



July 31, 2017

**Summary of Consolidated Financial Results for the First Quarter  
of the Fiscal Year Ending March 31, 2018  
(Three Months Ended June 30, 2017)**

[Japanese GAAP]

Company name:	NIHON CHOUZAI Co., Ltd.	Listing:	Tokyo Stock Exchange, First Section
Stock code:	3341	URL:	<a href="http://www.nicho.co.jp">http://www.nicho.co.jp</a>
Representative:	Hiroshi Mitsuhashi, President & CEO		
Contact:	Yoshiki Kamada, Managing Director	Tel:	+81-(0) 3-6810-0800
Scheduled date of filing of Quarterly Report:			August 14, 2017
Scheduled date of payment of dividend:			-
Preparation of supplementary materials for quarterly financial results:	Yes		
Holding of quarterly financial results meeting:	None		

Note: The original disclosure in Japanese was released on July 31, 2017 at 15:00 (GMT +9).

(All amounts are rounded down to the nearest million yen)

**1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2018  
(April 1, 2017 – June 30, 2017)**

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2017	58,346	7.1	2,184	34.8	2,090	35.2	1,122	14.5
Three months ended Jun. 30, 2016	54,476	11.4	1,620	(21.1)	1,545	(18.5)	981	(19.7)

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2017: 1,124 (up 15.7%)

Three months ended Jun. 30, 2016: 971 (down 24.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2017	70.21	-
Three months ended Jun. 30, 2016	61.34	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2017	185,572	37,171	20.0
As of Mar. 31, 2017	178,347	36,447	20.4

Reference: Shareholders' equity (million yen) As of Jun. 30, 2017: 37,171 As of Mar. 31, 2017: 36,447

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year ended Mar. 31, 2017	Yen -	Yen 25.00	Yen -	Yen 25.00	Yen 50.00
Fiscal year ending Mar. 31, 2018	-	-	-	-	-
Fiscal year ending Mar. 31, 2018 (forecasts)	-	25.00	-	25.00	50.00

Note: Revisions to the most recently announced dividend forecast: None

**3. Consolidated Forecast for the Fiscal Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	113,606	3.8	4,251	7.9	4,115	9.7	2,231	(4.6)	139.53
Full year	234,697	5.0	10,105	18.6	9,804	22.9	5,639	21.6	352.59

Note: Revisions to the most recently announced consolidated forecast: None

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock shares)

1) Number of shares outstanding at the end of period (including treasury shares)

As of Jun. 30, 2017:	16,024,000 shares	As of Mar. 31, 2017:	16,024,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2017:	29,548 shares	As of Mar. 31, 2017:	29,448 shares
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3) Average number of shares outstanding during the period

Three months ended Jun. 30, 2017:	15,994,485 shares	Three months ended Jun. 30, 2016:	15,994,905 shares
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Note 1: The current quarterly financial report is not subject to quarterly review procedures.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts and other forward-looking statements in this document incorporate risks and uncertainties because these statements are based on Nihon Chouzai's judgments and assumptions using information that is currently available. These materials are not promises by Nihon Chouzai regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

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## **1. Qualitative Information on Quarterly Consolidated Financial Performance**

### **(1) Explanation of Results of Operations**

In the first quarter (April to June) of the fiscal year ending on March 31, 2018, the Japanese government announced the Basic Policy on Economic and Fiscal Management and Reform 2017 in June. In the social security area, many initiatives are listed as one of the key points. These initiatives cover many items. Examples include the realization of the community medical care vision, radical reform of the drug pricing system, revision of prescription dispensing fees for the realization of the separation of dispensing and prescribing functions for the benefit of patients medical and dispensary practice (optimizing product services and emphasis on evaluation of people-to-people services), and the proper use of drugs. For generic drugs, the government has moved up to “September 2020” the target for its volume-based goal for generic drug use from the previous target of “the end of fiscal 2020 or earlier.” In addition, the government will consider additional promotional measures for the even faster achievement of the generic drug use goal. The Nihon Chouzai Group is conducting business activities aggressively in a manner that is consistent with government policies. As a result, first quarter sales and earnings were higher than one year earlier. Net sales increased 7.1% year on year to 58,346 million yen. Operating profit increased 34.8% to 2,184 million yen, ordinary profit increased 35.2% to 2,090 million yen and profit attributable to owners of parent rose 14.5% to 1,122 million yen.

Business segment performance was as follows.

#### **1) Dispensing Pharmacy Business**

In the first quarter of the current fiscal year, Nihon Chouzai opened eight pharmacies in the dispensing pharmacy business and closed one. Consequently, there were 564 pharmacies (including one pharmacy specializing in the sale of general merchandise) at the end of the first quarter. Dispensing pharmacy net sales increased 7.6% year on year to 49,387 million yen. There was only a single-digit increase in first quarter sales because sales of medications to treat hepatitis C were much lower. Excluding hepatitis C drugs, first quarter sales were more than 10% higher than in the previous fiscal year's first quarter. Growth in the number of stores, including through acquisitions, and sales at stores opened in the previous fiscal year all contributed to the higher sales. Higher prescription unit prices, the result of NHI drug price revisions in the previous fiscal year, were another reason for the increase in first quarter sales. Earnings benefited from an improvement in income from prescription dispensing fees, which was due in part to more activities to provide the services of family pharmacists. As a result, segment operating profit sharply increased 70.2% to 2,511 million yen.

The Japanese government has established the target of raising the volume-based share of generic drugs to at least 80% by September 2020. At Nihon Chouzai pharmacies, the average rate of generic drug utilization rate was 83% at the end of June 2017.

#### **2) Pharmaceutical Manufacturing and Sales Business**

In the pharmaceutical manufacturing and sales business, in the first quarter of the current fiscal year, there was a small increase of 0.2% in sales to 9,407 million yen but operating profit fell 57.3% to 318 million yen. Price-based competition among drug manufacturers was the primary cause. Earnings were also held down by an increase in R&D expenditures to strengthen the lineup of drugs produced by the Nihon Chouzai Group. Despite the decline in earnings, the first quarter performance of this segment was generally consistent with the business plan, which takes into account the intensely competitive market conditions that began in the second half of the previous fiscal year.

Due to the launch of 17 items in June, the number of product items sold in this business segment increased to 628 at the end of the first quarter.

### **3) Medical Professional Staffing and Placement Business**

The demand for staffing and placement services for medical professionals, particularly pharmacists, is continuing to increase and there is strong growth in both the number of pharmacists in the medical professional placement business, as well as in the staffing business. In order to place priority on achieving an excellent match with companies that have job openings, as in the staffing business, we use face-to-face counseling with job seekers when locating pharmacists and other medical professionals in the placement business. In the first quarter, this business continued to post strong growth with sales up 20.0% to 3,107 million yen and operating profit up 36.7% to 601 million yen.

#### **(2) Explanation of Financial Position**

Total assets increased 7,224 million yen, or 4.1%, from the end of March 2017 to 185,572 million yen at the end of June 2017. Current assets were 88,677 million yen, an increase of 6,349 million yen, or 7.7%. This was attributable mainly to an increase in cash and deposits. Non-current assets increased 874 million yen, or 0.9%, to 96,894 million yen.

Total liabilities increased 6,499 million yen, or 4.6%, to 148,400 million yen. This was attributable mainly to an increase in accounts payable-trade.

Net assets increased 724 million yen, or 2.0%, to 37,171 million yen.

#### **(3) Explanation of Consolidated Forecast and Other Forward-looking Statements**

There are no revisions to the consolidated forecast for the fiscal year ending March 31, 2018 that was announced on April 28, 2017.

**2. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

	(Millions of yen)	
	FY3/17 (As of Mar. 31, 2017)	First quarter of FY3/18 (As of Jun. 30, 2017)
Assets		
Current assets		
Cash and deposits	21,200	25,402
Notes receivable-trade	73	135
Accounts receivable-trade	26,698	25,901
Electronically recorded monetary claims-operating	872	940
Merchandise and finished goods	21,455	23,625
Work in process	2,509	2,458
Raw materials and supplies	5,550	5,704
Other	3,975	4,517
Allowance for doubtful accounts	(7)	(9)
Total current assets	82,327	88,677
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	22,303	22,645
Land	18,016	18,166
Construction in progress	13,521	12,008
Other, net	14,671	15,387
Total property, plant and equipment	68,513	68,208
Intangible assets		
Goodwill	14,605	15,800
Other	2,167	2,194
Total intangible assets	16,773	17,994
Investments and other assets		
Investment securities	1,039	1,014
Lease and guarantee deposits	7,072	7,060
Other	2,621	2,616
Total investments and other assets	10,733	10,691
Total non-current assets	96,019	96,894
Total assets	178,347	185,572

(Millions of yen)

	FY3/17 (As of Mar. 31, 2017)	First quarter of FY3/18 (As of Jun. 30, 2017)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	38,909	43,779
Electronically recorded obligations-operating	2,124	2,190
Short-term loans payable	-	1,400
Current portion of long-term loans payable	13,411	13,221
Income taxes payable	1,537	1,424
Provision for bonuses	2,547	1,403
Provision for directors' bonuses	117	-
Other	7,657	9,495
<b>Total current liabilities</b>	<b>66,305</b>	<b>72,915</b>
<b>Non-current liabilities</b>		
Long-term loans payable	70,678	70,670
Provision for directors' retirement benefits	949	973
Net defined benefit liability	1,294	1,341
Other	2,672	2,499
<b>Total non-current liabilities</b>	<b>75,595</b>	<b>75,485</b>
<b>Total liabilities</b>	<b>141,900</b>	<b>148,400</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	21,511	22,234
Treasury shares	(46)	(46)
<b>Total shareholders' equity</b>	<b>36,345</b>	<b>37,068</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	263	246
Remeasurements of defined benefit plans	(161)	(142)
<b>Total accumulated other comprehensive income</b>	<b>101</b>	<b>103</b>
<b>Total net assets</b>	<b>36,447</b>	<b>37,171</b>
<b>Total liabilities and net assets</b>	<b>178,347</b>	<b>185,572</b>

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income****(Quarterly Consolidated Statement of Income)****(For the Three-month Period)**

(Millions of yen)

	First three months of FY3/17 (Apr. 1, 2016 – Jun. 30, 2016)	First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)
Net sales	54,476	58,346
Cost of sales	45,248	47,693
Gross profit	9,228	10,652
Selling, general and administrative expenses	7,607	8,468
Operating profit	1,620	2,184
Non-operating income		
Commission fee	34	37
Rent income	94	104
Insurance return	69	-
Other	46	55
Total non-operating income	246	197
Non-operating expenses		
Interest expenses	186	169
Commission fee	5	4
Rent expenses	75	79
Other	53	37
Total non-operating expenses	320	291
Ordinary profit	1,545	2,090
Extraordinary income		
Gain on sales of non-current assets	3	0
Total extraordinary income	3	0
Profit before income taxes	1,548	2,090
Income taxes-current	779	1,389
Income taxes-deferred	(212)	(422)
Total income taxes	567	967
Profit	981	1,122
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	981	1,122



**(Quarterly Consolidated Statement of Comprehensive Income)****(For the Three-month Period)**

	(Millions of yen)	
	First three months of FY3/17 (Apr. 1, 2016 – Jun. 30, 2016)	First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)
Profit	981	1,122
Other comprehensive income		
Valuation difference on available-for-sale securities	(26)	(17)
Remeasurements of defined benefit plans, net of tax	16	19
Total other comprehensive income	(9)	1
Comprehensive income	971	1,124
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	971	1,124
Comprehensive income attributable to non-controlling interests	-	-

**(3) Notes to Quarterly Consolidated Financial Statements****Going-concern Assumption**

Not applicable.

**Significant Changes in Shareholders' Equity**

Not applicable.

**Segment and Other Information**

## Segment Information

## I. First three months of FY3/17 (Apr. 1, 2016 – Jun. 30, 2016)

## 1. Information related to net sales, profit or loss for each reportable segment (Millions of yen)

	Reportable segment				Adjustment (Note)	Amounts shown on quarterly consolidated statement of income
	Dispensing pharmacy business	Pharmaceutical manufacturing and sales business	Medical professional staffing and placement business	Total		
Net sales						
(1) External sales	45,909	6,130	2,436	54,476	-	54,476
(2) Inter-segment sales and transfers	3	3,257	152	3,412	(3,412)	-
Total	45,912	9,387	2,588	57,889	(3,412)	54,476
Segment profit (loss)	1,475	744	440	2,660	(1,040)	1,620

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The adjustment of -1,040 million yen to segment profit (loss) includes eliminations of 18 million yen for inter-segment transactions and corporate expenses of -1,058 million yen. General and administrative expenses that do not belong to any reportable segment are the primary component of corporate expenses.

## 2. Information related to assets for each reportable segment

Not applicable.

## 3. Information related to impairment losses on non-current assets or goodwill, etc. for each reportable segment

Not applicable.

## II. First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)

## 1. Information related to net sales, profit or loss for each reportable segment (Millions of yen)

	Reportable segment				Adjustment (Note)	Amounts shown on quarterly consolidated statement of income
	Dispensing pharmacy business	Pharmaceutical manufacturing and sales business	Medical professional staffing and placement business	Total		
Net sales						
(1) External sales	49,384	5,987	2,974	58,346	-	58,346
(2) Inter-segment sales and transfers	3	3,420	132	3,555	(3,555)	-
Total	49,387	9,407	3,107	61,902	(3,555)	58,346
Segment profit (loss)	2,511	318	601	3,431	(1,246)	2,184

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The adjustment of -1,246 million yen to segment profit (loss) includes eliminations of -78 million yen for inter-segment transactions and corporate expenses of -1,168 million yen. General and administrative expenses that do not belong to any reportable segment are the primary component of corporate expenses.

2. Information related to assets for each reportable segment

Not applicable.

3. Information related to impairment losses on non-current assets or goodwill, etc. for each reportable segment

Not applicable.

*This summary report is solely a translation of “Kessan Tanshin” (in Japanese, including the attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*