

**MILBON CO., LTD (4919 JP)**

FY23 GUIDANCE WAS REVISED GIVEN SHORTFALL IN DOMESTIC SALES AND UNBUDGETED EXPENSES. NO CHANGE IN FY23 DIVIDEND.

**FY23 1H EARNINGS RESULTS SUMMARY**

Milbon Co., Ltd (4919 JP) reported FY23 1H (Dec year-end) earnings with gross profit [GP] of ¥14,809mil (+3.8% YoY) and operating profit [OP] of ¥3,090mil (-19.2% YoY) on sales of ¥22,703mil (+5.8% YoY).

The 1H +5.8% YoY sales rise, although lower than anticipated and discussed further below, was primarily thanks to growth in domestic haircare products sales, and a solid performance overseas, especially in the US and South Korea.

In FY22 1H, Milbon had stockpiled extra inventory of some core raw materials, which cushioned earnings from the impact of cost increases. However, given management had anticipated the rise in materials costs would likely continue through to FY23 1H, the firm reported an approx. +¥700mil YoY increase in COGS.

Milbon (4919 JP): Earnings Summary (Cumulative)						
(¥mil)	FY22		FY23			
	1H	FY	1H	YoY (%)	FYCE (Revised at Q2)	YoY (%)
Sales	21,467	45,238	22,703	5.8	48,000	6.1
COGS	7,198	15,729	7,893	9.7	N/A	N/A
GP	14,269	29,509	14,809	3.8	31,250	5.9
GPM (%)	66.5	65.2	65.2	-1.3ppt	65.1	-0.1ppt
SG&A	10,444	21,957	11,719	12.2	23,900	8.8
SG&A / Sales (%)	48.7	48.5	51.6	+2.9ppt	49.8	+1.3ppt
OP	3,824	7,551	3,090	-19.2	7,350	-2.7
OPM (%)	17.8	16.7	13.6	-4.2ppt	15.3	-1.4ppt
RP	4,137	7,829	3,129	-24.4	7,370	-5.9
RPM (%)	19.3	17.3	13.8	-5.5ppt	15.4	-1.9ppt
NP*	2,875	5,577	2,195	-23.6	5,200	-6.8

Source: Nippon-IBR based on Milbon's earnings presentation materials  
\* NP attributed to the parent's shareholders

Milbon saw some unexpected SG&A expenses during FY23 1H which led to a downward revision to its FY23 OP guidance. FY23 1H SG&A rose +12.2% YoY mainly due to the following increases in costs:

1. Event and sales promotions (+¥470mil YoY),
2. Personnel (+¥250mil YoY),
3. Travel and subsistence (+¥160mil YoY), and
4. Others (+¥393mil YoY).

Along with reopening after COVID restrictions were lifted, large-scale events and sales promotion activities have since been held. Travel activities were also growing faster than expected.

**EXECUTIVE SUMMARY**

- Milbon Co., Ltd (4919 JP) reported FY23 1H (Dec year-end) GP of ¥14,809mil (+3.8% YoY) and OP of ¥3,090mil (-19.2% YoY) on sales of ¥22,703mil (+5.8% YoY).
- 1H sales were slightly (-3.3%) short of company guidance due to slower than expected sales of hairdryers and hair colours in Japan. Due to the rise in raw materials costs, which became more apparent in FY22 Q3 onwards, the FY23 1H gross GPM deteriorated by -1.3ppt YoY to 65.2%.
- Milbon saw some unexpected SG&A expenses during FY23 1H which led to a revision down to FY23 guidance from what would be historical record levels – GP of ¥32,160mil (+9.0% YoY) and OP of ¥8,300mil (+9.9% YoY) on sales of ¥49,200mil (+8.8% YoY) – to GP of ¥31,250mil (+5.9% YoY) and OP of ¥7,350mil (-2.7% YoY) on sales of ¥48,000mil (+6.1% YoY).
- FY23's CAPEX budget of ¥2,927mil is well below FY22's ¥4,097mil and the dividend payment is unchanged at ¥88/share – a 55.1% pay-out-ratio vs. a medium-term target of 50%.
- Milbon's medium-term (FY22~FY26) targets remain unchanged at OP of ¥10,800mil on sales of ¥58,000mil, with Domestic sales of ¥43,700mil (CAGR +5.8% for the remaining four years of the Plan) and Overseas sales of ¥14,300mil (4-year CAGR of +9.6% for the remaining four years).
- During the medium-term plan, management aim to achieve an ROE of 13.9% and ROIC of 13.6%. The firm has not yet disclosed its capital cost.

Regarding higher personnel costs, Milbon raised salaries in FY23, which was not initially budgeted. In addition, there was 1) a ¥50mil cost related to a research site where Milbon plans to build a new training centre – several artifacts of archeologic significance were discovered, and development cannot progress until officials give the approval, and 2) sponsorship funds for the Osaka Expo 2025. The total amount is for ¥500mil and the cost will be spread over three years (FY23 ¥180mil is budgeted for). This led to the firm revising down its full year FY23 guidance. Details of Milbon's FY23 outlook will be explained in a later section of this report.

Net Sales Breakdown by Products (Cumulative)											
(¥mil)	FY22					FY23					
	1H	FY	YoY (%)	FYCE	FY v.FYCE	1H	YoY (%)	FYCE (Revised at Q2)	YoY (%)	FYCE (before revision)	YoY (%)
Hair care products	12,218	26,312	9.5	25,570	2.9	13,339	9.2	28,089	6.8	27,942	6.2
Hair colouring products	8,148	16,631	14.3	15,570	6.8	8,238	1.1	17,169	3.2	17,403	4.6
Permanent wave products	751	1,450	1.8	1,510	-4.0	714	-4.9	1,462	0.8	1,594	9.9
Cosmetic products	262	572	-1.2	900	-36.4	267	1.9	635	11.0	673	17.6
Others	87	272	2.3	350	-22.3	144	65.2	645	137.1	1,588	483.5
Total	21,467	45,238	10.7	43,900	3.0	22,703	5.8	48,000	6.1	49,200	8.8

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

## Sales by Country

### Japan

Milbon reported FY23 1H Japan OP of ¥2,411mil (-24.7% YoY) on sales of ¥17,175mil (+3.3% YoY), which produced an OPM of 14.0%, down from FY22 1H's 19.3% and FY22's 17.5%. Both sales and OP fell short of Milbon's forecast by 5.3% and 19.4%, respectively. There were two factors that negatively affected domestic sales in 1H:

Given many people in Japan still wear masks, hair colour became a type of fashion item and offered individuals ways to express themselves. This trend led to hair colour sales rising +12.4% YoY in FY22. Moreover, the boost in demand for hair colouring, such as double colour and bleach on colour, resulted in distributors stockpiling hair colour products at the end of FY22. During FY23 1H, however, sales of hair colour products declined -1.0% YoY as distributors were still unloading inventory.

Milbon co-developed a hairdryer with Panasonic, which incorporates a function to spray Milbon's hair serum while the hair is dried. Milbon planned to sell the dryer through its network of salons, including those that are registered with *milbon:iD*, Milbon's original product sales support e-commerce platform for hair salons. However, 1H sales of the hair dryer disappointed, coming in at just ¥57mil vs FY23 sales forecast of ¥1,215mil. The firm reckons that one of the reasons for the shortfall in sales is due to the product design not fit for salon-use. Milbon planned to sell the dryers to salons, which would then subsequently sell them to customers, however, there was little support to promote the dryers to salons.

On the other hand, the consolidated sales of haircare product remains solid with FY23 1H sales (gross basis) of ¥13,339mil (+9.2% YoY), of which sales in Japan alone rose +5.7% YoY. Premium brand sales improved +14.7% YoY globally, of which domestic sales rose +9.8% YoY.

The number of salons that registered with *milbon:iD* hit 5,450 in FY23 1H, up from 1,300 in FY20, 3,200 in FY21, and 4,800 in FY22. Salon customers are registered with *milbon:iD* through a QR code provided by their salons. The number of registered users of *milbon:iD* surged to 540,000 in FY23 1H, versus 450,000 in FY22 (only 30,000 in FY20 and 170,000 in FY21).

Milbon's e-commerce revenue in FY23 1H surged +44% YoY to ¥620mil. The firm estimates that approx. 70% of the domestic haircare revenues from its haircare products comes from salon sales. Moreover, the spend per person exceeded the ¥10,000 mark, rising to ¥12,000, which compares to the typical cost of ¥7,000~8,000 for a hair cut in a

Central Tokyo salon. However, only an estimated some 30% of the 540,000 registered users of *milbon:iD* are active users. How to mobilise those dormant customers will be the next step for the *milbon:iD*'s further success.

In terms of profitability in the domestic business, a hike in raw materials cost and reopening activities such as large-scale event and sales promotion pushed overall SG&A costs higher.

## Overseas

FY23 1H overseas earnings surpassed Milbon's expectations, generating OP of ¥679mil (+9.1% YoY) on sales of ¥5,528mil (+14.2% YoY YDB [yen-denominated basis] / +9.5% YoY LCY [local currency basis]). Although there was some FOREX impact, the LCY-based sales growth suggests that the firm enjoyed 1) an expanding customer base, and 2) higher sales volumes, mainly due to a) solid growth in South Korea and b) improved sales in the US.

### Details by country are as follows:

**US:** By continuing to expand its alliances with local distributors to cultivate new salons, FY23 1H US sales surged +28.9% YoY [YDB] to ¥778mil, surpassing Milbon's forecast by +13.4%. Although the high YoY growth reflects the positive impact from the weak yen, US sales rose +16.5% YoY [LCY] thanks to strong sales of the premium haircare range Global Milbon. Hair colour product *Sophistone* is also proving popular and has helped cultivate new customers, especially in the West Coast. Operating losses in the US contracted from -¥125mil in FY22 1H to -¥30mil in FY23 1H. However, even though the US business is still in the red, its performance has surpassed Milbon's estimate by 58.6%.

**China:** Operations in China fell into the red in FY22, due to the repeated lockdowns, which lasted throughout the year, but recovered into the black in FY23 1H despite the resurgence of COVID cases during Q2 which negatively affected customer traffic to hair salons. FY23 1H sales rose +10.6% YoY YDB to ¥1,171mil (+8.2% YoY LCY) and reported an OP of ¥40mil, compared to an operating loss of ¥76mil in FY22 1H.

Milbon worked on promoting large-scale events to demonstrate the future management of beauty industry in China and reported that it attracted as many as 3,000 people to its events. Milbon started preparations for the production of core hair colour products at its factory in China, which commenced in July 2023 – six months earlier than the original schedule (the beginning of FY24).

**South Korea:** Milbon Korea – the largest part of the firm's overseas operations comprising 10.1% of FY23 1H total consolidated net sales – generated FY23 1H OP of ¥621mil (-10.4% YoY) on sales of ¥2,286mil (+11.9% YoY YDB / +7.7% YoY LCY). Both FY23 1H sales and OP surpassed the firm's expectations by 3.6% and 5.2%, respectively. However, the OP decline was due to an increase in reopening activities and increase in number of staff, resulting in the 1H OPM contracting -6.7ppt YoY to 27.2%. Hair colour products, some 70% of the sales in South Korea, lead the growth – especially for grey hair colour products.

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## FY23 OUTLOOK

Milbon revised down its FY23 guidance from what would have been a historical record level FY23 GP of ¥32,160mil (+9.0% YoY) and OP of ¥8,300mil (+9.9% YoY) on sales of ¥49,200mil (+8.8% YoY) to GP of ¥31,250mil (+5.9% YoY) and OP of ¥7,350mil (-2.7% YoY) on sales of ¥48,000 (+6.1% YoY). Assumptions for revised FY23 guidance are based on:

1. Weaker domestic sales, revised down by -¥1,371mil, due to the shortfall in sales of hairdryer and hair colour products, GP cut by -¥910mil due to the shortfall in sales and an increase in inventory revaluation losses in Japan and the US, and
2. OP was revised down by -¥950mil due to a ¥510mil cost increase which was partially offset by ¥470mil unspent SG&A in 1H. The additional ¥510mil in costs includes:
  - a. A ¥200mil increase in personnel costs including a rise in base salaries,
  - b. More than expected increase in travel and subsistence by ¥80mil,
  - c. ¥50mil cost allocated to the artifacts research in the Odawara site, and
  - d. ¥180mil sponsorship fee to the Osaka Expo 2025.

## FY23 Earnings Forecast by Region

Milbon identifies seven key regions representing the global market for its products. Those seven regions are:

1. Japan,
2. South Korea,
3. China, Hong Kong, and Taiwan,
4. ASEAN,
5. North America (US and Canada),
6. EU, and
7. Middle East (Turkey).

The firm promotes “local production and local consumption” and aims to 1) establish a dedicated sales infrastructure, 2) have localised R&D, and 3) set up manufacturing and distribution facilities in each region. Milbon has identified that each region has its own preference for hair care due to differences in culture and hair quality, hence it is important to tailor its products to match local demands.

### Japan

Milbon is guiding for FY23 Japan sales of ¥36,650mil (+3.7% YoY), still a new record level although it was revised down from the original forecast of ¥38,021mil (+7.6% YoY), mainly thanks to strong demand for hair care. Management has factored in weaker than expected hair dryer sales and the 1H shortfall in sales of hair colour products, as discussed above. Sales of hair colour products started showing signs of recovery in July. Management reckons that the inventory at distributors might be back to optimal levels.

The firm is taking further steps to promote product sales at salons by introducing the Smart Salon concept in FY23, which was designed to enhance product sales. Smart Salon is a salon space that offers a new product-buying experience that combines real and digital under professional advice. Salons best suited to adopt the Smart Salon concept are those planning to refurbish their shopfloor space and open new branches. This means that as well as taking their stylists advice, the Smart Salon experience allows them to try the products themselves either in store, or buy a trial size, before making a full product purchase.

As of 1H, the number of Smart Salons hit 11 out of a FY23 forecast of 20. Milbon reckons that Smart Salons will likely boost the number of registered users of *milbon:iD* to 1mil by FY26, up from 540,000 as of FY23 1H. As noted above, the key for the further boost salon product sales growth will be to mobilise dormant *milbon:iD* users. The firm is confident that the Smart Salon concept will improve the active user ratio of *milbon:iD*.

### Overseas

FY23 Overseas sales guidance was revised up from ¥11,179mil (+12.9% YoY) to ¥11,350mil (+14.6% YoY), which will likely be a new record level. In South Korea, the firm plans to hire staff and launch events to attract young talented hairdressers as their customers, which will likely worsen the region’s OPM in the short-term.

FY23 developments overseas are as follows:

- After the reopening in China, Milbon has been hosting events that draws thousands of hairdressers and salon owners.
- Production of hair colour products in the China factory began in July 2023, six months earlier ahead of schedule.
- Continues to promote educational events and cultivate salons with local distributors in North America.
- Initiate global R&D functions in the US, Thailand, and China in addition to Japan and to develop products best matched to each market.
- Enhance the global production between factories in Japan, Thailand, and China.

Milbon’s aim is to expand new business in each market and establish a global distribution network with a two-week delivery system to achieve overseas sales of ¥14,300mil in FY26, the final-year of the current medium-term

management plan (FY22~FY26). CAGR in overseas sales for the remaining four years is estimated at +9.6% (vs. 5-year CAGR for FY22~FY26 of 12.6%).

Milbon expects that increase in materials, especially packaging materials, to impact earnings from FY23 Q2, however, so far, the firm has not changed prices of its existing products. The impact of higher overall costs, including overheads, has become apparent and the change in pricing will depend on whether Milbon is able to come close to achieving its current medium-term plan's target.

Sales and OP Breakdown by Country - Results and Guidance											
(¥mil)		FY21		FY22		FY23					
		1H	FY	1H	FY	1H	YoY (%) *	FYCE (revised at Q2)	YoY (%) *	FYCE (before revision at Q2)	YoY (%) *
Japan	Sales	15,413	32,938	16,627	35,334	17,175	3.3	36,650	3.7	38,021	7.6
	OP	2,745	6,106	3,201	6,194	2,411	-24.7	N/A		7,021	13.4
	OPM (%)	17.8	18.5	19.3	17.5	14.0	-5.3ppt		18.5	+1.0ppt	
US	Sales	406	905	603	1,328	778	28.9		N/A		1,430
	OP	-218	-561	-125	-168	-30	N/A			-160	N/A
	OPM (%)	N/A	N/A	N/A	N/A	N/A	N/A			N/A	N/A
China	Sales	1,091	2,148	1,058	2,114	1,171	10.6	N/A		2,641	24.9
	OP	269	449	-76	-9	40	N/A			240	N/A
	OPM (%)	24.7	20.9	N/A	N/A	3.5	N/A			9.1	N/A
South Korea	Sales	1,596	3,368	2,043	4,159	2,286	11.9	N/A		4,543	9.2
	OP	531	1,109	693	1,351	621	-10.4			1,212	-10.3
	OPM (%)	33.3	32.9	33.9	32.5	27.2	-6.7ppt			26.7	-5.8ppt
Others	Sales	709	1,487	1,133	2,301	1,293	14.1	N/A		2,565	11.4
	OP	-10	-20	130	184	48	-62.8			-12	N/A
	OPM (%)	N/A	N/A	11.5	8.0	3.7	-7.8ppt			N/A	N/A
Overseas Total	Sales	3,803	7,910	4,839	9,904	5,528	14.2	11,350	14.6	11,179	12.9
	OP	571	977	622	1,357	679	9.1	N/A		1,278	-5.8
	OPM (%)	15.0	12.4	12.9	13.7	12.3	-0.6ppt			11.4	-2.3ppt

Source: Nippon-IBR based on Milbon's earnings results material  
\* YoY figures are based on Japanese yen denominated sales and OP numbers

Medium-term management plan (FY22~26)				
(¥mil)		FY21	FY26	FY22~FY26 CAGR (%)
Sales		40,849	58,000	7.3
Japan		32,938	43,700	5.8
Overseas		7,910	14,300	12.6
Gross Profit [GP]		26,765	38,160	7.4
GPM (%)		65.5	65.8	+0.3ppt
SG&A		19,681	27,360	6.8
Operating Profit [OP]		7,084	10,800	8.8
OPM (%)		17.3	18.6	+1.3ppt
Recurring Profit [RP]		7,158	10,810	8.6
NP attributed to the parent		5,109	7,670	8.5
NPM (%)		12.5	13.2	+0.7ppt

Source: Milbon Co., Ltd. FY22~26 New medium-term plan press release

## CAPITAL ALLOCATION POLICY

### CAPEX

Over the five-year medium-term plan (FY22~FY26), Milbon plans to invest total of ¥23,000mil in CAPEX out of operating cash flow [CFO] of ¥44,000mil. With FY22 being the first year of the new medium-term management plan, the company made investments in Japan and overseas, including those related to digital transformation [DX].

In FY22, Milbon generated CFO of ¥5,000mil, while investing ¥4,097mil in CAPEX and returned ¥2,800mil in shareholder returns, generating a dividend pay-out ratio of 50.2%. For FY23, the firm is guiding for a substantially lower level of CAPEX (¥2,927mil), which includes projects including facilitating Yumegaoka and Thai factories, and digital platform-related investments such as *milbon:iD*, and digital marketing of Smart Salon. Depreciation is estimated at ¥2,301mil (+13.5% YoY).

### Shareholder Return

The firm has earmarked a dividend pay-out ratio of 50%. In FY22, Milbon paid out 50.2% of net profit to shareholders in dividends. The firm maintains an annual dividend payment of ¥88.00/share in FY23, or pay-out ratio of 55.1%.

During the medium-term plan, Milbon aims to achieve ROE of 13.9% and ROIC of 13.6%. The firm has not yet disclosed its capital cost.

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