

**MILBON CO., LTD (4919 JP)**

FY22 GUIDANCE REMAINS UNCHANGED DESPITE BETTER THAN EXPECTED 1H. OVERSEAS GROWTH PHASE ENTERED A NEW CHAPTER

**FY22 1H EARNINGS RESULTS**

Milbon Co., Ltd (4919 JP) reported FY22 1H (Dec year-end) earnings with operating profit [OP] of ¥3,824mil (+15.3% YoY) on sales of ¥21,467mil (+11.7% YoY) which generated a 1.1ppt YoY increase in the gross profit margin [GPM] to 66.5%. Even excluding the currency translation gains from the weaker yen on consolidated net sales, the boost in sales volumes in all regions contributed to the overall strong performance and improved profitability.

By region, net sales in Japan rose 7.9% YoY as demand for the firm's hair colour and hair care products remained firm. In the US, the successful collaboration with local distributors supported 1H net sales growth of 48.5% YoY (yen-denominated basis). Korea net sales rose 28.0% YoY (yen-denominated basis) in thanks to the prompt return to live training sessions boosted demand for core hair colour products.

The rise in sales volumes across all regions – discussed in more detail on p.2 – contributed to the +1.1ppt improvement in the FY22 1H GPM. In addition, the operating profit margin [OPM] improved 0.5ppt YoY due to less-than-expected marketing costs amid COVID-related restrictions.

Milbon (4919 JP): Earnings Summary (Cumulative)						
(¥mil)	FY21		FY22			
	1H	FY	1H	YoY (%)	FYCE	YoY (%)
Sales	19,217	40,849	21,467	11.7	43,900	7.5
COGS	6,650	14,083	7,198	8.2	14,760	4.8
GP	12,566	26,765	14,269	13.6	29,140	8.9
GPM (%)	65.4	65.5	66.5	+1.1ppt	66.4	+0.9ppt
SG&A	9,248	19,681	10,444	12.9	21,590	9.7
SG&A / Sales (%)	48.1	48.2	48.7	-0.8ppt	49.2	+1.0ppt
OP	3,317	7,084	3,824	15.3	7,550	6.6
OPM (%)	17.3	17.3	17.8	+0.5ppt	17.2	-0.1ppt
RP	3,355	7,158	4,137	23.3	7,410	3.5
RPM (%)	17.5	17.5	19.3	+1.8ppt	16.9	-0.6ppt
NP*	2,413	5,109	2,875	19.1	5,230	2.4

Source: Nippon-IBR based on Milbon's FY21 & FY22 1H earnings presentation materials  
\* NP attributed to the parent's shareholders

Unlike the consumer toiletry products market, rising raw materials prices have had less of an impact on Milbon's profit margins as:

1. Raw materials cost hikes were offset as fixed costs were sufficiently covered by increase in sales volume.
2. Pricing in the professional-use market is higher than that of consumer-use toiletry products, hence a lower raw material cost ratio.
3. Over half of Milbon's existing products were launched in the past five years. New product prices are based on the firm's assessment of the most up-to-

**EXECUTIVE SUMMARY**

- Milbon (4919 JP) reported FY22 1H (Dec year-end) operating profit [OP] of ¥3,824mil (+15.3% YoY) on sales of ¥21,467mil (+11.7% YoY) and a 1.1ppt YoY gain in the GPM to 66.5%.
- Unlike the consumer toiletry products market, the professional-use hair care market, has not been affected as much due to rising raw material costs. Strong sales volumes and the pricing mechanism has supported profit growth.
- The firm's e-commerce platform, *milbon:iD*, which supports salons in the sale of haircare products, saw the number of registered salons on the site reach 4,200, up from the total of 3,200 registered as of the end of FY21. The number of *milbon:iD* users also increased from 170,000 in FY21 to 280,000 as of FY22 1H. As a result, Milbon's e-commerce sales hit the ¥431mil mark vs the ¥511mil achieved in FY21.
- Despite the better-than-expected 1H performance, the full-year guidance has not been changed as 1) it is difficult to gauge the impact of higher raw materials costs, 2) a possible resurgence of COVID cases in Japan may affect the customer traffic to salons, and 3) the uncertainty of China's Zero COVID policy.
- Milbon's aim is to expand new business in each market and establish a global distribution network to realise the two-week delivery system in an aim to achieve overseas sales CAGR of 12.6% during the existing medium-term plan which ends in FY26.

date trends in customer value, commodity prices and production costs. Given the majority of its products were recently launched, pricing tends to reflect current trends.

Milbon would consider hiking prices if the FY22 OPM significantly falls short of the target 17.2%. At the moment, the firm does not intend to raise prices.

### Sales by Country

#### Japan

Milbon reported FY22 1H Japan OP of ¥3,201mil (+16.6% YoY) on sales of ¥16,627mil (+7.9% YoY), which produced an OPM of 19.3%, up from FY21 1H's 17.8%. During Q1, while customer traffic to salons were still being affected by rising COVID cases, especially in the suburbs, a recovery of the customer traffic became apparent in Q2.

In terms of profitability, there was a bit of a cushion on the cost side as the firm did not use its planned SG&A budget due restrictions on business activities under COVID. Even though overall SG&A costs rose 12.9% YoY due to an increase in personnel costs, such as hiring new Field Persons [FPs] and logistics, it was more than offset by the improvement in sales, thanks to Milbon's efforts to support beauty salons to overcome pandemic-related obstacles. Given many people in Japan still wear masks, hair colour has become a fashion item / way for individuals to express themselves, resulting in hair colour sales growth of 13.3% YoY in 1H. With rising demand for hair colouring, sales of products that help treat damaged hair due to colouring, as well as products to make the colour last longer, have expanded.

Milbon reported 1H domestic haircare product sales (gross basis) of ¥11,460mil (+6.5% YoY), of which ¥5,973mil (+8.9% YoY) is from premium brands. Given COVID restrictions led to customers not frequenting salons as regularly as they used to, especially in the urban areas, it has become vital that hairdressers encourage sales of salon-bought haircare products in an effort to maintain their business.

The benefits of the firm's efforts can be seen in the number of salons that registered with *milbon:iD*, its unique e-commerce platform and the number of registered users. Milbon's e-commerce revenue reached approx. ¥431mil in 1H versus FY21 full-year sales of ¥511mil. The firm estimates that approx. 70% of revenues from its haircare products comes from salon sales. The number of registered salons signed up to *milbon:iD* hit 4,200 in FY22 1H – a sharp increase from the 3,200 registered as of the end of FY21. In addition, the number of *milbon:iD* users also surged from 170,000 as of Dec 21 to 280,000. Moreover, the spend per person exceeded the ¥10,000 mark to approx. ¥12,000, which compares to the typical cost of ¥7,000~8,000 for a hair cut in a Central Tokyo salon.

#### Overseas

1H overseas earnings surpassed Milbon's expectations, generating sales of ¥4,839mil (+27.2% YoY). Although there was some FOREX impact, the local currency-based sales growth of 18.5% suggests that the firm enjoyed 1) an expanding customer base, and 2) an increase in sales volumes. However, while OP grew 8.9% YoY to ¥622mil, the OPM contracted 2.1ppt YoY to 12.9%, mainly due to business in China moving into the red. Details by country are as follows:

- **US:** By continuing to expand its alliances with local distributors to cultivate new salons, FY22 1H US sales surged 48.5% YoY to ¥603mil. Although the high YoY growth reflects the positive impact from the weak yen, US sales on a local currency basis [LCB] were up 29.8% YoY, thanks to strong sales of the premium haircare range Global Milbon. Hair colour product *Sophistone* is also proving popular and has helped cultivate new customers. Although the US business remains in the red with an operating loss of ¥125mil, the losses have shrunk compared to ¥218mil reported in FY21 1H.

- **China:** Operations in China fell into the red in FY22 1H, due to the two-month lockdown in Shanghai. FY22 1H sales fell 3.0% YoY on a yen-denominated basis to ¥1,058mil / LCB -15.0% YoY and reported an operating loss of ¥76mil, compared to OP of ¥269mil in FY21 1H. During the lockdown, Milbon worked on building good relationships with targeted salons through its distributors, which resulted in helping the recovery once the lockdown was lifted in June. With the current restrictive environment, customers tend to spend less time in salons, therefore Milbon has designed hair care menus that take less time.
- **Korea:** Milbon Korea – the largest part of the firm’s overseas operations comprising 9.5% of total consolidated net sales – generated FY22 1H OP of ¥693mil (+30.5% YoY) on sales of ¥2,043mil (+28.0% YoY / LCB +23.4% YoY), with hair colour products, some 80% of the sales in Korea, leading the growth. Milbon reckons that the prompt resumption of live training seminars to hairdressers, which is an important marketing programme to attract customers to hair colour products, after the COVID restrictions were lifted, promotes sales. Close to 80% of sales in Korea are derived from hair colour products. Thanks to the successful cooperation with distributors, sales of premium brands, such as Global Milbon, trended favourably as more salons became customers.

## FY22 OUTLOOK

Although 1H earnings were better than expected, Milbon has maintained its FY22 full-year guidance for the following reasons:

1. Although the professional hair care market is less sensitive to rising raw material costs, it is unclear how much of an impact they will have on earnings,
2. The resurgence of COVID cases in Japan may affect customer traffic to salons, especially in suburban and rural areas and among the older generations,
3. There is uncertainty surrounding the Chinese government’s Zero COVID policy and its impact to the business.

Based on FY21 figures adjusted to the new cost recognition method, which directly deducts the sales discount from actual sales rather than reporting it as a non-operating cost item, Milbon is guiding for FY22 OP of ¥7,550mil (+6.6% YoY) on sales of ¥43,900mil (+7.5% YoY). [NB: In this section, unless otherwise stated, the past numbers will be readjusted to the new recognition method of sales discount].

Milbon (4919 JP): Earnings Results and Guidance					
(¥mil)	FY21			FY22	
	Results	YoY (%)	Adjusted	CE (adjusted)	YoY (%)
Sales	41,582	16.4	40,849	43,900	7.5
DM	33,643	12.6	32,938	35,150	6.7
Overseas	7,938	35.8	7,910	8,750	10.6
GP	27,498	17.6	26,765	29,140	8.9
GPM (%)	66.1	+0.7pp	65.5	66.4	+0.9pp
SG&A	19,681	15.8	19,681	21,590	9.7
SG&A / Sales (%)	47.3	-0.3pp	48.2	49.2	+1.0pp
OP	7,817	22.3	7,084	7,550	6.6
OPM (%)	18.8	+0.9pp	17.3	17.2	-0.1pp
RP	7,158	23.6	7,158	7,410	3.5
RPM (%)	17.2	+1.0pp	17.5	16.9	-0.6pp
NP for the parent's s/holders	5,109	21.5	5,109	5,230	2.4

Source: Nippon-IBR based on Milbon's earnings presentation materials FY21 & FY22 1H

Net Sales Breakdown by Products (Cumulative)										
(¥mil)	FY19		FY20		FY21				FY22CE	
	1H	FY	1H	FY	1H	FY	Results vs. CE(%)	YoY (%)	FYCE	YoY (%)
Hair care products	9,897	21,328	9,391	21,135	11,288	24,466	2.8	15.8	25,570	6.4
Hair colouring products	6,423	12,994	5,594	12,594	7,124	14,813	2.9	17.6	15,570	7.0
Permanent wave products	770	1,515	660	1,372	740	1,449	-2.4	5.6	1,510	6.0
Cosmetic products	47	165	136	360	293	579	-9.5	60.6	900	55.3
Others	103	263	85	262	111	273	-1.4	4.3	350	31.2
Total	17,242	36,266	15,869	35,725	19,558	41,582	2.4	16.4	43,900	7.5

Source: Nippon-IBR based on Milbon's earnings presentation materials (FY19, FY20 & FY21)

## FY22 FORECAST BY REGION

### Japan

Milbon is guiding for FY22 Japan OP of ¥6,706 (+9.8% YoY) on sales of ¥35,150mil (+6.7% YoY), renewing the record level of revenue achieved in FY19, mainly thanks to strong demand for hair care and hair colour products. During July and August, the number of COVID cases in Japan was reported to be the highest in the world. That said, Milbon has not seen much of an impact of COVID on customer traffic.

The importance of selling haircare products and establishing an online shopping infrastructure such as *milbon:iD* has become key to retain customers, both now and in the future, and for them to become repeat purchasers of Milbon's hair products. For salons, the advantage of *milbon:iD* is that they can promptly promote hair care products when the customer is about to renew their purchases. In addition, by generating revenues by selling products online, it can limit the likelihood of potential closures. The average spend per customer on *milbon:iD* is now at ¥12,000, vs ¥7,000~8,000 if a customer buys products at a salon, and is almost equal to what customers pay for hair colour and cut in a reasonably priced salon.

Moreover, *milbon:iD* customers tend to buy products in larger bottles which pushes up the average spend. Milbon reckons that *milbon:iD* is unlikely to cannibalise sales at salons as customers tend to distinguish between services they can only access by going to a salon from product purchases that help maintain the condition of their hair. Milbon targets FY22 annual sales from *milbon:iD* of ¥1,000mil vs ¥431mil in FY22 1H and ¥511mil in FY21 full year.

### Overseas

FY22 Overseas guidance is for OP of ¥843mil (-13.8% YoY) on sales – which are likely to reach a new record level – of ¥8,750mil (+10.6% YoY), and assumes that the economic activity will remain at current levels despite the impact of COVID. Although each overseas operation will see sales expand, due to planned investment in a new factory and R&D, along with depreciation costs in China, the China business will likely see FY22 OP fall by more than half, to ¥206mil. However, there is also the uncertainty with the Zero COVID policy in China, so the earnings risk will remain with China for the time being.

Ongoing developments overseas are as follows:

- After the successful expansion in the US, Milbon has started expanding in Canada.
- Established a European subsidiary in Germany to increase its footprint in surrounding countries.
- Given the successful development of *milbon:iD* in Japan, the service started in August in Korea.
- Start locally manufacturing hair care products in China from August.

Milbon's aim is to expand new business in each market and establish a global distribution network to realise the two-week delivery system in an aim to achieve overseas sales CAGR of 12.6% during the existing medium-term plan which ends in FY26.

Medium-term management plan (FY22~26)				
(¥mil)	FY21	FY26	CAGR (%)	
Sales	40,849	58,000	7.3	
Japan	32,938	43,700	5.8	
Overseas	7,910	14,300	12.6	
Gross Profit [GP]	26,765	38,160	7.4	
GPM (%)	65.5	65.8	+0.3ppt	
SG&A	19,681	27,360	6.8	
Operating Profit [OP]	7,084	10,800	8.8	
OPM (%)	17.3	18.6	+1.3ppt	
Recurring Profit [RP]	7,158	10,810	8.6	
NP attributed to the parent	5,109	7,670	8.5	
NPM (%)	12.5	13.2	+0.7ppt	

Source: Milbon Co., Ltd. FY22~26 New medium-term plan press release

### CAPEX

With FY22 being the first year of the new medium-term management plan, Milbon has several investment plans in Japan and overseas, including those related to digital transformation (DX). The firm is guiding for FY22 CAPEX of ¥5,080mil, up from FY21's ¥4,644mil. This year's CAPEX projects include the purchase of land for a new training centre in Japan, and a production facility in Thailand.

### Revision on Dividend Payment

In FY22, Milbon aims to pay out 50% of net profit and aims for a cash dividend of ¥86/share, up from FY21's ¥68/share.

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