

# Milbon Co., Ltd.

FY2016 Third Quarter (December 21, 2015 – September 20, 2016)

## Financial Results Presentation Materials



September 30, 2016

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# Table of Contents

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- P3** Consolidated Operating Results
- P4-11** Consolidated Sales by Product Category
- P12** Consolidated Statement of Earnings
- P13** Consolidated Trends in Capital Expenditures and R&D Expenses
- P14** Trends in Market Related Data, Trends in FPs
- P15-18** Outlook of Milbon Group

# **Fiscal Year 2016 (57<sup>th</sup> term) Operating Results for the Third Quarter**

## Consolidated Operating Results (FY2016 9 months)

Sales growth in East Asia and Japan has continued to drive Group sales since the first half of the term

(Unit: million yen)

	Amount		Increase/ Decrease	YoY comparison (%)
	FY2015 9 months	FY2016 9 months		
Net sales	19,978	21,424	1,445	107.2
Gross profit	13,943	14,761	817	105.9
SG&A expenses	10,156	10,916	759	107.5
Operating income	3,787	3,845	57	101.5
Ordinary income	3,594	3,495	(98)	97.2
Net income	2,331	2,370	38	101.7

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

Sales expanded steadily, mainly in new leave-in treatment products

(FY2016 9 months)

(Unit: million yen)

FY2015 9 months	FY2016 9 months	Increase/Decrease	YoY comparison (%)
11,618	12,760	1,142	109.8

- We have launched new products that match the needs of two demographic stages: the turning point for women in their 20s, who are regarded as “awakening to the notion of beauty,” and women in their 50s, “embarking on a quest for beauty.” We are developing activities to support the creation of various stages of beauty for women by a single designer, while revealing specific examples such as “communication that captures the demographic turning points” and “from design proposals to proposals for the future.”
- “Elujuda Sun Treatment,” which is effective in providing protection against UV rays, has been added to the Elujuda line, which has been popular since its launch. Helped by summertime seasonal factors, the product’s abilities to both protect hair against damaging UV rays and provide texture care were well-received, leading to strong sales.

## Core Products

### New - DEESSE'S

#### Elujuda Sun Treatment

Leave-in treatment that moisturizes while protecting hair from UV rays.

(Unit: million yen)

FY target	Results	Prog. rate
700	631	90.2%



Mar. 31 Debut

### New - PLARMIA Volumizer

Leave-in treatment foam that makes women's hair stand from the roots and creates a silhouette with natural volume they can run their fingers through.

(Unit: million yen)

FY target	Results	Prog. rate
250	291	116.8%



Mar. 1 Debut

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

## New - Jemile Fran Hair Care Series Melty Butter

Leave-in treatment retains the memory of the blow-dried style from the night before until the next morning and allows for quick styling in the morning. This product helps working women during their busy mornings.

(Unit: million yen)

FY target	Results	Prog. rate
350	259	74.1%



Jan. 28 Debut

# Aujua (1)

Sales grew mainly in the line-ups that meet the growing needs for aging care

## Number of salons

FY2015 year-end	FY2016 Q3-end	Comparison with FY2015 year-end
2,399 salons	2,692 salons	112.2%

## Sales (FY2016 9 months)

(Unit: million yen)

FY2015 9 months	FY2016 9 months	YoY comparison
2,998	3,426	114.3%

## 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?

A hair care series that responds to hair concerns by creating and evolving a program just for one individual. This is Aujua.

## Product range

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

### •4 series

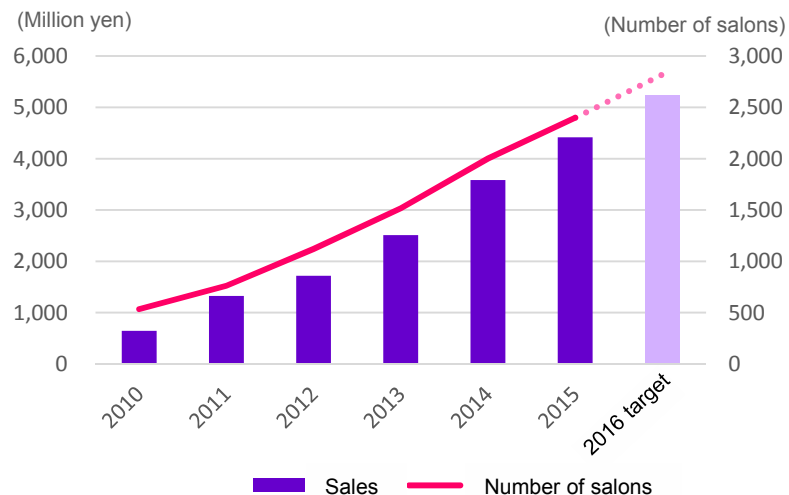
- Aging care series
- Hair care series
- Scalp care series
- Climatic care series

•15 lines •96 items

A tailor-made hair care program that nurtures beauty of each and everyone



## Trends in sales & number of salons



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# Aujua (2)

## New Product

### Aging Care Series EQUIAL LINE

For women concerned about unmanageable hair tips and roots as aging advances. Works on hair's double-layer structure, creating a beautiful silhouette.

(Unit: million yen)



FY target	Results	Prog. rate
400	242	60.6%

Jan. 29 Debut



# A Global Hair Care Brand, “milbon”

Sales seminars for distributors concluded, and approaching salons shifts into high gear

## Brand concept

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

## What is “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 SSVs (Sticked-Shaped Voids). SSVs are hollow, tubular gaps that form in damaged hair. Accordingly, we developed a hair care line containing ingredients capable of repairing such hollowed out hair and increasing the density within each strand of hair. “milbon” is a system hair care product for developing shiny, beautiful hair from the core.

## Number of salons\*

As of September 20, 2016.....959 salons

## Sales (FY2016 9 months)\*

FY2016 9 months.....172 million yen

\*Figures are for Japan only.

# MILBON



## 360° BEAUTIFUL HAIR

Launched consecutively in 12 countries around the world, from June 1

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# Consolidated Sales by Product Category [Hair Coloring Product]

Sales boosted by well-received gray-hair coloring products launched last year

(FY2016 9 months)

(Unit: million yen)

FY2015 9 months	FY2016 9 months	Increase/Decrease	YoY comparison (%)
7,129	7,529	399	105.6

- The “ORDEVE MODE LINE,” a new color line to match Fall/Winter 2016 trends, has been launched. Its clear, cold shades that do not have a hard look and express an air of the casual mode were well-received, and sales have grown steadily.
- We have added new colors to “ORDEVE CRYSTAL,” a gray-hair coloring product launched in FY2015, to increase the variety of cold shades, along with non-alkaline colors to protect color and hair by controlling damage from repeated hair coloring. We are further strengthening support activities to increase the value of gray-hair coloring at salons.

## Core Products

### ORDEVE CRYSTAL

A hybrid color for dyeing long hair for mature women, with a beautiful finish from the roots to the tips. ORDEVE CRYSTAL has the brightness of fashion colors, and it dyes both black and gray hairs evenly for a long-lasting finish.

(Unit: million yen)

FY target	Results	Prog. rate
1,980	1,336	67.5%



FY2015  
Debut

### New - ORDEVE's additional color MODE LINE

Navy color with striking cold shades expressing a sense of modish trendiness.

(Unit: million yen)

FY target	Results	Prog. rate
220	146	66.8%



Sep. 1 Debut

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# Villa Lodola (1)

**Villa Lodola Color, which was launched last year, continues to drive sales and the number of salons**

## Number of salons

FY2015 year-end	FY2016 Q3-end	Comparison with FY2015 year-end
<b>4,014 salons</b>	<b>5,300 salons</b>	<b>132.0%</b>

## Sales (FY2016 9 months)

(Unit: million yen)

FY2015 9 months	FY2016 9 months	YoY comparison
<b>324</b>	<b>572</b>	<b>176.2%</b>

## Brand concept

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

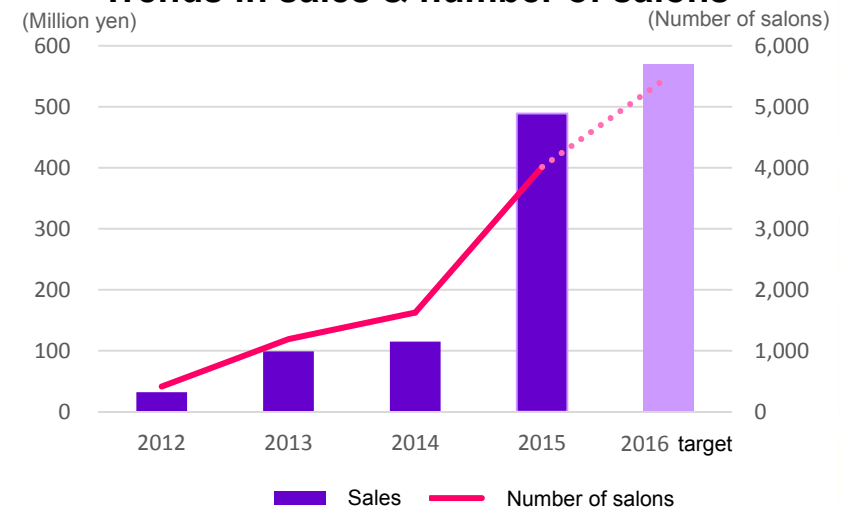
## What is Villa Lodola?

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



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# 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.

(Unit: million yen)

FY target	Results	Prog. rate
315	373	100.4%



FY2015 Debut

# Consolidated Statement of Earnings (FY2016 9 months)

(Unit: million yen)

	Amount		Increase/ Decrease	YoY compari- son (%)
	FY2015 9 months	FY2016 9 months		
Sales	19,978	21,424	1,445	107.2
Cost of sales	6,035	6,663	628	110.4
Gross profit	13,943	14,761	817	105.9
SG&A expenses	10,156	10,916	759	107.5 <sup>*1</sup>
Operating income	3,787	3,845	57	101.5
Ordinary income	3,594	3,495	(98)	97.2 <sup>*2</sup>
Net income	2,331	2,370	38	101.7

## <Breakdown of net sales by product category>

(Unit: million yen)

	FY2015 9 months	FY2016 9 months	% total sales	YoY change	YoY compari- son (%)
Hair care products	11,618	12,760	59.6	1,142	109.8
Hair coloring products	7,129	7,529	35.1	399	105.6
Permanent wave products	1,076	972	4.5	(103)	90.4
Others	154	161	0.8	6	104.4

## <Major factors for the increase/decrease>

\*1 SG&A expenses: Salary hikes from increases in the number of personnel and promotions

\*2 Ordinary income: Posting of foreign exchange losses due to the yen's appreciation

## Supplemental Info. – Return to shareholders

### <Dividends>

(Unit: yen)

	FY2014	FY2015	FY2016 plan
End of 2Q	34	35	38
End of FY	34	39	40
Total	68	74	78

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

(Unit: million yen)

Category		FY2012	FY2013	FY2014	FY2015	FY2016 Jan.–Sep.	FY2016 Plan
Capital expenditures		840	1,680	1,028	2,779	3,363	4,329
Depreciation and amortization		947	878	1,004	1,033	712	1,113
R&D exp.	Amount	873	969	1,168	1,214	870	1,215
	% to sales	4.0%	4.1%	4.6%	4.4%	4.1%	4.2%

### FY2016 CAPEX Main Items (Plan)

- Expansion of Yumegaoka Plant
- Development of new sales management system (to be introduced in 2017)
- Opening of Okayama Sales Office
- Relocation of Fukuoka Branch
- Opening of Kumamoto Sales Office

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

## Market trends (Japan)

(Unit: Number of salons: salons / Number of hair dressers: people / Number of beauty customers: thousand people)

	2011	2012	2013	2014	2015	2016	Remarks
Number of salons	228,429	231,134	234,089	237,525	—	—	Ministry of Health, Labour and Welfare, Report on Public Health Administration and Services Number of beauty salon facilities / number of employees (year-end)
Number of hair dressers	471,161	479,509	487,636	496,697	—	—	
Number of beauty customers	39,640	39,076	38,468	37,847	37,395	37,140 (As of Apr. 1)	Statistics Bureau, Ministry of Internal Affairs and Communications: Population statistics as of October 1 <sup>st</sup> of each year Population statistics for females aged 15 to 64

## Fieldpersons trends (by country)

\*Number of FPs / As of the beginning of the fiscal year (December 21)

	2012	2013	2014	2015	2016
<b>JAPAN</b> Milbon Co., Ltd.	200	210	216	237	249
	102	104	104	100	
<b>USA</b> MILBON USA, INC.	10	12	12	12	9
	35	36	40	53	
<b>CHINA</b> Milbon Trading (Shanghai) Co., Ltd.	13	16	17	18	18
	14	17	25	36	
<b>KOREA</b> Milbon Korea Co., Ltd.	13	17	17	19	20
	34	41	64	75	
<b>THAILAND</b> Milbon (Thailand) Co., Ltd.	-	3	6	6	6
		6	8	15	
<b>Others</b>	4	7	12	16	19
	101	65	50	47	

Upper column: Number of FPs (persons)  
Lower column: Sales per FP (million yen)

\* 25 FPs completed training on September 20, 2016.  
8 FPs will start training on October 3, 2016.

(The above 33 FPs are not included in the left chart.)

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# Outlook of Milbon Group (1)

East Asia, including Japan, continues to drive growth

	Number of employees	Sales (million yen)		YoY comparison (%)	Start operations	Forex rates	
	Number of FPs	FY2015 9 months	FY2016 9 months			FY2015	FY2016
Japan Milbon Co., Ltd.	589	17,455	18,593	106.8	1960	-	-
	245						
USA MILBON USA, INC.	14	472	444	94.0	2004	1 dollar = 118.29	114.95
	11						
CHINA Milbon Trading (Shanghai) Co., Ltd.	24	460	542	117.9	2009	1 yuan = 19.32	17.56
	18						
KOREA Milbon Korea Co., Ltd.	33	1,046	1,193	114.0	2009	1 won = 0.108	0.099
	23						
THAILAND Milbon (Thailand) Co., Ltd.	72	66	61	91.2	2013	1 baht = 3.60	3.26
	9						
Others*	21	477	590	123.6	-	-	-
	21						

\* Taiwan, Hong-Kong, Vietnam, Malaysia, Turkey, Indonesia, the Philippines and others

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## Outlook of Milbon Group (2)

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### **JAPAN (Milbon Co., Ltd.)**

New products targeting two generations of women in their 20s, “awakening to the notion of beauty,” and in their 50s, “embarking on a quest for beauty,” were launched. By proposing activities linking hair color with hair care, sales of products in both categories have steadily increased.

With demand growing for gray-hair coloring due to demographic shifts, gray-hair coloring products ORDEVE CRYSTAL and Villa Lodola Color in particular were well-received in the market and have driven growth in the hair coloring category.

Sales seminars for distributors on the global hair care brand “milbon,” launched in June, have almost finished, and approaching salons has moved into high gear. As a result, we expect the pace of increase in the number of contracted salons to accelerate.

### **USA (MILBON USA, Inc.)**

Joint activities with distributors in the East Coast region, where we have been promoting sales activities through the distributor, are progressing steadily, and sales to distributors have grown. However, salon sales have fallen owing to the impact of closures and consolidation of the high-end salons in Manhattan area, where our activities are focused, due to the timing of renewals of rents, whose costs are soaring.

Proposals that link Plarmia salon treatment with sales of take-home products have been accepted. In the meantime, there has been stagnation among product groups where the link between salon treatment and sales of take-home products is weak or brand promotion capabilities are poor. We commenced sales of the global hair care brand “milbon” in June. The concept of the “salon take-home product business,” with a consistent brand package and name, is being accepted. The product is expected to perform well in the future.

## Outlook of Milbon Group (3)

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

Women born in the 80s and 90s, who tend to have high levels of beauty awareness, have significant needs, demanding hair designs that suit them. Their demands for hair color and hair treatment are especially high. We have responded by strengthening educational activities at salons and addressing the personal needs with seasonal color proposals and the introduction of a new color that dyes hair to have the ever-popular color of foreign models' hair, which have been well-received.

Top management in China's leading cities, where we are currently pushing ahead with expansion, recognizes that customer satisfaction and human-resource development are important issues for salon management. Milbon's unique marketing activities allow us to differentiate our brand from other companies, and the reception has been very positive. Development of local staff is becoming a major driving force.

We will establish an office with a studio in Southwest China (Chengdu, Sichuan Province) in November 2016 to strengthen our marketing activities. We are planning to expand into new areas, based on further reinforcement of marketing activities in existing areas.

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

The regular addition of new colors for ORDEVE hair coloring product allows us to propose new colors to salon customers who are always looking for something new. This unique attraction, not found at other companies, drives overall sales for ORDEVE.

We are carrying out development focused on our hair care products with the aim of transitioning to the "Comprehensive Milbon brand," as positive recognition of the "Milbon of hair color products" expands. Parmia has been smoothly introduced through activities such as the "quick and cool summer campaign." This offered proposals for quick and easy care from the scalp to the tips of the hair, arousing responses from salons.

Aujua is now being test marketed, and we are seeing results from the product from building extremely good relationships with salons through visits and educational activities in close coordination with each salon. We aim to reinforce the activity by adding a member to the Aujua team with a view to the full-fledged marketing activities scheduled from October.

## Outlook of Milbon Group (4)

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### THAILAND (Milbon (Thailand) Co., Ltd.)

#### [Sales division]

As our transaction amount with major salons has begun to increase and our brand recognition in the industry is rising gradually, sales are steadily improving in every quarter.

We have repeatedly held hair-coloring seminars, which have received positive responses, and sales of hair coloring products are growing. With regard to permanent wave products, digital perm seminars given by Japanese hair dressers have been well-received, and the Liscio Atenje brand of straight perm products has grown significantly.

#### [Production division]

Production volume of hair coloring products is growing with a view to introducing new hair colors in each country. The production launch of the global hair care brand “milbon” has led to a rise in the production ratio of hair care products.

Shipping destinations currently comprise 10 countries. Shipments have steadily grown, exceeding the planned amount by 16.5%.

The improvement of the cost of sales ratio is also progressing steadily, as efforts are being made to raise the efficiency of the production facilities and increase production volume, in addition to procuring raw materials locally and reducing expenses.



**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.**