

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 3rd Quarter of the Fiscal Year Ending December 31, 2019

October 30, 2019

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 14, 2019  
 Expected date for starting payment of dividends : —  
 Preparation of supplementary explanation documents for quarterly financial results: Yes  
 Holding of an analyst meeting for quarterly financial results : Yes (For institutional investors and analysts)

(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, 2019 (January 1, 2019 to September 30, 2019)

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

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

	Q3 of FY ending December 31, 2019		Q3 of FY ended December 31, 2018	
Net sales	117,789 millions of yen	1.7 %	115,768 millions of yen	7.5 %
Operating income	20,296	3.7	19,567	14.1
Ordinary income	21,447	4.2	20,591	21.2
Net income attributable to owners of the parent	15,245	10.7	13,767	17.3
Net income per share	194.20 yen		174.23 yen	
Net income per share after full dilution	—		174.13	

(Notes) Comprehensive income: Q3 of FY ending December 31, 2019: 14,323 million yen (–7.5%)  
 Q3 of FY ended December 31, 2018 : 15,491 million yen (17.4%)

The value of goodwill associated with the acquisition of all interests in Jiangsu Zhongdan Pharmaceutical Co., Ltd. (current Jiangsu Kobayashi Pharmaceutical Co., Ltd.) on June 8, 2018 was provisional, since the allocation of the acquisition cost was not completed in the third quarter of the fiscal year ended December 31, 2018. As the provisional accounting treatment was settled, the value of goodwill is the amount reflected in the review following the settlement of the provisional accounting treatment.

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## (2) Consolidated Financial Position

	Q3 of FY ending December 31, 2019	As of December 31, 2018
Total assets	222,615 millions of yen	228,787 millions of yen
Net assets	167,160	166,249
Shareholders' equity ratio	75.1 %	72.7 %
Net assets per share	2,138.61 yen	2,102.49 yen

(Reference) Shareholders' equity

Q3 of FY ending December 31, 2019: 167,160 million yen As of December 31, 2018: 166,249 million yen  
 "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No.28, February 16, 2018) has been applied from the beginning of the first quarter of the current fiscal year. The change applies retroactively to the results for the previous fiscal year.

## 2. Dividends

	FY ended December 2018	FY ending December 2019	FY ending December 2019 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	31.00 yen	33.00 yen	
Q3 end	—	—	
Year-end	35.00		35.00 yen
Total	66.00		68.00

(Note) Revision of the latest dividend forecast: None

## 3. Forecasts of Consolidated Operational Results for Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% figures represent changes from previous year)

	Full year	
Net sales	173,000 millions of yen	3.3 %
Operating income	27,300	3.8
Ordinary income	27,900	1.9
Net income attributable to owners of the parent	19,000	5.4
Earnings per share	240.29 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): 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):

Q3 of FY ending December 31, 2019	82,050,000 shares	FY ended December 31, 2018	82,050,000 shares
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② Number of shares of treasury stock at period-end:

Q3 of FY ending December 31, 2019	3,886,837 shares	FY ended December 31, 2018	2,977,337 shares
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③ Average number of shares outstanding during period (consolidated cumulative quarters):

Q3 of FY ending December 31, 2019	78,502,141 shares	Q3 of FY ended December 31, 2018	79,020,484 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.

(Method to obtain supplementary explanation documents for quarterly financial results)

The Company plans to post the Financial Overview for the Third Quarter of the Fiscal Year Ending December 31, 2019 on its website immediately after the results presentation scheduled for Wednesday, October 30, 2019.

(Change of date indication)

Date indication has been changed to the Western calendar format from the Japanese calendar format from the Brief Report of Financial Statements for the First Quarter of the Fiscal Year Ending December 31, 2019.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

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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 117,789 million yen (+1.7% year on year), 20,296 million yen (+3.7% year on year) and 21,447 million yen (+4.2% year on year), respectively, and net income attributable to owners of the parent was 15,245 million yen (+10.7% year on year).

Business results by segment were as follows:

Kobayashi Pharmaceuticals of America, Inc., which had been included in Other Businesses, was dissolved as of January 1, 2019 by an absorption-type merger under which Kobayashi Healthcare International, Inc., which is a consolidated subsidiary and is classified under the Overseas Consumer Products Business segment, remains as the surviving company. Accordingly, the year-earlier figures based on the new segmentation are used for the year-on-year comparison described below.

Furthermore, in the third quarter of the fiscal year ended December 31, 2018, the Group applied provisional accounting treatment for a business combination associated with the acquisition of all interests in Jiangsu Zhongdan Pharmaceutical Co., Ltd. (current Jiangsu Kobayashi Pharmaceutical Co., Ltd.) on June 8, 2018. As the provisional accounting treatment was settled at the end of the fiscal year ended December 31, 2018, the amounts reflected in the review following the settlement of the provisional accounting treatment are used for comparison and analysis with the previous fiscal year.

### Domestic Consumer Products Business

In the Domestic Consumer Products Business, the Company launched 10 new products in the spring and another 19 in the fall. The products that contributed to the growth in sales were *Shoyo 45° Migaki Brush* (a toothbrush that effectively removes stains and dental plaque in periodontal pockets), *Tabakosumigaki* (a toothpaste containing charcoal grains that remove tar and stains), *Sawaday Kaoru Stick Aroma Candle* (a stick-type fragrance for indoor use containing sweet and heavy scents like aroma candles), *Shittori Bihada Mask* (a night-use moisturizing mask made with a component of serum that covers the area of the face below the eyes), and *Keshimin Fukitori Shimitaisakueki* (a water lotion that pares away old keratin to promote the turnover of skin cells and facilitates ingredients effective for removing blotches penetrating into the skin).

Existing healthcare products that recorded robust sales included *Naishitoru* (a therapeutic anti-obesity drug), *Inochi No Haha* (a women's health medicine), *Hemorindo* (a sublingual tablet medicine to cure blind piles), and Chinese medicines such as *Chikunain* (a remedy for empyema). Household products that contributed to the growth in sales were *Bluelet* (a toilet deodorizer and bowl bleach tablet), *Sawaday Kaoru Stick* (a fragrance for indoor use containing elegant scents), and *Sarasaty* (a sheet for absorbing vaginal discharge). Skin care products that sold well included *Eau de Muge* (a medicated lotion for preventing acne and rough dry skin) and *Keshimin* (skin care goods for blotches).

Consequently, the Company reported net sales of 97,527 million yen (+2.0% year on year) and segment income (ordinary income) of 18,258 million yen (+1.4% year on year). Meanwhile, operating income was 18,238 million yen (+1.2% year on year).

Net sales include inter-segment sales or transfers, which totaled 5,274 million yen in the first nine-month period of the previous year under review.

## KOBAYASHI PHARMACEUTICAL CO., LTD.

## (Breakdown of sales to external customers)

	Q3 ended September 30, 2018 (January 1, 2018 to September 30, 2018)	Q3 ended September 30, 2019 (January 1, 2019 to September 30, 2019)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
Healthcare products	44,595	45,595	999	2.2
Household products	39,217	40,241	1,024	2.6
Skin care	4,629	5,573	944	20.4
Body warmers	2,361	842	(1,519)	(64.3)
Total	90,805	92,253	1,448	1.6

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 18,186 million yen (+4.6% year on year) and 1,249 million yen (+60.8% year on year), respectively. Operating income was 1,174 million yen (+52.2% year on year).

Net sales include inter-segment sales or transfers, which totaled 809 million yen in the first nine-month period of the previous year under review.

## (Breakdown of sales to external customers)

	Q3 ended September 30, 2018 (January 1, 2018 to September 30, 2018)	Q3 ended September 30, 2019 (January 1, 2019 to September 30, 2019)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	5,036	4,776	(260)	(5.2)
China	6,241	6,919	678	10.9
Southeast Asia	3,304	3,734	429	13.0
Others	2,021	1,945	(75)	(3.7)
Total	16,604	17,376	772	4.7

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 7,350 million yen (-2.1% year on year) and segment income (ordinary income) of 191 million yen (-1.4% year on year). Meanwhile, operating income was 189 million yen (-0.2% 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, 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 5,018 million yen (+2.6% year on year) and segment income (ordinary income) of 2,204 million yen (+6.6% year on year). Operating income was 585 million yen (+27.5% year on year).

Net sales include inter-segment sales or transfers, which totaled 4,209 million yen in the first nine-month period of the previous year under review.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

(2) Explanation of financial position

Total assets decreased by 6,171 million yen from the balance as of the end of the previous consolidated fiscal year, to 222,615 million yen. This was attributable mainly to a decline of 10,244 million yen in cash and deposits, a fall of 3,820 million yen in notes and accounts receivable-trade, an increase of 4,674 million yen in short-term investment securities, a rise of 5,602 million yen in merchandise and finished goods, an increase of 677 million yen in work in process, a gain of 622 million yen in land, a decrease of 912 million yen in goodwill, a fall of 5,371 million yen in investment securities, an increase of 976 million yen in deferred tax assets, and a decline of 151 million yen in real estate for investment.

Liabilities declined by 7,082 million yen from the balance as of the end of the previous consolidated fiscal year, to 55,455 million yen. This was attributable mainly to an increase of 753 million yen in notes and accounts payable-trade, a decrease of 584 million yen in electronically recorded obligations-operating, a decline of 500 million yen in short-term loans payable, a fall of 5,550 million yen in accounts payable-other, a decrease of 1,000 million yen in income taxes payable, and a decline of 1,092 million yen in provision for bonuses.

Net assets increased by 911 million yen from the balance as of the end of the previous consolidated fiscal year, to 167,160 million yen, bringing the shareholders' equity ratio to 75.1%. This was mainly attributable to an increase of 9,832 million yen in retained earnings and a rise of 7,999 million yen in treasury stock, and a decline of 852 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, 2019, which the Group announced via the *Summary of Financial Statements for the Fiscal Year ended December 31, 2018* released on January 31, 2019.

# 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, 2018)	End of 1st nine-month period of FY ending December 2019 (September 30, 2019)
<b>ASSETS</b>		
Current assets		
Cash and deposits	74,456	64,212
Notes and accounts receivable-trade	53,386	49,566
Short-term investment securities	8,300	12,974
Merchandise and finished goods	9,430	15,032
Work in process	934	1,612
Raw materials and supplies	3,279	3,586
Other	2,167	2,412
Allowance for doubtful accounts	(131)	(38)
<b>Total current assets</b>	<b>151,824</b>	<b>149,359</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,447	8,563
Machinery, equipment and vehicles, net	4,466	4,806
Tools, furniture and fixtures, net	1,457	1,403
Land	3,625	4,248
Leased assets, net	515	754
Construction in progress	512	896
<b>Total property, plant and equipment</b>	<b>19,024</b>	<b>20,671</b>
Intangible assets		
Goodwill	3,241	2,329
Trademark rights	108	95
Software	905	956
Other	567	532
<b>Total intangible assets</b>	<b>4,823</b>	<b>3,913</b>
Investments and other assets		
Investment securities	45,916	40,545
Long-term loans receivable	386	534
Deferred tax assets	1,627	2,603
Real estate for investment, net	2,956	2,804
Other	2,697	2,759
Allowance for doubtful accounts	(469)	(576)
<b>Total investments and other assets</b>	<b>53,115</b>	<b>48,671</b>
<b>Total non-current assets</b>	<b>76,963</b>	<b>73,256</b>
<b>Total assets</b>	<b>228,787</b>	<b>222,615</b>



# KOBAYASHI PHARMACEUTICAL CO., LTD.

(millions of yen)

	Previous consolidated fiscal year (December 31, 2018)	End of 1st nine-month period of FY ending December 2019 (September 30, 2019)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	8,706	9,460
Electronically recorded obligations-operating	9,070	8,485
Short-term loans payable	506	6
Accounts payable-other	25,126	19,576
Lease obligations	53	149
Income taxes payable	4,423	3,423
Accrued consumption taxes	1,187	887
Provision for sales returns	1,638	1,196
Provision for bonuses	2,355	1,262
Asset retirement obligations	42	42
Other	1,940	2,744
Total current liabilities	55,053	47,236
Non-current liabilities		
Lease obligations	472	619
Deferred tax liabilities	2,812	3,451
Net defined benefit liability	2,057	2,015
Provision for directors' retirement benefits	38	38
Asset retirement obligations	77	78
Other	2,027	2,015
Total non-current liabilities	7,485	8,219
Total liabilities	62,538	55,455
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	159,857	169,690
Treasury stock	(11,763)	(19,762)
Total shareholders' equity	155,728	157,561
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,636	12,362
Deferred gains or losses on hedges	2	0
Foreign currency translation adjustment	(318)	(1,171)
Re-measurements of retirement benefit plans	(1,798)	(1,593)
Total accumulated other comprehensive income	10,520	9,598
Total net assets	166,249	167,160
Total liabilities and net assets	228,787	222,615

# KOBAYASHI PHARMACEUTICAL CO., LTD.

- (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, 2019)

(millions of yen)

	Nine-month period ended September 30, 2018 (January 1, 2018 to September 30, 2018)	Nine-month period ended September 30, 2019 (January 1, 2019 to September 30, 2019)
Net sales	115,768	117,789
Cost of sales	42,584	43,055
Gross profit	73,184	74,733
Selling, general and administrative expenses	53,616	54,437
Operating income	19,567	20,296
Non-operating income		
Interest income	202	252
Dividend income	222	488
Real estate rent	219	218
Compensation income	1,200	1,000
Other	170	233
Total non-operating income	2,015	2,193
Non-operating expenses		
Interest expenses	19	12
Sales discounts	492	466
Rent cost of real estate	56	69
Foreign exchange losses	203	316
Other	218	177
Total non-operating expenses	991	1,042
Ordinary income	20,591	21,447
Extraordinary income		
Gain on sales of non-current assets	1	6
Gain on sales of investment securities	0	146
Gain on reversal of share acquisition rights	5	—
Gain on sale of businesses	—	600
Other	—	0
Total extraordinary income	7	753
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	62	85
Impairment loss	1,094	553
Loss on valuation of shares of subsidiaries and associates	—	50
Other	2	2
Total extraordinary loss	1,159	691
Income before income taxes	19,439	21,509
Income taxes - current	6,121	6,612
Income taxes - deferred	(449)	(348)
Total income taxes	5,671	6,264
Net income	13,767	15,245
Net income attributable to owners of the parent	13,767	15,245

# KOBAYASHI PHARMACEUTICAL CO., LTD.

(Consolidated quarterly statements of comprehensive income)  
 (For the first nine-month period of the fiscal year ending December 31, 2019)

	(millions of yen)	
	Nine-month period ended September 30, 2018 (January 1, 2018 to September 30, 2018)	Nine-month period ended September 30, 2019 (January 1, 2019 to September 30, 2019)
Net income	13,767	15,245
Other comprehensive income		
Valuation difference on available-for-sale securities	1,624	(273)
Deferred gains or losses on hedges	(4)	(1)
Foreign currency translation adjustment	(103)	(852)
Adjustment for retirement benefits	207	205
Total other comprehensive income	1,724	(922)
Quarterly comprehensive income	15,491	14,323
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	15,491	14,323
Comprehensive income attributable to non-controlling interests	—	—

# KOBAYASHI PHARMACEUTICAL CO., LTD.

(3) Notes on quarterly consolidated financial statements

(Notes on assumption of going concern)

Not applicable

(Notes on a significant change in shareholders' equity)

In accordance with the resolution approved at the Board of Directors' meeting held on January 31, 2019, the Company repurchased 909,500 shares of its treasury stock. Consequently, treasury stocks increased by 7,999 million yen during the first nine-month period of the current year, amounting to 19,762 million yen at the end of the first nine-month period of the current year.

(Additional information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) has been applied from the beginning of the first three-month period of the current year. Accordingly, deferred tax assets have been classified as investments and other assets, and deferred tax liabilities have been classified as non-current liabilities.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

(Segment information)

[Segment information, etc.]

I. 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 (loss)	18,001	777	194	18,973	2,068	21,041	(449)	20,591

(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 the relevant business segment.
3. Segment income is adjusted with ordinary income in the quarterly consolidated statements of income.
4. In Segment information for the nine-month period ended September 30, 2018, the Group has disclosed the amounts reflected in the significant review of the initial allocation of the acquisition cost following the settlement of the provisional accounting treatment as stated in *Notes* (Business combinations, etc.).

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

Information concerning impairment loss on non-current assets or goodwill is omitted, since the Group did not recognize significant impairment loss on non-current assets and there was no significant change in the value of goodwill.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## II. Nine-month period ended September 30, 2019 (January 1, 2019 to September 30, 2019)

### 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	92,253	17,376	7,350	116,980	808	117,789	–	117,789
Inter-segment sales or transfers	5,274	809	–	6,084	4,209	10,293	(10,293)	–
Total	97,527	18,186	7,350	123,064	5,018	128,082	(10,293)	117,789
Segment income	18,258	1,249	191	19,700	2,204	21,905	(457)	21,447

(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 -457 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 the change of the reporting segment

In the first three-month period of the consolidated fiscal year ending December 31, 2019, Kobayashi Pharmaceuticals of America, Inc., which had been included in *Other Businesses* in the previous year, was dissolved as of January 1, 2019 by an absorption-type merger under which Kobayashi Healthcare International, Inc., which is a consolidated subsidiary and is classified under *Overseas Consumer Products Business* segment, remains as the surviving company.

The Group has disclosed the segment information for the nine-month period ended September 30, 2018 that is prepared based on the new segmentation.

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

Information concerning impairment loss on non-current assets or goodwill is omitted, since the Group did not recognize significant impairment loss on non-current assets and there was no significant change in the value of goodwill.

## KOBAYASHI PHARMACEUTICAL CO., LTD.

(Business combinations, etc.)

Significant review of the initial allocation of the acquisition cost in comparative information

In the third quarter of the fiscal year ended December 31, 2018, the Group applied provisional accounting treatment for a business combination associated with the acquisition of all interests in Jiangsu Zhongdan Pharmaceutical Co., Ltd. (current Jiangsu Kobayashi Pharmaceutical Co., Ltd.) on June 8, 2018. The provisional accounting treatment was settled at the end of the fiscal year ended December 31, 2018.

In line with the settlement of provisional accounting treatment, the comparative information in the quarterly consolidated financial statements for the third quarter of the fiscal year under review reflects a significant review of the initial allocation of the acquisition cost. Primarily due to the allocation of 396 million yen to intangible assets, the provisionally calculated amount of goodwill decreased by 217 million yen, from 1,751 million yen to 1,534 million yen.

As a result, a decrease in amortization of goodwill and an increase in depreciation of intangible assets in the quarterly consolidated statements of income for the third quarter of the fiscal year ended December 31, 2018 largely caused an increase of 4 million yen each in operating income and ordinary income, a decrease of 324 million yen in income before income taxes, and a decrease of 241 million yen each in profit and profit attributable to owners of parent.

(Significant subsequent events)

Not applicable