

# 2Q FY3/2018 Supplementary Material

November 15, 2017



NIHON CHOUZAI Co.,Ltd.

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

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## 1. Financial Highlights

	2013/3	2014/3	2015/3	2016/3	2017/3
Net sales (Millions of yen)	139,466	165,347	181,844	219,239	223,468
YoY growth rate	7.2%	18.6%	10.0%	20.6%	1.9%
Operating profit (Millions of yen)	3,245	4,744	6,647	10,489	8,519
Operating margin	2.3%	2.9%	3.7%	4.8%	3.8%
Profit attributable to owners of parent (Millions of yen)	184	1,901	2,778	6,329	4,638
Return on sales	0.1%	1.2%	1.5%	2.9%	2.1%
Shareholder's equity (Millions of yen)	14,702	15,849	17,635	32,473	36,447
Equity ratio	15.5%	13.5%	13.6%	20.6%	20.4%

	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q
Net sales (Millions of yen)	80,136	87,418	100,269	109,478	118,149
YoY growth rate	19.4%	9.1%	14.7%	9.2%	7.9%
Operating profit (Millions of yen)	2,338	2,623	4,214	3,940	4,888
Operating margin	2.9%	3.0%	4.2%	3.6%	4.1%
Profit attributable to owners of parent (Millions of yen)	950	1,157	2,471	2,339	2,805
Return on sales	1.2%	1.3%	2.5%	2.1%	2.4%
Shareholder's equity (Millions of yen)	15,279	16,783	19,844	34,372	38,623
Equity ratio	13.2%	13.1%	14.1%	21.5%	20.6%

## 2. Dispensing Pharmacy Business

	2013/3	2014/3	2015/3	2016/3	2017/3
No. of pharmacies opened	59	37	29	27	42
Including M&A	0	4	1	5	21
No. of pharmacies at the end of each period	466	494	511	527	557
Net sales of dispensing pharmacy business (Millions of yen)	131,052	145,957	157,999	190,874	189,327
Sales per Pharmacy (Millions of yen)	296	304	314	367	349
No. of prescription (thousands)	10,482	11,090	11,695	12,301	12,949
Unit prices of prescription (yen)	12,295	12,954	13,330	15,297	14,382
Average Rate of Generic Drug Utilization <small>note</small>	54.6%	62.7%	73.9%	79.0%	81.6%
Drug Cost Reduction by Converting to Generic Drugs (Millions of yen)	9,702	12,329	15,446	18,894	19,731

Note : Average Rate of Nihon Chouzai Pharmacies(last one month during a period, volume basis)

	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q
No. of pharmacies opened	20	12	18	23	15
Including M&A	0	0	2	11	7
No. of pharmacies at the end of each period	483	500	522	545	569
Net sales of dispensing pharmacy business (Millions of yen)	70,805	75,970	87,208	92,329	100,011
Sales per Pharmacy (Millions of yen)	147	152	168	171	176
No. of prescription (thousands)	5,456	5,750	6,012	6,316	6,752
Unit prices of prescription (yen)	12,778	13,031	14,326	14,473	14,628
Average Rate of Generic Drug Utilization <small>note</small>	59.0%	70.8%	76.4%	80.9%	82.5%
Drug Cost Reduction by Converting to Generic Drugs (Millions of yen)	5,792	7,268	8,935	9,542	11,025

Note : Average Rate of Nihon Chouzai Pharmacies(last one month during a period, volume basis)

### 3.Consolidated Balance Sheet

(Millions of yen)

(As of the end of the period)	2013/3 2Q	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q
<b>Assets</b>						
<b>Current assets</b>						
Cash and deposits	14,459	17,507	17,115	20,354	17,353	26,244
Notes receivable-trade	—	916	1,210	151	265	179
Accounts receivable-trade	12,628	15,668	18,163	21,569	24,277	26,208
Electronically recorded monetary claims-operating	—	—	—	671	1,649	1,105
Merchandise and finished goods	11,912	14,208	17,153	17,917	21,232	24,873
Work in process	143	785	938	1,447	1,944	1,835
Raw materials and supplies	281	3,580	3,282	4,643	5,181	5,609
Other	2,217	2,800	3,273	3,139	3,818	3,656
Allowance for doubtful accounts	(9)	(8)	(9)	(12)	(9)	(5)
<b>Total current assets</b>	<b>41,633</b>	<b>55,459</b>	<b>61,127</b>	<b>69,882</b>	<b>75,713</b>	<b>89,706</b>
<b>Non-current assets</b>						
<b>Property, plant and equipment</b>						
Buildings and structures, net	13,072	13,967	13,907	21,997	21,937	22,667
Land	12,884	15,154	15,460	17,137	17,937	18,073
Construction in progress	1,260	4,356	10,193	938	8,906	13,931
Other, net	5,589	6,360	6,012	9,860	11,999	15,352
<b>Total property, plant and equipment</b>	<b>32,807</b>	<b>39,839</b>	<b>45,575</b>	<b>49,934</b>	<b>60,781</b>	<b>70,024</b>
<b>Intangible assets</b>						
Goodwill	7,962	7,989	8,923	8,477	10,666	15,472
Other	1,690	1,899	1,720	1,629	1,941	2,339
<b>Total intangible assets</b>	<b>9,653</b>	<b>9,888</b>	<b>10,643</b>	<b>10,106</b>	<b>12,608</b>	<b>17,811</b>
<b>Investments and other assets</b>						
Investment securities	930	943	1,145	1,097	840	20
Lease and guarantee deposits	6,671	6,875	7,056	7,013	7,015	7,082
Other	2,097	2,819	2,529	2,796	2,817	2,749
<b>Total investments and other assets</b>	<b>9,700</b>	<b>10,638</b>	<b>10,731</b>	<b>10,907</b>	<b>10,674</b>	<b>9,852</b>
<b>Total non-current assets</b>	<b>52,160</b>	<b>60,367</b>	<b>66,950</b>	<b>70,948</b>	<b>84,064</b>	<b>97,689</b>
<b>Total assets</b>	<b>93,794</b>	<b>115,826</b>	<b>128,077</b>	<b>140,831</b>	<b>159,777</b>	<b>187,395</b>

(Millions of yen)

(As of the end of the period)	2013/3 2Q	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q
<b>Liabilities</b>						
<b>Current liabilities</b>						
Notes payable-trade	—	2,442	2,650	—	—	—
Accounts payable-trade	23,696	26,517	31,404	36,761	38,900	43,313
Electronically recorded obligations-operating	—	—	—	1,997	2,853	3,097
Short-term loans payable	3,350	7,210	3,950	1,210	2,226	100
Current portion of bonds	—	7,092	—	7,000	—	—
Current portion of long-term loans payable	12,382	3,614	4,950	6,188	13,743	15,533
Income taxes payable	444	1,123	1,052	1,882	1,703	2,365
Provision for bonuses	1,549	1,772	1,936	2,258	2,510	2,753
Provision for directors' bonuses	—	19	9	8	7	7
Provision for sales rebates	173	192	140	120	—	—
Other	3,050	3,520	4,101	4,886	5,786	8,641
Total current liabilities	44,647	53,505	50,195	62,314	67,732	75,813
<b>Non-current liabilities</b>						
Bonds payable	14,000	7,000	7,000	—	—	—
Long-term loans payable	18,755	34,530	49,328	53,040	52,448	68,247
Provision for retirement benefits	199	467	—	—	—	—
Provision for directors' retirement benefits	640	1,228	841	924	899	996
Net defined benefit liability	—	—	595	993	1,237	1,374
Other	837	1,720	3,333	3,714	3,087	2,340
Total non-current liabilities	34,432	44,946	61,099	58,672	57,672	72,957
Total liabilities	79,079	98,451	111,294	120,986	125,404	148,771
<b>Net assets</b>						
<b>Shareholders' equity</b>						
Capital stock	3,953	3,953	3,953	3,953	3,953	3,953
Capital surplus	4,754	4,754	4,754	4,754	10,926	10,926
Retained earnings	8,162	8,612	10,497	14,094	19,611	23,917
Treasury shares	(2,332)	(2,221)	(2,523)	(3,065)	(45)	(46)
Total shareholders' equity	14,537	15,098	16,681	19,736	34,446	38,750
<b>Accumulated other comprehensive income</b>						
Valuation difference on available-for-sale securities	177	181	311	295	124	0
Remeasurements of defined benefit plans	—	—	(209)	(186)	(198)	(126)
Total accumulated other comprehensive income	177	181	101	108	(73)	(126)
Minority interests	—	2,094	—	—	—	—
Total net assets	14,714	17,374	16,783	19,844	34,372	38,623
Total liabilities and net assets	93,794	115,826	128,077	140,831	159,777	187,395

#### 4. Consolidated Statement of Income

(Millions of yen)

(For the Six-month Period)	2013/3 2Q	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q
Net sales	67,115	80,136	87,418	100,269	109,478	118,149
Cost of sales	57,222	67,575	72,571	82,369	90,571	96,648
Gross profit	9,893	12,560	14,846	17,900	18,906	21,500
Selling, general and administrative expenses	9,108	10,222	12,223	13,685	14,965	16,611
Operating profit	784	2,338	2,623	4,214	3,940	4,888
Non-operating income						
Commission fee	—	57	60	65	70	74
Rent income	37	70	154	189	197	211
Insurance return	—	—	—	—	74	—
Other	124	100	117	118	91	94
Total non-operating income	162	228	333	373	433	380
Non-operating expenses						
Interest expenses	284	347	405	400	354	332
Commission fee	15	42	15	13	9	12
Rent expenses	—	—	—	142	157	158
Other	102	127	216	96	101	129
Total non-operating expenses	402	517	637	652	622	633
Ordinary profit	544	2,049	2,318	3,936	3,751	4,635
Extraordinary income						
Gain on sales of non-current assets	4	17	0	—	3	0
Gain on sales of investment securities	—	1	—	—	—	360
Total extraordinary income	4	19	0	—	3	360
Extraordinary losses						
Loss on sales of investment securities	—	0	—	—	—	—
Impairment loss	49	79	29	90	34	110
Loss on sales of non-current assets	0	—	—	—	5	0
Total extraordinary losses	49	80	29	90	40	110
Profit before income taxes	499	1,988	2,289	3,845	3,714	4,885
Income taxes-current	365	1,087	988	1,511	1,455	2,236
Income taxes-deferred	(45)	(59)	143	(137)	(80)	(156)
Total income taxes	319	1,028	1,131	1,374	1,374	2,079
Profit attributable to non-controlling interests <small>note1</small>	—	9	—	—	—	—
Profit attributable to owners of parent <small>note2</small>	180	950	1,157	2,471	2,339	2,805

Note1 : From the 2016/3 1Q, the presentation of "Minority interests" was changed to "Profit attributable to non-controlling interests."

Note2 : From the 2016/3 1Q, the presentation of "NET Income" was changed to "Profit attributable to owners of parent."

## 5. Consolidated Statement of Cash Flows

(Millions of yen)

(Fiscal years ended)	2013/3 2Q	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q
<b>Consolidated Statement of Cash Flows</b>						
Profit before income taxes	499	1,988	2,289	3,845	3,714	4,885
Depreciation	1,693	1,844	1,662	2,124	2,180	2,463
Impairment loss	49	79	29	90	34	110
Amortization of goodwill	—	—	—	—	—	646
Increase (decrease) in allowance for doubtful accounts	(0)	0	0	1	(4)	(4)
Increase (decrease) in provision for bonuses	124	152	142	176	249	204
Increase (decrease) in provision for allowance for sales discount	19	(50)	38	(9)	—	—
Increase (decrease) in provision for directors' bonuses	(135)	2	(65)	(89)	(131)	(110)
Increase (decrease) in provision for retirement benefits and prepaid pension costs	83	93	158	110	70	73
Increase (decrease) in provision for directors' retirement benefits	28	25	(65)	37	(57)	46
Interest and dividend income	(10)	(20)	(21)	(21)	(21)	(19)
Interest expenses	284	347	405	400	354	332
Loss (gain) on sales of non-current assets	(4)	(17)	(0)	—	2	(0)
Loss (gain) on sales of investment securities	—	(0)	—	—	—	(360)
Decrease (increase) in notes and accounts receivable-trade	240	138	(708)	(920)	962	387
Decrease (increase) in inventories	(3,457)	(1,784)	(4,976)	(2,917)	(6,151)	(2,697)
Increase (decrease) in notes and accounts payable-trade	1,812	236	5,089	5,318	(3,395)	4,517
Increase (decrease) in accounts payable-other	—	—	—	—	—	1,531
Other, net	464	456	(652)	970	452	945
Subtotal	1,692	3,489	3,325	9,116	(1,739)	12,952
Interest and dividend income received	10	20	21	21	21	19
Interest expenses paid	(279)	(351)	(410)	(385)	(315)	(258)
Income taxes paid	(1,651)	(1,486)	(1,434)	(1,317)	(2,554)	(1,346)
Net cash provided by (used in) operating activities	(228)	1,672	1,502	7,435	(4,588)	11,367
<b>Cash flows from investing activities</b>						
Proceeds from withdrawal of time deposits	—	—	—	82	—	—
Purchase of property, plant and equipment	(3,703)	(4,604)	(2,930)	(2,961)	(10,976)	(4,527)
Proceeds from sales of property, plant and equipment	5	110	0	—	4	1
Purchase of intangible assets	(178)	(132)	(134)	(114)	(547)	(254)
Proceeds from sales of investment securities	—	29	—	—	—	999
Increase in long-term prepaid expenses	(63)	(37)	(154)	(77)	(153)	(61)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(2,103)	—	(226)	(1,264)	(948)
Payments for transfer of business	—	—	—	—	(971)	(126)
Payments for loans receivable	(101)	(109)	(60)	—	(443)	(400)
Collection of loans receivable	55	60	61	60	53	44
Payments for lease and guarantee deposits	(304)	(133)	(261)	(147)	(206)	(165)
Proceeds from collection of lease and guarantee deposits	70	102	75	71	73	110
Other, net	(4)	(30)	10	(15)	65	27
Net cash provided by (used in) investing activities	(4,224)	(6,848)	(3,394)	(3,329)	(14,366)	(5,299)

(Millions of yen)

(Fiscal years ended)	2013/3 2Q	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q
Cash flows from financing activities						
Net increase (decrease) in short-term loans payable	(70)	610	(3,800)	(3,890)	2,200	100
Proceeds from long-term loans payable	8,200	16,700	17,200	9,800	12,500	10,300
Repayments of long-term loans payable	(1,626)	(9,130)	(1,976)	(2,825)	(2,963)	(10,609)
Redemption of bonds	—	(92)	(7,000)	—	(7,000)	—
Proceeds from sales of treasury shares	49	51	50	—	—	—
Purchase of treasury shares	—	—	(403)	(5)	(0)	(0)
Cash dividends paid	(251)	(252)	(254)	(245)	(398)	(398)
Other, net	(11)	(113)	(241)	(429)	(414)	(415)
Net cash provided by (used in) financing activities	6,290	7,771	3,575	2,403	3,923	(1,024)
Net increase (decrease) in cash and cash equivalents	1,837	2,595	1,682	6,509	(15,031)	5,044
Cash and cash equivalents at beginning of period	12,554	14,513	15,027	13,844	32,380	21,200
Cash and cash equivalents at end of period	14,391	17,108	16,710	20,354	17,348	26,244

## 6. Business Segment Performance

(Millions of yen)

	2013/3 2Q	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q
Dispensing pharmacy business						
Net sales	63,127	70,805	75,970	87,208	92,329	100,011
Segment profit	2,713	3,622	3,113	4,252	4,064	5,617
Pharmaceutical manufacturing and sales business						
Net sales	5,399	11,090	13,389	15,367	18,722	19,213
Segment profit	111	282	836	1,210	1,191	638
Medical Professional Staffing and Placement Business						
Net sales	1,964	2,513	3,010	4,188	5,068	5,993
Segment profit	305	487	619	820	808	1,012

## 7. Company Profile

Trade Name	NIHON CHOUZAI Co.,Ltd.
Established	March 1980
Headquarters	37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda-Ku, 100-6737 Tokyo
Capital	3,953.02 million yen
Total Number of Issued Shares	16,024,000 shares
Fiscal Year-end	March
Stock Exchange for Listing	Tokyo Stock Exchange(TSE) First Section
Securities Code	3341
Our Business	Management of health insurance dispensing chain pharmacies, manufacture and sales of generic drugs, employment placement and dispatching service of medical professionals, information provision and consulting
Number of pharmacies(As of September 30,2017)	569