

Results of Operations for the Fiscal Year Ended March 31, 2017 (April 1, 2016 to March 31, 2017)

May 10, 2017



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

I. FY3/17 Results of Operations

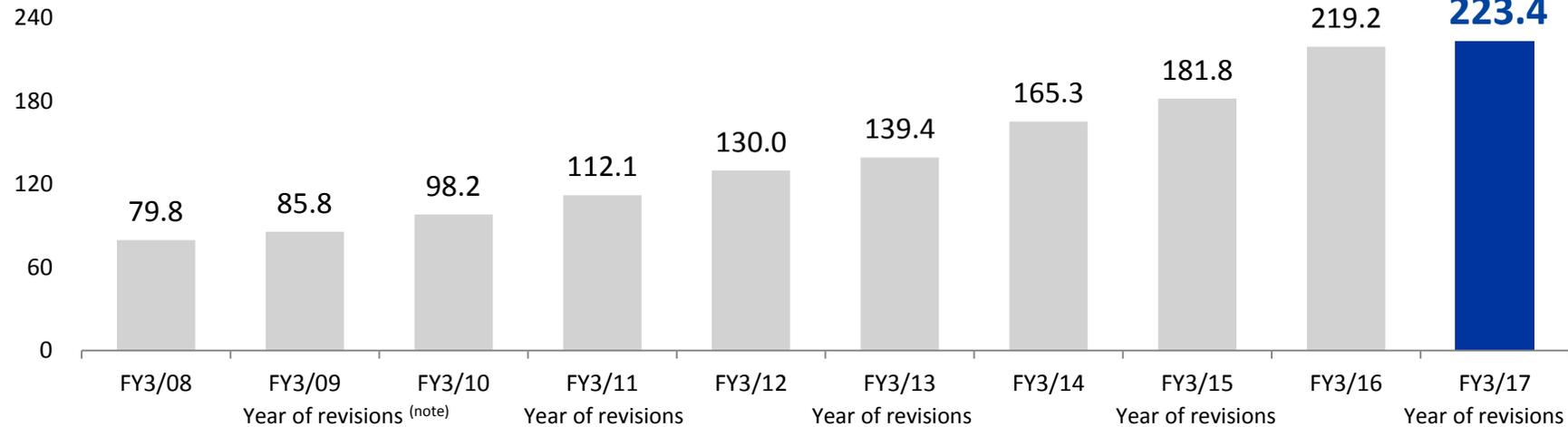
1. Financial Results

Consolidated Results: Net Sales / Operating Profit

◆ Consolidated Net Sales

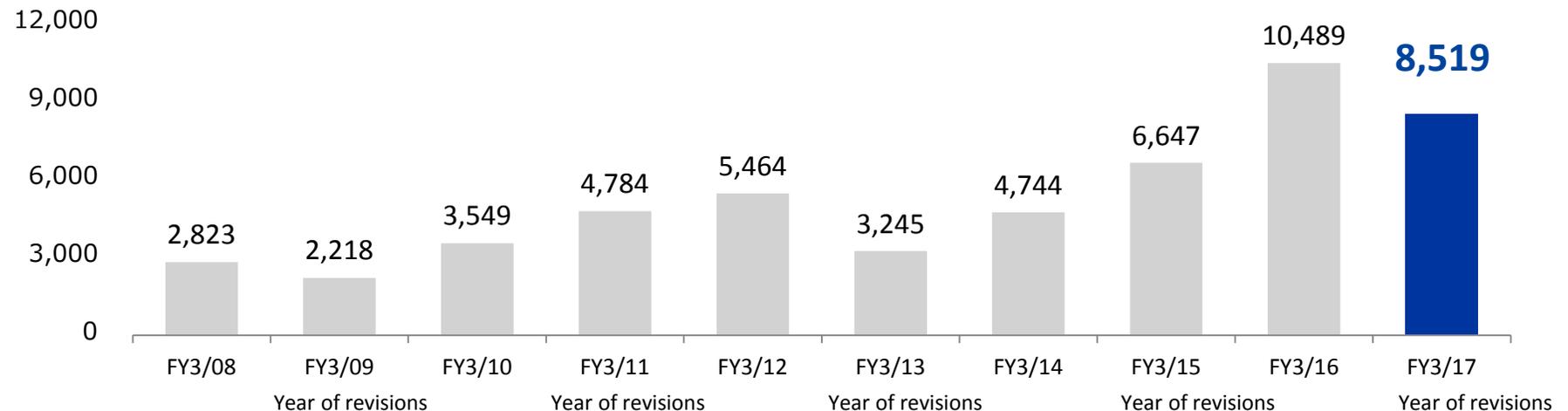
(Billions of yen)

Note: Year of National Health Insurance (NHI) drug price and dispensing fee revisions



◆ Consolidated Operating Profit

(Millions of yen)

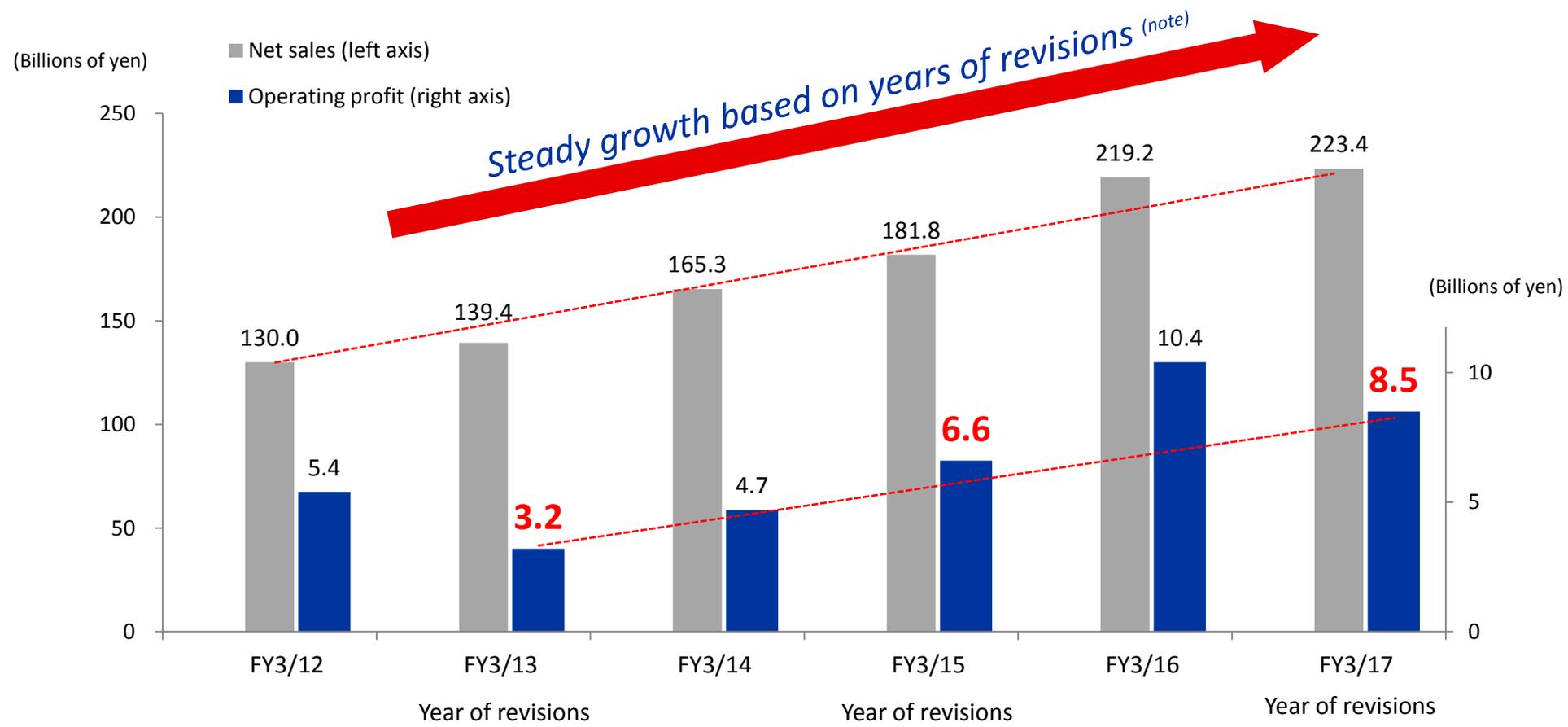
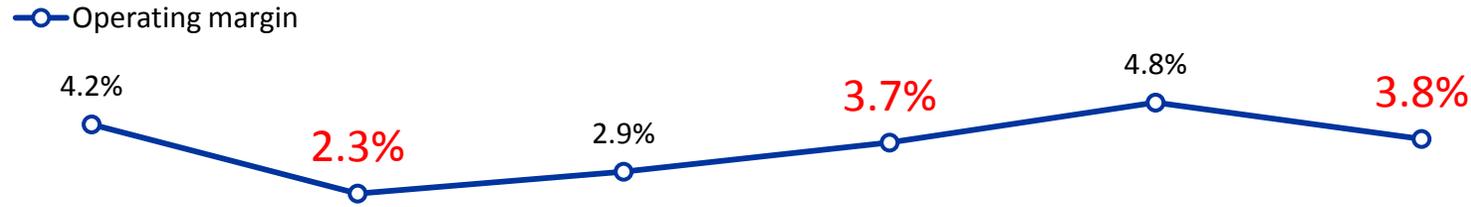


Consolidated Statement of Income

| (Millions of yen) | FY3/15 | FY3/16 | FY3/17 | Difference | YoY growth rate |
|---|---------|---------|----------------|------------|-----------------|
| Net sales | 181,844 | 219,239 | 223,468 | 4,228 | 1.9% |
| Cost of sales | 149,915 | 180,171 | 184,210 | 4,038 | 2.2% |
| Gross profit | 31,929 | 39,068 | 39,258 | 190 | 0.5% |
| SG&A expenses | 25,281 | 28,578 | 30,738 | 2,160 | 7.6% |
| Consumption taxes | 9,443 | 11,483 | 11,600 | 117 | 1.0% |
| R&D expenses | 1,767 | 1,913 | 2,388 | 475 | 24.8% |
| Operating profit | 6,647 | 10,489 | 8,519 | -1,970 | -18.8% |
| % to sales | 3.7% | 4.8% | 3.8% | - | - |
| Ordinary profit | 6,003 | 9,878 | 7,976 | -1,901 | -19.3% |
| Profit attributable to owners of parent | 2,778 | 6,329 | 4,638 | -1,690 | -26.7% |

Note: Non-deductible consumption taxes are included in SG&A expenses.

Results: Consolidated Net Sales / Operating Profit / Operating Margin



Note: Year of National Health Insurance (NHI) drug price and dispensing fee revisions

Consolidated Balance Sheet

| (Millions of yen) | End of Mar. 2016 | End of Mar. 2017 | Difference | |
|-------------------------------|------------------|------------------|---------------|---|
| Current assets | 84,838 | 82,327 | -2,511 | Major components <u>Current assets</u> • Cash and deposits -11,185 • Merchandise and finished goods 6,126 |
| Non-current assets | 72,770 | 96,019 | 23,248 | |
| Property, plant and equipment | 51,997 | 68,513 | 16,515 | <u>Non-current assets</u> • Machinery, equipment and vehicles 4,185 • Construction in progress 10,713 • Goodwill 6,098 |
| Intangible assets | 10,122 | 16,773 | 6,650 | |
| Investments and other assets | 10,650 | 10,733 | 82 | |
| Total assets | 157,609 | 178,347 | 20,737 | <u>Current liabilities</u> • Accounts payable—trade -3,080 • Current portion of bonds -7,000 |
| Current liabilities | 68,985 | 66,305 | -2,679 | |
| Non-current liabilities | 56,151 | 75,595 | 19,443 | • Current portion of long-term loans payable 7,448 <u>Non-current liabilities</u> • Long-term loans payable 20,057 |
| Total liabilities | 125,136 | 141,900 | 16,763 | |
| Total net assets | 32,473 | 36,447 | 3,973 | <u>Net assets</u> • Retained earnings 3,839 |
| Shareholders' equity | 32,473 | 36,447 | 3,973 | |
| Equity ratio | 20.6% | 20.4% | - | |

Consolidated Statement of Cash Flows

| (Millions of yen) | FY3/16 | FY3/17 | |
|--|---------------|----------------|---|
| Net cash provided by (used in) operating activities | 19,327 | -940 | <div style="background-color: #004a99; color: white; padding: 5px; border-radius: 10px; display: inline-block; margin-bottom: 10px;">Major components</div> <p><u>Net cash provided by (used in) operating activities</u></p> <ul style="list-style-type: none"> • Profit before income taxes 7,827 • Depreciation 4,741 • Decrease (increase) in notes and accounts receivable-trade -46 • Decrease (increase) in inventories -7,005 • Increase (decrease) in notes and accounts payable-trade -4,135 • Income taxes paid -4,354 |
| Net cash used in investing activities | -7,823 | -28,444 | |
| Net cash provided by financing activities | 7,031 | 18,205 | |
| Net increase (decrease) in cash and cash equivalents | 18,535 | -11,180 | <p><u>Net cash used in investing activities</u></p> <ul style="list-style-type: none"> • Purchase of property, plant and equipment -20,222 • Payments for transfer of business -1,713 • Purchase of shares of subsidiaries resulting in change in scope of consolidation -4,899 |
| Cash and cash equivalents at beginning of period | 13,844 | 32,380 | |
| Cash and cash equivalents at end of period | 32,380 | 21,200 | <p><u>Net cash provided by financing activities</u></p> <ul style="list-style-type: none"> • Proceeds from long-term loans payable 33,600 • Repayments of long-term loans payable -6,509 • Redemption of bonds -7,000 |

Financial Indicators

| | FY3/13 | FY3/14 | FY3/15 | FY3/16 | FY3/17 |
|---|----------|----------|----------|----------|-----------------|
| Net income per share (Yen) ^{note 1} | 12.84 | 131.24 | 194.48 | 432.85 | 290.03 |
| Return on equity | 1.3% | 12.5% | 16.6% | 25.3% | 13.5% |
| Ordinary profit on total assets | 3.1% | 3.9% | 4.9% | 6.9% | 4.7% |
| Operating profit to net sales | 2.3% | 2.9% | 3.7% | 4.8% | 3.8% |
| Equity ratio | 15.5% | 13.5% | 13.6% | 20.6% | 20.4% |
| Free cash flows (Millions of yen) | -3,537 | -8,267 | -2,606 | 11,509 | -29,385 |
| Net assets per share (Yen) ^{note 1} | 1,017.04 | 1,090.63 | 1,257.59 | 2,030.22 | 2,278.70 |
| Share price at year-end (Yen) ^{note 1} | 1,127.5 | 1,332.5 | 3,055.0 | 4,025 | 3,785 |
| Market cap at year-end (Millions of yen) | 18,067 | 21,351 | 48,953 | 64,496 | 60,650 |
| Price book-value ratio (PBR) at year-end | 1.11 | 1.22 | 2.43 | 1.98 | 1.66 |
| Price earnings ratio (PER) at year-end | 87.85 | 10.15 | 15.71 | 9.30 | 13.05 |
| Dividend per share (Yen) | 35.00 | 35.00 | 35.00 | 45.00 | 50.00 |
| <Before stock split> | <70.00> | <70.00> | <70.00> | <90.00> | <100.00> |
| EBITDA (Millions of yen) ^{note 2} | 7,319 | 9,129 | 10,923 | 15,615 | 14,237 |
| EV/EBITDA (Times) ^{note 2} | 7.1 | 7.4 | 9.5 | 6.5 | 9.0 |

Note 1. Nihon Chouzai conducted a 2-for-1 stock split effective on October 1, 2015.
Per-share figures and share price for FY3/13 to FY3/15 is adjusted to reflect the stock split.

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

| (Millions of yen) | FY3/15 | FY3/16 | FY3/17 | Difference | YoY growth rate |
|-------------------|---------|---------|----------------|------------|-----------------|
| Net sales | 157,999 | 190,874 | 189,327 | -1,546 | -0.8% |
| Operating profit | 7,698 | 10,707 | 9,560 | -1,147 | -10.7% |
| % to sales | 4.9% | 5.6% | 5.0% | - | - |

◆ Pharmaceutical Manufacturing and Sales Business

| (Millions of yen) | FY3/15 | FY3/16 | FY3/17 | Difference | YoY growth rate |
|-------------------|--------|--------|---------------|------------|-----------------|
| Net sales | 27,550 | 32,598 | 36,821 | 4,223 | 13.0% |
| Operating profit | 1,888 | 2,668 | 1,719 | -948 | -35.5% |
| % to sales | 6.9% | 8.2% | 4.7% | - | - |

◆ Medical Professional Staffing and Placement Business

| (Millions of yen) | FY3/15 | FY3/16 | FY3/17 | Difference | YoY growth rate |
|-------------------|--------|--------|---------------|------------|-----------------|
| Net sales | 6,554 | 8,934 | 10,500 | 1,565 | 17.5% |
| Operating profit | 1,266 | 1,599 | 1,710 | 111 | 7.0% |
| % to sales | 19.3% | 17.9% | 16.3% | - | - |

◆ Consolidated Target

(Millions of yen)

| | FY3/16 | FY3/17 | FY3/18 | YoY change | |
|---|---------|---------|----------------|------------|-------|
| | Results | Results | Target | Amount | Ratio |
| Net sales | 219,239 | 223,468 | 234,697 | 11,229 | 5.0% |
| 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% |
| Profit attributable to owners of parent | 6,329 | 4,638 | 5,639 | 1,000 | 21.6% |

◆ Sales Target By Business Segment (before eliminations for inter-segment transactions)

(Millions of yen)

| | FY3/16 | FY3/17 | FY3/18 | YoY change | |
|--|---------|---------|----------------|------------|-------|
| | Results | Results | Target | Amount | Ratio |
| Dispensing pharmacy business | 190,874 | 189,327 | 196,681 | 7,353 | 3.9% |
| Pharmaceutical manufacturing and sales business | 32,598 | 36,821 | 41,500 | 4,678 | 12.7% |
| Medical professional staffing and placement business | 8,934 | 10,500 | 12,000 | 1,499 | 14.3% |
| Total | 232,406 | 236,649 | 250,181 | 13,532 | 5.7% |

I. FY3/17 Results of Operations

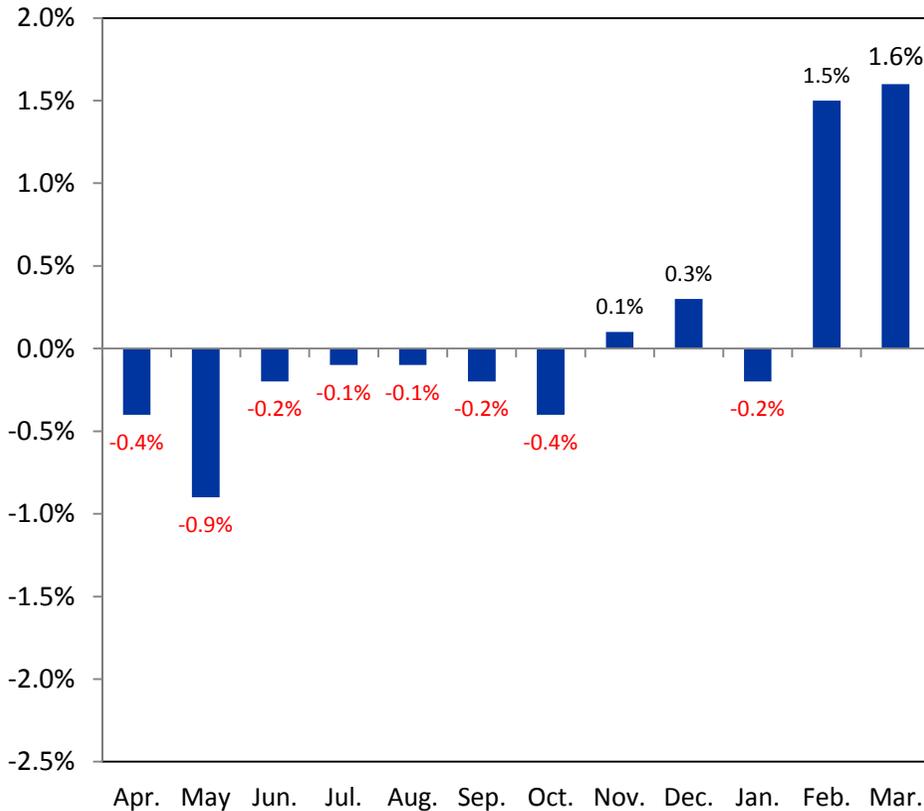
2. Major Initiatives

Dispensing Pharmacy Business

Response to Prescription Dispensing Fee Revisions – Technical Fee per Prescription

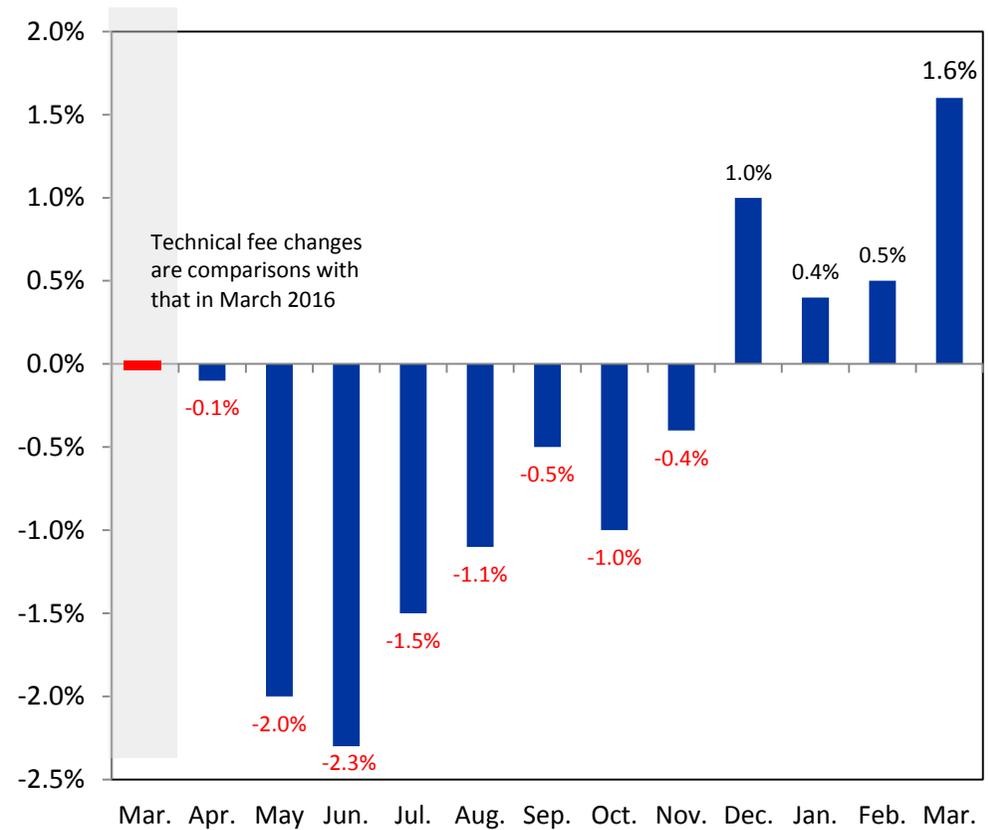
◆ Technical Fee Change vs. Same Month of Prior Year

■ Pct. Change



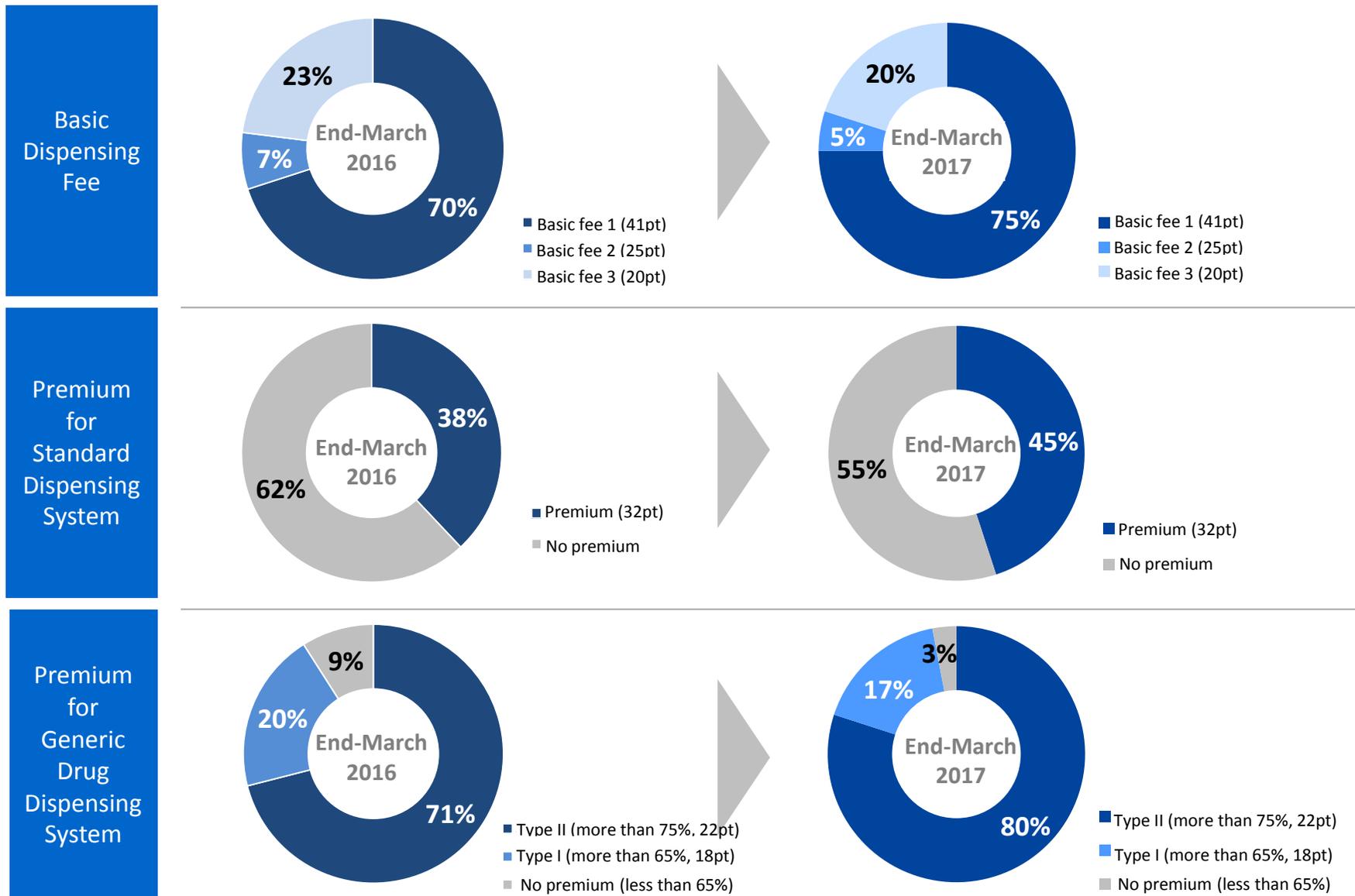
◆ Technical Fee Change vs. End of March 2016

■ Pct. Change



Dispensing Pharmacy Business

Response to Prescription Dispensing Fee Revisions –Progress with Increasing Technical Fees



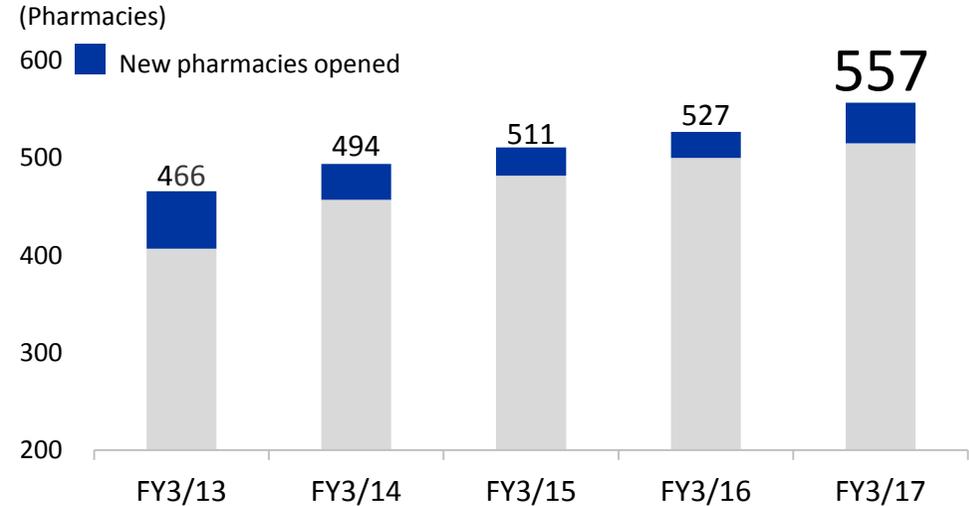
Note: Figures on this page include all pharmacies, including newly opened locations.

◆ No. of Pharmacies Opened/Closed for FY3/17(Cumulative)

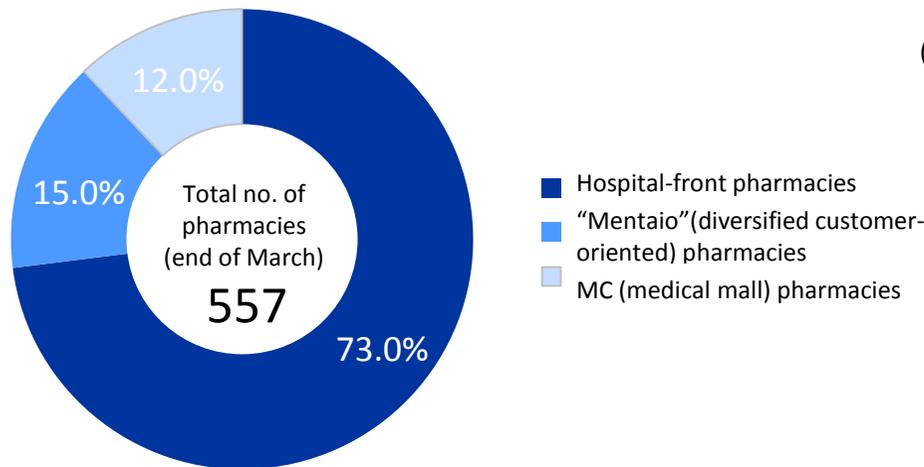
| | |
|---|------------|
| No. of pharmacies opened | 42 |
| No. of pharmacies closed | 12 |
| Total No. of pharmacies (end of March) | 557 |

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

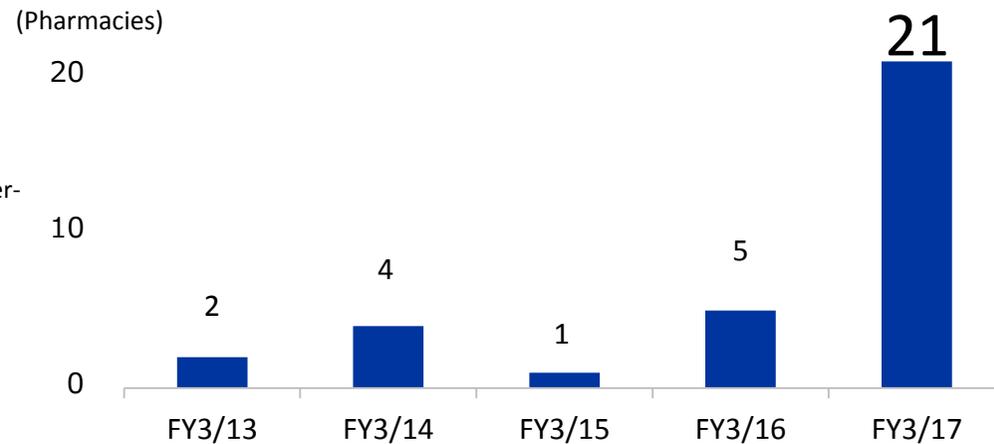
◆ No. of Pharmacies at the End of Each Period



◆ No. of Pharmacies by Type



◆ No. of Pharmacies Acquired

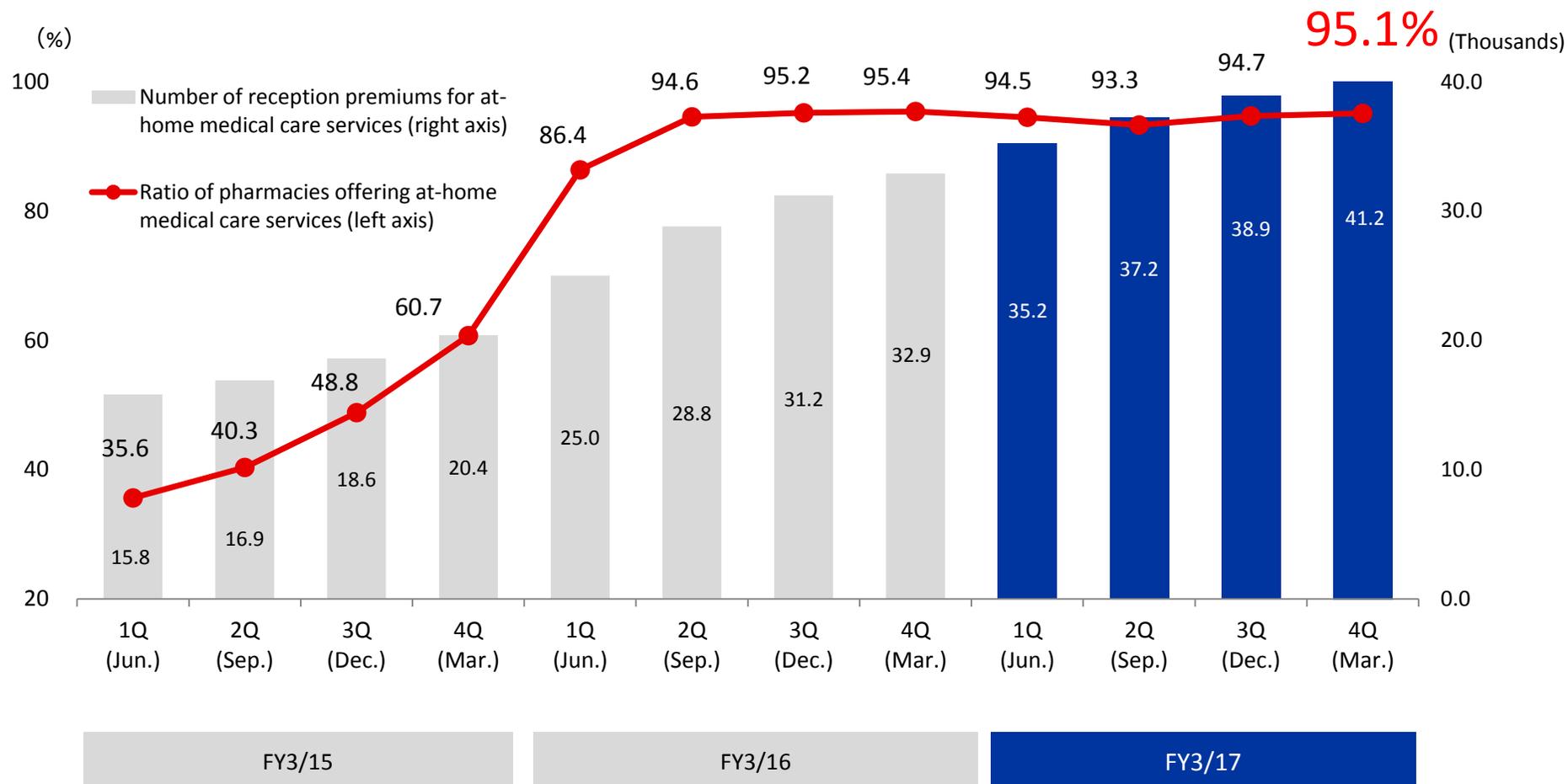


◆ Nihon Chouzai Group: Store Sales by Year of Opening

| | No. of pharmacies at end of Mar. 2017 | FY3/16 (Millions of yen) | FY3/17 (Millions of yen) | Difference (Millions of yen) | YoY growth rate |
|---|--|-----------------------------|-------------------------------------|---------------------------------|--------------------|
| Existing pharmacies (until Mar. 2015) | 489 | 183,960 | 173,284 | -10,675 | -5.8% |
| Opened during FY3/16 (Apr. 2015 to Mar. 2016) | 25 | 3,590 | 6,821 | 3,230 | 90.0% |
| Opened during FY3/17 (Apr. 2016 to Mar. 2017) | 42 | - | 6,599 | 6,599 | - |
| Others | - | 1,264 | 267 | -997 | -78.9% |
| Total | 556 | 188,815 | 186,972 | -1,843 | -1.0% |

- Sales are only for prescriptions (do not include over-the-counter drugs, etc.) and are recorded when prescriptions are filled (no adjustment for returned prescriptions).
- Sales of pharmacies that were closed are included in the others category.
- The number of pharmacies does not include one location specializing in the sales of general merchandise.

◆ Number of Premiums and Ratio of Pharmacies Offering At-home Medical Care

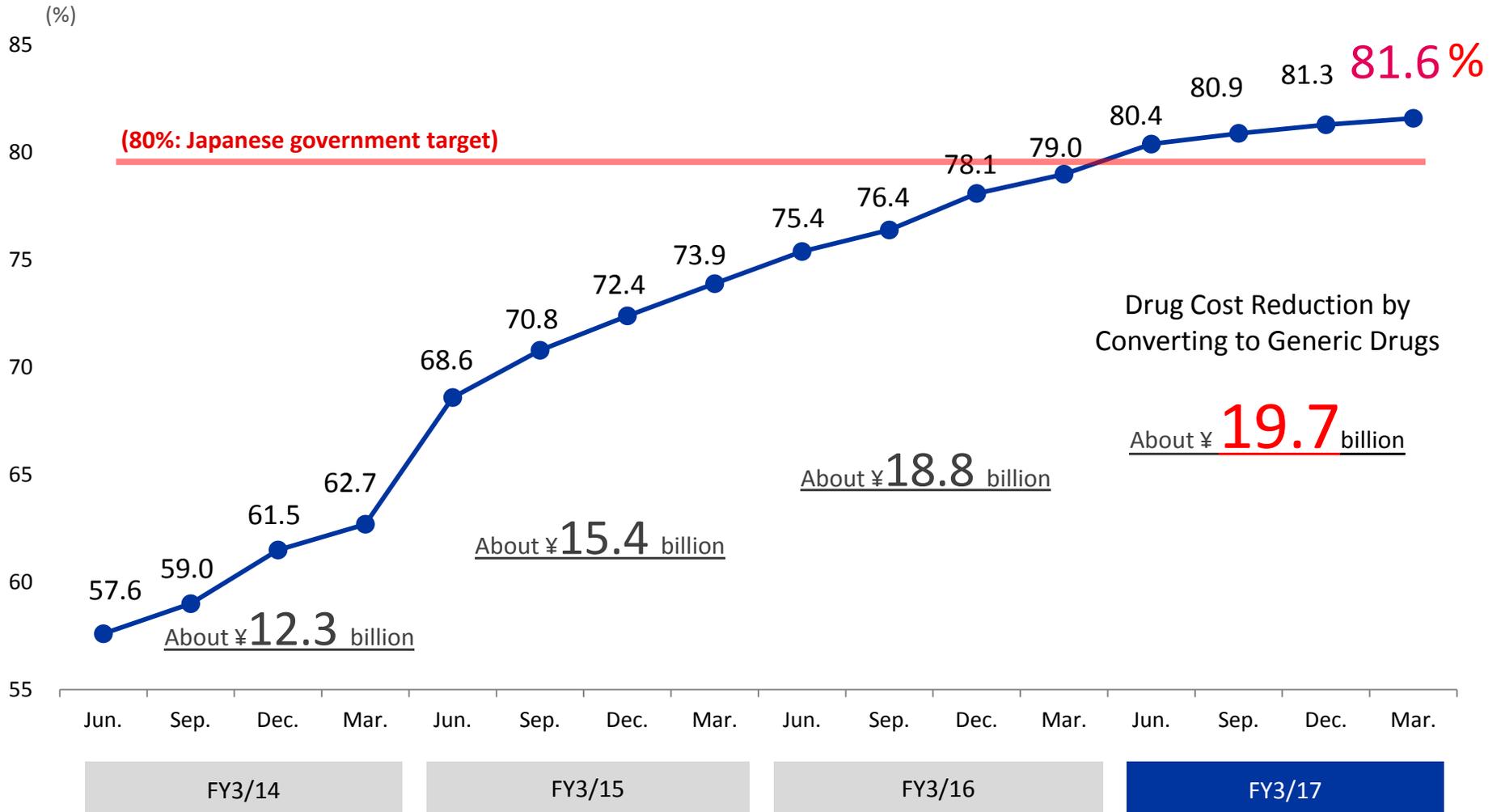


Note: The ratio of pharmacies offering at-home medical care services are results at the end of each period.
(Pharmacies that provided at-home medical care in the prior 12 months)

Dispensing Pharmacy Business

–Contributing to Growth in the Use of Generic Drugs

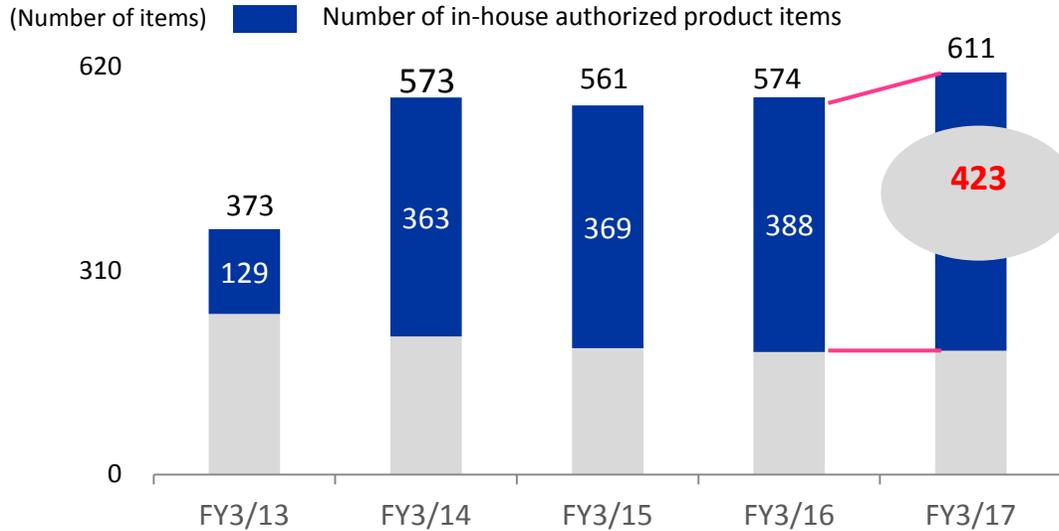
◆ Average Rate of Generic Drug Utilization for Nihon Chouzai Pharmacies (Volume basis) and Drug Cost Reduction by Converting to Generic Drugs



Pharmaceutical Manufacturing and Sales Business

– Initiative to improve profitability

◆ Number of Product Items

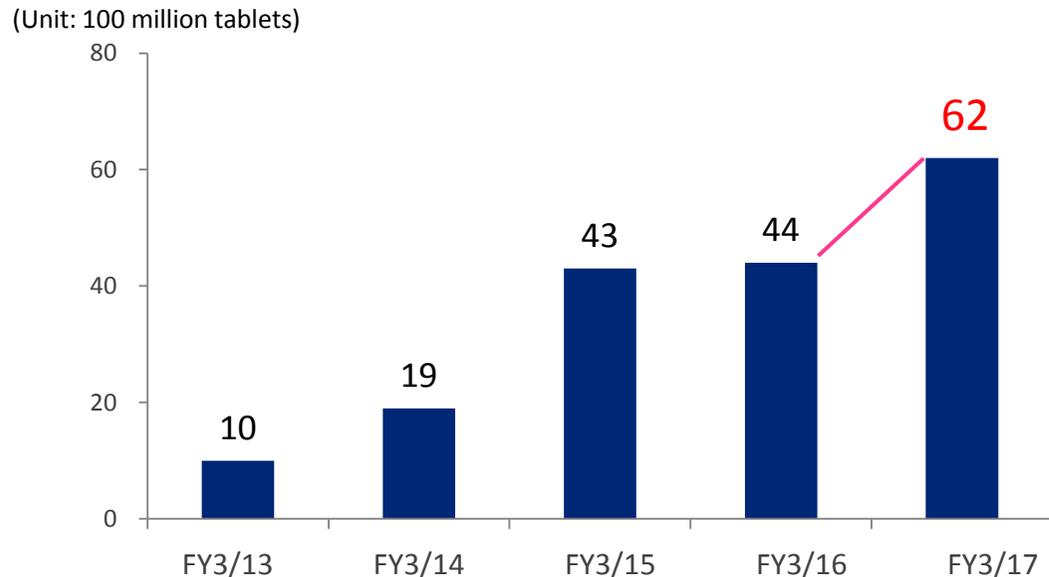


Increase in the number of in-house authorized product items

→ R&D

**More Products
Manufactured Internally**

◆ Maximum Annual Output Capacity



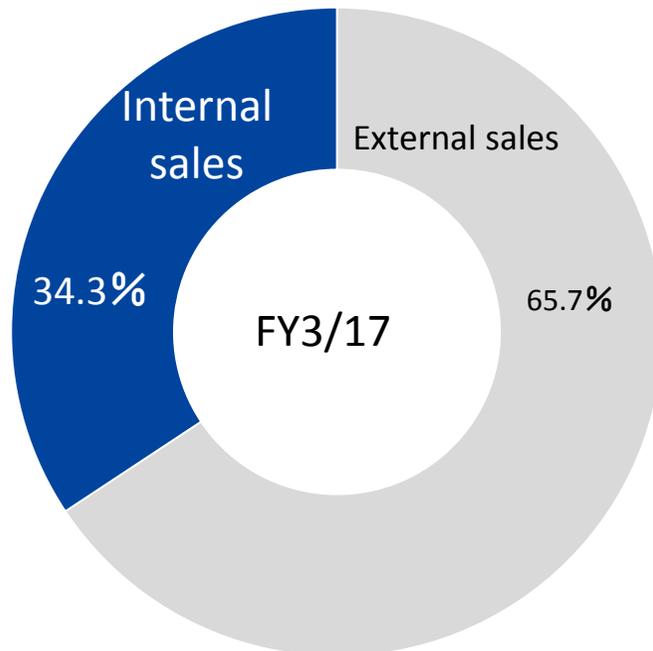
Increase Output Capacity

→ Capital investments

– Initiative to expand operations

- Nihon Chouzai Business Model: Sales System (How the Nihon Chouzai Model Differs)

Internal sales, a base for net sales



Internal sales : External sales
1 : 2

Growth of Dispensing
Pharmacy Business



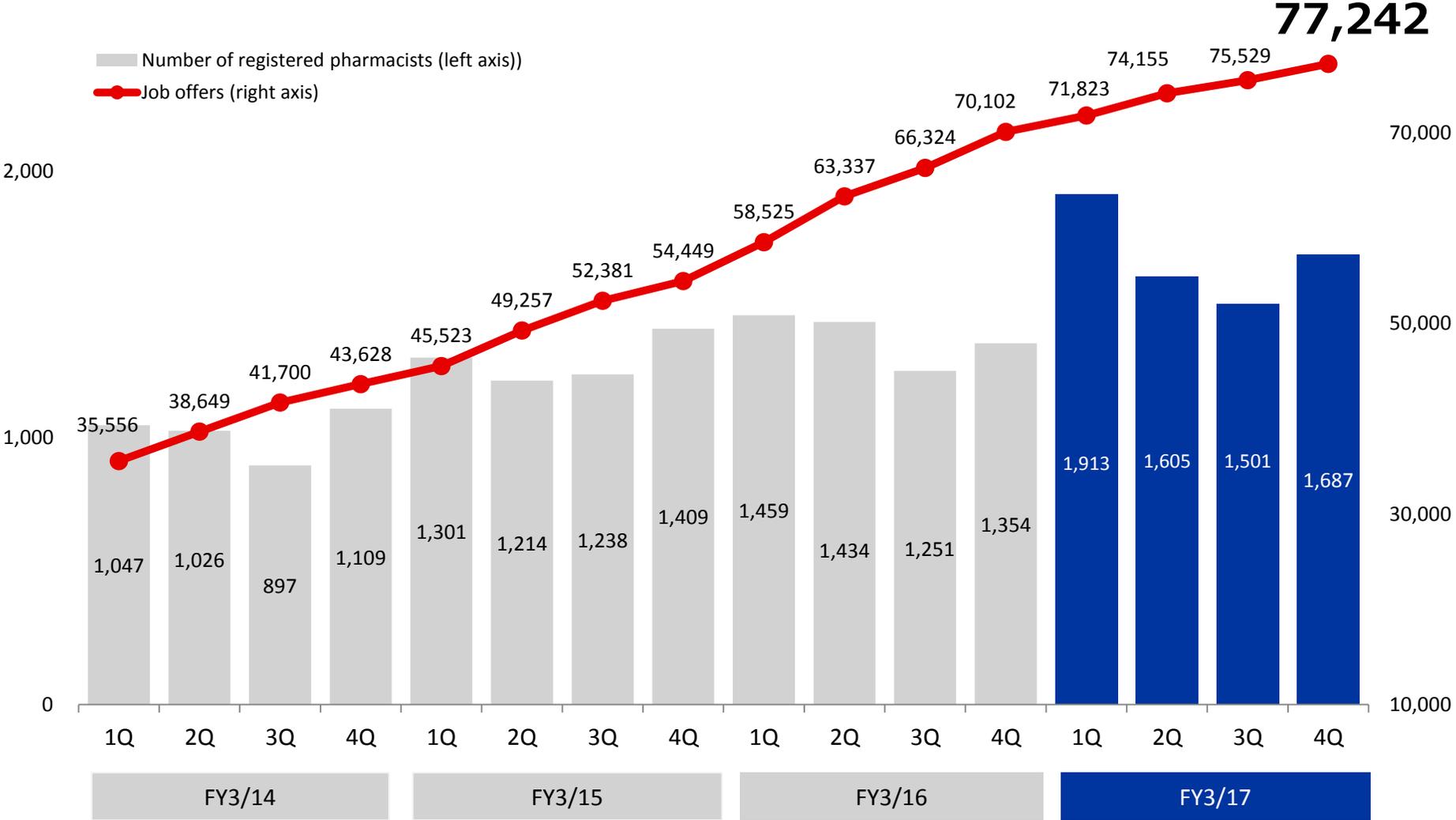
Gain competitive
advantage amid a
market realignment

Medical Professional Staffing and Placement Business

-Number of Registered Pharmacists and Job Offers

(Number of registered pharmacists)

(Total number of job offers)

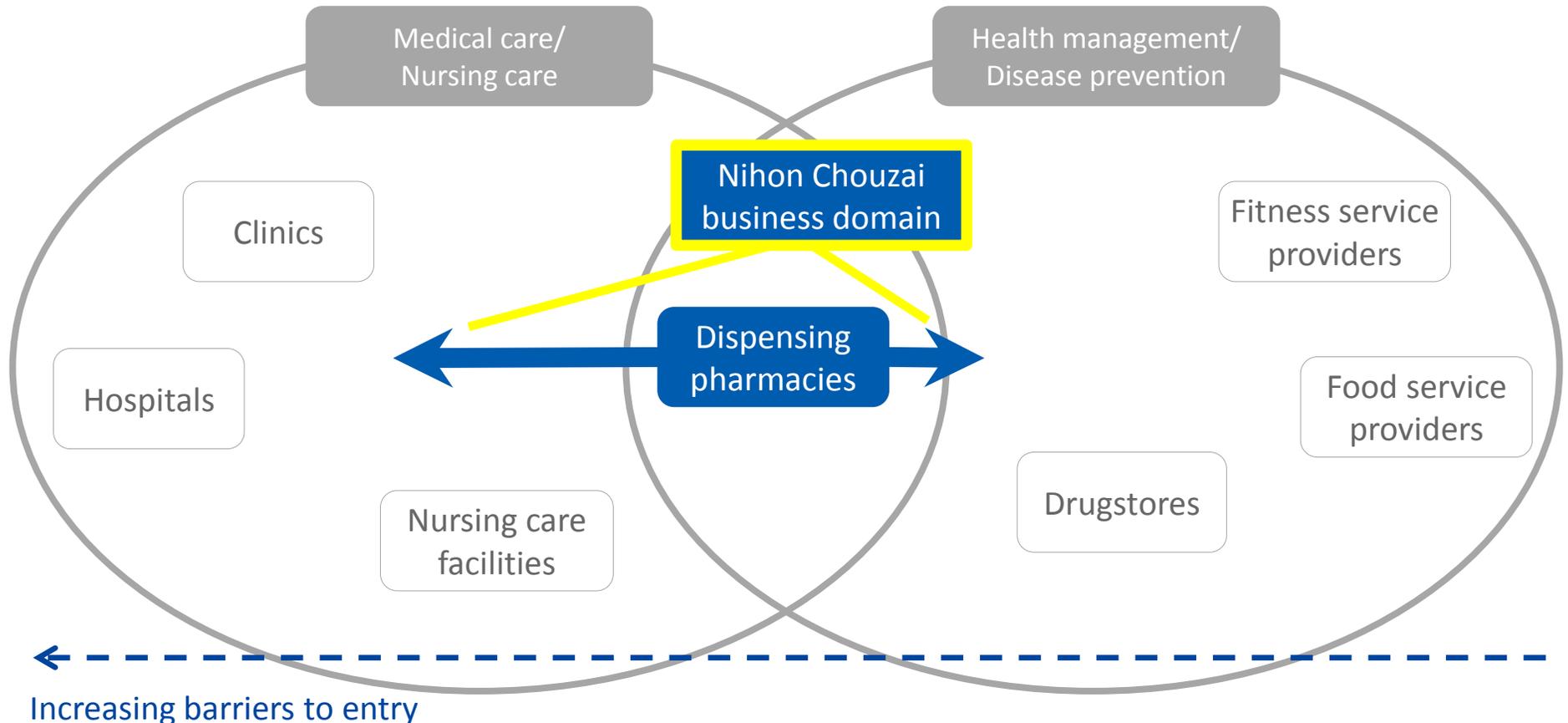


II. The Next-generation Pharmacy Strategy and M&A Strategy of Nihon Chouzai

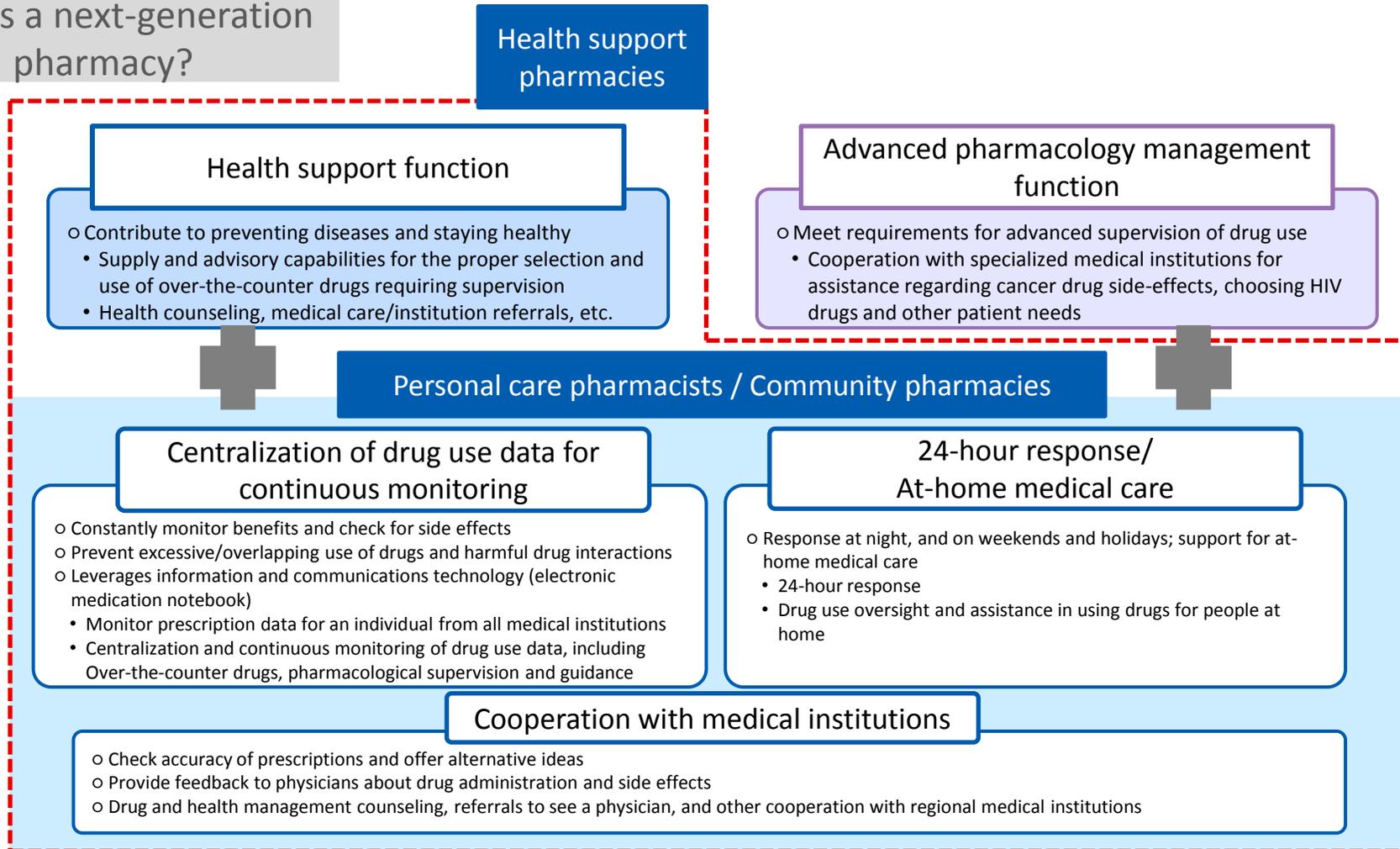
**-Advancing from a time where quantity defined quality to
the new age where quality defines quantity-**

Positioning

The Medical Care/Nursing Care/Health Management/Disease Prevention Hub



What is a next-generation pharmacy?

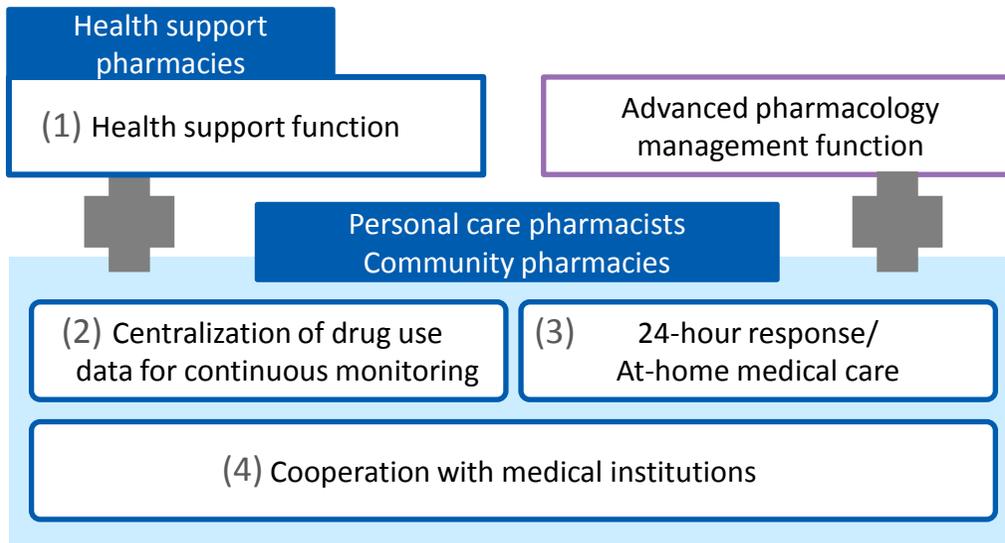


→ Proper oversight of progress toward reaching policy targets

Key

Use a PDCA cycle with key performance indicators (quantitative targets)

Examples of targets to consider (not final)

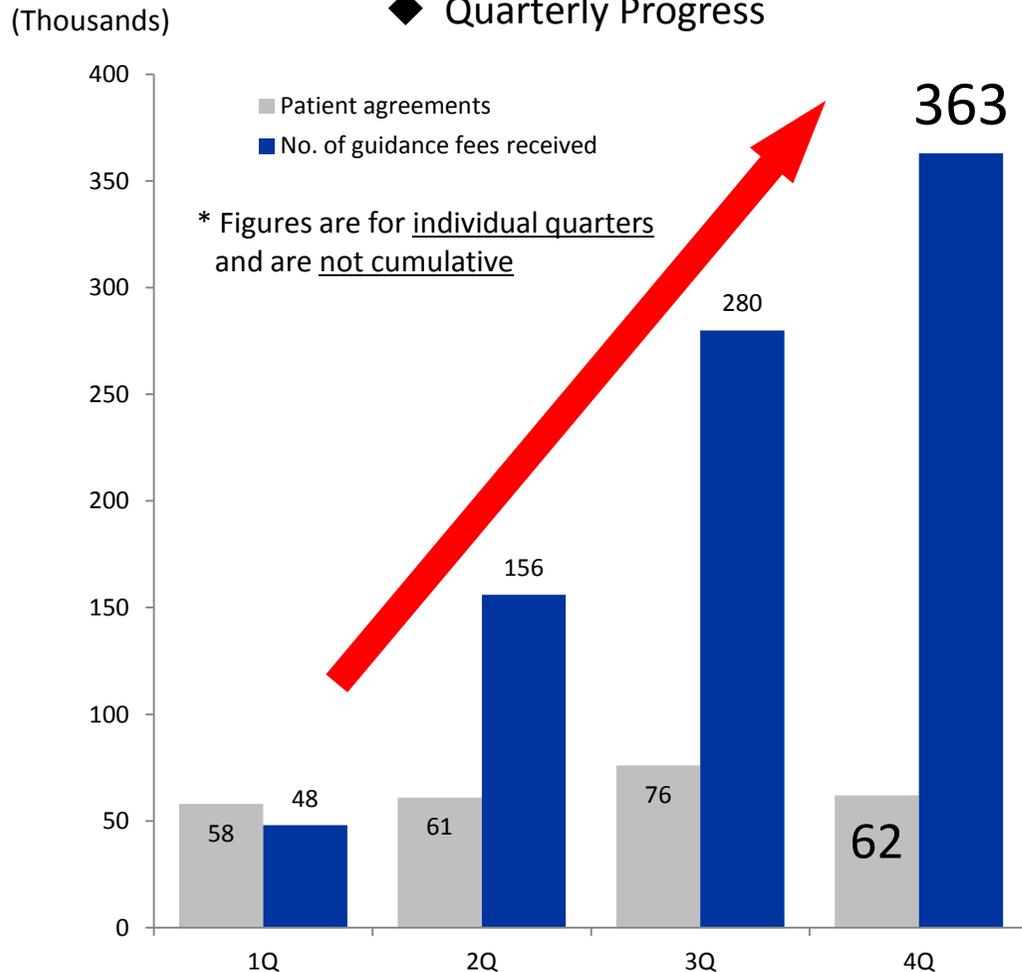


- (1) Number of pharmacies with pharmacists who have finished health support pharmacy training program and where these pharmacists attend community care meetings and meetings that maintain ties among many professions in the medical care/nursing care sector (at least one meeting in the past year)
- (2) Number of pharmacies using ICT, such as the electronic medication notebook and the electronic medication history system, for centralized and continuous monitoring of an individual's medications
- (3) Number of pharmacies with an average of at least one at-home medical care service each month provided during the past year
- (4) Number of pharmacies that have sent documents about an individual's medication or other subjects to physicians an average of once each month during the past year

Actions

Patient Agreements and Receipt of Guidance Fee regarding Personal Care Pharmacists

◆ Quarterly Progress



◆ Total Fiscal Year Agreements and Fees

Patient agreements

About 250,000

No. of guidance fees received

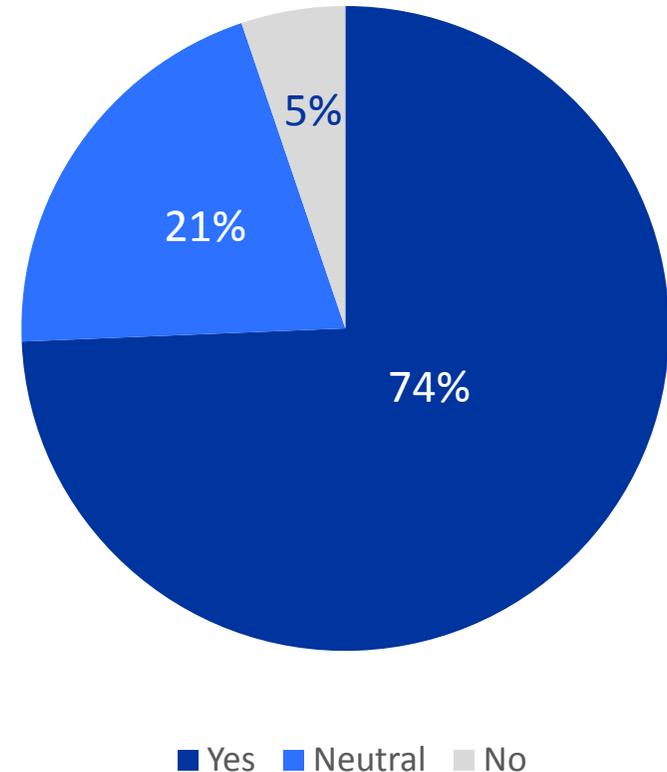
About 850,000

Note: Figures shown have been rounded to the nearest thousands.

Question 1

Has a personal care pharmacist been helpful for you?

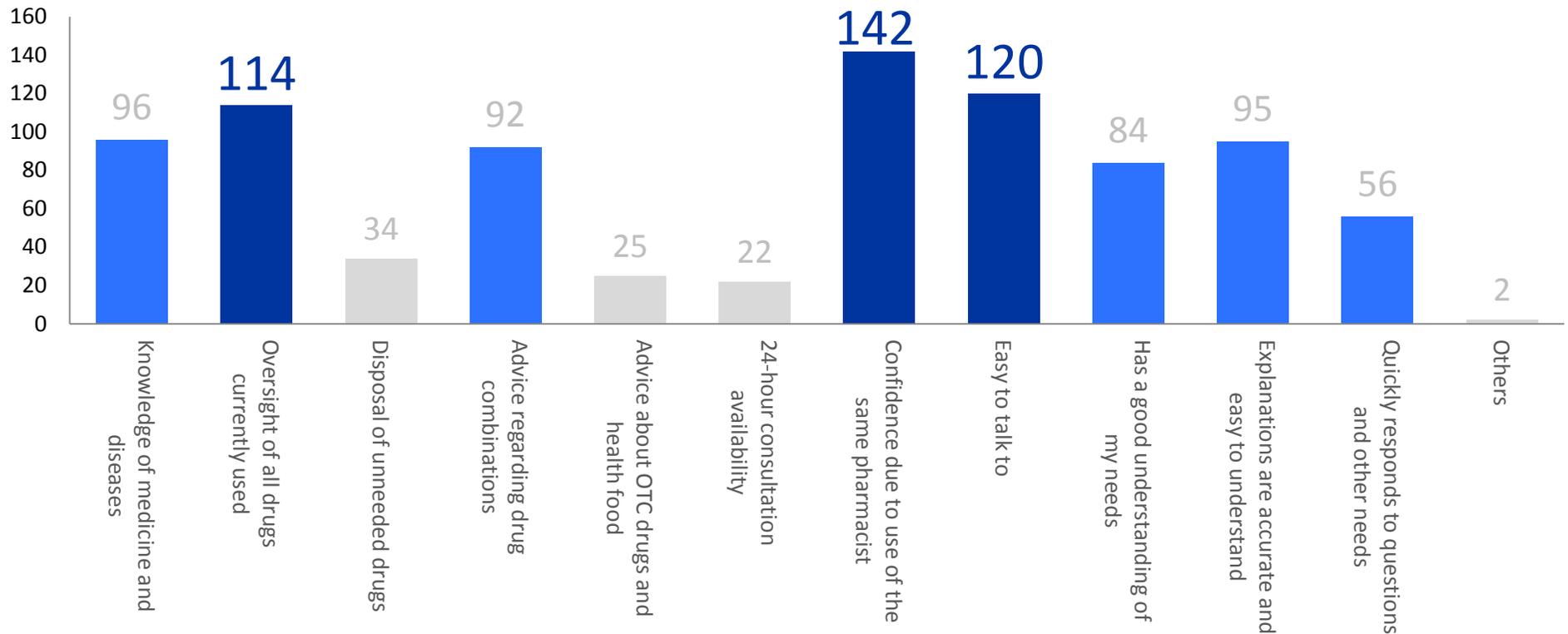
(Questionnaire was sent to people who have a Nihon Chouzai personal care pharmacist.)



This survey took place in January 2017. There were responses from 260 men and 415 women, a total of 675 people.

Question 2

How has a personal care pharmacist been helpful to you? (Multiple replies)
(Replies only from people who said their personal care pharmacists are helpful.)



This survey took place in January 2017. There were responses from 260 men and 415 women, a total of 675 people.

Better quality and safety

A diverse infrastructure for ensuring compliance

Quality

Nihon Chouzai is the only single company certified by The Pharmaceutical Society of Japan as a health support pharmacy training organization

Nihon Chouzai pharmacists participate in the hospital training programs of university hospitals and other hospitals

(Cancer drug treatment training for pharmacists and many other programs)

Safety

Finger vein identity authentication system
(Prevents fraud and ensures proper supervision of employees)

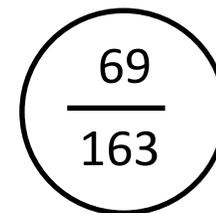


Dispensing Recorder
(Plan to rapidly increase use at Nihon Chouzai pharmacies of this device that was developed by Mizuno Pharmacy)



Advanced pharmacology management function

Pharmacies located adjacent to **more than 40%**
of all university hospitals in Japan



Pharmacies are at all National Cancer Center Hospitals



Many activities for providing highly advanced
pharmacology management capabilities

Pharmacists with Japanese Society of Pharmaceutical Health Care and
Sciences cancer specialist and other certifications

- Earning a specialty pharmacist certification is extremely difficult
- Measures for training that improves the quality of pharmacists

Health support function

Health check-up stations

Mainly “*mentaio*” (diversified customer-oriented) pharmacies and medical center (medical mall) pharmacies

Number of health check-up stations has grown to 150 over about three years



More pharmacies serving communities rather than a specific hospital

“*Mentaio*” and medical center pharmacies

Plan to increase the number of these pharmacies as the primary platform for health check-up stations

(There are currently 150 “*mentaio*” and medical center pharmacies.)

ICT x Personal care pharmacists

Electronic medication notebook “Okusuri Techo Plus”
At-home medical care management system



Joint Research with Graduate School of Medicine, The University of Tokyo



Gluconote

A health self-management support app for people with type 2 diabetes and IGT (Impaired Glucose Tolerance) patients



Okusuri Techo Plus



Personal care pharmacists

Alliance with the Dai-ichi Life Group

Needs involving the prevention of diseases

- (1) Sale of products covered by health insurance that make people more healthy
- (2) Joint health education activities using health check-up stations
- (3) Consideration of activities for healthy life styles that use the Okusuri Techo Plus electronic medication notebook
- (4) Joint activities for developing insurance products and services that contribute to healthy life styles

By your side, for life
一生涯のパートナー

第一生命

 Dai-ichi Life Group

 **ネオファースト生命**
第一生命グループ

The Neo First Life Insurance Company, Limited
Dai-ichi Life Group member

 **日本調剤**

Nihon Chouzai

Conclusion

Establish the Nihon Chouzai brand

Become an important part of Japan's social infrastructure



Q.
みなさん、自分の
「かかりつけ薬局」
ちゃんともっていますか？

日本調剤は、薬の専門家として
長い人生を支えています。

日本の
「かかりつけ薬局」
宣言

Dedicated to becoming a
community pharmacy

 日本調剤

The business climate for
pharmacies in Japan

Shifts in the roles and functions required at dispensing pharmacies



Reorganize all pharmacies to community pharmacies by 2025

Vision for Pharmacies That Put Customers First,
Ministry of Health, Labour and Welfare

More functions

Larger size

Aging owners/managers

(at pharmacies and clinics)



Faster pace of mergers
and acquisitions

Reorganization of Japan's
dispensing pharmacy market

The business climate for
pharmacies in Japan

Government actions involving issues in the pharmacy sector

Shifting focus from the problem of too many drugs to the problem of too many pharmacies

About half of pharmacies have only a single pharmacist

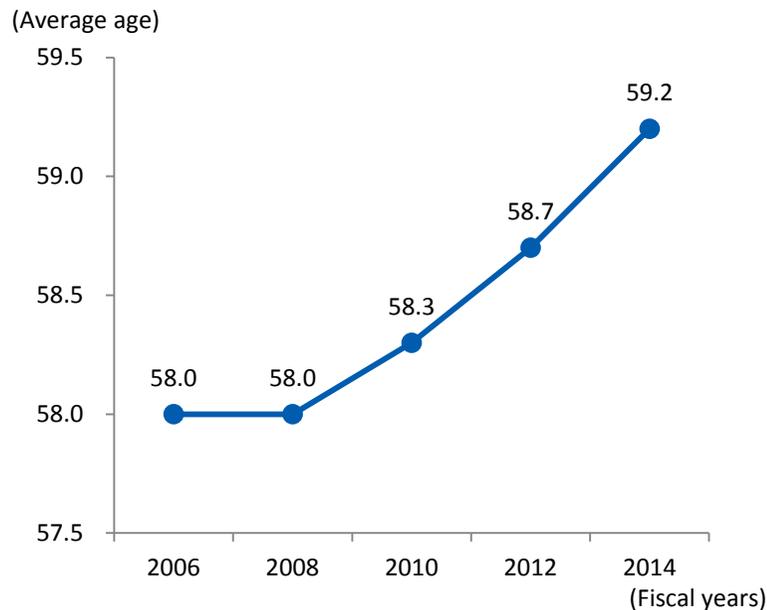
*Based on documents of the Social Security Working Group, Council on Economic and Fiscal Policy, Cabinet Office

The number of pharmacies in Japan increased from about 50,000 in 2004 to about 58,000 in 2014 and about half have only a single pharmacist.

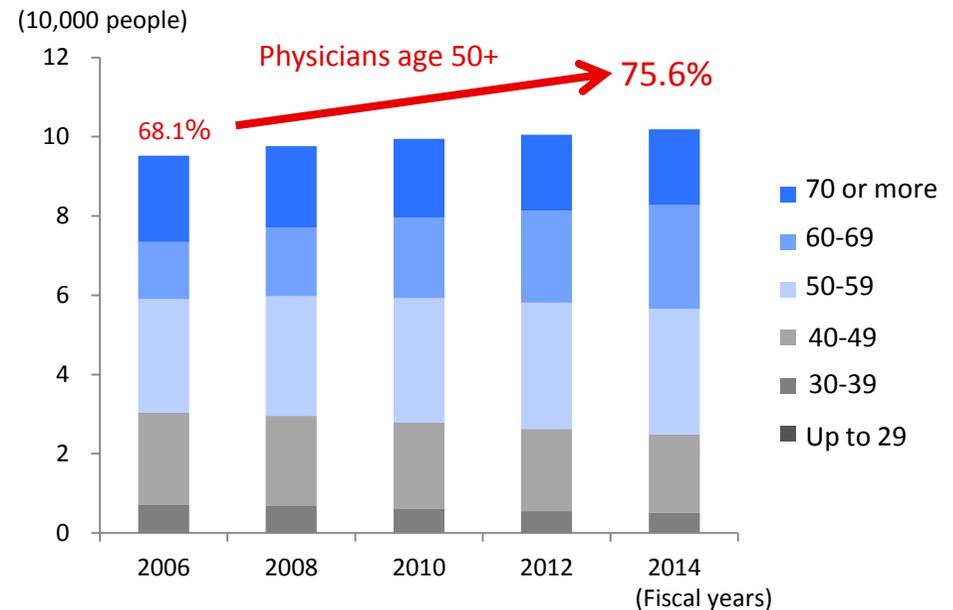
- Unable to provide sound personal care (centralized oversight) services
- This situation indicates that some consolidation may be needed

The business climate for pharmacies in Japan

Average Age of Physicians in Japan (at clinics)



Age of Physicians in Japan (at clinics)

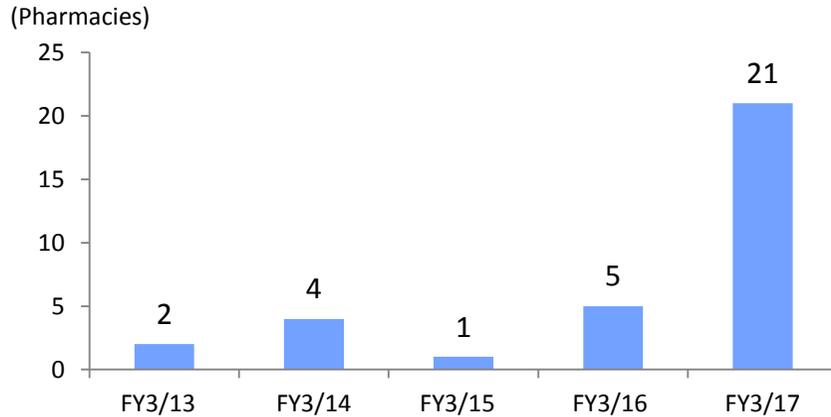


Survival of pharmacies is becoming difficult due to the rising age of clinic doctors

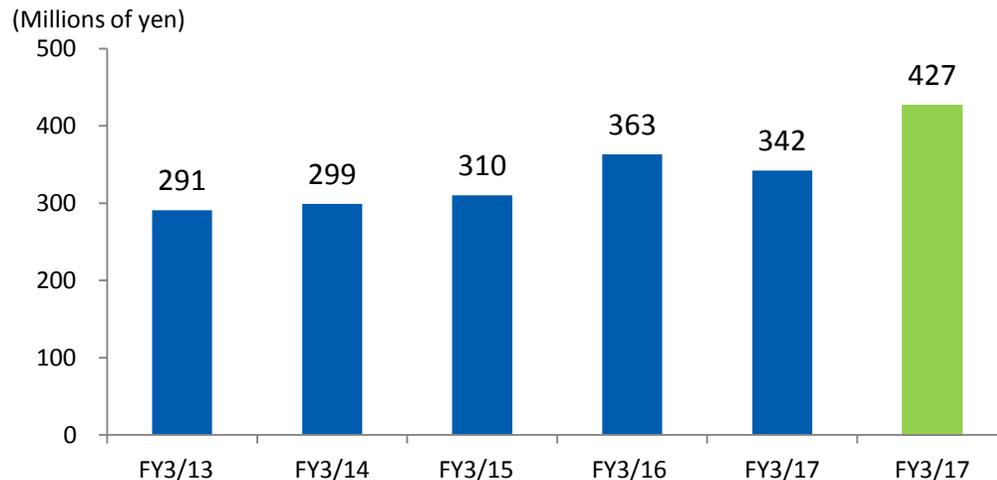
Nihon Chouzai M&A Strategy

Priority is Quality and Sales per Pharmacy

No. of Pharmacies Acquired



Prescription Drug Sales per Pharmacy



Only pharmacies added through M&As



Mizuno Pharmacy,
located in front of the University of Tokyo Hospital

Note: Prescription Drug Sales per Pharmacy =
Prescription Drug Sales / Average No. of Pharmacies
during the Period

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.