

KOBAYASHI PHARMACEUTICAL CO., LTD.

Summary of Financial Statements (Japanese GAAP) (Consolidated) Financial Results for the 1st Quarter of the Fiscal Year Ending December 31, 2023

May 10, 2023

Listed exchanges : Tokyo

Listed company name : Kobayashi Pharmaceutical Co., Ltd.

Code : 4967

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

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Expected date for submitting quarterly securities report : May 12, 2023

Expected date for starting payment of dividends : —

Preparation of supplementary explanation documents for quarterly financial results: Yes

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

(Any fraction less than 1 million yen is rounded down to the nearest million yen.)

1. Consolidated Results for 1st Quarter of Fiscal Year Ending December 31, 2023 (January 1, 2023 to March 31, 2023)

(1) Consolidated Operating Results (accumulation)

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

	Q1 of FY ending December 31, 2023		Q1 of FY ended December 31, 2022	
Net sales	33,467	millions of yen	32,646	millions of yen
				7.9 %
Operating income	5,061		4,845	
		4.5		3.3
Ordinary income	5,168		5,100	
		1.3		(1.8)
Net income attributable to owners of the parent	3,608		3,473	
		3.9		(4.3)
Net income per share	47.43	yen	44.87	yen

(Note) Comprehensive income

Q1 of FY ending December 31, 2023: 4,815 million yen (7.3%)

Q1 of FY ended December 31, 2022: 4,486 million yen (–33.9%)

(2) Consolidated Financial Position

	Q1 of FY ending December 31, 2023		FY ended December 31, 2022	
Total assets	252,903	millions of yen	255,827	millions of yen
Net assets	198,809		197,900	
Shareholders' equity ratio	78.5	%	77.3	%

(Reference) Shareholders' equity

Q1 of FY ending December 31, 2023: 198,501 million yen FY ended December 31, 2022: 197,639 million yen

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2. Dividends

	FY ended December 31, 2022	FY ending December 31, 2023	FY ending December 31, 2023 (forecasts)
Dividends per share			
Q1 end	—	—	
Q2 end	38.00 yen		39.00 yen
Q3 end	—		—
Year-end	52.00		53.00
Total	90.00		92.00

(Note) Revision to the latest dividend forecast: None

3. Forecasts of Consolidated Operational Results for Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(% figures represent changes from previous period.)

	Full year		
Net sales	172,000 millions of yen	3.5	%
Operating income	25,500	(4.4)	
Ordinary income	26,500	(6.3)	
Net income attributable to owners of the parent	20,200	0.9	
Net income per share	265.74 yen		

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

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*** Notes**

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

2) Changes in accounting policies other than 1): None

3) Changes in accounting estimates: None

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)" on page 8 of the attachment.

(4) Issued shares (common shares)

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

Q1 of FY ending December 31, 2023	78,050,000 shares	FY ended December 31, 2022	78,050,000 shares
Q1 of FY ending December 31, 2023	1,921,986 shares	FY ended December 31, 2022	2,036,086 shares
Q1 of FY ending December 31, 2023	76,068,428 shares	Q1 of FY ended December 31, 2022	77,413,697 shares

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

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

* This brief report of quarterly financial statements is not subject to audit procedures by a certified public accountant or an independent auditor.

* Notes on proper use of forecasts and other matters

The forward-looking statements in this document concerning forecasting of operational results, etc., are based on currently available information and assumptions considered reasonable by the Company. Actual operational results may be significantly different from these statements due to various factors. For matters concerning forecasts for operational results, please refer to "1. Qualitative Information on Quarterly Results (3) Explanation of future forecast information, such as forecast of consolidated results" on page 3 of the attachment.

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

The Company plans to hold a results presentation for institutional investors and securities analysts on Wednesday, May 10, 2023. It plans to post the supplementary documents for 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 three-month period of the consolidated fiscal year under review (January 1, 2023 to March 31, 2023), economic activities resumed in many countries and the number of people moving across countries and regions were on an upward trend along with the lessening of the number of new COVID-19 cases. However, in addition to rising geopolitical risks, there were concerns about a slowdown in consumption due to soaring raw material prices and higher energy costs. Accordingly, the outlook for the business environment surrounding the Kobayashi Pharmaceutical Group continued to remain uncertain.

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 33,467 million yen (+2.5% year on year), 5,061 million yen (+4.5% year on year) and 5,168 million yen (+1.3% year on year), respectively, and net income attributable to owners of the parent was 3,608 million yen (+3.9% year on year).

In the past, the Kobayashi Pharmaceutical Group reported financial results for the following business segments: Domestic Business, International Business, Direct Marketing Business, and other. From the first three-month period of the current consolidated fiscal year under review, the Group decided to merge the Direct Marketing Business with the Domestic Business. In accordance with the change, it reported financial results for the following business segments: Domestic Business, International Business, and other.

Therefore, the Group reported financial results for the corresponding year-earlier period after being retrospectively restated based on the classification after the change for comparison purposes.

Business results by segment were as follows.

Domestic Business

In the Domestic Business, the Company launched 15 new products in the spring of and another 10 in the fall of the previous year. The products that contributed to growth in sales were *Naripitan Tokishakuyakusan* (Kampo, a Chinese medicine, effective for alleviating ringing ears), *Bisrat Gran EX* (Kampo, a Chinese medicine, effective for reducing obesity by activating lipid metabolism, which falls due to a decrease in hormones, and removing excess fat often sticking out from the lower abdomen in women aged 55 or older), and *Inochinohaha Active* (a herbal medicine, effective for alleviating symptoms, such as stiff shoulders, lower-back pain, heavy weariness, and cold-sensitivity, after menopause).

Furthermore, sales of *Eyebon* (an eye wash that cleanses eyes) and *Hananoa* (a product that enables the easy rinsing of the nasal cavity without pain) grew steadily since pollen flying in the air increased compared to the previous year.

In addition, as the number of foreigners visiting Japan increased, demand for our products from inbound tourists rose, contributing to sales growth.

On the other hand, sales of household products decreased since sales of deodorizing air fresheners were weak due to sluggish market demand and intensifying competition. Sales were also slow in the Direct Marketing Business, which failed to market new products that would greatly contribute to growth in sales.

Consequently, the Company reported net sales of 26,158 million yen (−0.0% year on year) and segment income of 3,605 million yen (−10.1% year on year).

Net sales include inter-segment sales or transfers, which totaled 1,023 million yen in the first three-month period of the previous consolidated fiscal year and 1,232 million yen in the same period of the current consolidated year.

Along with the change in the classification of businesses, the Company stated the breakdown of sales to external customers shown below after including skin care products in the Healthcare products category and putting medical body warmers in the Household products category in the Body warmers category. For comparison purposes, the Company reported sales to external customers by product category for the corresponding year-earlier period after being retrospectively restated based on the classification after the change.

(Breakdown of sales to external customers)

	Q1 ended March 31, 2022 (January 1, 2022 to March 31, 2022)	Q1 ended March 31, 2023 (January 1, 2023 to March 31, 2023)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
Healthcare products	13,658	14,036	378	2.8
Household products	8,682	8,151	(531)	(6.1)
Body warmers	688	824	136	19.8
Direct marketing	2,111	1,913	(197)	(9.4)
Total	25,140	24,926	(214)	(0.9)

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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.

Sales of body warmers were sluggish in the United States and China due to mild winters. On the other hand, Alva (Alva-Amco Pharmacal Companies, LLC), a U.S. OTC pharmaceutical manufacturer that the Company acquired in 2020, which experienced a dearth in stock of some products due to a delay in the supply of ingredients caused by disruption to its supply chain in the previous year, saw its sales increase this year in reaction to such trouble. Furthermore, sales remained strong in Hong Kong and Thailand, where demand from inbound Chinese tourists increased. In addition, positive foreign currency translation effects contributed to a growth in net sales.

As a result, net sales and segment income were 8,869 million yen (+13.6% year on year) and 1,351 million yen (+82.7% year on year), respectively.

Net sales include inter-segment sales or transfers, which totaled 415 million yen in the first three-month period of the previous consolidated fiscal year and 478 million yen in the same period of the current year.

(Breakdown of sales to external customers)

	Q1 ended March 31, 2022 (January 1, 2022 to March 31, 2022)	Q1 ended March 31, 2023 (January 1, 2023 to March 31, 2023)	Change	
	Amount (millions of yen)	Amount (millions of yen)	Amount (millions of yen)	Change (%)
United States	2,510	2,678	167	6.7
China	2,517	2,760	243	9.7
Southeast Asia	1,753	2,241	488	27.9
Others	607	709	101	16.7
Total	7,389	8,391	1,001	13.6

Other

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 1,524 million yen (−0.4% year on year) and 97 million yen (−34.5% year on year), respectively.

Net sales include inter-segment sales or transfers, which totaled 1,415 million yen in the first three-month period of the previous consolidated fiscal year and 1,374 million yen in the same period of the current year.

(2) Explanation of financial position

Total assets decreased by 2,924 million yen from the balance as of the end of the previous consolidated fiscal year to 252,903 million yen. This was attributable mainly to a decline of 3,247 million yen in cash and deposits, a fall of 13,452 million yen in notes and accounts receivable-trade, an increase of 4,909 million yen in merchandise and finished goods, a rise of 6,639 million yen in construction in progress, and a growth of 1,098 million yen in investment securities.

Liabilities declined by 3,834 million yen from the balance as of the end of the previous consolidated fiscal year to 54,093 million yen. This was attributable mainly to a fall of 3,581 million yen in accounts payable-other.

Net assets grew by 909 million yen from the balance as of the end of the previous consolidated fiscal year to 198,809 million yen, bringing the shareholders' equity ratio to 78.5%. This was attributable mainly to a decrease of 1,156 million yen in retained earnings, a fall of 811 million yen in treasury stock, an increase of 662 million yen in valuation difference on available-for-sale securities, and a rise of 471 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, 2023, which the Group announced via the Summary of Financial Statements for the Fiscal Year ended December 31, 2022 released on February 14, 2023.

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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, 2022)	Q1 of current consolidated fiscal year (March 31, 2023)
ASSETS		
Current assets		
Cash and deposits	96,233	92,986
Notes and accounts receivable-trade	47,881	34,429
Short-term investment securities	8,300	8,300
Merchandise and finished goods	9,985	14,895
Work in process	1,304	1,655
Raw materials and supplies	6,389	6,627
Other	2,825	2,764
Allowance for doubtful accounts	(28)	(20)
Total current assets	172,892	161,637
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,507	9,383
Machinery, equipment and vehicles, net	5,361	5,081
Tools, furniture and fixtures, net	1,453	1,426
Land	4,703	4,703
Leased assets, net	771	858
Construction in progress	12,982	19,621
Total property, plant and equipment	34,778	41,075
Intangible assets		
Goodwill	7,147	6,938
Trademark rights	3,274	3,075
Software	2,399	2,613
Other	485	491
Total intangible assets	13,307	13,119
Investment and other assets		
Investment securities	28,509	29,608
Long-term loans receivable	975	1,045
Deferred tax assets	1,750	1,853
Real estate for investment, net	2,707	2,700
Other	1,932	2,939
Allowance for doubtful accounts	(1,026)	(1,075)
Total investments and other assets	34,848	37,070
Total non-current assets	82,934	91,265
Total assets	255,827	252,903

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(millions of yen)

	Previous consolidated fiscal year (December 31, 2022)	Q1 of current consolidated fiscal year (March 31, 2023)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	9,051	10,472
Electronically recorded obligations—operating	9,005	8,101
Accounts payable-other	20,409	16,827
Lease obligations	261	328
Income taxes payable	3,987	2,159
Accrued consumption taxes	921	697
Provision for bonuses	2,553	3,692
Other	5,619	5,862
Total current liabilities	51,809	48,142
Non-current liabilities		
Lease obligations	531	551
Deferred tax liabilities	1,310	1,123
Net defined benefit liability	2,034	2,037
Other	2,242	2,238
Total non-current liabilities	6,118	5,951
Total liabilities	57,927	54,093
NET ASSETS		
Shareholders' equity		
Capital stock	3,450	3,450
Capital surplus	522	522
Retained earnings	194,285	193,129
Treasury stock	(14,482)	(13,671)
Total shareholders' equity	183,775	183,430
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,346	11,009
Foreign currency translation adjustment	4,352	4,823
Re-measurements of retirement benefit plans	(834)	(762)
Total accumulated other comprehensive income	13,864	15,070
Share acquisition rights	260	308
Non-controlling interests	—	0
Total net assets	197,900	198,809
Total liabilities and net assets	255,827	252,903

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(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
 (Quarterly consolidated statements of income)
 (Three-month period ended March 31, 2023)

	(millions of yen)	
	Three-month period ended March 31, 2022 (January 1, 2022 to March 31, 2022)	Three-month period ended March 31, 2023 (January 1, 2023 to March 31, 2023)
Net sales	32,646	33,467
Cost of sales	14,006	14,139
Gross profit	18,640	19,327
Selling, general and administrative expenses	13,795	14,266
Operating income	4,845	5,061
Non-operating income		
Interest income	20	56
Dividend income	3	3
Real estate rent	75	73
Foreign exchange gains	129	—
Subsidy income	106	61
Other	72	65
Total non-operating income	406	261
Non-operating expenses		
Interest expenses	4	4
Rent cost of real estate	24	25
Foreign exchange losses	—	58
Provision of allowance for doubtful accounts	48	49
Other	73	17
Total non-operating expenses	150	154
Ordinary income	5,100	5,168
Extraordinary income		
Gain on sales of non-current assets	0	2
Other	0	—
Total extraordinary income	0	2
Extraordinary loss		
Loss on sales and retirement of non-current assets	3	4
Losses related to defective products	—	68
Other	0	—
Total extraordinary loss	3	72
Income before income taxes	5,097	5,097
Income taxes - current	2,190	2,034
Income taxes - deferred	(565)	(544)
Total income taxes	1,624	1,489
Net income	3,473	3,608
Net income attributable to non-controlling interests	—	0
Net income attributable to owners of the parent	3,473	3,608

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(Quarterly consolidated statements of comprehensive income)
(Three-month period ended March 31, 2023)

(millions of yen)

	Three-month period ended March 31, 2022 (January 1, 2022 to March 31, 2022)	Three-month period ended March 31, 2023 (January 1, 2023 to March 31, 2023)
Net income	3,473	3,608
Other comprehensive income		
Valuation difference on available-for-sale securities	(853)	662
Foreign currency translation adjustment	1,798	471
Adjustment for retirement benefits	68	72
Total other comprehensive income	1,013	1,206
Quarterly comprehensive income	4,486	4,815
(Quarterly comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	4,486	4,814
Quarterly comprehensive income attributable to non-controlling interests	—	0

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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)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)
Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Standard Implementation Guidance") has been applied from the beginning of the first three-month period of the consolidated fiscal year ending December 31, 2023. In accordance with the transitional treatment prescribed in Paragraph 27-2 of the Fair Value Measurement Standard Implementation Guidance, the Company has decided to apply the new accounting policies set forth by the Fair Value Measurement Standard Implementation Guidance into the future. These changes had no impact on the quarterly consolidated financial statements.

(Segment information, etc.)

[Segment information]

I. Q1 of previous consolidated fiscal year (January 1, 2022 to March 31, 2022)

1. Information on net sales, income or loss by reportable segment

(Unit: millions of yen)

	Reportable Segments			Other (Note 1)	Grand Total	Adjustment (Note 2)	Figures in quarterly consolidated statements of income (Note 3)
	Domestic Business	Internationa l Business	Total				
Net sales							
Japan	25,140	—	25,140	116	25,256	—	25,256
United States	—	2,510	2,510	—	2,510	—	2,510
China	—	2,517	2,517	—	2,517	—	2,517
Southeast Asia	—	1,753	1,753	—	1,753	—	1,753
Other	—	607	607	—	607	—	607
Revenue from contracts with customers	25,140	7,389	32,530	116	32,646	—	32,646
Net sales to outside customers	25,140	7,389	32,530	116	32,646	—	32,646
Inter-segment sales and transfers	1,023	415	1,439	1,415	2,854	(2,854)	—
Total	26,164	7,804	33,969	1,531	35,500	(2,854)	32,646
Segment income	4,012	739	4,752	149	4,901	(56)	4,845

- (Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, real estate management, and advertisement planning and production.
2. Adjustments of -56 million yen in segment income are eliminations among segments.
3. Segment income is adjusted with operating income in the quarterly consolidated statements of income.

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II. Q1 of current consolidated fiscal year (January 1, 2023 to March 31, 2023)

1. Information on net sales, income or loss by reportable segment

(Unit: millions of yen)

	Reportable Segments			Other (Note 1)	Grand Total	Adjustment (Note 2)	Figures in quarterly consolidated statements of income (Note 3)
	Domestic Business	Internationa l Business	Total				
Net sales							
Japan	24,926	—	24,926	149	25,075	—	25,075
United States	—	2,678	2,678	—	2,678	—	2,678
China	—	2,760	2,760	—	2,760	—	2,760
Southeast Asia	—	2,241	2,241	—	2,241	—	2,241
Other	—	709	709	—	709	—	709
Revenue from contracts with customers	24,926	8,391	33,317	149	33,467	—	33,467
Net sales to outside customers	24,926	8,391	33,317	149	33,467	—	33,467
Inter-segment sales and transfers	1,232	478	1,711	1,374	3,085	(3,085)	—
Total	26,158	8,869	35,028	1,524	36,553	(3,085)	33,467
Segment income	3,605	1,351	4,957	97	5,054	6	5,061

- (Notes) 1. *Other* represents businesses that are not included in reportable segments, such as the transportation business, manufacture and sale of plastic containers, real estate management, and advertisement planning and production.
2. Adjustments of 6 million yen in segment income are eliminations among segments.
3. Segment income is adjusted with operating income in the quarterly consolidated statements of income.

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

In accordance with the review on the classification of its business administration, the Kobayashi Pharmaceutical Group has reduced the number of reportable segments from the following three—Domestic Business, International Business, Direct Marketing Business—into the following two—Domestic Business and International Business—after merging the Direct Marketing Business with the Domestic Business from the first three-month period of the current consolidated fiscal year under review.

Accordingly, the Group reported financial results for reportable segments for the corresponding year-earlier period after being retrospectively restated based on the classification after the change.

(Matters concerning revenue recognition)

Information on the breakdown of revenue from contracts with customers is as provided in Notes on quarterly consolidated financial statements (Segment information, etc.)

(Important subsequent events)

Not applicable