



小林製薬株式会社



Financial Overview for Fiscal Year Ended March 31, 2016

May 10, 2016

**Akihiro Kobayashi
Representative Director, President
& Chief Operating Officer
Kobayashi Pharmaceutical Co., Ltd.**

- **Consolidated Results for Year Ended March 31, 2016**
- **Forecasts for Year Ending December 2016**
- **Activities for Further Growth**
- **Returns to Shareholders**

Consolidated Results for Year Ended March 31, 2016

Although net sales achieved the published forecast, operating income and ordinary income fell short of the forecasts. Net income reached a record-high.

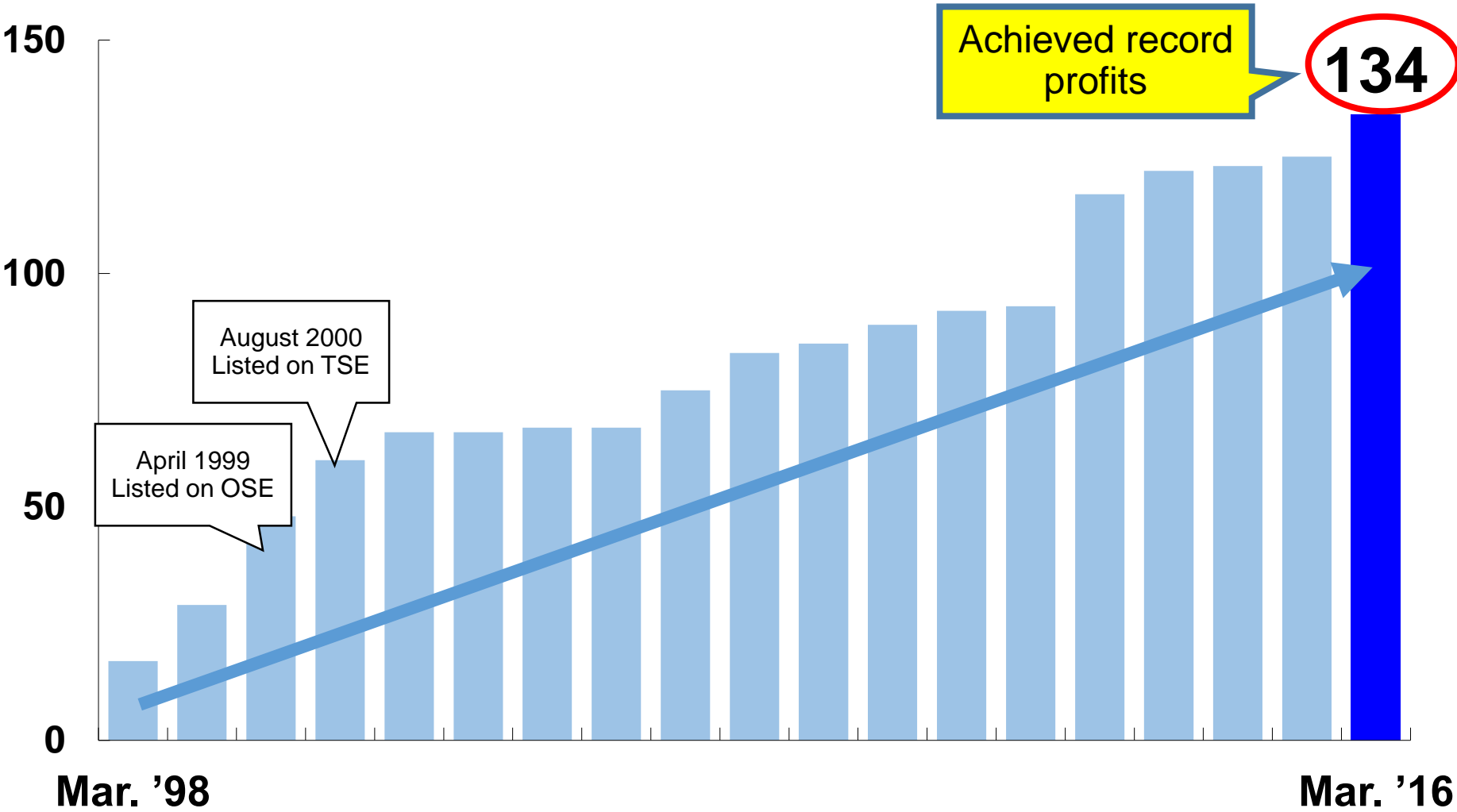
	Year ended March 2016		Year-on-year change	
	Amount (million yen)	Margin (%)	Amount (million yen)	Percentage (%)
Net sales	137,211	-	8,867	106.9%
Operating income	18,260	13.3	343	101.9%
Ordinary income	17,949	13.1	-894	95.3%
Net income	13,466	9.8	1,018	108.2%

Variance from published forecast*	
Amount (million yen)	Percentage (%)
711	100.5%
-940	95.1%
-951	95.0%
166	101.2%

* Published on October 29, 2015

Achieved increase in net income for 18 consecutive years.

(100 million yen)



<Increases/decreases in net sales

(change from the same period of the previous year)>

(billion yen)

Increases

- (1) Strong sales of new products (+5.8)
- (2) Growth in overseas sales (+3.5)
- (3) Increase in inbound demand (+2.0)
- (4) Recovery from fallback from last minute demand surge before consumption tax increase (+1.5)

Decreases

- (5) Decreased sales of existing products (-2.2)
- (6) Weak sales in Kiribai Chemical due to the warm winter (-1.4)
- (7) Weak sales in the mail order business (-0.4)

Year-on-
Year
change
106.9%

(104.2% when
excluding (3) and (4))

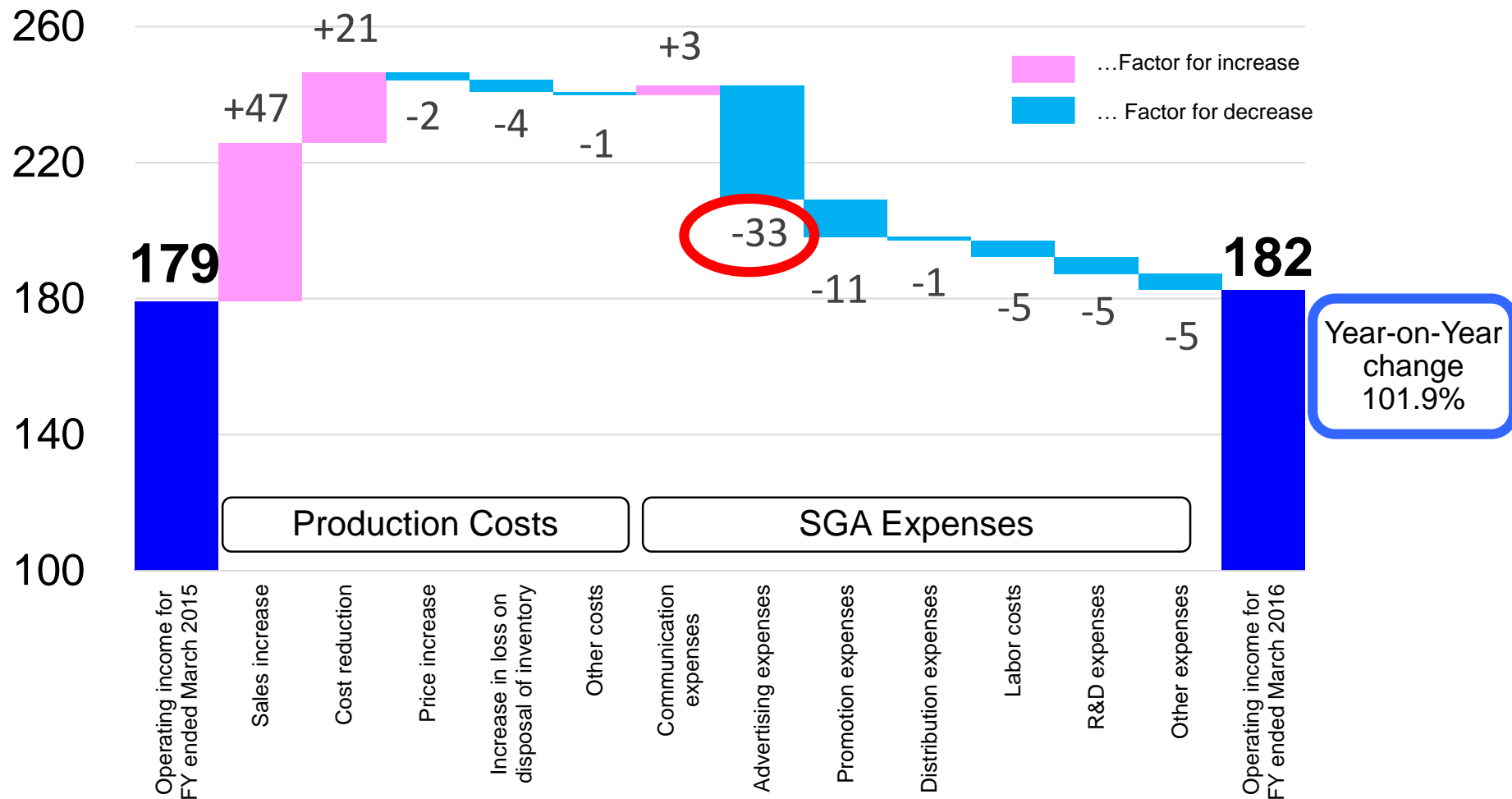
Highlights of Consolidated Results

[Operating Income]

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Although operating income grew significantly, on the back of increased revenues, it ended at ¥18.2 billion (101.9% year-on-year) due to significant advertising spend.

(100 million yen)



Due to strong results in 1H, the Company revised its forecasts of operating results on October 29.

As a result, although net income ended at the forecast level, operating income and ordinary income failed to achieve the targets.

	FY ended March 2016						
	1H			2H			
	Published forecasts of Apr. 30, 2015	Actual performance	Variance from published forecasts	Published forecasts of Apr. 30, 2015	Revised published forecasts of Oct. 29, 2015	Actual performance	Variance from published forecast of Oct. 29, 2015
	(1)	(2)	(2)/(1)	Published full-year forecasts - (1)	(3) (Revised published forecasts - (2))	(4)	(4)/(3)
	Amount (million yen)	Amount (million yen)	Percentage (%)	Amount (million yen)	Amount (million yen)	Amount (million yen)	Percentage (%)
Net sales	61,000 	63,569	104.2%	72,000 	72,931 	73,642	101.0%
Operating income	8,200 	9,387	114.5%	10,700 	9,813 	8,873	90.4%
Ordinary income	8,200 	9,189	112.1%	10,700 	9,711 	8,760	90.2%
Net income	5,500 	6,014	109.3%	7,500 	7,286 	7,452	102.3%

Divergence from Published Forecast (Operating Income)

8/55

Operating income fell short of consolidated operating results forecasts published on October 29, due to sluggish sales of body warmers in Japan because of the warm winter, and active investment in marketing such as advertisements and promotions in order to expand sales in the overseas business. (Revision of operating results forecasts released on April 20)

	FY ended March 2016							
	1H				Full-Year			
	Published forecasts of Apr. 30, 2015	Revised published forecasts of Oct. 29, 2015	Actual performance	Variance from revised published forecast of Oct. 29, 2015	Published forecasts of Apr. 30, 2015	Revised published forecasts of Oct. 29, 2015	Actual performance	Variance from revised published forecast of Oct. 29, 2015
Operating income Amount (million yen)	10,700	9,813	8,873	-940	18,900	19,200	18,260	-940

Factors for the divergence

Investment in marketing for the overseas business: ¥400 million

Sluggish body warmer business in Japan: ¥650 million

Sales at stores in Japan were strong at 105.6% year-on-year, or 107.7% excluding Kiribai Chemical.

Sales at stores outside Japan far exceeded the previous year's level, while the direct marketing business ended below last year's level.

	Domestic Consumer Products Business		Overseas Consumer Products Business ^{*2}		Direct Marketing Business	
	Sales at stores in Japan and Kiribai Chemical					
	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)
Net sales	106,963	105.6%	18,997	122.8%	8,538	95.1%
	^{*1} 99,436	107.7%				
Operating income	17,019	104.3%	756	140.9%	35	7.3%
	^{*1} 17,156	107.8%				

^{*1}: Figures in the lower line exclude Kiribai Chemical results.

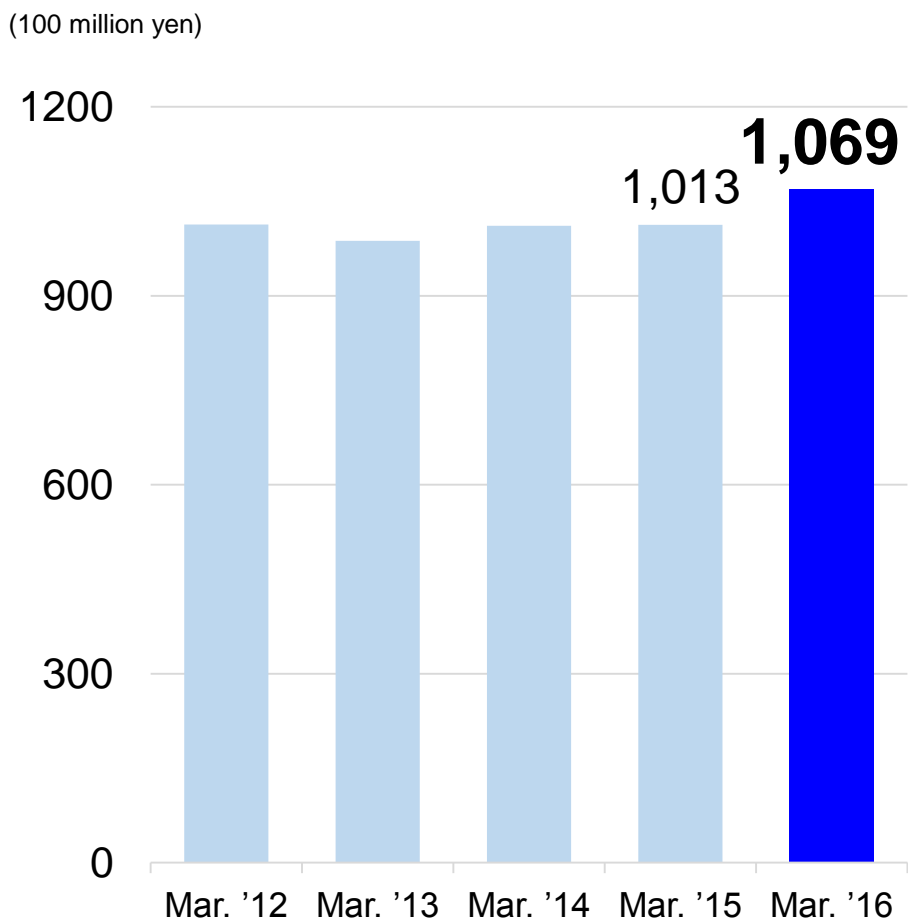
^{*2}: The calculation period for overseas subsidiaries is from January to December.

Domestic Consumer Products Business

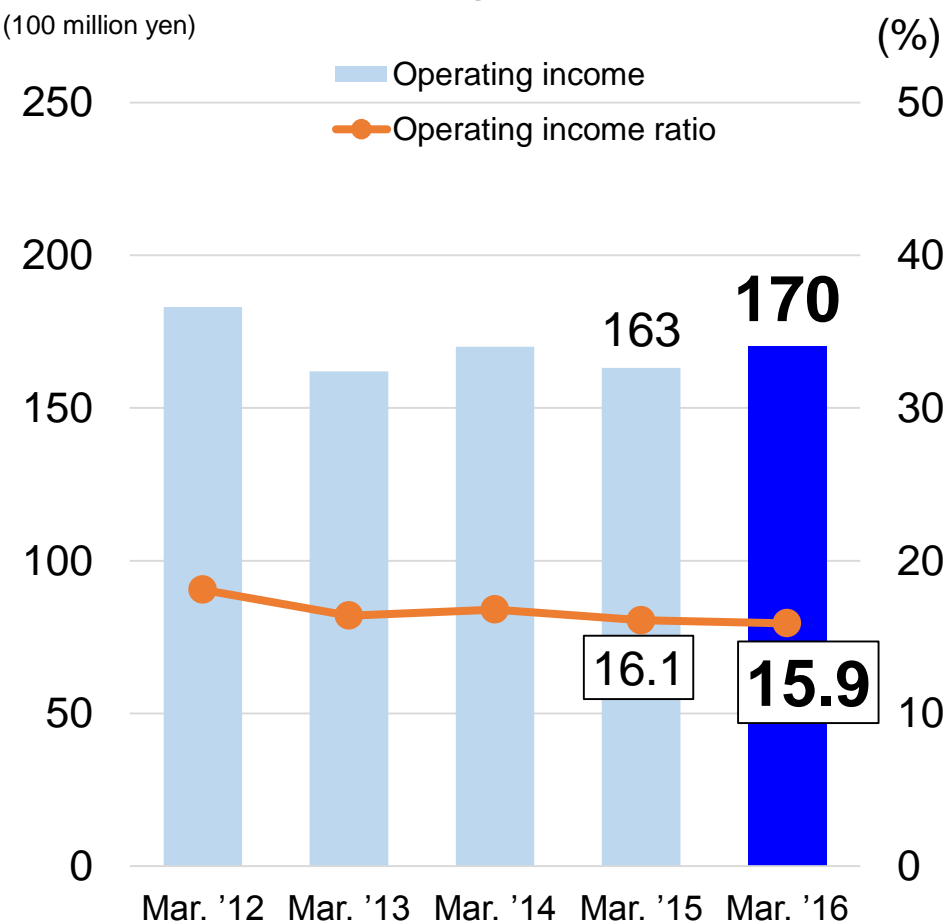
(Sales at stores in Japan and Kiribai Chemical)

Net sales: 106.9 billion yen (105.6% year-on-year)
Operating income: 17.0 billion yen (104.3% year-on-year)

<Net Sales>



<Operating income>

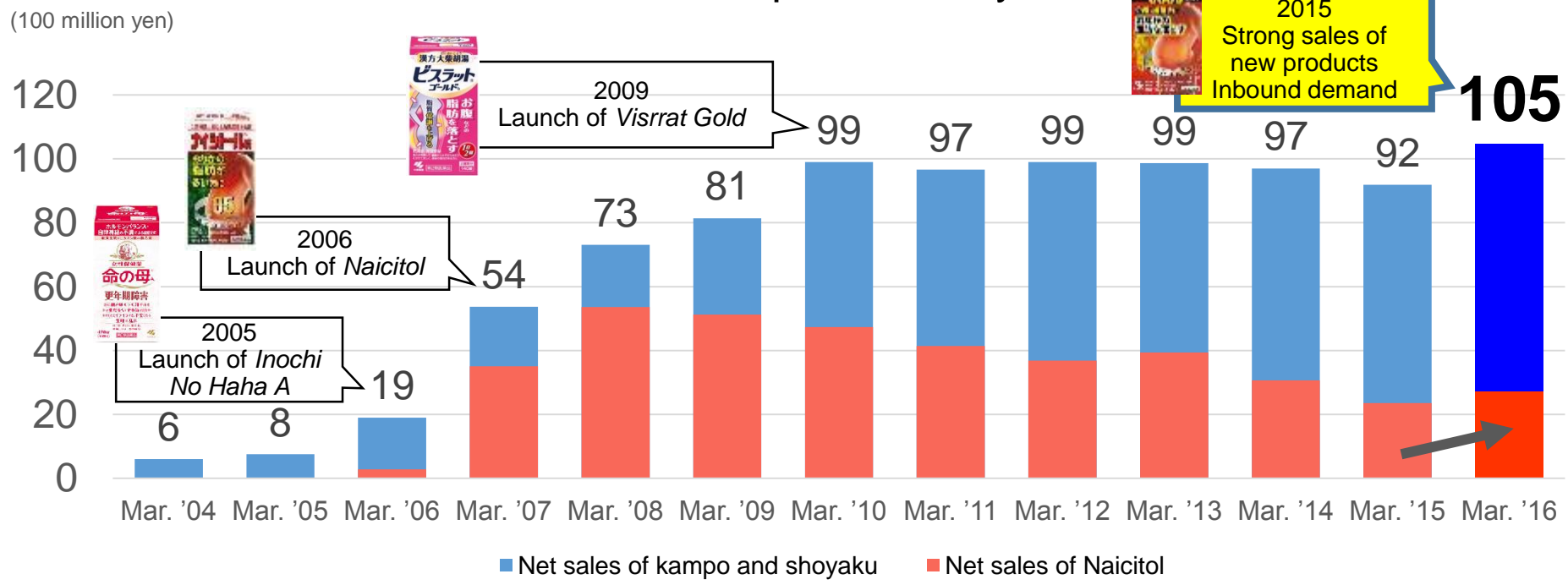


Healthcare products and household products exceeded the previous year's levels due to strong sales of new products and inbound demand, while skin care products did so due to robust performance of their core brands. On the other hand, body warmers significantly underperformed the previous year due to the warm winter.

	FY ended March 2016	Year-on-year change		
	Amount (million yen)	Amount (million yen)	Difference (million yen)	Percentage (%)
Healthcare products	48,632	43,855	4,777	110.9%
Household products	48,034	46,077	1,957	104.2%
Skin care products	4,673	4,320	353	108.2%
Body warmers	5,623	7,026	-1,403	80.0%
Total	106,963	101,278	5,685	105.6%

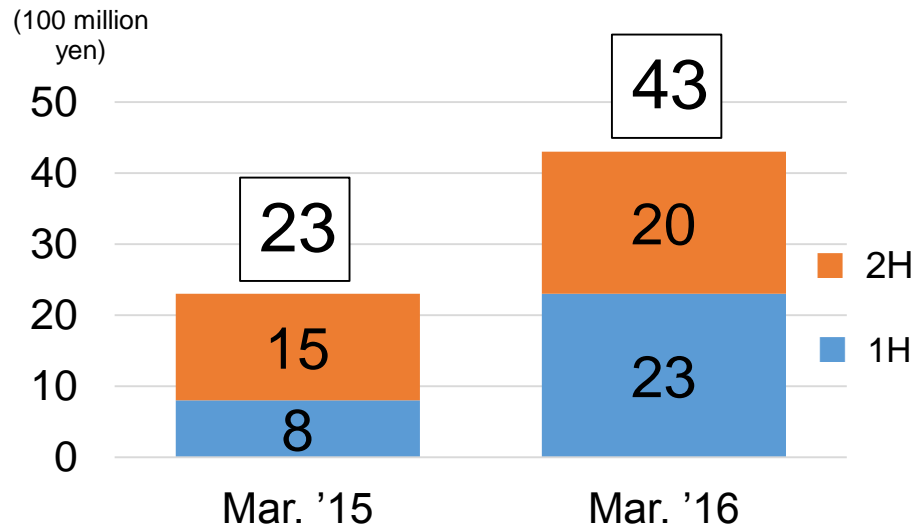
Net sales of the kampo & shoyaku business recorded a new high and exceeded 10 billion yen due to the recovery of the *Naicitol* brand on the back of strong sales of a new product, *Naicitol Z*, as well as the increase in inbound demand.

<Net sales of kampo and shoyaku>



Estimated annual inbound demand reached 4.3 billion yen. Purchase items expanded from “supreme drugs,” and led to our launch of *Kin No Netsusama Sheet*, an exclusive product for inbound demand. It has contributed to sales.

<Estimated inbound demand>



“Twelve Supreme Drugs You Must Buy When You Visit Japan”

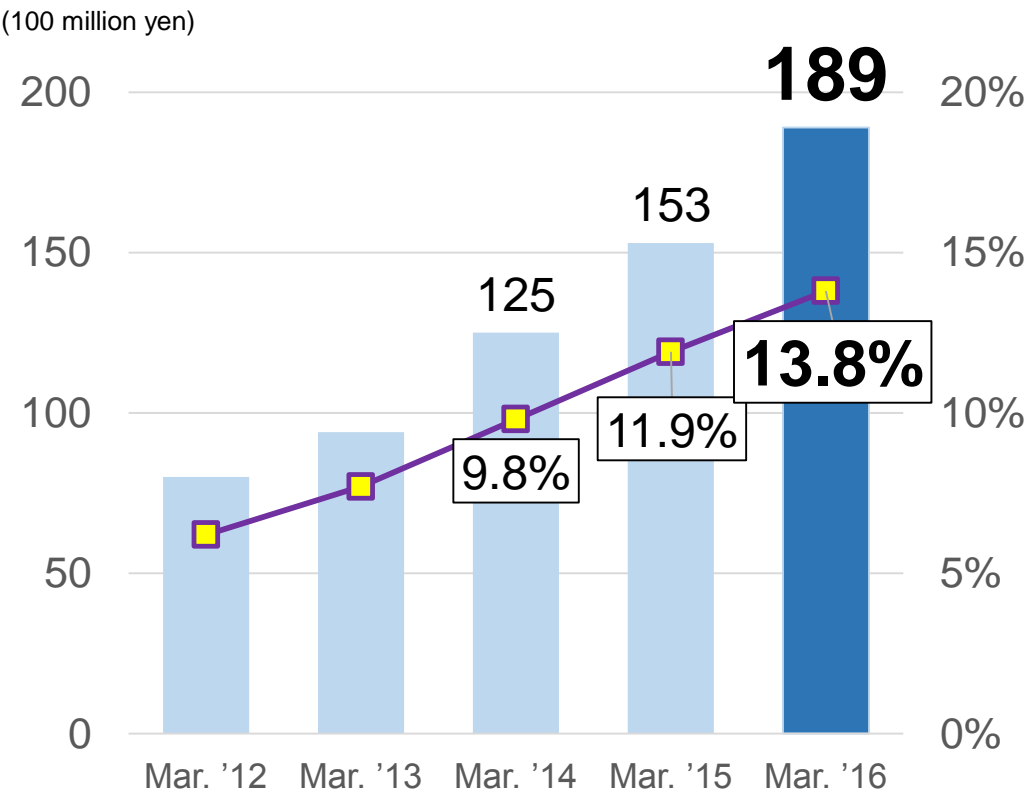
Source: Sofu (Chinese social media) (Oct. 17, '14)



Overseas Consumer Products Business

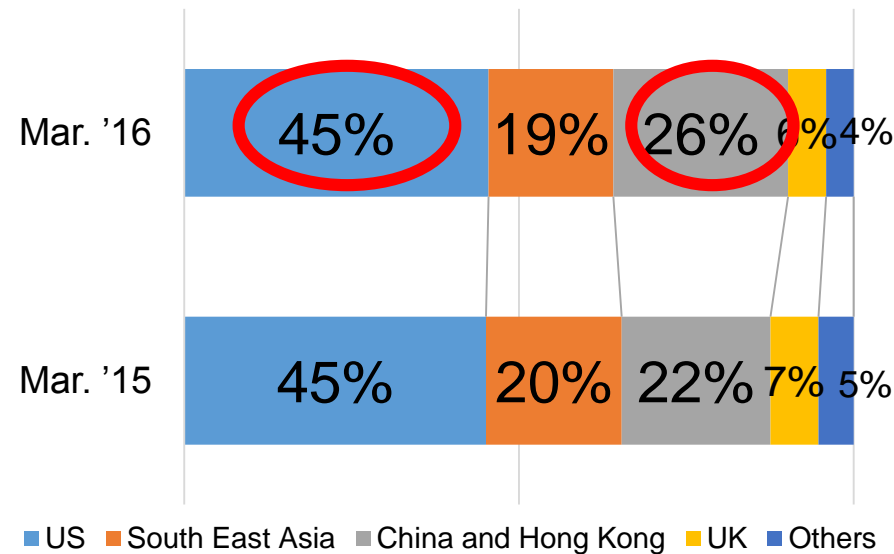
Net sales: 18.9 billion yen (122.8% year-on-year)
Operating income: 0.7 billion yen (140.9% year-on-year)
Net sales and profits increased, far exceeding the previous year's levels.

<Net sales and overseas sales ratio>

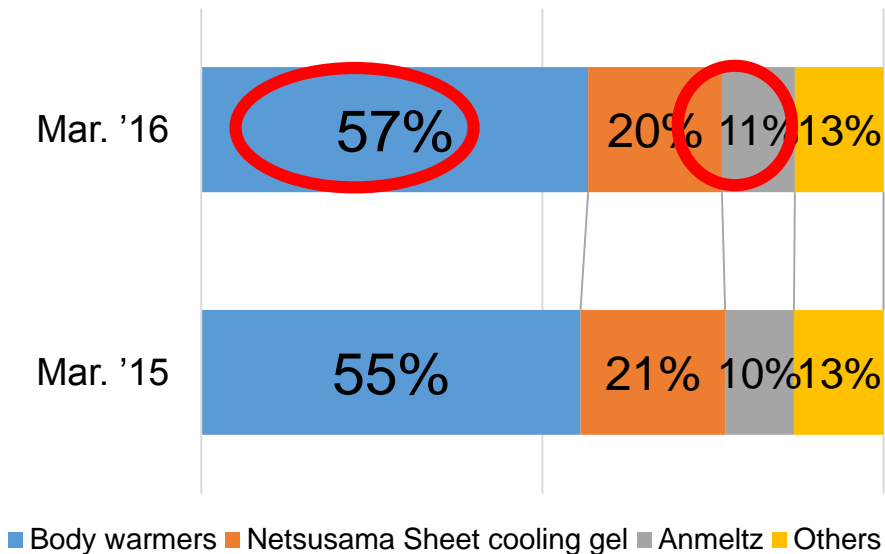


By region, the shares of the US and China grew, due to the cold winter in January–February '15.
By product, the share of body warmers expanded following the cold winter in the US and China, while *Anmeltz* increased its share on the back of strong sales in Hong Kong.

<Sales portfolio by region>



<Sales portfolio by product>



<Core products by region>
US: Body warmers
South East Asia: *Netsusama Sheet*, *Anmeltz*
China: Body warmers, *Netsusama Sheet*

Source: Net sales in years ended March 2015 and March 2016/
However, the calculation period for overseas subsidiaries is from January to December.

Direct Marketing Business

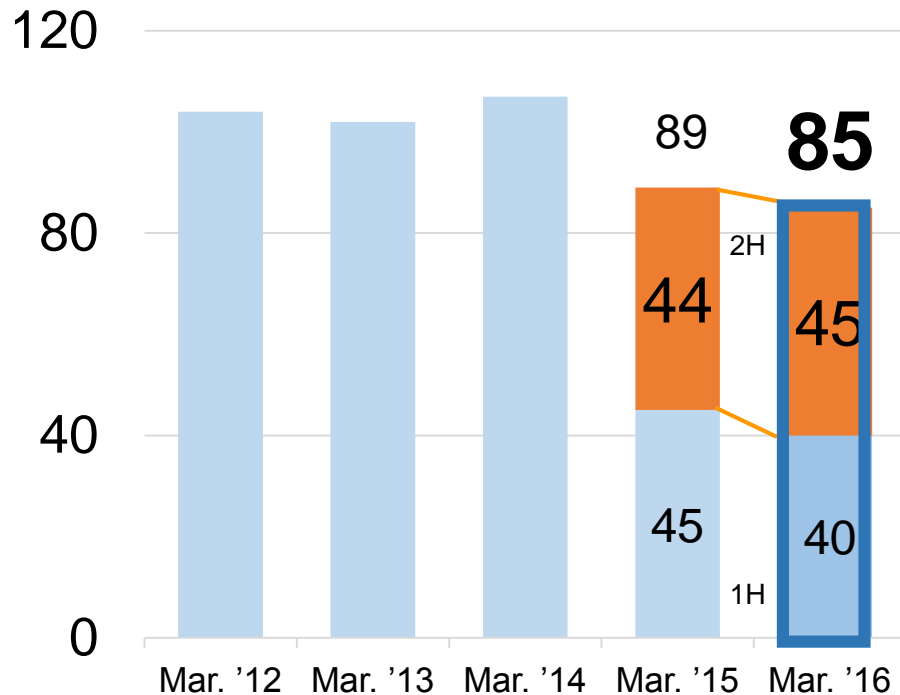
Net sales: 8.5 billion yen (95.1% year-on-year)

Operating income: 0.03 billion yen (7.2% year-on-year)

As the regular delivery plan for all products that was introduced in April 2015 went on track, sales of the segment in 2H exceeded the previous year's level and entered a recovery trend.

(100 million yen)

<Net sales>



<Supplements>



Year-on-year
change
93%

<Skin care>



Year-on-year
change
104%

Change of Fiscal Year and Forecast for Year Ending December 2016

The fiscal year will be changed*¹ to end on December 31 from the former March 31. The 99th Term will be a period of nine months*². For comparison, nine months of the 98th Term, the same as the 99th Term, will be indicated with adjusted figures.

<98th–99th Term financial report figures>

	2015				2016				
	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	
Domestic		98th Term				99th Term			
Overseas									

<98th–99th Term adjusted figures*³>

	2015				2016				
	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	
Domestic		98th Term					99th Term		
Overseas									

*1: Subject to approval of the “Partial Amendment to the Articles of Incorporation” at the 98th General Meeting of Shareholders to be held on June 29, 2016.

*2: Nine months from April to December for domestic companies (consolidated companies with fiscal year ending in March); twelve months from January to December for overseas companies (consolidated companies with fiscal year ending in December).

*3: The adjusted figures for the 98th Term have not been audited by the auditor and are for reference.

Although the 99th Term will be an irregular period of nine months, we will aim to achieve an increase in profits.

	FY ending December 2016 〔 Domestic firms: Apr–Dec '16 Overseas firms: Jan–Dec '16 〕		Year-on-year change 〔 Domestic firms: Apr '15–Mar '16 Overseas firms: Jan–Dec '15 〕		Year-on-year change after adjustment 〔 Domestic firms: Apr–Dec '15 Overseas firms: Jan–Dec '15 〕	
	Amount (million yen)	Margin (%)	Amount (million yen)	Percentage (%)	Amount (million yen)	Percentage (%)
Net sales	117,300	-	-19,911	85.5%	4,844	104.3%
Operating income	16,900	14.4%	-1,360	92.6%	-323	98.1%
Ordinary income	18,800	16.0%	851	104.7%	1,710	110.0%
Net income	13,500	11.5%	34	100.3%	738	105.8%

Activities for Further Growth

1

Strengthen new market creation
by “developing” and “cultivating”
new products

2

Investment for growth

A Big Fish in a Small Pond



Competition is severe in a pond where everyone comes to catch fish. Find a new pond (market) that no one knows.

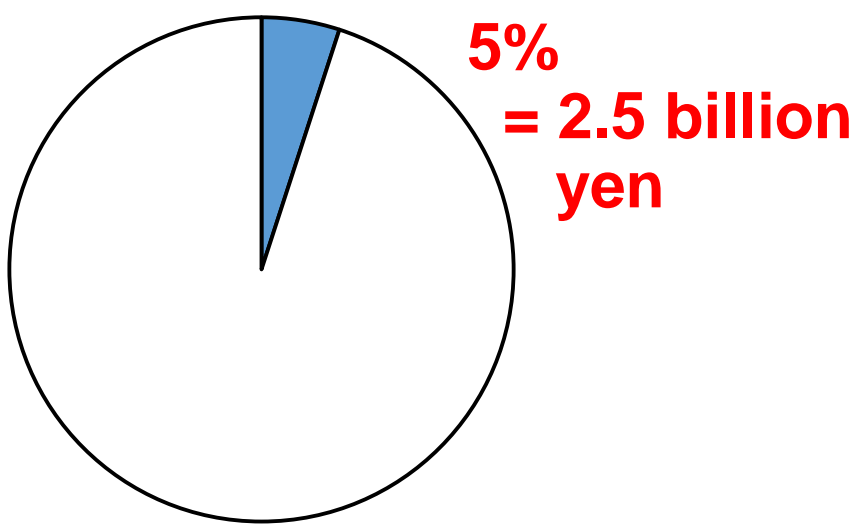
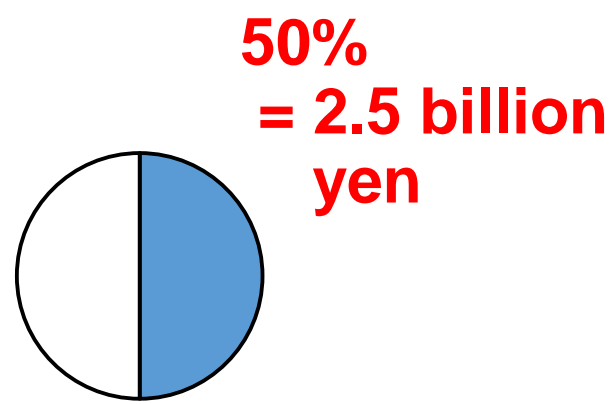


Even if the size is small, be the first man who catches fish in that pond.



Expand the pond by keeping on digging so that big fish can live there.

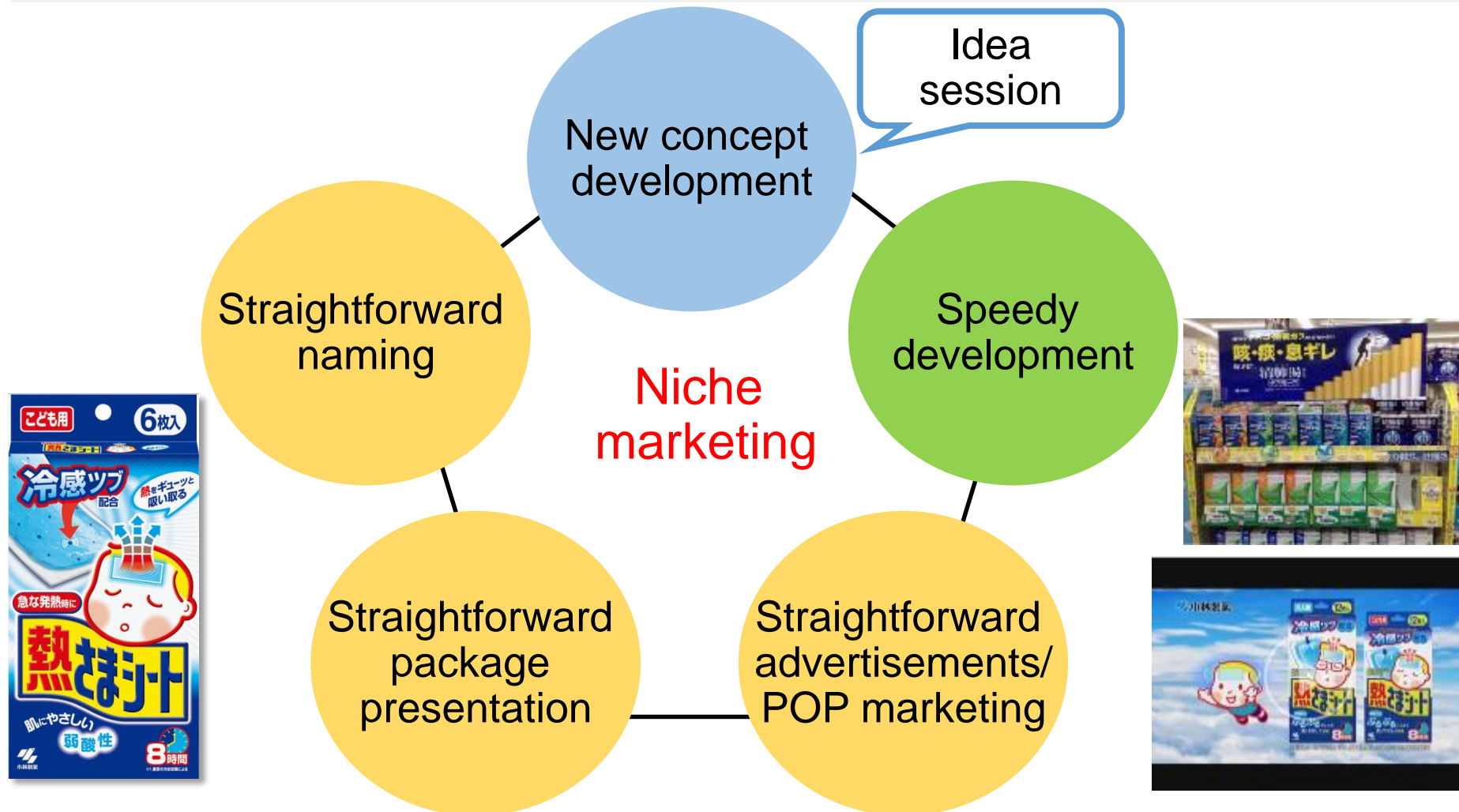
Keep a high share, a strong presence and the market initiative in the market that we have created.



Forehead cooling gel sheet market size: 4.9 billion yen	
<i>Kobayashi (Netsusama Sheet) 56%</i>	
Company A	9%
Company B	7%
⋮	⋮

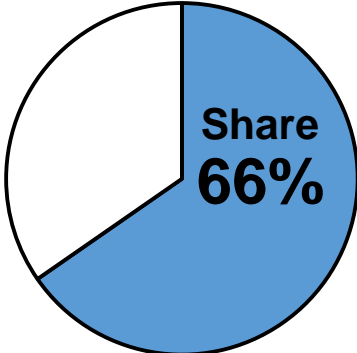
Fever and pain reducing medicine market size: 51.0 billion yen	
Company A	25%
Company B	20%
Company C	14%
⋮	⋮

Develop unprecedented products speedily, communicate them in a straightforward way, and quickly create new markets for them to lead the market.

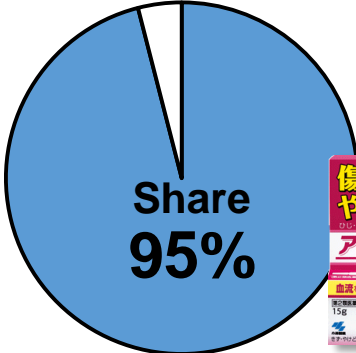


Our leading brands are results of our successful “A Big Fish in a Small Pond” new market creation strategy.

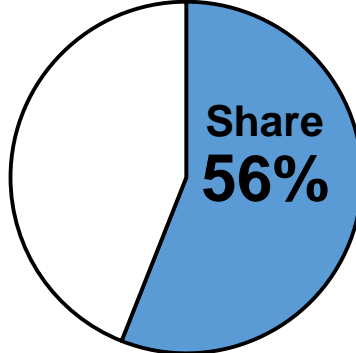
Eye lotion



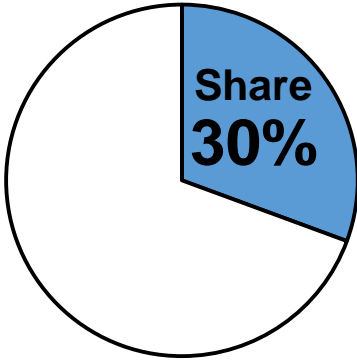
Scar repair cream



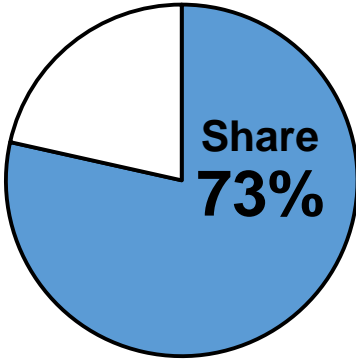
Women’s health promotion drugs



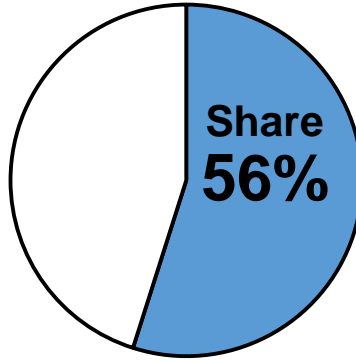
Deodorizing air fresheners



Deodorizing air fresheners for flushing toilets



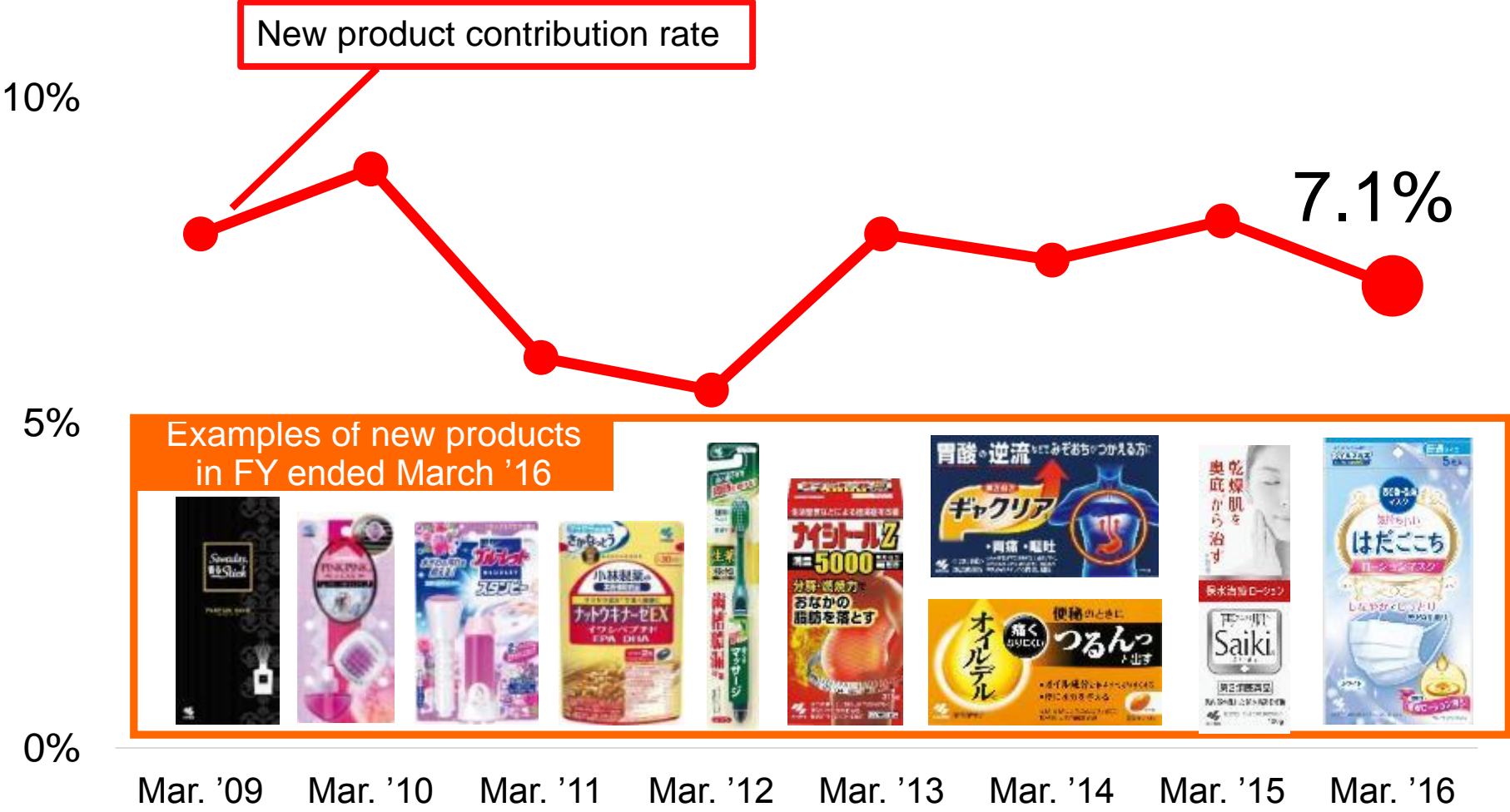
Forehead cooling sheet



* Based on Kobayashi research in fiscal 2015

New Product Contribution Rate (excluding Direct Marketing Business)

The percentage of the sales of new products that were launched in the year to the net sales of the year.
The target is a contribution rate of 10%.



Innovative products that were inspired from the wishes of customers and straightforward marketing won support from foreign tourists as well, which has led to the generation of inbound demand.

“Twelve Supreme Drugs You Must Buy When You Visit Japan”

Sofu (Chinese social media) (Oct. 17, '14)



Expanding products for inbound demand



Cultivate new market creator products that can survive after five to 10 years, by continuing the PDCA cycle. Concentrate resources of the Company on two to four items each year to settle them in the market.



Carry out promotion according to the season, not only in dry season.
Cultivation will be promoted with a view toward the second year of marketing to settle the product in the market.

First year (Fall 2015–Spring 2016)				Second year (FY 2016)	
Store sale	First arrow	Second arrow	Third arrow	Fourth arrow (Spring, summer)	Fifth arrow (Fall)
	Market introduction	Promote dry skin	Promote attractive skin for summer	Skin problems at the turn of seasons	Planned introduction of new product
Advertising/promotion	TVCM			TVCM	
	Web-based activities			Web-based activities	
	In-store flyers			Newspaper	
	Newspaper			Newspaper	

Launched
Sep. 2015



Highlight skin
problems at the turn
of seasons

1

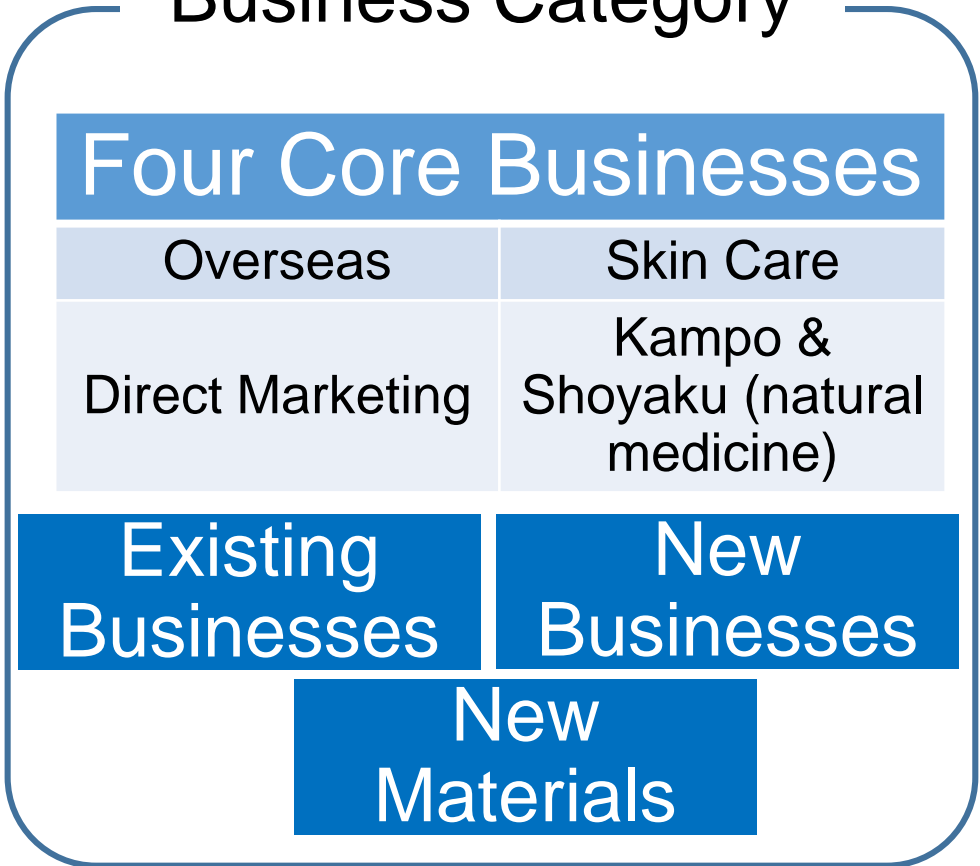
Strengthen new market creation
by “developing” and “cultivating”
new products

2

Investment for growth

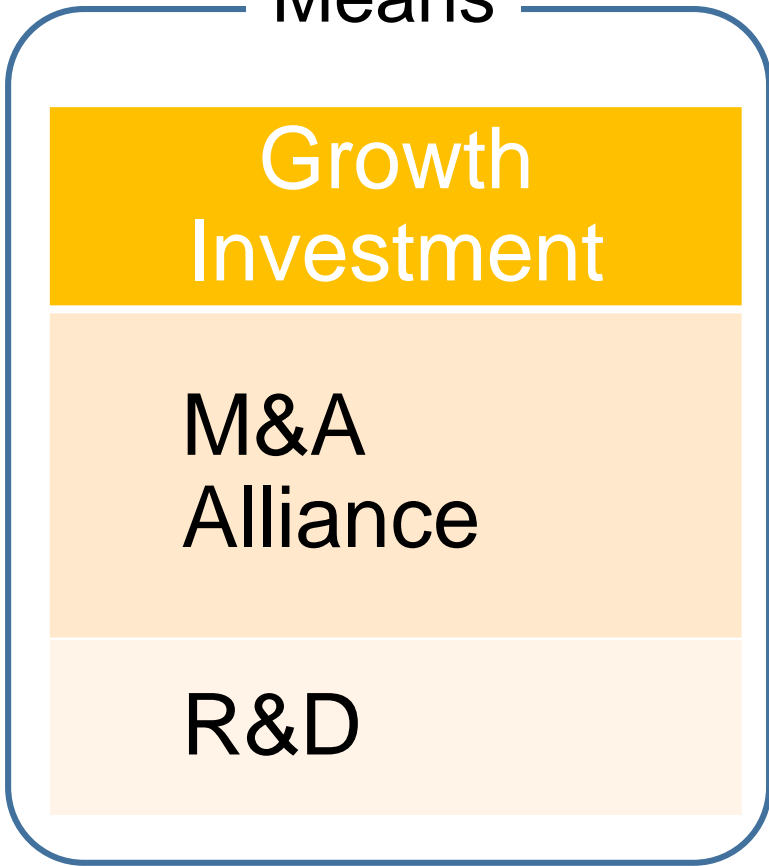
Realize the growth of the four core businesses as pillars supporting the Company's growth, and actively invest in M&A, alliance and research activities.

Business Category

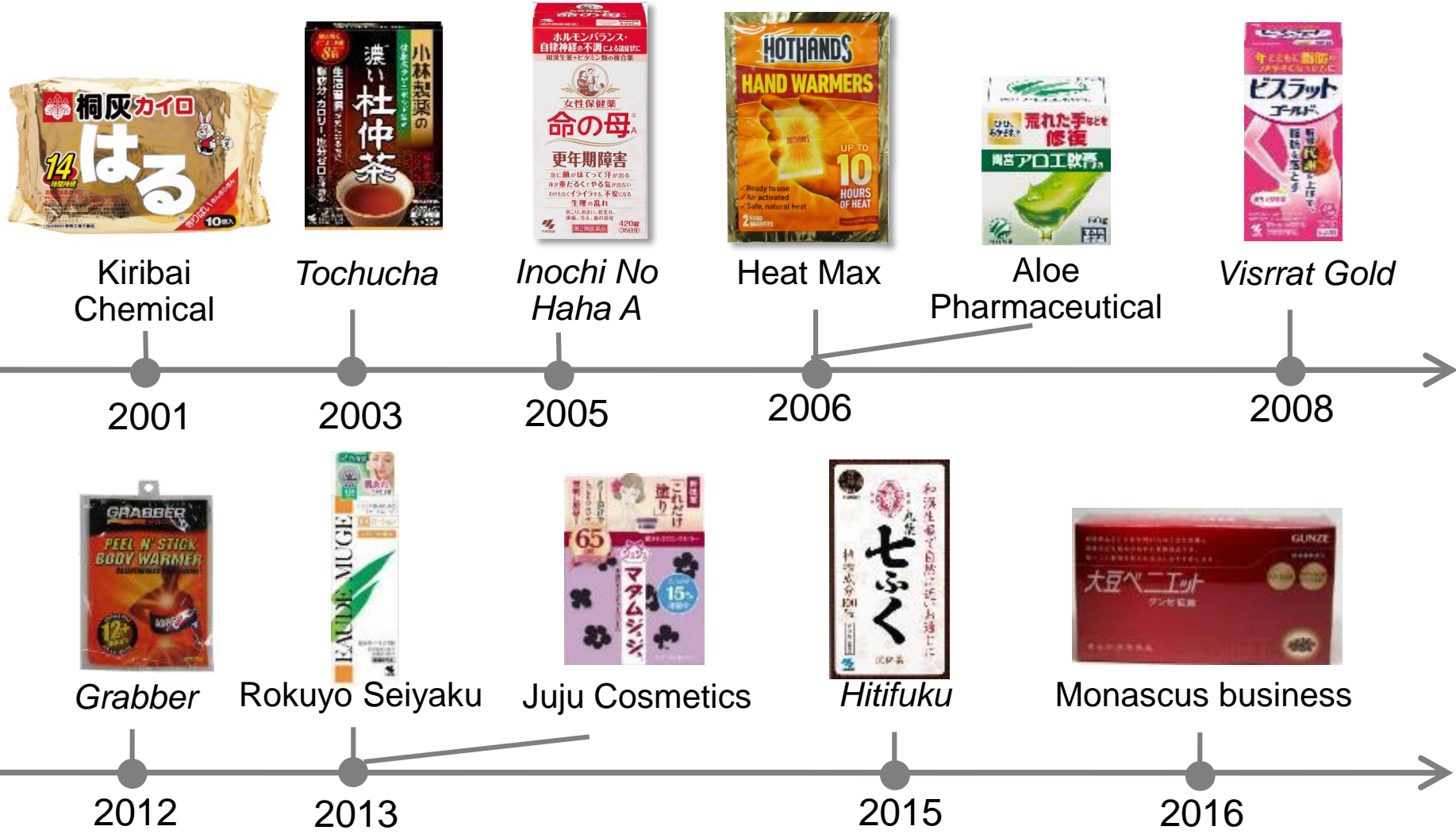


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Means



A business model of buying small and growing it large.
Invest in M&A that generates synergy to achieve top line growth.



Expand investment in new materials research toward the realization of self-medication for the “super-aging society.”

Investment Area

Gathering of medicinal plant extracts and effective microorganism that will be base materials

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Fermentation
research

Immunity
research

Performance
healthcare
new products

New
concept
development

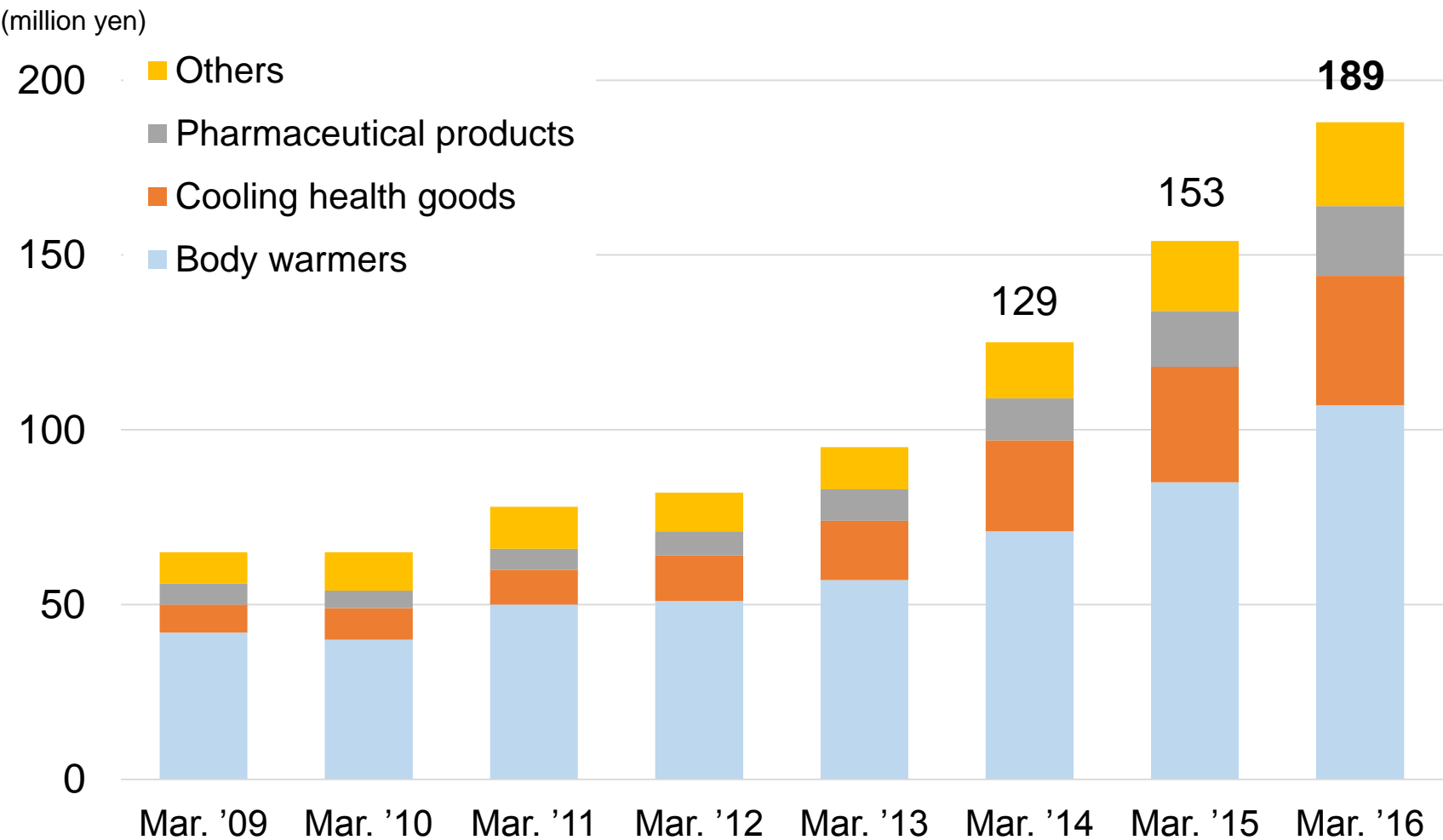


Overseas Business

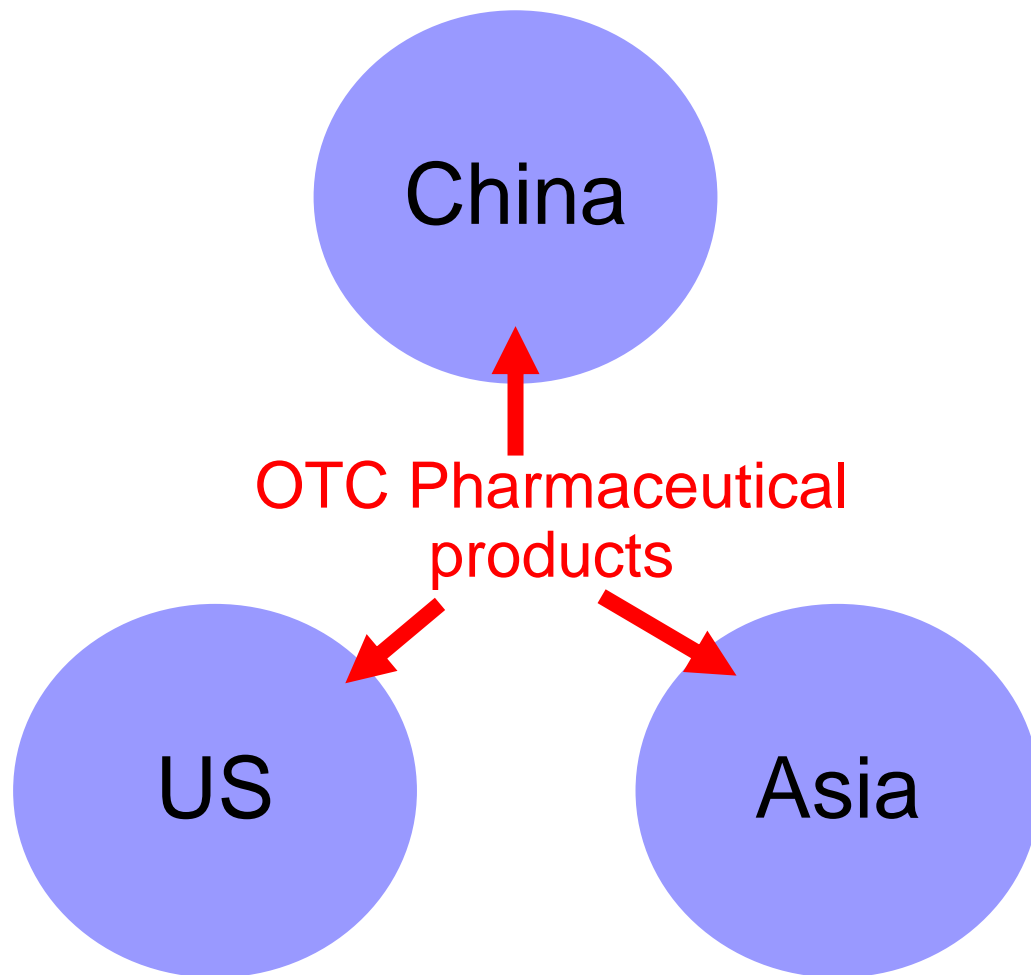
Six Categories have been established to compete internationally.
Work on creating global brands that create new living practices in each country in which we operate.



Progress is being made toward the target of 20 billion yen in the 100th Term (FY ending December 2017).
Cultivate a business category after body warmers



Seek partners with a local distribution license to strengthen the OTC pharmaceutical products category.



March 2016: Launch of *Eyebon* in Korea



April 2016: Launch of *Ninocure* in Hong Kong
(In the cosmetics category in Hong Kong)

Strengthened the local distribution system in order to encourage repeated purchase after returning to China.
Based on the increase in local sales, efforts will be made to further globalize the brand.

<Activities in 2015 for Netsusama Sheet>

- (1) Reinforced the 16 major cities
 - Expanded store coverage by approx. 1.3 times (vs. 2014)
 - Strengthened in-store promotions and carried out sample distribution
- (2) Unified to a global design (from July 2015)



Old package

<Future>

- Make efforts to further cultivate products for inbound demand while researching local needs.
- The opening of a flagship store is planned in Tmall Global to create an environment where Japanese products can be purchased.



New package

Skin Care Business

The strength of Kobayashi is its ability to propose products in various categories for skin problems and unsatisfied needs.

OTC Pharmaceutical
products
Cure symptoms



Skin care
pharmaceutical products
Relieve skin problems





Skin Care
(quasi-drugs and cosmetics)
Keeps the skin healthy
and beautiful





Cultivation of the four brands will be the top priority theme. At the same time, work on developing new market creator brands with sharp concepts.

Spots





Express the effects and problems in a straightforward manner

Skin problems, acne





Highlight uniqueness of rub-off + sterilization washing

Anti-aging



Double-digit growth in the 65th year of marketing

Moisturizing




(brand year-on-year change)


Highly competitive market
Differentiation is the key

Items increased, brand established


Discover the needs of consumers
Highlight a differentiated and new skin care




Mar. '16
Launch of essence



Apr. '16
Launch of make-up removing gel



Continue to propose one application



Mar. '16
Launch of Asa No All-in-One

Direct Marketing Business

A regular delivery plan for all products was introduced in April 2015. As customers under the regular delivery plan are increasing, sales in October exceeded those of the same month of the previous year

<Regular delivery plan for all products>
Started in April 2015

In the past

Focus on giving incentives to first-timers
* Did not lead to repeat purchases.



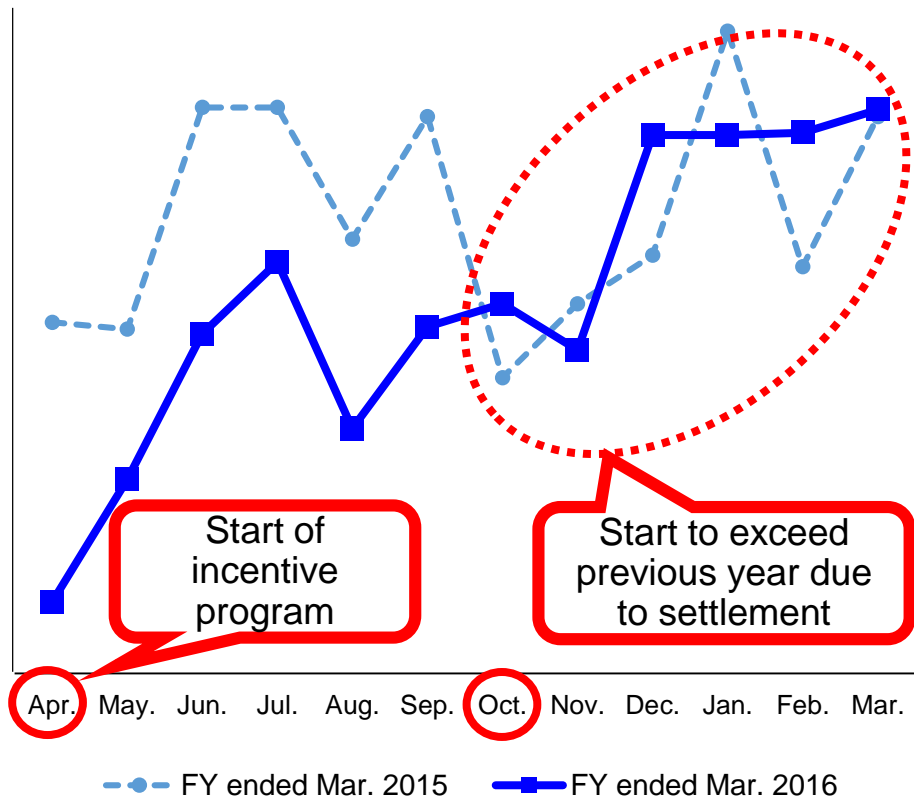
The incentive program was shifted to giving incentives to regular purchasers (loyal users).

[Incentives for users of the regular delivery plan]
Incremental discount rates according to the accumulated purchase prices

10% discount

16% discount maximum

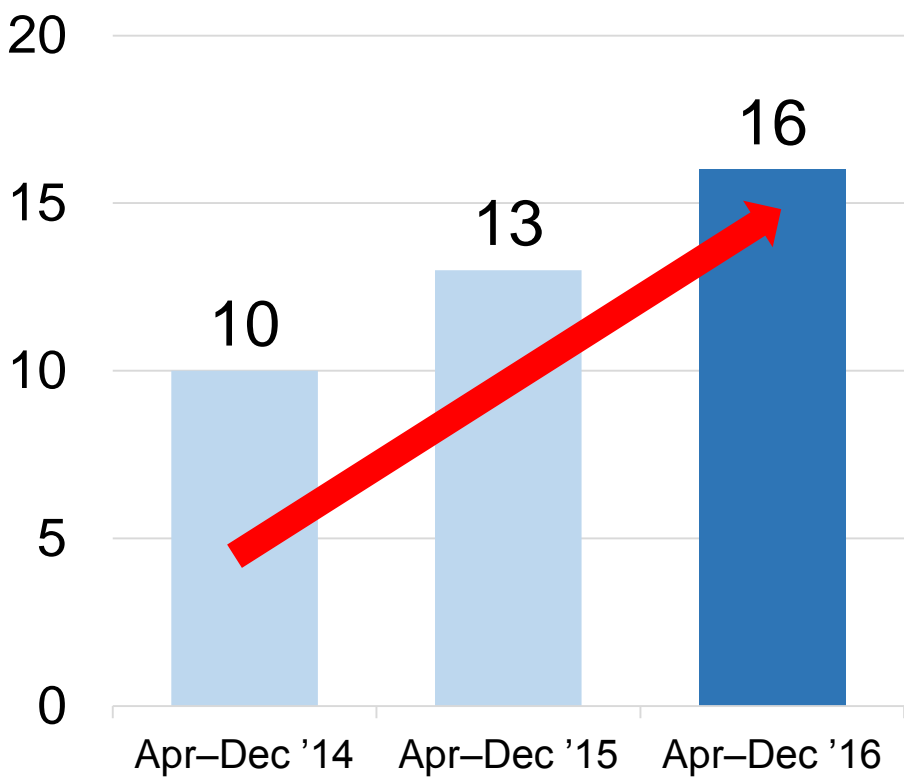
(Sales amount)



Increase advertising spend to acquire new customers.
Seek to enhance sales by leading customers to the incentive plan.

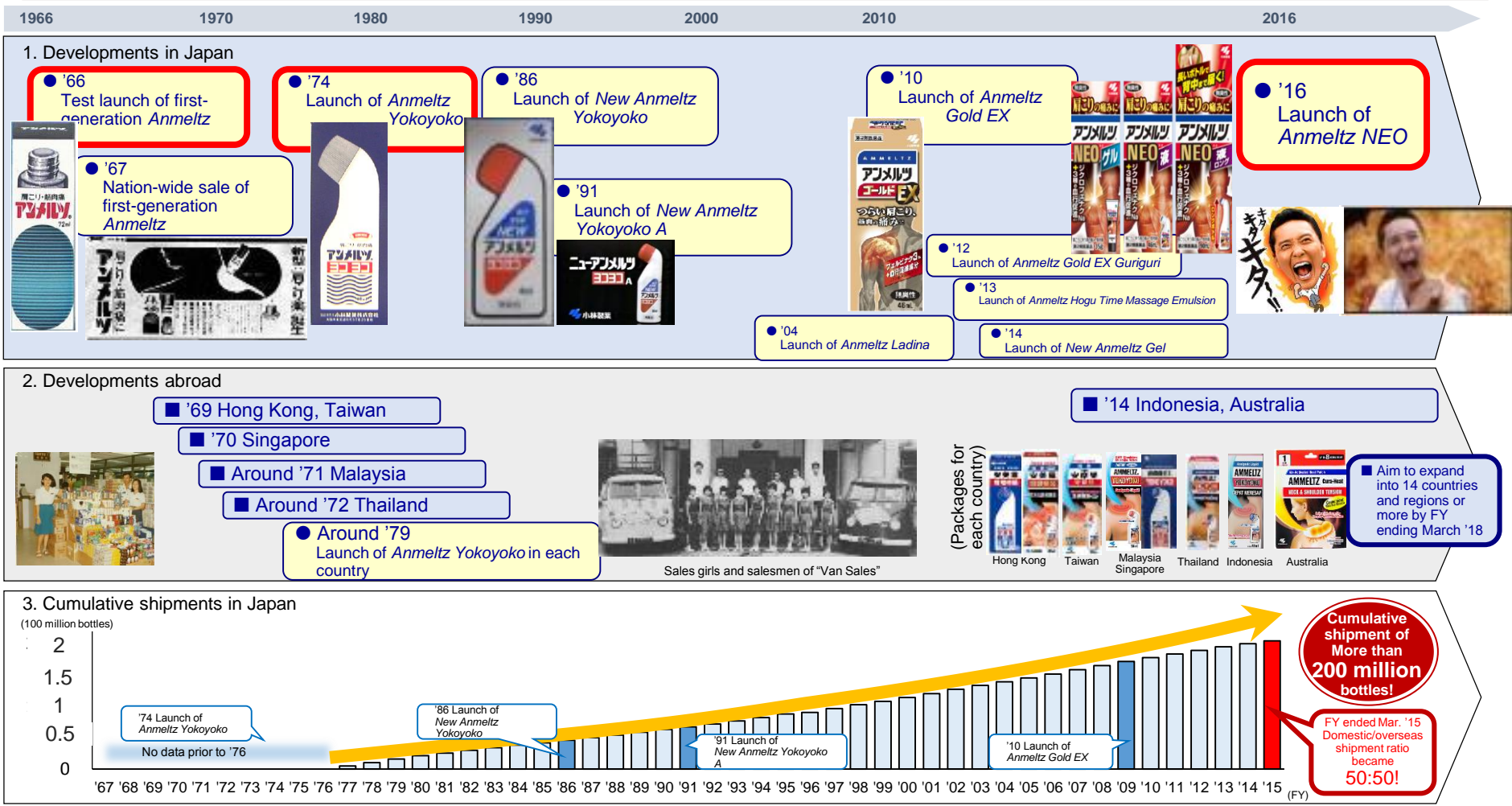
<Increase in advertising spend>

(100 million yen)

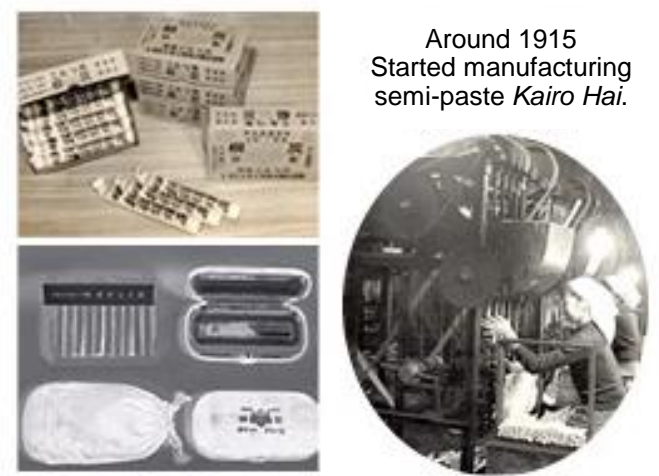


Topics for the Current Fiscal Year

50 years of focusing on “effect” and “usability.”
Seek to further expand the market by launching new product Anmeltz NEO on April 6.



100 years have passed since the launch of *Kairo Hai*. In the 101th year, we will renew the packaging and ad personality while maintaining the product's strengths. We will fortify our top share position.



Around 1915
Started manufacturing
semi-paste *Kairo Hai*.



Around 1976
Disposable body warmer
Kiribai Hand Warmer

(1) Renew packaging



(2) 100th Anniversary Campaign
(tentative)



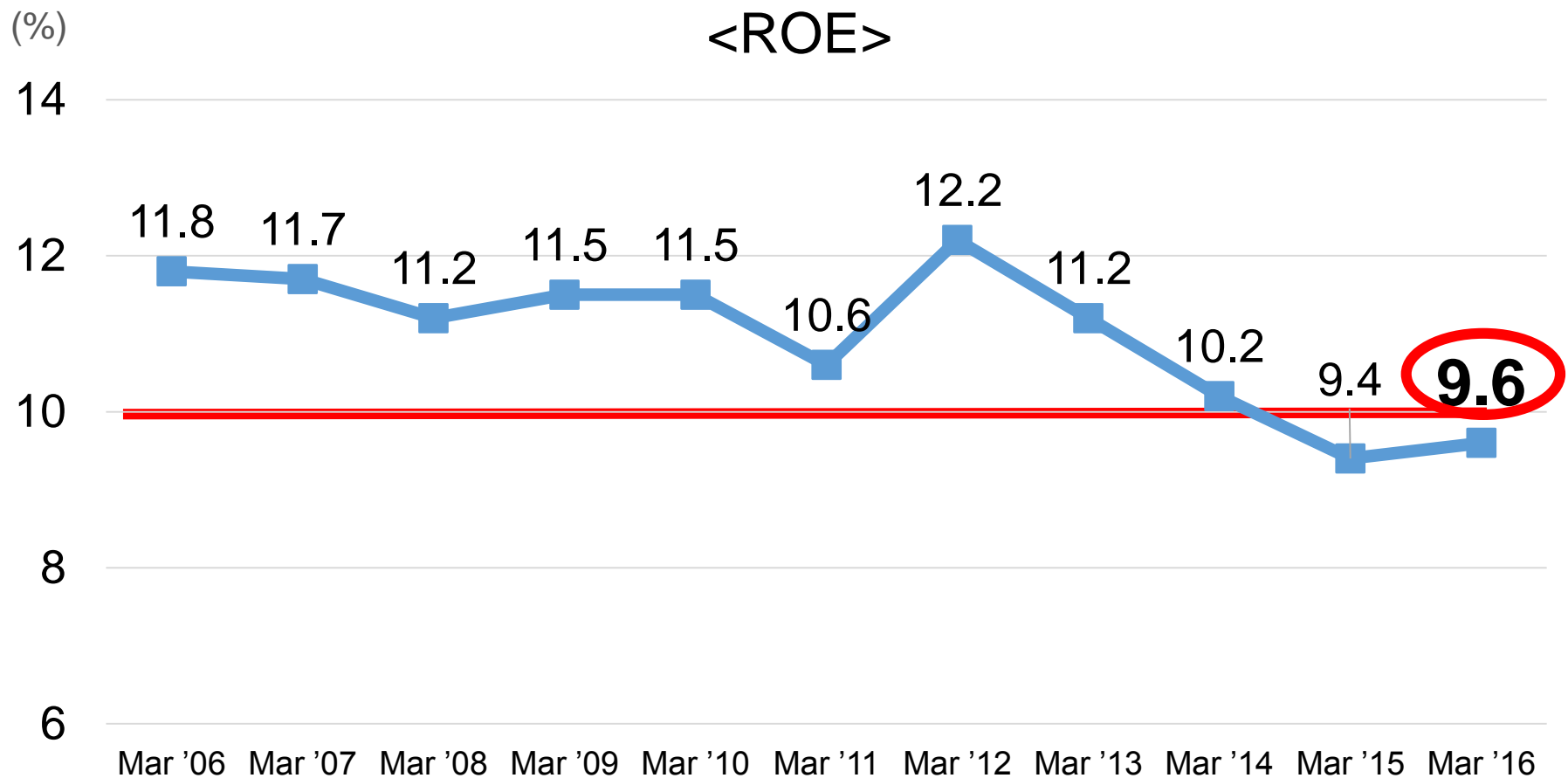
(3) Hire new a personality



Returns to Shareholders

ROE was 9.6% in FY ended March 2016.

Aim for ROE of 10% by aggressively investing in growth such as through M&A.



< Annual dividend >
96 yen/share

+

< Buy-back of Company
shares completed >

Total amount of buy-back: **8 billion yen**

Interim dividends:

48 yen/share

Year-end dividends:

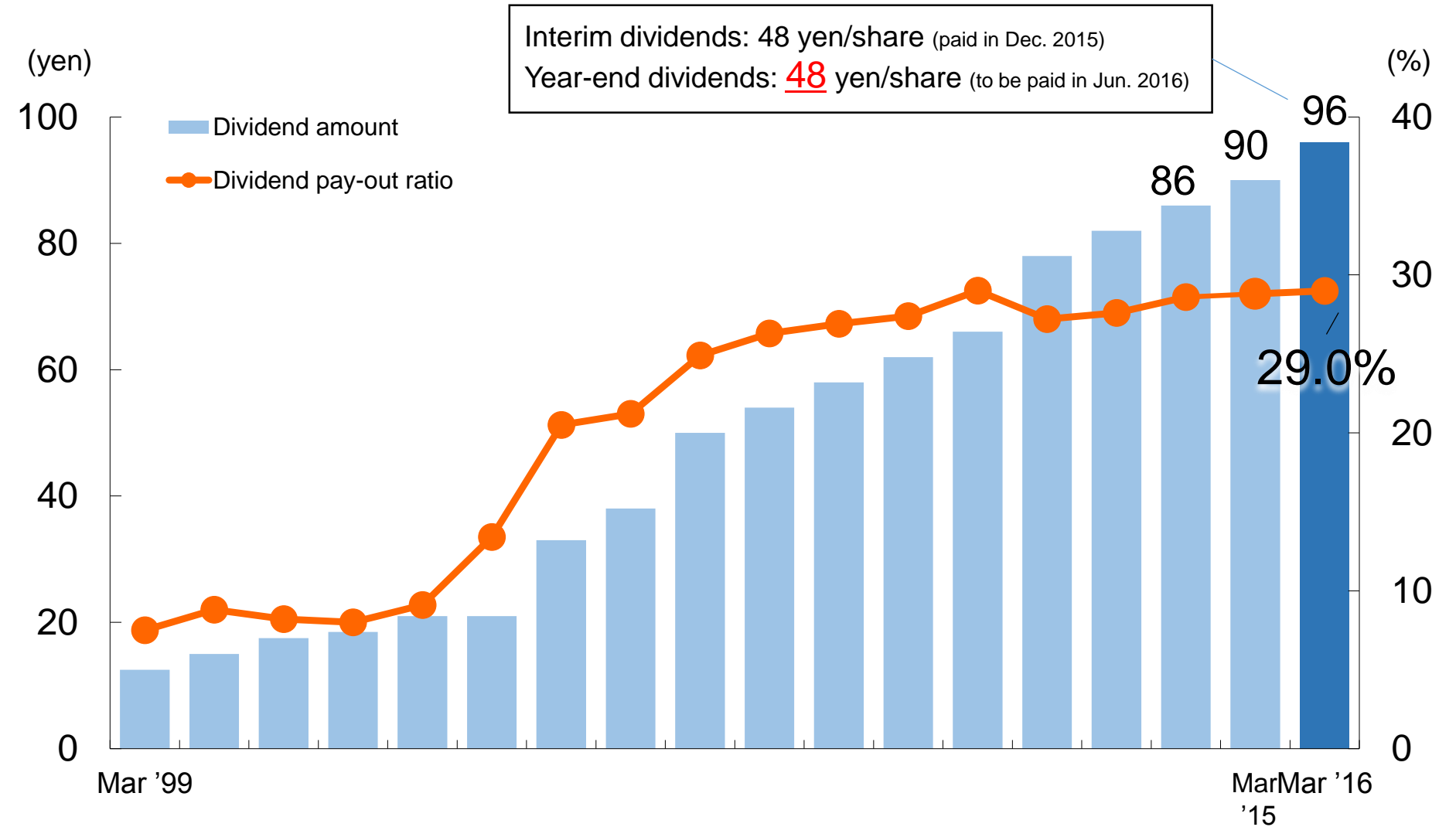
46 yen/share

→ 48 yen/share

Buy-back period:

October 30, 2015 to
February 9, 2016

Achieved an increase in dividends for 17 consecutive years.



<Stock split>

1. Purpose

- (1) To improve the liquidity of the shares
- (2) To expand the individual investor base

2. Method

Two common stock for one

3. Schedule

Record date: June 30, 2016

Effective: July 1, 2016

<Annual dividend>

48 yen/share (interim dividends: 24 yen/share; year-end dividends: 24 yen/share)

Although it is a nine-month period, the annual dividend amount will be the same as in a twelve-month period.

(Details)

FY ended Mar. '16 (**twelve months**): Annual dividend of **96 yen/share**

FY ending Dec. '16 (**nine months**): Annual dividend of **48 yen/share**

(**96 yen/share** on a pre-split basis)

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いいな[®]

をカタチにする

 小林製薬