

Milbon Co., Ltd.

FY2018 First Quarter (January 1, 2018 – March 31, 2018)

Financial Results Presentation Materials



April 27, 2018

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Fiscal Year 2018 (59th term) Operating Results for the First Quarter

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Starting in the previous fiscal year, the Company changed its fiscal year end from December 20 to December 31. Additionally, the Company's consolidated subsidiaries changed their fiscal year end from September 30 to December 31. While the first quarter of the fiscal year under review covers the three month period from January 1, 2018 to March 31, 2018, the first quarter of the previous fiscal year covered the three month period from December 21, 2016 to March 20, 2017 (for consolidated subsidiaries, the period of October 1, 2016 to December 31, 2016).

	Notation in these materials	Respective periods	Periods for subsidiaries
First quarter of the fiscal year under review	FY2018 3 months	January 1, 2018 to March 31, 2018 (3 months)	January 1, 2018 to March 31, 2018 (3 months)
First quarter of the previous fiscal year	FY 2017 3 months	December 21, 2016 to March 20, 2017 (3 months)	October 1, 2016 to December 31, 2016 (3 months)

Consolidated Operating Results (FY2018 3 months)

Steady sales and fewer-than-expected returns of Aujua resulted in pushing up gross profit

(Unit: million yen)

	FY2017 3 months *)	FY2018 3 months *)	Increase/ Decrease	Increase/ Decrease ratio (%)
Net sales	6,898	7,789	891	12.9
Gross profit	4,544	5,551	1,007	22.2
SG&A expenses	3,757	4,161	404	10.8
Operating income	786	1,390	603	76.7
Ordinary income	717	1,208	491	68.5
Profit attributable to owners of parent	538	1,074	536	99.7

*) See page 3 for the corresponding periods.

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Consolidated Sales by Product Category [Hair Care Product]

Premium brands continued strong performance

(FY2018 3 months)

(Unit: million yen)

FY2017 3 months *)	FY2018 3 months *)	Increase/Decrease	Increase/Decrease ratio (%)
3,924	4,490	565	14.4

- Sales have been steady for the premium brands Aujua and “milbon.”
- More proactive proposal activities following the upgrade of Aujua, such as menu revisions and reconfirmation of knowledge, increased brand sales.
- In professional brands, Elujuda has garnered strongly rooted popularity since its launch. It has built a firm position in the leave-in field, and continues to grow. However, sales of the aging series of Plarmia and Jemile Fran targeting working women in their 20s have not met expectations, despite new product launches for each brand.

*) See page 3 for the corresponding periods.

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A Premium Brand, Aujua

Upgraded products launched in November 2017 are well received

Number of salons

(Unit: salons)

FY2017 year-end	FY2018 Q1-end	Increase/Decrease	Increase/Decrease ratio (%)
3,166	3,406	240	7.6

Sales (FY2018 3 months) *)

(Unit: million yen)

FY2017 3 months	FY2018 3 months	Increase/Decrease	Increase/Decrease ratio (%)
1,038	1,250	212	20.4

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?

Hair care that supports beauty, now and into the future, by addressing each individual's hair and skin concerns and choosing the most appropriate item for that time.

This is Aujua.

Product range

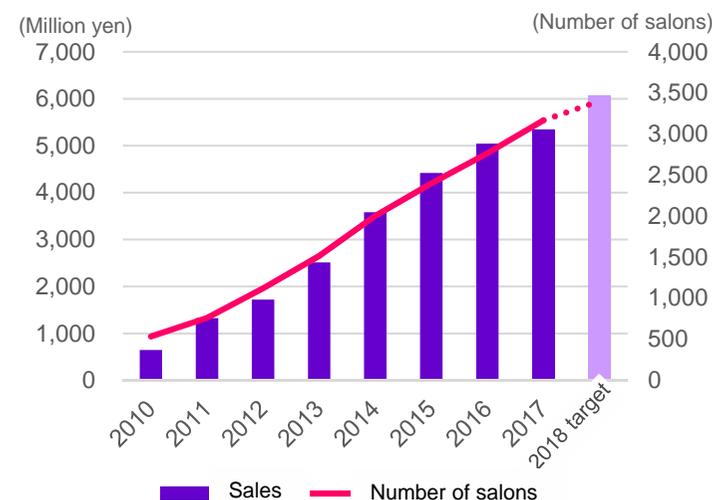
A wide-ranging line-up that suits the hair texture of individual customers

- 4 series
 - Aging care series
 - Hair care series
 - Scalp care series
 - Climatic care series
- 13 lines
- 94 items

Upgrade launched November 2017



Trends in sales & number of salons



*) Figures are on a non-consolidated basis. See page 3 for the corresponding periods.

A Premium Brand, “milbon”

Steady progress in salons, overseas rollout in 11 countries

Number of salons

FY2017 year-end	FY2018 Q1-end	Increase/Decrease	Increase/Decrease ratio (%)
3,966	4,304	338	8.5

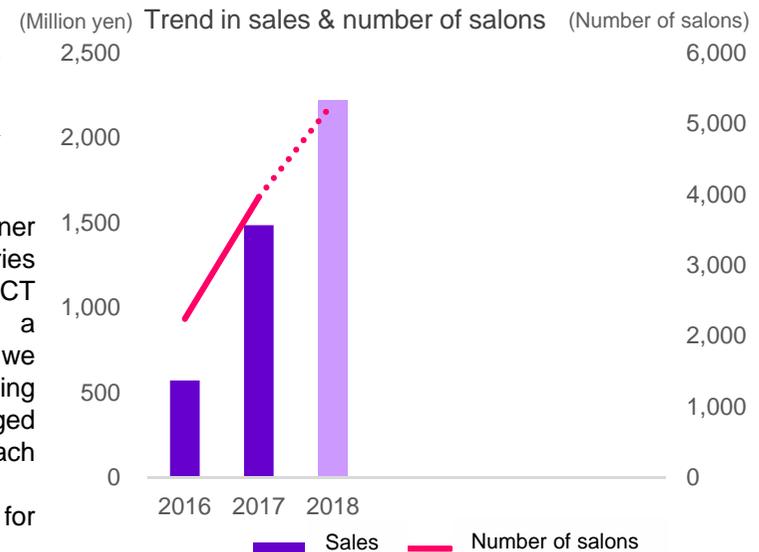
(Unit: salons)

Sales (FY2018 3 months) *

FY2017 3 months	FY2018 3 months	Increase/Decrease	Increase/Decrease ratio (%)
255	434	179	70.2

(Unit: million yen)

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Brand concept

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

Countries with Salons

USA, Hong Kong, China, Thailand, Taiwan, Turkey, Malaysia, Vietnam, Indonesia, Singapore and Germany

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 a universal form of hair damage. Accordingly, we developed a hair care line containing ingredients capable of repairing such damaged 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.

*) Figures are on a non-consolidated basis. See page 3 for the corresponding periods. Find Your Beauty **MILBON**

Consolidated Sales by Product Category [Hair Coloring Product]

With additional color, Addicthy, which was launched last year, drove sales of hair coloring products

(FY2018 3 months)

(Unit: million yen)

FY2017 3 months *)	FY2018 3 months *)	Increase/Decrease	Increase/Decrease ratio (%)
2,667	2,905	237	8.9

- Ordeve Addicthy, launched in February 2017, was well received. We added a new color that eliminates any shades of yellow, broadening the scope of proposals with vibrant shades of colors unique to Addicthy. At Addicthy introduced salons, this additional color has been steadily introduced, and with increasing repeat rates of existing colors, driving sales growth.

*) See page 3 for the corresponding periods.

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A Premium Organic Brand, Villa Lodola (1)

Villa Lodola Color continues to be well-received and to drive brand sales

Number of salons

(Unit: salons)

FY2017 year-end	FY2018 Q1-end	Increase/ Decrease	Increase/ Decrease ratio (%)
6,895	7,160	265	3.8

Sales (FY2018 3 months) *

(Unit: million yen)

FY2017 3 months	FY2018 3 months	Increase/ Decrease	Increase/ Decrease ratio (%)
202	233	31	15.7

Brand concept

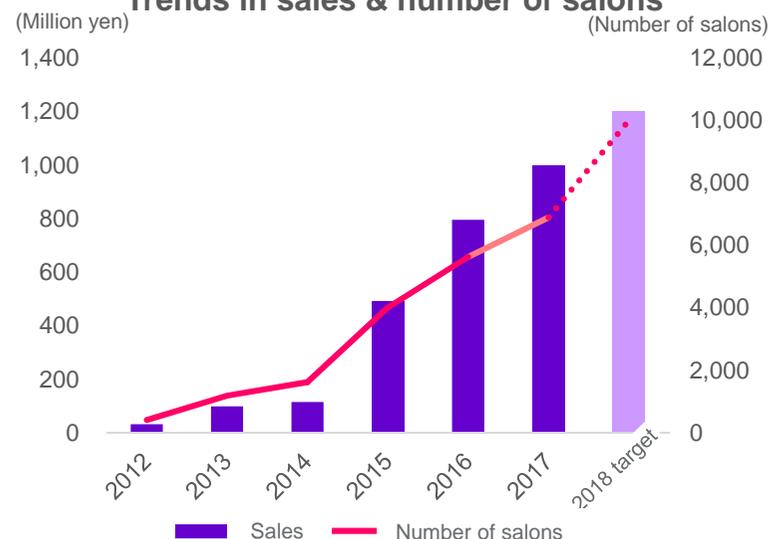
Nurtured in the soil of Italy, these *gifts from nature* bring out the authentic beauty of your hair and scalp.

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



*) Figures are on a non-consolidated basis. See page 3 for the corresponding periods. Find Your Beauty **MILBON**

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.



FY2015 Debut

(Unit: million yen)

FY2017 3 months*)	FY2018 3 months*)	Increase/ Decrease	Increase/ Decrease ratio (%)
143	176	33	23.2

*) See page 3 for the corresponding periods.

Consolidated Statement of Earnings (FY2018 3 months)

<Consolidated Statement of Earnings> (Unit: million yen)

	Amount		Increase/ Decrease	Increase/ Decrease ratio (%)
	FY2017 3 months *)	FY2018 3 months *)		
Sales	6,898	7,789	891	12.9 *1
Cost of sales	2,354	2,238	(116)	(4.9) *2
Gross profit	4,544	5,551	1,007	22.2
SG&A expenses	3,757	4,161	404	10.8
Operating income	786	1,390	603	76.7 *3
Ordinary income	717	1,208	491	68.5
Profit attributable to owners of parent	538	1,074	536	99.7 *4

<Breakdown of net sales by product category>

(Unit: million yen)

	FY2017 3 months *)	FY2018 3 months *)	% total sales	Increase/ Decrease	Increase/ Decrease ratio (%)
Hair care products	3,924	4,490	57.6	565	14.4
Hair coloring products	2,667	2,905	37.3	237	8.9
Permanent wave products	260	348	4.5	88	33.9
Others	46	45	0.6	0	(0.5)

<Major factors for the increase/decrease>

- *1 Sales: Increase due to strong sales in Japan and exchange rate effects, etc.
- *2 Cost of sales: Decrease due to much fewer returns of previous version of Aujua than expected, etc.
- *3 Operating income: Increase due to above factors and unused SG&A expenses
- *4 Profit attributable to owners of parent: Increase due to above factors and sale of a portion of cross-held shares

*Supplemental Info. – Return to shareholders <Dividends>

(Unit: yen)

	FY2016	FY2017	FY2018 plan
End of 2Q	38	40	24
End of FY	40	52	24
Total	78	92	48

*) See page 3 for the corresponding periods.

Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category		FY2014	FY2015	FY2016	FY2017	FY2018 Jan.–Mar.	FY2018 Plan
Capital expenditures		1,028	2,779	4,262	1,570	369	1,668
Depreciation and amortization		1,004	1,033	1,077	1,272	326	1,376
R&D exp.	Amount	1,168	1,214	1,232	1,422	332	1,448
	% to sales	4.6	4.4	4.2	4.3	4.3	4.3

FY2018 CAPEX Main Items (Plan)

- Compounding equipment for plant (4-ton vacuum tank)
- Relocation and expansion of Fukuoka Branch
- Relocation and expansion of Okayama Sales Office
- Renovation of Central Research Institute

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	243,360	—	Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services
Number of hair dressers (people)	479,509	487,636	496,697	504,698	509,279	—	Number of beauty salon facilities / number of employees (year-end)
Number of beauty customers (thousand people)	39,076	38,468	37,847	37,395	37,023	36,617 (As of Nov. 1)	Statistics Bureau, Ministry of Internal Affairs and Communications: Population statistics as of October 1 st of each year Population statistics for females aged 15 to 64

Fieldpersons trends (by country) (Number of FPs / As of January 1, the beginning of the fiscal year (As of December 21 for 2017 and before))

	2014	2015	2016	2017 *1)	2018	
JAPAN Milbon Co., Ltd.	216	237	249	258	269	Upper column: Number of FPs (persons) Lower column: Sales per FP (million yen)
	104	100	102	105		
USA MILBON USA, INC.	12	12	9	12	13	13 FPs joined in October 2017, and are currently in OJT on site 31 FPs joined in April 2018, and are currently in training
	40	53	63	48		
CHINA Milbon Trading (Shanghai) Co., Ltd.	17	18	18	19	22	(The above 44 FPs are not included in the left chart.)
	25	36	40	50		
KOREA Milbon Korea Co., Ltd.	17	19	20	23	25	
	64	75	80	84		
THAILAND Milbon (Thailand) Co., Ltd.	6	6	6	9	7	
	8	15	14	13		
Others *2	12	16	19	24	26	
	46	42	47	38		

*1 Calculations are based on values adjusted for 12 months.

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

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Outlook of Milbon Group

Double-digit growth in Japan

(comparison periods differ for overseas subsidiaries due to change to fiscal year end; see next page)

(Unit: million yen)

	FY2017 3 months *1)	FY2018 3 months *1)	Increase/ Decrease ratio (%)	Start operations	Forex rates FY2017 (Yen)	Forex rates FY2018 (Yen)
Japan Milbon Co., Ltd.	5,856	6,479	10.6	1960	-	-
USA MILBON USA, INC.	145	131	-	2004	1 dollar = 109.56	108.23
CHINA Milbon Trading (Shanghai) Co., Ltd.	169	373	-	2009	1 yuan = 16.17	17.15
KOREA Milbon Korea Co., Ltd.	427	485	-	2009	1 won = 0.0939	0.1017
THAILAND Milbon (Thailand) Co., Ltd.	25	17	-	2013	1 baht = 3.29	3.45
Others *2)	273	301	10.2	-	-	-

*1) See page 3 for the corresponding periods.

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

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Outlook of Overseas Subsidiaries (1)

- ◆ For the outlook of overseas subsidiaries, comments are based on year-on-year comparisons for the period of January through March (3 months), with figures in local currencies.

	Currencies (unit)	FY2017 (Jan.–Mar.)	FY2018 (Jan.–Mar.)	Increase/ Decrease ratio (%)
USA MILBON USA, INC.	US dollar (thousand)	1,148	1,212	5.6
CHINA Milbon Trading (Shanghai) Co., Ltd.	Yuan (thousand)	16,094	21,806	35.5
KOREA Milbon Korea Co., Ltd.	Won (million)	4,684	4,777	2.0
THAILAND Milbon (Thailand) Co., Ltd.	Baht (thousand)	9,428	5,084	(46.1)

USA (MILBON USA, Inc.)

The direct sales category is performing well, as our sales strategy of targeting 25 high-end Manhattan salons succeeded, and we also expanded the number of salons handling our products in the Chicago area. Performance in the distributor category struggled somewhat, partly due to heavy turnover of distributor salespersons in the South. Regarding new products, “milbon” Repair series launched in February was well received. Currently, installation is near-guaranteed when implemented at salon seminars.

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

The distributor area is performing well, with particularly large growth in the Fujian and Zhejiang provinces. By product, hair coloring products are progressing steadily, partly due to offering trend information and penetration through use by color specialists, etc.

In hair care products, we have begun to generate reliable repeats for “milbon” Repair series by focusing educational activities on 40 salons.

*Figures in the text on pages 15 and 16 are based on local currencies.

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Outlook of Overseas Subsidiaries (2)

KOREA (Milbon Korea Co., Ltd.)

After the loosening of regulations in the Cosmetics Act of Korea, some key distributors have switched from Milbon products to low-priced hair coloring products of emerging competitors. For the salons that switched products, they are starting to reconfirm the quality of Milbon products, and we plan to win them back through thorough implementation of our highly regarded education system and re-proposing of colors.

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

From the current period, we have strategically narrowed our focus from the previous three distributors to a single distributor. As a result, order trends have changed significantly (in the previous fiscal year, although we narrowed our activities to one distributor, we continued to receive orders from the other two). Sales in the first quarter of FY2018 have decreased year on year, but this is due to the impact of a large order at the end of the previous fiscal year to fully roll out the single-distributor system. Our outside sales at distributors are growing steadily, and we consider the above to be a temporary factor. Additionally, Ordeve Addicthy, which was launched at the end of last year, has received a positive reception. Salons introducing Atenje (straight perm product) are increasing steadily through studio seminars and seminar activities by distributor salespersons.



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.