

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 3rd Quarter of the Fiscal Year Ending December 31, 2021

October 28, 2021

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, 2021
 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, 2021 (January 1, 2021 to September 30, 2021)

(1) Consolidated Operating Results (accumulation)

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

	Q3 of FY ending December 31, 2021		Q3 of FY ended December 31, 2020	
Net sales	107,658 millions of yen	2.5 %	105,049 millions of yen	(5.5) %
Operating income	19,426	(0.5)	19,515	(1.6)
Ordinary income	21,016	(0.1)	21,042	(1.9)
Net income attributable to owners of the parent	14,883	(2.5)	15,258	0.1
Net income per share	190.42 yen		195.21 yen	

(Note) Comprehensive income: Q3 of FY ending December 31, 2021: 18,017 million yen (38.6%)
 Q3 of FY ended December 31, 2020: 12,999 million yen (-9.2%)

(2) Consolidated Financial Position

	Q3 of FY ending December 31, 2021	As of December 31, 2020
Total assets	242,375 millions of yen	238,366 millions of yen
Net assets	194,347	182,583
Shareholders' equity ratio	80.2 %	76.6 %

(Reference) Shareholders' equity
 Q3 of FY ending December 31, 2021: 194,347 million yen
 FY ended December 31, 2020: 182,583 million yen

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2. Dividends

	FY ended December 31, 2020	FY ending December 31, 2021	FY ending December 31, 2021 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	34.00 yen	37.00 yen	
Q3 end	—	—	
Year-end	43.00		44.00 yen
Total	77.00		81.00

(Note) Revision of the latest dividend forecast: None

3. Forecasts of Consolidated Operational Results for Fiscal Year Ending December 31, 2021 (January 1, 2021 to December 31, 2021)

(% figures represent changes from previous year)

	Full year	
Net sales	156,000 millions of yen	3.6 %
Operating income	26,000	0.2
Ordinary income	27,800	0.3
Net income attributable to owners of the parent	19,500	1.5
Earnings per share	249.48 yen	

(Note) Revision of the latest forecasts of operational results: None

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* Notes

(1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries accompanying changes of the scope of consolidation): None

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

① Changes in accounting policies due to revisions of accounting standards: None

② Changes in accounting policies other than ①: Yes

③ Changes in accounting estimates: Yes

④ Retrospective restatement: None

(4) Issued shares (common shares)

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

Q3 of FY ending December 31, 2021	82,050,000 shares	FY ended December 31, 2020	82,050,000 shares
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② Number of shares of treasury stock at period-end:

Q3 of FY ending December 31, 2021	3,886,984 shares	FY ended December 31, 2020	3,886,911 shares
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③ Average number of shares outstanding during period (consolidated cumulative quarters):

Q3 of FY ending December 31, 2021	78,163,066 shares	Q3 of FY ended December 31, 2020	78,163,163 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 3 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 28, 2021. 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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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. 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 the sharp decline in the number of foreign visitors to Japan.

Under these circumstances, the Group launched new products to meet customers' needs, strengthened its existing product lineups, and invested in businesses with high future growth potential, under the brand slogan "You make a wish and we make it happen."

As a result, net sales, operating income and ordinary income were 107,658 million yen (+2.5% year on year), 19,426 million yen (-0.5% year on year) and 21,016 million yen (-0.1% year on year), respectively, and net income attributable to owners of the parent was 14,883 million yen (-2.5% year on year).

Business results by segment were as follows:

For your information, from the first three-month period of the consolidated fiscal year under review, the Group has changed one of its key performance management indicators (performance indicators that the Kobayashi Pharmaceutical Group uses to determine the allocation of business resources and examine the evaluation of performance) from ordinary income to operating income. Accordingly, the Group has changed segment income from ordinary income to operating income.

In accordance with the change, the Group has changed segment income for the first nine-month period of the previous consolidated fiscal year to operating income for comparison purposes.

Domestic Business

In the Domestic Business, the Company launched 14 new products in the spring of 2021. The products that contributed to growth in sales were *Zero-ora* (a germ-killing, total-care toothpaste that provides protection for teeth and gums by sterilizing various germs inside the mouth at once), *Benikoji CholesteHelp* (a functional food containing ang-khak as a functional component to lower low-density lipoprotein), and *Sawaday Kaoru Stick CITRUS* (a stick-type fragrance for indoor use containing a refreshing citrus scent that gives a bright impression to a room).

Furthermore, demand for disinfectant and sanitary products—items used to prevent COVID-19 infection—continued to grow from the previous year. Products that recorded robust sales included *Liquid Bluelet Disinfection EX* (a liquid tank cleaner that makes toilet cleaning easier by preventing black stains from appearing on water lines of toilet bowls) and *Hananoa* (a rinsing agent that easily cleans the nasal cavity without pain).

Meanwhile, inbound demand greatly decreased due to the fall in the number of foreign visitors to Japan.

In addition, sales of *BreathCare* (an oral breath freshener capsule that refreshes the breath from the stomach) and *Netsusama Sheet* (a cooling gel sheet for the forehead) declined from the previous year due to self-restraint on going out, a reduction in the number of drinking parties, and a fall in the number of people suffering from colds and influenza because of the effects of wearing a mask.

Consequently, the Company reported net sales of 85,885 million yen (-3.0% year on year) and segment income of 17,920 million yen (-3.0% year on year).

Net sales include inter-segment sales or transfers, which totaled 4,243 million yen in the first nine-month period of the previous consolidated fiscal year and 4,175 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q3 ended September 30, 2020 (January 1, 2020 to September 30, 2020)	Q3 ended September 30, 2021 (January 1, 2021 to September 30, 2021)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
Healthcare products	39,686	38,984	(701)	(1.8)
Household products	38,156	35,730	(2,425)	(6.4)
Skin care	5,260	5,301	41	0.8
Body warmers	1,199	1,693	494	41.2
Total	84,302	81,710	(2,591)	(3.1)

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International Business

In the 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.

In the United States and China, where the economy was returning to normal along with progress in COVID-19 vaccinations, net sales increased since demand recovered in a wide variety of goods.

In Southeast Asian countries, demand for *Netsusama Sheet* grew sharply to treat fever after COVID-19 vaccinations.

In addition, Alva-Amco Pharmacal Companies, LLC, which became the Company's consolidated subsidiary through an acquisition in October 2020, contributed to growth in net sales.

As a result, net sales and segment income were 20,017 million yen (+37.1% year on year) and 686 million yen (+114.6% year on year), respectively.

Net sales include inter-segment sales or transfers, which totaled 1,004 million yen in the first nine-month period of the previous consolidated fiscal year and 1,073 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q3 ended September 30, 2020 (January 1, 2020 to September 30, 2020)	Q3 ended September 30, 2021 (January 1, 2021 to September 30, 2021)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	4,374	7,875	3,501	80.0
China	4,974	6,772	1,798	36.2
Southeast Asia	2,436	2,582	146	6.0
Others	1,813	1,713	(99)	(5.5)
Total	13,598	18,944	5,345	39.3

Direct Marketing Business

The Direct Marketing Business markets nutritional supplements and skin care products. The Company strove to acquire 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 6,634 million yen (-0.7% year on year) and segment income of 222 million yen (+13.0% 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 were 5,012 million yen (+7.5% year on year) and 629 million yen (+23.7% year on year), respectively.

Net sales include inter-segment sales or transfers, which totaled 4,195 million yen in the first nine-month period of the previous consolidated fiscal year and 4,642 million yen in the same period of the current year.

(2) Explanation of financial position

Total assets increased by 4,008 million yen from the balance as of the end of the previous consolidated fiscal year to 242,375 million yen. This was attributable mainly to an increase of 6,625 million yen in cash and deposits, a decline of 5,496 million yen in notes and accounts receivable-trade, a rise of 1,166 million yen in short-term investment securities, a growth of 4,576 million yen in merchandise and finished goods, and a fall of 4,101 million yen in investment securities.

Liabilities declined by 7,754 million yen from the balance as of the end of the previous consolidated fiscal year to 48,028 million yen. This was attributable mainly to an increase of 1,356 million yen in notes and accounts payable-trade, a fall of 3,993 million yen in accounts payable-other, a decrease of 2,519 million yen in income taxes payable, and a decline of 1,484 million yen in provision for bonuses.

Net assets grew by 11,763 million yen from the balance as of the end of the previous consolidated fiscal year to 194,347 million yen, bringing the shareholders' equity ratio to 80.2%. This was attributable mainly to a rise of 8,630 million yen in retained earnings.

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(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, 2021, which the Group announced via the Summary of Financial Statements for the Fiscal Year Ended December 31, 2020 released on February 1, 2021.

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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, 2020)	End of 1st nine-month period of FY ending December 2021 (September 30, 2021)
ASSETS		
Current assets		
Cash and deposits	78,253	84,879
Notes and accounts receivable-trade	52,850	47,354
Short-term investment securities	16,085	17,252
Merchandise and finished goods	8,960	13,537
Work in process	1,548	1,604
Raw materials and supplies	3,631	4,485
Other	2,917	2,617
Allowance for doubtful accounts	(21)	(20)
Total current assets	164,225	171,709
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,961	7,921
Machinery, equipment and vehicles, net	4,729	4,888
Tools, furniture and fixtures, net	1,397	1,389
Land	4,739	4,743
Leased assets, net	656	626
Construction in progress	1,337	1,936
Total property, plant and equipment	20,821	21,506
Intangible assets		
Goodwill	7,284	7,213
Trademark rights	4,030	3,805
Software	1,286	1,395
Other	192	202
Total intangible assets	12,794	12,617
Investments and other assets		
Investment securities	34,474	30,372
Long-term loans receivable	700	819
Deferred tax assets	1,443	1,540
Real estate for investment, net	2,765	2,740
Other	1,908	1,913
Allowance for doubtful accounts	(766)	(843)
Total investments and other assets	40,525	36,542
Total non-current assets	74,141	70,666
Total assets	238,366	242,375

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(millions of yen)

	Previous consolidated fiscal year (December 31, 2020)	End of 1st nine-month period of FY ending December 2021 (September 30, 2021)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	7,558	8,915
Electronically recorded obligations-operating	8,368	7,465
Short-term loans payable	13	—
Accounts payable-other	20,968	16,975
Lease obligations	170	167
Income taxes payable	4,371	1,852
Accrued consumption taxes	1,417	446
Provision for bonuses	2,797	1,312
Other	4,441	4,279
Total current liabilities	50,107	41,413
Non-current liabilities		
Lease obligations	505	481
Deferred tax liabilities	1,357	2,243
Net defined benefit liability	1,920	1,946
Provision for directors' retirement benefits	40	40
Other	1,852	1,902
Total non-current liabilities	5,675	6,614
Total liabilities	55,783	48,028
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	4,183	4,183
Retained earnings	187,071	195,702
Treasury stock	(19,763)	(19,764)
Total shareholders' equity	174,941	183,571
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,449	11,528
Foreign currency translation adjustment	(1,517)	332
Re-measurements of retirement benefit plans	(1,290)	(1,085)
Total accumulated other comprehensive income	7,641	10,775
Total net assets	182,583	194,347
Total liabilities and net assets	238,366	242,375

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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, 2021)

(millions of yen)

	Nine-month period ended September 30, 2020 (January 1, 2020 to September 30, 2020)	Nine-month period ended September 30, 2021 (January 1, 2021 to September 30, 2021)
Net sales	105,049	107,658
Cost of sales	43,790	44,249
Gross profit	61,259	63,409
Selling, general and administrative expenses	41,743	43,982
Operating income	19,515	19,426
Non-operating income		
Interest income	233	104
Dividend income	245	234
Real estate rent	227	225
Foreign exchange gains	—	367
Compensation income	600	600
Other	593	306
Total non-operating income	1,899	1,838
Non-operating expenses		
Interest expenses	13	13
Rent cost of real estate	75	101
Foreign exchange losses	115	—
Provision of allowance for doubtful accounts	90	93
Other	77	40
Total non-operating expenses	372	249
Ordinary income	21,042	21,016
Extraordinary income		
Gain on sales of non-current assets	2	0
Gain on sales of investment securities	2	1
Total extraordinary income	5	1
Extraordinary loss		
Loss on sales and retirement of non-current assets	33	47
Loss on valuation of investment securities	10	62
Other	141	15
Total extraordinary loss	184	124
Income before income taxes	20,863	20,892
Income taxes - current	5,580	5,662
Income taxes - deferred	24	347
Total income taxes	5,605	6,009
Net income	15,258	14,883
Net income attributable to owners of the parent	15,258	14,883

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(Quarterly consolidated statements of comprehensive income)
 (For the first nine-month period of the fiscal year ending December 31, 2021)

	(millions of yen)	
	Nine-month period ended September 30, 2020 (January 1, 2020 to September 30, 2020)	Nine-month period ended September 30, 2021 (January 1, 2021 to September 30, 2021)
Net income	15,258	14,883
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,762)	1,079
Foreign currency translation adjustment	(697)	1,850
Adjustment for retirement benefits	201	204
Total other comprehensive income	(2,258)	3,133
Quarterly comprehensive income	12,999	18,017
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	12,999	18,017
Comprehensive income attributable to non-controlling interests	—	—

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(3) Notes on quarterly consolidated financial statements

(Notes on assumption of going concern)

Not applicable

(Notes on a significant change in shareholders' equity)

Not applicable

(Segment information)

I. Nine-month period ended September 30, 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	Overseas 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	18,477	319	196	18,994	508	19,502	12	19,515

(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. The adjustment of 12 million yen in segment income is an elimination among segments.
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

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.

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II. Nine-month period ended September 30, 2021 (January 1, 2021 to September 30, 2021)

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	81,710	18,944	6,634	107,289	369	107,658	–	107,658
Inter-segment sales or transfers	4,175	1,073	–	5,248	4,642	9,891	(9,891)	–
Total	85,885	20,017	6,634	112,537	5,012	117,550	(9,891)	107,658
Segment income	17,920	686	222	18,829	629	19,458	(31)	19,426

(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. The adjustment of –31 million yen in segment income is an elimination among segments.
 3. Segment income is adjusted with ordinary income in the quarterly consolidated statements of income.
2. Matters regarding change in reportable segment, etc.
From the first three-month period of the consolidated fiscal year under review, the Group has changed one of its key performance management indicators (performance indicators that the Kobayashi Pharmaceutical Group uses to determine the allocation of business resources and examine the evaluation of performance) from ordinary income to operating income. Accordingly, the Group has changed segment income from ordinary income to operating income.
In accordance with the change, the Group has changed segment income for the first nine-month period of the previous consolidated fiscal year to operating income for comparison purposes.
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.

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(Significant subsequent events)

1. (Issuance of stock acquisition rights as stock options)

At a meeting of the Board of Directors held on August 25, 2021, the Company resolved to issue stock acquisition rights as stock options to executive officers and employees of the Company and directors and employees of the Company's subsidiaries pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act, and issued stock acquisition rights on October 1, 2021.

(1) Reason for issuance of the stock acquisition rights as stock options

The Company will issue the stock acquisition rights as stock options to executive officers and employees of the Company and directors and employees of the Company's subsidiaries to further enhance their morale and motivation to contribute to the expansion of its financial results and corporate value over the medium and long term as well as to strengthen linkages between the Company's financial results and the value of the Company's shares.

(2) Terms and conditions of issuance of the stock acquisition rights

a. Date of issuance

October 1, 2021

b. Persons entitled to receive allotment of stock acquisition rights and number of such persons

Executive officers of the Company: 9 Employees of the Company: 1,666
Directors of the Company's subsidiaries: 4 Employees of the Company's subsidiaries: 978

c. Number of stock acquisition rights to be issued

3,539 rights

d. Amount to be paid-in upon allotment of the stock acquisition rights

There will be no requirement to pay monies in with respect to the allotment of the stock acquisition rights.

e. Class and number of shares subject to the stock acquisition rights

353,900 shares of the Company's common stock (100 shares per one stock acquisition right)

f. Amount to be paid-on upon exercise of the stock acquisition rights

8,840 yen per share

g. Amount of increase in capital stock and capital surplus when stock is issued upon the exercise of the stock acquisition rights

1) The amount of increase in capital stock when stock is issued upon the exercise of the stock acquisition rights shall be one half of the maximum value of the increase in capital, etc. calculated in accordance with Article 17, Paragraph 1 of the Regulation on Corporate Accounting, and when the results of calculations include fractions of yen, these fractional values shall be rounded up to the nearest yen.

2) The amount of increase in capital surplus when stock is issued upon the exercise of the stock acquisition rights shall equal the maximum value of the increase in capital stock, etc. shown in item 1) above, less the value of the increase in capital stock prescribed in item 1) above.

h. Conditions for the exercise of the stock acquisition rights

1) A holder of the stock acquisition rights may exercise his or her stock acquisition rights unless he or she loses a position as a director, an audit and supervisory board member, or an employee of the Company or the Company's subsidiaries at the time of the exercise of the stock acquisition rights. However, this shall not apply to the following cases: a director or an audit and supervisory board member of the Company or the Company's subsidiaries retires due to the expiration of his or her term of office; an employee of the Company or the Company's subsidiaries retires at the mandatory retirement age; and the Board of Directors of the Company resolves to approve that there are justifiable reasons for his or her retirement.

2) If a holder of the stock acquisition rights passes away, heirs of the right holder may exercise the acquisition rights.

i. Exercise period for stock acquisition rights

From August 26, 2024 to August 25, 2027

2. (Acquisition of the Company's own shares)

At a meeting of the Board of Directors held on October 28, 2021, the Company resolved to acquire its own shares pursuant to Article 156 of the Companies Act as applied mutatis mutandis to Article 165, paragraph 3 of the Act.

(1) Reasons for acquisition of the Company's own shares

The Company will acquire its own shares to further increase returns to shareholders and flexibly execute its capital policy in accordance with changes in the operating environment.

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(2) Details of acquisition

- | | |
|--|--|
| a. Class of shares to be acquired | : Common stock of the Company |
| b. Total number of shares to be acquired | : 1,000,000 shares (maximum)
(Ratio to the number of total outstanding shares
excluding treasury stock: 1.28%) |
| c. Total value of shares to be acquired | : 8,000,000,000 yen (maximum) |
| d. Acquisition period | : November 1, 2021 to June 23, 2022 |
| f. Acquisition method | : Acquisition on the Tokyo Stock Exchange |