

2Q FY3/2019 Supplementary Material

November 15, 2018



NIHON CHOUZAI Co.,Ltd.

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

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1. Financial Highlights

	2014/3	2015/3	2016/3	2017/3	2018/3
Net sales (Millions of yen)	165,347	181,844	219,239	223,468	241,274
YoY growth rate	18.6%	10.0%	20.6%	1.9%	8.0%
Operating profit (Millions of yen)	4,744	6,647	10,489	8,519	10,587
Operating margin	2.9%	3.7%	4.8%	3.8%	4.4%
Profit attributable to owners of parent (Millions of yen)	1,901	2,778	6,329	4,638	6,104
Return on sales	1.2%	1.5%	2.9%	2.1%	2.5%
Shareholder's equity (Millions of yen)	15,849	17,635	32,473	36,447	41,504
Equity ratio	13.5%	13.6%	20.6%	20.4%	22.2%

	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q	2019/3 2Q
Net sales (Millions of yen)	87,418	100,269	109,478	118,149	118,694
YoY growth rate	9.1%	14.7%	9.2%	7.9%	0.5%
Operating profit (Millions of yen)	2,623	4,214	3,940	4,888	1,547
Operating margin	3.0%	4.2%	3.6%	4.1%	1.3%
Profit attributable to owners of parent (Millions of yen)	1,157	2,471	2,339	2,805	744
Return on sales	1.3%	2.5%	2.1%	2.4%	0.6%
Shareholder's equity (Millions of yen)	16,783	19,844	34,372	38,623	40,780
Equity ratio	13.1%	14.1%	21.5%	20.6%	22.2%

2. Dispensing Pharmacy Business

	2014/3	2015/3	2016/3	2017/3	2018/3
No. of pharmacies opened	37	29	27	42	36
Including M&A	4	1	5	21	13
No. of pharmacies at the end of each period	494	511	527	557	585
Net sales of dispensing pharmacy business (Millions of yen)	145,957	157,999	190,874	189,327	205,192
Sales per Pharmacy (Millions of yen)	304	314	367	349	359
No. of prescription (thousands)	11,090	11,695	12,301	12,949	13,739
Unit prices of prescription (yen)	12,954	13,330	15,297	14,382	14,739

	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q	2019/3 2Q
No. of pharmacies opened	12	18	23	15	19
Including M&A	0	2	11	7	4
No. of pharmacies at the end of each period	500	522	545	569	596
Net sales of dispensing pharmacy business (Millions of yen)	75,970	87,208	92,329	100,011	101,054
Sales per Pharmacy (Millions of yen)	152	168	171	176	171
No. of prescription (thousands)	5,750	6,012	6,316	6,752	6,927
Unit prices of prescription (yen)	13,031	14,326	14,473	14,628	14,358

3.Consolidated Balance Sheet

(Millions of yen)

(As of the end of the period)	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q	2019/3 2Q
Assets						
Current assets						
Cash and deposits	17,507	17,115	20,354	17,353	26,244	23,315
Notes receivable-trade	916	1,210	151	265	179	394
Accounts receivable-trade	15,668	18,163	21,569	24,277	26,208	17,722
Electronically recorded monetary claims-operating	—	—	671	1,649	1,105	1,000
Merchandise and finished goods	14,208	17,153	17,917	21,232	24,873	26,668
Work in process	785	938	1,447	1,944	1,835	1,426
Raw materials and supplies	3,580	3,282	4,643	5,181	5,609	6,174
Other	2,800	3,273	3,139	3,818	3,656	3,021
Allowance for doubtful accounts	(8)	(9)	(12)	(9)	(5)	(6)
Total current assets	55,459	61,127	69,882	75,713	89,706	79,717
Non-current assets						
Property, plant and equipment						
Buildings and structures, net	13,967	13,907	21,997	21,937	22,667	34,188
Land	15,154	15,460	17,137	17,937	18,073	18,292
Construction in progress	4,356	10,193	938	8,906	13,931	1,658
Other, net	6,360	6,012	9,860	11,999	15,352	19,398
Total property, plant and equipment	39,839	45,575	49,934	60,781	70,024	73,538
Intangible assets						
Goodwill	7,989	8,923	8,477	10,666	15,472	15,637
Other	1,899	1,720	1,629	1,941	2,339	2,517
Total intangible assets	9,888	10,643	10,106	12,608	17,811	18,155
Investments and other assets						
Investment securities	943	1,145	1,097	840	20	18
Lease and guarantee deposits	6,875	7,056	7,013	7,015	7,082	7,460
Other	2,819	2,529	2,796	2,817	2,749	4,440
Allowance for doubtful accounts	—	—	—	—	—	(40)
Total investments and other assets	10,638	10,731	10,907	10,674	9,852	11,879
Total non-current assets	60,367	66,950	70,948	84,064	97,689	103,572
Total assets	115,826	128,077	140,831	159,777	187,395	183,289

Note: The amounts for the previous fiscal years in this materials do not reflect the revisions of the accounting standards.

(Millions of yen)

(As of the end of the period)	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q	2019/3 2Q
Liabilities						
Current liabilities						
Notes payable-trade	2,442	2,650	—	—	—	—
Accounts payable-trade	26,517	31,404	36,761	38,900	43,313	40,581
Electronically recorded obligations-operating	—	—	1,997	2,853	3,097	4,222
Short-term loans payable	7,210	3,950	1,210	2,226	100	—
Current portion of bonds	7,092	—	7,000	—	—	—
Current portion of long-term loans payable	3,614	4,950	6,188	13,743	15,533	17,476
Income taxes payable	1,123	1,052	1,882	1,703	2,365	1,069
Provision for bonuses	1,772	1,936	2,258	2,510	2,753	3,074
Provision for directors' bonuses	19	9	8	7	7	6
Provision for sales rebates	192	140	120	—	—	—
Other	3,520	4,101	4,886	5,786	8,641	7,367
Total current liabilities	53,505	50,195	62,314	67,732	75,813	73,798
Non-current liabilities						
Bonds payable	7,000	7,000	—	—	—	—
Long-term loans payable	34,530	49,328	53,040	52,448	68,247	62,775
Provision for retirement benefits	467	—	—	—	—	—
Provision for directors' retirement benefits	1,228	841	924	899	996	1,044
Net defined benefit liability	—	595	993	1,237	1,374	1,591
Other	1,720	3,333	3,714	3,087	2,340	3,298
Total non-current liabilities	44,946	61,099	58,672	57,672	72,957	68,710
Total liabilities	98,451	111,294	120,986	125,404	148,771	142,508
Net assets						
Shareholders' equity						
Capital stock	3,953	3,953	3,953	3,953	3,953	3,953
Capital surplus	4,754	4,754	4,754	10,926	10,926	10,926
Retained earnings	8,612	10,497	14,094	19,611	23,917	27,161
Treasury shares	(2,221)	(2,523)	(3,065)	(45)	(46)	(1,152)
Total shareholders' equity	15,098	16,681	19,736	34,446	38,750	40,889
Accumulated other comprehensive income						
Valuation difference on available-for-sale securities	181	311	295	124	0	0
Remeasurements of defined benefit plans	—	(209)	(186)	(198)	(126)	(109)
Total accumulated other comprehensive income	181	101	108	(73)	(126)	(108)
Non-controlling interests	2,094	—	—	—	—	0
Total net assets	17,374	16,783	19,844	34,372	38,623	40,781
Total liabilities and net assets	115,826	128,077	140,831	159,777	187,395	183,289

Note: The amounts for the previous fiscal years in this materials do not reflect the revisions of the accounting standards.

4. Consolidated Statement of Income

(Millions of yen)

(For the Six-month Period)	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q	2019/3 2Q
Net sales	80,136	87,418	100,269	109,478	118,149	118,694
Cost of sales	67,575	72,571	82,369	90,571	96,648	99,267
Gross profit	12,560	14,846	17,900	18,906	21,500	19,427
Selling, general and administrative expenses	10,222	12,223	13,685	14,965	16,611	17,880
Operating profit	2,338	2,623	4,214	3,940	4,888	1,547
Non-operating income						
Commission fee	57	60	65	70	74	26
Rent income	70	154	189	197	211	210
Insurance return	—	—	—	74	—	—
Other	100	117	118	91	94	95
Total non-operating income	228	333	373	433	380	332
Non-operating expenses						
Interest expenses	347	405	400	354	332	297
Commission fee	42	15	13	9	12	7
Rent expenses	—	—	142	157	158	171
Provision of allowance for doubtful accounts	—	—	—	—	—	40
Other	127	216	96	101	129	97
Total non-operating expenses	517	637	652	622	633	614
Ordinary profit	2,049	2,318	3,936	3,751	4,635	1,265
Extraordinary income						
Gain on sales of non-current assets	17	0	—	3	0	143
Gain on sales of investment securities	1	—	—	—	360	8
Total extraordinary income	19	0	—	3	360	151
Extraordinary losses						
Loss on sales of investment securities	0	—	—	—	—	—
Impairment loss	79	29	90	34	110	—
Loss on sales of non-current assets	—	—	—	5	0	—
Total extraordinary losses	80	29	90	40	110	—
Profit before income taxes	1,988	2,289	3,845	3,714	4,885	1,417
Income taxes-current	1,087	988	1,511	1,455	2,236	914
Income taxes-deferred	(59)	143	(137)	(80)	(156)	(240)
Total income taxes	1,028	1,131	1,374	1,374	2,079	673
Profit ^{note}	960	1,157	2,471	2,339	2,805	743
Profit (loss) attributable to non-controlling interests ^{note}	9	—	—	—	—	(1)
Profit attributable to owners of parent ^{note}	950	1,157	2,471	2,339	2,805	744

Note : Accompanying the revision of Accounting Standards for Business Combinations, etc., the names of items presented have been changed.

The revised standards have been applied from the fiscal year ended March 31, 2016.

5. Consolidated Statement of Cash Flows

(Millions of yen)

(Fiscal years ended)	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q	2019/3 2Q
Consolidated Statement of Cash Flows						
Profit before income taxes	1,988	2,289	3,845	3,714	4,885	1,417
Depreciation	1,844	1,662	2,124	2,180	2,463	2,968
Impairment loss	79	29	90	34	110	—
Amortization of goodwill	—	—	—	—	646	718
Increase (decrease) in allowance for doubtful accounts	0	0	1	(4)	(4)	39
Increase (decrease) in provision for bonuses	152	142	176	249	204	297
Increase (decrease) in provision for allowance for sales discount	(50)	38	(9)	—	—	—
Increase (decrease) in provision for directors' bonuses	2	(65)	(89)	(131)	(110)	(130)
Increase (decrease) in provision for retirement benefits and prepaid pension costs	93	158	110	70	73	84
Increase (decrease) in provision for directors' retirement benefits	25	(65)	37	(57)	46	(4)
Interest and dividend income	(20)	(21)	(21)	(21)	(19)	(0)
Interest expenses	347	405	400	354	332	297
Loss (gain) on sales of non-current assets	(17)	(0)	—	2	(0)	(143)
Loss (gain) on sales of investment securities	(0)	—	—	—	(360)	(8)
Decrease (increase) in notes and accounts receivable-trade	138	(708)	(920)	962	387	2,187
Decrease (increase) in inventories	(1,784)	(4,976)	(2,917)	(6,151)	(2,697)	(5,994)
Increase (decrease) in notes and accounts payable-trade	236	5,089	5,318	(3,395)	4,517	4,774
Increase (decrease) in accounts payable-other	—	—	—	—	1,531	(694)
Other, net	456	(652)	970	452	945	1,194
Subtotal	3,489	3,325	9,116	(1,739)	12,952	7,005
Interest and dividend income received	20	21	21	21	19	0
Interest expenses paid	(351)	(410)	(385)	(315)	(258)	(217)
Income taxes paid	(1,486)	(1,434)	(1,317)	(2,554)	(1,346)	(2,851)
Net cash provided by (used in) operating activities	1,672	1,502	7,435	(4,588)	11,367	3,936
Cash flows from investing activities						
Proceeds from withdrawal of time deposits	—	—	82	—	—	—
Purchase of property, plant and equipment	(4,604)	(2,930)	(2,961)	(10,976)	(4,527)	(3,074)
Proceeds from sales of property, plant and equipment	110	0	—	4	1	1,445
Purchase of intangible assets	(132)	(134)	(114)	(547)	(254)	(368)
Proceeds from sales of investment securities	29	—	—	—	999	10
Increase in long-term prepaid expenses	(37)	(154)	(77)	(153)	(61)	(45)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,103)	—	(226)	(1,264)	(948)	(761)
Payments for transfer of business	—	—	—	(971)	(126)	(314)
Payments for loans receivable	(109)	(60)	—	(443)	(400)	(20)
Collection of loans receivable	60	61	60	53	44	43
Payments for lease and guarantee deposits	(133)	(261)	(147)	(206)	(165)	(543)
Proceeds from collection of lease and guarantee deposits	102	75	71	73	110	103
Other, net	(30)	10	(15)	65	27	(10)
Net cash provided by (used in) investing activities	(6,848)	(3,394)	(3,329)	(14,366)	(5,299)	(3,535)

(Millions of yen)

(Fiscal years ended)	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q	2019/3 2Q
Cash flows from financing activities						
Net increase (decrease) in short-term loans payable	610	(3,800)	(3,890)	2,200	100	—
Proceeds from long-term loans payable	16,700	17,200	9,800	12,500	10,300	9,350
Repayments of long-term loans payable	(9,130)	(1,976)	(2,825)	(2,963)	(10,609)	(12,780)
Redemption of bonds	(92)	(7,000)	—	(7,000)	—	—
Proceeds from sales of treasury shares	51	50	—	—	—	—
Purchase of treasury shares	—	(403)	(5)	(0)	(0)	(1,104)
Cash dividends paid	(252)	(254)	(245)	(398)	(398)	(398)
Other, net	(113)	(241)	(429)	(414)	(415)	(617)
Net cash provided by (used in) financing activities	7,771	3,575	2,403	3,923	(1,024)	(5,550)
Net increase (decrease) in cash and cash equivalents	2,595	1,682	6,509	(15,031)	5,044	(5,149)
Cash and cash equivalents at beginning of period	14,513	15,027	13,844	32,380	21,200	28,464
Cash and cash equivalents at end of period	17,108	16,710	20,354	17,348	26,244	23,315

6. Business Segment Performance

(Millions of yen)

	2014/3 2Q	2015/3 2Q	2016/3 2Q	2017/3 2Q	2018/3 2Q	2019/3 2Q
Dispensing pharmacy business						
Net sales	70,805	75,970	87,208	92,329	100,011	101,054
Segment profit	3,622	3,113	4,252	4,064	5,617	3,197
Pharmaceutical manufacturing and sales business						
Net sales	11,090	13,389	15,367	18,722	19,213	19,431
Segment profit	282	836	1,210	1,191	638	344
Medical Professional Staffing and Placement Business						
Net sales	2,513	3,010	4,188	5,068	5,993	6,351
Segment profit	487	619	820	808	1,012	630

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 30,2018)	596