

MILBON CO., LTD (4919 JP)

GIVEN WEAKER THAN EXPECTED 1H AND WITH SOME ADDITIONAL FACTORS IN 2H, FY25 GUIDANCE WAS REVISED

EXECUTIVE SUMMARY

- **FY25 1H results:** Milbon Co., Ltd (4919 JP) reported FY25 (Dec year-end) 1H earnings with a gross profit [GP] of ¥15,502mil (-1.6% YoY) and operating profit [OP] of ¥1,938mil (-39.0% YoY) on sales of ¥24,807mil (+1.1% YoY). RP declined -44.3% YoY to ¥1,853mil, due mainly to net FOREX losses (-¥120mil). The 1H results fell short of the firm's sales and OP guidance by -4.2% and -31.0%, respectively due to (1) a decline in GP due to weaker-than-expected sales (-¥707mil) and (2) the deterioration of the GPM on the back of inventory valuation losses (approx. -¥454mil).
- **Downward revision to FY25 guidance:** Milbon revised down its FY25 guidance from OP of ¥7,000mil (+2.3% YoY) on sales of ¥54,250mil (+5.7% YoY) to OP of ¥5,300mil (-22.5% YoY) on sales of ¥52,300mil (+1.9% YoY). Domestic sales were revised down from ¥40,850mil (+5.6% YoY) to ¥38,900mil (+0.6% YoY) while the overseas sales guidance was maintained at ¥13,400mil (+6.1% YoY). The new forecasts reflect not only the shortfall in 1H but also factors in potential negative factors in 2H which are discussed further below.
- **Update on shareholder returns:** Milbon principally pays out 50% of net profit as a dividend on a progressive dividend basis. For the time being, Milbon commits to pay an annual dividend of ¥88.00/share and not to reduce the dividend from that of the previous years. A share buyback programme of 870,000 shares (2.7% of shares outstanding) at maximum cost of ¥2,000mil between 12 August and 23 December 2025 was announced as an additional shareholder returns. The firm also brought forward the start of proactive buybacks from the initial plan of starting from FY27 to FY25. Given change in the start of the share buyback [from FY27 to FY25], Milbon revised its capital allocation policy, though details are yet to be disclosed. The ROE target of 11.3% (vs estimated capital cost of 6~8%) in FY26 remains unchanged for the time being.

Milbon (4919 JP): Share Information

Market Cap (¥mil)		83,700	Market Cap (\$mil)			566
22-day Average Trading Volume (¥mil)		359	22-day Average Trading Volume (\$mil)			2.4
Share performance (%)	4919	TOPIX	Earnings Summary (¥mil, %)	FY23	FY24	FY25CE
Share price (08 Sept 2025)	2,528	3,138.20	Sales	47,762	51,316	52,300
3mo (from 09 June 2025)	1.9	12.7	OP	5,525	6,839	5,300
6mo (from 10 Mar 2025)	-17.0	16.2	OPM (%)	11.6	13.3	10.1
YTD (from 6 Jan 2025)	-26.7	13.9	EBITDA	7,800	9,128	5,954*
1yr	-17.4	21.6	EPS (¥)	122.99	154.12	92.09
5yrs	-56.0	91.7	Financial Leverage (X)	1.1	1.2	1.2*
Per-share and Valuations	4919	TOPIX	Net D/E Ratio (X)	-0.3	-0.3	-0.3*
EPS (¥, FY25 CE)	92.09	182.48	FCF	1,656	5,094	2,423*
DPS (¥, FY25 CE)	88.00	N/A	Shareholder Return Summary	FY23	FY24	FY25CE
BPS (¥, FY25EST*)	1,417.70	1,875.16	Dividend (¥)	88	88	88
FCFPS (¥, FY25EST)	73.16	N/A	Dividend Payout (%)	71.6	57.1	95.6
Forward PER (X)	27.5	17.2	Dividend Yield (%)	N/A	N/A	3.5
PBR (x)	1.8	1.7	DOE (%)	6.4	6.0	6.5*
PCFR (x)	34.6	N/A	Treasury Shares (%)	N/A	N/A	4.3
EV/EBITDA (X)	12.0	N/A	ROE (%)	8.7	10.2	6.8*

Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai / *Nippon-IBR estimates

FY25 1H EARNINGS RESULTS SUMMARY

Milbon Co., Ltd (4919 JP) reported FY25 (Dec year-end) 1H earnings, coming in with gross profit [GP] of ¥15,502mil (-1.6% YoY) and operating profit [OP] of ¥1,938mil (-39.0% YoY) on sales of ¥24,807mil (+1.1% YoY). RP declined -44.3% YoY to ¥1,853mil, due mainly to net FOREX loss of ¥120mil. 1H results fell short of the firm's sales and OP guidance by -4.2% and -31.0%, respectively. There were two major factors that led to shortfall in OP: (1) a decline in GP due to the shortfall in sales (-¥707mil) and (2) the deterioration of the GPM on the back of inventory valuation losses (approx. -¥454mil). Furthermore, Milbon reported valuation losses on investment securities (-¥755mil) and logged it as an extraordinary loss. One of the holdings in the firm's portfolio declined more than -50% from the purchase value. As a result, 1H net profit [NP] plummeted -81.6% YoY to ¥419mil.

Given the decline in GP and OP in Japan on the back of inventory valuation losses, higher SG&A and FOREX translation losses caused by stronger yen on a YoY basis – especially in Korea – Milbon revised its FY25 full-year guidance from OP of ¥7,000mil (+2.3% YoY) on sales of ¥54,250mil (+5.7% YoY) to OP of ¥5,300mil (-22.5% YoY) on sales of ¥52,300mil (+1.9% YoY). The annual dividend of ¥88.00/share remains unchanged.

Milbon (4919 JP): Earnings Summary								
(¥mil / Dec year-end)	FY23		FY24		FY25			
	1H	FY	1H	FY	1H	YoY (%)	1H CE	1H vs 1H CE (%)
Sales	22,703	47,762	24,526	51,316	24,807	1.1	25,907	-4.2
COGS	7,893	18,237	8,770	18,718	9,305	6.1	N/A	N/A
GP	14,809	29,525	15,755	32,597	15,502	-1.6	16,664	-7.0
GPM (%)	65.2	61.8	64.2	63.5	62.5	-1.8ppt	64.3	-1.8ppt
SG&A	11,719	24,000	12,577	25,758	13,563	7.8	13,853	-2.1
SG&A / Sales (%)	51.6	50.2	51.3	50.2	54.7	+3.4ppt	53.5	+1.2ppt
OP	3,090	5,525	3,178	6,839	1,938	-39.0	2,811	-31.0
OPM (%)	13.6	11.6	13.0	13.3	7.8	-5.1ppt	10.9	-3.1ppt
RP	3,129	5,586	3,324	6,968	1,853	-44.3	2,838	-34.7
RPM (%)	13.8	11.7	13.6	13.6	7.5	-6.1ppt	11.0	-3.5ppt
NP*	2,195	4,001	2,280	5,017	419	-81.6	2,002	-79.1

Source: Nippon-IBR based on Milbon's earnings results materials * NP attributed to the parent's shareholders

Earnings by Country

Japan

Milbon's operation in Japan produced 1H OP of ¥1,640mil (-35.3% YoY) on sales of ¥18,483mil (+0.6% YoY), which generated an OPM of 8.9% (-4.9ppt YoY)

1H domestic earnings fell short of guidance for OP of ¥2,357mil on sales of ¥19,500mil. Although hair care product sales rose +6.7% YoY, the performance was below target mainly on (1) less consumption on non-essential items by under inflation, and (2) a delay in the introduction of new products of Milbon's core premium brand Aujua. Milbon implemented price hikes as of 1 May, however, its impact will become more apparent in 2H onwards.

Sales of hair colour products fell -4.7% YoY due to salons switching to lower price products as well as a peak-out of the hair colour boom triggered during the COVID lockdown. Salons' earnings have been influenced by inflation. Under the circumstance, salons need to maintain profitability either by reducing costs by choosing lower cost products or raising prices by introducing high value-added products. As for Milbon's hair colour products, demand for unique products such as organic hair colour products (Villa Lodola) remain solid, while middle-range products such as Ordev Addicthy was hit by shift to lower price products. Beauty salons in Japan advertise their services on the salon's booking site on the largest beauty salon search engine in Japan. For example, Salons advertise hair colour services by listing hair colour products with a service menu and prices on the booking site. Milbon is hoping that customer awareness will be improved from showcasing its hair colour products on the booking site, and lead to higher sales. Rather than getting

involved in price competition, management's focus is on new products with better functionality and quality from its existing higher value-added range.

The worst performer, albeit a small proportion of Milbon's domestic sales, was cosmetics products, which saw sales decline by -42.9% YoY on tough YoY comps vs favourable new products sales in FY24 1H. At the same time, Milbon wrote off inventory valuation losses on cosmetics given the sharp decline in sales. Since cosmetics products are not manufactured by Milbon but by Kose, its business partner in the cosmetics business, Milbon stockpiles inventory to avoid a sudden shortage. Compared to FY24, when eyebrow-related products were in vogue and became a hit, sales of the new colours of the same product did not take off, which led to excess inventory.

Milbon's e-commerce platform, *milbon:iD*, has 6,440 registered beauty salons as of the end of FY25 1H, down from 6,566 salons as of the end of FY24 due to salon closures. However, the number of registered users reached 957,000 members. The firm's FY25 1H e-commerce [EC] sales increased +17.6 YoY to approx. ¥920mil, vs the firm's FY25 target of ¥2,300mil. EC sales is expected to gain momentum in 2H given seasonality, when there are marketing campaigns etc.

Of the 957,000 members, approx. 20% are active users of *milbon:iD*. Customers of beauty salons can either buy Milbon's haircare products at salons or via *milbon:iD*, however, the average spend per customer on *milbon:iD* is almost double (approx. ¥12,000~¥13,000/customer) that of salon sales (some ¥6,000), as customers tend to buy in bulk or in larger bottles online. Mobilising the site's dormant customers will be the next step for *milbon:iD*'s further success. Milbon started networking via LY Corporation's LINE network to increase active users from June.

Another initiative to promote its haircare products is via its Smart Salons – where customers can try out Milbon's haircare products and buy trial sizes with advice from hairdressers. As of FY25 1H, there were 73 salons offering this service, up from 62 of the end of FY24.

Overseas

FY25 1H Overseas sales were largely in line with expectations; however, OP underperformed the firm's guidance mainly due to forex loss as the yen strengthened vs FY24 1H. Overseas OP declined -53.7% YoY (YDB) to ¥297mil on sales of ¥6,323mil (+2.7% YoY YDB). The LCY-based sales growth suggests that the firm enjoyed (1) solid haircare product sales growth in South Korea, (2) steady recovery in sales of both haircare products and hair colour products in China and (3) strong sales in the US.

Details by country are as follows:

South Korea: Milbon Korea – the largest part of the firm's overseas operations – produced FY25 1H OP of ¥587mil, down -21.0% YoY (YDB) on sales of ¥2,577mil (-3.2% YoY YDB / +5.5% YoY LCY), vs FY25 1H OP forecast of ¥691mil on sales forecast of ¥2,707mil. Sales of hair colour were down -2.9% YoY in Q1, on the back of depressed consumption during the political turbulence and inventory adjustments while the distributor moving its warehouse. Earnings in Korea started recovering in Q2 as a major competitor withdrew from the market. Moreover, the aforementioned political issues were settled and inventory adjustment at distributors was completed in Q2.

The primary reason for negative 1H earnings growth on a YDB is the stronger yen. In FY24 Q2, KRW1 translated to ¥0.1132. In FY 25 Q2, KRW1 converted to ¥0.1038. The firm's FOREX assumption for FY25 is ¥0.108 / KRW1. On the annualised basis, change of ¥0.001 / KRW1 will give ¥51mil change in consolidated sales and ¥38mil change in consolidated OP, respectively.

FY25 1H haircare product sales improved +9.7% YoY on the LCY basis. The Korean operations generated 68.7% of FY25 1H sales from hair colour sales, which were up a mere +1.9% YoY due to aforementioned negative growth in Q1. The FY25 1H OPM fell -5.1ppt YoY to 22.8%, partly due to a change in sales mix but also due to an increase in personnel costs as more FPs were hired.

US: Milbon USA FY25 1H sales improved +24.8% YoY [YDB] to ¥1,150mil, by continuing to cultivate new salons with local distributors. Hair care products enjoyed sales growth of +32.8% YoY [LCY]. However, the US operation made an operating loss (-¥216mil) expanded further vs FY24 1H's operating loss of -¥71mil and 1H guidance of -¥195mil as the

firm proactively spent to promote sales and increase personnel. While the impact of the US tariff is yet to be known, Milbon estimates around a -¥30mil hit after having had -¥20mil impact in 1H, therefore plans to implement price hikes from 1 September to pass on the cost increases.

China: While the recovery in China's beauty market remains sluggish, Milbon saw better than expected 1H earnings with OP of ¥76mil (-2.4% YoY) on sales of ¥1,193mil (-1.5% YoY) [YDB], thanks to more salons introducing Global Milbon. On the LCY basis, 1H sales grew +3.6% YoY. Sales of both hair care and hair colour saw YoY growth of +4.7% YoY and +3.2% YoY, respectively.

Although sales of haircare products have held up well by promoting haircare options that met the needs of clients, Milbon plans to proactively boost marketing and promotional costs to cultivate more demand for hair colour products.

Milbon (4919 JP): Sales and OP Breakdown by Country - Results and Guidance									
(¥mil / Dec year-end)		FY23		FY24		FY25			
		1H	FY	1H	FY	1H	YoY (%) *	FYCE	YoY (%) *
Japan	Sales	17,175	36,502	18,367	38,684	18,483	0.6	38,900	0.6
	OP	2,411	4,231	2,534	5,796	1,640	-35.3	N/A	N/A
	OPM (%)	14.0	11.6	13.8	15.0	8.9	-4.9ppt	N/A	N/A
US	Sales	778	1,624	922	1,981	1,150	24.8	2,145	8.3
	OP	-30	-89	-71	-89	-216	N/A	N/A	N/A
	OPM (%)	-4.0	-5.5	-7.8	-4.5	-18.8	-11.0ppt	N/A	N/A
China	Sales	1,171	2,241	1,211	2,328	1,193	-1.5	2,333	0.2
	OP	40	68	77	49	76	-2.4	N/A	N/A
	OPM (%)	3.5	3.1	6.4	2.1	6.4	flat	N/A	N/A
South Korea	Sales	2,286	4,715	2,662	5,345	2,577	-3.2	5,583	4.5
	OP	621	1,284	743	1,239	587	-21.0	N/A	N/A
	OPM (%)	27.2	27.3	27.9	23.2	22.8	-5.1ppt	N/A	N/A
Others	Sales	1,293	2,678	1,362	2,976	1,402	2.9	3,339	12.2
	OP	48	30	-105	-157	-148	N/A	N/A	N/A
	OPM (%)	3.7	1.1	-7.7	-5.3	-10.6	-2.9ppt	N/A	N/A
Overseas Total	Sales	5,528	11,260	6,159	12,631	6,323	2.7	13,400	6.1
	OP	679	1,294	643	1,043	297	-53.7	N/A	N/A
	OPM (%)	12.3	11.5	10.5	8.3	4.7	-5.8ppt	N/A	N/A

Source: Nippon-IBR based on Milbon's earnings results materials
 * YoY figures are based on Japanese yen denominated sales and OP numbers

FY25 OUTLOOK

Milbon revised down its FY25 guidance from OP of ¥7,000mil (+2.3% YoY) on sales of ¥54,250mil (+5.7% YoY) to OP of ¥5,300mil (-22.5% YoY) on sales of ¥52,300mil (+1.9% YoY). The revised FY25 guidance is based on the following assumptions:

1. Milbon revised down its domestic sales targets from ¥40,850mil (+5.6% YoY) to ¥38,900mil (+0.6% YoY) but kept the overseas sales guidance at ¥13,400mil (+6.1% YoY). 1H domestic sales fell short by -¥1,018mil (-¥404mil in hair care products sales, -¥249mil in hair colour, -¥150mil in cosmetics, -¥98mil in perming chemical and -¥117mil in others), leading to a further revision down in domestic sales by -¥932mil in 2H (-¥243mil in hair care, -¥171mil in hair colour, -¥350mil in cosmetics, -¥79mil in perming chemicals and -¥89mil in others).

To improve 2H domestic sales, the firm will promote high value-added products such as hair treatments, although Milbon acknowledges that it will take some time to promote these new products, therefore the full potential will likely not be evident yet during 2H.

- FY25 GP guidance was also lowered from ¥35,000mil (+7.4% YoY) to ¥32,926mil (+1.0% YoY). In addition to the negative factors seen in 1H such – the US tariff impact and inventory valuation losses – Milbon has included the potential risk of, for example, further inventory valuation losses and FOREX, into consideration.
- FY25 OP guidance was revised down from ¥7,000mil (+2.3% YoY) to ¥5,300mil (-22.5% YoY) mainly due to (1) a decline of -¥1,258mil in GP on the back of weak domestic sales, and (2) a contraction in GPM on the back of inventory valuation losses (-¥580mil), FOREX (-¥100mil), tariffs (-¥30mil) and -¥100mil from miscellaneous factors such as productivity.
- FY25 RP and NP guidance figures reflect (1) the revision down to OP by -¥1,700mil and (2) valuation losses of investment securities and FOREX in 1H, of -¥755mil and -¥120mil, respectively. The firm's FY25 guidance is based on a FOREX assumption of ¥145.0/USD vs ¥152.24/USD in FY24, and ¥0.108/KRW vs. ¥0.111/KRW in FY24.

Milbon (4919 JP): Earnings Results and Guidance									
(¥mil / Dec year-end)	FY23		FY24		FY25				
	1H	FY	1H	FY	1H	Old FYCE	YoY (%)	New FYCE	YoY (%)
Sales	22,703	47,762	24,526	51,316	24,807	54,250	5.7	52,300	1.9
DM	17,175	36,502	18,367	38,684	18,483	40,850	5.6	38,900	0.6
Overseas	5,528	11,260	6,159	12,631	6,323	13,400	6.1	13,400	6.1
GP	14,809	29,525	15,755	32,597	15,502	35,000	7.4	32,926	1.0
GPM (%)	65.2	61.8	64.2	63.5	62.5	64.5	+1.0ppt	63.0	-0.5ppt
SG&A	11,719	24,000	12,577	25,758	13,563	28,000	8.7	27,626	7.3
SG&A / Sales (%)	51.6	50.2	51.3	50.2	54.7	51.6	+1.4ppt	52.8	+2.6ppt
OP	3,090	5,525	3,178	6,839	1,938	7,000	2.3	5,300	-22.5
OPM (%)	13.6	11.6	13.0	13.3	7.8	12.9	-0.4ppt	10.1	-3.2ppt
RP	3,129	5,586	3,324	6,968	1,853	7,000	0.5	5,180	-25.7
RPM (%)	13.8	11.7	13.6	13.6	7.5	12.9	-0.7ppt	9.9	-3.7ppt
NP*	2,195	4,001	2,280	5,017	419	5,200	3.6	3,000	-40.2

Source: Nippon-IBR based on Milbon's earnings results materials / * NP attributed to the parent's shareholders

CAPITAL ALLOCATION POLICY

Milbon has revised its capital allocation policy to FY26, however, the revised figures are yet to be disclosed. The ROE target of 11.3% remains unchanged. Milbon's capital allocation policy framework is as follows:

- Applying a Capital Asset Pricing Model [CAPM] and additionally reflecting the capital costs expected by the market; Milbon estimates its capital cost at 6~8%, vs Milbon's average ROE for the past 3 years of 10.9%. The firm aims to achieve an ROE of 11.3% in FY26. Management refers to the capital cost of around 8% as its own benchmark.
- Milbon does not have interest-bearing debt, however, the firm will consider financing a part of its large-scale CAPEX using debt going forward, which will likely reduce the capital cost. It is likely that the firm may require larger investment for production capacity should the domestic production capacity become insufficient. For the time being, Milbon has sufficient production capacity to achieve the MTP target at domestic, China and Thai factories.
- Milbon principally pays out 50% of net profit as a dividend on the progressive dividend basis. Milbon currently commits to paying an annual dividend of ¥88.00/share and not to reduce the dividend from that of the previous years. A share buyback programme of 870,000 shares (2.7% of shares outstanding) at maximum cost of ¥2,000mil between 12 August and 23 December 2025 was announced as an additional shareholder returns. The firm also brought forward the start of proactive buybacks from the initial plan of starting from FY27 to FY25. Given change in the start of the share buyback, Milbon revised the capital allocation policy but the details of allocation is yet to be disclosed. The ROE target of 11.3% (vs estimated capital cost of 6~8%, or management's benchmark rate of around 8%) remains unchanged for the time being. Treasury shares of 524,844 (1.6% of shares outstanding) prior to the aforementioned buyback. Milbon has not yet announced how the treasury shares will be used.

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