Summary of Financial Statements (Japanese GAAP) (Consolidated)
Financial Results for the 2nd Quarter of the Fiscal Year Ending December 31, 2020

July 30, 2020

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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Expected date for submitting quarterly securities report: August 7, 2020
Expected date for starting payment of dividends: September 10, 2020
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 2nd Quarter of Fiscal Year Ending December 31, 2020 (January 1, 2020 to June 30, 2020)

(1) Consolidated Operating Results (accumulation)

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

	Q2 of FY ending December 31, 2020		Q2 of FY ended December 31, 2019	
Net sales	66,180 millions of yen	(4.5) %	69,332 millions of yen	— %
Operating income	10,220	(8.2)	11,131	—
Ordinary income	11,029	(5.2)	11,635	—
Net income attributable to owners of the parent	8,218	0.2	8,202	—
Net income per share	105.14 yen		104.26 yen	

(Note)
Comprehensive income: Q2 of FY ending December 31, 2020: 5,648 million yen (-24.8%)
Q2 of FY ended December 31, 2019: 7,509 million yen (-3.1%)

(Note)
1. 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 ending December 31, 2020. 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 second quarter of the fiscal year ended December 31, 2019 were retrospectively revised and have been omitted in the table above.
2. From the first quarter of the current fiscal year ending December 31, 2020, 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 second quarter of the fiscal year ending December 31, 2020) are provided below.

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

Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
66,180	(4.5%)	10,953	(1.6%)	11,765	1.1%	8,719	6.3%

(2) Consolidated Financial Position

	Q2 of FY ending December 31, 2020	FY ended December 31, 2019
Total assets	224,989 millions of yen	233,732 millions of yen
Net assets	175,180	172,657
Shareholders' equity ratio	77.9 %	73.9 %
Net assets per share	2,241.21 yen	2,208.94 yen

(Reference) Shareholders' equity
Q2 of FY ending December 31, 2020: 175,180 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 ending December 31, 2020. 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 of the latest dividend forecast: None

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

(% figures represent changes from previous year)

	Full year	
Net sales	154,000 millions of yen	(2.7) %
Operating income	25,900	0.9
Ordinary income	27,600	(0.9)
Net income attributable to owners of the parent	19,200	0.3
Earnings per share	245.64 yen	

(Note) Revision to the latest forecasts of operational results: Yes
(Note)
For details, 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.

* Notes

(1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries accompanying changes of the scope of consolidation): Yes
Excluded: 1 (Company name) Shanghai Kobayashi Daily Chemicals 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: 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 (4) Notes on quarterly consolidated financial statements (Changes in accounting policies, etc.)" on Page 10 of the attachment.

(4) Issued shares (common shares)

① Number of shares issued at period-end (including treasury stock):	Q2 of FY ending December 31, 2020	82,050,000 shares	FY ended December 31, 2019	82,050,000 shares
② Number of shares of treasury stock at period-end:	Q2 of FY ending December 31, 2020	3,886,837 shares	FY ended December 31, 2019	3,886,837 shares
③ Average number of shares outstanding during period (consolidated cumulative quarters):	Q2 of FY ending December 31, 2020	78,163,163 shares	Q2 of FY ended December 31, 2019	78,674,439 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 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 4 of the attachment.

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

The Company plans to hold a results presentation for institutional investors and securities analysts for quarterly financial results on Thursday, July 30, 2020. It plans to post the supplementary documents for financial results to be distributed in the results presentation on its website at the date of the results presentation.

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1. Qualitative Information on Quarterly Results

(1) Explanation of operational results

During the first six-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. Due to the COVID-19 outbreak, global economic activities slowed down, and sluggish consumption continued in Japan because of self-restraint concerning 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 66,180 million yen (−4.5% year on year), 10,220 million yen (−8.2% year on year) and 11,029 million yen (−5.2% year on year), respectively, and net income attributable to owners of the parent was 8,218 million yen (+0.2% 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 launched nine new products. The products that contributed to the growth in sales were *Teirakku* (a Chinese herbal medicine for persons who have various complaints caused by barometric pressure changes, such as headache, drowsiness, dizziness, and swelling), *Sawaday Kaoru Stick Hokuou* (a stick-type fragrance for indoor use containing natural scents in a simple design that matches Scandinavian style interiors), and *Ekitai Bluelet Jyokinkoka Plus* (a toilet tank cleaner that prevents discoloration at the waterline by releasing disinfectant and cleaning agents every time the toilet is flushed.

In addition, 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 which disinfects viruses and germs in the affected area of the throat), *Glass Cleaner Fukifuki* (a sheet that effectively removes finger marks and greasy dirt from lenses by gentle wiping), *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-related demand greatly decreased due to a fall in the number of foreign visitors to Japan.

Furthermore, sales of *BreathCare* (an oral breath freshener capsule that refreshes the breath from the stomach) and *Asewaki Pad* (a sweat absorbing sheet that is pasted in armpits of clothes to prevent sweat stains and yellow staining) declined from the previous year because of self-restraint concerning nonessential outings and a reduction in the number of drinking parties.

Consequently, the Company reported net sales of 56,551 million yen (−2.6% year on year) and segment income (ordinary income) of 10,680 million yen (−2.0% year on year). Meanwhile, operating income was 10,169 million yen (−2.6% year on year).

Net sales include inter-segment sales or transfers, which totaled 3,453 million yen in the first six-month period of the previous consolidated fiscal year and 2,844 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q2 ended June 30, 2019 (January 1, 2019 to June 30, 2019)	Q2 ended June 30, 2020 (January 1, 2020 to June 30, 2020)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
Healthcare products	27,954	25,374	(2,579)	(9.2)
Household products	23,113	24,353	1,240	5.4
Skin care	3,392	3,425	33	1.0
Body warmers	124	554	429	343.8
Total	54,584	53,707	(877)	(1.6)

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 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.

On the other hand, sales were sluggish in many countries due to the impact of lockdown and self-restraint concerning nonessential outings. Furthermore, sales of body warmers decreased in the U.S., China, and the U.K. due to the mild winter worldwide.

As a result, net sales and segment loss (ordinary loss) were 8,377 million yen (−14.3% year on year) and 247 million yen (versus segment income (ordinary income) of 149 million yen in the previous year), respectively. Operating loss was 381 million yen (versus operating income of 134 million yen in the previous year).

Net sales include inter-segment sales or transfers, which totaled 552 million yen in the first six-month period of the previous consolidated fiscal year and 680 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q2 ended June 30, 2019 (January 1, 2019 to June 30, 2019)	Q2 ended June 30, 2020 (January 1, 2020 to June 30, 2020)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	2,009	1,721	(287)	(14.3)
China	3,664	3,034	(629)	(17.2)
Southeast Asia	2,397	1,830	(567)	(23.7)
Others	1,155	1,110	(44)	(3.8)
Total	9,226	7,697	(1,529)	(16.6)

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. However, the Company had difficulty in expanding sales since it failed to launch attractive new products that greatly contribute to sales growth.

Consequently, the Company reported net sales of 4,468 million yen (−9.8% year on year) and segment income (ordinary income) of 110 million yen (−23.1% year on year). Meanwhile, operating income was 108 million yen (−23.3% 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, 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 3,067 million yen (−6.8% year on year) and 1,000 million yen (+10.7% year on year), respectively. Operating income was 322 million yen (−12.4% year on year).

Net sales include inter-segment sales or transfers, which totaled 2,723 million yen in the first six-month period of the previous consolidated fiscal year and 2,760 million yen in the same period of the current year.

(2) Explanation of financial position

Total assets decreased by 8,742 million yen from the balance as of the end of the previous consolidated fiscal year to 224,989 million yen. This was attributable mainly to an increase of 7,939 million yen in cash and deposits, a decline of 14,789 million yen in notes and accounts receivable-trade, a rise of 3,247 million yen in merchandise and finished goods, and a fall of 5,192 million yen in investment securities.

Liabilities declined by 11,265 million yen from the balance as of the end of the previous consolidated fiscal year to 49,809 million yen. This was attributable mainly to a fall of 1,050 million yen in electronically recorded obligations-operating, a decrease of 6,555 million yen in accounts payable-other, a decline of 956 million yen

in income taxes payable, and a fall of 1,157 million yen in deferred tax liabilities.
Net assets increased by 2,522 million yen from the balance as of the end of the previous consolidated fiscal year to 175,180 million yen, bringing the shareholders' equity ratio to 77.9%. This was attributable mainly to a growth of 5,091 million yen in retained earnings and a decrease of 2,183 million yen in valuation difference on available-for-sale securities.

Cash flows from operating activities
Cash flows from operating activities totaled 11,969 million yen (versus 7,272 million yen in the previous year). Major factors were: income before income taxes of 10,882 million yen, depreciation of 2,203 million yen, a decrease in notes and accounts receivable-trade of 14,633 million yen, an increase in inventories of 3,911 million yen, a decrease in accounts payable-other of 6,302 million yen, and income taxes paid of 4,253 million yen.

Cash flows from investing activities
Cash flows from investing activities totaled 182 million yen (versus −3,981 million yen in the previous year). Major factors were: payments into time deposits of 32,193 million yen, proceeds from withdrawal of time deposits of 32,835 million yen, proceeds from sales and redemption of securities of 2,000 million yen, and the purchase of property, plant and equipment of 2,150 million yen.

Cash flows from financing activities
Cash flows from financing activities totaled −3,232 million yen (versus −11,351 million yen in the previous year). Major factors were: cash dividend paid of 3,128 million yen and repayments of lease obligations of 96 million yen.
Consequently, cash and cash equivalents as of June 30, 2020 totaled 64,891 million yen, an increase of 8,618 million yen from the end of the previous fiscal year.

(3) Explanation of future forecast information, such as forecast of consolidated results
Global economic activities have slowed down due to the spread of COVID-19 outbreak, affecting the Kobayashi Pharmaceutical Group's businesses. Under these circumstances, the Group has revised its forecast of consolidated results for the fiscal year ending December 31, 2020, since its consolidated results are likely to fall short of its previous forecast.
For details, please refer to "Notice Regarding the Revision of the Forecast of Consolidated Results" announced on July 30, 2020.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly consolidated balance sheet

(millions of yen)

	Previous consolidated fiscal year (December 31, 2019)	End of 1st six-month period of FY ending December 2020 (June 30, 2020)
ASSETS		
Current assets		
Cash and deposits	75,580	83,519
Notes and accounts receivable-trade	54,150	39,361
Short-term investment securities	14,977	15,063
Merchandise and finished goods	10,096	13,344
Work in process	1,679	2,055
Raw materials and supplies	3,550	3,728
Other	3,056	2,816
Allowance for doubtful accounts	(45)	(19)
Total current assets	163,046	159,869
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,520	8,212
Machinery, equipment and vehicles, net	4,751	4,971
Tools, furniture and fixtures, net	1,284	1,352
Land	4,248	4,479
Leased assets, net	856	736
Construction in progress	1,519	620
Total property, plant and equipment	21,180	20,374
Intangible assets		
Goodwill	1,582	1,465
Trademark rights	92	84
Software	1,071	1,186
Other	365	349
Total intangible assets	3,112	3,085
Investments and other assets		
Investment securities	39,533	34,340
Long-term loans receivable	572	629
Deferred tax assets	2,028	2,313
Real estate for investment, net	2,727	2,831
Other	2,150	2,236
Allowance for doubtful accounts	(619)	(690)
Total investments and other assets	46,392	41,660
Total non-current assets	70,685	65,120
Total assets	233,732	224,989

(millions of yen)

	Previous consolidated fiscal year (December 31, 2019)	End of 1st six-month period of FY ending December 2020 (June 30, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	7,979	7,940
Electronically recorded obligations-operating	8,836	7,786
Short-term loans payable	19	12
Accounts payable-other	24,160	17,605
Lease obligations	190	196
Income taxes payable	4,962	4,005
Accrued consumption taxes	1,224	636
Provision for bonuses	2,368	2,253
Asset retirement obligations	42	42
Other	3,981	3,318
Total current liabilities	53,767	43,797
Non-current liabilities		
Lease obligations	682	558
Deferred tax liabilities	2,779	1,621
Net defined benefit liability	2,024	2,005
Provision for directors' retirement benefits	39	39
Asset retirement obligations	78	79
Other	1,703	1,707
Total non-current liabilities	7,307	6,011
Total liabilities	61,074	49,809
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	173,650	178,742
Treasury stock	(19,762)	(19,762)
Total shareholders' equity	161,521	166,613
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,212	11,028
Foreign currency translation adjustment	(586)	(1,106)
Re-measurements of retirement benefit plans	(1,489)	(1,354)
Total accumulated other comprehensive income	11,136	8,566
Total net assets	172,657	175,180
Total liabilities and net assets	233,732	224,989

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(For the first six-month period of the fiscal year ending December 31, 2020)

(millions of yen)

	Six-month period ended June 30, 2019 (January 1, 2019 to June 30, 2019)	Six-month period ended June 30, 2020 (January 1, 2020 to June 30, 2020)
Net sales	69,332	66,180
Cost of sales	27,803	27,752
Gross profit	41,528	38,428
Selling, general and administrative expenses	30,396	28,207
Operating income	11,131	10,220
Non-operating income		
Interest income	166	171
Dividend income	414	239
Real estate rent	145	152
Insurance claim income	30	312
Other	108	224
Total non-operating income	865	1,101
Non-operating expenses		
Interest expenses	8	9
Rent cost of real estate	41	54
Foreign exchange losses	155	110
Provision of allowance for doubtful accounts	78	60
Other	77	56
Total non-operating expenses	362	292
Ordinary income	11,635	11,029
Extraordinary income		
Gain on sales of non-current assets	2	2
Gain on sales of investment securities	2	—
Gain on transfer of business	600	—
Other	0	—
Total extraordinary income	605	2
Extraordinary loss		
Loss on sales and retirement of non-current assets	52	23
Impairment loss	552	4
Loss on valuation of investment securities	—	9
Loss on valuation of shares of subsidiaries and associates	50	—
Company funeral expenses	—	71
Other	0	39
Total extraordinary loss	655	149
Income before income taxes	11,585	10,882
Income taxes - current	3,628	3,266
Income taxes - deferred	(245)	(601)
Total income taxes	3,383	2,664
Net income	8,202	8,218
Net income attributable to owners of the parent	8,202	8,218

(Quarterly consolidated statements of comprehensive income)
(For the first six-month period of the fiscal year ending December 31, 2020)

(millions of yen)

	Six-month period ended June 30, 2019 (January 1, 2019 to June 30, 2019)	Six-month period ended June 30, 2020 (January 1, 2020 to June 30, 2020)
Net income	8,202	8,218
Other comprehensive income		
Valuation difference on available-for-sale securities	(158)	(2,183)
Deferred gains or losses on hedges	(1)	—
Foreign currency translation adjustment	(669)	(519)
Adjustment for retirement benefits	136	134
Total other comprehensive income	(692)	(2,569)
Quarterly comprehensive income	7,509	5,648
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	7,509	5,648
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statement of cash flows

(millions of yen)

	Six-month period ended June 30, 2019 (January 1, 2019 to June 30, 2019)	Six-month period ended June 30, 2020 (January 1, 2020 to June 30, 2020)
Cash flows from operating activities		
Income before income taxes	11,585	10,882
Depreciation	1,464	2,203
Loss on valuation of shares of subsidiaries and associates	50	—
Impairment loss	552	4
Amortization of goodwill	230	91
Increase (decrease) in allowance for doubtful accounts	25	49
Increase (decrease) in net defined benefit liability	(27)	(18)
Interest and dividend income	(581)	(411)
Interest expenses	8	9
Loss (gain) on sales of investment securities	(2)	—
Loss (gain) on valuation of investment securities	—	9
Loss (gain) on sales and retirement of non-current assets	49	20
Loss (gain) on transfer of business	(600)	—
Decrease (increase) in notes and accounts receivable-trade	8,904	14,633
Decrease (increase) in inventories	(5,427)	(3,911)
Increase (decrease) in notes and accounts payable-trade	(95)	(690)
Increase (decrease) in accounts payable-other	(4,423)	(6,302)
Increase (decrease) in accrued consumption taxes	(621)	(511)
Other	(422)	(243)
Subtotal	10,667	15,815
Interest and dividend income received	633	418
Interest expenses paid	(1)	(11)
Income taxes paid	(4,026)	(4,253)
Net cash provided by (used in) operating activities	7,272	11,969
Cash flows from investing activities		
Payments into time deposits	(30,745)	(32,193)
Proceeds from withdrawal of time deposits	29,589	32,835
Proceeds from sales and redemption of securities	—	2,000
Purchase of property, plant and equipment	(2,331)	(2,150)
Proceeds from sales of property, plant and equipment	13	11
Purchase of intangible assets	(135)	(165)
Purchase of investment securities	(9)	(8)
Proceeds from sales of investment securities	3	—
Purchase of investment assets and other assets	(135)	(121)
Proceeds from sales of investment assets and other assets	26	30
Decrease (increase) in short-term loans receivable	1	—
Payments of long-term loans receivable	(97)	(56)
Collection of long-term loans receivable	0	0
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,054)	—
Proceeds from liquidation of subsidiaries	293	—
Proceeds from transfer of business	600	—
Net cash provided by (used in) investing activities	(3,981)	182
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(488)	(7)
Purchase of treasury stock	(8,014)	—
Cash dividends paid	(2,764)	(3,128)
Repayment of lease obligations	(83)	(96)
Net cash provided by (used in) financing activities	(11,351)	(3,232)
Effect of exchange rate change on cash and cash equivalents	(282)	(300)
Net increase (decrease) in cash and cash equivalents	(8,342)	8,618
Cash and cash equivalents at beginning of period	55,916	56,272
Cash and cash equivalents at end of period	47,573	64,891

(4) 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 ending December 31, 2020. 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 second 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 regarding 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 second quarter of the previous consolidated fiscal year, net sales decreased by 4,297 million yen and cost of sales increased by 1,164 million yen, while selling, general and administrative expenses and operating income decreased by 5,172 million yen and 291 million yen, respectively, compared to those before the retrospective application. However, as non-operating expenses declined by 291 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 ending December 31, 2020.

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 ending December 31, 2020.

As a result of the change, profits decreased from those based on the previous method as follows: gross profit and operating income decreased by 666 million yen and 733 million yen, respectively, while both ordinary income and income before income taxes fell by 735 million yen.

(Segment information, etc.)
[Segment information, etc.]
I. Six-month period ended June 30, 2019 (January 1, 2019 to June 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 quarterly consolidated statements of income (Note 3)
	Domestic Business	International Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	54,584	9,226	4,952	68,763	568	69,332	—	69,332
Inter-segment sales and transfers	3,453	552	—	4,005	2,723	6,729	(6,729)	—
Total	58,038	9,778	4,952	72,769	3,291	76,061	(6,729)	69,332
Segment income	10,901	149	143	11,194	903	12,098	(463)	11,635

(Notes)
1. *Other* represents businesses that are not included in 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 −463 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. Matters regarding change in reportable segment, etc.
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 the *International Business* segment, remains as the surviving company.

3. Information concerning impairment loss on non-current assets or goodwill by reportable segments
(Significant impairment loss on non-current assets)
In the *Domestic Business* segment, the Group has recorded impairment loss for goodwill that the Group has found it difficult to recoup its investment in.
The resulting impairment loss amounted to 549 million yen in the first six-month period of the consolidated fiscal year ended December 31, 2019.

(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 *Domestic Business* segment.
The resulting decrease in the value of goodwill amounted to 549 million yen in the first six-month period of the consolidated fiscal year ended December 31, 2019.
Furthermore, the Group has recorded goodwill in this segment, since it acquired a stake in Meitan Hompo KK on May 14, 2019.
The resulting increase in the value of goodwill amounted to 102 million yen in the first six-month period of the consolidated fiscal year ended December 31, 2019.

II. Six-month period ended June 30, 2020 (January 1, 2020 to June 30, 2020)

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 quarterly consolidated statements of income (Note 3)
	Domestic Business	International Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	53,707	7,697	4,468	65,873	307	66,180	—	66,180
Inter-segment sales and transfers	2,844	680	—	3,524	2,760	6,285	(6,285)	—
Total	56,551	8,377	4,468	69,398	3,067	72,465	(6,285)	66,180
Segment income (loss)	10,680	(247)	110	10,543	1,000	11,544	(515)	11,029

(Notes)

1. *Other* represents businesses that are not included in the reportable segments, such as transportation business, manufacture and sale of plastic containers, real estate management, advertisement planning and production.
2. Adjustments of -515 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 quarterly consolidated statements of income.

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 ending December 31, 2020 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 3,391 million yen in the *Domestic Business* and 906 million yen in the *International Business* in the second 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 ending December 31, 2020 and have also changed the service life of some property, plant and equipment and intangible assets.

Accordingly, segment income declined by 649 million yen in the *Domestic Business*, 0 million yen in the *Direct Marketing Business*, and 54 million yen in *Other* in the second quarter of the consolidated fiscal year ending December 31, 2020 compared to those calculated based on the previous method. Furthermore, segment loss increased by 31 million yen in the *International 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.

(Significant subsequent events)

Transaction under common control, etc. (absorption-type merger of a consolidated subsidiary)

In accordance with the resolution at a meeting of the Board of Directors held on November 21, 2019, Kobayashi Pharmaceutical Co., Ltd. acquired Kiribai Chemical Co., Ltd., a consolidated subsidiary, through an absorption-type merger, with effective on July 1, 2020.

1. Overview of the transaction
   (i) Name of company acquired and description of business
      Name of company acquired: Kiribai Chemical Co., Ltd.
      Description of business: Sales of body warmers, goods preventing heatstroke, etc.
   (ii) Date of business combination
      July 1, 2020
   (iii) Legal form of business combination
      Absorption-type merger in which Kobayashi Pharmaceutical Co., Ltd. is a surviving company and Kiribai Chemical Co., Ltd. is an absorbed company.
   (iv) Name of company after business combination
      Kobayashi Pharmaceutical Co., Ltd.
   (v) Other matters related to the overview of the transaction
      Kobayashi Pharmaceutical Co., Ltd. made Kiribai Chemical Co., Ltd. a subsidiary in 2001 and began the body warmer business in Japan. The Company has actively promoted the body warmer business overseas by turning Heat Max, Inc. and Grabber, Inc. (both in the U.S.) into a subsidiary in 2006 and 2012, respectively. Now, thermal products, chiefly body warmers, have become one of the Group's staple products.

      The Group believes that it needs to completely review Kiribai's product development and marketing systems for further growth of thermal products, mainly body warmers, since mild winters are anticipated to continue in the future due to global warming and the market competition has become intensified.

      This merger enables the Group to use Kobayashi's marketing prowess, a strong point, to increase the sales of thermal products in Japan and also to effectively apply Kiribai's thermal technology, an advantage, to accelerate the development of new products in Japan and abroad. The management team has judged the Kobayashi Pharmaceutical Group can make the best possible use of capabilities to develop and market thermal products as a result of the combined effect.

2. Overview of accounting procedures applied
   The transaction was accounted for as a transaction under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

   This absorption-type merger does not have any impact on the Group's earnings, since it is eliminated as an internal transaction on consolidated financial statements.