

FY2024 Second Quarter Financial Results Presentation Q&A (Summary)

Friday, August 9, 2024, 16:00-17:00

Responses by:

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■ Results in the Second Quarter

1. Do you plan to utilize all deferred expenses in the second half of this year?

Yes, we plan to utilize all deferred expenses within this fiscal year. Excluding these deferrals, the operating income for the second quarter is in line with our projections.

2. Could you provide details on the “Other expenses” listed on page 5 of the presentation material?

It primarily includes depreciation, amortization, and travel expenses.

■ Results in the Domestic Market

3. Do you anticipate the growth rate of domestic sales to continue into the second half of this year?

We expect it to continue, allowing us to meet our full-year forecast. Strong sales of haircare products are anticipated to fully offset the delays in hair coloring products.

4. Could you provide details on the results and future expectations for the Villa Lodola Color proposal and the initiative to link hair color with eyebrow color?

Regarding Villa Lodola Color, our Field Persons initiated market expansion efforts this year. They conducted in-house study sessions in the first quarter and commenced full-scale sales activities in the second quarter. While there have been positive outcomes, such as increased touchpoints, repeat business has been delayed. We plan to boost sales by further promoting hair coloring education for salons.

For the initiative linking hair color with eyebrow color, although the concept was well received, salons often use our eyebrow products with other companies' hair coloring products. The coordination between our eyebrow and our hair coloring products was not strong enough, resulting in strong sales of eyebrow products but insufficient adoption of our hair coloring products.

In the hair coloring products category, we recognize that while gray color is performing well, there are issues with fashion color. We have already begun internal discussions on the need for a comprehensive reform in sales strategy, product development, and branding.

5. You mentioned addressing the product mix issue due to the decreasing sales composition of hair coloring and the increasing sales of haircare. Could you explain the current profitability gap between hair coloring and haircare, and when you expect haircare profitability to match that of hair coloring?

Previously, there was a gap of about five percentage points between the gross profit margins of hair coloring and haircare. However, in the first half of FY2024, this gap has narrowed to approximately two percentage points. While haircare profitability will not increase immediately, it is improving due to strong sales of high value-added products. Notably, the gross profit margin of "Aujua," our flagship haircare brand, is now comparable to that of hair coloring. Recent Aujua products have even higher gross profit margins due to their high value-added nature. Sales of new products account for about 10% of the Company's total annual sales. Alongside this focus on new products, we will gradually enhance the profitability of its haircare business by revising the prices of existing products, whose profitability has been declining. These price revisions will be implemented starting next year.

■ Results in the Overseas Market

6. It appears that your business in China has fallen behind your plan in local currency basis. Could you provide your outlook for the second half of the year?

At the beginning of this year, we projected a 9% year-on-year sales growth in China. However, it has become challenging to meet this target. Customer visits to hair salons decreased after the Lunar New Year, impacting our business. Since this is an issue of the macroeconomic environment, it is difficult to provide a precise growth figure for the second half. Nevertheless, we aim to offset the slowdown in China with robust performance in Japan and South Korea.

7. The year-on-year sales growth in the U.S. for the second quarter was +2% in local currency basis. Was this impacted by economic sentiment?

The financial results in the U.S. tend to show greater volatility on a quarterly basis due to the timing of distributors' purchases and new product launches. We do not believe this is an effect of economic sentiment.

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