

## Contents

### 1 Growth towards achieving true separation of drug prescribing and dispensing services

- 03 Corporate Philosophy  
Achieving True Separation of Drug Prescribing and Dispensing Services
- 05 Achieve Further Growth as a Comprehensive Healthcare Group
- 07 Growth that Perceives Change as an Opportunity  
Chapter 1 Industry Change and Restructuring  
Chapter 2 Nihon Chouzai Group's Flexible Investment and Initiative Roll-out
- 11 Message from the President  
Q What kind of changes are you expecting in each industry as a result of the NHI price and medical service fee revisions in April 2018?  
Q What preparations and initiatives is the Nihon Chouzai Group making in regard to this series of drug price revisions and industry changes?  
Q What is your vision for the Nihon Chouzai Group, assuming that changes in the business environment progress?
- 17 The Year in Brief  
Formed business partnership with The Dai-ichi Life Group
- 19 Financial and Non-financial Highlights

### 2 Business performance

- 23 Dispensing Pharmacy Business  
Introducing our initiatives to realize A Vision of Pharmacies for Patients and pharmacy opening strategy
- 30 Information Provision and Consulting Business  
Introducing our new service, RI-CORE
- 31 Pharmaceutical Manufacturing and Sales Business  
Introducing our expansion of maximum production capacity to prepare for market expansion and increasing the number of product items we offer
- 35 Medical Professional Staffing and Placement Business  
Introducing the business synergy between staffing and dispensing pharmacies

### 3 Base that supports Nihon Chouzai

- 39 ESG Management
- 43 Board of Directors
- 45 Corporate Governance

### 4 Data section

- 51 Explanation of Terminology (1)
- 53 Explanation of Terminology (2)
- 55 10-Year Summary of Financial and Non-financial Data
- 57 Report of Business Results and Financial Analysis
- 59 Consolidated Balance Sheet
- 61 Consolidated Statement of Income
- 62 Consolidated Statement of Comprehensive Income and Consolidated Statement of Changes in Net Assets
- 63 Consolidated Statement of Cash Flows
- 64 Risk of Businesses
- 67 Corporate Profile
- 68 History
- 69 Stock Information



#### About the Cover

Since its founding, Nihon Chouzai has been engaged in business to contribute to the reform of Japan's social security system. Today, with the emergence of the "super-aging" society, we are in the midst of significant change with various initiatives designed to curb rising social security expenditures. The Nihon Chouzai Group views these changes as opportunities and strives to synergize its businesses with a special focus on the Dispensing Pharmacy Business, working toward strong growth as a comprehensive healthcare group.

# 1 Growth towards achieving true separation of drug prescribing and dispensing services

- 03 Corporate Philosophy  
Achieving True Separation of Drug Prescribing and Dispensing Services
- 05 Achieve Further Growth as a Comprehensive Healthcare Group
- 07 Growth that Perceives Change as an Opportunity Chapter 1
- 09 Growth that Perceives Change as an Opportunity Chapter 2
- 11 Message from the President
- 17 The Year in Brief
- 19 Financial and Non-financial Highlights

## Develop Business That Contributes to Achieving True Separation of Drug Prescribing and Dispensing Services

### Corporate Philosophy

## Achieving True Separation of Drug Prescribing and Dispensing Services

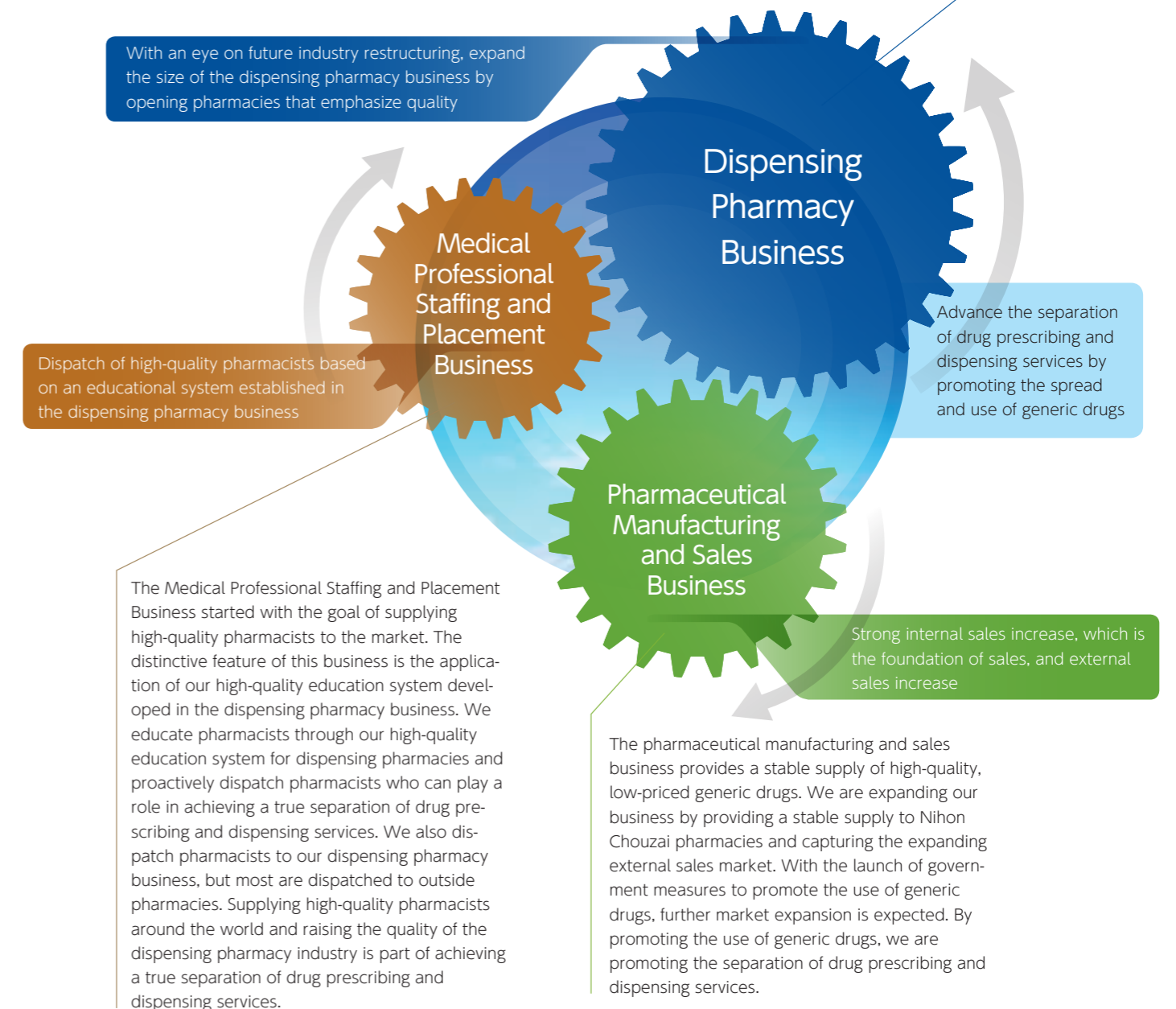
From the time of its founding, Nihon Chouzai has pursued the separation of drug prescribing and dispensing services. The separation of these services that we pursue is not merely a perfunctory separation wherein drugs prescribed and dispensed in hospitals are dispensed in pharmacies outside of hospitals and handed over to patients. Providing medical care that's beneficial to patients through doctors and pharmacists that work independently, to ensure medical care safety, can achieve the true separation of drug prescribing and dispensing services that Nihon Chouzai seeks.

Prior to the Company's founding, President & CEO Hiroshi Mitsuhashi, witnessed multiple dosing being carried out in a medical setting as a medical representative (MR) for a major drug manufacturer. At that time in Japan, the prescription and dispensing of drugs was performed in hospitals, and multiple dosing and the side effects that accompanied it had turned into a social problem due to the large economic benefit of the drug. Given these social circumstances, with a strong sense of mission to solve this problem by shrinking the price margin included in the drug and separating prescription and the dispensing, we launched the dispensing pharmacy business to achieve a true separation of drug prescribing and dispensing services in Japan. The "Nihon Chouzai" company name literally means "Japan dispensing pharmacy," and the name includes the idea of expanding dispensing pharmacies throughout Japan and achieving the complete separation of drug prescribing and dispensing services.

The drug price, which is the official price of a drug, was reduced every time the NHI drug price was revised once every two years. However, the use of generic drugs was promoted by the government as a means of separating drug prescription and dispensing services. Nihon Chouzai has always been a social leader and has tried to spread and promote the use of generic drugs. Promoting the use of inexpensive generic drugs leads to a reduction in drug-price margins, and as a result, encourages a division of labor in medical institutions. In addition, we have been the first to focus on increasing the transparency of drug price negotiations, such as by eliminating uncertainty about prices, initiating transactions with unit price, and seeking to conclude price negotiations at an early stage.

We will continue to vigorously promote various kinds of business development and support Japan's social security platform by seizing various opportunities to achieve a true separation of drug prescribing and dispensing services.

The dispensing pharmacy business has consistently promoted the separation of drug prescribing and dispensing services since its founding in 1980, but no such separation exists in the true sense of the word. We provide high-quality medical care services with the aim of moving from a formal separation of drug prescribing and dispensing services toward achieving a true separation of those services. In promoting this separation, we will actively incorporate important business fields that contribute to it.



# Achieve Further Growth as a Comprehensive Healthcare Group.

## Dispensing Pharmacy Business (Nihon Chouzai Co., Ltd.)

In 1980, we established the Company and started business. We expanded business operations to achieve a true separation of drug prescribing and dispensing services, such as promoting the use of generic drugs and starting unit price transactions before other companies. Since our founding, we continue to expand our business through pharmacy openings focusing on the role of the pharmacy and the business scale.

## Information Provision and Consulting Business (Japan Medical Research Institute Co., Ltd.)

We provide data analyzed from a variety of angles and consulting on general medical care. We help promote a separation of drug prescribing and dispensing services by proposing more efficient medical care.

(In officially released financial statements, financial figures for this business field are included in the dispensing pharmacy business segment.)

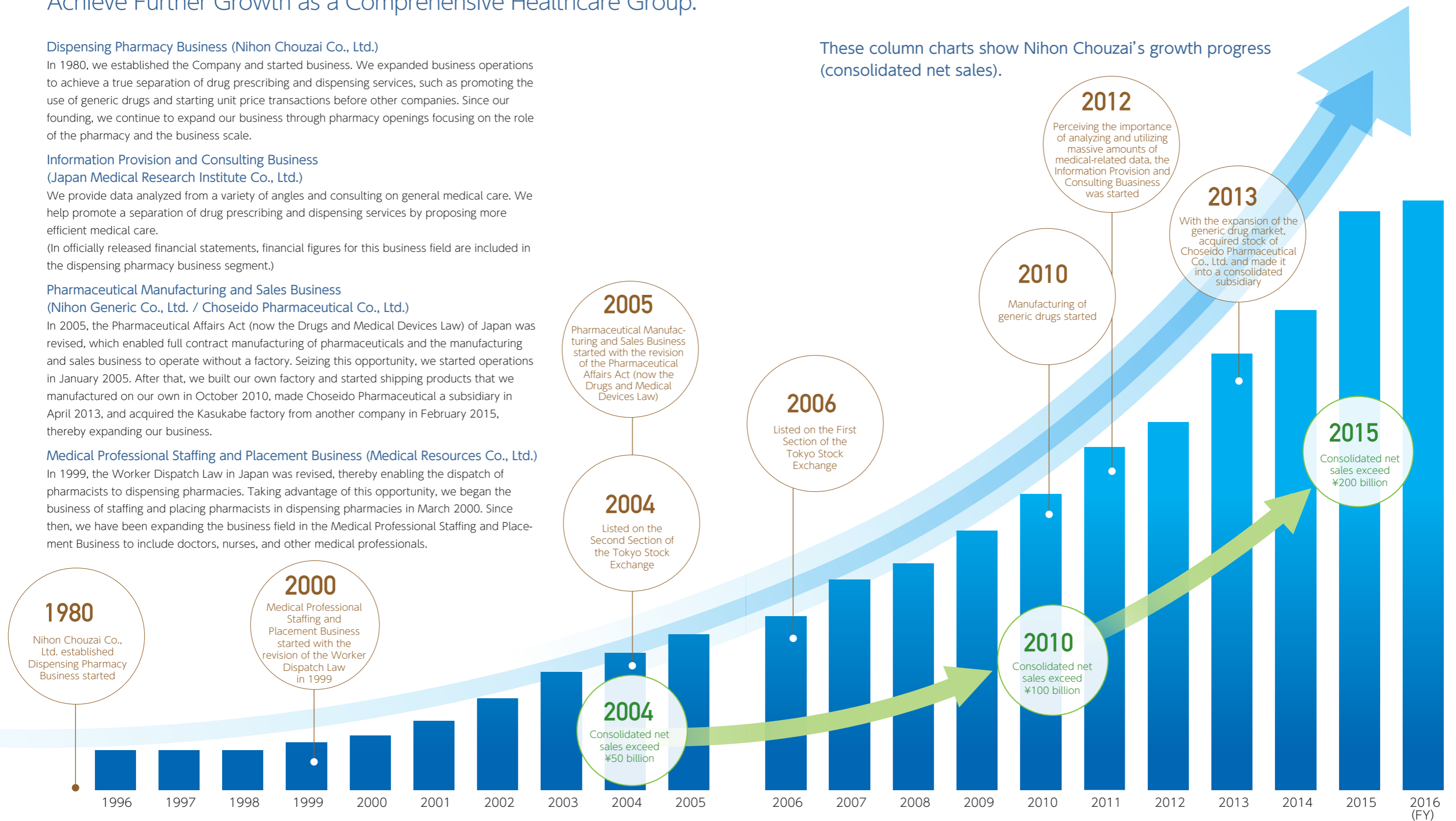
## Pharmaceutical Manufacturing and Sales Business (Nihon Generic Co., Ltd. / Choseido Pharmaceutical Co., Ltd.)

In 2005, the Pharmaceutical Affairs Act (now the Drugs and Medical Devices Law) of Japan was revised, which enabled full contract manufacturing of pharmaceuticals and the manufacturing and sales business to operate without a factory. Seizing this opportunity, we started operations in January 2005. After that, we built our own factory and started shipping products that we manufactured on our own in October 2010, made Choseido Pharmaceutical a subsidiary in April 2013, and acquired the Kasukabe factory from another company in February 2015, thereby expanding our business.

## Medical Professional Staffing and Placement Business (Medical Resources Co., Ltd.)

In 1999, the Worker Dispatch Law in Japan was revised, thereby enabling the dispatch of pharmacists to dispensing pharmacies. Taking advantage of this opportunity, we began the business of staffing and placing pharmacists in dispensing pharmacies in March 2000. Since then, we have been expanding the business field in the Medical Professional Staffing and Placement Business to include doctors, nurses, and other medical professionals.

These column charts show Nihon Chouzai's growth progress (consolidated net sales).



### Major trends in related legislative bills and government policies

- 1974 ● Medical service fee revisions  
Raised prescription fee from ¥100 to ¥500 (first year of separation of drug prescribing and dispensing services)
- 1999 ● Worker Dispatch Law revised
- 2005 ● Pharmaceutical Affairs Act revised (now the Drugs and Medical Devices Law)
- 2007 ● Action program for promoting the comfortable use of generics announced by the Ministry of Health, Labour and Welfare
- 2013 ● Roadmap to further promote the use of generics announced by the Ministry of Health, Labour and Welfare
- 2015 ● Basic Policy on Economic and Fiscal Management and Reform 2015 announced by the Cabinet Office, Setting target for generic drug usage ratio ahead of schedule
- 2015 ● A Vision of Pharmacies for Patients announced by the Ministry of Health, Labour and Welfare

## Growth that Perceives Change as an Opportunity

The dispensing pharmacy and generic drug industries are approaching a period of unprecedented restructuring. Medical expenses, which have been increasing year after year as the population ages, are expected to increase dramatically in 2025 when the baby-boomer generation\* reaches 75 years of age and older. The movement toward industry restructuring is gaining momentum with efforts to address system changes and medical expense revisions following a drastic re-examination of medical expenses by the government aimed at achieving fiscal soundness.

\* Baby-boomer generation: The generation in which a large part of the population was born, between 1947 and 1949, when the baby boom occurred in Japan.



### Chapter 1 Industry Change

## Restructuring of Dispensing Pharmacy Industry



In October 2015, the Ministry of Health, Labour and Welfare announced A Vision of Pharmacies for Patients as the ideal required of next-generation dispensing pharmacies in 2025. Because the functions required of pharmacies heading into 2025 are clearly expressed, major changes are taking place in the pharmaceutical industry. While these moves to restructure the industry are directed at culling the pharmacy market, our goal is to survive by demonstrating our ability to respond to change, our superiority, and by taking flexible action that leverages our advantage of organizational strength.

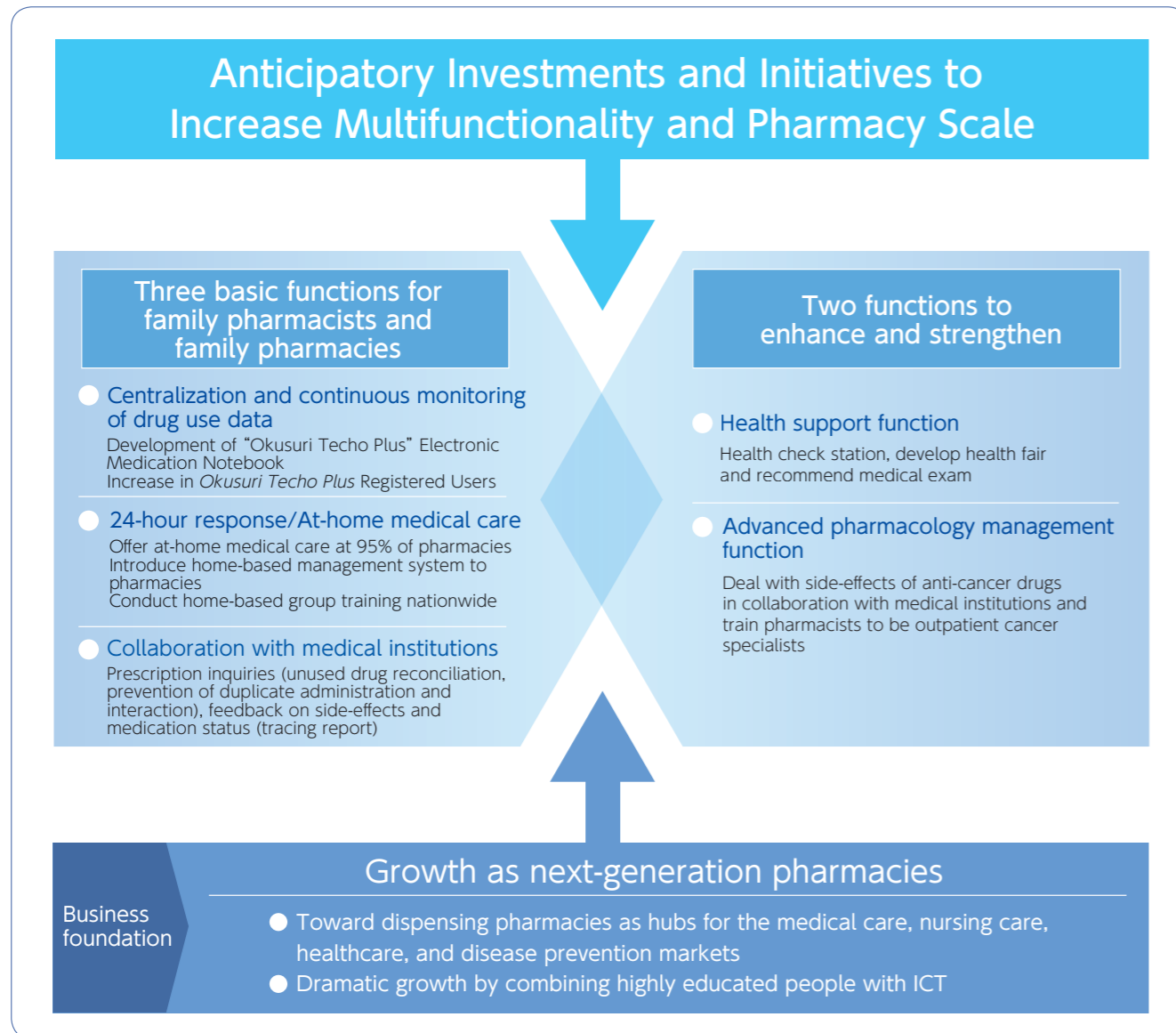
## and Restructuring

While the government announced its policy of setting a generic drug volume share target of 80% by the end of September 2020, the generic drug industry is approaching a period of major change, including the decision to revise NHI drug prices every year starting from April 2018. Regarding itself as a generic manufacturer that has a unique business model which other manufacturers do not have, Nihon Chouzai aims to survive by leveraging the superiority of its sales network through wholesale companies and taking advantage of the synergistic effect of having a dispensing pharmacy business within the Group



### Restructuring of the dispensing pharmacy industry

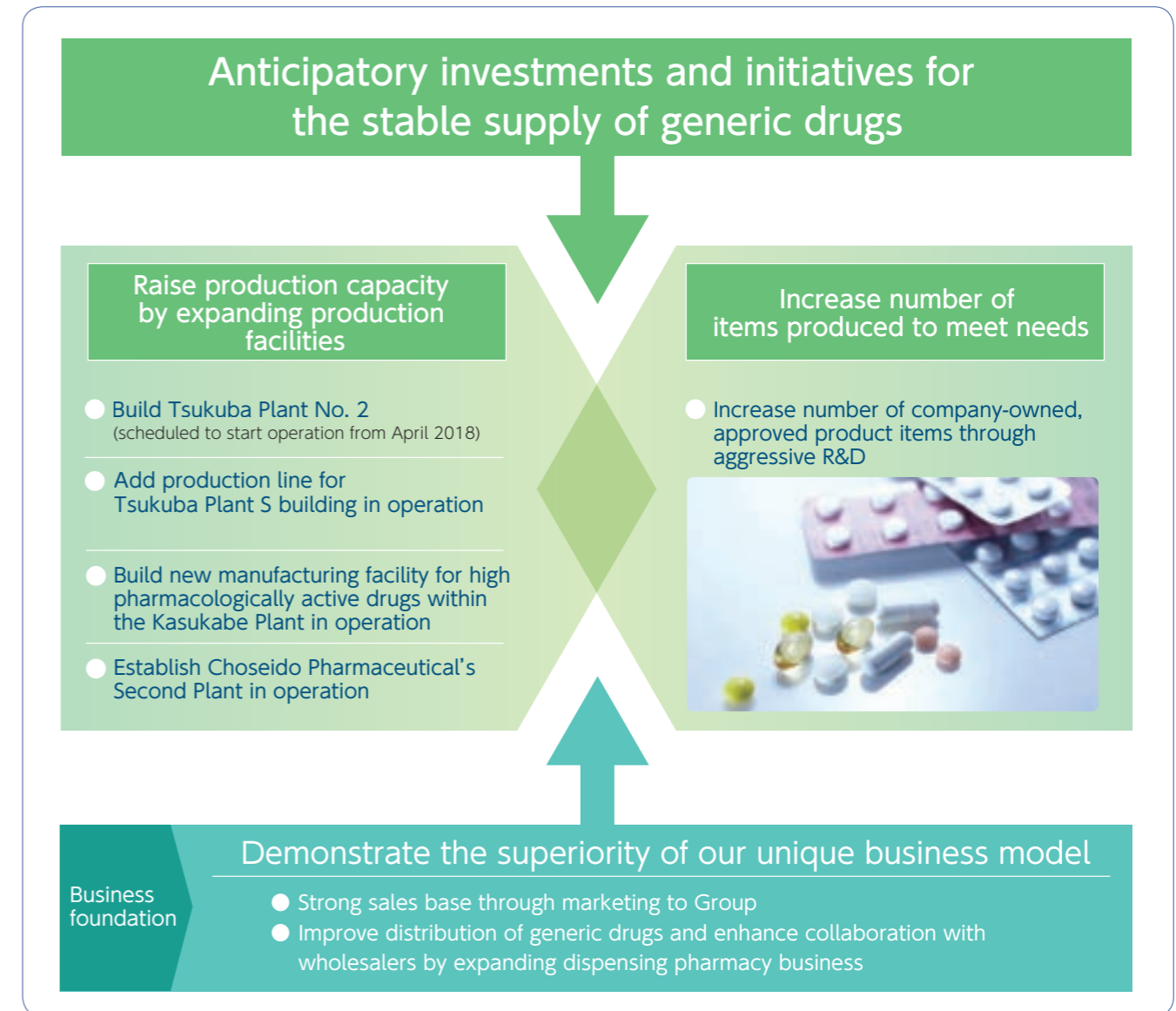
In the dispensing pharmacy business, we have focused on anticipatory investments to deal with the move to greater functionality and larger scale of dispensing pharmacies that is required in next-generation pharmacies, and on the education of high-quality pharmacists. Dispensing pharmacies are at the nexus of medical, nursing care, health care, and disease prevention, and they are the only entities that can perform a wide range of services. We will create new business value by combining highly skilled family pharmacists with information and communications technology (ICT).



### Group's Flexible Investment and Initiative Roll-out

### Restructuring of generic drug manufacturers

In the Pharmaceutical Manufacturing and Sales Business, we will invest capital in factories to ensure the stable supply of generic drugs, for which demand is expanding, and implement proactive R&D to increase the number of company-owned, approved high-margin products. We will expand internal sales, the basis for strong sales, by expanding the dispensing pharmacy business. In addition, expansion of external sales by leveraging our sales network through closer collaboration with wholesalers is planned.



**Toward a New Business Stage as a Comprehensive Healthcare Group**



Hiroshi Mitsuhashi, President & CEO

三津原 博

## With dispensing pharmacies as our platform, we seek growth as a comprehensive healthcare group that is unprecedented in Japan's medical community

Q Starting with the dispensing pharmacy industry, what kind of changes are you expecting in each industry as a result of the NHI price and medical service fee revisions in April 2018?

**The hurdle for the system of family pharmacists has risen, and pharmacies that cannot make the grade should expect to be culled and restructured.**

First, as one of the major trends in the dispensing pharmacy industry, I can cite the family pharmacists system that began from the time of the previous Japanese national health insurance (NHI) price and medical service fee revisions of April 2016. In next year's revisions to medical service fees, it is expected that the hurdle of the calculation requirement of guidance fees for family pharmacists will rise even higher with the problem of too many pharmacies, with about half of them being pharmacies with only one pharmacist. As a result, about 58,000 pharmacies will be culled and restructured and the number of pharmacies reduced, and out of that will come consolidation.

Discussions about evaluation reviews of hospital-front pharmacies are expected to move forward. Within those discussions, the concentration ratio of prescriptions from specific medical institutions will become problematic, but since the concentration ratio has been fully solved at Nihon Chouzai, it is not considered to be much of a

problem. Moreover, at university hospitals and other institutions, we are seeing moves to attract dispensing pharmacies into hospitals. In this respect, let me add that we have many pharmacists whose performance has been highly rated, and for that reason, Nihon Chouzai has been on the receiving end of many preferential negotiations.

With respect to at-home medical care, in light of rapidly rising needs and the trend of simultaneous revision to medical and nursing care service fees during the next revision, we want pharmacists to go proactively to the patients and personally dispense drugs.

As for promoting the use of generic drugs, we can continue to expect a further raising of the standard for calculating generic drug dispensing system incentives, along with policy guidance from the Japanese government. As the Group's average generic drug use rate exceeds 82%, even if the hurdle to calculating generic drug dispensing system incentives rises during the next revision, we are capable of fully responding to that.

Q Then, how do you expect the generic drug industry's business environment to change?

**We carefully monitor the unification of generic drug pricing and NHI drug price revisions yearly.**

In the generic drug industry, we expect the unification of the cost structure to be a major change in the next revision. We are seeing that the problem of drug price reductions will converge and settle at a certain level through the unification of the current three-tier cost structure of generic drugs. As a subsequent major change, we are looking ahead to the implementation of annual NHI drug price revisions.

Regarding annual NHI drug price revisions, while I cannot say that we are unconcerned that some brake could be applied to our business expansion plan, it is not considered that large a risk. In the years ahead, it is

highly probable that the patient will pay the difference in price between long-listed drugs and generic drugs. When that happens, generic drug usage will naturally increase by roughly 50% from the current level. Then we can sufficiently cover profits through volume.

Marked by an environment where only new drugs and generic drugs will appear sooner or later, we need to continue to support medical care in Japan, especially through the lowest price generic drugs. I am confident that the government will not lower the price of such essential drugs to a point where it will not be profitable for pharmaceutical firms to manufacture them.

## Message from the President

**Q** What do you think about changes in the business environment for the staffing and placement industry?

**This business field will expand further with the lifting of the ban on the dispatching of pharmacists to hospitals.**

We operate a temporary staffing company that specializes in medical care. If the liquidation of employers is inevitable due to restructuring of the dispensing pharmacy industry, as I previously explained, I think this is a massive business

opportunity. As for hospitals, if the dispatching of pharmacists to them is liberalized, then that segment will greatly expand.

**Q** What preparations and initiatives is the Nihon Chouzai Group making in regard to this series of drug price revisions and industry changes?

**Seeing the explosive changes in the business environment as an opportunity, I hope to achieve major growth so that we can play an important role in supporting Japan's medical care system.**

While Japan's health and medical care system must clearly undergo drastic changes, I can state firmly that the Nihon Chouzai Group's various preparations and the systems it has implemented, as well as its corporate strength, have put it in an excellent position. Dramatically changing times present opportunities for us. Turning this into a springboard to growth and expansion will serve as a foundation that firmly maintains and supports Japan's medical care system.

In addition to entering the hospital pharmacy business, such as in university hospital premises, we will develop a variety of pharmacies as mentaio pharmacies that provide something extra, such as a clinic center with a mentaio pharmacy, a large hospital with a mentaio, or a large hospital with a clinic center.

In light of expected changes in the business environment surrounding dispensing pharmacies and the accompanying changes to the system, we are now in an era where pharmacies that meet only minimum requirements under the Pharmaceuticals Affairs Act cannot survive. While the government is pointing out the direction, namely, to shrink the number of pharmacies by nearly 30,000, what I want to do is to maintain growth while changing existing pharmacies, without thinking only of market share and economies of scale and simply retreating into M&A. As for pharmacies acquired through

As a specific initiative to turn industry changes into opportunities for growth, we hope to develop various types of businesses and carry out pharmacy expansion in the dispensing pharmacy business under the keyword of "diversification." As business expansion, we are planning to move forward and prepare for prescription mail order and refill prescription operations. As pharmacy expansion,



M&A, we will support management and unify the core systems, but our policy is to have them retain their independence and manage them while maintaining their competitiveness.

Pharmacist education will become even more important as pharmacies expand and business diversifies. The time when the pharmacist could only dispense drugs has passed. I want pharmacists to visit doctors they don't know and describe to them the products of Nihon Generic Co., Ltd. to promote generic drug use, and perform

business activities for at-home medical care service. Or, I want them to introduce medical care facilities to patients and serviced homes for the elderly as facilities for patients transitioning to at-home medical care. We want to shift the pharmacists' role and the education required for that role to more interpersonal service skills.

For terminal care at home, we are thinking of actively offering opiates and other types of medical treatment to alleviate patient suffering.

### 1 Review of FY 2016

In April 2016, the pharmaceutical and dispensing pharmacy industries undertook prescription dispensing fee revisions. Along with drug price reductions, this was an extremely difficult situation for dispensing pharmacies. As a result, although consolidated net sales increased 1.9%, operating income declined 18.8% and profit attributable to owners of the parent decreased 26.7% compared to the previous fiscal year.

#### <Dispensing Pharmacy Business>

Nihon Chouzai opened 42 new pharmacies and closed 12 in fiscal 2016, for a total of 557 Nihon Chouzai Group pharmacies. Despite the effect of new store openings, including mergers and acquisitions, sales were down 0.8% year on year and operating income was down 10.7% year on year due to a lower-than-expected response to prescription demand.

Noteworthy in fiscal 2016 were our successful efforts to deal with family pharmacists and pharmacies.

The number of family pharmacists reached 1,085, the number of approvals obtained for family pharmacist guidance fees came to about 250,000 (cumulative result up to March 2017), and the calculated number of cases of family pharmacist guidance fees was roughly 850,000 (cumulative result up to March 2017), all steadily increasing.

#### <Pharmaceutical Manufacturing and Sales Business>

Due to the increasing use of generic drugs in medical institutions caused by revisions to medical service fees, net sales were up 13.0% year on year. Meanwhile, operating income declined 35.5% from the previous fiscal year due to the impact of low-price sales competition for long-listed drugs by original drug manufacturers.

#### <Medical Professional Staffing and Placement Business>

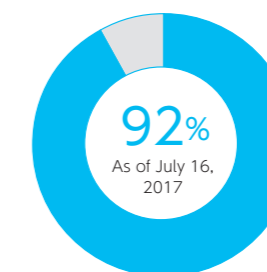
As demand for pharmacist staffing and placement services steadily grows, this business continued to increase job offers by adding new customers for staffing and placement

services and to maintain a large number of registered personnel. As a result, net sales climbed 17.5% compared to the previous fiscal year. Despite a slight decrease in profit margin due to sharply rising web advertising costs, operating income rose 7.0% year on year.

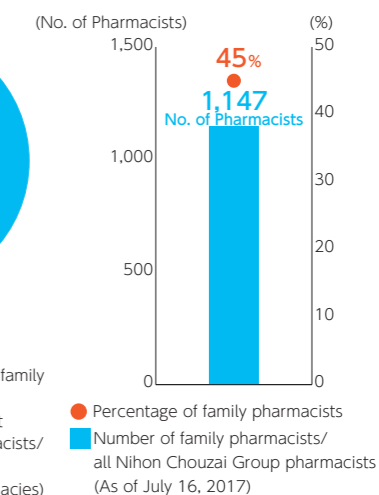
### 2 Outlook for Fiscal 2017

Although fiscal 2017 is a year in which dispensing fees will not be revised, the trend towards industry consolidation could accelerate further. Taking this as an opportunity to make a major and unprecedented change in the medical and pharmaceutical industries, the Nihon Chouzai Group reinforced efforts with family pharmacies and pharmacists, increased the efficiency of each business, and raised productivity. As a result, we are targeting consolidated net sales of 234,697 million yen (up 5.0% year on year), operating income of 10,105 million yen (up 18.6%), and profit attributable to owners of parent of 5,639 million yen (up 21.6%).

Percentage of Pharmacies with family Pharmacists



Number of family Pharmacists, Ratio of family Pharmacists



\* Percentage of pharmacies with family pharmacists:  
Number of pharmacies that meet facility standard of family pharmacists/all pharmacies (6 months after opening, excluding closed pharmacies)

● Percentage of family pharmacists  
■ Number of family pharmacists/all Nihon Chouzai Group pharmacists (As of July 16, 2017)



**Q What is your action plan for the generic drug business?**

**In anticipation of expanding generic drug use inside and outside hospitals, we will actively sell internal medicine and injection drugs to the hospital market.**

The Pharmaceutical Manufacturing and Sales Business currently has a product lineup of more than 600 items, with about 40% of them manufactured at our plants. We are working diligently to raise the ratio of manufacturing at our plants to 80%. In addition, Tsukuba Plant No. 2 is scheduled for completion at the end of this fiscal year, giving us a total production capacity of 16.2 billion tablets, which is 10.0 billion tablets more than the 6.2 billion that we currently produce. By simple conversion, at 20 yen per tablet, that comes to 320 billion yen, so our plan is to further expand sales.

In addition, we are proactively planning to make the products that we use at medical sites. If we produce 1,000 kinds of drugs, Japan's medical care will lack almost

nothing, so with that in mind, we will further increase the number of products we sell.

By unifying the cost structure of generic drugs, the patient may have to pay the difference between long-listed drugs and generic drugs. In that case, the price of generic drugs inside and outside the hospital will be the reference price. They will be used jointly at a market share ratio of 70% generic drugs and 30% new drugs, and in the very early stage, long-listed drugs, without limit, should decrease to a level near zero. The use of generic medicine will be enhanced regardless of whether it's used inside or outside of hospitals, and we will proactively sell injection drugs and internal medicine to the hospital market.

**Q What are your action plans for the Medical Professional Staffing and Placement Business and the Information Provision and Consulting Business?**

**We are planning to enter new areas in both businesses.**

In the Medical Professional Staffing and Placement Business, which continues to perform well, we will take a more aggressive approach to business expansion, including pharmacy network expansion, while monitoring trends in market expansion such as regulation and liberalization of the business of introducing doctors and dispatching pharmacists to hospitals. If there are mergers and acquisitions of dispensing pharmacies or changes in business conditions, demand for pharmacists will also change. We want to strengthen our supply capacity so that we can respond to market changes and strengthen our position as the number-one company in the pharmacist staffing and placement industry.

The Information Provision and Consulting Business will be able to manage corporate health insurance data

and national health insurance data from the autumn of this year. Therefore, we plan to offer a new consulting service that leverages big data so that it contributes to municipalities' improvement of their management of national health insurance, mutual aid associations, and health insurance. With that in mind, we are sampling data from certain municipalities and have also started verification experiments with the aim of full-scale operation from around autumn. Moving forward, we would like to merge the IT division of Nihon Chouzai Co., Ltd. with Japan Medical Research Institute Co., Ltd., merge the IT and consulting businesses, and further expand the research institute business.

**Q What is your vision for the Nihon Chouzai Group, assuming that changes in the business environment progress?**

**With dispensing pharmacies as our platform, we seek to grow even more as a comprehensive healthcare group.**

We are comprehensively addressing the series of measures that I have explained so far and have set our sights on growth as a comprehensive healthcare group that is unprecedented in Japan's medical community. To consolidate that step, the Nihon Chouzai Group has launched the Generic Town Concept .

Under the Generic Town Concept, the Nihon Chouzai Group has secured a site of roughly 330,000 square meters within the Tsukuba Industrial Park in Tsukuba City, Ibaraki Prefecture. Within the park, Plant No. 1 has a total floor area of 26,400 square meters and has operated since 2010, while Plant No. 2 has a total floor area of 30,700 square meters and will be completed at the end of this fiscal year. In addition, a training center (total floor area of about 27,100 square meters) adjacent to Plant No. 2 is already active. We are planning to establish new No. 4 and No. 5 facilities, with the remainder of the site to be research facilities.

We began collaborating with the Dai-ichi Life Group from February 2017 in a new business field that will contribute to achieving a true separation of the roles of drug prescribing and dispensing services.

In 2009, we began selling cancer insurance as an agent for the Japan branch of the American Family Life Assurance Company of Columbus (AFLAC) and promoting trials for private medical insurance. We have actively searched for sustainable solutions for Japan's medical care so that it will not end up in bankruptcy. One of the things I found as answers to a solution to the issue was

the start of collaboration with the Dai-ichi Life Group. If we can steadily progress in collaboration with the Dai-ichi Life Group, and develop public and private medical insurance that can be seamlessly rolled out in the medical field, it could have a major positive impact on Japan's social security.

Some people may think that the medical insurance field is not very large as a market for Japan's social security. In fact, it is a massively huge market. If we include private medical insurance, it is a market of several tens of trillions of yen in scale. Moreover, if the dispensing pharmacy market moves toward true separation of the roles of drug prescribing and dispensing services, then the market would be nearly 10 trillion yen in size. As for the market for generic drugs, if the generic drug use rate increases to nearly 100%, this will also be on the scale of several trillion yen, and as job mobility for medical professionals further progresses, I expect the scale of that market to reach several hundreds of billions of yen in size.

With these related markets, centered on social security, the Nihon Chouzai Group, while working to organically promote the mutual collaboration of each business, will continue to single-mindedly push forward to achieve a true separation of the roles of drug prescribing and dispensing services in Japan. Thank you for your continued support of the Nihon Chouzai Group.



# The Year in Brief

## Nihon Chouzai Group

### Dispensing Pharmacy Business

March 2016

Collaborated with university hospital on training program. Introduced university hospital practical training program

June 2016

Held 1st Internal Academic Congress  
About 400 people from across Japan attended and a total of 10 oral presentations were given by pharmacists who aim to contribute to the community.



July 2016

Japan Medical Research Institute Held Symposium 2016  
Introduced newly developed RI-CORE



August 2016

Established at-home medical division to meet growing at-home medical needs promptly

October 2016

Started broadcasting TV commercial nationwide



October 2016

Exhibited at Digital Health Days 2016  
Introduced latest ICT strategy



October 2016

Acquired equity interest in Mizuno Pharmacies Limited Liability Company (made into subsidiary), which operates Mizuno Pharmacies, known for being Japan's first health insurance-dispensing pharmacies

December 2016

Selected as a component stock of the JPX-Nikkei Mid and Small Cap Index



December 2016

Established Health Check Station to strengthen health support capabilities of the community. Contributed to the health of local residents



December 2016

Started collaborative research with the Graduate School of Medicine, University of Tokyo on diabetes patients and patients at risk of diabetes

January 2017

First health support pharmacy training implementation organization to be certified as a dispensing pharmacy company

January 2017

Participated in the "1st Insurance Pharmacy-Pharmacist Cancer Drug Therapy Training" conducted by the National Cancer Center Hospital East with the goal of developing pharmacists who respond to the needs presented by evolving cancer treatment

February 2017

Formed business partnership with The Dai-ichi Life Insurance Company, Limited and The Neo First Life Insurance Company, Limited



2016

2017

April ▶ May ▶ June ▶ July ▶ August ▶ September ▶ October ▶ November ▶ December ▶ January ▶ February ▶ March ▶

### Pharmaceutical Manufacturing and Sales Business

June 2016

Released 24 new drugs with 11 different active ingredients  
Number of products offered: 599



June 2016

Tsukuba Plant No. 2  
Conducted groundbreaking ceremony and started construction



October 2016

Established the Sapporo Logistics Center, the fourth such location after the East Japan, West Japan, and Kanto Logistics Centers

November 2016

Conducted ridgepole raising ceremony (all supporting pillars that form the building's structural material were installed) at Tsukuba Plant No. 2  
Phase I construction completed in April 2018



December 2016

Released 12 new products with 7 different active ingredients  
Number of new products offered: 611



February 2017

Acquired manufacturing and sales approval for 16 products with 7 different active ingredients to be released in June 2017

### Medical Professional Staffing and Placement Business

March 2016

Designated an Excellent Temporary Work Agency by Japan's Ministry of Health, Labour and Welfare



April 2016

Began offering free career consulting to registrants



August 2016

Started business collaboration with Nihon M&A Center Inc. in support of the independent startup of pharmacists

October 2016

Expanded social insurance coverage for part-time workers by relaxing application requirements for social insurance  
More temporary registrants applied for social insurance

January 2017

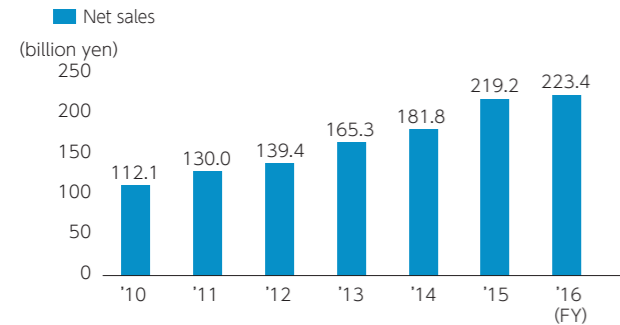
Responded to unit applications for Certified Pharmacist certification required by family pharmacists  
Began sales of JP Learning II, a pharmaceutical learning application for pharmacists



# Financial and Non-financial Highlights

## Net sales

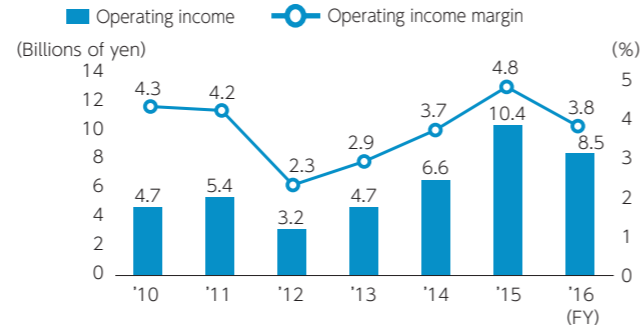
**223.4** billion yen



Despite negative factors such as a decrease in sales of hepatitis C drugs, sales increased 1.9% year on year due to higher sales in the Pharmaceutical Manufacturing and Sales Business.

## Operating income / Operating income margin

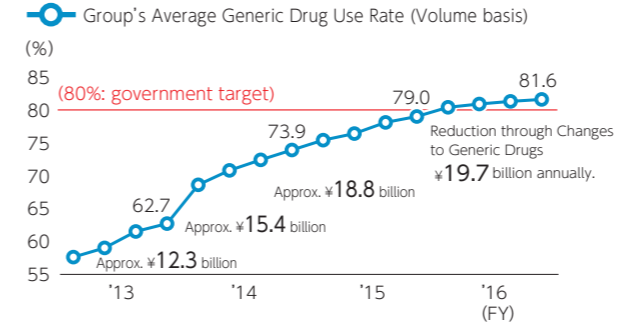
**8.5** billion yen **3.8** %



Operating income declined 18.8% year on year due to reasons including lower-than-expected growth in prescriptions on revisions to medical service fees. However, a steady increase in profits was maintained compared to medical service fee revision years.

## Group's Average Generic Drug Use Rate (Volume basis)

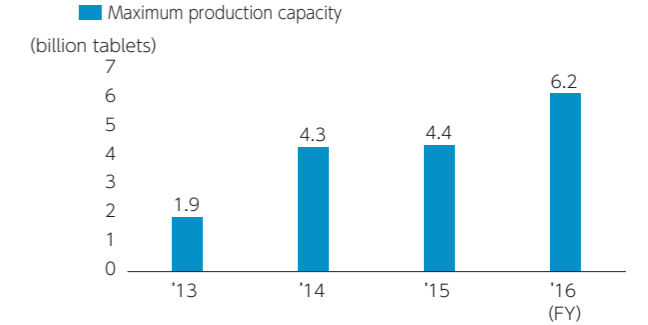
**81.6** %



Generic drugs on a volume basis have already exceeded the government target of 80%. Medical expenses were reduced by about ¥19.7 billion annually.

## Generic Drug Maximum Production Capacity

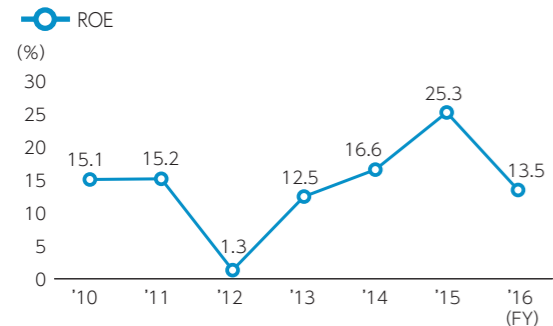
**6.2** billion tablets



Aggressively carry out capital expenditure through market expansion. Raise maximum production capacity to 6.2 billion tablets.

## ROE

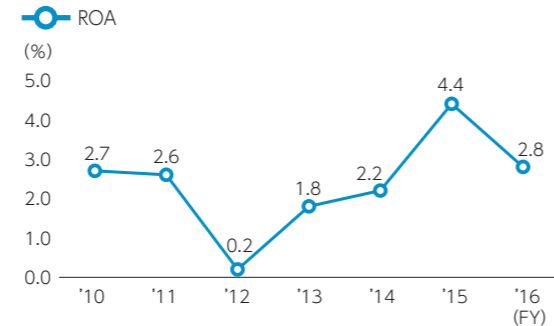
**13.5** %



Profit declined year on year because of revisions to medical service fees, and ROE dropped to 13.5%

## ROA

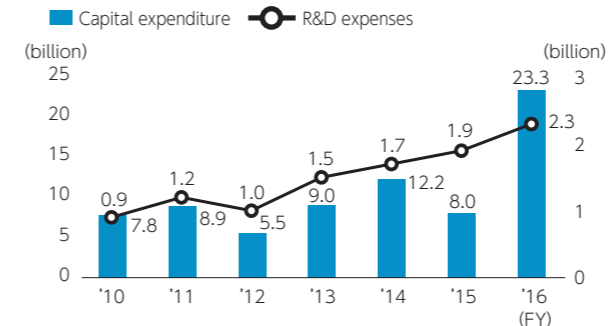
**2.8** %



Profit declined year on year because of revisions to medical service fees, and ROA dropped to 2.8%

## Capital expenditure / R&D expenses

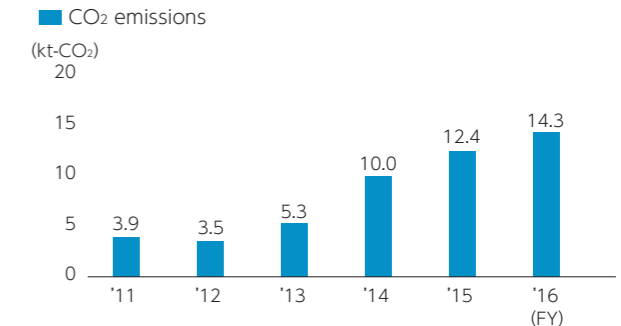
Annual capital expenditure **¥23.3** billion



Upgraded and expanded machinery and equipment to enhance the existing manufacturing facilities at three plants. Proactively conducted R&D to expand the number of products sold in this business.

## CO<sub>2</sub> emissions

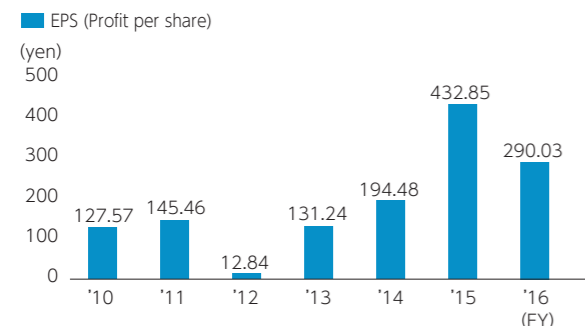
**14.3** kt-CO<sub>2</sub>



Maintained latest plant facilities that implement energy-saving measures and curbed the increase of CO<sub>2</sub> emissions. The recent increase was due to expanded capacity of manufacturing plant equipment accompanying higher sales in the generic drug manufacturing and sales business.

## EPS

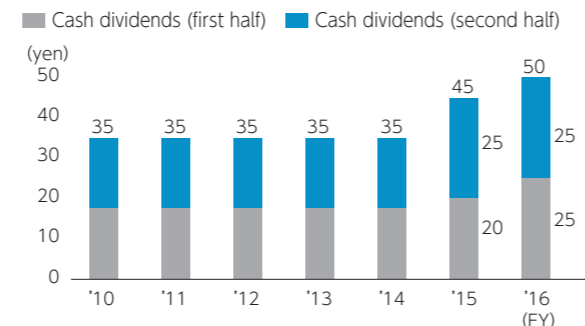
**290.03** yen



Decreased year on year because it is a medical fee revision year, but steadily increased compared to other medical fee revision years

## Cash dividends

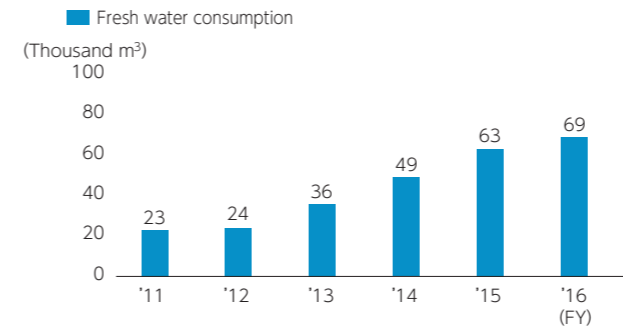
Annual dividend per share **50** yen (after split)



Emphasizing continuity and stability, the annual dividend was increased to 50 yen per share. The Company implemented a stock split in October 2015. Figures prior to fiscal 2015 are shown after price adjustments were made for the stock split.

## Fresh water consumption

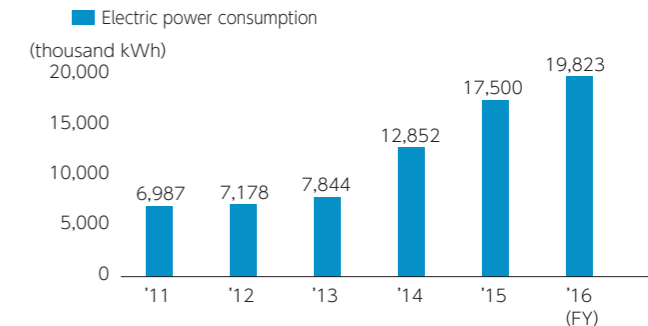
**69,000** m<sup>3</sup>



The main factor behind the increase in fresh water consumption was the increased capacity of manufacturing equipment accompanying the sales increase.

## Electric power consumption

**19,823** thousand kWh



The main factor behind the increase in electric power consumption was the increased capacity of manufacturing equipment accompanying the sales increase.

# Financial and Non-financial Highlights

## Formulated an action plan\* to create an environment where women can maximize their potential

\* Formulated plan in March 2016. The current period for target achievement extends to March 31, 2019.

**Target 1** At least double the number of women in the position of general manager over that of fiscal 2015.

**Target 2** At least double the number of women in area manager and administrative department manager positions over that of fiscal 2015.

**Initiative 1** Conduct awareness raising and training for subordinate development focusing on managers

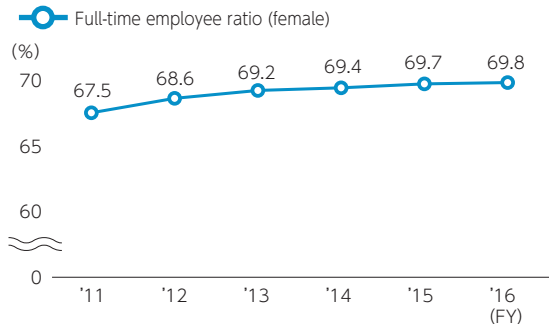
**Initiative 2** Implement measures to support career development of female employees. Create career plan guidance and interview system for returnees after childcare leave

**Initiative 3** To promote taking of paid holidays, consider introducing a scheduled allowance system and time unit allowance system

**Initiative 4** Proactively assign women to departments where they were previously underrepresented and expand their sphere of work

### Ratio of full-time female employees

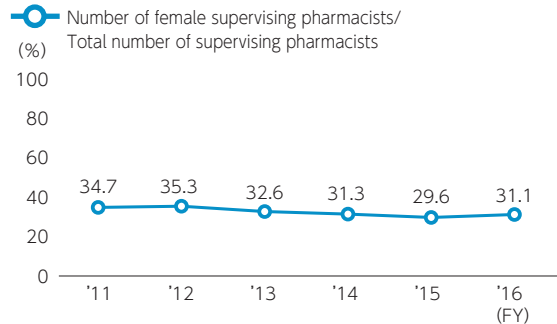
69.8%



We are continuing efforts to improve the workplace environment and expand opportunities for women.

### Female ratio of supervising pharmacists in pharmacies

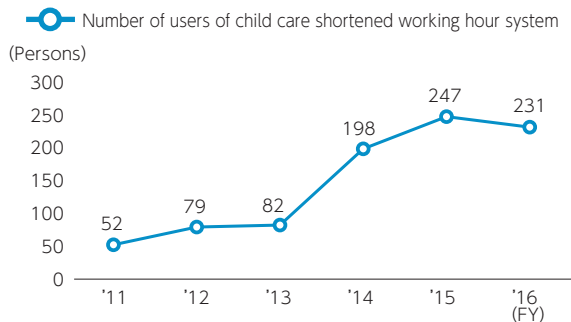
31.1%



We have created educational opportunities and enhanced training for female supervising pharmacists. At the same time, we are working to improve the environment after employment.

### Number of users of child care shortened working hour system

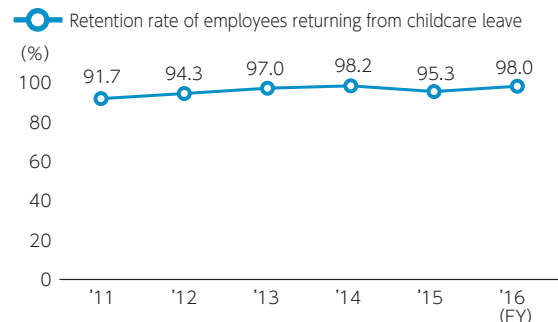
231



We have enhanced the shortened working-hour system for child care to alleviate the burden on working women. We have established an environment where women can raise children while working.

### Retention rate of employees returning from childcare leave

98.0%



Start in-house newsletter to help returnees smoothly readjust, improve the workplace environment and follow up during childcare leave with medical information that utilizes new drug information and provides drug administration guidance to pharmacists.