August 6, 2026 Kobayashi Pharmaceutical Co., Ltd. Summary of Q&A Session at the Financial Results Briefing for Second Quarter of Fiscal Year Ending December 31, 2026

Q: Could you tell us about the effectiveness of advertising investment in the domestic business during the second quarter alone, and the impact of product price increases on sales volume (sell-through)?

A: For products where we continued to invest in advertising (such as healthcare-related products), we have been able to grow retail sales (sell-through) largely as planned. On the other hand, during the second quarter (April-June), several factors overlapped, temporarily offsetting the effects of our advertising investment. These included shipment controls to manage stockout risks under the influence of the Middle East situation, the suppression of advertising and promotion, a reactionary decline from the termination of our former direct marketing business in the previous fiscal year, and seasonal factors (sluggish sales of body warmers and summer products).

Regarding the impact of price increases on sales volume, although we have observed a decline in volume for some brands, in most cases, the revenue-increasing effect of the price hikes has outweighed the impact of the volume decline. Therefore, we judge that the actual impact on net sales is negligible.

Q: What is the outlook for domestic advertising expenses in the second half of the fiscal year, and what is your view on net sales relative to the full-year plan?

A: Overall domestic advertising expenses in the second half are scheduled to trend according to plan. At the time the initial plan was formulated, second-half advertising expenses were projected to decrease by approximately 2.0 billion yen year-on-year (a reaction to the full-scale resumption of advertising in the same period of the previous year). Based on this plan, we will proceed with efficient operations and ensure we secure sales.

Q: Net sales in the domestic business for the first half (cumulative second quarter) fell 1.5 billion yen short of the initial plan. Could you provide a breakdown of the primary factors behind this shortfall?

A: This was due to several factors: the impact of the Middle East situation (such as shipment controls of regular products to prevent stockouts and opportunity losses from canceling some promotional/special-edition products), the impact of seasonal products (mild winter affecting body warmers, and a cool summer affecting heat-relief products, etc.), and the impact of terminating our former direct marketing business.

Q: Is it possible to recover the first-half sales shortfall of domestic seasonal products during the second half?

A: Given the nature of seasonal products, such as body warmers in the first quarter and heat-relief products in the second quarter (April-June), the hurdle for directly recovering (making up for) the first-half shortfall with the same seasonal products in the second half is not low . In the second half, we will strive to cover the overall performance through other focused products and our strong international business .

Q: Despite the first-half shortfall in domestic sales and the impact of the Middle East situation (expected to be a negative 500 million yen impact in the second half), you have left your full-year net sales forecast unchanged. What is the background behind this decision, and what are your recovery measures?

A: For the domestic business, there is a lag from the first half, and we recognize that the current situation is somewhat challenging . However, our international business, particularly sales in mainland China (such as Netsusama Sheet and Ammeltz), has been performing extremely well . We expect that growth in the international business will help us recover the domestic shortfall to a certain extent .

In addition, in the US business, net sales decreased in the first half due to temporary production delays at a contract manufacturer (for healthcare products), but production and supply are expected to recover in the second half . Since we can also expect a full-scale contribution in the second half from our mainstay body warmer business, which sees high demand in the US during winter, we have determined that we can secure net sales as planned for the full year and have left our full-year net sales forecast unchanged .

Q: In the graph showing the domestic advertising effectiveness for the healthcare product group (page 8), the growth rate (sell-through trend) after the resumption of advertising appears to be plateauing. Is this within your expectations?

A: Excluding the impact of the situation in the Middle East, it is almost entirely as expected . We will continue to make effective advertising investments going forward .

Q: Regarding the substantial SKU reduction plan currently underway in both domestic and international operations (representing 26% of the total in each), could you explain the quantitative impact on profits and its strategic significance?

A: The direct positive impact of SKU reduction on profits is not very large . The primary goal of this initiative is to "generate internal resources" by reducing the frequency of production line changeovers and lowering administrative workloads (such as reducing test items associated with formulation changes when raw materials are discontinued) .

In working toward this structural reform and strengthening safe and secure manufacturing, securing valuable human and management resources without incurring additional costs is a major challenge for us, and we believe this initiative will contribute significantly to solving this issue over the medium to long term .

Q: What is the actual scale of the SKUs targeted for reduction in terms of current net sales and profits?

A: The sales scale of the approximately 290 items targeted for reduction in Japan totals slightly less than 4 billion yen, but they generate almost no profit . We judge that the sales of these targeted items can be mostly covered by transitioning to existing remaining items or alternative products, and we are proceeding with the plan .

Q: While sales in the international business are recovering, the actual operating loss, excluding foreign exchange impacts, has widened. What are your specific profitability improvement measures and timelines for turning a profit in each region: the US, mainland China, and Southeast Asia?

A: Because the international business carries high fixed costs, our basic strategy for improving profitability is to grow sales to absorb these costs. The improvement measures and directions for each region are as follows :

Mainland China: We have already optimized our organization, personnel, and offices (reducing fixed costs), and the effects are beginning to show . We aim to transition to a lean profit structure and achieve our 2028 net sales target of 8.5 billion yen ahead of schedule.
United States: To actively promote local development, we dispatched a large number of expatriates in the initial stages, resulting in high fixed costs. However, we will work on streamlining this in the future. Additionally, amortization of goodwill will decrease by approximately 1.0 billion yen in the next fiscal year (2027), which will contribute significantly to profit improvement.
Southeast Asia: Since the sales scale of each country is currently still in the developmental stage at around 2.0 billion to 3.0 billion yen, we will first focus on expanding the top line to improve profitability through economies of scale.
As for the timeline for turning a profit across the entire international business, we expect to exit the red and transition to profitability within a short-term span of the next two to three years.

Q: On the balance sheet at the end of June, merchandise and finished goods (inventory) have increased significantly compared to the end of the previous fiscal year. Could you explain the background behind this?

A: Although the inventory turnover days themselves are actually showing an improving trend and yielding positive effects, inventory increased compared to the end of the previous fiscal year due to three major overriding factors:

Seasonal pre-building of body warmers for the winter season.
Advanced manufacturing (pre-building inventory) to avoid procurement delays and stockout risks associated with the Middle East situation.
An increase in manufacturing costs themselves due to rising raw material and fixed costs (unit price increases).

Q: Will the inventory levels that were "built up in advance" to prepare for the impact of the Middle East situation normalize toward the second half?

A: Around March and April, there was a period of uncertainty when we could not foresee how much raw material could be secured several months ahead, so we built up defensive inventory. Currently, compared to that time, the outlook for raw material procurement has become much clearer, so we plan to normalize inventory levels toward the second half.

Q: Regarding the company-wide "1.5 billion yen expense control" initiative aimed at maintaining the profit plan for the second half, what are the specific details, and are there any concerns about its impact on future business operations, quality, or other areas?

A: The 1.5 billion yen expense control is calculated based on specific reduction lists compiled bottom-up from each division. The reductions are strictly limited to areas that do not affect the "Quality and Safety First" system, targeting non-essential and non-urgent expenses such as:

Re-evaluating outsourcing costs based on urgency and necessity
Controlling travel and transportation expenses (reviewing the number of people, frequency, and appropriateness)
Reviewing the plans and implementation timing of initiatives in each division (postponing to next year or later, etc.)
By steadily executing these, we aim to generate profits without adversely affecting our business or organization. Among these initiatives, we expect not only temporary effects but also results that lead to permanent efficiency improvements.

[Notes] The contents described in this material are not a verbatim transcript of the Q&A session at the briefing, but rather a summary with additions and modifications based on our company's views. We do not guarantee the accuracy and completeness of the information, and it is subject to change without notice. In addition, the forward-looking statements, including forecasts of financial results, contained in these materials are based on information available to the Company and on certain assumptions deemed to be reasonable, and do not constitute a promise by the Company that they will be achieved. Please note that actual financial results may differ significantly from the results anticipated in the statements due to various factors. This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the Japanese original shall prevail.