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Dispensing Pharmacy Business

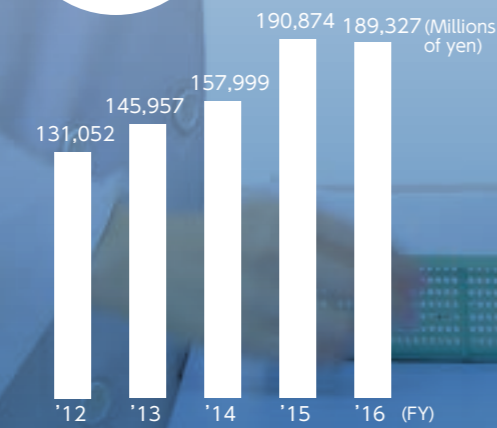
Operation and Opening of Dispensing Pharmacies



Sales Composition



Composition of Operating Income



Net sales ■



Operating income ■
Operating income to net sales —●—

Market Environment Analysis

Change in Market Environment: From 7 trillion yen to 9 trillion yen

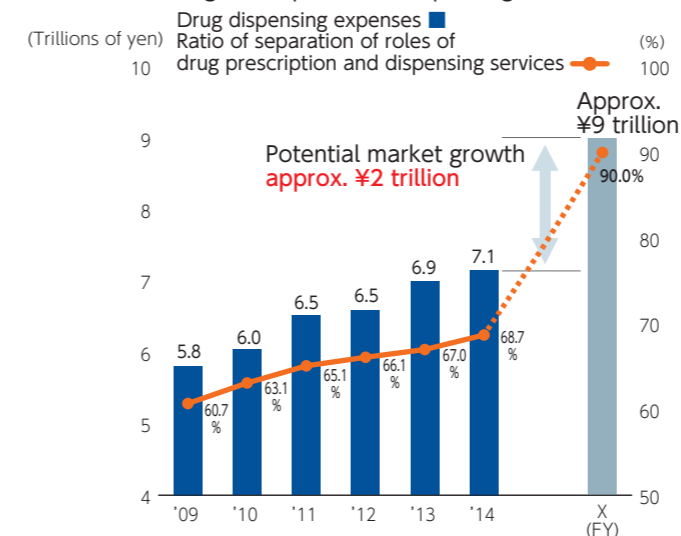
Since the separation of drug prescribing and dispensing services began, the separation ratio has been consistently rising for about 40 years and exceeded 70% in September 2015. The recent year-on-year growth rate reveals an upswing of 0.9% in fiscal 2013, 1.7% in fiscal 2014, and 3.4% in fiscal 2015. On the other hand, the growth rate of drug dispensing expenses was 5.9% in fiscal 2013, 2.3% in fiscal 2014, and 9.4% in fiscal 2015. In fiscal 2015, high-priced hepatitis C drugs and relatively high-priced original drugs have pushed up medical costs so that drug dispensing expenses exceeded 7 trillion yen.

Total medical costs including drug dispensing expenses are increasing as the percentage of the population that is 65 years or older increases, and should the ratio of the

separation of roles of drug prescription and dispensing services exceed 90%, a market of 9 trillion yen is expected. In 2025, the baby-boomer generation (those born between 1947-1949) will be 75 years or older and their medical expenses are expected to increase explosively.

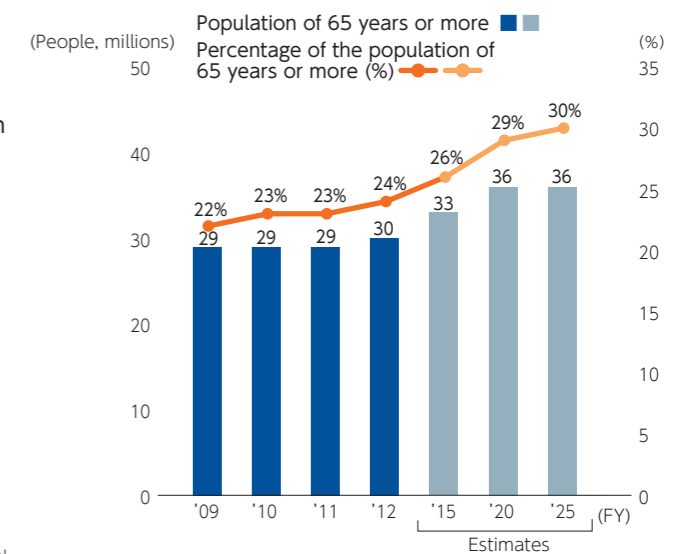
However, an increase in tax revenue is not expected due to a decrease in the workforce. Therefore, securing revenue to be set aside for social security expenses, including medical expenses, will be challenging. The government has therefore decided to drastically revise medical service fees and NHI drug prices. A major change is expected, such as a review of medical service fees or a change in the system to curb medical expense increases through greater medical care efficiency.

Drug Dispensing Expenses and Ratio of Separation of Roles of Drug Prescription and Dispensing Services



Source: Japan Pharmaceutical Association "Insurance Dispensing Trends (fiscal 2016 Dispensed Portion)"
Drug Dispensing Expenses, Ministry of Health, Labour and Welfare, Drug Dispensing Expense Trends, Fiscal 2014 version
Note: Fiscal year X denotes a predicted value

Population Statistics for Japan



Source: Ministry of Internal Affairs and Communications, Statistical Handbook of Japan 2014

Changes for 2025

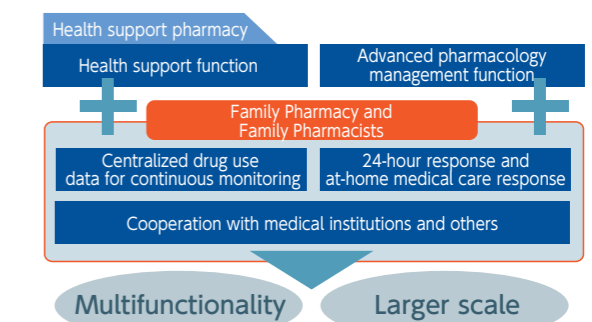
Reorganize all pharmacies into family pharmacies by 2025

A Vision of Pharmacies for Patients (announced in October 2015)

The starting point for major changes in the dispensing pharmacy industry is the Vision of Pharmacies for Patients, which was announced by the Ministry of Health, Labour and Welfare in October 2015. In this vision, the roles and functions required by pharmacies as they prepare for 2025 are clearly indicated. As shown in the figure on the right, multifunctionality is the function required of pharmacies, and since that is difficult for pharmacies with only one pharmacist, which account for half of the roughly 58,000 pharmacies, it is assumed that the industry will undergo a culling and restructuring process to address this issue.

The Ministry of Health, Labour and Welfare set a deadline and announced a policy to "reorganize all

A Vision of Pharmacies for Patients



Q & A

Although it is expected that drug prices will be reduced yearly from fiscal 2018, don't you think that dispensing pharmacy market growth is unlikely?

The yearly drug price reduction will have a negative impact on dispensing pharmacy market growth, but on the other hand, the growth of Japan's elderly population and growth associated with the evolving separation of roles of drug prescription and dispensing services is expected.

pharmacies into family pharmacies by 2025.” In the revision of medical service fees of April 2016, a revision of the system to enhance the family pharmacist and pharmacy functions, such as the establishment of a new “family pharmacist system,” was implemented. Discussions about system changes that are to be included after the next revision of medical service fees are ongoing.

The Vision of Pharmacies for Patients indicates the three basic functions of the family pharmacy and family pharmacists, and the two functions to enhance and strengthen them. A policy of carrying out quantitative

evaluations based on KPIs has been announced for each of these functions. With an eye on reducing fees, discussions are underway with pharmacies that are not addressing these measures. Since increasing experience and knowledge through pharmacist education and securing staff to perform at-home medical care are challenges, it will be difficult for pharmacies with few pharmacists to work toward this vision. Nihon Chouzai is taking the initiative over its competitors by aggressively investing to deal with the expansion of pharmacy scale and multifunctionality.

Impact caused by the revision of medical service fees in April 2016 in reaction to A Vision of Pharmacies for Patients

Because of introductions made between local medical support hospitals, the number of prescriptions showed a year-on-year decline at some existing pharmacies, but it achieved a roughly 5% year-on-year increase overall as a result of contributions from pharmacy openings, including those acquired through M&A.

Of the prescription unit price, the drug unit price declined substantially year on year due to a decrease in hepatitis C drug usage. In the first half of the fiscal year under review, except for hepatitis C drugs, drug prices decreased year on year because of NHI drug price revisions. However, in the second half, unit drug prices rose due to the adoption of new drugs at university hospitals and regional flagship hospitals, and it recovered to the previous fiscal year’s level. As the prolongation of the number of drug administration days has slowed, the growth of unit drug prices reached a low level compared to the drug price revision of fiscal 2014.

The unit price of technical fees declined because of a reduction in service fee points due to a review of hospital-front pharmacies. The conditions for standard dispensing incentives and generic pharmaceuticals dispensing system incentives were changed, and raising the standard for calculating the incentives was also affected.

Because of Nihon Chouzai’s response to A Vision of Pharmacies for Patients, the unit price of technical fees rebounded in the second half of the fiscal year under review, and in the fourth quarter exceeded the level of the year-earlier period. Because it took a fair amount of time for us to respond compared with the medical service fee revisions of fiscal 2014, we consider this to have been a very difficult revision. At other dispensing pharmacies, the technical fee unit price cannot be recovered, even over a one-year period, so the difference between pharmacies that can address A Vision of Pharmacies for Patients and those that cannot becomes clear.

Specific Policies and Achievements in Response to the Vision of Pharmacies for Patients

A Vision of Pharmacies for Patients is strongly reflected in medical service fee revisions, and the functions required of pharmacies have been evaluated. Our policy regarding this is to deal with securing pharmacy scale and multifunctionality to fulfill A Vision of Pharmacies for Patients.

The following is an explanation one of the required functions, using the example of at-home medical care. To perform at-home medical care, we need to secure pharmacists separately from those working at pharmacies. Since only five to ten patients can be visited in a day, more pharmacists will be needed as the number of patients increases. Because at-home medical care deals with transfusions and nutritional supplements, there needs to be some place to store them. Moreover, an aseptic

dispensary is needed at a local pharmacy, so there is no choice but to increase pharmacy size. In addition, if we consider things that are performed in alternate shifts, such as 24-hour counseling via mobile phone and dispensing in case of emergencies, one pharmacist cannot deal with this alone, so multiple pharmacists are required.

Therefore, our existing pharmacies are considering pharmacy consolidation or relocation to larger facilities, and we are beginning to address this change. We have also considered the opening of new pharmacies on a similar basis. Details of our pharmacy opening and M&A strategies are shown on the next page.

Policies and Initiatives for A Vision of Pharmacies for Patients

Policy	Specific Initiatives
Secure pharmacy scale	Consolidate/Relocate existing pharmacies Pharmacy opening and M&A strategies
Response to multifunctionality	Meet three basic functions of family pharmacies and family pharmacists <ul style="list-style-type: none"> ● Centralized drug use data for continuous monitoring utilizing information communication technology (ICT) ● 24-hour response and at-home medical care ● Cooperation with medical institutions and others Address two functions to enhance and strengthen <ul style="list-style-type: none"> ● Health support function ● Advanced pharmacology management function

Q & A It is cheaper to obtain drugs at the hospital or outside at a pharmacy. In that sense, isn't the separation of roles of drug prescription and dispensing services unnecessary for patients?

The separation of drug prescribing and dispensing services is progressing with the primary goal of ensuring the patient’s safety in terms of drug therapies. Measures to improve patient convenience are being studied through medical system reforms, and so forth.

Pharmacy opening strategy: Secure pharmacy scale

Environmental Consciousness

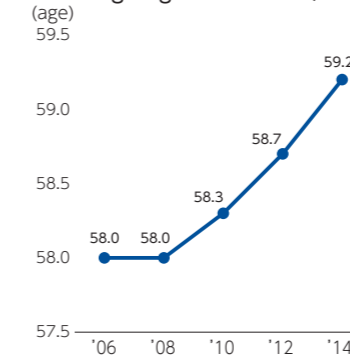
In the medical institutions that issue prescriptions, the average age of doctors working in clinics is rapidly aging and is now 59.2 years. At the same time, the percentage of doctors that are 50 years or older has reached 75.6% (both figures are as of the end of fiscal 2014). Although the population aged 75 years or older will increase as we head to 2025, business closure due to the aging of doctors who work at clinics is expected to become a major risk for pharmacy management. Managers are also aging at dispensing pharmacies, and the problem of replacing them has become evident. Pharmacies that cannot respond to medical service fee revisions are expected to face extremely difficult management circumstances.

Given these circumstances, mergers and acquisitions have intensified in the dispensing pharmacy industry, and the merger and/or acquisition of approximately 100 pharmacies by major dispensing pharmacy chains is underway, especially that of small dispensing pharmacies

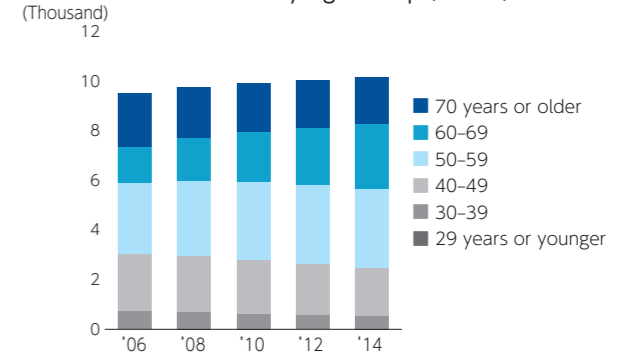
with annual sales of around 100 million yen. Meanwhile, the Social Security Working Group within the Council on Economic and Fiscal Policy, Cabinet Office, regularly takes up social security issues, and it discussed the problem of too many pharmacies because of too many drugs at their 19th Meeting and debated whether a certain level of consolidation was needed, since half of the roughly 58,000 pharmacies that exist today are pharmacies with one pharmacist and their family pharmacy function is weak.

The dispensing pharmacy industry has not become an oligopoly, and the share of sales of the four major companies to drug dispensing expenses has not reached 10%. In the future, the business environment will become even harsher with the substantial lowering of service fees that occurs every time medical service fees are revised. With the consolidation and closure of small pharmacies, the number of pharmacies is expected to decline.

Average Age of Doctors (Clinics)



Number of Doctors by Age Group (Clinics)



Overview of survey of physicians, dentists and pharmacists listed by the Ministry of Health, Labour and Welfare

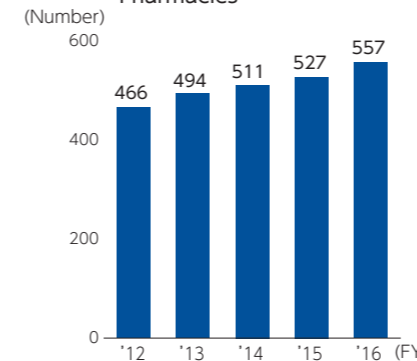
Pharmacy Opening and M&A Strategies Emphasizing Quality over Quantity

At Nihon Chouzai, because the future requires multifunctional and large-scale pharmacies, we are opening pharmacies and conducting mergers and acquisitions emphasizing pharmacy size and quality. Specifically, our M&A criteria are sales of 300 to 400 million yen per pharmacy and securing high-quality, educated pharmacists with the capabilities required in A Vision of Pharmacies for Patients. After conducting mergers and acquisitions, we are developing infrastructure including ICT and investing in pharmacy facilities so that we can centralize drug use data for continuous monitoring, address at-home medical care, and collaborate with medical institutions. In the fiscal year that ended in March 2017, we opened 42 pharmacies, of which 21, or half, were acquired.

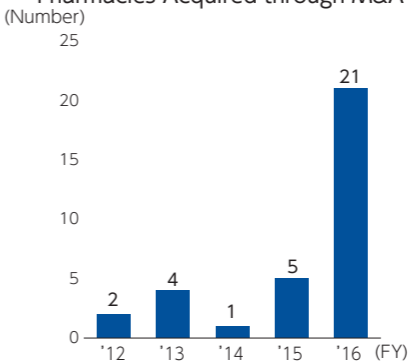
Although we have been aggressively conducting M&A from early on, the number of acquisitions that met our criteria increased in the fiscal year that ended in March 2017. The per-pharmacy annual sales of pharmacies acquired in fiscal 2017 was 430 million yen, which has impacted annual sales by more than 8 billion yen.

At Nihon Chouzai, it is difficult to conduct at-home medical care with annual sales of about 100 million yen per pharmacy (with monthly sales of around 8 million yen, about 800 prescriptions, and 1-2 pharmacists), and they cannot function as family pharmacies with family pharmacists. Our unconditional policy is to open pharmacies capable of surviving in a business environment that is growing ever more difficult.

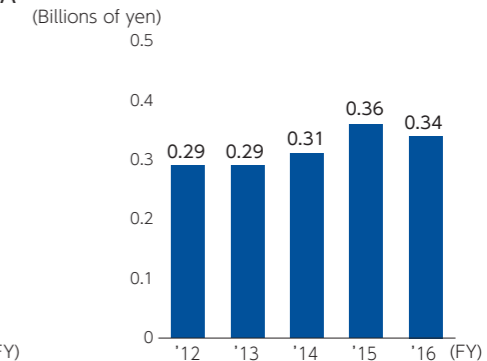
Change in the Number of Pharmacies



Change in the Number of Pharmacies Acquired through M&A



Dispensing Sales per Pharmacy



Responding to the Basic Role Required of Family Pharmacies and Family Pharmacists

Tracking Drug Use Data Utilizing ICT

Okusuri Techo Plus, an electronic medication notebook that started service in October 2014, has successfully improved user convenience with its automatic updating of prescription information, and it has enabled participation in the electronic medication notebook mutual browsing service with other companies' medication notebooks, bringing the number of registered users to over 180,000 (as of June 30, 2017). The Ministry of Health, Labour and Welfare is thinking about setting and evaluating the ratio

of pharmacies that have introduced the electronic medication notebook as a KPI related to family pharmacies and family pharmacists. Nihon Chouzai is taking measures aimed at pre-symptomatic diseases and prevention through Okusuri Techo Plus, such as using it not only as a medication notebook, but also for health management as a Personal Health Recorder (PHR) to record blood pressure and blood sugar levels and transmit epidemic information about influenza and infectious gastroenteritis.



Joint Research Utilizing ICT with the Graduate School of Medicine and Faculty of Medicine, The University of Tokyo

As an initiative that leverages Okusuri Techo Plus, Nihon Chouzai began joint research with the Graduate School of Medicine and Faculty of Medicine, The University of Tokyo on December 1, 2016. In collaboration between the self-management support application GlucoNote, which was developed by the university's Department of

Ubiquitous Health Informatics for type 2 diabetes patients and pre-diabetic patients, and Okusuri Techo Plus, developed by us, we will work on new research challenges unparalleled in the world to verify the effects of added face-to-face pharmacist support on the application's use.

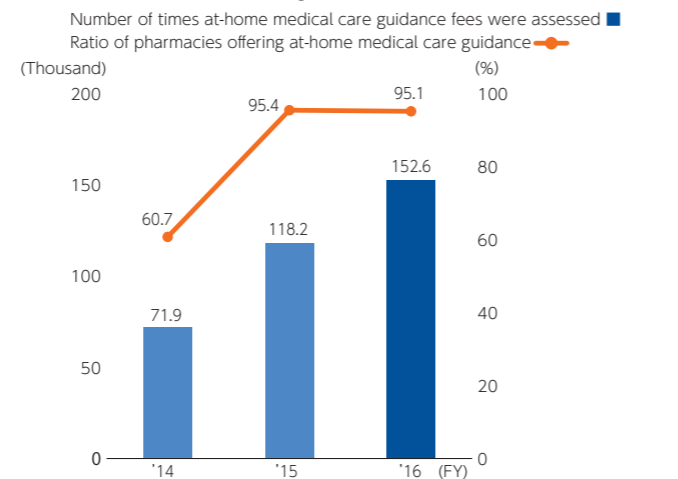
At-Home Medical Care

At the end of April 2015, the percentage of pharmacies with at-home medical care experience was 35.6%, but they have accumulated knowhow while gaining experience. Because we have introduced an at-home management system that utilizes the iPad, created an information infrastructure system, and steadily made improvements in pharmacological knowledge and technology, mainly for

pharmacists who are dedicated to at-home care, the percentage of pharmacies conducting at-home medical care at the end of March 2017 was 95.1%. Nearly all pharmacies are conducting at-home medical care, except for new ones. We continue to acquire the most advanced knowledge through frequent repetition of the yearly at-home medical care training.



Number of Times At-Home Medical Care Guidance Fees were Assessed and Ratio of Pharmacies Offering At-Home Medical Care Guidance



*At-home medical care guidance fees include home patient visit drug management guidance fees and at-home medical care management guidance fees.

Established At-Home Medical Care Division to Respond to Growing At-Home Medical Needs

As a measure to reinforce the structure for at-home medical care needs that grow year after year, we established an at-home medical care division within the department that oversees pharmacies. Until now, pharmacists dedicated to at-home medical care were responsible for individual at-home care, but we set up a system that meets at-home medical care needs nationwide by establishing base pharmacies for at-home medical care in each area and assigning a pharmacist dedicated to at-home medical care. Furthermore, we have created educational opportunities, with the leadership of pharmacists dedicated to at-home medical care, such as sharing sterile dispensing procedures and at-home medical care implementation knowhow with pharmacists working in pharmacies, and we have worked to improve the quality of pharmacists.



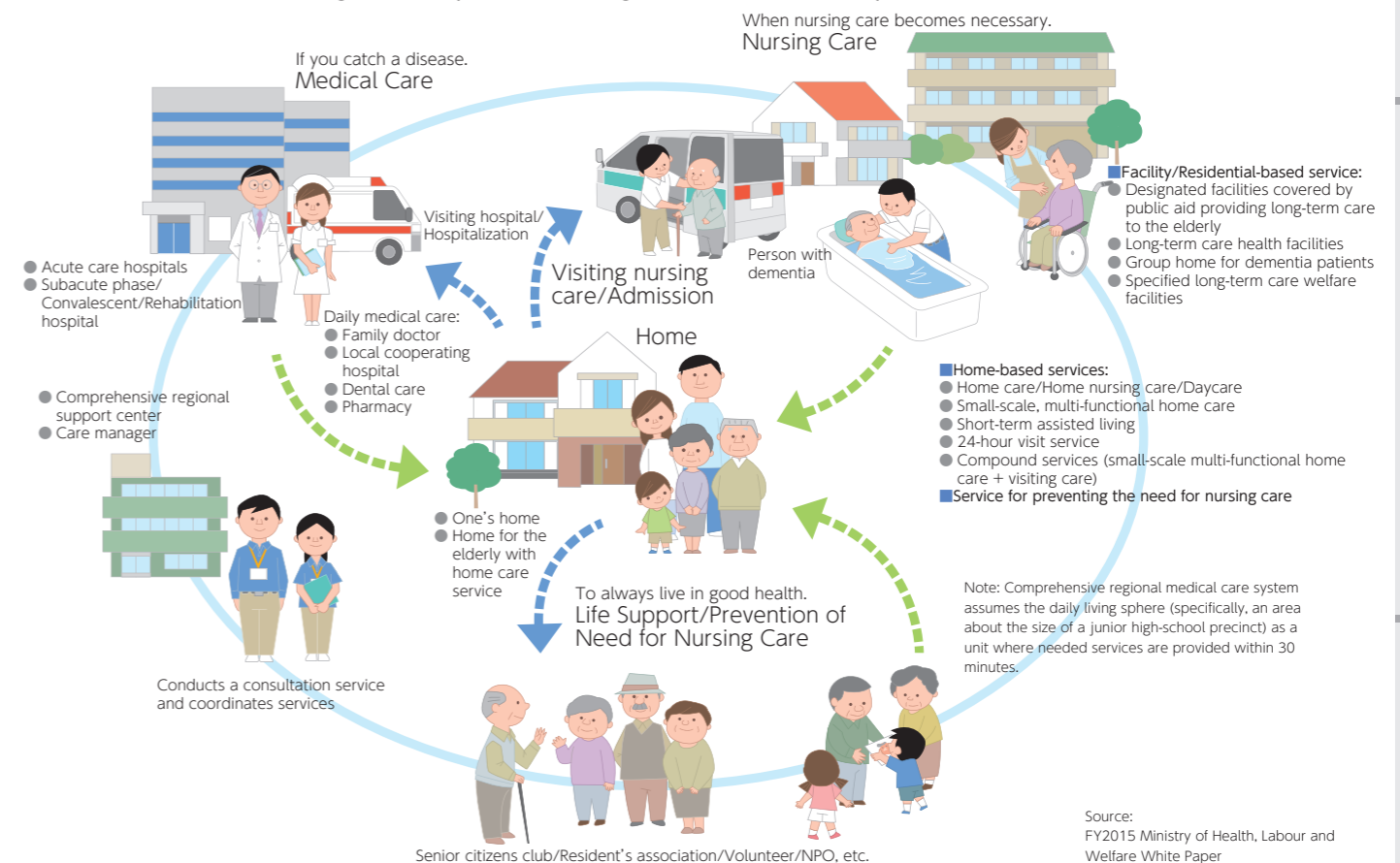
Collaboration with Related Institutions Including Medical Institutions

Nihon Chouzai has been proactively cooperating more closely with medical institutions by making prescription inquiries to doctors and offering workshops with hospitals. In recent years, opportunities to be asked by at-home medical care doctors to join on house calls have increased, as have opportunities to make prescription proposals, such as getting involved in the selection of drugs when designing the prescription. As a medical institution-pharmacy collaboration initiative, we are managing unused drugs utilizing tracing reports and

suggesting prescription contents.

In collaboration with university hospitals and cancer centers that perform advanced medical care, we monitor the side effects of patients under anti-cancer drug treatment and feed the information back to doctors using tracing reports. In at-home medical care, we have strengthened our efforts aimed at comprehensive regional medical care by attending regular meetings of doctors, nurses, caregivers, and care managers, and sharing information.

Image of Comprehensive Regional Medical Care System



Q & A The approval rating of hospital-front pharmacies is falling. Will hospital-front pharmacies be needed in the future?

A Vision of Pharmacies for Patients (Ministry of Health, Labour and Welfare) of October 2015 specifies an "advanced pharmacology management function" as a way to enhance and strengthen personal care pharmacies, which is the vision held for dispensing pharmacies of the future. While the number of such pharmacies may change, the role that hospital-front pharmacies should fulfill as their function will grow increasingly important in the years ahead.

Q & A Does Nihon Chouzai have a more passive approach to M&A than other chain pharmacies?

We are taking a more proactive approach to M&A than before. Our policy of emphasizing quality over quantity has not changed. We will aggressively increase the number of pharmacies that have the potential to fulfill multiple functions as family pharmacies.

Two Functions to Enhance and Strengthen

Health Support Function (Health Support Pharmacy)

We established the Health Support Pharmacy as a pharmacy that contributes to preventing people's diseases and supporting health. Designating 15,000 pharmacies as health support pharmacies has been cited as a future national goal.

Becoming a personal care pharmacy with a personal care pharmacist is a required condition for obtaining certification as a support pharmacy. There are many things to deal with to obtain certification, such as the addition of health support functions, and pharmacists that work at pharmacies must receive specific training and

report to public healthcare centers in each prefecture. As a concrete initiative, to support the maintenance and promotion of local residents' health, we perform medical counseling, recommend health screening, offer early detection of dementia, and nutritional counseling.

Nihon Chouzai has established Health Check Station facilities in pharmacies that have reinforced health support functions, especially local mentaio pharmacies and pharmacies in medical centers. We aim to develop 150 such pharmacies over the next three years.



Blood pressure measurement at Health Check Station

Advanced Pharmacology Management Function

Nihon Chouzai has opened pharmacies in around 40% of the university hospitals nationwide that conduct advanced medical care. We have also opened pharmacies in front of all national cancer center hospitals and developed pharmacies that deal with advanced pharmaceutical management. For many years, we have responded to prescription demand from hospitals that perform advanced medical care and have accumulated the experience and knowhow for dealing with it.

In recent years, we have also proactively carried out practical training for hospitals, and with the rising need for at-home medical care, we are preparing to deal effectively with dispensing, including required transfusions and injections. Further, we are steadily promoting initiatives aimed at advanced pharmacology management functions such as getting trained with hospital pharmacists in preparation for the placement of specialized pharmacists, including pharmacists who are outpatient cancer specialists.



Pharmacists' training at Asahikawa Medical University Hospital

Q & A

Why do you continue to promote the use of generic drugs even though the volume usage ratio exceeds 80%?

Our Company-wide efforts to promote generic drug use is considered an effective way of achieving a true separation of drug prescribing and dispensing services, which is our corporate philosophy. We are not doing it to simply obtain dispensing fees.

Information Provision and Consulting Business

Data Analysis and Use

Business Development

Japan Medical Research Institute Co., Ltd. was established with the goal of broadly contributing to society by helping the medical care and drug industry maximize the valuable information resources possessed by the Nihon Chouzai Group. Analyzing massive amounts of prescription data helps to improve patient adherence (medication

management) and is part of disease awareness-raising activities. We conduct surveys and research and provide information and consulting to drug manufacturers, medical institutions, health insurance associations, and local governments based on medical information resources.

Started RI-CORE Service

The RI-PDS service that we currently offer is the industry's first service capable of tracking seasonal influenza drugs, the status of hay fever drug treatment use, and the start of new drug use.

The new RI-CORE service, using the business intelligence (BI) tool Tableau, enables the visualization of information such as new drug use, continuation, switchover, drop-out, adherence, and parallel use, which had been difficult to compile with past analysis tools. We provide this monthly information the following month. The service rapidly analyzes products that the user wishes to know about and changes in product trends that the user wants to track by automatically generating graphs. It can create up to 71 months of data and provides detailed service that can be customized for each user.



Demonstration of RI-CORE service

New Trends in Drug Marketing (RI Symposium)



RI Symposium held on July 21, 2016

In recent years, a trend has emerged of moving from marketing based on drug sales data, which pharmaceutical companies had emphasized, to marketing that emphasizes prescription data. With that in mind, on July 21, 2016, Japan Medical Research Institute held a symposium in Tokyo entitled "Change is Opportunity! The Latest Pharmaceutical Marketing Strategy That Utilizes Prescription Data."

RI-CORE, which was developed by Japan Medical Research Institute, enables precision marketing without undue influence by other factors such as wholesaler and pharmacy inventories. RI-CORE does this by accurately tracking drugs for treating seasonal illnesses and changes in market share. It is possible to improve marketing precision by tracking the actual share of concomitant medication and to understand information by being able to perceive how a prescription changed due to drug switchover within a certain timeframe.

Initiatives for Data Health

Japan Medical Research Institute Co., Ltd. has helped create a mechanism to eliminate waste in preventive medical care and medical costs that is promoted by health insurance associations and municipalities to optimize medical costs.

Specifically, it keeps anonymized data from health insurance associations and municipalities and analyzes

and simulates it. Based on the results of analysis of preventive medical care, generic drug usage rates, medical examination rates, duplicate administration, and other factors, it comprehensively supports data health plans such as the drafting of business plans and judging the effectiveness of various activities through ongoing progress analysis.

Pharmaceutical Manufacturing and Sales Business

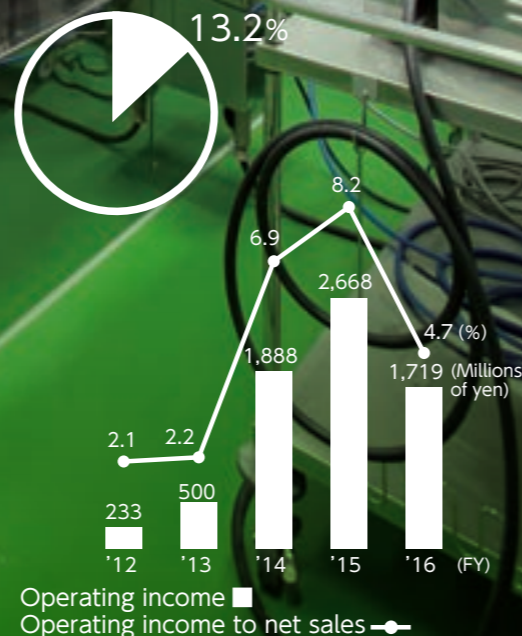
Manufacture and Sales of Generic Drugs



Sales Composition



Composition of Operating Income



Market Environment Analysis

Market Changes Toward 2020

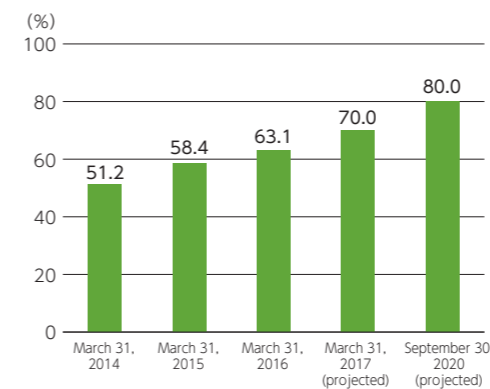
– Expansion of Market Size –

2020: **80%**

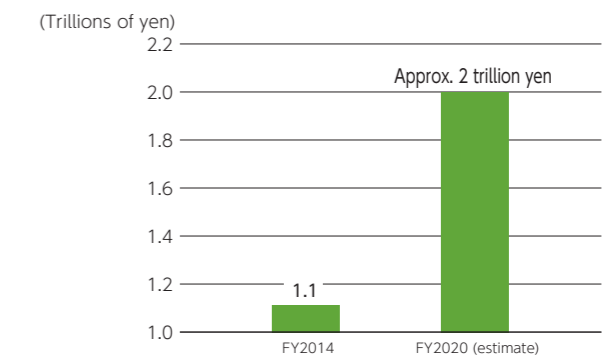
According to the Basic Policy on Economic and Fiscal Management and Reform 2015, the share by volume for generic drugs is set to be 70% or more in the middle of fiscal 2017, and the target is 80% or more set for as early as possible between fiscal 2018 and the end of fiscal 2020. Subsequently, the Council on Economic and Fiscal Policy conducted a review on May 23, 2017, and the achievement of a generic drug volume share target of 80% by September 2020 was set as the new target.

The size of the market for generic drugs in fiscal 2014 was 1.113 trillion yen (as of March 31, 2015; volume share 58.4%). With the arrival of the peak between fiscal 2015 and 2017 of patent expirations of original drugs with large sales volumes, if the 80% target is achieved in 2020, the market for generic drugs is expected to reach about 2 trillion yen in size.

Generic Drugs on a Volume Basis



Domestic Generic Drug Sales



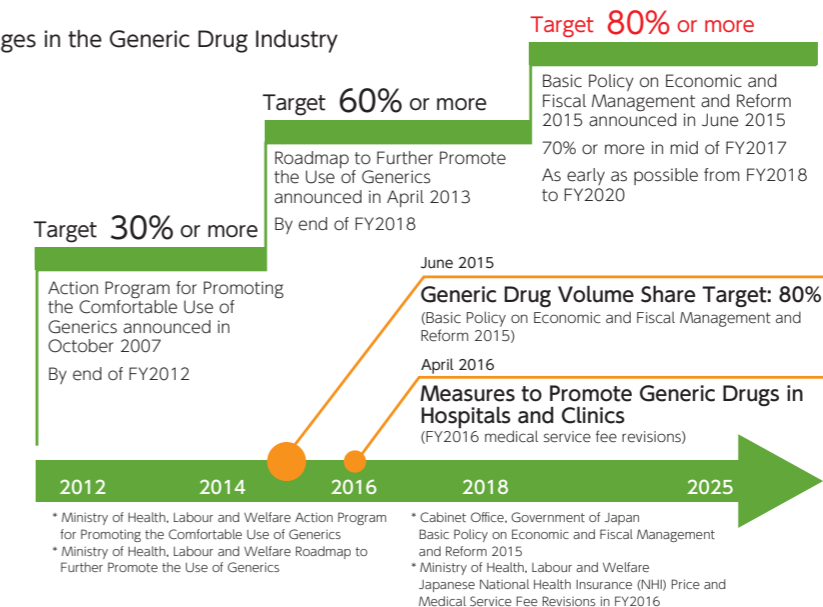
Measures to Promote Generic Drug Use through Medical Service Fee Revisions and Their Effects

In the medical service fee revisions of April 2016, the volume usage ratio target for generic drugs in dispensing pharmacies was raised from 55% to 65% or more (generic pharmaceuticals dispensing system incentives 1) and from 65% to 75% or more (generic pharmaceuticals dispensing system incentives 2). The volume usage ratio target in hospitals and clinics was raised, and promotional measures, such as service fee point increases, were presented in the revision. A roadmap was created in stages by a working group centered on the Ministry of Health, Labour

and Welfare, but the volume target was gradually raised due to Japan's financial situation, and the year for achieving that target has been steadily moved forward.

Based on these promotional measures, it was expected that market size would greatly expand in fiscal 2017, but generic drug use did not progress as expected due to aggressive sales of long-listed products of original drug manufacturers. Moreover, profitability declined sharply owing to intense price competition between generic drug manufacturers.

Changes in the Generic Drug Industry



Impact of NHI Drug Price Revisions to be Annual

It has been decided that NHI drug price revisions, which had been conducted once every two years, will be conducted annually beginning from 2018. Discussions are now underway regarding the revision, and details have not been decided yet, but items with a high deviation between the drug price and market price are to be revised in odd-numbered years, while in even-numbered years, drug price revisions for all drugs are to be carried out as before.

The main targets of annual drug price revisions are long-listed items and generic drugs. Long-listed items are expected to accelerate price reductions due to drug price revisions. Generic drugs are also a target of price reductions and are expected to be carried out based on annual revisions. On the other hand, discussions, including those on the unification of generic drug prices, are expected to be carried out in parallel.

Seizing Change with Capital Expenditure

Expand Maximum Production Capacity **16.2** billion tablets

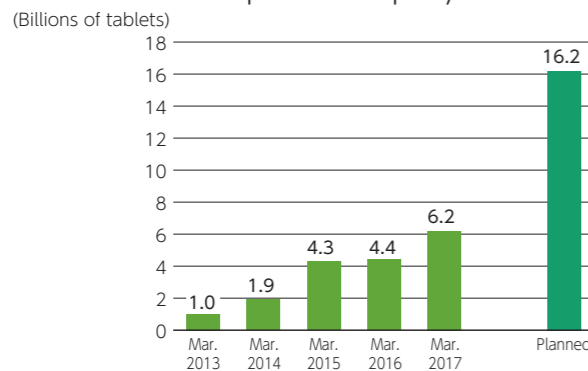
While the government's quantitative targets for generic drugs have been set and market expansion is imminent, the pharmaceutical manufacturing and sales business is seizing the opportunity to change and expand its maximum production capacity. In fiscal 2017, we aggressively expanded our production facilities.

At Nihon Generic Co., Ltd., we enhanced the production line in the Tsukuba Plant S building, added a manufacturing facility for high pharmacologically active drugs at the Kasukabe Plant, and began operation of the Headquarters' new Second Plant at Choseido Pharmaceutical Co., Ltd. As a result, maximum production capacity (as of March 31, 2017) increased from 4.4 billion tablets to 6.2 billion tablets in the Pharmaceutical Manufacturing and Sales

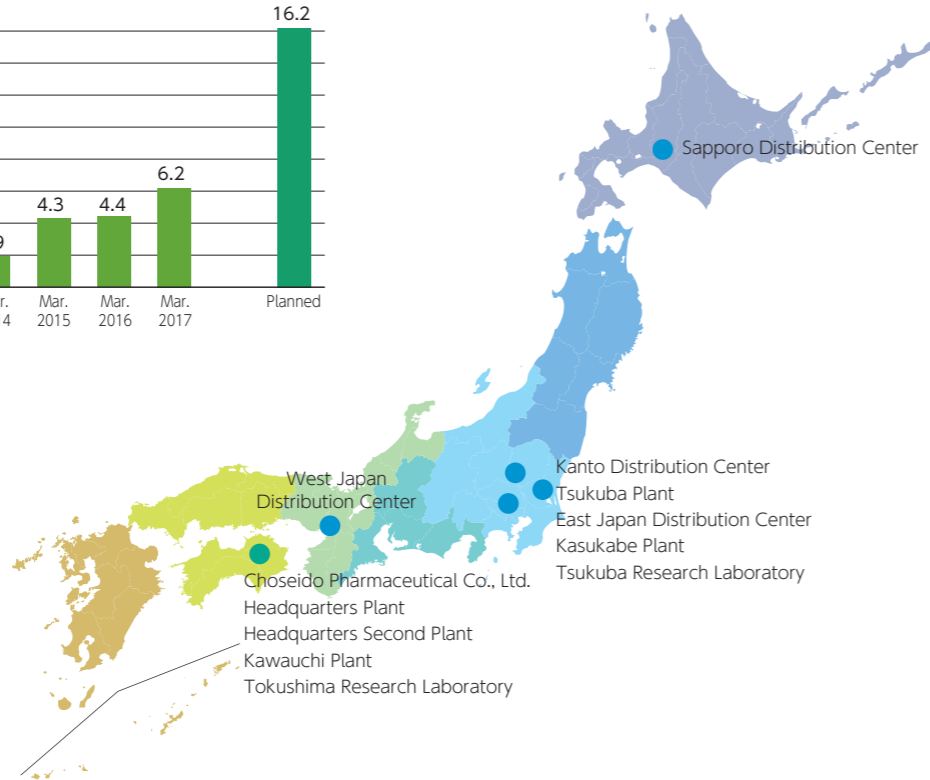
Business. Also, we took action to maintain and strengthen the logistics network by establishing the Sapporo Logistics Center.

In addition, the construction of Tsukuba Plant No. 2, scheduled to begin operation in April 2018, is going smoothly. Once all construction, from the first to the third phase, is completed, we will be able to produce a maximum of 10 billion tablets per year, and Group production capacity is expected to reach 16.2 billion tablets (phase one construction is scheduled to be completed in April 2018). We aim to improve the profit rate by increasing the sales amount of generic drugs and reducing production costs.

Maximum production capacity



Tsukuba Plant No. 2 is under construction with operation scheduled to begin in April 2018 (Artist's rendering)



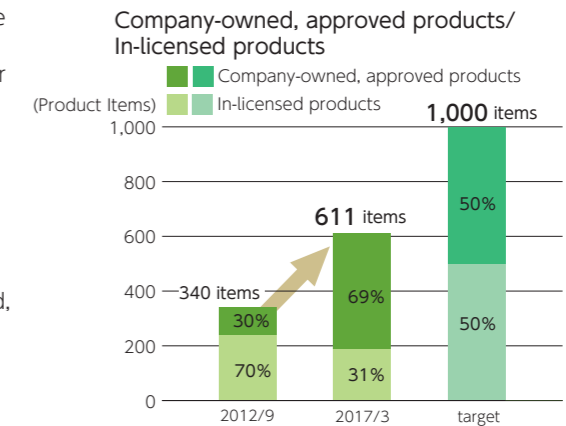
Q&A

Do you sell generic drugs used in Nihon Chouzai pharmacies through wholesalers?

Nihon Generic sells everything, including generic drugs for Nihon Chouzai pharmacies, through wholesalers. The Nihon Chouzai Group's business model maximizes the synergistic effects of managing generic drug manufacturers.

Toward an Increase in Products Offered: **611** product items

In anticipation of increasing the number of customers, we have focused on increasing the number of products that we offer so that we can meet a wide range of needs. Our immediate goal for product items offered is 1,000 items, and our plan is to proactively pursue R&D and efficiently increase the number of products that we sell. On the other hand, we are vigorously working to increase profitability by creating company-owned, approved generic drugs through aggressive R&D and switching over from products in-licensed from other companies to company-owned, approved products. The ratio of company-owned, approved products is 36%, but we will actively develop them to quickly reach 50%.



Construction of New Facility for High Pharmacologically Active Drugs

Thanks to the partial renovation of Japan Generic's Kasukabe Plant, a facility capable of manufacturing high pharmacologically active drugs have been in operation since October 2016. As a result, we are now able to manufacture and test drugs with high pharmacological activity such as anti-cancer drugs. The facility has independent air-conditioned areas and high anti-contaminant equipment such as isolators for worker safety and to avoid cross-contamination risks. As a manufacturing facility of generic drugs, such as anti-cancer drugs that have growth prospects, we will make further preparations to manufacture a wide range of formulations.



Approach to Quality – System that Manufactures High-Quality Products

To provide high-quality products to patients, we oversee everything from raw material acceptance to product shipment, and we manufacture under a control and quality control system based on GMP.*

In a strict hygienically controlled manufacturing area, we have installed a support system to prevent errors and control manufacturing at a high level and strive for greater efficiency through the automation of production facilities.

Further, from raw material acceptance to product shipment, we objectively conduct evaluations through testing and inspection carried out by the quality control division. We offer education and training on a routine basis for production employees to raise the level of our GMP.

* GMP: Standards for the manufacturing control and quality control of pharmaceuticals for the pharmaceutical manufacturing industry.

Research and Development

For major new drugs whose patents are about to expire, we aggressively conduct R&D so that we can release drugs at the precise moment their patent expires. At the same time, we create synergies by developing the dispensing pharmacy business within the Group and promote R&D centered on generic drugs that are frequently used and the switchover to our own high-margin products

As for the benefits gained from specific measures to create synergistic effects with the dispensing pharmacy

business, we can point to the creation of new formulations and the promotion of the manufacture and sales of value-added generic drugs utilizing patient feedback and pharmacist expertise provided to dispensing pharmacies. For example, we used laser printing on conventional generic drugs to improve print visibility, and the technique was subsequently adopted by many large hospitals. In this and other ways, we are creating synergies between businesses.

Q&A

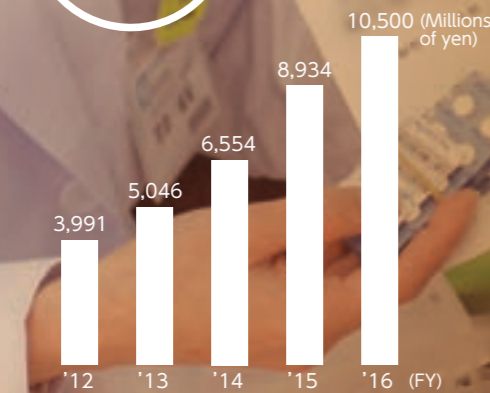
With the lowering of generic drug prices amid the anticipated restructuring of the generic drug industry, isn't investment in production facility expansion excessive?

The generic drug market is expected to expand to a volume usage ratio of 80%, the target set by the Japanese government. Estimates indicate that the current production capacity of all generic drug makers is inadequate, so excessive investment is not a concern of ours.

Medical Professional Staffing and Placement Business

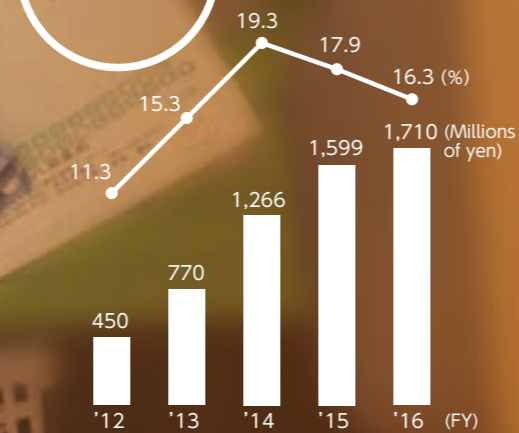
Staffing and placement centered on pharmacists

Sales Composition



Net sales

Composition of Operating Income



Operating income
Operating income to net sales

Market Environment Analysis

Distinctive Features of the Nihon Chouzai Group's Staffing Business



The Medical Professional Staffing and Placement Business is engaged in the staffing and placement of pharmacists and the placement of doctors, nurses and other medical professionals. A distinctive feature is that it is a staffing-centered business, with 80% of the business devoted to staffing and 20% to placement. The principal reason that the percentage of staffing is higher is that providing a high-quality pharmacist education in the dispensing pharmacy business and dispatching excellent pharmacists to society contributes to realizing a true separation of the roles of drug prescribing and dispensing services, our corporate philosophy.

In addition to providing face-to-face training, registered pharmacists receive continuous online training, thereby allowing the dispatch of high-quality pharmacists. We also strive to continuously improve our educational content.

This generous educational system is something that distinguishes us. Because of this, we have earned a high degree of trust from the pharmacists we have dispatched and the dispensing pharmacies that hire them. In March 2015, we were designated an Excellent Job Placement Agency by the Ministry of Health, Labour and Welfare of Japan. In March 2016, we were designated an Excellent Temporary Work Agency by the same ministry and have continued to work hard to ensure quality.

Q & A Does this business only dispatch pharmacists to Nihon Chouzai's pharmacies?

No. Nihon Chouzai accepts some pharmacists dispatched from the same agencies, but about 95% are pharmacists dispatched to pharmacies other than Nihon Chouzai.

Pharmacists' Work Placement and Dispensing Pharmacies

In a survey on the number of pharmacists conducted by the Ministry of Health, Labour and Welfare, from fiscal 2012 to 2014, the number of pharmacists who work at pharmacies increased by 5.3%, pharmacists who work at hospitals and clinics increased by 4.1%, and pharmacists who work at health administrative bodies and insurance and medical facilities increased by 2.1%. On the other hand, pharmacists who work at universities decreased by 2.8%, pharmacists who work at drug-related companies decreased by 3.3%, and pharmacists who work in other fields decreased by 4.3%. The total number of pharmacists increased by 2.9%. The main factor for this upswing was the increase in the number of pharmacists working in pharmacies, hospitals and clinics.

If we look only at the numbers, we can interpret this to mean that the pharmacist shortage is disappearing, but in fact, that has never occurred. The reason is that pharmacist education has shifted from a four-year to a six-year system. Pharmacist education at universities had traditionally been a four-year system, but it shifted to a

six-year system in 2006. As a result, the number of graduates of pharmaceutical colleges declined in fiscal 2010 and 2011, and the number of people who passed the national exam for pharmacists was 3,787 and 1,755, respectively. Although the number of people who passed the national exam for pharmacists in fiscal 2012 recovered to the former level of 8,641, it is still insufficient for replacement purposes and to eliminate the shortage.

The difficulty of recruiting pharmacists persists, especially at individual pharmacies and small- and medium-sized pharmacy chains. In areas where it is difficult to recruit, such as rural areas, the salaries of dispatched pharmacists have risen sharply so that various expenses, including advertising expenses associated with recruitment, have contributed to the increase. Also, among pharmacists working in pharmacies, the number who founded pharmacies and served as company representatives has decreased by 2.7% because they are getting old. For the above reasons, we can readily assume that high demand for dispatched pharmacists will continue.

Pharmacists' Work Placement and Dispensing Pharmacies

	Number of pharmacists in FY2014	Number of pharmacists in FY2012	Change
Pharmacy worker	161,198	153,012	8,186
Hospital/Clinic worker	54,879	52,704	2,175
University worker	5,103	5,249	(146)
Drug-related company worker	43,608	45,112	(1,504)
Health administrative body and insurance and medical facility worker	6,576	6,443	133
Other worker	16,766	17,517	(751)

Number of pharmacy founders and employees

	Number of pharmacists in FY2014	Number of pharmacists in FY2012	Change
Pharmacy founder or company representative	17,859	18,358	(499)
Pharmacy worker	143,339	134,654	8,685

Continuous Education Obligation for Dispatched Workers Based on Revised Worker Dispatch Law

On September 30, 2015, the Revised Worker Dispatch Law was passed and took effect. There were three main revisions to the law.

First, the distinction between the general worker dispatch business (approval system) and the specific worker dispatch business (notification system) was abolished, and all of the worker dispatch business came under the approval system to ensure the quality of the dispatching company.

Second, the obligation to dispatch workers was granted to stabilize the employment of dispatched workers and advance their careers. Specifically, in cases where the worker could be dispatched to the same organizational unit on a constant basis for three years, the dispatching company can request the company that hired the temporary worker to directly employ the worker, or ask

such company to employ the worker as an indefinite-term employee (for example, fixed-term contract employee or some contract other than temporary staff), or offer the worker another job. Furthermore, all temporary workers may receive systematic, step-by-step education and training and career counseling (if they so choose) from the dispatching agency to advance their careers.

Third is a review of the limit of the dispatch period, in principle one year, and a maximum three years. In principle, the period that a worker can be dispatched to the same organizational unit at an office or the office of the same company that hired the temporary worker is limited to three years.

Before these revisions take effect, we have started to establish and provide an educational system for temporary staff.

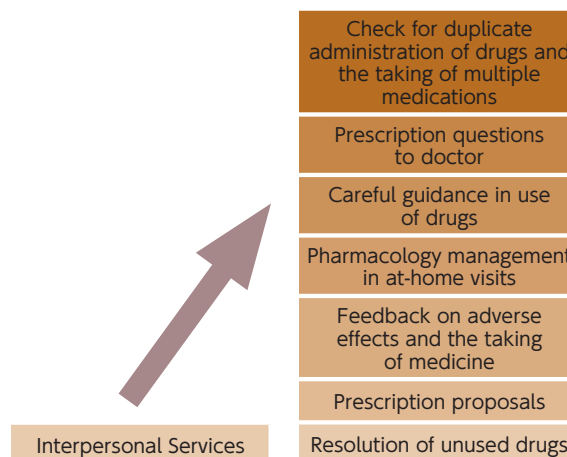
Q & A Do you only dispatch pharmacists that work at Nihon Chouzai?

No, pharmacists dispatched in this business are not ones for Nihon Chouzai pharmacies. After registering as a pharmacist at a subsidiary engaged in the Medical Professional Staffing and Placement Business and receiving an education, the pharmacist will be employed at the company they are dispatched to.

Change in the Role of Pharmacists based on A Vision of Pharmacies for Patients

A Vision of Pharmacies for Patients was announced by the Ministry of Health, Labour and Welfare of Japan in October 2015, and the work demanded and the number of pharmacists have changed significantly, from product services to interpersonal service skills.

Still, the shortage of pharmacists remains at a high level and has increased even further with the start of the family pharmacist system and the promotion of at-home medical care stemming from the revision of medical service fees in April 2016. In addition, the main requirement for interpersonal service skills is work experience at insurance pharmacies and possessing the latest knowledge. This suggests that continuous education at the dispensing agency is becoming more important than ever, and we believe that Nihon Chouzai can demonstrate even greater advantage as a company that can provide an education to meet that challenge.



Perceive Changes in Qualifications and Skills Required of Pharmacists

With the revision of medical service fees in April 2016, the family pharmacist system began, reflecting A Vision of Pharmacies for Patients. Obtaining certified pharmacist qualification was one of the necessary requirements for becoming a family pharmacist. This qualification enables the person to gain certification by obtaining a certain number of educational credits from the Council of Pharmacists Credentials (CPC). To maintain the certified

pharmacist qualification, the pharmacist must continuously receive training and earn credits.

It is difficult for other temporary work agencies to establish an educational system, and they do not provide this kind of training system. Because Nihon Chouzai has a dispensing pharmacy business within the Group, it has established and provides a superior training system and is therefore able to dispatch high-quality pharmacists.

Began Sales of Online Learning Software That Assists Certified Pharmacists



JP Learning, which we have been providing, was updated, and in January 2017 sales of JP Learning II began. JP Learning II is an online learning tool to help people obtain and maintain the qualification of certified pharmacist, which is essential for becoming a family pharmacist. Even pharmacists who are not registered with Nihon Chouzai can use this learning tool with content that meets the wide-ranging needs of family pharmacists.

Business Outlook

A Vision of Pharmacies for Patients is incorporated in the revision of medical service fees of April 2016, and the role required of pharmacists has grown with the start of the family pharmacist system. Although the cost, including advertising costs, of recruiting pharmacists remains high due to their shortage, very strong demand for pharmacists is expected to continue. The govern-

ment, which has set out to turn Japan into a country where every citizen plays an active role in society, has undertaken debate following regulatory reforms, and expansion of the professional staffing field is expected. Without missing the opportunity that deregulation provides, we will continue to develop a flexible business to expand operations as a company.

Q & A

Why do you dispatch to pharmacies other than Nihon Chouzai?

We believe that dispatching educated high-quality pharmacists to pharmacies around the world contributes to realizing true separation of the roles of drug prescribing and dispensing services, our corporate philosophy.