

Results of Operations for the First Half of the Fiscal Year Ending March 31, 2016 (April 1, 2015 to September 30, 2015)

November 18, 2015

 **NIHON CHOUZAI Co.,Ltd.**

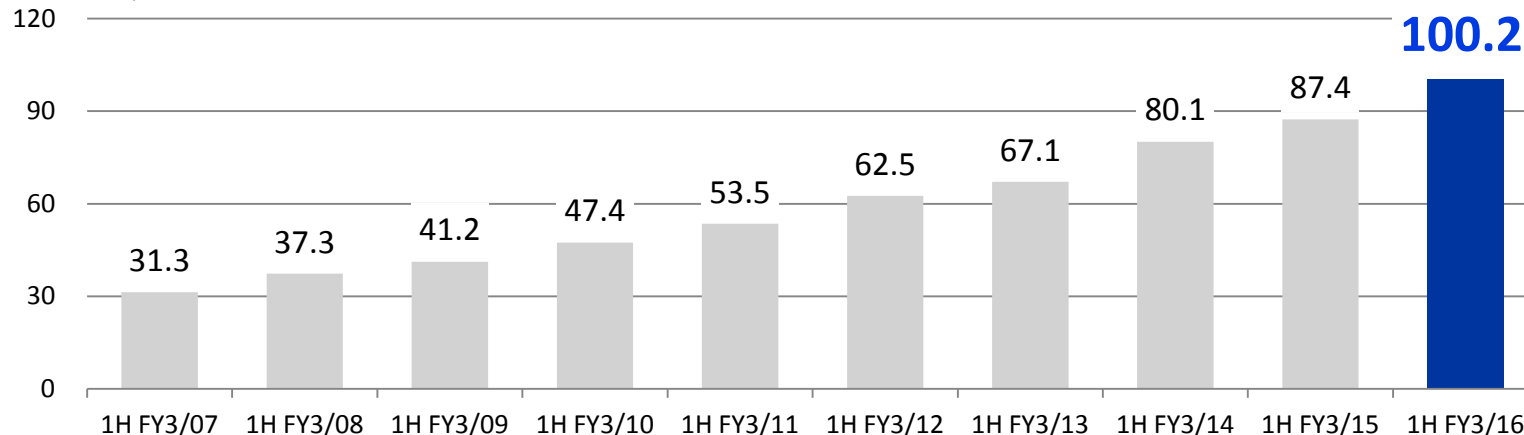
(Tokyo Stock Exchange, First Section / Stock code: 3341)

I. Results for 1H FY3/16

◆ 1H Consolidated Net Sales

Exceeded ¥100 billion!

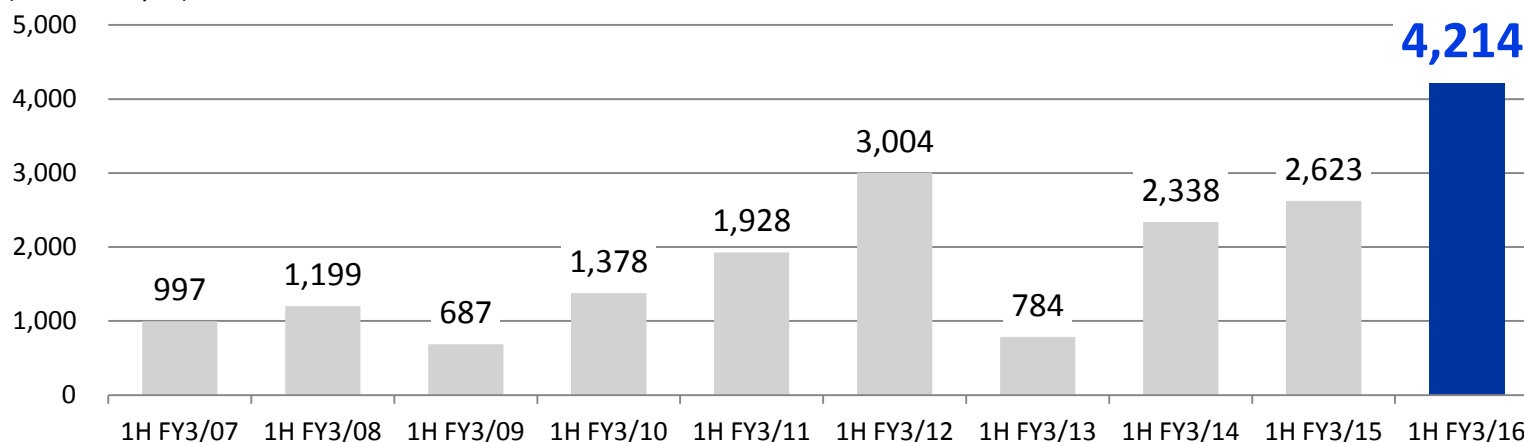
(Billions of yen)



◆ 1H Consolidated Operating Income

Record high profits!

(Millions of yen)



Consolidated Statement of Income

Successfully reached the first-half target for the first fiscal year of the new medium-term management plan!

–Strong YoY growth in sales and earnings–

(Millions of yen)

	1H FY3/14	1H FY3/15	1H FY3/16	Difference	YoY growth rate	1H FY3/16 Initial forecast	Achievement ratio
Net sales	80,136	87,418	100,269	12,851	14.7%	97,980	102.3%
Cost of sales	67,575	72,571	82,369	9,797	13.5%	80,698	102.1%
Gross profit	12,560	14,846	17,900	3,053	20.6%	17,282	103.6%
SG&A expenses	10,222	12,223	13,685	1,461	12.0%	14,355	95.3%
Operating income	2,338	2,623	4,214	1,591	60.7%	2,926	144.0%
% to sales	2.9%	3.0%	4.2%	-	-	3.0%	-
Ordinary income	2,049	2,318	3,936	1,617	69.8%	2,553	154.1%
Net income	950	1,157	2,471	1,313	113.4%	1,195	206.7%

*Non-deductible consumption taxes are included in SG&A expenses.

◆ Upwardly revised the consolidated forecast for FY3/16

(Millions of yen)

	April 30, 2015	October 29, 2015		(Reference)
	Initial forecast	Revised forecast	YoY change	FY3/15 results
Net sales	207,523	220,455	21.2%	181,844
Operating income	8,200	10,742	61.6%	6,647
% to sales	4.0%	4.9%	-	3.7%
Ordinary income	7,434	9,491	58.1%	6,003
Net income	3,583	5,611	102.0%	2,778

Sales increased in all business segments!

–Rapid growth of the medical professional staffing and placement business continued with first half sales up almost 50% from one year earlier–

(Millions of yen)

	1H FY3/15	1H FY3/16	Comp.	Difference	YoY growth rate
Dispensing pharmacy business	75,967	87,204	87.0%	11,237	14.8%
Non-prescription drugs	916	912	0.9%	-4	-0.5%
Pharmaceutical manufacturing and sales business	8,985	9,398	9.4%	412	4.6%
Medical professional staffing and placement business	2,465	3,666	3.7%	1,200	48.7%

SG&A expense growth was far below the increase in gross profit.

–Pharmaceutical manufacturing and sales business R&D expenses are expected to increase from the third quarter onwards–

(Millions of yen)

	1H FY3/15	1H FY3/16	Comp.	Difference	YoY growth rate
SG&A expenses	12,223	13,685	13.6%	1,461	12.0%
Salaries and allowances	1,635	1,851	1.8%	216	13.2%
Rent	1,088	1,025	1.0%	-63	-5.8%
Consumption taxes	4,686	5,464	5.5%	778	16.6%
R&D expenses	791	890	0.9%	98	12.5%

* “Comp.” percentages are relative to sales.

Consolidated Balance Sheet

(Millions of yen)

	End of Mar. 2015	End of Sep. 2015	Difference
Current assets	60,096	69,882	9,785
Non-current assets	70,044	70,948	904
Property, plant and equipment	48,819	49,934	1,114
Intangible assets	10,376	10,106	-269
Investments and other assets	10,848	10,907	59
Total assets	130,141	140,831	10,689
Current liabilities	53,474	62,314	8,839
Non-current liabilities	59,031	58,672	-358
Total liabilities	112,505	120,986	8,480
Total net assets	17,635	19,844	2,209
Shareholders' equity	17,635	19,844	2,209
Equity ratio	13.6%	14.1%	-

Major components

Current assets

- Cash and deposits +6,402
- Merchandise and finished goods +2,005

Non-current assets

- Buildings and structures +3,348
- Construction in progress -3,859

Current liabilities

- Accounts payable-trade +5,455
- Short-term loans payable -3,890
- Current portion of bonds +7,000

Non-current liabilities

- Long-term loans payable +6,855
- Bonds payable -7,000

Net assets

- Retained earnings +2,225

Consolidated Statement of Cash Flows

(Millions of yen)

	1H FY3/15	1H FY3/16
Net cash provided by operating activities	1,502	7,435
Net cash used in investing activities	-3,394	-3,329
Net cash provided by financing activities	3,575	2,403
Net increase in cash and cash equivalents	1,682	6,509
Cash and cash equivalents at beginning of period	15,027	13,844
Cash and cash equivalents at end of period	16,710	20,354

Major components

Net cash provided by operating activities

- Income before income taxes and non-controlling interests 3,845
- Depreciation 2,124
- Decrease (increase) in notes and accounts payable-trade -920
- Decrease (increase) in inventories -2,917
- Increase (decrease) in notes and accounts payable-trade +5,318
- Income taxes paid -1,317

Net cash used in investing activities

- Purchase of property, plant and equipment -2,961

Net cash provided by financing activities

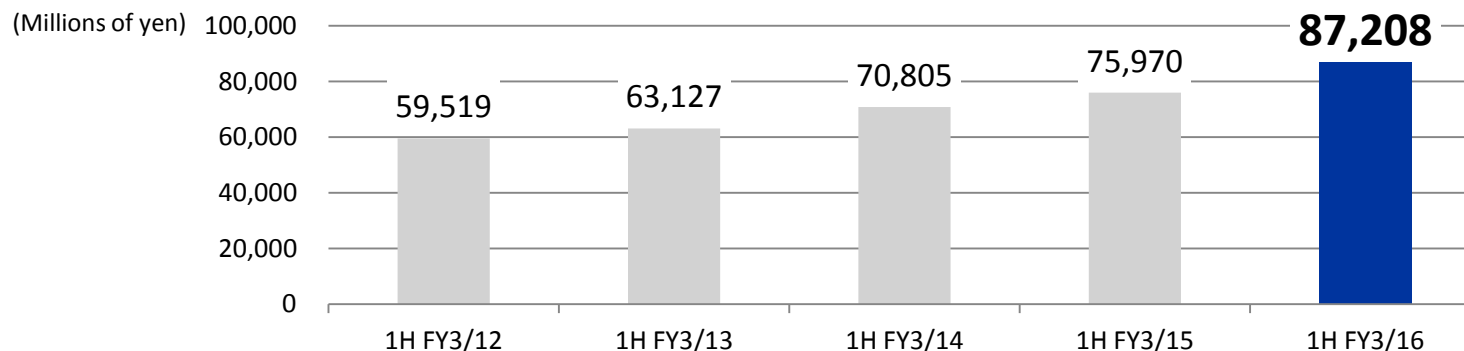
- Net increase (decrease) in short-term loans payable -3,890
- Proceeds from long-term loans payable 9,800
- Repayments of long-term loans payable -2,825

(Millions of yen)

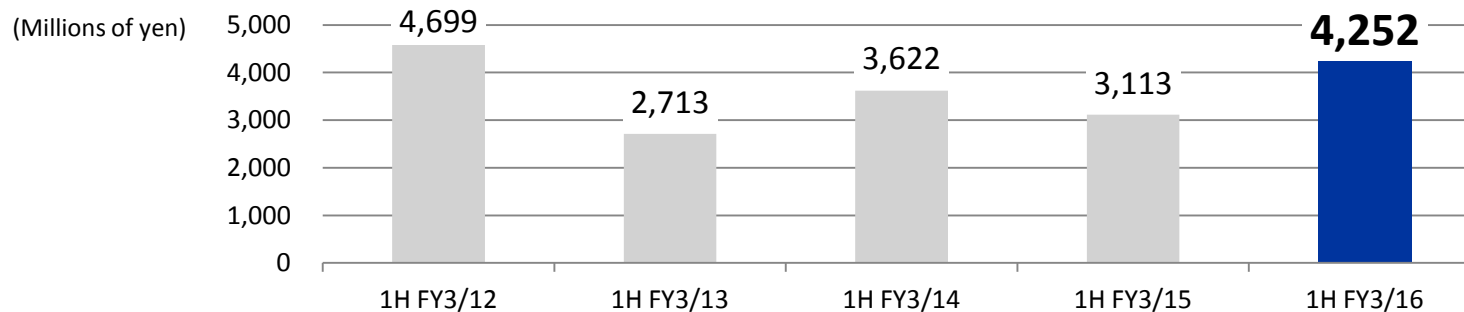
	1H FY3/14	1H FY3/15	1H FY3/16	Difference	YoY growth rate
Net sales	70,805	75,970	87,208	11,237	14.8%
Operating income	3,622	3,113	4,252	1,138	36.6%
% to sales	5.1%	4.1%	4.9%	-	-

*Before eliminations for inter-segment transactions

◆ Segment Sales



◆ Segment Operating Income



◆ Nihon Chouzai Group: Store Sales by Year of Opening

(Millions of yen)

	No. of pharmacies at end of Sep. 2015	1H FY3/15	1H FY3/16	Difference	YoY growth rate
Existing pharmacies (until Mar. 2014)	474	73,628	81,777	8,148	11.1%
Opened FY3/15 (Apr. 2014 to Mar. 2015)	29	612	3,551	2,939	480.2%
Opened FY3/16 (Apr. 2015 to Sep. 2015)	18	-	769	769	-
Others	-	697	43	-654	-93.8%
Total	521	74,939	86,141	11,202	14.9%

- Sales are only for prescriptions (do not include over-the-counter drugs, etc.) and are recorded when prescriptions are filled (no adjustment for returned prescriptions).
- Sales of pharmacies that were closed are included in the others category.
- The number of pharmacies does not include one location specializing in the sales of general merchandise.

Pharmaceutical Manufacturing and Sales Business:

Segment Sales / Operating Income

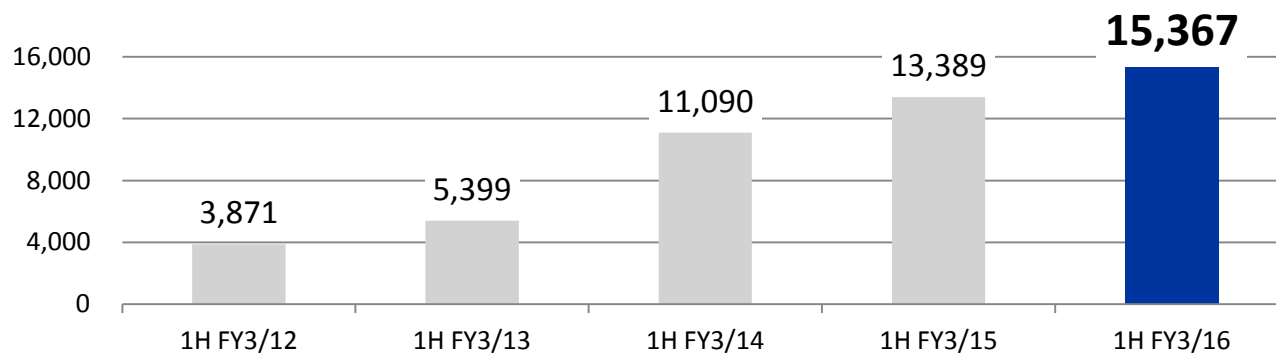
(Millions of yen)

	1H FY3/14	1H FY3/15	1H FY3/16	Difference	YoY growth rate
Net sales	11,090	13,389	15,367	1,977	14.8%
Operating income	282	836	1,210	373	44.7%
% to sales	2.6%	6.2%	7.9%	-	-

*Before eliminations for inter-segment transactions

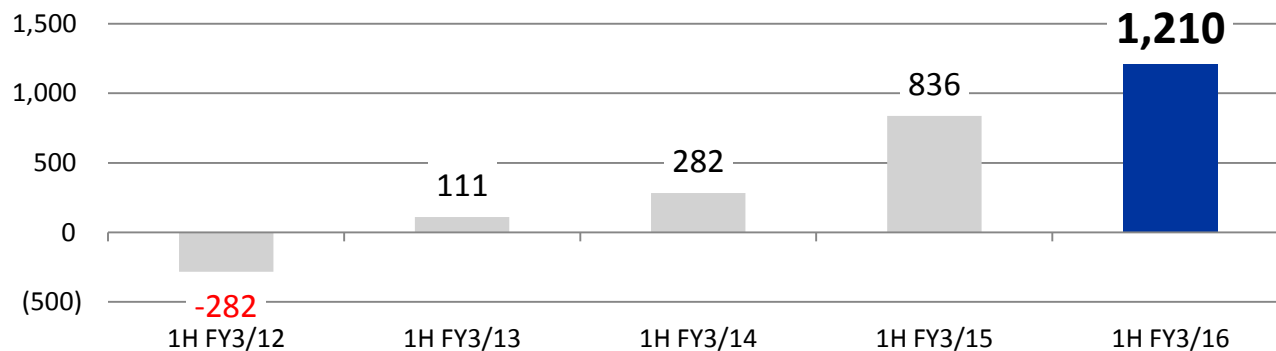
◆ Segment Sales

(Millions of yen)



◆ Segment Operating Income

(Millions of yen)



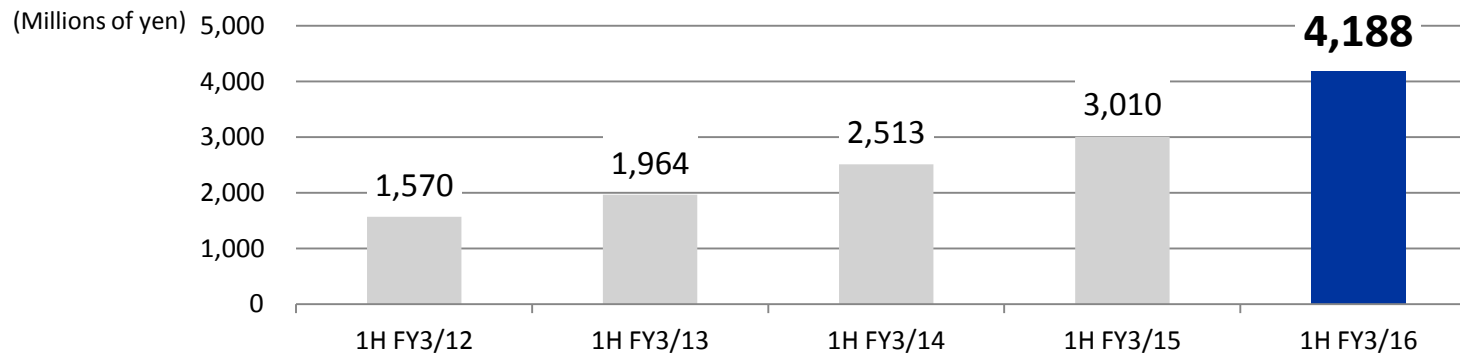
Medical Professional Staffing and Placement Business: Segment Sales / Operating Income

(Millions of yen)

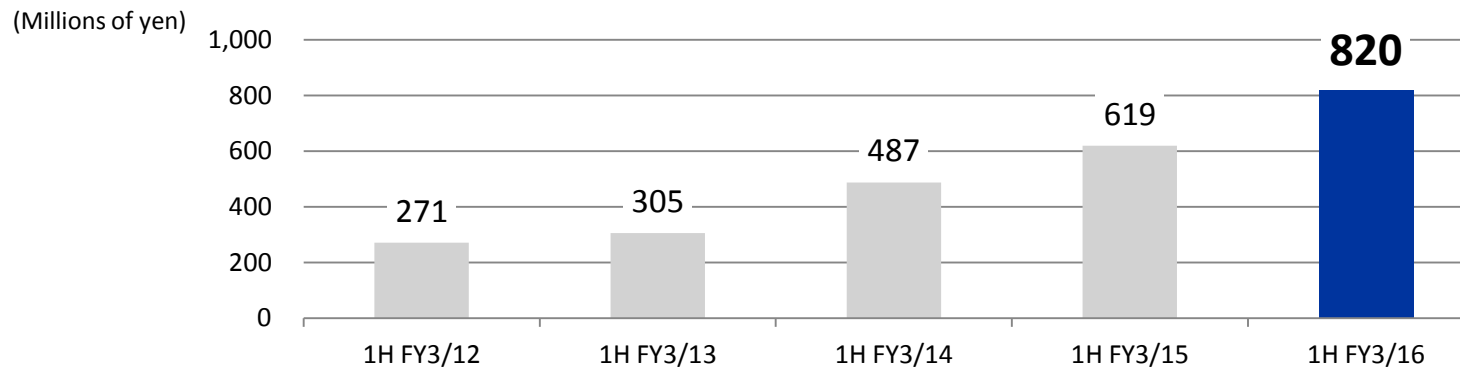
	1H FY3/14	1H FY3/15	1H FY3/16	Difference	YoY growth rate
Net sales	2,513	3,010	4,188	1,177	39.1%
Operating income	487	619	820	200	32.3%
% to sales	19.4%	20.6%	19.6%	-	-

*Before eliminations for inter-segment transactions

◆ Segment Sales

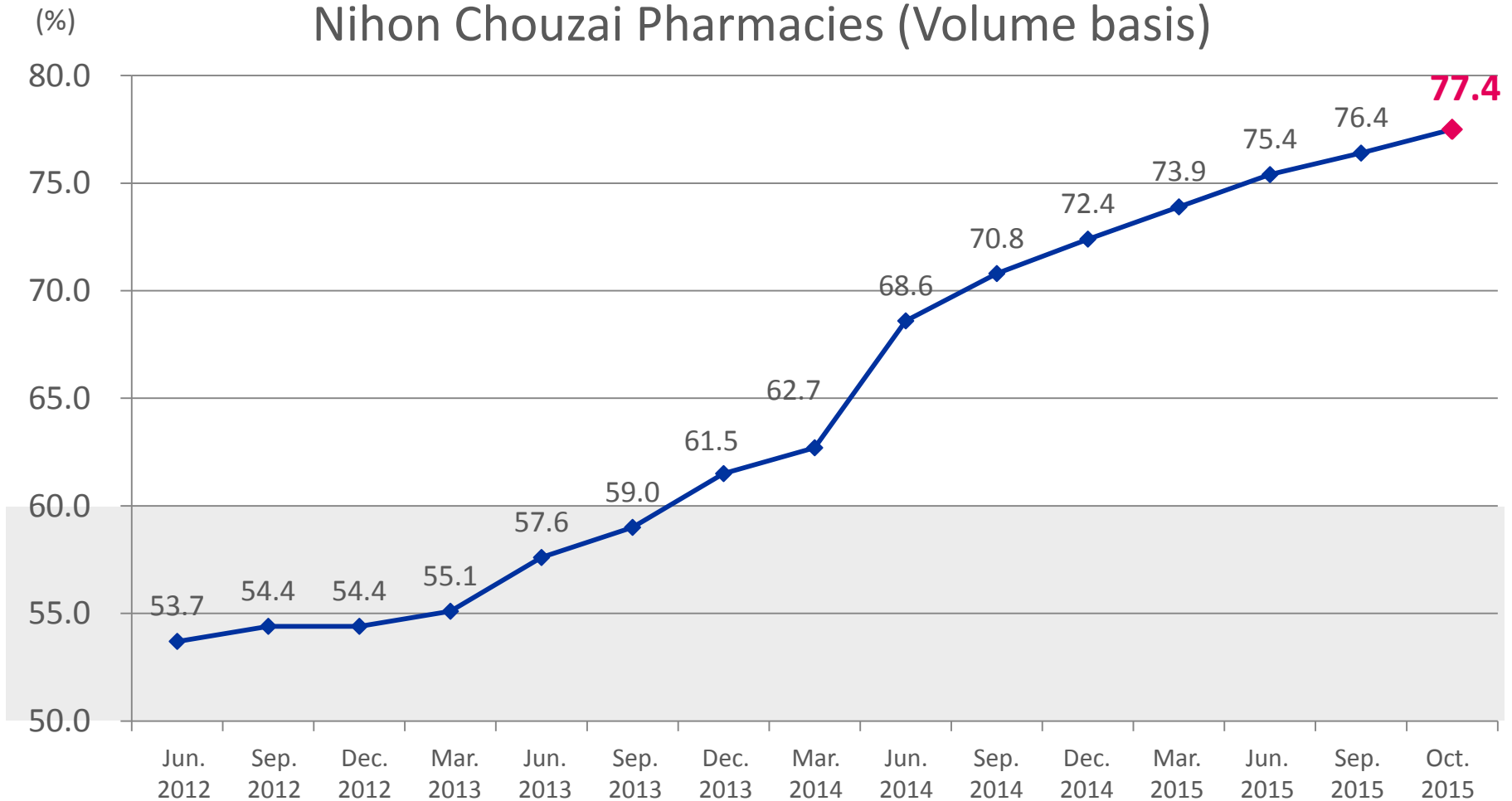


◆ Segment Operating Income



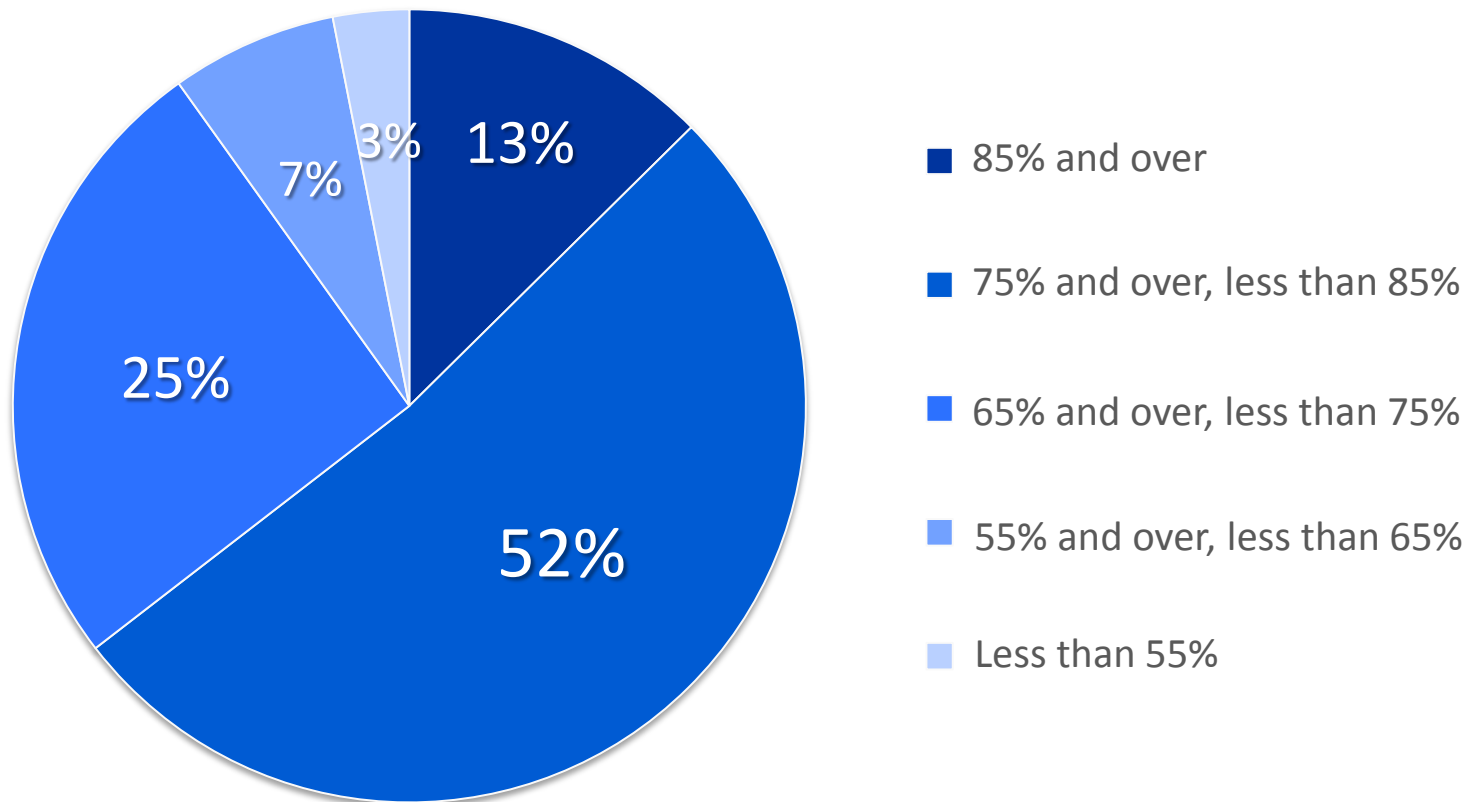
II. Business Development of the Nihon Chouzai Group

Average Rate of Generic Drug Utilization for Nihon Chouzai Pharmacies (Volume basis)



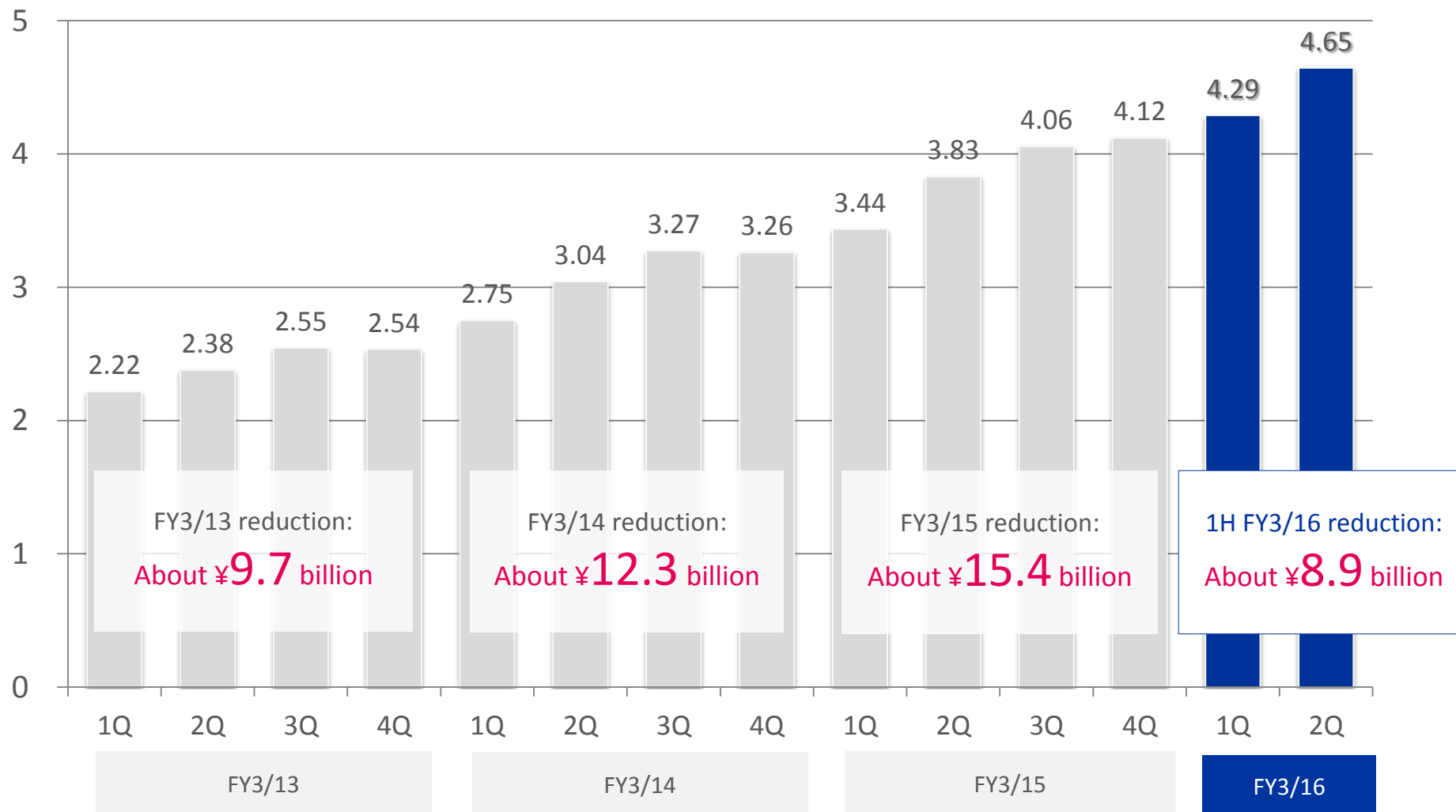
Generic Drug Utilization Rate by Nihon Chouzai Pharmacies (Volume basis)

As of October 2015



Drug Cost Reduction by Converting to Generic Drugs

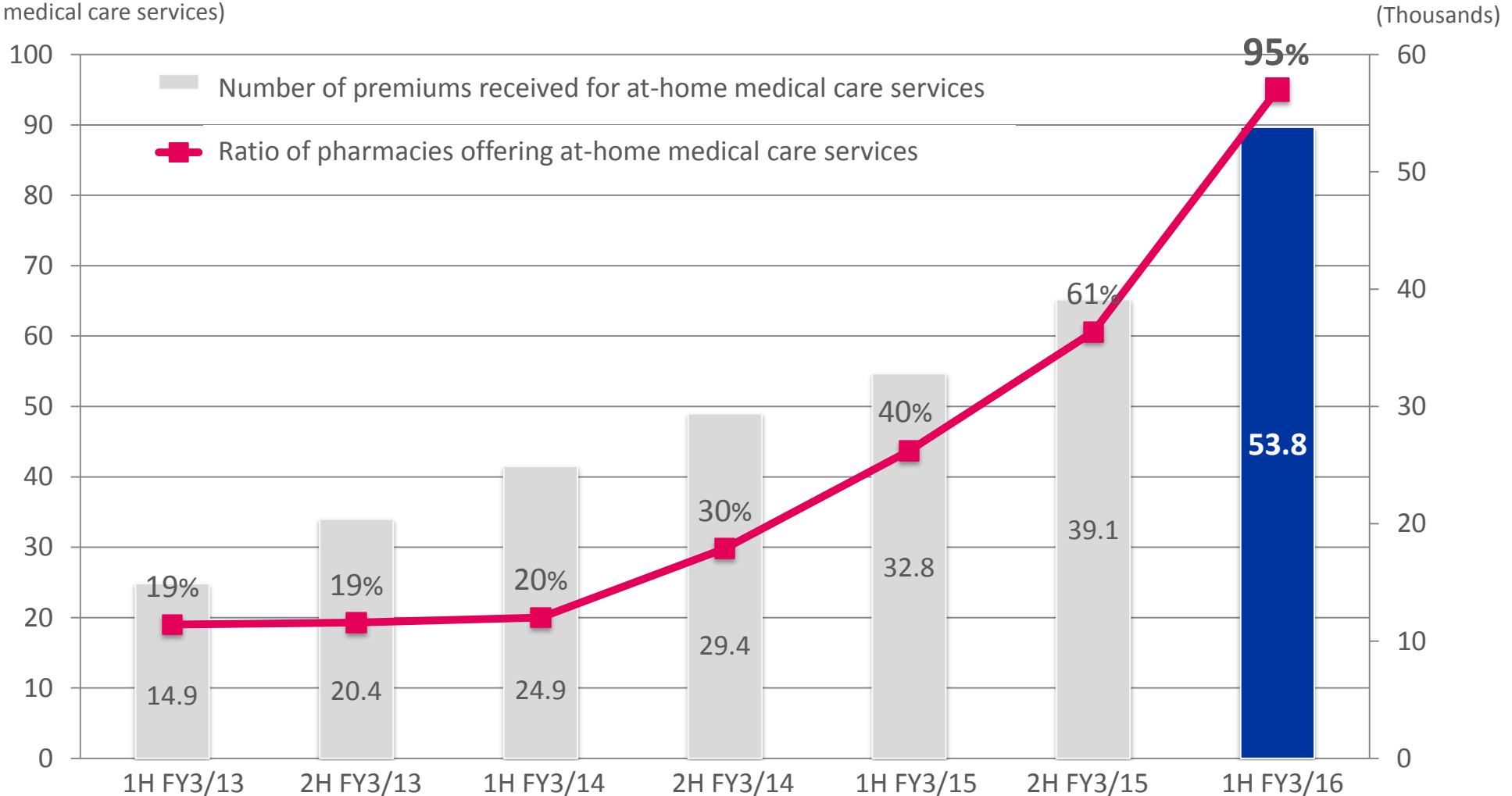
(Billions of yen)



2. Initiatives for At-home Nursing Care

Number of Premiums and Ratio of Pharmacies Involving At-home Medical Care

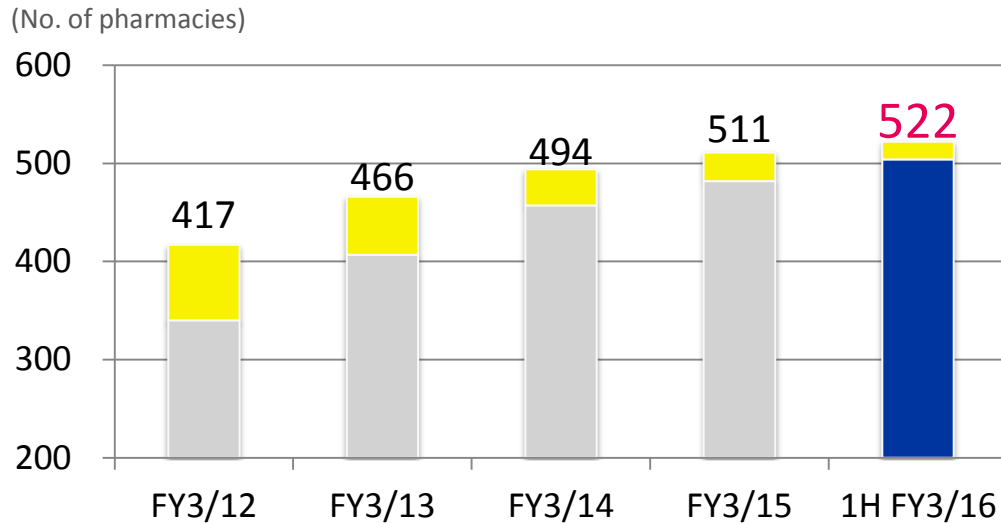
(Ratio of pharmacies offering at-home medical care services)



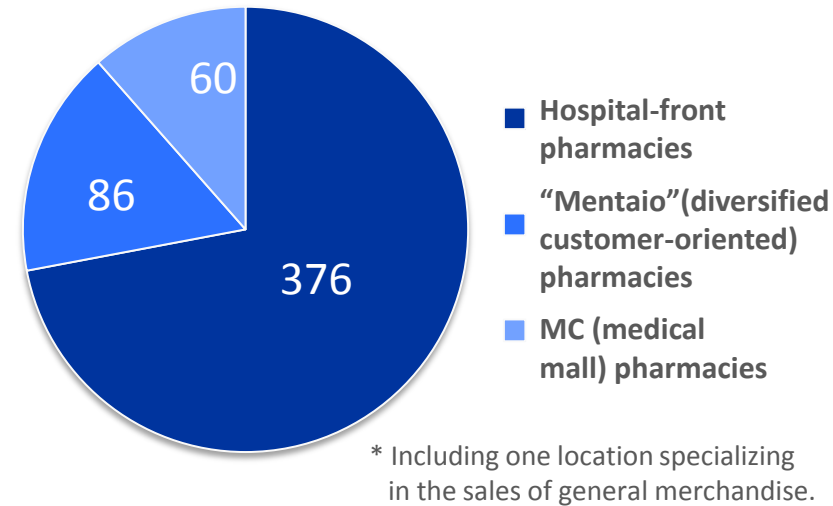
*The ratio of pharmacies offering at-home medical care services are results for the end of each period.

3. Store Openings

◆ No. of Pharmacies at the End of Each Period



◆ Number of Pharmacies by Type (as of October 2015)



◆ No. of Pharmacies Opened/Closed (April to October 2015)

No. of pharmacies opened	19
No. of pharmacies closed	8
Total no. of pharmacies (end of October)	522

Including two acquisitions

Will continue making acquisitions while carefully examining size and prospects for growth

* Including one location specializing in the sales of general merchandise.

4. Benefits of Separating Drug Prescribing and Dispensing at Three Locations in Asahi City

◆ Generic Drug Utilization Rate at Each Pharmacy (Volume basis) (October 2015)



Asahi Pharmacy

- Open 24 hours
- Provides nighttime services



Asahi Hospital Front Pharmacy

- Sterile prescription dispensing room (clean room)
- Conference and seminar room



Asahi Station Front Pharmacy

- "Mentaio" (diversified customer-oriented) pharmacies

◆ Converting to generic drugs reduces drug costs

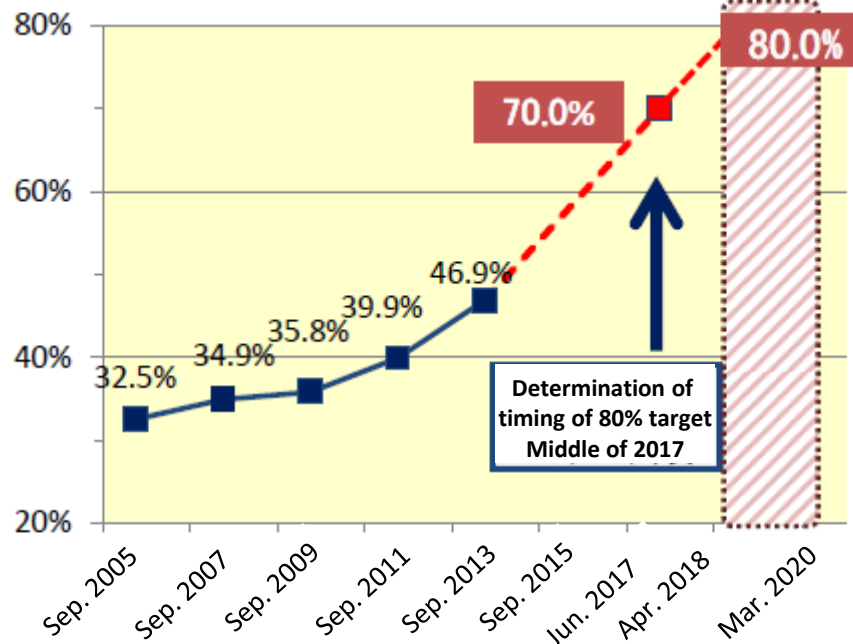
Total reduction at all three locations: **¥273 million** (annual estimate)

A Favorable Environment for Generic Drugs in Japan

Generic Drug Market Share Growth in Japan and Targets

Target for the volume-based share of generic drugs

1. Raising the rate to at least **70%** by the middle of 2017.
2. Raising the rate to at least **80%** by sometime between fiscal 2018 and the end of fiscal 2020, preferably as soon as possible.



Note: The volume-based share is the volume of generic drugs divided by the sum of the volumes of original drugs with generic versions and generic drugs.
(Research by the Ministry of Health, Labour and Welfare)

The Basic Policy by the Japanese government

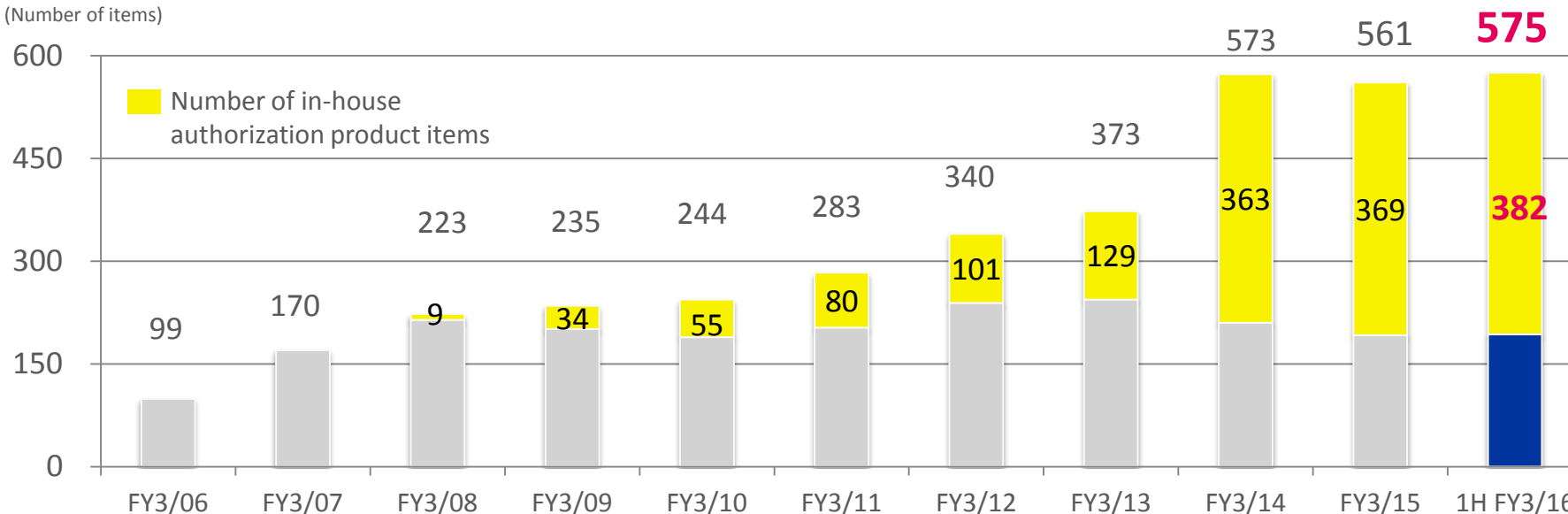
“The government will aim to increase the volume-based share of generic drugs to greater than **70%** by mid-2017 and to greater than **80%** as soon as possible between FY2018 and the end of FY2020.”

Source: Basic Policy on Economic and Fiscal Management and Reform 2015
–Without economic revitalization, there can be no fiscal consolidation–

Source: Website of the Ministry of Health, Labour and Welfare

◆ Number of Product Items

(Number of items)



◆ New NHI Drug Listings for December 2015 (9 items)

Name	Name	Name
Amvalo Combination Tablets "JG"	Olopatadine Hydrochloride OD Tablets 5mg "JG"	Ethyl Icosapentate Granular Capsules 300mg "CH"
Losarhyd Combination Tablets HD "JG"	Sertraline Tablets 25mg "JG"	Ethyl Icosapentate Granular Capsules 600mg "CH"
Olopatadine Hydrochloride OD Tablets 2.5mg "JG"	Sertraline Tablets 50mg "JG"	Ethyl Icosapentate Granular Capsules 900mg "CH"

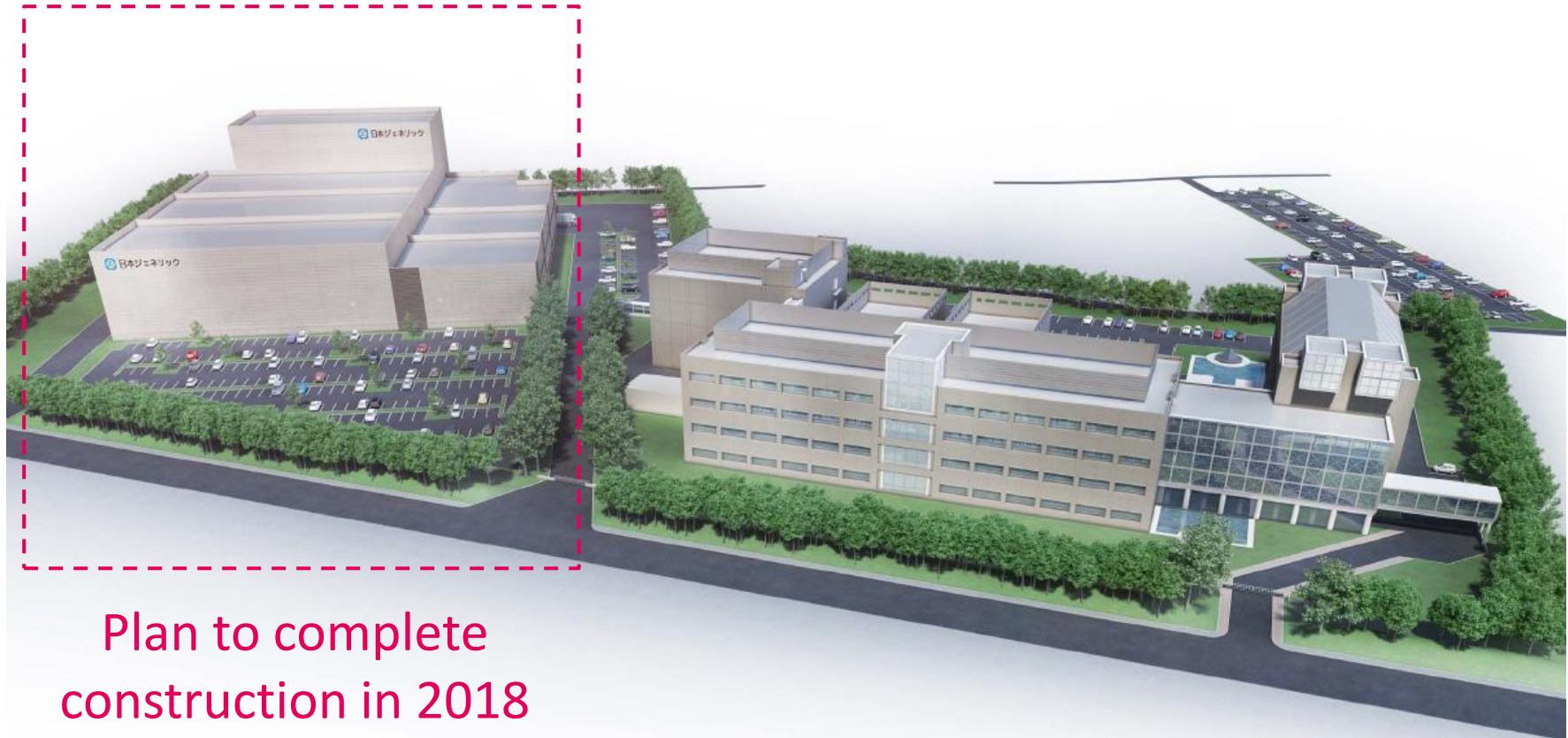
5. Pharmaceutical Manufacturing and Sales Business

◆ Maximum Annual Output Capacity (tablets and capsules)

(Unit: 100 million tablets)

Company name	Plant name	FY3/14	FY3/15	Plan
Nihon Generic	Tsukuba Plant (S, N)	10	23	36
	Tsukuba Plant No. 2			100
	Kasukabe Plant		9	9
Choseido Pharmaceutical	Head Office Plant	7	7	7
	Head Office Plant No. 2		2	2
	Kawauchi Plant	2	2	2
	Total	1.9 billion tablets	4.3 billion tablets	15.6 billion tablets

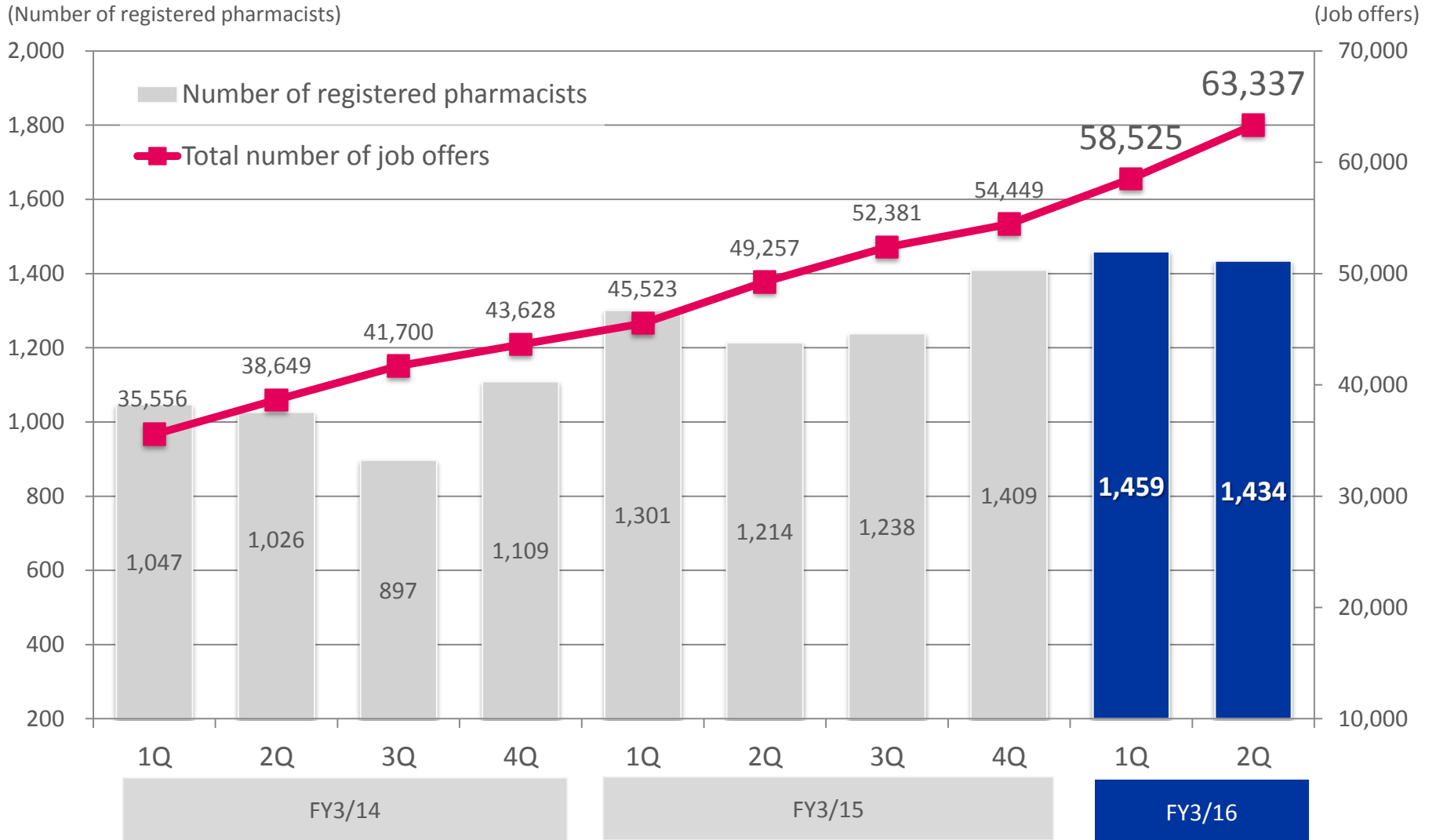
Completion Image of the Tsukuba Plant No. 2



Plan to complete
construction in 2018

6. Expansion of Medical Professional Staffing and Placement Business

Number of New Register for Placement and Total Job Offers



A Vision for Pharmacies That Put Customers First

Source: Website of the Ministry of Health, Labour and Welfare

Support for staying healthy

- **Contribute to preventing diseases and staying healthy** for the people

Advanced pharmacology management

- Meet requirements for **advanced supervision of drug use**

Centralize drug use data/
Continuous monitoring

- Constantly monitor **benefits** and check for **side effects**
- **Prevent excessive/overlapping use of drugs and harmful drug interactions**
- Use ICT to **monitor prescription data** for an individual from **all medical institutions**

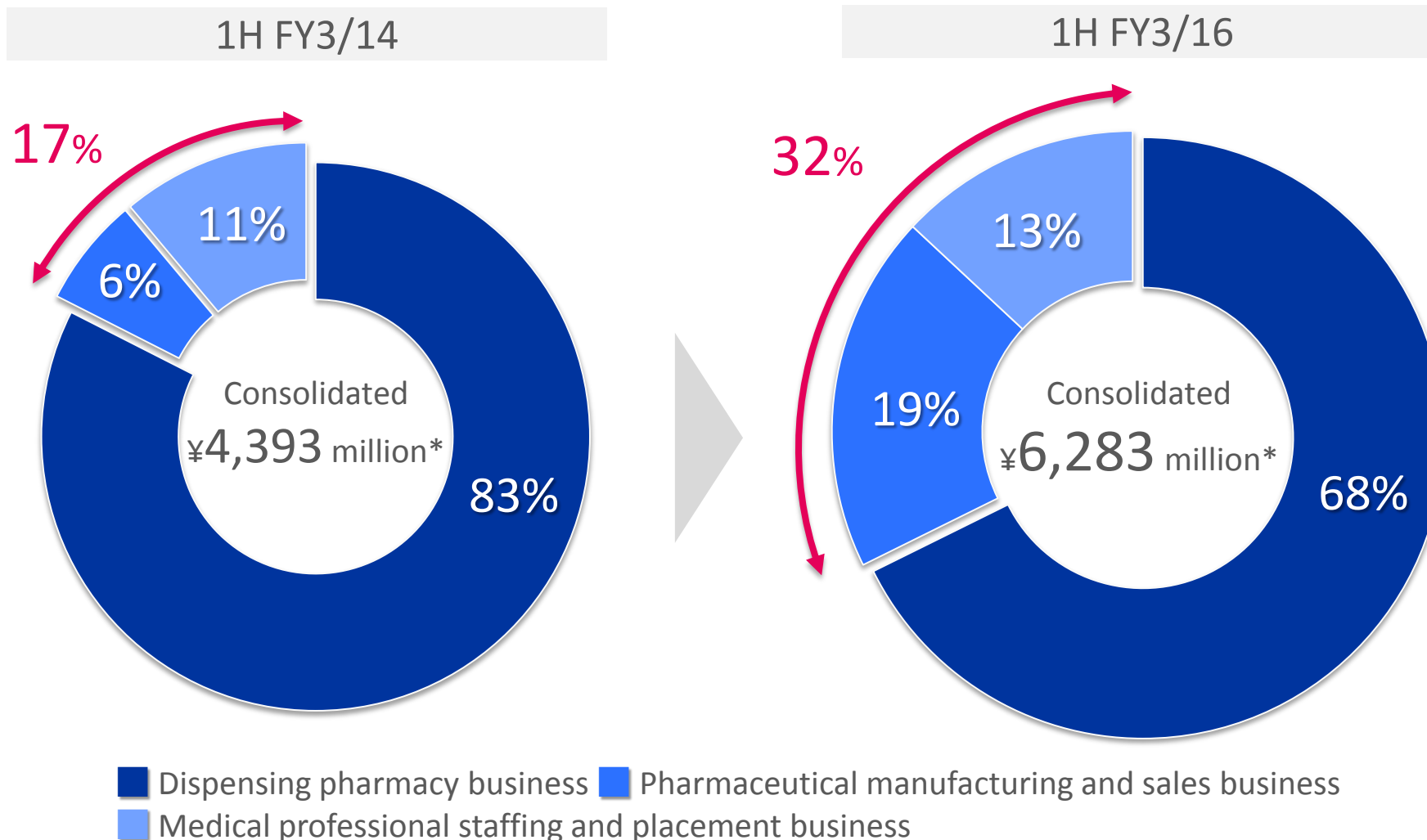
24-hour service/
At-home service

- **24-hour/365-day operation**
- Drug use oversight and assistance in using drugs for **people at home**

Working with medical institutions

- Prescription questions for doctors/Prescription suggestions
- Feedback about side effects and drug use
- Consultations about drugs and staying healthy
- Recommendations for care at a medical institution

Segment Operating Income



* Before adjustments for segment profit



Precautions

This presentation was prepared for the purpose of providing additional information concerning the October 29, 2015 announcement of results of operations for the first half of the fiscal year ending on March 31, 2016 (*kessan tanshin*). 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. In addition, 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.

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