



Financial Overview for First Half of Fiscal 2009

Fiscal Year Ending March 31, 2009

November 11, 2008

Yutaka Kobayashi
President and Chief Operating Officer
KOBAYASHI PHARMACEUTICAL CO., LTD.



- 1. Consumer-Oriented Development**
- 2. Earnings Power Reform, “The Power to Transform”**
- 3. First-Half FY2009 Results**
- 4. FY2009 Forecasts**
- 5. Initiatives in Each Domain**



Consumer-Oriented Development



The epitome of
"You make a wish and we make it happen"

■ 4 Development Categories

<Product Oriented>

Production-Oriented Development

Development aimed at maximizing use of proprietary production facilities, technologies, etc.

<Market Centered>

Sales-Oriented Development

Development aimed at fully utilizing proprietary sales capabilities. Raising sales efficiency mandates increasing share of sales space.

<Consumer Oriented>

Consumer-Oriented Development

Development based on the everyday needs of consumers.

<Relationship-Oriented Development>

Relationship-Oriented Development

Development matched to individual needs (not "market needs") based on communication with individuals via mail-order shopping and web marketing.

What does "consumer-oriented" mean?

■ Stimulate consumer needs

Anticipate consumer needs and high success rate

■ Short development lead time

Reuse existing formulations, extensive R&D and large investments unnecessary

⇒ Create new markets with low risk

<Financial benefit >

Stable, high margins

One of Kobayashi's greatest strengths is the ability to create niche markets

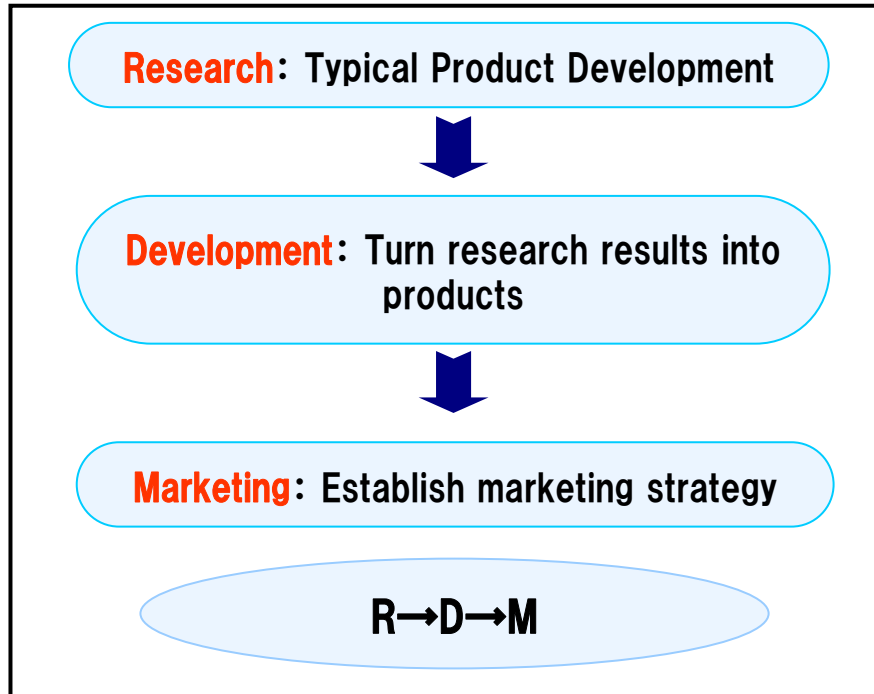


Consumer-Oriented Development

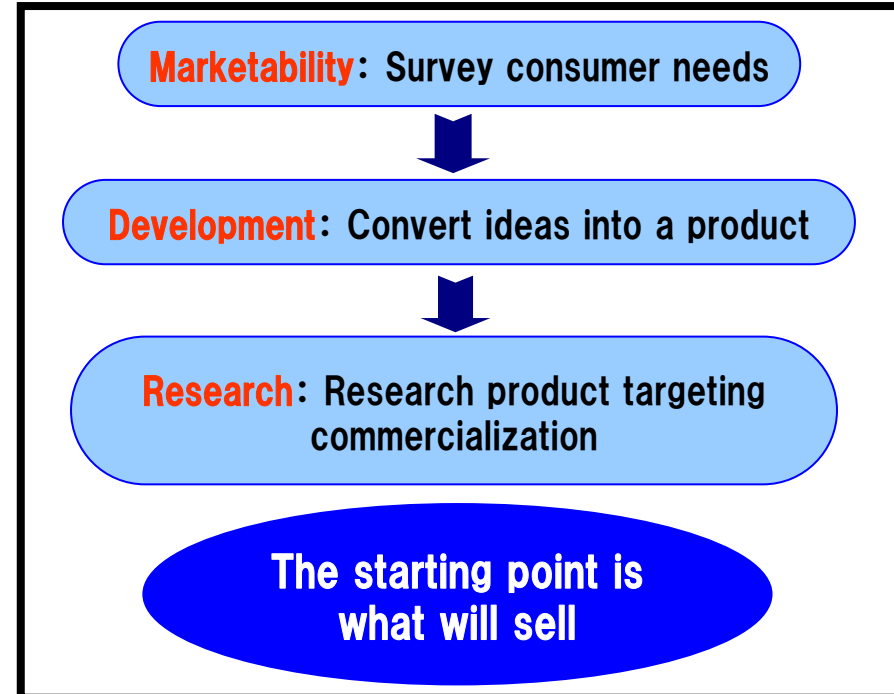


Begin With Marketability !

Typical Product Development



Kobayashi Product Development



- Strict focus on consumer vantage point—start development by asking “what will sell?”
- Close market contact—Employees, business partners and others create 15,000 ideas a year from consumers’ standpoint
- From needs-focused to eye-catching—How can we sell this? Pour more energy into selection of packaging and product naming than into R&D
- Vigorous in-store marketing—Conduct test marketing, analyze and develop POP promotional and advertising materials, etc.



Recent Major Consumer-Oriented Products



- 1996 *Aibon* Eye wash for contact lens wearers
- 1997 *Feminina* Feminine anti-itch ointment
- 1997 *BREATH CARE* Oral breath freshener that removes odors in the stomach
- 1998 *Oheya no Shoshugen* Powerful, long-lasting room deodorizer
- 1999 *Namerakakato* Overnight moisturizing patch for cracked heels
- 2000 *Gaspitan* Intestinal medicine for stopping gas build-up
- 2001 *Sakamu Care* Liquid bandage
- 2002 *Shouyou* Toothpaste that helps prevent periodontal disease
- 2003 *Yurinaru* Medication for nocturia
- 2004 *Keshimin Cream* Skin whitening cream for preventing discoloration and freckles
- 2005 *Inochi No Haha A* Health-promoting drug for women
- 2006 *Nicitol 85* For obesity and constipation
- 2007 *Naripitan* Medicine for ringing in the ears and stiff shoulders
- 2008 *Dorcitol* Reduces cholesterol

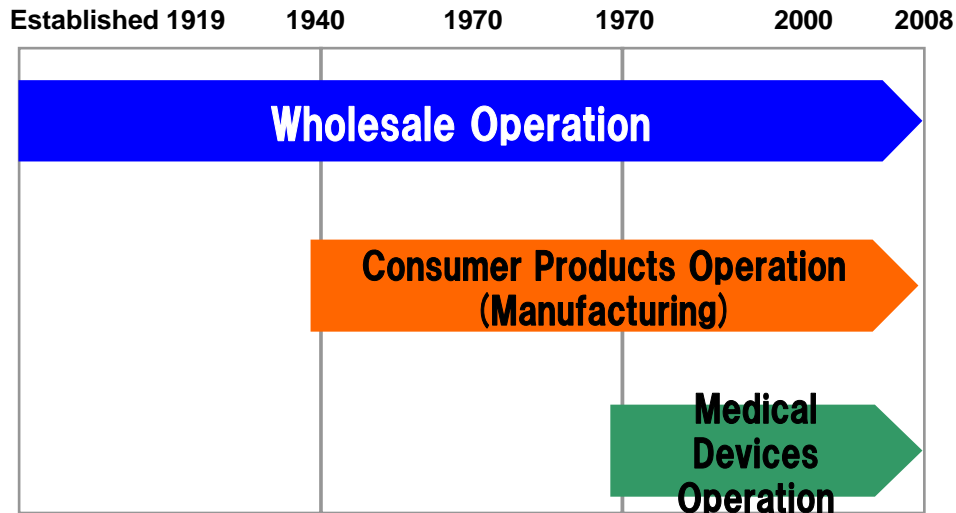




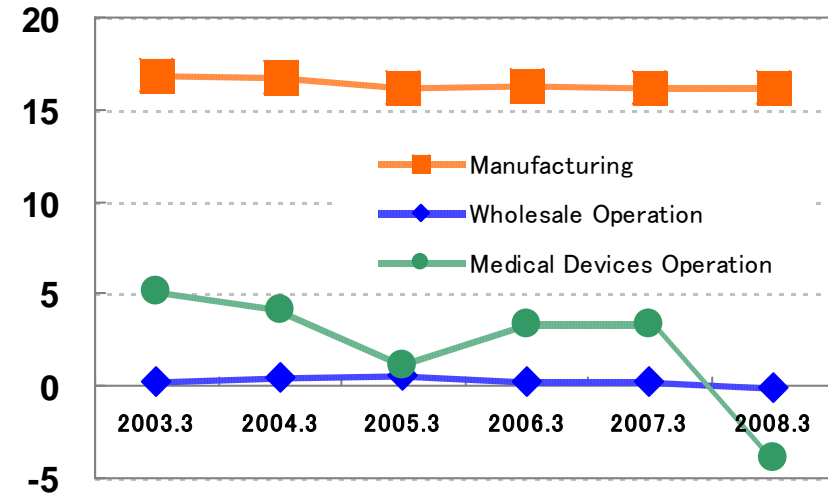
Earnings Power Reform, “The Power to Transform”



Wholesale Operation: Legacy business since establishment



Maintained High Profitability as a Manufacturer
【Operating Income to Net Sales Ratio (%) by Business】



■ Problems Faced by Wholesale Operation

Persistently low profitability

- [Earnings power of the Wholesale Operation] The operating income to net sales ratio for the Wholesale Operation alone was low at less than 1%
- [Size] Net sales were only about **¥160.0 billion**. Difficult to survive alone in this business in terms of economies of scale.
- [Market domination strategy of drugstores]



Manufacturing is where Kobayashi can leverage its unique strengths

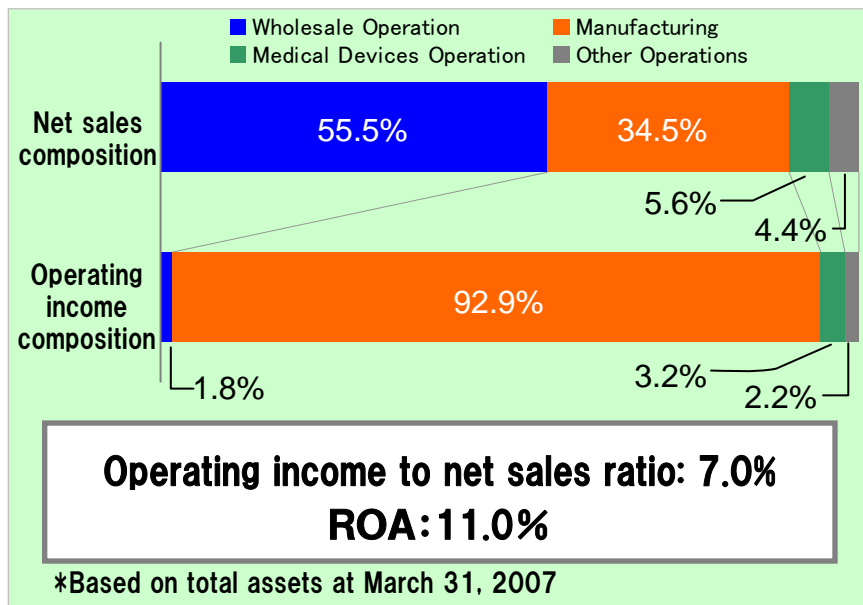
- [Highly profitable manufacturing operations] Ability to create niche markets as a manufacturer will be a source of strength in a new era.



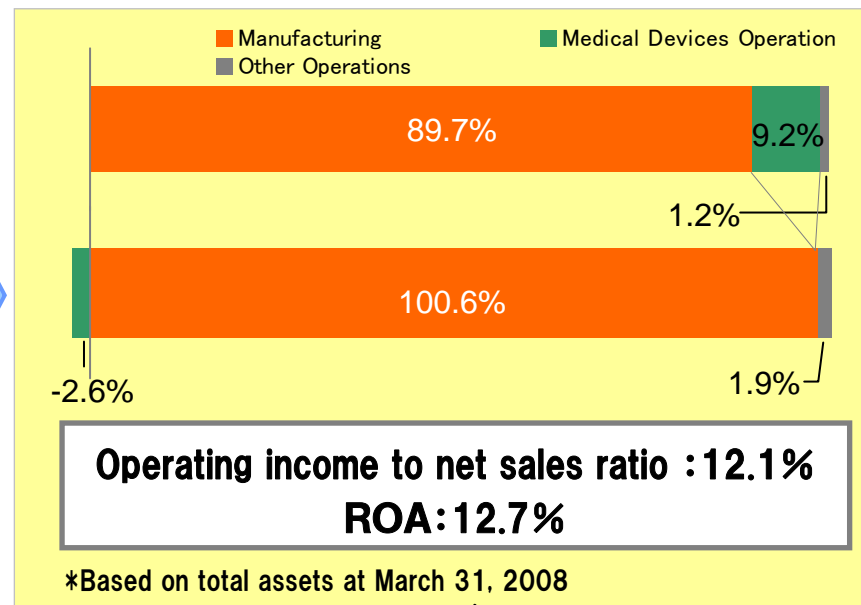
Earnings Power Reform —Deconsolidation of the Wholesale Operation



FY2007 Business Structure (Wholesale Operation Consolidated)



FY2009 Business Structure (Planned)



“The Power to Transform”

- Excluded the Wholesale Operation, which accounted for more than half of sales, from scope of consolidation
- ⇒ Make Consumer Products Operation (Manufacturing) the pillar of sales and earnings; markedly improve earnings ability



First-Half FY2009 Consolidated Financial Highlights



	1H FY2008		1H FY2009		Change	
	Change	Profit rate	Change	Profit rate	Change	Percentage
Net sales	Million Yen 130,470	% —	Million Yen 60,783	% —	Million Yen △69,686	% △53.4
Gross profit	42,086	32.3	34,029	56.0	△8,056	△19.1
Operating income	9,144	7.0	8,442	13.9	△701	△7.7
Ordinary income	7,944	6.1	8,097	13.3	152	1.9
Net income	4,668	3.6	4,969	8.2	301	6.4
Interim dividend	27		29	—	2	7.4

Net sales fell due to the exclusion of the Wholesale Operation from the scope of consolidation (1H FY2008 Wholesale Operation net sales were ¥88.2 billion). However, profitability rose substantially.

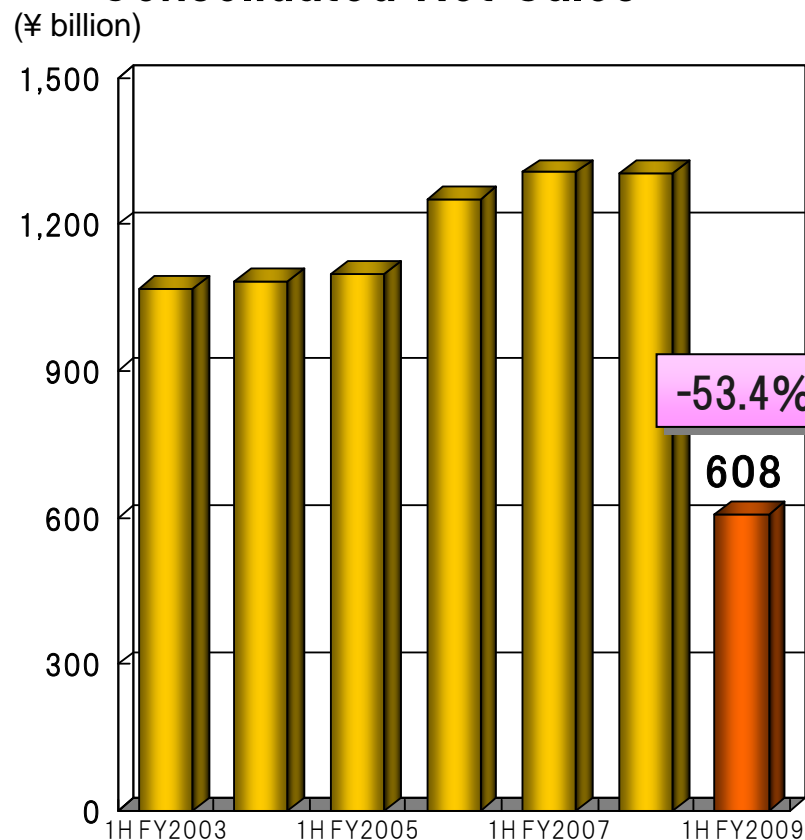
Booked a ¥0.72 billion loss on disposal in cost of sales due to accounting standards change in FY2009. Assuming same standards as FY2008, operating income would have been ¥1.0 billion (14.5%) higher.



Consolidated Financial Results

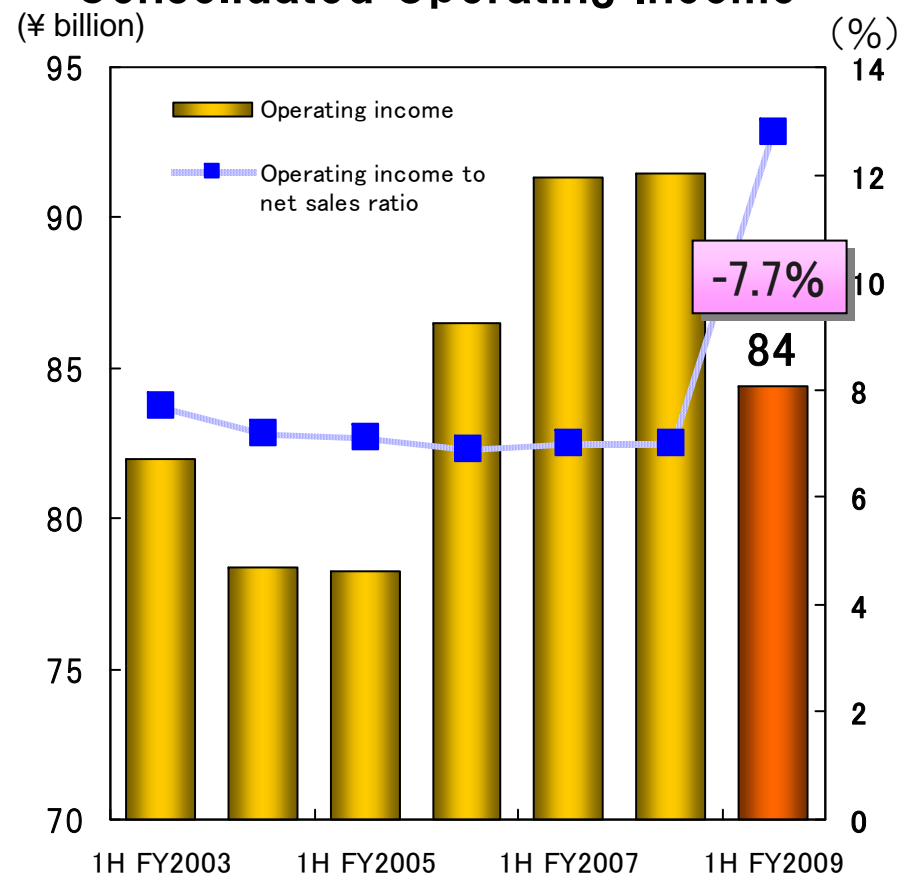


Consolidated Net Sales



Net sales decreased due to exclusion of the Wholesale Operation from the scope of consolidation from the fourth quarter of FY2008. 1H FY2008 Wholesale Operation sales were ¥88.2 billion

Consolidated Operating Income



Decreased due to booking of losses on valuation and disposal of inventories in cost of sales in FY2009; booked ¥0.72 billion loss on disposal in cost of sales in second quarter. Operating income would have increased ¥1.0 billion using FY2008's accounting standards.



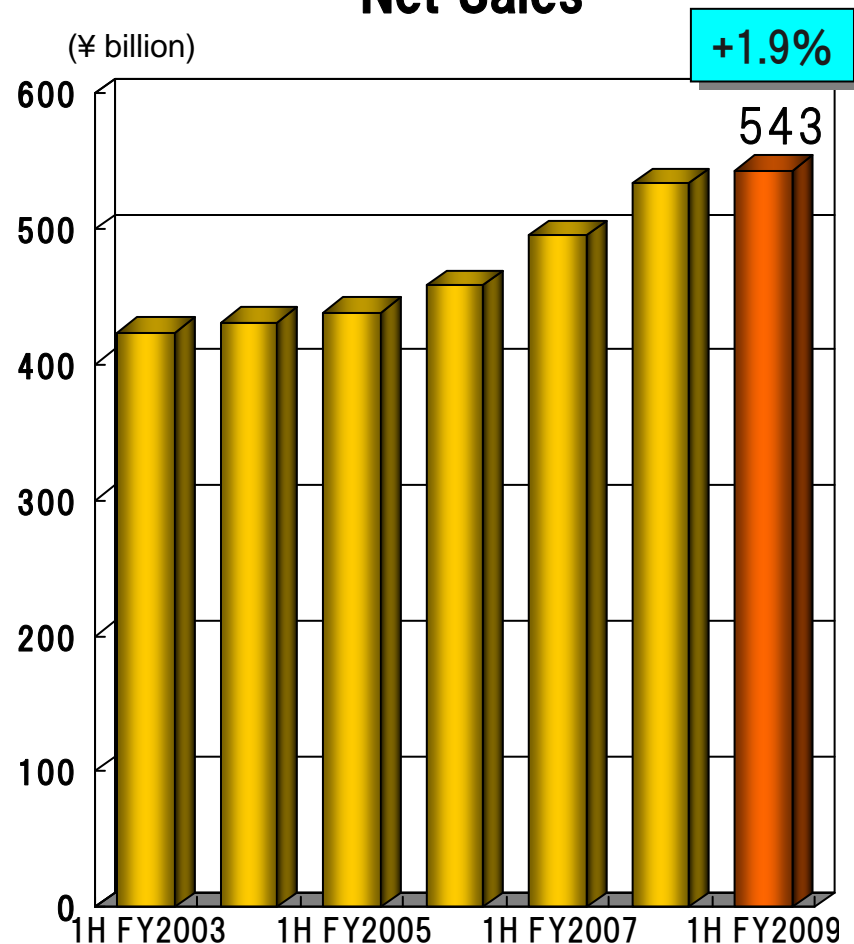
Consumer Products Operation Results



Net Sales and Operating Income

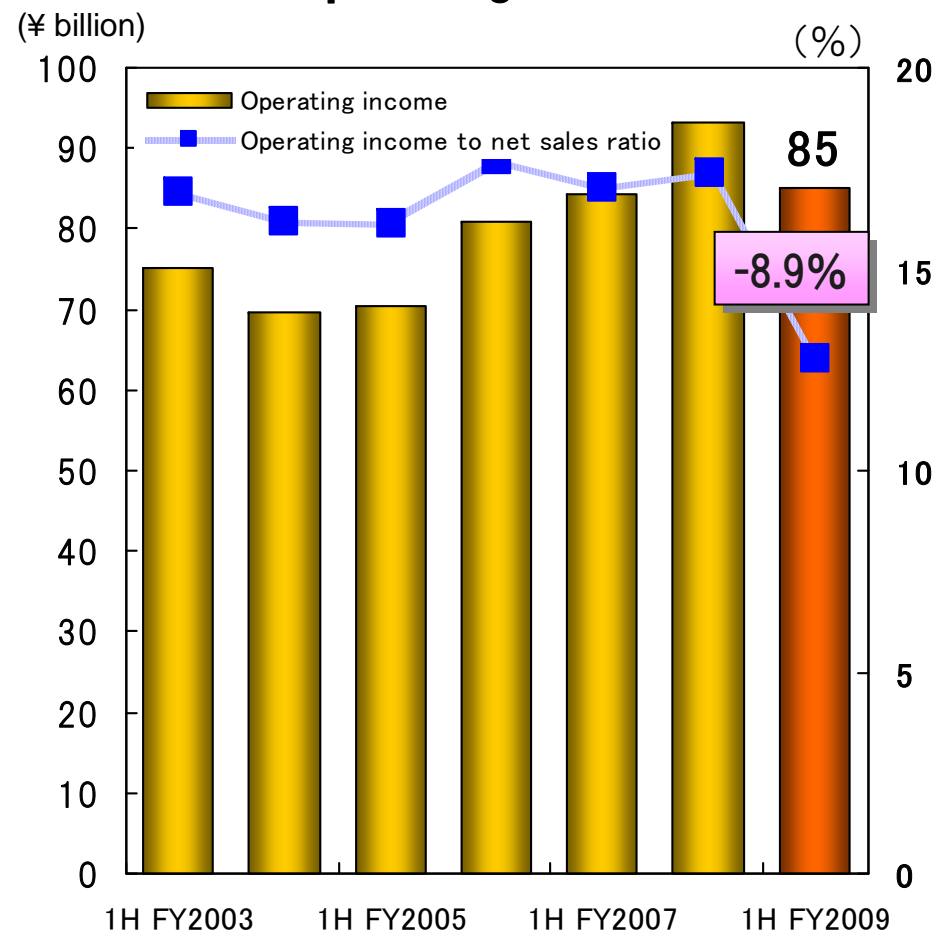


Net Sales



Sales rose mainly on growth in mainstay existing brands

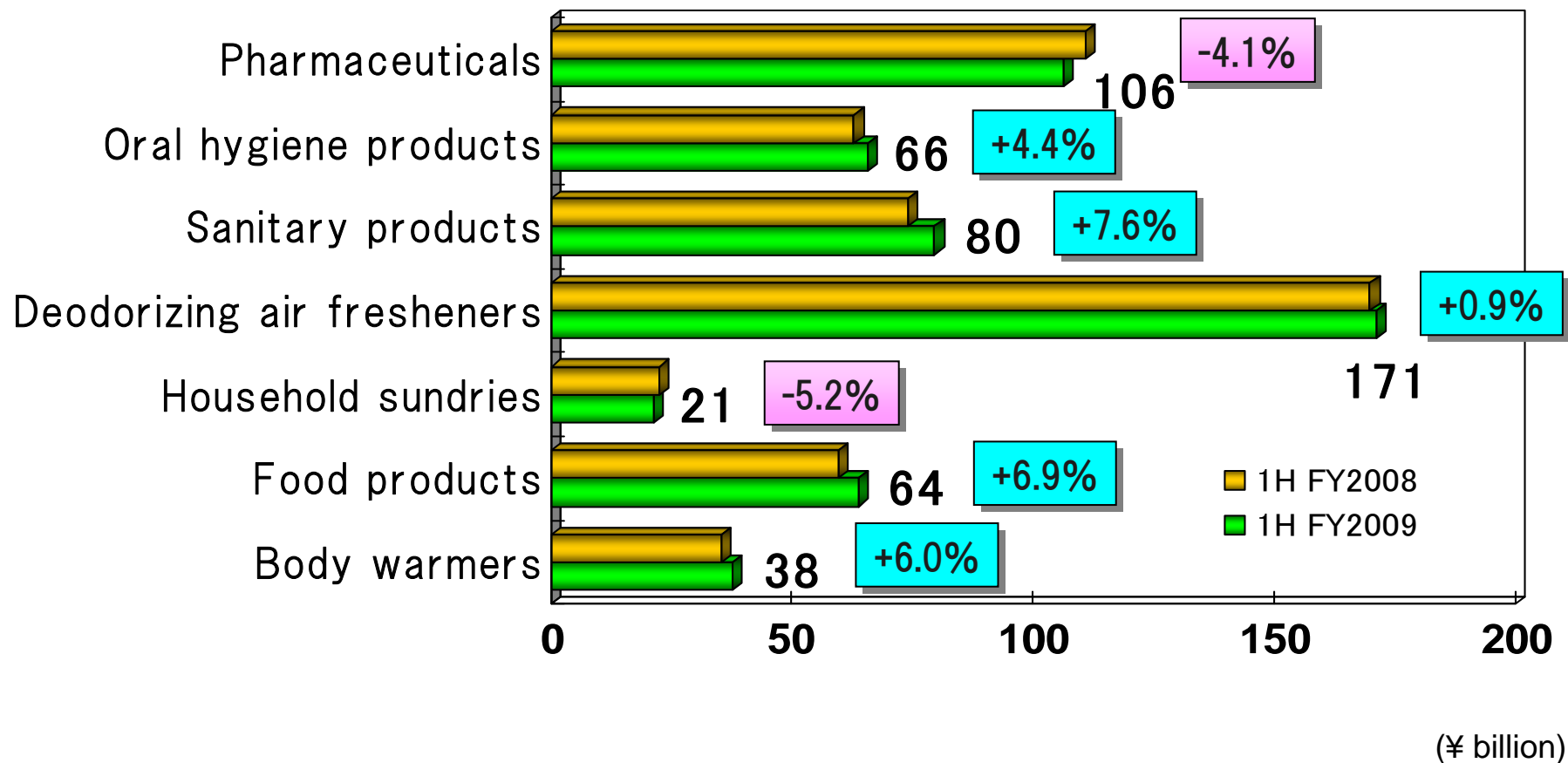
Operating Income



Decreased due to booking of losses on valuation and disposal of inventories in cost of sales in FY2009; booked ¥0.72 billion loss on disposal in cost of sales in second quarter. Operating income would have increased 10% using FY2008's accounting standards.



Sales by Consumer Products Category





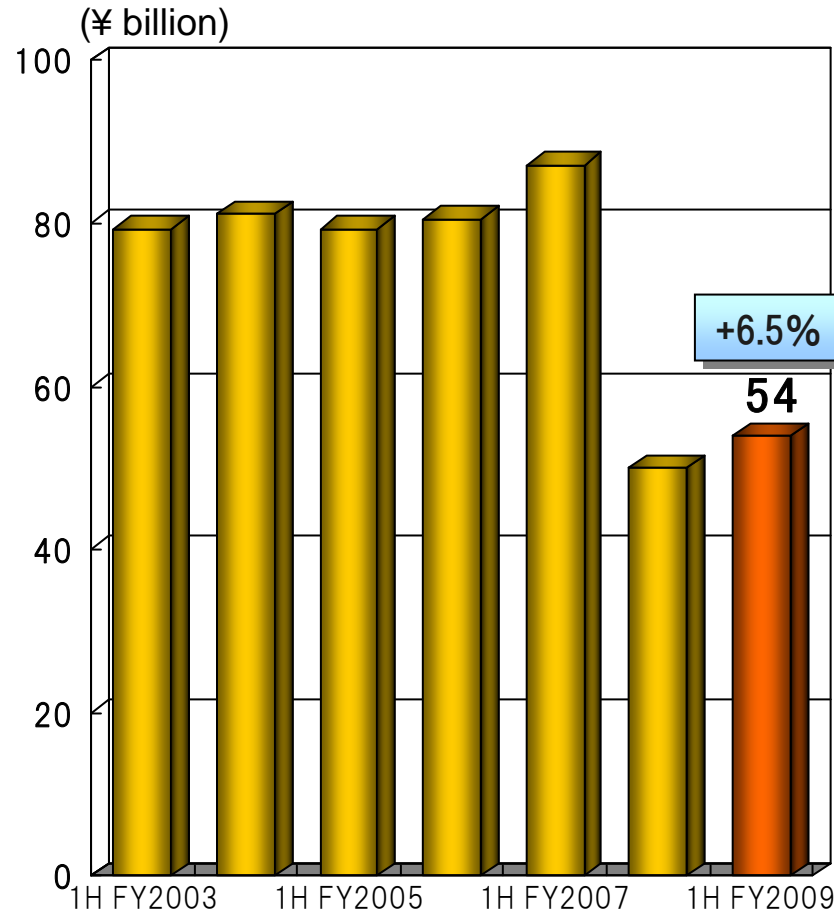
Medical Devices Operation Results



Consolidated Results

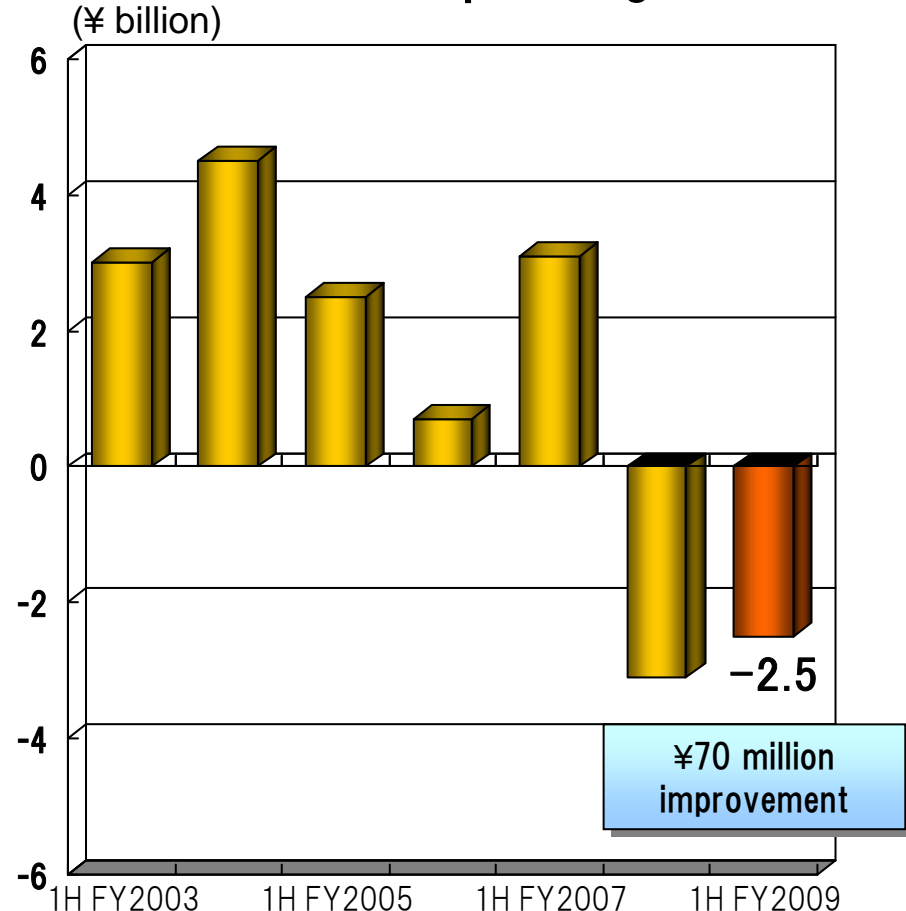


Consolidated Net Sales



Kobayashi Medical recorded double-digit growth as a result of a strategy to focus on key domains. eVent is behind schedule with plans to develop in the U.S. Shield Healthcare Centers were sold in November 2006.

Consolidated Operating Income



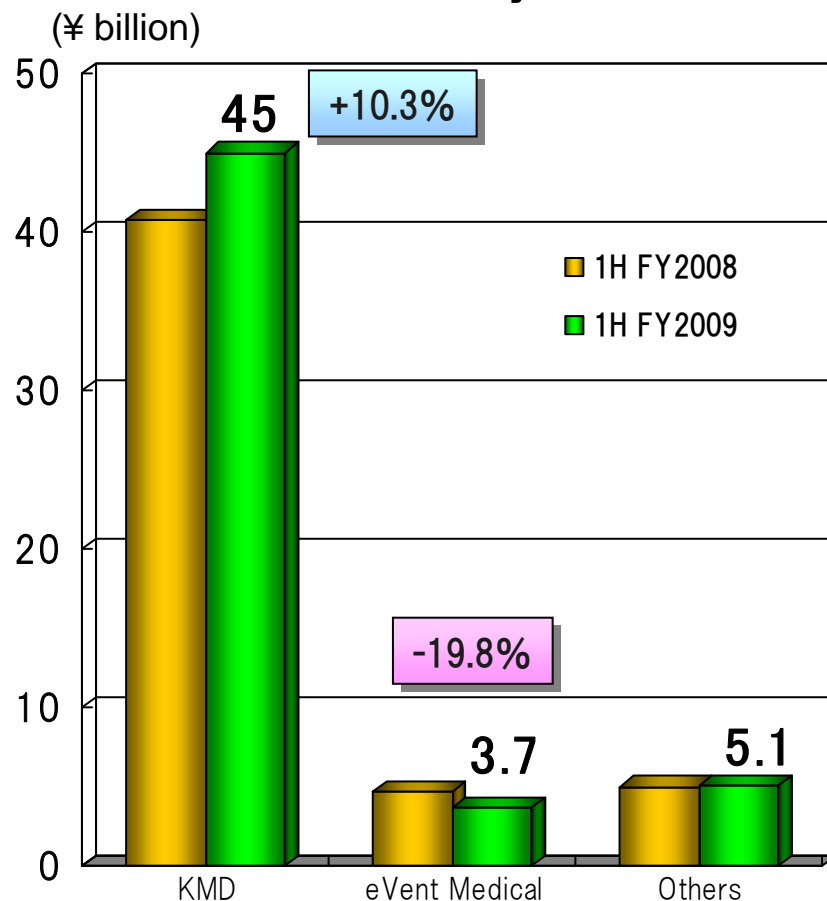
eVent made upfront investments, while Kobayashi Medical absorbed impact of lower National Health Insurance (NHI) reimbursement prices to record stable growth.



Breakdown of Sales by Medical Devices Operation Category

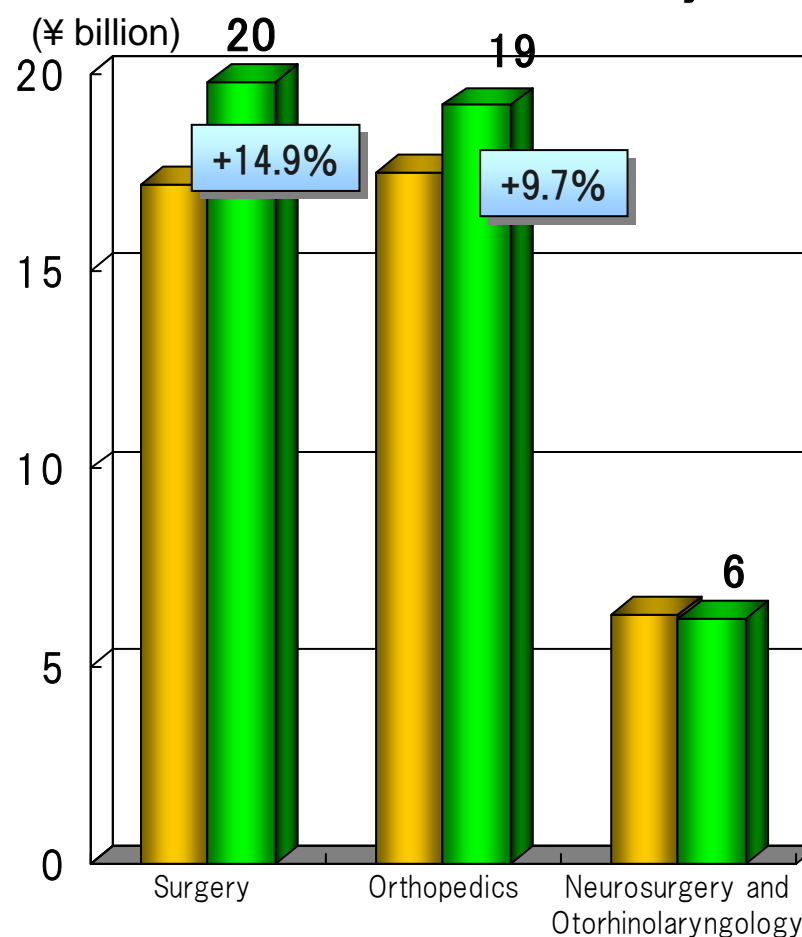


Breakdown by Division



Kobayashi Medical Division (KMD) recorded double-digit growth despite the impact of lower NHI reimbursement prices.

Breakdown of KMD Sales by Domain



Results reflect success of selection and concentration policy in the key surgery and orthopedics domains.



FY2009 Consolidated Financial Forecasts



	FY2008		FY2009 (Forecasts)		Change	
	Amount	Profit rate	Amount	Profit rate	Amount	Percent age
Net sales	Million Yen 228,826	% —	Million Yen 129,000	% —	Million Yen △99,826	% △43.6
Gross profit	81,187	35.5	73,000	56.6	△8,187	△10.1
Operating income	18,576	8.1	15,600	12.1	△2,976	△16.0
Ordinary income	15,687	6.9	15,400	11.9	△287	△1.8
Net income	8,504	3.7	8,800	6.8	296	3.5
Dividend (Yen)	54		58	—	4	7.4

FY2009 forecasts are unchanged.



FY2009 Consolidated Financial Forecasts (After Adjusting for Disposal Losses)



	FY2008		FY2009 (Forecasts)		Change	
	Amount	Profit rate	Amount	Profit rate	Amount	Percentage
Net sales	Million Yen 228,826	% —	Million Yen 129,000	% —	Million Yen △99,826	% △43.6
Gross profit	77,345	33.8	73,000	56.6	△4,345	△5.6
Operating income	14,734	6.4	15,600	12.1	866	5.9
Ordinary income	14,900	6.5	15,400	11.9	500	3.4
Net income	8,504	3.7	8,800	8.8	296	3.5
Dividend (Yen)	54		58	—	4	7.4

FY2009 forecasts are unchanged. Assuming the same accounting standards as FY2008 (disposal losses booked in cost of sales), operating income would increase ¥0.86 billion.

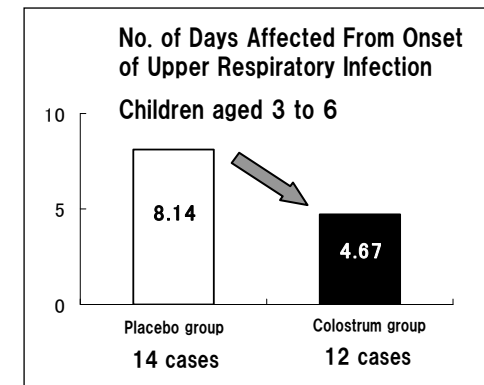
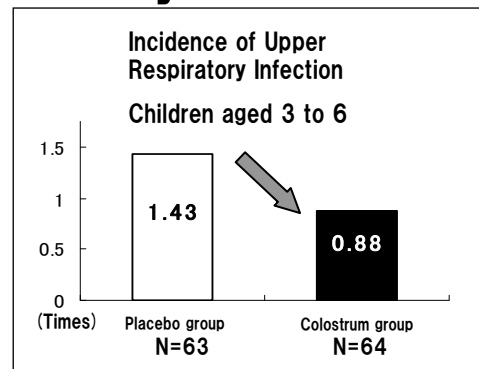
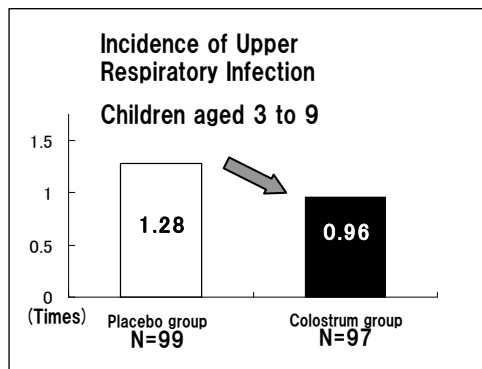


Bovine colostrum, or pre-milk*, prevents colds in children and helps them to get over colds quicker

* produced on the sixth or seventh day after giving birth

Results of clinical trials on humans: 196 children aged 3 to 9

- ① Bovine colostrum is effective in preventing colds in children
- ② Bovine colostrum is effective in shortening the number of days children are affected by a cold with a fever
- ③ Particularly effective in small children aged between 3 and 6 who have weak immunity





Theme-based Research: “Colostrum” Self-Immunity



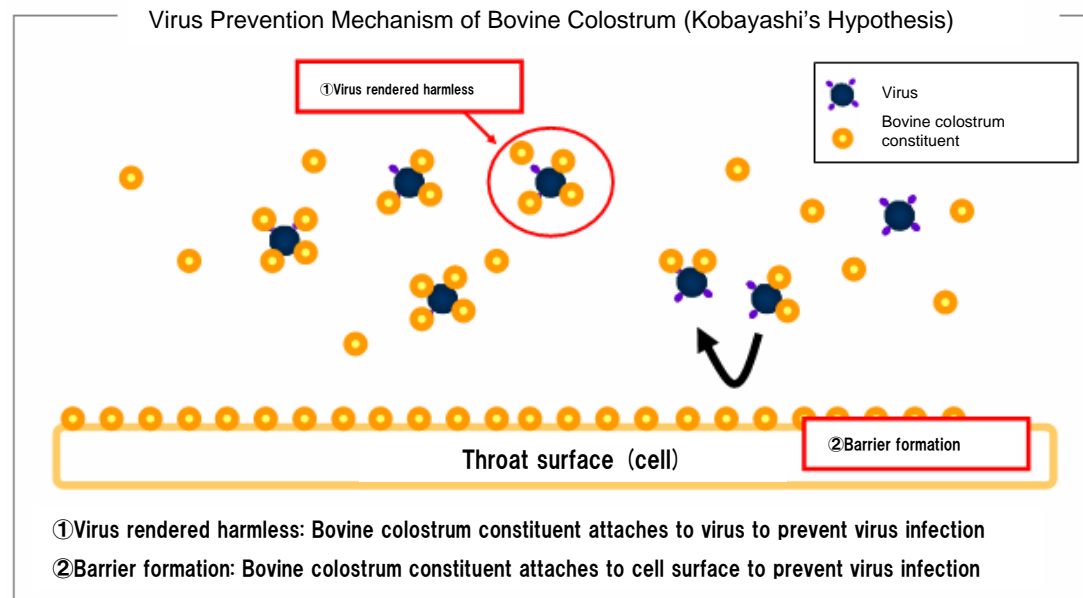
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Results of clinical trials on humans: 196 children aged 3 to 9

④Bovine colostrum has inhibitory effect* on influenza virus

*Inhibitory effect refers to the state where the influenza virus does not attach to human cells



Details announced at the 12th Lifestyle-Related Disease Prevention Conference (Fukuoka) on November 15, 2008.

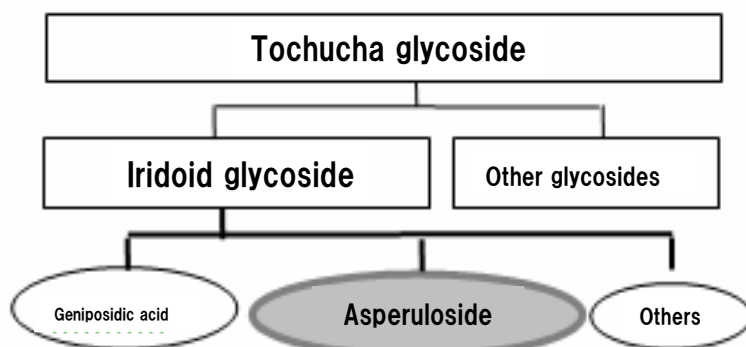


Efficacy of “Asperuloside,” a Tochucha glycoside, in suppressing visceral fat (intra-abdominal fat) proven in trials on animals.

Announced at the 3rd Regular Conference of the Japanese Society of Eucommia on August 2, 2008.

Findings about Tochucha to date

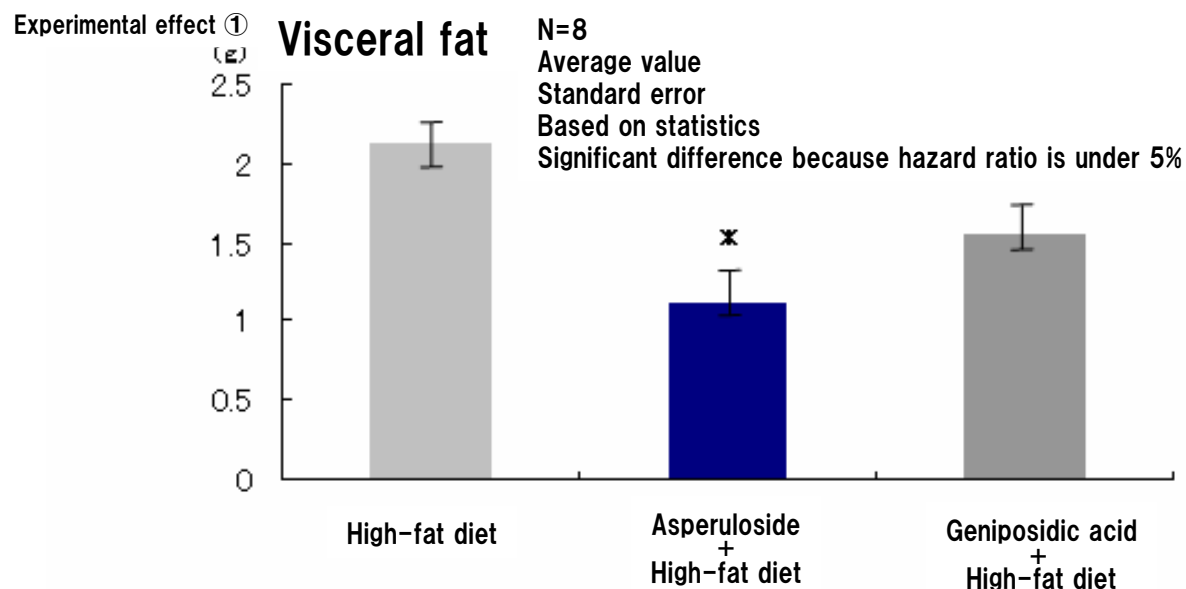
- ① **Efficacy of Geniposidic acid, a Tochucha glycoside, in regulating blood pressure proven in trials on humans (October 2005)**
- ② **Mechanism for suppressing visceral fat by enhancing the fat metabolism in the liver, muscles, etc. proven in trials on animals (March 2007)**





Efficacy of “Asperuloside,” a Tochucha glycoside, in suppressing visceral fat (intra-abdominal fat) proven in trials on animals.

Announced at the 3rd Regular Conference of the Japanese Society of Eucommia on August 2, 2008.



Study efficacy of Asperuloside in suppressing visceral fat in human trials going forward

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