

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 1st Quarter of the Fiscal Year Ending December 31, 2020

April 28, 2020

Listed exchanges : Tokyo

Listed company name : Kobayashi Pharmaceutical Co., Ltd.

Code : 4967

URL : <https://www.kobayashi.co.jp/english/index.html>

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Expected date for submitting quarterly securities report : May 13, 2020

Expected date for starting payment of dividends : —

Preparation of supplementary documents for quarterly financial results: Yes

Holding of an analyst meeting for quarterly financial results : Yes (For analysts and investors)

(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, 2020 (January 1, 2020 to March 31, 2020)

(1) Consolidated Operating Results (accumulation)

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

	Q1 of FY ending December 31, 2020		Q1 of FY ended December 31, 2019	
Net sales	31,911 millions of yen	0.7 %	31,677 millions of yen	— %
Operating income	4,875	(5.3)	5,149	—
Ordinary income	5,042	(3.4)	5,219	—
Net income attributable to owners of the parent	3,742	1.6	3,683	—
Net income per share	47.89 yen		46.65 yen	

(Note) Comprehensive income

Q1 of FY ending December 31, 2020: 901 million yen (-81.9%)

Q1 of FY ended December 31, 2019: 4,992 million yen (98.5%)

(Note)

- The "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) have been early applied from the first quarter of the current fiscal year under review. In accordance with the basic treatment, the new accounting policy has been retrospectively applied to the results for previous fiscal years. Accordingly, the year-on-year percentage changes for the first quarter of the fiscal year ended December 31, 2019 were retrospectively revised and have been omitted in the table above.
- From the first quarter of the current fiscal year under review, the Company and its consolidated subsidiaries in Japan have changed the depreciation method for all property, plant and equipment to the straight-line method of depreciation. Furthermore, the service life of some property, plant and equipment and intangible assets has been changed in accordance with their actual service life. The amounts calculated based on the previous method (the year-on-year percentage changes for the first quarter of the fiscal year ending December 31, 2020) are provided below.

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The first quarter of fiscal year ending December 31, 2020 (Unit: millions of yen)

Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent
31,911 0.7%	5,618 9.1%	5,788 10.9%	4,251 15.4%

For the details of (Note) 1 and 2, please refer to “2. Quarterly Consolidated Financial Statements and Main Notes (3) Notes on quarterly consolidated financial statements (Changes in accounting policies, etc.)” on Page 8 of the attachment.

(2) Consolidated Financial Position

	Q1 of FY ending December 31, 2020	FY ended December 31, 2019
Total assets	221,873 millions of yen	233,732 millions of yen
Net assets	170,432	172,657
Shareholders' equity ratio	76.8 %	73.9 %
Net assets per share	2,180.48 yen	2,208.94 yen

(Reference) Shareholders' equity

Q1 of FY ending December 31, 2020: 170,432 million yen FY ended December 31, 2019: 172,657 million yen

(Note)

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018) have been early applied from the first quarter of the current fiscal year under review. In accordance with the basic treatment, the new accounting policy has been retrospectively applied to the results for previous fiscal years.

2. Dividends

	FY ended December 31, 2019	FY ending December 31, 2020	FY ending December 31, 2020 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	33.00 yen		34.00 yen
Q3 end	—		—
Year-end	40.00		41.00
Total	73.00		75.00

(Note) Revision to the latest dividend forecast: None

3. Forecasts of Consolidated Operational Results for Year Ending December 31, 2020 (January 1, 2020 to December 31, 2020)

(% figures represent changes from previous period.)

	Full year	
Net sales	165,000 millions of yen	4.2 %
Operating income	26,400	2.9
Ordinary income	28,000	0.5
Net income attributable to owners of the parent	20,000	4.5
Net income per share	255.88 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): Yes

3) Changes in accounting estimates: Yes

4) Retrospective restatement: None

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Main Notes (3) Notes on quarterly consolidated financial statements (Changes in accounting policies, etc.)" on Page 8 of the attachment.

(4) Issued shares (common shares)

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

Q1 of FY ending December 31, 2020	82,050,000 shares	FY ended December 31, 2019	82,050,000 shares
Q1 of FY ending December 31, 2020	3,886,837 shares	FY ended December 31, 2019	3,886,837 shares
Q1 of FY ending December 31, 2020	78,163,163 shares	Q1 of FY ended December 31, 2019	78,948,587 shares

2) Number of shares of treasury stock at period-end:

3) Average number of shares outstanding during period (consolidated cumulative quarters)

* 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 matters concerning forecasts for operational results, 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.

(Method to obtain the attachment of Financial Statements)

The Company plans to post the attachment of Financial Statements on its website immediately after the results presentation for the first quarter of FY2020 scheduled for Tuesday, April 28, 2020.

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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 outlook of the business environment surrounding the Kobayashi Pharmaceutical Group continued to remain uncertain due to the spread of the new coronavirus infections. Concerns arose over a slowdown of global economic activities, and sluggish consumption continued in Japan because of self-restraint of nonessential outings and a sharp decline in the number of foreign visitors to Japan.

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 31,911 million yen (+0.7% year on year), 4,875 million yen (-5.3% year on year) and 5,042 million yen (-3.4% year on year), respectively, and net income attributable to owners of the parent was 3,742 million yen (+1.6% year on year).

In the meantime, the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) have been applied from the first quarter of the current fiscal year. In addition, regarding the application of the Accounting Standard for Revenue Recognition, etc., the new accounting policy has been retrospectively applied to previous fiscal years in accordance with the basic treatment stipulated in Paragraph 84 of the Accounting Standard for Revenue Recognition.

Business results by segment were as follows:

Domestic Business

In the Domestic Business, the Company launches new products in the spring and the fall every year. Among products launched during FY2019 that contributed to growth in sales were *Bisrat Aquclear EX* (a Chinese herbal medicine that is effective to reduce swelling and fat in the menopausal period by raising metabolism), *Yubicare* (a Chinese herbal medicine that is effective to alleviate pain in stiffened fingers), *Shittori Bihada Mask* (a night-use mask made with a serum component that keeps the skin moist by only wearing it while sleeping), 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). The Company launched 10 new products in the spring and another 19 in the fall.

Demand for disinfectant and sanitary products, items used for preventing infection, such as masks, increased sharply around the middle of January 2020. Existing products that recorded robust sales included *Nodonool Nure Mask* (a humidifying mask with filter to moisten the throat by steam effect), *Nodonool Spray* (a medicine for disinfecting viruses and germs in the affected area of the throat), *Sarasaty* (a sheet for absorbing vaginal discharge), *Netsusama Sheet* (a cooling gel sheet containing cold-feeling grains for the forehead), *Hananoa* (a rinsing agent that easily cleans the nasal cavity without pain) and *Eau de Muge* (a medicated lotion for preventing acne and rough dry skin).

Meanwhile, inbound demand greatly decreased due to a fall in the number of foreign visitors to Japan. Consequently, the Company reported net sales of 26,151 million yen (+3.5% year on year) and segment income (ordinary income) of 4,854 million yen (+3.3% year on year). Meanwhile, operating income was 4,381 million yen (+3.2% year on year).

Net sales include inter-segment sales or transfers, which totaled 1,563 million yen in the first three-month period of the previous consolidated fiscal year and 1,377 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q1 ended March 31, 2019	Q1 ended March 31, 2020	Change	
	(January 1, 2019 to March 31, 2019)	(January 1, 2020 to March 31, 2020)	Amount (millions of yen)	Change (%)
Healthcare products	12,558	12,316	(241)	(1.9)
Household products	9,224	10,457	1,233	13.4
Skin care	1,456	1,540	84	5.8
Body warmers	473	459	(14)	(3.1)
Total	23,712	24,774	1,061	4.5

International Business

In the International Business, the Company markets, mostly in the United States, China and Southeast Asia, 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

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sales promotion.

Demand for disinfectant and sanitary products, such as *Netsusama Sheet* and *Glasses Cleaner*, increased in each country due to the spread of new coronavirus infections. However, sales of body warmers were sluggish in the U.S. and China due to the mild winter worldwide.

As a result, net sales and segment income (ordinary income) were 5,085 million yen (-7.7% year on year) and 450 million yen (-36.8% year on year), respectively. Operating income was 362 million yen (-48.8% year on year).

Net sales include inter-segment sales or transfers, which totaled 276 million yen in the first three-month period of the previous consolidated fiscal year and 322 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q1 ended March 31, 2019	Q1 ended March 31, 2020	Change	
	(January 1, 2019 to March 31, 2019)	(January 1, 2020 to March 31, 2020)	Amount (millions of yen)	Change (%)
United States	1,265	1,255	(9)	(0.8)
China	2,043	1,797	(245)	(12.0)
Southeast Asia	1,305	1,078	(227)	(17.4)
Others	619	631	12	2.1
Total	5,233	4,763	(470)	(9.0)

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 2,170 million yen (-11.0% year on year) and segment loss (ordinary loss) of 16 million yen (versus a segment income of 77 million yen in the previous year). Meanwhile, operating loss was 16 million yen (versus an operating income of 77 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, 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, net sales and segment income (ordinary income) were 1,425 million yen (-3.5% year on year) and 176 million yen (-21.1% year on year), respectively. Operating income was 91 million yen (-35.6% year on year).

Net sales include inter-segment sales or transfers, which totaled 1,186 million yen in the first three-month period of the previous consolidated fiscal year and 1,223 million yen in the same period of the current year.

(2) Explanation of financial position

Total assets decreased by 11,859 million yen from the balance as of the end of the previous consolidated fiscal year to 221,873 million yen. This was attributable mainly to an increase of 3,801 million yen in cash and deposits, a decline of 13,000 million yen in notes and accounts receivable-trade, and a fall of 4,075 million yen in investment securities.

Liabilities declined by 9,634 million yen from the balance as of the end of the previous consolidated fiscal year to 51,440 million yen. This was attributable mainly to a fall of 1,324 million yen in electronically recorded obligations-operating, a decrease of 5,881 million yen in accounts payable-other, a decline of 1,960 million yen in income taxes payable, and a fall of 1,950 million yen in deferred tax liabilities.

Net assets fell by 2,224 million yen from the balance as of the end of the previous consolidated fiscal year to 170,432 million yen, bringing the shareholders' equity ratio to 76.8%. This was attributable mainly to a decrease of 2,527 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, 2020, which the Group announced via the Summary of Financial Statements for the Fiscal Year ended December 31, 2019 released on January 31, 2020.

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2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly consolidated balance sheet

(millions of yen)

	Previous consolidated fiscal year (December 31, 2019)	Q1 of current fiscal year (March 31, 2020)
ASSETS		
Current assets		
Cash and deposits	75,580	79,382
Notes and accounts receivable-trade	54,150	41,150
Short-term investment securities	14,977	15,485
Merchandise and finished goods	10,096	12,385
Work in process	1,679	1,681
Raw materials and supplies	3,550	3,636
Other	3,056	2,621
Allowance for doubtful accounts	(45)	(32)
Total current assets	163,046	156,311
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,520	8,199
Machinery, equipment and vehicles, net	4,751	4,727
Tools, furniture and fixtures, net	1,284	1,329
Land	4,248	4,101
Leased assets, net	856	782
Construction in progress	1,519	875
Total property, plant and equipment	21,180	20,015
Intangible assets		
Goodwill	1,582	1,507
Trademark rights	92	88
Software	1,071	1,125
Other	365	355
Total intangible assets	3,112	3,077
Investments and other assets		
Investment securities	39,533	35,458
Long-term loans receivable	572	597
Deferred tax assets	2,028	2,047
Real estate for investment, net	2,727	2,838
Other	2,150	2,183
Allowance for doubtful accounts	(619)	(655)
Total investments and other assets	46,392	42,468
Total non-current assets	70,685	65,561
Total assets	233,732	221,873

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(millions of yen)

	Previous consolidated fiscal year (December 31, 2019)	Q1 of current fiscal year (March 31, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	7,979	8,127
Electronically recorded obligations—operating	8,836	7,512
Short-term loans payable	19	8
Accounts payable-other	24,160	18,279
Lease obligations	190	201
Income taxes payable	4,962	3,001
Accrued consumption taxes	1,224	1,022
Provision for bonuses	2,368	3,296
Asset retirement obligations	42	42
Other	3,981	4,371
Total current liabilities	53,767	45,864
Non-current liabilities		
Lease obligations	682	598
Deferred tax liabilities	2,779	828
Net defined benefit liability	2,024	2,022
Provision for directors' retirement benefits	39	39
Asset retirement obligations	78	78
Other	1,703	2,008
Total non-current liabilities	7,307	5,576
Total liabilities	61,074	51,440
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	173,650	174,266
Treasury stock	(19,762)	(19,762)
Total shareholders' equity	161,521	162,138
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,212	10,685
Foreign currency translation adjustment	(586)	(968)
Re-measurements of retirement benefit plans	(1,489)	(1,421)
Total accumulated other comprehensive income	11,136	8,294
Total net assets	172,657	170,432
Total liabilities and net assets	233,732	221,873

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(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
(Quarterly consolidated statements of income)
(Three-month period ended March 31, 2020)

(millions of yen)

	Three-month period ended March 31, 2019 (January 1, 2019 to March 31, 2019)	Three-month period ended March 31, 2020 (January 1, 2020 to March 31, 2020)
Net sales	31,677	31,911
Cost of sales	12,975	13,689
Gross profit	18,702	18,222
Selling, general and administrative expenses	13,552	13,347
Operating income	5,149	4,875
Non-operating income		
Interest income	72	95
Dividend income	7	5
Real estate rent	73	76
Subsidy income	—	71
Other	25	76
Total non-operating income	178	324
Non-operating expenses		
Interest expenses	4	9
Rent cost of real estate	21	33
Foreign exchange losses	23	61
Provision of allowance for doubtful accounts	39	36
Other	19	17
Total non-operating expenses	108	157
Ordinary income	5,219	5,042
Extraordinary income		
Other	3	1
Total extraordinary income	3	1
Extraordinary loss		
Loss on sales and retirement of non-current assets	10	3
Loss on valuation of investment securities	—	8
Company funeral expenses	—	68
Other	0	16
Total extraordinary loss	10	97
Income before income taxes	5,212	4,946
Income taxes - current	2,143	2,179
Income taxes - deferred	(613)	(975)
Total income taxes	1,529	1,204
Net income	3,683	3,742
Net income attributable to owners of the parent	3,683	3,742

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(Quarterly consolidated statements of comprehensive income)
(Three-month period ended March 31, 2020)

(millions of yen)

	Three-month period ended March 31, 2019 (January 1, 2019 to March 31, 2019)	Three-month period ended March 31, 2020 (January 1, 2020 to March 31, 2020)
Net income	3,683	3,742
Other comprehensive income		
Valuation difference on available-for-sale securities	1,156	(2,527)
Deferred gains or losses on hedges	(0)	—
Foreign currency translation adjustment	84	(381)
Adjustment for retirement benefits	68	67
Total other comprehensive income	1,309	(2,841)
Quarterly comprehensive income	4,992	901
(Quarterly comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	4,992	901
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

(Changes in accounting policies, etc.)

1. (Early application of Accounting Standard for Revenue Recognition, etc.)

With the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018, hereinafter "Revenue Recognition Accounting Standard") and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) being applicable from the beginning of the consolidated fiscal year that begins on or after April 1, 2018, the Company has applied the Revenue Recognition Accounting Standard, etc. from the beginning of the first quarter of the consolidated fiscal year under review. Accordingly, when transferring control of goods or services promised to a customer, the Company has recognized revenue in the amount that is expected to be received in exchange for such goods and services.

Therefore, the Company has recorded a provision for sales returns previously presented in current liabilities as other in current assets and other in current liabilities. In addition, the Company has deducted from net sales a part of promotion expenses and advertising expenses previously presented in selling, general and administrative expenses and sales discounts previously presented in non-operating expenses, while recording a part of freight and warehousing expenses previously presented in selling, general and administrative expenses as cost of sales.

In principle, the changes in such accounting policies have been retrospectively applied to the previous year. Therefore, financial statements for the first quarter and a full year of the previous consolidated fiscal year are prepared in accordance with the new accounting policies, etc. However, the following methods stipulated in Paragraph 85 of the Revenue Recognition Accounting Standard have been applied.

- (1) Regarding contracts in which almost all of the revenue had been recognized based on the previous accounting method before the beginning of the previous consolidated fiscal year, comparative information should not be retrospectively revised.
- (2) Regarding the amount of variable consideration included in contracts in which almost all of the revenue had been recognized based on the previous accounting method before the beginning of the current consolidated fiscal year, comparative information for the current consolidated fiscal year under review should be retrospectively revised by using an amount obtained when uncertainty on the amount of variable consideration is eliminated.
- (3) Regarding contracts that started and terminated in the previous consolidated fiscal year, quarterly financial statements for the previous consolidated fiscal year should not be retrospectively revised.

As a result, in the first quarter of the previous consolidated fiscal year, net sales and cost of sales decreased by 2,057 million yen and increased by 527 million yen, respectively, while selling, general and administrative expenses and operating income decreased by 2,446 million yen and 138 million yen, respectively, compared to those before the retrospective application. However, as non-operating expenses declined by 138 million yen, ordinary income and income before income taxes remain unchanged.

2. (Change of depreciation method for property, plant and equipment and change in service life)

In the past, the Company and its consolidated subsidiaries in Japan had mainly used the declining-balance method of depreciation for property, plant and equipment, while overseas consolidated subsidiaries had adopted the straight-line method of depreciation. The Company and its consolidated subsidiaries in Japan have changed the depreciation method for all property, plant and equipment to the straight-line method of depreciation from the first quarter of the consolidated fiscal year under review.

Taking the opportunity of implementing its capital expenditure plan scheduled under its Medium-term Management Plan for 2020 to 2022, the Kobayashi Pharmaceutical Group reexamined its depreciation method for property, plant and equipment in Japan. After the reexamination, the Group decided to adopt the straight-line method of depreciation, in which costs are distributed equally over the service life, since it found through the experience of actual operations that its production facilities would not suddenly become obsolete from technological and economical viewpoints and would be expected to operate stably over the service life. Consequently, the Group's depreciation method for property, plant and equipment has been unified to the straight-line method of depreciation.

Furthermore, after reviewing the actual state of using property, plant and equipment and intangible assets, the Company and its consolidated subsidiaries have changed the service life of some property, plant and equipment and intangible assets in accordance with their actual service life from the first quarter of the current consolidated fiscal year under review.

As a result of the change, profits decreased from those based on the previous method as follows: gross profit and operating income decreased by 633 million yen and 743 million yen, respectively, while both ordinary income and income before income taxes fell by 745 million yen.

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(Segment information, etc.)

[Segment information]

I. Q1 of previous consolidated fiscal year (January 1, 2019 to March 31, 2019)

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 Business	International Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	23,712	5,233	2,439	31,385	292	31,677	—	31,677
Inter-segment sales and transfers	1,563	276	—	1,840	1,186	3,026	(3,026)	—
Total	25,276	5,509	2,439	33,225	1,478	34,703	(3,026)	31,677
Segment income	4,699	712	77	5,489	223	5,712	(493)	5,219

- (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 -493 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 has been no significant change in the value of goodwill.

II. Q1 of current consolidated fiscal year (January 1, 2020 to March 31, 2020)

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 Business	International Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	24,774	4,763	2,170	31,708	202	31,911	—	31,911
Inter-segment sales and transfers	1,377	322	—	1,700	1,223	2,923	(2,923)	—
Total	26,151	5,085	2,170	33,408	1,425	34,834	(2,923)	31,911
Segment income (loss)	4,854	450	(16)	5,288	176	5,464	(422)	5,042

- (Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, real estate management, and advertisement planning and production.
2. Adjustments of -422 million yen in segment income or segment loss are eliminations among segments and profits and expenses not distributed to the relevant business segment.
3. Segment income or segment loss is adjusted with ordinary income in the quarterly consolidated statements of income.

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2. Matters regarding change in reportable segment, etc.

(Early application of Accounting Standard for Revenue Recognition, etc.)

As described in (Changes in accounting policies, etc.), the Company has applied the Revenue Recognition Accounting Standard, etc. from the beginning of the first quarter of the consolidated fiscal year under review and changed its accounting method for revenue recognition; it has also changed its method to measure business segment income or loss in the same manner as the accounting standard, etc.

Accordingly, “Net sales to outside customers” decreased by 1,608 million yen in the “Domestic Business” and 449 million yen in the “International Business” in the first quarter of the consolidated fiscal year ended December 31, 2019 compared to those calculated based on the previous method.

(Change of depreciation method for property, plant and equipment and change in service life)

As described in (Changes in accounting policies, etc.), the Company and its consolidated subsidiaries in Japan have changed the depreciation method for all property, plant and equipment to the straight-line method of depreciation from the first quarter of the consolidated fiscal year under review and have also changed the service life of some property, plant and equipment and intangible assets.

Accordingly, segment income declined by 645 million yen in the “Domestic Business,” 22 million yen in the “International Business,” and 77 million yen in “Other” in the first quarter of the consolidated fiscal year under review compared to those calculated based on the previous method. Furthermore, segment loss increased by 0 million yen in the “Direct Marketing Business.”

3. 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 has been no significant change in the value of goodwill.

(Important subsequent events)

Not applicable