February 14, 2025

To Whom It May Concern

Company Name	Milbon Co., Ltd.
Representative	Hidenori Sakashita, President and CEO
(Code Number: 4919 - Tokyo Stock Exchange, Prime Market)	
Inquiries	Masahiro Murai, Managing Executive Director TEL: +81-3-6478-6301

Notice Concerning Management Approach with a Focus on Capital Costs and Stock Prices

Milbon Co., Ltd. (hereafter “the Company”) announces that, after analyzing and evaluating its current status, it has resolved to adopt a policy aimed at further enhancing corporate value with regard to management approach, focusing on capital costs and stock prices, at the Board of Directors meeting held on February 14, 2025.

Please refer to the attached document “Management Approach with a Focus on Capital Costs and Stock Prices” for details.

Management Approach
with a Focus on Capital Costs and Stock Prices
Milbon Co., Ltd.

February 14, 2025

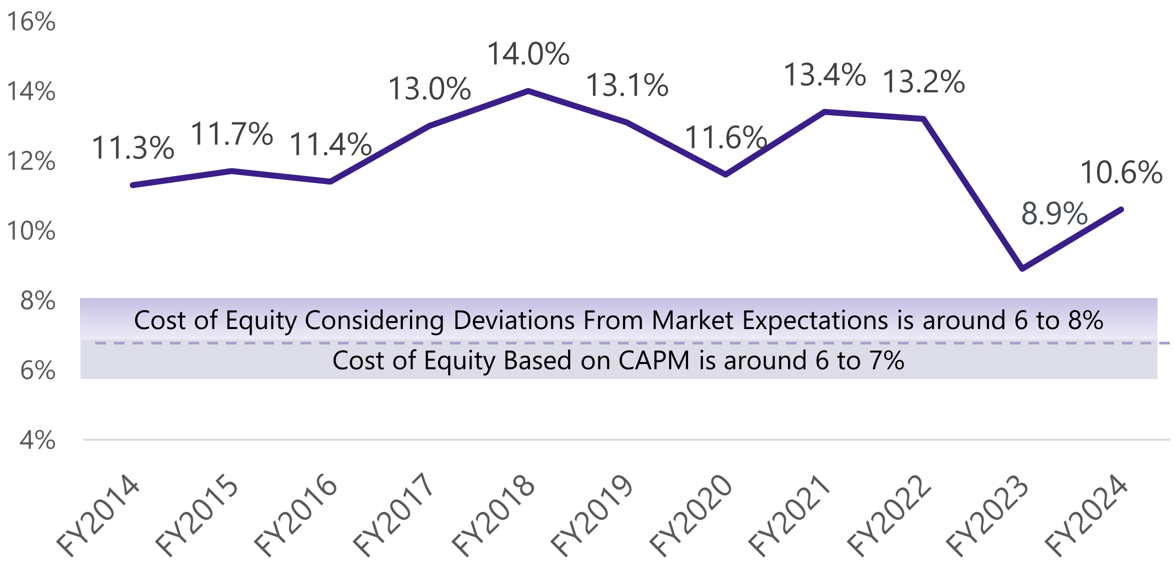
This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Analysis of Current Situation

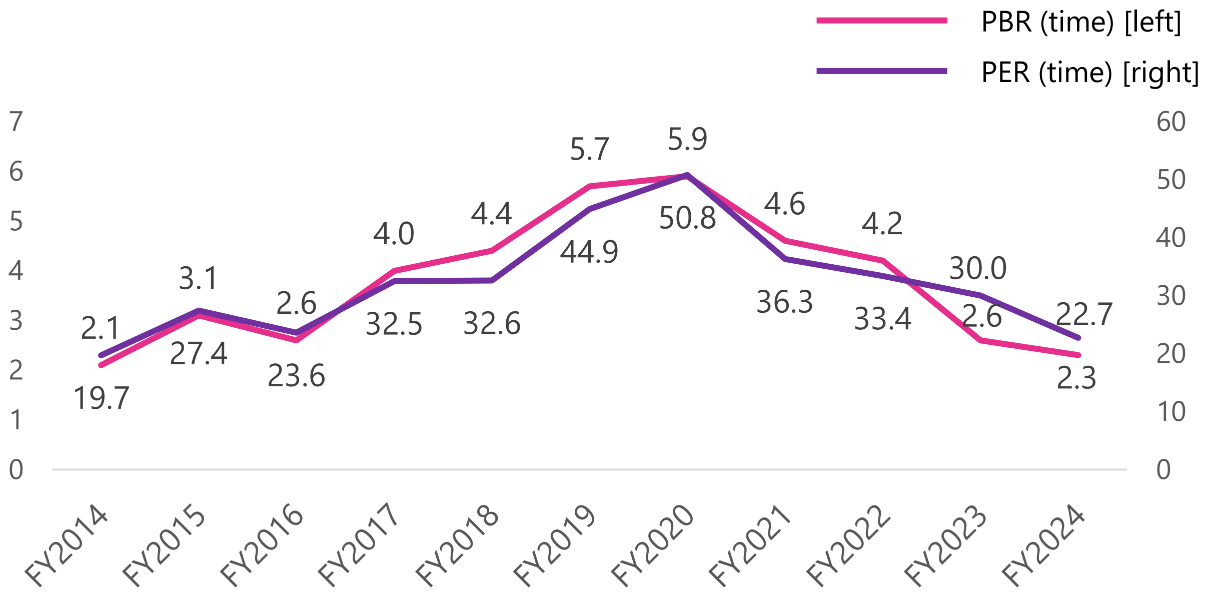
- As we have no debt, our cost of equity (COE) is effectively equivalent to our WACC. Based on CAPM, this is 6 to 7%, but considering deviations with market expectations, it is recognized to be around 6 to 8%.
- Although ROE dropped sharply in FY2023 due to inventory loss on hair dryers, it has consistently surpassed the assumed cost of equity.
- While our PBR has consistently exceeded 1x, it has been on a declining trend in recent years due to a lower PER from falling stock prices and a declining ROE from deteriorating profitability.

→ **<u>Although both ROE and PBR remain above certain levels, we believe there is potential for improvement through a recovery in profitability and further enhancement of capital efficiency.</u>**

■Trend of ROE and Assumed Cost of Equity



■Trend of PBR and PER



■Cost of Equity Based on CAPM

1. Risk Free Rate 1% + 2. Beta 0.7 to 0.8 × 3. Market Risk Premium 7 to 8% = Assumed COE 6 to 7%

1. Calculated based on the yield on 10-year Japanese government bonds
2. Calculated based on the volatility of our stock relative to TOPIX
3. Calculated based on the volatility of TOPIX

Revision of the Medium-term Management Plan Targets (FY2022 to FY2026)

- Considering the challenging environment and the ongoing pressure on profit margins due to the rising cost of raw materials, personnel, and logistics, we are revising the Medium-term Management Plan (FY2022 to FY2026).
- In the revised Medium-term Management Plan, net sales for the final year (FY2026) will remain unchanged. However, the operating income target will be lowered from 10.8 billion yen (operating margin of 18.6%) to 8.4 billion yen (operating margin of 14.5%), and the ROE and ROIC targets will be adjusted accordingly.

→ **In addition to presenting our outlook based on the current business environment, we will outline our long-term vision and profit structure reform initiatives on the following pages.**

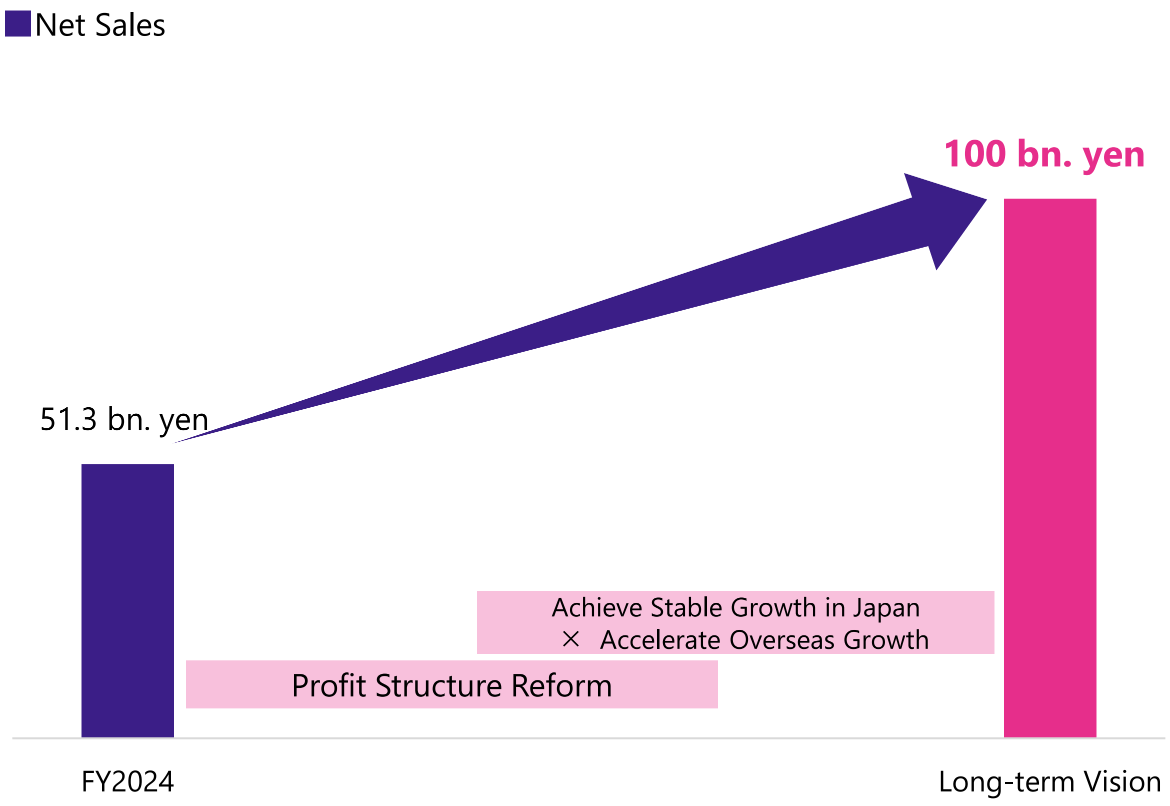
■Management Indicators of New Medium-term Management Plan (FY2022 to FY2026)

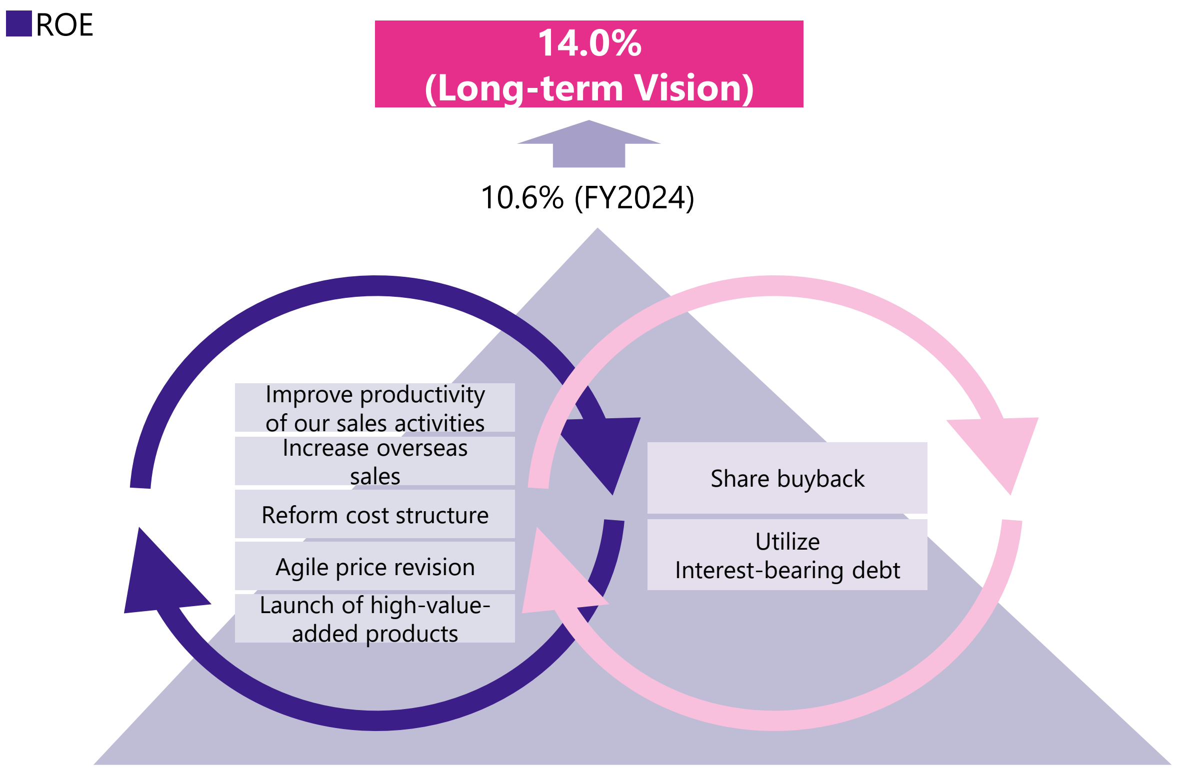
(Unit: billion yen)

	FY2024	FY2025 Target	FY2026 Target	Gap	FY2026 Original Target
Net Sales	51.31	54.25	58.0	—	58.0
Gross Profit Margin	32.59 63.5%	35.0 64.5%	37.6 64.8%	(1.5%)	38.16 65.8%
Operating Income Margin	6.83 13.3%	7.0 12.9%	8.4 14.5%	(22.2%)	10.8 18.6%
Profit Attributable to Owners of Parent Margin	5.01 9.8%	5.2 9.6%	5.94 10.2%	(22.6%)	7.67 13.2%
ROE	10.6%	10.4%	11.3 %	—	13.9%
ROIC	10.0%	9.7 %	11.1 %	—	13.6%

Long-term Vision

- We aim for long-term **net sales 100 billion yen** by achieving stable domestic growth and accelerating overseas expansion beyond the profit structure reforms outlined on the next page.
- We aim for to achieve an **ROE of 14% or more** by improving profitability by enhancing capital efficiency through share buybacks and the utilization of interest-bearing debt, as well as through the profit structure reforms explained later .





Reformation of Profit Structure

- We have developed a profit structure reform plan, including initiatives to improve our medium- to long-term profitability and drive sustainable corporate value growth.
- We aim to not only improve our declining profitability but also enhance ROE by strengthening balance sheet management and improving capital efficiency.
  → **We believe that by enhancing our profitability and capital efficiency through the implementation of our profit structure reform plan, we can achieve our targets of net sales of 100 billion yen and an ROE of over 14%.**

■Profit Structure Reform Plan at a Glance

Policy	Theme	Our Main Initiatives
1. Improve Profitability	Sales Growth	**Domestic Market Strategy** ・Narrow down the number of salons Field Persons are active in and clarify the strategies for each product category ・Increase sales of take-home products through continuous investment in milbon:iD and Smart Salon → We are aiming for sales growth by improving Field Person productivity (increasing sales per Field Person) and boosting take-home product sales (increasing sales per salon)
		Overseas Market Strategy ・Define key regions and key brands, aiming to expand sales in markets where we see significant growth opportunities, such as the USA, Europe, and South Korea. Key regions : USA, EU, and South Korea Key brands：Global Milbon (hair care) and Sophistone (hair coloring)
	Reformation of Cost Structure	**Gross Profit** ・Promote value-based pricing: We will begin raising the prices of our existing haircare products from mid-2025. We will continue flexible pricing measures and launch high-value-added new products, aiming to improve our gross profit margins. ・Reduce manufacturing costs through the commonization of raw materials across existing products
		SG&A Expenses ・Control logistics costs by consolidating delivery locations and optimizing delivery frequency and schedules.
2. Enhance Capital Efficiency	Share Buyback	・We will consider implementing share buybacks as an additional shareholder return strategy, alongside dividends, to achieve our ROE target.
	Utilization of Interest-Bearing Debt	・Explore the utilization of interest-bearing debt to address temporary increases in capital expenditures, such as large-scale investments.

Capital Allocation

- Prioritizing investment in growth, we will add a fundamental policy of progressive dividends to our existing target dividend payout ratio of 50% to enhance shareholder returns.
- We will allocate surplus funds to share buybacks with the aim of achieving a total payout ratio of 50% or more over the long term.
- Growth investments will primarily be funded through operating cash flow and cash on hand, but we will also consider the utilizing interest-bearing debt.

■Policy of Capital Allocation

Source	Priority	Category of Investment	Main Use of Funds（up to FY2026）	Main Use of Funds（FY2027 and Beyond）
Operating Cash Flow + Cash on Hand + Debt (to be utilized as needed)	High Priority	Investment for growth of existing businesses	・Human Resource Development Center in Odawara ・Expansion of Yumegaoka Factory ・Investment in R&D	・Investment to accelerate overseas growth ・Investment in DX ・Strengthening of the production and supply system ・Investment in R&D, etc.
		Investment for new business and overseas growth	・Investment in DX（milbon:iD and Smart Salon） ・Strengthening investment in the USA and EU	
		Shareholder return	・Dividends（dividend payout ratio of 50%＋ progressive dividends）	・Dividend（dividend payout ratio of 50%＋ progressive dividends） ・Share buyback (total payout ratio 50% or more)
	Low Priority	Minimum required cash on hand	・Secured for stable business operations	・Secured for stable business operations