

# Milbon Co., Ltd.

## FY2020 First Quarter (January 1, 2020 – March 31, 2020) Financial Results Presentation Materials



May 12, 2020

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Find Your Beauty **MILBON**

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## Consolidated Operating Results (FY2020 3 months)

- ◆ Sales declined in China, which was affected by the spread of COVID-19.
- ◆ In Japan, sales grew, but consolidated earnings fell because of restrictions on activities such as the cancellation of large-scale events and seminars scheduled to be held from March.

(Unit: million yen)

	FY2019 3 months	% total	FY2020 3 months	% total	Increase/ Decrease	Increase/ Decrease ratio (%)
Net sales	7,886	100.0	7,825	100.0	(60)	(0.8)
Gross profit	5,313	67.4	5,233	66.9	(79)	(1.5)
SG&A expenses	4,048	51.3	4,202	53.7	154	3.8
Operating income	1,265	16.0	1,031	13.2	(233)	(18.5)
Ordinary income	1,162	14.7	835	10.7	(326)	(28.1)
Profit attributable to owners of parent	841	10.7	601	7.7	(240)	(28.6)

# Responding to the Risk of the spread of COVID-19

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We place top priority on the safety and health of our employees, their families, customers, and other stakeholders, and strive to prevent the spread of infectious diseases.

Our current response to infectious disease risk is as follows.

## ■ Response to Customers and Related Parties

- Discontinuation or postponement of all studio seminars and events at outside venues
- In visiting customers, we check in advance the availability of visits, and when making visits, we thoroughly implement the wearing of masks, hand washing, and alcohol disruption.
- Delivering products directly from Milbon to salon customers who wish to make a repeat purchase of premium brand such as Aujua and Global Milbon on behalf of beauty salons.

## ■ Response to Employees

- Recommendation for working from home and staggered commuting hours.
- Overseas business trips are prohibited, and domestic business trips are postponed or handled by web conferences.
- Prohibition of meetings and meal meetings attended by large numbers of participants
- Distribution of masks and alcohol sanitizers to all employees

## Consolidated Sales by Product Category [Hair Care Products (1)]

### Consolidated Sales (FY2020 3 months)

(Unit: million yen)

FY2019 3 months	FY2020 3 months	Increase/ Decrease	Increase/ Decrease ratio (%)
4,323	4,424	101	2.3

- Domestically, sales of the premium brands Aujua and Global Milbon continued to grow. Both the number of salons and sales increased thanks to the acquisition of new sales outlets, but the growth has been sluggish since March due to the impact of COVID-19.
- The new product, Aujua Fortice Line, launched in February, had a high reputation, but it did not go as well as expected due to activity restrictions due to COVID-19.
- Among professional brands, Cronna launched its new Cronna Ice Spa Shampoo Orange in March. Strong performance thanks to the promotion of sales activities by distributors in an easy-to-understand manner of the product features of carbonated foam below the freezing point. Jemile Fran Hair Base Makeup series launched last year continued to perform well for Jemile Fran.

## Consolidated Sales by Product Category [Hair Care Products (2)]

### New Products

#### FY2020 3 months

#### Aujua Scalpcare Series Fortice Line

A scalp care series that approaches Ageing Bacteria present on the scalp to curb complex aging damage of the hair and scalp.

(Unit: million yen)

FY2020 target*	FY2020 3 months*	Progress rate (%)
600	85	14.3



February 7, 2020 Debut

#### Cronna Ice Space Shampoo Orange

A carbonated foam shampoo below the freezing point that continues to cool while eliminating the summer-specific worries of smell and stickiness of the scalp.

(Unit: million yen)

FY2020 target*	FY2020 3 months*	Progress rate (%)
150	43	28.8



March 10, 2020 Debut

\* From the first quarter of FY2020, consolidated total sales figures are used. Figures for the first quarter of FY2019 have also been retroactively applied.

# A Premium Brand, Aujua

Launched a new product, Scalpcare Series Fortice Line

## Number of salons

(Unit: salons)

FY2019 *1	FY2020 *1	Increase/ Decrease	Increase/ Decrease ratio (%)
3,698	3,757	59	1.6

## Consolidated sales (FY2020 3 months)

(Unit: million yen)

FY2019 3 months *2	FY2020 3 months *2	Increase/ Decrease	Increase/ Decrease ratio (%)
1,324	1,427	102	7.8

## 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.

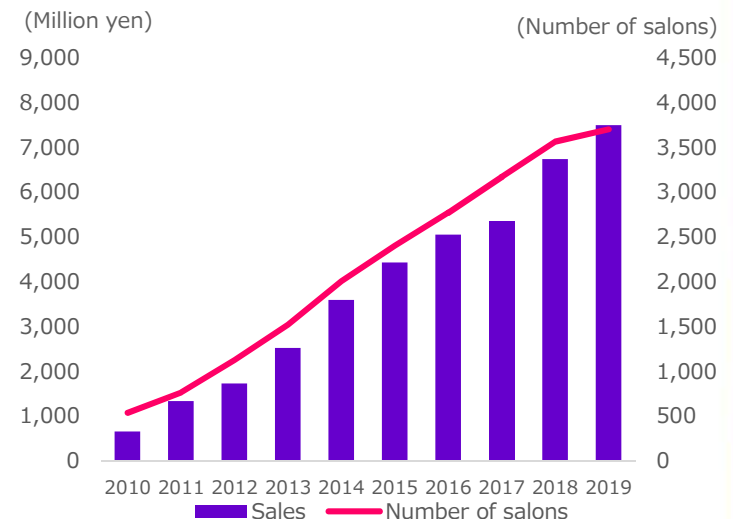
## Product range

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

- 5 series
- Eternal stage series (new)
- Aging care series
- Hair care series
- Scalp care series
- Climatic care series
- 14 lines
- 89 items



Trends in sales & number of salons



\* Graphs are based on individual figures.

\*1 Calculated based on the past year's shipment results for both Japan and overseas.

\*2 From the first quarter of FY2020, consolidated total sales figures are used. Figures for the first quarter of FY2019 have also been retroactively applied.



# A Premium Brand, Global Milbon

Growth with more salons both in Japan and overseas

## Number of salons

(Unit: salons)

FY2019 *1	FY2020 *1	Increase/ Decrease	Increase/ Decrease ratio (%)
7,674	8,970	1,296	16.9

## Consolidated sales (FY2020 3 months)

(Unit: million yen)

FY2019 3 months *2	FY2020 3 months *2	Increase/ Decrease	Increase/ Decrease ratio (%)
557	578	20	3.6

## Brand concept

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

## Countries with salons

Japan, USA, Hong Kong, China, Thailand, Taiwan, Turkey, Malaysia, Vietnam, Indonesia, the Philippines, Singapore, Germany

## What is "Global Milbon"?

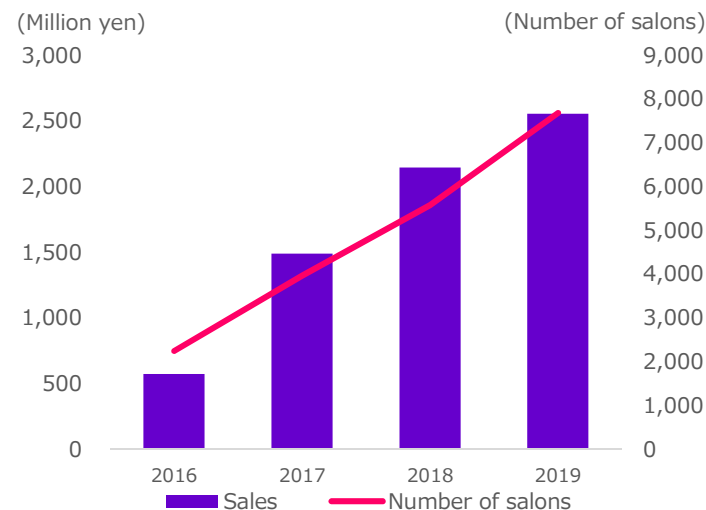
We conducted an in-depth analysis of the inner structure of the hair of women from 20 countries around the world, using our proprietary CT scanning technology, and discovered a universal form of hair damage. Accordingly, we developed a hair care line containing ingredients capable of repairing such damaged hair and increasing the density within each strand of hair.

"Global Milbon" is a system hair care product for developing shiny, beautiful hair from the core.

MILBON



## Trends in sales & number of salons



\* Graphs are based on individual figures.

\*1 Calculated based on the past year's shipment results for both Japan and overseas.

\*2 From the first quarter of FY2020, consolidated total sales figures are used. Figures for the first quarter of FY2019 have also been retroactively applied.



## Consolidated Sales by Product Category [Hair Coloring Products (1)]

### Consolidated Sales (FY2020 3 months)

(Unit: million yen)

FY2019 3 months	FY2020 3 months	Increase/ Decrease	Increase/ Decrease ratio (%)
3,175	2,995	(179)	(5.6)

- Sales fell due to a decline in sales in China following the impact of COVID-19 and difficulties in sales of low-priced gray coloring products in Japan, where the competitive environment is harsh.
- Fashion color sales continued to be strong for Ordeve Addicthy. In particular, the evaluation of High Bleach (a bleaching agent having high decolorizing power) is high. However, Ordeve sales are on a declining trend.
- In gray colors, sales of Ordeve Seedil and Ordeve Ledress, both launched last year, were sluggish due to a lack of progress in switching from existing products, and the expansion of new sales outlets also struggled, resulting in a decrease in sales.

## Consolidated Sales by Product Category [Hair Coloring Product (2)]

### Core Product FY2020 3months

#### 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)

FY2019 3 months *	FY2020 3 months *	Increase/ Decrease	Increase/ Decrease ratio (%)
911	1,039	127	14.0



FY2017 Debut

\* From the first quarter of FY2020, consolidated total sales figures are used. Figures for the first quarter of FY2019 have also been retroactively applied.

# A Premium Organic Brand, Villa Lodola (1)

Decreased due to delayed launch of new products and restrictions on activities.

## Number of salons

(Unit: salons)

FY2019	FY2020	Increase/ Decrease	Increase/ Decrease ratio (%)
9,015	9,214	199	2.2

## Consolidated sales (FY2020 3 months)

(Unit: million yen)

FY2019 3 months *	FY2020 3 months *	Increase/ Decrease	Increase/ Decrease ratio (%)
264	257	(6)	(2.5)



## Brand concept

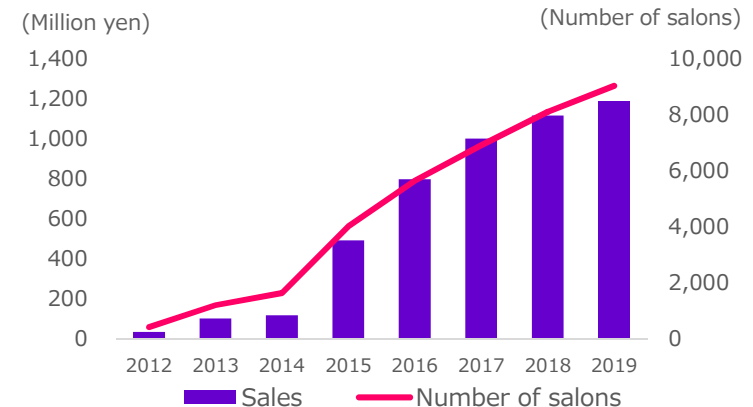
Nurtured in the soil of Italy, these gifts from nature bring out the authentic beauty of your hair and scalp.

## 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



\* Graphs are based on individual figures.

\* From the first quarter of FY2020, consolidated total sales figures are used. Figures for the first quarter of FY2019 have also been retroactively applied.

## 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.

#### Consolidated sales (FY2020 3 months) (Unit: million yen)

FY2019 3 months *	FY2020 3 months *	Increase/ Decrease	Increase/ Decrease ratio (%)
204	204	0	(0.3)



FY2015 Debut

\* From the first quarter of FY2020, consolidated total sales figures are used. Figures for the first quarter of FY2019 have also been retroactively applied.

## Consolidated Sales by Product Category [Cosmetic Products]

### Consolidated Sales (FY2020 3 months)

(Unit: million yen)

FY2019 3 months	FY2020 3 months	Increase/ Decrease	Increase/ Decrease ratio (%)
-	71	71	-

- Due to a downturn in consumer sentiment following the consumption tax hike, distributors and salons are seeking new items sold and taking measures to increase sales per customer, and therefore there is strong interest in the cosmetics business. Although there were signs of an increase in the number of new distributors and salons, the impact of COVID-19 has limited the company's activities.

### New Products

#### Imprea Whitening Laser Shot

A whitening solution that directly approaches the origin of smelts, like targeted by a laser. It suppresses the formation of melanin and prevents spots and freckles. (Unit: million yen)

FY2020 target*	FY2020 3 months*	Progress rate (%)
50	19	39.6



February 7, 2020 Debut

\* From the first quarter of FY2020, consolidated total sales figures are used. Figures for the first quarter of FY2019 have also been retroactively applied.

# A Premium Brand, Imprea

Full-fledged development of Imprea, a cosmetics brand exclusively sold in salons

## Number of salons

(Unit: salons)

FY2019 *1	FY2020 *1	Increase/ Decrease	Increase/ Decrease ratio (%)
3,698	3,757	59	1.6

## Consolidated sales (FY2020 3 months)

(Unit: million yen)

FY2019 3 months *2	FY2020 3 months *2	Increase/ Decrease	Increase/ Decrease ratio (%)
1,324	1,427	102	7.8



## Brand concept

The brand concept of Imprea is "Change Your Impression by Beauty Authority". We will provide new beauty value by leveraging beauticians' ability to provide solutions, which is one of the strengths of them.

## "Change Your Impression"

Through communication that takes advantage of strength as a beautician, we propose impressions that comprehensively capture hair and face through beauticians, and deliver "Change Your Impression" to customers.

## What is Imprea?

Imprea is a salon exclusive brand created through joint research by KOSÉ, which specializes in skin research, and Milbon, which specializes in hair research.

We will improve the skin impression by establishing a good balance between the "corner-layer keratin" on the surface of the skin, which holds the key to skin impression.

\*1 Calculated based on the past year's shipment results.

\*2 From the first quarter of FY2020, consolidated total sales figures are used. Figures for the first quarter of FY2019 have also been retroactively applied.

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# Consolidated Statement of Earnings (FY2020 3 months)

## <Consolidated Statement of Earnings> (Unit: million yen)

	FY2019 3 months	% to sales	FY2020 3 months	% to sales
Sales	7,886	100.0	7,825	100.0
Cost of sales	2,573	32.6	2,592	33.1
Gross profit	5,313	67.4	5,233	66.9
SG&A expenses	4,048	51.3	4,202	53.7
Operating income	1,265	16.0	1,031	13.2
Ordinary income	1,162	14.7	835	10.7
Profit attributable to owners of parent	841	10.7	601	7.7

## <Breakdown of net sales by product category> (Unit: million yen)

	FY2019 3 months	FY2020 3 months	% to sales	Increase/ Decrease	Increase/ Decrease ratio (%)
Hair care products	4,323	4,424	56.6	101	2.3
Hair coloring products	3,175	2,995	38.3	(179)	(5.6)
Permanent wave products	337	291	3.7	(45)	(13.6)
Cosmetic products	-	71	0.9	71	-
Others	50	42	0.5	(7)	(15.9)

## <Major factors for the increase/decrease>

### SG&A expenses

- Increase in personnel expenses due to increase in personnel and salary
- Increase in fixed costs associated with the establishment of the Kyushu Distribution Center

### Ordinary income

Decrease due to foreign exchange losses and share of loss of entities accounted for using equity method



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

(Unit: million yen)

Category		FY2016	FY2017	FY2018	FY2019	FY2020 Jan.–Mar.	FY2020 Plan
Capital expenditures		4,262	1,570	1,149	1,605	325	1,958
Depreciation and amortization		1,077	1,272	1,370	1,453	372	1,632
R&D exp.	Amount	1,232	1,422	1,479	1,534	380	1,796
	% to sales	4.2	4.3	4.2	4.2	4.9	4.6

### FY2020 CAPEX Main Items (Plan)

- Establishment of sales office in Niigata
- Plant equipment: compounding and filling (vacuum emulsification, etc.)
- Establishment of Aoyama Sales Office 2
- Acquisition of land for construction of the new training center
- Part of expenditure for establishment of a plant in China

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

## Market trends (Japan)

	2014	2015	2016	2017	2018	2019	Remarks
Number of salons (salons)	237,525	240,299	243,360	247,578	251,140	—	Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services
Number of hair dressers (people)	496,697	504,698	509,279	523,543	533,814	—	Number of beauty salon facilities / number of employees (year-end)
Number of beauty customers (thousand people)	37,847	37,395	37,023	36,643	36,300	35,983 (As of Nov.1)	Statistics Bureau, Ministry of Internal Affairs and Communications: Population statistics as of October 1st 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))

	2016	2017 * <sup>1</sup>	2018	2019	2020	
JAPAN	249	258	269	279	297	Upper column: Number of FPs (persons) Lower column: Sales per FP (million yen)
	102	105	111	108	-	
USA	9	12	13	13	17	(As of March 31, 2020) 10 FPs joined in October 2019, and are currently in OJT on site 40 FPs are scheduled to join in April 2020 (The above 37 FPs are not included in the left chart.)
MILBON USA, INC.	63	48	48	50	-	
CHINA	18	19	22	21	30	
Milbon Trading (Shanghai) Co., Ltd.	40	50	62	70	-	
KOREA	20	23	25	30	32	
Milbon Korea Co., Ltd.	80	84	82	77	-	
Others * <sup>2</sup>	25	33	33	35	38	
	37	31	37	39	-	

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

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

# Consolidated Net Sales in Japan and Overseas

## FY2020 3 months

(Unit: million yen)

	FY2019 3 months		FY2020 3 months		Increase/ Decrease	Increase/ Decrease ratio (%)	Changes in Local currency base <sup>*1</sup> (%)
	Net Sales	% to sales	Net Sales	% to sales			
Consolidated Net Sales	7,886	100.0	7,825	100.0	(60)	(0.8)	0.0
JAPAN	6,428	81.5	6,590	84.2	161	2.5	2.5
Overseas	1,458	18.5	1,235	15.8	(222)	(15.2)	(10.9)
USA	133	1.7	113	1.4	(20)	(15.3)	(14.3)
CHINA	425	5.4	291	3.7	(134)	(31.5)	(28.0)
KOREA	569	7.2	524	6.7	(45)	(7.9)	0.1
Other <sup>*2</sup>	329	4.2	307	3.9	(22)	(6.8)	(6.6)

<sup>\*1</sup> Figures are the rates of change in real terms on a local currency basis. Current exchange rates of 108.85 yen to the U.S. dollar, 15.61 yen to the Chinese yuan, and 0.0902 yen to the Korean won

<sup>\*2</sup> Thailand, Vietnam, Malaysia, Taiwan, Hong Kong, Turkey, Indonesia, the Philippines, Singapore, Germany and others

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# Consolidated Operating Income in Japan and Overseas

## FY2020 3 months

(Unit: million yen)

	FY2019 3 months		FY2020 3 months		Increase/ Decrease	Increase/ Decrease ratio (%)
	Operating Income	Operating income ratio(%)	Operating Income	Operating income ratio(%)		
Consolidated Operating Income	1,265	16.0	1,031	13.2	(233)	(18.5)
JAPAN	1,073	16.7	1,061	16.1	(11)	(1.1)
Overseas	191	13.1	(30)	(2.5)	(222)	(115.8)
USA	(58)	(43.4)	(87)	(77.2)	(29)	-
CHINA	131	30.9	27	9.6	(103)	(78.7)
KOREA	168	29.6	104	19.9	(64)	(38.2)
Other *	(50)	(15.4)	(75)	(24.5)	(25)	-

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

# Outlook of Overseas Subsidiaries (1)

Figures in the text are based on local currency.

## USA MILBON USA, INC

- Beauty salons have been temporarily closed since mid-March due to the lockdown, and also our field activities have been restricted, and that have begun to be affected by sales. Double-digit growth was seen in YoY in January and February, but declined by about 50% in March.
- In hair care products, the company focused on Global Milbon, which has an instant effect and a high reputation. The number of sales outlets increased by 1,103 (up more than 45% year on year), introduction through newly contracted distributors contributed to it.
- In January, the Company began selling the Sophistone Demi-color \*, a hair coloring product in the northeast and southwestern areas, where it operates distributors. 180 new outlets were acquired in 2 months.

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

- Movement restrictions, etc. began in January under the impact of COVID-19, and 90% of salons were closed in February under the instructions of the government. In March, many salons were open for business, but the number of customers visited was small. Even in April, people remained keenly conscious of self-restraint, and the number of store visits did not return as expected.
- Since mid-March, the company has been able to visit salons and other activities, and since April, it has been able to conduct activities that are close to normal.
- As a measure to recover, the company is working to create a new culture, such as offering quick-time colors to reduce salon stays and simplified treatments to increase salon treatment rates. Aim to raise the position of salons in a society and offer proposals that can be positive.

\* Colors hair without bleaching. Allows for delicate color adjustments in the blonde range.

## Outlook of Overseas Subsidiaries (2)

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Figures in the text are based on local currency.

### **KOREA (Milbon Korea Co., Ltd.)**

- In January, the company is doing well, and from February it will begin to be affected by restrictions due to COVID-19. The self-restraint mood widened in the Daegu region where the outbreak occurred, and the number of people in the streets dropped sharply in a central city. Both distributors and salons are taking time to recover. The company has been postponing the seminars at the studio, but as long as there are requests from salons, on-site activities are continuing.
- In the mainstay hair coloring products business, although sales have declined slightly due to the impact of COVID-19, sales of Ordeve Addicthy have begun to grow even in this circumstances, and are expected to grow in the future.
- As a new response, the company will use online education, social media, and YouTube to strengthen digital marketing, including new products.

## <Appendix> Hair Care Brand Positioning Map







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.