

あったら  
いいな

をカタチにする

"You make a wish and  
we make it happen"

KOBAYASHI PHARMACEUTICAL CO., LTD.

Integrated Report 2019



# Our Commitment

## Management Principles

**We never stop creating and innovating  
in our pursuit of something new  
that will delight people and society.**

## Corporate Brand Slogan

**あつたら  
いいな**  
**をカタチにする**

**"You make a wish and  
we make it happen"**

## Group Brand Charter

Our mission is to not only make products that our customers want now but to also develop new and innovative products for our customers' future needs.

True to our brand slogan of "You make a wish and we make it happen," we will strive to research, develop, manufacture, and deliver products as quickly as possible.

Products and services will be developed to the highest standards and quality to exceed our customers' expectations.

Our dream is to share the small gifts from everyday life with people the world over.

We are committed to being an innovative, development-focused company that contributes to society, builds lasting relationships with customers, and exceeds all expectations in customer satisfaction.

Operating  
income margin  
**15.7%**

Our niche strategy of targeting "small ponds" (markets with few competitors) enables us to sustain high profit margins.

**22 consecutive  
fiscal periods of  
profit growth**

We have achieved profit growth for 22 consecutive fiscal periods since the introduction of consolidated accounting.

**21 consecutive  
fiscal periods of  
dividend increases**

We will continue to generate stable returns while making future-oriented growth investments.

Brands with  
top domestic  
market share  
**43**

Through our "a big fish in a small pond" strategy and the development of unique products, we continue to create unprecedented new markets.

## Editorial Policy

To inform readers about the Kobayashi Pharmaceutical Group's management and corporate activities, this integrated report comprehensively covers non-financial information such as ESG activities, in addition to management's direction and strategy, and a review of operations. The International Integrated Reporting Framework provided by the International Integrated Reporting Council and the Guidance for Collaborative Value Creation formulated by Japan's Ministry of Economy, Trade and Industry were used as reference in compiling this report.

# Our Value Creation

- 1 Our Commitment
- 2 A Century of Value Creation
- 4 Value Creation Process
- 10 The *Netsusama Sheet* Story
- 20 Operational Highlights

# Growth Strategy

- 24 Summary of the Medium-Term Management Plan
- 26 The President Explains Our Strategy
- 34 The CFO Explains Our Financial Strategy
- 38 Strategies by Business

# ESG Initiatives

- 48 Our Approach to ESG
- 50 Environmental
- 54 Social
- 58 Governance
- 64 Interview with an Outside Director
- 66 Management Team

# Data Section

- 68 10-Year Summary
- 70 Consolidated Financial Statements
- 74 Our History
- 75 Corporate Data / Investor Information

Idea proposals  
in FY2019

Approx. 55,000

Under our idea proposal system, established in 1982, every employee across all departments contributes ideas for new products and business operation improvements.

## External Recognition



MSCI Japan ESG  
Select Leaders Index

<https://www.msci.com/msci-japan-esg-select-leaders-index>



MSCI Japan Empowering  
Women Index (WIN)

<https://www.msci.com/msci-japan-empowering-women-index>



<https://www.jpjx.co.jp/english/markets/indices/carbon-efficient/>



<https://www.sjnk-am.co.jp/institutional/product/06/> (Japanese only)

## Period Covered

January 1, 2019 – December 31, 2019  
(FY2019: Fiscal year ended December 31, 2019)  
Note: Certain subsequent information is also included.

## Reporting Scope

Kobayashi Pharmaceutical Co., Ltd.  
and its consolidated subsidiaries

## Other Related Information

- Financial Results (in English); Securities Report (Japanese only)
- Kobayashi Pharmaceutical Website  
<https://www.kobayashi.co.jp/english>

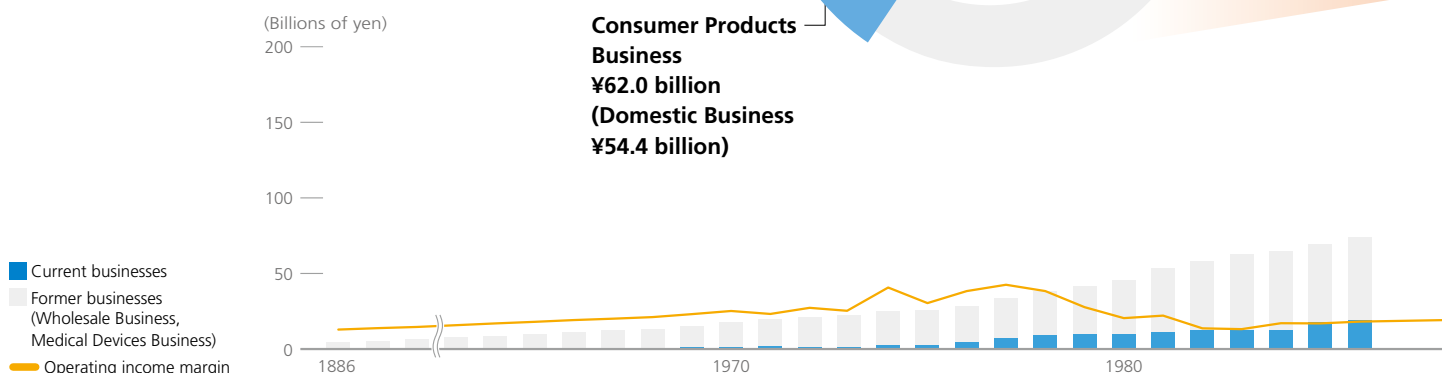
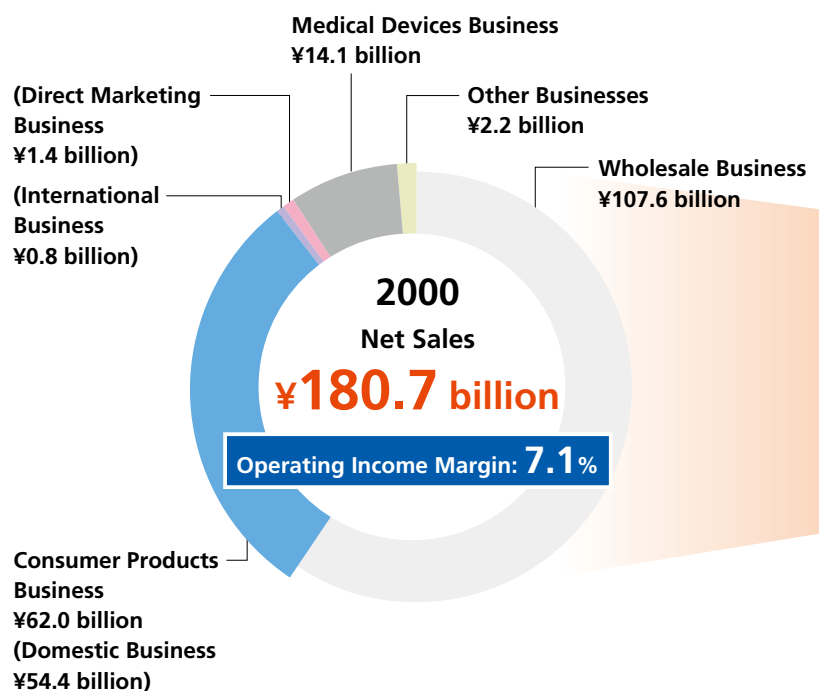
# A Century of Value Creation

We are actively pursuing M&A and expansion to deliver **what customers**

## Our Changing Business Portfolio

### Changes over the Last 20 Years

In 2008, we divested our original wholesale business, which accounted for more than half of our sales. However, since then, our consumer products business has more than doubled, and our operating income margin has risen dramatically from the 7 percent range to 15 percent. We continue to create new markets by delivering what customers wish for not only in Japan but also overseas, and are accelerating growth by actively pursuing M&A.



### 1880s–1950s

**Popularized over-the-counter medicine as a medicine wholesaler.**

### Building a solid business platform

Founded as a store selling general merchandise and cosmetics. Later, began focusing on the medicine industry following an infectious disease outbreak in 1885. With demand for medicine rising, built a solid business platform as a medicine wholesaler and began manufacturing proprietary pharmaceuticals.

**1894**  
Launched 10 types of proprietary pharmaceuticals



### 1960s–1980s

**As a wholesaler and manufacturer, brought comfort to daily life in Japan and created new markets as an early adopter of Western culture.**

### Establishing a business model with a niche strategy

Began full-scale commitment to becoming a manufacturer while retaining main business in wholesale. Created new niche markets to avoid competition with wholesale partners. Origin of our current business model.

**1966**  
Launched *Ammeltz*, a topical analgesic



**1969**  
Launched *Bluelet*, a toilet bowl cleaner and freshener

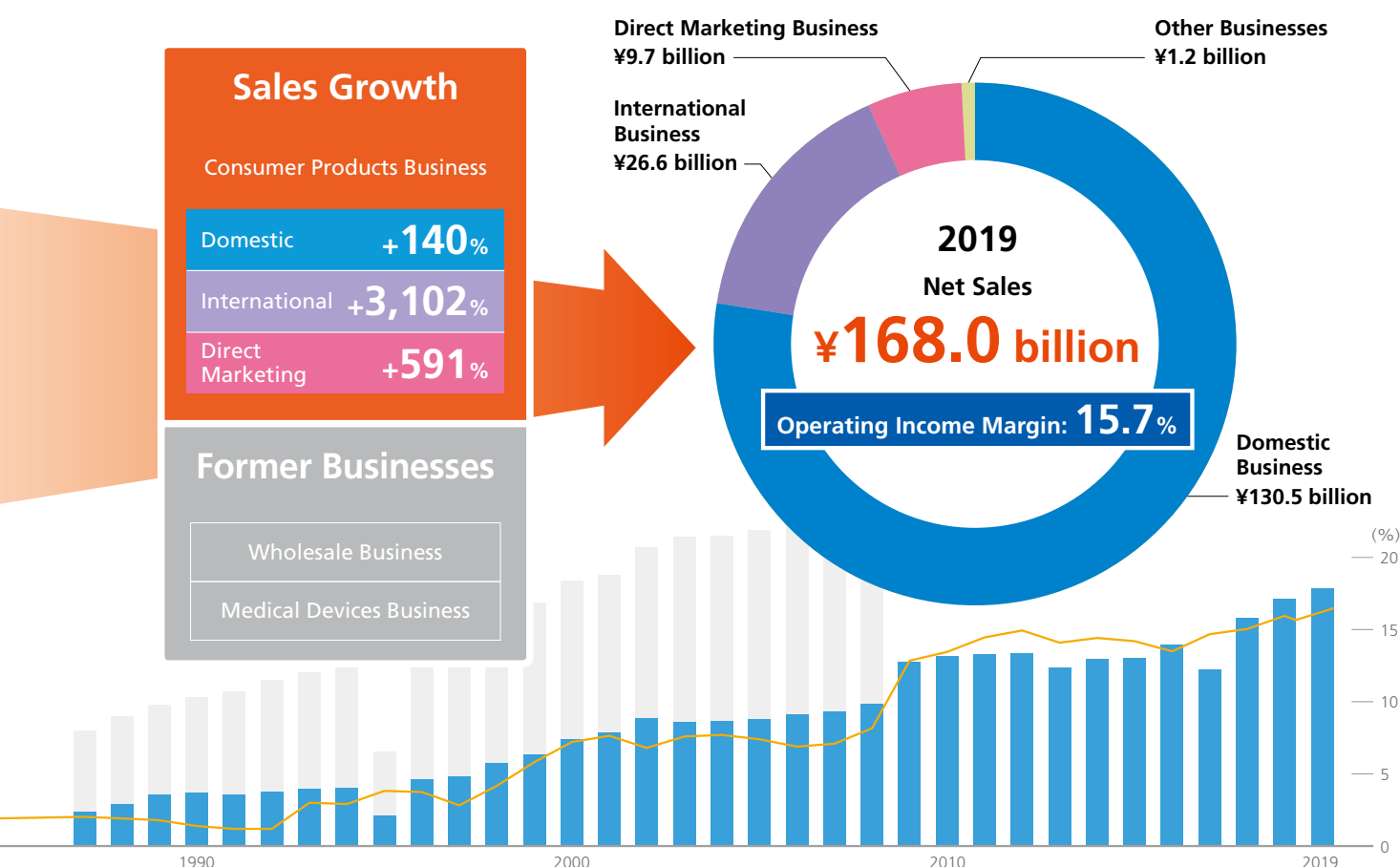


**1975**  
Launched *Sawaday*, a toilet air freshener





# accelerating our international wish for overseas as well as in Japan.



## 1990s

Proposed new lifestyle ideas and created successive new markets by delivering what customers wish for.

### Growing the manufacturing business and expanding overseas

Strengthened new product development to fill unmet lifestyle needs and created numerous core brands that are the backbone of current earnings. Made full-scale foray into overseas markets.

## 2000s–present

Accurately identified lifestyle changes and created new markets in Japan and overseas by delivering what customers wish for.

### Concentrating on core competencies

Divested original wholesale business and medical devices business to facilitate further development of new core businesses. Focused operating resources on manufacturing business and dramatically improved operating income margin. Aggressively conducted M&A and accelerated expansion overseas.

**1994**  
Launched Netsusama Sheet, a cooling gel sheet for the forehead



**1995**  
Launched Eyebon, an eye wash



**1995**  
Launched Shoshugen for Toilet, a deodorizing air freshener for toilets



**1997**  
Launched BreathCare, oral breath freshener capsules



**2001**  
Acquired Kiribai Chemical Co., Ltd.



**2005**  
Acquired exclusive sales rights for Inochi no Haha A, a women's health medicine



**2006**  
Acquired Heat Max, Inc.



**2006**  
Launched Naishitol 85, a Chinese medicine (Kampo)



**2011**  
Launched Attonon, a medicated skincare product for scars



# Value Creation Process

## Business Model:

### Developing Products to Solve Particular Problems

#### The Sources of Our Strength

System for generating new product ideas

A free and open corporate culture

Emphasis on ease of understanding

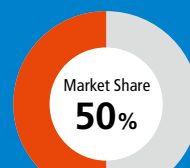
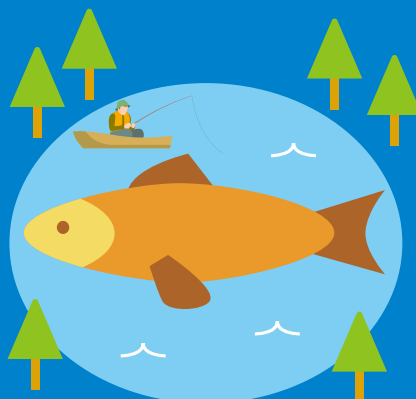
## "A big fish in a small pond" Strategy

There are few competitors in small ponds, so we can secure a large market share and high profit margins.

Small pond

¥1 billion market

Targeting "a big fish in a small pond," i.e. pursuing a niche strategy



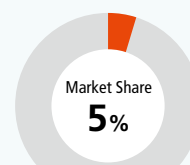
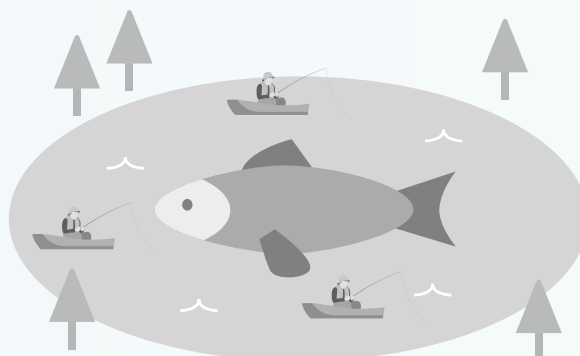
= Sales of ¥500 million

Competition is fierce in large ponds where everyone comes to fish. Even with the same level of sales, a high profit margin cannot be attained.

Large pond

¥10 billion market

Markets we avoid



= Sales of ¥500 million



## Development of Unique Products

### Idea Generation

.....  
We come up with ideas by searching for what customers wish for. We look for undiscovered new markets.

### Rapid Development

.....  
We conduct product development, research, preparation for production and other activities in parallel to quickly turn ideas into products. We seek to be the first to enter new markets.

### Easy-to-Understand Marketing

As new products are unfamiliar to the world, we strive for simplicity in every aspect so that customers can instantly understand what the product is.

Product Naming

Advertising

Packaging Design

In-Store Promotion

### Sales and Product Cultivation

After launching a product, we implement a "three-arrow" promotional strategy to establish new products in the market by pursuing a series of surges in sales.

### Establishment and Long-Lasting Sales

### Overseas Expansion



Target  
KPIs

#### 1 Contribution Rate of New Products (Page 23)

Four-year contribution rate\*

**20%**

\* Sales contribution rate of new products launched within the previous four years

#### 2 New Products Established in the Market

**Establish 2 products  
every 6 months**

We develop new products that deliver what customers wish for and address unmet needs in the areas of healthcare, household products, skincare and body warmers, both in Japan and overseas. We then cultivate these products to firmly establish them in the market. We thereby inspire new lifestyle ideas.



# Value Creation Process

## Value Chain



### Idea Generation

Idea generation is critical to creating niche products.



### Rapid Development

Being first to market and gaining the top share through rapid development is important.



### Marketing

We launch many products, so easy-to-understand marketing is essential.

Kobayashi  
Pharmaceutical's  
approach

- Idea proposal system
- Idea meetings ▶ Page 13-14
- Idea presentations
- N = 1 development
- The five development principles
- Kobayashi-style marketability assessment
- M&A as a development technique

- Rapid development with a four-in-one approach (R&D, technology development, development planning, brand managers)
- Development Committee ▶ Page 15
- Kobayashi-style satisfaction assessment
- Alliances (development) with technology-owning partners
- Rapid development using outside technologies ▶ Page 14
- Development leadership by top management

- Easy-to-understand product names
- Easy-to-understand packaging design
- Easy-to-understand advertising
- Easy-to-understand store displays ▶ Page 16
- Field marketing
- Approval of marketing plans by top management

Mechanisms to  
improve and promote  
value creation

- Invitation to Premium Dinner hosted by the president ▶ Page 8
- President's special award for outstanding ideas
- Recognition of proposers of similar ideas
- Company-wide idea contest ▶ Page 8

- Development portfolio management approach ▶ Page 8
- Qualified Person (QP) system
- Free-for-all discussion between top management and front-line employees
- High quality
- Retailer incentives

- CF and package design awards

Future issues

- Restore four-year contribution rate to 20% (improve market establishment rate)

- Further enhancement of Kobayashi-style customer satisfaction assessment methodology aimed at encouraging repeat purchases

- Kobayashi-style online marketing
- E-commerce test-marketing techniques

## Systems for fostering the corporate

- Spur-of-the-Moment Meetings ▶ Page 12
- Policy on forms of address ▶ Page 14

- e-Appreciation program between president and employees
- Growth dialogues
- Front-line visits by top management

An open corporate culture that avoids authoritarian or bureaucratic practices





### Sales and Product Cultivation

Newly launched products are distributed to retailers across Japan and supported with intensive TV advertising.

- New product distribution capabilities
- Applying sales best practices to other products
- Rapid PDCA cycle for new product cultivation
- Advertising media purchasing capabilities

- Trade shows featuring new products [▶ Page 9](#)
- “Three-arrow” approach to product cultivation [▶ Page 9](#)
- Ability to measure advertising effectiveness
- CF-POS meetings
- Best performer award

- Enhancement of e-commerce



### Establishment ▶ Long-Lasting Sales

When a market grows large, competing products enter. To maintain the top market share, we take various measures that leverage our first-mover advantage.

- Profit and loss management of all brands
- Line extensions of top brands
- Product renewals to leverage first-mover advantage
- Ability to make linked marketing proposals
- In-house production of equipment
- Cost savings with in-house manufacturing

- Brand reviews
- Brand training camp
- Technology sharing event to present new technologies
- Events to present research results

- Simultaneously cultivating multiple new items



### Overseas Expansion

We localize unique products in each country and establish them in the market.

- Partnerships with distributors in each country
- High brand recognition in China
- Many products popular with foreign visitors to Japan

- Utilization of cross-border e-commerce
- Joint coordination meeting

- Generation of new demand from visitors to Japan
- Simultaneous development in Japan and China
- Cooperative marketing between Japan and China operations
- Development of products that satisfy unmet needs in each country

## culture underpinning value creation

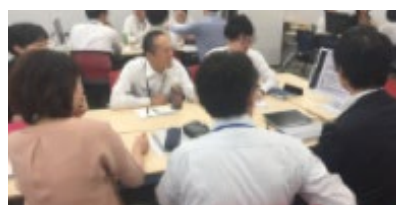
- Hiring of people with a can-do spirit and a desire to create new lifestyle ideas
- Expertise in simultaneously developing, marketing and cultivating a high-diversity portfolio of more than 150 brands (DNA of a wholesaler)

## Diversity

## Value Creation Process

### Mechanisms to Improve and Promote Value Creation

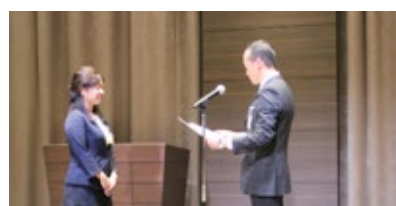
#### Company-Wide Idea Contest



On August 22, the anniversary of the Company's incorporation, all employees take a break from their regular duties for an "idea meeting" held in each department. Each employee brings a product idea and the best one from each department is entered into a

preliminary contest. Those selected then move on to package design, after which they are presented to the president and other executives. The winning ideas are then considered for commercialization. In FY2019, a total of 2,543 ideas were submitted.

#### Premium Dinner



Every six months, employees who proposed the best ideas and produced outstanding results are rewarded with an invitation to dinner with top management. The event is featured in the company newsletter.

Praising employees whose idea proposals and actions are commendable demonstrates management's attitude of recognizing people for their initiative and efforts. We also have a program in which employees submit their outstanding results for consideration, and the winners are honored at the Premium Dinner.

#### Development Portfolio Management

##### Example of Development Project Portfolio

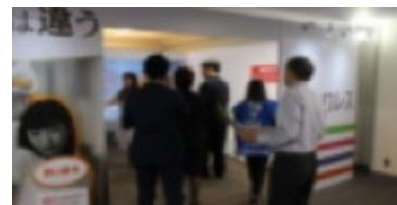
	Autumn 2020		Spring 2021		Autumn 2021		Spring 2022	
Category A	New product 1	¥X billion	New product 5	¥X billion	New product 9	¥X billion	New product 13	¥X billion
	New product 2	¥X billion	New product 6	¥X billion	New product 10	¥X billion	New product 14	¥X billion
	New product 3	¥X billion	New product 7	¥X billion	New product 11	¥X billion	New product 15	¥X billion
	New product 4	¥X billion	New product 8	¥X billion	New product 12	¥X billion	New product 16	¥X billion
Total projected sales	¥X billion		¥X billion		¥X billion		¥X billion	
Contribution rate of new products in Category A	X%		X%		X%		X%	

New product development is vital to Kobayashi Pharmaceutical's growth, but a haphazard approach is unlikely to lead to sustainable growth. We carefully manage new product development through our development project portfolio, which functions as a product launch schedule for each business division and category. This allows us to chart launch dates and sales

projections for new products over a period of approximately three years, share information on risks that have the potential to stymie development or delay launch, and reevaluate the contribution rate of new products, while optimizing the number of projects and resource allocation.



## Trade Shows Featuring New Products



Trade shows featuring new products (in Tokyo, Osaka and Fukuoka) are held twice a year in spring and autumn, and are attended by approximately 3,000 distributor representatives. Employees from Kobayashi Pharmaceutical's marketing and R&D departments staff product booths, where they enthusiastically explain the products they helped conceive. The venues are

bustling, and many visitors have commented that the explanations are very easy to understand. This kind of trade show is a place to both introduce new products and engage in business discussions. Our top management and the heads of business divisions also participate, and business deals with distributors are often closed at these events.

## "Three-Arrow" Approach to Product Cultivation



In recent years, we have focused efforts on cultivating new products to establish them in the market. Firmly establishing these products so that they continue to sell for five or ten years improves the return on development cost and effort, thus contributing to our bottom line. We have set a goal of establishing two new products every six months. Each year, we target two or three new

products for focused investment in advertising and sales promotion, and we cultivate them by instigating a series of sales surges with our three-arrow strategy. New product development is only considered successful once a product gains a foothold in the market and this cultivation process is complete.

## Technology Sharing Event



This event has been held once a year since 2008 by the Manufacturing Headquarters. It promotes sharing of technologies and creates a climate of mutual learning. Examples of improvements at factories are presented from four perspectives: application of existing technologies, utilization of advanced technologies, technologies for in-house production of equipment, and equipment maintenance technologies. All general managers of manufacturing departments,

including plant managers, share information, which leads to accumulation and evolution of manufacturing technology. By explaining gains in operating efficiency from adopting new technologies, and examples of improvements made using highly original ideas, the event enables skill-intensive technologies known only to a small number of people to be deployed across different departments, raising our overall manufacturing technology level.

# The *Netsusama Sheet* Story

## The Kobayashi Way



## The origin of applying cooling gel sheets to the forehead for fever-relief

The launch of *Netsusama Sheet*, which is now synonymous with cooling gel sheets for the forehead, introduced this lifestyle habit to the world. Perhaps more than any other product, *Netsusama Sheet* exemplifies Kobayashi Pharmaceutical's unique business model of creating new markets by developing products that satisfy unmet consumer needs—what we call our “a big fish in a small pond” strategy.

*Netsusama Sheet* made its market debut in 1994. Belying its simple appearance, many difficulties had to be overcome in its development. It was an instant hit product, selling 5.5 million sheets in its first year, about four times our initial target. In the ensuing 26 years, the habit of applying a cooling gel sheet to the forehead to bring down a fever became common practice in Japan. This habit has spread to other countries as well; today, roughly 400 million sheets are sold worldwide each year.

The *Netsusama Sheet* Story in this year's integrated report tells the value creation story of this product from its birth to the present

day, when it is used by people around the world. In so doing, it elucidates Kobayashi Pharmaceutical's distinctive business model of developing unique products and its “a big fish in a small pond” strategy, as well as the underlying strengths.

### Characteristics of Kobayashi Pharmaceutical's Business Model

- **Development of unique products**

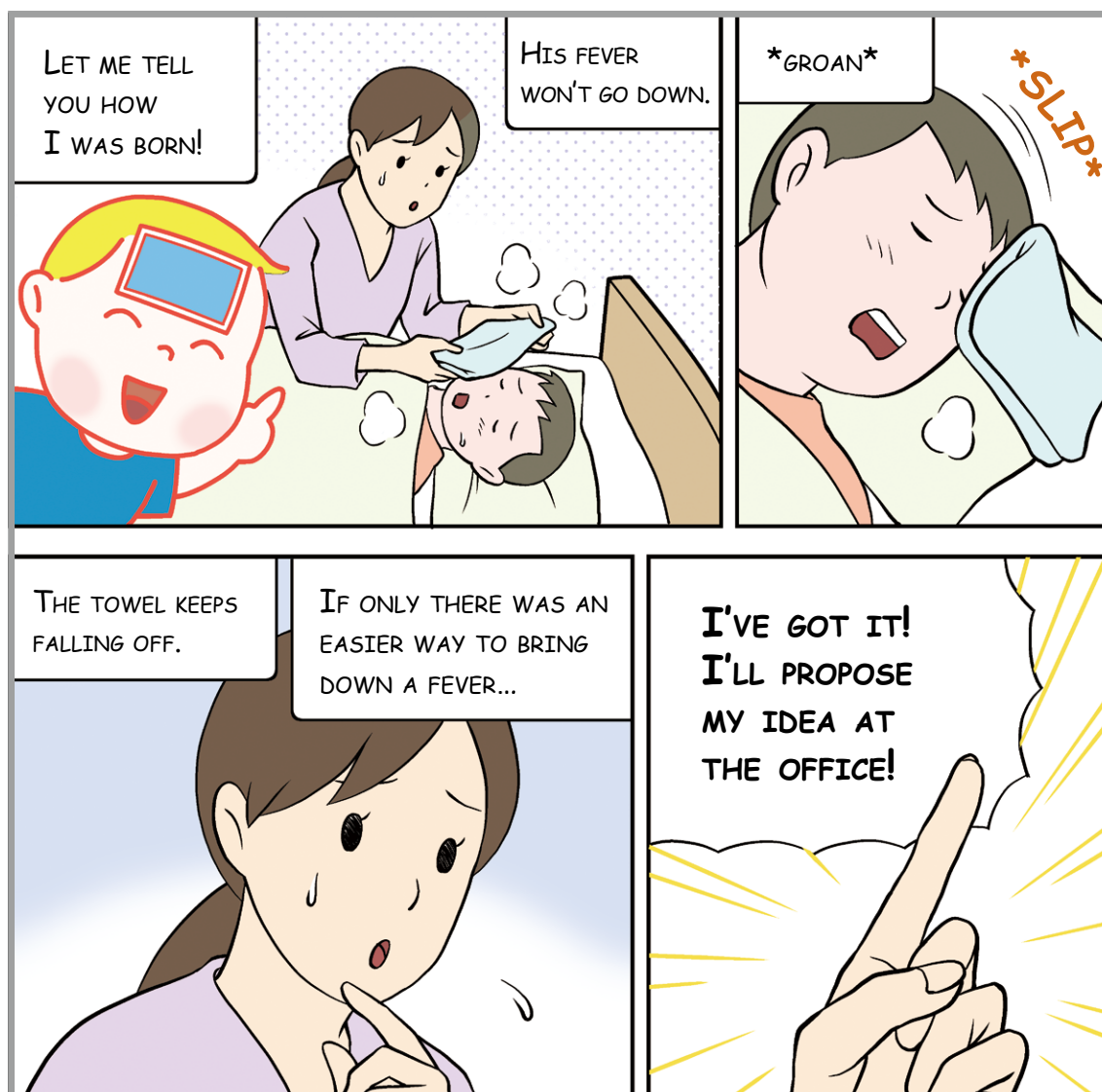
We create new markets and propose new lifestyle ideas by identifying unarticulated consumer needs and developing products that deliver what customers wish for.

- **A big fish in a small pond**

Rather than pursuing large markets where we would have a small market share, we capture the top share of small markets. By securing the top share, we are able to develop the business profitably without excessive competition. (Our operating income margin in Japan is over 18 percent.)



## The Mechanism of an “Idea Company”



### All employees think about how to make customer wishes happen

The strength or reason that has enabled Kobayashi Pharmaceutical to grow continuously is without question our ability to continuously generate ideas. That is how much Kobayashi Pharmaceutical is an “idea company.”

The mechanism behind that is our idea proposal system, through which every employee can contribute ideas. Under this system, employees can propose an idea at any time, and all proposals are given feedback from the person in charge. Product development divisions hold new product idea meetings every month, and make presentations directly to the president. This idea creation process, which has been in place for 38 years, is fully supported by the efforts of all employees, including the president. As a result, approximately 55,000 new ideas were proposed in 2019, including around 38,000 new product ideas and 17,000 ideas to improve business operations. The sheer number of ideas is one of Kobayashi

Pharmaceutical’s core strengths.

The idea proposal system, which has been maintained for 38 years, has played a major role in shaping the culture of an “idea company” among employees. It encourages them to think about and act on ideas for new products and business improvements every day. As a result, they get into the habit of perceiving needs and signs of change in the world around them, and acquire a strong awareness of product development. In addition, it fosters a sense of ownership among employees that contributes to a creative corporate culture and encourages them to take on new challenges. Needs and problems will always exist as long as there is change in the world. With our ability to quickly detect such change and provide products that solve problems, we believe we can maintain sustainable growth.

## Idea Meetings Start from Scratch



## How we turn customer wishes into real products

Generating ideas that are new to the world requires a process that starts from zero, and the key is to think outside of conventional frameworks. Consequently, the proposals brought up in our idea meetings and other settings tend to be unconventional. At most companies, it takes a lot of courage to bring up such a proposal. If the boss shoots it down by saying, "That product will never sell!" the proposer will surely stop coming up with new ideas. This creates conditions that are not conducive to cultivating free-thinking employees.

Kobayashi Pharmaceutical has many unique programs and systems to foster a climate that supports employees' creativity. Other examples apart from the idea proposal system include Spur-of-the-Moment Meetings, e-Appreciation and our policy on forms of address.

Spur-of-the-Moment Meetings are not formal meetings scheduled

for a particular date and time, but short, spontaneous meetings that start whenever someone has an idea and invites others to gather and discuss it. These meetings are common at Kobayashi Pharmaceutical.

E-Appreciation is a program we use to encourage praise and recognition of success rather than dwelling on failure, and to place value on the independence of employees and the effort required to take on challenges. The president personally sends a detailed email to thank employees for efforts worthy of praise. Employees find this kind of praise very encouraging. These emails, which are also published in the Group internal newsletter, demonstrate to the whole company management's attitude of praising people for their independence and efforts, and the importance attached to initiative in the workplace.



## The Foundation Supporting Creative New Product Development



### Development of unique products based on high investment efficiency

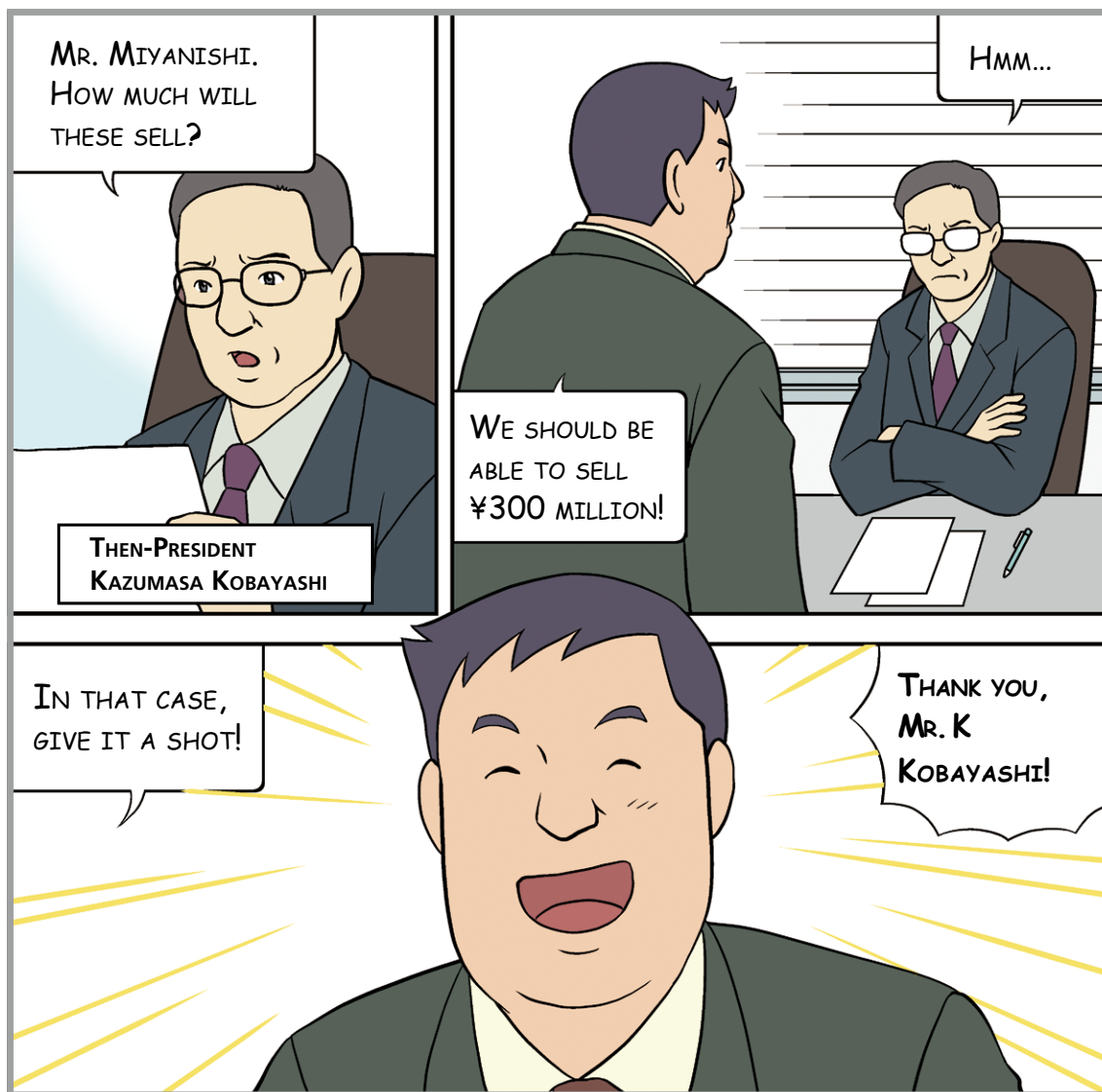
The development of unique products does not start from deciding to make a product because we have the technology for it. It starts by thinking about what customers wish for, and then developing products to make those wishes happen. Since such product ideas have no precedent, the production technology needed to bring them to market may not exist at our company. Therefore, in order to launch new products quickly, rather than doing our own R&D from the ground up, we work with partner companies that already have the technologies needed for this new product development. This allows us to keep a healthy risk appetite and quickly launch new, high-quality products.

Each year, we outsource production for about 60 percent of our new products. Outsourcing production offers clear advantages to our business model of developing unique

products. First, we are able to reduce the initial investment in new product development because R&D spending on new technology is unnecessary. Furthermore, outsourcing production means that we are able to minimize the investment risk associated with new production facilities in the event that sales of a new product are weak. And lastly, when outsourcing production, we work only with manufacturing partners who have a track record in relevant fields, so high quality can be assured.

Ordinarily, continuing to outsource production is considered to have its drawbacks, such as stymying the cultivation of new product development capabilities. However, our ongoing ability to generate countless ideas and develop new products every year is evidence that this is not the case at Kobayashi Pharmaceutical. Outsourcing production is a cornerstone of our business model.

## A Culture Where Employees Can Speak Freely and on an Equal Footing



### “Mr. K Kobayashi” and “Mr. A Kobayashi,” not “Chairman” and “President”

Coming up with unique ideas to deliver what customers wish for requires a corporate culture in which people can speak up freely about new ideas and business improvements. One way we encourage that is our policy on forms of address. We abandoned the practice of referring to people by their job titles, which is the norm at other Japanese companies, and all employees are instead called by their last name to reinforce equality at work. We strive for a workplace culture

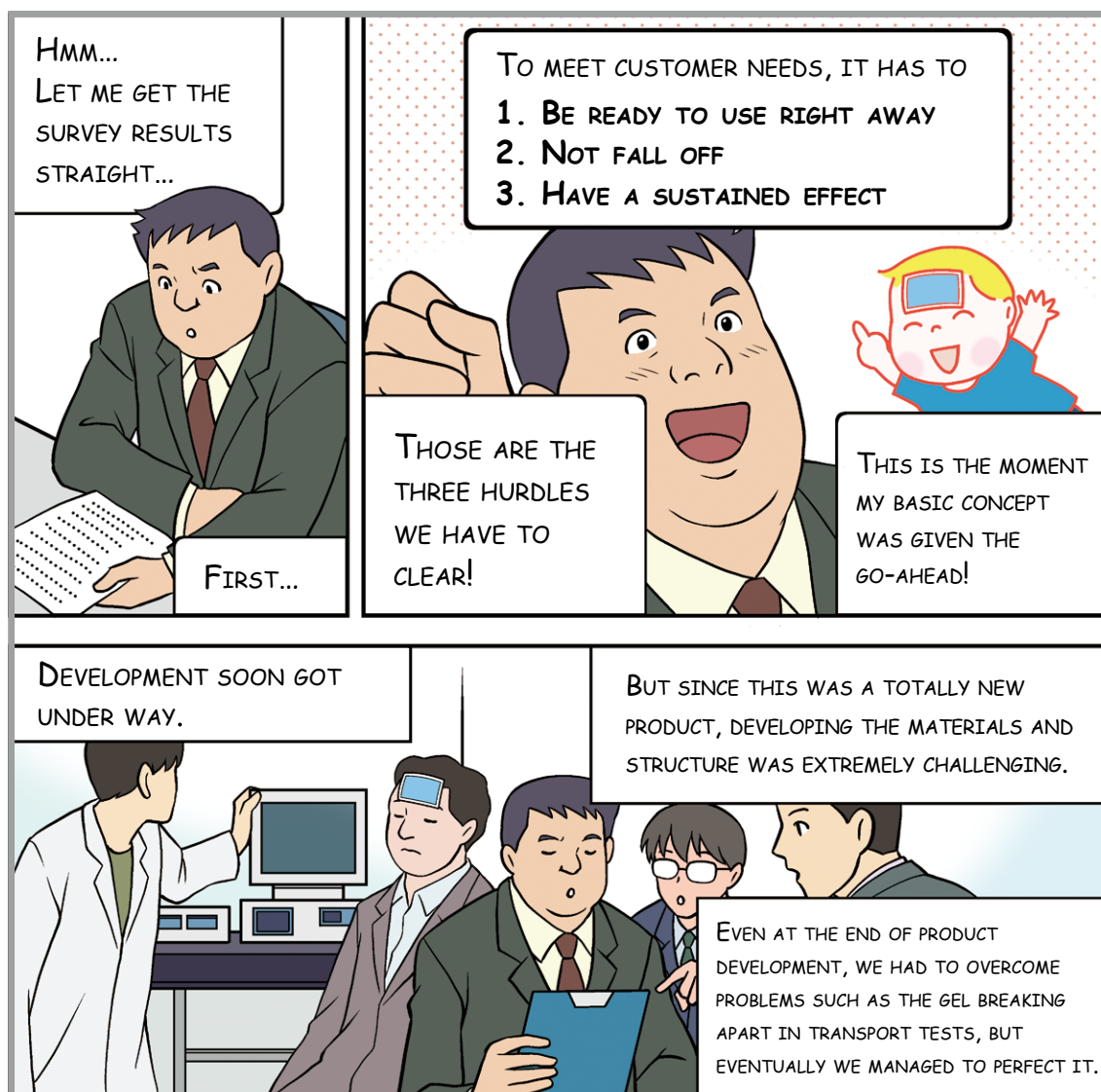
where anyone, whether newly hired or a seasoned veteran, is free to express their opinion on an equal footing, regardless of position. Since the chairman and president share the name Kobayashi, they are referred to by their first initial—Chairman Kazumasa Kobayashi is called “Mr. K Kobayashi” and President Akihiro Kobayashi is “Mr. A Kobayashi.” This culture further reduces the distance between senior management and employees.

### From “a small fish in a small pond” to “a big fish in a small pond”

Ideas are presented directly to the president. The first year sales target of presentation plans is usually set at ¥300 million. Given that other companies in our industry typically aim for sales of billions of yen, our sales plans of ¥300 million may seem surprisingly small. But our business model is based on growing a product that never existed before (still a “small fish”) in a “small pond”—a ¥300 million market—and

developing it into a “big fish,” thereby avoiding competition after launch. Our people do intensive research to find these ¥300 million markets, and are exceptionally good at it. By deploying this unique strength, we spark completely new lifestyle habits. And when those habits spread, our sales expand. This is our “a big fish in a small pond” business model.

## Repeated Discussions and a Never-Give-Up Attitude



### A system that balances the conflicting processes of “muddy development” and “rapid development”

Bringing to market what customers wish for naturally involves many setbacks and failures. However, we believe it is important to make products available as quickly as possible to solve lifestyle and health problems. To do that, Kobayashi Pharmaceutical applies a unique system that combines both “muddy development” and “rapid development.”

“Muddy development” is what we call the development process in which we persevere when faced with many setbacks and failures, and continuously hold discussions to investigate the causes of those failures. Such discussions can be seen throughout the Company. From the time an idea is generated, it is common to have discussions on product development, regardless of division, and developers can immediately initiate action if they have a question or an issue to talk about.

“Rapid development,” as the name suggests, reflects our confidence in the speed of our product development. Our average

development time is approximately 13 months (excluding pharmaceutical products). In 2019, we launched 29 new products. What makes this possible is that teams with members representing four functions—development, research, engineering and brand management—are formed for each product category, so that development can be carried out in parallel across different departments from the initial stage.

The reason we are able to balance these two conflicting approaches of “muddy development” and “rapid development” is that we are an “idea company” under the active leadership of the president. At Kobayashi Pharmaceutical, it is normal for all employees, including new hires, to participate in discussions across departmental lines in pursuit of a common purpose.



## A Four-Point Strategy for Simplicity



## Easy-to-understand marketing leads to major hit products

Since we often launch entirely new categories of products, customers may not initially understand what a product is, and if they do not understand it, they will not buy it. To overcome this obstacle, we believe it is important to clearly and simply describe what problems the product will solve for the customer. The following explanation of our marketing approach uses *Netsusama Sheet* as an example.

*Netsusama Sheet* was a product unlike any before it. Therefore, simplicity was an important factor in getting consumers to understand what it was, and who it was for. With easy-to-understand marketing that satisfied the four points listed on the right, we helped people understand the product, so that when they or their families developed a fever, they would use *Netsusama Sheet*.

- 1) Simple naming that is easy to remember
- 2) Simple packaging that instantly conveys the product's benefits
- 3) Simple advertising that shows situations people can relate to
- 4) Simple in-store promotion that enables consumers to quickly find the product

Based on this approach, *Netsusama Sheet* became a major hit product. It truly embodied Kobayashi Pharmaceutical's slogan, "You make a wish and we make it happen," as evidenced by the many letters of appreciation we received. These letters praised features matching the very needs we set out to meet. The new habit of applying a cooling gel sheet to the forehead to bring down a fever was becoming established.

## Marketing and Cultivation Establish Products and Bring Them to the World



### Strong capabilities in new product distribution and advertising purchasing

Upon launch, a new product is distributed to retail outlets, primarily drugstores, throughout Japan. We thus have strong capabilities in new product distribution. A coordinated approach linked with television commercials ensures that consumers are able to find the product at a nearby store when our message reaches them. This then ties in to effective sales activities.

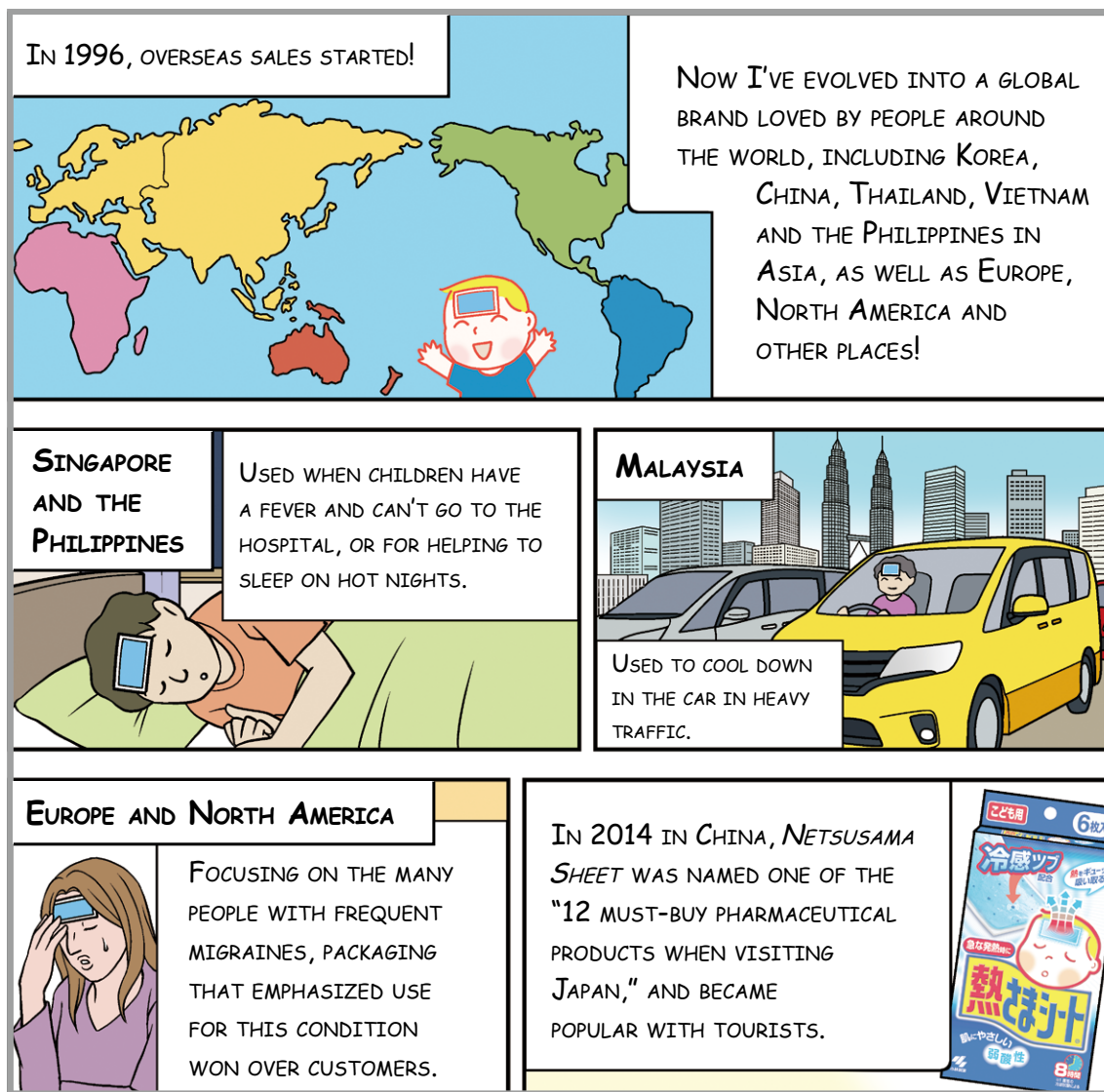
The drivers of these marketing activities are trade shows featuring new products and our advertising purchasing capabilities. Since many of our products are entirely unprecedented in the world, building consumer recognition is critical. In Japan, television advertising is by far the most efficient method for that. As the seventh-largest domestic TV advertiser, we have strong advertising purchasing capabilities.

### How we maintain top market share

Once a product is launched, competing products enter the market after a certain period of time. When this happens, our market share gets smaller, but in many cases sales expand because the market itself grows larger. That does not mean we are complacent about our top share—we take various measures to maintain it. Leveraging our first-mover advantage, after a competing product comes out we immediately conduct rapid product renewals, and stay ahead

with proactive measures such as launching line extensions and introducing products with higher added value than existing products (such as pharmaceutical products) to encourage switches to high-performance formulations. Anticipating the emergence of competing products, we work to improve cost competitiveness by making cost reductions and switching from outsourced production to in-house manufacturing as sales expand.

## Adapting Proposals for Globalization and Needs in Each Country



### Bringing Netsusama Sheet from Japan to the world

Overseas sales of *Netsusama Sheet* began in 1996, two years after its domestic launch, and we have since adapted our promotional strategies to the needs of each country and region. In Singapore and the Philippines, for example, healthcare costs are low, and children with a fever are commonly taken to the hospital right away, so we positioned the product for use in the middle of the night, when a hospital visit might not be possible. In Malaysia, *Netsusama Sheet* was promoted for use against the heat, because people often use it to cool down on hot nights when sleeping is difficult, or in the car when stuck in traffic. And in Europe and North America, we noted that many people have frequent migraines, so we emphasized use for this condition on the packaging.

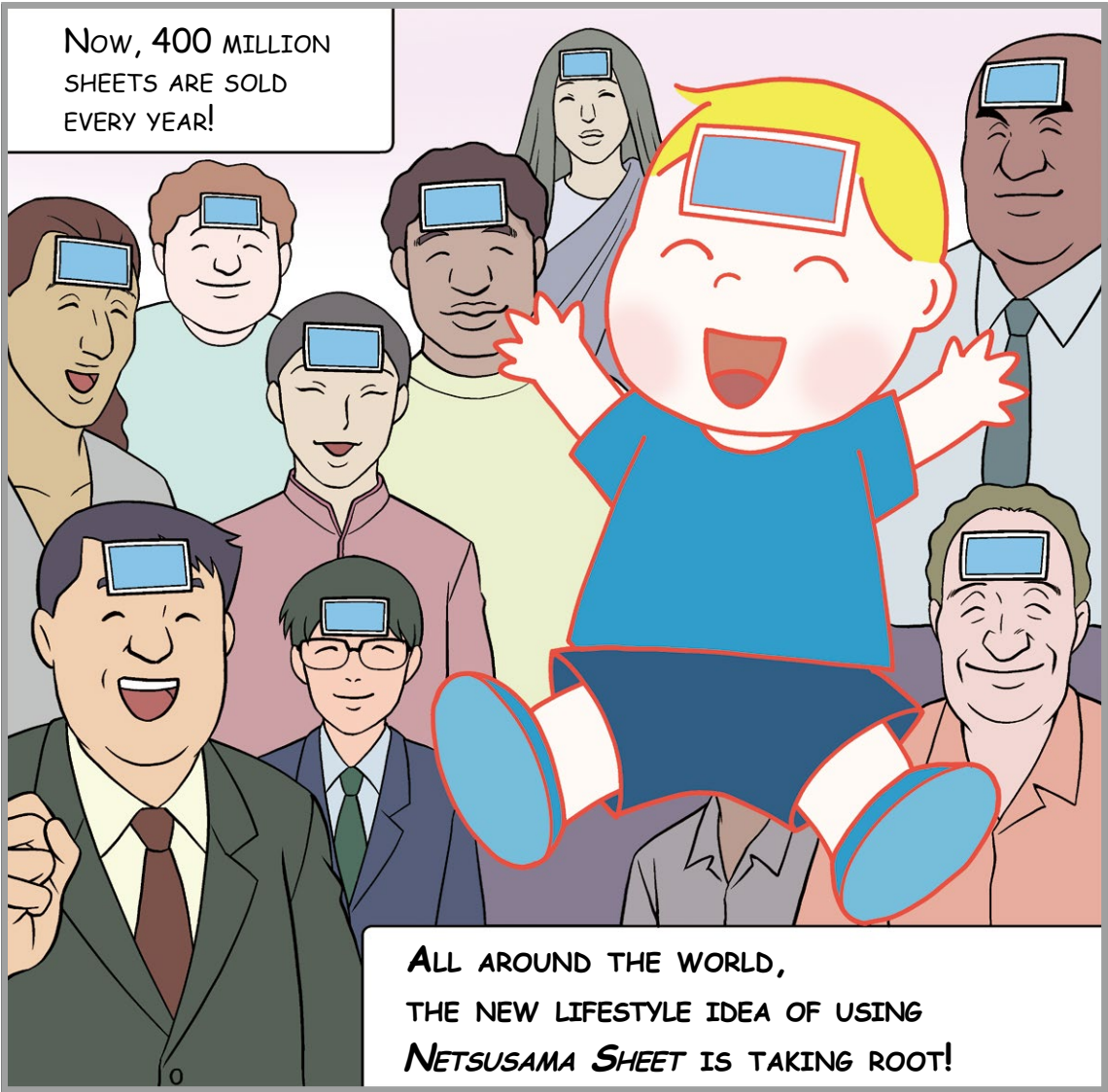
In 2014, *Netsusama Sheet* became a focus of attention after being highlighted by Chinese media as one of the “12 must-buy

pharmaceutical products when visiting Japan.” The result was a surge in Chinese tourists buying *Netsusama Sheet* in Japan, taking it back to China, and spreading awareness there. This was a key driver for the accelerated expansion of *Netsusama Sheet* in the Chinese market. As the largest overseas market for *Netsusama Sheet*, consumer awareness in mainland China is 67 percent, and market share is 56 percent. In Hong Kong in particular, both store sales and e-commerce sales are strong, and the product has gained overwhelming support, with a market share of 99 percent.

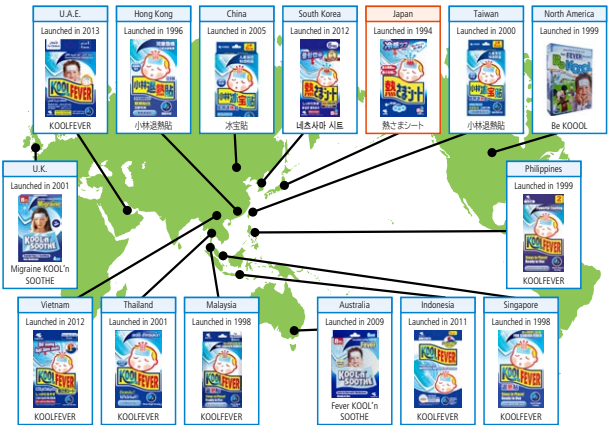
Today, *Netsusama Sheet*, which started from the wish of an employee, is sold in about 20 countries. It has grown into a global brand loved by customers worldwide, with sales outside Japan accounting for 56 percent of the total.



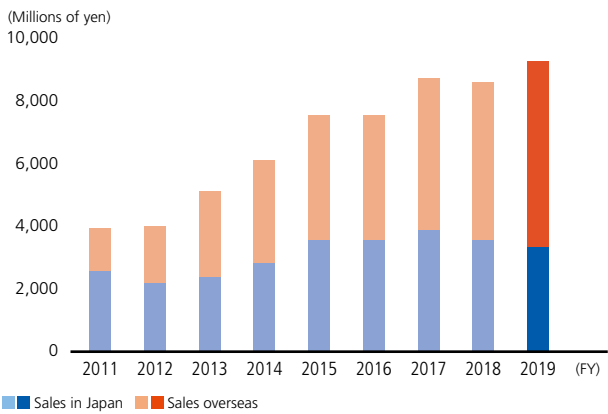
# Netsusama Sheet, Known and Loved Worldwide



The Netsusama Sheet Brand Worldwide



Sales of Netsusama Sheet



# Operational Highlights

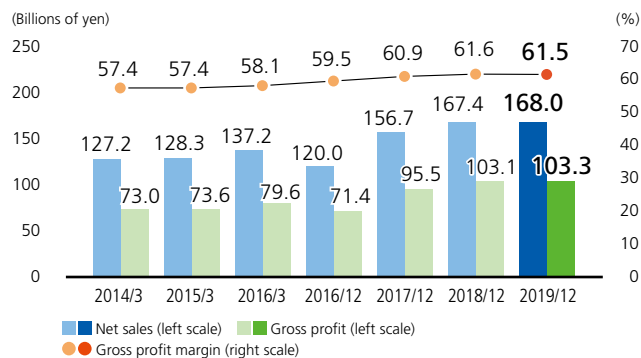
## Financial Highlights (Fiscal 2016/12 was a nine-month transitional period due to a change in fiscal year-end.)

### Net Sales

¥168.0 billion ↗

Net sales increased 0.3 percent. Slumping sales of body warmers in Japan due to a mild winter, a slowdown in demand from inbound tourists, and other factors had a negative impact, but sales increased overall on strong growth in our International Business, primarily in China, and solid performance in the Kampo Business and Skincare Business in Japan.

### Net Sales / Gross Profit / Gross Profit Margin

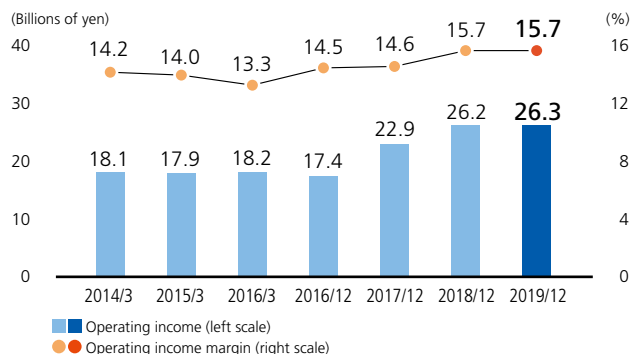


### Operating Income

¥26.3 billion ↗

Operating income increased 0.3 percent, and the operating income margin remained steady at 15.7 percent. In addition to generating profit by reducing costs, we also secured profit through efficient marketing spending. Profit increased in the International Business and the Direct Marketing Business.

### Operating Income / Operating Income Margin

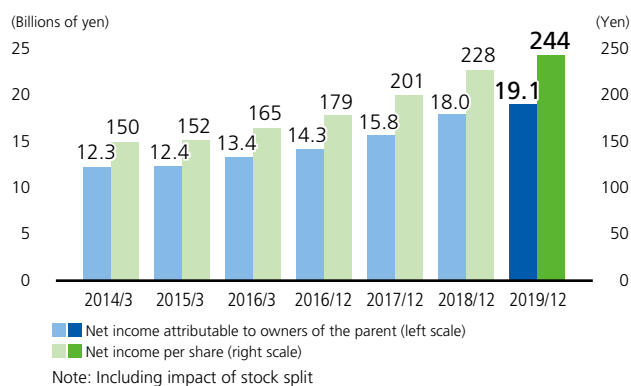


### Net Income Attributable to Owners of the Parent

¥19.1 billion ↗

Net income (net income attributable to owners of the parent) increased for the 22nd consecutive fiscal period. In addition to an increase in operating income, gain in extraordinary income and a decrease in extraordinary loss contributed to the increase. Net income per share continued to rise.

### Net Income Attributable to Owners of the Parent / Net Income per Share<sup>(Note)</sup>

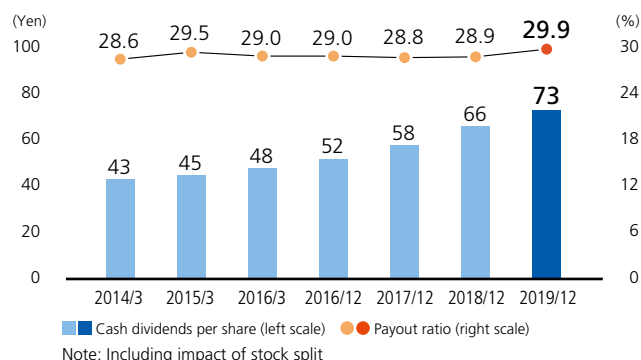


### Cash Dividends per Share

¥73 ↗

Our track record of paying stable dividends continued as we balanced a sound management structure with aggressive investment in growth. In 2019, cash dividends per share increased for the 21st consecutive fiscal period.

### Cash Dividends per Share<sup>(Note)</sup> / Payout Ratio

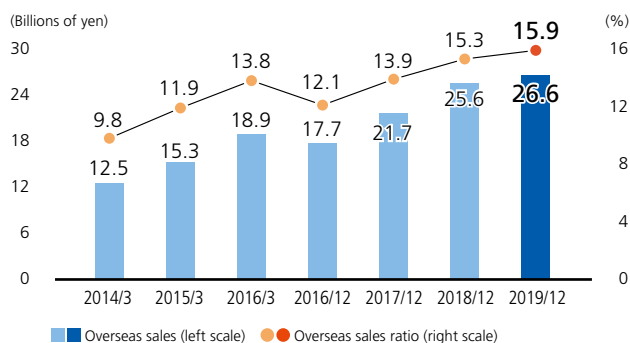


## Overseas Sales

¥26.6 billion ↗

Our International Business is a main focus of growth. Overseas sales increased 3.9 percent. In 2019, growth was particularly strong in China, with expansion in sales of household products, *Netsusama Sheet* and other products. On the other hand, a boycott of Japanese products in South Korea and the protests in Hong Kong led to decreased sales in those regions.

## Overseas Sales / Overseas Sales Ratio

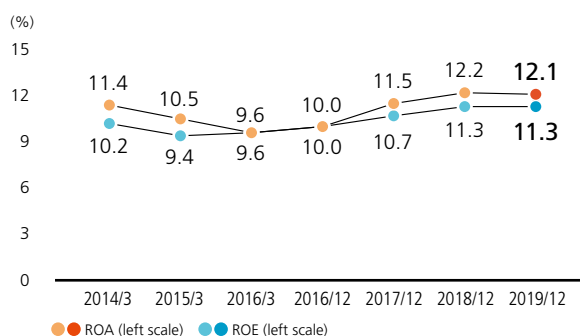


## ROA / ROE

12.1% ↘ / 11.3% ±0

Return on assets and return on equity are both holding steady following dividend increases and other measures aimed at improving capital efficiency, as well as efforts to strengthen profitability in various businesses. ROE exceeded the target in the medium-term management plan.

## ROA / ROE

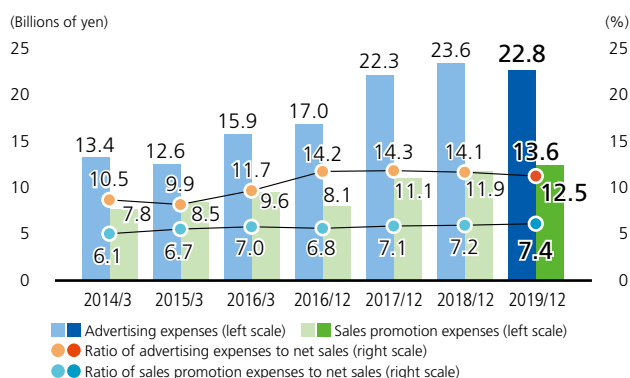


## Advertising Expenses

¥22.8 billion ↘

In deploying advertising expenses and sales promotion expenses we are conscious of effectiveness and efficiency. Since we have many niche products, it is important to raise our brand recognition and attract new customers, so we invest aggressively in advertising each year. In 2019, advertising expenses declined in the Direct Marketing Business, among others.

## Advertising Expenses / Ratio of Advertising Expenses to Net Sales / Sales Promotion Expenses / Ratio of Sales Promotion Expenses to Net Sales

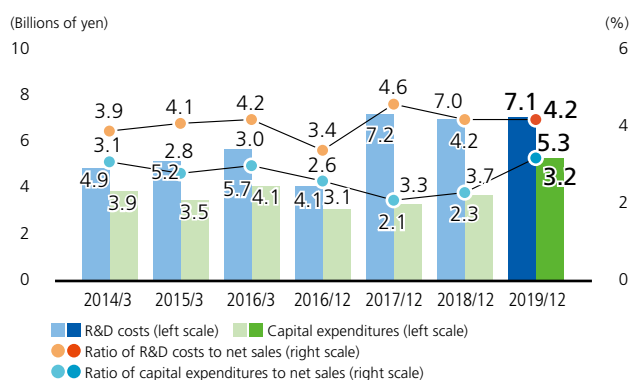


## R&D Costs

¥7.1 billion ↗

We maintain R&D costs at a stable level each year in order to develop new products that customers wish for. In capital expenditures, we are systematically making growth investments to secure further profit and upgrading facilities to ensure stable supplies. In 2019, we increased investments for expansion of plant capacity.

## R&D Costs / Ratio of R&D Costs to Net Sales / Capital Expenditures / Ratio of Capital Expenditures to Net Sales

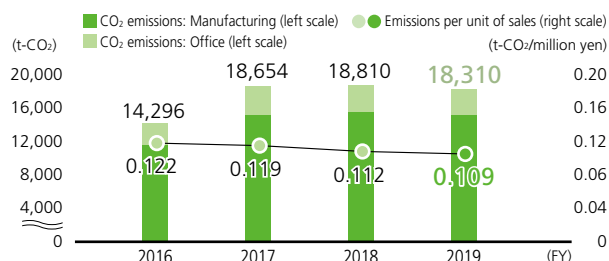




## Non-Financial Highlights

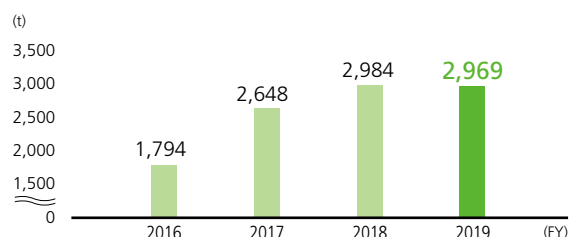
### Environment: Protecting our rich natural environment

#### CO<sub>2</sub> Emissions



Upgrades and operational improvements to air conditioning equipment, enhanced insulation of heating and cooling systems and other upgrades in manufacturing operations, coupled with the proactive energy-saving measures in office operations, led to a reduction in CO<sub>2</sub> emissions.

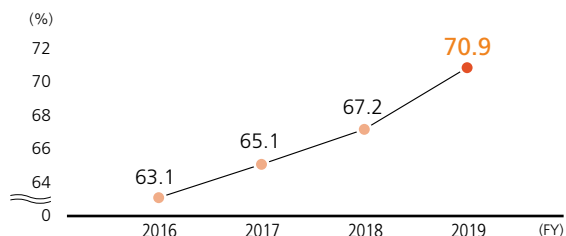
#### Volume of Waste Generated



The volume of waste generated decreased 0.5 percent from the previous year. While we reduced the volume of waste from certain products as a result of making fewer trial products and decreasing production, waste increased at some plants as consignment of recyclables with commercial value decreased temporarily.

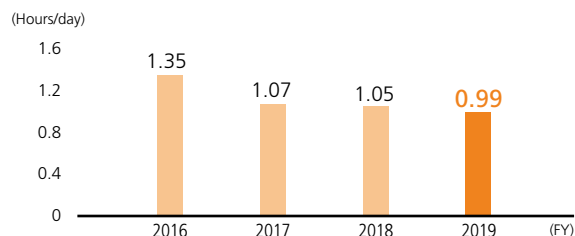
### Human Resources: Implementing work-style reforms to maximize employee value and corporate value

#### Rate of Annual Paid Holidays Taken



Efficient ways of working also contribute to the private lives of employees as they lead to more free time, and provide the foundation for better working lives. Promoting efficient ways of working boosts long-term morale and the job satisfaction of every employee, which in turn increases the Company's competitiveness.

#### Working Time in Excess of Prescribed Working Hours



The mindset and practice of working as long as it takes to get results is no longer acceptable, and we are shifting to management that pursues results and added value in line with roles and working hours. More efficient use of working time equates to higher labor productivity.

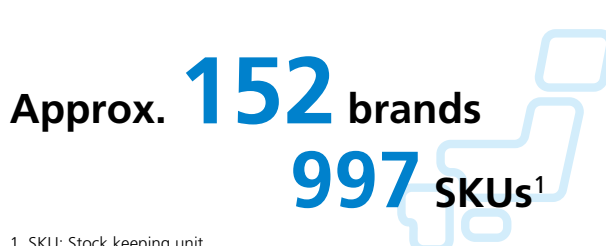
### Product Development KPIs: Generating products that customers wish for

#### Number of Idea Proposals



Our idea proposal system, which has been in place since 1982, is a concrete measure for "management in which all employees participate." Ideas for new products and business improvements are proposed every day, with all employees participating regardless of job category or seniority. Many of the new product ideas originating from this program have grown into major hit products.

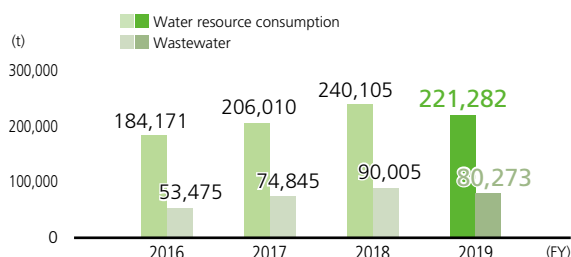
#### Number of Brands



1. SKU: Stock keeping unit

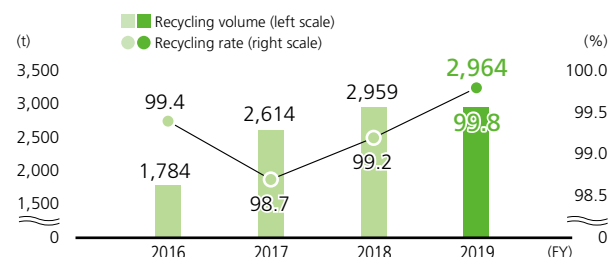
Through our "big fish in a small pond" strategy and product development that delivers what customers wish for, we launch about 30 new products annually, and create markets that did not exist before. Completely new products are less susceptible to price competition, so we are able to secure high operating income margins.

## Water Resource Consumption / Wastewater



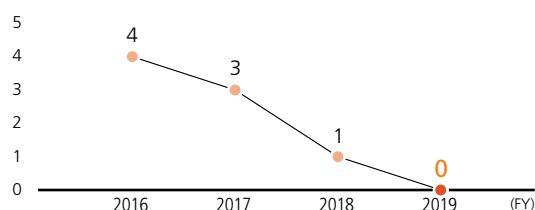
As a result of reuse of drainage water as industrial water, and improvements in pipe leakage and drainage at some plants, we reduced both water resource consumption and wastewater.

## Recycling Volume / Recycling Rate



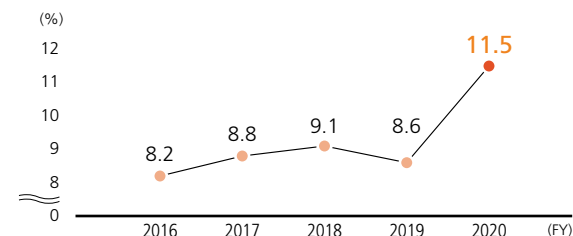
The recycling rate was 99.8 percent. We will continue our shift from thermal recycling to material recycling.

## Number of Employees Leaving Due to Child Care or Family Care



Kobayashi Pharmaceutical is improving its flexible work programs to make them easier for everyone to use, not only by further enhancing support measures for balancing work with child care and family care, but by expanding the range of employees who can use them. As a result, the number of employees leaving for these reasons is declining.

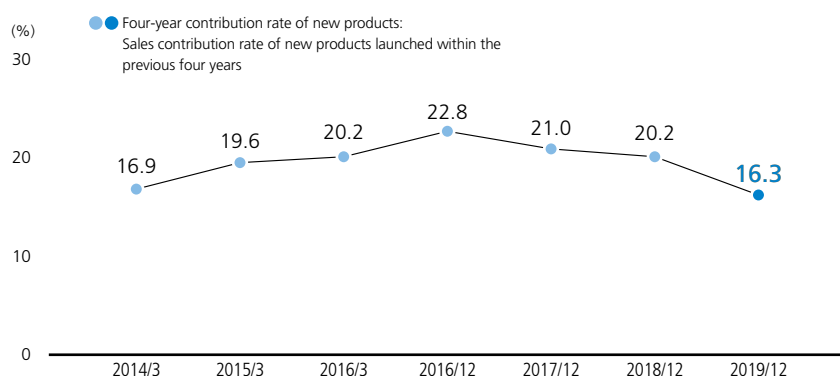
## Percentage of Management Positions Held by Women



We have set a goal of raising the percentage of management positions held by women to 10 percent or higher as one measure of the empowerment of women. As of January 31, 2019, the percentage was 8.6 percent as a consequence of an increase in the total number of management positions, but was 11.5 percent as of January 2020, exceeding our target.

Note: Percentage as of January 31 of each fiscal year.

## Contribution Rate of New Products



In recent years, we have been assessing market potential from the early stages of product development. Without loosening new product launch criteria, we aim to bring more products to market and to maintain the four-year sales contribution rate of new products at 20 percent.

# Summary of the Medium-Term Management Plan

## Previous Medium-Term Management Plan (2017–2019)

### Central Theme

### Growth with Real Strength

### Four Strategies

- 1) Promote the four growth businesses
- 2) Invest in growth for the future
- 3) Develop and cultivate products that create new markets
- 4) Become a company where employees can grow and develop

### Financial Results

Consolidated results: Achieved targets for net sales, operating income, net income and ROE

#### Results in Four Growth Businesses

		FY2016 net sales	FY2019 net sales (Targets)	FY2019 net sales (Actual)	Evaluation
Overseas Business	<ul style="list-style-type: none"> <li>Strengthen the OTC Pharmaceuticals Business, mainly in North America and China ●</li> <li>Cultivate products such as <i>Netsusama Sheet</i>, <i>Ammeltz</i> and body warmers ●</li> </ul>	¥17.7 billion	¥27.0 billion	¥26.6 billion (¥27.5 billion*)	●
Direct Marketing Business	<ul style="list-style-type: none"> <li>Develop new high-profile products that will attract new customers ●</li> <li>Develop brands through a mix of sales at stores and via direct marketing ●</li> </ul>	¥9.5 billion	¥12.0 billion	¥9.7 billion	●
Skincare Business	<ul style="list-style-type: none"> <li>Develop a third major brand alongside <i>Keshimin</i> and <i>Eaude Muge</i> ●</li> </ul>	¥5.3 billion	¥9.0 billion	¥7.6 billion	●
Chinese Medicine (Kampo) Business	<ul style="list-style-type: none"> <li>Continue to pursue the development of products that are easier for customers to select, depending on their condition and symptoms ●</li> </ul>	¥11.2 billion	¥12.5 billion	¥16.1 billion	●

● Sufficiently achieved ● Partially achieved ● Insufficiently achieved

\* Figure based on the accounting standards applied at the time of the plan's announcement

### Achievements

- #### Financial
- Expanded four growth businesses
  - Established mechanisms for enabling new products to gain a foothold in the market
  - Expanded purchases made by tourists visiting Japan and after returning to their countries of residence, and constructed a system linking this to local business

- #### Non-Financial
- Set a CO<sub>2</sub> emissions target for 2030
  - Implemented work-style reforms (introduced a flex-time system and improved the utilization rate of paid leave from 67.2% to 70.9% in 2019)

### Unresolved Issues and New Challenges

- #### Financial
- Formulating strategies to accelerate the growth of the International Business
  - Increasing the number of new products and firmly establishing them in the market
  - Creating new inbound products (products aimed at foreign tourists visiting Japan)

- #### Non-Financial
- Using back-casting that looks at medium-to-long-term goals in order to set milestone ESG targets and select focus SDGs



## New Medium-Term Management Plan (2020–2022)

### Central Theme

## International Business First

### Outline of Strategies

1. Fully commit to developing the International Business
2. Further expand existing businesses
3. Enhance management capabilities from the viewpoint of ESG
4. Establish a foundation for creating innovation and new businesses

### Performance Targets

	FY2019 results (Based on previous standards <sup>1</sup> )	FY2019 results (Based on new standards <sup>1</sup> )	FY2022 target (Based on new standards <sup>1</sup> )	Average annual growth rate
Net sales	¥168.0 billion	¥158.3 billion	¥180.0 billion or more	4.4% or more
Operating income	¥26.3 billion	¥25.6 billion	¥29.0 billion or more	4.4% or more
Operating income margin	15.7%	16.2%	16% or more	—
Net income	¥19.1 billion	¥19.1 billion	25th consecutive period of growth	—
ROE	11.3%	11.3%	11% or more	—
ROIC <sup>2</sup>	10.8%	10.5%	10% or more	—
Domestic sales	¥130.5 billion	¥123.0 billion	¥135.4 billion or more	3% or more
International sales	¥26.6 billion	¥24.3 billion	¥33.0 billion or more	10% or more
International sales ratio	15.9%	15.4%	18% or more	—
Direct marketing sales	¥9.7 billion	¥9.7 billion	¥10.4 billion or more	2% or more

1. We will early adopt Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) from the first quarter of the fiscal year ending December 31, 2020. For comparison purposes, FY2019 results have been restated using the new accounting standards.
2.  $ROIC = NOPLAT \div Invested\ capital = (Operating\ income \times (1 - Effective\ tax\ rate)) \div (Net\ assets + Interest-bearing\ liabilities)$   
(Effective tax rate: 30.58%, Interest-bearing liabilities = Short-term loans payable + Long-term loans payable)

### Other KPIs

Item	2019 <sup>3</sup>	2022
Four-year contribution rate of new products	16.3%	20% or more (in Japan)
Cultivating new products released in Japan in China	—	5 products in 3 years
Establishment of new products	—	2 products every 6 months (in Japan)
Number of CSV brands; CSV brand share of total sales	—	1 or more in each category; 10.0%
Reduction of CO <sub>2</sub> emissions	—	Scope 1, 2: Progress towards 2030 target Scope 3: Setting of target
Reduction of environmental load in product development	Eco indicators under revision	Plastic: Switching to highly sustainable materials Paper: Maintaining 100% use of FSC-certified paper
Women's participation (percentage of management positions held by women)	8.6%	16%
Employees' job satisfaction	71%	85% or more (in Japan)
Percentage of employees who report feeling growth through their jobs (employee attitude survey)	69%	75%
Percentage of employees who report feeling able to work in mentally and physically good condition (employee attitude survey)	61%	75%
Percentage of employees getting regular medical checkups; getting follow-up examinations	100%; 73%	100%; 80%

3. Figures for all financial results have been prepared based on the new accounting standards for recognizing revenue.

# The President Explains Our Strategy



**Akihiro Kobayashi**

Representative Director,  
President and Chief Operating Officer

First, we would like to wish all those who have been affected by COVID-19 a speedy recovery, and express our deepest condolences to those who have lost loved ones during this time. We also want to express our sincere gratitude to the many healthcare professionals and others who have worked so hard to fight this pandemic.

Under our previous medium-term management plan (2017–2019), we achieved sales growth of approximately ¥20 billion on a consolidated basis. Roughly half of that came from our International Business, which has truly become the growth driver for the Kobayashi Pharmaceutical Group. Sales in our key regions—North America, China and Southeast Asia—expanded steadily, with particularly strong growth in China.

Therefore, we are prioritizing our International Business in the new medium-term management plan, and made “International Business First” the central theme of the Medium-Term Management Plan for 2020–2022. The growth of the International Business is a commitment that will involve the whole company.

# New Medium-Term Management Plan “International Business First” (2020–2022)

## 1 | Fully Commit to Developing the International Business

### Targeting an Enormous Market outside Japan: Linking to China and Beyond

Since 2014, we have seen growing demand for our pharmaceutical products from foreign visitors to Japan, primarily tourists from China. Recently, that demand has also spread to household products. People in China are very interested in Japanese products, and our highly unique niche products developed for

previously unmet needs have gained particular attention. This has shown us that the market for our products, which had been limited to Japan, has broadened to the larger and rapidly growing Chinese market.

### Four Sales Channels to Customers in China

Our products are sold to customers in China via four channels: store sales to visitors in Japan, cross-border e-commerce, domestic e-commerce in China, and store sales in China. In FY2019, demand from Chinese tourists in Japan, including bulk purchases, declined from the year earlier for the first time due to the impact of strengthened customs duties and other changes

resulting from China’s new e-commerce law that went into effect from January 2019. On the other hand, sales in the other three channels continued to show solid growth. Moving forward, we will focus on growth in all four channels by stepping up advertising and sales promotion activities.



Four sales channels to customers in China

### Quickly Making New Products in Japan Available in China

To increase sales in China, we need to be able to quickly make new products in Japan available in China as well. We launch about 30 new products every year in Japan. In the past, we developed products with the assumption that they would only be sold in Japan. If we wanted to sell them in China, we then would have to modify their specifications for the Chinese market.

Going forward, however, we will take steps to enable faster

rollout of products for which a need exists in China. Based on the assumption that the product will be sold in China, we will research patents and trademarks from the development stage, examine the raw materials used (i.e. whether they have been approved in China), and assess functionality (e.g. for a toilet bowl cleaner and freshener, whether it is suitable for the toilet shapes and water quality in China).



## Unifying Marketing between Japan and China

Products that have been hits with foreign visitors to Japan include *Shirt Cool*, a summer cooling spray for clothing, *Sarasaty Lingerie Soap*, and *Bluelet Decoral*, a cleaner and freshener gel that sticks to the inside of the toilet bowl. Customers from China initially bought the products at drugstores in Japan, and their word-of-mouth reviews led to explosive sales growth via cross-border e-commerce and other channels. Now these products are also available via domestic e-commerce and stores in China, and sales continue to grow strongly.

However, these products succeeded in China only because sales increased after they happened to attract attention. In the future, we will work to generate demand through proactive advertising and sales promotion. Previously, marketing activities were conducted independently, by respective departments in

Japan for promoting sales to foreign visitors to Japan, and by the International Business Division for promoting sales in China, but there was no cooperation between them. We need to change that by having Japan and China operations cooperate and work together on marketing activities.

To promote that cooperation, we established the joint strategy meeting, which brings together relevant general managers and key persons. We also created the Japan–China Marketing Cooperation Group.

We will trial a variety of approaches to marketing activities, and roll out models that are successful to other brands. One of the KPIs in the new medium-term management plan is to cultivate five products released in Japan in China over three years.



Cooperative marketing between Japan and China



Joint strategy meeting ("all-bound coordination meeting")

## Bringing Growth in the Healthcare Business to International Markets

To date, we have continued to expand our healthcare business in Japan. Over the past decade, growth in this business has been substantial, and has strongly supported the improvement of our revenue structure. By following the blueprint for this success, we will focus on growing the healthcare business in our International Business as well. Toward this end, we have laid the foundation for the healthcare business in other countries through acquisitions.

For example, disposable body warmers account for about 80 percent of our sales in North America, and sales continue to

grow. We are investing the profit from the body warmer business into the growth of the healthcare business. The first such investment was our acquisition in 2016 of Perfecta Products, Inc., which owns the *Zim's Max* brand of topical analgesics. Today, by adding highly innovative items to the *Zim's Max* lineup, we aim to increase the in-store presence and power of the brand. We will continue to actively make acquisitions in OTC pharmaceuticals and other fields to expand our healthcare business.

### Aiming to Rapidly Expand Sales of OTC Pharmaceuticals in China via a Sales Route That Links to 80,000 Stores

Five Kobayashi Pharmaceutical products were included among the “12 must-buy” pharmaceutical products for Chinese tourists visiting Japan,\* a list that went viral on Chinese social media and sparked a boom in demand. Our pharmaceutical products are extremely popular in China, and tourists from China account for about 60 percent of our sales to foreign visitors to Japan. We are now paving the way for rapid sales growth of these products in China. Currently, *Netsusama Sheet* is distributed to about 80,000 stores in China, primarily small pharmacies. Compared to Japan,

where about 20,000 pharmacies and drugstores carry our products, this is a huge number. In 2018, we acquired Jiangsu Zhongdan Pharmaceutical Co., Ltd. (now Jiangsu Kobayashi Pharmaceutical Co., Ltd.) and its product portfolio. We will harness our sales route to launch those products in revamped packaging under the Kobayashi Pharmaceutical brand. Expectations from pharmacies in China are high, and we are projecting sales of ¥400 million in 2022.

\* Source: Sohu, one of China's leading Web portals

## 2 | Further Expand Existing Businesses

### Cultivating New Products

I believe that in the time before my appointment as president in 2013, Kobayashi Pharmaceutical overemphasized development speed. Even though we launched many new products, they did not always do well because we did not adequately nurture them. Since becoming president, I have made our focus the cultivation of new products after their launch. Of our many new products,

we concentrate resources on those that are the most promising, and implement advertising and sales promotion measures in quick succession to generate a series of surges in sales. As a result, the four-year contribution rate\* of new products improved from 16.9 percent in 2013 to 22.8 percent in 2016.

\* Sales contribution rate of new products launched within the previous four years

### Tightening Launch Criteria for New Products

To further raise the success rate of new products it is important to develop products that are better able to gain the support of customers and also to encourage customers to make repeat purchases. If a new product fails to gain traction, all the money and labor invested in development, manufacturing, advertising and sales will have gone to waste. In that respect, the recent period during which domestic sales were buoyed to some degree by demand from foreign visitors to Japan was an ideal opportunity to implement reforms for establishing new products in the market.

Specifically, we have tightened our launch criteria for new products. For example, in order to ensure a high retention rate for first-time customers we have redesigned marketability studies for assessing market potential from the early stages of product development, as well as methodologies for evaluating customer satisfaction. Because we raised the bar on hurdles, the number

of new product development projects decreased. As a result, fewer new products were launched, and the four-year contribution rate dropped to 16.3 percent in 2019. However, this was in-line with our initial expectations and a necessary step for the next leap forward.

New products that are currently under development and will be launched in the future have cleared the high hurdles we set, so we expect the success rate to increase. At the same time, even if the number of new products increases, cultivating each one in stores to establish it in the market will be a new challenge. We plan to establish at least two new products every six months, and quickly restore the four-year contribution rate to 20 percent or higher. Even in the Japanese market, where the population is projected to decline, we believe that by increasing sales of new products, we can maintain growth in the range of 3 to 4 percent.

## 3 | Enhance Management Capabilities from the Viewpoint of ESG

In the future, in order to achieve sustainable growth, companies will have to assess their operations in terms of ESG performance, and make ongoing improvements. Indeed, their survival may depend on it. Interest in ESG issues has risen among not only investors, but also distributors and consumers, and we have been

quick to realize the importance of seriously tackling those issues. In trying to anticipate the state of society 10 and 20 years from now, and what will be required of us then, we drew up a vision for 2030 and discussed what we have to do over the next three years to move toward that vision.

### 1 Environmental

#### Reducing Environmental Impact through Product Improvements and Reduction of CO<sub>2</sub> Emissions

Many of our product lines, such as *Bluelet* and *Shoshugen*, are sold in plastic containers. Therefore, we plan to introduce Kobayashi Pharmaceutical Group Eco Indicators from perspectives such as recycling, reducing weight, and increasing use of plant-derived raw materials in our containers and packaging, with the main objective of reducing our use of plastics. Products that meet the Kobayashi Pharmaceutical Group's eco-standards will be labeled with our Eco Mark, which we plan to implement from FY2020.

Our efforts to reduce CO<sub>2</sub> emissions made substantial progress over the past year. In FY2019, we set a new long-term reduction target for the Group's total CO<sub>2</sub> emissions, expressed support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and steadily executed action plans led by the Group Environmental Committee. In FY2020, we will set a Scope 3 emissions reduction target to submit for validation by the Science Based Targets (SBT) initiative, and will take steps to reduce CO<sub>2</sub> emissions throughout the supply chain.

### 2 Social

#### Providing Niche Products That Solve Particular Problems

Kobayashi Pharmaceutical creates many niche products. For most people, these products might seem unnecessary, but for customers who have a particular problem, they are indispensable. Without our products, these customers would have to live with such problems, or spend time coming up with makeshift solutions. We consider it our social mission to look at these small but specific problems that have been neglected, generate ideas, come up with solutions, and provide them as products.

As an example, *Inochi no Haha* is a medicine that alleviates menopause-related disorders (common symptoms such as hot flashes, shoulder stiffness and fatigue). Sales have grown remarkably thanks to the support of customers. Our customer consultation office has received comments such as, "My symptoms improved, so I'm able to perform better at work," "I can go about my life with energy and a positive attitude," and "I was

freed from anxiety and worry." This feedback brought home the fact that *Inochi no Haha* provides not only economic value—customers are satisfied when their symptoms improve, so they continue to buy it—but also social value by helping women going through menopause to continue to play an active role in society.

We refer to products like *Inochi no Haha* that provide social value as CSV (creating shared value) brands. One of our KPIs under the current medium-term management plan calls for producing one or more CSV brands in each of eight categories.

Every one of our niche products has social value, however small that value may be. We will continue product development with a sense of pride.



*Inochi no Haha A*

### Prioritizing Human Resource Development, a Key to Growth

Behind the development of every product are people, so training and nurturing human resources is a key issue for Kobayashi Pharmaceutical. We believe that the growth of our employees ultimately leads to the growth of the company, and are studying ways for supervisors to fully support employee growth.

In the “growth dialogues” we initiated in 2018, employees and their supervisors brainstorm ideas to boost personal growth, and implement a PDCA cycle to monitor and chart that growth, which helps motivate employees to continue to grow. Approaches that are effective in promoting growth are shared with other managers to enhance the capabilities of all employees. We want to be a company where all employees can grow and develop, and have set a medium-term strategic goal of raising the percentage of employees who report feeling growth through their jobs in the employee attitude survey to 75 percent in FY2022.

Given the high proportion of women among customers who purchase our products, women’s perspectives are essential in our product development. Furthermore, in order to involve more women in the decision-making process, we need to raise the percentage of management positions held by women.

Women are at risk of falling behind men in their career development following life events such as childbirth or due to childcare and other commitments. To prevent that from happening, we have introduced systems that enable women to gain high-quality experience in a short time, even with reduced working hours and limited business trips, thereby making it easier for them to succeed in their career while having children. By providing this kind of support, we are actively promoting women’s participation and advancement. The percentage of management positions held by women has risen to 11.5 percent in January 2020 from 8.2 percent in January 2016. Our target for FY2022 is 16 percent.



Employees brainstorm ideas for career growth with supervisors

## 3 Governance

### Maintaining a System Where Half of Our Directors Are Outside Directors

We are cognizant that the Board of Directors must exercise its oversight function effectively to prevent self-serving behavior from upper management, which is why we have long been committed to enhancing corporate governance. We first appointed an outside director in 2008, and currently three of the six directors are outside directors. In addition, three of the five Audit and Supervisory Board members are outside members.

This means that six of the 11 people who participate in Board of Directors meetings are outside officers. Discussions at Board of Directors meetings are very lively, and the Board provides appropriate oversight of executives, including me.

One outside director and two outside Audit and Supervisory Board members are women. As a result, our management decisions are increasingly able to incorporate women’s perspectives.

### Strengthening Governance of the International Business

In the process of growing our International Business, stronger administrative support will also be needed. We are taking measures to strengthen the governance of overseas subsidiaries, such as through compliance training and the establishment of

rules and policies, and active communication of Kobayashi Pharmaceutical’s management approach and expertise.

## 4 | Establish a Foundation for Creating Innovation and New Businesses Succeed in achieving medium- and long-term development themes

### Concentrating Resources on More Targeted Research Themes

Our Central R&D Laboratory sets research and development themes with a medium- to long-term perspective. Until now, these themes covered a wide range of areas, and consequently, investment was dispersed and the expected results often did not materialize. To address that, we set three areas for medium- and long-term development themes—immunity, dementia and thermotherapy—in the new medium-term management plan, and will concentrate resources on these priority areas.

For example, we believe that the field of thermotherapy using the body warmer technology of Kiribai Chemical Co., Ltd. has tremendous potential. Warming up the body is known to have many positive effects on various symptoms, but adequate clinical research is still lacking in this area. We want to explore the possibilities for bringing such therapy to the world in the form of medical devices that have proven effectiveness.



## In Conclusion


Due to the effects of the COVID-19 pandemic, sales to foreign visitors to Japan this year will be sharply reduced, and stagnating consumption has become evident in Japan and many other countries. Our management plan will need to be revised accordingly.

In addition, worsening economic conditions are expected worldwide, so revisions to the strategies for “International Business First,” the central theme of the new medium-term management plan, will also be necessary. For example, our strategy of expanding sales of products that are hits among visitors to Japan by making them available in their home countries will not work when visits to Japan by foreign tourists have essentially stopped, so we are switching to a different marketing strategy.

Our business model is to contribute to society by finding new needs, developing new products and firmly establishing them in the market. As we rapidly adapt our product development and manufacturing to changes in lifestyles both during and potentially after the COVID-19 pandemic, we will also develop the best marketing approaches for the changing landscape, and work to cultivate our products in every country where they are sold.



# The CFO Explains Our Financial Strategy



In addition to maintaining profit and dividend increases and steadily improving EPS, we will work to achieve continued growth in ROE while “striving to be an exemplary company” for the benefit of shareholders.

**Satoshi Yamane**

Senior Executive Director and  
Chief Financial Officer

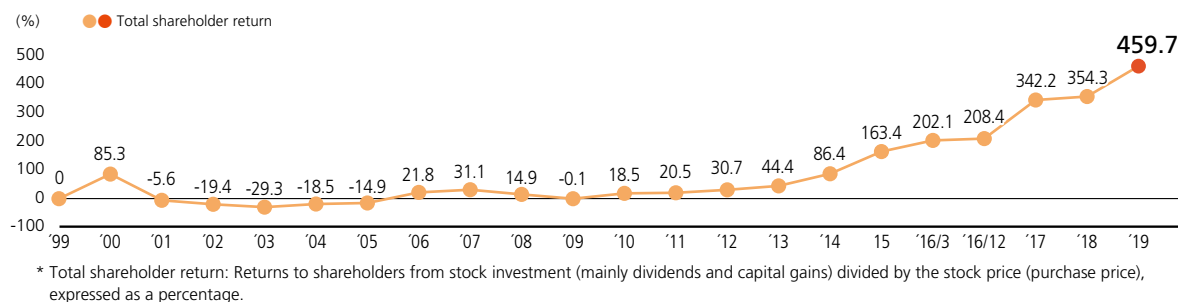
## Review of FY2019

**The International Business grew, net income was up for the 22nd consecutive fiscal period and dividends increased for the 21st consecutive fiscal period.**

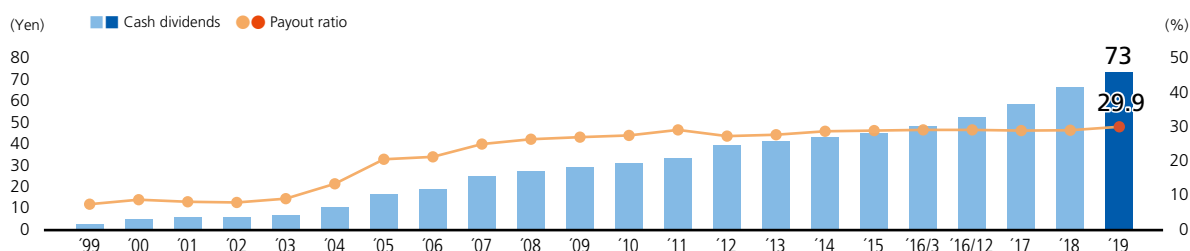
The Kobayashi Pharmaceutical Group achieved slight increases in sales and profit in FY2019. Factors included strong growth in our International Business, especially in China, which offset a mild winter, slower growth in demand from foreign visitors to Japan and instability abroad, notably the protests in Hong Kong.

Net income was up for the 22nd consecutive fiscal period and dividends increased for the 21st consecutive fiscal period. We are committed to delivering returns to shareholders by continuing to increase profit and dividends and steadily improving EPS.

## Total Return Shareholder Return\* Since IPO



## Dividends



## Investment Strategy

### In addition to examining capital efficiency and profitability, we also take ESG impact into account.

Investments to accelerate sustainable growth are vital. The sustainable growth of a company is dependent on measures to strengthen both its financial and non-financial performance. Strengthening non-financial performance essentially means strengthening ESG. When we make investments, we first

examine capital efficiency and profitability, and then take ESG impact into account. Below, I will explain our approach to the most important investment categories: M&A, capital expenditures, advertising and human resources.

## M&A

Mergers and acquisitions (M&A) are major growth drivers for Kobayashi Pharmaceutical. When we consider an M&A opportunity, we base our decision on potential synergy with our marketing, development, technology and sales capabilities, and on whether it will enable us to enter a new business area (research or technological fields, for example). If we acquire a company or business with low profitability, it will lower the Group's overall profitability, so it is important to be conscious of the cost of capital as we proceed. We look for acquisitions that

clear a certain hurdle rate. However, we make decisions based on a comprehensive approach that takes into account quantitative evaluation, including forecasts of the payback period and cumulative profit/loss, and qualitative evaluation, including relationship to and synergy with our core business. Some investments have extensive synergy over the long term—the acquisitions of Kiribai Chemical Co., Ltd. and Heat Max, Inc. are two good examples—so we should carefully examine the potential contribution to our corporate value from a long-term perspective.

## Capital Expenditures

We plan to invest approximately ¥40 billion to expand four key factories (Sendai, Toyama and Ehime in Japan, and Hefei in China) over the next six years to accommodate growth in our Domestic Business and International Business.

These investments have five objectives:

- 1) Meet global demand, primarily for OTC pharmaceuticals
- 2) Conform to global standards (PIC/S) for manufacturing OTC pharmaceuticals

- 3) Reduce costs
- 4) Reduce environmental impact
- 5) Reduce labor needs (robotize factories) to prepare for future labor shortages

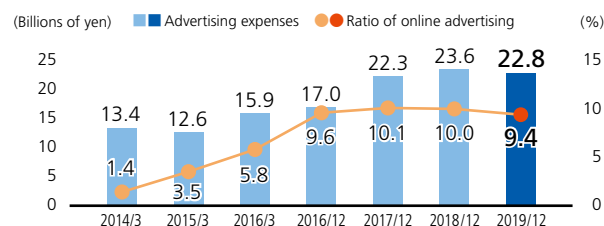
As we carry out these investments, the Board of Directors will fully discuss their impact on the income statement and balance sheet and their returns.

### Advertising

We have approximately 150 brands. Of these, many include long-selling products, but many also feature new market-creating niche products, the individual sales of which may not be particularly large. For new products, it is essential that consumers discover what they are and what they do, especially following their launch. Right now, we believe that advertising investment is the best way to boost product recognition—it is vital in implementing our niche strategy and business model. However, our advertising investment is not adjusted up or down without limit based only on growth in sales and profit. Rather, the president meticulously controls the amount of investment while looking at sales trends and the response to advertising for each brand and media format, and the effect on the bottom line.

Currently, the majority of our advertising investment is in television commercials. However, we expect the proportion of online advertising to increase as market conditions change.

#### Advertising Expenses / Ratio of Online Advertising

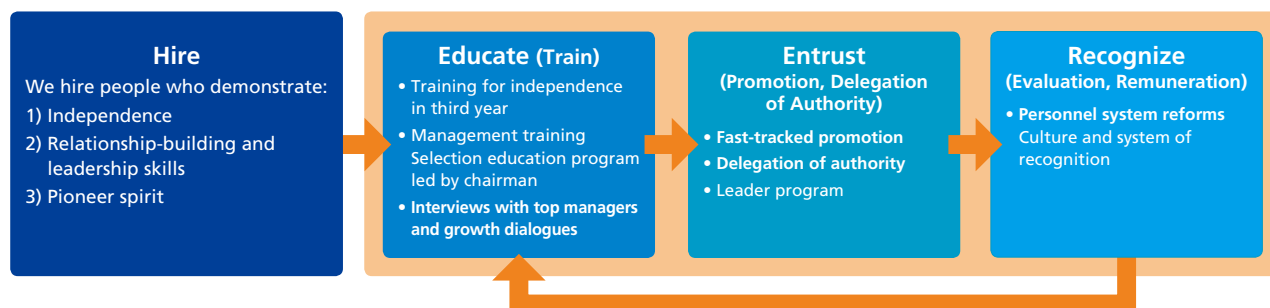


### Human Resources

A company is defined by its people. To increase corporate value, we need to refine our unique market-creating business model and develop the human resources to implement it. As part of our investment in human resource development, we will enhance frameworks that make Kobayashi Pharmaceutical a fulfilling

place to work where employees take pleasure in creating new value and where results are appropriately recognized. As a development-focused company, robust investment in human resources is particularly important.

#### Human Resource Development Flow



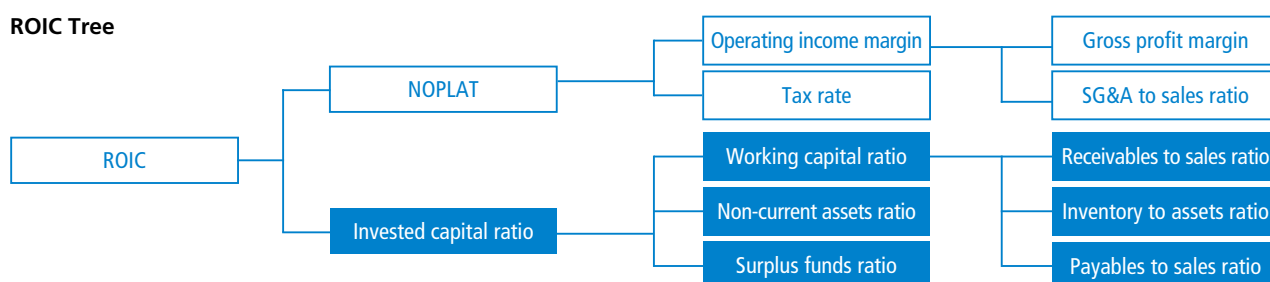
## Measures to Improve Capital Efficiency

**We have created ROIC trees, and conduct management focused on profitability and capital efficiency.**

We began practicing ROIC management in FY2019 to evaluate capital efficiency not only when we execute investments and subsequent evaluations but also in day-to-day business operations. Specifically, we created ROIC trees for each business

to manage them with a focus on capital efficiency and profitability. ROIC trees are also used in making decisions on whether to withdraw from businesses. If ROIC is low, we analyze the cause and consider and implement improvement measures.

#### ROIC Tree





## Policy for Retained Earnings

### We will maintain ample retained earnings to conduct flexible management.

We manage our business with a long-term perspective to enable sustainable growth. On that basis, we need to maintain ample retained earnings to conduct flexible management regardless of the business environment. In securing retained earnings, we take the following points into account:

- 1) Maintaining the ability to flexibly and proactively make necessary investments for growth, such as new product development and M&A;

- 2) Earning the trust of partners, employees and other stakeholders by ensuring a sound financial position; and
- 3) Securing the necessary funds to overcome recessions or emergency situations and ensure we do not miss opportunities to increase corporate value.

## Shareholder Return Policy

### We will continue to focus on measures to provide solid shareholder returns, including dividend increases and share repurchases.

Our basic policy for shareholder returns is to increase dividends while making necessary investments for growth, and to continually increase earnings per share by increasing profit and making share repurchases as necessary. In FY2019, in addition to a share repurchase, we also raised the target payout ratio. We will continue to focus on measures to provide solid shareholder

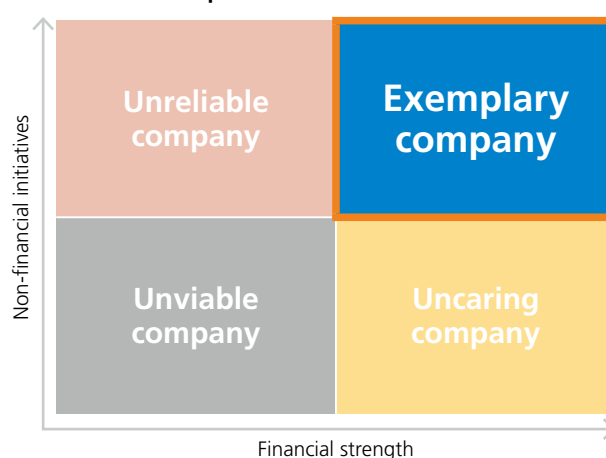
returns. ROE for FY2019 was 11.3 percent, exceeding the final-year medium-term management plan target of more than 10 percent. As we establish the use of ROIC in business operations and obtain returns in excess of the cost of capital, we will work to quickly realize ROE of more than 13 percent.

## In Conclusion




### “Striving to be an exemplary company,” we will create exciting businesses and products.

I advocate “striving to be an exemplary company” as the basis for our management strategy. This means becoming a business group that is recognized for the excellence of its non-financial strengths—corporate culture, management philosophy and policies—in addition to its financial strengths. We have been focusing particular attention on non-financial, or ESG, initiatives in recent years. However, being an exemplary company is only possible through sustainability backed by solid financial performance. As a manufacturer, we believe it is important to strengthen our ability to create businesses and products that excite people. We will steadily execute measures that will make us an exemplary company that is valued and supported by its stakeholders, and that will continue to deliver benefits to stakeholders.

Four Kinds of Companies



# Strategies by Business

	Business	Outline
Domestic Business	<p>Share of Total Net Sales</p> <p>Share of Total Operating Income</p> <p>77.7%</p> <p>89.2%</p>	 <p>New Ammeltz Yoko Yoko      Liquid Bluelet Okudake      Netsusama Sheet</p> <ul style="list-style-type: none"> <li>152 brands in four categories: healthcare, household products, skincare and body warmers</li> <li>Core business accounting for nearly 80 percent of total sales and a major portion of profit</li> <li>Year-in, year-out growth in products purchased by foreign visitors to Japan</li> <li>Consistently high growth rate</li> </ul>
International Business	<p>Share of Total Net Sales</p> <p>Share of Total Operating Income</p> <p>15.9%</p> <p>6.6%</p>	 <p>Body warmers      Cooling gel sheets      Topical analgesics</p> <ul style="list-style-type: none"> <li>Sales of body warmers, cooling gel sheets, topical analgesics and other products in the three main markets of the U.S., China and Southeast Asia</li> <li>Highest growth rate among our three business segments</li> </ul>
Direct Marketing Business	<p>Share of Total Net Sales</p> <p>Share of Total Operating Income</p> <p>5.8%</p> <p>0.9%</p>	 <p>Skincare products      Health foods</p> <ul style="list-style-type: none"> <li>Sales of skincare products, health foods and other items by phone and online</li> </ul>

## Management Environment Analysis

### Strengths

- Ability to develop unique products and deliver what customers wish for
- Ability to stimulate new demand through the creation of new markets in areas with little competition
- Ability to develop products in a short time frame based on rapid development and use of outsourced production

### Opportunities

- Market growth driven by expanding needs for Chinese medicine (Kampo) and herbal medicines, reflecting the aging population
- Growth of demand from inbound tourists resulting from measures to attract more visitors to Japan
- New needs arising from social change

### Weaknesses

- Marketing investment dispersed among a large number of brands
- Erosion of relative value of our products due to emergence of private label brands

### Threats

- Unfavorable conditions for business discussions due to decrease in the number of drugstores and industry consolidation
- Stagnation in economic activity due to the COVID-19 pandemic
- Changes in inbound tourism demand trends associated with the new e-commerce law in China (enacted January 2019)

## Value to Customers

Brands with top market share

43

Creating 30 unique new products each year

### Strengths

- Number-one share in the U.S. body warmer market
- Number-one share in the cooling gel sheet market in each country
- High name recognition of Kobayashi Pharmaceutical in China resulting from popularity of products among foreign visitors to Japan

### Opportunities

- The everyday use of body warmers is not yet rooted in the U.S., so there is room for expansion
- The practice of using cooling gel sheets when sick with a cold or influenza is not fully established, so there is room for expansion
- Solid expansion and potential for growth of the Chinese and Southeast Asian economies with the increase in the middle-income demographic

### Weaknesses

- Susceptibility to changes in regulations by national governments or economic conditions, etc.
- Sales of body warmers, cooling gel sheets and other seasonal products are influenced by winter temperatures or the severity of the cold and flu season

### Threats

- The effects of exchange rate fluctuations – conversion into yen of items denominated in local currencies can have a serious impact on financial results, including sales, expenses, assets and liabilities of overseas consolidated subsidiaries
- Strong brand power in China also entails reputation risk\*

Available in

15

countries/  
regions

84% name recognition in the Greater China area

### Strengths

- Product development capabilities and high quality cultivated in the development of OTC pharmaceuticals
- Differentiation from competitors due to direct marketing of OTC pharmaceuticals

### Opportunities

- The health food market is flourishing as the scope of application of Foods with Function Claims has broadened

### Weaknesses

- Because of our emphasis on quality, new product development tends to take more time than competitors

### Threats

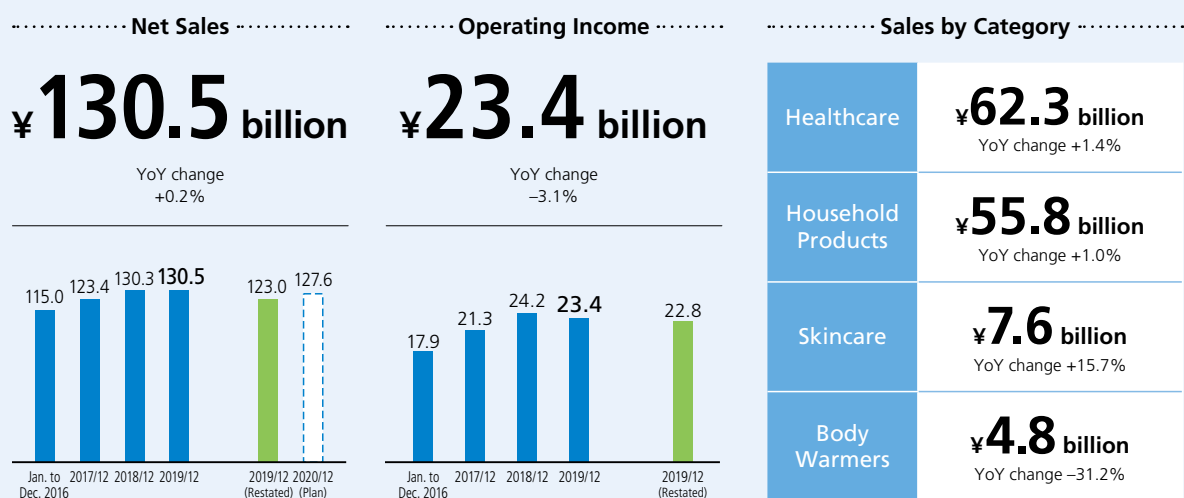
- In the event of personal information leaks, loss of trust could impact sales
- Administrative costs are trending upward with rising delivery costs and call center personnel expenses

Delivering unique products via direct marketing

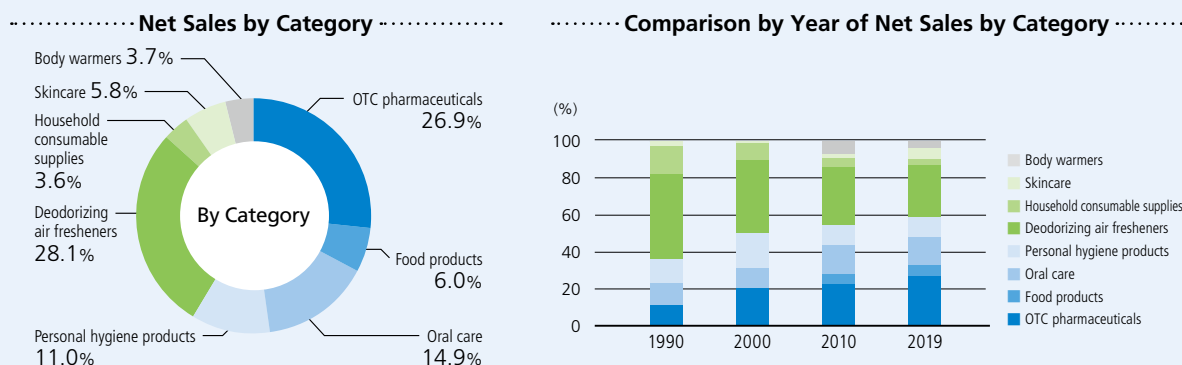
\* Risk of damage from loss of trust or brand value due to negative reviews or publicity

## Domestic Business

### FY2019 Results



Note: Figures for the year ended December 31, 2019 have been restated using the new accounting standards (see note 1. on page 25).



### 2018–2019 in Review (Results and Issues)

As a result of our focus on developing and cultivating products that create new markets—one of the core strategies of the medium-term management plan—net sales increased 0.2 percent year on year to ¥130.5 billion and operating income decreased 3.1 percent to ¥23.4 billion.

Sales of body warmers fell sharply due to a mild winter, while sales were also impacted by weaker demand from foreign visitors to Japan following the enactment of China's new e-commerce

law, and by adverse weather that included an unseasonably cool summer, and natural disasters.

On the other hand, our shift to a high-value-added product strategy and development of new market-creating products contributed to sales. In addition, our efforts to grow sales in the Skincare Business and Chinese Medicine (Kampo) Business have been successful and are yielding results, including strong growth in each business.

#### Shift to High-Value-Added Product Strategy



#### Growth of Skincare Business



#### Growth of Chinese Medicine (Kampo) Business





## Strategies for FY2020

### Development and Cultivation of New Products

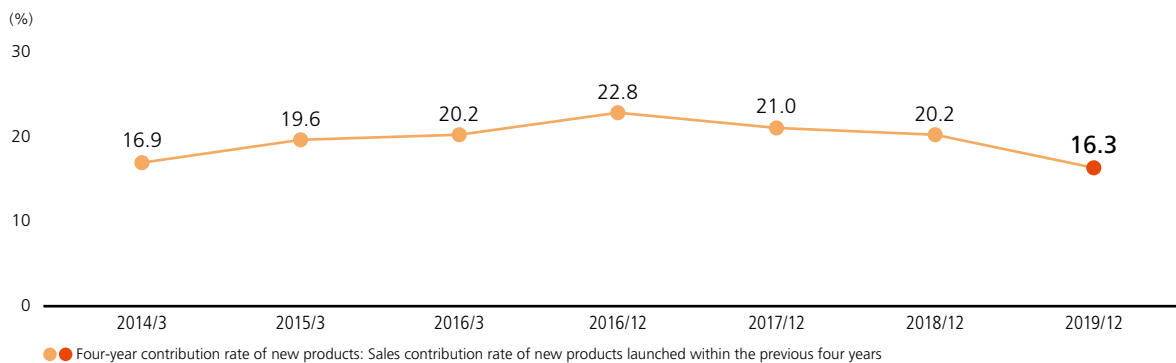
Currently, we are tightening our launch criteria for new products and assessing their market potential from the early stages of product development. We raised the hurdle in needs screening (i.e. market research), and only ideas that pass that hurdle advance to development. We intend to maintain these strict hurdles and increase the number of new products by enhancing our ability to meet the criteria.

To firmly establish new products in the market, we are strengthening our product cultivation measures. In cultivation,

an important factor is the ability to prepare plans through the successive generation of effective ideas. To that end, we are carrying out an initiative to come up with ideas based on information gathered from stores.

With this approach, we will further improve our effectiveness in developing and cultivating new products, and aim to rebound to a four-year contribution rate of 20 percent, one of our key performance indicators.

### Contribution Rate of New Products



### Product Cultivation Case Study: *Nightmin Nasal Respiration Tape*

Previously, our focus was on developing and launching new products, but in recent years, we have paid greater attention to cultivating recently released products to ensure they gain a solid foothold in the market. Firmly establishing these products in the market so that they continue to sell over five or ten years improves the return on development cost and effort, thus contributing to our bottom line. Our goal is to establish two new products in the market every six months. Each year, two or three new products are targeted for focused investment in advertising and sales promotion, and we cultivate them by instigating a series of sales surges. A prime example involving a Company-wide effort is *Nightmin Nasal Respiration Tape*.

*Nightmin Nasal Respiration Tape* is applied over the lips. This simple solution contributes to sound sleep as it induces nasal

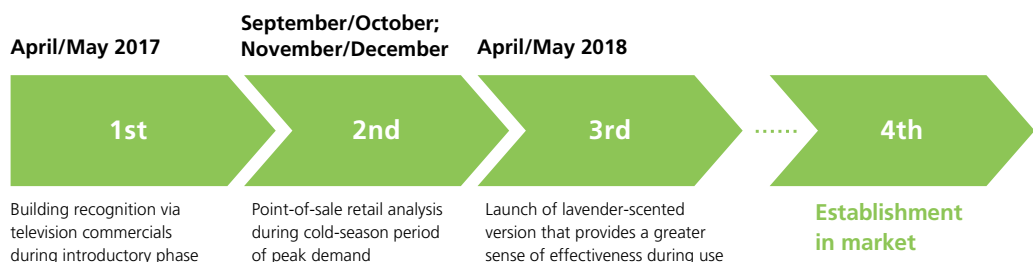
breathing, reduces snoring and alleviates mouth and throat dryness.

This was a new market-creating product, so we needed to build consumer recognition, which we accomplished by investing in marketing promotion via television commercials during the introductory phase. Later, through repeated retail analysis, including at point-of-sale during the cold season when demand is highest, we optimized sales spaces. We also introduced a version with a lavender scent that gives customers a greater sense of the product's effectiveness during use. After more than three years on the market, *Nightmin Nasal Respiration Tape* is now contributing to sales growth as one of our mainstay products.

We will continue to develop new market-creating products and work to establish them in the market.



*Nightmin Nasal Respiration Tape* (launched April 2017)



## Demand from Foreign Visitors to Japan (Inbound Sales Demand)

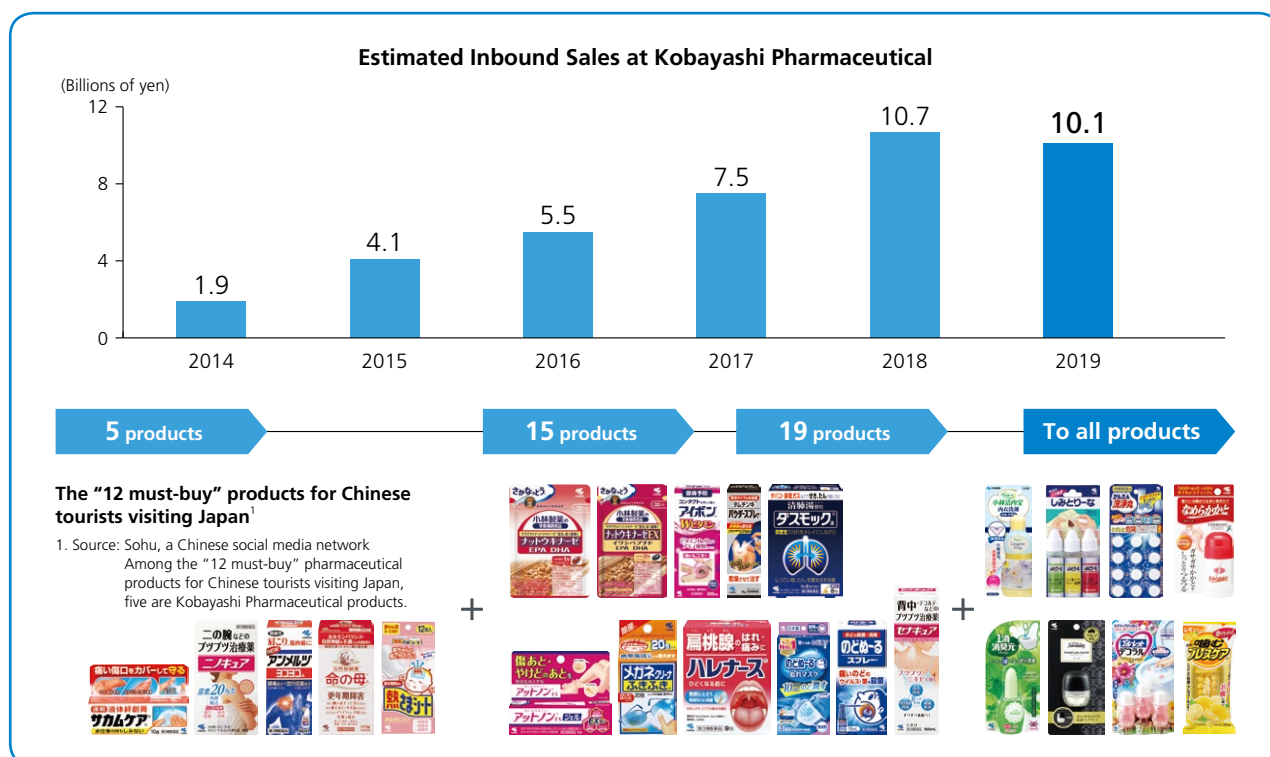
Kobayashi Pharmaceutical's OTC pharmaceuticals such as *Ammeltz*, a topical analgesic, and *Inochi no Haha A*, a women's health medicine, have enjoyed demand from foreign visitors to Japan. Today, that demand also extends to household products, including *Bluelet Decoral* toilet bowl cleaner and freshener.

We attribute this swell in demand to recognition of our products by tourists, mainly from China, resulting in increased awareness of the Kobayashi Pharmaceutical name, which in turn has led to the purchase of products in all categories.

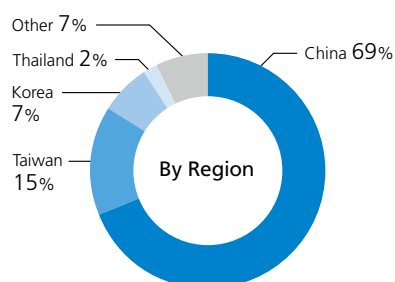
In 2019, the impact from the enactment of the new e-commerce law in China, a boycott of Japanese products in

South Korea, protests in Hong Kong, and other factors resulted in the first-ever decline in sales of our products to foreign visitors to Japan. The future of inbound demand remains unclear as the number of foreign visitors to Japan has decreased due to the COVID-19 pandemic that became widespread in 2020.

We are fully utilizing our system of Company-wide cooperation in considering growth strategies that encompass both demand from visitors to Japan and demand in other countries. We will grow sales by enhancing sales measures overseas, particularly in China, making effective use of cross-border e-commerce and identifying latent needs.

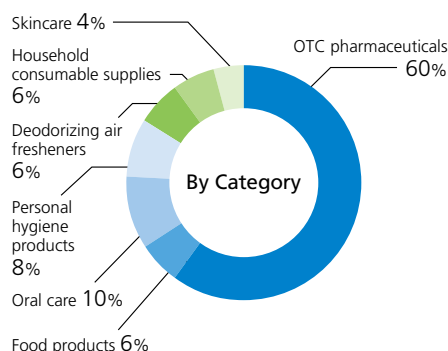


**Sales to Foreign Visitors to Japan\* by Region (FY2019)**



\* Inbound sales

**Sales to Foreign Visitors to Japan\* by Category (FY2019)**



**Sales to Foreign Visitors to Japan\* by Brand (Rank Order)**

Brand	YoY change
<i>Inochi no Haha</i>	+5%
<i>Sakamucare</i>	-13%
<i>Ammeltz</i>	+6%
<i>BreathCare</i>	-13%
<i>Eyebon</i>	-44%
<i>Netsusama Sheet</i>	-27%
<i>Nodonoal</i>	+11%
<i>Nattokinase</i>	+7%
<i>Bluelet Decoral</i>	+22%
<i>Harenurse</i>	+3%
<i>Tamuchinki</i>	+2%
<i>Megane Cleaner</i>	-8%

## Strategy Highlights

## 1. Acquisition of Meitan Hongo Co., Ltd.

We have continued with efforts to strengthen our business in the food sector, primarily by increasing sales of nutritional supplements.

Meitan Hongo sells products made using Japanese plum, a common part of people's diets in Japan, through its core brands *Meitan UG* and *Koshiki Bainiku Extract*. It is one of the oldest manufacturers of Japanese plum products, with a history dating back more than 90 years.

We recently acquired all shares of Meitan Hongo, making it a subsidiary. Through this move we aim to offer new value to

customers in the food sector by combining our marketing, sales and R&D capabilities with Meitan Hongo's brand power.



Meitan UG



Koshiki Bainiku Extract

## 2. Absorption-Type Merger with Kiribai Chemical Co., Ltd.

We entered the body warmer business in Japan when we made Kiribai Chemical a subsidiary in 2001. Today, body warmers and other thermal products that we sell overseas as well as domestically have become a mainstay of the Kobayashi Pharmaceutical Group's business.

A trend toward milder winters is predicted due to global warming, and competition in the market is increasing. In that context, we believed it was necessary to fundamentally rethink our development and marketing structure to ensure the further growth of thermal products centered on body warmers.

We believe that the synergy from the announced absorption-

type merger will allow us to maximize the Kobayashi Pharmaceutical Group's overall ability to develop and market thermal products.



## 3. Establishment of Unit for Japan-China Cooperation

In order to rapidly generate new demand from tourists visiting Japan and further develop business in China and Southeast Asia, we established an organization that will promote cooperation in advertising and other activities between Japan

and China. In collaboration with operating divisions in Japan and subsidiaries in China, the new unit will select brands to advertise in China and formulate marketing plans.

Quick launch in China and Southeast Asia of products popular among visitors to Japan

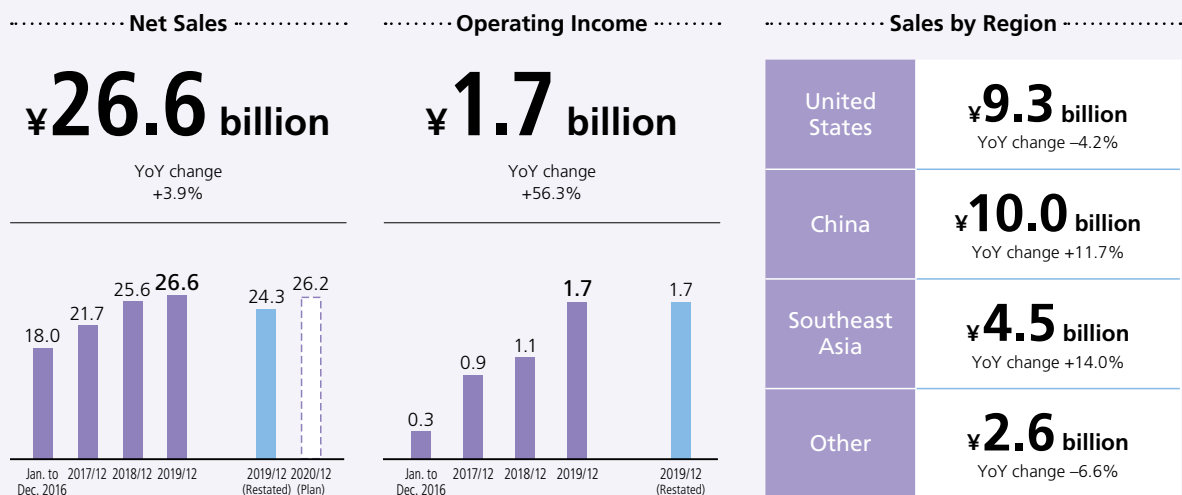


Development of new products in Japan on the basis that they will be sold in China (with regard to intellectual property, prescription, functionality and quality characteristics)

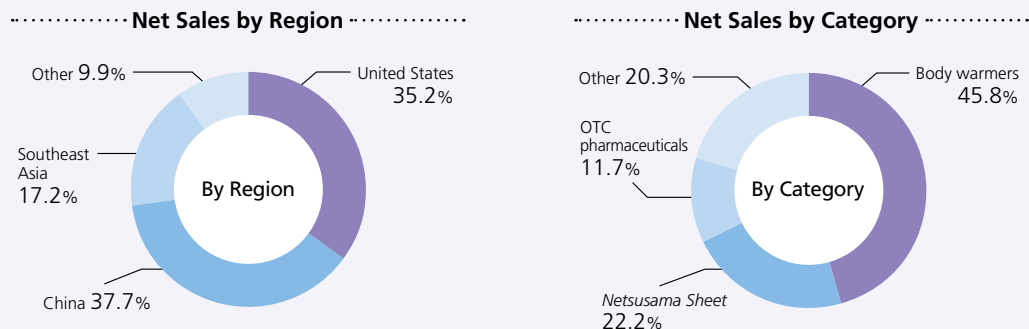
Synergistic advertising activities in Japan and China to generate new demand from tourists visiting Japan

## International Business

### FY2019 Results



Note: Figures for the year ended December 31, 2019 have been restated using the new accounting standards (see note 1. on page 25).



### 2018–2019 in Review (Results and Issues)

Net sales increased 3.9 percent year on year to ¥26.6 billion as we secured profit growth despite the impact of political factors and the global trend toward milder winters. Sales in mainland China in

particular grew steadily. Operating income increased strongly by 56.3 percent year on year to ¥1.7 billion as a result of factors including reduced advertising and sales promotion expenses.

	United States	China	Southeast Asia
Results	<ul style="list-style-type: none"> <li>Strong performance of standard body warmers; increased consumer touchpoints in stores</li> <li>Cultivated topical analgesic <i>Zim's Max Freeze</i></li> </ul>	<ul style="list-style-type: none"> <li>Strong sales of strategic products that are popular among foreign visitors to Japan</li> <li>Increased touchpoints for <i>Netsusama Sheet</i>, and achieved strong sales (household products, etc.)</li> <li>Expanded e-commerce channel</li> </ul>	<ul style="list-style-type: none"> <li>Increased sales of mainstay brands <i>Netsusama Sheet</i>, body warmers, <i>Ammeltz</i>, lens cleaner, etc.)</li> <li>Introduced new products in OTC market</li> </ul>
Issues	<ul style="list-style-type: none"> <li>Feasibility analysis and strengthening of strategic approach for each distribution channel</li> <li>Brand enhancement through brand growth strategy for topical analgesic <i>Zim's Max Freeze</i></li> </ul>	<ul style="list-style-type: none"> <li>Launch and cultivation of exports from Japan</li> <li>Enhancement of strategy for <i>Netsusama Sheet</i> (creating channels and touchpoints)</li> <li>Growth of body warmer market (building market by increasing recognition and use of therapeutic body warmers)</li> </ul>	<ul style="list-style-type: none"> <li>Sales growth through introduction and cultivation of new items under mainstay brands</li> <li>OTC pharmaceutical growth strategy</li> </ul>



## Our Value Creation

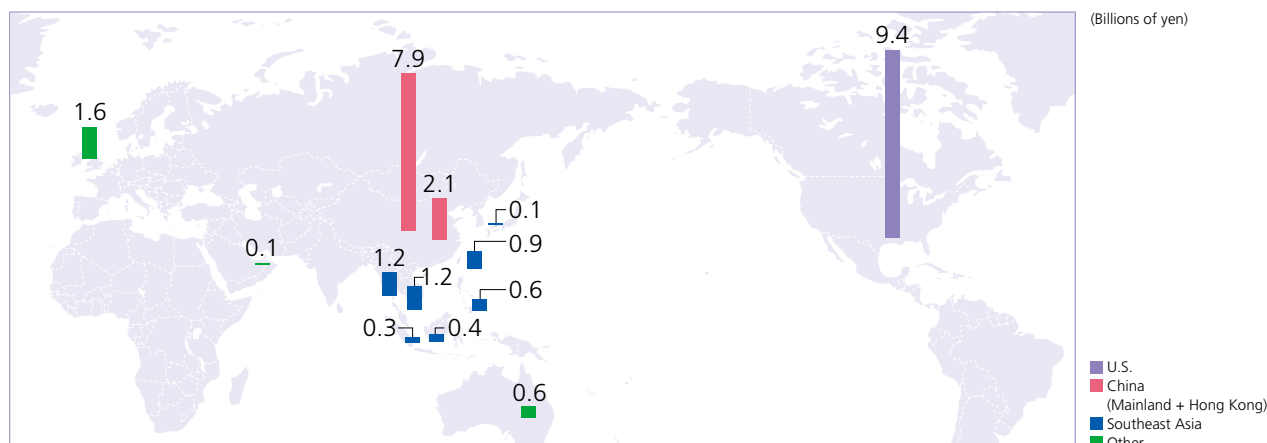
## Growth Strategy

## ESG Initiatives

	U.S.	China (Mainland)	Hong Kong	Singapore	Malaysia	Thailand	Indonesia	Philippines	Taiwan	U.K.	Australia	U.A.E.	Vietnam	South Korea
Netsusama Sheet														
Body warmers														
Ammeltz														
Lens cleaner														

## Data Section

e-commerce channels. We will continue to bring our unique products developed in Japan to markets around the world.



We are placing top priority on our fast-growing International Business, and as such we have set "International Business First" as the main theme of the new medium-term management plan. We will build a structure to actively involve all divisions in supporting the International Business.

pharmaceuticals by steadily launching products that we are confident will sell, adapting to different market needs for OTC pharmaceuticals in each country.

In China and Southeast Asia, we will work to achieve sales growth by quickly launching products that are popular with visitors to Japan.

Going forward, we will continue to create new markets in each country/region as we seek to become a global healthcare company.

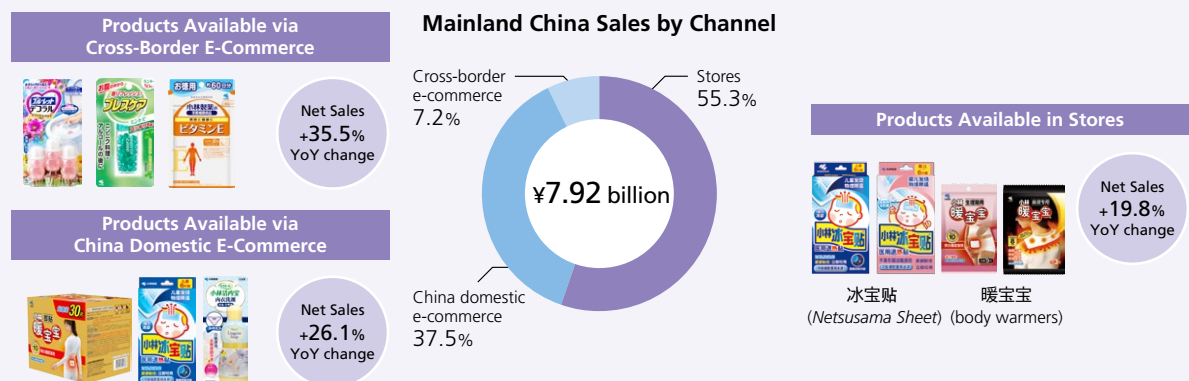
## Strategy Highlights

## Strengthening Sales Measures in China

### Sales at Local Retail Stores and via E-Commerce

In mainland China, we currently manufacture and sell *Netsusama Sheet* and body warmers through retail stores that are supplied by wholesalers. In addition to store sales, we also sell some 30

products via e-commerce, including *BreathCare* and nutritional supplements. E-commerce sales continue to grow each year, and accounted for nearly half (44.7 percent) of sales in 2019.



### Our Target Consumer Journey

We are adopting a marketing strategy in the Chinese market that envisions the following consumer journey:

- 1) Increased exposure to product via social media and online advertising
- 2) Trial purchase at a store when visiting Japan
- 3) Repeat purchases online or in stores after returning to China
- 4) Evaluation of product by word of mouth on social media

Through this cycle, we intend to build brand recognition in the Chinese market and expand sales.



### Company-Wide Cooperation (Joint Strategy Meeting)

A system for Company-wide cooperation is essential to promoting "International Business First." There are numerous examples of cross-divisional cooperation currently taking place between domestic and international operating divisions. Moreover, a joint strategy meeting attended by the president, department general managers, and other relevant personnel has been established and is held monthly.

The joint strategy meeting deliberates on strategies to increase sales to tourists visiting Japan from China as well as purchases after they return to China. The meeting advances initiatives to enhance overseas sales by providing a venue where up-to-date information can be shared and measures can be considered and decided upon, in a timely manner.



Joint strategy meeting ("all-bound coordination meeting")

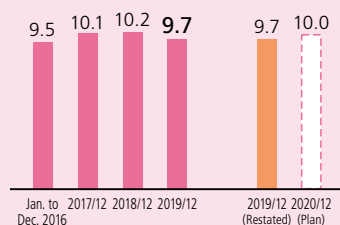
## Direct Marketing Business

### FY2019 Results

..... Net Sales .....

**¥9.7 billion**

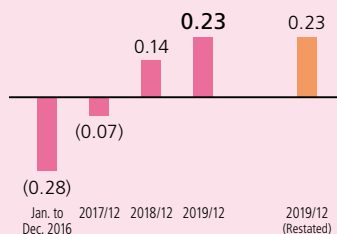
YoY change  
-4.7%



..... Operating Income .....

**¥0.23 billion**

YoY change  
+65.2%



..... Sales by Category .....

Health Foods

**¥7.2 billion**

YoY change -3.9%

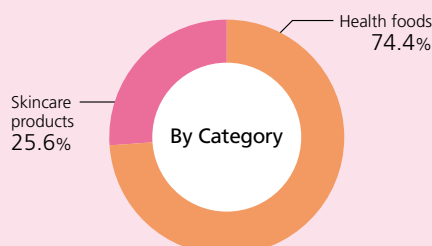
Skincare Products

**¥2.5 billion**

YoY change -6.9%

Note: Figures for the year ended December 31, 2019 have been restated using the new accounting standards (see note 1. on page 25).

..... Net Sales by Category .....



Health foods



Skincare products

## 2018–2019 in Review (Results and Issues)

As competition has intensified, we anticipated that the advertising environment would likewise become increasingly severe. We therefore strengthened direct mail promotions targeting registered users.

While we were able to maintain the level of sales to existing customers, new customer registrations declined significantly, leading to lower sales for the business overall.

## Strategies for FY2020

To achieve business growth we will strengthen advertising. Given the criticality of attracting new customers, we will enhance customer acquisition initiatives by making aggressive advertising investments based on a reassessment of our approach to direct mail promotions, while also working to improve advertising effectiveness.

Furthermore, we will strengthen development of Foods with Function Claims as a driver for future growth.

### Example Products Approved as Foods with Function Claims



Lutein



Aruku Tasuke



Kiokuria



Tochugen GX

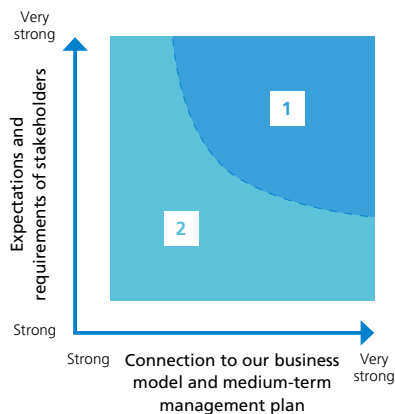
# Our Approach to ESG

Over the past 50 years, Kobayashi Pharmaceutical has created new lifestyle ideas and new markets by delivering what customers wish for. The products created through this process have become indispensable for customers experiencing specific problems. Moving forward, we will seek out such problems and come up with solutions by looking at various social issues not just from a business standpoint but also from ESG perspectives, in order to support comfortable, convenient lives for all customers and their active participation in society. That is our mission, and is how we will contribute to the realization of a society that leaves no one behind.

## ■ Establishment of a Dedicated ESG Department

To incorporate ESG into Kobayashi Pharmaceutical's management, the Sustainability Strategy Promotion Group was established in 2020 within the Management Planning Department of the Corporate Administration Headquarters. This dedicated unit will work to enhance internal ESG promotion and related activities.

## ESG Key Issues



1	<b>E</b> <ul style="list-style-type: none"> <li>• Reduction of CO<sub>2</sub> emissions and waste</li> <li>• Resource management (raw materials and water)</li> <li>• Environmental supply chain</li> </ul>	<ul style="list-style-type: none"> <li>• Development of eco-friendly products (CO<sub>2</sub> management at each product lifecycle stage and product development eco indicators)</li> </ul>
	<b>S</b> <ul style="list-style-type: none"> <li>• Activities to create shared value</li> <li>• Respect for human rights</li> <li>• Evaluation of suppliers on corporate social responsibility criteria</li> </ul>	<ul style="list-style-type: none"> <li>• Diversity, health and growth of employees</li> <li>• Fair advertising and labeling, and quality management</li> <li>• Strengthening of relationship with customers</li> </ul>
	<b>G</b> <ul style="list-style-type: none"> <li>• Highly transparent governance</li> <li>• Risk management</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
2	<b>E</b> <ul style="list-style-type: none"> <li>• Biodiversity</li> <li>• Environmental market opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental and social impact on assets and business operations</li> </ul>
	<b>S</b> <ul style="list-style-type: none"> <li>• Anti-corruption and fair competition</li> <li>• IT security</li> </ul>	<ul style="list-style-type: none"> <li>• Social contribution activities</li> <li>• Intellectual property management</li> </ul>

### STEP 1 Identification of Issues

Identify issues that we should address based on our understanding of stakeholder expectations and requirements, referencing international guidelines on the social responsibility of organizations, including ISO 26000 and GRI guidelines.

### STEP 2 Prioritization

Prioritize the issues identified from the standpoints of "level of expectations and requirements of stakeholders" and "degree of connection to our business model and the medium-term management plan."

### STEP 3 Confirmation of Validity and Finalization








Confirm the validity of the issues by interviewing members of management and consulting with subsidiaries and departments, then finalize issues through approval by the Board of Directors.

### STEP 4 Review (PDCA Cycle)

Conduct reviews based on the progress of initiatives, changes in social conditions, and requests from stakeholders, and make course corrections as necessary.



## ESG Activities at a Glance

	Basic Policies	Themes	Main Activities	Relevant SDGs
<b>E</b> Environmental  Pages 50–53	<ul style="list-style-type: none"> <li>Enhance environmental management across the Group, including overseas</li> <li>Begin activities targeting product lifecycles and supply chains</li> <li>Conduct appropriate disclosure and training</li> </ul>	Reduction of CO <sub>2</sub> emissions	<ul style="list-style-type: none"> <li>Convert to renewable energy to achieve 2030 target (54.6% reduction in 2030 vs. FY2017)</li> <li>Set Scope 3 targets and make improvements with the goal of validation under the Science Based Targets initiative</li> <li>Construct new factory facilities with excellent environmental performance</li> <li>Respond to CDP climate change questionnaire (most recently received a “C” score)</li> </ul>	
		Management of waste and toxic substances	<ul style="list-style-type: none"> <li>Achieve medium-term targets for recycling at all factories in 2020, set targets for FY2030, and conduct rigorous management through the Chemical Substance Management Committee</li> </ul>	
		Resource management (water)	<ul style="list-style-type: none"> <li>Set FY2030 targets for reduction of water consumption and implement PDCA cycle</li> <li>Respond to CDP water security questionnaire (most recently received a “B” score)</li> </ul>	
		Biodiversity	<ul style="list-style-type: none"> <li>Formulate and disclose biodiversity policy and comply with the Convention on Biological Diversity (Nagoya Protocol on Access and Benefit Sharing)</li> </ul>	
		Product development eco indicators	<ul style="list-style-type: none"> <li>Launch and establish portfolio of products with eco labeling and set targets as percentage of sales</li> <li>Reduce plastic in all products and track environmental impact</li> <li>Begin measurement of CO<sub>2</sub> emissions at each product lifecycle stage (Scope 3)</li> <li>Convert to sustainable sources of paper/pulp and palm oil</li> </ul>	
		Environmental supply chain	<ul style="list-style-type: none"> <li>Set Scope 3 targets and make improvements with the goal of validation under the Science Based Targets initiative</li> </ul>	
		Disclosure, external assessment and training	<ul style="list-style-type: none"> <li>Respond appropriately to CDP (questionnaires on climate change and water security)</li> <li>Respond appropriately to TCFD recommendations (disclosure of climate change-related risk together with financial information)</li> <li>Raise awareness and provide training to employees</li> <li>Disclose ESG data on corporate website</li> </ul>	
<b>S</b> Social  Pages 54–57	<b>Relationship with Employees</b>  The physical and mental health, diversity and abilities of our employees is a top priority as employees are among our most important resources. We are building a relationship in which the Company and employees help each other to grow over the long term.	Job satisfaction, diversity and growth	<ul style="list-style-type: none"> <li>Promote empowerment of women and diversity; promote more women to management positions</li> <li>Implement work-style reforms</li> <li>Conduct “growth dialogues” and improve task-setting capabilities (using task-setting form)</li> <li>Use employee awareness survey as a general indicator</li> <li>Continue to use Diversity Index</li> </ul>	  
		Mental and physical health	<ul style="list-style-type: none"> <li>Expand the percentage of employees receiving health exams and follow-up exams (100% testing rate for health exam)</li> <li>Add health promotion activities (improve health literacy, programs to create shared value)</li> </ul>	
		Reinforce and expand the Kobayashi Way	<ul style="list-style-type: none"> <li>Thoroughly implement key measures for shaping the company culture, such as the idea proposal system, e-Appreciation, policy on forms of address, and Spur-of-the-Moment Meetings, and expand them to overseas sites</li> </ul>	
	<b>Relationship with Customers</b>  We will improve our ability to meet the expectations and earn the trust of customers by identifying with and listening to them, both in product development and after release.	Fair advertising and labeling	<ul style="list-style-type: none"> <li>Maintain honesty in packaging and advertising (all media)</li> <li>Ensure due consideration of ethics when proposing easy-to-understand marketing and creative media</li> <li>Establish, publicly disclose and internally promote a policy for fair advertising and labeling</li> </ul>	 
		Strengthening of relationship with customers	<ul style="list-style-type: none"> <li>Provide packaging, containers and information that are easy to understand and use (e.g. universal design principles, accessible packaging)</li> </ul>	
		Global quality control	<ul style="list-style-type: none"> <li>Ensure quality and establish customer inquiry/response systems for products sold outside Japan</li> </ul>	
	<b>Relationship with Society and Common Interests with All Stakeholders</b>  We will bring delight to the whole of society as only we can, not only through donations and economic support, but by giving shape to ideas for solving social issues.	Social contribution	<ul style="list-style-type: none"> <li>Clarify social contribution policy</li> <li>Enhance social contribution activities</li> </ul>	
		Respect for human rights	<ul style="list-style-type: none"> <li>Formulate a human rights policy</li> <li>Conduct activities to raise human rights awareness among all Group company employees and track outcomes, using the Diversity Index and other tools</li> <li>Expand systems such as consultation and reporting hotlines to all business sites to identify and preempt human rights risks, and review and disclose the usage of those systems on a regular basis</li> </ul>	
		Responsible procurement	<ul style="list-style-type: none"> <li>Formulate and publicly disclose a responsible procurement policy</li> <li>Begin assessments and implement PDCA cycle for suppliers from the perspective of corporate social responsibility</li> </ul>	
		Shared value	<ul style="list-style-type: none"> <li>Set themes for the creation of shared value for at least one brand in each category, and monitor the sales share of products that create shared value at a Company-wide level</li> </ul>	
<b>G</b> Governance  Pages 58–67	We will strive for quick and accurate information disclosure and management transparency to realize our basic management policy of maximizing corporate value and increasing shareholder value.	Further enhancement of transparency (Board of Directors reforms)	<ul style="list-style-type: none"> <li>Enhance discussions on medium-term management plan, sustainability, risks and capital productivity</li> <li>Consider further enhancement of disclosure</li> </ul>	
		Risk management	<ul style="list-style-type: none"> <li>Promote continuous evolution of risk management</li> <li>Respond appropriately to legal disclosure requirements and TCFD recommendations</li> </ul>	
		Compliance	<ul style="list-style-type: none"> <li>Set targets and implement PDCA cycle for governance of overseas subsidiaries</li> <li>Prepare business conduct guidelines and guidebook for the whole company</li> </ul>	

E

# Environmental

## Philosophy and Goals

Formulate medium-term environmental goals and implement the PDCA cycle, targeting reduction of CO<sub>2</sub> emissions and development of eco-friendly products as key issues.

## Current Initiatives

We have set a 2030 target for reduction of CO<sub>2</sub> emissions, and have begun to implement measures toward that goal. In addition, we have revised our product development eco indicators and are confirming their implementation throughout the Company.

## Future Initiatives

We will set medium- and long-term targets for each environmental issue and expand our efforts at overseas sites and across the entire supply chain.

## Basic Approach

Kobayashi Pharmaceutical established the Kobayashi Environmental Statement and the Environmental Action Guidelines in December 2001 to further enhance environmental conservation activities based on its Management Principles. By sharing the statement and guidelines throughout the Group, we have worked to increase awareness about environmental conservation. In February 2019, they were updated as the “Kobayashi Pharmaceutical Group Environmental Statement 2030” and the “New Environmental

Action Guidelines,” respectively, taking into account international developments related to climate change and the global environment, such as the Paris Agreement and the SDGs.

We will work toward sustainable growth in response to the expectations and requirements of stakeholders, with the statement and guidelines serving as standards for advancing our environmental activities based on their clear affirmation of our commitment to contributing to solutions.

### Kobayashi Pharmaceutical Group Environmental Statement 2030

We at the Kobayashi Pharmaceutical Group never rest in our pursuit of something new that will delight people and society. We believe that we are able to deliver what customers wish for because we have the support of a rich natural environment.

Together with customers, business partners and communities, we will make a strong commitment to global environmental issues, such as prevention of global warming and preservation of resources and biodiversity, and generate ideas to solve those issues.

### New Environmental Action Guidelines

#### 1. Legal and Regulatory Compliance; Independent, Proactive Task-Setting and PDCA Cycle

In addition to abiding by environment-related laws, regulations and agreements in each of our business areas, we set our own tasks, establish medium- and long-term environmental targets and standards, generate ideas and implement the PDCA cycle.

#### 2. Response to Climate Change

We recognize that climate change can have a significant impact on our business. At each stage of our business operations we will implement greenhouse gas reduction measures, including more efficient energy usage and conversion to renewable energy.

#### 3. Consideration for Resources and Biodiversity

To reduce depletion and contamination of underground resources, biological resources and water resources, and other environmental impacts, we will give consideration to resource conservation, use of alternative resources and biodiversity at each stage of our business operations.

#### 4. Reduction and Recycling of Waste; Appropriate Chemical Substance Management

We will recycle waste generated at each stage of our business operations, reduce the volume of waste and improve our recycling rate. In addition, we will ensure the proper management of chemical substances used in our research and development and manufacturing operations.

#### 5. Development and Provision of Eco-Friendly Products and Services

We work to develop environmentally friendly products by establishing indicators and standards for the reduction of environmental impact in the design, procurement, manufacturing and use of products and services. We also strive to deliver environmental value in tandem with new value for customers.

#### 6. Initiatives throughout the Supply Chain

We set procurement standards and promote environmental initiatives throughout the entire supply chain, including at our suppliers.

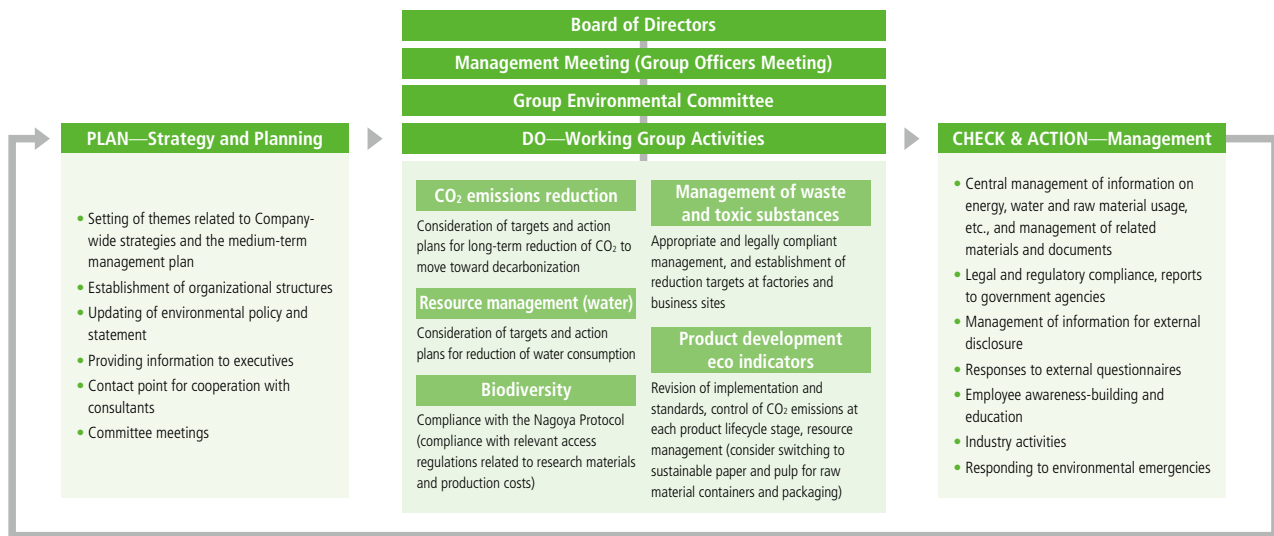
#### 7. Sharing of Action Guidelines and Enhancement of Environmental Awareness

We share these guidelines with management and all employees, and work to raise their awareness of environmental conservation through various initiatives and educational activities. In addition, we disclose targets and details of initiatives based on these guidelines, as well as progress updates, to stakeholders.

## Environmental Management System

In order to strengthen our environmental management system, in 2018 we enhanced the Group Environmental Committee, which began discussions on matters such as what the Kobayashi Pharmaceutical Group should strive for in the medium and long term, and the re-examination of environmental issues. The Committee is structured to enlist the commitment of all department

managers related to product development, and working groups for specific themes have been established under its auspices. The General Affairs Department and Management Planning Department work together to strengthen the PDCA cycle and provide support for the working groups.



## Progress toward Medium-Term Targets for Reduction of Environmental Impact

We have set medium-term targets for FY2020 for reduction of the impact of our business operations on the environment.

In CO<sub>2</sub> reduction, a priority issue, our aggressive energy

conservation efforts at factories and offices resulted in a 32.5% reduction in emissions per unit of sales in FY2019 compared with fiscal 2005/3, substantially exceeding our target.

Themes	Relevant departments	FY2019 targets	Action plans implemented in FY2019	FY2019 results	FY2020 medium-term targets
Energy conservation CO <sub>2</sub> reduction	Manufacturing	Emissions per unit of sales 28.7% reduction vs. fiscal 2005/3 (0.115 t-CO <sub>2</sub> /million yen)	<ul style="list-style-type: none"> <li>Conversion to LED lighting</li> <li>Upgrading to energy-saving equipment (high-efficiency air conditioning, energy-efficient motors, etc.)</li> <li>Centralized control of air conditioner temperature</li> <li>Introduction of solar power generation</li> <li>Sunshade installation, roof sprinklers</li> <li>Prevention of steam and compressed air leakage</li> <li>Re-use of water purification system run-off water</li> <li>Installation of water supply pump inverters</li> </ul>	Emissions per unit of sales 32.5% reduction vs. fiscal 2005/3 (0.109 t-CO <sub>2</sub> /million yen)	Emissions per unit of sales 20% reduction vs. fiscal 2005/3 (0.162 t-CO <sub>2</sub> /million yen in 2005) (0.129 t-CO <sub>2</sub> /million yen in 2020)
	Offices	Total emissions (including from sales vehicles) 34.3% reduction vs. fiscal 2005/3 (3,200 t-CO <sub>2</sub> )	<ul style="list-style-type: none"> <li>Implementation of summer dress code</li> <li>Control of air-conditioning settings</li> <li>Encouraging environmentally friendly driving</li> <li>Conversion to LED lighting</li> <li>Routine control of energy use</li> </ul>	Total emissions (including from sales vehicles) 35.7% reduction vs. fiscal 2005/3 (3,129 t-CO <sub>2</sub> )	
Waste reduction	Manufacturing	—	<ul style="list-style-type: none"> <li>In-house recycling of waste loss</li> <li>Separation and sale of containers and packaging</li> <li>Reduction of washing frequency</li> <li>Reduction of unsold products through equipment improvements</li> <li>Reduction of waste loss</li> <li>Promotion of new sales of valuable materials</li> </ul>	Decrease in volume of waste generated	—
Recycling	Manufacturing	Recycling rate of 99.5% or higher across all businesses	<ul style="list-style-type: none"> <li>Reduction of production losses, and separation and collection of waste materials</li> <li>Review of waste treatment methods</li> <li>Reduction of landfill waste through thorough separation</li> </ul>	99.8% recycling rate	Recycling rate of 99.5% or higher across all businesses
Chemical substance management	Manufacturing	Maintain emissions of substances subject to the PRTR Act below 100 kg at all factories	<ul style="list-style-type: none"> <li>Switch to alternative raw materials</li> </ul>	Zero release of chemicals into the atmosphere, water and soil (however, the transfer amount exceeded 100 kg at some factories)	Maintain emissions of substances subject to the PRTR Act below 100 kg at all factories
Resource conservation	Manufacturing	Expansion of eco-friendly products	<ul style="list-style-type: none"> <li>Expanded introduction of FSC-certified paper</li> <li>Study of measures for reduction of plastic volume, and introduction of recycled plastic and biomass plastic</li> <li>Study of product eco-certification system</li> </ul>	Launched products made with recycled plastic in spring 2020	Expansion of eco-friendly products
Green procurement and purchasing	Manufacturing	Strengthening of relationships with suppliers and partners	<ul style="list-style-type: none"> <li>Study of responsible sourcing</li> </ul>	Stated intention to work with suppliers on responsible sourcing in 2020, conducted briefings	Strengthening of relationships with suppliers and partners

\* We began setting medium-term targets for emissions per unit of sales starting with FY2020.

## E Environmental

### Setting of New Long-Term Target for Reduction of CO<sub>2</sub> Emissions and Participation in Various Initiatives

Among all ESG issues, Kobayashi Pharmaceutical places the highest priority on addressing climate change. We revised our CO<sub>2</sub> emissions reduction targets based on the Paris Agreement that was adopted in 2015, and set a new long-term target: a 54.6% reduction in the Group's total CO<sub>2</sub> emissions (Scope 1 and 2)<sup>1</sup> from 2017 levels by 2030. As a reduction measure toward achieving the 2030 target, we have established a blueprint for switching to renewable energy sources with zero carbon emissions at our main factories in Japan, which are energy-intensive. We plan to start by achieving carbon-free electricity at Sendai Kobayashi Pharmaceutical Co., Ltd. in 2020.

In the future, we will set a reduction target for Scope 3 emissions<sup>2</sup> and reduce CO<sub>2</sub> emissions across our entire supply chain.

Furthermore, we joined the Japan Climate Initiative (JCI)<sup>3</sup> in October 2018 and the Japan Climate Leaders' Partnership (JCLP) in September 2019 with the objective of working on climate change issues in collaboration with other companies and organizations. In November 2018, we signed a commitment to

the Science Based Targets (SBT)<sup>4</sup> initiative, declaring our intention to set a long-term reduction target. Our plan is to submit that target and receive validation by the end of 2020.

In addition, we have endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD),<sup>5</sup> and participated in the TCFD Consortium in May 2019. We are currently assessing Company-wide climate change risks and opportunities, and their potential impact, and are preparing to disclose countermeasures.

As the world accelerates efforts to realize a decarbonized society in the long term, we are also committed to taking aggressive steps to address the climate change issue.

1. Scope 1: Direct emissions from sources owned or controlled by the Company  
Scope 2: Indirect emissions associated with use of electricity or other energy supplied by other companies
2. Indirect emissions not covered under Scope 1 and 2
3. JCI website: <https://japanclimate.org/english>
4. SBT initiative website: <https://sciencebasedtargets.org>
5. TCFD website: <https://www.fsb-tcfd.org>



Establishment of the TCFD Consortium



<http://cloma.net/english>



#### Frontline Comment

#### We are serious about climate change and working on disclosure

In 2019, the Company reached a consensus on long-term CO<sub>2</sub> reduction targets for Scope 1 and 2 emissions, and implemented an action plan. In cooperation with relevant departments, we are also calculating Scope 3 emissions and considering targets.

Kobayashi Pharmaceutical endorsed the TCFD recommendations in 2019, and identified Company-wide climate change risks and opportunities, and we are currently preparing for disclosure.

In addition, we responded to the climate change questionnaire sent out by CDP, an international NPO, for the first time.

International trends and the critical situation regarding climate change continue to evolve every day. As a socially responsible company, Kobayashi Pharmaceutical is serious about climate change, and is taking steps to disclose related targets and performance.



**Saori Sakata**

Sustainability Strategy Promotion Group,  
Management Planning Department,  
Corporate Headquarters



## Sustainable Manufacturing

### Reduce

In designing products, we are working to reduce the amount of materials used in ways such as making plastic parts thinner, reducing the number of parts, and improving the design of outer boxes. We are also taking steps to minimize waste disposal volume. In FY2019, we improved the cover packaging of *Sawaday Clip Parfum for Automobiles*, successfully reducing the amount of plastic used by 55 percent compared to the existing product.

#### *Sawaday Clip Parfum for Automobiles*



Before improvement

After improvement

### Recycle

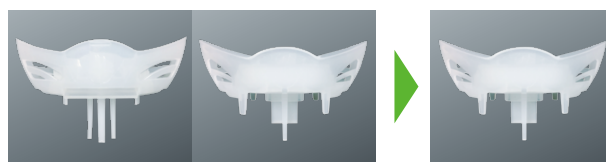
In 2019, we set up collection boxes for used body warmers at selected stores in the Kansai region of Japan. Iron powder from body warmers, including other companies' products, is recycled into new iron powder. By providing places to recycle this resource that would otherwise have been thrown away, we are contributing to the circular economy.



Body warmer collection box

### Reuse

We are promoting the use of refillable and replaceable products. For *Liquid Bluelet Okudake*, which accounts for a significant portion of sales in our Domestic Business, we improved the bottom container to make it interchangeable across product variations, a long-standing goal that was difficult to achieve due to properties of the structural design. This will help promote the use of replaceable products among customers.



Before improvement: Structure of bottom container varied by product

After improvement: Interchangeable across product variations

### Renewable

We have begun to switch to plant-based materials for our aluminum foil-lined pouches. Specifically, 20% of the weight of the outer pouch of *Tochucha* (eucommia leaf tea) that was previously petroleum-derived polyethylene is now plant-based polyethylene terephthalate. We will continue to convert to plant-based polyethylene terephthalate and other renewable materials for product packaging.



Tochucha

### Frontline Comment

### We will update and utilize product development eco indicators

Kobayashi Pharmaceutical set product development eco indicators in FY2011 as its own set of standards to support eco-friendly product development. To further reduce our environmental impact, we are currently revising evaluation criteria and improving the way we use these indicators, thereby providing a quantitative picture of our environmental impact during product development.

In containers and packaging, we are placing priority on initiatives from the perspective of the "4 Rs" – reduce, reuse, recycle and renewable. Specifically, we will conduct development focusing on four objectives: switching to more eco-friendly blister packaging, as in the case of *Sawaday Clip Parfum for Automobiles*; expanding use of recycled resins, such as recycled PET resin that has the same quality as virgin materials; replacing petroleum-derived plastics with sustainable biomass plastics, which use recyclable, low-carbon plant-based raw materials; and introducing FSC-certified paper, which is produced from responsibly managed forests.

In the future, we will put eco labeling on the packaging of such products, as well as develop products that customers will choose for their environmentally beneficial properties as well as their concept and performance.



Fumitaka Okami

Group Manager, Container & Packaging Technology Group, Manufacturing Technology Development Department, Engineering, Purchasing and QC Division

# S Social

## Delivering What Customers Wish for, Worldwide

Over the past 50 years, our approach of delivering what customers wish for has led to the invention of numerous niche products—*Bluelet*, *Netsusama Sheet*, *Nodonoool* and *Eyebon*, among others—that have created new lifestyle ideas and new markets. Although many people might not have a need for these niche products, for customers with specific problems, they are absolutely essential. Without our products, these problems would remain unresolved and customers would have to endure them. We are adept at discovering problems and turning ideas for solving them into products. Many such problems still exist and go unrecognized. In the future, we will expand our field of vision to various social issues, identify



problems with greater speed, and come up with solutions to support comfortable living and active social participation of every customer. Currently, we have more than 150 brands, all of which solve specific problems. The more we broaden our business activities, the more customer problems—and ultimately, social issues—we will be able to solve. That is our mission, and is how we will contribute to the realization of a society that leaves no one behind. In addition to delivering what customers wish for in Japan, we will rapidly make those solutions available overseas. Furthermore, we plan to discover problems that are present in other countries around the world, and carry out our unique approach to development in those markets.

## Major Brands and the Social Issues They Solve



## Creation of Social Value

To illustrate how Kobayashi Pharmaceutical creates social value, we present our activities through the *Inochi no Haha* brand.

*Inochi no Haha A*, a women's health medicine, carries on our century-long commitment to supporting the mental and physical health of women. In Japan, it is not well recognized that physical disorders such as hot flashes and heart palpitations, and mental conditions such as anxiety and outbursts of anger, can stem

from changes in hormonal balance. The *Inochi no Haha* brand is a medication that relieves these common symptoms.

Furthermore, we are promoting understanding about women's hormonal balance through internships and other activities, as well as supporting production of Japanese valerian, the product's main ingredient.

### Support for Valerian Farms

In locations including Hokkaido in northern Japan, we support producers of Japanese valerian, the plant that is the main raw ingredient of *Inochi no Haha A*, as part of our initiatives to create shared value.

We help to support stable production of valerian by working with public and private entities and producers on the development of the agricultural machinery and washing equipment necessary pre- and post-harvest. In so doing, we contribute to the business stability of producers and obtain stable supplies of high-quality, domestically produced herbal medicine.



Valerian cultivation



Dried valerian



*Inochi no Haha A*

### Promoting Understanding of Women's Hormonal Balance

To raise awareness of women's hormonal balance, Kobayashi Pharmaceutical offered job-seeking students an internship involving the production of a TV commercial about *Inochi no Haha White*. The process of making the commercial was documented on film and widely shared. Through such efforts, we will promote understanding of women's hormonal balance so that women can continue to work at their full potential.

► <https://www.kobayashi.co.jp/brand/inochinohaha/white/intern/> (Japanese only)



*Inochi no Haha White*



### Feedback from Customers about *Inochi no Haha*

- When I started going through menopause, I had hot flashes, headaches and dizziness. Since taking *Inochi no Haha*, I feel much better and that my metabolism has improved.
- Before, I had to constantly go to the restroom at work, but now things are easier.
- Even my mother told me, "You're back to your old self."
- I feel more positive. I've started walking more and I'm thinking about resuming my career next year.
- I knew I was in menopause, but perhaps because I felt irritable every day, my words and behavior became snappy and I quarreled with my family all the time. *Inochi no Haha* saved me from a crisis that might have pulled my family apart.

## S Social

### Relationship with Employees

Our relationship with employees is vital for achieving ongoing improvement in corporate value. Accordingly, we will promote

workplace diversity in addition to accelerating the growth of employees and implementing work-style reforms.

#### Human Resource Development

Based on our value that “every employee plays an important role,” we believe that the growth of employees leads to unique product development and contributes to solving social issues, and therefore focus on developing employees’ potential.

#### Growth Dialogues

We have established regular “growth dialogues” as opportunities for discussion between employees and supervisors to support employee growth. A dialogue sheet is used to help visualize career goals and ideas for growth, and employees get immediate recognition for growth from their supervisors. Providing feedback through regular dialogue is a key motivator for further growth.

#### Selection Education

We conduct a selection education program called “Kobayashi

University,” with Chairman of the Board and CEO Kazumasa Kobayashi serving as university president, to polish management acumen from an early stage and cultivate future executive candidates. In K-Management School courses, which are mainly for the department manager class, the chairman and other executives do the teaching, and actively engage with the students. Through management meeting role-playing and other techniques, students learn how to view things and make decisions as a manager, and above all, learn the DNA of the Kobayashi Pharmaceutical Group.

#### Work-Style Reforms

In addition to the establishment and maintenance of the compliance system, we are seriously committed to work-style reforms aimed at enhancing work-life balance and raising labor productivity for the purpose of maximizing employee and corporate value.

#### Promotion of Work-Style Reforms

We comply with the Work Style Reform Act of April 2019, and will continue to educate employees regarding the elimination of excessively long working hours, which can be detrimental to health, and increase the rate of paid leave taken.

#### Improvement of Labor Productivity

Working as long as it takes to get results is no longer acceptable. We are shifting to management that places greater weight on high-value work and pursues results in line with working hours. We are taking steps to raise productivity by encouraging more efficient ways of working.

#### Employee Health Promotion

Employees are better able to fulfill their potential when they have the support of their families, and we recognize the importance of promoting the health of both employees and their family members.

In April 2019, we established a system in which the Company

bears the full cost of single-day complete medical checkups for employees and their family members (dependents) aged 35 or older. The system ensured that 100% of employees received health examinations in FY2019.

#### Enhancement of Work-Life Balance

In addition to further enhancing support measures for balancing work with child care and family care, and making those measures available to more employees, we have established flexible work systems that are easier for everyone to use.

##### Flex System

Apr. 2019 Introduced flex system for child care and family care  
Jan. 2020 Updated flex system (expanded eligibility to all employees in principle; abolished core time)

##### Work-from-Home Systems

Sep. 2019 Introduced a work system to enable overtime work and work on holidays at home  
Jan. 2020 Introduced a work-from-home system for child care and family care (combined use with half-days off permitted if unable to work due to nursing care or other reasons)  
Introduced a work-from-home system that can be used during childcare leave (permitted for a limited time during maternity leave)

#### Diversity

The presence of employees with diverse backgrounds and perspectives, including age, gender and nationality, is essential in developing products that create new markets. Two people looking at the same thing see it differently depending on their standpoint and perspective. By attracting diverse people who can offer alternative perspectives, we can realize product development and advertising based on understanding of wider-ranging customer needs.

#### Promotion of Women to Management Positions

Empowering women in the workplace is another important management issue at Kobayashi Pharmaceutical. We are continuing efforts to expand the percentage of management positions held by women (11.5% as of January 2020).

#### Introduction of Diversity Index

We conduct an online test called the Diversity Index to quantify the degree of understanding and practical application of diversity policies in the workplace. This helps to promote understanding and raise awareness among employees, and accelerates our efforts relating to diversity.



## Relationship with Society

### The Kobayashi Foundation

#### Establishment

The Kobayashi Foundation (“the Foundation”) was established in 2017 as one of the projects to mark Kobayashi Pharmaceutical’s 100th fiscal period since incorporation.

In the past we have carried out a variety of social contribution activities. However, establishing the Foundation created a structure for conducting more specialized activities on an ongoing basis without affecting our business operations. The Foundation funds its activities with dividends on the shares of Kobayashi Pharmaceutical stock that it holds.

In December 2017, the Foundation received authorization for incorporation as a public interest corporation, and is now conducting its third term of activities.

#### Award Recipient: NPO Florence

NPO Florence is an organization that seeks to create a society in which parents and guardians can raise children with peace of mind. It helps solve problems relating to childrearing, including care for sick children, single parenting, waiting lists for childcare services, daycare for children with disabilities, parental isolation, and abuse-related infant mortality.

NPO Florence received recognition as part of the Foundation’s FY2017 award program for the opening of Oyako Kichi Shibuya, a new kind of childcare facility.



Childcare at Helen Nursery School for Children with Disabilities

#### Start of the Toilet Hygiene Project

In Japan, it is common for students at schools to assist in keeping bathroom facilities clean. To mark the 50th anniversary of the launch of *Bluelet* in November 2019, we developed a program to support hygienic bathroom environments in elementary schools. The program employs various techniques conceived by Professor Naohiro Matsumura of Osaka University, NPO Japan Toilet Labo. and Kobayashi Pharmaceutical to make bathroom cleaning fun. In preparation for a nationwide rollout, the program was trialed at elementary schools in Osaka Prefecture, with which we have a comprehensive partnership agreement. With a focus on the themes of “health,” “the environment” and “children and welfare,” we will expand this program to promote the teaching of proper ways to clean bathroom facilities and hygienic toilet etiquette across

#### Activities

The Foundation’s purpose is to provide support for children with disabilities or illnesses, as well as their families – in short, to identify their wishes and address them. By soliciting applications from a wide range of people and organizations working in this field, and supporting their activities, the Foundation aims to contribute to bringing greater delight to society as a whole.

In FY2019, we provided grants and awards totaling ¥30 million to 13 projects out of 50 applications.

The Foundation will continue to gather information to assist those in need of support and publicize its programs.

#### Comment from NPO Florence Founder Hiroki Komazaki

Oyako Kichi Shibuya is Japan’s first multifunctional childcare facility that combines four services – a nursery school for children with disabilities, a licensed nursery school, a childcare facility for children with special healthcare needs, and a pediatric clinic.

Our initial costs (operation, equipment costs, etc.) were covered by donations and grants from individuals, corporations, foundations and others. Thanks to the award from the Kobayashi Foundation, we were able to buy many of the supplies we needed, such as medical devices for children who need medical care and toys for children with special needs. We are sincerely grateful.



Hiroki Komazaki, President & CEO, NPO Florence

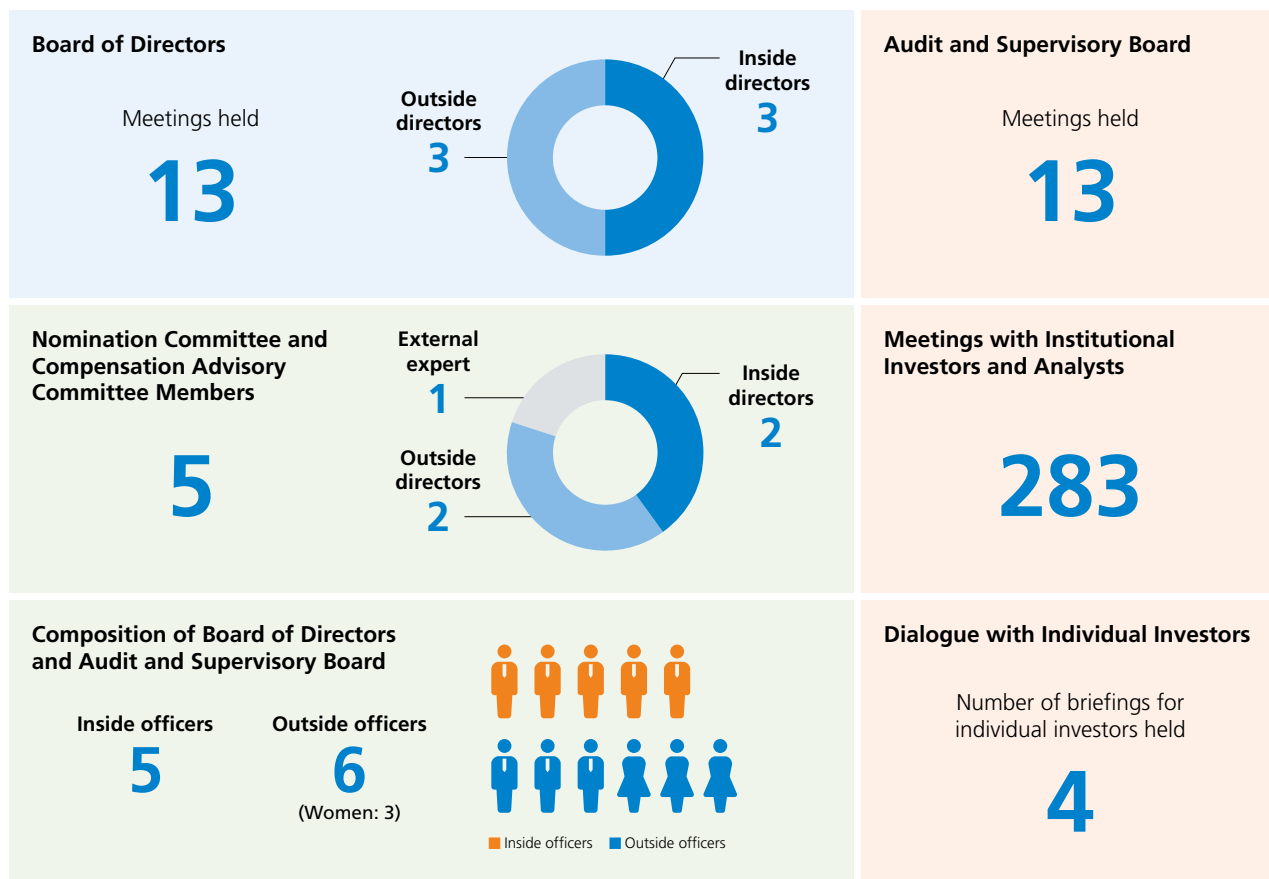
Japan, which will help create hygienic bathroom environments that are odor-free, dirt-free and welcoming to children.



Toilet Monsters uses a game format to make bathroom cleaning fun

# G Governance

## Governance at a Glance



## Basic Policy

To achieve sustainable growth, Kobayashi Pharmaceutical believes it is important to balance an environment that supports a healthy risk appetite with adequate oversight of management.

One advantage of our management structure centered on the founding family is the ability to make management decisions with a long-term perspective. However, there is also a risk of self-serving behavior by top management, so we appoint outside directors with strong supervisory capabilities, and ensure oversight functions to enable speed-oriented management and bold reforms. To sustain this management approach, we have

introduced a range of systems and structures designed to enhance corporate governance.

In addition, we have an exceptionally open and transparent corporate culture in which employees can voice their opinions to anyone. For example, we proactively give frontline employees opportunities to candidly express their opinions directly to top management. Based on our recognition that corporate governance objectives cannot be achieved by enhancing systems and structures alone, we believe that maintaining and developing this corporate culture is also an effective means of corporate governance.

## Management Structure

Responsibility for the execution of management resides with executive officers, led by the president and COO, while management oversight functions are performed by the Board of Directors, chaired by the chairman and CEO. We have appointed three independent outside directors among the six directors, and optimize the number of directors from the standpoint of energizing the Board of Directors.

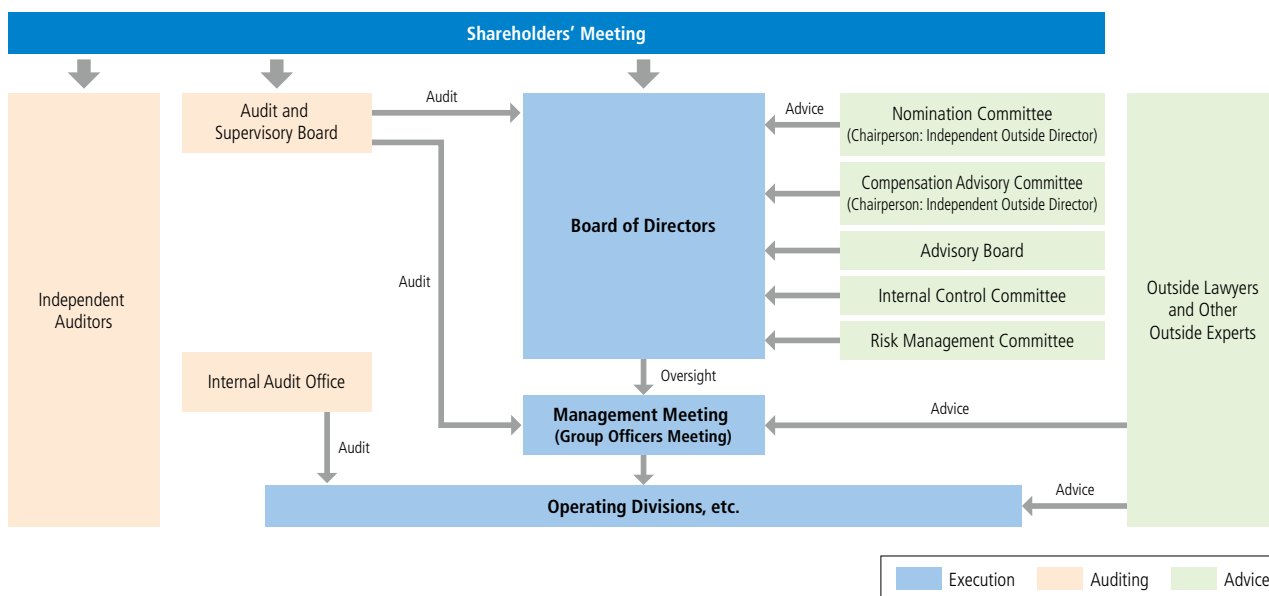
To ensure the fairness of the decision-making process for appointment and compensation of directors and other officers, we have established a Nomination Committee and Compensation Advisory Committee. We have also set up an Advisory Board consisting mainly of independent outside directors and representative directors to provide a structure for obtaining necessary advice on major management issues.

## Selection of Officers

In the case of executive officers candidates are selected based on consideration of the right person for the right job in each business unit to incorporate a wide range of knowledge and insight throughout the Company's operations. Candidates are appointed or designated as candidates after discussion by the Nomination

Committee and the Board of Directors.

Decisions on Audit and Supervisory Board candidates are made after the Board of Directors has obtained the approval of the Audit and Supervisory Board on persons who have the requisite knowledge and insight to perform audit work.



### Status of Committees

Group Officers Meeting	We have adopted an executive officer system to clarify the separation of supervision and execution. The Group Officers Meeting, consisting mainly of executive officers, is held four times a month to discuss key matters relating to execution.
Board of Directors	The Board of Directors consists of six directors, three of whom are outside directors. Meetings are also attended by the five Audit and Supervisory Board members, three of whom are outside Audit and Supervisory Board members. Attendees provides oversight of various matters, including those discussed at the Group Officers Meeting. At Board of Directors meetings, outside directors and outside Audit and Supervisory Board members actively participate and engage in dialogue, ensuring a well-functioning system of checks and balances from an outside perspective.
Advisory Board	As a supporting arm to the Board of Directors and Group Officers Meeting, the Advisory Board, consisting of outside directors, the chairman, the president and relevant officers, meets once every six months. The Advisory Board provides guidance from a broad perspective on significant business issues and management policy, which is in turn reflected in the daily management of the Group.
Compensation Advisory Committee	The Compensation Advisory Committee ensures transparency in the process for determining director compensation, and consists of outside experts, outside directors, the president and relevant officers.
Nomination Committee	The Nomination Committee ensures transparency and fairness in the process for selecting director and executive officer candidates, and consists of outside experts, outside directors, the president and relevant officers.
Internal Control Committee	The Internal Control Committee consists of the officer in charge of internal control and management personnel involved in internal control, and deliberates primarily on basic issues relating to compliance and the development of internal control systems. The committee also formulates basic internal control policies and monitors the internal control management framework at the Company and its affiliates.
Risk Management Committee	The Risk Management Committee, consisting of principal officers, has been established to prevent the manifestation or minimize the impact of business risks that may affect the Kobayashi Pharmaceutical Group. The committee is responsible for creating and implementing risk management systems.

## Incorporating Outside Perspectives

When appointing independent outside directors and outside Audit and Supervisory Board members, in addition to having a wealth of experience and knowledge, an important criterion is whether candidates can clearly express their views to internal directors and executive officers. Independent outside directors and outside Audit and Supervisory Board members actively speak up and engage in lively discussions at Board of Directors meetings.

In this way, an open atmosphere is fostered at Board of Directors meetings, and votes on proposals that are the subject of heated debate are often divided.

Three of our officers are women (one outside director and two outside Audit and Supervisory Board members), thus broadening the diversity of perspectives.

## Reasons for Appointment of Outside Officers

### Outside Directors

Name	Reasons for appointment
Haruo Tsuji	A former company president, Mr. Tsuji has a wealth of experience and insight in corporate management, and with a solid understanding of all aspects of the Company's businesses he has helped to strengthen the Board's management oversight function. He has a detailed understanding of social changes, and has made recommendations at Board meetings based on the viewpoints of stakeholders in his position independent of the Company, including opinions that enhance the transparency and fairness of the Company's management. Based on this experience and track record, we judged that he is qualified to continue serving as an outside director, and nominated him as a candidate for the office. He was elected at the General Meeting of Shareholders.
Kunio Ito	Mr. Ito has been engaged in accountancy and business administration for many years as a university professor, served as an outside officer of other companies, and plays a central role in a governmental study group on the sustainable growth of companies. At Kobayashi Pharmaceutical, based on the knowledge he gained through these activities, he has fulfilled a management oversight function focused on the enhancement of corporate value, including improvement of capital efficiency. Based on this experience and track record, we judged that he is qualified to continue serving as an outside director, and nominated him as a candidate for the office. He was elected at the General Meeting of Shareholders.
Kaori Sasaki	In addition to her achievements and insights as a manager, Ms. Sasaki has extensive experience in corporate management as an outside officer in other companies. Furthermore, as the founder and chair of the International Conference for Women in Business, she has been a pioneer in promoting the empowerment of women for many years. At Kobayashi Pharmaceutical, she has contributed to the enhancement of corporate value in various ways, such as by expressing views and opinions at Board meetings that take into account the perspectives of work-style reform, diversity and consumers. Based on this experience and track record, we judged that she is qualified to continue serving as an outside director, and nominated her as a candidate for the office. She was elected at the General Meeting of Shareholders.

### Outside Audit and Supervisory Board Members

Name	Reasons for appointment
Ryuji Sakai	As an attorney, Mr. Sakai has the requisite legal expertise to assess the appropriateness of business activities, and has an extensive track record of cases involving important business decisions. He has utilized this expertise and experience in auditing the Company's business activities, and has made perceptive and discerning remarks in Board of Directors' meetings and Audit and Supervisory Board meetings. As a result, we judged that he can continue to properly perform the duties of an outside Audit and Supervisory Board member and nominated him as a candidate. He was appointed at the General Meeting of Shareholders.
Yoko Hatta	Ms. Hatta worked at a tax accounting firm and has considerable expertise in international tax matters. As well as serving as an outside officer of other companies, she has long served as an auditor of a university. Based on this expertise and experience, she has properly performed audits of the Company's business activities related to global business operations. As a result, we judged that she can continue to properly perform the duties of an outside Audit and Supervisory Board member and nominated her as a candidate. She was appointed at the General Meeting of Shareholders.
Chiaki Ariizumi (from March 2020)	At the Bank of Japan, Ms. Ariizumi has been involved for many years in the analysis of economic conditions and financial markets of Japan and other countries, and in discussions with the management of various companies on the Bank of Japan's policies and judgments regarding economic conditions. We judged that she would be able to apply her extensive knowledge and experience gained through such involvement, as well as her ongoing consideration of how to promote the sound growth of the Japanese economy, in audits of the Company's business activities, and nominated her as a candidate for the Audit and Supervisory Board. She was appointed at the General Meeting of Shareholders.

## Compensation of Directors

Compensation of directors is designed to further motivate directors to work toward enhancing the Company's business performance and medium-to-long-term growth. It consists of basic compensation, short-term incentive compensation, which varies according to business performance each year, and long-

term incentive compensation, which varies according to the Company's medium-to-long-term performance. Compensation of outside directors consists of basic compensation only because they are independent from business execution. A summary of each type of compensation is shown in the table below.

Type of compensation	Description
Basic compensation	Compensation that is loosely tied to business performance to encourage directors to execute their duties in accordance with their respective positions, and to steadily produce results
Short-term incentive compensation	Performance-based compensation is tied to results for each year to encourage directors to strive for the Company's growth by achieving performance targets
Long-term incentive compensation	Performance-based compensation tied to medium-to-long-term results to promote management that emphasizes enhancement of shareholder and corporate value in the medium and long term

The Compensation Advisory Committee, consisting of outside directors, outside experts, the Company's representative directors and others, discusses the appropriateness of the amount of compensation of directors, and entrusts decisions on the specific amount of compensation to the representative directors based on

the results of those discussions. In order to respond swiftly to changes in the external environment, the amount of compensation is set after confirming the levels of executive compensation of other companies in the same industry and companies of a similar size in other industries, based on an annual study by a specialist outside firm.

### Total Amount of Compensation by Position, Types of Compensation and Number of Officers Receiving Each Type of Compensation

Officer title	Total amount of compensation (Millions of yen)	Total amount of compensation by type (Millions of yen)				Number of officers
		Basic compensation	Stock options	Bonuses	Retirement bonuses	
Directors (excluding outside directors)	640	640	—	—	—	5
Audit and Supervisory Board members (excluding outside members)	39	39	—	—	—	3
Outside officers	78	78	—	—	—	5

Notes: 1. Directors of the Company do not receive payment of salaries as employees other than the above payment amounts.

2. The upper limit on total compensation for directors was set at ¥900 million per year (including ¥100 million for outside directors) at the 97th General Shareholders' Meeting held on June 26, 2015.

3. The upper limit on total compensation for Audit and Supervisory Board members was set at ¥80 million per year at the 91st General Shareholders' Meeting held on June 26, 2009.

4. Includes compensation paid to directors who retired at the close of the 101st General Shareholders' Meeting held on March 28, 2019.

## Total Amount of Compensation of Officers Receiving Compensation of More Than ¥100 Million

Name	Position	Total amount of compensation by type (Millions of yen)				Total compensation (Millions of yen)
		Basic compensation	Stock options	Bonuses	Retirement bonuses	
Kazumasa Kobayashi	Chairman and CEO	293	—	—	—	293
Yutaka Kobayashi	Vice Chairman of the Board	174	—	—	—	174

## Reforming the Board of Directors

### Assessment of the Board of Directors

Kobayashi Pharmaceutical recognizes that vigorous discussion by the Board of Directors is vital to corporate governance, and to increasing corporate value. Accordingly, an assessment of the effectiveness of the Board of Directors was conducted between October and December of 2019. For the assessment, a questionnaire and individual interviews on the operation, discussion points and functions of the Board of Directors were conducted for all directors and Audit and Supervisory Board members, and problems and future issues concerning the Board were identified.

Based on the results of the questionnaire, the Board of Directors Assessment Meeting, which consists of all outside officers (three outside directors and two outside Audit and Supervisory Board members), was held in December.

Feedback was provided to the Board of Directors on the assessment results determined at that meeting, and will be used to further improve the Board's oversight and decision-making functions. Issues identified by the assessment are outlined below.

### Summary of Assessment Results

For most themes, the Board received an assessment of "generally adequate," but the following themes were identified as having room for improvement.

Issues	Assessment
1) Discussions in Board of Directors meetings based on advice from the Nomination Committee and the Compensation Advisory Committee	The Nomination Committee and the Compensation Advisory Committee positively evaluated the Board for enhancing the quality of discussions. However, there is still a need to further enhance discussions in Board meetings, and the Board will therefore continue making efforts to stimulate debate on the topics discussed by the committees.
2) Items concerning internal control over compliance and financial reporting, and establishment/operation of a proactive risk management system	While discussions and reporting on risk management and internal controls took place to a certain extent, further increasing their depth was identified as an issue. Strengthening the operation of the relevant committees (Risk Management Committee and Internal Control Committee) will lead to enhancement of discussions in Board meetings.
3) Discussion of measures for work-style reforms to improve work environments and human resource development	The Board received a positive evaluation for increasing the number of related topics on the agenda, but it was noted that review of necessary business processes in connection with changes in work styles and discussions on human resource development are still insufficient. The Board will make efforts to systematically bring up topics that contribute to discussion of these issues.
4) Items that require focused discussion for appropriate execution of the new medium-term management plan	The need to discuss business expansion from a longer-term perspective, and then conduct periodic reviews as a way of ensuring appropriate plan execution, was raised as an issue with regard to the 2020–2022 medium-term management plan that commenced this year. The Board will deepen discussion about the Group's future, and conduct reviews as appropriate.
5) Discussion of topics that indicate the direction of management strategy, such as the medium-term management plan and ESG initiatives	The Board received a positive assessment for its discussion of the medium-term management plan and medium- and long-term management issues as they relate to the annual plan. However, it was also pointed out that more in-depth discussion based on the Board's understanding of the business environment is necessary. Therefore, the Board will continue its efforts to enhance discussion of these topics.
6) Appropriate review of the progress of the medium-term management plan and important matters concerning business execution	The Board received a positive assessment for improvement in conducting reviews of important matters, but further enhancing reviews of M&A and other investments was identified as an issue. The Board will systematically conduct reviews of M&A and other investments, and strengthen management of their progress.
7) Discussion and monitoring of succession plans for the CEO and other top executives	Based on discussions by the Nomination Committee, the Board of Directors drew up a succession plan for the general manager level. Because the appropriate operation of the plan will be an issue going forward, the Board of Directors will also monitor the content of discussions in the Nomination Committee.
8) Discussions concerning management decisions taking into account capital efficiency and cost of capital	While some discussion from the viewpoint of capital efficiency and cost of capital took place, the issue was raised that discussion with these as the main focus is still not being conducted. When setting agendas, the Board will endeavor to continue making improvements that lead to enhancement of discussions in Board meetings.



## Risk Management

Kobayashi Pharmaceutical groups risks into three categories, and has set up frameworks to manage risk in each category.








For medium-to-long-term risks (potential risks), the Risk Management Committee chaired by the president was established in 2017 and has begun comprehensive activities to identify business risks from a long-term perspective and to take action before they develop into specific problems. In 2018, after discussions in four meetings of the Risk Management Committee, which included training by outside experts, we identified high-priority Group-wide risks as medium-to-long-term risks that should be reduced with the involvement of management. General managers are now leading risk reduction activities for high-priority Group-wide risks utilizing a framework for formulating and

monitoring the progress of risk reduction plans, and regularly reporting on progress to top management. The Board of Directors will continue to reassess high-priority Group-wide risks, and carry out appropriate risk management while monitoring the internal and external environments.

Regarding potential short-term risks, the Monthly Report Committee aggregates and considers responses to all departmental risk information. In addition, we are establishing a structure in which the Management Meeting will take measures to address risks that are judged to require the involvement of management. When a crisis occurs, a Crisis Management Headquarters will be set up immediately to quickly implement response measures.

	Risk Management Committee	Monthly Report Committee/ Management Meeting	Crisis Management Headquarters
Main risks	Medium-to-long-term risks (potential risks)	Short-term risks	Occurrent crises
Committee chair	President	Senior General Manager of Corporate Administration Headquarters/President	President

## Business and Other Risks

Main categories	Description	Trend	Response
Market risk	<ul style="list-style-type: none"> <li>Highly competitive environment</li> <li>Impact from sales of new products</li> <li>Fluctuation of raw material prices</li> </ul>		<ul style="list-style-type: none"> <li>Differentiation from other companies by developing new products and services that meet customer needs</li> <li>Aggressive new product development</li> <li>Ongoing cost-cutting efforts</li> </ul>
Legal and regulatory risk	<ul style="list-style-type: none"> <li>Risk of being subject to the Pharmaceutical and Medical Device Act and other relevant laws and regulations</li> </ul>		<ul style="list-style-type: none"> <li>Research of laws and regulations of countries and regions where we do business</li> <li>Surveys of market and industry trends</li> </ul>
Quality risk	<ul style="list-style-type: none"> <li>Risk of damage to the Company in the event of quality defects, etc. impairing the health of consumers or patients</li> </ul>		<ul style="list-style-type: none"> <li>Quality management</li> <li>Strengthening and improving internal control systems</li> </ul>
Business environment risk	<ul style="list-style-type: none"> <li>Risk of failing to achieve business targets if we are unable to attract and develop the necessary human resources</li> <li>Risk of large fluctuations in exchange rates and changes in regulations by foreign governments or in the economic environment</li> <li>Risk of share price fluctuations due to a decline in the market value of securities or recognition of extraordinary losses</li> </ul>		<ul style="list-style-type: none"> <li>Geographic expansion of business portfolio</li> <li>Use of forward exchange contracts to hedge risk of exchange rate fluctuations</li> </ul>
Natural environment risk	<ul style="list-style-type: none"> <li>Risk of major impact of unseasonable weather, etc. on sales of products with strong seasonality</li> <li>Risk of business sites incurring losses or disruptions due to natural disasters, including earthquakes and major typhoons</li> </ul>		<ul style="list-style-type: none"> <li>Formulation of business continuity plan to prepare for disasters</li> </ul>
Information management and systems risk	<ul style="list-style-type: none"> <li>Risk of incurring losses due to erosion of trust in the event of information leakage</li> </ul>		<ul style="list-style-type: none"> <li>Improvement of internal management system</li> <li>Extensive in-house education</li> <li>Enhancement of information management</li> </ul>
Intellectual property risk	<ul style="list-style-type: none"> <li>Risk of a third party violating intellectual property rights such as brands and trademarks</li> </ul>		<ul style="list-style-type: none"> <li>Implementation of legal compliance education</li> <li>Strengthening and improvement of compliance system</li> </ul>

## Internal Controls

Kobayashi Pharmaceutical is building internal frameworks to ensure that operations are conducted and financial statements are prepared in compliance with the Companies Act and the Financial Instruments and Exchange Act of Japan, and to adhere to relevant laws and regulations. As part of these frameworks, the Internal Control Committee meets twice each year.

An outside attorney serving as an advisor monitors the Kobayashi Pharmaceutical Group's internal control and compliance systems, and provides recommendations and advice to the Board of Directors on measures for improvement.

\* For details, see the Basic Policy on Internal Control Systems. (Japanese only)  
<https://www.kobayashi.co.jp/corporate/governance/policy/index.html>

## Compliance Framework

We have improved and integrated our compliance training programs to ensure that all officers and employees comply with laws and regulations as well as follow a strict code of corporate conduct and ethics. To increase compliance awareness and spread knowledge of compliance across the Kobayashi Pharmaceutical Group, we are systematically conducting group training by job classification (officers, managers, new employees, etc.) that incorporates topics tailored to each job level.

Furthermore, we continue to instill compliance awareness among all employees through the Group newsletter and e-learning programs available via the Group intranet. In addition, we have established the Employee Consulting Center both internally and externally (in a law office; also available to overseas employees) as a dedicated hotline for employees to anonymously report compliance violations or ask general questions on compliance issues. This helps resolve matters that arise.

### E-Learning Topics

Month	Topic	Month	Topic
January 2019	Thinking about compliance	July 2019	Precautions against malicious email
February 2019	Identifying security incidents	August 2019	Smartphone usage risks
March 2019	Disaster awareness and crisis management information	September 2019	The Pharmaceutical and Medical Device Act (pharmaceutical sales and harmful side effects)
April 2019	Handling of personal information	October 2019	Improving the workplace environment
May 2019	Bringing in articles from foreign countries	November 2019	The Premiums and Representations Act and related laws and regulations
June 2019	Recognizing harassment	December 2019	Check for understanding of topics covered during the year

### Promotion of Global Compliance

Anticipating the expansion of our international business, we established the Global Compliance Policy in 2012, and made a corresponding declaration of our commitment. After setting out the policy and its specific behavior standards in the Officers' and Employees' Oath, we translated this document into various languages and disseminated it to all Kobayashi Pharmaceutical Group companies in Japan and overseas. All officers and

employees of the Group in Japan and overseas sign written pledges stating their intent to comply with these standards.

In 2013, we produced the Compliance Guidebook to further instill the aforementioned policy and behavior standards and provide a model for practicing them in day-to-day work. At overseas affiliated companies, group training sessions are conducted using this guidebook.

## Communication with Shareholders and Investors

At Kobayashi Pharmaceutical, we recognize that shareholders and investors ("shareholders, etc.") are important stakeholders, and we emphasize constructive dialogue with them for the Company's sustainable growth.

We have systems in place for ensuring that valuable opinions, centering on those arising from dialogue with shareholders, etc., are shared with top management and reflected in improvements to the running of the Company.

### Policies for Dialogue with Shareholders, Etc.

- We actively engage in dialogue with shareholders, etc. to contribute to the Company's sustainable growth.
- Senior management, the IR officer or IR Department conduct dialogue with shareholders, etc., taking into account their attributes, the timing of the dialogue, the Company's business resources and other factors.
- In dialogue with shareholders, etc., feedback is provided to the Board of Directors on shareholders' views regarding the Company's sustainable growth.

### Shareholder Events in FY2019

General Shareholders' Meeting (held in March 2020)	
Attendance	425
Vote participation rate	93.9%
Meetings with institutional investors and analysts	
Number of times held	283
Dialogue with individual investors	
Number of times held	4
Participants	309

## Interview with an Outside Director

**Kobayashi Pharmaceutical is a company that takes ESG seriously, and acts on it.**

**I hope to see it make even greater strides.**

**Kaori Sasaki**

Outside Director

Representative Director  
and President, UNICUL  
International, Inc.

President & CEO, ewoman, Inc.

Kobayashi Pharmaceutical is enhancing its corporate governance to continue sustainable growth by “making wishes happen.” Outside Director Kaori Sasaki talks about Kobayashi Pharmaceutical’s strengths and future challenges from an ESG perspective.

## Kobayashi Pharmaceutical’s Strengths and Virtues

Kobayashi Pharmaceutical is known for the distinctive names of its products, but to me, the fact that the naming is performed by the same people responsible for product development, and not by specialists, symbolizes the Company’s strengths. Those unique product names were not decided by a handful of experts, but conceived with a sense of unity by employees—evidence of each employee’s commitment to “making wishes happen.” All employees are on the lookout for new ideas, contribute their ingenuity and make ongoing improvements in product development. The commitment and adaptability of their approach, coupled with a culture of openness, can be credited

with producing steady growth in sales and profit, year in and year out. That sincerity can also be seen in the lively earnings presentations that the president gives in person at general shareholders’ meetings. Unlike many shareholders’ meetings where earnings presentations are delivered by video, Kobayashi Pharmaceutical’s corporate stance speaks to shareholders through the powerful voice of the president. This corporate culture in which all personnel are deeply conscientious about their responsibilities, management included, is conveyed to shareholders, and that is perhaps one reason that they choose to continue supporting the Company.

## Kobayashi Pharmaceutical’s Corporate Governance

I believe Kobayashi Pharmaceutical to be a company where governance functions well. One might imagine that a family-run company might engender a complacent or unquestioning culture, but Kobayashi Pharmaceutical is a disciplined company with strong ethical values. Discussions are vigorous. At Board of Directors meetings, members speak freely, listen to each other’s

wide-ranging opinions and new viewpoints, and act on them. The Board demonstrates flexible, quick decision-making, and is ready to adjust when discussions lead to a rethink from the ground up. Indeed, I feel that there are ways in which being a company run by members of the founding family improves governance. Running away is not an option, so top management, who have a

strong sense of mission to make Kobayashi Pharmaceutical a better company, sincerely listen to, incorporate and boldly act on good ideas from outside. Outside directors and Audit and

Supervisory Board members freely speak up and openly ask questions, backed by their professional expertise. It is truly a company with effective governance.

## Role and Mission of Outside Directors

The role of outside directors is to present views that are hard to see from within the Company. Each outside director calls on his or her particular expertise to ask questions from perspectives that are easily overlooked, as well as habits and common practices taken for granted inside the Company, and offer suggestions, thereby helping management to visualize and solve issues, and head toward a new future. The three outside directors, alongside

the three outside Audit and Supervisory Board members, fulfil that role. My specialty is diversity, the essence of which is to produce better results by leveraging a range of perspectives. To contribute to Kobayashi Pharmaceutical's growth and corporate value, I always voice my opinions after considering whether there is a perspective missing, or whether we can examine the topic from a different angle.

## Kobayashi Pharmaceutical's ESG Initiatives

People at Kobayashi Pharmaceutical are always keen to learn more, and approach ESG issues enthusiastically and conscientiously with a high level of awareness. The days when ESG began and ended with social contribution are gone. Now, it is discussed as a central part of management, with an understanding of its direct connection to investment decisions and corporate value. At present, the Company is initiating actions to lead society on environmental issues, an area where legislation and regulations are firmly established. From the perspective of leveraging diversity, my specialty, in management the Company is also strengthening its social and governance efforts. When drafting plans in corporate

management, there is a tendency to think in terms of a steady accumulation of efforts each year leading to the next stage. Moving forward, I would like to assist the Company in coming up with a clear vision for five or ten years down the line, under which it anticipates how lifestyles and technologies will change, and works backward to identify what reforms to implement. I also want to help make improvements that encourage management and employees to talk about how they can apply their respective skills and strengths to help achieve that vision. Kobayashi Pharmaceutical is a company that takes ESG seriously, and acts on it. I hope to see it make even greater strides.

## Future Challenges in Medium- and Long-Term Value Creation and Sustainable Growth



Human resource development and mobilization will be key as Kobayashi Pharmaceutical makes a strong push to globalize. I believe that the Company's technologies and perspectives have currency outside Japan. There are needs with regard to "making wishes happen" in all countries. By making wishes happen in each region, the Company should see continued growth. To that end, organizational development and human resource development are crucial. Kobayashi Pharmaceutical employees are diligent and of good character, but perhaps because earnings have been growing steadily, my impression is that they have become comfortable with the status quo. I would like the Company to enhance aspects such as organizational structures, training plans and succession plans for developing and evaluating personnel with the diverse characteristics to succeed in global markets. At the same time, I would like employees to renew their commitment to learning and growing as diverse, globally competent human resources.



# Management Team (As of March 27, 2020)

## Directors

### Kazumasa Kobayashi

**Representative Director,  
Chairman of the Board and  
Chief Executive Officer**



Mar. 1962 Joined the Company  
Nov. 1966 Director  
Nov. 1970 Executive Director  
Dec. 1976 Representative Director and President  
Jun. 2004 Representative Director, Chairman of the Board and Chief Executive Officer (current)

### Akihiro Kobayashi

**Representative Director, President  
and Chief Operating Officer**



Mar. 1998 Joined the Company  
Jun. 2001 Executive Officer and Manufacturing Company President  
Jun. 2004 Director, International Sales Company President and Marketing Office Manager  
Jun. 2007 Executive Director  
Mar. 2009 Senior Executive Director and Senior General Manager of Product Business Division  
Jun. 2013 Representative Director, President and Chief Operating Officer (current)



### Satoshi Yamane

**Senior Executive Director**

Mar. 1983 Joined the Company  
Mar. 2004 Executive Officer, Board of Directors Office Manager and Growth Strategy Office Manager  
Jun. 2006 Director and Senior General Manager of Corporate Administration Headquarters (current)  
Jun. 2011 Executive Director  
Jun. 2016 Senior Executive Director (current)



### Haruo Tsuji

**Outside Director**

Mar. 1955 Joined Hayakawa Electric Industry Co., Ltd. (now Sharp Corporation)  
Jun. 1986 Director and President  
Jun. 1998 Advisor  
Jun. 2008 Outside Director of the Company (current)

### Kunio Ito

**Outside Director**



Apr. 1992 Professor, Faculty of Commerce and Management, Hitotsubashi University  
Aug. 2002 Dean of the Graduate School of Commerce and Management, Hitotsubashi University  
Dec. 2004 Vice President of Hitotsubashi University  
Dec. 2006 Professor, Graduate School of Commerce and Management, Hitotsubashi University  
Jun. 2007 Member of the Independent Committee of the Company  
Jun. 2013 Outside Director of the Company (current)  
Jan. 2015 Director, Center for CFO Education and Research, Hitotsubashi University (current)  
Apr. 2015 Adjunct Professor, Graduate School of Commerce and Management, Hitotsubashi University  
Apr. 2018 Adjunct Professor, School of Business Administration, Hitotsubashi University (current)

### Kaori Sasaki

**Outside Director**



Jul. 1987 Representative Director and President, UNICUL International, Inc. (current)  
Mar. 2000 President & CEO, ewoman, Inc. (current)  
Jun. 2016 Outside Director of the Company (current)



## Audit and Supervisory Board Members



**Hiroshi Goto**

**Full-time Audit and Supervisory Board Member**

Mar. 1979 Joined the Company  
 Mar. 2003 General Manager of Advertising and Sales Promotion Department  
 Mar. 2007 General Manager of Corporate Communication Department  
 Mar. 2009 General Manager of General Affairs Department  
 Jun. 2011 Audit and Supervisory Board Member (current)



**Akitoshi Yamawaki**

**Full-time Audit and Supervisory Board Member**

Apr. 1983 Joined Sunstar Inc.  
 Jul. 2003 Joined the Company  
 Mar. 2008 General Manager of Production Engineering Department  
 Mar. 2009 President and Representative Director of Toyama Kobayashi Pharmaceutical Co., Ltd.  
 Mar. 2011 General Manager of Quality Assurance Department of the Company  
 Mar. 2014 General Manager of Procurement Department  
 Mar. 2016 General Manager of Household Products Technology Development Department  
 Mar. 2019 Audit and Supervisory Board Member (current)

**Ryuji Sakai**

**Outside Audit and Supervisory Board Member**



Apr. 1985 Registered as Attorney-at-Law (Dai-Ichi Tokyo Bar Association)  
 Joined Nagashima & Ohno (now Nagashima Ohno & Tsunematsu)  
 May 1990 Earned LL.M. at University of Pennsylvania Law School  
 Sep. 1990 Joined Wilson Sonsini Goodrich & Rosati  
 Jan. 1995 Partner, Nagashima & Ohno (now Nagashima Ohno & Tsunematsu) (current)  
 Jun. 2005 Outside Audit and Supervisory Board Member of the Company (current)

**Yoko Hatta**

**Outside Audit and Supervisory Board Member**



Aug. 1988 Joined Peat Marwick Main & Co. (now KPMG LLP New York)  
 Aug. 1997 Partner, Peat Marwick Main & Co. (now KPMG LLP New York)  
 Sep. 2002 Partner, KPMG Peat Marwick LLP (now KPMG LLP)  
 Jun. 2008 Auditor of International Christian University (current)  
 Jun. 2015 Outside Audit and Supervisory Board Member of the Company (current)



**Chiaki Ariizumi**

**Outside Audit and Supervisory Board Member**

Apr. 1987 Joined Bank of Japan  
 May 1998 Deputy Assistant to Director, International Department (Head of Europe and North America Group, Global Economic Research Division)  
 Jul. 2009 Director, Secretariat of the Policy Board (Head of Business Federation Liaison Group)  
 Jun. 2019 Director, Information System Services Department  
 Jan. 2020 Personnel and Corporate Affairs Department  
 Mar. 2020 Retired from Bank of Japan  
 Outside Audit and Supervisory Board Member of the Company (current)

## Executive Officers

**Naoki Ayabe**

Senior General Manager,  
Sales Headquarters

**Kazuhito Miyanishi**

Managing Director, Head of  
International Business Division

**Takuya Matsushita**

Senior General Manager,  
Household Division

**Atsushi Sato**

Manager of Sales Management  
Division, Sales Headquarters

**Tetsuji Nishioka**

Senior General Manager,  
Manufacturing Headquarters

**Fujito Ohwaki**

Senior General Manager,  
Healthcare Division

**Yoshihiro Ogawa**

Senior General Manager,  
Direct Marketing Division

# 10-Year Summary

	2011/3	2012/3	2013/3	2014/3
<b>For the fiscal period</b>	<b>(Millions of yen)</b>			
Net sales	130,824	131,166	121,532	127,293
Cost of sales	56,184	54,635	51,732	54,193
Gross profit	74,640	76,531	69,799	73,099
Selling, general and administrative expenses	56,019	57,233	52,895	54,977
Operating income	18,620	19,298	16,903	18,122
Income before income taxes	13,178	19,822	18,853	19,666
Net income attributable to owners of the parent	9,335	11,726	12,176	12,307
Cash flow from operating activities	13,168	17,250	9,242	13,513
Free cash flow <sup>1</sup>	4,789	14,320	(17,362)	6,553
Depreciation	2,932	2,727	2,622	2,677
Capital expenditures <sup>2</sup>	1,938	1,724	2,917	3,947
Research and development costs	4,069	4,385	4,544	4,930
<b>At period-end</b>	<b>(Millions of yen)</b>			
Current assets	88,837	102,538	94,353	105,614
Non-current assets	45,518	45,352	62,753	65,304
Current liabilities	34,525	37,791	34,477	34,216
Non-current liabilities	8,488	8,220	7,757	9,749
Net assets	91,342	101,879	114,872	126,953
Total assets	134,356	147,890	157,106	170,919
Working capital <sup>3</sup>	54,312	64,747	59,876	71,398
Interest-bearing liabilities	25	5	4	6
<b>Per-share data<sup>4</sup></b>	<b>(Yen)</b>			
Net income	113.99	143.18	148.69	150.28
Cash dividends	33.00	39.00	41.00	43.00
Payout ratio (%)	28.9	27.2	27.6	28.6
Cash flows <sup>5</sup>	154.9	202.9	108.7	158.9
Net assets	1,113.21	1,242.04	1,402.64	1,549.16
<b>Financial ratios</b>	<b>(%)</b>			
Gross profit margin	57.1	58.3	57.4	57.4
Operating income margin	14.2	14.7	13.9	14.2
Net margin	7.1	8.9	10.0	9.7
Current ratio	257.3	271.3	273.7	308.7
Return on assets (ROA)	14.3	14.2	12.2	11.4
Return on equity (ROE)	10.6	12.2	11.2	10.2
Equity ratio	67.9	68.8	73.1	74.2
Debt-equity ratio (times) <sup>6</sup>	0.0003	0.00005	0.00004	0.00005
Price-earnings ratio (PER) (times) <sup>7</sup>	16.9	14.5	15.3	19.8

1. Cash flow from operating activities + Cash flow from investing activities

2. Capital expenditures = Increase in property, plant and equipment + Increase in intangible assets

3. Current assets – Current liabilities

4. Including impact of stock split

5. Cash flow from operating activities ÷ Number of shares issued

6. Interest-bearing liabilities ÷ Shareholders' equity

7. Current share price ÷ Earnings per share

2015/3	2016/3	2016/12 <sup>(Note)</sup>	2017/12	2018/12	2019/12
(Millions of yen)					
128,344	137,211	120,051	156,761	167,479	168,052
54,718	57,518	48,638	61,238	64,359	64,705
73,626	79,693	71,412	95,522	103,119	103,346
55,708	61,432	54,003	72,596	76,830	76,991
17,917	18,260	17,409	22,925	26,289	26,355
20,056	18,755	19,802	22,572	25,304	26,804
12,448	13,466	14,321	15,863	18,023	19,139
15,445	14,329	16,097	22,350	20,007	20,089
10,904	3,396	15,577	29,390	11,944	15,017
2,641	2,587	2,112	2,926	2,964	3,731
3,532	4,122	3,164	3,359	3,795	5,313
5,289	5,788	4,121	7,239	7,031	7,110
(Millions of yen)					
115,990	120,347	128,646	142,346	151,824	162,712
70,340	68,650	72,587	76,484	76,963	70,685
35,890	36,481	46,975	54,274	55,053	53,433
10,829	10,492	10,938	10,744	7,485	7,307
139,611	142,023	143,320	153,811	166,249	172,657
186,331	188,997	201,234	218,831	228,787	233,398
80,100	83,865	81,670	88,072	96,771	109,279
40	181	192	194	506	19
(Yen)					
152.73	165.56	179.12	201.31	228.05	244.08
45.00	48.00	52.00	58.00	66.00	73.00
29.5	29.0	29.0	28.8	28.9	29.9
181.6	168.5	189.3	272.4	243.8	244.8
1,711.77	1,766.06	1,818.10	1,947.82	2,102.49	2,208.94
(%)					
57.4	58.1	59.5	60.9	61.6	61.5
14.0	13.3	14.5	14.6	15.7	15.7
9.7	9.8	11.9	10.1	10.8	11.4
323.2	329.9	273.9	262.3	275.8	304.5
10.5	9.6	10.0	11.5	12.2	12.1
9.4	9.6	10.0	10.7	11.3	11.3
74.8	75.1	71.2	70.3	72.7	74.0
0.00029	0.00127	0.00134	0.00126	0.00304	0.00011
28.2	29.8	27.9	36.4	32.8	38.0

Note: The Company changed its fiscal year-end to December 31 from March 31 effective from fiscal 2016/3. Consequently, fiscal 2016/12 is a transitional period comprising the nine months from April 1, 2016 to December 31, 2016.

# Consolidated Financial Statements

## Consolidated Balance Sheet

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019		As of December 31, 2018	As of December 31, 2019
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>Current assets</b>			<b>Current liabilities</b>		
Cash and deposits	74,456	75,580	Notes and accounts payable–trade	8,706	8,276
Notes and accounts receivable–trade	53,386	54,818	Electronically recorded obligations–operating	9,070	8,836
Short-term investment securities	8,300	14,977	Short-term loans payable	506	19
Merchandise and finished goods	9,430	10,203	Accounts payable–other	25,126	23,814
Work in process	934	1,548	Lease obligations	53	190
Raw materials and supplies	3,279	3,335	Income taxes payable	4,423	4,962
Other	2,167	2,293	Accrued consumption taxes	1,187	1,224
Allowance for doubtful accounts	(131)	(45)	Provision for sales returns	1,638	1,607
Total current assets	151,824	162,712	Provision for bonuses	2,355	2,368
<b>Non-current assets</b>			Asset retirement obligations	42	42
Property, plant and equipment			Other	1,940	2,089
Buildings and structures, net	8,447	8,520	Total current liabilities	55,053	53,433
Machinery, equipment and vehicles, net	4,466	4,751	<b>Non-current liabilities</b>		
Tools, furniture and fixtures, net	1,457	1,284	Lease obligations	472	682
Land	3,625	4,248	Deferred tax liabilities	2,812	2,779
Leased assets, net	515	856	Net defined benefit liability	2,057	2,024
Construction in progress	512	1,519	Provision for directors' retirement benefits	38	39
Total property, plant and equipment	19,024	21,180	Asset retirement obligations	77	78
<b>Intangible assets</b>			Other	2,027	1,703
Goodwill	3,241	1,582	Total non-current liabilities	7,485	7,307
Trademark rights	108	92	<b>Total liabilities</b>	62,538	60,740
Software	905	1,071	<b>NET ASSETS</b>		
Other	567	365	<b>Shareholders' equity</b>		
Total intangible assets	4,823	3,112	Capital stock	3,450	3,450
<b>Investments and other assets</b>			Capital surplus	4,183	4,183
Investment securities	45,916	39,533	Retained earnings	159,857	173,650
Long-term loans receivable	386	572	Treasury stock	(11,763)	(19,762)
Deferred tax assets	1,627	2,028	Total shareholders' equity	155,728	161,521
Real estate for investment, net	2,956	2,727	<b>Accumulated other comprehensive income</b>		
Other	2,697	2,150	Valuation difference on available-for-sale securities	12,636	13,212
Allowance for doubtful accounts	(469)	(619)	Deferred gains or losses on hedges	2	—
Total investments and other assets	53,115	46,392	Foreign currency translation adjustment	(318)	(586)
Total non-current assets	76,963	70,685	Re-measurements of retirement benefit plans	(1,798)	(1,489)
<b>Total assets</b>	228,787	233,398	Total accumulated other comprehensive income	10,520	11,136
			<b>Total net assets</b>	166,249	172,657
			<b>Total liabilities and net assets</b>	228,787	233,398

## Consolidated Income Statement

	January 1, 2018 to December 31, 2018	January 1, 2019 to December 31, 2019
Net sales	167,479	168,052
Cost of sales	64,359	64,705
Gross profit	103,119	103,346
Selling, general and administrative expenses		
Promotion expenses	11,993	12,516
Freight and warehousing expenses	6,343	6,857
Advertising expenses	23,689	22,898
Provision of allowance for doubtful accounts	117	—
Salaries, allowances and bonuses	11,067	11,251
Retirement benefit expenses	826	807
Provision for directors' retirement benefits	0	1
Taxes and dues	622	744
Depreciation	718	891
Amortization of goodwill	439	396
Rent	1,500	1,480
Commission fees	5,706	5,492
Research and development expenses	7,031	7,110
Other	6,772	6,542
Total selling, general and administrative expenses	76,830	76,991
Operating income	26,289	26,355
Non-operating income		
Interest income	289	338
Dividend income	426	646
Real estate rent	293	293
Compensation income	1,200	1,000
Other	319	457
Total non-operating income	2,528	2,736
Non-operating expenses		
Interest expenses	35	20
Sales discounts	745	700
Rent cost of real estate	75	101
Foreign exchange losses	328	150
Provision of allowance for doubtful accounts	99	147
Other	158	118
Total non-operating expenses	1,443	1,239
Ordinary income	27,374	27,851
Extraordinary income		
Gain on sales of non-current assets	1	7
Gain on sales of investment securities	0	365
Gain on reversal of share acquisition rights	5	—
Gain on sale of businesses	—	600
Other	—	10
Total extraordinary income	7	982
Extraordinary loss		
Loss on disposal of non-current assets	106	147
Impairment loss	1,956	1,663
Loss on valuation of shares of subsidiaries and associates	—	50
Business restructuring expenses	—	165
Other	15	2
Total extraordinary loss	2,078	2,029
Income before income taxes	25,304	26,804
Income taxes - current	7,676	8,378
Income taxes - deferred	(396)	(713)
Total income taxes	7,280	7,665
Net income	18,023	19,139
Net income attributable to owners of the parent	18,023	19,139

## Consolidated Statement of Comprehensive Income

(Millions of yen)

	January 1, 2018 to December 31, 2018	January 1, 2019 to December 31, 2019
Net income	18,023	19,139
Other comprehensive income		
Valuation difference on available-for-sale securities	(631)	575
Deferred gains or losses on hedges	(7)	(2)
Foreign currency translation adjustment	(722)	(267)
Adjustment for retirement benefits	239	309
Total other comprehensive income	(1,121)	615
Comprehensive income	16,901	19,754
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	16,901	19,754
Comprehensive income attributable to noncontrolling interests	—	—



## Consolidated Statement of Shareholders' Equity

January 1, 2018 to December 31, 2018

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,183	146,758	(12,259)	142,132
Change during period					
Dividends from surplus			(4,819)		(4,819)
Net income attributable to owners of the parent			18,023		18,023
Purchase of treasury stock					—
Disposal of treasury stock		(104)		496	392
Transfer to capital surplus from retained earnings		104	(104)		—
Net changes of items other than shareholders' equity					
Total change during period	—	—	13,099	496	13,595
Balance at period-end	3,450	4,183	159,857	(11,763)	155,728

(Millions of yen)

	Accumulated other comprehensive income						Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total	Subscription rights to shares	
Balance at period start	13,267	9	403	(2,038)	11,642	36	153,811
Change during period							
Dividends from surplus							(4,819)
Net income attributable to owners of the parent							18,023
Purchase of treasury stock							—
Disposal of treasury stock							392
Transfer to capital surplus from retained earnings							—
Net changes of items other than shareholders' equity	(631)	(7)	(722)	239	(1,121)	(36)	(1,158)
Total change during period	(631)	(7)	(722)	239	(1,121)	(36)	12,437
Balance at period-end	12,636	2	(318)	(1,798)	10,520	—	166,249

January 1, 2019 to December 31, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,183	159,857	(11,763)	155,728
Change during current period					
Dividends from surplus			(5,346)		(5,346)
Net income attributable to owners of the parent			19,139		19,139
Purchase of treasury stock				(7,999)	(7,999)
Disposal of treasury stock					—
Transfer to capital surplus from retained earnings					—
Net changes of items other than shareholders' equity					
Total change during current period	—	—	13,792	(7,999)	5,793
Balance at current period-end	3,450	4,183	173,650	(19,762)	161,521

(Millions of yen)

	Accumulated other comprehensive income						Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total	Subscription rights to shares	
Balance at period start	12,636	2	(318)	(1,798)	10,520	—	166,249
Change during current period							
Dividends from surplus							(5,346)
Net income attributable to owners of the parent							19,139
Purchase of treasury stock							(7,999)
Disposal of treasury stock							—
Transfer to capital surplus from retained earnings							—
Net changes of items other than shareholders' equity	575	(2)	(267)	309	615	—	615
Total change during current period	575	(2)	(267)	309	615	—	6,408
Balance at current period-end	13,212	—	(586)	(1,489)	11,136	—	172,657

## Consolidated Statement of Cash Flows

(Millions of yen)

	January 1, 2018 to December 31, 2018	January 1, 2019 to December 31, 2019
<b>Cash flow from operating activities</b>		
Income before income taxes	25,304	26,804
Depreciation	2,964	3,731
Loss on valuation of shares of subsidiaries and associates	—	50
Business restructuring expenses	—	165
Impairment loss	1,956	1,663
Amortization of goodwill	439	396
Increase (decrease) in allowance for doubtful accounts	202	65
Increase (decrease) in net defined benefit liability	(797)	(77)
Interest and dividends income	(715)	(985)
Interest expenses	35	20
Loss (gain) on sales of investment securities	(0)	(365)
Loss (gain) on sales and retirement of non-current assets	104	140
Loss (gain) on sale of businesses	—	(600)
Decrease (increase) in notes and accounts receivable-trade	(3,367)	(1,426)
Decrease (increase) in inventories	(493)	(1,020)
Increase (decrease) in notes and accounts payable-trade	481	(993)
Increase (decrease) in accounts payable-other	320	(785)
Increase (decrease) in accrued consumption taxes	(43)	(41)
Other	849	169
Total	27,241	26,912
Interest and dividend income received	745	1,019
Interest expenses paid	(26)	(12)
Income taxes paid	(7,953)	(7,829)
Net cash provided by operating activities	20,007	20,089
<b>Cash flow from investing activities</b>		
Payments into time deposits	(55,084)	(52,836)
Proceeds from withdrawal of time deposits	52,832	52,154
Purchase of property, plant and equipment	(3,419)	(4,379)
Proceeds from sales of property, plant and equipment	2	47
Purchase of intangible assets	(282)	(425)
Purchase of investment securities	(27)	(23)
Proceeds from sales of investment securities	641	1,084
Purchase of investment assets and other assets	(202)	(201)
Proceeds from sales of investment assets and other assets	72	63
Decrease (increase) in short-term loans receivable	(10)	0
Payments of long-term loans receivable	(123)	(170)
Collection of long-term loans receivable	0	0
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,461)	(1,054)
Proceeds from liquidation of subsidiaries	—	293
Proceeds from sale of businesses	—	600
Other	—	(225)
Net cash used in investing activities	(8,062)	(5,072)
<b>Cash flow from financing activities</b>		
Net increase (decrease) in short-term loans payable	228	(495)
Repayments of long-term loans payable	(1)	(570)
Purchase of treasury stock	—	(8,014)
Proceeds from disposal of treasury stock	361	—
Cash dividends paid	(4,818)	(5,333)
Repayments of lease obligations	(54)	(167)
Net cash used in financing activities	(4,285)	(14,581)
Effect of exchange rate change on cash and cash equivalents	(431)	(79)
Net increase (decrease) in cash and cash equivalents	7,228	356
Cash and cash equivalents at beginning of period	48,688	55,916
Cash and cash equivalents at end of period	55,916	56,272

Our Value Creation

Growth Strategy

ESG Initiatives

Data Section

# Our History

1886	<p>Founder Chubei Kobayashi established Kobayashi Seidaido, an unlimited partnership company, in Monzen-cho, Naka-ku, Nagoya</p> <p>The Company sold general merchandise and cosmetics</p>	2001	<p>Made Kiribai Chemical Co., Ltd., a body warmer manufacturer, a subsidiary (Yodogawa-ku, Osaka)</p> <p>Established Kobayashi Healthcare Europe, Ltd. in the U.K.</p>
1894	<p>Launched 10 types of proprietary pharmaceuticals including <i>Daikomaru</i>, <i>Ichinichimaru</i> and <i>Tamushichinki</i></p>	2002	<p>Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong</p> <p>Made Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. a wholly owned subsidiary, changing the company name to Shanghai Kobayashi Daily Chemicals Co., Ltd.</p> <p>Took over the health food business, mainly for <i>Tochucha</i> (eucommia leaf tea), from Hitachi Zosen Corporation</p>
1912	<p>Established Kobayashi Daiyakubou, a limited partnership company, in Hiranomachi, Higashi-ku, Osaka</p>	2003	<p>Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.</p>
1919	<p>Incorporated as Kobayashi Daiyakubou, Co., Ltd. in Kyomachibori, Nishi-ku, Osaka through a merger involving unlimited partnership company Kobayashi Seidaido and limited partnership company Kobayashi Daiyakubou</p> <p>Kichitaro Kobayashi is appointed as the first president</p>	2004	<p>Yutaka Kobayashi is appointed as the fifth president</p>
1939	<p>Launched <i>Hakkiri</i>, a headache medicine</p>	2005	<p>Obtained exclusive sales rights for women's health medicine <i>Inochi no Haha A</i> from Sasaokayakuhin Corporation</p>
1940	<p>Spun off the manufacturing division of Kobayashi Daiyakubou, to establish Kobayashi Pharmaceutical Co., Ltd.</p> <p>Juso Plant began operations in Higashi-yodogawa-ku, Osaka (currently Yodogawa-ku)</p>	2006	<p>Made eVent Medical Ltd., a medical device manufacturer in Ireland, a subsidiary</p> <p>Made Heat Max, Inc., a body warmer manufacturer in the U.S., a subsidiary</p>
1948	<p>Saburo Kobayashi is appointed as the second president</p>	2008	<p>Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd. conducted share exchange</p> <p>Spun off the manufacturing division of Kiribai Chemical Co., Ltd. to establish Kiribai Kobayashi Pharmaceutical Co., Ltd.</p> <p>Obtained trademark rights for <i>Bisrat Gold</i> from Ishihara Chemical Co., Ltd.</p>
1956	<p>Kobayashi Daiyakubou Co., Ltd. and Kobayashi Pharmaceutical Co., Ltd. were merged and renamed Kobayashi Pharmaceutical Co., Ltd.</p> <p>Relocated the Head Office to Dosho-machi, Higashi-ku, Osaka (currently Dosho-machi, Chuo-ku)</p>	2009	<p>Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd. in Singapore</p>
1958	<p>Teruko Kobayashi is appointed as the third president</p>	2010	<p>Spun off the medical device division into Kobayashi Medical Co., Ltd.</p>
1966	<p>Launched <i>Ammeltz</i>, a topical analgesic</p>	2011	<p>Transferred all eVent Medical Ltd. shares in a management buy-out</p> <p>Established Kobayashi Healthcare (Malaysia) Sdn. Bhd. in Malaysia</p> <p>Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd. in Taiwan</p>
1969	<p>Launched <i>Bluelet</i>, a toilet bowl cleaner and freshener, and entered household products market</p>	2012	<p>Made Grabber, Inc., a body warmer manufacturer in the U.S., a subsidiary</p> <p>Established PT. Kobayashi Pharmaceutical Indonesia in Indonesia</p> <p>Established Hefei Kobayashi Daily Products Co., Ltd. in China</p> <p>Sold 80 percent of Kobayashi Medical Co., Ltd. (currently Japan Medicalnext Co., Ltd.) shares to Mitsubishi Corporation</p>
1972	<p>Formed partnership with C.R. Bard, Inc. of the U.S. to establish medical devices importer Japan Medico, Inc. and enter the medical devices market</p>	2013	<p>Made Rokuyo Pharmaceutical Co., Ltd., a manufacturer of pharmaceutical products, quasi-pharmaceutical products and cosmetics, a subsidiary</p> <p>Established Kobayashi Healthcare Australia Pty., Ltd. in Australia</p> <p>Transferred all Japan Medicalnext Co., Ltd. shares to Mitsubishi Corporation</p> <p>Established Hefei Kobayashi Pharmaceutical Co., Ltd. in China</p> <p>Akihiro Kobayashi is appointed as the sixth president</p> <p>Established Kobayashi Healthcare (Thailand) Co., Ltd. in Thailand</p> <p>Made Juju Cosmetics Co., Ltd., a cosmetics manufacturer, into a subsidiary</p>
1975	<p>Launched <i>Sawaday</i>, a toilet air freshener, and entered the air fresheners market</p>	2015	<p>Acquired <i>Ganyaku Hitifuku</i> brand from Hitifuku Inc.</p> <p>Dissolved the joint venture with U.S. company Bard International Inc. and sold all its shares to Medicon, Inc.</p>
1976	<p>Kazumasa Kobayashi is appointed as the fourth president</p> <p>Japan Medico, Inc. became Medicon, Inc., a joint venture company with C.R. Bard, Inc.</p>	2016	<p>Acquired <i>monascus purpureus</i> business from Gunze Limited</p> <p>Made Perfecta Products, Inc., a company engaged in the planning and sale of OTC pharmaceuticals and cosmetics in the U.S., a subsidiary</p>
1983	<p>Established Toyama Kobayashi Pharmaceutical Co., Ltd. (Toyama City, Toyama Prefecture)</p>	2017	<p>Acquired exclusive marketing rights in Japan for <i>Bioil</i> from Union-Swiss (Pty) Ltd. (headquartered in South Africa)</p>
1988	<p>Angel Ltd. was made a consolidated subsidiary of Kobayashi Pharmaceutical Co., Ltd. to acquire a manufacturing site (Niihama City, Ehime Prefecture)</p>	2018	<p>Made Jiangsu Zhongdan Pharmaceutical Co., Ltd. a subsidiary, changing the company name to Jiangsu Kobayashi Pharmaceutical Co., Ltd.</p>
1992	<p>Established Kobayashi Medical as part of the Medical Devices Business</p>	2019	<p>Made Meitan Hongo Co., Ltd., a manufacturer of health and other products made using Japanese plum, a subsidiary</p>
1993	<p>Established Sendai Kobayashi Pharmaceutical Co., Ltd. (Kurokawa-gun, Miyagi Prefecture)</p>		
1996	<p>Launched <i>Toughdent</i>, a denture cleanser</p>		
1998	<p>Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd., a joint venture company in China</p> <p>Established Kobayashi Healthcare, LLC in the U.S.</p>		
1999	<p>Listed on the Second Section of the Osaka Securities Exchange</p> <p>Launched mail order sales of nutritional supplements, marking the start of the Direct Marketing Business</p>		
2000	<p>Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange</p> <p>Established the Central R&amp;D Laboratory in Ibaraki City, Osaka Prefecture</p> <p>Spun off the trade division to form Kobashou Co., Ltd.</p>		

# Corporate Data / Investor Information (As of December 31, 2019)

## Corporate Data

Corporate Name	KOBAYASHI PHARMACEUTICAL CO., LTD.
Incorporated	August 22, 1919
Head Office	4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan
Representative	Akihiro Kobayashi, Representative Director, President and Chief Operating Officer
Employees	3,435 (consolidated), 1,414 (non-consolidated)
Consolidated Subsidiaries	37 (16 domestic, 21 overseas)

## Investor Information

Common Stock	¥3,450 million
Shares Authorized	340,200,000
Shares Issued	82,050,000
Shareholders	17,123
Stock Exchange Listing	Tokyo Stock Exchange First Section
Transfer Agent / Account Management Institution for Special Accounts	Mitsubishi UFJ Trust and Banking Corporation

## Group Companies ● Domestic Consumer Products Business ● Overseas Consumer Products Business ● Other Business

### Consolidated Subsidiaries (Domestic)

- Toyama Kobayashi Pharmaceutical Co., Ltd.
- Sendai Kobayashi Pharmaceutical Co., Ltd.
- Ehime Kobayashi Pharmaceutical Co., Ltd.
- Kiribai Chemical Co., Ltd.
- Kiribai Kobayashi Pharmaceutical Co., Ltd.
- Juju Cosmetics Co., Ltd.
- Aloe Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical Plax Co., Ltd.
- SP-Planning, Inc.
- Archer Corporation
- Suehiro Sangyo Co., Ltd.
- Kobayashi Pharmaceutical Distribution Co., Ltd.
- True Nature Co., Ltd.
- Kobayashi Pharmaceutical Value Support Co., Ltd.
- Kobayashi Pharmaceutical Global E-commerce Co., Ltd.
- Meitan Hongo Co., Ltd.

### Consolidated Subsidiaries (Overseas)

- Kobayashi Healthcare, LLC
- Kobayashi Healthcare Europe, Ltd.
- Shanghai Kobayashi Daily Chemicals Co., Ltd.
- Hefei Kobayashi Daily Products Co., Ltd.
- Hefei Kobayashi Pharmaceutical Co., Ltd.
- Shanghai Kobayashi Pharmaceutical Business Co., Ltd.
- Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.
- Kobayashi (China) Co., Ltd.
- Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical (Singapore) Pte. Ltd.
- Kobayashi Pharmaceutical (Taiwan) Co., Ltd.
- Kobayashi Healthcare (Malaysia) Sdn. Bhd.
- PT. Kobayashi Pharmaceutical Indonesia
- Kobayashi Healthcare Australia Pty., Ltd.
- Kobayashi Healthcare (Thailand) Co., Ltd.
- Kobayashi Healthcare International, Inc.
- Kobayashi Consumer Products, LLC
- Kobayashi America Manufacturing, LLC
- Mediheat, Inc.
- Berlin Industries, Inc.
- Perfecta Products, Inc.

## Major Shareholders

Name	Percentage of Total Shares Held (%)
Akihiro Kobayashi	11.8
The Kobayashi Foundation	7.6
Yukako Iue	6.6
State Street Bank and Trust Company 505223	6.1
The Master Trust Bank of Japan, Ltd. (trust account)	3.7
Ikuko Watanabe	3.1
Japan Trustee Services Bank, Ltd. (trust account)	2.9
Ohtori Co., Ltd.	2.7
Forum Co., Ltd.	2.6
Teruhisa Miyata	2.3

Notes: The Company holds treasury stock, but is excluded from the above list of major shareholders.  
Percentage of total shares held is calculated excluding treasury stock.

## Shareholder Composition

