

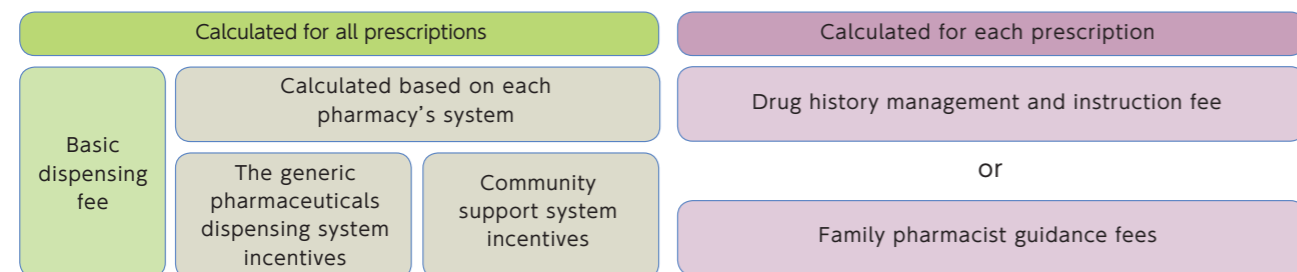
# 4

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## Data section

# Main Medical Service Fee Revisions

(Reference) Changes in Main Technical Fees Associated with Revision of Medical Service Fees in FY2018



		FY2016 medical service fees	FY2018 medical service fees
Ordinary	Basic dispensing fee 1	41 points ● Even at basic dispensing fee 2 or, at pharmacies below where family pharmacist guidance fees were assessed 100 times or more per month, and more than half of pharmacists submitted notifications on family pharmacist guidance fees	41 points ● Abolishment of special treatment regarding family pharmacist guidance fees
	Basic dispensing fee 2	25 points ● Pharmacies that fill more than 4,000 prescriptions per month and have a concentration ratio exceeding 70% ● Pharmacies that fill more than 2,000 prescriptions per month and have a concentration ratio exceeding 90% ● Fill over 4,000 prescriptions per month from one medical institution	25 points ● Pharmacies that fill more than 4,000 prescriptions per month and have a concentration ratio exceeding 70% ● Pharmacies that fill more than 2,000 prescriptions per month and have a concentration ratio exceeding 85% ● Fill over 4,000 prescriptions per month from one medical institution (if it is a pharmacy in a medical mall, add the number of prescriptions from within the mall) ● When the medical institutions that have the highest dispensing ratio with the same group of pharmacies are the same, the total number of prescriptions of those pharmacies exceeds 4,000 per month
Special case	Basic dispensing fee 3	20 points ● Pharmacies with a concentration ratio exceeding 95% in a group with more than 40,000 prescriptions per month	20 points ● Pharmacies with a concentration ratio exceeding 85% in a group with more than 40,000 prescriptions per month
	Special basic dispensing fee	—	15 points ● Pharmacies with a concentration ratio exceeding 85% in a group with more than 400,000 prescriptions per month
	Basic dispensing fee 4	31 points ● Falls under the category of basic dispensing fee 1, and percentage of concluded negotiations is 50% or less	10 points ● Has hospital and real estate transactions, and those hospitals have a concentration ratio exceeding 95% (so-called dispensing pharmacies in hospitals)
	Basic dispensing fee 5	19 points ● Falls under the category of basic dispensing fee 2, and percentage of concluded negotiations is 50% or less	Abolished
	Special basic dispensing fee	15 points ● Falls under the category of basic dispensing fee 3, and percentage of concluded negotiations is 50% or less	Abolished
Subtraction	50/100 subtraction	● Insurance pharmacies that are not engaged in the basic functions of family pharmacists shall set the basic dispensing fee to 50/100 (excluding insurance pharmacies that fill less than 600 prescriptions per month)	● Insurance pharmacies with low acceptance rates or no reports on acceptance shall set the basic dispensing fee to 50/100.
		Basic dispensing fee 1    41 points → 21 points Basic dispensing fee 2    25 points → 13 points Basic dispensing fee 3    20 points → 10 points Basic dispensing fee 4    31 points → 16 points Basic dispensing fee 5    19 points → 10 points Special basic dispensing fee    15 points → 8 points	Basic dispensing fee 1    41 points → 21 points Basic dispensing fee 2    25 points → 13 points Basic dispensing fee 3-a    20 points → 10 points Basic dispensing fee 3-b    15 points → 8 points Special basic dispensing fee    10 points → 5 points

(Reference) Main technical fees associated with revision of medical service fees in FY2018

	FY2016 medical service fees	FY2018 medical service fees
The generic pharmaceuticals dispensing system incentives	—	26 points 85% or more
	22 points 75% or more	22 points 80% or more
	18 points 65% or more	18 points 75% or more
Subtraction rule for basic dispensing fee	—	— 2 points ● The prescription ratio of generic pharmaceuticals is 20% or less, and the number of prescriptions exceeds 600
Standard prescription incentives	32 points ● Basic dispensing fee 1 only ● Pharmacies open 45 hours or more per week including Saturdays and Sundays ● 1,200 items stockpiled ● Management pharmacist employed at least 5 years in the same pharmacy and working 32 hours a week in the same pharmacy and employed at least one year in current pharmacy ● Results of at-home medical care for past one year ● 24-hour dispensing and at-home work system ● Notification on family pharmacist guidance fees	Abolished
Community support system incentives	—	35 points ● Basic dispensing fee 1 Same as the requirements for old standard prescription incentives  ● Other than basic dispensing fee 1 Add all of the following results to the requirements for each full-time pharmacist for one year (1)Results of nighttime/holiday response: 400 times (2)Results of drug guidance control incentives: 10 times (3)Results of incentive for preventing harmful drug interactions and duplicate prescriptions: 40 times (4)Results of family pharmacist guidance fees: 40 times (5)Results of outpatient medication support fees: 12 times (6)Results of medication adjustment support fees: 1 time (7)Results of at-home drug management of one patient in single building: 12 times (8)Results of the medication information and other information provided: 60 times

(Reference) Main Technical Fees Associated with Revision of Medical Service Fees in FY2018

	FY2016 medical service fees	FY2018 medical service fees
Drug history management and instruction fee	38 points ● Basic dispensing fee 1 pharmacy ● Visits pharmacy within 6 months ● Record requirements in medication notebook  50 points Other than the above	41 points ● Basic dispensing fee 1 ● Visit pharmacy within 6 months ● Record requirements in medication notebook  53 points Other than the above
Special cases of drug history management and instruction fee	—	13 points Pharmacies with less than 50% of patients bringing notebook within six months
Family pharmacist guidance fees	70 points ● Must be a certified pharmacist ● Must have been employed as a pharmacist for at least three years ● Must have worked for at least 32 hours per week ● Must have been employed by the current pharmacy for at least six months	73 points ● Must be a certified pharmacist ● Must have been employed as a pharmacist for at least three years ● Work for at least 32 hours per week Pharmacists who need shortened working hours due to child care and nursing care, work for 24 hours or more per week and four days or more per week ● Must have been employed by the current pharmacy for at least one year

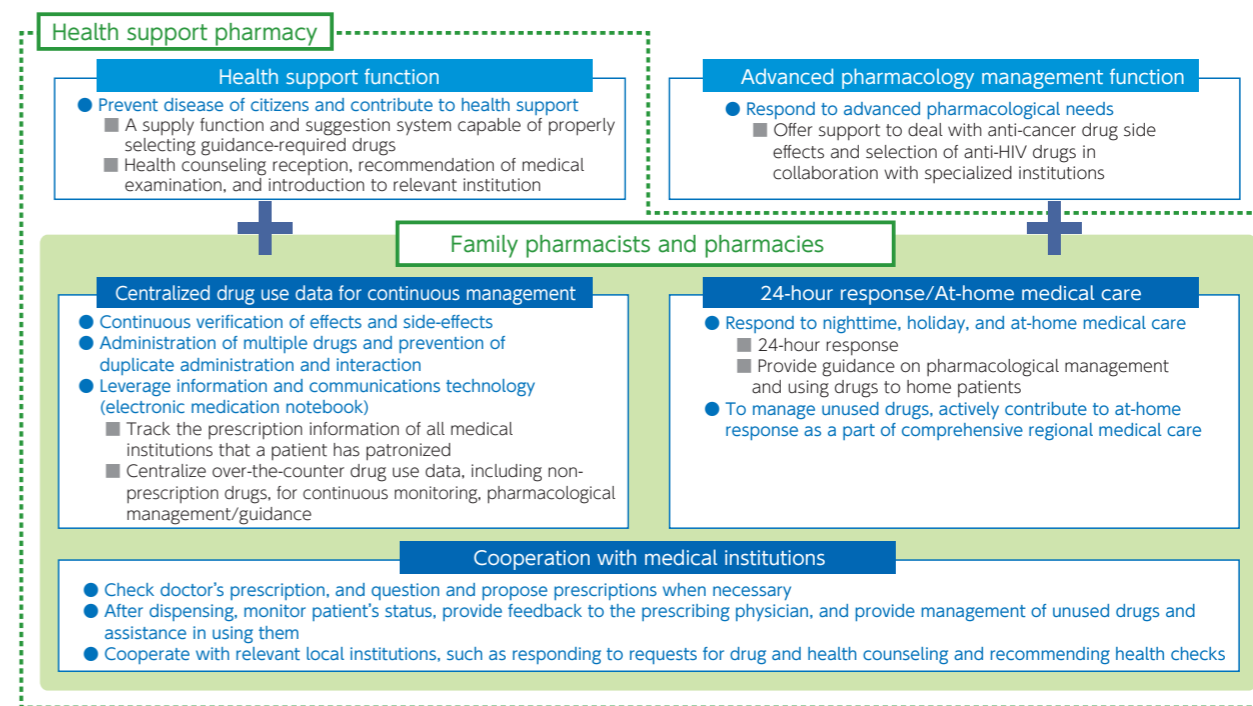
Calculate either drug history management and instruction fee or personal care pharmacist guidance fee

	FY2016 medical service fees	FY2018 medical service fees
Incentive for preventing harmful drug interactions and duplicate prescriptions	30 points ● Calculated only when prescription inquiries are made to doctors and the prescription is changed	40 points ● Changes due to factors other than unused drug reconciliation 30 points ● Changes due to unused drug reconciliation
Outpatient medication support fee	185 points Calculate when the patient's medication management was supported after verifying with an insurance doctor at the request of the patient, family or others.	185 points Calculate when the patient's medication management was supported after verifying with an insurance doctor at the request of the patient, family or others.  A prescription score can be calculated even when medication management, such as arrangement of the medication is brought in at the request of the patient, family or insurance doctor, and the result is provided to the insurance doctor.
Medication adjustment support fee	—	125 points ● When six or more types of internal medicine decrease by two or more types
Drug use data provision fee	20 points ● Based on the request of the patient, family, medical institution, or information provided in writing as judged necessary by the pharmacist	30 points ● Based on the medical institution's request or patient's consent 20 points ● Based on the patient's or family's request and consent
Incentive for drug administration guidance for infants	10 points ● Add when dispensing for infants below the age of six and the necessary guidance for taking the medicine and the guidance content are recorded in the medication notebook	12 points Content unchanged
Dispensing fee	5 points per day ● If 1st day or after and 7th day or before	Content unchanged
	4 points per day ● If 8th day or after and 14th day or before	Content unchanged
	70 points ● If 15th day or after and 21st day or before	67 points ● If 15th day or after and 21st day or before
	80 points ● If 22nd day or after and 30th day or before	78 points ● If 22nd day or after and 30th day or before
	87 points ● If 30 days or more	86 points ● If 30 days or more

A Vision of Pharmacies for Patients

The Ministry of Health, Labour and Welfare announced a "A Vision of Pharmacies for Patients" in October 2015. The announced vision is a guideline for fulfilling functions such as pharmacology management and guidance, which includes providing information about drugs and constantly acquiring new information about drugs and dealing with

at-home medical care. The guideline also attempts to achieve the separation of the roles of drug prescribing and dispensing for patients who live locally. The guideline also shows the direction that dispensing pharmacies should take and the functions required.



Family Pharmacist

The system of having the same pharmacist in charge as a "family pharmacist" by appointing the pharmacist to the patient began in April 2016. By appointing only one desired pharmacist from among pharmacists who have cleared certain nationally established requirements and signing a consent form, that pharmacist gives instructions about medicines, provides counseling and other services as the attending pharmacist next time.

(1) Pharmacist understands drugs collectively

The attending pharmacist collectively understands the patient's drugs, over-the-counter drugs, health foods or supplements received at another medical institution or drug store. The pharmacist provides advice, such as precautions when taking drugs, including whether duplicate drugs are being taken and the interactions that drugs have with each other or with food.

(2) Verification of change in physical condition and management of medicines

During the pharmacy visit, the pharmacist continuously checks the patient's progress after taking medication, including their past medication record. The pharmacist observes the medication's effect on the patient and changes in physical condition and contacts a medical institution, if necessary. If there is much medicine left over, the pharmacist proposes that the prescription be adjusted next time and organizes the medicines.

(3) Nighttime/holiday response and counseling

As a pharmacist who understands the patient's medication status, the pharmacist responds to requests for medication and health maintenance counseling. The pharmacist provides medication counseling, even when the patient's pharmacy is closed, such as at nighttime or on holidays.

Criteria

1. Possess at least three-years' experience as an insurance pharmacist

2. Works at least 32-hours per week in said insurance pharmacy
3. Has a tenure of at least one year in said insurance pharmacy
4. Received training certification from a training certification system that is approved by the Council on Pharmacists' Credentials

Family Pharmacist and Pharmacy

In A Vision of Pharmacies for Patients, the three functions required of family pharmacist and pharmacies are explained, but there are no facility standards, and notification is not required. The Ministry of Health, Labour and Welfare is studying KPIs for the quantitative evaluation of family pharmacists and family pharmacies, and clear indicators are expected to be announced later. The same ministry is seeking to restructure all pharmacies into family pharmacies by 2025.

Health Support Pharmacies

These are pharmacies that possess the basic functions of family pharmacists and family pharmacies and proactively support the independent maintenance and promotion of health by local residents. Healthcare centers must be notified in advance. The Ministry of Health, Labour and Welfare's goal is to register 10,000 to 15,000 health support pharmacies by 2025.

Criteria

1. Cooperation with other occupational disciplines such as medical institutions and nursing care providers within the comprehensive regional medical care system
2. A resident pharmacist who has completed health support pharmacy training and has five or more years of practical experience
3. An inquiry counter that takes account of personal information
4. Display "Health Support Pharmacy" outside and inside the pharmacy
5. Handle guidance-required drugs, nursing care products, etc.

Source: A Vision of Pharmacies for Patients" by the Ministry of Health, Labour and Welfare

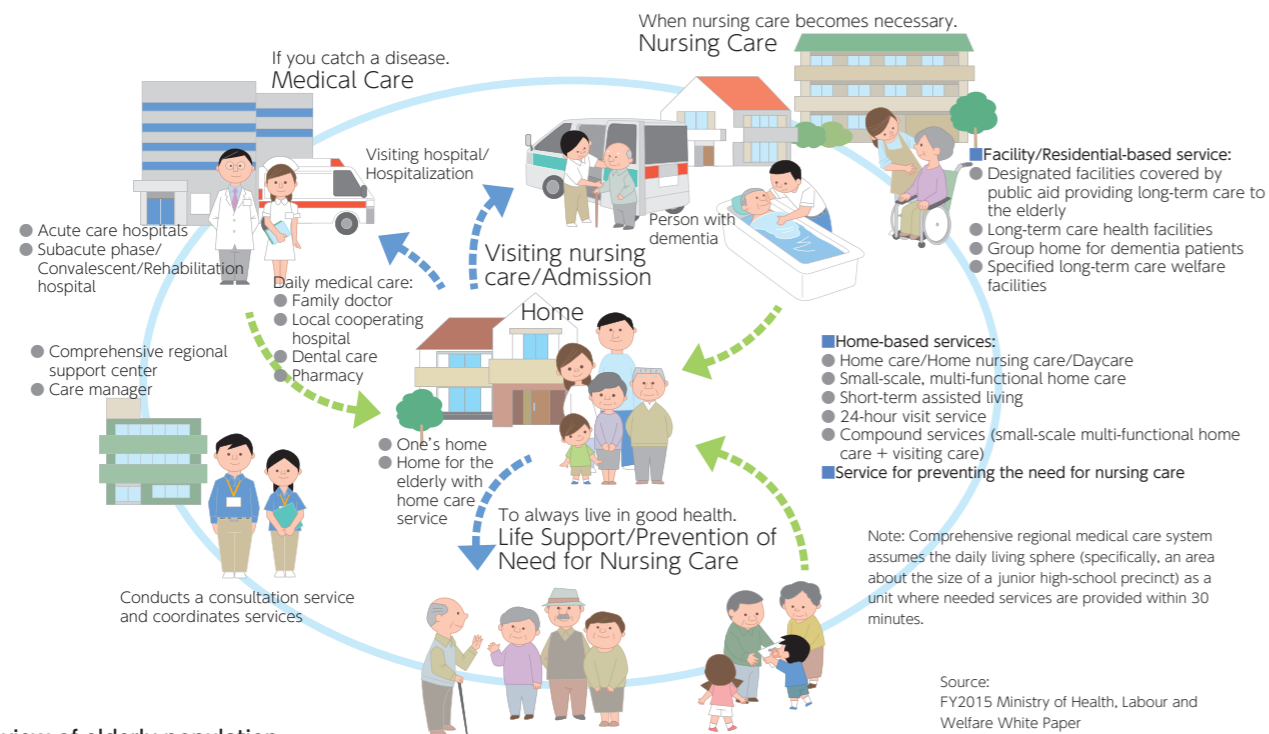
## Integrated Community Care System

The government is providing services such as shelter, medical care, nursing care, disease prevention, and life support with the aim of building an integrated community care system that will allow the elderly to continue living until the end of their lives in familiar surroundings, even if there becomes a serious need for nursing care.

A system that provides at-home medical and nursing care through the integrated cooperation of various occupational disciplines is needed in the medical nursing care field. Within

such a system, the importance of the role played by pharmacies and pharmacists is growing. The segment of the population that is 65 years or older has now exceeded 30 million (about one-in-four citizens) and will reach a peak of about 39 million in 2042. Under these circumstances, from 2025, the year that the baby-boom generation (about 8 million) turns more than 75 years old, further growth in demand from citizens for medical and nursing care is expected.

### Image of Integrated Community Care System



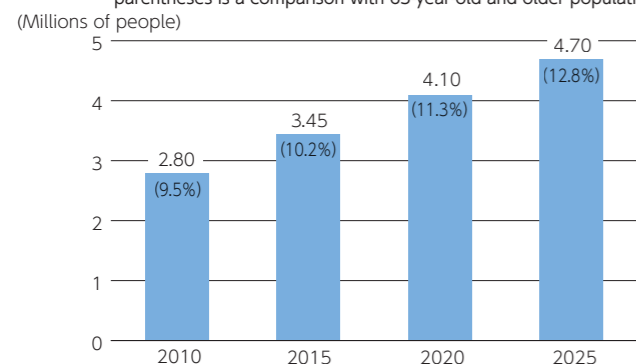
## Review of elderly population

**1** The number of elderly people of 65 years and older is projected to reach 36.57 million in 2025, and a peak of 38.78 million in 2042. Elderly people 75 years and older as a percentage of the total population are increasing and are expected to exceed 25% in 2055.

	Aug. 2012	2015	2025	2055
Elderly population 65 years and older (percentage)	30.58 million (24.0%)	33.95 million (26.8%)	36.57 million (30.3%)	36.26 million (39.4%)
Elderly population 75 years and older (percentage)	15.11 million (11.8%)	16.46 million (13.0%)	21.79 million (18.1%)	24.01 million (26.1%)

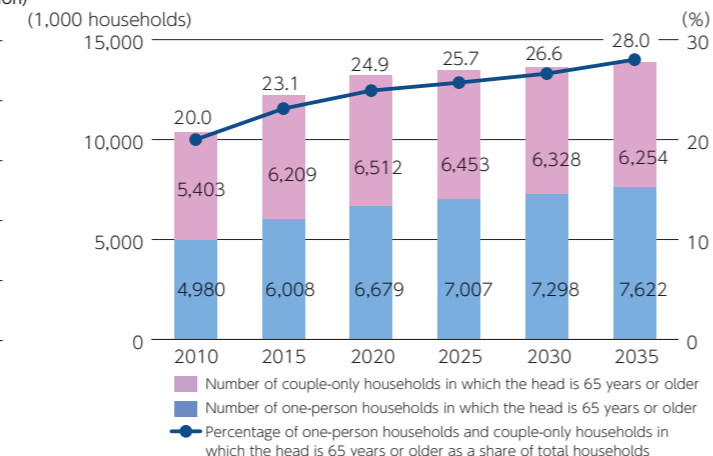
**2** Among elderly people 65 years and older, those with a "degree of autonomy in daily life for elderly with dementia" of category II or above are increasing.

Estimate of the number of elderly people with a "degree of autonomy in daily life for elderly with dementia" of category II or above (figure in parentheses is a comparison with 65-year-old and older population)



**3** Households in which the head of one-person households and couple-only householders is 65 years or older are increasing.

Estimate of the number of one-person only and couple-only households in which the head is 65 years or older



Source: Review of future elderly population by the Ministry of Health, Labour and Welfare

## Separation of Drug Prescribing and Dispensing

This is a system whereby physicians examine patients and prescribe drugs, and based on the prescriptions made by physicians, pharmacists, who are independent entities from a management perspective, dispense drugs, manage medication histories, and provide guidance in using drugs, thus demonstrating their expertise in these areas. In this way, the system strives to raise the quality of medical care.

## Generic Drugs

A drug which, after the expiration of the term of a patent (substance patent) for the drug's active ingredients, is manufactured and supplied by other pharmaceutical companies with the same active ingredients. Legally, this is referred to as a "generic drug."

## Medical Service Fee

In Japan, fees paid in exchange for healthcare services provided by health insurance are specified for medical and dental treatment and drug dispensing by the Ministry of Health, Labour and Welfare with a medical service fee point table. In addition, the price of drugs is determined by the NHI Drug Price Standard. The standard, and the price is reviewed once every two years.

## Prescription dispensing fees

The portion of medical service fees that is utilized for prescription dispensing services. It is revised once every two years.

## Drug Prices

With respect to the price of drugs used in healthcare services provided by health insurance, an official price has been established as the "drug price standard." A Drug Price Standard List is issued four times a year for new drugs and two times a year for generic drugs so that it can be used in healthcare services provided by health insurance. The list is revised once every two years based on a survey (drug price survey) of market distribution prices for medical institutions and pharmacies.

## Basic Dispensing Fee

A fee that is paid one time per prescription when the pharmacist performs "drug dispensing at the pharmacy." The number of points varies depending on whether that pharmacy fulfills the role of a family pharmacy or chain-managed pharmacy or focuses on responding to demand for prescriptions made by specific medical institutions.

## Premium for Generic Drug Dispensing System

This is a fee added to the basic prescription fee for pharmacies that actively dispense generic drugs. Each time there is a revision, the calculation standard becomes stricter so as to make it difficult to obtain the premium if the pharmacy does not more actively convert to generic drugs.

## Community support system incentives

Newly established to coincide with the April 2018 revision of medical service fees for the purpose of assessing the record of community services (e.g. nighttime and holiday services) provided by pharmacies where family pharmacists contribute to medical care in their local communities within integrated community care system.

## At-Home Medical Care

Medical treatment carried out in cooperation with various occupational disciplines, such as physicians and nurses. Pharmacists visit the homes of patients who find it difficult to visit a hospital or clinic due to a physical disability or other reason, and give instructions about medicines and monitor and manage the patient to ensure they take the medicine.

## Hospital-front Pharmacies

A dispensing pharmacy located near a hospital that responds primarily to that hospital's prescription demand. However, an official definition does not exist. Some also function as family pharmacists and pharmacies that respond to prescription demand from many medical institutions, participate in at-home medical treatment, and provide other services.

## MC Pharmacy

A pharmacy that moves into a medical mall where a number of medical institutions are located and responds to the prescription demand of those medical institutions.

## Mentaio Pharmacy

A pharmacy that was opened in front of a train station or in a shopping district and responds to prescription demand from a relatively wide area, without being limited to prescriptions from specific medical institutions.

## Hybrid-type pharmacies

Pharmacies that combine the functions of *Mentaio* pharmacies, which have a high growth potential because increased familiarity among the public leads to higher profits, and MC pharmacies, which have a high degree of stability as a result of their reliable profit base.

## Okusuri Techo (Medication Notebook)

A notebook for centrally managing the information and records of prescribed medicines and for avoiding duplication and side effects caused by taking multiple medications. It assists in the proper use of medicine by listing past side effects and allergy symptoms.

## Electronic Okusuri Techo (Electronic Medication Notebook)

The electronic version of *Okusuri Techo*. It can record information on a smartphone or other electronic device. Although a number of companies have rolled out their own products, the products of companies that participate in the Japan Pharmaceutical Association's mutual browsing service can perform information browsing, including even other companies' electronic medication notebooks.

## Health Check Station\*

Exclusive areas set up within *Nihon Chouzai* pharmacies that are equipped with health consultation and health assessment capabilities in order to support the health of local community residents through disease prevention and pre-symptomatic initiatives.

## GMP

Abbreviation of Good Manufacturing Practice. This is a manufacturing quality management standard established by the United States' Food and Drug Administration based on the Federal Food, Drug, and Cosmetic Act of 1938. Every country has established similar standards. In Japan, this is called the Good Quality Practice for pharmaceutical products established by the Ministry of Health, Labour and Welfare based on the Pharmaceutical and Medical Device Act.

## Dispatching Act

The official name is the "Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers." This is a law with established rules that temporary staffing companies and companies that hire temporary staff must observe in order to protect the rights of dispatched workers. The law has been improved by, for example, establishing the period of time that a worker can be dispatched to the same office of a company that hires temporary staff.

\*The Health Check Station is a registered trademark of Nihon Chouzai Co., Ltd.

# 10-Year Summary of Financial and Non-financial Data

(Millions of yen)

Consolidated performance indicators	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	2FY2015	FY2016	FY2017
Fiscal year in which revisions to prescription dispensing fees and NHI drug prices were made	✓		✓		✓		✓		✓	
<b>Business results (for the year)</b>										
Net sales	85,891	98,260	112,128	130,041	139,466	165,347	181,844	219,239	223,468	<b>241,274</b>
Gross profit	13,702	16,283	19,182	22,038	21,494	25,623	31,929	39,068	39,258	<b>43,837</b>
Selling, general and administrative expenses	11,483	12,733	14,398	16,574	18,248	20,878	25,281	28,578	30,738	<b>33,250</b>
Operating profit	2,218	3,549	4,784	5,464	3,245	4,744	6,647	10,489	8,519	<b>10,587</b>
EBITDA <sup>1</sup>	4,307	5,719	7,118	8,492	6,837	8,570	10,278	14,951	13,260	<b>15,801</b>
Ordinary profit	1,802	3,098	4,358	4,941	2,855	4,188	6,003	9,878	7,976	<b>10,138</b>
Profit attributable to owners of parent	420	1,404	1,821	2,085	184	1,901	2,778	6,329	4,638	<b>6,104</b>
<b>Cash flows (fiscal year)</b>										
Cash flows from operating activities	852	3,833	6,723	7,127	2,885	6,243	5,831	19,327	(940)	<b>23,141</b>
Cash flows from investing activities	(10,124)	(5,338)	(8,269)	(9,694)	(6,422)	(14,510)	(8,437)	(7,823)	(28,444)	<b>(13,843)</b>
Cash flows from financing activities	9,233	3,434	1,109	7,920	5,496	8,782	1,422	7,031	18,205	<b>(2,034)</b>
<b>Financial position (at year-end)</b>										
Total assets	57,077	64,678	72,701	86,615	95,140	117,295	130,141	157,609	178,347	<b>186,573</b>
Net assets	10,725	11,405	12,780	14,716	14,702	15,849	17,635	32,473	36,447	<b>41,506</b>
Cash and cash equivalents	5,706	7,636	7,200	12,554	14,513	15,027	13,844	32,380	21,200	<b>28,464</b>
Merchandise and finished goods	5,150	5,231	8,595	8,419	11,908	12,165	15,911	15,328	21,455	<b>20,873</b>
Interest-bearing debts <sup>2</sup>	27,981	32,190	33,891	42,279	48,281	62,037	68,327	66,794	86,524	<b>87,611</b>
<b>Per share information</b>										
Net assets per share <sup>3</sup> (yen)	732.93	796.64	893.41	1,023.97	1,017.04	1,090.63	1,257.59	2,030.22	2,278.70	<b>2,595.00</b>
Net income per share <sup>3</sup> (yen)	28.48	96.13	127.57	145.46	12.84	131.24	194.48	432.85	290.03	<b>381.69</b>
<b>Financial and non-financial data</b>										
Sales growth rate (%)	7.6%	14.4%	14.1%	16.0%	7.2%	18.6%	10.0%	20.6%	1.9%	<b>8.0%</b>
Selling, general and administrative expenses ratio (%)	13.4%	13.0%	12.8%	12.7%	13.1%	12.6%	13.9%	13.0%	13.8%	<b>13.8%</b>
Operating margin (%)	2.6%	3.6%	4.3%	4.2%	2.3%	2.9%	3.7%	4.8%	3.8%	<b>4.4%</b>
ROA <sup>4</sup> (%)	0.8%	2.3%	2.7%	2.6%	0.2%	1.8%	2.2%	4.4%	2.8%	<b>3.3%</b>
ROE <sup>5</sup> (%)	3.6%	12.7%	15.1%	15.2%	1.3%	12.0%	16.6%	25.3%	13.5%	<b>15.7%</b>
Equity ratio <sup>6</sup> (%)	18.8%	17.6%	17.6%	17.0%	15.5%	13.5%	13.6%	20.6%	20.4%	<b>22.2%</b>
Interest coverage ratio <sup>7</sup> (times)	2.5	7.8	12.8	13.0	4.9	8.6	7.1	24.4	—	<b>37.1</b>
D/E ratio <sup>8</sup> (times)	2.6	2.8	2.7	2.9	3.3	3.9	3.8	2.1	2.4	<b>2.1</b>
Capital investments	10,283	5,885	7,885	8,961	5,566	9,069	12,279	8,073	23,344	<b>15,316</b>
Depreciation	2,088	2,169	2,333	3,028	3,591	3,825	3,631	4,461	4,741	<b>5,214</b>
R&D expenses	583	807	985	1,224	1,023	1,534	1,767	1,913	2,388	<b>2,784</b>
Number of employees <sup>9</sup>	1,675	1,881	2,112	2,304	2,488	3,009	3,283	3,435	3,781	<b>4,075</b>

\* Figures shown have been rounded down. However, percentages shown have been rounded to the nearest first decimal place.

Notes: 1. EBITDA = operating income + depreciation

2. Interest-bearing debt = loans + lease obligations + installment account payable + bonds

3. Nihon Chouzai conducted a 2-for-1 stock split on October 1, 2015.

Net assets per share and net income per share have been calculated as if this stock split had taken place at the beginning of fiscal 2008.

4. ROA = profit attributable to owners of parent ÷ average of total assets at the beginning and end of the fiscal year

5. ROE = profit attributable to owners of parent ÷ average equity at the beginning and end of the fiscal year

6. Equity ratio = shareholders' equity ÷ total assets

7. Interest coverage ratio = operating cash flow ÷ interest payments. This figure is not presented when operating cash flow is in negative territory.

8. D/E ratio = interest-bearing debt ÷ net assets

9. Number of employees indicates the number of full-time employees, but does not include temporary employees such as associate, contract, fixed-term, and part-time employees.

# Report of Business Results and Financial Analysis

The Nihon Chouzai Group's consolidated financial results in the fiscal year ended March 2018 were entirely driven by the Dispensing Pharmacy Business, its core business, in a year where there were no drug price or dispensing fee revisions. As a result, sales and profits increased sharply, resulting in record-high operating profit and ordinary income. The move toward industry reorganization is steadily moving forward in the Dispensing Pharmacy Business and generic drug industry. Nihon Chouzai will further strengthen collaboration among business segments to overcome major changes in the business environment and solidify its position to win a place in the reorganization.

## Status of Sales and Profits

### Net Sales

Net sales totaled 241,274 million yen (up by 8.0%, or 17,806 million yen year on year). Although the numbers were somewhat unsatisfactory in a year that was free of revisions, excluding the hepatitis C drug, the Company secured a double-digit growth of 10.3% year on year.

External sales of the pharmaceutical manufacturing and sales business remained low, with a 2.1% increase year on year, but sales in the Dispensing Pharmacy Business and the Medical Professional Staffing and Placement Business made up for the shortfall. In the Dispensing Pharmacy Business, the increase in new pharmacies due to aggressive openings including those opened through mergers and acquisitions, the contribution to sales made by stores opened the previous year, and the rise of drug unit prices in the following revision year were the main factors behind the sales increase. In the Medical Professional Staffing and Placement Business, the market environment with its continuing pharmacist shortage and the development of the business of introducing doctors to medical institutions as a new business field were the main reasons for the sales increase.

### Cost of Sales, Selling, and General Administrative Expenses

Sales costs totaled 197,437 million yen (up by 7.2%, or 13,226 million yen). In the Dispensing Pharmacy Business, the gross profit margin rose from 17.6% in the previous fiscal year, to 18.2% in the fiscal year under review, a 0.6% improvement, owing to a hike in the technical fee unit price due to increased efforts by family pharmacists and pharmacies and a rise in the number of prescriptions, mainly at existing pharmacies. Selling, general and administrative expenses rose by 8.2% year on year, slightly exceeding the revenue growth rate, to 33,250 million yen (up 2,511 million yen). This was mainly due to an increase in depreciation following the expansion of production capacity, and higher R&D expenses to boost the in-house manufacturing of products in the pharmaceutical manufacturing and sales business.

### Operating profit

Operating profit totaled 10,587 million yen (up by 24.3%, or 2,067 million yen) and the operating margin was 4.4% (up by 0.6 point).

The Company posted a record-high operating profit of 10,587 million yen. In the Pharmaceutical Manufacturing and Sales Business and the Medical Professional Staffing and Placement Business, the operating margin declined slightly year on year due to an increase in expenses for the expansion these businesses. However, the operating

margin in the Dispensing Pharmacy Business increased 1% year on year, a factor behind the significant improvement.

### Profit Attributable to Owners of Parent Company

Profit attributable to owners of the parent company totaled 6,104 million yen (up by 31.6%, or 1,465 million yen). Return on equity (ROE) improved a substantial 2.2% year on year, from 13.5% in the previous fiscal year, to 15.7% in the fiscal year under review.

## Status of Each Business Segment

### Dispensing Pharmacy Business

Net sales of this business totaled 205,192 million yen (up by 8.4%, or 15,865 million yen), while operating profit was 12,411 million yen (up by 29.8%, or 2,851 million yen), a substantial increase in sales and profits.

Compared with the previous fiscal year, both the drug unit price and technical fee unit price in this business exceeded that of the plan and are proceeding favorably. The gross profit margin improved from 15.2% to 16.0%. Notable contributing factors were the focus on medical care service quality, such as the increased efforts of family pharmacists and family pharmacies, and the steady 6.1% year-on-year rise in the number of prescriptions including at existing pharmacies.

On the other hand, as a result of controlling selling, and general administrative expenses to the same level as in the previous fiscal year, a record high operating profit was achieved in this business segment. The operating margin improved 1.0% year on year, from 5.0% to 6.0%.

### Pharmaceutical Manufacturing and Sales Business

Net sales were 38,066 million yen (up by 3.4%, or 1,244 million yen), while operating profit was 1,194 million yen (down by 30.5%, or 524 million yen).

Net sales increased year on year thanks to higher internal sales accompanying the expansion of the Dispensing Pharmacy Business and higher external sales associated with the expansion of the generic drug market. However, the Company failed to reach its initial target, especially for external sales, falling 8.3% below the target.

Turning to profits, the Company steadily pursued its sales strategy, which emphasized profitability. However, profits declined year on year, as the Company could not compensate for the increased expenses due to capital expenditures to boost R&D activities in order to increase the number of its own manufactured products and thereby enhance its earning capacity, and to raise production capacity.

### Medical Professional Staffing and Placement Business

Sales and profits remained high, with sales of 11,970 million yen (up by 14.0%, or 1,470 million yen) and operating profit of 1,842 million yen (up 7.7%, or 131 million yen). As background information, there is a shortage of pharmacists at dispensing pharmacies that seek to realize "A Vision of Pharmacies for Patients" (October 2015, Ministry of Health, Labour and Welfare).

Turning to profits, while salaries of pharmacists in areas where it is difficult to recruit them continue to rise and was a factor that pushed gross profit down, the gross profit margin declined only 0.4% year on year thanks to growth in the placement business (pharmacists, doctors, etc.)

Turning to costs, the selling, general and administrative expense ratio rose from 22.6% in the previous fiscal year to 23.1% due to higher advertising expenses associated with efforts to boost the placement business. As a result, the operating margin dropped from 16.3% in the previous fiscal year to 15.4%, a 0.9% decline, but this is viewed positively as an upfront investment to expand the placement business.

## Analysis of Financial Position

### Assets

Total assets increased by 8,225 million yen, or 4.6%, from 178,347 million yen at the end of the previous fiscal year to 186,573 million yen at the end of the current fiscal year.

Current assets were 83,121 million yen, an increase of 793 million yen (1.0%), from 82,327 million yen at the end of the previous fiscal year. This was mainly attributable to an increase of 7,264 million yen in cash and deposits and a decrease of 6,795 in accounts receivable-trade. Non-current assets increased by 7,432 million yen (7.7%), from 96,019 million yen at the end of the previous fiscal year to 103,452 million yen. The opening of new pharmacies in the Dispensing Pharmacy Business, the transfer of business, the increase in goodwill through aggressive M&A in this business, and capital investments in the pharmaceutical manufacturing and sales business were mainly responsible for this increase.

### Liabilities

Total liabilities increased by 3,166 million yen (2.2%), from 141,900 million yen at the end of the previous fiscal year to 145,066 million yen at the end of this fiscal year. Current liabilities increased 4,004 million yen (6.0%), from 66,305 million yen at the end of the previous fiscal year to 70,310 million yen. This was mainly attributable to an 1,898 million yen increase in the current portion of long-term loans payable. Non-current liabilities decreased by 838 million yen (-1.1%), from 75,595 million yen at the end of the previous fiscal year to 74,756 million yen. This was mainly attributable to a 2,306 million yen decrease in long-term loans payable.

### Net Assets

Net assets increased by 5,059 million yen (13.9%), from 36,447 million yen at the end of the previous fiscal year to 41,506 million yen. This was attributable mainly to a 5,305 million yen increase in retained earnings. As a result, the equity ratio improved from 20.4% at the end of the previous fiscal year to 22.2%.

## Status of Cash Flows

Net cash provided by operating activities in the fiscal year under review was 23,141 million yen, net cash used in investing activities was 13,843 million yen, and net cash used in financing activities was 2,034 million yen. Operating cash flow improved substantially year on year. As a result, there was a net increase of 7,264 million yen in cash and cash equivalents from the end of the previous fiscal year to 28,464 million yen at the end of March 2018. Each cash flow status is as follows.

### Cash Flows from Operating Activities

A major source of cash inflow was profit before income taxes of 10,045 million yen, while the primary use of cash outflow was 1,399 million yen in trade payables. This is a 24,082 million yen year-on-year improvement due to the elimination of special factors such as an inventory increase in the hepatitis C drug and an increase in profit before income taxes, and it marks a record high for cash flows from operating activities.

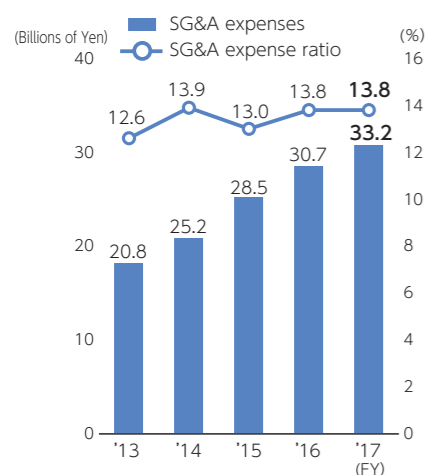
### Cash Flows from Investing Activities

The primary uses of cash outflow were payments of 12,076 million yen for the purchase of property, plants, and equipment incidental to opening new pharmacies in the Dispensing Pharmacy Business and capital investments in the Pharmaceutical Manufacturing and Sales Business. There were also payments of 1,126 million yen for the acquisition of shares of subsidiaries resulting in a change in the scope of consolidation. The amount was reduced roughly in half mainly because the upfront investment in the Pharmaceutical Manufacturing and Sales Business exceeded the peak. As a result, free cash flow recovered to just under 10,000 million yen.

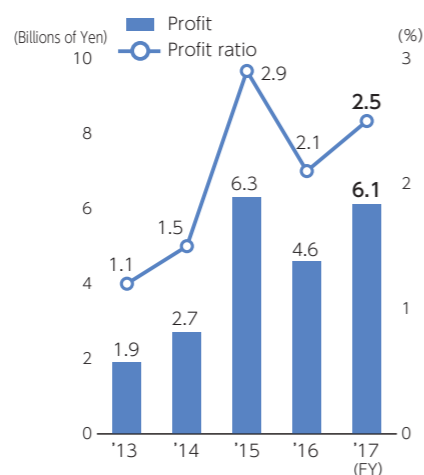
### Cash Flows from Financing Activities

The primary source of cash inflow was proceeds from long-term loans payable of 13,000 million yen, while cash was used mainly for payments of 13,408 million yen in repayments of long-term loans payable. Although Nihon Chouzai had a net cash inflow from financing activities due to continued aggressive investments, mainly in the pharmaceutical manufacturing and sales business, this fiscal year marked the first time the Company had an outflow of 2,034 million yen in its financing activities since listing on the stock exchange. As we are heading toward a recovery period in the Pharmaceutical Manufacturing and Sales Business, we will reinforce the financial side.

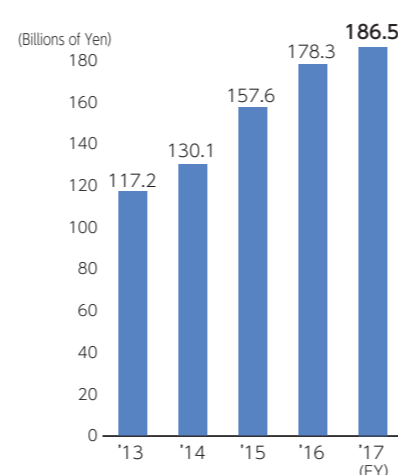
SG&A expenses and SG&A expense ratio



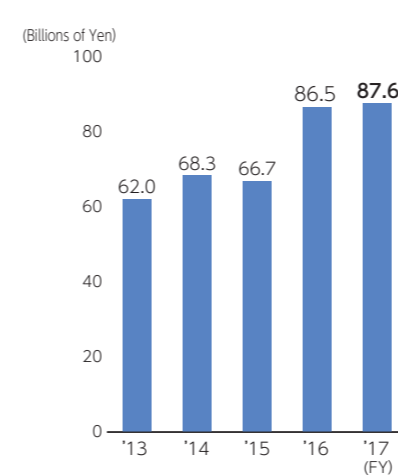
Profit and Profit ratio



Total assets

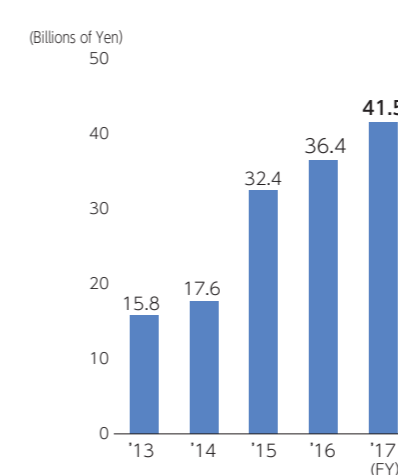


Interest-bearing debts

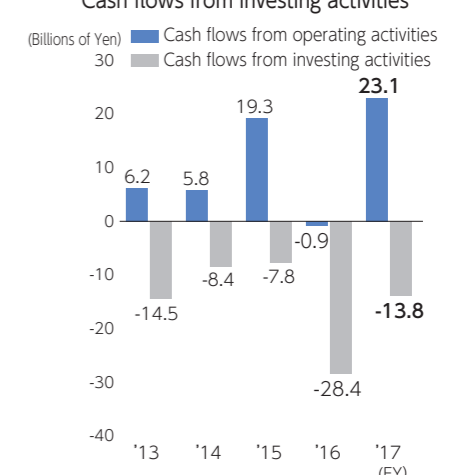


\*Interest-bearing debts shows the total amount of loans payable, lease obligations, accounts payable-installment purchase, and bonds.

Net assets



Cash flows from operating activities  
Cash flows from investing activities



# Consolidated Balance Sheet

Nihon Chouzai Co., Ltd. and subsidiaries  
March 31, 2017 and 2018

(Millions of yen)

Assets	FY2016	FY2017
<b>Current assets</b>		
Cash and deposits	21,200	28,464
Notes receivable—trade	73	213
Accounts receivable—trade	26,698	19,902
Electronically recorded monetary claims—operating	872	1,115
Merchandise and finished goods	21,455	20,873
Work in process	2,509	1,304
Raw materials and supplies	5,550	6,047
Deferred tax assets	1,262	1,508
Other	2,713	3,698
Allowance for doubtful accounts	(7)	(6)
<b>Total current assets</b>	<b>82,327</b>	<b>83,121</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	39,675	53,483
Accumulated depreciation	(17,372)	(19,064)
Buildings and structures, net	22,303	34,418
Machinery, equipment and vehicles	12,690	14,129
Accumulated depreciation	(2,649)	(3,543)
Machinery, equipment and vehicles, net	10,040	10,585
Land	18,016	19,357
Leased assets	2,995	2,943
Accumulated depreciation	(1,582)	(1,858)
Leased assets, net	1,413	1,084
Construction in progress	13,521	6,750
Other	13,564	14,816
Accumulated depreciation	(10,346)	(11,352)
Other, net	3,217	3,464
<b>Total property, plant and equipment</b>	<b>68,513</b>	<b>75,662</b>
Intangible assets		
Goodwill	14,605	15,418
Other	2,167	2,534
<b>Total intangible assets</b>	<b>16,773</b>	<b>17,952</b>
Investments and other assets		
Investment securities	1,039	20
Long-term loans receivable	817	738
Lease and guarantee deposits	7,072	7,049
Deferred tax assets	587	786
Other	1,216	1,242
<b>Total investments and other assets</b>	<b>10,733</b>	<b>9,837</b>
<b>Total non-current assets</b>	<b>96,019</b>	<b>103,452</b>
<b>Total assets</b>	<b>178,347</b>	<b>186,573</b>

(Millions of yen)

Liabilities	FY2016	FY2017
<b>Current liabilities</b>		
Accounts payable—trade	38,909	36,203
Electronically recorded obligations—operating	2,124	3,770
Current portion of long-term loans payable	13,411	15,309
Lease obligations	390	311
Income taxes payable	1,537	3,040
Provision for bonuses	2,547	2,775
Provision for directors' bonuses	117	137
Asset retirement obligations	9	4
Other	7,257	8,759
<b>Total current liabilities</b>	<b>66,305</b>	<b>70,310</b>
<b>Non-current liabilities</b>		
Long-term loans payable	70,678	68,372
Lease obligations	1,002	697
Long-term accounts payable—installment purchase	609	1,991
Provision for directors' retirement benefits	949	1,048
Net defined benefit liability	1,294	1,503
Asset retirement obligations	760	821
Other	298	320
<b>Total non-current liabilities</b>	<b>75,595</b>	<b>74,756</b>
<b>Total liabilities</b>	<b>141,900</b>	<b>145,066</b>
<b>Net assets</b>	<b>FY2016</b>	<b>FY2017</b>
<b>Shareholders' equity</b>		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	21,511	26,816
Treasury shares	(46)	(47)
<b>Total shareholders' equity</b>	<b>36,345</b>	<b>41,648</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	263	0
Remeasurements of defined benefit plans	(161)	(144)
<b>Total accumulated other comprehensive income</b>	<b>101</b>	<b>(144)</b>
<b>Non-controlling interests</b>	<b>—</b>	<b>2</b>
<b>Total net assets</b>	<b>36,447</b>	<b>41,506</b>
<b>Total liabilities and net assets</b>	<b>178,347</b>	<b>186,573</b>

## Consolidated Statement of Income

Nihon Chouzai Co., Ltd. and subsidiaries  
For the years ended March 31, 2017 and 2018

(Millions of yen)

	FY2016	FY2017
Net sales	223,468	241,274
Cost of sales	184,210	197,437
Gross profit	39,258	43,837
Selling, general and administrative expenses	30,738	33,250
Operating profit	8,519	10,587
Non-operating income		
Interest income	1	0
Commission fee	144	151
Rent income	404	436
Insurance return	75	—
Other	157	193
Total non-operating income	783	781
Non-operating expenses		
Interest expenses	687	635
Commission fee	37	44
Rent expenses	322	328
Loss on retirement of non-current assets	113	45
Other	164	175
Total non-operating expenses	1,326	1,230
Ordinary profit	7,976	10,138
Extraordinary income		
Gain on sales of non-current assets	28	0
Gain on investment securities	0	360
Gain on transfer of business	—	48
Total extraordinary income	28	408
Extraordinary losses		
Loss on sales of non-current assets	6	10
Impairment loss	171	491
Total extraordinary losses	177	501
Profit before income taxes	7,827	10,045
Income taxes—current	3,024	4,272
Income taxes—deferred	164	(331)
Total income taxes	3,188	3,940
Profit	4,638	6,104
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	4,638	6,104

## Consolidated Statement of Comprehensive Income

Nihon Chouzai Co., Ltd. and subsidiaries  
For the years ended March 31, 2017 and 2018

(Millions of yen)

	FY2016	FY2017
Profit	4,638	6,104
Other comprehensive income		
Valuation difference on available-for-sale securities	66	(263)
Remeasurements of defined benefit plans, net of tax	69	17
Total other comprehensive income	136	(245)
Comprehensive income	4,775	5,858
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	4,775	5,858
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated Statement of Changes in Net Assets

Nihon Chouzai Co., Ltd. and subsidiaries

(Millions of yen)

For the year ended March 31, 2017	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at beginning of current period	3,953	10,926	17,672	(44)	32,507	196	(231)	(34)	—	32,473
Changes of items during period										
Dividends of surplus			(799)		(799)					(799)
Profit attributable to owners of parent			4,638		4,638					4,638
Purchase of treasury shares				(1)	(1)					(1)
Net changes of items other than shareholders' equity						66	69	136	—	136
Total changes of items during period	—	—	3,839	(1)	3,837	66	69	136	—	3,973
Balance at end of current period	3,953	10,926	21,511	(46)	36,345	263	(161)	101	—	36,447

For the year ended March 31, 2018	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at beginning of current period	3,953	10,926	21,511	(46)	36,345	263	(161)	101	—	36,447
Changes of items during period										
Dividends of surplus			(799)		(799)					(799)
Profit attributable to owners of parent			6,104		6,104					6,104
Purchase of treasury shares				(1)	(1)					(1)
Net changes of items other than shareholders' equity						(263)	17	(245)	2	(243)
Total changes of items during period	—	—	5,305	(1)	5,303	(263)	17	(245)	2	5,059
Balance at end of current period	3,953	10,926	26,816	(47)	41,648	0	(144)	(144)	2	41,506



# Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries

For the years ended March 31, 2017 and 2018

(Millions of yen)

	FY2016	FY2017
<b>Cash flows from operating activities</b>		
Profit before income taxes	7,827	10,045
Depreciation	4,741	5,214
Amortization of long-term prepaid expenses	104	126
Impairment loss	171	491
Amortization of goodwill	976	1,326
Increase (decrease) in allowance for doubtful accounts	(9)	(3)
Increase (decrease) in provision for bonuses	279	225
Increase (decrease) in provision for directors' bonuses	(21)	20
Increase (decrease) in net defined benefit liability	118	202
Increase (decrease) in provision for directors' retirement benefits	(7)	98
Interest and dividend income	(22)	(21)
Interest expenses	687	635
Loss (gain) on sales of non-current assets	(22)	10
Loss (gain) on sales of investment securities	(0)	(360)
Loss (gain) on transfer of business	—	(48)
Decrease (increase) in notes and accounts receivable-trade	(46)	6,691
Decrease (increase) in inventories	(7,005)	1,442
Increase (decrease) in notes and accounts payable-trade	(4,135)	(1,399)
Decrease (increase) in prepaid expenses	(84)	(111)
Increase (decrease) in accrued expenses	132	324
Increase (decrease) in accounts payable-other	758	390
Other, net	(349)	1,198
Subtotal	4,093	26,500
Interest and dividend income received	22	21
Interest expenses paid	(702)	(623)
Income taxes paid	(4,354)	(2,756)
<b>Net cash provided by (used in) operating activities</b>	<b>(940)</b>	<b>23,141</b>
<b>Cash flows from investing activities</b>		
Proceeds from withdrawal of time deposits	5	—
Purchase of property, plant and equipment	(20,222)	(12,076)
Proceeds from sales of property, plant and equipment	72	46
Purchase of intangible assets	(926)	(656)
Proceeds from sales of investment securities	2	999
Increase in long-term prepaid expenses	(231)	(95)
Payments for transfer of business	(1,713)	(585)
Proceeds from transfer of business	—	144
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(4,899)	(1,126)
Payments for loans receivable	(443)	(448)
Collection of loans receivable	103	88
Payments for lease and guarantee deposits	(385)	(251)
Proceeds from collection of lease and guarantee deposits	134	172
Other, net	59	(25)
<b>Net cash provided by (used in) investing activities</b>	<b>(28,444)</b>	<b>(13,843)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	(236)	—
Proceeds from long-term loans payable	33,600	13,000
Repayments of long-term loans payable	(6,509)	(13,408)
Redemption of bonds	(7,000)	—
Repayments of lease obligations	(412)	(391)
Repayments of installment payables	(431)	(433)
Purchase of treasury shares	(1)	(1)
Cash dividends paid	(802)	(799)
<b>Net cash provided by (used in) financing activities</b>	<b>18,205</b>	<b>(2,034)</b>
Net increase (decrease) in cash and cash equivalents	(11,180)	7,264
Cash and cash equivalents at beginning of period	32,380	21,200
Cash and cash equivalents at end of period	21,200	28,464

# Risks of Businesses

Within the matters regarding business status and accounting status described in this "Corporate Report 2018," the matters that may have a significant impact on investors' decisions are described below. The Nihon Chouzai Group recognizes these risks and we have a policy to appropriately handle the risks in case the risks materialize; however, the decision for investment should be made after carefully considering this section and contents other than this section in this document. The matters about the future described below are decided by the Group as of June 28, 2018, and the matters may differ from actual results due to various factors.

## I. Matters About Each Business Segment

### 1. Dependency on Interest-Bearing Debts

The Nihon Chouzai Group opens new stores in the dispensing pharmacy business and makes capital investments in the pharmaceutical manufacturing and sales business by raising funds from mainly loans payable. We will continue to open new stores and make capital investments, in that case interest expenses may increase. Additionally, in case of failure to gain enough cash from management in each business operation, due to some problems such as difficulty in gaining additional loans payable, business plans or performance of the Group may be affected.

Furthermore, the rates of most loans payable are a fixed interest rate at this point; however, an increase of interest expenses due to rising interest rates may affect the performance of the Group.

### 2. Personal Information Management

The Nihon Chouzai Group handles personal information such as medical history and medication history of customers, and personal history of temporary employees in the dispensing pharmacy business and the medical professional staffing and placement business. In the Group, we strictly manage personal information. In case of leaking the personal information, there is a possibility that we are liable to pay a larger amount of compensation for damages when compared to the case of the leakage of general personal information such as addresses and names.

Additionally, regarding protection of personal information, in case the entities handling personal information including Nihon Chouzai and consolidated subsidiaries provide the personal information to a third party without obtaining the consent of the person, administrative sanctions shall be imposed and, in some cases, criminal penalties may be imposed by "Act on the Protection of Personal Information."

Moreover, most of our employees who handle personal information in dispensing pharmacies are pharmacists and serious confidentiality obligation is legally imposed on pharmacists (Article 134 of the Penal Code). In the Group, therefore, in case information leakage occurs, the performance of the Group may be affected by a large amount of reparation payment, administrative sanctions, and a decrease in credibility from existing customers and society accompanying the payment and sanctions.

### 3. Social Insurance Contributions

The Nihon Chouzai Group has all the people who are

eligible for social insurance join in the insurance. In case of an increase in insurance rate due to system amendment such as reform of medical care system for the elderly and improvement of employment insurance, and a significant increase in the amount of contributions by the company due to the change in the scope of insured person regarding a temporary employee, the performance of the Group may be affected.

### 4. Influence by Disasters and Other Emergencies

The Nihon Chouzai Group mainly gathers the headquarters functions of each company in Chiyoda ward, Tokyo. Regarding the pharmaceutical manufacturing and sales business, we establish the function in Tsukuba City, Ibaraki Prefecture. Regarding NIHON GENERIC CO., LTD, we establish its production facility in Kasukabe City, Saitama Prefecture. Regarding Choseido Pharmaceutical Co., Ltd., we establish its headquarters and production facility in Tokushima City, Tokushima Prefecture. To cope with disasters and other emergencies in these areas, our group companies have prepared a business continuity plan. However, if we suffer more damage than expected, the performance of the Group may be affected.

## II. Dispensing Pharmacy Business

### 1. Legal Regulations for Dispensing Pharmacy Business

#### (1) Opening Dispensing Pharmacies

When Nihon Chouzai opens and manages pharmacies, in case we cannot receive required authorization, designation, registration, or license by each prefecture, in case we fail to proceed for renewal and registration/notification, in case we violate related laws and regulations, or in case these laws and regulations are amended, our store opening plans and performance may be affected.

Main relevant legal regulations are "License for pharmacy," "Health insurance pharmacy designation" and others, and we obtain required permission in all stores. Regarding reasons for disqualification for permission, they do not apply to us as of June 28, 2018.

#### (2) Securing Pharmacists

Regarding dispensing pharmacies, Article 19 of the Pharmacists Act forbids dispensing by anyone other than pharmacists. By "Law for Ensuring the Quality, Efficacy, and Safety of Drugs and Medical Devices" ("Pharmaceutical and Medical Devices Act" is used as an abbreviation. This was called "Pharmaceutical Affairs Act" before amendment) and an Ordinance of the Ministry of Health, Labour, and Welfare, not only pharmacist arrangement in a pharmacy, but also

the number of arranged pharmacists is strictly regulated, and it is required to arrange one pharmacist per 40 sheets of received prescriptions a day. Therefore, in case of failure to secure the required number of pharmacists, our store opening plans and performance may be affected.

### (3) Dispensing Operation

Nihon Chouzai takes various measures to prevent dispensing errors. For example, we introduce automatic check systems for dangerous drugs that produce serious symptoms due to a dispensing error, and pharmacists intensively conduct inspections for the dangerous drugs. In addition, we take measures that mitigate an impact to performance by signing up "Pharmacist liability insurance" at all stores just in case. However, in case a dispensing error occurs resulting in a large amount of reparation payment and a decrease in credibility from existing customers and society, our performance may be affected.

## 2. The Business Environment in the Dispensing Pharmacy Business

### (1) Trends in the rate of separation of prescribing and dispensing

The separation of prescribing and dispensing has been promoted as a national policy to improve the quality of medical care by devoting medical institutions to medical practices such as medical examinations, and having dispensing pharmacies conduct medication history management and medication consulting. In case of decline in the growth rate of separation of prescribing and dispensing in the future, the performance of the Nihon Chouzai Group may be affected.

### (2) Reform of the medical care system

#### [1] Revisions of the NHI Drug Price Standards and dispensing fees

The dispensing sales in the dispensing pharmacy business, which is the core business of the Nihon Chouzai Group, are the total amount of drug income based on the drug price standards regulated primarily by Ministry of Health, Labour, and Welfare notifications, and the income from technical dispensing based on dispensing fee points regulated by Ministry of Health, Labour, and Welfare notification acts. Therefore, in case the drug price standards are reduced by the revisions of NHI drug price standards, while the actual purchase price is not reduced to the same degree, or in case dispensing fee points are reduced by the prescription dispensing fee revision, the performance of the Group may be affected.

#### [2] Other reforms of systems

In recent years, various reforms of medical care system are promoted by improvement in patients' rights awareness to medical care or pressure on medical care financing. It is possible that further various reforms of medical care system will be conducted. Depending on trends, due to a decrease in the number of patients, the performance of the Group may be affected.

## 3. Business Development

Regarding the dispensing pharmacy business, we have a policy to increase the number of stores including acquisition of stores, in case we cannot open stores as planned due to

not being able to secure the property that conforms to the conditions of store opening, in case the first planned sales cannot be included after opening a store due to the state of competitions or some situations where the separation of prescribing and dispensing does not progress well, in case store sales decrease due to relocation or discontinuance of medical institutions, or in case store operation cannot be continued or deposits cannot be recovered due to business conditions of a property owner, business plans or performance of the Nihon Chouzai Group may be affected.

## 4. Seasonal Variation of Sales

The sales in the dispensing pharmacy business also account for much of the total sales of the Nihon Chouzai Group in the current consolidated fiscal year, and the performance changes of the dispensing pharmacy business we operate greatly affect the performance changes of the Group. Regarding the dispensing pharmacy business, depending on increasing prescriptions for influenza, which prevails in winter, and pollinosis (allergic rhinitis), which mainly develops in the beginning of spring, the performance changes may be affected.

## 5. Impacts from Consumption Taxes

In the dispensing pharmacy business, dispensing sales are exempted from taxes by the Consumption Tax Act, whereas the purchase of pharmaceuticals is taxed by the Act. Therefore, in the dispensing pharmacy business, Nihon Chouzai is the final tax payer, and the consumption taxes we paid to suppliers are included in the section of selling, general, and administrative expenses. When the consumption tax rate was revised in the past, increased amount of the consumption tax rate was taken into account on the occasion of the NHI drug price standard revisions. However, in the future, if the consumption tax rate is revised and the NHI drug price standards of drugs are not linked to the variability rate of the consumption tax rate, the performance of the Nihon Chouzai Group may be affected.

## III. Pharmaceutical Manufacturing and Sales Business

### 1. Legal regulations for Pharmaceutical Manufacturing and Sales Business

By the enforcement of the revised Pharmaceutical Affairs Act (the present Pharmaceutical and Medical Devices Act) in April 2005, the marketing approval system of pharmaceuticals was introduced and the total outsourced manufacturing for pharmaceuticals became possible. Because of this, the Nihon Chouzai Group obtained the pharmaceutical manufacturing and sales business approval at one of our consolidated subsidiaries, NIHON GENERIC CO., LTD, in April 2005. In April 2006, we commenced sales of generic drugs produced by other companies, and in July 2007, we obtained approval to commence manufacturing and sales of generic drugs.

Regarding the Pharmaceutical Manufacturing and Sales Business of the Group, we productize and sell generic drugs with development costs relatively less than those of new drugs. For the actual manufacturing process, we furthered manufacturing products at our own factory from October 2010. The legal risks involved in the product liability, and

the risk factors for this business including the following legal regulations regarding manufacturing and sales of the medicines for medical treatment may greatly affect the performance of the Group.

Manufacturing and sales of the medicines for medical treatment is regulated by laws and regulations related to the Pharmaceutical and Medical Devices Act, and it is required to receive authorization, designation, registration, or license by each prefectural governor and submit notification. The main things are "First-class Marketing Authorization," "Second-class Marketing Authorization," and "Wholesale Distribution License" for medicines and others.

In case there is violation of laws and regulations, suspension of business and revocation of approval and authorization are conducted by the competent authorities. This may affect the performance of the Group. Additionally, regarding the developed and applied manufacturing and selling items in this business, we have obtained the approval for each item from the Minister of Health, Labour and Welfare. However, in case of failure to obtain these approvals as planned, the performance of the Group may be affected.

## 2. The Business Environment in the Pharmaceutical Manufacturing and Sales Business

Regarding the medicines for medical treatment, according to the NHI Drug Price Standards established by the Ministry of Health, Labour and Welfare, drug prices are established, which is the basis for the drug cost calculation in dispensing fees at medical institutions and dispensing pharmacies. Drug prices tend to decline at every biennial revision of the NHI drug price standards because of a containing medical cost movement influenced by Japan's financial reforms, and the lowering rate may increase each time of the revision. This trend of drug prices may affect the policy of product prices in the Group.

Additionally, in the manufacturing and sales market for generic drugs handled in the business, significant changes in the medical care system may rapidly expand demand, whereas competition involving the whole pharmaceutical industry may intensify in the future. These changes in the business environment may affect the performance of the Group.

## 3. Outsourcing of Pharmaceutical Manufacturing

In this business, in accordance with the manufacture and sales approval system based on the revised Pharmaceutical Affairs Act (the present Pharmaceutical and Medical Devices Act) enforced in April 2005, we distribute products to the market in the form of outsourcing the manufacturing of generic drugs with the national approval, or in the form of selling the drugs, which we have the manufacture and sales approval, through our own distribution channel. We conclude the continuous contracts for the product supply with several generic drug manufacturers; however, there is a possibility of not being able to supply products due to contract termination or contract changes of a product for some reasons of a manufacturing subcontractor. In these cases, the performance of the Group may be affected.

## 4. Patent Litigation

Regarding the Pharmaceutical Manufacturing and Sales Business in the Nihon Chouzai Group, we develop products with paying full attention to intellectual property rights and the Unfair Competition Prevention Act; however, there are cases where an original drug manufacturer files a patent lawsuit because of the characteristic particular to the generic drug product. If such situation occurs, the performance of the Group may be affected.

## 5. Product Recall and Discontinuation of Sales

Generic drugs have the use results in which the efficacy and safety had been confirmed throughout a period of time in the original drug. In addition to that, they go on sale after reexamination, so it is considered that the occurrence risk of a serious side effect other than that of an original drug is extremely small. However, in case unexpected new side effects occur or an accident including mixture of impurities into a product, we may be forced to recall products or discontinue sales. This may affect the performance of the Group.

## 6. Purchase of Raw Materials and Merchandise

At suppliers of raw materials and merchandise, in case it becomes impossible for us to purchase raw materials and merchandise due to regulation problems, disasters including fire/earthquakes, and accidents during transportation, the production and supply of products may stop. This may affect the performance of the Group.

## IV. Medical Professional Staffing and Placement Business

### 1. Legal Regulations for Medical Professional Staffing and Placement Business

Since the staffing of pharmacists was permitted in accordance with the amendment of the Worker Dispatching Act in December 1999, the subsidiary, Nihon Chouzai Pharma Staff Co., Ltd. (currently, Medical Resources Co., Ltd.) launched a staffing business specialized for pharmacists in July 2000, and they dispatch pharmacists to Nihon Chouzai as well. In addition, they have been operating a medical professional placement business for pharmacists since June 1, 2002.

In this business, permissions from the Ministry of Health, Labour and Welfare, such as "License for General Worker Dispatching Undertakings" and "License for Employment Placement Businesses" are required. This business is also regulated by "A guideline on measures to be taken by dispatching business operators" and "A guideline for employment placement business providers, persons conducting recruitment of workers, commissioned recruiters, and labor supply business providers to take appropriate actions regarding equal treatments, clear indication of working conditions, treatment of personal information of job seekers, responsibility of employment placement business providers, and accurate indication of details of recruitment" established by the Ministry of Health, Labour and Welfare. In case the permissions were revoked due to violation of the laws and regulations, and the guidelines, the performance of the Nihon Chouzai Group may be affected.

## Company Profile

### Company Profile

#### Trade Name

NIHON CHOUZAI Co., Ltd.

#### Established

March 1980

#### Headquarters

37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo 100-6737  
+81-(0) 3-6810-0800 (general)

#### Capital

3,953.02 million yen

#### Consolidated Net Sales

241,200 million yen (FY2017)

#### Number of Employees

Regular employees: 3,103

Part-time employees and others: 738

\* Part-time employees and others are yearly average number of persons employed based on 8-hour conversion.

(As of March 31, 2018)

#### Main Financing Banks

Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, MUFG Bank, Ltd., Resona Bank, Ltd.

#### Our Business

Management of health insurance dispensing chain pharmacies

### Shareholder Information

#### Total Number of Authorized Shares

44,192,000 shares

#### Total Number of Issued Shares

16,024,000 shares

#### Number of Shareholders

7,981 shareholders

#### Annual General Meeting of Shareholders

June

#### Administrator of Shareholder Registry

Mitsubishi UFJ Trust and Banking Corporation  
1-1, Nikko-cho, Fuchu City, Tokyo 183-0044  
0120-232-711 (toll-free)

#### Stock Exchange for Listing

Tokyo Stock Exchange (TSE) First Section

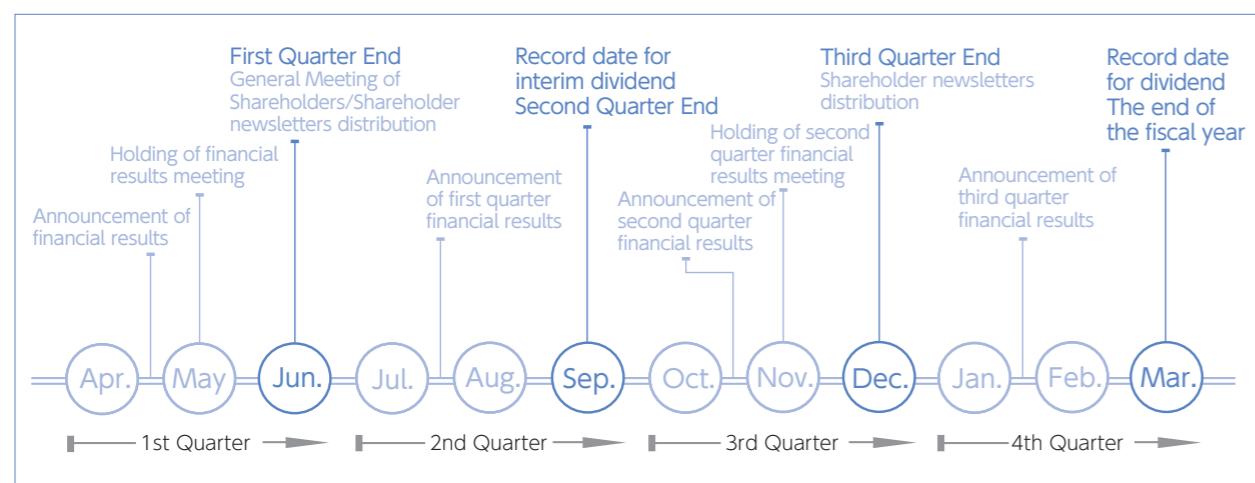
#### Securities Code

3341

#### Settlement Date

March 31

### IR Calendar



## History

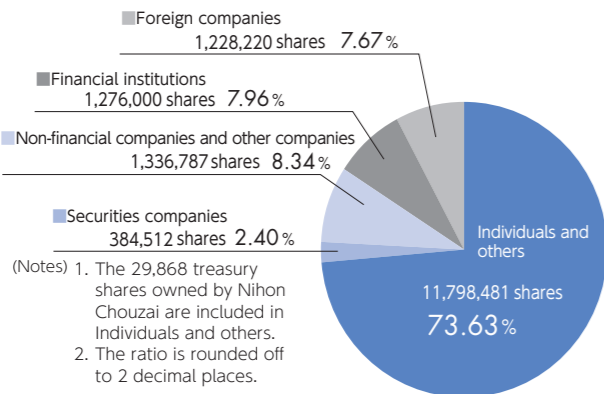
April 1974	Prescription fee was raised from 100 yen to 500 yen due to revisions of medical treatment fee (The first year of separation of prescribing and dispensing)
March 1980	Established Nihon Chouzai Co., Ltd. in Sapporo City to manage dispensing pharmacies
April 1980	Opened the first pharmacy, Nihon Chouzai Yamahana dispensing pharmacy, in Chuo-ku, Sapporo City
August 1987	Opened a Tokyo branch
October 1993	Opened a Yokohama branch
January 1994	Opened a Tohoku branch Established the subsidiary Miyagi Nihon Chouzai Co., Ltd. (The current consolidated subsidiary, Medical Resources Co., Ltd.)
April 1995	Relocated the headquarters to Tokyo. Opened a Sapporo branch and a Kyushu branch
December 1999	Opened dispatching pharmacists because of liberalization in principle for worker dispatching business (The amendment of Worker Dispatching Act)
February 2000	Nihon Chouzai Pharma Staff Co., Ltd. (The current consolidated subsidiary, Medical Resources Co., Ltd.) was established (Changed the trade name and the purpose of Miyagi Nihon Chouzai Co., Ltd.)
October 2000	Opened an Osaka branch
April 2001	Opened a Nagoya branch and a Hiroshima branch
September 2004	Listed on the TSE Second Section
January 2005	Established Nihon Generic Co., Ltd. as a subsidiary (The current consolidated subsidiary)
April 2005	By the revised Pharmaceutical Affairs Act (The present Pharmaceutical and Medical Devices Act), manufacture and sales of pharmaceuticals by the total outsourced manufacturing became possible
September 2006	Listing upgraded to the TSE First Section
October 2006	Established Medical Resources Co., Ltd. as a subsidiary (The current consolidated subsidiary)
November 2007	Relocated the headquarters (1-9-1, Marunouchi, Chiyoda-ku, Tokyo)
July 2008	Merged Medical Resources into Nihon Chouzai Pharma Staff (with Medical Resources as the surviving company)
October 2010	Launched the manufacture of generic drugs at Nihon Generic's Tsukuba plant
March 2011	Achieving the opening of a pharmacy in every prefecture in the country
January 2012	Established Japan Medical Research Institute Co., Ltd. as a subsidiary (The current consolidated subsidiary)
April 2012	Opened a Kitakanto branch, a Higashikanto branch, a Kyoto branch, and a Kobe branch
April 2013	Made a subsidiary of Choseido Pharmaceutical Co., Ltd. (The current consolidated subsidiary)
April 2014	Choseido Pharmaceutical Plant No. 2 completed
February 2015	Nihon Generic acquired the Kasukabe plant of Teva Pharma Japan Inc. (Current Teva Takeda Pharma Ltd.)
October 2016	Opened Sapporo Logistics Center, the fourth logistics center established following those in East Japan, West Japan, and Kanto
February 2017	Formed business partnership with Dai-ichi Life Insurance Company, Limited
March 2018	Nihon Generic Co., Ltd. Tsukuba Plant No. 2 completed

The law amendment or system changes are written in blue.

# Stock Information

(As of March 31, 2018)

## Distribution of Shares for Each Owner



## Trend of Holding Stock Ratio

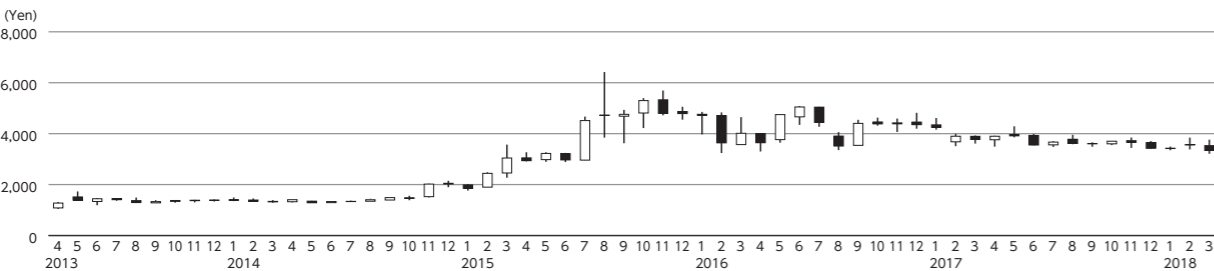
Ratio for Number of Shares	2017/3	2018/3
Individuals and others	73.88%	73.63%
Securities companies	2.95	2.40
Non-financial companies and other companies	8.59	8.34
Financial institutions	6.34	7.96
Foreign companies	8.24	7.67

## Major Shareholders (Top 10 Shareholders)

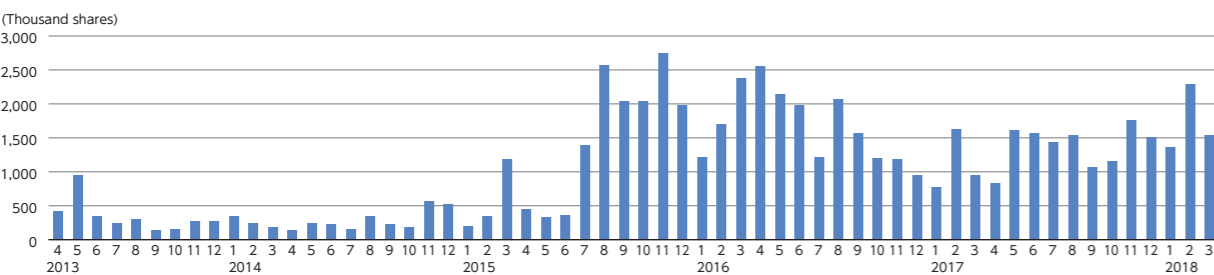
Names of the Shareholders	Number of Owned Shares (Shares)	Investment Ratio (%)
Hiroshi Mitsuahara	4,680,000	29.26
Yosuke Mitsuahara	3,320,000	20.76
Max Planning, Inc.	1,120,000	7.00
Nihon Chouzai Employee shareholding association	433,800	2.71
Yoko Mitsuahara	400,000	2.50
Japan Trustee Services Bank, Ltd. (Trust account)	317,000	1.98
Keiko Mitsuahara	293,000	1.83
The Master Trust Bank of Japan, Ltd. (Trust account)	206,300	1.29
Japan Trustee Services Bank, Ltd. (Trust account 9)	162,500	1.02
Japan Trustee Services Bank, Ltd. (Trust account 5)	133,100	0.83

(Notes) 1. The investment ratio was calculated excluding the number of treasury stock (29,868 shares).  
2. The investment ratio is rounded down to 3 decimal places.

## Trend of Share Price



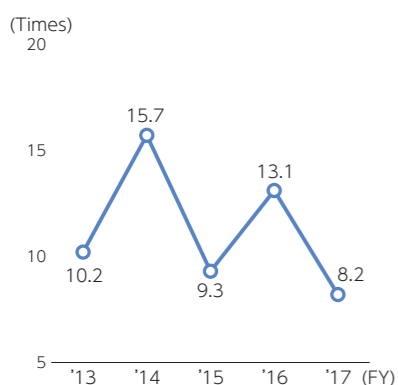
## Trend of Turnover



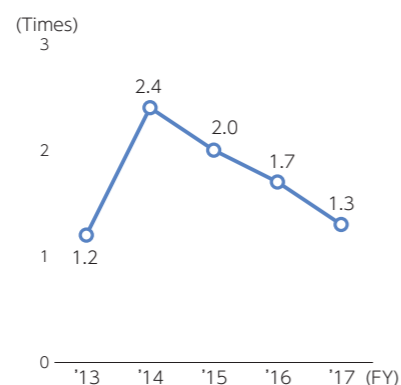
The Company split the share in a ratio of 1:2 on October 1, 2015. The share prices before September 2015 are adjusted with the assumption that the share splitting was conducted at the end of March 2013.

## Stock Price Index

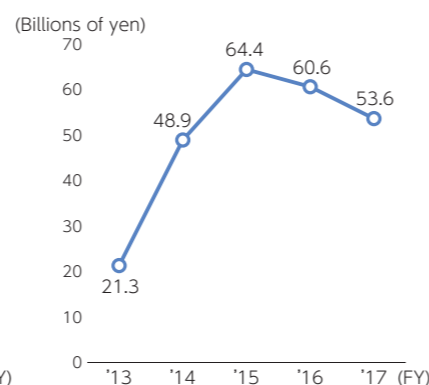
### PER (Price earnings ratio)



### PBR (Price-book value ratio)



### Market capitalization



# Reference Pages for Major Contents

Content	Sections of this report	Web links <a href="https://www.nicho.co.jp/corporate/">https://www.nicho.co.jp/corporate/</a>
Corporate philosophy	Corporate philosophy ..... P02	Company Profile>Corporate philosophy <a href="https://www.nicho.co.jp/corporate/profile/philosophy/">https://www.nicho.co.jp/corporate/profile/philosophy/</a>
Business characteristics and strengths	Business model ..... P01 Business performance ..... P19	Company Profile>Nihon Chouzai Group <a href="https://www.nicho.co.jp/corporate/profile/group/">https://www.nicho.co.jp/corporate/profile/group/</a> Businesses <a href="https://www.nicho.co.jp/corporate/business/">https://www.nicho.co.jp/corporate/business/</a>
Management objectives	Toward a Long-term Vision for 2030 ..... P03	
Management strategy	Message from the President ..... P09	IR information>Management information>Message from the President <a href="https://www.nicho.co.jp/corporate/ir/message.html">https://www.nicho.co.jp/corporate/ir/message.html</a>
Relevant laws and regulations	Main Medical Service Fee Revisions ..... P61 Explanation of Terminology ..... P64	IR information>Management>Business environment and issues to be addressed by the Company <a href="https://www.nicho.co.jp/corporate/ir/management.html">https://www.nicho.co.jp/corporate/ir/management.html</a>
Relationship with stakeholders	Social ..... P49 Human ..... P44	Company Profile>Social Contribution Activities by Nihon Chouzai <a href="https://www.nicho.co.jp/corporate/profile/contribution/">https://www.nicho.co.jp/corporate/profile/contribution/</a>
Corporate governance	Corporate governance ..... P51	IR information>Management information>Corporate governance <a href="http://www.nicho.co.jp/eng/ir/index.html">http://www.nicho.co.jp/eng/ir/index.html</a>
Financial data	Financial highlights ..... P17 Data section ..... P67	IR information>Financial highlights <a href="https://www.nicho.co.jp/corporate/ir/highlight.html">https://www.nicho.co.jp/corporate/ir/highlight.html</a> IR information>IR library <a href="http://www.nicho.co.jp/eng/ir/annual.html">http://www.nicho.co.jp/eng/ir/annual.html</a>

### For further information, please contact

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Corporate Communications Div.

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