

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 3rd Quarter of the Fiscal Year Ending December 31, 2020

October 27, 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  
 Contact : Satoshi Yamane,  
 Senior Executive Director & Senior General Manager, Corporate Headquarters  
 Tel : +81-6-6222-0142  
 Expected date for submitting quarterly securities report : November 11, 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 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, 2020 (January 1, 2020 to September 30, 2020)

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

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

	Q3 of FY ending December 31, 2020		Q3 of FY ended December 31, 2019	
Net sales	105,049 millions of yen	(5.5) %	111,202 millions of yen	— %
Operating income	19,515	(1.6)	19,831	—
Ordinary income	21,042	(1.9)	21,447	—
Net income attributable to owners of the parent	15,258	0.1	15,245	—
Net income per share	195.21 yen		194.20 yen	

(Note) Comprehensive income: Q3 of FY ending December 31, 2020: 12,999 million yen (-9.2%)  
 Q3 of FY ended December 31, 2019: 14,323 million yen (-7.5%)

(Notes)

- The "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and "Implementation Guidance on the 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 third quarter of the fiscal year ended December 31, 2019 were retrospectively revised and have been omitted from the table above.
- 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 third quarter of the fiscal year ending December 31, 2020) are provided below.

The third 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
105,049 (5.5%)	20,256 2.1%	21,786 1.6%	15,765 3.4%

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## (2) Consolidated Financial Position

	Q3 of FY ending December 31, 2020	As of December 31, 2019
Total assets	227,247 millions of yen	233,732 millions of yen
Net assets	179,872	172,657
Shareholders' equity ratio	79.2 %	73.9 %
Net assets per share	2,301.25 yen	2,208.94 yen
(Reference) Shareholders' equity	Q3 of FY ending December 31, 2020: 179,872 million yen As of 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 the 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 yen
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 of the latest forecasts of operational results: None

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## \* Notes

(1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries accompanying changes of the scope of consolidation): Yes

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 (3) Notes on quarterly consolidated financial statements (Changes in accounting policies, etc.)" on Page 9 of the attachment.

(4) Issued shares (common shares)

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

Q3 of FY ending December 31, 2020	82,050,000 shares	FY ended December 31, 2019	82,050,000 shares
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② Number of shares of treasury stock at period-end:

Q3 of FY ending December 31, 2020	3,886,837 shares	FY ended December 31, 2019	3,886,837 shares
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③ Average number of shares outstanding during period (consolidated cumulative quarters):

Q3 of FY ending December 31, 2020	78,163,163 shares	Q3 of FY ended December 31, 2019	78,502,141 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 differ significantly 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, October 27, 2020. It plans to post the supplementary documents for quarterly financial results to be distributed in the results presentation on its website on the date of the results presentation.

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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 outlook of the business environment surrounding the Kobayashi Pharmaceutical Group continued to remain uncertain. This was because due to the COVID-19 pandemic, there were concerns about a slowdown of global economic activities, 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 105,049 million yen (-5.5% year on year), 19,515 million yen (-1.6% year on year) and 21,042 million yen (-1.9% year on year), respectively, and net income attributable to owners of the parent was 15,258 million yen (+0.1% year on year).

In the meantime, the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on the 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 Hokuuo* (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).

Furthermore, people's lifestyles have changed in many ways due to the spread of new coronavirus infections. We worked on the development of new products to solve new problems that people were newly facing during the pandemic. This effort resulted in the launching of two products, *Nodonool Mask Murekan Taisaku* (a spray that relieves the stuffiness experienced when wearing a mask) and *Smartphone Fukifuki* (a cleaner that cleans and disinfects smartphones), which helped increase sales.

In addition, demand for disinfectant and sanitary products—items used to prevent 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 a filter to moisten the throat by a steam effect), *Nodonool Spray* (a medicine that 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 attached to the armpits of clothes to prevent sweat stains and yellow staining) declined from the previous year due to self-restraint concerning nonessential outings and a reduction in the number of drinking parties.

Consequently, the Company reported net sales of 88,546 million yen (-4.1% year on year) and segment income (ordinary income) of 19,011 million yen (+4.1% year on year). Meanwhile, operating income was 18,477 million yen (+4.0% 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 consolidated fiscal year and 4,243 million yen in the same period of the current year.

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## (Breakdown of sales to external customers)

	Q3 ended September 30, 2019 (January 1, 2019 to September 30, 2019)	Q3 ended September 30, 2020 (January 1, 2020 to September 30, 2020)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
Healthcare products	42,631	39,686	(2,944)	(6.9)
Household products	38,287	38,156	(131)	(0.3)
Skin care	5,322	5,260	(61)	(1.2)
Body warmers	809	1,199	390	48.2
Total	87,049	84,302	(2,747)	(3.2)

International Business

In International Business, the Company markets body warmers, *Netsusama Sheet* (a cooling gel sheet for the forehead) and *Ammeltz* (an external anti-inflammatory), mostly in the United States, China and Southeast Asia, 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 lockdowns 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 income (ordinary income) were 14,603 million yen (-13.1% year on year) and 458 million yen (-63.3% year on year), respectively. Operating income was 319 million yen (-72.8% 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 consolidated fiscal year and 1,004 million yen in the same period of the current year.

## (Breakdown of sales to external customers)

	Q3 ended September 30, 2019 (January 1, 2019 to September 30, 2019)	Q3 ended September 30, 2020 (January 1, 2020 to September 30, 2020)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	4,776	4,374	(402)	(8.4)
China	5,896	4,974	(921)	(15.6)
Southeast Asia	3,433	2,436	(997)	(29.0)
Others	1,886	1,813	(72)	(3.8)
Total	15,992	13,598	(2,394)	(15.0)

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, including advertising and direct mail. However, the Company had difficulty expanding sales since it failed to launch attractive new products that greatly contribute to sales growth.

Consequently, the Company reported net sales of 6,681 million yen (-9.1% year on year) and segment income (ordinary income) of 198 million yen (+3.9% year on year). Meanwhile, operating income was 196 million yen (+4.1% year on year).

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

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## Other Businesses

Businesses in this segment include the transportation business, the manufacture and sale of plastic containers, real estate management, and advertising 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 4,662 million yen (-7.1% year on year) and 1,870 million yen (-15.2% year on year), respectively. Operating income was 508 million yen (-13.2% 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 consolidated fiscal year and 4,195 million yen in the same period of the current year.

## (2) Explanation of financial position

Total assets decreased by 6,485 million yen from the balance as of the end of the previous consolidated fiscal year to 227,247 million yen. This was attributable mainly to an increase of 7,068 million yen in cash and deposits, a decline of 8,954 million yen in notes and accounts receivable-trade, a rise of 3,651 million yen in merchandise and finished goods, a fall of 6,956 million yen in investment securities, and a decrease of 714 million yen in deferred tax assets.

Liabilities declined by 13,700 million yen from the balance as of the end of the previous consolidated fiscal year to 47,374 million yen. This was attributable mainly to a fall of 1,170 million yen in electronically recorded obligations-operating, a decrease of 7,805 million yen in accounts payable-other, a decline of 2,610 million yen in income taxes payable, and a fall of 1,094 million yen in provision for bonuses.

Net assets increased by 7,215 million yen from the balance as of the end of the previous consolidated fiscal year to 179,872 million yen, bringing the shareholders' equity ratio to 79.2%. This was attributable mainly to a growth of 9,473 million yen in retained earnings, a decrease of 1,762 million yen in valuation difference on available-for-sale securities, and a fall of 697 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, 2020, which the Group announced via the "Notice Regarding the Revision of the Forecast of Consolidated Results" released on July 30, 2020.

# KOBAYASHI PHARMACEUTICAL CO., LTD.

## 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 nine-month period of FY ending December 2020 (September 30, 2020)
<b>ASSETS</b>		
Current assets		
Cash and deposits	75,580	82,648
Notes and accounts receivable-trade	54,150	45,196
Short-term investment securities	14,977	14,859
Merchandise and finished goods	10,096	13,748
Work in process	1,679	1,961
Raw materials and supplies	3,550	3,636
Other	3,056	2,601
Allowance for doubtful accounts	(45)	(21)
<b>Total current assets</b>	<b>163,046</b>	<b>164,631</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,520	8,162
Machinery, equipment and vehicles, net	4,751	4,879
Tools, furniture and fixtures, net	1,284	1,337
Land	4,248	4,686
Leased assets, net	856	676
Construction in progress	1,519	918
<b>Total property, plant and equipment</b>	<b>21,180</b>	<b>20,661</b>
Intangible assets		
Goodwill	1,582	1,396
Trademark rights	92	79
Software	1,071	1,249
Other	365	364
<b>Total intangible assets</b>	<b>3,112</b>	<b>3,089</b>
Investments and other assets		
Investment securities	39,533	32,576
Long-term loans receivable	572	666
Deferred tax assets	2,028	1,313
Real estate for investment, net	2,727	2,824
Other	2,150	2,205
Allowance for doubtful accounts	(619)	(720)
<b>Total investments and other assets</b>	<b>46,392</b>	<b>38,865</b>
<b>Total non-current assets</b>	<b>70,685</b>	<b>62,615</b>
<b>Total assets</b>	<b>233,732</b>	<b>227,247</b>



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(millions of yen)

	Previous consolidated fiscal year (December 31, 2019)	End of 1st nine-month period of FY ending December 2020 (September 30, 2020)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	7,979	8,077
Electronically recorded obligations-operating	8,836	7,665
Short-term loans payable	19	0
Accounts payable-other	24,160	16,355
Lease obligations	190	182
Income taxes payable	4,962	2,352
Accrued consumption taxes	1,224	960
Provision for bonuses	2,368	1,273
Asset retirement obligations	42	57
Other	3,981	4,233
<b>Total current liabilities</b>	<b>53,767</b>	<b>41,159</b>
Non-current liabilities		
Lease obligations	682	510
Deferred tax liabilities	2,779	2,056
Net defined benefit liability	2,024	1,826
Provision for directors' retirement benefits	39	39
Asset retirement obligations	78	64
Other	1,703	1,717
<b>Total non-current liabilities</b>	<b>7,307</b>	<b>6,215</b>
<b>Total liabilities</b>	<b>61,074</b>	<b>47,374</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	173,650	183,124
Treasury stock	(19,762)	(19,762)
<b>Total shareholders' equity</b>	<b>161,521</b>	<b>170,995</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,212	11,449
Foreign currency translation adjustment	(586)	(1,284)
Re-measurements of retirement benefit plans	(1,489)	(1,288)
<b>Total accumulated other comprehensive income</b>	<b>11,136</b>	<b>8,877</b>
<b>Total net assets</b>	<b>172,657</b>	<b>179,872</b>
<b>Total liabilities and net assets</b>	<b>233,732</b>	<b>227,247</b>

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

(millions of yen)

	Nine-month period ended September 30, 2019 (January 1, 2019 to September 30, 2019)	Nine-month period ended September 30, 2020 (January 1, 2020 to September 30, 2020)
Net sales	111,202	105,049
Cost of sales	44,880	43,790
Gross profit	66,321	61,259
Selling, general and administrative expenses	46,490	41,743
Operating income	19,831	19,515
Non-operating income		
Interest income	252	233
Dividend income	488	245
Real estate rent	218	227
Compensation income	1,000	600
Insurance claim income	30	316
Other	202	277
Total non-operating income	2,193	1,899
Non-operating expenses		
Interest expenses	12	13
Rent cost of real estate	69	75
Foreign exchange losses	316	115
Provision of allowance for doubtful accounts	110	90
Other	68	77
Total non-operating expenses	577	372
Ordinary income	21,447	21,042
Extraordinary income		
Gain on sales of non-current assets	6	2
Gain on sales of investment securities	146	2
Gain on sale of businesses	600	—
Other	0	—
Total extraordinary income	753	5
Extraordinary loss		
Loss on sales and retirement of non-current assets	85	33
Impairment loss	553	4
Loss on valuation of investment securities	—	10
Loss on valuation of shares of subsidiaries and associates	50	—
Company funeral expenses	—	71
Business restructuring expenses	—	50
Other	2	14
Total extraordinary loss	691	184
Income before income taxes	21,509	20,863
Income taxes - current	6,612	5,580
Income taxes - deferred	(348)	24
Total income taxes	6,264	5,605
Net income	15,245	15,258
Net income attributable to owners of the parent	15,245	15,258

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

	(millions of yen)	
	Nine-month period ended September 30, 2019 (January 1, 2019 to September 30, 2019)	Nine-month period ended September 30, 2020 (January 1, 2020 to September 30, 2020)
Net income	15,245	15,258
Other comprehensive income		
Valuation difference on available-for-sale securities	(273)	(1,762)
Deferred gains or losses on hedges	(1)	—
Foreign currency translation adjustment	(852)	(697)
Adjustment for retirement benefits	205	201
Total other comprehensive income	(922)	(2,258)
Quarterly comprehensive income	14,323	12,999
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	14,323	12,999
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 the 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 the 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 the 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 third quarter of the previous consolidated fiscal year, net sales decreased by 6,587 million yen and cost of sales increased by 1,824 million yen, while selling, general and administrative expenses and operating income decreased by 7,947 million yen and 466 million yen, respectively, compared to those before the retrospective application. However, as non-operating expenses declined by 466 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, whereby 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 the technological and economical viewpoints and were 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, in the third quarter of the current consolidated fiscal year, profits decreased from those based on the previous method as follows: gross profit and operating income decreased by 696 million yen and 741 million yen, respectively, while both ordinary income and income before income taxes fell by 743 million yen.

## KOBAYASHI PHARMACEUTICAL CO., LTD.

(Segment information)

[Segment information, etc.]

I. 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 quarterly consolidated statements of income (Note 3)
	Domestic Business	Overseas Business	Direct Marketing Business	Total				
Net sales								
Net sales to outside customers	87,049	15,992	7,350	110,393	808	111,202	–	111,202
Inter-segment sales or transfers	5,274	809	–	6,084	4,209	10,293	(10,293)	–
Total	92,324	16,802	7,350	116,477	5,018	121,495	(10,293)	111,202
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 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 ended 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

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, 2020 (January 1, 2020 to September 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	84,302	13,598	6,681	104,583	466	105,049	–	105,049
Inter-segment sales or transfers	4,243	1,004	–	5,248	4,195	9,444	(9,444)	–
Total	88,546	14,603	6,681	109,831	4,662	114,493	(9,444)	105,049
Segment income	19,011	458	198	19,668	1,870	21,538	(495)	21,042

(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, and advertisement planning and production.
2. Adjustments of -495 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 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 of measuring the business segment income or loss in the same manner as the accounting standard, etc.

Accordingly, “Net sales to outside customers” decreased by 5,203 million yen in the *Domestic Business* and 1,383 million yen in the *International Business* in the third 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 680 million yen in the *Domestic Business*, 37 million yen in the *International Business*, 0 million yen in the *Direct Marketing Business*, and 26 million yen in *Other* in the third quarter of the consolidated fiscal year ending December 31, 2020, compared to those calculated based on the previous method.

## 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.

(Significant subsequent events)

Business combination through acquisition

On September 30, 2020, with the aim of developing and expanding its OTC pharmaceutical business in North America, the Company agreed with Alva-Amco Pharmacal Companies, Inc. (“Alva”) to acquire complete control of Alva and concluded a contract with them. On October 16, 2020, the Company completed the necessary procedures for the acquisition.

1. Outline of the business combination

(1) Name and description of business of the acquired company

Name of the acquired company: Alva-Amco Pharmacal Companies, Inc.

Description of business: Manufacture and sales of OTC pharmaceuticals

(2) Major reason for the business combination

Alva sells OTC pharmaceuticals, including the following stable products—a medicine for athlete’s foot, a diuretic drug, an anti-nausea drug, a medicine for rosacea, and an internal anti-inflammatory agent—at drugstores and supermarkets throughout the U.S., and has long-seller brands in a niche market.

The Company’s Group places its International Business as a next growth business and has already been expanding its businesses by establishing a locally incorporated subsidiary in the U.S., the U.K., China, and other Asian regions. In the U.S. where Alva is located, the Group has been increasing its business scope by marketing topical analgesics under *Zim’s MAX* brand since 2016 as well as household products, such as body warmers, *Netsusama Sheet* (a cooling gel sheet for the forehead), and *Glass Cleaner*.

The acquisition of complete control of Alva will allow the Company’s Group and Alva to mutually utilize Alva’s branding power and marketing and distribution capabilities in North America, and the Kobayashi Pharmaceutical Group’s R&D capabilities and technological know-how. Through the business combination, the Company aims not only to provide customers with new values but also to further develop and expand its OTC pharmaceutical business in North America.

(3) Date of the business combination

October 16, 2020

(4) Legal form of the business combination

Acquisition of shares for cash consideration

(5) Name of the entity after the business combination

Alva-Amco Pharmacal Companies, LLC.

(6) Percentage of acquired voting rights

100%

(7) Basis for determining the acquiring company

Kobayashi Healthcare International, Inc., the Company’s consolidated subsidiary, acquired all shares of Alva in exchange for cash.

(8) Acquisition cost and consideration of the acquired company by item

Acquisition consideration	Cash	US\$110 million
Acquisition cost		US\$110 million

The amount of the acquisition consideration may be adjusted.

2. Details and amount of major acquisition-related costs

Not fixed at the present time

3. Amount of goodwill, reason for recognition, and amortization method and period

Not fixed at the present time

4. Details of assets acquired and liabilities assumed on the date of business combination

Not fixed at the present time