

You make a wish  
and we make it  
happen.

Integrated Report  
**2020**



## Management principles

**We never stop creating and innovating in our pursuit of something new that will delight people and society.**



Profit growth for  
**23** consecutive  
fiscal periods

We have achieved profit growth for 23 consecutive fiscal periods since the introduction of consolidated accounting.



**17.2%**  
operating  
income margin

Our niche strategy of targeting “small ponds” (markets with few competitors) enables us to sustain high profit margins.

## Corporate brand slogan

**あったら  
いいな**  
をカタチにする

**“You make a wish and we make it happen”**

## Group brand charter

Our mission is to not only make products that our customers want now but to also develop new and innovative products for our customers’ future needs.

True to our brand slogan of “You make a wish and we make it happen,” we will strive to research, develop, manufacture, and deliver products as quickly as possible.

Products and services will be developed to the highest standards and quality to exceed our customers’ expectations.

Our dream is to share the small gifts from everyday life with people the world over.

We are committed to being an innovative, development-focused company that contributes to society, builds lasting relationships with customers, and exceeds all expectations in customer satisfaction.



**158** brands

Through our “a big fish in a small pond” strategy and the development of unique products, we continue to create unprecedented new markets.



**Increased dividend for 22** consecutive fiscal periods

We strive to provide a stable return to shareholders while making investments in future growth.



Around **57,500** idea proposals in 2020

Under our idea proposal system, established in 1982, employees from across all departments contribute their ideas for new products and business operation improvements.



# Contents

## Our Value Creation

- 1 Our commitment
- 2 A century of value creation
- 4 Value creation process
- 10 Operational highlights

## Growth Strategy

- 14 The President explains our strategy
- 20 The CFO explains our financial strategy
- 24 Strategies by business

## ESG Initiatives

- 34 Our Approach to ESG
- 36 Environmental
- 40 Social
- 44 Governance
- 50 Dialogue session with the COO and outside director
- 56 Management team

## Data Section

- 58 10-year summary
- 60 Consolidated financial statements
- 64 Our history
- 65 Corporate data / Investor information

### Period covered

January 1, 2020 – December 31, 2020 (FY2020: Fiscal year ended December 31, 2020)  
Note: Certain subsequent information is also included.

### Reporting scope

Kobayashi Pharmaceutical Co., Ltd. and its consolidated subsidiaries

### Other related information

- Financial Results (in English); Securities Report (Japanese only)
- Kobayashi Pharmaceutical Website <https://www.kobayashi.co.jp/english>

The “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and “Implementation Guidance on the Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018) have been applied from the beginning of the fiscal year ended December 31, 2020.

### Editorial policy



To inform readers about the Kobayashi Pharmaceutical Group’s management and corporate activities, this integrated report comprehensively covers non-financial information such as ESG activities, in addition to management’s direction and strategy, and a review of operations. The International Integrated Reporting Framework provided by the International Integrated Reporting Council and the Guidance for Collaborative Value Creation formulated by Japan’s Ministry of Economy, Trade and Industry were used as reference in compiling this report.

### External recognition

#### 2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

<https://www.msci.com/msci-japan-empowering-women-index>



<https://www.jpjx.co.jp/english/markets/indices/carbon-efficient/index.html>

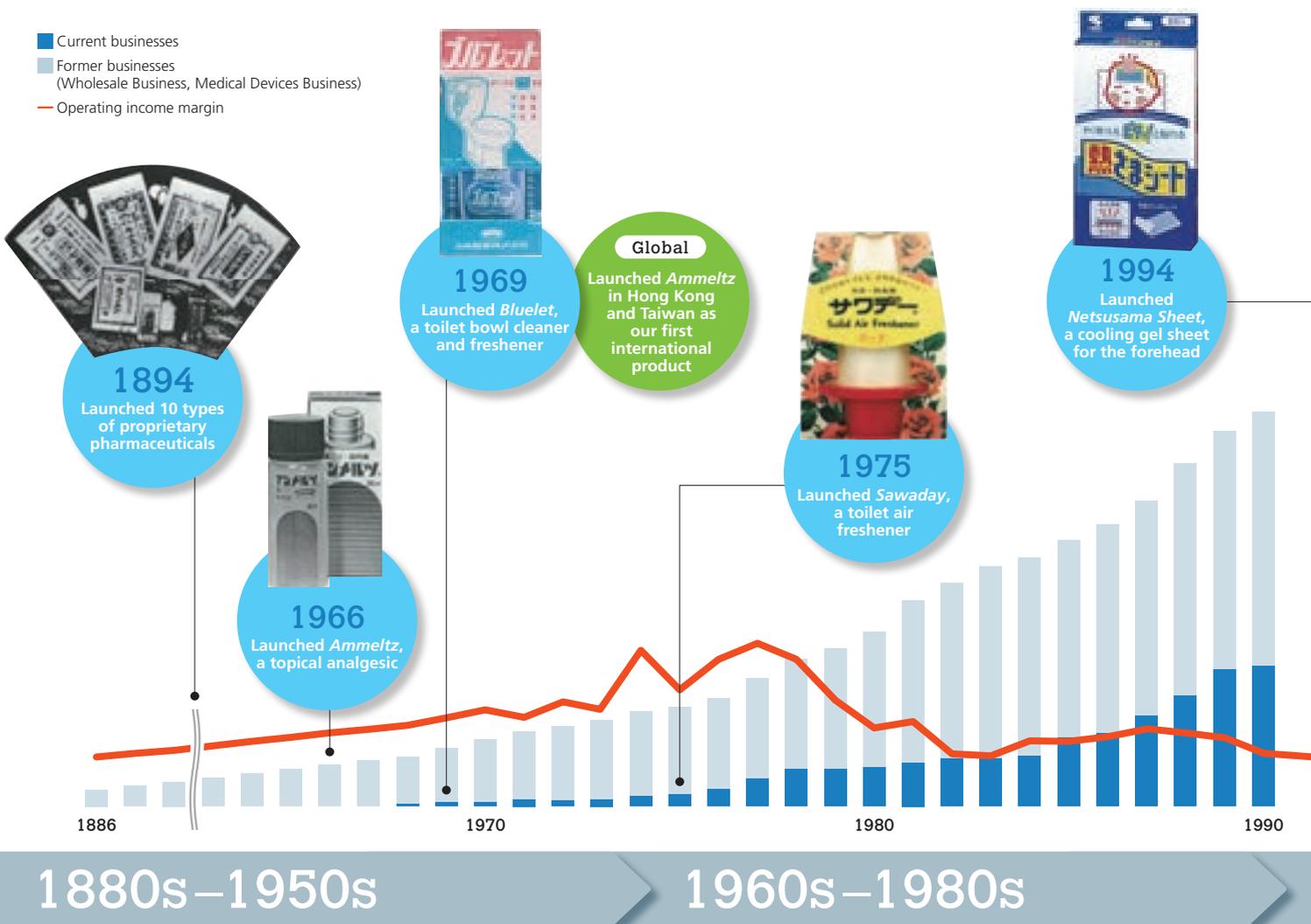


<https://www.sompo-am.co.jp/institutional/product/06/> (in Japanese only)

# We are pursuing M&A and accelerating international growth to deliver unique products to consumers around the world.

## Our changing business portfolio

In 2008, we divested our original wholesale business, which accounted for more than half of our sales. However, since then, our consumer products business has been more than doubled, and our operating income margin has risen dramatically from the 7 percent range to 17 percent. We continue to create new markets by delivering what customers wish for not only in Japan but also overseas, and are accelerating growth by actively pursuing M&A.



### Popularized over-the-counter medicine as a medicine wholesaler

#### Building a solid business platform

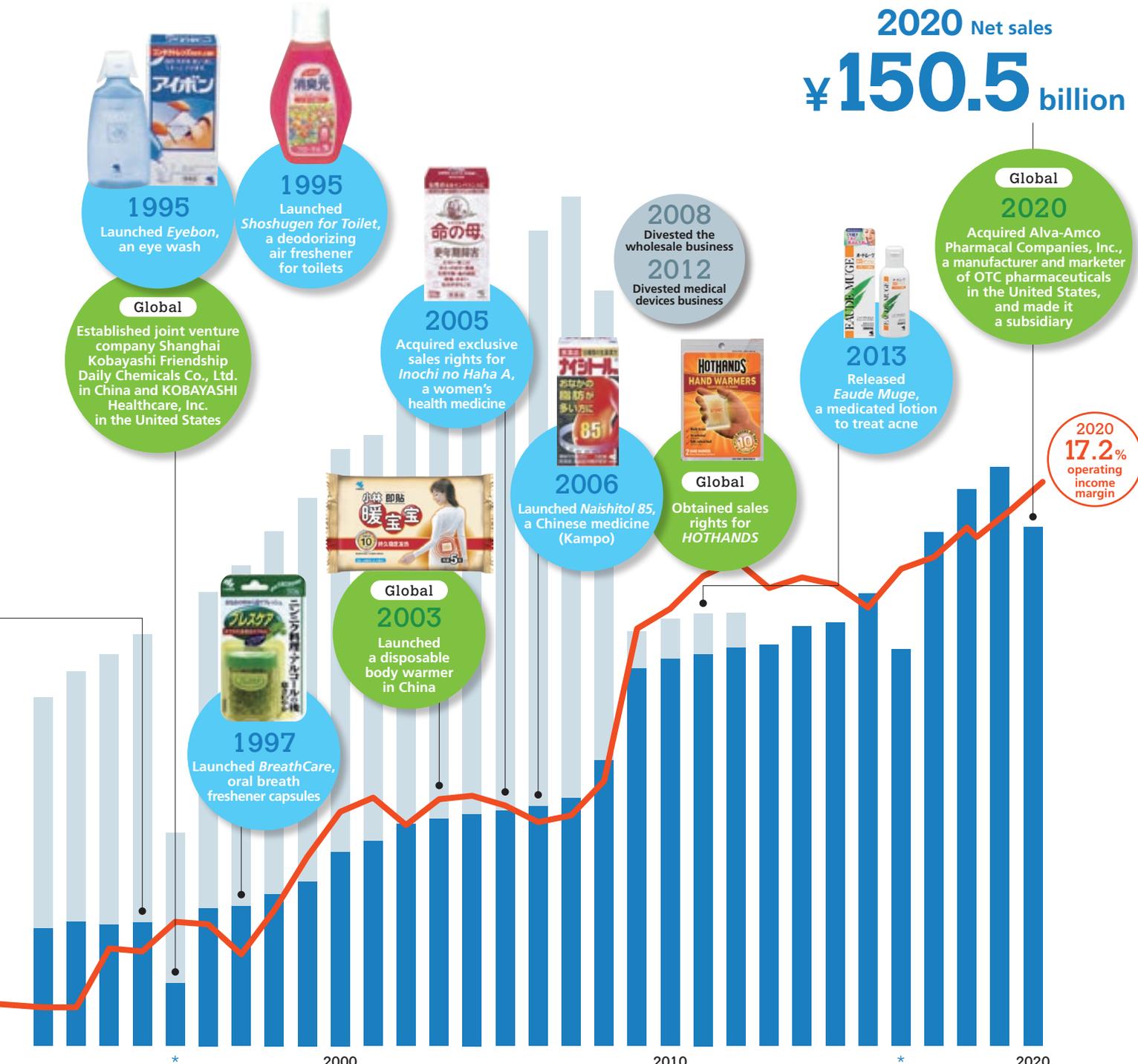
Founded as a store selling general merchandise and cosmetics. Later, began focusing on the medicine industry following an infectious disease outbreak in 1885. With demand for medicine rising, built a solid business platform as a medicine wholesaler and began manufacturing proprietary pharmaceuticals.

### As a wholesaler and manufacturer, brought comfort to daily life in Japan and created new markets as an early adopter of Western culture

#### Establishing a business model with a niche strategy

Began full-scale commitment to becoming a manufacturer while retaining main business in wholesale. Created new niche markets to avoid competition with wholesale partners. Origin of our current business model.

2020 Net sales  
**¥150.5 billion**



1990s

2000s – present

**Proposed new lifestyle ideas and created successive new markets by delivering what customers wish for**

**Growing the manufacturing business and expanding overseas**

Strengthened new product development to fill unmet lifestyle needs and created numerous core brands that are the backbone of current earnings. Made full-scale foray into overseas markets.

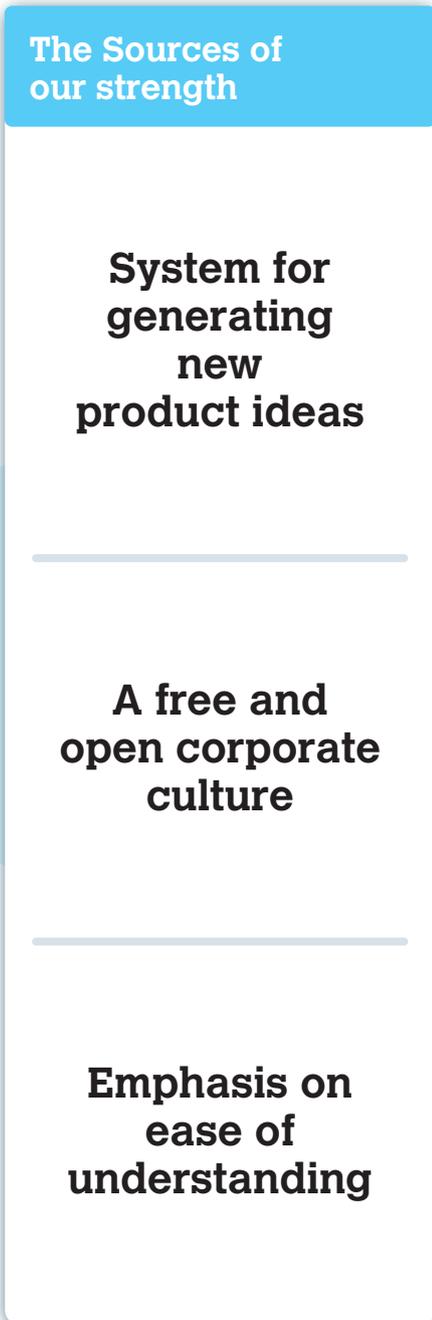
**Accurately identified lifestyle changes and created new markets in Japan and overseas by delivering what customers wish for**

**Concentrating on core competencies**

Divested original wholesale business and medical devices business to facilitate further development of new core businesses. Focused operating resources on manufacturing business and dramatically improved operating income margin. Aggressively conducted M&A and accelerated expansion overseas.

\*Due to changes in fiscal year-end, fiscal 1995/3 was a six-month transitional period and fiscal 2016/12 was a nine-month transitional period.

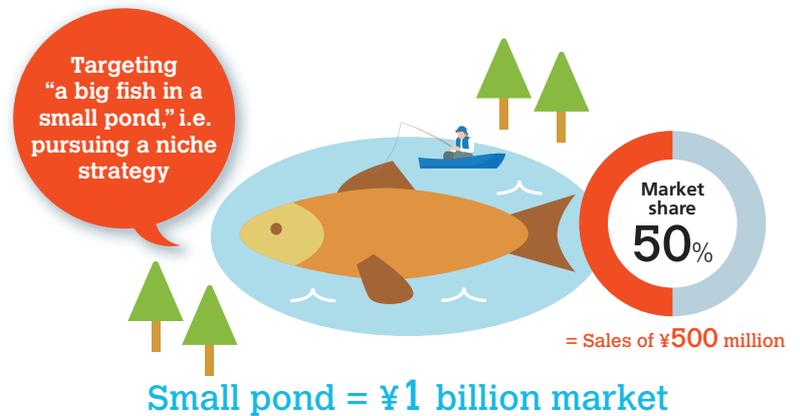
# Business model: Developing products to solve individual issues



## Two strategies

### Strategy 1 “A big fish in a small pond” strategy

There are few competitors in small ponds, so we can secure a large market share and high profit margins.



### Strategy 2 Development of unique products

We come up with ideas by searching for what customers wish for. We look for undiscovered new markets.

We conduct product development, research, preparation for production and other activities in parallel to quickly turn ideas into products. We seek to be the first to enter new markets.



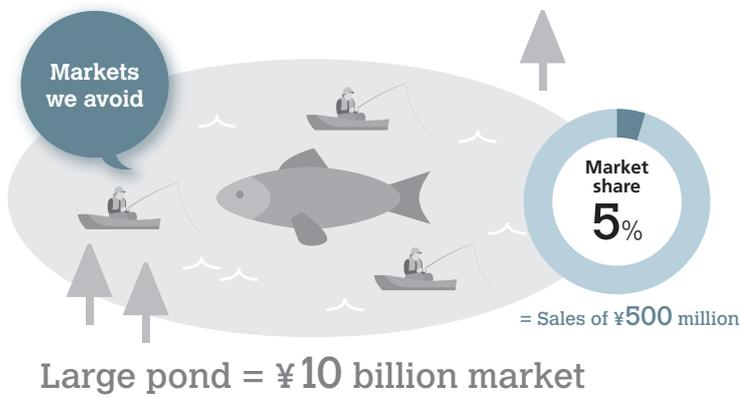
As new products are unfamiliar to the world, we strive for simplicity in every aspect so that customers can instantly understand what the product is.



## The basis of value creation ESG initiatives

# Strategy

Competition is fierce in large ponds where everyone comes to fish. Even with the same level of sales, a high profit margin cannot be attained.



# Products

We maintain top market share by establishing a competitive position capitalizing on the advantages of early market entry.

We localize products based on local culture and needs.



After launching a product, we implement a “three-arrow” promotional strategy to establish new products in the market by pursuing a series of surges in sales.

for sustainable growth

→ Pages 34–35

Providing something new that will delight people and societies around the world

## Target KPIs

1 Contribution rate of new products  
→ Page 13

Four-year contribution rate\* **20%**

\* Sales contribution rate of new products launched within the previous four years

2 New products established in the Market

Establish 2 products every 6 months

We develop new products that deliver what customers wish for and address unmet needs in the areas of healthcare, household products, skincare, and body warmers, both in Japan and overseas. We then cultivate these products to firmly establish them in the market. We thereby inspire new lifestyle ideas.



3 Cultivation of new Japanese products in China

Establish **5** products over 3 years

# Strengths in the value chain



## Idea Generation

**Idea generation** is critical to creating niche products.

## Rapid Development

**Being first** to market and gaining the top share through rapid development is important.

## Marketing

As new products are unfamiliar to the world, **easy-to-understand marketing** is essential.

Kobayashi Pharmaceutical's approach

- Idea proposal system
- Idea meetings
- Idea presentations
- N = 1 development
- The five development principles
- Kobayashi-style marketability assessment
- M&A as a development technique

- Rapid development with a four-in-one approach (R&D, technology development, development planning, brand managers)
- Development Committee
- Kobayashi-style satisfaction assessment
- Alliances (development) with technology-owning partners
- Rapid development using outside technologies
- Development leadership by top management

- Easy-to-understand product names
- Easy-to-understand packaging design
- Easy-to-understand advertising
- Easy-to-understand store displays
- Field marketing
- Approval of marketing plans by top management

Mechanisms to improve and promote value creation

- Invitation to Premium Dinner hosted by the president → Page 8
- President's special award for outstanding ideas
- Recognition of proposers of similar ideas
- Company-wide idea contest → Page 8
- 12-month award
- 30-year award

- Development portfolio management approach → Page 8
- Qualified Person (QP) system
- Free-for-all discussion between top management and front-line employees
- High quality
- Retailer incentives

- CF and package design awards

Future issues

- Restore four-year contribution rate to 20% (improve market establishment)
- Analyze consumer behavior using AI

- Further enhancement of Kobayashi-style customer satisfaction assessment methodology aimed at encouraging repeat purchases

- Kobayashi-style online marketing
- E-commerce test-marketing techniques

### Systems for fostering the corporate

Spur-of-the-Moment Meetings

Policy on forms of address

e-Appreciation program between president and employees

Growth dialogues

Front-line visits by top management

**An open corporate culture that avoids authoritarian or bureaucratic practices**



## Sales and Product Cultivation

Newly launched products are distributed to retailers across Japan and supported with **intensive TV advertising**.

- New product distribution capabilities
- Applying sales best practices to other products
- **Rapid PDCA cycle for new product cultivation**
- Advertising media purchasing capabilities

- Trade shows featuring new products  
→Page 9
- **“Three-arrow” approach to product cultivation** →Page 9
- Ability to measure advertising effectiveness
- CF-POS meetings
- Best performer award

- Enhancement of e-commerce
- PDCA-focused sales and marketing

## Establishment → Long-Lasting Sales

When a market grows large, competing products enter. To **maintain the top market share**, we take various measures that leverage our first-mover advantage.

- Profit and loss management of all brands
- **Line extensions of top brands**
- **Product renewals to leverage first-mover advantage**
- Ability to make linked marketing proposals
- In-house production of equipment
- Cost savings with in-house manufacturing

- Brand reviews
- Brand training camp
- Technology sharing event to present new technologies →Page 9
- Events to present research results

- Simultaneously cultivating multiple new products

## Overseas Expansion

We **localize unique products in each country** and establish them in the market.

- Partnerships with distributors in each country
- **High brand recognition in China**
- **Many products popular with foreign visitors to Japan**

- Utilization of cross-border e-commerce
- **Joint coordination meeting**

- Generation of new demand from visitors to Japan
- Simultaneous development in Japan and China
- **Cooperative marketing between Japan and China operations**
- **Development of products that satisfy unmet needs in each country**

## culture underpinning value creation

Hiring of people with a can-do spirit and a desire to create new lifestyle ideas

Expertise in simultaneously developing, marketing and cultivating a high-diversity portfolio of more than 150 brands (DNA of a wholesaler)

## Diversity

# Mechanisms to improve and promote value



Idea Generation

## Company-wide idea contest

On August 22, the anniversary of the Company's incorporation, all employees take a break from their regular duties for an "idea meeting" held in each department. Each employee brings a product idea and the best one from each department is entered into a preliminary contest. Those selected then move on to package design, after which they are presented to the president and other executives. The winning ideas are then considered for commercialization. In FY2020, a total of 2,854 ideas were submitted.



Idea Generation

## Premium Dinner

Every six months, employees who proposed the best ideas and produced outstanding results are rewarded with an invitation to dinner with top management. Praising employees whose idea proposals and actions are commendable demonstrates management's attitude of recognizing people for their initiative and efforts. We also have a program in which employees submit their outstanding results for consideration, and the winners are honored at the Premium Dinner.

Note: Postponed in FY2020 due to the COVID-19 pandemic.

Rapid Development

## Development portfolio management

New product development is vital to Kobayashi Pharmaceutical's growth, but a haphazard approach is unlikely to lead to sustainable growth. We carefully manage new product development through our development project portfolio, which functions as a product launch schedule for each business division and

category. This allows us to chart launch dates and sales projections for new products over a period of approximately three years, share information on risks that have the potential to stymie development or delay launch, and reevaluate the contribution rate of new products, while optimizing the number of projects and resource allocation.

### Example of development project portfolio

	Autumn 2020		Spring 2021		Autumn 2021		Spring 2022	
Category A	New product 1	¥X billion	New product 5	¥X billion	New product 9	¥X billion	New product 13	¥X billion
	New product 2	¥X billion	New product 6	¥X billion	New product 10	¥X billion	New product 14	¥X billion
	New product 3	¥X billion	New product 7	¥X billion	New product 11	¥X billion	New product 15	¥X billion
	New product 4	¥X billion	New product 8	¥X billion	New product 12	¥X billion	New product 16	¥X billion
Total projected sales	¥X billion		¥X billion		¥X billion		¥X billion	
Contribution rate of new products in Category A	XXX%		XXX%		XXX%		XXX%	

# creation

Sales and Product Cultivation

## “Three-arrow” approach to product cultivation

### First Arrow

Display alongside mainstay or related products

### Second Arrow

Standalone advertising in store

### Third Arrow

Lineup additions and advertising

In recent years, we have focused efforts on cultivating new products to establish them in the market. Firmly establishing these products so that they continue to sell for five or ten years improves the return on development cost and effort, thus contributing to our bottom line. We have set a goal of establishing two new products every six months. Each year, we target

two or three new products for focused investment in advertising and sales promotion, and we cultivate them by instigating a series of sales surges with our three-arrow strategy. New product development is only considered successful once a product gains a foothold in the market and this cultivation process is complete.



Sales and Product Cultivation

## Trade shows featuring new products

We host trade shows featuring new products in Japan twice a year in spring and autumn, with approximately 3,000 distributor representatives attending. Employees from Kobayashi Pharmaceutical's marketing and R&D departments staff product booths, where they explain the products they helped conceive. The venues are bustling, and many visitors have commented that the explanations are easy to understand. This trade show is a place to introduce new products and engage in business discussions. Our top management and the heads of business divisions also participate, and business deals with distributors are often closed at these events.

Note: Cancelled in FY2020 due to the COVID-19 pandemic.



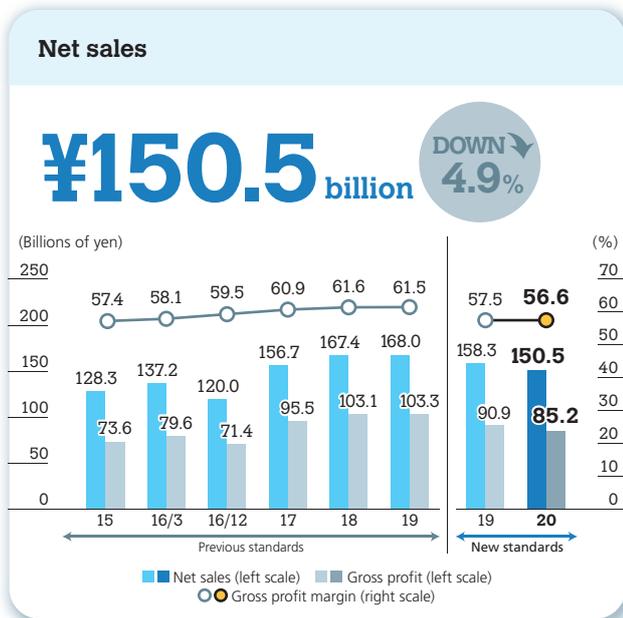
Establishment → Long-Lasting Sales

## Technology sharing event

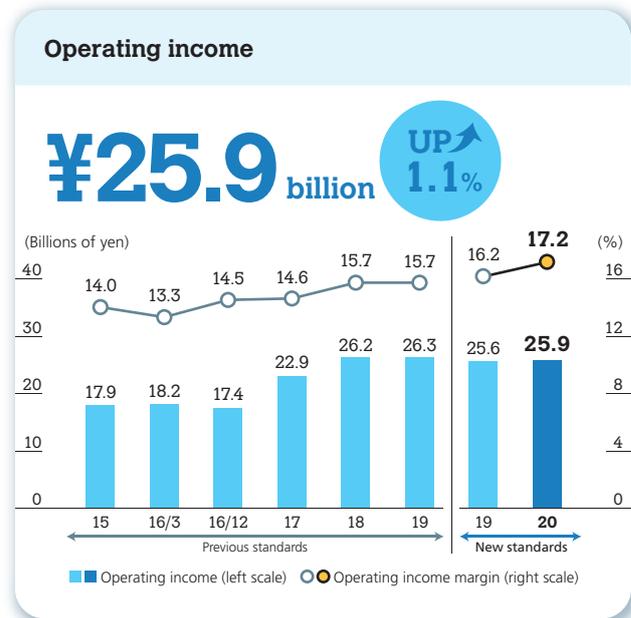
This event has been held annually since 2008 by the Manufacturing Headquarters. It promotes sharing of technologies and fosters mutual learning. Examples of improvements at factories are presented from four perspectives: existing technologies, advanced technologies, technologies for in-house production of equipment, and equipment maintenance technologies. All general managers of manufacturing departments, including plant managers, share information, helping to accumulate and evolve manufacturing technology. By explaining gains in operating efficiency, and examples of improvements made, the event enables skill-intensive technologies known only to a small number of people to be deployed across different departments, raising our overall manufacturing technology level.

# Financial highlights

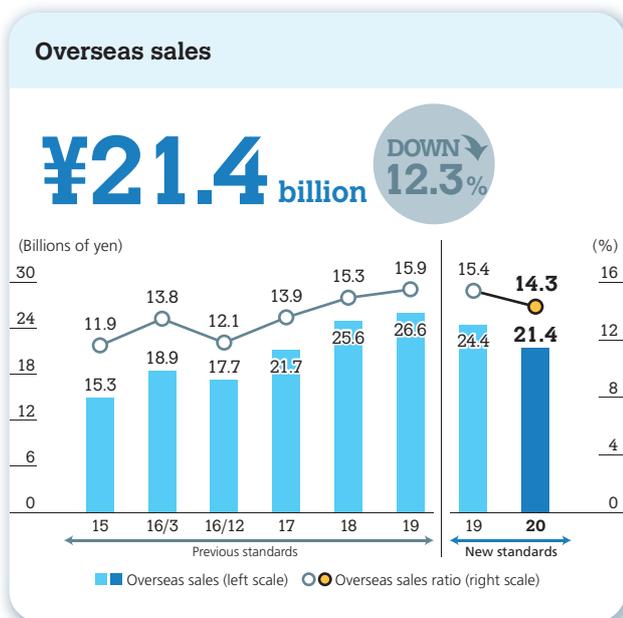
(Fiscal 2016/12 was a nine-month transitional period due to a change in fiscal year-end.)



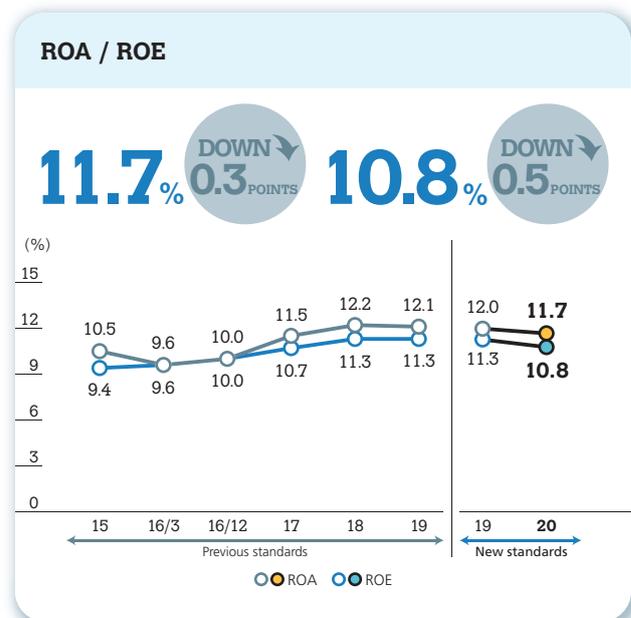
Net sales declined 4.9 percent. Demand increased mainly for hygiene and disinfectant products due to the COVID-19 pandemic, but overall sales declined owing to the drop in demand from people staying at home and to weaker inbound tourism demand as the number of foreign nationals visiting Japan dropped.



Operating income increased 1.1 percent and the operating income margin increased to 17.2 percent. We managed to increase profitability by generating profits through activities to reduce cost of sales and efficiently invest in marketing and advertising.



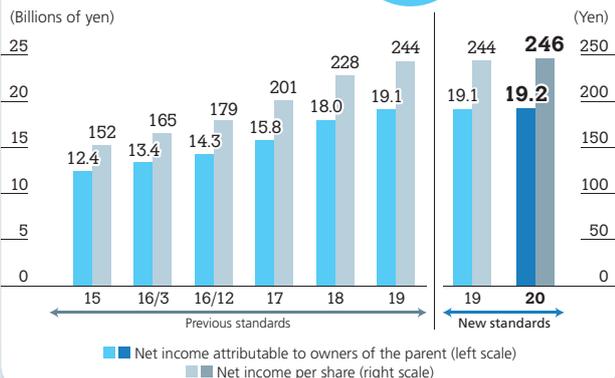
The International Business is a growth driver of emphasis. Overseas sales declined 12.3%. While demand increased mainly for hygiene and disinfectant products, sales of body warmers were sluggish on the mild winter worldwide and weaker demand from people staying at home due to the COVID-19 pandemic.



Return on assets and return on equity are both holding steady following dividend increases and other measures aimed at improving capital efficiency, as well as efforts to strengthen profitability in various businesses. ROE exceeded the target in the medium-term management plan.

**Net income attributable to owners of the parent**

**¥19.2 billion** UP 0.3%

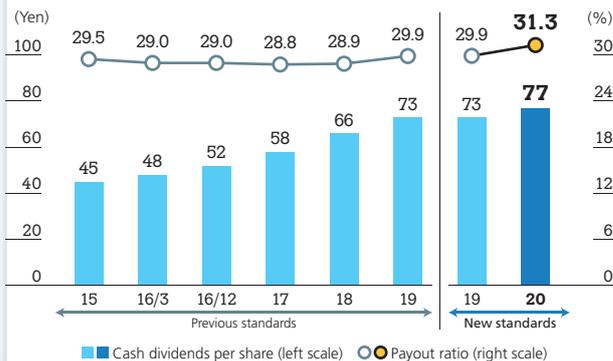


Net income (net income attributable to owners of the parent) increased for the 23rd consecutive fiscal period. In addition to an increase in operating income, gain in extraordinary income and a decrease in extraordinary loss contributed to the increase. Net income per share continued to rise.

Note: Including impact of stock split

**Cash dividends per share**

**¥77** UP 5.5%

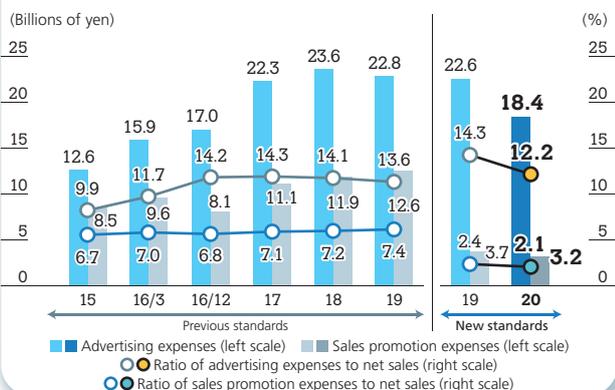


Our track record of paying stable dividends continued as we balanced a sound management structure with aggressive investment in growth. In 2020, cash dividends per share increased for the 22nd consecutive fiscal period.

Note: Including impact of stock split

**Advertising expenses**

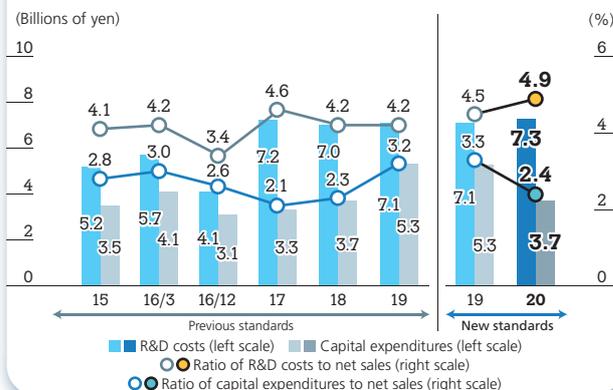
**¥18.4 billion** DOWN 18.6%



In deploying advertising expenses and sales promotion expenses we are conscious of effectiveness and efficiency. Since we have many niche products, it is important to raise our brand recognition and attract new customers, so we invest aggressively in advertising each year. In 2020, however, we cut back on advertising due to weaker sales.

**R&D costs**

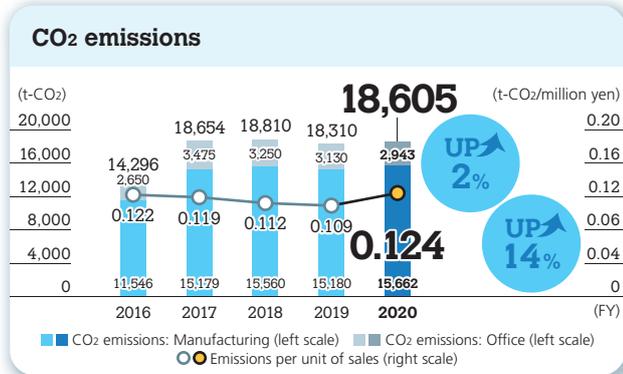
**¥7.3 billion** UP 3.2%



We maintain R&D costs at a stable level each year in order to develop new products that customers wish for. In 2020, we increased R&D spending 3.2 percent, despite the decline in net sales.

# Non-financial highlights

## Environment: Protecting our rich natural environment

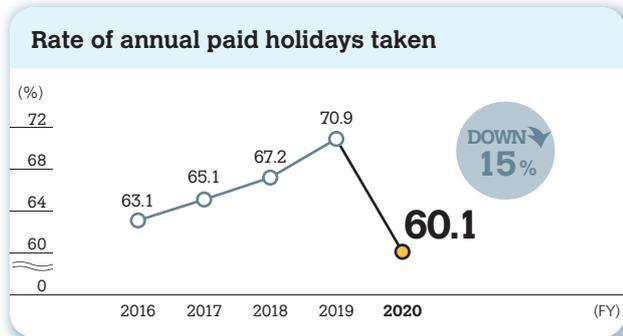


Energy-saving measures in our offices helped to reduce CO<sub>2</sub> emissions, while in manufacturing we upgraded air conditioning equipment and improved their operation and enhanced insulation of heating and cooling systems. However, emissions per unit of sales worsened due to lower utilization rates caused by the COVID-19 pandemic.

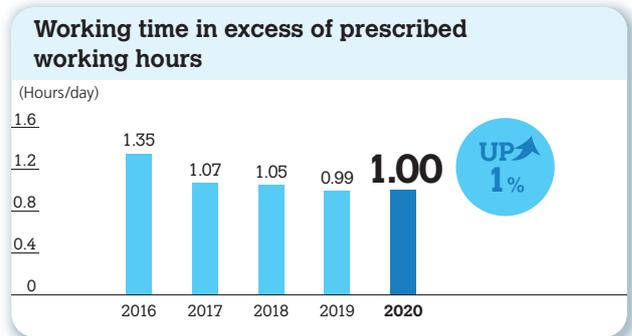


The volume of waste generated decreased 21 percent from the previous year. This was the result of reduced production of certain products due to the COVID-19 pandemic, despite an increase in consignment of recyclables with commercial value at some plants.

## Human resources: Implementing work-style reforms to maximize employee value and corporate value

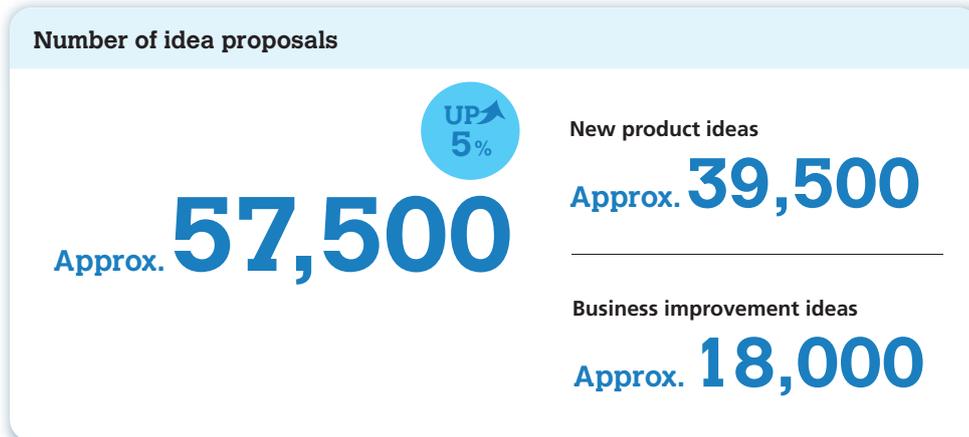


Efficient ways of working also benefit the private lives of employees as they create more free time, and provide better working lives. The rate of annual paid holidays taken declined because of decreased needs owing to the COVID-19 pandemic. We will continue to encourage employees to take leave as it boosts morale and job satisfaction, which in turn increases our competitiveness.



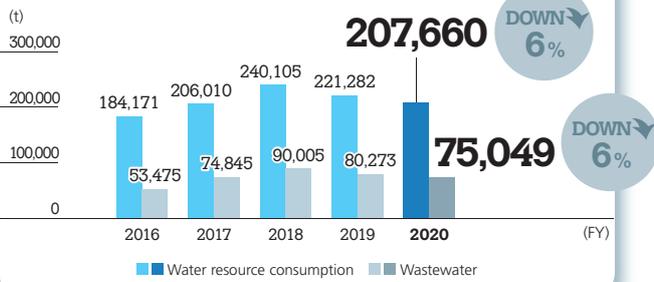
The mindset and practice of working as long as it takes to get results is no longer acceptable, and we are shifting to management that pursues results and added value in line with roles and working hours. More efficient use of working time equates to higher labor productivity.

## Product development KPIs: Generating products that customers wish for



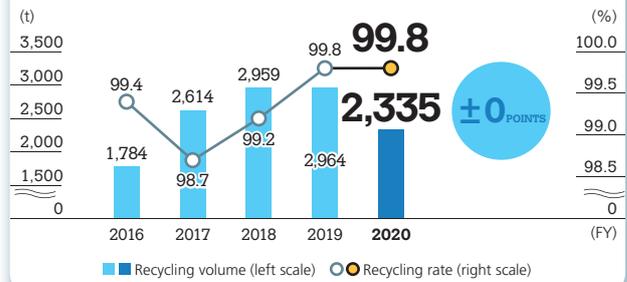
Our idea proposal system, which has been in place since 1982, is a concrete measure for “management in which all employees participate.” Ideas for new products and business improvements are proposed every day, with all employees participating regardless of job category or seniority. Many of the new product ideas originating from this program have grown into major hit products.

**Water resource consumption / Wastewater**



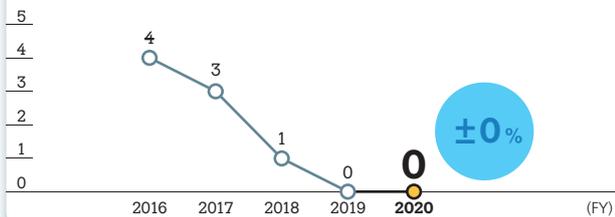
As a result of reuse of drainage water as industrial water, and improvements in pipe leakage and drainage at some plants, we reduced both water resource consumption and wastewater.

**Recycling volume / Recycling rate**



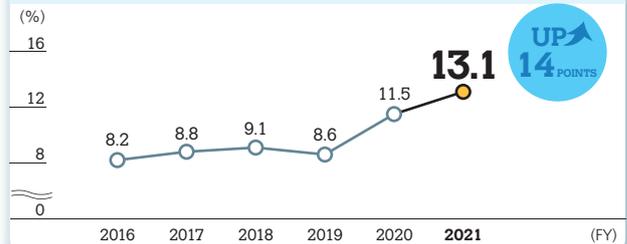
The recycling rate was 99.8 percent. We will continue our shift from thermal recycling to material recycling.

**Number of employees leaving due to child care or family care**



Kobayashi Pharmaceutical is improving its flexible work programs to make them easier for everyone to use, not only by further enhancing support measures for balancing work with child care and family care, but by expanding the range of employees who can use them. As a result, the number of employees leaving for these reasons is declining.

**Percentage of management positions held by women**



We have set a goal of raising the percentage of management positions held by women to 16 percent or higher in 2022 as one measure for the empowerment of women. As of January 31, 2021, the percentage stood at 13.1 percent, indicating we are making steady progress toward this goal.

Note: Percentage as of January 31 of each fiscal year.

**Number of brands**

Approx. **158** brands  
**1005** SKUs<sup>1</sup>

1. SKU: Stock keeping unit

Through our “big fish in a small pond” strategy and product development that delivers what customers wish for, we launch about 30 new products annually, and create markets that did not exist before. Completely new products are less susceptible to price competition, so we are able to secure high operating income margins.

**Contribution rate of new products**



In recent years, we have been assessing market potential from the early stages of product development. Without loosening new product launch criteria, we aim to bring more products to market and to maintain the four-year sales contribution rate of new products<sup>1</sup> at 20 percent.

1. Four-year contribution rate of new products: Sales contribution rate of new products launched within the previous four years

## The President explains our strategy

# Flexibly addressing changes in the business deliver unique niche products to the world

## Medium-Term Management Plan for 2020-2022

Central theme

**International business first**

Outline of strategies

1. Fully commit to developing the international business
2. Further expand existing businesses
3. Enhance management capabilities from the viewpoint of ESG
4. Establish a foundation for creating innovation and new businesses

Performance targets

	FY2020 results	FY2022 target (Initial)	FY2022 target (revised)	Average annual growth rate to 2022	Average annual growth rate (Initial)
Net sales	¥150.5 billion	¥180.0 billion or more	¥162.0 billion or more	3.7% or more	4.4% or more
Operating income	¥25.9 billion	¥29.0 billion or more	¥27.0 billion or more	2.0% or more	4.4% or more
Operating income margin	17.2%	16% or more	Not revised	—	—
Net income	23rd consecutive period of growth	25th consecutive period of growth	Not revised	—	—
ROE	10.8%	11% or more	10% or more	—	—
ROIC	10.1%	10% or more	9% or more	—	—
Domestic sales	¥119.3 billion	¥135.4 billion or more	¥122.3 billion or more	1% or more	3% or more
International sales	¥21.4 billion	¥33.0 billion or more	¥29.5 billion or more	17% or more	10% or more
International sales ratio	14.3%	18% or more	Not revised	—	—
Direct marketing sales	¥9.0 billion	¥10.4 billion or more	¥9.6 billion or more	2% or more	2% or more

Progress of main KPIs

Item	FY2019 results	FY2020		FY2022 target
		Results	Progress	
Four-year contribution rate of new products	16.3%	12.1%	●	20% or more (in Japan)
Cultivating new products released in Japan and in China	—	1 product	●	5 products in 3 years
Establishment of new products	—	4 products	●	2 products every 6 months (in Japan)
Number of CSV brands; CSV brand share of total sales	—	1 brand	●	1 or more in each category; 10.0%
Employees' job satisfaction	Kobayashi Pharmaceutical: 71%	Kobayashi Pharmaceutical: 72% Group in Japan: 68%	●	Group in Japan: 85% or more
Reduction of CO <sub>2</sub> emissions	—	Scope 3 Preparing target	●	Scope 1, 2: Progress towards 2030 target Scope 3: Setting of target
Reduction of environmental load in product development	—	Product development from 2021 Introduce ecological standards	●	Plastic: Switching to highly sustainable materials Paper: Maintaining 100% use of FSC-certified paper
Women's participation (percentage of management positions held by women)	8.6%	11.5%	●	16%
Percentage of employees who report feeling growth through their jobs (employee attitude survey)	Kobayashi Pharmaceutical: 69%	Kobayashi Pharmaceutical: 75% Group in Japan: 70%	●	Group in Japan: 75%
Percentage of employees getting regular medical checkups; getting follow-up examinations	100%; 73%	100%; 64%	●	100%; 80%
Percentage of employees who report feeling able to work in mentally and physically good condition (employee attitude survey)	Kobayashi Pharmaceutical: 61%	Kobayashi Pharmaceutical: 67% Group in Japan: 61%	●	Group in Japan: 75%

● Sufficiently achieved ● Partially achieved ● Insufficiently achieved

# environment to



## Akihiro Kobayashi

Representative Director,  
President and Chief Operating Officer

The fiscal year ended December 31, 2020 marked the first year of the current medium-term management plan. During this year, the COVID-19 pandemic greatly transformed the business environment, and as a result, we made downward revisions to the medium-term management plan.

Negative factors attributed to COVID-19 include the elimination of inbound tourism, restrictions on going out, and a worsening economic situation; in addition to fewer

people catching colds and influenza.

Conversely, positive factors included new issues brought about by changes in lifestyles resulting in growing healthcare and preventive needs. We view these as business opportunities for us.

Going forward, we will continue working toward growth with real strength by establishing new products in the market and cultivating existing ones.

# The President explains our strategy

## Q1-1 You decided to review the new medium-term management plan announced in 2020. Why and what role did COVID-19 play?

The focal point of our growth strategy in the new medium-term management plan was to sharply increase sales of Japanese products in China. This strategy involved selling products popular with tourists visiting Japan first in the China market mainly using the e-commerce channel. We were forced to change this strategy because Japan had to close its doors to Chinese and other foreign tourists due to COVID-19.

Fortunately, under our slogan *international business first*, we developed products after confirming whether raw materials can be used in China, too, and whether these products can be used in China's living environment, so that we can release new products simultaneously in Japan and

China. We conducted test sales of these simultaneously released products via the e-commerce channel in China. For those products that will likely sell well, we will increase advertising investment to grow their market share further. The first product released under this strategy was *Bluelet Decoral Peach*. Going forward, we plan to increase these types of products.



## Q1-2 What are your strategies for e-commerce and brick-and-mortar stores in China?

In China, the greatest selling power on e-commerce comes from a format called live commerce, where KOL\* discuss, recommend and sell products online. First, we will engage KOL and ask them to showcase our products. For those that sell extremely well, we will boost advertising spending to expand sales.

Shipments of these top sellers will be gradually increased from Shanghai with the hope of expanding sales

in brick-and-mortar stores. Currently, *Netsusama Sheet* is shipped to around 80,000 stores, so we will utilize this same sales channel. The focus will be on household products that can sell quickly. We also plan to expand pharmaceuticals through Jiangsu Kobayashi Pharmaceutical Co., Ltd., which we acquired three years ago.

\* KOL stands for Key Opinion Leader; an influencer with specialist knowledge who can be used to promote, market and sell products.

### Restructuring of marketing activities in China



## Q<sub>2</sub> What issues and challenges were brought to light from the COVID-19 pandemic?

Due to COVID-19, our activities have been extremely restricted, with most development processes having to be carried out online. Initially, we were concerned about holding meetings for generating new product ideas online. Despite a few bugs, however, employees responded quickly and flexibly, and today we continue to develop new products without major delays.

We also found it easier to schedule and hold meetings

with employees working remotely. We hope to use online work in various situations going forward, including for direct engagement with consumers.

The COVID-19 pandemic has greatly transformed our lives. We face a number of new issues. We will commercialize ideas quickly to address these issues in a new normal, which include challenges posed by working from home and having to wear a mask at all times.

### Products with increased demand because of COVID-19

Issue  
1

Disinfection  
and hygiene



Issue  
2

Eye, nose, throat,  
and airway care



Issue  
3

Bowel issues  
due to lack of  
exercise



Issue  
4

Acne and dry skin  
due to  
mask wearing



### Products experiencing higher demand due to COVID-19 (FY2020)

Item	Rate of increase in net sales (year on year*)
Liquid Bluelet Disinfection	+23%
Eau de Muge	+23%
Clear Wipe Lens Cleaner	+47%
Nodonoool Spray	+27%
Nodonoool Wet Mask	+40%
Eyebon	+11%
Hananoa	+47%
Dusmock	+29%
Kantan Senjomaru	+18%
Toilet Bowl Disinfectant Cleaner	+52%

\* Domestic demand excluding impacts from in-bound tourism demand  
Note: Products appear in descending order of their net increase in sales.

Note: None of these products have been proven to be effective against COVID-19.

# The President explains our strategy

## Q3-1 As for the E (Environmental) in ESG, Kobayashi Pharmaceutical uses plastics in many of its products. What are you doing in this regard?

Many of Kobayashi Pharmaceutical's products use plastic containers. For this reason, plastic is considered a very high priority for management. For example, we have various measures in place, including promoting the use of refillable products, thin-walled container designs, recycled plastics and bio materials. Certain challenges have also presented themselves, such as higher costs and technological difficulties.

Among our products, *Shoshugen* uses the largest number of plastics. For this reason, we prioritized this product and came up with solutions, which we are now rolling out to other products. [For details, see page 38](#)



Use of recycled plastic in outer caps: **30%**

Use of recycled plastic in bottles: **100%**

Eco-friendly container used for the *Shoshugen* series

## Q3-2 As for the S (Social) in ESG, what are some of the diversity initiatives you are undertaking?

Starting 39 years ago, we introduced the idea proposal system where Kobayashi Pharmaceutical asks all employees for ideas on new products and how to improve operations. We have been able to grow as a company by gathering diverse opinions from diverse vantage points and utilizing these ideas in management. In other words, diversity has been a foundation for Kobayashi Pharmaceutical's growth. The key is not just to build a diverse workforce, but also to ensure that this diverse workforce understands and embraces diverse thinking. As a result, we can promote greater innovation and better decision-making, which in turn will help to increase corporate value.

I believe it is important to lay the groundwork for value creation based on diverse views at our offices around the world.

Therefore, today we have begun to hold idea meetings led by local employees around the world. Gradually, these meetings have begun to produce viable ideas. In North America, particularly, we have marketing and development teams at the pharmaceuticals company we acquired, so we expect good ideas to emerge quickly.



Idea meeting at an overseas subsidiary

## Q3-3 What about your initiatives for empowering women?

The percentage of management positions held by women stood at 13.1% as of January 2021 at Kobayashi Pharmaceutical (non-consolidated basis). Women account for 26.6% of our total workforce, so we recognize that this percentage must be raised to between 26% and 30% as soon as practical. Currently, we still face such issues as (1) gaps in women's professional experience compared to men due to maternity and childcare leave and (2) a lower percentage of women seeking to become managers compared to men.

In response, we have established the following three tasks: (1) provide quality experiences systematically to bridge the experience gap, (2) implement measures to encourage women to embrace their careers, and (3) further improve our comfortable workplace environment. We are focusing on rotations to provide good experience and roundtable talks to guide career direction.

We will make progress with initiatives for empowering women in the workplace by first clarifying issues and then generating ideas for solutions.

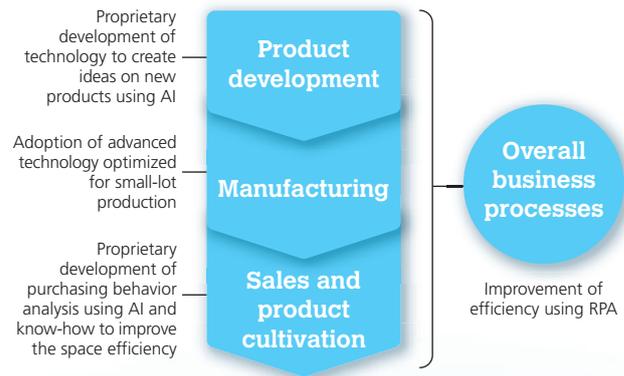
Q<sub>4</sub>

## Digital transformation (DX) has become a buzzword recently. What is Kobayashi Pharmaceutical doing to address this?

Our goal is to achieve DX\* that builds on the competitive advantages of the Kobayashi Pharmaceutical Group rather than pursue the same DX as other companies. Kobayashi Pharmaceutical's business model is to produce unique products that consumers desire and grow these into top sellers. Specifically, we are working to develop technologies for creating ideas for new products and AI technologies for growing sales of new products in store to make unique niche products a reality. In addition, we are working to select and adopt existing smart technology suited for small lot production of niche products. [For details, see page 29](#)

\* DX stands for digital transformation. This involves a company responding to intense changes in the business environment by utilizing data and digital technology to transform its products, services and business model based on the needs of customers and society and by establishing a competitive advantage by transforming operations, organizations, processes, and corporate culture. From the definition of DX used by the DX Promotion Indices of Japan's Ministry of Economy, Trade and Industry.

**We will preferentially invest in core parts of our value chain to promote digitalization by using AI and IoT.**

Q<sub>5</sub>

## You formulated the medium-term management plan by backcasting from your vision for 2030. What is your vision for 2030?

Kobayashi Pharmaceutical is known in Japan as a company that produces unique niche products that customers wish for. By 2030, we hope to begin establishing a similar reputation for creating unique niche products in other countries around the world.

Toward this end, we plan to launch one new unique product in each country every year. Numerically speaking, we will step up new product development and growth aiming to achieve consolidated net sales of ¥280 billion, of which ¥90 billion will originate from markets outside of Japan.

### Akihiro Kobayashi

Representative Director,  
President and Chief Operating Officer



## The CFO explains our financial strategy

In addition to maintaining profit and dividend increases and steadily improving EPS, we will work to achieve continued growth in ROE while “striving to be an exemplary company” for the benefit of shareholders.

### Review of FY2020

**Despite COVID-19, we managed to increase net income for the 23rd consecutive period and hike our dividend for the 22nd consecutive period.**

The business environment surrounding the Kobayashi Pharmaceutical Group in 2020 proved to be challenging. The COVID-19 pandemic caused a slowdown in economic activities worldwide while in Japan consumption continued to stagnate as people stayed at home and in-bound tourism fell dramatically.

Nevertheless, we managed to increase net income for the 23rd consecutive period and hike our dividend for the 22nd consecutive period. This was because of rising demand for disinfectant and hygiene products and sales from newly launched products, which propped up sales, along with our review of costs including advertising. We remain committed to delivering returns to shareholders by continuing to increase profit and dividends and steadily improving EPS.



### Satoshi Yamane

Senior Executive Director and  
Chief Financial Officer

## Investment strategy

### In addition to capital efficiency and profitability, we also take ESG impacts into account.

Investments to accelerate sustainable growth are vital. The sustainable growth of a company is only possible after strengthening both its financial and non-financial performance. Strengthening non-financial performance essentially means strengthening Environmental, Social, and Governance (ESG). When we make investments, we first examine capital efficiency and profitability, and then take ESG impacts into account. Below, I will explain our approach to the most important investment categories: M&A, capital expenditures, advertising, human resources, and digital transformation (DX).

#### M&A

Mergers and acquisitions (M&A) are major growth drivers for Kobayashi Pharmaceutical. When we consider an M&A opportunity, we base our decision on potential synergies with our marketing, development, technology, and sales capabilities, and on whether it will enable us to enter a new business area, such as research or technological fields, for example. If we acquire a company or business with low profitability, it will lower the Group's overall profitability, so it is important to be conscious of the cost of capital as we proceed. When pursuing M&A, we look for acquisitions that clear a certain hurdle rate. However, we make decisions based on a comprehensive approach that takes into account quantitative evaluation, including forecasts of the payback period and cumulative profit/loss, and qualitative evaluation, including relationship to and synergies with our strategy and core business. Some investments have wide-reaching and long-term synergistic effects—our acquisitions of Kiribai Chemical Co., Ltd. and Heat Max, Inc. represent two examples—so we should carefully examine the potential contribution to our corporate value from a long-term perspective.

In 2020, we acquired Alva-Amco Pharmacal Companies, Inc. (Alva) of the United States to expand our footprint in branded over-the-counter (OTC) consumer health products in North America. We spent \$110 million to acquire Alva, making it one of the largest acquisitions in our history. We are now carefully working on the post merger integration (PMI) to ensure the acquisition generates the intended synergistic effects. We plan to accelerate our growth further by pursuing similar M&A transactions in the future.

#### Capital expenditures

Due to COVID-19, we decided to temporarily freeze our ¥40 billion in capital expenditures at our main four factories (in Sendai, Toyama and Ehime in Japan and Hefei in China)

intended to accommodate growth in our Domestic Business and International Business. We will restart this spending after reassessing the impacts on profit and loss and our balance sheet and based on sufficient discussions by the Board of Directors.

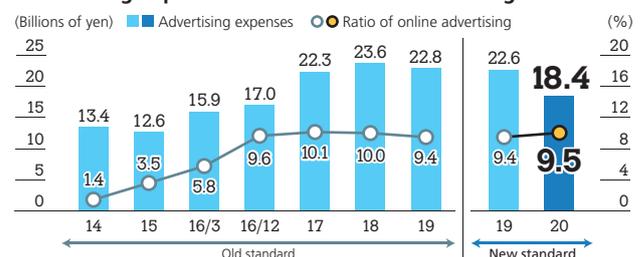
These investments have five main objectives:

- 1) Meet global demand, primarily for OTC pharmaceuticals
- 2) Conform to global standards (PIC/S) for manufacturing OTC pharmaceuticals
- 3) Reduce costs
- 4) Reduce environmental impact
- 5) Reduce labor needs (robotize factories) to prepare for future labor shortages

#### Advertising

We have approximately 150 brands. Excluding long-established ones, many of our products are new market-creating niche products, which may not see particularly large sales individually. For these new market-creating niche products, it is essential that consumers discover what they are and what they do, especially following their launch. Right now, we believe that advertising investment is the best way to boost product recognition—it is vital in implementing our niche strategy and business model. However, our advertising investment is not adjusted up or down indiscriminately based only on growth in sales and profit. Rather, the president meticulously controls the amount of investment while looking at sales trends and the response to advertising for each brand and media format, and the effect on the bottom line. In 2020, we reduced advertising investment due to COVID-19, but in 2021 we are aggressively increasing advertising as part of strategic investments. Currently, the majority of our advertising investment is in television commercials. This is because television commercials are the most efficient way to increase the visibility of our products. As seen with the growth of e-commerce during the pandemic, however, we recognize that this will change in the future. For this reason, we have launched various forms of online advertising, which we are preparing to expand.

#### Advertising expenses / ratio of online advertising



# The CFO explains our financial strategy

## Human resources

A company is defined by its people. To increase corporate value, we need to refine our unique market-creating business model and develop the human resources to implement it. As part of our investment in human resource development, we will enhance frameworks that make Kobayashi Pharmaceutical a fulfilling place to work where employees take pleasure in creating new value and where results are appropriately recognized. As a development-focused company, robust investment in human resources is particularly important.

### Human resource development flow



## DX

DX involves a variety of initiatives, such as streamlining operations of administrative departments, boosting production efficiency of manufacturing departments, and innovating the way sales departments market products. The most important area for digital transformation at Kobayashi Pharmaceutical is product development. This is because we need to identify new emerging needs from changes in customer lifestyles and mindsets quicker than anyone else. Therefore, it is important to better understand consumer needs using AI and big data. Investment in such digital technology is vital to our business.

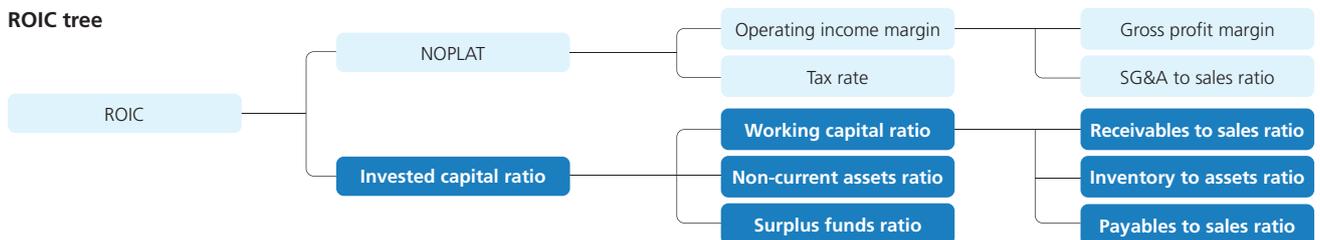
## Measures to improve capital efficiency

### We have created ROIC trees, and conduct management focused on profitability and capital efficiency.

We began practicing ROIC management in FY2019 to evaluate capital efficiency not only when we execute investments and subsequent evaluations but also in day-to-day business operations. We created ROIC trees for each business to manage them with a focus on capital

efficiency and profitability. ROIC trees are also used in making decisions on whether to withdraw from businesses. If ROIC is low, we analyze the cause and consider and implement improvement measures.

### ROIC tree



## Policy for retained earnings

### We will maintain ample retained earnings to conduct flexible management.

We manage our business with a long-term perspective to enable sustainable growth. On that basis, we need to maintain ample retained earnings to conduct flexible management regardless of the business environment. The importance of this has grown even more during the COVID-19 pandemic. In securing retained earnings, we take the following points into account:

- 1) Maintaining the ability to flexibly and proactively make necessary investments for growth, such as new product development and M&A;
- 2) Earning the trust of partners, employees and other stakeholders by ensuring a sound financial position; and
- 3) Securing the necessary funds to overcome recessions or emergency situations and ensure we do not miss opportunities to increase corporate value.

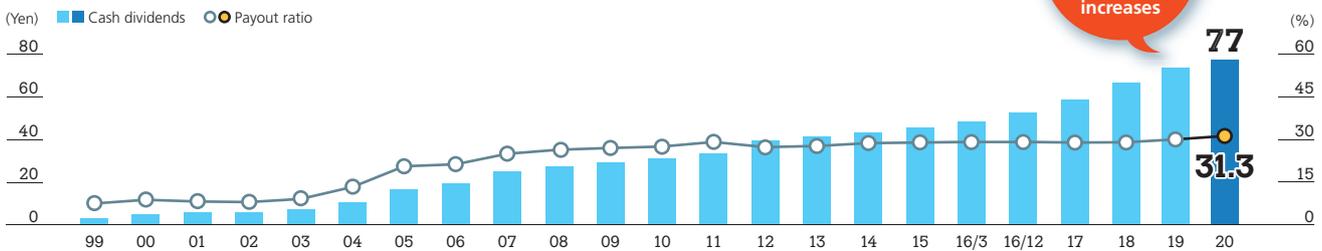
Shareholder return policy

We will continue to focus on measures to provide solid shareholder returns, including dividend increases and share repurchases.

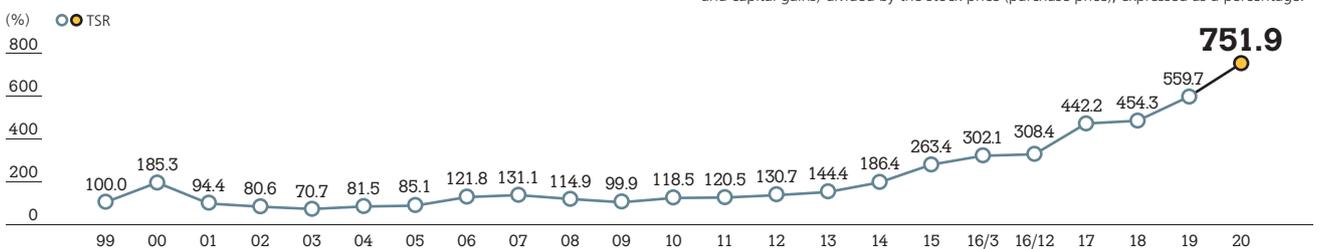
Our basic policy for shareholder returns is to increase dividends while making necessary investments for growth, and to continually increase earnings per share by increasing profit and making share repurchases as necessary. In FY2020, we increased our dividend by ¥4 per share from FY2019, marking the 22nd consecutive period of dividend increases. We will continue to focus on measures to provide solid

shareholder returns. In addition, our target for ROE in the FY2022, the final year of the medium-term management plan, is 10% or higher. Going forward, we will first aim to quickly achieve ROE of 13% or higher by investing in our sustainable growth and achieving returns in excess of capital costs.

Dividends



Total return shareholder return\* since IPO



\* Total shareholder return: Returns to shareholders from stock investment (mainly dividends and capital gains) divided by the stock price (purchase price), expressed as a percentage.

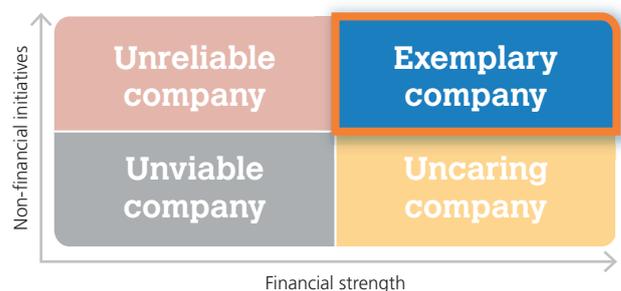
In conclusion

“Striving to be an exemplary company,” we will create exciting businesses and products.

I advocate “striving to be an exemplary company” as the basis for our management strategy. This means becoming a business group that is recognized for the excellence of its non-financial strengths—corporate culture, management philosophy, and policies—in addition to its financial strengths. We have been focusing particular attention on non-financial, or ESG, initiatives in recent years, which form one aspect of the strategic framework of our medium-term management plan. However, being an exemplary company is only possible through sustainability backed by solid financial performance. As a manufacturer, we believe it is the most important to strengthen our ability to create businesses and products that excite people. We will steadily execute measures that

will make us an exemplary company that is valued and supported by its stakeholders, and that will continue to deliver benefits to stakeholders.

Four kinds of companies



Business line

## Domestic Business

- 158 brands in four categories: healthcare, household products, skincare, and body warmers
- Core business accounting for nearly 80 percent of total sales and a major portion of profit

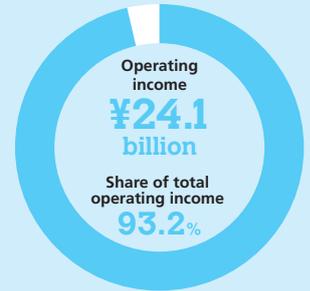
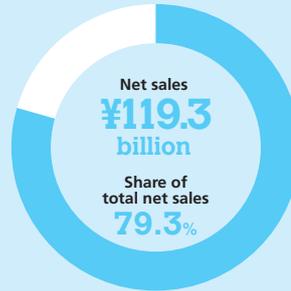
New brands  
**158**

Creating  
**30**  
unique new products each year



New Ammeltz Yoko Yoko    Liquid Bluelet Okudake    Netsusama Sheet

## Overview of FY2020



- Released nine new products in spring and 14 in autumn
- Disinfectant and hygiene products saw strong sales owing to the impacts of the COVID-19 pandemic
- Pursued new product development tailored to a new normal, releasing nine products as a result
- In-bound tourism demand declined substantially following the drop in foreign visitors to Japan
- Partial decline in sales of oral care and other products due to people staying at home and the reduced number of drinking parties
- Profits increased on efforts to lower overhead centered on advertising expenses

## International Business

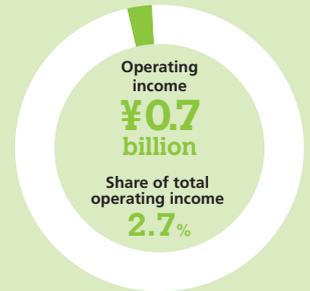
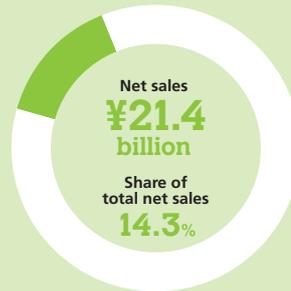
- Sales of body warmers, cooling gel sheets, topical analgesics, and other products in our three main markets of the U.S., China, and Southeast Asia
- Actively rolling out products popular among foreign visitors to Japan in China

Available in  
**15**  
countries/  
regions

**84%**  
name recognition  
in the Greater  
China area



Body warmers    Cooling gel sheets    Topical analgesics



- Proactive investment in advertising and sales promotions, etc.
- Rising worldwide demand for disinfectant and hygiene products, including *Netsusama Sheet* and lens cleaners, etc. due to COVID-19
- Net sales slumped in most countries due to lockdowns and people staying at home
- Downturn in sales of body warmers in the United States, China, and United Kingdom due to the mild winter worldwide

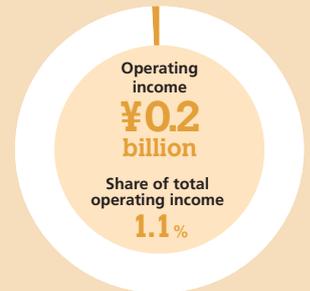
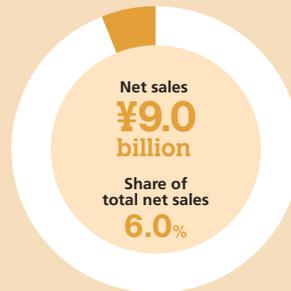
## Direct Marketing Business

- Marketing skincare products and nutritional supplements through our own website and over the phone
- Marketing high priced products unique to direct marketing otherwise not carried in stores

Delivering  
unique products  
via direct  
marketing



Nutritional Supplements    Skincare



- Tapping into new customers and promoting purchases by existing customers using sales promotions centered on advertising and direct mail
- Skincare sales slumped due to people staying at home
- Facing challenging situation because of inability to release new hit products unique to Kobayashi Pharmaceutical

## Understanding of business environment

## Strategy

### Strengths

- Ability to develop unique products and deliver what customers wish for
- Ability to stimulate new demand through the creation of new markets in areas with little competition
- Ability to develop products in a short time frame based on rapid development and use of outsourced production

### Weaknesses

- Marketing investment dispersed among a large number of brands
- Erosion in market share of our products due to emergence of private label brands

### Opportunities

- Growing healthcare needs due to aging population
- Changes in lifestyle patterns caused by COVID-19 and new needs emerging from these changes
- Increasing awareness of self-medication

### Threats

- Weaker in-bound tourism demand and economic stagnation caused by COVID-19
- Contraction in demand for our products due to the emergence of technological innovation and alternatives
- Unfavorable conditions for business discussions due to decrease in the number of drugstores and industry consolidation

- Increase contribution rate of new products
- Boost utilization of online media
- Develop new products that address changes in lifestyles caused by COVID-19
- Establish test marketing methodology for new products using e-commerce
- Increase sales capabilities in the body warmer category through business integration with Kiribai Chemical Co., Ltd.

### Strengths

- Number-one share in the U.S. body warmer market
- Number-one share in the cooling gel sheet market in each country
- High name recognition of Kobayashi Pharmaceutical in China

### Weaknesses

- Changing situation due to pandemics such as COVID-19
- High percentage of products susceptible to seasonality, such as warm winters and cold and flu season, etc.

### Opportunities

- Room for sales growth from lifestyle differences
- Burgeoning middle class and economic expansion in China and Southeast Asia

### Threats

- The effects of exchange rate fluctuations
- Strong brand power in China also entails reputation risk\*
- Changes in regulations by national governments or economic conditions, etc.

- Establish effective marketing and sales promotion methods using e-commerce in China
- Develop new products in Japan also for release in China
- Develop new OTC products for China
- Develop new OTC products for North America
- Strengthen OTC business base in Asia
- Roll out *Bluelet* globally

\* Risk of damage from loss of trust or brand value due to negative reviews or publicity

### Strengths

- Product development capabilities and high quality cultivated in the development of OTC pharmaceuticals
- Differentiation from competitors due to direct marketing of OTC pharmaceuticals
- Thoughtful engagement with customers using direct contact points with end users

### Weaknesses

- Longer development timelines than competitors due to our emphasis on quality

### Opportunities

- Broadened scope of application of Foods with Function Claims
- Growing number of direct marketing users following COVID-19

### Threats

- In the event of personal information leaks, loss of trust could impact sales
- Rising delivery costs and call center personnel expenses

- Release new high-profile products uniquely Kobayashi Pharmaceutical
- Increase development of new Foods with Function Claims
- Use advertising and sales promotions to promote marketing approaches coordinated with stores



# Domestic Business

## FY2020 results

### Net sales

¥119.3 billion

YoY change  
**97%**



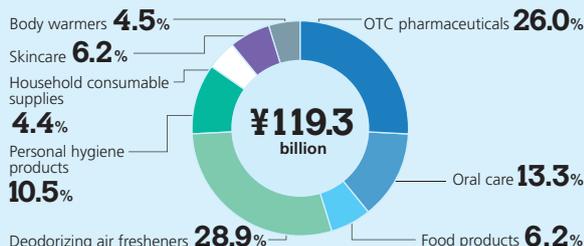
### Operating income

¥24.1 billion

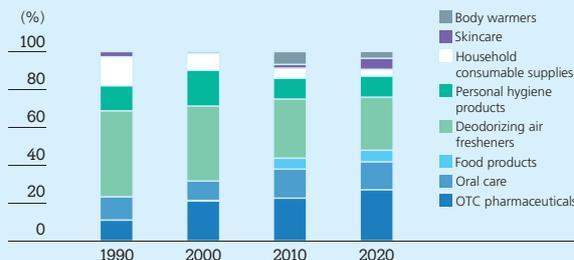
YoY change  
**106%**



### Net sales by category



### Net sales by category



### Utilization of non-financial capital

Multiple brands with top market share

All-hands-on-deck idea creation throughout the year

Around **57,500**

**9** manufacturing sites

**100** suppliers engaging in outsourced production for sales in Japan

## Business performance for FY2020

We released 23 new products in FY2020. Additionally, we released nine other products including mask-related, disinfectant and sanitizers to address issues caused by lifestyle changes during the COVID-19 pandemic. For existing products, there was a sharp uptick in demand for infection control, resulting in higher sales of disinfectant and hygiene products. At the same time, inbound tourism demand declined significantly due to travel restrictions, while fewer get-togethers caused a marked slump in sales of breath fresheners.

As a result, the Domestic Business recorded higher profits but weaker revenue as net sales were down 3.0 percent year

on year to ¥119.3 billion and operating income rose 6.0 percent to ¥24.1 billion. Excluding the impacts from inbound tourism, net sales were actually up 4.2 percent year on year to ¥117.7 billion driven by strong domestic demand.

### Products addressing issues caused by COVID-19



## Outlook and strategy for FY2021

### Restoring the contribution rate of new products with improved capabilities in development and cultivation

Market creation through new product development represents the key growth driver of the Domestic Business. As such, using the contribution rate of new products as the key performance indicator, we are aiming to achieve a four-year contribution rate\* of 20% or more. Toward this end, we are mainly focusing on the following two measures.

The first measure is to increase the percentage of new products becoming hits. From 2018, we tightened our launch criteria for new products and began assessing their market potential from the early stage of product development. We raised the hurdle in needs screening (i.e., market research), and only ideas that pass that hurdle advance to development. As a result, there has been an increase in the number of product themes for which release was postponed or re-reviewed because of the failure to clear this hurdle, which caused a temporary decrease in the number of new products. The contribution rate of the initial fiscal year and the four-year contribution rate declined for both 2019 and 2020, but the number of high quality product themes that are expected to be firmly established in the market has begun to steadily increase as the hurdle was cleared. Going forward, we will increase the number of new products by improving our ability to clear this launch criteria, while maintaining the current stringent hurdle.

The second measure is cultivation measures to firmly establish new products in the market in their second year and later since release. In cultivation, an important factor is the ability to prepare future plans through the successive generation of effective ideas. To that end, we are carrying out an initiative to generate ideas based on information gathered from stores.

In both 2019 and 2020, there were three new products each year that are expected to establish a foothold in the future. Looking ahead, we will pursue a target of establishing four new products in the market each year, and make further

efforts toward creating products beloved by customers over the long-term time horizon of five years or 10 years.

\* The rate at which new products launched within the previous four years contributed to overall net sales in Japan for each respective fiscal year.

#### New products that are expected to establish a foothold in the future (target: four products per year)



New product

**Yubicare**

(Released in October 2019)



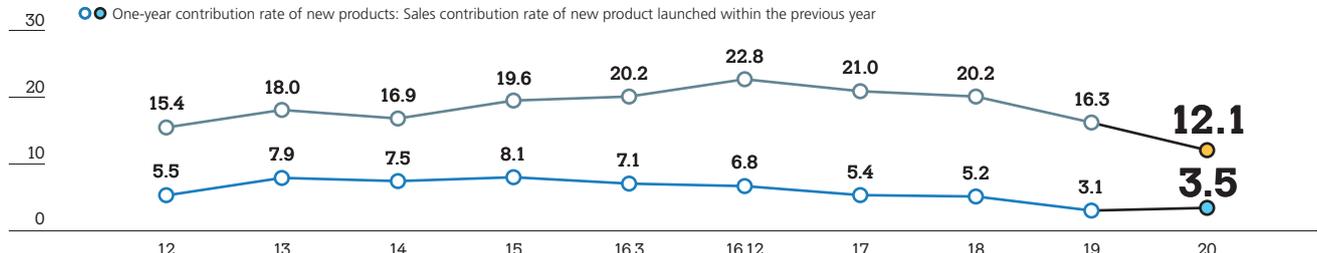
#### Kampo medicine for finger stiffness or pain

Finger joints have narrow peripheral blood vessels, making it susceptible to poor circulation, and when used frequently at home or work, fingers could feel stiff or painful. Typically, people with symptoms used a compress or warmed their fingers in the bath or by massage, which only relieved symptoms temporarily. As a result, many people simply gave up because there was no effective treatment.

This product uses active ingredients extracted from herbal medicine to not only promote blood flow, but also provide anti-inflammatory and pain relief action, making it possible to treat symptoms from the root cause, resulting in smooth finger movement. One customer who actually used the product provided the following feedback: "My finger stiffness made it nearly impossible to do chores around the house. This product is a lifesaver."

#### Contribution rate of new products

(%) ● Four-year contribution rate of new products: Sales contribution rate of new products launched within the previous four years  
● One-year contribution rate of new products: Sales contribution rate of new product launched within the previous year



## Development of new products tailored to changes in lifestyle

New lifestyle patterns have emerged from the COVID-19 pandemic, including mask wearing, frequent hand washing and use of hand sanitizers, and the avoidance of 3Cs (closed spaces, crowded places, and close-contact settings). This has also changed the way we live, leading to new issues for consumers.

Our mission, and where we excel, is being the first to identify niche issues and bringing relevant products to market. We consider these lifestyle changes to be a business opportunity for us, and from around spring 2020 when the COVID-19 pandemic began, we initiated market research on changes in consumer awareness and behavior related to COVID-19 around Japan. We conducted a number of COVID-19 related surveys on the issues and physiological changes caused by prolonged mask wearing, toilet cleaning challenges faced by elementary school teachers, and issues from increased time spent at home. Additionally, running parallel to this, we solicited ideas from employees, resulting in more than 10,000 ideas related to COVID-19 gathered by the end of 2020.

While ensuring a high level of safety and quality, we selected useful solutions gleaned from our own existing formulas or containers already on the market, in order to deliver new products to customers as quickly as possible, and by utilizing these, we were able to commercialize new products at an early stage.

As a result, we developed and released nine new products in 2020. In 2021, we plan to release two new products in spring and another seven in autumn.

### Development of COVID-19-related products - Examples of releases

#### Nodonool Mask Mureka Taisaku



New product

### MasCure Curerea series

(Released in April 2021)

#### Therapeutic remedy for skin problems such as itchiness, rash or eruption caused by prolonged mask wearing

The number of people wearing masks for an extended period of time every day to prevent COVID-19 is on the rise. Following this, there has also been an increase in people troubled by skin issues such as itchiness, rash, or eruptions caused by stuffiness or friction, particularly among people with sensitive skin and women who use makeup. Based on our market research, we found that at the time the only solution was to remove the mask occasionally or more thoroughly apply moisturizer than normal. As such, many consumers were faced with a great deal of dissatisfaction when wearing a mask.

To help resolve these issues, we developed a safe, non-steroid therapeutic remedy for mask-induced dryness used on the face that also stops inflammation, itchiness, and disinfects, as well as, promotes blood circulation.



Don't want to apply sticky cream

Skin becomes dry from prolonged mask wearing

#### Occurrence rate of mask wearing issues



Source: Survey by Kobayashi Pharmaceutical conducted in September 2020 (n=10,000; men and women in their 20s to 60s)

#### Main causes of mask-induced skin problems

- (1) Moisture fluctuations in the space between mask and skin
- (2) Friction caused by taking the mask on and off
- (3) Dehydration when removing the mask

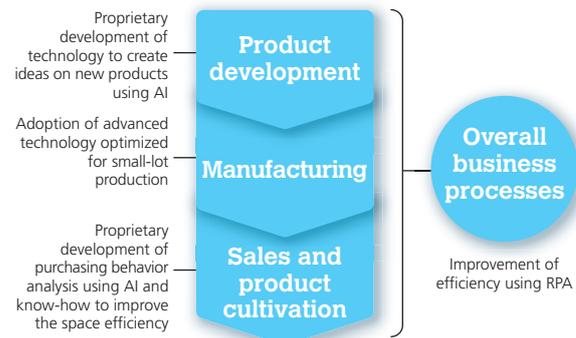
# TOPICS

## Implementing DX that support our “A Big Fish in a Small Pond” strategy

Digital transformation, or DX, is one of the key factors supporting our “A Big Fish in a Small Pond” strategy (see page 4). In addition to general digital technologies, we will prioritize investment in domains important to our business model as a niche manufacturer, including product development, manufacturing, and sales and product cultivation. This will result in DX solutions that are unique to Kobayashi Pharmaceutical.

For example, in product development, we will develop a proprietary mechanism for generating ideas for new products utilizing AI, and in sales, we will develop technologies for improving sales efficiency and analyzing purchasing behavior to better establish niche products in the marketplace. In manufacturing, we will develop proprietary smart technologies suited to small lot production. By utilizing all of these, we will accelerate the streamlining of our entire business process.

**We will preferentially invest in core parts of our value chain to promote digitalization by using AI and IoT.**



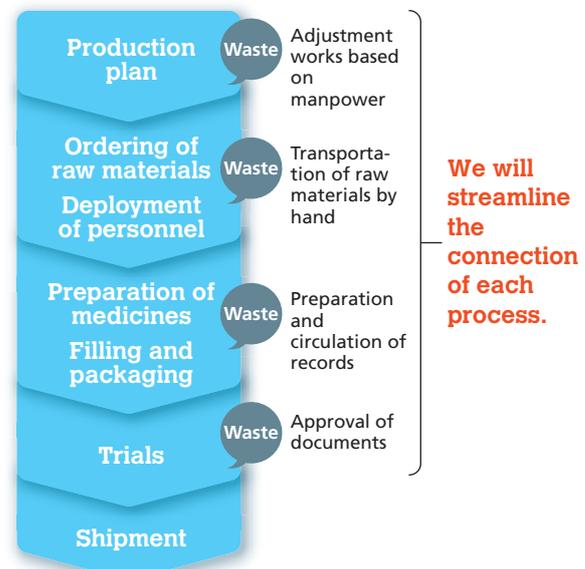
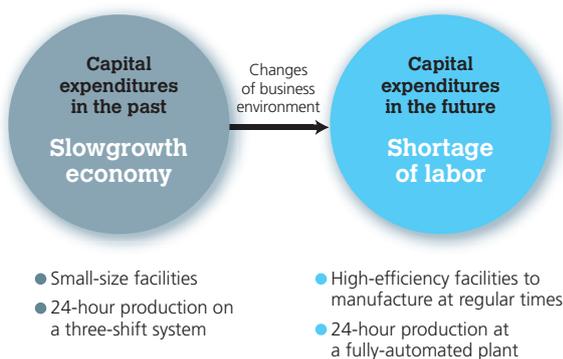
## Efforts to increase productivity through manufacturing line improvements

We are finding it difficult to maintain our conventional production system (small-size facilities and 24-hour production on three shifts) due to the declining working population and soaring personnel costs. To address these environmental changes, we need to shift to more efficient facilities and complete automation. Through the redevelopment of the production environment, our target is to double production per worker by 2030.

Since we produce limited quantities of many niche products, however, making large-scale investments in technology could have a major impact on the cost of sales

ratio. To contain this, we will seek to modify production lines with conservative investments by adeptly combining existing technologies and facilities, while reviewing current processes to methodically eliminate the many areas of waste that exist. For example, currently raw materials are transported manually by hand, which results in a large number of roundtrips between the storage warehouse and compounding room. By identifying these small areas of waste, standardizing manual work, and using systemization, we will work to control the cost of sales ratio and increase the efficiency of production.

**We aim to double production per worker on the production line (improvement of productivity by 200%) in 10 years by introducing labor-saving processes and automation at each plant.**





# International Business

## FY2020 results

### Net sales

**¥21.4 billion**

YoY change  
**88%**



### Operating income

**¥0.7 billion**

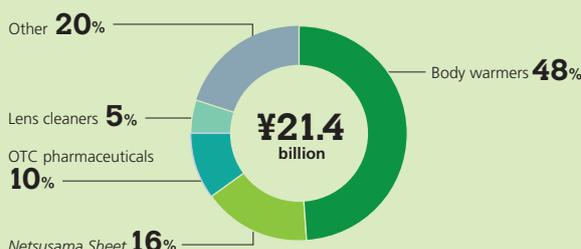
YoY change  
**41%**



### Net sales by region



### Net sales by category



### Utilization of non-financial capital

**Unique products yet to be released outside Japan**

**Idea creation led by local employees**

**Strong sales networks locally**

**Manufacturing sites:**  
**1** in US and  
**3** in China

## Business performance for FY2020

While demand for disinfectant and hygiene products, grew around the world as COVID-19 spread, sales slumped in many countries as a result of lockdowns and people staying at home. In China, the government imposed restrictions on the sale of fever reducing products in the first half of 2020, causing our mainstay product *Netsusama Sheet* to struggle. Sales also slumped in Hong Kong and Thailand, where inbound tourism demand diminished as with Japan.

Furthermore, body warmers saw weaker sales in the United States and other countries due to the mild winter worldwide.

In mainland China, we launched our first OTC

pharmaceutical (*Bifunight*, an acne medication) and implemented new initiatives, including sales promotion via live commerce. Additionally, we acquired Alva-Amco Pharmacal in the United States with the aim of strengthening our OTC business in North America.

As a result, net sales were down 12 percent year on year to ¥21.4 billion and operating income fell 59.4 percent to ¥700 million.

**New product (Mainland China) *Bifunight***



Outlook and strategy for FY2021

Expansion of mainstay brand rollout internationally

We are rolling out mainstay brands using our strength of creating new products and new markets.

We are creating markets that had not existed before in various countries with marketing strategies tailored to local needs. Specifically, we have widely marketed *Netsusama Sheet* in 14 regions, and lens cleaners in 11 regions around the world.

We also excel at capitalizing on synergies generated

from M&A. After acquiring Kiribai Chemical and Heat Max, we have focused on localizing our mainstay products in the body warmer category, not only expanding the sales area but also securing top market share in the United States, China, and other countries.

Going forward, we will actively roll out mainstay brands in global markets in order to meet the needs of customers worldwide.

Mainstay brands currently rolled out internationally

	U.S.	China (Mainland)	Hong Kong	Singapore	Malaysia	Thailand	Indonesia	Philippines	Taiwan	U.K.	Australia	U.A.E.	Vietnam	South Korea
<b>Netsusama Sheet</b>														
<b>Body warmers</b>														
<b>Ammeltz</b>														
<b>Lens cleaner</b>														

Regional strategies for 2021

		United States	China / Hong Kong	Southeast Asia
Risks	Long-term	<ul style="list-style-type: none"> <li>Decreased demand for body warmers due to a mild winter</li> </ul>	<ul style="list-style-type: none"> <li>Reputational risk due to high recognition rate and high business brand evaluation</li> <li>Possibility of government regulations</li> </ul>	<ul style="list-style-type: none"> <li>Changing economic environment</li> </ul>
	Short-term	<ul style="list-style-type: none"> <li>Increased number of people infected with COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>Reduced inbound tourists from China to Hong Kong</li> </ul>	<ul style="list-style-type: none"> <li>Lockdown in various places</li> <li>Reduced inbound tourists from China</li> </ul>
Opportunities		<ul style="list-style-type: none"> <li>Increased OTC demand</li> <li>Penetration of self-medication given the factors of insurance system, etc.</li> <li>Acquired Alva-Amco Pharmacal</li> <li>Large number of consumers yet to try body warmers</li> </ul>	<ul style="list-style-type: none"> <li>Enormous e-commerce market (ranked the top in global BtoC e-commerce market)</li> <li>High e-commerce growth rate</li> <li>Sense of trust in Japanese products</li> <li>Penetration of the Kobayashi Pharmaceutical brand</li> </ul>	<ul style="list-style-type: none"> <li>High GDP growth rate</li> <li>Population increase</li> <li>Immature market (opportunity for early participation)</li> <li>Sense of trust in Japanese products</li> </ul>
Focus Products		<ul style="list-style-type: none"> <li>Body warmers</li> <li>OTC pharmaceuticals</li> </ul>	<ul style="list-style-type: none"> <li>Japanese products (test-marketing and focus on prospective products)</li> <li>OTC pharmaceuticals</li> </ul>	<ul style="list-style-type: none"> <li><i>Netsusama Sheet</i> (method of use and enhance recognition rate)</li> <li>OTC pharmaceuticals</li> </ul>

## Increasing e-commerce presence and establishing business model in China

Inbound tourists from China to Japan have declined sharply due to travel restrictions following the COVID-19 pandemic. Until now, Chinese customers trying out samples in-store during a visit to Japan served as the starting point of their purchase. With such opportunities diminishing, impacts on sales have been seen even locally in China. Given this, we aim to revise our marketing strategy in China to assess demand for Japanese products through

local e-commerce as well as to enhance the marketing and promotion of Japanese products already rolled out in China to establish a new business model developed for China's domestic market.



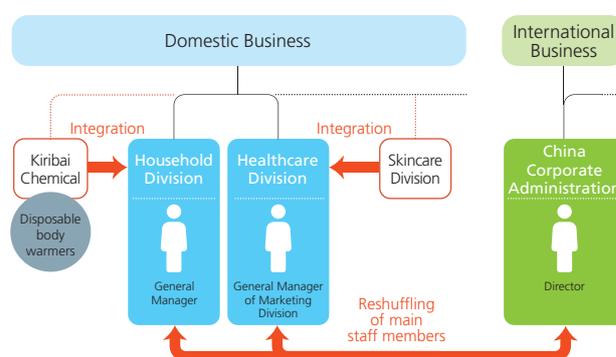
## Structural changes based on the *International Business First* strategy

We will make two major organizational structure changes to achieve the *International Business First* strategy announced in the medium-term management plan.

First, we will simplify businesses and begin a rotation of top management. We brought Kiribai Chemical into the Household Division in July 2020 and merged the Skincare Division with the Healthcare Division in January 2021. The simplification of domestic businesses results in a structure more capable of supporting international businesses. Furthermore, we will strengthen the collaborative relationship between the Household Division and Healthcare Division in Japan and China through rotation of their respective top management. We aim to improve advertising efficiency in China utilizing the know-how developed in Japan.

Second, we will reorganize the team to accelerate the global expansion of our mainstay product, *Bluelet*. We will transfer the *Bluelet* category team in Japan to the global

cleaning products category, not only to expand the *Bluelet* business in Japan, but also develop medium- to long-term strategy and penetrate the brand in Asia. This will be the first time that a business division in Japan is in charge of overseas sales. With this as a pilot project, if successful, then the same approach will be used in other categories.



## Expansion of North American OTC business through M&A with Alva-Amco Pharmacal Companies, Inc. (U.S.)

We acquired Alva-Amco Pharmacal Companies, Inc. of the United States on October 16, 2020, and made it a subsidiary. Alva markets OTC medications for athlete's foot, diuretics, anti-nausea, rosacea (facial redness), and oral anti-inflammatory analgesics to supermarkets and drugstores throughout the United States, and it maintains long-standing niche market products. We aim for a target of ¥9 billion in OTC sales by 2030 in North America by developing new products utilizing the Group's research and development capabilities and technical expertise

combined with the brand, marketing, and sales capabilities within North America obtained through this acquisition.

### Main products of Alva-Amco Pharmacal Companies





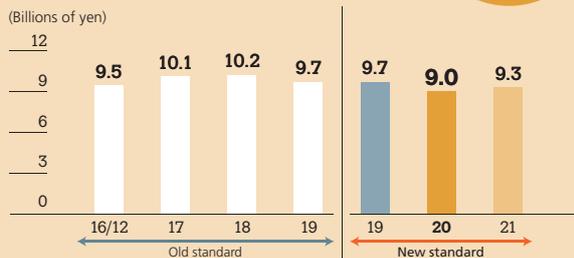
# Direct Marketing Business

## FY2020 results

### Net sales

¥9.0 billion

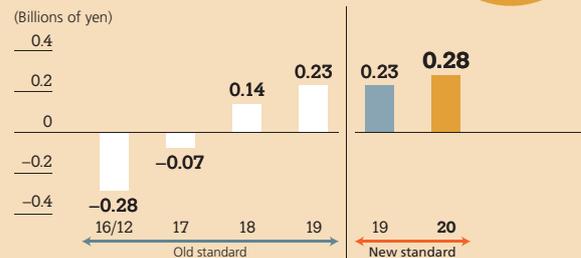
YoY  
change  
93%



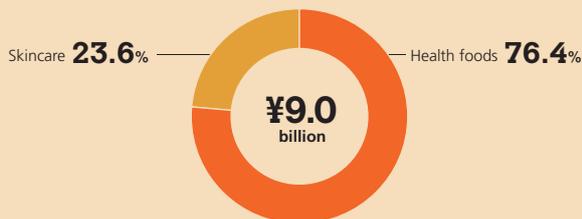
### Operating income

¥0.28 billion

YoY  
change  
120%



### Net sales by category



### Utilization of non-financial capital

#### Visibility of the Kobayashi Pharmaceutical brand

Peace of mind knowing products are made according to the same strict quality standards as OTC pharmaceuticals

Relationships with customers built using thoughtful communication

## Business performance for FY2020

We endeavored to tap into new customers and promote purchases by existing customers using sales promotion activities such as advertising and direct marketing, but sales of skincare products were sluggish as people stayed at home due to the

COVID-19 pandemic. In addition, we faced difficulties in releasing appealing new products that greatly contribute to net sales. As a result, net sales fell 7.2 percent year on year to ¥9 billion, but operating income rose 19.7 percent to ¥280 million.

## Outlook and strategy for FY2021

### Increase development and sales of Foods with Function Claims

Following the success of the sales model used for the supplement *Salacia 100*, we decided to coordinate marketing between direct marketing and stores for *Benikoji CholesteHelp* released in February 2021 to maximize sales. Such Foods with Function Claims are suited to a sales format linking direct marketing and stores because the product concept is easy to convey.

*Benikoji CholesteHelp* was born from the monascus purpureus business acquired from Gunze Limited in May

2016. This unique Food with Functional Claim can lower bad cholesterol with monascus purpureus ingredients extracted using special technology.

We will now work to increase visibility and boost sales using advertising and sales promotions in each channel focused on the characteristics and features of products.



## Our approach to ESG

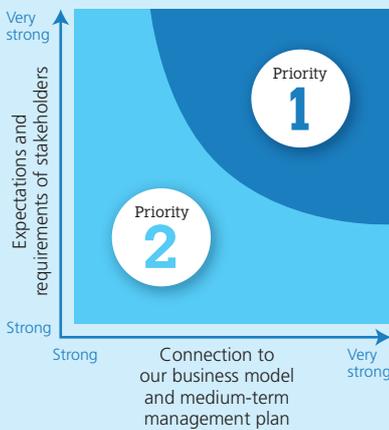
Over the past 50 years, Kobayashi Pharmaceutical has created new lifestyle ideas and new markets by delivering what customers wish for. The products created through this process have become indispensable for customers experiencing specific problems. Moving forward, we will seek out such problems and come up with solutions by looking at various social issues not just from a business standpoint but also from ESG perspectives, in order to support comfortable, convenient lives for all customers and their active participation in society. That is our mission, and is how we will contribute to the realization of a society that leaves no one behind.

### Establishment of a dedicated ESG department

To incorporate ESG into Kobayashi Pharmaceutical's management, the Sustainability Strategy Promotion Group was established in 2020 within the Management Planning Department of the Corporate Administration Headquarters. This dedicated unit will work to enhance internal ESG promotion and related activities.

## Identifying material issues

### Criteria for identifying and prioritizing material issues



### Material issues

Priority 1

E	<ul style="list-style-type: none"> <li>Reduction of CO<sub>2</sub> emissions and waste</li> <li>Resource management (raw materials and water)</li> <li>Environmental supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Development of eco-friendly products (CO<sub>2</sub> management at each product lifecycle stage and product development eco indicators)</li> </ul>
S	<ul style="list-style-type: none"> <li>Activities to create shared value</li> <li>Respect for human rights</li> <li>Evaluation of suppliers on corporate social responsibility criteria</li> </ul>	<ul style="list-style-type: none"> <li>Diversity, health, and growth of employees</li> <li>Fair advertising and labeling, and quality management</li> <li>Strengthening of relationship with customers</li> </ul>
G	<ul style="list-style-type: none"> <li>Highly transparent governance</li> </ul>	<ul style="list-style-type: none"> <li>Risk management</li> <li>Compliance</li> </ul>

Priority 2

E	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Environmental market opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Environmental and social impact on assets and business operations</li> </ul>
S	<ul style="list-style-type: none"> <li>Anti-corruption and fair competition</li> <li>IT security</li> </ul>	<ul style="list-style-type: none"> <li>Social contribution activities</li> <li>Intellectual property management</li> </ul>

## Operational process

STEP 1

### Identification of Issues

Identify issues that we should address based on our understanding of stakeholder expectations and requirements, referencing international guidelines on the social responsibility of organizations, including ISO 26000 and GRI guidelines.

STEP 2

### Prioritization

Prioritize the issues identified from the standpoints of "level of expectations and requirements of stakeholders" and "degree of connection to our business model and the medium-term management plan."

STEP 3

### Confirmation of Validity and Finalization

Confirm the validity of the issues by interviewing members of management and consulting with subsidiaries and departments, then finalize issues through approval by the Board of Directors.

STEP 4

### Review (PDCA Cycle)

Conduct reviews based on the progress of initiatives, changes in social conditions, and requests from stakeholders, and make course corrections as necessary.

## ESG activities at a glance

	Basic Policies	Themes	Main Activities	Relevant SDGs
<b>Environmental</b> P.36-39	<ul style="list-style-type: none"> <li>Enhance environmental management across the Group, including overseas</li> <li>Begin activities targeting product lifecycles and supply chains</li> <li>Conduct appropriate disclosure and training</li> </ul>	Reduction of CO <sub>2</sub> emissions	<ul style="list-style-type: none"> <li>Convert to renewable energy to achieve 2030 target (54.6% reduction in 2030 vs. FY2017)</li> <li>Set Scope 3 targets and make improvements with the goal of validation under the Science Based Targets initiative</li> <li>Construct new factory facilities with excellent environmental performance</li> <li>Respond to CDP climate change questionnaire (most recently received a "C" score)</li> </ul>	
		Management of waste and toxic substances	<ul style="list-style-type: none"> <li>Achieve medium-term targets for recycling at all factories in 2020, set targets for FY2030, and conduct rigorous management through the Chemical Substance Management Committee</li> </ul>	
		Resource management (water)	<ul style="list-style-type: none"> <li>Set FY2030 targets for reduction of water consumption and implement PDCA cycle</li> <li>Respond to CDP water security questionnaire (most recently received a "B" score)</li> </ul>	
		Biodiversity	<ul style="list-style-type: none"> <li>Formulate and disclose biodiversity policy and comply with the Convention on Biological Diversity (Nagoya Protocol on Access and Benefit Sharing)</li> </ul>	
		Product development eco indicators	<ul style="list-style-type: none"> <li>Launch and establish portfolio of products with eco labeling and set targets as percentage of sales</li> <li>Reduce plastic in all products and track environmental impact</li> <li>Begin measurement of CO<sub>2</sub> emissions at each product lifecycle stage (Scope 3)</li> <li>Convert to sustainable sources of paper/pulp and palm oil</li> </ul>	
		Environmental supply chain	<ul style="list-style-type: none"> <li>Set Scope 3 targets and make improvements with the goal of validation under the Science Based Targets initiative</li> </ul>	
		Disclosure, external assessment and training	<ul style="list-style-type: none"> <li>Respond appropriately to CDP (questionnaires on climate change and water security)</li> <li>Respond appropriately to TCFD recommendations (disclosure of climate change-related risk together with financial information)</li> <li>Raise awareness and provide training to employees</li> <li>Disclose ESG data on corporate website</li> </ul>	
<b>Social</b> P.40-43	Relationship with Employees	The physical and mental health, diversity, and abilities of our employees is a top priority as employees are among our most important resources. We are building a relationship in which the Company and employees help each other to grow over the long term.	<ul style="list-style-type: none"> <li>Promote empowerment of women and diversity; promote more women to management positions</li> <li>Implement work-style reforms</li> <li>Conduct "growth dialogues" and improve task-setting capabilities (using task-setting form)</li> <li>Use employee awareness survey as a general indicator</li> <li>Continue to use Diversity Index</li> </ul>	  
		Job satisfaction, diversity and growth		
		Mental and physical health	<ul style="list-style-type: none"> <li>Expand the percentage of employees receiving health exams and follow-up exams (100% testing rate for health exam)</li> <li>Add health promotion activities (improve health literacy, programs to create shared value)</li> </ul>	
	Relationship with Customers	We will improve our ability to meet the expectations and earn the trust of customers by identifying with and listening to them, both in product development and after release.	<ul style="list-style-type: none"> <li>Maintain honesty in packaging and advertising (all media)</li> <li>Ensure due consideration of ethics when proposing easy-to-understand marketing and creative media</li> <li>Establish, publicly disclose and internally promote a policy for fair advertising and labeling</li> </ul>	 
		Fair advertising and labeling		
		Strengthening of relationship with customers	<ul style="list-style-type: none"> <li>Provide packaging, containers and information that are easy to understand and use (e.g. universal design principles, accessible packaging)</li> </ul>	
	Relationship with Society and Common Interests with All Stakeholders	We will bring delight to the whole of society as only we can, not only through donations and economic support, but by giving shape to ideas for solving social issues.	<ul style="list-style-type: none"> <li>Ensure quality and establish customer inquiry/response systems for products sold outside Japan</li> </ul>	
		Social contribution	<ul style="list-style-type: none"> <li>Clarify social contribution policy</li> <li>Enhance social contribution activities</li> </ul>	
		Respect for human rights	<ul style="list-style-type: none"> <li>Formulate a human rights policy</li> <li>Conduct activities to raise human rights awareness among all Group company employees and track outcomes, using the Diversity Index and other tools</li> <li>Expand systems such as consultation and reporting hotlines to all business sites to identify and preempt human rights risks, and review and disclose the usage of those systems on a regular basis</li> </ul>	
Responsible procurement		<ul style="list-style-type: none"> <li>Formulate and publicly disclose a responsible procurement policy</li> <li>Begin assessments and implement PDCA cycle for suppliers from the perspective of corporate social responsibility</li> </ul>		
<b>Governance</b> P.44-57	We will strive for quick and accurate information disclosure and management transparency to realize our basic management policy of maximizing corporate value and increasing shareholder value.	Shared value	<ul style="list-style-type: none"> <li>Set themes for the creation of shared value for at least one brand in each category, and monitor the sales share of products that create shared value at a Company-wide level</li> </ul>	
		Further enhancement of transparency (Board of Directors reforms)	<ul style="list-style-type: none"> <li>Enhance discussions on medium-term management plan, sustainability, risks, and capital productivity</li> <li>Consider further enhancement of disclosure</li> </ul>	
		Risk management	<ul style="list-style-type: none"> <li>Promote continuous evolution of risk management</li> <li>Respond appropriately to legal disclosure requirements and TCFD recommendations</li> </ul>	
		Compliance	<ul style="list-style-type: none"> <li>Set targets and implement PDCA cycle for governance of overseas subsidiaries</li> <li>Prepare business conduct guidelines and guidebook for the whole company</li> </ul>	



# Environmental



## Philosophy and goals

**Formulate medium-term environmental goals and implement the PDCA cycle, targeting reduction of CO<sub>2</sub> emissions and development of eco-friendly products as key issues.**

## Current initiatives

**We have set a 2030 target for reduction of CO<sub>2</sub> emissions, and have begun to implement measures toward that goal. Additionally, we have implemented a new Kobayashi Pharmaceutical Product Development Eco Standard, which we have put into action.**

## Future initiatives

**We will set medium- and long-term targets for each environmental issue and expand our efforts at overseas sites and across the entire supply chain.**

## Basic approach

Kobayashi Pharmaceutical established the Kobayashi Environmental Statement and the Environmental Action Guidelines in December 2001 to further enhance environmental conservation activities based on its Management Principles. By sharing the statement and guidelines throughout the Group, we have worked to increase awareness about environmental conservation.

In February 2019, in a move to reflect international developments related to climate change such as the Paris Agreement and the SDGs, we revised these as the Kobayashi Pharmaceutical Group Environmental Statement 2030 and the New Environmental Action Guidelines, respectively. We will work toward sustainable growth in response to the expectations and requirements of stakeholders, with the statement and guidelines serving as standards for advancing our environmental activities based on their clear affirmation of our commitment to contributing to solutions.

### **Kobayashi Pharmaceutical Group environmental statement 2030**

We at the Kobayashi Pharmaceutical Group never rest in our pursuit of something new that will delight people and society. We believe that we are able to deliver what customers wish for because we have the support of a rich natural environment.

Together with customers, business partners, and communities, we will make a strong commitment to global environmental issues, such as prevention of global warming and preservation of resources and biodiversity, and generate ideas to solve those issues.

### **New environmental action guidelines**

#### **1. Legal and regulatory compliance; independent, proactive task-setting and PDCA cycle**

In addition to abiding by environment-related laws, regulations, and agreements in each of our business areas, we set our own tasks, establish medium- and long-term environmental targets and standards, generate ideas, and implement the PDCA cycle.

#### **2. Response to climate change**

We recognize that climate change can have a significant impact on our business. At each stage of our business operations we will implement greenhouse gas reduction measures, including more efficient energy usage and conversion to renewable energy.

#### **3. Consideration for resources and biodiversity**

To reduce depletion and contamination of underground resources, biological resources, and water resources, and other environmental impacts, we will give consideration to resource conservation, use of alternative resources, and biodiversity at each stage of our business operations.

#### **4. Reduction and recycling of waste; appropriate chemical substance management**

We will recycle waste generated at each stage of our business operations, reduce the volume of waste and improve our recycling rate. In addition, we will ensure the proper management of chemical substances used in our research and development and manufacturing operations.

#### **5. Development and provision of eco-friendly products and services**

We work to develop environmentally friendly products by establishing indicators and standards for the reduction of environmental impact in the design, procurement, manufacturing, and use of products and services. We also strive to deliver environmental value in tandem with new value for customers.

#### **6. Initiatives throughout the supply chain**

We set procurement standards and promote environmental initiatives throughout the entire supply chain, including at our suppliers.

#### **7. Sharing of action guidelines and enhancement of environmental awareness**

We share these guidelines with management and all employees, and work to raise their awareness of environmental conservation through various initiatives and educational activities. In addition, we disclose targets and details of initiatives based on these guidelines, as well as progress updates, to stakeholders.

## Environmental management system

In order to strengthen our environmental management system, in 2018 we enhanced the Group Environmental Committee, which began discussions on matters such as what the Kobayashi Pharmaceutical Group should strive for in the medium and long term, and the re-examination of environmental issues. The Committee is structured to enlist

the commitment of all department managers related to product development, and working groups for specific themes have been established under its auspices. Additionally, the General Affairs Division and the Management Planning Division cooperate to improve the PDCA cycle and support working groups.



## Progress toward medium-term targets for reduction of environmental impact

We have set medium-term targets for FY2020 for reduction of the impact of our business operations on the environment. Proactive energy conservation activities at our factories and

offices aimed at reducing CO<sub>2</sub> emissions, an important issue, have resulted in a dramatic reduction of 32.5% per unit of sales for FY2019 compared to FY2005.

Themes	Relevant departments	FY2020 targets	Action plans implemented in FY2020	FY2020 results
Energy conservation CO <sub>2</sub> reduction	Manufacturing	Emissions per unit of sales 20% reduction vs. fiscal 2005/3 (0.162 t-CO <sub>2</sub> /million yen in 2005) (0.129 t-CO <sub>2</sub> /million yen in 2020)	<ul style="list-style-type: none"> <li>Conversion to LED lighting</li> <li>Upgrading to energy-saving equipment (high-efficiency air conditioning, energy-efficient motors, etc.)</li> <li>Centralized control of air conditioner temperature</li> <li>Introduction of solar power generation</li> <li>Sunshade installation, roof sprinklers</li> <li>Prevention of steam and compressed air leakage</li> <li>Re-use of water purification system run-off water</li> <li>Installation of water supply pump inverters</li> </ul>	Emissions per unit of sales 24% reduction vs. fiscal 2005/3 (0.162 t-CO <sub>2</sub> /million yen in 2005) (0.124 t-CO <sub>2</sub> /million yen in 2020)
	Offices		<ul style="list-style-type: none"> <li>Implementation of summer dress code</li> <li>Control of air-conditioning settings</li> <li>Encouraging environmentally friendly driving</li> <li>Conversion to LED lighting</li> <li>Routine control of energy use</li> </ul>	
Waste reduction	Manufacturing	—	<ul style="list-style-type: none"> <li>In-house recycling of waste loss</li> <li>Separation and sale of containers and packaging</li> <li>Reduction of washing frequency</li> <li>Reduction of unsold products through equipment improvements</li> <li>Reduction of waste loss</li> <li>Promotion of new sales of valuable materials</li> </ul>	Decrease in volume of waste generated 27% decrease in the fiscal 2019/12
Recycling	Manufacturing	Recycling rate of 99.5% or higher across all businesses	<ul style="list-style-type: none"> <li>Reduction of production losses, and separation and collection of waste materials</li> <li>Review of waste treatment methods</li> <li>Reduction of landfill waste thorough separation</li> </ul>	99.8% recycling rate
Chemical substance management	Manufacturing	Maintain emissions of substances subject to the PRTR Act below 100 kg at all factories	<ul style="list-style-type: none"> <li>Switch to alternative raw materials</li> </ul>	Zero release of chemicals into the atmosphere, water, and soil (however, the transfer amount exceeded 100 kg at some factories)
Resource conservation	Manufacturing	Expansion of eco-friendly products	<ul style="list-style-type: none"> <li>Expanded introduction of FSC-certified paper</li> <li>Study of measures for reduction of plastic volume, and introduction of recycled plastic and biomass plastic</li> <li>Study of product eco-certification system</li> </ul>	Sale of products using eco-friendly resin began in March 2020
Green procurement and purchasing	Manufacturing	Strengthening of relationships with suppliers and partners	<ul style="list-style-type: none"> <li>Study of responsible sourcing</li> </ul>	Stated intention to work with suppliers on responsible sourcing in 2020, conducted briefings

Note: Beginning with the fiscal year ending in December 2020, we have set targets in terms of unit sales.

## Medium-Term Management Plan

We have designated enhancing management capabilities from the viewpoint of ESG as a strategic pillar of our Medium-Term Management Plan for 2020 to 2022 and set key issues for

each ESG category. We are proceeding with environmental initiatives, giving priority to reducing CO<sub>2</sub> emissions and lowering the environmental impact during product development.

Priority Themes	Direction of Activities	Priority Themes	Direction of Activities
Environmental load reduction during development	<ul style="list-style-type: none"> <li>Implementation of the Kobayashi Pharmaceutical Product Development Eco Standard / ECO label display</li> </ul>	CO <sub>2</sub> reduction	<ul style="list-style-type: none"> <li>Setting targets for long-term reductions in CO<sub>2</sub> <ul style="list-style-type: none"> <li>Estimation of scope 3<sup>2</sup> / Evaluation of reduction goals and policies</li> <li>Requests and receipt of approval for SBT</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Environmentally aware product development                             <ul style="list-style-type: none"> <li>Reduction of oil-based plastics / Switching to recycled or biomass plastics</li> <li>Management of CO<sub>2</sub> emissions by product life cycle</li> </ul> </li> </ul>		<ul style="list-style-type: none"> <li>Implementation of policies for reduction of scope 1 and 2<sup>1</sup> <ul style="list-style-type: none"> <li>Switching to zero-CO<sub>2</sub> emission in major factories</li> </ul> </li> </ul>
		Other	Management of waste and toxic substances / resource management (water) / biodiversity

1. Scope 1: Direct emissions from sources owned or controlled by the Company  
 Scope 2: Indirect emissions associated with use of electricity or other energy supplied by other companies  
 2. Scope 3: Indirect emissions not covered under Scope 1 and 2

## Reduction of environmental load in product development

At Kobayashi Pharmaceutical we are constantly working to develop new products that meet the needs of our customers, and we believe that we must reduce the environmental burden of our manufacturing.

In the container and packaging domain we emphasize initiatives from four perspectives: Reduce, Reuse, Recycle, and Renewable. Specifically, we focus our development on

four principal areas: eco-friendly blister specifications for outer product packaging, use of recycled plastics that are equivalent in quality to new materials, active use of biomass plastics that utilize sustainable materials derived from recyclable plant-based materials and feature less carbon than oil-based plastics, and introduction of forest-certified paper products from appropriately managed forests.

## The Kobayashi Pharmaceutical Product Development Eco Standards

We have always emphasized consideration for the environment in our product development, and since FY2011 have put in place our own system of standards called the Product Development Eco Indicators. We assess the environmental impact of our products at the developmental stage, requiring products to meet these criteria before they are launched.

The parameters of this standard were reviewed and operating methods were revised in 2020 in order to allow us

to reduce the burden on the environment at a higher level. To provide a visual representation of reductions in environmental load during product development, we established the new in-house Kobayashi Pharmaceutical Product Development Eco Standards, which contribute to reducing environmental load. Since 2021, we display the ECO label on products that meet one or more of these standards.

## The ECO label

The ECO label expresses our feelings for the environment in an easy-to-understand manner, and is in alignment with the thinking behind our corporate slogan, "You Make a Wish and We Make It Happen." By displaying the reasons for the criteria on the packages of products that meet the requirements of the Product Development Eco Standards, and providing a visual representation of the reduction in environmental load, we allow our customers to choose products in the store based on an environmental perspective as well as on product concept and performance.

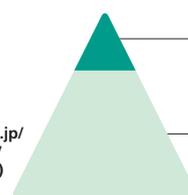
From March 2021 onwards, we have released a succession of 41 items under our *Shoshugen* brand and 47

under the *Bluelet* brand, for a total of 88 products featuring the ECO label. Going forward, this label will always be displayed on products that meet the required standards during product development.

### The ECO label



<https://www.kobayashi.co.jp/contribution/environment/eco.html> (in Japanese only)



**Products displaying the label**  
 Products that fulfill the criteria of the Product Development Eco Standards

**Products released**  
 Products that fulfill the criteria of the Product Development Eco Indicators  
 Note that this does not apply to some products

## Initiatives to reduce the use of plastic

Kobayashi Pharmaceutical handles 158 brands and 1,005 SKU products. Many of these feature oil-based plastics, with approximately 8,000 tons of plastic used in our products in a year. Production using oil-based plastics emits a great deal of CO<sub>2</sub>, and is one factor contributing to global warming. Moreover, outflow of plastic waste to the sea has become a serious social issue.

In an effort to reduce the amount of oil-based plastic we use, from spring 2021 we at Kobayashi Pharmaceutical are switching to the use of environmentally friendly resins with a low impact on the environment, such as recycled and biomass plastic, a move centered on our *Shoshugen for rooms*, *Shoshugen for toilet*, and *Liquid Bluelet* products that use a particularly large amount of plastic. Additionally, in order to reduce the actual amount of plastic used, we are moving ahead with initiatives to improve the design of our exterior packaging, reduce the number of parts used, make plastic areas thinner, and reduce the volume of

waste disposed of.

Furthermore, we are promoting the use of paper in the fragrance samples of the air fresheners and deodorizing products utilized at retail stores through Japan as in-store promotional materials. Previously the packages and installation hooks used were made of plastic, but from 2021 we will switch to using paper boxes for package covers and a material called MAPKA, which is made of powdered paper, for installation hooks. This will allow us to cut annual use of oil-based plastics by approximately five tons.

### Biomass plasticization



## Initiatives to address the issue of climate change

Among all ESG issues, Kobayashi Pharmaceutical places the highest priority on addressing climate change. We revised our CO<sub>2</sub> emissions reduction targets based on the Paris Agreement that was adopted in 2015, and set a new long-term target: a 54.6% reduction in the Group's total

CO<sub>2</sub> emissions (Scope 1 and 2) from 2017 levels by 2030. We are currently evaluating reduction targets and measures for Scope 3, and will work to reduce CO<sub>2</sub> emissions across our entire supply chain.

## The risks and opportunities of climate change for Kobayashi Pharmaceutical

We have endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and participated in the TCFD Consortium in 2019. That year we established our Climate Change Response Taskforce within the Group Environmental Committee to manage how we deal with the risks and opportunities associated with climate change, and embarked on an in-depth investigation of the risks and opportunities for Kobayashi Pharmaceutical based on multiple climate change scenarios. These efforts identified

the risks of greenhouse gas-related regulations, reduced demand for some product sectors, and dramatic increases in the price of raw materials. Conversely, we identified opportunities such as increased yields of natural raw materials and greater demand for products to help deal with heat.

Going forward, we will take appropriate measures to address each risk and opportunity.



## Preserving biodiversity

Kobayashi Pharmaceutical utilizes a range of ecosystem systems centered on raw materials from plants to perform its business activities. The natural blessings offered by biodiversity, a vital foundation for the global environment, form the source of the "comfort" that the Kobayashi Pharmaceutical Group creates, and we believe that preserving biodiversity is extremely important if we are to conduct business activities in a sustainable manner.

In 2020, Kobayashi Pharmaceutical made its basic thinking

on protecting biodiversity clear and clarified its policy on associated activities.

All employees are aware of the importance of biodiversity, building sound relationships through a deep involvement with the local region and with the international community, and contribute to the realization of a sustainable society by fulfilling their social responsibilities with regard to biodiversity.

Information on biodiversity at Kobayashi Pharmaceutical (in Japanese only)  
<https://www.kobayashi.co.jp/contribution/environment/recycle.html>

# S

# ocial



## Relationship with employees

Our relationship with employees is vital for achieving ongoing improvement in corporate value. To that end, we believe all of our employees must experience diversity, personal growth, and safety and peace of mind, and enhance the satisfaction

they gain from their work. Prompted by a desire to create a visual representation of job satisfaction, we began surveying employee awareness in 2019, and have set this as a Key Performance Indicator for our medium-term management plan.

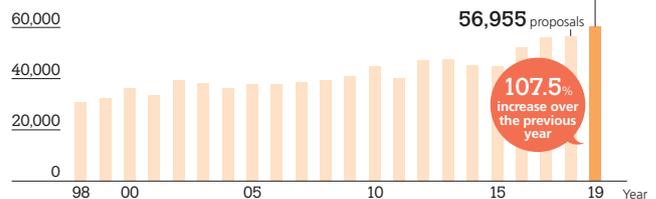
## Experiencing diversity

### A culture that accepts diverse opinions

We believe that in order for allow us to respond promptly to the many and varied needs of consumers, the employees that make up our organization must possess diverse values and ways of thinking. Kobayashi Pharmaceutical is a company that has grown with the support of the varied ideas of our employees, so for us, "diversity management" is a prerequisite to success. Ours is a culture in which everyone feels comfortable expressing their opinions, and in which all are respected. Kobayashi Pharmaceutical has always been, and will remain,

a company that accepts different opinions.

#### Number of proposals for an all-employee participation proposal system



#### ● Active participation of women

Kobayashi Pharmaceutical has placed greater importance on creating an environment that allows a diverse range of employees to take an active role, and particularly on the advancement of women, with the intent of promoting diversity in our decision-making. Many women face unavoidable limits on the times and places they are able to work, creating gender differences in the experiences, career path, and the environments in which people are able to concentrate on work. As a company, we intend to implement measures to address these issues, which we hope will increase

the ratio of women in management roles. Going forward, we will leverage these initiatives to promote diversity in our decision-making processes and further enhance our corporate culture of acceptance of diversity.

#### Changes in the ratio of women in management roles

Fiscal year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of people	15	16	17	15	17	19	19	26	31
Ratio	7.1%	7.5%	7.3%	8.2%	8.8%	9.1%	8.6%	11.5%	13.1%

Non-consolidated Kobayashi Pharmaceutical, excluding non-managers and seconded employees

#### ● Implement work-style reforms

Kobayashi Pharmaceutical maintains a positive corporate culture that allows the free and open exchange of opinions and has taken on the challenge of achieving workstyle reform that eliminates the restrictions on working times and locations. In addition to creating an environment in which employees with a diverse range of backgrounds can demonstrate their capabilities without feeling any limits, we hope to contribute to making their personal lives more fulfilled, and thus help each and every one of our staff to find their work more rewarding.

#### Flex System

Apr. 2019 Introduced flex system for child care and family care  
Jan. 2020 Updated flex system (expanded eligibility to all employees in principle; abolished core time)

#### Work-from-Home Systems

Sep. 2019 Introduced a work system to enable overtime work and work on holidays at home  
Jan. 2020 Introduced a work-from-home system for child care and family care (combined use with half-days off permitted if unable to work due to nursing care or other reasons)  
Introduced a work-from-home system that can be used during childcare leave (permitted for a limited time during maternity leave)

#### ● Raising awareness of diversity

To promote understanding and greater awareness of diversity in our employees, in 2018 we began using the Diversity

Index (employee awareness survey). This provides a numerical and visual representation of the level of diversity promotion.

## Experiencing personal growth

### Supporting employee growth / Supporting career development

At Kobayashi Pharmaceutical, we support a diverse range of employees in their efforts to acquire the knowledge, skills, experience, and abilities that will allow them to accomplish more challenging tasks and engage in different types of work. In particular, the one-on-one growth dialogs held between supervisors and their subordinates play a key role in

#### ● Growth Dialogues

Beginning in 2018, we introduced “Growth Dialog Sheets” to allow people to grow faster through their work. Carried out for employees of G-manager (Section chief) or below, this program is intended to create an environment and culture that allows these employees to experience growth through dialogs with their superiors, and by the manner in which their superiors express the nature of that growth to them. Additionally, these initiatives are allowing us to learn training methods in a systematic manner.

#### ● Development of personnel with a global mindset

Kobayashi Pharmaceutical must urgently train personnel with a global mindset in order to achieve further growth. As our overseas businesses expand, we dispatch personnel to those locations who will play a key role in taking these businesses forward. These people are chosen from the best in each division in the company. We offer an overseas study program intended to foster a global mindset, helping people to acquire language skills, instill a desire to participate in business overseas, and inspire them to take on new challenges.

Our subsidiaries overseas are also improving their ability to hire locally, and as of the end of 2020, have hired 859

encouraging employees to grow. Supervisors provide their subordinates with opportunities for growth that suit their individual challenges, utilizing a “teach, entrust, and then praise” cycle aimed at achieving growth. We also have a variety of programs available for group training of different levels and job functions.



local staff. Going forward, we will strengthen the exchange of personnel between company headquarters and our overseas subsidiaries to ensure that we are even more globally competitive.



Members of Kobayashi Healthcare, Inc.

#### Number of employees posted overseas from Japan

Fiscal year	2014	2015	2016	2017	2018	2019	2020	2021
No. of expat (people)	16	21	30	36	47	51	55	58

## Experiencing safety and peace of mind

#### ● Ensuring psychological safety

Kobayashi Pharmaceutical focuses on creating an environment where it is easy to innovate, in which everyone can feel free to offer an opinion. Measures such as the idea proposal system, the policy on forms of address, e-Appreciation, and Spur-of-the-Moment Meetings help employees feel secure, and serve as a source of a diverse range of ideas.

#### ● Treating employees as valuable

Kobayashi Pharmaceutical views each and every employee as important, and focuses on protecting their livelihoods. We have put a range of systems in place to offer employees peace of mind in their daily lives, such an area-restriction system that caters to changes in life stages, health management systems that also encompass employees’ families, and a system to provide compensation in the unfortunate event that it is difficult to work.

<b>Idea proposal system</b>	A system that allows anyone to offer proposals for ideas. More than 50,000 ideas are received each year.
<b>Policy on forms of address</b>	A system under which the use of job titles is forbidden, based on the idea that everyone is equal at work.
<b>e-Appreciation program between president and employees</b>	A system for offering praise to good initiatives. The president sends e-mails directly to employees.
<b>Spur-of-the-Moment Meetings</b>	Productively used among employees as a forum for frequent exchange of opinions.

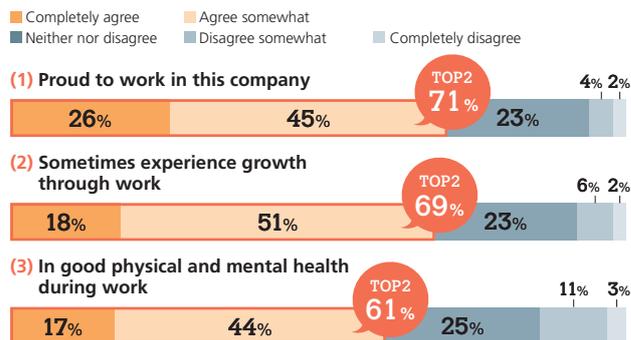
<b>Area restriction system</b>	Employees may choose to avoid transfers that require relocation, based on childcare, care of relatives, or other circumstances.
<b>Health management system</b>	The company bears expenses incurred when employees or their families undergo any form of medical examination or advanced medical care.
<b>Compensation system</b>	The company bears the costs of enrollment in life insurance, long-term income compensation, and a system of survivor benefits as provisions against unexpected occurrences.

## Social

### ● The employee awareness survey

We believe that improving employees' satisfaction with their jobs increases their motivation, and improves productivity throughout the entire company, and is thus essential to our long-term growth. Kobayashi Pharmaceuticals inaugurated its Employee Awareness Survey in 2019 out of a desire to provide a visual representation of employee job satisfaction. Three scores from the survey are including in the mid-term management plan as key performance indicators: employees' job satisfaction, percentage of employees who experience growth through their work, and percentage of employees who are in good physical and mental health during their work.

### The results of the 2019 Employee Awareness Survey



## Relationship with society

### In-house education on ESG and social issues

In order to create opportunities for employees to think and act on ESG and social issues for themselves, Kobayashi Pharmaceutical has held regular "Sustainability Meetup!" online workshops since August 2020, at which employees think about Sustainability and ESG. Listening to guest lecturers from NPOs and other organizations, and watching documentaries on social issues allows our employees to engage each together in discussion, which in turn helps us identify issues we should be addressing and brush up on themes we are currently pursuing.



サステナビリティ社内浸透ワークショップ  
サステナビリティMeetup!



Online workshop

### The Kobayashi Foundation

#### ● Activities

The Foundation's purpose is to provide support for children with disabilities or illnesses, as well as their families – in short, to identify their wishes and address them. By soliciting applications from a wide range of people and organizations working in this field, and supporting their activities, the Foundation aims to contribute to bringing greater delight to society as a whole.



2020.12.4 公益財団法人 小林製薬青い鳥財団 2020年度オンライン贈呈式  
Online presentation ceremony

### Support measures against novel coronavirus

#### ● Supporting healthcare personnel through the Osaka Prefectural government

Kobayashi Pharmaceutical and Osaka Prefecture entered into a comprehensive cooperation agreement in November 2018, and have focused on the three areas of health, the environment, and children and welfare, working together to create attractive and unique local communities through regional revitalization. As a response to the spread of novel coronavirus, Kobayashi Pharmaceutical has donated to the "COVID-19 Mutual Aid Fund," established by Osaka Prefecture in support of healthcare personnel, and offered support through such efforts as donating disinfecting alcohol to prefectural medical facilities through the Osaka Medical Association.



Osaka Prefectural Governor Yoshimura presents a certificate of appreciation



Production at Sendai Kobayashi Pharmaceutical

### ● Supporting those involved with schools

Since 2010, Kobayashi Pharmaceutical has worked to transform toilets in elementary schools into more comfortable spaces with its “Western Toilets for Elementary Schools!” initiative, bringing smiles to children’s faces and improving their health. To protect children from the spread of novel coronavirus, we felt it important to provide education on issues such as handwashing and toilet ventilation, and provide appropriate information regarding hygiene management in toilets to teachers and staff. We cooperated with Japan Toilet

Labo to create posters for students and provide documentation on hygiene management for school toilets to teachers and staff, which was published on a website. Going forward, we will provide support as is thought necessary.

[https://www.kobayashi.co.jp/corporate/news/2020/200605\\_02/index.html](https://www.kobayashi.co.jp/corporate/news/2020/200605_02/index.html) (in Japanese only)



A hygiene awareness poster

## Responsible procurement

At Kobayashi Pharmaceutical, we believe that human rights violations by our business partners are an important issue that management should address for the long term. This led to our establishment of the Kobayashi Pharmaceutical Basic Procurement Policy, which we follow in the procurement of raw materials. In 2019, we added further policies on strengthening respect for human rights and fulfilling our corporate social responsibilities. At a procurement policy

briefing held in 2020, we shared this policy with our suppliers, and conducted a survey of 40 major suppliers of raw materials to assess the risk of human rights violations. We will continue to move forward with such initiatives in future, while considering strengthening audits and making additions from an environmental perspective, with the goal of achieving and maintaining comprehensive CSR procurement.

## Creating social value

### Initiatives involving the supply chain

Made from the Salacia plant that grows naturally in the jungles of India and Southeast Asia, *Salacia 100* is a health food that has been specifically recommended for people who experience high blood sugar after eating. Salacia is dried in the sun after harvesting and thus leaches active ingredients if it gets wet in the rain, causing variations in quality. Moreover, the process of cutting Salacia after drying is an extremely arduous task that requires huge numbers of people, all working by hand. To address these problems, we constructed a drying house and installed cutting machinery, which resulted in a stable supply of quality raw material, and also allowed us to bring stability to the lives of local

people through the ensuing improvements in quality. Going forward, we will work in concert with our suppliers as well as with Kobayashi Pharmaceutical to identify further and improve on problem areas in our supply chain.



Raw materials drying in the sun

Construction of a drying house

### Activities to raise awareness of social issues

*Inochi no Haha White* is a medication for women that alleviates issues such as menstrual cramps, headaches, back pain and irritability, irregular menstruation, and sensitivity to cold.

PMS, or premenstrual syndrome, is caused by disruptions in female hormones, and affects women of all ages. Female hormones are an integral part of any woman’s life, and as such it is important for women to know and understand them correctly, and to find their own ways of caring for themselves. We hosted *Inochi no Haha White* remote internships for job-seeking students, offering the people who are on the cusp of becoming adult members of society the opportunity to think about female hormones. After attending lectures on female hormones, participants create

*Inochi no Haha White* web advertising (animated videos) and banners, with the winning entries being used for real advertisements on Google and Twitter. Looking to the future, we will continue with activities to promote awareness of female hormone balance, aiming to create a world in which women can work to the fullest of their abilities.



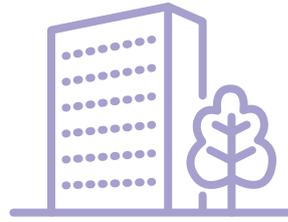
The Grand Prize winner in the Banner category



The Grand Prize winner in the Web advertising category

# G

# overnance



## Governance at a glance

### Board of Directors

13

Inside directors

4



Outside directors

3



### Nomination Committee and Compensation Advisory Committee Members

5

Inside directors

2



Outside directors

2



External expert

1



### Composition of Board of Directors and Audit and Supervisory Board

11 (Women: 3)

Inside officers

5



Outside officers

6



### Audit and Supervisory Board Meetings

13

### Meetings with Institutional Investors and Analysts

274

### Number of briefings for individual investors held

0

Note: To prevent the spread of novel coronavirus, no briefings were held in 2020

## Basic policy

To achieve sustainable growth, Kobayashi Pharmaceutical believes it is important to balance an environment that supports a healthy risk appetite with adequate oversight of management.

One advantage of our management structure centered on the founding family is the ability to make management decisions with a long-term perspective. However, there is also a risk of self-serving behavior by top management, so we appoint outside directors with strong supervisory capabilities, and ensure oversight functions to enable speed-oriented management and bold reforms. To sustain this management

approach, we have introduced a range of systems and structures designed to enhance corporate governance.

In addition, we have an exceptionally open and transparent corporate culture in which employees can voice their opinions to anyone. For example, we proactively give frontline employees opportunities to candidly express their opinions directly to top management. Based on our recognition that corporate governance objectives cannot be achieved by enhancing systems and structures alone, we believe that maintaining and developing this corporate culture is also an effective means of corporate governance.

## Management structure

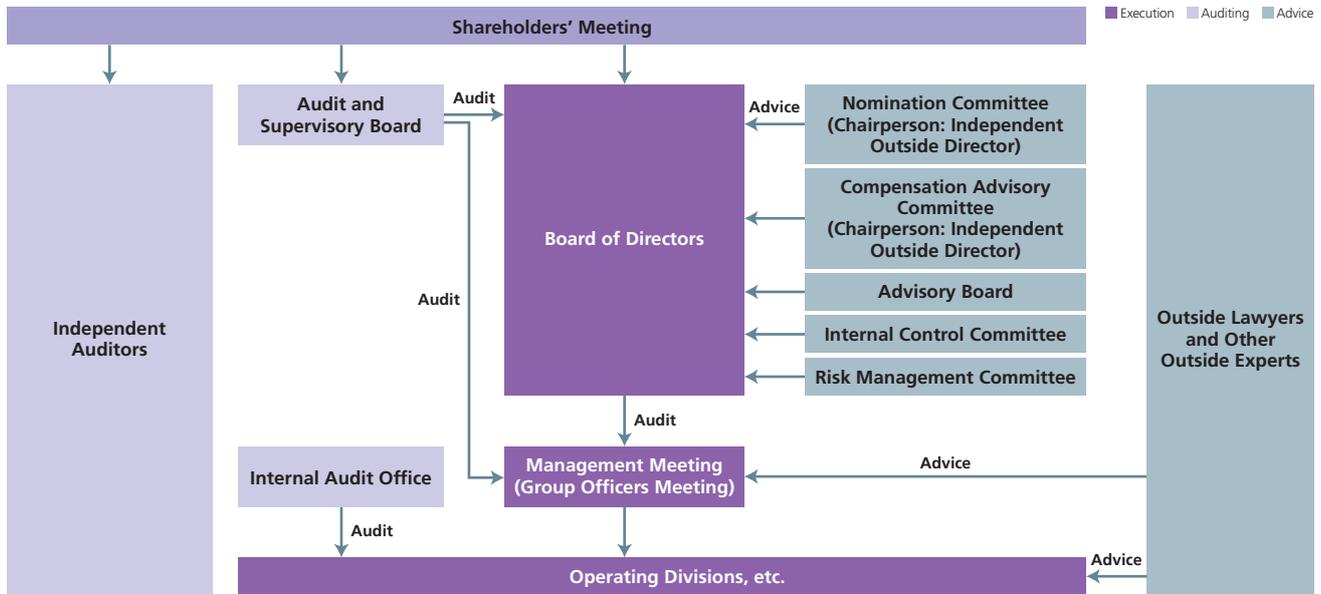
Responsibility for the execution of management resides with executive officers, led by the president and COO, while management oversight functions are performed by the Board of Directors, chaired by the chairman and CEO. We have appointed three independent outside directors among the seven directors, and optimized the number of directors from the standpoint of energizing the Board of Directors.

To ensure the fairness of the decision-making process for appointment and compensation of directors and other officers, we have established a Nomination Committee and Compensation Advisory Committee. We have also set up an Advisory Board consisting mainly of independent outside directors and representative directors to provide a structure for obtaining necessary advice on major management issues.

## Selection of officers

In the case of executive officers candidates are selected based on consideration of the right person for the right job in each business unit to incorporate a wide range of knowledge and insight throughout the Company's operations. Candidates are appointed or designated as candidates after discussion

by the Nomination Committee and the Board of Directors. Decisions on Audit and Supervisory Board candidates are made after the Board of Directors has obtained the approval of the Audit and Supervisory Board on persons who have the requisite knowledge and insight to perform audit work.



### Status of Committees

<b>Group Officers Meeting</b>	We have adopted an executive officer system to clarify the separation of supervision and execution. The Group Officers Meeting, consisting mainly of executive officers, is held four times a month to discuss key matters relating to execution.
<b>Board of Directors</b>	The Board of Directors consists of seven directors, three of whom are outside directors. Meetings are also attended by the five Audit and Supervisory Board members, three of whom are outside Audit and Supervisory Board members. Attendees provides oversight of various matters, including those discussed at the Group Officers Meeting. At Board of Directors meetings, outside directors and outside Audit and Supervisory Board members actively participate and engage in dialogue, ensuring a well-functioning system of checks and balances from an outside perspective.
<b>Advisory Board</b>	As a supporting arm to the Board of Directors and Group Officers Meeting, the Advisory Board, consisting of outside directors, the chairman, the president and relevant officers, meets once every six months. The Advisory Board provides guidance from a broad perspective on significant business issues and management policy, which is in turn reflected in the daily management of the Group.
<b>Compensation Advisory Committee</b>	The Compensation Advisory Committee ensures transparency in the process for determining director compensation, and consists of outside directors (the chairperson), outside experts, the president and relevant officers.
<b>Nomination Committee</b>	The Nomination Committee ensures transparency and fairness in the process for selecting director and executive officer candidates, and consists of outside directors (the chairperson), outside experts, the president and relevant officers.
<b>Internal Control Committee</b>	The Internal Control Committee consists of the officer in charge of internal control and management personnel involved in internal control, and deliberates primarily on basic issues relating to compliance and internal control systems. The committee also formulates basic internal control policies and monitors the internal control systems at the Company and its affiliates.
<b>Risk Management Committee</b>	The Risk Management Committee, consisting of principal officers, has been established to prevent the manifestation or minimize the impact of business risks that may affect the Kobayashi Pharmaceutical Group. The committee is responsible for creating and implementing risk management systems.

## Incorporating outside perspectives

When appointing independent outside directors and outside Audit and Supervisory Board members, in addition to having a wealth of experience and knowledge on business management and corporate governance, an important criterion is whether candidates can clearly express their views to internal directors and executive officers. Independent outside directors and outside Audit and Supervisory Board members actively speak up and engage in lively discussions

at Board of Directors meetings.

In this way, an open atmosphere is fostered at Board of Directors meetings, and votes on proposals that are the subject of heated debate are sometimes divided. Three of our officers are women (one outside director and two outside Audit and Supervisory Board members), thus broadening the diversity of perspectives.

## Governance

### Reasons for Appointment of Outside Officers

Name	Reasons for appointment
Haruo Tsuji	A former company president, Mr. Tsuji has a wealth of experience and insight in corporate management, and has helped to strengthen the Board's management oversight function. With a solid grasp of all aspects of the Company's businesses, he has a detailed understanding of social changes, and has made recommendations at Board meetings based on the viewpoints of stakeholders in his position independent of the Company, including opinions that enhance the transparency and fairness of the Company's management. Based on this experience and track record, we judged that he is qualified to continue serving as an outside director, and nominated him as a candidate for the office. He was elected at the General Meeting of Shareholders.
Kunio Ito	Mr. Ito has been engaged in accountancy and business administration for many years as a university professor, served as an outside officer of other companies, and plays a central role in a governmental study group on the sustainable growth of companies. At Kobayashi Pharmaceutical, based on the knowledge he gained through these activities, he has fulfilled a management oversight function focused on the enhancement of corporate value, including improvement of capital efficiency. Based on this experience and track record, we judged that he is qualified to continue serving as an outside director, and nominated him as a candidate for the office. He was elected at the General Meeting of Shareholders.
Kaori Sasaki	In addition to her achievements and insights as a manager, Ms. Sasaki has extensive experience in corporate management as an outside officer in other companies. Furthermore, as the founder and chair of the International Conference for Women in Business, she has been a pioneer in promoting the empowerment of women for many years. At Kobayashi Pharmaceutical, she has contributed to the enhancement of corporate value in various ways, such as by expressing views and opinions at Board meetings that take into account the perspectives of work-style reform, diversity and consumers. Based on this experience and track record, we judged that she is qualified to continue serving as an outside director, and nominated her as a candidate for the office. She was elected at the General Meeting of Shareholders.

### Outside Audit and Supervisory Board Members

Name	Reasons for appointment
Ryuji Sakai	As an attorney, Mr. Sakai has the requisite legal expertise to assess the appropriateness of business activities, and has an extensive track record of cases involving important business decisions. He has utilized this expertise and experience in auditing the Company's business activities, and has made perceptive and discerning remarks in Board of Directors' meetings and Audit and Supervisory Board meetings. As a result, we judged that he can continue to properly perform the duties of an outside Audit and Supervisory Board member and nominated him as a candidate. He was appointed at the General Meeting of Shareholders.
Yoko Hatta	Ms. Hatta worked at a tax accounting firm and has considerable expertise in international tax matters. As well as serving as an outside officer of other companies, she has long served as an auditor of a university. Based on this expertise and experience, she has properly performed audits of the Company's business activities related to global business operations. As a result, we judged that she can continue to properly perform the duties of an outside Audit and Supervisory Board member and nominated her as a candidate. She was appointed at the General Meeting of Shareholders.
Chiaki Ariizumi	At the Bank of Japan, Ms. Ariizumi has been involved for many years in the analysis of economic conditions and financial markets of Japan and other countries, and in discussions with the management of various companies on the Bank of Japan's policies and judgments regarding economic conditions. We judged that she would be able to apply her extensive knowledge and experience gained through such involvement, as well as her ongoing consideration of how to promote the sound growth of the Japanese economy, in audits of the Company's business activities, and nominated her as a candidate for the Audit and Supervisory Board. She was appointed at the General Meeting of Shareholders.

The compensation system for directors at the Kobayashi Pharmaceutical Group conforms to our Corporate Governance Code and is based on the following basic policies.

- (a) The compensation system motivates the Group to achieve sustainable growth and improve corporate value in the medium and long term
- (b) The compensation system must be strongly linked to company performance, and should motivate directors to achieve the results desired in the duties to which they are assigned
- (c) The compensation system must share common interests with shareholders and improve awareness of shareholder-focused management
- (d) Processes for deciding compensation must be highly transparent and objective

- (e) To build and improve competitiveness, compensation levels must be conducive to obtaining outstanding management personnel

Compensation of directors is designed to further motivate directors to work toward enhancing the Company's business performance and medium-to-long-term growth. It consists of basic compensation, short-term incentive compensation, which varies according to business performance each year, and long-term incentive compensation, which varies according to the Company's medium-to-long-term performance. Compensation of outside directors consists of basic compensation only because they are independent from business execution. A summary of each type of compensation is shown in the table below.

Type of compensation	Description
Basic compensation	Compensation that is loosely tied to business performance to encourage directors to execute their duties in accordance with their respective positions, and to steadily produce results. Qualitative evaluations determined based on company performance (consolidated sales, EPS, and ROE) and the expected value of the current year's activities based on evaluation of the previous year are used as indices for evaluation.
Short-term incentive compensation	Performance-based compensation linked to a single year's performance to encourage directors to achieve performance targets for each business year. Qualitative evaluations determined based on Company performance (consolidated operating margin and EPS) and the expected value of the current year's activities based on evaluation of the previous year are used as indices for evaluation.
Long-term incentive compensation	Performance-based compensation tied to medium-to-long-term results to promote management that emphasizes enhancement of shareholder and corporate value in the medium and long term. Qualitative evaluations determined by considering the company's performance (consolidated net sales, EPS, and ROE) and level of contribution to ESG and sustainable business growth are used as indices for evaluation.

The Compensation Advisory Committee (chaired by an outside director), consisting of outside directors, outside experts, the Company's representative directors and others, discusses the appropriateness of the amount of compensation

of directors, and entrusts decisions on the specific amount of compensation to the representative directors based on the results of those discussions.

#### Total Amount of Compensation by Position, Types of Compensation and Number of Officers Receiving Each Type of Compensation

Officer title	Total amount of compensation (Millions of yen)	Total amount of compensation by type (Millions of yen)		Number of Basic officers
		Fixed compensation	Performance-based compensation	
Directors (excluding outside directors)	452	349	102	4
Audit and Supervisory Board members (excluding outside members)	41	—	41	2
Outside officers	84	—	84	6

Notes:

- Directors of the Company do not receive payment of salaries as employees other than the payment amounts shown at left.
- The upper limit on total compensation for directors was set at ¥900 million per year (including ¥100 million for outside directors) at the 97th General Shareholders' Meeting held on June 26, 2015.
- The upper limit on total compensation for Audit and Supervisory Board members was set at ¥80 million per year at the 91st General Shareholders' Meeting held on June 26, 2009.
- Includes compensation paid to one director who retired at the close of the 102nd General Shareholders' Meeting held on March 27, 2020.

#### Total Amount of Compensation of Officers Receiving Compensation of More Than ¥100 Million

Name	Position	Total amount of compensation by type (Millions of yen)		Total compensation (Millions of yen)
		Fixed compensation	Performance-linked compensation	
Kazumasa Kobayashi	Chairman and CEO	232	69	293

## Reforming the Board of Directors

Kobayashi Pharmaceutical recognizes that vigorous discussion by the Board of Directors is vital to corporate governance, and to increasing corporate value. Accordingly, an assessment of the effectiveness of the Board of Directors is conducted every year.

The evaluation process for FY2020 is as follows.

Oct. 2020	Questionnaire survey (subjects: all directors and auditors)
Nov. 2020	Individual interviews (subjects: all directors and auditors)
Dec. 2020	Board of Directors evaluation meeting (participants: all outside directors and outside auditors)

As a result of the above process, the Board received an assessment of "generally adequate" for most themes, but the following themes were identified as having room for improvement.

#### Themes for improvement

- Discussion of topics such as the medium-term management plan and the direction of management strategy
- Discussions in Board of Directors meetings based on advice from the Nomination Committee
- Discussions in Board of Directors meetings based on advice from the Compensation Advisory Committee
- Greater clarification of risk information
- Appropriate progress/review of important matters concerning business execution
- Discussion of work-style reforms
- Discussion and monitoring of succession plans for the CEO and other top executives
- Investment decisions and business reviews based on capital efficiency
- Discussion of policy shareholdings based on capital cost

Issues regarding themes for improvement were reviewed at the Board of Directors meeting held in February 2021, and the following major issues were identified.

#### Issues

- (1) Improving the efficiency of deliberations of the Board of Directors  
Reduction of the amount of documentation and creation of a format to make organization of issues easier, in order to make deliberations at meetings of the Board of Directors more efficient. Additionally, increase opportunities for outside directors to offer input on the information required for deliberation by the Board of Directors.
- (2) Enhancing reviews of important matters  
Further enhance reviews of important matters such as M&A and large investments, along with reporting from executive officers on the status of business execution.
- (3) Creation of an environment (drafting of annual plans, securing sufficient time for discussion, etc.) for evaluation of management issues<sup>1</sup> and other important issues<sup>2</sup> for the medium to long term. The Board of Directors was positively evaluated for providing more opportunities to discuss medium- and long-term management issues such as ESG.  
However, an annual plan of items for discussion at Board of Directors meetings should be drafted to allow for more systematic debate, and the number of items on the agenda reduced to allow sufficient time for deliberation (specifically, revising the criteria for discussion at Board of Directors meetings in order to delegate authority to the Executive Officer's Meeting).

1. Management issues for the medium to long term: Medium-term management plan, ESG, overseas strategies, human resources strategies, capital policy, etc.
2. Important issues: Development of new products for the post-novel coronavirus era, internal controls, DX strategy, EC strategy, etc.

Risk management

Kobayashi Pharmaceutical groups risks into three categories, and has set up frameworks to manage risk in each category.

For medium-to-long-term risks (potential risks), the Risk Management Committee chaired by the president was established in 2017 and has begun comprehensive activities to identify business risks from a long-term perspective and to take action before they develop into specific problems. In 2018, after discussions in four meetings of the Risk Management Committee, which included training by outside experts, we identified high-priority Group-wide risks as medium-to-long-term risks that should be reduced with the involvement of management. General managers are now leading risk reduction activities for high-priority Group-wide risks utilizing a framework for formulating and monitoring the progress of risk reduction plans, and regularly reporting on progress to the Board of Directors.

Regarding potential short-term risks, the Monthly Report Committee aggregates and considers responses to all departmental risk information. In addition, we are establishing a structure in which the Management Meeting will take measures to address risks that are judged to require the involvement of management. When a crisis occurs, a Crisis Management Headquarters will be set up immediately to quickly implement response measures.

	Risk Management Committee	Monthly Report Committee/ Group Officers Meeting	Crisis Management Headquarters
Main risks	Medium-to-long-term risks (potential risks)	Short-term risks	Occurrent crises
Committee chair	President	Senior General Manager of Corporate Administration Headquarters/President	President

Business and Other Risks

Major risks	Description	Primary responses and current status
(1) Environment risks for business	<ul style="list-style-type: none"> <li>Rapid changes in consumer needs</li> <li>Increased cost of advertising, etc., due to the changing competitive environment</li> </ul>	<ul style="list-style-type: none"> <li>Development of new products that meet consumer needs</li> <li>Formulation of new strategies for existing products reflecting environmental changes</li> <li>Reduced impact from a diversified product lineup</li> <li>Increased efficiency of advertising spend due to an improved media mix</li> </ul>
(2) Risks of business models that introduce new products aggressively	<ul style="list-style-type: none"> <li>Reduction in the number of new products released</li> <li>Increased competition at launch due to the presence of competing products</li> </ul>	<ul style="list-style-type: none"> <li>Creation of new ideas through a proposal system for all employees</li> <li>Securing items for product releases using a new product portfolio</li> </ul>
(3) Risks of demand fluctuations due to climate change and unseasonable weather	<ul style="list-style-type: none"> <li>Reduced sales of strongly seasonal products</li> <li>Burden imposed by carbon tax due to the trend towards reducing greenhouse gases</li> <li>Reduced demand due to increased awareness of ethical issues</li> </ul>	<ul style="list-style-type: none"> <li>Development of healthcare products by our hand warmer business</li> <li>Adjustment of shipment volumes based on a range of data</li> <li>Evaluation of medium- to long-term risks by the Group Environmental Committee</li> </ul>
(4) Risks of business overseas	<ul style="list-style-type: none"> <li>Reduced investment recovery efficiency due to regulatory changes and slower economic growth in different countries</li> <li>Significant variation in exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>Reduced improvement risks due to incremental, logical investment decisions and revision of investment plans</li> <li>Monitoring of major currency exchange rates</li> </ul>
(5) Risk of business acquisitions and alliances	<ul style="list-style-type: none"> <li>Failure due to unexpected events and environmental changes</li> <li>Loss of goodwill or other intangible assets</li> </ul>	<ul style="list-style-type: none"> <li>Exhaustive due diligence</li> <li>Decisions to invest after discussion of residual risks and opportunities for growth</li> </ul>
(6) Risks of securing and utilizing human capital	<ul style="list-style-type: none"> <li>Less promotion of activities by a diverse range of people without regard to gender or nationality</li> <li>Delayed response to intensifying competition in the labor market</li> <li>Insufficient measures to improve employee awareness of the contributions made by the businesses with which they are associated</li> </ul>	<ul style="list-style-type: none"> <li>Flat corporate culture</li> <li>Fostering an awareness of growth through growth-related dialog between supervisors and their subordinates</li> <li>Promotion of specific activities aimed at inspiring women to focus on their careers</li> </ul>
(7) Product safety risks	<ul style="list-style-type: none"> <li>Design defects</li> <li>Quality defects</li> <li>Erroneous responses to reports of adverse drug reactions</li> </ul>	<ul style="list-style-type: none"> <li>Risk reduction by the dedicated quality audit department (Reliability Assurance Headquarters)</li> <li>Timely assessment when serious design or quality defects are suspected</li> </ul>
(8) Risks in procuring raw materials for products	<ul style="list-style-type: none"> <li>Increased procurement costs due to fluctuating exchange rates</li> <li>Rising raw material costs due to sudden increases in crude oil prices</li> <li>Inhibited supply of products to the market due to halts in production and distribution during disasters</li> </ul>	<ul style="list-style-type: none"> <li>Absorption of the cost of sudden increases in the price of limited raw materials resulting from large sale volumes</li> <li>Prompt securing of raw materials using a Product BCP System</li> </ul>
(9) Legal and regulatory risk	<ul style="list-style-type: none"> <li>Cessation of development and sale of products due to changes in laws and regulations</li> <li>Fluctuations in sales due to changes in import and export regulations</li> </ul>	<ul style="list-style-type: none"> <li>Information gathering and prompt responses centered on the Legal and Intellectual Property Department</li> </ul>
(10) Risks associated with information security	<ul style="list-style-type: none"> <li>Compensation for and loss of trust due to leakage of personal information</li> <li>Temporary cessation of business activities and leaks of know-how due to cyber attacks</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of information security systems</li> <li>Thorough employee training</li> <li>Third-party evaluation of information security</li> <li>Backup of important digital data on remote servers</li> </ul>
(11) Risks related to compliance	<ul style="list-style-type: none"> <li>Serious compliance violations by the Kobayashi Group or its employees</li> </ul>	<ul style="list-style-type: none"> <li>Compliance questionnaire targeting employees and personnel responsible for external business partners</li> <li>Establishment of a dedicated hotline for compliance issues (the Employee Consulting Center)</li> </ul>
(12) Risks associated with litigation and intellectual property	<ul style="list-style-type: none"> <li>Delays in implementation of frameworks for the management of intellectual property assets</li> <li>Third-party infringement of intellectual property rights</li> <li>Compensation for and loss of trust incurred due to infringement of the intellectual property rights of Kobayashi Pharmaceutical</li> </ul>	<ul style="list-style-type: none"> <li>Checking for infringement and non-infringement of intellectual property rights</li> <li>Proactive creation and strategic application for intellectual property rights at the product development stage</li> </ul>
(13) Risks due to natural disasters	<ul style="list-style-type: none"> <li>Stoppages or delays of operations, loss of assets, or human casualties, etc., brought about by natural disasters</li> </ul>	<ul style="list-style-type: none"> <li>Formulation of Business Continuity Plans (BCP)</li> <li>Construction of crisis management systems</li> </ul>
(14) Risks due to outbreaks of serious infectious diseases	<ul style="list-style-type: none"> <li>Lower sales associated with the reduction in opportunities for people to go out brought on by restrictions imposed by local governments</li> <li>Deteriorating economic conditions due to prolonged and normalized spread of infectious diseases</li> <li>Suspension of business activities such as product manufacture due to the occurrence of infections on business premises</li> </ul>	<ul style="list-style-type: none"> <li>Development and sale of new products suitable for the “new normal” that has resulted from the spread of infection disease</li> <li>Planning of countermeasures and identification of risks of infection by the Crisis Management Headquarters</li> <li>Operation with minimized risk of operation halts</li> </ul>

## Internal controls

Kobayashi Pharmaceutical is building internal frameworks to ensure that operations are conducted and financial statements are prepared in compliance with the Companies Act and the Financial Instruments and Exchange Act of Japan, and to adhere to relevant laws and regulations. As part of these frameworks, the Internal Control Committee meets twice

each year. An outside attorney serving as an advisor monitors the Kobayashi Pharmaceutical Group's internal control and compliance systems, and provides recommendations and advice to the Board of Directors on measures for improvement.

For details, see the Basic Policy on Internal Control Systems. (in Japanese only)  
<https://www.kobayashi.co.jp/corporate/governance/policy/index.html>

## Compliance framework

To increase compliance awareness and spread knowledge of compliance in all employees and directors across the Kobayashi Pharmaceutical Group, we are systematically conducting group training by job classification (officers, managers, new employees, etc.) that incorporates topics tailored to each job level. Furthermore, we continue to instill compliance awareness among all employees through the Group newsletter and e-learning programs (attendance rate: 100%) available via

the Group intranet, and in 2020 began "15-minute training" sessions in which managers at each department serve as instructors for compliance-themed discussions. We have also established Employee Consulting Centers both internally and externally (in a law office; also available to overseas employees) as a dedicated hotline for employees to anonymously report compliance violations or ask general questions on compliance issues. This helps resolve matters that arise.

## E-learning topics (For: All employees Attendance rate: 100%)

Month	Topic	Month	Topic
January 2020	Disaster awareness and crisis management	July 2020	The 10 biggest threats to information security in 2020!
February 2020	Contact systems personnel when using websites or cloud-based content	August 2020	Preventing power harassment
March 2020	Compliance and awareness of relevant personnel	September 2020	The Premiums and Representations Act
April 2020	Handling of personal information	October 2020	Inspection/quarantine of articles brought in or imported from foreign countries
May 2020	The Pharmaceutical and Medical Device Act (Adverse drug reactions, recent violations of the Pharmaceutical and Medical Device Act, manufacturers and distributors)	November 2020	Improper actions internally at organizations
June 2020	Mental health	December 2020	Check for understanding of topics covered during the year

## Communication with shareholders and investors

At Kobayashi Pharmaceutical, we recognize that shareholders and investors ("shareholders, etc.") are important stakeholders, and we emphasize constructive dialogue with them for the Company's sustainable growth. We have

systems in place for ensuring that valuable opinions, centering on those arising from dialogue with shareholders, etc., are shared with top management and reflected in improvements to the running of the Company.

### Policies for Dialogue with Shareholders, Etc.

- We actively engage in dialogue with shareholders, etc. to contribute to the Company's sustainable growth.
- Senior management, the IR officer or IR Department conduct dialogue with shareholders, etc., taking into account their attributes, the timing of the dialogue, the Company's business resources and other factors.
- In dialogue with shareholders, etc., feedback is provided to the Board of Directors on shareholders' views regarding the Company's sustainable growth.

### Policies for Dialogue with Shareholders, etc.

General Shareholders' Meeting (held in March 2020)	
Attendance	46
Vote participation rate	93.9%
Meetings with institutional investors and analysts	
Number of times held	274
Dialogue with individual investors	
Number of times held	0
Participants	0

Note: To prevent the spread of novel coronavirus, no briefings were held in 2020.



**Akihiro Kobayashi**  
Representative Director,  
President and  
Chief Operating Officer

AKIHIRO KOBAYASHI



Online  
dialogue

# Achieving greater growth with diversity-driven innovation and governance

## Kobayashi Pharmaceutical's strengths

### Our strength is diversity-oriented management



Sasaki

As I noted in last year's integrated report, I believe that Kobayashi Pharmaceutical's strength is found in "each employee's commitment to 'making wishes happen'." For example, many of the Company's products are niche products with distinctive names. People from outside the Company may think that in-house experts come up with these names, but that's not the case, as product names are conceived by the same people responsible for product development.



Kobayashi

Yes, that's correct. Our foundation is built upon management in which all employees participate. We want everyone to go about their work from management's perspective. For instance, we have utilized the idea proposal system for more than three decades. This system enables all employees to freely propose ideas, regardless of job category or seniority. These ideas could be for new products imagined during a "eureka" moment at home or at work or for improving our operations. Every year, we receive more than 50,000 of these proposals.



Sasaki

This style of management translates to diversity, which is my field of expertise. I believe that diversity involves creating better results through diverse perspectives.

## Kaori Sasaki

Outside Director

### Career Summary

Representative Director and President, UNICUL International, Inc.

President & CEO, ewoman, Inc.

KAORI SASAKI



Sasaki

As the saying “two heads are better than one” goes, a company will grow stronger by establishing a diverse workforce with various backgrounds and skills and ensuring their knowledge is shared. This approach has helped to create the foundation for Kobayashi Pharmaceutical’s growth.



Kobayashi

Thanks to you and others, the Company’s management team has finally taken notice that our past initiatives were actually a form of diversity-oriented management. We are now working to get the word out internally by sharing this knowledge across the entire Company.

The idea proposal system has yielded various proposals from throughout the Company, including not only R&D and sales, but also accounting, personnel, and even the production floor of factories. Our strength is found in **product development and operational improvements taking into account various views gained from the diverse perspectives and experiences of our people.**



Kobayashi



Sasaki

If everyone can understand that their own ideas are being used at work and this mechanism already forms the basis for diversity-oriented management, I believe this will further strengthen Kobayashi Pharmaceutical.



Sasaki

However, I don’t think Kobayashi Pharmaceutical used the term “diversity” to describe this style of management. **Translated into today’s terminology, the Company’s management ideals and past initiatives actually formed “diversity-oriented management.”** Explaining that the Company is highly competitive as a result will make such a style of management easier to embrace by not only shareholders and investors, but employees, too.



Kobayashi

Yes, I agree. Until now diversity may have felt like a buzzword detached from one’s actual work as it may not have seemed real to everyone. **In actuality, diversity is very close to us all, and it has become a foundation of the Company’s growth.** If all employees can understand this, I believe that we can become an even stronger company.



Governance

## Advantages of a family-run company



Sasaki

Kobayashi Pharmaceutical is considered a family-run company because the founding family have always served as top management. Such a family-run company is often viewed with some skepticism due to weaker governance associated with these family relationships. What are your thoughts?



Kobayashi

I'm often asked this question by investors and the media. It can be tricky to answer because it involves me (laughs). Generally, people say that a family-run company is susceptible to complacency in decision making. Understanding this, I'm always mindful of two things. First is the quality of our corporate culture. I have focused on building a workplace where employees and management can always speak their mind. This ensures that negative information from each department is immediately reported up the chain of command, improving risk aversion.



Kobayashi

Second is that I always lend an ear to outside views. During board meetings, I make it a point to listen to our outside directors, including yourself, to ensure that my decisions are disciplined and incorporate all possible viewpoints.



Sasaki

For example, however, have you ever found it difficult to discuss something to your father (current Chairman)?



Kobayashi

Honestly, this may have happened when I was younger, but that is no longer the case today. Our relationship has evolved to where we can say what we want to say to each other. The Chairman and I are on the same page in terms of management policy and the direction of growth strategy. Because of this, I believe it's important to solicit the views of outsiders about whether this direction or strategy makes sense. Conversely, how do you view the Company's governance?



Sasaki

When you first approached me about serving as outside director, I was very curious about how the board of directors of a family-run enterprise functioned. After participating in board meetings, I found that the Company's governance is actually better than other publicly-traded companies in Japan.

At most of these companies, the CEO's tenure is predetermined to some extent. This is why many CEOs focus on management goals during their term of office or their thoughts on accountability may be limited to their own time at the company. This is not the case with Kobayashi Pharmaceutical. Here, the Company has been run responsibly for a long period of time keeping in mind the family's strong commitment and sense of integrity. This is why I feel that Kobayashi Pharmaceutical benefits from being a family-run company.



Sasaki

A family-run company maintains a consistent long-term vision and top management can continue their commitment with a sense of accountability. I understand because I founded a company, albeit a small one, and serve as president. I have found that Kobayashi Pharmaceutical's governance is highly effective, since top management has passed down the DNA of wanting to live up to the company name given its long-storied history and the commitment to advance this history soundly.

Thank you. Hearing that gives me a boost of confidence.



Kobayashi



Sasaki

Since being appointed outside director, I've said the same thing whenever someone asks for my impression of the Company. Kobayashi Pharmaceutical actively incorporates outside views. I feel that Company's governance is strong.



### Role of Outside Directors

## Empowerment by speaking as a teammate

Monthly board meetings adopt a style where conclusions reached internally are presented to outside directors to solicit their views and to field their questions in reaching a final decision. The Company's outside directors possess specialist knowledge in a host of fields. By examining each proposal while incorporating this collective expertise and the latest knowledge, I believe that our decision making is well balanced. Equally, we encourage each outside director to be honest and share any doubts or uneasiness they may feel based on their own professional experience.



Kobayashi



Sasaki

Kobayashi Pharmaceutical's outside directors represent a diverse team representing many areas of expertise. I, too, share my frank opinions during board meetings. Of course, I do so after soliciting the views and perspectives of others. As a result, discussions that incorporate diverse perspectives are possible, and in this sense, I believe that Kobayashi Pharmaceutical's board of directors functions quite well.

I feel that in the fields of diversity, empowering women, and work-style reforms, which are your specialties, we are somewhat behind the times. This is why your comments provide a fresh perspective. It's important to be aware of cutting-edge approaches and ideas, and understand any gaps. Going forward, I look forward to your frank and honest views. Don't hold back.



Kobayashi



Sasaki

It's important to recognize that outside directors are not just advisors. Although we may be outsiders, we're teammates working for the same company. Therefore, when I make proposals or comments, I think not as an advisor, but as a stakeholder.



Sasaki

When I'm asked for advice or I do an interview, I simply provide my opinion as an advisor or respond to the question. However, statements as an outside director must be made as a member of that company's management team with a commitment to benefit the Company's development. For this reason, I sometimes voice my opinions strongly.



Kobayashi

I see. You're passionate because you speak as a stakeholder and teammate who is essential to Kobayashi Pharmaceutical's growth.



Sasaki

Exactly. I voice my opinions strongly as I'm not just providing feedback for consideration. Achieving workforce diversity, particularly the empowerment of women, is not only something society wants, but it is also a central theme of management strategy. I've repeatedly conveyed to all directors, including yourself, that these areas require management to make serious efforts to ensure the Company's future growth. I hope everyone understands once again that I'm speaking as a colleague and stakeholder who hopes this will lead to the growth of the Company.



Kobayashi

Since your term began, we've received many pointers from you, and as a result many changes are underway. I recognize once again your strong passion for supporting Kobayashi Pharmaceutical's growth.



Sasaki

That is wonderful. I have written down some other things that I'd like to see the Company work on (laughs).

### Management challenges

## ESG as a top priority



Kobayashi

There are many management challenges that we should be addressing. What do you think are the top priorities?



Sasaki

ESG is one. This is because today corporate value is evaluated based on non-financial initiatives, too. As I mentioned at the beginning, the deeply engrained idea proposal system is linked to diversity-oriented management, and the same can be said of ESG, although I'm sure similar initiatives have been carried out in the past simply using a different name. I hope that the Company can take inventory of these initiatives to clearly define what areas are being met, and what areas need more work.



Kobayashi

That's right. We've established a department dedicated to ESG in FY2020 based on such feedback. While you praised our diversity efforts earlier to some extent, we recognize that there's still much work to be done, including empowering women in the workplace.



Sasaki

It's true that various challenges remain in terms of empowering women at Kobayashi Pharmaceutical. I believe it's necessary to evolve the Company's basic thinking concerning the work styles of women and personnel evaluations. This should attract an even more diverse workforce, making the Company stronger and better as a result.



Message from an outside director

# Combined strengths make an organization stronger



Sasaki

While I covered many topics today, I would like to note that it's been a pleasure to serve as an outside director of Kobayashi Pharmaceutical. When I hear people say they are familiar with our products or praise the Company, I can't help but feel a sense of happiness and pride.

Thank you. What do you consider to be a "good trait" of Kobayashi Pharmaceutical?



Kobayashi



Sasaki

Simply put, Kobayashi Pharmaceutical is a "conscientious company." In a sense, it is managed modestly and dependably, and the employees never come off as flashy. **This is a company that generates great synergies by carefully combining each individual strength.** Using a jigsaw puzzle as an analogy, individual employees form a part of the big picture by thorough careful placement. Or you could say it's like putting together a stone wall; even though each stone is of a different size and shape. **Careful grouping and combining creates a stone wall that can withstand any storm. It is extremely strong.**

Thank you for your kind words. I really feel the power and drive in each employee with their strong will. Even when working together on product development, I feel that employees have the power to voice what they want. I believe it's my job to determine how best to combine employees to give the Company strength and drive our growth.



Kobayashi



Sasaki

That's right. I feel that Kobayashi Pharmaceutical has achieved steady growth through humble yet diligent management. Recapturing the positive nature of the Company in today's terms and context, and **clearly defining the Company's strengths and direction, will make it easier for investors and employees to understand these concepts, and enable the Company to see into the future.**

Are diversity initiatives also part of the direction that we should aim for?



Kobayashi



Sasaki

Diversity-oriented management does more than just encourage the empowerment of women in the workplace; it contains many other positive elements, such as creating innovation and strengthening governance. Diversity of perspectives lies at the root of this approach. As I discussed earlier, I would like to see Kobayashi Pharmaceutical convey its strength using these new expressions both internally and externally while aspiring for **even more dynamic growth.**

Thank you. Your critical feedback will push the Company to evolve by addressing the challenges in front of us. I look forward to working together with you.



Kobayashi



## Directors

**Kazumasa Kobayashi**  
**Representative Director, Chairman of the Board and Chief Executive Officer**



Mar. 1962 Joined the Company  
 Nov. 1966 Director  
 Nov. 1970 Executive Director  
 Dec. 1976 Representative Director and President  
 Jun. 2004 Representative Director, Chairman of the Board and Chief Executive Officer (current)

**Akihiro Kobayashi**  
**Representative Director, President and Chief Operating Officer**



Mar. 1998 Joined the Company  
 Jun. 2001 Executive Officer and Manufacturing Company President  
 Jun. 2004 Director, International Sales Company President and Marketing Office Manager  
 Jun. 2007 Executive Director  
 Mar. 2009 Senior Executive Director and Senior General Manager of Product Business Division  
 Jun. 2013 Representative Director, President and Chief Operating Officer (current)

**Satoshi Yamane**  
**Senior Executive Director**



Mar. 1983 Joined the Company  
 Mar. 2004 Executive Officer, Board of Directors Office Manager and Growth Strategy Office Manager  
 Jun. 2006 Director and Senior General Manager of Corporate Administration Headquarters (current)  
 Jun. 2011 Executive Director  
 Jun. 2016 Senior Executive Director (current)

**Kazuhiro Miyanishi**  
**Directors**



Mar. 1986 Joined the Company  
 Mar. 2007 General Manager of Household Marketing Department, Marketing Office  
 Mar. 2011 General Manager of International Sales Department, International Business Division  
 Jun. 2012 Executive Officer and Senior General Manager of International Business Division (current)  
 Mar. 2021 Director of the Company (newly appointed)

**Haruo Tsuji**  
**Outside Director**



Mar. 1955 Joined Hayakawa Electric Industry Co., Ltd. (now Sharp Corporation)  
 Jun. 1986 Director and President  
 Jun. 1998 Advisor  
 Jun. 2008 Outside Director of the Company (current)

**Kunio Ito**  
**Outside Director**



Apr. 1992 Professor, Faculty of Commerce and Management, Hitotsubashi University  
 Aug. 2002 Dean of the Graduate School of Commerce and Management, Hitotsubashi University  
 Dec. 2004 Vice President of Hitotsubashi University  
 Dec. 2006 Professor, Graduate School of Commerce and Management, Hitotsubashi University  
 Jun. 2007 Member of the Independent Committee of the Company  
 Jun. 2013 Outside Director of the Company (current)  
 Jan. 2015 Director, Center for CFO Education and Research, Hitotsubashi University (current)  
 Apr. 2015 Adjunct Professor, Graduate School of Commerce and Management, Hitotsubashi University  
 Apr. 2020 Professor Emeritus of the Department of Business Administration of the Graduate School of Business Administration of Hitotsubashi University (current)

**Kaori Sasaki**  
**Outside Director**



Jul. 1987 Representative Director and President, UNICUL International, Inc. (current)  
 Mar. 2000 President & CEO, ewoman, Inc. (current)  
 Jun. 2016 Outside Director of the Company (current)

## Audit and Supervisory Board members

### Akitoshi Yamawaki

Full-time Audit and Supervisory Board Member



Apr. 1983 Joined Sunstar Inc.  
 Jul. 2003 Joined the Company  
 Mar. 2008 General Manager of Production Engineering Department  
 Mar. 2009 President and Representative Director of Toyama Kobayashi Pharmaceutical Co., Ltd.  
 Mar. 2011 General Manager of Quality Assurance Department of the Company  
 Mar. 2014 General Manager of Procurement Department  
 Mar. 2016 General Manager of Household Products Technology Development Department  
 Mar. 2019 Audit and Supervisory Board Member (current)

### Takashi Kawanishi

Full-time Audit and Supervisory Board Member



Mar. 1990 Joined the Company  
 Mar. 2014 General Manager of R&D Planning and Administration Department, the Central R&D Laboratory  
 Jan. 2020 General Manager of the General Affairs Department, the Corporate Headquarters  
 Jan. 2021 Assigned to the Corporate Headquarters (current)  
 Mar. 2021 Audit and Supervisory Board Member (new appointment)

### Ryuji Sakai

Outside Audit and Supervisory Board Member



Apr. 1985 Registered as Attorney-at-Law (Dai-Ichi Tokyo Bar Association)  
 Joined Nagashima & Ohno (now Nagashima Ohno & Tsunematsu)  
 May 1990 Earned LL.M. at University of Pennsylvania Law School  
 Sep. 1990 Joined Wilson Sonsini Goodrich & Rosati  
 Jan. 1995 Partner, Nagashima & Ohno (now Nagashima Ohno & Tsunematsu) (current)  
 Jun. 2005 Outside Audit and Supervisory Board Member of the Company (current)

### Yoko Hatta

Outside Audit and Supervisory Board Member



Aug. 1988 Joined Peat Marwick Main & Co. (now KPMG LLP New York)  
 Aug. 1997 Partner, Peat Marwick Main & Co. (now KPMG LLP New York)  
 Sep. 2002 Partner, KPMG Peat Marwick LLP (now KPMG LLP)  
 Jun. 2008 Auditor of International Christian University (current)  
 Jun. 2015 Outside Audit and Supervisory Board Member of the Company (current)

### Chiaki Ariizumi

Outside Audit and Supervisory Board Member



Apr. 1987 Joined Bank of Japan  
 May 1998 Deputy Assistant to Director, International Department (Head of Europe and North America Group, Global Economic Research Division)  
 Jul. 2009 Director, Secretariat of the Policy Board (Head of Business Federation Liaison Group)  
 Jun. 2019 Director, Information System Services Department  
 Jan. 2020 Personnel and Corporate Affairs Department  
 Mar. 2020 Retired from Bank of Japan  
 Outside Audit and Supervisory Board Member of the Company (current)

## Executive officers

### Naoki Ayabe

Senior General Manager, Sales Headquarters

### Fujito Ohwaki

Senior General Manager, Healthcare Division

### Tetsuji Nishioka

Senior General Manager, Manufacturing Headquarters

### Takuya Matsushita

General Manager of China Strategy Department, International Business Division

### Yoshihiro Ogawa

Senior General Manager, Direct Marketing Division

### Atsushi Sato

Manager of Sales Management Division, Sales Headquarters

### Nobuo Sakuta

Senior General Manager of Household Products Division

# 10-year summary

Old standard

	2012.3	2013.3	2014.3	2015.3
<b>For the fiscal period</b> (Millions of yen)				
Net sales	131,166	121,532	127,293	128,344
Cost of sales	54,635	51,732	54,193	54,718
Gross profit	76,531	69,799	73,099	73,626
Selling, general and administrative expenses	57,233	52,895	54,977	55,708
Operating income	19,298	16,903	18,122	17,917
Ordinary income	20,092	18,677	18,769	18,843
Income before income taxes	19,822	18,853	19,666	20,056
Net income attributable to owners of the parent	11,726	12,176	12,307	12,448
Cash flow from operating activities	17,250	9,242	13,513	15,445
Free cash flow <sup>1</sup>	14,320	(17,362)	6,553	10,904
Depreciation	2,727	2,622	2,677	2,641
Capital expenditures <sup>2</sup>	1,724	2,917	3,947	3,532
Research and development costs	4,385	4,544	4,930	5,289
<b>At period-end</b> (Millions of yen)				
Current assets	102,538	94,353	105,614	115,990
Non-current assets	45,352	62,753	65,304	70,340
Current liabilities	37,791	34,477	34,216	35,890
Non-current liabilities	8,220	7,757	9,749	10,829
Net assets	101,879	114,872	126,953	139,611
Total assets	147,890	157,106	170,919	186,331
Working capital <sup>3</sup>	64,747	59,876	71,398	80,100
Interest-bearing liabilities	5	4	6	40
<b>Per-share data<sup>4</sup></b> (Yen)				
Net income	143.18	148.69	150.28	152.73
Cash dividends	39.00	41.00	43.00	45.00
Payout ratio (%)	27.2	27.6	28.6	29.5
Cash flows <sup>5</sup>	202.9	108.7	158.9	181.6
Net assets	1,242.04	1,402.64	1,549.16	1,711.77
<b>Financial ratios</b> (%)				
Gross profit margin	58.3	57.4	57.4	57.4
Operating income margin	14.7	13.9	14.2	14.0
Ordinary income margin	15.3	15.4	14.7	14.7
Net margin	8.9	10.0	9.7	9.7
Current ratio	271.3	273.7	308.7	323.2
Return on assets (ROA)	14.2	12.2	11.4	10.5
Return on equity (ROE)	12.2	11.2	10.2	9.4
Equity ratio	68.8	73.1	74.2	74.8
Debt-equity ratio (times) <sup>6</sup>	0.00005	0.00004	0.00005	0.00029
Price-earnings ratio (PER) (times) <sup>7</sup>	14.5	15.3	19.8	28.2

1. Cash flow from operating activities + Cash flow from investing activities

2. Capital expenditures = Increase in property, plant and equipment + Increase in intangible assets

3. Current assets – Current liabilities

4. Including impact of stock split

5. Cash flow from operating activities ÷ Number of shares issued

6. Interest-bearing liabilities ÷ Shareholders' equity

7. Current share price ÷ Earnings per share

Old standard					New standard <sup>9</sup>	
2016.3	2016.12 <sup>8</sup>	2017.12	2018.12	2019.12	2019.12	2020.12
(Millions of yen)						
137,211	120,051	156,761	167,479	168,052	158,340	<b>150,514</b>
57,518	48,638	61,238	64,359	64,705	67,364	<b>65,248</b>
79,693	71,412	95,522	103,119	103,346	90,975	<b>85,265</b>
61,432	54,003	72,596	76,830	76,991	65,317	<b>59,322</b>
18,260	17,409	22,925	26,289	26,355	25,658	<b>25,943</b>
17,949	19,499	24,191	27,374	27,851	27,851	<b>27,726</b>
18,755	19,802	22,572	25,304	26,804	26,804	<b>26,635</b>
13,466	14,321	15,863	18,023	19,139	19,139	<b>19,205</b>
14,329	16,097	22,350	20,007	20,089	20,089	<b>23,986</b>
3,396	15,577	29,390	11,944	15,017	15,017	<b>11,330</b>
2,587	2,112	2,926	2,964	3,731	3,731	<b>4,052</b>
4,122	3,164	3,359	3,795	5,313	5,313	<b>3,726</b>
5,788	4,121	7,239	7,031	7,110	7,110	<b>7,338</b>
(Millions of yen)						
120,347	128,646	142,346	151,824	162,712	163,046	<b>164,225</b>
68,650	72,587	76,484	76,963	70,685	70,685	<b>74,141</b>
36,481	46,975	54,274	55,053	53,433	53,767	<b>50,107</b>
10,492	10,938	10,744	7,485	7,307	7,307	<b>5,675</b>
142,023	143,320	153,811	166,249	172,657	172,657	<b>182,583</b>
188,997	201,234	218,831	228,787	233,398	233,732	<b>238,366</b>
83,865	81,670	88,072	96,771	109,279	109,279	<b>114,118</b>
181	192	194	506	19	19	<b>13</b>
(Yen)						
165.56	179.12	201.31	228.05	244.08	244.08	<b>245.71</b>
48.00	52.00	58.00	66.00	73.00	73.00	<b>77.00</b>
29.0	29.0	28.8	28.9	29.9	29.9	<b>31.3</b>
168.5	189.3	272.4	243.8	244.8	244.8	<b>292.3</b>
1,766.06	1,818.10	1,947.82	2,102.49	2,208.94	2,208.94	<b>2,335.93</b>
(%)						
58.1	59.5	60.9	61.6	61.5	57.5	<b>56.6</b>
13.3	14.5	14.6	15.7	15.7	16.2	<b>17.2</b>
13.1	16.2	15.4	16.3	16.6	17.9	<b>18.4</b>
9.8	11.9	10.1	10.8	11.4	12.1	<b>12.8</b>
329.9	273.9	262.3	275.8	304.5	304.5	<b>327.7</b>
9.6	10.0	11.5	12.2	12.1	12.0	<b>11.7</b>
9.6	10.0	10.7	11.3	11.3	11.3	<b>10.8</b>
75.1	71.2	70.3	72.7	73.9	73.9	<b>76.6</b>
0.00127	0.00134	0.00126	0.00304	0.00011	0.00011	<b>0.00007</b>
29.8	27.9	36.4	32.8	38.0	38.0	<b>51.32</b>

8. The Company changed its fiscal year-end to December 31 from March 31 effective from fiscal 2016/3.

Consequently, fiscal 2016/12 is a transitional period comprising the nine months from April 1, 2016 to December 31, 2016.

9. The "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and "Implementation Guidance on the Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) have been early applied from the beginning of the fiscal year ended December 31, 2020.

## Consolidated balance sheet

 As of December 31,  
2019 and 2020

	2019.12	2020.12
<b>ASSETS</b>		
Current assets		
Cash and deposits	75,580	<b>78,253</b>
Notes and accounts receivable-trade	54,150	<b>52,850</b>
Short-term investment securities	14,977	<b>16,085</b>
Merchandise and finished goods	10,096	<b>8,960</b>
Work in process	1,679	<b>1,548</b>
Raw materials and supplies	3,550	<b>3,631</b>
Other	3,056	<b>2,917</b>
Allowance for doubtful accounts	(45)	<b>(21)</b>
Total current assets	163,046	<b>164,225</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,520	<b>7,961</b>
Machinery, equipment and vehicles, net	4,751	<b>4,729</b>
Tools, furniture and fixtures, net	1,284	<b>1,397</b>
Land	4,248	<b>4,739</b>
Leased assets, net	856	<b>656</b>
Construction in progress	1,519	<b>1,337</b>
Total property, plant and equipment	21,180	<b>20,821</b>
Intangible assets		
Goodwill	1,582	<b>7,284</b>
Trademark rights	92	<b>4,030</b>
Software	1,071	<b>1,286</b>
Other	365	<b>192</b>
Total intangible assets	3,112	<b>12,794</b>
Investments and other assets		
Investment securities	39,533	<b>34,474</b>
Long-term loans receivable	572	<b>700</b>
Deferred tax assets	2,028	<b>1,443</b>
Real estate for investment, net	2,727	<b>2,765</b>
Other	2,150	<b>1,908</b>
Allowance for doubtful accounts	(619)	<b>(766)</b>
Total investments and other assets	46,392	<b>40,525</b>
Total non-current assets	70,685	<b>74,141</b>
Total assets	233,732	<b>238,366</b>

(Millions of yen)

 As of December 31,  
2019 and 2020

	2019.12	2020.12
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	7,979	<b>7,558</b>
Electronically recorded obligations-operating	8,836	<b>8,368</b>
Short-term loans payable	19	<b>13</b>
Accounts payable-other	24,160	<b>20,968</b>
Lease obligations	190	<b>170</b>
Income taxes payable	4,962	<b>4,371</b>
Accrued consumption taxes	1,224	<b>1,417</b>
Provision for bonuses	2,368	<b>2,797</b>
Other	4,024	<b>4,441</b>
Total current liabilities	53,767	<b>50,107</b>
Non-current liabilities		
Lease obligations	682	<b>505</b>
Deferred tax liabilities	2,779	<b>1,357</b>
Net defined benefit liability	2,024	<b>1,920</b>
Provision for directors' retirement benefits	39	<b>40</b>
Other	1,781	<b>1,852</b>
Total non-current liabilities	7,307	<b>5,675</b>
Total liabilities	61,074	<b>55,783</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,450	<b>3,450</b>
Capital surplus	4,183	<b>4,183</b>
Retained earnings	173,650	<b>187,071</b>
Treasury stock	(19,762)	<b>(19,763)</b>
Total shareholders' equity	161,521	<b>174,941</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,212	<b>10,449</b>
Foreign currency translation adjustment	(586)	<b>(1,517)</b>
Re-measurements of retirement benefit plans	(1,489)	<b>(1,290)</b>
Total accumulated other comprehensive income	11,136	<b>7,641</b>
Total net assets	172,657	<b>182,583</b>
Total liabilities and net assets	233,732	<b>238,366</b>

Note. The "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and "Implementation Guidance on the Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) have been early applied from the beginning of the fiscal year ended December 31, 2020.

## Consolidated income statement

(Millions of yen)

Years ended December 31, 2019 and 2020	2019.12	2020.12
Net sales	158,340	150,514
Cost of sales	67,364	65,248
Gross profit	90,975	85,265
Selling, general and administrative expenses		
Promotion expenses	3,780	3,204
Freight and warehousing expenses	4,198	4,401
Advertising expenses	22,618	18,404
Salaries, allowances and bonuses	11,251	11,888
Retirement benefit expenses	807	812
Provision for directors' retirement benefits	1	1
Taxes and dues	744	729
Depreciation	891	872
Amortization of goodwill	396	269
Rent	1,480	1,321
Commission fees	5,492	5,141
Research and development expenses	7,110	7,338
Other	6,542	4,936
Total selling, general and administrative expenses	65,317	59,322
Operating income	25,658	25,943
Non-operating income		
Interest income	338	279
Dividend income	646	468
Real estate rent	293	302
Compensation income	1,000	600
Insurance claim income	45	321
Other	412	374
Total non-operating income	2,736	2,346
Non-operating expenses		
Interest expenses	20	21
Rent cost of real estate	101	96
Foreign exchange losses	150	216
Provision of allowance for doubtful accounts	147	135
Other	122	94
Total non-operating expenses	542	563
Ordinary income	27,851	27,726
Extraordinary income		
Gain on sales of non-current assets	7	4
Gain on sales of investment securities	365	261
Gain on sale of businesses	600	—
Other	10	—
Total extraordinary income	982	265
Extraordinary loss		
Loss on disposal of non-current assets	147	68
Impairment loss	1,663	1,122
Other	218	165
Total extraordinary loss	2,029	1,356
Income before income taxes	26,804	26,635
Income taxes - current	8,378	7,818
Income taxes - deferred	(713)	(388)
Total income taxes	7,665	7,430
Net income	19,139	19,205
Net income attributable to owners of the parent	19,139	19,205

## Consolidated statement of comprehensive income

(Millions of yen)

Years ended December 31, 2019 and 2020	2019.12	2020.12
Net income	19,139	19,205
Other comprehensive income		
Valuation difference on available-for-sale securities	575	(2,762)
Deferred gains or losses on hedges	(2)	—
Foreign currency translation adjustment	(267)	(930)
Adjustment for retirement benefits	309	199
Total other comprehensive income	615	(3,494)
Comprehensive income	19,754	15,710
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	19,754	15,710
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated statement of shareholders' equity

January 1, 2019 to December 31, 2019

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,183	159,857	(11,763)	155,728
Change during current period					
Dividends from surplus			(5,346)		(5,346)
Net income attributable to owners of the parent			19,139		19,139
Purchase of treasury stock				(7,999)	(7,999)
Net changes of items other than shareholders' equity					
Total change during current period	—	—	13,792	(7,999)	5,793
Balance at current period-end	3,450	4,183	173,650	(19,762)	161,521

(millions of yen)

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total	
Balance at period start	12,636	2	(318)	(1,798)	10,520	166,249
Change during current period						
Dividends from surplus						(5,346)
Net income attributable to owners of the parent						19,139
Purchase of treasury stock						(7,999)
Net changes of items other than shareholders' equity	575	(2)	(267)	309	615	615
Total change during current period	575	(2)	(267)	309	615	6,408
Balance at current period-end	13,212	—	(586)	(1,489)	11,136	172,657

January 1, 2020 to December 31, 2020

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at period start	3,450	4,183	173,650	(19,762)	161,521
Change during current period					
Dividends from surplus			(5,784)		(5,784)
Net income attributable to owners of the parent			19,205		19,205
Purchase of treasury stock				(0)	(0)
Net changes of items other than shareholders' equity					
Total change during current period	—	—	13,421	(0)	13,420
Balance at current period-end	3,450	4,183	187,071	(19,763)	174,941

(millions of yen)

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total	
Balance at period start	13,212	—	(586)	(1,489)	11,136	172,657
Change during current period						
Dividends from surplus						(5,784)
Net income attributable to owners of the parent						19,205
Purchase of treasury stock						(0)
Net changes of items other than shareholders' equity	(2,762)	—	(930)	199	(3,494)	(3,494)
Total change during current period	(2,762)	—	(930)	199	(3,494)	9,925
Balance at current period-end	10,449	—	(1,517)	(1,290)	7,641	182,583

# Consolidated statement of cash flows

(millions of yen)

Years ended December 31,  
2019 and 2020

	2019.12	2020.12
<b>Cash flow from operating activities</b>		
Income before income taxes	26,804	26,635
Depreciation	3,731	3,837
Impairment loss	1,663	1,122
Amortization of goodwill	396	269
Interest and dividends income	(985)	(747)
Interest expenses	20	21
Loss (gain) on sales of investment securities	(365)	(261)
Loss (gain) on sales and retirement of non-current assets	140	64
Loss (gain) on sale of businesses	(600)	—
Decrease (increase) in notes and accounts receivable-trade	(1,426)	1,588
Decrease (increase) in inventories	(1,024)	1,309
Increase (decrease) in notes and accounts payable-trade	(993)	(984)
Increase (decrease) in accounts payable-other	(785)	(3,194)
Other	334	1,501
Total	26,912	31,160
Interest and dividend income received	1,019	813
Interest expenses paid	(12)	(15)
Income taxes paid	(7,829)	(7,972)
Net cash provided by operating activities	20,089	23,986
<b>Cash flow from investing activities</b>		
Payments into time deposits	(52,836)	(51,271)
Proceeds from withdrawal of time deposits	52,154	53,401
Proceeds from sales and redemption of securities	—	6,623
Purchase of property, plant and equipment	(4,379)	(3,795)
Proceeds from sales of property, plant and equipment	47	15
Purchase of intangible assets	(425)	(354)
Purchase of investment securities	(23)	(6,620)
Proceeds from sales of investment securities	1,084	705
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,054)	(11,355)
Proceeds from liquidation of subsidiaries	293	—
Proceeds from sale of businesses	600	—
Other	(532)	(5)
Net cash provided by (used in) investing activities	(5,072)	(12,656)
<b>Cash flow from financing activities</b>		
Net increase (decrease) in short-term loans payable	(495)	(5)
Purchase of treasury stock	(8,014)	(0)
Cash dividends paid	(5,333)	(5,784)
Other	(738)	(227)
Net cash provided by (used in) financing activities	(14,581)	(6,019)
Effect of exchange rate change on cash and cash equivalents	(79)	(425)
Net increase (decrease) in cash and cash equivalents	356	4,884
Cash and cash equivalents at beginning of period	55,916	56,272
Cash and cash equivalents at end of period	56,272	61,157

## Our history

- 1886** ● Founder Chubei Kobayashi established Kobayashi Seidaido, an unlimited partnership company, in Monzen-cho, Naka-ku, Nagoya  
The Company sold general merchandise and cosmetics
- 1894** ● Launched 10 types of proprietary pharmaceuticals including *Daikomaru*, *Ichinichimaru* and *Tamushichinki*
- 1912** ● Established Kobayashi Daiyakubou, a limited partnership company, in Hiranomachi, Higashi-ku, Osaka
- 1919** ● Incorporated as Kobayashi Daiyakubou, Co., Ltd. in Kyomachibori, Nishi-ku, Osaka through a merger involving unlimited partnership company Kobayashi Seidaido and limited partnership company Kobayashi Daiyakubou  
Kichitaro Kobayashi is appointed as the first president
- 1939** ● Launched *Hakkiri*, a headache medicine
- 1940** ● Spun off the manufacturing division of Kobayashi Daiyakubou, to establish Kobayashi Pharmaceutical Co., Ltd.  
Juso Plant began operations in Higashi-yodogawa-ku, Osaka (currently Yodogawa-ku)
- 1948** ● Saburo Kobayashi is appointed as the second president
- 1956** ● Kobayashi Daiyakubou Co., Ltd. and Kobayashi Pharmaceutical Co., Ltd. were merged and renamed Kobayashi Pharmaceutical Co., Ltd.  
Relocated the Head Office to Dosho-machi, Higashi-ku, Osaka (currently Dosho-machi, Chuo-ku)
- 1958** ● Teruko Kobayashi is appointed as the third president
- 1966** ● Launched *Ammeltz*, a topical analgesic
- 1969** ● Launched *Bluelet*, a toilet bowl cleaner and freshener, and entered household products market
- 1972** ● Formed partnership with C.R. Bard, Inc. of the U.S. to establish medical devices importer Japan Medico, Inc. and enter the medical devices market
- 1975** ● Launched *Sawaday*, a toilet air freshener, and entered the air fresheners market
- 1976** ● Kazumasa Kobayashi is appointed as the fourth president  
Japan Medico, Inc. became Medicon, Inc., a joint venture company with C.R. Bard, Inc.
- 1983** ● Established Toyama Kobayashi Pharmaceutical Co., Ltd. (Toyama City, Toyama Prefecture)
- 1988** ● Angel Ltd. was made a consolidated subsidiary of Kobayashi Pharmaceutical Co., Ltd. to acquire a manufacturing site (Niihama City, Ehime Prefecture)
- 1992** ● Established Kobayashi Medical as part of the Medical Devices Business
- 1993** ● Established Sendai Kobayashi Pharmaceutical Co., Ltd. (Kurokawa-gun, Miyagi Prefecture)
- 1996** ● Launched *Toughdent*, a denture cleanser
- 1998** ● Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd., a joint venture company in China  
Established Kobayashi Healthcare, LLC in the U.S.
- 1999** ● Listed on the Second Section of the Osaka Securities Exchange  
Launched mail order sales of nutritional supplements, marking the start of the Direct Marketing Business
- 2000** ● Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange  
Established the Central R&D Laboratory in Ibaraki City, Osaka Prefecture  
Spun off the trade division to form Kobashou Co., Ltd.
- 2001** ● Made Kiribai Chemical Co., Ltd., a body warmer manufacturer, a subsidiary (Yodogawa-ku, Osaka)  
Established Kobayashi Healthcare Europe, Ltd. in the U.K.
- 2002** ● Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong  
Made Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. a wholly owned subsidiary, changing the company name to Shanghai Kobayashi Daily Chemicals Co., Ltd.  
Took over the health food business, mainly for *Tochucha* (eucommia leaf tea), from Hitachi Zosen Corporation
- 2003** ● Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.
- 2004** ● Yutaka Kobayashi is appointed as the fifth president
- 2005** ● Obtained exclusive sales rights for women's health medicine *Inochi no Haha A* from Sasaokayakuin Corporation
- 2006** ● Made eVent Medical Ltd., a medical device manufacturer in Ireland, a subsidiary  
Made Heat Max, Inc., a body warmer manufacturer in the U.S., a subsidiary
- 2008** ● Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd. Conducted share exchange  
Spun off the manufacturing division of Kiribai Chemical Co., Ltd. to establish Kiribai Kobayashi Pharmaceutical Co., Ltd.  
Obtained trademark rights for Bisrat Gold from Ishihara Chemical Co., Ltd.
- 2009** ● Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd. in Singapore
- 2010** ● Spun off the medical device division into Kobayashi Medical Co., Ltd.
- 2011** ● Transferred all eVent Medical Ltd. shares in a management buy-out  
Established Kobayashi Healthcare (Malaysia) Sdn. Bhd. in Malaysia  
Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd. in Taiwan
- 2012** ● Made Grabber, Inc., a body warmer manufacturer in the U.S., a subsidiary  
Established PT. Kobayashi Pharmaceutical Indonesia in Indonesia  
Established Hefei Kobayashi Daily Products Co., Ltd. in China  
Sold 80 percent of Kobayashi Medical Co., Ltd. (currently Japan Medicalnext Co., Ltd.) shares to Mitsubishi Corporation
- 2013** ● Made Rokuyo Pharmaceutical Co., Ltd., a manufacturer of pharmaceutical products, quasi-pharmaceutical products and cosmetics, a subsidiary  
Established Kobayashi Healthcare Australia Pty., Ltd. in Australia  
Transferred all Japan Medicalnext Co., Ltd. shares to Mitsubishi Corporation  
Established Hefei Kobayashi Pharmaceutical Co., Ltd. in China  
Akihiro Kobayashi is appointed as the sixth president  
Established Kobayashi Healthcare (Thailand) Co., Ltd. in Thailand  
Made Juju Cosmetics Co., Ltd., a cosmetics manufacturer, into a subsidiary
- 2015** ● Acquired Ganyaku Hitifuku brand from Hitifuku Inc.  
Dissolved the joint venture with U.S. company Bard International Inc. and sold all its shares to Medicon, Inc.
- 2016** ● Acquired monascus purpureus business from Gunze Limited  
Made Perfecta Products, Inc., a company engaged in the planning and sale of OTC pharmaceuticals and cosmetics in the U.S., a subsidiary
- 2017** ● Acquired exclusive marketing rights in Japan for Bioil from Union-Swiss (Pty) Ltd. (headquartered in South Africa)
- 2018** ● Made Jiangsu Zhongdan Pharmaceutical Co., Ltd. a subsidiary, changing the company name to Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- 2019** ● Made Meitan Hompo Co., Ltd., a manufacturer of health and other products made using Japanese plum, a subsidiary
- 2020** ● Made Alva-Amco Pharmacal Companies, Inc., a subsidiary to develop and grow the OTC pharmaceutical business in North America

## Corporate data / Investor information (As of December 31, 2020)

### Corporate data

<b>Corporate Name</b>	KOBAYASHI PHARMACEUTICAL CO., LTD.
<b>Incorporated</b>	August 22, 1919
<b>Head Office</b>	4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan
<b>Representative</b>	Akihiro Kobayashi, Representative Director, President and Chief Operating Officer
<b>Employees</b>	3,473 (consolidated), 1,589 (non-consolidated)
<b>Consolidated Subsidiaries</b>	35 (14 domestic, 21 overseas)

### Investor information

<b>Common Stock</b>	¥3,450 million
<b>Shares Authorized</b>	340,200,000
<b>Shares Issued</b>	82,050,000
<b>Shareholders</b>	15,554
<b>Stock Exchange Listing</b>	Tokyo Stock Exchange First Section
<b>Transfer Agent / Account Management Institution for Special Accounts</b>	Mitsubishi UFJ Trust and Banking Corporation

### Group companies

● Domestic Business ● International Business ● Other Business

#### Consolidated Subsidiaries (Domestic)

- Toyama Kobayashi Pharmaceutical Co., Ltd.
- Sendai Kobayashi Pharmaceutical Co., Ltd.
- Ehime Kobayashi Pharmaceutical Co., Ltd.
- Kiribai Kobayashi Pharmaceutical Co., Ltd.
- Aloe Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical Plax Co., Ltd.
- SP-Planning, Inc.
- Archer Corporation
- Suehiro Sangyo Co., Ltd.
- Kobayashi Pharmaceutical Distribution Co., Ltd.
- True Nature Co., Ltd.
- Kobayashi Pharmaceutical Value Support Co., Ltd.
- Kobayashi Pharmaceutical Global E-commerce Co., Ltd.
- Meitan Hompo Co., Ltd.

#### Consolidated Subsidiaries (Overseas)

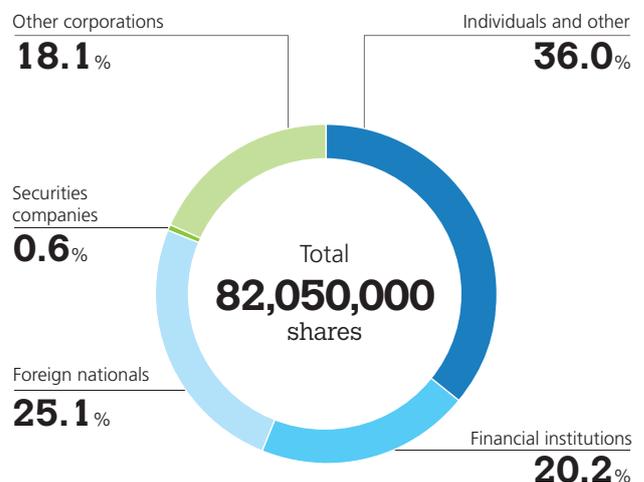
- Kobayashi Healthcare, LLC
- Kobayashi Healthcare Europe, Ltd.
- Shanghai Kobayashi Daily Chemicals Co., Ltd.
- Hefei Kobayashi Daily Products Co., Ltd.
- Hefei Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.
- Kobayashi (China) Co., Ltd.
- Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical (Singapore) Pte. Ltd.
- Kobayashi Pharmaceutical (Taiwan) Co., Ltd.
- Kobayashi Healthcare (Malaysia) Sdn. Bhd.
- PT. Kobayashi Pharmaceutical Indonesia
- Kobayashi Healthcare Australia Pty., Ltd.
- Kobayashi Healthcare (Thailand) Co., Ltd.
- Kobayashi Healthcare International, Inc.
- Kobayashi Consumer Products, LLC
- Kobayashi America Manufacturing, LLC
- Mediheat, Inc.
- Berlin Industries, Inc.
- Perfecta Products, Inc.
- Alva-Amco Pharmacal Companies, Inc.

### Major shareholders

Name	Percentage of total shares held (%)
Akihiro Kobayashi	11.8
The Kobayashi Foundation	7.6
State Street Bank and Trust Company 505223	5.9
The Master Trust Bank of Japan, Ltd. (trust account)	5.8
Custody Bank of Japan (Trust Account)	3.3
Ikuko Watanabe	3.1
Ohtori Co., Ltd.	2.7
Forum Co., Ltd.	2.6
Yukako Iue	2.3
Kobayashi Pharmaceutical Business Association	2.0

- The Company holds 3,886,911 shares of treasury stock, but is excluded from the above list of major shareholders.
- Percentage of total shares held is calculated excluding treasury stock.

### Shareholder composition





# KOBAYASHI Pharm. Co., Ltd.

KDX Kobayashi Doshomachi Bldg.,  
4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan  
Tel +81 (0)6-6222-0142 Fax +81 (0)6-6222-4261  
URL <https://www.kobayashi.co.jp/english>