Milbon Co., Ltd.

FY2015 Financial Results Presentation Materials





January 27, 2016

Find Your Beauty MILBON

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Fiscal Year 2015 (56th term) Operating Results

Masahiro Murai, Managing Director

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Consolidated Operating Results

Sales in overseas markets and hair care category have taken the lead in the growth as well as hair coloring category gets back on a growth track

(Unit: million yen)

	Amount		Increase /Decrease	Year-on-year Comparison (%)
	FY2014	FY2015		
Net sales	25,226	27,377	2,150	108.5
Gross profit	17,281	18,681	1,400	108.1
SG&A expenses	12,830	13,954	1,124	108.8
Operating income	4,451	4,727	276	106.2
Ordinary income	4,218	4,427	208	104.9
Net income	2,621	2,950	329	112.6

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Consolidated Sales by Product Category [Hair Care Product]

Hair care and leave-in items containing CMADK have been steadily growing

(Unit: million yen)

FY2014	FY2015	Increase/Decrease	YoY Comparison (%)
14,597	16,195	1,597	110.9

- Activities were focused on enhancing hair designers' ability to respond to matured women who seek true professional advice, as well as to younger women in their mid-20s, who are becoming more conscious of how others see them.
- Products containing CMADK, Milbon's original hair keratin restoring ingredients, and aging care products have been continuously sold well.
  * Products containing CMADK includes: Jemile Fran, DEESSE'S Elujuda Emulsion, Aujua Immurise Line series, etc.

Core Products

NEW - Jemile Fran Shampoo & Treatment

A new hair care brand for working women in their 20. Enlightening young women to hair care, timed to changes in their sense of beauty.



(Unit: million yen)

FY target	Results	Achievement
400	552	138.2%

Apr 21 Debut

DEESSE' S ELUJUDA EMULSION

Leave-in treatment leading to a soft, fluffy formulation for more moisture and manageable hair after drying



(Unit: million yen)

2014 results	2015 results	YoY
1,267	1,422	112.6%

Since 2014

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Aujua

Aging care series continued to grow, expanding number of salons and sales

Number of Aujua salons

FY2014 year-end	FY2015 year-end	Comparison with the 2014 year end
2,002 salons	2,511 salons	125.4%

Sales

(Unit: million yen)

FY2014	FY2015	YOY comparison
3,582	4,418	123.6%

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 every individual's hair concerns by creating and evolving a hair care program just for one individual. That is Aujua.

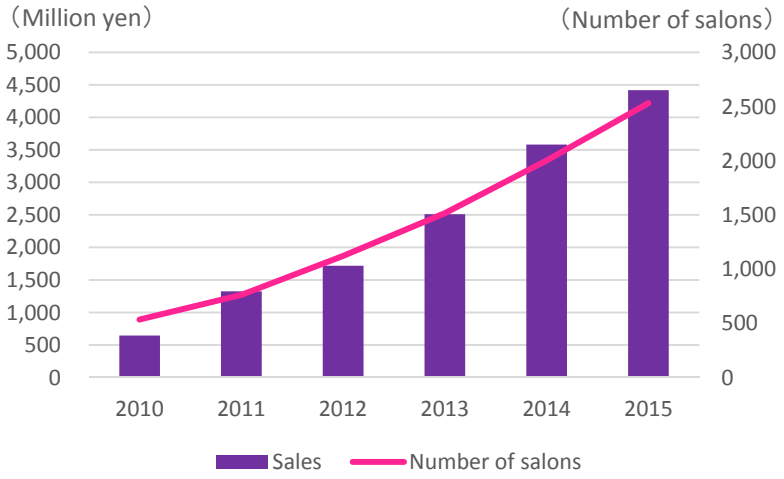
Product range

A wide-ranging line-up that fits the hair texture of each customers

- 4 series
  - Aging care series
  - Hair care series
  - Scalp care series
  - Climatic care series
- 14 line ・90 items



Trends in sales & number of salons



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

New color line approach and brand new gray color launch led to a rise in sales

(Unit: million yen)

FY2014	FY2015	Increase/Decrease	YoY Comparison (%)
8,817	9,506	689	107.8

- New color lines to much Spring/Summer 2015 and Autumn/Fall 2015 trends were launched. New lines that can create natural cool colors are well received, and activities to support hair designers to offer trend hair color to salon customer have proactively continued.
- Brand new hair color range Ordeve Crystal was launched in May. This new product made it possible to dye hair peppered with gray evenly for a clear color from the roots to the tips, and earned a good reputation.

Core Products

New - ORDEVE CRYSTAL

A hybrid color for matured women who want to continue enjoying the color, tone and texture with beautiful finish from the roots to the tips.

(Unit: million yen)

FY target	Results	Achievement
740	1,014	137.1%



May 28 Debut

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

ORDEVE additional color - New in 2015

INNOCENT LINE

Jan 29 Debut

A soft sheen created by achromatic color express a color purity

(Unit: million yen)

FY target	Results	Achievement
500	577	115.5%

HEALTHY LINE

Sep 1 Debut

Display the unadorned beauty of hair through smooth, cool beige hues

(Unit: million yen)

FY target	Results	Achievement
220	276	125.6%



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Villa Lodola（1）

Villa Lodola Color lunch drives the increase in overall sales and dealing salons

Number of salons

FY2014 year-end	FY2015 year-end	Comparison with the 2014 year end
1,626 salons	4,014 salons	246.9%

Sales

(Unit: million yen)

FY2014	FY2015	YoY comparison
115	489	422.7%

Brand Concept

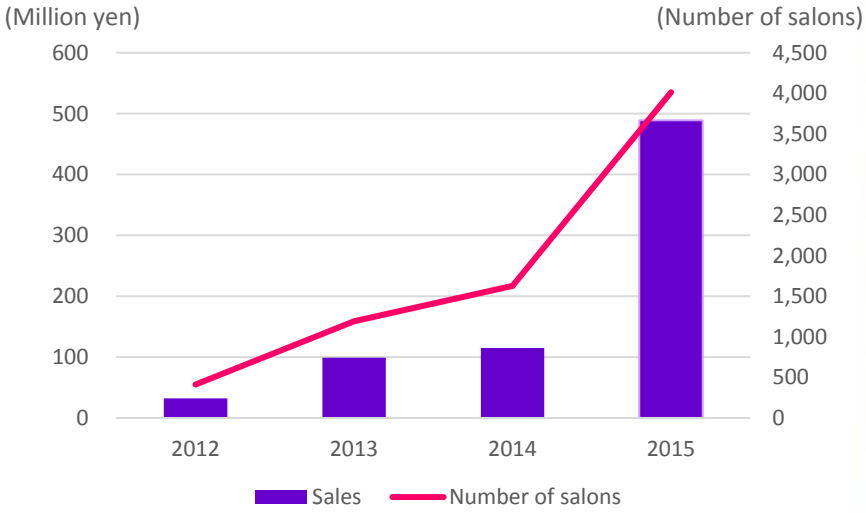
Nurtured in the soil of Italy, these *gifts from nature* bring out the authentic beauty of your hair and scalp

What is Villa Lodola

Based on the concept of 'Beauth the Organic Way', Villa Lodola is the true organic brand that thoroughly care about natural environment not only for the product itself but production phase, container and promotional tools. All of the products are certified by ICEA, certification authority in Italy. Villa Lodola supports the choice from the value of organic, with hair care product nurtured in the soil of Italy, brings out the true beauty.



Trends in sales & number of salons



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Villa Lodola (2)

Core Product

NEW - Villa Lodola Color

By formulation which utilizes the power of plants, composed of 92% natural ingredients, it brings comfort with the organic product across all aspects of the product, including during application, the finish, and during successive use.

(Unit: million yen)

FY target	Results	Achievement
120	262	218.3%



Feb 1 Debut

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Consolidated Statement of Earnings

	Amount		Increase/ Decrease	YOY comparison (%)
	FY2014	FY2015		
Sales	25,226	27,377	2,150	108.5
Cost of sales	7,945	8,695	749	109.4
Gross profit	17,281	18,681	1,400	108.1
SG&A expenses	12,830	13,954	1,124	108.8
Operating income	4,451	4,727	276	106.2
Ordinary income	4,218	4,427	208	104.9
Net income	2,621	2,950	329	112.6

Breakdown of net sales by product category

(Million yen)

	FY2014	FY2015	% tototal sales	YoY change	YoY comparison (%)
Hair care products	14,597	16,195	59.1	1,597	110.9
Hair coloring product	8,817	9,506	34.7	689	107.8
Permanent wave products	1,520	1,410	5.2	-109	92.8
Others	291	264	1.0	-26	90.9

Major factor for the increase in SG&A expenses

- Salaries due to increase the number of personnel
- Sales promotional tools
- Rental for newly opened Ginza Branch

Supplemental Info. - Return to shareholder <Dividends>

(Unit: Yen)

	FY2014	FY2015 E of FY is a plan	2016 plan
End of 2Q	34	35	38
End of FY	34	39	40
Total	68	74	78

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Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category		FY2011	FY2012	FY2013	FY2014	FY2015	Plan for FY2016
Capital expenditures		528	840	1,680	1,028	2,779	4,329
Depreciation and amortization		1,011	947	878	1,004	1,033	1,113
R&D exp.	Amount	870	873	969	1,168	1,214	1,215
	% to sales	4.2%	4.0%	4.1%	4.6%	4.4%	4.2%

- R&D expense to sales ratios are calculated based on consolidated figures, starting this quarter end, also retrospectively adjusted.

FY2015 CAPEX Main Items

- Land purchase and construction work of New Yumegaoka Plant
- Initial expenditure for Tokyo Ginza Branch
- Relocation of Sapporo Sales Office
- Warehouse expansion of Thai Factory

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Trends in Market Related Data, Trends in FPs

Market trends (Japan)

(Unit: Number of Salons: Salons / Number of hair dresser: people / Number of beauty customer)

	2010	2011	2012	2013	2014	2015	Remarks
Number of salons	223,286	228,429	231,134	234 089	237,525	—	Ministry of Health, Labor and Welfare Public Health Administration Report Number of beauty salon facilities/number of employees (year-end)
Number of hairdressers	456,872	471,161	479,509	487 636	496,697	—	
Beauty customer population	39,812	39,640	39,076	38,468	37,847	37,450 (As of Aug. 1)	Statistics Bureau, Ministry of Internal Affairs and Communications: population statistics as of October 1st each year Population statistics for females aged 15 to 64

Fieldpersons trends (by country)

	2011	2012	2013	2014	2015
JAPAN Milbon Co., Ltd.	203	221	230	238	266
	95	92	95	95	89
USA MILBON USA, Inc.	9	10	12	12	9
	39	35	36	40	71
CHINA Milbon Trading (Shanghai) Co., Ltd.	11	15	16	17	18
	11	12	17	25	36
KOREA Milbon Korea Co., Ltd.	11	13	18	17	20
	30	34	39	64	71
THAI Milbon (Thailand) Co., Ltd.	–	–	3	6	6
			6	8	15
Others	4	3	8	11	16
	95	135	55	50	47

Upper column:
Number of FPs (unit: persons)

Lower column:
Sales per FP (unit: million yen)

*25 FPs are expected to join in Apr. 2016
(not included in the left chart)

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Outlook of Milbon Group (1)

Sales in all areas centering on East Asia including Japan has been steadily growing

	Number of employees	Sales (million yen)		YoY comparison	Start operations	Forex rates	
	Number of FPs	FY2014	FY2015			FY2014	FY2015
JAPAN Milbon Co., Ltd.	579 266	22,612	23,880	105.6	1960	-	-
USA MILBON USA, Inc.	13 9	482	642	133.1	2004	1 $ = 102.30	119.33
CHINA Milbon Trading (Shanghai) Co., Ltd.	25 18	430	665	154.6	2009	1 yuan = 16.73	19.32
KOREA Milbon Korea Co., Ltd.	31 20	1,099	1,425	129.6	2009	1 won = 0.0973	0.1076
THAI Milbon (Thailand) Co., Ltd.	47 6	48	90	187.3	2013	1 baht = 3.16	3.58
Others *1	16 16	552	672	121.7	-	-	-

*1: Taiwan, Hong-Kong, Vietnam, Malaysia, Turkey, Indonesia, Philippine and others

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Outlook of Milbon Group (2)

JAPAN (Milbon Co., Ltd.)

The new hair coloring products launched in the first half of the term, Ordeve Crystal and Villa Lodola Color, are highly thought of in the market. Additional colors for the existing hair coloring product Ordeve also had good sales results and the sales of the hair coloring products category have increased. In addition to the products that meet the needs of older generations, Milbon launched a new hair care brand, Jemile Fran shampoo & treatment, for the younger generation in their 20s who have just started their careers. The hair coloring products category continued achieving good sales results based on Milbon's supporting activity that provided this generation at the 'timing of changing their awareness of beauty' with professional hair design and hair care values.

USA (Milbon USA, Inc.)

The contract distributor purchased a local distributor and sales activities through the distributor have expanded to seven states on the East Coast. Milbon was able to gain the trust of the distributor's management and sales staff by providing them with proposals and support for solving the distributor's issues. Based on this trust, our sales activities are firmly taking hold. The number of partner salons is steadily increasing.

In January, the prices of existing products were raised for the first time since the establishment of Milbon USA. We were worried that it might decrease the sales, but the market recognized high care effect of Plarmia Hair Serum launched in February and it became a big hit. For this reason, the sales increased for a full business year.

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

Milbon Shanghai routinely held seminars for distributors. The distributors' proactive training activities for salons strengthened their relationship with strong salons in the region. As a result, the number of new salons has increased, contributing to an increase of sales. Milbon Shanghai has started market activities in new southwest areas (Sichuan Province and Chongqing City) and the number of dealing salons is steadily increasing.

For salons, Milbon Shanghai performs activities to propose season trend color designs in each season under a basic policy that promotes repeat customers. In addition, Milbon Shanghai is introducing in-salon treatment for repairing the inside of the hair and is promoting its own hair care technician qualification system. Improving stylists' counseling skills and product knowledge contributed to an increase in the sales in the hair care products category.

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Outlook of Milbon Group (3)

KOREA (Milbon Korea Co., Ltd.)

Milbon Korea launched additional colors for Ordeve in February and August focusing on Ordeve's unique attractions, which are not provided by other companies, and thereby could significantly increase overall sales. In addition, the distributor came to understand 'proposal-based sales' advocated by Milbon, and then Milbon Korea could plan and implement, in cooperation with the distributor, seminars and overseas training. Sales activities with high added value will develop the market further.

Milbon Korea commenced test marketing for the system hair care brand Aujua in October. It has selected 10 target salons that perform test sales throughout South Korea and is preparing for the main launch.

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

[Sales division] Launch of new colors in combination with semiannual season color proposal is unique to Milbon, and it facilitates the introduction of products by the distributor. Seminars were held utilizing the distributor's studio and the sales of hair coloring products category had good results. Elujuda Emulsion containing CMADK has a good market reputation. As the Thai population is aging, the Plarmia brand is steadily growing and the sales has good results.

[Production division] Overall shipments were delayed due to issues related to an import permit in receiving countries, but now Milbon Thailand has started to export products to all destination countries (eight countries) that were planned at the beginning of the year. From next year onward, Milbon Thailand will start shipments to China. For increases in production volume going forward, Milbon Thailand is organizing machines and equipment and enhancing the safety management measures required to increase in number of employees.

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Milbon Group

2015-2019 Midium-term management plan Progress & FY 2016 Management strategy

Ryuji Sato, President & CEO

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2015-2019 Midium-term management plan
～Medium-term vision～

Midium-term vision

Milbon aims to be No. 1 in Asia and enter the top five in the world in professional-use hair cosmetics

Sales target at the medium-term end (FY2019)

Consolidated sales	35,000 million JPY	
Domestic	28,500 million JPY	
Overseas	6,500 million JPY	(18.6% to consolidated sales)
Consolidated operating income	7,000 million JPY	

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2015-2019 Midium-term management plan
～Progress at the end of FY2015～

In the first year, the targets were achieved in net sales, overseas sales ratio, operating income and all. Made a good start

(Unit: million yen)

	FY2015 target		FY 2015 results		FY2019 target (Medium-term end)		Prog. rate*
	Amount	% to sales	Amount	% to sales	Amount	% to sales	
Net sales	26,900	100.0	27,377	100.0	35,000	100.0	78.2
Domestic	23,687	88.1	23,880	87.2	28,500	81.4	83.8
Overseas	3,213	11.9	3,496	12.8	6,500	18.6	53.8
Gross profit	18,155	67.5	18,681	68.2	24,500	70.0	76.3
SG&A	13,494	50.2	13,954	51.0	17,500	50.0	79.7
Operating income	4,661	17.3	4,727	17.3	7,000	20.0	67.5
Ordinary income	4,369	16.2	4,427	16.2	6,630	18.9	66.8
Net income	2,630	9.8	2,950	10.8	4,130	11.8	71.4

*FY2015 results to FY2019 target

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2015-2019 Midium-term management plan
～FY2015 results by country～

East Asia market has continued to grow as the second pillar of corporate strategy

	Net sales (million yen)			Prog. rate*1 (%)	Exchange rate	
	FY2015 target	FY2015 results	FY2019 target		FY2015 actual	2019 estimate
Japan Milbon Co., Ltd.	23,687	23,880	28,500	83.8	-	-
United States MILBON USA, INC.	552	642	840	76.4	1$= 119.3	105.0
China Milbon Trading (Shanghai) Co., Ltd.	543	665	1,350	49.3	1yuan= 19.32	17.00
Korea Milbon Korea Co., Ltd.	1,365	1,425	2,500	57.0	1won= 0.1076	0.1000
Thailand MILBON (THAILAND) CO., Ltd.	80	90	250	36.3	1baht= 3.58	3.20
Other areas *2	673	672	1,560	43.1	-	-
East Asia *3 total	2,361	2,558	4,490	2.36	-	-
South-east Asia *4 total	280	293	1,020	28.8	-	-

*1 FY2015 results to FY2019 target
*2 Taiwan, Hong-Kong, Vietnam, Malaysia, Turkey, Indonesia, Philippine and others
*3 China, Korea, Taiwan and Hong-Kong
*4 Thailand, Vietnam, Malaysia, Indonesia, Philippine and others

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2015-2019 Midium-term management plan
～CAPEX FY2015～

Establishing new domestic branches and expansion of production site to be ready for the future 10 years

Use	FY2015	FY2019
Investment in future growth	2,779 million yen	10,000 million yen
Main items	• Land purchase and construction for new Yumegaoka Plant • Establishmentexpansion of new domestic branch (Ginza and Sapporo) • Establishment of new foreign rep office (Philippine) • Expansion of Thai warehouse	• Construction of new Yumegaoka Plant • Expansion of Thai Factory • Establishment of new domestic branches (Ginza, Yokohama, etc 8 domestic locations, Philippines, etc. foreign location) • M&A investment in the US and Europe • Business in cosmetics
Return to shareholders	1,211 million yen	7,000 million yen
	• Dividend payout ratio 39.3%	• Dividend payout ratio is targeted at 40%
Increase in R/E	- 60 million yen	3,000 million yen
Capital efficiency	ROE11.7%	ROE12% or over FY2019 target

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Market environment & Corporate strategy

1. Polarized market in terms of quality and size

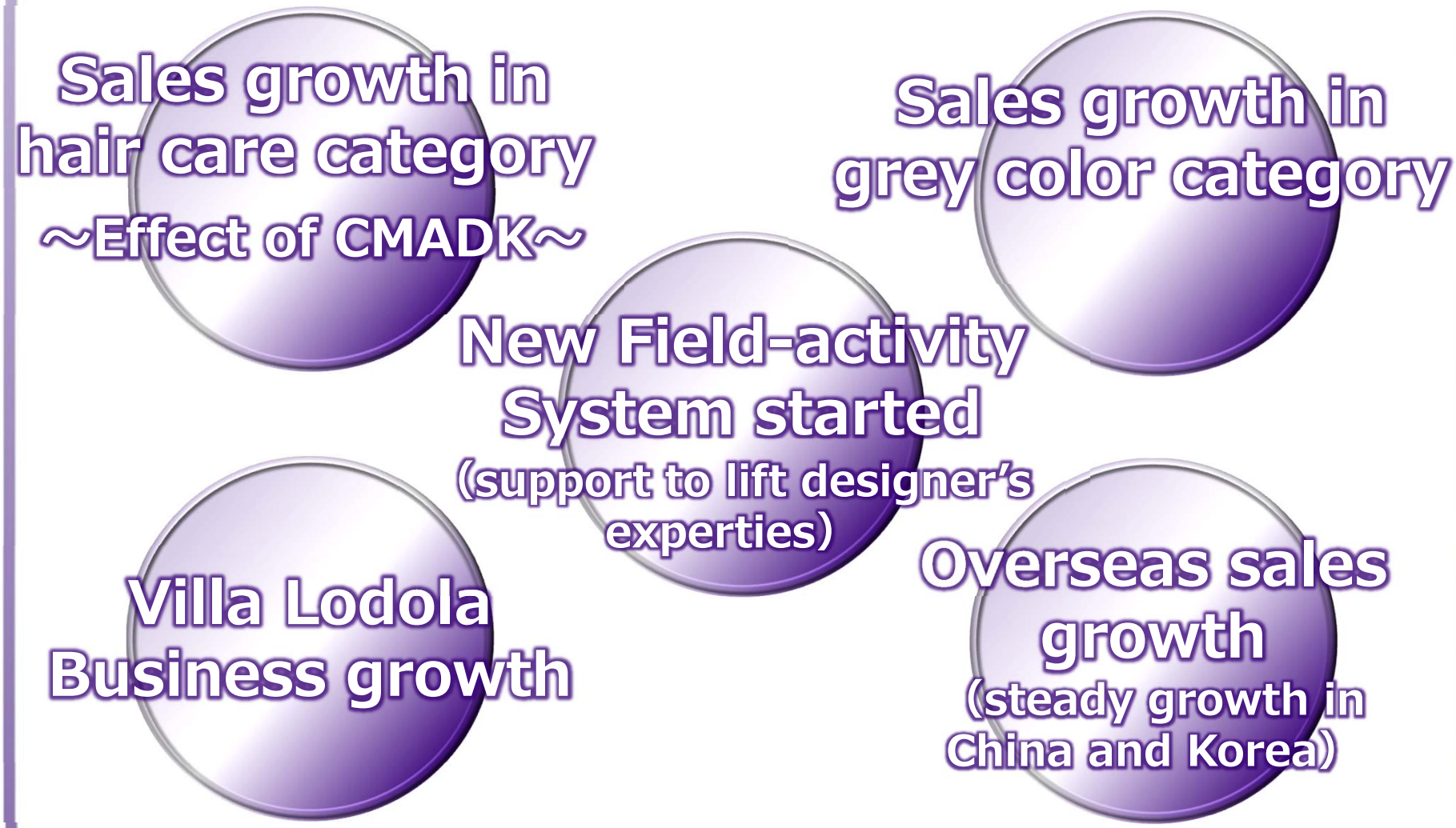
2. Trends in high-quality salon

3. Focus attention on new target generation

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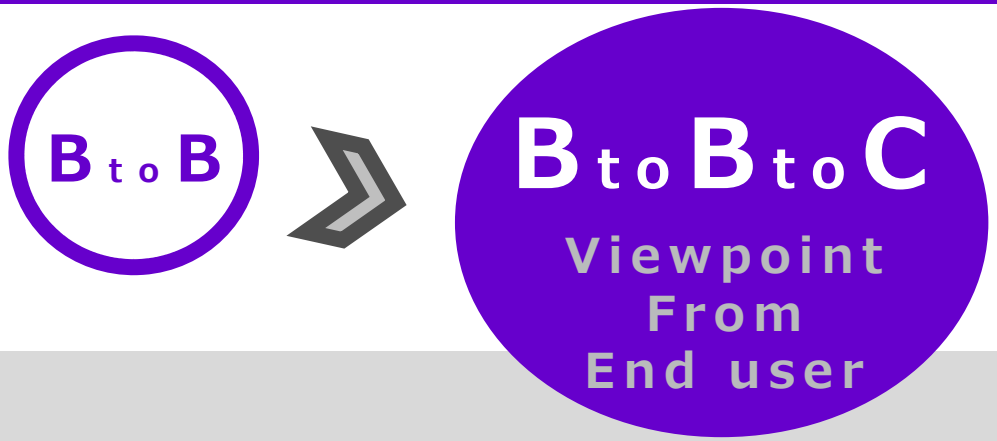
New 5 buds from growth factors



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Corporate branding strategy



New Corporate Statement & Slogan

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Corporate Branding

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FY2016 Corporate Strategy ～Corproate Branding～



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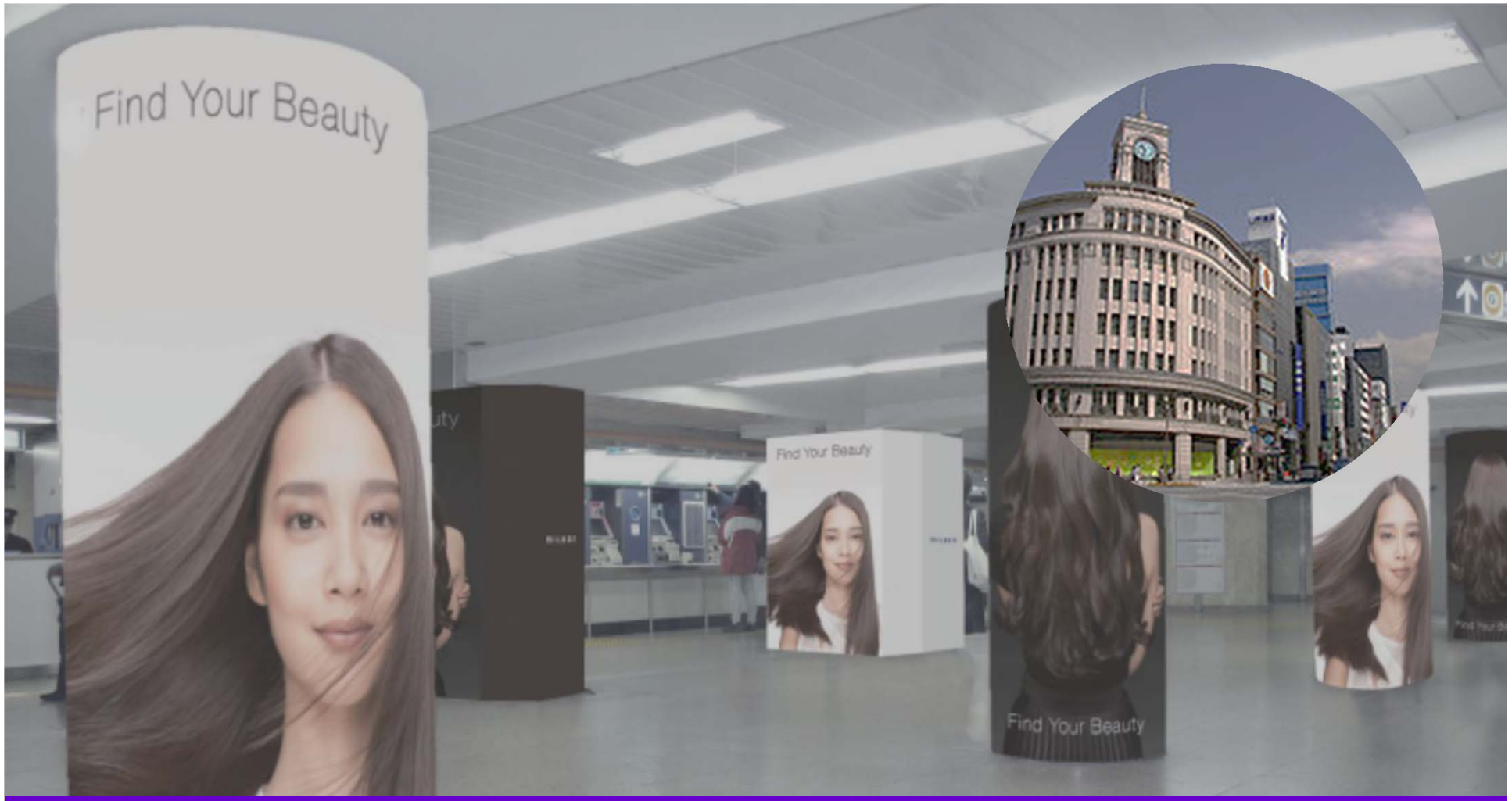


support 1

Corporate muse (Corporate model)

*image sample

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support

2 Ginza sation-jack

*image sample

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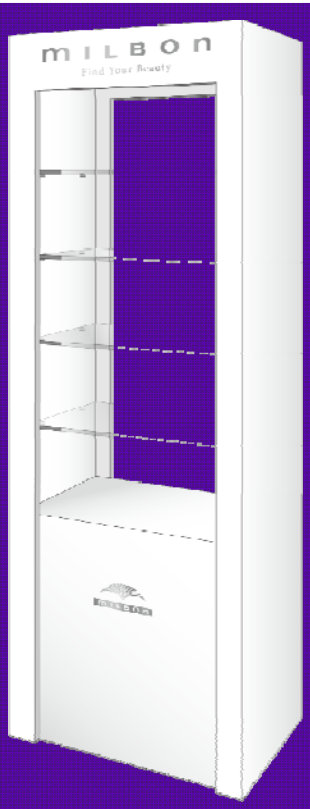
support

3 Global Milbon Press conference

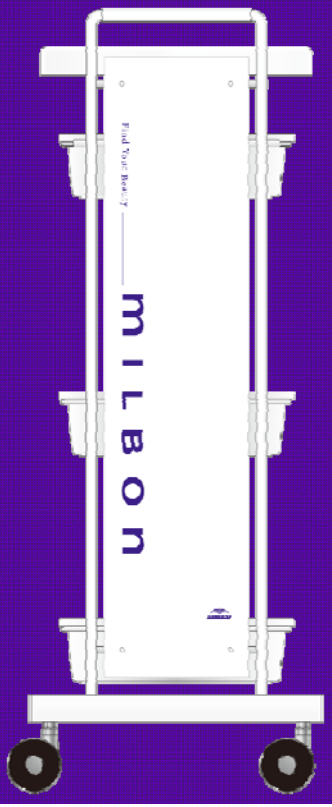
*image sample

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Tools to be used at hair salons



Display shelf



Wagon



Salon-treatment tool

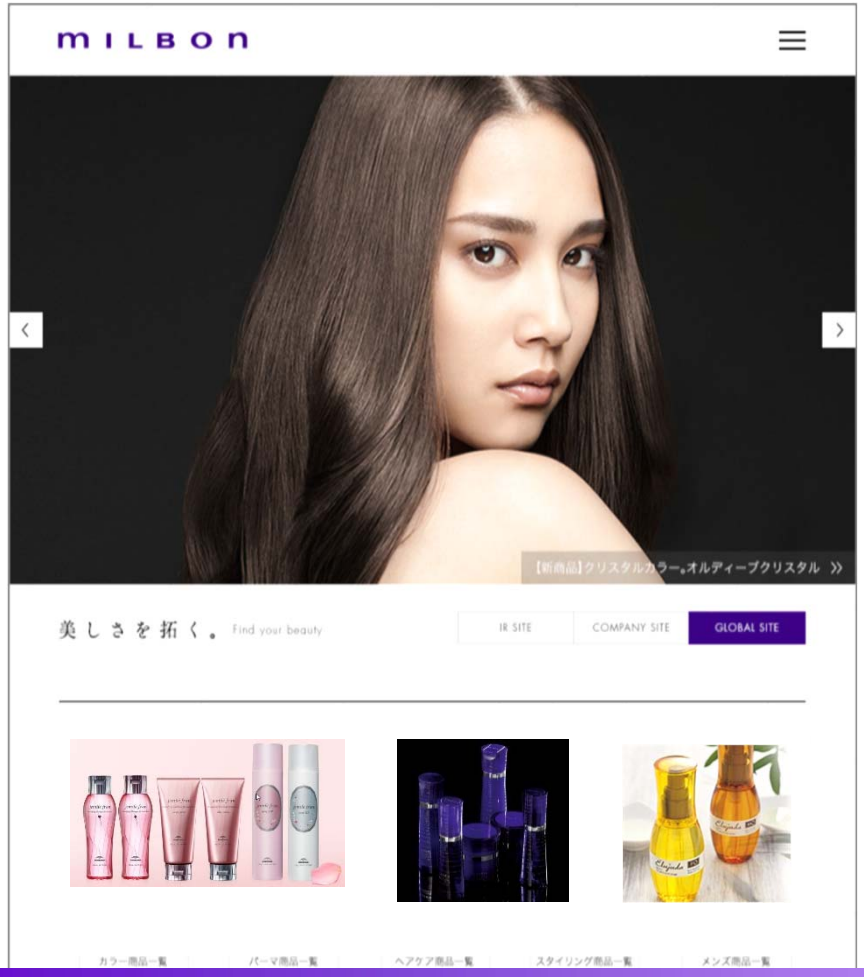


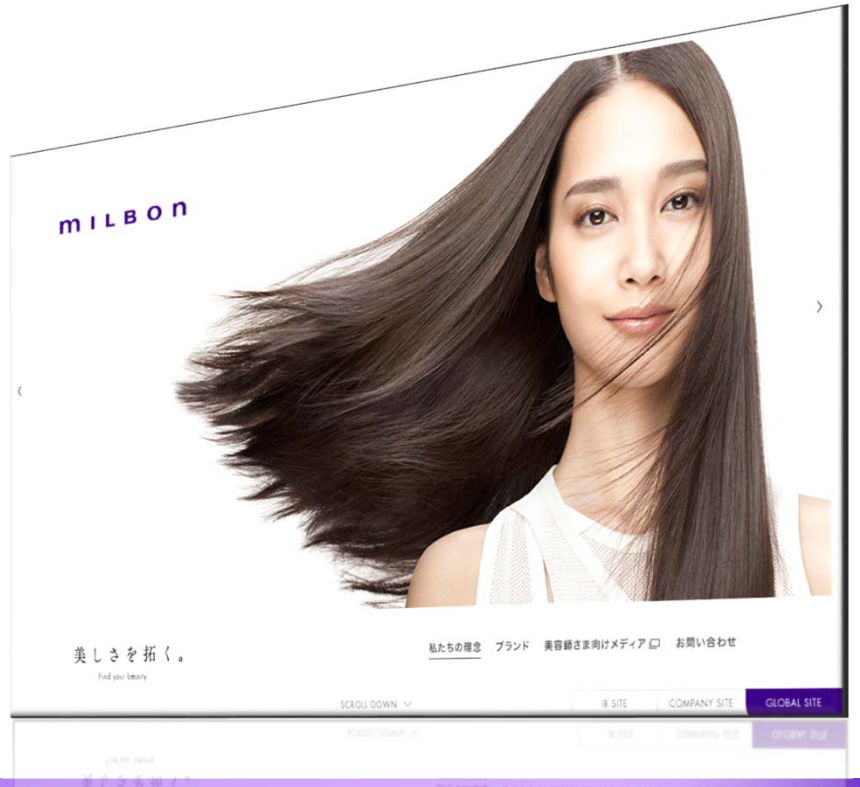
Paper/prastic bag

support

4 Corporate branding tools

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support

5 Corporate website renewal

*image sample

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Brand positioning

Premium brand (System hair-care)



Aujua

Cutting-edge technology for the Japanese market



Global Milbon



Villa Lodola

High-tech Global standard

Professional brand



Jemile Fran



Plarmia



Elujuda

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FY2016 management strategy
Product branding

1. Premium brand (Values > Generation)
   - Aujua (5,240 million yen)
   - Villa Lodola (570 million yen)
   - New brand Global Milbon (635 million yen)

2. Professional brand (Generation > Values)
   - Jemile Fran
   - Plarmia
   - Elujuda, etc. (product grouping and branding to be done)

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FY2016 management strategy
Overseas market (1)

1. East Asia region (Milbon Shanghai, Milbon Korea, Taiwan, Hong-Kong)

2. South-east Asia region (Milbon Thailand, Malaysia, Vietnam, Indonesia, Philippine)

About Thai Factory

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FY2016 management strategy
Overseas market (2)

3. The US and Europe region (Milbon USA, Turkey)

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Consolidated FY2016 target

Investment has been accelerated for corporate branding and production capacity

	Amount		Increase	Growth rate (%)
	FY2015 results	FY2016 Target		
Net sales	27,377	28,950	1,572	105.7
Domestic	23,880	25,018	1,137	104.8
Overseas	3,496	3,932	435	112.5
Gross Profit	18,681	19,960	1,278	106.8
SG&A	13,954	14,960	1,005	107.2
Operating income	4,727	5,000	272	105.8
Ordinary income	4,427	4,700	272	106.2
Net income	2,950	3,100	149	105.1

(Unit: million yen)

Sales by category

	FY2015 results	FY2016 target	Increase/ decrease	Growth rate (%)
Hair care products	16,195	17,806	1,610	109.9
Hair coloring products	9,506	9,705	198	102.1
Permanent wave products	1,410	1,254	-156	88.9
Others	264	185	-79	69.9

Capital expenditures and others

Classification		FY2015 results	FY2016 target
CAPEX		2,779	4,329
Depreciation & Amortization		1,033	1,113
R&D expenses	Amount	1,214	1,215
	% to sales	4.4%	4.2%

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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.