

Value Creation Process

Issues and Demands in Society

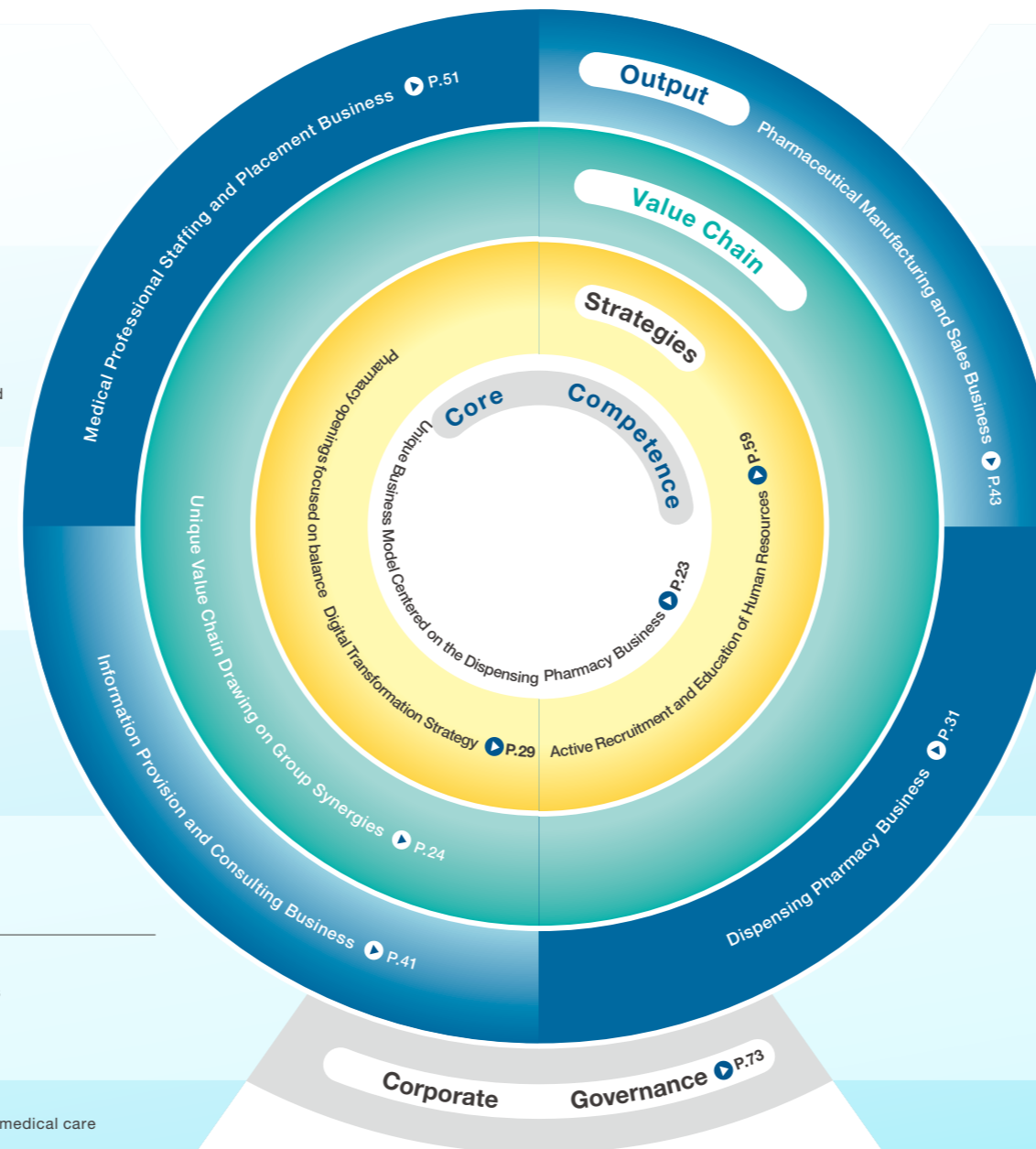
<p>Issues</p> <ul style="list-style-type: none"> Super-aging society ("2025 Problem") Rising medical expenses, shortage of doctors Polypharmacy (multiple medications) Unused medications Response to pandemic 	<p>Demands</p> <ul style="list-style-type: none"> Family pharmacist system Next-generation pharmacies using digital transformation
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Relevant SDGs



Input

<p>Human Capital</p> <ul style="list-style-type: none"> 68% out of 5,200 employees with high degree of expertise Pharmacists: 3,500 Registered dietitians: 60 Active HR investment Education: 590 million yen (over 5 years)
<p>Intellectual Capital</p> <ul style="list-style-type: none"> Market-leading digital transformation (Investment: 7 billion yen over 5 years) Ongoing research of generic drugs (Investment: 13.7 billion yen over 5 years) Strong brand recognition: 40-year track record in advanced healthcare, widely recognized among pharmacists
<p>Financial Capital</p> <ul style="list-style-type: none"> Round of large-scale capital investment (FY2016: 167 billion yen; FY2017: 102 billion yen) Total assets: 186.2 billion yen (end of FY2020)
<p>Manufacturing Capital</p> <ul style="list-style-type: none"> 685 pharmacies Five drug manufacturing plants Two research facilities
<p>Natural Capital</p> <ul style="list-style-type: none"> Pharmacies Shift to LED lighting Refurbished water-conserving toilets Plants In-house power generation from solar panels Installation of mist spray cooling devices
<p>Social Capital</p> <ul style="list-style-type: none"> Robust collaboration with hospitals that provide advanced medical care Health Check Stations opened Number of patients: 10.62 million (FY2020) Providing an electronic medication notebook platform Placement Business: Over 80,000 cases





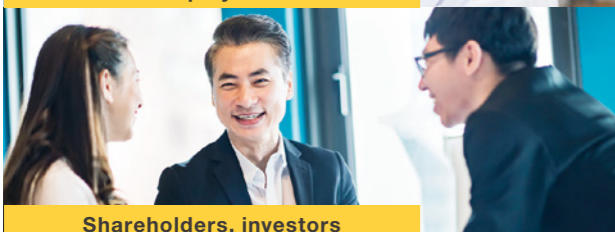
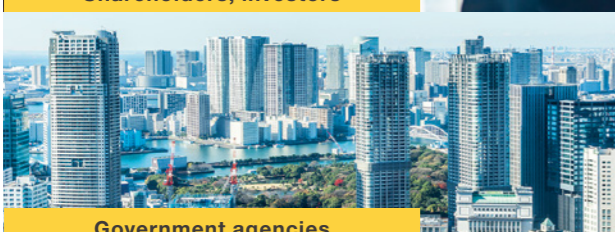


Outcome

<p>Human Capital</p> <ul style="list-style-type: none"> Sales per employee: 53.4 million yen (FY2020) Promoting women's advancement: Full-time female employees = 70.3%*1 Growth in certified personnel: Decrease in turnover rate Reduction in the number of employees working long overtime hour: 37.6% versus five-year average (FY2020)
<p>Intellectual Capital</p> <ul style="list-style-type: none"> Highly secure proprietary system Pharmaceuticals: Newly NHI listed drugs = 21 (FY2020) Brand recognition: Ranked No. 1 in three categories of company popularity among job-seeking graduates
<p>Financial Capital</p> <ul style="list-style-type: none"> Total dividends paid: 749 million yen (FY2020) Stock Price: 1,785 yen (end of FY 2020) (*up 130 yen from end of FY2019: 1,655 yen) ROE: 7.3% (FY2020)
<p>Manufacturing Capital</p> <ul style="list-style-type: none"> Pharmacies: generic drug use 89.3% (end of FY2020) Plants: Generic drugs manufactured in-house: 262 (end of FY2020) (*up 17 from end of FY2019) Significant increase in manufacturing capacity due to operation of new plant
<p>Natural Capital</p> <ul style="list-style-type: none"> Pharmacies 1.9% reduction in utility costs per pharmacy (FY2019-FY2020) Plants Recycled waste: 55 tons (FY2020) Water usage: 834,000 tons (FY2020) CO₂ emissions: 163,000 tons (FY2020)
<p>Social Capital</p> <ul style="list-style-type: none"> Presence at university hospitals nationwide: 50.3% Number of prescriptions: 14.2 million (FY2020) Electronic medication notebook <i>Okusuri Techo Plus</i> subscribers: 850,000 (as of August 2021) (*up 350,000 from April 2020 (500,000)) Job placement support*2: up 34% for pharmacists, up 247% for doctors (FY2020)

*1 Nihon Chouzai only (end of March 2021)
*2 Number of placement contracts (versus FY2017)

Stakeholder Engagement

The Nihon Chouzai Group seeks to hold constructive dialogues with stakeholders in each of its business areas to identify their expectations and needs, and to work together with them to help resolve the issues facing society as a whole. Going forward, we will continue to work to deepen relationships of trust with stakeholders, build relationships that enable mutual flourishing, and increase corporate value.

	Why we engage	Stakeholders' concerns	How we respond
 <p>Patients and customers</p>	<p>As a medical institution that provides quality healthcare throughout Japan, we believe pursuing the care that patients and customers demand is essential for the long-term development of our company. The Nihon Chouzai Group is constantly striving to ensure that patients and customers can receive the best possible healthcare without worry regardless of where they are in Japan.</p>	<ul style="list-style-type: none"> ■ Provision of high-quality healthcare through the safe, secure Nihon Chouzai brand ■ Ability to receive the proper pharmacy services whenever needed nationwide ■ Supply of high-quality pharmaceuticals 	<ul style="list-style-type: none"> ■ Providing high-quality healthcare at Nihon Chouzai pharmacies in all prefectures in Japan ■ Providing high-quality generic drugs under the Nihon Generic brand
 <p>Medical institutions (hospitals, pharmacies) and medical professionals</p>	<p>As a medical institution and as medical professionals responsible for regional healthcare, the Group collaborates as appropriate with other institutions and professionals to deliver healthcare to patients and members of the local community, and in this way are helping to uphold a sustainable healthcare system in Japan. In addition, for medical institutions facing a shortage of medical staff, we are helping to redress regional disparities in healthcare by supplying appropriate medical personnel through the Group's Medical Professional Staffing and Placement Business.</p>	<ul style="list-style-type: none"> ■ Collaboration with medical institutions to build sustainable community healthcare frameworks ■ Redressing regional healthcare disparities caused by a shortage of medical personnel ■ Cooperation with highly specialized pharmacies and pharmacists 	<ul style="list-style-type: none"> ■ Healthcare collaboration by highly specialized pharmacists with regional medical institutions ■ Staffing and placement businesses that connect medical institutions and medical professionals while avoiding poor fits ■ Stable supply <ul style="list-style-type: none"> • Safe, high-quality drugs • Interviews to provide personnel while avoiding poor fits
 <p>Employees</p>	<p>To achieve sustainable growth, it is vital to create workplaces where employees can take pride in their work as medical professionals who are supporting healthcare in Japan. The Nihon Chouzai Group is working not only to foster supportive, fulfilling workplaces, but also carries out employee engagement surveys to enhance employee satisfaction.</p>	<ul style="list-style-type: none"> ■ Workplaces where employees can continue to work with a sense of security ■ Fulfilling work that can contribute to healthcare in Japan ■ Maintaining stable employment 	<ul style="list-style-type: none"> ■ Offering working environments at financially sound medical institutions ■ Providing a wide range of job positions that offer fulfillment as a medical professional ■ Stable employment in the Nihon Chouzai Group (salary, benefits) ■ One of industry's best training programs ■ Providing flexible career plans that empower women in the workplace
 <p>Shareholders, investors</p>	<p>As a company listed on the First Section of the Tokyo Stock Exchange, the Group places importance on appropriate disclosure and on constructive dialogue with shareholders and investors for the sake of achieving sustainable growth and building corporate value over the longer term. Feedback and demands obtained through interactions with shareholders and investors are promptly shared within the Group and reflected in management and investor relations activities.</p>	<ul style="list-style-type: none"> ■ Sustainable growth ■ Longer-term improvement in corporate value ■ Stable shareholder returns ■ Appropriate disclosure 	<ul style="list-style-type: none"> ■ Engagement activities with shareholders and investors ■ Growth strategies to achieve a sound financial structure and sustainable growth ■ Stable shareholder returns
 <p>Government agencies</p>	<p>Effective collaboration with government agencies is indispensable to the Group's businesses. The Nihon Chouzai Group will continue to engage with government agencies to contribute to Japan's regional healthcare system.</p>	<ul style="list-style-type: none"> ■ Provision of healthcare with guaranteed safety and stability ■ Cooperative efforts with government agencies ■ Reduction of medical expenses ■ Understanding of ministry, agency policies 	<ul style="list-style-type: none"> ■ Developing high-quality generic drugs ■ Stable drug supply ■ Contributing to regional healthcare in Japan ■ Demonstrating the Group's value to society
 <p>Society</p>	<p>As we seek to contribute to regional healthcare, cooperative efforts with various stakeholders in our communities are crucial to our businesses. The Group will continue to provide the best-possible healthcare throughout Japan to ensure that patients and customers can lead their daily lives with a sense of security and safety.</p>	<ul style="list-style-type: none"> ■ Regional healthcare stations ■ Family pharmacies, pharmacists ■ Actions to contribute to society 	<ul style="list-style-type: none"> ■ Functions to support community residents in staying healthy ■ Pharmacy-based community healthcare frameworks to enable people to lead their daily lives with a sense of security
 <p>Business partners</p>	<p>As a Group that is involved in a broad range of business areas, it is critical that we maintain solid relationships with all of our business partners. By building a robust supply chain, we will seek to provide stable, quality medical services to patients and customers nationwide.</p>	<ul style="list-style-type: none"> ■ Stability ■ Growth potential ■ Products ■ Services 	<ul style="list-style-type: none"> ■ Over-the-counter (OTC) drug sales ■ Scale merits ■ Sound financial structure ■ Sales of goods and services

A distinctive business model and value chain

Core Competencies of the Nihon Chouzai Group

The Nihon Chouzai Group is drawing on expertise gained through the nationwide growth of the core Dispensing Pharmacy Business to expand into other healthcare-related fields through our Pharmaceutical Manufacturing and Sales Business and our Medical Professional Staffing and Placement Business.

With the Dispensing Pharmacy Business at the core, we are harnessing powerful synergies through organic collaboration between the three main businesses as we pursue growth across the Group.

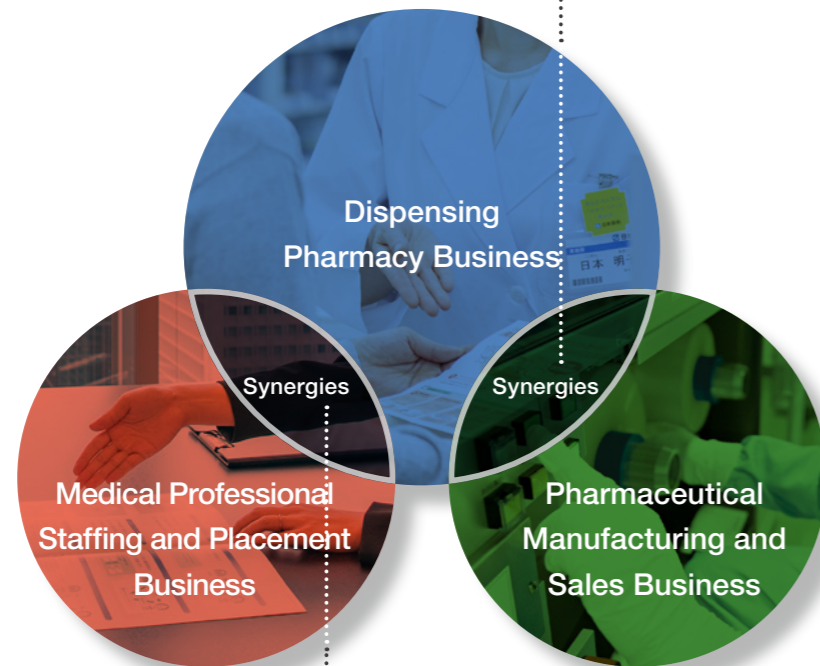
Core Competencies Centered on the Dispensing Pharmacy Business

- 1 Pharmacy network development capabilities centered on a history of organic growth since the company's founding
- 2 High specialization and ability to support advanced medical care nationwide
- 3 Long-standing ability to incorporate ICT, including in-house developed dispensing systems and processing/analysis of big data
- 4 Organizational ability to respond on a national scale to changes in public policy and the environment
- 5 Being first off the mark in forward-looking risk-taking and investment

Synergies

Dispensing Pharmacy Business ↔ Pharmaceutical Manufacturing and Sales Business

The Group boasts a business model unrivaled by other companies, in which growth in the Dispensing Pharmacy Business is tied in with growth in the Pharmaceutical Manufacturing and Sales Business.



Synergies

Dispensing Pharmacy Business ↔ Medical Professional Staffing and Placement Business

Through the Dispensing Pharmacy Business network we are able to quickly identify hiring demand for medical professionals. Our business model enables us to quickly expand into new HR fields.

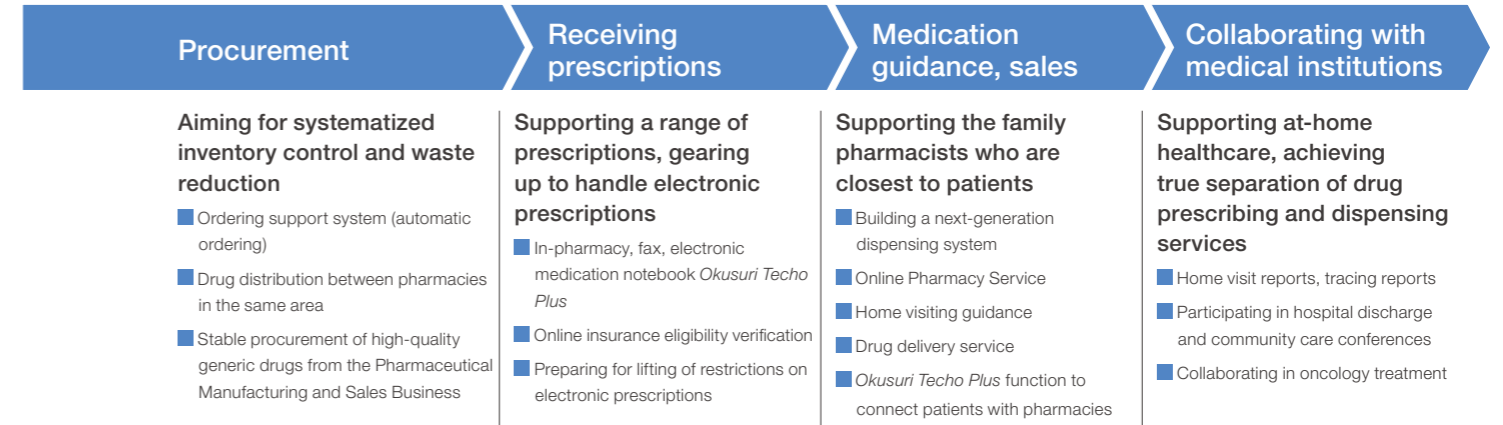
chain leveraging Group synergies

Value Chain

Dispensing Pharmacy Business

A leading company in the pharmacy sector

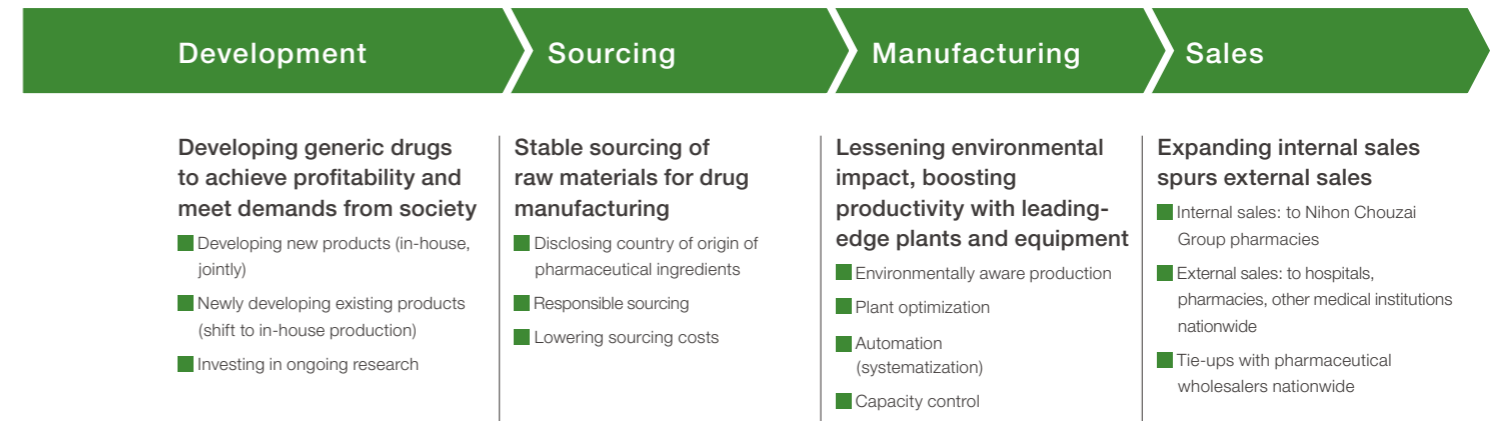
P31



Pharmaceutical Manufacturing and Sales Business

A manufacturer of a full line of generic drugs

P43



Medical Professional Staffing and Placement Business

An HR services company specializing in professionals in healthcare fields

P51





Overview of Long-Term Vision and Strategy

In April 2018, Nihon Chouzai announced a long-term vision describing the kind of company we want to be in 2030. The business environment for the Group is undergoing dramatic changes, including the super-aging society in Japan and the global spread of COVID-19.

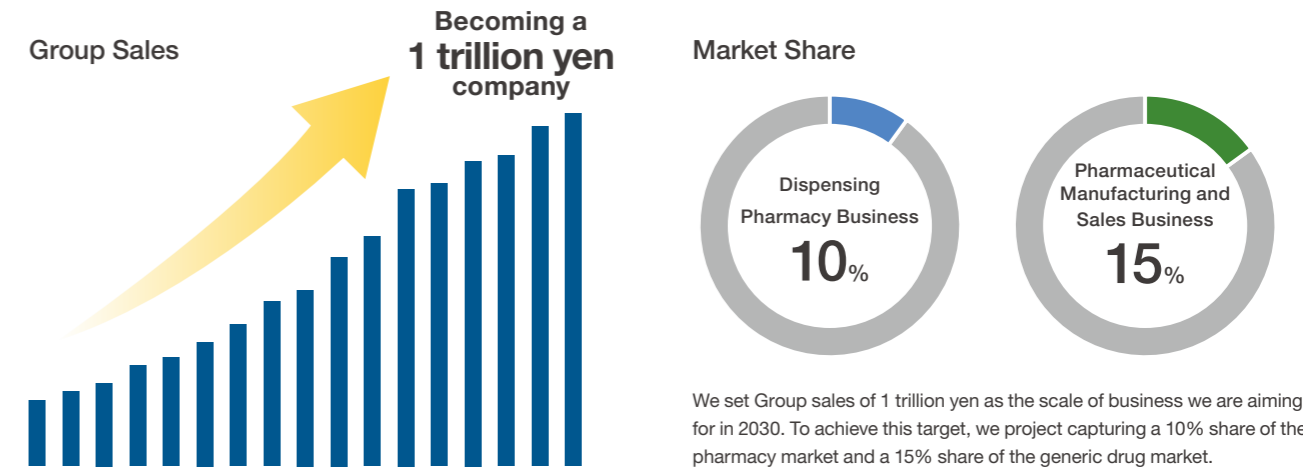
Embracing these dramatic changes as opportunities, we summarize on this page the strategies and results we are targeting to achieve substantial growth.

Strategies for Making the Long-Term Vision a Reality

Our View of the Long-Term Business Environment	Strategies	Strategic Outcomes
<p>Growth of the aging population</p>	<p>New pharmacy openings with an emphasis on balance</p>	<p>1 More robust profitability</p> <ul style="list-style-type: none"> ■ Synergies from substantial expansion in the Dispensing Pharmacy Business ■ Growth of the pharmaceutical manufacturing business (expansion of internal sales) P45 ■ Expansion into new areas in staffing and placement businesses (stronger tie-ups with medical institutions)
<p>Increasingly sophisticated healthcare</p>	<p>Digital Transformation Strategy P29</p>	<p>2 Greater efficiency</p> <ul style="list-style-type: none"> ■ Larger, more centralized pharmacies ■ Containing rising healthcare costs ■ Greater productivity ■ Growth of online healthcare P36
<p>Embracing major changes in the operating environment as opportunities</p> <p>Healthcare-related digital transformation</p>	<p>Active recruitment and education of human resources P59</p>	<p>3 Pursuit of quality and safety</p> <ul style="list-style-type: none"> ■ Ensuring safe healthcare ■ Stable supply and quality improvement P49
<p>Functional differentiation of pharmacies</p>		
<p>Industry restructuring</p>		

Long-Term Vision

The company we want to be in 2030 **A comprehensive healthcare company**



Key risks and opportunities projected in carrying out the long-term vision

At Nihon Chouzai, to achieve our long-term vision, we will seek to control risks, embrace opportunities as a force driving future growth, and harness strong synergies between our businesses to realize dramatic growth.

Area	Risks	Opportunities	Impact	Action
Dispensing fee revisions	Changes in dispensing fees due to national dispensing fee revisions	Accelerating restructuring in the pharmacy industry due to the impact of dispensing fee revisions	Failure to adapt to dispensing fee revisions may affect performance in the Dispensing Pharmacy Business.	Dispensing pharmacy business <ul style="list-style-type: none"> Foster specialized professionals to handle advanced healthcare P33 Expand business areas by strengthening pharmacy functions to support a care cycle ranging from disease prevention and pre-symptomatic illness to treatment, prevention of progression, and at-home healthcare
Drug price revisions	Reduction in drug prices due to national drug price revisions	Accelerating restructuring in the pharmacy and generic drug industries due to the impact of drug price reductions	Drug price revisions may affect Group performance, such as causing lower profits in the Dispensing Pharmacy Business and Pharmaceutical Manufacturing and Sales Business.	Dispensing Pharmacy Business <ul style="list-style-type: none"> Expand the customer base through new pharmacy openings and growth of existing pharmacies Expand the customer base through construction of online healthcare systems Pharmaceutical Manufacturing and Sales Business <ul style="list-style-type: none"> Develop highly profitable drugs P44 Boost profit margins by reviewing portfolio to increase ratio of products manufactured in-house Lower costs through more efficient production
Entry of outside players into the pharmacy industry	Entry of players from other industries following deregulation in the pharmacy sector	Spread of remote healthcare and online medication guidance following deregulation in the pharmacy sector	If deregulation in the pharmacy sector draws in new players from other industries, this may affect Group performance.	Dispensing Pharmacy Business <ul style="list-style-type: none"> Achieve dramatic growth by transforming our businesses through the fusion of highly skilled medical personnel with healthcare-related digital transformation, bringing about business reform, new business creation, and work process reform Digital Transformation Strategy P29
COVID-19 Pandemic	Long-term prolongation of the pandemic	Growing demand to provide healthcare online and other means that do not involve interpersonal contact	Business continuity may be partially disrupted due to employee infections. Patients refraining from visiting medical institutions may cause lower profitability.	Dispensing Pharmacy Business <ul style="list-style-type: none"> Amid advancing digital transformation in healthcare fields, provide smart healthcare that enables medical consultation, medication guidance, and drug receipt to be carried out entirely online P36 Medical Professional Staffing and Placement Business <ul style="list-style-type: none"> Meet demand for medical personnel to man vaccination venues and serve in areas where medical resources are scarce P56
Cyber Security	Leaks of vital information due to cyber attack	Reinforcing security by continuously upgrading risk response	If a risk is exposed, privacy breaches, leaks of confidential company information, and other information protection issues may affect Group performance through the loss of social credibility or of access to information critical to management.	Conduct cyber security assessments through an external auditing agency. Minimize risks by continuously upgrading cyber security measures.
Medical and pharmaceutical safety and quality	Side effects or harmful interactions caused by drugs; quality defects of pharmaceutical products	Ensuring and improving safety by promoting the proper use of pharmaceuticals; maintaining and improving quality through proper drug manufacturing	Dispensing Pharmacy Business If drugs are not used properly, this may affect Group performance through the loss of social credibility and patient trust due to the occurrence of side effects or harmful interactions.	Dispensing Pharmacy Business <ul style="list-style-type: none"> Continue to reinforce education to ensure the proper use of drugs, using e-learning, the FINDAT platform, and other formats Design programs to support the proper use of drugs and implement dispensing equipment to ensure safety P37 Pharmaceutical Manufacturing and Sales Business <ul style="list-style-type: none"> Carry out ongoing education to maintain and enhance quality standards Operate an ongoing framework to regularly monitor proper quality levels (practice quality risk management)
Stable Supply of Pharmaceuticals	Instability in domestic pharmaceutical supply	Increased demand for in-house products	If the stable supply of pharmaceuticals is affected, such as when supply cannot keep up with market demand for pharmaceuticals, this may affect Group performance, such as through the loss of trust from patients and healthcare professionals.	<ul style="list-style-type: none"> Augment production capacity to meet surges in demand for pharmaceuticals



Achieving sustainable growth by incorporating digital transformation and sustainability into the management strategy

Nihon Chouzai regards ICT as a key factor in growth and has been developing an ICT strategy for many years. Going forward, we will continue to pursue business transformation through the use of digital technology (digital transformation) to create value and achieve further growth.

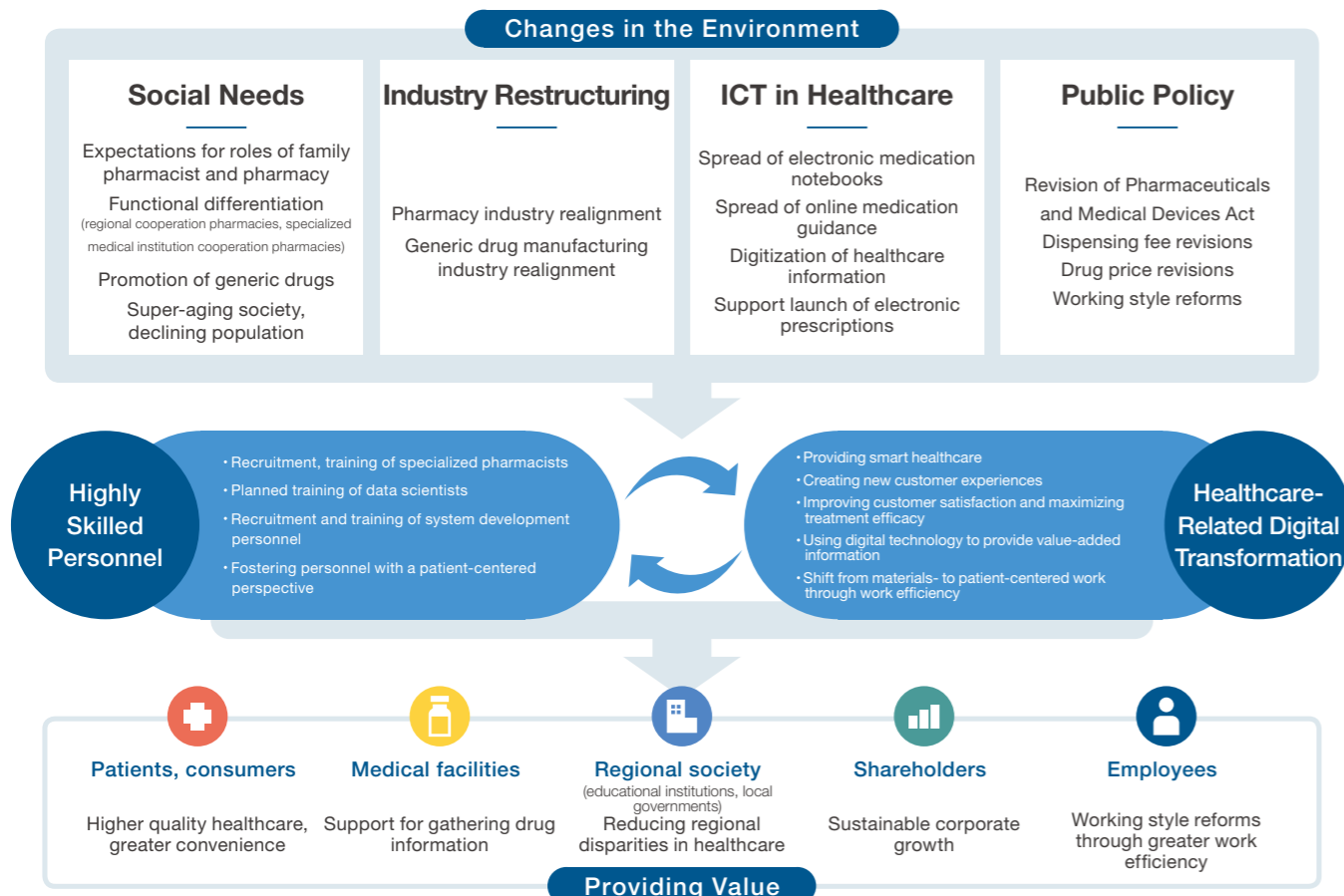
Providing Value Through Healthcare-Related Digital Transformation in a Changing Environment

A Fusion of Personnel and Healthcare-Related Digital Transformation Shaping Next-Generation Pharmacies

Amid a super-aging society and shrinking population, the healthcare environment in Japan is being rocked by moves to curb social security costs and labor shortages.

Nihon Chouzai will realize the digital transformation of existing businesses and create a new earnings base through the fusion of highly skilled personnel with

healthcare-related digital transformation. We will help solve social issues by achieving both healthcare safety and an efficient operating framework. Moreover, the Group will evolve existing services and create new medical services to provide new value to patients, medical institutions, local communities, and all of our key stakeholders.



Five Digital Transformation Strategies

Nihon Chouzai is targeting dramatic growth as we move forward in achieving our long-term vision for FY2030. To support such growth, we have formulated five Digital Transformation Strategies to meet changes in the environment and provide new services that will bring innovation to the healthcare industry in Japan.

The five Digital Transformation Strategies will significantly

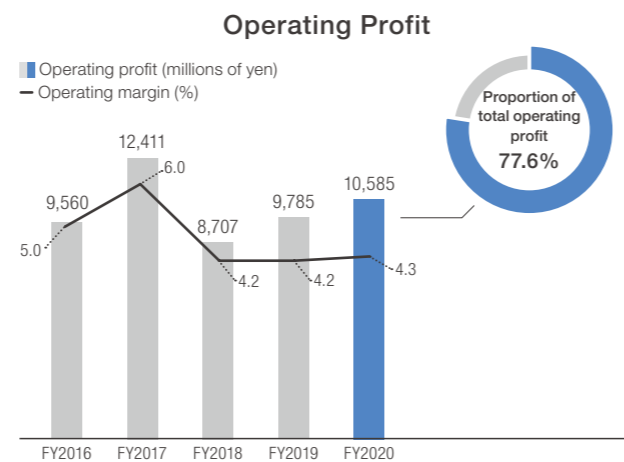
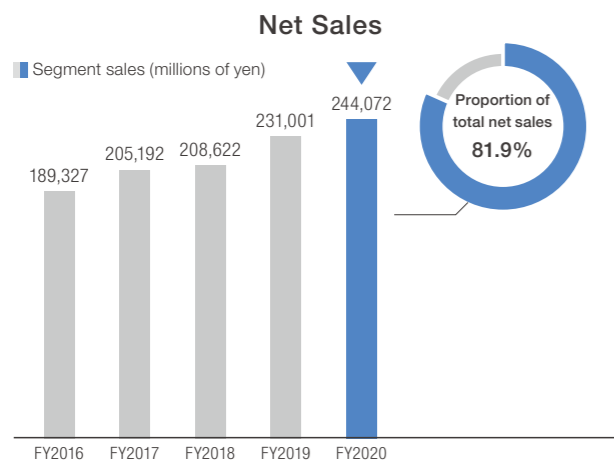
transform our businesses, focusing on the areas of business reform, new business creation, and work process reform. Through these approaches, we will provide new value to a wide range of stakeholders, not only the patients and consumers who receive our services but also medical facilities, regional society, shareholders, and employees.





Dispensing Pharmacy Business

Nihon Chouzai Co., Ltd.
and dispensing pharmacy subsidiaries



Long-Term Vision: Pushing Ahead to Embrace Industry Restructuring

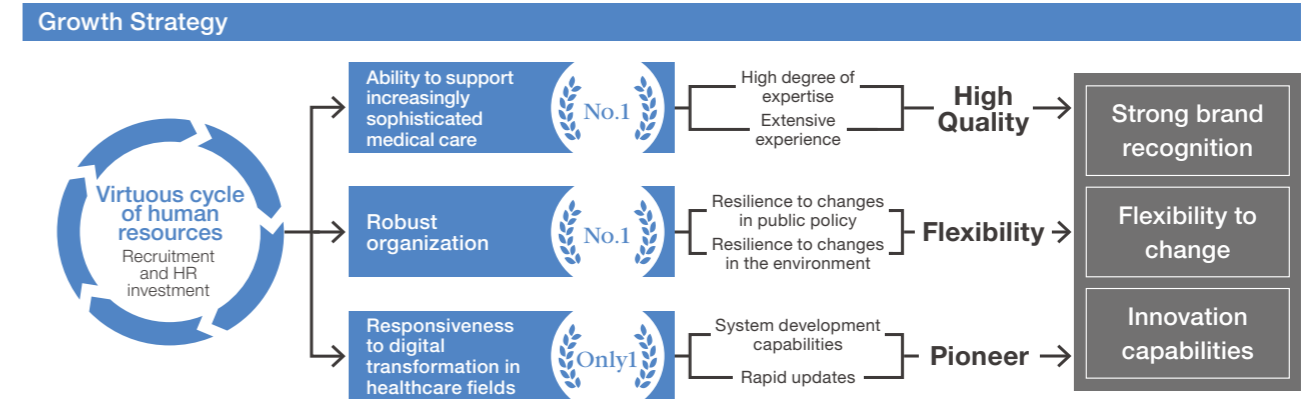
Nihon Chouzai's Growth Strategy

Nihon Chouzai is realizing sustainable growth by harnessing the strengths that are generated out of three key factors in its growth strategy.

The first factor is our ability to support increasingly sophisticated healthcare. Since the company's founding, we have forged a history of opening pharmacies in front of university hospitals and major regional hospitals that provide advanced healthcare. We have been able to create high-value-added services thanks to our high degree of specialization and extensive experience accumulated over the years.

The second factor is our robust organization. For 40 years we have constantly weathered the impact of NHI drug price and drug dispensing fee revisions, taking progressive initiatives in response to changes in government policy and in the healthcare industry environment.

The third factor is our ability to adapt to digital transformation in healthcare fields. Nihon Chouzai has been developing dispensing systems in-house since the 1990s. Most recently, we constructed a forward-looking, efficient system that will be crucial in enabling future pharmacy management, such as supporting online healthcare.

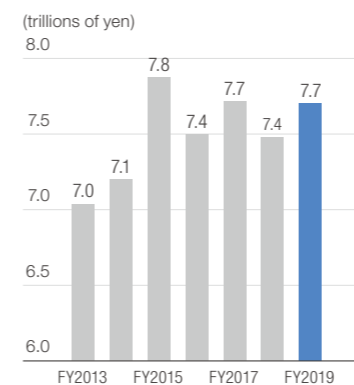


Market Environment

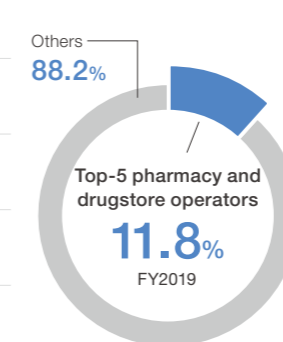
In the Japanese healthcare industry, the government takes initiative in setting NHI drug prices and drug dispensing fees. Drug prices are revised every year while dispensing fees are revised once every two years, and the industry is subject to strict regulations. With an eye toward 2025 when all baby boomers (those born between 1946 and 1949) will be 75 or older, the government has rapidly taken a series of measures to contain healthcare costs. Given pressures on the national budget, we can continue to

expect sharp downward revisions in NHI drug prices and drug dispensing fees. This adverse business environment is a driving force behind the restructuring of the pharmacy industry, and we are likely to see further consolidation as the number of pharmacies decreases. To weather ongoing waves of consolidation and survive as a business, Nihon Chouzai considers it necessary to boost the sales volume of individual pharmacies and increase the number of pharmacists per pharmacy.

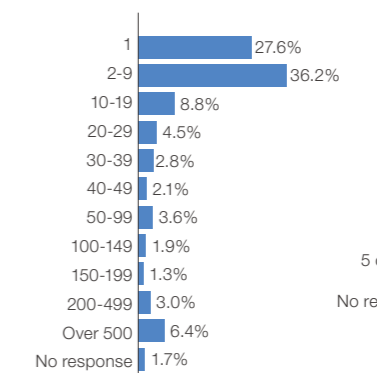
Market Size (Drug Dispensing Expenses)



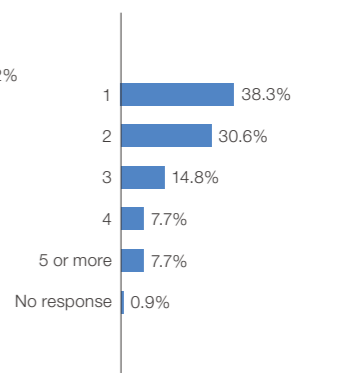
Market Share



Number of Pharmacies Under Same Management



Number of Full-Time Pharmacists per Pharmacy



Market size, market share: Prepared by Nihon Chouzai based on MHLW, "Trend of Dispensing and Medical Care Expenses" and based on the securities reports of each company. Number of pharmacies under same management and number of full-time pharmacists: MHLW, "Fact-Finding Survey Report for Achieving the Vision of Pharmacies for Patients," March 31, 2017

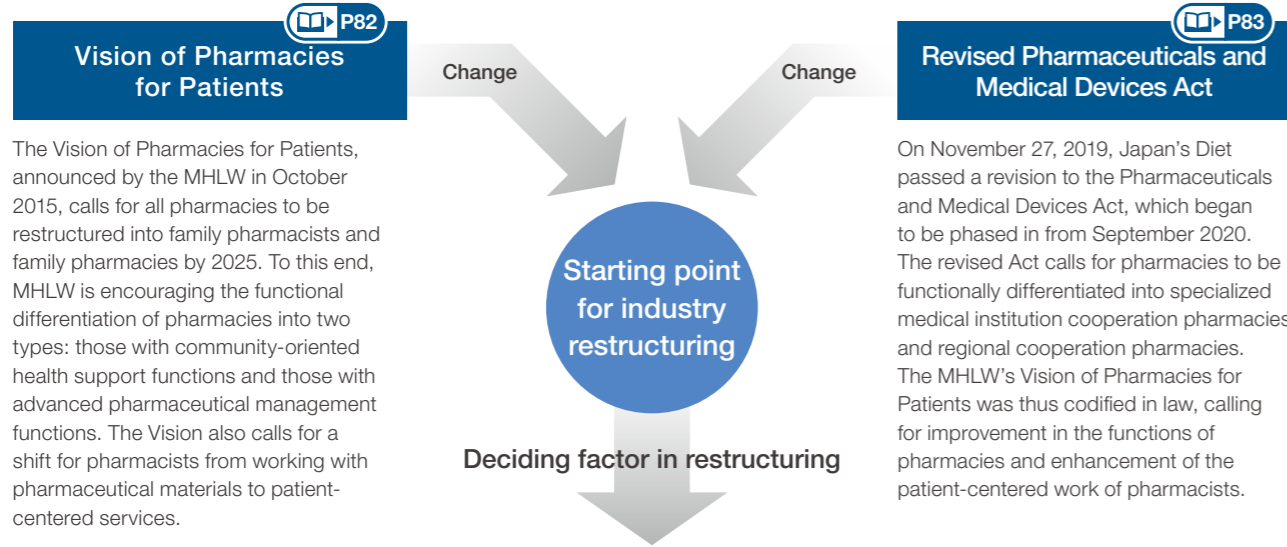
Growth Strategy: Realizing a Virtuous Cycle

Investing in Human Resources

At Nihon Chouzai, we view the people who support the Group as an essential management resource and continuously invest in human resources. We are recognized within the industry as a company that provides its employees with top-notch education, including offering an array of career development opportunities and training.

Nihon Chouzai believes the starting point for industry restructuring is strengthening the patient-centered skills of pharmacists, which is a common theme of both the Vision of Pharmacies for Patients announced by the Ministry of Health, Labour and Welfare (MHLW) in

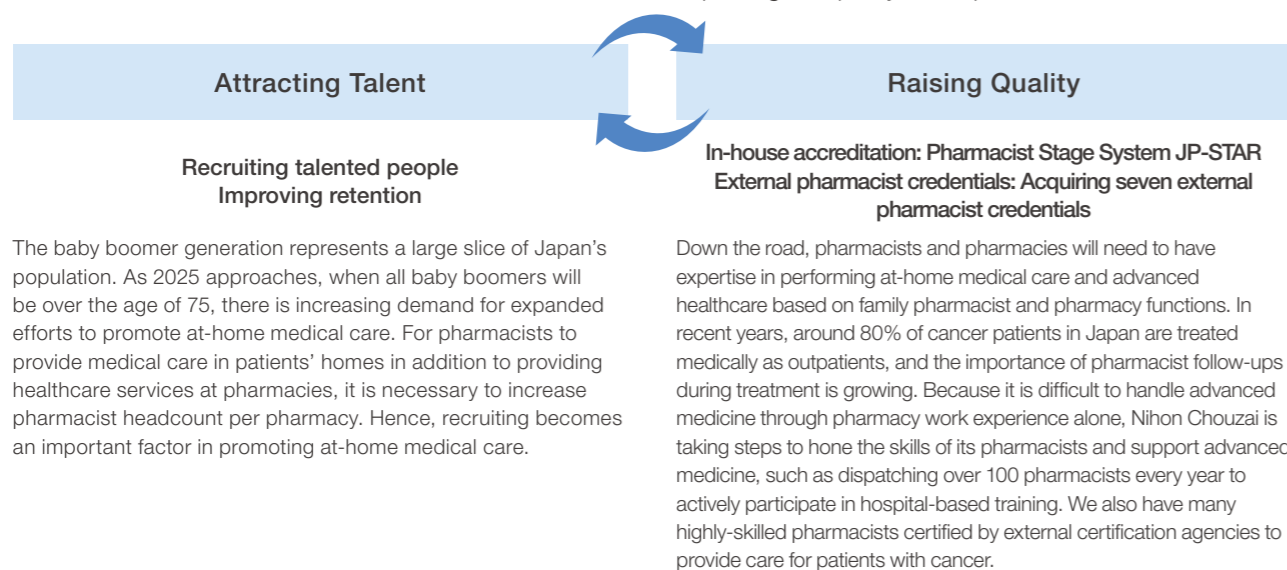
October 2015 and the revised Pharmaceuticals and Medical Devices Act, which is being gradually phased in since September 2020. We expect that pharmacists will be required to engage in even more extensive patient-centered work, and that the fee system of pharmacies will reflect such differences. Anticipating that unprecedented, far-reaching changes will give rise to further industry restructuring, the Group has for several years been strategically investing resources in its people, who are the deciding factor in successful restructuring, and has largely put in place a foundation for growth.



Investing in Human Resources

Going forward, pharmacies will be required to improve their functions and pharmacists will be required to perform more extensive patient-centered work. Meanwhile, regulatory evaluation of services that involve simply handling materials, such as medication selection and other dispensing work, is being reviewed and drug dispensing fees for such work are being lowered. For

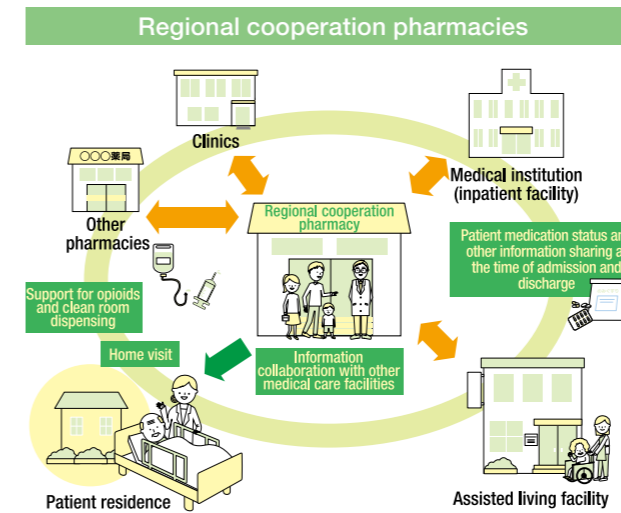
these reasons, recruiting skilled pharmacists and further honing the skills of pharmacists, who are the critical resources engaging in patient-centered work, has become essential. Nihon Chouzai has invested in human resources with a view to longer-term growth, and is now shifting from the phase of attracting talent to the phase of improving the quality of our personnel.



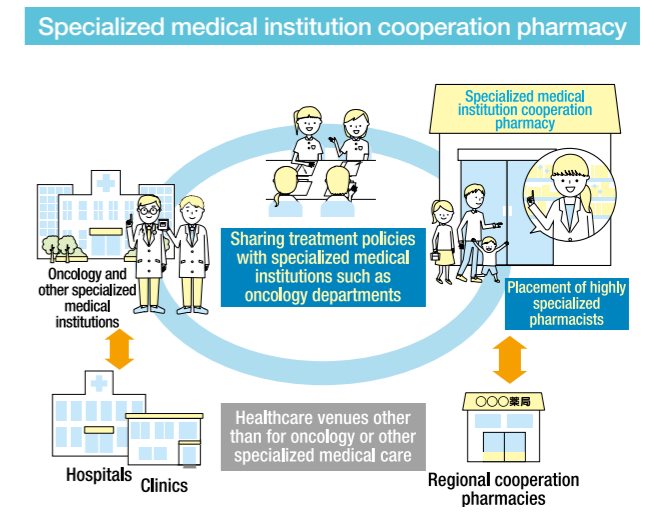
Strengthening Pharmacy Functions and Enhancing Healthcare Service Quality

The Vision of Pharmacies for Patients announced by the MHLW set forth concrete functions required of pharmacists and pharmacies going forward. Under the revised Pharmaceuticals and Medical Devices Act, which is being phased in from September 2020, pharmacies recognized by the prefectural governor as having a certain function can display signs indicating their specific function. In order to receive the certification, pharmacies need to closely cooperate with medical institutions.

Moreover, in addition to the core functions of family pharmacists and pharmacies, specialized medical institution cooperation pharmacies are required to have pharmacists on site with academic society certification or other specialized training. Nihon Chouzai is actively strengthening its patient-centered operations and steadily laying the groundwork to fulfill the functions that will be demanded of pharmacies in the future.



Regional cooperation pharmacies build a collaborative framework with medical staff at medical institutions, pharmacies, and other healthcare facilities and carry out centralized, continuous sharing of medication information. Such pharmacies act as bridges between hospitals (medical care) and care facilities or residences (long-term care), not only when the patient makes an outpatient hospital visit but also by supporting at-home medical care and at the time of admission and discharge from the hospital. These pharmacies are expected to provide quality healthcare to the community by complementing the role of health support pharmacies that are on the front lines of health promotion for community residents, including pre-symptomatic illnesses.

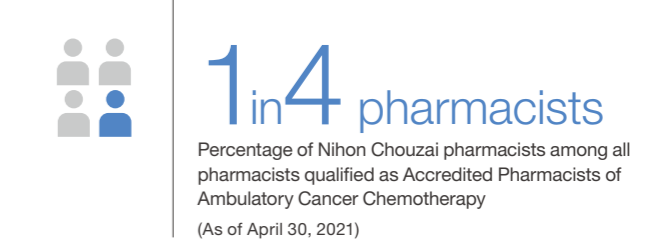


Specialized medical institution cooperation pharmacies serve patients who require oncology and other specialized pharmaceutical management. They engage in special kinds of dispensing that call for more advanced medication management and greater specialization, while closely coordinating with specialized medical institutions. Currently, oncology is the only specialty for which certification is required at specialized medical institution cooperation pharmacies, but there are plans to include other disease types in the future.

Family pharmacists



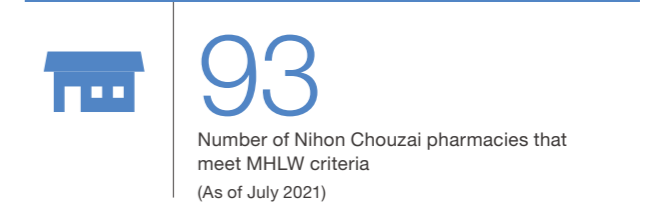
Securing and fostering highly specialized pharmacists such as those accredited by an academic society



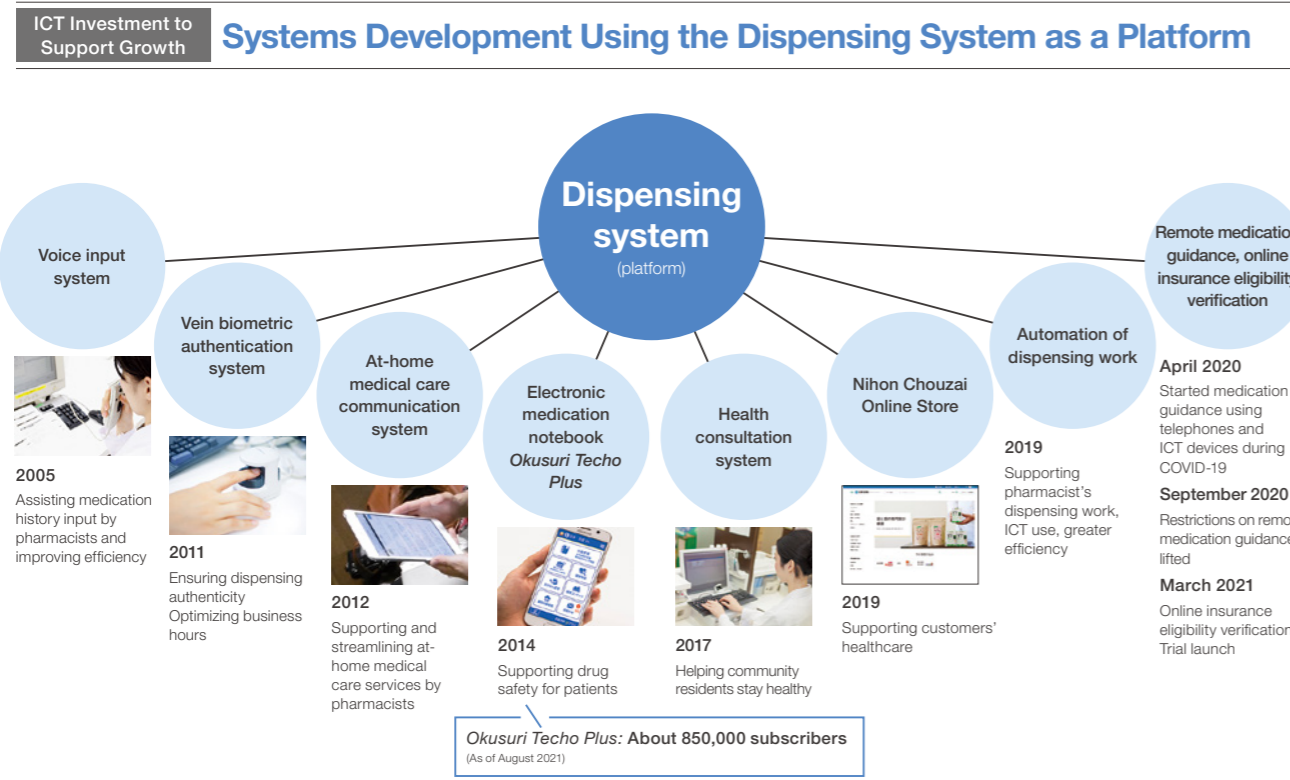
At-home medical care



Health Support Pharmacies



Growth Strategy: Realizing a Virtuous Cycle



Dispensing system

Nihon Chouzai is the only company in Japan's dispensing pharmacy industry to have internally developed and operate its own dispensing system for use in pharmacy operations. In-house development of the first system began in the 1990s. By updating the system every year, we have been able to respond quickly to revisions in drug dispensing fees and the move toward remote healthcare. The system also serves as a platform that can flexibly link with other systems. In 2021, we started development of a next-generation dispensing system to address emerging needs, earmarking 5 billion yen for development costs. In addition to overhauling the user interface, we are targeting a system design that will enable a flexible response to upcoming digital transformation and deregulations in healthcare fields. We are positioning this development as a growth investment with a view to future business development and expansion of the business scale.

<p>Voice input system</p> <p>We introduced a voice input system that assists with the input of medication history after a pharmacist has provided the medication guidance. It is equipped with functionality to learn the traits and other elements of individual voices. The system's voice recognition is highly accurate and supports technical terminology. Pharmacies where the system has been rolled out can input and update medication history in much shorter times.</p>	<p>Electronic medication notebook Okusuri Techo Plus</p> <p>The electronic medication notebook <i>Okusuri Techo Plus</i> links with Nihon Chouzai's core dispensing system to enable centralized management of medication history. The notebook is equipped with various functions that enhance the convenience of pharmacy services, including a function for sending prescriptions, where users can send photos of their prescriptions taken with their smartphones to pharmacies in advance for a hassle-free pickup, and a calendar function for managing medication and out-patient visit schedules. The notebook also has a personal health record function that offers greater convenience by linking to data from weight scales and blood sugar measuring devices. In this way, it helps patients manage their daily habits and supports better health. In August 2021, a "connect" function will be added to allow users to communicate with pharmacies in the form of short messages. This will reinforce patient follow-up after pharmacy visits.</p>	<p>Nihon Chouzai Online Store</p> <p>We opened an online store that provides comprehensive support for healthcare, offering high-performance, high-quality products carefully selected by professional pharmacists and registered dietitians working in our pharmacies. We support healthcare for a wide range of users, offering approximately 2,000 different drugs, medical devices, cosmetics, health foods, hygiene, and other specialized healthcare products. The online store also sells original products available exclusively online.</p>
<p>Vein biometric authentication system</p> <p>Nihon Chouzai introduced a vein biometric authentication system using finger veins that is linked to the dispensing system. The system allows the user to put a time stamp on work performed and guarantees the authenticity of dispensing. It can also be used for work time management, contributing to reform of working styles through the optimization of working hours.</p>	<p>Health consultation system</p> <p>We have developed a system that supports the health of patients by centrally recording data such as health consultations at pharmacies and those conducted by registered dietitians at our Health Check-Up Stations. Because information on over-the-counter drugs for local residents without prescriptions can also be centrally recorded alongside prescription data, pharmacists and dietitians can conduct more informed counseling, helping local residents stay healthy.</p>	<p>Remote medication guidance Online insurance eligibility verification</p> <p></p>
<p>At-home healthcare communication system</p> <p>We have devised a system that allows pharmacists to access an at-home healthcare communication system via tablet when carrying out at-home care. Records of medication history and healthcare logs can be entered on the spot. The system serves as a tool both to streamline the work of home-visiting pharmacists and to support collaboration with local doctors, thus contributing to greater healthcare quality.</p>	<p>Automation of dispensing work</p> <p></p>	

ICT Investment to Support Growth **Remote Medication Guidance**

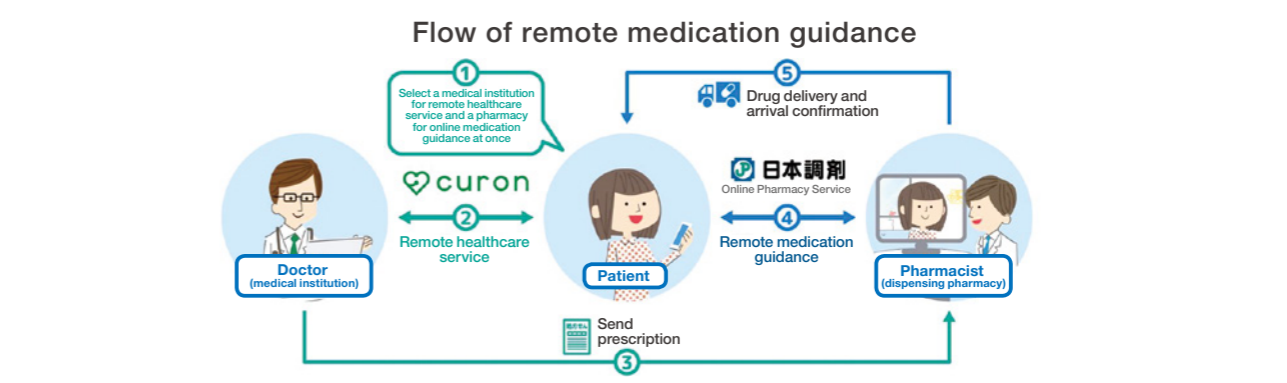
Nihon Chouzai Online Pharmacy Service

For some time, Nihon Chouzai has been actively involved in providing remote medication guidance in Japan's National Strategic Special Zones (business-friendly zones in major urban areas with special regulatory provisions). With the revision of the Pharmaceuticals and Medical Devices Act, remote medication guidance became available nationwide from September 2020. In response, we developed Nihon Chouzai Online Pharmacy Service, a service which allows patients to receive medication guidance at home. The service has started at our pharmacies nationwide, with some exceptions. As demand for non-face-to-face medication guidance increases, we have established a system that allows patients to easily receive medication guidance anytime, anywhere without going to the trouble of downloading an app.

Collaboration with Remote Healthcare Services

We have begun collaboration between Nihon Chouzai Online Pharmacy Service and the remote healthcare service curon of MICIN, Inc. Through this collaboration, patients can select any pharmacy of the nationwide Nihon Chouzai Group when making a reservation for an online healthcare consultation through the curon service. After the online consultation, users can smoothly transition to the Nihon Chouzai Online Pharmacy Service and make a reservation for online medication guidance. Since information is linked with the patient ID on the curon platform, even first-time pharmacy users can start registration with their basic information already entered. This collaboration is enabling a system that offers smoother use from online consultation through to online medication guidance.

As of June 2021, we had conducted over 37,000 cases of remote guidance (including support measures related to COVID-19)



ICT Investment to Support Growth **Online Insurance Eligibility Verification**

On March 4, 2021, Nihon Chouzai began participation in the trial launch of an online insurance eligibility verification system using patients' Individual Number Cards, which are equivalent to tax ID number cards (full-fledged operations are slated to begin in October 2021). By using Individual Number Cards, participating medical institutions and pharmacies can quickly verify the accuracy of the required patient insurance eligibility information. Use of Individual Number Cards avoids the conventional process where pharmacy staff enter and verify information from health insurance cards. Using face recognition in the reception step offers the benefit of being able to easily complete the verification process online. Online insurance eligibility verification will improve convenience for patients, while reinforcing the family pharmacist and pharmacy system Nihon Chouzai is actively working to implement, enabling detailed

support for patients including the centralization of medication information and continuous management of medication status. Having participated in the trial launch, Nihon Chouzai is actively preparing for full-scale operations and expanding the number of target pharmacies in stages, with 101 pharmacies targeted to use the system as of June 21.



Growth Strategy: Realizing a Virtuous Cycle

ICT Investment to Support Growth **Automation of Dispensing Work**

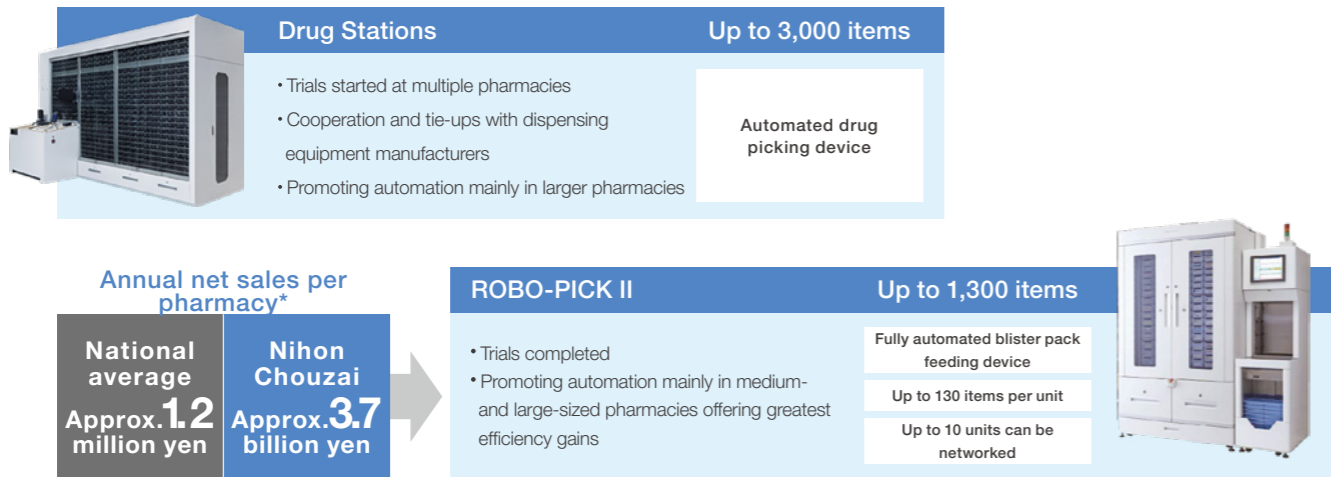
System Changes to Promote Automation

On April 2, 2019, the Ministry of Health, Labour and Welfare issued a public notice on the performance of dispensing work, which emphasized the need to enhance patient-centered work. To do this requires streamlining work that involves handling materials. The notice declared that it is now possible for staff other than

pharmacists to pick out and sort medicines from inventory that are still packaged in blister packs (PTP sheets), as long as they are visually monitored by a pharmacist. It also became possible to actively utilize dispensing equipment in the process of dispensing drugs.

Initiatives at Nihon Chouzai Pharmacies

While promoting efficiency through automation, we are striving to raise the quality of healthcare services by freeing up time for pharmacists to focus on patient-centered work.



* Annual net sales per pharmacy
Nihon Chouzai: Annual sales per pharmacy as of March 31, 2020.
National average: Calculated based on MHLW, "Trend of Dispensing and Medical Care Expenses FY2018" and "Overview of Fiscal 2018 Report on Public Health Administration and Services"

Shifting pharmacist work to more patient-centered work
Improving dispensing quality (including hygiene)
Improving patient safety

Trials of New Dispensing Equipment

In May 2020, Nihon Chouzai was first in the industry to introduce the newly released Drug Station, a system that is capable of dispensing up to 3,000 pharmaceutical products, and began trials to test its efficiency. Based on the results of the trials, we plan to roll out Drug Stations to pharmacies with sales levels that promise significant efficiency gains through the rollout.

Going forward, we will continue to stay out ahead of the competition by investing efficiently in and testing new equipment.

Automation Rollout Schedule

Nihon Chouzai initiated its rollout of automation initiatives in FY2020. Based on knowledge gained from the start of operations on the ground, we updated the schedule targeting a more effective rollout.

The schedule calls for the rollout of equipment at 50 pharmacies in FY2021 and at 30-50 pharmacies in FY2022.

We believe that automation not only improves efficiency, but also has the benefit of helping to ensure medical safety by minimizing human error.

Growth Strategy: New Businesses, Various Initiatives

Community-Based Nutrition Care Support

Certified Nutrition Care Stations

Certified Nutrition Care Stations are facilities certified by the Japan Dietetic Association as community-based hubs where local residents can receive support and guidance for nutritional care.

Through services such as nutrition consultations, health events, and nutrition classes, nutritionists and registered dietitians who are specialists in food and nutrition are supporting residents in leading healthy and fulfilling lives.

Number of pharmacies with certified Nutrition Care Stations: 25

Initiatives for Quality Medical Services

Home Support Centers Obtain ISO9001

Two Nihon Chouzai Home Support Centers have acquired ISO9001 certification for their quality management systems. The Centers provide a broad range of at-home healthcare services to address the needs of residents in the community.

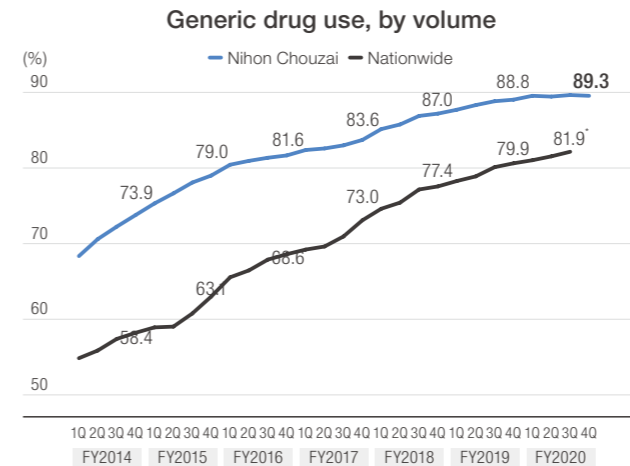
The ISO9001 standard is used to evaluate how an organization manages its mechanisms for continuously providing products and services that meet customer needs. Both bases that acquired certification are able to ensure high levels of safety and accuracy through the quality management systems they have built.

In addition to these two Centers, Nihon Chouzai plans to acquire successive ISO9001 certification for the 20 other Home Support Centers it operates nationwide.

Initiatives to Control Increasing Healthcare Costs

Promoting the Use of Generic Drugs

Nihon Chouzai achieved the government-mandated target of raising the proportion of generic drugs to 80% set for September 2020 three years ahead of schedule. As of March 2021, we had achieved the industry's leading share of generic drug use by volume, at 89.3%.



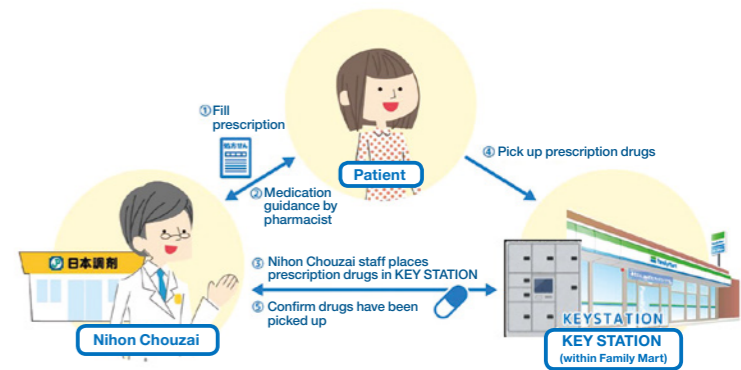
*MHLW, "Trend of Dispensing and Medical Care Expenses, Generic Drug Ratio by Volume (New Index)"

Promoting generic drugs helps curb increase in healthcare costs
Internal sales of Pharmaceutical Manufacturing and Sales Business are increasing (Group synergies)

Non-Contact Prescription Drug Pick-Up Service

KEY STATION

In collaboration with leading convenience store operator FamilyMart Co., Ltd., Nihon Chouzai has started trials of a prescription delivery service using KEY STATION, a pick-up box installed at FamilyMart stores that is equipped with an authentication function. Because KEY STATION boxes conduct identity verification, they allow patients to receive prescription drugs 24 hours a day safely, even outside pharmacy business hours, and without interpersonal contact. The new service is expected to help reduce COVID-19 infection risk and enhance convenience.



Initiatives for Community Health Support Functions

Health Check-Up Stations

As a community-oriented health support function, we have set up Health Check-Up Stations* in selected pharmacies which are actively working to help local residents stay healthy and to deal with pre-symptomatic illness and disease prevention. Health Check-Up Stations offer health consultations at a booth that helps ensure privacy, and are equipped with blood pressure monitors, body composition meters, and other measuring devices that can check patients' health condition.

In addition, Nihon Chouzai has begun offering a COVID-19 PCR testing service at several of our Health Check-Up Stations in pharmacies nationwide (74 pharmacies).

Through the provision of PCR testing services, we are contributing both to prevention of COVID-19 infection and to the resumption of economic activity.

Community Health Support: Pharmacies with Health Check-Up Stations

	March 2018	March 2019	June 2020	June 2021
Number of Health Check-Up Stations	37	62	75	76

*Health Check-Up Station is a registered trademark of Nihon Chouzai.

- ①Advice on diet and exercise from registered dietitians
- ②Attract resident utilization through health fairs
- ③Dedicated booths for maintaining and improving health
- ④Help patients stay healthy with various devices such as sphygmomanometer and body composition monitor
- ⑤Support self-medication with over 500 items, including OTC drugs and health foods
- ⑥Depending on symptoms, recommend medical consultation or refer medical institutions

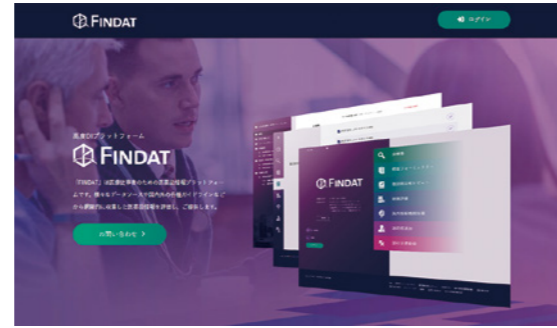
Growth Strategy: FINDAT Business

Accelerating Digital Transformation in Healthcare with FINDAT

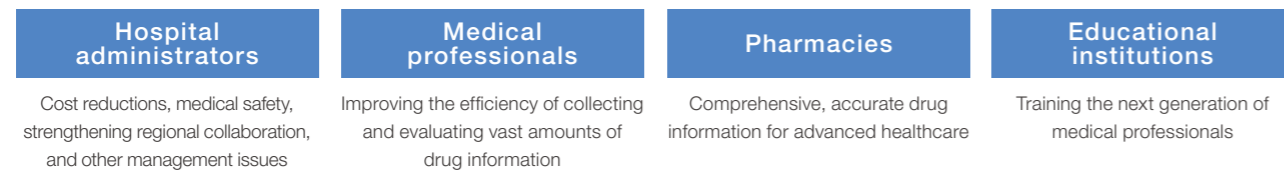
FINDAT is Nihon Chouzai's advanced online drug information platform.

FINDAT gathers drug information from an extensive range of data sources in Japan and overseas, such as original articles, drug databases, and regulatory guidelines, processes these data to enhance utilization at clinical sites, and provides them online.

FINDAT can respond to a wide range of social needs, and it is gaining a solid reputation, making inroads among a growing number of pharmacies that carry out advanced healthcare and at-home care as well as pharmacology educational institutions.



Demand from Society



Value Provided by FINDAT

- Used in creating and updating drug formularies***
These are recommended lists of homologous drugs prepared and offered by FINDAT. Formularies can be created efficiently by processing data according to the situation of each medical institution or region.
- Comparing efficacy, safety, and cost-effectiveness of homologous drugs**
Comparisons of similar drugs with similar efficacy provided by FINDAT are created using data on the efficacy, safety, and cost-effectiveness of the drugs gathered from a wide range of sources including package inserts, interview forms, original articles, secondary information databases, and various regulatory guidelines. FINDAT compiles these data into a table or other formats to compare and evaluate individual drugs.
- More efficient data gathering when adopting new drugs**
FINDAT gathers information on and evaluates newly approved drugs, tasks that place burden on medical institutions, and compiles these findings into materials that can be easily utilized at clinical sites and distributes them.
- Optimization of drug purchasing costs**
Utilizing the abovementioned materials on drug evaluation in terms of efficacy, safety, and cost-effectiveness provided by FINDAT, customers can narrow down the range of drugs to use and decide whether to adopt a new drug. In this way, FINDAT contributes to the optimization of drug purchasing costs.
- Objective data reviewed and peer-reviewed by outside experts**
Standardized formularies are published after being reviewed and approved by the Formulary Expert Review Committee. New drug evaluations and additional indications are published after being peer-reviewed by outside pharmacists who are active in clinical practice. This ensures the fairness and appropriateness of information.
- Promoting proper medication use and enhancing medical safety**
By providing information on proper medication use as well as latest drug safety information, FINDAT promotes the proper use of drugs, contributing to enhanced medical safety.

About Formularies

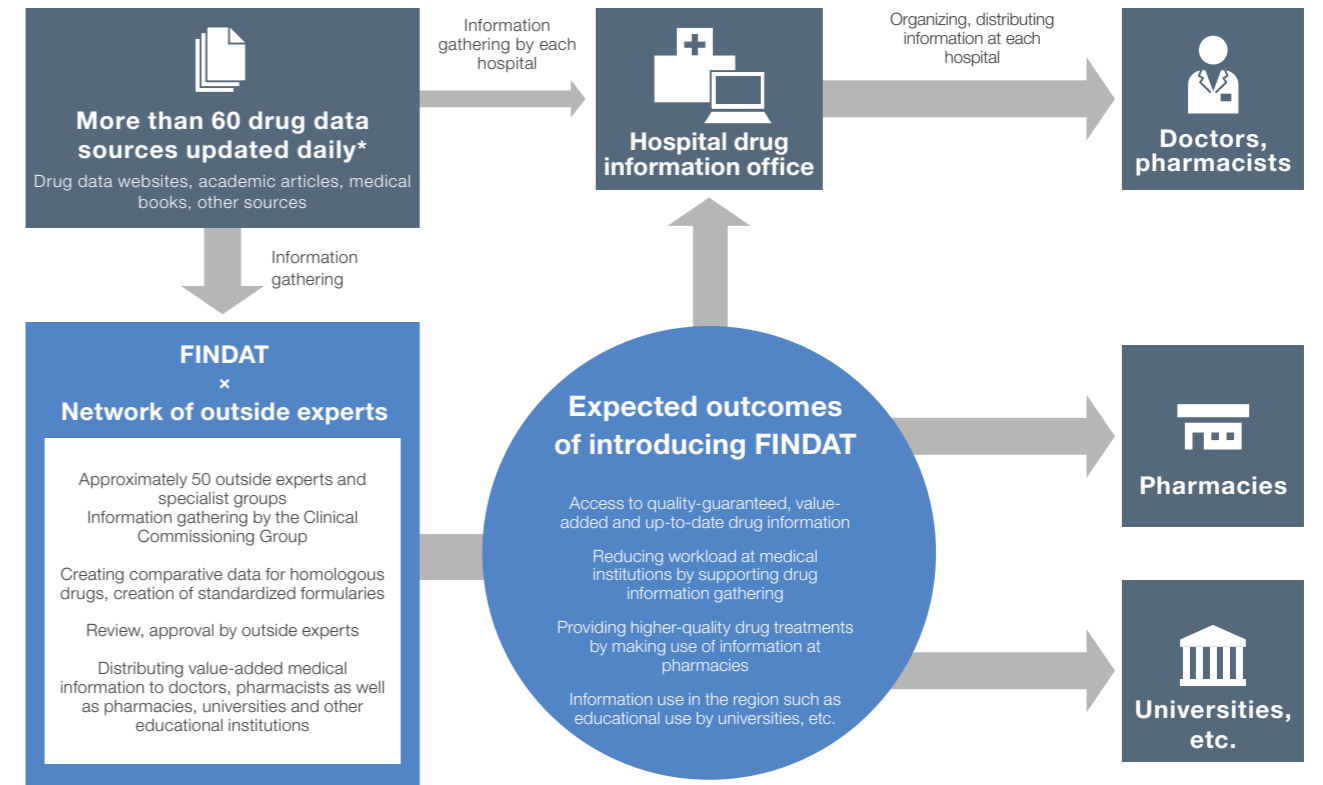
Formularies are guidelines for the most effective, safest, most cost-effective use of drugs for the patients of medical institutions. These drug management tools were first introduced in the 1990s, mainly in Europe and the U.S. Moves toward the full-scale introduction of formularies are gaining momentum in Japan as well, as a means of improving efficiency in healthcare, with surveys underway on the

extent to which hospitals have introduced these tools. Formularies use evidence-based drug selection, which leads to more economical treatment practices. Creating a formulary yields numerous benefits, including economic merits such as the effective use of generic drugs as well as contributions to medical safety through the more systematic organization of drugs that are used.

Providing Value-Added Information through the FINDAT Platform

Supporting the Drug Information* Operations of Hospitals and Pharmacies

Because they involve collecting and organizing a massive number of information sources, drug information operations require each hospital to hire specialized personnel and invest significant resources. Introducing the FINDAT platform will enable hospitals to offer high-value-added information, while at the same time reducing the workload of each hospital's drug information office.



* Drug information operations involve gathering and handling evidence and information needed to optimize the benefit-risk balance of drug treatments.
* Japan Society of Hospital Pharmacists; from sources of information available for use in DI operations

Drug information is a “must have” for pharmacists to perform their functions

In Japan, reducing healthcare costs has become a pressing issue, as a rapidly declining birthrate and aging population are driving an ongoing increase in such costs. As a tool for reducing healthcare costs, moves to introduce formularies, whose effectiveness has already been proven in the U.S. and European countries, are rapidly gaining momentum.

Formularies need to be created based on extensive information collected from highly reliable sources. Nihon Chouzai launched FINDAT, an advanced online drug information platform, in its efforts to help maintain a sustainable healthcare system—through such efforts as to promote standard drug treatments, curtail healthcare costs, and reduce burden on patients—with the aim of contributing to society.

In team-based healthcare, pharmacists ought to be able to collaborate with, and discuss pharmacological treatments with doctors with a sense of responsibility. Until now, the separation of drug prescribing and dispensing services focused on the separation of “things,” that is, medications. But separation is also necessary in terms of the “people” who carry out team-based medicine; that is, pharmacists need to participate in pharmacological treatments based on scientific and theoretical grounds.

The advanced online drug information platform FINDAT exhaustively collects data from reliable sources and provides information peer reviewed with outside experts to guarantee neutrality. We are confident that in doing so, FINDAT will facilitate sharing of drug information within a medical institution, support increased efficiency, and take charge in providing a sustainable healthcare system to the Japanese people.





Information Provision and Consulting Business

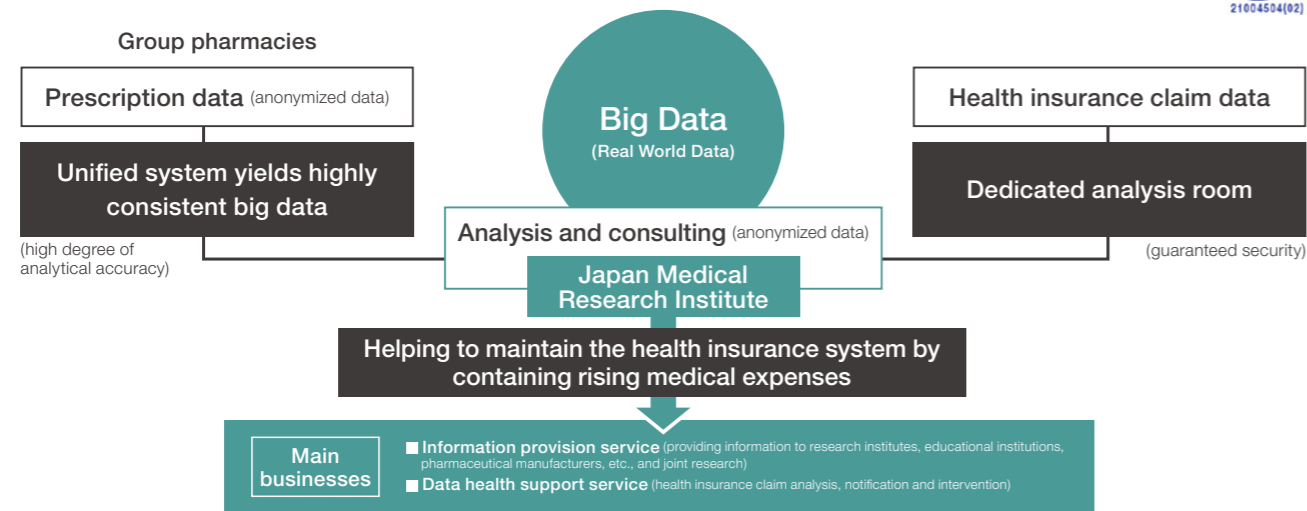
(established January 2012)

Japan Medical Research Institute Co., Ltd.

*Results of the Information Provision and Consulting Business are included in the Dispensing Pharmacy Business segment.

For the Abundant Medical Care of the Future

Japan Medical Research engages in operations in pursuit of "low cost, high quality" medical care



1 High-Quality Information Provision Service Using Real-World Data

Based on RI-CORE, an analytical system it launched in FY2017, Japan Medical Research Institute develops and operates analytical tools that support the processing of entire five-year blocks of prescription data (big data representing 250 million prescription records) harvested from Nihon Chouzai Group pharmacies. By integrating this data with information provided by pharmacists, we are able to fully harness synergies with the Dispensing Pharmacy Business to provide high-value-added data that is unrivaled in the industry. Providing this real-world data to research institutes, educational institutions, pharmaceutical manufacturers, and others, as well as conducting joint research, contributes to improving patient adherence (medication management) and optimization of medical expenses.

2 Data Health Support Service: Helping to Optimize Medical Costs

Japan Medical Research Institute is engaged in various data healthcare-related initiatives that draw on the expertise in data analysis and consulting it has cultivated through the information provision service. Based on data provided by health insurers, the company conducts the analysis needed to optimize medical costs and provides insurance holders with notifications about medication, including price differences of generic drugs, duplicate medications, and overprescribing. Through pharmacists, we also provide practical support services, such as methods of optimizing medication, support for persons with developing or not-yet-diagnosed medical conditions, as well as prevention of disease progression. Healthcare-related events and seminars are another venue through which we contribute to optimizing medical costs, such as by helping to set up drug consultation days and various other support services.

Information Provision Service: RI-CORE

Our information provision service involves developing and operating analytical tools for information harvested from prescription data, based on the RI-CORE analytical system. The company conducts surveys, research, information provision, and consulting for research institutes, educational institutions, pharmaceutical manufacturers and others.

Integrating big data, such as anonymized prescription data from Nihon Chouzai Group pharmacies, with questionnaire data collected from pharmacy staff, yields high-value-added information that is unparalleled in the industry. This information is contributing to the optimization of medical care expenses.

Advertising Media Service: In-Store Promotions

Also helps promote self-administered medication

JRI is engaged in in-pharmacy promotions and pharmacy-based advertising media services, reaching over 14 million patients every year.

Examples of services include:

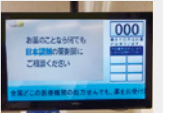
- Video broadcasts commissioned by companies and government entities aired on pharmacy monitors, as well as poster displays and leaflets
- Providing useful information on self-administered medication in the form of brochures and free samples from companies, which pharmacists can provide directly to patients
- Providing registered dietitians with information useful for dietary guidance and the use of samples to support pre-symptomatic disease and disease prevention

Through our businesses, we make it possible for pharmacists and other healthcare professionals to daily provide patients who visit the pharmacy with healthcare guidance on many levels, always based on the most up-to-date information.

Going forward, a focus for this business will be using new media to help promote self-administered medication by patients.

1. In-pharmacy broadcasts

- Can be seen annually by over 14 million pharmacy visitors nationwide
- Pharmacy visitors show high awareness of broadcast content



2. Sample provision

- Hand-delivery by pharmacists offers a better sense of security and reliability
- Informative comments by pharmacists enhance product appeal
- Direct approach to target demographics is possible
- Pharmacist recommendation increases brand recognition



3. Poster displays

- Noticed by patients waiting for prescriptions to be filled
- Outreach to all pharmacy visitors is possible



4. Leaflet placement

- Patients can read material while waiting or after returning home
- Outreach to all pharmacy visitors is possible



Results in FY2020

Data Health Support Service

Notifications on Price Differentials, Drug Duplications, Over-Prescriptions

Contributing to healthcare continuity by helping to reduce medical costs

Optimizing Healthcare Costs (Generic Drug Promotion)

Japan is aiming to optimize medical expenses through the promotion of generic drugs. For local governments where the generic drug use rate is sluggish, we issue pharmacy notifications for each individual pharmacy to help applicable individuals understand the usage status and outline of generic drugs, along with notifications about price difference. Using health insurance claim data, we can identify the generic drug usage rates of the individual pharmacies and gauge the potential impact of generic drug use on those pharmacies that fall below certain criteria or on all pharmacies in a region. For pharmacies with large claim data and drug volumes, after consulting with the local government, we send out notifications to those pharmacies. To clarify the issues involved, we administer questionnaires to pharmacies, identify problems, and make proposals that can lead to new projects.

Collaborating with Insurers, Medical Associations, and Pharmacists to Optimize Medical Expenses

Activities in the data health support service business include efforts to help optimize medical expenses, particularly through promoting and raising awareness about generic drugs and helping to prevent overlapping prescribing and duplicate medications. In a project for one city in Japan, which is pursuing collaboration between insurers and medical and pharmacist associations, we analyzed overall generic drug use, as well as the status of over-prescriptions and multiple medications by health insurance claim type, age, gender, medical institution, drug efficacy, region, and other categories. Based on the results of this analysis, we determined who to notify, and created and sent out notifications, including the amount of cost

savings from switching to generic drugs and cautions about multiple medications or taking drugs in combination.

In addition to referring patients to family doctors and family pharmacists, we set up a support desk to address concerns of individuals who received notifications, and encouraged them to consult with medical institutions and pharmacies. For patients without a family pharmacy, we enlisted the support of the Japan Pharmaceutical Association in providing medication management and other guidance.

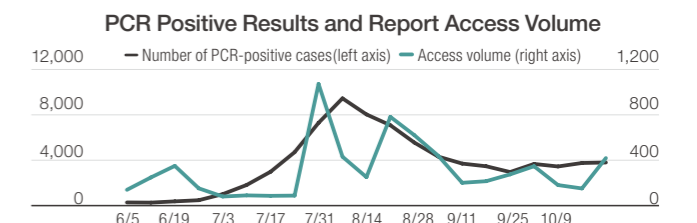
Survey and Research Services

Dissemination of Information

COVID-19 Reports Posted

Amid the ongoing spread of COVID-19, global attention is on the impacts of the pandemic and on countermeasures. Based on our proprietary prescription database, we have been investigating the impact of the pandemic on pharmacy prescriptions in Japan and posting the results on our website (<https://www.jpmedri.co.jp>). We also put out a press release in August, and have posted nine reports as of August 2021.

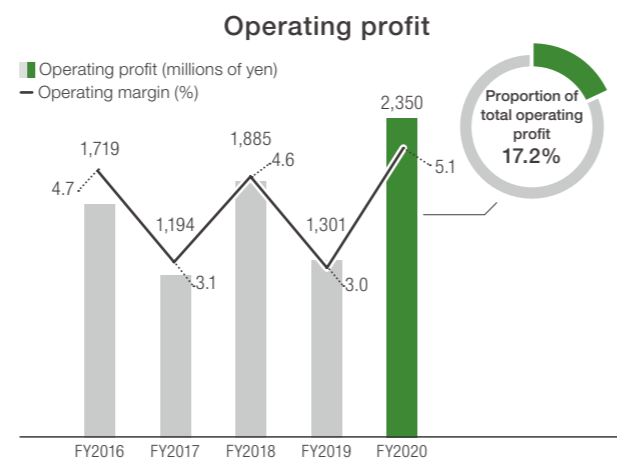
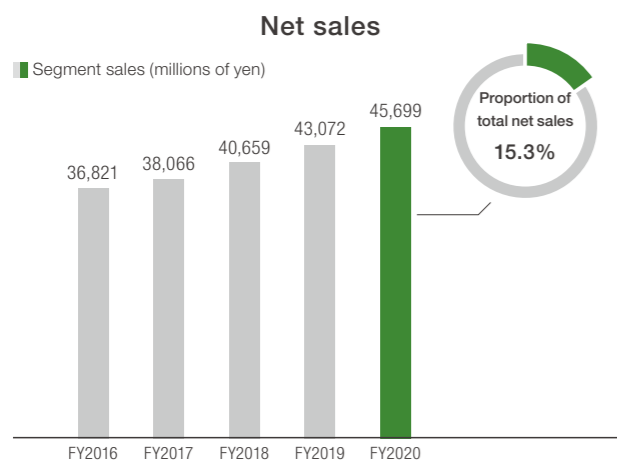
As seen in the graph below, in posting these reports we have observed a correlation between the rise in the number of people testing positive in PCR tests and access volume for the reports, suggesting that we were able to put out information at a time when demand in society was strongest. We are committed to continuing to disseminate the information that society needs.





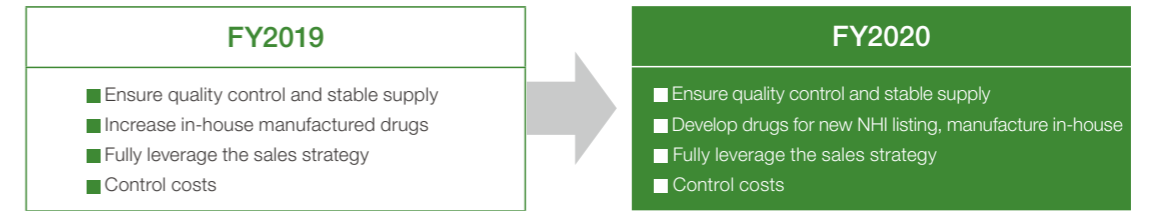
Pharmaceutical Manufacturing and Sales Business

Nihon Generic Co., Ltd.
Choseido Pharmaceutical Co., Ltd.



Growth Strategy: Realizing a Virtuous Cycle

Growth Strategy



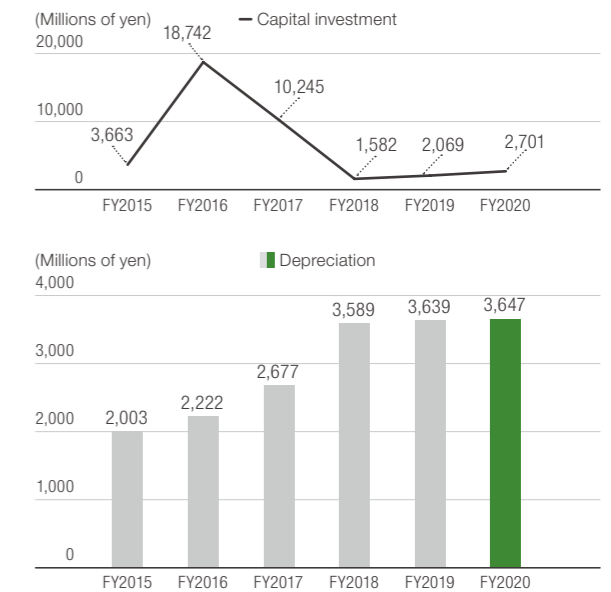
The completion of Nihon Generic's Tsukuba Plant No. 2 in March 2018 and the relocation and consolidation of the Tsukuba Research Institute in June 2018 marked the end of a series of investments that had been carried out over several years. There were concerns that higher depreciation and utilities and personnel costs associated with the new plant going online would place downward pressure on profitability from March 2019. However, by revising the sales strategy, expanding the number of new drugs manufactured in-house, and boosting efficiency by shifting product lines of existing plants, we were able to significantly expand the output of generic drugs, leading to solid growth in both sales and profits.

There were constraining pressures on profitability in FY2020, notably NHI drug price revisions. Nevertheless, operating profit rose to 2,350 million yen, owing to increases in both internal sales and sales of new drugs.



Nihon Generic Tsukuba Plant No. 2

Capital Investment and Depreciation



License acquisition → Sales of in-house manufactured drugs

New NHI drug price listings of generic drugs are carried out twice a year in Japan, in June and December, at which time it becomes possible to release drugs whose patents have expired. In 2020, Nihon Chouzai acquired approval for 21 drugs with 11 ingredients. This included several drugs that enjoy a large market, although most were sold internally as in-house manufactured drugs. This, together with strong sales of existing drugs, contributed to higher sales and gross profit. By continuing to launch new drugs and expand the proportion of drugs manufactured in-house, we can expect growth in sales going forward.



June 2020 Newly NHI price listed: 16 drugs

Drug name	
Celecoxib Tablets 100mg JG	Memantine hydrochloride OD Tablets 20mg JG
Celecoxib Tablets 200mg JG	Galantamine OD Tablets 4mg JG
Ezetimibe Tablets 10mg JG	Galantamine OD Tablets 8mg JG
Levocetirizine Hydrochloride Tablets 5mg JG	Galantamine OD Tablets 12mg JG
Imidafenacin Tablets 0.1mg JG	Dutasteride Capsule 0.5mg AV JG
Imidafenacin OD Tablets 0.1mg JG	Tadalafil Tablets 2.5mg ZA JG
Memantine Hydrochloride OD Tablets 5mg JG	Tadalafil Tablets 5mg ZA JG
Memantine Hydrochloride OD Tablets 10mg JG	Rabeprazole Sodium Tablets 5mg JG

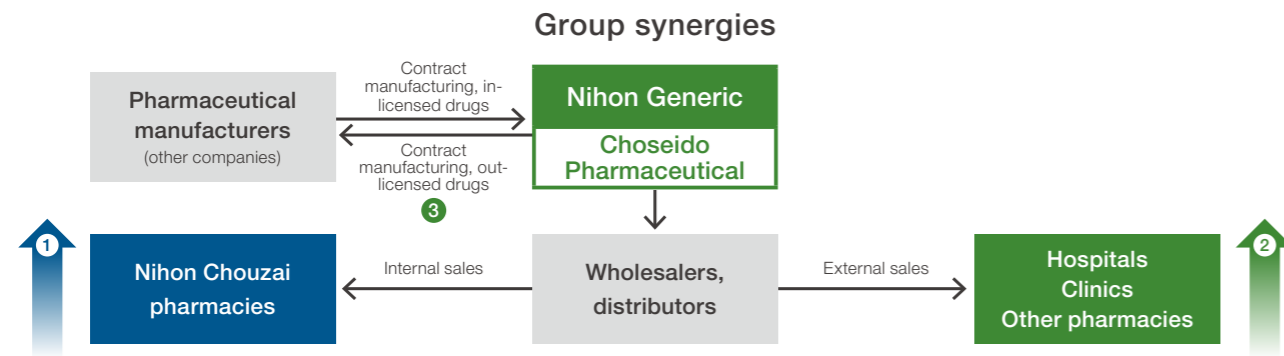
December 2020 Newly NHI price listed: 5 drugs

Drug name	
Pregabalin OD Tablets 25mg JG	Silodosin OD Tablets 2mg JG
Pregabalin OD Tablets 75mg JG	Silodosin OD Tablets 4mg JG
Pregabalin OD Tablets 150mg JG	

Growth Strategy: Realizing a Virtuous Cycle

Harnessing Group Synergies to Expand the Business

- 1 The Nihon Chouzai Group boasts a business model that is unparalleled in Japan's pharmacy sector, in which the Pharmaceutical Manufacturing and Sales Business operated by Nihon Generic and Choseido Pharmaceutical expands in tandem with growth in the Group's Dispensing Pharmacy Business. Having both dispensing pharmacies and drug manufacturers within the same Group enables us to harness Group synergies to steadily grow both businesses.
- 2 The Group has built a unique business model, unmatched by any other pharmacy operator or drug manufacturer in Japan. Nihon Chouzai pharmacies purchase generic drugs made by Nihon Generic and Choseido Pharmaceutical through wholesalers. As a result, the distribution network for our generic drugs has expanded nationwide through these wholesale channels. This, in turn, feeds into growth in external sales.
- 3 The Group has also established a leading position in the Japanese pharmaceutical manufacturing industry by contracting in manufacturing from other pharmaceutical manufacturers as well as out-licensing our own drugs to other manufacturers.



Internal sales	<p>Expecting synergies with Nihon Chouzai's pharmacy network strategy</p> <p>Internal sales in the Pharmaceutical Manufacturing and Sales Business rise in conjunction with the expansion of the Dispensing Pharmacy Business's pharmacy network through organic growth or acquisitions.</p>
	<p>Nihon Chouzai pharmacies shifting pharmaceutical inventories to generic drugs made by Nihon Generic and Choseido Pharmaceutical</p> <p>For the generic drugs they dispense, Nihon Chouzai pharmacies as a general rule handle products manufactured in-house. The pharmacies are further stimulating sales by transitioning their pharmaceutical inventories from brand-name drugs and off-patent drugs to generic drugs in a timely manner.</p>
External sales	<p>Extending generic drug use into new customer areas</p> <p>The Group is working to boost external sales by extending the adoption of its generic drugs by pharmacy chains other than Nihon Chouzai, major university hospitals, and corporate infirmaries, as well as strengthening its presence within the pharmaceutical sector.</p>
	<p>Formularies</p> <p>As momentum grows in Japan to adopt the use of drug formularies, more and more major hospitals and other institutions are moving forward in creating their own formularies. One expected outcome of this is a dramatic upsurge in the use of generic drugs. The Pharmaceutical Manufacturing and Sales Business is also taking steps to establish a framework to take full advantage of this trend.</p>
<p>Entry into the over-the-counter (OTC) drug business</p> <p>The Group entered the new OTC drug business in anticipation of further harnessing Group synergies. Following the launch of Minoxidil in 2018, the Group in January 2020 launched its second OTC product, Loxoprofen Tablets JG. We plan to start by placing OTC products in Nihon Chouzai pharmacies, and then make use of a PDCA cycle to further expand this business line.</p>	

Business Expansion through Contract Manufacturing, Out-Licensing

Contract manufacturing Manufacturing of drugs developed by other companies at Nihon Generic and Choseido Pharmaceutical plants.

About contract manufacturing

Transferring large-lot drug production from the Tsukuba Plant to the Tsukuba Plant No. 2 freed up the production lines, enabling the Group to take on even more contract manufacturing of drugs from other companies. In recent years, demand for such manufacturing has grown in connection with increasing use of generic drugs in Japan. Because the Group has the capacity to accept more contract manufacturing, we are seeing an increase in requests from other companies.

In addition, the Kawauchi Plant of Choseido Pharmaceutical is dedicated to the production of cephem antibiotic formulations, boasting the largest market share in Japan. The originality of this plant is unparalleled in the industry.

The NHI drug price revision system, coupled with demands for more rigorous quality assurance and other factors, is expected to put even greater downward pressure on profitability for Japanese pharmaceutical manufacturers. We expect some caution among manufacturers about investing in new facilities, as well as a much sharper division of focus product areas between manufacturers. To respond to these developments, the Group will maintain a production framework capable of handling production scales ranging from small-lot to mass production, while expanding our contract manufacturing business across a broader range of drug lines, from off-patent drugs to generic drugs.

Out-licensing Sales by other companies of drugs for which the Group has obtained manufacturing and marketing approval (in-house licensed drugs).

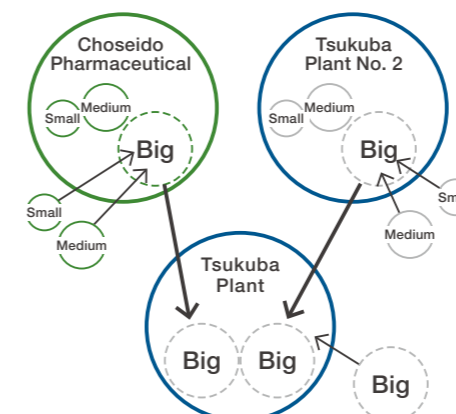
The freeing up of excess capacity with the start of operations at the Tsukuba Plant No. 2 has positioned the Group to be able to more aggressively engage in manufacturing of drugs for out-licensing. The Group boasted 473 in-house licensed products as of March

2021, representing a solid product lineup capable of responding to inquiries from other manufacturers. We are building on this foundation to expand the manufacturing for out-licensing.

Optimization of production resources

Securing more contract manufacturing, out-licensing business

The Group is making effective use of each of its production facilities. Transferring production of large-lot drug lines to the completed Tsukuba Plant No. 2 freed up production lines at the Tsukuba Plant and Choseido Pharmaceutical plants, creating a foundation from which to pursue more contract manufacturing, out-licensing, and other new businesses.



Plant Profiles	
Nihon Generic	
Tsukuba Plant	<ul style="list-style-type: none"> Small to medium scale production Tablets
Tsukuba Plant No. 2	<ul style="list-style-type: none"> Medium to large scale production Tablets
Choseido Pharmaceutical	
Headquarters Plant	<ul style="list-style-type: none"> Small to medium scale production Tablets, capsules, powders
Headquarters No. 2 Plant	<ul style="list-style-type: none"> Small to medium scale production Tablets, capsules, powders
Kawauchi Plant	<ul style="list-style-type: none"> Small to medium scale production (dedicated to antibiotics) Tablets, capsules, powders

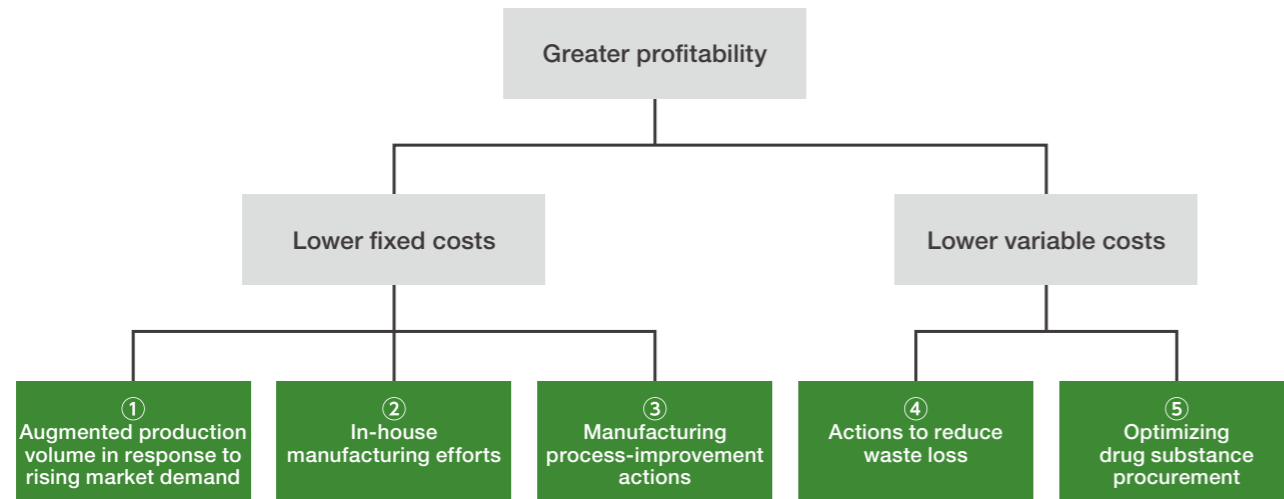
Growth Strategy: Realizing a Virtuous Cycle

Boosting Profitability

Capping fixed costs and boosting profitability

In anticipation of public policy measures to reduce healthcare costs, such as the promotion of generic drugs and annual NHI drug price revisions, as well as working style reforms and other changes in the labor environment, the Group is working to fully capitalize on its

existing resources, seeking to capture more production business and boost profitability. The main thrust of boosting profitability will involve steps to lower fixed and variable costs.



① Augmented production volume in response to rising market demand

Japan's generic market is growing, as the government continues to set an 80% minimum target for the use of generic drugs by volume. In addition, major hospitals and other institutions are already taking steps to introduce drug formularies into their management, a trend which is expected to spread to standardized formularies in the various regions of the country.

Ongoing growth in demand for generic drugs is expected to drive expansion of this market and rising production volumes.

② In-house manufacturing efforts

The Group is taking steps to expand in-house manufacturing at its plants, focusing on drugs that are currently outsourced to other manufacturers. Since these drugs are already being used by Nihon Chouzai pharmacies, medical institutions, and pharmacies outside the Group, the production shift will not directly feed into higher sales, but will lead to improvements in plant utilization and in the gross margin ratio.

③ Manufacturing process-improvement actions

We are working to lower fixed costs through more efficient manufacturing by setting goals for the detailed

review and improvement of the manufacturing process and by means of an ongoing PDCA cycle. Part of our improvement efforts focus on employee education, as we aim to foster a corporate culture where employees can take satisfaction in bringing about improvements. To this end, we are building a mechanism to support ongoing improvement activities while sustaining employee motivation.

④ Actions to reduce waste loss

By formulating and implementing efficient production schedules that allow us to produce the right amount of products at the right time, we are working to reduce waste product disposal at our plants. In our sales efforts, we are carrying out improvement actions with an eye to the cash conversion cycle. We have also formulated a supply chain management strategy tailored to the characteristics of each product line, such as where there is a large gap between production and sales volumes. These efforts are leading to lower waste loss and greater operational efficiency.

⑤ Optimizing drug substance procurement

To ensure a stable supply of drugs, we are pursuing the utilization of multiple sources of drug substances. Also, by dealing with multiple suppliers, we are able to achieve a lower purchase price for drug substances.

R&D

R&D that Maximizes Group Synergies

Efficient R&D focused on the drugs most used by Nihon Chouzai pharmacies

- The ability to grasp expected sales volumes at Group pharmacies in advance makes possible accurate profit and recovery forecasting and efficient development planning.
- We have built an R&D framework that allows other manufacturers to participate in joint development without concern. Even for drugs newly NHI listed after their patents have expired, the drug volume used by Group pharmacies can be projected with

relative certainty. This enables us to carry out development according to plan.

- The largest users of the drugs we develop are pharmacies. Because the Group must meet demand from these users, we engage in a wide range of research and development not weighted toward any particular disease type. Handling an array of drugs gives rise to a virtuous cycle, ultimately enabling us to accumulate the latest expertise and technology.

Minimizing investment in capacity expansion by developing drugs suited to each plant

- In June 2018, Nihon Generic consolidated two separate laboratories into the Tsukuba Research Institute. The Group now has laboratories at two sites, one at Nihon Generic and one at Choseido Pharmaceutical.
- Leveraging the technological capabilities and expertise each lab specializes in

yields a framework for the efficient development of new drugs. Having expanded the drug lineup to a certain level, we have entered a stage of increasing the proportion of drugs for which we have obtained manufacturing approval, and actively moving forward with R&D.

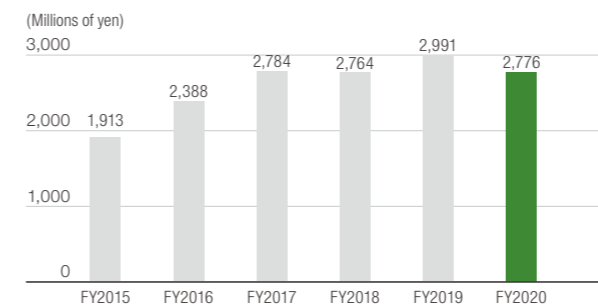


Nihon Generic Tsukuba Plant No. 2

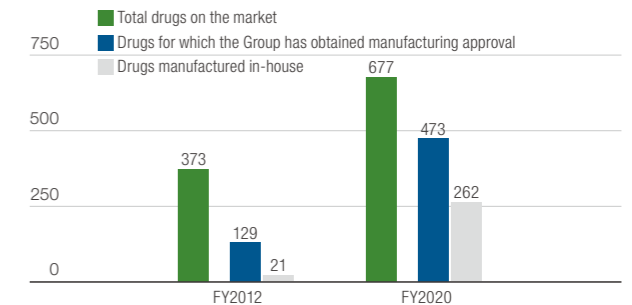


Choseido Pharmaceutical Tokushima Research Institute

R&D expenses (consolidated)



Number of drugs on the market



Quality Control

The Group strives to manufacture high-quality drugs, setting quality targets every fiscal year and making sure that all executives and employees are familiar with them.

FY2019 Quality Objectives

1) Foster a Quality Culture

- Implement compliance training and conduct a fact-finding survey of contract manufacturing partners

2) Maintain approval documentation that matches actual manufacturing conditions

- Conduct an annual audit of approval documentation and conditions on the ground at manufacturers and distributors
- Eliminate inconsistencies between approval documentation and conditions on the ground through appropriate pharmaceutical regulatory procedures

3) Practice quality risk management

- Promote projects that comply with the Guideline for Elemental Impurities (ICH Q3D)

4) Enhance quality information provided to medical institutions and patients

- Step up the ability to support customers in consultation settings

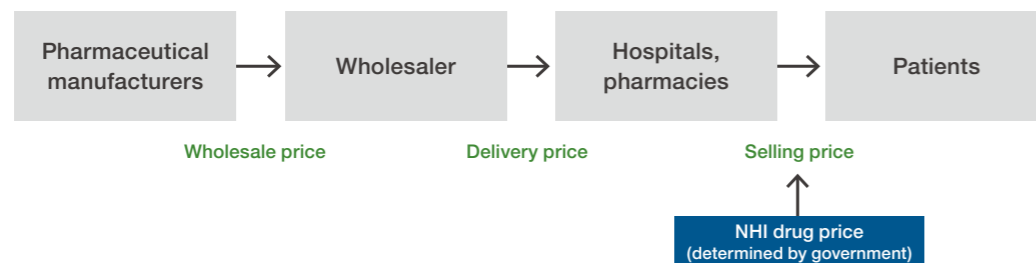
5) Ongoing improvement and implementation of a robust quality system

- Conduct gap analysis and eliminate gaps with regard to revised Good Manufacturing Practice (GMP) regulations (August 2021)
- Establish management procedures related to data integrity

Market Environment



Distribution channels for prescription drugs in Japan



Revised Distribution Guidelines

(in effect from April 2018)

- (1) Set appropriate market prices to eliminate negative primary margins on sales
- (2) Promote swift drug price settlement and unit price-based per product transactions
- (3) Rectify excessive discount negotiations

Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs

(Revised Pharmaceuticals and Medical Devices Act, 2nd Revision)

- (1) Organizational framework to comply with GMP and other laws and regulations
- (2) Formulation of standard practices to be observed
- (3) Education, training, and assessment of executives and employees
- (4) Creating, managing, and keeping work records

Concerning the Setting of Appropriate Wholesale Prices and Discounts

(October 3, 2018 notification from Economic Affairs Division, Health Policy Bureau, Ministry of Health, Labour and Welfare)

- (1) Set appropriate discounts in line with evaluation of wholesale functions
- (2) Reflect discounts used to correct wholesale prices in actual wholesale prices

Generic Drug Supply Guidelines

(March 2014, Federation of Pharmaceutical Manufacturers' Association of Japan)

- (1) Establish organizations, persons in charge to contribute to stable supply
- (2) Formulate stable supply manuals

Topics

Upgrade of Nihon Generic brand website

Nihon Generic will renew its website to better provide information on the generic drugs offered by the Nihon Chouzai Group to a wider range of stakeholders, including medical personnel, in an easy-to-understand format.

The Nihon Chouzai Group directly draws on "Voices from the Field," the feedback received from its more than 680 pharmacies throughout Japan, in product development efforts. We are working to more clearly communicate this competitive advantage, which is unique among Japanese pharmaceutical manufacturers, while also aiming to establish and build greater recognition of the JG (Japan generic) brand of Nihon Generic drugs.

In addition, as a pharmaceutical company that seeks to listen to the voices of users, we are upgrading the Nihon Generic website to make it more responsive to user feedback and easier to use.



Smartphone compatibility



Drug information page

Content to be expanded (partial)

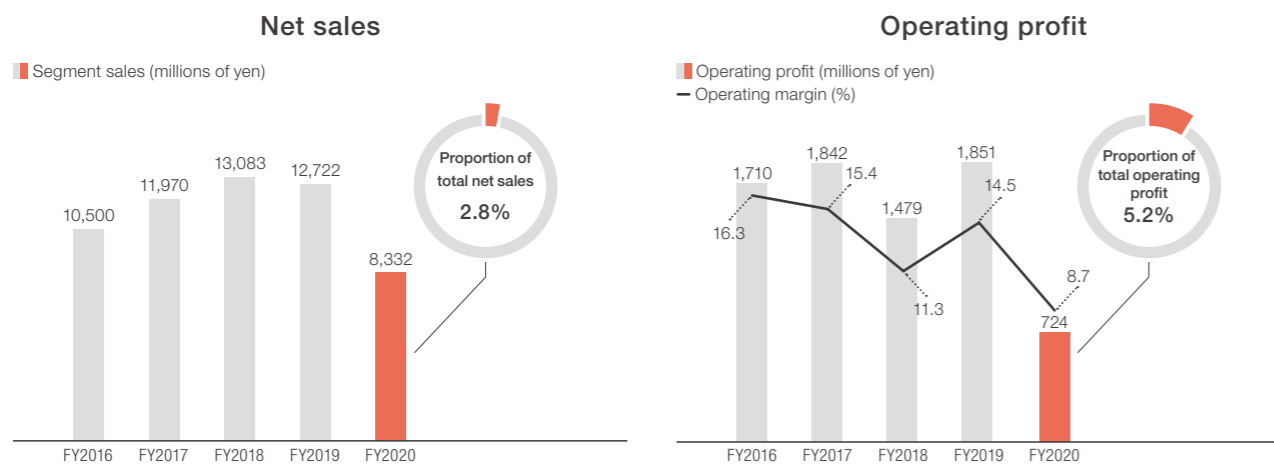
- Enhanced features on the drug information page
- Measures to promote generic drugs
- Sustainability and SDG initiatives
- Virtual plant and research facility tours

*The website is under construction, and content and specifications are subject to change. The screens pictured are images.



Medical Professional Staffing and Placement Business

Medical Resources Co., Ltd.



Medical Resources by the Numbers

We believe communication with job seekers (medical professionals) and job providers (medical institutions and companies) is extremely important for our human resources business. Medical Resources values face-to-face meetings with both client groups, and have set up offices nationwide to establish a framework for meetings

and conversations. We have gained the trust and satisfaction of both job seekers and job providers through our efforts to grasp nuanced needs that are hard to convey over the telephone or in writing and crafting proposals that match the needs of both parties.

A Triple Crown in Career-Change Sites for Nurses



Survey by Japan Marketing Research Organization (conducted in April 2021)

A TRIPLE CROWN in Career-Change Sites for Registered Pharmaceutical Sellers



Survey by Japan Marketing Research Organization (conducted in December 2020)

Medical Resources' Competitive Advantages

Offering high-value-added services to job providers (medical institutions and companies) and job seekers (doctors, pharmacists, and other medical professionals) as a comprehensive HR services company for the healthcare industry

In FY2020, we continued to shift our focus from staffing to placement in the core pharmacist business. Behind this strategy is the expanding scope of work demanded of pharmacists, such as serving as family pharmacists, which has fueled demand for the placement of high-quality personnel. Conversely, demand for temporary staffing of pharmacists is waning. The majority of pharmacies in Japan are privately owned or part of small- and medium-sized chains. Many of these pharmacies lack the resources to recruit pharmacists, which is undergirding ongoing high demand for staff placements. Our transition away from temporary staffing toward pharmacist and physician placements coincided with the impact of the

COVID-19 pandemic, which put further downward pressure on temporary pharmacist staffing demand. As a result, sales in the pharmacist staffing business were down year on year. Placements of pharmacists, doctors, and other medical professionals were up, however, driving a year-on-year increase in sales from this business.

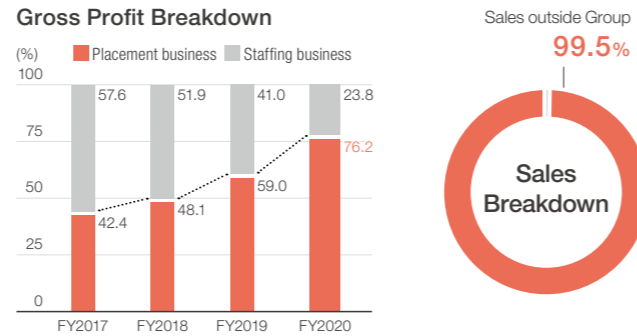
Going forward, we expect to see progress in working style reforms and significant changes in the social conditions governing the medical professions. We will continue to respond swiftly to these changes and achieve sustainable growth by capitalizing on the synergy brought about by having a dispensing pharmacy business within the Group.

Growth Strategy

Ensuring high profitability and creating a balanced business portfolio by expanding the placement business

As the industry's leading company, Medical Resources boasts numerous strengths in the area of pharmacist staffing. Meanwhile, we are transitioning toward a more balanced business portfolio while targeting high profitability by expanding our placement business.

Going forward, in addition to capturing rising demand for family pharmacists* and growing the pharmacist placement service, we will expand our placement business for doctors, nurses, registered pharmaceutical sellers, and other medical professionals, to achieve even higher growth. Although Medical Resources is part of the Nihon Chouzai Group, the Group only accounts for 0.5% of total transactions. We will further expand the range of services we provide to the medical institutions and companies seeking qualified human resources and to the medical professionals who are considering a career change.



*A family pharmacist is expected to provide long-term support to a patient, grasping the patient's medication status (all prescription and over-the-counter drugs), continuously monitoring whether or not there are any unused medications and whether any side effects occur, and providing appropriate guidance. To enable such support, family pharmacists must meet the following criteria.
Criteria for a family pharmacist:
1. More than three years pharmacy experience
2. Works at the pharmacy at least 32 hours a week
3. Has at least one year tenure at the pharmacy
4. Has obtained certified pharmacist training credentials from a certifying organization

We offer highly reliable HR services. Only 16 companies* in Japan have acquired all three types of certification

Three Reassurances We Offer Pharmacy Staff

We offer three kinds of reassurance to support the successful career changes of pharmacists.



Privacy Mark

As a company that has acquired Privacy Mark business certification, we recognize the value of personal information entrusted to us by customers. We rigorously manage customer information in accordance with our privacy policy.



Excellent Job Placement Agency certification

Medical Resources has been certified as a company that complies with the Conduct Guidelines established by the Excellent Job Placement Agency Recommendation Council. We have met certain criteria including stability of management, thorough compliance with laws and regulations, and proper business operation.



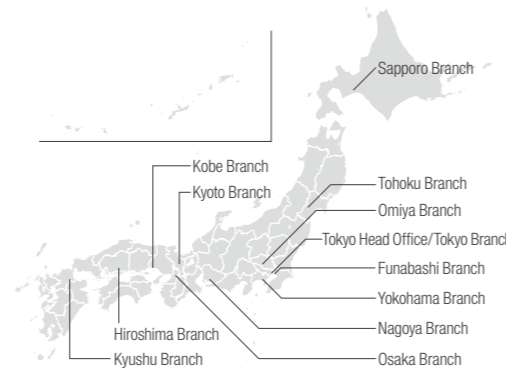
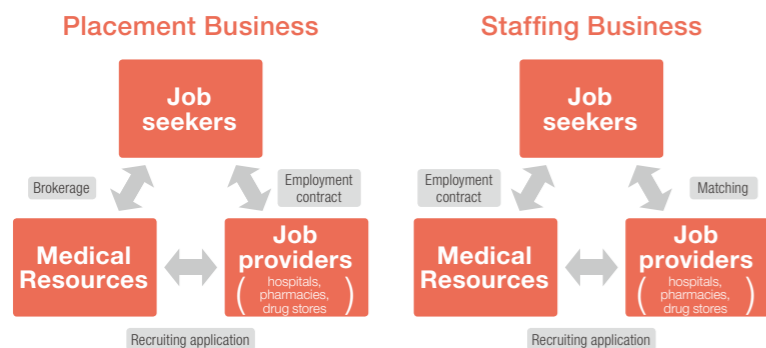
Excellent Temporary Staffing Agency certification

We are certified as a company that not only complies with laws and regulations, but also provides reassuring services to both temporary staff and the companies where they work. We support career development for temporary staff, help ensure better working environments, and work to prevent problems at the companies where they work.

*Number of Certified Companies: Excellent Job Placement Agency certification: 38; Excellent Temporary Staffing Agency certification: 152; Privacy Mark: 16,639
*Companies with all three types of certification were extracted from all certified companies appearing in the following: JIPDEC, List of Excellent Job Placement Agencies, List of Excellent Temporary Staffing Agencies (as of July 14, 2021)

We have continued to improve matching quality over many years through our detail-oriented counseling. As a company that handles important personal information, we have acquired Privacy Mark certification and have sought to build a high-quality, highly reliable staffing and placement business. A company that obtains these certifications has not only demonstrated the quality of its placement and staffing services, but proven that it meets numerous other criteria,

including having a sound business and a framework for compliance management. Furthermore, as 99.5% of our sales derive from staffing and placement services to privately owned pharmacies and pharmacy chains other than Nihon Chouzai, we are well-positioned to help achieve a true separation of drug prescribing and dispensing services by sending high-quality pharmacists into the field throughout Japan.



Business Development

Pharmacist Businesses



High brand recognition

Medical Resources undertakes HR services for Nihon Chouzai, a company with overwhelmingly high brand recognition in the healthcare industry, which is renowned for its high caliber of education. By providing high-quality educational content to the pharmacists we staff and place, we deliver high-value-added human resources. We are striving to further enhance our brand recognition, such as by providing client pharmacies with business support plans and high-value-added services that draw on the pharmacy management expertise of the Nihon Chouzai Group.

Ability to attract customers

Regardless of whether or not they are actively seeking a new job, pharmacists tend to be highly motivated people. Many are attuned to new information on a daily basis. Moreover, because pharmacists are required to have a high degree of specialized knowledge as medical professionals, needs for informative websites, such as the one shown below (Pharma Labo), are increasing year by year. By adapting to these circumstances and keeping abreast of pharmacists' careers, we are working continuously to be an even more trusted medium.

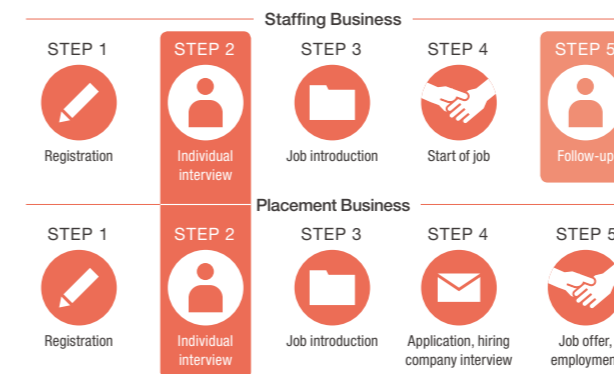


Face-to-face engagement

With offices throughout Japan, we place great value on the information that can be gleaned by speaking directly with medical professionals as we meet face-to-face and offer career change counseling. We stress the importance not only of identifying desired employment conditions of job seekers, but also their optimal working environments and needs, to be able to present them with ideal job offers.

Working styles have a tremendous influence on people's lives. We seek to provide a sense of security to job seekers with regard to working styles by leveraging our high brand recognition and cultivating trust through direct dialogue. For job providers, we provide detailed information about the latest developments in the career change market. Combined with the high quality of our matching services, this supports our unflagging efforts to ensure a win-win situation for both job seekers and recruiters at hiring companies.

High Matching Quality



Education

By providing high-quality educational content to pharmacists in our staffing and placement businesses, we cultivate high-value-added human resources. The advanced educational program developed for pharmacies in Nihon Chouzai's Dispensing Pharmacy Business is a strength unmatched by other companies.

Content for Pharmacists

JP Learning	JP Learning is an e-learning course that allows participants to earn the credits needed to acquire certified pharmacist training credentials. The course provides more than 1,000 pages of substantial content
Seminars for pharmacists	We hold seminars for pharmacists several times a year, teaching the drug dispensing and medical knowledge required of pharmacists and new industry trends
Retention program	This program forms part of the health and welfare benefits for temporarily staffed pharmacists. We also hold money management seminars as well as other seminars for working women
Yaku-Tore (medication training)	A drug dispensing textbook edited by Nihon Chouzai, provided as a smartphone-based app. The textbook also covers drug dispensing fee revisions

Content for Pharmacies

Management seminars	A pharmacy management seminar teaching the management know-how of Nihon Chouzai
Business support planning	This program for companies addresses various issues in pharmacy management through seminars and practical training

Doctor Businesses

We began our full-scale involvement in the doctor staffing and placement business in FY2017, and began expanding nationwide from April 2018. Having a dispensing pharmacy business within the Group affords the advantage of being able to quickly identify the needs of doctors opening up new practices. We are also expanding our placement business for doctors by demonstrating the mutual benefits of collaboration with the MC-Mentaio Sales Division, which operates pharmacies in medical centers, near train stations and in shopping districts for Nihon Chouzai's Dispensing Pharmacy Business.

In FY2020, upfront investments made up until the preceding year began to bear fruit. Having doubled our

salesforce, we saw a 374% jump in net sales compared to the FY2017, before we launched full-scale efforts in the doctor staffing business. Moreover, to attract more job candidates, we bolstered our efforts to secure job offers, resulting in a significant 167% year-on-year increase in sales. We will continue to improve the appeal of our HR businesses for doctors by fostering an environment that can meet the needs of job seekers.

Further, from April 2021, we were able to make social contributions by referring doctors for workplace vaccination programs of companies and municipalities throughout Japan in response to heightened demand for COVID-19 vaccination.

Four regional sales offices added in FY2018

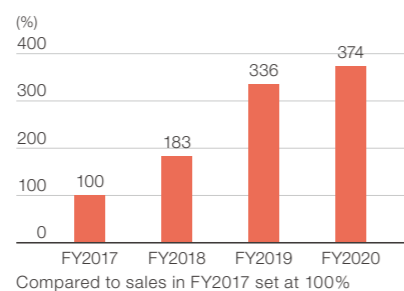
Sales Offices

- New
- Existing



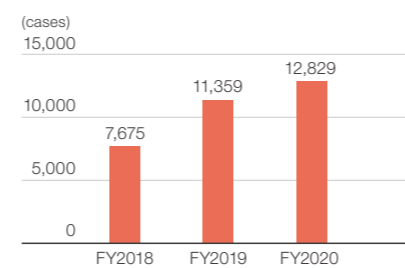
Contributing to sales in FY2020

Growth in Net Sales



Increase in the number of job offers in FY2020

Growth in Doctor Job Offers



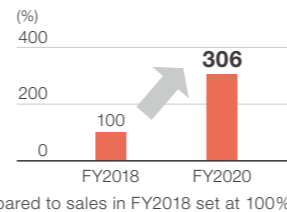
Registered Pharmaceutical Seller Business

More companies are seeking to hire registered pharmaceutical sellers, who are qualified to sell Class 2 (medium-risk) and Class 3 (low-risk) over-the-counter (OTC) drugs. The scale of this market is also expanding, as drug stores, convenience stores, and other retailers broaden their lineup of OTC drugs. Medical Resources entered the registered pharmaceutical seller staffing and placement field in FY2018, and although sales in FY2020 decreased amid the COVID-19 pandemic, we expect a turnaround as the pandemic wanes. We overhauled our recruitment website in March 2020, drawing broad

support, and have been chosen as the No. 1 company among registered pharmaceutical sellers considering a career change.



Growth in Sales of Registered Pharmaceutical Seller Business



Nurse Business

We overhauled the recruitment website for nurses in August 2019 to make it easier to use for job seekers. In FY2019, we augmented the number of staff in this business and have been carrying out nurse-centered sales activities. One outcome has been that we were voted the No. 1 recruitment site with trustworthy consultant support. Though fairly new, the business is off to a solid start, and we will continue to take actions to grow the business going forward.



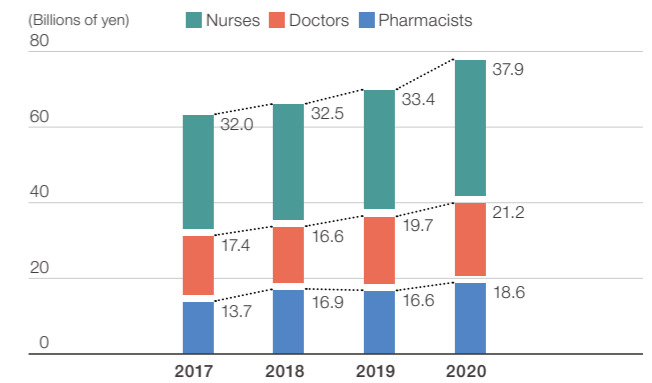
Market Environment

Size of Market for Pharmacists, Doctors, and Nurses

For the fiscal year ending March 2020, the size of the personnel placement market was 18.6 billion yen for pharmacists, 21.2 billion yen for doctors, and 37.9 billion yen for nurses. We can expect further growth in our placement businesses. The pharmacist placement business still has room for expansion, while the potential scale of the market for doctors and nurses is much larger than that for pharmacists.

In FY2020, the COVID-19 pandemic brought about a significant shift in the market supply and demand balance, but we will continue to pursue greater business expansion by leveraging the strengths the Group has built up over time, including its strong brand recognition, reputation for reliability, and the appeal of face-to-face support.

Size of Market for Pharmacists, Doctors, and Nurses*



Number of pharmacists (2018)	Number of doctors (2018)	Number of nurses (2019)	Number of pharmacies (2018)	Number of hospitals (January 2021)	Number of clinics (January 2021)
311,289	327,210	1,683,295	59,138	8,372	103,071

Sources: MHLW Statistical Results of FY2018 Report on Employment Placement Business (Preliminary Report); 2018 Overview of Statistics on Doctors, Dentists, and Pharmacists; Japanese Nursing Association, Statistical Data on Nursing Service in Japan; MHLW Handbook of Health and Welfare Statistics (FY2018) Part 2 "Health", Chapter 4 "Pharmaceutical Affairs"; Summary of Surveys (Dynamic) of Medical Institutions and Hospital Report

*Size of market for pharmacists includes dentists and veterinarians.

Business Development

WORKERS DOCTORS: A Resource for Registration, Placement, Requests, and Support for Industrial Doctors

As part of the key strategy of promoting the industrial doctor business, in November 2020, we consolidated WORKERS DOCTORS Co., Ltd., a long-term player in the industrial doctor HR business. We will expand our presence in the healthcare field by capturing the growing demand for effective health management as part of companies' ESG management. By drawing on Medical Resource's track record in doctor placements and nationwide sales framework as well as the expertise and network WORKERS DOCTORS has built up in the industrial doctor field, we will expand the industrial doctor HR business nationwide while also broadening the business to meet a wider range of needs for occupational health management, including mental health, which has become indispensable for companies' health management initiatives.



Placing Medical Staff for Mass Vaccination Efforts

Increasingly in Japan, local governments and companies are turning to doctor and nurse staffing and placement to carry out mass vaccination efforts to combat COVID-19. Securing adequate medical staff is a major issue constraining these efforts, but through its comprehensive medical HR services, Medical Resources is positioned to

provide the needed pharmacists, doctors, and nurses, and boasts expertise in gathering medical staff with a short turnaround time. To date, we have placed medical professionals with more than 30 local governments, companies, and corporate groups.