

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 1st Quarter of the Fiscal Year Ending December 31, 2019

April 25, 2019

Listed exchanges : Tokyo

Listed company name : Kobayashi Pharmaceutical Co., Ltd.

Code : 4967

URL : <https://www.kobayashi.co.jp/english/index.html>

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Expected date for submitting quarterly securities report : May 10, 2019

Expected date for starting payment of dividends : —

Preparation of supplementary documents for quarterly financial results: Yes

Holding of an analyst meeting for quarterly financial results : Yes (For analysts and investors)

(Any fraction less than 1 million yen is rounded down to the nearest million yen.)

1. Consolidated Results for 1st Quarter of Fiscal Year Ending December 31, 2019 (January 1, 2019 to March 31, 2019)

(1) Consolidated Operating Results (accumulation)

(% figures represent changes from same period in previous year)

	Q1 of FY ending December 31, 2019		Q1 of FY ended December 31, 2018	
Net sales	33,735 millions of yen	0.1 %	33,715 millions of yen	9.6 %
Operating income	5,287	(5.0)	5,567	12.3
Ordinary income	5,219	(3.6)	5,416	11.6
Net income attributable to owners of the parent	3,683	(3.6)	3,821	10.6
Net income per share	46.65 yen		48.39 yen	
Net income per share after full dilution	—		48.34	

(Note) Comprehensive income

Q1 of FY ending December 31, 2019: 4,992 million yen (98.5%)

Q1 of FY ended December 31, 2018: 2,515 million yen (2.3%)

KOBAYASHI PHARMACEUTICAL CO., LTD.

(2) Consolidated Financial Position

	Q1 of FY ending December 31, 2019	FY ended December 2018
Total assets	220,457 millions of yen	228,787 millions of yen
Net assets	165,693	166,249
Shareholders' equity ratio	75.2 %	72.7 %
Net assets per share	2,103.98 yen	2,102.49 yen
(Reference) Shareholders' equity	Q1 of FY ending December 31, 2019: 165,693 million yen FY ended December 2018: 166,249 million yen	

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) has been applied from the beginning of the first quarter of the current fiscal year. The change applies retroactively to the results for the previous fiscal year.

2. Dividends

	FY ended December 2018	FY ending December 2019	FY ending December 2019 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	31.00 yen		33.00 yen
Q3 end	—		—
Year-end	35.00		35.00
Total	66.00		68.00

(Note) Revision to the latest dividend forecast: None

3. Forecasts of Consolidated Operational Results for Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% figures represent changes from previous period.)

	Full year	
Net sales	173,000 millions of yen	3.3 %
Operating income	27,300	3.8
Ordinary income	27,900	1.9
Net income attributable to owners of the parent	19,000	5.4
Net income per share	240.29 yen	

(Note) Revision to the latest forecasts of operational results: None

KOBAYASHI PHARMACEUTICAL CO., LTD.

* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes of the scope of consolidation): None
- (2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to revisions of accounting standards: None
 - 2) Changes in accounting policies other than 1): None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None

(4) Issued shares (common shares)

1) Number of shares issued at period-end (including treasury stock):	Q1 of FY ending December 31, 2019	82,050,000 shares	FY ended December 31, 2018	82,050,000 shares
2) Number of shares of treasury stock at period-end:	Q1 of FY ending December 31, 2019	3,297,637 shares	FY ended December 31, 2018	2,977,337 shares
3) Average number of shares outstanding during period (consolidated cumulative quarters)	Q1 of FY ending December 31, 2019	78,948,587 shares	Q1 of FY ended December 31, 2018	78,963,259 shares

* This brief report of quarterly financial statements is not subject to audit procedures by a certified public accountant or an independent auditor.

* Notes on proper use of forecasts and other matters

The forward-looking statements in this document concerning forecasts of operational results, etc. are based on currently available information and assumptions considered reasonable by the Company. Actual operational results may be significantly different from these statements due to various factors. For the assumptions used as the basis for forecasts of operational results and important matters to be noted when using the forecast of performance, please refer to "1. Qualitative Information on Quarterly Results, (3) Explanation of future forecast information, such as forecast of consolidated results" on page 3 of the attachment.

(Change of date indication) Date indication has been changed to the western calendar format from the Japanese calendar format from the Brief Report of Financial Statements for the First Quarter of the Fiscal Year Ending December 31, 2019.

KOBAYASHI PHARMACEUTICAL CO., LTD.

○ Table of contents for the attachment

1. Qualitative Information on Quarterly Results	2
(1) Explanation of operational results	2
(2) Explanation of financial position	3
(3) Explanation of future forecast information, such as forecast of consolidated results	3
2. Consolidated Quarterly Financial Statements and Main Notes	4
(1) Consolidated quarterly balance sheet	4
(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income	6
(3) Notes on quarterly consolidated financial statements	8
(Notes on assumption of going concern)	8
(Notes on a significant change in shareholders' equity)	8
(Additional information)	8
(Segment information)	9
(Important subsequent events)	10

KOBAYASHI PHARMACEUTICAL CO., LTD.

1. Qualitative Information on Quarterly Results

(1) Explanation of operational results

During the first three-month period of the consolidated fiscal year under review, the Japanese economy witnessed a recovery trend as shown in the improvement of corporate earnings and employment helped by the continued economic stimulus measures implemented by the government. In addition, consumer spending also showed signs of gradual recovery.

Under these circumstances, the Group launched new products that satisfy customers' needs, strengthened its existing product lineups, and invested in business with high future growth potential, with the brand slogan "You make a wish and we make it happen."

As a result, net sales, operating income and ordinary income were 33,735 million yen (+0.1% year on year), 5,287 million yen (-5.0% year on year) and 5,219 million yen (-3.6% year on year), respectively, and net income attributable to owners of the parent was 3,683 million yen (-3.6% year on year).

Business results by segment were as follows:

Domestic Consumer Products Business

In the Domestic Consumer Products Business, the Company launches new products in the spring and the fall every year. Among the products launched during FY 2018 that contributed to the growth in sales were *Kurocure EX* (a remedy for darkened elbows and chapped knees prepared with EX formula giving a satisfying feeling), *Keanocure* (a remedy for spotted skin with darkened pores due to the removal of unwanted hair), *Bluelet Premium PERFUME* (a toilet deodorizer and bowl bleach tablet with the scent of a high quality perfume in a glittering crystal bottle), and *Oheyano Shoshugen Princess PARFUM* (a deodorizing air freshener with a gorgeous cosmetic-like fragrance). The Company will launch 10 new products in the spring of 2019.

Existing healthcare products that recorded robust sales included *Naishitoru* (a therapeutic anti-obesity drug), *Inochi No Haha* (a women's health medicine), *Hemorindo* (a sublingual tablet medicine to cure blind piles), and *Eyebon* (an eye wash solution with corneal healing and protective ingredients). Household products that contributed to a growth in sales were *Bluelet* (a toilet deodorizer and bowl bleach tablet), *Sarasaty* (a sheet for absorbing vaginal discharge), and *Nightmin Nasal Breathing Tape* (a strip that is attached to the lips during sleep to facilitate breathing through the nose). Skin care products that sold well included *Eau de Muge* (a medicated lotion for preventing acne and rough dry skin).

Consequently, the Company reported net sales of 26,884 million yen (+0.1% year on year) and segment income (ordinary income) of 4,699 million yen (-4.7% year on year). Meanwhile, operating income was 4,384 million yen (-6.2% year on year).

Net sales include inter-segment sales or transfers, which totaled 1,387 million yen in the first three-month period of the previous year and 1,563 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q1 ended March 31, 2018	Q1 ended March 31, 2019	Change	
	(January 1, 2018 to March 31, 2018)	(January 1, 2019 to March 31, 2019)	Amount (millions of yen)	Change (%)
Healthcare products	13,248	13,478	229	1.7
Household products	9,722	9,822	100	1.0
Skin care	1,268	1,527	259	20.4
Body warmers	1,241	491	(749)	(60.4)
Total	25,481	25,320	(160)	(0.6)

Overseas Consumer Products Business

In the Overseas Consumer Products Business, the Company markets, mostly in the United States, China and Southeast Asia, body warmers, *Netsusama Sheet* (a cooling gel sheet for the forehead) and *Ammeltz* (an external anti-inflammatory) and sought to expand sales by aggressively investing principally in advertising and sales promotion.

As a result, net sales and segment income (ordinary income) were 5,959 million yen (+6.2% year on year) and 712 million yen (-2.4% year on year), respectively. Operating income was 707 million yen (-8.8% year on year).

Net sales include inter-segment sales or transfers, which totaled 208 million yen in the first three-month period of the previous year and 276 million yen in the same period of the current year.

KOBAYASHI PHARMACEUTICAL CO., LTD.

(Breakdown of sales to external customers)

	Q1 ended March 31, 2018 (January 1, 2018 to March 31, 2018)	Q1 ended March 31, 2019 (January 1, 2019 to March 31, 2019)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	1,562	1,265	(296)	(19.0)
China	2,045	2,332	286	14.0
Southeast Asia	1,250	1,444	193	15.5
Others	545	641	96	17.6
Total	5,403	5,683	279	5.2

Direct Marketing Business

The Direct Marketing Business markets nutritional supplements and skin care products. The Company strove to attract new customers while encouraging existing customers to continue placing orders for its products through sales promotional campaigns, such as advertising and direct mail.

Consequently, the Company reported net sales of 2,439 million yen (-5.5% year on year) and segment income (ordinary income) of 77 million yen (+281.2% year on year). Meanwhile, operating income was 77 million yen (+311.8% year on year).

Net sales do not include inter-segment sales or transfers.

Other Businesses

Businesses in this segment include the transportation business, the manufacture and sale of plastic containers, insurance agencies, real estate management, advertisement planning and production, etc. The companies in this business segment operate individually on a financially independent basis, and their delivery prices of materials and services were reviewed and revised as necessary.

As a result, the Company posted net sales of 1,478 million yen (+2.5% year on year) and segment income (ordinary income) of 223 million yen (+5.8% year on year). Operating income was 141 million yen (+122.0% year on year).

Net sales include inter-segment sales or transfers, which totaled 1,195 million yen in the first three-month period of the previous year and 1,186 million yen in the same period of the current year.

(2) Explanation of financial position

Total assets decreased by 8,329 million yen from the balance as of the end of the previous consolidated fiscal year, to 220,457 million yen. This was attributable mainly to a decline of 2,545 million yen in cash and deposits, a fall of 12,247 million yen in notes and accounts receivable-trade, an increase of 3,351 million yen in merchandise and finished goods, and a rise of 1,628 million yen in investment securities.

Liabilities declined by 7,773 million yen from the balance as of the end of the previous consolidated fiscal year, to 54,764 million yen. This was attributable mainly to a decrease of 1,005 million yen in electronically recorded obligations-operating, a fall of 6,627 million yen in accounts payable-other, a decline of 1,916 million yen in income taxes payable, and an increase of 1,057 million yen in provision for bonuses.

Net assets fell by 555 million yen from the balance as of the end of the previous consolidated fiscal year, to 165,693 million yen, bringing the shareholders' equity ratio to 75.2%. This was mainly attributable to an increase of 2,780 million yen in treasury stocks, a rise of 1,156 million yen in valuation difference on available-for-sale securities, and an increase of 915 million yen in retained earnings.

(3) Explanation of future forecast information, such as forecast of consolidated results

The Group did not revise its forecast of consolidated results for the fiscal year ending December 31, 2019, which the Group announced via the "Summary of Financial Statements for the Fiscal Year ended December 31, 2018" released on January 31, 2019.

KOBAYASHI PHARMACEUTICAL CO., LTD.

2. Consolidated Quarterly Financial Statements and Main Notes

(1) Consolidated quarterly balance sheet

(millions of yen)

	Previous consolidated fiscal year (December 31, 2018)	Q1 of current fiscal year (March 31, 2019)
ASSETS		
Current assets		
Cash and deposits	74,456	71,911
Notes and accounts receivable-trade	53,386	41,139
Short-term investment securities	8,300	8,300
Merchandise and finished goods	9,430	12,781
Work in process	934	993
Raw materials and supplies	3,279	3,371
Other	2,167	3,188
Allowance for doubtful accounts	(131)	(113)
Total current assets	151,824	141,571
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,447	8,347
Machinery, equipment and vehicles, net	4,466	4,456
Tools, furniture and fixtures, net	1,457	1,422
Land	3,625	3,625
Leased assets, net	515	739
Construction in progress	512	670
Total property, plant and equipment	19,024	19,263
Intangible assets		
Goodwill	3,241	3,108
Trademark rights	108	105
Software	905	954
Other	567	564
Total intangible assets	4,823	4,733
Investments and other assets		
Investment securities	45,916	47,545
Long-term loans receivable	386	415
Deferred tax assets	1,627	1,735
Real estate for investment, net	2,956	2,949
Other	2,697	2,752
Allowance for doubtful accounts	(469)	(508)
Total investments and other assets	53,115	54,889
Total non-current assets	76,963	78,886
Total assets	228,787	220,457

KOBAYASHI PHARMACEUTICAL CO., LTD.

(millions of yen)

	Previous consolidated fiscal year (December 31, 2018)	Q1 of current fiscal year (March 31, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	8,706	8,846
Electronically recorded obligations—operating	9,070	8,064
Short-term loans payable	506	490
Accounts payable-other	25,126	18,498
Lease obligations	53	132
Income taxes payable	4,423	2,507
Accrued consumption taxes	1,187	940
Provision for sales returns	1,638	1,637
Provision for bonuses	2,355	3,413
Asset retirement obligations	42	42
Other	1,940	2,554
Total current liabilities	55,053	47,128
Non-current liabilities		
Lease obligations	472	610
Deferred tax liabilities	2,812	2,818
Net defined benefit liability	2,057	2,044
Provision for directors' retirement benefits	38	38
Asset retirement obligations	77	77
Other	2,027	2,045
Total non-current liabilities	7,485	7,635
Total liabilities	62,538	54,764
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	159,857	160,773
Treasury stock	(11,763)	(14,543)
Total shareholders' equity	155,728	153,863
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,636	13,792
Deferred gains or losses on hedges	2	2
Foreign currency translation adjustment	(318)	(234)
Re-measurements of retirement benefit plans	(1,798)	(1,730)
Total accumulated other comprehensive income	10,520	11,830
Total net assets	166,249	165,693
Total liabilities and net assets	228,787	220,457

KOBAYASHI PHARMACEUTICAL CO., LTD.

(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income
(Consolidated quarterly statements of income)
(Three-month period ended March 31, 2019)

(millions of yen)

	Three-month period ended March 31, 2018 (January 1, 2018 to March 31, 2018)	Three-month period ended March 31, 2019 (January 1, 2019 to March 31, 2019)
Net sales	33,715	33,735
Cost of sales	12,438	12,448
Gross profit	21,276	21,287
Selling, general and administrative expenses	15,709	15,999
Operating income	5,567	5,287
Non-operating income		
Interest income	58	72
Dividend income	4	7
Real estate rent	73	73
Other	79	25
Total non-operating income	215	178
Non-operating expenses		
Interest expenses	4	4
Sales discounts	149	138
Rent cost of real estate	19	21
Foreign exchange losses	160	23
Other	32	58
Total non-operating expenses	367	246
Ordinary income	5,416	5,219
Extraordinary income		
Other	0	3
Total extraordinary income	0	3
Extraordinary loss		
Loss on sales and retirement of non-current assets	12	10
Other	0	0
Total extraordinary loss	12	10
Income before income taxes	5,403	5,212
Income taxes - current	2,164	2,143
Income taxes - deferred	(582)	(613)
Total income taxes	1,582	1,529
Net income	3,821	3,683
Net income attributable to owners of the parent	3,821	3,683

KOBAYASHI PHARMACEUTICAL CO., LTD.

(Consolidated quarterly statements of comprehensive income)
(Three-month period ended March 31, 2019)

(millions of yen)

	Three-month period ended March 31, 2018 (January 1, 2018 to March 31, 2018)	Three-month period ended March 31, 2019 (January 1, 2019 to March 31, 2019)
Net income	3,821	3,683
Other comprehensive income		
Valuation difference on available-for-sale securities	(247)	1,156
Deferred gains or losses on hedges	(13)	(0)
Foreign currency translation adjustment	(1,117)	84
Adjustment for retirement benefits	72	68
Total other comprehensive income	(1,305)	1,309
Quarterly comprehensive income	2,515	4,992
(Quarterly comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	2,515	4,992
Quarterly comprehensive income attributable to non-controlling interests	—	—

KOBAYASHI PHARMACEUTICAL CO., LTD.

(3) Notes on quarterly consolidated financial statements

(Notes on assumption of going concern)

Not applicable

(Notes on a significant change in shareholders' equity)

In accordance with the resolution approved at the Board of Directors' meeting held on January 31, 2019, the Company repurchased 320,300 shares of its shares. Consequently, treasury stocks increased by 2,780 million yen during the first three-month period of the current year, amounting to 14,543 million yen at the end of the first three-month period of the current year.

(Additional information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) has been applied from the beginning of the first three-month period of the current year. Accordingly, deferred tax assets have been classified as investments and other assets, and deferred tax liabilities have been classified as non-current liabilities.

KOBAYASHI PHARMACEUTICAL CO., LTD.

(Segment information)

(Segment information)

I. Q1 of previous consolidated fiscal year (January 1, 2018 to March 31, 2018)

1. Information on net sales, income or loss by reportable segment

(millions of yen)

	Reportable Segments				Other (Note 1)	Grand Total	Adjustment (Note 2)	Figures in quarterly consolidated statements of income (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	25,481	5,403	2,582	33,467	247	33,715	—	33,715
Inter-segment sales and transfers	1,387	208	—	1,596	1,195	2,792	(2,792)	—
Total	26,868	5,612	2,582	35,064	1,442	36,507	(2,792)	33,715
Segment income	4,929	730	20	5,680	210	5,891	(475)	5,416

- (Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.
2. Adjustments of -475 million yen in segment income are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
3. Segment income is adjusted with ordinary income in the quarterly consolidated statements of income.

2. Information concerning impairment loss on non-current assets or goodwill by reportable segments

The Group does not provide information concerning impairment loss on non-current assets or goodwill because it does not recognize significant impairment loss on non-current assets and there is no significant change in the value of goodwill.

II. Q1 of current consolidated fiscal year (January 1, 2019 to March 31, 2019)

1. Information on net sales, income or loss by reportable segment

(millions of yen)

	Reportable Segments				Other (Note 1)	Grand Total	Adjustment (Note 2)	Figures in quarterly consolidated statements of income (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	25,320	5,683	2,439	33,443	292	33,735	—	33,735
Inter-segment sales and transfers	1,563	276	—	1,840	1,186	3,026	(3,026)	—
Total	26,884	5,959	2,439	35,283	1,478	36,761	(3,026)	33,735
Segment income	4,699	712	77	5,489	223	5,712	(493)	5,219

- (Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.
2. Adjustments of -493 million yen in segment income are eliminations among segments, and profits and expenses not distributed to the relevant business segment.
3. Segment income is adjusted with ordinary income in the quarterly consolidated statements of income.

2. Information concerning impairment loss on non-current assets or goodwill by reportable segments

The Group does not provide information concerning impairment loss on non-current assets or goodwill because it does not recognize significant impairment loss on non-current assets and there is no significant change in the value of goodwill.

KOBAYASHI PHARMACEUTICAL CO., LTD.

(Important subsequent events)

Not applicable