

Presentation time: 30 minutes



# **Financial Overview for the Second Quarter of the Fiscal Year Ending December 31, 2016**

**November 4, 2016**

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

- Consolidated Results for the Second Quarter of the Fiscal Year Ending December 31, 2016
- Forecast for Year Ending December 2016
- Shareholder Returns
- Medium-Term Management Plan

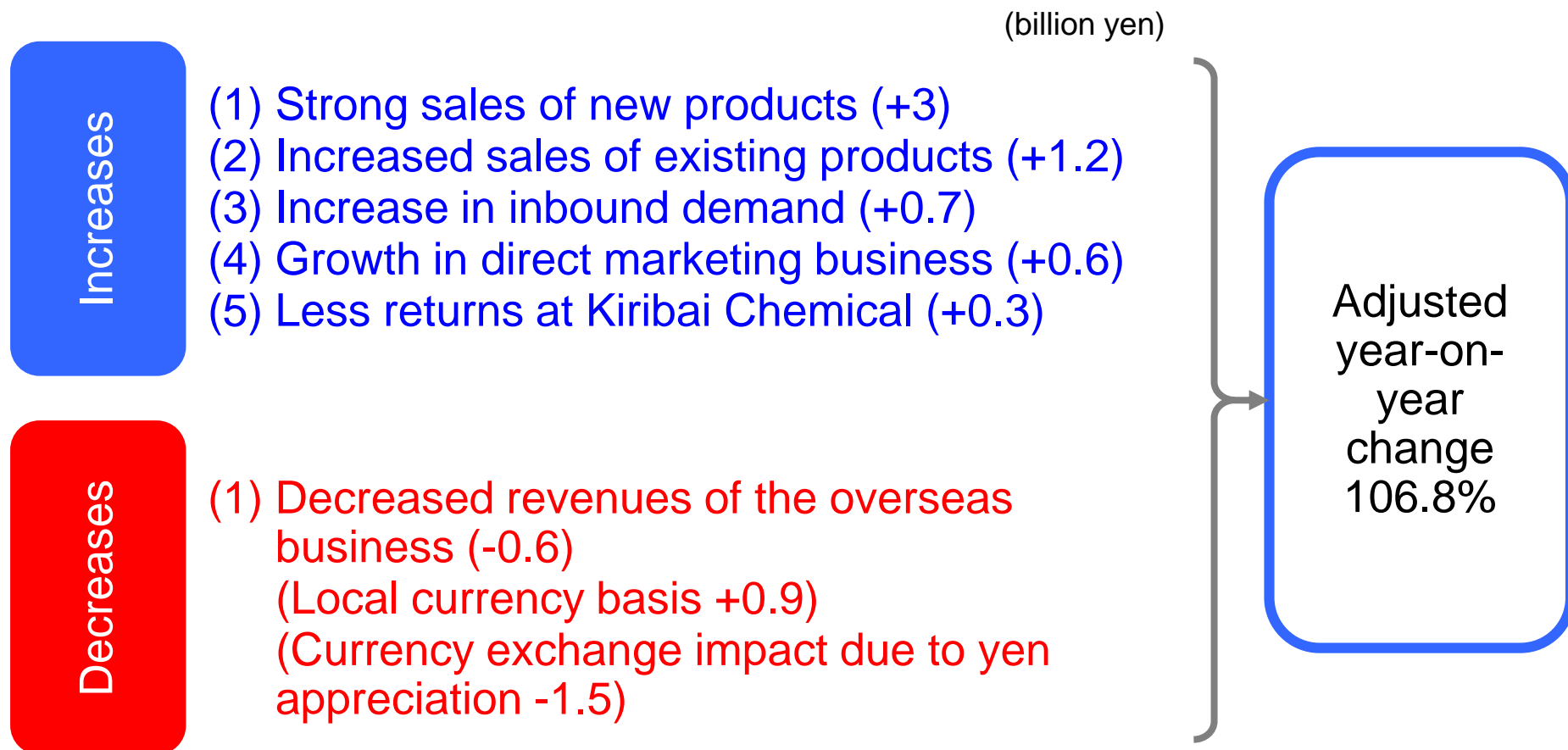
# **Consolidated Results for the Second Quarter of the Fiscal Year Ending December 31, 2016**

Achieved significant growth in both revenue and income.

	FY2016		FY2015		Same period of previous year		Published forecasts*	
	2Q FY2016		2Q FY2015		Adjusted previous period			
	〔 Domestic: Apr.–Sep. 2016 Overseas: Jan.–Sep. 2016 〕		〔 Domestic: Apr.–Sep. 2015 Overseas: Jan.–Jun. 2015 〕		〔 Domestic: Apr.–Sep. 2015 Overseas: Jan.–Sep. 2015 〕			
	Amount (million yen)	Margin (%)	Amount (million yen)	Percentage (%)	Amount (million yen)	Percentage (%)	Amount (million yen)	Percentage (%)
Net sales	74,366	-	63,569	117.0%	69,622	106.8%	73,000	101.9%
Operating income	11,861	15.9%	9,387	126.4%	10,531	112.6%	10,600	111.9%
Ordinary income	11,646	15.7%	9,189	126.7%	10,246	113.7%	10,600	109.9%
Net income	8,109	10.9%	6,014	134.8%	6,684	121.3%	7,000	115.8%

\* Published July 28, 2016

<Increases/decreases in net sales (change from the adjusted same period of the previous year)>



\* The actual figures for the same period of the previous year (2Q FY ended Mar. 2016) were calculated as six months (Apr.–Sep. 2015) for Japan + nine months (Jan.–Sep. 2015) for overseas.

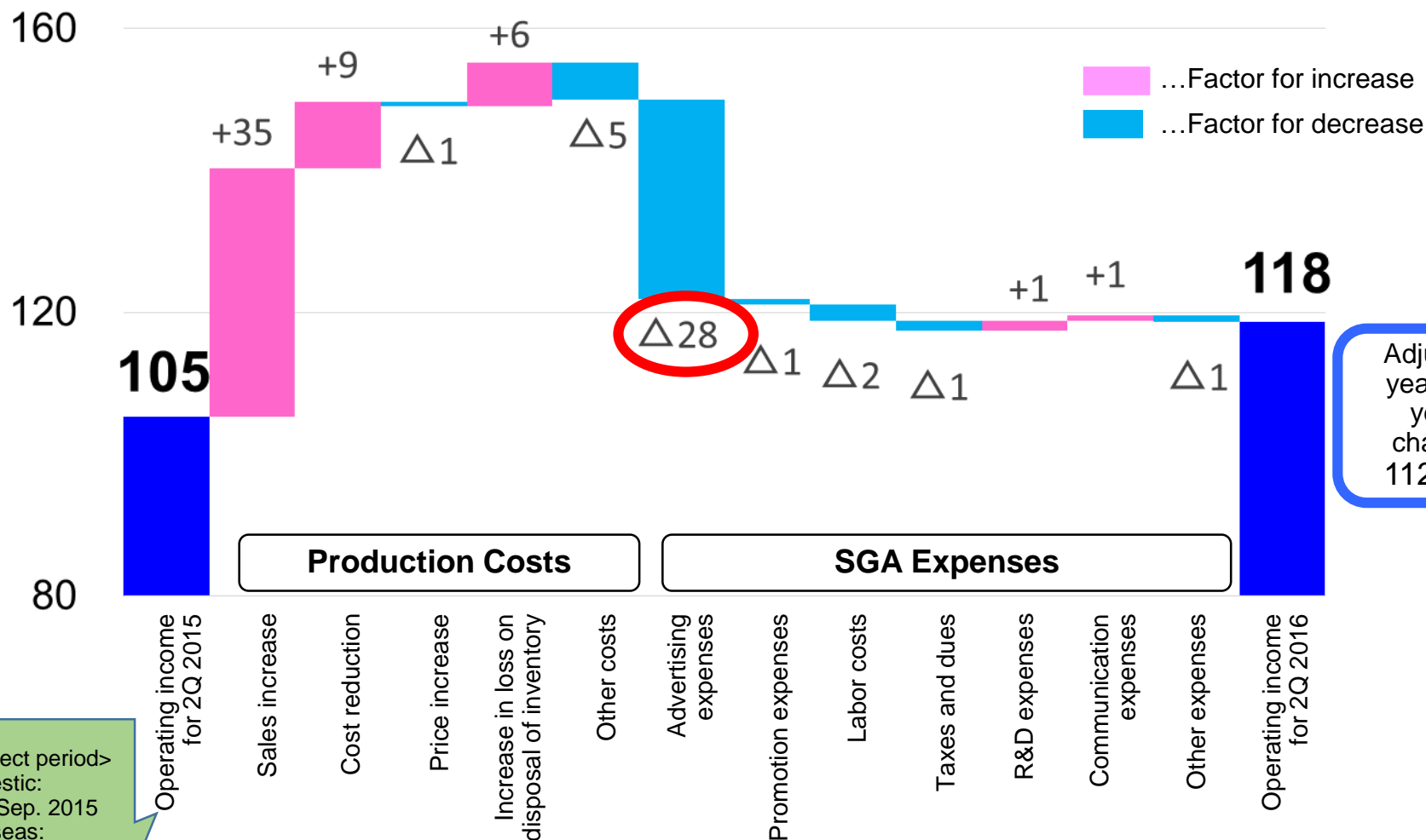
# Highlights of Consolidated Results

## [Operating Income]

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Assisted growth by actively investing in advertisements and secured an increase in income.

(100 million yen)



\* The actual figures for the same period of the previous year (2Q FY ended Mar. 2016) were calculated as six months (Apr.–Sep. 2015) for Japan + nine months (Jan.–Sep. 2015) for overseas.

Sales at stores in Japan and the direct marketing business saw significant increases, while sales at stores outside Japan ended below last year's level due to the warm winter and the strong yen.

	Domestic Consumer Products Business		Overseas Consumer Products Business		Direct Marketing Business	
	Sales at stores in Japan and Kiribai Chemical					
	Amount (million yen)	Adjusted year-on-year change (%)	Amount (million yen)	Adjusted year-on-year change (%)	Amount (million yen)	Adjusted year-on-year change (%)
Net sales	57,353	109.7%	(2) 11,240	94.3%	4,600	115.1%
	(1) 55,690	109.4%				
Operating income	11,204	122.2%	519	45.1%	-178	-
	(1) 11,472	118.3%				

(1) Figures in the lower line exclude Kiribai Chemical results.

(2) Net sales excluding the impact of the change of fiscal year are 10,751 million yen (94.5% year-on-year adjusted).

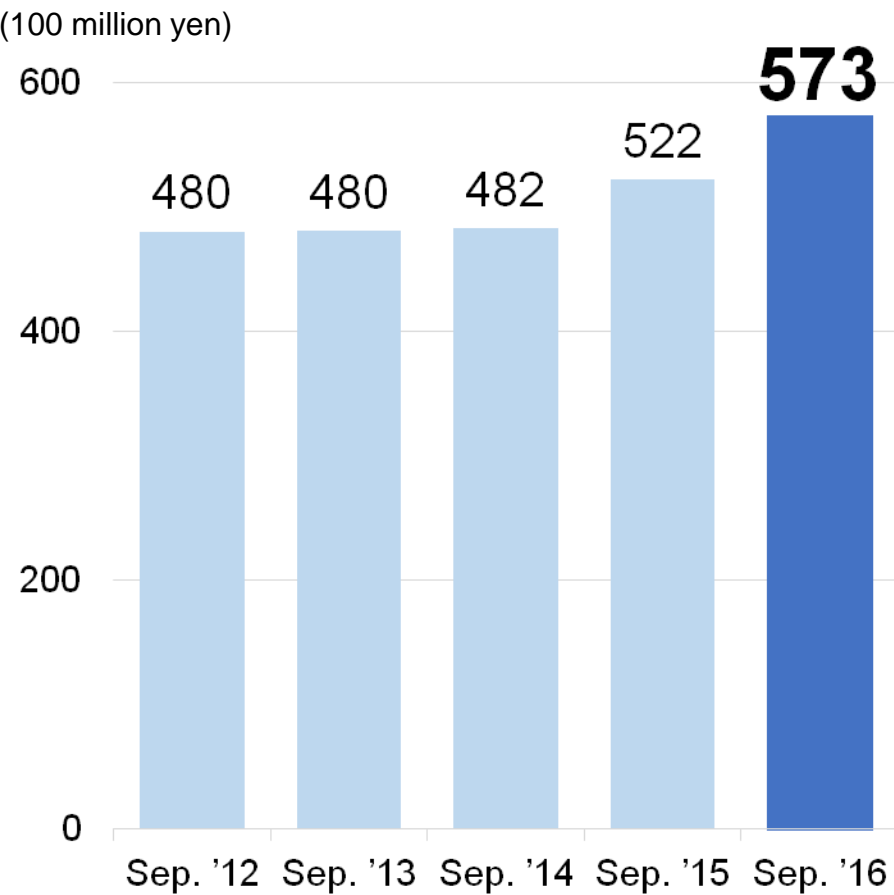
\* The actual figures for the same period of the previous year (2Q FY ended Mar. 2016) were calculated as six months (Apr.–Sep. 2015) for Japan + nine months (Jan.–Sep. 2015) for overseas.

**Domestic Consumer Products  
Business  
(Sales at stores in Japan and  
Kiribai Chemical)**

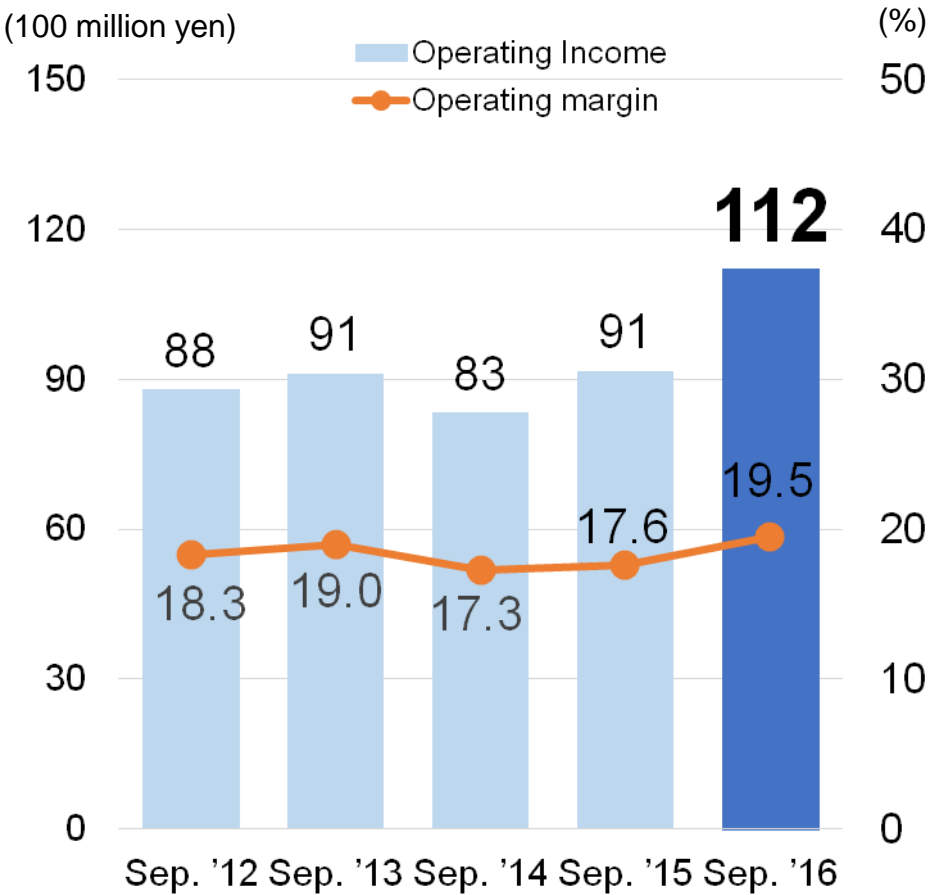


Net sales: 57.3 billion yen (109.7% year-on-year adjusted)  
Operating income: 11.2 billion yen (122.2% year-on-year adjusted)

<Net Sales>



<Operating Income>



\* The actual figures for the same period of the previous year (2Q FY ended Mar. 2016) were calculated as six months (Apr.–Sep. 2015) for Japan + nine months (Jan.–Sep. 2015) for overseas.

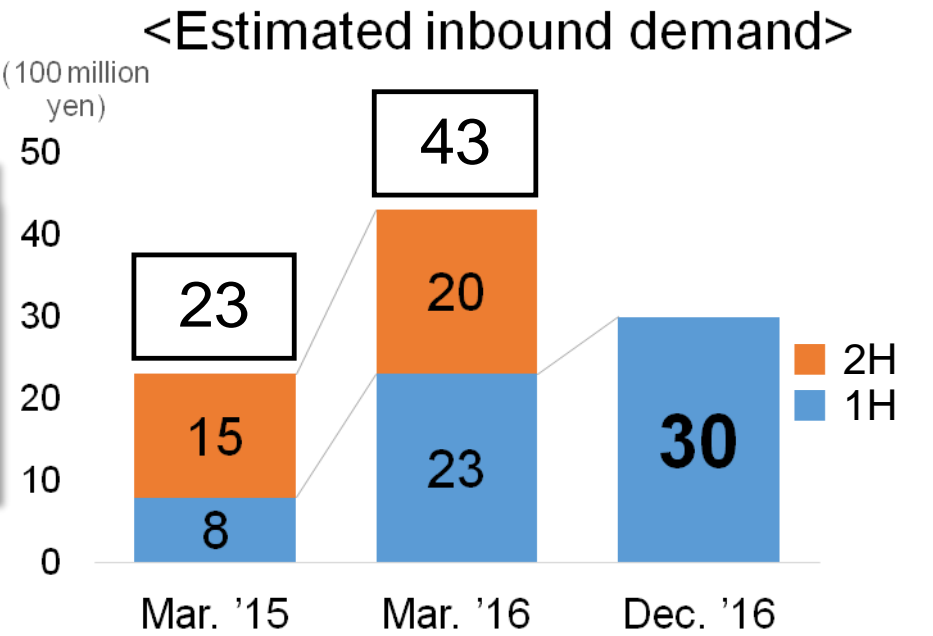
All categories saw significant growth due to strong inbound and domestic demand.

	2Q FY ending Dec. 2016	Adjusted same period of the previous year		
	Amount (million yen)	Amount (million yen)	Difference (million yen)	Adjusted year-on-year change (%)
Healthcare products	27,306	24,031	3,274	113.6%
Household products	26,521	25,298	1,222	104.8%
Skin care products	2,754	2,310	444	119.2%
Body warmers	771	646	124	119.3%
Total	57,353	52,287	5,066	109.7%

\* The actual figures for the same period of the previous year (2Q FY ended Mar. 2016) were calculated as six months (Apr.–Sep. 2015) for Japan + nine months (Jan.–Sep. 2015) for overseas.

Purchase items and purchase places have increased, with inbound demand in the first half of 3 billion yen.

“Twelve Supreme Drugs You Must Buy When You Visit Japan”  
Source: Sofu (Chinese social media) (Oct. 17, 2014)



# Example of new products that created new markets

The size of new markets created since *Atnon*, launched in 2011, is approx. 3.5 billion yen\*.



\* Estimate as of end of March 2016

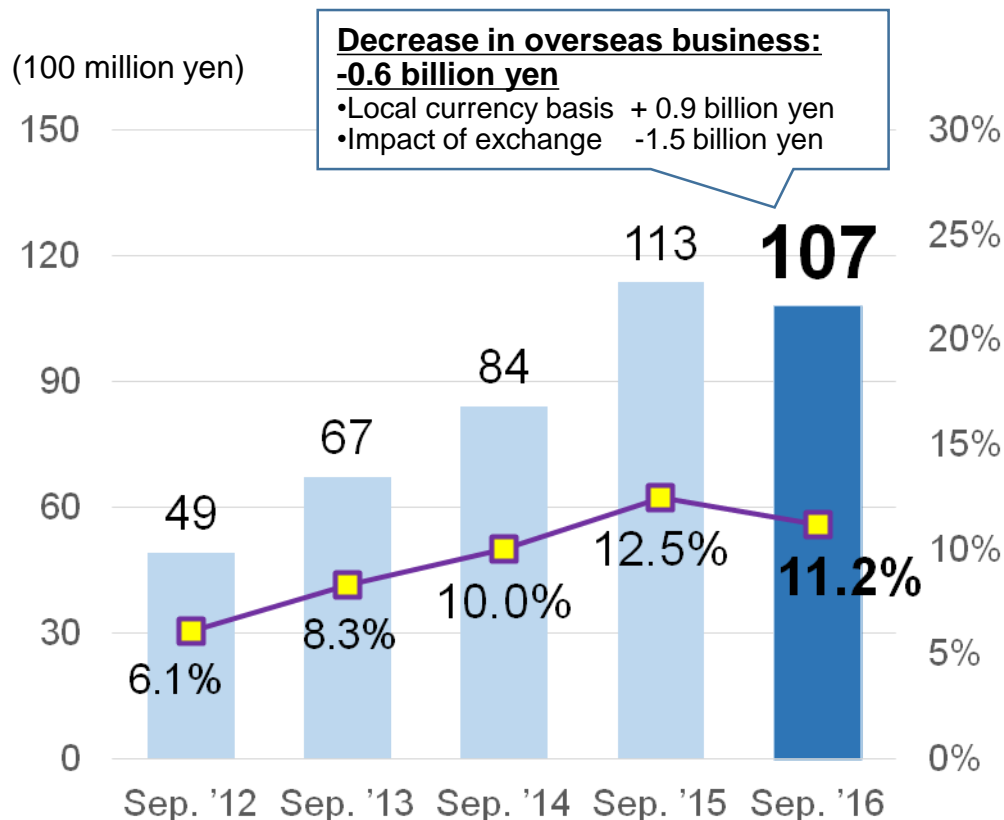
# **Overseas Consumer Products Business**



Net sales were 10.7 billion yen due to the warm winter and the strong yen (94.5% year-on-year adjusted).

Operating income was 0.5 billion yen due to the weighting of advertising expenses (45.1% year-on-year adjusted).

## <Overseas net sales (Jan.–Sep.) and overseas sales ratio>

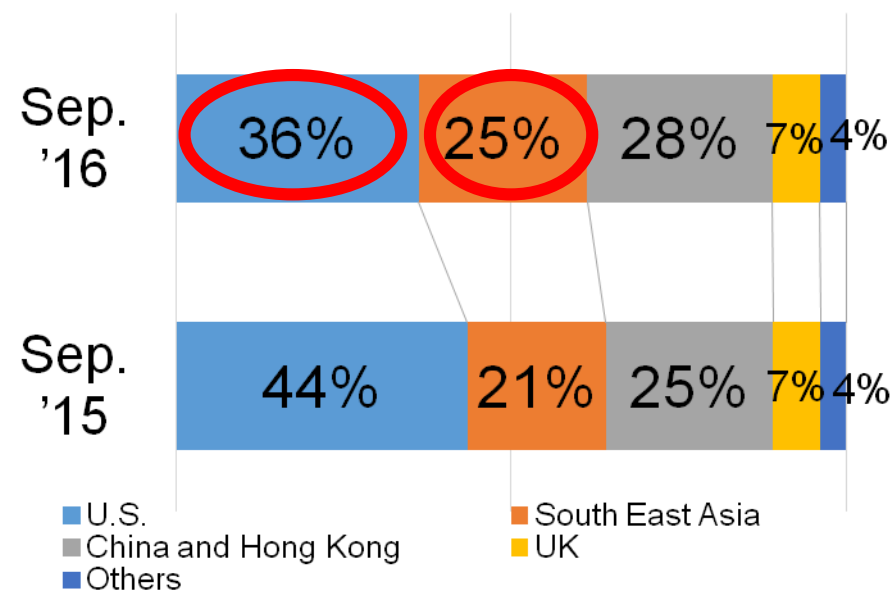


\* Net sales for the period under review (Sep. '16) and the previous year's period (Sep. '15) have been adjusted for the impact of the fiscal year change.

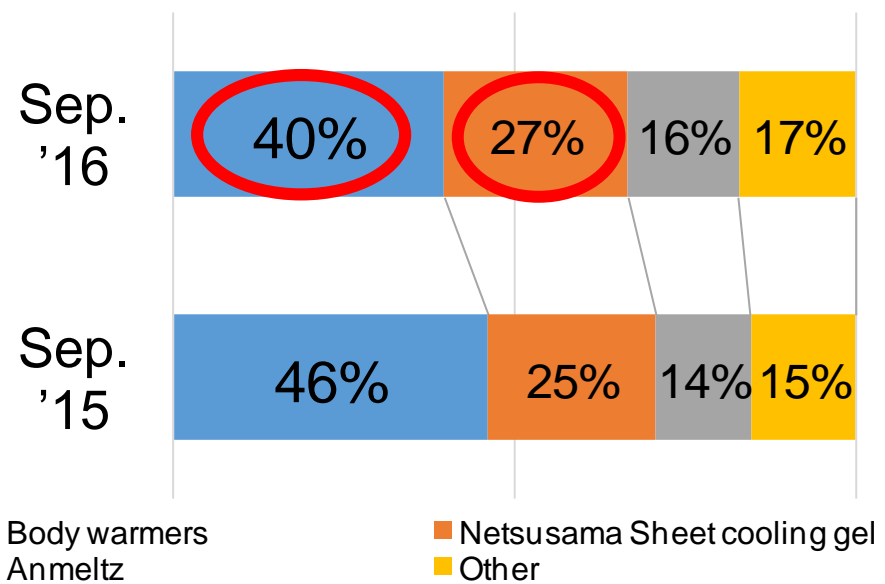
\* Net sales of each year are calculated for a nine-month period (Jan.–Sep.).

While sales of body warmers were sluggish in the U.S. due to the warm winter, sales of *Netsusama Sheet* increased in South East Asia.

<Sales portfolio by region>



<Sales portfolio by product>



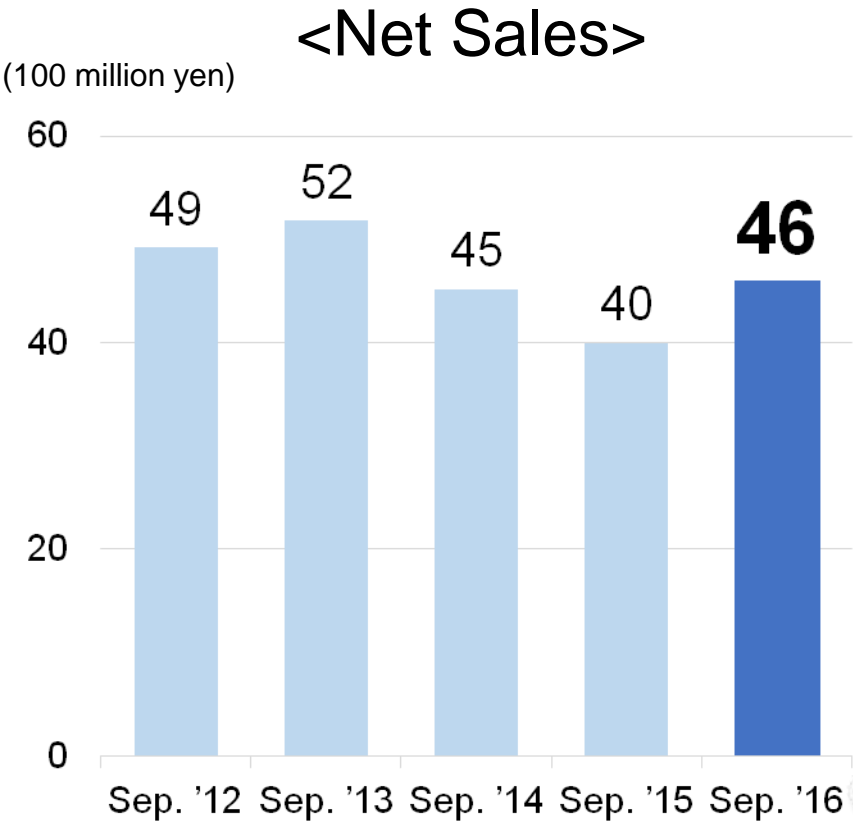
<Core products by region>  
U.S.: Body warmers  
South East Asia: *Netsusama Sheet*, *Ammeltz*  
China: Body warmers, *Netsusama Sheet*

\* Both the period under review (Sep. '16) and the previous year's period (Sep. '15) are calculated for a nine-month period (Jan.–Sep.).

# **Direct Marketing Business**



The business saw a V-shaped recovery due to an increase in regular customers, with net sales amounting to 4.6 billion yen (115.1% year-on-year adjusted). Operating loss was 178 million yen due to active investment in advertisements (the same period of the previous year showed an operating loss of 66 million yen).



<Supplements>



Adjusted  
year-on-year  
112%

<Skin care>



Adjusted  
year-on-year  
126%

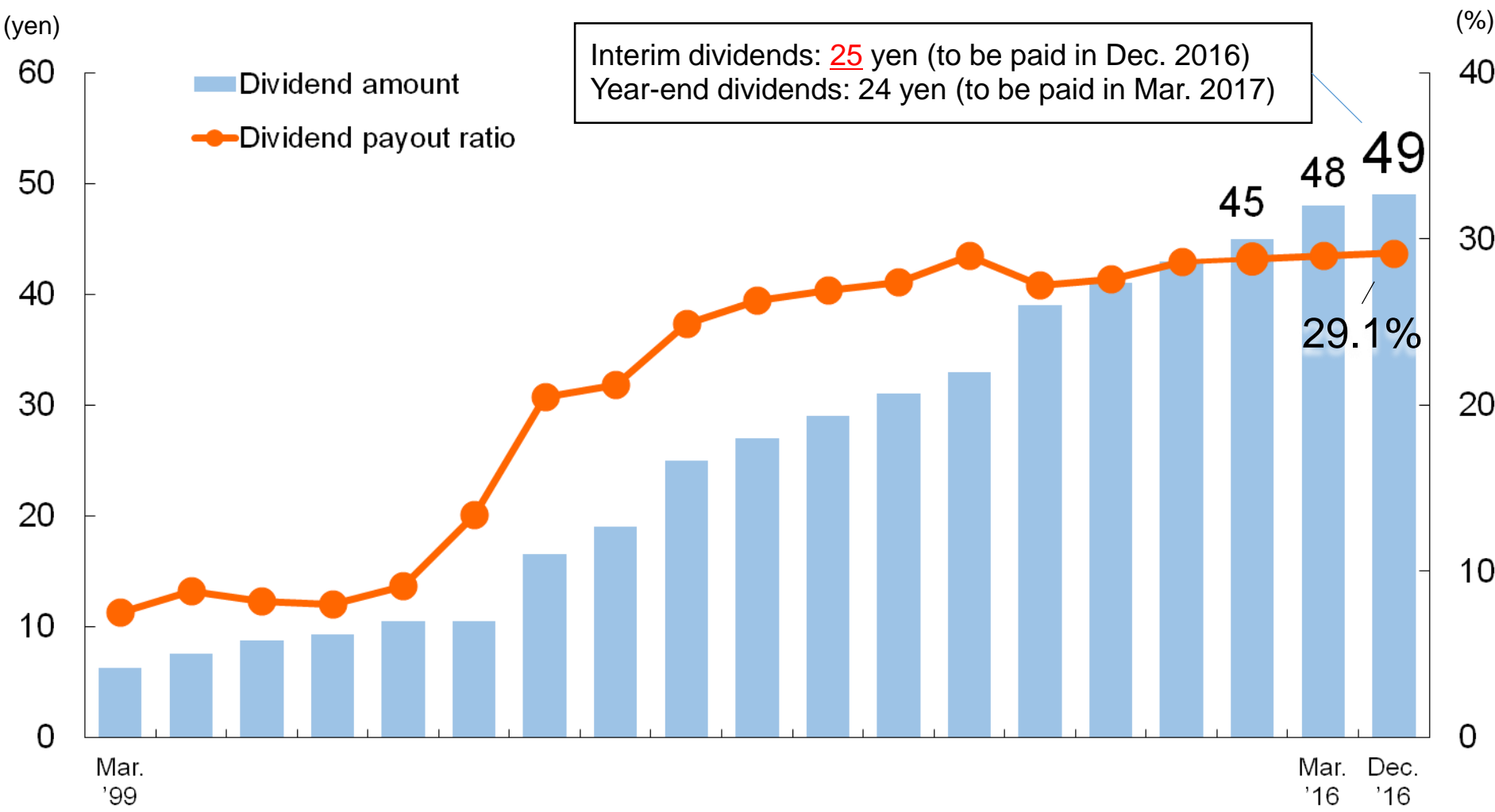
# **Forecast for Year Ending December 2016**

Although the fiscal year ending December 2016 will be an irregular accounting period, we will aim to achieve an increase in net income for 19 consecutive years.

	FY2016		FY2015		Same period of previous year	
	FY ending December 2016		FY ended March 2016		Adjusted previous period	
	( Domestic: Apr.–Dec. 2016 Overseas: Jan.–Dec. 2016 )		( Domestic: Apr. 2015–Mar. 2016 Overseas: Jan.–Dec. 2015 )		( Domestic: Apr.–Dec. 2015 Overseas: Jan.–Dec. 2015 )	
	Amount (million yen)	Margin (%)	Amount (million yen)	Percentage (%)	Amount (million yen)	Percentage (%)
Net sales	117,300	-	137,211	85.5%	112,456	104.3%
Operating income	16,900	14.4%	18,260	92.6%	17,222	98.1%
Ordinary income	18,800	16.0%	17,949	104.7%	17,090	110.0%
Net income	13,500	11.5%	13,466	100.3%	12,762	105.8%

# **Shareholder Returns**

Interim dividends will be increased from 24 yen to 25 yen, with annual dividends expected to be 49 yen/share.  
Aim to offer an increase in dividends for 18 consecutive terms.





# **2017–2019 Medium-Term Management Plan**

## 2011–2013 Medium-Term Management Plan

Under the theme of “**Perform and Achieve Results**,” we made efforts in development with a focus on the sense of usability of products, as well as establishing a way of working that executes the PDCA cycle.

- Although we were able to generate stable profits, we failed to develop new products, resulting in a lack of significant sales growth.

## 2014–2016 Medium-Term Management Plan

With “**new market creation**” as the theme, we made efforts in **developing** and **establishing** new products.

We also set four core businesses (overseas, direct marketing, skin care, and Kampo) and aggressively allocated resources, while seeking to expand business through M&As.

- Although we had some successful cases in the development of new market creator products, the growth in sales was supported in part by inbound demand.
- While direct marketing struggled, the overseas, skin care, and Kampo businesses saw an increase in sales of more than 10 billion yen compared to FY2013, and have developed into businesses where growth can continue to be expected.
- We have succeeded in acquiring business bases necessary for future growth, such as the North American OTC business and the *Monascus* business, through M&A.



## Theme: Growth with real strength

<Future goals>

To further improve the ability of new product development and cultivation, achieve “growth with real strength,” and become the No. 1 company in new market creation that can solve customers’ problems





## <Consolidated numerical targets>

	2019 targets <sup>*1</sup>	2016 forecasts <sup>*2</sup>	Compared to 2016
Net sales	¥165 billion	¥142.3 billion	116%
Operating income	¥23 billion	¥17.9 billion	128%
Net income	¥17 billion	¥14.2 billion	120%
ROE	10%	-	-

\*1: Numerical targets are the minimum target, and we will aim for a higher level.

\*2: The 2016 forecasts are the sum of the domestic performance of 4Q FY ended Mar. 2016 and the consolidated results forecasts for the FY ending Dec. 2016.

## <Outline of strategies>

1. Promote the four growth businesses\*

2. Investing in growth for the future

3. Development and cultivation of new market creator products

4. A company where employees can feel growth

\*overseas, direct marketing, skincare, and Kampo businesses

Overseas business	2019 target amount	Compared to 2016*
<ul style="list-style-type: none"> <li>➤ Strengthen the OTC drug 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>	¥27 billion	More than 140%

\* 2016: Forecast for 12 months from January to December

- **North American OTC drug business:** Expand business from Max Freeze, which we acquired through M&A.



- **Body warmer business:** Carry out package designs and sales strategies that suit local needs.



## Direct marketing business

- Develop large-scale new products that would lead to new customer acquisition.
- Develop brands by mixing sales at stores and by mail order.

2019  
target amount

¥12 billion

Compared to 2016\*

More than  
120%

\* 2016: Forecast for 12 months from January to December

## ■ Expansion measures for designated health food *Salacia 100*

15-second  
CM to let the  
product be  
known

90-second CM  
to facilitate  
understanding of  
the product's  
effects

Sales promotion  
that combines TV,  
stores, and the  
Web

Content and  
price that allow  
easy purchase  
at stores

Convenient  
delivery system  
unique to direct  
marketing

Hold  
symposiums on  
blood sugar  
level control

Academic  
research of  
*Salacia's*  
functionality

PR and academic  
activities that lead to  
reliability



# Outline of strategy: Promote the four growth businesses

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## Skin care business

- Create a brand that would become the third pillar after *Keshimin* and *EAUDE MUGE*

2019  
target amount

¥9 billion

Compared to 2016\*

More than  
160%

\* 2016: Forecast for 12 months from January to December

1

*Keshimin*



2

*EAUDE MUGE*



3

(Candidates for  
the third pillar)



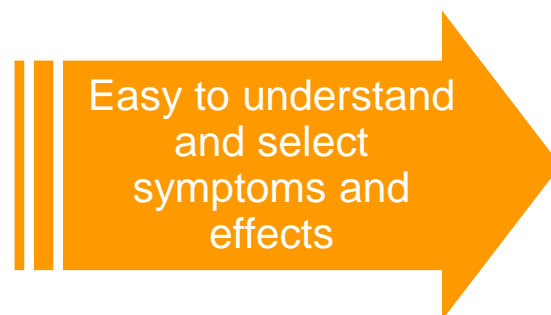
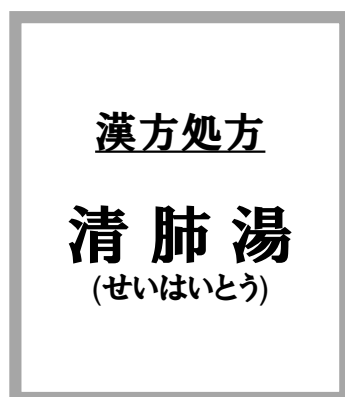
Create brands that are  
differentiated by domain  
such as aging care



Kampo business	2019 target amount	Compared to 2016*
<ul style="list-style-type: none"> <li>➤ Continue to pursue the development of products that are easier for customers to choose depending on their constitution and symptoms</li> </ul>	¥12.5 billion	More than 120%

\* 2016: Forecast for 12 months from January to December

## ■ Kampo development, the Kobayashi Pharmaceuticals way



### Effect-efficacy

The following symptoms of persons with a medium level of physical strength, suffering from a persistent cough and much sputum:  
Cough that produces much sputum, bronchitis

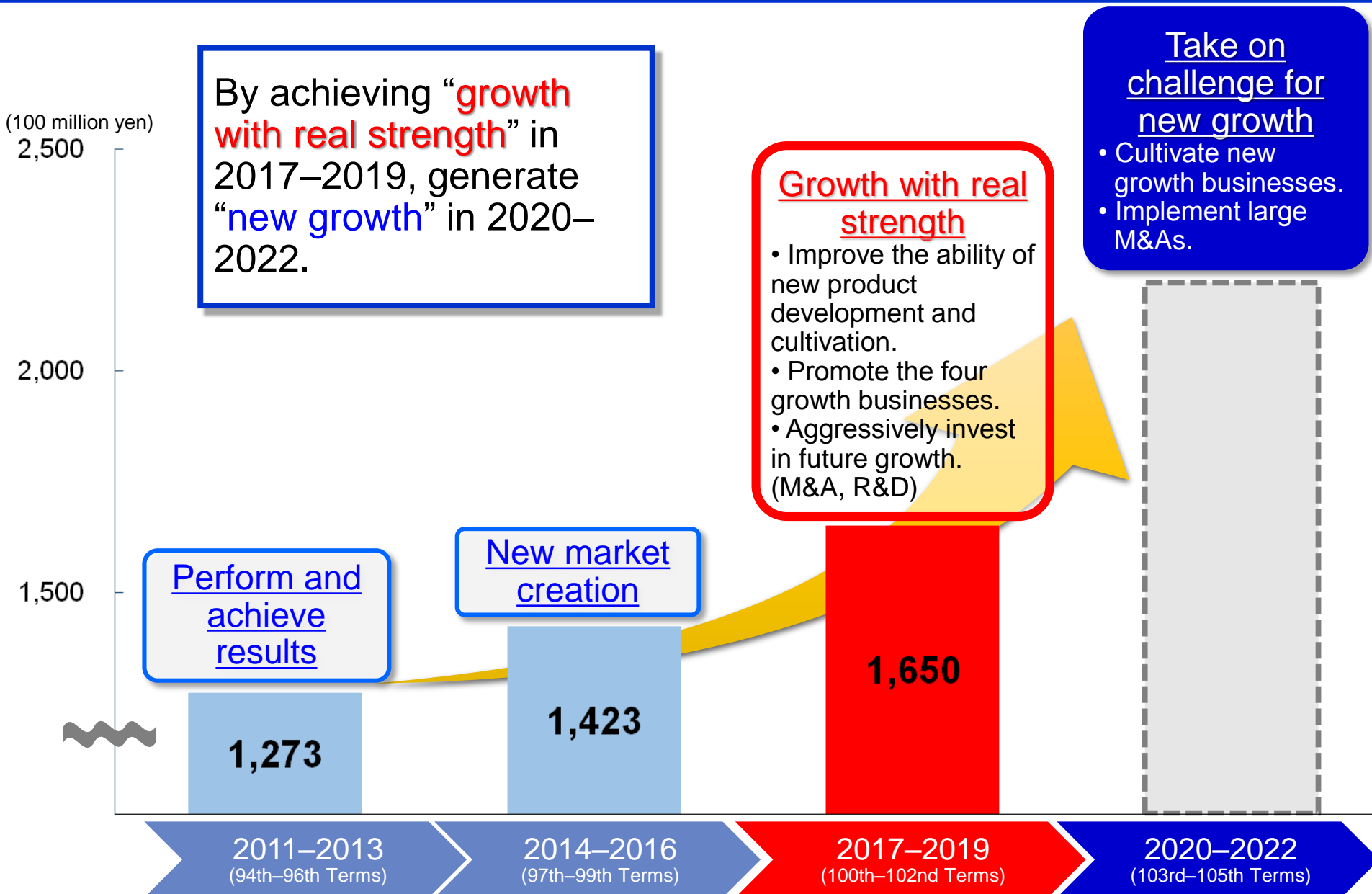
### Product characteristics

This is a drug for those suffering from coughs and sputum due to tobacco and exhaust gas. The Chinese medicinal prescription *Seihaito* can alleviate coughs and sputum while removing contamination of the mucous membrane of the bronchus.

Investment in growth	M&A	Investment line (2017–2019)
	<ul style="list-style-type: none"><li>➤ Overseas business: Secure a base for selling OTC drugs in Asia and China</li><li>➤ Skin care business: Brand that would become a third pillar</li><li>➤ Domestic: OTC drugs, health food, etc.</li></ul>	¥30 billion
	R&D, new businesses	New investment (2017–2019)
	<ul style="list-style-type: none"><li>➤ Decide the four core areas (immunity materials, fermentation technology, natural products science, new OTC). Market technical seed-type new products developed at the Central Lab.</li></ul>	¥3 billion

## Development and cultivation of new market creator products

- Cultivate more than two new products each half year and establish them in the market.







<Attention>

Of the Company's current business performance, plans, and strategies that are included in this material, those that are not historical facts are an outlook on future performance, and are based on the judgment of the Company's management that have been obtained from currently available information.

Therefore, please be aware that the actual performance may significantly differ from the future outlook described in this material due to various changes in factors.