

May 10, 2018

Results of Operations for the Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)

 NIHON CHOUZAI Co.,Ltd.

(Tokyo Stock Exchange, First Section / Stock code: 3341)

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I. FY3/18 Financial Highlights and Forecast

Consolidated Statement of Income

Sales and operating and ordinary profit increased to a record high. Sales achieved a double-digit growth of 10.3% YoY excluding the impact of hepatitis C drugs.

Note: Refer to Reference Materials for the components of YoY changes.

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Plan	FY3/18 Results	YoY change	YoY growth rate	Vs. plan
Net sales	219,239	223,468	234,697	241,274	17,806	+8.0%	+2.8%
Cost of sales	180,171	184,210	192,436	197,437	13,226	+7.2%	+2.6%
Gross profit	39,068	39,258	42,261	43,837	4,579	+11.7%	+3.7%
% to sales	17.8%	17.6%	18.0%	18.2%	-	-	-
SG&A expenses	28,578	30,738	32,155	33,250	2,511	+8.2%	+3.4%
% to sales	13.0%	13.8%	13.7%	13.8%	-	-	-
Consumption taxes	11,483	11,600	10,684	11,892	292	+2.5%	+11.3%
R&D expenses	1,913	2,388	3,116	2,784	396	+16.6%	-10.6%
Operating profit	10,489	8,519	10,105	10,587	2,067	+24.3%	+4.8%
% to sales	4.8%	3.8%	4.3%	4.4%	-	-	-
Ordinary profit	9,878	7,976	9,804	10,138	2,162	+27.1%	+3.4%
% to sales	4.5%	3.6%	4.2%	4.2%	-	-	-
Profit attributable to owners of parent	6,329	4,638	5,639	6,104	1,465	+31.6%	+8.3%
% to sales	2.9%	2.1%	2.4%	2.5%	-	-	-
Net income per share (Yen)	432.85	290.03	352.59	381.69	91.66	+31.6%	+8.3%

Consolidated Balance Sheet

Property, plant and equipment increased 7.1 billion yen mainly because of the completion of Tsukuba Plant No. 2. Higher profit was the main reason for the 5.0 billion yen increase in net assets. The equity ratio improved by 1.8 pct. points to 22.2%.

(Millions of yen)	End of Mar. 2016 (FY3/16)	End of Mar. 2017 (FY3/17)	End of Mar. 2018 (FY3/18)	YoY change	YoY change (%)
Current assets	84,838	82,327	83,121	793	+1.0%
Non-current assets	72,770	96,019	103,452	7,432	+7.7%
Property, plant and equipment	51,997	68,513	75,662	7,148	+10.4%
Intangible assets	10,122	16,773	17,952	1,179	+7.0%
Investments and other assets	10,650	10,733	9,837	(896)	-8.3%
Total assets	157,609	178,347	186,573	8,225	+4.6%
Current liabilities	68,985	66,305	70,310	4,004	+6.0%
Non-current liabilities	56,151	75,595	74,756	(838)	-1.1%
Total liabilities	125,136	141,900	145,066	3,166	+2.2%
Total net assets	32,473	36,447	41,506	5,059	+13.9%
Shareholders' equity	32,473	36,447	41,504	5,057	+13.9%
Equity ratio	20.6%	20.4%	22.2%	-	-

Consolidated Statement of Cash Flows

Operating cash flows improved by about 24.1 billion yen to an all-time high due to growth in profit before income taxes and other reasons. Free cash flows (sum of operating and investing cash flows) recovered to almost 10 billion yen.

(Millions of yen)	FY3/16	FY3/17	FY3/18	YoY change
Cash flows from operating activities	19,327	(940)	23,141	24,082
Profit before income taxes	9,681	7,827	10,045	2,217
Depreciation	4,461	4,741	5,214	472
Amortization of goodwill	663	976	1,326	349
Decrease (increase) in notes and accounts receivable-trade	(5,339)	(46)	6,691	6,738
Decrease (increase) in inventories	(881)	(7,005)	1,442	8,447
Increase (decrease) in notes and accounts payable-trade	11,212	(4,135)	(1,399)	2,735
Cash flows from investing activities	(7,823)	(28,444)	(13,843)	14,601
Purchase of property, plant and equipment	(6,880)	(20,222)	(12,076)	8,146
Payments for transfer of business	(454)	(1,713)	(585)	1,128
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(226)	(4,899)	(1,126)	3,773
Cash flows from financing activities	7,031	18,205	(2,034)	(20,239)
Net increase (decrease) in cash and cash equivalents	18,535	(11,180)	7,264	18,444
Cash and cash equivalents at beginning of period	13,844	32,380	21,200	(11,180)
Cash and cash equivalents at end of period	32,380	21,200	28,464	7,264

Consolidated Financial Indicators

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18
Net income per share (Yen) ^{note 1}	131.24	194.48	432.85	290.03	381.69
Return on equity	12.5%	16.6%	25.3%	13.5%	15.7%
Ordinary profit on total assets	3.9%	4.9%	6.9%	4.7%	5.6%
Operating profit to net sales	2.9%	3.7%	4.8%	3.8%	4.4%
Equity ratio	13.5%	13.6%	20.6%	20.4%	22.2%
Free cash flows (Millions of yen)	(8,267)	(2,606)	11,509	(29,385)	9,298
Net assets per share (Yen) ^{note 1}	1,090.63	1,257.59	2,030.22	2,278.70	2,595.00
Share price at year-end (Yen) ^{note 1}	1,333	3,055	4,025	3,785	3,350
Market cap at year-end (Millions of yen)	21,351	48,953	64,496	60,650	53,680
Price book-value ratio (PBR) at year-end	1.22	2.43	1.98	1.66	1.29
Price earnings ratio (PER) at year-end	10.15	15.71	9.30	13.05	8.78
Dividend per share (Yen)	35.00	35.00	45.00	50.00	50.00
<Before stock split>	<70.00>	<70.00>	<90.00>	<100.00>	<100.00>
EBITDA (Millions of yen) ^{note 2}	9,129	10,923	15,615	14,237	17,127
EV/EBITDA (Times) ^{note 2}	7.4	9.5	6.5	9.0	6.6

Note 1. Nihon Chouzai conducted a 2-for-1 stock split effective on October 1, 2015.

Per-share figures and share price for FY3/14 and FY3/15 are adjusted to reflect the stock split.

Figures are rounded to the nearest whole number.

Note 2. EBITDA= Operating profit/loss + Depreciation + Amortization of goodwill

EV= Market cap at the end of each period + Net interest-bearing debt

Dispensing Pharmacy Business / Statement of Income

The operating margin increased from 5% to 6% mainly because of measures to upgrade family pharmacist and pharmacy activities and other steps to improve the quality of medical services. Sales were up 11.2% after excluding the impact of hepatitis C drugs. The number of prescriptions at existing pharmacies continued to climb, increasing 6.1% over the previous fiscal year.

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Plan	FY3/18 Results	YoY change	YoY growth rate	Vs. plan
Net sales	190,874	189,327	196,681	205,192	15,865	+8.4%	+4.3%
Cost of sales	162,032	160,588	166,685	172,264	11,675	+7.3%	+3.3%
Gross profit	28,841	28,738	29,995	32,928	4,189	+14.6%	+9.8%
% to sales	15.1%	15.2%	15.3%	16.0%	-	-	-
SG&A expenses	18,134	19,178	18,975	20,516	1,338	+7.0%	+8.1%
% to sales	9.5%	10.1%	9.6%	10.0%	-	-	-
Operating profit	10,707	9,560	11,019	12,411	2,851	+29.8%	+12.6%
% to sales	5.6%	5.0%	5.6%	6.0%	-	-	-
No. of pharmacies at the end of each period (stores)	527	557	607	585	28	+5.0%	-3.6%
Prescription drug sales per pharmacy ^{note}	367	349	337	359	10	+2.9%	+6.5%

YoY Growth Rate by Year of Opening

	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	+3.7%	+0.9%	+2.8%
Pharmacies opened in FY3/17	+87.2%	+82.0%	+2.9%
Total	+8.3%	+6.1%	+2.5%

Note: Prescription drug sales per pharmacy = Prescription drug sales / Average No. of pharmacies during the period

No. of prescriptions	13,739 thousand	+6.1%
Prescription unit prices	14,739 yen	+2.5%
Excluding hepatitis C drugs	14,256 yen	+5.3%

Note: Refer to Reference Materials for hepatitis C drug sales, progress with improving drug fees and progress with increasing technical fees.

Pharmaceutical Manufacturing and Sales Business / Statement of Income

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Plan	FY3/18 Results	YoY change	YoY growth rate	Vs. plan
Net sales	32,598	36,821	41,500	38,066	1,244	+3.4%	-8.3%
Cost of sales	25,862	30,356	33,932	31,746	1,390	+4.6%	-6.4%
Gross profit	6,735	6,465	7,567	6,319	(145)	-2.3%	-16.5%
% to sales	20.7%	17.6%	18.2%	16.6%	-	-	-
SG&A expenses	4,067	4,745	5,894	5,124	378	+8.0%	-13.1%
% to sales	12.5%	12.9%	14.2%	13.5%	-	-	-
Operating profit	2,668	1,719	1,673	1,194	(524)	-30.5%	-28.6%
% to sales	8.2%	4.7%	4.0%	3.1%	-	-	-

Components of YoY changes

◆ Net sales

1. Internal sales: Increase in net sales due to growth in the dispensing pharmacy business (higher sales)
2. External sales: Reviewed sales strategy to increase priority on profitability (slight increase in sales)

◆ Operating profit

1. Higher sales contributed to earnings (higher profit)
2. High level of R&D activity for increasing internally manufactured products
= Increase in R&D expenditures (lower profit)
3. Substantial capital expenditures to raise production capacity
= Increase in depreciation (lower profit)

Medical Professional Staffing and Placement Business / Statement of Income

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Plan	FY3/18 Results	YoY change	YoY growth rate	Vs. plan
Net sales	8,934	10,500	12,000	11,970	1,470	+14.0%	-0.2%
Cost of sales	5,374	6,415	7,265	7,366	951	+14.8%	+1.4%
Gross profit	3,560	4,084	4,734	4,604	519	+12.7%	-2.8%
% to sales	39.8%	38.9%	39.5%	38.5%	-	-	-
SG&A expenses	1,961	2,374	2,734	2,762	387	+16.3%	+1.0%
% to sales	22.0%	22.6%	22.8%	23.1%	-	-	-
Operating profit	1,599	1,710	2,000	1,842	131	+7.7%	-7.9%
% to sales	17.9%	16.3%	16.7%	15.4%	-	-	-

Components of YoY changes

◆ Net sales

- Increase in demand for pharmacist temporary staffing because of the pharmacist shortage in Japan
= Increase in the number of pharmacist temporary staffing (higher sales)
- The growth of family pharmacist and pharmacy activities in the dispensing pharmacy industry
= Increase in pharmacist placements (higher sales)

◆ Operating profit

- Higher sales contributed to earnings (higher profit)
- Growth of the placement business, which has a high gross profit margin (higher profit)
- Measures to strengthen the physician placement business
= Higher advertising and other expenses (lower operating margin)

FY3/19 Consolidated Forecast

Forecast higher sales but lower earnings because of revisions to prescription dispensing fees and higher expenses due to the start of operations at Tsukuba Plant No. 2. Many initiatives are under way to improve profitability in every segment and achieve a rapid recovery in earnings.

Note: Refer to Business Segment Forecast on the next page.

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Results	FY3/19 Plan	YoY change	YoY growth rate
Net sales	219,239	223,468	241,274	253,893	12,618	+5.2%
Cost of sales	180,171	184,210	197,437	212,392	14,955	+7.6%
Gross profit	39,068	39,258	43,837	41,500	(2,336)	-5.3%
% to sales	17.8%	17.6%	18.2%	16.3%	-	-
SG&A expenses	28,578	30,738	33,250	35,182	1,932	+5.8%
% to sales	13.0%	13.8%	13.8%	13.9%	-	-
Consumption taxes	11,483	11,600	11,892	12,434	541	+4.6%
R&D expenses	1,913	2,388	2,784	2,833	49	+1.8%
Operating profit	10,489	8,519	10,587	6,318	(4,268)	-40.3%
% to sales	4.8%	3.8%	4.4%	2.5%	-	-
Ordinary profit	9,878	7,976	10,138	6,078	(4,060)	-40.1%
% to sales	4.5%	3.6%	4.2%	2.4%	-	-
Profit attributable to owners of parent	6,329	4,638	6,104	3,756	(2,348)	-38.5%
% to sales	2.9%	2.1%	2.5%	1.5%	-	-
Net income per share (Yen) ^{note}	432.85	290.03	381.69	234.84	(146.85)	-38.5%
Dividend per share (Yen)	45.00	50.00	50.00	50.00	0	+0.0%

FY3/19 Business Segment Forecast

In the dispensing pharmacy business, the severe impact of prescription dispensing fee revisions is expected to result in higher sales but lower earnings. Measures for growth of family pharmacist and pharmacy activities will continue.

In the pharmaceutical manufacturing and sales business, higher expenses caused by the start-up of Tsukuba Plant No. 2 are expected to significantly reduce earnings. Reinforcing sales activities to aim for a rapid recovery in FY3/20.

In the medical professional staffing and placement business, planning on higher sales and earnings despite higher expenses for strengthening the placement business.

	(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Results	FY3/19 Plan	YoY change	YoY growth rate
Dispensing pharmacy business	Net sales	190,874	189,327	205,192	213,133	7,940	+3.9%
	Gross profit	28,841	28,738	32,928	30,721	(2,206)	-6.7%
	% to sales	15.1%	15.2%	16.0%	14.4%	-	-
	Operating profit	10,707	9,560	12,411	9,436	(2,975)	-24.0%
	% to sales	5.6%	5.0%	6.0%	4.4%	-	-
Pharmaceutical manufacturing and sales business	Net sales	32,598	36,821	38,066	42,123	4,057	+10.7%
	Gross profit	6,735	6,465	6,319	5,301	(1,017)	-16.1%
	% to sales	20.7%	17.6%	16.6%	12.6%	-	-
	Operating profit	2,668	1,719	1,194	51	(1,143)	-95.7%
	% to sales	8.2%	4.7%	3.1%	0.1%	-	-
Medical professional staffing and placement business	Net sales	8,934	10,500	11,970	13,500	1,529	+12.8%
	Gross profit	3,560	4,084	4,604	5,519	914	+19.9%
	% to sales	39.8%	38.9%	38.5%	40.9%	-	-
	Operating profit	1,599	1,710	1,842	1,950	107	+5.9%
	% to sales	17.9%	16.3%	15.4%	14.4%	-	-

II. Management Strategies of the Nihon Chouzai Group

How Japan will change starting in 2025

- More older people + advanced medical care

(Percentage of 65+ population: 26.6% in 2015; estimated 30.3% in 2025)

→ Radical measures to hold down the growth in health care expenditures

(The Japanese government's target is a generic drug share based on volume of at least 80% by the end of September 2020.)

- Establish a community-based integrated care system

→ Cooperation and interaction within each region and between pharmacies and medical institutions as well as the extensive use of information and communication technologies in medical care

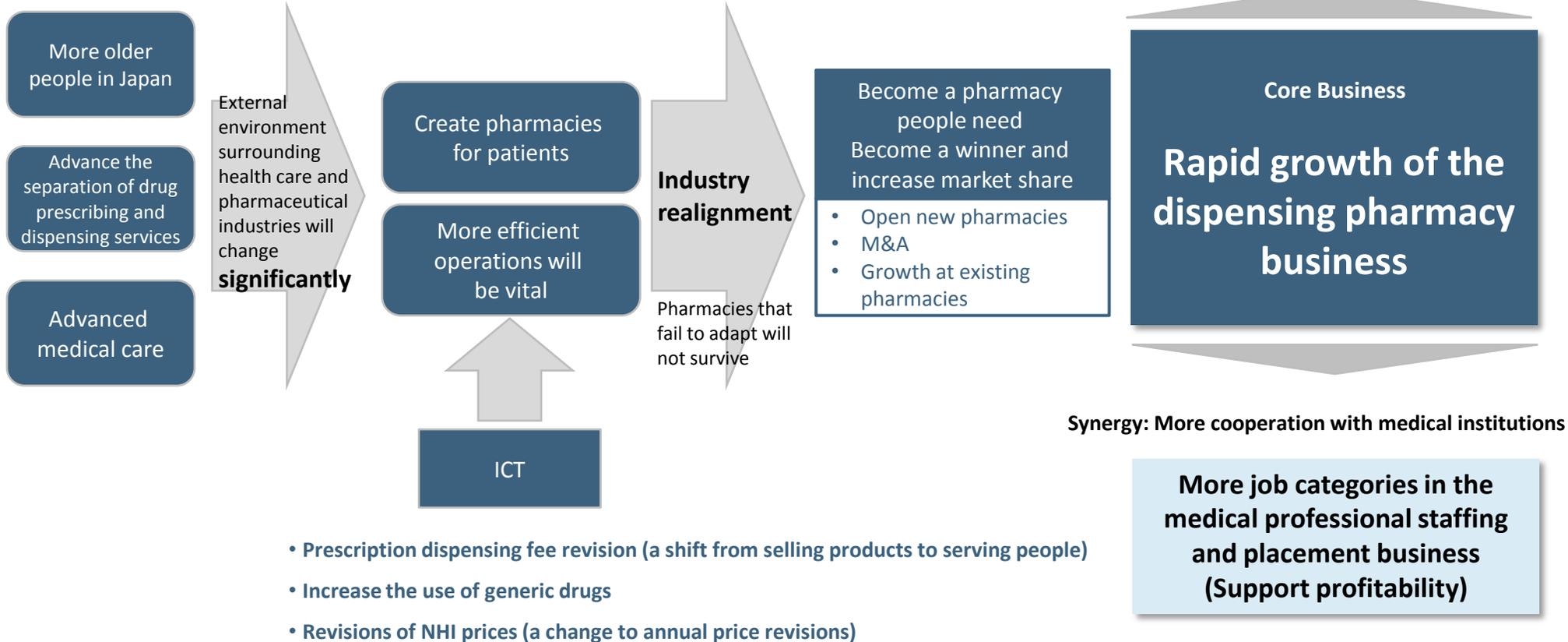
- Reorganize all pharmacies into family pharmacies

→ Only the strongest pharmacies will survive (industry realignment)

Source: Nihon no Tokei (Statistics of Japan) 2016, Total Population and Future Population, Statistics Bureau, Ministry of Internal Affairs and Communications
Vision of Pharmacies for Patients, Ministry of Health, Labour and Welfare (October 2015)

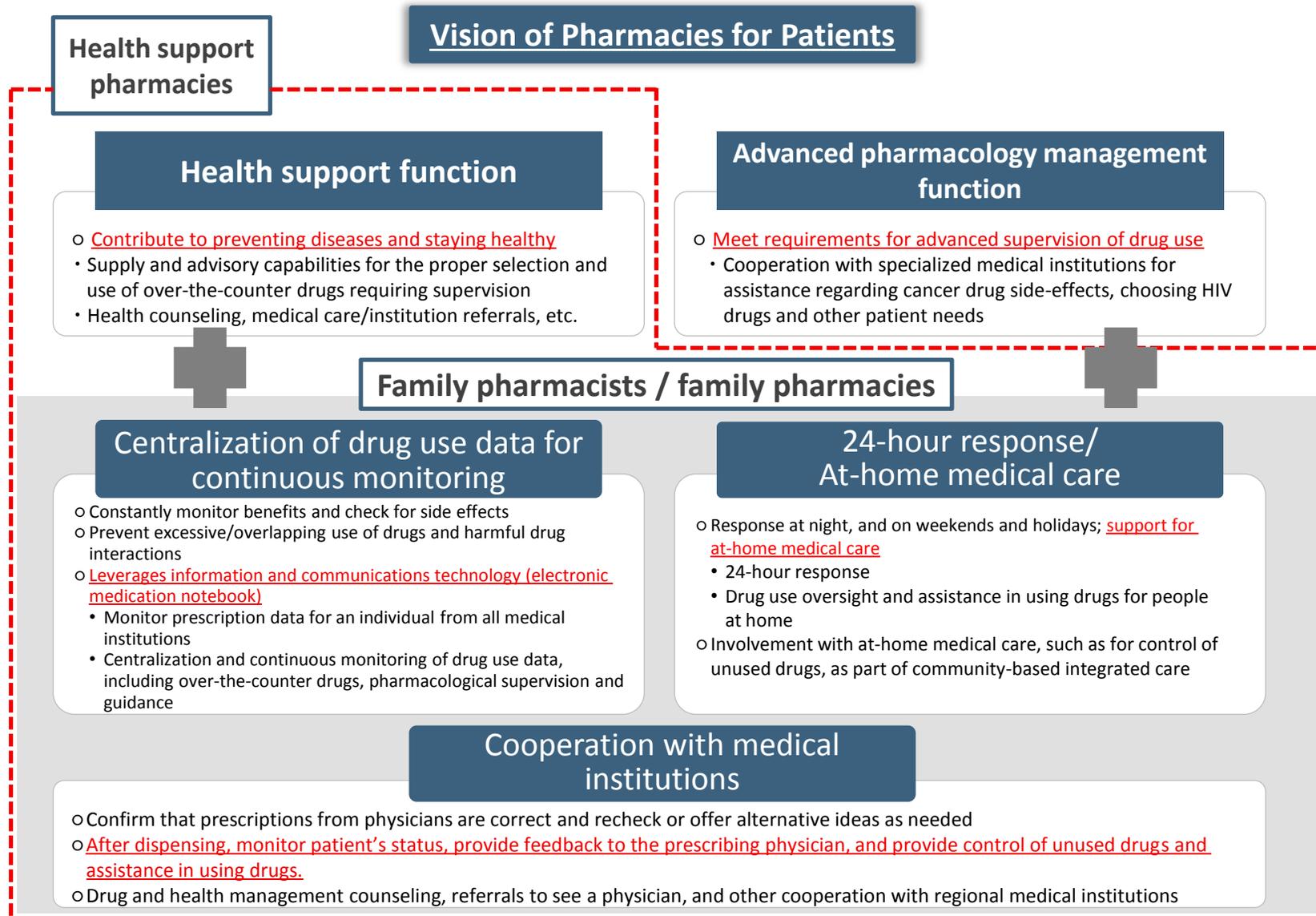
Looking ahead to 2030

- Establish a community-based integrated care system (Regional cooperation and interaction)
- Achieve the Vision of Pharmacies for Patients (Family pharmacists/ family pharmacies) (Health support function) (Advanced pharmacology management function)



Looking ahead to 2030

Vision of Pharmacies for Patients = Required capabilities of pharmacists and pharmacies in the future



Note: "Vision of Pharmacies for Patients," the Ministry of Health, Labour and Welfare

Looking ahead to 2030

	FY2016 revision		Points
Basic dispensing fee	1	Other than 2 or 3	41
	2	4,000+ prescriptions/month and 70%+ from a single medical institution 2,000+ prescriptions/month and 90%+ from a single medical institution 4,000+ prescriptions/month from particular medical institutions	25
	3	Group with 40,000+ prescriptions/month and 95%+ for a single medical institution	20
Special basic dispensing fee	-		-

■ Basic fee 1 ■ Basic fee 2 ■ Basic fee 3



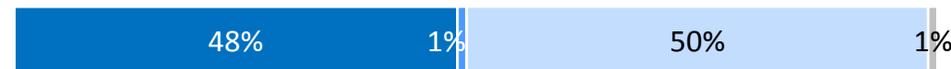
	FY2016 revision		Points
Premium for generic drug dispensing system	1	65-75%	18
	2	More than 75%	22

■ Type II ■ Type I ■ No premium



	FY2018 revision		Points
Basic dispensing fee	1	Other than 2 or 3	41
	2	4,000+ prescriptions/month and 70%+ from a single medical institution 2,000+ prescriptions/month and 85%+ from a single medical institution 4,000+ prescriptions/month from particular medical institutions If the same medical institution also has the highest pct. of prescriptions for an entire pharmacy group, 4,000+ prescriptions/month at group pharmacies	25
	3-1	Group with 40,000+ prescriptions/month and 85%+ for a single medical institution	20
	3-2	Group with 400,000+ prescriptions/month and 85%+ for a single medical institution	15
		Real estate and other transactions with a hospital and 95%+ for a single medical institution	10

■ Basic fee 1 ■ Basic fee 2 ■ Basic fee 3-2 ■ Special basic dispensing fee



	FY2018 revision		Points
Premium for generic drug dispensing system	1	75-80%	18
	2	80-85%	22
	3	More than 85%	26

■ Type III ■ Type II ■ Type I ■ No premium



Note: Prepared by Nihon Chouzai based on "Fiscal 2018 Revisions to Medical Treatment Fees," Health, Labour and Welfare

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Looking ahead to 2030

	FY2016 revision	Points	FY2018 revision	Points
Premium for standard dispensing system	<p>Only basic fee 1</p> <ul style="list-style-type: none"> • At-home medical care services: more than one service a year • Notice of family pharmacist on the staff • Managing pharmacist (5 years of pharmacy experience, 1 year at the current pharmacy, 32 working hours every week) 	32	Terminated	
Premium for regional support system	-	-	<p>Basic fee 1</p> <p>Same as requirements for the previous premium for standard dispensing system</p> <ul style="list-style-type: none"> • At-home Medical Care Services: more than one service a year • Notice of family pharmacist on the staff • Managing pharmacist (5 years of pharmacy experience, 1 year at the current pharmacy, 32 working hours every week) <p>Other than basic fee 1</p> <p>All of the following items have been added for each full-time pharmacist in every year</p> <ol style="list-style-type: none"> 1. Nighttime and weekend/holiday services: 400 times 2. Receipt of narcotic guidance premium: 10 times 3. Receipt of premium for prevention of overlapping dosages and harmful drug interactions, etc.: 40 times 4. Receipt of family pharmacist guidance fee, etc.: 40 times 5. Receipt of outpatient drug use assistance fee: 12 times 6. Receipt of drug use adjustment assistance fee: 1 time 7. At-home pharmacist supervision of a one patient in a single building: 12 times 8. Receipt of drug use information provision fee: 60 times 	35

■ Premium ■ No premium



■ Premium ■ No premium



Note: Prepared by Nihon Chouzai based on "Fiscal 2018 Revisions to Medical Treatment Fees," Health, Labour and Welfare

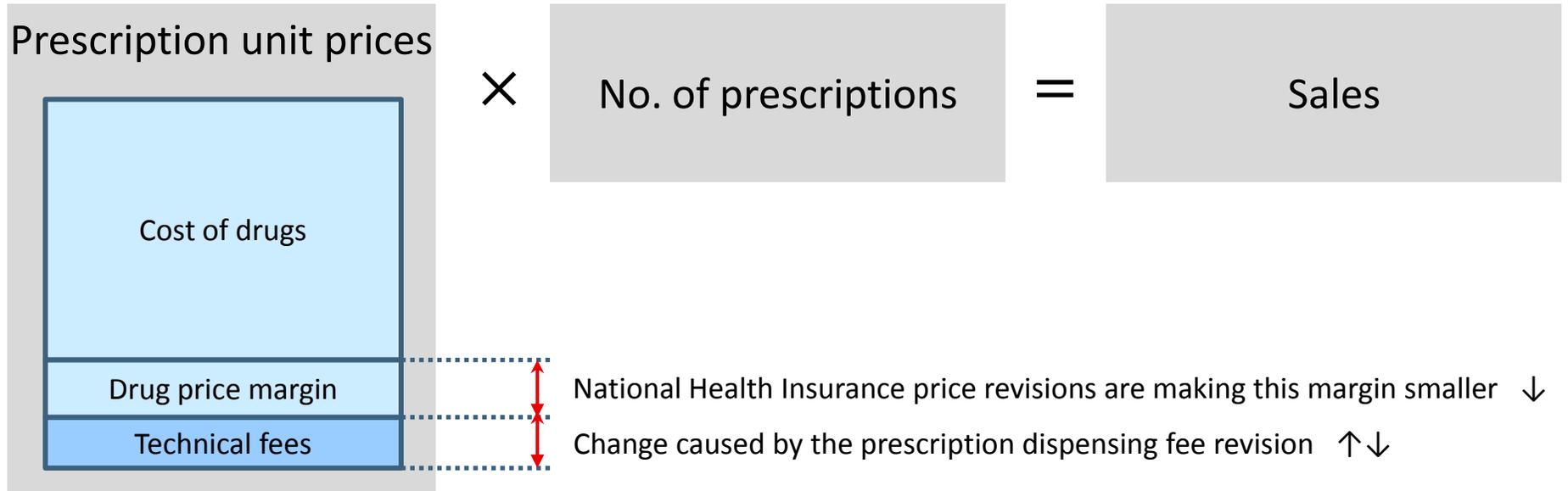
Looking ahead to 2030

	FY2016 revision	Points	FY2018 revision	Points
Family pharmacists guidance fee	<ul style="list-style-type: none"> At least 3 years at an insurance pharmacy At least 6 months at the current pharmacy At least 32 working hours every week Certified completion of extra pharmacist training Involved in community activities involving health care 	70	<ul style="list-style-type: none"> At least 3 years at an insurance pharmacy At least one year at the current pharmacy At least 32 working hours every week (for pharmacists with reduced hours for child or parent care, at least 24 hours per week and at least 4 days per week) Certified completion of extra pharmacist training Involved in community activities involving health care 	73
Family pharmacists comprehensive management fees	<ul style="list-style-type: none"> Same as family pharmacists guidance fees 	270	<ul style="list-style-type: none"> Same as family pharmacists guidance fees 	280
Medication history management fee	Drug use guidance by pharmacist other than a family pharmacist		Drug use guidance by pharmacist other than a family pharmacist	
	<ol style="list-style-type: none"> When a patient brings a prescription within the past 6 months Other than 1. 	38 50	<ol style="list-style-type: none"> When a patient brings a prescription within the past 6 months Other than 1. 	41 53
Drug use adjustment assistance fee	-		When the number of internal medicines in the prescription for the patient (more than six internal medicines) is reduced by more than two with the written alternative proposal prepared by the insurance pharmacists, this fee is calculated only once a month.	125
Premium for prevention of overlapping dosages and harmful drug interactions, etc.	When checking with prescribing physician to prevent overlapping dosages and harmful drug interactions, etc. results in a prescription revision	30	When checking with prescribing physician to prevent overlapping dosages and harmful drug interactions, etc. results in a prescription revision	
			<ol style="list-style-type: none"> Not a left-over/unused drug adjustment Left-over/unused drug adjustment 	40 30
Premium for supervision to prevent overlapping dosages and harmful drug interactions, etc. for people at home			Management fees for supervision to prevent overlapping dosages and harmful drug interactions, etc. for people at home	
			<ol style="list-style-type: none"> Not a left-over/unused drug adjustment Left-over/unused drug adjustment 	40 30
Premium for drug use guidance for infants and small children	For prescriptions for children under the age of 6, necessary guidance for drug use after the provision of necessary information directly to the patient or confirmation of information with a family member, etc. and the entry of the guidance in a handbook	10	Same as FY2016 revision	12
Dispensing fee	Prescription for 15 to 21 days	70	Prescription for 15 to 21 days	67
	Prescription for 22 to 30 days	80	Prescription for 22 to 30 days	78
	Prescription for more than 31 days	87	Prescription for more than 31 days	86

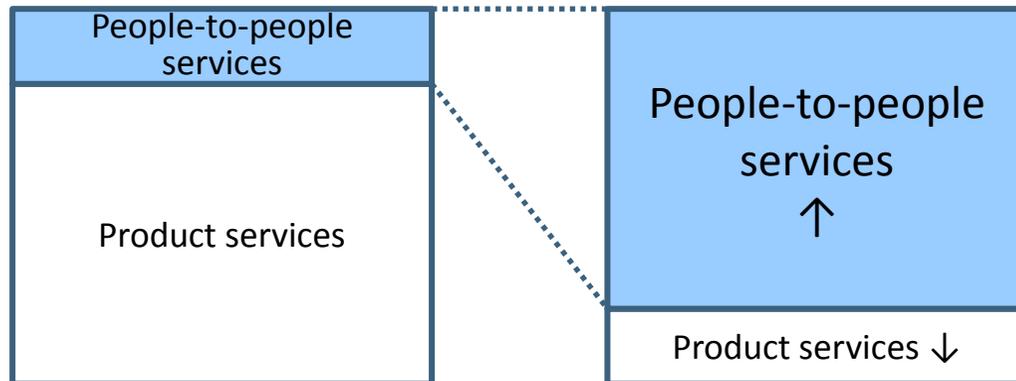
Note: Prepared by Nihon Chouzai based on "Fiscal 2018 Revisions to Medical Treatment Fees," Health, Labour and Welfare

Looking ahead to 2030

Changes in dispensing pharmacy profit structure



Changes in technical fees

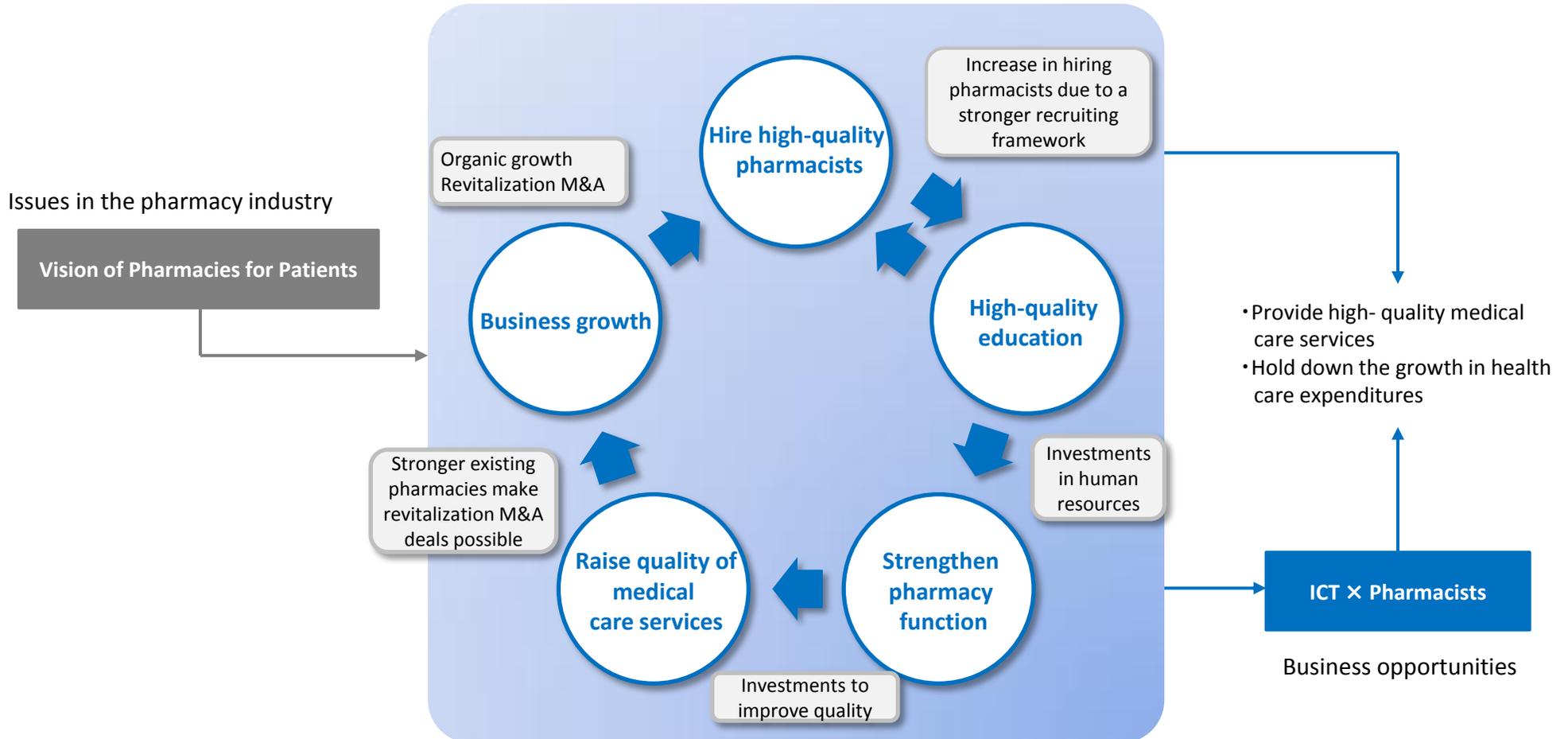


**“Emphasis on evaluation
of people-to-people
services”**

**Vision of Pharmacies for Patients, Ministry of Health,
Labour and Welfare**

Looking ahead to 2030

Big increase in hiring pharmacists due to a stronger recruiting framework; raise the quality of medical care services by strengthening pharmacy functions; become pharmacists and pharmacies that people need in order to accomplish the goal of the separation of dispensing and prescribing functions for the benefit of patients.



Source: Vision for Pharmacies for Patients, the Ministry of Health, Labour and Welfare

■ Pharmacy Opening Strategy

Add stores that optimize the pharmacy portfolio

Dispensing
Pharmacy Business

■ Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Achieve the Vision of Pharmacies for Patients

Dispensing
Pharmacy Business

■ Growth of the Pharmaceutical Manufacturing and Sales Business

Make up-front investments to prepare for rising demand and divide functions among manufacturing plants

Pharmaceutical
Manufacturing and
Sales Business

■ Growth of the Medical Professional Staffing and Placement Business

Upgrade pharmacist temporary staffing and permanent placement capabilities and expand activities to cover more professions

Medical
Professional
Staffing and
Placement Business

■ Long-term Vision

Pharmacy Opening Strategy / Pharmacy Portfolio

For growth of the pharmacy network in FY3/18, Nihon Chouzai opened more large hospital-front pharmacies and focused on opening hybrid pharmacies that combine the functions of “mentaio” pharmacies and MC* pharmacies.

* MC is medical mall pharmacies.

Pharmacy Openings and Closings (Categories)

	FY3/17	FY3/18
Opened	42	36
Hospital-front pharmacies	36	20
Hybrid pharmacies	6	16
Closed	12	8
No. of pharmacies at the end of period	557	585

(Including two locations specializing in the sales of general merchandise)

Region	Opened	End of March 2018
Hokkaido	-	46
Tohoku	1	44
Kanto	18	287
Koshinetsu	1	24
Tokai	8	52
Kansai/Hokuriku	5	61
Chugoku/Shikoku	2	35
Kyushu/Okinawa	1	36
Total	36	569

Store Openings (No. of pharmacies)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18
Opened	59	37	29	27	42	36
Organic growth	59	33	28	22	21	23
M&A	-	4	1	5	21	13
Closed	10	9	12	11	12	8
No. of pharmacies at the end of each period	466	494	511	527	557	585

Pharmacy Opening Strategy / Organic growth and M&A

The basic policy is organic growth, but M&A will be used depending on market conditions. Requirements for an M&A deal has not been changed. Decline in assessment of corporate value of prospective deals and increase in revitalization deals create an excellent environment for Nihon Chouzai, which is skilled at acquiring pharmacies that need revitalization.

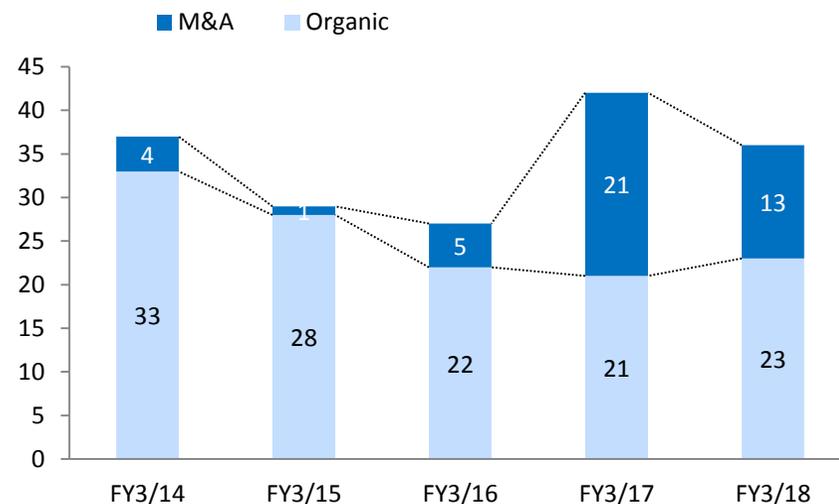
The Pharmacy M&A Environment

	FY3/18 (Before revision)	FY3/19 (Post-revision outlook)
Number of M&A deals	→	↑
Assessment of corporate value of deals	→	↓↓
Revitalization M&A activity	Increase	Further increase
Supply-demand balance	Demand > Supply	Demand < Supply

Composition of New Pharmacies

M&A prices	↑	↑↑	↑↑	↓	↓↓
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(No. of pharmacies)



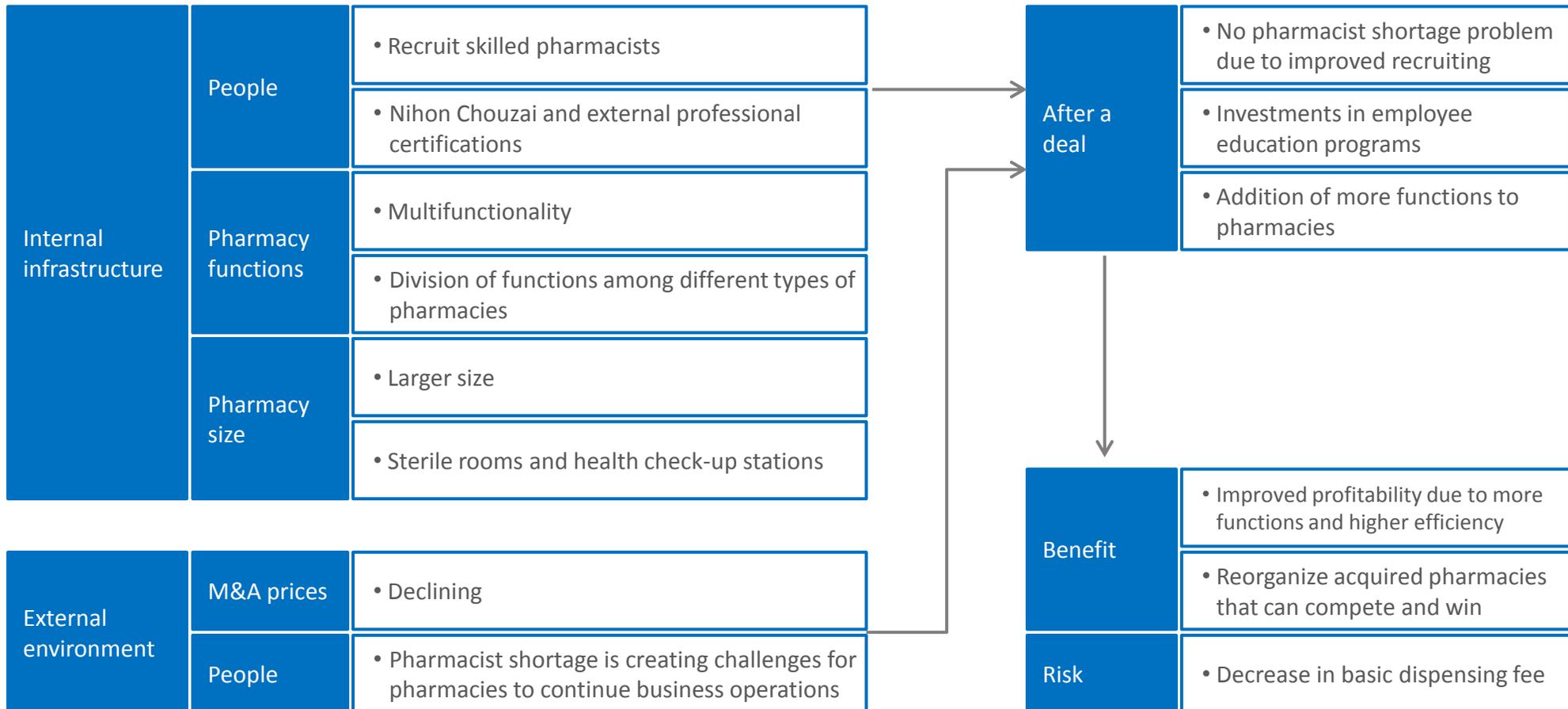
Prescription drug sales per pharmacy (Millions of yen)	304	314	367	349	359
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Note: Prescription drug sales per pharmacy =
Prescription drug sales / Average No. of pharmacies during the period

Pharmacy Opening Strategy / M&A

With its large workforce, pharmacy strengths and expansive store network, Nihon Chouzai can consider a large merger or acquisition. Japan's lower M&A hurdle means that prices are reasonable. After a deal, directly operating acquired stores can be expected to improve the quality and efficiency of operations, resulting in improved profitability.

Establishment of Internal Infrastructure and Changes in External Environment



Pharmacy Opening Strategy

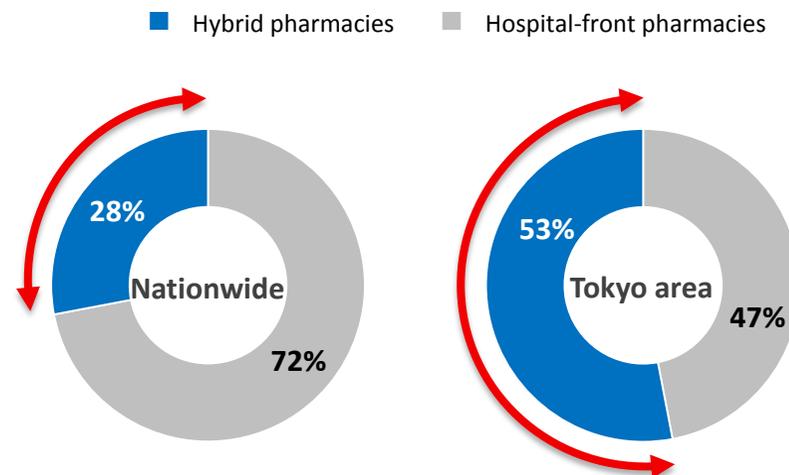
Separation of Pharmacy Functions and Opening of Hybrid Pharmacies

Hybrid pharmacies have already increased to 53% of all Nihon Chouzai pharmacies in the Tokyo area. Plan to open these pharmacies faster to establish dominant market positions in metropolitan areas, mainly Tokyo, Osaka and Nagoya.

Separation of Pharmacy Functions and Medical Service Structure

Pharmacy Portfolio	Separation of pharmacy functions	Medical service structure
Hospital-front pharmacies	<p>Advanced pharmacology management</p> <p>+</p> <p>Family pharmacists/ family pharmacies (serving medium to large areas)</p>	<ul style="list-style-type: none"> • Services for advanced medical care • Training for pharmacists specializing in specific diseases
Hybrid pharmacies	<p>Health support</p> <p>+</p> <p>Family pharmacists/ family pharmacies (serving only nearby area)</p>	<ul style="list-style-type: none"> • Support for staying healthy • Activities to help people prevent diseases

Pharmacy Portfolio (FY3/18)



► Moving faster to open hybrid pharmacies mainly in the Tokyo, Osaka and Nagoya areas

Pharmacy Opening Strategy / Hybrid Pharmacies and Health Support Function

Health Support Function: Establishment of Health Check-up Stations



1. Advice for meals and exercise from a supervising nutritionist
2. Health Fairs to promote the use of health check-up stations

3. Consultation booth for health maintenance and enhancement
4. Health maintenance by using equipment for measuring blood pressure and body composition, etc.

5. Sell over-the-counter drugs, health food and other self-medication products (more than 500 items)
6. Provide referrals to clinics and other providers of medical care based on an individual's symptoms

FY3/17 Results

Trial Health Check-up Stations were opened

3 locations

FY3/18 Results

Two or three Health Check-up Stations in each area of Japan

37 locations

Medium to long-term plan
Open more stations while evaluating the characteristics and needs of each pharmacy location

100-150 locations

■ Pharmacy Opening Strategy

Add stores that optimize the pharmacy portfolio

Dispensing
Pharmacy Business

■ Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Achieve the Vision of Pharmacies for Patients and use ICT for the optimization and efficiency of medical care

Dispensing
Pharmacy Business

■ Growth of the Pharmaceutical Manufacturing and Sales Business

Make up-front investments to prepare for rising demand and divide functions among manufacturing plants

Pharmaceutical
Manufacturing and
Sales Business

■ Growth of the Medical Professional Staffing and Placement Business

Upgrade pharmacist temporary staffing and permanent placement capabilities and expand activities to cover more professions

Medical
Professional
Staffing and
Placement Business

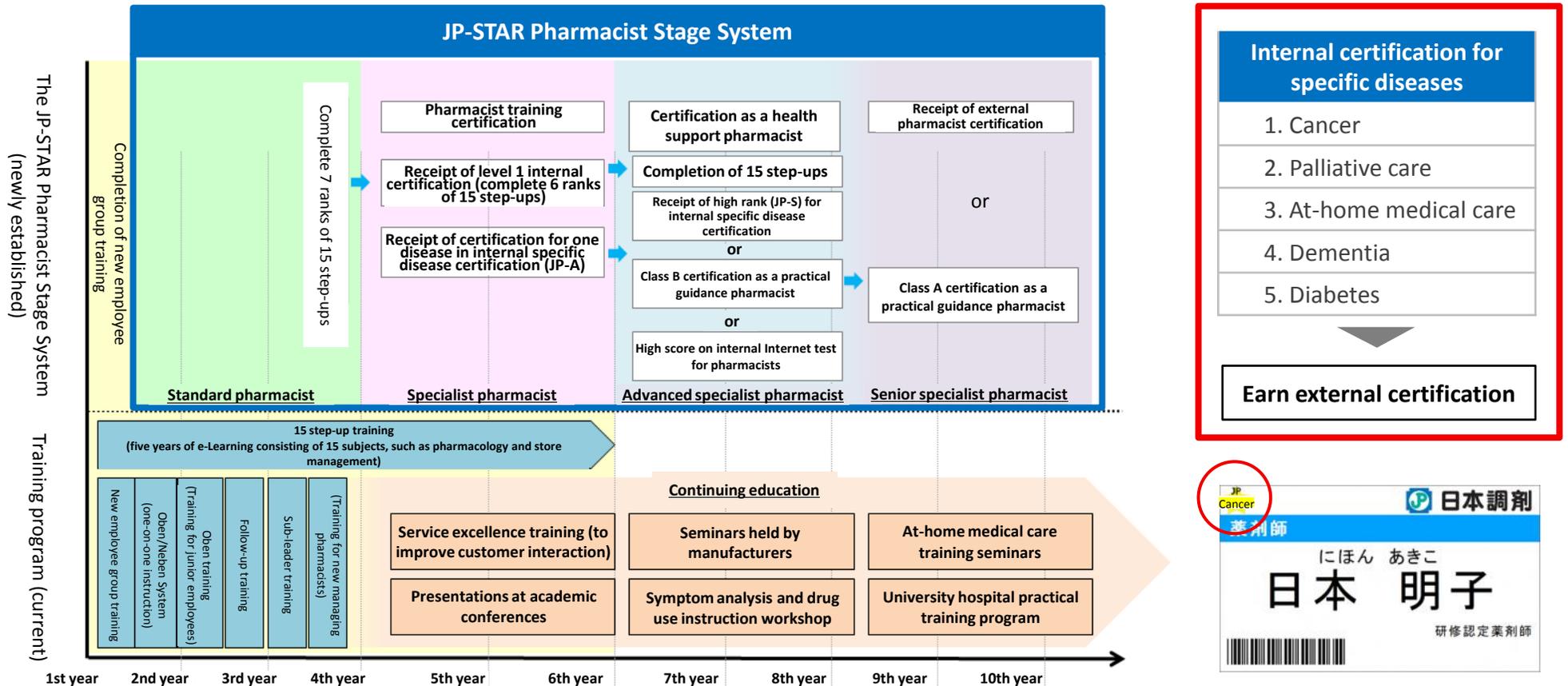
■ Long-term Vision

Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Nihon Chouzai started the JP-STAR Pharmacist Stage System in April 2018 in order to encourage pharmacists to acquire specialized skills and recognize this knowledge with certifications. In the future, this new program may also help pharmacists earn external certifications.

Investing in people for high-quality medical services

JP-STAR draws on Nihon Chouzai's strengths as a designated training facility for health support pharmacists to provide even more advanced training



Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Encourage pharmacists to earn certifications from external organizations as one way to upgrade advanced pharmacology management functions of hospital-front pharmacies. Receiving these certifications is extremely difficult. But our goal is to have pharmacists receive certifications to acquire specialized skills and earn the trust of patients and medical institutions.

Advanced pharmacology management function

More specialist pharmacist certifications from external organizations

	Target	Activities included in certification
Outpatient cancer treatment pharmacist certification Japanese Society of Pharmaceutical Oncology (JASPO)	30 pharmacists or more in 3 years	<ul style="list-style-type: none">● Pharmacists with the knowledge and skills required for safe outpatient cancer treatment procedures● Pharmacists capable of providing comprehensive support to patients and their families regarding cancer treatments
Board Certified Pharmacist in Palliative Pharmacy Japanese Society for Pharmaceutical Palliative Care and Sciences	20 pharmacists or more in 3 years	<ul style="list-style-type: none">● Pharmacists with specialized knowledge and skills involving reducing cancer pain and the proper use of medical narcotics

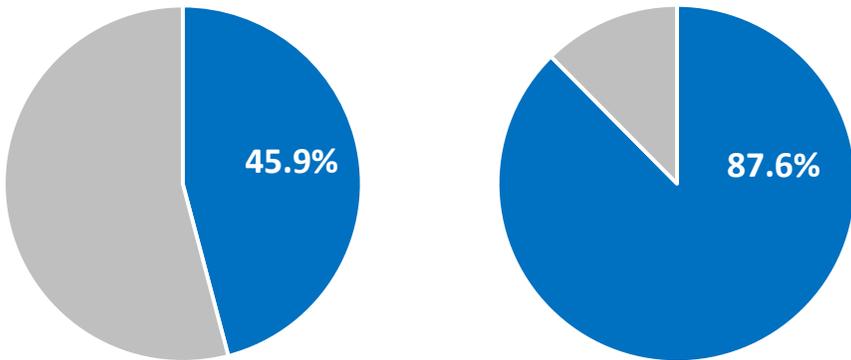
▶ As of March 31, 2018, 26 Nihon Chouzai pharmacists were undergoing training for certification as outpatient cancer treatment pharmacists.

Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Measures to continue raising the pct. of pharmacies with family pharmacists, who will play a vital role in achieving the Vision for Pharmacies for Patients, and the increasing use of these pharmacists has reduced drug expenses.

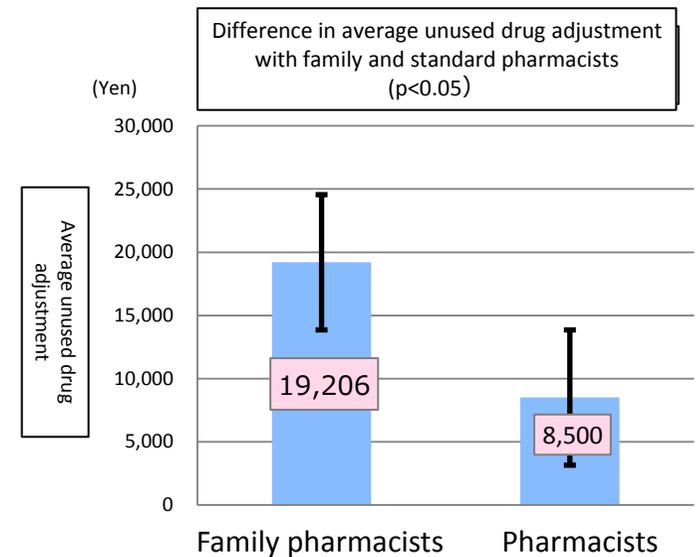
Family Pharmacists and Pharmacies (as of April 1, 2018)

■ Pct. of family pharmacists ■ Pharmacies with a family pharmacist



Note: Pct. of family pharmacists = No. of family pharmacists / all Nihon Chouzai Group pharmacists

Unused Drug Adjustment Benefit Due to Family Pharmacists

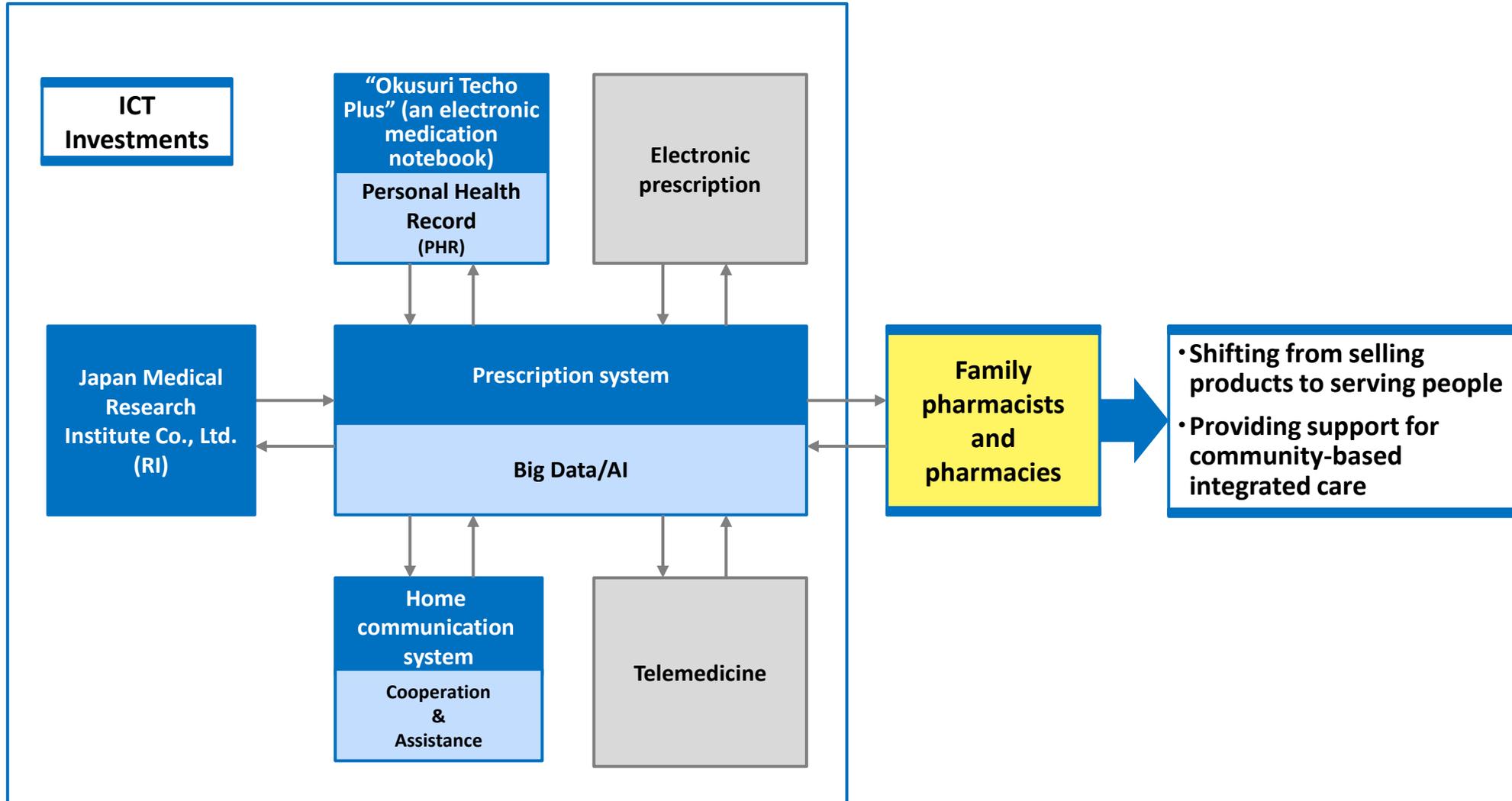


A t-test was performed to determine whether or not this average difference in the unused drug adjustment is statistically significant. This test resulted in the determination that the difference in the average amount of the unused drug adjustment by family pharmacists is more significant. (p < 0.05)

The t-test was performed for the average unused drug adjustment for 1,158 family pharmacists and 1,548 standard pharmacists for the period from September 2016 to May 2017.

Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

ICT investments for providing high-quality medical services and the optimization and efficiency of medical care

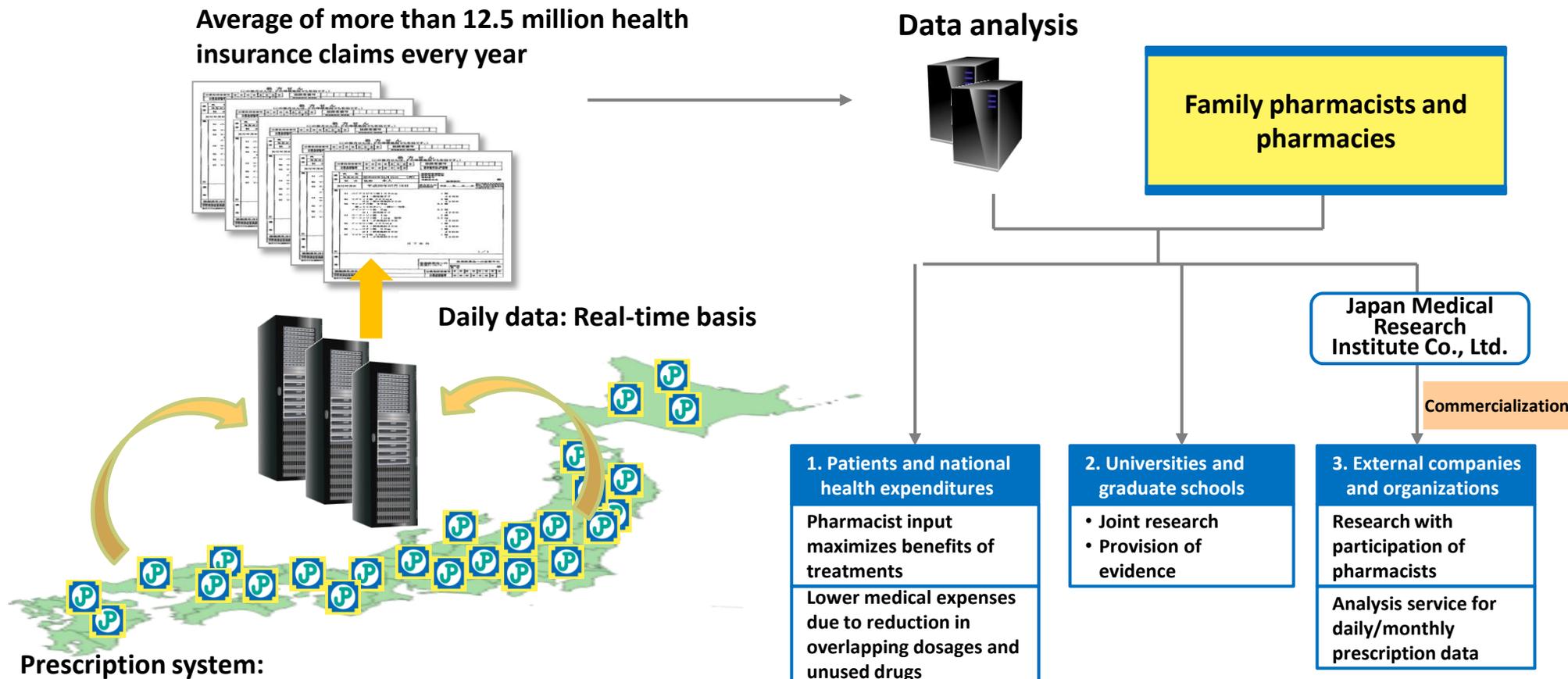


Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Nihon Chouzai has been investing in a prescription system for more than 20 years to improve efficiency. By using this system at directly operated pharmacies, it is now possible to obtain an average of more than 12.5 million health insurance claims on a real-time basis. The result is a PDCA cycle for improving the quality of medical care.

→ Benefits of real world data: (1) Proper level of medical care expenses (2) Joint research with universities (3) Commercialization

Prescription system: Importance of RWD (Real World Data)

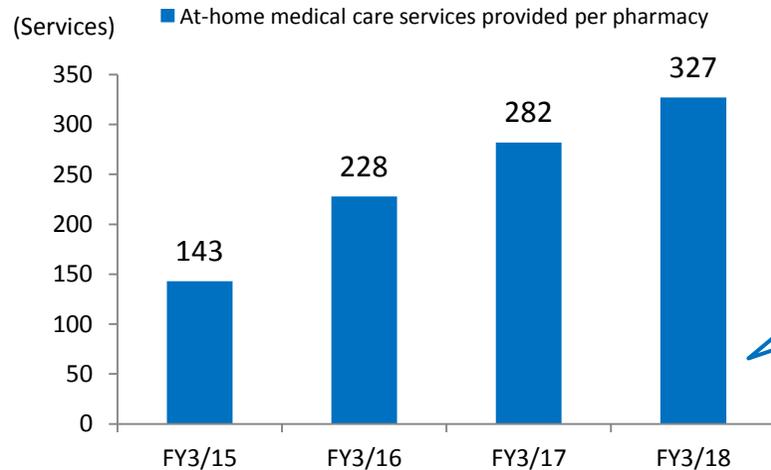


* Sources of all information are anonymous in accordance with the enforcement rules of Standards prescribed by rules of the Personal Information Protection Commission.

Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

About 630 people attended 21 at-home medical care seminars held at 16 locations during FY3/18. Seminars covered subjects ranging from pediatric at-home care to end-of-life at-home care. Combining the at-home management system and prescription system has improved efficiency.

Promotion of high-quality at-home medical care



Share of all Nihon Chouzai pharmacies offering at-home medical care

89.3%

Pharmacies providing at least 12 services per year

96.2%
Pharmacies providing at least 1 service per year

Note: At least 12 at-home medical care services per year is one requirement for receiving a premium for regional support system.

Note: At-home medical care services provided per pharmacy = No. of services / Average No. of pharmacies during the period

Note: Share of all Nihon Chouzai pharmacies offering at-home medical care is the result at the end of the period. (Pharmacies that provided at-home medical care in the prior 12 months)

Major At-home Medical Care Activities



- Training of pharmacists specializing in at-home medical care



- Sterile rooms for drug dispensing

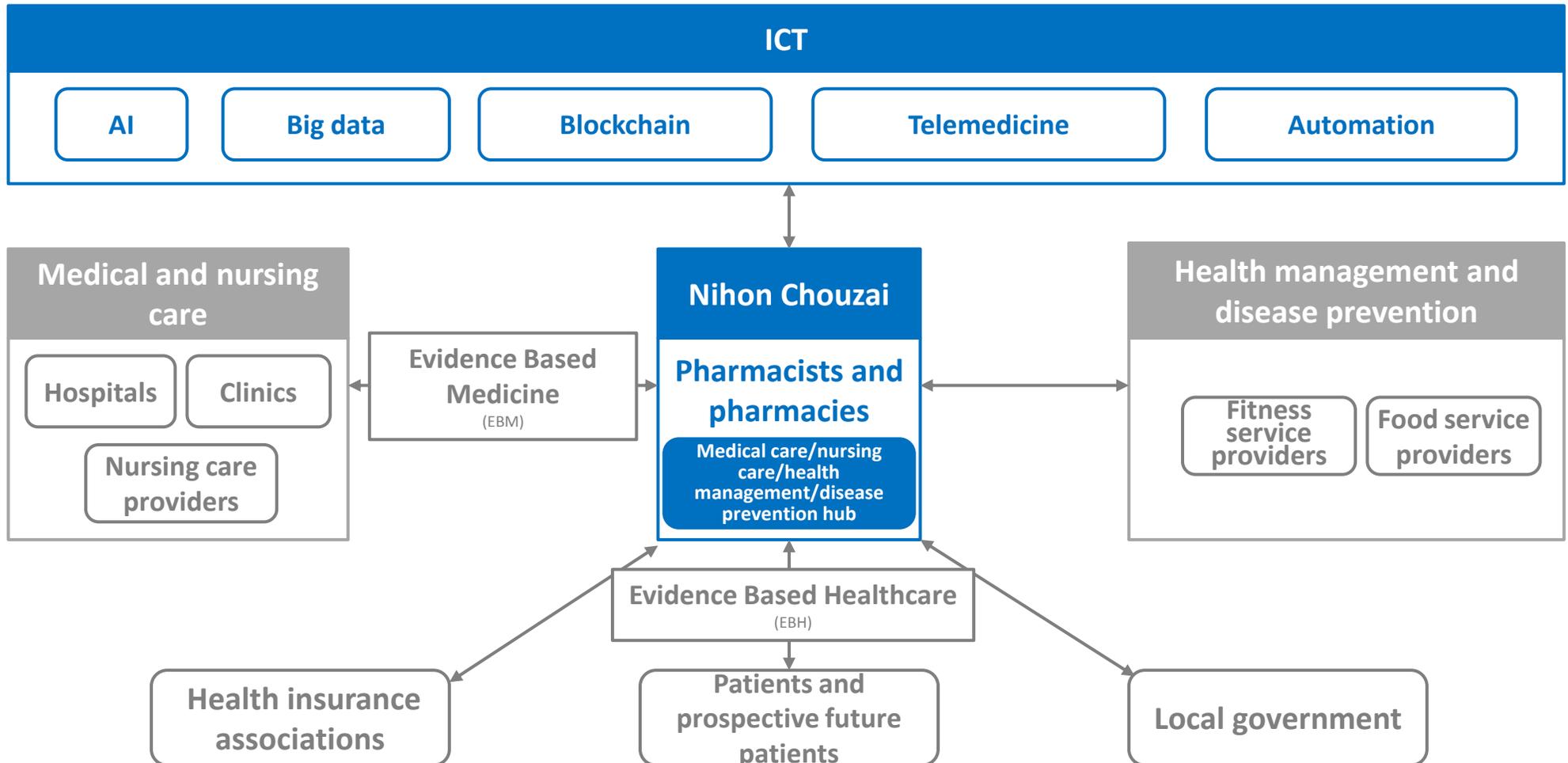


- Higher efficiency by combining a home communication system with the prescription system

Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Next-generation pharmacies will be the only means of using ICT for the optimization and efficiency of medical care for holding down the growth in health care expenditures. Pharmacies can become a hub for medical care, nursing care, health management and disease prevention. By continuing to invest in ICT and people and performing a valuable role as a part of the community-based integrated care system, Nihon Chouzai aims to provide pharmacists and pharmacies needed by society.

The Positioning and Roles of Next-generation Pharmacies



A company that job-seekers choose over others

Nihon Chouzai hired a record-high number of new pharmacist school graduates in the spring of 2018.

All science students

Female science students

Chemistry/pharmacology students

Nihon Chouzai is first in popularity among job seekers in the pharmacy/drug store category.

Rank	Company name
41	Nihon Chouzai

⋮

52	Dispensing company S
----	----------------------

⋮

55	Dispensing company A
----	----------------------

⋮

66	Drug store company S
----	----------------------

Rank	Company name
11	Nihon Chouzai

⋮

15	Dispensing company S
----	----------------------

⋮

23	Dispensing company A
----	----------------------

⋮

27	Drug store company S
----	----------------------

Rank	Company name
1	Pharmaceutical company A
2	Cosmetics company S
3	Nihon Chouzai

Source: Mynavi/Nikkei Job Seeker Popularity Ranking for 2019 University Graduates, April 24, 2018 (Lists prepared by Nihon Chouzai)

Management Strategies / Pharmaceutical Manufacturing and Sales Business

■ Pharmacy Opening Strategy

Add stores that optimize the pharmacy portfolio

Dispensing
Pharmacy Business

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Medical
Professional
Staffing and
Placement Business

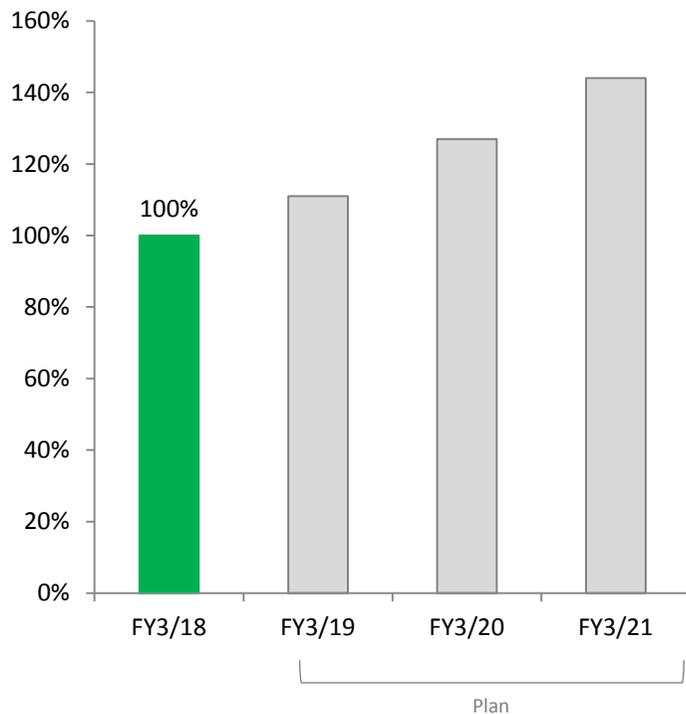
■ Long-term Vision

Growth of the Pharmaceutical Manufacturing and Sales Business

Generic drug demand in Japan is likely to increase due to the government target of an 80% volume-based market share by September 2020. The Tsukuba Plant No. 2 was constructed to help meet this demand. This business aims for a sharp recovery by offsetting higher expenses caused by the start of operations at this new plant by higher earnings from sales growth, more efficiency and the division of functions among manufacturing plants, and growth of the contract manufacturing business using advanced equipment.

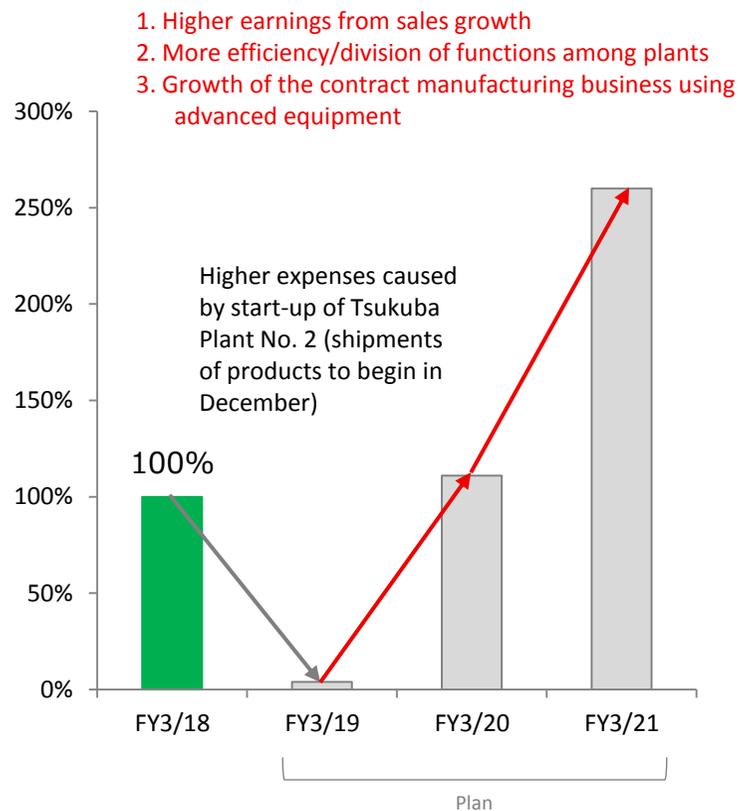
Net Sales

FY3/18 sales = 100%



Operating Profit

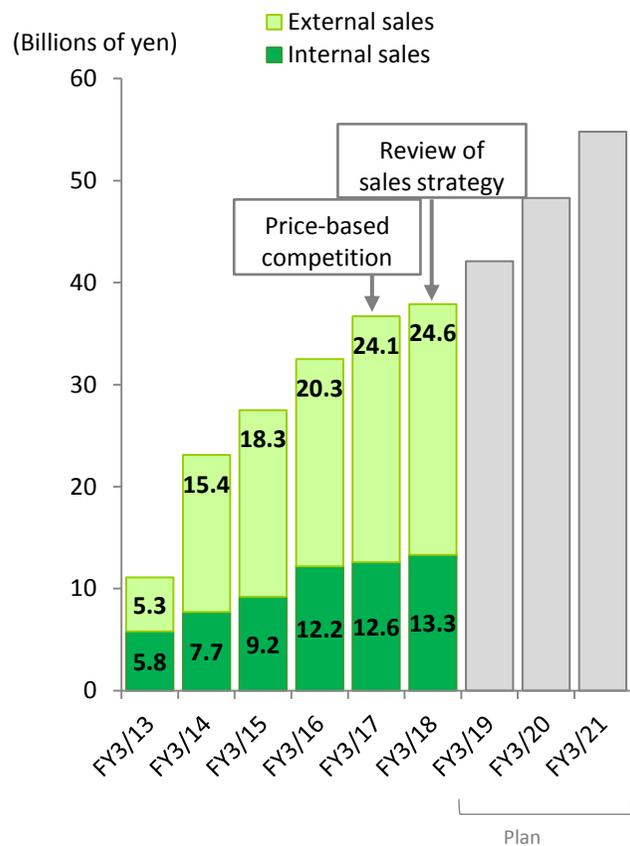
FY3/18 sales = 100%



Growth of the Pharmaceutical Manufacturing and Sales Business

Increase internal sales by using growth of the dispensing pharmacy business, a capability no other generic drug manufacturer has. Use the advantage of having an end user of these drugs within the same group for more growth of this business. Expand contract manufacturing business as a new driver of growth and start a sales alliance business.

Sales Composition
(Internal sales/external sales)



	Sales system	FY3/18	FY3/19-
Internal sales	Nihon Chouzai Group - Pharmacies	○ Reorganization of Japan's dispensing pharmacy industry	◎
	Outside the Nihon Chouzai Group - Hospitals - Pharmacies - Drug stores	○ Government volume-based generic drug share target of 80%	○
External sales	Contract manufacturing business	○	◎
	Sales alliance business	△	○

Synergies with dispensing pharmacy business
Increase sales along with expansion of dispensing pharmacy business

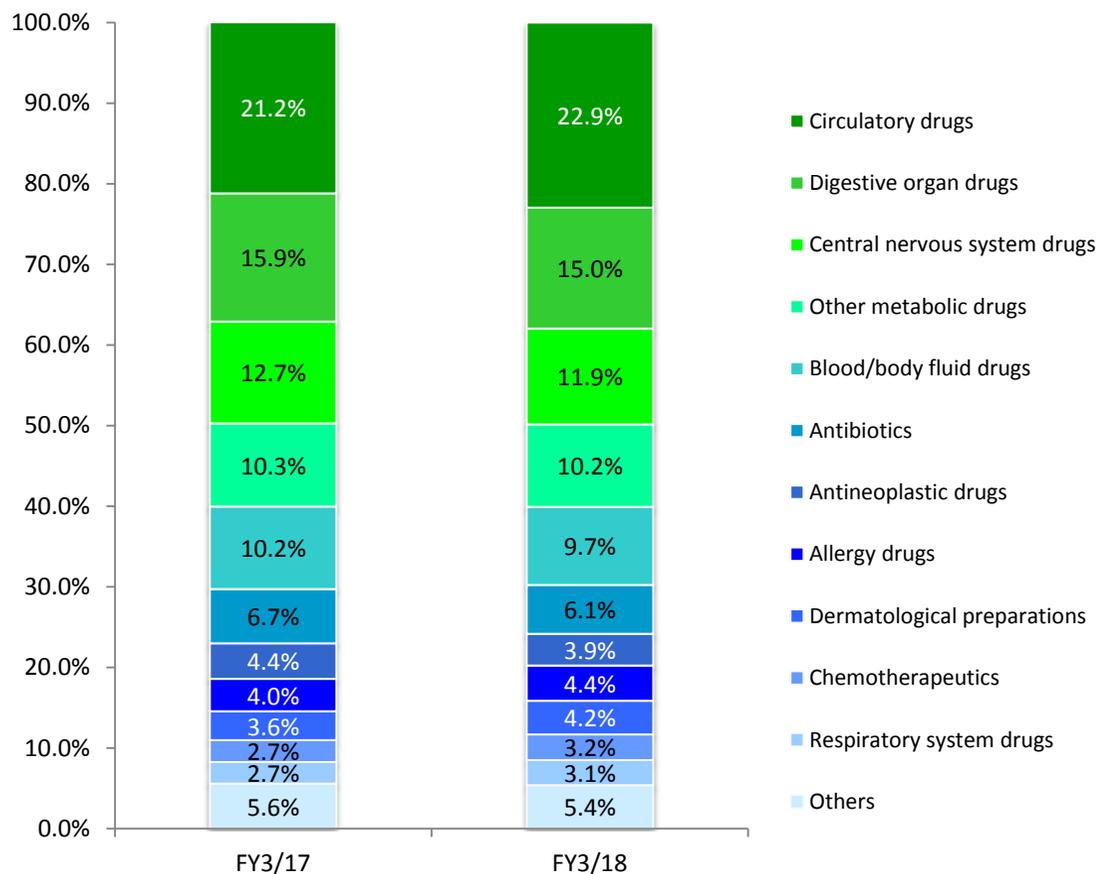
Relationships with drug wholesalers
Increase sales along with market growth

New drivers of growth
Expand contract manufacturing business
Start a sales alliance business

Growth of the Pharmaceutical Manufacturing and Sales Business

Sales of circulatory and allergy drugs steadily increased. No single efficacy category accounts for a large share of sales. Having dispensing pharmacy operations within the same group makes it possible to conduct highly efficient R&D activities centered on drugs that are used frequently.

Sales Breakdown by Drug Efficacy



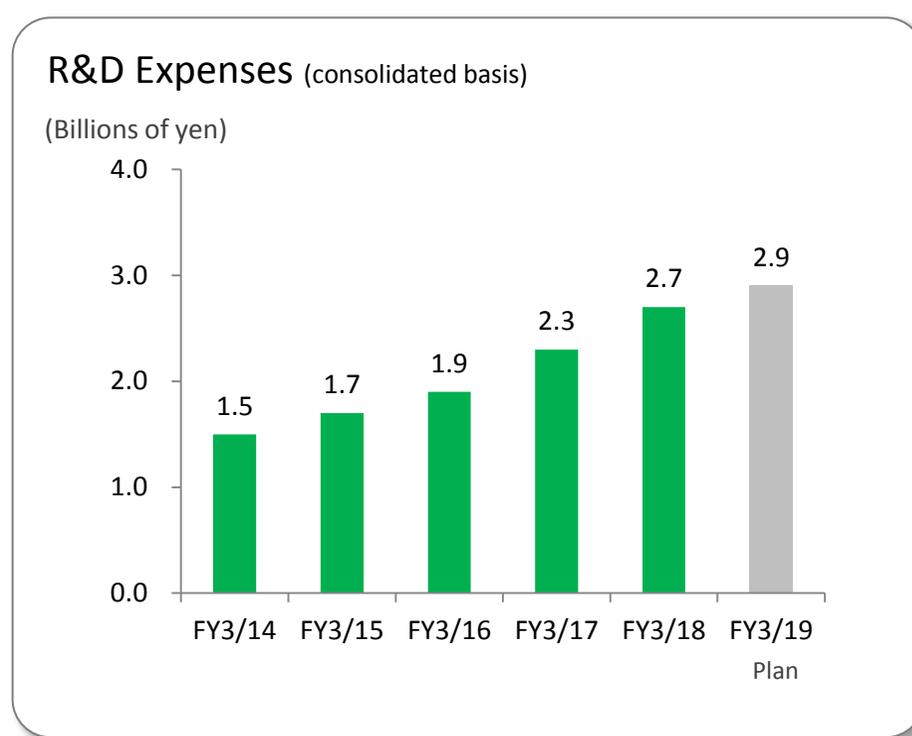
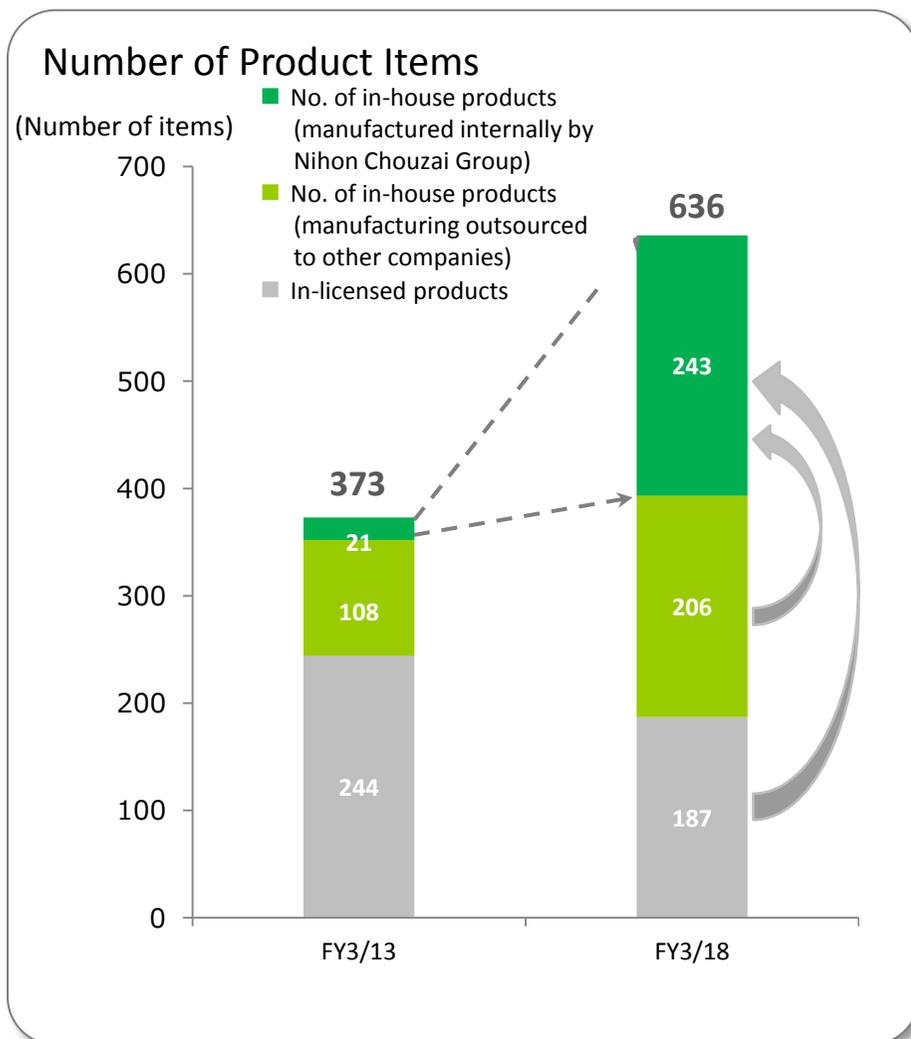
YoY Growth Rate by Drug Efficacy

Drug efficacy category	FY3/18
Circulatory drugs	118.1%
Digestive organ drugs	103.2%
Central nervous system drugs	102.6%
Other metabolic drugs	108.6%
Blood/body fluid drugs	103.5%
Antibiotics	98.7%
Allergy drugs	118.6%
Dermatological preparations	126.7%
Antineoplastic drugs	96.8%
Chemotherapeutics	130.0%
Respiratory system drugs	126.7%
Others	106.5%
Total	109.3%

Note: Does not include contract manufacturing at all plants

Growth of the Pharmaceutical Manufacturing and Sales Business

The internal development of drugs raises the number of product items and, by speeding up the shift to internally produced drugs, improves the gross profit margin. Conduct extensive R&D activities for drugs that are sold in large volumes at Nihon Chouzai pharmacies, primarily drugs with recent patent expirations.



Patent Expirations

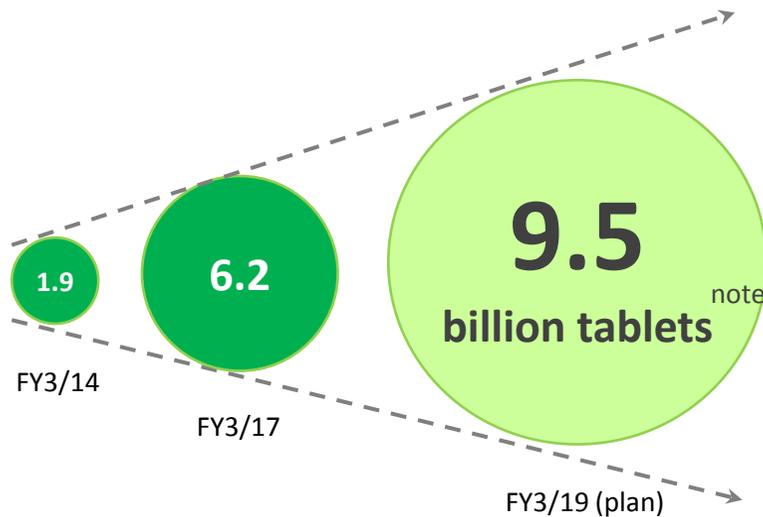
FY3/19	FY3/20	FY3/21
82 items with 40 different active ingredients	67 items with 37 different active ingredients	57 items with 33 different active ingredients

Note: Prepared by Nihon Chouzai based on Japan Patent Office website and others.

Growth of the Pharmaceutical Manufacturing and Sales Business

Raise the maximum output capacity to reflect market growth and the increasing number of items produced internally. The goal is a return to earnings growth by using sales growth to offset higher depreciation resulting from the start-up of the Tsukuba Plant No. 2.

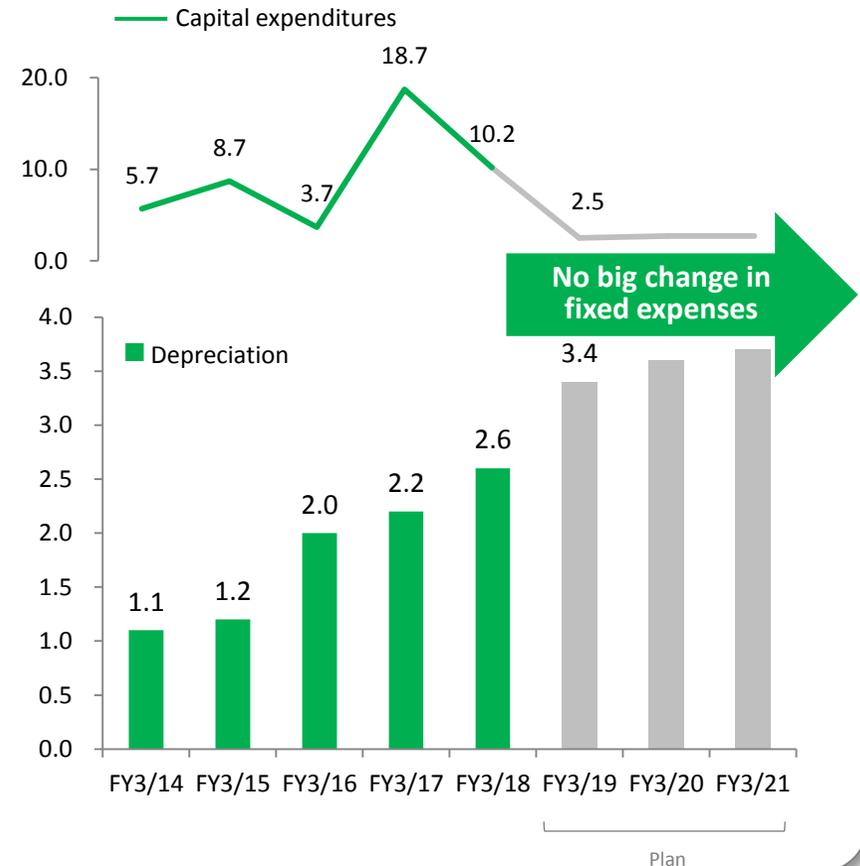
Maximum Output Capacity at Plants



Note: Expect a capacity increase of 3.3 billion tablets when the first phase of Tsukuba Plant No. 2 starts operating

Capital Expenditures and Depreciation

(Billions of yen)



Management Strategies / Medical Professional Staffing and Placement Business

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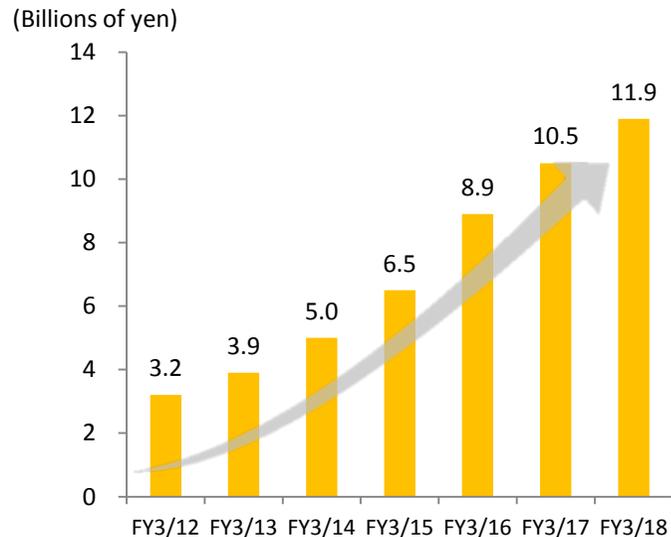
Medical
Professional
Staffing and
Placement Business

■ Long-term Vision

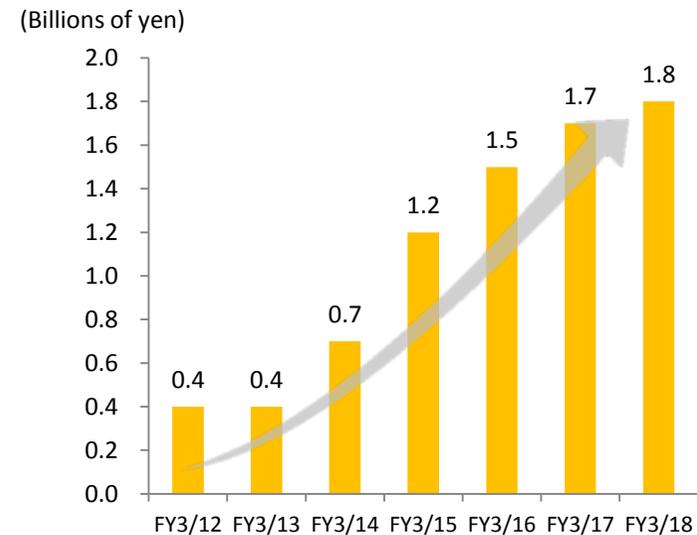
Growth of the Medical Professional Staffing and Placement Business

Solid sales growth but only a small increase in operating profit because of higher expenses for expanding the physician staffing and placement business. The plan is to extend operations to more job categories during the next three years.

Net Sales



Operating Profit



Sales growth potential

7-year average growth rate
(FY3/12 – FY3/18)

24.4%

Profitability

Operating margin
(FY3/18)

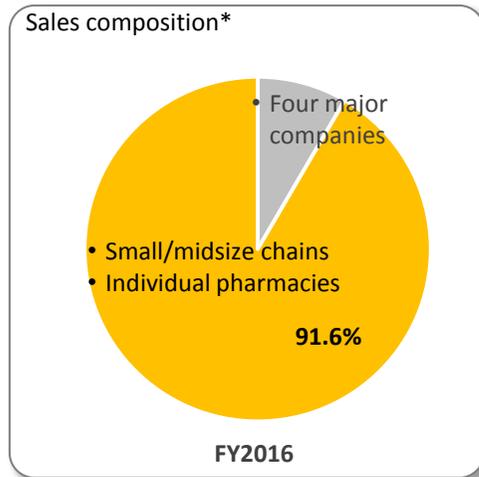
15.4%

Growth of the Medical Professional Staffing and Placement Business

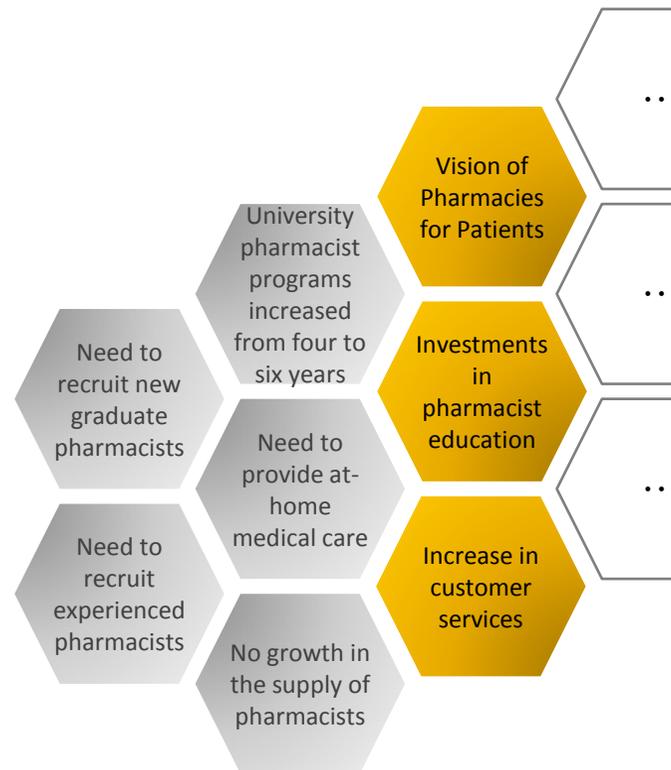
No end in sight to Japan's chronic shortage of pharmacists at dispensing pharmacies due to the need to provide at-home medical care and other services. Demand for pharmacists will remain high because of more growth in direct customer services in order to achieve the Vision of Pharmacies for Patients.

Dispensing Pharmacies in Japan

- ▶ Most are small/midsize chains and individual pharmacies
- ▶ Larger companies are better able to recruit pharmacists
- ▶ Time and money are needed to train pharmacists

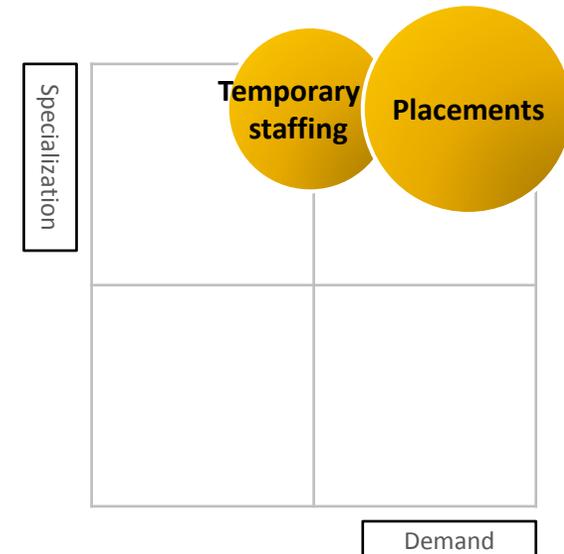


Issues at Dispensing Pharmacy Companies



The Shift in Demand for Medical Professionals

- ▶ Increase in demand for temporary staffing
- ▶ Further increase in demand for placements
- ▶ Rising demand for individuals with specialized skills



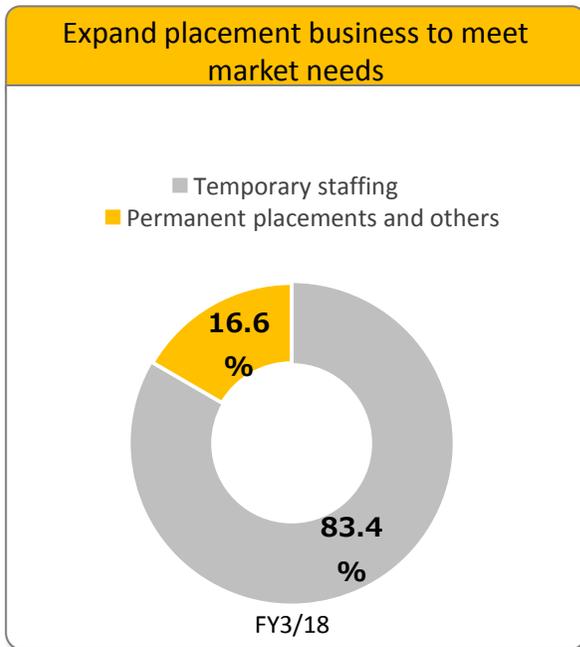
* Prepared by Nihon Chouzai based on Trends in Prescription Drug Expenses -Fiscal 2016

Growth of the Medical Professional Staffing and Placement Business

The number of placements is increasing due to the strengthened placement business to target demand. A high-quality education system created in the dispensing pharmacy business is used to meet the demand for pharmacist with specialized skills. Strengthen the permanent placement business, which has higher profitability and growth potential, while maintaining the stability of the temporary staffing business, which produces a steady income stream.

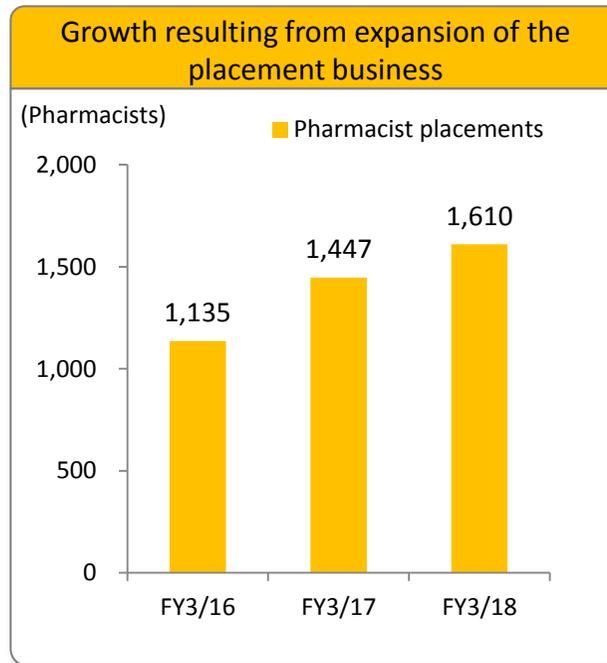
Sales Composition (Pharmacists)

- Strengthen the placement business to prepare for growth



Number of Placements (Pharmacists)

- Hire more salespeople who handle solely placements



Synergy with the Dispensing Pharmacy Business

- Use of a high-quality education system created in the dispensing pharmacy business
- Take full advantage of membership in the well-known Nihon Chouzai Group

Placements of value-added pharmacists

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4人に1人が取得済み
研修認定薬剤師 単位申請に対応

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また、新規・更新を合わせた取得者数は**69,087名**（平成29年3月末現在、※1）となり、全国の薬剤師数288,151名（平成26年12月31日現在、※2）の4人に1人が取得しています。**今後も取得者数の増加が予想されます。**

※1 全国薬剤師会（日本薬剤師会）発表資料より ※2 厚生労働省発表資料より

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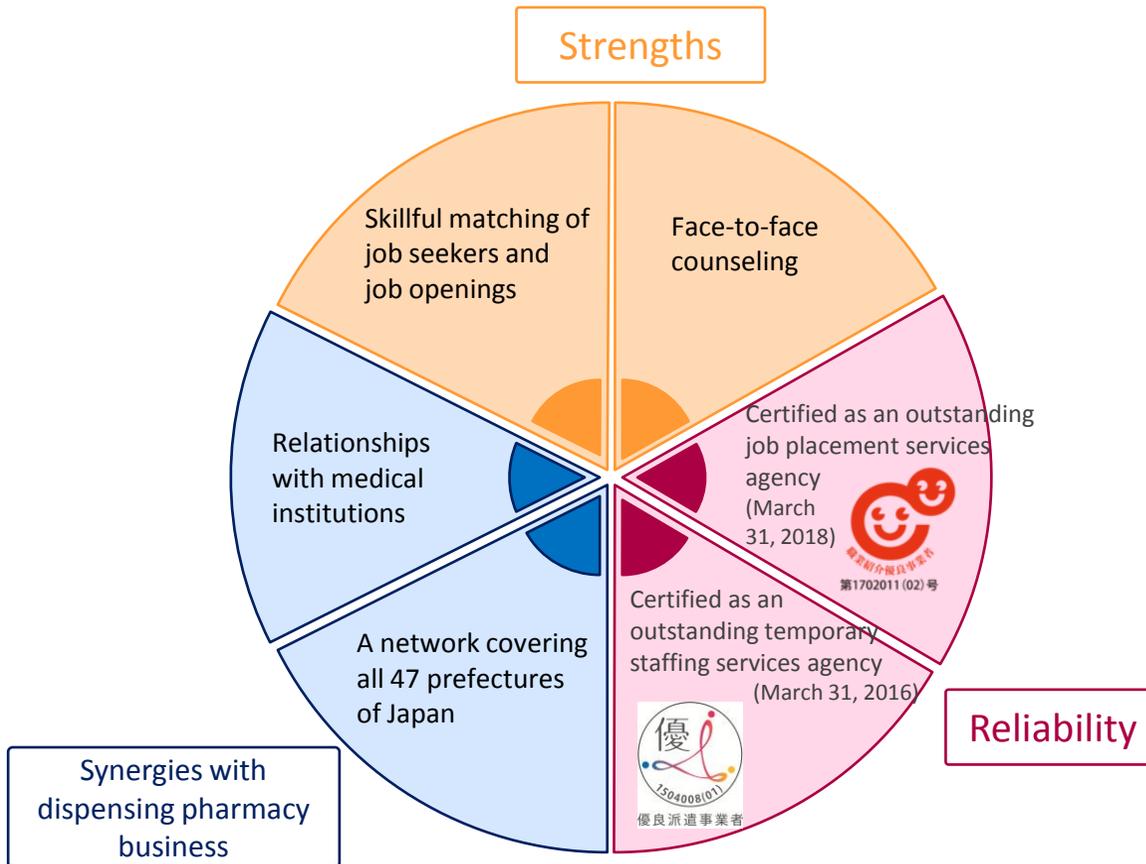
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Growth of the Medical Professional Staffing and Placement Business

Started extending activities to more sectors due to the strong demand for recruiting services for physicians, nurses and other medical professionals. Use pharmacist staffing and placement business strengths for growth of placement services for other medical professionals, chiefly physicians.

Business Growth Backed by Valuable Strengths



Expansion to More Job Categories



Upfront Investments for the Physician Placement Business Expansion

A stronger service network	More salespeople
Osaka, Nagoya, Fukuoka, Sapporo	Assign physician placement specialists to sales offices

FY3/18 sales were more than four times higher than in FY3/17

Long-term Vision Looking ahead to 2030

■ Pharmacy Opening Strategy

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Pharmacy Business

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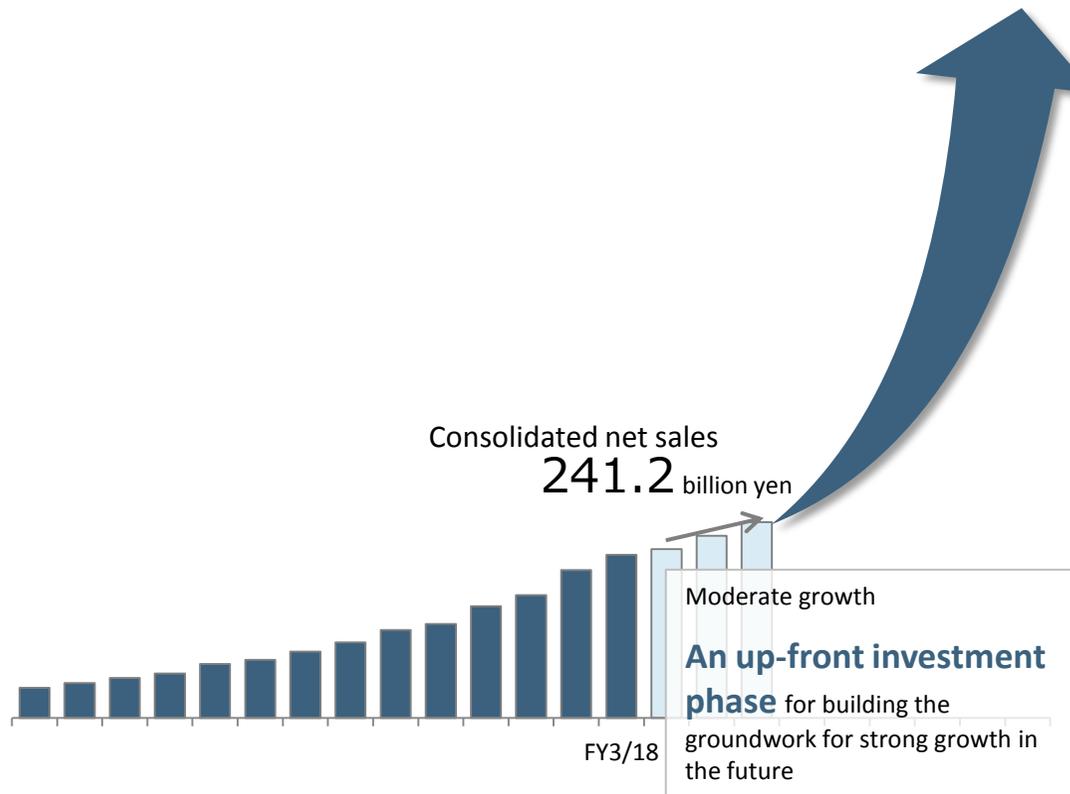
Upgrade pharmacist temporary staffing and permanent placement capabilities and expand activities to cover more professions

Medical
Professional
Staffing and
Placement Business

■ Long-term Vision

Projected sales growth to 2030

A Group with Sales of 1 trillion yen



The Nihon Chouzai Group's market share in Japan

Dispensing pharmacy business

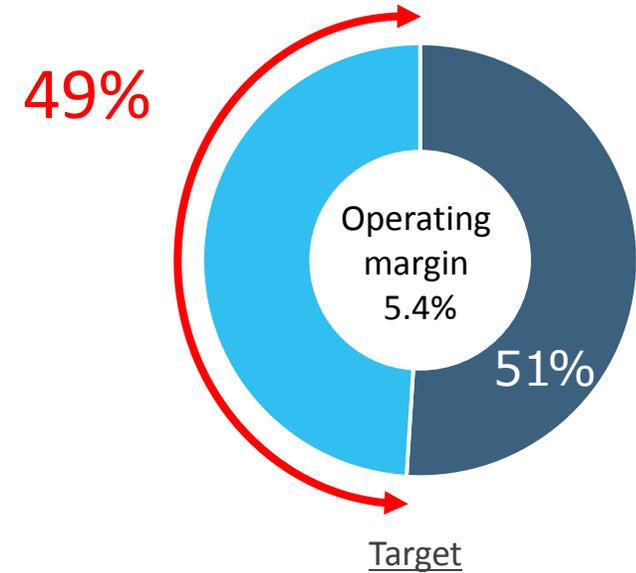
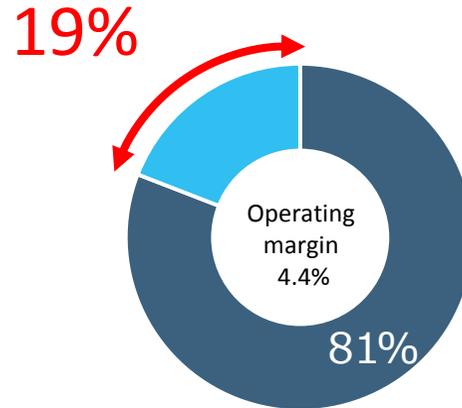
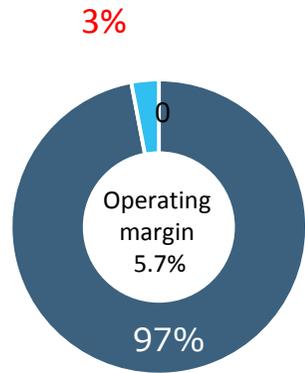
10%

Pharmaceutical manufacturing and sales business

15%

Projected composition of earnings by 2030

- Dispensing pharmacy business
- Pharmaceutical manufacturing and sales business + medical professional staffing and placement business



Note: Percentages have been rounded to the nearest whole number.

(Billions of yen, Figures are rounded to the nearest 100 million yen)		FY3/05	FY3/18	FY3/31
Dispensing Pharmacy Business	Net sales	513	2,052	9,000
	Operating profit	29	124	360
Pharmaceutical Manufacturing and Sales Business	Net sales	-	381	3,000
	Operating profit	(0)	12	300
Medical Professional Staffing and Placement Business	Net sales	7	120	250
	Operating profit	1	18	50

Note: Pharmaceutical manufacturing and sales business sales started in FY3/06. This business had only expenses in FY3/05.

Note: Operating profit is segment profit before adjusting for corporate and other expenses.

III. Company Profile

Company Profile

Trade name: NIHON CHOUZAI Co., Ltd.
Established: March 1980
Headquarters: 37F GranTokyo North Tower, 1-9-1,
Marunouchi, Chiyoda Ward,
Tokyo 100-6737, JAPAN
+81-(0) 3-6810-0800 (general)
Representative: Hiroshi Mitsuhara
Capital: 3,953.02 million yen
Number of shares outstanding: 16,024,000 shares
(including treasury shares)
Fiscal year: End March
Stock code: 3341

Businesses (consolidated):

- Management of health insurance dispensing chain pharmacies
- Manufacture and sales of generic drugs, etc.
- Medical professional staffing and placement business
- Information provision and consulting business, etc.

Number of employees: 4,876 (as of March 31, 2018)

Note: Including part-time employees based on 8-hour conversion, consolidation basis

Number of dispensing pharmacies: 585 (as of March 31, 2018)

Note: Including two locations specializing in the sales of general merchandise

Our Objective

Business activities that contribute to

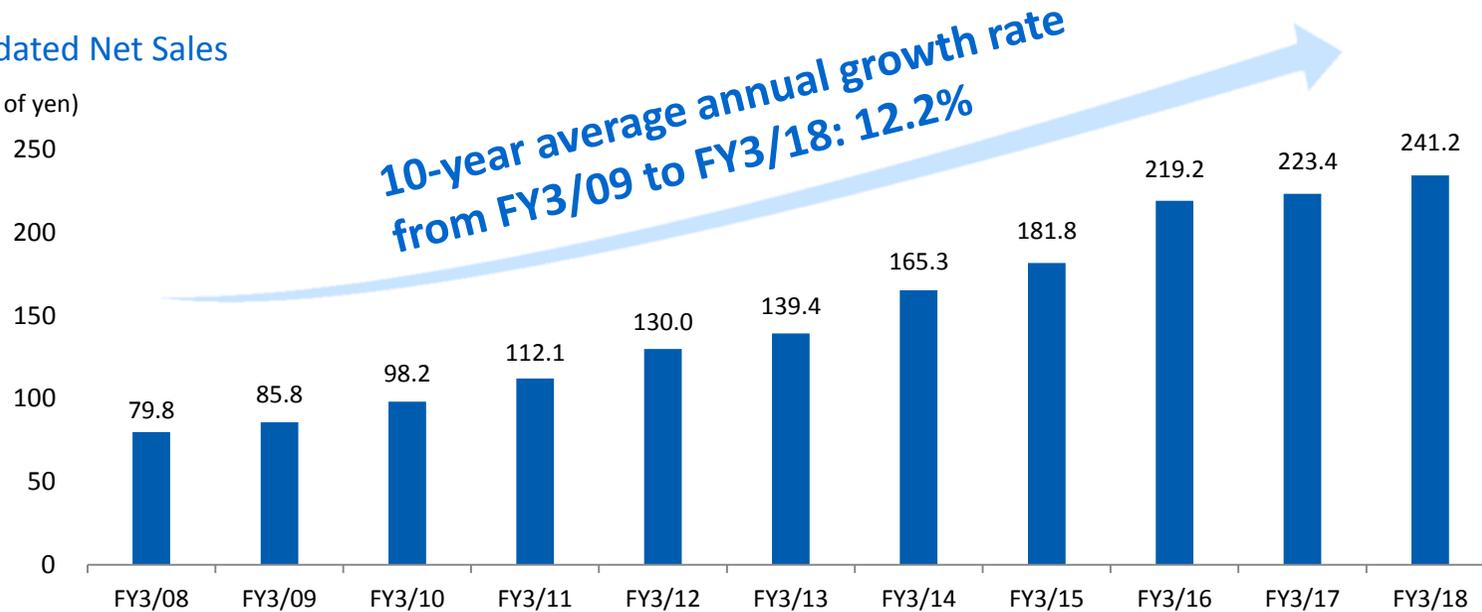
“True separation of the roles of drug
prescribing and dispensing services”



Consolidated Results: Net Sales / Operating Profit

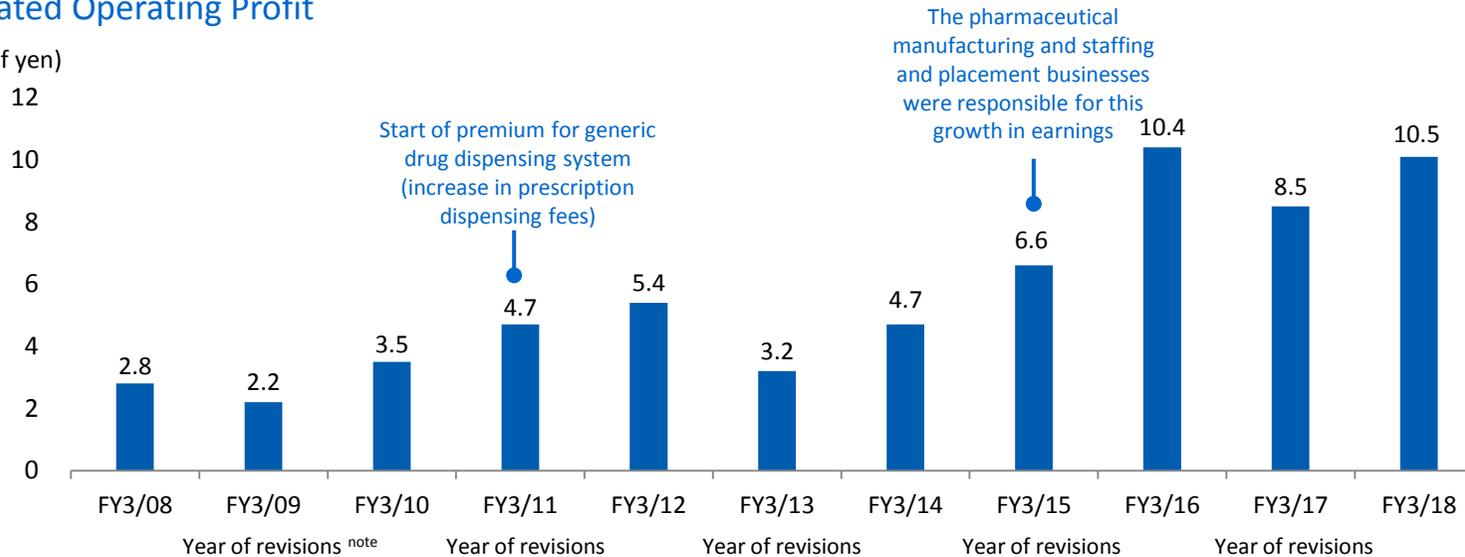
◆ Consolidated Net Sales

(Billions of yen)



◆ Consolidated Operating Profit

(Billions of yen)



Note: Year of NHI drug price and dispensing fee revisions

May 10, 2018

Reference Materials

 NIHON CHOUZAI Co.,Ltd.

(Tokyo Stock Exchange, First Section / Stock code: 3341)

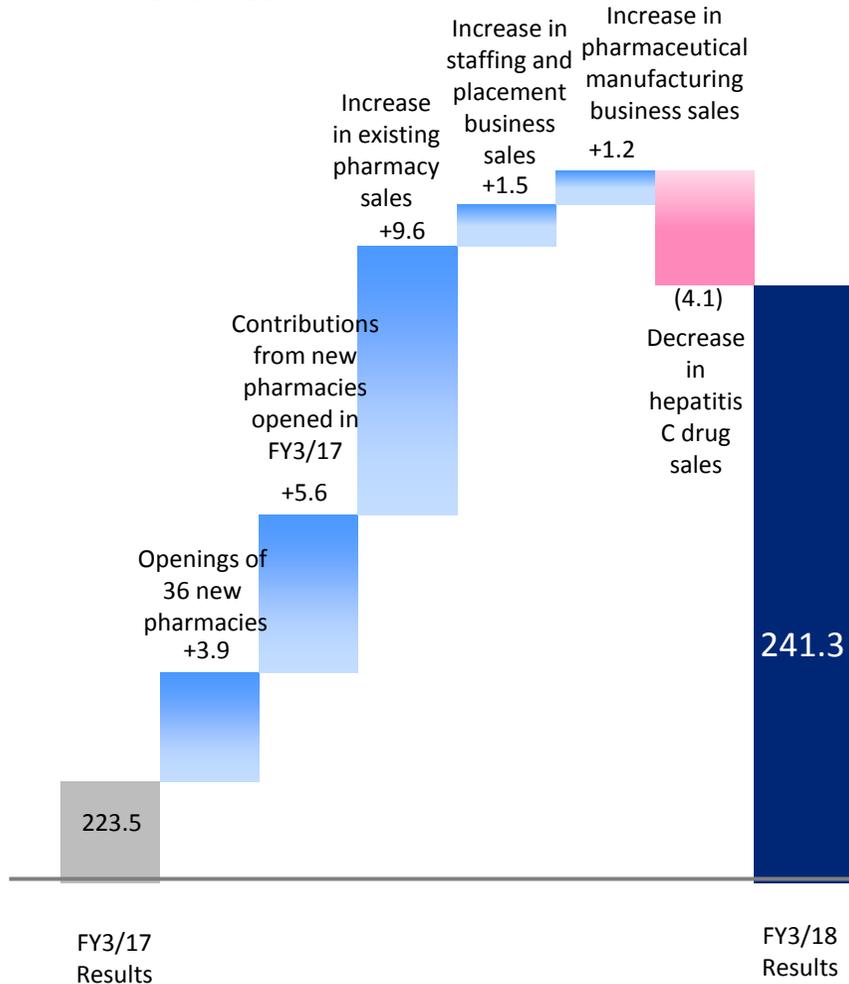
Copyright 2018 Nihon Chouzai Co., Ltd. All rights reserved.

Consolidated Results: Major Components of YoY Changes (Net Sales / Operating Profit)

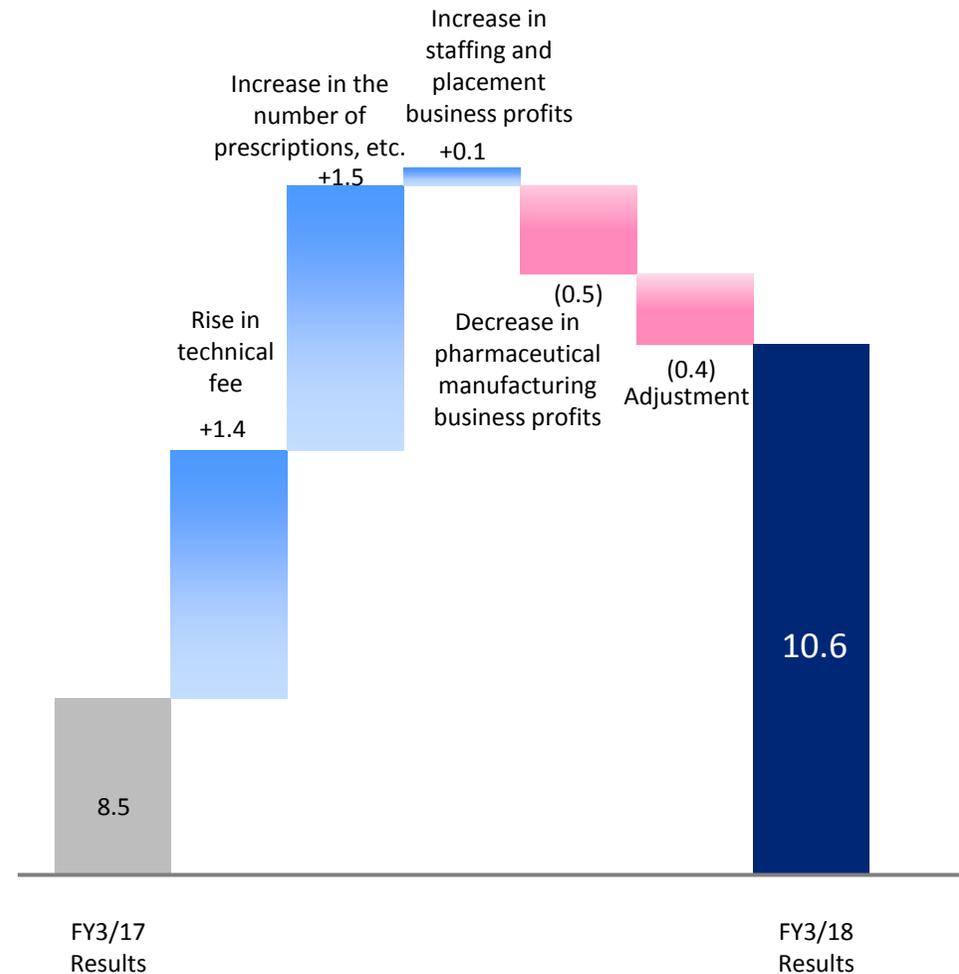
Measures to strengthen existing pharmacies made a big contribution to sales growth. The dispensing pharmacy business was also the biggest contributor to operating profit growth, resulting in higher earnings despite a decline in pharmaceutical manufacturing and sales business profits.

(Billions of yen; figures are rounded to the nearest 100 million yen)

Net Sales



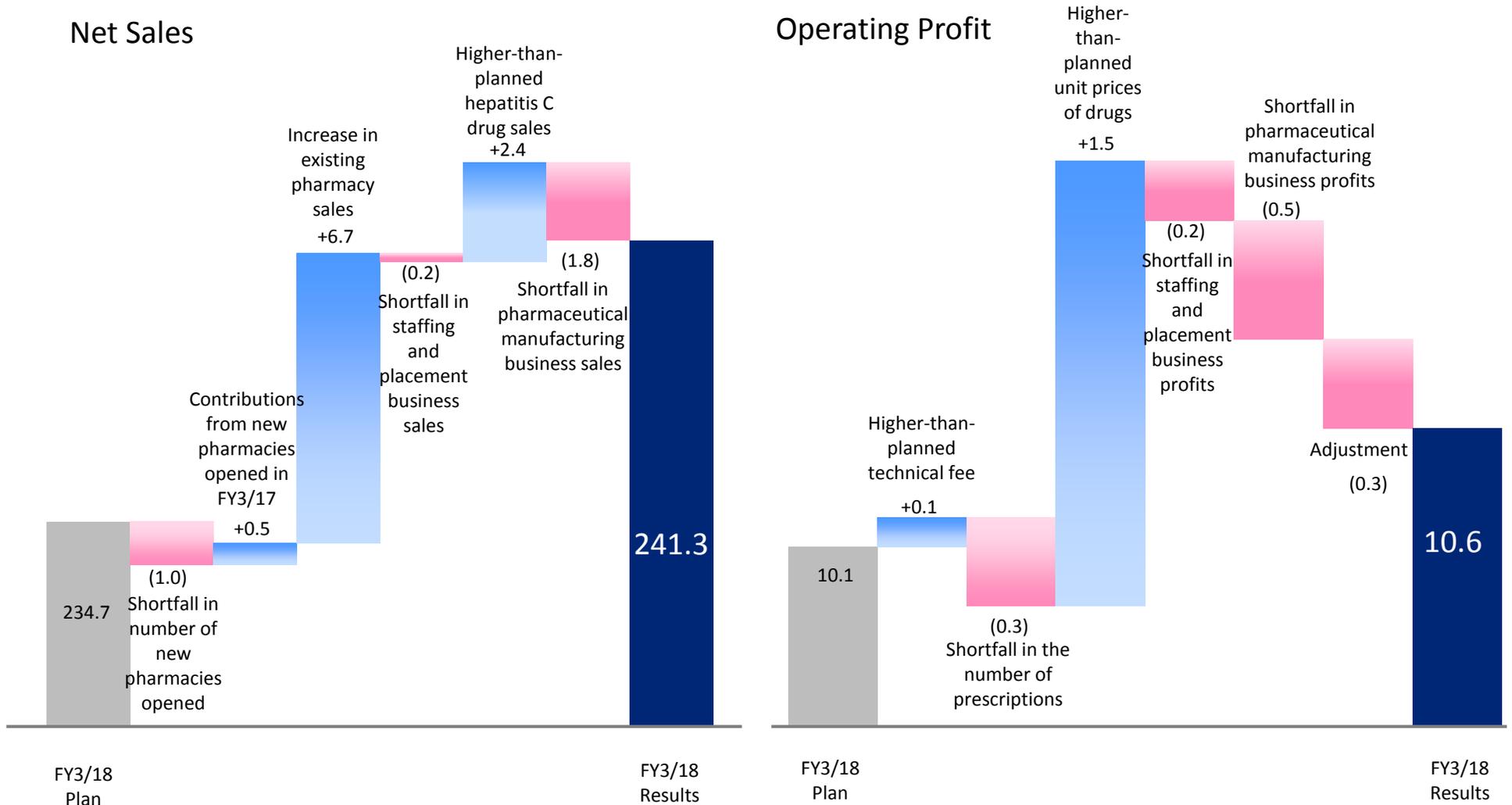
Operating Profit



Consolidated Results: Major Components of Changes vs. Plan (Net Sales / Operating Profit)

In the dispensing pharmacy business, existing pharmacy sales increased and sales of hepatitis C drugs were higher than planned. In addition, unit prices of drugs increased because of more prescriptions of higher-priced drugs like cancer drugs.

(Billions of yen; figures are rounded to the nearest 100 million yen)

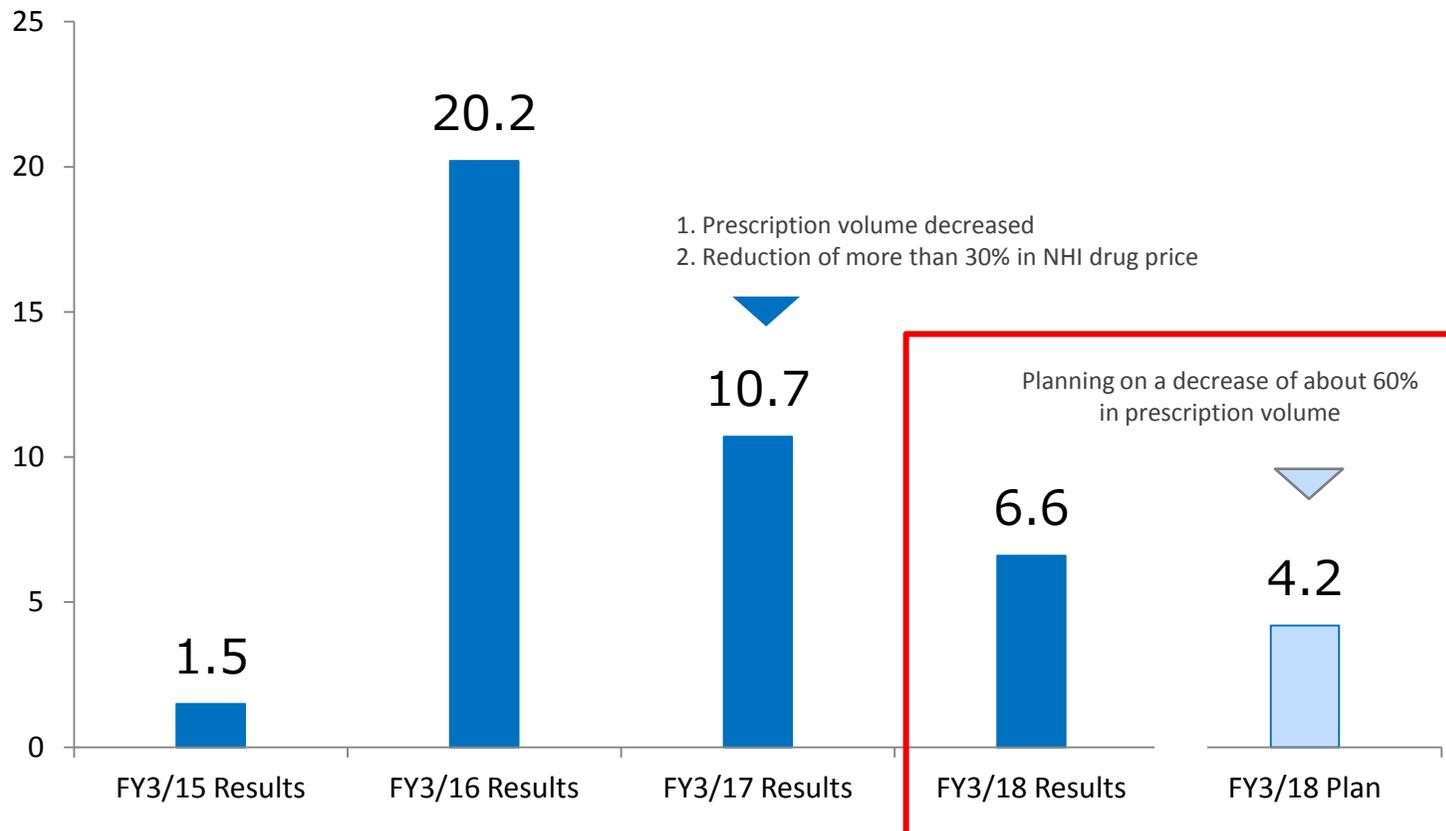


Dispensing Pharmacy Business / Hepatitis C Drug Sales

- Hepatitis C drug sales were down 4.1 billion yen YoY but 2.4 billion yen above the plan.
- Lower sales of these drugs reduced the FY3/18 sales growth rate by about 2.8 pct. points.

Hepatitis C Drug Sales

(Billions of yen)



Figures are rounded to the nearest 100 million yen.

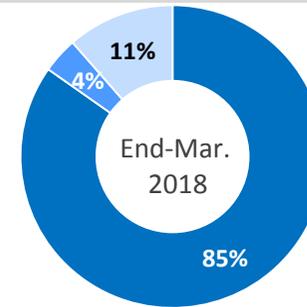
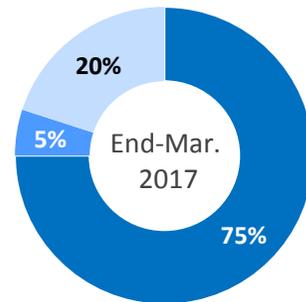
Dispensing Pharmacy Business / Progress with Increasing Technical Fees

Improvements in the three major components (YoY change in pct. of pharmacies receiving each fee or premium)

- Steady improvements in all three fees are the result of numerous activities at pharmacies.
→ Higher fees reflect activities that are consistent with government policies, chiefly the Vision of Pharmacies for Patients.

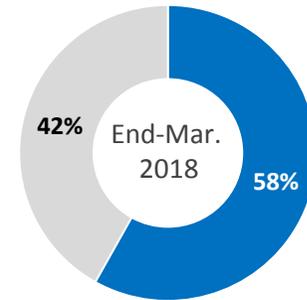
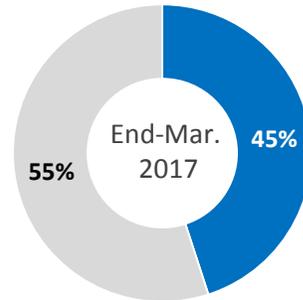
Note: Figures on this page include all pharmacies, including newly opened locations.

Basic Dispensing Fee



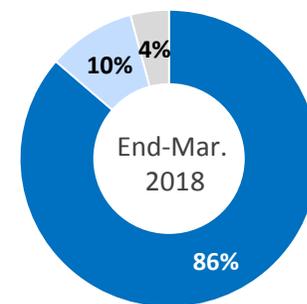
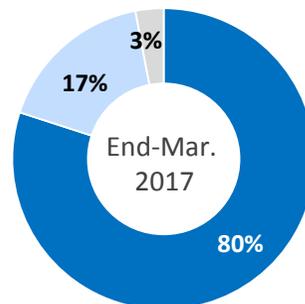
- Basic fee 1 (41pt)
- Basic fee 2 (25pt)
- Basic fee 3 (20pt)

Premium for Standard Dispensing System



- Premium (32pt)
- No premium

Premium for Generic Drug Dispensing System

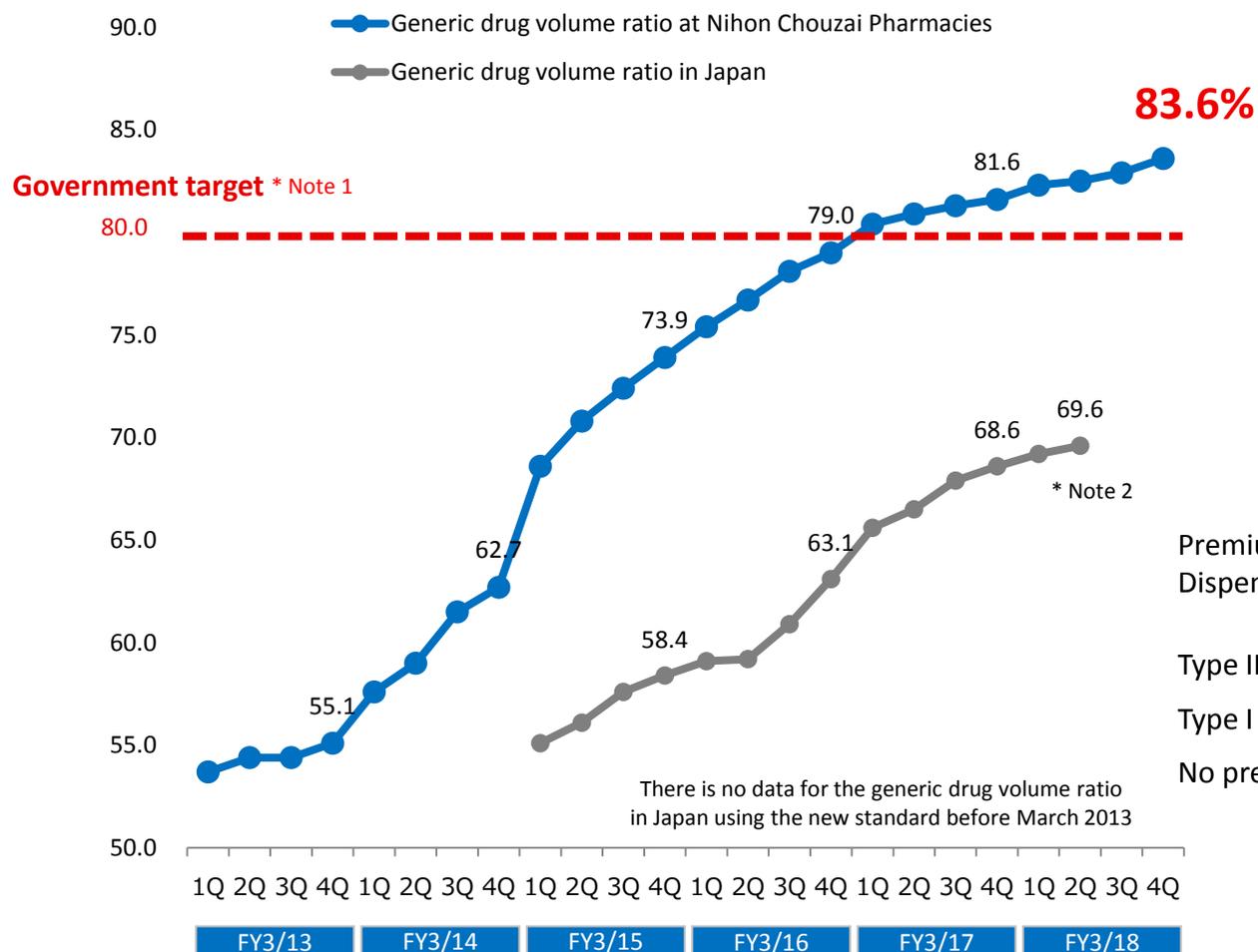


- Type II (more than 75%, 22pt)
- Type I (more than 65%, 18pt)
- No premium (less than 65%)

Dispensing Pharmacy Business / Initiatives to Increase the Use of Generic Drugs

- The government target of 80% has been reached. → Still aiming for an even higher ratio

Growth in Generic Drug Volume



Nihon Chouzai achieved the government target of 80%

Premium for Generic Drug Dispensing System (old index)		Premium for Generic Drug Dispensing System (new index)	
Type II	(75% or more)	Type III	(85% or more)
Type I	(65% or more)	Type II	(80% or more)
No premium	(less than 65%)	Type I	(75% or more)
		No premium	(less than 75%)

Note 1: Cabinet Office, Government Of Japan, Basic Policy on Economic and Fiscal Management and Reform 2017
 Note 2: The Ministry of Health, Labour and Welfare, Trends in Prescription Drug Expenses

Precautions

Performance targets, plans, business activities and other forward-looking statements concerning Nihon Chouzai and its subsidiaries are based on information that was available when this presentation was made. There may be significant changes to these statements due to business and other risk factors and other uncertainties. These statements are not promises concerning future performance. Actual results of operations may differ significantly from the outlook in this presentation for a number of reasons. In addition, this presentation is not a solicitation to make an investment in Nihon Chouzai. Investment decisions are the responsibility of individual investors.

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