



October 31, 2019

**Summary of Consolidated Financial Results for the Second Quarter  
of the Fiscal Year Ending March 31, 2020  
(Six Months Ended September 30, 2019)**

[Japanese GAAP]

Company name: NIHON CHOUZAI Co., Ltd. Listing: Tokyo Stock Exchange, First Section  
 Stock code: 3341 URL: <https://www.nicho.co.jp>  
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 Scheduled date of filing of Quarterly Report: November 14, 2019  
 Scheduled date of payment of dividend: December 5, 2019  
 Preparation of supplementary materials for quarterly financial results: Yes  
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)  
 Note: The original disclosure in Japanese was released on October 31, 2019 at 15:00 (GMT +9).

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

**1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020  
(April 1, 2019 – September 30, 2019)**

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2019	130,297	9.8	4,066	162.8	4,001	216.2	2,094	181.2
Six months ended Sep. 30, 2018	118,694	0.5	1,547	(68.4)	1,265	(72.7)	744	(73.4)

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2019: 2,106 (up 170.5%)  
 Six months ended Sep. 30, 2018: 778 (down 69.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2019	139.71	-
Six months ended Sep. 30, 2018	46.77	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2019	179,334	42,804	23.9
As of Mar. 31, 2019	178,677	41,073	23.0

Reference: Shareholders' equity (million yen) As of Sep. 30, 2019: 42,799 As of Mar. 31, 2019: 41,068

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2019	-	25.00	-	25.00	50.00
Fiscal year ending Mar. 31, 2020	-	25.00	-	-	-
Fiscal year ending Mar. 31, 2020 (forecasts)	-	-	-	25.00	50.00

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

**3. Consolidated Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)**

(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	268,599	9.3	7,231	7.4	7,069	16.3	4,020	6.1	268.17

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

**\* Notes**

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

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

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

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

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

3) Changes in accounting-based estimates: None

4) Restatements: None

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

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

As of Sep. 30, 2019:	16,024,000 shares	As of Mar. 31, 2019:	16,024,000 shares
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2) Number of treasury shares at the end of period

As of Sep. 30, 2019:	1,030,317 shares	As of Mar. 31, 2019:	1,030,190 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2019:	14,993,765 shares	Six months ended Sep. 30, 2018:	15,927,988 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

Nihon Chouzai plans to hold an information meeting for institutional investors and analysts regarding results of operations on November 7, 2019. Materials distributed at this event will also be disclosed, using the Timely Disclosure network (TDnet), and available on the Nihon Chouzai website.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

In the first half (April to September) of the fiscal year ending on March 31, 2020, the Japanese Cabinet approved in June the Basic Policy on Economic and Fiscal Management and Reform 2019 – The New Reiwa Era: Challenges toward Society 5.0. In September, the first All-Generations Social Security Conference was held with the goal of creating a social security system that allows everyone to live with no worries. As a result, Japan has started the discussions aimed at determining a basic stance and specific policies concerning social security reforms as Japan prepares for an era when many people can expect to live 100 years. Furthermore, rapid and dramatic changes are about to take place that affect the health care and pharmaceutical sectors. For example, the Central Social Insurance Medical Council (an advisory committee to the Minister of Health, Labour and Welfare) has started discussions about prescription fees as one step toward enacting reforms for medical treatment fees in 2020.

In this environment, the entire Nihon Chouzai Group is taking many actions aimed at holding down growth in health care expenses and providing high-quality medical services. Due to these activities, first half sales and earnings were much higher than one year earlier in all business segments. Most significant was the contribution to the big increase in earnings of the steady progress at all group companies with cost cutting and other measures to improve profitability.

Net sales increased 9.8% year on year to 130,297 million yen. Operating profit increased 162.8% to 4,066 million yen, ordinary profit increased 216.2% to 4,001 million yen and profit attributable to owners of parent rose 181.2% to 2,094 million yen. Furthermore, sales and earnings at all level were well ahead of the pace required to achieve the initial sales and earnings targets for the fiscal year.

Business segment performance was as follows.

#### 1) Dispensing Pharmacy Business

During the first half of the current fiscal year, Nihon Chouzai opened 20 pharmacies and closed seven (including one location that was converted from a store specializing in the sale of general merchandise to a pharmacy). Consequently, there were 611 pharmacies (including one pharmacy specializing in the sale of general merchandise) at the end of the first half. Sales totaled 111,763 million yen, an increase of 10.6% year on year. First is an increase in unit prices of prescriptions, resulting mainly from a larger number of prescriptions for cancer drugs and other drugs with high prices, and services provided by family pharmacists and pharmacies. Second is a larger number of prescriptions because of an increase in the number of pharmacists and other actions. Operating profit in this segment increased 37.8% to 4,408 million yen as the contribution to earnings from sales growth more than offset higher personnel expenses resulting from hiring a large number of new pharmacy school graduates.

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 88% at the end of September 2019. Moreover, 88% of pharmacies were offering at-home medical care services (number of pharmacies providing at least 12 services in a year).

#### 2) Pharmaceutical Manufacturing and Sales Business

Sales increased 8.3% to 21,040 million yen. The main reasons were the steady growth in the dispensing pharmacy business, measures to increase internal sales, mainly by raising the use of the Nihon Chouzai Group's own pharmaceuticals, and growth of external sales, chiefly by expanding the contract manufacturing business. Operating profit was up 235.7% to 1,155 million yen. A sales strategy that placed priority on profitability and sales growth, chiefly internal sales, were the primary reasons for the big increase in earnings.

The number of product items sold increased to 675 at the end of the first half due to the launch of eight new products in June.

### 3) Medical Professional Staffing and Placement Business

There is consistently strong demand for staffing and placement services, particularly for pharmacists. During the first half, there was a big increase in pharmacists and physician placements due to up-front investments in prior years for sales offices and personnel. The result was a 6.7% increase in sales to 6,775 million yen as the steady growth of this business continued. Operating profit increased 71.6% to 1,082 million yen, setting a new record for the first half of a fiscal year. This accomplishment was mainly the result of the growth of pharmacist and physician placement business, which has a high profit margin.

#### (2) Explanation of Financial Position

Total assets increased 656 million yen, or 0.4%, from the end of March 2019 to 179,334 million yen at the end of September 2019. Current assets were 81,586 million yen, an increase of 1,454 million yen, or 1.8%. This was attributable mainly to an increase in merchandise and finished goods. Non-current assets were 97,748 million yen, a decrease of 797 million yen, or 0.8%.

Total liabilities decreased 1,074 million yen, or 0.8%, to 136,530 million yen primarily because of a decrease in borrowings.

Net assets increased 1,731 million yen, or 4.2%, to 42,804 million yen. This was attributable mainly to an increase in retained earnings.

#### Cash Flows

There was a net decrease of 584 million yen in cash and cash equivalents from the end of March 2019 to 29,165 million yen at the end of September 2019. Net cash provided by operating activities was 9,866 million yen, net cash used in investing activities 3,506 million yen, and net cash used in financing activities 6,944 million yen.

The major source of cash flows from operating activities was a 5,889 million yen increase in trade payables. The primary use of cash was a 2,281 million yen increase in inventories.

The primary use of cash flows from investing activities was payments of 2,797 million yen for the purchase of property, plant and equipment mainly for maintenance activities for existing equipment and new store opening in the dispensing pharmacy business.

The primary source of cash flows from financing activities was proceeds of 8,600 million yen from long-term borrowings. Cash was used mainly for repayments of long-term borrowings of 14,589 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, 2020 that was announced on April 26, 2019.

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

	(Millions of yen)	
	FY3/19 (As of Mar. 31, 2019)	Second quarter of FY3/20 (As of Sep. 30, 2019)
Assets		
Current assets		
Cash and deposits	29,749	29,165
Notes receivable-trade	134	132
Accounts receivable-trade	16,249	16,323
Electronically recorded monetary claims-operating	1,465	1,051
Merchandise and finished goods	22,272	24,721
Work in process	1,173	1,430
Raw materials and supplies	6,020	5,649
Other	3,071	3,118
Allowance for doubtful accounts	(5)	(6)
Total current assets	80,132	81,586
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	32,374	31,652
Land	16,961	16,812
Construction in progress	1,133	884
Other, net	19,337	19,863
Total property, plant and equipment	69,806	69,212
Intangible assets		
Goodwill	14,552	14,357
Other	2,353	2,312
Total intangible assets	16,906	16,669
Investments and other assets		
Investment securities	17	16
Leasehold and guarantee deposits	7,357	7,448
Other	4,457	4,400
Total investments and other assets	11,833	11,865
Total non-current assets	98,545	97,748
Total assets	178,677	179,334

	(Millions of yen)	
	FY3/19 (As of Mar. 31, 2019)	Second quarter of FY3/20 (As of Sep. 30, 2019)
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	37,274	43,531
Electronically recorded obligations-operating	3,081	2,614
Current portion of long-term borrowings	16,143	9,676
Income taxes payable	1,478	1,821
Provision for bonuses	3,023	3,298
Provision for bonuses for directors (and other officers)	86	6
Other	8,011	6,732
Total current liabilities	69,100	67,680
Non-current liabilities		
Long-term borrowings	62,470	62,947
Provision for retirement benefits for directors (and other officers)	1,093	1,083
Retirement benefit liability	1,695	1,782
Other	3,244	3,037
Total non-current liabilities	68,504	68,849
Total liabilities	137,604	136,530
<b>Net assets</b>		
Shareholders' equity		
Share capital	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	29,815	31,535
Treasury shares	(3,498)	(3,499)
Total shareholders' equity	41,196	42,915
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	-
Remeasurements of defined benefit plans	(127)	(116)
Total accumulated other comprehensive income	(127)	(116)
Non-controlling interests	4	4
Total net assets	41,073	42,804
Total liabilities and net assets	178,677	179,334

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

(Millions of yen)

	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Net sales	118,694	130,297
Cost of sales	99,267	107,858
Gross profit	19,427	22,439
Selling, general and administrative expenses	17,880	18,373
Operating profit	1,547	4,066
Non-operating income		
Commission income	26	20
Rental income	210	209
Compensation income	-	48
Subsidy income	-	69
Other	95	80
Total non-operating income	332	429
Non-operating expenses		
Interest expenses	297	194
Commission expenses	7	6
Rent expense	171	167
Provision of allowance for doubtful accounts	40	-
Other	97	126
Total non-operating expenses	614	494
Ordinary profit	1,265	4,001
Extraordinary income		
Gain on sales of non-current assets	143	30
Gain on sales of investment securities	8	-
Gain on sale of businesses	-	34
Total extraordinary income	151	65
Extraordinary losses		
Impairment loss	-	320
Loss on sales of investment securities	-	0
Total extraordinary losses	-	320
Profit before income taxes	1,417	3,745
Income taxes-current	914	1,701
Income taxes-deferred	(240)	(50)
Total income taxes	673	1,650
Profit	743	2,094
Profit attributable to non-controlling interests	(1)	0
Profit attributable to owners of parent	744	2,094

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

(Millions of yen)

	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Profit	743	2,094
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(0)
Remeasurements of defined benefit plans, net of tax	35	11
Total other comprehensive income	35	11
Comprehensive income	778	2,106
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	780	2,106
Comprehensive income attributable to non-controlling interests	(1)	0

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

(Millions of yen)

	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Cash flows from operating activities		
Profit before income taxes	1,417	3,745
Depreciation	2,968	3,036
Impairment loss	-	320
Amortization of goodwill	718	730
Increase (decrease) in allowance for doubtful accounts	39	0
Increase (decrease) in provision for bonuses	297	274
Increase (decrease) in provision for bonuses for directors (and other officers)	(130)	(80)
Increase (decrease) in retirement benefit liability	84	86
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(4)	(10)
Interest and dividend income	(0)	(0)
Interest expenses	297	194
Loss (gain) on sales of non-current assets	(143)	(30)
Loss (gain) on sales of investment securities	(8)	0
Loss (gain) on sale of businesses	-	(34)
Decrease (increase) in trade receivables	2,187	342
Decrease (increase) in inventories	(5,994)	(2,281)
Increase (decrease) in trade payables	4,774	5,889
Increase (decrease) in accounts payable-other	(694)	(727)
Other, net	1,194	(125)
Subtotal	7,005	11,331
Interest and dividends received	0	0
Interest paid	(217)	(140)
Income taxes paid	(2,851)	(1,324)
Net cash provided by (used in) operating activities	3,936	9,866
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,074)	(2,797)
Proceeds from sales of property, plant and equipment	1,445	236
Purchase of intangible assets	(368)	(237)
Proceeds from sales of investment securities	10	0
Purchase of long-term prepaid expenses	(45)	(42)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(761)	-
Payments for acquisition of businesses	(314)	(603)
Proceeds from sale of businesses	-	52
Loan advances	(20)	(6)
Collection of loans receivable	43	41
Payments of leasehold and guarantee deposits	(543)	(282)
Proceeds from refund of leasehold and guarantee deposits	103	134
Other, net	(10)	(2)
Net cash provided by (used in) investing activities	(3,535)	(3,506)

	(Millions of yen)	
	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Cash flows from financing activities		
Proceeds from long-term borrowings	9,350	8,600
Repayments of long-term borrowings	(12,780)	(14,589)
Purchase of treasury shares	(1,104)	(0)
Dividends paid	(398)	(374)
Other, net	(617)	(579)
Net cash provided by (used in) financing activities	(5,550)	(6,944)
Net increase (decrease) in cash and cash equivalents	(5,149)	(584)
Cash and cash equivalents at beginning of period	28,464	29,749
Cash and cash equivalents at end of period	23,315	29,165

**(4) Notes to Quarterly Consolidated Financial Statements**

**Going-concern Assumption**

Not applicable.

**Significant Changes in Shareholders' Equity**

Not applicable.

## Segment and Other Information

### Segment information

#### I. First six months of FY3/19 (Apr. 1, 2018 – Sep. 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	101,048	11,428	6,217	118,694	-	118,694
(2) Inter-segment sales and transfers	6	8,003	134	8,143	(8,143)	-
Total	101,054	19,431	6,351	126,837	(8,143)	118,694
Segment profit (loss)	3,197	344	630	4,172	(2,625)	1,547

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The adjustment of -2,625 million yen to segment profit (loss) includes eliminations of -111 million yen for inter-segment transactions and corporate expenses of -2,514 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

Not applicable.

Significant change in goodwill

Not applicable.

#### II. First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)

##### 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	111,757	11,783	6,756	130,297	-	130,297
(2) Inter-segment sales and transfers	6	9,256	19	9,281	(9,281)	-
Total	111,763	21,040	6,775	139,579	(9,281)	130,297
Segment profit (loss)	4,408	1,155	1,082	6,645	(2,579)	4,066

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The adjustment of -2,579 million yen to segment profit (loss) includes eliminations of -8 million yen for inter-segment transactions and corporate expenses of -2,571 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 54 million yen for store assets (two pharmacies). In the pharmaceutical manufacturing and sales business, there was an impairment loss of 265 million yen for some plant facilities.

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.*