



October 31, 2018

**Summary of Consolidated Financial Results for the Second Quarter
of the Fiscal Year Ending March 31, 2019
(Six Months Ended September 30, 2018)**

[Japanese GAAP]

Company name:	NIHON CHOUZAI Co., Ltd.	Listing:	Tokyo Stock Exchange, First Section
Stock code:	3341	URL:	http://www.nicho.co.jp
Representative:	Hiroshi Mitsuhashi, President & CEO		
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Scheduled date of filing of Quarterly Report:			November 14, 2018
Scheduled date of payment of dividend:			December 5, 2018
Preparation of supplementary materials for quarterly financial results:			Yes
Holding of quarterly financial results meeting:			Yes (for institutional investors and analysts)
<i>Note: The original disclosure in Japanese was released on October 31, 2018 at 15:00 (GMT +9).</i>			
<i>(All amounts are rounded down to the nearest million yen)</i>			

**1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019
(April 1, 2018 – September 30, 2018)**

		(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	%
Six months ended Sep. 30, 2018		118,694	0.5	1,547	(68.4)	1,265	(72.7)	744	(73.4)
Six months ended Sep. 30, 2017		118,149	7.9	4,888	24.1	4,635	23.6	2,805	19.9
Note: Comprehensive income (million yen)		Six months ended Sep. 30, 2018:		778 (down 69.8%)					
		Six months ended Sep. 30, 2017:		2,577 (up 12.0%)					
		Net income per share		Diluted net income per share					
		Yen		Yen					
Six months ended Sep. 30, 2018		46.77		-					
Six months ended Sep. 30, 2017		175.42		-					

(2) Consolidated financial position

		Total assets	Net assets	Equity ratio
		Million yen	Million yen	%
As of Sep. 30, 2018		183,289	40,781	22.2
As of Mar. 31, 2018		186,569	41,506	22.2
Reference: Shareholders' equity (million yen)		As of Sep. 30, 2018:	40,780	As of Mar. 31, 2018: 41,504

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year ended Mar. 31, 2018	Yen -	Yen 25.00	Yen -	Yen 25.00	Yen 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)

		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)

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 Sep. 30, 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 Sep. 30, 2018:	358,908 shares	As of Mar. 31, 2018:	29,868 shares
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 - 3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2018:	15,927,988 shares	Six months ended Sep. 30, 2017:	15,994,447 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

Nihon Chouzai plans to hold an information meeting for institutional investors and analysts regarding results of operations on November 6, 2018. Materials distributed at this event will also be disclosed, using the Timely Disclosure network (TDnet), and available on the Nihon Chouzai website.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
Quarterly Consolidated Statement of Income	
For the Six-month Period	6
Quarterly Consolidated Statement of Comprehensive Income	
For the Six-month Period	7
(3) Quarterly Consolidated Statement of Cash Flows	8
(4) Notes to Quarterly Consolidated Financial Statements	10
Going-concern Assumption	10
Significant Changes in Shareholders' Equity	10
Additional Information	10
Segment and Other Information	10

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the pharmaceutical and dispensing pharmacy industries during the first half (April to September) of the fiscal year ending on March 31, 2019, there were revisions in April to prescription dispensing fees and drug prices. There were also many discussions centered on the Ministry of Health, Labour and Welfare concerning the roles of pharmacies and pharmacists, the separation of functions of pharmacies and other issues. These activities reflect the upcoming amendments to the Pharmaceutical and Medical Devices Act and other laws and are aimed at creating the integrated community care system in Japan. The speed of the realignment of the industry is likely to increase as emphasis is placed on pharmacies that are needed to achieve the Vision of Pharmacies for Patients that was announced in October 2015.

During the first half, the Nihon Chouzai Group continued to take actions for providing high-quality medical services and holding down growth in health care expenditures. Despite these measures, lower unit prices and a decline in the gross profit caused by the April price revisions as well as 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.

Net sales increased 0.5% year on year to 118,694 million yen. Operating profit decreased 68.4% to 1,547 million yen, ordinary profit decreased 72.7% to 1,265 million yen and profit attributable to owners of parent fell 73.4% to 744 million yen. First half earnings were generally in line with the initial plan, although some segments were closer to the plan than others.

Business segment performance was as follows.

1) Dispensing Pharmacy Business

In the first half of the current fiscal year, Nihon Chouzai opened 19 pharmacies in the dispensing pharmacy business and closed eight. Consequently, there were 596 pharmacies (including three pharmacies specializing in the sale of general merchandise) at the end of the first half. Net sales in this segment increased 1.0% year on year to 101,054 million yen. Sales were affected by a big decrease in prescription unit prices because of revisions to drug prices and prescription dispensing fees and by unfavorable weather, chiefly an unusually hot summer and heavy rain in some areas of Japan. 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 half of the current fiscal year. Drug price cuts and revisions to prescription dispensing fees brought down earnings sharply, resulting in a 43.1% decrease in this segment's operating profit to 3,197 million yen.

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 86% at the end of September 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 September 30, 2018, there were 300,000 members.

2) Pharmaceutical Manufacturing and Sales Business

First half sales increased 1.1% to 19,431 million yen despite the impact of the drug price reduction in April due to higher internal sales and other factors. Segment operating profit fell 46.1% to 344 million yen because of an increase in depreciation expenses due to the acquisition of new equipment. 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 the first half toward the start of a V-shaped recovery in the next fiscal year.

The number of product items sold in this business segment was 650 at the end of the first half.

3) Medical Professional Staffing and Placement Business

There is consistently strong demand for staffing and placement services, particularly for pharmacists. In the first half, there was an increase in pharmacist temporary and permanent placements and, due to activities to strengthen physician placement services, a big increase in physician placements. The result was a 6.0% increase in sales to 6,351 million yen. Segment operating profit was down 37.7% to 630 million yen because of upfront investments for expansion of the physician placement business. These investments were used to increase advertising and marketing for raising the number of physicians registered for placements, to expand the service network and sales team, and for other actions.

(2) Explanation of Financial Position

Total assets decreased 3,280 million yen, or 1.8%, from the end of March 2018 to 183,289 million yen at the end of September 2018. Current assets were 79,717 million yen, a decrease of 1,896 million yen, or 2.3%. This was attributable mainly to a decrease in cash and deposits. Non-current assets was 103,572 million yen, a decrease of 1,384 million yen, or 1.3%.

Total liabilities decreased 2,554 million yen, or 1.8%, to 142,508 million yen primarily because of a decrease in loans payable.

Net assets decreased 725 million yen, or 1.7%, to 40,781 million yen primarily because of an increase in treasury shares.

Cash Flows

There was a net decrease of 5,149 million yen in cash and cash equivalents from the end of March 2018 to 23,315 million yen at the end of September 2018. Net cash provided by operating activities was 3,936 million yen, net cash used in investing activities 3,535 million yen, and net cash used in financing activities 5,550 million yen.

The major source of cash flows from operating activities was a 4,774 million yen increase in notes and accounts payable-trade. The primary use of cash was a 5,994 million yen increase in inventories.

The primary use of cash flows from investing activities was payments of 3,074 million yen for the purchase of property, plant and equipment mainly for new store opening in the dispensing pharmacy business and renewal of manufacturing equipment in the pharmaceutical manufacturing and sales business.

The primary source of cash flows from financing activities was proceeds of 9,350 million yen from long-term loans payable. Cash was used mainly for repayments of long-term loans payable of 12,780 million yen and purchase of treasury shares of 1,104 million yen.

(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

	FY3/18 (As of Mar. 31, 2018)	Second quarter of FY3/19 (As of Sep. 30, 2018)	(Millions of yen)
Assets			
Current assets			
Cash and deposits	28,464	23,315	
Notes receivable-trade	213	394	
Accounts receivable-trade	19,902	17,722	
Electronically recorded monetary claims-operating	1,115	1,000	
Merchandise and finished goods	20,873	26,668	
Work in process	1,304	1,426	
Raw materials and supplies	6,047	6,174	
Other	3,698	3,021	
Allowance for doubtful accounts	(6)	(6)	
Total current assets	81,613	79,717	
Non-current assets			
Property, plant and equipment			
Buildings and structures, net	34,418	34,188	
Land	19,357	18,292	
Construction in progress	6,750	1,658	
Other, net	15,135	19,398	
Total property, plant and equipment	75,662	73,538	
Intangible assets			
Goodwill	15,418	15,637	
Other	2,534	2,517	
Total intangible assets	17,952	18,155	
Investments and other assets			
Investment securities	20	18	
Lease and guarantee deposits	7,049	7,460	
Other	4,272	4,440	
Allowance for doubtful accounts	-	(40)	
Total investments and other assets	11,341	11,879	
Total non-current assets	104,956	103,572	
Total assets	186,569	183,289	

	FY3/18 (As of Mar. 31, 2018)	Second quarter of FY3/19 (As of Sep. 30, 2018)	(Millions of yen)
Liabilities			
Current liabilities			
Accounts payable-trade	36,203	40,581	
Electronically recorded obligations-operating	3,770	4,222	
Current portion of long-term loans payable	15,309	17,476	
Income taxes payable	3,040	1,069	
Provision for bonuses	2,775	3,074	
Provision for directors' bonuses	137	6	
Other	9,074	7,367	
Total current liabilities	70,310	73,798	
Non-current liabilities			
Long-term loans payable	68,372	62,775	
Provision for directors' retirement benefits	1,048	1,044	
Net defined benefit liability	1,503	1,591	
Other	3,827	3,298	
Total non-current liabilities	74,752	68,710	
Total liabilities	145,062	142,508	
Net assets			
Shareholders' equity			
Capital stock	3,953	3,953	
Capital surplus	10,926	10,926	
Retained earnings	26,816	27,161	
Treasury shares	(47)	(1,152)	
Total shareholders' equity	41,648	40,889	
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	0	0	
Remeasurements of defined benefit plans	(144)	(109)	
Total accumulated other comprehensive income	(144)	(108)	
Non-controlling interests	2	0	
Total net assets	41,506	40,781	
Total liabilities and net assets	186,569	183,289	

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

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	(Millions of yen)
Net sales	118,149	118,694	
Cost of sales	96,648	99,267	
Gross profit	21,500	19,427	
Selling, general and administrative expenses	16,611	17,880	
Operating profit	4,888	1,547	
Non-operating income			
Commission fee	74	26	
Rent income	211	210	
Other	94	95	
Total non-operating income	380	332	
Non-operating expenses			
Interest expenses	332	297	
Commission fee	12	7	
Rent expenses	158	171	
Provision of allowance for doubtful accounts	-	40	
Other	129	97	
Total non-operating expenses	633	614	
Ordinary profit	4,635	1,265	
Extraordinary income			
Gain on sales of non-current assets	0	143	
Gain on sales of investment securities	360	8	
Total extraordinary income	360	151	
Extraordinary losses			
Impairment loss	110	-	
Loss on sales of non-current assets	0	-	
Total extraordinary losses	110	-	
Profit before income taxes	4,885	1,417	
Income taxes-current	2,236	914	
Income taxes-deferred	(156)	(240)	
Total income taxes	2,079	673	
Profit	2,805	743	
Loss attributable to non-controlling interests	-	(1)	
Profit attributable to owners of parent	2,805	744	

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

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	(Millions of yen)
Profit	2,805	743	
Other comprehensive income			
Valuation difference on available-for-sale securities	(263)	0	
Remeasurements of defined benefit plans, net of tax	35	35	
Total other comprehensive income	(228)	35	
Comprehensive income	<u>2,577</u>	<u>778</u>	
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	2,577	780	
Comprehensive income attributable to non-controlling interests	-	(1)	

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Cash flows from operating activities		
Profit before income taxes	4,885	1,417
Depreciation	2,463	2,968
Impairment loss	110	-
Amortization of goodwill	646	718
Increase (decrease) in allowance for doubtful accounts	(4)	39
Increase (decrease) in provision for bonuses	204	297
Increase (decrease) in provision for directors' bonuses	(110)	(130)
Increase (decrease) in net defined benefit liability	73	84
Increase (decrease) in provision for directors' retirement benefits	46	(4)
Interest and dividend income	(19)	(0)
Interest expenses	332	297
Loss (gain) on sales of non-current assets	(0)	(143)
Loss (gain) on sales of investment securities	(360)	(8)
Decrease (increase) in notes and accounts receivable-trade	387	2,187
Decrease (increase) in inventories	(2,697)	(5,994)
Increase (decrease) in notes and accounts payable-trade	4,517	4,774
Increase (decrease) in accounts payable-other	1,531	(694)
Other, net	945	1,194
Subtotal	<hr/> 12,952	<hr/> 7,005
Interest and dividend income received	19	0
Interest expenses paid	(258)	(217)
Income taxes paid	(1,346)	(2,851)
Net cash provided by (used in) operating activities	<hr/> 11,367	<hr/> 3,936
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,527)	(3,074)
Proceeds from sales of property, plant and equipment	1	1,445
Purchase of intangible assets	(254)	(368)
Proceeds from sales of investment securities	999	10
Purchase of long-term prepaid expenses	(61)	(45)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(948)	(761)
Payments for transfer of business	(126)	(314)
Payments of loans receivable	(400)	(20)
Collection of loans receivable	44	43
Payments for lease and guarantee deposits	(165)	(543)
Proceeds from collection of lease and guarantee deposits	110	103
Other, net	27	(10)
Net cash provided by (used in) investing activities	<hr/> (5,299)	<hr/> (3,535)

	(Millions of yen)	
	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	100	-
Proceeds from long-term loans payable	10,300	9,350
Repayments of long-term loans payable	(10,609)	(12,780)
Purchase of treasury shares	(0)	(1,104)
Cash dividends paid	(398)	(398)
Other, net	(415)	(617)
Net cash provided by (used in) financing activities	<u>(1,024)</u>	<u>(5,550)</u>
Net increase (decrease) in cash and cash equivalents	5,044	(5,149)
Cash and cash equivalents at beginning of period	21,200	28,464
Cash and cash equivalents at end of period	<u>26,244</u>	<u>23,315</u>

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

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 six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 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	100,005	12,370	5,774	118,149	-	118,149
(2) Inter-segment sales and transfers	6	6,842	219	7,068	(7,068)	-
Total	100,011	19,213	5,993	125,217	(7,068)	118,149
Segment profit (loss)	5,617	638	1,012	7,268	(2,379)	4,888

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 -2,379 million yen to segment profit (loss) includes eliminations of -81 million yen for inter-segment transactions and corporate expenses of -2,298 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 (three pharmacies). The amount of this loss in the first six months of FY3/18 was 110 million yen.

Significant change in goodwill

Not applicable.

II. First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)

1. Information related to net sales, profit or loss for each reportable segment

	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	101,048	11,428	6,217	118,694	-	118,694
(2) Inter-segment sales and transfers	6	8,003	134	8,143	(8,143)	-
Total	101,054	19,431	6,351	126,837	(8,143)	118,694
Segment profit (loss)	3,197	344	630	4,172	(2,625)	1,547

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 -2,625 million yen to segment profit (loss) includes eliminations of -111 million yen for inter-segment transactions and corporate expenses of -2,514 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.