



January 31, 2020

**Summary of Consolidated Financial Results for the Third Quarter
of the Fiscal Year Ending March 31, 2020
(Nine Months Ended December 31, 2019)**

[Japanese GAAP]

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 Scheduled date of filing of Quarterly Report: February 14, 2020
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None
Note: The original disclosure in Japanese was released on January 31, 2020 at 15:00 (GMT +9).

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

**1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020
(April 1, 2019 – December 31, 2019)**

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|---------------------------------|-------------|-----|------------------|--------|-----------------|--------|---|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Nine months ended Dec. 31, 2019 | 199,040 | 8.5 | 5,632 | 28.4 | 5,449 | 41.3 | 3,059 | 29.1 |
| Nine months ended Dec. 31, 2018 | 183,404 | 1.7 | 4,385 | (47.3) | 3,855 | (51.7) | 2,369 | (52.8) |

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2019: 3,083 (up 27.8%)

Nine months ended Dec. 31, 2018: 2,412 (down 49.5%)

| | Net income per share | Diluted net income per share |
|---------------------------------|----------------------|------------------------------|
| | Yen | Yen |
| Nine months ended Dec. 31, 2019 | 204.05 | - |
| Nine months ended Dec. 31, 2018 | 150.51 | - |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| As of Dec. 31, 2019 | 189,831 | 43,399 | 22.9 |
| As of Mar. 31, 2019 | 178,677 | 41,073 | 23.0 |

Reference: Shareholders' equity (million yen) As of Dec. 31, 2019: 43,399 As of Mar. 31, 2019: 41,068

2. Dividends

| | Dividend per share | | | | |
|--|--------------------|--------|--------|----------|-------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended Mar. 31, 2019 | - | 25.00 | - | 25.00 | 50.00 |
| Fiscal year ending Mar. 31, 2020 | - | 25.00 | - | - | - |
| Fiscal year ending Mar. 31, 2020 (forecasts) | - | - | - | 25.00 | 50.00 |

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Net income per share |
|-----------|-------------|-----|------------------|-----|-----------------|------|---|------|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 268,599 | 9.3 | 7,231 | 7.4 | 7,069 | 16.3 | 6,004 | 58.4 | 400.43 |

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

*** Notes**

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

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

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

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

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

3) Changes in accounting-based estimates: None

4) Restatements: None

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

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

| | | | |
|----------------------|-------------------|----------------------|-------------------|
| As of Dec. 31, 2019: | 16,024,000 shares | As of Mar. 31, 2019: | 16,024,000 shares |
|----------------------|-------------------|----------------------|-------------------|

2) Number of treasury shares at the end of period

| | | | |
|----------------------|------------------|----------------------|------------------|
| As of Dec. 31, 2019: | 1,030,397 shares | As of Mar. 31, 2019: | 1,030,190 shares |
|----------------------|------------------|----------------------|------------------|

3) Average number of shares outstanding during the period

| | | | |
|----------------------------------|-------------------|----------------------------------|-------------------|
| Nine months ended Dec. 31, 2019: | 14,993,723 shares | Nine months ended Dec. 31, 2018: | 15,742,183 shares |
|----------------------------------|-------------------|----------------------------------|-------------------|

Note 1: The quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

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

(1) Note concerning forward-looking statements

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

(2) How to view supplementary materials for financial results

Supplementary materials for quarterly financial results will be disclosed at the Timely Disclosure network (TDnet) as appropriate, and also will be available on the Nihon Chouzai website.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months (April to December) of the fiscal year ending on March 31, 2020, there were several significant events during the fiscal year's third quarter. Drug prices were revised in October due to the consumption tax hike and the Act for Partial Amendment to the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (Revised Pharmaceutical and Medical Devices Act) was enacted in November (promulgated on December 4). The Japanese government, based on the current status of the separation of drug prescribing and dispensing, finalized a policy for the separation of drug prescribing and dispensing for the purpose of enabling pharmacists to perform their primary roles in order to assist people receiving medical care. This policy statement includes the clarification of the roles and duties of pharmacists and pharmacies and the establishment of certification systems for regional interaction pharmacies and pharmacies associated with specialized medical institutions. In addition, based on certain rules, pharmacists are allowed to use video telephone calls and other communications to give people instructions for taking medicine, as an exception of the requirement for face-to-face instructions. Furthermore, an intermediate report of the All-Generations Social Security Reform Conference was announced in December. Discussions are under way with the goal of creating a social security system that allows all generations to live with no worries.

In response to these rapid and dramatic changes taking place in the medical care and pharmaceutical sectors, the entire Nihon Chouzai Group is steadily taking many actions aimed at holding down growth in health care expenses and providing high-quality medical services. Due to these activities, sales and earnings in the first nine months were higher than one year earlier. Net sales increased 8.5% year on year to 199,040 million yen. Operating profit increased 28.4% to 5,632 million yen, ordinary profit increased 41.3% to 5,449 million yen and profit attributable to owners of parent rose 29.1% to 3,059 million yen.

Business segment performance was as follows.

1) Dispensing Pharmacy Business

During the first nine months of the current fiscal year, Nihon Chouzai opened 53 pharmacies and closed ten (including one location that was converted from a store specializing in the sale of general merchandise to a pharmacy). Consequently, there were 641 pharmacies (including one pharmacy specializing in the sale of general merchandise) at the end of the third quarter. Sales increased 9.6% year on year to 170,695 million yen primarily for two reasons. First is an increase in unit prices of prescriptions, resulting mainly from a larger number of prescriptions for cancer drugs and other drugs with high prices, and services provided by family pharmacists and pharmacies. Second is a larger number of prescriptions because of an increase in the number of pharmacists and other actions. Operating profit in this segment increased 9.0% to 6,581 million yen as the contribution to earnings from sales growth more than offset higher personnel expenses resulting from hiring a large number of new pharmacy school graduates.

The Japanese government has established the target of raising the volume-based share of generic drugs to at least 80% by September 2020. At Nihon Chouzai pharmacies, the average rate of generic drug utilization rate was above 88% at the end of December 2019. Moreover, 88% of pharmacies were offering at-home medical care services (number of pharmacies providing at least 12 services in a year).

2) Pharmaceutical Manufacturing and Sales Business

Sales increased 6.2% to 32,564 million yen. Despite the negative impact of the decline in selling prices of existing products associated with the October 2019 drug price revisions, sales in the first nine months were higher than one year earlier mainly because of the growth of the contract manufacturing business and sales activities for drugs newly listed for Japan's national health insurance.

Operating profit was up 29.4 % to 1,534 million yen. A sales strategy that placed priority on profitability was the primary reasons for the increase in earnings.

The number of product items sold increased to 680 at the end of the third quarter due to the launch of 12 new products in December.

3) Medical Professional Staffing and Placement Business

There is consistently strong demand for staffing and placement services, particularly for pharmacists. During the first nine months, there was an increase in pharmacists and physician placements due to up-front investments in the previous fiscal year for sales offices and personnel. The result was a 0.3% increase in sales to 9,737 million yen as the steady growth of this business continued. Operating profit increased 36.6% to 1,442 million yen, setting a new record for the first nine months of a fiscal year. This accomplishment was mainly the result of the growth of pharmacist and physician placement business, which has a high profit margin.

(2) Explanation of Financial Position

Total assets increased 11,153 million yen, or 6.2%, from the end of March 2019 to 189,831 million yen at the end of December 2019. Current assets were 87,384 million yen, an increase of 7,252 million yen, or 9.1%. This was attributable mainly to increases in accounts receivable-trade, and merchandise and finished goods. Non-current assets were 102,446 million yen, an increase of 3,901 million yen, or 4.0%. This was attributable mainly to an increase in goodwill.

Total liabilities increased 8,827 million yen, or 6.4%, to 146,431 million yen primarily because of a decrease in borrowings and an increase in accounts payable-trade.

Net assets increased 2,326 million yen, or 5.7%, to 43,399 million yen. This was attributable mainly to an increase in retained earnings.

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

There are no revisions to the consolidated forecast for the fiscal year ending March 31, 2020 that was announced on December 24, 2019.

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

(Millions of yen)

| | FY3/19 (As of Mar. 31, 2019) | Third quarter of FY3/20 (As of Dec. 31, 2019) |
|---|---------------------------------|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 29,749 | 26,621 |
| Notes receivable-trade | 134 | 207 |
| Accounts receivable-trade | 16,249 | 20,970 |
| Electronically recorded monetary claims-operating | 1,465 | 1,001 |
| Merchandise and finished goods | 22,272 | 27,542 |
| Work in process | 1,173 | 1,454 |
| Raw materials and supplies | 6,020 | 5,614 |
| Other | 3,071 | 3,978 |
| Allowance for doubtful accounts | (5) | (6) |
| Total current assets | 80,132 | 87,384 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 32,374 | 31,788 |
| Land | 16,961 | 16,892 |
| Construction in progress | 1,133 | 900 |
| Other, net | 19,337 | 19,634 |
| Total property, plant and equipment | 69,806 | 69,216 |
| Intangible assets | | |
| Goodwill | 14,552 | 19,042 |
| Other | 2,353 | 2,389 |
| Total intangible assets | 16,906 | 21,432 |
| Investments and other assets | | |
| Investment securities | 17 | 20 |
| Leasehold and guarantee deposits | 7,357 | 7,753 |
| Other | 4,457 | 4,023 |
| Total investments and other assets | 11,833 | 11,797 |
| Total non-current assets | 98,545 | 102,446 |
| Total assets | 178,677 | 189,831 |

| | (Millions of yen) | |
|--|---------------------------------|--|
| | FY3/19 (As of Mar. 31, 2019) | Third quarter of FY3/20 (As of Dec. 31, 2019) |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 37,274 | 52,824 |
| Electronically recorded obligations-operating | 3,081 | 3,935 |
| Current portion of long-term borrowings | 16,143 | 10,073 |
| Income taxes payable | 1,478 | 275 |
| Provision for bonuses | 3,023 | 1,652 |
| Provision for bonuses for directors (and other officers) | 86 | - |
| Other | 8,011 | 9,428 |
| Total current liabilities | 69,100 | 78,189 |
| Non-current liabilities | | |
| Long-term borrowings | 62,470 | 62,127 |
| Provision for retirement benefits for directors (and other officers) | 1,093 | 1,091 |
| Retirement benefit liability | 1,695 | 1,972 |
| Other | 3,244 | 3,050 |
| Total non-current liabilities | 68,504 | 68,241 |
| Total liabilities | 137,604 | 146,431 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 3,953 | 3,953 |
| Capital surplus | 10,926 | 10,926 |
| Retained earnings | 29,815 | 32,125 |
| Treasury shares | (3,498) | (3,499) |
| Total shareholders' equity | 41,196 | 43,505 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 0 | - |
| Remeasurements of defined benefit plans | (127) | (105) |
| Total accumulated other comprehensive income | (127) | (105) |
| Non-controlling interests | 4 | - |
| Total net assets | 41,073 | 43,399 |
| Total liabilities and net assets | 178,677 | 189,831 |

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

(Millions of yen)

| | First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018) | First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019) |
|--|---|---|
| Net sales | 183,404 | 199,040 |
| Cost of sales | 152,731 | 164,688 |
| Gross profit | 30,672 | 34,351 |
| Selling, general and administrative expenses | 26,287 | 28,719 |
| Operating profit | 4,385 | 5,632 |
| Non-operating income | | |
| Commission income | 38 | 31 |
| Rental income | 322 | 316 |
| Compensation income | - | 80 |
| Subsidy income | - | 69 |
| Other | 115 | 109 |
| Total non-operating income | 476 | 606 |
| Non-operating expenses | | |
| Interest expenses | 415 | 281 |
| Commission expenses | 10 | 9 |
| Rent expense | 266 | 251 |
| Provision of allowance for doubtful accounts | 40 | - |
| Other | 273 | 246 |
| Total non-operating expenses | 1,005 | 789 |
| Ordinary profit | 3,855 | 5,449 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 199 | 42 |
| Gain on sales of investment securities | 8 | - |
| Gain on sale of businesses | - | 34 |
| Total extraordinary income | 207 | 77 |
| Extraordinary losses | | |
| Impairment loss | 14 | 349 |
| Loss on sales of non-current assets | - | 1 |
| Loss on sales of investment securities | - | 0 |
| Total extraordinary losses | 14 | 351 |
| Profit before income taxes | 4,048 | 5,175 |
| Income taxes-current | 1,385 | 1,520 |
| Income taxes-deferred | 293 | 593 |
| Total income taxes | 1,678 | 2,114 |
| Profit | 2,370 | 3,060 |
| Profit attributable to non-controlling interests | 0 | 1 |
| Profit attributable to owners of parent | 2,369 | 3,059 |

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

(Millions of yen)

| | First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018) | First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019) |
|--|---|---|
| Profit | 2,370 | 3,060 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (0) | (0) |
| Remeasurements of defined benefit plans, net of tax | 42 | 22 |
| Total other comprehensive income | 42 | 22 |
| Comprehensive income | 2,412 | 3,083 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 2,412 | 3,081 |
| Comprehensive income attributable to non-controlling interests | 0 | 1 |

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment information

I. First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)

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

| | Reportable segment | | | | Adjustment (Note) | Amounts shown on quarterly consolidated statement of income |
|--|------------------------------------|---|--|---------|----------------------|---|
| | Dispensing pharmacy business | Pharmaceutical manufacturing and sales business | Medical professional staffing and placement business | Total | | |
| Net sales | | | | | | |
| (1) External sales | 155,694 | 18,188 | 9,520 | 183,404 | - | 183,404 |
| (2) Inter-segment sales and transfers | 9 | 12,475 | 185 | 12,670 | (12,670) | - |
| Total | 155,703 | 30,664 | 9,706 | 196,074 | (12,670) | 183,404 |
| Segment profit (loss) | 6,035 | 1,185 | 1,056 | 8,277 | (3,892) | 4,385 |

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The adjustment of -3,892 million yen to segment profit (loss) includes eliminations of -202 million yen for inter-segment transactions and corporate expenses of -3,689 million yen. General and administrative expenses that do not belong to any reportable segment are the primary component of corporate expenses.

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

Impairment losses related to non-current assets

Not applicable.

Significant change in goodwill

Not applicable.

II. First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)

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

| | Reportable segment | | | | Adjustment (Note) | Amounts shown on quarterly consolidated statement of income |
|--|------------------------------------|---|---|---------|----------------------|---|
| | Dispensing pharmacy business | Pharmaceutical manufacturing and sales business | Medical professional staffing and placement business | Total | | |
| Net sales | | | | | | |
| (1) External sales | 170,686 | 18,645 | 9,708 | 199,040 | - | 199,040 |
| (2) Inter-segment sales and transfers | 9 | 13,919 | 29 | 13,957 | (13,957) | - |
| Total | 170,695 | 32,564 | 9,737 | 212,997 | (13,957) | 199,040 |
| Segment profit (loss) | 6,581 | 1,534 | 1,442 | 9,559 | (3,927) | 5,632 |

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The adjustment of -3,927 million yen to segment profit (loss) includes eliminations of -34 million yen for inter-segment transactions and corporate expenses of -3,892 million yen. General and administrative expenses that do not belong to any reportable segment are the primary component of corporate expenses.

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

Impairment losses related to non-current assets

In the dispensing pharmacy business segment, there was an impairment loss of 84 million yen for store assets (three pharmacies). In the pharmaceutical manufacturing and sales business, there was an impairment loss of 265 million yen for some plant facilities.

Significant change in goodwill

In the dispensing pharmacy business segment, Nihon Chouzai acquired 27 pharmacies through business transfer and purchase of shares. In the first nine months of FY3/20, this acquisition caused goodwill to increase by 5,621 million yen.

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