

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 3rd Quarter of the Fiscal Year Ending December 31, 2018

October 29, 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  
 Contact : Satoshi Yamane,  
 Senior Executive Director & Senior General Manager, Corporate Headquarters  
 Tel : +81-6-6222-0142  
 Expected date for submitting quarterly securities report : November 13, 2018  
 Expected date for starting payment of dividends : —  
 Preparation of supplementary explanation 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 3rd Quarter of Fiscal Year Ending December 31, 2018 (January 1, 2018 to September 30, 2018)

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

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

	Q3 of FY ending December 31, 2018		Q3 of FY ended December 31, 2017	
Net sales	115,768	millions of yen 7.5 %	107,653	millions of yen — %
Operating income	19,563	14.1	17,149	—
Ordinary income	20,587	21.2	16,992	—
Net income attributable to owners of the parent	14,009	19.3	11,740	—
Net income per share	177.29	yen	149.08	yen
Net income per share after full dilution	177.19		148.86	

(Notes) Comprehensive income: Q3 of FY ending December 31, 2018: 15,733 million yen (19.2%)  
 Q3 of FY ended December 31, 2017: 13,196 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 third quarter of FY 2017 was the nine-month period from January 1, 2017 to September 30, 2017, while the third quarter of FY 2016 was the nine-month period from April 1, 2016 to December 31, 2016. Therefore, the year-on-year percentage changes from results for the year ended September 30, 2016 have been omitted from the tables above.

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## (2) Consolidated Financial Position

	Q3 of FY ending December 31, 2018	As of December 31, 2017
Total assets	224,818 millions of yen	218,831 millions of yen
Net assets	165,080	153,811
Shareholders' equity ratio	73.4 %	70.3 %
Net assets per share	2,087.71 yen	1,947.82 yen
(Reference) Shareholders' equity	Q3 of FY ending December 31, 2018: 165,080 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	31.00 yen	
Q3 end	—	—	
Year-end	30.00		30.00 yen
Total	58.00		61.00

(Note) Revision of the latest dividend forecast: None

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

(% figures represent changes from previous year)

	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
Earnings per share	215.33 yen	

(Note) Revision of 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): Yes  
 Newly included: 2 companies (company name) Kobayashi (China) Co., Ltd., Jiangsu Kobayashi Pharmaceutical Co., Ltd.

(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):

Q3 of FY ending December 31, 2018	82,050,000 shares	FY ended December 31, 2017	82,050,000 shares
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② Number of shares of treasury stock at period-end:

Q3 of FY ending December 31, 2018	2,977,337 shares	FY ended December 31, 2017	3,102,937 shares
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③ Average number of shares outstanding during period (consolidated cumulative quarters):

Q3 of FY ending December 31, 2018	79,020,484 shares	Q3 of FY ended December 31, 2017	78,757,102 shares
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\* 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 forecasting 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 4 of the attachment.

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# KOBAYASHI PHARMACEUTICAL CO., LTD.

## 1. Qualitative Information on Quarterly Results

### (1) Explanation of operational results

During the first nine-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 115,768 million yen (+7.5% year on year), 19,563 million yen (+14.1% year on year) and 20,587 million yen (+21.2% year on year), respectively, and net income attributable to owners of the parent was 14,009 million yen (+19.3% year on year).

Business results by segment were as follows:

#### Domestic Consumer Products Business

In the Domestic Consumer Products Business, the Company launched 10 new products in the spring and another 15 in the fall. The products that contributed to the growth in sales were *Kurocure EX* (a remedy for darkened elbows and chapped knees prepared with EX formula giving satisfying feeling), *Keanocure* (a remedy for spotted skin with darkened pores due to the removal of unwanted hair), *Sawaday PINKPINK STICK* (a fragrance for indoor use containing elegant and feminine scents in a stylish package), and *Bluelet Premium PERFUME* (a toilet deodorizer and bowl bleach tablet with the scent of the finest quality perfume in a glittering crystal bottle), and *Oheyano Shoshugen Princess PARFUM* (a deodorizing air freshener with a gorgeous fragrance like cosmetics).

Existing healthcare products that recorded robust sales included *Eyebon* (a chemical solution containing ingredients that help repair and protect the corneas and clean dirt and dust from the eyes), *Naishitoru* (an obesity therapeutic drug), *Shoyo* (medicated toothpaste to prevent alveolar pyorrhea) and *Hemorindo* (a sublingual tablet medicine to cure blind piles). Household products that contributed to the growth in sales were *Sawaday CLIP PARFUM for Automobiles* (an automobile fragrance) and *Nightmin Nasal Breathing Tape* (a strip that is attached to the lips during sleep to facilitate breathing through the nose). Skin care products that sold well included *Eau de Muge* (a medicated lotion for preventing acne and rough dry skin). Consequently, the Company reported net sales of 95,632 million yen (+5.9% year on year) and segment income (ordinary income) of 18,001 million yen (+12.2% year on year). Meanwhile, operating income was 18,015 million yen (+10.9% year on year).

Net sales include inter-segment sales or transfers, which totaled 4,827 million yen in the first nine-month period of the consolidated fiscal year under review.

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

	Q3 ended September 30, 2017 (January 1, 2017 to September 30, 2017)	Q3 ended September 30, 2018 (January 1, 2018 to September 30, 2018)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
Healthcare products	42,292	44,595	2,303	5.4
Household products	37,378	39,217	1,838	4.9
Skin care	4,346	4,629	282	6.5
Body warmers	1,768	2,361	593	33.5
Total	85,786	90,805	5,018	5.8

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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 investing aggressively, principally in advertising and sales promotions.

As a result, net sales and segment income (ordinary income) were 17,394 million yen (+21.4% year on year) and 677 million yen (+73.0% year on year), respectively. Operating income was 770 million yen (+64.7% year on year).

Net sales include inter-segment sales or transfers, which totaled 790 million yen in the first nine-month period of the consolidated fiscal year under review.

(Breakdown of sales to external customers)

	Q3 ended September 30, 2017 (January 1, 2017 to September 30, 2017)	Q3 ended September 30, 2018 (January 1, 2018 to September 30, 2018)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	4,688	5,036	347	7.4
China	4,146	6,241	2,094	50.5
Southeast Asia	3,055	3,304	248	8.1
Others	1,611	2,021	409	25.4
Total	13,503	16,604	3,101	23.0

## Direct Marketing Business

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

Consequently, the Company reported net sales of 7,508 million yen (+0.8% year on year) and segment income (ordinary income) of 194 million yen (segment loss (ordinary loss) of 109 million yen in the previous year). Meanwhile, operating income was 189 million yen (operating loss of 111 million yen in the previous 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, and advertisement planning and production. 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 4,892 million yen (+2.1% year-on-year) and segment income (ordinary income) of 2,163 million yen (+111.0% year-on-year). Operating income was 456 million yen (-14.1% year-on-year).

Net sales include inter-segment sales or transfers, which totaled 4,040 million yen in the first nine-month period of the consolidated fiscal year under review.

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## (2) Explanation of financial position

Total assets increased by 5,987 million yen from the balance as of the end of the previous consolidated fiscal year, to 224,818 million yen. This was attributable mainly to a decline of 1,897 million yen in cash and deposits, a fall of 1,025 million yen in notes and accounts receivable-trade, an increase of 3,860 million yen in merchandise and finished goods, a rise of 643 million yen in raw materials and supplies, a growth of 409 million yen in machinery, equipment and vehicles, an increase of 649 million yen in goodwill, and a rise of 3,030 million yen in investment securities.

Liabilities declined by 5,282 million yen from the balance as of the end of the previous consolidated fiscal year, to 59,737 million yen. This was attributable mainly to an increase of 1,323 million yen in notes and accounts payable-trade, a decrease of 3,800 million yen in accounts payable-other, a fall of 1,502 million yen in income taxes payable, and a decline of 1,066 million yen in provision for bonuses.

Net assets rose by 11,269 million yen from the balance as of the end of the previous consolidated fiscal year, to 165,080 million yen, bringing the Shareholders' equity ratio to 73.4%. This was mainly attributable to an increase of 9,085 million yen in retained earnings, a decrease of 496 million yen in treasury stock, and a rise of 1,624 million yen in valuation difference on available-for-sale securities.

## (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.

## KOBAYASHI PHARMACEUTICAL CO., LTD.

## 2. Consolidated Quarterly Financial Statements and Main Notes

## (1) Consolidated quarterly balance sheet

(millions of yen)

	Previous consolidated fiscal year (December 31, 2017)	End of 1st nine-month period of FY ending December 2018 (September 30, 2018)
<b>ASSETS</b>		
Current assets		
Cash and deposits	64,990	63,093
Notes and accounts receivable-trade	50,032	49,006
Short-term investment securities	8,300	8,300
Merchandise and finished goods	9,789	13,649
Work in process	693	1,059
Raw materials and supplies	2,807	3,450
Deferred tax assets	3,221	3,404
Other	2,547	2,318
Allowance for doubtful accounts	(34)	(32)
Total current assets	142,346	144,250
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,212	7,987
Machinery, equipment and vehicles, net	3,985	4,394
Tools, furniture and fixtures, net	1,337	1,391
Land	3,576	3,627
Leased assets, net	573	529
Construction in progress	562	677
Total property, plant and equipment	18,247	18,607
Intangible assets		
Goodwill	2,626	3,275
Trademark rights	410	369
Software	906	887
Other	855	896
Total intangible assets	4,798	5,429
Investments and other assets		
Investment securities	46,797	49,827
Long-term loans receivable	261	341
Deferred tax assets	539	536
Real estate for investment, net	2,981	2,963
Other	3,243	3,315
Allowance for doubtful accounts	(384)	(454)
Total investments and other assets	53,438	56,530
Total non-current assets	76,484	80,567
Total assets	218,831	224,818



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(millions of yen)

	Previous consolidated fiscal year (December 31, 2017)	End of 1st nine-month period of FY ending December 2018 (September 30, 2018)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	8,279	9,602
Electronically recorded obligations-operating	9,221	8,362
Short-term loans payable	194	294
Accounts payable-other	24,446	20,646
Lease obligations	55	53
Income taxes payable	4,654	3,152
Accrued consumption taxes	1,245	937
Provision for sales returns	1,793	1,240
Provision for bonuses	2,250	1,183
Asset retirement obligations	38	42
Other	2,095	2,990
Total current liabilities	54,274	48,507
Non-current liabilities		
Lease obligations	527	487
Deferred tax liabilities	5,224	5,855
Net defined benefit liability	2,805	2,723
Provision for directors' retirement benefits	37	37
Asset retirement obligations	81	77
Other	2,068	2,048
Total non-current liabilities	10,744	11,229
Total liabilities	65,019	59,737
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	146,758	155,843
Treasury stock	(12,259)	(11,763)
Total shareholders' equity	142,132	151,714
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,267	14,892
Deferred gains or losses on hedges	9	4
Foreign currency translation adjustment	403	300
Re-measurements of retirement benefit plans	(2,038)	(1,830)
Total accumulated other comprehensive income	11,642	13,366
Subscription rights to shares	36	—
Total net assets	153,811	165,080
Total liabilities and net assets	218,831	224,818

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- (2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income  
 (Consolidated quarterly statements of income)  
 (For the first nine-month period of the fiscal year ending December 31, 2018)

(millions of yen)

	Nine-month period ended September 30, 2017 (January 1, 2017 to September 30, 2017)	Nine-month period ended September 30, 2018 (January 1, 2018 to September 30, 2018)
Net sales	107,653	115,768
Cost of sales	40,103	42,584
Gross profit	67,549	73,184
Selling, general and administrative expenses	50,399	53,621
Operating income	17,149	19,563
Non-operating income		
Interest income	192	202
Dividend income	198	222
Real estate rent	222	219
Compensation income	—	1,200
Other	219	170
Total non-operating income	832	2,015
Non-operating expenses		
Interest expenses	16	19
Sales discounts	485	492
Rent cost of real estate	62	56
Foreign exchange losses	180	203
Other	244	218
Total non-operating expenses	990	991
Ordinary income	16,992	20,587
Extraordinary income		
Gain on sales of non-current assets	0	1
Gain on reversal of share acquisition rights	—	5
Other	3	0
Total extraordinary income	4	7
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	57	62
Impairment loss	333	765
Other	72	2
Total extraordinary loss	463	830
Income before income taxes	16,533	19,763
Income taxes - current	5,832	6,121
Income taxes - deferred	(1,040)	(367)
Total income taxes	4,792	5,754
Net income	11,740	14,009
Net income attributable to owners of the parent	11,740	14,009

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(Consolidated quarterly statements of comprehensive income)  
 (For the first nine-month period of the fiscal year ending December 31, 2018)

	(millions of yen)	
	Nine-month period ended September 30, 2017 (January 1, 2017 to September 30, 2017)	Nine-month period ended September 30, 2018 (January 1, 2018 to September 30, 2018)
Net income	11,740	14,009
Other comprehensive income		
Valuation difference on available-for-sale securities	1,682	1,624
Deferred gains or losses on hedges	(25)	(4)
Foreign currency translation adjustment	(412)	(103)
Adjustment for retirement benefits	210	207
Total other comprehensive income	1,455	1,724
Quarterly comprehensive income	13,196	15,733
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	13,196	15,733
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. Nine-month period ended September 30, 2017 (January 1, 2017 to September 30, 2017)

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

(millions of yen)

	Reportable segment				Other (Note 1)	Grand total	Adjustment (Note 2)	Figures in 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	85,786	13,503	7,448	106,738	914	107,653	–	107,653
Inter-segment sales or transfers	4,542	829	–	5,371	3,874	9,246	(9,246)	–
Total	90,329	14,332	7,448	112,110	4,789	116,899	(9,246)	107,653
Segment income (loss)	16,039	391	(109)	16,321	1,025	17,346	(353)	16,992

(Notes)

1. *Other* represents businesses that are not included in the reportable segments, such as transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.
2. Adjustments of -353 million yen in segment income (loss) are eliminations among segments, and profits and expenses not distributed to each relevant business segment.
3. Segment income (loss) 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

(Significant impairment loss on non-current assets)

In the Domestic Consumer Products Business segment, regarding business assets that the Group finds it difficult to recoup its investment in, the Group has reduced their book value to their recoverable value and has posted the reduced amount as impairment loss.

The resulting impairment loss amounted to 333 million yen in the first nine-month period of the consolidated fiscal year ended December 31, 2017.

(Significant change in the value of goodwill)

In the Domestic Consumer Products Business segment, the Group has recorded impairment loss for goodwill that the Group finds it difficult to recoup its investment in. The resulting decrease in the value of goodwill amounted to 227 million yen in the first nine-month period of the consolidated fiscal year ended December 31, 2017. The impairment loss on goodwill is included in the above-mentioned significant impairment loss on non-current assets.

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## II. Nine-month period ended September 30, 2018 (January 1, 2018 to September 30, 2018)

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

(millions of yen)

	Reportable segment				Other (Note 1)	Grand total	Adjustment (Note 2)	Figures in 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	90,805	16,604	7,508	114,917	851	115,768	–	115,768
Inter-segment sales or transfers	4,827	790	–	5,618	4,040	9,659	(9,659)	–
Total	95,632	17,394	7,508	120,535	4,892	125,428	(9,659)	115,768
Segment income	18,001	677	194	18,873	2,163	21,036	(449)	20,587

(Notes)

1. *Other* represents businesses that are not included in the reportable segments, such as transportation business, manufacture and sale of plastic containers, insurance agency, real estate management, and advertisement planning and production.
2. Adjustments of -449 million yen in segment income are eliminations among segments, and profits and expenses not distributed to each 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

(Significant impairment loss on non-current assets)

In the Overseas Consumer Products Business segment, the Group has recorded impairment loss for goodwill that the Group finds it difficult to recoup its investment in.

The resulting impairment loss amounted to 760 million yen in the first nine-month period of the consolidated fiscal year ending December 31, 2018.

(Significant change in the value of goodwill)

As stated in the above (Significant impairment loss on non-current assets), the Group has recorded impairment loss for goodwill in the Overseas Consumer Products Business segment.

The resulting decrease in the value of goodwill amounted to 760 million yen in the first nine-month period of the consolidated fiscal year ending December 31, 2018.

Furthermore, the Group has recorded goodwill in this segment, since Kobayashi (China) Co., Ltd. acquired all interests in Jiangsu Kobayashi Pharmaceutical Co., Ltd.

The resulting increase in the value of goodwill amounted to 1,751 million yen in the first nine-month period of the consolidated fiscal year ending December 31, 2018. Readers are advised that the value of goodwill is provisional, since the allocation of the acquisition cost has not yet been completed.

(Significant subsequent events)

Not applicable