



Consolidated Financial Results for the Nine Months Ended September 30, 2019 [Japanese GAAP]

October 28, 2019

Tokyo Stock Exchange, First Section

Name of registrant: Milbon Co., Ltd.
 Code No.: 4919 URL <http://www.milbon.co.jp>
 Representative: Ryuji Sato, President and CEO
 Inquiries: Masahiro Murai, Managing Director
 Scheduled filing date for quarterly report: November 8, 2019
 Scheduled starting date of dividend payments: -
 Preparation of supplementary materials on the quarterly results: Yes
 Holding of an explanatory meeting on the quarterly results: None

TEL: +81-3-3517-3915

(Amounts of less than one million yen have been omitted.)

1. Consolidated financial results for the nine months ended September 30, 2019 (January 1, 2019 - September 30, 2019)

(1) Consolidated operating results

(Percentages show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2019	26,651	9.0	5,175	10.4	4,804	9.4	3,411	2.6
Nine months ended September 30, 2018	24,444	-	4,687	-	4,393	-	3,324	-

(Note) Comprehensive income Nine months ended September 30, 2019: 3,307 million yen Nine months ended September 30, 2018: 3,395 million yen [-%]
 [(2.6)%]

	Basic earnings per share		Diluted earnings per share	
	Yen	Yen	Yen	Yen
Nine months ended September 30, 2019	104.21	-	-	-
Nine months ended September 30, 2018	101.55	-	-	-

(Notes)

- From the three-month period ended March 31, 2019, the Company has early applied the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 30, 2018) and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 issued on March 30, 2018). In accordance with the principle treatment, the new accounting policy has been applied retrospectively to all prior-period financial statements.
- As of the fiscal year ended December 31, 2017, the Company changed its fiscal year end from December 20 to December 31. For the consolidated accounting, overseas consolidated subsidiaries changed their fiscal year end from September 30 to December 31. Therefore, year-on-year changes are not stated for the nine months ended September 30, 2018, because the nine-month period ended September 30, 2018 (January 1, 2018 to September 30, 2018) differs from that of the previous nine-month period (December 21, 2016 to September 20, 2017).

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen	Million yen	Million yen	Million yen	%	%
As of September 30, 2019	39,393	34,590	34,590	33,151	87.8	83.6
As of December 31, 2018	39,634	33,151	33,151	33,151	83.6	83.6

(Reference) Equity As of September 30, 2019: 34,590 million yen As of December 31, 2018: 33,151 million yen

(Note) The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issued on February 16, 2018), etc., from the beginning of the three-month period ended March 31, 2019. Accordingly, figures of total assets and equity ratio for the fiscal year ended December 31, 2018 have been adjusted to reflect the retrospective application of the aforementioned accounting standard, etc.

2. Payment of dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of fiscal year	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	-	24.00	-	30.00	54.00
Year ending December 31, 2019	-	27.00	-	-	-
Year ending December 31, 2019 (forecast)	-	-	-	27.00	54.00

(Note) Changes to latest dividends forecast: None

3. Consolidated operating forecasts for the fiscal year ending December 31, 2019 (January 1, 2019 - December 31, 2019)

(Percentages show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	Yen
Year ending December 31, 2019	36,600	8.0	6,840	9.3	6,190	6.5	4,350	(3.2)	132.86	132.86

(Note) Changes to latest performance forecast: None

(Note) Following the change in accounting policy, figures have been adjusted to reflect the retrospective application of the new accounting policy. Accordingly, year-on-year changes show comparison with the retrospectively adjusted figures.

*Notes

(1) Significant changes in subsidiaries during the period

(changes in specified subsidiaries resulting in the change in the scope of consolidation) : None

New: 0 companies (Company name:)

Exclude: 0 companies (Company name:)

(2) Application of accounting methods specific to the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatements

1) Changes in accounting policies due to amendment to the accounting standards, etc. : None

2) Changes in accounting policies other than those in 1) above : Yes

3) Changes in accounting estimates : None

4) Retrospective restatements : None

(4) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury shares)

2) Number of treasury shares at the end of the period

3) Average number of shares during the period

As of September 30, 2019	33,117,234 shares	As of December 31, 2018	33,117,234 shares
As of September 30, 2019	377,994 shares	As of December 31, 2018	377,460 shares
Nine months ended September 30, 2019	32,739,431 shares	Nine months ended September 30, 2018	32,740,096 shares

*These financial statements are not subject to the review of the quarterly financial statements by a certified public accountant or an audit corporation.

*Explanation on the appropriate use of operating forecasts and other special instructions

Operating forecasts and other statements regarding the future presented in these materials are based on information currently available and certain assumptions deemed to be reasonable, and actual performance may differ substantially due to various factors.

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1. Qualitative Information on Consolidated Results for the Current Period

(1) Explanation on operating results

During the nine-month period ended September 30, 2019, the Japanese economy continued on a moderate recovery trend amid improvement in the employment and income environment; however, there were signs of weakness in some areas of exports and production. The global economy is also generally on a recovery trend, while there are concerns about the future such as the impact of prolonged trade friction between the U.S. and China and the European political climate. The operating environment in the beauty industry remains severe, as it has become a challenge to recruit and retain human resources due to the impact of population movements.

Amid this environment, the Milbon Group is working with salons premised on the goal of “promoting the NEXT 100 by supporting ‘the creation of salons where human resources development is well established,’ where personnel are nurtured and retained, and creating ‘lifetime beauty salons’ by training beauty partners who fulfill lifetime beauty for women.”

Consolidated net sales during the nine-month period ended September 30, 2019 amounted to 26,651 million yen (up 9.0% year on year). This was primarily due to growth by Aujua in the hair care product category thanks to the contributions of new products, and growth by the “milbon” brand that targets the global market with more salons both in Japan and overseas. There was also continued substantial growth in the fashion color Ordeve Addicthy, which was released two years ago, in the hair coloring product category. In domestic market, there was also rush demand ahead of the raising of the consumption tax rate.

Operating income was 5,175 million yen (up 10.4% year on year), ordinary income was 4,804 million yen (up 9.4% year on year), and profit attributable to owners of parent was 3,411 million yen (up 2.6% year on year).

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 issued on March 30, 2018) and the “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 30, 2018) since the three-month period ended March 31, 2019. Regarding the application of the Accounting Standard for Revenue Recognition, etc., the new accounting policy has been applied retrospectively to all prior-period financial statements, in accordance with the principle treatment as set forth in Paragraph 84 of the Accounting Standard for Revenue Recognition.

Breakdown of net sales by product category and breakdown of net sales into domestic and overseas sales are shown below:

[Breakdown of consolidated net sales by product category]

(Unit: Million yen)

Product category	Nine months ended September 30, 2018		Nine months ended September 30, 2019		Increase (decrease) amount	Year-on-year change (%)
	Amount	Ratio (%)	Amount	Ratio (%)		
Hair care products	14,246	58.3	15,313	57.4	1,066	7.5
Hair coloring products	8,853	36.2	9,889	37.1	1,036	11.7
Permanent wave products	1,182	4.8	1,168	4.4	(14)	(1.2)
Cosmetic products	–	–	101	0.4	101	–
Others	162	0.7	178	0.7	16	10.0
Total	24,444	100.0	26,651	100.0	2,207	9.0

[Breakdown of net sales into domestic and overseas sales]

(Unit: Million yen)

	Nine months ended September 30, 2018		Nine months ended September 30, 2019		Increase (decrease) amount	Year-on-year change (%)
	Amount	Ratio (%)	Amount	Ratio (%)		
Domestic sales	20,511	83.9	22,336	83.8	1,824	8.9
Overseas sales	3,933	16.1	4,315	16.2	382	9.7
Total	24,444	100.0	26,651	100.0	2,207	9.0

(2) Explanation on financial position

Total assets at the end of the nine-month period ended September 30, 2019 decreased by 241 million yen compared to the end of the previous fiscal year to 39,393 million yen.

Current assets decreased by 441 million yen compared to the end of the previous fiscal year to 18,390 million yen. This was mainly due to the 1,156 million yen decrease in cash and deposits, the 524 million yen increase in merchandise and finished goods and the 120 million yen increase in raw materials and supplies.

Non-current assets increased by 199 million yen compared to the end of the previous fiscal year to 21,003 million yen.

Current liabilities decreased by 1,662 million yen compared to the end of the previous fiscal year to 4,683 million yen. This was mainly due to the 969 million yen decrease in income taxes payable, the 813 million yen decrease in accounts payable – other and the 303 million yen increase in provision for bonuses.

Non-current liabilities decreased by 18 million yen compared to the end of the previous fiscal year to 119 million yen.

Net assets increased by 1,438 million yen compared to the end of the previous fiscal year to 34,590 million yen. This was mainly due to the 1,545 million yen increase in retained earnings and the 131 million yen decrease in foreign currency translation adjustment due to the appreciation of the yen.

As a result, the equity ratio changed from 83.6% at the end of the previous fiscal year to 87.8%. Net assets per share based on the total outstanding shares as of the end of the period under review increased from 1,012.58 yen per share at the end of the previous fiscal year to 1,056.55 yen per share.

The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 issued on February 16, 2018), etc., from the beginning of the three-month period ended March 31, 2019. Accordingly, for the explanation on financial position, comparisons have been made with figures at the end of the previous fiscal year after retrospectively applying the standard, etc.

(3) Explanation on forward-looking statements including consolidated operating forecasts

In terms of the full-year forecast there are no changes to the previous consolidated operating forecasts, which were announced on February 13, 2019.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	Previous Fiscal Year (As of December 31, 2018)	Current Third Quarter (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	9,778,129	8,621,373
Notes and accounts receivable - trade	3,875,865	3,810,922
Merchandise and finished goods	3,643,382	4,167,729
Work in process	39,687	57,253
Raw materials and supplies	1,140,083	1,260,807
Other	410,547	517,290
Allowance for doubtful accounts	(56,335)	(45,211)
Total current assets	18,831,359	18,390,164
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,651,355	6,606,862
Machinery, equipment and vehicles, net	2,107,722	2,073,728
Land	5,028,467	4,997,684
Construction in progress	13,830	35,809
Other, net	540,072	572,438
Total property, plant and equipment	14,341,447	14,286,523
Intangible assets	987,821	1,129,584
Investments and other assets		
Investment securities	4,147,992	4,120,408
Deferred tax assets	324,909	284,211
Other	1,049,684	1,240,883
Allowance for doubtful accounts	(48,272)	(58,381)
Total investments and other assets	5,474,314	5,587,123
Total non-current assets	20,803,583	21,003,231
Total assets	39,634,942	39,393,396
Liabilities		
Current liabilities		
Accounts payable - trade	865,878	909,153
Accounts payable - other	2,376,675	1,563,286
Income taxes payable	1,585,720	616,559
Provision for bonuses	419,922	723,167
Other	1,097,287	871,107
Total current liabilities	6,345,484	4,683,274
Non-current liabilities		
Net defined benefit liability	57,243	17,525
Other	80,417	102,029
Total non-current liabilities	137,660	119,555
Total liabilities	6,483,145	4,802,829

(Thousand yen)

	Previous Fiscal Year (As of December 31, 2018)	Current Third Quarter (As of September 30, 2019)
Net assets		
Shareholders' equity		
Capital stock	2,000,000	2,000,000
Capital surplus	200,613	200,742
Retained earnings	30,614,693	32,160,271
Treasury shares	(558,811)	(561,634)
Total shareholders' equity	32,256,496	33,799,379
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	859,702	845,284
Foreign currency translation adjustment	264,024	132,174
Remeasurements of defined benefit plans	(228,425)	(186,272)
Total accumulated other comprehensive income	895,301	791,186
Total net assets	33,151,797	34,590,566
Total liabilities and net assets	39,634,942	39,393,396

(2) Quarterly Consolidated Statements of Earnings and Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Statements of Earnings
 Nine Months Ended September 30, 2018 and 2019

(Thousand yen)

	Nine Months Ended September 30, 2018 (January 1, 2018 - September 30, 2018)	Nine Months Ended September 30, 2019 (January 1, 2019 - September 30, 2019)
Net sales	24,444,871	26,651,910
Cost of sales	8,151,086	9,042,312
Gross profit	16,293,785	17,609,597
Selling, general and administrative expenses	11,606,568	12,433,817
Operating income	4,687,216	5,175,780
Non-operating income		
Interest income	4,796	12,408
Dividend income	31,432	32,008
Company house defrayment income	43,851	12,906
Gain on surrender of insurance	3,255	-
Subsidy income	50,528	44,013
Other	53,666	69,662
Total non-operating income	187,530	171,000
Non-operating expenses		
Share of loss of entities accounted for using equity method	382	40,916
Sales discounts	451,876	470,230
Foreign exchange losses	29,377	31,281
Other	86	280
Total non-operating expenses	481,722	542,709
Ordinary income	4,393,024	4,804,071
Extraordinary income		
Gain on sales of non-current assets	229	799
Gain on sales of investment securities	310,341	-
Total extraordinary income	310,570	799
Extraordinary losses		
Loss on sales of non-current assets	-	3,403
Loss on retirement of non-current assets	1,255	11,256
Total extraordinary losses	1,255	14,659
Profit before income taxes	4,702,340	4,790,210
Income taxes - current	1,375,290	1,350,596
Income taxes - deferred	2,443	27,882
Total income taxes	1,377,733	1,378,479
Profit	3,324,606	3,411,731
Profit attributable to owners of parent	3,324,606	3,411,731

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended September 30, 2018 and 2019

(Thousand yen)

	Nine Months Ended September 30, 2018 (January 1, 2018 - September 30, 2018)	Nine Months Ended September 30, 2019 (January 1, 2019 - September 30, 2019)
Profit	3,324,606	3,411,731
Other comprehensive income		
Valuation difference on available-for-sale securities	104,329	(14,418)
Foreign currency translation adjustment	(20,558)	(131,849)
Remeasurements of defined benefit plans, net of tax	(12,994)	42,153
Total other comprehensive income	70,776	(104,114)
Comprehensive income	3,395,383	3,307,617
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,395,383	3,307,617
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes regarding quarterly consolidated financial statements

(Notes regarding going concern assumption)

None

(Notes in case of any significant changes in shareholders' equity)

None

(Changes in accounting policies)

With the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 issued on March 30, 2018; hereinafter "Revenue Recognition Accounting Standard") and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 issued on March 30, 2018) becoming applicable from the beginning of the fiscal year that begins on or after April 1, 2018, the Company has early applied the Revenue Recognition Accounting Standard, etc., from the beginning of the three-month period ended March 31, 2019.

When consideration arising from contracts with customers includes variable consideration, the Company includes such variable consideration within the transaction price to the extent that it is highly probable that a significant reversal of previously recognized cumulative revenue will not occur when the uncertainty is subsequently resolved. Accordingly, sales rebates previously presented as selling, general and administrative expenses are deducted from net sales and expenses related to the goods transferred to business partners free of charge according to their sales results are added to cost of sales.

The application of the Revenue Recognition Accounting Standard, etc., is in accordance with the principle treatment as set forth in Paragraph 84 of the Accounting Standard for Revenue Recognition, and the new accounting policy has been applied retrospectively to all prior-period financial statements.

As a result, net sales and gross profit for the nine-month period ended September 30, 2018 decreased by 816 million yen and 1,366 million yen, respectively, compared to the figures before retrospective application. The application of the new accounting policy had no impact on operating income, ordinary income, profit before income taxes and profit.

(Additional information)

(Application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issued on February 16, 2018), etc., from the beginning of the three-month period ended March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under non-current liabilities.

(Segment information, etc.)

The Company omits segment information, as it operates just one business segment engaged in the manufacturing and sales of hair cosmetics.