



We will promote the true separation of drug prescribing and dispensing services and create value while addressing the changing needs of society.

It has been two short years since I became president. As of September 1, 2021, we have 685 pharmacies stretching from Hokkaido to Okinawa. Even in the midst of a harsh operating environment brought about by the spreading impact of the COVID-19 pandemic, we remain firmly committed to our mission as a medical institution. Thus, while implementing rigorous infection prevention measures, we continue to provide quality medical care. Medical professionals in Japan are currently making a concerted effort to promote the country's mass vaccination program. Our Group is cooperating in this

program as well, responding to requests from local governments, pharmacist associations, and other related organizations nationwide. Specifically, as of June 11, 2021, Nihon Chouzai had dispatched 604 pharmacists to vaccination centers in 23 prefectures. I believe the steady growth of the Group even in such adverse business conditions is the result of the ability of the medical care we provide to respond adequately to the needs of society.

Nihon Chouzai is a company that has worked to bring about the true separation of drug prescribing and dispensing services for 41 years since its founding. The environment for pharmacies has changed dramatically over that time. When the company was founded, the rate of separation of prescribing and dispensing in Japan was less than 5%. So, for the first 20 years, for the sake of patients, we devoted ourselves to clearly delineating doctor and pharmacist roles.



We will enhance our corporate value as a comprehensive healthcare company with a growth strategy that brings about innovation in the healthcare industry.

Yosuke Mitsuvara President and CEO

Mitsuvara joined Nihon Chouzai in 1999. Having served as General Manager of the Corporate Planning Department, Subsidiary Director, Managing Director, and Senior Managing Director, he became President and CEO of the Company in 2019. With thorough knowledge of ICT, he spearheaded development of the Company's electronic medication notebook and has implemented company-wide digital transformation initiatives. With an MBA from Waseda University Graduate School and a master's degree from Johns Hopkins Bloomberg School of Public Health, he is contributing to management from both management and medical perspectives.

Since then, Japan's population has continued to age, and our focus turned to promoting the use of generic drugs to contain rising medical costs. In recent years, we have seen a growing shift toward family pharmacists and pharmacies as well as mounting demands for at-home care and online medication guidance. Today, although the rate of separation of prescribing and dispensing has risen to nearly 80%, I think a lot remains for us to do.

The strength of our Group is our ability to respond swiftly and flexibly to changes in the times. The medical version of digital transformation, which has started to gain tremendous momentum amid the COVID-19 pandemic, is a recent example. As a manager, I am committed to always being a step ahead of the times, boldly taking on new challenges, and increasing customer value and, by extension, corporate value.

We now face an era where the role of pharmacies and pharmacists in providing the medical care patients truly need is being revisited.

With the accelerating growth of its super-aging population, Japan will likely find it difficult to maintain the prosperity it has known for many years. Even as the working population is shrinking, the rise in medical costs is inevitable. In the healthcare sector, including pharmacies, my sense is that we are approaching the time when only medical institutions that can provide the care patients truly need will survive.

In 2015, the Ministry of Health, Labour and Welfare (MHLW) formulated the Vision of Pharmacies for Patients, which laid out the ideal form of pharmacies in the future. In



line with this Vision, the Nihon Chouzai Group is combining its efforts to further promote the patient-centered separation of drug prescribing and dispensing services, which is the primary duty of pharmacists.

In August 2021, the revised Pharmaceuticals and Medical Devices Act introduced a certification system for insurance pharmacies with specific functions. Under this system it is now possible to obtain certification as a regional cooperation pharmacy or as a specialized medical institution cooperation pharmacy. Pharmacies with their respective functions are required to collaborate with various facilities involved in regional medical care and to support advanced medical care. Here, the Group is already out ahead of our competitors, having cultivated pharmacists who are equipped to respond to these social needs. Consequently, among the pharmacists certified in outpatient oncology by the Japanese Society of Pharmaceutical Oncology (JASPO), who are required to be assigned to specialized medical institution cooperation pharmacies, about one in four active pharmacists nationwide is from the Nihon Chouzai Group. This is the highest number of people in the pharmacy industry. I feel strongly that the Group has a framework in place that allows us to dig deeper into healthcare, make further inroads into medical settings, and take more initiative in working to solve medical issues.

Since becoming president, another goal for me has been to position Nihon Chouzai as the pharmacy brand of choice. We have seen success here in terms of our recruiting activities. In the Mynavi/Nikkei College Student Company Popularity Ranking of companies graduates want to work for, we have been number one in the pharmaceuticals industry in three categories for three years in a row. For patients and the general public, however, my sense is that we have not yet become the medical institution people feel the most affinity for. As the role of pharmacies in Japan shifts from an emphasis on location to an emphasis on function, we will continue striving to enhance the Nihon Chouzai brand while increasing the perceived value of each and every pharmacy.

We will bring innovation to the healthcare industry and evolve our business model by incorporating digital transformation and sustainability into our business strategy.

The COVID-19 pandemic has brought healthcare in Japan to the threshold of a major transformation. One change is the call to construct frameworks for delivering more medical care online. Since our founding, the Nihon Chouzai Group has been a pioneer in the industry in terms of innovation, drawing on ICT to develop dispensing systems in-house, digitalizing medication notebooks, and automating dispensing operations, among other efforts. Amid the pandemic, we enabled reduced waiting times at pharmacies and helped prevent infection as patients took advantage of the advance prescription sending function of our electronic medication notebook, *Okusuri Techo Plus*. This application is supporting the health management and effective use of time for a growing number of patients: The number of subscribers for the app was around 500,000 in April 2020 but had surpassed 850,000 as of August 2021.

Going forward, pharmacies and pharmacists will have to take actions to support the provision of smart healthcare, under which anyone can receive health consultation, medication guidance, and drug delivery seamlessly online. Online drug orders are skyrocketing in the U.S., with major e-commerce companies launching services to take orders for prescription drugs, and their share of the drug dispensing market is growing rapidly. Leading e-commerce companies in Japan are also hungrily eyeing this market, paying close attention to possible deregulation.

Nihon Chouzai's competitive advantages are the track record we have built up over many years of providing advanced healthcare at brick-and-mortar pharmacies, and our relationships of trust with medical institutions throughout Japan. If we can add to these strengths by using digital technologies to transform our business processes and build an online presence as well, we can generate a competitive edge that e-commerce

sites cannot emulate. Drawing on the expertise in ICT we have accumulated since our founding, and taking these technologies to the next level, we will bring about innovation in the healthcare industry.

As an upfront investment for this purpose, the Group announced we would invest approximately 5 billion yen over three years in the development of a next-generation dispensing system. We developed the dispensing system currently in operation in-house in the latter half of the 1990s, and it remains the backbone of the Group's digital transformation effort. We decided to develop a next-generation system to seize the initiative in responding to rapidly accelerating digital transformation in healthcare. The lifting of restrictions on electronic prescriptions in 2022 is expected to give further impetus to online healthcare. Leveraging our industry-leading expertise in ICT, we will target further growth through the fusion of the Group's highly skilled medical personnel with healthcare-related digital transformation.

One new business linked to our digital transformation strategy is FINDAT, an advanced online drug information platform launched in June 2020. This business has grown significantly, driven by the expanding role of pharmacists in society. The platform has been rated highly not only by regional general hospitals, our target client base so far, but also by pharmacies inside and outside the Group that are tasked with supporting increasingly sophisticated healthcare, and by educational institutions aiming to train highly qualified doctors and pharmacists. We have already started rolling out FINDAT to Group pharmacies—this is a prime example of our ability to deliver advanced healthcare through the fusion of our pharmacists with healthcare-related digital transformation.

The Information Provision and Consulting Business involves the work of data analysts, mainly from subsidiary Japan Medical Research Institute, who analyze anonymized healthcare-related big data gathered from within the Group. This data is useful in numerous applications, including treating patients, preventing disease progression, and optimizing medical costs for insurers. Many companies in Europe and the U.S. are already pursuing innovation in a wide range of healthcare fields, such as building off a base in the pharmacy business to enter the insurance field. With the aim of becoming a comprehensive healthcare company, Nihon Chouzai has also developed four businesses centered on the Dispensing Pharmacy Business. But our sights are by no means limited to existing pharmacy services and generic drug provision: We are also looking at other innovation that capitalizes on digital transformation in healthcare fields. I invite you to keep an eye out for the evolution of our business portfolio in line with the changing times.

By keeping our businesses one step ahead of the times, we will be perfectly positioned to be indispensable to society.

In the Dispensing Pharmacy Business, we are implementing a unique pharmacy network strategy that emphasizes a balance between both hospital-front/on-site pharmacies and hybrid pharmacies, and between organic pharmacy openings and acquisitions. In addition to being next-generation pharmacies offering the functions patients will need in the future, we are focusing on opening pharmacies that demonstrate the potential for high net sales per pharmacy and superior operating efficiency. The Group's pharmacies throughout Japan are vigorously pushing forward to attain regional cooperation pharmacy and specialized medical institution cooperation certification under the revised Pharmaceuticals and Medical Devices Act, and preparations are coming along well.

In the Pharmaceutical Manufacturing and Sales Business, despite an operating environment made difficult by downward revisions to NHI drug prices almost every year, we were able to significantly improve business performance while placing top priority on quality and stable supply. We newly listed 21 generic drugs in June and December 2020. Leveraging development capabilities that are on a par with those of major generic manufacturers, we have expanded the lineup of MHLW-certified drugs developed and manufactured in-house in recent years. The generic drug industry has come under severe scrutiny due to repeated issues with instability in the supply chain. As a comprehensive healthcare



15 Message from the CEO

company that helps care for patient lives, the Group will always keep a patient-centered focus in addressing the needs of society.

Regarding the Medical Professional Staffing and Placement Business, the pandemic brought about a shift in the demand structure for the pharmacist temporary staffing business. Accordingly, we are stepping up our transition to the pharmacist and doctor placement business. In addition, dramatic changes in the social fabric are giving rise to calls for more effective corporate health management. To support companies in addressing calls for better mental health and other health care for their employees, we made WORKERS DOCTORS, which operates an industrial doctor HR business mainly in the Tokyo metropolitan area, a group company in November 2020. Going forward, we will capitalize on the Group's network to expand our business nationwide in support of better health management in Japan.

Graduated from the School of Public Health at Johns Hopkins, a global authority in the public health field.

I graduated from Johns Hopkins Bloomberg School of Public Health in the U.S. in May 2021. Public health is an academic discipline that seeks to cooperate with an array of organizations and people in the community to prevent illness and injury, maintain and improve health, identify the causes of illness and disability, and address health threats. It deals with community health issues from a broad perspective, including healthy life expectancy, disease prevention, and even economic conditions. The focus of my studies was healthcare management, and I did research on the utilization of health data. Except for me, all of my Japanese classmates were doctors, but through my interactions with them and by listening to their concerns, I felt a

greater sense of crisis about the future of healthcare in Japan. At the same time, I came away convinced once more about the importance of the role that the Nihon Chouzai Group should play.

I did not want to waste any time in using the fruits of my research to inform my management of the Group, and immediately put a number of measures in place. Going forward, I will continue to reflect my research in Group actions that lead to sustainable growth and enhanced corporate value.

Managing with an emphasis on employee engagement, taking the Nihon Chouzai brand to the next level.

In the June 17, 2021 electronic version of The Nikkei newspaper, a leading popular review website released an announcement about firms whose review among female employees had improved. Out of a survey of about 10,000 companies, Nihon Chouzai ranked number one in terms of the degree of improvement in both 2020 and 2017.

I take personal pride in this. Since my time as a recruiting officer and even now as president, I have continued to take the lead in introducing recruitment initiatives for new graduates and pursuing engagement with new employees, and have used feedback from that engagement in making working style reforms. At the time, I was also the Group's public relations officer, so I thought I had no choice but to come to the forefront myself in making the Nihon Chouzai brand more well known, and I recall giving many energetic lectures. Compared to five years ago, I am struck by how much the Nihon Chouzai brand has grown.

More than 500 pharmacists joined the Group this year. New graduates hired within the past five years now account for half of our total pharmacist workforce. With many of them dispersed to various regions around





the country, I feel that it is physically difficult to instill in them our corporate culture and mindset. To take employee engagement to the next level, therefore, I plan to conduct a survey of all employees this year. I also started an in-house blog to convey my message directly. In addition, we are actively taking steps to communicate with the roughly 6,000 employees and part-time staff working for us nationwide, such as holding our first online meeting bringing together pharmacy managers from all of our pharmacies.

It will become increasingly vital to foster an environment in which every employee can fulfill their potential and play an active role in the business. Our goal is to be an organization with high employee engagement, one that embraces diverse human resources and working styles. We are achieving this through working style reforms and health management and diversity and inclusion initiatives—we obtained Kurumin certification from the Ministry of Health, Labour and Welfare recognizing our support for parenting.

We will create a robust management foundation by cultivating management personnel and grow into a sustainable company.

Nihon Chouzai has long focused on cultivating highly talented human resources, primarily pharmacists. In recent years, however, as the scale of the company has grown, we have put greater priority on the development

of top management, middle management, and managers in the field. Our training initiatives involve management seminars where participants compile proposals for resolving selected management issues. In addition, in June 2021, we appointed Mikiharu Noma as an Outside Director for the Group. Professor Noma teaches in the Graduate School of Business Administration of Hitotsubashi University and was a member of the “Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors” Project (Ito Review) set up by the Ministry of Economy, Trade and Industry. I look forward to his involvement in Group management.

Inculcating a corporate culture is no easy task. In the conservative healthcare industry, we are an advanced company which puts emphasis on speed. We have a culture of taking risks and making investments when none of our competitors have even started to take action. It feels like we have always been running a few years ahead of the pack, so we have had our fair share of friction. But, having weathered this, I think Nihon Chouzai has become a stronger organization. Going forward, by reinforcing our cultivation of management personnel, I am confident we will be able to demonstrate growth with the kind of corporate governance that is fitting for the prime market.

The Nihon Chouzai Group will constantly take action looking one step ahead of the times, seeking to achieve further growth as a comprehensive healthcare company. I look forward to your continued support.

Financial Impact of COVID-19 Pandemic

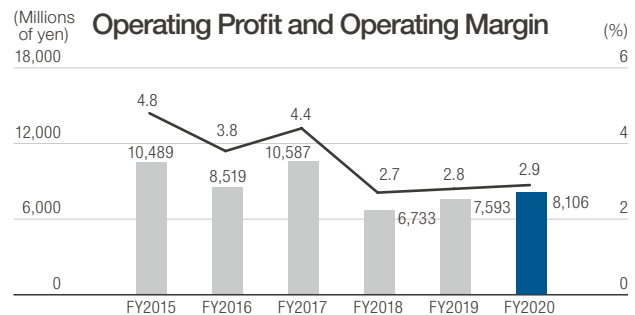
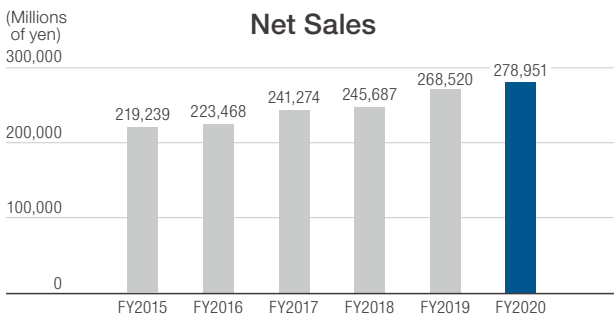
In FY2020, the impact of the COVID-19 pandemic notwithstanding, full-year consolidated sales and profits were both up year on year, with net sales rising 3.9% and operating profit rising 6.8%.

In the Dispensing Pharmacy Business, although numerous medical institutions nationwide put restrictions on health consultations and patients tended to refrain from visiting hospitals or clinics, the situation gradually turned around in the second half. As a result, although the number of prescriptions decreased 3.2% year on year, the prescription unit price rose 9.0%. In addition, the 65 pharmacies that opened during the previous fiscal year made full-year contributions to results. This, coupled with the fruits of cost reduction efforts the Group has been making since FY2018 and success in curbing travel costs and other expenses during the pandemic, led to a recovery of business performance. Consequently, net sales were 244 billion yen (up 5.7% year on year) and operating profit was 10.5 billion yen (up 8.2% year on year).

In the Pharmaceutical Manufacturing and Sales Business, while the selling prices of existing drugs declined following the April 2020 NHI drug price revision, sales of drugs newly NHI listed in December 2019, June 2020, and December 2020 were brisk, fueling a 6.1% year-on-year increase in sales to 45.6 billion yen and an 80.6% year-on-year increase in operating profit to 2.3 billion yen.

In the Medical Professional Staffing and Placement Business, demand for temporary staffing of pharmacists saw a significant downturn amid the pandemic, primarily in urban areas, although placements of pharmacists and doctors remained firm. These and other factors resulted in sales of 8.3 billion yen (down 34.0% year on year) and operating profit of 700 million yen (down 61.5% year on year).

Cash provided by operating activities was 11.2 billion yen, cash used in investing activities was 7.7 billion yen, and cash used in financing activities was 2.8 billion yen. The balance of cash and cash equivalents as of March 2021 was up 600 million yen year on year to 32.8 billion yen.



Financial Policy

To achieve the Long-Term Vision — On the Road to 2030, the Group is seizing upon changes in the operating environment as opportunities and pursuing a financial strategy that emphasizes a balance between growth investment, shareholder returns, and fortifying of the financial foundation.

1. Growth Investment

The Group invests in growth while paying particular attention to the areas of human resources investment, digital transformation investment, and sustainability.

The Group plans to step up the pace of our growth strategy in the Dispensing Pharmacy Business by continuing to reinforce a pharmacy network strategy that emphasizes a balance between organic new pharmacy openings and acquisitions. We are also ahead of the industry in developing next-generation dispensing systems to support healthcare digital transformation. Furthermore, we are channeling efforts into cultivating highly specialized human resources, such as professionals to support the advanced online drug information platform FINDAT, pharmacists certified in outpatient oncology, and pharmacists to engage in at-home healthcare.

The Pharmaceutical Manufacturing and Sales

Business saw the completion in 2018 of Tsukuba Plant No. 2, equipped with state-of-the-art manufacturing equipment and quality control systems. The relocation and consolidation of research functions at the Tsukuba Research Institute in June of that year marked the completion of a multiyear, large-scale capital investment strategy. Going forward, we will work to stabilize fixed costs under rigorous cost control measures while pursuing a growth strategy centered on boosting sales and improving profitability through the expansion of drugs both approved and manufactured in-house.

In the Medical Professional Staffing and Placement Business, pharmacist staffing and placement businesses continue to draw on the competitive strengths of the Group. In addition, the doctor HR business is now fully up and running. In FY2020, the Group made WORKERS

DOCTORS, which operates an industrial doctor HR business mainly in the Tokyo metropolitan area, a group company. As the demand for more effective corporate health management continues to heighten the importance of the role industrial doctors play, the Group will seek to generate new synergies by capitalizing on the expertise WORKERS DOCTORS has built up in the industrial doctor HR field together with the Group's nationwide sales framework and track record in doctor placements.

2. Shareholder Returns

Nihon Chouzai regards returning profits to shareholders as a key management issue. Our basic policy is to return profits to shareholders through stable dividends twice a year (interim and year-end) while considering the internal reserves needed to ensure future growth potential.

Furthermore, to express our gratitude to shareholders for their constant support, as well as to gain greater understanding of the Group's businesses and encourage the holding of Nihon Chouzai shares over the longer term, we have set up a shareholder benefit program.

3. Fortifying the Financial Foundation

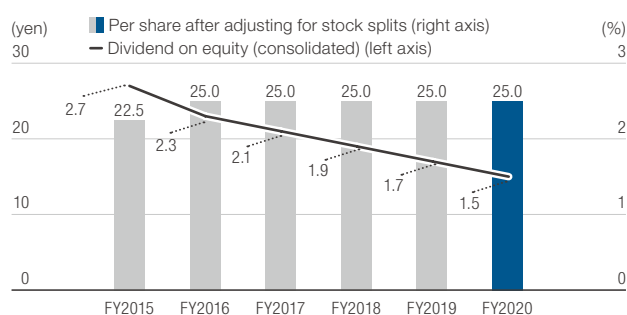
For a company to continue to grow, it is essential to build a stable financial foundation. In FY2020, the Group worked to draw down interest-bearing debt while ensuring sufficient liquidity on hand to meet changes in the business environment brought about by COVID-19.

Although consolidated net sales rose by 3.9% year on year, net assets only increased by 0.4%, indicating greater asset efficiency. Assets increased by roughly 700 million yen while accounts payable increased by roughly 1.4 billion yen, owing to an increase in raw materials and supplies to ensure stable supply capacity in the

Amount of Investment

(Millions of yen)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Pharmacy business	4,046	4,238	4,679	3,215	8,997	6,289
Manufacturing business	3,663	18,742	10,245	1,582	2,069	2,701
HR business	30	45	89	291	84	98
Consolidated	8,073	23,344	15,316	5,254	12,025	9,492

Dividends Paid



Pharmaceutical Manufacturing and Sales Business. On the other hand, income taxes payable were down by approximately 3.2 billion yen, resulting in approximately a 2 billion yen decrease in liabilities, while net assets were up by 2.7 billion yen due to an increase in retained earnings. Consequently, the equity ratio rose 1.4 points year on year to 26.8%, reflecting the Group's success in further enhancing the capital base.

Going forward, the Group will continue striving to improve its financial position and strengthen the financial foundation for further growth.

Profitability Indicators

In FY2020, the Group achieved higher sales and profits in each category from sales to ordinary profit. Although total asset turnover and financial leverage have remained at high levels, ROE was down year on year, from 15.2% to 7.3%, reflecting a decline in the net profit margin attributable to owners of parent due in part to impairment losses on equipment in the Pharmaceutical Manufacturing and Sales Business. On the other hand, EBITDA, a profitability indicator, has been steadily rising in recent years, and the Group will continue working to sustain this momentum.

	ROE	=	Net profit margin	×	total asset turnover	×	financial leverage
FY2019	15.2%	=	2.5%	×	147.4%	×	413.2%
FY2020	7.3%	=	1.3%	×	150.0%	×	383.5%

