shown here on a per-country basis.

We welcome you to review this information when you have the time.

Consolidated Net Sales in Japan and Overseas

FY2023 6 months

(Unit: million yen)

	FY2022 6 months		FY2023 6 months		Increase/ Decrease	Increase/ Decrease ratio (%)	Changes in local currency base ^{*1} (%)	Vs. plan ratio (%)
	Net sales	% to sales	Net sales	% to sales				
Consolidated net sales	21,467	100.0	22,703	100.0	1,236	5.8	4.7	(3.3)
JAPAN	16,627	77.5	17,175	75.6	547	3.3	3.3	(5.3)
Overseas	4,839	22.5	5,528	24.4	688	14.2	9.5	3.2
USA	603	2.8	778	3.4	174	28.9	16.5	13.4
CHINA	1,058	4.9	1,171	5.2	112	10.6	8.2	(8.8)
SOUTH KOREA	2,043	9.5	2,286	10.1	242	11.9	7.7	3.6
Other ^{*2}	1,133	5.3	1,293	5.7	159	14.1	10.4	9.7

[Reference] Exchange rate

(Unit: yen)

	FY2022 6 months	FY2023 6 months
USA (USD)	123.33	136.54
CHINA (CNY)	19.12	19.54
SOUTH KOREA (KRW)	0.1005	0.1044

*1 Figures are the rates of change in real terms on a local currency basis

*2 Thailand, Vietnam, Malaysia, Taiwan, Hong Kong, Turkey, Indonesia, the Philippines, Singapore, Germany, and others

Next are consolidated net sales in Japan and Overseas.

Net sales in Japan grew by 3.3%, year-on-year, and 14.2% Overseas.

This overseas performance includes foreign exchange effects, so the adjusted growth rate is 9.5%.

Consolidated Operating Income in Japan and Overseas

FY2023 6 months

(Unit: million yen)

	FY2022 6 months		FY2023 6 months		Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
	Operating income	Operating income ratio(%)	Operating income	Operating income ratio(%)			
Consolidated operating income	3,824	17.8	3,090	13.6	(733)	(19.2)	(13.1)
JAPAN	3,201	19.3	2,411	14.0	(790)	(24.7)	(19.4)
Overseas	622	12.9	679	12.3	56	9.1	20.1
USA	(125)	(20.7)	(30)	(4.0)	94	-	58.6
CHINA	(76)	(7.2)	40	3.5	116	-	(50.3)
SOUTH KOREA	693	34.0	621	27.2	(72)	(10.4)	5.2
Other*	130	11.5	48	3.7	(81)	(62.8)	-

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

Next are the operating income results.

We face a challenging situation in Japan, with a decrease in operating income and in the operating income ratio, which stood at 14.0%.

On the other hand, we registered an increase in operating income in the Overseas business.

The amounts aren't that large, but have shown steady growth.

Outlook of Overseas Subsidiaries (1)

USA (Milbon USA)

- In haircare, Global Milbon is performing well. New touchpoints are increasing as a result of deeper collaboration with distributors.
- Hair color training sessions for distributor representatives across the U.S. have made them enthusiasts of SOPHISTONE, a hair color brand tailored for the European and North American markets. Their proactive efforts to introduce SOPHISTONE to hair salons have led to an increase in new touchpoints, especially in LA, the trendsetting city of the country.

Figures in the text are based on local currency.

Next, I would like to discuss the outlook of our overseas subsidiaries, starting with Milbon USA.

Here, Global Milbon is performing very well, with great success in terms of a deeper collaboration with distributors translating into results.

Additionally, hair color training sessions for distributor representatives across the U.S., among other initiatives, have contributed to a sales increase for SOPHISTONE, a hair color brand tailored for the European and North American markets.

Outlook of Overseas Subsidiaries (2)

CHINA (Milbon China)

- A resurgence of COVID-19 occurred in the second quarter, leading to a decrease in the number of customers visiting hair salons. Despite such a challenging market environment, the Company hosted a large-scale messaging event for beauty professionals called “Be the One,” aiming to set the direction for the future of the Chinese beauty industry and hair salon management. The event attracted over 3,000 visitors, and the message emphasizing the value of beauty and hair salons struck a chord with the audience.
- The haircare products led the growth, thanks to the introduction of Global Milbon and Grand Linkage, along with measures to motivate customers to visit hair salons throughout the year and boost consumption. The increase in sales was partly a recovery from the lockdown in Shanghai in the second quarter of last year.
- The production of hair coloring products at the China Factory commenced in July, ahead of the originally planned start in 2024. This was due to the steady progress in obtaining approvals to sell locally manufactured hair coloring products. In addition, the one-time costs leading up to the start of factory production, which were incurred in the second quarter of last year were absent this fiscal year, which contributed to a boost in profits.

* Figures in the text are based on local currency.

Next is Milbon China.

Noteworthy here is how we hosted in the second quarter a large-scale event that attracted over 3,000 beauty professionals.

This event was titled “Be the One,” and was held as a message-driven event for people in the beauty industry.

Not many of these types of events are held in China, so we believe this effort will bear fruit for Milbon, going forward.

While this will not directly translate into an increase in sales, we held this event in the interest of the beauty industry in China.

Additionally, hair care products led growth, thanks to the introduction of Global Milbon and Grand Linkage.

Furthermore, production of hair coloring products at the China Factory commenced in July, ahead of the originally planned start in 2024.

These therefore represent very strong results.

Outlook of Overseas Subsidiaries (3)

SOUTH KOREA (Milbon Korea)

- Hair coloring products, which account for more than 70% of total sales, remained steady overall due to strong sales of gray color products.
- Sales of haircare products, especially Global Milbon, performed well. Sales are increasing due to the expansion of touchpoints through collaboration with excellent distributor representatives.
- Profit declined primarily due to the costs relating to resumption of major events that could not be held during the COVID-19 pandemic. These events primarily targeted the Millennial and Gen Z hairstylists and have garnered significant resonance.

* Figures in the text are based on local currency.

Next is Milbon Korea.

Hair coloring products account for more than 70% of total sales, and within these, gray color products delivered very strong growth.

Additionally, sales of hair care products, especially Global Milbon, performed well, on account of very good collaboration with distributor representatives.

While net sales posted a strong performance, Milbon Korea actually recorded a decrease in profits.

This was primarily due to costs relating to the resumption of major events that could not be held during the COVID-19 pandemic.

Revision to Consolidated Operating Results Forecast (1)

- ◆ Net sales is expected to fall by 1.2 billion yen from the initial forecast due to the expected shortfall in sales of beauty equipment and domestic hair coloring products. Sales of beauty equipment were adjusted downward in line with the full-year sales forecast, while sales of hair coloring product were cut by the negative amount in the first half of the fiscal year.
- ◆ Gross profit is expected to decrease due to decline in sales as well as losses from disposal and write-downs both in Japan and the U.S.
- ◆ While there are unutilized SG&A expenses, we anticipate it to be at the originally planned level due to unforeseen additional expenses.

(Unit: million yen)	FY2022	FY2023 Initial target	% total	FY2023 Revised target	% total	Increase/ Decrease
Net Sales	45,238	49,200	100.0%	48,000	100.0%	(1,200)
Gross profit	29,509	32,160	65.4%	31,250	65.1%	(910)
SG&A expenses	21,957	23,860	48.5%	23,900	49.8%	40
Operating income	7,551	8,300	16.9%	7,350	15.3%	(950)
Ordinary income	7,829	8,250	16.8%	7,370	15.4%	(880)
Profit attributable to owners of parent	5,577	5,800	11.8%	5,200	10.8%	(600)

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As announced earlier today, Milbon issued a revision to the consolidated operating results forecast, so allow me to offer a few comments on the matter.

As I mentioned earlier, net sales are expected to fall 1.2 billion yen from the initial forecast due to the expected shortfall in sales of beauty equipment and domestic hair coloring products.

More specifically, sales of beauty equipment were adjusted downward in line with the full-year sales forecast, while the sales forecast for hair coloring products was cut by the negative amount in the first half of the fiscal year.

Gross profit is expected to decrease due to a decline in sales, as well as losses from disposal and write-downs, both in Japan and the U.S.

Lastly, while there are unutilized SG&A expenses, we are now expecting additional expenses not accounted for in the original plan.

As such, we now anticipate these to come in at the originally planned level, so we expect a decrease in operating income.

Revision to Consolidated Operating Results Forecast (2)

Consolidated Sales by Product Category

(Unit: million yen)	FY2022	FY2023 Initial target	% total	FY2023 Revised target	% total	Increase/ Decrease
Net sales	45,238	49,200	100.0%	48,000	100.0%	(1,200)
Hair care	26,312	27,942	56.8%	28,089	58.5%	147
Hair coloring	16,631	17,403	35.4%	17,169	35.8%	(234)
Permanent wave	1,450	1,594	3.2%	1,462	3.1%	(132)
Cosmetic	572	673	1.4%	635	1.3%	(38)
Others	272	1,588	3.2%	645	1.3%	(943)

Consolidated Net Sales in Japan and Overseas

(Unit: million yen)	FY2022	FY2023 Initial target	% total	FY2023 Revised target	% total	Increase/ Decrease
Net sales	45,238	49,200	100.0%	48,000	100.0%	(1,200)
Japan	35,334	38,021	77.3%	36,650	76.4%	(1,371)
Overseas	9,904	11,179	22.7%	11,350	23.6%	171

Next are the consolidated forecasts by product category.

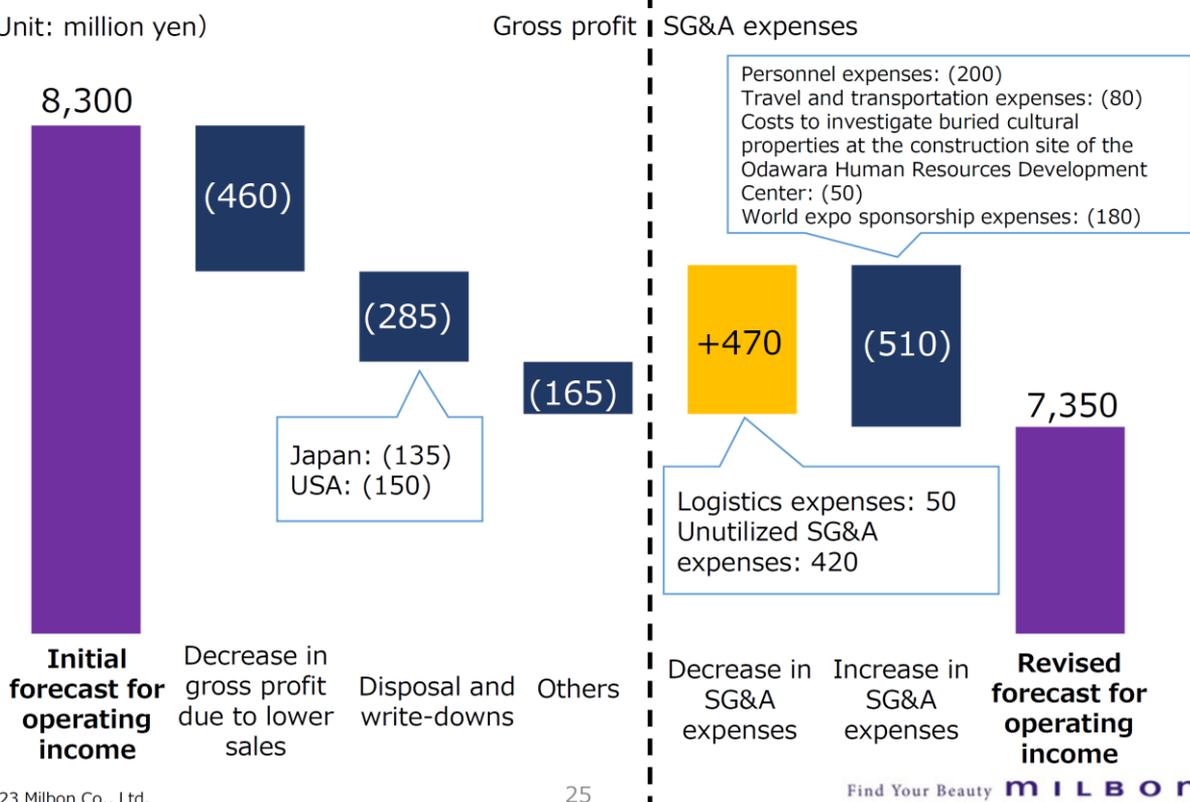
As you can see, we have lowered the sales forecast for hair coloring products by 234 million yen, and for the category of “Others,” by 943 million yen, primarily due to the underperformance of our Elmista hair dryer.

In terms of the breakdown, we expect strong results Overseas, as we actually revised the sales forecast upwards by 171 million yen.

Unfortunately, we have issued a downward sales revision for the Domestic segment, and a significant factor behind this was the underperformance of our hair dryer.

Revision to Consolidated Operating Results Forecast (3) Factors Affecting Changes in Operating Income

(Unit: million yen)



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Next is an analysis of the factors affecting changes in operating income, within the revision to the consolidated operating results forecast.

The initial forecast for operating income was 8.3 billion yen, but we now expect a decrease in gross profit of 460 million yen due to lower sales, 285 million yen in disposals and write-downs, as well as the negative impact of “others.”

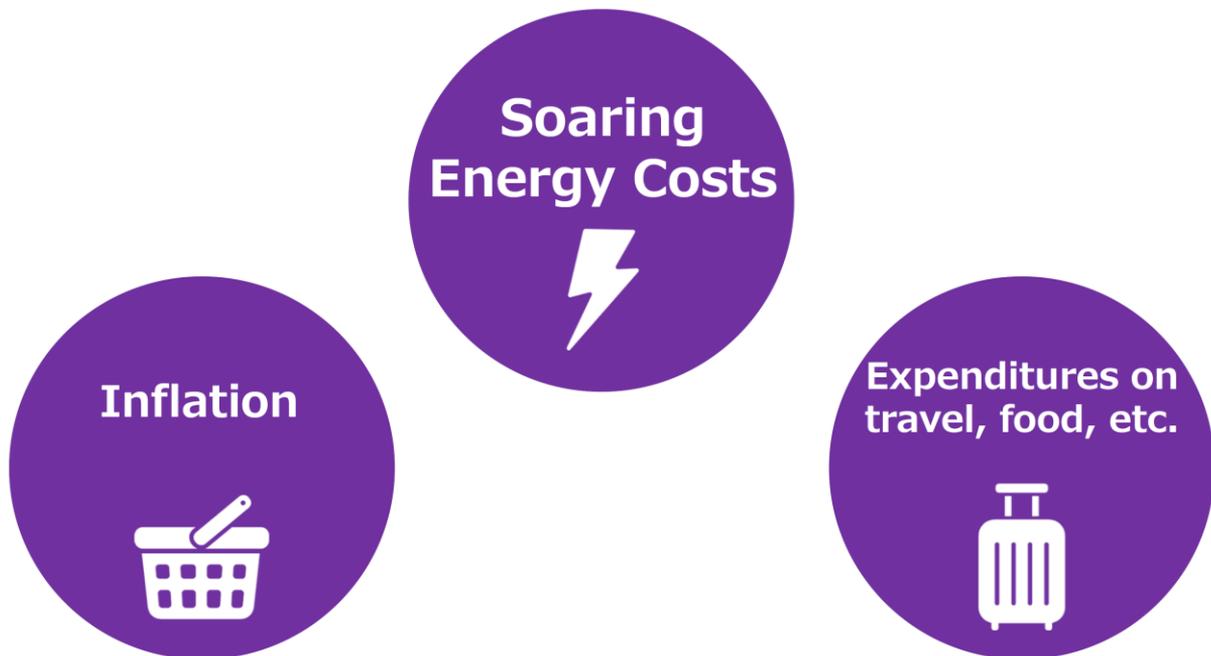
In terms of SG&A expenses, we expect a decrease in logistics expenses derived from lower sales, and additionally there are unutilized SG&A expenses, so overall, we expect to save 470 million yen in SG&A in fiscal year 2023.

These are the decrease factors for SG&A expenses, but conversely, we forecast 510 million yen in increase factors, such as personnel expenses, travel and transportation expenses, and the construction of the Human Resources Development Center. We are in the process of proceeding with construction, but because construction will take place in Odawara, this process requires us to expend costs to investigate buried cultural properties at the construction site. This was an unexpected expense of 50 million yen, and we will also be incurring 180 million yen in world expo sponsorship expenses. Sponsorship expenses totaled 500 million yen, but starting this year, these expenses can be recorded in installments. We will therefore be recording one-third of these expenses every year, starting this fiscal year.

Taking all of these factors into account, the operating income forecast now stands at 7.35 billion yen.

Situation in the First Half

Factors Influencing Customer Behavior



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Sato: I would now like to go over 3 analysis highlights for the first half of fiscal year 2023, as well as the initiatives for the second half.

First is a review of the first half.

As you are aware, the following factors affected consumer behavior: inflation, soaring energy costs resulting in higher utility costs, and also a great increase in people traveling this year, both domestically and overseas.

This year, I have been doing quite a bit of business travel myself, both within Japan and overseas, and I can attest to this increase in people traveling.

In fact, this surge really went into high gear after May 8th, 2023, after the COVID-19 downgrade.

Key Points of the First Half Results

Consolidated Net Sales in Japan and Overseas

(Unit: million yen)	FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)
Net sales	21,467	22,703	1,236	5.8%
Japan	16,627	17,175	547	3.3%
Overseas	4,839	5,528	688	14.2%

Sales by Product Category in Japan

(Unit: million yen)	FY2022 6 months	FY2023 6 months	Increase/ Decrease	Increase/ Decrease ratio (%)
Gross sales in Japan	18,921	19,490	568	3.0%
Haircare	11,466	12,115	648	5.7%
Hair coloring	6,521	6,453	(68)	△1.0%
Permanent wave	604	524	(80)	△13.3%
Cosmetic	262	279	17	6.6%
Others	66	117	51	77.5%
Sales deductions	2,293	2,315	22	1.0%
Net sales in Japan	16,627	17,175	547	3.3%

Analysis (2)

Analysis (1)

* Sales of Elmista, the hair dryer, are included in "Others" in the above table.

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We therefore feel this marks a significant change for consumers, who had lived a different lifestyle for the past three years because of COVID.

In light of this, and as Managing Executive Director Murai mentioned earlier, one of our topics of analysis in first half results is how the Overseas business has been posting a strong performance, with net sales growth of 14.2% in the Overseas segment.

Additionally, we have two topics of analysis as it pertains to sales in the Domestic business.

The first is the line item of "Others," which contains the results for the Elmista hair dryer jointly developed by Milbon and Panasonic. Things haven't been going as we had hoped, and this is the largest factor behind the decrease in sales.

The other factor is the performance of hair coloring products, especially domestically, as we have been seeing strong results overseas.

I would like to use this opportunity to discuss these two topics of analysis.

Analysis (1) Elmista

We intend to regain dryer sales by proactively offering product trials to hair salons and their customers.

Factors for Deviation from the Sales Plan

- Selling beauty appliances was our first-time endeavor, and there was a lack of understanding of the market. The competitive environment for high-end hair dryers was more intense than expected.
- Since Elmista's specifications (shape, wind direction, color) were designed for home use, it was difficult to promote its professional use in hair salons, resulting in a lack of opportunities for end customers to experience it.

Future Actions

- Initiatives for hair salons: Launch active lending of hair dryers to hair salons to encourage use in salon settings.
- Initiatives for customers: Introduce a trial-use service to lead to subsequent purchases.

First is Elmista, our hair dryer and Milbon's first endeavor in the field of beauty equipment.

Japan's population is expected to gradually decrease over time, and against this backdrop, our strategy is to expand the products we offer. Within this, we expanded into cosmetics, and we want to try various domains.

This is by no means easy and this experience with Elmista contains lessons for us, as competition in the market for high-end hair dryers is fierce.

Additionally, we developed Elmista with specifications designed for home use, in terms of the shape, wind direction, and color. This hair dryer is offered in white and this presents a drawback when used in a professional setting at beauty salons, namely how any residue from things like styling gel or foam is likely to stand out. Elmista being designed for home use isn't in and of itself a bad thing, but the issue I mentioned just now does lower the probability of consumers having the opportunity to be exposed to Elmista at their hair salon of choice and makes it harder for stylists to recommend it to customers.

We believe this to be the main reason things aren't going as planned on this front.

I would now like to discuss future actions to remedy this.

A total of over 16,000 salons carry our premium brands of Aujua and Global Milbon, and in the second half, we will be actively lending out our hair dryers to these hair salons and encourage their use there, as well as a direct hands-on experience for clients.

We have also heard from stylists about how they find it difficult to use the dryer directly, so we will be offering trial rentals of our hair dryer to customers, with customers that enjoy the product then making a purchase.

Going forward, we will be offering these types of services, in a way to incentivize a hands-on experience on the part of customers. Customers who have used our hair dryer have very good things to say, so we will be focusing on how to navigate that bridge between salons and customers.

We issued a downward revision to sales, but this is a first-time endeavor for us in the field of beauty equipment, so we intend to continue our efforts.

Analysis (2) Hair Coloring Products

We see no change in the hair color trend and will take advantage of the new product roll outs in the second half of the year to revitalize the market.

- With our hair coloring products seeing double digit growth for two consecutive years amidst the COVID-19 pandemic, there was an excessive purchasing by distributors at the end of the last fiscal year.
- Inventory adjustments at distributors occurred over the first half of the year, lowering domestic hair coloring products shipments in the first half (a slight decrease of -1.0%).

Revitalizing the market through the new product roll outs

Ordeve Crystal High Bright

Debut in Jul.



Enog Off Black

Debut in Sept.



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Next is the topic of hair coloring products.

We see no change in the hair color trend in Japan.

We saw a slight decrease of 1% in the first half in Japan, in terms of sell-in, as we offer our products to salons through distributors. The reason for this decrease is the fact that our hair coloring products had been seeing double-digit growth of 12% to 13% for two consecutive years amidst the COVID-19 pandemic. Distributors expected this trend to continue, so there was an excessive purchase of inventories on the part of distributors.

This year, results have plateaued at elevated levels, with hair coloring product shipments for the industry overall staying in line with last year's numbers. Last year saw increasing popularity of double-process colors, and this trend remains in effect this year. These factors remain at play, but sales of hair coloring products are not growing like they used to over the past two years.

Against this backdrop, we are now seeing a gap between sell-in and sell-out. Results from sell-out by distributors have been strong, so Milbon's hair coloring products posted growth on this front, but distributor inventories weigh down on sell-in, so overall we registered a decrease of 1%.

As such, we see no major changes in the hair color trends and, as Managing Executive Director Murai mentioned earlier, the performance gap in the first half stems from Elmista and from hair coloring products. We reflected these results in the revised forecast, and we expect hair coloring products to perform according to plan in the second half.

Ordeve Crystal High Bright, which is a product to cover over gray hair with bright tonalities, debuted in July and has been off to a strong start. Additionally, slated for release in September is Enog Off Black, a product addressing the double-process color trend, and specially geared toward young people. Since we will be energizing the brands of Ordeve and Enog through these product releases, we believe we will be able to deliver results according to plan in the second half.

In summation, in the first half, we fell short in terms of Elmista and in terms of the progress versus the forecast for hair coloring products. To make up for this, we will be executing the various initiatives I discussed just now.

Domestic Market: Beauty Platform Plan

Smart Salon Deployment Status

11 salons opened in 1H +9 salons in 2H

To be expanded to 20 salons by the end of FY2023



▲GIEN Smart Salon NU Chayamachi+ (Osaka)



▲MINX Shibuya smart salon (Tokyo)



▲The interior of MINX



▲lili by Ciel Smart Salon (Kyoto)

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▲La Bless Grand Front Osaka Smart Salon (Osaka)



▲The interior of La Bless

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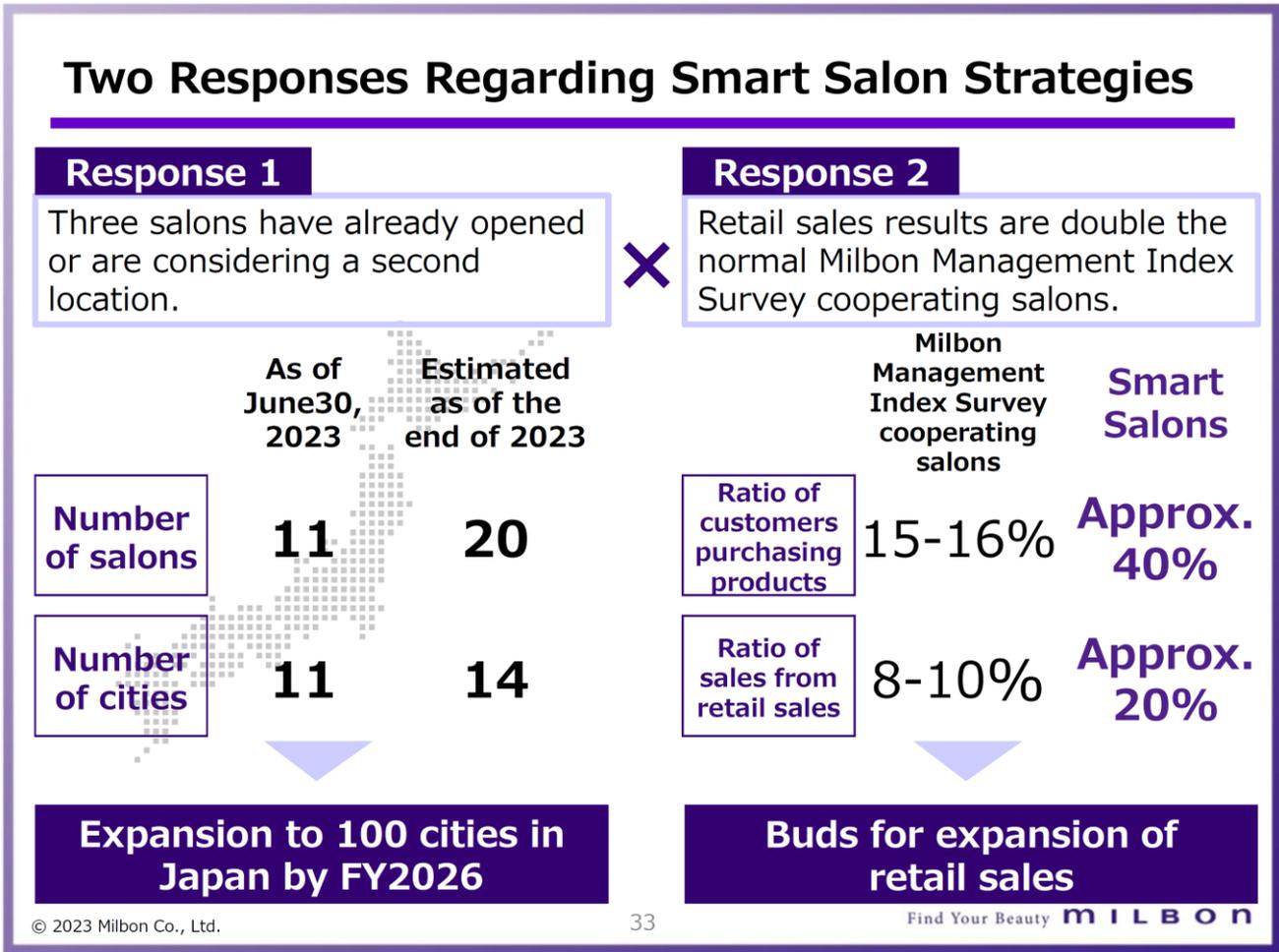
Milbon's key focal point initiative is its Beauty Platform Plan.

11 salons resonated with Milbon's vision and opened as smart salons in the first half. The first smart salon opened on January 21st, 2023, and this has been followed by the opening of another 10 salons since then.

It is the salons themselves that choose the layout and the type of salon they wish to operate, with Milbon playing a supporting role. This is therefore a joint effort between Milbon and salons that resonate with our vision.

One important element is location, and there is variety here, with some salons being located inside commercial facilities and others being standalone stores facing customer foot traffic.

Milbon offers support on what type of smart salon to operate under what type of layout, all the while collecting information and feedback.



Against this backdrop, I have identified two encouraging responses.

There's currently only a total of 11 smart salons, as Milbon is yet to actively push this concept. Rather, Milbon is currently working alongside salon owners that learned about our concept and actively expressed a desire in opening smart salons.

3 out of these 11 salons have already expressed interest in opening a second smart salon. Had these salons not seen results, they naturally wouldn't be talking about opening more smart salons, so this underscores the validity of this concept. In other words, these salons are seeing a positive response to their smart salon initiatives and continue showing interest in initiatives like these, going forward.

The second encouraging response has to do with the Milbon Management Index Survey. Every year, Milbon carries out a Management Index Survey covering approximately 1,000 salons which focus primarily on Milbon

products, obtaining a variety of data such as the percentage of customers requesting hair coloring services, hair perms, the number of customers, average customer spend, etc.

This data is then analyzed and used by Milbon fieldpersons in making suggestions and proposals to salons. Looking at the data over time, the ratio of customers purchasing products stands at around 15% to 16% for salons which focus primarily on Milbon products. This is accompanied by a ratio of product sales of between 8% and 10%. These numbers are lower for the beauty industry at large, with unequivocally higher figures for salons focusing on Milbon products.

However, the ratio of customer purchases for smart salons is approximately 40%, and the ratio of product sales is also double that of the salons I mentioned earlier and stands at approximately 20%. Naturally, product sales are centered around Aujua and while it's only been approximately 6 months, smart salons already show double the percentage of product sales.

Milbon seeks to partner up with salons in over 100 cities throughout Japan by 2026, to roll out smart salons, and we believe these efforts will make a significant sales contribution.

These are two very encouraging responses we have encountered.

Domestic Market: Progress in milbon:iD

Results by the end of July, 2023

Number of registered users ⇒ **560,000** (Target for FY2023 : 640,000)
Number of registered salons ⇒ **5,548** (Target for FY2023 : 6,000)

New functions added

Developed **Style Stock (tentative name)**, to be fully deployed from FY2024

The hairstylists in charge input information on products used and styles during in-salon treatments from their own smartphones.

Information on products and styles is displayed and stored on customers' milbon:iD My Pages. Products can be purchased directly on milbon:iD.



* Image of the screen displayed to the customer

As I have mentioned several times already, milbon:iD is the foundation underlying our activities, linking up these various structures and systems, and building a link between customers and salons.

The number of registered users stood at approximately 450,000 at the end of last year, and at 540,000 as of the end of June. By the end of July, this number had reached 560,000, with the number of registered salons having reached around 5,500.

This structure therefore forms the foundation upon which smart salons are built, as this structure gives Milbon a very significant advantage within the scope of its competitive strategy. The reason for this is that Milbon has been the only company in the beauty industry that has been able to deliver good results with e-commerce.

Our strategic model is therefore premised on a foundation that then allows us to execute and expand our smart salon strategy.

We believe this model will translate into results going forward.

Domestic Market: Progress in Lifetime Beauty Care Strategies

Adding New Products

Im

The first product :
Beauty Up Mist



Debut in Jul.

- New cosmetics brand for distributor delivery
- The first product is a setting spray
- More items to be introduced sequentially

Alanous



Debut in Sept.

Beauty supplement born from approximately 20 years of research on 5-ALA

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Additionally, in order to further expand the range of products we offer, we will be launching new products in the fall season.

There is some variance on a month-to-month basis, so sales of cosmetics increased by 1.9%, year-on-year in the first half, but we expect cosmetics to show higher growth in the second half.

Im is a new product that debuted just recently in July, and unlike IMPREA, this Beauty Up Mist product has a slightly younger target market and is easier to use. This product debuted in July and has been off to a strong start.

Additionally, we expect to release Alanous, which is a beauty supplement, in September of this year. This, too, is an endeavor in a new product genre, although the context is somewhat different, as Milbon has continued carrying out joint research with Cosmo Oil into 5-ALA, a hair growth agent, over the past 20 years. Over the course of this research, we found out that this compound can be leveraged in the production of beauty supplements. This part wasn't done together with Cosmo Oil, but we have succeeded in developing a beauty supplement product, which is slated for release in September.

Supplements are still only a small part of the field of beauty, but we intend for this to create new opportunities going forward, expanding the scope of our business.

In the first half, I therefore believe we have been able to sow seeds for this future growth.

Progress in Overseas Market

Net Sales in Overseas <YoY+14.2% Vs. plan ratio +3.2%>

Sales in China increased from the same period of the previous year, though it did not reach the plan. However, overall sales in the overseas business exceeded the plan, with strong sales in South Korea, the U.S., and ASEAN countries offsetting the negative impact in China. We will plan and hold events tailored to each market environment or in accordance with the strategies in each region to further strengthen relationships with stakeholders.

South Korea <Sales in local currency basis: YoY+7.7%, Vs. plan ratio (0.9%)>

- No.2 market share*, top among non-Korean companies. (*surveyed by Milbon)
- The Company held the event "Enog Beauty Pool Fest" in July. It was an event to share the experiential value with Millennial and Gen Z hairstylists, who are said to have a great influence on the distribution economy. More than 1,000 hairstylists participated. Despite being interrupted by heavy rain, the event received high praise.



▲Enog Beauty Pool Fest



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Next is progress in the Overseas market.

Net sales in the Overseas business grew by 14.2%, year-on-year, which comes to around 10% when excluding foreign currency fluctuations.

This year, I had the opportunity to visit all regions where Milbon has bases of operation, with the exception of China, and this has made me quite hopeful in terms of the outlook going forward.

In South Korea, Milbon has now become the top player among non-Korean companies, as we hold the number two market share in the country.

Additionally, as Managing Executive Director Murai mentioned earlier, we carried out events with the objective of attracting hairstylists in younger demographics, and we are carrying out other strategies to this end.

China <Sales in local currency basis: YoY+8.2%, Vs. plan ratio (11.3%)>

【Sales Company】

- The Company is bolstering ties with hair salons through various measures including holding events, educational programs, and seminars. These initiatives are designed to support salons in adapting to the evolving needs of consumers who are becoming increasingly discerning. As for the current situation, there is still a surge of COVID-19 cases, which is affecting our activities.
- The company held a message-driven event, “Be the One,” in May, which drew 3,000 hairstylists. The event aimed to elevate the value of beauty in China and shape the future of hair salons and hairstylists.



▲ Be the One

【Factory】

China Factory obtained sales approval for almost all colors in quasi-drug hair coloring products, and production started in July.

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Next is China.

While economic activity has resumed in China, there continues to be up and down swings in terms of COVID cases.

It was against this backdrop of changing consumer values and priorities in China that Milbon held a message-driven event. Titled “Be the One,” this event drew 3,000 hair stylists and was very well received, and we believe it will pave the way for positive developments further down the road.

Additionally, we believe sales will see a steady increase in the second half.

Next, I would like to discuss our factory in China.

Very rarely is this a smooth process, but Milbon has been able to obtain sales approval for hair coloring products in an expedited manner.

We started a pilot program this summer, for the purposes of quality control and checks of manufacturing processes, and we have plans for production to commence in earnest next year in China.

USA <Sales in local currency basis: YoY+16.6%, Vs. plan ratio+7.9%>

- The Company's "Roundtable," an exchange meeting between the Company's top management and all U.S. distributors, is boosting its presence in the market.
- An intensive hair color training session for distributors called "Color Boot Camp" was held, enhancing the product knowledge and the relationships between the Company and distributors, and SOPHISTONE sales increased.



▲Roundtable



▲Educational seminar on Global Milbon and Gold Line by Anh Co Tran



▲Educational seminar on SOPHISTONE

ASEAN <Sales in Japanese Yen: YoY+9.9%, Vs. plan ratio+9.4%>

- Both sales and profits in Thailand, Malaysia, and Singapore are progressing above the initial plan.

Next is the United States, where Milbon has its third largest overseas base of operations by sales.

Currently, we have 9 distributors nationwide for Milbon products.

A roundtable meeting was held between Milbon's top management and the Heads of all U.S. distributors, in which we discussed Milbon's philosophy and discussed ways to grow Milbon's presence in the United States, for hair care products and hair coloring products, which is an area Milbon is focusing on.

I believe this was a fruitful opportunity to enhance our relationship with distributors.

We also held "Color Boot Camp" - an intensive hair color training session for distributors. Through this and in various ways, we offer proposals for the use of SOPHISTONE.

Last is the ASEAN region.

It has been about a decade since Milbon first entered the ASEAN market, and we believe we are seeing that our efforts have borne fruit, especially in Thailand, Malaysia, and Singapore.

My visit to this region also reaffirmed this belief, as we see greater motivation on the part of distributors and have deepened our relationship with them in carrying out activities in this region.

This has translated into results, which have gone on an upward trend starting around last year.

In summation, I see indications that the overseas business can continue growing going forward.

Return to Shareholders

Dividend Forecast

Interim dividend was carried out as planned at 40 yen per share.
Year-end dividend is set at 48 yen, as originally planned.

(Unit: yen)	FY2021	FY2022	FY2023	FY2023 Forecast
End of 2Q	30	40	40	-
End of FY	38	46	-	48
Total	68	86	-	88
Consolidated dividend payout ratio	43.3%	50.2%	-	55.1%

*The interim dividend for FY2023 has been confirmed.

Last is the topic of return to shareholders.

While we have revised the consolidated net sales forecast down to 48 billion yen, this nevertheless amounts to a year-on-year growth of approximately 6.5%.

It's not like the cosmetics business has stagnated, as it continues to deliver steady growth.

To be frank with you, Elmista's underperformance was rather significant and this is something we have learned valuable lessons from, which we would like to leverage going forward.

As such, the interim dividend has been confirmed at 40 yen per share, and our commitment to distributing an end-of-fiscal-year dividend of 48 yen per share remains in place.

We ask you for your continued guidance and support going forward.

Thank you for your time.

[END]

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