



小林製薬株式会社



Medium-Term Management Plan for 2020 to 2022

February 4, 2020

Akihiro Kobayashi

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

- **Review of the previous medium-term management plan**
- **Outline of the new medium-term management plan**

<Future goals>

Announced on November 1, 2016

Theme: **Growth with real strength**

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 financial target>

	FY2019 results	Average annual growth rate	FY2019 target	FY2016 results
Net sales	168.0 billion yen	5.1%	165.0 billion yen	144.8 billion yen
Operating income	26.3 billion yen	12.6%	23.0 billion yen	18.4 billion yen
Net income	19.1 billion yen	8.4%	17.0 billion yen	15.0 billion yen
ROE	11.3%	—	10% or more	10%

<Outline of strategies>

1. Promote the four growth businesses.*

2. Invest in growth for the future.

3. Develop and cultivate new market creator products.

4. Aim to be a company where employees can feel growth.

* Four growth businesses: Overseas, Direct Marketing, Skincare, and Kampo

<Numerical results of the four growth businesses>

*Figures based on the accounting standards applied at the time of announcement

International business	FY2019 target amount	FY2019 results	FY2016 results	Evaluation
<ul style="list-style-type: none"> ➤ Strengthen the OTC Pharmaceuticals business mainly in North America and China. ○ ➤ Cultivate products such as Netsusama Sheet, Anmeltz and body warmers. ○ 	27.0 billion yen	26.6 billion yen (*27.5 billion yen)	17.7 billion yen	○
Direct Marketing business	FY2019 target amount	FY2019 results	FY2016 results	Evaluation
<ul style="list-style-type: none"> ➤ Develop new high-profile products that will lead to new customer acquisition. × ➤ Develop brands by mixing sales at stores and by direct marketing. ○ 	12.0 billion yen	9.7 billion yen	9.5 billion yen	×
Skincare business	FY2019 target amount	FY2019 results	FY2016 results	Evaluation
<ul style="list-style-type: none"> ➤ Create a brand that will become the third pillar after <i>Keshimin</i> and <i>Eau de Muge</i>. × 	9.0 billion yen	7.6 billion yen	5.3 billion yen	△
Kampo business	FY2019 target amount	FY2019 results	FY2016 results	Evaluation
<ul style="list-style-type: none"> ➤ Continue to pursue the development of products that are easier for customers to choose, depending on their constitution and symptoms. ○ 	12.5 billion yen	16.1 billion yen	11.2 billion yen	○

<Achievement>

Financial
side

- Expanded the four growth businesses
- Established a mechanism that enables new products to gain a foothold in the market
- Constructed a system that expands inbound and outbound demand, boosting local businesses

Non-financial
side

- Set a CO₂ emission target for 2030
- Implemented working style reforms
(Introduced a flex-time system and improved the utilization rate of paid leave (67.2% → 70.9%))

<Unsolved challenges and new challenges>

Financial
side

- Formulate a strategy to accelerate the growth of the International Business
- Increase the number of new products and gain a foothold in the market
- Create new inbound products

Non-financial
side

- Set the ESG targets and narrow down the SDGs targets that we should focus on following a back-casting approach to realize them in the medium-and long-term future

Outline of the New Medium-Term Management Plan

Under our corporate brand slogan, “You make a wish and we make it happen,” we have developed new products, including *Bluelet*, *Netsusama Sheet*, *Nodonool*, and *Eyebon* over 50 years, creating new lifestyles and new markets.

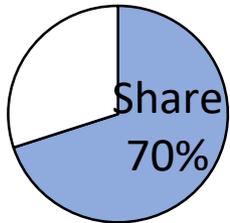


Background for Formulating the New Medium-Term Management Plan

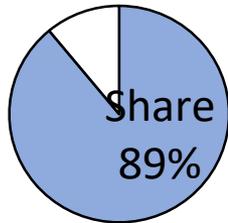
9/32

We have developed most of these products by paying attention to demand in specific areas of existing markets and sold them as “niche” products. Such niche products have brought stable profits to us over the long term, since there have been relatively few competing products on the market. We have spent the profits as a source of funds to improve the products and to promote their sales. As a result, customer satisfaction with the products has continued to rise, leading to an increase in the number of users. Finally, such products have gained broad customer acceptance.

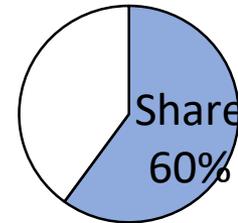
Eye wash



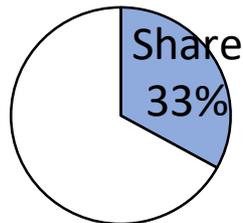
Scar removal cream



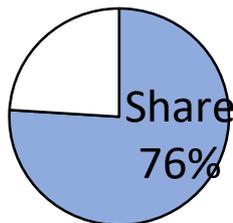
Women's health promoting drugs



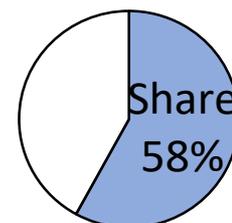
Deodorizing air freshener



Deodorizing air freshener for Flushing toilets



Cooling gel sheet for forehead

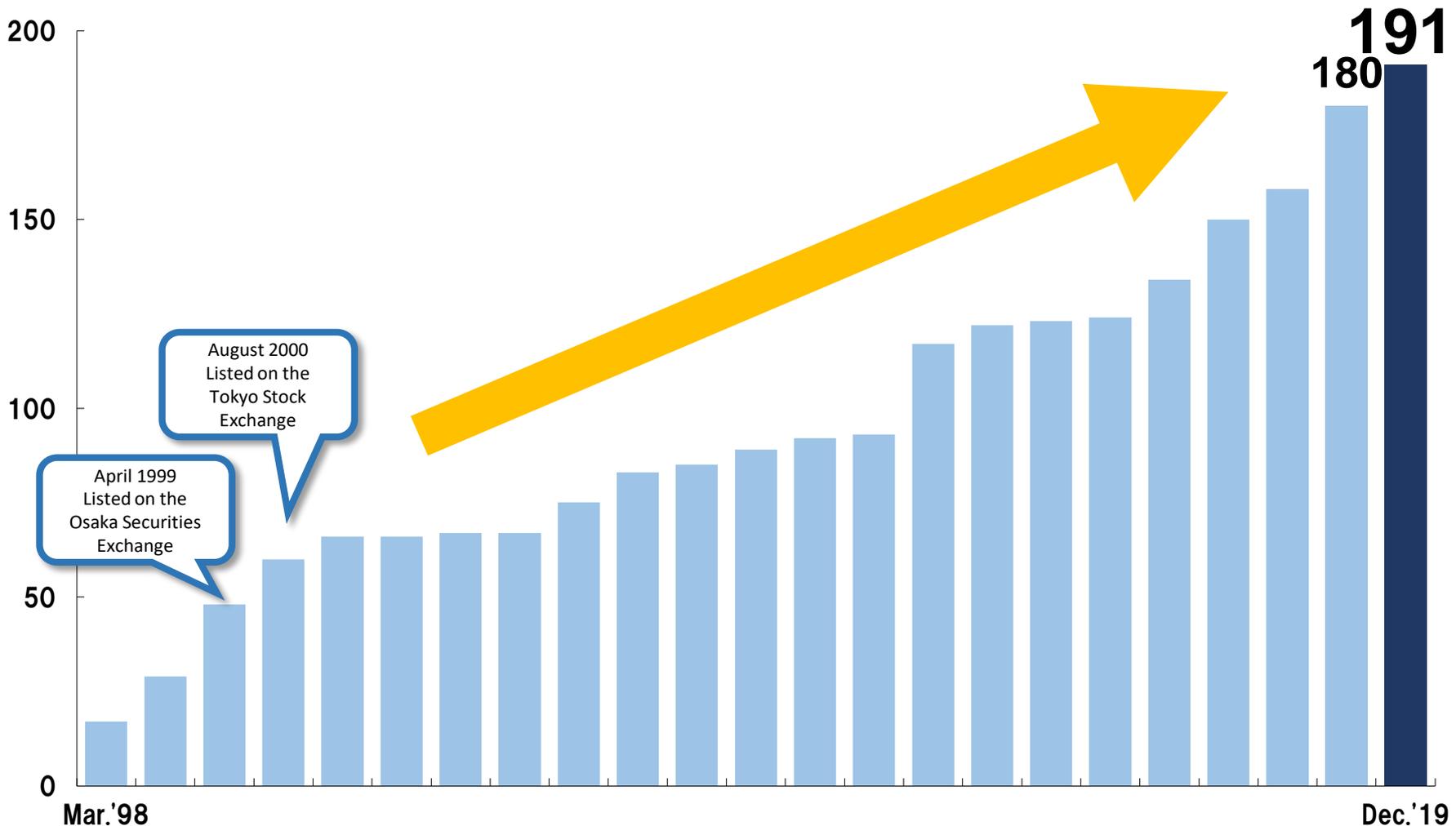


Background for Formulating the New Medium-Term Management Plan

10/32

We have grown by launching many such products and achieved a 22nd consecutive term of growth in operating income.

(100 million yen)



• Although niche products seem to be unnecessary for most people, they are indispensable for customers with particular problems. If we didn't develop niche products, the problems would have been left unsolved and customers must have lived with inconvenience. Many such problems still exist but are left unnoticed. We are good at discovering customers' problems and turning ideas to solve such problems into products.



Most people

unnecessary



Customers with particular problems



indispensable



We will broaden our research of various social issues, speedily find out customers' problems, come up with ideas to solve such problems, and create products that help each customer to live comfortably and play an active part in society. This is what our mission is, and we think that our mission will contribute to realization of a "society where no one will be left behind."

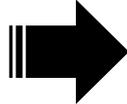
We will not only develop new products under our corporate brand slogan “You make a wish and we make it happen” in Japan, but also speedily market them overseas. In addition, we will try to identify problems in all countries of the world and develop new products overseas by implementing our corporate brand slogan “You make a wish and we make it happen.”



Decrease of population

Changes in population in Japan *1

126,440,000
persons
(in 2018)



116,620,000
persons
(in 2030)

Global warming

Changes in global average temperature *2

Increase by 1.5 degree
centigrade in 2030
(compared to 2018)

Competing products (China)

Affordable
prices

Improve-
ment of
quality

Uncertain global situation

U.S.-China trade dispute

Japan-South Korea
relationship

Demonstrations in
Hong Kong

Middle-East
situation

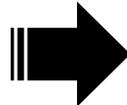
Brexit

*1: Website of the Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications, National Institute of Population and Social Security Research "Population Projection for Japan by Region" (in 2018)
*2: Intergovernmental Panel on Climate Change (IPCC) "1.5-Degree C Special Report" (in 2018)

Increase in the number of tourists coming to Japan

Changes in the number of tourists coming to Japan *1

31,190,000
persons
(in 2018)

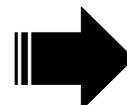


60,000,000
persons
(in 2030)

The 100-year life

Changes in old-age population *2

35,570,000
persons
(in 2018)



37,160,000
persons
(in 2030)

QOL improvement

Prevention needs

Healthcare needs

Rise in the evaluation of Japanese value

Diversified needs

Global aging society trend

*1: Japan National Tourism Organization "Number of visitor arrivals to Japan" (in 2019), Prime Minister of Japan and His Cabinet "The Meeting of the Council for a Tourism Vision to Support the Future of Japan" (in 2016)

*2: Website of the Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications, National Institute of Population and Social Security Research "Population Projection for Japan by Region" (in 2018)

We will promote global management and create a new market in each country every year in FY2030. We hope our company will contribute to the growth of human beings and society by solving problems not only in Japan but also in the world, receiving a recognition as a company that creates new markets (new lifestyles).

- Master product development and fostering under our corporate brand slogan “You make a wish and we make it happen” in Japan
- Speedily launch new products developed in Japan in each country after adjusting them to local preferences
- Succeed in developing new products in three poles (Europe and America, China, and Asia) by implementing our corporate slogan “You make a wish and we make it happen”

Consolidated net sales of 280.0 billion yen (of which 90.0 billion yen from the International Business)

Theme: “International Business First”

<Outline of strategies>

- 1. Put full energy into developing the International Business**
- 2. Further expand the existing businesses**
- 3. Enhance management abilities from the viewpoint of ESG**
- 4. Establish a foundation to create innovation and new businesses**

Performance Target (in FY2022)

18/32

	FY2022 target (based on new standards*1)	Average annual growth rate	FY2019 results (based on new standards*1)	FY2019 results (based on previous standards*1)
Net sales	180.0 billion yen or more	4.4% or more	158.3 billion yen	168.0 billion yen
Operating income	29.0 billion yen or more	4.4% or more	25.6 billion yen	26.3 billion yen
(Margin)	16.0% or more	–	16.2%	15.7%
Net income	25th consecutive increase	–	19.1 billion yen	19.1 billion yen
ROE	11.0% or more	–	11.3%	11.3%
ROIC*2	10.0% or more	–	10.5%	10.8%
Domestic sales	135.4 billion yen or more	3.0% or more	123.0 billion yen	130.5 billion yen
International sales	33.0 billion yen or more	10.0% or more	24.3 billion yen	26.6 billion yen
International sales ratio	18.0% or more	–	15.4%	15.9%
Mail-Order sales	10.4 billion yen or more	2.0% or more	9.7 billion yen	9.7 billion yen

*1: Although we will apply the new accounting standards from FY2020 or later, we have prepared results for FY2019 using the new accounting standards for comparison purposes.

*2: ROIC = NOPLAT / Invested capital = Operating income x (1 – Effective tax rate) / (Net assets + Interest bearing liability)
(Effective tax rate: 30.58%, Interest bearing liability = Short-term loans payable + Long-term loans payable)

1. Put full energy into developing the International Business

■ Main challenges

- (1) All divisions involved in and supporting the International Business**
- (2) Roll out products developed under our corporate brand slogan in Japan, “You make a wish and we make it happen,” to China and Southeast Asia**
- (3) Expand the OTC Pharmaceutical business in North America and China**
- (4) Start idea development in local markets**

(1) All divisions involved in and supporting the International Business

International Business Division

Manufacturing
Headquarters

Corporate
Administration
Headquarters

Sales Headquarters

Quality Assurance
Headquarters

Domestic
Business
Division

Central R&D
Laboratory



(2) Roll out products developed under our corporate brand slogan in Japan, “You make a wish and we make it happen,” to China and Southeast Asia

Launch products that sold well among inbound tourists to Japan in China and Southeast Asia at an early stage



Develop new products in Japan under the assumption that they will be sold in China (intellectual property, prescription, and functional quality)

Advertising activities through Japan-China coordination to create new inbound demand

(3) Expand the OTC Pharmaceutical business in North America and China

<North America>

Launch new products under Zim's Max brand that can differentiate ourselves from competitors
Aim to acquire new brands also through M&A

Zim's Max series



New products

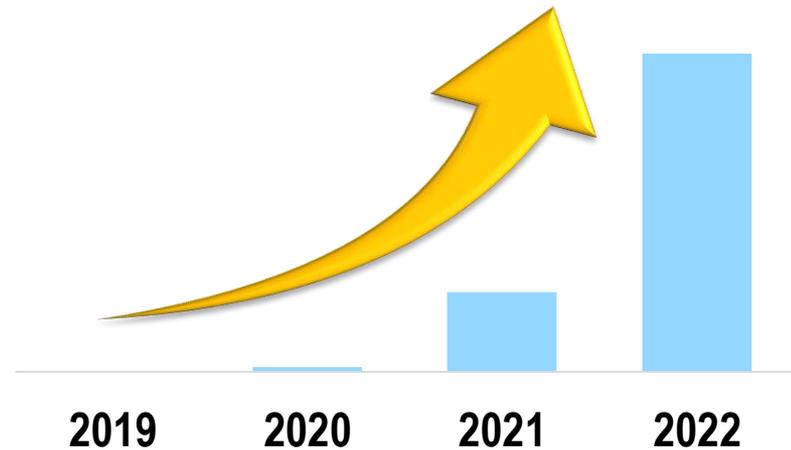
M & A

New brands

<China>

Rapidly expand the OTC Pharmaceutical business by using pharmaceuticals of Jiangsu Kobayashi (acquired through M&A in 2018) with the aim to achieve sales of 0.4 billion yen in three years' time.

Sales plan of OTC pharmaceuticals



International Business	FY2020 target (new standards)	Annual average growth rate	FY2019 results (new standards)	FY2019 results (previous standards)
Net sales	33.0 billion yen or more	10.0% or more	24.3 billion yen	26.6 billion yen
Operating margin	7.0% or more	–	7.1%	6.5%

■ Average annual growth rate targets (by region)

Mainland China: 20.0%

U.S. : 5.0%

Southeast Asia: 10.0%

2. Further expand the existing businesses

■ Main challenges

- (1) Raise the evaluation of marketability**
- (2) Raise the evaluation of satisfaction**
- (3) Raise the success rate in the development of new products**
 - Surely develop new products even when multiple products are launched at the same time
 - Put advertisements on the website to encourage consumers to purchase our products for trial
- (4) Increase the number of Creating Shared Value brands (CSV brands)**
- (5) Steadily grow products in the existing categories**

3. Enhance management abilities from the viewpoint of ESG

■ Main challenges

(1) Penetrate the idea of “Enhance management abilities from the viewpoint of ESG” throughout the Group

Prioritize social issues to be solved by considering environmental changes and stakeholders' requests and expectations.



Express our policy and targets



Set KPI (Key Performance Indicators) and run the PDCA cycle

(2) Step up our activities to solve each important ESG issue.

(2) Step up our activities to solve each important ESG issue.

E

- Scope 1.2: Introduce renewable energy to achieve the reduction target
- Scope 3: Set the reduction target at an early stage to obtain SBT approval
- Switch to sustainable raw materials (waste plastic, FSC certified paper)
(KPI: Maintain a 100% use of FSC certified paper)



S

- Promote CSV activities
- Promote the creation of an environment where female employees can play an active role in the Company
(KPI: percentage of female managers: 16%)
- Aim to be a company where employees can feel growth
- Promote CSR procurement in our supply chain



G

- Strengthen the International Business governance system

4. Establish a foundation to create innovation and new businesses

■ Main challenges

(1) Succeed in achieving the medium-and long-term development themes

- Concentrate resources on prioritized areas (immunity, body warm, dementia, etc.)
- Establish a management method for highly uncertain themes
- Enhance capability to obtain pharmaceutical approval for switch OTC pharmaceuticals, etc. that is extremely difficult to acquire

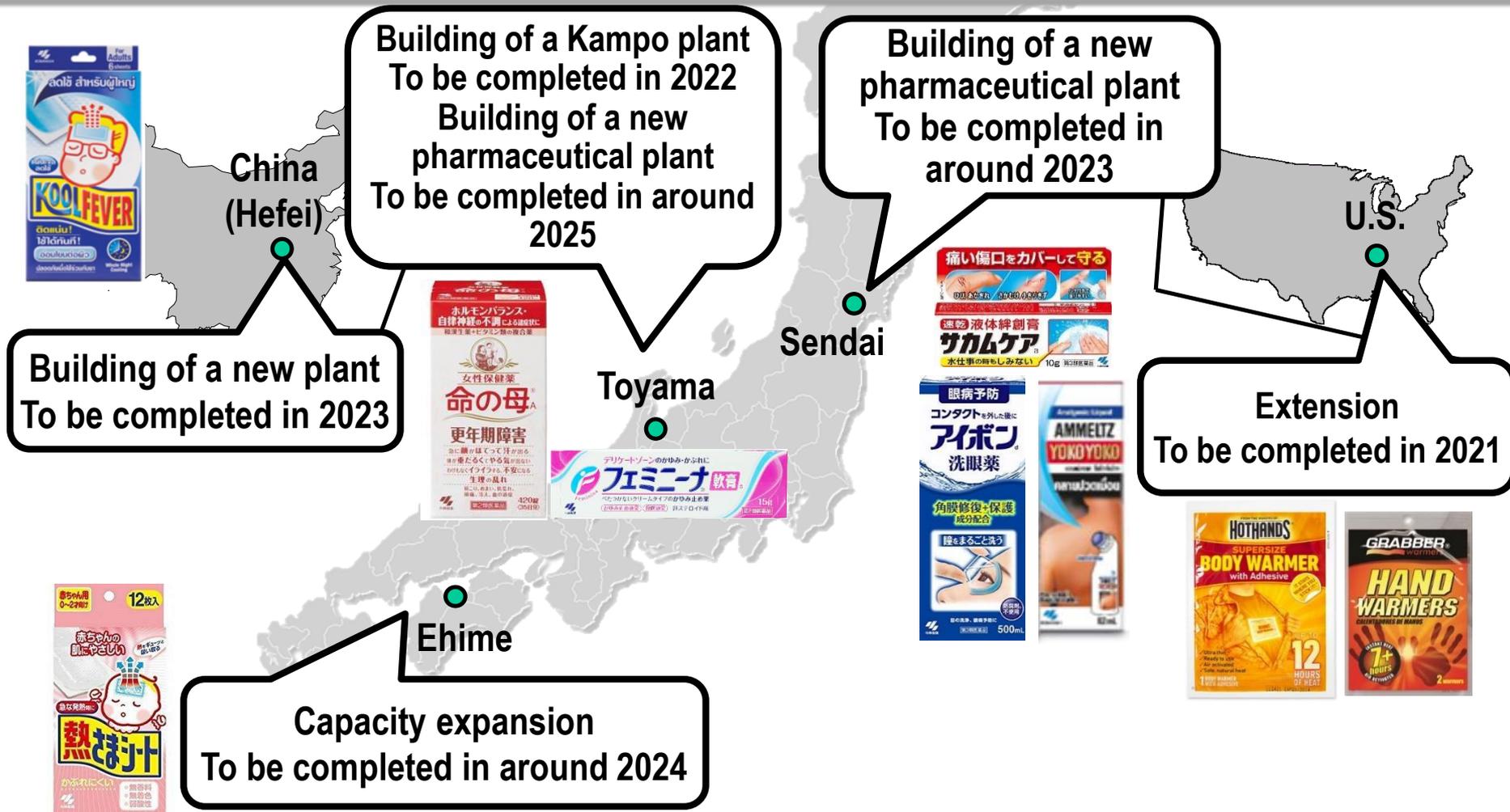
(2) Construct a management method to foster new businesses

Content	Investment budget (FY2020 to FY2022)
M&A to accelerate growth (in China, U.S., and Japan)	30.0 billion yen



Challenges	Actions	Investment budget (within six years)
Expansion of production capacity to respond to the expected increase in demand	Building of a new production plant	40.0 billion yen
Manufacturing in compliance with global standards (PIC/S)		
Capacity shortage in the current Central R&D Laboratory	Relocation of the Central R&D Laboratory	20.0 billion yen

On the assumption that demand from overseas customers will increase and we will expand overseas operation, we plan to invest around 40.0 billion yen in the building of new plants by FY2025.



Capital investment for constructing new buildings (plan)

Unit: 100 million yen	2020	2021	2022	2023	2024	2025	Total
Toyama			30		5	100	135
Sendai				170	5	6	181
Ehime					14	2	16
China			35	3	4	7	50
U.S.	2	13	2	2			19
Total	2	13	67	175	28	115	400

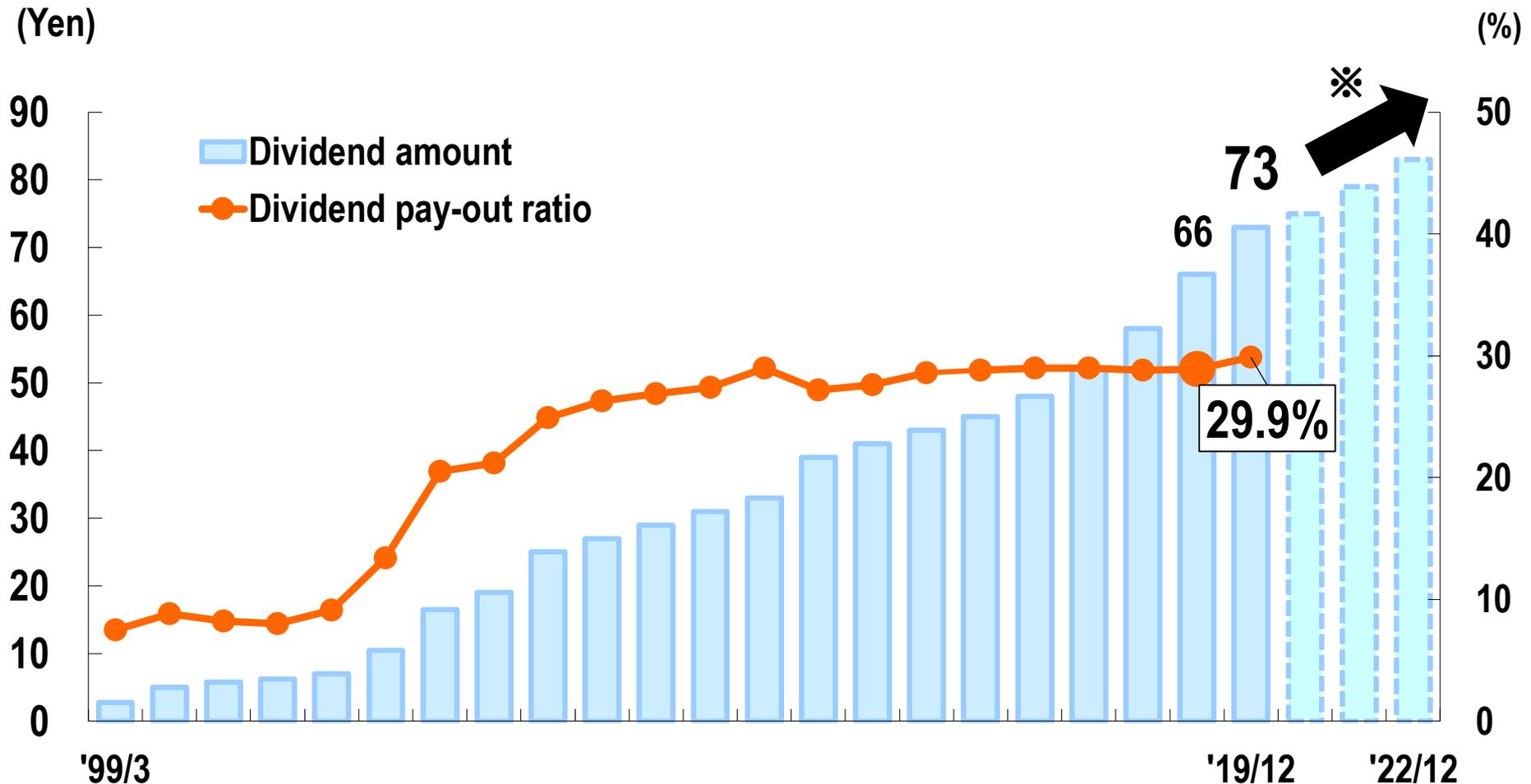
Depreciation related to new buildings (plan)

Unit: 100 million yen	2020	2021	2022	2023	2024	2025	Total
Toyama			2	2	2	4	10
Sendai				7	8	8	23
Ehime					2	2	4
China			3	3	4	4	14
U.S.		1	1	1	1	2	6
Total	0	1	5	13	17	19	55

As these figures were calculated in December 2019, capital investment and depreciation may change in the future.

Item	2022	2019
Four-year contribution rate of new products	20.0% or more (in Japan)	16.3%
Fostering of new products for Japan in China	Five products in three years	–
Fostering of new products	Two products in six months (in Japan)	–
Number of CSV brands and percentage to total sales	One or more in each category and 10.0%	–
Employees' job satisfaction	85.0% or more (in Japan)	71%
Reduction of CO ₂ emissions	Scope 1.2: Progress towards FY2030 target Scope 3: Setting of target	–
Reduction of environmental load in product development	Plastic: Switching to high sustainable materials Paper: Maintaining a 100% use of FSC certified paper	–
Percentage of female managers	16%	8.6%
Percentage of employees who feel growth through their jobs (employee attitude survey)	75%	69%
Consultation rate of employee regular medical checkup and re-examination	100% - 80%	100% - 73%
Percentage of employees who can work in mentally and physically good condition (employee attitude survey)	75%	61%

We aim to achieve an increase in dividend payment for the 24th consecutive term.



* As dividend amounts for FY 2020 to FY2022 are not decided yet, they are provisional.

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Kobayashi Pharmaceutical Co., Ltd.

<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.