

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 1st Quarter of the Fiscal Year Ending December 31, 2017

April 28, 2017

Listed exchanges	: Tokyo
Listed company name	: Kobayashi Pharmaceutical Co., Ltd.
Code	: 4967
URL	: <a href="http://www.kobayashi.co.jp">http://www.kobayashi.co.jp</a>
Representative officer	: Akihiro Kobayashi, President & COO
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Expected date for submitting quarterly securities report	: May 10, 2017
Preparation of supplementary documents for quarterly financial results	: None
Holding of an analyst meeting for quarterly financial results	: None

(Any fraction less than 1 million yen is rounded down to the nearest million yen.)

### 1. Consolidated Results for 1st Quarter of Fiscal Year Ending December 31, 2017 (January 1, 2017 to March 31, 2017)

#### (1) Consolidated Operating Results (accumulation)

(% figures represent changes from same period in previous year)

	Q1 of FY ending December 31, 2017		Q1 of FY ended December 31, 2016	
Net sales	30,749 millions of yen	— %	36,767 millions of yen	— %
Operating income	4,958	—	7,299	—
Ordinary income	4,851	—	7,142	—
Net income attributable to owners of the parent	3,455	—	5,219	—
Net income per share	43.84 yen		64.97 yen	
Net income per share after full dilution	43.81		64.92	

(Note) Comprehensive income

Q1 of FY ending December 31, 2017: 2,459 million yen (—%) Q1 of FY ended December 31, 2016: 1,243 million yen (—%)

- Following approval of the proposal "Partial Amendment to the Articles of Incorporation" at the 98th Ordinary General Meeting of Shareholders held on June 29, 2016, the Company changed the book-closing date from March 31 to December 31, effective from FY 2016. Accordingly, the previous consolidated fiscal year was a transitional period for the change in accounting period, meaning an irregular period, and the 1st Quarter of the previous consolidated operating period covers three months (April 1, 2016 to June 30, 2016) for the Company and its consolidated subsidiaries that close their accounts in March, as opposed to six months (January 1, 2016 to June 30, 2016) for consolidated subsidiaries that close their accounts in December. Therefore, the year-on-year percentage changes have been omitted in the tables above.
- The Company implemented a two-for-one common stock split effective July 1, 2016. Net income per share and net income per share after full dilution were calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year.

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## (2) Consolidated Financial Position

	Q1 of FY ending December 31, 2017	As of December 31, 2016
Total assets	196,385 millions of yen	201,234 millions of yen
Net assets	143,704	143,320
Shareholders' equity ratio	73.1 %	71.2 %
Net assets per share	1,822.62 yen	1,818.10 yen

(Reference) Shareholders' equity

Q1 of FY ending December 31, 2017: 143,642 million yen As of December 31, 2016: 143,252 million yen

The Company implemented a two-for-one common stock split effective July 1, 2016. Net assets per share were calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year.

## 2. Dividends

	FY ended December 2016	FY ending December 2017	FY ending December 2017 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	25.00 yen		26.00 yen
Q3 end	—		—
Year-end	27.00		26.00
Total	52.00		52.00

(Note) Revision to the latest dividend forecast: None

## 3. Forecasts of Consolidated Operational Results for Year Ending December 31, 2017 (January 1, 2017 to December 31, 2017)

(Percentages represent changes from previous year for full-year results, and changes from same period of previous year for quarterly results.)

	Interim (1st half)		Full year	
Net sales	63,500 millions of yen	— %	150,000 millions of yen	— %
Operating income	7,600	—	20,000	—
Ordinary income	7,100	—	21,000	—
Net income attributable to owners of the parent	5,000	—	15,100	—
Earnings per share	63.45 yen		191.62 yen	

(Note) Revision to the latest dividend forecast: None

The Company changed the book-closing date from March 31 to December 31, effective from FY 2016. Accordingly, the previous consolidated fiscal year is an irregular accounting period for the change, covering nine months (April 1, 2016 to December 31, 2016) for the Company and its consolidated subsidiaries that close their accounts in March, as opposed to 12 months (January 1, 2016 to December 31, 2016) for consolidated subsidiaries that close their accounts in December. Therefore, the year-on-year percentage changes have been omitted in the tables above.

[Reference] The year-on-year percentage change (after adjustments) is shown below by assuming that the accounting period is 12 months (January 1, 2016 to December 31, 2016) for the Company and its consolidated subsidiaries that close their accounts in March for the purpose of comparison with the forecasts for the fiscal year ending December 31, 2017.

Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	(million yen)
150,000 3.6%	20,000 8.4%	21,000 3.1%	15,100 0.5%	

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**\* Notes**

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries resulting in a change in consolidation scope): None  
 Newly included: - (Name) ; Excluded: - (Name)

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Change in accounting policies, change in accounting estimation, modification/restatement

1) Changes in accounting policies due to revisions of accounting standards: None

2) Change in accounting policies for other reasons: None

3) Change in estimations in accounting: None

4) Modification/restatement: None

(4) Issued shares (common shares)

1) Number of shares issued at period-end (including treasury stock):

Q1 of FY ending December 31, 2017	82,050,000 shares	FY ended December 31, 2016	85,050,000 shares
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2) Number of shares of treasury stock at period-end:

Q1 of FY ending December 31, 2017	3,239,237 shares	FY ended December 31, 2016	6,257,437 shares
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3) Average number of shares outstanding during period (consolidated cumulative quarters)

Q1 of FY ending December 31, 2017	78,802,979 shares	Q1 of FY ended December 31, 2016	80,335,996 shares
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\* This brief report of quarterly financial statements is not subject to audit procedures.

**\* Notes on proper use of forecasts and other matters**

The forward-looking statements in this document concerning forecasts of operational results, etc. are based on currently available information and assumptions considered reasonable by the Company. Actual operational results may be significantly different from these statements due to various factors. For the assumptions used as the basis for forecasts of operational results and important matters to be noted when using the forecast of performance, please refer to "1. Qualitative Information on Quarterly Results, (3) Explanation of future forecast information, such as forecast of consolidated results" on page 3 of the attachment.

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# KOBAYASHI PHARMACEUTICAL CO., LTD.

## 1. Qualitative Information on Quarterly Results

Following approval of the proposal "Partial Amendment to the Articles of Incorporation" at the 98th Ordinary General Meeting of Shareholders held on June 29, 2016, the Company changed the book-closing date from March 31 to December 31, effective from FY 2016. Accordingly, the previous consolidated fiscal year was a transitional period for the change in accounting period, meaning an irregular period, and the 1st Quarter of the previous consolidated operating period covers three months (April 1, 2016 to June 30, 2016) for the Company and its consolidated subsidiaries that close their accounts in March, as opposed to six months (January 1, 2016 to June 30, 2016) for consolidated subsidiaries that close their accounts in December. Therefore, the year-on-year percentage change has been omitted.

### (1) Explanation of operational results

During the first three-month period of the consolidated fiscal year under review, the Japanese economy witnessed a recovery trend as shown in the improvement of corporate earnings and employment helped by the continued economic stimulus measures implemented by the government. On the other hand, however, consumer spending continued to face a tough situation.

Under these circumstances, the Group launched new products that satisfy customers' needs, strengthened its existing product lineups, and invested in businesses with high future growth potential, with the brand slogan "You make a wish and we make it happen."

As a result, net sales, operating income and ordinary income were 30,749 million yen, 4,958 million yen and 4,851 million yen, respectively, and net income attributable to owners of the parent was 3,455 million yen.

The following is an overview of segment performance.

#### Domestic Consumer Products Business

In the Domestic Consumer Products Business, the Company launches new products in spring and autumn every year. Among the products launched during FY 2016 that contributed to the growth in sales were *Ammeltz NEO* (an external anti-inflammatory), *Bisrat Gold EX* (an obesity therapeutic drug), *Senacure* (a therapeutic drug for blotches on the back or décolleté), *Curelea* (a therapeutic drug for skin), *Oheya no Shoshugen Parfum* (a stylish deodorizer and freshener with a graceful fragrance). The Company will launch 11 new products in the spring of 2017.

Existing healthcare products that recorded robust sales included *Eyebon* (an eye wash solution), *Inochi No Haha A* (a women's health medicine), *Attonon* (a scar concealer), *Chikunain*, *Dusmock*, *Urinal* (herbal medicines), and *Breathcare* (breath-refreshing capsules). Household products that contributed to the growth in sales were *Sarasaty* (a sheet for absorbing vaginal discharge) and *Sawaday Kaoru Stick* (Indoor stylish fragrance). Skincare products such as *EAUDE MUGE* (a medicated lotion) and *Keshimin* (a skincare product for spots) also sold well.

As a result, net sales and segment income (ordinary income) were 24,959 million yen and 4,520 million yen, respectively. Meanwhile, operating income was 4,396 million yen.

Net sales include inter-segment sales or transfers, which totaled 1,303 million yen in the first three-month period of the consolidated fiscal year under review.

#### (Breakdown of sales to external customers)

	Q1 ended June 30, 2016 (April 1, 2016 to June 30, 2016)	Q1 ended March 31, 2017 (January 1, 2017 to March 31, 2017)
	Amount (millions of yen)	Amount (millions of yen)
Healthcare products	13,794	12,408
Household products	12,696	8,920
Skin care	1,301	1,349
Body warmers	(74)	977
Total	27,717	23,655

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## Overseas Consumer Products Business

In the Overseas Consumer Products Business, the Company markets, mostly in the United States, China and Southeast Asia, the body warmers, *Netsusama Sheet* (a cooling gel sheet for the forehead) and *Ammeltz* (an external anti-inflammatory), and sought to expand sales by aggressively investing principally in advertising and sales promotions.

As a result, net sales and segment income (ordinary income) were 4,607 million yen and 269 million yen, respectively. Operating income was 309 million yen.

Net sales include inter-segment sales or transfers, which totaled 204 million yen in the first three-month period of the consolidated fiscal year under review.

(Breakdown of sales to external customers)

	Q1 ended June 30, 2016 (April 1, 2016 to June 30, 2016)	Q1 ended March 31, 2017 (January 1, 2017 to March 31, 2017)
	Amount (millions of yen)	Amount (millions of yen)
United States	1,506	1,471
China	2,159	1,138
Southeast Asia	1,880	1,246
Others	738	545
Total	6,284	4,402

## Direct Marketing Business

The Direct Marketing Business markets nutritional supplements and skin care products. The Company strove to attract new customers while encouraging existing customers to continue to place orders for its products through sales promotional campaigns, such as advertising and direct mail.

Consequently, the Company reported net sales of 2,443 million yen and segment income (ordinary income) of 52 million yen. Meanwhile, operating income was 53 million yen.

Net sales do not include inter-segment sales or transfers.

## Other Businesses

Businesses in this segment include the medical devices business, transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, advertisement planning and production, etc. The companies in this business segment operate individually on a financially independent basis, and their delivery prices of materials and services were reviewed and revised as necessary.

As a result, the Company posted net sales of 1,382 million yen, segment income (ordinary income) of 317 million yen, and operating income of 184 million yen.

Net sales include inter-segment sales or transfers, which totaled 1,134 million yen in the first three-month period of the consolidated fiscal year under review.

## **(2) Explanation of financial position**

Total assets decreased by 4,848 million yen from the balance as of the end of the previous consolidated fiscal year, to 196,385 million yen. This is attributable mainly to an increase of 2,179 million yen in cash and deposits, a decrease of 11,174 million yen in notes and accounts receivable-trade, an increase of 2,000 million yen in short-term investment securities, and an increase of 1,891 million yen in merchandise and finished goods.

Liabilities decreased by 5,233 million yen from the balance as of the end of the previous consolidated fiscal year, to 52,681 million yen. This was attributable mainly to a decrease of 594 million yen in electronically recorded obligations-operating, a decrease of 3,374 million yen in accounts payable-other, and a decrease of 1,102 million yen in income taxes payable.

Net assets grew by 384 million yen from the balance as of the end of the previous consolidated fiscal year, to 143,704 million yen, bringing the capital adequacy ratio to 73.1%. This is mainly attributable to a decrease of 775 million yen in capital surplus, a decrease of 8,011 million yen in retained earnings, a decrease of 10,171 million yen in treasury stock, and a decrease of 680 million yen in foreign currency translation adjustment.

## **(3) Explanation of future forecast information, such as forecast of consolidated results**

The Group did not revise its forecast of consolidated results for the fiscal year ending December 31, 2017, which the Group announced via the "Summary of Financial Statements for the Fiscal Year ended December 31, 2016" released on February 1, 2017.

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## 2. Consolidated Quarterly Financial Statements and Main Notes

### (1) Consolidated quarterly balance sheet

(millions of yen)

	Previous consolidated fiscal year (December 31, 2016)	Q1 of current fiscal year (March 31, 2017)
<b>ASSETS</b>		
Current assets		
Cash and deposits	58,173	60,352
Notes and accounts receivable-trade	47,045	35,871
Short-term investment securities	5,500	7,500
Merchandise and finished goods	9,222	11,113
Work in process	751	827
Raw materials and supplies	2,832	2,827
Deferred tax assets	2,899	3,331
Other	2,267	2,062
Allowance for doubtful accounts	(45)	(39)
Total current assets	128,646	123,846
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,377	8,247
Machinery, equipment and vehicles, net	3,478	3,626
Tools, furniture and fixtures, net	1,407	1,454
Land	3,552	3,550
Leased assets, net	628	612
Construction in progress	388	279
Total property, plant and equipment	17,833	17,771
Intangible assets		
Goodwill	4,729	4,412
Trademark rights	480	449
Software	962	961
Other	1,051	995
Total intangible assets	7,223	6,818
Investments and other assets		
Investment securities	40,281	40,779
Long-term loans receivable	171	187
Deferred tax assets	383	375
Real estate for investment, net	2,967	3,001
Other	3,991	3,888
Allowance for doubtful accounts	(265)	(283)
Total investments and other assets	47,529	47,949
Total non-current assets	72,587	72,539
Total assets	201,234	196,385

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(millions of yen)

	Previous consolidated fiscal year (December 31, 2016)	Q1 of current fiscal year (March 31, 2017)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	8,169	8,287
Electronically recorded obligations—operating	7,849	7,254
Short-term loans payable	192	182
Accounts payable-other	20,191	16,817
Lease obligations	56	55
Income taxes payable	3,357	2,254
Accrued consumption taxes	1,090	933
Provision for sales returns	1,409	1,353
Provision for bonuses	1,147	2,040
Asset retirement obligations	37	37
Other	3,472	2,849
Total current liabilities	46,975	42,067
Non-current liabilities		
Lease obligations	581	567
Deferred tax liabilities	3,841	3,514
Net defined benefit liability	4,337	4,314
Provision for directors' retirement benefits	33	33
Provision for loss on business liquidation	—	20
Asset retirement obligations	80	80
Other	2,063	2,082
Total non-current liabilities	10,938	10,613
Total liabilities	57,914	52,681
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,958	4,183
Retained earnings	147,901	139,889
Treasury stock	(21,088)	(10,916)
Total shareholders' equity	135,221	136,606
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,481	9,115
Deferred gains or losses on hedges	40	18
Foreign currency translation adjustment	680	0
Re-measurements of retirement benefit plans	(2,171)	(2,098)
Total accumulated other comprehensive income	8,031	7,035
Subscription rights to shares	67	62
Total net assets	143,320	143,704
Total liabilities and net assets	201,234	196,385



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(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income  
(Consolidated quarterly statements of income)  
(Three-month period ended March 31, 2017)

(millions of yen)

	Three-month period ended June 30, 2016 (April 1, 2016 to June 30, 2016)	Three-month period ended March 31, 2017 (January 1, 2017 to March 31, 2017)
Net sales	36,767	30,749
Cost of sales	13,958	11,446
Gross profit	22,808	19,302
Selling, general and administrative expenses	15,509	14,343
Operating income	7,299	4,958
Non-operating income		
Interest income	66	58
Dividend income	175	3
Real estate rent	72	73
Other	97	110
Total non-operating income	411	246
Non-operating expenses		
Interest expenses	7	5
Sales discounts	145	148
Rent cost of real estate	18	18
Foreign exchange losses	343	153
Other	53	28
Total non-operating expenses	568	353
Ordinary income	7,142	4,851
Extraordinary income		
Gain on sales of non-current assets	3	0
Other	—	0
Total extraordinary income	3	0
Extraordinary loss		
Loss on sales and retirement of non-current assets	20	13
Impairment loss	—	2
Loss on business liquidation	9	—
Provision for loss on business liquidation	529	20
Other	7	0
Total extraordinary loss	566	36
Income before income taxes	6,580	4,815
Income taxes - current	2,564	1,938
Income taxes - deferred	(1,184)	(578)
Total income taxes	1,379	1,360
Net income	5,200	3,455
Net loss attributable to non-controlling interests	(18)	—
Net income attributable to owners of the parent	5,219	3,455

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(Consolidated quarterly statements of comprehensive income)  
(Three-month period ended March 31, 2017)

(millions of yen)

	Three-month period ended June 30, 2016 (April 1, 2016 to June 30, 2016)	Three-month period ended March 31, 2017 (January 1, 2017 to March 31, 2017)
Net income	5,200	3,455
Other comprehensive income		
Valuation difference on available-for-sale securities	(713)	(365)
Deferred gains or losses on hedges	(108)	(22)
Foreign currency translation adjustment	(3,183)	(680)
Adjustment for retirement benefits	47	72
Total other comprehensive income	(3,957)	(995)
Quarterly comprehensive income	1,243	2,459
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	1,271	2,459
Comprehensive income attributable to non-controlling interests	(28)	—

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(3) Notes on quarterly consolidated financial statements  
(Notes on assumption of going concern)

Not applicable

## (Notes on a significant change in shareholders' equity)

Based on the resolution made at the Board of Directors' meeting held on February 1, 2017, the Company cancelled 3,000,000 shares of treasury stock on February 17, 2017, resulting in decreases of 770 million yen in capital surplus, 9,339 million yen in retained earnings, and 10,110 million yen in treasury stock in the first three-month period of the consolidated fiscal year under review. Consequently, capital surplus, retained earnings and treasury stock were 4,183 million yen, 139,889 million yen and 10,916 million yen, respectively, as of the end of the first three-month period of the consolidated fiscal year ending December 31, 2017.

## (Segment information)

I. Q1 of previous consolidated fiscal year (April 1, 2016 to June 30, 2016)

## 1. Information on net sales, income or loss by reportable segment

(millions of yen)

	Reportable Segments				Other (Note 1)	Grand Total	Adjustment (Note 2)	Figures in quarterly consolidated statements of income (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	27,717	6,284	2,244	36,246	521	36,767	—	36,767
Inter-segment sales and transfers	1,422	378	—	1,801	1,104	2,905	(2,905)	—
Total	29,139	6,663	2,244	38,047	1,625	39,672	(2,905)	36,767
Segment income (loss)	6,704	262	(10)	6,955	324	7,280	(137)	7,142

(Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the medical devices business, transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.

2. Adjustments of -137 million yen in segment income are eliminations among segments, and profits and expenses not distributed to the relevant business segment.

3. Segment income is adjusted with ordinary income in the consolidated quarterly statements of income.

## 2. Information concerning impairment loss on non-current assets or goodwill by reportable segments

The Group does not provide information concerning impairment loss on non-current assets or goodwill because it does not recognize significant impairment loss on non-current assets and there is no significant change in the value of goodwill.

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## II. Q1 of current consolidated fiscal year (January 1, 2017 to March 31, 2017)

### 1. Information on net sales, income or loss by reportable segment

(millions of yen)

	Reportable Segments				Other (Note 1)	Grand Total	Adjustment (Note 2)	Figures in quarterly consolidated statements of income (Note 3)
	Domestic Consumer Products Business	Overseas Consumer Products Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	23,655	4,402	2,443	30,502	247	30,749	—	30,749
Inter-segment sales and transfers	1,303	204	—	1,508	1,134	2,643	(2,643)	—
Total	24,959	4,607	2,443	32,010	1,382	33,392	(2,643)	30,749
Segment income	4,520	269	52	4,842	317	5,160	(308)	4,851

(Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the medical devices business, transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.

2. Adjustments of -308 million yen in segment income are eliminations among segments, and profits and expenses not distributed to relevant business segment.

3. Segment income is adjusted with ordinary income in the consolidated quarterly statements of income.

### 2. Information concerning impairment loss on non-current assets or goodwill by reportable segments

The Group does not provide information concerning impairment loss on non-current assets or goodwill because it does not recognize significant impairment loss on non-current assets and there is no significant change in the value of goodwill.

(Important subsequent events)

Not applicable