



July 31, 2018

**Summary of Consolidated Financial Results for the First Quarter
of the Fiscal Year Ending March 31, 2019
(Three Months Ended June 30, 2018)**

[Japanese GAAP]

Company name: NIHON CHOUZAI Co., Ltd.
Stock code: 3341
Representative: Hiroshi Mitsuhashi, President & CEO
Contact: Yoshiki Kamada, Managing Director

Listing: Tokyo Stock Exchange, First Section
URL: <http://www.nicho.co.jp>

Scheduled date of filing of Quarterly Report:

Tel: +81-(0) 3-6810-0800

Scheduled date of payment of dividend:

August 14, 2018

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 July 31, 2018 at 15:00 (GMT +9).

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

**1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2019
(April 1, 2018 – June 30, 2018)**

(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	%
Three months ended Jun. 30, 2018	59,305	1.6	501	(77.1)	398	(81.0)	40	(96.4)
Three months ended Jun. 30, 2017	58,346	7.1	2,184	34.8	2,090	35.2	1,122	14.5

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2018: 64 (down 94.3%)

Three months ended Jun. 30, 2017: 1,124 (up 15.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2018	2.56	-
Three months ended Jun. 30, 2017	70.21	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2018	196,030	41,171	21.0
As of Mar. 31, 2018	186,569	41,506	22.2

Reference: Shareholders' equity (million yen) As of Jun 30, 2018: 41,170 As of Mar. 31, 2017: 41,504

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year ended Mar. 31, 2018	Yen -	Yen 25.00	Yen -	Yen 25.00	Yen 50.00
Fiscal year ending Mar. 31, 2019	-	-	-	-	-
Fiscal year ending Mar. 31, 2019 (forecasts)	-	25.00	-	25.00	50.00

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

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(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
First half	123,146	4.2	1,549	(68.3)	1,409	(69.6)	932	(66.8)	58.32
Full year	253,893	5.2	6,318	(40.3)	6,078	(40.1)	3,756	(38.5)	234.84

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

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock shares)

1) Number of shares outstanding at the end of period (including treasury shares)

As of Jun. 30, 2018:	16,024,000 shares	As of Mar. 31, 2018:	16,024,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2018:	29,888 shares	As of Mar. 31, 2018:	29,868 shares
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3) Average number of shares outstanding during the period

Three months ended Jun. 30, 2018:	15,994,114 shares	Three months ended Jun. 30, 2017:	15,994,485 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 pharmaceutical and dispensing pharmacy industries during the first quarter (April to June) of the fiscal year ending on March 31, 2019, there were revisions in April to prescription dispensing fees and drug prices that are made once every two years. The April 2018 revisions included strong demands for dispensing pharmacies to use cooperation with many professions in the health care sector and contribute to community medical care in order to establish a comprehensive regional medical care system in Japan. These goals are consistent with measures to use family pharmacists and pharmacies in order to achieve the Vision of Pharmacies for Patients of Japan's Ministry of Health, Labour and Welfare. The goals also match Nihon Chouzai's long-term vision of becoming an organization with pharmacists and pharmacies that people choose over others.

The April 2018 revisions included the normal reductions in drug prices as well as a significant decline in the number of drugs that are subject to the price maintenance premium for supporting drug discovery. In addition, there was a reexamination of the evaluations of hospital-front pharmacies as part of revisions to prescription dispensing fees. One change was a reduction in the basic dispensing fee at pharmacies where one medical institution accounts for a large share of all prescriptions filled. These and other revisions created major challenges for Nihon Chouzai and other pharmacy companies in Japan and had an impact on first quarter results of operations.

During the first quarter, the Nihon Chouzai Group continued to take actions for providing high-quality medical services and holding down growth in health care expenditures. Despite these measures, lower unit prices and a decline in the gross profit caused by the April price revisions as well as substantial up-front investments in all business segments had a big impact on results of operations. As a result, consolidated sales increased but earnings decreased. Net sales increased 1.6% year on year to 59,305 million yen. Operating profit decreased 77.1% to 501 million yen, ordinary profit decreased 81.0% to 398 million yen and profit attributable to owners of parent fell 96.4% to 40 million yen. Although first quarter sales and profit attributable to owners of parent were slightly below the initial plan, operating profit and ordinary profit were higher than planned.

Business segment performance was as follows.

1) Dispensing Pharmacy Business

In the first quarter of the current fiscal year, Nihon Chouzai opened eight pharmacies in the dispensing pharmacy business and closed four. Consequently, there were 589 pharmacies (including three pharmacies specializing in the sale of general merchandise) at the end of the first quarter. Net sales in this segment increased 2.2% year on year to 50,449 million yen. There was a big decrease in prescription unit prices because of revisions to drug prices and prescription dispensing fees. However, this decrease was offset by an increase in the number of prescriptions that was attributable mostly to pharmacies opened in the previous fiscal year and the first quarter of the current fiscal year. Drug price cuts and revisions to prescription dispensing fees brought down earnings, resulting in a 44.1% decrease in this segment's operating profit to 1,404 million yen. Sales and earnings in this business were generally as expected because the fiscal year plan included the effects of drug price and prescription dispensing fee revisions.

The Japanese government has established the target of raising the volume-based share of generic drugs to at least 80% by September 2020. At Nihon Chouzai pharmacies, the average rate of generic drug utilization rate was 85% at the end of June 2018. Moreover, 90% of pharmacies were offering at-home medical care services (number of pharmacies providing at least 12 services in a year). Steady growth in the number of registered members using Nihon Chouzai's Okusuri Techo Plus electronic medication notebook continued. As of July 3, 2018, there were more than 260,000 members.

2) Pharmaceutical Manufacturing and Sales Business

First quarter sales increased 3.7% to 9,754 million yen despite the impact of the drug price reduction in April. Segment operating profit fell 81.4% to 59 million yen because of an increase in depreciation expenses due to the acquisition of new equipment. Although earnings fell sharply, first quarter operating profit was higher than initially planned.

Thirteen items were added in June and the number of product items sold in this business segment was 659 at the end of the first quarter.

3) Medical Professional Staffing and Placement Business

There is consistently strong demand for staffing and placement services, particularly for pharmacists. In the first quarter, there was an increase in pharmacist temporary and permanent placements and a big increase in physician placement services. The result was a 3.5% increase in sales to 3,217 million yen. Segment operating profit was down 33.4% to 401 million yen because of upfront investments for expansion of the physician placement business. These investments were used to increase advertising and marketing for raising the number of physicians registered for placements, to expand the service network and sales team, and for other actions. Despite this decrease, first quarter earnings were generally consistent with the initial plan just as in the other two business segments.

(2) Explanation of Financial Position

Total assets increased 9,460 million yen, or 5.1%, from the end of March 2018 to 196,030 million yen at the end of June 2018. Current assets were 90,742 million yen, an increase of 9,128 million yen, or 11.2%. This was attributable mainly to an increase in cash and deposits and an increase in merchandise and finished goods in the dispensing pharmacy business as drug inventories returned to the normal level following a reduction at the end of March 2018 prior to the April drug price revisions. There was no significant change in non-current assets, which increased 331 million yen, or 0.3%, to 105,287 million yen.

Total liabilities increased 9,795 million yen, or 6.8%, to 154,858 million yen primarily because of an increase in accounts payable-trade associated with returning inventories in the dispensing pharmacy business to the normal level.

Net assets decreased 335 million yen, or 0.8%, to 41,171 million yen.

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

There are no revisions to the consolidated forecast for the fiscal year ending March 31, 2019 that was announced on April 27, 2018.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY3/18 (As of Mar. 31, 2018)	First quarter of FY3/19 (As of Jun. 30, 2018)
Assets		
Current assets		
Cash and deposits	28,464	34,510
Notes receivable-trade	213	357
Accounts receivable-trade	19,902	18,844
Electronically recorded monetary claims-operating	1,115	940
Merchandise and finished goods	20,873	25,925
Work in process	1,304	1,489
Raw materials and supplies	6,047	5,730
Other	3,698	2,948
Allowance for doubtful accounts	(6)	(5)
Total current assets	81,613	90,742
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	34,418	34,671
Land	19,357	19,397
Construction in progress	6,750	5,599
Other, net	15,135	15,780
Total property, plant and equipment	75,662	75,449
Intangible assets		
Goodwill	15,418	15,069
Other	2,534	2,557
Total intangible assets	17,952	17,627
Investments and other assets		
Investment securities	20	18
Lease and guarantee deposits	7,049	7,436
Other	4,272	4,757
Total investments and other assets	11,341	12,211
Total non-current assets	104,956	105,287
Total assets	186,569	196,030

	(Millions of yen)	
	FY3/18 (As of Mar. 31, 2018)	First quarter of FY3/19 (As of Jun. 30, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	36,203	46,211
Electronically recorded obligations-operating	3,770	4,858
Current portion of long-term loans payable	15,309	22,430
Income taxes payable	3,040	923
Provision for bonuses	2,775	1,555
Provision for directors' bonuses	137	-
Other	9,074	11,024
Total current liabilities	70,310	87,003
Non-current liabilities		
Long-term loans payable	68,372	61,743
Provision for directors' retirement benefits	1,048	1,017
Net defined benefit liability	1,503	1,551
Other	3,827	3,542
Total non-current liabilities	74,752	67,854
Total liabilities	145,062	154,858
Net assets		
Shareholders' equity		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	26,816	26,457
Treasury shares	(47)	(47)
Total shareholders' equity	41,648	41,289
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Remeasurements of defined benefit plans	(144)	(119)
Total accumulated other comprehensive income	(144)	(119)
Non-controlling interests	2	0
Total net assets	41,506	41,171
Total liabilities and net assets	186,569	196,030

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

	(Millions of yen)	
	First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)
Net sales	58,346	59,305
Cost of sales	47,693	49,547
Gross profit	10,652	9,757
Selling, general and administrative expenses	8,468	9,256
Operating profit	2,184	501
Non-operating income		
Commission fee	37	14
Rent income	104	110
Other	55	53
Total non-operating income	197	178
Non-operating expenses		
Interest expenses	169	149
Commission fee	4	3
Rent expenses	79	86
Other	37	41
Total non-operating expenses	291	281
Ordinary profit	2,090	398
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	-	8
Total extraordinary income	0	8
Profit before income taxes	2,090	406
Income taxes-current	1,389	871
Income taxes-deferred	(422)	(504)
Total income taxes	967	367
Profit	1,122	39
Loss attributable to non-controlling interests	-	(1)
Profit attributable to owners of parent	1,122	40

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

	(Millions of yen)	
	First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)
Profit	1,122	39
Other comprehensive income		
Valuation difference on available-for-sale securities	(17)	0
Remeasurements of defined benefit plans, net of tax	19	24
Total other comprehensive income	1	24
Comprehensive income	1,124	64
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,124	65
Comprehensive income attributable to non-controlling interests	-	(1)

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Additional Information

Application of consolidated taxation system

Nihon Chouzai and some of its consolidated subsidiaries started using the consolidated taxation system in the first quarter of the current fiscal year

Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”

Nihon Chouzai started the application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) at the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets are reclassified and included in the investments and other assets section.

Segment and Other Information

Segment information

I. First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)

1. Information related to net sales, profit or loss for each reportable segment (Millions of yen)

	Reportable segment				Adjustment (Note)	Amounts shown on quarterly consolidated statement of income
	Dispensing pharmacy business	Pharmaceutical manufacturing and sales business	Medical professional staffing and placement business	Total		
Net sales						
(1) External sales	49,384	5,987	2,974	58,346	-	58,346
(2) Inter-segment sales and transfers	3	3,420	132	3,555	(3,555)	-
Total	49,387	9,407	3,107	61,902	(3,555)	58,346
Segment profit (loss)	2,511	318	601	3,431	(1,246)	2,184

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The adjustment of -1,246 million yen to segment profit (loss) includes eliminations of -78 million yen for inter-segment transactions and corporate expenses of -1,168 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 assets for each reportable segment

Not applicable.

3. Information related to impairment losses on non-current assets or goodwill, etc. for each reportable segment

Not applicable.

II. First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)

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	50,446	5,730	3,128	59,305	-	59,305
(2) Inter-segment sales and transfers	3	4,024	89	4,116	(4,116)	-
Total	50,449	9,754	3,217	63,421	(4,116)	59,305
Segment profit (loss)	1,404	59	401	1,864	(1,363)	501

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The adjustment of -1,363 million yen to segment profit (loss) includes eliminations of -96 million yen for inter-segment transactions and corporate expenses of -1,267 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 assets for each reportable segment

Not applicable.

3. Information related to impairment losses on non-current assets or goodwill, etc. for each reportable segment

Not applicable.

Subsequent Events

Significant acquisition of treasury shares

On July 31, 2018, the Board of Directors of Nihon Chouzai approved a resolution to repurchase its stock as follows pursuant to Article 156 of the Companies Act, which is applicable in lieu of Article 165, Paragraph 3 of this act.

1. Reason for stock repurchase:

To improve capital efficiency and adopt timely and flexible financial strategies in response to changes in the operating environment.

2. Type of shares to be repurchased: Common shares of Nihon Chouzai

3. Total number of shares to be repurchased: Up to 1,000,000 shares

4. Total value of shares to be repurchased: Up to 4,000 million yen

5. Repurchase schedule: From August 1, 2018 to March 20, 2019

6. Method of repurchase: Purchase on the Tokyo Stock Exchange

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.