



# NIHON CHOUZAI

## Corporate Report 2020





## Achieving True Separation of Drug Prescribing and Dispensing Services

The separation of drug prescribing and dispensing services sought by Nihon Chouzai is not merely a separation wherein drugs prescribed in the hospital and dispensed in the pharmacy outside of the hospital are given to the patient. Nihon Chouzai pursues the goal of “true separation of drug prescribing and dispensing services,” which aims for doctors and pharmacists performing their functional roles from an independent position to ensure medical safety, provide high quality medical services for patients, and work to control the increase in medical expenses, including the reduction of financial burden on patients.



### The Nihon Chouzai Group

Since Nihon Chouzai was founded in 1980, we have pursued the ideal functions and roles of a dispensing pharmacy that supports medical care in Japan, and has actively contributed to the development of society and medical care, as a pioneer in the dispensing pharmacy industry. With the Dispensing Pharmacy Business as our core business, we create new businesses by capturing the contemporary needs of society and boldly taking on challenges in the medical peripheral businesses. Currently, we are engaged in four businesses. In addition to the Dispensing Pharmacy Business, there are Pharmaceutical Manufacturing and Sales Business, Medical Professional Staffing and Placement Business, and Information Provision and Consulting Business.

We will continue to boldly venture on peripheral businesses that contribute to “achieving true separation of drug prescribing and dispensing services,” and build a multilayered business structure by creating new businesses, while also deepening the business model in which each of our businesses demonstrate synergies between each other.

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Determining Degree of Importance

Corporate Report 2020 presents topics with a high degree of importance to the Nihon Chouzai Group and to society. This document is published on an annual basis as reference material for readers to gain an understanding of the Company's business status and its corporate policies. This year, Nihon Chouzai discusses two important themes on which the Company is focused: further growth as a comprehensive healthcare company and growth achieved by seeing the significant changes involved in industry reorganization as a positive opportunity.

Editorial Policy

In addition to the management policy and business strategy of the Nihon Chouzai Group, this report covers both financial and nonfinancial information in detail so that all stakeholders, and first and foremost, shareholders and investors, will have an understanding of the Company's medium- to long-term creation of corporate value. The period covered in this report is fiscal 2019 (April 1, 2019 to March 31, 2020). However, as necessary, the contents may also cover some aspects of fiscal 2020.

Notes Concerning Forward-Looking Statements

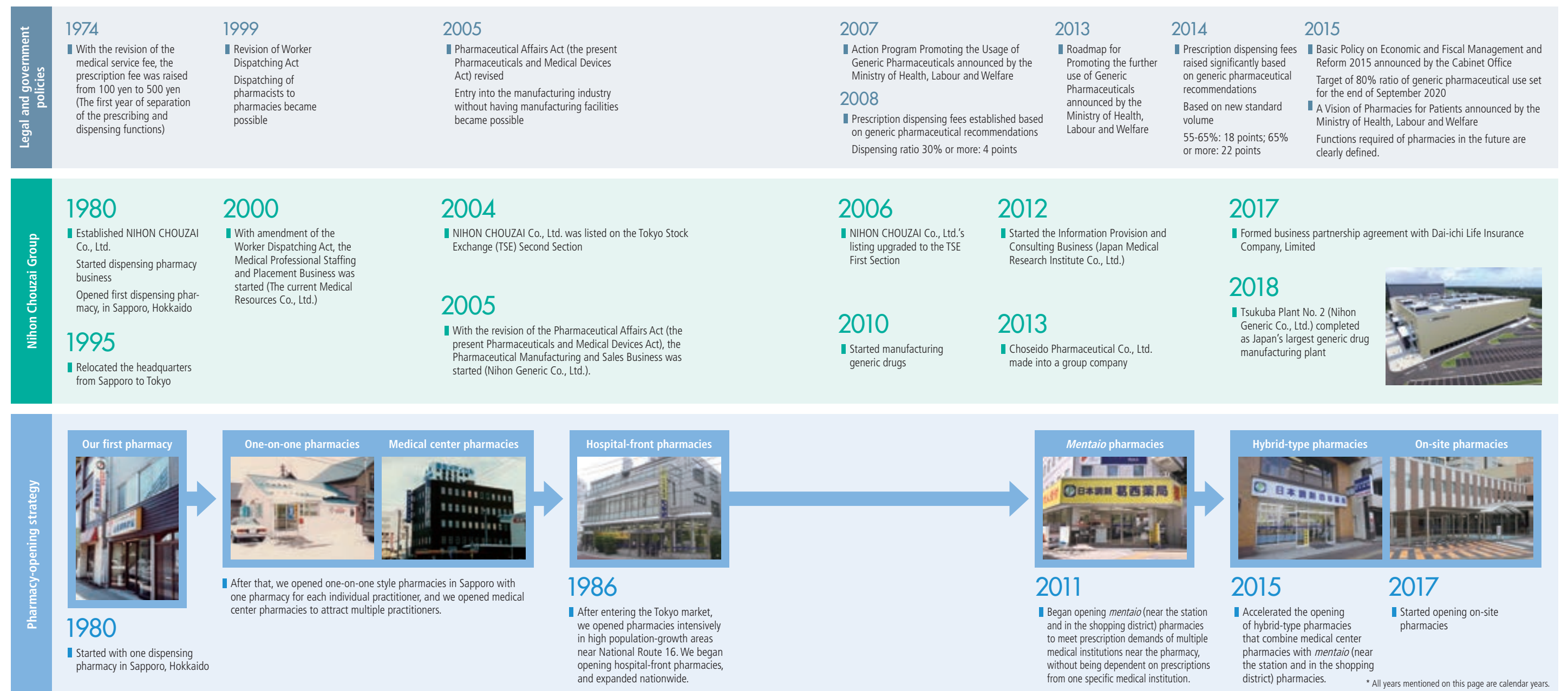
The Corporate Report 2020 includes forward-looking statements with regard to the Nihon Chouzai Group's plans, strategies, business performance and other information. These statements are based on judgements made by the Company's management, and these are gained from currently available information. Actual business performance and other information may be impacted by various risks and uncertainties and may differ significantly from these projections. Your understanding is therefore requested. Factors that may have an impact on business performance and future outlook include, but are not limited to, the economic situation in which the Company's business domains operate, the reform status of relevant laws and regulations, conditions with regard to revisions of medical service fees, and the progress of product development.

About the Cover

Since its founding, Nihon Chouzai has endeavored to contribute to the reform of Japan's social security system. With the advent of a “super-aged” society, now is a time of major changes with various measures to curb the increase in social security expenses and address other issues that are emerging. Seeing these changes as opportunities to create synergy between our Dispensing Pharmacy Business and other businesses, the cover of Corporate Report 2020 expresses the image of immense growth as a comprehensive healthcare company with a focus on the people who work in each company and each department.

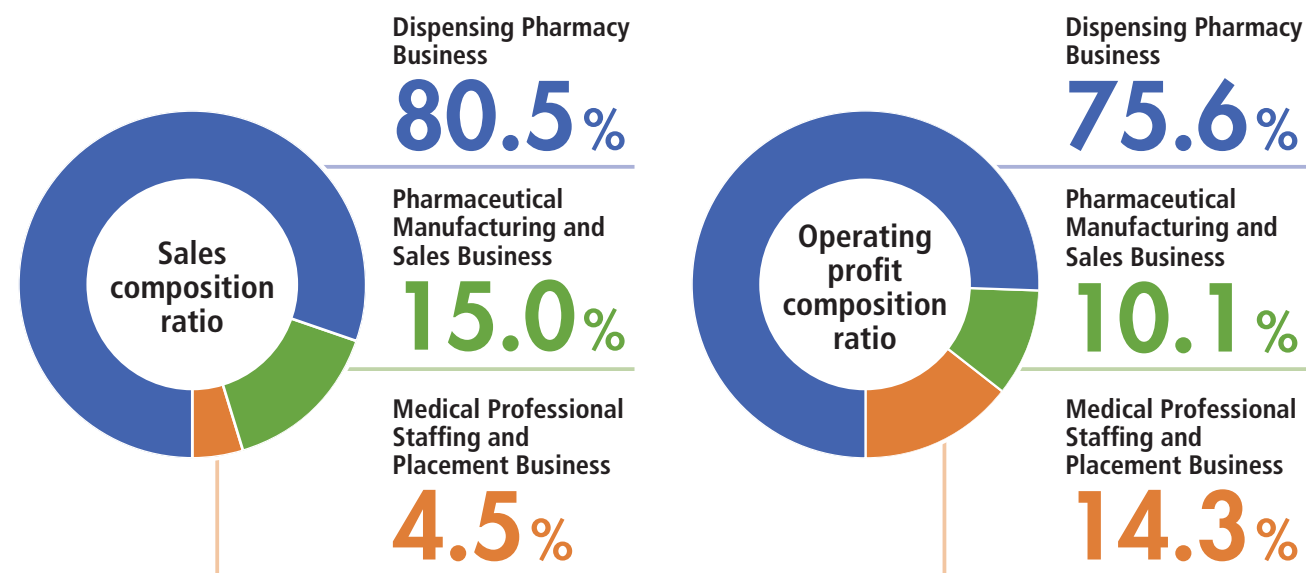


# Growth Trajectory





# Business Portfolio



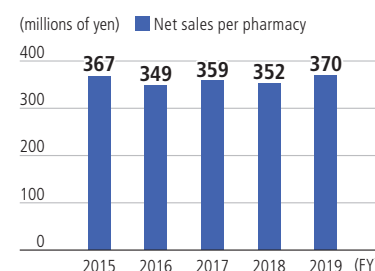
\* Percentages are rounded to the nearest unit.



Dispensing Pharmacy Business

A leading dispensing pharmacy company

Net sales per pharmacy  
**No.1**



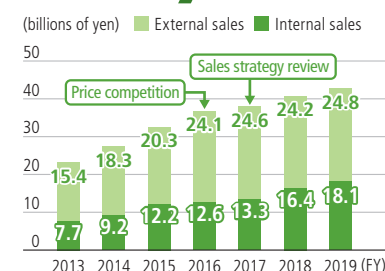
In the Dispensing Pharmacy Business, we have focused on opening Nihon Chouzai pharmacies, while flexibly conducting M&A according to strict standards. This has allowed us to open pharmacies that are not easily affected by revisions. In addition, by maintaining annual net sales per pharmacy at around 350 million yen, we are scaling up and adding functions to our pharmacies, in order to build a structure and constitution that can survive the industry reorganization.



Pharmaceutical Manufacturing and Sales Business

Manufacturer of a full line of generic drugs

Unrivaled business model  
**Only one**



In the Pharmaceutical Manufacturing and Sales Business, we are deepening our unrivaled business model, in which the expansion of the Dispensing Pharmacy Business leads to the expansion of this business. In addition, we have recently stepped up efforts to expand external sales.



Medical Professional Staffing and Placement Business

Human resource services company that specializes in the medical field

Dispatching of pharmacists  
**No.1**

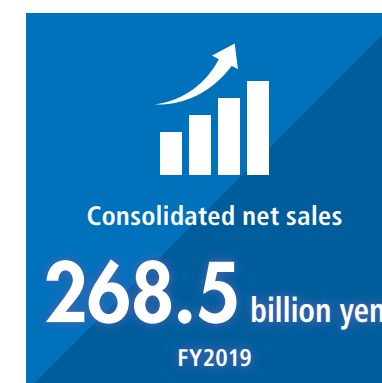
High growth potential

High profitability

High reliability

In the Medical Professional Staffing and Placement Business, we are achieving value-added staffing and placement not offered by other companies by taking advantage of the high-quality education system created by the Dispensing Pharmacy Business. We are also working to expand the business by increasing the number of service lines beyond pharmacists.

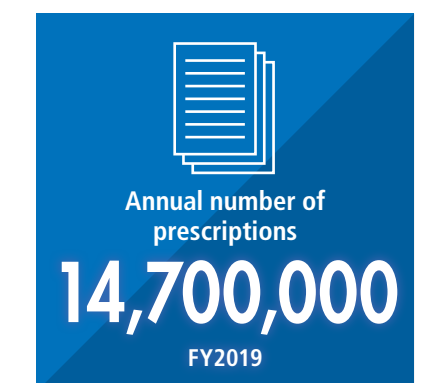
## A numerical view of the Nihon Chouzai Group



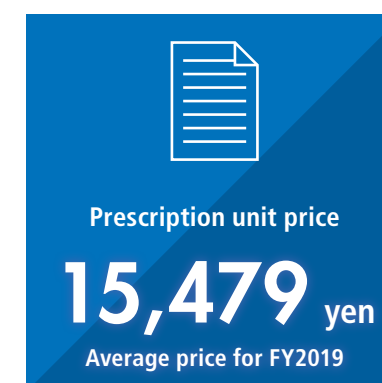
14 consecutive terms of growth since being listed on the stock market



A group of skilled professionals centered on pharmacists



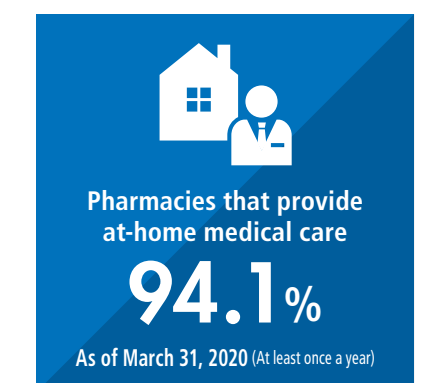
Supports a wide range of prescriptions from advanced medical care to at-home medical care



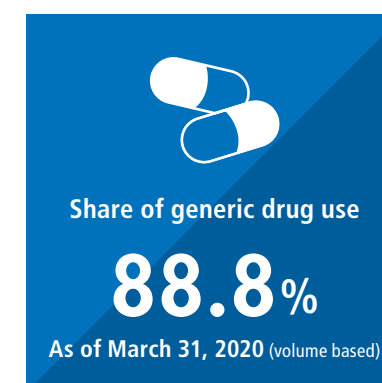
Track record of handling highly specialized pharmaceuticals



Supporting advanced medical care and accumulating know-how



Proactive initiatives toward at-home medical care



No. 1 in promoting use of generic drugs



Handling a number of products comparable to major generic manufacturers



Developing a staffing and placement business specialized in medical professionals

### Market environment

Dispensing pharmacy market size  
**Approx. 7.4** trillion yen  
FY2018

Generic drug market size  
**Approx. 1** trillion yen  
FY2017

Number of pharmacists nationwide  
**Approx. 310,000** pharmacists  
FY2018

Source: Fuji Keizai Co., Ltd.  
Survey results of the domestic generic drug market

The business of the Nihon Chouzai Group helps solve social issues facing Japan, and our business is directly linked to the creation of social value. We will help to solve social issues by making the most of our management resources and raising our corporate value.



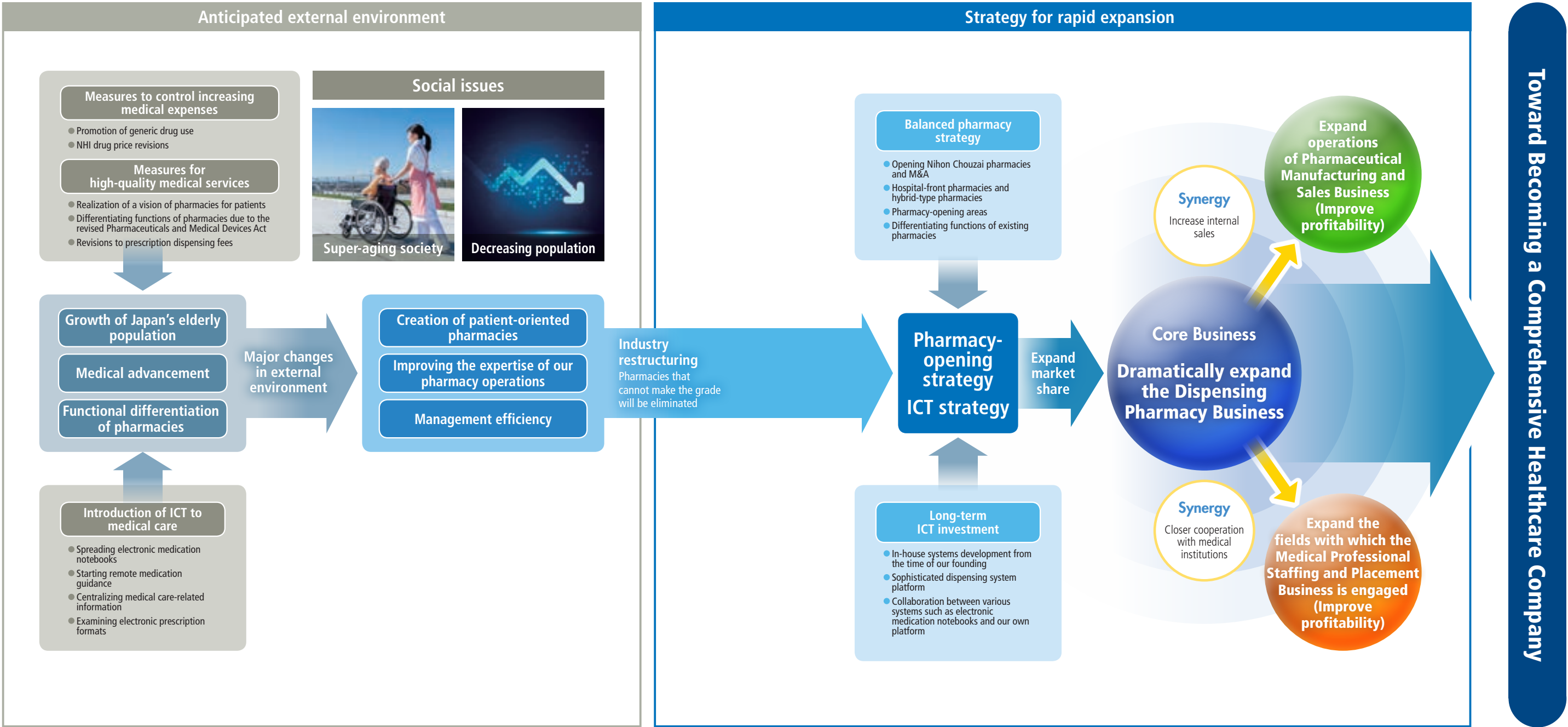


# Strategy for Achieving Growth

## Long-Term Vision — On the Road to 2030

The Nihon Chouzai Group’s Long-Term Vision (announced in April 2018) shows the Group’s vision for the future after having successfully emerged from a reorganization in the industry by using the major changes in the external environment in the medical and pharmaceutical industries as opportunities. We will achieve a dramatic expansion of our Dispensing Pharmacy Business through pharmacy-opening strategies and ICT strategies, then use this as a starting point to expand our Pharmaceutical Manufacturing and Sales Business and Medical Professional Staffing and Placement Business, thereby achieving sustainable growth as a comprehensive healthcare company.

### View of corporate growth



### Group Synergy

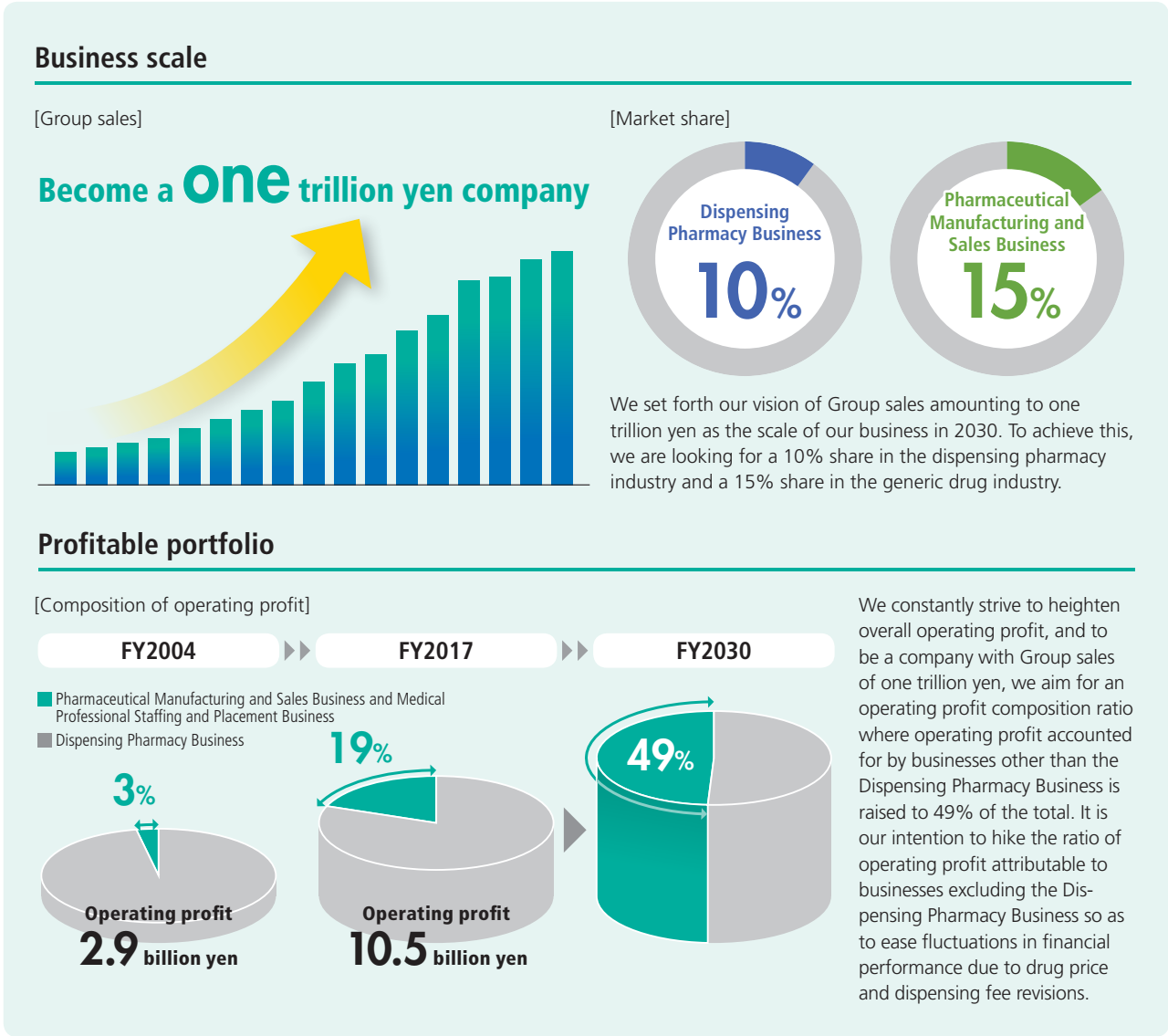
#### Dispensing Pharmacy Business ↔ Pharmaceutical Manufacturing and Sales Business

The expansion of the operations of the Dispensing Pharmacy Business is linked to the expansion of the Pharmaceutical Manufacturing and Sales Business and this has become an unrivaled business model.

#### Dispensing Pharmacy Business ↔ Medical Professional Staffing and Placement Business

By developing the Dispensing Pharmacy Business, we are able to quickly grasp the human resource needs of medical professionals. This business model allows us to quickly expand into new fields.

An image of growth leading to 2030





# Message from the President



*Yosuke Mitsuura*

Yosuke Mitsuura  
President & CEO

**We will work more actively to dig deeper into medical care, and provide a new standard for Japanese medical care in the coming era. We will “Be Active” in all our endeavors!**

**Q** Looking back on your first year since assuming position as top executive of the Nihon Chouzai Group, could you tell us what you have emphasized in your efforts?

**I have worked to share my policy, “Be Active!” at every opportunity for dialogue and discussion with employees.**

In the first three months since I took office as President, I decided to proceed with initiatives that would have relatively immediate effects. One of these initiatives was drastic cost reduction, which I always thought could be done at a level that would not hinder our current business operations. We had already been running a cost reduction project since April 2019, but there were some matters that should be determined by the President, and others that had a major impact on our financial results; therefore, I gave priority to making decisions on those matters with speed. As a result, we posted a gain on sales of non-current assets of approximately 6.7 billion yen under extraordinary income mainly due to the sale of various assets in the fiscal year under review (fiscal 2019).

Taking into consideration the fact that this is my first year since assuming my current position as top executive of the Nihon Chouzai Group, another matter I have focused on is communication with our employees and part-time staff, who number approximately 6,000 nationwide.

Looking at the environment surrounding the Group, in a lot of ways, including the recent COVID-19 crisis, it is safe to say that social conditions and medical needs are going to change even further and in more drastic ways. Yet, I feel that the government and political administration are not keeping pace with these changes. As such, for the past year I have taken every opportunity for dialogue and discussion with employees and have shared the company value “Be Active!” with them, as my major policy going forward.

So long as we are involved in the medical and pharmaceutical business, we will always need to respond to systemic changes. However, if the perspective and activities of management are focused only on those responses, we will not be able to meet the medical needs that society requires in the first place. Moving forward, each and every employee and staff member of the Nihon Chouzai Group must “Be Active!” We will commit ourselves to our stakeholders, devising and implementing both big solutions and small feats of ingenuity alike, so that we can be an organization always needed by the world.

**Q** What do you think about the future direction of the business under the major policy, “Be Active!”?

**We will dig deeper into medical care, step further into the medical worksite, and work more actively to solve medical issues.**

The Nihon Chouzai Group aims to grow as a comprehensive healthcare company centered on the Dispensing Pharmacy Business. As shown on page 6 of this report in the section “A numerical view of the Nihon Chouzai Group,” although we are steadily growing as a comprehensive healthcare company, I think we are only halfway there in terms of building essential abilities.

Based on this idea, we will continue to dig deeper into medical care, so that Nihon Chouzai can become a brand widely needed and selected by stakeholders, which I committed to earlier. In other words, it means we will step further into the medical worksite and work more actively to solve medical issues, thereby establishing our future market position.



One related initiative is training for pharmacists who can offer cancer treatment. Outpatient treatment is quickly becoming the norm for cancer patients, and there is a need for pharmacy-based pharmacists with advanced skills and expertise so that pharmaceutical treatment can be continued safely outside of a hospital. One indicator of a pharmacist with that expertise is the “Accredited Pharmacist of Ambulatory Cancer Chemotherapy” established by the Japanese Society of Pharmaceutical Oncology (JASPO). Nihon Chouzai promotes acquisition of the “Accredited Pharmacist of Ambulatory Cancer Chemotherapy” by JASPO, and as of April 30, 2020, a total of 21 of our pharmacists have acquired this certification. This is the highest number in the dispensing pharmacy industry, and approximately one in

four certified pharmacy-based pharmacists belong to the Nihon Chouzai Group.

Currently, the Japanese government’s medical policy emphasizes communication between pharmacists and doctors or other professionals in the medical worksite, and the government has made policy evaluation accordingly. Creating a corporate culture in which pharmacists devote themselves to ongoing studies to improve their expertise will aid us in building a brand that is selected by stakeholders. Nihon Chouzai will continue to contribute to regional medical care by creating an environment in which pharmacists with advanced expertise can fully demonstrate their abilities.

Q Since you assumed office, you have actively proclaimed that “we will make our pharmacies selected because of the Nihon Chouzai Group brand.” Could you tell us the background behind this idea?

**In the midst of fierce competition with drug stores, raising awareness of the Nihon Chouzai brand is a major issue for us.**

One environmental change to keep in mind while the Group continues to grow as a comprehensive healthcare company is a fierce competition with drug stores that also have dispensing pharmacy functions. Except

in serious cases, it is true that many patients and customers basically choose a pharmacy without strong preference, and we live in an era where the value of each pharmacy’s existence is in question. In such an

environment, we have received a certain degree of praise from doctors and other medical professionals, but I am aware that the Nihon Chouzai brand has not yet really established itself in the minds of patients and customers.

I recognize this as a major issue for us, and we have expanded the number of Nihon Chouzai stores not dependent on the location of a hospital, particularly in the metropolitan area, so that we can be closer to patients and general consumers. In July

2019, we renewed the Nihon Chouzai Online Store for healthcare products, and both access numbers and sales on the site are growing. I believe that we cannot survive and will have no value if we do not build our brand as a dispensing pharmacy that digs deeper into medical care, and work for at least ten years to raise awareness of the brand. Going forward, we will continue to take measures to connect deeper with our patients and customers.

Q The Nihon Chouzai Group has always been an industry leader in the pursuit of its ICT strategy. How do you analyze the success factors of this ICT strategy?

**Our electronic medication notebook, which was developed in-house, has had a great effect as an important terminal.**

Since April 2020, guidance on the use of drugs by telephone and information and communication devices has been temporarily permitted as a measure to prevent the spread of COVID-19. From September 2020, target areas and patients will be expanded, and online guidance on the use of drugs will begin.

Our electronic medication notebook, Okusuri Techo Plus, is an important terminal for widely providing high-quality medical service to patients through a series of remote guidance on the use of drugs. We are the only company in the dispensing pharmacy

industry that has developed an electronic medication notebook in-house, which allows us to make updates flexibly, leading to expansion of our daily contact with patients.

Five years have passed since the release of Okusuri Techo Plus, with over 500,000 registered members. Looking ahead, we will strive to further promote our ICT strategy by leveraging not only our technological base but our tremendous, competition-beating customer base of over 500,000 members.

Q Could you tell us your thoughts about how you will incorporate contributions to achieving the SDGs into future strategies?

**I think that digging deeper into our core business and realizing sustainable growth will contribute to achieving the SDGs.**

The third goal of the 17 SDGs is “3. Good health and well-being: Ensure healthy lives and promote well-being for all at all ages.” I believe that promotion of our core business and realization of sustainable growth will contribute to the achievement of the SDGs.

I would like to reiterate to all of our stakeholders that, we do not either simply alternate between delight and despair over quarterly profits and stock price trends as a publicly listed company and neglect long-term investment necessary for medical care. To put it in my own words, medical care is not the kind of job that can make a profit quickly on a quarterly basis. Furthermore, as you can see from the recent COVID-19 crisis, even when various societal activities

such as production, consumption, and education all come to a stop, medical care is a critical activity that can never stop regardless of the circumstances to support society. Therefore, in response to requests from the Japanese government, we have not closed any pharmacies during the COVID-19 crisis.

As such, we believe that deeply pursuing the very core of medical care is the most effective contribution to the SDGs. Furthermore, we think that digging deeper into medical care and steadily making investments from a long-term perspective in periods of five to ten years will lead us to meeting stakeholder expectations by returning value and profits in various forms.



**Q** I would like to ask about your long-term vision for 2030. How do you plan to raise the top line of growth, in order to become a company with Group sales of one trillion yen?

**We aim to achieve 2030 Group sales of one trillion yen, without ignoring any possibilities such as new business development.**

As shown in the section, “Strategy for Achieving Growth,” on pages 9 to 11 of this Corporate Report, the Group has a long-term vision for 2030. In this initiative, our Dispensing Pharmacy Business and Pharmaceutical Manufacturing and Sales Business will act as the main drivers for accumulating net sales, aimed at reaching Group sales of one trillion yen in 2030, which is about four times our consolidated net sales of 268.5 billion yen in the fiscal year under review.

In the Dispensing Pharmacy Business, our market share is currently about 3% of a 7.4 trillion yen market. We believe that we will be able to cover more than half of our one trillion yen goal in the Dispensing Pharmacy Business by expanding our businesses in the future through M&A and development of new business formats. In terms of M&A, we believe that there will gradually be more rehabilitation projects,

backed by Nihon Chouzai’s financial strength, rehabilitation and store management know-how. In the Pharmaceutical Manufacturing and Sales Business, capital investment has already peaked out, so we must focus on how to operate our factories and increase net sales over the first three years in our ten year plan.

What I can say about both the Dispensing Pharmacy Business and Pharmaceutical Manufacturing and Sales Business is that we will not ignore any possibilities for future business expansion. We plan to actively consider all options according to the situation for the next ten years, including large-scale horizontal M&A of other companies in our industry, and development and manufacture of generic drugs aside from pills, to name just a few.

**Q** As top executive of the Nihon Chouzai Group, which continues to grow as a comprehensive healthcare company, could you give us your opinion of the current state of medical care in Japan?

**There are many more things Nihon Chouzai can do as an organization centered on pharmacists. That is why I say “Be Active!”**

While it has long been said that there is a shortage of doctors, pharmacists, nurses, and caregivers, our super-aged society continues to advance relentlessly, and the number of patients has been increasing. In contrast to that, the number of medical professionals has not increased, and they are getting older. As a result, the number of patients per medical professional in the working-age population is steadily increasing. This problem has become even more pronounced amidst the ongoing COVID-19 crisis. As such, doctors and pharmacists share the common issue of how a small number of medical professionals can deal with the constantly growing number of patients. In these circumstances, there are many more things Nihon Chouzai can do as an organization centered on pharmacists. That is why I say “Be Active!”

With the spread of COVID-19 still not contained, it is difficult to predict future changes in patient trends. However, I assume from the growing usage rate for the prescription sending function of Oku-suri Techo Plus that many patients want to spend less time in stores. At the same time, the spread of COVID-19 may have led many patients and consumers to understand the importance of self-medication, pre-symptomatic disease prevention, as well as the convenience of receiving medical services online. There are still some points to be improved regarding guidance on the use of drugs with telephone and information and communication devices as well as delivery of medicine, which has become possible at present thanks to temporary special measures. On the other hand, we have received many appreciative comments from patients, and we will focus on how the government will make decisions in the future.



**Q** What message do you have for stakeholders? For example, what is your future vision for management?

**“Be Active!” in protecting the health of communities and medical care in Japan.**

The business of medical care should be undertaken from a long-term perspective. Based on this point of view, the Group is making investments in a way that it can grow over the long term. We also bear in mind our steady growth so as to be a reliable investee company. As I mentioned before, medical care does not make a profit quickly, but it does in fact grow steadily. For proof of this, you need look no further than the history of the Group’s growth up to the present day, based on our honest efforts made for the core business of medical care since its founding, under our corporate philosophy of “achieving true separation of drug prescribing and dispensing services.”

We were able to celebrate the 40th anniversary of our founding in March 2020. I would like to thank all the stakeholders of the Nihon Chouzai Group, and ask for your continued understanding and support in the future. We at the Nihon Chouzai Group will “Be Active!” in digging deeper into our main business of medical care, continue to boldly undertake the challenge of creating the standard for Japanese medical care in the future without focusing only on responses to systemic changes, and work to support the health of communities and medical care in Japan throughout the entire Group.



The Year in Brief Nihon Chouzai Group

Health support pharmacies

\* List of pharmacies that meet the criteria set by the Ministry of Health, Labour and Welfare each month

April 2019

Matsue Pharmacy

June 2019

Kokubunji Pharmacy, Tsuruyacho Pharmacy

July 2019

Miyazakidai Pharmacy, Ugo Pharmacy

October 2019

Heisei Pharmacy

December 2019

Shinmachida Pharmacy, Urayasu Pharmacy

January 2020

Mitakadai Pharmacy, Ginza Taimei Pharmacy

February 2020

Kimachidori Pharmacy, Tateishi Ekimae Pharmacy

2019

April

May

June

July

August

September

October

November

December

January

February

March

April 2019

Established of the Formulary Business Promotion Department

Launched with the objective of pursuing and spreading a "true formulary"

May 2019

Launched Nihon Chouzai's first PB product, Nihon Chouzai's Aojiru

May 2019

Sponsored World No Tobacco Day on May 31

June 2019

Entrusted with "Support project for data creation and case creation in regional formulary proposals" by the Shizuoka Branch of the Japan Health Insurance Association

July 2019

Opened the Nihon Chouzai Online Store, a healthcare online shopping site that utilizes the expertise of dispensing pharmacies

August 2019

Selected as a constituent of the JPX-Nikkei Mid and Small Cap Index (continued)

August 2019

Published "Formulary Management" (Yakuji Nippo, Limited)

Our Formulary Business Promotion Department provided full cooperation in writing the second part of a series covering everything from basics to practice of formulary

September 2019

Obtained a demonstration license for remote medication guidance (Seto Pharmacy) in two areas within a National Strategic Special Zone (Aichi Prefecture)

September 2019

Held the fourth Nihon Chouzai Group Academic Conference & JP-CS Award 2019, Third Role-Play Awards also held

With the theme of "The Form of Pharmacies Supporting Medical Care: Pharmacies Needed by Society," case studies on initiatives such as medical collaboration and health support were presented.

October 2019

Exhibited at X HEALTH EXPO 2019 (at Tokyo Big Sight) sponsored by Nikkei Business Publications, Inc.

October 2019

Won the Excellent Paper Award at the Japanese Telemedicine and Telecare Association (JTTA) Annual Academic Conference

Presented case studies at Seto Pharmacy and future challenges, with the theme of "Remote medication guidance in the National Strategic Special Zone using electronic medication note-books"

November 2019

Sponsored World Diabetes Day on November 14

December 2019

Conducted remote medication instruction in a National Strategic Special Zone (Chiba City) in an urban area (Tsubakimori Pharmacy) for the first time nationwide

This is the third case in Nihon Chouzai, following the cases in Aichi Prefecture. Using the electronic medication notebook Okusuri Techo Plus, the patient's dispensing and other data can be shared in real time with their family members who live far away

December 2019

Accepted a visit from Kyrgyz Republic

Kyrgyz Republic's Undersecretary of the Ministry of Health and executives from the largest pharmacy visited Nihon Chouzai's Mita Pharmacy.

January 2020

Held a management policy briefing session of the Nihon Chouzai Group

President Mitsuhashi explained how we will enhance the Company's three strengths of Quality, Flexibility, and Pioneering Spirit to build the Nihon Chouzai brand toward 2030.

February 2020

Concluded a comprehensive agreement on collaboration and cooperation in health promotion measure project with Yahaba Town, Shiwa County, Iwate Prefecture

As a support for local health promotion utilizing WELL BASE YAHABA, a health promotion facility operated by Yahaba Town, Nihon Chouzai Iwate Idaimae Pharmacy is cooperating with medication and nutrition guidance, analysis of health data, and health seminars. This is Japan's first regional health promotion measure through industry-academia-government collaboration centered on health promotion facilities.

Health Support Pharmacy

Dispensing Pharmacy Business

Pharmaceutical Manufacturing and Sales Business

Medical Professional Staffing and Placement Business

Information Provision and Consulting Business

Group companies

May 2019 – February 2020

Medical Resources

Held seminars for pharmacists

Held six seminars in total (Tokyo/Osaka). Holding seminars for learning about medical knowledge and industry trends every year

June 2019

Nihon Generic, Choseido Pharmaceutical Released 8 new generic drugs with 3 different active ingredients

August 2019

Nihon Generic Tsukuba Plant Summer Vacation Tour

Conducted a tour of our Tsukuba Plant for elementary school students and their parents as part of contribution to the local community

August 2019

Medical Resources Opened Nurse Step, a website to provide support for nurse recruitment and career change

October 2019

Japan Medical Research Institute Exhibited at the Asian Conference on Pharmacoeconomics

November 2019

Medical Resources Conducted a retention program

Held money seminars for working women as a benefit program for dispatched workers

November 2019

Japan Medical Research Institute The 4th Japan Medical Research Institute Symposium

Held a symposium entitled "Created by Prescription Data: Real World Evidence"

December 2019

Nihon Generic, Choseido Pharmaceutical Released 14 new generic drugs with 6 different active ingredients

January 2020

Nihon Generic, Choseido Pharmaceutical Launched "LOXOPROFEN Tablets JG," the second round of over-the-counter drugs

February 2020

Nihon Generic, Choseido Pharmaceutical Obtained manufacturing and sales approval for 16 generic drugs with 9 different active ingredients

March 2020

Medical Resources Opened Cheer Job Tohan, a website to provide support for registered pharmaceutical medicine sellers recruitment and career change

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NIHON CHOUZAI CORPORATE REPORT 2020 20

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

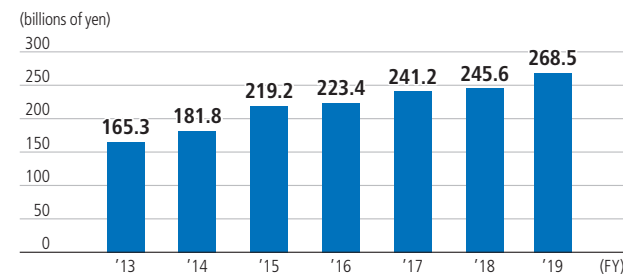
Base that supports Nihon Chouzai

Data section

# Financial Highlights

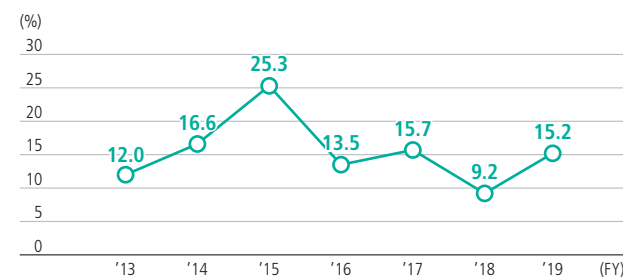
## Net sales

**268.5** billions of yen



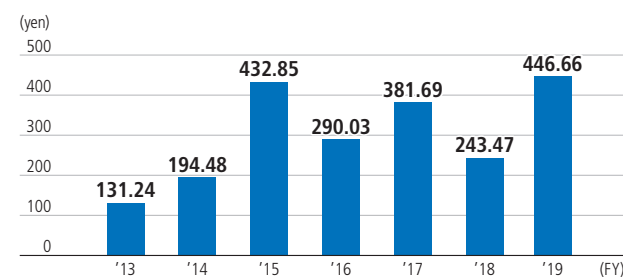
## ROE

**15.2%**



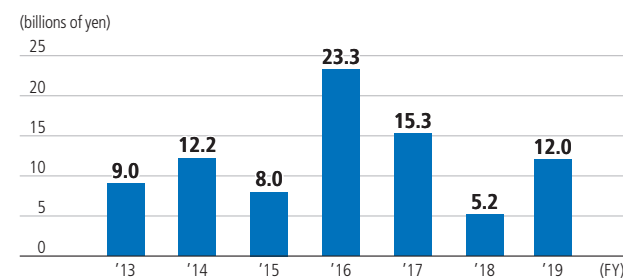
## EPS (Profit per share)

**446.66** yen



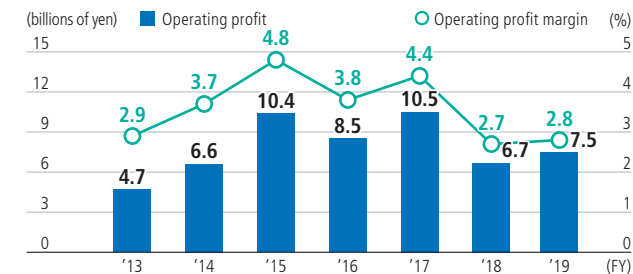
## Capital expenditure

**12.0** billions of yen



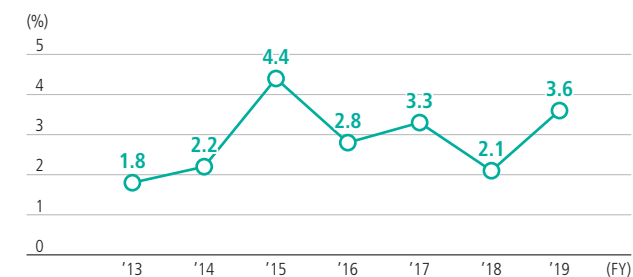
## Operating profit / Operating profit margin

**7.5** billions of yen **2.8%**



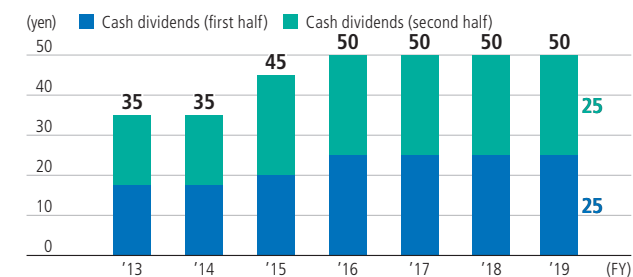
## ROA

**3.6%**



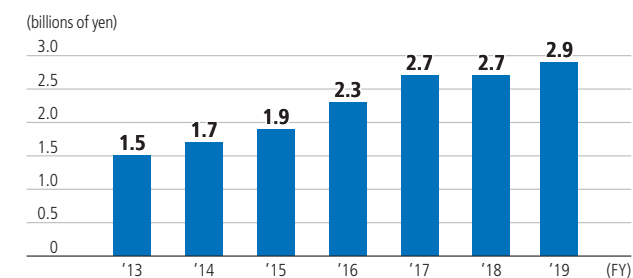
## Cash dividends

**50** yen



## R&D expenses

**2.9** billions of yen



# 2 Business Performance

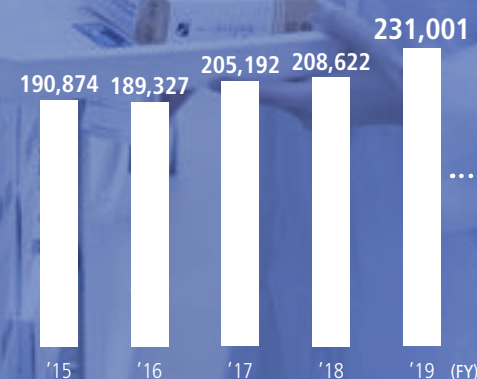
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# Dispensing Pharmacy Business

NIHON CHOUZAI Co., Ltd. and  
Dispensing Pharmacy Subsidiaries

■ Net sales  
(millions of yen)



Sales composition  
80.5%

■ Operating profit  
(millions of yen)

● Operating profit to net sales (%)



Composition of Operating profit  
75.6%

## Long-Term Vision — Rapid Progress toward Industry Restructuring

### Nihon Chouzai's Growth Strategy

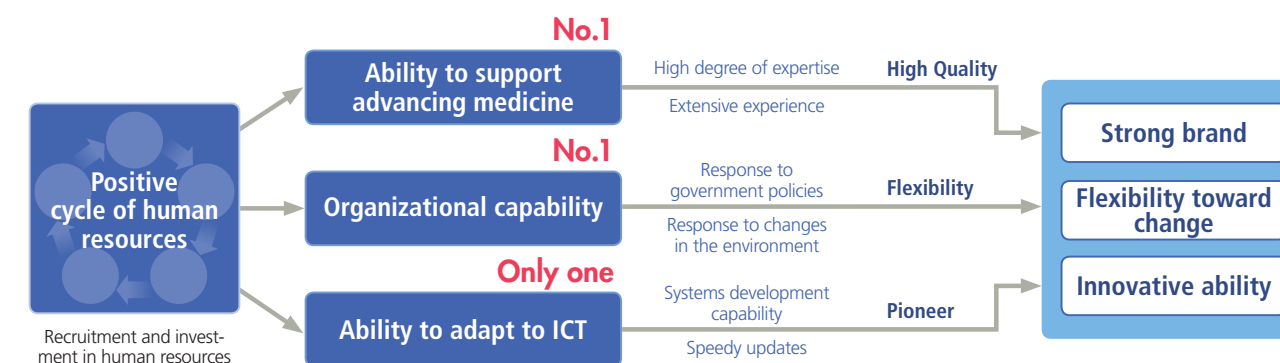
Nihon Chouzai has achieved sustainable growth by utilizing the power generated by three key factors, driven by the positive cycle of human resources, which is the most important.

The first key factor is our ability to support advanced medicine. Since our founding, we have forged a history of opening pharmacies in front of university hospitals and major regional hospitals that provide advanced medicine. We have been able to create high-value-added services thanks to our high degree of expertise and extensive experience accumulated over the years.

The second key factor is our organizational capability. For the past 40 years, we have steadily overcome NHI drug price and prescription dispensing fee revisions with our strong responsiveness to government policies and measures and a changing environment in the medical industry.

The third key factor is our ability to adapt to ICT. Since the 1990s, shortly after our founding, we have led the industry in developing systems and performing speedy updates to build forward-looking, efficient systems that are essential for future pharmacy management.

#### Growth strategy



#### Market environment

In the Japanese medical industry, the government takes the initiative in setting NHI drug prices and prescription dispensing fees. NHI drug prices are revised every year, while prescription dispensing fees are revised once every two years, and the industry environment is subject to strong governmental regulations. In addition, from 2025 onwards, the Japanese population of seniors aged 75 and over is expected to increase sharply, making increased medical costs unavoidable. The government has been implementing measures in rapid succession to control increasing medical costs. Continued severe NHI drug price and prescription dispensing fee revisions are expected in response to the tight financial conditions. This harsh business environment becomes a factor behind the restructuring of the dispensing pharmacy industry, and there will likely be further consolidation as the number of pharmacies decreases. In order to survive under such an environment, we consider it necessary to increase sales at pharmacies and increase the number of pharmacists per pharmacy.

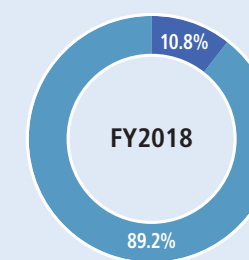
Market size (dispensing and medical care expenses)

(trillions of yen)



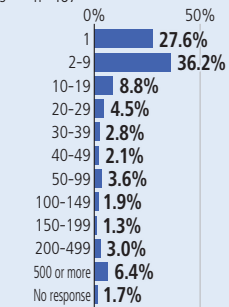
Share

■ 4 major dispensing pharmacies ■ Others



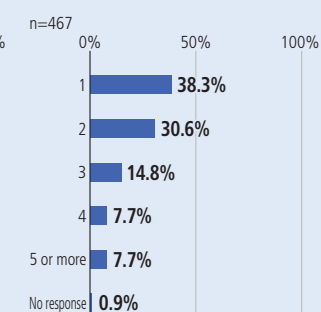
Number of pharmacies under the same management

n=467



Number of full-time pharmacists

n=467



• Market size and share: prepared by Nihon Chouzai based on Trend of Dispensing and Medical Care Expenses, Ministry of Health, Labour and Welfare, and prepared by Nihon Chouzai based on the securities reports of each company

• Number of pharmacies under the same management and number of full-time pharmacists: Fact-Finding Survey Report for Achieving a Vision of Pharmacies for Patients, March 31, 2017, Ministry of Health, Labour and Welfare

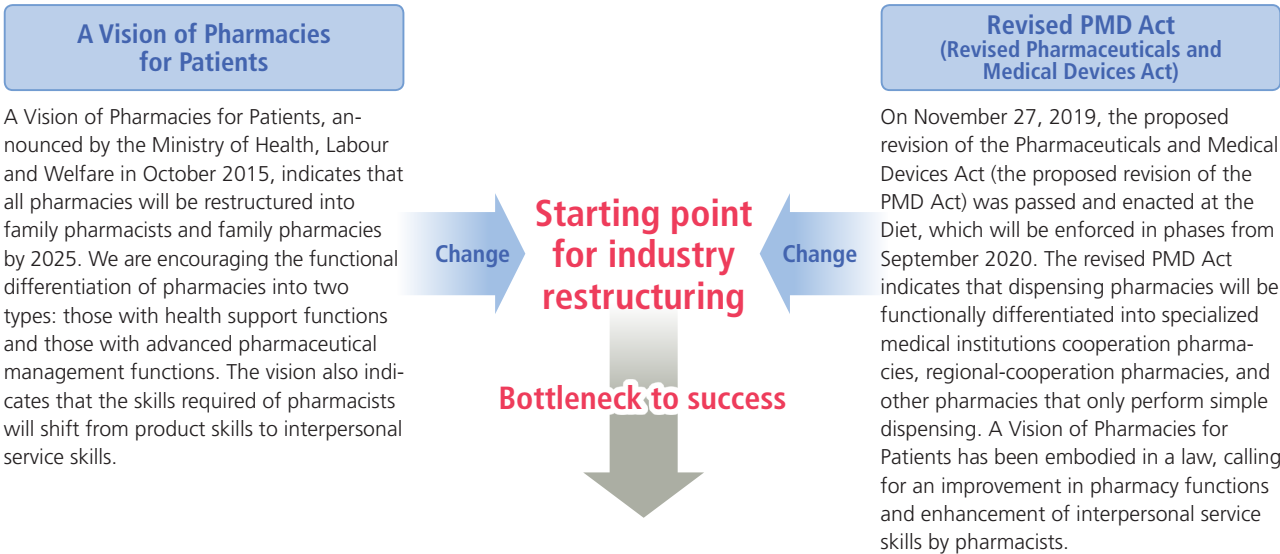
# Growth Strategy: Achieve a Positive Cycle

## Investment in Human Resources

Nihon Chouzai views people who support the Company as essential management resources and continuously invests in human resources. We are recognized within the industry as a company with topnotch, quality education, as exemplified by our providing diverse career opportunities and training.

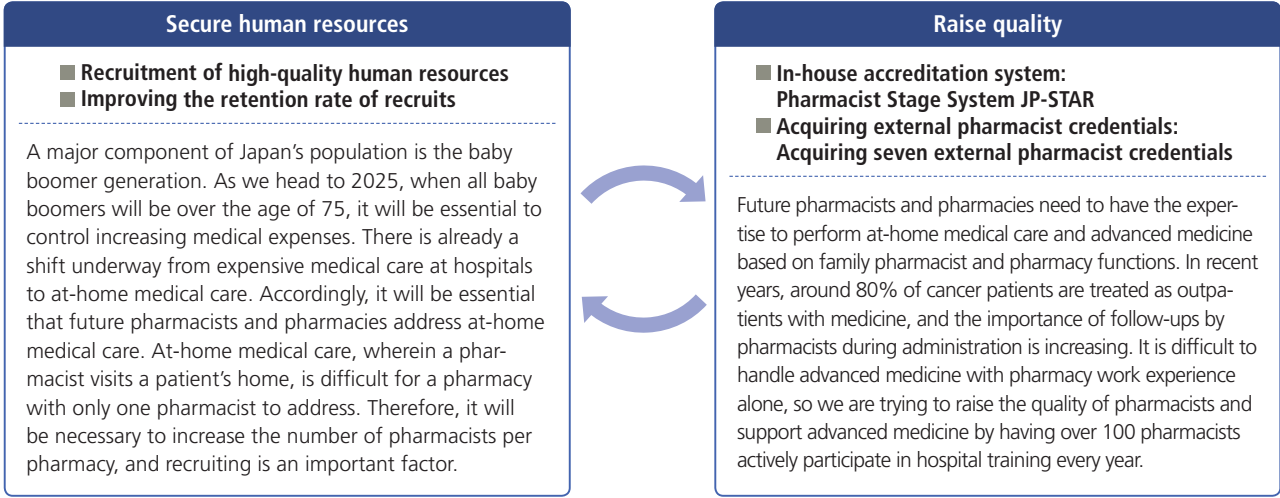
Nihon Chouzai believes that the “strengthening of the interpersonal relations skills of pharmacists,” which is commonly advocated in both “A Vision of Pharmacies for Patients” announced by the Ministry of Health, Labour and Welfare in October 2015 and

the proposed revision of the PMD Act submitted to an ordinary session of the Diet in fiscal 2019, will be the starting point of industry restructuring. It is expected that a higher level of interpersonal skills will be required than before and that the compensation structure will be balanced. Anticipating that major and unprecedented changes will be the starting point of industry restructuring, Nihon Chouzai has made strategic resource investments for several years in people, who are the bottleneck to successful restructuring, and the foundation for growth is now in place.



### Investment in human resources

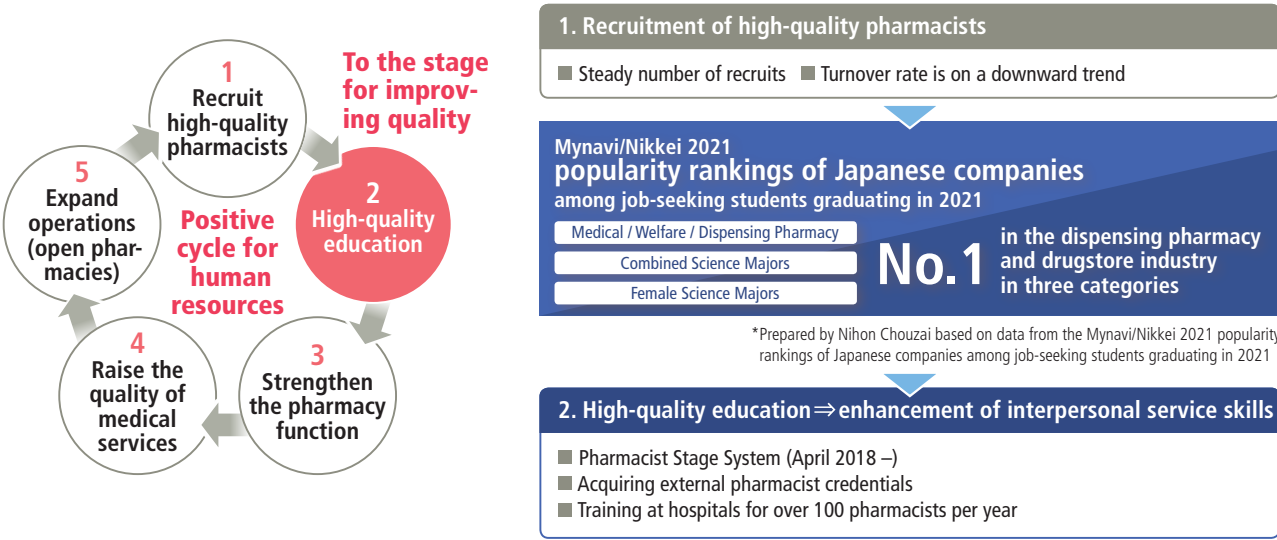
In the future, dispensing pharmacies will be required to improve their pharmacy functions, and pharmacists will be required to enhance their interpersonal service skills. On the other hand, evaluation of product services focused on picking and other dispensing work is now being reviewed, and prescription dispensing fees are being lowered. For these reasons, recruiting and refining the quality of pharmacists, who are the critical resources for engaging in interpersonal services, has become essential. Nihon Chouzai has invested in human resources with a view to medium- to long-term growth, but is now shifting from the phase of securing human resources to the phase of improving the quality of human resources.



## Secure Human Resources >>> Recruitment of High-quality Pharmacists

Because of the continuing shortage of pharmacists in the dispensing pharmacy industry, the recruitment of pharmacists, who are essential to the long-term growth of the Company, has become a key management issue. As a result of bolstering recruiting activities for the past several years, Nihon Chouzai has rapidly increased the number of pharmacists employed. In addition, actively promoting advanced medical care and at-home medical care as well

as providing a variety of career plans has enabled the recruitment of diverse, high-quality pharmacists. Pharmacists account for the majority of our employees, and the proportion of female pharmacists is high at around 64%, so we have worked on our efforts to advance women in the workplace. The active role played by pharmacists with diverse backgrounds and a wide range of experience has become the driving force behind Nihon Chouzai's growth.

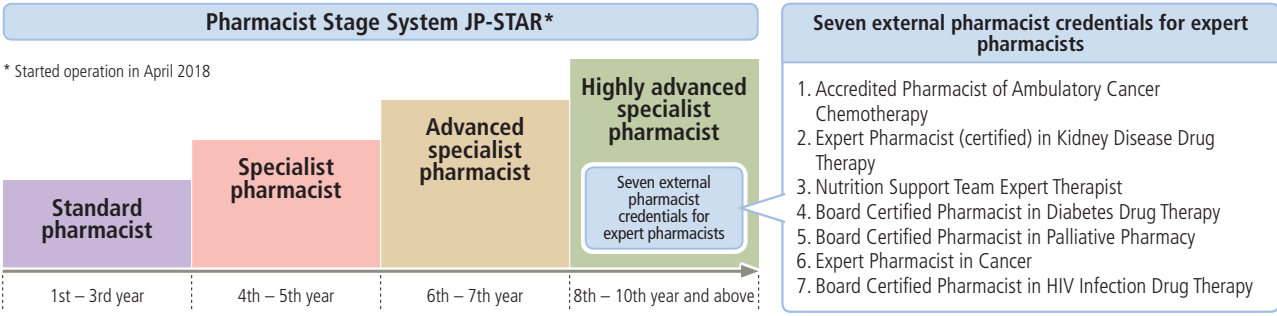


The number of new pharmacist graduates that joined the Company in April 2020 was just short of 400, which is proof that we have developed a system for reliably securing human resources. In the popularity rankings of Japanese companies among job-seeking students graduating in 2021, we ranked number one in the dispensing pharmacy and drugstore industry in three out of four categories. We have already made the shift from the phase of securing human resources to the phase of providing high-quality education. High-quality education is critical to strengthening the interpersonal service skills of our pharmacists. In 2018, we launched a Pharmacist Stage System, in which the Company provides full backup for acquiring external pharmacist credentials, including cost subsidies. We now provide training at hospitals for more than 100 pharmacists every year, which is essential to acquiring external pharmacist credentials.

## Raise Quality >>> High-quality Education

Although we have established a quality education system, we launched the Pharmacist Stage System JP-STAR in April 2018, in addition to our existing 15-step-up training. Through training and self-study, pharmacists can advance their stage by obtaining knowledge and skill, and this has helped to improve their exper-

tise and motivation. Also, since it is extremely difficult to acquire the seven external pharmacist credentials for expert pharmacists through pharmacy work experience alone, the Company totally supports pharmacists, even with costs, by providing hospital training at more than 15 locations nationwide.



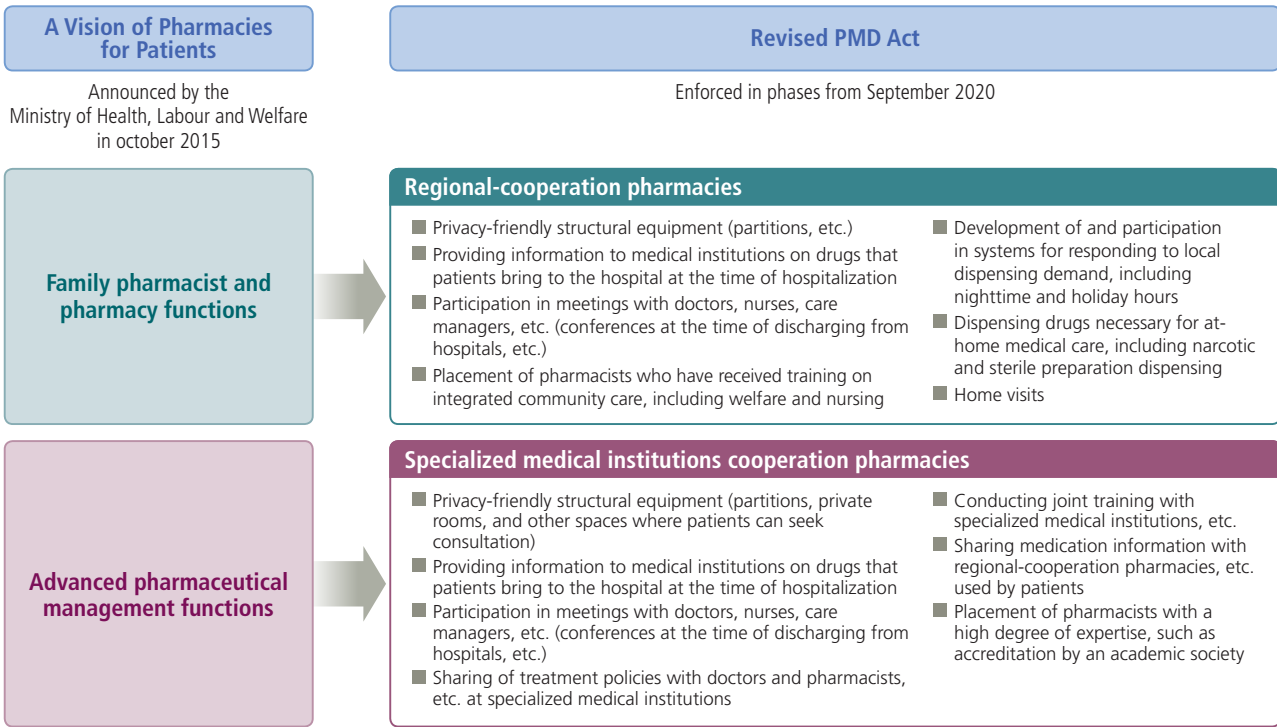


Growth Strategy: Achieve a Positive Cycle

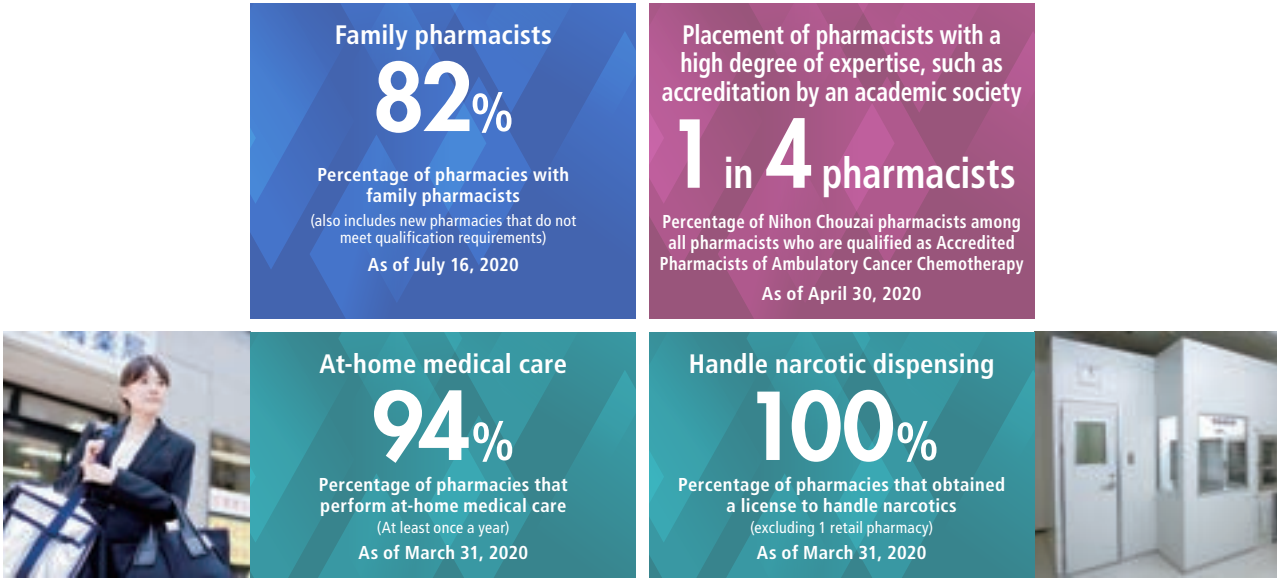
Strengthen Pharmacy Function and Improve Quality of Medical Services

A Vision of Pharmacies for Patients was announced by the Ministry of Health, Labour and Welfare, specifically indicating the functions required of future pharmacists and pharmacies. Under the revised PMD Act, which will be enforced in phases from September 2020, pharmacies with enhanced pharmacy functions will be allowed to display their functions on signboards with a license issued by the governor of the prefecture. Both functions contain the word “collaborate,” strongly necessitating collaboration with medical institutions. Building on a base of family pharmacist and

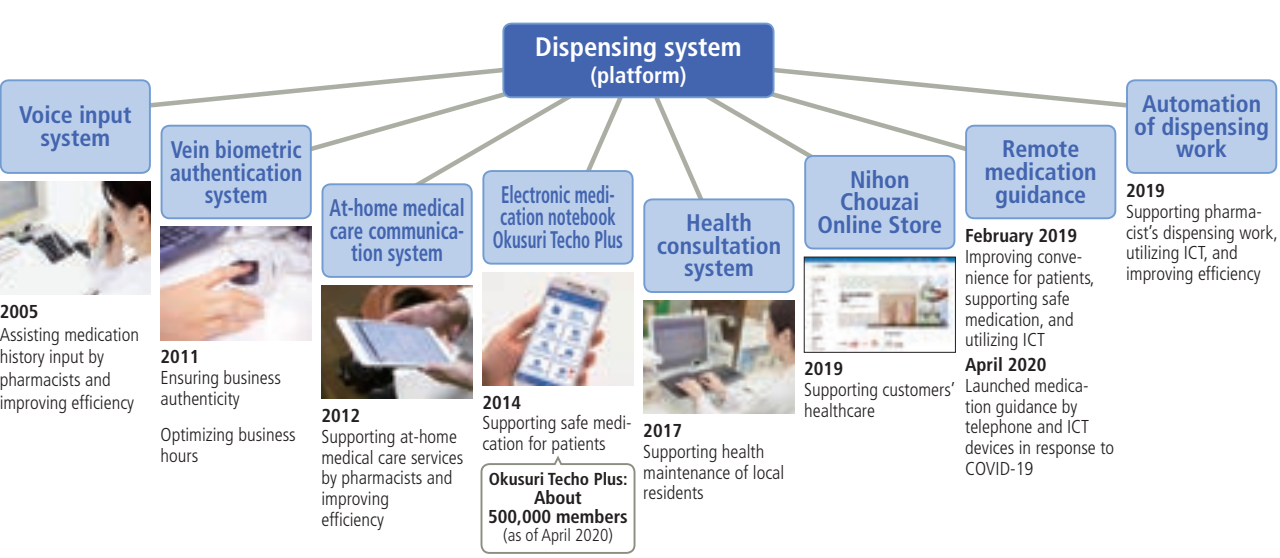
pharmacy functions, which are fundamental functions of pharmacies, specialized medical institutions cooperation pharmacies that have additional advanced pharmaceutical management functions are required to put in place pharmacists with a high degree of expertise, such as accreditation by an academic society. Nihon Chouzai is actively strengthening the interpersonal service skills of its employees, and is steadily preparing for pharmacy functions that will be required in the future.



Source: Prepared by Nihon Chouzai based on documents submitted by the Ministry of Health, Labour and Welfare (May 2019)



Investment in ICT that Supports Growth Systems Development Using Our Dispensing System as a Platform



**Dispensing system**

Nihon Chouzai is the only company in the dispensing pharmacy industry to develop by itself and operate a dispensing system for use in pharmacy work. The Company began in-house development of a dispensing system in the 1990s, and by updating it every year, we have been able to respond quickly to revisions in prescription dispensing fees and other matters. The system helps streamline work and supports the work of pharmacists as the core system for supporting dispensing work.

**Voice input system**

We have introduced a voice input system that assists with the input of medication history after the pharmacist has provided the medication guidance. It is equipped with a function to learn the traits and other elements of individual voices. The system's voice recognition function is highly accurate, and it supports technical terminology. At pharmacies that have introduced this system, the time it takes to input medication history can be shortened and the entry can be updated.

**Health consultation system**

We have developed a system that supports the health of patients by centrally recording information such as health consultations at pharmacies and health consultations conducted by registered dietitians at Health Check Stations. By centrally recording information including over-the-counter drugs as well, we are helping local residents maintain their health.

**Vein biometric authentication system**

Nihon Chouzai has introduced a vein biometric authentication system utilizing finger veins that is linked to a dispensing system. This system applies a time stamp for work performed and guarantees the work's authenticity. At the same time, work can be managed, and this is utilized for work-style reforms by optimizing working hours.

**Nihon Chouzai Online Store**

We are operating an online store that provides comprehensive support for healthcare, offering high-performance, high-quality products carefully selected by professionals at dispensing pharmacies, namely pharmacists and registered dietitians. We support healthcare for a wide range of users by offering approximately 2,000 different products specialized in healthcare, including pharmaceuticals, medical equipment, cosmetics, health foods, and hygiene products. The online store also sells original products available exclusively at the store.

**At-home medical care communication system**

We have devised a system that enables the pharmacist to access the at-home medical care communication system using a tablet PC when performing at-home medical care, and records of past history and at-home medical care can be entered on the spot. The system is used as a tool to streamline the work of pharmacists who conduct at-home medical care and collaborate with local doctors, thus providing high-quality medical care.

**Remote medication guidance**

Currently, remote medication guidance is only allowed in National Strategic Special Zones in Aichi Prefecture, Fukuoka City, Yabu City, and Chiba City. Nihon Chouzai has conducted remote medication guidance in Aichi Prefecture, Fukuoka City, and Chiba City. In addition, starting in September 2020, online medication guidance will be allowed for prescriptions that have been given online.

**Electronic medication notebook Okusuri Techo Plus**

The electronic medication notebook Okusuri Techo Plus links with the dispensing system to enable centralized management of medication history. Furthermore, Okusuri Techo Plus is also equipped with a personal health record (PHR) function that offers tremendous convenience by linking data from weight scales and blood glucose measuring devices. It allows for management of the patient's daily habits and supports their health.

**Automation of dispensing work**

On April 2, 2019, the Ministry of Health, Labour and Welfare issued a notification on how dispensing work is performed, and it is now possible for people other than pharmacists to perform dispensing work called picking, which had been conducted by pharmacists, under the supervision of a pharmacist. We have begun to improve the efficiency of our dispensing work by promoting automation.

Growth Strategy: Achieve a Positive Cycle

Investment in ICT that Supports Growth Remote Medication Guidance

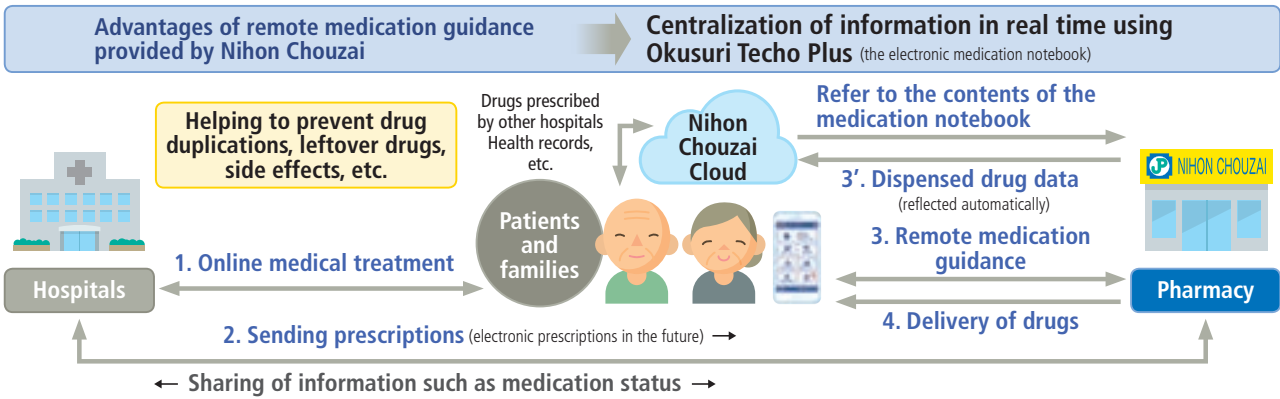
Advantages of remote medication guidance provided by Nihon Chouzai

Using the electronic medication notebook developed by Nihon Chouzai allows for centralized tracking of the medications that patients used at other hospitals, as well as their OTC drugs, health records, etc., and prevents the duplication of medications and side effects of concomitant medications. We collaborate with hospitals as necessary by making inquiries to doctors and using tracing reports on monitoring of patients while they are on medication, enabling effective support for drug therapy.

Areas where remote medication guidance is provided

Remote medication guidance is only permitted in National Strategic Special Zones in Aichi Prefecture, Fukuoka City, Yabu City, and Chiba City. Among these, Nihon Chouzai has conducted remote medication guidance in Aichi Prefecture, Fukuoka City, and Chiba City. Remote medication guidance was launched in September 2016 in three Special Zones of Aichi Prefecture, Fukuoka City, and Yabu City, mainly in remote regions and islands lacking in medical resources. Since then, the Ministry of Health, Labour and Welfare revised its ministerial ordinance in September 2019, so that remote medication guidance can be conducted even in urban areas, as long as certain requirements are met. In response to this, Chiba City submitted a zoning plan that permits remote medication guidance. In December 2019, the registration of participating pharmacies began for all regions of Chiba City.

Remote medication guidance process



Investment in ICT that Supports Growth Online Medication Guidance Started with the Partial Revision of the PMD Act

Although online medical treatment by doctors has already been introduced, pharmacies provide face-to-face medication guidance in principle, with provision of remote medication guidance limited in certain Special Zones. With the partial revision of the PMD Act, online medication guidance will be available across Japan starting September 1, 2020. Only the prescriptions for which online medi-

cal treatment has been provided will be eligible for this new form of service. Treatment of diseases applicable for online medical treatment has expanded to include prevention of severe diabetes and chronic migraines, and it is expected that the scope of online medication guidance will be expanded.

Schedule of the PMD Act revision

March 6, 2020 Cabinet decision on enforcement dates	1. Online medication guidance	Stipulation of medication guidance by videophone, etc. subject to certain rules ⇒ Expand target areas and target patients
September 1, 2020 Enforcement of 1. and 2.	2. Mandatory follow-up during medication period	Obligate pharmacies to keep up with the patient's drug usage status and instruct them on medication as needed, not only when dispensing Obligate pharmacies to make an effort to provide information on patients' drug use to doctors, etc. at other medical facilities
August 1, 2021 Enforcement of 3., 4., and 5.	3. New pharmacy functions certification system	Introduce a system for governors to certify pharmacies by function so that patients can select the pharmacy that best suits their needs Certify pharmacies that regional-cooperation and pharmacies specialized medical cooperation pharmacies, with renewals once a year
December 1, 2022 Enforcement of 6.	4. Strengthening governance	Develop legal compliance and systems with licensed businesses (development of a business supervision system, clarification of responsibilities of management and field managers) Legally put in place officers responsible for pharmaceutical affairs
	5. Digitization of attached documents	Eliminate package inserts of attached documents from the product, providing them by electronic means instead Display information enabling access to the latest attached document information on the outer packaging of products
	6. Bar code display on pharmaceuticals packaging	Promote traceability management, from the procurement of pharmaceuticals to post medication guidance

Source: Prepared by Nihon Chouzai based on the draft of the revised PMD Act, Ministry of Health, Labour and Welfare

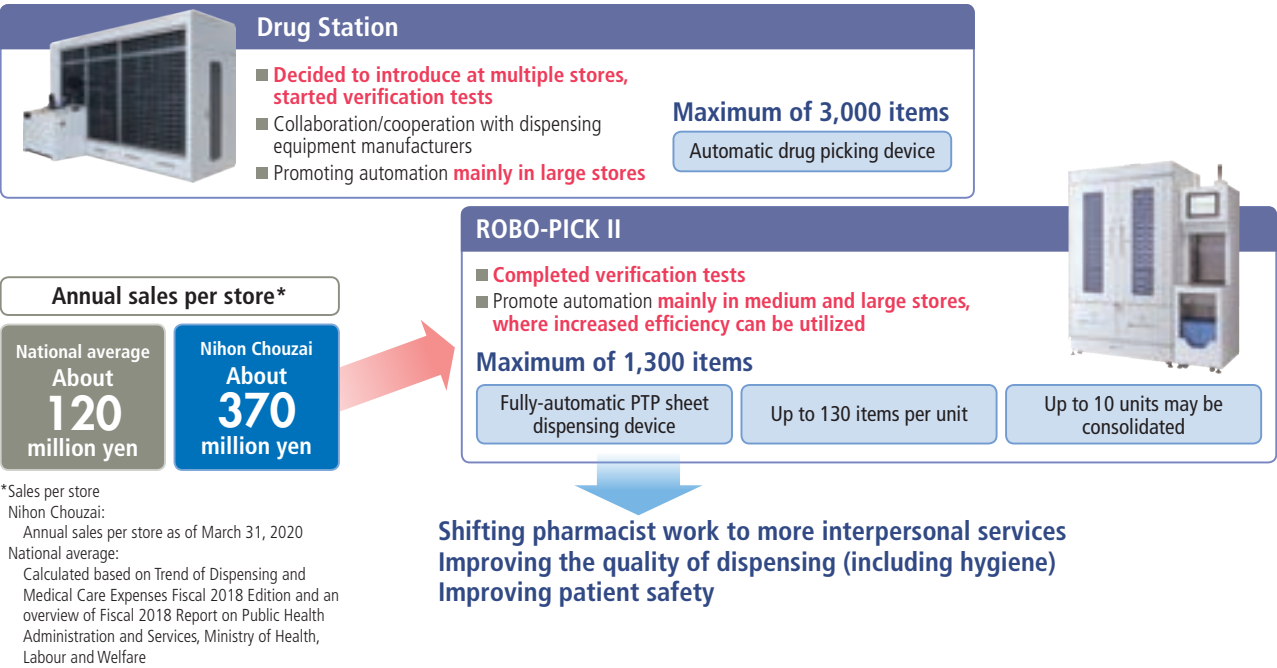
Investment in ICT that Supports Growth Automation of Dispensing Work

System changes to promote automation

On April 2, 2019, the Ministry of Health, Labour and Welfare issued a notification on "How Dispensing Work is Performed" (Notification 0402). From the perspective of enhancing interpersonal service skills, it is necessary to streamline product work. It is now possible for people other than pharmacists to assort medicines that are still packed in PTP sheets, so long as they are being visually monitored by a pharmacist. It also became possible to conduct dispensing work that actively utilizes dispensing equipment.

Efforts at Nihon Chouzai dispensing pharmacies

As a result of extensive studies on human error prevention, hygiene, and other issues, we have settled on a plan to promote automation. Verification tests of fully-automatic PTP sheet dispensing devices, such as ROBO-PICK II, resulted in labor-saving of about one pharmacist. While there are some conditions, such as the need for a certain level of sales, we aim to improve the quality of medical services by creating time for pharmacists to devote to interpersonal services, while promoting efficiency with automation.



Verification tests with new-type dispensing equipment

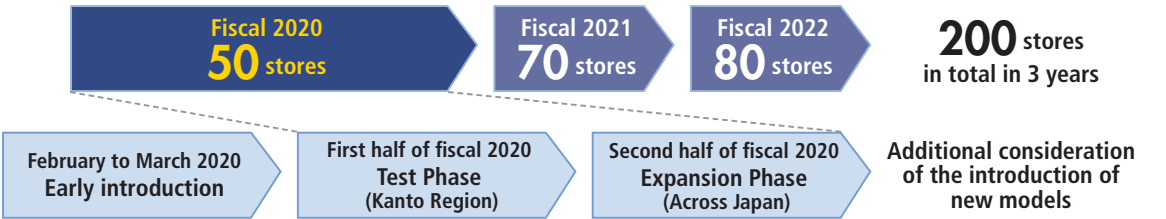
In May 2020, we introduced the newly released Drug Station, which is capable of dispensing 3,000 pharmaceutical products, ahead of other companies, and started a verification test for efficiency improvement. Based on the results of the verification test, we plan to introduce Drug Stations to dispensing pharmacies with sales level that can improve efficiency.

In the future, we will make efficient investments by introducing new models and conducting verification tests as soon as they are released.

Automation introduction schedule

In fiscal 2020, we plan to proceed with automation at 50 stores. In the first half of the year, we will continue verification tests mainly in the Kanto region, and identify the conditions that are highly effective in improving efficiency. Then, in the second half, we will expand to the whole country. We plan to proceed with automation in 200 stores within three years, including 70 stores in fiscal 2021 and 80 stores in fiscal 2022. We believe that automation will not only improve efficiency, but also have side effects such as reducing human errors and contributing to ensuring medical safety.

Schedule



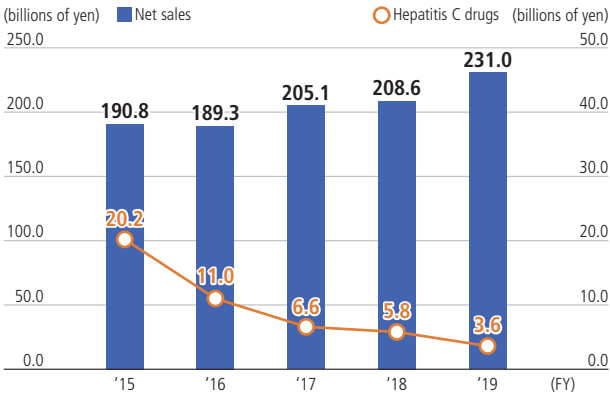


Growth Strategy: Achieve a Positive Cycle

Expand Business Operations

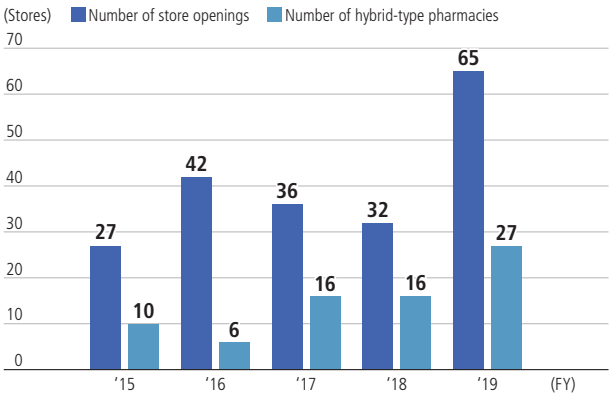
Net sales

Sales have continued to increase every year, despite the effects of drug price and prescription dispensing fee revisions. The sales amount of hepatitis C drugs peaked at 20.2 billion yen in fiscal 2015, falling by half to 11.0 billion yen in fiscal 2016, and it is now 3.6 billion yen. Sales declined temporarily from fiscal 2015 to fiscal 2016, due to this decrease in sales of hepatitis C drugs. Excluding the impact of this trend, sales have continuously increased, and we are achieving continuous growth by the well-balanced opening of pharmacies, mainly Nihon Chouzai pharmacies.



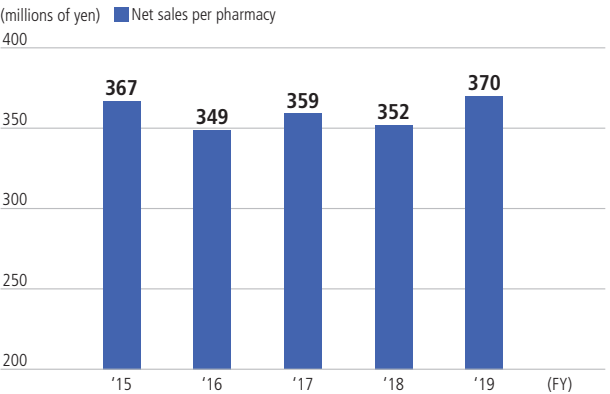
Pharmacy opening strategy

According to the Long-term Vision announced by the Company in May 2018, Nihon Chouzai seeks to change the current pharmacy mix of 70% for hospital-front pharmacies and 30% for hybrid-type pharmacies to 50% for hospital-front pharmacies and 50% for hybrid-type pharmacies, while working to increase its overall number of pharmacies, by fiscal 2030. The ratio of hybrid-type pharmacies in Tokyo, Kanagawa, Saitama, and Chiba prefectures as of March 31, 2020 increased to 54%. In the future, our strategy is to open hospital-front pharmacies and hybrid-type pharmacies in a balanced manner.



Net sales per pharmacy

Nihon Chouzai regards net sales per pharmacy as a key factor to successful industry restructuring going forward. We view collaboration with medical institutions and the performance of at-home medical care as essential to achieving A Vision of Pharmacies for Patients. To carry these out, multiple pharmacists and pharmacies of ample size are both required. Therefore, we are opening Nihon Chouzai pharmacies and pharmacies through mergers and acquisitions, with a focus on pharmacies of ample size or larger, and it is inevitable that our pharmacies will become larger.



Pharmacy openings

Our pharmacy opening strategy places importance on balance between hospital-front pharmacies and hybrid-type pharmacies, as well as Nihon Chouzai pharmacies and M&A pharmacies. The functions required of pharmacies change from year to year, and it is necessary to have a good balance of store openings and scales in order to adapt to these changes. We open stores based on the level of our average annual sales of about 350 million yen per store.

		Record high number of M&A pharmacies				
	(FY)	'15	'16	'17	'18	'19
Pharmacy openings		27	42	36	32	65*
Nihon Chouzai pharmacies		22	21	23	26	35
M&A		5	21	13	6	30
Pharmacy closures		11	12	8	19	13
No. of pharmacies at fiscal year-end		527	557	585	598	650

\* Includes 1 retail pharmacy

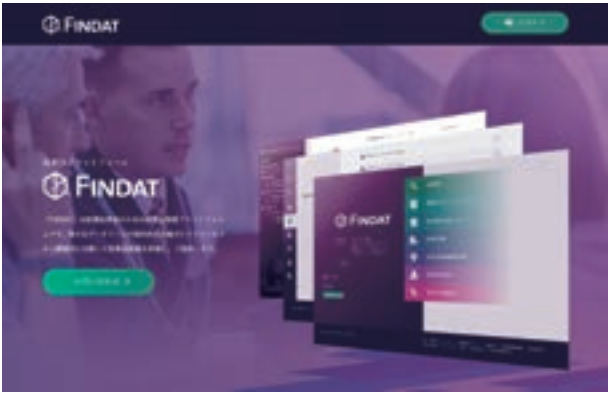
\* Includes 1 store format change from a retail pharmacy to a dispensing pharmacy

Growth Strategy: New Businesses, Various Approaches

Launched Service of FINDAT, an Advanced DI Web Platform

Nihon Chouzai has developed FINDAT, the first advanced DI web platform in Japan\* (<https://www.findat.jp>), and released this platform on June 1, 2020. FINDAT supports the drug information (DI) work by centrally managing collection and evaluation of DI and providing it to each medical institution in the form of an advanced DI web platform. This will support the standardization and streamlining of drug information at medical institutions, and contribute to appropriate drug treatment for patients.

FINDAT neutrally evaluates and distributes online drug information that has been collected comprehensively from various domestic and foreign guidelines and global, highly reliable, paid secondary information databases. By providing drug information useful for practical cases such as “Standardized Formulary,” “Drug Efficacy Group Comparative Review,” and “New Drug Evaluation,” this service can be used to create materials for formulary management and pharmaceutical affairs committees, for promoting standardized drug treatment at medical institutions. Also, using FINDAT can help reduce the burden of DI work, including peer review of original papers and information gathering on new



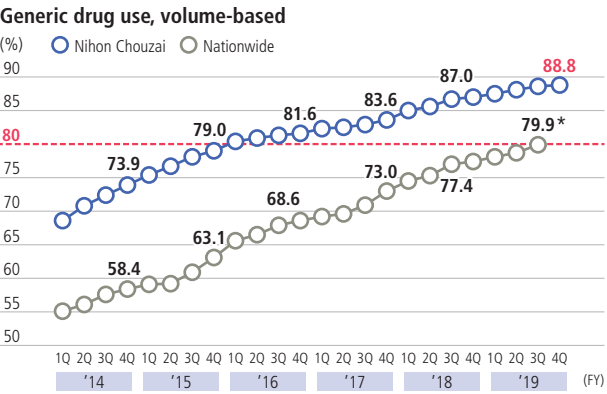
drugs, and lead to enhancing interpersonal service skills and team medical care, as shift from product service to interpersonal service has been required.

\*Survey by Nihon Chouzai, as of May 25, 2020

Initiatives to Control the Increasing Costs of Medical Care

Promoting the use of generic drugs

We achieved the government target of increasing the usage of generic drugs to 80% set for September 30, 2020 three years ahead of schedule. As of March 31, 2020, we have achieved the industry's leading share of generic drug use, volume-based at 88.8%.



Promoting the use of generic drugs contributes to control of increasing medical costs

Internal sales of the pharmaceutical manufacturing and sales business are expanding (Group synergies)

Initiatives for Health Support Functions

Health Check-up Stations

As a measure for enhancing the health support function of dispensing pharmacies, Nihon Chouzai set up in-pharmacy Health Check-up Stations and is proactively working to maintain the health of local residents and on pre-symptomatic disease prevention. Blood pressure meters and body composition measurement equipment have been installed in the Health Check Stations, and a variety of measurements and nutritional consultations by registered dietitians are conducted there.

Health support function: Number of stores with Health Check-up Stations			
	March 2018	March 2019	June 2020
No. of Health Check-up Stations*	37	62	75

\*The Health Check-up Station is a registered trademark of NIHON CHOUZAI Co., Ltd.

- (1) Advice on diet and exercise from registered dietitians
- (2) Promoting use by local residents through the holding of health fairs
- (3) Specialist booths on health maintenance and promotion
- (4) Health management using various measurement devices, including blood pressure meters and body composition measurement equipment
- (5) Support for self-medication with a range of more than 500 items, including OTC drugs and health food
- (6) Recommendations to receive a medical examination and referrals to medical institutions depending on symptoms



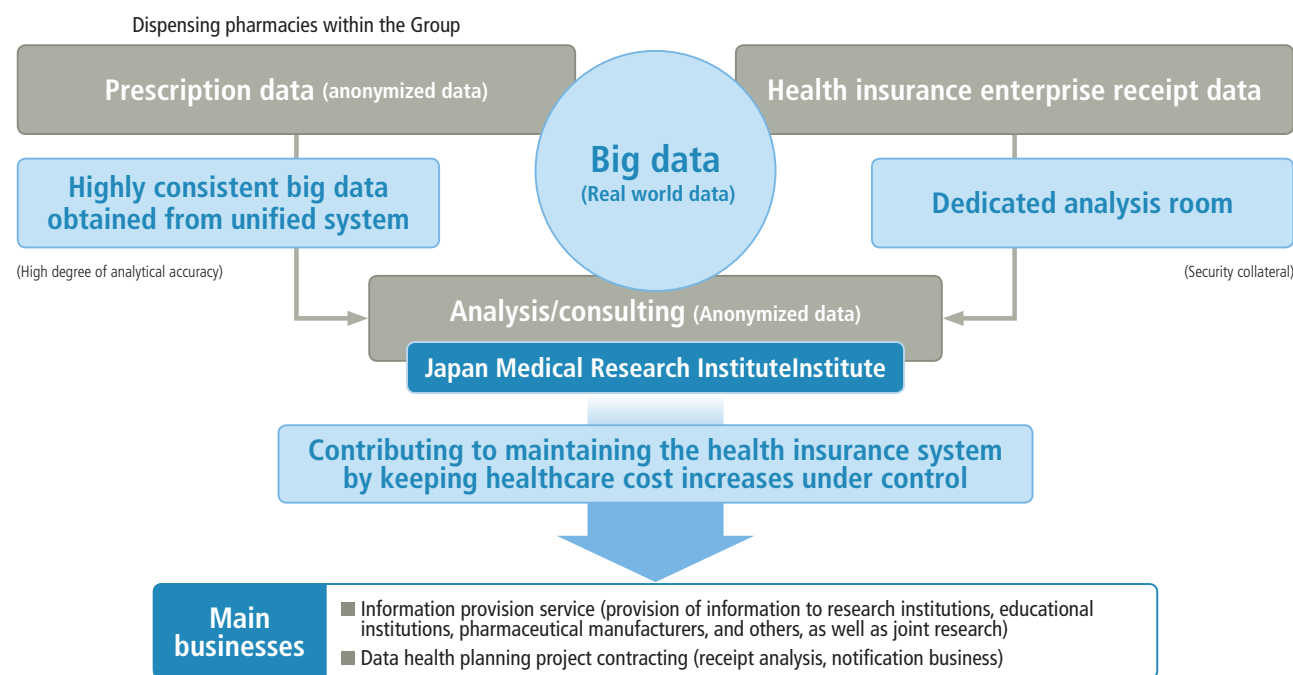
# Information Provision and Consulting Business

Japan Medical Research Institute Co., Ltd.

Information Provision and Consulting Business is included in the Dispensing Pharmacy Business segment.

## For a Future of Ample Medical Care

Striving to provide its vision of high-quality medical care at low cost



### 1 High-quality information provision service that utilizes real-world data

Based on the foundation of RI-CORE, which commenced services in fiscal 2017, the information provision service offers development and operation of analytical tools to process an entire five-year period of prescription data gained from Group dispensing pharmacies. This is big data of 250 million prescription cases, which, when integrated with information provided by pharmacists, takes advantage of a maximum degree of synergies with the Dispensing Pharmacy Business to provide high-value-added data that is unrivaled in the industry. Providing this real-world data to research institutions, educational institutions, pharmaceutical manufacturers and others, as well as conducting joint research, contributes to improving patient adherence (medication management) and rationalizing medical expenses.

### 2 Data health support service that contributes to the optimization of medical costs

The Japan Medical Research Institute conducts various data health-related initiatives that leverage its expertise in data analysis and consulting capabilities that it has cultivated with its information provision service.

As part of these efforts, we conduct analysis necessary for the optimization of medical costs and notification of medication to insured persons (information on price difference between generic drugs and original drugs, duplication, multiple drugs), based on the data entrusted to us by health insurance enterprises. In addition, through pharmacists, we also conduct practical support tasks such as optimizing medication, treatment and support for persons in pre-illness conditions as well as affected persons (un-examined persons), and prevention of serious illnesses. At health events and seminars, we also contribute to the optimization of medical costs through various support services, including support services for setting up drug consultation meetings.

## Information Provision Service RI-CORE

In the information provision service, RI-CORE is used as the foundation upon which analytical tools are developed and operated to process the information obtained from prescription data. Surveys, research, information provision and consulting businesses are conducted for research institutions, educational institutions, pharmaceutical manufacturers and others.

By integrating big data, such as the anonymized prescription data from the Group's Dispensing Pharmacy Business, together with questionnaire surveys that pharmacists conducted at pharmacies, the result was high-value-added information unparalleled in the industry. Providing information in this manner enables us to contribute to the rationalization of medical care costs.



## In-store Promotion Advertising Media Services

### Also contributing to the advance of self-medication

We perform in-store promotion (IP) and advertising media services conducted in stores by positioning a variety of IP in easily seen areas of stores to target a total of over 14 million patients that visit every year.

Examples include videos commissioned by companies and the government airing on in-store monitors, as well as poster displays, merchandise displays, and samplings and booklets distributed directly to patients by pharmacists. From last year, we also have been conveying useful information to promote presymptomatic prevention for patients who visit our pharmacies through sampling at the time of dietary instructions, etc. by national registered dietitians. Moreover, while linking with services to provide information, we are also taking up the challenge of new initiatives that bring data and people together and endeavoring to promote self-medication.



## Data Health Support Service by Pharmacists — Opinions from pharmacists and patients

Efforts to optimize medications by analyzing data (eliminating duplication and multiple drugs) ..... Duplication/multiple drugs

Support for behavioral change through data analysis that utilizes IoT for pre-diabetic and diabetic patients ..... Diabetes

**Duplication/multiple drugs** When I actually talk with patients, I find that some patients feel anxiety about taking medication, or do not feel the need to convey what medication they are taking. Others are using their medication notebook incorrectly (creating a medication notebook for each hospital). These are actually causing them to take duplicate or multiple drugs, and I felt that support from pharmacists would help solve this problem.

**Diabetes** Few people had a good understanding of diabetes itself. I felt that support from pharmacists would help patients understand diabetes and take better care of their health.

**Patients' opinions**

I was able to speak with a pharmacist about issues that were difficult to discuss with my doctors, because I thought they would be too busy. I am thankful that my pharmacist inquired with doctors on my behalf and offered various solutions.

I never knew how to use a medication notebook before, but my pharmacist taught me how. I am going to compile my notebooks into one.

Now that I can see the condition of my body that I could not see before, I take more care about how I eat and exercise.

I didn't want to go to the hospital because I thought diabetes would limit my life (?), but I understood the need for treatment and was happy to get consultation.

I have been able to properly care for my health in my daily life without any hassles, and I would like to continue this habit in the future.

**Patients' opinions**

My diet was corrected, and I am now able to take my medicine properly.

I was able to continue because they followed up by phone on a regular basis.

My doctor praised me for controlling my diabetes.

**Duplication/multiple drugs** For patients with anxiety about taking medication, I felt that I could take the anxiety away just by giving consultation.

**Diabetes** Since I need to speak with patients broadly about medicine, eating habits, and their health, I feel that it has become more important to give an explanation that is suitable for each patient, rather than a uniform explanation.

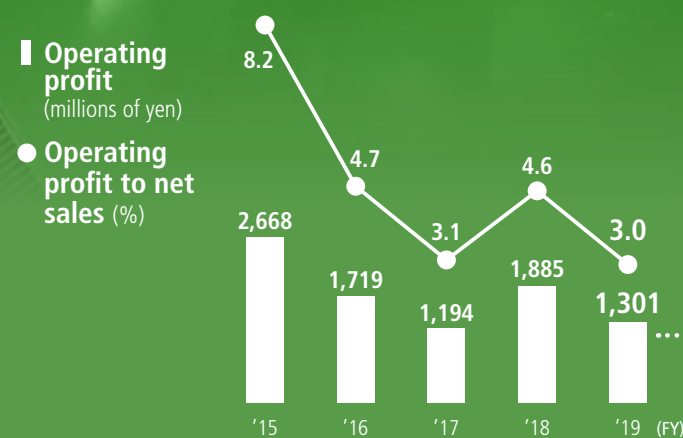
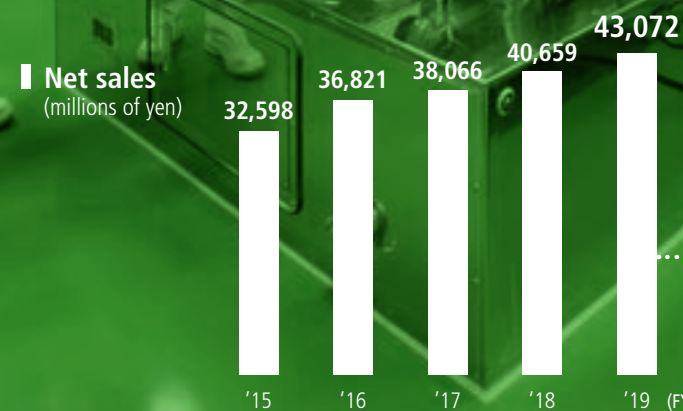
### Papers submitted regarding survey and research results

1. *Precision Medicine*, May issue, advertisement paper "Dispensing information and data analysis (data characteristics in the field of diabetes treatment drugs)" (Hokuryukan)
  2. *Medical Consultation & New Remedies*, Vol. 56 (2019), January issue, "Survey on Actual Situation of Heparinoid Foam Spray in Medical Treatment by the Outpatient Department" (Iji Publishing Co., Ltd.)
  3. *Medical Consultation & New Remedies*, Vol. 56 (2019), July issue, "Consciousness Survey on Feeling and Oral Disintegrating Tablet (OD Tablets) in Patients Who Have Been Prescribed Medication for Heart Failure" (Iji Publishing Co., Ltd.)
  4. *Progress In Medicine*, 39 (10): 1031-1039, 2019 "Patient questionnaire survey on usability of old and new bisoprolol patches (Bisono® Tape)" (Life Science)
  5. *Medical Consultation & New Remedies*, Vol. 56 (2019), December issue: 893-898 "Investigation about Improvement of Adherence by Moisturizing Guidance in Pharmacy for Families of Children with Skin Symptoms: Aiming to Suppress the Progression of Allergic March" (Iji Publishing Co., Ltd.)
- Other articles have also been in the process of submission



# Pharmaceutical Manufacturing and Sales Business

Nihon Generic Co., Ltd.  
Choseido Pharmaceutical Co., Ltd.



## Growth Strategy

### Fiscal 2018

- Prior investments have peaked out
- Revision of sales strategy
- Strict cost control

### Fiscal 2019

- Promote in-house production of generic drugs
- Penetration of sales strategy effects
- Strict cost control

The completion of Tsukuba No. 2 Plant (Nihon Generic Co., Ltd.) in March 2018 and the relocation and consolidation of the Tsukuba Research Institute in June 2018 brought to an end several years of investment.

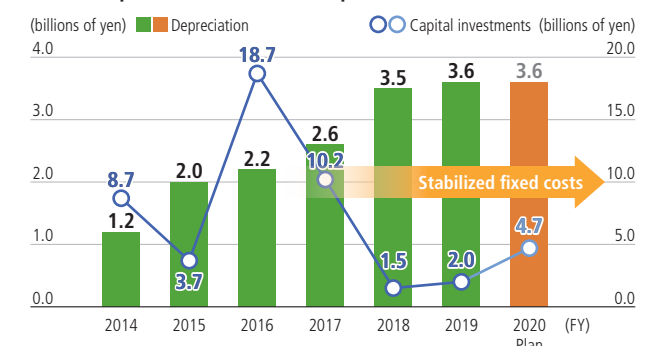
Since March 2019, expenses such as depreciation costs, utilities costs, and personnel costs have increased associated with the start of operations at Tsukuba No. 2 Plant. We have absorbed these increased costs by reviewing our sales strategies and tightening cost controls, securing operating profit that exceeded our initial forecast. In fiscal 2019, operating profit was 1,301 million yen due to increased internal sales and increased



Nihon Generic Tsukuba No. 2 Plant

sales of items on the new NHI drug price listing, despite diminishing factors such as revisions to NHI drug prices.

### Cost of capital investments and depreciation costs



## Acquisition of License → Sale of In-house Manufactured Products

New NHI drug price listing of generic drugs is done twice a year in June and December, making it possible to release drugs with expired patents. In December 2019, a new NHI drug price listing for BudeForu Dry Powder Inhaler, sold independently, contributed to the increase in net sales and gross profit. In February 2020, we received approval for 9 ingredients and 16 items, including celecoxib tablets (brand name: Celecox Tablets), in preparation for the market launch in June 2020. This includes several products with a large market, so we can expect increased sales in the future.

### New Price Listings in June: 3 ingredients and 8 items

Product name	
Silodosin Tablets 2mg JG	Blonanserine Tablets 2mg YD
Silodosin Tablets 4mg JG	Blonanserine Tablets 4mg YD
Silodosin OD Tablets 2mg NISSIN	Blonanserine Tablets 8mg YD
Silodosin OD Tablets 4mg NISSIN	Gefitinib Tablets 250mg JG

### New Price Listings in December: 6 ingredients and 14 items

Product name	
Atomoxetine Tablets 5mg JG	BudeForu Dry Powder Inhaler 30 doses JG
Atomoxetine Tablets 10mg JG	BudeForu Dry Powder Inhaler 60 doses JG
Atomoxetine Tablets 25mg JG	Mometasone Nasal 50µg JG 56 sprays
Atomoxetine Tablets 40mg JG	Mometasone Nasal 50µg JG 112 sprays
Atomoxetine Oral Solution 0.4% JG	Capecitabine Tablets 300mg JG
Flecainide Acetate Tablets 50mg TE	Lanthanum Carbonate OD Tablets 250mg JG*
Flecainide Acetate Tablets 100mg TE	Lanthanum Carbonate OD Tablets 500mg JG*

\*Lanthanum Carbonate OD Tablets were released in January 2020

### Launched OTC drugs (January 2020)

As our second round of OTC drugs, we launched Loxoprofen Tablets JG (antipyretics/analgesics).



Loxoprofen Tablets JG pack of 12

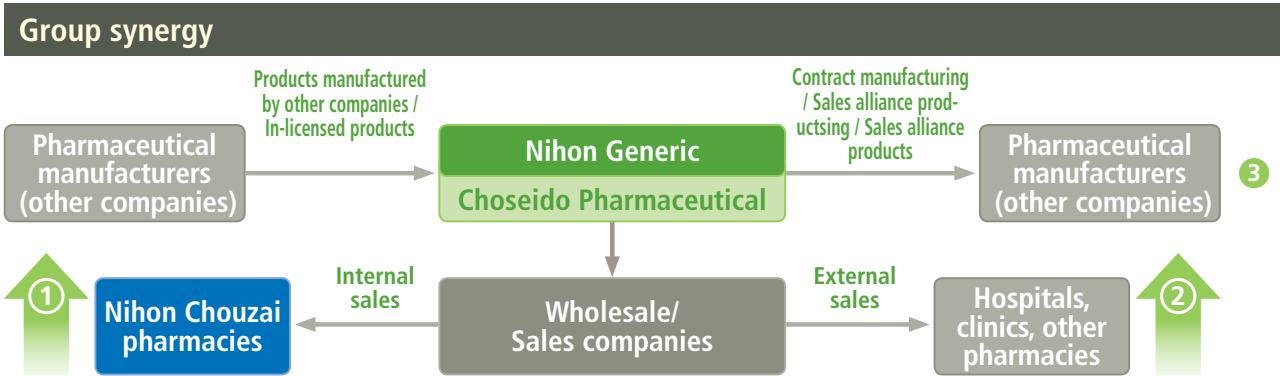




Growth Strategy

Expanding Operations to Create Group Synergies Unique to Nihon Chouzai Group

- 1 We possess an unrivaled business model by which the Pharmaceutical Manufacturing and Sales Business (Nihon Generic and Choseido Pharmaceutical) will expand along with the expansion of the Dispensing Pharmacy Business of the Nihon Chouzai Group. We have dispensing pharmacies and pharmaceutical manufacturers within the Nihon Chouzai Group, and we are steadily expanding our business by demonstrating the synergy unique to our Group.
- 2 Nihon Generic and Choseido Pharmaceutical's generic drugs are purchased by Nihon Chouzai pharmacies nationwide through wholesale companies. As a result, we have built a unique business model that other companies do not have, by expanding distribution network for our generic drugs to wholesale distribution channels nationwide and expanding external sales.
- 3 We conduct business with several other manufacturers including contracting in and contracting out manufacturing, as well as in-licensing and out-licensing.



Internal sales	<b>Expected synergistic effects with Nihon Chouzai's pharmacy opening strategy</b> Internal sales increased in conjunction with the opening of own pharmacies and M&A in the dispensing pharmacy business.
	<b>Convert generic drugs dispensed at Nihon Chouzai pharmacies into Nihon Generic and Choseido Pharmaceutical products</b> Convert generic drugs by other companies dispensed at Nihon Chouzai pharmacies into in-house products. When converting original drugs or long-listed drugs into generic drugs, we will promote sales by converting them into in-house products in a timely manner.
External sales	<b>Increasing new adoption cases</b> We will strengthen external sales by increasing generic drug adoption at dispensing pharmacy chains other than Nihon Chouzai, major university hospitals, and company clinics, and raising awareness within the industry.
	<b>Formulary</b> Based on the increasing momentum to promote formularies, establishment of formularies has become more active, especially in large hospitals. As such, we expect that the number of generic drugs in use will increase dramatically. We will develop a system to respond to this trend and act accordingly.

**Entry into the over-the-counter (OTC) drug business**

This is a business that started new initiatives expecting synergistic Group effects. Following the launch of hair growth agent, Minoxidil Lotion 5% JG in December 2018, we launched Loxoprofen Tablets JG, antipyretics/analgesics, in January 2020 as our second OTC drug. In the future, we plan to continue the PDCA cycle, starting with selling at Group dispensing pharmacies.

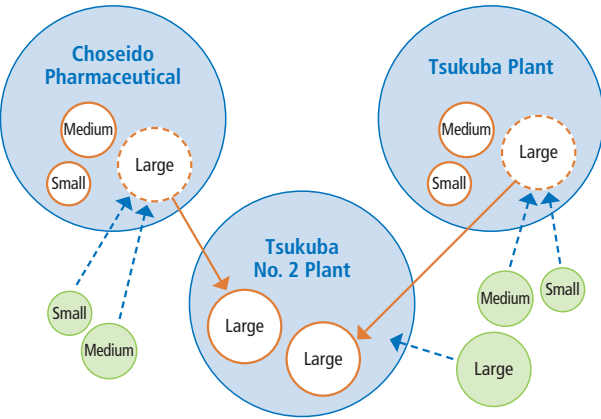
Expanding Operations with Out-licensed Contract Manufacturing Products and Sales Alliance Products

<b>Contract manufacturing</b>	Produce items developed by other companies at Nihon Generic and Choseido Pharmaceutical and sell them.
<b>Contract manufacturing</b> Transferring large-lot products from Tsukuba Plant to Tsukuba No. 2 Plant freed up production lines, enabling us to conduct contract manufacturing of other companies' products. In recent years, while generic drug use has increased, many generic drug manufacturers have been in difficult circumstances in terms of profitability due to price system revisions, a decrease in blockbuster products (popular original drugs whose patents have expired), and stricter quality assurance. There are also cases in which manufacturers are hesitant to make new capital investments. Due to these factors, demand for contract manufacturing is increasing, and the Group is receiving more requests, which it is capable of accommodating. The Group is actively promoting contract manufacturing, and is committed to expanding its efforts. Choseido Pharmaceutical's Kawachi Plant is dedicated to producing cephem antibiotic formulations, which has the largest market share in Japan and it will continue to further expand its market share with unrivaled originality.	
<b>Sales alliance products</b>	Sales of items (Nihon Chouzai licensed products) that the Group holds manufacturing and sales approval for to other companies. Other companies sell these as their own products.
Our Tsukuba No. 2 Plant has started operation and freed up our production lines, making it possible for us to actively incorporate sales alliance products. As of December 31, 2019, we have more than 460 in-house licensed products. As we have achieved an assortment of products that can support inquiries from other pharmaceutical manufacturers, manufacturing of sales alliance products is increasing.	

Optimization of Production Resources

Securing more contract manufacturing/sales alliance business

We are promoting effective use of each plant within the Group in order to secure more contract manufacturing and sales alliance business. By transferring the production of large-lot products to the completed Tsukuba No. 2 Plant, we are now utilizing the free lines available at the Tsukuba Plant and Choseido Pharmaceutical's plants, and have laid a foundation that will allow us to take on new businesses such as the contract manufacturing and sales alliance businesses.



Plant characteristics	
<b>Nihon Generic Tsukuba Plant</b>	● Small to medium scale production ● Tablets
<b>Nihon Generic Tsukuba No. 2 Plant</b>	● Medium to large scale production ● Tablets
<b>Choseido Pharmaceutical Headquarters Plant</b>	● Small to medium scale production ● Tablets, capsules, powders
<b>Choseido Pharmaceutical Headquarters No. 2 Plant</b>	● Small to medium scale production ● Tablets, capsules, powders
<b>Choseido Pharmaceutical Kawachi Plant</b>	● Small to medium scale production (Plant exclusively for manufacturing antibiotics) ● Tablets, capsules, powders



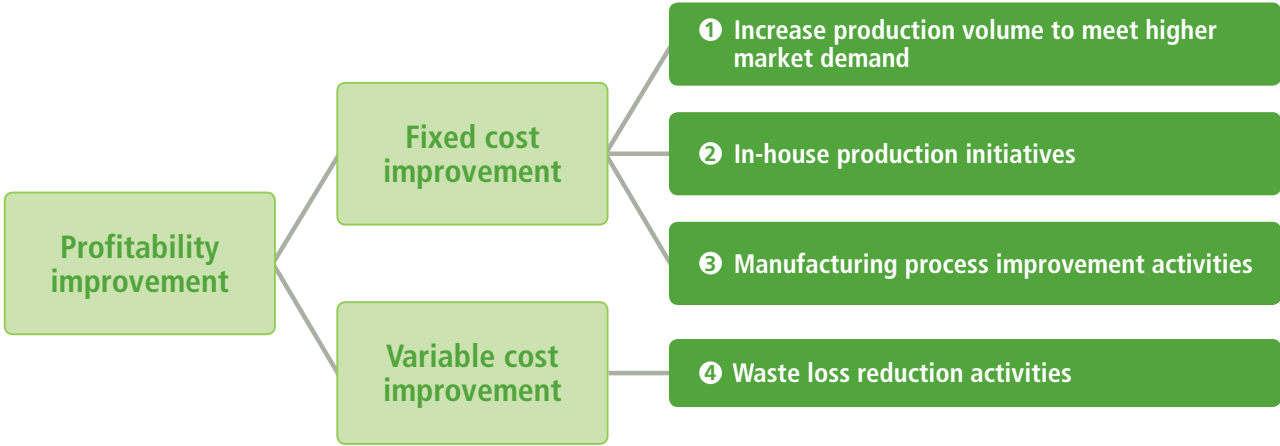
Growth Strategy

Profitability Improvement

Fixed costs peak out, profitability improves further

Anticipating policies to reduce medical costs, such as promotion of generic drug use and annual NHI drug price revisions, as well as changes in the labor environment, such as work-style reforms, we aim to gain greater production volume and improve profitability by making full use of existing resources.

Fixed and variable cost improvements are the pillars of profitability improvement.



**1 Increase production volume to meet higher market demand**

In the generic drug market, strong promotion policies have been set forth toward reaching the government target of 80% volume-based market share for generic drugs, with the deadline approaching at the end of September 2020. In addition, considering the movement toward formularies already underway primarily at large hospitals will expand to regional formularies in the future, we highly expect the generic drug market to further expand and its production volume to increase, even after the volume-based target is reached.

**2 In-house production initiatives**

We are working on in-house production at Nihon Chouzai plants, with a focus on items that are contract manufactured at other companies. Although it does not directly contribute to sales growth as these items are already being sold to dispensing pharmacies in and outside of the Group and to other medical institutions, it will lead to improvements in the operating rate and gross margin ratio at our Group plants.

**3 Manufacturing process improvement activities**

We are taking steps to improve fixed costs with efficient manufacturing by setting specific goals for the detailed review and improvement of the manufacturing process and continuously using the PDCA cycle. As part of our improvement activities, we are also focusing on employee education and creation of a mechanism that is able to maintain improvement activities while sustaining employee motivation, with the goal of creating an overall culture in which improvement activities can be enjoyed.

**4 Waste loss reduction activities**

Following our efficient production plans in our plants, we are working to reduce wasteful product disposal by producing the necessary products in the right amount when needed. Regarding sales, we have conducted improvement activities while being conscious of the cash conversion cycle (CCC). With a wide gap between production volume and sales volume, we have drawn up a supply chain management (SCM) strategy tailored to the characteristics of each item, leading to waste loss and more efficient operations.

R&D

R&D that maximizes group synergy

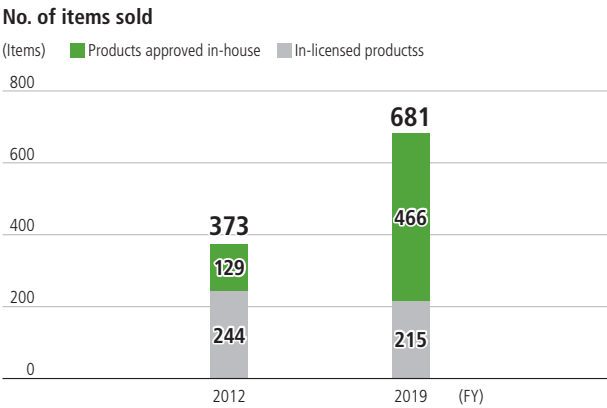
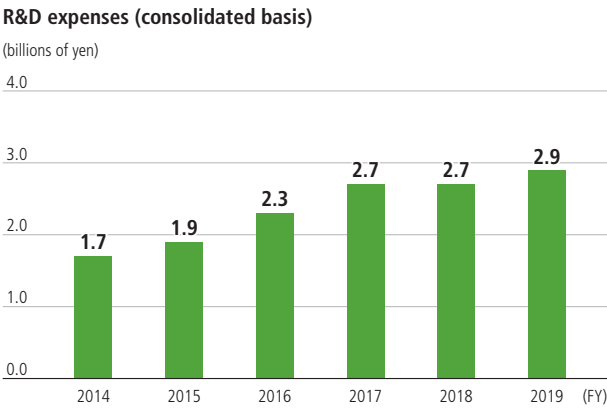
**Efficient R&D focused on items that are widely used at Nihon Chouzai pharmacies**

- The ability to predict expected sales volumes at Group dispensing pharmacies in advance enables profit and recovery forecasting, achieving efficient development planning.
- Even for items on new NHI drug price listings whose patents have expired, the amount used at Group dispensing pharmacies can be projected with certainty. Therefore, we have established a system in which other pharmaceutical manufacturers can take part in joint development with peace of mind since development is carried out according to a plan.
- Because we must meet the needs of pharmacies, our largest customers, we conduct R&D activities covering a wide range of items not biased towards any particular disease. By dealing with many medicines, in the end, we can accumulate the latest know-how and technology, resulting in a positive cycle.

**Research facilities of Nihon Generic and Choseido Pharmaceutical utilize their respective expertise and know-how**

**Efforts to minimize additional equipment investment by carrying out development appropriate for each plant**

- In June 2018, we consolidated the laboratories of Nihon Generic, which were previously dispersed in two locations, into the Tsukuba Research Institute. As a result, our laboratories are at the two bases of Nihon Generic and Choseido Pharmaceutical, establishing a system that allows for efficient product development by using the expertise and know-how that each laboratory specializes in. As the increase in number of items for sale has reached a certain level, we are now increasing the proportion of items approved in-house, and are actively promoting R&D.



Quality Control

Fiscal 2019 quality objectives

- 1) Maintenance of approval documentation that is suited to the manufacturing circumstances
  - Annual inspection of approval documentation, compliance check via GMP inspections, assessment of the appropriateness of the change of management practices
  - Appropriate implementation of the three roles of manufacturers and marketers, appropriate application of revisions to the Japanese Pharmacopoeia
- 2) Practical application of quality risk management
  - Product and manufacturing risk assessment, examination of validation procedures, etc. associated with the change of management, implementation of appropriate risk management practices when selecting new bulk drug and additive manufacturers
- 3) Improvements to the system of providing information regarding quality to medical institutions and patients
  - Improving the clarity of information that needs to be provided as well as the procedures for gathering, transmitting, releasing, and managing such information and entering into contracts related to the provision of information about in-licensed products
- 4) Continuous improvement to realize solid quality system
  - Increasing awareness of compliance, optimizing the quality system, adopting a GMP operations support system, planning and promotion of QA conferences with Nihon Generic and Choseido Pharmaceutical

Market Environment

**Fiscal 2018**

- Rectify excessive discounts based on Revised Distribution Guidelines
- Distribute pharmaceuticals at reasonable prices
- Optimize (raise) supply prices
- Optimize (compress) NHI drug price gains

**Fiscal 2019**

- Comply with Revised Distribution Guidelines
- Distribute pharmaceuticals at reasonable prices
- Optimize wholesale prices and supply prices
- Optimize NHI drug price gains

**Distribution channels for medicines for medical treatment in Japan**

Drug manufacturers → Wholesale price → Wholesalers → Supply price → Hospitals / Pharmacies → Sales price → Patients

NHI drug price (set by country)

**Revised Distribution Guidelines**  
(Started using from April 2018)

1. Establish appropriate market prices in order to eliminate negative primary margin on sales
2. Promote early settlement and unit price-based/individual product transactions
3. Revise discount negotiations

**Setting of appropriate wholesale price/rebate, etc.**  
(Notice as of October 3, 2018, Economic Affairs Division, Health Policy Bureau, Ministry of Health, Labour and Welfare)

1. Set an appropriate rebate that assesses the wholesale function
2. Reflect the wholesale price's corrected rebate item in the wholesale price

Environment (Environmental Initiatives)

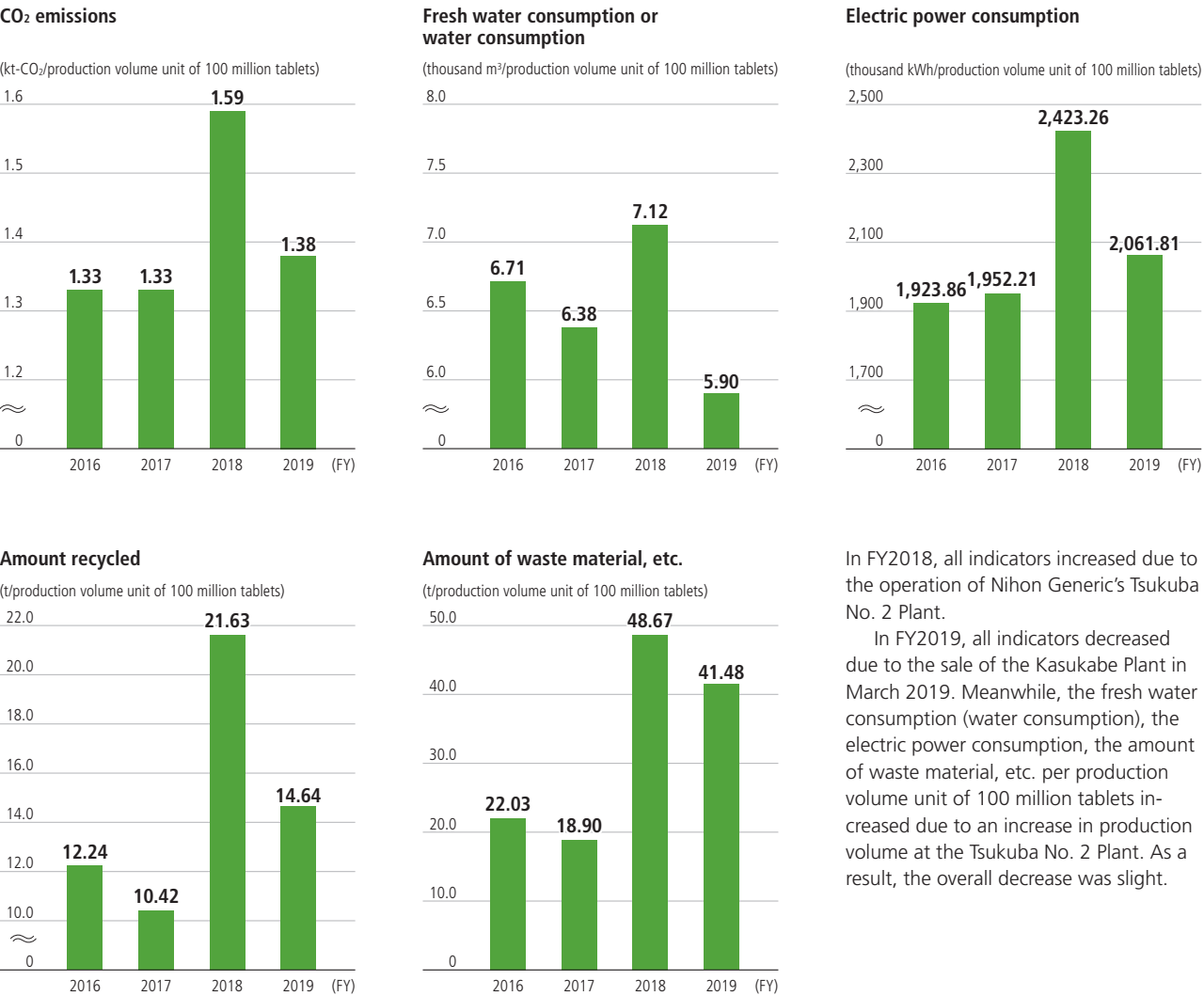
The Pharmaceutical Manufacturing and Sales Business reforms plant buildings it obtains from other companies and installs the latest equipment to ensure that CO<sub>2</sub> emissions, fresh-water usage, and electrical power usage are kept to a minimum. Newly constructed plants are designed from the planning stage to be environmentally friendly. We will continue to make investments and take initiatives to reduce our impact on the environment.

**Major investments and effects in or prior to fiscal 2018**

- Power consumption reduced at Nihon Generic Tsukuba No. 2 Plant and Choseido Pharmaceutical Headquarters No. 2 Plant by decreasing chiller load with mist spray cooling using plant wastewater
- Change to LED lighting at Nihon Generic Tsukuba Plant and Tsukuba No. 2 Plant and Choseido Pharmaceutical Tokushima Research Institute)
- Decreased air conditioning load by adopting low air flow-type draft chamber at Nihon Generic Tsukuba No. 2 Plant
- Adoption of ultra-high-rate transformer capable of reducing loss by about 35% for top runner transformers at Nihon Generic Tsukuba No. 2 Plant

**Major investments and effects in fiscal 2019**

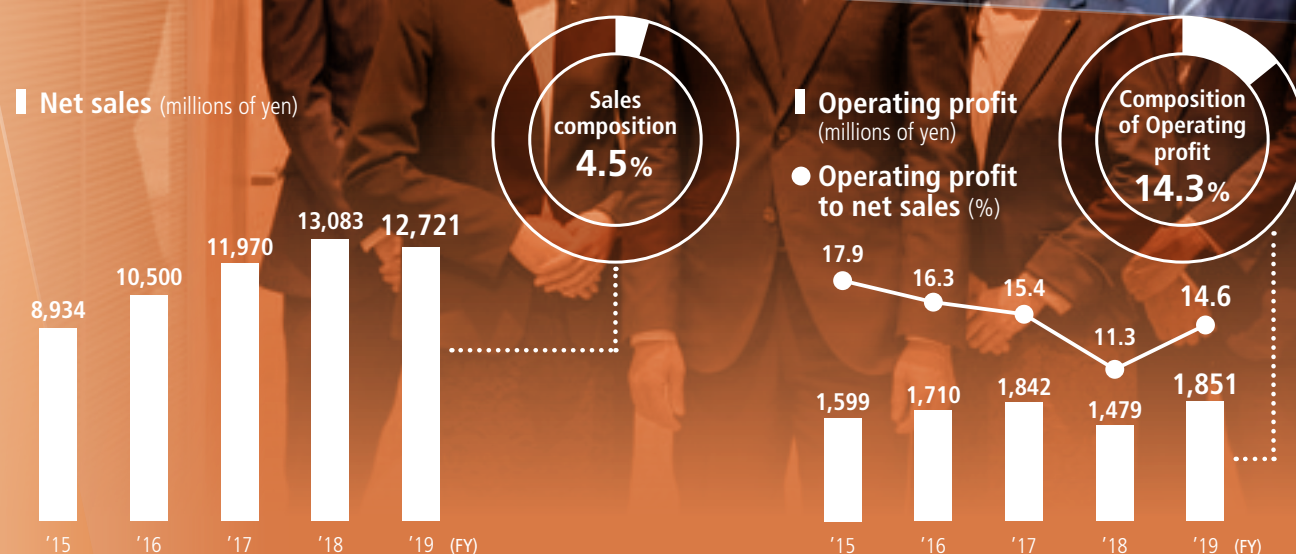
- Introduced simultaneous cold and heat pump system at Choseido Pharmaceutical Headquarters No. 2 Plant  
⇒ Decreased chiller load with mist spray cooling using plant wastewater and reduced liquefied petroleum gas
- Installed solar panels at Choseido Pharmaceutical Headquarters No. 2 Plant  
⇒ Reduced the amount of power taken from the grid by using power generated in the building





# Medical Professional Staffing and Placement Business

Medical Resources, Co. Ltd.



## Medical Resources by the Numbers

We believe communication with job seekers (medical professionals) and job providers (medical institutions and companies) is extremely important for our human resource business. Medical Resources takes a serious stance toward face-to-face meetings with job seekers and job providers, and having placed facilities nationwide, we have built a system for meeting and consulting with them in person. We have achieved sustainable growth and high profitability by finding nuanced needs that are difficult to communicate only by telephone or in writing, and offering proposals that

meet the demands of both job seekers and job providers in order to earn their trust and satisfaction.



Only 17 companies in Japan have acquired all three types of certification. We provide highly reliable staffing services.

### Three reassurances of Pharma Staff

We provide three reassurances to support the successful career moves of all pharmacists.



## Strengths of Medical Resources

Providing high-value-added services to job providers (medical institutions and companies) and job seekers (doctors and pharmacists) as a comprehensive human resources service company for the medical industry

In fiscal 2019, we continued a shift from staffing to placement in our core pharmacist business. This is to gain the initiative in anticipation of demand for placement of high-quality pharmacists increasing to higher levels than ever due to the expansion of the scope of work for pharmacists to include family pharmacists and the like, while demand for dispatching pharmacists is expected to decline relatively. In the dispensing pharmacy industry, the majority of pharmacies are part of small- to medium-sized chains or privately owned, so many pharmacies experience difficulty in recruiting pharmacists, creating a market environment with continuously

high demand for human resource placement. Thanks to our shift from staffing to placement, on a profit basis, operating profit significantly increased to 125.2% year-on-year due to increased referrals of pharmacists, doctors, and other medical professionals, despite net sales decreasing to 97.2% year-on-year.

While we do expect progress in work style reforms and major changes in the social environment surrounding medical professionals in the future, we will respond swiftly to these changes and achieve sustainable growth by utilizing the synergy of having a dispensing pharmacy business among our group companies.

## Matching Quality Underpins Customer Satisfaction

We have continuously worked to improve matching quality for many years through detail-oriented counseling. As a company that handles important personal information, we have also acquired Privacy Mark certification, and have realized a high-quality, highly-reliable staffing and placement business. Acquiring these certification marks is proof not only of the quality of our placement and staffing services, but also of the fact that we satisfy

many other evaluation items, including soundness of business and a management system for compliance. Furthermore, 99% of our net sales is earned from staffing and placement for pharmacy chains not owned by Nihon Chouzai and privately owned pharmacies. This business contributes to achieving a true separation of drug prescribing and dispensing services by sending high-quality pharmacists into the world.

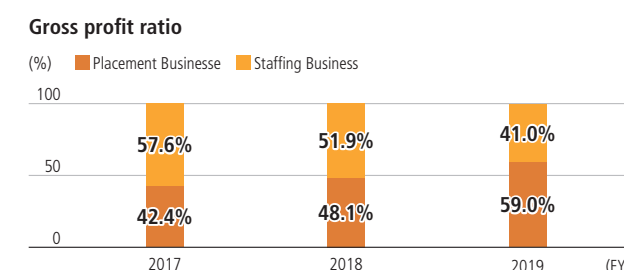


## Growth Strategy

Ensuring high profitability and creating a more balanced business portfolio by expanding our placement business

Our company is the strongest in the industry when it comes to pharmacist staffing. At the same time, we are transitioning toward a more balanced business portfolio, while aiming to achieve high profitability, by expanding our placement business.

Going forward, we will capture the increased demand for family pharmacists, grow our pharmacist placement service, and expand our placement business for doctors, nurses, and registered pharmaceutical medicine sellers, so as to realize even higher growth.



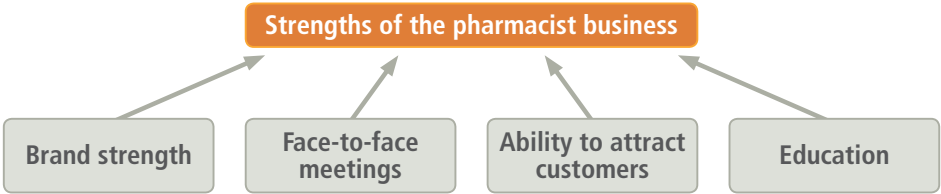
**Reference:** With family pharmacists, long-term support is required in order to understand the medication status (including all medication, such as prescription drugs, OTC drugs, etc.) of patients, continuously monitor leftover medicine and the appearance of side effects, and provide appropriate guidance. Therefore, family pharmacists must meet the following requirements.

#### Requirements for family pharmacists

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

Business Development

Pharmacist Business



Brand strength

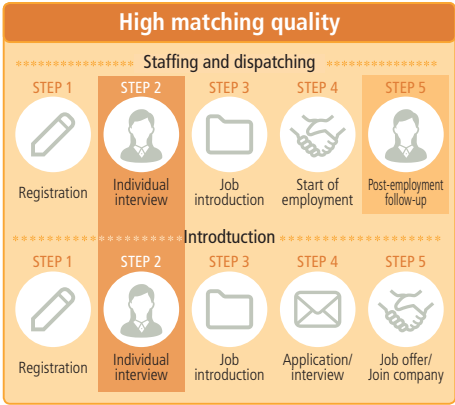
Medical Resources is a human resources business operated by Nihon Chouzai, a company with massive brand power in the medical industry and known for its high education level. It provides high-quality content to temporary staff and pharmacist placements, and it supplies high-value-added human resources. We maintain our brand strength among the pharmacies to which we dispatch or introduce employees, such as by providing business support plans and high-value-added services that leverage the pharmacy management expertise of the Nihon Chouzai Group.

Face-to-face meetings

We have established facilities nationwide, where we meet with medical professionals and offer face-to-face career outplacement counseling, placing great importance on information that we can obtain by speaking with them directly. It is important that we identify not only working conditions, but also working environments and the needs of job seekers, so we can present them with the ideal job offers.

Work style has a great impact on people's lives, so we provide a sense of security to job seekers with our brand strength, and earn their trust by speaking with them directly.

For job providers, we provide detailed information about the latest job change market and high matching quality, always working to ensure a win-win situation for both job seekers and recruiters at job providers.



Ability to attract customers

Regardless of whether they are currently seeking a new job, pharmacists are highly motivated people, and many of them keep their antennas tuned to new information on a daily basis. Furthermore, because pharmacists are required to have a high degree of specialized knowledge as medical professionals, the need for websites that provide useful information on pharmacist work, such as the one shown on the right (Pharma Labo), is increasing year by year. By responding to these circumstances and keeping up with pharmacists' careers, we are working continuously to be an ever more trusted medium.



Education

We provide high-quality content to temporary staff and pharmacist placements, and supply high-value-added human resources. The advanced education system established at pharmacies in the Nihon Chouzai pharmacy business is a strength unmatched by other companies.

Content for pharmacists	JP Learning	JP Learning is an e-learning course that allows one to obtain the credits needed to acquire a certified pharmacist training credential. The course provides more than 1,000 pages of enhanced content.
	Seminars for pharmacists	We hold seminars for pharmacists several times a year to learn the required dispensing and medical knowledge and industry trends.
	Retention program	This program is held as part of the health and welfare benefits for dispatched workers. We also hold money seminars as well as other seminars for working women.
	Yaku-Tore	A dispensing textbook that has been edited by Nihon Chouzai is provided as an app for smartphones. It also deals with prescription dispensing fee revisions.
Content for pharmacies	Management seminars	The pharmacy management seminar teaches Nihon Chouzai's management know-how.
	Business support plan	This program for corporations solves various problems in pharmacy management with seminars and practical training.

Doctor Staffing Business

We began full-scale efforts in our doctor staffing business since fiscal 2017, and started to expand nationwide in April 2018. Developing a dispensing pharmacy business within the Group gives us the advantage of being able to quickly identify the needs of doctors opening new locations. We are also expanding our placement business for doctors by demonstrating the synergy from collaboration with the MC-Mentaio (medical center/near the station and in the shopping district) Sales Division, which develops pharmacies operated by our dispensing pharmacy business.

In fiscal 2018, we made an upfront investment in anticipation of business expansion, by adding four new facilities, doubling the number of sales staff, and conducting advertising campaigns. This caused a temporary increase in SG&A expenses, so our Medical

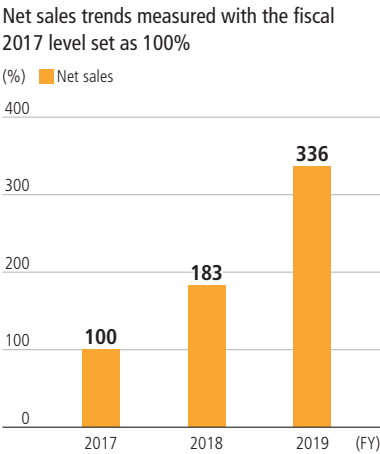
Professional Staffing and Placement Business posted increased revenue but decreased profit. However, looking at net sales in our doctor staffing business alone, net sales increased to a substantial 765% compared with fiscal 2016, when we had yet to launch full-scale efforts.

In fiscal 2019, we began to see the effects of upfront investments made in fiscal 2018, and our doubled sales staff acted as a substantial driving force that contributed to the growth of net sales. As a result, net sales significantly increased to 336% of fiscal 2017. In addition, to secure more job seekers, we bolstered our efforts to secure job offers, resulting in a significant increase to 148% compared with fiscal 2018. We are developing an environment that can meet the needs of job seekers.

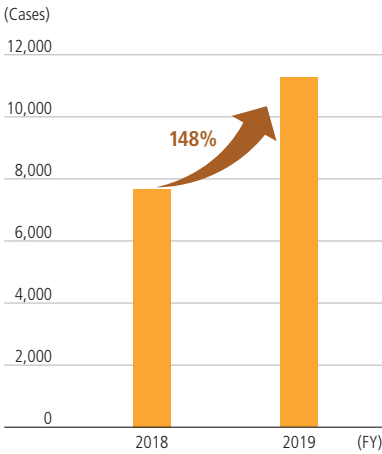
Four additional facilities added in fiscal 2018



Contributing to net sales in fiscal 2019



Increase in the number of job offers in fiscal 2019



Registered Pharmaceutical Medicine Sellers Staffing Business

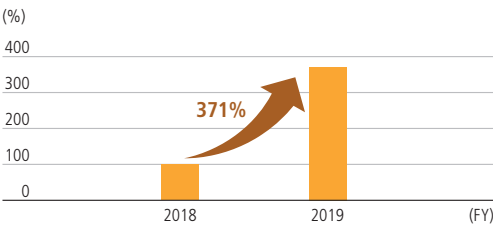
Demand for registered pharmaceutical medicine sellers, who are qualified to sell Type 2 and Type 3 drugs from among over-the-counter (OTC) drugs, has increased, and is growing in many places, including drug stores and convenience stores, which are expanding their handling of OTC drugs. Along with the growing

demand, the market size is continuing to expand. We have newly begun developing this business in fiscal 2018, and in fiscal 2019, our sales growth rate rose significantly to 371%. Since we updated our website in March 2020 and prepared for it to be used by more job seekers, we will aim for further expansion in the future.



Website update

Net sales trends measured with the fiscal 2018 level set as 100%





Business Development

Nurse Staffing Business

In our nurse staffing business, we updated our website in August 2019, making it easier to use for job seekers. This business is shaping up to have a strong start, and we will continue to work toward further expansion.



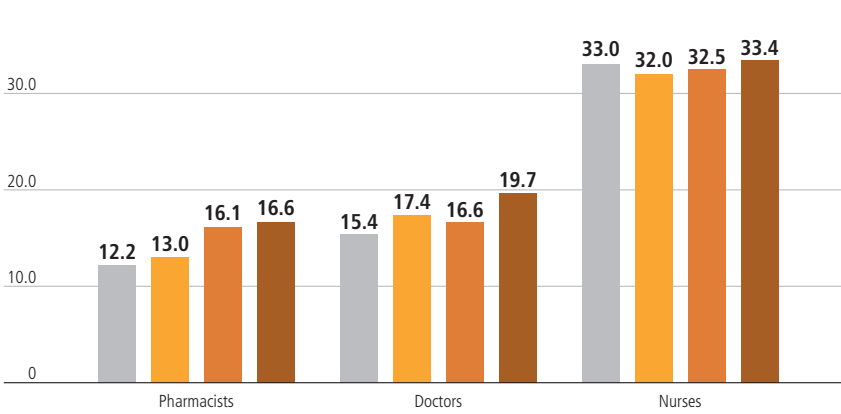
Market Environment

Market Size for Pharmacists, Doctors, and Nurses

The market size of human resource placements in fiscal 2018 was 16.6 billion yen for pharmacists, 19.7 billion yen for doctors, and 33.4 billion yen for nurses. There is still more room for growth in our pharmacist placement business, and the market size for doctors and nurses are much larger than even that for pharmacists, so

we can expect further expansion of our placement business. Going forward, we will continue to take advantage of the strengths we have built over time, including our brand strength, reliability, and ability to meet face-to-face with job seekers and job providers, so that we can further expand our business.

Market size for pharmacists, doctors, and nurses  
(billions of yen)



Source: Ministry of Health, Labour and Welfare, Employment Placement Business Report, Worker Dispatching Undertaking Business Report compiled by Nihon Chouzai based on various figures.

Number of pharmacists (persons):  
311,289 (2018)  
Number of doctors (persons):  
327,210 (2018)  
Number of nurses (persons):  
1,660,071 (2016)  
Number of pharmacies (pharmacies):  
59,138 (2018)  
Number of Hospitals (institutions):  
8,372 (2018)  
Number of Clinics (institutions):  
102,105 (2018)

Sources:  
2018 Overview of Statistics on Doctors, Dentists, and Pharmacists (Number of pharmacists and doctors)  
Japanese Nursing Association, Nursing Statistical Data (Number of nurses)  
Overview of 2018 Medical Facility (Dynamic) Survey & Hospital Reports (Number of pharmacies, hospitals, and clinics), Handbook of Health and Welfare Statistics

3 Base that supports Nihon Chouzai

- 49 Human Environment\*
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\* See page 42 for examples of environmental initiatives

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

Base that supports Nihon Chouzai

Data section

# Human (Investment in Human Resources)

At Nihon Chouzai, we consider the people who underpin a company as critical resources for management, and we actively invest in their recruitment, training, evaluation and engagement. Among these initiatives is our effort to strengthen training and organizational strength with an eye toward achieving the dramatic business expansion set forth in our long-term vision for 2030.



To realize a virtuous cycle with human resources and the organization's management, we are undertaking a range of initiatives in support of dramatically expanding the Dispensing Pharmacy Business, one of the key issues of our long-term vision for 2030.

## Recruitment

Recruiting human resources, starting with pharmacists, is critical. These are the people that offer high-quality pharmacy services and heighten our competitive capabilities, thus leading to the organizations' expansion. We are striving to strengthen our ability to recruit pharmacists, certified dietitians, medical administrators and administrative department personnel, both as new graduates and mid-career hires, in order to respond to changes in the external environment such as revisions to laws and industry restructuring.

### Strengthening Recruitment of Newly Graduated Pharmacists

Person-to-person work is becoming a common part of the duties performed by pharmacists more than ever, whether it is family pharmacists, for at-home medical care, or throughout the range of specialized fields. We believe that securing high-quality human talent is a key issue for enabling us to implement our growth strategy to survive as the industry undergoes reconstruction. Although the number of pharmacists hired decreased from the previous fiscal year due to the raising of our hiring standards, we are hiring close to 400 pharmacists each year. In addition, in the "Mynavi/Nikkei 2021 popularity rankings of Japanese companies among job-seeking students graduating in 2021" targeted at university and graduate school students scheduled to graduate in March 2021, we came number one in the dispensing pharmacy and drugstore industry for three out of the four categories related to our company.



\* Extracted by the Company from the Nihon Keizai Shimbun Part 2 dated April 8, 2020

### Conveying Workplace And Career Information

We created a recruitment website for each occupational category and provide abundant information with regard to employee interviews and careers. Also offered is a rich variety of contents, such as movies, that clearly demonstrate the daily routine of employees. We have also created an official LINE (popular social media app) account, in an effort to proactively convey information to pharmacy students.



### Internship

We offer internships in all of our occupational categories, providing opportunities for interns to experience working and career opportunities at Nihon Chouzai. This also provides a venue where interns can interact with employees. A total of approximately 1,500 people participated in this internship program for pharmacist students for the year.

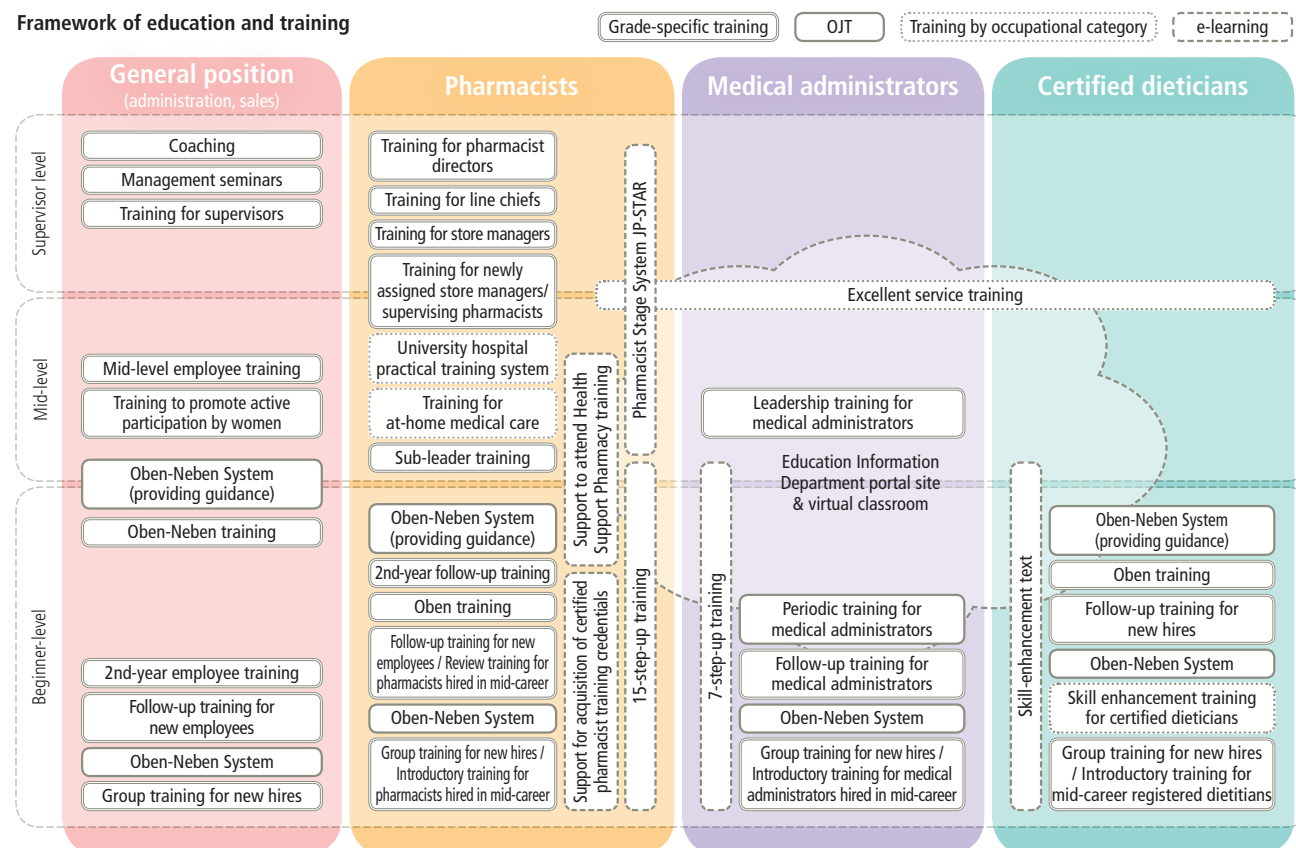




## Development of Human Resources

Regardless of what position a person fills, at the heart of Nihon Chouzai's stance on human resources is the "medical professional." These are individuals that possess a keen awareness of responsibility to provide medical care and a sense of mission, while responding to the growing medical needs that confront an ultra-aging society. We aim to develop human resources that aggressively work to find solutions to social issues, such as keeping medical costs in check, thereby becoming an essential presence for patients, their families and the local community while contributing to healthcare in Japan and to society. Conducted by job type as well as grade seniority, we offer training by individual topic and career planning, and we provide opportunities for each and every employee to acquire necessary knowledge and skills.

### Framework of education and training

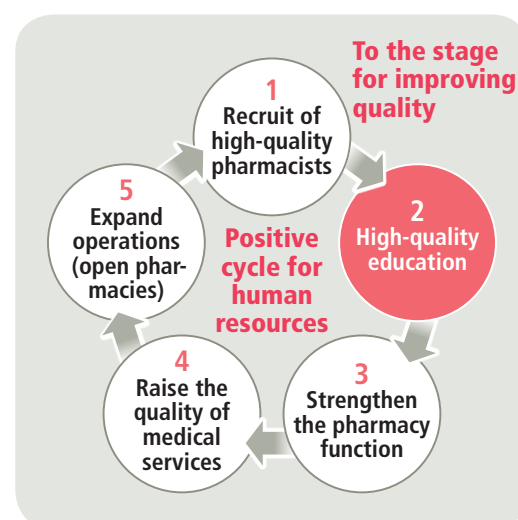


### Enhancing Training of Increasingly Needed Expert pharmacists → Differentiation from Competitors

As the Dispensing Pharmacy Business has already achieved "recruitment of high-quality pharmacists," we have moved on to the next step, which is the phase for "high-quality education." We have launched the Pharmacist Stage System in April 2018, recommending acquisition of internal credentials. The Company also provides full support so that employees can step up to acquiring more advanced external credentials. Because hospital training in addition to pharmacy work experience is essential for acquiring external credentials, we conduct hospital training for over 100 pharmacists each year.

#### Training system

- (1) 15-step-up training over 5 years, various training
- (2) Pharmacist Stage System (April 2018-)
- (3) Support for acquiring external credentials
- (4) Hospital training for over 100 pharmacists per year



### Training for New Hires

We endeavor to provide new employees with meaningful training that will form their foundation as members of society and medical professionals. Training programs offer practical content and focus on role playing and discussions, and seek to sharpen the knowledge and skills needed in each occupational category.



### Mentor System

This is a program in which third-year employees and their seniors from other departments are paired up for regular mentoring sessions. We have been conducting trials since 2018, and are preparing the system for a full-scale introduction as we expand its scope of coverage.



### Training for Newly Assigned Store Managers

We actively exchange opinions through group work between store managers tasked with the management of their businesses, covering a range of topics including their roles as leaders, guidance of subordinates, and marketing aimed at enhancing business performance. We aim to enhance their awareness and abilities as managers, while also placing an importance on creating horizontal connections within the Company.



### Management Seminars

This is a next-generation leader training program, in which we invite well-known instructors from outside the Company to provide advice, while each team considers company issues and offers specific recommendations to management. Through the repeated exchanging of opinions within teams while being aware of the issues, we are promoting their growth as next-generation leaders.



### Coaching Program

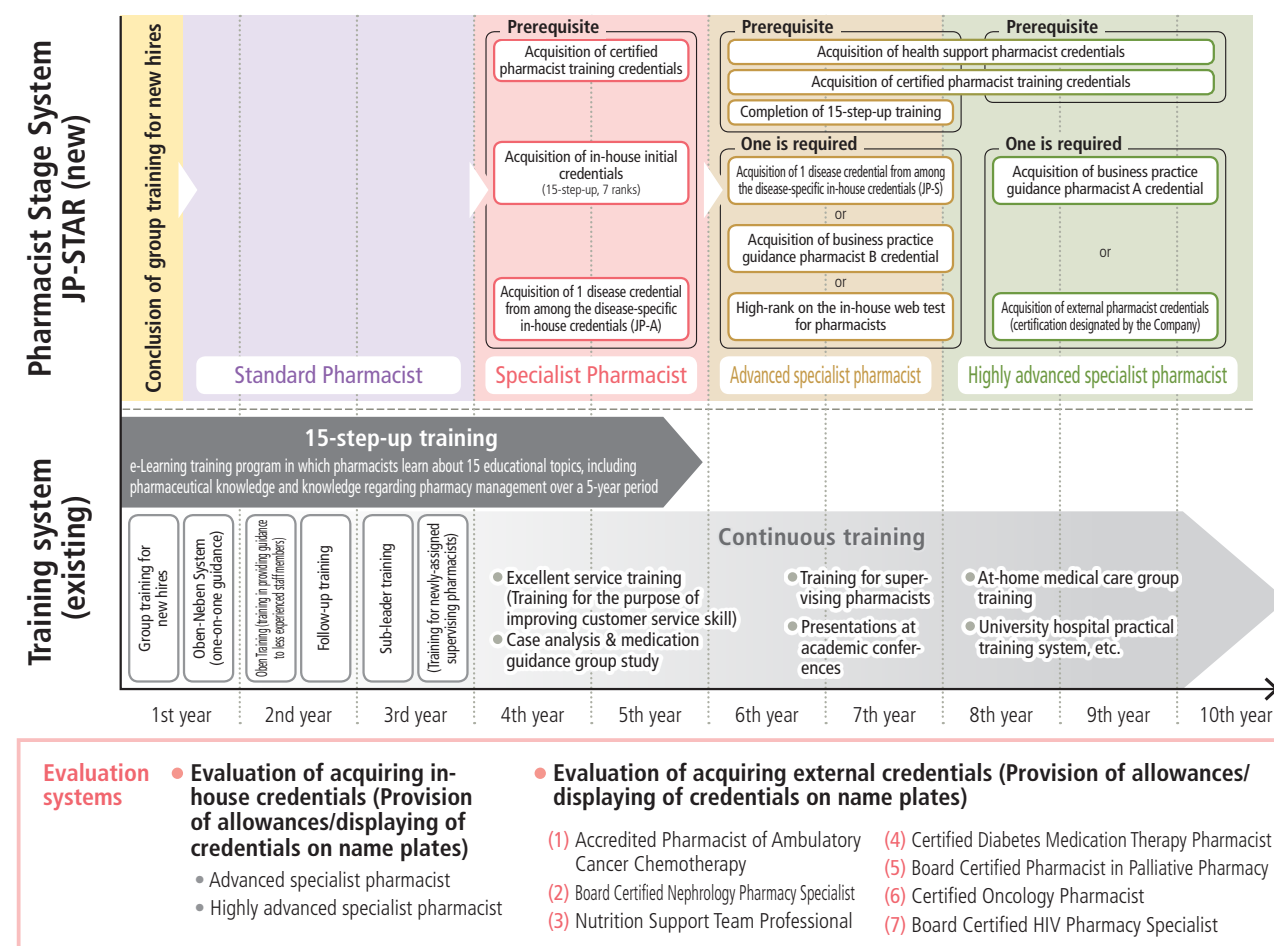
Since fiscal 2017, we have been conducting a coaching program run by an external specialized organization to promote 1-on-1 communication to selected managers. The results are shared to be utilized in communication with stakeholders and subordinate guidance.



## Evaluation

### Pharmacist Stage System

Nihon Chouzai created the internal Pharmacist Stage System JP-STAR to evaluate and promote the specialized expertise of pharmacists with regard to their knowledge and skills. As requirements to advance to the next higher stage, the pharmacist should acquire disease-specific in-house credentials for the five major diseases the Japanese government targets for priority measures, as well as eight fields including palliative care, at-home medical care and dementia. In addition, it will also be mandatory for the pharmacist to obtain certification for the higher stage with external pharmacist credentials, demonstrating a high level of specialized expertise. Evaluation of the pharmacist's advanced level of knowledge, skills and attitude facilitates an increased degree of motivation and enhanced skills.



### Customer Satisfaction (CS) Award

More than just a high level of expertise to provide outstanding pharmacy services, we believe it vital to offer outstanding care and to communicate with skill. Through the use of customer satisfaction surveys, we select those pharmacies and staff that excel at providing services, and after evaluating their care and service we recognize them with the JP-CS Award (store award and individual award), and we provide the JP-CS Role Play Award to those who have demonstrated role playing service to patients. We offer a variety of programs to individual recipients of awards, such as experience to learn hospitality, which provides an opportunity for them to further enhance their skills.

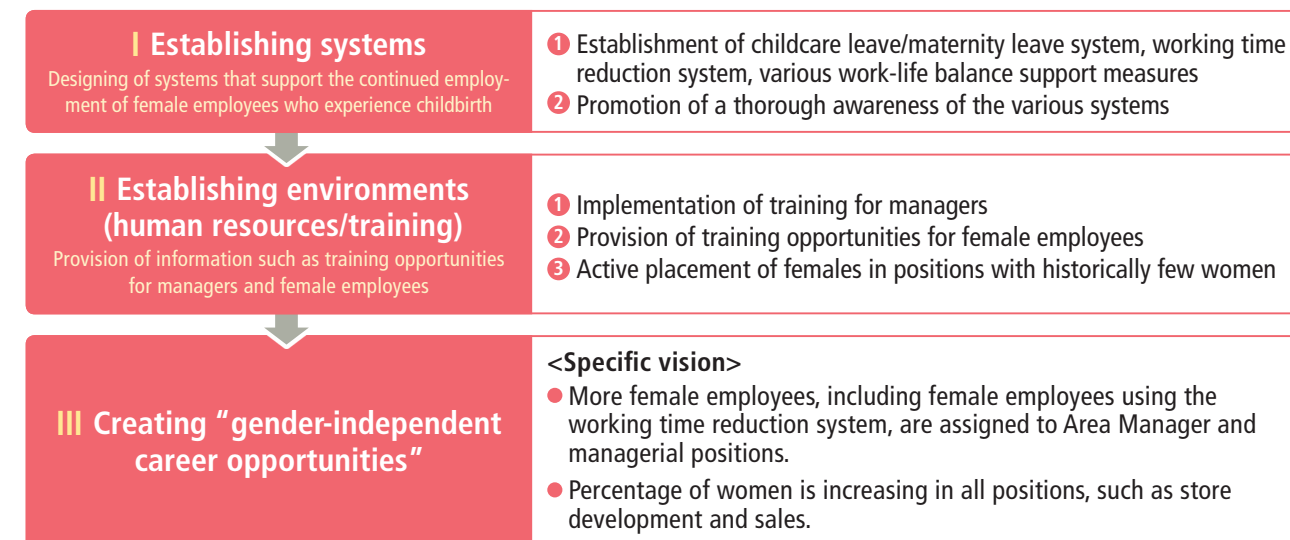
Best pharmacy of branch	Best staff of hospitality	Role-play awards
<b>Award for pharmacies that provide superior service</b>	<b>Award for staff who provide superior service</b>	<b>Award staff who have superior care capabilities</b>
Every year we select and recognize those pharmacies that have provided superior services. This selection is based on our customer satisfaction survey of patient-supplied questionnaires, followed by recommendations by supervisors and a final check from the person in charge of customer satisfaction.	Every year we select and honor staff who have provided superior services. Selected pharmacy staff are primarily those who have been highly rated according to patient questionnaires. The supervisor then performs a "blind" check.	The Role Play Award selection process consists of a first-round comprised of 100 participants, which is narrowed down to 20 in the main selection. Performances of care giving to patients are judged. Recipients are selected for the Grand Prize, Outstanding Performance Award in the Pharmacist Category, Outstanding Performance in the Operator Category, the Empathy Award, and Proposal Ability Award.

## Engagement

### Diversity & Inclusion

#### Promoting women's advancement in our workplaces

<Targets – from the action plan> At least 30 women in Area Manager positions and Chief positions or higher in administrative departments



#### Supporting work-life balance and childbirth/childrearing

We provide support to help employees who have experienced a life event continue on with their jobs. This support is provided through a variety of systems and initiatives that facilitate the balance between an employee's work and personal life.

Nihon Chouzai has many employees that balance both "work" and "child-rearing," creating an atmosphere in which they can cover one another.

#### 1 Various systems

- Prenatal/Postnatal leave
- Childcare leave: 1 year (available until the child is 2 years old if the child cannot be admitted to a nursery)
- Childbirth congratulatory money
- Working time reduction for childcare (finishing time can be shortened in 30-minute increments, up to 2 hours per day, until the child enters elementary school)
- Nursing leave system (leave may be taken for nursing when a child becomes ill, receiving vaccinations or medical examinations)
- Maternity leave system for spouses (in order to encourage male employees to participate in childcare, a leave system is provided separately from paid leave)

Take a look at this !

#### "Maternity trousers"

We make "maternity trousers" available for expectant pharmacists who are working while protecting their babies until they go on prenatal leave. Since the white garment has a rubber part on the abdomen with less tightening, they can work comfortably, and it also helps prevent cold and swelling in the abdomen and feet.

#### 2 Support for work-life balance

With the membership-based health and welfare benefits service, a wide variety of menu items that are useful for daily life and holidays are available at a reasonable price. Services such as monthly childcare facility subsidies and childcare facility vouchers are included in the menu, in addition to corporate contracts with babysitter service companies and securing priority admission slots through cooperation with various childcare facilities. We are working to enhance systems that support employees who want to balance their work and raising children.

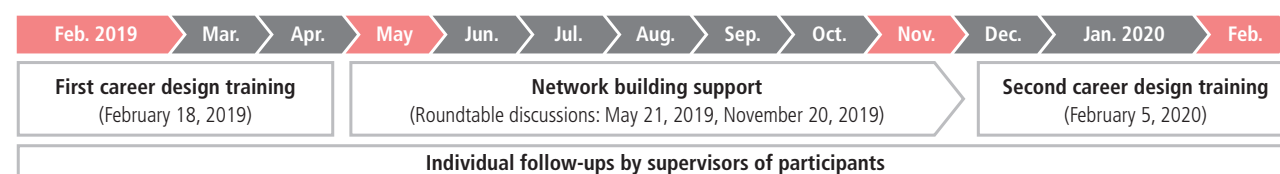
Cooperation with various childcare facilities	Priority admission for the children of Nihon Chouzai employees Admission free-of-charge, other costs subsidized
Corporate contracts with babysitter services	No initial fee or annual fees Subsidy program for employees
Payment of various subsidies	Childcare facility vouchers Monthly childcare facility subsidies



## Engagement

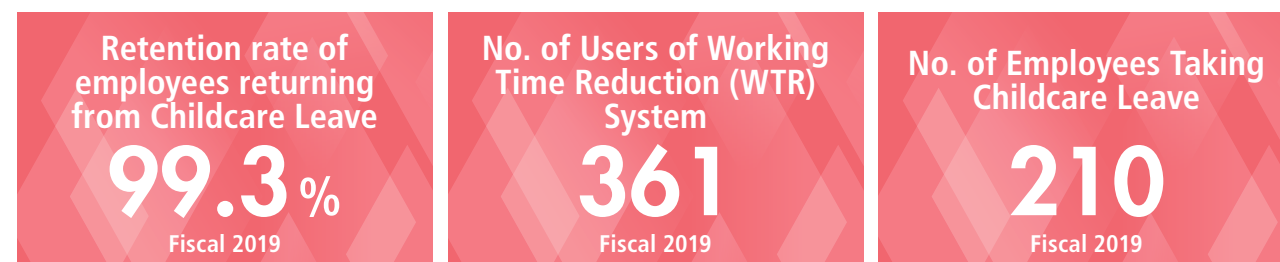
## 3 Work-life balance support project for female employees raising children

In February 2020, we held the second career design training session as the final round of the work-life balance support project for female employees working at headquarters and the Yokohama Branch who are currently raising children. The goal of this training was to have participants clarify the direction of their careers by promoting a more forward-looking vision in the current “child-rearing” stage of their lives, and also to build a network of female employees who are raising children. We hope that the participants will demonstrate their presence in their respective departments and further grow as role models by making the most of the networks cultivated through the year-long efforts.



## 4 Flexibility of career plans

We have introduced a system that affords employees flexibility in changing their employment contracts so that they can easily shift from a full-time employee status to a contracted or part-time employee status in accordance with life events and changes in their living environments. In addition, we have created a system which will enable employees to preferentially return to the Company after they have retired on account of compelling personal reasons, such as marriage, childbirth, child rearing, caregiving, or the work transfer of a spouse.



## Results of Efforts to Promote Women's Advancement in the Workplace

Traditionally, the pharmacist profession has a high ratio of females, and of the pharmacists employed at Nihon Chouzai 64% are female. For that reason we endeavor to support the careers of female employees and raise awareness among management, and take Company-wide efforts to promote their active participation. The roles female employees play has become an important management issue. We are moving forward on providing opportunities for education, regardless of gender, and nurturing women who will be store managers and supervisors.

## Acquisition of the highest level of “Eruboshi” certification

As a result of continuing our efforts to create opportunities for both men and women to play a role in the Company, and with the development of an easy-to-work-in environment for females, in 2018 we obtained Grade 3, the highest level, of “Eruboshi,”\* a certification, recognizing excellent companies for the active participation of women, that is based on the Act of Promotion of Women's Participation and Advancement in the Workplace.



Eruboshi mark (Grade 3)

**Full-time employee ratio**  
\*Average number of employees based on 8-hour conversion for part-time employees

**85.1%**  
 Fiscal 2019

**Female employee ratio**

**72.9%**  
 Fiscal 2019

\* Eruboshi, or “L Star” (the L represents Lady, Labour and Laudable), is a certification under the Act on Promotion of Women's Participation and Advancement in the Workplace. The Minister of Health, Labour and Welfare (delegated to the Labour Bureau head) grants Eruboshi certification to corporations with an outstanding implementation of their action plan for initiatives to promote the active participation of women. There are five evaluation criteria, namely, recruitment, employee retention, working hours and other work conditions, rate of women in management, and diversity of career progression, with three levels of certification based on the number of criteria met. At Nihon Chouzai we have fulfilled all criteria and have received Grade 3, the highest level of certification.

Amidst rising expectations placed on pharmacies as providers of sustainable medical care, it is becoming ever more important to put in place an environment in which all employees can exercise their abilities and play a role. Workstyle reforms, health management, and diversity and inclusion—it is through these initiatives that we work to support diverse human resources and ways of working and aim to be a highly engaged organization.

## Work-Style Reform

## Planned paid leave system

We have introduced a system whereby employees can take paid leave in a planned manner. This system works to support the taking of paid leave based on an employee's preferences, and it facilitates the creation of an environment in which paid leave can be taken.

## Work-Style Reform Committee

We have established a Work-Style Reform Committee so as to address changes in the law and further enhance workplace productivity. This committee follows up with employees who work long hours and responds to issues of work safety and health.

## Proactive dissemination of personnel rules to worksites

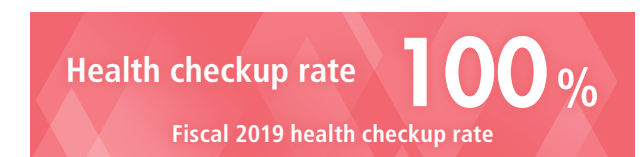
From the perspective of reducing overtime work and strengthening our efforts to promote the acquisition of paid leave, we are regularly providing opportunities for Area Managers and Store Managers to receive explanations from HR staff, aiming to change mindsets such as the thorough enforcement of attendance rules at worksites.

## Health Management

## Influenza immunization subsidy

From fiscal 2018 we have strengthened measures with regard to disease prevention. In addition to the health insurance association providing subsidies to those employees who have received their influenza immunization, Nihon Chouzai also grants a subsidy.

<Influenza immunization subsidy payment (for the insured)>



\*Has achieved 100% health checkup rate every year (since fiscal 2014)

## Prohibition of smoking and installation of disinfectant at all sites

Smoking is prohibited at all locations, including headquarters, branches, and pharmacies.

In addition, from the perspective of disease prevention, disinfectants are installed at the entrances and exits of all pharmacies, headquarters, and branches.

## Mid-career Recruitment (career recruitment)

In addition to hiring new graduates, we are strengthening the career recruitment of human resources required by each department. By acquiring highly specialized human resources from outside, we are not only fulfilling the positions in need of human resource, but also strengthening the expertise of the entire organization and creating new value which is different to existing employees.

## Promoting Hiring of the Disabled

We employ approximately 100 workers with disabilities. By achieving the rate of 2.29% (as of June 2020), we have surpassed the statutory employment rate. We are expanding relevant occupational areas while promoting active employment.

## Expansion of occupational categories

In addition to the traditional occupational categories of pharmacist, medical administrator and office worker, we are expanding occupational categories, such as employees who are tasked with being the driver when a pharmacist is making a home visit.

## Using sign language to provide care and medication guidance

Pharmacists who are deaf provide service at their pharmacies using sign language. In addition, we provide e-learning contents within the Company so that pharmacists can learn the sign language required for providing the pharmacy services needed to assist deaf people.

# Be Active! – INTERVIEW

In recent years, expectations have risen for the existential value of dispensing pharmacies and pharmacists. We believe it is important to think proactively about the value that Nihon Chouzai can provide as a pharmacy company, and then to act and disseminate such information to patients and other stakeholders. Expressed in the Company's policy of "Be Active!" is our hope for employees to take self-driven action by regarding change as an opportunity.

## Building the corporate brand and enriching life through work

**Mr. Ogami** (General Manager, Promotion Department and Human Resources Department)

In the past, I have worked in stores with various people as an Area General Manager. Since we have many female employees, we have focused our efforts on initiatives to make an organization where they can foster career awareness while adapting to various life events, such as by creating an environment where it is easy for female employees to take maternity leave and establishing relationships between employees to make it easy to work after returning to work.

Having many employees with children makes an immeasurable contribution to a company. Thanks to their depth of life experience, these employees can earn the trust of many patients, not limited to those of the same generation, and they can work patiently to train the younger generation of employees.

As our company aims to be a "pharmacy of choice," we hope to build a company that our own employees would recommend to their families, and their families would want to support Nihon Chouzai.

**Profile >>>** Joined the Company in 1996 and worked as a pharmacist at a pharmacy under the jurisdiction of the Sapporo Branch. After working in the Pharmaceutical Headquarters in 2009, served as the pharmacist director of the Kyushu Branch and has been engaged in human resource education, store management, and work-style reforms since 2010. Currently concurrently holds the positions of General Manager of the Promotion Department and Human Resources Department at the headquarters.

### How I "Be Active!"

Never forgetting the Frontier Spirit, I want to continue to take on challenges in unknown fields. I want the Company to be one that has the brand power we can be proud of, so that everyone offers praise to learn that I work for Nihon Chouzai.



## Utilizing manager experience to support the creation of patient-first pharmacies

**Ms. Akimoto** (Chief, Urafune Pharmacy)

After joining the Company as a new graduate, I was absorbed by the work in front of me. However, at the timing of my 11th year in the Company, I was asked to become an Area Manager. Before I took this position, I was worried. However, since I was assigned by my boss who had overseen me up until that point, I took up the position with a desire to live up to their expectations.

As an Area Manager, in addition to management tasks such as making sure "each staff member performs his or her duties with purpose so they shine upon the stage of the pharmacy," it is also important to build relationships with surrounding medical institutions and related facilities.

It was very rewarding to encourage individual employees to increase their morale and then see them give back to patients as a result. In addition, in order to talk at the same level as people in other occupations outside of the Company, it is necessary to have a thorough understanding of industry topics and pharmacy sites. As I was not aware of such perspectives when I was working inside of the pharmacy, I think that this led to my own personal growth.

Going forward, I would like to continue working to create pharmacies so that Nihon Chouzai will become the pharmacy of choice for patients, medical institutions, and also our employees.

**Profile >>>** Joined the Company in 1999 and worked as a pharmacist at a pharmacy in Kanagawa Prefecture. Consequently, worked as a Store Manager and Area Manager. After two maternity and childcare leaves, she has now returned to a pharmacy and is working everyday so that it becomes the pharmacy of choice for patients and one in which employees can shine.

### How I "Be Active!"

I always try to behave in a way that makes everyone involved in the pharmacy, including patients and staff, can feel joyful. To that end, I believe it is important to think out what is the best response for patients, understand the situation and feelings of others, and take the initiative in work.



## Responsible for the education of medical administrators, the "faces of the pharmacy"

**Ms. Sato** (Subsection Chief, Insurance Section, Pharmaceutical Administration Department)

I joined the Company with the hope that I would be able to work for a long time while maintaining a balance between home life and building a career. After gaining experience in medical administration, I am currently engaged in various efforts such as the education and operational enhancement of medical administrators. The project, which spans two years, has finally been expanded to all pharmacies.

I think that medical administrators at a pharmacy are closely tied to patients and can be one of the reasons that patients choose to come to the pharmacy. Going forward, I would like to be able to provide a path to advance their careers as medical administrators by developing an environment in which pharmacy staff can work with peace of mind.

**Profile >>>** Joined the Company in 2004 and worked as a medical administrator at a pharmacy in Tokyo. After experiencing multiple pharmacies, she was assigned to the current department. Working on education and streamlining of medical administrator operations and receipt-related operations.

### How I "Be Active!"

I hope that each and every one of us will work with enthusiasm and motivation, and, as a result, we will be able to turn that into the smiles of many people, including our patients.



## Working in a general position to consider on-site employees and patients

**Mr. Ishii** (Unit Head, Sales Promotion Department)

When I first joined the Company, there were few seniors who began in the general position as new graduates, and I could not envision my future career path. I moved to the system department, departments that worked closely with pharmacies, and the sales department, steadily gaining experience. In the departments that worked closely with pharmacies, I learned the attitude of how to think and work for patients, and in the sales department, I was able to get involved in the opening of new pharmacies that patients are happy to use.

Going forward, I will continue to place great importance on employees working on-site at pharmacies, work hard for our patients, and be a model for general position new graduates.

**Profile >>>** Joined the Company in 2011 as a general position new graduate. In the System Department, to which he was initially assigned, he was in charge of managing the corporate website and introducing system equipment to newly opened pharmacies. Subsequently, he joined the current department after experiencing the Purchasing Department, the Pharmaceutical Administration Department, and MC-Mentaio Sales No. 2 Department.

### How I "Be Active!"

As a Sales Department staff member, I had to search for land and properties from scratch, and I used the philosophy of "Be Active" to search around on foot and walked an average of over 20,000 steps a day.



## Utilizing my career so far to bring "new winds" into Nihon Chouzai

**Ms. Minagawa** (Deputy General Manager, Pharmaceutical Administration Department, Pharmaceutical Headquarters)

Since joining the Company, I have been hiring registered dietitians, expanding their areas of work, and increasing their visibility in order to strengthen the pre-symptomatic and healthcare fields in the Pharmaceutical Administration Department. I used to be engaged in the promotion of health, such as planning, PHR development, and as a seminar lecturer in my previous positions, and I am utilizing this experience to create pharmacies that are open to the community.

I think that registered dietitians who specialize in nutrition and food can "connect communities and pharmacies." I am encouraged by each and every registered dietitian joining the Company that continue to take on challenges, and my job is to spread these efforts nationwide.

**Profile >>>** Joined the Company in 2017. Prior to joining the Company, gained a wide variety of experience working in sales, public relations, and systems-related positions. During her career, she felt the need for the healthcare industry in the future and acquired a qualification as a registered dietitian. After joining the Company, she has been engaged in pharmacy operations at the Pharmaceutical Administration Department, Pharmaceutical Headquarters.

### How I "Be Active!"

I want people to know about the existence of registered dietitians and create places in which they can exercise their abilities! Creating something from scratch so that it leads to fulfilling these wishes – that is the philosophy of "Be Active" at work. Not forgetting my curiosity, interacting with people from other industries, and interacting with diverse values when traveling abroad – these also lead to my "Be Active!"

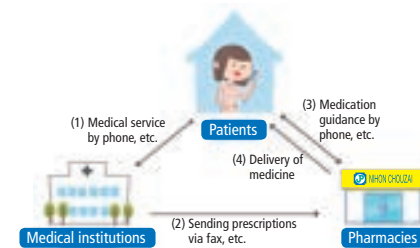




## Together with Local Communities

### In order to prevent the spread of COVID-19, conducting medication guidance by telephone and medicine deliveries from our pharmacies nationwide

With the spread of COVID-19, it has become difficult for people to receive medical treatment at medical institutions. Based on a notice issued by the Ministry of Health, Labour and Welfare on April 10, 2020, measures have been taken on an exceptional, limited time basis to enable delivery of medicine, as well as medication guidance using information communication devices such as by telephones and video calls at pharmacies. At Nihon Chouzai, we have started accepting prescriptions via fax, medication guidance by telephone, and home delivery of medicine. We have built a system to share prescriptions with medical institutions via fax by using "curon," an online medical service from MICIN, INC. Additionally, at some pharmacies, we have introduced "CLINICS," an online medical care system from Medley, Inc., in order to provide medication guidance through video calls.



### Case studies of using our electronic medication notebook, Okusuri Techo Plus, were posted on a government website that introduces measures to prevent the spread of COVID-19



Several initiatives by Nihon Chouzai, including rapid delivery of medicine using our electronic medication notebook Okusuri Techo Plus, were posted as good examples at pharmacies on a website introducing example efforts to prevent the spread of COVID-19 (<https://distrib-ute-dei-taisaku.jp/>). This website was established as a joint effort by the Ministry of Economy, Trade and Industry; the Ministry of Agriculture, Forestry and Fisheries; the Consumer Affairs Agency; and the Distribution Economics Institute of Japan. In order to minimize the time patients spend waiting at our pharmacies, we have worked to ensure that medicine can be given to them faster by having them send their prescriptions to the pharmacy in advance using the "send prescription function" of Okusuri Techo Plus. In addition, by implementing the following initiatives at our head office, branches and pharmacies, we have established a system that takes into consideration how to prevent infection of patients and how to prevent infection of employees working at our pharmacies.

### Company-wide initiatives to prevent the spread of COVID-19

We are taking various measures company-wide to prevent the spread of COVID-19. Our main initiatives are as follows. As a company that provides medical care, we are strengthening our initiatives to prevent anyone from getting infected within the company.

#### Major initiatives to prevent the spread of disease at our pharmacies

- Regularly disinfecting places in pharmacies where there is a lot of contact, such as push buttons for automatic doors, medication guidance counters, seats, etc., and placing seats to facilitate social distancing
- Using a system in which all employees wear masks and register their daily temperature measurements and attendance status online, so their supervisor can check
- Installing acrylic and vinyl partitions at receptions and medication guidance counters to prevent droplets from scattering

#### Main initiatives to prevent the spread of disease in our administrative departments, including our headquarters and branches

- Changing work dates, implementing working from home and flex time, work systems distributed across multiple locations
- Cancelling internal meetings, transitioning to online meetings, cancelling welcome/farewell parties and social gatherings
- Having all employees wear masks, reporting daily temperature measurements and attendance
- Cancelling customer visits, cancelling business trips, introducing video conference systems, securing laptops
- Changing from group training to online training



## Together with Shareholders and Investors

### General Meeting of Shareholders

The 40th Ordinary General Meeting of Shareholders was held on June 24, 2020. In light of the spread of COVID-19, we recommended that shareholders use return envelopes or the Internet in order to exercise their voting rights. On the day of the meeting, shareholders who came to the venue cooperated by wearing masks, disinfecting their hands with alcohol disinfectant, and having their temperature measured at the entrance to the venue.

Nihon Chouzai speakers and event staff also wore masks and used acrylic boards and face shields, showing the utmost care to prevent the spread of the disease.

President & CEO Yosuke Mitsuhashi delivered greetings and explained our business results using slides. After that, six proposals were submitted, all of which were approved.



### Results Briefing

Although we planned to hold the Results Briefing for fiscal 2019 in May 2020, it had to be canceled due to the spread of COVID-19. Because the Results Briefing is positioned as an important dialogue with the market, we replaced the briefing with a video explaining the financial results, which was broadcasted online. We accepted inquiries from institutional investors, financial institutions, media outlets, and other parties in advance, also broadcasting a video with answers to those questions, so that our financial results briefing could ensure a dialogue with the market. Following an explanation of partial revisions to the Pharmaceuticals and Medical Devices Act and dispensing fee revisions, we offered a detailed explanation focused on the growth strategy of Nihon Chouzai in response to these revisions. Among important topics, we also explained the use of ICT and mechanization at dispensing pharmacies.

### Health Check Stations: 75 Stores (as of June 30, 2020)

Nihon Chouzai began actively operating Health Check Stations in its pharmacies in fiscal 2016. As of June 30, 2020, we have increased them to 75 stores with these stations nationwide. Health Check Stations provide various services for pre-symptomatic diseases and disease prevention for local residents. In addition to hosting a variety of health-related events and consultation services on drugs, national registered dietitians provide nutrition-related consultation and other services at our main pharmacies to support the improved health and lives of local residents.



### Conference Presentations: 36 presentations delivered at 24 academic conferences



In fiscal 2019, Nihon Chouzai made 36 presentations at 24 academic conferences. Due to the spread of COVID-19, we have not been able to appear at academic conferences from February 2020 onwards because some have been canceled or postponed, so these results cover the period from April 2019 to January 2020. At the JTTA Annual Academic Conference held in October 2019, we made a presentation about "Remote medication guidance in the National Strategic Special Zone using electronic medication notebooks."

From September 2020, online medication guidance will be available nationwide. We will be able to proceed with various initiatives, including the prevention of severe diabetes, by providing online medication guidance at our pharmacies nationwide.

Governance

Corporate Governance

Nihon Chouzai continually works to enhance its corporate governance to sustain growth and raise corporate value with the aim of becoming a company that society needs.

Basic concept of corporate governance\*

1

Increase management transparency and clarify management responsibility

2

Speedy decision-making

3

Strengthen management oversight function

The above three points are essential to respond on-target to changes in the business environment, ensure the continued soundness of the Company and further raise corporate value. Moreover, because the Group operates its business in a field that is strictly governed by various regulations, it is fully aware that the enhancement of corporate governance and the strengthening of compliance are extremely important matters, and it has implemented a wide range of measures based on this understanding.

Given the Company's scale and its type of business operations, Nihon Chouzai has determined that a company that uses an audit and supervisory committee is most suitable for enhancing the Company's audit and oversight functions and for corporate governance.

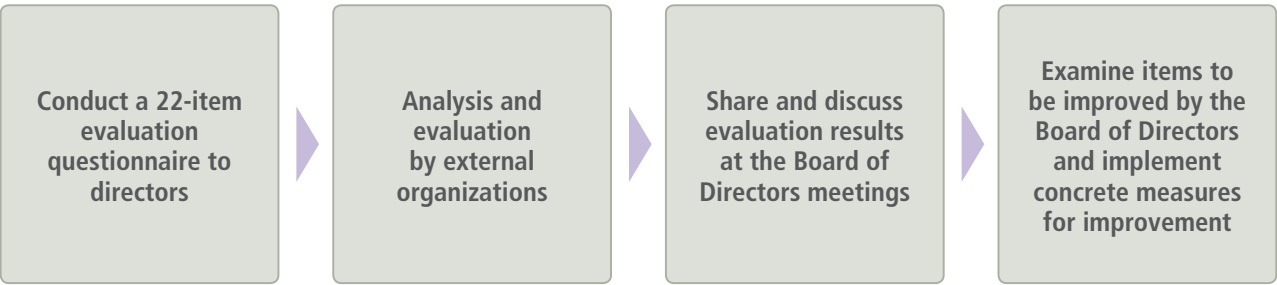
\* Corporate governance is a mechanism to assist a company in transparent, fair, speedy, and decisive decision-making whilst taking into account the positions of the company's shareholders as well as customers, employees, members of the community at large, and others.

Initiatives for strengthening of a range of policies

Internal control system	May 2006 Established basic policy on creation of internal control system	June 2016 Revised the basic policy	
Internal reporting system	March 2011 Established “Nihon Chouzai Hotline” internal reporting system		
Information Security Committee	April 2012 Established Information Security Committee		
Corporate conduct code	February 2014 Established corporate conduct code	April 2018 Revised the conduct code	
Ethical conduct guidelines	February 2014 Established ethical conduct guidelines	April 2018 Revised the guidelines	June 2019 Revised the guidelines
Compliance Promotion Committee	February 2014 Established Compliance Promotion Committee		
Medical Safety Committee	October 2014 Established Medical Safety Committee		
Outside directors	June 2015 Brought in an outside director		
Risk Management Committee	March 2016 Established Risk Management Committee		
Company with an audit and supervisory committee	June 2016 Switched from a company with a board of corporate auditors to a company with an audit and supervisory committee		
Privacy Mark	November 2016 Acquired Privacy Mark certified business		
Business continuity plan	May 2017 Established business continuity plan		
Risk Management and Compliance Office		April 2020 Established Risk Management and Compliance Office	

Analysis and Evaluation of the Effectiveness of the Board of Directors

Evaluation process of the Board of Directors' Effectiveness



In fiscal 2019, the effectiveness of the Board of Directors was evaluated and measures were taken to make improvements. At the Board of Directors, we have secured sufficient operating time for the Board of Directors to deepen discussions on the enhancement of matters to be reported and sharing of analysis results. We also ensured sufficient time for executive training as needed.

Efforts on items that remained to be addressed based on the evaluation of the effectiveness of the Board of Directors, and issues to be further discussed and strengthened in the future

Efforts on items that remained to be addressed

A wide ranging and essential training topics, including legal affairs, labor and personnel affairs, management, and crisis management, are offered to management. In fiscal 2019, lectures were given on the themes of "insider trading regulations" and "work-style reform." We also held separate training sessions for employees other than executives to deepen understanding at the company as a whole and strengthen our preparedness.

Issues to be further discussed and strengthened in the future

1 Issues related to sustainability

We recognize that addressing issues related to sustainability, such as social and environmental issues, is an important management issue, and we will vigorously and proactively take appropriate measures. With the aim of meeting sustainable development goals, we intend to achieve medium- to long-term improvements in corporate value while balancing "Economy" "Environment" and "Society."

2 Issues related to corporate governance

We have reaffirmed the importance of both "offensive" governance and "defensive" governance in our group management. We will build an optimal business portfolio for the entire group and raise our corporate group's value.

Revitalization of Deliberations by the Board of Directors

For a free-spirited, constructive discussion and exchange of opinions, including the raising of issues by outside directors, all directors, including outside directors, are delivered materials for the Board of Directors in advance along with the annual schedule for the Board of Directors meetings.



## Management status of the Board of Directors

### Activities in Fiscal 2019

The Board of Directors meeting was held 17 times between April 1, 2019 and March 31, 2020. In principle, it is held once a month, but it is a policy to hold a meeting as needed. The Board of Directors meetings are held as a unified group, as officers of Nihon Chouzai attend the meetings of the Board of Directors of the group com-

panies. Meetings of the Audit and Supervisory Committee are also held separately from the Board of Directors meetings.

After the Board of Directors meetings, executive trainings are conducted as necessary.

Name	Title	Responsibilities and important concurrent positions	Attendance at the Board of Directors meetings
Yosuke Mitsuhashi	Representative Director	Overall management	17 times out of 17
Katsuhiko Fukai	Managing Director	Medical care cooperation / business development	17 times out of 17
Naoto Kasai	Managing Director	Sales management / sales development / corporate information	17 times out of 17
Noriaki Miyata	Director	General Manager of Sales Promotion Department, Sales promotion / MC-Mentaio (medical center/near the station and in the shopping district) sales	17 times out of 17
Toshiyuki Koyanagi	Director	General Manager of Pharmaceutical Headquarters, pharmaceuticals administration / pharmaceuticals administration promotion / education and information / promotion of generic products / purchasing / at-home medical care / healthcare promotion / marketing / branch management	17 times out of 17
Kazunori Ogi	Director	General Manager of Finance Department, accounting / finance / systems / corporate planning	17 times out of 17
Yoshihisa Fujimoto	Director	General Manager of Administration Department, general affairs / human resources / Pharmaceutical Recruitment Center / public relations / private health insurance / risk management and compliance management / CSO	17 times out of 17
Keiso Masuhara	Director	General Manager of FINDAT Business Department, FINDAT business	12 times out of 13*
Yoshimitsu Onji	Outside Director	Outside Director of Tokyo Tatemono Co., Ltd., Outside Auditor of United Foods International Co., Ltd.	17 times out of 17
Nobuyuki Hatakeyama	Director Audit and Supervisory Committee member		17 times out of 17
Tadashi Urabe	Outside Director Audit and Supervisory Committee member	Attorney, Partner of Meitetsu Law Offices	13 times out of 13*
Arata Toyoshi	Outside Director Audit and Supervisory Committee member	Certified Public Accountant, Licensed Tax Accountant, Auditor-secretary of Seikeikai Alumni Association, Auditor-secretary of The Yuumi Memorial Foundation for Home Health Care, Substitute Audit & Supervisory Board Member of Japan Private REIT Inc., Outside Corporate Auditor of SMC Corporation	13 times out of 13*

\*Appointed on June 24, 2019

### Management status of the Board of Directors and main matters deliberated

Convening of Board of Directors meeting	In principle, once a month or as necessary
Number of times convened	17 times (April 1, 2019 – March 31, 2020)
Matters deliberated	Opening pharmacies / M&A, budget / results, personnel / labor, fund procurement, establishment of rules, organizational changes, corporate governance code, acquisition / disposal of assets and others

### Policy on cross-shareholdings

The Company may hold, as cross-shareholdings, shares of companies that it deems necessary for the purpose of maintaining and strengthening business relationships. Every year, the Company holds meetings of the Board of Directors to examine in detail whether the purpose of ownership for individual cross-shareholdings is appropriate, whether the benefits and risks associated with these holdings are commensurate with the cost of capital, etc., to verify the suitability of cross-shareholdings. For the exercise of voting rights pertaining to cross-shareholdings, the Company's policy is to exercise voting rights based on its viewpoint regarding how votes would contribute to the enhancement of the corporate value of the company invested in, combined with due consideration of the purpose of the holding.

### Shares held in FY2018

	Number of issues	Total amount* (millions of yen)
Unlisted shares	1	13
Shares other than unlisted shares	1	1

### Shares held in FY2019

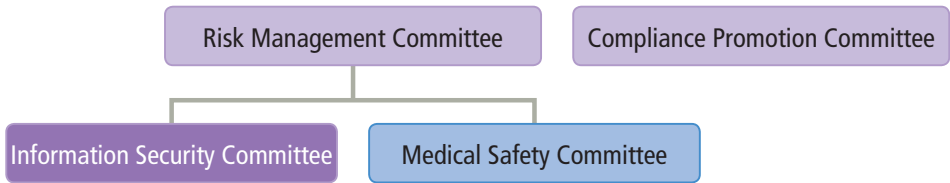
	Number of issues	Total amount* (millions of yen)
Unlisted shares	1	13
Shares other than unlisted shares	—	—

\* Aggregate amount recorded in the balance sheet

## Development and Operation Status of Internal Control System

### Structure of committees

Purpose, related departments, and the implementation status of each committee are as described below.



### Compliance Promotion Committee

#### ● Purpose

To ensure thorough compliance and improve social credibility by establishing basic matters regarding compliance efforts, building a system, and operating it appropriately

#### ● Related Departments

Risk Management and Compliance Office, General Affairs Department, System Department I, System Department II, Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department), Accounting Department, Human Resources Department, Public Relations Department, Audit and Supervisory Committee

#### ● Status of implementation

In principle, the Compliance Promotion Committee meets once every three months. Reports and sharing of information are made on the status of compliance promotion and future plans, compliance promotion education, compliance with the Act on the Protection of Personal Information, labor compliance, internal reporting system, etc. Subsidiaries also hold similar meetings. "Compliance Education" is published monthly on the company intranet, and the "Compliance Newsletter" and "Compliance Mail Magazine" are published to raise employees' awareness of compliance.

### Information Security Committee

#### ● Purpose

To protect all information assets owned by the Nihon Chouzai Group and to build an information security system that ensures customer satisfaction and social trust by complying with laws, regulations and other rules

#### ● Related Departments

Same as Compliance Promotion Committee

#### ● Status of implementation

In principle, the Information Security Committee meets once every three months. The information security policy of Nihon Chouzai secures the security condition of "Guidelines for the Security Management of Medical Information Systems" published by the Ministry of Health, Labour and Welfare. Reports and sharing of information are made on the information management status of each department, whether or not there was any intentional or negligent information security violations by employees, cyber security cases, etc.

### Establishment of the Risk Management and Compliance Office

The Risk Management and Compliance Office was established to provide education on risk management and compliance, as well as the development and operation of a comprehensive risk management system and compliance promotion system throughout the Group.

### Establishment and dissemination of rules

To ensure the appropriateness of the Group's business operation, we have established measures such as rules, operation flowcharts and manuals, Mission Statement & Compliance CARD, Mission Statement & Compliance Policy, business continuity plan (BCP) and a disaster-response pocket manual, and are thoroughly disseminating them through the publication and circulation on the intranet.

### Compliance Promotion Committee

#### ● Purpose

To implement risk management of the Nihon Chouzai Group

#### ● Related Departments

Same as Compliance Promotion Committee

#### ● Status of implementation

In principle, the Risk Management Committee meets once every three months. Reports and sharing of information are made on the progress of risk management, future plans, BCPs, etc. Subsidiaries also hold similar meetings.

### Medical Safety Committee

#### ● Purpose

To promote appropriate medical safety management and contribute to safe provision of medical care

#### ● Related Departments

Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department) Risk Management and Compliance Office, General Affairs Department, Audit and Supervisory Committee

#### ● Status of implementation

The Medical Safety Committee discusses all events related to medical safety management. It also discusses measures to prevent recurrence of past incidents and review improvement measures.



## Message from Outside Directors and Audit and Supervisory Committee Members

### Feeling Changes at Nihon Chouzai

What are the changes at the Board of Directors in fiscal 2019?

What issues do you see as future challenges?

The first thing I feel is that the Board has a much more positive **atmosphere**. In the past, I believe that the sense of tension was accepted in a positive way and more dominant at the Board of Director meetings. It is not that there is no sense of tension at the current board, but more than that, I have a strong impression that an atmosphere has been created in which all participants can freely and frankly discuss issues.

As for the issues to be addressed, it may be necessary to take up more **strategic management issues** than ever before, such as the future vision, to take the pharmaceutical manufacturing and sales business to the top group in the generics industry, which is one of the most important management issues of the Group. In addition, I would like to closely monitor how fast the Company responds to “emergencies” such as the spread of COVID-19.

Outside Director

Yoshimitsu Onji

For changes in the Board of Directors, I strongly feel that dialogues surrounding matters for resolution and matters to be reported are not limited between a presenter and chairman, but expand to involve the presenter, directors and the chairman. I started to see comments such as **“why?”** and **“I want to hear your thoughts”** for each matter. Especially, there are many **questions from the outside directors** and I believe some of the matters that are common knowledge within the company are not so common beyond the company walls.

I believe that a process should be established to acknowledge, identify and control the **various risks faced by the company and each department**, and the monitoring and oversight by the Board of Directors should be enhanced. I strongly believe that it is important for the Board of Directors to further sort out and fully understand the occurrence frequency of risks at each department and the degree of impact of such risks on management. In addition, I think that one of the important roles of the Board of Directors, which is becoming increasingly important in society, is to recognize the current situation from the perspective of the ESG and SDGs, and to examine how it will respond to these social demands, as well as what specific initiatives it will undertake.

Director Audit and Supervisory Committee Member

Nobuyuki Hatakeyama

At the current Board of Directors meetings, the president has expressed his desire to **hear the opinions of each director**, and we can see vividly how the president's intentions are gradually being embraced and accepted into each director's consciousness. I strongly feel that the content of discussion is not limited to numerical reports on management, but includes analyses from a variety of perspectives, including comparisons with other companies, as well as the direction of business execution based on the trends of the pharmaceutical industry and government's pharmaceutical policies, and that **careful consideration and judgment are made**.

To ensure sufficient business judgment and business execution, it is necessary to strengthen corporate governance with awareness of a wider range of stakeholders. From my position as an Audit and Supervisory Committee member, I believe it is important to maintain a good balance between strengthening and improving the auditing system and enhancing the content of audits. In addition, **from the perspective of ensuring the effectiveness of corporate governance**, I believe it is essential for the Board of Directors to monitor the response of the business execution site and executives to suggestions from audits.

Outside Director

Audit and Supervisory Committee Member

Tadashi Urabe

There are two major points I would like to say with regards to the current Board of Directors. One is the **strong leadership** of the president in the management and operation of the Board of Directors. As a corporate manager, the president provides his views on matters for resolution and matters to be reported, and supplements his understanding and analysis of their background, adding easy-to-understand explanations of the reasons for decisions and directions, so I can attend the meeting with a sense of reassurance. The second is that there is an attitude to listen to others sincerely. All attendees at the Board of Directors meeting are given the opportunity to speak as necessary and sufficiently.

As the Company's business continues to expand, **society's expectations** for the Company have become diverse and complex. I believe it is necessary for the Board of Directors to thoroughly discuss and examine the **responsibilities that the Company must fulfill** and the areas that it is lacking to achieve this. In addition, in my opinion, the Company needs to promote the use of ICT and enhance the consistency between ICT and manual operations in order to strengthen corporate governance.

Outside Director

Audit and Supervisory Committee Member

Arata Toyoshi



# Board of Directors (As of June 24, 2020)



President and CEO  
**Yosuke Mitsuvara**

September 1999  
April 2001  
January 2005  
April 2006  
October 2006  
June 2007  
June 2010  
June 2013  
June 2014

Joined the Company  
General Manager of Corporate Planning Department  
Director of Nihon Generic Co., Ltd.  
General Manager of Sales Promotion Department  
Director of Medical Resources Co., Ltd.  
Director, General Manager of Business Promotion Department  
Resigned the Director  
Director of Japan Medical Research Institute Co., Ltd.  
Director of the Company, Director of Nihon Generic Co., Ltd.

June 2015  
June 2017  
June 2019

Managing Director  
Senior Managing Director  
President and CEO of the Company (to present)  
President and CEO of Medical Resources Co., Ltd. (to present)  
President and CEO of Nihon Generic Co., Ltd. (to present)  
President and CEO of Japan Medical Research Institute Co., Ltd. (to present)  
Chairman of the Board of Choseido Pharmaceutical Co., Ltd. (to present)



Managing Director  
**Katsuhiko Fukai**

May 1994  
April 1995  
June 2006  
March 2008  
June 2008  
April 2012  
June 2012  
June 2013  
June 2015  
January 2019

Joined the Company  
Manager of Pharmaceutical Department, Kyushu Branch  
Branch Manager, Kyushu Branch  
General Manager of Pharmaceutical Headquarters  
Director, General Manager of Pharmaceutical Headquarters  
Director, Manager of Pharmaceutical Headquarters  
Resigned the Director  
Manager of Pharmaceutical Headquarters  
Director, General Manager of Contract Dispensing Service Department  
Managing Director, General Manager of Contract Dispensing Service Department  
Managing Director (to present)



Managing Director  
**Naoto Kasai**

April 2013  
October 2013  
June 2015  
April 2016  
June 2016  
April 2020

Joined the Company  
Manager of Sales Management Department  
General Manager of Sales Promotion Department  
Director, General Manager of Sales Promotion Department  
Director, General Manager of Sales Management Department  
Managing Director, General Manager of Sales Management Department  
Managing Director (to present)



Director  
**Noriaki Miyata**

January 1992  
January 2004  
April 2004  
April 2007  
June 2007  
April 2016

Joined the Company  
Manager of Sales Department, Osaka Branch  
Branch Manager, Manager of Sales Department, Osaka Branch  
General Manager of Sales Management Department  
Director, General Manager of Sales Management Department  
Director, General Manager of Sales Promotion Department (to present)



Director  
**Toshiyuki Koyanagi**

July 1990  
April 2000  
December 2004  
December 2009  
April 2012  
June 2012  
January 2014

Joined the Company  
Manager of Pharmaceutical Department, Tohoku Branch  
General Manager of East Japan Pharmaceutical headquarters  
General Manager of Purchasing Department, Pharmaceutical Headquarters  
General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters  
Director, General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters  
Director, General Manager of Pharmaceutical Headquarters (to present)



Director  
**Kazunori Ogi**

May 2008  
April 2009  
April 2015  
June 2015

Joined the Company  
General Manager of Finance Department  
General Manager of Finance Department  
Director of the Company, General Manager of Finance Department (to present)  
Director of Medical Resources Co., Ltd. (to present)



Director  
**Yoshihisa Fujimoto**

January 2011  
October 2013  
June 2016  
April 2019

Joined the Company  
General Manager of Sales Department for Public Institutions  
General Manager of General Affairs Department  
Director, General Manager of Administration Department and General Affairs Department  
Director, General Manager of Administration Department (to present)



Director  
**Keiso Masuhara**

July 2001  
February 2006  
April 2007  
May 2017  
August 2017  
August 2017  
June 2018  
April 2019  
June 2019  
June 2020

Director of Department of Pharmacy of St. Marianna University Hospital  
Director of Department of Pharmacy of Kawasaki Municipal Tama Hospital  
Visiting Professor of Pharmacy and Health Science at Graduate School of Showa Pharmaceutical University Graduate School  
Visiting Professor of St. Marianna University  
Joined Japan Medical Research Institute Co., Ltd.  
General Manager of the Hospital Consulting Group of Japan Medical Research Institute Co., Ltd.  
Director of Japan Medical Research Institute Co., Ltd.  
General Manager of Formulary Business Promotion Department  
Director, General Manager of Formulary Business Promotion Department  
Director, General Manager of FINDAT Business Department (to present)



Director,  
Audit and Supervisory  
Committee member  
**Nobuyuki Hatakeyama**

September 1987  
June 2000  
June 2006  
December 2009  
February 2016  
June 2018

Joined the Company  
Director of the Company  
Branch Manager, Nagoya Branch  
Branch Manager, Yokohama Branch  
General Manager of Operational Audits Department  
Director (Audit and Supervisory Committee member) (to present)  
Auditor of Nihon Generic Co., Ltd. (to present)  
Auditor of Medical Resources Co., Ltd. (to present)  
Auditor of Japan Medical Research Institute Co., Ltd. (to present)  
Auditor of Choseido Pharmaceutical Co., Ltd. (to present)



Outside Director,  
Audit and Supervisory  
Committee member  
**Arata Toyoshi**

April 1998  
August 2007  
July 2013  
July 2014  
December 2016  
July 2017  
November 2017  
November 2017  
February 2018  
May 2018  
December 2018  
June 2019

Registered as Certified Public Accountant  
Partner of Tohmatsu & Co. (Currently Deloitte Touche Tohmatsu LLC)  
Director and Executive Council of Certified Public Accountants' Corporate Pension Fund  
Director of Tohmatsu Challenged Co., Ltd.  
Resigned from Deloitte Touche Tohmatsu LLC  
Auditor-Secretary of Seikeikai Alumni Association (to present)  
Registered as Licensed Tax Accountant  
Outside Auditor of Kids Smile Project inc.  
Auditor-secretary of Tax Accountant Tamagawa (to present)  
Auditor-secretary of The Yuumi Memorial Foundation for Home Health Care (to present)  
Substitute Audit & Supervisory Board Member of Japan Private REIT Inc. (to present)  
Outside Director of the Company (Audit and Supervisory Committee member) (to present)  
Outside Corporate Auditor of SMC Corporation (to present)



Outside Director  
**Yoshimitsu Onji**

April 1977  
April 1994  
September 1998  
December 1999  
March 2000  
June 2007  
June 2010  
October 2016  
December 2016  
March 2018  
June 2018  
December 2019

Joined The Daiei, Inc.  
General Manager of Corporate Planning Department of The Daiei, Inc.  
Executive Vice President of RE PARTNERS  
Director of OZ-corporation (Representative) (to present)  
Executive Officer of Office RECOF Co., Ltd. (Currently RECOF Corporation)  
Director and Senior Executive Officer of RECOF Corporation  
President and CEO of RECOF Corporation  
Chairman of the Board of RECOF Corporation  
Director of M&A Capital Partners Co., Ltd.  
Outside Director of Tokyo Tatemono Co., Ltd. (to present)  
Outside Director of the Company (to present)  
Outside Auditor of UNITED FOODS INTERNATIONAL Co., Ltd. (to present)



Outside Director,  
Audit and Supervisory  
Committee member  
**Tadashi Urabe**

April 1983  
April 1999  
April 2003  
January 2006  
February 2009  
June 2011  
June 2019

Registered as attorney (Tokyo Bar Association)  
Partner of Meitetsu Law Offices (to present)  
External Auditor of JPN COLLECTION SERVICE CO., LTD.  
Instructor of Civil Law, Legal Training and Research Institute of Japan  
Outside Auditor of JPN Holdings Co., Ltd.  
Outside Auditor of EBARA CORPORATION  
Outside Director of the Company (Audit Committee member) (to present)

# Corporate Governance Structure

Corporate Governance Structure (As of June 24, 2020)

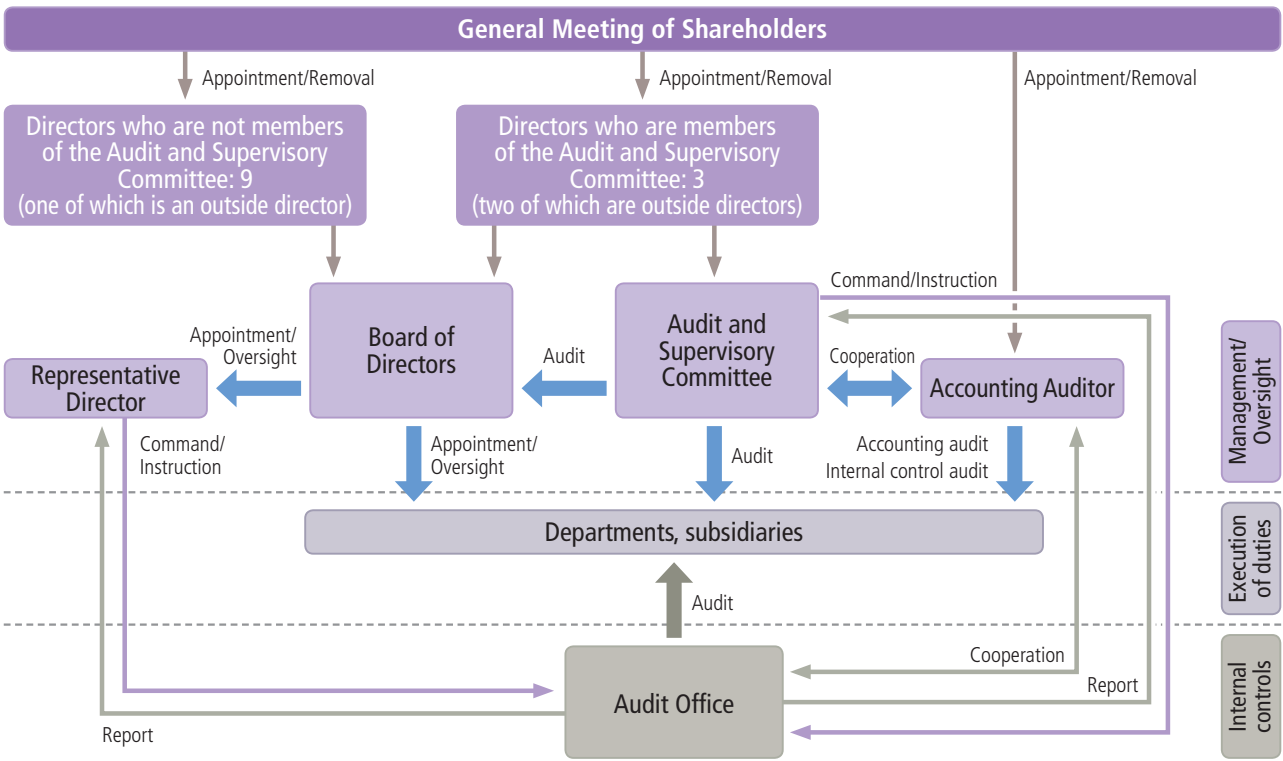
Directors	9 directors
	one of which is an outside director / independent officer
Audit and Supervisory Committee	3 directors
	two of which are outside directors / independent officers

At the 36th Ordinary General Meeting of Shareholders held on June 28, 2016, Nihon Chouzai switched from a company with a board of corporate auditors to a company with an audit and supervisory committee. The Board of Directors consists of nine directors (excluding the Audit and Supervisory Committee members), one of which is an outside director, and three other directors that serve as Audit and Supervisory Committee members, two of which are outside directors, and it determines important matters stipulated by laws and provides oversight of the directors' execution of their duties.

In addition, the three directors, which include the two outside directors, make up the Audit and Supervisory Committee and fulfill their oversight function through such methods as exercising their right to vote in the Board of Directors meetings, auditing the directors' execution of their duties, and preparing audit reports.

The Company has appointed Deloitte Touche Tohmatsu LLC as an audit company to perform accounting audits to ensure proper accounting procedures and management transparency.

Corporate Governance Structure (As of June 24, 2020)



**Responsibilities of the Board of Directors**

It is the responsibility of the Board of Directors to promote the sustainable growth of the company and the enhancement of corporate value over the medium- to long-term, and to improve profitability and capital efficiency. To achieve this, the following measures are implemented:

1. Accurately manage the progress of corporate strategies
2. Create an environment that supports appropriate risk taking by the senior management
3. Highly effective oversight of management and directors from an independent and objective standpoint

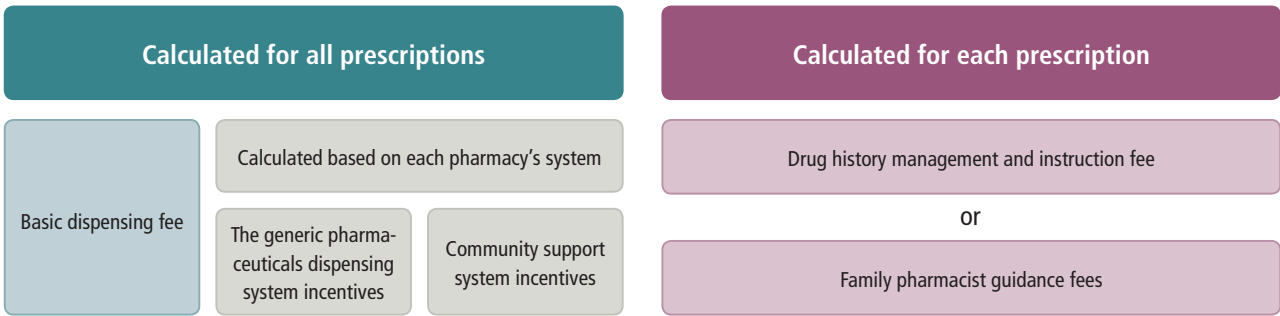
71	Main Prescription Dispensing Fee Revisions
74	Explanation of Terminology
77	10-Year Summary of Financial and Non-financial Data
79	Report of Business Results and Financial Analysis
81	Consolidated Balance Sheet
83	Consolidated Statement of Income
84	Consolidated Statement of Comprehensive Income Consolidated Statement of Changes in Net Assets
85	Consolidated Statement of Cash Flows
86	Risks of Businesses
89	Company Profile
90	History
91	Stock Information
92	Reference Pages for Major Contents

# 4 Data section



Main Prescription Dispensing Fee Revisions

(Reference) Changes in main technical fees associated with revision of prescription dispensing fees in FY2018



Basic dispensing fee

FY2020 basic dispensing fees (amendments in blue)

	Number of prescriptions	Concentration ratio	Points
Basic dispensing fee 1	Basic dispensing fee other than 2, 3 and special basic dispensing fee		42 points
Basic dispensing fee 2	2,001 – 4,000 prescriptions per month	Exceeding 85%	26 points
	More than 4,000 prescriptions per month	Exceeding 70%	
	1,801 – 2,000 prescriptions per month (addition)	Exceeding 95%	
	More than 4,000 prescriptions per month from specific medical institutions	—	
Basic dispensing fee 3-a	35,001 – 40,000 prescriptions per month within the same group (addition)	Exceeding 95%	21 points
	40,001 – 400,000 prescriptions per month within the same group	Exceeding 85%	
Basic dispensing fee 3-b	More than 400,000 prescriptions per month within the same group		16 points

FY2018 basic dispensing fees

	Requirements	Concentration ratio	Points
Special basic dispensing fee	Real estate transactions with hospitals Other special relationships	Exceeding 95%	11 points

- 50% reduction in basic dispensing fees if basic work related to family pharmacy role is less than 10 times per year

FY2020 basic dispensing fees

	Requirements	Concentration ratio	Points
	Real estate transactions with medical institutions (including clinics) Other special relationships	Exceeding 70%	9 points

- 50% reduction in basic dispensing fees if basic work related to the role of a family pharmacy is less than 100 times per year

The generic pharmaceuticals dispensing system incentives

	April 2018 – March 2020	Points	April 2020 – March 2022	Points
Generic pharmaceuticals dispensing system incentive 1	75% or more	18 points	75% or more	15 points
Generic pharmaceuticals dispensing system incentive 2	80% or more	22 points	80% or more	22 points
Generic pharmaceuticals dispensing system incentive 3	85% or more	26 points	85% or more	28 points

- 2 points subtracted from basic dispensing fee if dispensing quantity ratio of generic drugs is 20% or less

- 2 points subtracted from basic dispensing fee if dispensing quantity ratio of generic drugs is 40% or less

Community support system incentives

	April 2018 – March 2020	Points	April 2020 – March 2022	Points
Community support system incentives	<ul style="list-style-type: none"><li>In case of basic fee 1, meet all of the following requirements<ul style="list-style-type: none"><li>Narcotics retailer license</li><li>At-home medical care: At least once per year</li><li>Family pharmacist notification<ul style="list-style-type: none"><li>Management pharmacists employed in pharmacies for five years, employed by the current pharmacy for one year, and worked for at least 32 hours per week</li></ul></li></ul></li><li>For cases other than basic fee 1, add all of the following results to the requirements for each full-time pharmacist for one year<ul style="list-style-type: none"><li>Results of nighttime/holiday response: 400 times</li><li>Results of narcotics guidance control incentives: 10 times</li><li>Results of incentive for preventing harmful drug interactions and duplicate prescriptions, etc.: 40 times</li><li>Results of family pharmacist guidance fees, etc.: 40 times</li><li>Results of outpatient medication support fees: 12 times</li><li>Results of medication adjustment support fees: 1 time</li><li>Results of at-home drug management of one patient in single building: 12 times</li><li>Results of the medication information and other information fees: 60 times</li></ul></li></ul>	35 points	<ul style="list-style-type: none"><li>In case of basic fee 1, meet all of requirements (1) – (3) below and either (4) or (5)<ul style="list-style-type: none"><li>Narcotics retailer license</li><li>At-home medical care: At least 12 times per year</li><li>Family pharmacist notification</li><li>Results of the medication information and other information fees: At least 12 times per year</li><li>Attendance at regional collaboration meetings with other occupations: At least once per year<ul style="list-style-type: none"><li>Management pharmacists employed in pharmacies for five years, employed by the current pharmacy for one year, and worked for at least 32 hours per week</li></ul></li></ul></li><li>For cases other than basic fee 1, meet 8 of requirements (1) – (9) below<ul style="list-style-type: none"><li>(1) – (8): Number of times annually per full-time pharmacist, (9) is number of times annually per pharmacy</li><li>Results of nighttime/holiday response: 400 times</li><li>Results of narcotics dispensing: 10 times</li><li>Results of incentive for preventing harmful drug interactions and duplicate prescriptions, etc.: 40 times</li><li>Results of family pharmacist guidance fees, etc.: 40 times</li><li>Results of outpatient medication support fees: 12 times</li><li>Results of medication adjustment support fees: 1 time</li><li>Results of at-home drug management of one patient in single building: 12 times</li><li>Results of the medication information and other information fees: 60 times</li><li>Attendance at regional collaboration meetings with other occupations: At least once per year</li></ul></li></ul>	38 points

Main Dispensing Fee Revisions

Drug history management and instruction fee

April 2018 – March 2020		Basic dispensing fee 1	Basic dispensing fee other than 1	April 2020 – March 2022		Basic dispensing fee 1	Basic dispensing fee other than 1
Revisit to pharmacy within 6 months	Has a medication notebook	41 points	53 points	Revisit to pharmacy within 3 months	Has a medication notebook	43 points	
	Does not have a medication notebook	53 points			Does not have a medication notebook	57 points	
Not a revisit to pharmacy within 6 months	Has/does not have a medication notebook			Not a revisit to pharmacy within 3 months	Has/does not have a medication notebook		

Family pharmacist guidance fees

	April 2018 – March 2020	Points		April 2020 – March 2022	Points
Family pharmacist guidance fees	Employed in pharmacies for three years, employed by the current pharmacy for one year, and worked for at least 32 hours per week	73 points		Employed in pharmacies for three years, employed by the current pharmacy for one year, and worked for at least 32 hours per week	76 points
	Qualified as certified pharmacist Participate in local medical activities			Qualified as certified pharmacist Participate in local medical activities Has independent counters separated by partitions	

Dispensing fee

Number of prescription days	1 – 7	8 – 14	15 – 21	22 – 30	31 –
April 2018 – March 2020	5 points/day (average 27 points)	4 points/day (average 61 points)	67 points	78 points	86 points
April 2020 – March 2022	28 points	55 points	64 points	77 points	86 points

Online medication guidance (new)

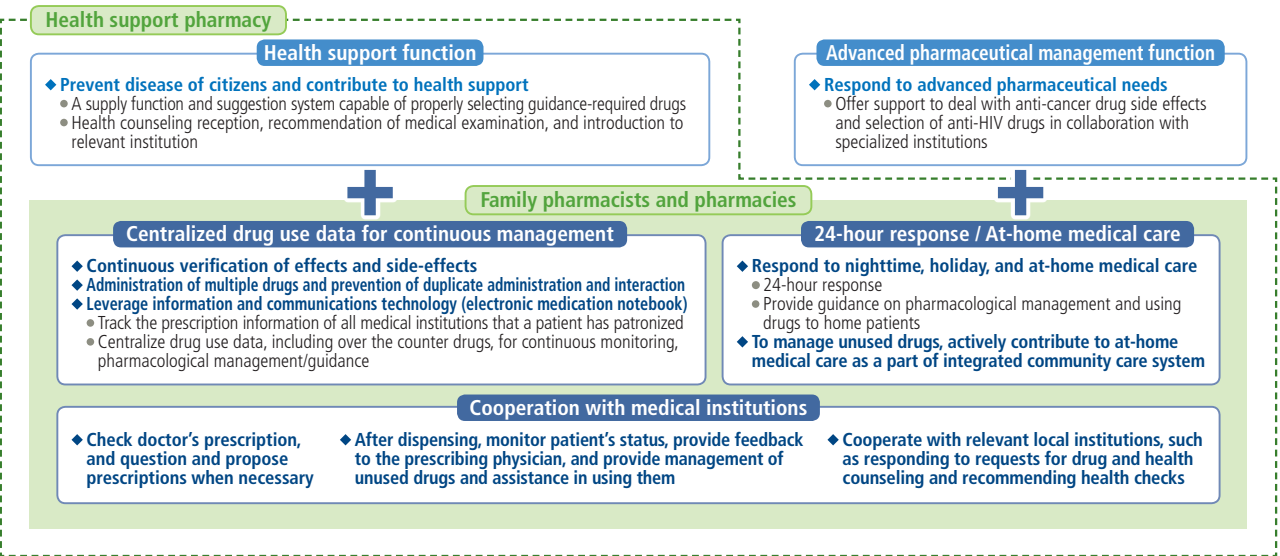
	April 2020 – March 2022	Points
Drug history management and guidance fee 4	When getting medication guidance via information and communication equipment Patients who received prescriptions through online medical treatment Patients who received face-to-face medication guidance within 3 months, in principle (1) Create a medication guidance plan, implement based on that plan (2) Pharmacists who provide online medication guidance are the same, in principle (3) Check drug history and current medications with a medication notebook	Up to 43 points per month
Home patient visiting drug management guidance fee	Home patient online medication guidance fee Patients who have been given a prescription by home visit medical treatment Patients who receive a monthly visit for at-home medical care (1) Can be calculated up to 10 times a week, for a total of up to 40 times a week including home patient visiting drug management guidance fee 1 – 3 for each pharmacist (2) Create a medication guidance plan, implement based on that plan (3) Pharmacists who provide online medication guidance are the same in principle (4) Provide written information to doctors who have done home visit medical treatment	Up to 57 points per month

Explanation of Terminology

A Vision of Pharmacies for Patients

A vision announced by the Ministry of Health, Labour and Welfare in October 2015. The announced vision is a guideline for fulfilling functions such as pharmaceutical management and guidance, which includes centralizing drug use data and constantly acquiring new

information about drugs and dealing with at-home medical care within the integrated community care system. 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.

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. Work required for family pharmacists and pharmacies is mainly interpersonal work, and the main work is the 9 items necessary for pharmacies other than basic fee 1 to calculate community support system incentives. The same ministry is seeking to restructure all pharmacies into family pharmacist and 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 be notified in advance. The Ministry of Health, Labour and Welfare's goal is to register 10,000 to 15,000 health support pharmacies by 2025.

- 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

- 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
  5. Participate in local medical activities
  6. Has independent counters separated by partitions (Added from April 2020)



Partial Revisions to the Pharmaceuticals and Medical Devices Act

A proposed revision to the Pharmaceuticals and Medical Devices Act was submitted to the Diet on March 19, 2019, and this proposal was passed and enacted on November 27, 2019. It has been decided that the new law will be enforced in stages from September 2020. Looking at trends related to pharmacies, online medication guidance will be widely implemented starting in September 2020. In addition to remote medication guidance, which was only allowed in National Strategic Special Zones until now,

this will also cover prescriptions where online medical treatment is performed by video calls, and the target area will be expanded nationwide. In addition, the diseases that would be covered will also expand including the prevention of severe diabetes and chronic headaches.

In addition, from August 2021, the functions of pharmacies will be defined by the Pharmaceuticals and Medical Devices Act, and with a license from a prefectural governor, pharmacies will be able to display signboards, etc. according to their functions. This will enable patients to choose the right pharmacy for them.

Regional-cooperation pharmacies

Pharmacies that can collaborate with other medical institutions at the time of hospitalization or discharge and at-home medical care

- Structural equipment with consideration for privacy (partitions, etc.)
- Providing information to medical institutions on medicine that patients bring when they are hospitalized
- Participation in meetings with doctors, nurses, care managers, etc. (discharge conferences, etc.)
- Placement of pharmacists who received training on integrated community care, including welfare and nursing care
- Development and participation of a local dispensing response system including responses at nighttime and on holidays
- Dispensing of drugs necessary for at-home medical care including narcotics/sterile dispensing
- Home visits

Specialized medical instructions cooperation pharmacies

Pharmacies that can collaborate with other medical institutions for specialized pharmaceutical management of diseases such as cancer

- Structural equipment with consideration for privacy (partitions, private rooms or other space for consultation, etc.)
- Providing information to medical institutions on medicine that patients bring when they are hospitalized
- Participation in meetings with doctors, nurses, care managers, etc. (discharge conferences, etc.)
- Sharing treatment policies with doctors and pharmacists, etc. at specialized medical institutions
- Conducting joint training with specialized medical institutions, etc.
- Sharing medication information with regional-cooperation pharmacies that are used by patients, etc.
- Placement of pharmacists with a high degree of expertise, such as accreditation by an academic society

Source: Prepared by Nihon Chouzai based on materials submitted by the Ministry of Health, Labour and Welfare (May 2019)

Review of elderly population

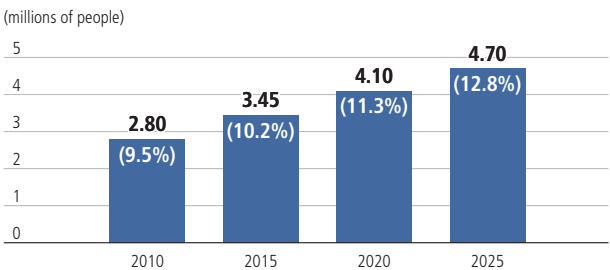
1 The number of elderly people of 65 years and older is projected to reach 36.57 million in 2025, and a peak of 38.78 million in 2042. Elderly people 75 years and older as a percentage of the total population are increasing and are expected to exceed 25% in 2055.

	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%)

Source: FY2015 Annual Health, Labour and Welfare Report

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)

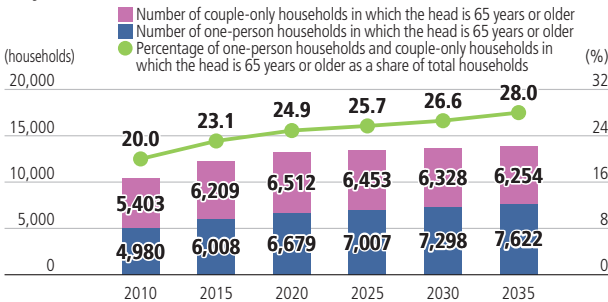


Separation of drug prescribing and dispensing

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.

Number of 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.

NHI 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 “NHI 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, NHI drug prices were revised at the same time that the consumption tax rate was raised from 8% to 10%. Starting in April 2020, NHI 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 pharmacy chains 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 is being raised in order to further promote the use of 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.

\* Hybrid-type pharmacy is a term for a type of pharmacy used by NIHON CHOUZAI Co., Ltd.

On-site pharmacies

It became possible to open on-site pharmacies within hospital premises 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 lower than hospital-front pharmacies.

Electronic Okusuri Techo (Electronic medication notebook)

A notebook application for centrally managing the information and records of prescribed medicines and for avoiding duplication and side effects caused by taking multiple medications. It can record information on a smartphone or other device. Nihon Chouzai has conducted in-house development of the electronic medication notebook Okusuri Techo Plus. 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.

Automatic drug picking device / Fully automatic PTP sheet dispensing device

In Japan, patients usually take drugs that have been sealed in PTP sheets. At pharmacies, PTP sheet-packaged drugs are picked by staff. These two devices store PTP sheets in cassettes, and they are becoming popular as a machine to prepare the required number of PTP sheets by transmitting prescription data.

Health Check-up 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-up 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 promote the use of generic drugs and curb the continuing increase in medical costs. These guidelines have already been introduced in Europe and the US, and in Japan, they have also been introduced in some areas.

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 Pharmaceuticals and Medical Devices 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	FY2010	FY2011	FY2012		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Fiscal year in which revisions to prescription dispensing fees and NHI drug prices were made	○		○			○		○		○	△ <sup>11</sup>
<b>Business results (for the year)</b>											
Net sales	112,128	130,041	139,466		165,347	181,844	219,239	223,468	241,274	245,687	<b>268,520</b>
Gross profit	19,182	22,038	21,494		25,623	31,929	39,068	39,258	43,837	41,975	<b>46,372</b>
Selling, general and administrative expenses	14,398	16,574	18,248		20,878	25,281	28,578	30,738	33,250	35,242	<b>38,779</b>
Operating profit	4,784	5,464	3,245		4,744	6,647	10,489	8,519	10,587	6,733	<b>7,593</b>
EBITDA <sup>1</sup>	7,118	8,492	6,837		8,570	10,278	14,951	13,260	15,801	13,037	<b>13,909</b>
Ordinary profit	4,358	4,941	2,855		4,188	6,003	9,878	7,976	10,138	6,077	<b>7,405</b>
Profit attributable to owners of parent	1,821	2,085	184		1,901	2,778	6,329	4,638	6,104	3,790	<b>6,697</b>
<b>Cash flows (for the year)</b>											
Cash flows from operating activities	6,723	7,127	2,885		6,243	5,831	19,327	(940)	23,141	13,572	<b>13,192</b>
Cash flows from investing activities	(8,269)	(9,694)	(6,422)		(14,510)	(8,437)	(7,823)	(28,444)	(13,843)	(1,770)	<b>(2,731)</b>
Cash flows from financing activities	1,109	7,920	5,496		8,782	1,422	7,031	18,205	(2,034)	(10,516)	<b>(7,955)</b>
<b>Financial position (at year-end)</b>											
Total assets <sup>2</sup>	72,701	86,615	95,140		117,295	130,141	157,609	178,347	186,573	178,677	<b>185,551</b>
Net assets	12,780	14,716	14,702		15,849	17,635	32,473	36,447	41,506	41,073	<b>47,072</b>
Cash and cash equivalents	7,200	12,554	14,513		15,027	13,844	32,380	21,200	28,464	29,749	<b>32,254</b>
Merchandise and finished goods	8,595	8,419	11,908		12,165	15,911	15,328	21,455	20,873	22,272	<b>22,988</b>
Interest-bearing debts <sup>3</sup>	33,891	42,279	48,281		62,037	68,327	66,794	86,524	87,611	81,302	<b>73,918</b>
<b>Per share information</b>											
Net assets per share <sup>4</sup> (yen)	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	<b>3,139.54</b>
Net income per share <sup>4</sup> (yen)	127.57	145.46	12.84		131.24	194.48	432.85	290.03	381.69	243.47	<b>446.66</b>
<b>Financial and non-financial data</b>											
Sales growth rate (%)	14.1	16.0	7.2		18.6	10.0	20.6	1.9	8.0	1.8	<b>9.3</b>
Selling, general and administrative expenses ratio (%)	12.8	12.7	13.1		12.6	13.9	13.0	13.8	13.8	14.3	<b>14.4</b>
Operating margin (%)	4.3	4.2	2.3		2.9	3.7	4.8	3.8	4.4	2.7	<b>2.8</b>
ROA <sup>5</sup> (%)	2.7	2.6	0.2		1.8	2.2	4.4	2.8	3.3	2.1	<b>3.6</b>
ROE <sup>6</sup> (%)	15.1	15.2	1.3		12.0	16.6	25.3	13.5	15.7	9.2	<b>15.2</b>
Equity ratio <sup>7</sup> (%)	17.6	17.0	15.5		13.5	13.6	20.6	20.4	22.2	23.0	<b>25.4</b>
Interest coverage ratio <sup>8</sup> (times)	12.8	13.0	4.9		8.6	7.1	24.4	–	37.1	25.8	<b>36.2</b>
D/E ratio <sup>9</sup> (times)	2.7	2.9	3.3		3.9	3.8	2.1	2.4	2.1	2.0	<b>1.6</b>
Capital expenditure	7,885	8,961	5,566		9,069	12,279	8,073	23,344	15,316	5,254	<b>12,025</b>
Depreciation	2,333	3,028	3,591		3,825	3,631	4,461	4,741	5,214	6,304	<b>6,316</b>
R&D expenses	985	1,224	1,023		1,534	1,767	1,913	2,388	2,784	2,764	<b>2,991</b>
Number of employees <sup>10</sup>	2,112	2,304	2,488		3,009	3,283	3,435	3,781	4,075	4,383	<b>4,904</b>

\* 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 2010  
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.  
11. NHI drug prices were revised in October 2019 due to changes in the consumption tax rate. Due to NHI drug price standard revisions, some dispensing fees have been adjusted and revised.



# Report of Business Results and Financial Analysis

## Business Results

Nihon Chouzai achieved increased sales and profit, as net sales totaled 268,520 million yen (up by 9.3% year on year), operating profit totaled 7,593 million yen (up by 12.8% year on year), ordinary profit totaled 7,405 million yen (up by 21.8% year on year), and profit attributable to owners of parent totaled 6,697 million yen (up by 76.7% year on year). Our business results exceeded the targets of our initial plans both in terms of net sales and profit.

In the Dispensing Pharmacy Business, COVID-19 has caused the number of prescriptions to fall, especially at pharmacies in the Tokyo metropolitan area. Meanwhile, we believe that the impact on net sales was largely offset by an increase in unit price per prescription due to the prolonged period of prescription days. However, we do not expect the impact of COVID-19 to be a temporary phenomenon limited to the fiscal year under review. In the

next fiscal year, we have included various expected impacts in our plans for the Dispensing Pharmacy Business for the three month period from April to June. One factor is decreased gross profit due to declined numbers of prescriptions caused by patients avoiding medical examinations, medical institutions reducing outpatient treatment, and prolonged period of prescription days. Another impact is decreased net sales due to decreased need for dispatching of pharmacists in the Medical Professional Staffing and Placement Business. The reason we have set this period as three months from April to June is that we do not expect the COVID-19 pandemic to wind down by the end of June. Instead, we believe it is reasonably possible to make calculations using the time limit of "declaration of a state of emergency" issued by the Japanese government as an objective indicator when planning for the next fiscal year.

## Business Results of Each Business Segment

### Dispensing Pharmacy Business

Net sales were 231,001 million yen (up by 10.7% year on year) and operating profit was 9,785 million yen (up by 12.4% year on year), achieving increased sales and profit.

In the same period, we opened 65 new pharmacies and closed 13 pharmacies, resulting in a total of 650 pharmacies (including one retail pharmacy) as of the end of the fiscal year under review. Regarding new pharmacy opening in the fiscal year under review, we were able to maintain an extremely good balance from multiple perspectives in terms of the form of opening (Nihon Chouzai owned and M&A), pharmacy type (hospital-front, and hybrid-type that combines the functions of both a Mentaio pharmacy and a medical center (MC) pharmacy), and pharmacy opening regions.

With regard to net sales, there were several factors for achieving a year on year increase in net sales, including increased prescription unit prices and increased number of prescriptions due to increased prescription of expensive pharmaceuticals such as anti-cancer drugs and initiatives taken on family pharmacists and pharmacies. The increased number of prescriptions is achieved based on the strong performance of existing pharmacies, and has been further boosted by the increased number of pharmacies resulting from active M&A initiatives.

With regard to operating profit, we achieved increased profit year on year mainly due to the effect of increased profit from increased sales. Contributing factors include the fact that we were able to raise technical fees as a result of steady efforts made for family pharmacists and pharmacies.

As of March 31, 2020, Nihon Chouzai has reached an average of 89% volume-based use of generic drugs, exceeding the government target of reaching 80% by September 2020. In addition, ratio of pharmacies that provide at-home medical care steadily increased to 89% (the percentage of pharmacies providing 12 or more cases of at-home medical care per year).

### Pharmaceutical Manufacturing and Sales Business

Net sales were 43,072 million yen (up by 5.9% year on year), while operating profit was 1,301 million yen (down by 31.0% year on year), achieving increased sales with decreased profit year on year. With regard to net sales, we achieved increased sales year on year due to factors such as favorable sales of new products and the growth of commissioned business, despite the fact that we were in a difficult environment due to a decline in selling prices of existing products associated with NHI drug price revisions in October 2019. Meanwhile, operating profit decreased year on year due to the significant impact of lower selling prices for existing products due to NHI drug price revisions.

As of the end of the fiscal year under review, we started to offer 22 new items, bringing our total to 681 items for sales. We will continue to focus on increasing the number of in-house approved items, so that we can increase the number of in-house manufactured items in order to improve our profitability.

### Medical Professional Staffing and Placement Business

Net sales in this business totaled 12,721 million yen (down by 2.8% year on year), with operating profit at 1,851 million yen (up by 25.2% year on year), showing a decrease in sales and an increase in profit year on year.

With regard to net sales, sales declined year on year, due to decreased demand for dispatched pharmacists, which was not offset by the growth of our placement business, despite continuing high demand for medical professionals. Meanwhile, operating profit increased by more than 20% year on year mainly due to the growth of our highly profitable placement business in the fields of pharmacists and doctors.

## Analysis of Financial Position

Total assets increased by 6,873 million yen, or 3.8%, from 178,677 million yen at the end of the previous fiscal year to 185,551 million yen at the end of the fiscal year under review. Total liabilities increased by 874 million yen, or 0.6%, from 137,604 million yen at the end of the previous fiscal year to 138,478 million yen at the end of the fiscal year under review.

Current assets increased by 7,281 million yen, or 9.1%, from 80,132 million yen at the end of previous fiscal year to 87,414 million yen. Following the expansion of business, cash and deposits increased by 2,505 million yen and accounts receivable—trade increased by 4,338 million yen, while raw materials and supplies decreased by 589 million yen. Therefore, we are conducting thorough inventory management.

Non-current assets decreased by 407 million yen, or 0.4%, from 98,545 million yen at the end of the previous fiscal year to 98,137 million yen. This includes property, plant and equipment, which decreased by 3,723 million yen, or 5.3%, from 69,806 million yen at the end of the previous fiscal year to 66,082 million yen. The fall in property, plant and equipment was primarily caused by the sale of property, plant and equipment for the purpose of improving the efficiency of assets through effective use of management resources, as well as further improving and strengthening financial structure. Intangible assets increased by 2,519 million yen, or 14.9%, from 16,906 million yen at the end of the previous fiscal year to 19,425 million yen. This was mainly

attributable to an increase in goodwill associated with active M&A initiatives in the Dispensing Pharmacy Business. Investments and other assets increased by 795 million yen, or 6.7%, from 11,833 million at the end of the previous fiscal year to 12,628 million yen. This was mainly attributable to an increase in lease and guarantee deposits resulting from strong new pharmacy openings in the Dispensing Pharmacy Business.

Current liabilities increased by 1,007 million yen, or 1.5%, from 69,100 million yen at the end of the previous fiscal year to 70,107 million yen. This was mainly due to an increase of 5,385 million yen in accounts payable—trade associated with business expansion. Meanwhile, current portion of long-term loans payable decreased by 6,737 million yen, indicating a steady decline.

Non-current liabilities decreased by 133 million yen, or 0.2%, from 68,504 million yen at the end of the previous fiscal year to 68,370 million yen, remaining at nearly the same level as the end of the previous fiscal year.

Total net assets increased by 5,999 million yen, or 14.6%, from 41,073 million yen at the end of the previous fiscal year to 47,072 million yen. This was mainly attributable to an increase in retained earnings by 5,947 million yen from the end of the previous fiscal year, as a result of strong efforts by Group companies to increase net sales and improve profitability. As a result, the equity ratio improved by 2.4%, from 23.0% at the end of the previous fiscal year to 25.4%, steadily enhancing our financial base.

## Status of Cash Flows

Net cash provided by operating activities was 13,192 million yen, net cash used in investing activities was 2,731 million yen, and net cash used in financing activities was 7,955 million yen. As a result,

there was a net increase of 2,505 million yen in cash and cash equivalents from the end of the previous fiscal year to 32,254 million yen at the end of March 2020.

### Cash flows from operating activities

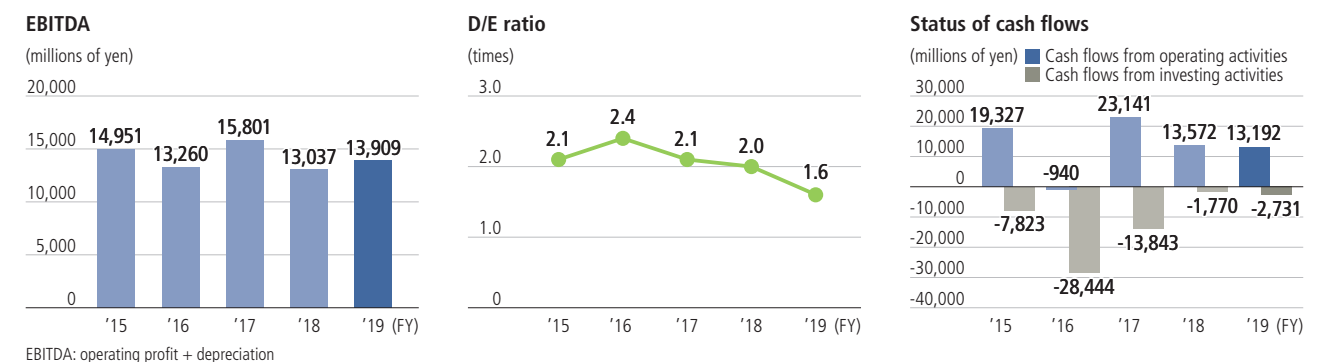
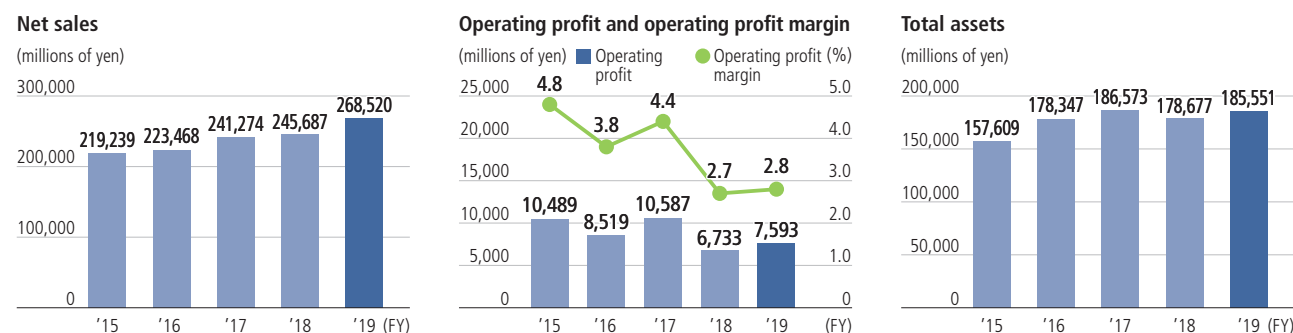
The major source of cash inflow was profit before income taxes of 11,885 million yen due mainly to strengthening of profitability of Group companies, while the primary use of cash outflow was 3,046 million yen in income taxes paid.

### Cash flows from investing activities

A major source of cash inflow was proceeds from sales of property, plant and equipment of 9,644 million yen. On the outflow side, the primary use of cash outflow was payment of 5,057 million yen for the purchase of shares of subsidiaries resulting in change in scope of consolidation resulting from active M&A initiatives in the Dispensing Pharmacy Business, as well as payment of 5,624 million yen for the purchase of property, plant and equipment incidental to opening new pharmacies in the Dispensing Pharmacy Business and capital investments in the Pharmaceutical Manufacturing and Sales Business.

### Cash flows from financing activities

The primary source of cash inflow was proceeds from long-term loans payable of 9,900 million yen, while cash was used mainly for payments of 16,261 million yen in repayments of long-term loans payable. Our financial structure is steadily enhancing, as large-scale capital investment in the Pharmaceutical Manufacturing and Sales Business peaked out, and interest-bearing debt has decreased due to the increased cash flow from operating activities resulting from improvement in the profitability of Group companies.



# Consolidated Balance Sheet

NIHON CHOUZAI Co., Ltd. and subsidiaries March 31, 2019 and 2020

(Millions of yen)

Assets	FY2018	FY2019
<b>Current assets</b>		
Cash and deposits	29,749	32,254
Notes receivable — trade	134	181
Accounts receivable — trade	16,249	20,587
Electronically recorded monetary claims—operating	1,465	1,080
Merchandise and finished goods	22,272	22,988
Work in process	1,173	1,541
Raw materials and supplies	6,020	5,431
Other	3,071	3,354
Allowance for doubtful accounts	(5)	(6)
<b>Total current assets</b>	<b>80,132</b>	<b>87,414</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	52,956	53,112
Accumulated depreciation	(20,582)	(22,189)
Buildings and structures, net	32,374	30,922
Machinery, equipment and vehicles	19,246	20,944
Accumulated depreciation	(4,539)	(5,860)
Machinery, equipment and vehicles, net	14,707	15,084
Land	16,961	14,653
Leased assets	2,888	2,883
Accumulated depreciation	(2,094)	(2,228)
Leased assets, net	794	655
Construction in progress	1,133	967
Other	16,399	17,947
Accumulated depreciation	(12,564)	(14,148)
Other, net	3,835	3,798
<b>Total property, plant and equipment</b>	<b>69,806</b>	<b>66,082</b>
Intangible assets		
Goodwill	14,552	16,994
Other	2,353	2,431
<b>Total intangible assets</b>	<b>16,906</b>	<b>19,425</b>
Investments and other assets		
Investment securities	17	16
Long-term loans receivable	687	703
Lease and guarantee deposits	7,357	7,765
Deferred tax assets	2,610	3,090
Other	1,160	1,052
<b>Total investments and other assets</b>	<b>11,833</b>	<b>12,628</b>
<b>Total non-current assets</b>	<b>98,545</b>	<b>98,137</b>
<b>Total assets</b>	<b>178,677</b>	<b>185,551</b>

(Millions of yen)

Liabilities	FY2018	FY2019
<b>Current liabilities</b>		
Accounts payable — trade	37,274	42,659
Electronically recorded obligations — operating	3,081	3,131
Short-term borrowings	—	100
Current portion of long-term loans payable	16,143	9,406
Lease obligations	261	82
Income taxes payable	1,478	4,132
Provision for bonuses	3,023	3,318
Provision for directors' bonuses	86	76
Asset retirement obligations	10	9
Other	7,739	7,191
<b>Total current liabilities</b>	<b>69,100</b>	<b>70,107</b>
<b>Non-current liabilities</b>		
Long-term loans payable	62,470	62,963
Lease obligations	436	479
Long-term accounts payable — installment purchase	1,349	886
Provision for directors' retirement benefits	1,093	474
Net defined benefit liability	1,695	1,957
Asset retirement obligations	1,145	1,289
Other	313	318
<b>Total non-current liabilities</b>	<b>68,504</b>	<b>68,370</b>
<b>Total liabilities</b>	<b>137,604</b>	<b>138,478</b>
<b>Net assets</b>	<b>FY2018</b>	<b>FY2019</b>
<b>Shareholders' equity</b>		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	29,815	35,762
Treasury shares	(3,498)	(3,499)
<b>Total shareholders' equity</b>	<b>41,196</b>	<b>47,143</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	0	—
Remeasurements of defined benefit plans	(127)	(70)
<b>Total accumulated other comprehensive income</b>	<b>(127)</b>	<b>(70)</b>
<b>Non-controlling interests</b>	<b>4</b>	<b>—</b>
<b>Total net assets</b>	<b>41,073</b>	<b>47,072</b>
<b>Total liabilities and net assets</b>	<b>178,677</b>	<b>185,551</b>

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, 2019 and 2020 (Millions of yen)

	FY2018	FY2019
Net sales	245,687	268,520
Cost of sales	203,711	222,147
Gross profit	41,975	46,372
Selling, general and administrative expenses	35,242	38,779
Operating profit	6,733	7,593
Non-operating income		
Interest income	0	0
Commission fee	50	41
Rent income	430	426
Compensation income	—	80
Insurance claim income	—	88
Subsidy income	—	75
Other	178	165
Total non-operating income	659	878
Non-operating expenses		
Interest expenses	525	364
Commission fee	13	20
Rent expenses	355	336
Loss on retirement of non-current assets	221	98
Other	198	246
Total non-operating expenses	1,315	1,066
Ordinary profit	6,077	7,405
Extraordinary income		
Gain on sales of non-current assets	231	6,662
Gain on sales of investment securities	8	—
Gain on transfer of business	1,092	34
Reversal of provision for retirement benefits for directors (and other officers)	—	634
Total extraordinary income	1,332	7,332
Extraordinary losses		
Loss on abandonment of non-current assets	—	187
Loss on sales of non-current assets	24	1
Impairment loss	607	2,663
Loss on sales of investment securities	—	0
Total extraordinary losses	632	2,852
Profit before income taxes	6,777	11,885
Income taxes — current	3,308	5,544
Income taxes — deferred	(324)	(357)
Total income taxes	2,984	5,186
Profit	3,792	6,698
Profit attributable to non-controlling interests	2	1
Profit attributable to owners of parent	3,790	6,697

## Consolidated Statement of Comprehensive Income

NIHON CHOUZAI Co., Ltd. and subsidiaries For the years ended March 31, 2019 and 2020 (Millions of yen)

	FY2018	FY2019
Profit	3,792	6,698
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Remeasurements of defined benefit plans, net of tax	16	57
Total other comprehensive income	16	57
Comprehensive income	3,809	6,756
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	3,806	6,754
Comprehensive income attributable to non-controlling interests	2	1

## Consolidated Statement of Changes in Net Assets

NIHON CHOUZAI Co., Ltd. and subsidiaries (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

(Millions of yen)

For the year ended March 31, 2020	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	29,815	(3,498)	41,196	0	(127)	(127)	4	41,073
Changes of items during period										
Dividends of surplus			(749)		(749)					(749)
Profit attributable to owners of parent			6,697		6,697					6,697
Purchase of treasury shares				(0)	(0)					(0)
Net changes of items other than shareholders' equity						(0)	57	57	(4)	52
Total changes of items during period	—	—	5,947	(0)	5,946	(0)	57	57	(4)	5,999
Balance at end of current period	3,953	10,926	35,762	(3,499)	47,143	—	(70)	(70)	—	47,072

# Consolidated Statement of Cash Flows

NIHON CHOUZAI Co., Ltd. and subsidiaries For the years ended March 31, 2019 and 2020

(Millions of yen)

	FY2018	FY2019
<b>Cash flows from operating activities</b>		
Profit before income taxes	6,777	11,885
Depreciation	6,304	6,316
Amortization of long-term prepaid expenses	160	169
Impairment loss	607	2,663
Amortization of goodwill	1,487	1,581
Increase (decrease) in allowance for doubtful accounts	(0)	0
Increase (decrease) in provision for bonuses	245	283
Increase (decrease) in provision for directors' bonuses	(50)	(10)
Increase (decrease) in net defined benefit liability	188	122
Increase (decrease) in provision for directors' retirement benefits	45	(726)
Interest and dividend income	(2)	(0)
Interest expenses	525	364
Loss (gain) on sales of non-current assets	(206)	(6,661)
Loss (gain) on sales of investment securities	(8)	0
Loss (gain) on transfer of business	(1,092)	(34)
Decrease (increase) in notes and accounts receivable—trade	3,485	(2,902)
Decrease (increase) in inventories	(1,314)	74
Increase (decrease) in notes and accounts payable—trade	342	3,486
Decrease (increase) in prepaid expenses	(74)	(149)
Increase (decrease) in accrued expenses	(82)	(51)
Decrease (increase) in accounts receivable—other	998	422
Increase (decrease) in accounts payable—other	(791)	(225)
Other, net	1,460	6
Subtotal	19,004	16,615
Interest and dividend income received	2	0
Interest expenses paid	(525)	(377)
Income taxes paid	(4,908)	(3,046)
<b>Net cash provided by (used in) operating activities</b>	<b>13,572</b>	<b>13,192</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(5,303)	(5,624)
Proceeds from sales of property, plant and equipment	1,723	9,644
Purchase of intangible assets	(591)	(606)
Proceeds from sales of investment securities	10	0
Increase in long-term prepaid expenses	(123)	(92)
Payments for transfer of business	(368)	(771)
Proceeds from transfer of business	4,093	52
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(785)	(5,057)
Payments for loans receivable	(92)	(76)
Collection of loans receivable	85	85
Payments for lease and guarantee deposits	(699)	(626)
Proceeds from collection of lease and guarantee deposits	281	302
Other, net	(0)	37
<b>Net cash provided by (used in) investing activities</b>	<b>(1,770)</b>	<b>(2,731)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	—	100
Proceeds from long-term loans payable	10,625	9,900
Repayments of long-term loans payable	(15,694)	(16,261)
Repayments of lease obligations	(311)	(266)
Repayments of installment payables	(893)	(677)
Purchase of treasury shares	(3,451)	(0)
Cash dividends paid	(791)	(749)
<b>Net cash provided by (used in) financing activities</b>	<b>(10,516)</b>	<b>(7,955)</b>
Net increase (decrease) in cash and cash equivalents	1,284	2,505
Cash and cash equivalents at beginning of period	28,464	29,749
Cash and cash equivalents at end of period	29,749	32,254

# Risks of Businesses

Of the matters regarding business status and accounting status described in the securities report, major risks which the management has judged as likely to have a significant impact on the financial position, operating results, and cash flow of consolidated companies 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 the date of submission of the securities report, 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 by loans payable and other borrowing, 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's performance may be affected by factors including the weather, such as excessively hot or cold summers, large-scale natural disasters, and pandemics of serious infectious diseases. In our pharmaceutical manufacturing and sales business, we have production bases distributed between Tsukuba City, Ibaraki Prefecture and Tokushima City, Tokushima Prefecture, and Group companies have taken measures such as formulating business continuity plans in case of disasters and other emergencies. However, we recognize that it is necessary to take more concrete measures, since the headquarters functions of each company are mainly consolidated in Chiyoda ward, Tokyo.

### 5. Impact of COVID-19

The Nihon Chouzai Group's performance may be affected by the spread of COVID-19. Especially in our dispensing pharmacy business, the number of prescriptions may decrease and mainly affect its profitability because of reasons such as patients avoiding medical examinations, as well as medical institutions limiting outpatient treatment and the prolonged period of prescription days.

## 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 the date of submission of the securities report.

#### (2) Securing pharmacists

Regarding dispensing pharmacies, Article 19 of the Pharmacists Act forbids, in principle, dispensing by anyone other than



pharmacists. By “Act on Securing Quality, Efficacy, and Safety of Products including Pharmaceuticals and Medical Devices” (“Pharmaceuticals 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 NHI 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 system reforms have been made to simultaneously curb rising medical costs and provide high-quality medical services. Depending on trends in various system reforms, it is possible that the performance of the Group may be affected by a decrease in the number of patients and other factors.

3. Business development

Regarding the dispensing pharmacy business, we have a policy to increase the number of stores centered on Nihon Chouzai pharmacies, but also including acquisition of stores. In case we cannot open or acquire stores as planned due to not being able to secure the property that conforms to the conditions of store opening or acquisition, in case initially planned sales cannot be posted after opening a store due to the state of competitions, in case store sales decrease due to relocation or discontinuance of medical institutions, or in case store operation cannot be continued or deposits and guarantees cannot be repaid due to business circumstances 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 account for a large proportion in the sales composition of the Nihon Chouzai Group, and the performance changes of the dispensing pharmacy business greatly affect the performance changes of the Group.

Regarding the dispensing pharmacy business, depending on increasing or decreasing prescriptions for influenza, etc., which prevails in winter, and pollinosis (allergic rhinitis), which mainly develops in the beginning of spring, the sales 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. 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 of the consumption tax rate, the performance of the Nihon Chouzai Group may be affected.

6. Impairment risk of goodwill

In the dispensing pharmacy business, M&A have become active in the dispensing pharmacy industry due to factors such as the shortage of pharmacists in small and medium sized pharmacies, the shortage of successors, and the lack of capability to adapt to ICT. Nihon Chouzai Group has positioned the use of M&A as an effective means of expanding the operation of the dispensing pharmacy business, and is working actively on M&A on the premise of sufficient scrutiny and examination of profitability and other factors for each case. The balance of goodwill increased by 2,442 million yen from the end of the previous consolidated fiscal year to 16,994 million yen at the end of the current consolidated fiscal year. If the actual number of prescriptions made at stores acquired through M&A, which is an important assumption for looking at future cash flows, is below goals at the time of acquisition, and the number is subject to impairment, it may affect the performance of the Group, including profit attributable to owners of parent company. Nihon Chouzai Group will scrutinize matters with greater precision, including the profitability of each project, and strengthen efforts such as training and streamlining of human resources after acquisition.

III. Pharmaceutical Manufacturing and Sales Business

1. Legal regulations for Pharmaceutical Manufacturing and Sales Business

Regarding the Pharmaceutical Manufacturing and Sales Business of the Group, we mainly manufacture generic drugs at our own factory. The legal risks involved in the product liability, and the risk factors for this business including the 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 Pharmaceuticals 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. In order to control increasing medical costs influenced by Japan’s financial reforms, the government has decided on a policy to transition from making biennial revisions to making annual revisions for NHI drug price standards, which tend to decline with each revision. This trend of revisions to NHI drug price standards may affect the Group’s product prices and potentially impact the performance of our pharmaceutical manufacturing and sales business. Additionally, in the manufacturing and sales market for generic drugs mainly handled in the business, there is the possibility that competition may intensify in the future and affect the performance of the Group.

IV. Medical Professional Staffing and Placement Business

1. Legal regulations for Medical Professional Staffing and Placement Business

Regarding the Medical Professional Staffing and Placement Business of the Group, 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, commis-

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 Pharmaceuticals 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

In this business, we develop products by 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

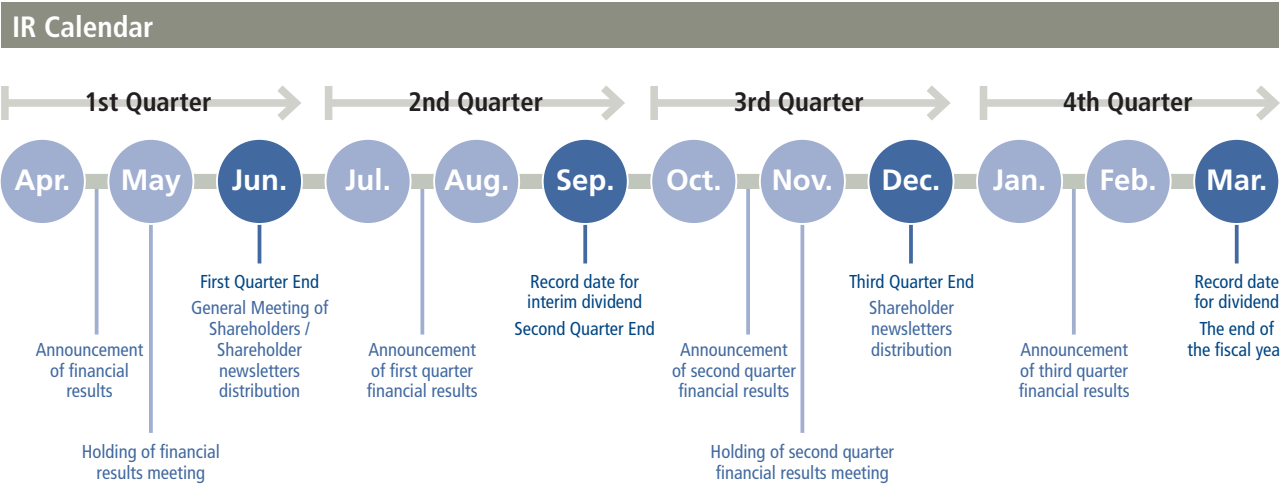
At suppliers of raw materials and merchandise, in case it becomes impossible for us to purchase raw materials and merchandise due to regulation problems, disasters including fire/earthquakes, and accidents during transportation, the production and supply of products may stop. This may affect the performance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

sioned 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.

# Company Profile

(As of March 31, 2020)

Company Profile	Shareholder Information
<b>Trade name</b> NIHON CHOUZAI Co., Ltd.	<b>Total number of authorized shares</b> 44,192,000 shares
<b>Established</b> March 1980	<b>Total number of issued shares</b> 16,024,000 shares
<b>Headquarters</b> 37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo 100-6737 +81-(0) 3-6810-0800 (general)	<b>Number of shareholders</b> 5,917 shareholders
<b>Capital</b> 3,953.02 million yen	<b>Annual general meeting of shareholders</b> June
<b>Consolidated net sales</b> 268,500 million yen (FY2019)	<b>Administrator of shareholder registry</b> Mitsubishi UFJ Trust and Banking Corporation 1-1, Nikko-cho, Fuchu City, Tokyo 183-0044 0120-232-711 (toll-free)
<b>Consolidated Number of employees</b> Regular employees: 4,904 Part-time employees and others: 811 <small>* Part-time employees and others are yearly average number of persons employed based on 8-hour conversion.</small>	<b>Stock exchange for listing</b> Tokyo Stock Exchange (TSE) First Section
<b>Main financing banks</b> Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, MUFG Bank, Ltd., Resona Bank, Ltd.	<b>Securities code</b> 3341
<b>Our business</b> Management of health insurance dispensing chain pharmacies	<b>Settlement date</b> March 31



# 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 Pharmaceuticals 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
March 2018	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
July 2018	Expanded both the East Japan Logistics Center and West Japan Logistics Center, and closed the Kanto Logistics Center
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.

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

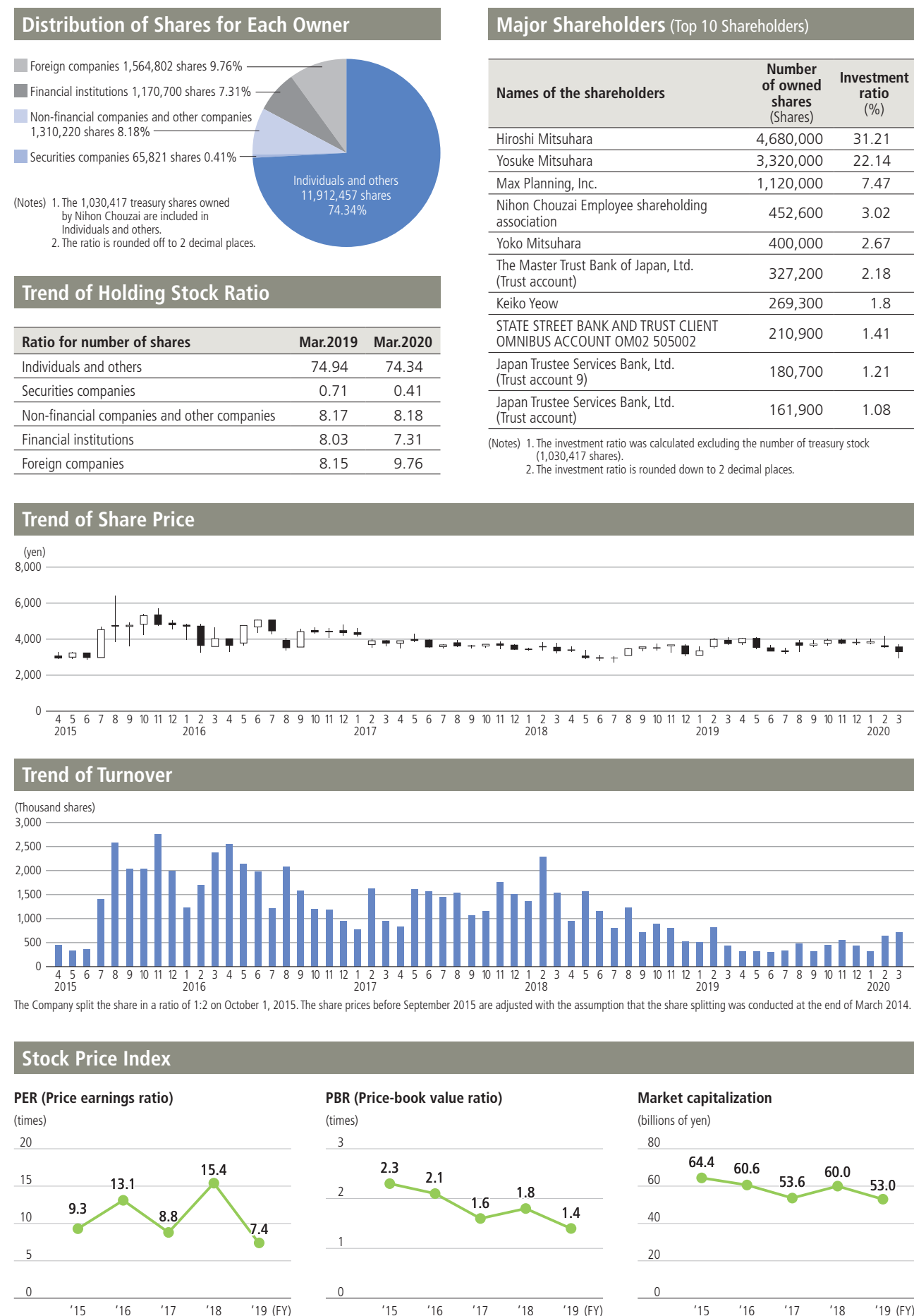
Base that supports Nihon Chouzai

Data section



# Stock Information

(As of March 31, 2020)



# Reference Pages for Major Contents

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

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 NIHON CHOUZAI Co.,Ltd.