



# Financial Overview for Fiscal 2004

(Fiscal Year ended March 31, 2004)

**Kazumasa Kobayashi**

**President and CEO**

**Kobayashi Pharmaceutical Co., Ltd.**

**May 26, 2004**

# Consolidated Financial Highlights

	FY2003		FY2004		Change	
	Amount	Profit rate	Amount	Profit rate	Amount	% change
<b>Net sales</b>	Million yen 210,922	% -	Million yen 211,670	% -	Million yen 748	% 0.4
<b>Operating income</b>	15,852	7.5	16,123	7.6	271	1.7
<b>Ordinary income</b>	12,951	6.1	14,127	6.7	1,176	9.1
<b>Net income</b>	6,605	3.1	6,677	3.2	72	1.1
<b>EPS (yen)</b>	231.25	-	157.25	-	-	-

\* EPS for FY2003 is ¥155.52, if the stock split were executed in FY2003.

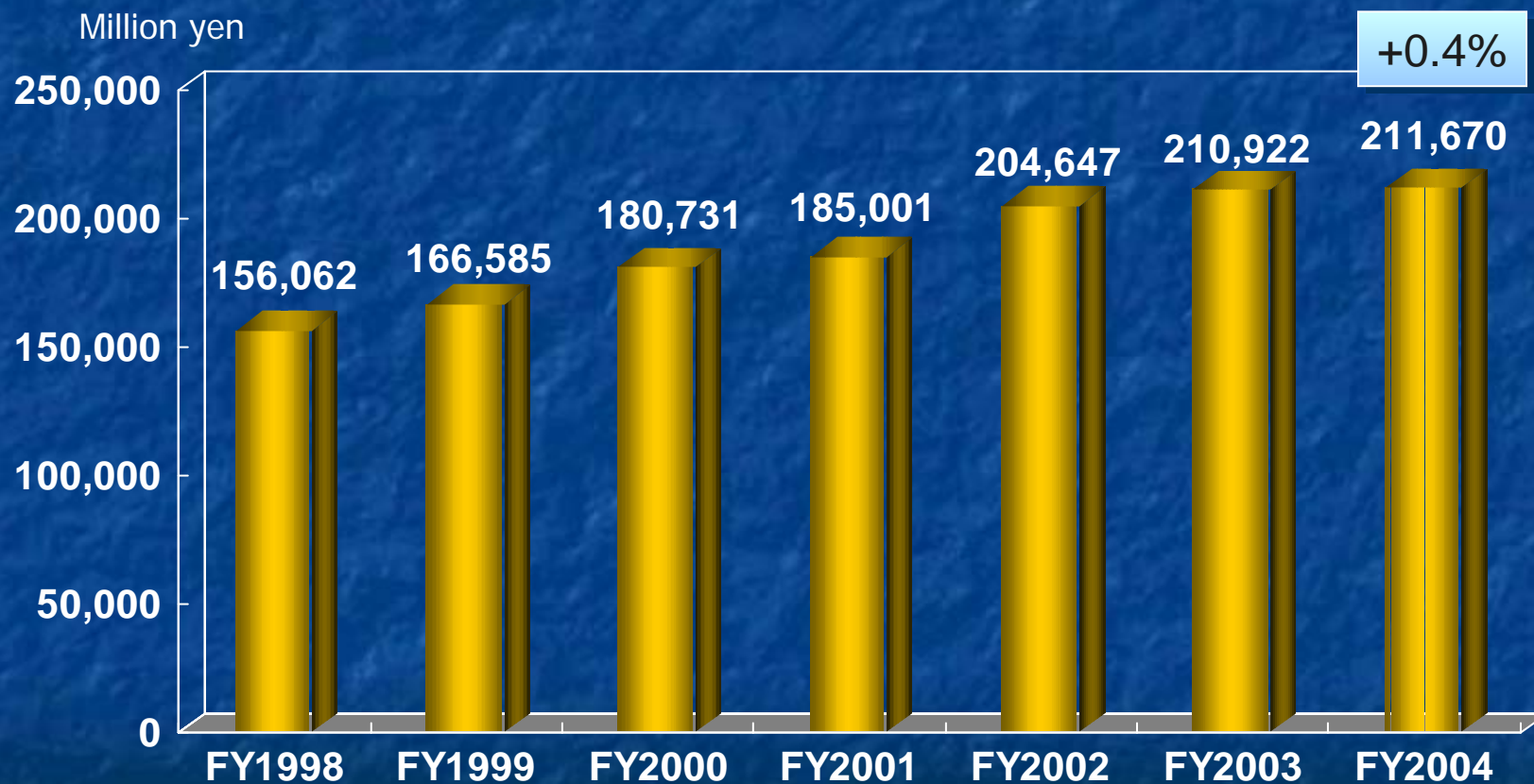
Factors accounting for the change:

Non-operating expenses: ¥480M foreign exchange loss, ¥270M loss on inventory write-off

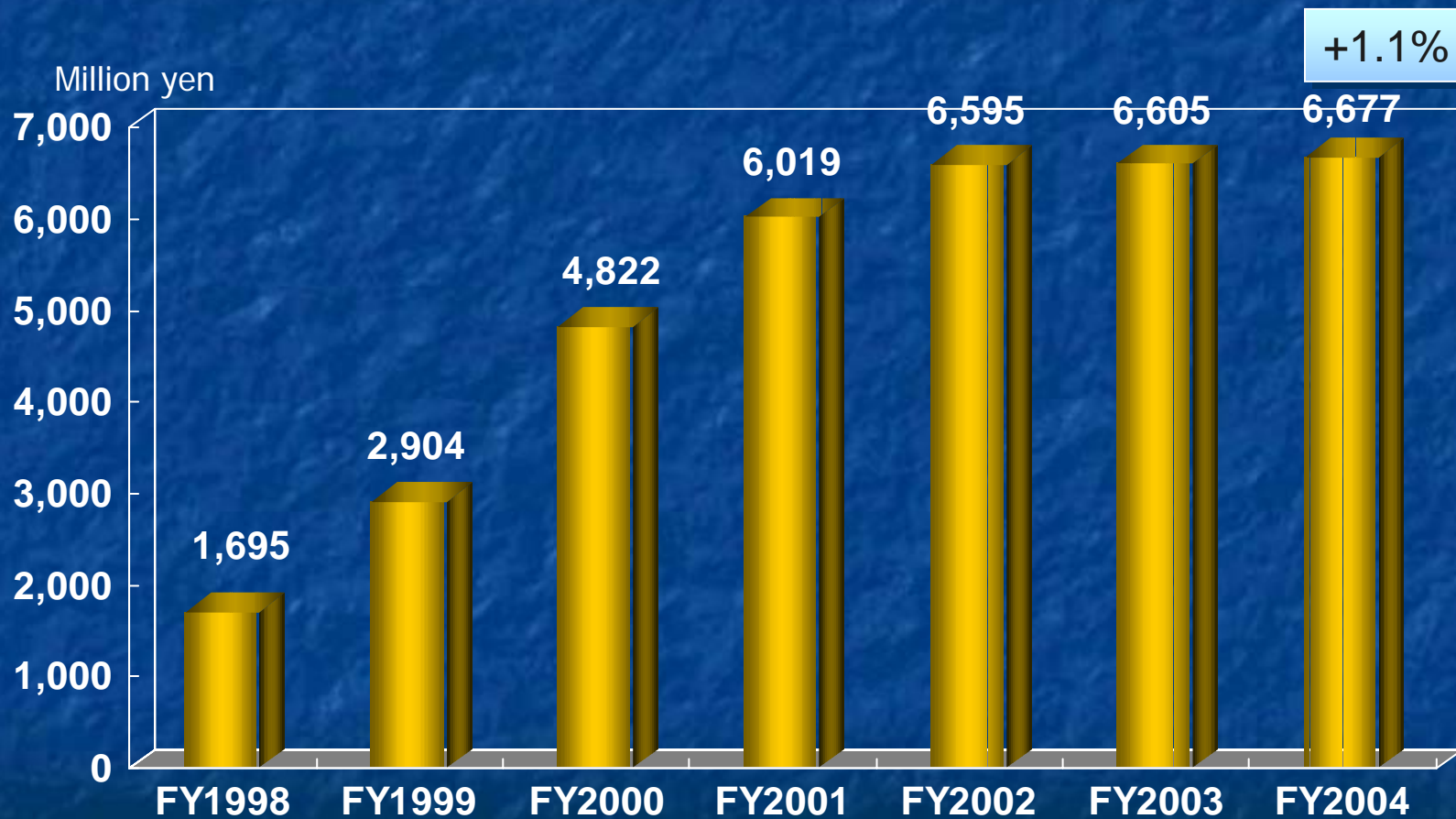
Extraordinary losses: ¥970M allowance for doubtful accounts, ¥350M loss on liquidation of Chiba Kobayashi, ¥330M loss on investment in Shanghai Kobayashi

Kobayashi Pharmaceutical Co., Ltd.

# Consolidated Net Sales

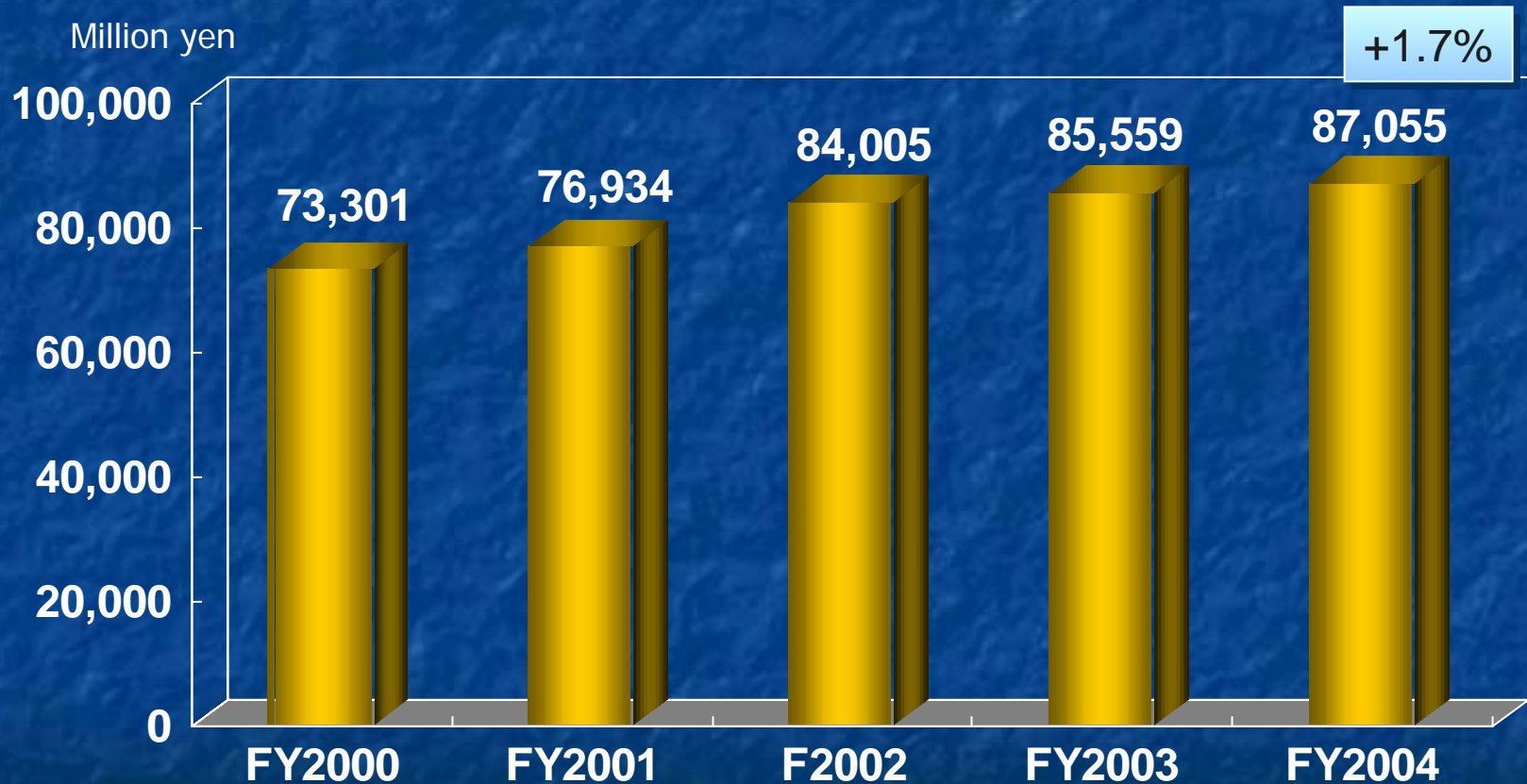


# Consolidated Net Income



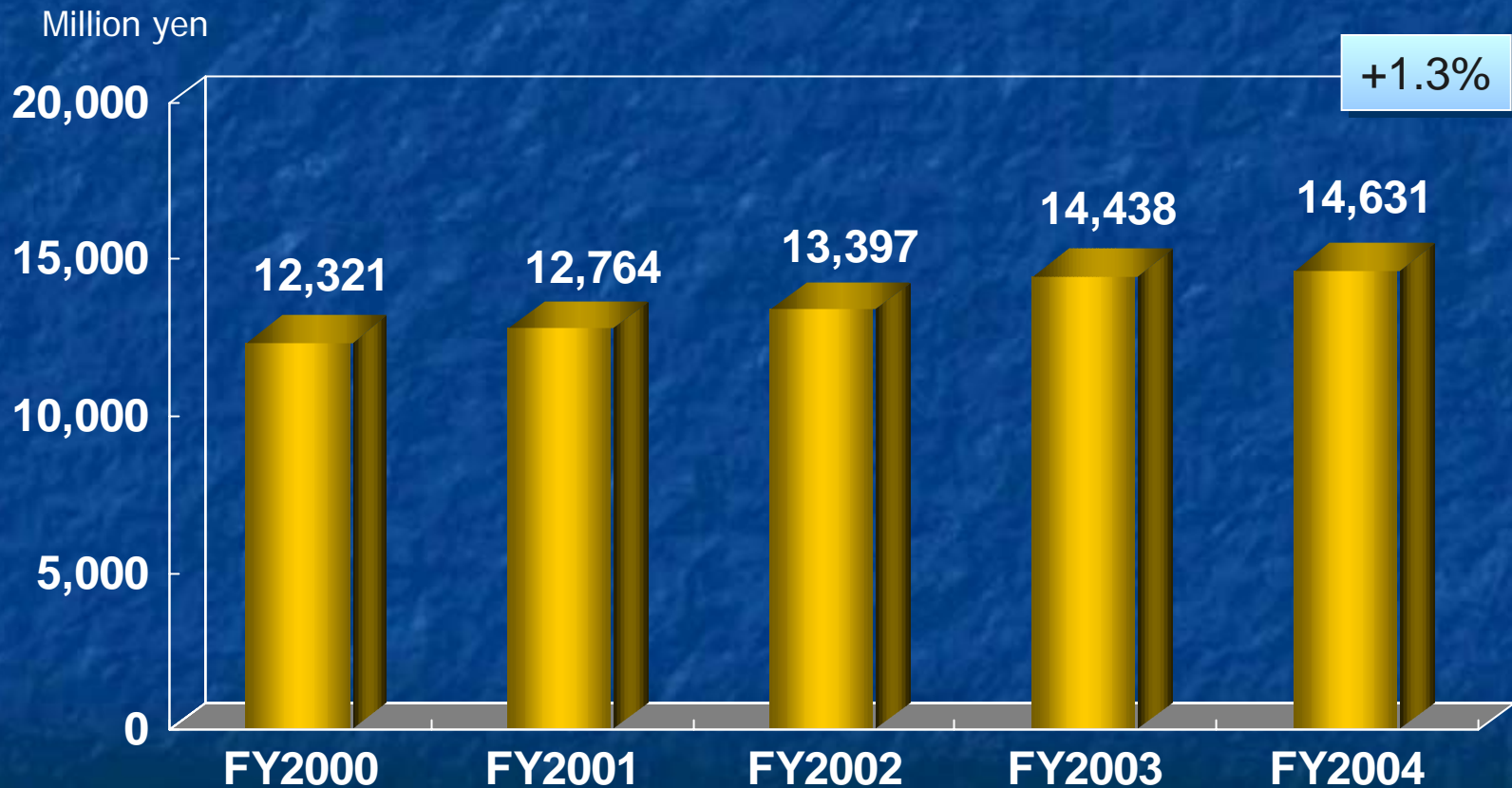
# Consumer Products Operation in FY2004

# Consumer Products Operation Net Sales



\* Acquired Kiribai Chemical

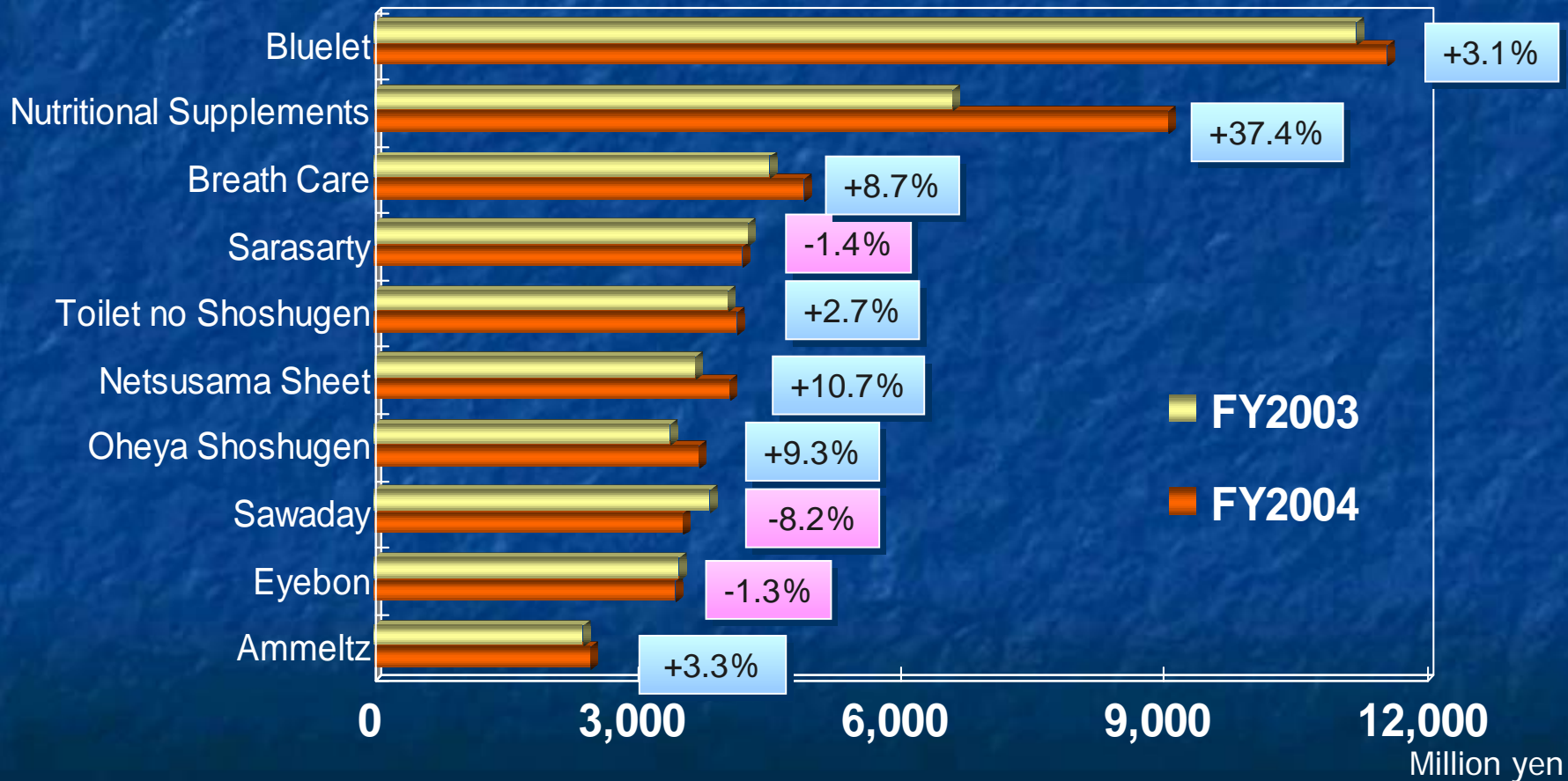
# Consumer Products Operation Operating Income



# Consumer Products Operation Sales by Brand

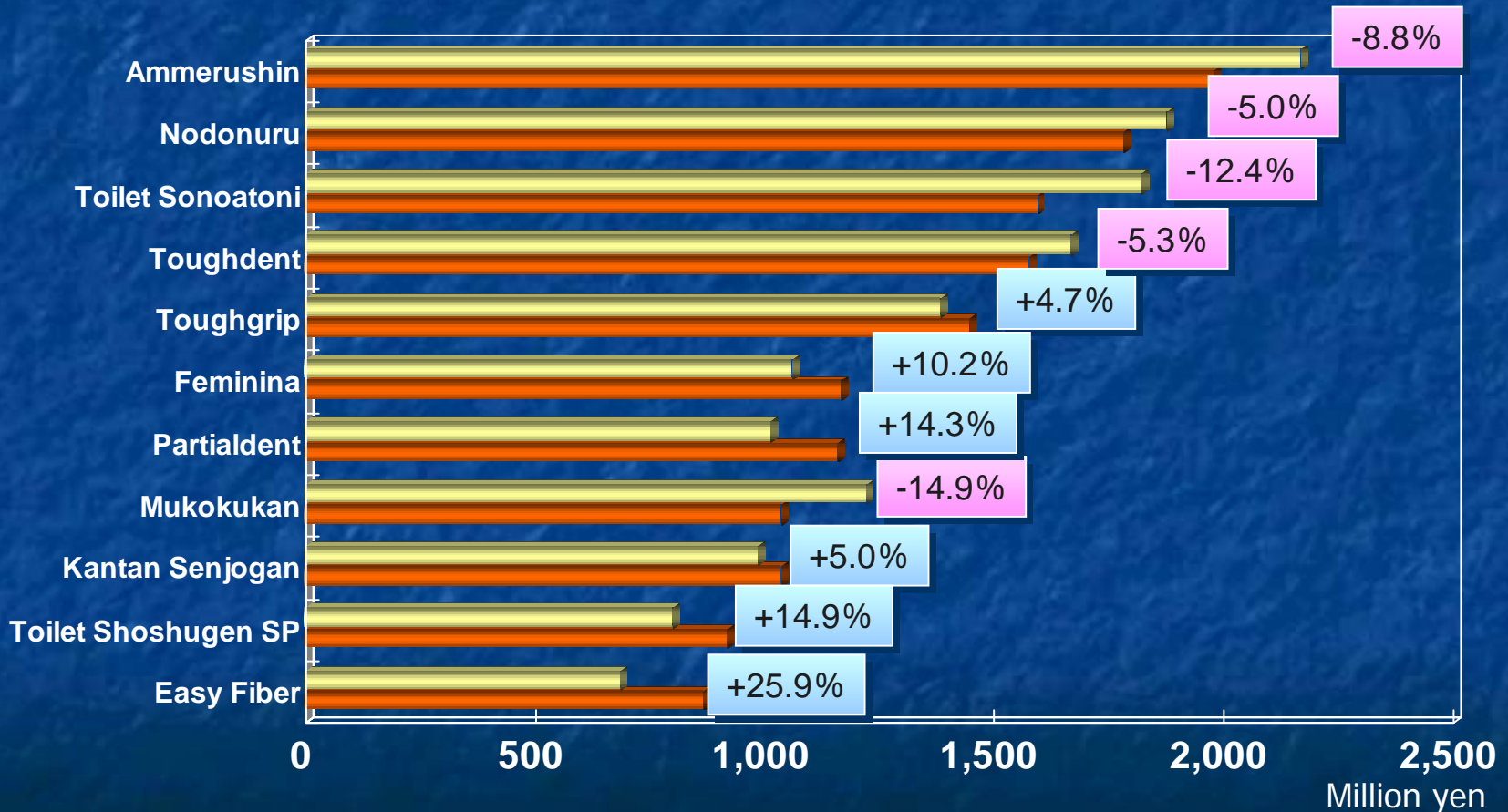
Top 10 brands (accounted for 58% of total sales)

\* Sales value basis

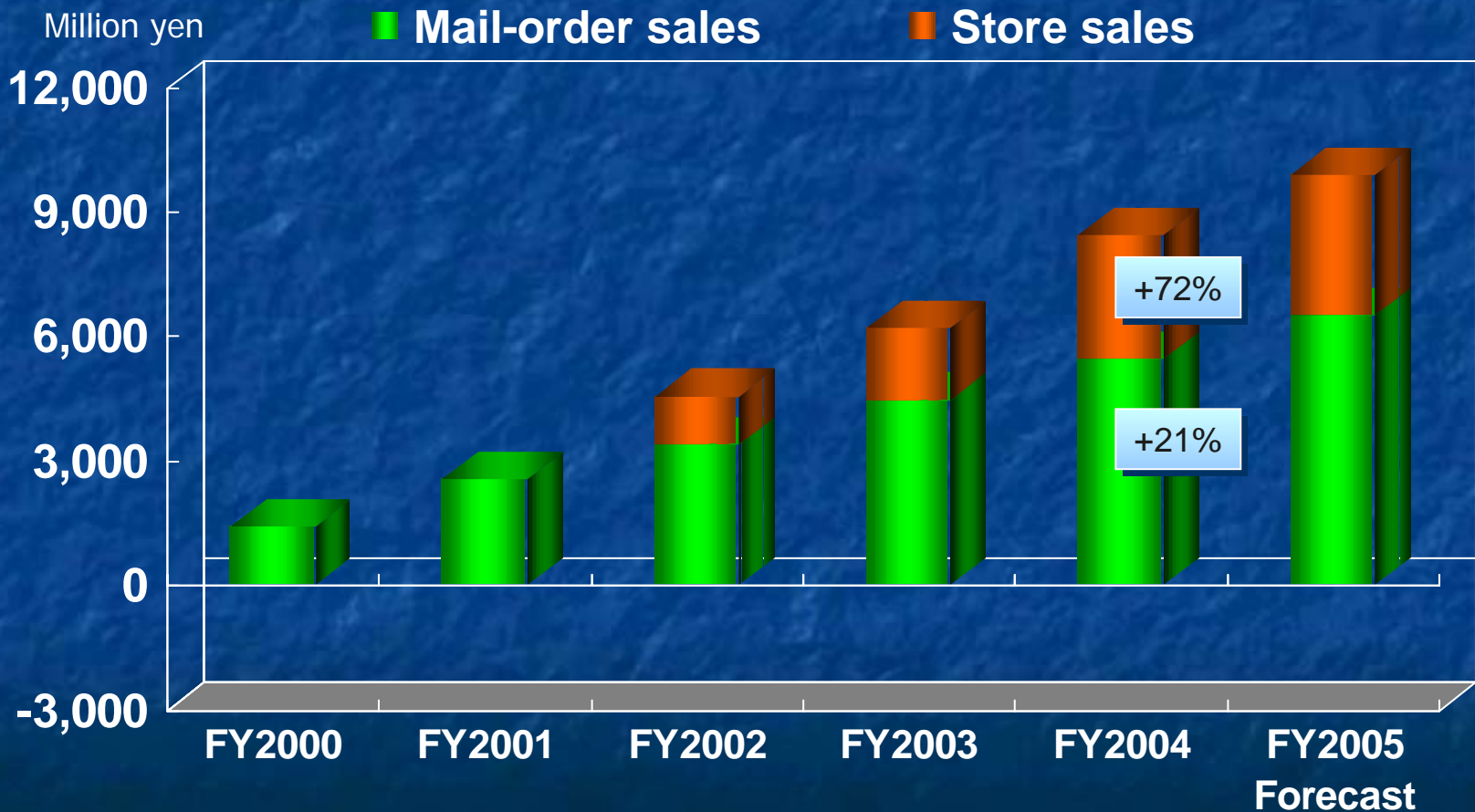


# Consumer Products Operation Sales by Product

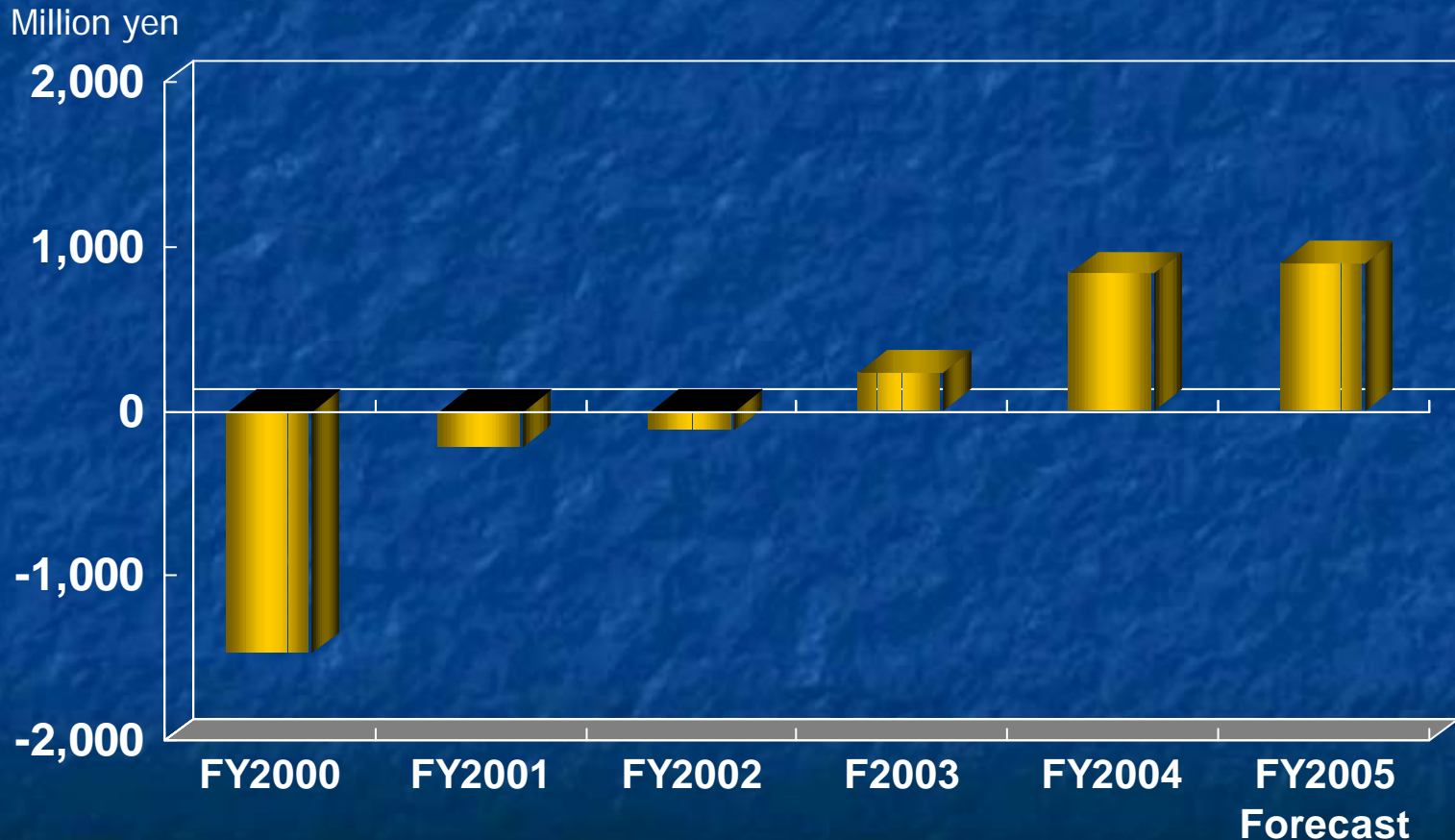
Top 21 brands (accounted for 75% of total sales) \*Sales value basis



# Expansion of the Nutritional Supplement Food Products Business: Net Sales



# Expansion of the Nutritional Supplement Food Products Business: Ordinary Income



# Strengthened Cost Competitiveness

- Cost reduction: ¥1.27B on a consolidated basis
- In-house production ratio increase
- Reconfiguration of production bases
  - Closure of Chiba Kobayashi Factory
  - Expansion of Shanghai Factory
    - To position it as the No.3 factory following Sendai and Toyama Factories

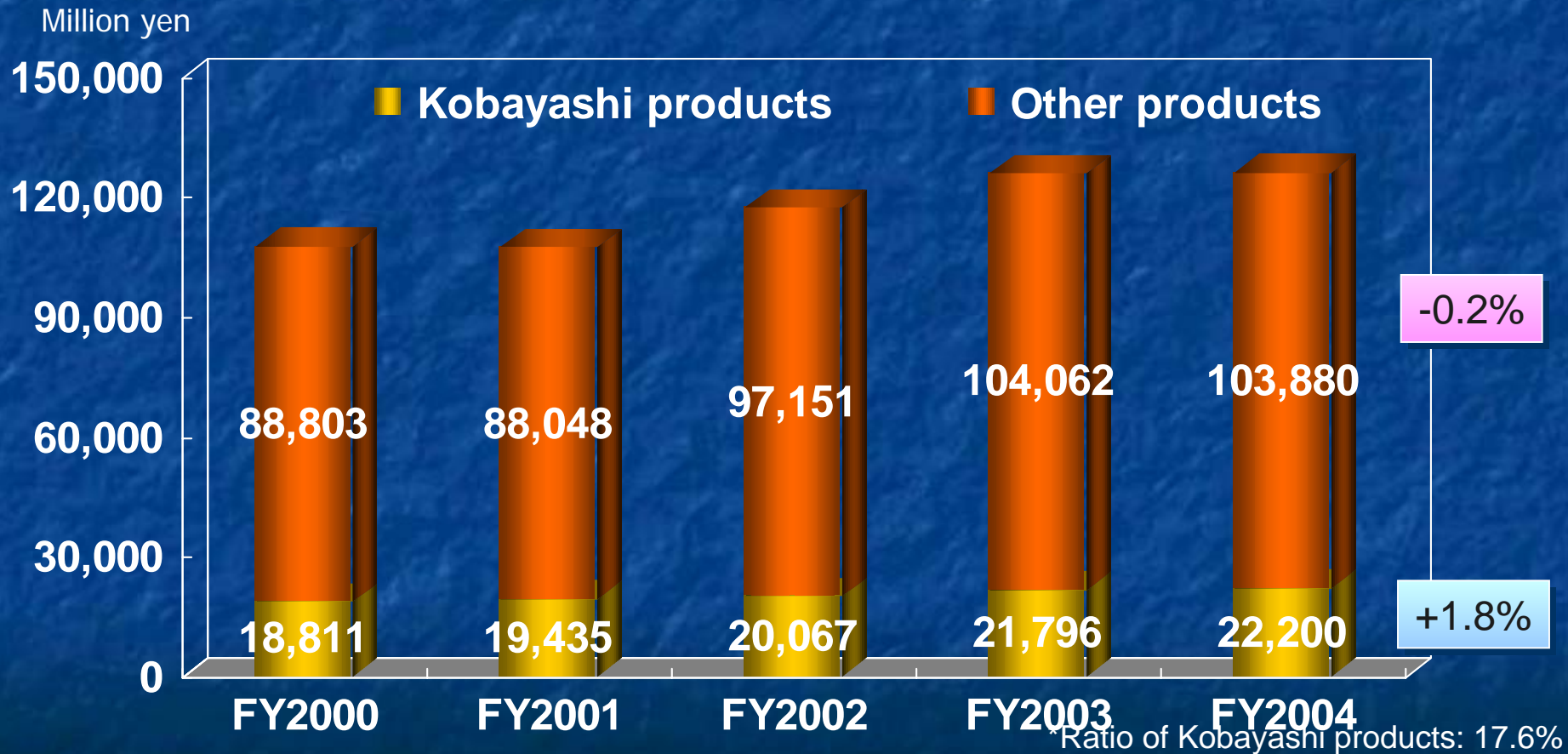
# Wholesale Operation in FY2004

# Wholesale Operation Net Sales

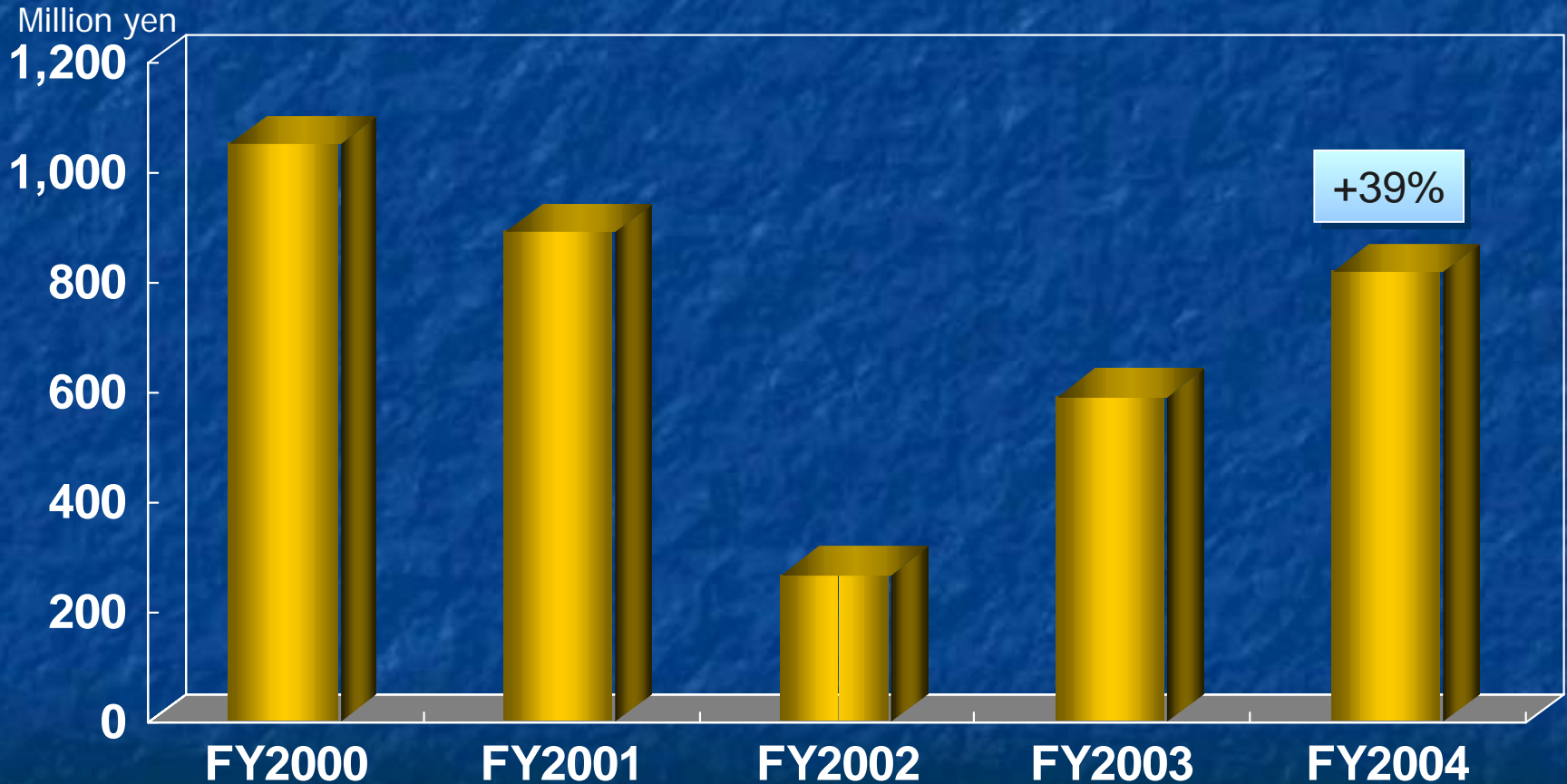


\*Hiroshima Sales Office was transferred to Kensyou

# Wholesale Operation Breakdown of Sales



# Wholesale Operation Ordinary Income

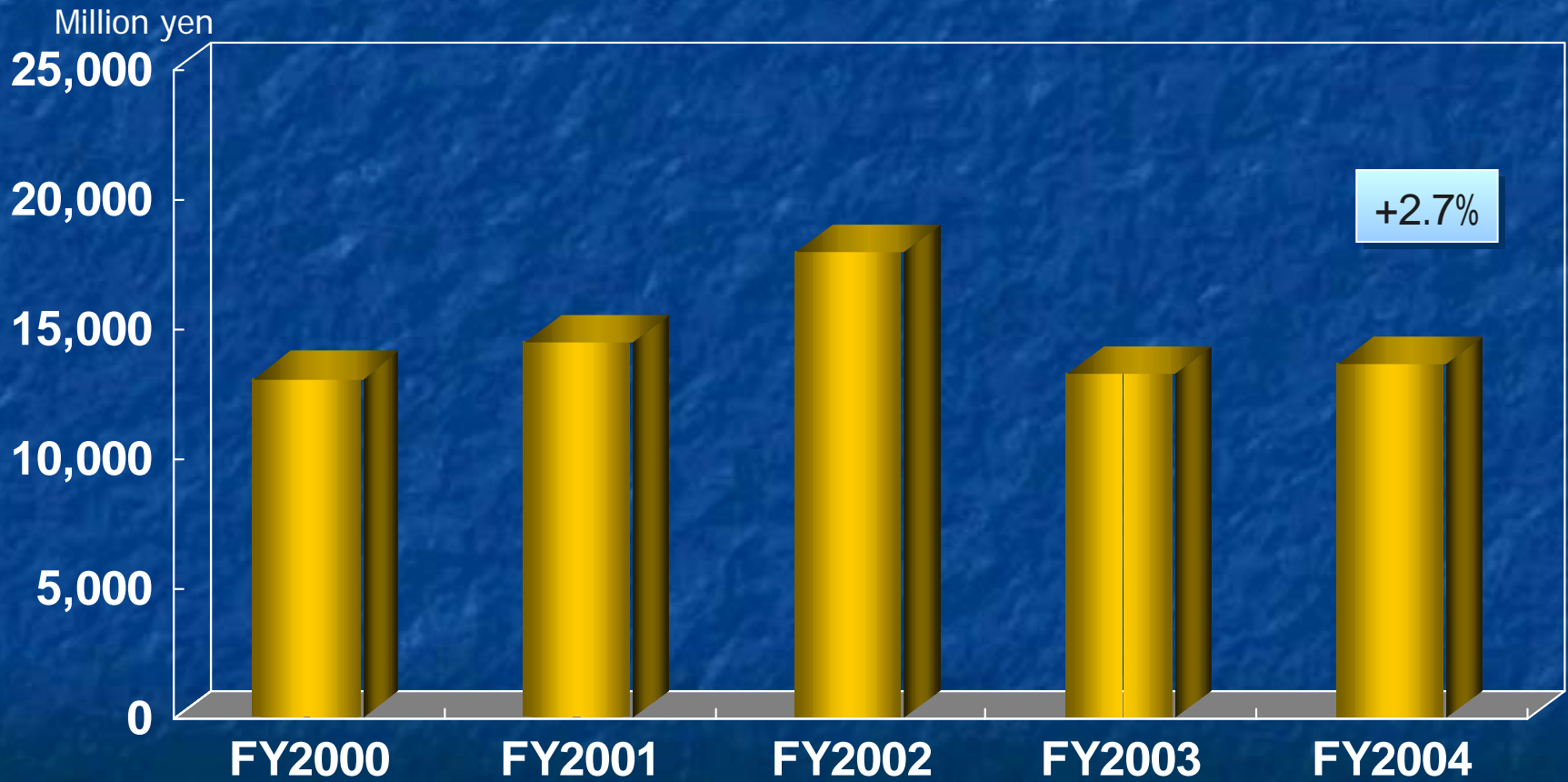


- \* Kensyou became a subsidiary
- \* Increased center fee burden

# Medical Devices Operation in FY2004

# Medical Devices Operation Net Sales

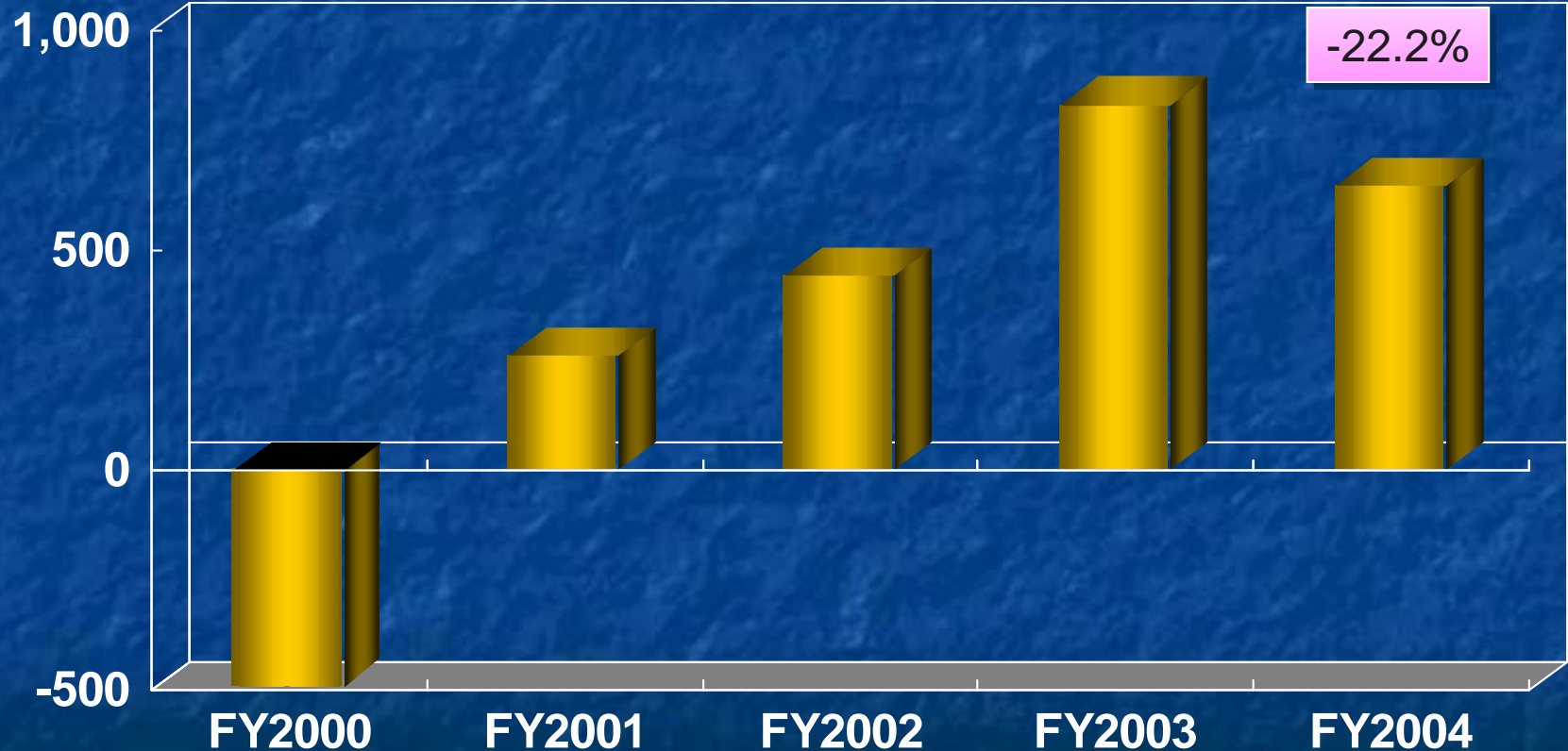
\*Aggregate sales of Kobayashi Medical Div. and Shield Healthcare  
\* No effect of exchange rate changes: \$1=¥110



\*Cessation of sales due to dissolution of a JV: -¥6.8B

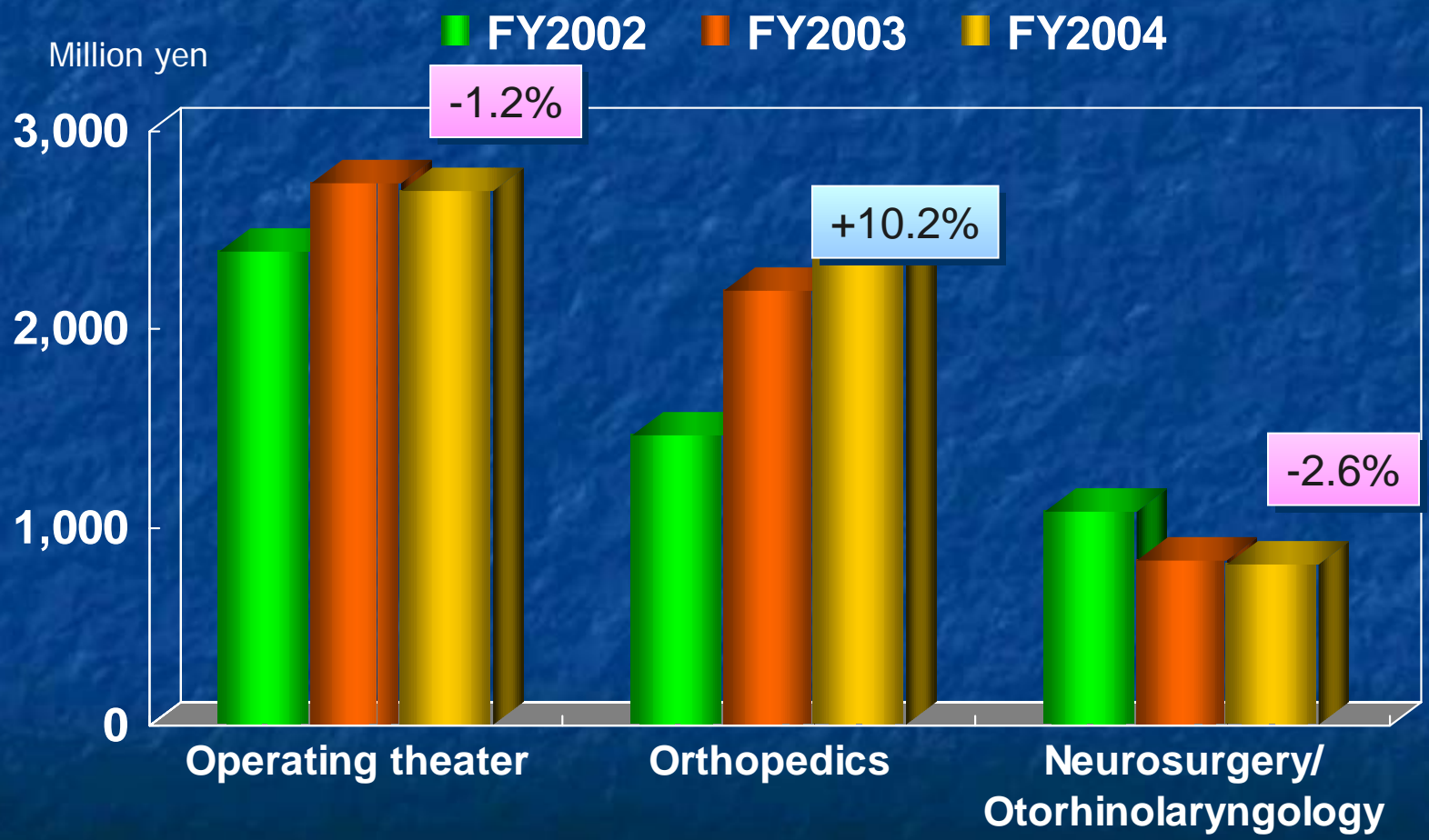
# Medical Devices Operation Operating Income

Million yen



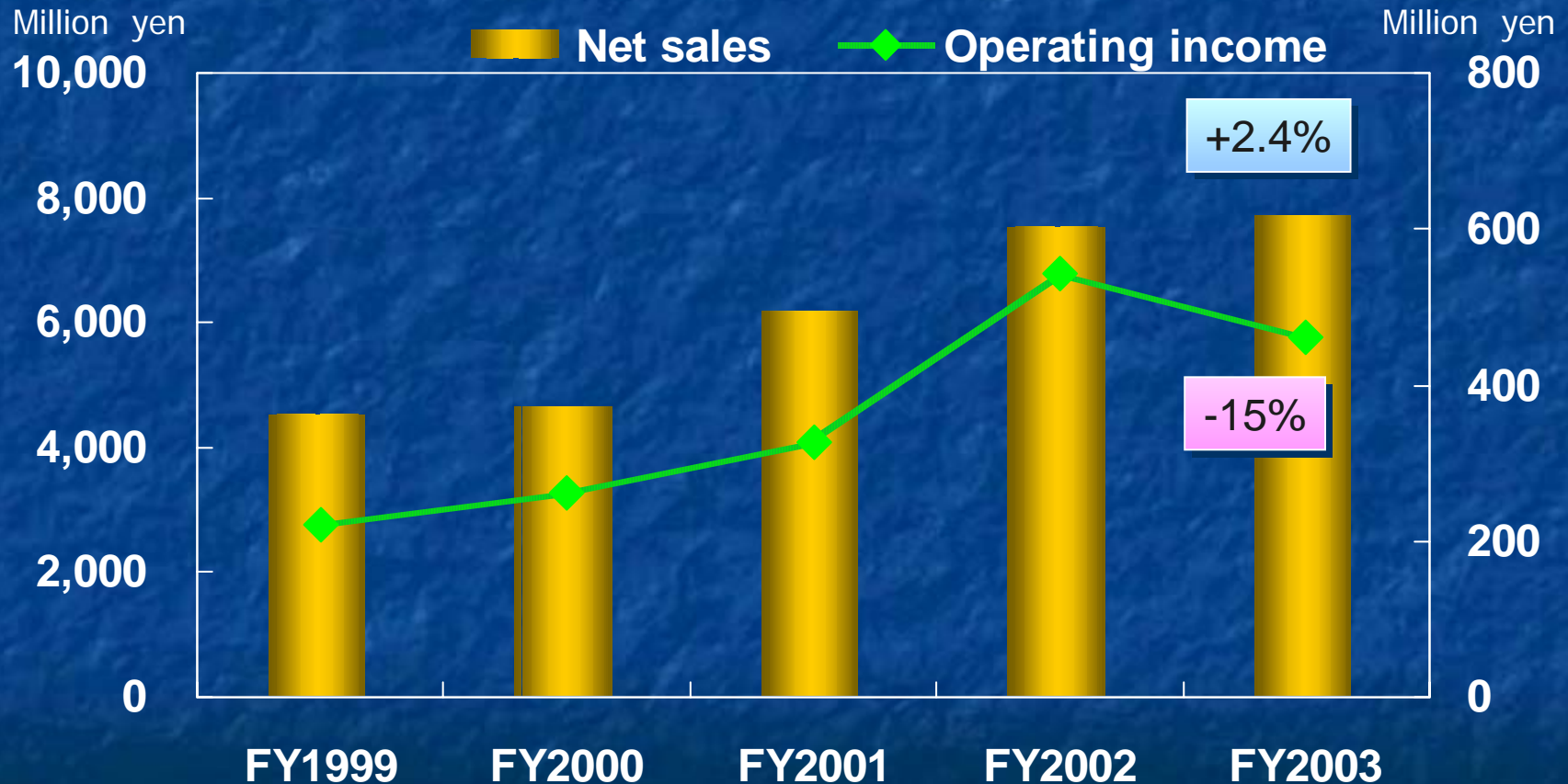
- \* US insurance system changed
- \* Burden of product development costs

# Kobayashi Medical Div. Net Sales



# Shield Healthcare Financial Performance

\*No effect of exchange rate changes \$1=¥110



Financial year ends as of December 31

\* US insurance system changed

# Forecast for FY2005

# Consolidated Financial Highlights

	FY2004 (result)		FY2005 (forecast)		Change	
	Amount	Profit rate	Amount	Profit rate	Amount	% change
	Million yen	%	Million yen	%	Million yen	%
<b>Net sales</b>	211,670	-	218,000	-	6,330	3.0
<b>Operating income</b>	16,123	7.6	16,500	7.6	377	2.3
<b>Ordinary income</b>	14,127	6.7	14,500	6.7	373	2.6
<b>Net income</b>	6,677	3.2	7,400	3.4	723	10.8
<b>EPS (yen)</b>	157.25	-	174.36	-	17.11	10.9

# Group Management Policies

1. Under the new management system, separate supervision and execution of operations and delegate responsibility and authority for execution to the Operation Division.
2. Question conventional wisdom, pioneer change and bring your creativity into full play so as to enhance the Kobayashi Pharmaceutical brand.
3. Kobayashi Pharmaceutical Group's management is characterized by speed, clarity and an emphasis on workplaces.
4. Be aware of risks and fulfill your commitments.
5. Be sure to achieve marketing targets for the US, the UK and China, which are key markets for the Company, and bring Shanghai Factory into full-scale operation.

# New Management: Supervision and Execution

- New president
  - The board of directors chaired by the chairman
  - Quarterly review by each Operation Division
- Execution of operations by the Operation Division
- Establishment of the Business Development Department, which directly reports to the president
  - Formulation of the mid-term business plan, M&A

# Introduction of the Operation Division System

## Consumer Products Operation Division Group

**Yutaka Kobayashi, Vice President**

**Japan: Sales, R&D, manufacturing, marketing, quality assurance,  
Kiribai Chemical**

**Overseas: International sales, 4 overseas subsidiaries (US, UK,  
China, Hong Kong)**

## Wholesale Operation Division Group

**Koichi Watanabe, President of Kobashou Co., Ltd.**

**Kobashou Group: Kobashou, Kenshou, Aoitori Physical Distribution,  
Soukai Drug, Kics**

## Medical Devices Operation Division Group

**Akira Horiguchi, Senior Executive Director**

**Kobayashi Medical, Shield Healthcare, Medicon**

Kobayashi Pharmaceutical Co., Ltd.

# Consumer Products Operation Division's Strategy

- Promote management geared to high profitability (ratio of ordinary income to net sales)
- Develop “demand creation type” and “demand expansion type” new products
- Concentrate resources on the 192 priority retailers  
(Strengthen in-store presence at 8,300 priority outlets)
- Utilize investment in sales promotion effectively  
Sales Promotion Cost Management Group: ¥320M reduction
- High ad ratio: 12%
- Overseas development: Enrich product lines and execute M&A

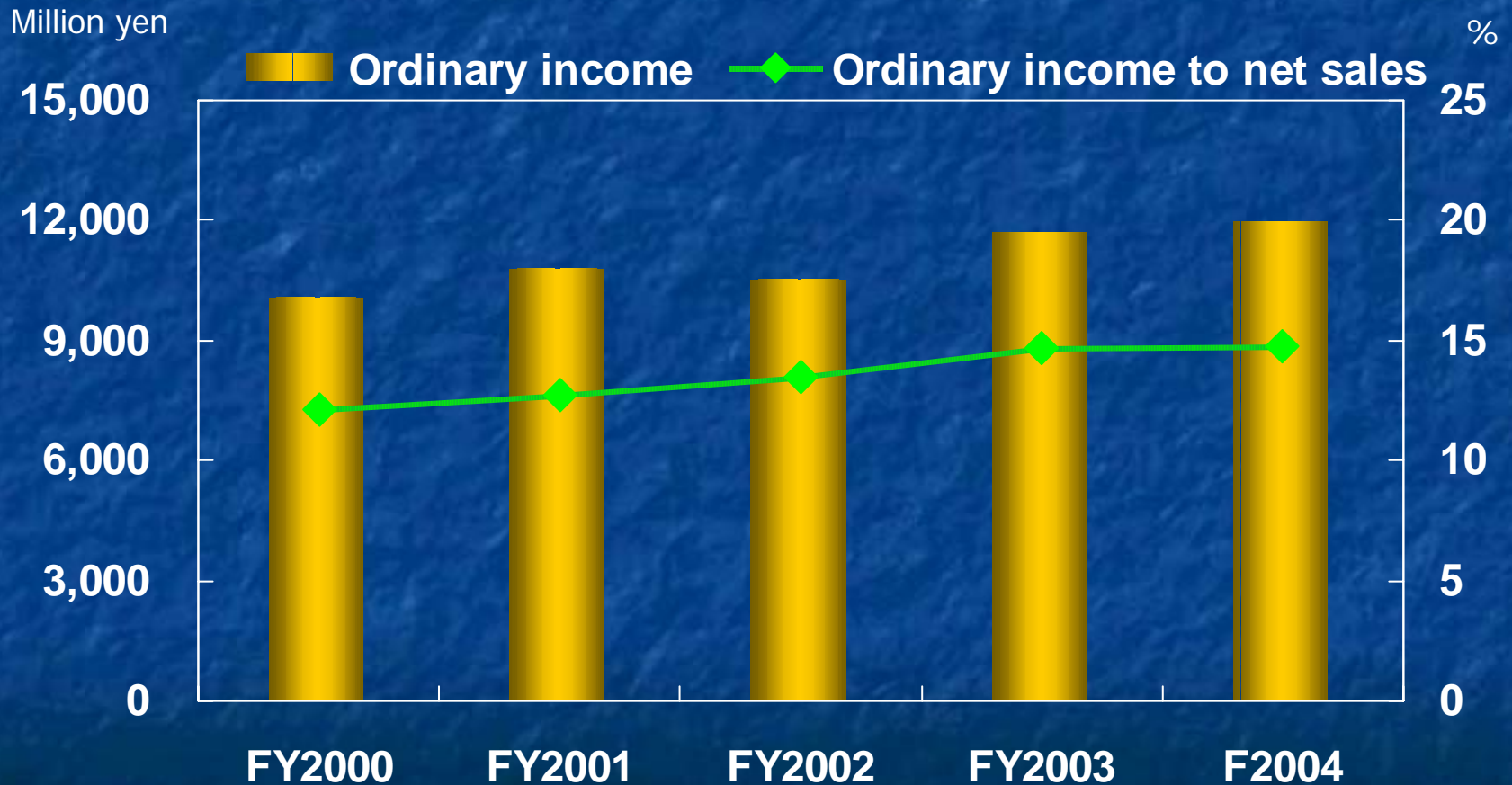
# Management Geared to High Profitability

- No new products with low gross profit margin to be released
- Thorough cost reduction  
Target for FY2005: ¥1.3B
- Strict profit/loss control for each brand
- Avoid cut-price competition  
(Persevere as the top manufacturer)

# Manufacturing Operations

Non-consolidated

## Ratio of Ordinary Income to Net Sales



# New Product Development Policy

- Focus on development of purely new products
- Propose new products to customers in which researchers and marketers can have absolute confidence
- Develop mother concept (5 themes) prompted by needs implicit in social trends
- New technology development themes
  - Continuous examination of long-term (3 to 5 years) research themes (5 themes)

# Mother Concept Development

Mother concept comprises themes relating to social needs

(5 themes to be tackled have been selected)

Expected market growth

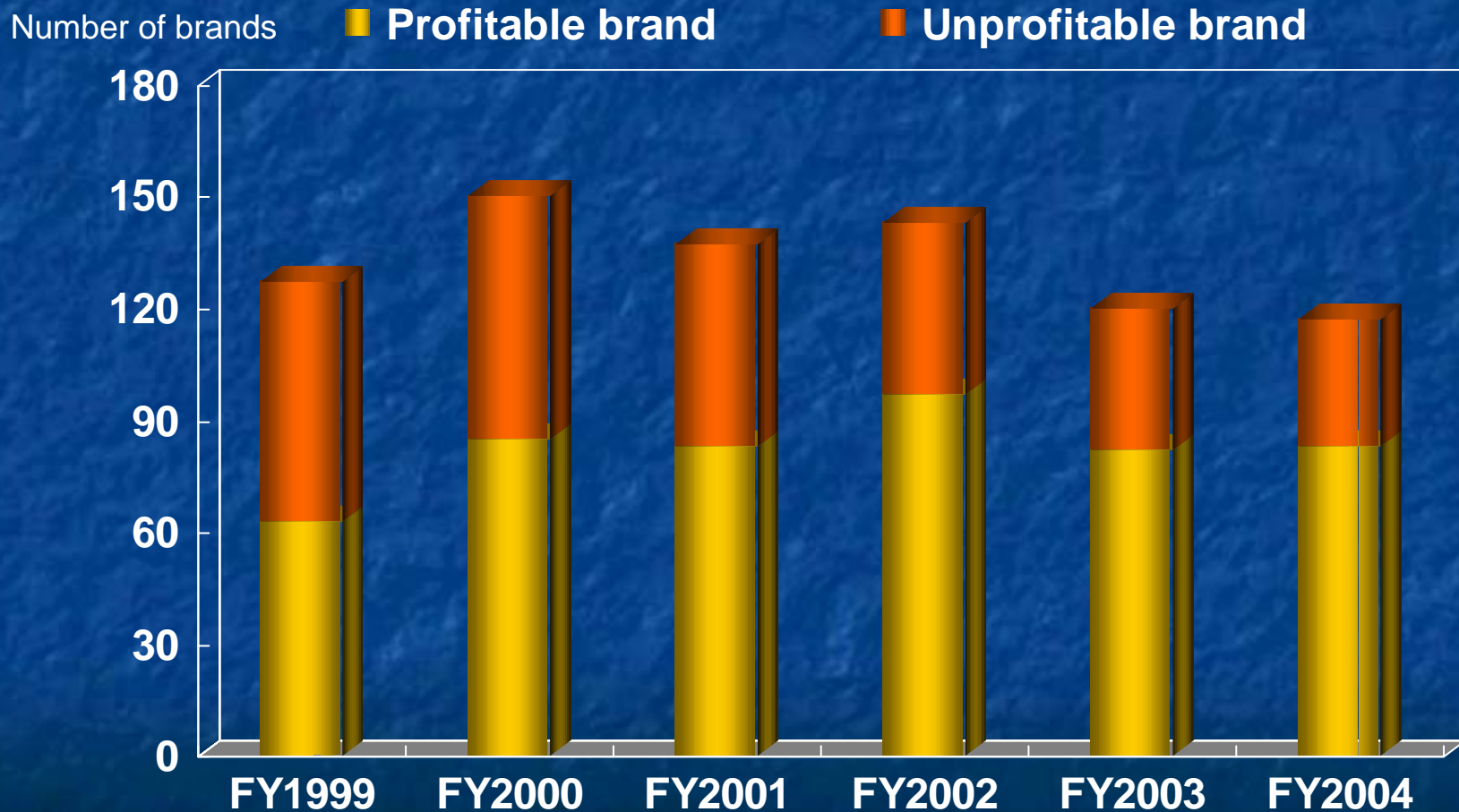
Large needs

Products with large sales

Category Kobayashi is eager to tackle

# Fostering of Major Brand

-More Selective Approach to Introduction of Brands-



# New Products Introduced in Spring 2004

Sales target (shipment basis) for the first year of their introduction: ¥5.7B



# Expansion of China Business

September 1998 JV established between Kobayashi and two local companies



January 1999 Introduced "Xiang Hua Lei" (Sawaday)

July 2001 Introduced "Zai Fang Bian Zhihou" (Toilet Sonoatoni) -> Ceased sale in 2002



August 2002 Introduced "Xiang Ju Yuan" (Oheyano Shoshugen) -> Remodeled in March 2004 as "Xiang Ju Yuan" for rooms

December 2002 JV became a 100% subsidiary

March 2003 Started production of Bran Cologne deodorizing air freshener for Japan



October 2003 Introduced "Xiang Hua Lei" deodorizing air freshener



October 2003 Introduced "Nuan Bao Bao" warmer

March 2004 Introduced "Xiang Ju Yuan" for toilets (Toilet no Shoshugen)



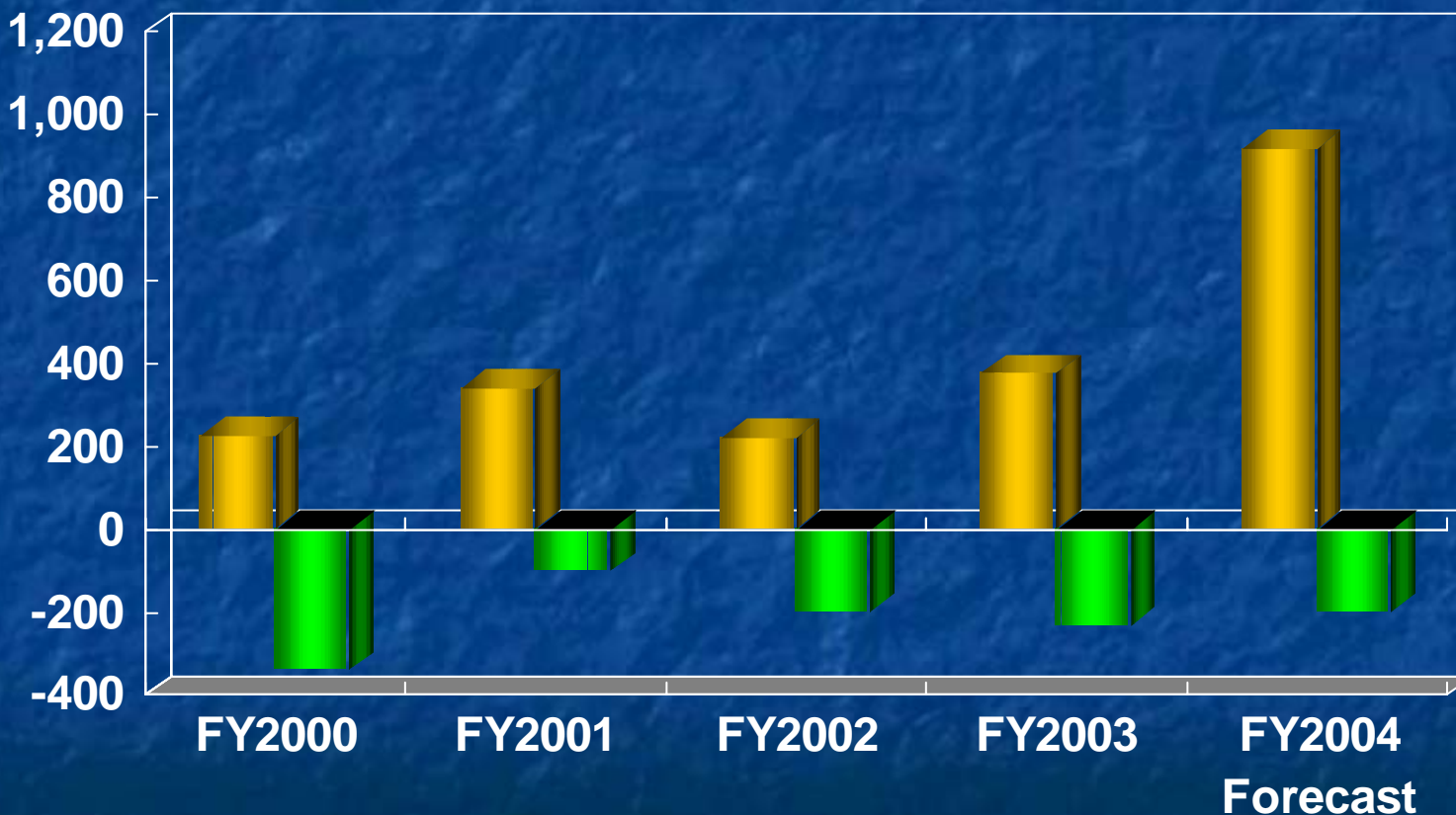
# Financial Performance of China Business

\* No effect of exchange rate changes, 1 yuan = ¥15

Million yen

■ Net Sales

■ Operating loss



Financial year ends as of December 31

\* Including exports \* Including exports

# Breakdown of Sales of China Business

\* No effect of exchange rate changes, 1 yuan = ¥15



# Financial Performance of US Business



\* No effect of exchange rate changes, \$1 = ¥110

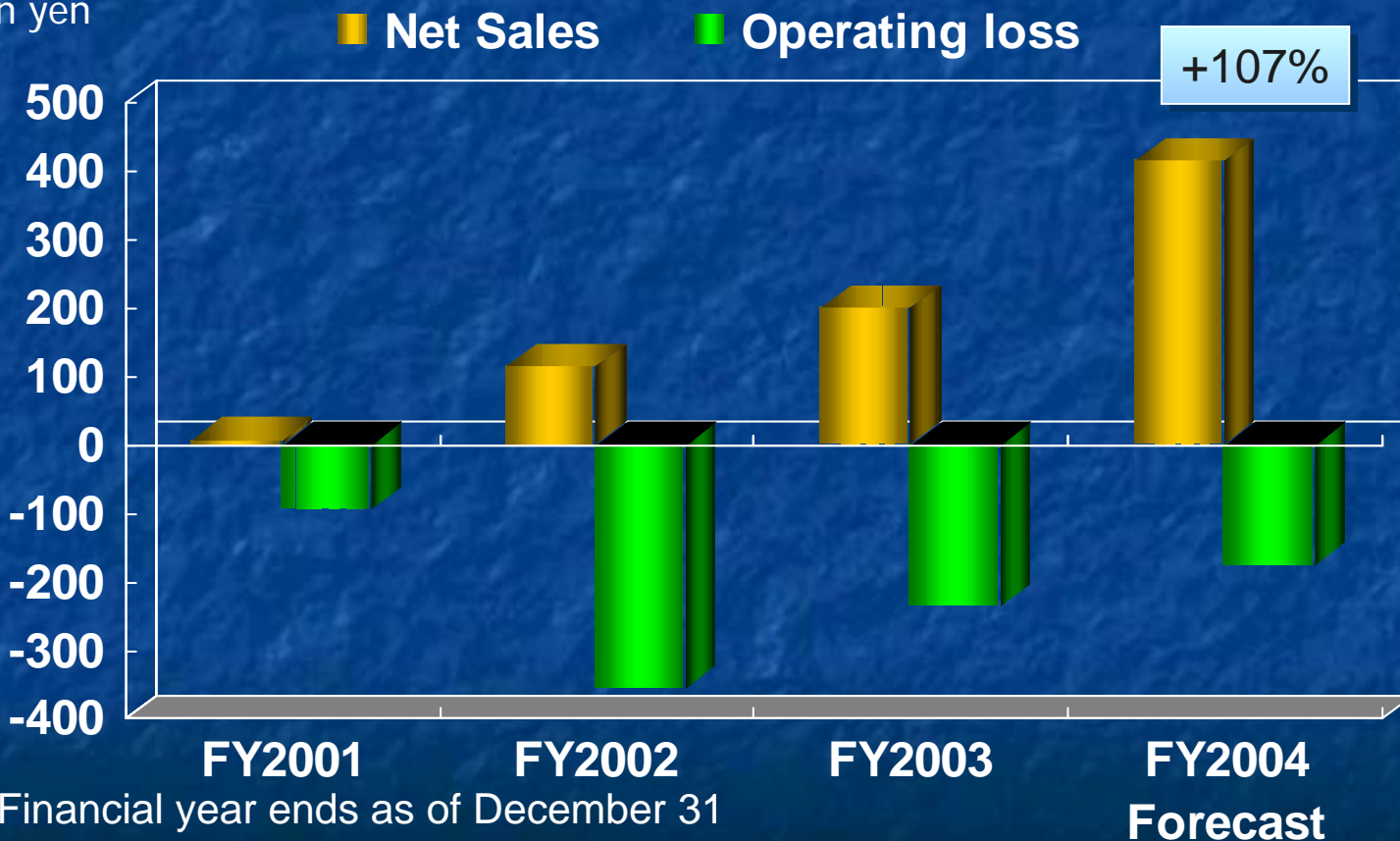


# Financial Performance of UK Business

\* No effect of exchange rate changes, £1 = ¥190



Million yen



# Wholesale Operation Division's Strategy

Management with emphasis on quality to achieve the ratio of ordinary income to net sales of 1%

- Working on new categories (baby and elderly)
- Vigorous tie-ups and M&A
- Strengthen management of receivables
- Promote bulk purchasing capitalizing on economies of scale

# Vigorous Tie-ups and M&A

## Partnerships with Mitsubishi Corporation and Ryoshoku

### Targets:

Drastic reform by introducing know-how from wholesalers in other fields

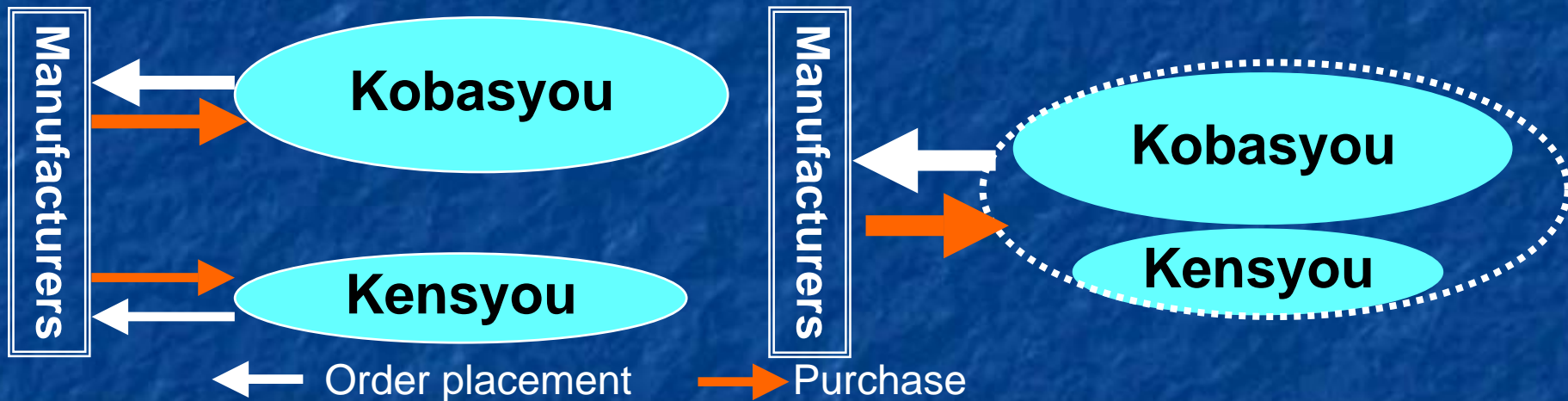
Enhancement of ability to supply broad range of product lines, including products from overseas

Proposal of food products that will sell well to drug stores (information provided by Ryoshoku)

Cultivation of new sales channels (convenience stores, supermarkets)

# Promotion of Bulk Purchasing

Purchasing by Kobasyou Group  
started in October 2003



\* Since April 2004 Seiei (wholesaler in Shikoku) is taking part in bulk purchasing

# Medical Devices Operation Division's Strategy

- Strengthen both trading company functions and manufacturer functions
- Strengthen sales & marketing capabilities in the markets Kobayashi has entered
  - Introduction of a sales trainer system
- Strengthen inventory control
- Vigorous M&A
- Respond to revision of the Pharmaceuticals Affairs Law

# Strengthening Trading Company Functions

- Exclusive distributor for US Orthofix products in Japan

Orthopedic external fixator

Started distribution on May 1

Annual sales of ¥700M



# Strengthening Manufacturer Functions

- The first Kobamed-brand product developed in house



Introduced on April 14

Facilitates ligation (binding blood vessels with a ligature)

Used mainly in urology for removal of kidney, prostate, bladder, etc.





**In a powerful wind only the strong are unbowed**