



October 31, 2017

**Summary of Consolidated Financial Results for the Second Quarter  
of the Fiscal Year Ending March 31, 2018  
(Six Months Ended September 30, 2017)**

**[Japanese GAAP]**

Company name:	NIHON CHOUZAI Co., Ltd.	Listing:	Tokyo Stock Exchange, First Section
Stock code:	3341	URL:	<a href="http://www.nicho.co.jp">http://www.nicho.co.jp</a>
Representative:	Hiroshi Mitsuahara, President & CEO		
Contact:	Yoshiki Kamada, Managing Director	Tel:	+81-(0) 3-6810-0800
Scheduled date of filing of Quarterly Report:			November 14, 2017
Scheduled date of payment of dividend:			December 5, 2017
Preparation of supplementary materials for quarterly financial results:	Yes		
Holding of quarterly financial results meeting:	Yes (for institutional investors and analysts)		

Note: The original disclosure in Japanese was released on October 31, 2017 at 15:00 (GMT +9).

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

**1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2018  
(April 1, 2017 – September 30, 2017)**

(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	%
Six months ended Sep. 30, 2017	118,149	7.9	4,888	24.1	4,635	23.6	2,805	19.9
Six months ended Sep. 30, 2016	109,478	9.2	3,940	(6.5)	3,751	(4.7)	2,339	(5.3)

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2017: 2,577 (up 12.0%)  
Six months ended Sep. 30, 2016: 2,300 (down 6.5%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2017	175.42	—
Six months ended Sep. 30, 2016	146.26	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2017	187,395	38,623	20.6
As of Mar. 31, 2017	178,347	36,447	20.4

Reference: Shareholders' equity (million yen) As of Sep. 30, 2017: 38,623 As of Mar. 31, 2017: 36,447

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2017	—	25.00	—	25.00	50.00
Fiscal year ending Mar. 31, 2018	—	25.00			
Fiscal year ending Mar. 31, 2018 (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, 2018 (April 1, 2017 – March 31, 2018)**

(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	234,697	5.0	10,105	18.6	9,804	22.9	5,639	21.6	352.59

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, 2017:	16,024,000 shares	As of Mar. 31, 2017:	16,024,000shares
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2) Number of treasury shares at the end of period

As of Sep. 30, 2017:	29,628shares	As of Mar. 31, 2017:	29,448shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2017:	15,994,447shares	Six months ended Sep. 30, 2016:	15,994,852shares
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Note 1: The current quarterly financial report is not subject to quarterly review procedures.

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 15, 2017. Materials distributed at this event will also be disclosed, using the Timely Disclosure network (TDnet), and available on the Nihon Chouzai website.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

In the first half (April to September) of the fiscal year ending on March 31, 2018, the Japanese government announced the Basic Policy on Economic and Fiscal Management and Reform 2017 in June. This policy includes many proposals for actions involving social security programs. Based on these proposals, studies have started regarding the revisions to medical treatment fees that are planned for April 2018. Discussions have not reached the point of determining specific points. However, a number of actions that create serious challenges are expected in order to implement the measures included in the Basic Policy on Economic and Fiscal Management and Reform 2017. For example, actions are likely to include the realization of the community medical care vision, radical reform of the drug pricing system, revision of prescription dispensing fees for the realization of the separation of dispensing and prescribing functions for the benefit of patients (optimizing product services and emphasis on evaluation of people-to-people services), and measures for the proper use of drugs.

In response to these events, the Nihon Chouzai Group is taking many actions in all its business operations in a manner that is consistent with government policies. For example, the Group is establishing education programs and frameworks needed to provide the broad range of pharmacist and pharmacy functions that will be required by the Vision for Pharmacies That Put Customers First. Due to these activities, first half consolidated operating profit, ordinary profit and profit attributable to owners of parent all increased to record highs.

Net sales increased 7.9% year on year to 118,149 million yen. Operating profit increased 24.1% to 4,888 million yen, ordinary profit increased 23.6% to 4,635 million yen and profit attributable to owners of parent rose 19.9% to 2,805 million yen.

Business segment performance was as follows.

#### 1) Dispensing Pharmacy Business

In the first half of the current fiscal year, Nihon Chouzai opened 15 pharmacies in the dispensing pharmacy business and closed three. Consequently, there were 569 pharmacies (including one pharmacy specializing in the sale of general merchandise) at the end of the first half. Net sales in this segment increased 8.3% year on year to 100,011 million yen. Excluding hepatitis C drugs, first half sales were more than 13.3% higher than in the previous fiscal year's first half. Growth in the number of stores, including through acquisitions, and sales at stores opened in the previous fiscal year all contributed to the higher sales. Higher prescription unit prices were another reason for the increase in first half sales. Earnings benefited from an improvement in income from prescription dispensing fees resulting from more activities to provide the services of family pharmacists and family pharmacies. A steady recovery in the number of prescriptions at existing pharmacies also contributed to earnings. As a result, segment operating profit was much higher than one year earlier, rising 38.2% to 5,617 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 reached 83% at the end of September 2017 and 97% of pharmacies were offering at-home medical care services. In addition, the number of registered members using Nihon Chouzai's Okusuri Techo Plus electronic medication notebook surpassed 200,000.

#### 2) Pharmaceutical Manufacturing and Sales Business

In the pharmaceutical manufacturing and sales business, in the first half of the current fiscal year, there was an increase of 2.6% in sales to 19,213 million yen but operating profit sharply fell 46.4% to 638 million yen. Earnings were held down mainly by an increase in R&D expenditures to strengthen the lineup of drugs produced by the Nihon Chouzai Group. During the first half, group companies increased efforts to place priority on profitability and maintain suitable selling prices in response to price-based competition among drug manufacturers. The result was segment earnings that exceeded the initial plan. Consequently, the profitability of this segment is improving, although at a slow pace.

Seventeen items were added in June but there were reductions in the number of items to eliminate overlapping products between group companies. As a result, the number of product items sold in this business segment was 627 at the end of the first half.

### **3) Medical Professional Staffing and Placement Business**

Progress with measures involving family pharmacist and family pharmacy services in the dispensing pharmacy sector continues to create growth in the demand for the temporary staffing and permanent placement of medical professionals, particularly pharmacists. Furthermore, there was a big increase in the number of temporary staffing placements and permanent placements for pharmacists. In order to place priority on achieving an excellent match with companies that have job openings, this business provides face-to-face counseling for individuals seeking either temporary or permanent positions. In the first half, this business continued to post strong growth with sales up 18.3% to 5,993 million yen and operating profit up 25.2% to 1,012 million yen.

#### **(2) Explanation of Financial Position**

Total assets increased 9,047 million yen, or 5.1%, from the end of March 2017 to 187,395 million yen at the end of September 2017. Current assets were 89,706 million yen, an increase of 7,378 million yen, or 9.0%. This was attributable mainly to an increase in cash and deposits. Non-current assets increased 1,669 million yen, or 1.7%, to 97,689 million yen.

Total liabilities increased 6,870 million yen, or 4.8%, to 148,771 million yen. This was attributable mainly to an increase in accounts payable-trade.

Net assets increased 2,176 million yen, or 6.0%, to 38,623 million yen. This was attributable mainly to an increase in retained earnings.

#### **Cash Flows**

There was a net increase of 5,044 million yen in cash and cash equivalents from the end of March 2017 to 26,244 million yen at the end of September 2017. Net cash provided by operating activities was 11,367 million yen, net cash used in investing activities 5,299 million yen, and net cash used in financing activities 1,024 million yen.

Major sources of cash flows from operating activities were profit before income taxes of 4,885 million yen and a 4,517 million yen increase in notes and accounts payable-trade. The primary use of cash was a 2,697 million yen increase in inventories.

The primary use of cash flows from investing activities was payments of 4,527 million yen for the purchase of property, plant and equipment incident mainly to new store opening in the dispensing pharmacy business and capital investments in production facilities in the pharmaceutical manufacturing and sales business.

The primary source of cash flows from financing activities was proceeds of 10,300 million yen from long-term loans payable. Cash was used mainly for repayments of long-term loans payable of 10,609 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, 2018 that was announced on April 28, 2017.

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

	(Millions of yen)	
	FY3/17 (As of Mar. 31, 2017)	Second quarter of FY3/18 (As of Sep. 30, 2017)
Assets		
Current assets		
Cash and deposits	21,200	26,244
Notes receivable-trade	73	179
Accounts receivable-trade	26,698	26,208
Electronically recorded monetary claims-operating	872	1,105
Merchandise and finished goods	21,455	24,873
Work in process	2,509	1,835
Raw materials and supplies	5,550	5,609
Other	3,975	3,656
Allowance for doubtful accounts	(7)	(5)
Total current assets	82,327	89,706
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	22,303	22,667
Land	18,016	18,073
Construction in progress	13,521	13,931
Other, net	14,671	15,352
Total property, plant and equipment	68,513	70,024
Intangible assets		
Goodwill	14,605	15,472
Other	2,167	2,339
Total intangible assets	16,773	17,811
Investments and other assets		
Investment securities	1,039	20
Lease and guarantee deposits	7,072	7,082
Other	2,621	2,749
Total investments and other assets	10,733	9,852
Total non-current assets	96,019	97,689
Total assets	178,347	187,395

(Millions of yen)

	FY3/17 (As of Mar. 31, 2017)	Second quarter of FY3/18 (As of Sep. 30, 2017)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	38,909	43,313
Electronically recorded obligations-operating	2,124	3,097
Short-term loans payable	-	100
Current portion of long-term loans payable	13,411	15,533
Income taxes payable	1,537	2,365
Provision for bonuses	2,547	2,753
Provision for directors' bonuses	117	7
Other	7,657	8,641
<b>Total current liabilities</b>	<b>66,305</b>	<b>75,813</b>
<b>Non-current liabilities</b>		
Long-term loans payable	70,678	68,247
Provision for directors' retirement benefits	949	996
Net defined benefit liability	1,294	1,374
Other	2,672	2,340
<b>Total non-current liabilities</b>	<b>75,595</b>	<b>72,957</b>
<b>Total liabilities</b>	<b>141,900</b>	<b>148,771</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	21,511	23,917
Treasury shares	(46)	(46)
<b>Total shareholders' equity</b>	<b>36,345</b>	<b>38,750</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	263	0
Remeasurements of defined benefit plans	(161)	(126)
<b>Total accumulated other comprehensive income</b>	<b>101</b>	<b>(126)</b>
<b>Total net assets</b>	<b>36,447</b>	<b>38,623</b>
<b>Total liabilities and net assets</b>	<b>178,347</b>	<b>187,395</b>

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

(Millions of yen)

	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)
Net sales	109,478	118,149
Cost of sales	90,571	96,648
Gross profit	18,906	21,500
Selling, general and administrative expenses	14,965	16,611
Operating profit	3,940	4,888
Non-operating income		
Commission fee	70	74
Rent income	197	211
Insurance return	74	-
Other	91	94
Total non-operating income	433	380
Non-operating expenses		
Interest expenses	354	332
Commission fee	9	12
Rent expenses	157	158
Other	101	129
Total non-operating expenses	622	633
Ordinary profit	3,751	4,635
Extraordinary income		
Gain on sales of non-current assets	3	0
Gain on sales of investment securities	-	360
Total extraordinary income	3	360
Extraordinary losses		
Impairment loss	34	110
Loss on sales of non-current assets	5	0
Total extraordinary losses	40	110
Profit before income taxes	3,714	4,885
Income taxes-current	1,455	2,236
Income taxes-deferred	(80)	(156)
Total income taxes	1,374	2,079
Profit	2,339	2,805
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	2,339	2,805

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

(Millions of yen)

	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)
Profit	2,339	2,805
Other comprehensive income		
Valuation difference on available-for-sale securities	(72)	(263)
Remeasurements of defined benefit plans, net of tax	33	35
Total other comprehensive income	(39)	(228)
Comprehensive income	2,300	2,577
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,300	2,577
Comprehensive income attributable to non-controlling interests	-	-

**(3) Quarterly Consolidated Statement of Cash Flows**

(Millions of yen)

	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)
Cash flows from operating activities		
Profit before income taxes	3,714	4,885
Depreciation	2,180	2,463
Impairment loss	34	110
Amortization of goodwill	370	646
Increase (decrease) in allowance for doubtful accounts	(4)	(4)
Increase (decrease) in provision for bonuses	249	204
Increase (decrease) in provision for directors' bonuses	(131)	(110)
Increase (decrease) in net defined benefit liability	70	73
Increase (decrease) in provision for directors' retirement benefits	(57)	46
Interest and dividend income	(21)	(19)
Interest expenses	354	332
Loss (gain) on sales of non-current assets	2	(0)
Loss (gain) on sales of investment securities	-	(360)
Decrease (increase) in notes and accounts receivable-trade	962	387
Decrease (increase) in inventories	(6,151)	(2,697)
Increase (decrease) in notes and accounts payable-trade	(3,395)	4,517
Increase (decrease) in accounts payable-other	(133)	1,531
Other, net	215	945
Subtotal	(1,739)	12,952
Interest and dividend income received	21	19
Interest expenses paid	(315)	(258)
Income taxes paid	(2,554)	(1,346)
Net cash provided by (used in) operating activities	(4,588)	11,367
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,976)	(4,527)
Proceeds from sales of property, plant and equipment	4	1
Purchase of intangible assets	(547)	(254)
Proceeds from sales of investment securities	-	999
Purchase of long-term prepaid expenses	(153)	(61)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,264)	(948)
Payments for transfer of business	(971)	(126)
Payments of loans receivable	(443)	(400)
Collection of loans receivable	53	44
Payments for lease and guarantee deposits	(206)	(165)
Proceeds from collection of lease and guarantee deposits	73	110
Other, net	65	27
Net cash provided by (used in) investing activities	(14,366)	(5,299)

(Millions of yen)

	First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)	First six months of FY3/18 (Apr. 1, 2017 – Sep. 30, 2017)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,200	100
Proceeds from long-term loans payable	12,500	10,300
Repayments of long-term loans payable	(2,963)	(10,609)
Redemption of bonds	(7,000)	-
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(398)	(398)
Other	(414)	(415)
Net cash provided by (used in) financing activities	3,923	(1,024)
Net increase (decrease) in cash and cash equivalents	(15,031)	5,044
Cash and cash equivalents at beginning of period	32,380	21,200
Cash and cash equivalents at end of period	17,348	26,244

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

Not applicable.

**Significant Changes in Shareholders' Equity**

Not applicable.

**Segment and Other Information**

## Segment Information

## I. First six months of FY3/17 (Apr. 1, 2016 – Sep. 30, 2016)

## 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	92,323	12,358	4,796	109,478	-	109,478
(2) Inter-segment sales and transfers	6	6,363	271	6,641	(6,641)	-
Total	92,329	18,722	5,068	116,119	(6,641)	109,478
Segment profit (loss)	4,064	1,191	808	6,063	(2,123)	3,940

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 -2,123 million yen to segment profit (loss) includes eliminations of 8 million yen for inter-segment transactions and corporate expenses of -2,131 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 (one pharmacy). The amount of this loss in the first six months of FY3/17 was 34 million yen.

## Significant change in goodwill

In the dispensing pharmacy business segment, Nihon Chouzai acquired 11 pharmacies through business transfer and purchase of shares. In the first six months of FY3/17, this acquisition caused goodwill to increase by 2,519 million yen.

## II. 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.

*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.*