

# Milbon Co., Ltd.

FY2017 Third Quarter (December 21, 2016 – September 20, 2017)

## Financial Results Presentation Materials



September 29, 2017

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## Consolidated Operating Results (FY2017 9 months)

Steady progress toward achieving FY targets

(Unit: million yen)

	Amount		Increase/ Decrease	Increase/ Decrease ratio (%)
	FY2016 9 months	FY2017 9 months		
Net sales	21,424	22,839	1,415	6.6
Gross profit	14,761	15,511	749	5.1
SG&A expenses	10,916	11,616	700	6.4
Operating income	3,845	3,894	49	1.3
Ordinary income	3,495	3,665	170	4.9
Profit attributable to owners of parent	2,370	3,136	766	32.3

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# Consolidated Sales by Product Category [Hair Care Product]

Sales recovered steadily, mainly with premium brands

(FY2017 9 months)

(Unit: million yen)

FY2016 9 months	FY2017 9 months	Increase/Decrease	Increase/Decrease ratio (%)
12,760	13,210	449	3.5

- Sales have been steady for the premium brands Aujua and “milbon.” Sales of new products in professional brands 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	307	51.3%

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	202	40.6%

Mar. 1 Debut

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# A Premium Brand, Aujua

Secured an increase in sales while holding off on product updates

## Number of Aujua salons

FY2016 year-end	FY2017 Q3-end	Increase/ Decrease ratio (%)
2,779 salons	2,991 salons	7.6

## Sales (FY2017 9 months)

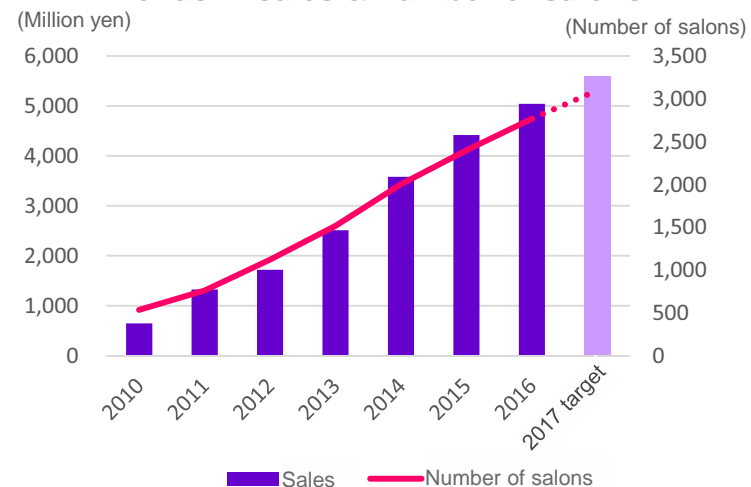
FY2016 9 months	FY2017 9 months	Increase/ Decrease ratio (%)
3,426	3,662	6.9

(Unit: million yen)

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



## Trends in sales & number of salons



## 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

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# A Premium Brand, “milbon”

Rolled out overseas in 8 countries

## Brand concept

A system hair care brand that cultivates the “unique beauty” of each individual, with 360° shiny hair

## What is “milbon”?

We conducted an in-depth analysis of the inner structure of the hair of women from 20 countries around the world, using our proprietary CT scanning technology, and discovered SSVs (Sticked-Shaped Voids). SSVs are hollow, tubular gaps that form in damaged hair. Accordingly, we developed a hair care line containing ingredients capable of repairing such hollowed out hair and increasing the density within each strand of hair. “milbon” is a system hair care product for developing shiny, beautiful hair from the core.

## Number of salons

FY2017 Q3-end.....3,733 salons

## Sales

FY2017 9 months.....1,054 million yen

# MILBON



## 360° BEAUTIFUL HAIR

Launched in FY2016—rolled out consecutively in 12 countries worldwide

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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 9 months)

(Unit: million yen)

FY2016 9 months	FY2017 9 months	Increase/Decrease	Increase/Decrease ratio (%)
7,529	8,360	831	11.0

- 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)



Feb. 1 Debut

FY target	Results	Prog. rate
755	1,497	198.4%

### ORDEVE's additional color FEMININITY LINE

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

(Unit: million yen)



Feb. 1 Debut

FY target	Results	Prog. rate
400	183	45.9%

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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 Q3-end	Increase/ Decrease ratio (%)
5,632 salons	6,524 salons	15.8

## Sales (FY2017 9 months)

(Unit: million yen)

FY2016 9 months	FY2017 9 months	Increase/ Decrease ratio (%)
572	696	21.6

## Brand concept

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

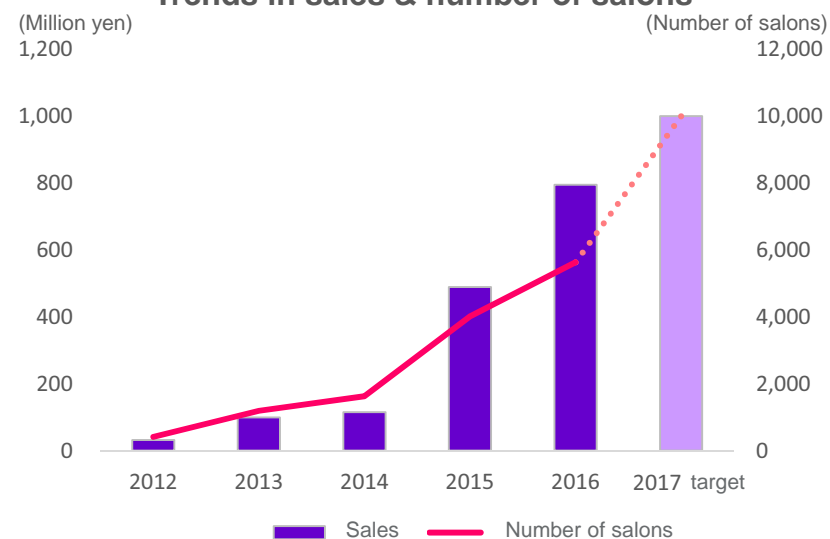
## What is Villa Lodola?

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)

FY2016 9 months	FY2017 9 months	Increase/Decrease ratio (%)
373	493	32.3



FY2015 Debut

\* Previously, the rate of progress toward achieving FY targets was indicated, but from the third quarter of FY2017, year-on-year comparisons are shown.

# Consolidated Statement of Earnings (FY2017 9 months)

(Unit: million yen)

	Amount		Increase/ Decrease	Increase/ Decrease ratio (%)
	FY2016 9 months	FY2017 9 months		
Sales	21,424	22,839	1,415	6.6
Cost of sales	6,663	7,328	665	10.0 <sup>*1</sup>
Gross profit	14,761	15,511	749	5.1
SG&A expenses	10,916	11,616	700	6.4 <sup>*2</sup>
Operating income	3,845	3,894	49	1.3
Ordinary income	3,495	3,665	170	4.9
Profit attributable to owners of parent	2,370	3,136	766	32.3 <sup>*3</sup>

## <Breakdown of net sales by product category>

	(Unit: million yen)				
	FY2016 9 months	FY2017 9 months	% total sales	Increase/ Decrease	Increase/ Decrease ratio (%)
Hair care products	12,760	13,210	57.9	449	3.5
Hair coloring products	7,529	8,360	36.6	831	11.0
Permanent wave products	972	1,101	4.8	128	13.2
Others	161	167	0.7	5	3.5

## <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 R&D expenses due to structural enhancements
- \*3 Profit attributable to owners of parent: Increase due to the sale of a portion of cross-held shares

## Supplemental Info. – Return to shareholders

### <Dividends>

(Unit: yen)

	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.–Sep.	FY2017 Plan*)
Capital expenditures		1,680	1,028	2,779	4,262	877	1,760
Depreciation and amortization		878	1,004	1,033	1,077	818	1,240
R&D exp.	Amount	969	1,168	1,214	1,232	979	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	36,810 (As of Apr. 1)	Statistics Bureau, Ministry of Internal Affairs and Communications: Population statistics as of October 1 <sup>st</sup> 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	Upper column: Number of FPs (persons) Lower column: Sales per FP (million yen)
	104	104	100	102		
USA MILBON USA, INC.	12	12	12	9	12	22 FPs completed training on September 20, 2017
	36	40	53	63		15 FPs will start training on October 2, 2017
CHINA Milbon Trading (Shanghai) Co., Ltd	16	17	18	18	19	(The above 37 FPs are not included in the left chart.)
	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		

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

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# Outlook of Milbon Group

## East Asia region continues to drive growth

	Sales (million yen)		Increase/ Decrease ratio (%)	Start operations	Forex rates	
	FY2016 9 months	FY2017 9 months			FY2016	FY2017
<b>Japan</b> Milbon Co., Ltd	18,593	19,580	5.3	1960	-	-
<b>USA</b> MILBON USA, INC	444	439	(0.9)	2004	1 dollar = 114.95	111.42
<b>CHINA</b> Milbon Trading (Shanghai) Co., Ltd.	542	669	23.3	2009	1 yuan = 17.56	16.26
<b>KOREA</b> Milbon Korea Co., Ltd.	1,193	1,401	17.5	2009	1 won = 0.0990	0.0969
<b>THAILAND</b> Milbon (Thailand) Co., Ltd.	61	84	37.6	2013	1 baht = 3.26	3.18
<b>Others<sup>*)</sup></b>	590	664	12.6	-	-	-

<sup>\*)</sup> Taiwan, Hong Kong, Vietnam, Malaysia, Turkey, Indonesia, the Philippines, Singapore and others

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## Outlook of Overseas Subsidiaries (1)

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### USA (MILBON USA, Inc.)

A styling series was added to the premium brand “milbon.” This line has responded to market needs, and is contributing to sales growth due to positive market reception and steady sales for the brand overall.

Sales in the distributor category increased 10.4% cumulatively over the nine months, and sales from distributors to salons grew 30%. Market expansion is progressing steadily.

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

Local distributor staff can now offer solution-oriented proposals such as conducting product seminars and following up with independent salons. These efforts have contributed significantly to sales growth.

In the direct sales category, Milbon members responsible for education and marketing have held a “Color Specialist Course” and a “Management Seminar,” which led to an increase in transactions with top salons in each area. Inquiries from outside our sales areas are also rising.

### KOREA (Milbon Korea Co., Ltd.)

Regular proposals of additional colors for ORDEVE (fashion color) and educational activities are providing unique appeal, and the brand continues to perform strongly due to a favorable reception at salons. ORDEVE is driving sales, together with ORDEVE beauté (gray-hair coloring products).

Aujua, which we began full-scale sales of in the period under review, was very well received in the market. The number of salons handling the product has increased steadily. The carist system has been incorporated at salons that have agreed to and adopted our human resources training system, and we are seeing numerous successful examples.

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\* Figures in the text on pages 13 and 14 are based on local currencies.

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## Outlook of Overseas Subsidiaries (2)

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

#### [Sales division]

Performance has been strong for the premium brand “milbon,” launched in February 2017, which has been acclaimed for its outstanding finish and luxurious image.

In hair color products, the number of salons handling our products has grown as a result of implementing a new color strategy (a three-item set including new product + trend information + technical education) launched simultaneously in Japan, and conducting educational activities to add more variation to hair coloring seminars.

#### [Production division]

We are building a stable production and shipment system, with production times stabilized at standard levels and no waste losses caused by mistakes. The local procurement rate for materials and raw materials is also rising, and the manufacturing cost ratio has improved more than planned. We have also pursued streamlining efforts, such as introducing an automatic labeler instead of applying labels by hand, with the aim of further improving the manufacturing cost ratio.



**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.**