

# Milbon Co., Ltd.

## FY2018 Financial Results Presentation Materials



February 13, 2019

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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 fiscal year under review covers the 12 months from January 1, 2018 to December 31, 2018, the previous fiscal year covered the 12 months and 11 days from December 21, 2016 to December 31, 2017 (for consolidated subsidiaries, the 15 months from October 1, 2016 to December 31, 2017).

These financial results presentation materials use adjusted amounts for a 12-month period for comparison.

|   | Notation in these materials             | Respective periods  | Periods for subsidiaries                          |
|---|---|---|---|
| Fiscal year under review  | FY2018                                  | January 1, 2018 to December 31, 2018 (12 months)                | January 1, 2018 to December 31, 2018 (12 months)  |
| Previous fiscal year<br>(Greater than 12 months due to irregular accounting period) | —                                       | December 21, 2016 to December 31, 2017 (12 months plus 11 days) | October 1, 2016 to December 31, 2017 (15 months)  |
|   | FY2017<br>(Adjusted to 12-month period) | December 21, 2016 to December 20, 2017 (12 months)              | October 1, 2016 to September 30, 2017 (12 months) |

# Consolidated Operating Results

Strong performance of hair care products, and premium brands in particular, drove overall sales. The fashion color Addicthy also performed strongly, and both sales and profit recorded double-digit growth.

(Unit: million yen)

|   | FY2017 *<br>(Adjusted to 12-month period) | FY2018 * | Increase/<br>Decrease | Increase/<br>Decrease ratio (%) |
|---|---|----------|-----------------------|---------------------------------|
| Net sales                               | 31,708                                    | 35,185   | 3,476                 | 11.0                            |
| Gross profit                            | 21,661                                    | 24,361   | 2,700                 | 12.5                            |
| SG&A expenses                           | 16,347                                    | 18,100   | 1,753                 | 10.7                            |
| Operating income                        | 5,313                                     | 6,260    | 947                   | 17.8                            |
| Ordinary income                         | 4,980                                     | 5,811    | 830                   | 16.7                            |
| Profit attributable to owners of parent | 3,785                                     | 4,495    | 710                   | 18.8                            |

\* 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

(Unit: million yen)

| FY2017 *<br>(Adjusted to 12-month period) | FY2018 * | Increase/Decrease | Increase/Decrease ratio (%) |
|---|----------|-------------------|-----------------------------|
| 18,688                                    | 21,124   | 2,436             | 13.0                        |

- 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 generated 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 performed well

## Number of salons

(Unit: salons)

| FY2017 year-end | FY2018 *1 | Increase/<br>Decrease | Increase/<br>Decrease ratio<br>(%) |
|-----------------|-----------|-----------------------|------------------------------------|
| 3,166           | 3,271     | 105                   | 3.3                                |

## Sales

(Unit: million yen)

| FY2017 *2<br>(Adjusted to 12-month<br>period) | FY2018 *2 | Increase/<br>Decrease | Increase/<br>Decrease ratio (%) |
|---|-----------|-----------------------|---------------------------------|
| 5,193   | 6,726     | 1,533                 | 29.5                            |

## 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

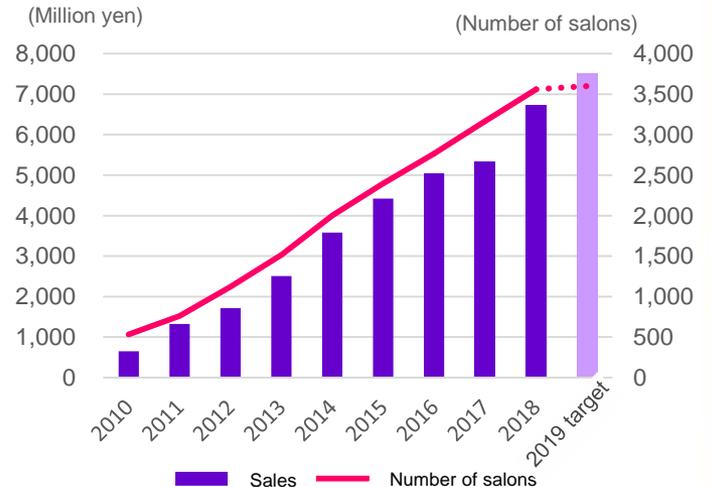
A wide-ranging line-up that suits the hair texture of individual customers

- 4 series
  - Aging care series
  - Hair care series
  - Scalp care series
  - Climatic care series
- 12 lines
- 80 items

# Aujua



## Trends in sales & number of salons



\*1 Figures for both Japan and 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.

# A Premium Brand, “milbon”

Strong performance with progress in salons both in Japan and overseas

## Number of salons \*1

| FY2017 year-end | FY2018 year-end | Increase/Decrease | Increase/Decrease ratio (%) |
|-----------------|-----------------|-------------------|-----------------------------|
| 3,966           | 5,571           | 1,605             | 40.5                        |

## Sales

| FY2017 *2<br>(Adjusted to 12-month period) | FY2018 *2 | Increase/Decrease | Increase/Decrease ratio (%) |
|--|-----------|-------------------|-----------------------------|
| 1,486                                      | 2,142     | 656               | 44.2                        |

## Brand concept

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

## Countries with Salons

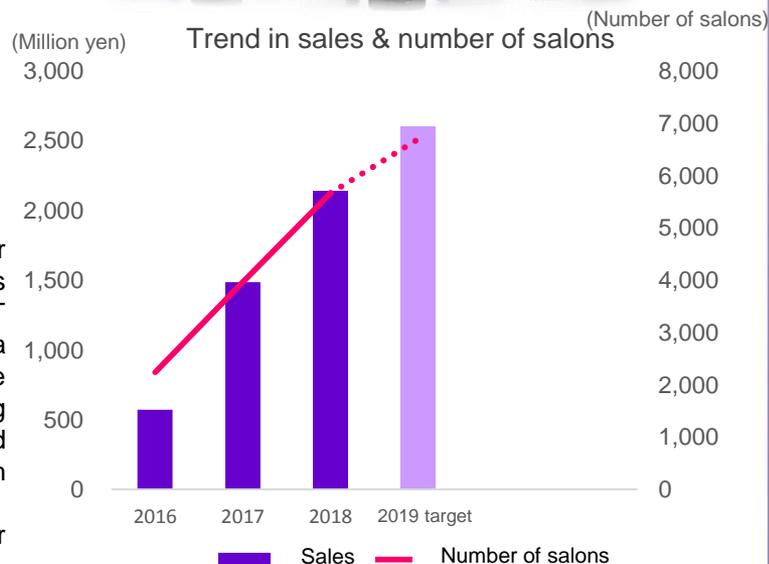
USA, Hong Kong, China, Thailand, Taiwan, Turkey, Malaysia, Vietnam, Indonesia, Singapore and Germany

## 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.

# MILBON



\*1 Figures for both Japan and 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.

# Consolidated Sales by Product Category [Hair Coloring Product]

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

## Sales

(Unit: million yen)

| FY2017 *<br>(Adjusted to 12-month period) | FY2018 * | Increase/Decrease | YoY change (%) |
|---|----------|-------------------|----------------|
| 11,264                                    | 12,202   | 938               | 8.3            |

- 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 were 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 *<br>(Adjusted to 12-month period) | FY2018 * | Increase/Decrease | Increase/Decrease ratio (%) |
|---|----------|-------------------|-----------------------------|
| 2,012                                     | 3,034    | 1,021             | 50.7                        |



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 year-end | Increase/<br>Decrease | Increase/<br>Decrease ratio<br>(%) |
|-----------------|-----------------|-----------------------|------------------------------------|
| 6,895           | 8,085           | 1,190                 | 17.3                               |

## Sales

(Unit: million yen)

| FY2017 *<br>(Adjusted to 12-<br>month period) | FY2018 * | Increase/<br>Decrease | Increase/<br>Decrease ratio<br>(%) |
|---|----------|-----------------------|------------------------------------|
| 966   | 1,113    | 146                   | 15.1                               |

## Brand concept

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

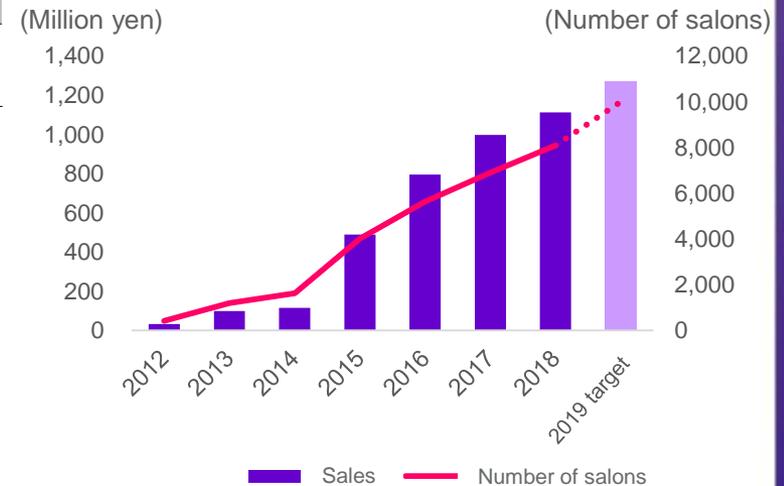
## What is Villa Lodola?

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.

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



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.



FY2015 Debut

## Sales

(Unit: million yen)

| FY2017 *<br>(Adjusted to 12-month period) | FY2018 * | Increase/<br>Decrease | Increase/<br>Decrease ratio<br>(%) |
|---|----------|-----------------------|------------------------------------|
| 679                                       | 803      | 124                   | 18.3                               |

\* See page 2 for the corresponding periods.

# Consolidated Statement of Earnings

## <Consolidated Statement of Earnings>

(Unit: million yen)

|   | FY2017 *<br>(Adjusted to 12-month period) | % total sales | FY2018* | % total sales |
|---|---|---------------|---------|---------------|
| Sales                                   | 31,708                                    | 100.0         | 35,185  | 100.0         |
| Cost of sales                           | 10,047                                    | 31.7          | 10,824  | 30.8          |
| Gross profit                            | 21,661                                    | 68.3          | 24,361  | 69.2          |
| SG&A expenses                           | 16,347                                    | 51.6          | 18,100  | 51.4          |
| Operating income                        | 5,313                                     | 16.8          | 6,260   | 17.8          |
| Ordinary income                         | 4,980                                     | 15.7          | 5,811   | 16.5          |
| Profit attributable to owners of parent | 3,785                                     | 11.9          | 4,495   | 12.8          |

\* See page 2 for the corresponding periods.

## <Breakdown of net sales by product category>

(Unit: million yen)

|                         | FY2017 *<br>(Adjusted to 12-month period) | FY2018 * | % total sales | Increase/Decrease | Increase/Decrease ratio (%) |
|-------------------------|---|----------|---------------|-------------------|-----------------------------|
| Hair care products      | 18,688                                    | 21,124   | 60.0          | 2,436             | 13.0                        |
| Hair coloring products  | 11,264                                    | 12,202   | 34.7          | 938               | 8.3                         |
| Permanent wave products | 1,482                                     | 1,590    | 4.5           | 107               | 7.3                         |
| Others                  | 273                                       | 267      | 0.8           | (5)               | (2.2)                       |

## <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

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## Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

| Category                      |            | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|-------------------------------|------------|--------|--------|--------|--------|--------|
| Capital expenditures          |            | 1,028  | 2,779  | 4,262  | 1,570  | 1,149  |
| Depreciation and amortization |            | 1,004  | 1,033  | 1,077  | 1,272  | 1,370  |
| R&D exp.                      | Amount     | 1,168  | 1,214  | 1,232  | 1,422  | 1,479  |
|                               | % to sales | 4.6    | 4.4    | 4.2    | 4.3    | 4.2    |

### FY2018 CAPEX Main Items

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

\* Relocation and expansion of Fukuoka Branch scheduled for 2020

# Trends in Market Related Data, Trends in Fieldpersons (FPs)

## Market trends (Japan)

|  | 2013    | 2014    | 2015    | 2016    | 2017    | 2018                     | Remarks  |
|--|---------|---------|---------|---------|---------|--------------------------|--|
| Number of salons (salons)                    | 234,089 | 237,525 | 240,299 | 243,360 | 247,578 | —                        | Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services  |
| Number of hair dressers (people)             | 487,636 | 496,697 | 504,698 | 509,279 | 523,543 | —                        | Number of beauty salon facilities / number of employees (year-end)   |
| Number of beauty customers (thousand people) | 38,468  | 37,847  | 37,395  | 37,023  | 36,643  | 36,387<br>(As of Aug. 1) | Statistics Bureau, Ministry of Internal Affairs and Communications:<br>Population statistics as of October 1 <sup>st</sup> of each year<br>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<br>Milbon Co., Ltd.                       | 216  | 237  | 249  | 258     | 269  |
|   | 104  | 100  | 102  | 105     | 111  |
| USA<br>MILBON USA, INC.                         | 12   | 12   | 9    | 12      | 13   |
|   | 40   | 53   | 63   | 48      | 48   |
| CHINA<br>Milbon Trading<br>(Shanghai) Co., Ltd. | 17   | 18   | 18   | 19      | 22   |
|   | 25   | 36   | 40   | 50      | 62   |
| KOREA<br>Milbon Korea Co., Ltd.                 | 17   | 19   | 20   | 23      | 25   |
|   | 64   | 75   | 80   | 84      | 82   |
| THAILAND<br>Milbon (Thailand) Co.,<br>Ltd.      | 6    | 6    | 6    | 9       | 7    |
|   | 8    | 15   | 14   | 13      | 17   |
| Others *2                                       | 12   | 16   | 19   | 24      | 26   |
|   | 46   | 42   | 47   | 38      | 43   |

Upper column: Number of FPs (persons)  
Lower column: Sales per FP (million yen)

12 FPs joined in October 2017 are assigned on site  
30 FPs joined in April 2018 are currently in OJT on site  
7 FPs joined in October 2018 are currently in training

(The above 49 FPs are not included in the left chart.)

\*1 Because FY2017 was an irregular accounting period, performance is calculated with adjusted amounts for a 12-month period.

\*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)

(Unit: million yen)

|   | FY2017 *1 | FY2018 *1 | Increase/<br>Decrease<br>ratio (%) | Start<br>operations | Forex rates<br>FY2017 (Yen) | Forex rates<br>FY2018 (Yen) |
|---|-----------|-----------|------------------------------------|---------------------|-----------------------------|-----------------------------|
| Japan<br>Milbon Co., Ltd.                       | 27,173    | 29,872    | 9.9                                | 1960                | -                           | -                           |
| USA<br>MILBON USA, INC.                         | 579       | 632       | -                                  | 2004                | 1 dollar =<br>111.31        | 110.44                      |
| CHINA<br>Milbon Trading<br>(Shanghai) Co., Ltd. | 959       | 1,368     | -                                  | 2009                | 1 yuan =<br>16.37           | 16.73                       |
| KOREA<br>Milbon Korea Co., Ltd.                 | 1,941     | 2,064     | -                                  | 2009                | 1 won =<br>0.0972           | 0.1001                      |
| THAILAND<br>Milbon (Thailand) Co., Ltd.         | 119       | 123       | -                                  | 2013                | 1 baht =<br>3.21            | 3.43                        |
| Others *2                                       | 935       | 1,123     | 20.1                               | -                   | -                           | -                           |

\*1 See page 2 for the corresponding periods.

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

## 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 December (12 months), with figures in local currencies.

|   | Currencies<br>(unit)    | FY2017 | FY2018 | Increase/<br>Decrease ratio<br>(%) |
|---|-------------------------|--------|--------|------------------------------------|
| USA<br>MILBON USA, INC.                         | US dollar<br>(thousand) | 5,256  | 5,730  | 9.0                                |
| CHINA<br>Milbon Trading (Shanghai) Co.,<br>Ltd. | Yuan<br>(thousand)      | 62,770 | 81,776 | 30.3                               |
| KOREA<br>Milbon Korea Co., Ltd.                 | Won<br>(million)        | 20,357 | 20,630 | 1.3                                |
| THAILAND<br>Milbon (Thailand) Co., Ltd.         | Baht<br>(thousand)      | 39,689 | 35,868 | (9.6)                              |

### 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, we started transactions with a new distributor in California in the second half, and are off to a strong start. Existing distributors also progressed strongly. On the product front, “milbon” is growing significantly as a result of focused activities and proposals such as Christmas gifts suited to each season. Additionally, the fashion color Ordeve Addicthy launched targeting Asian salons in Manhattan has been received very positively.

## Outlook of Overseas Subsidiaries (2)

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### 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 and the introduction of a new color. In hair care products, the number of salons that introduced “milbon” expanded steadily and has started generating solid results. Additionally, the DA inspire event held in Japan to support designer education was held in China for the first time. The event attracted more than 1,000 participants, and improved the milbon brand image.

### 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 steadily recovered ground due to our superiority in terms of quality and education, and net sales grew slightly year on year. On the product front, Ordeve Addicthy was launched in October and performed strongly, to the point that we were swamped with requests from existing Ordeve salons for introductory training sessions. However, revenue in the hair coloring product category as a whole decreased. Neo Liscio, a permanent wave product introduced in August, has been highly regarded in the market for its soft finish, and is being adopted at a growing number of salons. In hair care products, Aujua, a scalp care series launched in September, got off to a strong start as a result of meeting the needs of Korean women, who are sensitive about scalps and thinning hair.

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

Sales decreased 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, although Ordeve Addicthy performed strongly, the decrease in revenue due to the repricing of Ordeve was larger than expected, resulting in a decrease in revenue for the hair coloring product category as a whole. In the hair care product category, “milbon” is steadily growing with these focused activities. However, its performance was not enough to cover the lower sales of other hair care products.

# **Milbon Group**

**2019-2023**

## **Medium-Term Management Plan**

**Ryuji Sato, President & CEO**

**Summary of the  
Previous Medium-Term Management Plan  
and  
Looking Toward the  
New Medium-Term Management Plan**

## I. Summary of the Previous Medium-Term Management Plan (2015-2018)

- ◆ Performance in Japan exceeded the plan, with net sales growing approximately 10,000 million yen and operating income growing approximately 1,800 million yen from the previous medium-term end, achieving the FY2019 target a year ahead of the plan
- ◆ Profit attributable to owners of parent exceeded the plan due to profit on sale of cross-held shares resulting from their re-examination

(Unit: million yen)

|   | FY2019 target<br>(Previous medium-term end) |               | FY2018 results |               | CAGR<br>2014-2018<br>(%) | Achievement<br>(%) |
|---|---|---------------|----------------|---------------|--------------------------|--------------------|
|   | Amount                                      | % total sales | Amount         | % total sales |                          |                    |
| Net sales                               | 35,000                                      | 100.0         | 35,185         | 100.0         | 8.7                      | 100.5              |
| Domestic                                | 28,500                                      | 81.4          | 29,872         | 84.9          | 7.2                      | 104.8              |
| Overseas                                | 6,500                                       | 18.6          | 5,312          | 15.1          | 19.4                     | 81.7               |
| Operating income                        | 6,000                                       | 17.1          | 6,260          | 17.8          | 8.9                      | 104.3              |
| Profit attributable to owners of parent | 3,850                                       | 11.0          | 4,495          | 12.8          | 14.4                     | 116.8              |

# I. Summary of the Previous Medium-Term Management Plan (2015-2018)

## Review of the Previous Medium-Term Management Plan



## II. Looking Toward the New Medium-Term Management Plan

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### 1. Global market environment

#### [Global Trends] - Four Impacts -

- 1) Movement and diversification of economic center of gravity
- 2) Increased flows and complexity of global markets
- 3) Aging demographics on a global scale
- 4) Accelerating technological innovation and diffusion

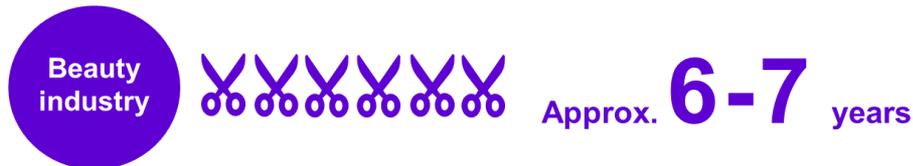
#### [Trends in Japan]

- 1) Demographic trends, decline of overall population, low birthrate and aging population
- 2) Population moving to cities, concentrated in urban centers
- 3) Rising productivity
- 4) Emergence of new business models

## II. Looking Toward the New Medium-Term Management Plan

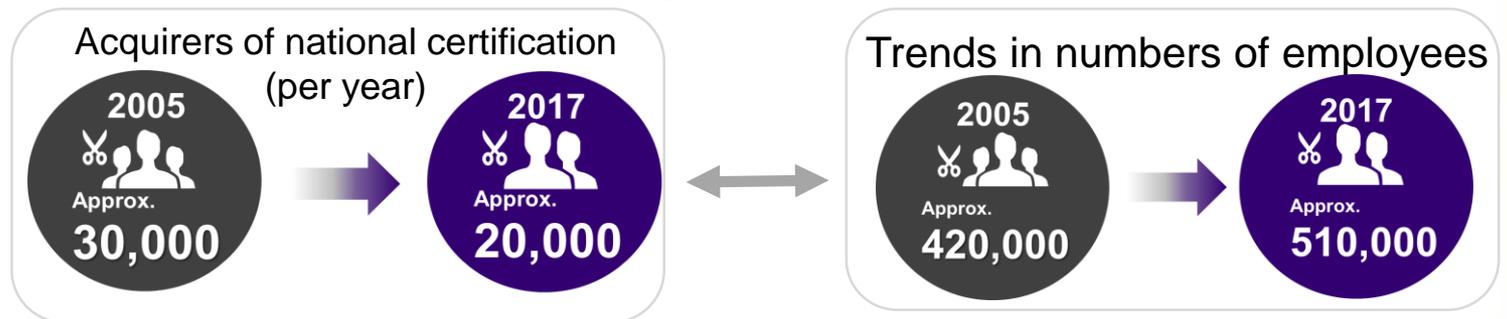
### 2. Status of domestic beauty market

#### 1) Average length of employment



⇒ **Difficult to retain hair dressers**

#### 2) Trends in numbers of hair designers



⇒ **Remains difficult to hire young employees**

⇒ **Affect greatly to productivity**

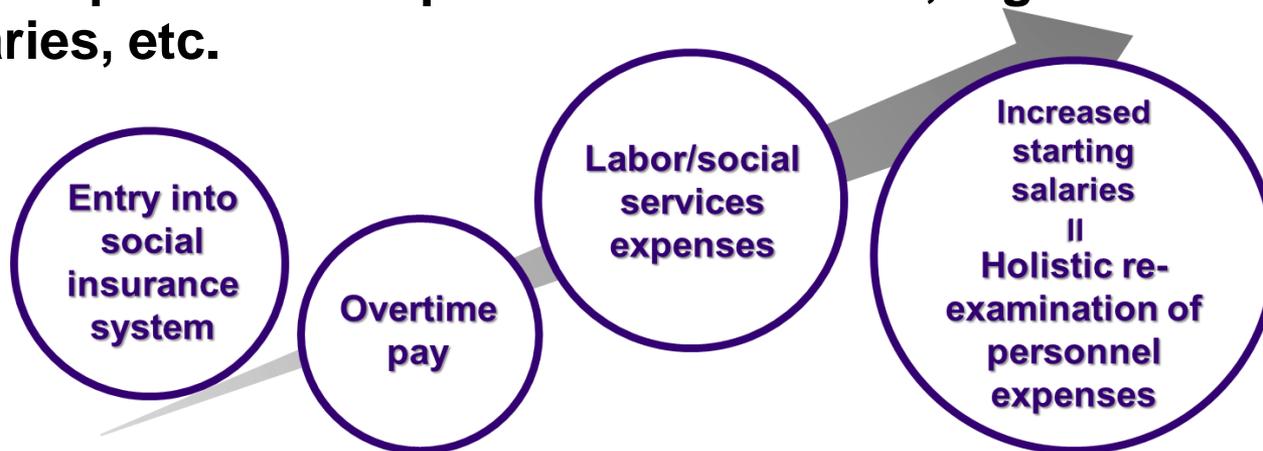
## II. Looking Toward the New Medium-Term Management Plan

### 3) Increasingly diverse work styles

Emergence of freelance work and outsourced salons,  
entry by other business types

⇒ **Slow to respond to broader selection**

### 4) Higher personnel expenses due to labor, higher starting salaries, etc.



⇒ **Increase in management cost**

## II. Looking Toward the New Medium-Term Management Plan

### Roundup of domestic beauty market

We now need the following with a new value system:

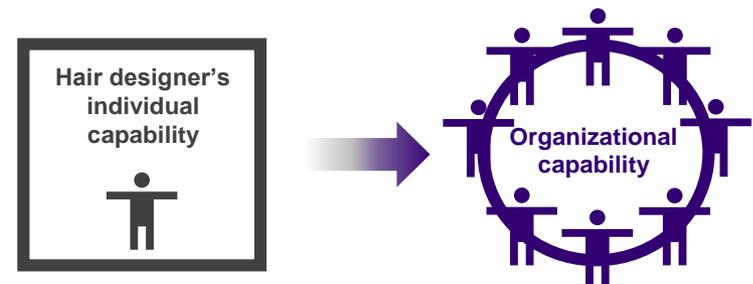
Management  
(hiring)  
capability

Instead of “because it’s a beauty salon...,”  
create the same environment as a top local  
enterprise

Marketing  
(customer)  
capability

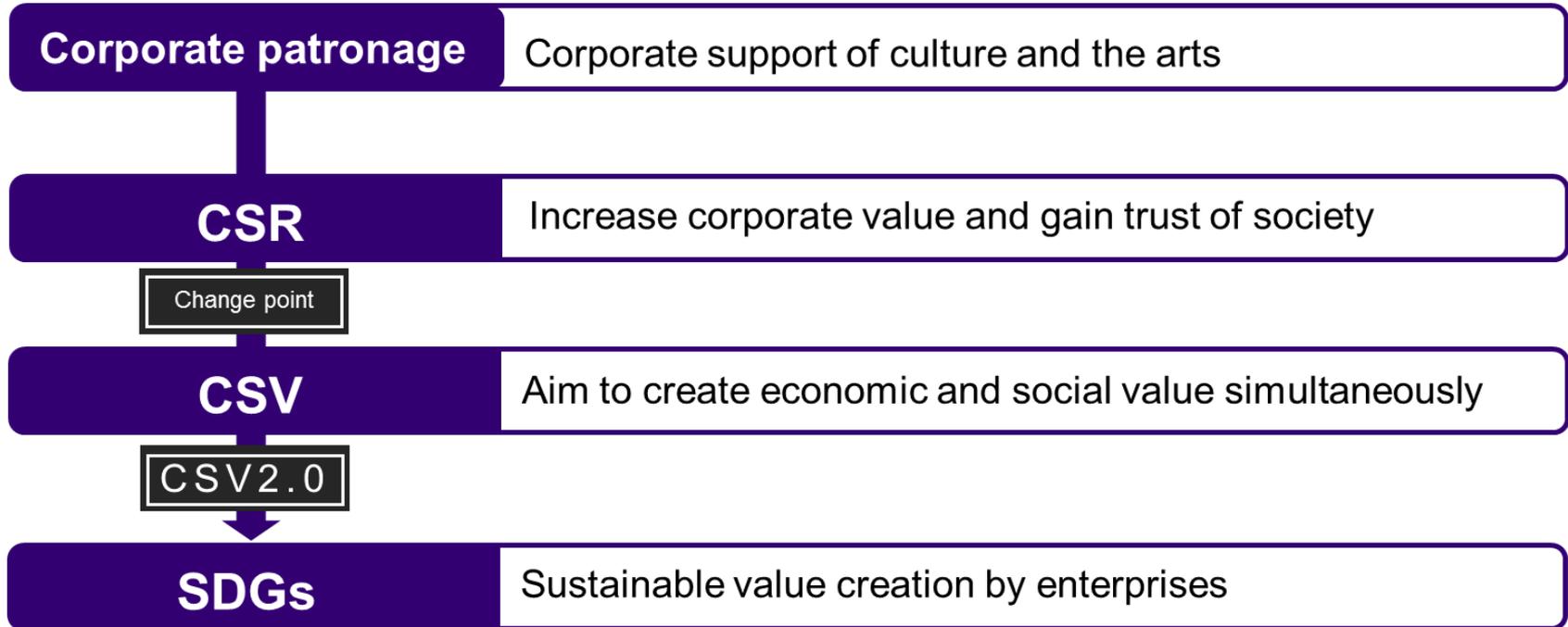
Tackle not just hair design, but the root issue:  
hair problems

And not “individual capability” but  
“organizational capability”



## II. Looking Toward the New Medium-Term Management Plan

### 3. Trend of corporate social responsibility



⇒ The way of being an enterprise that contributes to SDGs is in concern

## II. Looking Toward the New Medium-Term Management Plan

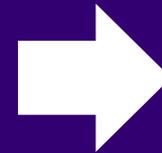
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**Four global impacts**

**Trends in Japan**

**Status of domestic beauty market**

**Trend of corporate social responsibility**



**Toward a new era**

# 2019-2023 New Medium-Term Management Plan

### **III. 2019-2023 New Medium-Term Management Plan**

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#### **1. Milbon Group Medium-Term Vision & Global Vision Roadmap**

**From taking the perspective of industry to truly taking the perspective of society and customers**

“Change the Stage!!”

—To continuously create a new future—

**Convert to and pursue the creation of a new beauty industry based on beauty culture emanating from Japan**

<Medium-Term Vision>

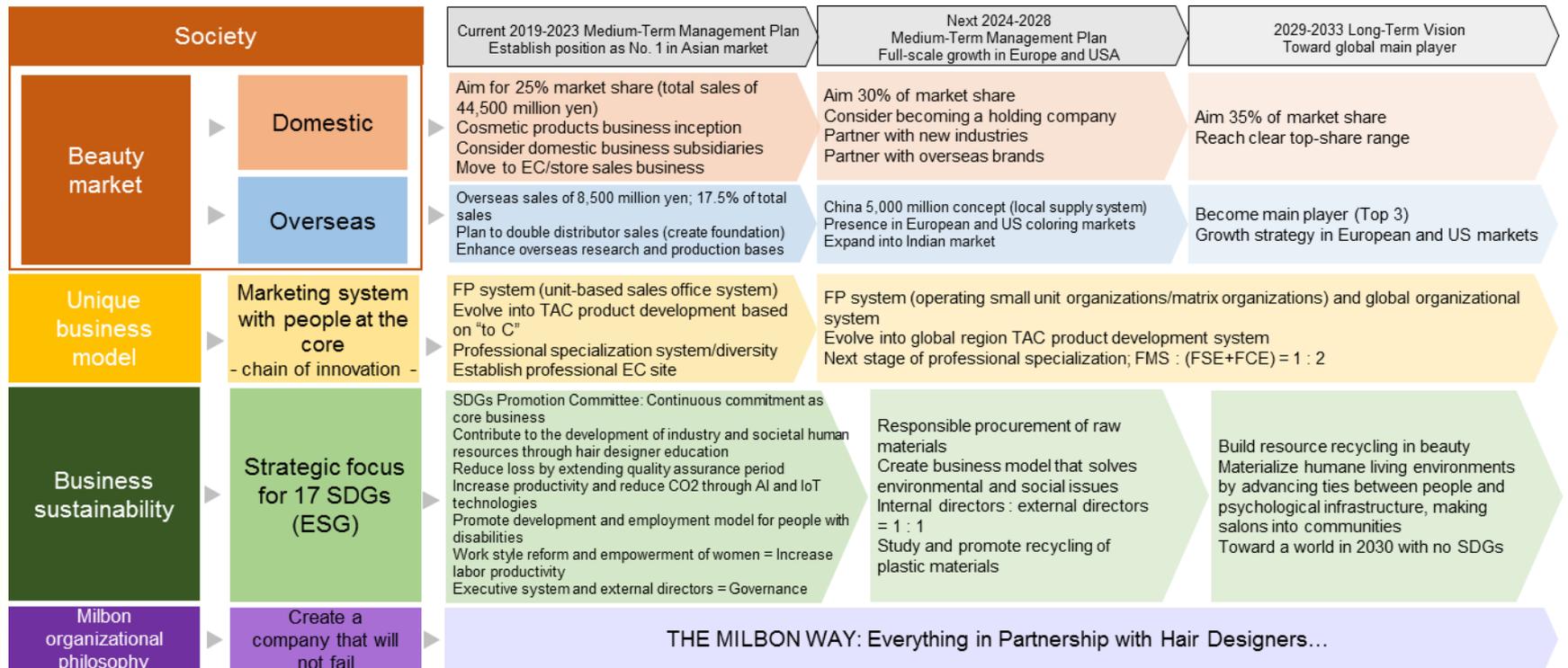
**Establish the No. 1 position in Asia and enter the top five globally by creating a business entity as a global manufacturer that generates “professional value” that truly takes the perspective of society and customers**



# III. 2019-2023 New Medium-Term Management Plan

■ Toward a company that creates a chain of innovation from the perspective of society and customers

■ Toward a company that contributes to SDGs = Toward a company that earns trust through sustainable growth and contributions to society



### III. 2019-2023 New Medium-Term Management Plan

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## 2. 2023 Medium-Term Management Plan sales targets

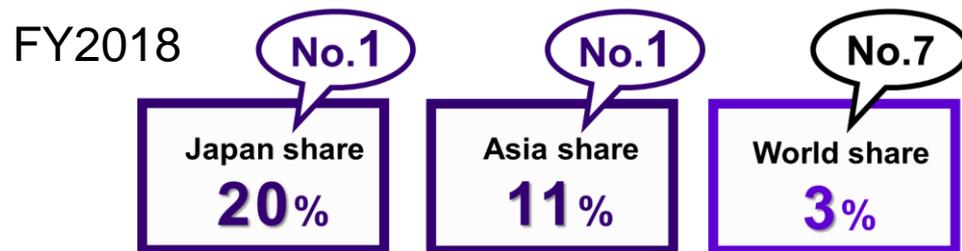
**Consolidated sales target:  
48,500 million yen**

- **Domestic sales target: 40,000 million yen**
- **Overseas sales target: 8,500 million yen**
  - **Ratio of sales from overseas: 17.5%**

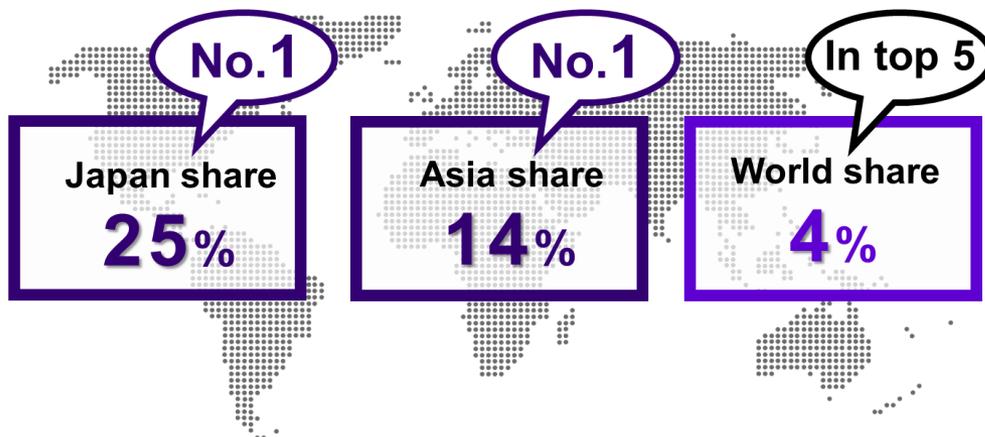
\* The “Accounting Standard for Revenue Recognition,” etc., has been adopted since the beginning of FY2019.

### III. 2019-2023 New Medium-Term Management Plan

#### ◆ Global position



FY2023



\* Japan share calculated based on gross sales

**2019-2023**

**New Medium-Term Management Plan**

**Japan Market Strategy**

### III. 2019-2023 New Medium-Term Management Plan

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## 3. Japan market strategy

From an industry perspective  
toward truly taking the **perspective of society and customers**

From “CHALLENGE 80”\* to next stage “NEXT 100”

## **LIFETIME BEAUTY INNOVATION for NEXT100**

“NEXT 100” signifies employment and customer capabilities for the era of 100-year lifespans

High-value integration built on 100% salon menu using Milbon products

Create business of in-salon sales of products covering range from hair to skin based on expertise

Support creation of lifetime beauty salons

And take on the challenge of monthly productivity of 1 million yen per person

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\* Challenge 80: A strategy that supports productivity initiatives to get monthly sales per salon staff member to 800,000 yen. Began in 2008.

### III. 2019-2023 New Medium-Term Management Plan

## 4. Five measures for Japan market

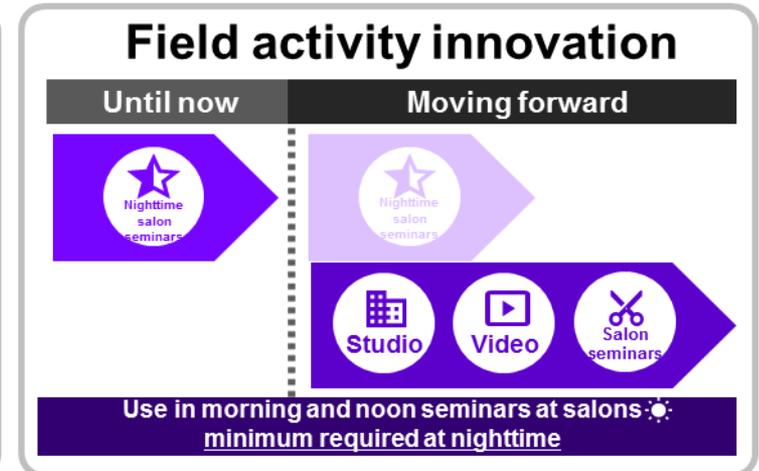
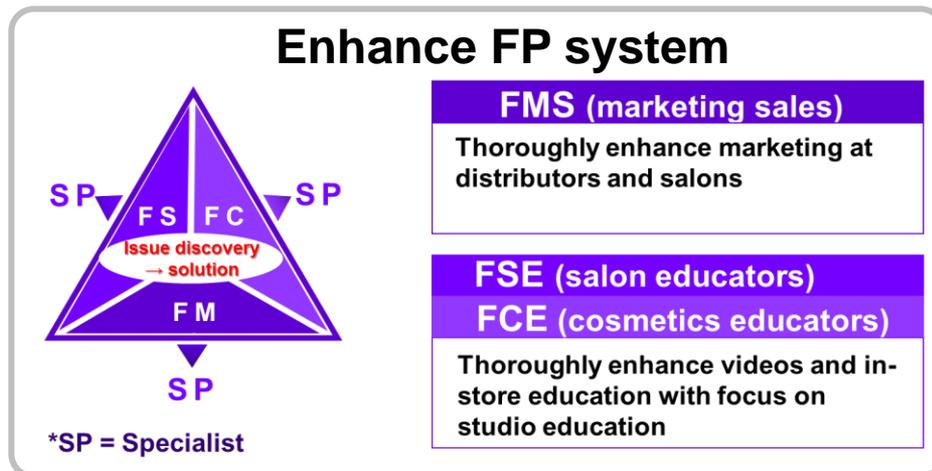
### [Measure 1]

**Enhance system** to support salon productivity improvements

(1) Product development

- Practice R&D based on “R&D VISION 2028”
- Enhance customer perspective, leading-edge technology  
⇒ creating high value-added products

(2) Fieldperson (FP) structure



### III. 2019-2023 New Medium-Term Management Plan

**[Measure 1]** Create system - Continued -

(3) Build studio site network

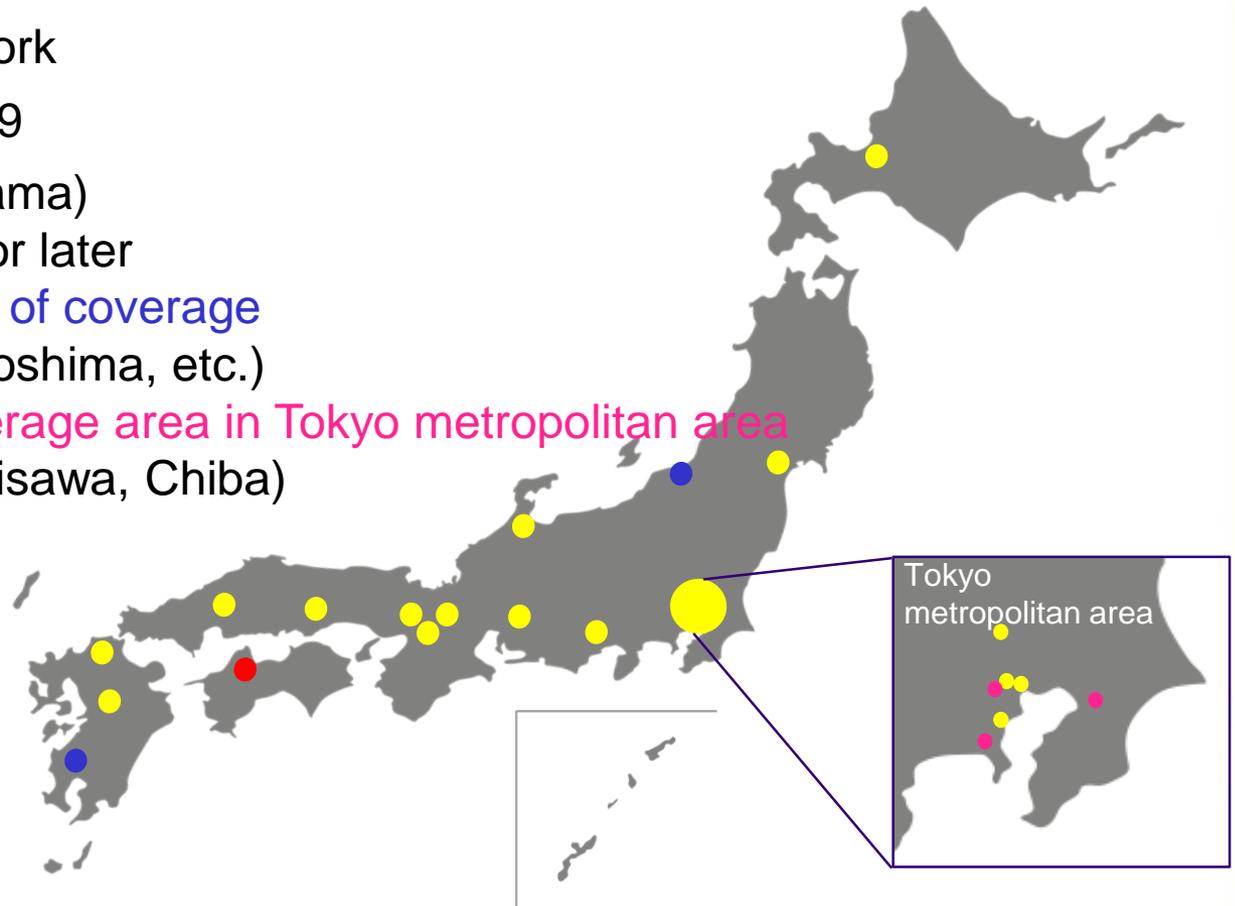
Planned for FY2019

● **New** (Matsuyama)

Study for FY2020 or later

● **Expand areas of coverage**  
(Niigata, Kagoshima, etc.)

● **Enhance coverage area in Tokyo metropolitan area**  
(Shibuya, Fujisawa, Chiba)



16 existing bases:

Sapporo, Sendai, Saitama, Ginza, Tokyo, Aoyama, Tokyo, Yokohama, Shizuoka, Nagoya, Kanazawa, Kyoto, Osaka, Kobe, Okayama, Hiroshima, Fukuoka, Kumamoto

### III. 2019-2023 New Medium-Term Management Plan

#### [Measure 2]

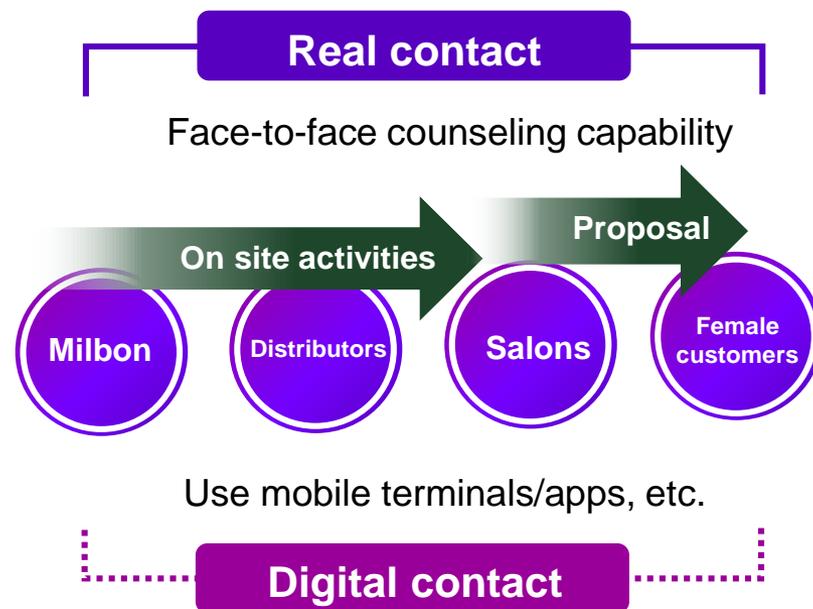
Support **enhancement** of BtoBtoC **real communication capability**

- ✓ MCM (Milbon Counseling Method)
  - ⇒ Build total counseling techniques and education activities from hair care to skin care

#### [Measure 3]

BtoBtoC **digital communication**

- ✓ **Milbon official EC site**
  - Dedicated to customers visiting beauty salons
  - Counseling in-person sales
  - Record beauty salon sales
- ✓ Web counseling
- ✓ Digital diagnosis system



### III. 2019-2023 New Medium-Term Management Plan

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#### [Measure 4]

Challenge in **cosmetic products business**

#### i. **New partner KOSÉ Corporation**

- ① Partnered with L'Oréal 1963-2001 = Commitment to beauty
- ② Shared value toward education activities
- ③ Insistence on high added value with focus on basic cosmetics  
= Product development capability
- ④ Serious and sincere corporate culture, good match in terms of strategy and human resources
- ⑤ Synergy between hair and skin, pro and public through differences in business domains

+

Spring 2007 “Fate”

### III. 2019-2023 New Medium-Term Management Plan

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**[Measure 4]** Cosmetic products business - Continued -

#### ii. Why cosmetics?

- ① Dedicated salon sales after 1, 5, 10, 43 years  
⇒ Difficult with just hair care
  - ② Global vision in 2010
  - ③ Contact with changes in women through 20 years of change in Taiwan
  - ④ 2002-2014 Cosmetics Vision - Revision of the MILBON WAY
  - ⑤ Japanese cosmetic products market (total for public and pro markets):  
1.6 trillion yen market
- ◆ Challenge: Two big hurdles
    - Customer psychology
    - Hair designer psychology
  - ◆ What salons want: “education support”
    - What is not possible in current market
    - Milbon’s strength

### III. 2019-2023 New Medium-Term Management Plan

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**[Measure 4]** Cosmetic products business - Continued -

#### iii. March 2019 product presentation

- ① 22-23 start items for dedicated salon cosmetics brand
- ② Education support system: Milbon (FCE) & distributors (ambassadors)

#### iv. Medium-Term Vision

First, aim for No. 1 industry share, and make cosmetic products business a second pillar following hair care business.

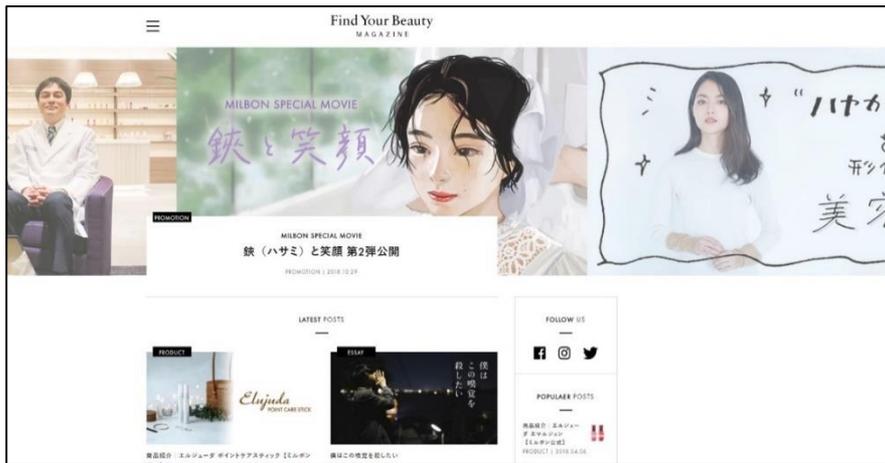
Sales target: **5,000 million yen**

### III. 2019-2023 New Medium-Term Management Plan

#### [Measure 5]

Advance corporate and product branding with view toward creating salon take-home product business and cosmetic products business

#### ① Online magazine/official SNS accounts



**Milbon online magazine**  
**- Find your beauty MAGAZINE -**

**Official SNS accounts**  
**- Twitter/Instagram -**



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### III. 2019-2023 New Medium-Term Management Plan

#### [Measure 5] Advance branding - Continued -

#### ② Video promotion



**Get more than 3 million total views  
on YouTube and other social media**

### III. 2019-2023 New Medium-Term Management Plan

[Measure 5] Advance branding - Continued -

#### ③ Exclusive advertising at Stations



**Osaka Umeda Station**

From Feb. 18

**NEW**

**Fukuoka Hakata Station**

From Feb. 4

**Yaesu, Tokyo Station**

From Feb.11



**NEW**

**Nagoya Sakae Station**

From Feb. 15

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**2019-2023**

**New Medium-Term Management Plan**

**FY2019 Japan Market**

**Key Points of Strategy Activities**

### III. 2019-2023 New Medium-Term Management Plan

## 5. Initiatives in Japan in FY2019

### ◆ “Lifetime beauty partner” education for creation of “lifetime beauty salons”

#### Three environments needed to enhance employment capability

- ① Environment for developing people (human resource development capability)
- ② Environment where people can continue to work (support for diverse work styles)
- ③ Environment where people find fulfillment and motivation in work (attraction of salons)

#### Three bands needed to enhance customer capability

- ① Beauty age band
- ② Value band
- ③ Proposal band

Salon

Hair designer

Salon customer

#### ◆ Examples of Milbon activities

- Management support curriculum (study groups, management classes)
- Education environment support (e.g. videos)
- Career development curriculum (class with productivity exceeding 1 million yen)
- Design skill education curriculum (polish design skills)
- Customer perspective counseling technical education, etc.

### III. 2019-2023 New Medium-Term Management Plan

#### ◆ New products in FY2019

(Unit: million yen)

| Category   | Product name                                  | Launch month | Target amount |
|--|---|--------------|---------------|
| <b>Hair coloring products</b>  | ORDEVE Seedil                                 | June         | 800           |
|  | ORDEVE Seedil Interval Re:Care                |              |               |
| Gray-hair coloring products (create lifetime salon coloring customers) | ORDEVE Ledress (Hair manicure)                | March        | 700           |
| <b>Hair care products</b>  | Aujua Eternal Stage Series                    | March        | 800           |
|  | Diorum Line                                   |              |               |
|  | “milbon” Extended Series (Treatment for menu) | July         | 40            |
|  | CRONNA  | April        | 750           |

**2019-2023**

**New Medium-Term Management Plan**

**International Market Strategy**

### III. 2019-2023 New Medium-Term Management Plan

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## 6. International market strategy

### [1] Advance region-specific growth strategies with sense of speed

- ① Launch International Planning Division responsible for global strategy (in Tokyo Head Office)
- ② “Quality” of education sales\* with market activity human resources x “Quantity” of distributor salespersons
- ③ Enhance area marketing and businesses that increase profitability (market entry via brands and brand management)

\* Education sales are fieldpersons (FPs) with both education and sales capabilities to act overseas

### III. 2019-2023 New Medium-Term Management Plan

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#### [2] Create market base by becoming more local

##### ◆ Make human resources local

- ① Milbon Korea Co., Ltd.  
All employees are local hires
  
- ② Milbon Trading (Shanghai) Co., Ltd.  
All branch managers are local hires
  
- ③ Representative office in Turkey  
Representative is local hire

##### ◆ Make organizations local (convert representative offices into local subsidiaries)

- ① Milbon Vietnam
- ② Milbon Malaysia
- ③ Singapore under consideration

### III. 2019-2023 New Medium-Term Management Plan

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#### [3] Key points for New Medium-Term Management Plan

- ① Asia region
  - ✓ China (continuous growth and build multifaceted supply system)
  - ✓ Korea (build new growth strategy)
- ② Europe and US region
  - ✓ Hair coloring product for Europe and US markets: SOPHISTONE  
Start in North America, then move to Europe
- ③ Countries with new openings
  - ✓ Set sights on India

# **New Medium-Term Financial Targets & Targets for FY2019**

### III. 2019-2023 New Medium-Term Management Plan

## 7. Medium-term financial targets

(Unit: million yen)

|   | FY2018 results* |               | FY2023 target<br>(New medium-term end)* |               | Increase/<br>Decrease<br>over medium-<br>term plan | CAGR<br>2018-2023<br>(%) |
|---|-----------------|---------------|---|---------------|--|--------------------------|
|   | Amount          | % total sales | Amount                                  | % total sales |  |                          |
| Net sales                               | 33,882          | 100.0         | 48,500                                  | 100.0         | 14,617   | 7.4                      |
| Domestic                                | 28,570          | 84.3          | 40,000                                  | 82.5          | 11,430   | 7.0                      |
| Overseas                                | 5,312           | 15.7          | 8,500                                   | 17.5          | 3,188  | 9.9                      |
| Gross profit                            | 22,189          | 65.5          | 32,100                                  | 66.2          | 9,910  | 7.7                      |
| SG&A                                    | 15,928          | 47.0          | 23,300                                  | 48.0          | 7,371  | -                        |
| Operating income                        | 6,260           | 18.5          | 8,800                                   | 18.1          | 2,539  | 7.0                      |
| Ordinary income                         | 5,811           | 17.2          | 8,400                                   | 17.3          | 2,588  | 7.6                      |
| Profit attributable to owners of parent | 4,495           | 13.3          | 5,960                                   | 12.3          | 1,464  | 5.8                      |

\* The “Accounting Standard for Revenue Recognition,” etc., has been adopted since the beginning of FY2019. The results for FY2018 have also been reclassified based on the same standard.

### III. 2019-2023 New Medium-Term Management Plan

## 9. Sales targets by country

(Unit: million yen)

|   | FY2018 results *1 | FY2023 target *1 | CAGR<br>2018-2023 (%) | Forex rates<br>FY2018 (Yen) | Forex rates<br>FY2023 (Yen) |
|---|-------------------|------------------|-----------------------|-----------------------------|-----------------------------|
| Japan<br>Milbon Co., Ltd                        | 28,569            | 40,000           | 7.0                   | -                           | -                           |
| USA<br>MILBON USA, INC.                         | 632               | 1,050            | 10.7                  | 1 dollar =<br>110.4         | 105.0                       |
| CHINA<br>Milbon Trading<br>(Shanghai) Co., Ltd. | 1,368             | 2,784            | 15.3                  | 1 yuan =<br>16.7            | 16.0                        |
| KOREA<br>Milbon Korea Co., Ltd.                 | 2,064             | 2,520            | 4.1                   | 1 won =<br>0.1000           | 0.1000                      |
| THAILAND<br>Milbon (Thailand) Co.,<br>Ltd.      | 123               | 201              | 10.4                  | 1 baht=<br>3.43             | 3.20                        |
| MALAYSIA<br>MILBON MALAYSIA SDN.<br>BHD.        | 191               | 302              | 9.5                   | 1 ringgit =<br>27.19        | 27.00                       |
| VIETNAM<br>MILBON VIETNAM CO., LTD              | 103               | 201              | 14.3                  | 1 dong =<br>0.00487         | 0.00480                     |
| Other areas *2                                  | 828               | 1,440            | 11.7                  | -                           | -                           |

\*1 The "Accounting Standard for Revenue Recognition," etc., has been adopted since the beginning of FY2019. The results for FY2018 have also been reclassified based on the same standard.

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

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### III. 2019-2023 New Medium-Term Management Plan

## 8. Financial strategy

### Cash flow from operating activities: Greater than 26,000 million yen

| Use                         | 2015-2018<br>Previous Medium-Term Management Plan  | 2019-2023<br>New Medium-Term Management Plan   |
|-----------------------------|--|--|
| Investment in future growth | 9,800 million yen  | 12,000 million yen   |
| Main items                  | <ul style="list-style-type: none"> <li>• Construction of new Yumegaoka Plant</li> <li>• Establishment and expansion of new domestic bases<br/>Domestic bases: six, including Ginza<br/>Overseas subsidiary branches: two, including Daejeon (Korea)<br/>Overseas: three, including Philippines</li> <li>• Relocation of head office to Tokyo</li> <li>• Cosmetic products business</li> <li>• Sales management software</li> </ul> | <ul style="list-style-type: none"> <li>• Establishment of integrated education center in Aoyama, Tokyo</li> <li>• Establishment of new bases</li> <li>• Relocation and expansion of existing bases</li> <li>• Expansion of Thai Factory</li> <li>• Launch of cosmetic products business</li> <li>• Creation of Villa Lodola as business company</li> <li>• System investments</li> <li>• Building China supply system</li> </ul> |
| Return to shareholders      | 5,800 million yen<br><ul style="list-style-type: none"> <li>• Dividend payout ratio<br/>FY2015 41.1%    FY2016 41.6%<br/>FY2017 39.5%    FY2018 39.3%</li> </ul>   | 10,000 million yen<br><ul style="list-style-type: none"> <li>• Stable return to shareholders targeting a dividend payout ratio of 40%</li> </ul>   |
| Increase in R/E             | 2,400 million yen  | 4,000 million yen  |
| Capital efficiency          | ROE performance<br>2015 11.7%    2016 11.4%<br>2017 13.0%    2018 14.0%  | Aim for ROE 14% or over  |

### III. 2019-2023 New Medium-Term Management Plan

## 10. FY2019 target

### ■ Statement of Earnings

(Unit: million yen)

|   | Amount             |                   | Increase/<br>Decrease | Increase/<br>Decrease<br>ratio (%) |
|---|--------------------|-------------------|-----------------------|------------------------------------|
|   | FY2018<br>results* | FY2019<br>target* |                       |                                    |
| Net sales                               | 33,882             | 36,600            | 2,717                 | 8.0                                |
| Domestic                                | 28,570             | 30,870            | 2,300                 | 8.1                                |
| Overseas                                | 5,312              | 5,730             | 418                   | 7.9                                |
| Gross profit                            | 22,189             | 24,270            | 2,080                 | 9.4                                |
| SG&A                                    | 15,928             | 17,430            | 1,501                 | 9.4                                |
| Operating income                        | 6,260              | 6,840             | 579                   | 9.3                                |
| Ordinary income                         | 5,811              | 6,190             | 378                   | 6.5                                |
| Profit attributable to owners of parent | 4,495              | 4,350             | (145)                 | (3.2)                              |

### ■ Capital expenditures and others

(Unit: million yen)

| Classification                |            | FY2018<br>results* | FY2019<br>plan* |
|-------------------------------|------------|--------------------|-----------------|
| Capital expenditures          |            | 1,149              | 1,710           |
| Depreciation and amortization |            | 1,370              | 1,498           |
| R&D expenses                  | Amount     | 1,479              | 1,535           |
|                               | % to sales | 4.4                | 4.2             |

### FY2019 CAPEX Main Items

- Establishment of a new domestic base (Matsuyama Sales Office)
- Compounding equipment for plant (automatic dye weighing machines)
- Build system infrastructure
- EC site platform

\* The “Accounting Standard for Revenue Recognition,” etc., has been adopted since the beginning of FY2019. The results for FY2018 have also been reclassified based on the same standard.

### III. 2019-2023 New Medium-Term Management Plan

#### ■ FY2019 Consolidated Sales by Product Category

(Unit: million yen)

|                         | FY2018<br>results* | FY2019<br>target* | Increase/<br>Decrease | Increase/<br>Decrease<br>ratio (%) |
|-------------------------|--------------------|-------------------|-----------------------|------------------------------------|
| Hair care products      | 20,222             | 22,104            | 1,882                 | 9.3                                |
| Hair coloring products  | 11,857             | 12,330            | 472                   | 4.0                                |
| Permanent wave products | 1,544              | 1,534             | (11)                  | (0.7)                              |
| Others                  | 257                | 632               | 374                   | 145.0                              |

\* The “Accounting Standard for Revenue Recognition,” etc., has been adopted since the beginning of FY2019. The results for FY2018 have also been reclassified based on the same standard.

### III. 2019-2023 New Medium-Term Management Plan

#### ■ FY2019 Sales (non-consolidated) and number of salons (consolidated) for premium brands

(Unit: million yen)

|              |  | FY2018 results | FY2019 target | Increase/<br>Decrease | Increase/<br>Decrease ratio<br>(%) |
|--------------|--|----------------|---------------|-----------------------|------------------------------------|
| Aujua        | Sales                                  | 6,726          | 7,500         | 773                   | 11.5                               |
|              | Number of salons* (salons)             | 3,271          | 3,600         | 329                   | 10.1                               |
| “milbon”     | Sales                                  | 2,142          | 2,600         | 457                   | 21.3                               |
|              | Number of salons<br>Domestic* (salons) | 3,645          | 4,200         | 555                   | 15.2                               |
|              | Number of salons<br>Overseas* (salons) | 1,926          | 2,500         | 574                   | 29.8                               |
| Villa Lodola | Sales                                  | 1,113          | 1,270         | 156                   | 14.1                               |
|              | Number of salons (salons)              | 8,085          | 10,000        | 1,915                 | 23.7                               |

\* Number of salons: Figures for both Japan and overseas are calculated based on shipments over a one-year period.

### III. 2019-2023 New Medium-Term Management Plan

#### ■ Return to shareholders

##### <Dividend forecast>

(Unit: yen)

|           | FY2017 | FY2018 | FY2019<br>forecast |
|-----------|--------|--------|--------------------|
| End of 2Q | 40     | 24     | 27                 |
| End of FY | 52     | 30     | 27                 |
| Total     | 92     | 54     | 54                 |

\* On January 1, 2018, the Company conducted a stock split at a ratio of two shares for every one share of common stock.



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.