Milbon Co., Ltd.

FY2016 Second Quarter (December 21, 2015 – June 20, 2016)

Financial Results Presentation Materials





June 29, 2016

Find Your Beauty MILBON

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Fiscal Year 2016 (57th term)
Operating Results for the Second Quarter

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Consolidated Operating Results (FY2016 6 months)

A steady increase in sales in East Asia and Japan led to an overall growth in sales for the Group

(Unit: million yen)

	Amount		Increase/ Decrease	YoY comparison (%)
	FY2015 6 months	FY2016 6 months		
Net sales	13,074	14,218	1,143	108.7
Gross profit	9,138	9,787	648	107.1
SG&A expenses	6,768	7,364	595	108.8
Operating income	2,370	2,423	53	102.3
Ordinary income	2,270	2,188	(82)	96.4
Net income	1,444	1,464	20	101.4

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

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

(FY2016 6 months)

(Unit: million yen)

FY2015 6 months	FY2016 6 months	Increase/Decrease	YoY comparison (%)
7,655	8,511	855	111.2

- 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. Sales were off to a steady start among women who have busy mornings, but also want to protect their hair against damaging UV rays.

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	467	66.8%



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	272	109.1%



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	202	57.8%



Jan. 28 Debut

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Aujua (1)

Sales grew with the introduction of new line-ups to meet the growing needs for aging care

Number of salons*

FY2015 year-end	FY2016 Q2-end	Comparison with FY2015 year-end
2,399 salons	2,631 salons	109.7%

Sales (FY2016 6 months)

(Unit: million yen)

FY2015 6 months	FY2016 6 months	YoY comparison
1,884	2,187	116.1%

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

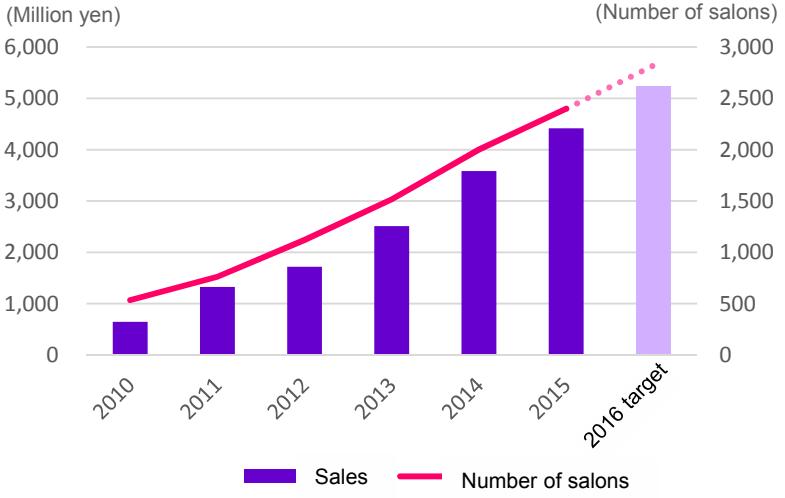
A wide-ranging line-up that suits the hair texture of individual customers

- **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



*** While listed numbers previously included salons that had cancelled their contracts, such salons have been omitted from the above numbers.**

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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	175	43.9%



Jan. 29 Debut

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A Global Hair Care Brand, “milbon”

“milbon,” a new global hair care brand carrying the Company name, has been launched

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 June 20, 2016••••••238 salons

Sales (FY2016 6 months)

FY2016 6 months••••••••48 million yen

MILBON



360° BEAUTIFUL HAIR

To be 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 6 months)

(Unit: million yen)

FY2015 6 months	FY2016 6 months	Increase/Decrease	YoY comparison (%)
4,606	4,944	338	107.3

- The “ORDEVE FRENCH LINE,” a new color line to match Spring/Summer 2016 trends, has been launched. Its shiny and light cold shades that complement a casual French look were well-received. We are actively promoting activities to support hair designers so that they offer trendy hair colors to salon customers.
- “ORDEVE CRYSTAL” was launched in FY2015, which made it possible to dye long hair peppered with gray to produce a bright color with a beautiful finish, from the roots to the tips. This product has been well-received, and sales have continued to grow since last year.

Core Product

ORDEVE CRYSTAL

A hybrid color for dying 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	833	42.1%



FY2015 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 Q2-end	Comparison with FY2015 year-end
4,014 salons	4,935 salons	122.9%

Sales (FY2016 6 months)

(Unit: million yen)

FY2015 6 months	FY2016 6 months	YoY comparison
182	363	199.6%

Brand concept

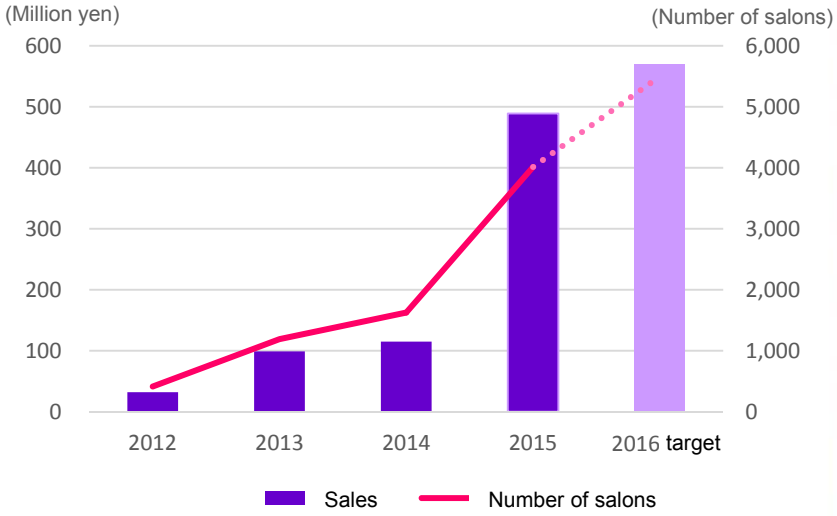
Nurtured in the soil of Italy, these *gifts from nature* bring out the authentic beauty of your hair and scalp.

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	239	75.9%



FY2015 Debut

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Consolidated Statement of Earnings (FY2016 6 months)

(Unit: million yen)

	Amount		Increase/ Decrease	YoY compari -son (%)
	FY2015 6 months	FY2016 6 months		
Sales	13,074	14,218	1,143	108.7
Cost of sales	3,935	4,430	494	112.6
Gross profit	9,138	9,787	648	107.1
SG&A expenses	6,768	7,364	595	108.8
Operating income	2,370	2,423	53	102.3
Ordinary income	2,270	2,188	(82)	96.4
Net income	1,444	1,464	20	101.4

<Breakdown of net sales by product category>

(Unit: million yen)

	FY2015 6 months	FY2016 6 months	% total sales	YoY change	YoY compari -son (%)
Hair care products	7,655	8,511	59.8	855	111.2
Hair coloring products	4,606	4,944	34.8	338	107.3
Permanent wave products	718	664	4.7	(54)	92.5
Others	94	98	0.7	3	104.2

<Major factor for the increase in SG&A expenses>

- Salary hikes from increases in the number of personnel and promotions
- Rent hikes at new bases

*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

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Consolidated Trends in Capital Expenditures and R&D Expenses

(Unit: million yen)

Category		FY2012	FY2013	FY2014	FY2015	FY2016 Jan.–Jun.	FY2016 Plan
Capital expenditures		840	1,680	1,028	2,779	1,783	4,329
Depreciation and amortization		947	878	1,004	1,033	468	1,113
R&D exp.	Amount	873	969	1,168	1,214	590	1,215
	% to sales	4.0%	4.1%	4.6%	4.4%	4.2%	4.2%

FY2016 6 months 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

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Trends in Market Related Data, Trends in 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	37,327 (As of Jan. 1)	Statistics Bureau, Ministry of Internal Affairs and Communications: Population statistics as of October 1st of each year Population statistics for females aged 15 to 64

Fieldpersons trends (by country)

	2012	2013	2014	2015	2016 Q2
JAPAN Milbon Co., Ltd.	200	210	216	237	246
	102	104	104	100	
USA MILBON USA, INC.	10	12	12	12	9
	35	36	40	53	
CHINA Milbon Trading (Shanghai) Co., Ltd.	13	16	17	18	18
	14	17	25	36	
KOREA Milbon Korea Co., Ltd.	13	17	17	19	20
	34	41	64	75	
THAILAND Milbon (Thailand) Co., Ltd.	-	3	6	6	6
		6	8	15	
Others	4	7	12	16	18
	101	65	50	47	

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

* 25 FPs are in training as of June 20, 2016 (not included in the left chart)

* Starting from the current fiscal year, sales per FP are calculated based on the number of FPs at the beginning of the fiscal year (adjusted retrospectively to 2012).

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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 6 months	FY2016 6 months			FY2015	FY2016
Japan Milbon Co., Ltd.	557 / 246	11,441	12,330	107.8	1960	-	-
USA MILBON USA, INC.	15 / 9	301	285	94.6	2004	1 dollar = 116.71	118.41
CHINA Milbon Trading (Shanghai) Co., Ltd.	24 / 18	279	370	132.4	2009	1 yuan = 19.07	18.24
KOREA Milbon Korea Co., Ltd.	32 / 20	670	788	117.7	2009	1 won = 0.1071	0.1012
THAILAND Milbon (Thailand) Co., Ltd.	54 / 6	47	39	82.9	2013	1 baht = 3.56	3.33
Others*	18 / 18	333	403	121.0	-	-	-

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

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Outlook of Milbon Group (2)

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 that link the hair color with the hair care, sales of products in both categories have steadily increased.

“milbon,” a global hair care brand that carries the Company name and which is set to become the Company’s third launch of a premium brand, was launched in June. Marketing activities combining actual experience with digital means were undertaken, including press conferences and parties ahead of the launch, as well as the dissemination of information via SNS and other media. We are carrying out our full-fledged efforts for corporate branding.

USA (MILBON USA, Inc.)

We concentrated our efforts on educational activities by creating a “Style Book” using existing hair styling products, as a tool for proposing hair styles that match life styles. In addition, we focused on activities that will lead to proposals for take-home products, through in-house education at salons that have adopted our major brand of salon treatment, “Plarmia.” As a result of these efforts, sales of styling products and the Plarmia brand have increased.

These activities resulted in an increase in salon sales in the second quarter (January to March), whereas a decrease in sales had been reported in the first quarter (October to December). In terms of the distributors, although sales decreased due to the effects of inventory adjustments, sales from distributors to salons were strong.

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Outlook of Milbon Group (3)

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

Under the theme, “Promoting an 80% customer repeat rate,” we conducted a policy briefing for the area’s top salons at eight of the leading cities in China, leading to penetration of the Milbon brand and contracts with new salons.

Seasonal colors for spring and summer were proposed, and “ORDEVE Smokey Ash Matt,” a hair color that dyes hair to have the color of foreign models’ hair, was launched. The hair color was well-received by both Chinese designers and customers, and performance, which was also boosted by the Chinese New Year, grew dramatically.

We established a temporary office in Southwest China (Chengdu, Sichuan Province) and commenced marketing activities. We also entered into a new contract with a distributor in North China (Qingdao, Shandong Province) and commenced sales.

KOREA (Milbon Korea Co., Ltd.)

In February, we conducted a promotion for the launch of “LUMIERE Line,” ORDEVE’s additional color. The regular introduction of new seasonal colors has been well-received as a way of proposing new colors to salon customers who are always looking for something new, and an attractive way of enhancing the ORDEVE brand’s value. As a result, the hair coloring product increased sales by 34% year-on-year.

In addition to actively promoting new hair colors, we also conducted activities to strengthen our hair care products, in an effort to establish a foundation in the hair care market through the Plarmia and Aujua brands, as a way of successfully transitioning from the “Milbon of hair color products” to the “Comprehensive Milbon brand.” The ten selected salons where test marketing of Aujua has been conducted have received steady repeat orders for these products. Plans are under way to increase personnel and reinforce the activity framework in preparation for the full-fledged marketing activities scheduled from October.

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Outlook of Milbon Group (4)

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

[Sales division]

Lectures on color and digital perms continue to be held at studios of each distributor, resulting in increases in the sales of the ORDEVE and Atenje brands. Moreover, by stepping up our advertising and other efforts to establish the Plarmia brand in Thailand, which has rapidly aging demographics, we were able to significantly increase sales of the brand.

Meanwhile, although we launched a new salon treatment, difficulties in understanding the technical processes involved in the new product for the new staff, as well as its differences from conventional products, combined with fierce competition in the leave-in treatment market resulted in a decrease in the sales of hair care products.

Going forward, we intend to repeat color technique lectures in the popular hair color market and to reinforce activities to address the adult's market by raising the visibility of the strong Plarmia brand.

[Production division]

The production of the global hair care brand, "milbon" commenced in February (total of 15 products), and consequently shipments were made to Japan for the first time.

Shipping destinations currently comprise 10 countries, including Japan and the Philippines, and shipment volume is increasing steadily.

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.

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Milbon Group

Progress in FY2016 (57th term)

Ryuji Sato, President and CEO

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Initiatives for FY2016 (57th term) (1)

Domestic market

1. Market environment

2. Measures

3. Brand product line-ups

- **Aujua**
- **Villa Lodola**
- **[New brand] Global hair care brand, “milbon”**

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Initiatives for Corporate Branding (1)

Corporate muse and exclusive advertising at Tokyo Metro's Ginza Station

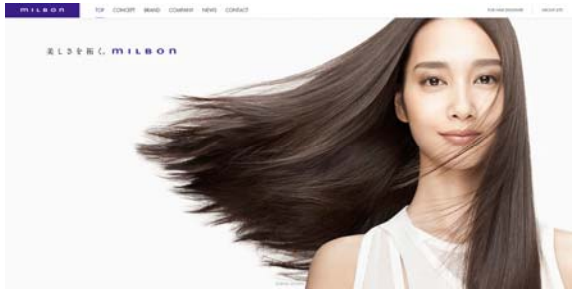


▲Corporate muse (ATSUKO)



▲Scenes from Tokyo Metro's Ginza Station, filled with Milbon advertising

Website renewal







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Initiatives for Corporate Branding (2)

- **Press conference and launch party for the global hair care brand, “milbon”**









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Initiatives for FY2016 (57th term) (2)

Overseas markets (1)

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

2. Southeast Asia region (Milbon (Thailand) Co., Ltd., Malaysia, Vietnam, Indonesia, the Philippines)

   Thailand Plant

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Initiatives for FY2016 (57th term) (3)

Overseas markets (2)

3. Europe and US region (MILBON USA, INC., Turkey)

In conclusion

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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.