



**You make a wish  
and we make it  
happen.**

**Integrated Report  
2022**

Management principles

**We never stop creating and innovating in our pursuit of something new that will delight people and society.**

Purpose

**Solve problems that tend to be overlooked and assist in the possibilities of people.**

We support the realization of a healthy and comfortable life and being active in society by discovering "problems" that tend to be overlooked in people's daily lives and solving them with innovative "ideas and technologies."

We will assist in people's possibilities by considering the comfortable life and active participation in society that are hampered by these "problems" as "social issues left behind" and contributing to solving them.

Corporate brand slogan

**あつたら  
いいな**  
**をカタチにする**

**"You make a wish and  
we make it happen"**

Group brand charter

Our mission is to not only make products that our customers want now but to also develop new and innovative products for our customers' future needs.

True to our brand slogan of "You make a wish and we make it happen," we will strive to research, develop, manufacture, and deliver products as quickly as possible.

Products and services will be developed to the highest standards and quality to exceed our customers' expectations.

Our dream is to share the small gifts from everyday life with people the world over.

We are committed to being an innovative, development-focused company that contributes to society, builds lasting relationships with customers, and exceeds all expectations in customer satisfaction.

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### Period covered

January 1, 2022–December 31, 2022 (FY2022: Fiscal year ended December 31, 2022)

Note: Certain subsequent information is also included.

### Reporting scope

Kobayashi Pharmaceutical Co., Ltd. and its consolidated subsidiaries

### Other related information

- Financial Results (in English); Securities Report (Japanese only)
- Kobayashi Pharmaceutical Website  
<https://www.kobayashi.co.jp/english>

### Editorial policy

To inform readers about the Kobayashi Pharmaceutical Group's management and corporate activities, this integrated report comprehensively covers non-financial information such as ESG activities, in addition to management's direction and strategy, and a review of operations. The International Integrated Reporting Framework provided by the International Financial Reporting Standards Foundation and the Guidance for Collaborative Value Creation formulated by Japan's Ministry of Economy, Trade and Industry were used as references in compiling this report.

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 applied from the beginning of the fiscal year ended December 31, 2020.

### External recognition



<https://www.jpix.co.jp/english/markets/indices/carbon-efficient/index.html>

2022 CONSTITUENT MSCI JAPAN  
EMPOWERING WOMEN INDEX (WIN)

<https://www.msci.com/our-solutions/indices/japan-empowering-women-index>

STOXX  
Indices by Qontigo

Member 2023/2024  
Platinum Career  
Index

<https://qontigo.com/index/imjppcyn/>



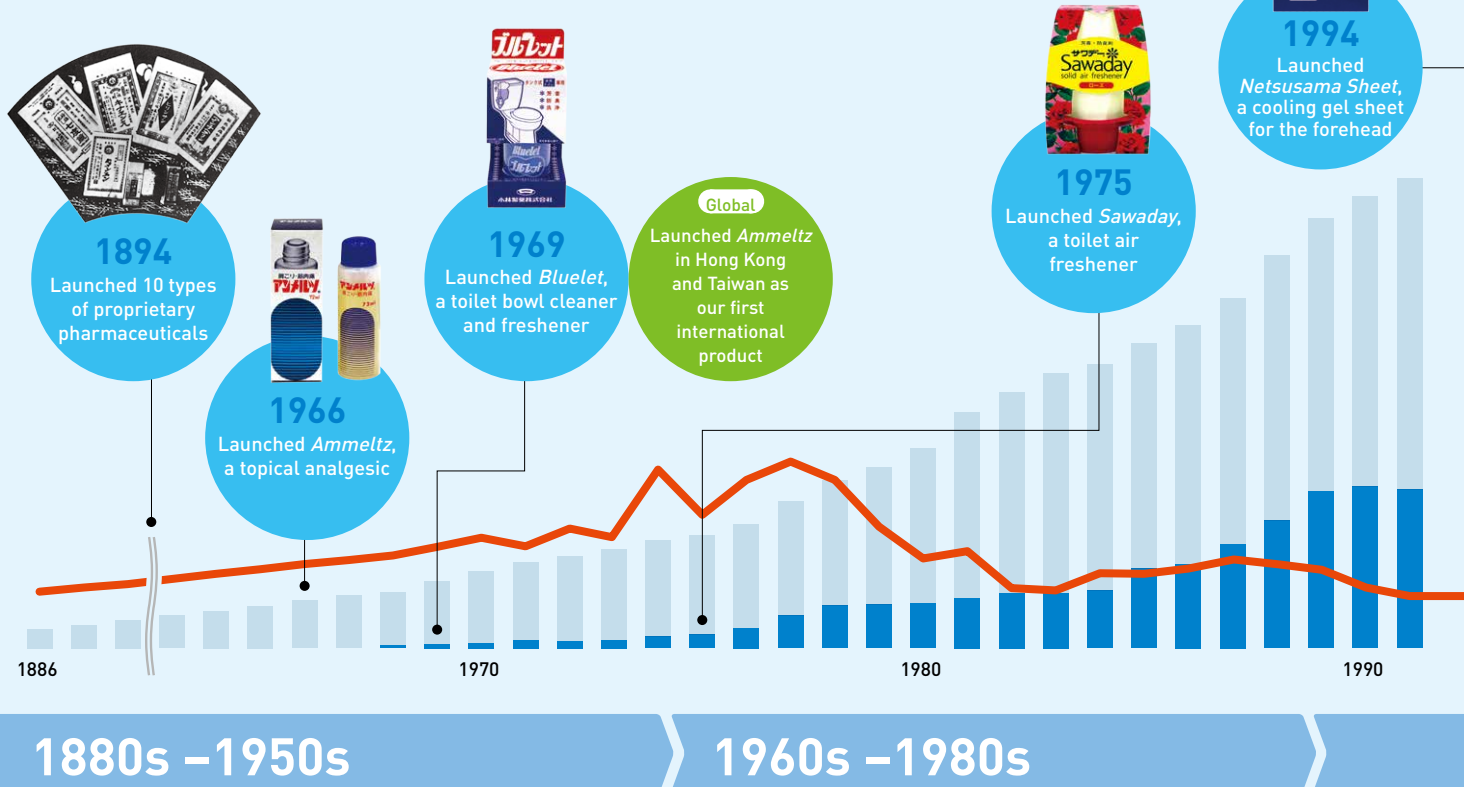
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# We are pursuing M&A and accelerating international growth to deliver unique products to consumers around the world.

## Our changing business portfolio

In 2008, we divested our original wholesale business, which at the time accounted for more than half of our sales. Since then, our consumer products business has more than doubled and our operating income margin has risen dramatically from the 7% range to 16%. We continue to create new markets by delivering what customers want and need, not only in Japan but also overseas, and are accelerating growth by actively pursuing M&A.

■ Current businesses ■ Former businesses (Wholesale Business, Medical Devices Business) — Operating income margin



### 1880s – 1950s

#### Popularized over-the-counter medicine as a medicine wholesaler

##### Building a solid business platform

Founded as a store selling general merchandise and cosmetics. Following an infectious disease outbreak in 1885, began focusing on medicine. With demand for medicine rising, built a solid business platform as a medicine wholesaler and began manufacturing proprietary pharmaceuticals.

### 1960s – 1980s

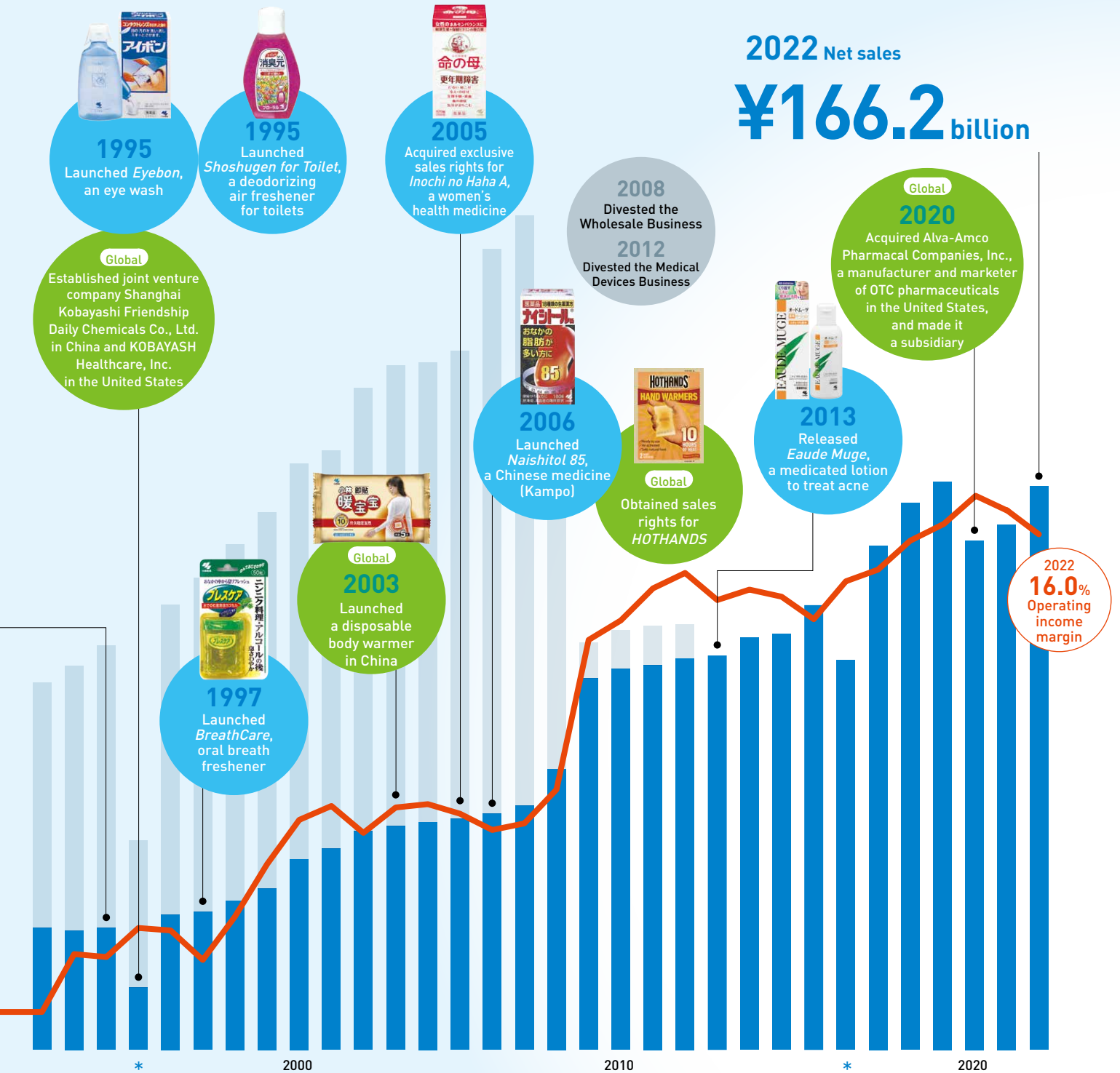
#### Market creation through the rapid integration of Western culture

##### Establishing a business model with a niche strategy

Committed fully to becoming a manufacturer while retaining mainstay wholesale business. Created new niche markets to avoid competition with wholesale partners. Origin of current business model.

2022 Net sales

¥166.2 billion



**Global**  
Established joint venture company Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. in China and KOBAYASHI Healthcare, Inc. in the United States

**Global**  
**2020**  
Acquired Alva-Amco Pharmaceutical Companies, Inc., a manufacturer and marketer of OTC pharmaceuticals in the United States, and made it a subsidiary

**Global**  
Obtained sales rights for *HOTHANDS*

1990s

Proposed new lifestyle ideas by delivering what consumers want and need

Growing the manufacturing business and expanding overseas

Strengthened new product development to fill unmet lifestyle needs and created numerous core brands that are the backbone of current earnings. Made a full-scale foray into overseas markets.

2000s – present

Constantly striving to accurately grasp changes in living environments and creating new domestic and international markets

Concentrating on core competencies

Divested original Wholesale Business and Medical Devices Business to facilitate the further development of new core businesses. By focusing our operating resources on manufacturing business, dramatically improved the operating income margin. Began aggressively pursuing M&A and accelerating expansion overseas.

\* Due to changes in fiscal year-end, fiscal 1995/3 was a six-month transitional period and fiscal 2016/12 was a nine-month transitional period.

# Business model: Developing products to solve individual issues

Two strategies and target KPIs

## Strategy 1

### “A big fish in a small pond” strategy (niche)

If we aim for ¥500 million in sales, we will actually be aiming for a 50% share of a ¥1 billion market (small pond).

We choose not to aim for a 5% share of a ¥10 billion market (big pond).

#### Kobayashi Pharmaceutical's target market

There are few competitors in small ponds, so we can secure a large market share and high profit margins.



The sources of our strength

People and systems that create new product ideas

A free and open corporate culture

Marketing that emphasizes ease of understanding

## Strategy 2

### Development of unique products

Idea Generation

Rapid development

Easy-to-understand marketing

We come up with ideas by searching for what consumers wish for. We look for undiscovered new markets.

We conduct product development, research, production preparation, and other activities in parallel to quickly turn ideas into products. We seek to be the first to enter new markets.

As new products are by definition unfamiliar, we strive for simplicity in every aspect so that customers can instantly understand what the product is for.

Product naming

Advertising

Packaging design

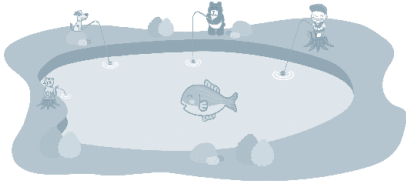
In-Store Promotion

The basis of value creation **ESG initiatives for**

strategy)

### Kobayashi Pharmaceutical's non-targeted markets

Competition is fierce in large ponds where everyone comes to fish. Even with the same level of sales, a high profit margin cannot be attained.



> pp. 08-09

Sales and product cultivation

We implement strategies to establish new products in the market by pursuing a series of surges in sales.

Establishment and long-lasting sales

We maintain top market share by establishing a competitive position capitalizing on the advantages of early market entry.

Overseas expansion

We localize products based on local culture and needs.

## Target KPIs

1

Contribution rate of new products

> p. 41

[Domestic]

Four-year contribution rate\*

13% or higher

[International]

Four-year contribution rate\*

11% or higher

\* Sales contribution rate of new products launched within the previous four years

2

New products established in the market

[Domestic]

New product launches

30 new products annually

Value offered

Solve problems that tend to be overlooked and assist in the possibilities of people.

sustainable growth

> pp. 54-83

# Business model: Strategy results by the numbers

Two strategies and target KPIs

## Strategy 1

“A big fish in a small pond” strategy (niche

Pharmaceutical products, oral care, food products, skincare, deodorizing air fresheners, personal hygiene products, household consumable supplies, and body warmers

Expand in the eight categories

Abundant portfolio of brands

157

Domestic operating income margin

19.1%

+

The sources of our strength

People and systems that create new product ideas

A free and open corporate culture

Marketing that emphasizes ease of understanding

## Development of unique products

Idea Generation

Rapid development

Easy-to-understand marketing

Idea proposal system

Ongoing for 40 years

Annual idea proposals

Approx. 57,000 proposals

## Strategy 2

The basis of value creation ESG initiatives for



strategy)

Taking on the challenge of  
finding our next pondTwo-way COVID-19 testing kit  
**First in Japan\***

OTC switch drugs

New products for the maturing stomach  
drug market **First time in  
12 years**Sensors that measure urine  
composition  
**Hakareru series**Collaboration with  
other companies

\* As of October 2022. First in Japan in the general testing kit (class 1 pharmaceutical product) category.

pp. 08-09

Sales and  
product  
cultivationEstablishment  
and long-  
lasting salesOverseas  
expansionAverage speed  
from development  
to commercialization  
(excluding  
pharmaceutical  
products)Approx.  
two yearsAdvertising  
expenses to  
establish  
niche products  
in the market¥18.9  
billion

sustainable growth

pp. 54-83

Results

High operating income margin  
(Domestic Business)

19.1%

(Consolidated)

16.0%

Net income

25<sup>th</sup> consecutive period  
of growth

Dividend per share

24<sup>th</sup> consecutive  
period of growth

Vision for FY2030

Consolidated net sales

¥280  
billion

Of which, international business

¥90  
billion

Value offered

Solve problems  
that tend to be  
overlooked and  
assist in the  
possibilities of  
people.

# Strengths in the value chain

## Idea Generation

**Idea generation** is critical to creating niche products.



### Kobayashi Pharmaceutical's approach

- **Idea proposal system**
- Idea meetings
- Idea presentations
- N = 1 development
- The five development principles
- **Kobayashi-style marketability assessment**
- M&A as a development technique
- Consumer analysis utilizing AI

### Mechanisms to improve and promote value creation

- Invitation to Premium Dinner hosted by the president [▶ p. 10](#)
- President's special award for outstanding ideas
- Recognition of proposers of similar ideas
- **Company-wide idea contest** [▶ p. 10](#)
- 12-month award
- 30-year award

### Future issues

- **Aim for 13% or higher four-year contribution rate of new products (domestic)**

## Rapid Development

**Being first** to market and gaining the top share through rapid development is important.



### Kobayashi Pharmaceutical's approach

- **Speed development** with a five-in-one approach (Central Research Center, R&D, technology development, development planning, brand managers)
- Development Committee
- **Kobayashi-style satisfaction assessment**
- Development alliances with technology-owning partners
- Rapid development using outside technologies
- Development leadership by top management

### Mechanisms to improve and promote value creation

- Development theme: portfolio management methods [▶ p. 10](#)
- Qualified Person (QP) system
- Free-for-all discussion between top management and front-line employees
- High quality
- Retailer incentives

### Future issues

- Further enhancement of Kobayashi-style satisfaction assessment methodology aimed at encouraging customers to repeat purchases

## Marketing

As new products are unfamiliar to the world, **easy-to-understand marketing** is essential.



### Kobayashi Pharmaceutical's approach

- **Easy-to-understand product names**
- **Easy-to-understand packaging design**
- **Easy-to-understand advertising**
- **Easy-to-understand store displays**
- Field marketing
- Approval of marketing plans by top management

### Mechanisms to improve and promote value creation

- CF and package design awards

### Future issues

- Kobayashi-style online marketing
- E-commerce test-marketing techniques

## Systems for fostering the corporate

Spur-of-the-Moment Meetings

Policy on forms of address

e-Appreciation program involving the president and employees

Growth dialogues

An open corporate culture that avoids authoritarian or bureaucratic practices

## Sales and Product Cultivation

Newly launched products are distributed to retailers across Japan and supported with **intensive TV advertising**.



### Kobayashi Pharmaceutical's approach

- New product distribution capabilities
- Applying sales best practices to other products
- **Rapid PDCA cycle for new product cultivation**
- Advertising media purchasing capabilities

### Mechanisms to improve and promote value creation

- Trade shows featuring new products ▶ p. 11
- **"Three-arrow" approach to product cultivation** ▶ p. 11
- Ability to measure advertising effectiveness
- CF-POS meetings
- Best performer award

#### Future issues

- Enhancement of e-commerce
- PDCA-focused sales and marketing

## Establishment → Long-Lasting Sales

When a market grows larger, competing products enter. To **maintain the top market share**, we take various measures that leverage our first-mover advantage.



### Kobayashi Pharmaceutical's approach

- Profit and loss management of all brands
- Line extensions of top brands
- **Product renewals to leverage first-mover advantage**
- Ability to make linked marketing proposals
- In-house production of equipment
- Cost savings with in-house manufacturing

### Mechanisms to improve and promote value creation

- Brand reviews
- Brand training camp
- Technology sharing event to present new technologies ▶ p. 11
- Events to present research results

#### Future issues

- Simultaneously cultivating multiple new products

## Overseas Expansion

We **localize unique products in each country** and establish them in the market.



### Kobayashi Pharmaceutical's approach

- Partnerships with distributors in each country
- High brand recognition in China
- **Many products popular with foreign visitors to Japan**

### Mechanisms to improve and promote value creation

- Utilization of cross-border e-commerce
- **Joint coordination meeting**

#### Future issues

- Aim for 11% or higher four-year contribution rate of new products (international)
- Simultaneous development in Japan and China
- Strengthen market presence of OTC pharmaceutical product in each country
- **Development of products that satisfy unmet needs in each country**

## culture underpinning value creation

Front-line visits by top management

Hiring of people with a can-do spirit and a desire to create new lifestyle ideas

Expertise in simultaneously developing, marketing and cultivating a high-diversity portfolio of almost 160 brands (DNA of a wholesaler)

## Diversity

# Mechanisms to improve and promote value creation



## Company-wide idea contest

Every year on August 22, the anniversary of the Company's incorporation, all employees take a break from their regular duties for an idea meeting held in each department. Each employee brings a product idea and the best one from each department is entered into a preliminary contest. Those selected then move on to package design, after which they are presented to the president and other executives. The winning ideas are then considered for commercialization. In 2022, a total of 3,151 ideas were submitted.



## Premium Dinner

Every six months, the employees who have proposed the best ideas and produced outstanding results in that period are rewarded with an invitation to dinner with top management. Praising employees whose idea proposals and actions are commendable demonstrates management's attitude of recognizing people for their initiative and efforts. In addition, we have a program in which employees submit their outstanding results for consideration, and these winners are also honored at the Premium Dinner.



## Development theme: portfolio management methods

New product development is vital to the Company's growth, but a haphazard approach is unlikely to lead to sustainable growth. We carefully manage new product development through our development project portfolio, which functions as a product launch schedule for each business division and category. This allows us to chart launch dates and sales projections for new products over a period of approximately three years, share information on risks that have the potential to stymie development or delay launch, and reevaluate the contribution rate of new products, while optimizing the number of projects and resource allocations.

Example of development project portfolio

	Spring 2024		Autumn 2024		Spring 2025		Autumn 2025	
Category A	New product 1	¥X billion	New product 5	¥X billion	New product 9	¥X billion	New product 13	¥X billion
	New product 2	¥X billion	New product 6	¥X billion	New product 10	¥X billion	New product 14	¥X billion
	New product 3	¥X billion	New product 7	¥X billion	New product 11	¥X billion	New product 15	¥X billion
	New product 4	¥X billion	New product 8	¥X billion	New product 12	¥X billion	New product 16	¥X billion
Total projected sales	¥X billion		¥X billion		¥X billion		¥X billion	
Contribution rate of new products in Category A	XXX%		XXX%		XXX%		XXX%	

## Sales and Product Cultivation

## Establishment → Long-Lasting Sales

## Overseas Expansion

### “Three-arrow” approach to product cultivation

In recent years, we have focused efforts on cultivating new products to establish them in the market. Firmly establishing these products so that they continue to sell for five or ten years improves the return on development cost and effort, thus contributing to our bottom line. We have set a goal of establishing two new products every half-year. Each year, we target two or three new products for focused investment in advertising and sales promotion, and we cultivate them by instigating a series of sales surges in line with our three-arrow strategy. New product development is only considered successful once a product gains a foothold in the market and this cultivation process is complete.

**First Arrow**  
Display alongside  
mainstay or  
related products

**Second Arrow**  
Standalone  
advertising in store

**Third Arrow**  
Lineup additions  
and advertising

### Trade shows featuring new products

We host trade shows featuring new products in Japan twice a year in spring and autumn, with approximately 3,000 distributor representatives attending. Employees from the Company’s marketing and R&D departments staff product booths, where they explain the products they helped conceive. The venues are bustling, and many visitors have commented that the explanations are easy to understand. This trade show is a place to introduce new products and engage in business discussions. Our top management and the heads of business divisions also participate, and business deals with distributors are often closed at these events.



### Technology sharing event

This event has been held annually since 2008 by the Manufacturing Headquarters. It promotes the sharing of technologies and fosters mutual learning. Examples of improvements at factories are presented from four perspectives: existing technologies, advanced technologies, technologies for the in-house production of equipment, and equipment maintenance technologies. All general managers of manufacturing departments, including plant managers, share information, helping to accumulate and evolve manufacturing technology. By explaining gains in operating efficiency, and examples of improvements made, the event enables skill-intensive technologies known only to a small number of people to be deployed across different departments, raising our overall manufacturing technology level.

Note: Held online in 2022

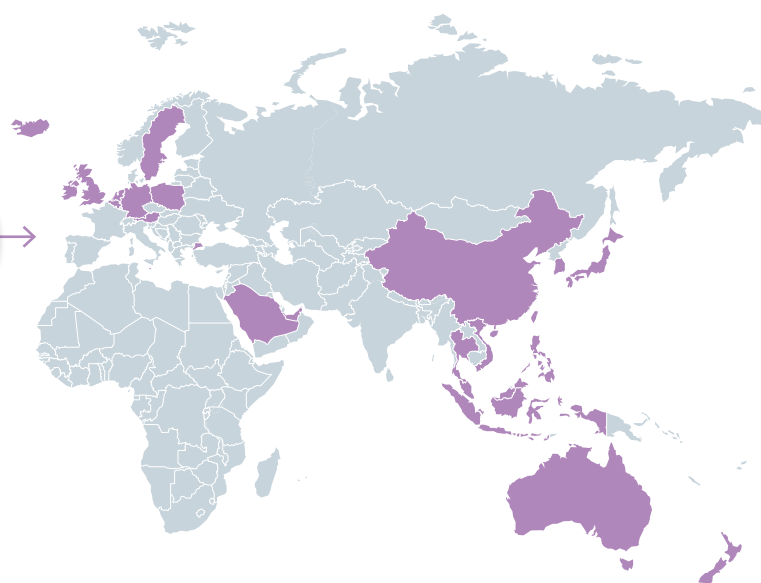


# Adjusting to fit locally in Japan and overseas



## International Business First: Current position of medium- to long-term growth drivers

Countries and regions where Kobayashi Pharmaceutical sells its products

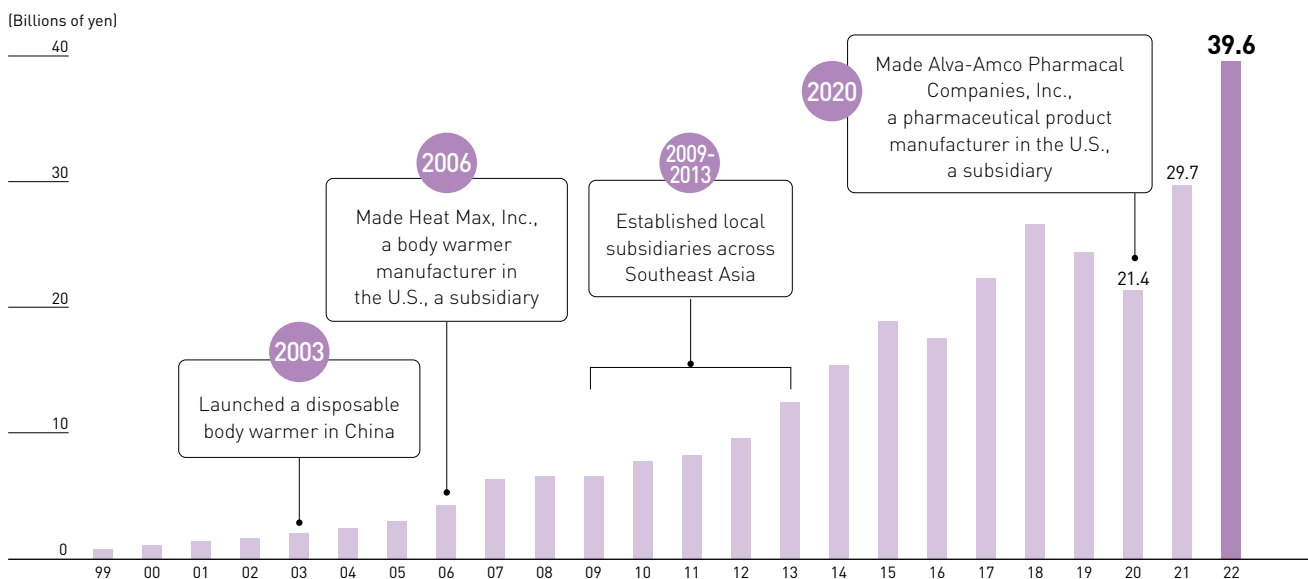


### Our vision for 2030

By 2030, we aim to be a company opening one new market in each country in which it operates every year and to be known as a company that, through global management, is addressing issues for people and society and creating new markets (new customs) worldwide.

**Consolidated net sales: ¥280 billion**  
**Of which, international business: ¥90 billion**

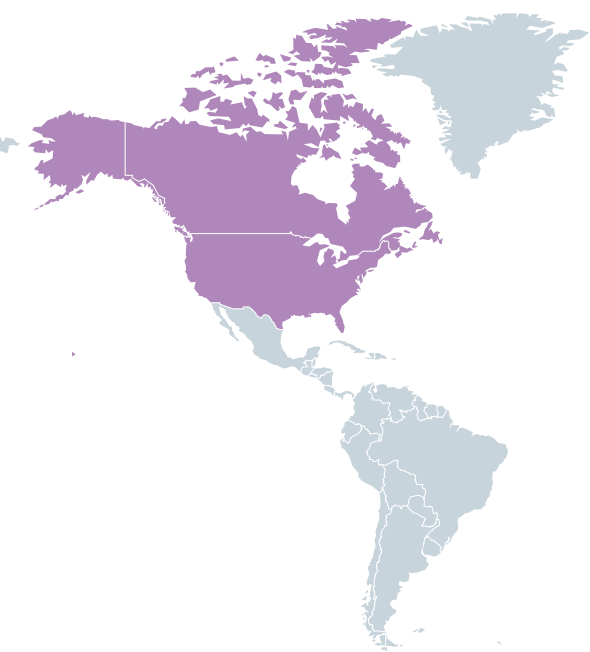
### International Business net sales



Sales and Product Cultivation

Establishment → Long-Lasting Sales

Overseas Expansion



### Constructing a production base for OTC pharmaceutical products for export

On the site of the Sendai Kobayashi Pharmaceutical plant, we are currently building a pharmaceutical product plant able to supply products all over the world. In order to export OTC pharmaceutical products worldwide, which are key to expanding the International Business, this brand-new plant will be built in compliance with international regulations, and is scheduled for completion in 2024.

Mainstay brands currently rolled out internationally

	U.S.	China (mainland)	Hong Kong area	Taiwan area	Singapore	Malaysia	Thailand	Indonesia	Philippines	Vietnam	South Korea	U.K.	Australia	U.A.E.
Netsusama Sheet														
Body warmers														
Ammeltz														
Lens cleaner														

# Human resources who practice “You make a wish



Diverse human resources are essential to supporting our efforts to solve often-overlooked problems with brand-new ideas and technologies. In this section of the report, we will introduce diverse human resources from across the Kobayashi Pharmaceutical Group along the value chain.

**Idea generation** is critical to creating niche products.



**Naruka Okada, Ayaka Hasegawa, Migiwa Sanaka, Tomoko Yamaguchi, Kazusa Tomita**  
 Pharmaceutical Product Category, Healthcare Division  
 Herbal and Japanese Traditional Medicine Marketing Group, Herbal and Japanese Traditional Medicine R&D Group

In the *Inochi no Haha* team, we are working to address issues related to female hormones. Every person perceives symptoms differently, and these kinds of issues are difficult to talk about, so it is important to conscientiously listen to the actual concerns of many consumers. These activities will lead to discovering potential needs that would be missed by referencing literature or research alone. In addition, we conduct research on pathology and effectiveness from both a product perspective and a consumer perspective, based on which we propose ideas that make customers glad to have such solutions.

**Being first** to market and gaining the top share through rapid development is important.

**Shoko Hamada**

Central R&D Laboratory  
 Foundational Research Department  
 Evaluative Research Group



I work in foundational technology research for antibacterial, anti-mold, and antiviral products. With the recent rise in hygiene awareness, there is even more demand for products that are highly effective in a variety of usage scenarios. Therefore, we are strongly motivated to work every day to develop innovative microbial control technologies that will enable the creation of products that meet customer needs that are not met by existing technologies.

**Kazunori Chiba**

Manufacturing Headquarters  
 Factory Supervision Department  
 General Manager of Production Engineering Department



I am in charge of the department that comes up with innovative technology to be used in manufacturing. Currently, we are collaborating with factories in China and the United States, exploring bold ideas and drawing on our outstanding execution skills to focus on products in areas where demand is anticipated to increase in order to develop product lines under the concept of automated manufacturing that is not reliant on humans. For example, the manufacture of *Netsusama Sheet*, which has been around for about twenty-five years, requires a lot of manpower and time, but we are now taking full advantage of cutting-edge technologies such as IoT to take on the challenge of automation to more swiftly deliver products to customers around the world.

As new products are unfamiliar to the world, **easy-to-understand marketing** is essential.



**Atsuko Dehara**

Healthcare Division  
 New Market Development Department  
 New Product Development Group

I work in marketing to generate new ideas and deliver products to customers. Because we deal with new products, our principal focus is on marketing that is easy to understand. When it comes to product names and package designs, we try to consistently and efficiently communicate product information to customers so that no matter who they are or how they look at it, they can understand what the product is for at a glance. For each new product we create, we also focus on developing appealing characteristics that catch customer attention.



# and we make it happen”

## Sales and Product Cultivation

## Establishment → Long-Lasting Sales

## Overseas Expansion

Newly launched products are distributed to retailers across Japan and supported with **intensive TV advertising**.



### Ryotaro Sato

Sales Headquarters  
Regional Management Department  
2nd Regional Sales Department  
2nd Regional 1st Group

I am in charge of our nationwide drugstore sales headquarters. During business negotiations with clients, in addition to introducing products we propose sales floor and promotional ideas that will clearly convey the products' features to customers. When making these proposals, I believe that the best way to contribute to our clients' success is to focus on the revitalization of entire product categories, not just our products. By collaborating with store staff on swiftly implementing in-store and promotional ideas developed through business negotiations, we are able to deliver products to customers with overlooked problems across Japan.

When a market grows larger, competing products enter. To **maintain the top market share**, we take various measures that leverage our first-mover advantage.



### Chinatsu Shiraishi

Household Division  
Wellness Care Category  
Manager, Wellness Care Marketing Group

I am the brand manager for the *Sarasaty* brand. In a fiercely competitive environment, we are constantly thinking about the unique features only *Sarasaty* offers, taking advantage of our strengths to become the first company in Japan to release a special pantyliner for discharge. Issues related to vaginal discharge differ day by day due to changes in the body on a daily basis as well as with age and environmental factors. We are aiming to be a brand that continues to be loved by making efforts to understand our customers' situations, imagining their future, and proposing the solutions that will give them the most happiness.

We **localize unique products in each country** and establish them in the market.



### Yusuke Yoshida

Kobayashi (China) Co., Ltd.  
Market Headquarters  
Pharmaceutical and Health Products  
Market Department

I am in charge of marketing such products as *Ammeltz*, *Bifunight*, and *Netsusama Sheet* at a local subsidiary. Our current focus is on further expanding and developing sales of pharmaceutical products that we launched on the Chinese market several years ago. Due to differences in business practices between China and Japan, we face a variety of challenges; however, by listening to the voices of those in the field and pursuing extensive dialogue with local staff and customers, we are building and implementing strategies that better suit the local market. To deliver products to customers throughout China, we will continue to collaborate with those on the ground and work to improve our brand power.

We support people's  
potential by solving  
problems that are  
often overlooked.

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Akihiro Kobayashi

Representative Director, President and Chief Operating Officer



## Solving forgotten social issues through ideas and technology

The Kobayashi Pharmaceutical Group has adhered to its brand slogan of “You make a wish and we make it happen” over the past fifty years, creating new lifestyle ideas and new markets by delivering what consumers wish for, including products like *Bluelet*, *Netsusama Sheet*, *Eyebon*, *Hananoa*, *Sarasaty*, and *Gaspitan*. Many of our offerings are niche products specially designed to solve specific customer problems. Although many might consider the niche products we create less than indispensable in the general sense, I believe that because we offer products that are decidedly indispensable to customers facing specific problems, our connection to our

customers is stronger than most—for our customers, we are irreplaceable because no other company is making these products. If we did not handle such products, customers seeking solutions to specific problems would be left behind, their needs unmet. This, in turn, would negatively impact lifestyle comfort and may hinder active participation in society, a fact that made us realize that our products serve to support customers’ everyday lives. We contribute to society through every one of our niche products, and I believe that this is Kobayashi Pharmaceutical’s meaning for existence, and this is made clear by our purpose.

### The Kobayashi Pharmaceutical Group Purpose

## Solve problems that tend to be overlooked and assist in the possibilities of people.

**We support the realization of a healthy and comfortable life and being active in society by discovering “problems” that tend to be overlooked in people’s daily lives and solving them with innovative “ideas and technologies.”**

**We will assist in people’s possibilities by considering the comfortable life and active participation in society that are hampered by these “problems” as “social issues left behind” and contributing to solving them.**

Our purpose includes two concepts not included in our management principles or Group brand charter. One is the idea that new technologies can help solve often-overlooked problems. While we value creation based on new ideas that give rise to new products, many of our long-selling products are those that have been improved through R&D that utilizes new technologies. Reflecting our commitment to this concept, we embrace recent advances in technology and have actively invested in digital technologies that address issues connected with the changing environment.

The second concept is the idea that contributing to the solution of often-overlooked problems, addressing them as

social issues that hinder healthy, comfortable lives and active social participation, will support people’s realization of their potential. I believe that the more niche the problem, the more likely it is to be overlooked by the world and the more likely it is that the comfortable lifestyle and social participation challenges of the customers who are dealing the problem will be overlooked. Many of these problems are lingering and suppress potential. Going forward, we will quickly discover these problems, and support people’s realization of potential by fulfilling our brand slogan of “You make a wish and we make it happen.”

## Review of the 2020–2022 medium-term management plan The results and challenges of “International Business First”

In the medium-term management plan for 2020–2022, we laid out our Vision for FY2030, and set “International Business First” as the theme. The period covered by the medium-term management plan was one of robust results and the realization of international sales growth. Sales of body warmers and *Netsusama Sheet* were strong in various countries. In the United States, with the goal of expanding the OTC pharmaceuticals business, we acquired Alva-Amco Pharmacal Companies, Inc. in 2020, and, in 2022, we launched full-scale sales of *Ammeltz* in China. These activities built the foundation of our OTC pharmaceutical product business. We are taking on the challenge of simultaneous Japan-China development, which makes it possible for products being created for the Japanese market to be launched as

soon as possible in China. This approach, in which development is conducted in parallel in China after confirming if raw materials available in that country can be used and whether the products being developed are appropriate for the lifestyle environment in China, has deepened collaboration between our domestic business and international business. Over the last three years, profit growth was difficult to realize due to sluggish sales growth amidst the COVID-19 pandemic, the disappearance of inbound demand, and skyrocketing raw material and utility costs. However, as a result of significant international sales growth and improved cost and expense reductions, net income and profit increased for the 25th consecutive fiscal year without decreasing in profit even once.

### Performance targets

	2019 results	2022 results	Achieved	2022 targets*
Net sales	¥158.3 billion	¥166.2 billion	✓	¥162.0 billion or more
Operating income	¥25.6 billion	¥26.6 billion	×	¥27.0 billion or more
Operating income margin	16.2%	16.0%	✓	16% or more
Net income	22nd consecutive increase	25th consecutive increase	✓	25th consecutive increase
ROE	11.3%	10.2%	✓	10% or more
ROIC	10.5%	9.4%	✓	9% or more
Domestic sales	¥123.0 billion	¥117.5 billion	×	¥122.3 billion or more
International sales	¥24.4 billion	¥39.6 billion	✓	¥29.5 billion or more
International sales ratio	15.4%	23.9%	✓	18% or more
Direct marketing sales	¥97 billion	¥84 billion	×	¥96 billion or more

\* Amended on February 1, 2021



However, challenges remain. As competition ramps up in the market environment, domestic sales growth slows down. We have nurtured newly launched products and improved our market presence, but the four-year contribution rate of new products remained at 10.2% as the number of new product launches has been decreasing. It is thus essential to speed up development in order to increase new product launches. I believe that there is an urgent need to improve the competitiveness of existing products, and the key challenge to achieving this end is strengthening our technical capabilities.

Certain improvements have been made in meeting our main non-financial KPIs, mostly centered on surveys of employee awareness, but the values achieved diverge somewhat from their targets. The employee awareness survey results are discussed at regular Board meetings as well as in group discussions amongst directors, who consider the causes of divergence and discuss future countermeasures. We will continue to work on this issue as a medium- to long-term challenge, rather than focusing on short-term results.

### Main KPIs

	2019 results	2022		2022 targets
		Results	Progress	
Four-year contribution rate of new products	16.3%	10.2%	×	20% or more (domestic)
Cultivating new products released in Japan and in China	—	4 products	×	5 products in 3 years
Establishment of new products	—	2020: 3 products 2021: 6 products 2022: 8 products	✓	2 products every 6 months (domestic)
Number of CSV* brands; CSV brand share of total sales	—	3 brands; 6%	×	1 or more in each category: 10.0%
Employee job satisfaction (employee attitude survey)	Kobayashi Pharmaceutical: 71%	Kobayashi Pharmaceutical: 70% Group in Japan: 65%	×	Group in Japan: 85% or more
Reduction of CO <sub>2</sub> emissions	—	Achieved Scope 3 target Acquired SBT validation	✓	Scope 1&2: Progress towards 2030 target Scope 3: Set target
Reduction of environmental load in product development	—	Introduced ecological standards into new product development in 2021	✓	Plastic: Switch to highly sustainable materials Paper: 100% sustainable
Women's participation (percentage of management positions held by women)	8.6%	13.4%	×	16%
Percentage of employees who report feeling growth through their jobs (employee attitude survey)	Kobayashi Pharmaceutical: 69%	Kobayashi Pharmaceutical: 73% Group in Japan: 67%	×	Group in Japan: 75%
Percentage of employees getting regular medical checkups; getting follow-up examinations	100%; 73%	100%; 84%	✓	100%; 80%
Percentage of employees who report feeling able to work in mentally and physically good condition (employee attitude survey)	Kobayashi Pharmaceutical: 61%	Kobayashi Pharmaceutical: 65% Group in Japan: 58%	×	Group in Japan: 75%

\* CSV: Creating shared value

## New medium-term management plan “I make a wish and I make it happen”

### Fostering a corporate culture that encourages taking on challenges beyond boundaries

During the period of the previous medium-term management plan, we developed new business areas with such products as *Koba-Guard*, a long-acting antibacterial agent, *Nintest*, a scent-based cognitive function screening kit, and the *Hakareru* health visualization urine test. We also took on the challenge of developing a *Bluelet* product that can be used in China, where toilets are built differently to those in Japan. These challenges go beyond conventional boundaries and solutions lie in the contributions of every individual's ideas, positivity, initiative, drive, passion, collaboration, communication, and more.

Looking to the future, digital technology is advancing at an accelerated pace, and products and services utilizing such digital technology are beginning to emerge even in the healthcare products industry. To expand our business domain in this rapidly changing environment, we will encourage our employees to take on more challenges that go beyond conventional boundaries. The theme of the new medium-term management plan is “I make a wish and I make it happen,” and we have created five strategies for its execution. Going forward, we would like to continue fostering a corporate culture that encourages taking on new challenges.

New medium-term management plan for 2023–2025



**In line with Strategy (1):** “New challenges in developing and nurturing new products,” we will concurrently speed up the development process of new and unique product themes that have market potential to enable the steady launch of 30 products per year.

**In line with Strategy (2):** “Strengthening of the capability to provide products through the new overseas support system,” we newly established the Global Warmer Products Department in order to unify the marketing and development strategies for body warmers and *Netsusama Sheet*, which are pillars of our overseas sales, with those for other new products. Domestic and overseas business divisions will cooperate to promote the solution of problems, including cost reductions, CO<sub>2</sub> emissions reduction, and BCP preparation, aiming to penetrate global markets and increase our market share worldwide. In addition, we will enhance cooperation between our domestic and overseas operations with the aim of strengthening overseas sales of OTC pharmaceutical products.

In China, *Ammeltz* was launched in 2022 and is performing well, and we are working to step up product distribution and advertising while pursuing the expansion of product lineups through the launch of new products and M&A. In the United States, we will work with the new subsidiary Alva-Amco Pharmacal to accelerate the development of OTC pharmaceutical products by combining idea generation capabilities based on local needs and Japanese formulation design know-how. In Southeast

Asia, we will follow up on the *Ammeltz* launch by accelerating the introduction of new products. Also, we will conduct progressive capital investment to build a stable product supply structure.

**In line with Strategy (3):** “Strengthening competitiveness of existing products,” we have combined the conventional four-in-one-approach (R&D, technology development, development planning, and brand management) with the technical support of the Central R&D Laboratory to create a five-in-one development system. Through this system, we will work on acquiring difficult technologies and evidence for strong, easy-to-understand advertising to strengthen our competitiveness.

**In line with Strategy (4):** “Proactive creation of new businesses,” over the next three years, we will generate themes in the fields of “femtech,” “digital healthtech,” and “D2C (direct-to-consumer),” with the aim of creating new businesses worth ¥8.0 billion in net sales in FY2030.

**In line with Strategy (5):** “Creation of the foundation for tomorrow’s Kobayashi Pharmaceutical,” we newly established the Chief Digital Officer (CDO) Unit directly under the president and brought in Ryo Ishido, who previously held the position of external advisor on Digital Strategy, to assume the position of CDO. Going forward, we will make efforts to implement Company-wide digital and new product development as well as the digital transformation of our business centered on the CDO unit.

## Business performance targets (2025)

Based on the assumption that raw material prices remain high and excluding inbound sales

	2022 results	2025 targets	CAGR <sup>*1</sup>
Net sales	¥166.2 billion	¥191.0 billion or more	+4.7% or more
Operating income	¥26.6 billion	¥26.8 billion or more	+0.1% or more
Operating income margin	16.0%	14% or more	—
Net income	25th consecutive increase	28th consecutive increase	—
EBITDA <sup>*2</sup>	¥31.9 billion	¥35.2 billion or more	+3.2% or more
ROE	10.2%	9% or more	—
Dividends	24th consecutive increase	27th consecutive increase	—
Domestic net sales (including Direct Marketing Business)	¥125.9 billion	¥137.6 billion or more	+2.9% or more
International net sales	¥39.6 billion	¥53. billion or more	+10.3% or more
International net sales ratio	23.9%	27% or more	—

\*1 CAGR: compound annual growth rate \*2 EBITDA = operating income + depreciation + amortization of goodwill

## Other main KPIs

	2022 results	2025 targets
Four-year contribution rate of new products (domestic)	10.2%	13% or more
Four-year contribution rate of new products (international)	8.3%	11% or more
New product launches (domestic)	25 products annually	30 products annually
Put into practice challenges beyond boundaries <sup>**</sup>	Domestic: 47%	Domestic: 60%
Eagerness to put into practice the theme "I make a wish and I make it happen" <sup>**</sup>	Domestic: 84%	Domestic: 80% or more
Put into practice the theme "I make a wish and I make it happen" <sup>**</sup>	Domestic: 53%	Domestic: 60%
Percentage of management positions held by women	13.4%	16% or more
Efforts for respecting human rights (Performing human rights due diligence)	—	Continuously performing human rights due diligence on supply-chains with high human rights risk
Health and Productivity Management Outstanding Organization Recognition	—	Certified as a "White 500" enterprise

\* KPIs related to employee awareness surveys

## Toward our Vision for FY2030

During the three-year period beginning in 2023, we will achieve steady growth in the Domestic Business, accelerate growth in the International Business, simultaneously operate new businesses utilizing digital technology, and successfully make large capital investments in line with our Vision

for FY2030. Every employee will take on the challenge of developing new products and services that go beyond boundaries and creating new businesses to realize our Vision for FY2030.

Our Vision for  
FY2030

In 2030, we aim to be a company with global management opening a new market in a new country every year, and to be known as a company that is addressing issues for people and society and creating new markets (new customs) worldwide.

Consolidated net sales

¥280 billion

Of which, international business

¥90 billion

- In Japan, we are developing and cultivating unique products
- We are expanding and accelerating the development of new products localized to individual markets
- Raising the digital literacy of all employees is enabling us to use DX to step up the development of unique products and create new products with digital technologies
- We will continue to build on our success in developing unique products in our three major markets of Europe/US, China, and Asia

## Aiming for the realization of the new medium-term management plan as a united enterprise

### Strategy (1)

New challenges in developing new products



**Rikako Akita**

General Manager of the  
New Market Development  
Department, Healthcare Division

### Focus on the femtech field to solve issues women face

New product development is essential for Kobayashi Pharmaceutical to ensure consistent growth over the long term, but to increase the Company's scale, we need to take on the challenge of creating new methods of generating and developing ideas that aren't simply an extension of old ones. Digitalization is accelerating throughout society, and the use of digital technology in healthcare products will be crucial. Focusing on development outside of existing categories, our mission is to take on "challenges beyond boundaries" in order to create new products and businesses that will, in turn, create new markets.

There are many social issues that need to be resolved, but my focus is on the femtech field and providing solutions for the various issues women face. For decades, the Company has developed and sold products that solve often overlooked problems under such female-focused brands as *Inochi no Haha*, *Sarasaty*, and *Feminina*. I would like to utilize the feedback from numerous women and to draw on Kobayashi Pharmaceutical's ability to tear down taboos and history of idea generation to develop new products and services. In our rapidly changing world, we need to take on the challenges of continually generating new ideas and advancing development methods. We will further utilize the power of digital technology to spark new ideas and verify them in the market. Our department is a specialized development unit and I would like to raise the quality of our work by educating my team on the product development expertise that the Company has cultivated over its history.

My department's goal for the next three years is to steadily launch new products and achieve sales of at least ¥300 million in the first year while creating new business capable of reaching the ¥4 billion level. As a newly established department specializing in development, we will work to tackle challenges that we hesitated over in the past.

### Strategy (1)

New challenges in nurturing new products



**Naoki Ayabe**

Executive Officer,  
Senior General Manager of  
Sales Headquarters

### Kobayashi Pharmaceutical Group's greatest strength is its steady, thorough hands-on approach

#### Every employee nurtures our products, visits stores, and makes proposals

There are two approaches to nurturing products. The first is to firmly establish each newly launched product in the market. This is a straightforward process in which every member of the sales staff properly examines the sales floor, considers appeal to customers, and creates displays that will draw the customer's eye.

The second initiative is to identify and work on promoting priority existing products. To ensure that these products stand out on the sales floor, we regularly assess our sales displays. The customer's eye is not drawn by a neat line of products on a typical shelf. We therefore employ in-store advertising, standalone displays, and other stocking techniques to make our products stand out. Many times a year, we apply our three-arrow approach to product cultivation, with the First Arrow, Second Arrow, and Third arrow. This activity is supported by Group company Kobayashi Pharmaceutical Sales Promotion, the Group's greatest strength, whose personnel (MDs) regularly visit stores across Japan that carry our products. This system has been in place for 40 years as of 2023, and our accumulated expertise has become an irreplaceable asset.

#### Pursuing unique initiatives in the e-commerce business

The e-commerce business grew significantly during the COVID-19 pandemic, becoming an important way of connecting with the market. I think that it's necessary to now view it as a fully established sales channel in its own right, and let it function independently.

To get ahead of the fierce competition amongst e-commerce manufacturers, our first step to increase points of contact



with customers and acquire new users is to conduct plenty of research to ensure that our products are the first result that a search engine turns up and to maintain a website that effectively conveys useful information to customers (product instructions, usage examples, benefits, etc.). Then, we need to connect the site with a system that encourages repeat purchases.

As a new initiative, we tested selling *Nightmin Mimihogu Time*, a product that provides sound insulation and encourages a better night's sleep while warming the ears for a relaxing effect, through e-commerce sales channels, and it became very popular on social media, leading to sales far exceeding our expectations. Based on this experience, we launched the product nationwide, resulting in strong sales at physical stores. It was the first time that Kobayashi Pharmaceutical used a sales method that went viral in the e-commerce business and then connected it to actual stores. We will advance sales activities while aiming for a good balance between e-commerce and physical sales.

Lately, newspaper flyers have mostly been phased out and retailers are instead creating their own smartphone apps. More and more customers check these apps for information on new products, point rewards, and coupons before purchasing products. I believe it will be very important to make products promoted in the app stand out in the stores.

### Thorough pursuit of innovative shelving with our hands-on approach

Which products are top-sellers products differs from site to site depending on such characteristics as store location, the local environment, and area demographics like age. We are also working to create a system that utilizes AI as a tool to assist with optimal product stocking for retailers in line with their stores' characteristics. Specifically, the AI would take into consideration store features, for example, a location that is urban, an office district, close to a train station, suburban, residential, near a highway, etc., and create a product lineup that will suit those attributes. By creating product lineups that match particular stores, we will be able to create a thousand different product lineup patterns for a thousand different stores. This is exactly how we can help maximize retail sales, so we will continue to work on this until we succeed.

Our sales team has got to where it is today because of our dedication to a hands-on approach to store sales. Although we knew there was a need for improvement, we had been unable to meet these needs with human power alone, but soon we will be able to provide product lineups for every store through the utilization of AI.

Customers will not buy a product if the functions, value, and benefits it provides are not accurately conveyed to them. With a sincere desire to improve our customers' lives, we will strive to accurately convey such information, while steadily continuing with efforts to improve sales floor displays through repeated visits to retail establishments. This is the mission of sales, and it is tied to Kobayashi Pharmaceutical's purpose.

#### Examples of priority products



*Nightmin Mimihogu Time*



*Bluelet Stampy Disinfectant*



*Sawaday for Cars Clip Perfume*

#### Stocking concept based on store characteristics

##### Factors that lead to differences in product sales depend on the store

###### Store location



Close to a train station



Suburban area

###### People around the store



Many people



Few people

###### Age group around the store



Young people



Older people

Differences in purchasing behavior lead to different product sales

### Strategy (2) Strengthening of the capability to provide products through the new overseas support system



#### Atsushi Onoyama

General Manager, Household Products Global Department, Household Division

## Work to solve problems thanks to global sales

### Large growth in international sales of body warmers and *Netsusama Sheet*

In FY2022, although the International Business saw net sales grow a considerable 33.4% to ¥39.6 billion due largely to the benefits of yen depreciation, if the effects of the weak yen were excluded, the rise was still a substantial 15.5%. By region, sales grew 26.6% in the United States, 22.2% in China (mainland), and 78.1% in Southeast Asia. These results were due to growth in demand for body warmers in the United States and *Netsusama Sheet* in mainland China and Southeast Asia.

Body warmer sales are dramatically increasing, especially in the United States and the UK, where COVID-19 lockdowns ended last year, with consumers using these products while engaged in such outdoor activities as watching sports events, camping, hunting, and fishing. Especially in the United States, many people use body warmers during outdoor activities like watching sports on cold days, and their use has expanded since the lockdowns ended.

*Netsusama Sheet* was used in two ways during the COVID-19 pandemic. One was to treat symptoms from the COVID-19 vaccine, and the other was to treat fever from the virus itself. Internationally, parents had started using the product to treat fevers in children a few years back, but in the midst of the COVID-19 pandemic, adults started using it for their own fevers, and sales continued to grow even after the pandemic calmed down. Currently, there is a product shortage, so solving the supply problem is one of our most

important issues and we are considering building a new factory in Japan or Southeast Asia.

### Taking the lead in the Global Warmer Products Department

Handheld body warmers are typically used to protect against the cold, in Japan, people who are sensitive to the cold use stick-on body warmers all day long. Such warmers make up 70% of all body-warmer sales in Japan, but they account for only about 10% of sales in the United States.

In Europe, body warmer use is yet to become widespread. On the other hand, the market in Japan is completely mature, so we are focusing on sales of healthcare body warmers, such as the *Inochi no Haha* body warmer, which targets women in their 30s to 50s with extreme cold sensitivity. Our products are used in various ways from country to country, but we need to take advantage of our strengths in global sales, identify things in common among regions and the unique aspects of each country, find niches, and expand our opportunities.

In the Global Warmer Products Department, we will unify the brand strategy and product development for body warmers and *Netsusama Sheet*, and, from an overarching perspective, we will simultaneously accelerate development and work to unify materials, aiming to reduce costs. We are also taking on the challenge of launching body warmers that sell well in the U.S. in Japan.

To achieve our lofty goal of realizing ¥90 billion in net sales in the International Business in 2030, it will be crucial to have an organizational strategy that ensures a Group-wide system of collaboration that utilizes marketing and product development expertise cultivated in Japan. I am proud to be part of a new department that will lead Kobayashi Pharmaceutical's globalization. We will continue to focus our attention on international regions, visit local sites, and explore what is happening on the ground in our own issues, and I am determined to work towards improving the business.

### Strategy (3) Strengthening competitiveness of existing products



Yuji Matsushima

Executive Officer,  
Head of the Central R&D Laboratory

## Increase what Kobayashi Pharmaceutical can do

### Mission of the Central R&D Laboratory and its five-in-one\* approach to development

The Central R&D Laboratory is maximizing its expertise in obtaining regulatory approvals through the use of internally developed foundational technologies related to analysis, formulation, and evaluation (microorganisms and safety).

Furthermore, we are contributing to the quality and quantity of the division's theme portfolio by improving product quality and governance and accelerating rapid development. In addition, we will deepen our technical capabilities further by applying an organizational structure based on the function of each fundamental technology, which will enable us to bring to bear a high level of technical skill to the development of products with a competitive edge. We will continue to acquire highly unique and differentiated technologies and increase what Kobayashi Pharmaceutical can do.

\* Five-in-one approach: Five departments work together to implement medium- to long-term brand strategy, starting with three to four brands in each division, and expanding target categories and brands



### Working to acquire highly unique and differentiated technologies

It is necessary to create a Company-wide technology strategy for medium- to long-term business expansion and determine which technologies we should acquire. As the first step, we set up a forum for executives responsible for R&D functions at the Central R&D Laboratory and business divisions to assemble and discuss technology strategy. Although there had been

discussions among relevant persons in charge in the past, they were sporadic and incidental. By holding formal discussions from a more medium- to long-term perspective, we will change these dialogues into an organized, intentional effort.

To strengthen the R&D roadmap for our eight major brands, we are currently discussing what kinds of technology the Central R&D Laboratory should acquire, and how technology under study or consideration for acquisition would be utilized. These discussions have led us to acquire highly unique and differentiated technologies, and we have been able to realize a strong competitive edge. If we can clarify how business and technology intersect, collaboration between the Central R&D Laboratory's technological experts and those conducting the various business divisions' product development will be enhanced. I believe that this will facilitate product development using the five-in-one approach, making it easier to determine which technologies we should acquire in the future.

### Examples of realizing a strong competitive edge

The disinfection coating of *Liquid Bluelet Okudake Disinfection EX Fragrance* is one example. There are three major points to guarantee and display the disinfection effect. First, since this product is designed to dissolve into the toilet tank water, we had to choose a disinfectant that is effective at a very low concentration. Second, we constructed an assessment system to identify the fungal species that causes black rings in the bowl. The third point was to confirm the effectiveness of the product through appropriate field tests in a real usage environment. We were able to enhance the microbial assessment technology that we cultivated in product development to realize all three of these goals. We hold discussions with outside experts and take various measures to create an appropriate evaluation system free of manipulation, especially for field testing. For consumers to understand that this product offers a solid defense against black spots and to become repeat purchasers, we need to both express our strong competitive edge and stay committed to our products' effectiveness. We believe that this approach will lead to an increase in the number of successful products.

The variety of products world offers seems endless, and our lifestyles have become extremely convenient. Nevertheless, there are still many problems that get overlooked. One of Kobayashi Pharmaceutical's management principles is to give shape to ideas brainstormed daily that can solve these problems, and exploring and deepening technology to give these ideas shape is essential. The Central R&D Laboratory's mission is to increase what Kobayashi Pharmaceutical can do by increasing and enhancing the ability of every employee to give shape to ideas. We will continue to support the product development of trustworthy technology while collaborating with the business divisions.

Strategy (4) Proactive creation of new businesses



**Takahisa Goda**  
 Manager of Health Tech Development Group,  
 New Market Development Department, Healthcare Division

### Increase chance of success by repeating trial and error on a small scale and quickly adapting

The Health Tech Development Group is aiming to accumulate development expertise for health tech products and new businesses and build a development scheme through the creation of new products, services, and businesses that utilize health tech. In particular, we are focusing on the femtech field on a Company-wide basis, across all business divisions. In fact, Kobayashi Pharmaceutical is a pioneer of femtech, and has always worked to solve problems that are often overlooked.

<i>Inochi no Haha</i>	1903	Created from our desire to support women in difficult circumstances such as childcare and household chores
<i>Sarasaty</i>	1988	Proposed to address discharge, which 80% of women worry about
<i>Feminina</i>	1995	Breaking down barriers to address genital problems with the term "delicate zone"

We have built a relationship with our customers over many years of use backed by strong brand power, and we have a deep understanding of concerns and insights female consumers have. We handle a diverse range of categories from household products to pharmaceutical products and supplements, offering solutions for a wide range of problems. Our advantage is that we have multiple points of contact with customers through such channels as physical stores and direct marketing. By combining digital technology with these channels, we will provide new value that is even more important to consumers.

One of the strategies in the current medium-term management plan is the proactive creation of new businesses, but it would be difficult for the Health Tech Development Group to succeed in a new business by itself, so we must combine our strength with that of multiple departments. To achieve this, everyone involved must understand our direction and strategy and align their perspectives.

After reviewing the Company's strengths and understanding how society, technology, markets, and consumers are changing, we will determine the ideal vision and direction to take in creating new businesses and themes. To advance new businesses, we will increase our chances of success by adapting quickly based on a trial and error approach while receiving support from in-house advisors and external partners with extensive experience in starting new businesses. We will actively test methods that suit each business theme, through such avenues as receptiveness surveys and small-scale test marketing, free of the conventional boundaries of in-store business.

Rather than limiting ourselves to internal development, we will actively collaborate with other companies that have technologies and assets that complement ours, and move forward quickly. For example, in the femtech field, we are developing a corporate health management program that supports the active workplace participation of women who struggle with menopause and menstruation. Women facing menopause sometimes choose to leave their careers, and some women have severe menstrual symptoms that make them unable to work. These are both important social issues that lead to economic loss. This issue needs to be addressed from both an environmental angle and from a women's health angle.

We are collaborating with TRULY, Inc., which has provided high-quality information and services from doctors and experts to corporations, and we would like to help revitalize companies and develop overall Japanese society by promoting the active participation of women in a comfortable workplace environment. To solve problems that are often overlooked and provide products and services that customers want to keep using, it will be critical to take advantage of digital technology, starting with health tech. We need to change not only our development processes and systems, but also how we think. It is not easy to make a new business succeed, but I am determined to tackle it seriously, learning from each attempt, and transforming myself along the way.

## Strategy (4) Proactive creation of new businesses



**Takeshi Muraki**  
Manager of New Fields Promotion  
Group, Household Division

## Offering value that goes beyond boundaries in household products that make everyday life more convenient

Taking advantage of feedback from customers that we have cultivated in the development of new products that they wish were available, we are working to implement a business development process from business idea creation to commercialization to take on the challenge of new business areas. For each of the four categories in the Household Division, we will identify which direction to expand into, including peripheral areas based on existing businesses, and develop products that offer value that goes beyond the conventional boundaries for household products and make everyday life more convenient. We have repeatedly observed the issues consumers face, such as odor- and dirt-related problems, on a microscopic scale. As a result, we were able to offer unique new products that resonate with customers. At the same time, we realize that looking at changes in values and social issues in people's lifestyles from a more bird's-eye view, is also useful in revealing areas that we previously missed. We will quickly determine priority areas from among these, and, by working on them over the medium to long term, we aim to create original, competitive businesses.

To realize these goals, the New Fields Promotion Group, as part of the Household Division, will conduct activities that go beyond boundaries and make proposals for healthcare products that only we can provide, proposals that enrich the lives of parents balancing childcare and work, and proposals for contributions to local communities. We are always working to understand customer needs and generate ideas through partnerships with healthcare products tech start-ups, exploring the rich lifestyles and values realized around the world, and actively participating in local activities.

### Products created by taking on the challenge of entering new business fields

#### **Nintest odor-based cognitive function screen kit**

Test subjects are asked to smell six different fragrance solutions that have been sprayed into testing cups, and their level of cognitive function is determined from a score calculated based on their responses. The test takes just five minutes and places little burden on the subject.



#### **Hakareru health visualization urine test**

Simply attaching a stick to a measuring device, then applying a few drops of urine to it allows the uric acid, uric sugar, and sodium/potassium in the urine to be measured. Measurement data is then analyzed and stored in the cloud and can be checked and managed using a terminal such as a smartphone.



#### **KOBA-GUARD long-lasting antimicrobial agent**

*KOBA-GUARD* is a long-lasting antimicrobial agent owned by Kobayashi Pharmaceutical. The primary characteristics of *KOBA-GUARD* are as follows:

- Bonds strongly with substances for a long-lasting antimicrobial effect
- Can be used on wide variety of substances, from fibers to metals
- Effective against a range of bacteria, molds, and viruses
- Extremely safe

Although there are many antimicrobial agents available, we are able to better leverage the characteristics of *KOBA-GUARD* by utilizing our knowledge and experience in product development to apply it in fields where it has never been used before. Capitalizing on the broad range of processes to which it can be applied, we are bringing *KOBA-GUARD* to bear in a variety of different industries.



## Strategy [5] Creation of the foundation for tomorrow's Kobayashi Pharmaceutical with DX



Ryo Ishido  
Executive Officer  
Unit Head, CDO Unit

### Realize digital work at Kobayashi Pharmaceutical

#### My aspirations as CDO Unit Head

People tend to think of me as an expert in digital technology, but I have a background encompassing sales, marketing, customer support, new businesses, and management, where I simply used digital technology and data as tools. My style is to promote organizational results and growth by honestly facing customers and the market without overly adhering to organizational hierarchy and rules. Before I started working in management, I asked my manager at the time how I could cover their management work, and how I could be entrusted with such work. I haven't been in sales for a long time, but I know that we can't maximize sales without maximizing marketing measures and ensuring internal systems and processes are smooth, so I have been getting more and more involved in marketing plans and measures, taking the lead in CRM development, and working with sales, marketing and systems beyond the boundaries of the organizational framework.

When I was working as the director of a subsidiary, I thought about how I could cover all the work of the president, and how the president could work towards the next stage, and I acted accordingly. I am the type to take action beyond organizational boundaries and have never been held back by such notions as "I can't do that because it's not by job and it's outside my department" or "I can't do that if I'm not in management or I'm not president."

However, if I totally disregarded the organization, it would be a strange overreach of my authority, so my first priority has always been to produce results within my responsibility.

To produce Company-wide results and to provide more value to our customers, digital technology is indispensable

as one of the tools to get results, so we have utilized it to the maximum. I would like to apply my experience to positively impact Kobayashi Pharmaceutical's way of working, including in the areas of organizational structure, producing specific results, work progression, and training our team members.

#### Kobayashi Pharmaceutical Group DX

Looking at the Company's digital transformation transition phase objectively, when we compare it with Greiner's five-stage growth model to analyze the development of a corporation, I think that the Company is in the moving forward phase. Because of our corporate culture of idea generation, various "wishes" for digital technology are fulfilled through new services and business improvements, and it is really amazing that every employee is proactively working toward the realization of these desires. Kobayashi Pharmaceutical is breaking through a phase that proves a sticking point for many companies. On the other hand, I think we still need to go through the phase in the process of organizational growth that calls for coordination and cooperation. It is difficult to draw a clear line, but I recognize that we are in that phase now.

When we hear the word "problem," some think that it means something that must be solved immediately, so I do not use the word lightly. In fact, the issue presented is often a surface issue, not the fundamental problem, simply visible phenomena. By taking measures against events that are not the root issue, time is wasted and productivity and competitiveness suffer. As a case in point, tacking on the word "digital" is an easy fix for companies that need to tackle deeper problems, so this kind of issue extends beyond us. Some people call it superficial digital transformation.

I don't know if it is classified as a problem, but I think there are fundamental issues and friction, not only in digital transformation but also in organizational transformation. Over the past six months, I spoke with many employees. I learned a lot about the current state of Kobayashi Pharmaceutical's digital transformation.

I heard the following: data is not made visual, systems are slow, old and not upgraded, there is a lack of skills in app and web development, there are a number of floating issues that no one will make a decision on (including important organizational issues), difficult-to-change rules, low digital

literacy, poor delegation of authority, barriers to stopping things, and policies are in place, but investment is unclear, and more. I don't see these as issues, but rather think of them as events. I don't think of these as issues, I think of them as phenomena, and they are definitely a catalyst for organizational and personal growth.

Behind the things that we aren't able to do, there are many things that have been accomplished, as evidenced in our history, rules of the current business model and organizational structure, allocation of time and investment, past work atmosphere, and sometimes prejudices. Why can't we do this? Who should be doing it? Why is everyone thinking about it, but no one is doing anything to resolve it? I think we need to not focus too much on these superficial phenomena, but instead actually understand the fundamental issues and improve and shape the resulting phenomena.

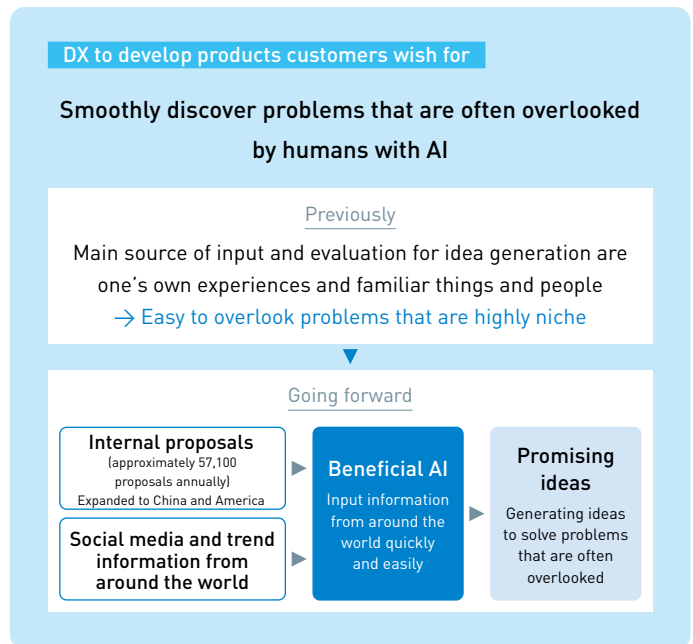
It is very important to ask yourself questions, properly think through dialogue with employees, involve those around you as well as the management team, place value on honest dialogue, and take action. Of course, I myself am in a position to implement digital transformation, including around these issues, so I will fulfill my responsibilities, but I would like to hold dialogues and take action together with everyone.

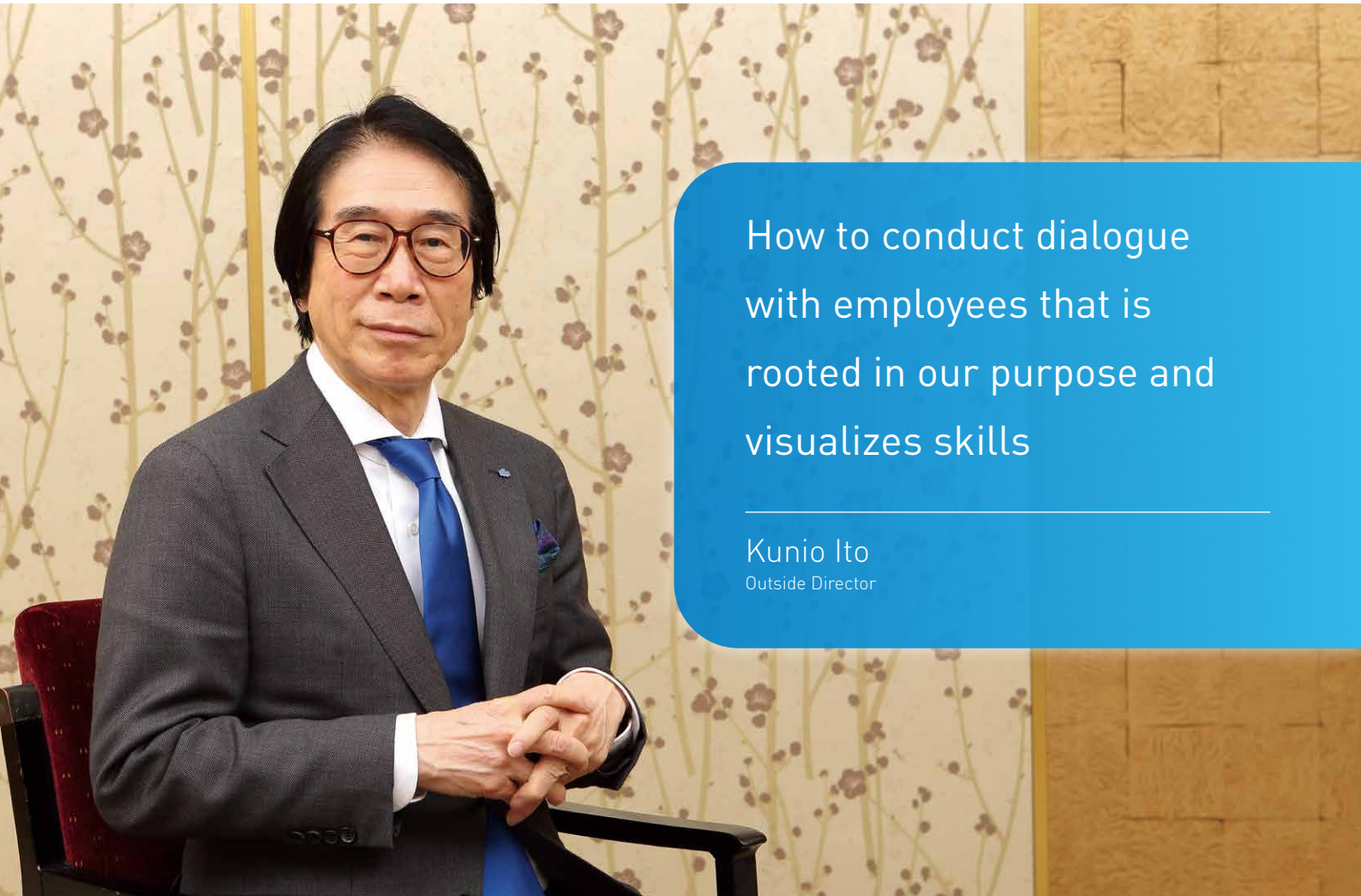
**Future initiatives for creating the foundation for tomorrow's Kobayashi Pharmaceutical**

While respecting and cherishing the culture and products that Kobayashi Pharmaceutical has cultivated over the years, as a checkpoint for 2030, I would like for Kobayashi Pharmaceutical become a company that can be described in the following ways.

- Within three years, become "Kobayashi Pharmaceutical, perfect for digital work in Kansai"
- By 2030, become "Kobayashi Pharmaceutical, perfect for digital manufacturing work"

I will work hard to help us become an even better, more exemplary company.





How to conduct dialogue with employees that is rooted in our purpose and visualizes skills

Kunio Ito  
Outside Director

Q

**How did the Board of Directors deliberate in order to create the purpose?**

We had strong proposals from the executive side for the purpose, and the Board of Directors engaged in four enthusiastic discussion sessions.

It has been my belief that as long as our dialogue with our employees is in line with our corporate philosophy, there is no need for to establish a separate corporate purpose. Because the Company abides by the tenet, "Providing something new that will delight people" and is strongly dedicated to its corporate philosophy, I was confident in repeating this and opining that it wasn't necessary to establish an official purpose, that doing so would just be gilding the lily.

My colleagues responded by once again directing my attention to the issues the Company is facing and trying to solve and asserted that implicit knowledge alone is an insufficient foundation for the creation of a sense of unity. Furthermore, for employees and those in management ranks to understand the Company's position and reason for existing in society, they need words to hold on to and build on. The logic of what they were saying made sense to me and I agreed with their premise, and thus discussions began in earnest.

Before formulating the purpose, management wanted to confirm how employees were feeling after three years of



remote work during the COVID-19 pandemic, and if they had any issues with what we had done to date.

As an outside director, I found the purpose to be a very interesting theme of discussion, and enjoyed hearing the variety of opinions put forth on the particulars of the phrasing. At the same time, we had to keep a strong focus on the particulars of “Kobayashi-ness” during the discussions.

“Kobayashi-ness” in this case is referring to the how the Company’s implicit knowledge manifests, but any company can just add “-ness” or other suffix to their name without anyone ever really knowing what it means. In this case,

however, I think that this descriptor really captures the essence of the Company’s discussions. There was a great deal of characteristically Kobayashi-like back-and-forth with alternative proposals, with some feeling that a more Kobayashi-esque phrasing of the purpose would be better.

The purpose we formulated uses the phrase “solving problems that are often overlooked,” a sentiment that is uniquely Kobayashi-esque, and I think the purpose as a whole aptly expresses Kobayashi Pharmaceutical’s position in society and reason for existence.

## Q

### What kind of initiatives will be necessary to put our purpose into practice?

Most companies fail in making the most of their philosophy and purpose, no matter how wonderful they may be. They might display their corporate philosophies, etcetera, in various ways, but never make use of them. For example, it is not uncommon for the corporate philosophy to be explained to an employee only twice during their entire career, once when the human resources manager does so during training immediately after they join the company and the second time during training for promotion to section chief. This is merely surrendering the responsibility for education to peer pressure and hoping that the knowledge finds its mark.

Going forward, it will be important to engage employees in dialogue to ensure that they understand the purpose. This dialogue needs to be continuous and persistent, and I am looking forward to seeing how it progresses. I believe that not only Kobayashi Pharmaceutical but every Japanese company faces the issue of properly assessing the quality of dialogue existing within the organization.

If a supervisor does not understand what a proper dialogue is and how it differs from a typical conversation, the meeting will deteriorate into a one-sided lecture with the supervisor dictating instructions and nothing ever changing. This happens at many companies and employee engagement goes down after attending one too many meetings where high expectations are once again dashed. “What should we do for the theme this time?” “Is the theme always the purpose?” If we cannot come up with ways to expand and deepen the themes of our dialogue, we may run out of things to talk about.

At some companies, supervisors acquire the consent of the employees to record the dialogues. The large amount of video data thus gathered is then analyzed by AI, helping to improve the quality of dialogue. Alternatively, after the recordings are done, some employees are interviewed anonymously.

I think that companies can be sorted into two categories: companies that are deeply engaged in dialogue with employees and companies that have barely started dialogue or have started but have yet to develop it.

At Kobayashi Pharmaceutical, supervisors and employees have already gotten into the habit of holding growth dialogues to discuss how they want to develop as professionals and where their challenges lie. The question now is how to utilize dialogues to the fullest. Well-developed dialogue skills are a key identifying factor when choosing leaders.

Furthermore, employee engagement surveys are becoming more commonplace in large companies and it should be noted that it is equally as important to share the results of these surveys with employees and to reflect said results in actions for improvement. If there is no communication with employees, management will be perceived negatively as it will seem that the surveys are undertaken only for the sake of appearance.

If employees begin to doubt the utility of responding to surveys they suspect are meaningless, their won’t bother answering earnestly. To avoid this kind of situation, management must be honest and demonstrate how they are using the findings. Kobayashi places great importance on freedom and open-mindedness, and has fostered such a corporate culture. However, I also feel that the “naughty” spirit

that challenges the status quo, as the Chairman of Kobayashi Pharmaceutical often refers to it, has weakened somewhat.

In nature, human genes are passed on to the next generation, but the same cannot be said of an organization's genes. A corporation's culture and environment will gradually

disappear if not earnestly cultivated and steered in the right direction. In this way, I appreciate the initiative to establish the Company's purpose and rejuvenate our corporate culture. I am looking forward to seeing how Kobayashi Pharmaceutical will utilize this in its dialogue with employees.

Q

### How did the discussions on growth potential go during the formulation of the medium-term management plan?

My first impression of the plan was that it was a little too staid. For example, the operating income margin target was set at 14% despite the actual result being 16%. This was due to higher projections for depreciation in light of an increased focus on growth investments, which would make it difficult to expand profit. However, EBITDA,\* which supplements depreciation, was definitely anticipated to grow. As M&A acquisition prices are often viewed through the lens of the EBITDA ratio, many Japanese companies are increasingly using EBITDA as a KPI.

I said as much to the Board of Directors, putting it in an extreme way by pointing out that because EBITDA grows if you keep continuously investing, it's not a problem to select it as a KPI, but you need to look at the content carefully. I feel that I should have expressed my opinions more strongly about setting growth targets.

The Company has a deep-rooted institutional dislike of failing to achieve its targets. However, I believe that there are good failures and bad failures.

Engagement with investors and analysts is crucial, and how much a company engages shows how seriously it approaches IR. Investors and analysts don't just look at

numbers, they also use attitude and preparedness as part of their decision-making criteria. It's also important to demonstrate how seriously the Company takes investors' and analysts' opinions into consideration, so it is necessary to sit down and have forthright discussions with them.

For example, it would be great if we could demonstrate the earnestness of the International Business, but I feel doing so would be rather difficult. This is because the initial investment is going to have to go toward strengthening the business foundation, painting a far less dramatic picture than such milestones as M&A.

I have always been fairly blunt in expressing my opinions about the inadequate distribution of management resources, including human resources, in the International Business, not only at Board of Directors meetings, but also when participating in various committees. I like to think that my input has helped make the International Business much stronger. I have a lot of faith in Kobayashi Pharmaceutical's management, and I am looking forward to seeing how they progress.

\* EBITDA = operating income + depreciation + amortization of goodwill

Q

### What kind of initiatives are necessary for DX and human capital management?

At present, the Company's Chief Digital Officer (CDO) is the driving force behind the Company's DX initiatives, which are being implemented on a continuous basis.

As the first step, we have to ask how we are going to shift from the CDO-driven to an all-management-driven approach. Under an all-management-driven approach, every director will be expected to exercise leadership in realizing



DX. This, in turn, will prompt employee-led DX. I expect to see the situation evolve, and I think that the first phase of DX has gotten off to a very good start.

The Chief Human Resource Officer (CHRO) focuses on expanding human capital and is a position that differs substantially from that of the Senior General Manager in charge of the Human Resources Department. The role of the CHRO is to precisely match human capital with strategy and use it as a catalyst to drive the transformation of corporate culture.

In contrast, the role of the Senior General Manager of the Human Resources Department is a more conventional one focused on coordinating personnel based on employment as a member of an organization and is thus conservative regarding corporate culture, valuing order. A large amount of energy and time is spent on maintaining order, which is often not in sync with corporate transformation.

I refer to someone who is very good at coordinating personnel as a “super human resources manager” and similarly use the term “super accounting manager” to refer to someone who is very good at summarizing numbers, not a Chief Financial Officer (CFO). I believe that nowadays, having both a CFO and a CHRO in a company is a must. Of course, these roles must be filled by professionals who can actually perform their specialized functions, not just hold a title.

In addition, there should be human resources professionals, or Human Resource Business Partners (HRBP) stationed in every business division, not just at the Head Office.

The information that the human resources department must collect and visualize has also changed. In addition to concrete information such as when an employee was hired and how many years they have worked in what department, it is now essential to collect qualitative information pertaining to items like skills that wouldn't necessarily be included in resumes and abilities acquired independently.

For example, when entering a new field of business or launching a new project, the qualitative information not listed in the personnel registry can be unexpectedly powerful. Any kind of qualitative information could be useful if collected, so the challenge is what to include.

Human capital management isn't just training and telling people what to do. Going forward, it will be crucial for managers to be able to visualize the skills employees bring to the table, see who is taking what opportunity, and to see what kind of training or licenses they have acquired. It will be equally important to use this information to assign the right person to the right post. At the same time, the Company should create a corporate culture that appreciates and praises these attitudes. For Kobayashi Pharmaceutical, growth dialogues are the perfect opportunity for such visualization.



Swiftly support management decision-making, focus on dialogue with stakeholders, and advance business

Yumi Nakagawa

Executive Officer  
Unit Head, CFO Unit

I was appointed to the position of Chief Financial Officer (CFO) in April 2023 and bring with me accumulated experience, primarily in finance and accounting, at multiple domestic and overseas companies with global operations. Approximately twenty years of that time were spent at my first company, a foreign-owned global enterprise where I began building the foundations of my career. At that company, I worked primarily within the CFO structure, taking responsibility for finance and accounting as well as M&A-related matters. I also have had the uncommon experience of working as assistant to both Japanese and American CFOs. The mission of an assistant to the CFO is to think like the CFO. In concrete terms, I attended all the same meetings as the CFO at the time, sometimes performing duties on their behalf, and was even asked to give my opinion based on what I thought the CFO would think. These activities were part of my training and led me to become strongly interested in the role of CFO.

As CFO, I will work to bring my experience to bear as I strive to be a strong contributor to Kobayashi Pharmaceutical's management and to be a business partner that the Company's president and other members of the management team can rely on.

## Reflecting on FY2022

The business environment surrounding the Company in FY2022 saw the resumption of economic activities in many countries as a result of the widespread use of COVID-19 vaccines, and people began travelling to and within Japan as immigration and other restrictions were eased, leading to expectations for recovery. Nevertheless, uncertainty continued as a result of increasingly high raw material costs and there were concerns about depressed consumption due to rising energy costs as well as heightened geopolitical risks.

Amid these circumstances, and in line with the Company's brand slogan, "You make a wish and we make it happen," we endeavored to launch new products that meet our customers' needs, nurture existing products, and invest in future growth businesses. As a result, the Domestic Business saw revenue increase by 1.4%, and the International

Business, centered on the United States, China, and Southeast Asia, was able to achieve a remarkable 33.4% expansion in revenue.

As a result, consolidated net sales increased by 7.1%, operating income increased by 2.3%, and net income increased by 1.6% to ¥20 billion, marking the 25th consecutive year of growth in sales and income. Earnings per share were also up, growing 2.9%, and we were able to maintain a high ROE of 10.2%. We view these as very stable results.

I believe that the Company's consistent ability to increase sales and income and maintain a high ROE inspires confidence among all of its stakeholders, as a consistent performance indicates management stability and offers assurance that the Company will maintain its performance moving forward.

## Outlook for cash allocation and profit growth under the new medium-term management plan

During the period of the new medium-term management plan, we expect to generate approximately ¥70 billion in cash flow from operating activities in addition to cash on hand of ¥130 billion. Using said cash, we plan to invest ¥45 billion in factories and research institutes and ¥5 billion in such strategic areas as digital transformation. We are also pursuing a proactive M&A policy.

As for shareholder returns, we plan to distribute more than ¥20 billion in dividends and to flexibly conduct share

repurchases. The aforementioned ¥45 billion capital investment is expected to drive up depreciation related to construction to an unprecedented level. Due to this and other factors, the new medium-term management plan projects a period of sluggish movement in operating income, but we anticipate that EBITDA will grow and counter the effects of depreciation. Once we enter the period of the next medium-term management plan, I expect operating income to return to a growth path.

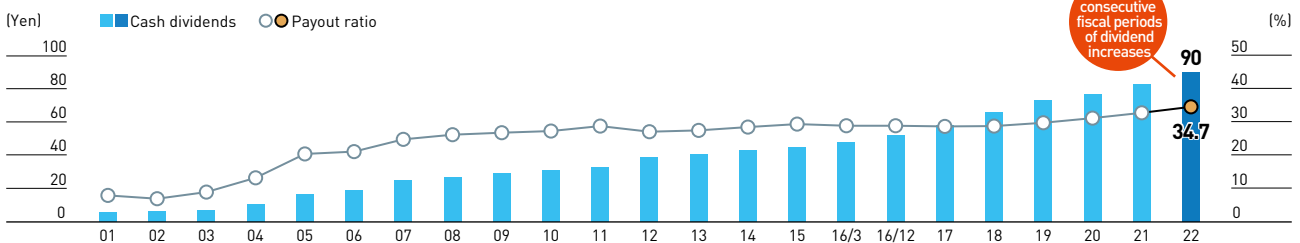
## Shareholder return policy

Our basic policy for shareholder returns is to increase dividends while making necessary investments for growth, and to continually increase earnings per share by increasing profit and making share repurchases as necessary.

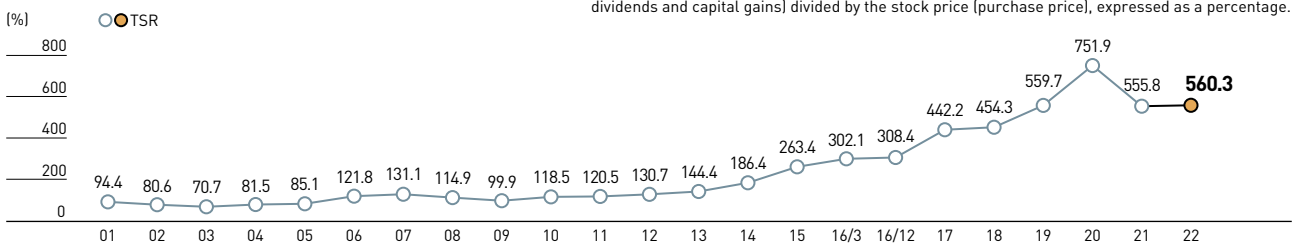
In 2022, we increased our year-end dividend by ¥6 per share compared with 2021, marking the 24th consecutive period

of dividend increases. Furthermore, in November 2022, the Company also acquired ¥10.0 billion worth of its own shares as treasury stock and retired 4 million shares of its treasury stock. We will continue to focus on measures to provide solid shareholder returns. We plan to continue increased the dividend in 2023, aiming for a 25th period of dividend increases.

### Dividends



### Total return shareholder return\* since the IPO



\* Total shareholder return: Returns to shareholders from investment in stock (mainly in the form of dividends and capital gains) divided by the stock price (purchase price), expressed as a percentage.

## Performance forecast for FY2023

Looking at the fiscal year ending December 2023, we expect net sales to increase by 3.5% to ¥172.0 billion, operating income to decrease by 4.4% to ¥25.5 billion, and net income to increase by 0.9% to ¥20.2 billion.

As for the business environment surrounding the Company in FY2023, we expect that in the domestic market, COVID-19 will not be completely eradicated, and, while awareness will remain

high around disinfection and hygiene, people will gradually resume their pre-COVID lifestyles. We also expect demand from inbound tourists to gradually recover, but as this is a difficult metric to estimate, we have not factored this recovery into the forecast. Raw material prices are expected to remain high.

In international markets, we expect the consumer goods market in China to grow steadily, and in North America, the

body warmer market will expand further despite concerns about economic slowdown. We foresee steady sales growth in Asia despite a fall in demand for *Netsusama Sheet* as the market recoils from an extraordinary spike in demand in the previous year. I believe that these overseas markets will continue to be a large growth driver for the Company.

At the start of the period of the new medium-term management plan, our policy is to proactively invest in factors that impart earnings power from a long-term perspective, such as digital transformation, human resources, new businesses, and M&A.

Based on this forecast, the main impacts on earnings are expected to include an increase of ¥2.9 billion in gross profit due to sales growth, a ¥2.0 billion cost reduction in the production department, and an inflow from price revisions amounting to ¥1.0 billion. Negative impacts include a further ¥2.6 billion expense due to higher raw material price rises, a ¥1.5 billion increase in fixed costs, and a ¥1.3 billion increase in expenses associated with growth investments. Also, net income is expected to increase in FY2023. If demand from inbound tourism recovers, our policy is to allocate a portion of the profits generated to future growth investments and advertising expenses and to invest in top-line growth.

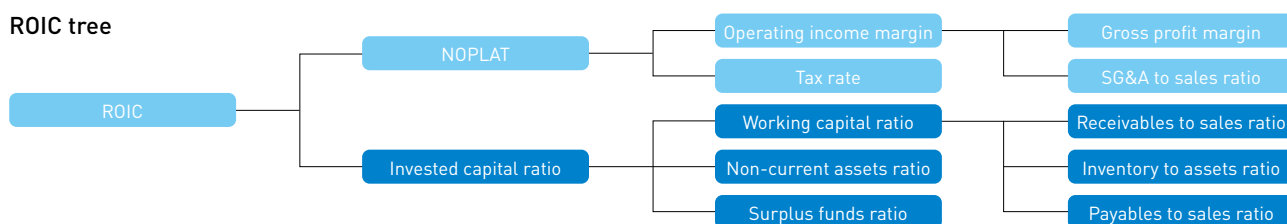
## Measures to improve capital efficiency

### We have created ROIC trees, and conduct management focused on profitability and capital efficiency.

We began practicing ROIC management in 2019 to evaluate capital efficiency not only when we execute investments and subsequent evaluations but also in day-to-day business operations. We created ROIC trees for each business to manage

them with a focus on capital efficiency and profitability. ROIC trees are also used in making decisions on whether to withdraw from businesses. If ROIC is low, we analyze the cause and consider and implement improvement measures.

ROIC tree



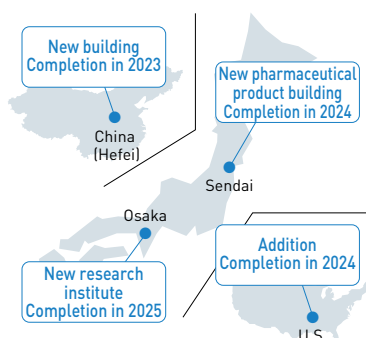
## Investment strategy

### Capital expenditures

To support growth in the Domestic Business and International Business, in 2022 we began full-scale investment in four major factories in Sendai and Toyama in Japan, Hefei in China, and Dalton, Georgia, in the United States.

These investments have five main objectives:

- 1) Meet global demand, primarily for OTC pharmaceuticals
- 2) Conform to global standards [PIC/S] for manufacturing OTC pharmaceuticals
- 3) Reduce costs
- 4) Reduce environmental impact
- 5) Reduce labor needs (robotize factories) to prepare for future labor shortages



### M&A

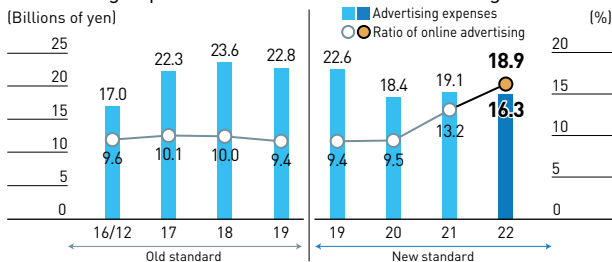
Mergers and acquisitions (M&A) are major growth drivers for Kobayashi Pharmaceutical. When we consider an M&A opportunity, we base our decision on potential synergies with our marketing, development, technology, and sales capabilities, and on whether it will enable us to enter a new business area, such as a research or technological field, for example. If we acquire a company or business with low profitability, it will lower the Group's overall profitability, so it is important to be conscious of the cost of capital as we proceed. When pursuing M&A, we set specific minimum targets for ROIC and the internal rate of return (IRR). Decisions are based on a comprehensive approach that takes into account quantitative evaluation, including forecasts of the payback period and cumulative profit/loss, and qualitative evaluation, including relationship to and synergies with our strategy and core business. Some investments have wide-reaching and long-term synergistic effects—our acquisitions of Kiribai Chemical Co., Ltd. and Heat Max, Inc. represent two examples—so we should carefully examine the

potential contribution to our corporate value from a long-term perspective.

### Advertising

We have approximately 150 brands. Excluding long-established ones, many of our products are new market-creating niche products, which may not see particularly large sales individually. For these new market-creating niche products, it is essential that consumers discover what they are and what they do, especially immediately following their launch. Advertising on television is the most efficient method for raising product awareness and represents roughly 80% of our spending on advertising. However, online advertising is more effective for generating sales among consumers who are aware of but have not yet purchased a product. We intend to maximize sales by harnessing the advantages of both TV and online advertising and by pursuing the most effective advertising ratio for each brand. We do not increase or decrease our advertising investment indiscriminately based only on growth in sales and profit. Rather, the president meticulously controls the amount of investment while looking at sales trends and the response to advertising for each brand and media format, and the effect on the bottom line.

#### Advertising expenses / Ratio of online advertising



### Research investment

**Domestic Business** We invest to ensure our ability to continue developing and offering numerous products that satisfy the wishes of consumers year after year, and this is our strength. Our medium-to-long-term business themes require sophisticated technologies and can take a considerable amount of time to bring to market. To boost sales in line with these themes, we

## My Aspirations as CFO

I believe that a CFO's responsibility is to work towards the sustainable improvement of corporate value over the long term. I also recognize the importance of conducting thorough dialogue with our stakeholders and providing financial information as well as useful non-financial information related to the environment, society, and governance.

In April 2023, right when I was appointed to this position, three departments that had been part of the CFO unit under the umbrella of the Corporate Headquarters, the Finance and Accounting Department, Public Relations and IR Department, and Business Support Department, were reorganized under the

have designated specific fields, such as immunity, thermotherapy, and dementia, where we are pursuing M&A to acquire the needed technologies and entering into collaborations with partner companies.

**International Business** We are invest in research with an eye to accelerating our ability to expand our "deliver products that consumers wish for" approach abroad. Body warmers and *Netsusama Sheet* currently make up a large portion of our overseas sales. However, sales of these products are heavily influenced by weather conditions and temperatures. To reduce our exposure to external conditions, we are advancing R&D in the healthcare field, particularly high-margin OTC drugs.

### DX

DX involves a variety of initiatives, such as streamlining the operations of administrative departments, boosting the production efficiency of manufacturing departments, and innovating the way sales departments market products. The most important area for digital transformation at Kobayashi Pharmaceutical is product development. This is because we need to identify new emerging needs from changes in customer lifestyles and mindsets quicker than anyone else. Therefore, it is important to better understand consumer needs using AI and big data. Investment in such digital technology is vital to our business.

### Human resources

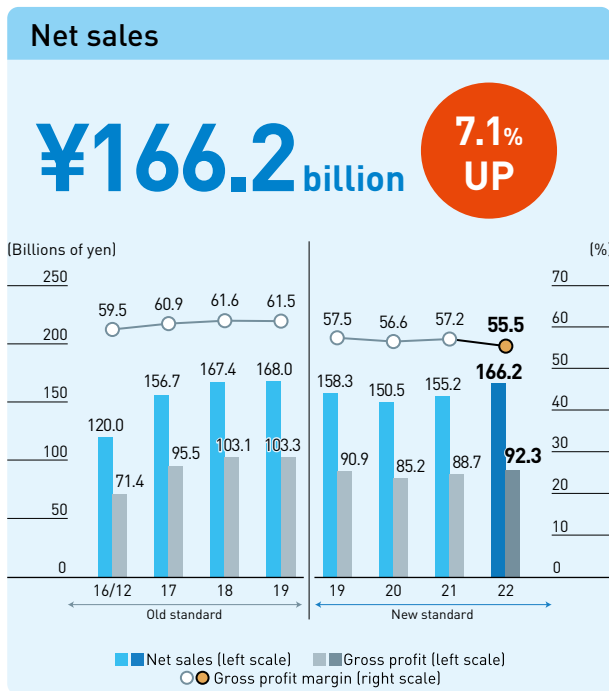
A company is defined by its people. To increase corporate value, we need to refine our unique market-creating business model and develop the human resources to implement it. As part of our investment in human resource development, we will enhance the frameworks that make Kobayashi Pharmaceutical a fulfilling place to work, one in which employees take pleasure in creating new value and where results receive appropriate recognition. As a development-focused company, robust investment in human resources is particularly important.

direct control of the president. The aim of this reorganization was to increase the speed of decision-making by increasing proximity to the president and management team. I recognize that, going forward, the role of the CFO will become even more important to Kobayashi Pharmaceutical's continued growth, both internally and externally.

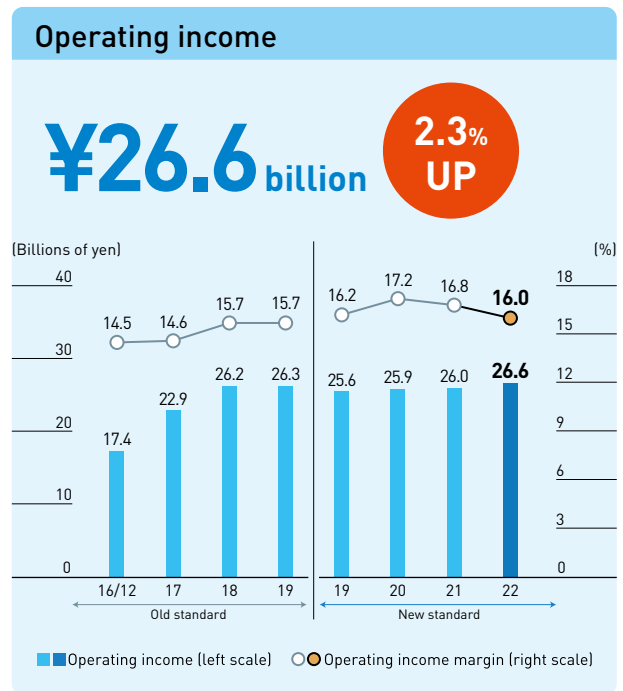
Therefore, I would like to efficiently support important management decision making, maintain close communication with our management team, and work to the best of my ability while maintaining the importance of dialogue with all our external stakeholders.

# Financial highlights

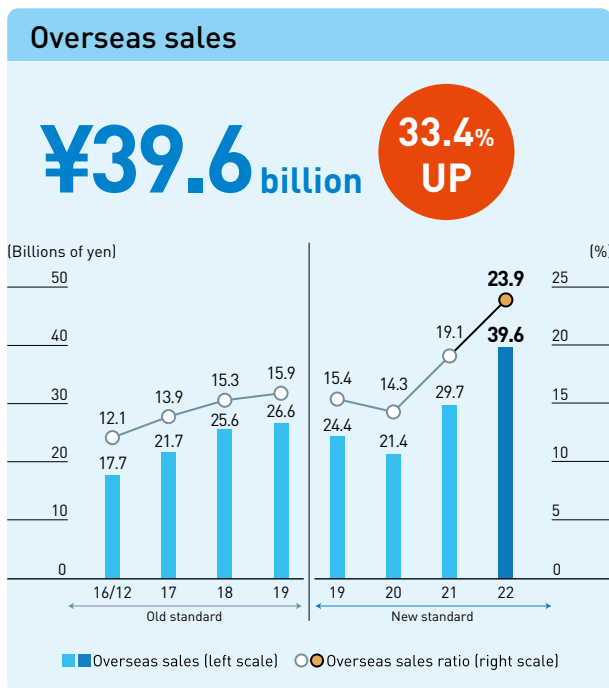
[Fiscal 2016/12 was a nine-month transitional period due to a change in the fiscal year-end.]



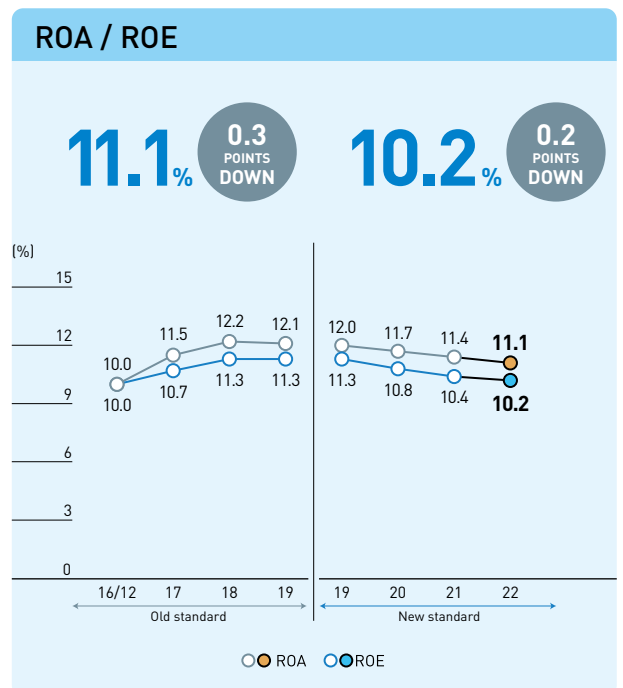
Although the domestic business faced challenges due to sluggish sales of existing products, the International Business performed well and saw an increase in total revenue.



Despite higher raw material prices, we succeeded in increasing income by expanding revenue and generating profit while reducing costs.



Boosted by the currency exchange effects of the depreciation in yen value, sales of *Netsusama Sheet* were strong across the board in countries overseas, contributing to a significant increase in revenue.

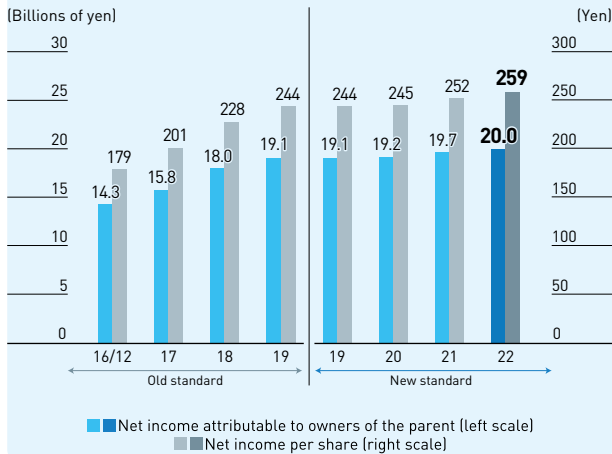


Although we worked to strengthen the profitability of each business and to improve capital efficiency through dividend increases and share buy-backs, both ROA and ROE were down year-on-year. However, ROE was above the target figure of 10% or greater set in the medium-term management plan.



## Net income attributable to owners of the parent\*

¥20.0 billion

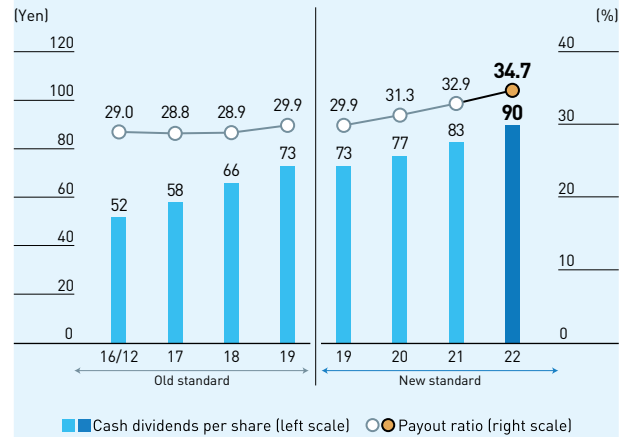
1.6%  
UP

Net income increased for the 25th consecutive year.

\* Including impact of stock split

## Cash dividends per share\*

¥90

8.4%  
UP

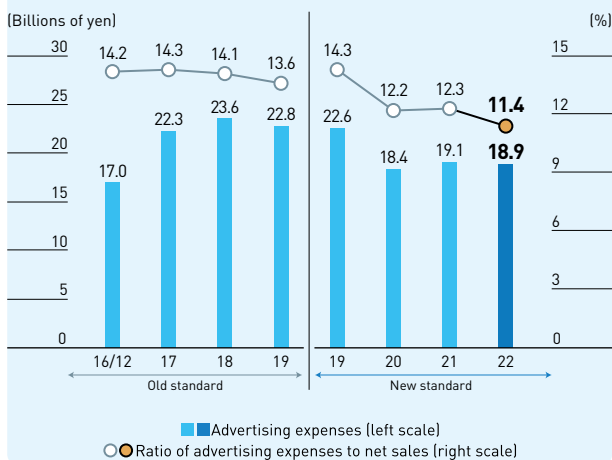
Dividends increased for the 24th consecutive year.

Our track record of paying stable dividends continued as we balanced a sound management structure with aggressive investment in growth.

\* Including impact of stock split

## Advertising expenses

¥18.9 billion

1.0%  
DOWN

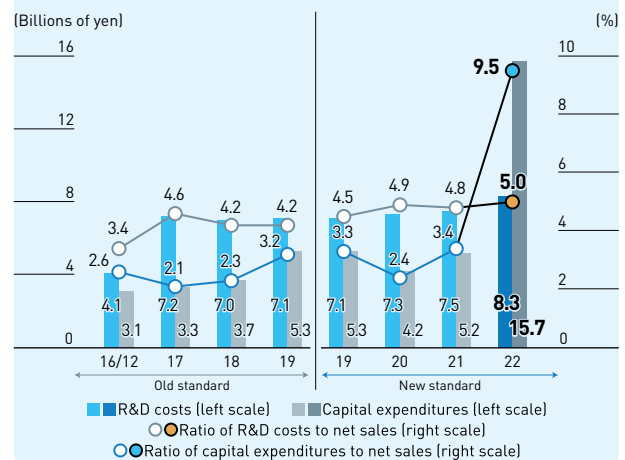
Since Kobayashi Pharmaceutical makes many niche products, it is essential that we raise their profile to acquire new customers, which is why we actively invest in advertising every fiscal year. In 2022, we aggressively increased advertising expenses in our strong international businesses. On the domestic front, we decreased advertising expenses in the face of a sluggish market, and advertising expenses declined slightly year on year on a consolidated basis.

## R&amp;D costs / Capital expenditures

¥8.3 billion

10.6%  
UP

¥15.7 billion

202%  
UP

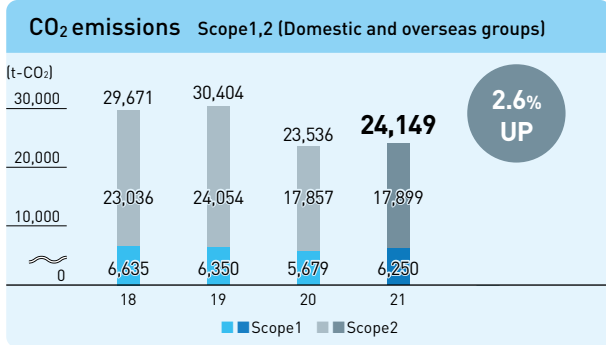
Reflecting our continued policy of investing strongly in research and development on an annual basis with an eye to developing unique new products, R&D costs rose 10.6% in 2022.

To prepare for future demand growth, we started investing in large-scale plants in China and Japan (Sendai), with capital expenditures increasing by ¥10.5 billion in 2022, year on year.

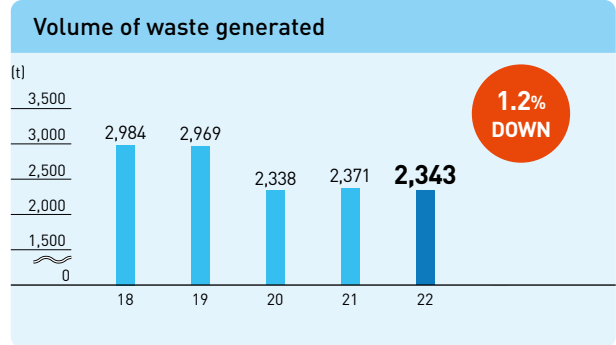
# Non-financial highlights

## Environment

Protecting our rich natural environment



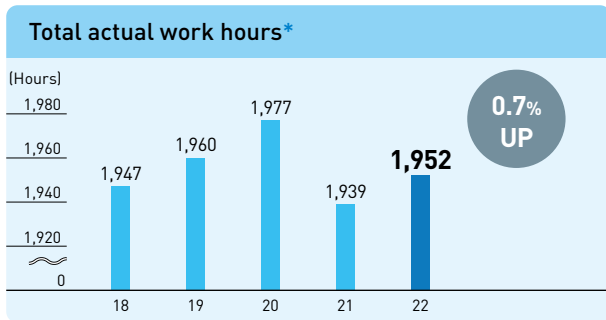
Increased production in 2021 was accompanied by a rise in energy consumption.



Production volumes fell at some factories, leading to a decrease in the volume of waste.

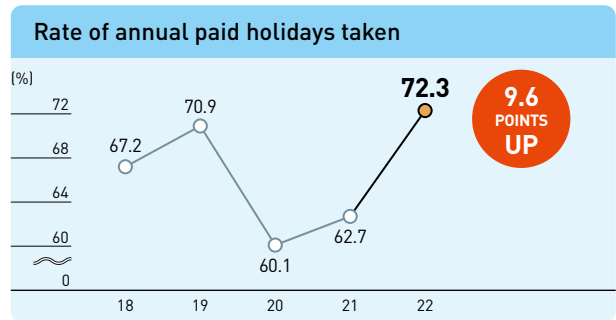
## Human resources

Implementing work-style reforms to maximize employee value and corporate value



The old mindset that equated simply working longer and harder with getting results is no longer viable and we are shifting to a management approach that emphasizes achieving results and added value by better utilizing personnel in various roles and working more efficiently. The more efficient use of working time equates to higher labor productivity.

\* Yearly scheduled working hours + Overtime hours – Annual paid leave hours



Working more efficiently also benefits our employees in their private lives as it yields more free time and improves their working lives. The rate of annual paid holidays taken declined temporarily because of decreased needs owing to the COVID-19 pandemic in 2020 and 2021. We will continue to encourage employees to take leave as it boosts morale and job satisfaction, which in turn increases our competitiveness.

## Product development KPIs

Generating products that consumers wish for

### Number of idea proposals

Approx. **57,100**

#### New product ideas

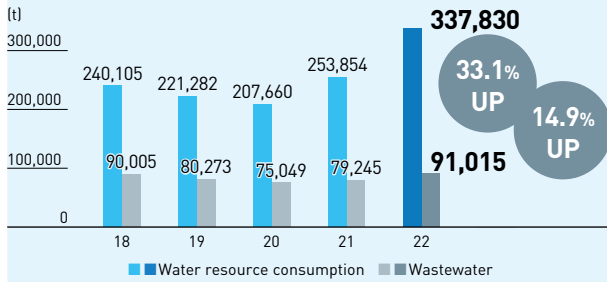
Approx. **40,300**

#### Business improvement ideas

Approx. **16,800**

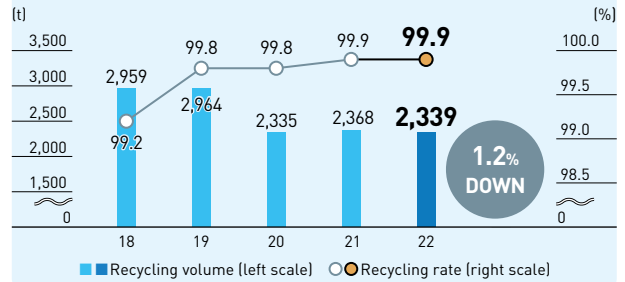
Our idea proposal system, which has been in place since 1982, is a concrete management measure open to all employees. Ideas for new products and business improvements are proposed every day, with all employees free to participate regardless of job category or seniority. Many of the new product ideas originating from this program have grown into major hit products.

## Water resource consumption / Wastewater



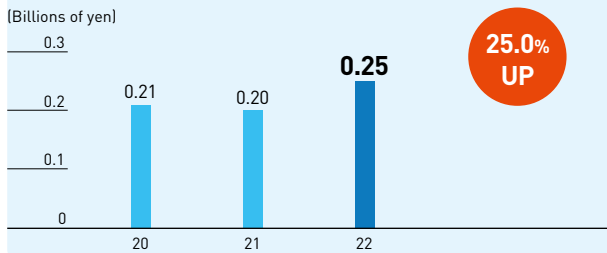
Although we use water flow meters to control water consumption and reuse water from water purification systems, the increased use of water for snow management at some plants, along with an expansion in the production of products that require a lot of water, resulted in rises in both the consumption of water and wastewater discharge.

## Recycling volume / Recycling rate



A high recycling rate of 99.9% was maintained. We will continue our shift from thermal recycling to material recycling.

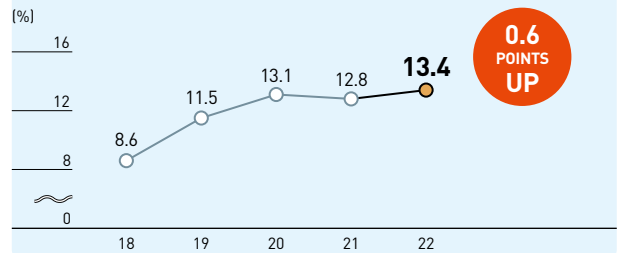
## Overall human resources development and training expenses\*



We believe that our most important form of capital comprises each and every employee and are proactively investing in human resources development to support individual growth.

\* Kobayashi Pharmaceutical (non-consolidated)

## Percentage of management positions held by women\*



We have set the goal of raising the percentage of management positions held by women to 16% or higher in 2025 (as of the end of January 2026) as one measure for the empowerment of women. We have implemented job rotation and training that leads to career development, promoting the advancement of women.

\* Percentages are as of January 31 of the following year.

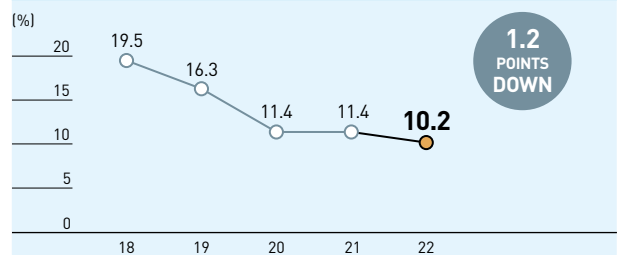
## Number of brands (domestic)

**157 brands**  
**1,017 SKUs\***

\* SKU: Stock keeping unit

Through our "a big fish in a small pond" strategy and product development that delivers what consumers wish for, we launch about 30 new products annually, and create markets that did not previously exist. Completely new products are less susceptible to price competition, so we are able to secure high operating income margins.

## Four-year contribution rate of new products (domestic)



In recent years, we have been assessing market potential from the early stages of product development. Without loosening new product launch criteria, we aim to bring more products to market and to maintain the four-year contribution rate of new products\* at 13% or higher.

\* Four-year contribution rate of new products: Sales contribution rate of new products launched within the previous four years

## Domestic Business



- 157 brands in four categories: healthcare, household products, body warmers, and direct marketing\*
- Creation of approximately 30 new products per year
- Direct marketing includes skincare products and nutritional supplements in addition to high-priced products not carried in stores sold through our own website and over the phone

\* Due to changes in the organization of segments effective from the fiscal year ending December 31, 2023, segment information is presented herein as if such changes had occurred in the year under review.

### Main products



Nodonool Spray



Netsusama Sheet



Hananoa

## International Business



- Sales in such areas as the United States, China, Southeast Asia, etc.
- 84% Company-name recognition in the China area
- Aiming to increase overseas sales, launched the new Global Warmer Products Department and integrated strategy and development

### Main products



Body warmers

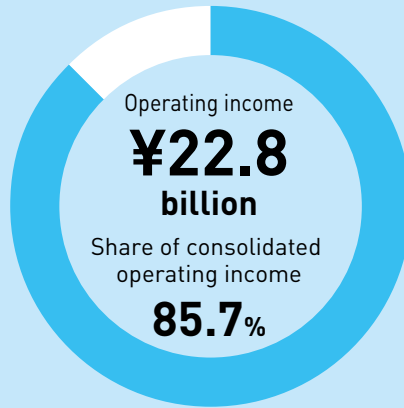
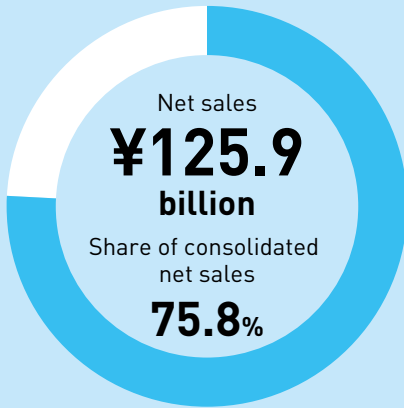


Netsusama Sheet



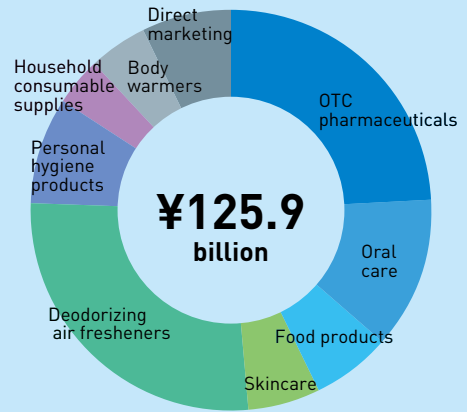
Ammeltz

### Overview of 2022



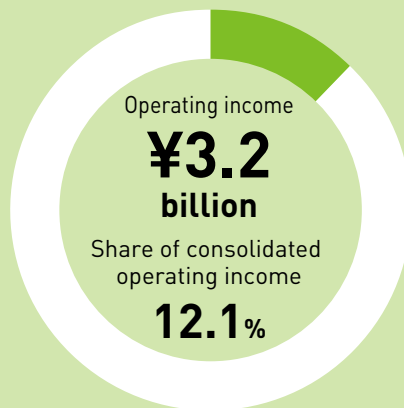
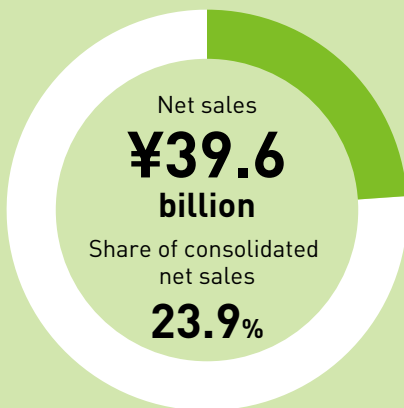
- Sales of existing products such as *Bluelet* and *Sawaday Kaoru Stick* struggled (down ¥4.4 billion year on year)
- COVID-19 related demand positively impacted earnings (up ¥1.0 billion year on year)
- Sales of new products contributed (up ¥4.4 billion year on year)
- Inbound demand increased (up ¥400 million year on year)
- Earnings from body warmers increased (up ¥100 million year on year)
- Sales of health foods struggled and declined (down ¥500 million year on year)

### Net sales by category



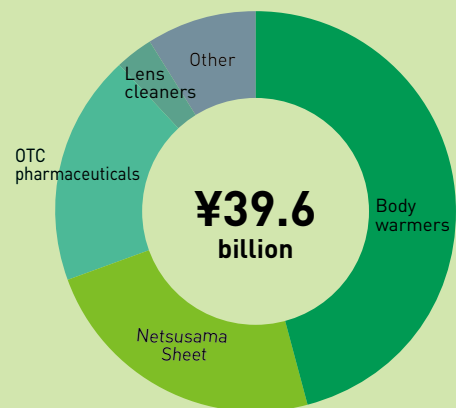
- OTC pharmaceuticals . . . . . 24.2%
- Oral care . . . . . 12.4%
- Food products . . . . . 6.3%
- Skincare . . . . . 5.8%
- Deodorizing air fresheners . . . . . 27.1%
- Personal hygiene product . . . . . 8.5%
- Household consumable supplies . . . . . 4.0%
- Body warmers . . . . . 4.5%
- Direct marketing . . . . . 7.2%

### Overview of 2022



- United States: Increased earnings due to strong sales of body warmers and *Netsusama Sheet* (up ¥3.4 billion year on year)
- China (mainland): Increased sales, despite lockdown impacts, due to the strong performance of *Netsusama Sheet* (up ¥1.8 billion year-on-year)
- Southeast Asia: Increased earnings due to the strong performances of *Netsusama Sheet* and *Ammeltz* in each country (up ¥3.2 billion year on year)

### Net sales by category



- Body warmers . . . . . 46.1%
- *Netsusama Sheet* . . . . . 23.5%
- OTC pharmaceuticals . . . . . 18.5%
- Lens cleaners . . . . . 3.1%
- Other . . . . . 8.8%

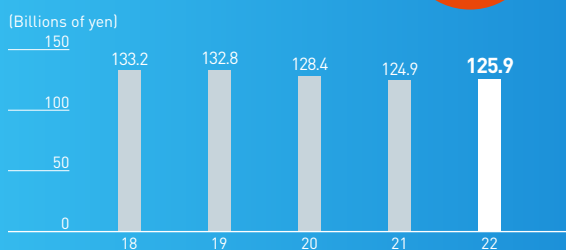
# Domestic Business



## Net sales

**¥125.9 billion**

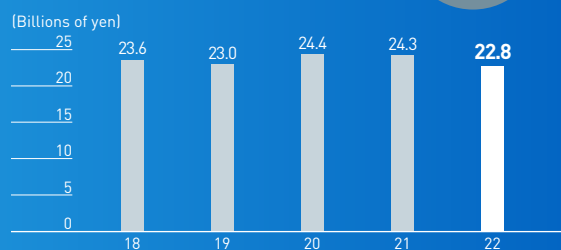
YoY change  
**101%**



## Operating income

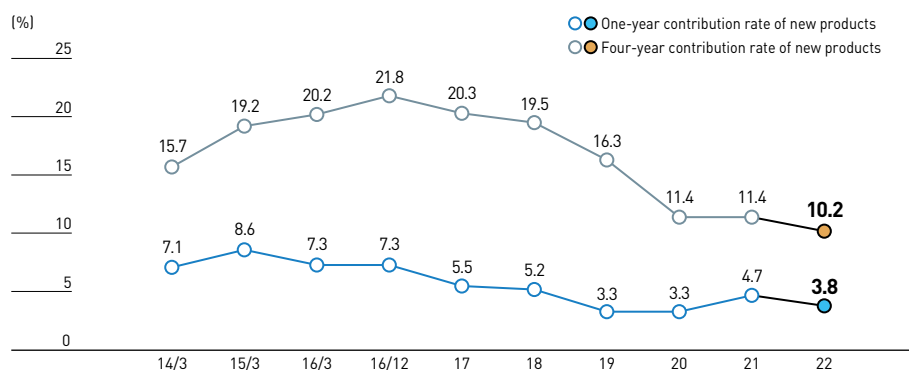
**¥22.8 billion**

YoY change  
**94%**



Note: Due to changes in the organization of segments effective from the fiscal year ending December 31, 2023, segment information is presented herein as if such changes had occurred in the year under review.

## Domestic contribution rate of new products (excluding direct marketing)



## Top performing products

**+¥800 million\***

**Nodonool Spray**



Demand increased due to the expansion of the omicron variant

**+¥600 million\***

**Netsusama Sheet**



Due to expansion of the omicron variant, demand increased for its use as a countermeasure for vaccine-induced fevers

**+¥300 million\***

**Hananoa**



Nasal rinses increased in popularity and moved favorably

**+¥400 million\***

**Nutritional supplements**



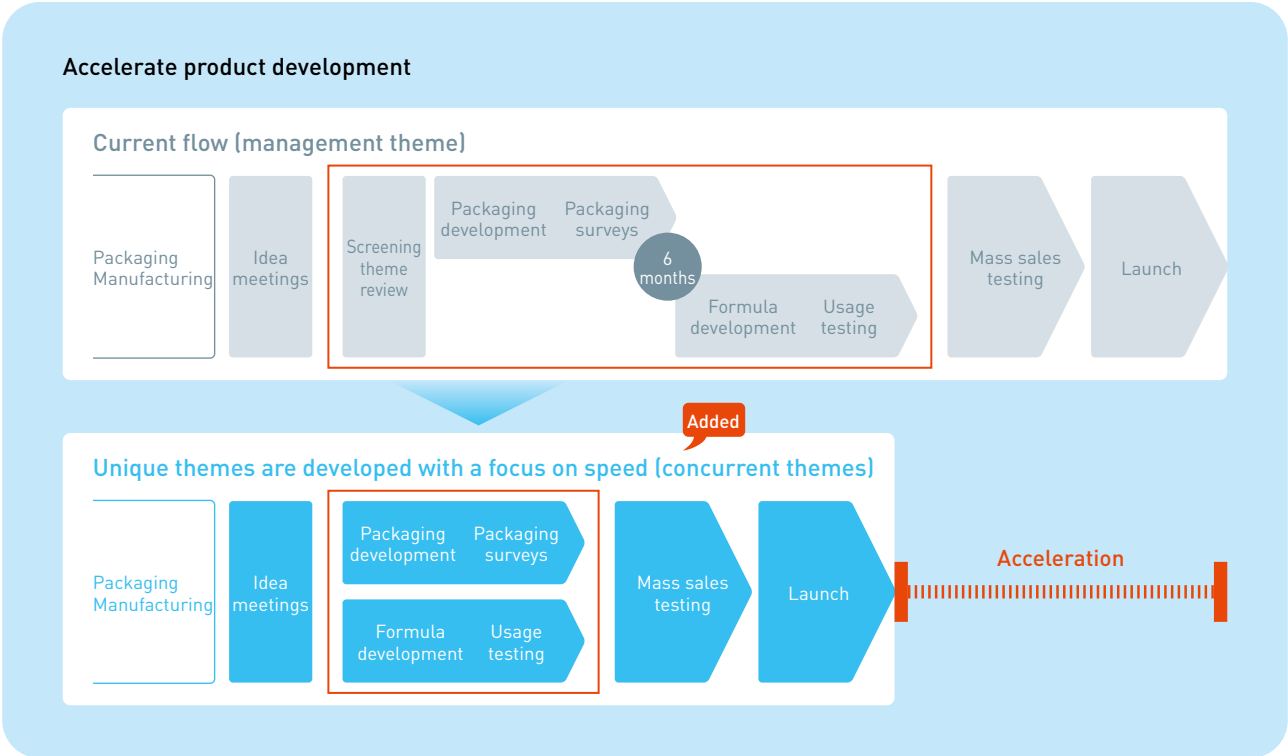
Sales were driven by functional food, including new products

\* Compared to the previous period

TOPIC 1

## Accelerate new product development to recover the domestic contribution rate of new products

Kobayashi Pharmaceuticals is working on accelerating the development of new products in order to secure recovery in the domestic contribution rate. Previously, we approached all new product development in the same way, first conducting a feasibility study to assess probable market receptivity and then, only after confirming the absence of issues, beginning composition development. Starting in 2023, we will accelerate product development by establishing concurrent, unique themes, pursuing feasibility studies and composition development simultaneously. By facilitating the reciprocal application of knowledge between development stages previously pursued in succession, we aim to both improve the accuracy of product development and expand the number of concurrently developed products.



TOPIC 2

## Strategies for recovery of inbound demand

The COVID-19 pandemic has shown signs of returning to normality, and countries—including Japan—are discontinuing pandemic-related restrictions. Tourists visiting Japan have increased accordingly, leading to an expected recovery in demand. The Kobayashi Pharmaceutical Group will work strategically to ensure that we seize this opportunity of inbound demand.

<p>Healthcare Division</p>	<p>Currently, we are working to step up the manufacturing of products with track records showing high demand among inbound tourists, such as <i>Sakamu Care</i>, a liquid bandage with a brush, and <i>Ammeltz</i>, a topical analgesic, and, with an eye to expanding sales, intend to establish a system better able to respond to expected rises in demand.</p> <p>Additionally, as product demand differs by country, we will maximize sales by furnishing in-store promotional materials tailored to the needs of specific countries.</p>
<p>Household Division</p>	<p>Similarly to initiatives undertaken in the Domestic Business in Japan, we pursued advertising aimed at improving brand recognition and purchasing overseas, leading to the <i>Sarasaty Lingerie Soap</i> and <i>Sawaday Happy</i> air freshener brands trending well and helping to secure sales from shipments overseas, particularly in China (outbound sales were up 116.4% year on year). To ensure continued improvement in brand awareness in China, we are cultivating reviews and popularity on social media, which will, in turn, lead to stronger purchasing. For inbound tourists, we have launched new products that include the sleep aid <i>Nightmin Mimiogogu Time</i>, the warming pad <i>Azuki no Chikara for Shoulders</i>, and <i>Netsusama Sheet Cooling Gel Eye Mask</i>, while stepping up country-specific advertising and furnishing in-store promotional materials in order to maximize sales.</p>

## Domestic Business (healthcare products) and Direct Marketing Business

Message from the Senior General Manager in charge of the Healthcare Products Division

Kobayashi Pharmaceutical's brand slogan is "You make a wish and we make it happen," and this theme applies not only to new product development, but also to enhancing the competitiveness of our existing brands, expanding new businesses, and improving operations. With the message of this slogan always in mind, we will continue striving to make our customers' lives more comfortable, and every one of us at Kobayashi Pharmaceutical will keep our eyes open as individual consumers to ensure the development of products with a strong sense of purpose. Also, our development as a business is ongoing, so please look forward to our growth in the future.



### Fujito Owaki

Senior General Manager of the Healthcare Products Division  
Managing Executive Officer

### Looking back on 2022

In the Domestic Business, sales of healthcare products, such as *Nodonoal*, a pain-relieving throat spray, and *Hananoa*, a cleansing nasal rinse, increased during the COVID-19 pandemic, and sales of soft interdental brushes and floss picks for cleaning between teeth were up as well. Inbound tourism also began recovering, and both sales and income exceeded those of the previous year, due in part to robust sales of *Inochi no Haha*, a drug to improve menopausal symptoms, and *Dasmoke*, a drug to treat cough and phlegm caused by tobacco smoking and pollution.

On the other hand, the Direct Marketing Business failed to register sales and income at the levels reached in the previous year and mainstay products struggled. In particular, decreased sales of *Hifmid*, a line of moisturizing cosmetics containing human-type ceramides, and *EDICARE*, a men's vitality supplement, were negative factors. We will rebuild these mainstay products by improving the efficiency of our advertising and implement new promotional initiatives.

### Main initiatives for the Healthcare Division under the new medium-term management plan

#### 1. Taking on new challenges for development and cultivation

##### Utilize AI and big data to predict future needs and strategically set focus areas

We will use AI to efficiently process and narrow down big data in order to address customers' problems and adopt a routine centered on activities that lead to idea generation and the building of a track record of success.

##### Building a health tech development system

Using methods made possible by digital technology, we will build a product development system that addresses customers' problems in the healthcare field. Over the next three years, we aim to launch two new digital products in the femtech field, using technology to tackle women's health issues. In addition to using AI to improve operational efficiency, we will actively apply digital technology to create new markets and formulate

strategies, thereby improving the quality of our operations and diversifying said strategies.

##### Strengthen idea generation and make new products on a larger scale

In the analog field, we will acquire differentiated, patented technologies and strengthen the development of new products to secure a competitive advantage.

#### 2. Implementing global strategy according to plans

We will strengthen and expand international collaboration in the pharmaceutical product field with such brands as *Ammeltz*, *Eyebon*, and *Inochi no Haha*. Specifically, to accelerate the brand growth of *Ammeltz*, which has already expanded overseas, we will provide promotional information publicizing the wealth of distinctive formulation technology



and unique assessment technology we have accumulated over many years of research activities in Japan. We will then apply the experience gained to the global expansion of the *Eyebon* and *Inochi no Haha* brands. Our ultimate aim is to realize a system that fosters the development of new products and creation of formulations to meet local needs for every one of our brands.

### 3. Strengthening the competitiveness of existing products

We established a joint development system with the Central R&D Laboratory to acquire unique and differentiated

formulation technologies and to develop attractive packaging. We will strive to further enhance the R&D roadmap for the following five brands: *Ammeltz* pain reliever for stiff shoulders and muscle pain, *Eyebon* eye wash for after removing contact lenses, *Inochi no Haha* supplements for menopause symptoms, *Shoyo* toothpaste to prevent gum inflammation, and *EDICARE* supplements that support men's vitality. By applying the knowledge we have gained in this initiative to other brands, we will build a system to develop highly competitive products for the market.

## Initiatives to realize our purpose in the Healthcare Products Division

To realize the purpose of the Kobayashi Pharmaceutical Group, the Healthcare Products Division is emphasizing three points: (1) the development of new products, (2) the implementation of CSV\* activities, and (3) the improvement of technological literacy.

In our development of new products, which covers in a wide variety of categories spanning such fields as pharmaceuticals, food, beauty care, and oral care, we hope to create many unique products that meet the needs of each and every customer to fulfill our promise to customers of "You make a wish and we make it happen."

In the implementation of CSV activities, we are collaborating with Orion Breweries, a beer producer in Okinawa Prefecture, to help people control their blood sugar levels and establish healthy habits. In addition, we are focusing on the high diabetes mortality rate in the prefecture and increasing awareness of our brand, *Salacia*. Specifically, we are conducting a health program for Orion Breweries employees with high

blood sugar that includes health seminars and exercise guidance from university professors and recommending the use of our product, *Salacia 100*, which helps to moderate the rise in blood sugar levels after eating. We will monitor the program's health exam results and disseminate them through our website and social media. Eventually, we hope to expand this activity beyond Okinawa to the whole of Japan.

Regarding the improvement of technological literacy, we will further evolve the distinctive formulation technology and unique assessment technology that we have cultivated through many years of R&D, and we will strengthen international collaboration and joint development systems with the Central R&D Laboratory. We will also actively implement new initiatives, using AI and big data to anticipate future needs and building a digitally based product development system in the healthcare technology field.

\* CSV: Creating shared value

## Strategies to create synergies after integrating the Direct Marketing Management Business

To create synergies, we need to improve the efficiency of our product development and integrate the strengths of our in-store sales and mail order sales channel. Our in-store and mail order sales channels have traditionally been kept separate; however, although the points of customer contact differ between these business models, the customer needs are the same. Collaborative product development that effectively utilizes our brand development capabilities, technical expertise, communication skills, and a thorough understanding of customer needs in each business area not only increases the differentiation of our products, it enables marketing strategies that are uniquely tailored to suit specific stores and mail order channels. In addition, by leveraging each business' resources, we will be able to swiftly and efficiently develop products that meet customer needs. In other words, an important point for

creating synergies is having a unique strategy that creates new value for customers by integrating development technology and speed with marketing strategies from both the store and mail order perspectives.

For example, *Salacia 100* is sold both in stores and through mail order, and under the previous system we used different advertising and promotional strategies for each sales channel. However, in 2023 we have adopted a unified communications approach for our TV commercial and newspaper advertising, and have begun planning and implementing a mixed media plan that will maximize our customer reach. We will expand these efforts to four Chinese herbal medicine products and seven food products that are already developed and sold in stores and through mail order.

## Domestic Business (household products)

### Message from the Senior General Manager of the Household Products Division

Our slogan, “You make a wish and we make it happen,” sets Kobayashi Pharmaceutical apart from its competitors as a niche specialist. Rather than developing non-distinctive products for the masses, we work with a variety of people with different attributes to identify issues that really resonate with specific groups, create a concept, and swiftly give it shape. We believe that this is Kobayashi Pharmaceutical’s purpose. To achieve this, our team thoroughly observes and considers our customers’ lifestyles and, driven by empathy for their situation, dedicates itself to developing solutions. Supporting our development activities is the highly psychologically safe corporate culture we strive to maintain, specifically, a culture in which everyone is free to express their opinions and that respects each individual’s diversity.

### Nobuo Sakuta

Senior General Manager of the Household Products Division  
Executive Officer



## Looking back on 2022

### 1. Launching new products to the market

We launched a total of fourteen new products (excluding item additions and product renewals) in the spring and fall, including *Shoshugen Antibacterial+* deodorizer, which incorporates antibacterial technology developed in collaboration with the Central R&D Laboratory, and *Sarasaty Clean*, a feminine wash for those concerned about odor. *Sarasaty Clean* is a product that proposes a new habit of taking care of the odor of vaginal discharge through washing, and we will promote this so that it becomes an established practice.

### 2. Taking on the challenge of approaching new business fields

Focusing on the new value that scents offer by helping people recall happy memories, we launched the direct-to-consumer *Flower Shower* room scent business in May 2023. We are expanding our sales channels beyond retail to include commercial channels through Kobayashi Pharmaceutical Value Support.

We are also focusing on the femtech field and aiming to address specific problems. Although we have yet to launch products in this field, where technologies are advancing rapidly even as demand rises, we are collaborating on development with start-up companies that possess new technologies.

### 3. Launch *Liquid Bluelet* (GLOBL) for overseas markets

We started developing a *Bluelet* toilet bowl cleaner for the Chinese market in 2021, and launched it through Chinese e-commerce in 2022. We achieved our target of ¥50 million yen in e-commerce pilot sales. In 2023, we will conduct pilot sales at physical stores to find the best ways to establish our products within the Chinese market. We will conduct R&D activities aimed at building a body of evidence to back up marketing claims in support of our antibacterial products in 2024, and for our anti-yellowing products in 2025.

## Major initiatives for the Household Products Division under the new medium-term management plan

### 1. New product development

#### Development based on consumer insights

We will focus on the following two items in order to become an organization that can continuously generate new product ideas that resonate with consumers by gaining insights through interview surveys and behavioral observation.

1. Through the use of digital technology, we will increase our consumer interviews and behavioral observations while

improving our insight-gathering abilities to identify the problems our customers face.

2. We will strengthen our ability to extract consumer insights by inviting external experts to provide corrective guidance. Simultaneously, we will cultivate a corporate culture in which we can move forward by fulfilling consumer wishes that we have learned of through these interviews and behavioral observations.

## 2. Recovery of existing products

### Growth strategy for the *Bluelet* megabrand

Tankless toilets are rising in popularity and the *Bluelet* usage rate is on a declining trend. To strengthen our current customers' loyalty, we will enhance the lineup's antibacterial power and look to develop products with even better deodorizing effects as well as newsworthy products that will attract new customers.

### Measures to enhance competitiveness in the deodorizing air fresheners category

In spring 2023, the *Shoshugen* brand saw the launch of a refillable, large-capacity air freshener, *Shoshugen SAVON*. We aim to expand sales by adding more refillable products as well as developing functional accessories. Over the medium to long term, we will continue developing new products with next-level antibacterial value in collaboration with the Central R&D Laboratory, while adding items with expanded antibacterial capabilities to the lineup of air fresheners released in 2022. In addition to adding fragrance products that reflect global trends, the *Sawaday* brand will develop products with functional fragrances that help improve sleep quality and concentration, etc.

## 3. Build and execute global development strategies

### Development strategy for the global cleaning product category

We are expanding *Bluelet* for Hong Kong and Thailand based on our experience developing *Bluelet* for the Chinese market. After expanding into the Thai market, we will survey the market size and conduct site inspections to confirm where the customer needs are and make decisions based on the results. In addition to GLOBL, we will also consider launching and developing products for local niche markets (such as toilet cleaning tablets, *Sabotta-Ring*, and *Kantan Senjomaru*).

### Development strategy for the Global Warmer Products Department

By unifying the brand strategies and product development implemented within both the Domestic Business and

International Business, we will maximize the results of new product development, cost reductions, and measures against CO<sub>2</sub>. Body warmers in particular generate a large volume of CO<sub>2</sub> emissions, which we aim to significantly reduce by working to reduce the use of iron powder on a global scale. We will communicate the issues that have emerged in these leading global product categories with operations handling other product categories and transform the International Business into a unit that can globalize all categories and efficiently develop products and marketing measures to deliver what consumers wish for in 2030.

## 4. Promoting environmentally friendly product development

Because the products we handle use a large amount of plastic, the Household Products Division accounts for the largest portion of the Company's CO<sub>2</sub> emissions. To achieve the SBTi\* reduction targets, which are receiving more public attention every year, we will take the lead in implementing initiatives for our major products, including body warmers, *Bluelet*, and *Shoshugen* by involving the entire Company.

\* Science Based Target initiative

## 5. Corporate culture reform in the style of the Household Division

To enable all business department employees to take on challenges that go beyond boundaries without fear of failure, managers and directors will carefully communicate by sharing examples and messages related to monthly compliance training with all employees, while holding interactive workshops and other activities, thereby creating an organization with high psychological safety. To accelerate individual growth, we will provide opportunities such as overseas onsite inspections, collaborative development with external parties, and cross-category projects, as well as a training system tailored to these needs, to make our organization highly competitive and able to respond quickly to the rapidly changing times.

# Initiatives to realize our purpose in the Household Division

## 1. Product development tailored for each and every consumer

We thoroughly listen to and empathize with our customers' concerns through research that includes interviews and behavioral observations, enforce an organizational structure, and promote digital transformation aimed at creating a system that accelerates the development of products and services that go beyond the boundaries of typical household products.

## 2. Collaboration with the Central R&D Laboratory to acquire highly complex technologies

We will work in collaboration with the Central R&D Laboratory to acquire technologies that provide new value for consumers, so that we can continue to develop new products linked to social issues and consumer needs as well as to improve such matters as sleep, hygiene, women's quality of life, and dementia prevention while staying on top of global trends and consumer changes.

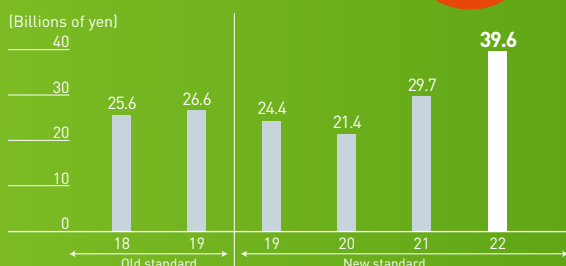
# International Business



## Net sales

¥39.6 billion

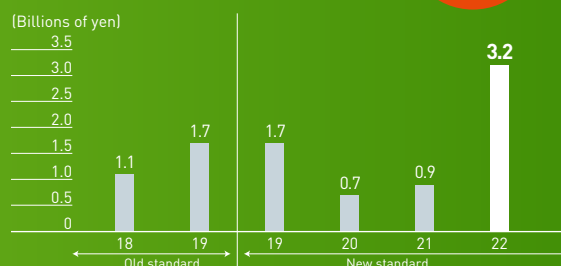
YoY change  
**133%**



## Operating income

¥3.2 billion

YoY change  
**355%**



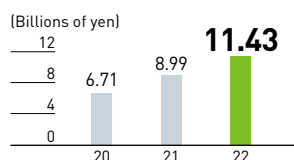
## Net sales by product

United States

Body warmers



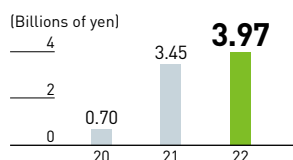
Compared to the previous period  
**+27%**  
[+6%]



Pharmaceutical products



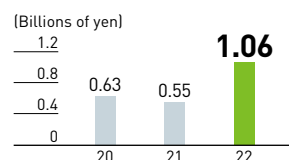
Compared to the previous period  
**+15%**  
[-4%]



Other



Compared to the previous period  
**+93%**  
[+61%]

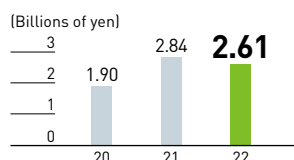


Mainland China

Body warmers



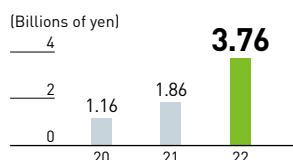
Compared to the previous period  
**-8%**  
[-19%]



Netsusama Sheet



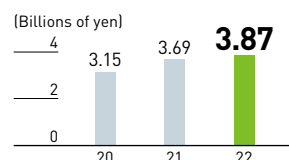
Compared to the previous period  
**+102%**  
[+77%]



Other



Compared to the previous period  
**+5%**  
[-8%]

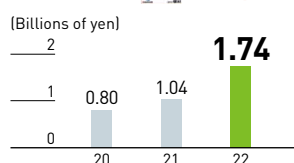


Southeast Asia

Pharmaceutical products



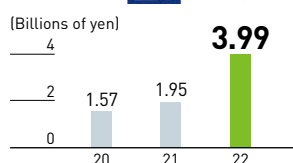
Compared to the previous period  
**+68%**  
[+49%]



Netsusama Sheet



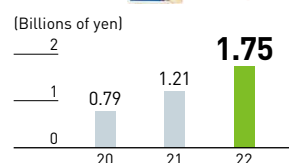
Compared to the previous period  
**+105%**  
[+84%]



Other



Compared to the previous period  
**+44%**  
[+28%]



Note: Figures in parentheses do not reflect foreign exchange impacts.

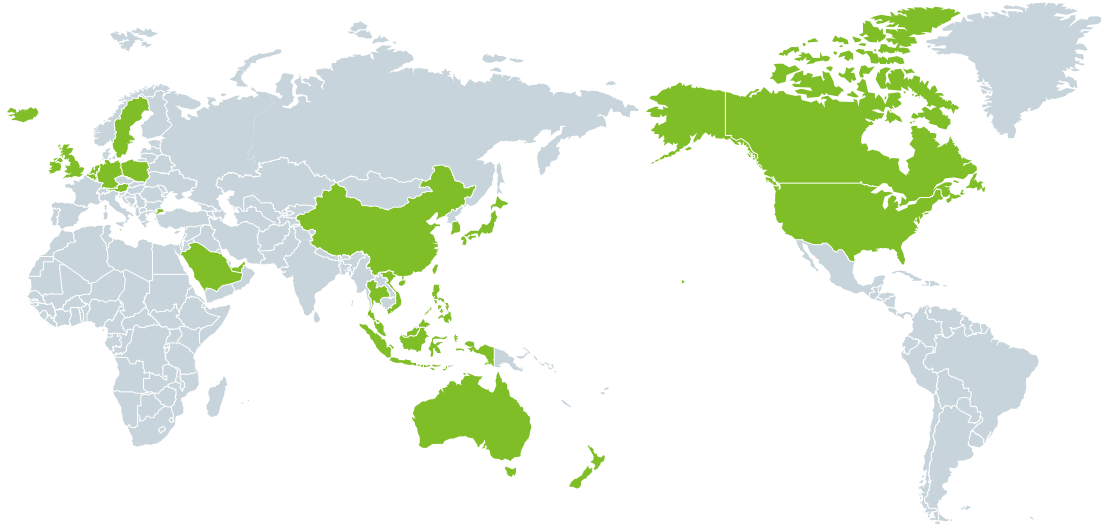
## International Business

### Message from the Senior General Manager of the International Business Division

I will do my best to solve problems in each and every person's life by providing various products and services both in Japan and in regions around the world to support healthy and comfortable living.

### Norikazu Toyoda

Senior General Manager of International Business Division  
Executive Officer



## Looking back on 2022

### North America

**Achievements:** We were able to increase sales of body warmers, which account for a large proportion of overall sales, by strengthening marketing promotions focused on e-commerce, which has become an increasingly popular purchasing channel for consumers since the COVID-19 pandemic.

**Challenges:** We acquired Alva-Amco Pharmaceutical Companies, Inc. in October 2020 to expand our business foundation in North America. Unfortunately, the supply chain of raw materials was disrupted due to the impact of COVID-19, leading to ongoing product supply issues. We are working to build a stable supply system for pharmaceutical products.

### Mainland China

**Achievements:** Although the overall market environment was very difficult due to the COVID-19 lockdowns throughout the year, we were able to record results surpassing those of the previous year. In particular, we were able to significantly increase sales of the fever countermeasure *Netsusama Sheet*, our mainstay product, by strengthening online to offline\* promotional marketing measures in line with changes in

consumer purchasing behavior. *Ammeltz*, a topical analgesic launched in 2022, also performed well, achieving results that were approximately 2.2 times higher than the yearlong forecast.

**Challenges:** We are working to accelerate pharmaceutical product development in order to expand our healthcare products business, which is on course to become a new pillar of our business in the future.

\* Online to offline measures refer to the practice of ordering a product online through a smartphone or computer and having it delivered to a specified location, or reserving a product online and then having the purchase and service experience in person at a store location. Other measures include those to promote purchasing and visits to stores through internet advertisements.

### Southeast Asia

**Achievements:** We were able to effectively capture demand and significantly increase sales of *Netsusama Sheet*, which accounts for a large proportion of net sales, by strengthening marketing to meet demand for treatments for fevers associated with such diseases as dengue and influenza in addition to COVID-19, the cause of the global pandemic.

**Challenges:** We will aim to increase demand for *Netsusama Sheet*, which grew significantly for fever treatment, by proposing usage scenarios other than fevers to maintain newly acquired customers and further expand the market.

## Major initiatives for the International Business under the new medium-term management plan

Two goals from the medium-term management plan are expanding the pharmaceutical product business into a new pillar of business and strengthening the competitiveness of body warmers and *Netsusama Sheet*, pillars of the International Business. To achieve these goals, we will develop and cultivate high-quality products by strengthening localization in the countries in which we operate and through collaboration with our offices in Japan.

### Expanding the pharmaceutical product business

In addition to cultivating existing products with a focus on

*Ammeltz*, we will actively pursue M&A to acquire new brands.

### Strengthening the competitiveness of existing products

We aim to further improve the competitiveness of body warmers and *Netsusama Sheet*, which make up the foundation of our international business, by building a collaborative system with Kobayashi Pharmaceutical operations based in Japan in order to take advantage of their development expertise and technological capabilities. In addition, we will work to reduce costs across the board.

## Future strategies for pharmaceutical products

### United States

With so many brands already on the market, it is very difficult to launch a new brand. We will expand niche brands gained with the acquisition of Alva-Amco by extending product lines. We will also try to launch new in-house brands, as well as acquire brands through M&A.

### Mainland China

We will focus mainly on the market growth of *Ammeltz*, which we launched in 2022, and work toward the development and cultivation of pharmaceutical products, health foods, and medical devices. With Jiangsu Kobayashi Pharmaceutical, which we acquired in 2018, as our foundation, we will establish a manufacturing and sales

system that will ensure our pharmaceutical products are available to more customers in China. Because it takes time to develop the formulas for pharmaceutical products in China, we will pursue M&A to accelerate formula development.

### Southeast Asia

In addition to further expanding *Ammeltz* by extending the product line through product development and marketing support, we will focus on developing the next pharmaceutical product brand. With *Sakamu Care* and *Sena-cure* as candidates, we are aiming to secure growth through expanded distribution and the development of attractive characteristics that will resonate with local consumers.

### Levelling up international collaboration

#### Mainland China



- Expansion of distribution and growth through advertising
- Product expansion through new product development and M&A

#### United States



Integration of idea generation based on local needs and domestic formula design expertise

#### Southeast Asia



- Strengthen new product launches
- Horizontal deployment of successful products to other countries

Focus on pharmaceutical product sales expansion in each country

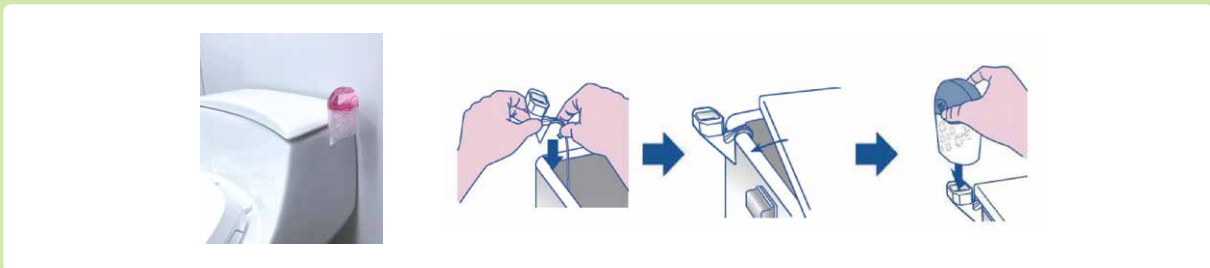
## Bluelet sales strategy for the Chinese market

Thus far, we have successfully conducted e-commerce pilot sales in China and moved forward with pilot sales at physical stores. We are examining marketing methods that effectively communicate to consumers what the product is for and how to

use it because, for many local consumers, it is a completely new type of product. Based on our successes with this product, we are planning to expand beyond e-commerce, where test sales have proved positive, to general merchandise physical stores.



### Usage instructions



Because the toilets used in China have a different tank construction to those commonly used in Japan, the dispenser has been designed to be hung on the corner of the tank. The chemical solution contained in the dispenser is automatically dripped into the tank, so there is no need to do anything specific to use it. Because the toilet, bathroom, sink, and washing machine are often set up in the same room, the opening at the bottom of the container has been made wider to allow for the scent to diffuse across a larger space to deodorize unpleasant odors.

## Initiatives to realize our purpose in the International Business

Based on our purpose, "Supporting people's potential by solving problems that are often overlooked," the International Business is strengthening localization in each country in which it operates and collaborating with our offices in Japan to take advantage of their development expertise, all in line with the new medium-term business plan. Learning from the integration of Alva-Amco, which Kobayashi Pharmaceutical

acquired in 2020, we are moving forward with the development of unique themes by combining the knowledge of local development employees familiar with local consumers with our own development expertise. Using this example as a model, we will continue to strive to localize our products and work collaboratively with our offices in Japan.

### Message from the Officer in Charge of Sustainability Promotion



With all employees working together on sustainability management, we are making maximum use of available management resources.

Satoshi Yamane

Senior Executive Director  
Senior General Manager, Corporate Headquarters

Kobayashi Pharmaceutical has defined “providing something new that will delight people and society” as one of its management principles. With ever more emphasis being placed on the realization of a sustainable society, we must be ready to step forward and contribute. We need to contribute through our actions to protect the environment and support society, continued innovation, and a stronger governance system that is even more trustworthy.

We have been strengthening our initiatives to protect the environment since the 1990s, and established the Kobayashi Environmental Statement and Environmental Action Guidelines in 2001. To minimize our impact on the environment, we strive to reduce waste and GHG emissions, as well as improve the sustainability of our product development and supply chain.

To support society, we believe that it is our mission to make contribute as much as we can to improving health, welfare, and human rights.

As an enterprise that is committed to creation and innovation, we believe we must continue to challenge ourselves to develop new technologies and pursue research in the interests of creating excellent products and services that will contribute to the lifestyles of the future.

To conduct our activities in a strong and sustainable manner, we must maintain transparency and fairness and refine our governance system to ensure swift, proactive and bold decision-making.

With every one of our employees working toward sustainability management and by making the most of our management resources, we will build good relationships with local communities at home and abroad and contribute to the realization of a sustainable society.

## Upgrading Material Issues

The Kobayashi Pharmaceutical Group aims to create both economic and social value by contributing to the realization of a sustainable society while furthering its business. In 2017, after a great deal of discussion on which sustainability issues to prioritize from the standpoints of “level of expectations and requirements of stakeholders” and “degree of connection to our business model and the medium-term management plan,” the Group identified twenty-five material issues. Each

material issue was chosen based on a comprehensive review of all compiled information and with reference to international guidelines.

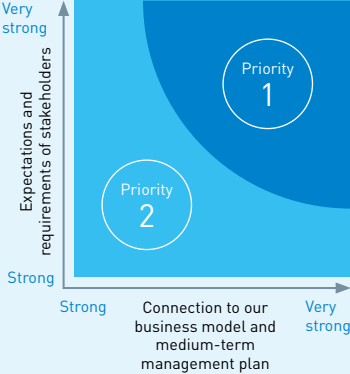
In formulating the new medium-term management plan (2023–2025), we organized each item based on the results of our previous activities, considered Kobayashi Pharmaceutical’s identity and purpose, and updated our materiality in 2023.



Previous materiality

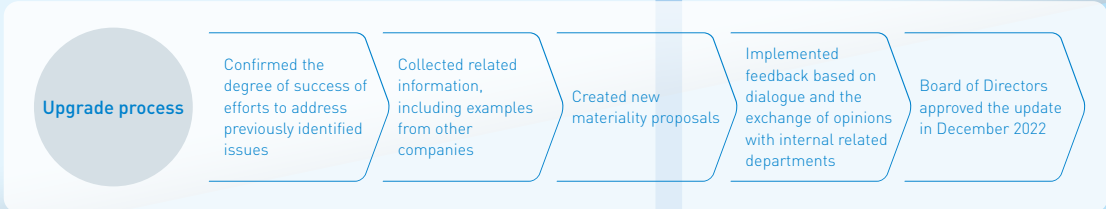
Identifying material issues

Criteria for identifying and prioritizing material issues



Material issues

Priority 1	<b>E</b>	<ul style="list-style-type: none"> <li>Reduction of CO<sub>2</sub> emissions and waste</li> <li>Resource management (raw materials and water)</li> <li>Environmental supply chain</li> <li>Development of eco-friendly products (CO<sub>2</sub> management at each product lifecycle stage and product development eco indicators)</li> </ul>
	<b>S</b>	<ul style="list-style-type: none"> <li>Activities to create shared value</li> <li>Respect for human rights</li> <li>Evaluation of suppliers based on corporate social responsibility criteria</li> <li>Diversity, health, and growth of employees</li> <li>Fair advertising and labeling, and quality management</li> <li>Strengthening of relationship with customers</li> </ul>
	<b>G</b>	<ul style="list-style-type: none"> <li>Highly transparent governance</li> <li>Risk management</li> <li>Compliance</li> </ul>
Priority 2	<b>E</b>	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Environmental market opportunities</li> <li>Environmental and social impact on assets and business operations</li> </ul>
	<b>S</b>	<ul style="list-style-type: none"> <li>Anti-corruption and fair competition</li> <li>IT security</li> <li>Social contribution activities</li> <li>Intellectual property management</li> </ul>



New materiality

- In selecting material issues, we indicated the risk reduction activities that companies should conduct as a matter of course that are the foundation of the business.
- Material issues concern our business foundations, and we have created a dual-layered structure that clearly maps our material issues, narrowed down to five items, by theme.

- E**
- S**
- G**

Material Issues 2 + 3

In order to continue realizing the theme of "You make a wish and we make it happen"	<b>I. "I make a wish and I make it happen"</b>	Create a system of self-driven growth to enable each and every employee to make wishes happen
	<b>II. Exploration of social issues that lie ahead for "a wish"</b>	Approach social issues with an attitude that extends beyond wishes to solve consumer problems
In order to contribute to a sustainable society	<b>III. Respecting human rights throughout the supply chain</b>	Conduct human rights due diligence and promote CSR procurement
	<b>IV. Tackling climate change problems</b>	Low-carbon product development by introducing renewable energy and collaborating with suppliers
	<b>V. Governance that supports sustainable improvement of corporate value</b>	Create a system that can boost the strength of the Board of Directors with diversity and an open and transparent corporate culture

Business foundation

Risk reduction as a company	<b>Environment: Consideration for resources</b>	Manage and reduce plastic resources, understand risks related to water, forests, and biodiversity
	<b>Organization: Governance</b>	Strengthen internal control, thorough compliance, and risk management
	<b>Employees: Health management</b>	Occupational health and safety and physical and mental health
	<b>Products: Security and safety</b>	Safety and quality assurance, fair advertising, proper management of chemical substances

# E Environment

## Basic approach

Kobayashi Pharmaceutical established the Kobayashi Environmental Statement and the Environmental Action Guidelines in December 2001 to further enhance environmental conservation activities based on its management principles. By sharing the statement and guidelines throughout the Group, we have worked to increase awareness about environmental conservation. In February 2019, in a move to reflect international developments related to climate change such as the Paris Agreement and the SDGs, we revised these as the Kobayashi Pharmaceutical Group Environmental Statement 2030 and the New Environmental Action Guidelines, respectively. We will work toward sustainable growth, with the statement and guidelines serving as standards for advancing our environmental activities based on their clear affirmation of our commitment to contributing to solutions.

### Kobayashi Pharmaceutical Group environmental statement 2030

We at the Kobayashi Pharmaceutical Group never rest in our pursuit of something new that will delight people and society. We believe that we are able to deliver what consumers wish for because we have the support of a rich natural environment.

Together with customers, business partners, and communities, we will make a strong commitment to global environmental issues, such as the prevention of global warming and the preservation of resources and biodiversity, and generate ideas to solve those issues.

### New environmental action guidelines

#### 1. Legal and regulatory compliance; independent, proactive task-setting and PDCA cycle

In addition to abiding by environment-related laws, regulations, and agreements in each of our business areas, we set our own tasks, establish medium- and long-term environmental targets and standards, generate ideas, and implement the PDCA cycle.

#### 2. Response to climate change

We recognize that climate change can have a significant impact on our business. At each stage of our business operations we will implement greenhouse gas reduction measures, including more efficient energy usage and conversion to renewable energy.

#### 3. Consideration for resources and biodiversity

To reduce depletion and contamination of underground resources, biological resources, and water resources, and other environmental impacts, we will give consideration to resource conservation, use of alternative resources, and biodiversity at each stage of our business operations.

#### 4. Reduction and recycling of waste; appropriate chemical substance management

We will recycle waste generated at each stage of our business operations, reduce the volume of waste and improve our recycling rate. In addition, we will ensure the proper management of chemical substances used in our research and development and manufacturing operations.

#### 5. Development and provision of eco-friendly products and services

We work to develop environmentally friendly products by establishing indicators and standards for the reduction of environmental impact in the design, procurement, manufacturing, and use of products and services. We also strive to deliver environmental value in tandem with new value for customers.

#### 6. Initiatives throughout the supply chain

We set procurement standards and promote environmental initiatives throughout the entire supply chain, including at our suppliers.

#### 7. Sharing of action guidelines and enhancement of environmental awareness

We share these guidelines with management and all employees, and work to raise their awareness of environmental conservation through various initiatives and educational activities. In addition, we disclose targets and details of initiatives based on these guidelines, as well as progress updates, to stakeholders.

## Management system

In order to strengthen our environmental management system, in 2018 we enhanced the Group Environmental Committee, which began discussions on matters, such as what the Kobayashi Pharmaceutical Group should strive for in the medium and long term, and the re-examination of environmental issues. The managers of all business units associated with product development are committed to this system, with five working groups, and one task force established under the umbrella of the committee. Within the Sustainability Strategy Promotion Office, the Sustainability Strategy Promotion Group works to improve the PDCA cycle and support the working groups as the secretariat of the Group Environmental Committee.

Additionally, in 2022 the Eco Strategy Promotion Group was established within Manufacturing Headquarters as a way of promoting efforts to reduce the environmental impact of product development.



## Group Environmental Committee

The Group Environmental Committee meets four times a year to discuss proposals and reports from each working group, and reports to the Board of Directors at least once annually. Reports and items for discussion are received from each working group and discussed. In 2022, a broad range of topics were addressed, centering on the primary themes of reductions in CO<sub>2</sub> emissions, and product development eco indicators.

### List of agendas

	Major agenda items
Meeting 1 (January 25)	Resource management (water), CO <sub>2</sub> reductions, chemical substance management
Meeting 2 (April 22)	CO <sub>2</sub> reductions
Meeting 3 (July 25)	CO <sub>2</sub> reductions, external evaluations
Meeting 4 (October 24)	CO <sub>2</sub> reductions, chemical substance management, product development eco indicators



### Message

#### Hiroya Nakamura

Corporate Headquarters  
Head of the Sustainability Strategy  
Promotion Office

#### Pursuing sustainability management and synchronizing the Company's progress toward sustainability with the development of a sustainable society

The Sustainability Strategy Promotion Office was established in January 2023, taking on work previously carried out by the Management Planning Department. Newly expanded into a separate department to facilitate the stronger promotion and execution of sustainability management, the office operates under the direct control of the Senior Executive Director. Prior to the establishment of the new office, we had begun working on promoting ESG measures, starting with "E" for environment and in 2018 established the Group Environmental Committee to promote sustainability management.

To date, the Company has progressed, introducing such activities as calculating Company-wide GHG emissions, setting

long-term CO<sub>2</sub> emissions reduction targets based on acquiring SBTi (Science Based Targets initiative) certification, switching to environmentally friendly materials, launching the Kobayashi Pharmaceutical Product Development Eco Standards environmental symbol system, establishing a biodiversity conservation policy and a Chemical Substances Management Policy, formulating and disclosing qualitative targets for water resource management, and disclosing information to the CDP.

However, we need to step up our sustainability management even further to build the foundation of Kobayashi Pharmaceutical for the future as laid out in the new medium-term management plan (2023–2025). To accelerate efforts based on our renewed material issues identified in 2023, I believe that it is important to plan strategies that ensure that Kobayashi Pharmaceutical is at the forefront of ensuring sustainability and that our progress synchronizes\* with the development of a sustainable society.

We are preparing to establish a Sustainability Committee in 2024 to execute measures based on Group-wide material issues, as well as to strengthen and unify the PDCA cycle. Going forward, we will continue to pursue the synchronicity between the development of a sustainable society and Kobayashi Pharmaceutical's promotion of sustainability management.

\* Reference: ITO Review 3.0 (ITO Review SX Edition), Ministry of Economy, Trade and Industry (METI)

## Responding to climate change (Disclosure based on a TCFD framework)

Kobayashi Pharmaceutical deems responding to climate change to be the most important issue of the ESG themes. Based on the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures), which we endorsed in 2019, we are conducting analyses of scenarios, and are moving ahead with efforts within the following framework.

Kobayashi Pharmaceutical deems responding to climate change to be the most important issue under the ESG themes. Based on the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures), which we endorsed in 2019, we are conducting analyses of climate change scenarios, and are moving ahead with efforts within the following framework.



### Governance

Kobayashi Pharmaceutical has established a Climate Change Response Taskforce within the Group Environmental Committee, which is chaired by the senior executive director. The CO<sub>2</sub> Emission Reduction Working Group, which also operates under the auspices of the Group Environmental Committee, is tasked with setting reduction targets for plastics and GHGs, considering reduction measures, and monitoring progress. Policies and plans pertaining to these activities and the progress made under measures that are undertaken are deliberated and reported on in meetings and instructions received from the Board of Directors are acted on.

### Strategy

In our 2022 scenario analyses, we considered the 1.5°C scenario in which “the global average temperature rise stays under 2°C and we strive to limit the rise to 1.5°C,” as we anticipate the Paris Agreement targets to be met and decarbonization to be realized. We also considered the 4°C scenario in which global climate change countermeasures do not sufficiently progress. For both, we have updated the anticipated climate change risks and opportunities and calculated the financial impact, accordingly. We have arranged the results of these efforts as follows in line with the TCFD Guidance 3.0 announced by METI in 2022.

### Company-wide

Type of risk or opportunity	Overview of risk or opportunity	Financial impact		Response measures		
		1.5°C	4°C			
Risks	Policy/regulation	Taxation on Scope 1 and 2 emissions due to carbon tax introduction	Small	Small	· Introduce renewable energy to relevant factories	
	Policy/regulation	Taxation on Scope 3 emissions due to carbon tax introduction	Large	Medium	· Procure low-carbon raw materials and switch to low-carbon specifications	
	Transition	Market/technology	Increase in price of environmentally friendly resins	—	—	· Evolve and systematically implement Product Development Eco Indicators · Reduce resin use and transition to refillable packaging
	Transition	Market/technology	Increase in price of renewable energy	Small	Small	· Promote energy conservation
	Transition	Market/reputation	Transition to environmentally friendly products made by other companies	Medium	Small	· Work with suppliers to shift to low-carbon materials
Physical	Chronic	Increase in price of naturally derived materials (fragrances, herbal medicines, plant-based raw materials)	Medium	Medium	· Make procurement locations and raw materials more diverse · Consider alternative raw materials	

## Household Division and Healthcare Division

Type of risk or opportunity	Overview of risk or opportunity	Financial impact		Response measures		
		1.5°C	4°C			
Risks	Transition	Policy/regulation	Increased cost of container and packaging recycling	Small	Small	· Evolve and systematically implement Product Development Eco Indicators · Reduce resin use and transition to refillable packaging
	Transition	Market/reputation	Avoidance of high-carbon products	Medium	Medium	· Switch to low-carbon materials · Upsell and shift to low-emission products
	Transition	Acute	Uncertainty around raw material supply due to natural disasters	—	Medium	· Switch to low-carbon materials · Upsell and shift to low-emission products
Physical	Chronic	Decrease in sales due to fewer outings	Small to medium	Large	· Develop products exclusively for e-commerce, and expand internal direct marketing and e-commerce	
	Chronic	Decrease in sales of body warmers due to global warming	Medium	Large	· Add more functions and develop business models	
Opportunities	Products/services	Development of new products to meet the needs from fewer people going out and of the e-commerce market	Medium	Medium	· Provide and strengthen exclusive e-commerce products · Develop antiperspirants, heatstroke prevention products, and infectious disease prevention products	

Going forward, we will continue to update our measures for each risk and opportunity and to create further opportunities.

### Risk management

All risks, including those related to climate change are evaluated by the Risk Management Committee, which is chaired by the company president, in terms of their effect and frequency.

Medium- and long-term risks that require input from management to effect reductions are designated “high-priority Group-wide risks” and are reported to the Board of Directors, while the Committee approves risk reduction plans and manages progress.

### Indices and targets

The Company has set the targets of lowering GHG emissions (with 2018 as the reference point) for the entire Group by 51% for Scopes 1 and 2, and by 15% for Scope 3, by 2030.\*

We have obtained SBTi certification for these targets.

\* Scopes 1, 2, and 3

Scope 1: Direct emissions from a business itself

Scope 2: Indirect emissions associated with the use of electricity, etc., provided by other companies

Scope 3: All indirect emissions other than those of Scope 2

## Reduced GHG emissions

### Systems for promoting reduced GHG emissions

Comprising members of the product development divisions (the Household Products, Healthcare, and International Business Division), Manufacturing Headquarters, Central R&D Laboratory, and Corporate Administration Headquarters, the CO<sub>2</sub> Emissions Reduction Working Group addresses a broad range of themes, from setting long-term targets for GHG reduction to discussions on specific measures to achieve that reduction. It convenes for meetings once monthly, regularly reporting to and taking part in discussions at the Group Environmental Committee, the Group Officers' Meeting, and meetings of the Board of Directors.



A meeting of the Group Environmental Committee

### Acquiring SBTi certification

Kobayashi Pharmaceutical deems responding to climate change to be the most important issue of the ESG themes, and has set the targets of lowering GHG emissions (with 2018 as the reference point) for the entire Group by 51% for Scopes 1 and 2, and by 15% for Scope 3, by 2030.

This goal has been set based on the SBT (Science Based Targets), which is also the level required by the Paris Agreement, which was adopted in 2015. In October 2022, we received certification for the 1.5°C level from the SBTi as part of our GHG emissions reduction targets for 2030.

#### Certified GHG emissions reduction targets

- Reduce Scope 1 and 2 GHG emissions by 51% by 2030 (compared to 2018)
- Reduce Scope 3 GHG emissions by 15% by 2030 (compared to 2018)

SBTi website  
<https://sciencebasedtargets.org/>



### Initiatives to reduce Scope 1 and 2 emissions

Kobayashi Pharmaceutical has facilities in a variety of locations, primarily in Japan, such as factories, offices, and laboratories. Scope 1 and 2 GHG emissions are particularly high from factories in Japan. Accordingly, we will move ahead with efforts to curb the use of electricity in factories, such as updating air conditioners, improving the insulation of heating and cooling equipment, and transitioning to LED lighting, etc., while switching to zero CO<sub>2</sub> emission electric power at major factories in Japan, prompted by anticipated increases in energy use brought on by coming increases in production.

Sendai Kobayashi Pharmaceutical transitioned to zero CO<sub>2</sub> emission electricity in 2020.

In Toyama Kobayashi Pharmaceutical and Kobayashi Pharmaceutical Plax are scheduled to switch over part of their power supplies. Going forward, we will continue to work towards our long-term reduction targets for 2030 by switching to zero CO<sub>2</sub> emission electricity in stages.

### Initiatives to reduce Scope 3 emissions

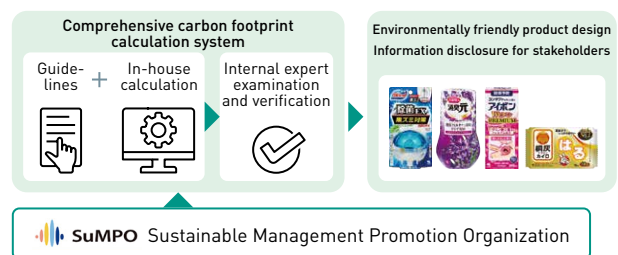
#### Working together with suppliers

We became a member of the CDP Supply Chain program implemented by the CDP (an international environmental not-for-profit charity that runs a global disclosure system) in 2022. We are engaging with our suppliers through this program to reduce GHG emissions.



#### Visualizing GHG emissions

We are creating a visual representation of GHG emissions for each product, starting from raw material procurement to manufacture and disposal. In order to consider measures for reduction, we have established a carbon footprint calculation system and have obtained third-party comprehensive carbon footprint calculation system certification from the Sustainable Management Promotion Organization (SuMPO). We are the third company in Japan to obtain this certification, and the first general consumer goods manufacturer to do so. We will continue to strive to reduce the environmental impact of our product development and contribute to the realization of a sustainable society.



## Development of environmentally friendly products

### Establishment and operation of Kobayashi Pharmaceutical Product Development Eco Standards

We have always emphasized consideration for the environment in our product development and since 2011 have put in place our own system of standards called the Product Development Eco Indicators. We assess the environmental impact of our products at the developmental stage, requiring products to meet these criteria before they are launched. The parameters of this standard were reviewed and operating methods were revised in 2020 in order to allow us to reduce the burden on the environment even more.

In 2021, in order to provide a visual representation of reductions in environmental load during product development, we established the new in-house Kobayashi Pharmaceutical Product Development Eco Standards, which contribute to reducing environmental load. We display the ECO label on products that meet one or more of these standards. As of 2022, about 20%\* of products have received the label.

\* Sales ratio of products with the label compared to net sales of all products.

#### Standard items

Item	Conferring criteria
Procurement of raw materials	(1) At least 50% plant-derived raw material by content (organic ingredients) (2) At least 10% recycled raw material by content
Material procurement and product design	(3) Containers and packaging are at least 10% recycled raw material (4) Containers and packaging are at least 20% plant-derived raw material
	(5) Waste reduced by at least 10% compared to reference products* (6) Waste reduced by at least 10% compared to reference products* (7) Refill and replenishment containers and packaging that can reduce unit weight by volume by at least 50% compared to the actual product body (8) Raw material by weight in content reduced by at least 10% compared to reference products*
	(9) Reduction of CO <sub>2</sub> emissions by at least 10% compared to the reference product* at any stage in the product life cycle (procurement and disposal of content, procurement and disposal of containers and packaging, manufacturing, logistics, or use)
Complete life cycle	

\* Reference products are products sold in 2018, or, for products released in 2019 or later, products at the time of release.

### The ECO label

The ECO label expresses our feelings for the environment in an easy-to-understand manner and is in alignment with the thinking behind our corporate brand slogan, "You make a wish and we make it happen." By displaying the reasons for the criteria on the packages of products that meet the requirements of the Kobayashi Pharmaceutical Product Development Eco Standards, and providing a visual representation of the reduction in environmental load, we allow our customers to choose products in the store based on an environmental perspective as well as on product concept and performance.



## Contributing to a circular society

### First\* eye wash on the market with Eyebon Using bottles made with biomass raw materials

Compared with our other pharmaceutical products, the *Eyebon* bottle uses a particularly large amount of plastic, so we have changed the bottle body to one made from plastic that contains environmentally friendly biomass raw materials. With this change, we expect to see a 19-ton annual reduction in our oil-based plastic use while maintaining the same functionality and quality as the conventional packaging.



\* First eye wash in the OTC pharmaceutical product market (as of December 2022, Kobayashi Pharmaceutical survey)

### First Shoshugen SAVON in the Shoshugen Brand Reduced plastic use by approximately 76% with the introduction of refillable products

We launched *Shoshugen SAVON* air freshener in April 2023, and it is the first refillable large-capacity liquid product in the *Shoshugen* brand line. Previously, the main body of the product was designed to be disposed of after use, but by making the main body of *Shoshugen SAVON* refillable, we were able to reduce the amount of plastic used for packaging by 76%.\* There were many challenges in developing a refillable product, including the unique structure of *Shoshugen* products and the fact that the concept of refillable products was slow to catch on in this category, leading to a total development period of 12 years.

\* Compared to the amount of plastic used to replace the main body of the product

### Setting qualitative targets for reducing water usage

In the Kobayashi Pharmaceutical Group, we view water resource issues, which are forecast to become much more severe, as an important environmental problem, and we are working to reduce water use and water quality conservation at all of our production plants in Japan.

In 2022, we set new qualitative targets for reducing water use, and going forward we intend to promote further activities.

#### Qualitative targets for reducing water usage

We continuously monitor our water intake as well as the amount and quality of wastewater we produce, and are striving to reduce annual usage where possible while maintaining the stable production of high-quality products. We will continue to identify water risks related to our business and strive to reduce such risks.

## Reduction of waste

### Reduce packing material waste by 50% with new packing method

For the first time at Kobayashi Pharmaceutical, we have started using shrink film and air cushions as packing materials for delivery to physical stores. Previously, we used a combination of cardboard cushioning for our products, which come in a wide variety of sizes and shapes, but this new method enables us to use fewer materials to pack products. We have been able to reduce the total amount of packing materials—including for all of the products introduced here—by 50% by weight compared to their conventional counterparts.



### Taking on the challenge of “horizontal recycling” with refill packs through collaboration that goes beyond the boundaries of competition

Since October 2021, Kobayashi Pharmaceutical has participated in the Kobe Plastic Next project, along with 18 household goods manufacturers and recycling companies in Kobe city, all working in cooperation to collect used refill packs for household products such as detergent and shampoo from retail shops in a project intended to promote the horizontal recycling of gathered packs into new packs. In 2021, approximately 1.13 tons of refill packs were collected.



## Management of chemical substances

### Clarifying the Chemical Substances Management Policy

The Kobayashi Pharmaceutical Group positions the appropriate management of chemical substances as an important material

issue in its business activities. For some time now, we have been engaged in the management of chemical substances such as those listed in the Pollutant Release and Transfer Register (PRTR). We are strengthening our management of chemical substances, prompted by a desire to develop products that have little impact on the environment, and which people can use with greater safety.

We clarified our Chemical Substances Management Policy in 2022. By promoting activities in line with this policy, we aim to provide products with low environmental impact and that our customers can use with peace of mind.

#### Chemical Substances Management Policy

The Kobayashi Pharmaceutical Group has created and operates an appropriate governance system for chemical substance management throughout the product life cycle, from the selection and procurement of raw materials through the manufacture, distribution, use, and disposal of products, with the aim of providing products that customers can use safely. In addition to complying with various laws and regulations, we are promoting the proper use of chemical substances and conduct our own independent assessment of product and raw material risks in accordance with overseas regulatory trends, domestic and overseas industry standards, and other guidelines. We strive to present product safety and proper use information in a way that is easily accessible as part of our risk communication with our customers and other stakeholders.

## External evaluation

CDP is an international environmental non-profit organization that operates a global environmental information disclosure system and requests the disclosure of environmental information on enterprises. In 2019, Kobayashi Pharmaceutical began responding to questions on climate change and water security and, in 2021, began responding to questions related to forestry.

In 2022, our score on climate change improved from “B-” (2021) to “B.” We received a rating of “B” for water security, and our score for forests was “C” for wood and “C” for palm.

Going forward, we will proactively disclose environmental information and provide visual representation of our shortfalls based on the CDP score report, while operating a PDCA cycle aimed at achieving improvement.

	Climate change	Water security	Forest
2019	C	B	(Not answered)
2020	C	B	(Not answered)
2021	B-	B	Simple answers
2022	B	B	Wood: C Palm: C

# Social



## Relationship with employees

### Basic approach towards employees

The most important factor empowering our business model of pursuing niches is our ability to listen to the many voices of society and consumers and thereby find the things they wish they could have and give shape to them. This ability comes from our people, so it is critical that our employees hold diverse values and ways of thinking, and that we, in turn, make the most of them. To us, diversity means not only attributes such as gender and nationality, it extends to values, ways of thinking, and the ideas that emerge from such diversity.

Kobayashi Pharmaceutical is an idea-focused organization that has grown through the ideas generated by this diverse workforce. When it comes to ideas, gender, age, role, and experience are irrelevant. We want to continue to encourage our employees to make the most of their own perspectives and inspirations, demonstrate their abilities to the fullest, create diverse concepts, and take on challenges. With this in mind, in November 2022, the Company clarified its attitude and commitment to an environment of actively investing in human resources in the form of a promise to our employees.

#### Kobayashi Pharmaceutical Group's promise to employees

The diverse values of our employees are very important to the Kobayashi Pharmaceutical Group, and, by providing a variety of challenging fields where they can demonstrate their individuality, we will create an environment that supports each individual's growth by investing in human resources. We believe that this environment is what will nurture our employees' initiative while enhancing their customer-focused perspective and ability to generate ideas, which, in turn, allows us to give shape to what customers wish for. As a result, we believe that each and every employee will feel fulfilled and achieve personal growth by making our customers happy.

### Implementation of employee awareness surveys

Since 2019, we have been conducting surveys of employee awareness as a form of regular "checkups" on the health of the Company, with an eye to maintaining and improving the relationship between the Company and employees through fixed-point observation. By rendering the intangible attitudes of employees visible, we are aiming to increase job satisfaction, improve overall productivity, and achieve Company-wide sustainable growth. We plan to start using multiple indicators under the medium-term management plan that began in 2023, and will monitor changes in these indicators using the 2022 survey results as the initial figures. We are currently implementing a Company-wide plan to put the theme of the medium-term management plan, "I make a wish and I make it happen," into practice.

#### Medium-term management plan KPIs

Corresponding strategies and measurement items	Measurement item indicators	Question	Group-wide (domestic)		
			2022	Target	
Employee experience value	Embodying each element of experience value	Taking on challenges beyond boundaries	Are you able to take on new challenges (go beyond boundaries) without being held back by prior work?	47.4%	60% or more
Theme: "I make a wish and I make it happen"	Understanding of the theme	Motivation to put the theme into practice	Do you want make wishes happen?	84.2%	80% or more
	Practical embodiment of the theme	Putting the theme into practice	Are you putting "I make a wish and I make it happen" into practice?	53.2%	60% or more

In recent years, there are other important indicators that have remained at low levels or are trending downward. We believe that one of the reasons for this is the discrepancy between the Company's purpose and promises to our employees and our current work methods and corporate culture. We recognize this discrepancy as an extremely important sign, so we will strive to thoroughly understand and counter the issue.



## Diversity management history and implementation

We believe that our business model of listening to the concerns of various consumers respects the diversity of both society and individuals and, if we are to realize this model, it will be essential to have diverse human resources that can generate ideas from a variety of perspectives. A company is its people, and the diversity of human resources is the source of the Company's strengths. Looking back at the Company's history since choosing this business model, we think that the way to move forward with the times is diversity management.

### 1982 ● Idea proposal system

A system that allows anyone to offer proposals for ideas. We now receive more than 50,000 ideas each year.

### 1990 ● Premium Dinner

Employees who propose the best ideas in terms of quality and quantity are invited to dine with top management and directly praised to show our appreciation.

### 1995 ● Policy on forms of address

A system under which the use of job titles is forbidden, based on the idea that everyone is equal at work.

### 1996 ● e-Appreciation program between president and employees

A system for offering praise for good initiatives. The president sends e-mails directly to employees.

### 1996 ● Employee self-submission program

A system in which employees submit their outstanding initiatives and examples of improvement for consideration and are awarded internally.

#### Front-line visits by top management

Top management visits the front lines and discusses management policy while also listening to employees' candid opinions, then reflects this feedback to management.

### 2008 ● Technology sharing event

An initiative in which overseas and domestic factories and technology development departments mutually share technologies and particularly excellent improvements are rewarded with the goal of horizontally deploying technology within the Manufacturing Headquarters and building a culture of collaborative learning.

### 2014 ● Company-wide idea contest

An event held annually in which every employee generates ideas for new products. The winning ideas are presented to the president and other executives and then considered for commercialization.

### 2017 ● Research presentations

An initiative in which R&D staff present outstanding results and learn from one another, with the best achievements receiving awards.

To quantify and visualize the real implementation of diversity management, we have been conducting Diversity Index surveys continuously since 2018, and we were ranked highly among the participating companies. Also, we analyzed the survey results for 2023 and found that there was a relationship between psychological safety and the creation of new value. Accordingly, starting in 2022, our executives will become certified in psychological safety facilitator qualifications, and we will start dialogue training for managers. Going forward, we will continue to encourage the understanding and raise awareness of diversity for every employee in order to realize our business model.



An index that provides a visual representation of the actual state of an organization, offering indicators that can be used by investors to evaluate a company by quantifying aspects of the organization's actual status that cannot be assessed solely on the basis of such publicly released data points as the number and proportion of women in the workforce. This index also clarifies the progress the Company is making on its initiatives.

## Efforts to produce human resources who practice "You make a wish and we make it happen"

### Diverse work-styles

We are working to create a comfortable working environment so that our diverse employees can maximize their abilities without feeling restricted at any time. Recently, we introduced a flex system that does not constrain work in terms of place or time, and have since expanded and encouraged the use of systems to help balance childcare and family care to support work-life balance. These efforts are essential to advancing our acquisition of human resources with digital strengths, which we are focusing on, and promoting the active participation of women. In addition, we have recently been striving to create an environment that encourages male employees to actively make use of childcare leave, and the number of male employees using such leave is increasing every year.

### Rate of male employees taking childcare leave (non-consolidated)

	2020	2021	2022
	67.5%	88.1%	89.4%

### Flex system

Apr. 2019	Introduced flex system for childcare and family care
Jan. 2020	Updated flex system (expanded eligibility to all employees in principle; abolished core time)

### Work-from-home system

Jan. 2020	Introduced a work-from-home system for those engaged in childcare and family care and a work-from-home system that can be used during childcare leave
Mar. 2020	Inaugurated work-from-home systems for use during the COVID-19 pandemic. These were expanded for all personnel, and the number of days worked from home altered flexibly to accommodate COVID-19 infection status
Nov. 2022	Formally added a work-from-home option for up to two days per week

**Career development support**

We started focusing more on career development support in 2022. At Kobayashi Pharmaceutical, we consider a career to be a way of life that includes both business and personal life. Therefore, we believe that it would be ideal for our employees to experience diversity in their careers and to pursue self-directed growth toward becoming the person they want to be. We believe that a company needs to create an environment that encourages each individual's aspirations and supports such independent growth. We call this an environment for self-growth and will continue to promote career development support. The environment for self-growth contains four opportunities for each person to think about and act on in their career, and they engage in one-on-one growth dialogues with their superiors, who are their staunchest supporters.



"Determine who I want to be"  
Career development support slogan

**Four opportunities**

**•Opportunity to think**

Everything starts with one person having an idea. Giving every employee the opportunity to think, our training includes workshops for contemplating one's career and learning about the kinds of jobs that are available at Kobayashi Pharmaceutical.

Career development workshop	Workshop for career consideration through reflecting on one's own experiences, and understanding one's value and strengths (scheduled to start October 2023)
Job introductions	Disclose the Company's various departments, their missions, skills, and requirements, etc.

**•Opportunity to consult**

In February 2023, we established the career support service, in which employees who are having trouble planning their career on their own are free to sit down with internal and external career consultants. In its first six months of operation, 75 employees have used the service.

**•Opportunity to experience**

We provide opportunities for employees to try their hand at work and activities outside of their current role and thereby accumulate practical experience that may be foundational to their careers, with a view to improving their medium- to long-term prospects.

Internal FA system	This system allows employees to directly submit their self-request forms to the department they wish to transfer to. It also handles personnel changes.
Internal side jobs	This system allows employees to work in another department without officially transferring.
External side jobs	This system expands the range of careers available and supports the self-directed growth of employees by allowing them to acquire knowledge and skills that extend beyond what is possible internally.
Pro-bono league	This is a social issue resolution program in which employees form a team with people from other companies and work to solve problems with existing NPOs.

**Career development support concept**

[ Environment for self-growth = 4 opportunities + growth dialogues ]

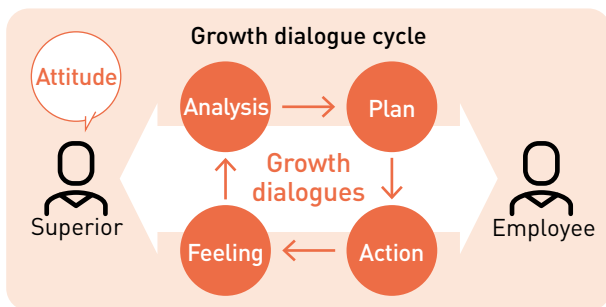


### •Opportunity to learn

Via what we call off-the-job training, we are enhancing opportunities to acquire knowledge and skills that cannot be gained through on-the-job training alone. In addition to the level-based training necessary in each career stage, the Company supports individuals' skills improvement by offering unlimited GLOBIS learning and self-development support systems to encourage self-directed learning for each individual's career autonomy.

#### Growth dialogues

Our most recent way of helping employees to grow toward their vision includes the growth dialogue system, in which one's closest superiors provide support. Growth dialogues are held at least once per quarter separately from regular work, and focus only on matters related to the growth and career of the employee. The goal of such sessions is to encourage growth by having superiors point out growth that the employee may not have realized they had made and to continue the beneficial cycle that leads to further growth. Good examples of employee growth achieved through growth dialogues are shared amongst managers at growth presentation meetings. By analyzing these good examples, we have created a growth dialogue cycle. The growth dialogue cycle is a model in which a superior analyzes their employee and the employee also analyzes themselves, and a PDCA cycle suited to the individual is carried out through growth dialogues, so that individual growth can be achieved.



Growth presentation meeting

## Continuing our philosophy of “You make a wish and we make it happen”

### Developing global human resources

We will also pursue niche strategies internationally, based on our purpose. Not only must we sell niche products created in Japan in other countries, we must create ideas that meet local needs and quickly commercialize them for that market. In the development of ideas, there are many local needs that are apparent only to those who are actually there. Accordingly, Japanese employees posted overseas work with local employees to discover such niche ideas and then apply Kobayashi-style idea development cultivated in Japan to give shape to it. Recently, some of our local subsidiaries have also introduced idea proposal systems, held idea competitions, and have even begun to show ideas to the president. Through such activities, our expertise will gradually be shared with local employees and accelerate the local development of unique products.

### Successor training

To uphold the “You make a wish and we make it happen” concept into the future, we need management-level human resources who embody our philosophy to lead the Company. Therefore, we are working to create a system that continuously produces the next generation of management-level human resources through selective training and tough assignments that facilitate systematic development starting at the section chief level.

We are also focusing on promoting diversity in decision making to enhance diversity management. The Board of Directors, the majority of whose members are outside directors, has invited outside human resources to participate in the Management Executive Committee (comprising mainly executive officers) to bring in new ideas. Additionally, we have set a long-term numerical target for 2025 (by January 31, 2026) of a 16% or higher ratio of women in management roles, and will actively work on setting issues and examining measures to increase the number of candidates for management positions.

Health management initiatives

### Health management initiatives

Based on the 2022 Health Management<sup>®\*</sup> Declaration, we view employee health to be an important management resource, and are conducting various initiatives to enable employees to proactively maintain and improve their health. By verifying and improving the results through the PDCA cycle, we will develop more effective health measures and support the health of our employees.

**Kobayashi Pharmaceutical Group  
Health Management Declaration**

The Kobayashi Pharmaceutical Group has adopted “You make a wish and we make it happen” as its corporate brand slogan. Products and services aligned with the “You make a wish and we make it happen” concept are born from individual employees’ ideas. We regard the health of each and every employee as an important management resource and will strive to improve our health management.

\* “Health Management” is a registered trademark of the NPO Kenko Keiei Kenkyukai.

### Certified as a Health & Productivity Management Outstanding Organization 2023

Kobayashi Pharmaceutical Co., Ltd. and consolidated subsidiary Ehime Kobayashi Pharmaceutical Co., Ltd. were certified as the Health & Productivity Management Outstanding Organizations 2023 in recognition of their efforts to strategically promote employee health from a management perspective.



### Enhancing health management measures

By enhancing various health management measures, the Company is working to improve the well-being of its employees to enable them to fully demonstrate their abilities.

#### Conducting health checkups that go beyond legal requirements

To swiftly detect and prevent diseases that are not easy to detect through regular health exams, we provide complete medical exams and brain exams at the Company’s expense. If follow-up is required, the cost will be covered by the Company, and we proactively encourage employees to complete follow-up exams.

#### Promoting health guidance interviews and improvement of health literacy

In-house public health nurses and other medical staff provide health guidance to employees whose exams turn up findings and who need to improve their lifestyle habits. In addition, public health nurses offer information on quitting smoking, diet, exercise, and more, and promote the improvement of employees’ health awareness and health literacy.

(Kobayashi Pharmaceutical, non-consolidated)

	2020	2021	2022
Regular health exams (including complete medical exams)	100%	100%	100%
Follow-up exam rate	81.5%	82.7%	90.8%
Health guidance interview rate	96.5%	96.0%	96.3%

#### Introducing a health app that tracks meals and counts steps

In 2022, we introduced a health app to support diet and exercise choices that help prevent lifestyle-related diseases. The app can also be used for meal tracking and awards points for walking more than 6,000 steps a day, as well as running and walking events within the Company.

#### Mental health support

We operate an internal consultation service called the Health Center for Mind and Body and have developed an external consultation service (employee assistance program) to assist in dealing with stress and help prevent mental health problems; provide interview-based guidance for those who work long hours; and offer support and treatment for those returning to work after a break as well as those and balancing treatment and work.

We will continue to promote health management from multiple perspectives so that our employees can continue to be healthy both physically and mentally.

## Relationship with customers/society

### CSV activities

We established the Company's purpose in February 2023, and the entire Company is working together to contribute to solving social issues while striving to achieve corporate growth. To put our purpose into practice, we focus on CSV activities that leverage our corporate strengths to resolve social issues and improve sustainable corporate value.

Through the various brands in the Healthcare Division and Household Division, we are aiming to address the needs of customers as well as supply chains and also to resolve the social issues behind such needs. In line with these efforts, we hold "Social Value Visualization" workshops for product brands to provide visual representations of the social values that brands can create and the social issues they may solve. Goal 17 of the SDGs is "partnerships for the goals," and Kobayashi Pharmaceutical is working with a variety of organizations in both the private and public sectors, NPOs, and educational institutions to address social issues that we cannot solve on our own.

#### "Lifestyle Improvement Program (Blood Sugar Control)" in collaboration with Orion Breweries, Ltd. in Okinawa Prefecture

Since 2016, Kobayashi Pharmaceutical has been selling *Salacia 100*, a food for specified health use, and making efforts to spread awareness of blood sugar management strategies. According to the Ministry of Health, Labor and Welfare National Health and Nutrition Survey in 2019, in Japan diabetes affects 19.7% of men and 10.8% of women, and Okinawa has the highest mortality rate for women and the second highest for men, making it a serious social issue. Therefore, we partnered with Orion Breweries, Ltd., which has its headquarters in Okinawa and is focusing on health management, and we launched the Lifestyle Improvement Program (Blood Sugar Control) in February 2023 to promote the health of Okinawa residents.



Press conference for the launch of the Lifestyle Improvement Program (Blood Sugar Control)

During this project, Orion Breweries employees with blood sugar concerns took Kobayashi Pharmaceutical's blood sugar control supplement, *Salacia 100*, for six months while also making efforts to improve their lifestyle habits, such as taking up moderate exercise and setting alcohol-free days, serving as an experiment demonstrating how participants' health can be affected by the supplement alongside health awareness and behavioral changes. The participating employees of Orion Breweries, which promotes a culture of responsible alcohol consumption, are working to improve their lifestyle habits as well as their health. By actively sharing the program's processes and results on our website and in press releases, we will contribute to the understanding of lifestyle-related diseases such as diabetes among the people of Okinawa Prefecture and raise awareness about improving lifestyle habits.

#### CSV for cognitive function assessment and health promotion program using *Nintest*

In 2021, Kobayashi Pharmaceutical developed the *Nintest* kit, which uses scents to assess cognitive function. The level of cognitive function can be determined in any setting simply by having the patient smell six different scents, making screening extremely straightforward and rapid.



The *Nintest* fragrance-based cognitive function screening kit

Dementia has recently become a major social issue in Japan. Estimates put the number of dementia sufferers among those aged 65 or older at around 6 million (as of 2020), and given the country's rapid demographic aging, efforts to address this issue are becoming increasingly important. Since detecting cognitive deterioration at an early stage enables the swift application of countermeasures, we have started efforts to promote cognitive function assessment and health in collaboration with local governments using *Nintest*.

## Respect for human rights

One of Kobayashi Pharmaceutical's management principles is "providing something new that will delight people and society." We recognize that respect for human rights in line with our management principles is a precondition for our business activities, and that it must be treated as a corporate responsibility. In August 2019, Kobayashi Pharmaceutical announced that we would participate in the United Nations Global Compact (UNGC), and support its 10 principles, including human rights.



### Human rights policy

Until now, we have stipulated respect human rights and non-participation in violations of human rights in the Kobayashi Pharmaceutical Global Compliance Policy. In February 2023, with the approval of the Board of Directors, we formulated a new human rights policy aligned with the global standard of the UN Guiding Principles on Business and Human Rights. This policy lays out the Company's support and respect for international standards of human rights such as the International Bill of Human Rights and prohibits all forms of discrimination, forced labor, human trafficking, child labor, etc., while stipulating the performance of human rights due diligence, promotion of education and awareness on respect for human rights, and execution of such matters as engaging in dialogue about human rights with stakeholders. Based on this policy, the entire Kobayashi Pharmaceutical Group will conduct initiatives with the goal of respecting human rights, fulfilling its social responsibilities, and contributing to the realization of a sustainable society.

### Human rights policy formulation process

In the formulation of this policy, the Sustainability Strategy Promotion Office played a central role in holding dialogues with the relevant departments and the labor union. In addition to deepening their understanding of the wide range of human rights issues in the international community, they exchanged views on (1) opinions on the draft of the new human rights policy and (2) recognition of the current state of human rights initiatives within the Kobayashi Pharmaceutical Group. The formulation of the policy was also informed by advice from external experts, such as human rights lawyers and NGOs.

## Education and awareness about human rights

Prior to formulating our human rights policy, we established the Guiding Principles on Business and Human Rights, as described below, as a foundation upon which to promote activities in line with the UN Guiding Principles on Business and Human Rights. We held study and information sessions to deepen our understanding of the significance and responsibility of respecting human rights that are expected of corporations.

1. May 16, 2022:  
Corporate Headquarters study session  
(approx. 60 participants)  
Theme: Business and human rights
2. July 2, 2022:  
Executive training  
(9 participants)  
Theme: Business and human rights
3. September 21 and 27, 2022:  
"Sustainability MeetUp!" (121 participants)  
Theme: Rethinking human rights
4. October 20th and 28th, 2022:  
"Sustainability MeetUp!"  
Themes: Learn by watching fun role-play sessions;  
understanding CSR procurement



In the role-play sessions, the roles of producer, local processor, first-tier supplier, president of Kobayashi Pharmaceutical, NGO, institutional investor, health YouTuber, and retailer are cast for a scene in which a human rights incident has been identified, with people from the Manufacturing Headquarters and Sales Headquarters taking part as actors and observers as a learning experience.



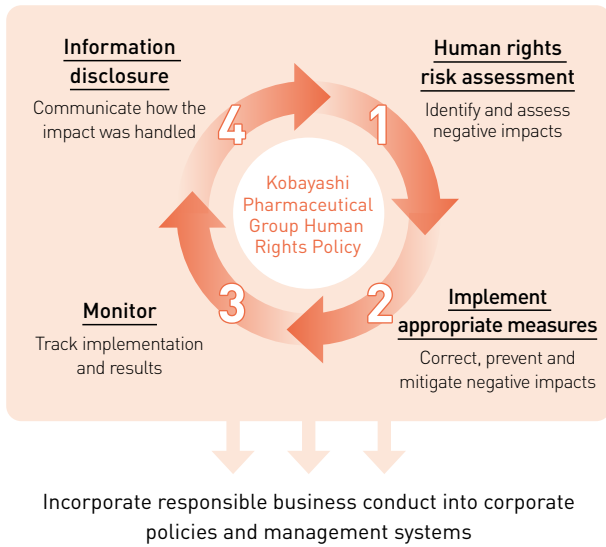
Online study session

5. Raising additional awareness through an e-mail newsletter for all employees (topics include the Olympics and human rights, fair trade, modern slavery, and business and human rights)

Note: The above participant numbers do not include archive views.

### Human rights due diligence

Based on our human rights policy, we will implement a series of initiatives to identify, prevent, and mitigate adverse human rights impacts related to our business, evaluate the effectiveness of such initiatives, and disclose information on how we have handled them.



#### Continuously implement human rights training and awareness-raising activities

Before conducting full-scale human rights due diligence, we informed stakeholders (employees, people in the supply chain, consumers, local residents, etc.) who may be negatively impacted by our enforcement of the new human rights policy, and we refined human rights issues that we believe to be related. This roster of issues was drawn up based on information compiled by the relevant government authorities, dialogue with relevant internal departments, and the opinions of external experts, and each issue was also discussed by the Board of Directors.

Stakeholders	Human rights issues viewed as important (fields that have not been fully addressed)
Kobayashi Pharmaceutical Group employees and workers	Reduce excessive or unfair working hours
	Ensure occupational safety and health
	Prevent discrimination and harassment
	Appropriate treatment of foreign technical trainees
People in the supply chain	Supply chain human rights
Consumers	Consumer safety and right to access information
Local residents	Rights of local residents
Other people	Discriminatory expressions in advertisements, commercials, etc.

### Responsible procurement

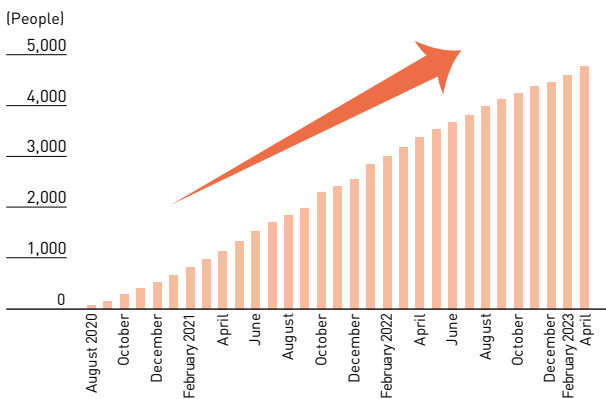
Considering the impact of our business activities on the environment and society as a whole, we view procurement as a top priority to fulfill our corporate social responsibility (CSR) throughout the supply chain when procuring raw materials. Previously, we conducted sustainability evaluations focused on human rights and labor in our supply chain through internal surveys and found no major issues. Starting in 2023 we will conduct more detailed evaluations and have engaged EcoVadis, a global sustainability evaluation organization, to evaluate our supply chain sustainability based on the latest international standards. Also, we intend to incorporate CSR procurement into the basic training for purchasing department employees to encourage a deeper understanding of it within the Company. By promoting CSR procurement through the strengthening of the management system, employee education, and external sustainability evaluations, we will fulfill our corporate social responsibility throughout the supply chain based on international standards, and we also aim to practice the ten principles of the UN Global Compact and realize a sustainable society.

## Improving in-house awareness of ESG and social issues



Kobayashi Pharmaceutical has held “Sustainability MeetUp!” workshops aimed at raising employee awareness and encouraging behaviors related to sustainability since 2020. We have held more than thirty workshops to date, with a total of 5,000 participants. The workshops are held online, so employees working all over Japan and even overseas can participate. A wide range of job categories is covered, and everyone from executives to part-time employees work together in teams to hold discussions.

### Cumulative participants



### Themes covered

August 2020	Supply chain
September 2020	Global warming
October 2020	Diversity and active participation of women
November 2020	Internal examples
December 2020	Global water problems
January 2021	Local government example (Shimokawa-cho, Hokkaido)
February 2021	Circular society
March 2021	Myanmar and peace
April 2021	Diversity at overseas bases
May 2021	Renewable energy
June 2021	unconscious bias
July 2021	Contribution to society
August 2021	Diversity and employment of people with disabilities
September 2021	Disaster prevention
October 2021	Internal examples

November 2021	Circular economy
December 2021	Governance
January 2022	Digital transformation
February 2022	World Food Programme (WFP)
March 2022	Unconscious bias
April 2022	Environmentally friendly plant activities
May 2022	ESG investment
June 2022	Generation Z climate change initiatives (Fridays For Future)
July 2022	Current trash situation (trash school)
August 2022	Corporate collaboration (Kirin Group)
September 2022	Thinking about human rights
October 2022	CSR procurement
November 2022	Internal examples
December 2022	Governance
February 2023	Psychological safety
April 2023	Marine pollution

The workshops have covered various themes. The June 2022 workshop reflected the Company’s participation in Fridays For Future, a worldwide movement of young people calling for action against climate change founded by those who sympathize with the Swedish environmental activist Greta Thunberg, and three of our employees spoke at the event.



Online workshop

In the August 2022 workshop, we collaborated with the Kirin Group and employees from both companies participated, introduced their own sustainability initiatives, and held discussions.



Poster for the collaborative project with the Kirin Group

Workshops with the same format as “Sustainability MeetUp!” are held in various departments and have had positive impacts on product development, generating ideas for new products.



## Social contribution activities

### The Kobayashi Foundation

The Foundation's purpose is to provide support for children with disabilities or illnesses, as well as their families—in short, to identify their wishes and address them. By soliciting applications from a wide range of people and organizations working in this field, and supporting their activities, the Foundation aims to help bring greater delight to society as a whole.



Presentation ceremony and exchange session

### Supporting those involved with schools

Since 2010, Kobayashi Pharmaceutical has worked to transform toilets in elementary schools into more comfortable spaces with its "Western Toilets for Elementary Schools!" initiative, bringing smiles to children's faces and improving their health. In 2022, we donated to ten new schools for a total of 138 schools. In 2021, the presentation ceremony was held online, but in 2022, it was the first time in three years that it was held in person, and we were able to see the joy of the children. At the presentation ceremony, a special class was held on how to use the toilet, what makes it dirty, and how to clean it.



Presentation ceremony for Western Toilets for Elementary Schools!

### Bluebird Children's Support Project

Since 2016, we have worked with Foodbank Yamanashi to offer food support to single-parent families under the auspices of the Bluebird Children's Support Project. In addition to donations to support operating expenses, we provide Kobayashi Pharmaceutical products such as *Netsusama Sheets*, body warmers, and masks. Additionally, at the end of 2022, the warehouse we provided funding for in the previous year opened, and we enhanced our system to support single-parent families.



Food Bank Yamanashi

### Started pro-bono activities

The Company's purpose is "Supporting people's potential by solving problems that are often overlooked." To this end, we began pro-bono activities in 2022 in which each and every employee in the sustainability and human resources departments collaborate, utilizing their skills and experience to support NPOs and local organizations that address social issues. Also motivating our engagement in these activities were opinions expressed by employees who wanted to directly contribute to society themselves. In 2022, we participated in the pro-bono activity program, Pro-Bono League (sponsored by the NPO Service Grant), working with a team of four people from various companies and industries to provide proposals and deliverables that will lead to problem solving for the organizations we work to support.



At the office of Smile Kids, an NPO that we support

### Registered for the Kansai University SDGs Partner Program



As indicated by Goal 17 of the SDGs, "partnerships for the goals," one company can only do so much. To be effective, we must collaborate with various stakeholders and take initiatives that leverage all of our strengths. At Kobayashi Pharmaceutical, through our "Sustainability MeetUp!" internal sustainability program we held discussions with groups of students, and our employees were greatly inspired by the students' fresh perspectives. This experience demonstrates how collaborating with educational institutions not only provides opportunities for students, it also provides opportunities for companies to reconsider their SDGs initiatives from the perspective of Generation Z, so we decided to register for the Kansai University SDGs Partner Program. As a participant, we will consider such collaborative efforts as holding SDGs-themed workshops for our employees and students, solving social issues through our products with student participation, sharing information with students, and supporting human resource development.



## Directors

<b>1</b>	<b>Kazumasa Kobayashi</b> Representative Director, Chairman of the Board and Chief Executive Officer
Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	224,600
Existence of special interests	None

Mar. 1962 Joined the Company  
Nov. 1966 Director  
Nov. 1970 Executive Director  
Dec. 1976 Representative Director and President  
Jun. 2004 Representative Director, Chairman of the Board and Chief Executive Officer (current)

<b>2</b>	<b>Akihiro Kobayashi</b> Representative Director, President and Chief Operating Officer
Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	9,264,704
Existence of special interests	None

Mar. 1998 Joined the Company  
Jun. 2001 Executive Officer and Manufacturing Company President  
Jun. 2004 Director, International Sales Company President and Marketing Office Manager  
Jun. 2007 Executive Director  
Mar. 2009 Senior Executive Director and Senior General Manager of Product Business Division  
Jun. 2013 Representative Director, President and Chief Operating Officer (current)

<b>3</b>	<b>Satoshi Yamane</b> Senior Executive Director
Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	8,043
Existence of special interests	None

Mar. 1983 Joined the Company  
Mar. 2004 Executive Officer, Board of Directors Office Manager and Growth Strategy Office Manager  
Jun. 2006 Director and Senior General Manager of Corporate Headquarters (current)  
Jun. 2011 Executive Director  
Jun. 2016 Senior Executive Director (current)

<b>4</b>	<b>Kunio Ito</b> Outside Director
Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

Apr. 1992 Professor, Faculty of Commerce and Management, Hitotsubashi University  
Apr. 2000 Professor, Graduate School of Commerce and Management, Hitotsubashi University  
Aug. 2002 Dean, Graduate School of Commerce and Management, Hitotsubashi University  
Dec. 2004 Vice President, Hitotsubashi University  
Jun. 2013 Outside Director of the Company (current)  
Jan. 2015 Director, Center for CFO Education and Research, Hitotsubashi University (current)  
Apr. 2015 Adjunct Professor, Graduate School of Commerce and Management, Hitotsubashi University  
Apr. 2018 Adjunct Professor, School of Business Administration, Hitotsubashi University  
Apr. 2020 Professor Emeritus, Department of Business Administration, Graduate School of Business Administration, Hitotsubashi University (current)

<b>5</b>	<b>Kaori Sasaki</b> Outside Director
Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

Jul. 1987 Representative Director and President, UNICUL International, Inc. (current)  
Mar. 2000 President & CEO, ewoman, Inc. (current)  
Jun. 2016 Outside Director of the Company (current)

<b>6</b>	<b>Chiaki Ariizumi</b> Outside Director
Attendance at Board meetings	100% (13 out of 13 times)
Number of shares held in this company	—
Existence of special interests	None

Apr. 1987 Joined Bank of Japan  
May 1998 Deputy Assistant to Director, International Department (Head of Europe and North America Group, Global Economic Research Division)  
Jul. 2009 Director, Secretariat of the Policy Board (Head of Business Federation Liaison Group)  
Jun. 2019 Director, Information System Services Department  
Jan. 2020 Personnel and Corporate Affairs Department  
Mar. 2020 Outside Audit and Supervisory Board Member of the Company  
Mar. 2022 Outside Director of the Company (current)

<b>7</b>	<b>Yoshiro Katae</b> Outside Director
Attendance at Board meetings	100% (10 out of 10 times)
Number of shares held in this company	—
Existence of special interests	None

Apr. 1981 Joined Komatsu Ltd.  
Jan. 2003 General Manager of the General Administration Division, Osaka Plant, Production Headquarters, Komatsu Ltd.  
Apr. 2013 Executive officer, General Manager of the General Administration Division, Responsible for Crisis Management, Komatsu Ltd.  
Jul. 2013 Manager, Secretarial Office, Responsible for Crisis Management, Komatsu Ltd.  
Oct. 2015 Manager, Secretarial Office and General Manager, Komatsu Economic Strategy Research Center, Komatsu Ltd.  
Apr. 2017 Manager, Secretarial Office, Responsible for Compliance and Crisis Management, Komatsu Ltd.  
Apr. 2018 Senior Executive Officer, Komatsu Ltd.  
Jul. 2019 Consultant, Komatsu Ltd. (current)  
Mar. 2022 Outside Director of the Company (current)

## Audit and Supervisory Board members

### 8 Akitoshi Yamawaki

Full-time Audit and Supervisory Board Member

Attendance at Board meetings	100% (13 out of 13 times)
Attendance at auditors' meetings	100% (14 out of 14 times)
Number of shares held in this company	2,093
Existence of special interests	None

Jul. 2003 Joined the Company  
 Mar. 2008 General Manager of Production Engineering Department, Technology Research and Development, Manufacturing Company  
 Mar. 2009 President and Representative Director of Manufacturing Headquarters, Toyama Kobayashi Pharmaceutical Co., Ltd.  
 Mar. 2011 General Manager of Quality Assurance Department, Manufacturing Headquarters of the Company  
 Mar. 2014 General Manager of Procurement Department, Manufacturing Headquarters  
 Mar. 2016 General Manager of Household Products Technology Development Department, Manufacturing Headquarters  
 Mar. 2019 Audit and Supervisory Board Member (current)

### 9 Takashi Kawanishi

Full-time Audit and Supervisory Board Member

Attendance at Board meetings	100% (13 out of 13 times)
Attendance at auditors' meetings	100% (14 out of 14 times)
Number of shares held in this company	522
Existence of special interests	None

Apr. 1990 Joined the Company  
 Mar. 2014 General Manager of R&D Planning and Administration Department, Central R&D Laboratory  
 Jan. 2020 General Manager of the General Affairs Department, Corporate Headquarters  
 Mar. 2021 Audit and Supervisory Board Member (current)

### 10 Yoko Hatta

Outside Audit and Supervisory Board Member

Attendance at Board meetings	100% (13 out of 13 times)
Attendance at auditors' meetings	100% (14 out of 14 times)
Number of shares held in this company	—
Existence of special interests	None

Aug. 1988 Joined Peat Marwick Main & Co. (now KPMG LLP New York)  
 Aug. 1997 Partner, Peat Marwick Main & Co. (now KPMG LLP New York)  
 Sep. 2002 Partner, KPMG Peat Marwick LLP (now KPMG LLP)  
 Jun. 2015 Outside Audit and Supervisory Board Member of the Company (current)  
 Jun. 2023 Auditor, International Christian University (current)

### 11 Sumio Moriwaki

Outside Audit and Supervisory Board Member

Attendance at Board meetings	—
Attendance at auditors' meetings	—
Number of shares held in this company	—
Existence of special interests	None

Apr. 1981 Joined Ishii Law Office  
 Jun. 1985 Graduated from Harvard Law School (LL.M.)  
 Apr. 1991 Partner, Ishii Law Office (current)  
 Apr. 1999 Instructor, Legal Training and Research Institute of Japan (Defense of Civil Affairs)  
 Apr. 2007 Visiting Professor, Faculty of Law, The University of Tokyo  
 May 2015 Member, Judicial System Research Committee, Japan Federation of Bar Associations  
 Jun. 2017 Outside Director, JSR Corporation  
 Jun. 2023 Outside Director, Topy Industries Limited  
 Mar. 2023 Audit and Supervisory Board Member of the Company (newly appointed)

## Executive officers



### Naoki Ayabe

Managing Executive Officer  
 Senior General Manager of Sales Headquarters



### Nobuo Sakuta

Executive Officer  
 Senior General Manager of Household Products Division



### Kenji Yamashita

Executive Officer  
 Senior General Manager of Manufacturing Headquarters



### Fujito Owaki

Managing Executive Officer  
 Senior General Manager of Healthcare Products Division



### Norikazu Toyoda

Executive Officer  
 Senior General Manager, International Business Division



### Ryo Ishido

Executive Officer  
 Unit Head, CDO Unit



### Takuya Matsushita

Executive Officer  
 General Manager of China Strategy Department, International Business Division



### Jun Watanabe

Executive Officer  
 Senior General Manager, Reliability Assurance Headquarters



### Yumi Nakagawa

Executive Officer  
 Unit Head, CFO Unit



### Atsushi Sato

Executive Officer  
 Head of Sales Management Division, Deputy Senior General Manager, Sales Headquarters, General Manager of East Japan Management Department



### Yuji Matsushima

Executive Officer  
 Senior General Manager of Central R&D Laboratory

#### Notes:

- Chiaki Ariizumi was chosen as an outside director at the 104th Ordinary General Meeting of Shareholders held on March 30, 2022. Because she previously attended Board of Directors meetings as an Audit and Supervisory Board member, her attendance record thus includes the three times she attended in that capacity.
- Yoshiro Katae was chosen as an outside director at the 104th Ordinary General Meeting of Shareholders held on March 30, 2022, his attendance record thus reflects a different total number of meetings.

# Governance

## Governance at a glance



Note: To prevent the spread of novel coronavirus, no briefings were held in 2022

## Corporate governance

### Basic policy

To achieve sustainable growth, Kobayashi Pharmaceutical believes it is important to balance an environment that supports a healthy risk appetite with adequate oversight of management.

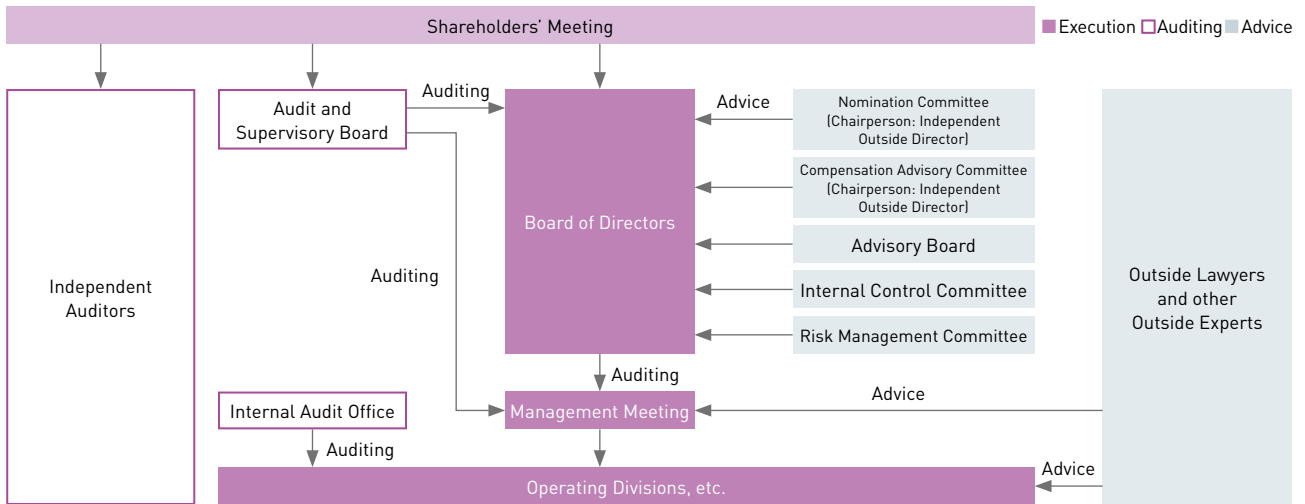
One advantage of our management structure centered on the founding family is the ability to make management decisions with a long-term perspective. However, there is also a risk of self-serving behavior by top management, so we appoint outside directors with strong supervisory capabilities, and ensure oversight functions to enable speed-oriented management and bold reforms. To sustain this management approach, we have introduced a range of systems and structures designed to enhance corporate governance.

In addition, we have an exceptionally open and transparent corporate culture in which employees can voice their opinions to anyone. For example, we proactively give frontline employees opportunities to candidly express their opinions directly to top management. Based on our recognition that corporate governance objectives cannot be achieved by enhancing systems and structures alone, we believe that maintaining and developing this corporate culture is also an effective means of corporate governance.

### Management structure

Responsibility for the execution of management resides with executive officers, led by the president and COO, while management oversight functions are performed by the Board of Directors, led the chairman and CEO. We have appointed four independent outside directors among the eight directors, and optimized the number of directors from the standpoint of energizing the Board of Directors.

To ensure the fairness of the decision-making process for the appointment and compensation of directors and other officers, we have established a Nomination Committee and Compensation Advisory Committee. (Comprising outside directors, the CEO, the director tasked with personnel, and outside experts). We have also set up an Advisory Board consisting mainly of independent outside directors and representative directors to provide a structure for obtaining necessary advice on major management issues.



Status of committees

Management Meeting	We have adopted an executive officer system to clarify the separation of supervision and execution. The Management Meeting, consisting mainly of executive officers, is held four times a month to discuss key matters relating to execution.
Board of Directors	The Board of Directors consists of seven directors, four of whom are outside directors. Meetings are also attended by the four Audit and Supervisory Board members, two of whom are outside Audit and Supervisory Board members. Attendees provide oversight of various matters, including those discussed at the Management Meeting. At Board of Directors meetings, outside directors and outside Audit and Supervisory Board members actively participate and engage in dialogue, ensuring a well-functioning system of checks and balances from an outside perspective.
Advisory Board	As a supporting arm to the Board of Directors and Management Meeting, the Advisory Board, consisting of outside directors, the chairman, the president, and relevant officers, meets once every six months. The Advisory Board provides guidance from a broad perspective on significant business issues and management policy, which is in turn reflected in the daily management of the Group.
Compensation Advisory Committee	Comprising independent outside directors, the president, and the director tasked with personnel, the Compensation Advisory Committee ensures transparency in the process for determining director compensation and is chaired by an independent outside director.
Nomination Committee	Comprising independent outside directors, the president, and the director tasked with personnel, the Nomination Committee ensures transparency and fairness in the process of selecting director and executive officer candidates and is chaired by an independent outside director.
Internal Control Committee	The Internal Control Committee consists of the officer in charge of internal control and management personnel involved in internal control, and deliberates primarily on basic issues relating to compliance and internal control systems. The committee also formulates basic internal control policies and monitors the internal control systems at the Company and its affiliates.
Risk Management Committee	The Risk Management Committee, consisting of principal officers, has been established to prevent the manifestation or minimize the impact of business risks that may affect the Kobayashi Pharmaceutical Group. The committee is responsible for creating and implementing risk management systems.

Selection of officers

Directors

Candidates are chosen based on the following points, on the content of the findings of the Nomination Committee, and on deliberations at meetings of the Board of Directors.

Inside directors

To ensure the effectiveness of the corporate governance of the Board of Directors and secure individuals who will contribute to improving the Company's corporate value over the medium to long term, candidates for such management posts as chairman, president, and director are selected based on the following criteria.

- Is familiar with the Company's business and has a wealth of experience and insight
- Embodies the Company's management principles and code of conduct
- Possesses a high level of compliance awareness and excellent character
- Contributes to the Board's diversity and balance of expertise, regardless of individual attributes such as gender or nationality

Outside directors

The purpose of an outside director is to strengthen the supervision of business execution from an independent standpoint while

simultaneously offering appropriate advice on the Company's management strategy, and candidates will be selected based on the following criteria.

- Possesses the ability to provide appropriate advice and supervision for business execution and management strategy by virtue of having extensive experience in and insight into specialized fields relevant to the Company
- Has no conflict of interest with general shareholders
- As a rule, one outside director must have corporate management experience

Audit and Supervisory Board members

Audit and Supervisory Board members aim to ensure the Company's healthy and sustainable growth by auditing directors' duties from a standpoint that is independent from business execution and support the establishment of a high-quality corporate governance system that is worthy of society's trust. The Company's general rule is to appoint multiple people based on the following criteria.

- Has abundant experience and ability to conduct audits in a fair and impartial manner from a Company-wide perspective
- At least one Audit and Supervisory Board member must have substantial knowledge of finance and accounting

## Composition of the Board of Directors

Independent outside directors make up the majority (four members) of the Board of Directors (which comprises seven people). When outside Audit and Supervisory Board members are included, there are 11 participants in the Board of Directors, six of whom are outside officers. At meetings of the Board, independent outside directors and outside Audit and Supervisory Board members are proactive in making statements based from an external perspective, and extremely active discussions take place in an open atmosphere. Outspoken exchanges of opinions occur, and there are sometimes split opinions concerning votes on agenda items.

Additionally, we believe that balancing the terms of appointment of independent outside officers is important to maintaining the effectiveness of discussions at meetings of the Board. Those who have served as independent outside officers for a long time are able to supervise and offer suggestions based on a deep understanding of our management strategy and the characteristics of our business, while people with a relatively

short term in office are able to supervise and offer advice from a free perspective unswayed by precedent at Kobayashi Pharmaceutical.

In order to improve our corporate value continuously, it is essential that discussions at Board of Directors meetings feature a variety of viewpoints. Currently, three of those participating on the Board are women. Going forward, we will work to ensure the diversity of the Board.

### Skill matrix

Since people are the key to supporting our business model, we place particular emphasis on organizational management and the development of human resources. Furthermore, in addition to protective aspects, such as finance and accounting, and legal and risk management, we believe that we must strengthen our marketing—an area in which we are traditionally strong—and to achieve further growth, improve our capabilities in the areas of global business, ESG/sustainability, and DX, the elements of the skills matrix.

	Corporate management	Global business	Organizational management, human resources development	ESG, sustainability	Marketing, sales	Finance and accounting	Legal affairs, risk management	DX IT/Digital
Kazumasa Kobayashi	●	●	●	●	●			
Akihiro Kobayashi	●	●	●	●	●			●
Satoshi Yamane			●	●		●	●	●
Kunio Ito			●	●		●	●	●
Kaori Sasaki	●	●	●	●	●			●
Chiaki Ariizumi			●			●	●	●
Yoshiro Katae		●	●	●			●	

## Reasons for appointing independent outside officers

Kunio Ito	In addition to being engaged in accountancy and business administration for many years as a university professor, and having extensive corporate management experience and serving as an outside officer of other companies, Mr. Ito plays a central role in a governmental study group on the sustainable growth of companies. At Kobayashi Pharmaceutical, based on the knowledge he gained through these activities, he has fulfilled a management oversight function focused on the enhancement of corporate value, including improvement of capital efficiency, human capital management, and DX (digital transformation). Based on this experience and track record, we nominated Mr. Ito as a candidate for outside director in the hope that he will continue to perform supervisory functions that help elevate our Company's corporate value, and, thus, he was elected at a general meeting of shareholders. Although he has no experience in company management other than as an outside officer, we have appointed him for the above reasons and believe he will be able to appropriately perform his duties as an outside director.
Kaori Sasaki	In addition to her achievements and insights as a corporate manager, Ms. Sasaki has extensive experience in corporate management as an outside officer in other companies. Furthermore, as the founder and chair of the International Conference for Women in Business, she has been a pioneer in diversity management for many years. At Kobayashi Pharmaceutical, she contributes to improving corporate value by offering supervision and consultation in areas such as product development and DX from a consumer standpoint, as well as promoting women's activities and work style reforms, both essential to promoting diversity-based management. Based on this experience and track record, we nominated Ms. Sasaki as a candidate for outside director in the hope that she will continue to perform supervisory functions that help elevate our Company's corporate value, and, thus, she was appointed at a general meeting of shareholders.
Chiaki Ariizumi	Ms. Ariizumi has spent many years analyzing economic conditions and financial markets in Japan and internationally for the Bank of Japan, engaging with corporate management regarding the bank's policies and decisions related to economic conditions. From March 2020 to March 2022, she served as an Audit and Supervisory Board member to the Company. She currently audits the business activities of Kobayashi Pharmaceutical as an outside Audit and Supervisory Board member, bringing to the role a wealth of knowledge and experience gained with the Bank of Japan, along with an ongoing consideration for the healthy growth of the Japanese economy as a whole. Based on her experience as an Audit and Supervisory Board member at the Company, she offers accurate suggestions and advice regarding the management of Kobayashi Pharmaceutical from an objective standpoint, thereby contributing to improving its corporate value. Based on her experience and track record, we have appointed her as an outside director so that she will provide advice and supervision that will contribute to increasing the Company's corporate value.
Yoshiro Katae	As an executive officer at Komatsu Ltd., Mr. Katae has a wealth of experience and insight regarding risk management and compliance, particularly in global corporations. From this experience and track record, he has been offering recommendations for the overall management of the Company, thus helping to increase corporate value in the medium- to long-term and contributing to appropriate monitoring of our management strategy of strengthening our international business. Based on his experience and track record, we expect him to provide advice and supervision that will contribute to the enhancement of the Company's corporate value, thus, we have appointed him as an outside director.

## Reasons for appointing Audit and Supervisory Board members

Yoko Hatta	Ms. Hatta worked at a tax accounting firm and has significant expertise in international tax matters. Ms. Hatta serves as an outside director or auditor of a number of companies and has served as an auditor of a university for many years. Based on the above-mentioned expertise and experience, we believe that she will be able to appropriately perform her duties as Outside Auditor & Supervisory Board Member.
Sumio Moriwaki	As an attorney at law, Mr. Moriwaki has significant knowledge regarding the legality and propriety of corporate activities as well as experience in numerous cases involving crucial management decisions. He also has experience as an outside director or auditor at several companies, and we expect him to utilize these expertise and experiences to strictly and actively speak at Board of Directors' Meetings and Audit & Supervisory Board Members' Meetings of the Company. Based on the above-mentioned expertise and experience, we believe that he will be able to appropriately perform his duties as an Outside Audit & Supervisory Board Member.

## Officer compensation

### Policies, etc., for the determination of content such as officer compensation

At a meeting of the Board of Directors held on September 28, 2020, Kobayashi Pharmaceutical enacted a policy for determining the content of items such as compensation for individual directors. The Board consults with the Compensation Advisory Committee in advance with regard to the content of resolutions it adopts and receives reports on these from the Committee.

### Policy for determination of content of compensation for individual directors

- (a) The compensation system motivates the Group to achieve sustainable growth and improve corporate value in the medium to long-term
- (b) The compensation system must be strongly linked to company performance, and should motivate directors to achieve the results desired in the duties to which they are assigned

- (c) The compensation system must share common interests with shareholders and improve awareness of shareholder-focused management
- (d) Processes for deciding compensation must be highly transparent and objective
- (e) To build and improve competitiveness, compensation levels must be conducive to obtaining outstanding management personnel

### Overview of compensation system for directors

Compensation of directors is designed to further motivate directors to work toward enhancing the Company's business performance and medium-to-long-term growth. It consists of basic compensation, short-term incentive compensation, which varies according to business performance each year, and long-term incentive compensation, which varies according to the Company's medium- to long-term performance.

**Note:** Compensation of outside directors and Audit and Supervisory Board members consists of basic compensation only because they are independent from business execution.

## Overview of content of compensation system and compensation calculation methods

Type of compensation (composition)	Overview of the compensation system and calculation methods
Basic compensation (70%)	Basic compensation is fixed monetary compensation, revised yearly based on performance to encourage directors to execute duties and achieve results in a steady manner commensurate with their position. The value of basic compensation is calculated by multiplying (i) the value of the previous year's basic compensation by (ii) a coefficient set using qualitative evaluation based on the achievement ratio for Company-wide performance (consolidated sales, EPS, and ROE) for the previous year, together with the level of activity anticipated for the current fiscal year.
Short-term incentive compensation (30%)	Monetary compensation is linked to single-year performance and intended to encourage directors to achieve their operational targets each fiscal year. It is calculated by multiplying (i) 30/70 of the basic compensation by (ii) a coefficient that is calculated based on a qualitative evaluation set according to a year-on-year comparison of evaluation indices (consolidated operating margin and EPS) and the anticipated level of activity in the next fiscal year.
Long-term incentive compensation (-)	Monetary compensation is linked to medium- to long-term results and intended to promote management that emphasizes the improvement of business and share values over the medium- to long-term. It is calculated by multiplying (i) role-based points set in advance by (ii) a coefficient calculated based on a qualitative evaluation set according to the achievement ratio of evaluation indices set in the medium-term management plan (consolidated sales, EPS, ROE) and the contribution that the person in question has made to ESG and to sustainable business growth, and (iii) the average closing price of the stock for each day in December compared with the goal set for the final fiscal year of the medium-term management plan.

**Notes:** 1. The provisional revised rate of basic compensation for Audit and Supervisory Board members is 103% for full-time Audit and Supervisory Board members and 102% for Audit and Supervisory Board members.

2. The total amount for basic compensation and short-term incentive compensation will be divided by twelve and paid in cash each month. Long-term incentive compensation is paid in cash once every three years after the Shareholders' Meeting (April) that takes place immediately after the period of the medium-term management plan finishes.

## Evaluation of the effectiveness of the Board of Directors

Kobayashi Pharmaceutical recognizes that vigorous discussion by the Board of Directors is vital to corporate governance and to increasing corporate value. Accordingly, an assessment of the effectiveness of the Board of Directors is conducted every year, and we conduct the PCDA cycle based on the results.

### Effectiveness evaluation process

Oct. 2022	Questionnaire survey (subjects: all directors and Audit and Supervisory Board member)
Nov. 2022	Individual interviews (subjects: all directors and Audit and Supervisory Board member)
Dec. 2022	Board of Directors evaluation meeting (participants: all outside directors and outside Audit and Supervisory Board member)
Jan. 2023	Board of Directors meeting (report of the results of the evaluation and discussion on effectiveness improvement measures)

**Note:** The above process was supervised by an attorney, and the secretariat of the Board of Directors took the lead in conducting it internally.

## Overview of effectiveness evaluation results

### 1. Plan

The fiscal 2021 evaluation of the Board of Directors covered its composition, state of concurrently held positions, reflection of the opinions of outside directors, delegation of power to the executive side, atmosphere supporting risk-taking, and handling of the feedback of investors' opinions, etc., and these items were rated as "not problematic" or "generally acceptable." On the other hand, important themes such as the management challenges of the medium-term management plan, ESG, international strategy, human resources strategy, capital policy, digital transformation strategy, and crisis management were raised as issues needing increased opportunities for discussion and ways to make discussions more effective. Based on these evaluation results, the Board of Directors resolved to implement the following measures at its meeting held in January 2022.

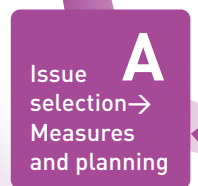
- 1) Expand the Board of Directors meeting time limit
- 2) Secure a forum for information exchange and discussion outside of the Board of Directors meetings
- 3) Hold special meetings for focused discussion of the medium-term management plan



### 4. Action

In addition to reporting the above evaluation results to the Board of Directors in January 2023, we held discussions on how to address the identified issues and decided to implement the following measures.

- 1) Discuss important themes in accordance with the agenda calendar (continue and further develop)
  - To achieve the medium-term management plan, agenda items have been set in line with the plan's strategic pillars so that important themes can be discussed in a timely and thorough way.
- 2) Add discussion items
  - Set aside time for advance discussions to deepen understanding of important proposals prior to undertaking deliberations and thereby facilitate the exchange of a variety of informed opinions from both inside and outside directors
  - Encourage free discussion without the need to reach a conclusion
- 3) Expand time frames (continue)
  - Secure adequate discussion time
- 4) Utilize off-site meetings
  - Share opinions and knowledge that cannot be fully shared within the time frame of the Board of Directors meetings, and enhance such discussions
- 5) Improve Board of Directors materials
  - Clarify issues to be discussed and improve discussion quality
- 6) Executive officers' task execution reports (continue)
  - Deepen understanding of the status and challenges of each business and eliminate the feeling of abrupt subject changes when individual discussion items are brought up
- 7) Outside directors conduct on-site inspections
  - Deepen understanding of business sites to inform efficient and effective discussions regarding ongoing factory investment and other matters



In 2023, we will implement these measures to improve the effectiveness of the Board of Directors, thereby leading to improved corporate value. In addition, by repeating the PDCA cycle every year, we aim to rise to an even higher level.



## 2. Do

In response to the above resolution, we implemented the following measures in fiscal 2022.

- Increased the Board of Directors meeting time limit by 30 minutes (increased to 2.5 hours compared to 2 hours in July)
- Planning and placing important themes on the agenda based on the annual calendar
- Conducted advance discussions to formulate the new medium-term management plan (meetings and individual discussions with outside directors)

- Added task execution status reports from executive officers

To objectively measure the effectiveness of these measures, we analyzed the deliberation time ratio (time required for substantive discussion, excluding explanation time), the number of outside director comments per agenda item, and time allotted to each type of topic, and compared these with the previous year's figures.

Monthly  
Board of  
Directors  
meeting

Board of  
Directors  
evaluation

## 3. Check

The individual surveys and interviews conducted in October and November 2022 yielded positive responses regarding important aspects of improvement measures, such as "medium-term management plan and human resource cultivation policies are now being discussed," and "the added task execution reports from executive officers have

improved understanding of the business." The evaluation of survey results revealed that, as in the previous year, such items as the composition of the Board of Directors, concurrently held positions, meeting frequency, reflection of outside directors' opinions, delegation of authority to executive officers, atmosphere that supports risk-taking, feedback of investor opinions, were rated "not problematic" or "generally appropriate."

As a result of the analysis, the ratio of deliberation time and the number of statements made by outside directors per topic both increased in 2022 compared with the previous year, and the amount of time allotted for the deliberation of such important topics as the medium-term management plan and human resource development also rose. From these evaluation results, we have confirmed that 1) the introduction of an agenda calendar has enabled important themes to be proposed and discussed, 2) expanding the time frame of meetings has led to improved deliberation and increased comments from outside directors, and 3) providing executive officers' reports on task execution deepened outside officers' understanding of the Company and facilitated deeper discussion. We believe that measures implemented to improve the effectiveness of the Board of Directors are working as intended. At the Board of Directors evaluation meeting held on December 8th and mainly composed of outside directors, discussions were held on how to further improve the effectiveness of the Board based on these results, and the following issues were identified.

### Issues

- Need to adopt an approach that encourages deeper, non-superficial discussion
- Need to further improve the quality of prior explanations of agenda items to improve discussion quality
- Outside directors need to further deepen their understanding of the Company to improve discussion quality

## Communication with shareholders and investors

At Kobayashi Pharmaceutical, we recognize that shareholders and investors ("shareholders, etc.") are important stakeholders, and we emphasize constructive dialogue with them for the Company's sustainable growth. We have systems in place for ensuring that valuable opinions, centering on those arising from dialogue with shareholders, etc., are shared with top management and reflected in improvements to the running of the Company.

### Policies for dialogue with shareholders

- We actively engage in dialogue with shareholders, etc., to contribute to the Company's sustainable growth.
- Senior management, the IR officer, or IR Department conduct dialogue with shareholders, etc., taking into account their attributes, the timing of the dialogue, the Company's business resources, and other factors.
- In dialogue with shareholders, etc., feedback is provided to the Board of Directors on shareholders' views regarding the Company's sustainable growth.

### Results of dialogue with shareholders

#### General Shareholders' Meeting (held in March 2023)

Attendance	54
Vote participation rate	92.39%

#### Meetings with institutional investors and analysts

Number of times held	161
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#### Dialogue with individual investors\*

Number of times held	0
Participants	0

\* To prevent the spread of novel coronavirus, no briefings were held in 2022.

## Risk management

Kobayashi Pharmaceutical groups risks into three categories and has set up frameworks to manage risk in each category.

For medium- to long-term risks (potential risks), the Risk Management Committee chaired by the president meets annually and conducts comprehensive activities to identify high-priority Group-wide risks from a long-term perspective and to take action before they develop into specific problems. General managers are now leading risk reduction activities for high-priority Group-wide risks utilizing a framework for

formulating and monitoring the progress of risk reduction plans, and regularly reporting on progress to the Board of Directors.

Regarding business risks and potential short-term risks, the Monthly Report Committee aggregates and considers responses to all departmental risk information. In addition, we are establishing a structure in which the Management Meeting will take measures to address risks that are judged to require the involvement of management. When a crisis occurs, a Crisis Management Headquarters will be set up immediately to quickly implement response measures.

### Business and other risks

Major risks	Description	Primary responses and current status
(1) Environment risks for business	<ul style="list-style-type: none"> <li>• Rapid changes in consumer needs</li> <li>• Increased cost of advertising, etc., due to the changing competitive environment</li> </ul>	<ul style="list-style-type: none"> <li>• Development of new products that meet consumer needs</li> <li>• Formulation of new strategies for existing products reflecting environmental changes</li> <li>• Reduced impact from a diversified product lineup</li> <li>• Increased efficiency of advertising spend due to an improved media mix</li> </ul>
(2) Risks of business models that introduce new products aggressively	<ul style="list-style-type: none"> <li>• Reduction in the number of new products released</li> <li>• Increased competition at launch due to the presence of competing products</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of new ideas through a proposal system for all employees</li> <li>• Securing items for product releases using a new product portfolio</li> </ul>
(3) Risks of demand fluctuations due to climate change and unseasonable weather	<ul style="list-style-type: none"> <li>• Reduced sales of strongly seasonal products</li> <li>• Burden imposed by carbon tax due to the trend towards reducing greenhouse gases</li> <li>• Reduced demand due to increased awareness of ethical issues</li> </ul>	<ul style="list-style-type: none"> <li>• Development of healthcare products by our hand warmer business</li> <li>• Adjustment of shipment volumes based on a range of data</li> <li>• Evaluation of medium- to long-term risks by the Group Environmental Committee</li> <li>• Launching of a cross-departmental project for reduction of greenhouse gas emissions from a Scope 3 standpoint</li> </ul>
(4) Risks of business overseas	<ul style="list-style-type: none"> <li>• Reduced investment recovery efficiency due to regulatory changes and slower economic growth in different countries</li> <li>• Significant variation in exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>• Status reports from the executive director responsible for China at the weekly Management Meeting</li> <li>• Reduced improvement risks due to incremental, logical investment decisions and revision of investment plans</li> <li>• Monitoring of major currency exchange rates</li> </ul>
(5) Risk of business acquisitions and alliances	<ul style="list-style-type: none"> <li>• Failure due to unexpected events and environmental changes</li> <li>• Loss of goodwill or other intangible assets</li> </ul>	<ul style="list-style-type: none"> <li>• Exhaustive due diligence</li> <li>• Decisions to invest after discussion of residual risks and opportunities for growth</li> </ul>
(6) Risks of securing and utilizing human capital	<ul style="list-style-type: none"> <li>• Less promotion of activities by a diverse range of people without regard to gender or nationality</li> <li>• Delayed response to intensifying competition in the labor market</li> <li>• Insufficient measures to improve employee awareness of the contributions made by the businesses with which they are associated</li> </ul>	<ul style="list-style-type: none"> <li>• Flat corporate culture</li> <li>• Fostering an awareness of growth through growth dialogues between supervisors and their subordinates</li> <li>• Promotion of specific activities aimed at inspiring women to focus on their careers</li> <li>• Implemented systems for working from home, flexible working times, side-jobs, and a free dress code, in order to create an environment in which people with a diverse range of lifestyles can take an active role</li> </ul>
(7) Product safety risks	<ul style="list-style-type: none"> <li>• Design defects</li> <li>• Quality defects</li> <li>• Erroneous responses to reports of adverse drug reactions</li> </ul>	<ul style="list-style-type: none"> <li>• Risk reduction by the dedicated quality audit department (Reliability Assurance Headquarters)</li> <li>• Timely assessment when serious design or quality defects are suspected</li> </ul>

(8) Risks in procuring raw materials for products	<ul style="list-style-type: none"> <li>Increased procurement costs due to fluctuating exchange rates</li> <li>Rising raw material costs due to sudden increases in crude oil prices</li> <li>Inhibited supply of products to the market due to halts in production and distribution during disasters</li> </ul>	<ul style="list-style-type: none"> <li>Absorption of the cost of sudden increases in the price of limited raw materials resulting from large sale volumes</li> <li>Prompt securing of raw materials using a Product BCP System</li> <li>Explaining CSR procurement in the Procurement Policy Briefing</li> </ul>
(9) Legal and regulatory risk	<ul style="list-style-type: none"> <li>Cessation of development and sale of products due to changes in laws and regulations</li> <li>Fluctuations in sales due to changes in import and export regulations</li> </ul>	<ul style="list-style-type: none"> <li>Information gathering and prompt responses centered on the Legal and Intellectual Property Department</li> </ul>
(10) Risks associated with information security	<ul style="list-style-type: none"> <li>Compensation for and loss of trust due to leakage of personal information</li> <li>Temporary cessation of business activities and leaks of know-how due to cyber attacks</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of information security systems</li> <li>Thorough employee training</li> <li>Third-party evaluation of information security</li> <li>Backup of important digital data on remote servers</li> </ul>
(11) Risks related to compliance	<ul style="list-style-type: none"> <li>Serious compliance violations by the Kobayashi Group or its employees</li> </ul>	<ul style="list-style-type: none"> <li>Compliance questionnaire targeting employees and personnel responsible for external business partners</li> <li>Establishment of a dedicated hotline for compliance issues (the Employee Consulting Center)</li> </ul>
(12) Risks associated with litigation and intellectual property	<ul style="list-style-type: none"> <li>Delays in implementation of frameworks for the management of intellectual property assets</li> <li>Third-party infringement of intellectual property rights</li> <li>Compensation for and loss of trust incurred due to infringement of the intellectual property rights of Kobayashi Pharmaceutical</li> </ul>	<ul style="list-style-type: none"> <li>Checking for infringement and non-infringement of intellectual property rights</li> <li>Proactive creation and strategic application for intellectual property rights at the product development stage</li> </ul>
(13) Risks due to natural- and human-caused disasters	<ul style="list-style-type: none"> <li>Stoppages or delays of operations, loss of assets, or human casualties, etc., brought about by natural- or human-caused disasters</li> </ul>	<ul style="list-style-type: none"> <li>Formulation of Business Continuity Plans (BCP)</li> <li>Construction of crisis management systems</li> <li>When a crisis occurs, prompt discussion and responses in the weekly Management Meeting</li> </ul>
(14) Risks due to outbreaks of serious infectious diseases	<ul style="list-style-type: none"> <li>Lower sales associated with the reduction in opportunities for people to go out brought on by restrictions imposed by local governments</li> <li>Deteriorating economic conditions due to prolonged and normalized spread of infectious diseases</li> <li>Suspension of business activities such as product manufacturing due to the occurrence of infections on business premises</li> </ul>	<ul style="list-style-type: none"> <li>Development and sale of new products suitable for the "new normal" that has resulted from the spread of infectious disease</li> <li>Planning of countermeasures and identification of risks of infection by the Crisis Management Headquarters</li> <li>Operation with minimized risk of operation halts</li> </ul>

Note: Refer to the annual securities report for details

## Management of intellectual property

Working from our corporate brand slogan of "You make a wish and we make it happen," we believe that our systems for creating ideas for new products are one source of our strength. From the standpoint of honing such strengths, we promote investment in intangible assets such as human and intellectual capital through DX investment, mergers and acquisitions, and investment in human resources, all oriented towards the development of new products.

Regarding intellectual property in particular, we have adopted a business model of creating new markets with wholly unique products, insisting on naming and advertising that communicates product characteristics in an easy-to-

understand manner, and endeavor to protect our products with trademark rights. Our Legal and Intellectual Property Department cooperates with each business division from the early development stages of product development to predict how the markets they are developing will look in the future, and employs a multifaceted strategy for product protection that includes patents and designs, securing global intellectual property rights, and taking measures to prevent counterfeiting. In 2020, these activities earned us the Intellectual Property Achievement Award from the Commission of the Japan Patent Office.

## Internal controls

Kobayashi Pharmaceutical is building internal frameworks to ensure that operations are conducted, and financial statements are prepared, in compliance with the Companies Act and the Financial Instruments and Exchange Act of Japan, and to adhere to relevant laws and regulations. As part of these frameworks, the Internal Control Committee meets twice each year. An outside attorney serving as an advisor monitors the Kobayashi Pharmaceutical Group's internal control and compliance systems, and provides recommendations and advice to the Board of Directors on measures for improvement.

For details, see the Basic Policy on Internal Control Systems (in Japanese only).

<https://www.kobayashi.co.jp/corporate/governance/>

Additionally, we are working to provide visual representation of our internal controls, listing internal control activities so that any omissions are immediately obvious, and color-coding them blue, yellow, or red according to the progress of the activity. Further, we are promoting and supervising internal control activities by regular reporting to the Management Meeting and the Board of Directors.

## Compliance promotion system

Working from the belief that promoting compliance is one of the most important issues for management, our top management and the senior management at business divisions regularly issue messages intended to bolster awareness.

To increase compliance awareness and spread knowledge of compliance among all employees and directors across the Kobayashi Pharmaceutical Group, we are systematically conducting training by job classification (officers, managers, new employees, etc.) that incorporates topics tailored to each job level. Furthermore, we continue to instill compliance awareness among all employees through e-learning programs (attendance rate: 100%) available via the Group intranet, and in 2020 began

"15-minute compliance training" sessions in which managers at each department serve as instructors for compliance-themed discussions. These sessions give every employee an opportunity to think about compliance-related themes each month, and are proving extremely effective tools for improving awareness of compliance.

We have also established Employee Consulting Centers both internally and externally (in a law office; also available to overseas employees) as a dedicated hotline for employees to anonymously report compliance violations or ask general questions on compliance issues. This helps resolve matters that arise.

### 15-minute training sessions

January: Officers and employees' pledge  
 February: What kind of workplace culture is likely to have harassment?  
 March: Management of personal information  
 April: Whistleblowing and confidentiality  
 May: Unconscious harassment  
 June: Good work environment  
 (What is work engagement?)  
 July: Employee Consulting Centers  
 (What happens in a consultation?)  
 August: How to prevent compliance violations  
 September: Preparing for a Nankai Trough earthquake  
 October: Compliance measures  
 November: Collection of harassment examples  
 December: Discrimination

### E-learning

January: Mixing public and private life  
 February: Handling of personal information (revised)  
 March: Global Compliance Policy  
 April: Handling of personal information (revised)  
 May: The Pharmaceutical and Medical Device Act  
 June: Basic information on power harassment  
 July: The 10 biggest threats to information security in 2022  
 August: Mental health  
 September: The Premiums and Representations Act  
 October: Rules for bringing in or importing goods from abroad  
 November: Notes on handling personal information with digital transformation  
 December: Appropriate handling of trade secrets

## Internal reporting and consultation system

The Kobayashi Pharmaceutical Group has established Employee Consulting Centers as dedicated points of contact for employees to submit compliance-related reports, ask questions, voice concerns, and receive consultations. In Japan, two of these centers are internal, one for compliance and the other for harassment. We have also set up an external consulting center (through a law office) and are striving to improve employee satisfaction by accepting consultations not limited to such business matters as compliance and harassment but including private issues. In addition to regular employees, temporary workers, part-time workers, retired employees, employees of business partners and others can also use this service to make reports or receive consultations. All reports and consultation

cases are handled by consultants engaged in public interest reporting.

After ensuring the protection of the whistleblower or person seeking consultation, we confirm the details and requests of the case, investigate the facts, and take corrective action to resolve the issue. Overseas, every local subsidiary has established similar compliance reporting points of contact, and investigations and responses are handled by the departments in charge of internal reporting (General Affairs Department, Corporate Headquarters). In 2022, there were 55 reports and consultations, but none were found to be serious compliance violations, and we were able to respond appropriately to each case.

### Number of reports and consultations in the past five years (excluding private cases at external consulting centers)

	2018	2019	2020	2021	2022
Number of reports and consultations	42	33	29	39	55
Of which, serious compliance violations*	0	0	0	0	0

\* Compliance violations that seriously impact management and significantly damage corporate value

Old standard

	2013.3	2014.3	2015.3	2016.3	2016.12 <sup>8</sup>
<b>For the fiscal period</b> (Millions of yen)					
Net sales	121,532	127,293	128,344	137,211	120,051
Cost of sales	51,732	54,193	54,718	57,518	48,638
Gross profit	69,799	73,099	73,626	79,693	71,412
Selling, general and administrative expenses	52,895	54,977	55,708	61,432	54,003
Operating income	16,903	18,122	17,917	18,260	17,409
Ordinary income	18,677	18,769	18,843	17,949	19,499
Income before income taxes	18,853	19,666	20,056	18,755	19,802
Net income attributable to owners of the parent	12,176	12,307	12,448	13,466	14,321
Cash flow from operating activities	9,242	13,513	15,445	14,329	16,097
Free cash flow <sup>1</sup>	(17,362)	6,553	10,904	3,396	15,577
Depreciation	2,623	2,680	2,644	2,544	2,112
Capital expenditures <sup>2</sup>	3,135	3,959	3,584	4,448	4,352
Research and development costs	4,544	4,930	5,289	5,788	4,121
<b>At period-end</b> (Millions of yen)					
Current assets	94,353	105,614	115,990	120,347	128,646
Non-current assets	62,753	65,304	70,340	68,650	72,587
Current liabilities	34,477	34,216	35,890	36,481	46,975
Non-current liabilities	7,757	9,749	10,829	10,492	10,938
Net assets	114,872	126,953	139,611	142,023	143,320
Total assets	157,106	170,919	186,331	188,997	201,234
Working capital <sup>3</sup>	59,876	71,398	80,100	83,865	81,670
Interest-bearing liabilities	4	6	40	181	192
<b>Per-share data<sup>4</sup></b> (Yen)					
Net income	148.69	150.28	152.73	165.56	179.12
Cash dividends	41.00	43.00	45.00	48.00	52.00
Payout ratio (%)	27.6	28.6	29.5	29.0	29.0
Cash flows <sup>5</sup>	108.7	158.9	181.6	168.5	189.3
Net assets	1,402.64	1,549.16	1,711.77	1,766.06	1,818.10
<b>Financial ratios</b> (%)					
Gross profit margin	57.4	57.4	57.4	58.1	59.5
Operating income margin	13.9	14.2	14.0	13.3	14.5
Ordinary income margin	15.4	14.7	14.7	13.1	16.2
Net margin	10.0	9.7	9.7	9.8	11.9
Current ratio	273.7	308.7	323.2	329.9	273.9
Return on assets (ROA)	12.2	11.4	10.5	9.6	10.0
Return on equity (ROE)	11.2	10.2	9.4	9.6	10.0
Equity ratio	73.1	74.2	74.8	75.1	71.2
Debt-equity ratio (times) <sup>6</sup>	0.0	0.0	0.0	0.0	0.0
Price-earnings ratio (PER) (times) <sup>7</sup>	15.3	19.8	28.2	29.8	27.9

1. Cash flow from operating activities + Cash flow from investing activities

2. Increase in property, plant and equipment + Increase in intangible assets

3. Current assets - Current liabilities

4. Including impact of stock split

5. Cash flow from operating activities ÷ Number of shares issued

6. Interest-bearing liabilities + Shareholders' equity

7. Current share price ÷ Earnings per share

Old standard			New standard <sup>9</sup>			
2017.12	2018.12	2019.12	2019.12	2020.12	2021.12	2022.12
(Millions of yen)						
156,761	167,479	168,052	158,340	150,514	155,252	<b>166,258</b>
61,238	64,359	64,705	67,364	65,248	66,478	<b>73,927</b>
95,522	103,119	103,346	90,975	85,265	88,773	<b>92,331</b>
72,596	76,830	76,991	65,317	59,322	62,707	<b>65,662</b>
22,925	26,289	26,355	25,658	25,943	26,065	<b>26,669</b>
24,191	27,374	27,851	27,851	27,726	28,015	<b>28,281</b>
22,572	25,304	26,804	26,804	26,635	27,636	<b>27,950</b>
15,863	18,023	19,139	19,139	19,205	19,715	<b>20,022</b>
22,350	20,007	20,089	20,089	23,986	22,419	<b>31,914</b>
29,390	11,944	15,017	15,017	11,330	30,410	<b>17,601</b>
2,926	2,967	3,583	3,583	3,837	3,973	<b>4,360</b>
3,360	3,796	5,315	5,315	4,265	5,278	<b>15,794</b>
7,239	7,031	7,110	7,110	7,338	7,522	<b>8,327</b>
(Millions of yen)						
142,346	151,824	162,712	163,046	164,225	181,889	<b>172,892</b>
76,484	76,963	70,685	70,685	74,141	70,664	<b>82,934</b>
54,274	55,053	53,433	53,767	50,107	50,703	<b>51,809</b>
10,744	7,485	7,307	7,307	5,675	6,250	<b>6,118</b>
153,811	166,249	172,657	172,657	182,583	195,600	<b>197,900</b>
218,831	228,787	233,398	233,732	238,366	252,554	<b>255,827</b>
88,072	96,771	109,279	109,279	114,118	131,186	<b>121,083</b>
194	506	19	19	13	1	<b>—</b>
(Yen)						
201.31	228.05	244.08	244.08	245.71	252.36	<b>259.63</b>
58.00	66.00	73.00	73.00	77.00	83.00	<b>90.00</b>
28.8	28.9	29.9	29.9	31.3	32.9	<b>34.7</b>
272.4	243.8	244.8	244.8	292.3	273.2	<b>408.9</b>
1,947.82	2,102.49	2,208.94	2,208.94	2,335.93	2,515.53	<b>2,600.04</b>
(%)						
60.9	61.6	61.5	57.5	56.6	57.2	<b>55.5</b>
14.6	15.7	15.7	16.2	17.2	16.8	<b>16.0</b>
15.4	16.3	16.6	17.9	18.4	18.0	<b>17.0</b>
10.1	10.8	11.4	12.1	12.8	12.7	<b>12.0</b>
262.3	275.8	304.5	304.5	327.7	358.7	<b>333.7</b>
11.5	12.2	12.1	12.0	11.7	11.4	<b>11.1</b>
10.7	11.3	11.3	11.3	10.8	10.4	<b>10.2</b>
70.3	72.7	73.9	73.9	76.6	77.4	<b>77.3</b>
0.0	0.0	0.0	0.0	0.0	0.0	<b>0.0</b>
36.4	32.8	38.0	38.0	51.3	35.8	<b>34.8</b>

8. The Company changed its fiscal year-end to December 31 from March 31 effective from fiscal 2016/3. Consequently, fiscal 2016/12 is a transitional period comprising the nine months from April 1, 2016 to December 31, 2016.

9. 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 applied from the beginning of the fiscal year ended December 31, 2020.

## Consolidated balance sheet

As of December 31, 2021 and 2022	(Millions of yen)	
	2021.12	2022.12
<b>ASSETS</b>		
Current assets		
Cash and deposits	95,024	<b>96,233</b>
Notes and accounts receivable-trade	55,169	<b>47,881</b>
Short-term investment securities	14,022	<b>8,300</b>
Merchandise and finished goods	8,853	<b>9,985</b>
Work in process	1,388	<b>1,304</b>
Raw materials and supplies	4,866	<b>6,389</b>
Other	2,587	<b>2,825</b>
Allowance for doubtful accounts	(22)	<b>(28)</b>
Total current assets	181,889	<b>172,892</b>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,158	<b>9,507</b>
Machinery, equipment and vehicles, net	5,055	<b>5,361</b>
Tools, furniture and fixtures, net	1,450	<b>1,453</b>
Land	4,695	<b>4,703</b>
Leased assets, net	608	<b>771</b>
Construction in progress	2,555	<b>12,982</b>
Total property, plant and equipment	22,524	<b>34,778</b>
Intangible assets		
Goodwill	7,189	<b>7,147</b>
Trademark rights	3,721	<b>3,274</b>
Software	1,538	<b>2,399</b>
Other	207	<b>485</b>
Total intangible assets	12,658	<b>13,307</b>
Investments and other assets		
Investment securities	29,466	<b>28,509</b>
Long-term loans receivable	816	<b>975</b>
Deferred tax assets	1,489	<b>1,750</b>
Real estate for investment, net	2,735	<b>2,707</b>
Other	1,840	<b>1,932</b>
Allowance for doubtful accounts	(866)	<b>(1,026)</b>
Total investments and other assets	35,482	<b>34,848</b>
Total non-current assets	70,664	<b>82,934</b>
Total assets	252,554	<b>255,827</b>

As of December 31, 2021 and 2022	(Millions of yen)	
	2021.12	2022.12
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	9,293	<b>9,051</b>
Electronically recorded obligations-operating	8,151	<b>9,005</b>
Short-term loans payable	1	<b>—</b>
Accounts payable-other	21,187	<b>20,409</b>
Lease obligations	169	<b>261</b>
Income taxes payable	3,836	<b>3,987</b>
Accrued consumption taxes	639	<b>921</b>
Provision for bonuses	2,486	<b>2,553</b>
Other	4,936	<b>5,619</b>
Total current liabilities	50,703	<b>51,809</b>
Non-current liabilities		
Lease obligations	460	<b>531</b>
Deferred tax liabilities	1,564	<b>1,310</b>
Net defined benefit liability	1,978	<b>2,034</b>
Other	2,247	<b>2,242</b>
Total non-current liabilities	6,250	<b>6,118</b>
Total liabilities	56,954	<b>57,927</b>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	3,450	<b>3,450</b>
Capital surplus	4,183	<b>522</b>
Retained earnings	200,534	<b>194,285</b>
Treasury stock	(23,706)	<b>(14,482)</b>
Total shareholders' equity	184,461	<b>183,775</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,953	<b>10,346</b>
Foreign currency translation adjustment	1,166	<b>4,352</b>
Re-measurements of retirement benefit plans	(1,034)	<b>(834)</b>
Total accumulated other comprehensive income	11,085	<b>13,864</b>
Share acquisition rights	53	<b>260</b>
Total net assets	195,600	<b>197,900</b>
Total liabilities and net assets	252,554	<b>255,827</b>



## Consolidated income statement

Years ended December 31, 2021 and 2022	(Millions of yen)	
	2021.12	2022.12
Net sales	155,252	<b>166,258</b>
Cost of sales	66,478	<b>73,927</b>
Gross profit	88,773	<b>92,331</b>
Selling, general and administrative expenses		
Promotion expenses	3,336	<b>3,405</b>
Freight and warehousing expenses	4,091	<b>4,195</b>
Advertising expenses	19,163	<b>18,984</b>
Salaries, allowances and bonuses	12,911	<b>13,797</b>
Retirement benefit expenses	864	<b>913</b>
Taxes and dues	718	<b>767</b>
Depreciation	1,533	<b>1,668</b>
Amortization of goodwill	862	<b>998</b>
Rent	1,363	<b>1,462</b>
Commission fees	5,200	<b>5,024</b>
Research and development expenses	7,522	<b>8,327</b>
Other	5,139	<b>6,117</b>
Total selling, general and administrative expenses	62,707	<b>65,662</b>
Operating income	26,065	<b>26,669</b>
Non-operating income		
Interest income	131	<b>85</b>
Dividend income	457	<b>493</b>
Real estate rent	300	<b>300</b>
Foreign exchange gains	481	<b>231</b>
Compensation income	600	<b>400</b>
Other	419	<b>501</b>
Total non-operating income	2,390	<b>2,011</b>
Non-operating expenses		
Interest expenses	18	<b>18</b>
Rent cost of real estate	128	<b>99</b>
Provision of allowance for doubtful accounts	116	<b>163</b>
Compensation expenses	—	<b>48</b>
Other	177	<b>68</b>
Total non-operating expenses	441	<b>399</b>
Ordinary income	28,015	<b>28,281</b>
Extraordinary income		
Gain on sales of non-current assets	1	<b>3</b>
Gain on sales of investment securities	1	<b>44</b>
Gain on sale of shares of subsidiaries and associates	150	—
Insurance claim income	—	<b>8</b>
Total extraordinary income	153	<b>56</b>
Extraordinary loss		
Loss on disposal of non-current assets	71	<b>55</b>
Impairment loss	309	<b>69</b>
Loss on valuation of investment securities	67	<b>133</b>
Business structure improvement expenses	—	<b>85</b>
Other	82	<b>43</b>
Total extraordinary loss	531	<b>387</b>
Income before income taxes	27,636	<b>27,950</b>
Income taxes-current	7,923	<b>8,260</b>
Income taxes-deferred	(2)	<b>(332)</b>
Total income taxes	7,920	<b>7,927</b>
Net income	19,715	<b>20,022</b>
Net income attributable to owners of the parent	19,715	<b>20,022</b>

## Consolidated statement of comprehensive income

Years ended December 31, 2021 and 2022	(Millions of yen)	
	2021.12	2022.12
Net income	19,715	<b>20,022</b>
Other comprehensive income		
Valuation difference on available-for-sale securities	504	<b>(607)</b>
Foreign currency translation adjustment	2,683	<b>3,186</b>
Adjustment for retirement benefits	255	<b>200</b>
Total other comprehensive income	3,444	<b>2,778</b>
Comprehensive income	23,160	<b>22,801</b>
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	23,160	<b>22,801</b>
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated statement of shareholders' equity

January 1, 2021 to December 31, 2021

(Millions of yen)

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balance at period start	3,450	4,183	187,071	(19,763)	174,941
Change during current period					
Dividends from surplus			(6,253)		(6,253)
Net income attributable to owners of the parent			19,715		19,715
Purchase of treasury stock				(3,943)	(3,943)
Net changes of items other than shareholders' equity					
Total change during current period	—	—	13,462	(3,943)	9,519
Balance at period-end	3,450	4,183	200,534	(23,706)	184,461

(Millions of yen)

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total	Share acquisition rights	
Balance at period start	10,449	(1,517)	(1,290)	7,641	—	182,583
Change during current period						
Dividends from surplus						(6,253)
Net income attributable to owners of the parent						19,715
Purchase of treasury stock						(3,943)
Net changes of items other than shareholders' equity	504	2,683	255	3,444	53	3,497
Total change during current period	504	2,683	255	3,444	53	13,016
Balance at period-end	10,953	1,166	(1,034)	11,085	53	195,600

January 1, 2022 to December 31, 2022

(Millions of yen)

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balance at period start	3,450	4,183	200,534	(23,706)	184,461
Change during current period					
Dividends from surplus			(6,512)		(6,512)
Net income attributable to owners of the parent			20,022		20,022
Purchase of treasury stock				(14,056)	(14,056)
Cancellation of treasury stock		(23,280)		23,280	—
Transfer to capital surplus from retained earnings		19,619	(19,619)		—
Effect of changes in accounting period of consolidated subsidiaries			(140)		(140)
Net changes of items other than shareholders' equity					
Total change during current period	—	(3,661)	(6,248)	9,223	(686)
Balance at current period-end	3,450	522	194,285	(14,482)	183,775

(Millions of yen)

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Re-measurements of retirement benefit plans	Accumulated other comprehensive income total	Share acquisition rights	
Balance at period start	10,953	1,166	(1,034)	11,085	53	195,600
Change during current period						
Dividends from surplus						(6,512)
Net income attributable to owners of the parent						20,022
Purchase of treasury stock						(14,056)
Cancellation of treasury stock						—
Transfer to capital surplus from retained earnings						—
Effect of changes in accounting period of consolidated subsidiaries						(140)
Net changes of items other than shareholders' equity	(607)	3,186	200	2,778	207	2,986
Total change during current period	(607)	3,186	200	2,778	207	2,299
Balance at current period-end	10,346	4,352	(834)	13,864	260	197,900

# Consolidated statement of cash flows

(Millions of yen)

Years ended December 31, 2021 and 2022	2021.12	2022.12
<b>Cash flow from operating activities</b>		
Income before income taxes	27,636	27,950
Depreciation	3,973	4,360
Impairment loss	309	69
Amortization of goodwill	862	998
Interest and dividends income	(588)	(579)
Interest expenses	18	18
Loss (gain) on sale of shares of subsidiaries and associates	(150)	—
Loss (gain) on sales of investment securities	(1)	(44)
Loss (gain) on valuation of investment securities	67	133
Loss (gain) on sales and retirement of non-current assets	69	52
Decrease (increase) in notes and accounts receivable-trade	(1,523)	8,296
Decrease (increase) in inventories	(462)	(1,977)
Increase (decrease) in notes and accounts payable-trade	813	1,240
Increase (decrease) in accounts payable-other	(177)	(1,002)
Increase (decrease) in accrued consumption taxes	(794)	277
Other	193	(431)
Total	30,247	39,363
Interest and dividend income received	654	572
Interest expenses paid	(17)	(18)
Income taxes paid	(8,464)	(8,003)
Net cash provided by operating activities	22,419	31,914
<b>Cash flow from investing activities</b>		
Payments into time deposits	(49,285)	(47,567)
Proceeds from withdrawal of time deposits	53,432	45,996
Expenditure for purchase of short-term investment securities	—	(2,000)
Proceeds from sales and redemption of securities	7,728	5,713
Purchase of property, plant and equipment	(3,663)	(14,747)
Proceeds from sales of property, plant and equipment	10	3
Purchase of intangible assets	(522)	(1,482)
Purchase of investment securities	(182)	(19)
Proceeds from sales of investment securities	402	45
Proceeds from sale of shares of subsidiaries and associates	200	—
Other	(129)	(253)
Net cash provided by (used in) investing activities	7,991	(14,312)
<b>Cash flow from financing activities</b>		
Net increase (decrease) in short-term loans payable	(12)	(1)
Purchase of treasury stock	(3,943)	(14,056)
Cash dividends paid	(6,251)	(6,509)
Other	(169)	(191)
Net cash provided by (used in) financing activities	(10,377)	(20,759)
Effect of exchange rate change on cash and cash equivalents	797	673
Net increase (decrease) in cash and cash equivalents	20,830	(2,484)
Cash and cash equivalents at beginning of period	61,157	81,987
Net increase (decrease) in cash and cash equivalents due to changes in accounting period of consolidated subsidiaries	—	(22)
Cash and cash equivalents at end of period	81,987	79,480

## Our history

- 1886** ● Founder Chubei Kobayashi established Kobayashi Seidaido, an unlimited partnership company, in Monzen-cho, Naka-ku, Nagoya  
The Company sold general merchandise and cosmetics
- 1894** ● Launched 10 types of proprietary pharmaceuticals, including *Daikomaru*, *Ichinichimaru* and *Tamushichinki*
- 1912** ● Established Kobayashi Daiyakubou, a limited partnership company, in Hiranomachi, Higashi-ku, Osaka
- 1919** ● Incorporated as Kobayashi Daiyakubou, Co., Ltd. in Kyomachibori, Nishi-ku, Osaka, through a merger involving unlimited partnership company Kobayashi Seidaido and limited partnership company Kobayashi Daiyakubou  
Kichitaro Kobayashi is appointed as the first president
- 1939** ● Launched *Hakkiri*, a headache medicine
- 1940** ● Spun off the manufacturing division of Kobayashi Daiyakubou to establish Kobayashi Pharmaceutical Co., Ltd.  
Juso Plant began operations in Higashi-yodogawa-ku, Osaka (currently Yodogawa-ku)
- 1948** ● Saburo Kobayashi, the Company's second president, was appointed
- 1956** ● Kobayashi Daiyakubou Co., Ltd. and Kobayashi Pharmaceutical Co., Ltd. were merged and renamed Kobayashi Pharmaceutical Co., Ltd.  
Relocated the Head Office to Dosho-machi, Higashi-ku, Osaka (currently Dosho-machi, Chuo-ku)
- 1958** ● Teruko Kobayashi, the Company's third president, was appointed
- 1966** ● Launched *Ammeltz*, a topical analgesic
- 1969** ● Launched *Bluelet*, a toilet bowl cleaner and freshener, entering the household products market
- 1972** ● Formed partnership with U.S.-based C.R. Bard, Inc. to establish medical devices importer Japan Medico, Inc., entering the medical devices market
- 1975** ● Launched *Sawaday*, a toilet air freshener, entering the air freshener market
- 1976** ● Kazumasa Kobayashi, the Company's fourth president, was appointed  
Japan Medico, Inc. became Medicon, Inc., a joint venture company with C.R. Bard, Inc.
- 1983** ● Established Toyama Kobayashi Pharmaceutical Co., Ltd. (Toyama City, Toyama Prefecture)
- 1988** ● Made Angel Ltd. a consolidated subsidiary of Kobayashi Pharmaceutical Co., Ltd. and thereby acquired a manufacturing site (Niihama City, Ehime Prefecture)
- 1992** ● Established Kobayashi Medical as part of the Medical Devices Business
- 1993** ● Established Sendai Kobayashi Pharmaceutical Co., Ltd. (Kurokawa-gun, Miyagi Prefecture)
- 1996** ● Launched *Toughdent*, a denture cleanser
- 1998** ● Established Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd., a joint venture company in China  
Established Kobayashi Healthcare, LLC in the U.S.
- 1999** ● Listed on the Second Section of the Osaka Securities Exchange  
Launched mail order sales of nutritional supplements, marking the start of the Direct Marketing Business
- 2000** ● Listed on the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange  
Established the Central R&D Laboratory in Ibaraki City, Osaka Prefecture  
Spun off the trade division to form Kobashou Co., Ltd.
- 2001** ● Made Kiribai Chemical Co., Ltd., a body warmer manufacturer, a subsidiary (Yodogawa-ku, Osaka)  
Established Kobayashi Healthcare Europe, Ltd. in the U.K.
- 2002** ● Established Kobayashi Pharmaceutical (Hong Kong) Co., Ltd. in Hong Kong  
Made Shanghai Kobayashi Friendship Daily Chemicals Co., Ltd. a wholly owned subsidiary, changing the company name to Shanghai Kobayashi Daily Chemicals Co., Ltd.  
Took over the health food business, mainly operations related to Tochucha (leucosmia leaf tea), from Hitachi Zosen Corporation
- 2003** ● Angel Ltd. renamed Ehime Kobayashi Pharmaceutical Co., Ltd.
- 2004** ● Yutaka Kobayashi, the Company's fifth president, was appointed
- 2005** ● Obtained exclusive sales rights to the women's health medicine *Inochi no Haha A* from Sasaokayakuin Corporation
- 2006** ● Made eVent Medical Ltd., a medical device manufacturer in Ireland, a subsidiary  
Made Heat Max, Inc., a body warmer manufacturer in the U.S., a subsidiary
- 2008** ● Kobashou Co., Ltd. and Mediceo Paltac Holdings Co., Ltd. conducted a share exchange  
Spun off the manufacturing division of Kiribai Chemical Co., Ltd., establishing Kiribai Kobayashi Pharmaceutical Co., Ltd.  
Obtained trademark rights for Bisrat Gold from Ishihara Chemical Co., Ltd.
- 2009** ● Established Kobayashi Pharmaceutical (Singapore) Pte. Ltd. in Singapore
- 2010** ● Spun off the medical device division into Kobayashi Medical Co., Ltd.
- 2011** ● Transferred all eVent Medical Ltd. shares in a management buy-out  
Established Kobayashi Healthcare (Malaysia) Sdn. Bhd. in Malaysia  
Established Kobayashi Pharmaceutical (Taiwan) Co., Ltd. in Taiwan
- 2012** ● Made Grabber, Inc., a body warmer manufacturer in the U.S., a subsidiary  
Established PT. Kobayashi Pharmaceutical Indonesia in Indonesia  
Established Hefei Kobayashi Daily Products Co., Ltd. in China  
Sold 80 percent of Kobayashi Medical Co., Ltd. (currently Japan Medicalnext Co., Ltd.) shares to Mitsubishi Corporation
- 2013** ● Made Rokuyo Pharmaceutical Co., Ltd., a manufacturer of pharmaceutical products, quasi-pharmaceutical products and cosmetics, a subsidiary  
Established Kobayashi Healthcare Australia Pty, Ltd. in Australia  
Transferred all Japan Medicalnext Co., Ltd. shares to Mitsubishi Corporation  
Established Hefei Kobayashi Pharmaceutical Co., Ltd. in China  
Akihiro Kobayashi, the Company's sixth president, was appointed  
Established Kobayashi Healthcare (Thailand) Co., Ltd. in Thailand  
Made Juju Cosmetics Co., Ltd., a cosmetics manufacturer, into a subsidiary
- 2015** ● Acquired Ganyaku Hitifuku brand from Hitifuku Inc.  
Dissolved the joint venture with U.S. company Bard International Inc. and sold all its shares to Medicon, Inc.
- 2016** ● Acquired monascus purpureus business from Gunze Limited  
Made Perfecta Products, Inc., a company engaged in the planning and sale of OTC pharmaceuticals and cosmetics in the U.S., a subsidiary
- 2017** ● Acquired exclusive marketing rights in Japan for Bioil from Union-Swiss (Pty) Ltd. (headquartered in South Africa)
- 2018** ● Made Jiangsu Zhongdan Pharmaceutical Co., Ltd. a subsidiary, changing the company name to Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- 2019** ● Made Meitan Hongo Co., Ltd., a manufacturer of health and other products made using Japanese plum, a subsidiary
- 2020** ● Made Alva-Amco Pharmcal Companies, Inc., a subsidiary to develop and grow the OTC pharmaceutical business in North America, changed the company name to Alva-Amco Pharmcal Companies, LLC
- 2022** ● Transitioned to Prime Market in line with market reorganization of the Tokyo Stock Exchange

# Corporate data / Investor information (As of December 31, 2022)

## Corporate data

<b>Corporate Name</b>	KOBAYASHI PHARMACEUTICAL CO., LTD.
<b>Incorporated</b>	August 22, 1919
<b>Head Office</b>	4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan
<b>Representative</b>	Akihiro Kobayashi, Representative Director, President and Chief Operating Officer
<b>Employees</b>	3,495 (consolidated), 1,631 (non-consolidated)
<b>Consolidated Subsidiaries</b>	35 (14 domestic, 21 overseas)

## Investor information

<b>Common Stock</b>	¥3,450 million
<b>Shares Authorized</b>	340,200,000
<b>Shares Issued</b>	78,050,000
<b>Shareholders</b>	23,712
<b>Stock Exchange Listing</b>	Prime Market, Tokyo Stock Exchange
<b>Transfer Agent / Account Management Institution for Special Accounts</b>	Mitsubishi UFJ Trust and Banking Corporation

## Group Companies

● Domestic Business ● International Business ● Other Business

### Consolidated Subsidiaries (Domestic)

- Toyama Kobayashi Pharmaceutical Co., Ltd.
- Sendai Kobayashi Pharmaceutical Co., Ltd.
- Ehime Kobayashi Pharmaceutical Co., Ltd.
- Kiribai Kobayashi Pharmaceutical Co., Ltd.
- Aloe Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical Plax Co., Ltd.
- SP-Planning, Inc.
- Archer Corporation
- Suehiro Sangyo Co., Ltd.
- Kobayashi Pharmaceutical Distribution Co., Ltd.
- True Nature Co., Ltd.
- Kobayashi Pharmaceutical Value Support Co., Ltd.
- Kobayashi Pharmaceutical Global E-commerce Co., Ltd.
- Meitan Hongo Co., Ltd.

### Consolidated Subsidiaries (Overseas)

- Kobayashi Healthcare, LLC
- Kobayashi Healthcare Europe, Ltd.
- Shanghai Kobayashi Daily Chemicals Co., Ltd.
- Hefei Kobayashi Daily Products Co., Ltd.
- Hefei Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical (Hong Kong) Co., Ltd.
- Kobayashi (China) Co., Ltd.
- Jiangsu Kobayashi Pharmaceutical Co., Ltd.
- Kobayashi Pharmaceutical (Singapore) Pte. Ltd.
- Kobayashi Pharmaceutical (Taiwan) Co., Ltd.
- Kobayashi Healthcare (Malaysia) Sdn. Bhd.
- PT. Kobayashi Pharmaceutical Indonesia
- Kobayashi Healthcare Australia Pty., Ltd.
- Kobayashi Healthcare (Thailand) Co., Ltd.
- Kobayashi Healthcare International, Inc.
- Kobayashi Consumer Products, LLC
- Kobayashi America Manufacturing, LLC
- Mediheat, Inc.
- Berlin Industries, Inc.
- Perfecta Products, Inc.
- Alva-Amco Pharmacal Companies, LLC

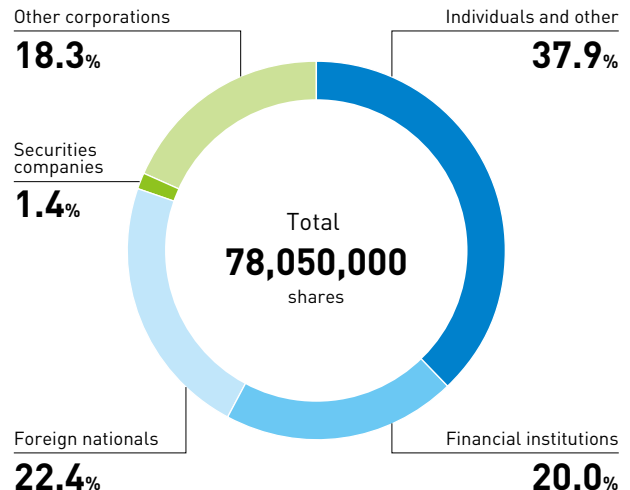
## Major shareholders

Name	Percentage of total shares held (%)
Akihiro Kobayashi	12.19
Japan Trustee Services Bank, Ltd. (trust account)	10.94
The Kobayashi Foundation	7.89
Ikuko Watanabe	3.24
Custody Bank of Japan, Ltd. (trust account)	3.17
State Street Bank and Trust Company 505223	3.06
Ohtori Co., Ltd.	2.87
Forum Co., Ltd.	2.73
Yukako Iue	2.45
Teruhisa Miyata	2.03

#### Notes:

- The Company holds 2,036,086 shares of treasury stock, but is excluded from the above list of major shareholders.
- Percentage of total shares held is calculated excluding treasury stock.

## Shareholder composition



## **KOBAYASHI Pharmaceutical Co., Ltd.**

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4-4-10 Doshomachi, Chuo-ku, Osaka 541-0045, Japan  
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