



January 31, 2019

**Summary of Consolidated Financial Results for the Third Quarter
of the Fiscal Year Ending March 31, 2019
(Nine Months Ended December 31, 2018)**

[Japanese GAAP]

Company name: NIHON CHOUZAI Co., Ltd.
Stock code: 3341
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Listing: Tokyo Stock Exchange, First Section
URL: <http://www.nicho.co.jp>

Scheduled date of filing of Quarterly Report:

Tel: +81-(0) 3-6810-0800

Scheduled date of payment of dividend:

February 14, 2019

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, 2019 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, 2019
(April 1, 2018 – December 31, 2018)**

(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, 2018	183,404	1.7	4,385	(47.3)	3,855	(51.7)	2,369	(52.8)
Nine months ended Dec. 31, 2017	180,250	8.6	8,328	36.5	7,988	38.4	5,015	51.6

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2018: 2,412 (down 49.5%)

Nine months ended Dec. 31, 2017: 4,773 (up 38.5%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2018	150.51	-
Nine months ended Dec. 31, 2017	313.61	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2018	180,824	40,262	22.3
As of Mar. 31, 2018	186,569	41,506	22.2

Reference: Shareholders' equity (million yen) As of Dec. 31, 2018: 40,260 As of Mar. 31, 2018: 41,504

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2018	-	25.00	-	25.00	50.00
Fiscal year ending Mar. 31, 2019	-	25.00	-		
Fiscal year ending Mar. 31, 2019 (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, 2019 (April 1, 2018 – March 31, 2019)

(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	253,893	5.2	6,318	(40.3)	6,078	(40.1)	3,756	(38.5)	234.84

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, 2018:	16,024,000 shares	As of Mar. 31, 2018:	16,024,000 shares
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2) Number of treasury shares at the end of period

As of Dec. 31, 2018:	862,690 shares	As of Mar. 31, 2018:	29,868 shares
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3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2018:	15,742,183 shares	Nine months ended Dec. 31, 2017:	15,994,384 shares
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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 pharmaceutical and dispensing pharmacy industries during the first nine months (April to December) of the fiscal year ending on March 31, 2019, there were revisions in April to prescription dispensing fees and drug prices. Discussions are moving ahead at agencies of the Japanese government concerning the roles of pharmacies and pharmacists, the separation of the roles of drug prescribing and dispensing services, and other issues. These studies may result in the separation of pharmacy functions in association with amendments to the Pharmaceutical and Medical Devices Act. These changes may lead to a significant realignment of Japan's pharmacy industry and result in people using only pharmacies that are able to truly meet their needs.

During the first nine months, the Nihon Chouzai Group continued to take actions for realizing the separation of dispensing and prescribing functions for the benefit of patients and holding down growth in health care expenditures. Despite these measures, a decline in the gross profit mainly caused by the April price revisions and substantial up-front investments in all business segments had a big impact on results of operations. As a result, consolidated sales increased but earnings decreased. However, sales and earnings improved significantly in the third quarter in relation to the fiscal year's first half.

Net sales increased 1.7% year on year to 183,404 million yen. Operating profit decreased 47.3% to 4,385 million yen, ordinary profit decreased 51.7% to 3,855 million yen and profit attributable to owners of parent fell 52.8% to 2,369 million yen. Although sales in the first nine months were slightly below the initial plan, earnings were higher than planned mainly because of measures to hold down expenses.

Business segment performance was as follows.

1) Dispensing Pharmacy Business

In the first nine months of the current fiscal year, Nihon Chouzai opened 24 pharmacies in the dispensing pharmacy business and closed 12. Consequently, there were 597 pharmacies (including three pharmacies specializing in the sale of general merchandise) at the end of the third quarter. Net sales in this segment increased 1.9% year on year to 155,703 million yen. Sales were affected by a big decrease in prescription unit prices because of revisions to drug prices and prescription dispensing fees. However, these negative factors were offset by an increase in the number of prescriptions that was attributable mostly to pharmacies opened in the previous fiscal year and the first nine months of the current fiscal year. Revisions to drug prices and prescription dispensing fees brought down earnings sharply, resulting in a 33.3% decrease in this segment's operating profit to 6,035 million yen. However, this decrease was much less than the 43.1% decline in this segment's first half operating profit.

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 87% at the end of December 2018. Moreover, 90% of pharmacies were offering at-home medical care services (number of pharmacies providing at least 12 services in a year). Steady growth in the number of registered members using Nihon Chouzai's Okusuri Techo Plus electronic medication notebook continued. As of December 31, 2018, there were 320,000 members.

2) Pharmaceutical Manufacturing and Sales Business

Sales in the first nine months increased 4.7% to 30,664 million yen despite the impact of the drug price reduction in April 2018 due mainly to higher internal sales resulting from the steady growth of the dispensing pharmacy business. Segment operating profit fell 17.1% to 1,185 million yen because of an increase in depreciation expenses in association with the start of operations at the large Tsukuba Plant No. 2 with state-of-the-art production facilities. Earnings were much higher than initially planned because a suitable level of selling prices was maintained and all categories of expenses were held down. As a result, this business made significant progress in profitability in the first nine months toward earnings recovery in the new fiscal year.

The number of product items sold in this business segment was 668 at the end of the third quarter due to the launch of 20 new products in December.

3) Medical Professional Staffing and Placement Business

There is consistently strong demand for staffing and placement services, particularly for pharmacists. In the first nine months, pharmacist temporary and permanent placements continued to increase and activities to strengthen physician placement services contributed to an increase in physician placements. The result was an 8.5% increase in sales to 9,706 million yen. Segment operating profit was down 25.4% to 1,056 million yen because of upfront investments, such as raising the number of personnel, for expansion of the physician placement business. However, this decrease was much less than the 37.3% decline in this segment's first half operating profit.

(2) Explanation of Financial Position

Total assets decreased 5,744 million yen, or 3.1%, from the end of March 2018 to 180,824 million yen at the end of December 2018. Current assets were 78,967 million yen, a decrease of 2,645 million yen, or 3.2%. This was attributable mainly to a decrease in cash and deposits. Non-current assets were 101,857 million yen, a decrease of 3,099 million yen, or 3.0%. This was attributable mainly to a decrease in construction in progress.

Total liabilities decreased 4,500 million yen, or 3.1%, to 140,562 million yen primarily because of a decrease in long-term loans payable.

Net assets decreased 1,244 million yen, or 3.0%, to 40,262 million yen primarily because of an increase in treasury shares.

(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, 2019 that was announced on April 27, 2018.

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

	(Millions of yen)	
	FY3/18 (As of Mar. 31, 2018)	Third quarter of FY3/19 (As of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	28,464	21,539
Notes receivable-trade	213	276
Accounts receivable-trade	19,902	17,808
Electronically recorded monetary claims-operating	1,115	1,236
Merchandise and finished goods	20,873	27,090
Work in process	1,304	1,290
Raw materials and supplies	6,047	5,863
Other	3,698	3,868
Allowance for doubtful accounts	(6)	(6)
Total current assets	81,613	78,967
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	34,418	33,736
Land	19,357	18,295
Construction in progress	6,750	1,822
Other, net	15,135	18,981
Total property, plant and equipment	75,662	72,835
Intangible assets		
Goodwill	15,418	15,250
Other	2,534	2,493
Total intangible assets	17,952	17,743
Investments and other assets		
Investment securities	20	17
Lease and guarantee deposits	7,049	7,448
Other	4,272	3,852
Allowance for doubtful accounts	-	(40)
Total investments and other assets	11,341	11,278
Total non-current assets	104,956	101,857
Total assets	186,569	180,824

	(Millions of yen)	
	FY3/18 (As of Mar. 31, 2018)	Third quarter of FY3/19 (As of Dec. 31, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	36,203	41,472
Electronically recorded obligations-operating	3,770	3,652
Current portion of long-term loans payable	15,309	16,967
Income taxes payable	3,040	108
Provision for bonuses	2,775	1,528
Provision for directors' bonuses	137	-
Other	9,074	7,687
Total current liabilities	70,310	71,416
Non-current liabilities		
Long-term loans payable	68,372	63,214
Provision for directors' retirement benefits	1,048	1,069
Net defined benefit liability	1,503	1,625
Other	3,827	3,235
Total non-current liabilities	74,752	69,145
Total liabilities	145,062	140,562
Net assets		
Shareholders' equity		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	26,816	28,394
Treasury shares	(47)	(2,912)
Total shareholders' equity	41,648	40,361
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Remeasurements of defined benefit plans	(144)	(101)
Total accumulated other comprehensive income	(144)	(101)
Non-controlling interests	2	2
Total net assets	41,506	40,262
Total liabilities and net assets	186,569	180,824

(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 FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)
Net sales	180,250	183,404
Cost of sales	147,146	152,731
Gross profit	33,103	30,672
Selling, general and administrative expenses	24,775	26,287
Operating profit	8,328	4,385
Non-operating income		
Commission fee	113	38
Rent income	324	322
Other	153	115
Total non-operating income	590	476
Non-operating expenses		
Interest expenses	487	415
Commission fee	22	10
Rent expenses	244	266
Provision of allowance for doubtful accounts	-	40
Other	176	273
Total non-operating expenses	930	1,005
Ordinary profit	7,988	3,855
Extraordinary income		
Gain on sales of non-current assets	0	199
Gain on sales of investment securities	360	8
Gain on transfer of business	38	-
Total extraordinary income	398	207
Extraordinary losses		
Impairment loss	173	14
Loss on sales of non-current assets	10	-
Total extraordinary losses	183	14
Profit before income taxes	8,203	4,048
Income taxes-current	2,860	1,385
Income taxes-deferred	327	293
Total income taxes	3,187	1,678
Profit	5,015	2,370
Profit attributable to non-controlling interests	-	0
Profit attributable to owners of parent	5,015	2,369

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

(Millions of yen)

	First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)
Profit	5,015	2,370
Other comprehensive income		
Valuation difference on available-for-sale securities	(263)	0
Remeasurements of defined benefit plans, net of tax	21	42
Total other comprehensive income	(242)	42
Comprehensive income	4,773	2,412
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,773	2,412
Comprehensive income attributable to non-controlling interests	-	0

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

Not applicable.

Significant Changes in Shareholders' Equity

Nihon Chouzai acquired 832,600 treasury shares upon resolution of the Board of Directors meeting on July 31, 2018. This transaction resulted in an increase of 2,864 million yen in treasury shares for the first nine months of the current fiscal year and the balance of treasury shares was 2,912 million yen as of December 31, 2018.

Additional Information

Application of consolidated taxation system

Nihon Chouzai and some of its consolidated subsidiaries started using the consolidated taxation system in the first quarter of the current fiscal year.

Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”

Nihon Chouzai started the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) at the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets and deferred tax liabilities are reclassified and included in the investments and other assets section and the non-current liabilities section, respectively.

Segment and Other Information

Segment information

I. First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)

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	152,790	18,863	8,595	180,250	-	180,250
(2) Inter-segment sales and transfers	9	10,436	352	10,798	(10,798)	-
Total	152,799	29,300	8,948	191,048	(10,798)	180,250
Segment profit (loss)	9,050	1,431	1,416	11,898	(3,569)	8,328

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 -3,569 million yen to segment profit (loss) includes eliminations of -82 million yen for inter-segment transactions and corporate expenses of -3,487 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 for store assets (four pharmacies). The amount of this loss in the first nine months of FY3/18 was 173 million yen.

Significant change in goodwill

Not applicable.

II. 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.

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.