

FY2026 First Quarter Financial Results Presentation Q&A(Summary)

Friday, May 15, 2026, 16:00-16:50

Responses by:

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■ Domestic Business

1. The launch of the new hair coloring product (PRETOWA) has been postponed from mid-year—when will it be released?

At this stage, the launch timing remains undecided. We will provide an update as soon as it is determined. While production has already begun for some items, we aim to ensure a stable supply and avoid stockouts once repeat orders begin. We expect to announce the launch timing once visibility on the procurement of certain raw materials is secured.

2. Regarding PRETOWA, are there any updates you can disclose at this time, such as the status of pre-orders or customer inquiries?

We have not yet started taking pre-orders. However, feedback from test marketing indicates very strong advance evaluations, with some suggesting that usage per salon may exceed initial assumptions. Accordingly, we expect to be able to highlight the added value we had been aiming to deliver.

■ Overseas Business

3. Overseas performance was strong in Q1, and profits increased. What explains the variance versus the plan?

Regional performance is shown on page 23 (plan) and page 8 (results). In the U.S. sales grew as expected, and China showed a similar trend. In South Korea, some expenses were not incurred; however, overall performance in Q1 can be largely attributed to increased sales.

4. The U.S. delivered strong sales, and there was previously some discussion about whether this was the right timing to generate profits. However, profits were recorded in Q1. How should we view the profitability outlook for the U.S. going forward?

In Q1, there was an impact from the distributor factors we mentioned earlier; however, the underlying performance was above our initial expectations at the beginning of the fiscal year. Given that the business has been performing strongly, there may be further upside. However, we do not expect the high growth rate in the 60% range seen in Q1 to continue going forward. Our outlook for achieving profitability at the operating income level after allocations remains unchanged at FY2028–2029, and we intend to continue making the necessary investments.

5. Are there any macroeconomic factors contributing to the improvement in the China business?

We assume there may also be gradual improvements in production conditions.

According to our local subsidiary in China, market conditions have not changed significantly and continue to remain sluggish. In this environment, we believe the key driver of the improvement is the growing acceptance of our education and proposals. While progress is gradual, we recognize that performance is steadily improving.

■ Impact of the situation in the Middle East and rising raw material costs

6. Some companies disclose that while they have secured materials for the year, prices remain uncertain. What is your situation?

While we are aware that some peers have disclosed their annual procurement outlook, we would like to refrain from commenting or disclosing at this stage, given that price negotiations are still ongoing. That said, we believe that the impact of rising raw material and component costs outweighs the potential loss of sales opportunities.

7. Regarding the impact of rising raw material prices, there was a cost increase of around 600–700 million yen in FY2022–2023. How should we think about the scale this time? Given changes in the production structure, including the expansion of the Yumegaoka factory and the ramp-up of the China plant, as well as improvements in supply chain management (SCM), how should we assess the impact?

Based on current estimates, we expect the impact of raw material costs to be in the mid-single-digit-billion-yen range, with effects likely to emerge from Q3 onward. However, as actual prices remain uncertain, these figures are preliminary estimates. Regarding SCM, there have been cases where domestic factory has been supplied by suppliers of our factories in Thailand and China, highlighting the benefits of our globally integrated operations. As domestic sales and production account for a large proportion of our business, we will prioritize further strengthening a stable supply structure in Japan.

8. During the previous period of rising raw material prices, increases were seen not only in petroleum-derived materials but also later in natural oils such as palm oil. Does the current outlook take such factors into account?

This time, as the situation is driven by developments in the Middle East, we expect the impact to be centered on naphtha-related materials. For the current fiscal year, we are using the estimates mentioned earlier; for future periods, we will continue to assess the impact and will disclose updates should any significant changes arise. In addition, taking into account rising raw material and component costs, we will strengthen SG&A and inventory management and improve production efficiency, aiming to achieve our operating income targets.

- 9. This may also relate to the improvement in hair coloring products, but compared with the Company, competitors appear to lag in areas such as SCM, and my understanding is that they implemented price increases earlier. Prices of items such as combs and rubber gloves have already been rising, and it seems that large players capable of maintaining stable supply may have an advantage. Are you seeing any such changes in the market environment?**

We understand the question to be whether the current situation in the Middle East could enhance our competitive advantage; however, we have not yet observed any clear signs of market share expansion. In addition, raw materials and components are currently prioritized for sectors such as medical use, and we have limited visibility on how much supply will be available for the beauty segment.

- 10. Regarding your approach to pricing. Previously, the Company appeared to implement price revisions with consideration for the impact on hair salons. In the current situation, are you considering price increases? Given that the impact is estimated to be in the mid-single-digit billions of yen, it seems this could be possible to absorb through pricing—how do you view this in terms of management priorities?**

At this stage, nothing has been decided. Looking at the operating environment for hair salons, conditions are not particularly strong due to the impact of inflation, and it is not an environment where service prices can be readily increased. As such, we do not believe this is a situation where immediate price increases are appropriate. However, if elevated raw material costs become the new normal, we believe there may be scope to consider price revisions.

- 11. In addition to raw material costs, how do you view logistics costs? Given that Milbon's products are relatively heavy and overseas sales are strong, should we expect an impact on logistics costs?**

While increased logistics costs due to higher volumes could be a factor driving costs up, raw material and component procurement in Thailand remains relatively stable, and no significant volatility has been observed so far. However, if this situation persists for an extended period, as you pointed out, it could potentially impact production operations overseas.

■ Performance and Outlook

- 12. How does the Company view the full-year plan? Given the uncertainty surrounding the impact of the situation in the Middle East, does the Company remain committed to achieving the initial plan?**

While the impact of the situation in the Middle East is expected to emerge in the second half, there remains a high degree of uncertainty. Based on current assumptions, we believe we can achieve our full-year performance targets. However, the Company would like to assess progress further before

making a definitive judgment at this stage. We will continue to make efforts toward achieving the full-year plan.

13. Overseas-driven profit growth appears strong; however, expenses are described as “timing differences” versus the plan. Could you elaborate further on the status of expense execution?

In Q1, there were timing differences in promotional activities. While such timing differences may be recognized and subsequently absorbed, including shifts into the next quarter, it is not necessarily the case that all planned expenses will ultimately be fully utilized. At present, items that the business divisions intend to execute are disclosed as timing differences. However, management will make final decisions taking into account domestic sales trends and the potential impact of the situation in the Middle East.

14. Regarding appropriate profitability levels overseas, operating margins in Q1 were approximately 20% in the U.S., 15% in China, and 14.8% in other regions. What level of profitability do you expect in the future?

Q1 is a seasonally smaller quarter in terms of sales, so it is difficult to draw conclusions based on this period alone. One point to highlight is that operating margin after allocations in South Korea is in the 20% range, which we view as close to an upper level, and we will aim to raise profitability in the U.S. and China toward this level. That said, we believe we are still at the stage of steadily improving both sales and profitability. In other regions, performance last year was impacted by factors such as distributor changes in countries like Vietnam, but these areas are now recovering. Given the diversity of markets included, the sustainability of performance remains difficult to predict.

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