

**Summary of Consolidated Financial Results for the Third Quarter
of the Fiscal Year Ending March 31, 2022
(Nine Months Ended December 31, 2021)**

[Japanese GAAP]

Company name: NIHON CHOUZAI Co., Ltd. Listing: Tokyo Stock Exchange, First Section
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 Scheduled date of filing of Quarterly Report: February 14, 2022
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on January 31, 2022 at 15:00 (GMT +9).

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

**1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2022
(April 1, 2021 – December 31, 2021)**

(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	%
Nine months ended Dec. 31, 2021	223,439	7.2	5,827	1.0	6,058	4.9	1,096	(67.8)
Nine months ended Dec. 31, 2020	208,337	4.7	5,767	2.4	5,773	5.9	3,410	11.5

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2021: 1,112 (down 67.5%)

Nine months ended Dec. 31, 2020: 3,427 (up 11.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2021	36.57	—
Nine months ended Dec. 31, 2020	113.74	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2021	181,904	50,231	27.6
As of Mar. 31, 2021	186,262	49,868	26.8

Reference: Shareholders' equity (million yen) As of Dec. 31, 2021: 50,231 As of Mar. 31, 2021: 49,868

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2021	—	12.50	—	12.50	25.00
Fiscal year ending Mar. 31, 2022	—	12.50	—		
Fiscal year ending Mar. 31, 2022 (forecasts)				12.50	25.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(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	294,600	5.6	7,000	(13.6)	7,000	(16.8)	4,000	13.0	133.39

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: Yes

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 Dec. 31, 2021:	32,048,000 shares	As of Mar. 31, 2021:	32,048,000 shares
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2) Number of treasury shares at the end of period

As of Dec. 31, 2021:	2,061,175 shares	As of Mar. 31, 2021:	2,061,074 shares
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3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2021:	29,986,867 shares	Nine months ended Dec. 30, 2020:	29,987,066 shares
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Note 1: The quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

(1) Note concerning forward-looking statements

Forecasts and other forward-looking statements in this document incorporate risks and uncertainties because these statements are based on Nihon Chouzai's judgments and assumptions using information that is currently available. These materials are not promises by Nihon Chouzai regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

(2) How to view supplementary materials for financial results

Supplementary materials for quarterly financial results will be disclosed at the Timely Disclosure network (TDnet) as appropriate, and also will be 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 third quarter of the current consolidated fiscal year (April 2021–December 2021), Japan's economy showed signs of recovery as the effects of COVID-19 gradually receded. However, the discovery of new variants among other factors continued to render the situation unpredictable, and the economic situation remains uncertain.

In this economic environment, keenly aware of our role as a medical institution tasked with supporting medical care in our communities, our Group undertook thorough infection prevention measures in our pharmacies while continuing to offer quality medical care. We are also taking ongoing steps to rein in costs across the Group to improve profitability.

In December 2021, the Group formulated a Basic Sustainability Policy to further reinforce and put into place sustainability initiatives, and established a Sustainability Committee, chaired by the President and CEO. At the same time, we identified material issues (key issues) requiring a priority response.

In August 2021, the Group announced a Digital Transformation (DX) Strategy to step up our efforts in this area. Our initiatives to move forward with digital transformation, as well as to enhance appropriate disclosure to stakeholders, have met with highly positive feedback. On December, 2021, Nihon Chouzai was the first company in Japan's pharmacy industry to be certified as a DX Business Operator under the certification system established by the Ministry of Economy, Trade and Industry (METI).

In the Dispensing Pharmacy Business, the Group began rolling out an online insurance eligibility verification system using patients' Individual Number Cards to pharmacies nationwide during a trial launch initiated in March 2021. Full-fledged operations began in October 2021, with 663 Group pharmacies nationwide operating the system as of October 20, 2021.

In the Pharmaceutical Manufacturing and Sales Business, there was a fire at a contract logistics center in western Japan to which Nihon Generic Co., Ltd. outsources warehousing operations for its products, causing damage to products stored there. Although distribution functions have already nearly returned to normal, mainly through a logistics center in eastern Japan, the Group recorded the amount of damage to inventory as an extraordinary loss. However, all of the products damaged by the fire are covered by insurance.

Choseido Pharmaceutical Co., Ltd. has formulated a business improvement plan in response to an administrative directive issued in October 2021. The Nihon Chouzai Group has been working together to prevent recurrence of the issue identified and improve quality control. The period of suspension of business operations specified by the administrative disciplinary action has elapsed, and Choseido Pharmaceutical resumed all pharmaceutical manufacturing and sales operations on November 12.

The Medical Professional Staffing and Placement Business continued to be impacted by COVID-19, which put downward pressure on demand for temporary pharmacist staffing and pharmacist placements. However, the Group expanded its placements of doctors, including to sites involved in the rollout of Japan's COVID-19 vaccination program.

Net sales for the first nine months of the current consolidated fiscal year were 223,439 million yen (+7.2% YoY), operating profit was 5,827 million yen (+1.0% YoY), ordinary profit was 6,058 million yen (+4.9% YoY), and profit attributable to owners of the parent was 1,096 million yen (-67.8% YoY).

The Group will continue to make every effort to prevent the spread of COVID-19 and provide high-quality medical care to ensure that patients and customers can use our services with peace of mind.

Segment-specific earnings are as indicated below.

1) Dispensing Pharmacy Business

In the first nine months of the current consolidated fiscal year, the Dispensing Pharmacy Business reported net sales of 197,389 million yen (+9.0% YoY) and operating profit of 9,108 million yen (+30.3% YoY).

The total number of pharmacies at the end of December came to 690 stores (including one merchandise store) as a result of 30 new store openings and 10 store closures during the period.

Although COVID-19 continued to impact performance, sales and operating profit both increased on the back of new pharmacy openings in the previous fiscal year and a greater volume of prescriptions.

Generic pharmaceuticals represented 89.0% of the Group's total pharmaceutical usage in volume terms as of the end of December. Pharmacies performing at-home medical care (12 or more home visits per year) has steadily increased, now standing at 92.4%.

2) Pharmaceutical Manufacturing and Sales Business

In the first nine months of the current consolidated fiscal year, the Pharmaceutical Manufacturing and Sales Business reported net sales of 35,274 million yen (+0.1% YoY) and operating profit of 1,294 million yen (-41.3% YoY).

Higher sales were owing to brisk performance of drugs newly NHI listed in 2019, 2020 and 2021, which offset the steep decline in selling prices for existing drugs under the April 2021 drug price revision. The sharp decline in operating profit reflects a combination of factors. In addition to efforts to reduce costs, the Group continues to pursue a sales policy focused on profitability and to expand sales of newly listed drugs manufactured in-house. Nevertheless, these efforts were offset mainly by the impact of product recalls following quality issues at Choseido Pharmaceutical and of the temporary suspension of business operations under administrative disciplinary action. On the other hand, the company has been making steady business improvements based on its announced business improvement plan. At the end of the third quarter of the current consolidated fiscal year, the Group had 669 drugs on the market (including two over-the-counter drugs).

3) Medical Professional Staffing and Placement Business

In the first nine months of the current consolidated fiscal year, the Medical Professional Staffing and Placement Business reported net sales of 5,207 million yen (-21.6% YoY) and operating profit of 423 million yen (-35.1% YoY).

Sales were down as the pandemic constrained demand for temporary pharmacist staffing. The decline in operating profit reflects a contraction in temporary staffing and placements in the pharmacist business, which offset expansion in placements of doctors, including to sites involved in the rollout of Japan's COVID-19 vaccination program.

(2) Explanation of Financial Position

Total assets at the end of the third quarter of the current consolidated fiscal year came to 181,904 million yen, a decrease of 2.3%, or 4,358 million yen, from 186,262 million yen at the end of the fiscal year ended March 2021. Growth in assets was mainly due to a decrease in cash and deposits.

Total liabilities were 131,673 million yen, a decrease of 3.5%, or 4,720 million yen, from 136,394 million yen at the end of the previous fiscal year. This was mainly due to a decrease in Long-term loans payable.

Total net assets were 50,231 million yen, an increase of 362 million yen from 49,868 million yen at the end of the previous fiscal year. As a result, the equity ratio came to 27.6%.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the full-year consolidated forecast in the “Notice of Revisions to Full-year Consolidated Earnings Forecast” of October 29, 2021.

As announced in "(Update on Previous Disclosure) Notice Regarding Recording of Extraordinary Loss Due to Fire at a Contract Logistics Center of a Consolidated Subsidiary " today, the amount of damage caused by this fire has been recorded an extraordinary loss of 3.91 billion yen. However, all of the products damaged by the fire were covered by insurance, and the Company expects to record insurance claim income by the end of the current fiscal year. The insurance company is in the process of finalizing the insurance claim amount, but we will promptly make an announcement should matters requiring disclosure arise.

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

(Millions of yen)

	FY3/21 (As of Mar. 31, 2021)	Third quarter of FY3/22 (As of Dec. 31, 2021)
Assets		
Current assets		
Cash and deposits	32,893	25,073
Notes receivable-trade	80	46
Accounts receivable-trade	21,050	—
Accounts receivable-trade and contract assets	—	20,725
Electronically recorded monetary claims-operating	831	575
Merchandise and finished goods	23,139	26,357
Work in process	1,413	1,660
Raw materials and supplies	6,174	6,579
Other	3,668	3,684
Allowance for doubtful accounts	(6)	(6)
Total current assets	89,246	84,696
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	29,566	29,241
Land	14,198	14,136
Construction in progress	1,649	1,356
Other, net	19,370	19,256
Total property, plant and equipment	64,785	63,990
Intangible assets		
Goodwill	16,508	15,768
Other	2,443	3,126
Total intangible assets	18,952	18,894
Investments and other assets		
Investment securities	16	16
Leasehold and guarantee deposits	8,288	8,664
Other	4,972	5,641
Total investments and other assets	13,277	14,322
Total non-current assets	97,015	97,208
Total assets	186,262	181,904

(Millions of yen)

	FY3/21 (As of Mar. 31, 2021)	Third quarter of FY3/22 (As of Dec. 31, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	44,044	51,581
Electronically recorded obligations-operating	2,742	3,399
Short-term loans payable	—	1,600
Current portion of long-term loans payable	27,966	21,966
Income taxes payable	884	397
Provision for bonuses	3,602	1,968
Provision for bonuses for directors (and other officers)	46	—
Other	8,434	8,534
Total current liabilities	87,720	89,448
Non-current liabilities		
Long-term loans payable	42,997	36,752
Provision for retirement benefits for directors (and other officers)	199	67
Retirement benefit liability	2,153	2,298
Other	3,323	3,107
Total non-current liabilities	48,673	42,225
Total liabilities	136,394	131,673
Net assets		
Shareholders' equity		
Share capital	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	38,551	38,898
Treasury shares	(3,500)	(3,500)
Total shareholders' equity	49,931	50,278
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	(63)	(47)
Total accumulated other comprehensive income	(63)	(47)
Total net assets	49,868	50,231
Total liabilities and net assets	186,262	181,904

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

(Millions of yen)

	First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)	First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)
Net sales	208,337	223,439
Cost of sales	171,658	183,714
Gross profit	36,679	39,724
Selling, general and administrative expenses	30,911	33,897
Operating profit	5,767	5,827
Non-operating income		
Commission income	26	28
Rental income	328	372
Compensation income	51	—
Insurance Income	—	134
Subsidy Income	223	164
Other	143	269
Total non-operating income	774	969
Non-operating expenses		
Interest expenses	238	229
Rent expenses	249	285
Other	280	224
Total non-operating expenses	768	738
Ordinary profit	5,773	6,058
Extraordinary income		
Gain on sales of non-current assets	398	6
Reversal of provision for retirement benefits for directors (and other officers)	—	46
Gain on transfer from business divestitures	—	67
Total extraordinary income	398	120
Extraordinary losses		
Loss on abandonment of non-current assets	375	—
Impairment loss	227	228
Loss on sales of non-current assets	1	—
Loss on disaster	—	3,910
Total extraordinary losses	603	4,138
Profit before income taxes	5,568	2,039
Income taxes-current	1,235	1,705
Income taxes-deferred	922	(762)
Total income taxes	2,157	943
Profit	3,410	1,096
Profit attributable to owners of parent	3,410	1,096

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

(Millions of yen)

	First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)	First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)
Profit	3,410	1,096
Other comprehensive income		
Remeasurements of defined benefit plans, net of tax	16	16
Total other comprehensive income	16	16
Comprehensive income	3,427	1,112
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,427	1,112

(3) Notes to Quarterly Consolidated Financial Statements

Going-concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Change in Accounting Policy

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020; hereinafter referred to as the "Accounting Standard for Revenue Recognition") and other standards with effect from the beginning of the first quarter ended June 30, 2021, and recognizes revenue when the control of the promised goods or services is transferred to the customer at the amount that the Company expects to receive in exchange for such goods or services. As a result, there is no impact on profit and loss for the third quarter of the current fiscal year. There is also no effect on the balance of retained earnings at the beginning of the period.

With the application of the Accounting Standard for Revenue Recognition, etc., "Accounts receivable-trade" presented under "Current assets" in the consolidated balance sheet for the fiscal year ended March 31, 2021 is included in and presented as part of "Accounts receivable-trade and contract assets" with effect from the first quarter ended June 30, 2021. In accordance with the transitional treatment stipulated in paragraph 89-2 of the Accounting Standard for Revenue Recognition, the amounts reported in the fiscal year ended March 31, 2021 are not reclassified using the new presentation method. Moreover, in accordance with the transitional treatment prescribed under Paragraph 28-15 of Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), a breakdown of income from contracts with customers has not been presented for the first nine months of FY2021

(Application of Accounting Standard for Fair Value Measurement)

The Company has applied "Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, July 4, 2019; hereinafter, "Fair Value Accounting Standards") and others from April 1, 2021. In accordance with the transitional treatment set forth in Article 19 of Fair Value Accounting Standards and Article 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, July 4, 2019), the Company has applied prospectively a new accounting policy prescribed by Fair Value Accounting Standards and others. This has no effect on the quarterly consolidated financial statement.

Segment and Other Information

Segment information

I. First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)

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	181,125	20,605	6,607	208,337	—	208,337
(2) Inter-segment sales and transfers	—	14,629	37	14,666	(14,666)	—
Total	181,125	35,235	6,644	223,004	(14,666)	208,337
Segment profit (loss)	6,991	2,205	653	9,850	(4,082)	5,767

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 negative adjustment of 4,082 million yen to segment profit (loss) includes eliminations of minus 113 million yen for inter-segment transactions and corporate expenses of minus 3,969 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 of 227 million yen for store assets (four pharmacies).

Significant change in goodwill

Not applicable.

II. First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)

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	197,389	20,847	5,201	223,439	—	223,439
(2) Inter-segment sales and transfers	—	14,426	6	14,433	(14,433)	—
Total	197,389	35,274	5,207	237,872	(14,433)	223,439
Segment profit (loss)	9,108	1,294	423	10,827	(5,000)	5,827

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 negative adjustment of 5,000 million yen to segment profit (loss) includes eliminations of minus 72 million yen for inter-segment transactions and corporate expenses of minus 4,928 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 of 228 million yen for store assets (five pharmacies).

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.