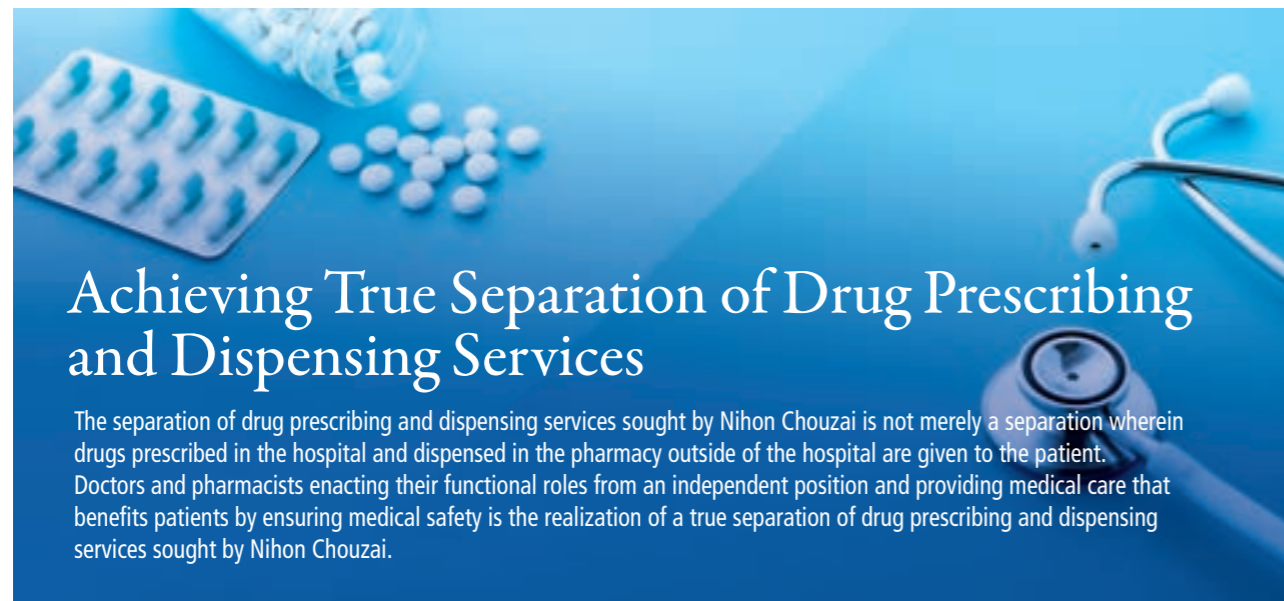


# Becoming a Comprehensive Healthcare Company

## Corporate Philosophy



### Achieving True Separation of Drug Prescribing and Dispensing Services

The separation of drug prescribing and dispensing services sought by Nihon Chouzai is not merely a separation wherein drugs prescribed in the hospital and dispensed in the pharmacy outside of the hospital are given to the patient. Doctors and pharmacists enacting their functional roles from an independent position and providing medical care that benefits patients by ensuring medical safety is the realization of a true separation of drug prescribing and dispensing services sought by Nihon Chouzai.

#### Determining Degree of Importance

Corporate Report 2019 presents topics with a high degree of importance to the Nihon Chouzai Group and to society. This document is published on an annual basis as reference material for readers to gain an understanding of the Company's business status and its corporate policies. This year, Nihon Chouzai discusses two important themes on which the Company is focused: further growth as a comprehensive healthcare company and growth achieved by seeing the significant changes involved in industry reorganization as a positive opportunity.

#### Editorial Policy

In addition to the management policy and business strategy of the Nihon Chouzai Group, this report covers both financial and nonfinancial information in detail so that all stakeholders, and first and foremost, shareholders and investors, will have an understanding of the Company's medium- to long-term creation of corporate value. The period covered in this report is fiscal 2018 (April 1, 2018 to March 31, 2019). However, as necessary, the contents may also cover some aspects of fiscal 2019.

#### Notes Concerning Forward-Looking Statements

The Corporate Report 2019 includes forward-looking statements with regard to the Nihon Chouzai Group's plans, strategies, business performance and other information. These statements are based on judgements made by the Company's management, and these are gained from currently available information. Actual business performance and other information may be impacted by various risks and uncertainties and may differ significantly from these projections. Your understanding is therefore requested. Factors that may have an impact on business performance and future outlook include, but are not limited to, the economic situation in which the Company's business domains operate, the reform status of relevant laws and regulations, conditions with regard to revisions of medical service fees, and the progress of product development.

#### About the Cover

Since its founding, Nihon Chouzai has endeavored to contribute to the reform of Japan's social security system. With the advent of a "super-aged" society, now is a time of major changes with various measures to curb the increase in social security expenses and address other issues that are emerging. Seeing these changes as opportunities to create synergy between our Dispensing Pharmacy Business and other businesses, the cover of Corporate Report 2019 expresses the image of immense growth as a comprehensive healthcare company with a focus on the people who work in each company and each department.



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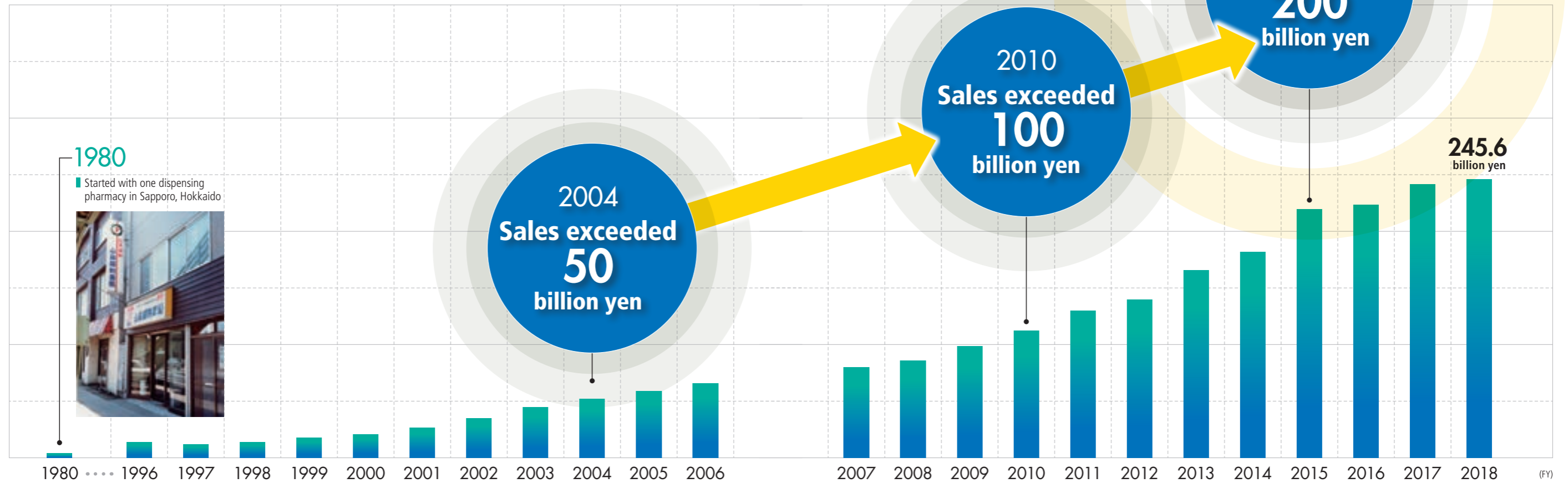
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# Growth Trajectory

## Consolidated sales

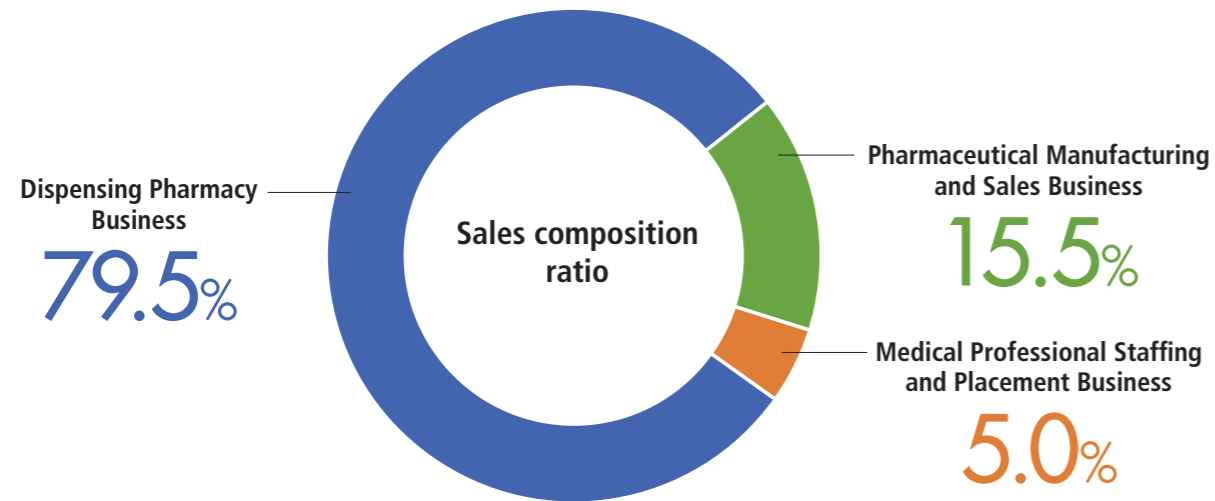


Year	Category	Activity
1974	Legal and government policy activities	With the revision of the medical service fee, the prescription fee was raised from 100 yen to 500 yen (The first year of separation of the prescribing and dispensing functions)
1980	Nihon Chouzai Group activities	Established Nihon Chouzai Co., Ltd. Started dispensing pharmacy business. Opened first dispensing pharmacy, in Sapporo, Hokkaido
1995	Nihon Chouzai Group activities	Relocated the headquarters from Sapporo to Tokyo
1999	Legal and government policy activities	Revision of Worker Dispatching Act. Dispatching of pharmacists to pharmacies became possible
2000	Nihon Chouzai Group activities	With amendment of the Worker Dispatching Act, the Medical Professional Staffing and Placement Business was started (The current Medical Resources Co., Ltd.)
2004	Nihon Chouzai Group activities	Listed on the Tokyo Stock Exchange (TSE) Second Section
2005	Nihon Chouzai Group activities	With the revision of the Pharmaceutical Affairs Act (the present Pharmaceutical and Medical Devices Act), the Pharmaceutical Manufacturing and Sales Business was started (Nihon Generic Co., Ltd.)
2005	Legal and government policy activities	Pharmaceutical Affairs Act (the present Pharmaceutical and Medical Devices Act) revised. Entry into the manufacturing industry without having manufacturing facilities became possible
2006	Nihon Chouzai Group activities	Listing upgraded to the TSE First Section
2007	Legal and government policy activities	Action Program Promoting the Usage of Generic Pharmaceuticals announced by the Ministry of Health, Labour and Welfare
2008	Legal and government policy activities	Dispensing fees established based on generic pharmaceutical recommendations. Dispensing ratio 30% or more: 4 points
2010	Nihon Chouzai Group activities	Started manufacturing generic drugs
2012	Nihon Chouzai Group activities	Started the Information Provision and Consulting Business (Japan medical Research Institute Co., Ltd.)
2013	Legal and government policy activities	Roadmap for Promoting the further use of Generic Pharmaceuticals announced by the Ministry of Health, Labour and Welfare
2013	Nihon Chouzai Group activities	Made a subsidiary of Choseido Pharmaceutical Co., Ltd.
2014	Legal and government policy activities	Dispensing fees raised significantly based on generic pharmaceutical recommendations. Based on new standard volume: 55-65%: 18 points; 65% or more: 22 points
2015	Legal and government policy activities	Basic Policy on Economic and Fiscal Management and Reform 2015 announced by the Cabinet Office. Target of 80% ratio of generic pharmaceutical use set for the end of September 2020
2015	Nihon Chouzai Group activities	Formed business partnership agreement with Dai-ichi Life Insurance Company, Limited
2017	Nihon Chouzai Group activities	Tsukuba Plant No. 2 completed as Japan's largest generic drug manufacturing plant
2018	Nihon Chouzai Group activities	

\* All years mentioned on this page are calendar years.



# Business Portfolio

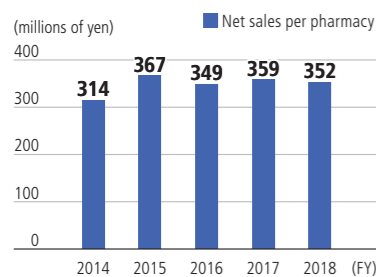


Dispensing Pharmacy Business

A leading dispensing pharmacy company

Net sales per pharmacy

**No.1**



In the Dispensing Pharmacy Business, we have achieved massive net sales per pharmacy as a result of steadily opening our own pharmacies. Using mergers and acquisitions based on our strict standards, we open pharmacies that can survive in the industry reorganization, while expanding sales per pharmacy.



Pharmaceutical Manufacturing and Sales Business

Manufacturer of a full line of generic drugs

Unrivaled business model

**Only 1**



In the Pharmaceutical Manufacturing and Sales Business, because we have dispensing pharmacies within the Group, the expansion of the Dispensing Pharmacy Business has become an unrivaled business model that leads to this business expansion.



Medical Professional Staffing and Placement Business

Human resource services company that specializes in the medical field

Dispatching of pharmacists

**No.1**

High growth potential

High profitability

High reliability

In the Medical Professional Staffing and Placement Business, we are achieving value-added staffing and placement not offered by other companies by taking advantage of the high-quality education system created by the Dispensing Pharmacy Business.

## A numerical view of the Nihon Chouzai Group

<b>Consolidated net sale</b> <b>245.6</b> billion yen FY2018	<b>Number of employees (consolidated basis)</b> <b>5,110</b> FY2018 (Number of employees and average number of temporary employees)	<b>Total number of pharmacies</b> <b>598</b> As of March 31, 2019
<b>Annual number of prescriptions</b> <b>14,190,000</b> FY2018	<b>Prescription unit price</b> <b>14,458</b> yen Average price for FY2018	<b>Ratio of pharmacies to total number of university hospitals nationwide</b> <b>45.6%</b> As of October 1, 2018
<b>Ratio of pharmacies with family pharmacists</b> <b>81.0%</b> As of April 4, 2019	<b>Ratio of pharmacies that provide at-home medical care</b> <b>96.6%</b> As of March 31, 2019	<b>Share of generic drug use, volume based</b> <b>87.0%</b> As of March 31, 2019
<b>Number of items sold</b> <b>663</b> products As of March 31, 2019	<b>Maximum production capacity of pharmaceutical manufacturing plants</b> <b>9.5</b> billion tablets As of March 31, 2019	<b>Number of jobs in the Medical Professional Staffing and Placement Business</b> <b>Approx. 55,000</b> As of March 31, 2019

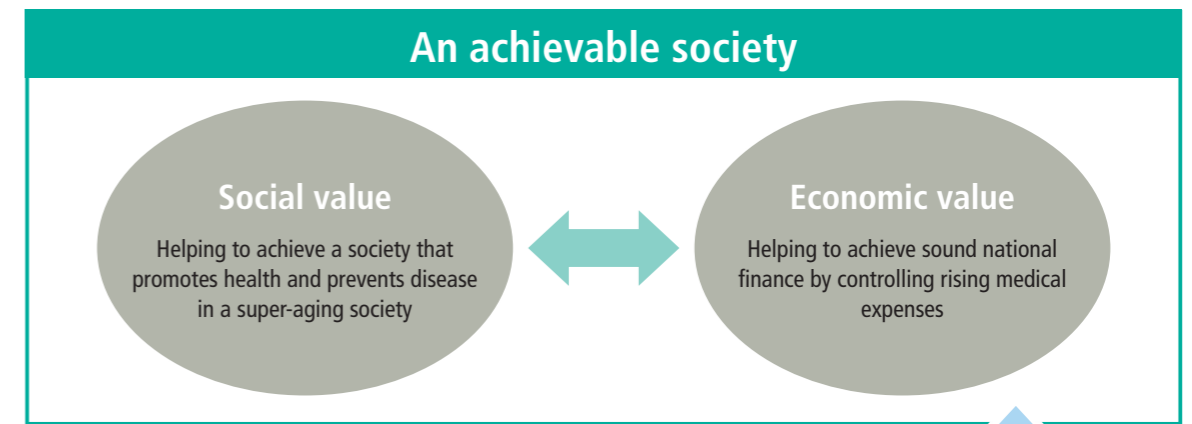
  

Market environment		
<b>Dispensing pharmacy market size</b> <b>Approx. 7.7</b> trillion yen FY2017	<b>Generic drug market size</b> <b>Approx. 1</b> trillion yen FY2017 <small>Source: Fuji Kelzai Co., Ltd. Survey results of the domestic generic drug market</small>	<b>Number of pharmacists nationwide</b> <b>Approx. 300,000</b> pharmacists FY2016

# Value Creation Model

While addressing a wide range of social issues facing Japan, the Nihon Chouzai Group is developing its business to achieve a true separation of drug prescribing and dispensing services by utilizing the Company's management capital.

We are providing sustainable value to society by developing peripheral businesses that generate synergies, starting with the Dispensing Pharmacy Business.



**Social issues**

Super-aging society

Control the increasing costs of medical care

Expand the role of pharmacists (at-home medical care)

Manage unused drugs (multiple drug dosing)

**Input (management capital)**

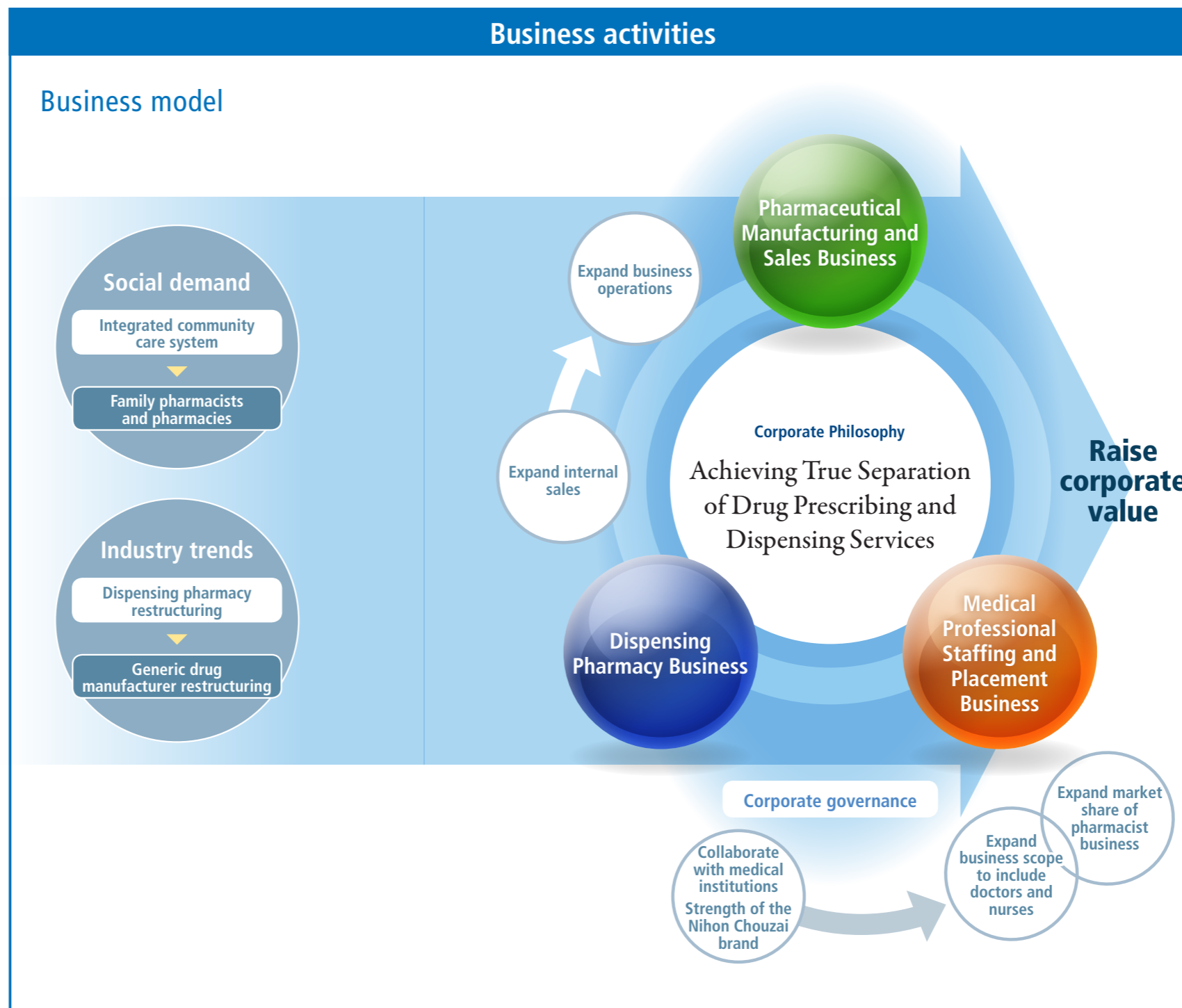
**Financial capital**  
Capital investment  
**5.2** billion yen

**Human capital**  
Investment in human resources  
**5,110** people

**Manufacturing capital**  
In Japan: **5** plants, **2** research institutes

**Intellectual capital**  
R&D expenses  
**2.7** billion yen

**Social and related capital**  
Customer creditworthiness



**Output (value provided)**

**For Patients/Consumers**

- Provide high-quality medical services
- Reduce the medical expense burden
- Support disease prevention

**For Local Communities**

- Provide health information
- Participate in integrated community care system

**For Medical Institutions**

- Collaboration with medical institutions

**For Employees**

- Provide a new playing field
- Enhance educational opportunities

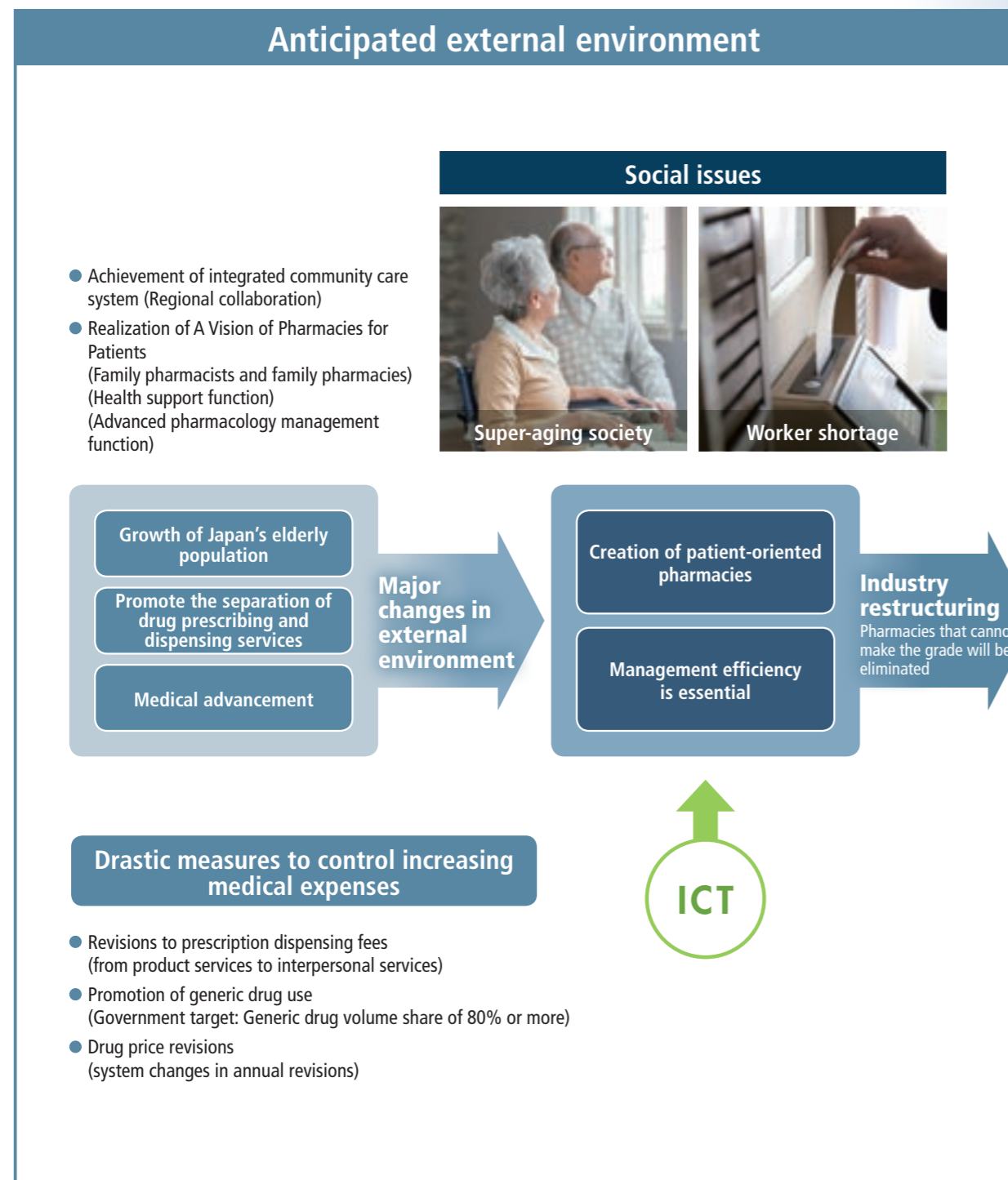


# Strategy for Achieving Growth

## Long-Term Vision — On the Road to 2030

In April 2018, the Nihon Chouzai Group announced the Long-Term Vision for 2030. It was announced as part of the long-term strategy of the Group's vision for the future after having successfully emerged from a reorganization in the industry that is occurring in response to major changes in the external environment in the medical and pharmaceutical industries.

### View of corporate growth



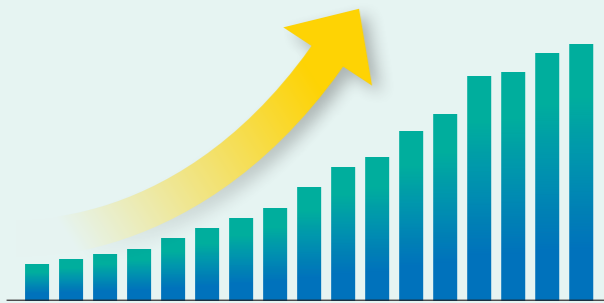
**Toward Becoming a Comprehensive Healthcare Company**

## An image of growth leading to 2030

### Business scale

[Group sales]

Become a **1 trillion yen company**



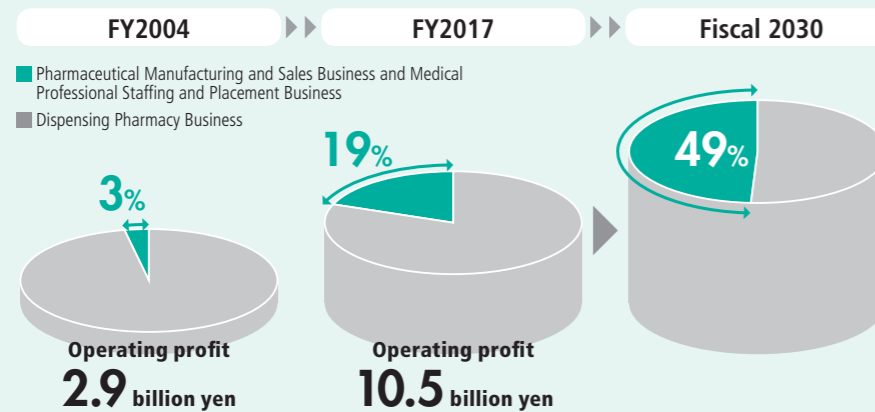
[Market share]



We set forth our vision of Group sales amounting to one trillion yen as the scale of our business in 2030. To achieve this, we are looking for a 10% share in the dispensing pharmacy industry and a 15% share in the generic drug industry.

### Profitable portfolio

[Composition of operating profit]



We constantly strive to heighten overall operating profit, and to be a company with Group sales of one trillion yen, we aim for an operating profit composition ratio where operating profit accounted for by businesses other than the Dispensing Pharmacy Business is raised to 49% of the total. It is our intention to hike the ratio of operating profit attributable to businesses excluding the Dispensing Pharmacy Business so as to ease fluctuations in financial performance due to drug price and dispensing fee revisions.

## View of business environment changes and corporate growth by 2030

		FY2004 (results)		FY2017 (results)		FY2030 (forecast)
Dispensing Pharmacy Business	Net sales	51.8 billion yen	→	205.2 billion yen	→	900.0 billion yen
	Per-pharmacy annual sales	294 million yen	→	359 million yen	→	700 million yen
	Number of pharmacies	174 pharmacies	→	585 pharmacies	→	1,000 pharmacies
	Share of Nihon Chouzai generic drug use	—	→	83.6%	→	90-100%
Pharmaceutical Manufacturing and Sales Business	Net sales	—*1	→	38.1 billion yen	→	300.0 billion yen
	Maximum production capacity	—	→	6.2 billion tablets	→	16.2 billion tablets
Medical Professional Staffing and Placement Business	Net sales	0.7 billion yen	→	12.0 billion yen	→	25.0 billion yen
External environment	Separation ratio*2 (outside of hospital prescription ratio)	53.8%	→	73.2%	→	90-100%*5
	Share of generic drug use, volume-based	4.6%*3	→	72.5%*4	→	85-95%*5

Figures are rounded off

\*1: The Nihon Chouzai Pharmaceutical Manufacturing and Sales Business launched in fiscal 2005.

\*2: Prepared by Nihon Chouzai based on progress of separation of drug prescribing and dispensing (trend of health insurance dispensing) according to the Japan Pharmaceutical Association

\*3: Share of generic drug use, volume-based as of end of FY 2005 (previous standard). FY2005 data posted because FY2004 data was not publicly disclosed.

\*4: Share of generic drug use, volume-based as of end of February 2018.

\*5: Nihon Chouzai estimates

# 1

## Growth towards achieving true separation of drug prescribing and dispensing services

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# Message from the President

**We will achieve further growth as a comprehensive healthcare company in an age where quality defines quantity and the superiority of the Nihon Chouzai Group will become more prominent.**



My name is Yosuke Mitsuhashi and I assumed the position of President and CEO in June 2019.

I recently took over the operation of the Company on short notice. However, while serving as management assistant for two years as Senior Managing Director, I had gradually taken control over operations, and because I had prioritized my work in my areas of responsibility, I have been able to meet the current circumstances with sufficient composure.

The management philosophy of “achieving true separation of drug prescribing and dispensing services” pursued by former president and company founder Hiroshi Mitsuhashi will continue uninterrupted. Furthermore, I would like to steadily move forward with the initiatives that I began from my time as Senior Managing Director and with what new initiatives I can undertake.

We ask our stakeholders for their continuous support and cooperation.

Yosuke Mitsuhashi  
President & CEO

**Q How would you evaluate fiscal 2018 performance from your position as management assistant?**

**We are confident that we can increase sales on an existing pharmacy basis and absorb the fall in revenues caused by drug price revisions.**

One highlight of our consolidated financial results for fiscal 2018 was that sales rose to record highs in all business segments. Operating profit achieved its initial target under the driving force of the Pharmaceutical Manufacturing and Sales Business.

In the pharmaceutical and dispensing pharmacy industry, dispensing fees and drug prices were revised in April 2018. The dispensing fee revisions of April 2018 were so harsh that they can only be described as unprecedented in the industry. In addition, the profitability of the Dispensing Pharmacy Business was substantially affected by difficult price negotiations based on revised distribution guidelines.

However, what should be noted in these circumstances is the strength of our existing pharmacies. Compared to other dispensing specialists, Nihon Chouzai was able to steadily increase sales on an existing pharmacy basis and absorb the damage caused by drug price revisions compared to other dispensing specialists, while sales at other dispensing specialists were down across the board on an existing pharmacy basis. We see this as the result of our strong frontline operations. At the same time, the fact that pharmacy sales, our business base, did not decline, even in a harsh environment such as that of fiscal 2018, is considered one likely reason for future expansion of business.

**Q You are top in the industry in the number of new pharmacist graduates hired. What is the importance of your human resource strategy?**

**Our human resource strategy is at the center of the positive cycle that helps us obtain patients' support.**

Over the last several years, I have been in charge of hiring new graduates. I felt that the desire of pharmaceutical students to find employment where they can make better use of their pharmacist license, which they spent six hard years earning, is stronger than ever before. It has been a well-known fact that the Company has an excellent education system and has a pharmacy environment where advanced medications are available to satisfy demand. In addition, we believe that the further improvement and the growing appeal of our education and human resource systems has helped us achieve the pharmacy and drugstore industry's top hiring results for new pharmacist graduates in April 2019.

Naturally, our human resource strategy is directly linked to our business strategy. We are often said to be less willing to engage in mergers and acquisitions than other companies in this industry, but even if we engage in large-scale M&As and pharmacy openings, without the ability to supply the needed human resources, it doesn't make sense. If we take a hard look at future

industry restructuring, human power is essential for us if we want to be at the center of this restructuring, so first, we have placed priority on strengthening our ability to supply human resources.

I have absolutely no intention of managing to ensure growth potential through M&A to compensate for stagnant sales at existing pharmacies. While our industry is expected to experience massive changes in the future, it is also a fact that the industry still has much growth potential. Accordingly, we first fortified our existing pharmacies. After that, we strengthened our ability to supply human resources, and we enhanced human resource education. Then for the past few years, we have been working to create a solid foundation for recruitment to initiate a positive cycle of gaining patient support.

We were able to hire 398 new pharmacist graduates this year. We continue to aggressively recruit and feel that we can adequately respond to industry restructuring and large-scale M&As.

**Q** I have heard that you have been a leader who champions electronic medication notebooks and remote medication instruction. What is the future direction of your ICT strategy?

**Our major advantage is having a flexible system development environment. Therefore, we will actively promote ICT investment to help differentiate us from competitors.**

We have been developing, updating, managing and maintaining core information systems within our organization for about 20 years. Therefore, our environment can flexibly reflect patient feedback and the views of workers in the field into system development. This has become a major advantage that has enabled us to differentiate ourselves from competitors both online and at brick-and-mortar pharmacies.

An example of the online side is the launch of the Nihon Chouzai Online Store for healthcare products in July 2019 (This interview was conducted on July 17, 2019, after the appointment of the new president.) This e-commerce website is not merely an e-commerce site; it also provides a mechanism that enables customers to check their prescription medications in conjunction with our electronic medication notebook, Okusuri Techo Plus, and cloud data of medicinal pharmaceuticals. There is some uncertainty about how remote medication (telemedicine) instruction will be deregulated in the

future. But in "A Vision of Pharmacies for Patients," the Ministry of Health, Labour and Welfare has stated that to achieve "centralized over-the-counter drug use data, including non-prescription drugs, for continuous management," we will contribute to improving the safety and convenience of patients, even in an e-commerce environment.

On April 2, 2019, the Ministry of Health, Labour and Welfare submitted "How Dispensing Work Is Performed" to pharmacies. It defines the details of dispensing work and must be posted for customers to see. With the role required of pharmacists having shifted from product services to interpersonal services, Nihon Chouzai has taken the lead in the industry in the automation of dispensing work. We will continue to actively invest in automation and rationalization, and by raising productivity, we will further enhance the pharmacy environment to respond to dispensing work that has shifted from product services to interpersonal services.

**Q** I'd like to ask you about your pharmacy-opening strategy. It was previously explained that you emphasized balance when opening pharmacies, but what will be your basic approach to opening pharmacies from now on?

**We will pursue a balanced pharmacy-opening strategy without fixating only on dispensing pharmacies in hospital premises and hospital-front pharmacies.**

With Japan's population declining, we are thinking of opening pharmacies primarily in the three major areas of Kanto, Kansai, and Chubu, where the population decline is relatively small. The type of new pharmacies that we will open will be dispensing pharmacies in hospital premises and hospital-front pharmacies, but my basic idea is to open various types of pharmacies in a balanced manner, but not fixate on that alone.

Behind this idea is the trend of patients selecting dispensing pharmacies with a critical and careful eye. Based on various data on pharmacy frontline operations, it is clear that patients select pharmacies regardless of location. How dispensing fees are distributed

and what are the patients' criteria are essentially different dimensions and the basic proposition of what kind of medical services to provide to patients is not directly related to store location.

Of course, it's true that dispensing pharmacies in hospital premises and hospital-front pharmacies have a relative advantage in cooperation with hospitals and in efforts at advanced pharmacological management. Based on fully taking into account the characteristics of each pharmacy, our policy is to open pharmacies in a balanced manner with a focus on patient trends, without fixating on either dispensing pharmacies in hospital premises or hospital-front pharmacies.



**Q** Next, I would like to ask about the Pharmaceutical Manufacturing and Sales Business. You achieved results that greatly exceeded your initial profit plan. What were the reasons for your success?

**The fact that we could advance our sales strategy focused on profitability from a medium- to long-term perspective has led to stronger performance of the Pharmaceutical Manufacturing and Sales Business.**

Nihon Generic has been conducting business for the past year with a focus on profitability, not only on sales. The increase in depreciation costs associated with the start of production at Tsukuba Plant No. 2 and the reduction in drug prices overlapped, and as a result, earnings in fiscal 2018 were expected to be subject to extremely intense pressure. However, the understanding and cooperation we received from pharmaceutical wholesalers in the area of sales led to stronger earnings

performance of the Pharmaceutical Manufacturing and Sales Business.

Because Tsukuba Plant No. 2 is equipped with state-of-the-art manufacturing equipment capable of large-lot production, manufacturing costs can be reduced as the production scale increases. To increase sales in the future, in addition to internal sales, we will focus on further expanding external sales and pursuing economies of scale.



**Q I would like to ask about the Medical Professional Staffing and Placement Business. What are your future plans for expanding the market share of the Pharmacist Business and other fields?**

**We believe that profits will surely diversify due to expansion of our other fields based on the growth of our existing business.**

Medical Resources Co., Ltd. is number 1 in the pharmacist staffing industry, and we hope it will further increase its market share as the mainstay in this business. In fiscal 2018, although prior investment in the Physician Placement Business that began one year earlier had an impact on profits, we believe we have succeeded in increasing the number of clients by leveraging our creditworthiness and brand power in the placement business. We have also strengthened the placement of experienced pharmacists who meet the requirements demanded by family pharmacists and pharmacies.

We are working to expand the fields that we work in with the previously mentioned Physician Placement Business and the Registered Pharmaceutical Medicine Sellers Staffing Business. Both are now at a stage where the results of their efforts are slowly starting to show up numerically, but potential needs are high, and we believe we are making steady progress toward profit diversification.

**Q You are working on the new formulary business. What can you tell us about the background and future of this business?**

**The concept of the formulary will be an important approach in the reconstruction of the Japanese healthcare system.**

Simply stated, the formulary concept can be expressed as the most effective, safe and economical drug-use policy for patients in both medical institutions and local communities.

On a volume basis, generic drugs now account for almost 60% of all drugs used in Japan. However, in reality, after a generic drug is released, a new drug that is three to four times higher in price with nearly the same efficacy and benefit is launched and this process is repeated. The fact is that the drug cost component of medical expenses has not fallen as much as the government had expected. If this continues, Japan's medical finances will not recover, even if generic drugs are actively used. Therefore, the formulary concept of evaluating evidence on drug effectiveness and safely establishing usage policies focused on economically rational pharmaceuticals is an important initiative.

One example of a specific project for developing the formulary business at Nihon Chouzai was when

we were commissioned by the Shizuoka Branch of the Japan Health Insurance Association to do research work two years ago. In addition, our consultation services are requested by many local health insurance associations, governments, and medical institutions. The formulary business requires appropriate data analysis skills, ICT infrastructure, and practical know-how. We view this business as one that Nihon Chouzai will pioneer in Japan.

The advancement of the formulary business is an unavoidable trend for curbing increasing medical costs in Japan. We will contribute to Japan's medical finances by promoting formularies and generic drug use, and our business expansion will help us provide value to society.



**Q What future situation do you expect from the partial amendment of the Pharmacy Law submitted to the Diet?**

**There is a need for a shift from product services to interpersonal services, a commitment to medication management, and the promotion of at-home medical care through doctor and pharmacist collaboration.**

In short, there is a stronger demand for a shift from product services to interpersonal services and a commitment to medication management.

In Japan today, the administration of multiple drugs has become a social problem, leading to serious side effects and increased medical costs. Under these circumstances, there is an increasing tendency to entrust pharmacists with medication management. Even in

medical settings, medication management by pharmacists is a key point leading to at-home medical care in which doctors and pharmacists fully cooperate. To ensure that pharmacists are trusted by patients during at-home medical care and fully manage their medications, we will proactively strengthen pharmacy policies and human resources from the patient's perspective.

**Q What message do you have for stakeholders? For example, what is your future vision for management?**

**In an era where "quality defines quantity," we will emphasize our advantages.**

The most recent example is the move to revise the Pharmaceutical and Medical Devices Act, but I see the future as an era in which "quality defines quantity." So far, in pharmacy management, it has been difficult to make a difference at a superficial level and to make a difference in dispensing fees. However, we believe that our advantages will naturally become more pronounced in an age where "quality defines quantity." In fact, we realize that this is still the case today.

When the Nihon Chouzai Group faced major social security system reforms and the accompanying industry

restructuring, the Group did not focus on M&A alone. Instead, we steadily strengthened the Company structure, which has been solid over the past several years, by strengthening its growth based on existing pharmacies and its human resource supply capabilities. The foundation for growth has been established. Implementation is all that remains.

The Nihon Chouzai Group seeks to grow as a comprehensive healthcare company. We hope you will follow our growth

# Special Feature

## Supporting the Future of Medical Care in Japan — ICT and the People at Nihon Chouzai

Nihon Chouzai has been aggressively investing in information and communication technology (ICT) for many years ahead of other companies. Examples of these investments include the in-house development of dispensing systems and an electronic medication notebook, the construction of an at-home communication system, the introduction of a voice input system and vein biometric authentication system, the initiation of remote medication instruction using ICT, and the establishment of Japan Medical Research Institute Co., Ltd., which is responsible for processing and analyzing big data.

Human intervention, or pharmacist intervention, is needed to maximize the investment effect of the growing use of ICT. Nihon Chouzai believes that ICT and the power of people will produce synergistic effects and that higher quality medical services can be provided by having family pharmacists involved in the "C" (communication) aspect of ICT.



# ICT × People

### Achievement of integrated community care system

Providing basic functions essential to future pharmacies

#### Family pharmacists and pharmacy function

- Centralized drug use data and continuous management
- 24-hour response / At-home medical care
- Cooperation with medical institutions

Next-generation pharmacies

### Addressing health management and pre-symptomatic state/ advanced medicine

Providing for diverse needs through the functional differentiation of pharmacies

#### Health support function

- Disease prevention and health support
- Establish Health Check Stations

#### Advanced pharmacology management function

- Support for outpatient cancer chemotherapy, etc.

### Change in external environment surrounding the medical industry

Medical advancement

Low birth rate and aging society

Promote the separation of drug prescribing and dispensing services

Challenges facing the medical industry

Promoting at-home medical care

Extending healthy life expectancy

Providing high-quality medical services

Percentage of pharmacies that provide at-home medical care (Pharmacies that provide at least one case per year)

# 96.6%

\* As of March 31, 2019

Number of electronic medication notebook (Okusuri Techo Plus) users

# 360,000

\* As of June 18, 2019

The next-generation pharmacy that Nihon Chouzai seeks to become will be a hub that connects medical care, nursing care, health management, and preventive healthcare in cooperation with communities and medical institutions, utilizing ICT in the integrated community care system.

The pharmacist education provided by Nihon Chouzai is based on a curriculum that is among the best in the industry. While acquiring sufficient medical knowledge and skills is essential, pharmacists who have newly joined the Company also learn the basic thinking and attitudes required of medical professionals. The program is also designed to provide comprehensive personnel training, which includes such aspects as the ability to communicate with patients and the management skills required to operate a pharmacy. The revision of prescription dispensing fees in April 2016 introduced the family pharmacist system, appointing a specific pharmacist to be in charge of a specific patient, and strengthened the interpersonal communication aspect of the pharmacist's work. With these changes, the importance of those who provide medical services (pharmacists) is dramatically increasing.

### Human-supported areas

- Management of unused drugs and organization of duplicate prescriptions
- At-home medical care
- Cooperation with doctors, nurses, care managers, and others
- Consultation on diet, exercise, etc.
- **Support for cancer chemotherapy, etc.**

Strengthen Pharmacy Function (page 31)

### ICT-supported areas

- Dispensing systems (health consultations system)
- Electronic medication notebook (Okusuri Techo Plus)
- At-home communication system
- Voice input system
- Vein biometric authentication system
- **Remote medication instruction (telemedicine)**

Quality Improvement of Medical Services (page 32)



Special Feature

Supporting the Future of Medical Care in Japan —  
ICT and the People at Nihon Chouzai

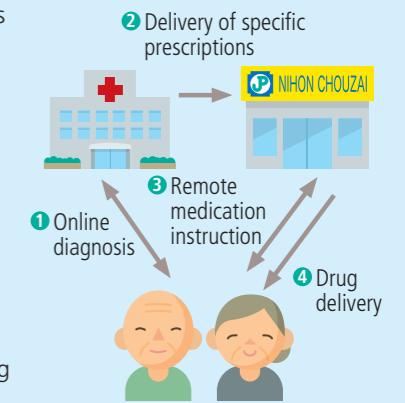


# Address remote medication instruction using ICT medical care

## Started remote medication instruction at a National Strategic Special Zone in Aichi Prefecture.

With respect to remote medication instruction, which has been approved on a trial basis only in the three National Strategic Special Zones of Aichi Prefecture, Fukuoka City in Fukuoka Prefecture, and Yabu City in Hyogo Prefecture, Nihon Chouzai registered a business in two of the special zones in Aichi Prefecture and Fukuoka City in Fukuoka Prefecture, and in February 2019, it started remote medication instruction in Aichi Prefecture. As of March 31, 2019, nine cases of remote medication instruction have been reported nationwide, but Nihon Chouzai's Seto Pharmacy is the first to conduct remote medication instruction in collaboration with a general hospital.

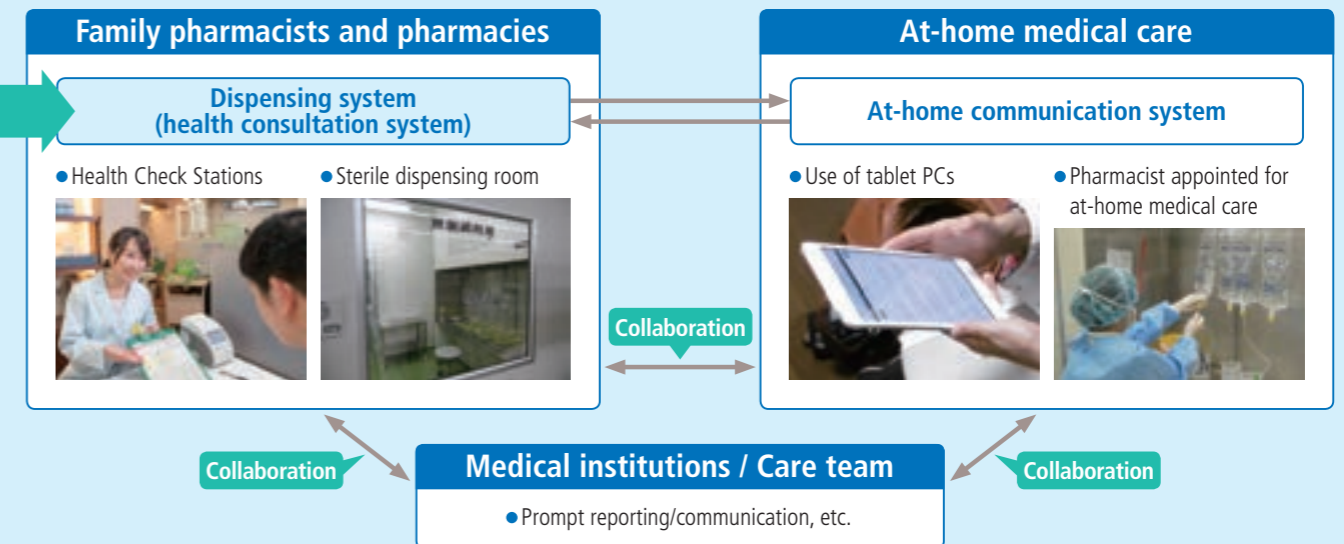
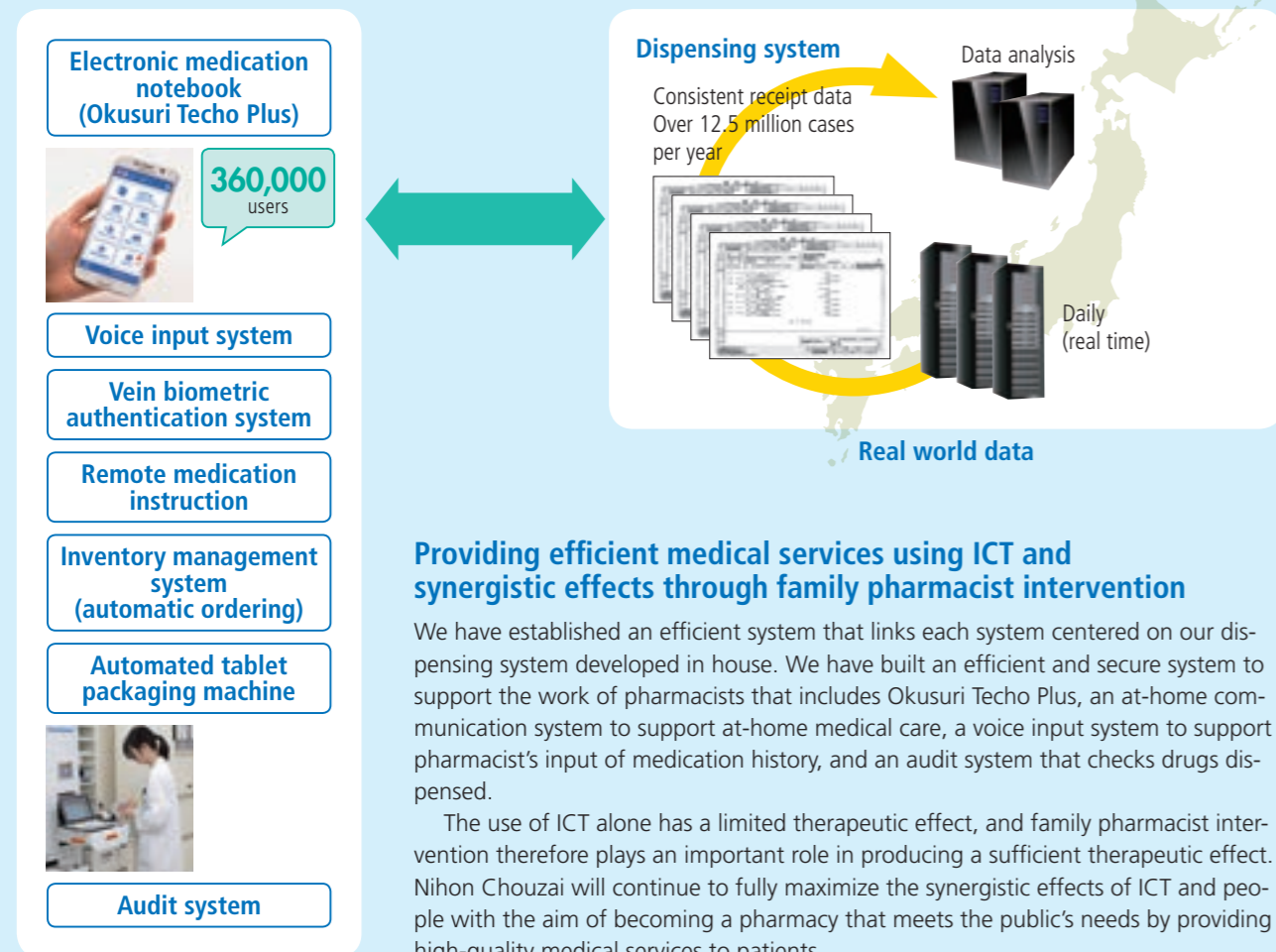
For this remote medication instruction, we created a system that provides optimal medication instruction while also referencing drug data prescribed at other hospitals using Okusuri Techo Plus. We will continue to improve patient convenience by reducing the burden of having to visit the hospital from a remote location while also collaborating more closely with medical institutions.



Comments of a pharmacist who has conducted remote medication instruction

The difference between face-to-face medication instruction and remote medication instruction is that the remote medication system uses a communication device to examine the patient, and then the prescription is posted from a doctor after the patient's examination, but other than that, there is **no difference**. Initially, I was apprehensive about whether I could, as in face-to-face instruction, change the patient's state of health and confirm their concomitant drugs and unused drugs based on my conversation with them, their complexion, and other factors, or contribute to maintaining their health. But, in fact, I was able to give **the same medication instruction as in face-to-face instruction**. Also, in areas where medical resources are scarce, I felt the **advantage** of being able to **reduce the burden of the patient** having to visit a hospital to receive **high-quality medical care**. At present, as remote medication instruction can only be performed after a prescription is received from the hospital, there will be a two- to three-day interval from medical exam to remote medication instruction. Once we are able to give the medical examination and remote medical instruction on the same day, the patient's time burden will be reduced and convenience will increase. Therefore, I expect further improvements such as the spread of electronic prescriptions in the future.

Synergistic effects based on ICT use and human intervention



## Preparing for increased interpersonal services required of future pharmacists

On March 19, 2019, the Ministry of Health, Labour and Welfare submitted a proposed revision of the Pharmaceutical and Medical Devices Act. The proposed revision shifts the services required of future pharmacies and pharmacists to interpersonal services more than before.










In addition, the Ministry of Health, Labour and Welfare released a notification entitled, "An Approach to Dispensing Services" on April 2, 2019 that seeks more efficient product services with the goal of enhancing interpersonal services. Regarding this approach to dispensing services, the notification presented a basic concept for services that could be performed by a person other than the pharmacist under the assumption that the pharmacist has the final responsibility for dispensing.

We seek to reduce the burden on the work of the pharmacist and provide a full range of medical services by promoting efficiency, especially the mechanization of product services, while further promoting ICT investment to support increasing interpersonal services, while providing a full range of medical services.

# The Year in Brief Nihon Chouzai Group

## Health support pharmacies










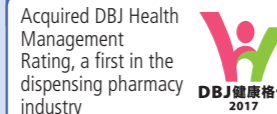




\* List of pharmacies that meet the criteria set by the Ministry of Health, Labour and Welfare each month

<b>April 2018</b> Warabi Pharmacy, Nakanoshima Pharmacy 	<b>May 2018</b> Karumai Pharmacy 	<b>July 2018</b> Yatsu Pharmacy 	<b>August 2018</b> Sakurababa Pharmacy, Yuukari Pharmacy, Rokko Island Pharmacy 	<b>November 2018</b> Kuzumaki Pharmacy 	<b>December 2018</b> Kawasaki Ekimae Pharmacy, Hoshikawa Pharmacy 	<b>January 2019</b> Dainohara Pharmacy 	<b>February 2019</b> Urawa Central Pharmacy, Yamashina Pharmacy 	<b>March 2019</b> Heiwadori Pharmacy 
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2018








2019

April	May	June	July	August	September	October	November	December	January	February	March
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<b>May 2018</b> Commenced airing of in-house-developed locomotive syndrome preventative training Chokotore (quick training) video at pharmacies nationwide 	<b>June 2018</b> Opened NICHOKURASHIKI healthcare shop in Kurashiki Central Hospital 	<b>July 2018</b> Began airing new TV commercial (men's edition) themed "peace of mind with your family pharmacy" 	<b>August 2018</b> Start of acquisition of treasury shares (July 31, notice of acquisition decision) <b>August 2018</b> Held a lecture and workshop at the 17th Asia Pacific Pharmaceutical Symposium sponsored by The Association of Pharmaceutical Students'-Japan 	<b>October 2018</b> The Okusuri Techo Plus electronic medication notebook began data links with the Health app (iOS) and Google Fit (Android) 	<b>November 2018</b> Sponsored the World Diabetes Day held on November 14, providing support activities to prevention and fostering treatment awareness <b>November 2018</b> Authorized as a registered business operator for telemedicine guidance at the National Strategic Special Zone, Aichi Prefecture 	<b>January 2019</b> Released Web commercial (parent and child edition) themed "peace of mind with your regular pharmacy" 	<b>February 2019</b> Treasury stock acquisition completion August 1, 2018–February 8, 2019 1 million stocks 3,450 million yen <b>February 2019</b> Commissioned by the Hiroshima branch of Japan Health Insurance Association to help prevent diabetes from increasing in severity through the insurance pharmacies 
<b>June 2018</b> Acquired highest level of Eruboshi certification, being assessed as an excellent company for the active participation of women 	<b>July 2018</b> Acquired DBJ Health Management Rating, a first in the dispensing pharmacy industry 	<b>August 2018</b> Commissioned by the Shizuoka branch of Japan Health Insurance Association for the data development business of formulating a "regional formulary" <b>September 2018</b> Held the third Nihon Chouzai Group Academic Conference & JP-CS Award 2019, Second Role-Play Awards also held With themes such as health support and home medical care, outstanding case studies on initiatives for pharmacy in the field was presented. 	<b>September–October 2018</b> Participated in RUN TOMO 2018, a relay race across Japan to support urban planning that is comfortable for those with dementia 	<b>December 2018</b> Placed 10th in the company category (over 1,000 employees) of Forbes Japan Women Award 2018, one of Japan's most prominent awards for women 	<b>February 2019</b> Having tied up with Chita Kosei Hospital, conducted tele guidance at Nihon Chouzai Seto Pharmacy 		

- Health Support Pharmacy
- Dispensing Pharmacy Business
- Pharmaceutical Manufacturing and Sales Business
- Medical Professional Staffing and Placement Business

## Group companies

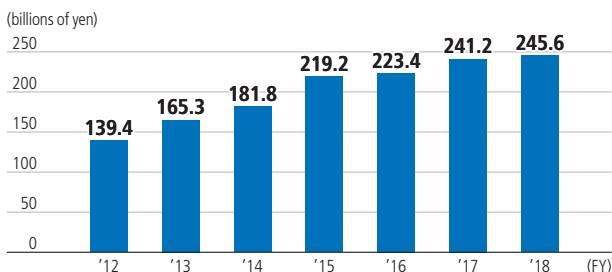
<b>April 2018</b> <b>Medical Resources</b> Commenced nationwide rollout of Medical Staffing Business 	<b>June 2018</b> <b>Nihon Generic</b> Relocated Tsukuba Laboratory as part of the consolidation of R&D sites 	<b>June 2018</b> <b>Nihon Generic, Choseido Pharmaceutical</b> Released 13 new drugs with 7 different active ingredients 	<b>July 2018</b> <b>Japan Medical Research Institute</b> Held its 2018 symposium entitled "Prescription Data Analysis Case Study and New Initiatives Aimed at Disease Prevention to Survive in a New Medical Environment" 	<b>December 2018</b> <b>Nihon Generic, Choseido Pharmaceutical</b> Released 14 new drugs with 8 different active ingredients 	<b>December 2018</b> <b>Nihon Generic</b> Launched hair-growth promotional product, Minoxidil Lotion 5% "JG," the Company's first over-the-counter drug 	<b>March 2019</b> <b>Medical Resources</b> Renewal of Excellent Job Placement Agency certification, a system promoted by The Ministry of Health, Labour and Welfare 
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# Financial Highlights

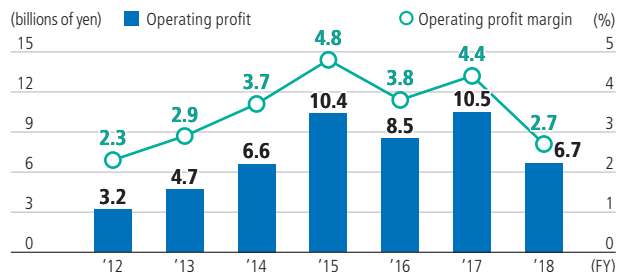
## Net sales

**245.6** billions of yen



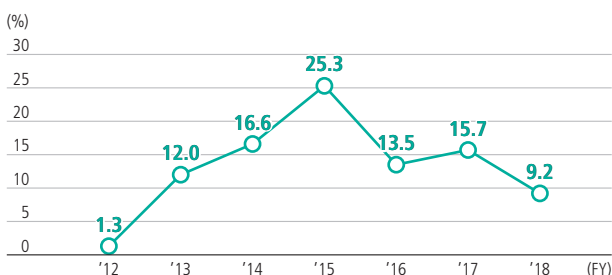
## Operating profit / Operating profit margin

**6.7** billions of yen **2.7%**



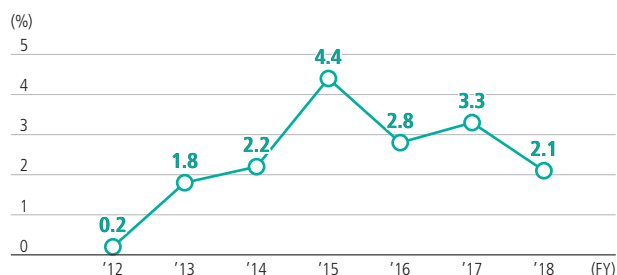
## ROE

**9.2%**



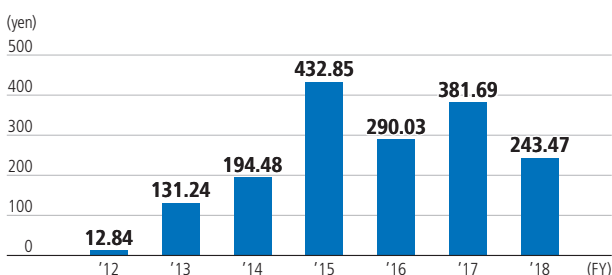
## ROA

**2.1%**



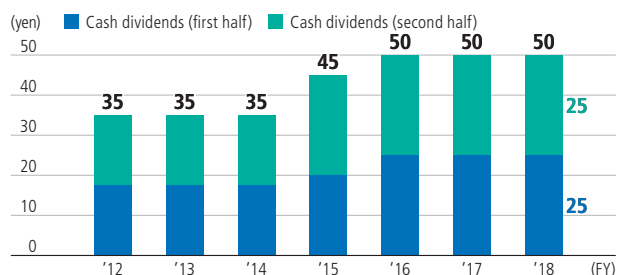
## EPS (Profit per share)

**243.47** yen



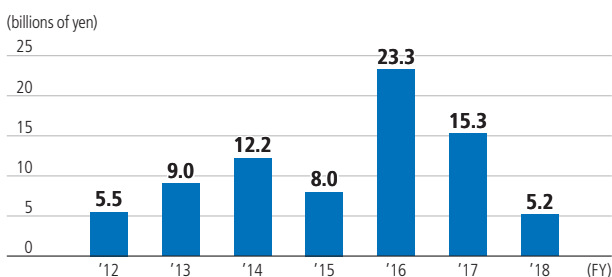
## Cash dividends

**50** yen



## Capital expenditure

**5.2** billions of yen



## R&D expenses

**2.7** billions of yen

