

**m i l b o n**

**Milbon Co., Ltd.**

Q3 Financial Results Briefing for the Fiscal Year Ending December 2023

November 10, 2023

## Event Summary

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<b>[Company Name]</b>	Milbon, Co., Ltd.
<b>[Company ID]</b>	4919-QCODE
<b>[Event Language]</b>	JPN
<b>[Event Type]</b>	Earnings Announcement
<b>[Event Name]</b>	Q3 Financial Results Briefing for the Fiscal Year Ending December 2023
<b>[Fiscal Period]</b>	FY2023 Q3
<b>[Date]</b>	November 10, 2023
<b>[Venue]</b>	Webcast
<b>[Number of Speakers]</b>	2
	Ryuji Sato Masahiro Murai
	Representative Director, President & CEO Managing Executive Director

## Presentation

**Murai:** I would now like to report the financial results at the end of Q3.

### Consolidated Operating Results (FY2023 9 months)

- ◆ Sales grew thanks to the strong performance of haircare products both in Japan and overseas. Overseas, especially in the U.S. and South Korea, is driving growth.
- ◆ Profit decreased due to the persistent high cost of raw materials, the inventory write-down of Elmista, the hairdryer, and the rising SG&A expenses from the intensified sales activities.

(Unit: million yen)

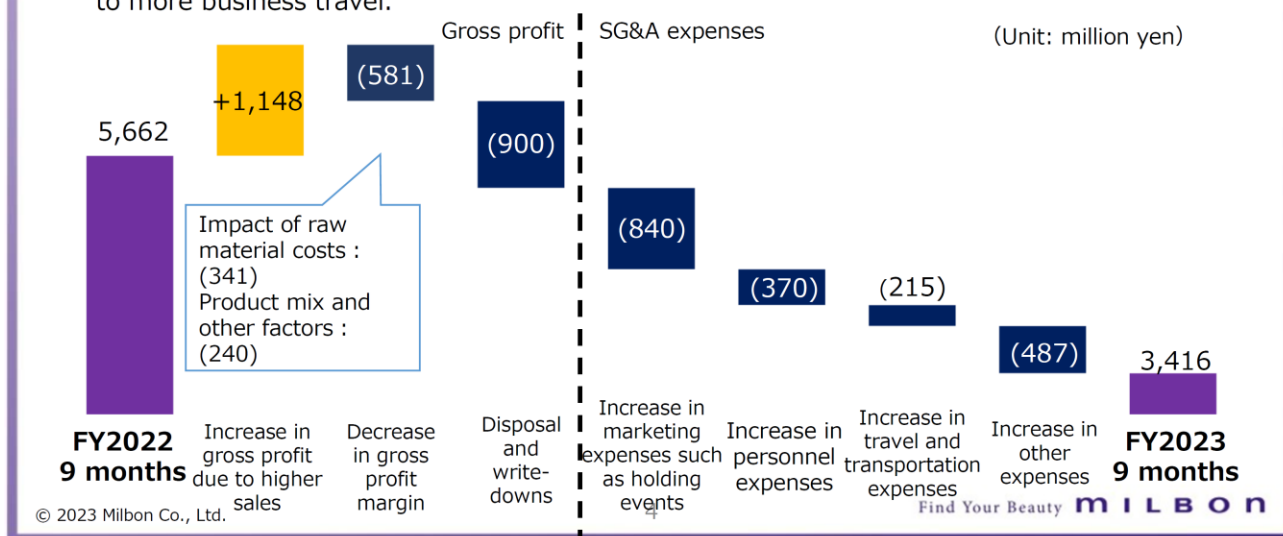
	FY2022 9 months	% total	FY2023 9 months	% total	Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
Net sales	32,407	100.0	34,150	100.0	1,742	5.4	(1.0)
Gross profit	21,357	65.9	21,023	61.6	(333)	(1.6)	(6.5)
SG&A expenses	15,694	48.4	17,607	51.6	1,912	12.2	0.1
Operating income	5,662	17.5	3,416	10.0	(2,245)	(39.7)	(30.3)
Ordinary income	6,042	18.6	3,502	10.3	(2,539)	(42.0)	(29.1)
Profit attributable to owners of parent	4,310	13.3	2,489	7.3	(1,821)	(42.3)	(28.3)

First of all, I would like to take a look at the consolidated operating results.

There was an increase in sales due to strong sales of haircare products in Japan and overseas, and also very good sales in South Korea and the US, which drove the growth. However, due to the high cost of raw materials and the write-down of Elmista, the profit for the period unfortunately saw a decrease.

## Factors in YoY Changes in Consolidated Operating Income

- The gross profit margin declined due to the persistent high cost of raw materials and the product mix effect of lower sales of hair coloring products.
- A write-down of 900 million yen was recorded due to the lowering of the sales forecast for the hairdryer.
- Marketing expenses increased as the company hosted educational seminars and events in Japan and overseas amid the COVID-19 recovery.
- Personnel expenses increased due to an increase in personnel, annual salary increases, as well as the base pay hike implemented in April.
- Travel expenses increased due to higher airfares and other transportation costs, in addition to more business travel.



The factors behind the YoY changes in operating income are summarized on this page.

Operating income for the previous fiscal year was JPY5,662 million. First of all, there is an increase in sales, and there is also an increase in gross profit due to this increase.

Regarding the decrease in profit, besides the write-down of Elmista, expenses also include increased costs related to the holding events, increased personnel expenses due to the raise of base salaries, and increased travel and transportation expenses due to more active activity. As a result, the operating profit for FY2023 Q3 was JPY3,416 million.

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

### Consolidated Net Sales (FY2023 9 months)

(Unit: million yen)

FY2022 9 months	FY2023 9 months	Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
18,415	19,933	1,517	8.2	0.0

- Sales of Premium Brands rose 14.7% YoY. The strong performance of the Inmmetry Line, Aujua's new product, and the increase in the number of touchpoints of Global Milbon in Japan and overseas contributed to the increase in sales.
- Professional Brands sales decreased by 0.1% YoY. New products such as Elujuda Sun Protect and Miincurl showed strong performance, while some brands that lacked product launches or market activities suffered a decline in sales.
- The milbon:iD is progressing well, with 590,000 registered members, 5,720 registered salons, and 1,080 million yen in EC sales (720 million yen at the end of the 3Q of FY2023).

\* Sales growth by brand is based on consolidated gross sales.

I think things are going extremely well for our haircare products. In terms of percentage change, this is an 8.2% increase, which is where we are moving in line with the revised plan.

Premium Brands continue to perform well, with an increase of 14.7%.

I understand that the registered members of milbon:iD are increasing steadily, and the number of registered salons is also increasing. As for EC sales, I think we can say we are in course of the projected path for this year.

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

### New Products FY 2023 9 months

#### Aujua Hair Care Series Inmmetry Line

A new line that corrects distortion\*<sup>1</sup> in the hair and frees from the habit of blow drying and ironing to condition hair, leading to lustrous and manageable hair with just a dry.

(Unit: million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
1,100	780	71.0



Debut on February 11, 2023

#### Global Milbon Milbon& Aromatic Series

A haircare brand tailored to a variety of hair types, providing moisture, smoothness, and manageability while offering a selection of fragrances.

(Unit: million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
250	86	34.5



Debut on April 11, 2023

\*1 A condition in which curly or wavy hair suffers from damage, losing its shine and smoothness  
\* Sales figures for each brand are based on shipment value.

Let's turn to the status of our new Premium Brand products. This time we have released these products. In particular, we believe that the Inmmetry is doing well.

## Consolidated Sales by Product Category [Hair Care Products (3)]

### Miincurl Iron Keep Primer

A pre-ironing primer oil that protects hair from the heat of the iron and keeps the ironed hair design soft and hydrated for a long time.

(Unit: million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
150	143	95.9



Debut on March 11, 2023

### Elujuda Sun Protect

Elujuda's new sun care products that shield hair from the harmful rays of the sun while maintaining its moisture throughout day. Four items with different forms and usage timings to choose from.

(Unit: million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
400	454	113.7



Debut on March 11, 2023

\* Sales figures for each brand are based on shipment value.

As for new Professional Brands products, I think we can say without a doubt that these products are also performing well.

## Premium Brand: Aujua

New products "Inmmetry Line" led the growth in Japan.

### Number of Salons\*1

(Unit: salons)

FY2022	FY2023	Increase/ Decrease	Increase/ Decrease ratio (%)
6,022	6,633	611	10.1

### Consolidated Gross Sales (FY2023 9 months)

(Unit: million yen)

FY2022 9 months	FY2023 9 months	Increase/ Decrease	Increase/ Decrease ratio (%)
6,838	7,523	685	10.0

### Brand Concept

A premium hair care brand born in consideration of Japan's social climate, culture, and characteristics of the hair of the Japanese people.

### What is Aujua?

A wide range of product lineups offering personalized treatment for each individual's needs and hair type.

### Product Range

Aujua supports diverse perspectives on beauty, now and into the future, by addressing each individuals' hair and skin concerns and offering the most appropriate item for that time.

• 5 series / 17 lines / 112 items

Eternal stage series

Aging care series

Hair care series

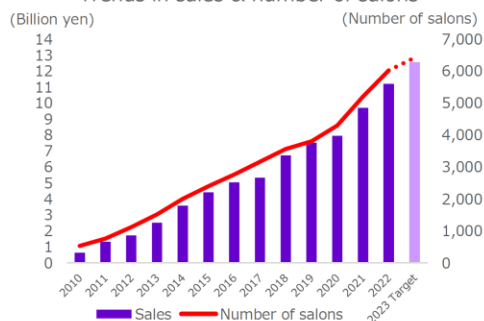
Scalp care series

Climatic care series

# Aujua



Trends in sales & number of salons



\* Figures in the graph are based on non-consolidated total sales through 2018 and on consolidated total sales since 2019.

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

Then, we have the Premium Brand Aujua. As for the brand, both the number of touchpoints and sales volume increased by 10%, so I hope you can see that we continue to do very well.



## Premium Brand: Global Milbon

Increases in the number of touchpoints in Japan and overseas, particularly in the U.S., contributed to the increase in sales.

### Number of Salons\*1

(Unit: salons)

FY2022	FY2023	Increase/ Decrease	Increase/ Decrease ratio (%)
18,400	21,919	3,519	19.1

### Consolidated Gross Sales (FY2023 9 months)

(Unit: million yen)

FY2022 9 months	FY2023 9 months	Increase/ Decrease	Increase/ Decrease ratio (%)
3,627	4,510	883	24.3

### Brand Concept

A system hair care brand that cultivates the "unique beauty" of each individual, achieving "360 Degree Beautiful Hair."

### Countries and regions with Salons

The brand is available in the following countries and regions:  
Japan, USA, Hong Kong, China, Thailand, Taiwan, Turkey, Malaysia, Vietnam, Indonesia, the Philippines, Singapore, Germany, Korea, Canada

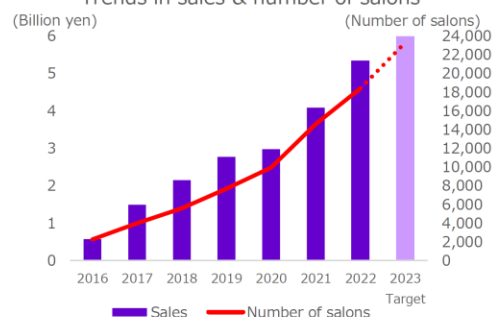
### What is "Global Milbon"?

Based on the hair research technology we have cultivated since our founding, we analyzed diverse hair characteristics from 20 countries. Our analysis broke down the factors for common hair damage phenomena derived from our research, leading to the establishment of a new hair care system. This line contains ingredients that penetrates the shaft with its high affinity to repair hair's inner porosity and to improve hair's overall integrity, from the inside out.

## MILBON



### Trends in sales & number of salons



\* Figures in the graph are based on non-consolidated total sales through 2018 and on consolidated total sales since 2019.

\* Sales figures are based on shipment value.

Then we have Global Milbon. This brand is also available overseas, and the number of touchpoints is increasing, especially in the US. The number of touchpoints increased by 19.1%, and the sales volume increased by 24.3%, showing high growth. I think the US is doing particularly well.

## Consolidated Sales by Product Category [Hair Coloring Products]

### Consolidated Net Sales (FY2023 9 months)

(Unit: million yen)

FY2022 9 months	FY2023 9 months	Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
12,333	12,431	97	0.8	(2.1)

- Hair coloring products sales in Japan decreased by 1.2% YoY. Inventory adjustment by distributors, which impacted us until the first half of the year, is showing signs of settling down, but sales are still believed to be limited by the plateauing demand for hair coloring using hair bleach. The strong performance of "Ordev Crystal High Bright," launched in July, will allow us to enhance further our proposal and education activities for hair coloring products.
- Overseas, sales rose 7.8% YoY. Gray color products in South Korea, where hair coloring products are the main source of sales, and SOPHISTONE in the U.S. drove the growth.

### New Products FY 2023 9 months

#### Ordev Crystal High Bright

A new line of Ordev Crystal, a gray color brand launched in 2015.

It is a "fashion color for mature people" that brings brightness, vibrancy, and transparency akin to fashion colors.

FY2023 target	FY2023 9 months	Progress rate (%)
150	132	88.2

(Unit : million yen)



Debut on June 8, 2023

\* Sales growth by brand is based on consolidated gross sales.

Next is the hair coloring products. This area was affected by inventory adjustments by many distributors this fiscal year, but we believe that this is coming to an end.

We have launched Ordev Crystal High Bright among our new products, which is doing well.

As for overseas hair coloring products, the YoY increase was 7.8%, which we see as a steady growth as well.

## Premium Organic Brand: Villa Lodola (1)

Sales remained steady, especially for the mainstay product Villa Lodola Color.

### Number of Salons\*1

(Unit: salons)

FY2022	FY2023	Increase/ Decrease	Increase/ Decrease ratio (%)
12,458	13,262	804	6.5

### Consolidated Gross Sales (FY2023 9 months)

(Unit: million yen)

FY2022 9 months	FY2023 9 months	Increase/ Decrease	Increase/ Decrease ratio (%)
964	991	27	2.8

### Brand Concept

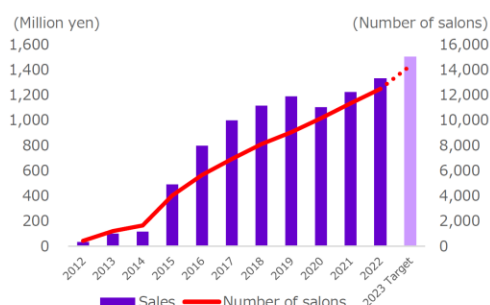
Organic brand that proposes lifestyles that fulfill the beauty of people and the environment

### What is Villa Lodola?

Based on the philosophy of "Beauty, the Organic Way", the brand is fully committed to the natural environment not only in its products, but also in its manufacturing process, packaging, and promotional tools. All products are certified by ICEA, an Italian organic certification organization. Organic hair care born in Italy, where nature's blessings bring beauty to hair and skin.



Trends in sales & number of salons



\* Figures in the graph are based on non-consolidated total sales through 2018 and on consolidated total sales since 2019.

\*1 Number of contracted salons

\* Sales figures are based on shipment value.

Then next is the organic Villa Lodola. You can come back to this later, but I think we can say that it has been steady and strong.

## Premium Organic Brand: Villa Lodola (2)

### New Products FY 2023 9 months

#### Villa Lodola Renovo Tempus / Fulgens

A series that extends hair color longevity with the reparative effects of nature's blessings, promoting healthy beauty in both the scalp and hair. Two types of shampoos and treatments to choose from, each tailored to different hair types.

(Unit : million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
100	46	46.0



Debut on April 11, 2023

\* Sales figures for each brand are based on shipment value.

This is a new product. You can come back to this later.

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

### Consolidated Net Sales (FY2023 9 months)

(Unit: million yen)

FY2022 9 months	FY2023 9 months	Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
391	421	30	7.7	(1.8)

- Imprea, the brand shipped directly to salons<sup>\*1</sup>, saw an increase in sales thanks to the new products that coordinate well with hair color and are easy for hairstylists to recommend to their customers. However, the existing skincare products are struggling to grow, and we will implement strategies to keep customers loyal.
- “Beauty Up Mist”, a product from the “Im” brand that is distributed by distributors<sup>\*2</sup>, was launched in July and achieved sales that significantly exceeded the full-year target in the first month. We plan to increase the number of touchpoints by leveraging the high ratings of the product from hairstylists who have tried it and by creating more opportunities for hairstylists to try it.

\*1 Same as our Premium Brands of haircare products, the product inventory is shipped directly from Milbon to salons while distributors remain to be part of our supply chain.

\*2 Same as Professional Brands of haircare products, distributors stock products and sell them to salons.

Let’s see the cosmetics. This category secured a 7.7% increase in sales over the previous year. Although it is a little short of our plan, I feel that we are getting better and better, and that our product reputation is growing.

We have launched Im, new cosmetics brand for distributor delivery, and I think it is also doing relatively well. I think more time is needed, but I think this is a promising area.

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

### New Products FY 2023 9 months

#### iMPREA Milky Soufflé UV

An airy, soufflé-textured sunscreen cream that blocks powerful ultraviolet rays and protects the skin from damage caused by dryness and other factors to the stratum corneum.

(Unit: million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
32	48	152.6



Debut on February 11, 2023

#### Im Beauty Up Mist

Make-up setting mist launched by a new cosmetics brand "Im," a distributor-distributed brand. Two types are available to choose from based on your favorite makeup texture.

(Unit: million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
20	39	196.1



Debut on June 6, 2023

\* Sales figures for each brand are based on shipment value.

This is the status of our new cosmetic products. You can come back to this one later, too.

## Premium Brand: iMPREA

Sales increased driven by new products, although existing products sales struggled.

### Number of Salons\*1

(Unit: salons)

FY2022	FY2023	Increase/ Decrease	Increase/ Decrease ratio (%)
1,601	1,914	313	19.6

### Consolidated Gross Sales (FY2023 9 months)

(Unit: million yen)

FY2022 9 months	FY2023 9 months	Increase/ Decrease	Increase/ Decrease ratio (%)
391	402	10	2.8



### Brand Concept

The brand concept of iMPREA is "Revolutionize Your Aura with your Professional Stylist". We will provide new beauty value by leveraging Professional Stylists' ability to provide solutions, by utilizing their strengths.

### 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 complexion by establishing a good balance of moisture in the "horny layer keratin" on the surface of the skin, which holds the key to complexion.

### "Revolutionize Your Aura with your Professional Stylist"

This is a communication method that takes advantage of the unique strengths of hair salons, in which the hair stylist crafts your aura by approaching a total impression of both the hair and face. We deliver an aura change that is unique to you.

\*1 Calculated based on the past year's shipment results.  
\* Sales figures are based on shipment value.

Now, the iMPREA brand. This is also the same. We expect that it will do well.

## Consolidated Sales by Product Category [Other]

### New Products FY 2023 9 months

#### Elmista (Results for dryer unit only)

A hair dryer, jointly developed with Panasonic, that micronizes and atomizes beauty serum. Five types of serums are available to choose from according to hair concerns and desired texture.

(Unit: million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
300*1	80	26.7



Debut on April 11, 2023

#### Alanous

Nearly 20 years of 5-ALA research led to the creation of a beauty supplement that comes in two types: "ALANOUS 5-ALA," a functional food that helps maintain skin hydration, and "ALANOUS 5-ALA BEAUTY MULTI CARE," a health food that supports overall wellness.

(Unit: million yen)

FY2023 target	FY2023 9 months	Progress rate (%)
70	41	59.8



Debut on September 7, 2023

\* Sales figures for each brand are based on shipment value.

Let's look at the status of the other category, Elmista and Alanous. This is a new business, and it is not an easy one, but I hope you can see how the numbers are trending.



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

(Unit: million yen)

Category	FY2019	FY2020	FY2021	FY2022	FY2023 9 months	FY2023 Plan	
Capital expenditures	1,605	1,917	4,644	4,097	2,112	2,927	
Depreciation and amortization	1,453	1,562	1,777	2,026	1,635	2,301	
R&D exp.	Amount	1,534	1,581	1,741	2,074	1,666	2,372
	% to sales	4.2	4.4	4.2	4.6	4.9	4.8

### FY2023 CAPEX Main Items (Plans)

#### Sales Offices, Studios

- Establishment and maintenance of business locations (Relocation of Fukuoka Sales Office, etc.)
- HR Development Center

#### Production system

- Yumegaoka Factory (Machinery and equipment)
- Thailand Factory (Machinery and equipment)

#### Digital

- milbon:iD
- education:iD
- Smart Salon (Digital marketing, etc.)

#### Others

- Internal infrastructure, production equipment, etc.
- Innovation Center

We have also included the trends in capital expenditures. It includes our plan for this fiscal year, and I think things are going fairly well.

## Trends in Fieldpersons (FPs)

### Fieldpersons Trends (by Country) (Average number of FPs during the period)

	FY2021	FY2022	FY2023
JAPAN	328.2	335.4	350.5
	102	105	-
USA MILBON USA, INC.	13.2	13.0	13.3
	68	102	-
CHINA Milbon Trading (Shanghai) Co., Ltd.	29.8	31.6	34.3
	72	66	-
SOUTH KOREA Milbon Korea Co., Ltd.	26.0	32.8	33.8
	130	126	-
Others *1	36.0	36.2	37.8
	41	63	-

The number of Fieldpersons reported represents the average number during the period and is not as of January 1. Please note that the calculation method was changed starting from FY2022 3Q, and the figures for 2021 have been recalculated accordingly based on the new method.

Upper column: Average number of FPs during the period (persons)

Lower column: Net sales per FP (million yen)

(As of September 30, 2023)

-28 FPs joined in April 2023, and are currently in OJT on site.

-9 FPs are scheduled to join in October 2023.

(The above 37 FPs are not included in the left chart.)

\*1 Thailand, Vietnam, Malaysia, Taiwan, Hong Kong, Turkey, Indonesia, the Philippines, Singapore, Germany and others

Then, these are the trends in Fieldpersons. They are shown by country. The number is also gradually increasing in each country, and I think we can say that things are going relatively well.

## Consolidated Net Sales in Japan and Overseas

### FY2023 9 months

(Unit: million yen)

	FY2022 9 months		FY2023 9 months		Increase/ Decrease	Increase/ Decrease ratio (%)	Changes in local currency base <sup>*1</sup> (%)	Vs. plan ratio (%)
	Net sales	% to sales	Net sales	% to sales				
Consolidated net sales	32,407	100.0	34,150	100.0	1,742	5.4	4.3	(1.0)
JAPAN	25,062	77.3	25,829	75.6	767	3.1	3.1	(0.9)
Overseas	7,345	22.7	8,320	24.4	975	13.3	8.5	(1.4)
USA	882	2.7	1,225	3.6	342	38.9	28.0	5.9
CHINA	1,649	5.1	1,729	5.1	79	4.8	3.3	(9.8)
SOUTH KOREA	3,150	9.7	3,495	10.2	345	11.0	5.4	1.3
Other <sup>*2</sup>	1,662	5.1	1,870	5.5	207	12.5	9.3	(2.2)

### [Reference] Exchange rate

(Unit: yen)

	FY2022 9 months	FY2023 9 months
USA (USD)	128.67	139.55
CHINA (CNY)	19.44	19.73
SOUTH KOREA (KRW)	0.1011	0.1064

\*1 Figures are the rates of change in real terms on a local currency basis

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

Let's look at domestic and overseas net sales. In Japan, sales increased by 3.1%. Overseas sales increased 13.3%, or 8.5% excluding the effect of exchange rates.

As I mentioned earlier, the US is doing very well and growing significantly.

## Consolidated Operating Income in Japan and Overseas

### FY2023 9 months

(Unit: million yen)

	FY2022 9 months		FY2023 9 months		Increase/ Decrease	Increase/ Decrease ratio (%)	Vs. plan ratio (%)
	Operating income	Operating income ratio(%)	Operating income	Operating income ratio(%)			
Consolidated operating income	5,662	17.5	3,416	10.0	(2,245)	(39.7)	(30.3)
JAPAN	4,587	18.3	2,373	9.2	(2,213)	(48.3)	-
Overseas	1,074	14.6	1,042	12.5	(32)	(3.0)	-
USA	(193)	(21.9)	(48)	(4.0)	145	-	-
CHINA	(1)	(0.1)	69	4.0	70	-	-
SOUTH KOREA	1,092	34.7	991	28.4	(101)	(9.3)	-
Other*	176	10.6	30	1.6	(146)	(82.9)	-

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

Then, this is the domestic and overseas operating income. As I mentioned earlier, domestic operating income declined significantly.

Overseas profits also declined, but since we had anticipated an increase in expenses in South Korea, where profits are high, due to increased sales activities in the current fiscal year, we hope that the results were generally in line with our plan.

## Outlook of Overseas Subsidiaries (1)

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### USA (Milbon USA)

- The 3Q sales of this year showed a significant increase, partly as a result of the recovery from the delayed sales to the 4Q caused by the shipment issues in the 3Q of the previous year.
- Global Milbon haircare products, which make up 80% of the sales, continues to perform well. The Company has expanded its new touchpoints by successfully turning distributor sales reps and hairstylists into product fans through various educational events.
- Sales of SOPHISTONE, a hair color brand tailored for the European and North American markets, also saw an increase in sales as the Company conducted educational events to introduce the product and turn the attendees into product fans.
- Revenue narrowed the deficit due to higher sales, but it remained in the red due to expenses related to educational events held to expand the sales of products as well as higher logistics costs. In terms of logistics costs, the integration of logistics centers has reduced warehousing costs, but rising shipping costs remain an issue. In response, the Company will work to improve its logistics system.

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Figures in the text are based on local currency.

I will briefly explain the situation overseas. Global Milbon, which accounts for 80% of the sales of MILBON USA, is doing very well. Training sessions and events for distributors and hairstylists are showing a positive effect. We are also earning enthusiasts of SOPHISTONE, our hair coloring products.

## Outlook of Overseas Subsidiaries (2)

### CHINA (Milbon China)

- Salon customers are changing and demanding more reasonable and high-quality services from salons. The number of customers visiting salons and the unit price per service have been on a downward trend, and the Company has been affected by this trend, with sales declining in the three months of the 3Q. However, due in part to a rebound to the lockdown of some areas in the 2Q of last year, sales increased on a cumulative basis.
- The Company provides salons with service planning and technical training to adapt to customer changes. In addition to these initiatives, the introduction of professional-use treatments such as “Grand Linkage” and “Global Milbon” to salons has led to steady growth in haircare products.
- Sales of hair coloring products were weak due to a decline in the frequency of color services among salon customers as well as the outbreak of counterfeit products. The Company will seek to differentiate its products by offering service planning and education to salons to increase the value of in-salon coloring, and will accelerate proposals of the hair color product Ordeve Addicthy, which caters to trends among young customers.
- The cumulative profit for the 3Q increased due to higher sales, despite higher personnel expenses due to increased headcount and higher travel and transportation expenses due to increases in hotel and airfare prices.

\* Figures in the text are based on local currency.

As for China, I think there is no doubt that the market is becoming very difficult at the moment. In this context, we believe that Milbon is doing quite well.

I don't think we have exact figures, but we have heard from local people that perhaps manufacturers other than Milbon are seeing their sales decrease, so I think we are doing very well.

## Outlook of Overseas Subsidiaries (3)

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### SOUTH KOREA (Milbon Korea)

- As for hair coloring products, which account for more than 70% of total sales, gray color products remained steady due to the aging population. On the other hand, fashion color products are affected by changes in color trends. In order to increase resilience to changing trends, the Company aims to achieve sustainable growth by further strengthening the haircare and perm categories in the next fiscal year and beyond.
- Sales of haircare products, especially Global Milbon, performed well. Sales are increasing due to the expansion of touchpoints through collaboration with excellent distributor representatives.
- The decrease in profit was due to higher marketing expenses for educational events targeting Millennial and Gen Z hairstylists, who have a high influence on the industry. In the 4Q, the Company will continue to hold events to increase awareness of its products and education, as well as affinity for Milbon.

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\* Figures in the text are based on local currency.

Let's look at South Korea. Gray color products are doing well here. I would also say that Global Milbon haircare products are also expanding steadily with the help of our distributors.

## Revision to Consolidated Operating Results Forecast (1)

- ◆ The revision of the consolidated net sales forecast is due to the fact that the full-year sales forecast for “Elmista,” the hairdryer introduced in Japan has been reduced by 180 million yen, from 300 million yen to 120 million yen.
- ◆ In addition to lower net sales, we lowered profit forecast due to a 900 million yen inventory write-down of “Elmista.” Despite our sales efforts, sales did not proceed as expected. After recalculating the sales forecast, it became clear that we would have to keep the product in inventory for a longer period of time than originally expected, resulting in the write-down in the 3Q.

(Unit: million yen)	FY2022	FY2023 Initial target	% total	FY2023 Revised target (As of August 10)	% total	FY2023 Revised target	% total	Increase/ Decrease
Net sales	45,238	49,200	100.0%	48,000	100.0%	47,820	100.0%	(180)
Gross profit	29,509	32,160	65.4%	31,250	65.1%	29,900	62.5%	(1,350)
SG&A expenses	21,957	23,860	48.5%	23,900	49.8%	23,900	50.0%	0
Operating income	7,551	8,300	16.9%	7,350	15.3%	6,000	12.5%	(1,350)
Ordinary income	7,829	8,250	16.8%	7,370	15.4%	6,160	12.9%	(1,210)
Profit attributable to owners of parent	5,577	5,800	11.8%	5,200	10.8%	4,260	8.9%	(940)

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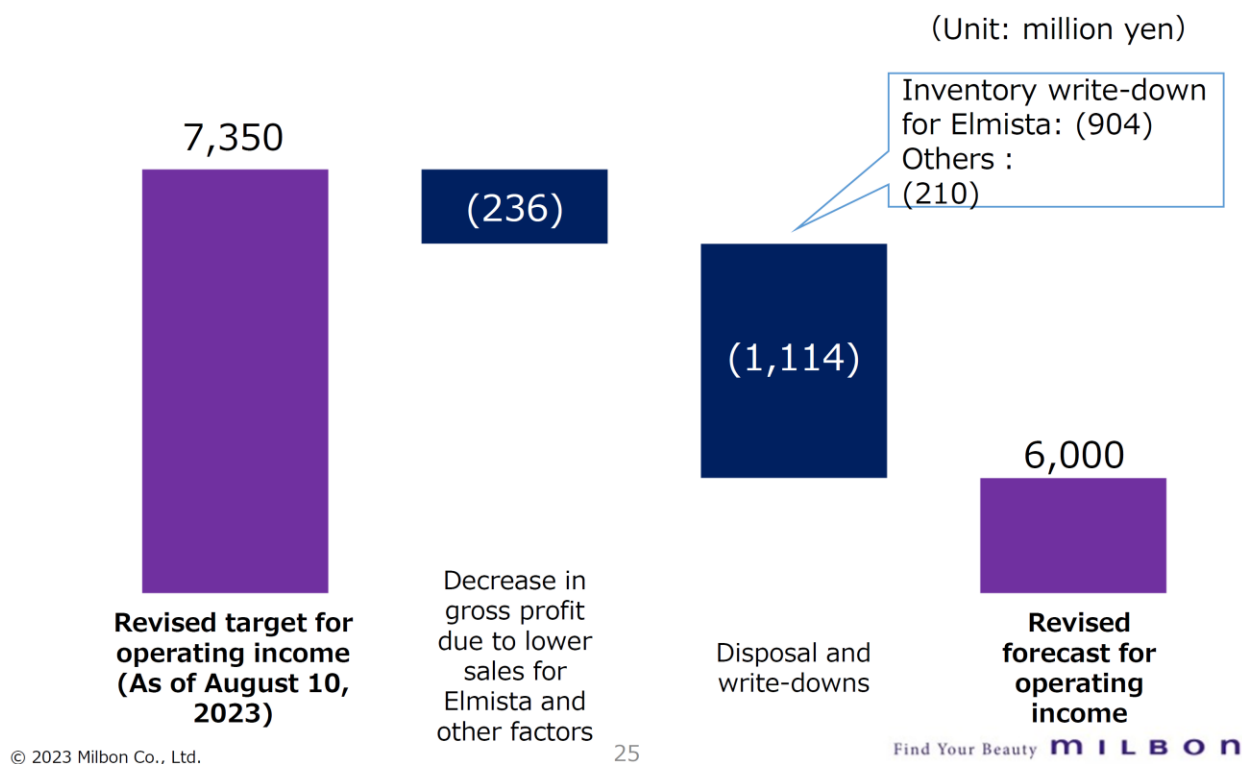
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We have also issued a revised forecast of our financial results. Unfortunately, we must admit that sales of hair dryers did not perform as expected, and although we had set a revised target of JPY300 million for this fiscal year, we reduced the amount to JPY120 million.

We also considered various options for Elmista, but we had no choice but to post a write-down of JPY900 million.



## Revision to Consolidated Operating Results Forecast (2) Factors Affecting Changes in Operating Income



We have reviewed the revised target due to variable factors of operating income. The revised target of JPY7,350 million has been renewed to JPY6,000 million. This is solely due to the decrease in sales of Elmista and the write-down. They are the only variable factors for this revision.

Sato does not usually speak for Q3, but I will ask him to discuss the dryer business and Elmista in detail. Please.

**Sato:** My name is Sato. Thank you very much for your continued support.

As just mentioned, I usually don't speak at Q3, but since Elmista has suffered a major impairment this time, I would like speak to explain how this happened properly and our determination.

## Factors That Led the Hairdryer Business to Fall Short of the Goal

Sales of the hairdryer fall short of the target due to overly optimistic sales goals and inadequate pre-launch review of issues.

### Overly optimistic sales goals

- Overconfidence in the distinctive product feature of “beauty serum atomization”
- Overreliance on the association with brands such as Aujua and Global Milbon as a purchasing motivator

Overconfidence in the product’s performance and brand partnerships led to overly ambitious sales targets.

### Inadequate pre-launch review of issues

- Insufficient verification of challenges related to the professional use of the product in salons.
- Insufficient preparation due to lack of experience in selling and marketing beauty appliances.

Insufficient strategies to promote the product to salons resulted in a deficiency in the customer journey from experiencing the product to making a purchase.

First of all, I think the biggest factor that caused the gap from the target in the dryer business is basically a miscalculation in setting the sales target.

What I mean by that is that our unique technology of atomizing beauty serum, which exactly constituted the product’s strength, was highly evaluated at the testing stage. We were overconfident that this could be quite sensational.

The other thing is our signature brands: Aujua and Global Milbon to be put in the beauty serum. The brand is strong, especially with Aujua. Under such circumstances, we became overconfident with the brand and product power and believed we could expect great sales volume, while forgetting that we were selling hair dryers for the first time. I believe this is the major factor.

So, why the JPY900 million impairment? As explained earlier, our unique technology of atomizing beauty serum took more than six months to manufacture from order placement to procurement of parts and materials, and production. This resulted in an overconfidence in our initial sales plan, and we ended up with a large inventory.

As I mentioned in the interim briefing, there were issues to be addressed regarding how the products would be used after being delivered to beauty salons and how to create a sales flow line, which we believe we did not fully plan out even though it was our first time to sell hair dryers. But above all, sales targets were all that mattered. The miscalculation was the biggest factor and led to a large impairment. We will properly review how this happened and develop a system to prevent a recurrence in the future.

## Marketing Policy for Elmista During the Year

Based on the successful cases from July to September, we will implement initiatives to boost year-end sales with supportive salons and carry the momentum into the next year.

### Successful cases from Jul. to Sep.

High level of customer satisfaction with the hair finish after using the product.

The appearance of salons that can sell the product to their customers by using creative techniques.

Conducting a trial and purchase event for milbon:iD customers.

### Creating opportunities for customers to try the product before buying it

- Rental service for customers (11/1-12/31) started.
- This service allows customers to rent Elmista for 1 week for 1,980 yen via "Rentio", a home appliance rental service.

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### Initiatives to raise awareness

- Pop-up at Panasonic Beauty OMOTESANDO
- Rental service information email sent to milbon:iD members.

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### Year-end promotion

- Buy one dryer unit and get six Airconc (beauty serum cartridges) for free.

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In Q3 of the year, we are working in cooperation with salons to prepare for the year-end sales season. Some salons like it very much and recommend it to their customers. We plan to collect successful cases of such salons and the type of counseling services they provide to their customers, so we can utilize them for Q4.

In Q4, we plan to establish a rental service system to encourage as many customers as possible to use our products, and we also plan a pop-up store in Panasonic Beauty OMOTESANDO, as well as offer complimentary Airconc cartridges as part of our year-end promotion for customers who purchase a hair dryer. Like this, we plan to set a certain goal by the end of the year as to how to sell them in the future.

## Marketing Policy for Elmista for Next Years and Beyond

Using the results of the year-end sales campaign in 2023 as a foundation, we will launch new initiatives.

### Product

- Launch two types of Airconcs from Elujuda brand, our most renowned brand for leave-in treatments.

### Sales activity

- Expand the distribution of Elmista by adapting it to a distributor-based model for salons (previously only available through direct salon delivery).
- Conduct introduction activities targeting the 40,000 salons that are the touchpoints for Eljuda

### Awareness / experience

- Enhance product awareness through in-house social medias and YouTube.
- Provide opportunities to experience the product through ongoing rental services.

Then, based on the results of the year-end sales, we will develop a new strategy for the next year. We have impaired about 53,000 units this time, which amounted to about JPY900 million, but we still have inventory. We will make sure that we will sell them properly.

Among leave-in treatment products, we offer Elujuda, the best-selling leave-in treatment, in addition to Aujua and Global Milbon. We plan to add the Airconc cartridge of this.

The Airconc and the dryer unit will be promoted to 40,000 customers and salons that use Elujuda, as compared to 16,000 salons that use Aujua and Global Milbon. Then, the access could be expanded from 16,000 touchpoints to 56,000 touchpoints.

In addition, since Elujuda is delivered by distributors, we will work with distributors to make proposals to salons for future sales.

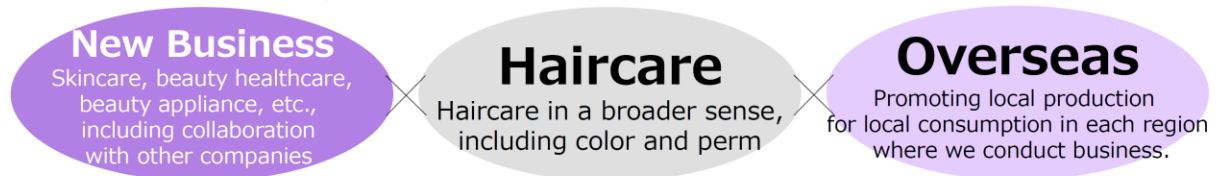
We will also create and try a rental service system at the end of the year and develop further next year.

In this situation, we try to land at JPY120 million this year, and we are aiming to exceed this year's figure by next year, and we will continue to create the market for the future without giving up.

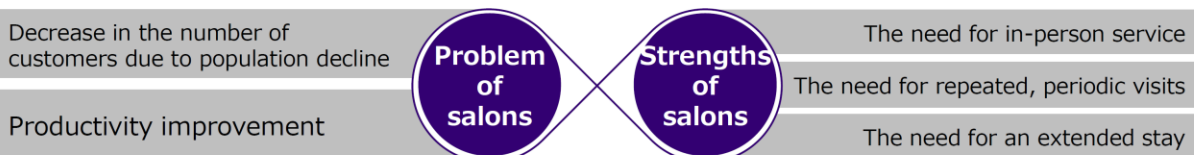
It is of course important to make the impairment happen early this time. As you are all aware, Milbon will operate under a new structure from the next fiscal year. I have come to a conclusion that I should not leave any negative legacies on the new system and have decided to make this happen this Q3.

## Significance of New Business Initiatives

We are working on new business initiatives in new product categories as the third growth strategy, alongside 'Hair Care' and 'Overseas,' aiming for sustainable growth.



### The key points of new business initiatives



**Potential to improve the productivity of salons by expanding product sales and offering other services beyond hair.**

As for the significance of our efforts in a new business, as you all know, the decline in the population is significant in terms of our beauty and hair business. It truly shows the size of the market. It is said that by 2030 the population decline will be roughly 5% of the current figure, and some estimates suggest that by 2050 the population will be less than 100 million.

For now, our haircare business is growing steadily, and our core pillar of haircare products, and the sales of overseas business, which has been in operation for a little over 10 years, will exceed JPY10 billion this year. This is the second pillar.

Thirdly, skincare and beauty healthcare, and beauty appliances that make them appealing. This is the third pillar, and we will review the business as necessary and take on the challenge to make it grow into a core pillar. We truly hope this will lead to Milbon's sustainable growth.

# Return to Shareholders

## Dividend Forecast

Year-end dividend is set at 48 yen, as originally planned.  
Total dividend for the year is expected to be 88 yen.

(Unit: yen)	FY2021	FY2022	FY2023	FY2023 Forecast
End of 2Q	30	40	40	-
End of FY	38	46	-	48
Total	68	86	-	88
Consolidated dividend payout ratio	43.3%	50.2%	-	67.2%

Lastly, as for shareholder returns, we have set the total annual dividend at JPY88. We will make this commitment as planned, and when the dividend payout ratio temporarily increases, we will return the amount to our shareholders properly so we can look forward to a better next fiscal year.

Thank you for your attention.

[END]

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