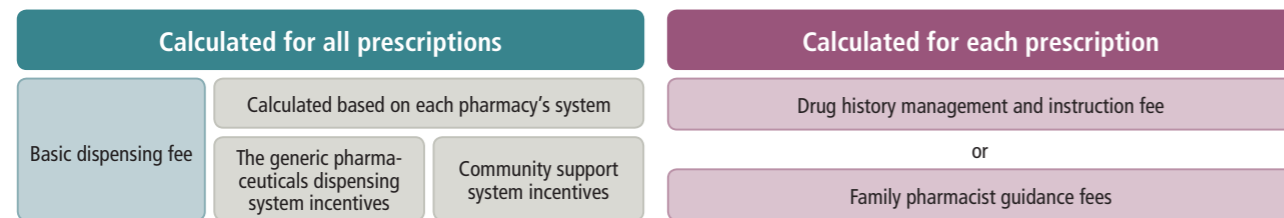


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Main Dispensing Fee Revisions

(Reference) Changes in main technical fees associated with revision of medical service fees in FY2018



		FY2016 medical service fees	FY2018 medical service fees
Ordinary	Basic dispensing fee 1	41 points ● Even at basic dispensing fee 2 or, at pharmacies below where family pharmacist guidance fees were assessed 100 times or more per month, and more than half of pharmacists submitted notifications on family pharmacist guidance fees	41 points ● Abolishment of special treatment regarding family pharmacist guidance fees
	Basic dispensing fee 2	25 points ● Pharmacies that fill more than 4,000 prescriptions per month and have a concentration ratio exceeding 70% ● Pharmacies that fill more than 2,000 prescriptions per month and have a concentration ratio exceeding 90% ● Fill over 4,000 prescriptions per month from one medical institution	25 points ● Pharmacies that fill more than 4,000 prescriptions per month and have a concentration ratio exceeding 70% ● Pharmacies that fill more than 2,000 prescriptions per month and have a concentration ratio exceeding 85% ● Fill over 4,000 prescriptions per month from one medical institution (if it is a pharmacy in a medical mall, add the number of prescriptions from within the mall) ● When the medical institutions that have the highest dispensing ratio with the same group of pharmacies are the same, the total number of prescriptions of those pharmacies exceeds 4,000 per month
Special case	Basic dispensing fee 3	20 points ● Pharmacies with a concentration ratio exceeding 95% in a group with more than 40,000 prescriptions per month	20 points ● Pharmacies with a concentration ratio exceeding 85% in a group with more than 40,000 prescriptions per month
	Special basic dispensing fee	-	15 points ● Pharmacies with a concentration ratio exceeding 85% in a group with more than 400,000 prescriptions per month
	Basic dispensing fee 4	31 points ● Falls under the category of basic dispensing fee 1, and percentage of concluded negotiations is 50% or less	10 points ● Has hospital and real estate transactions, and those hospitals have a concentration ratio exceeding 95% (so-called dispensing pharmacies in hospitals)
	Basic dispensing fee 5	19 points ● Falls under the category of basic dispensing fee 2, and percentage of concluded negotiations is 50% or less	Abolished
	Special basic dispensing fee	15 points ● Falls under the category of basic dispensing fee 3, and percentage of concluded negotiations is 50% or less	
Subtraction	50/100 subtraction	● Insurance pharmacies that are not engaged in the basic functions of family pharmacists shall set the basic dispensing fee to 50/100 (excluding insurance pharmacies that fill less than 600 prescriptions per month) Basic dispensing fee 1 41 points → 21 points Basic dispensing fee 2 25 points → 13 points Basic dispensing fee 3 20 points → 10 points Basic dispensing fee 4 31 points → 16 points Basic dispensing fee 5 19 points → 10 points Special basic dispensing fee 15 points → 8 points	● Insurance pharmacies with low acceptance rates or no reports on acceptance shall set the basic dispensing fee to 50/100. Basic dispensing fee 1 41 points → 21 points Basic dispensing fee 2 25 points → 13 points Basic dispensing fee 3 -a 20 points → 10 points Basic dispensing fee 3 -b 15 points → 8 points Special basic dispensing fee 10 points → 5 points

(Reference) Main technical fees associated with revision of medical service fees in FY2018

	FY2016 medical service fees	FY2018 medical service fees
The generic pharmaceuticals dispensing system incentives	-	26 points: 85% or more
	22 points: 75% or more (volume-based share of generic drug use, three-month average)	22 points: 80% or more
	18 points: 65% or more	18 points: 75% or more
Subtraction rule for basic dispensing fee	-	-2 points ● The prescription ratio of generic pharmaceuticals is 20% or less, and the number of prescriptions exceeds 600
Standard prescription incentives	32 points ● Basic dispensing fee 1 only ● Pharmacies open 45 hours or more per week including Saturdays and Sundays ● 1,200 items stockpiled ● Management pharmacist employed at least 5 years in the same pharmacy and working 32 hours a week in the same pharmacy and employed at least one year in current pharmacy ● Results of at-home medical care for past one year ● 24-hour dispensing and at-home work system ● Notification on family pharmacist guidance fees	Abolished
Community support system incentives	-	35 points ● Basic dispensing fee 1 Same as the requirements for old standard prescription incentives ● Other than basic dispensing fee 1 Add all of the following results to the requirements for each full-time pharmacist for one year (1) Results of nighttime/holiday response: 400 times (2) Results of drug guidance control incentives: 10 times (3) Results of incentive for preventing harmful drug interactions and duplicate prescriptions: 40 times (4) Results of family pharmacist guidance fees: 40 times (5) Results of outpatient medication support fees: 12 times (6) Results of medication adjustment support fees: 1 time (7) Results of at-home drug management of one patient in single building: 12 times (8) Results of the medication information and other information provided: 60 times

Main Dispensing Fee Revisions

(Reference) Main technical fees associated with revision of medical service fees in FY2018

	FY2016 medical service fees	FY2018 medical service fees
Drug history management and instruction fee	38 points <ul style="list-style-type: none"> Basic dispensing fee 1 pharmacy Visits pharmacy within 6 months Record requirements in medication notebook 50 points Other than the above	41 points <ul style="list-style-type: none"> Basic dispensing fee 1 pharmacy Visit pharmacy within 6 months Record requirements in medication notebook 53 points Other than the above
Special cases of drug history management and instruction fee	–	13 points <ul style="list-style-type: none"> Pharmacies with less than 50% of patients bringing notebook within six months
Family pharmacist guidance fees	70 points <ul style="list-style-type: none"> Must be a certified pharmacist Must have been employed as a pharmacist for at least three years Must have worked for at least 32 hours per week Must have been employed by the current pharmacy for at least six months 	73 points <ul style="list-style-type: none"> Must be a certified pharmacist Must have been employed as a pharmacist for at least three years Work for at least 32 hours per week Pharmacists who need shortened working hours due to child care and nursing care, work for 24 hours or more per week and four days or more per week Must have been employed by the current pharmacy for at least one year

Calculate either drug history management and instruction fee or personal care pharmacist guidance fee

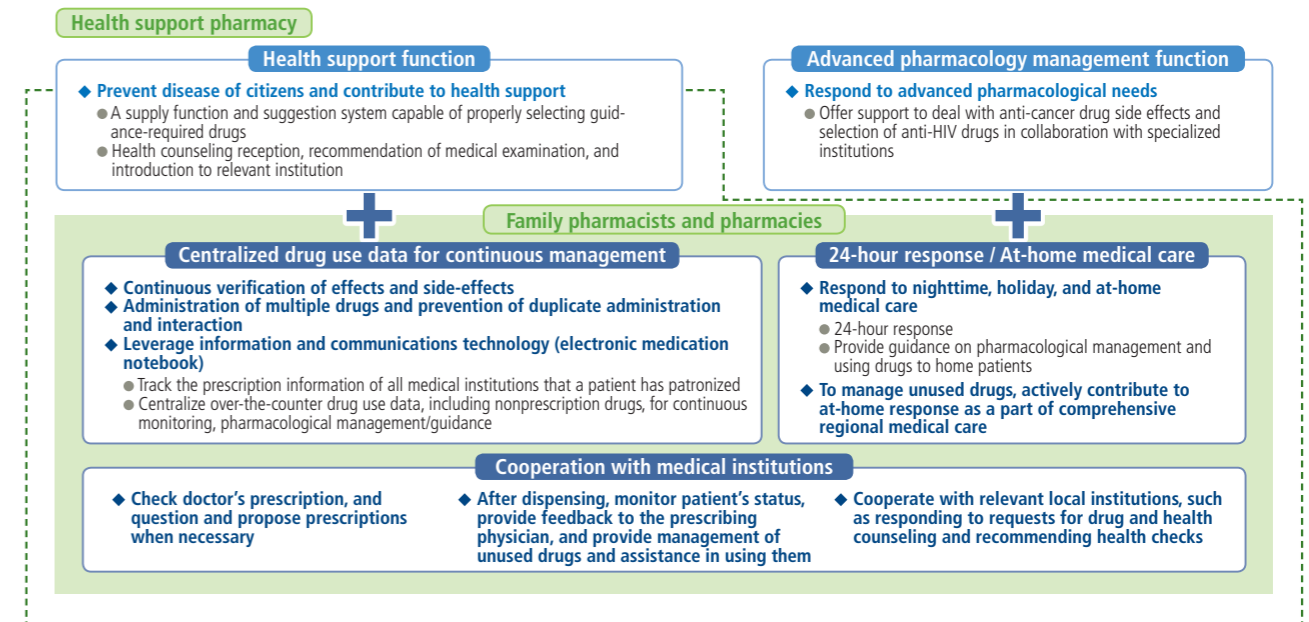
	FY2016 medical service fees	FY2018 medical service fees
Incentive for preventing harmful drug interactions and duplicate prescriptions	30 points <ul style="list-style-type: none"> Calculated only when prescription inquiries are made to doctors and the prescription is changed 	40 points <ul style="list-style-type: none"> Changes due to factors other than unused drug reconciliation 30 points Changes due to unused drug reconciliation
Outpatient medication support fee	185 points <ul style="list-style-type: none"> Calculate when the patient's medication management was supported after verifying with an insurance doctor at the request of the patient, family or others. 	185 points <ul style="list-style-type: none"> Calculate when the patient's medication management was supported after verifying with an insurance doctor at the request of the patient, family or others. A prescription score can be calculated even when medication management, such as arrangement of the medication is brought in at the request of the patient, family or insurance doctor, and the result is provided to the insurance doctor.
Medication adjustment support fee	–	125 points <ul style="list-style-type: none"> When six or more types of internal medicine decrease by two or more types
Drug use data provision fee	20 points <ul style="list-style-type: none"> Based on the request of the patient, family, medical institution, or information provided in writing as judged necessary by the pharmacist 	30 points <ul style="list-style-type: none"> Based on the medical institution's request or patient's consent 20 points Based on the patient's or family's request and consent
Incentive for drug administration guidance for infants	10 points <ul style="list-style-type: none"> Add when dispensing for infants below the age of six and the necessary guidance for taking the medicine and the guidance content are recorded in the medication notebook 	12 points Content unchanged
Dispensing fee	5 points per day <ul style="list-style-type: none"> If 1st day or after and 7th day or before 	Content unchanged
	4 points per day <ul style="list-style-type: none"> If 8th day or after and 14th day or before 	Content unchanged
	70 points <ul style="list-style-type: none"> If 15th day or after and 21st day or before 	67 points <ul style="list-style-type: none"> If 15th day or after and 21st day or before
	80 points <ul style="list-style-type: none"> If 22nd day or after and 30th day or before 	78 points <ul style="list-style-type: none"> If 22nd day or after and 30th day or before
	87 points <ul style="list-style-type: none"> If 30 days or more 	86 points <ul style="list-style-type: none"> If 30 days or more

Explanation of Terminology

A Vision of Pharmacies for Patients

The Ministry of Health, Labour and Welfare announced a "A Vision of Pharmacies for Patients" in October 2015. The announced vision is a guideline for fulfilling functions such as pharmacology management and guidance, which includes providing information about drugs and constantly acquiring new information about

drugs and dealing with at-home medical care. The guideline also attempts to achieve the separation of the roles of drug prescribing and dispensing for patients who live locally. The guideline also shows the direction that dispensing pharmacies should take and the functions required.



Family pharmacist

The system of having the same pharmacist in charge as a "family pharmacist" by appointing the pharmacist to the patient began in April 2016. By appointing only one desired pharmacist from among pharmacists who have cleared certain nationally established requirements and signing a consent form, that pharmacist gives instructions about medicines, provides counseling and other services as the attending pharmacist next time.

(1) Pharmacist understands drugs collectively

The attending pharmacist collectively understands the patient's drugs, over-the-counter drugs, health foods or supplements received at another medical institution or drug store. The pharmacist provides advice, such as precautions when taking drugs, including whether duplicate drugs are being taken and the interactions that drugs have with each other or with food.

(2) Verification of change in physical condition and management of medicines

During the pharmacy visit, the pharmacist continuously checks the patient's progress after taking medication, including their past medication record. The pharmacist observes the medication's effect on the patient and changes in physical condition and contacts a medical institution, if necessary. If there is much medicine left over, the pharmacist proposes that the prescription be adjusted next time and organizes the medicines.

(3) Nighttime/holiday response and counseling

As a pharmacist who understands the patient's medication status, the pharmacist responds to requests for medication and health maintenance counseling. The pharmacist provides medication counseling, even when the patient's pharmacy is closed, such as at nighttime or on holidays.

- Criteria
1. Possess at least three-years' experience as an insurance pharmacist
 2. Works at least 32-hours per week in said insurance pharmacy
 3. Has a tenure of at least one year in said insurance pharmacy
 4. Received training certification from a training certification system that is approved by the Council on Pharmacists' Credentials

Family pharmacists and pharmacies

In A Vision of Pharmacies for Patients, the three functions required of family pharmacists and pharmacies are explained, but there are no facility standards for pharmacies and notification to Regional Bureau of Health and Welfare is not required. The Ministry of Health, Labour and Welfare is studying KPIs for the quantitative evaluation of family pharmacists and family pharmacies, and clear indicators are expected to be announced later. The same ministry is seeking to restructure all pharmacies into family pharmacies by 2025.

Health support pharmacies

These are pharmacies that possess the basic functions of family pharmacists and family pharmacies and proactively support the independent maintenance and promotion of health by local residents. Healthcare centers must notify in advance. The Ministry of Health, Labour and Welfare's goal is to register 10,000 to 15,000 health support pharmacies by 2025. The vision also attempts to achieve the separation of the roles of drug prescribing and dispensing for patients who live locally. The vision also indicates the approach that dispensing pharmacies should take and the functions required.

- Criteria
1. Cooperation with other occupational disciplines such as medical institutions and nursing care providers within the comprehensive regional medical care system
 2. A resident pharmacist who has completed health support pharmacy training and has five or more years of practical experience
 3. An inquiry counter that takes account of personal information
 4. Display "Health Support Pharmacy" outside and inside the pharmacy
 5. Handle guidance-required drugs, nursing care products, etc.

Source: A Vision of Pharmacies for Patients" by the Ministry of Health, Labour and Welfare

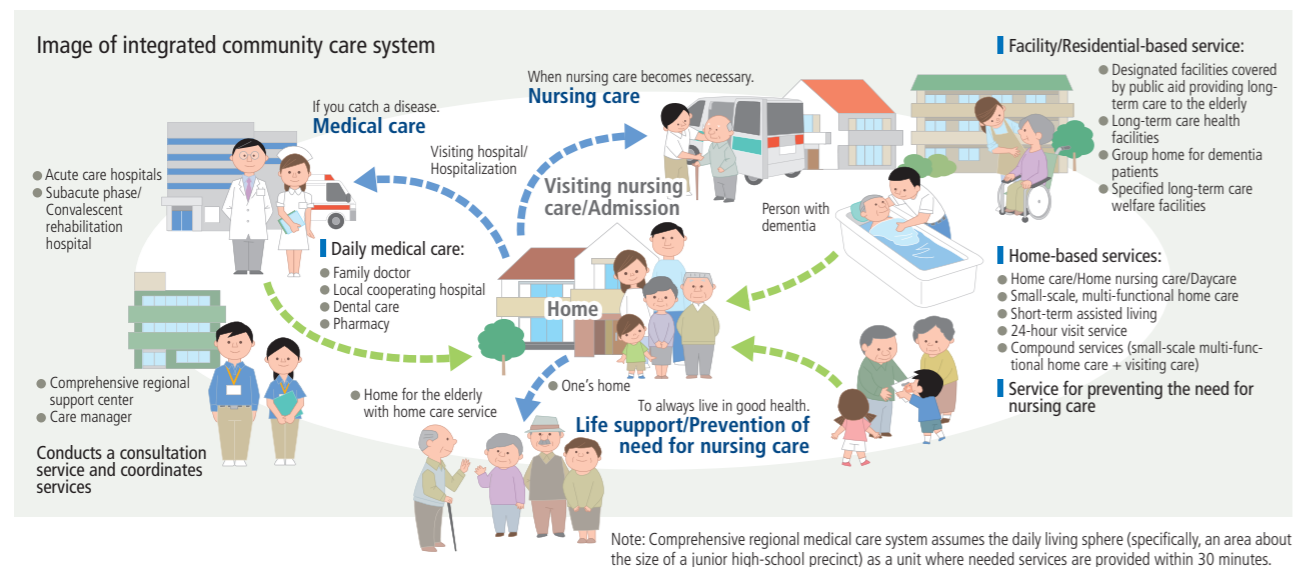
Explanation of Terminology

Integrated community care system

The government is providing services such as shelter, medical care, nursing care, disease prevention, and life support with the aim of building an integrated community care system that will allow the elderly to continue living until the end of their lives in familiar surroundings, even if there becomes a serious need for nursing care.

A system that provides at-home medical and nursing care through the integrated cooperation of various occupational disciplines is needed in the medical nursing care field. Within such

a system, the importance of the role played by pharmacies and pharmacists is growing. The segment of the population that is 65 years or older has now exceeded 30 million (about one-in-four citizens) and will reach a peak of about 39 million in 2042. Under these circumstances, from 2025, the year that the baby-boom generation (about 8 million) turns more than 75 years old, further growth in demand from citizens for medical and nursing care is expected.



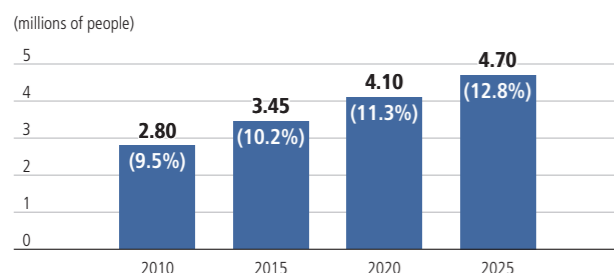
Review of elderly population

1 The number of elderly people of 65 years and older is projected to reach 36.57 million in 2025, and a peak of 38.78 million in 2042. Elderly people 75 years and older as a percentage of the total population are increasing and are expected to exceed 25% in 2055.

	Aug. 2012	2015	2025	2055
Elderly population 65 years and older (percentage)	30.58 million (24.0%)	33.95 million (26.8%)	36.57 million (30.3%)	36.26 million (39.4%)
Elderly population 75 years and older (percentage)	15.11 million (11.8%)	16.46 million (13.0%)	21.79 million (18.1%)	24.01 million (26.1%)

2 Among elderly people 65 years and older, those with a "degree of autonomy in daily life for elderly with dementia" of category II or above are increasing.

Estimate of the number of elderly people with a "degree of autonomy in daily life for elderly with dementia" of category II or above (figure in parentheses is a comparison with 65-year-old and older population)

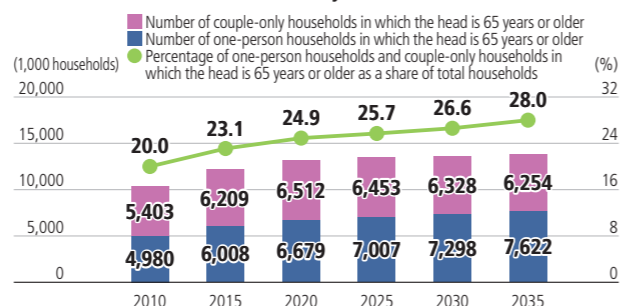


Separation of drug prescribing and dispensing

This is a system whereby physicians examine patients and prescribe drugs, and based on the prescriptions made by physicians, pharmacists, who are independent entities from a management perspective, dispense drugs, manage medication histories, and provide guidance in using drugs, thus demonstrating their expertise in these areas. In this way, the system strives to raise the quality of medical care.

3 Households in which the head of one-person households and couple-only householders is 65 years or older are increasing.

Estimate of the number of one-person only and couple-only households in which the head is 65 years or older



Source: Review of future elderly population by the Ministry of Health, Labour and Welfare

Generic drugs

A drug which, after the expiration of the term of a patent (substance patent) for the drug's active ingredients, is manufactured and supplied by other pharmaceutical companies with the same active ingredients. Legally, this is referred to as a "generic drug."

Medical service fee revisions

In Japan, fees paid in exchange for healthcare services provided by health insurance are specified for medical and dental treatment and drug dispensing by the Ministry of Health, Labour and Welfare with a medical service fee point table. In addition, the price of drugs is determined by the NHI Drug Price Standard. Medical service fees are reviewed once every two years.

Prescription dispensing fee revisions

This refers to the portion of revised medical service fees that is utilized for prescription dispensing services. Dispensing fees are revised once every two years.

Drug price revisions

With respect to the price of drugs used in healthcare services provided by health insurance, an official price has been established as the "drug price standard." A Drug Price Standard List is issued four times a year for new drugs and two times a year for generic drugs so that it can be used in healthcare services provided by health insurance. The list is revised once every two years based on a survey (drug price survey) of market distribution prices for medical institutions and pharmacies. In October 2019, drug prices are expected to be revised at the same time that the consumption tax rate is raised from 8% to 10%. Starting in April 2020, drug prices are scheduled to be revised annually.

Basic dispensing fee

A fee that is paid one time per prescription when the pharmacist performs "drug dispensing at the pharmacy." The number of points varies depending on whether that pharmacy fulfills the role of a family pharmacy or chain-managed pharmacy or focuses on responding to demand for prescriptions made by specific medical institutions.

Premium for generic drug dispensing system

This is a fee added to the basic prescription fee for pharmacies that actively dispense generic drugs. Each time there is a revision, the calculation standard becomes stricter so as to make it difficult to obtain the premium if the pharmacy does not more actively convert to generic drugs.

Community support system incentives

Newly established to coincide with the April 2018 revision of medical service fees for the purpose of assessing the record of community services (e.g. nighttime and holiday services) provided by pharmacies where family pharmacists contribute to medical care in their local communities within integrated community care system.

At-home medical care

Medical treatment carried out in cooperation with various occupational disciplines, such as physicians and nurses. Pharmacists visit the homes of patients who find it difficult to visit a hospital or clinic due to a physical disability or other reason, and give instructions about medicines and monitor and manage the patient to ensure they take the medicine.

Hospital-front pharmacies

A dispensing pharmacy located near a hospital that responds primarily to that hospital's prescription demand. However, an official definition does not exist. Some also function as family pharmacists and pharmacies that respond to prescription demand from many medical institutions, participate in at-home medical treatment, and provide other services.

Hybrid-type pharmacies

Pharmacies that combine the functions of both a *Mentaio* pharmacy that was opened in front of a train station or in a shopping district and meets prescription demand from a relatively wide area,

without being limited to prescriptions from specific medical institutions, and a medical center (MC) pharmacy in a medical mall where a number of medical institutions are located and meets the prescription demand of those medical institutions.

Dispensing pharmacies in hospital premises (On-site pharmacies)

It became possible to open pharmacies within hospital premises (on-site pharmacies) following the easing of restrictions on the structural independence of pharmacies and medical institutions in October 2016. These pharmacies can cooperate with hospitals is possible and support for advanced medicine is required. On the other hand, the basic dispensing fee has been set at 10 points (100 yen), which is lower than hospital-front pharmacies.

Okusuri Techo (Medication notebook)

A notebook for centrally managing the information and records of prescribed medicines and for avoiding duplication and side effects caused by taking multiple medications. It assists in the proper use of medicine by listing past side effects and allergy symptoms.

Electronic Okusuri Techo (Electronic medication notebook)

The electronic version of *Okusuri Techo*. It can record information on a smartphone or other electronic device. Although a number of companies have rolled out their own products, the products of companies that participate in the Japan Pharmaceutical Association's mutual browsing service can perform information browsing, including even other companies' electronic medication notebooks.

Health Check Station*

Exclusive areas set up within *Nihon Chouzai* pharmacies that are equipped with health consultation and health assessment capabilities in order to support the health of local community residents through disease prevention and pre-symptomatic initiatives.

*The Health Check Station is a registered trademark of Nihon Chouzai Co., Ltd.

Formularies

These are guidelines for drug use formulated by medical institutions and regions based on a comprehensive scientific assessment of the efficacy and safety of drugs, as well as their economic efficiency. The goal is to promote standard drug treatment based on guidelines for the use of high-quality, inexpensive drugs. The spread of regional formularies is expected to curb the continuing increase in medical costs. These guidelines have already been introduced in Europe and the US, but in Japan, they are being gradually introduced in anticipation of an effect on curbing rising medical costs.

GMP

Abbreviation of Good Manufacturing Practice. This is a manufacturing quality management standard established by the United States' Food and Drug Administration based on the Federal Food, Drug, and Cosmetic Act of 1938. Every country has established similar standards. In Japan, this is called the Good Quality Practice for pharmaceutical products established by the Ministry of Health, Labour and Welfare based on the Pharmaceutical and Medical Device Act.

Dispatching act

The official name is the "Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers." This is a law with established rules that temporary staffing companies and companies that hire temporary staff must observe in order to protect the rights of dispatched workers. The law has been improved by, for example, establishing the period of time that a worker can be dispatched to the same office of a company that hires temporary staff.

10-Year Summary of Financial and Non-financial Data

(millions of yen)

Consolidated performance indicators	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
✓ Fiscal year in which revisions to prescription dispensing fees and NHI drug prices were made		✓		✓		✓		✓		✓
Business results (for the year)										
Net sales	98,260	112,128	130,041	139,466	165,347	181,844	219,239	223,468	241,274	245,687
Gross profit	16,283	19,182	22,038	21,494	25,623	31,929	39,068	39,258	43,837	41,975
Selling, general and administrative expenses	12,733	14,398	16,574	18,248	20,878	25,281	28,578	30,738	33,250	35,242
Operating profit	3,549	4,784	5,464	3,245	4,744	6,647	10,489	8,519	10,587	6,733
EBITDA ¹	5,719	7,118	8,492	6,837	8,570	10,278	14,951	13,260	15,801	13,037
Ordinary profit	3,098	4,358	4,941	2,855	4,188	6,003	9,878	7,976	10,138	6,077
Profit attributable to owners of parent	1,404	1,821	2,085	184	1,901	2,778	6,329	4,638	6,104	3,790
Cash flows (for the year)										
Cash flows from operating activities	3,833	6,723	7,127	2,885	6,243	5,831	19,327	(940)	23,141	13,572
Cash flows from investing activities	(5,338)	(8,269)	(9,694)	(6,422)	(14,510)	(8,437)	(7,823)	(28,444)	(13,843)	(1,770)
Cash flows from financing activities	3,434	1,109	7,920	5,496	8,782	1,422	7,031	18,205	(2,034)	(10,516)
Financial position (at year-end)										
Total assets ²	64,678	72,701	86,615	95,140	117,295	130,141	157,609	178,347	186,573	178,677
Net assets	11,405	12,780	14,716	14,702	15,849	17,635	32,473	36,447	41,506	41,073
Cash and cash equivalents	7,636	7,200	12,554	14,513	15,027	13,844	32,380	21,200	28,464	29,749
Merchandise and finished goods	5,231	8,595	8,419	11,908	12,165	15,911	15,328	21,455	20,873	22,272
Interest-bearing debts ³	32,190	33,891	42,279	48,281	62,037	68,327	66,794	86,524	87,611	81,302
Per share information										
Net assets per share ⁴ (yen)	796.64	893.41	1,023.97	1,017.04	1,090.63	1,257.59	2,030.22	2,278.70	2,595.00	2,739.04
Net income per share ⁴ (yen)	96.13	127.57	145.46	12.84	131.24	194.48	432.85	290.03	381.69	243.47
Financial and non-financial data										
Sales growth rate (%)	14.4%	14.1%	16.0%	7.2%	18.6%	10.0%	20.6%	1.9%	8.0%	1.8%
Selling, general and administrative expenses ratio (%)	13.0%	12.8%	12.7%	13.1%	12.6%	13.9%	13.0%	13.8%	13.8%	14.3%
Operating margin (%)	3.6%	4.3%	4.2%	2.3%	2.9%	3.7%	4.8%	3.8%	4.4%	2.7%
ROA ⁵ (%)	2.3%	2.7%	2.6%	0.2%	1.8%	2.2%	4.4%	2.8%	3.3%	2.1%
ROE ⁶ (%)	12.7%	15.1%	15.2%	1.3%	12.0%	16.6%	25.3%	13.5%	15.7%	9.2%
Equity ratio ⁷ (%)	17.6%	17.6%	17.0%	15.5%	13.5%	13.6%	20.6%	20.4%	22.2%	23.0%
Interest coverage ratio ⁸ (times)	7.8	12.8	13.0	4.9	8.6	7.1	24.4	–	37.1	25.8
D/E ratio ⁹ (times)	2.8	2.7	2.9	3.3	3.9	3.8	2.1	2.4	2.1	2.0
Capital expenditure	5,885	7,885	8,961	5,566	9,069	12,279	8,073	23,344	15,316	5,254
Depreciation	2,169	2,333	3,028	3,591	3,825	3,631	4,461	4,741	5,214	6,304
R&D expenses	807	985	1,224	1,023	1,534	1,767	1,913	2,388	2,784	2,764
Number of employees ¹⁰	1,881	2,112	2,304	2,488	3,009	3,283	3,435	3,781	4,075	4,383

* Figures shown have been rounded down. However, percentages shown have been rounded to the nearest first decimal place.
 Notes: 1. EBITDA = operating income + depreciation
 2. Figures before FY2017 are not retroactively adjusted in accordance with the change of the accounting standard.
 3. Interest-bearing debt = loans + lease obligations + installment account payable + bonds
 4. Nihon Chouzai conducted a 2-for-1 stock split on October 1, 2015.
 Net assets per share and net income per share have been calculated as if this stock split had taken place at the beginning of fiscal 2009.

5. ROA = profit attributable to owners of parent ÷ average of total assets at the beginning and end of the fiscal year
 6. ROE = profit attributable to owners of parent ÷ average equity at the beginning and end of the fiscal year
 7. Equity ratio = shareholders' equity ÷ total assets
 8. Interest coverage ratio = operating cash flow ÷ interest payments. This figure is not presented when operating cash flow is in negative territory.
 9. D/E ratio = interest-bearing debt ÷ net assets
 10. Number of employees indicates the number of full-time employees, but does not include temporary employees such as associate, contract, fixed-term, and part-time employees.

Report of Business Results and Financial Analysis

Status of Sales and Profits

Net sales

Net sales totaled 245,687 million yen (up by 1.8%, or 4,412 million yen year on year). The fact that Nihon Chouzai secured a gain in net sales despite the April 2018 revisions to drug prices and dispensing fees driving competitors to post a drop in sales for the year should be considered a success.

In the Dispensing Pharmacy Business, though reductions in drug prices and dispensing fees served to hamper sales, factors such as the steady progress in opening our own pharmacies and tightly-controlled M&A activities helped to increase net sales by 1.7% year on year.

In the Pharmaceutical Manufacturing and Sales Business, expanded internal sales from promotion of generic prescriptions and additional pharmacy locations in the Dispensing Pharmacy Business led to a 6.8% year on year gain in net sales. Further, the permeation of a sales strategy emphasizing profitability helped to keep prices above a certain level.

In the Medical Professional Staffing and Placement Business, net sales increased 9.3% year on year, mainly as a result of the increase in job listings and placements on the back of the shortage of pharmacists as well as the expansion of the business of introducing doctors to medical institutions. This business in particular is seeing greater results thanks to the expansion of sales bases and an increase in sales staff.

These initiatives have resulted in securing increased sales in all business segments.

Costs of sales and selling, general, and administrative expenses

Cost of sales totaled 203,711 million yen (up by 3.2%, or 6,274 million yen year on year). Drug price negotiations became fiercely competitive after the April 2018 enactment of the Revised Distribution Guidelines. This, combined with greater personnel costs on the back of the record number of pharmacists employed, led to higher cost of sales. Selling, general, and administrative expenses totaled 35,242 million yen (up by 6.0%, or 1,991 million yen) due to the development of pharmacies for functional differentiation, the increased hiring and education of pharmacists anticipating expanded interpersonal services, the increased numbers of sales bases and sales staff to handle the growing business of doctor introduction, and other proactive upfront investments anticipating future growth.

Operating profit

Operating profit totaled 6,733 million yen (down by 36.4%, or 3,853 million yen year on year), with operating margin at 2.7% (down by 1.7%). Major dispensing pharmacy chains took a major blow with the dispensing fee revisions of April 2018. Lower dispensing technical fees and more intense hiring of pharmacists anticipating expanded interpersonal services added to costs. These

are considered as necessary, forward-thinking upfront investments in anticipation of future growth.

Profit attributable to owners of parent company

Profit attributable to owners of parent company totaled 3,790 million yen (down by 37.9%, or 2,314 million yen year on year). Though return on equity (ROE) fell from 15.7% the previous fiscal year to 9.2% in the fiscal year under review, this result was largely due to the effects of a decline in profit levels from proactive upfront investment in addition to revised drug prices and dispensing fees.

Status of Each Business Segment

Dispensing Pharmacy Business

Net sales in this business totaled 208,622 million yen (up by 1.7%, or 3,430 million yen year on year), with operating profit at 8,707 million yen (down by 29.8%, or 3,703 million yen).

Though the aforementioned revisions resulted in decreased drug prices and technical fees, greater effort put into various initiatives has helped coax this business toward recovery. Further, initiatives related to family pharmacists/pharmacies and at-home medical care combined with positive effects from newly-opened pharmacies led to a 3.3% year on year increase in the number of prescriptions.

While intensified hiring has resulted in a dramatic increase in new graduate pharmacist hires and subsequently an increase in cost of sales, this is considered a critical investment in talent in the interest of upcoming growth. Other major factors behind increased SG&A expenses include upgrading of pharmacy facilities required for function differentiation.

Pharmaceutical Manufacturing and Sales Business

Net sales were 40,659 million yen (up by 6.8%, or 2,593 million yen year on year), with operating profit at 1,885 million yen (up by 57.8%, or 690 million yen), an increase in both sales and profit.

While net sales were negatively impacted by lower prices of generic drugs due to revised drug prices, expansion of operations in the Dispensing Pharmacy Business and use of generic drugs led to increased internal sales and, in sum, to an increase in net sales.

Operating profit increased significantly due to such factors as continued progress in sales strategies emphasizing profitability, reduction in expenses at manufacturing plants, and sales at appropriate prices pursuant to the Revised Distribution Guidelines. Capital investment has peaked, and the Company is moving away from a period of upfront investment into one of investment recovery.

Medical Professional Staffing and Placement Business

Net sales in this business totaled 13,083 million yen (up by 9.3%, or 1,113 million yen year on year), with operating profit at 1,478 million yen (down by 19.7%, or 363 million yen).

Net sales were bolstered by factors such as the continued shortage of pharmacists and the resulting steady results of the staffing business and the expansion of the doctor introduction business in which the Company had made upfront investments.

Turning to profits, while salaries of pharmacists continued to rise in areas with particularly tight labor markets, resulting in higher costs of sales, the gross profit margin declined only 0.7% year on year thanks to growth in the pharmacist and doctor placement business. For expenses, the establishment of sales bases and the augmenting of sales staff to handle the growing doctor placement business increased selling, general, and administrative expenses by 25.7%, or 710 million yen year on year. As a result, the operating margin dropped from 15.4% the previous fiscal year to 11.3%, a 4.1% decline, but this is viewed positively as an upfront investment ahead of growth in the business.

Analysis of Financial Position

Assets

Total assets decreased by 7,891 million yen, or 4.2%, from 186,569 million at the end of the previous fiscal year to 178,677 million yen at the end of the current fiscal year.

Current assets were 80,132 million yen, a decrease of 1,481 million yen (1.8%), from 81,613 million yen at the end of the previous fiscal year. This was mainly attributable to a decrease in accounts receivable — trade. Non-current assets decreased by 6,411 million yen (6.1%), from 104,956 million yen at the end of the previous fiscal year to 98,545 million yen. The fall in property, plant, and equipment was primarily caused by sale of the Kasukabe Plant in the interest of consolidation and streamlining. This resulted in decreases in buildings and structures, and land. Intangible assets fell primarily because of reduced goodwill in the Dispensing Pharmacy Business, etc.

Liabilities

Total liabilities decreased by 7,458 million yen (5.1%), from 145,062 million yen at the end of the previous fiscal year to 137,604 million yen at the end of this fiscal year.

Current liabilities decreased 1,209 million yen (1.7%), from 70,310 million yen at the end of the previous fiscal year to 69,100 million yen. This was mainly attributable to a decrease in income taxes payable. Non-current liabilities decreased by 6,248 million yen (8.4%), from 74,752 million yen at the end of the previous fiscal year to 68,504 million yen. This was mainly attributable to a decrease in long-term loans payable. Capital investment has peaked in the Pharmaceutical Manufacturing and Sales Business, and the Company is moving away from a period of upfront investment into one of investment recovery.

Net assets

Net assets decreased by 433 million yen (1.0%), from 41,506 million yen at the end of the previous fiscal year to 41,073 million yen at the end of this fiscal year. This was mainly attributable to an increase in treasury shares due to share buybacks. As a result, the equity ratio improved to 23.0%.

Status of Cash Flows

Net cash provided by operating activities was 13,572 million yen, net cash used in investing activities was 1,770 million yen, and net cash used in financing activities was 10,516 million yen. Cash flow from financing activities remains in an outflow trend since the previous fiscal year. As a result, there was a net increase of 1,284 million yen in cash and cash equivalents from the end of the previous fiscal year to 29,749 million yen at the end of March 2019. Each cash flow status is as follows.

Cash flows from operating activities

A major source of cash inflow was profit before income taxes of 6,777 million yen, while the primary use of cash outflow was 4,908 million yen in income taxes paid.

Cash flows from investing activities

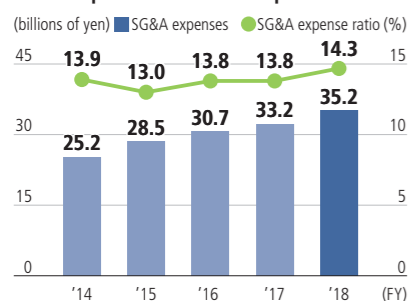
A major source of cash inflow was gain on transfer of business of 4,093 million.

This was accrued due to the sale of the Kasukabe Plant in the Pharmaceutical Manufacturing and Sales Business. On the outflow side, the primary use of cash outflow was payment of 5,303 million yen for the purchase of property, plants, and equipment incidental to opening new pharmacies in the Dispensing Pharmacy Business and capital investments in the Pharmaceutical Manufacturing and Sales Business. The amount decreased significantly because the upfront investment in the Pharmaceutical Manufacturing and Sales Business exceeded the peak.

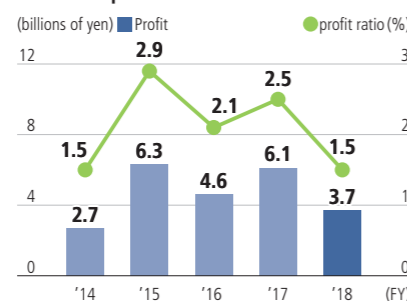
Cash flows from financing activities

The primary source of cash inflow was proceeds from long-term loans payable of 10,625 million yen, while cash was used mainly for payments of 15,694 million yen in repayments of long-term loans payable. Although net cash inflow from financing activities continued due to ongoing upfront investments in the Pharmaceutical Manufacturing and Sales Business, an outflow trend remains as there was an outflow of 2,034 million yen in the previous fiscal year and 10,516 million yen this fiscal year in financing activities. Going forward, the Company will seek to strengthen its financial structure as it moves into an investment recovery period.

SG&A expenses and SG&A expense ratio

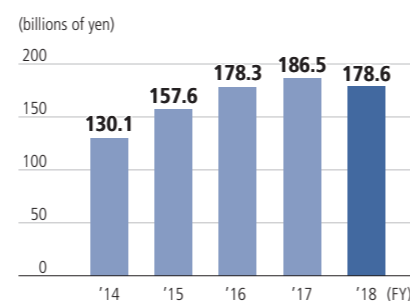


Profit and profit ratio

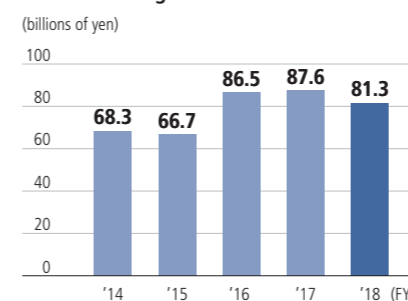


* Profit: Profit attributable to owners of parent

Total assets

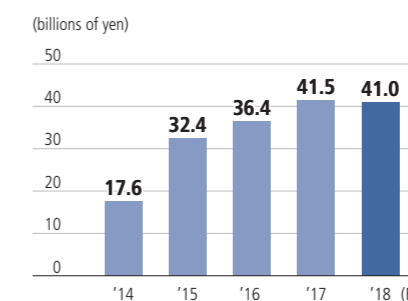


Interest-bearing debt

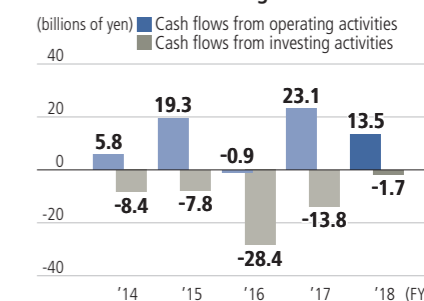


* Interest-bearing debts shows the total amount of loans payable, lease obligations, accounts payable — installment purchase, and bonds.

Net assets



Cash flows from operating activities



Consolidated Balance Sheet

Nihon Chouzai Co., Ltd. and subsidiaries March 31, 2018 and 2019

(millions of yen)

Assets	FY2017	FY2018
Current assets		
Cash and deposits	28,464	29,749
Notes receivable — trade	213	134
Accounts receivable — trade	19,902	16,249
Electronically recorded monetary claims — operating	1,115	1,465
Merchandise and finished goods	20,873	22,272
Work in process	1,304	1,173
Raw materials and supplies	6,047	6,020
Other	3,698	3,071
Allowance for doubtful accounts	(6)	(5)
Total current assets	81,613	80,132
Non-current assets		
Property, plant and equipment		
Buildings and structures	53,483	52,956
Accumulated depreciation	(19,064)	(20,582)
Buildings and structures, net	34,418	32,374
Machinery, equipment and vehicles	14,129	19,246
Accumulated depreciation	(3,543)	(4,539)
Machinery, equipment and vehicles, net	10,585	14,707
Land	19,357	16,961
Leased assets	2,943	2,888
Accumulated depreciation	(1,858)	(2,094)
Leased assets, net	1,084	794
Construction in progress	6,750	1,133
Other	14,816	16,399
Accumulated depreciation	(11,352)	(12,564)
Other, net	3,464	3,835
Total property, plant and equipment	75,662	69,806
Intangible assets		
Goodwill	15,418	14,552
Other	2,534	2,353
Total intangible assets	17,952	16,906
Investments and other assets		
Investment securities	20	17
Long-term loans receivable	738	687
Lease and guarantee deposits	7,049	7,357
Deferred tax assets	2,290	2,610
Other	1,242	1,160
Total investments and other assets	11,341	11,833
Total non-current assets	104,956	98,545
Total assets	186,569	178,677

(millions of yen)

Liabilities	FY2017	FY2018
Current liabilities		
Accounts payable — trade	36,203	37,274
Electronically recorded obligations — operating	3,770	3,081
Current portion of long-term loans payable	15,309	16,143
Lease obligations	311	261
Income taxes payable	3,040	1,478
Provision for bonuses	2,775	3,023
Provision for directors' bonuses	137	86
Asset retirement obligations	4	10
Other	8,759	7,739
Total current liabilities	70,310	69,100
Non-current liabilities		
Long-term loans payable	68,372	62,470
Lease obligations	697	436
Long-term accounts payable — installment purchase	1,991	1,349
Provision for directors' retirement benefits	1,048	1,093
Net defined benefit liability	1,503	1,695
Asset retirement obligations	821	1,145
Other	316	313
Total non-current liabilities	74,752	68,504
Total liabilities	145,062	137,604
Net assets	FY2017	FY2018
Shareholders' equity		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	26,816	29,815
Treasury shares	(47)	(3,498)
Total shareholders' equity	41,648	41,196
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Remeasurements of defined benefit plans	(144)	(127)
Total accumulated other comprehensive income	(144)	(127)
Non-controlling interests	2	4
Total net assets	41,506	41,073
Total liabilities and net assets	186,569	178,677

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

Base that supports Nihon Chouzai

Data section

Consolidated Statement of Income

Nihon Chouzai Co., Ltd. and subsidiaries For the years ended March 31, 2018 and 2019 (millions of yen)

	FY2017	FY2018
Net sales	241,274	245,687
Cost of sales	197,437	203,711
Gross profit	43,837	41,975
Selling, general and administrative expenses	33,250	35,242
Operating profit	10,587	6,733
Non-operating income		
Interest income	0	0
Commission fee	151	50
Rent income	436	430
Other	193	178
Total non-operating income	781	659
Non-operating expenses		
Interest expenses	635	525
Commission fee	44	13
Rent expenses	328	355
Loss on retirement of non-current assets	45	221
Other	175	198
Total non-operating expenses	1,230	1,315
Ordinary profit	10,138	6,077
Extraordinary income		
Gain on sales of non-current assets	0	231
Gain on sales of investment securities	360	8
Gain on transfer of business	48	1,092
Total extraordinary income	408	1,332
Extraordinary losses		
Loss on sales of non-current assets	10	24
Impairment loss	491	607
Total extraordinary losses	501	632
Profit before income taxes	10,045	6,777
Income taxes — current	4,272	3,308
Income taxes — deferred	(331)	(324)
Total income taxes	3,940	2,984
Profit	6,104	3,792
Profit attributable to non-controlling interests	—	2
Profit attributable to owners of parent	6,104	3,790

Consolidated Statement of Comprehensive Income

Nihon Chouzai Co., Ltd. and subsidiaries For the years ended March 31, 2018 and 2019 (millions of yen)

	FY2017	FY2018
Profit	6,104	3,792
Other comprehensive income		
Valuation difference on available-for-sale securities	(263)	0
Remeasurements of defined benefit plans, net of tax	17	16
Total other comprehensive income	(245)	16
Comprehensive income	5,858	3,809
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	5,858	3,806
Comprehensive income attributable to non-controlling interests	—	2

Consolidated Statement of Changes in Net Assets

Nihon Chouzai Co., Ltd. and subsidiaries (millions of yen)

For the year ended March 31, 2018	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at beginning of current period	3,953	10,926	21,511	(46)	36,345	263	(161)	101	—	36,447
Changes of items during period										
Dividends of surplus			(799)		(799)					(799)
Profit attributable to owners of parent			6,104		6,104					6,104
Purchase of treasury shares				(1)	(1)					(1)
Net changes of items other than shareholders' equity						(263)	17	(245)	2	(243)
Total changes of items during period	—	—	5,305	(1)	5,303	(263)	17	(245)	2	5,059
Balance at end of current period	3,953	10,926	26,816	(47)	41,648	0	(144)	(144)	2	41,506

(millions of yen)

For the year ended March 31, 2019	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at beginning of current period	3,953	10,926	26,816	(47)	41,648	0	(144)	(144)	2	41,506
Changes of items during period										
Dividends of surplus			(791)		(791)					(791)
Profit attributable to owners of parent			3,790		3,790					3,790
Purchase of treasury shares				(3,451)	(3,451)					(3,451)
Net changes of items other than shareholders' equity						0	16	16	2	19
Total changes of items during period	—	—	2,998	(3,451)	(452)	0	16	16	2	(433)
Balance at end of current period	3,953	10,926	29,815	(3,498)	41,196	0	(127)	(127)	4	41,073

Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries For the years ended March 31, 2018 and 2019

(millions of yen)

	FY2017	FY2018
Cash flows from operating activities		
Profit before income taxes	10,045	6,777
Depreciation	5,214	6,304
Amortization of long-term prepaid expenses	126	160
Impairment loss	491	607
Amortization of goodwill	1,326	1,487
Increase (decrease) in allowance for doubtful accounts	(3)	(0)
Increase (decrease) in provision for bonuses	225	245
Increase (decrease) in provision for directors' bonuses	20	(50)
Increase (decrease) in net defined benefit liability	202	188
Increase (decrease) in provision for directors' retirement benefits	98	45
Interest and dividend income	(21)	(2)
Interest expenses	635	525
Loss (gain) on sales of non-current assets	10	(206)
Loss (gain) on sales of investment securities	(360)	(8)
Loss (gain) on transfer of business	(48)	(1,092)
Decrease (increase) in notes and accounts receivable-trade	6,691	3,485
Decrease (increase) in inventories	1,442	(1,314)
Increase (decrease) in notes and accounts payable-trade	(1,399)	342
Decrease (increase) in prepaid expenses	(111)	(74)
Increase (decrease) in accrued expenses	324	(82)
Decrease (increase) in accounts receivable-other	(354)	998
Increase (decrease) in accounts payable-other	390	(791)
Other, net	1,553	1,460
Subtotal	26,500	19,004
Interest and dividend income received	21	2
Interest expenses paid	(623)	(525)
Income taxes paid	(2,756)	(4,908)
Net cash provided by (used in) operating activities	23,141	13,572
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,076)	(5,303)
Proceeds from sales of property, plant and equipment	46	1,723
Purchase of intangible assets	(656)	(591)
Proceeds from sales of investment securities	999	10
Increase in long-term prepaid expenses	(95)	(123)
Payments for transfer of business	(585)	(368)
Proceeds from transfer of business	114	4,093
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,126)	(785)
Payments for loans receivable	(448)	(92)
Collection of loans receivable	88	85
Payments for lease and guarantee deposits	(251)	(699)
Proceeds from collection of lease and guarantee deposits	172	281
Other, net	(25)	(0)
Net cash provided by (used in) investing activities	(13,843)	(1,770)
Cash flows from financing activities		
Proceeds from long-term loans payable	13,000	10,625
Repayments of long-term loans payable	(13,408)	(15,694)
Repayments of lease obligations	(391)	(311)
Repayments of installment payables	(433)	(893)
Purchase of treasury shares	(1)	(3,451)
Cash dividends paid	(799)	(791)
Net cash provided by (used in) financing activities	(2,034)	(10,516)
Net increase (decrease) in cash and cash equivalents	7,264	1,284
Cash and cash equivalents at beginning of period	21,200	28,464
Cash and cash equivalents at end of period	28,464	29,749

Risks of Businesses

Within the matters regarding business status and accounting status described in this "Corporate Report 2019," the matters that may have a significant impact on investors' decisions are described below.

The Nihon Chouzai Group recognizes these risks and we have a policy to appropriately handle the risks in case the risks materialize; however, the decision for investment should be made after carefully considering this section and contents other than this section in this document.

The matters about the future described below are decided by the Group as of June 27, 2019, and the matters may differ from actual results due to various factors.

I. Matters about Each Business Segment

1. Dependency on interest-bearing debts

The Nihon Chouzai Group opens new stores in the dispensing pharmacy business and makes capital investments in the pharmaceutical manufacturing and sales business by raising funds from mainly loans payable. We will continue to open new stores and make capital investments, in that case interest expenses may increase. Additionally, in case of failure to gain enough cash from management in each business operation, due to some problems such as difficulty in gaining additional loans payable, business plans or performance of the Group may be affected. Furthermore, the rates of most loans payable are a fixed interest rate at this point; however, an increase of interest expenses due to rising interest rates may affect the performance of the Group.

2. Personal information management

The Nihon Chouzai Group handles personal information such as medical history and medication history of customers, and personal history of temporary employees in the dispensing pharmacy business and the medical professional staffing and placement business. In the Group, we strictly manage personal information. In case of leaking the personal information, there is a possibility that we are liable to pay a larger amount of compensation for damages when compared to the case of the leakage of general personal information such as addresses and names. Additionally, regarding protection of personal information, in case the entities handling personal information including Nihon Chouzai and consolidated subsidiaries provide the personal information to a third party without obtaining the consent of the person, administrative sanctions shall be imposed and, in some cases, criminal penalties may be imposed by "Act on the Protection of Personal Information." Moreover, most of our employees

who handle personal information in dispensing pharmacies are pharmacists and serious confidentiality obligation is legally imposed on pharmacists (Article 134 of the Penal Code). In the Group, therefore, in case information leakage occurs, the performance of the Group may be affected by a large amount of reparation payment, administrative sanctions, and a decrease in credibility from existing customers and society accompanying the payment and sanctions.

3. Social insurance contributions

The Nihon Chouzai Group has all the people who are eligible for social insurance join in the insurance. In case of an increase in insurance rate due to system amendment such as reform of medical care system for the elderly and improvement of employment insurance, and a significant increase in the amount of contributions by the company due to the change in the scope of insured person regarding a temporary employee, the performance of the Group may be affected.

4. Influence by disasters and other emergencies

The Nihon Chouzai Group mainly gathers the headquarters functions of each company in Chiyoda ward, Tokyo.

Regarding the pharmaceutical manufacturing and sales business, we establish the production facility for Nihon Generic Co., Ltd. in Tsukuba City, Ibaraki Prefecture. Regarding Choseido Pharmaceutical Co., Ltd., we establish its headquarters and production facility in Tokushima City, Tokushima Prefecture.

To cope with disasters and other emergencies in these areas, our group companies have prepared a business continuity plan. However, if we suffer more damage than expected, the performance of the Group may be affected.

II. Dispensing Pharmacy Business

1. Legal regulations for Dispensing Pharmacy Business

(1) Opening dispensing pharmacies

When Nihon Chouzai opens and manages pharmacies, in case we cannot receive required authorization, designation, registration, or license by each prefecture, in case we fail to proceed for renewal and registration/notification, in case we violate related laws and regulations, or in case these laws and regulations are amended, our store opening plans and performance may be affected.

Main relevant legal regulations are "License for pharmacy," "Health insurance pharmacy designation" and others, and we obtain required permission in all stores.

Regarding reasons for disqualification for permission, they do not apply to us as of June 27, 2019.

(2) Securing pharmacists

Regarding dispensing pharmacies, Article 19 of the Pharmacists Act forbids, in principle, dispensing by anyone other than pharmacists. By "Law for Ensuring the Quality, Efficacy, and Safety of Drugs and Medical Devices" ("Pharmaceutical and Medical Devices Act" is used as an abbreviation. This was

called "Pharmaceutical Affairs Act" before amendment) and an Ordinance of the Ministry of Health, Labour, and Welfare, not only pharmacist arrangement in a pharmacy, but also the number of arranged pharmacists is strictly regulated, and it is required to arrange one pharmacist per 40 sheets of received prescriptions a day. Therefore, in case of failure to secure the required number of pharmacists, our store opening plans and performance may be affected.

(3) Dispensing operation

Nihon Chouzai takes various measures to prevent dispensing errors. For example, we introduce automatic check systems for dangerous drugs that produce serious symptoms due to a dispensing error, and pharmacists intensively conduct inspections for the dangerous drugs. In addition, we take measures that mitigate an impact to performance by signing up "Pharmacist liability insurance" at all stores just in case. However, in case a dispensing error occurs resulting in a large amount of reparation payment and a decrease in credibility from existing customers and society, our performance may be affected.

2. The business environment in the Dispensing Pharmacy Business

(1) Trends in the rate of separation of prescribing and dispensing

The separation of prescribing and dispensing has been promoted as a national policy to improve the quality of medical care by devoting medical institutions to medical practices such as medical examinations, and having dispensing pharmacies conduct medication history management and medication consulting. In case of decline in the growth rate of separation of prescribing and dispensing in the future, the performance of the Nihon Chouzai Group may be affected.

(2) Reform of the medical care system

[1] Revisions of the NHI Drug Price Standards and dispensing fees The dispensing sales in the dispensing pharmacy business, which is the core business of the Nihon Chouzai Group, are the total amount of drug income based on the drug price standards regulated primarily by Ministry of Health, Labour, and Welfare notifications, and the income from technical dispensing based on dispensing fee points regulated by Ministry of Health, Labour, and Welfare notification acts. Therefore, in case the drug price standards are reduced by the revisions of NHI drug price standards, while the actual purchase price is not reduced to the same degree, or in case dispensing fee points are reduced by the prescription dispensing fee revision, the performance of the Group may be affected.

[2] Other reforms of systems

In recent years, various reforms of medical care system are promoted by improvement in patients' rights awareness to medical care or pressure on medical care financing. It is possible that further various reforms of medical care system will be conducted. Depending on trends, due to a decrease in the number of patients, the performance of the Group may be affected.

3. Business development

Regarding the dispensing pharmacy business, we have a policy to increase the number of stores including acquisition of stores,

in case we cannot open stores as planned due to not being able to secure the property that conforms to the conditions of store opening, in case the first planned sales cannot be included after opening a store due to the state of competitions or some situations where the separation of prescribing and dispensing does not progress well, in case store sales decrease due to relocation or discontinuance of medical institutions, or in case store operation cannot be continued or deposits cannot be recovered due to business conditions of a property owner, business plans or performance of the Nihon Chouzai Group may be affected.

4. Seasonal variation of sales

The sales in the dispensing pharmacy business also account for much of the total sales of the Nihon Chouzai Group in the current consolidated fiscal year, and the performance changes of the dispensing pharmacy business we operate greatly affect the performance changes of the Group.

Regarding the said dispensing pharmacy business, depending on increasing prescriptions for influenza, etc., which prevails in winter, and pollinosis (allergic rhinitis), which mainly develops in the beginning of spring, the performance changes may be affected.

5. Impacts from consumption taxes

In the dispensing pharmacy business, dispensing sales are exempted from taxes by the Consumption Tax Act, whereas the purchase of pharmaceuticals is taxed by the Act. Therefore, in the dispensing pharmacy business, Nihon Chouzai is the final tax payer, and the consumption taxes we paid to suppliers are included in the section of selling, general, and administrative expenses. When the consumption tax rate was revised in the past, increased amount of the consumption tax rate was taken into account on the occasion of the NHI drug price standard revisions. However, in the future, if the consumption tax rate is revised and the NHI drug price standards of drugs are not linked to the variability rate of the consumption tax rate, the performance of the Nihon Chouzai Group may be affected.

a containing medical cost movement influenced by Japan's financial reforms, and the lowering rate may increase each time of the revision. This trend of drug prices may affect the policy of product prices in the Group.

Additionally, in the manufacturing and sales market for generic drugs handled in the business, significant changes in the medical care system may rapidly expand demand, whereas competition involving the whole pharmaceutical industry may intensify in the future. These changes in the business environment may affect the performance of the Group.

3. Outsourcing of pharmaceutical manufacturing

In this business, in accordance with the manufacture and sales approval system based on the revised Pharmaceutical Affairs Act (the present Pharmaceutical and Medical Devices Act) enforced in April 2005, we distribute products to the market in the form of outsourcing the manufacturing section of generic drugs manufacture and sales with the national approval, or in the form of selling the drugs, which we have the manufacture and sales approval, through our own distribution channel.

We conclude the continuous contracts for the product supply with several generic drug manufacturers; however, there is a possibility of not being able to supply products due to contract termination or contract changes of a product for some reasons of a manufacturing subcontractor. In these cases, the performance of the Group may be affected.

4. Patent litigation

Regarding the Pharmaceutical Manufacturing and Sales Business in the Nihon Chouzai Group, we develop products with paying full attention to intellectual property rights and the Unfair Competition Prevention Act; however, there are cases where an original drug manufacturer files a patent lawsuit because of the characteristic particular to the generic drug product. If such situation occurs, the performance of the Group may be affected.

5. Product recall and discontinuation of sales

Generic drugs have the use results in which the efficacy and safety had been confirmed throughout a period of time in the original drug. In addition to that, they go on sale after reexamination, so it is considered that the occurrence risk of a serious side effect other than that of an original drug is extremely small. However, in case unexpected new side effects occur or an accident including mixture of impurities into a product, we may be forced to recall products or discontinue sales. This may affect the performance of the Group.

6. Purchase of raw materials and merchandise

At suppliers of raw materials and merchandise, in case it becomes impossible for us to purchase raw materials and merchandise due to regulation problems, disasters including fire/earthquakes, and accidents during transportation, the production and supply of products may stop. This may affect the performance of the Group.

IV. Medical Professional Staffing and Placement Business

1. Legal regulations for Medical Professional Staffing and Placement Business

Since the staffing of pharmacists was permitted in accordance with the amendment of the Worker Dispatching Act in December 1999, the subsidiary, Nihon Chouzai Pharma Staff Co., Ltd. (currently, Medical Resources Co., Ltd.) launched a staffing business specialized for pharmacists in July 2000, and they dispatch pharmacists to Nihon Chouzai as well. In addition, they have been operating a medical professional placement business for pharmacists since June 1, 2002.

In this business, permissions from the Ministry of Health, Labour and Welfare, such as "License for General Worker Dispatching Undertakings" and "License for Employment Placement

Businesses" are required. This business is also regulated by "A guideline on measures to be taken by dispatching business operators" and "A guideline for employment placement business providers, persons conducting recruitment of workers, commissioned recruiters, and labor supply business providers to take appropriate actions regarding equal treatments, clear indication of working conditions, treatment of personal information of job seekers, responsibility of employment placement business providers, and accurate indication of details of recruitment" established by the Ministry of Health, Labour and Welfare. In case the permissions were revoked due to violation of the laws and regulations, and the guidelines, the performance of the Nihon Chouzai Group may be affected.

III. Pharmaceutical Manufacturing and Sales Business

1. Legal regulations for Pharmaceutical Manufacturing and Sales Business

By the enforcement of the revised Pharmaceutical Affairs Act (the present Pharmaceutical and Medical Devices Act) in April 2005, the marketing approval system of pharmaceuticals was introduced and the total outsourced manufacturing for pharmaceuticals became possible. Because of this, the Nihon Chouzai Group obtained the pharmaceutical manufacturing and sales business approval at one of our consolidated subsidiaries, Nihon Generic Co., Ltd., in April 2005. In April 2006, we commenced sales of generic drugs produced by other companies, and in July 2007, we obtained approval to commence manufacturing and sales of generic drugs.

Regarding the Pharmaceutical Manufacturing and Sales Business of the Group, we productize and sell generic drugs with development costs relatively less than those of new drugs. For the actual manufacturing process, we furthered manufacturing products at our own factory from October 2010. The legal risks involved in the product liability, and the risk factors for this business including the following legal regulations regarding manufacturing and sales of the medicines for medical treatment may greatly affect the performance of the Group.

Manufacturing and sales of the medicines for medical treatment is regulated by laws and regulations related to the Phar-

maceutical and Medical Devices Act, and it is required to receive authorization, designation, registration, or license by each prefectural governor and submit notification. The main things are "First-class Marketing Authorization," "Second-class Marketing Authorization," and "Wholesale Distribution License" for medicines and others.

In case there is violation of laws and regulations, suspension of business and revocation of approval and authorization are conducted by the competent authorities. This may affect the performance of the Group. Additionally, regarding the developed and applied manufacturing and selling items in this business, we have obtained the approval for each item from the Minister of Health, Labour and Welfare. However, in case of failure to obtain these approvals as planned, the performance of the Group may be affected.

2. The business environment in the Pharmaceutical Manufacturing and Sales Business

Regarding the medicines for medical treatment, according to the NHI Drug Price Standards established by the Ministry of Health, Labour and Welfare, drug prices are established, which is the basis for the drug cost calculation in dispensing fees at medical institutions and dispensing pharmacies. Drug prices tend to decline at every biennial revision of the NHI drug price standards because of

Company Profile

(As of March 31, 2019)

Company Profile

Trade name

NIHON CHOUZAI Co., Ltd.

Established

March 1980

Headquarters

37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo 100-6737
+81-(0) 3-6810-0800 (general)

Capital

3,953.02 million yen

Consolidated net sales

245,687 million yen (FY2018)

Consolidated Number of employees

Regular employees: 4,383
Part-time employees and others: 727

* Part-time employees and others are yearly average number of persons employed based on 8-hour conversion. (As of March 31, 2019)

Main financing banks

Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, MUFG Bank, Ltd., Resona Bank, Ltd.

Our business

Management of health insurance dispensing chain pharmacies

Shareholder Information

Total number of authorized shares

44,192,000 shares

Total number of issued shares

16,024,000 shares

Number of shareholders

5,790 shareholders

Annual general meeting of shareholders

June

Administrator of shareholder registry

Mitsubishi UFJ Trust and Banking Corporation
1-1, Nikko-cho, Fuchu City, Tokyo 183-0044
0120-232-711 (toll-free)

Stock exchange for listing

Tokyo Stock Exchange (TSE) First Section

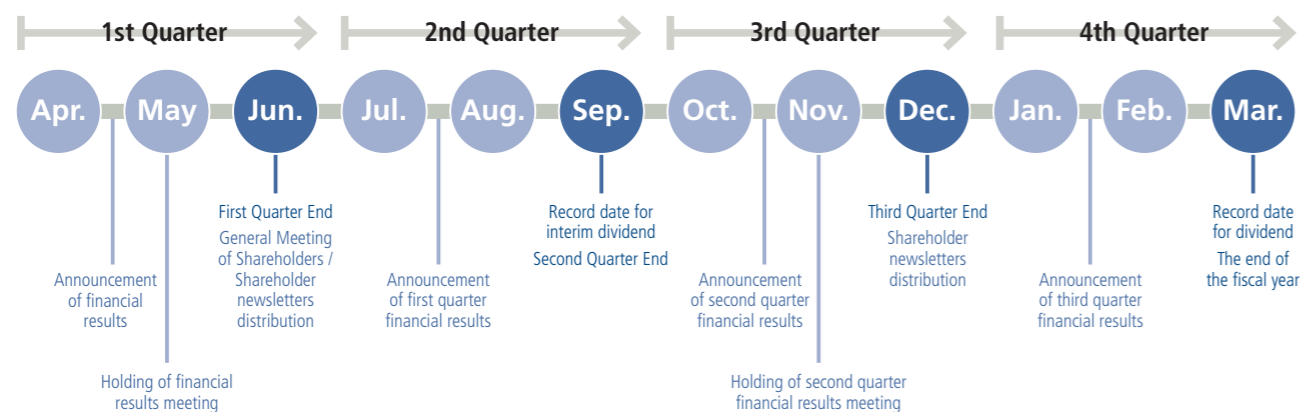
Securities code

3341

Settlement date

March 31

IR Calendar



History

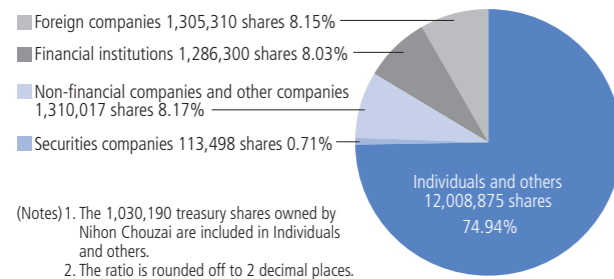
April 1974	Prescription fee was raised from 100 yen to 500 yen due to revisions of medical treatment fee (The first year of separation of prescribing and dispensing)
March 1980	Established Nihon Chouzai Co., Ltd. in Sapporo City to manage dispensing pharmacies
April 1980	Opened the first pharmacy, Nihon Chouzai Yamahana dispensing pharmacy, in Chuo-ku, Sapporo City
August 1987	Opened a Tokyo branch
October 1993	Opened a Yokohama branch
January 1994	Opened a Tohoku branch Established the subsidiary Miyagi Nihon Chouzai Co., Ltd. (The current consolidated subsidiary, Medical Resources Co., Ltd.)
April 1995	Relocated the headquarters to Tokyo. Opened a Sapporo branch and a Kyushu branch
December 1999	Opened dispatching pharmacists because of liberalization in principle for worker dispatching business (The amendment of Worker Dispatching Act)
February 2000	Nihon Chouzai Pharma Staff Co., Ltd. (The current consolidated subsidiary, Medical Resources Co., Ltd.) was established (Changed the trade name and the purpose of Miyagi Nihon Chouzai Co., Ltd.)
October 2000	Opened an Osaka branch
April 2001	Opened a Nagoya branch and a Hiroshima branch
September 2004	Listed on the TSE Second Section
January 2005	Established Nihon Generic Co., Ltd. as a subsidiary (The current consolidated subsidiary)
April 2005	By the revised Pharmaceutical Affairs Act (The present Pharmaceutical and Medical Devices Act), manufacture and sales of pharmaceuticals by the total outsourced manufacturing became possible
September 2006	Listing upgraded to the TSE First Section
October 2006	Established Medical Resources Co., Ltd. as a subsidiary (The current consolidated subsidiary)
November 2007	Relocated the headquarters (1-9-1, Marunouchi, Chiyoda-ku, Tokyo)
July 2008	Merged Medical Resources into Nihon Chouzai Pharma Staff (with Medical Resources as the surviving company)
October 2010	Launched the manufacture of generic drugs at Nihon Generic's Tsukuba plant
March 2011	Achieving the opening of a pharmacy in every prefecture in the country
January 2012	Established Japan Medical Research Institute Co., Ltd. as a subsidiary (The current consolidated subsidiary)
April 2012	Opened a Kitakanto branch, a Higashikanto branch, a Kyoto branch, and a Kobe branch
April 2013	Made a subsidiary of Choseido Pharmaceutical Co., Ltd. (The current consolidated subsidiary)
April 2014	Choseido Pharmaceutical Plant No. 2 completed
October 2016	Opened Sapporo Logistics Center, the fourth logistics center established following those in East Japan, West Japan, and Kanto
February 2017	Formed business partnership with Dai-ichi Life Insurance Company, Limited
December 2017	Tsukuba Plant No. 2 of Nihon Generic Co., Ltd. completed
June 2018	Tsukuba Research Laboratory of Nihon Generic Co., Ltd. relocated to Tsukuba Northern Industrial Park
March 2019	Headquarter of Medical Resources Co., Ltd. relocated to 1-9-1, Marunouchi, Chiyoda-ku, Tokyo

The law amendment or system changes are written in blue.

Stock Information

(As of March 31, 2019)

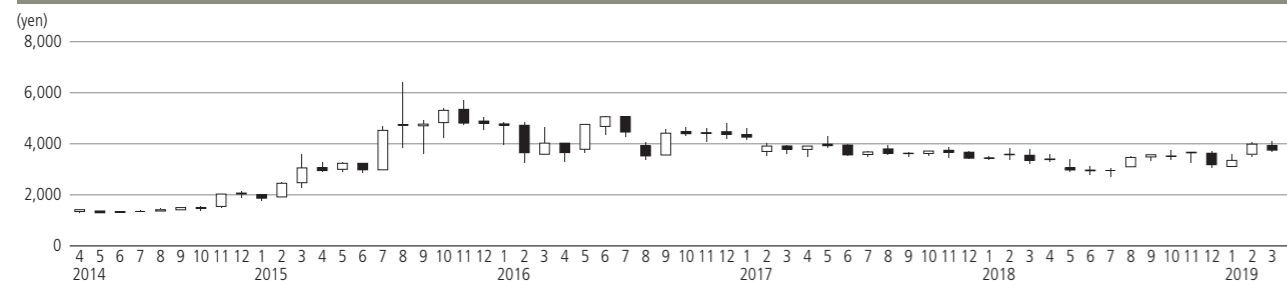
Distribution of Shares for Each Owner



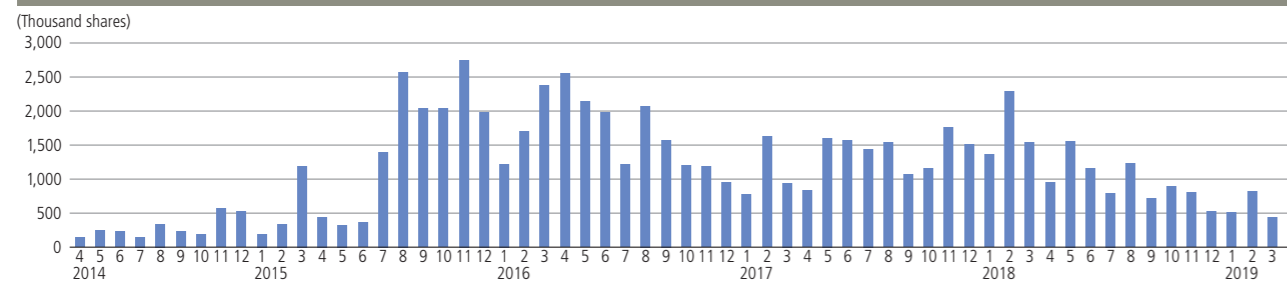
Trend of Holding Stock Ratio

Ratio for number of shares	Mar.2018	Mar.2019
Individuals and others	73.63	74.94
Securities companies	2.40	0.71
Non-financial companies and other companies	8.34	8.17
Financial institutions	7.96	8.03
Foreign companies	7.67	8.15

Trend of Share Price



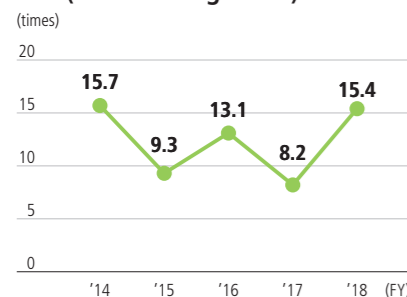
Trend of Turnover



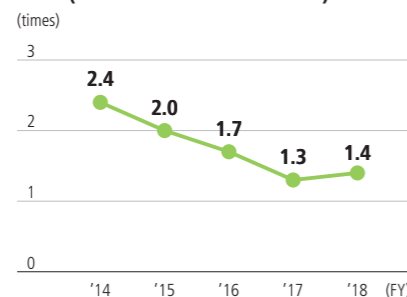
The Company split the share in a ratio of 1:2 on October 1, 2015. The share prices before September 2015 are adjusted with the assumption that the share splitting was conducted at the end of March 2014.

Stock Price Index

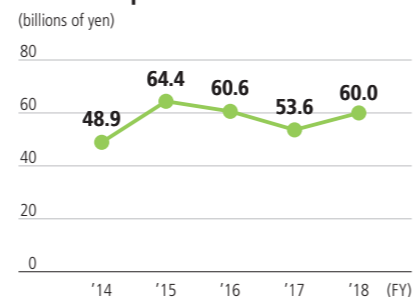
PER (Price earnings ratio)



PBR (Price-book value ratio)



Market capitalization



Major Shareholders (Top 10 Shareholders)

Names of the shareholders	Number of owned shares (Shares)	Investment ratio (%)
Hiroshi Mitsuahara	4,680,000	31.21
Yosuke Mitsuahara	3,320,000	22.14
Max Planning, Inc.	1,120,000	7.47
Nihon Chouzai Employee shareholding association	438,800	2.93
Yoko Mitsuahara	400,000	2.67
The Master Trust Bank of Japan, Ltd. (Trust account)	328,900	2.19
Keiko Yeow	269,300	1.80
Japan Trustee Services Bank, Ltd. (Trust account 9)	241,700	1.61
Japan Trustee Services Bank, Ltd. (Trust account)	164,800	1.10
Japan Trustee Services Bank, Ltd. (Trust account 5)	135,800	0.91

(Notes) 1. The investment ratio was calculated excluding the number of treasury stock (1,030,190 shares).
2. The investment ratio is rounded down to 2 decimal places.

Reference Pages for Major Contents

Content	Sections of this report	Web links https://www.nicho.co.jp/corporate/
Corporate philosophy	Corporate philosophy	Company Profile ▶ Corporate philosophy https://www.nicho.co.jp/corporate/profile/philosophy/
Business characteristics and strengths	Business model Business performance	Company Profile ▶ Nihon Chouzai Group https://www.nicho.co.jp/corporate/profile/group/ Businesses https://www.nicho.co.jp/corporate/business/
Management objectives	Toward a Long-term Vision for 2030	
Management strategy	Message from the President	IR information ▶ Management information ▶ Message from the President https://www.nicho.co.jp/corporate/ir/message.html
Relevant laws and regulations	Main Dispensing Fee Revisions Explanation of Terminology	IR information ▶ Management information ▶ Business environment and issues to be addressed by the Company https://www.nicho.co.jp/corporate/ir/management.html
Relationship with stakeholders	Social Human	Company Profile ▶ Social Contribution Activities by Nihon Chouzai https://www.nicho.co.jp/corporate/profile/contribution/
Corporate governance	Corporate governance	IR information ▶ Management information ▶ Corporate governance https://www.nicho.co.jp/corporate/ir/governance.html
Financial data	Financial highlights Data section	IR information ▶ Financial highlights https://www.nicho.co.jp/corporate/ir/highlight.html IR information ▶ IR library https://www.nicho.co.jp/corporate/ir/irlibrary.html

For further information, please contact

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100-6737, Japan
Nihon Chouzai Co., Ltd.
Corporate Planning / Investor Relations
Corporate Communications Div.

+81-(0)3-6810-0800 (Main No.)
URL : <https://www.nicho.co.jp>