



小林製薬株式会社



**Financial Overview for the Second
Quarter of Fiscal Year Ending
December 31, 2022
(January 1, 2022 to June 30, 2022)**

August 4, 2022

Satoshi Yamane

**Senior Executive Director & Senior General
Manager, Corporate Headquarters
Kobayashi Pharmaceutical Co., Ltd.**

A ceremony for inaugurating construction of a pharmaceutical plant at Sendai Kobayashi Pharmaceutical

Having a “pharmaceutical plant that can supply products overseas” as its concept, the Company began construction of a new building within the grounds of Sendai Kobayashi Pharmaceutical in June 2022. It aims to create a “smart plant” through the automation of in-plant distribution and use of various data. The total investment will be around 20.0 to 25.0 billion yen. The plant is scheduled to start operations in 2025.



Image of completed plant

25th anniversary for launch of *Breathcare*

KOBA-GUARD × Duplo Seiko Corporation

Both companies started the development of a technology that regenerates used paper into antibacterial recycled paper in the office.



Domestic Business

(Figures in parentheses are year-on-year changes.)

- Demand increased from the previous year due to the impact of COVID-19 (+0.3 billion yen).
→ This was attributable to steady sales of *Nodonool Spray* and *Netsusama Sheet*.
- Sales of new products contributed to a growth in net sales (+2.5 billion yen).
- Sales of body warmers were solid (+0.7 billion yen).
- Sales of other existing products were sluggish (−2.4 billion yen).

International Business

- U.S.: Net sales increased due to strong sales of body warmers and *Netsusama Sheet* (+0.6 billion yen).
- China (Mainland): Net sales grew despite the impact of city lockdowns (+0.3 billion yen).
- China (Hong Kong): Net sales rose due to robust domestic demand (+0.2 billion yen).
- Southeast Asia: Net sales increased due to steady sales of *Netsusama Sheet* and *Ammeltz* in each country (+1.8 billion yen).

Direct Marketing Business

- Net sales decreased due to poor sales of skin care products (−0.2 billion yen).

Consolidated Financial Results for the Second Quarter of Fiscal Year Ending December 31, 2022

3/27

Although net sales increased, operating income decreased sharply due to the impact of soaring raw material prices.

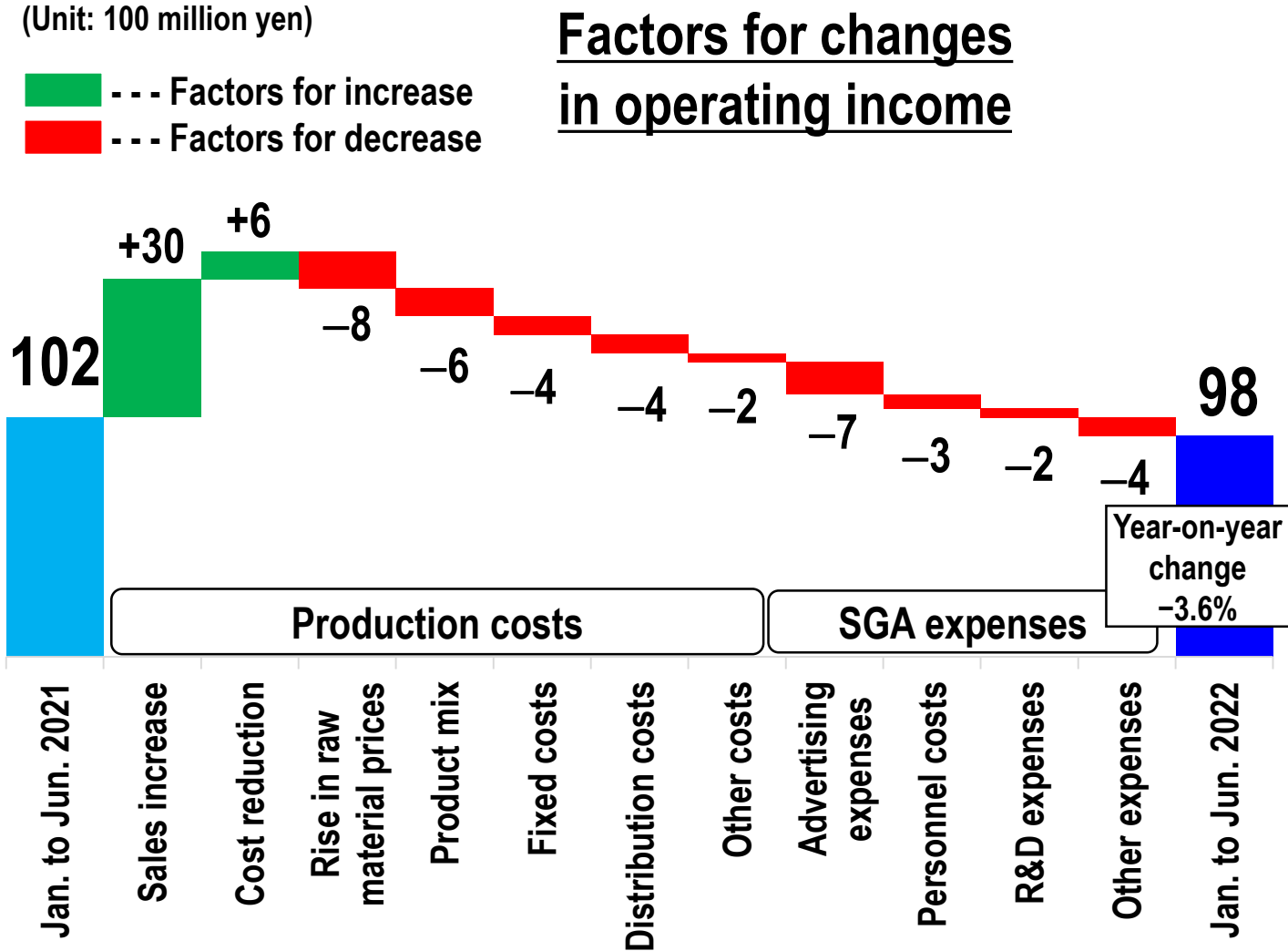
	2021		2022					
	Apr. to Jun.	Jan. to Jun.	Apr. to Jun.			Jan. to Jun.		
	Amount (million yen)	Amount (million yen)	Amount (million yen)	Year-on-year change (%)	Margin (%)	Amount (million yen)	Year-on-year change (%)	Margin (%)
Net sales	36,783	67,052	38,618	+5.0%	-	71,264	+6.3%	-
Gross profit	21,830	39,621	22,290	+2.1%	57.7%	40,930	+3.3%	57.4%
Operating income	5,551	10,240	5,023	-9.5%	13.0%	9,868	-3.6%	13.8%
Ordinary income	5,899	11,091	5,804	-1.6%	15.0%	10,904	-1.7%	15.3%
Net income	4,253	7,881	4,227	-0.6%	10.9%	7,700	-2.3%	10.8%
EBITDA*	6,709	12,530	6,356	-5.3%	16.5%	12,433	-0.8%	17.4%

* EBITDA = Operating income + Depreciation + Amortization of goodwill

Factors for Changes in Consolidated Operating Income

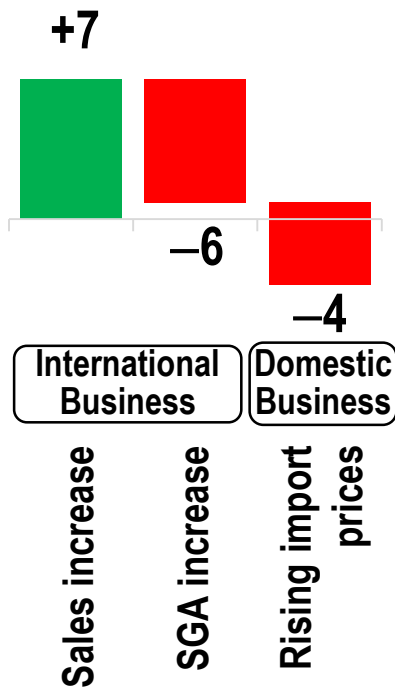
Operating income decreased due to rising raw material prices and an increase in advertising expenses despite the positive impact of a sales increase. Operating income decreased by 0.3 billion yen in total due to the impact of fluctuations in foreign exchange rates.

(Unit: 100 million yen)



Impact of fluctuations in foreign exchange rates

Total: -3

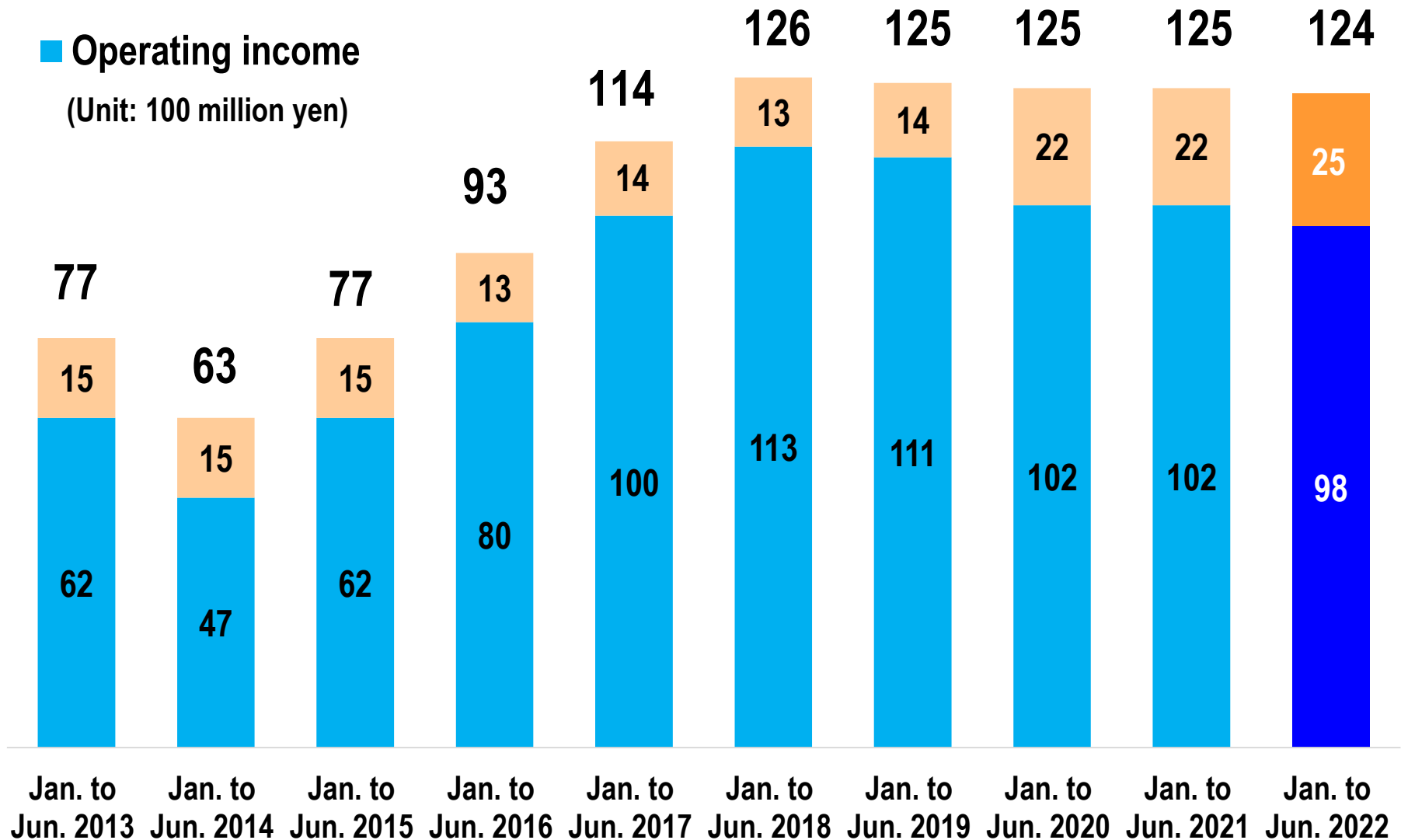


Changes in EBITDA

5/27

■ Depreciation and amortization of goodwill (Unit: 100 million yen)

■ Operating income
(Unit: 100 million yen)

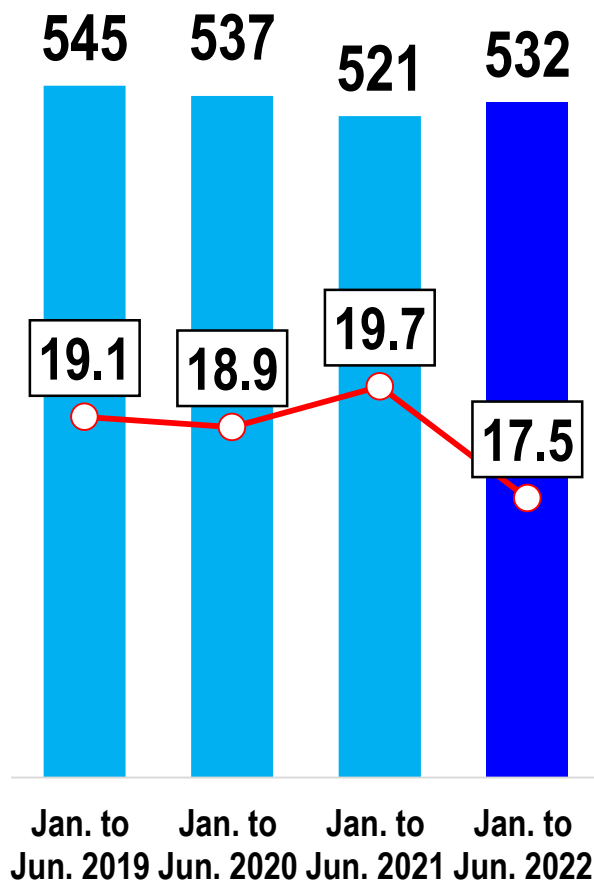


Net Sales by Segment

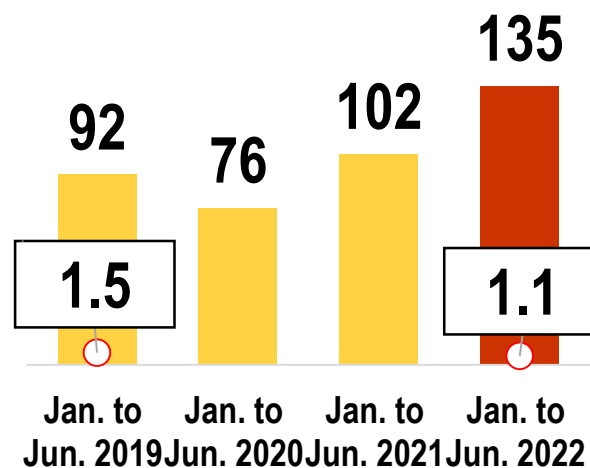
6/27

(Net sales: 100 million yen)
(Operating margin: %)

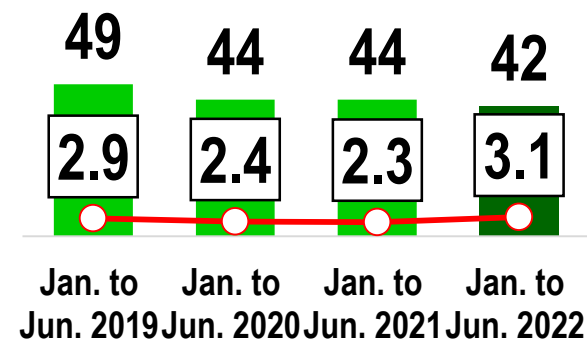
Domestic Business



International Business



Direct Marketing Business



Net sales Operating margin

Net sales Operating margin

Net sales Operating margin

* The operating margin of the International Business for Jan. to Jun. 2020 and Jan. to Jun. 2021 is omitted since the business posted an operating loss of 380 million yen for FY2020 and an operating loss of 520 million yen for FY2021.

Domestic Business (Sales Breakdown by Product Category)

7/27

Net sales increased due to solid sales of body warmers supported by a severe winter despite poor sales of skin care products.

	2021		2022			
	Apr. to Jun.	Jan. to Jun.	Apr. to Jun.		Jan. to Jun.	
	Amount (million yen)	Amount (million yen)	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)
Healthcare products	13,964	25,763	14,064	+0.7%	26,207	+1.7%
Household products	13,457	21,893	13,377	−0.6%	22,093	+0.9%
Skin care products	1,833	3,552	1,768	−3.5%	3,282	−7.6%
Body warmers	393	904	971	+147.6%	1,625	+79.7%
Total	29,646	52,114	30,180	+1.8%	53,208	+2.1%

Products Enjoying Steady Sales

8/27

* Figures in parentheses are year-on-year changes in sales for January to

Nodonool Spray (+0.3 billion yen)

Demand increased due to the spread of Omicron.



Netsusama Sheet (+0.4 billion yen)

Demand increased due to the spread of Omicron. Sales also increased partly because of demand related to fevers after COVID-19 vaccinations.



Dietary supplement products (+0.2 billion yen)

Functional food served as an engine of sales growth.

New products also contributed to sales growth.



Mimi Hogu Time (+0.2 billion yen)

A new product launched in the fall of 2021. Sales were brisk since the product was featured on TV programs and social media.



International Business

(Sales Breakdown by Region)

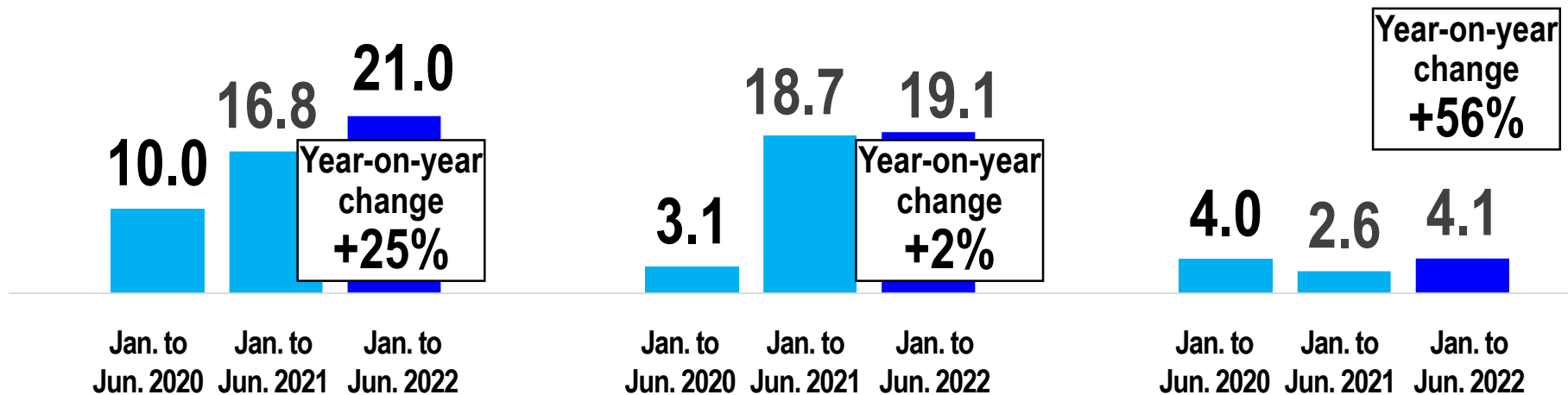
9/27

Sales increased in each country, leading to a sharp rise in operating income. Due to fluctuations in foreign exchange rates, net sales and operating income grew by 1.4 billion yen and 0.1 billion yen, respectively. We marked a growth in sales and operating income excluding the above impact.

		2021		2022			
		Apr. to Jun.	Jan. to Jun.	Apr. to Jun.		Jan. to Jun.	
		Amount (million yen)	Amount (million yen)	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)
Net sales	U.S.	1,589	3,824	1,925	+21.1%	4,435	+16.0%
	China (Mainland)	1,462	3,209	1,455	−0.5%	3,530	+10.0%
	(Hong Kong)	388	715	492	+26.7%	934	+30.7%
	Southeast Asia	775	1,375	1,453	+87.5%	3,206	+133.2%
	Other	528	1,082	789	+49.5%	1,396	+29.0%
	Total International Business	4,742	10,206	6,114	+28.9%	13,503	+32.3%
Excluded the impact of fluctuations in foreign exchange rates - - -				5,308	+11.9%	12,099	+18.6%
Total operating income		−764	−524	−594	-	145	-
Excluded the impact of fluctuations in foreign exchange rates - - -				−684	-	55	-

Sales of body warmers grew due to a severe winter. Sales of *Netsusama Sheet* increased owing to an increase in the number of patients suffering from influenza. Sales of pharmaceuticals also rose since the problem with the supply of ingredients for some Alva products in the first quarter of FY2022 was gradually eliminated

<Net sales (Unit: 100 million yen)>



Body warmers



Pharmaceuticals

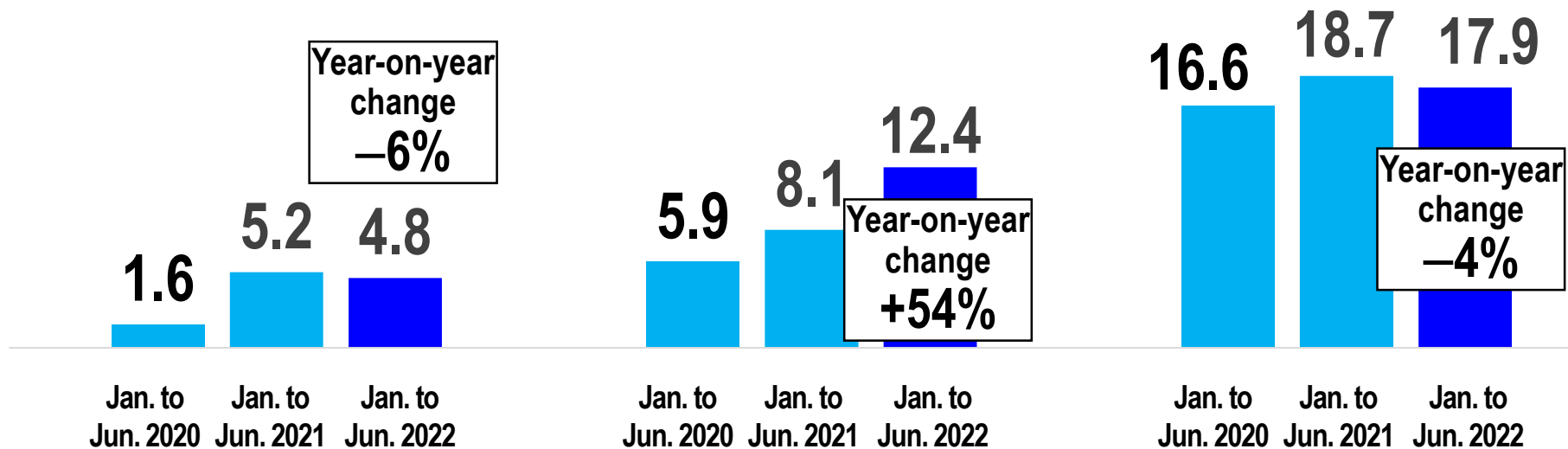


Other



Sales of *Netsusama Sheet* increased steadily, supported by measures such as O2O (Online to Offline). However, due to the impact of the COVID-19 lockdown, sales became sluggish from April 2022.

<Net sales (Unit: 100 million yen)>



Body warmers



Netsusama Sheet



Other

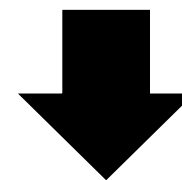


The Company began marketing *Ammeltz*, which was approved as an OTC switch drug in 2021, on a full-fledged basis in April 2022. Its shipments and sales have grown steadily, exceeding the Company's plan.



<Initial plan>

1st year sales: 0.2 billion yen



<Current>

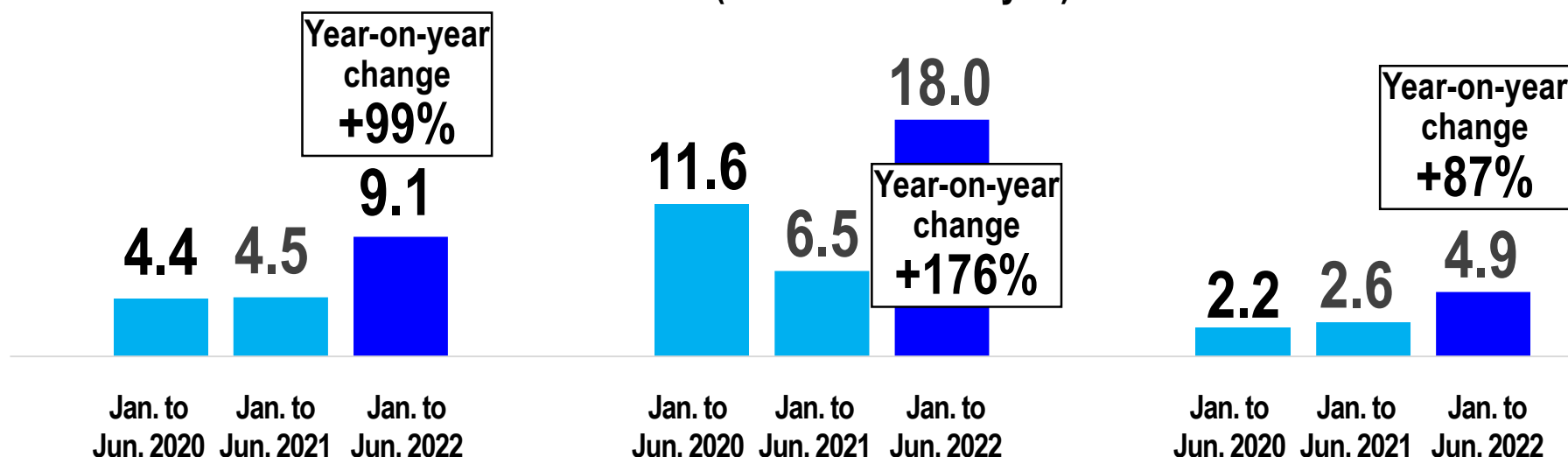
1st year sales: 0.3 billion
yen or more

The launch of a new product in the *Ammeltz* line and the posting of advertisements contributed to a growth in net sales.

Sales of *Netsusama Sheet* grew significantly due to demand related to fevers after COVID-19 vaccinations.

Among other products, *Clearwipe Lens Cleaner* and body warmers sold robustly.

<Net sales (Unit: 100 million yen)>



Pharmaceuticals



Netsusama Sheet



Other



Forecast of Consolidated Results for Fiscal Year Ending December 2022

14/27

Although there were positive and negative impacts on its business results that exceeded its initial assumption, the Company aims to achieve its announced forecast for FY2022.

	FY2021 results (Jan. to Dec. 2021)	FY2022 forecast (Jan. to Dec. 2022)	
	Amount (100 million yen)	Amount (100 million yen)	Year-on-year change (%)
Net sales	1,552	1,620	+4.3
Operating income	260	270	+3.6
Ordinary income	280	282	+0.7
Net income	197	202	+2.5
EBITDA*	308	321	+4.0

*EBITDA = Operating income + Depreciation +
Amortization of goodwill

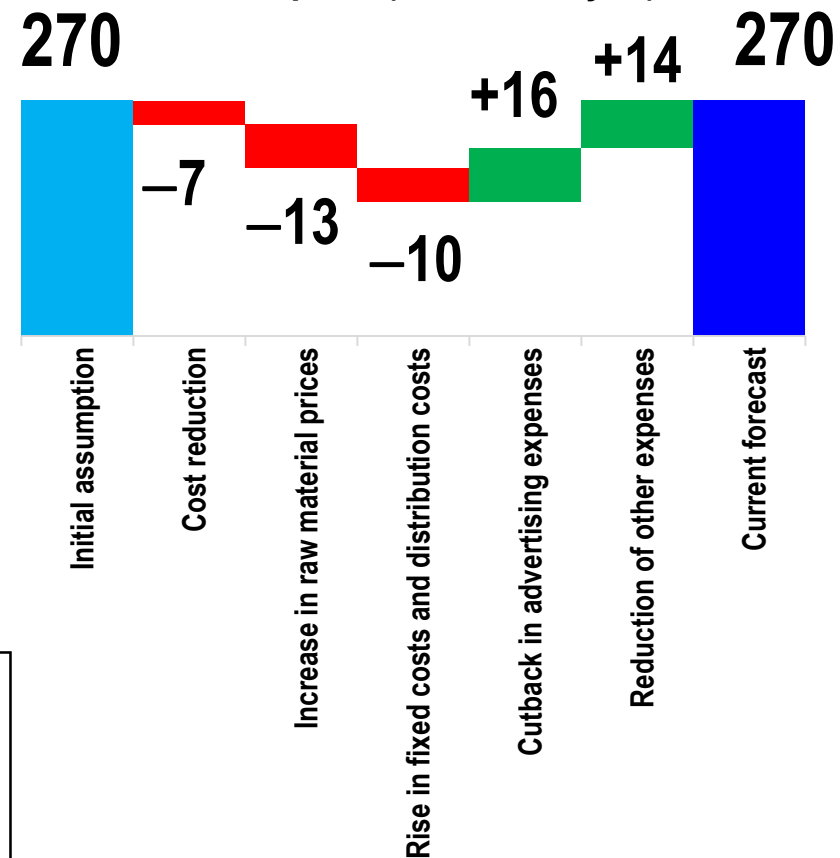
Foreign exchange rate assumptions (average rates
during the period)

(Initial) US dollar: 108 yen, Chinese yuan: 16.8 yen

(Current) US dollar: 125 yen, Chinese yuan: 19.5 yen

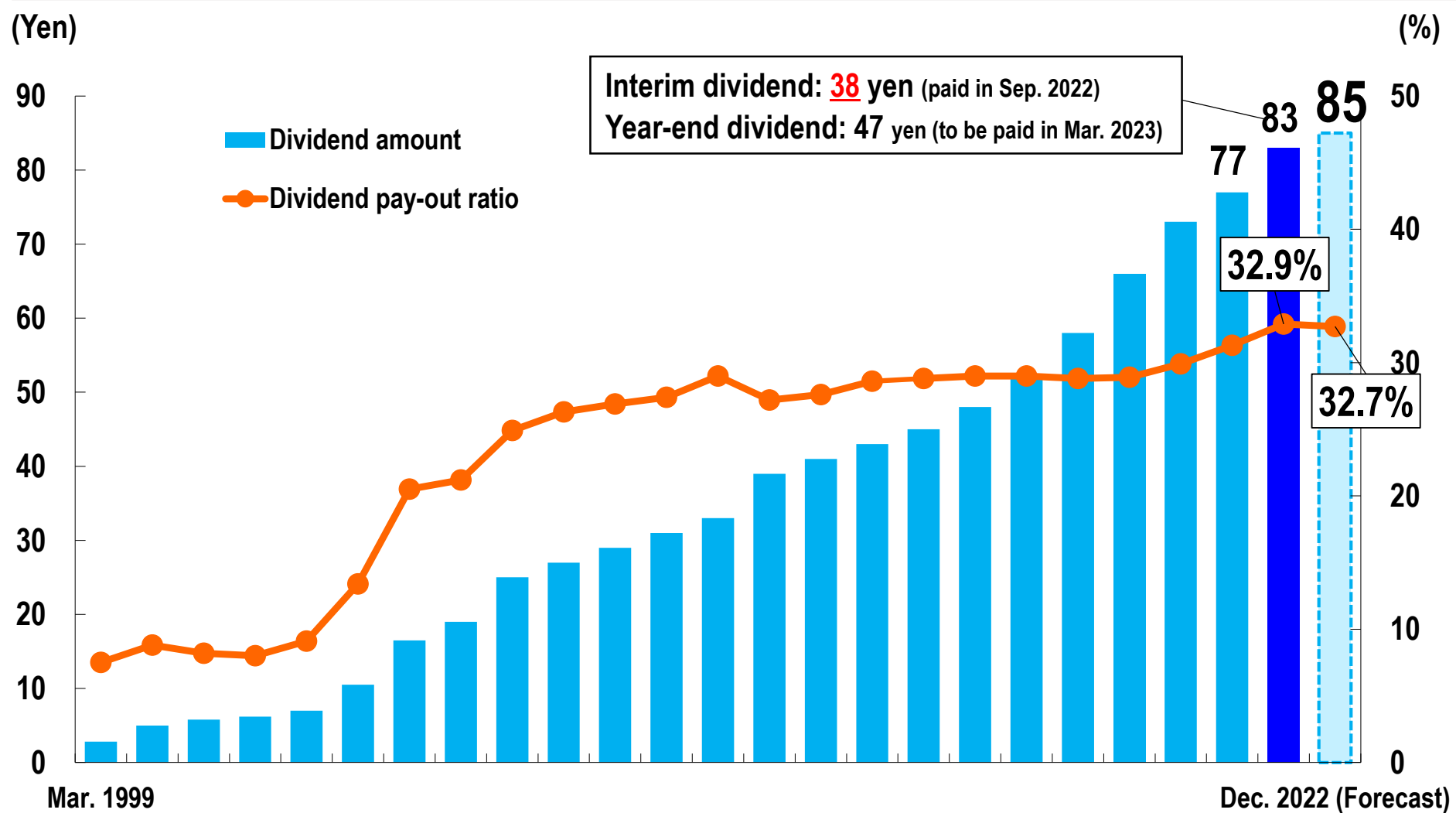
Consolidated operating income

* The figures represent changes from the initial assumption (100 million yen).



Changes in Dividend Payment

As it announced at the beginning of the fiscal year, the Company increased the interim dividend from 37 yen to 38 yen/share. The Company plans to increase the annual dividend to 85 yen/share, aiming to achieve an increase in dividend payments for the 24th consecutive term.





小林製薬株式会社

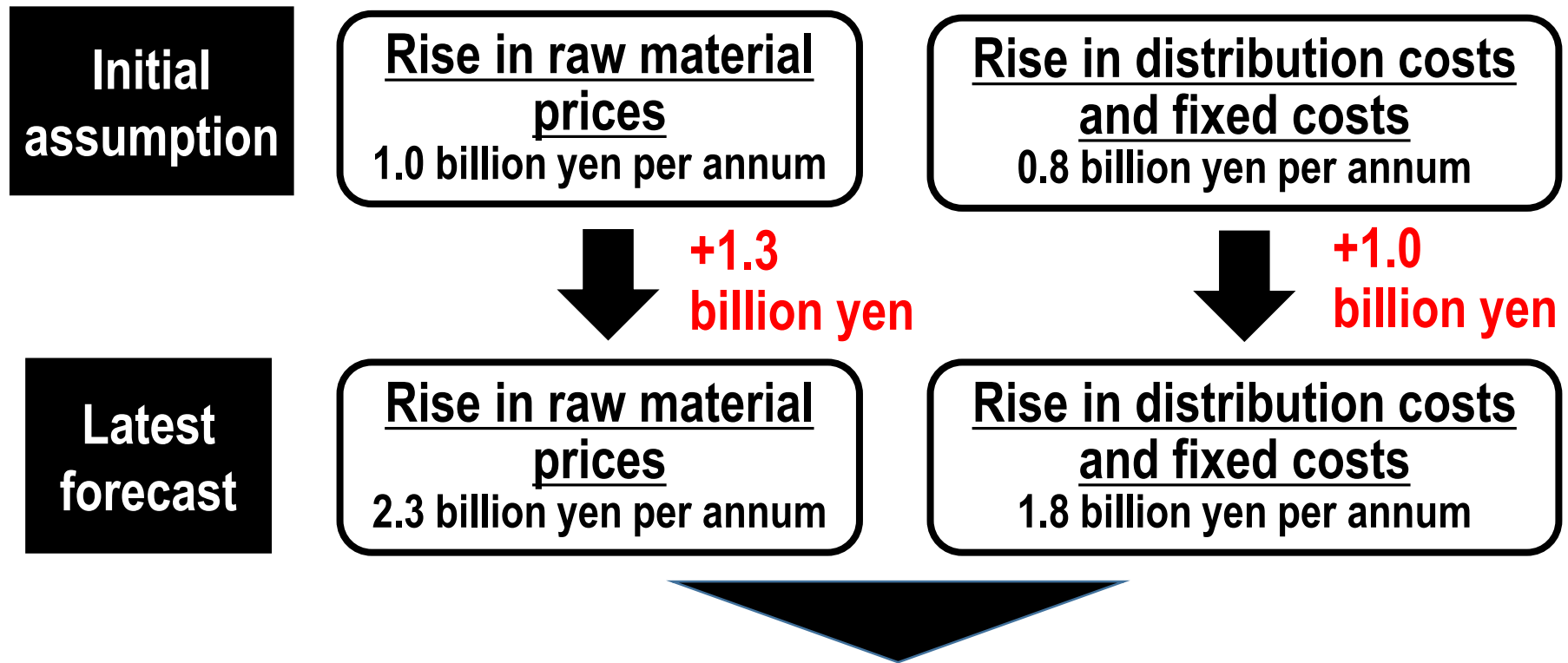


Business Outlook and Progress of the Medium-Term Management Plan

August 4, 2022

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

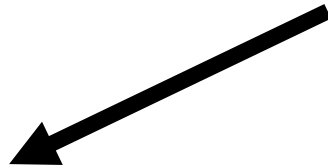
The impact of rising raw material prices is expected to increase by 1.3 billion yen compared to the Company's initial assumption. If the impact of a rise in distribution costs and fixed costs (charges for heat and electricity, etc.) is included, costs are forecast to grow by 2.3 billion yen from the initial assumption.



Costs are forecast to grow by 2.3 billion yen from the initial assumption.

The Company tried to absorb cost increases by implementing all possible measures, including a hike in the prices of existing products.

Unexpected cost increases (+2.3 billion yen)



Additional cost reduction

Adjustment of advertising expenses and sales promotion expenses

Cutback in other expenses

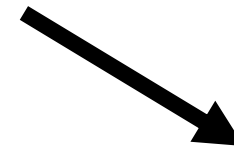


Expansion of sales

Shift of focus to high-value-added products

Hike in prices of existing products
(in Japan)

* See the details on the next slide.



Negotiations have almost been completed for the current term.

Hike in prices of existing products

(Body warmers and pharmaceuticals in the U.S.)



The Company endeavored to reduce costs by implementing various measures, such as improved productivity and an increase in distribution efficiency, but it became difficult to absorb cost increases only through its own efforts. For a stable supply of products, the Company plans to hike the prices of two products in October 2022. It plans to raise product prices in the next year as well.

October 2022



11% increase



6% increase

2023 or later

The Company plans to hike the prices of other products in turn.

Domestic Business (New Products to Be Launched in Fall 2022)

20/27

The Company aims to generate annual sales of 2.1 billion yen with 10 items.



The Company has, for the first time in Japan, formulated *itopride hydrochloride*, a medical ingredient, for a switch OTC drug. This is a stomach medicine that alleviates unpleasant symptoms in the stomach weakened by stress and aging rather than too much eating and drinking.

日本初※
※OTCとして

医療用成分配合

少し食べるだけで**胃に残って苦しい** 小林製薬

☒ 少量でも食べきれない ☒ お腹が空きにくい

イラクナ

胃の動きを活発にして
胃もたれ、胸やけを治す

膨満感に
速攻1錠*

原寸大 **10錠** 要指導医薬品

*1日3回

The Company acquired the *Benikoji* (monascus purpureus) business from Gunze Limited in 2016 and launched a functional food containing monascus purpureus in 2021. It obtained approval to make a new functional health claim for monascus purpureus in 2022. The Company will deepen its research on monascus purpureus to expand the product lineup, since the substance has sales potential in fields other than cholesterol reduction.

2016

The Company acquired the business from Gunze.



2021



Launched the product through store and direct marketing routes.

2022



Revamping

Future

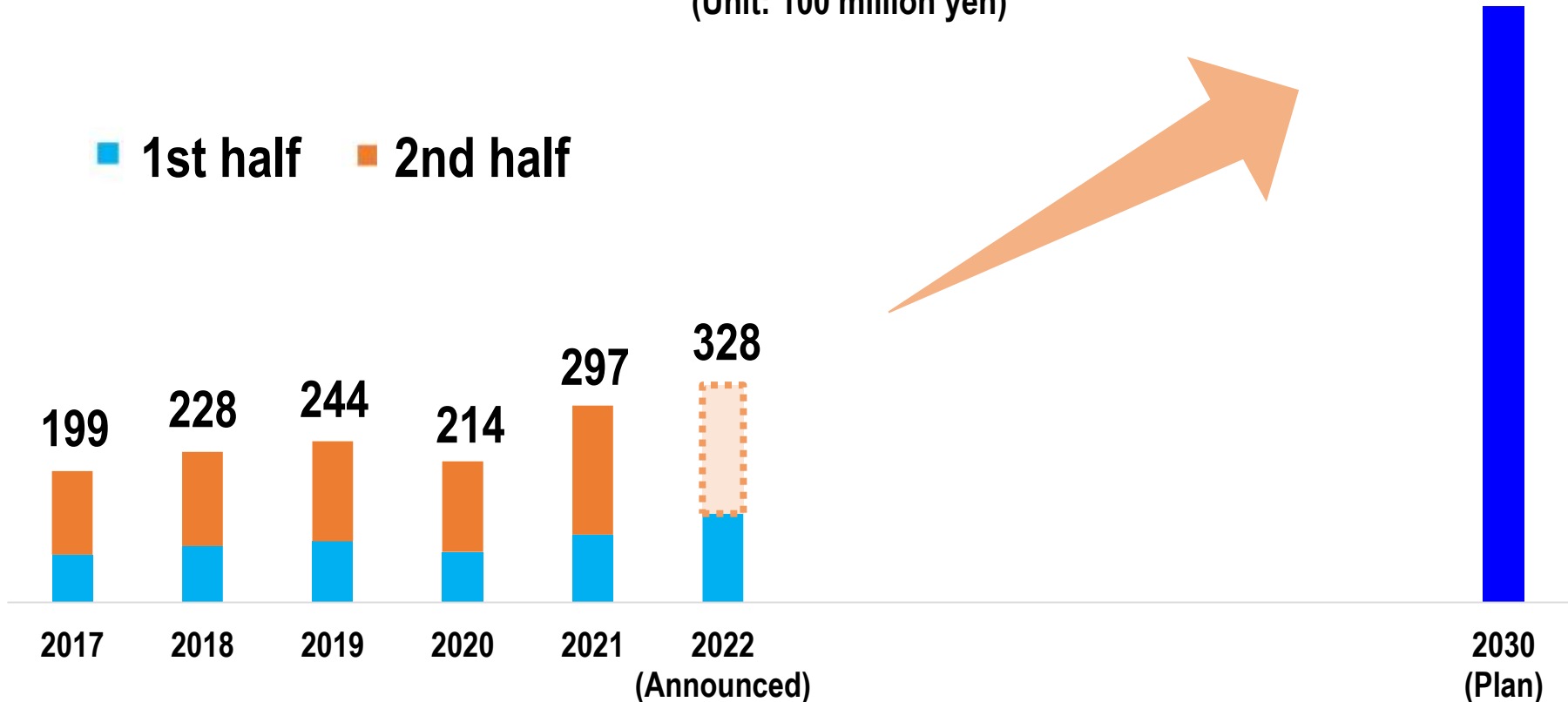
The Company will expand its product lineup by obtaining approval to make functional health claims for monascus purpureus in new fields.

The International Business has been growing steadily over several years.
The Company will launch new products in each country to achieve net sales of 90.0 billion yen in 2030.

<Net sales of International Business>

(Unit: 100 million yen)

■ 1st half ■ 2nd half



International Business (Introduction and Fostering of New Products)

24/27

* Including trial sales

	Spring 2022	Fall 2022	Spring and Fall 2023
North America	   	<div>Pharmaceuticals: 4 items</div> <div>Other: 3 items</div>	<div>Body warmers: 2 items</div> <div>Pharmaceuticals: 5 items</div> <div>Other: 1 item</div>
China Hong Kong	         	<div>Body warmers: 2 items</div> <div>Bluelet: 1 items</div> <div>Pharmaceuticals: 3 items</div> <div>Other: 7 items</div>	<div>Pharmaceuticals: 1 item</div> <div>Other: 3 items</div>
Asia Other	    	<div>Body warmers: 2 items</div> <div>Pharmaceuticals: 1 item</div> <div>Other: 7 items</div>	<div>Body warmers: 1 item</div> <div>Pharmaceuticals: 8 items</div> <div>Other: 7 items</div>

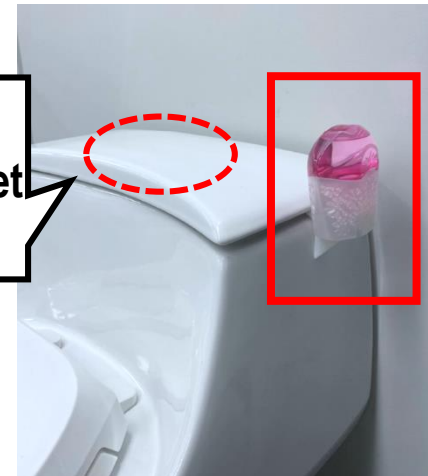
In 2021, the Company created the “global toilet bowl cleaner category” in the Household Division in Japan to accelerate the global development of *Bluelet*. It will start the trial sale of liquid *Bluelet* for the Chinese market via EC in August 2022. The Company has devoted resources to the development of the product since 2021.

Product name: Boleqing



<Example of use>

There is no washbowl on toilet tanks in China.

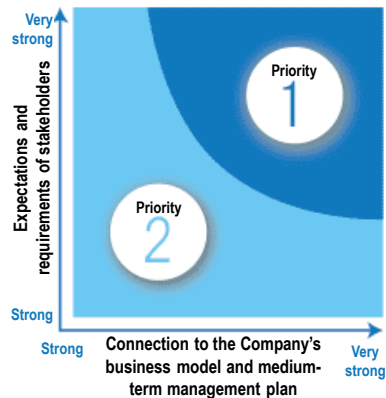


The Company has been reviewing materiality (CSR material issues) in preparation for the next medium-term management plan that is scheduled to be announced in 2023. There are 20 material issues. The Company will narrow them down and select ones on which it should focus.

Current materiality

Criteria for identifying and prioritizing material issues

Material issues



Priority

1

E

- Reduction of CO₂ emissions and waste
- Resource management (raw materials and water)
- Environmental supply chain

- Development of eco-friendly products (CO₂ management at each product lifecycle stage and product development eco indicators)

S

- CSV* activities
- Respect for human rights
- Evaluation of suppliers based on CSR criteria

- Diversity, health, and growth of employees
- Fair advertising and labeling, and quality management
- Strengthening of the relationship with customers

G

- Highly transparent governance
- Risk management

- Compliance

Priority

2

E

- Biodiversity
- Environmental market opportunities

- Environmental and social impact on assets and business operations

S

- Anti-corruption and fair competition
- IT security

- Social contribution activities
- Intellectual property management

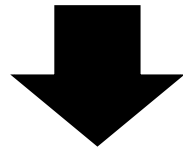
The Company plans to narrow down issues for the next medium-term management plan.

The Company's advantage is respecting each employee's ideas and creating innovation through diversity.

It has created a place where anyone can talk about the future of the Company (commonly called *Katariba*) to use various employees' opinions not only for product development but also for management this year.

This year

Use employees' thoughts and ideas to formulate the next medium-term management plan.



Next year or later

The Company will use it as a place where employees go on talking about various management challenges in the future.

An online meeting





<Note>

Of the Company's current business performance, plans, and strategies included in this material, items that are not historical facts are outlooks on future performance, which are based on the judgment of the Company's management according to currently available information.

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

Forecast of Consolidated Results for the Year Ending December 2022

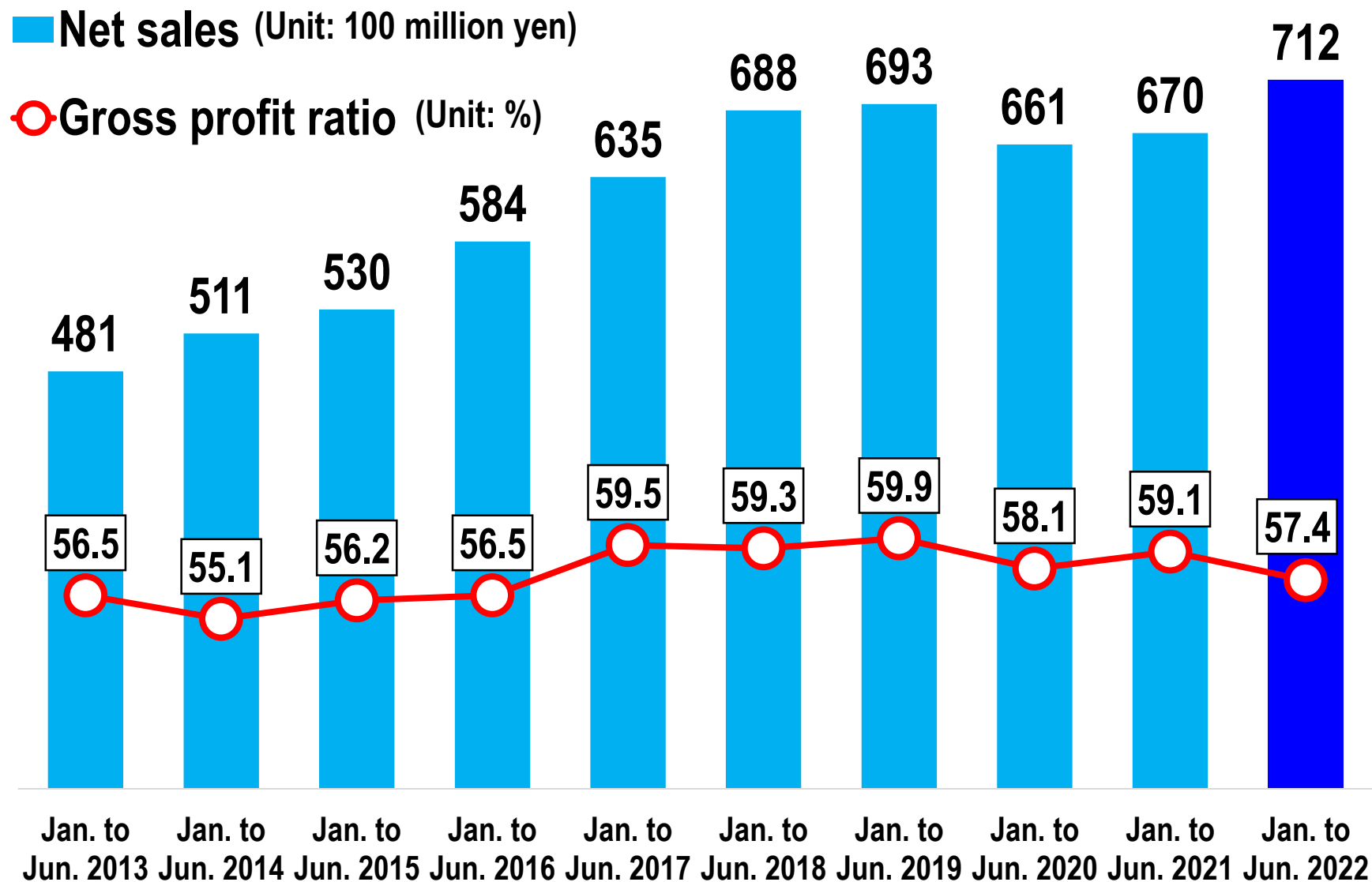
1

	FY2021 results (Jan. to Dec. 2021)	FY2022 forecast (Jan. to Dec. 2022)			(Reference) FY2022 target of the medium-term management plan
	Amount (100 million yen)	Amount (100 million yen)	Year-on-year change (%)	Percentage of net sales (%)	Amount (100 million yen)
Net sales	1,552	1,620	+4.3	-	1,620
Operating income	260	270	+3.6	16.7	270
Ordinary income	280	282	+0.7	17.4	—
Net income	197	202	+2.5	12.5	25th consecutive increase
EBITDA*	308	321	+4.0	19.8	—
EPS	252.36 yen	259.85 yen	-	-	—
ROE	10.4%	10.1%	-	-	10% or more
ROIC	9.6%	9.4%	-	-	9% or more
Net sales of Domestic Business	1,159	1,194	+3.0	-	1,223
Net sales of International Business	297	328	+10.3	-	295
Net sales of Direct Marketing Business	89	92	+2.3	-	96

* EBITDA = Operating income + Depreciation + Amortization of goodwill

Changes in Consolidated Net Sales and Gross Profit Ratio

2

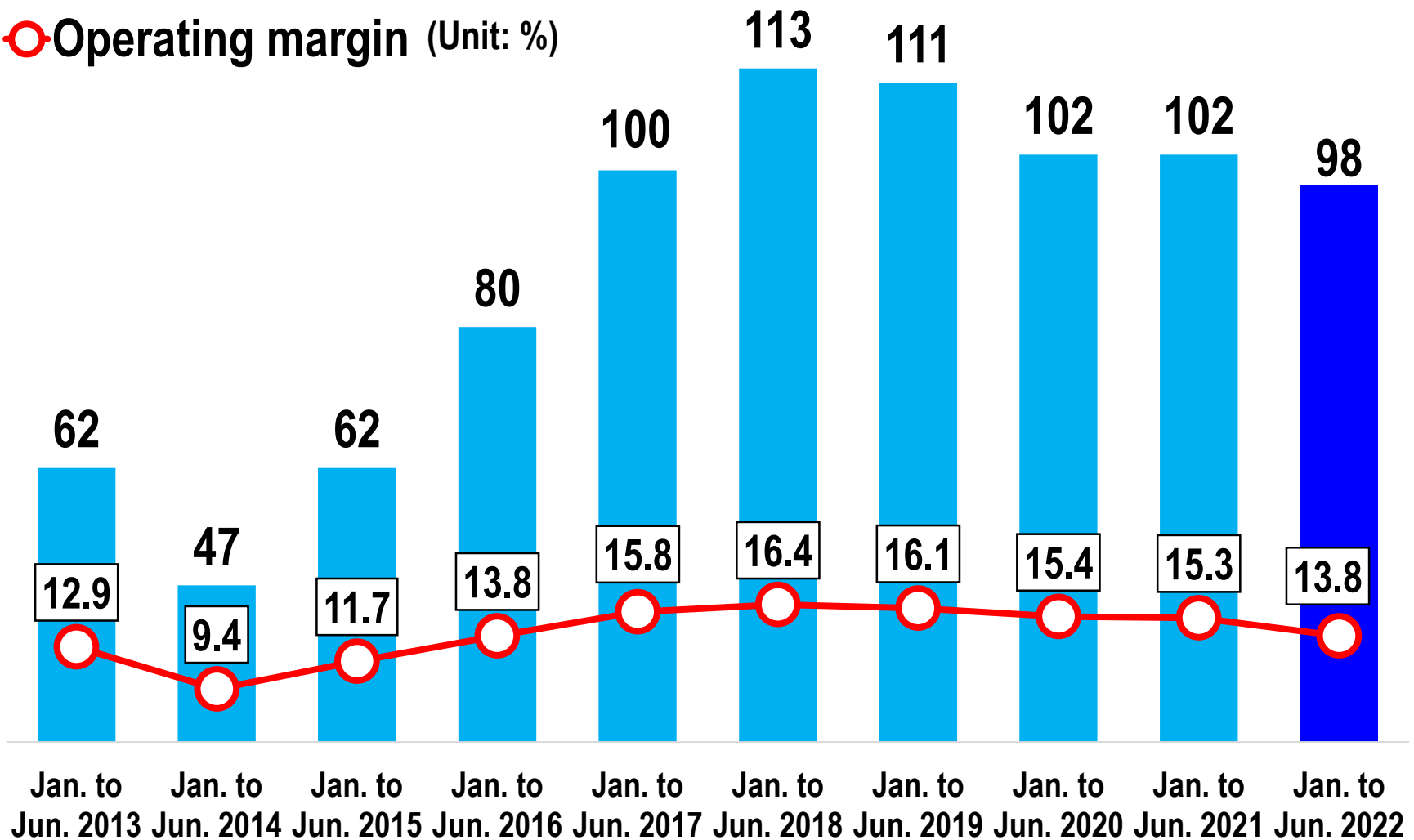


Changes in Consolidated Operating Income and Operating Margin

3

■ Operating income (Unit: 100 million yen)

○ Operating margin (Unit: %)

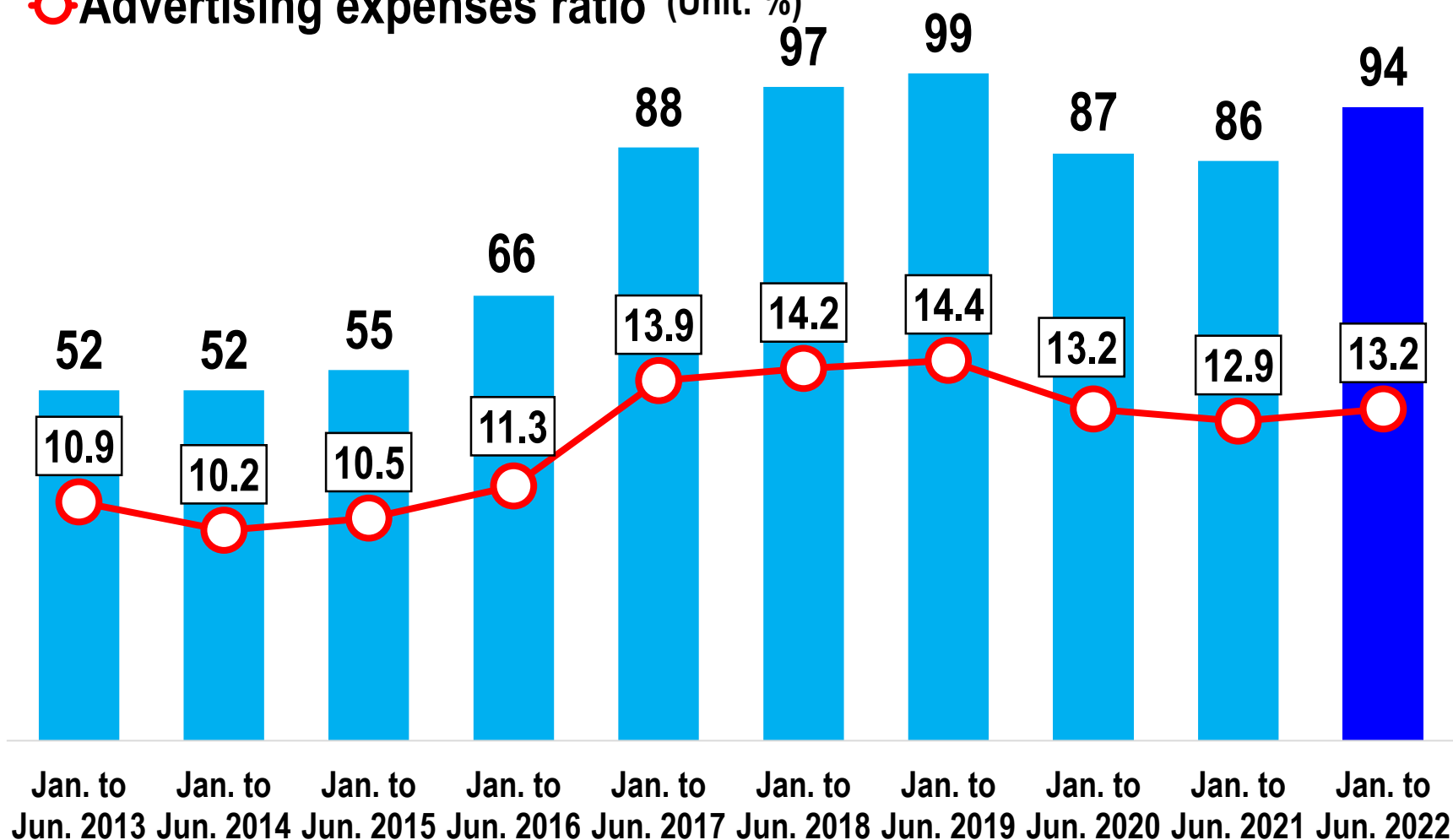


Changes in Advertising Expenses and Advertising Expenses Ratio

4

■ Advertising expenses (Unit: 100 million yen)

○ Advertising expenses ratio (Unit: %)



Consolidated Balance Sheet (1)					5
(Unit: 100 million yen)	End of Jun. 2021	End of Sep. 2021	End of Dec. 2021	End of Mar. 2022	End of Jun. 2022
Current assets	1,678	1,717	1,818	1,701	1,770
Cash and deposits	852	848	950	975	1,077
Notes and accounts receivable-trade	418	473	551	417	368
Short-term investment securities	195	172	140	101	84
Inventories	186	196	151	185	215
Non-current assets	714	706	706	722	737
Property, plant and equipment	212	215	225	251	257
Intangible assets	128	126	126	127	137
Investment and other assets	373	365	354	343	342
Total assets	2,393	2,423	2,525	2,424	2,508

Consolidated Balance Sheet (2)

6

(Unit: 100 million yen)	End of Jun. 2021	End of Sep. 2021	End of Dec. 2021	End of Mar. 2022	End of Jun. 2022
Current liabilities	419	414	507	447	451
Notes and accounts payable-trade	80	89	92	86	92
Short-term loans payable	0	0	0	0	0
Accounts payable-other	173	169	211	165	186
Non-current liabilities	68	66	62	53	62
Total net assets	1,905	1,943	1,956	1,923	1,994
Capital surplus	41	41	41	41	41
Retained earnings	1,915	1,957	2,005	2,002	2,045
Treasury stock	−197	−197	−237	−277	−277
Total liabilities and net assets	2,393	2,423	2,525	2,424	2,508

Foreign Exchange

7

(Unit: yen)	Jan. to Dec. 2021	Jan. to Mar. 2022	Jan. to Jun. 2022	Jan. to Dec. 2022 forecast
US dollar	109.8	116.2	122.9	125.0
Chinese yuan	17.0	18.3	18.9	19.5

Results by Segment (Domestic Business)

8

(Unit: 100 million yen)	Quarterly basis			Total	
	Jan. to Mar.	Apr. to Jun.		Jan. to Jun.	
	Amount (million yen)	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)
Net sales	230	301	+1.8%	532	+2.1%
Gross profit	131	173	−1.5%	305	−1.1%
Margin	57.1%	57.5%	-	57.4%	-
Operating income	39	53	−9.8%	93	−8.9%
Margin	17.2%	17.8%	-	17.5%	-
Advertising expenses	24	45	+5.5%	70	+3.3%
Percentage	10.7%	15.1%	-	13.2%	-
Sales promotion expenses	2.3	3.7	−2.4%	6.0	−11.5%
Percentage	1.0%	1.2%	-	1.1%	-

(Unit: 100 million yen)	Quarterly basis			Total	
	Jan. to Mar.	Apr. to Jun.		Jan. to Jun.	
	Amount (million yen)	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)
Healthcare products	121	140	+0.7%	262	+1.7%
Pharmaceuticals	71	76	−2.1%	147	−0.2%
Food	17	22	+4.8%	39	6.2%
Oral care products	32	41	+4.0%	74	+3.4%
Household products	87	133	−0.6%	220	+0.9%
Sanitary products	24	29	+6.5%	53	+17.2%
Deodorizing air fresheners	53	91	−3.0%	145	−3.6%
Household articles	9	12	+1.9%	21	−2.4%
Skin care products	15	17	−3.5%	32	−7.6%
Body warmers	6	9	+147.6%	16	+79.7%

Results by Segment (International Business)

(Unit: 100 million yen)	Quarterly basis			Total	
	Jan. to Mar.	Apr. to Jun.		Jan. to Jun.	
	Amount (million yen)	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)
Net sales	73	61	+28.9%	135	+32.3%
Gross profit	38	32	+40.0%	70	+38.4%
Margin	52.0%	52.7%	-	52.3%	-
Operating income	7.3	−5.9	-	1.4	-
Margin	10.0%	-	-	1.1%	-
Advertising expenses	4.6	8.1	+68.9%	12.8	+70.3%
Percentage	6.3%	6.1%	-	9.5%	-
Sales promotion expenses	2.9	2.9	−6.1%	5.8	+6.4%
Percentage	4.0%	4.8%	-	4.3%	-

(Unit: 100 million yen)	Quarterly basis			Total	
	Jan. to Mar.	Apr. to Jun.		Jan. to Jun.	
	Amount (million yen)	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)
U.S.	25.1	19.2	+21.1%	44.3	+16.0%
China	25.1	19.4	+5.2%	44.6	+13.8%
Mainland China	20.7	14.5	−0.5%	35.3	+10.0%
(Stores)	11.4	7.2	+28.8%	18.7	+34.1%
(Mainland EC)	6.9	6.1	−7.0%	13.1	−7.3%
(Cross-border EC)	2.3	1.1	−51.8%	3.4	−12.7%
(EC percentage)	44.8%	50.1%	-	47.0%	-
Hong Kong	4.4	4.9	+26.7%	9.3	+30.7%
Southeast Asia	17.5	14.5	+87.5%	32.0	+133.2%
Singapore	0.5	1.3	+112.9%	1.8	+95.5%
Malaysia	4.8	5.4	+254.3%	10.2	+207.4%
Thailand	2.5	3.0	+118.1%	5.6	+131.6%
Indonesia	2.2	2.7	+97.1%	5.0	+139.6%
Philippines	2.7	0.6	−68.8%	3.3	+52.7%
Taiwan region	4.6	1.2	+63.5%	5.8	+116.4%
Other	6.0	7.8	+49.5%	13.9	+29.0%

(Unit: 100 million yen)	Quarterly basis			Total	
	Jan. to Mar.	Apr. to Jun.		Jan. to Jun.	
	Amount (million yen)	Amount (million yen)	Year-on-year change (%)	Amount (million yen)	Year-on-year change (%)
Net sales	21	21	−5.4%	42	−5.2%
Gross profit	15	15	−4.4%	30	−3.9%
Margin	71.5%	71.2%	-	71.4%	-
Operating income	0.4	0.8	+5.1%	1.3	+25.8%
Margin	2.3%	3.8%	-	3.1%	-
Advertising expenses	5.8	5.2	−0.4%	11.1	−2.1%
Percentage	27.7%	24.6%	-	26.2%	-
Sales promotion expenses	1.5	1.6	+11.4%	3.1	+1.6%
Percentage	7.2%	7.8%	-	7.5%	-