

November 6, 2018

Results of Operations for the First Half of the Fiscal Year Ending March 31, 2019 (April 1, 2018 to September 30, 2018)



NIHON CHOUZAI Co.,Ltd.
(Tokyo Stock Exchange, First Section / Stock code: 3341)
Copyright 2018 Nihon Chouzai Co., Ltd. All rights reserved.

I. 1H FY3/19 Consolidated Financial Highlights

Consolidated Statement of Income

Note: Refer to Reference Materials for the components of YoY changes.

1H FY3/19 Performance Highlights

Sales increased YoY in all business segments

First half results were generally in line with the initial plan

Significant progress in the pharmaceutical manufacturing and sales business

(Millions of yen)	1H FY3/17 Results	1H FY3/18 Results	1H FY3/19 Plan	1H FY3/19 Results	YoY change	YoY growth rate	Vs. plan
Net sales	109,478	118,149	123,146	118,694	545	+0.5%	-3.6%
Cost of sales	90,571	96,648	103,625	99,267	2,618	+2.7%	-4.2%
Gross profit	18,906	21,500	19,521	19,427	(2,073)	-9.6%	-0.5%
% to sales	17.3%	18.2%	15.9%	16.4%	-	-	-
SG&A expenses	14,965	16,611	17,971	17,880	1,268	+7.6%	-0.5%
% to sales	13.7%	14.1%	14.6%	15.1%	-	-	-
Consumption taxes	5,906	6,096	6,302	6,499	402	+6.6%	+3.1%
R&D expenses	1,000	1,575	1,521	1,289	(286)	-18.2%	-15.2%
Operating profit	3,940	4,888	1,549	1,547	(3,341)	-68.4%	-0.1%
% to sales	3.6%	4.1%	1.3%	1.3%	-	-	-
Ordinary profit	3,751	4,635	1,409	1,265	(3,370)	-72.7%	-10.2%
% to sales	3.4%	3.9%	1.1%	1.1%	-	-	-
Profit attributable to owners of parent	2,339	2,805	932	744	(2,060)	-73.4%	-20.1%
% to sales	2.1%	2.4%	0.8%	0.6%	-	-	-
Net income per share (Yen)	146.26	175.42	58.32	46.77	(128.65)	-73.3%	-19.8%

Consolidated Balance Sheet

Total assets decreased 3,280 million yen mainly because of a decrease in cash and deposits to fund a reduction in non-current liabilities. Net assets decreased 725 million yen mainly because of the repurchase of stock that started in August (1,100 million yen). Due in part to the decrease in assets, the equity ratio was 1.6 pct. point higher than one year earlier.

(Millions of yen)	End of Sep. 2017 (1H FY3/18)	End of Mar. 2018 (FY3/18)	End of Sep. 2018 (1H FY3/19)	Change from the end of FY3/18	Change from the end of FY3/18 (%)
Current assets	89,706	81,613	79,717	(1,896)	-2.3%
Non-current assets	97,689	104,956	103,572	(1,384)	-1.3%
Property, plant and equipment	70,024	75,662	73,538	(2,123)	-2.8%
Intangible assets	17,811	17,952	18,155	202	+1.1%
Investments and other assets	9,852	11,341	11,879	537	+4.7%
Total assets	187,395	186,569	183,289	(3,280)	-1.8%
Current liabilities	75,813	70,310	73,798	3,487	+5.0%
Non-current liabilities	72,957	74,752	68,710	(6,042)	-8.1%
Total liabilities	148,771	145,062	142,508	(2,554)	-1.8%
Total net assets	38,623	41,506	40,781	(725)	-1.7%
Shareholders' equity	38,623	41,504	40,780	(724)	-1.7%
Equity ratio	20.6%	22.2%	22.2%	-	-

Note: FY3/18 figures have been adjusted retrospectively in accordance with the Partial Amendments to Accounting Standard for Tax Effect Accounting.

Consolidated Statement of Cash Flows

Operating cash flows decreased 7,430 million yen because of a decrease in profit before income taxes and cash used for an increase in inventories in order to purchase merchandise immediately prior to NHI revisions. Investing cash flows increased 1,763 million yen mainly because investments peaked in the previous fiscal year in the pharmaceutical manufacturing and sales business. The result was free cash flows (sum of operating and investing cash flows) of 400 million yen. Financing cash flows decreased 4,526 million yen.

	1H FY3/17	1H FY3/18	1H FY3/19	YoY change
Cash flows from operating activities	(4,588)	11,367	3,936	(7,430)
Profit before income taxes	3,714	4,885	1,417	(3,468)
Depreciation	2,180	2,463	2,968	505
Amortization of goodwill	-	646	718	72
Decrease (increase) in notes and accounts receivable-trade	962	387	2,187	1,800
Decrease (increase) in inventories	(6,151)	(2,697)	(5,994)	(3,296)
Increase (decrease) in notes and accounts payable-trade	(3,395)	4,517	4,774	256
Cash flows from investing activities	(14,366)	(5,299)	(3,535)	1,763
Purchase of property, plant and equipment	(10,976)	(4,527)	(3,074)	1,453
Payments for transfer of business	(971)	(126)	(314)	(187)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,264)	(948)	(761)	187
Cash flows from financing activities	3,923	(1,024)	(5,550)	(4,526)
Net increase (decrease) in cash and cash equivalents	(15,031)	5,044	(5,149)	(10,193)
Cash and cash equivalents at beginning of period	32,380	21,200	28,464	7,264
Cash and cash equivalents at end of period	17,348	26,244	23,315	(2,929)

Dispensing Pharmacy Business / Statement of Income

Lower NHI drug prices and challenging revisions to prescription dispensing fees caused prescription unit prices to decrease 1.8% from one year earlier. But the number of prescriptions increased 2.6% because of steady growth in the number of pharmacies. The result was higher sales even though this period followed NHI price and fee revisions. Earnings were negatively affected by the very challenging NHI drug price and fee revisions, difficult price negotiations based on distribution improvement guidelines, and an increase in SG&A expenses, chiefly personnel expenses. Gross profit and operating profit were lower than one year earlier and below the earnings plan for the first half.

(Millions of yen)	1H FY3/17 Results	1H FY3/18 Results	1H FY3/19 Plan	1H FY3/19 Results	YoY change	YoY growth rate	Vs. plan
Net sales	92,329	100,011	103,332	101,054	1,043	+1.0%	-2.2%
Cost of sales	78,825	84,007	88,628	86,856	2,849	+3.4%	-2.0%
Gross profit	13,504	16,003	14,703	14,197	(1,806)	-11.3%	-3.4%
% to sales	14.6%	16.0%	14.2%	14.0%	-	-	-
SG&A expenses	9,439	10,386	10,957	10,999	613	+5.9%	+0.4%
% to sales	10.2%	10.4%	10.6%	10.9%	-	-	-
Operating profit	4,064	5,617	3,745	3,197	(2,419)	-43.1%	-14.6%
% to sales	4.4%	5.6%	3.6%	3.2%	-	-	-
No. of pharmacies at the end of each period (stores)	545	569	595	596	27	+4.7%	1
Prescription drug sales per pharmacy ^{note}	171	176	173	171	(5)	-3.1%	-1.3%

YoY Growth Rate of the Number and Unit Price of Prescriptions

No. of prescriptions	6,927,000	+2.6%
Prescription unit prices	14,358 yen	-1.8%

Note: Prescription drug sales per pharmacy = Prescription drug sales / Average No. of pharmacies during the period

Pharmaceutical Manufacturing and Sales Business / Statement of Income

Sales increased 218 million yen as growth in internal sales offset the negative effect of drug price reductions. Operating profit was down 293 million yen because of higher expenses, including the start of depreciation following commencement of production at Tsukuba Plant No. 2. But operating profit of 344 million yen was 800 million yen higher than the initial plan of a 465 million yen segment loss. This segment made significant progress toward the start of a V-shaped recovery in the next fiscal year.

(Millions of yen)	1H FY3/17 Results	1H FY3/18 Results	1H FY3/19 Plan	1H FY3/19 Results	YoY change	YoY growth rate	Vs. plan
Net sales	18,722	19,213	20,634	19,431	218	+1.1%	-5.8%
Cost of sales	15,307	15,965	18,380	16,444	479	+3.0%	-10.5%
Gross profit	3,414	3,248	2,253	2,986	(261)	-8.0%	+32.6%
% to sales	18.2%	16.9%	10.9%	15.4%	-	-	-
SG&A expenses	2,223	2,609	2,718	2,642	32	+1.3%	-2.8%
% to sales	11.9%	13.6%	13.2%	13.6%	-	-	-
Operating profit	1,191	638	(465)	344	(293)	-46.1%	-
% to sales	6.4%	3.3%	-	1.8%	-	-	-

Components of YoY changes

◆ Net sales

1. Internal sales: Increase in volume-based sales ratio of dispensing pharmacy business, and effects of new store openings (higher sales)
2. External sales: Continued sales strategy to increase priority on profitability (slight decrease in sales)

Aim for more growth in external sales mainly by expanding the contract manufacturing business.

◆ Operating profit

1. Contribution to earnings from sales growth and a sales strategy prioritizing profitability based on distribution improvement guidelines (higher profit)
2. Higher depreciation and other expenses due to start of production at Tsukuba Plant No. 2 with state-of-the-art manufacturing equipment (lower profit)

Operating profit instead of the expected loss due to the success of a sales strategy with priority on profitability

Medical Professional Staffing and Placement Business / Statement of Income

Sales increased 358 million yen, about the same as planned, because of steady growth in temporary and permanent placements of pharmacists and permanent placements of physicians. Operating profit decreased 381 million yen because of a big increase in SG&A expenses caused by upfront investments for growth of the physician placement business. Earnings were below the plan because share of permanent placements in the pharmacist staffing and placement business was lower than planned.

(Millions of yen)	1H FY3/17 Results	1H FY3/18 Results	1H FY3/19 Plan	1H FY3/19 Results	YoY change	YoY growth rate	Vs. plan
Net sales	5,068	5,993	6,415	6,351	358	+6.0%	-1.0%
Cost of sales	3,053	3,634	3,823	3,969	335	+9.2%	+3.8%
Gross profit	2,014	2,359	2,592	2,382	22	+1.0%	-8.1%
% to sales	39.7%	39.4%	40.4%	37.5%	-	-	-
SG&A expenses	1,205	1,346	1,745	1,751	404	+30.0%	+0.3%
% to sales	23.8%	22.5%	27.2%	27.6%	-	-	-
Operating profit	808	1,012	846	630	(381)	-37.7%	-25.5%
% to sales	16.0%	16.9%	13.2%	9.9%	-	-	-

Components of YoY changes

◆ Net sales

1. Steady growth of the temporary staffing business because of the pharmacist shortage in Japan (higher sales)
2. Growth of the physician placement business and benefits of expansion of service network and sales team (higher sales)

An advanced pharmacist education system that maintains a steady supply of high-quality pharmacists enabled this business to meet the needs of pharmacies.

◆ Operating profit

1. Higher sales contributed to earnings (higher profit)
 2. Increase in the cost of people used for temporary staffing (lower gross profit margin)
 3. Upfront investments to strengthen the physician placement business (lower profit)
- More advertisements, more sales and service offices, more personnel

A big increase in September in placement contracts (a source of subsequent sales) in the highly profitable pharmacist placement business is expected to contribute to a recovery in the performance of this segment in the second half.

FY3/19 Consolidated Forecast

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Results	FY3/19 Plan	YoY change	YoY growth rate
Net sales	219,239	223,468	241,274	253,893	12,618	+5.2%
Cost of sales	180,171	184,210	197,437	212,392	14,955	+7.6%
Gross profit	39,068	39,258	43,837	41,500	(2,336)	-5.3%
% to sales	17.8%	17.6%	18.2%	16.3%	-	-
SG&A expenses	28,578	30,738	33,250	35,182	1,932	+5.8%
% to sales	13.0%	13.8%	13.8%	13.9%	-	-
Consumption taxes	11,483	11,600	11,892	12,434	541	+4.6%
R&D expenses	1,913	2,388	2,784	2,833	49	+1.8%
Operating profit	10,489	8,519	10,587	6,318	(4,268)	-40.3%
% to sales	4.8%	3.8%	4.4%	2.5%	-	-
Ordinary profit	9,878	7,976	10,138	6,078	(4,060)	-40.1%
% to sales	4.5%	3.6%	4.2%	2.4%	-	-
Profit attributable to owners of parent	6,329	4,638	6,104	3,756	(2,348)	-38.5%
% to sales	2.9%	2.1%	2.5%	1.5%	-	-
Net income per share (Yen)	432.85	290.03	381.69	234.84	(146.85)	-38.5%
Dividend per share (Yen)	45.00	50.00	50.00	50.00	0	+0.0%

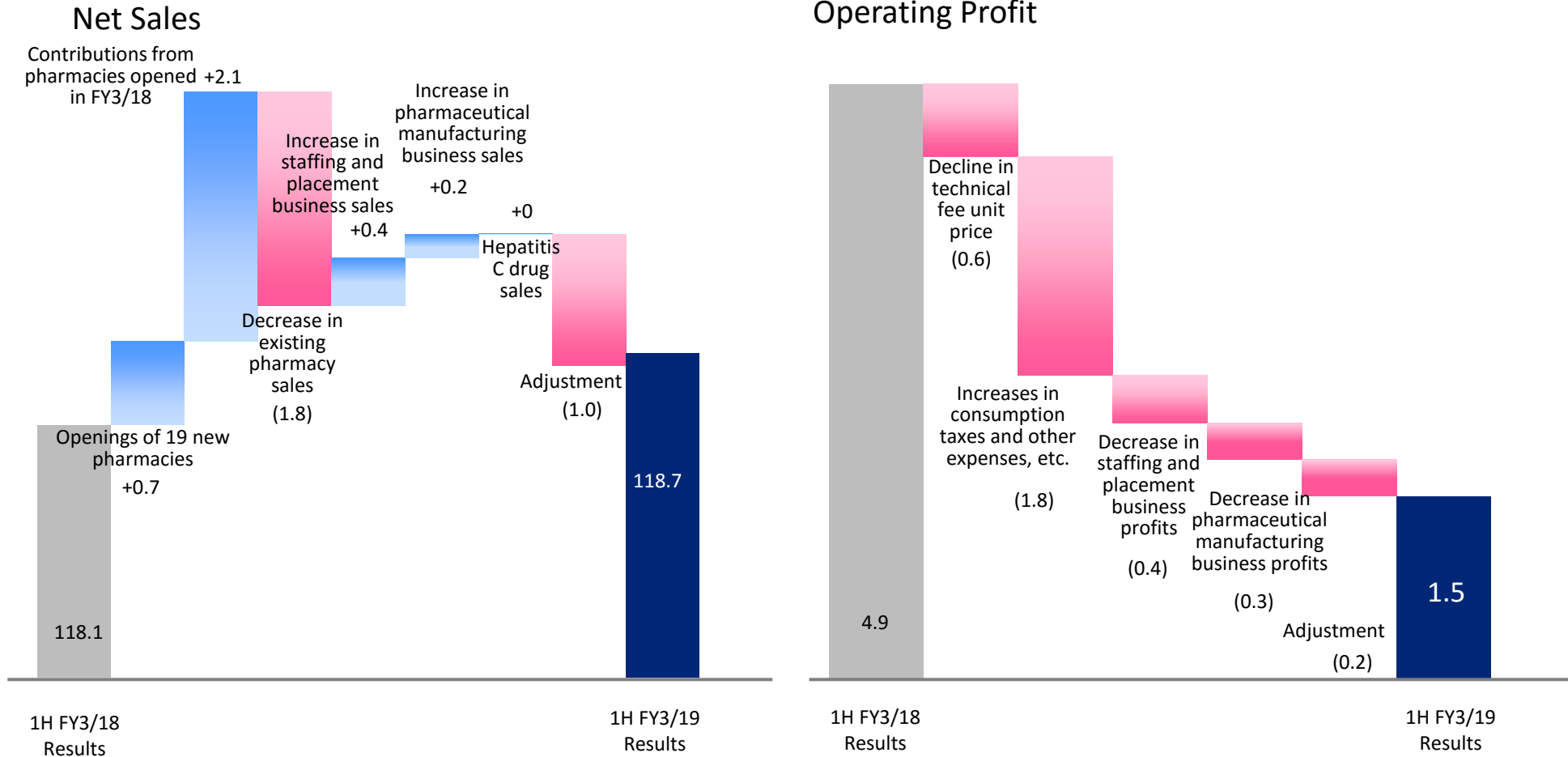
FY3/19 Business Segment Forecast

	(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Results	FY3/19 Plan	YoY change	YoY growth rate
Dispensing pharmacy business	Net sales	190,874	189,327	205,192	213,133	7,940	+3.9%
	Gross profit	28,841	28,738	32,928	30,721	(2,206)	-6.7%
	% to sales	15.1%	15.2%	16.0%	14.4%	-	-
	Operating profit	10,707	9,560	12,411	9,436	(2,975)	-24.0%
	% to sales	5.6%	5.0%	6.0%	4.4%	-	-
Pharmaceutical manufacturing and sales business	Net sales	32,598	36,821	38,066	42,123	4,057	+10.7%
	Gross profit	6,735	6,465	6,319	5,301	(1,017)	-16.1%
	% to sales	20.7%	17.6%	16.6%	12.6%	-	-
	Operating profit	2,668	1,719	1,194	51	(1,143)	-95.7%
	% to sales	8.2%	4.7%	3.1%	0.1%	-	-
Medical professional staffing and placement business	Net sales	8,934	10,500	11,970	13,500	1,529	+12.8%
	Gross profit	3,560	4,084	4,604	5,519	914	+19.9%
	% to sales	39.8%	38.9%	38.5%	40.9%	-	-
	Operating profit	1,599	1,710	1,842	1,950	107	+5.9%
	% to sales	17.9%	16.3%	15.4%	14.4%	-	-

Consolidated Results: Major Components of YoY Changes (Net Sales / Operating Profit)

In the dispensing pharmacy business, existing pharmacy sales decreased but new pharmacies and pharmacies opened in FY3/18 contributed to sales growth. Sales in the other two segments also increased, resulting in higher consolidated sales. The negative impact of NHI price and fee revisions and substantial upfront investments in all businesses were responsible for the sharp drop in operating profit.

(Billions of yen; figures are rounded to the nearest 100 million yen)

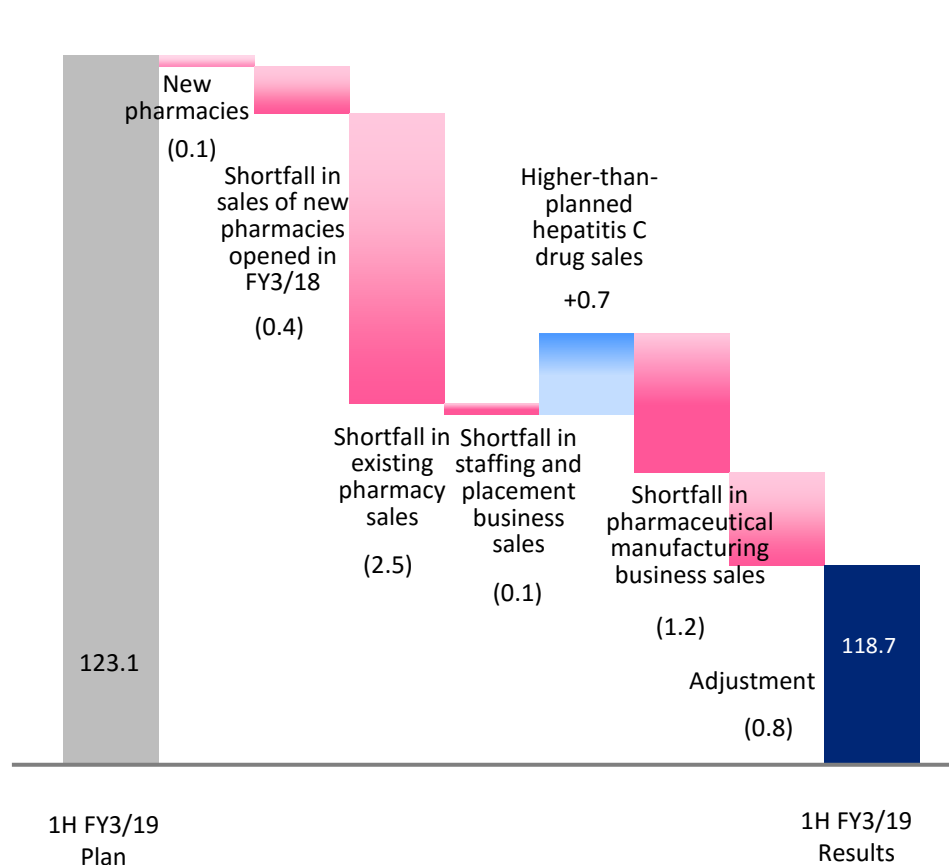


Consolidated Results: Major Components of Changes vs. Plan (Net Sales / Operating Profit)

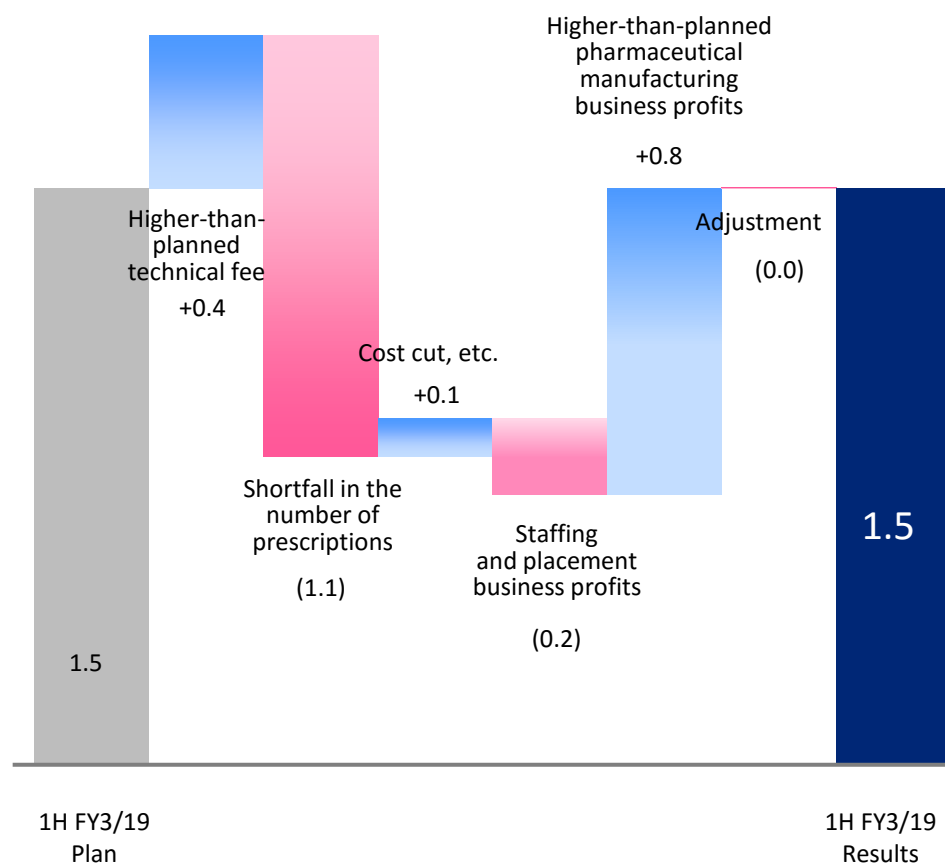
In the dispensing pharmacy business, an increase in prescription unit prices was insufficient to offset the negative effect of the below-plan number of prescriptions. In the pharmaceutical manufacturing and sales business, external sales were below the plan due to a sales strategy with priority on profitability, resulting in a 4.45 billion yen shortfall in first half sales. Total operating profit was in line with the plan, although individual segments differed from the plan.

(Billions of yen; figures are rounded to the nearest 100 million yen)

Net Sales



Operating Profit



II. Business Overview of the Nihon Chouzai Group

Dispensing Pharmacy Business / FY2018 Revisions to Medical Fees

		FY2016 revision		Points
Technical fees	Basic dispensing fee	1	Other than 2 or 3	41
		2	4,000+ prescriptions/month and 70%+ from a single medical institution 2,000+ prescriptions/month and 90%+ from a single medical institution 4,000+ prescriptions/month from particular medical institutions	25
		3	Group with 40,000+ prescriptions/month and 95%+ for a single medical institution	20
	Special basic dispensing fee	-	-	
	Premium for standard dispensing system	Only basic fee 1 • At-home medical care services: more than one service a year • Notice of family pharmacist on the staff • Managing pharmacist (5 years of pharmacy experience, 1 year at the current pharmacy, 32 working hours every week)	32	
Premium for generic drug dispensing system	65-75%	18		
	More than 75%	22		
Cost of drugs	Revisions of drug prices	Drug price reduction (drug-cost basis)	-7.8%	
		• Market price revisions	-5.57%	
		• Expansion of special price reductions of very costly drugs	-2.23%	

Maximum drug price reduction in prior years

		FY2018 revision		Points
Technical fees	Basic dispensing fee	1	Other than 2 or 3	41
		2	4,000+ prescriptions/month and 70%+ from a single medical institution 2,000+ prescriptions/month and 85%+ from a single medical institution 4,000+ prescriptions/month from particular medical institutions (if the pharmacy is in a medical mall, add the number of prescriptions from within the mall)	25
		3-1	Group with 40,000+ prescriptions/month and 85%+ for a single medical institution	20
	3-2	Group with 400,000+ prescriptions/month and 85%+ for a single medical institution	15	
		Real estate and other transactions with a hospital and 95%+ for a single medical institution	10	
Premium for regional support system	Basic fee 1: Same as requirements for the previous premium for standard dispensing system Other than basic fee 1: All of the following items have been added for each full-time pharmacist in every year 1. Nighttime and weekend/holiday services: 400 times 2. Receipt of narcotic guidance premium: 10 times 3. Receipt of premium for prevention of overlapping dosages and harmful drug interactions, etc.: 40 times 4. Receipt of family pharmacist guidance fee, etc.: 40 times 5. Receipt of outpatient drug use assistance fee: 12 times 6. Receipt of drug use adjustment assistance fee: 1 time 7. At-home pharmacist supervision of a one patient in a single building: 12 times 8. Receipt of drug use information provision fee: 60 times	35		
		75-80%	18	
		80-85%	22	
		More than 85%	26	
Cost of drugs	Revisions of drug prices	Drug price reduction (drug-cost basis)	-7.48%	
		• Market price revisions	-6.17%	
		• Radical reform of the drug pricing system (fewer drugs subject to price maintenance premium for supporting drug discovery)	-1.31%	

Effect of revisions to market prices, etc. is the maximum drug price reduction in prior years
Effect of distribution improvement guidelines

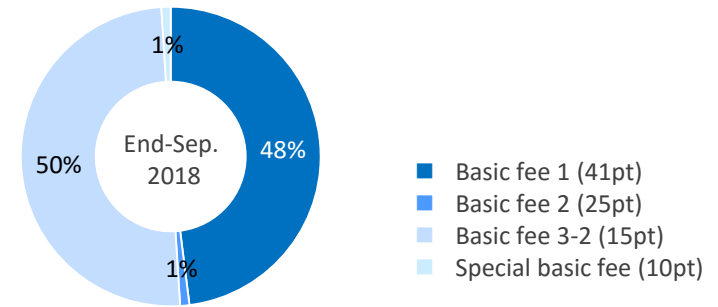
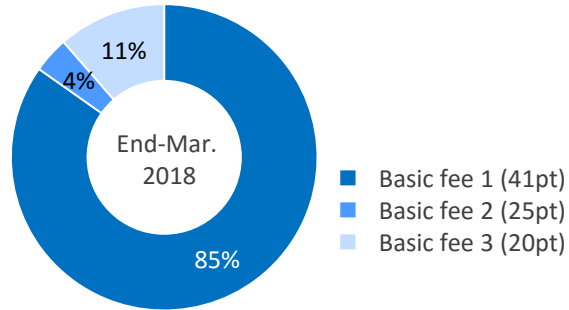
Dispensing Pharmacy Business / Three Major Components of Technical Fees

Stepping up a variety of initiatives for achieving the Vision of Pharmacies for Patients.

Pharmacies receiving the Generic Drug Dispensing System Type III premium have increased from 38% in April to 43% in June, and to 50% in September.

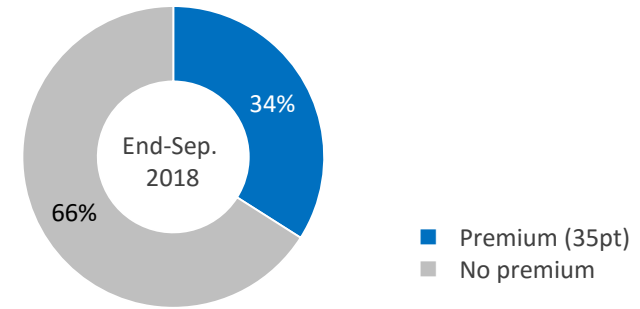
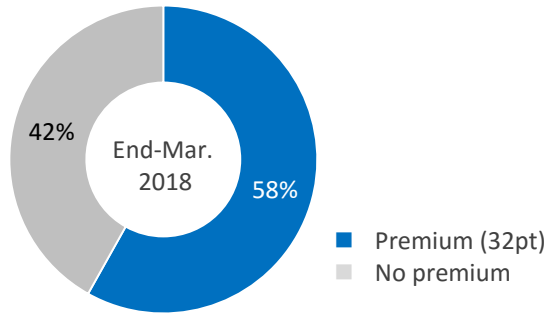
Note: Figures on this page include all pharmacies, including newly opened locations.

Basic Dispensing Fee

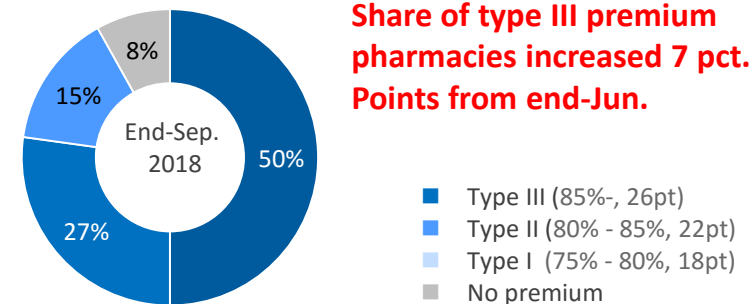
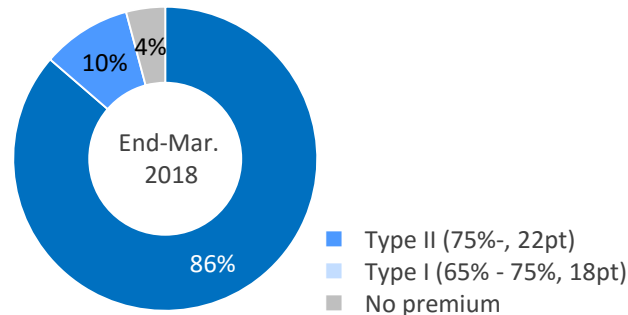


Premium for Standard Dispensing System

↓
Premium for regional support system



Premium for Generic Drug Dispensing System



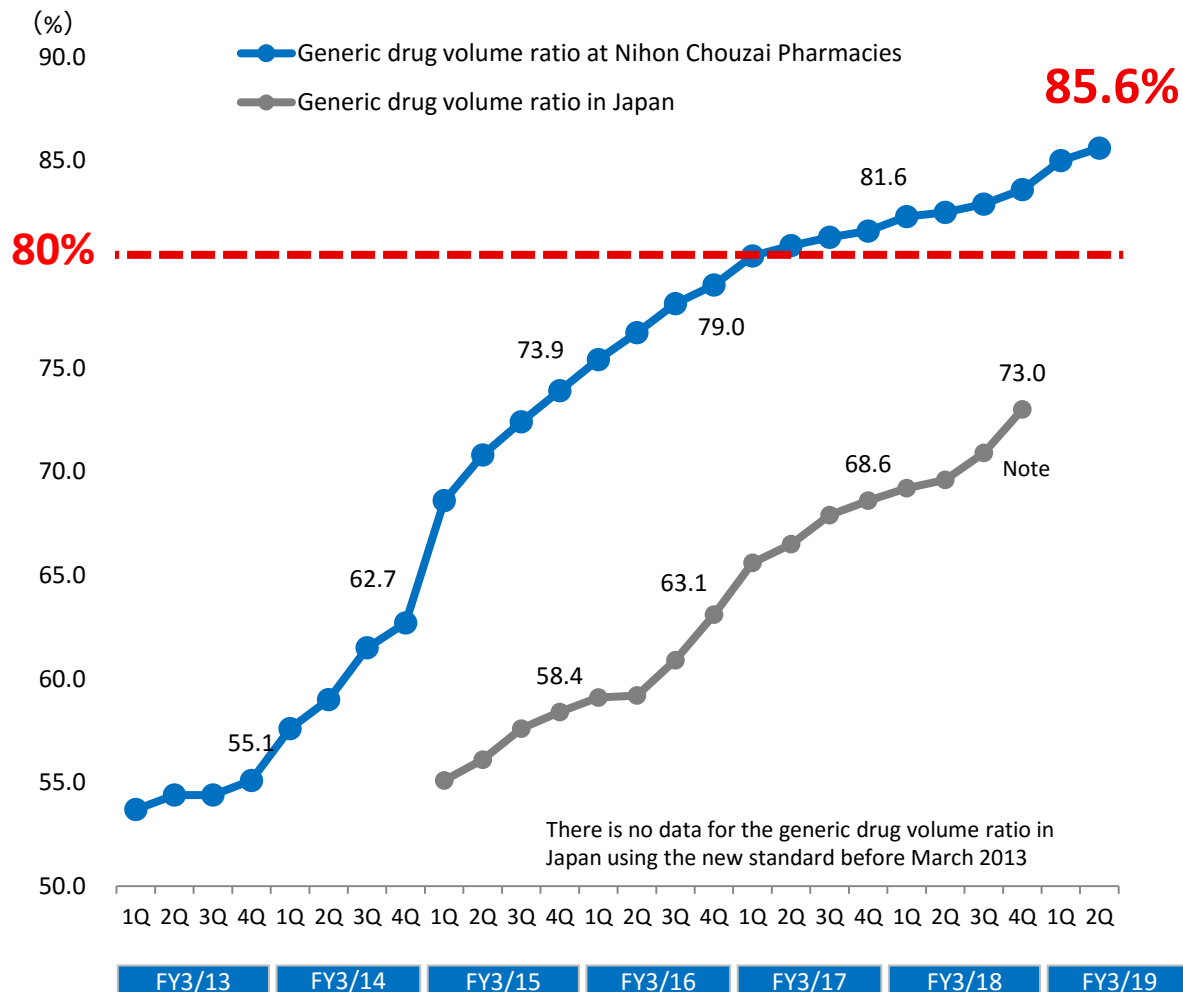
Share of type III premium pharmacies increased 7 pct. Points from end-Jun.

Dispensing Pharmacy Business / Actions to Hold Down the Growth in Health Care Expenditures

Increase the Use of Generic Drugs

The government target of 80% has been reached. → The volume-based share has continued to climb and is now above 85%

Growth in Generic Drug Volume



Surpassed 85%!

The government target of 80% has been reached

Reduction in medical expenses due to increasing the use of generic drugs (Year ended March 2018)

23.7 billion yen

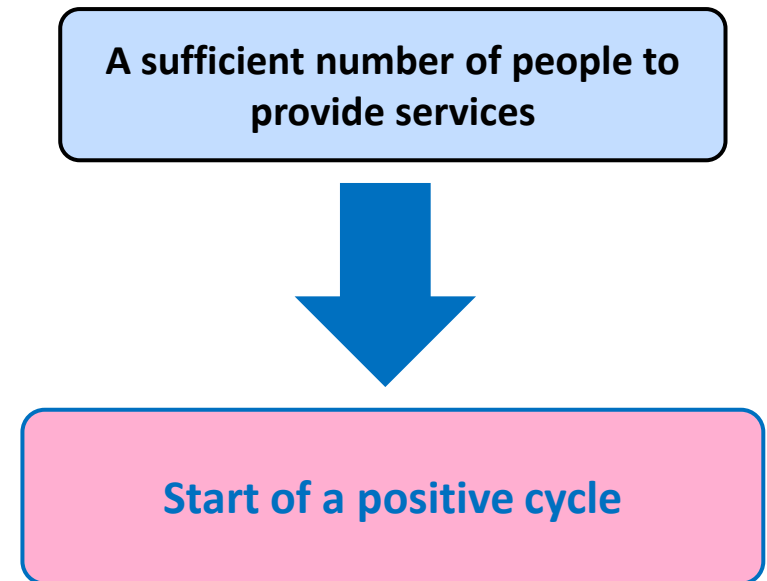
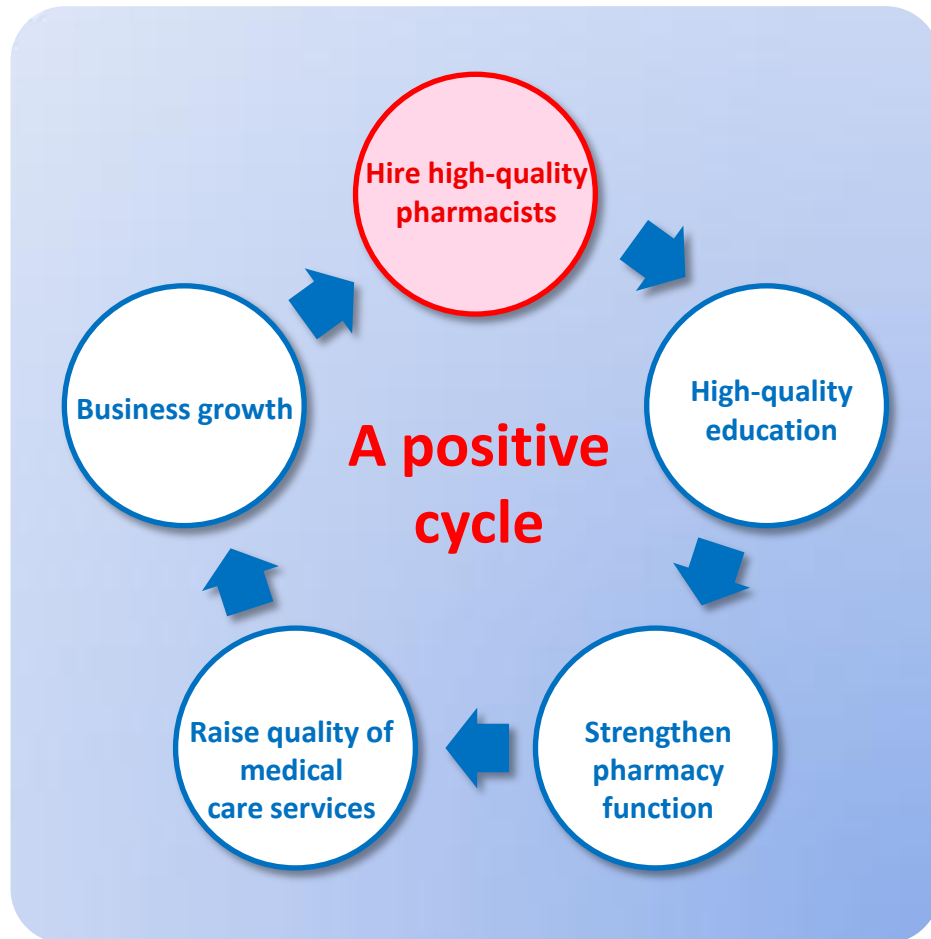
1H FY3/19: 12.2 billion yen

Note: The Ministry of Health, Labour and Welfare, Trends in Prescription Drug Expenses Volume-based Generic Drug Share (New indicator)

Actions to Provide High-quality Medical Services

A Cycle for the Provision of High-quality Medical Services

Large number of preliminary acceptances of job applicants as in the prior year (all-time high)



Strengthening recruiting capabilities and activities has increased the number of pharmacists that Nihon Chouzai is hiring. In addition, Nihon Chouzai is making investments for high-quality educational programs for its pharmacists in order to upgrade the pharmacy function. The result is an infrastructure that can improve the quality of medical care services. Recruiting activities resulted in a large number of preliminary acceptances just as in the previous fiscal year. This is enabling Nihon Chouzai to make steady progress with maintaining a sufficient number of highly trained pharmacists.

■ Pharmacy Opening and M&A Strategies

Dispensing
Pharmacy Business

■ Actions to Provide High-quality Medical Services

Dispensing
Pharmacy Business

■ Growth of the Pharmaceutical Manufacturing and Sales Business

Pharmaceutical
Manufacturing and
Sales Business

■ Growth of the Medical Professional Staffing and Placement Business

Medical
Professional
Staffing and
Placement Business

Pharmacy Opening Strategy / Pharmacy Portfolio

The number of hybrid pharmacies is increasing and the number of newly opened hybrid pharmacies is on track to surpass openings in the previous fiscal year.

No change in M&A policy – Avoid companies with poor prospects and use strict approval standards with emphasis on size and quality

Pharmacy Openings and Closings (Categories)

	FY3/18	1H FY3/19
Opened	36	19
Hospital-front pharmacies <small>note</small>	20	9
Hybrid pharmacies	6	10
Closed	8	8
No. of pharmacies at the end of period	585	596

(Including three locations specializing in the sales of general merchandise)

Note: Includes pharmacies within hospital premises



Further strengthen advanced pharmacology management

Region	End of Mar. 2018	End of Sep. 2018	Change
Hokkaido	46	45	-1
Tohoku	44	43	-1
Kanto	287	293	6
Koshinetsu	24	23	-1
Tokai	52	54	2
Kansai/Hokuriku	61	65	4
Chugoku/Shikoku	35	36	1
Kyushu/Okinawa	36	37	1
Total	585	596	11

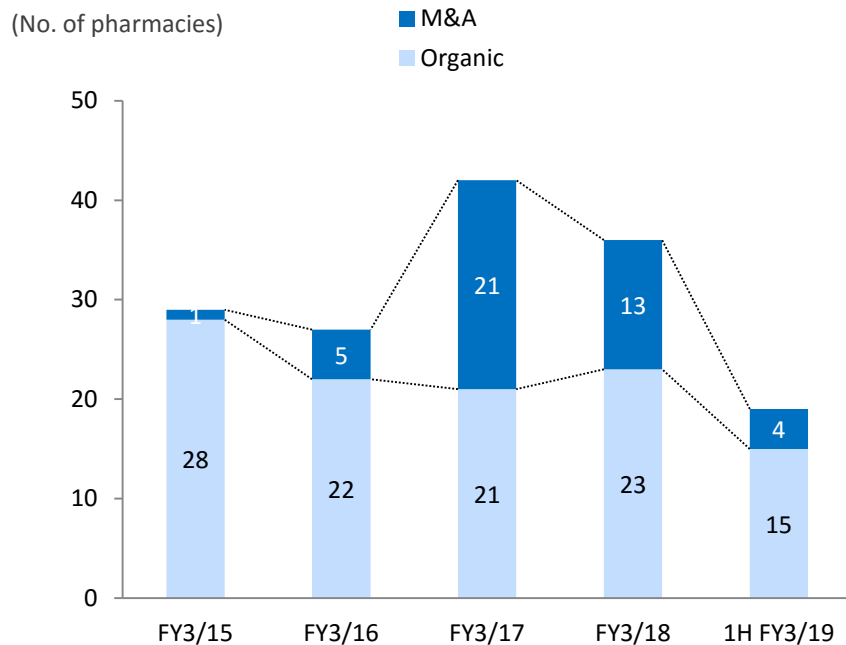
Store Openings (No. of pharmacies)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	1H FY3/19
Opened	37	29	27	42	36	19
Organic growth	33	28	22	21	23	15
M&A	4	1	5	21	13	4
Closed	9	12	11	12	8	8
No. of pharmacies at the end of each period	494	511	527	557	585	596

Pharmacy Opening Strategy / Adding Stores in a Sound Manner

M&A and organic growth will be used for hospital-front pharmacies and organic growth will be the primary means of expanding the hybrid pharmacy network. Evaluation standard is the number of stores multiplied by sales per store. By continuing to add stores in a sound manner, sales increased even in the first quarter, when dispensing fee and drug price reductions had a severe impact on performance.

Composition of New Pharmacies



Prescription drug sales per pharmacy (Millions of yen)

314	367	349	359
-----	-----	-----	-----

The Pharmacy M&A Environment

(following the prescription dispensing fee revision)

	FY3/18	1H FY3/19
Number of M&A deals	→	↑
Assessment of corporate value of deals	→	↓↓
Revitalization M&A activity	Increase	Further increase
Supply-demand balance	Demand > Supply	Demand < Supply

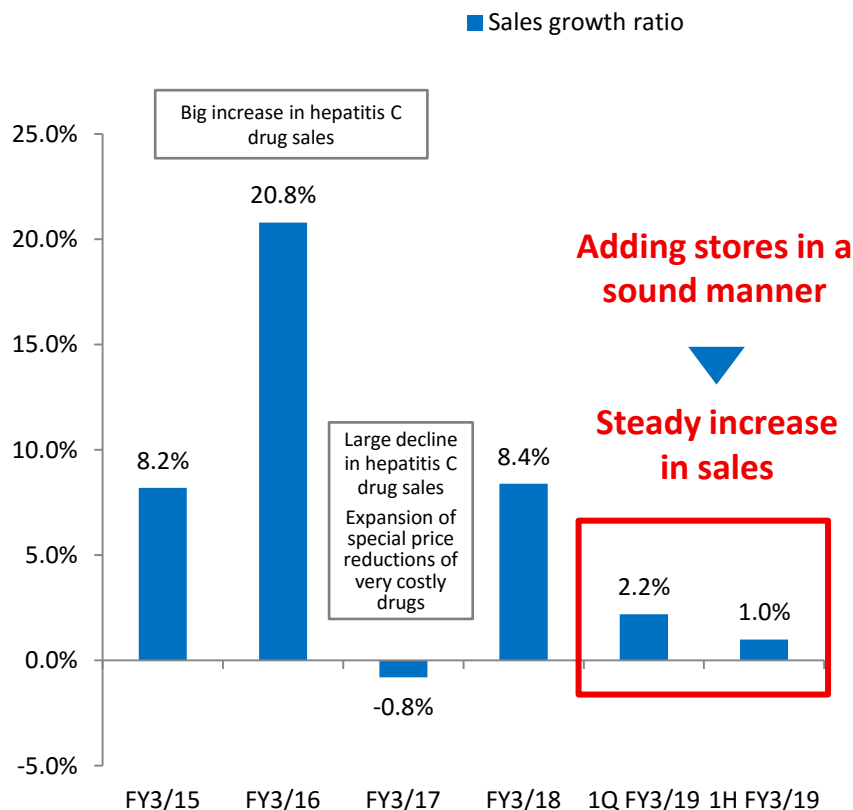
As expected, the number of deals increased but corporate value decreased significantly because of the prescription dispensing fee revision. Very few prospective deals meet Nihon Chouzai's standards because prices of quality deals are consistently high.

Continuing to seek acquisitions of high-quality businesses and of businesses with good prospects for revitalization.

Pharmacy Opening Strategy / Adding Stores in a Sound Manner

M&A and organic growth will be used for hospital-front pharmacies and organic growth will be the primary means of expanding the hybrid pharmacy network. Evaluation standard is the number of stores multiplied by sales per store. By continuing to add stores in a sound manner, sales increased even in the first quarter, when dispensing fee and drug price reductions had a severe impact on performance.

Sales Growth Ratio



YoY Growth Rate of the Number and Unit Price of Prescriptions

No. of prescriptions	6,927,000	+2.6%
Prescription unit prices	14,358 yen	-1.8%

Able to add stores on our own without excessive reliance on M&A
Vulnerability to price revisions is relatively low

YoY Growth Rate by Year of Opening

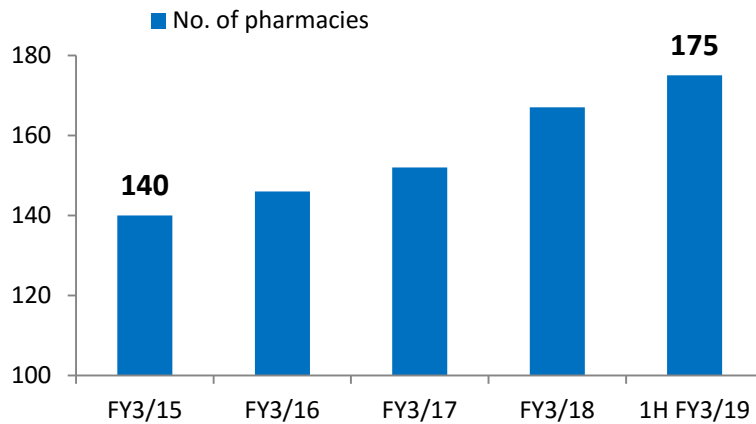
	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	-1.6%	-1.0%	-0.6%
Pharmacies opened in FY3/18	+202.8%	+316.9%	-27.4%
Total	+0.7%	+2.6%	-1.8%

The number of prescriptions decreased in September because of earthquakes, typhoons and other natural disasters. October prescriptions have recovered to about the level before the September downturn.

Pharmacy Opening Strategy / Opening of Hybrid Pharmacies

The pace of store openings is increasing due to measures to step up growth of the hybrid pharmacy network. By locating hybrid pharmacies in places linked to people's everyday activities, these stores can provide more health support functions that increases points of contact with customers. Hybrid pharmacies have already increased to 54% of all Nihon Chouzai pharmacies in the Tokyo area. The goal is to make hybrid pharmacies half of all pharmacies by speeding up the opening of these pharmacies mainly in urban areas of the Tokyo, Osaka and Nagoya regions.

Number of Hybrid Pharmacies

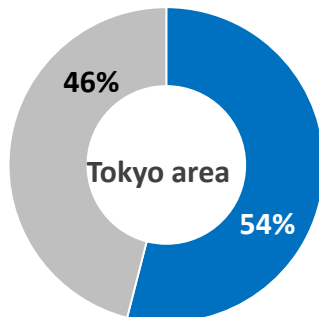


Separation of Pharmacy Functions

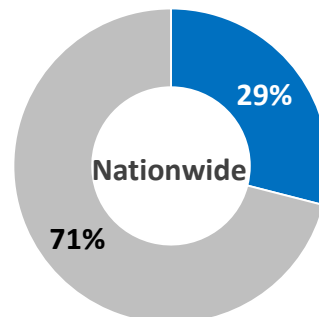
	Hybrid pharmacies
Basic function	Family pharmacists/ family pharmacies
Additional function	Health support
Store openings	Organic growth

Pharmacy Portfolio

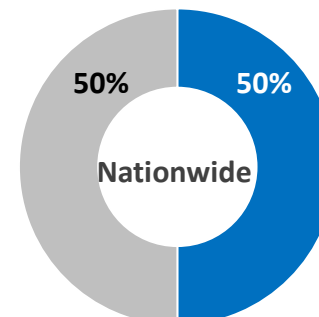
- Hybrid pharmacies
- Hospital-front pharmacies



1H FY3/19



1H FY3/19



Target

Speeding up hybrid pharmacy openings to raise the share to half of all Nihon Chouzai pharmacies

■ Pharmacy Opening and M&A Strategies

Dispensing
Pharmacy Business

■ Actions to Provide High-quality Medical Services

Dispensing
Pharmacy Business

■ Growth of the Pharmaceutical Manufacturing and Sales Business

Pharmaceutical
Manufacturing and
Sales Business

■ Growth of the Medical Professional Staffing and Placement Business

Medical
Professional
Staffing and
Placement Business

Actions to Provide High-quality Medical Services / Health Support Function

The number of Health Check-up Stations increased to 52. These stations help people stay healthy and prevent diseases by using a health consultation system and the services of supervising nutritionists for maintaining a well-balanced diet.

Health Support Function: Pharmacies with a Health Check-up Station

	End of Mar. 2017	End of Mar. 2018	End of Oct. 2018
Pharmacies with Health Check-up Stations <small>note</small>	3	37	52

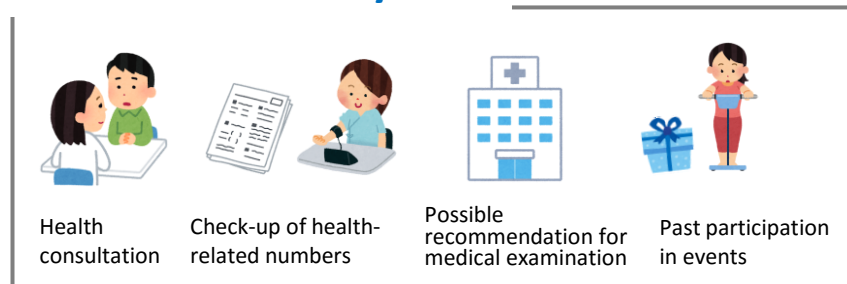
Note: Health Check-up Station is a registered trademark of Nihon Chouzai.



1. Advice for meals and exercise from a supervising nutritionist
2. Health Fairs to promote the use of Health Check-up Stations
3. Consultation booth for health maintenance and enhancement
4. Health maintenance by using equipment for measuring blood pressure and body composition, etc.
5. Sell over-the-counter drugs, health food and other self-medication products (more than 500 items)
6. Provide referrals to clinics and other providers of medical care based on an individual's symptoms

Development of Health Consultation System

Health Consultation System Service started in November 2017



Health-related events are held, primarily by supervising nutritionists
Centralize a broad range of information gained through health consultations and other activities

Use of ICT for proactive support for activities to prevent diseases

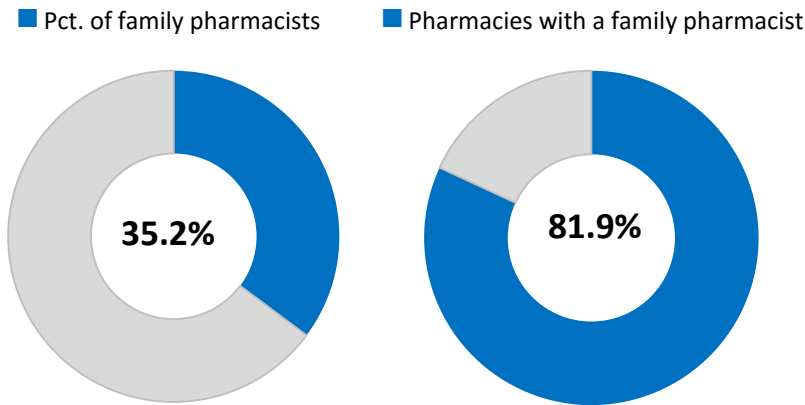
Increase the number of pharmacy customers
(more people who come for a reason other than a prescription)

Actions to Provide High-quality Medical Services

Family Pharmacists and Pharmacies / At-home Medical Care

The family pharmacist ratio decreased briefly because a record number of new pharmacy school graduates were hired. Many activities continue to train family pharmacists. A big increase in at-home medical care services and an increase in the number of services per pharmacy.

Family Pharmacists and Pharmacies (as of October 16, 2018)

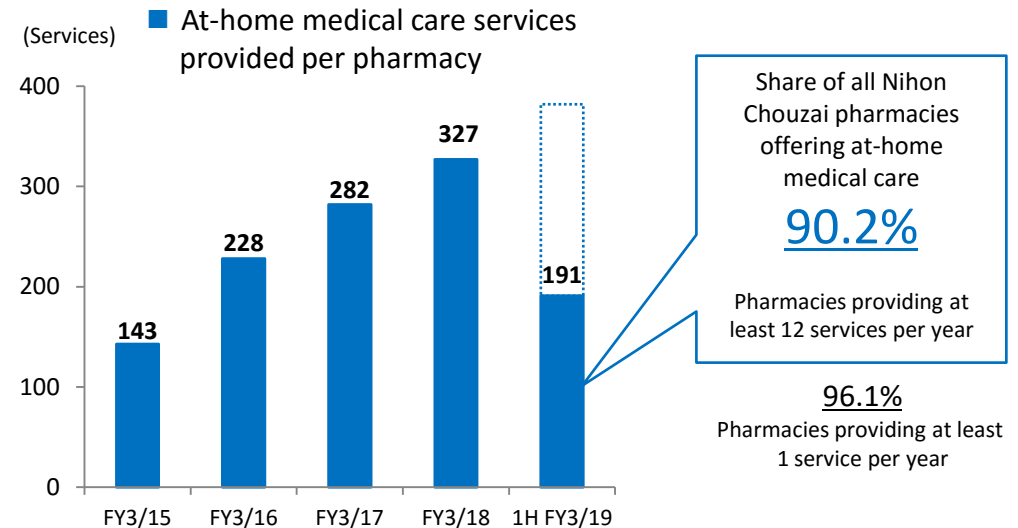


Number of family pharmacists per pharmacy

1.7

Note: Pct. of family pharmacists = No. of family pharmacists / all Nihon Chouzai Group pharmacists

Promotion of High-quality At-home Medical Care



Major activities to support at-home medical care



• Support system of At-home Medical Care Department



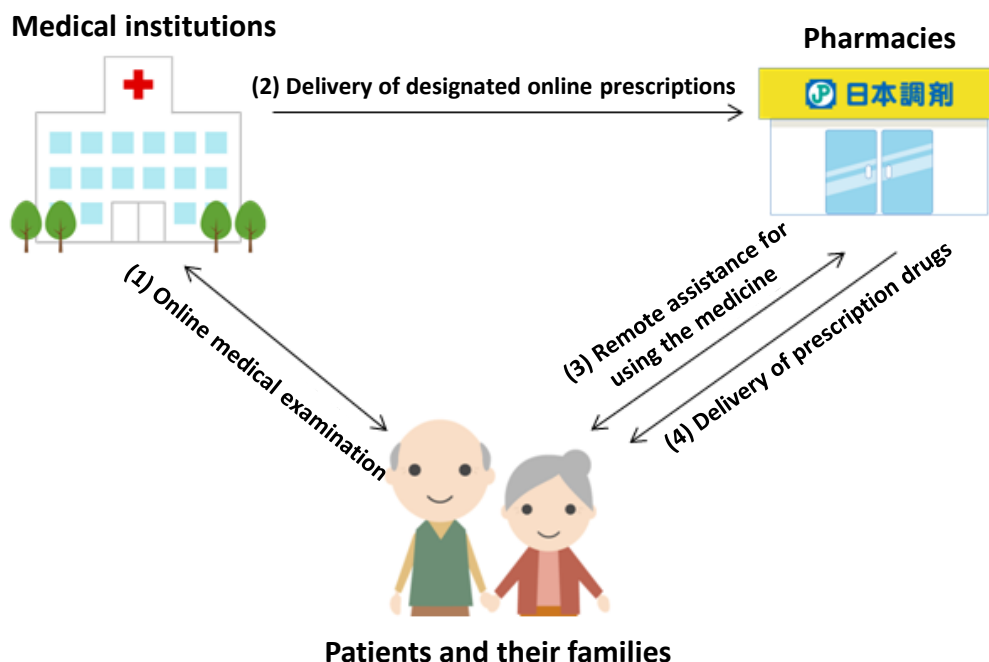
• Sterile rooms for drug dispensing



• Higher efficiency by combining at-home medical care management system with the prescription system

Online Assistance for Taking Medicine

Upfront investments for the use of ICT and pharmacy/medical institution alliances for health care (accumulation of knowledge)



Four Nihon Chouzai pharmacies have been registered to provide remote assistance for taking medicine

Nihon Chouzai is registered to participate in the remote drug support project using the national strategic special district method in the city of Fukuoka. All Nihon Chouzai pharmacies in the city have been certified.

■ Information about certified pharmacies

- Nihon Chouzai Fukuoka Chuo Pharmacy (Chuo-ku, Fukuoka City)
<https://www.nicho.co.jp/tenpo/fukuokatyuo/>
- Nihon Chouzai Fukuoka-tenjin Pharmacy (Chuo-ku, Fukuoka City)
<https://www.nicho.co.jp/tenpo/fukuokatenzin/>
- Nihon Chouzai Kyudai-mae Pharmacy (Hakata-ku, Fukuoka City)
<https://www.nicho.co.jp/tenpo/kyudaimae/>
- Nihon Chouzai Takatori Pharmacy (Sawara-ku, Fukuoka City)
<https://www.nicho.co.jp/tenpo/takatori/>

- The designated online prescription is a prescription issued in conjunction with an online or other medical examination that does not involve direct contact with a physician. PCs, smartphones, tablets and other devices can be used. A device can be linked simultaneously to up to five locations. In the future, remote medical exams using alliances covering many specialties and professions will be possible.
- As needed, a tracing report or other method is used for interaction with a medical institution following provision of remote assistance for using medicine.

Actions to Provide High-quality Medical Services

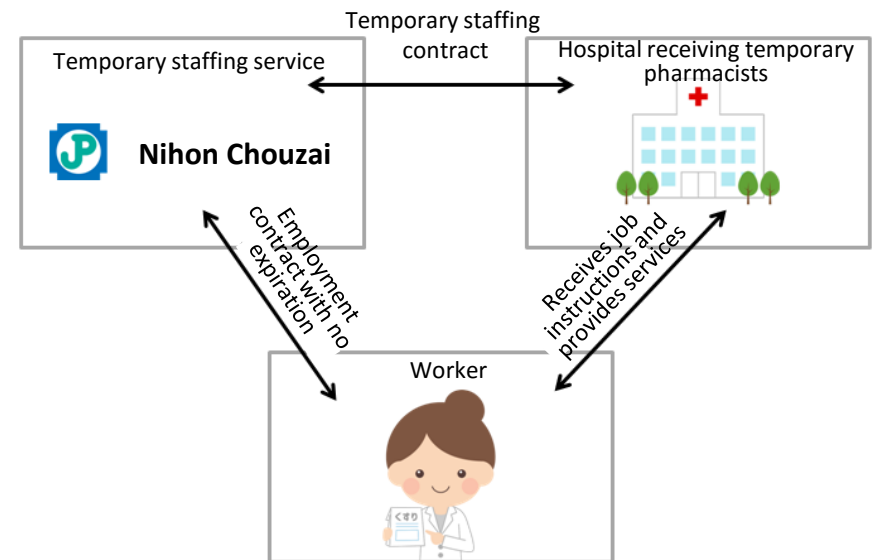
Hospital Pharmacist Staffing Service for Pharmacists on Temporary Leave for Child Birth or Child Care ^{note}

Hospital work upgrades the skills of pharmacists who perform advanced pharmacology management tasks

Hospital work is a valuable learning opportunity for pharmacists in order to acquire specialized skills

Strengths of Nihon Chouzai pharmacists

- Able to acquire skills involving highly specialized tasks
- After completing a hospital assignment, able to use newly acquired knowledge to perform work with an even higher level of specialization
- By gaining an understanding of hospital activities, able to contribute to building stronger ties with the community, including hospitals



These activities upgrade the skills of pharmacists who perform advanced pharmacology management tasks

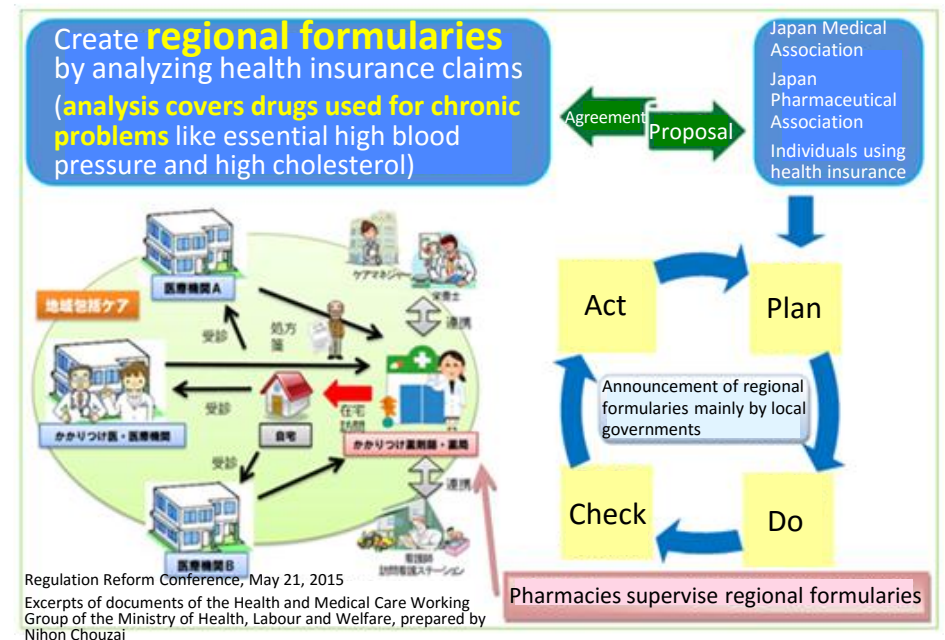
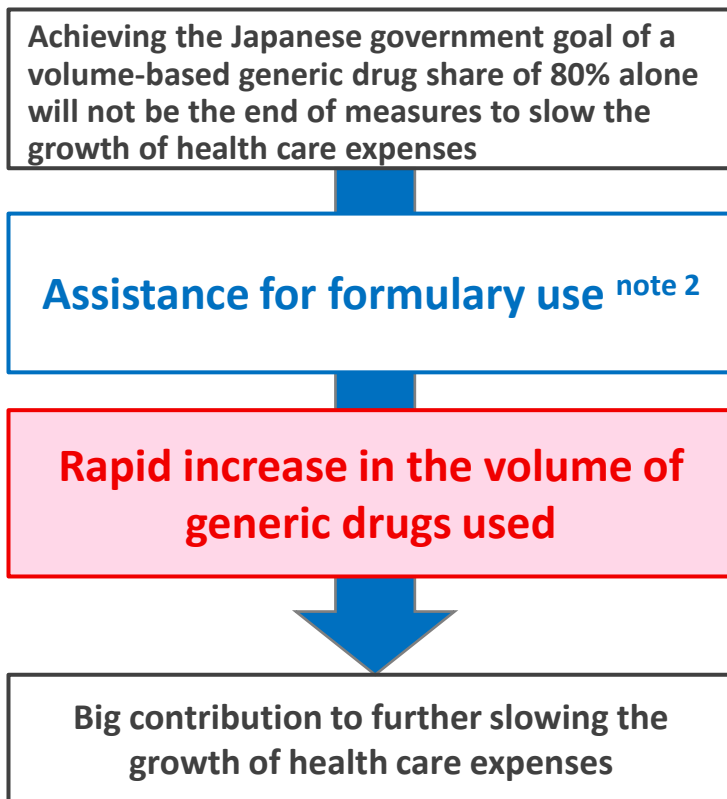
Note: The service is based on a worker dispatching basic contract (temporary staffing partner contract) between Nihon Chouzai and a hospital. When there is a pharmacist shortage due to time off for the birth of care of a child, the hospital can receive pharmacists on a temporary basis in accordance with the plan.

Actions to Provide High-quality Medical Services

Start of Business for Creation of Regional Formularies

Support for regional formularies to slow the growth of health care expenses

Japan Medical Research Institute Co., Ltd., which operates information provision and consulting business, has started a business for the preparation of drug utilization data and other data in order to produce regional formularies based on the analysis of health insurance claims ^{note 1}



- Notes:
1. Project for the preparation of data and drug use data for the purpose of preparing a regional formulary based on health insurance claim analysis for the Shizuoka Branch Office of the Japan Health Insurance Association.
 2. The goal is to use drugs that are the most effective and economical for patients. This is a standard management method for the proper use of drugs that is well established in Europe and the United States.

■ Pharmacy Opening and M&A Strategies

Dispensing
Pharmacy Business

■ Actions to Provide High-quality Medical Services

Dispensing
Pharmacy Business

■ **Growth of the Pharmaceutical Manufacturing and Sales Business**

**Pharmaceutical
Manufacturing and
Sales Business**

■ Growth of the Medical Professional Staffing and Placement Business

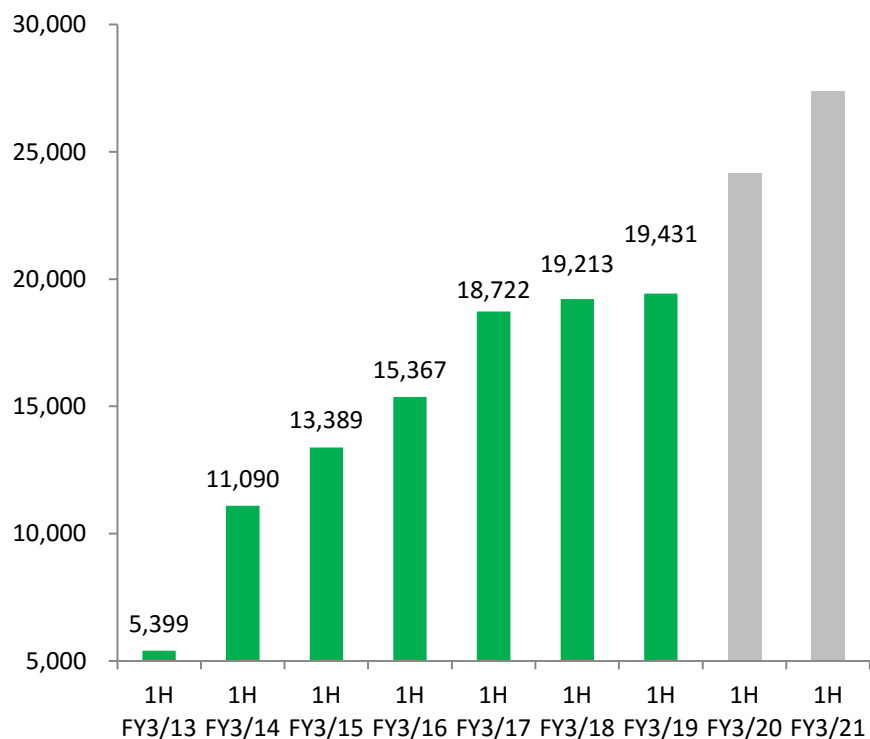
Medical
Professional
Staffing and
Placement Business

Growth of the Pharmaceutical Manufacturing and Sales Business

Sales increased as higher internal sales offset the impact of the NHI drug price reduction. Sales activities prioritize profitability rather than high-volume, low-margin sales to increase market share.

Net Sales

(Millions of yen)

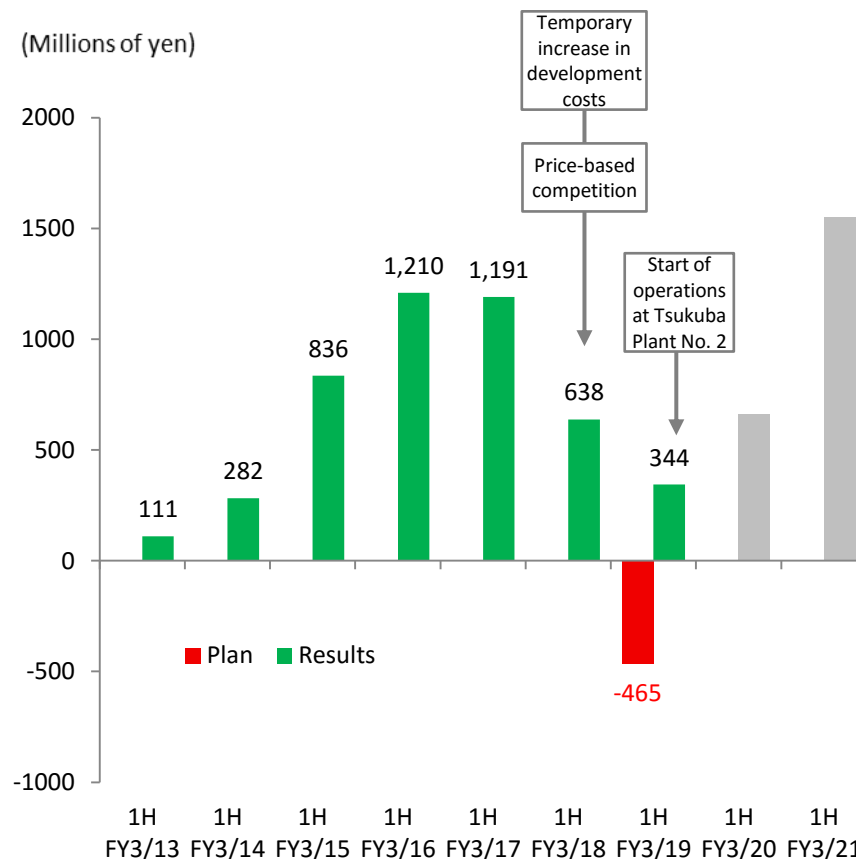


Revisions of NHI prices (FY3/13-19), Plan (FY3/20-21)

Earnings decreased because of higher depreciation expenses at Tsukuba Plant No. 2 but were about 800 million yen higher than the plan as progress continues with measures for operating profit growth.

Operating Profit

(Millions of yen)



Revisions of NHI prices (FY3/13-19), Plan (FY3/20-21)

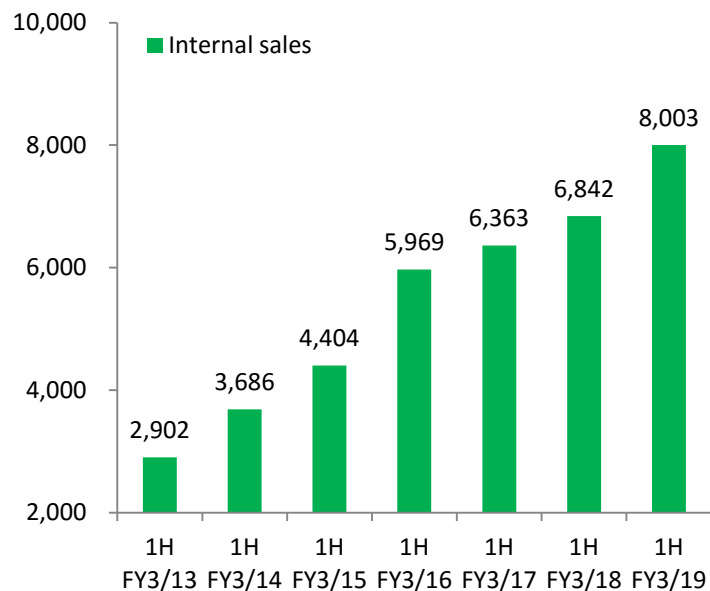
Note: The 1Q FY3/20 and 1Q FY3/21 plans are one quarter of the corresponding fiscal year plans.

Growth of the Pharmaceutical Manufacturing and Sales Business

Internal sales were higher than the initial forecast because of the increasing volume-based share of generic drugs in the dispensing pharmacy business and the increase in Nihon Chouzai stores due to new and acquired stores. External sales increased too because of growth in the distribution volume using wholesale channels.

Internal Sales

(Millions of yen)



Sales of generic drugs



Increase in internal sales

Improvements in drug distribution using wholesale channels

External Sales

1H FY3/13

Approx. **4.5** times higher

1H FY3/19

2,497 million yen

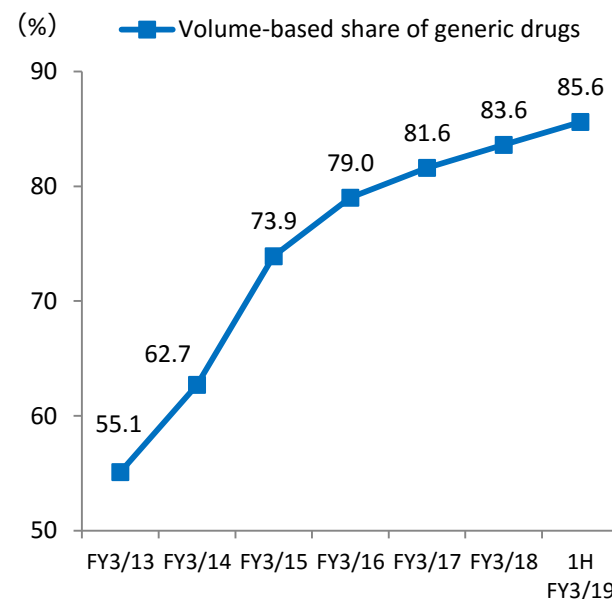


11,428 million yen

Dispensing Pharmacy Business

Promotion of the use of generic drugs

→ Increase in the volume-based share of generic drugs



Pharmacy openings by using M&A and organic growth
→ Increase in the volume-based share of generic drugs

FY3/13

133 new openings

1H FY3/19

466 pharmacies

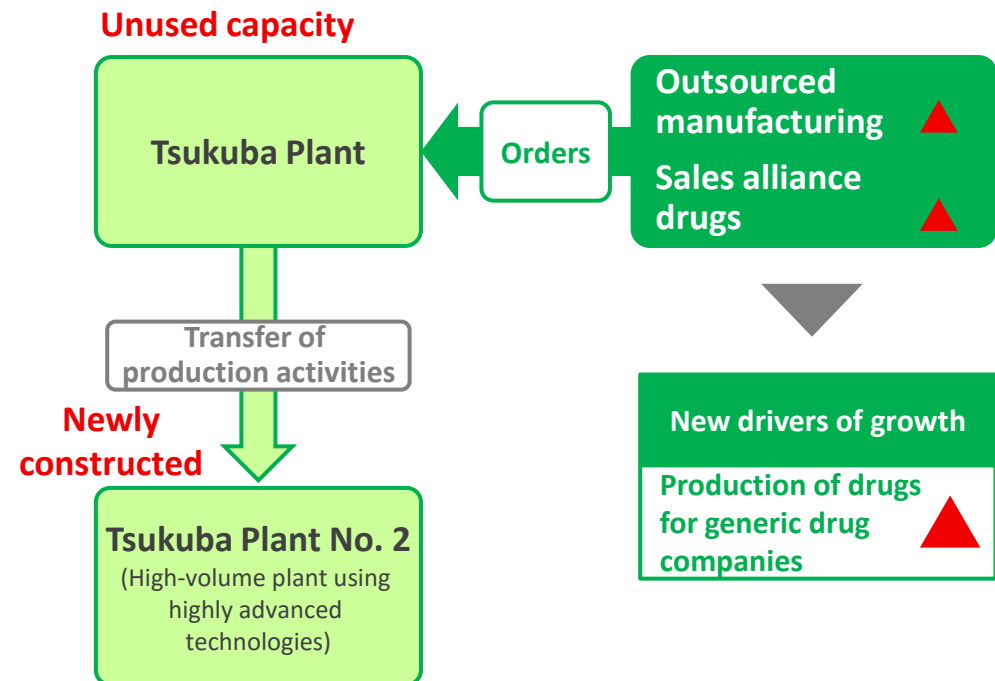


596 pharmacies

Growth of the Pharmaceutical Manufacturing and Sales Business

Drug production was transferred from the Tsukuba Plant to the new Tsukuba Plant No. 2, resulting in unused production capacity at the Tsukuba Plant. To use this capacity, there are extensive sales activities for outsourced manufacturing contracts and the production of sales alliance drugs.

1H FY3/19	
Contract manufacturing business	<p>5 contracts for 8 drugs New manufacturing contracts</p> <ul style="list-style-type: none"> Development and manufacturing activities outsourced by generic drug companies Production of drugs for companies that are unable to make more capital expenditures
Sales alliance business	<p>2 alliances for 2 drugs New sales alliances <small>note</small></p> <ul style="list-style-type: none"> Receipt of orders from companies for the production of sales alliance drugs

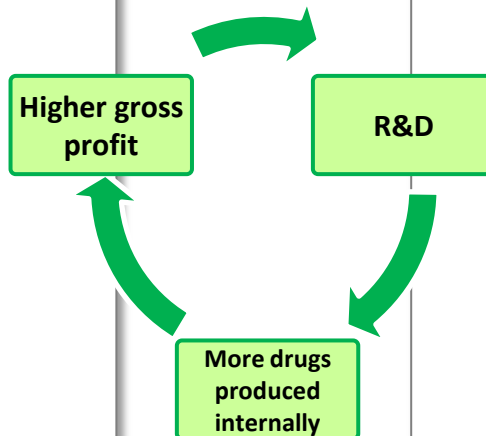
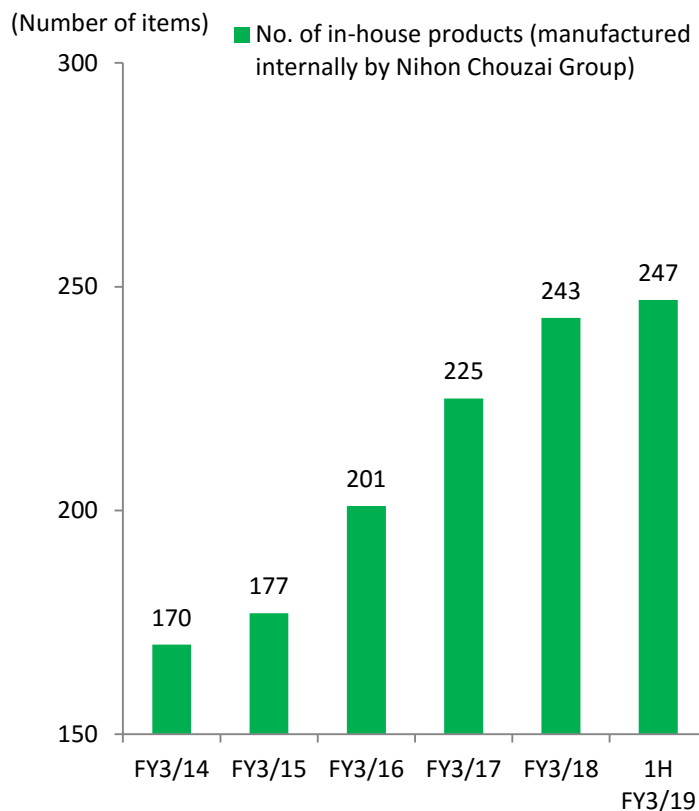


Note: Number of alliances and drugs since the start in 4Q FY3/18 of measures to strengthen this business

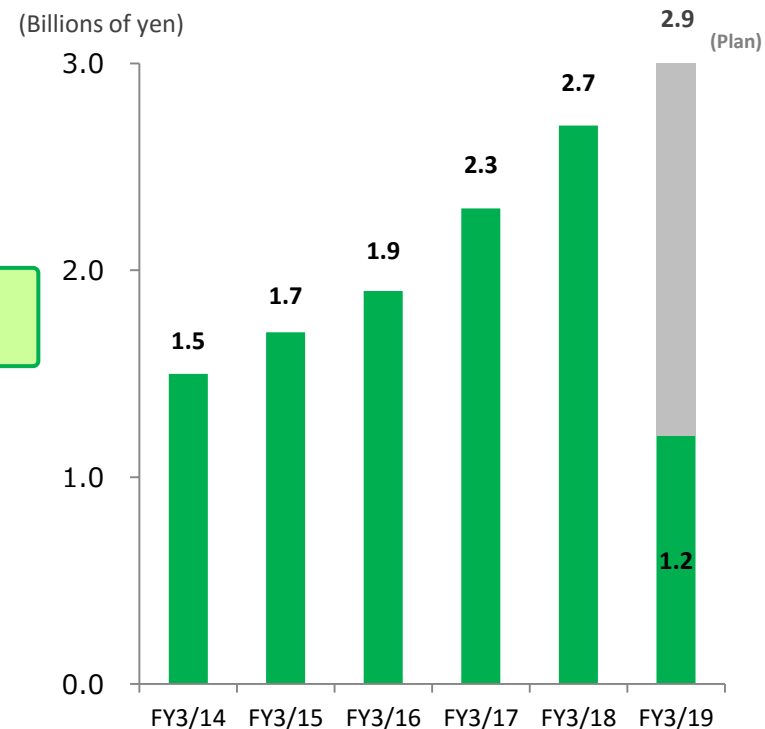
Growth of the Pharmaceutical Manufacturing and Sales Business

The medium to long-term goal is a higher gross profit by conducting extensive R&D activities to increase the number of in-house products. This business will continue to make substantial R&D investments in order to perform R&D programs with speed and efficiency. Another goal is the internal production of drugs currently outsourced to other companies.

■ No. of In-house Products (manufactured internally by Nihon Chouzai Group)



■ R&D Expenses (consolidated basis)

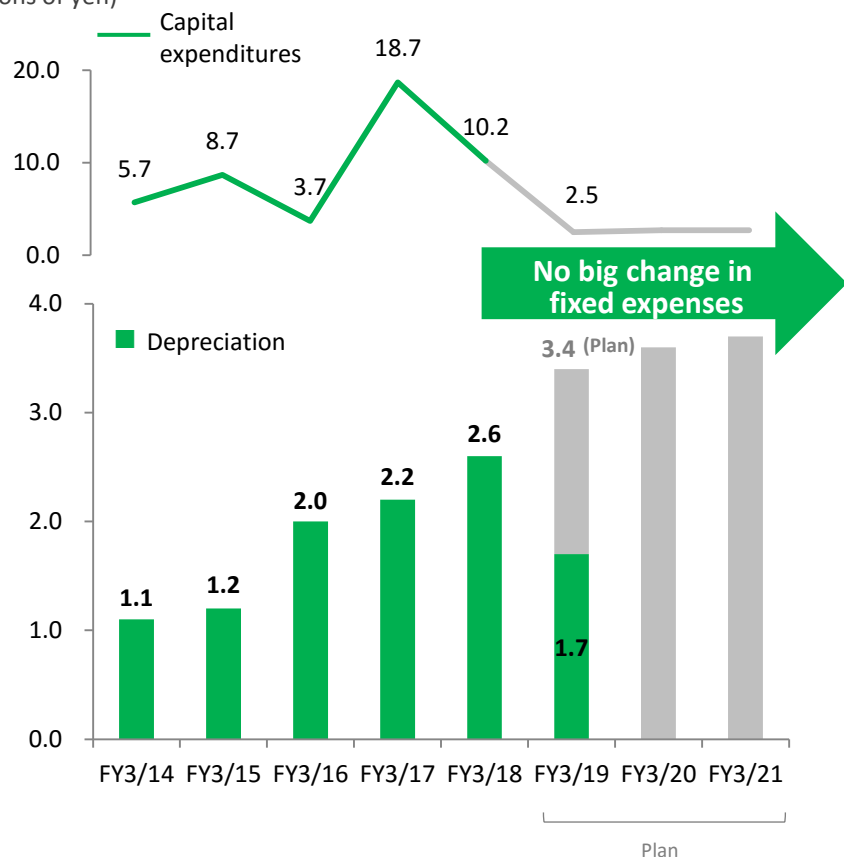


Growth of the Pharmaceutical Manufacturing and Sales Business

Completion of Tsukuba Plant No. 2 and the relocation of the research center are causing depreciation expenses to increase. But fixed expenses are stable because capital expenditures are declining from the FY3/17 peak. Goal is a rapid recovery in operating profit as higher expenses are more than offset by sales growth.

Capital Expenditures and Depreciation

(Billions of yen)



Appearance of Tsukuba Plant No. 2



Relocation of Tsukuba Research Center (June 2018)



Due to the growth of business operations, analytic research and drug formulation research activities, which were in separate locations, have been moved to the Tsukuba North Industrial Park, which is near the Tsukuba and Tsukuba No. 2 plants. This unified research base will improve the efficiency of R&D programs.

The sale of the Kasukabe Plant is expected to improve manufacturing efficiency by centralizing manufacturing activities.

Medical Professional Staffing and Placement Business

■ Pharmacy Opening and M&A Strategies

Dispensing
Pharmacy Business

■ Actions to Provide High-quality Medical Services

Dispensing
Pharmacy Business

■ Growth of the Pharmaceutical Manufacturing and Sales Business

Pharmaceutical
Manufacturing and
Sales Business

■ **Growth of the Medical Professional Staffing and Placement Business**

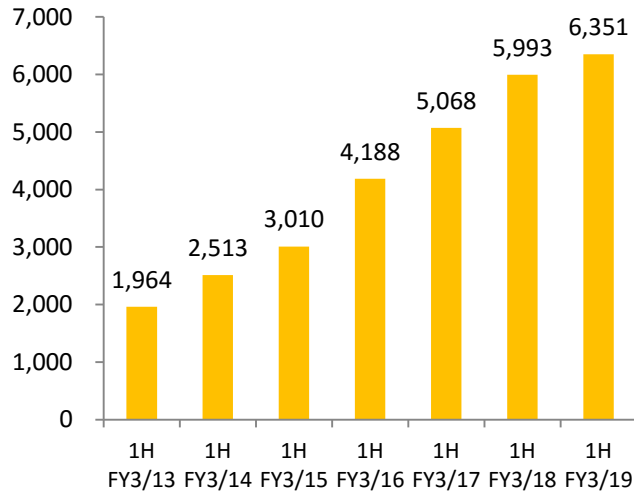
**Medical
Professional
Staffing and
Placement Business**

Growth of the Medical Professional Staffing and Placement Business

Sales are increasing steadily. Upfront expenditures for growth of the physician placement business are temporarily increasing SG&A expenses. Aiming for more growth in FY3/19 backed by consistent growth of the pharmacist placement and physician placement businesses.

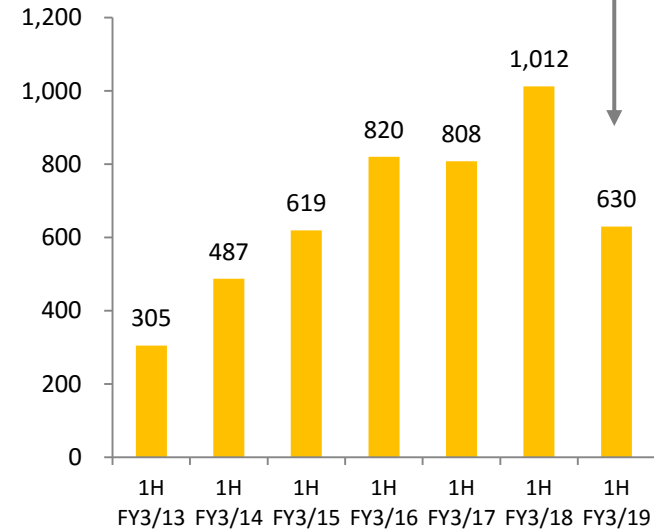
Net Sales

(Millions of yen)



Operating Profit

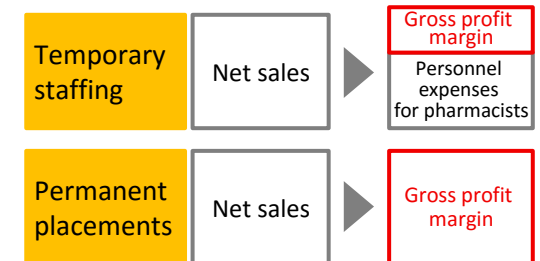
((Millions of yen))



Major Services

	Category	Start of strengthening operations	Effect on gross profit
Pharmacist services	Temporary staffing: Steady income	2000	→
	Permanent placements: Individual transactions	2016	↑
Physician services	Permanent placements: Individual transactions	2017	↑
Registered salesperson services	Individual transactions	2018	Starting activities for growth

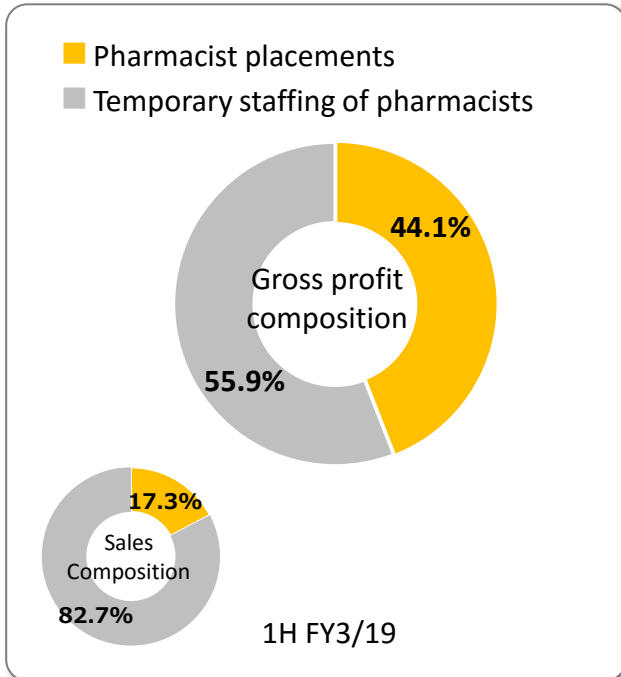
Changes in Profit Structure



Pharmacist Staffing and Placement Business

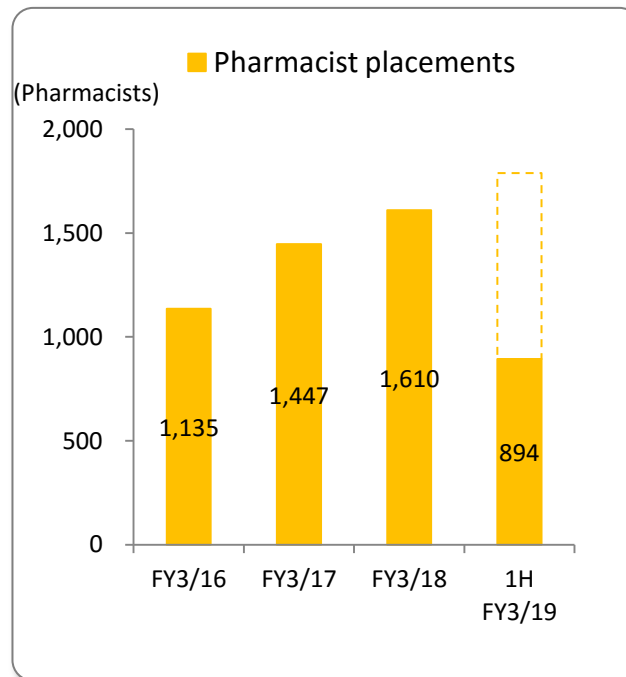
The number of placements has been climbing steadily since more salespeople were added to reinforce the pharmacist placement business. Giving salespeople training to be more effective resulted in more placement contracts. Strengthen the permanent placement business, which has higher profitability and growth potential, while maintaining the stability of the temporary staffing business, which produces a steady income stream.

Gross Profit Composition



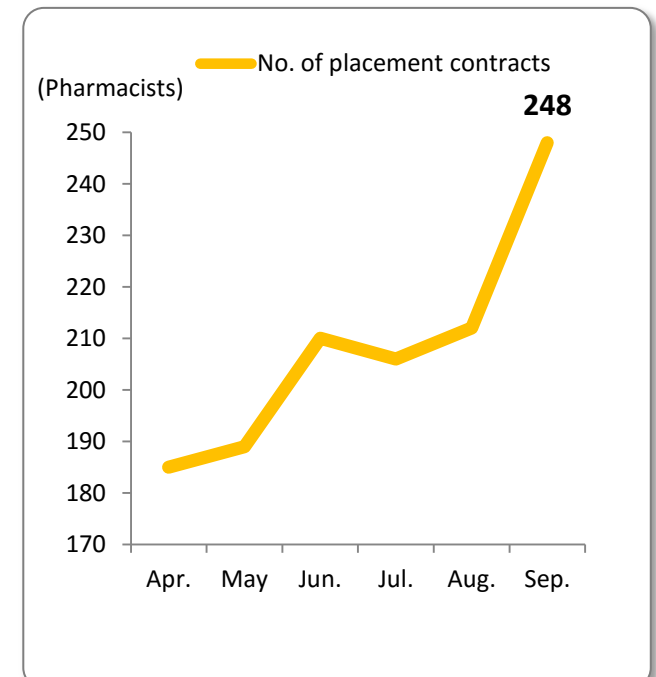
▶ More measures to strengthen the permanent placement business, which has a high gross margin

Number of Pharmacist Placements



▶ The number of pharmacist placements is increasing

Number of Placement Contracts



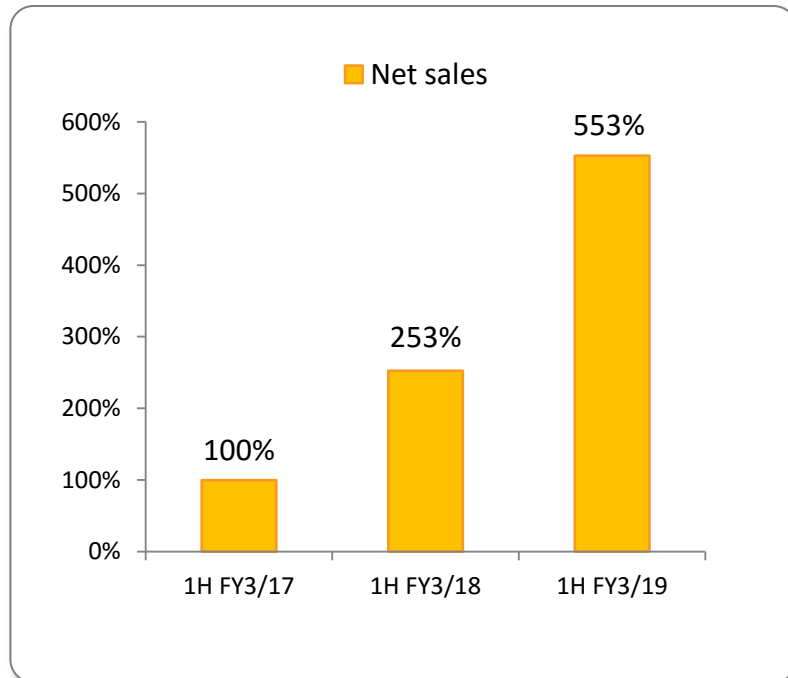
▶ Increasing number of contracts, an indicator of upcoming sales

Physician Placement Business

Continuing upfront investments for opening more sales offices, expanding the salesforce, and increasing advertising and marketing activities. Anticipate growth in operating profit as sales growth offsets expenses. Goal is sales growth by rapidly training newly hired salespeople.

Net Sales of Physician Placement Business

Sales growth using 1H FY3/17 as 100%



▶ Growth of physician placement business

Activities to Strengthen the Physician Placement Business

Sales base	New sales offices • Sapporo • Nagoya • Osaka • Fukuoka
Salesforce	• Increase by 100%
Advertising/marketing	• Website • Social media

▶ Upfront expenditures for growth of the physician placement business

III. Reference Materials

Functions to Make Okusuri Techo Plus Even More Convenient and Useful

October 30, 2018

<https://www.nicho.co.jp/corporate/info/20052/>

Start of data link between the Okusuri Techo Plus electronic medication notebook and Healthcare (iOS) and Google Fit (Android)



Example of health management screens

Note: Actual information and designs may differ due to subsequent revisions to the screens shown here.

“Okusuri Techo Plus” (an electronic medication notebook)

お薬手帳  プラス

Official website of Okusuri Techo Plus:
<https://portal.okusuriplus.com/>

The health management function of Okusuri Techo Plus can keep records for body weight/BMI, steps per day and medium-strength exercise time, blood pressure and pulse, blood sugar level, and body height. Data can be shared with a healthcare device by using an Android device with NFC ^{note}.

In addition, the number of steps recorded in the Healthcare app of an iOS device or in the Google Fit app, which can be downloaded from Google Play, can be added to the number of steps and medium-strength exercise time data in Okusuri Techo Plus.

Note: URL for a list of compatible healthcare devices
<https://portal.okusuriplus.com/faq/265/>

Notes: iOS is an operating system of Apple Inc. iOS is a registered trademark or trademark of Cisco Systems, Inc. and its affiliates in the United States and other countries and is used in accordance with a license.

Android, Google and Google Fit are trademarks or registered trademarks of Google Inc.

Nihon Chouzai Group Academic Conference

September 9, 2018

<https://www.nicho.co.jp/corporate/info/19964/>

Third All-Japan Nihon Chouzai Group Academic Conference and Second Role Play Awards



An oral presentation at the conference



Posters explaining new ideas



The role playing competition

The theme of the Nihon Chouzai Group's third academic conference was ways for Nihon Chouzai to ensure that pharmacies that accept national health insurance fulfill the roles that are expected of them. There were presentations about various initiatives in daily work activities and results of research projects. The goal was to clearly define the roles of these pharmacies within the Nihon Chouzai Group and for the public.

For public talks, there were presentations for 10 outstanding subjects selected from entries from nine regional conferences held in advance throughout Japan. Participants included pharmacists as well as medical administrators and supervising nutritionists. These people made oral presentations from their respective standpoints on the themes of initiatives for the integrated community care, at-home medical care, cooperation between pharmacies and medical institutions and other subjects. In addition, the number of items presented using posters was 17, much larger than the four subjects at last year's conference. This made it possible to share more information about outstanding initiatives at the Nihon Chouzai Group.

The second role-playing competition adopted the theme of ways to response to the needs of patients with their point of view. Competitors have been evaluated based on accuracy, sincerity, warmth of greetings and responses, and thoughtfulness. This year, more elements were added from the standpoint of a vision for pharmacies of the future: relationships with individual patients, empathy and the ability to create proposals. Using the stage as a pharmacy, each team had six minutes to demonstrate how they serve customers, beginning with the initial greeting and including the sale of products (OTC drugs, cosmetics and/or supplements) and the final send-off. This year, 20 pharmacists and medical administrators who won their preliminary competitions held throughout Japan participated in the final role-playing competition.

Topics (3)

Seven More Health Support Pharmacies

March-September 2018

<https://www.nicho.co.jp/topics/detail/16500/>

Compliance with health support pharmacy requirements Health Check-up Stations help people stay healthy



Nihon Chouzai is working in many ways to reinforce pharmacy functions for enabling people to maintain and improve their health. During the first half of FY3/19, seven Nihon Chouzai pharmacies met the requirements as health support pharmacies. These are defined as pharmacies with the capabilities for numerous activities for maintaining and improving the health of residents of the communities these pharmacies serve. Capabilities include advice for the proper use of OTC drugs, health food and other products, consultations for staying healthy, and other forms of assistance. The health support pharmacy designation also requires cooperation with local medical institutions and government agencies. Final certification requires compliance with the standards established by the Minister of Health, Labour and Welfare to serve as a health support pharmacy.

Starting in December 2016, Nihon Chouzai has been setting up its own Health Check-up Stations at its pharmacies to heighten the ability of these locations to provide health support services. (Health Check-up Station is a registered trademark of Nihon Chouzai.)

R&D Activities Unified at the Tsukuba Research Center

June 1, 2018

Relocation and centralization of R&D operations for greater efficiency



The new Tsukuba Research Center

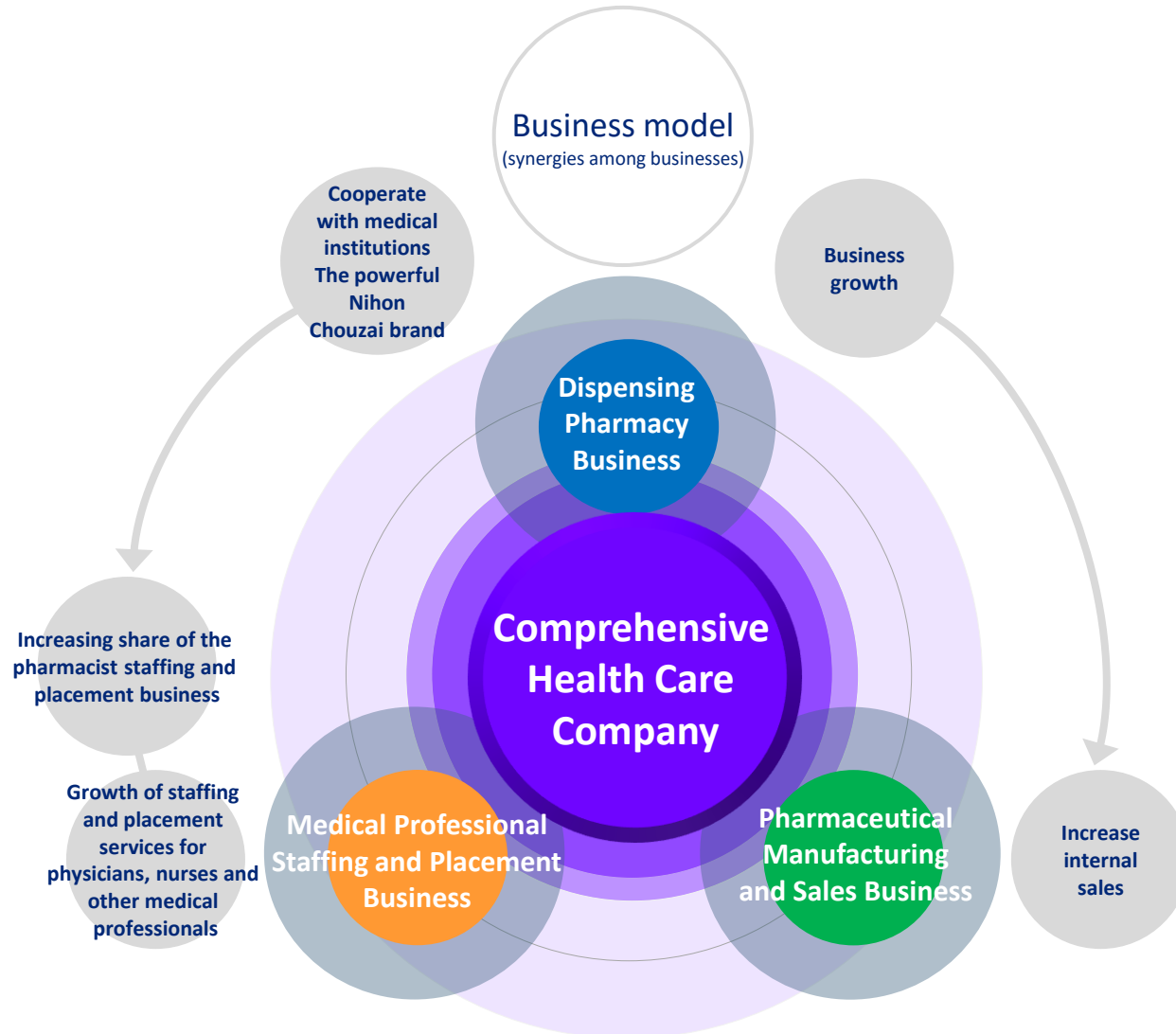
To support the growth of Nihon Generic Co., Ltd., which operates the Nihon Chouzai Group's pharmaceutical manufacturing and sales business, the Tsukuba Research Center has been moved from a separate site in Tsukuba to a building at the Tsukuba North Industrial Park, which is also where the plants are located. Operations at the center started on June 1. The center is in a building that Nihon Generic purchased from the former Takeda Pharmaceutical and renovated. Now, analytic and drug formulation research are in a single location that is close to manufacturing operations. This unification and convenient location will raise the efficiency of R&D activities. In addition, this research center and the two Tsukuba plants will be able to work together more easily, which will further improve R&D and manufacturing efficiency.

Company Profile

Trade name	NIHON CHOUZAI Co., Ltd.
Established	March 1980
Headquarters	37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda Ward, Tokyo 100-6737, JAPAN +81-(0) 3-6810-0800 (general)
Representative	Hiroshi Mitsuhara
Capital	3,953.02 million yen
Number of shares outstanding (including treasury shares)	16,024,000 shares
Fiscal year-end	March
Stock code:	3341
Businesses (consolidated)	Management of health insurance dispensing chain pharmacies Manufacture and sales of generic drugs, etc. Medical professional staffing and placement business Information provision and consulting business, etc.
Number of employees	4,876 (as of March 31, 2018) Note: Including part-time employees based on 8-hour conversion, consolidation basis
Number of pharmacies	Dispensing pharmacies: 596 Pharmacies specializing in the sales of general merchandise: 3 (as of September 30, 2018)

Our Objective

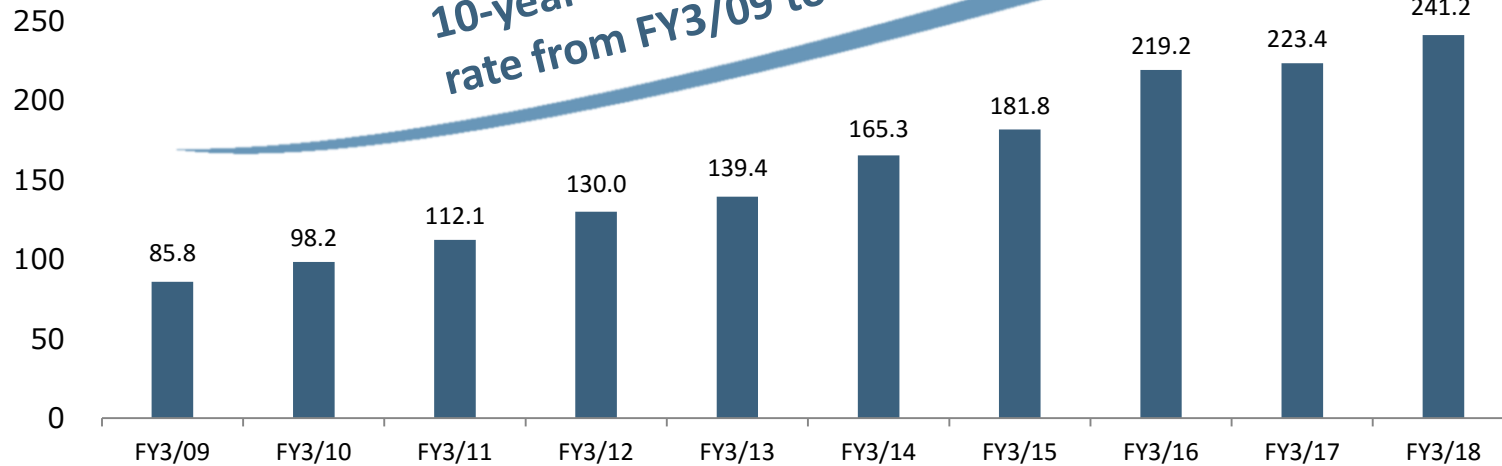
“True separation of the roles of drug prescribing and dispensing services”



Consolidated Results: Net Sales / Operating Profit

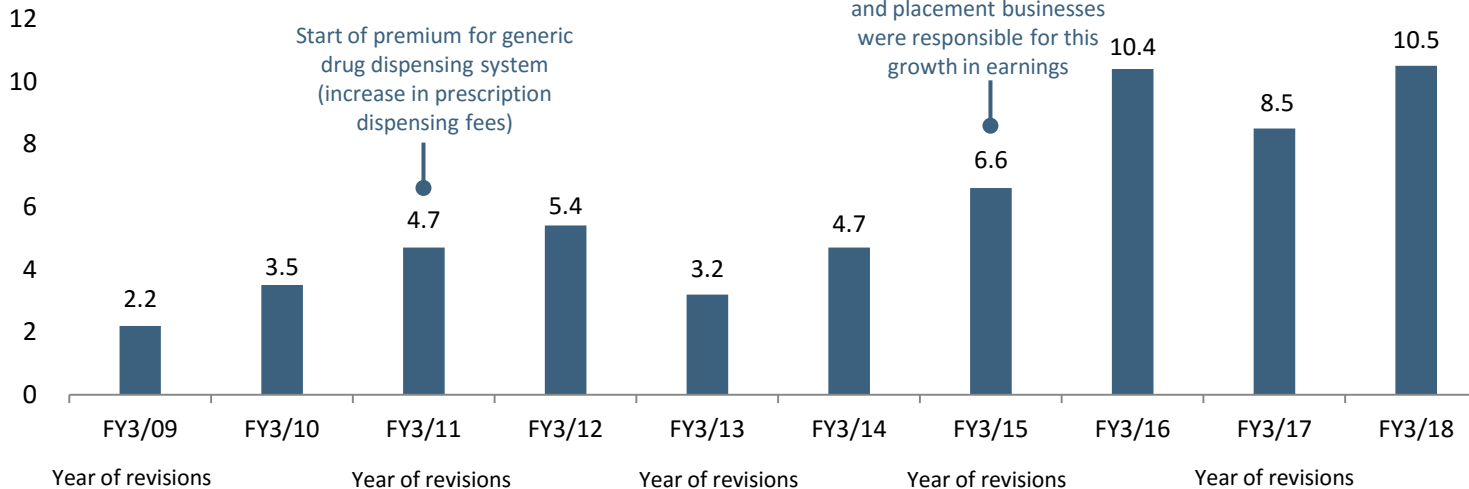
Consolidated Net Sales

(Billions of yen)



Consolidated Operating Profit

(Billions of yen)



Precautions

Performance targets, plans, business activities and other forward-looking statements concerning Nihon Chouzai and its subsidiaries are based on information that was available when this presentation was made. There may be significant changes to these statements due to business and other risk factors and other uncertainties. These statements are not promises concerning future performance. Actual results of operations may differ significantly from the outlook in this presentation for a number of reasons. In addition, this presentation is not a solicitation to make an investment in Nihon Chouzai. Investment decisions are the responsibility of individual investors.

Inquiries:

 NIHON CHOUZAI Co.,Ltd.

Corporate Planning Department, Investor Relations Group

37F GranTokyo North Tower, 1-9-1, Marunouchi,

Chiyoda Ward, Tokyo 100-6737, JAPAN

TEL: +81-(0) 3-6810-0800 (general)

E-mail: ir-info@nicho.co.jp

IR website: <https://www.nicho.co.jp/corporate/ir/>