

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 1st Quarter of the Fiscal Year Ending December 31, 2018

April 25, 2018

Listed exchanges	: Tokyo
Listed company name	: Kobayashi Pharmaceutical Co., Ltd.
Code	: 4967
URL	: https://www.kobayashi.co.jp/english/index.html
Representative officer	: Akihiro Kobayashi, President & COO
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Tel	: +81-6-6222-0142
Expected date for submitting quarterly securities report	: May 9, 2018
Expected date for starting payment of dividends	: —
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, 2018 (January 1, 2018 to March 31, 2018)

(1) Consolidated Operating Results (accumulation)

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

	Q1 of FY ending December 31, 2018		Q1 of FY ended December 31, 2017	
Net sales	33,715 millions of yen	9.6 %	30,749 millions of yen	— %
Operating income	5,567	12.3	4,958	—
Ordinary income	5,416	11.6	4,851	—
Net income attributable to owners of the parent	3,821	10.6	3,455	—
Net income per share	48.39 yen		43.84 yen	
Net income per share after full dilution	48.34		43.81	

(Note) Comprehensive income

Q1 of FY ending December 31, 2018: 2,515 million yen (2.3%)

Q1 of FY ended December 31, 2017: 2,459 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 FY 2016. Accordingly, the first quarter of FY 2017 was the three-month period from January 1, 2017 to March 31, 2017, while the first quarter of FY 2016 was the three-month period from April 1, 2016 to June 30, 2016. Therefore, the year-on-year percentage changes from results for the year ended March 31, 2016 have been omitted in the tables above.

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(2) Consolidated Financial Position

	Q1 of FY ending December 31, 2018	As of December 31, 2017
Total assets	210,665 millions of yen	218,831 millions of yen
Net assets	154,039	153,811
Shareholders' equity ratio	73.1 %	70.3 %
Net assets per share	1,950.10 yen	1,947.82 yen
(Reference) Shareholders' equity	Q1 of FY ending December 31, 2018: 154,009 million yen As of December 31, 2017: 153,774 million yen	

2. Dividends

	FY ended December 2017	FY ending December 2018	FY ending December 2018 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	28.00 yen		30.00 yen
Q3 end	—		—
Year-end	30.00		30.00
Total	58.00		60.00

(Note) Revision to the latest dividend forecast: None

3. Forecasts of Consolidated Operational Results for Year Ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(% figures represent changes from previous period.)

	Full year	
Net sales	163,000 millions of yen	4.0 %
Operating income	23,700	3.4
Ordinary income	24,800	2.5
Net income attributable to owners of the parent	17,000	7.2
Net income per share	215.33 yen	

(Note) Revision to the latest forecasts of operational results: None

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* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes of the scope of consolidation): None
- (2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to revisions of accounting standards: None
 - 2) Changes in accounting policies other than 1): None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None

(4) Issued shares (common shares)

1) Number of shares issued at period-end (including treasury stock):	Q1 of FY ending December 31, 2018	82,050,000 shares	FY ended December 31, 2017	82,050,000 shares
2) Number of shares of treasury stock at period-end:	Q1 of FY ending December 31, 2018	3,074,937 shares	FY ended December 31, 2017	3,102,937 shares
3) Average number of shares outstanding during period (consolidated cumulative quarters)	Q1 of FY ending December 31, 2018	78,963,259 shares	Q1 of FY ended December 31, 2017	78,802,979 shares

* This brief report of quarterly financial statements is not subject to audit procedures by a certified public accountant or an independent auditor.

* 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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1. Qualitative Information on Quarterly Results

(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. In addition, consumer spending also showed signs of gradual recovery.

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 33,715 million yen (+9.6% year on year), 5,567 million yen (+12.3% year on year) and 5,416 million yen (+11.6% year on year), respectively, and net income attributable to owners of the parent was 3,821 million yen (+10.6% year on year).

The following is an overview of segment performance.

Domestic Consumer Products Business

In the Domestic Consumer Products Business, the Company launches new products in the spring and the fall every year. Among the products launched during FY 2017 that contributed to the growth in sales were *Kurocure* (a therapeutic drug for dark rough elbows and knees), *Hishimore* (a drug to improve dry skin lacking sebum), *Nightmin Nasal Breathing Tape* (a strip that is attached to the lips during sleep to facilitate breathing through the nose), and *Sawaday Kaoru Stick Flower Aroma* (a fragrance for indoor use containing select scented oils). The Company will launch 10 new products in the spring of 2018.

Existing healthcare products that recorded robust sales included kampo medicines, such as *Inochi No Haha* (a women's health medicine), *Naishitoru* and *Bisrat Gold* (obesity therapeutic drugs), and *Chikunain* (a remedy for empyema), *Ito Yoji* and *Yawaraka Shikan Brush* (dental tools that remove food debris and dental plaque), and *Shoyo* (medicated toothpaste to prevent alveolar pyorrhea). Household products that contributed to the growth in sales were *Netsusama Sheet* (a cooling gel sheet for the forehead), *Sarasaty* (a sheet for absorbing vaginal discharge), *Nodonool Nure Mask* (a humidifying mask with filter to moisten the throat), and *Bluelet* (a toilet deodorizer and bowl bleach tablet).

Consequently, the Company reported net sales of 26,868 million yen (+7.7% year on year) and segment income (ordinary income) of 4,929 million yen (+9.1% year on year). Meanwhile, operating income was 4,677 million yen (+6.4% year on year).

Net sales include inter-segment sales or transfers, which totaled 1,303 million yen in the first three-month period of the previous year and 1,387 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q1 ended March 31, 2017 (January 1, 2017 to March 31, 2017)	Q1 ended March 31, 2018 (January 1, 2018 to March 31, 2018)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
Healthcare products	12,408	13,248	840	6.8
Household products	8,920	9,722	801	9.0
Skin care	1,349	1,268	(81)	(6.0)
Body warmers	977	1,241	264	27.0
Total	23,655	25,481	1,825	7.7

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 promotion.

As a result, net sales and segment income (ordinary income) were 5,612 million yen (+21.8% year on year) and 730 million yen (+170.8% year on year), respectively. Operating income was 775 million yen (+150.8% year on year).

Net sales include inter-segment sales or transfers, which totaled 204 million yen in the first three-month period of the previous year and 208 million yen in the same period of the current year.

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(Breakdown of sales to external customers)

	Q1 ended March 31, 2017 (January 1, 2017 to March 31, 2017)	Q1 ended March 31, 2018 (January 1, 2018 to March 31, 2018)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	1,471	1,562	90	6.1
China	1,138	2,045	906	79.6
Southeast Asia	1,246	1,250	4	0.4
Others	545	545	(0)	(0.1)
Total	4,402	5,403	1,001	22.7

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 2,582 million yen (+5.7% year on year) and segment income (ordinary income) of 20 million yen (-61.3% year on year). Meanwhile, operating income was 18 million yen (-64.6% year on year).

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

Other Businesses

Businesses in this segment include the 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 1,442 million yen (+4.4% year-on-year) and segment income (ordinary income) of 210 million yen (-33.5% year-on-year). Operating income was 63 million yen (-65.4% year-on-year).

Net sales include inter-segment sales or transfers, which totaled 1,134 million yen in the first three-month period of the previous year and 1,195 million yen in the same period of the current year.

(2) Explanation of financial position

Total assets decreased by 8,165 million yen from the balance as of the end of the previous consolidated fiscal year, to 210,665 million yen. This was attributable mainly to an increase of 2,602 million yen in cash and deposits, a decline of 11,468 million yen in notes and accounts receivable-trade, an increase of 1,413 million yen in merchandise and finished goods and a fall of 315 million yen in investment securities.

Liabilities declined by 8,393 million yen from the balance as of the end of the previous consolidated fiscal year, to 56,626 million yen. This was attributable mainly to a decrease of 1,079 million yen in electronically recorded obligations-operating, a fall of 6,288 million yen in accounts payable-other, and a decline of 1,824 million yen in income taxes payable.

Net assets rose by 227 million yen from the balance as of the end of the previous consolidated fiscal year, to 154,039 million yen, bringing the capital adequacy ratio to 73.1%. This was mainly attributable to an increase of 1,429 million yen in retained earnings and a fall of 1,117 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, 2018, which the Group announced via the "Summary of Financial Statements for the Fiscal Year ended December 31, 2017" released on February 2, 2018.

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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, 2017)	Q1 of current fiscal year (March 31, 2018)
ASSETS		
Current assets		
Cash and deposits	64,990	67,593
Notes and accounts receivable-trade	50,032	38,563
Short-term investment securities	8,300	8,300
Merchandise and finished goods	9,789	11,202
Work in process	693	960
Raw materials and supplies	2,807	2,880
Deferred tax assets	3,221	3,811
Other	2,547	1,910
Allowance for doubtful accounts	(34)	(28)
Total current assets	142,346	135,194
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,212	8,047
Machinery, equipment and vehicles, net	3,985	3,925
Tools, furniture and fixtures, net	1,337	1,378
Land	3,576	3,573
Leased assets, net	573	557
Construction in progress	562	544
Total property, plant and equipment	18,247	18,026
Intangible assets		
Goodwill	2,626	2,362
Trademark rights	410	372
Software	906	879
Other	855	795
Total intangible assets	4,798	4,410
Investments and other assets		
Investment securities	46,797	46,481
Long-term loans receivable	261	284
Deferred tax assets	539	529
Real estate for investment, net	2,981	2,974
Other	3,243	3,160
Allowance for doubtful accounts	(384)	(395)
Total investments and other assets	53,438	53,033
Total non-current assets	76,484	75,471
Total assets	218,831	210,665

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(millions of yen)

	Previous consolidated fiscal year (December 31, 2017)	Q1 of current fiscal year (March 31, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	8,279	8,068
Electronically recorded obligations—operating	9,221	8,142
Short-term loans payable	194	181
Accounts payable-other	24,446	18,158
Lease obligations	55	54
Income taxes payable	4,654	2,829
Accrued consumption taxes	1,245	1,129
Provision for sales returns	1,793	1,610
Provision for bonuses	2,250	3,241
Asset retirement obligations	38	38
Other	2,095	2,543
Total current liabilities	54,274	45,998
Non-current liabilities		
Lease obligations	527	512
Deferred tax liabilities	5,224	5,160
Net defined benefit liability	2,805	2,780
Provision for directors' retirement benefits	37	37
Asset retirement obligations	81	81
Other	2,068	2,055
Total non-current liabilities	10,744	10,628
Total liabilities	65,019	56,626
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	146,758	148,187
Treasury stock	(12,259)	(12,148)
Total shareholders' equity	142,132	143,672
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,267	13,020
Deferred gains or losses on hedges	9	(4)
Foreign currency translation adjustment	403	(713)
Re-measurements of retirement benefit plans	(2,038)	(1,965)
Total accumulated other comprehensive income	11,642	10,336
Subscription rights to shares	36	29
Total net assets	153,811	154,039
Total liabilities and net assets	218,831	210,665

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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, 2018)

(millions of yen)

	Three-month period ended March 31, 2017 (January 1, 2017 to March 31, 2017)	Three-month period ended March 31, 2018 (January 1, 2018 to March 31, 2018)
Net sales	30,749	33,715
Cost of sales	11,446	12,438
Gross profit	19,302	21,276
Selling, general and administrative expenses	14,343	15,709
Operating income	4,958	5,567
Non-operating income		
Interest income	58	58
Dividend income	3	4
Real estate rent	73	73
Other	110	79
Total non-operating income	246	215
Non-operating expenses		
Interest expenses	5	4
Sales discounts	148	149
Rent cost of real estate	18	19
Foreign exchange losses	153	160
Other	28	32
Total non-operating expenses	353	367
Ordinary income	4,851	5,416
Extraordinary income		
Other	0	0
Total extraordinary income	0	0
Extraordinary loss		
Loss on sales and retirement of non-current assets	13	12
Impairment loss	2	—
Provision for loss on business liquidation	20	—
Other	0	0
Total extraordinary loss	36	12
Income before income taxes	4,815	5,403
Income taxes - current	1,938	2,164
Income taxes - deferred	(578)	(582)
Total income taxes	1,360	1,582
Net income	3,455	3,821
Net income attributable to owners of the parent	3,455	3,821

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(Consolidated quarterly statements of comprehensive income)
(Three-month period ended March 31, 2018)

(millions of yen)

	Three-month period ended March 31, 2017 (January 1, 2017 to March 31, 2017)	Three-month period ended March 31, 2018 (January 1, 2018 to March 31, 2018)
Net income	3,455	3,821
Other comprehensive income		
Valuation difference on available-for-sale securities	(365)	(247)
Deferred gains or losses on hedges	(22)	(13)
Foreign currency translation adjustment	(680)	(1,117)
Adjustment for retirement benefits	72	72
Total other comprehensive income	(995)	(1,305)
Quarterly comprehensive income	2,459	2,515
(Quarterly comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	2,459	2,515
Quarterly comprehensive income attributable to non-controlling interests	—	—

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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)

Not applicable

(Segment information)

I. Q1 of previous 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 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 the relevant business segment.
3. Segment income is adjusted with ordinary income in the quarterly consolidated 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, 2018 to March 31, 2018)

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	25,481	5,403	2,582	33,467	247	33,715	—	33,715
Inter-segment sales and transfers	1,387	208	—	1,596	1,195	2,792	(2,792)	—
Total	26,868	5,612	2,582	35,064	1,442	36,507	(2,792)	33,715
Segment income	4,929	730	20	5,680	210	5,891	(475)	5,416

- (Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.
2. Adjustments of -475 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 quarterly consolidated 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