

Milbon Co., Ltd.

FY2018 Third Quarter (January 1, 2018 – September 30, 2018)

Financial Results Presentation Materials



October 26, 2018

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Find Your Beauty **MILBON**

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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 third quarter of the fiscal year under review covers the nine month period from January 1, 2018 to September 30, 2018, the third quarter of the previous fiscal year covered the nine month period from December 21, 2016 to September 20, 2017 (for consolidated subsidiaries, the period of October 1, 2016 to June 30, 2017).

	Notation in these materials	Respective periods	Periods for subsidiaries
Third quarter of the fiscal year under review	FY2018 9 months	January 1, 2018 to September 30, 2018 (9 months)	January 1, 2018 to September 30, 2018 (9 months)
Third quarter of the previous fiscal year	FY 2017 9 months	December 21, 2016 to September 20, 2017 (9 months)	October 1, 2016 to June 30, 2017 (9 months)

Consolidated Operating Results (FY2018 9 months)

Sales and income increased due to strong performance of premium brands and the fashion color Addicthy

(Unit: million yen)

	FY2017 9 months *)	FY2018 9 months *)	Increase/ Decrease	Increase/ Decrease ratio (%)
Net sales	22,839	25,261	2,421	10.6
Gross profit	15,511	17,659	2,148	13.9
SG&A expenses	11,616	12,972	1,355	11.7
Operating income	3,894	4,687	792	20.4
Ordinary income	3,665	4,393	727	19.8
Profit attributable to owners of parent	3,136	3,324	187	6.0

*) See page 2 for the corresponding periods.

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Consolidated Sales by Product Category [Hair Care Product]

Strong performance of premium brands drove sales in hair care product category

(FY2018 9 months)

(Unit: million yen)

FY2017 9 months *)	FY2018 9 months *)	Increase/Decrease	Increase/Decrease ratio (%)
13,210	14,800	1,590	12.0

- The upgrade of the premium brand Aujua, implemented from the end of last year to the first half of this year, was completed. Activities associated with switching to the upgrade led to a revision of menu development and reconfirmation of product knowledge, revitalizing the market and generating stable repeat orders.
- The acquisition of new salons for the premium brand “milbon” progressed steadily in both Japan and overseas, seeing a growth in sales. Progress in salons led by distributors has been a success, particularly in Japan.

*) See page 2 for the corresponding periods.

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A Premium Brand, Aujua

Upgraded products launched in November 2017 continued to perform well

Number of salons*1)

(Unit: salons)

FY2017 year-end	FY2018 Q3-end	Increase/Decrease	Increase/Decrease ratio (%)
3,166	3,644	478	15.1

Sales (FY2018 9 months)

(Unit: million yen)

FY2017 9 months*2)	FY2018 9 months*2)	Increase/Decrease	Increase/Decrease ratio (%)
3,603	4,358	754	20.9

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.

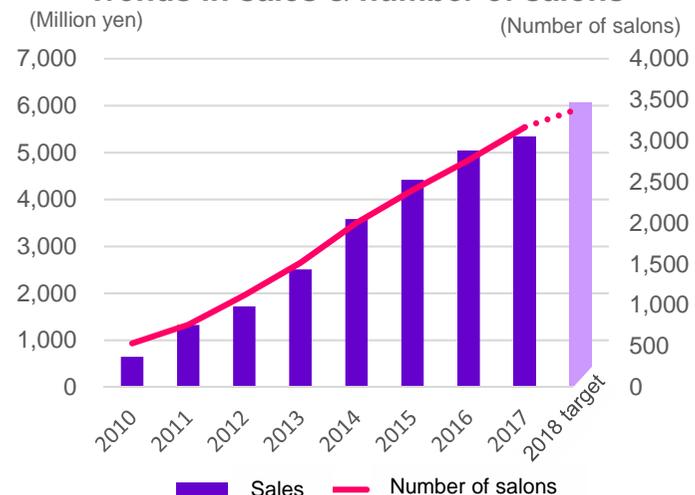
Product range

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
- 12 lines
- 80 items



Trends in sales & number of salons



*1) Figures for Japan are the number of registered salons. Figures for overseas are calculated based on shipments over a one-year period.

*2) Figures are on a non-consolidated basis. See page 2 for the corresponding periods.

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A Premium Brand, “milbon”

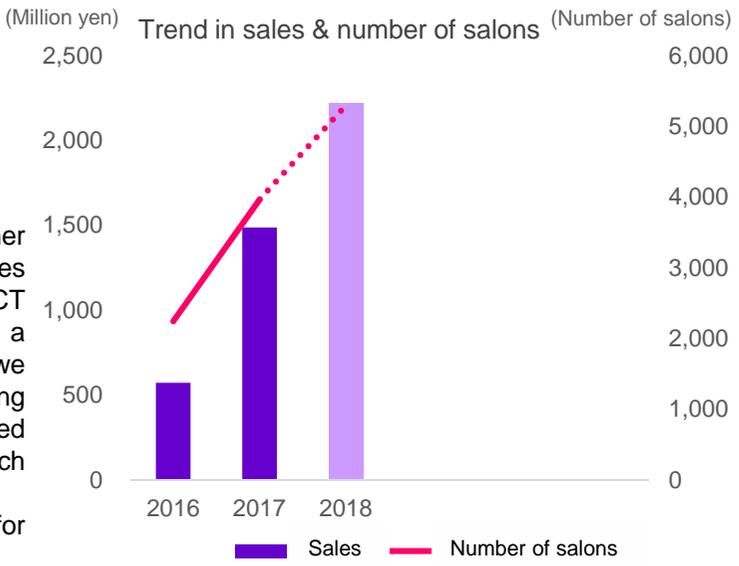
Strong performance with progress in salons

Number of salons *1) (Unit: salons)

FY2017 year-end	FY2018 Q3-end	Increase/Decrease	Increase/Decrease ratio (%)
3,966	5,366	1,400	35.3

Sales (FY2018 9 months) (Unit: million yen)

FY2017 9 months*2)	FY2018 9 months*2)	Increase/Decrease	Increase/Decrease ratio (%)
932	1,452	520	55.8



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.

*1) Figures for Japan are the number of registered salons. Figures for overseas are calculated based on shipments over a one-year period.
 *2) Figures are on a non-consolidated basis. See page 2 for the corresponding periods.

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Consolidated Sales by Product Category [Hair Coloring Product]

With additional color, Addicthy, launched last year, led steady sales

(FY2018 9 months)

(Unit: million yen)

FY2017 9 months *1)	FY2018 9 months *1)	Increase/Decrease	Increase/Decrease ratio (%)
8,360	9,080	719	8.6

- Ordeve Addicthy, launched in February 2017 and well received, continued strong performance. A new color was added in March, seeing further progress in new salons and repeat orders of existing colors. While the solidly performing Addicthy is driving fashion color growth, sales of gray-hair coloring products remain flat.

Core Product

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)

FY2017 9 months *)	FY2018 9 months *)	Increase/Decrease	Increase/Decrease ratio (%)
1,497	2,203	705	47.1



FY2017 Debut

*) Figures are on a non-consolidated basis. See page 2 for the corresponding periods.

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A Premium Organic Brand, Villa Lodola (1)

Villa Lodola Color contributes to growth in brand sales

Number of salons

(Unit: salons)

FY2017 year-end	FY2018 Q3-end	Increase/Decrease	Increase/Decrease ratio (%)
6,895	7,809	914	13.3

Sales (FY2018 9 months)

(Unit: million yen)

FY2017 9 months*)	FY2018 9 months*)	Increase/Decrease	Increase/Decrease ratio (%)
696	787	91	13.2

Brand concept

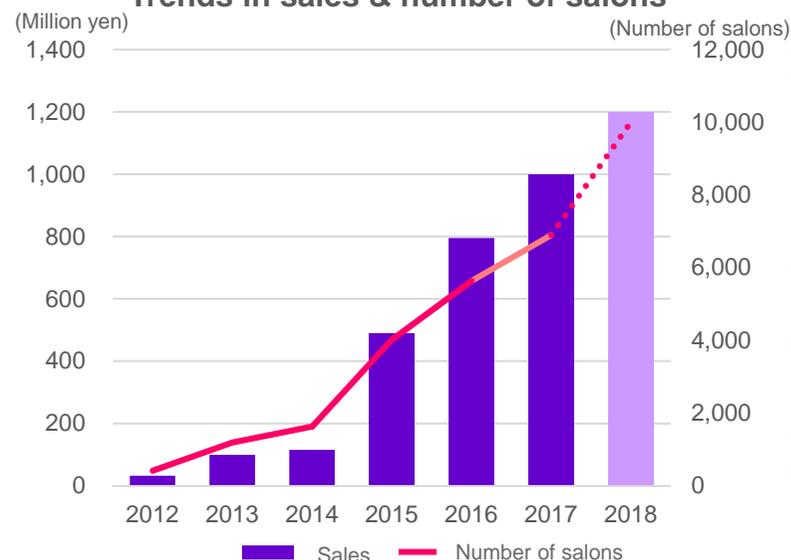
Nurtured in the soil of Italy, these *gifts from nature* bring out the authentic beauty of your hair and scalp.

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 2 for the corresponding periods.

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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.



FY2015 Debut

Sales (FY2018 9 months)

(Unit: million yen)

FY2017 9 months *)	FY2018 9 months *)	Increase/ Decrease	Increase/ Decrease ratio (%)
493	568	75	15.2

*) See page 2 for the corresponding periods.

Consolidated Statement of Earnings (FY2018 9 months)

<Consolidated Statement of Earnings>

(Unit: million yen)

	FY2017 9 months *)	% total sales	FY2018 9 months*)	% total sales
Sales	22,839	100.0	25,261	100.0
Cost of sales	7,328	32.1	7,601	30.1
Gross profit	15,511	67.9	17,659	69.9
SG&A expenses	11,616	50.9	12,972	51.4
Operating income	3,894	17.1	4,687	18.6
Ordinary income	3,665	16.0	4,393	17.4
Profit attributable to owners of parent	3,136	13.7	3,324	13.2

<Breakdown of net sales by product category>

(Unit: million yen)

	FY2017 9 months*)	FY2018 9 months*)	% total sales	Increase/ Decrease	Increase/ Decrease ratio (%)
Hair care products	13,210	14,800	58.6	1,590	12.0
Hair coloring products	8,360	9,080	35.9	719	8.6
Permanent wave products	1,101	1,213	4.8	112	10.2
Others	167	167	0.7	0	0.3

<Major factors for the increase/decrease>

Cost of sales:

1. FY2017: Increase due to the impact from integration and expansion of domestic plants
2. FY2018: Impact from special factor of the reversal of provision for sales returns of the previous version of Aujua and productivity improvement

SG&A expenses:

1. Higher personnel expenses due to an increase in personnel for the cosmetic products business
2. Increase in rent and depreciation and amortization due to the establishment of new bases including Head Office

*) See page 2 for the corresponding periods.

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Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category		FY2014	FY2015	FY2016	FY2017	FY2018 Jan.–Sep.	FY2018 Plan
Capital expenditures		1,028	2,779	4,262	1,570	962	1,668
Depreciation and amortization		1,004	1,033	1,077	1,272	1,018	1,376
R&D exp.	Amount	1,168	1,214	1,232	1,422	1,070	1,448
	% to sales	4.6	4.4	4.2	4.3	4.2	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	36,454 (As of Apr. 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 are assigned on site 31 FPs joined in April 2018 are currently in OJT on site 8 FPs joined in October 2018 are currently in training
	40	53	63	48		
CHINA Milbon Trading (Shanghai) Co., Ltd.	17	18	18	19	22	(The above 52 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

Japan continues to be steady

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

(FY2018 9 months)

(Unit: million yen)

	FY2017 9 months *1)	FY2018 9 months *1)	Increase/ Decrease ratio (%)	Start operations	Forex rates FY2017 (Yen)	Forex rates FY2018 (Yen)
Japan Milbon Co., Ltd.	19,580	21,328	8.9	1960	-	-
USA MILBON USA, INC.	439	470	-	2004	1 dollar = 111.42	109.61
CHINA Milbon Trading (Shanghai) Co., Ltd.	669	1,061	-	2009	1 yuan = 16.26	16.86
KOREA Milbon Korea Co., Ltd.	1,401	1,518	-	2009	1 won = 0.0969	0.9978
THAILAND Milbon (Thailand) Co., Ltd.	84	87	-	2013	1 baht = 3.18	3.42
Others *2)	664	795	19.7	-	-	-

*1) See page 2 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 September (9 months), with figures in local currencies.

	Currencies (unit)	FY2017 (Jan.–Sep.)	FY2018 (Jan.–Sep.)	Increase/ Decrease ratio (%)
USA MILBON USA, INC.	US dollar (thousand)	3,889	4,298	10.5
CHINA Milbon Trading (Shanghai) Co., Ltd.	Yuan (thousand)	48,148	62,986	30.8
KOREA Milbon Korea Co., Ltd.	Won (million)	15,423	15,217	(1.3)
THAILAND Milbon (Thailand) Co., Ltd.	Baht (thousand)	29,357	25,633	(12.7)

USA (MILBON USA, Inc.)

The direct sales category is performing well, as our sales strategy of targeting high-end Manhattan salons succeeded and the expansion also progressed in high-quality salons in Chicago. In the distributor category, transactions with a new distributor in California began in August. Existing distributors also progressed well. On the product front, “milbon” is growing as a result of focused activities and a positive reception for proposals suited to each season.

Outlook of Overseas Subsidiaries (2)

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

The direct sales and distributor categories grew by more than 20% and 30%, respectively. By product, the fashion color Ordeve is progressing steadily, partly due to the results of holding seminars for color specialists in each area. In hair care products, the number of salons that introduced “milbon” expanded steadily and has started generating solid results.

KOREA (Milbon Korea Co., Ltd.)

While Milbon distributors were being affected by the continuous entry into the market of low-priced hair coloring products from competitors, we are steadily recovering ground due to our superiority in terms of quality and education. Moreover, Ordeve Addicthy, which is performing well in Japan, is scheduled to be launched in October and strong performance is expected. Neo Liscio, permanent wave product introduced in August, has been highly regarded in the market for its soft finish, getting off to a good start.

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

Sales continued to fall from the previous fiscal year due to the impact from a narrowing of our focus to a single distributor in order to concentrate our activities on the top salons. By product, “milbon” is steadily growing with these focused activities. However, its performance was not enough to cover the lower sales of other hair care products.



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.