

November 15, 2017

# Results of Operations for the First Half of the Fiscal Year Ending March 31, 2018 (April 1, 2017 to September 30, 2017)

 NIHON CHOUZAI Co.,Ltd.

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

Copyright 2017 Nihon Chouzai Co., Ltd. All rights reserved.

# **I. 1H FY3/18 Consolidated Financial Highlights**

# Consolidated Statement of Income

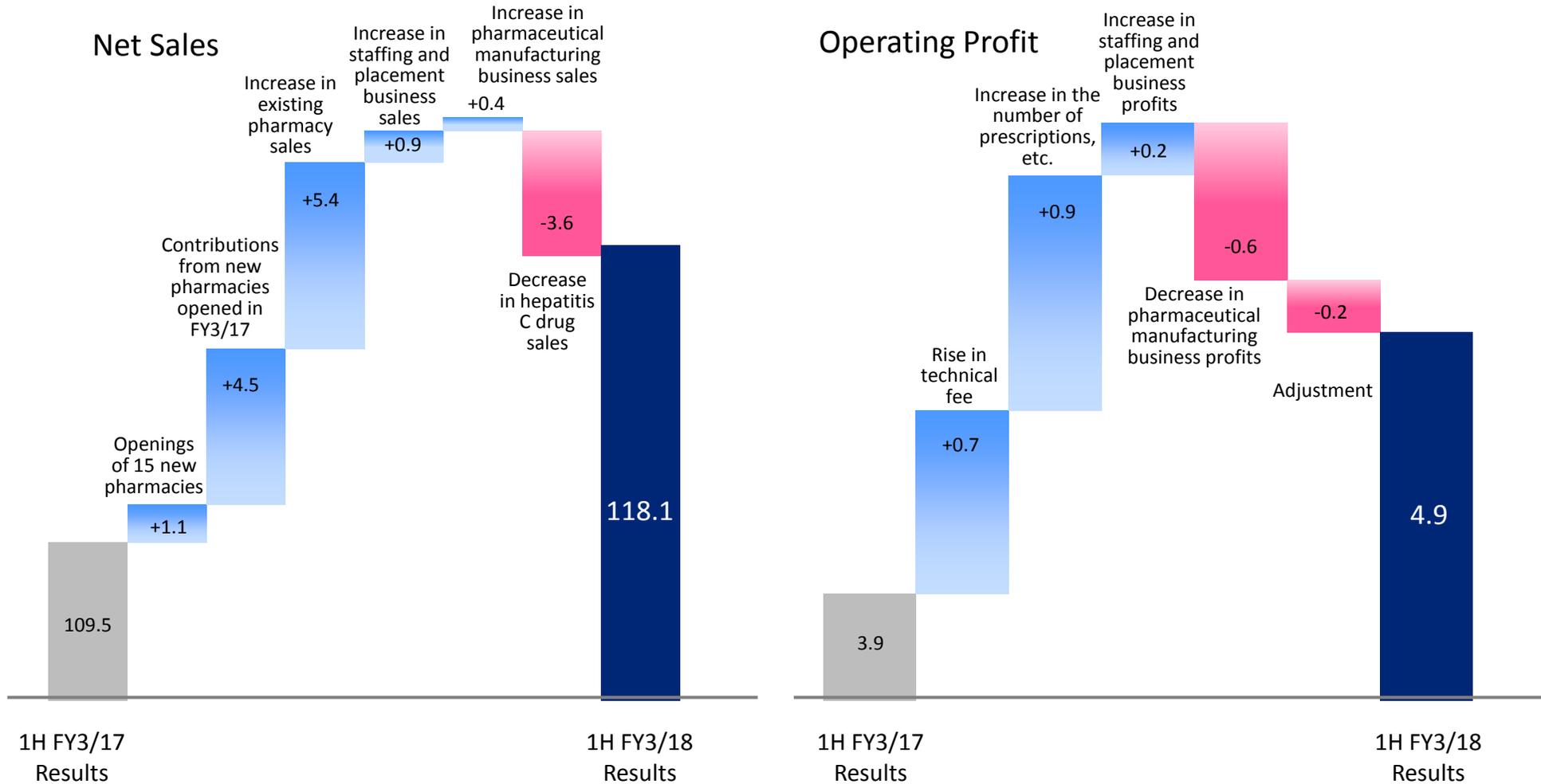
- Sales and operating profit were higher than planned and earnings increased to a new first-half record high.
- Double-digit sales growth (12.1%) over the prior year excluding hepatitis C drugs

(Millions of yen)	1H FY3/16 Results	1H FY3/17 Results	1H FY3/18 Plan	1H FY3/18 Results	YoY change	YoY growth rate	Vs. plan
Net sales	100,269	109,478	113,606	118,149	8,670	+7.9%	+4.0%
Cost of sales	82,369	90,571	93,255	96,648	6,077	+6.7%	+3.6%
Gross profit	17,900	18,906	20,350	21,500	2,593	+13.7%	+5.6%
% to sales	17.9%	17.3%	17.9%	18.2%	-	-	-
SG&A expenses	13,685	14,965	16,099	16,611	1,645	+11.0%	+3.2%
% to sales	13.6%	13.7%	14.2%	14.1%	-	-	-
Consumption taxes	5,464	5,906	5,413	6,096	190	+3.2%	+12.6%
R&D expenses	890	1,000	1,577	1,575	575	+57.5%	-0.1%
Operating profit	4,214	3,940	4,251	4,888	948	+24.1%	+15.0%
% to sales	4.2%	3.6%	3.7%	4.1%	-	-	-
Ordinary profit	3,936	3,751	4,115	4,635	884	+23.6%	+12.6%
% to sales	3.9%	3.4%	3.6%	3.9%	-	-	-
Profit attributable to owners of parent	2,471	2,339	2,231	2,805	466	+19.9%	+25.7%
% to sales	2.5%	2.1%	2.0%	2.4%	-	-	-
Net income per share (Yen)	176.23	146.26	139.53	175.42	29.16	+19.9%	+25.7%

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

- The dispensing pharmacy business was the main source of sales and operating profit growth. The medical professional staffing and placement business continued to grow rapidly. Earnings were down in the pharmaceutical manufacturing and sales business because of heated price competition and higher expenses.

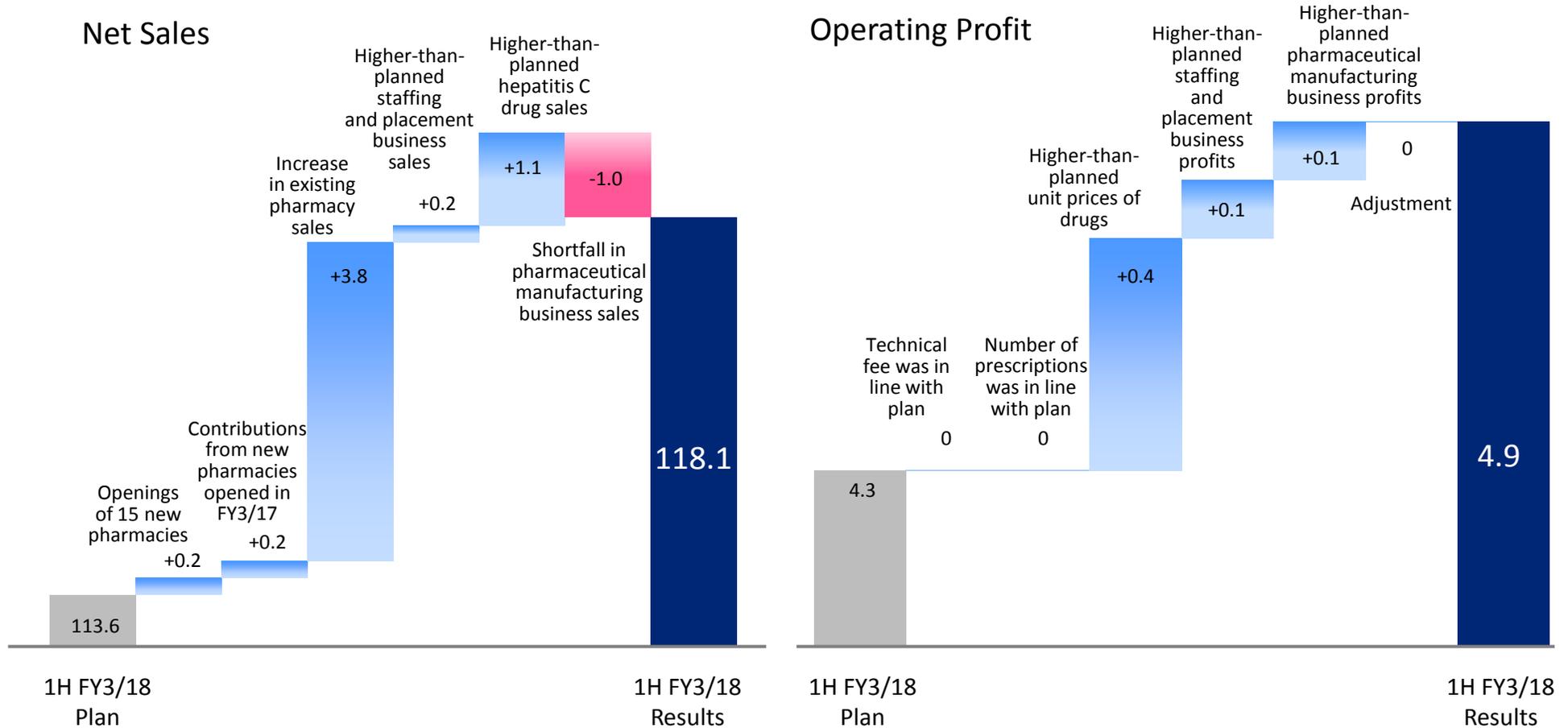
(Billions of yen; figures are rounded to the nearest 100 million yen)



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

- The dispensing pharmacy business benefited from higher existing pharmacy sales and a big increase in unit prices of drugs.
- Operating profit exceeded the plan in all three segments.

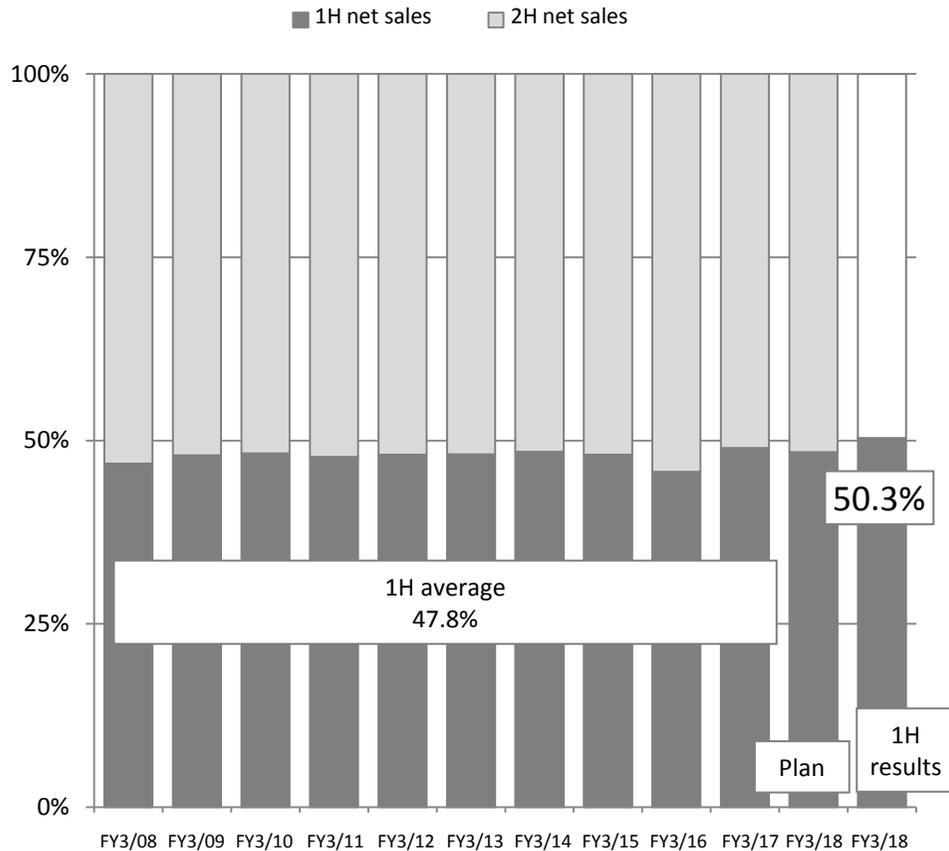
(Billions of yen; figures are rounded to the nearest 100 million yen)



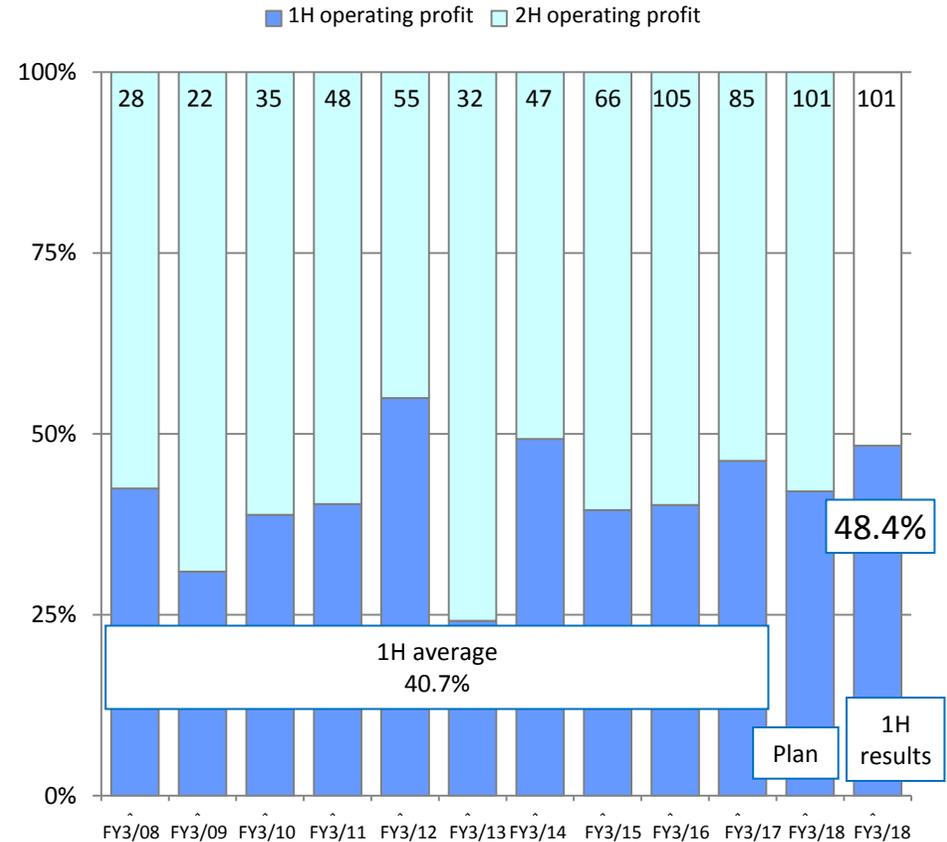
# Consolidated Results: First and Second Half Sales and Operating Profit

- 1H sales and operating profit were much higher as a pct. the FY total (estimate for FY3/18) than the average for the past 10 years.
- All businesses are determined to reach the FY3/18 plan, backed in part by the tendency for 2H performance to be higher than the 1H in the dispensing pharmacy industry.

## Net Sales



## Operating Profit



# Consolidated Balance Sheet

- Current assets increased mainly due to a ¥5 billion increase in cash and deposits.
- Current liabilities increased mainly due to a ¥4.4 billion increase in accounts payable-trade because inventories increased and Sep. 30 was a bank holiday.

(Millions of yen)	End of Sep. 2016 (1H FY3/17)	End of Mar. 2017 (FY3/17)	End of Sep. 2017 (1H FY3/18)	Change from the end of the FY3/17	Change from the end of the FY3/17 (%)
Current assets	75,713	82,327	89,706	7,378	+9.0%
Non-current assets	84,064	96,019	97,689	1,669	+1.7%
Property, plant and equipment	60,781	68,513	70,024	1,511	+2.2%
Intangible assets	12,608	16,773	17,811	1,038	+6.2%
Investments and other assets	10,674	10,733	9,852	-880	-8.2%
<b>Total assets</b>	<b>159,777</b>	<b>178,347</b>	<b>187,395</b>	<b>9,047</b>	<b>+5.1%</b>
Current liabilities	67,732	66,305	75,813	9,508	+14.3%
Non-current liabilities	57,672	75,595	72,957	-2,637	-3.5%
<b>Total liabilities</b>	<b>125,404</b>	<b>141,900</b>	<b>148,771</b>	<b>6,870</b>	<b>+4.8%</b>
<b>Total net assets</b>	<b>34,372</b>	<b>36,447</b>	<b>38,623</b>	<b>2,176</b>	<b>+6.0%</b>
Shareholders' equity	34,372	36,447	38,623	2,176	+6.0%
<b>Equity ratio</b>	<b>21.5%</b>	<b>20.4%</b>	<b>20.6%</b>	-	-

# Consolidated Statement of Cash Flows

- Operating cash flows improved significantly resulting from the end of the one-time negative impact of hepatitis C drugs.

(Millions of yen)	1H FY3/16	1H FY3/17	1H FY3/18	YoY change
Net cash provided by (used in) operating activities	7,435	-4,588	11,367	15,956
Profit before income taxes	3,845	3,714	4,885	1,171
Depreciation	2,124	2,180	2,463	283
Amortization of goodwill	-	-	646	-
Decrease (increase) in notes and accounts receivable-trade	-920	962	387	-575
Decrease (increase) in inventories	-2,917	-6,151	-2,697	3,453
Increase (decrease) in notes and accounts payable-trade	5,318	-3,395	4,517	7,913
Cash flows from investing activities	-3,329	-14,366	-5,299	9,067
Purchase of property, plant and equipment	-2,961	-10,976	-4,527	6,449
Payments for transfer of business	-	-971	-126	844
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-226	-1,264	-948	315
Cash flows from financing activities	2,403	3,923	-1,024	-4,947
Net increase (decrease) in cash and cash equivalents	6,509	-15,031	5,044	20,075
Cash and cash equivalents at beginning of period	13,844	32,380	21,200	-11,180
Cash and cash equivalents at end of period	20,354	17,348	26,244	8,895

# FY3/18 Consolidated Forecast

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Plan	YoY change	YoY growth rate
Net sales	219,239	223,468	234,697	11,229	+5.0%
Cost of sales	180,171	184,210	192,436	8,226	+4.5%
Gross profit	39,068	39,258	42,261	3,003	+7.6%
% to sales	17.8%	17.6%	18.0%	-	-
SG&A expenses	28,578	30,738	32,155	1,416	+4.6%
% to sales	13.0%	13.8%	13.7%	-	-
Consumption taxes	11,483	11,600	10,684	-915	-7.9%
R&D expenses	1,913	2,388	3,116	727	+30.5%
Operating profit	10,489	8,519	10,105	1,586	+18.6%
% to sales	4.8%	3.8%	4.3%	-	-
Ordinary profit	9,878	7,976	9,804	1,828	+22.9%
% to sales	4.5%	3.6%	4.2%	-	-
Profit attributable to owners of parent	6,329	4,638	5,639	1,000	+21.6%
% to sales	2.9%	2.1%	2.4%	-	-
Net income per share (Yen) <sup>note</sup>	432.85	290.03	352.59	62.56	+21.6%
Dividend per share (Yen)	45	50	50	0	+0.0%

Note: Nihon Chouzai conducted a 2-for-1 stock split effective in October 2015. Net income per share for FY3/16 has been calculated as if this stock split had taken place at the beginning of the fiscal year.

# Dispensing Pharmacy Business / Statement of Income

- Sales and operating profit were higher than planned and earnings increased to a new first-half record high.
- Sales increased 13.3% YoY excluding hepatitis C drugs.

(Millions of yen)	1H FY3/16 Results	1H FY3/17 Results	1H FY3/18 Plan	1H FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY3/18 Plan
Net sales	87,208	92,329	95,128	100,011	7,681	+8.3%	+5.1%	196,681
Cost of sales	74,148	78,825	80,638	84,007	5,181	+6.6%	+4.2%	166,685
Gross profit	13,059	13,504	14,489	16,003	2,499	+18.5%	+10.5%	29,995
% to sales	15.0%	14.6%	15.2%	16.0%	-	-	-	15.3%
SG&A expenses	8,807	9,439	9,512	10,386	946	+10.0%	+9.2%	18,975
% to sales	10.1%	10.2%	10.0%	10.4%	-	-	-	9.6%
Operating profit	4,252	4,064	4,977	5,617	1,553	+38.2%	+12.9%	11,019
% to sales	4.9%	4.4%	5.2%	5.6%	-	-	-	5.6%
No. of pharmacies at the end of each period	522	545	576	569	24	+4.4%	-1.2%	607
Prescription drug sales per pharmacy <sup>note</sup>	168	172	167	177	5	+3.1%	+5.8%	327

## YoY Growth Rate by Year of Opening

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

	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	+2.2%	+1.2%	+0.9%
Pharmacies opened in FY3/17	+326.4%	+228.1%	+9.9%
Total	+8.1%	+6.9%	+1.1%

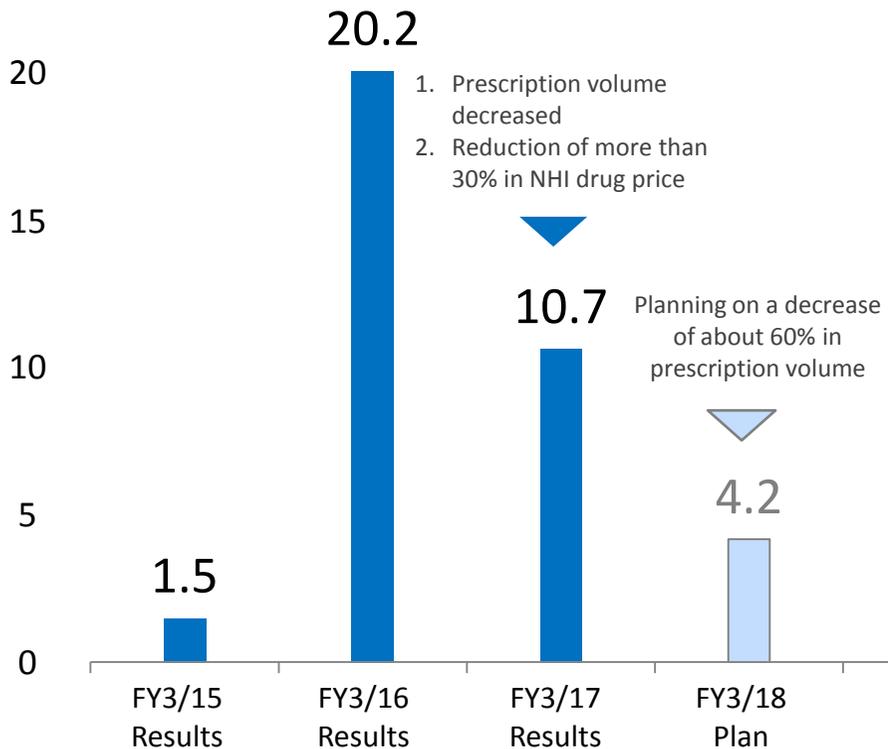
No. of prescriptions: 6,752,000 +6.9% YoY  
 Prescription unit prices: 14,628 yen +1.1% YoY  
 Excluding hepatitis C drugs: 14,121 yen +5.8% YoY

# Dispensing Pharmacy Business / Hepatitis C Drug Sales

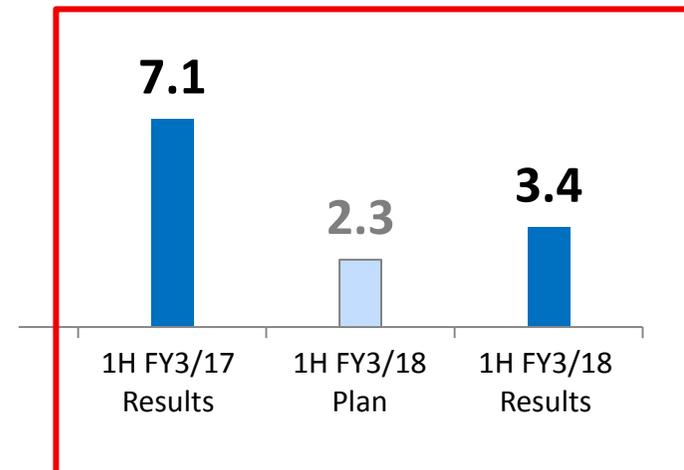
- Hepatitis C drug sales were down ¥3.7 billion from one year earlier but ¥900 million above the 1H plan.
- Lower sales of these drugs reduced the 1H sales growth rate by about 5 pct. points (1H sales increased 13.3% excluding hepatitis C drugs).

## Hepatitis C Drug Sales

(Billions of yen)  
25



(Figures are rounded to the nearest 100 million yen)

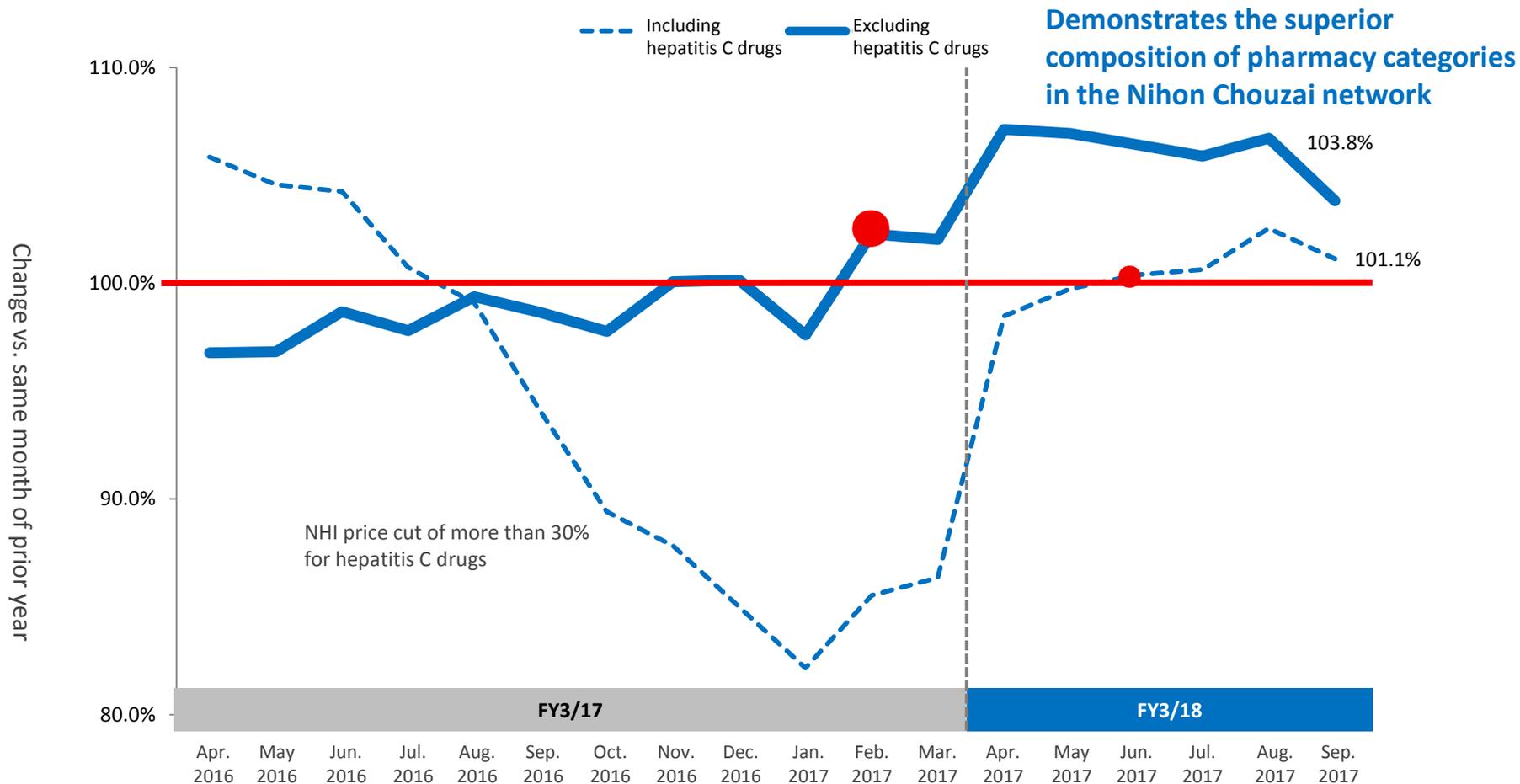


# Dispensing Pharmacy Business / Progress with Improving Drug Fees

- Excluding hepatitis C drugs, the unit price of drugs has been higher than one year earlier every month since February 2017.

→ Even including these drugs, the unit price of drugs has been higher every month since June 2017.

## Improvement in Unit Prices of Drugs

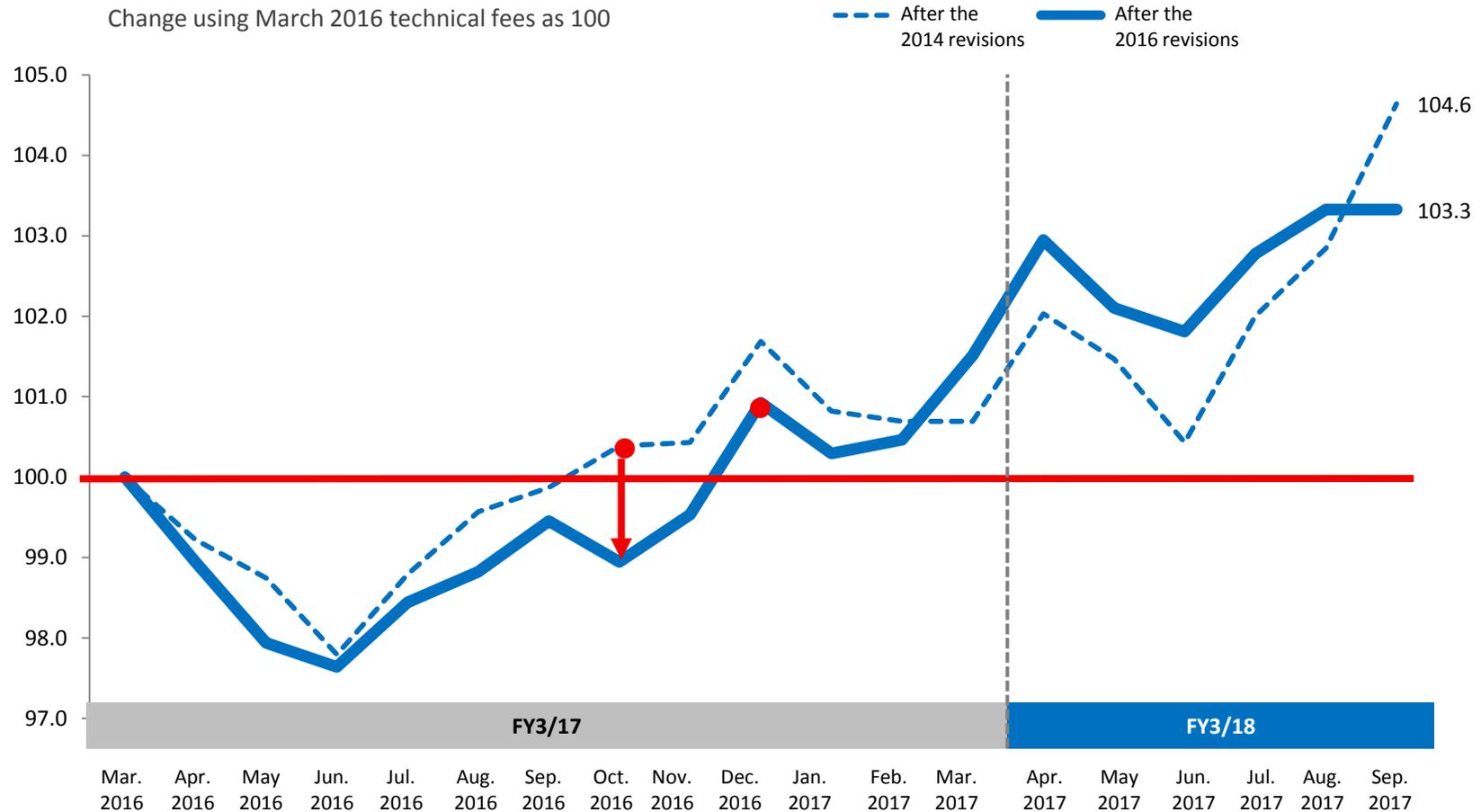


Note: In April 2016, the NHI price for hepatitis C drugs was cut by more than 30%; separate figures are shown above for total performance and performance excluding hepatitis C drugs.

# Dispensing Pharmacy Business / Progress with Increasing Technical Fees-1

- Technical fees recovered to the pre-revision level by the end of FY3/17 → This recovery will raise earnings in FY3/18.
- Ability to adapt to government policies (Vision of Pharmacies for Patients, etc.) → A powerful organization

## Progress with Increasing Technical Fees



Note: For reference, the improvement following the previous prescription dispensing fee revision in April 2014 is shown using March 2014 technical fees as 100.

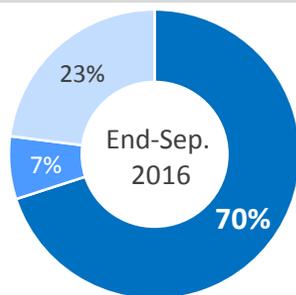
# Dispensing Pharmacy Business / Progress with Increasing Technical Fees-2

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.

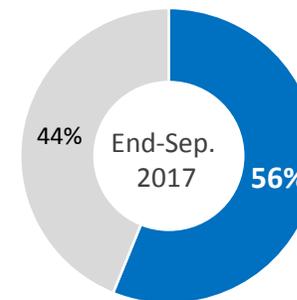
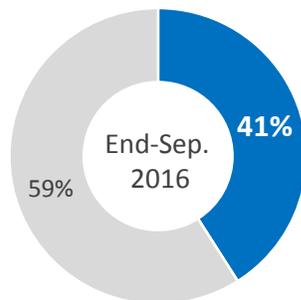
**Note: Figures on this page include all pharmacies, including newly opened locations.**

## Basic Dispensing Fee



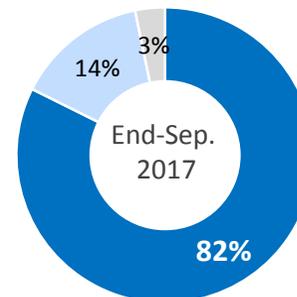
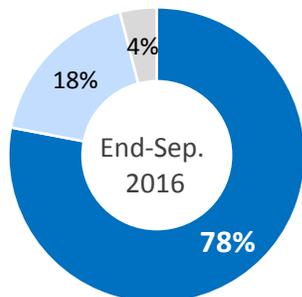
- Basic fee 1 (41pt)
- Basic fee 2 (25pt)
- Basic fee 3 (20pt)

## 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%)

# Pharmaceutical Manufacturing and Sales Business / Statement of Income

(Millions of yen)	1H FY3/16 Results	1H FY3/17 Results	1H FY3/18 Plan	1H FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY3/18 Plan
Net sales	15,367	18,722	20,174	19,213	490	+2.6%	-4.8%	41,500
Cost of sales	12,260	15,307	16,595	15,965	657	+4.3%	-3.8%	33,932
Gross profit	3,106	3,414	3,579	3,248	-166	-4.9%	-9.3%	7,567
% to sales	20.2%	18.2%	17.7%	16.9%	-	-	-	18.2%
SG&A expenses	1,896	2,223	3,075	2,609	386	+17.4%	-15.1%	5,894
% to sales	12.3%	11.9%	15.2%	13.6%	-	-	-	14.2%
Operating profit	1,210	1,191	503	638	-553	-46.4%	+26.7%	1,673
% to sales	7.9%	6.4%	2.5%	3.3%	-	-	-	4.0%

## Components of YoY changes

### ◆ Net sales

1. Internal sales: Increases with growth in the number of group pharmacies (higher sales)
2. External sales: Affected by competition among drug manufacturers (flat sales)

### ◆ Operating profit

1. Increase in R&D expenditures (lower profit)
2. Increase in depreciation resulting from the purchase of equipment (lower profit)
3. Decrease in gross profit margin caused by price-based competition (lower profit)

# Medical Professional Staffing and Placement Business / Statement of Income

(Millions of yen)	1H FY3/16 Results	1H FY3/17 Results	1H FY3/18 Plan	1H FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY3/18 Plan
Net sales	4,188	5,068	5,788	5,993	925	+18.3%	+3.5%	12,000
Cost of sales	2,416	3,053	3,483	3,634	580	+19.0%	+4.3%	7,265
Gross profit	1,772	2,014	2,304	2,359	345	+17.1%	+2.4%	4,734
% to sales	42.3%	39.7%	39.8%	39.4%	-	-	-	39.5%
SG&A expenses	951	1,205	1,347	1,346	141	+11.7%	+0.0%	2,734
% to sales	22.7%	23.8%	23.3%	22.5%	-	-	-	22.8%
Operating profit	820	808	957	1,012	203	+25.2%	+5.7%	2,000
% to sales	19.6%	16.0%	16.5%	16.9%	-	-	-	16.7%

## Components of YoY changes

### ◆ Net sales

1. Growth of the pharmacist temporary staffing business because of the shortage of pharmacists in Japan (higher sales)
2. Growth of the pharmacist placement business resulting from a revision in the personnel placement system (higher sales)

### ◆ Operating profit

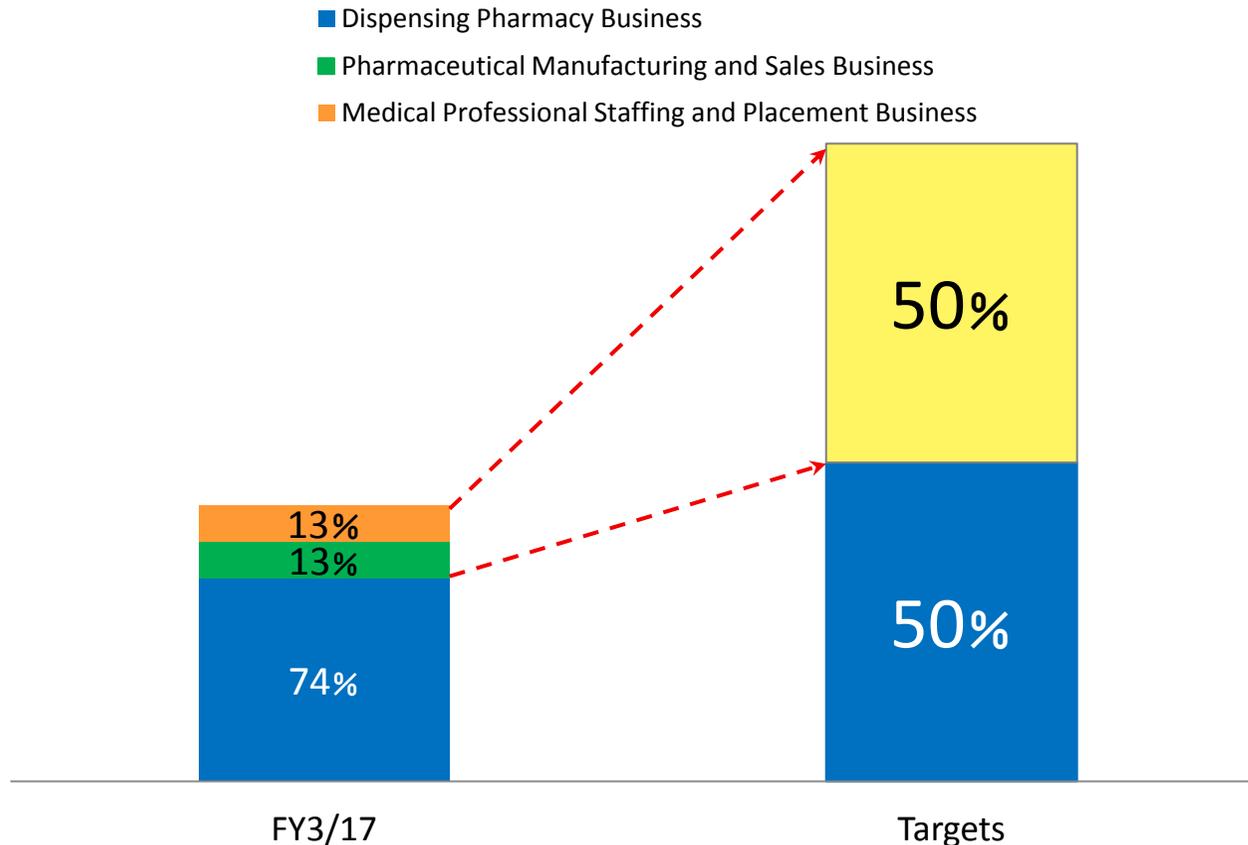
1. Higher sales contributed to earnings (higher profit)
2. Lower SG&A ratio due to cost controls (higher profit)
3. Growth of the placement business, which has a high gross profit margin (higher profit)

## **II. FY3/18 Management Strategies of the Nihon Chouzai Group**

# Business Portfolio Strategy

- The goals are growth of the core dispensing pharmacy business and growth of other businesses with high profit margins.
- For operating profit, the current goal is to raise earnings from all operations other than the dispensing pharmacy business to more than half of total earnings.

## Composition of Operating Profit



# Dispensing Pharmacy Business / Pharmacy Portfolio

- Speed up mergers and acquisitions while maintaining strict standards
- Speed up the addition of MC\*, “*mentaio*” and hybrid pharmacies

\*MC is medical mall pharmacies

## Total No. of Pharmacies (end of September 2017)

569 pharmacies (Including one location specializing in the sales of general merchandise)

	1H FY3/18
Opened	15
Hospital-front pharmacies	8
MC / “ <i>mentaio</i> ” pharmacies	7
Closed	3
No. of pharmacies at the end of each period	569

➡ A faster pace of mergers and acquisitions  
 ➡ Open hybrid\* pharmacies faster in Japan’s three major metropolitan areas, where pharmacy operating efficiency is high.

\* Hybrid pharmacies combine the growth of “*mentaio*” pharmacies with the stability of MC pharmacies.

## Store Openings by Region (end of September 2017)

Hokkaido	47
Tohoku	43
Kanto/Koshinetsu	300
Tokai	51
Kansai/Hokuriku	59
Chugoku/Shikoku	33
Kyushu/Okinawa	36
Total	569

## Store Openings (No. of pharmacies)

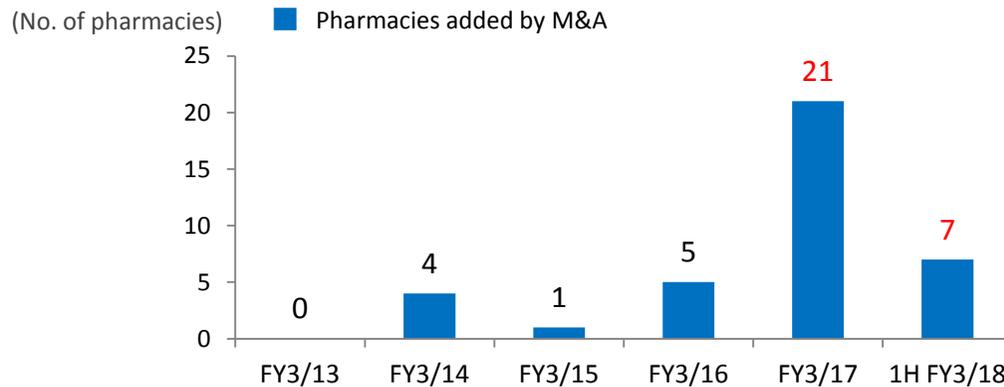
	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	1H FY3/18
Opened	59	37	29	27	42	15
Organic growth	59	33	28	22	21	8
M&A	-	4	1	5	21	7
Closed	10	9	12	11	12	3
No. of pharmacies at the end of each period	466	494	511	527	557	569

Revisions to prescription dispensing fees significantly influence M&A activity involving small pharmacies; the scale of operations and pharmacy functions are critical points.

# Dispensing Pharmacy Business / Pharmacy Portfolio M&A Growth

- M&A targeting large pharmacies with advanced pharmacology management capabilities (Hospital-front pharmacies = Advanced pharmacology management function)
- Nihon Chouzai's experience with upgrading the capabilities of existing pharmacies makes it possible to acquire pharmacies that need revitalization.

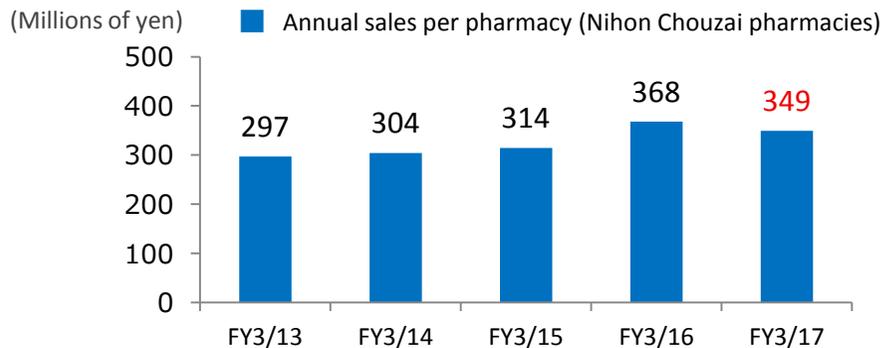
## M&A Strategy



	FY3/17	1H FY3/18
Pharmacies added by M&A	21	7
Annual sales per pharmacy prior to acquisition by Nihon Chouzai (Millions of yen)	427	318

(Figures are rounded to the nearest million yen)

## Prescription Drug Sales per Pharmacy



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

### The pharmacy M&A environment

- Increase in the number of small deals
- More revitalization deals following the most recent prescription dispensing fee revision
- Expect the next revision to create a very challenging business climate for all pharmacies
- Anticipate more growth in revitalization M&A activity

### M&A priorities

- Pharmacies with resilience to increasingly challenging prescription dispensing fee revisions
- Strong existing pharmacies provide a base for revitalization M&A activities

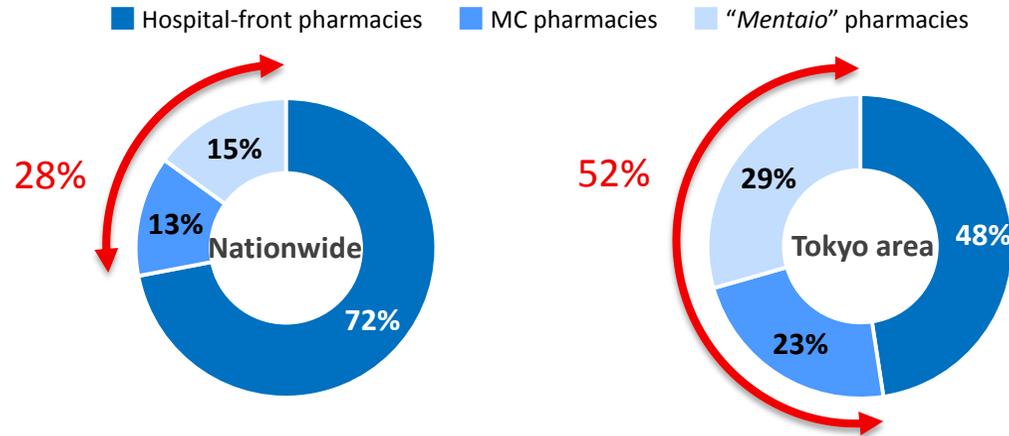
Hospital-front pharmacies located adjacent to university hospitals or local core hospitals are positioned as locations with advanced pharmacology management function.

# Dispensing Pharmacy Business / Pharmacy Portfolio Organic Growth

- MC and “*mentaio*” pharmacies have already been raised to 52% of all locations in the Tokyo area.
- Speed up openings of hybrid pharmacies combining the growth of the “*mentaio*” format and stability of the MC format

## Pharmacy Portfolio (1H FY3/18)

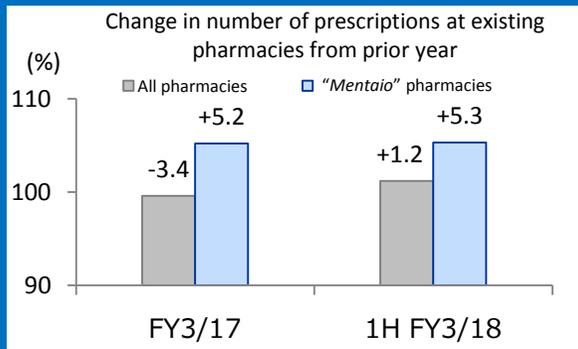
→ Moving faster to expand outside Tokyo by opening pharmacies in the Osaka and Nagoya areas



## Phases of Pharmacy Portfolio Expansion

	“Mentaio” + MC	Phase
FY3/10	122 pharmacies	Phase I Increased pace of opening “ <i>mentaio</i> ” pharmacies
FY3/11		
FY3/12		
FY3/13		
FY3/14	32 pharmacies	Phase II Profitability of “ <i>mentaio</i> ” pharmacies and focus on opening MC pharmacies
FY3/15		
FY3/16		
FY3/17		
1H FY3/18	7 pharmacies	Phase III Focus on opening hybrid pharmacies

## The Fast Growth of “Mentaio” Pharmacies



Average annual growth in the number of prescriptions at “*mentaio*” pharmacies operating for at least five years

**+8.5%**

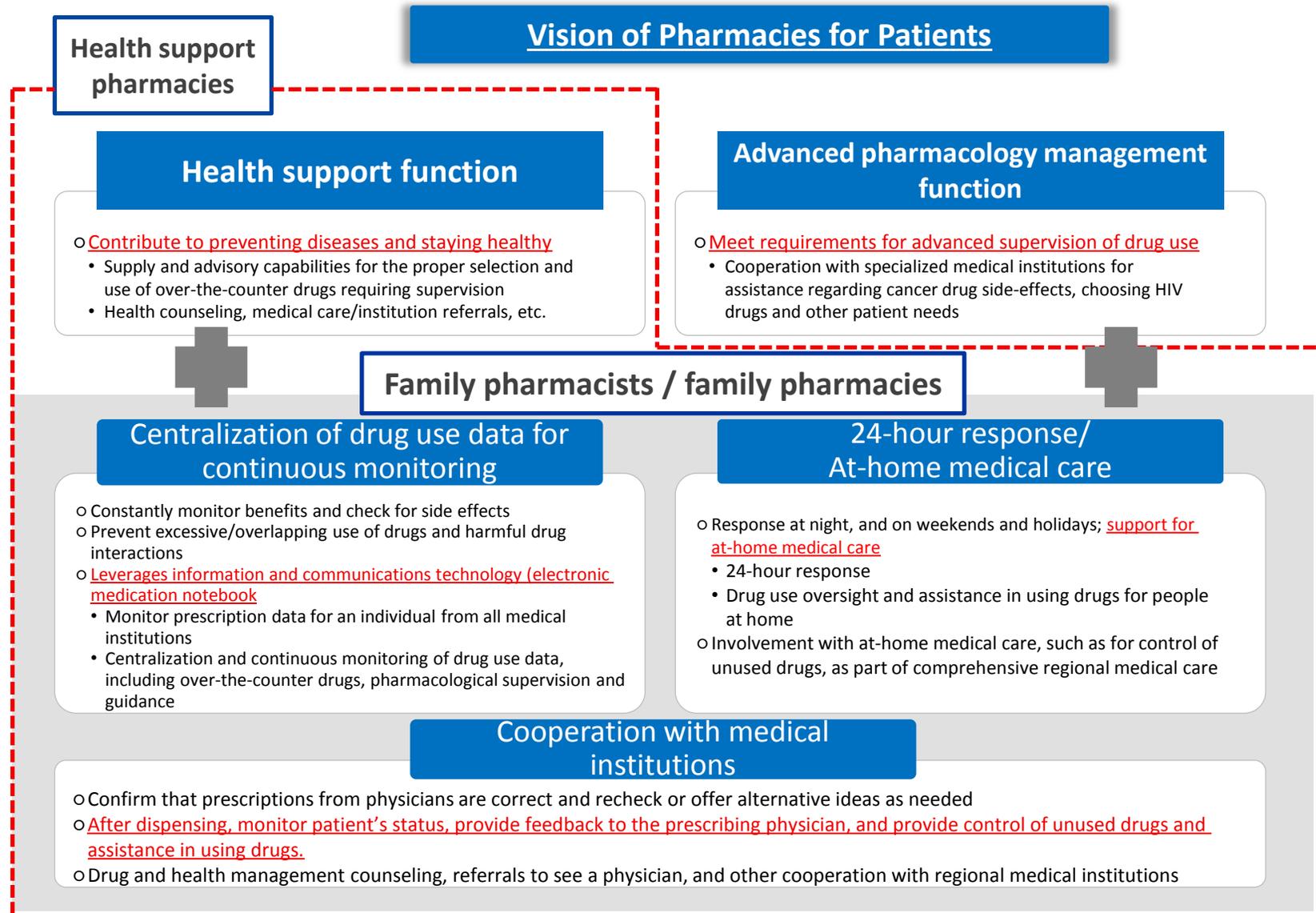
(March 2013 to March 2017)

Appointed people responsible solely for overseeing MC and “*mentaio*” pharmacy operations in the Osaka and Nagoya areas. Established and then enlarged the first and second MC/“*mentaio*” sales departments in September.

MC/“*mentaio*” pharmacies are positioned as pharmacies with a health support function.

# Dispensing Pharmacy Business / Vision of Pharmacies for Patients

- Activities have started with the goal of creating next-generation pharmacies based on this vision.



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

- “Okusuri Techo Plus” (an electronic medication notebook) permits managing **medical data** and **health data**
- Adds a Personal Health Record function to “Okusuri Techo Plus”

日本調剤 電子お薬手帳 **スマホを使って服薬情報管理**

## お薬手帳 **+** プラス Okusuri Techo Plus

**機能説明**

お薬手帳プラスは、日々の服薬状況が確認できるだけでなく、手軽に薬局へ処方せん情報を送信できたり、体調管理のための日々の健康記録、カレンダー&飲み忘れチェック\*など、さまざまな機能を持っています。紙のお薬手帳の代わりににも使えるようになりました。

\*本会員へのサービス

### Send a prescription to a Nihon Chouzai pharmacy



処方せんを撮影して、ご希望の日本調剤の薬局に送信。

お薬ができるまでの時間を有効活用できます。

お知らせが届いたら薬局へ。スムーズにお薬を受け取れます。

\*処方せんの有効期限内(原則発行日きめ4日以内)にご来店いただく必要があります。

### Electronic medication notebook

- あなたのお薬手帳の情報(服薬情報)をスマートフォンに登録、確認することができます。
- 他薬局で調剤された服薬情報(JAHIS標準QRコード)を読み込むこともできます。

**本会員になると...** 日本調剤の薬局でお受け取りいただいたお薬については服薬情報が自動的に反映されるので毎回の入力作業はいりません。



### Health maintenance records

- 日々の体調変化を入力し、数値・グラフで確認できます。

体重・BMI 歩数・中強度 血圧・脈拍 血糖値 検査記録

**本会員になると...** 血圧計、血糖測定器などのヘルスケア機器との自動データ連携機能もお使いいただけます。  
\*NFC通信に対応したAndroid機種のみ



### Health Contents

- ご自身の健康管理やヘルシーなライフスタイルをサポートするお役立ちコンテンツをご用意しました。
- こころを軽くする「認知行動療法」の体験ができる「こころの休憩室」や、精神科医・大野裕先生からのメッセージが届く「こころトーク」(有料)がスタート。



### Calendar function 本会員のみ

- 病院や薬局の通院記録(医療機関の名称、医療費、交通費等)、通院予定日(アラームと連動)などを管理することができます。
- 服薬時間をアラームやポップアップでお知らせし、服薬状況を記録することができます。



### Centralized management of family data 本会員のみ

- 登録した1台のスマートフォンで、複数(人数無制限)のユーザーの服薬情報を共有できます。
- 日本調剤の薬局をご利用であれば、おさまや遠方のご家族などの服薬情報や健康記録も確認できます。

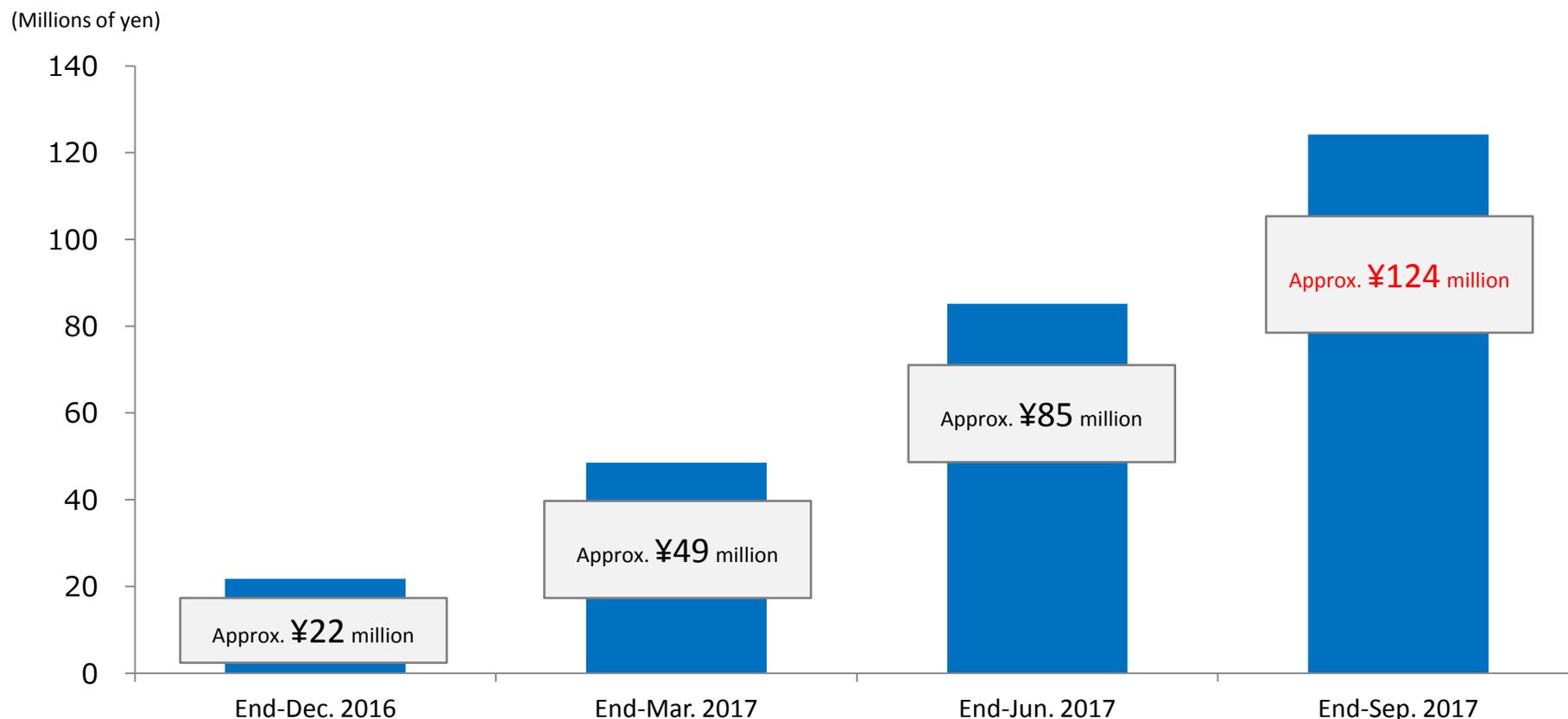


2016MAR① 

# Dispensing Pharmacy Business / Unused Drug Adjustment Cuts Drug Expenses

- People who used the medication notebook to manage drug use reduced the cost of drugs by about 124 million yen during the year to September 2017 due to adjustments by family pharmacists to the amount of drugs dispensed to reduce left-over/unused drugs.

## Cumulative Reduction due to Left-over/Unused Drug Adjustment

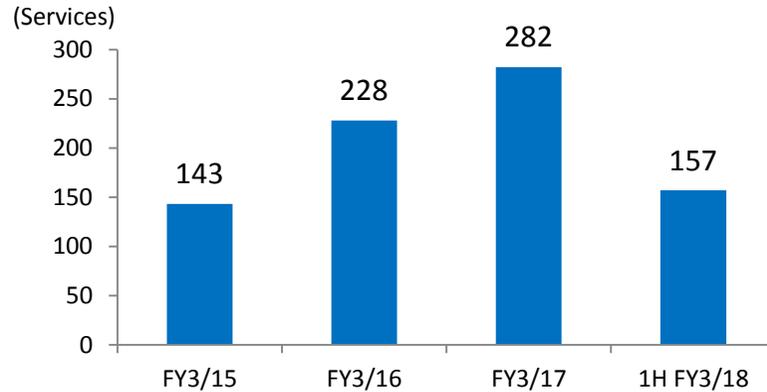


Fees paid to pharmacies with no unused drug adjustments may be reexamined at the next prescription dispensing fee revision.

# Dispensing Pharmacy Business / At-home Medical Care Initiatives

- 21 pharmacist at-home medical care training seminars at 16 locations with participation of about 600 pharmacists (FY3/17)
- Sterile procedure training conducted mainly for pharmacists specializing in at-home medical care (assigned to the At-home Medical Care Department)

## At-home Medical Care Services Provided per Pharmacy



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

97.0%

## Major At-home Medical Care Activities



- Training of pharmacists specializing in at-home medical care



- Sterile rooms for drug dispensing



- Use iPads for patient information
- Collaboration with physicians/nursing care providers

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)

# Dispensing Pharmacy Business / Cooperation and Interaction with Medical Institutions

- An increasing number of hospitals are using prescription tracking reports.
- Pharmacies must play a more active role when working with medical institutions.
- Tracking improves the safety and efficacy of drug use, helping hold medical expenses to a suitable level.

## Tracking report activities at Nihon Chouzai

- ◆ 79.2% of all pharmacies were performing prescription tracking (as of Oct. 31, 2017)

Tracking reports are used to provide information that facilitates the proper use of medications as part of cooperation and interaction with medical institutions.

“Following the addition of examination value and tracking report columns in the prescription forms of the hospitals that is the main source of prescriptions, Nihon Chouzai’s Marutamachi Pharmacy in Kyoto started using tracking reports. This strengthened cooperation with this hospital, such as by performing either tracking reports or checking unclear items as needed depending on the circumstances.”

\* Excerpt from an oral presentation titled “Changes in quality of unclear item checking associated with examination value records – Aiming for more cooperation with medical institutions” at the 10th seminar of The Pharmacy Society of Japan

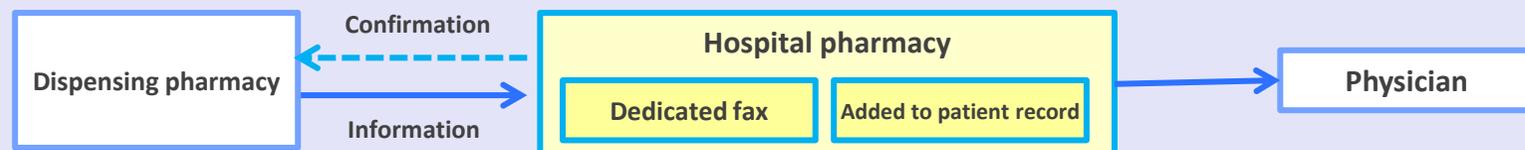


### Flowchart for unclear item checks and tracking reports for prescriptions filled outside a hospital

Normal checking – When an immediate response is needed



Tracking report system – Fax information is added to the patient’s record



# Dispensing Pharmacy Business / Health Support Function

- Operation of health check-up stations to help people stay healthy
- Goal is extensive involvement with individuals for prevention prior to the emergence of diseases

## The objective of Nihon Chouzai's health support activities

By encouraging people to stay healthy and providing information, Nihon Chouzai aims to earn the trust of the public as well as health care and nursing care professionals. This will result in pharmacists and pharmacies that perform valuable roles as a part of the community-based integrated care system.

### First Step (FY3/17)

Health support activities started at three pharmacies:

3 pharmacies

### Second Step (FY3/18)

Start health support activities at two or three pharmacies belonging to each Nihon Chouzai branch:

30-40 pharmacies

### Third Step (Next few years)

Add health support to more pharmacies while reflecting the characteristics and requirements of each region:

100-150 pharmacies

**Add** health support **mainly to “*mentaio*” and MC pharmacies** while taking into account the store size, population of the area served, market share and other properties of individual pharmacies.

Use health support services to create pharmacies that can compete and win by attracting large numbers of people.

# Dispensing Pharmacy Business / Health Support Function

- Use health check-up stations to help people prevent diseases
- Hold Health Fairs mainly at pharmacies but also in other public facilities

## Examples of Health Fair Activities

Drug consultations

Bone density measurements

Blood vessel and skin age measurements

Body composition measurements

Blood pressure and sodium measurements

Stop-smoking consultations

Stress check

Seminar to prevent falls

Drug and nutrition consultations

Children's drug consultations

Prevention of heat stroke

Dementia seminar

Summer fatigue prevention seminar



Blood vessel and skin age measurements



Body composition measurements



Checking HbA1c and cholesterol

More than 200 Health Fairs were held between April and September 2017 throughout Japan and more activities are planned to help people prevent diseases.

# Dispensing Pharmacy Business / Advanced Pharmacology Management

- Advanced pharmacology management requires cooperation with specialized medical institutions and assistance regarding cancer drug side-effects.
- Nihon Chouzai will continue to train pharmacists for certification as outpatient cancer treatment pharmacists.

## Outpatient cancer treatment pharmacist certification by the Japanese Society of Pharmaceutical Oncology (JASPO)

- 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

### Requirements for certification

- Licensed pharmacist in Japan and outstanding character and knowledge as a pharmacist
- At least three years of experience as a pharmacist
- JASPO member with no late dues at the time of the application
- Any one of the following: certified for completion of Japanese Society of Hospital Pharmacists Lifetime Care Seminar; certified based on a lifetime care seminar program certified by the Council on Pharmacists Credentials; pharmacist certified by the Japanese Society of Pharmaceutical Health Care and Sciences; level 5 of the JPALS Clinical Ladder of the Japan Pharmaceutical Association lifetime care support system
- Receipt of at least 60 units for cancer domain classes or training certified by JASPO
- Submission of reports on at least 10 cases where support was provided to an outpatient cancer patient
- Pass the JASPO outpatient cancer treatment pharmacist certification test

With pharmacies that serve 42% of the university-affiliated hospitals in Japan, Nihon Chouzai already has much experience with advanced medical care.

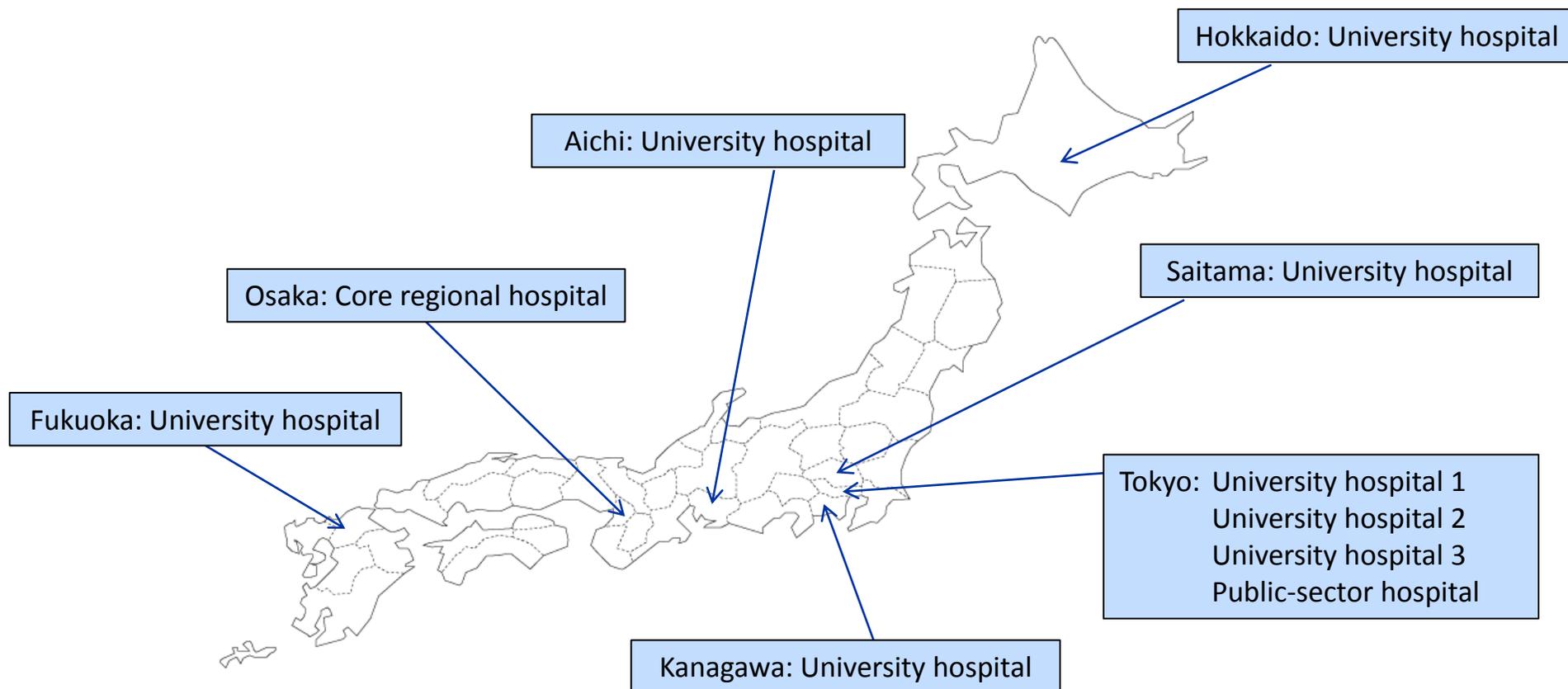
As of September 30, 2017, 26 Nihon Chouzai pharmacists were undergoing training for certification as outpatient cancer treatment pharmacists.

Nihon Chouzai will continue to increase activities involving advanced pharmacology management.

Nihon Chouzai will continue to develop a team of pharmacists with advanced pharmacology management skills required to process the prescriptions of hospitals providing advanced medical care.

# Dispensing Pharmacy Business / Advanced Pharmacology Management

- Acquiring advanced medical care knowledge by participating in seminars of university, public-sector and core regional hospitals
- Nihon Chouzai attendance of 31 people at seminars of 10 hospitals (as of Oct. 31, 2017)



Nihon Chouzai will continue use hospital seminars, mainly by university hospitals, to develop a team of pharmacists with advanced pharmacology management skills.  
Adding these skills will allow Nihon Chouzai to be a winner as only the strongest hospital-front pharmacies survive in the coming years.

# Dispensing Pharmacy Business / Extensive Training for Family Pharmacists and Family Pharmacy Operations

- Increase family pharmacist and pharmacy activities to reflect the Vision of Pharmacies for Patients
- The focus of pharmacy operations is shifting from selling products to serving people; this requires more specialized knowledge.

## Family pharmacist and pharmacy activities (as of November 2017)

- Pct. of family pharmacists: 45.9%  
(No. of family pharmacists / all Nihon Chouzai Group pharmacists)
- Pharmacies with a family pharmacist: 89.6%

- Major requirements for family pharmacists
- 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

## Human Resources (Comprehensive training: Recruiting → Retention → Upgrade skills)

- Strengthening the recruiting section to hire people with outstanding skills
- Separating regional and nationwide recruiting; a system that allows individuals to remain at the same pharmacy
- Support for female employees by using alliances with two external childcare companies and a major babysitting company
- Continue job rotations as part of pharmacist training (transfers among hospital-front, MC and “*mentaio*” pharmacies, etc.)
- Strong support for pharmacist training certification, health support pharmacy training, outpatient cancer treatment pharmacist certification and other training programs

# Dispensing Pharmacy Business / Action with the Dai-ichi Life Group Alliance

- An alliance between Nihon Chouzai and the Dai-ichi Life Group started on Feb. 20, 2017.
- This is the first joint undertaking by a major life insurer and a large pharmacy chain.

- **Sale of Dai-ichi Life Group insurance at some Nihon Chouzai pharmacies**
- **Consider using the “Okusuri Techo Plus” app to provide services to Dai-ichi Life Group policyholders**
- Joint activities using Health Check-up Station to provide public education about staying healthy
- Consider the joint development of insurance products and services by Dai-ichi Life, Neo First Life and Nihon Chouzai

## The first alliance business!

Sales of Neo First Life insurance started on May 29

Started opening Nihon Chouzai  
Insurance Shops



There were 10 of  
these shops at the  
end of Oct. 2017

## The second alliance business!

The Dai-ichi Life “KENKO-DAIICHI” healthy living app  
started using the medication notebook function of  
Nihon Chouzai’s “Okusuri Techo Plus” on October 5

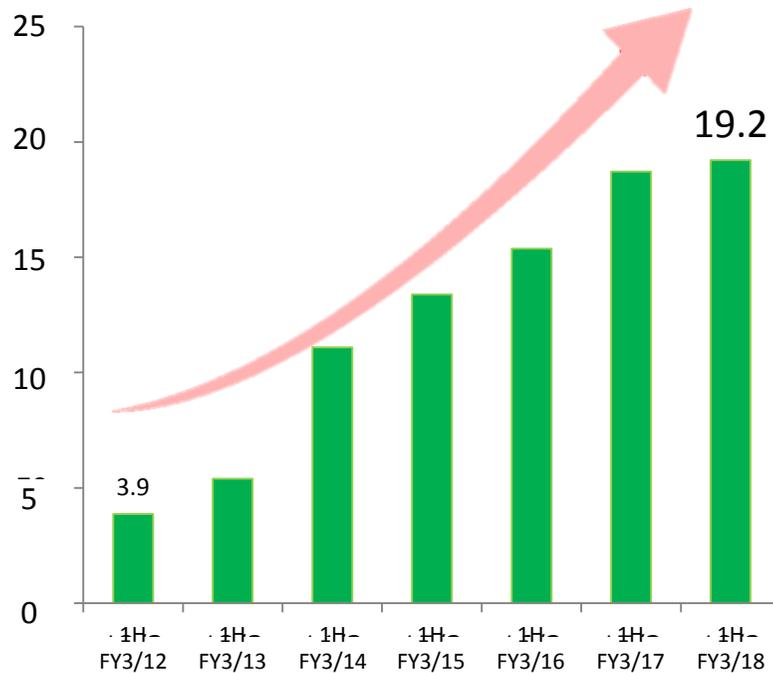


# Pharmaceutical Manufacturing and Sales Business/ Performance and Business Climate

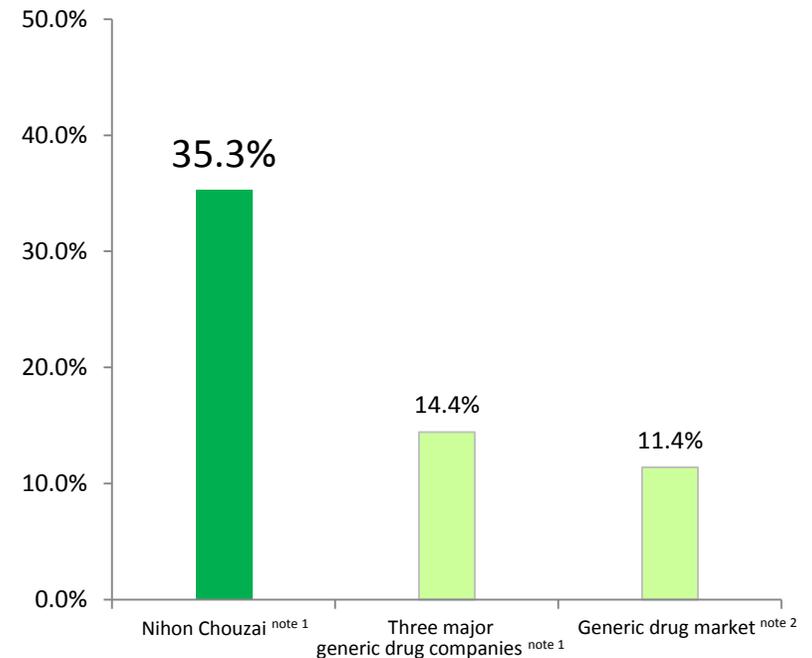
- Sales in this business have increased by about 5 times over the past 6 years.
- The business is growing faster than the overall market growth.

## 1H Consolidated Net Sales (segment sales)

(Billions of yen)



## 6-year Average Annual Growth Rate (FY3/12–FY3/17)



Note 1: Securities Reports are used as the source for Nihon Chouzai and major generic drug company data

Note 2: Average annual generic drug market growth for the five-year period that ended in March 2016

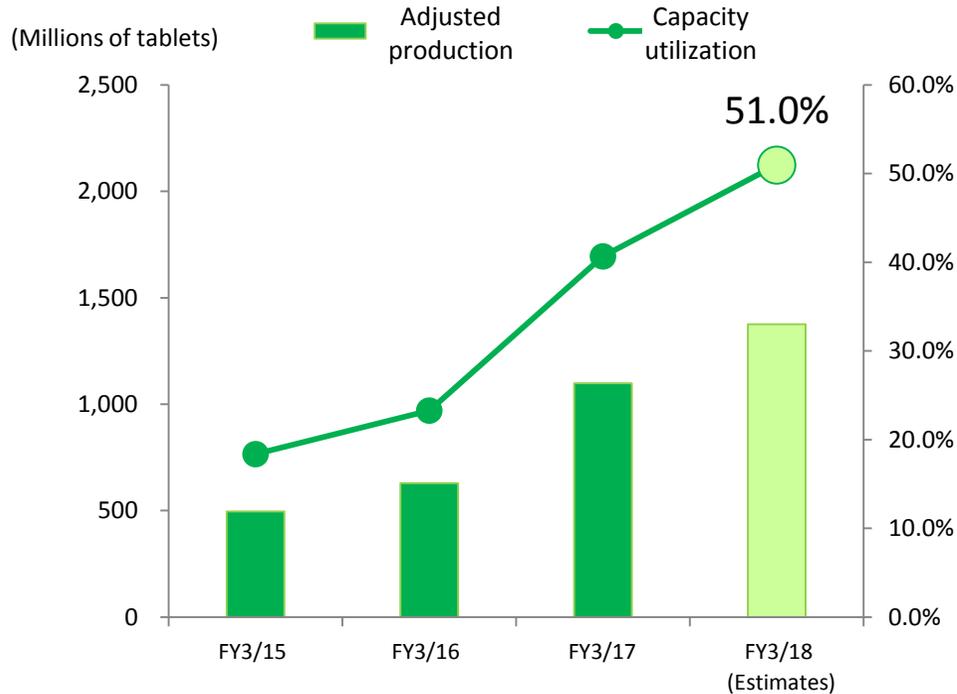
Source: “Statistics of Production by Pharmaceutical Industry,” “Summary of NHI Drug Price Revisions” and “Overview of Medical Care Expenditure in Japan” of the Ministry of Health, Labour and Welfare; prepared by Nihon Chouzai

**A big part of Nihon Chouzai Group’s growth potential → Japan’s generic drug market is growing along with government measures to hold down the increase in health care expenses** (Government goal is a volume-based 80% generic drug share by September 2020)

# Pharmaceutical Manufacturing and Sales Business / Growth Strategy

- For limiting growth in health care expenses, the government has the goal of a volume-based generic drug share of 80% by September 2020.
- As factory capacity utilization in this business climbs, preparations are moving forward to start operations at the Tsukuba Plant No. 2.

## Annual Production Volume at Tsukuba Plant



Note 1: Production volume is based on the 150mg per tablet used for the output capacity estimate.

Note 2: Output capacity is based on the current 1.5-shift operating system.

Note 3: The FY3/18 estimates are obtained by doubling first half performance.

1. More products developed and manufactured internally
2. More OEM production for other companies
3. Expect capacity utilization to approach 70%, the level needed to maintain a stable supply of drugs

Tsukuba Plant No. 2 scheduled to start operation in April 2018  
A framework for ensuring a stable supply has been established prior to the start of operations

### Tsukuba Plant No. 2

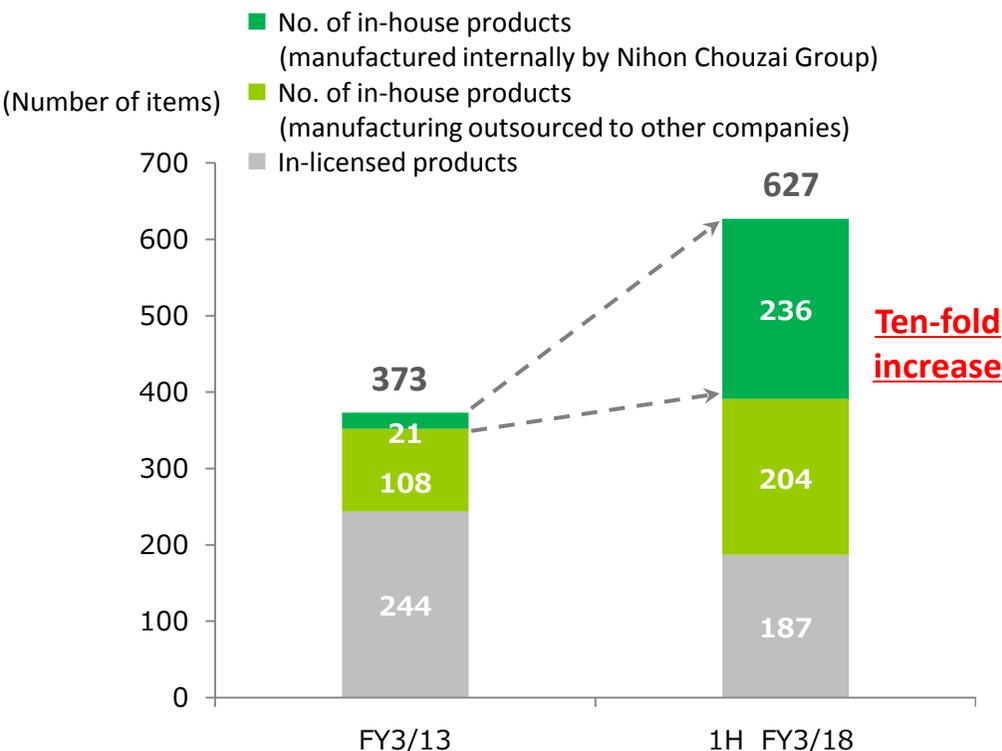
- Plan to start the first phase of operations (building and equipment) in April 2018 (¥17.2bn funding for equipment is in place)
- Second and third phases will require only investments in equipment
- **Second and third phase capital investments combined will be less than first phase expenditures**
- Work on the second and third phases will start when warranted by upcoming trends in the generic drug industry

**Increasing output capacity to be prepared for market growth in order to fulfill our responsibility as a generic drug manufacturer to maintain a stable supply of drugs**

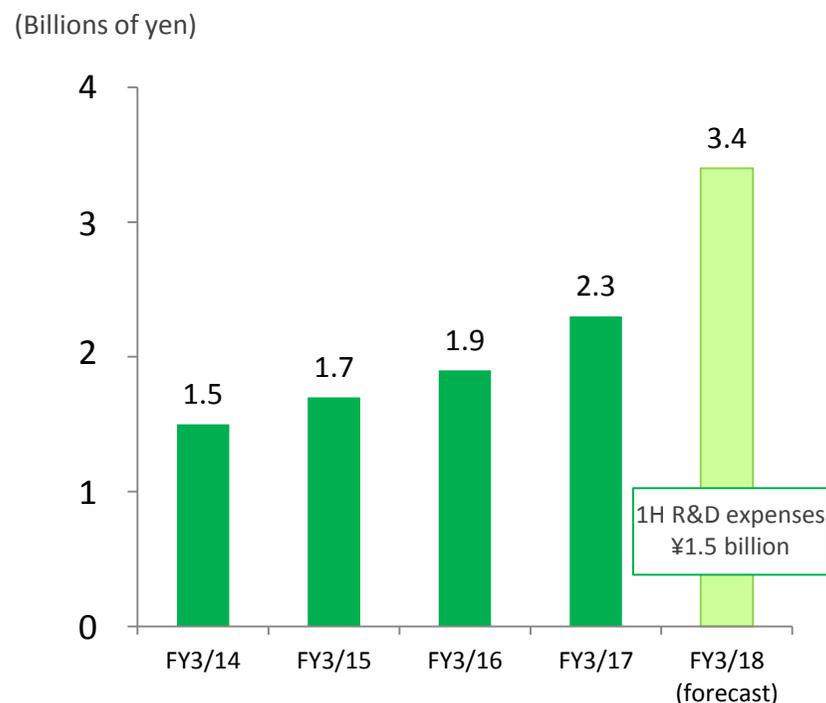
# Pharmaceutical Manufacturing and Sales Business / Growth Strategy

- More product items due to R&D and a shift to high-margin internally produced drugs
- Extensive R&D activities for drugs that are sold in large volumes at Nihon Chouzai pharmacies, primarily drugs with recent patent expirations

## Number of Product Items



## R&D Expenses <sup>note</sup>



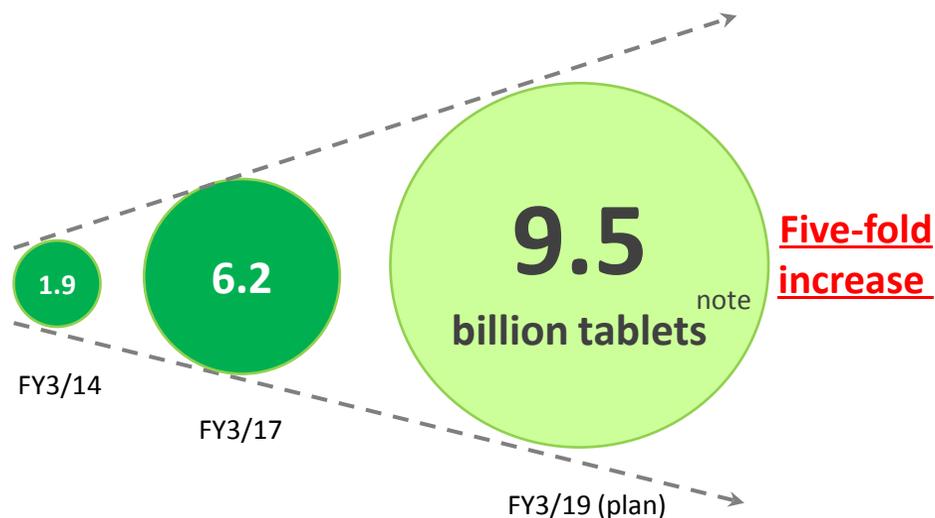
Note: R&D expenses are consolidated basis.

**Higher gross margin by using up-front R&D investments to switch to internally produced drugs**

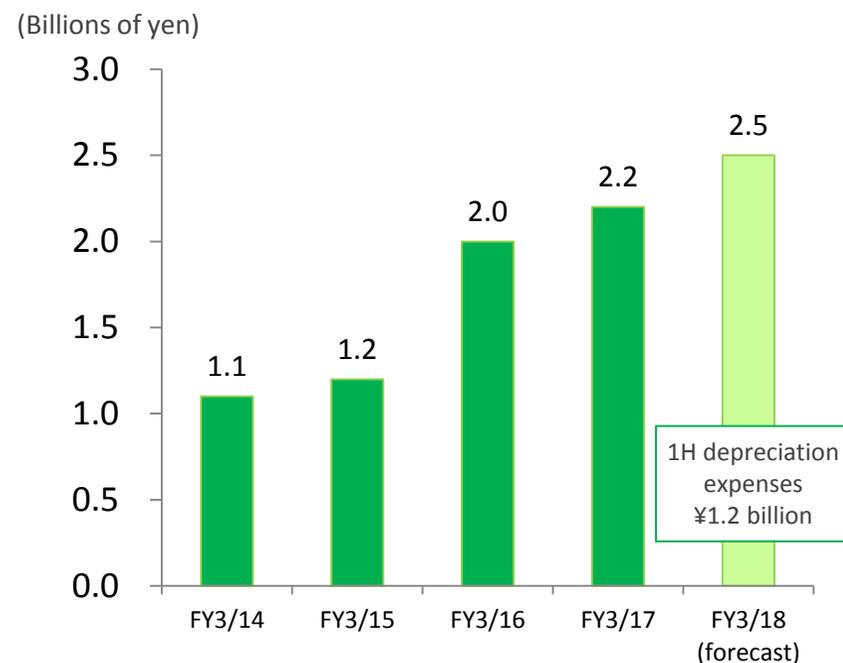
# Pharmaceutical Manufacturing and Sales Business / Growth Strategy

- Higher maximum output capacity to reflect market growth and the increasing number of items produced internally
- Increase in depreciation due to capital investments to increase maximum output capacity

## Maximum Annual Output Capacity at Plants



## Depreciation



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

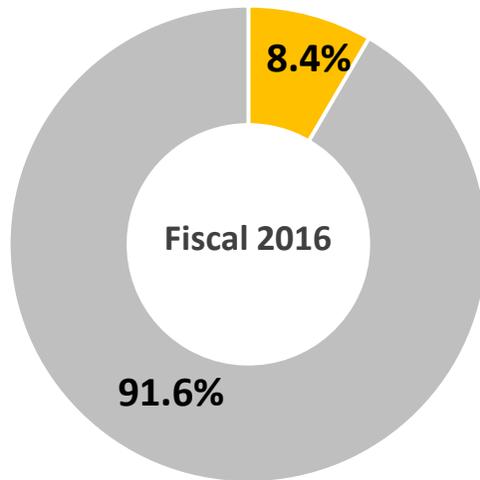
**Up-front investments for another core profit center to drive growth of the Nihon Chouzai Group**

# Medical Professional Staffing and Placement Business / Market Environment

- No end is in sight to Japan's chronic shortage of pharmacists in the dispensing pharmacy industry.
- More pharmacists are needed for the growth in direct customer services in order to achieve the Vision of Pharmacies for Patients.

## Sales Composition of Japan's Dispensing Pharmacy Market

- Four major companies
- Small/midsize chains and individual pharmacies



Increase in number of patients from Sep. to May  
↓  
Caused by seasonal factors

Large number of pharmacies of small/midsize chains and individual owners  
↓  
Difficulty in recruiting employees

**Substantial demand for pharmacist temporary staffing and placements**

Source: Trends in Prescription Drug Expenses -Fiscal 2016

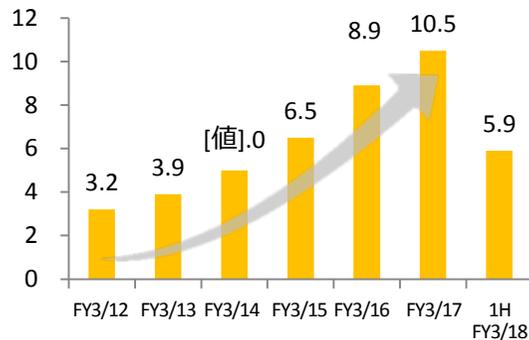
**More direct customer services by pharmacists will continue to raise demand for temporary staffing and placements**

# Medical Professional Staffing and Placement Business / Characteristics

- A reputation for reliability in the temporary staffing market due to a policy of always using face-to-face matching
- Expertise acquired over many years about medical care positions requiring national qualifications

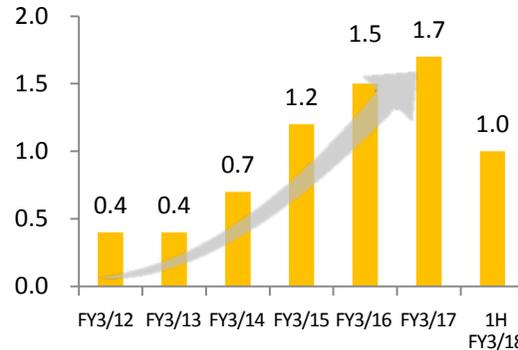
## Net Sales

(Billions of yen)

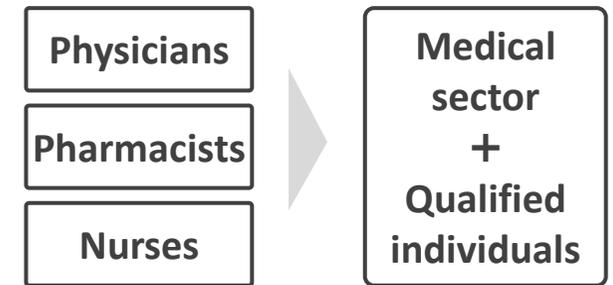


## Operating Profit

(Billions of yen)



## Temporary Staffing and Placements



**6-year average annual growth rate**

(March 2012 – March 2017)

**26.5%**

**Growth potential**

**Operating margin**

(1H FY3/18)

**16.9%**

**Profitability**

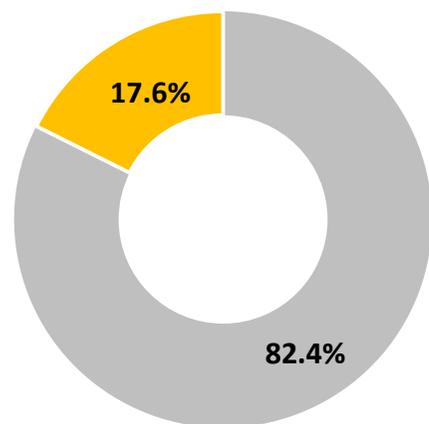
**Rapid growth into a high operating margin business that raises operating profit for the entire Nihon Chouzai Group**

# Medical Professional Staffing and Placement Business / Growth Strategy

- Higher demand for highly skilled pharmacists due to the Vision of Pharmacies for Patients
- Strengthen the placement business to meet changing needs in the dispensing pharmacy industries

## Staffing/Placement Sales Composition

- Temporary staffing
- Permanent placements and others

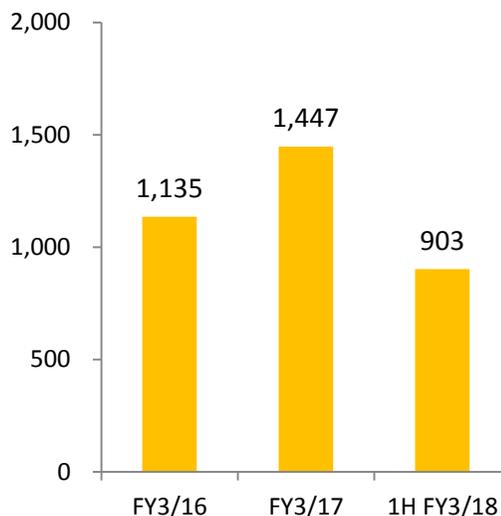


1H FY3/18

The shift in recruiting needs  
Placement business > Temporary staffing business

## Pharmacists Placed

(Pharmacists) ■ Pharmacist placements



Strengthen pharmacist placement business

## Educational Tools

薬剤師の  
4人に1人が取得済み  
研修認定薬剤師単位申請に対応  
最新eラーニング教材 JPLearning II  
解説ページ1,000ページ以上  
スマートフォンでもしっかり学習できるドリル形式!

かろうじて薬剤師の認定業務にも含まれる「研修認定薬剤師」は、薬剤師としての実務につなげることで、年収アップも期待できる注目の資格です。研修認定薬剤師の**総取得者数**は、平成28年度当初**35,000名**より、5,000名に増えた年だった昨年相比比で約30,000人も増加（※）しています。  
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289,151名（平成26年12月31日現在）の約24.6%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 公認個人日本薬剤師センター調べ、※2 厚生労働省調べ

無料体験版&特長紹介動画  
公開中

✓ JPLearning II を体験してみましょう！ ✓ 特長や操作方法を動画で確認！

JPLearning II  
30日無料体験版  
お申込み

無料体験版では、JPLearning IIのドリル問題の一部を実際に受講していただけます（有効期限10日間）。

特長紹介動画をご覧いただくことでJPLearning IIの特長や「学習～受験シール申請」までの流れを体験できます。

JPLearning II  
無料体験版・特長紹介動画はコチラから

JPラーニング 検索  
<https://www.jplearning.jp/>

Use JP Learning II for pharmacists to earn qualifications and other purposes

**Temporary staffing and permanent placements of value-added pharmacists** due to the use of an advanced educational system created in the dispensing pharmacy business

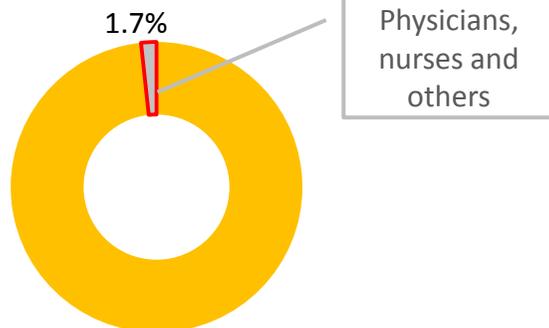
Strengthen the permanent placement business, which has **higher profitability** and **growth potential**, while maintaining the **stability** of the temporary staffing business, which produces a steady income stream

# Medical Professional Staffing and Placement Business / Growth Strategy

- Aim for growth of services for physicians and nurses, two more medical categories where demand is high
- Leverage synergies with the dispensing pharmacy business for growth of this business

## Job Category Composition

■ Pharmacists ■ Others



1H FY3/18

**Expand the placement business for physicians and nurses**

## Aim for Growth by Using Strengths as a Comprehensive Health Care Group

Relationships with medical institutions in the dispensing pharmacy business

A dispensing pharmacy network covering all 47 prefectures of Japan

Face-to-face counseling expertise drawing on experience in the pharmacist staffing and placement business

## Official Recognition



優良派遣事業者

Certified as an outstanding temporary staffing services agency (March 31, 2016)

**Reliability**



1402013(01)

Certified as an outstanding job placement services agency (March 12, 2015)

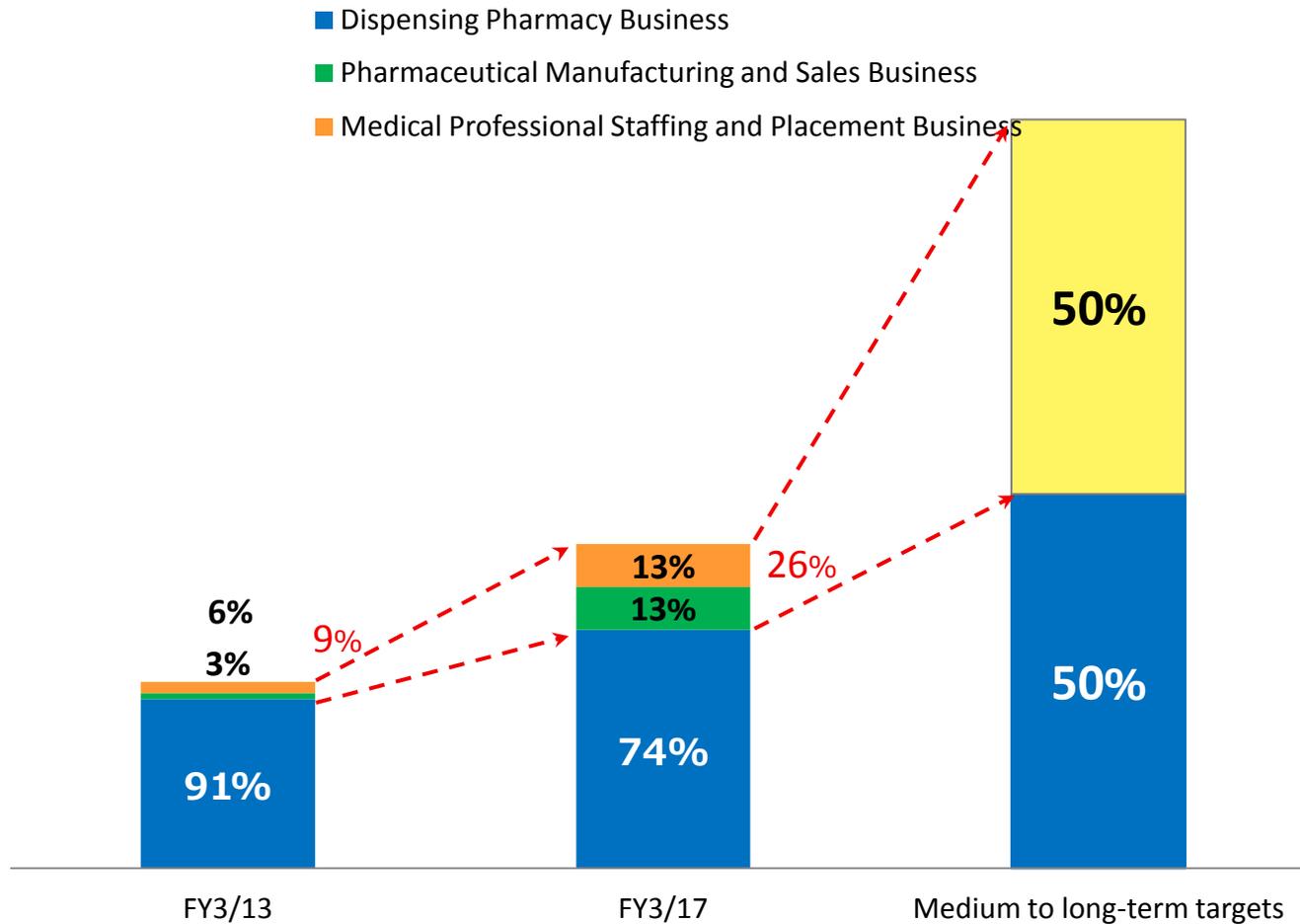
**Less than 1% of all human resource services companies receive both of these certifications at the same time.**

**Goal is expansion to more job categories by using synergy with the dispensing pharmacy business and face-to-face counseling skills.**

# Business Portfolio Strategy

- The pct. of operating profit from outside the dispensing pharmacy business has approximately tripled from 9% to 26%.
- Aiming for more growth to make the other two businesses the Nihon Chouzai Group's second and third profit centers

## Composition of Operating Profit



## **III. Reference Materials**

# 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: 4,600 (as of March 31, 2017)

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

Number of Dispensing Pharmacies: 569 (as of September 30, 2017)

Note: Including one location specializing in the sales of general merchandise

# Our Objective

Business activities that contribute to

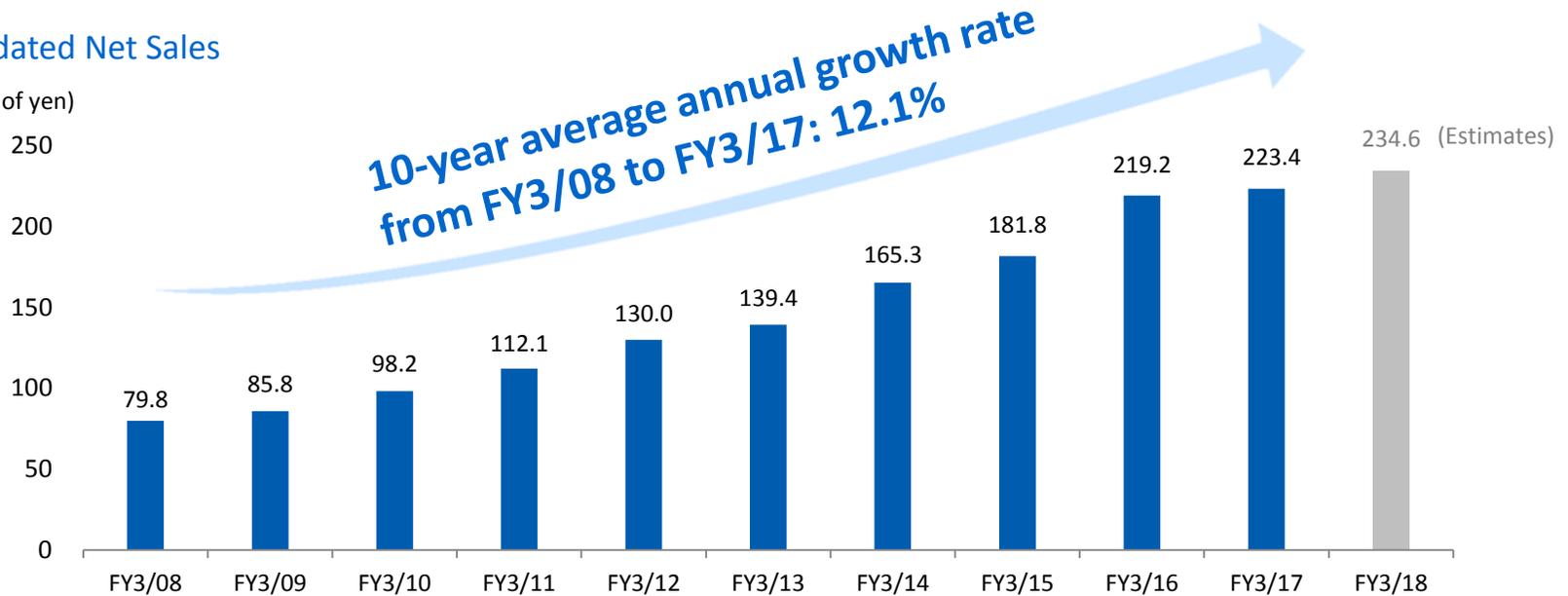
“True separation of the roles of drug  
prescribing and dispensing services.”



# Consolidated Results: Net Sales / Operating Profit

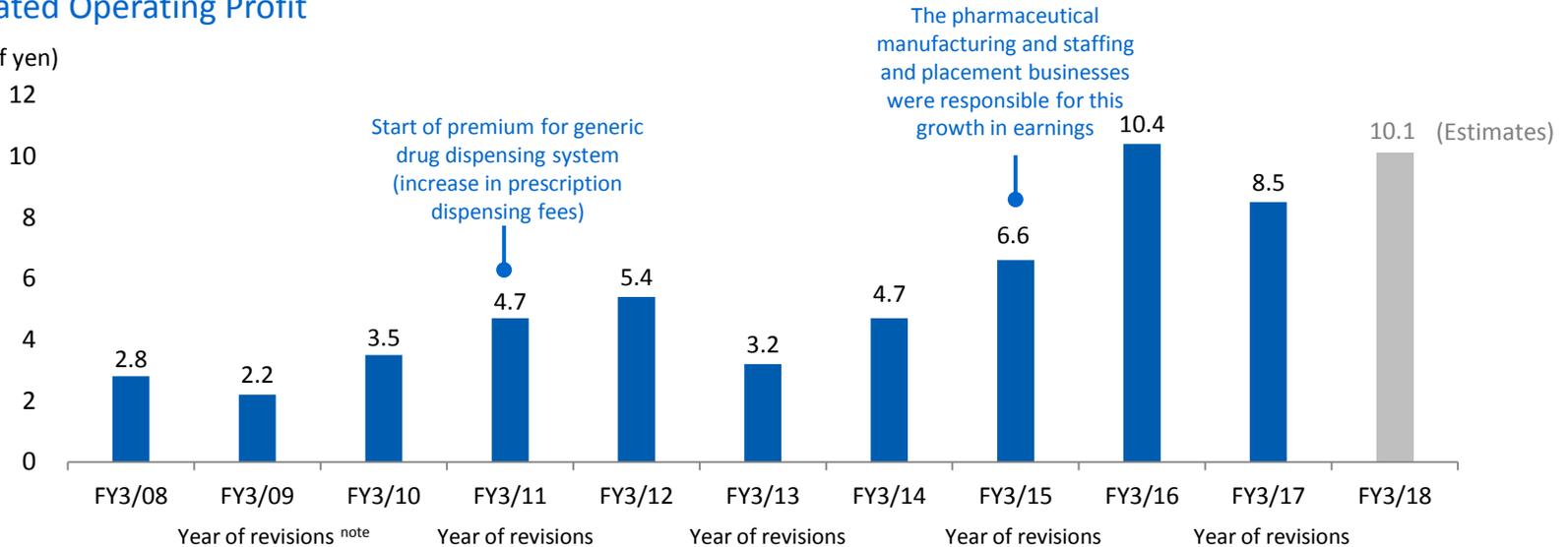
## ◆ Consolidated Net Sales

(Billions of yen)



## ◆ Consolidated Operating Profit

(Billions of yen)



# 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.

Inquiries:

 NIHON CHOUZAI Co.,Ltd.

NIHON CHOUZAI Co., Ltd.

Corporate Planning Department, Investor Relations Group  
37F GranTokyo North Tower, 1-9-1, Marunouchi,  
Chiyoda Ward, Tokyo 100-6737, JAPAN

TEL: +81-(0) 3-6810-0800 (general)

E-mail: [ir-info@nicho.co.jp](mailto:ir-info@nicho.co.jp)

IR website: <http://www.nicho.co.jp/ir>