

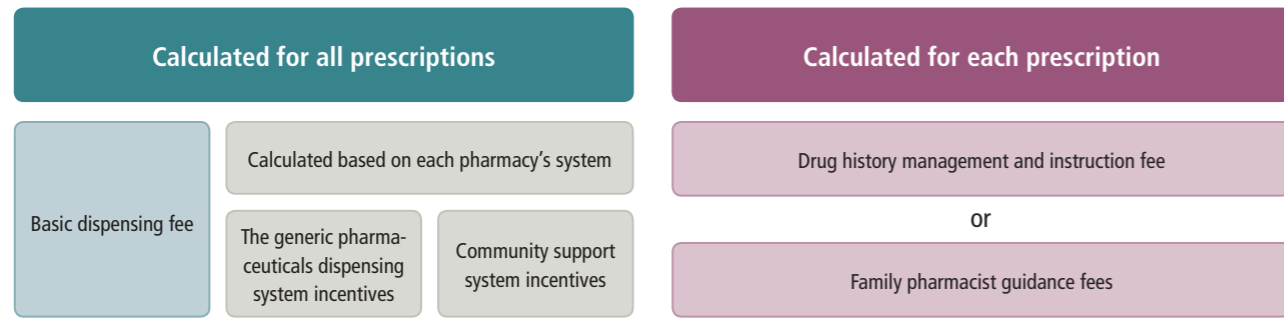
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# Main Prescription Dispensing Fee Revisions

(Reference) Changes in main technical fees associated with revision of prescription dispensing fees in FY2018



## Basic dispensing fee

FY2020 basic dispensing fees (amendments in blue)

	Number of prescriptions	Concentration ratio	Points
Basic dispensing fee 1	Basic dispensing fee other than 2, 3 and special basic dispensing fee		42 points
Basic dispensing fee 2	2,001 – 4,000 prescriptions per month	Exceeding 85%	26 points
	More than 4,000 prescriptions per month	Exceeding 70%	
	<b>1,801 – 2,000 prescriptions per month (addition)</b>	<b>Exceeding 95%</b>	
Basic dispensing fee 3-a	<b>35,001 – 40,000 prescriptions per month within the same group (addition)</b>	<b>Exceeding 95%</b>	21 points
	40,001 – 400,000 prescriptions per month within the same group	Exceeding 85%	
Basic dispensing fee 3-b	More than 400,000 prescriptions per month within the same group		16 points

FY2018 basic dispensing fees

Requirements	Concentration ratio	Points
<ul style="list-style-type: none"> <li>Real estate transactions with hospitals</li> <li>Other special relationships</li> </ul>	Exceeding 95%	11 points

● 50% reduction in basic dispensing fees if basic work related to family pharmacy role is less than 10 times per year

FY2020 basic dispensing fees

Requirements	Concentration ratio	Points
<ul style="list-style-type: none"> <li>Real estate transactions with <b>medical institutions (including clinics)</b></li> <li>Other special relationships</li> </ul>	<b>Exceeding 70%</b>	<b>9 points</b>

● 50% reduction in basic dispensing fees if basic work related to the role of a family pharmacy is **less than 100 times per year**

## The generic pharmaceuticals dispensing system incentives

	April 2018 – March 2020	Points	April 2020 – March 2022	Points
Generic pharmaceuticals dispensing system incentive 1	75% or more	18 points	75% or more	<b>15 points</b>
Generic pharmaceuticals dispensing system incentive 2	80% or more	22 points	80% or more	22 points
Generic pharmaceuticals dispensing system incentive 3	85% or more	26 points	85% or more	<b>28 points</b>

● 2 points subtracted from basic dispensing fee if dispensing quantity ratio of generic drugs is 20% or less

● 2 points subtracted from basic dispensing fee if dispensing quantity ratio of generic drugs is **40% or less**

## Community support system incentives

	April 2018 – March 2020	Points	April 2020 – March 2022	Points
Community support system incentives	<ul style="list-style-type: none"> <li>In case of basic fee 1, meet all of the following requirements                             <ol style="list-style-type: none"> <li>Narcotics retailer license</li> <li>At-home medical care: At least once per year</li> <li>Family pharmacist notification                                     <ul style="list-style-type: none"> <li>Management pharmacists employed in pharmacies for five years, employed by the current pharmacy for one year, and worked for at least 32 hours per week</li> </ul> </li> </ol> </li> <li>For cases other than basic fee 1, add all of the following results to the requirements for each full-time pharmacist for one year                             <ol style="list-style-type: none"> <li>Results of nighttime/holiday response: 400 times</li> <li>Results of narcotics guidance control incentives: 10 times</li> <li>Results of incentive for preventing harmful drug interactions and duplicate prescriptions, etc.: 40 times</li> <li>Results of family pharmacist guidance fees, etc.: 40 times</li> <li>Results of outpatient medication support fees: 12 times</li> <li>Results of medication adjustment support fees: 1 time</li> <li>Results of at-home drug management of one patient in single building: 12 times</li> <li>Results of the medication information and other information fees: 60 times</li> </ol> </li> </ul>	35 points	<ul style="list-style-type: none"> <li>In case of basic fee 1, meet all of requirements (1) – (3) below and either (4) or (5)                             <ol style="list-style-type: none"> <li>Narcotics retailer license</li> <li>At-home medical care: <b>At least 12 times per year</b></li> <li>Family pharmacist notification</li> <li><b>Results of the medication information and other information fees: At least 12 times per year</b></li> <li><b>Attendance at regional collaboration meetings with other occupations: At least once per year</b> <ul style="list-style-type: none"> <li>Management pharmacists employed in pharmacies for five years, employed by the current pharmacy for one year, and worked for at least 32 hours per week</li> </ul> </li> </ol> </li> <li>For cases other than basic fee 1, meet 8 of requirements (1) – (9) below                             <ol style="list-style-type: none"> <li>(1) – (8): Number of times annually per full-time pharmacist, (9) is number of times annually per pharmacy)                                     <ol style="list-style-type: none"> <li>Results of nighttime/holiday response: 400 times</li> <li><b>Results of narcotics dispensing: 10 times</b></li> <li>Results of incentive for preventing harmful drug interactions and duplicate prescriptions, etc.: 40 times</li> <li>Results of family pharmacist guidance fees, etc.: 40 times</li> <li>Results of outpatient medication support fees: 12 times</li> <li>Results of medication adjustment support fees: 1 time</li> <li>Results of at-home drug management of one patient in single building: 12 times</li> <li>Results of the medication information and other information fees: 60 times</li> <li><b>Attendance at regional collaboration meetings with other occupations: At least once per year</b></li> </ol> </li> </ol> </li> </ul>	<b>38 points</b>

## Main Dispensing Fee Revisions

### ▶ Drug history management and instruction fee

April 2018 – March 2020		Basic dispensing fee 1	Basic dispensing fee other than 1	April 2020 – March 2022		Basic dispensing fee 1	Basic dispensing fee other than 1
Revisit to pharmacy within 6 months	Has a medication notebook	41 points	53 points	Revisit to pharmacy within 3 months	Has a medication notebook	43 points	
	Does not have a medication notebook	53 points			Does not have a medication notebook	57 points	
Not a revisit to pharmacy within 6 months	Has/does not have a medication notebook			Not a revisit to pharmacy within 3 months	Has/does not have a medication notebook		

### ▶ Family pharmacist guidance fees

April 2018 – March 2020		Points	April 2020 – March 2022		Points
Family pharmacist guidance fees	<ul style="list-style-type: none"> <li>Employed in pharmacies for three years, employed by the current pharmacy for one year, and worked for at least 32 hours per week</li> <li>Qualified as certified pharmacist</li> <li>Participate in local medical activities</li> </ul>	73 points	<ul style="list-style-type: none"> <li>Employed in pharmacies for three years, employed by the current pharmacy for one year, and worked for at least 32 hours per week</li> <li>Qualified as certified pharmacist</li> <li>Participate in local medical activities</li> <li><b>Has independent counters separated by partitions</b></li> </ul>	76 points	

### ▶ Dispensing fee

Number of prescription days	1 – 7	8 – 14	15 – 21	22 – 30	31 –
April 2018 – March 2020	5 points/day (average 27 points)	4 points/day (average 61 points)	67 points	78 points	86 points
April 2020 – March 2022	<b>28 points</b>	<b>55 points</b>	<b>64 points</b>	<b>77 points</b>	86 points

### ▶ Online medication guidance (new)

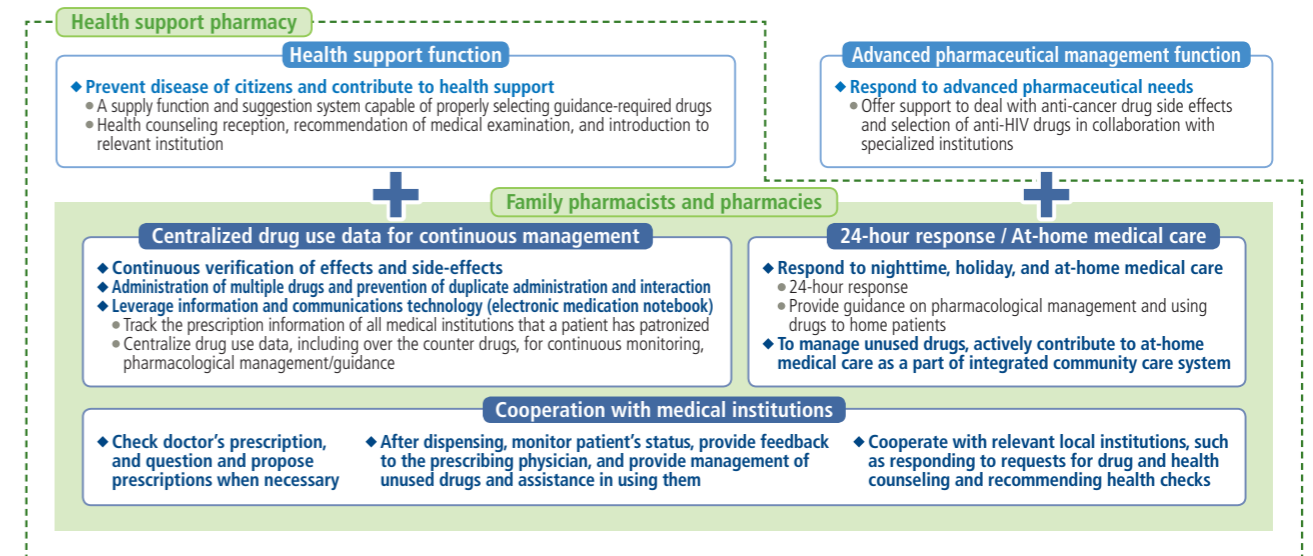
April 2020 – March 2022		Points
Drug history management and guidance fee 4	When getting medication guidance via information and communication equipment <b>Patients who received prescriptions through online medical treatment</b> <b>Patients who received face-to-face medication guidance within 3 months, in principle</b> (1) Create a medication guidance plan, implement based on that plan (2) Pharmacists who provide online medication guidance are the same, in principle (3) Check drug history and current medications with a medication notebook	Up to 43 points per month
Home patient visiting drug management guidance fee	Home patient online medication guidance fee <b>Patients who have been given a prescription by home visit medical treatment</b> <b>Patients who receive a monthly visit for at-home medical care</b> (1) Can be calculated up to 10 times a week, for a total of up to 40 times a week including home patient visiting drug management guidance fee 1 – 3 for each pharmacist (2) Create a medication guidance plan, implement based on that plan (3) Pharmacists who provide online medication guidance are the same in principle (4) Provide written information to doctors who have done home visit medical treatment	Up to 57 points per month

## Explanation of Terminology

### A Vision of Pharmacies for Patients

A vision announced by the Ministry of Health, Labour and Welfare in October 2015. The announced vision is a guideline for fulfilling functions such as pharmaceutical management and guidance, which includes centralizing drug use data and constantly acquiring new

information about drugs and dealing with at-home medical care within the integrated community care system. 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
  5. Participate in local medical activities
  6. Has independent counters separated by partitions (Added from April 2020)

### Family pharmacists and pharmacies

In A Vision of Pharmacies for Patients, the three functions required of family pharmacists and pharmacies are explained, but there are no facility standards for pharmacies and notification to Regional Bureau of Health and Welfare is not required. Work required for family pharmacists and pharmacies is mainly interpersonal work, and the main work is the 9 items necessary for pharmacies other than basic fee 1 to calculate community support system incentives. The same ministry is seeking to restructure all pharmacies into family pharmacist and 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

## Partial Revisions to the Pharmaceuticals and Medical Devices Act

A proposed revision to the Pharmaceuticals and Medical Devices Act was submitted to the Diet on March 19, 2019, and this proposal was passed and enacted on November 27, 2019. It has been decided that the new law will be enforced in stages from September 2020. Looking at trends related to pharmacies, online medication guidance will be widely implemented starting in September 2020. In addition to remote medication guidance, which was only allowed in National Strategic Special Zones until now,

this will also cover prescriptions where online medical treatment is performed by video calls, and the target area will be expanded nationwide. In addition, the diseases that would be covered will also expand including the prevention of severe diabetes and chronic headaches.

In addition, from August 2021, the functions of pharmacies will be defined by the Pharmaceuticals and Medical Devices Act, and with a license from a prefectural governor, pharmacies will be able to display signboards, etc. according to their functions. This will enable patients to choose the right pharmacy for them.

### Regional-cooperation pharmacies

Pharmacies that can collaborate with other medical institutions at the time of hospitalization or discharge and at-home medical care

- Structural equipment with consideration for privacy (partitions, etc.)
- Providing information to medical institutions on medicine that patients bring when they are hospitalized
- Participation in meetings with doctors, nurses, care managers, etc. (discharge conferences, etc.)
- Placement of pharmacists who received training on integrated community care, including welfare and nursing care
- Development and participation of a local dispensing response system including responses at nighttime and on holidays
- Dispensing of drugs necessary for at-home medical care including narcotics/sterile dispensing
- Home visits

### Specialized medical instructions cooperation pharmacies

Pharmacies that can collaborate with other medical institutions for specialized pharmaceutical management of diseases such as cancer

- Structural equipment with consideration for privacy (partitions, private rooms or other space for consultation, etc.)
- Providing information to medical institutions on medicine that patients bring when they are hospitalized
- Participation in meetings with doctors, nurses, care managers, etc. (discharge conferences, etc.)
- Sharing treatment policies with doctors and pharmacists, etc. at specialized medical institutions
- Conducting joint training with specialized medical institutions, etc.
- Sharing medication information with regional-cooperation pharmacies that are used by patients, etc.
- Placement of pharmacists with a high degree of expertise, such as accreditation by an academic society

Source: Prepared by Nihon Chouzai based on materials submitted by the Ministry of Health, Labour and Welfare (May 2019)

## Review of elderly population

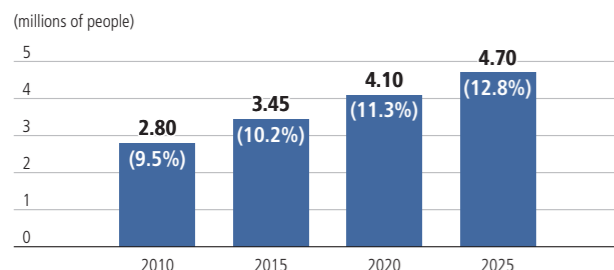
**1** The number of elderly people of 65 years and older is projected to reach 36.57 million in 2025, and a peak of 38.78 million in 2042. Elderly people 75 years and older as a percentage of the total population are increasing and are expected to exceed 25% in 2055.

	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%)

Source: FY2015 Annual Health, Labour and Welfare Report

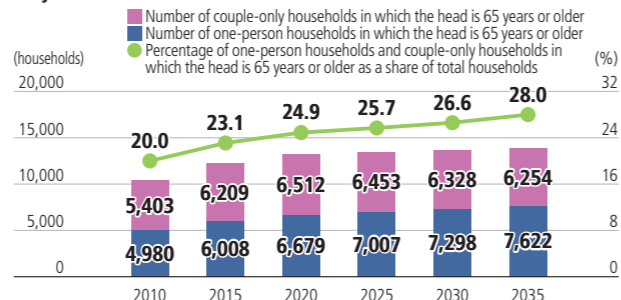
**2** Among elderly people 65 years and older, those with a "degree of autonomy in daily life for elderly with dementia" of category II or above are increasing.

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.

Number of 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 revisions

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. Medical service fees are reviewed once every two years.

## Prescription dispensing fee revisions

This refers to the portion of revised medical service fees that is utilized for prescription dispensing services. Dispensing fees are revised once every two years.

## NHI drug price revisions

With respect to the price of drugs used in healthcare services provided by health insurance, an official price has been established as the "NHI 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. In October 2019, NHI drug prices were revised at the same time that the consumption tax rate was raised from 8% to 10%. Starting in April 2020, NHI drug prices are scheduled to be revised annually.

## 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 pharmacy chains 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 is being raised in order to further promote the use of 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.

## Hybrid-type pharmacies\*

Pharmacies that combine the functions of both a Mentaio pharmacy that was opened in front of a train station or in a shopping district and meets prescription demand from a relatively wide area, without being limited to prescriptions from specific medical institutions, and a medical center (MC) pharmacy in a medical mall where a number of medical institutions are

located and meets the prescription demand of those medical institutions.

\* Hybrid-type pharmacy is a term for a type of pharmacy used by NIHON CHOUZAI Co., Ltd.

## On-site pharmacies

It became possible to open on-site pharmacies within hospital premises following the easing of restrictions on the structural independence of pharmacies and medical institutions in October 2016. These pharmacies can cooperate with hospitals is possible and support for advanced medicine is required. On the other hand, the basic dispensing fee has been set lower than hospital-front pharmacies.

## Electronic Okusuri Techo (Electronic medication notebook)

A notebook application for centrally managing the information and records of prescribed medicines and for avoiding duplication and side effects caused by taking multiple medications. It can record information on a smartphone or other device. Nihon Chouzai has conducted in-house development of the electronic medication notebook Okusuri Techo Plus. 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.

## Automatic drug picking device / Fully automatic PTP sheet dispensing device

In Japan, patients usually take drugs that have been sealed in PTP sheets. At pharmacies, PTP sheet-packaged drugs are picked by staff. These two devices store PTP sheets in cassettes, and they are becoming popular as a machine to prepare the required number of PTP sheets by transmitting prescription data.

## Health Check-up 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.

\*The Health Check-up Station is a registered trademark of NIHON CHOUZAI Co., Ltd.

## Formularies

These are guidelines for drug use formulated by medical institutions and regions based on a comprehensive scientific assessment of the efficacy and safety of drugs, as well as their economic efficiency. The goal is to promote standard drug treatment based on guidelines for the use of high-quality, inexpensive drugs. The spread of regional formularies is expected to promote the use of generic drugs and curb the continuing increase in medical costs. These guidelines have already been introduced in Europe and the US, and in Japan, they have also been introduced in some areas.

## 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 Pharmaceuticals and Medical Devices 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.

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

(Millions of yen)

Consolidated performance indicators	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Fiscal year in which revisions to prescription dispensing fees and NHI drug prices were made	○		○			○		○		△ <sup>11</sup>
<b>Business results (for the year)</b>										
Net sales	112,128	130,041	139,466	165,347	181,844	219,239	223,468	241,274	245,687	<b>268,520</b>
Gross profit	19,182	22,038	21,494	25,623	31,929	39,068	39,258	43,837	41,975	<b>46,372</b>
Selling, general and administrative expenses	14,398	16,574	18,248	20,878	25,281	28,578	30,738	33,250	35,242	<b>38,779</b>
Operating profit	4,784	5,464	3,245	4,744	6,647	10,489	8,519	10,587	6,733	<b>7,593</b>
EBITDA <sup>1</sup>	7,118	8,492	6,837	8,570	10,278	14,951	13,260	15,801	13,037	<b>13,909</b>
Ordinary profit	4,358	4,941	2,855	4,188	6,003	9,878	7,976	10,138	6,077	<b>7,405</b>
Profit attributable to owners of parent	1,821	2,085	184	1,901	2,778	6,329	4,638	6,104	3,790	<b>6,697</b>
<b>Cash flows (for the year)</b>										
Cash flows from operating activities	6,723	7,127	2,885	6,243	5,831	19,327	(940)	23,141	13,572	<b>13,192</b>
Cash flows from investing activities	(8,269)	(9,694)	(6,422)	(14,510)	(8,437)	(7,823)	(28,444)	(13,843)	(1,770)	<b>(2,731)</b>
Cash flows from financing activities	1,109	7,920	5,496	8,782	1,422	7,031	18,205	(2,034)	(10,516)	<b>(7,955)</b>
<b>Financial position (at year-end)</b>										
Total assets <sup>2</sup>	72,701	86,615	95,140	117,295	130,141	157,609	178,347	186,573	178,677	<b>185,551</b>
Net assets	12,780	14,716	14,702	15,849	17,635	32,473	36,447	41,506	41,073	<b>47,072</b>
Cash and cash equivalents	7,200	12,554	14,513	15,027	13,844	32,380	21,200	28,464	29,749	<b>32,254</b>
Merchandise and finished goods	8,595	8,419	11,908	12,165	15,911	15,328	21,455	20,873	22,272	<b>22,988</b>
Interest-bearing debts <sup>3</sup>	33,891	42,279	48,281	62,037	68,327	66,794	86,524	87,611	81,302	<b>73,918</b>
<b>Per share information</b>										
Net assets per share <sup>4</sup> (yen)	893.41	1,023.97	1,017.04	1,090.63	1,257.59	2,030.22	2,278.70	2,595.00	2,739.04	<b>3,139.54</b>
Net income per share <sup>4</sup> (yen)	127.57	145.46	12.84	131.24	194.48	432.85	290.03	381.69	243.47	<b>446.66</b>
<b>Financial and non-financial data</b>										
Sales growth rate (%)	14.1	16.0	7.2	18.6	10.0	20.6	1.9	8.0	1.8	<b>9.3</b>
Selling, general and administrative expenses ratio (%)	12.8	12.7	13.1	12.6	13.9	13.0	13.8	13.8	14.3	<b>14.4</b>
Operating margin (%)	4.3	4.2	2.3	2.9	3.7	4.8	3.8	4.4	2.7	<b>2.8</b>
ROA <sup>5</sup> (%)	2.7	2.6	0.2	1.8	2.2	4.4	2.8	3.3	2.1	<b>3.6</b>
ROE <sup>6</sup> (%)	15.1	15.2	1.3	12.0	16.6	25.3	13.5	15.7	9.2	<b>15.2</b>
Equity ratio <sup>7</sup> (%)	17.6	17.0	15.5	13.5	13.6	20.6	20.4	22.2	23.0	<b>25.4</b>
Interest coverage ratio <sup>8</sup> (times)	12.8	13.0	4.9	8.6	7.1	24.4	–	37.1	25.8	<b>36.2</b>
D/E ratio <sup>9</sup> (times)	2.7	2.9	3.3	3.9	3.8	2.1	2.4	2.1	2.0	<b>1.6</b>
Capital expenditure	7,885	8,961	5,566	9,069	12,279	8,073	23,344	15,316	5,254	<b>12,025</b>
Depreciation	2,333	3,028	3,591	3,825	3,631	4,461	4,741	5,214	6,304	<b>6,316</b>
R&D expenses	985	1,224	1,023	1,534	1,767	1,913	2,388	2,784	2,764	<b>2,991</b>
Number of employees <sup>10</sup>	2,112	2,304	2,488	3,009	3,283	3,435	3,781	4,075	4,383	<b>4,904</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. Figures before FY2017 are not retroactively adjusted in accordance with the change of the accounting standard.  
3. Interest-bearing debt = loans + lease obligations + installment account payable + bonds  
4. Nihon Chouzai conducted a 2-for-1 stock split on October 1, 2015.  
5. ROA = profit attributable to owners of parent ÷ average of total assets at the beginning and end of the fiscal year

6. ROE = profit attributable to owners of parent ÷ average equity at the beginning and end of the fiscal year  
7. Equity ratio = shareholders' equity ÷ total assets  
8. Interest coverage ratio = operating cash flow ÷ interest payments. This figure is not presented when operating cash flow is in negative territory.  
9. D/E ratio = interest-bearing debt ÷ net assets  
10. 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.  
11. NHI drug prices were revised in October 2019 due to changes in the consumption tax rate. Due to NHI drug price standard revisions, some dispensing fees have been adjusted and revised.

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

Base that supports Nihon Chouzai

Data section

# Report of Business Results and Financial Analysis

## Business Results

Nihon Chouzai achieved increased sales and profit, as net sales totaled 268,520 million yen (up by 9.3% year on year), operating profit totaled 7,593 million yen (up by 12.8% year on year), ordinary profit totaled 7,405 million yen (up by 21.8% year on year), and profit attributable to owners of parent totaled 6,697 million yen (up by 76.7% year on year). Our business results exceeded the targets of our initial plans both in terms of net sales and profit.

In the Dispensing Pharmacy Business, COVID-19 has caused the number of prescriptions to fall, especially at pharmacies in the Tokyo metropolitan area. Meanwhile, we believe that the impact on net sales was largely offset by an increase in unit price per prescription due to the prolonged period of prescription days. However, we do not expect the impact of COVID-19 to be a temporary phenomenon limited to the fiscal year under review. In the

next fiscal year, we have included various expected impacts in our plans for the Dispensing Pharmacy Business for the three month period from April to June. One factor is decreased gross profit due to declined numbers of prescriptions caused by patients avoiding medical examinations, medical institutions reducing outpatient treatment, and prolonged period of prescription days. Another impact is decreased net sales due to decreased need for dispatching of pharmacists in the Medical Professional Staffing and Placement Business. The reason we have set this period as three months from April to June is that we do not expect the COVID-19 pandemic to wind down by the end of June. Instead, we believe it is reasonably possible to make calculations using the time limit of "declaration of a state of emergency" issued by the Japanese government as an objective indicator when planning for the next fiscal year.

## Business Results of Each Business Segment

### Dispensing Pharmacy Business

Net sales were 231,001 million yen (up by 10.7% year on year) and operating profit was 9,785 million yen (up by 12.4% year on year), achieving increased sales and profit.

In the same period, we opened 65 new pharmacies and closed 13 pharmacies, resulting in a total of 650 pharmacies (including one retail pharmacy) as of the end of the fiscal year under review. Regarding new pharmacy opening in the fiscal year under review, we were able to maintain an extremely good balance from multiple perspectives in terms of the form of opening (Nihon Chouzai owned and M&A), pharmacy type (hospital-front, and hybrid-type that combines the functions of both a Mentaio pharmacy and a medical center (MC) pharmacy), and pharmacy opening regions.

With regard to net sales, there were several factors for achieving a year on year increase in net sales, including increased prescription unit prices and increased number of prescriptions due to increased prescription of expensive pharmaceuticals such as anti-cancer drugs and initiatives taken on family pharmacists and pharmacies. The increased number of prescriptions is achieved based on the strong performance of existing pharmacies, and has been further boosted by the increased number of pharmacies resulting from active M&A initiatives.

With regard to operating profit, we achieved increased profit year on year mainly due to the effect of increased profit from increased sales. Contributing factors include the fact that we were able to raise technical fees as a result of steady efforts made for family pharmacists and pharmacies.

As of March 31, 2020, Nihon Chouzai has reached an average of 89% volume-based use of generic drugs, exceeding the government target of reaching 80% by September 2020. In addition, ratio of pharmacies that provide at-home medical care steadily increased to 89% (the percentage of pharmacies providing 12 or more cases of at-home medical care per year).

### Pharmaceutical Manufacturing and Sales Business

Net sales were 43,072 million yen (up by 5.9% year on year), while operating profit was 1,301 million yen (down by 31.0% year on year), achieving increased sales with decreased profit year on year. With regard to net sales, we achieved increased sales year on year due to factors such as favorable sales of new products and the growth of commissioned business, despite the fact that we were in a difficult environment due to a decline in selling prices of existing products associated with NHI drug price revisions in October 2019. Meanwhile, operating profit decreased year on year due to the significant impact of lower selling prices for existing products due to NHI drug price revisions.

As of the end of the fiscal year under review, we started to offer 22 new items, bringing our total to 681 items for sales. We will continue to focus on increasing the number of in-house approved items, so that we can increase the number of in-house manufactured items in order to improve our profitability.

### Medical Professional Staffing and Placement Business

Net sales in this business totaled 12,721 million yen (down by 2.8% year on year), with operating profit at 1,851 million yen (up by 25.2% year on year), showing a decrease in sales and an increase in profit year on year.

With regard to net sales, sales declined year on year, due to decreased demand for dispatched pharmacists, which was not offset by the growth of our placement business, despite continuing high demand for medical professionals. Meanwhile, operating profit increased by more than 20% year on year mainly due to the growth of our highly profitable placement business in the fields of pharmacists and doctors.

## Analysis of Financial Position

Total assets increased by 6,873 million yen, or 3.8%, from 178,677 million yen at the end of the previous fiscal year to 185,551 million yen at the end of the fiscal year under review. Total liabilities increased by 874 million yen, or 0.6%, from 137,604 million yen at the end of the previous fiscal year to 138,478 million yen at the end of the fiscal year under review.

Current assets increased by 7,281 million yen, or 9.1%, from 80,132 million yen at the end of previous fiscal year to 87,414 million yen. Following the expansion of business, cash and deposits increased by 2,505 million yen and accounts receivable—trade increased by 4,338 million yen, while raw materials and supplies decreased by 589 million yen. Therefore, we are conducting thorough inventory management.

Non-current assets decreased by 407 million yen, or 0.4%, from 98,545 million yen at the end of the previous fiscal year to 98,137 million yen. This includes property, plant and equipment, which decreased by 3,723 million yen, or 5.3%, from 69,806 million yen at the end of the previous fiscal year to 66,082 million yen. The fall in property, plant and equipment was primarily caused by the sale of property, plant and equipment for the purpose of improving the efficiency of assets through effective use of management resources, as well as further improving and strengthening financial structure. Intangible assets increased by 2,519 million yen, or 14.9%, from 16,906 million yen at the end of the previous fiscal year to 19,425 million yen. This was mainly

attributable to an increase in goodwill associated with active M&A initiatives in the Dispensing Pharmacy Business. Investments and other assets increased by 795 million yen, or 6.7%, from 11,833 million at the end of the previous fiscal year to 12,628 million yen. This was mainly attributable to an increase in lease and guarantee deposits resulting from strong new pharmacy openings in the Dispensing Pharmacy Business.

Current liabilities increased by 1,007 million yen, or 1.5%, from 69,100 million yen at the end of the previous fiscal year to 70,107 million yen. This was mainly due to an increase of 5,385 million yen in accounts payable—trade associated with business expansion. Meanwhile, current portion of long-term loans payable decreased by 6,737 million yen, indicating a steady decline.

Non-current liabilities decreased by 133 million yen, or 0.2%, from 68,504 million yen at the end of the previous fiscal year to 68,370 million yen, remaining at nearly the same level as the end of the previous fiscal year.

Total net assets increased by 5,999 million yen, or 14.6%, from 41,073 million yen at the end of the previous fiscal year to 47,072 million yen. This was mainly attributable to an increase in retained earnings by 5,947 million yen from the end of the previous fiscal year, as a result of strong efforts by Group companies to increase net sales and improve profitability. As a result, the equity ratio improved by 2.4%, from 23.0% at the end of the previous fiscal year to 25.4%, steadily enhancing our financial base.

## Status of Cash Flows

Net cash provided by operating activities was 13,192 million yen, net cash used in investing activities was 2,731 million yen, and net cash used in financing activities was 7,955 million yen. As a result,

there was a net increase of 2,505 million yen in cash and cash equivalents from the end of the previous fiscal year to 32,254 million yen at the end of March 2020.

### Cash flows from operating activities

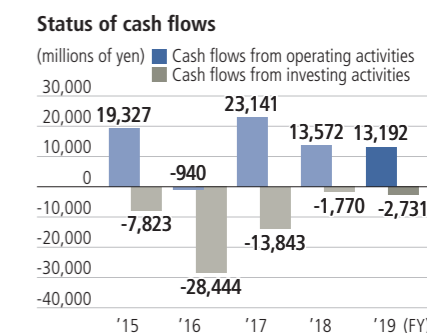
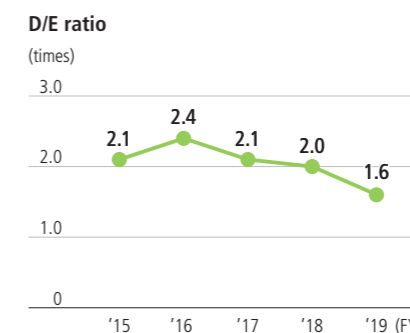
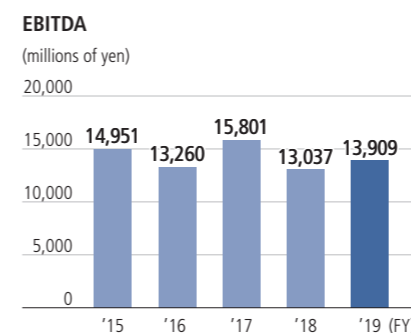
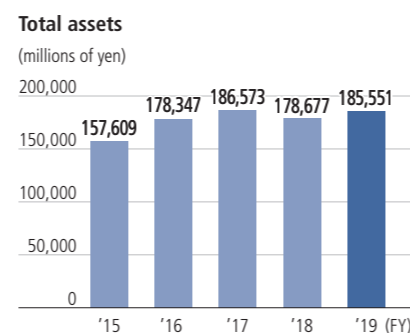
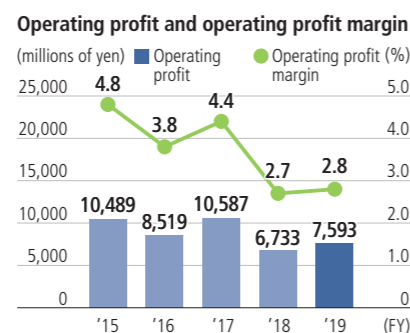
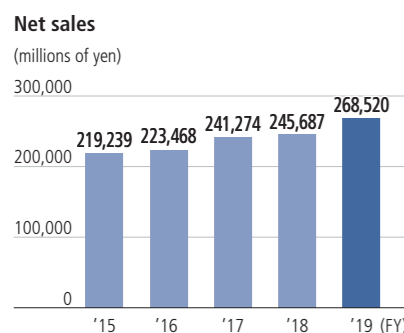
The major source of cash inflow was profit before income taxes of 11,885 million yen due mainly to strengthening of profitability of Group companies, while the primary use of cash outflow was 3,046 million yen in income taxes paid.

### Cash flows from investing activities

A major source of cash inflow was proceeds from sales of property, plant and equipment of 9,644 million yen. On the outflow side, the primary use of cash outflow was payment of 5,057 million yen for the purchase of shares of subsidiaries resulting in change in scope of consolidation resulting from active M&A initiatives in the Dispensing Pharmacy Business, as well as payment of 5,624 million yen for the purchase of property, plant and equipment incidental to opening new pharmacies in the Dispensing Pharmacy Business and capital investments in the Pharmaceutical Manufacturing and Sales Business.

### Cash flows from financing activities

The primary source of cash inflow was proceeds from long-term loans payable of 9,900 million yen, while cash was used mainly for payments of 16,261 million yen in repayments of long-term loans payable. Our financial structure is steadily enhancing, as large-scale capital investment in the Pharmaceutical Manufacturing and Sales Business peaked out, and interest-bearing debt has decreased due to the increased cash flow from operating activities resulting from improvement in the profitability of Group companies.



# Consolidated Balance Sheet

NIHON CHOUZAI Co., Ltd. and subsidiaries March 31, 2019 and 2020

(Millions of yen)

Assets	FY2018	FY2019
<b>Current assets</b>		
Cash and deposits	29,749	32,254
Notes receivable — trade	134	181
Accounts receivable — trade	16,249	20,587
Electronically recorded monetary claims—operating	1,465	1,080
Merchandise and finished goods	22,272	22,988
Work in process	1,173	1,541
Raw materials and supplies	6,020	5,431
Other	3,071	3,354
Allowance for doubtful accounts	(5)	(6)
<b>Total current assets</b>	<b>80,132</b>	<b>87,414</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures	52,956	53,112
Accumulated depreciation	(20,582)	(22,189)
Buildings and structures, net	32,374	30,922
Machinery, equipment and vehicles	19,246	20,944
Accumulated depreciation	(4,539)	(5,860)
Machinery, equipment and vehicles, net	14,707	15,084
Land	16,961	14,653
Leased assets	2,888	2,883
Accumulated depreciation	(2,094)	(2,228)
Leased assets, net	794	655
Construction in progress	1,133	967
Other	16,399	17,947
Accumulated depreciation	(12,564)	(14,148)
Other, net	3,835	3,798
Total property, plant and equipment	69,806	66,082
Intangible assets		
Goodwill	14,552	16,994
Other	2,353	2,431
Total intangible assets	16,906	19,425
Investments and other assets		
Investment securities	17	16
Long-term loans receivable	687	703
Lease and guarantee deposits	7,357	7,765
Deferred tax assets	2,610	3,090
Other	1,160	1,052
Total investments and other assets	11,833	12,628
<b>Total non-current assets</b>	<b>98,545</b>	<b>98,137</b>
<b>Total assets</b>	<b>178,677</b>	<b>185,551</b>

(Millions of yen)

Liabilities	FY2018	FY2019
<b>Current liabilities</b>		
Accounts payable — trade	37,274	42,659
Electronically recorded obligations — operating	3,081	3,131
Short-term borrowings	—	100
Current portion of long-term loans payable	16,143	9,406
Lease obligations	261	82
Income taxes payable	1,478	4,132
Provision for bonuses	3,023	3,318
Provision for directors' bonuses	86	76
Asset retirement obligations	10	9
Other	7,739	7,191
<b>Total current liabilities</b>	<b>69,100</b>	<b>70,107</b>
<b>Non-current liabilities</b>		
Long-term loans payable	62,470	62,963
Lease obligations	436	479
Long-term accounts payable — installment purchase	1,349	886
Provision for directors' retirement benefits	1,093	474
Net defined benefit liability	1,695	1,957
Asset retirement obligations	1,145	1,289
Other	313	318
<b>Total non-current liabilities</b>	<b>68,504</b>	<b>68,370</b>
<b>Total liabilities</b>	<b>137,604</b>	<b>138,478</b>
<b>Net assets</b>	<b>FY2018</b>	<b>FY2019</b>
<b>Shareholders' equity</b>		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	29,815	35,762
Treasury shares	(3,498)	(3,499)
<b>Total shareholders' equity</b>	<b>41,196</b>	<b>47,143</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	0	—
Remeasurements of defined benefit plans	(127)	(70)
<b>Total accumulated other comprehensive income</b>	<b>(127)</b>	<b>(70)</b>
<b>Non-controlling interests</b>	<b>4</b>	<b>—</b>
<b>Total net assets</b>	<b>41,073</b>	<b>47,072</b>
<b>Total liabilities and net assets</b>	<b>178,677</b>	<b>185,551</b>

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

Base that supports Nihon Chouzai

Data section

## Consolidated Statement of Income

NIHON CHOUZAI Co., Ltd. and subsidiaries For the years ended March 31, 2019 and 2020 (Millions of yen)

	FY2018	FY2019
Net sales	245,687	268,520
Cost of sales	203,711	222,147
Gross profit	41,975	46,372
Selling, general and administrative expenses	35,242	38,779
Operating profit	6,733	7,593
Non-operating income		
Interest income	0	0
Commission fee	50	41
Rent income	430	426
Compensation income	–	80
Insurance claim income	–	88
Subsidy income	–	75
Other	178	165
Total non-operating income	659	878
Non-operating expenses		
Interest expenses	525	364
Commission fee	13	20
Rent expenses	355	336
Loss on retirement of non-current assets	221	98
Other	198	246
Total non-operating expenses	1,315	1,066
Ordinary profit	6,077	7,405
Extraordinary income		
Gain on sales of non-current assets	231	6,662
Gain on sales of investment securities	8	–
Gain on transfer of business	1,092	34
Reversal of provision for retirement benefits for directors (and other officers)	–	634
Total extraordinary income	1,332	7,332
Extraordinary losses		
Loss on abandonment of non-current assets	–	187
Loss on sales of non-current assets	24	1
Impairment loss	607	2,663
Loss on sales of investment securities	–	0
Total extraordinary losses	632	2,852
Profit before income taxes	6,777	11,885
Income taxes — current	3,308	5,544
Income taxes — deferred	(324)	(357)
Total income taxes	2,984	5,186
Profit	3,792	6,698
Profit attributable to non-controlling interests	2	1
Profit attributable to owners of parent	3,790	6,697

## Consolidated Statement of Comprehensive Income

NIHON CHOUZAI Co., Ltd. and subsidiaries For the years ended March 31, 2019 and 2020 (Millions of yen)

	FY2018	FY2019
Profit	3,792	6,698
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Remeasurements of defined benefit plans, net of tax	16	57
Total other comprehensive income	16	57
Comprehensive income	3,809	6,756
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	3,806	6,754
Comprehensive income attributable to non-controlling interests	2	1

## Consolidated Statement of Changes in Net Assets

NIHON CHOUZAI Co., Ltd. and subsidiaries (Millions of yen)

For the year ended March 31, 2019	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	26,816	(47)	41,648	0	(144)	(144)	2	41,506
Changes of items during period										
Dividends of surplus			(791)		(791)					(791)
Profit attributable to owners of parent			3,790		3,790					3,790
Purchase of treasury shares				(3,451)	(3,451)					(3,451)
Net changes of items other than shareholders' equity						(0)	16	16	2	19
Total changes of items during period	–	–	2,998	(3,451)	(452)	(0)	16	16	2	(433)
Balance at end of current period	3,953	10,926	29,815	(3,498)	41,196	0	(127)	(127)	4	41,073

(Millions of yen)

For the year ended March 31, 2020	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	29,815	(3,498)	41,196	0	(127)	(127)	4	41,073
Changes of items during period										
Dividends of surplus			(749)		(749)					(749)
Profit attributable to owners of parent			6,697		6,697					6,697
Purchase of treasury shares				(0)	(0)					(0)
Net changes of items other than shareholders' equity						(0)	57	57	(4)	52
Total changes of items during period	–	–	5,947	(0)	5,946	(0)	57	57	(4)	5,999
Balance at end of current period	3,953	10,926	35,762	(3,499)	47,143	–	(70)	(70)	–	47,072



# Consolidated Statement of Cash Flows

NIHON CHOUZAI Co., Ltd. and subsidiaries For the years ended March 31, 2019 and 2020

(Millions of yen)

	FY2018	FY2019
<b>Cash flows from operating activities</b>		
Profit before income taxes	6,777	11,885
Depreciation	6,304	6,316
Amortization of long-term prepaid expenses	160	169
Impairment loss	607	2,663
Amortization of goodwill	1,487	1,581
Increase (decrease) in allowance for doubtful accounts	(0)	0
Increase (decrease) in provision for bonuses	245	283
Increase (decrease) in provision for directors' bonuses	(50)	(10)
Increase (decrease) in net defined benefit liability	188	122
Increase (decrease) in provision for directors' retirement benefits	45	(726)
Interest and dividend income	(2)	(0)
Interest expenses	525	364
Loss (gain) on sales of non-current assets	(206)	(6,661)
Loss (gain) on sales of investment securities	(8)	0
Loss (gain) on transfer of business	(1,092)	(34)
Decrease (increase) in notes and accounts receivable—trade	3,485	(2,902)
Decrease (increase) in inventories	(1,314)	74
Increase (decrease) in notes and accounts payable—trade	342	3,486
Decrease (increase) in prepaid expenses	(74)	(149)
Increase (decrease) in accrued expenses	(82)	(51)
Decrease (increase) in accounts receivable—other	998	422
Increase (decrease) in accounts payable—other	(791)	(225)
Other, net	1,460	6
Subtotal	19,004	16,615
Interest and dividend income received	2	0
Interest expenses paid	(525)	(377)
Income taxes paid	(4,908)	(3,046)
<b>Net cash provided by (used in) operating activities</b>	<b>13,572</b>	<b>13,192</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(5,303)	(5,624)
Proceeds from sales of property, plant and equipment	1,723	9,644
Purchase of intangible assets	(591)	(606)
Proceeds from sales of investment securities	10	0
Increase in long-term prepaid expenses	(123)	(92)
Payments for transfer of business	(368)	(771)
Proceeds from transfer of business	4,093	52
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(785)	(5,057)
Payments for loans receivable	(92)	(76)
Collection of loans receivable	85	85
Payments for lease and guarantee deposits	(699)	(626)
Proceeds from collection of lease and guarantee deposits	281	302
Other, net	(0)	37
<b>Net cash provided by (used in) investing activities</b>	<b>(1,770)</b>	<b>(2,731)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	—	100
Proceeds from long-term loans payable	10,625	9,900
Repayments of long-term loans payable	(15,694)	(16,261)
Repayments of lease obligations	(311)	(266)
Repayments of installment payables	(893)	(677)
Purchase of treasury shares	(3,451)	(0)
Cash dividends paid	(791)	(749)
<b>Net cash provided by (used in) financing activities</b>	<b>(10,516)</b>	<b>(7,955)</b>
Net increase (decrease) in cash and cash equivalents	1,284	2,505
Cash and cash equivalents at beginning of period	28,464	29,749
Cash and cash equivalents at end of period	29,749	32,254

# Risks of Businesses

Of the matters regarding business status and accounting status described in the securities report, major risks which the management has judged as likely to have a significant impact on the financial position, operating results, and cash flow of consolidated companies 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 the date of submission of the securities report, 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 by loans payable and other borrowing, 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.

## 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.

### 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's performance may be affected by factors including the weather, such as excessively hot or cold summers, large-scale natural disasters, and pandemics of serious infectious diseases. In our pharmaceutical manufacturing and sales business, we have production bases distributed between Tsukuba City, Ibaraki Prefecture and Tokushima City, Tokushima Prefecture, and Group companies have taken measures such as formulating business continuity plans in case of disasters and other emergencies. However, we recognize that it is necessary to take more concrete measures, since the headquarters functions of each company are mainly consolidated in Chiyoda ward, Tokyo.

### 5. Impact of COVID-19

The Nihon Chouzai Group's performance may be affected by the spread of COVID-19. Especially in our dispensing pharmacy business, the number of prescriptions may decrease and mainly affect its profitability because of reasons such as patients avoiding medical examinations, as well as medical institutions limiting outpatient treatment and the prolonged period of prescription days.

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 the date of submission of the securities report.

#### (2) Securing pharmacists

Regarding dispensing pharmacies, Article 19 of the Pharmacists Act forbids, in principle, dispensing by anyone other than

pharmacists. By “Act on Securing Quality, Efficacy, and Safety of Products including Pharmaceuticals and Medical Devices” (“Pharmaceuticals 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 NHI 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 system reforms have been made to simultaneously curb rising medical costs and provide high-quality medical services. Depending on trends in various system reforms, it is possible that the performance of the Group may be affected by a decrease in the number of patients and other factors.

**3. Business development**

Regarding the dispensing pharmacy business, we have a policy to increase the number of stores centered on Nihon Chouzai pharmacies, but also including acquisition of stores. In case we cannot open or acquire stores as planned due to not being able to secure the property that conforms to the conditions of store opening or acquisition, in case initially planned sales cannot be posted after opening a store due to the state of competitions, in case store sales decrease due to relocation or discontinuance of medical institutions, or in case store operation cannot be continued or deposits and guarantees cannot be repaid due to business circumstances 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 account for a large proportion in the sales composition of the Nihon Chouzai Group, and the performance changes of the dispensing pharmacy business greatly affect the performance changes of the Group.

Regarding the dispensing pharmacy business, depending on increasing or decreasing prescriptions for influenza, etc., which prevails in winter, and pollinosis (allergic rhinitis), which mainly develops in the beginning of spring, the sales 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. 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 of the consumption tax rate, the performance of the Nihon Chouzai Group may be affected.

**6. Impairment risk of goodwill**

In the dispensing pharmacy business, M&A have become active in the dispensing pharmacy industry due to factors such as the shortage of pharmacists in small and medium sized pharmacies, the shortage of successors, and the lack of capability to adapt to ICT. Nihon Chouzai Group has positioned the use of M&A as an effective means of expanding the operation of the dispensing pharmacy business, and is working actively on M&A on the premise of sufficient scrutiny and examination of profitability and other factors for each case. The balance of goodwill increased by 2,442 million yen from the end of the previous consolidated fiscal year to 16,994 million yen at the end of the current consolidated fiscal year. If the actual number of prescriptions made at stores acquired through M&A, which is an important assumption for looking at future cash flows, is below goals at the time of acquisition, and the number is subject to impairment, it may affect the performance of the Group, including profit attributable to owners of parent company. Nihon Chouzai Group will scrutinize matters with greater precision, including the profitability of each project, and strengthen efforts such as training and streamlining of human resources after acquisition.

**III. Pharmaceutical Manufacturing and Sales Business**

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

Regarding the Pharmaceutical Manufacturing and Sales Business of the Group, we mainly manufacture generic drugs at our own factory. The legal risks involved in the product liability, and the risk factors for this business including the 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 Pharmaceuticals 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. In order to control increasing medical costs influenced by Japan’s financial reforms, the government has decided on a policy to transition from making biennial revisions to making annual revisions for NHI drug price standards, which tend to decline with each revision. This trend of revisions to NHI drug price standards may affect the Group’s product prices and potentially impact the performance of our pharmaceutical manufacturing and sales business. Additionally, in the manufacturing and sales market for generic drugs mainly handled in the business, there is the possibility that competition may intensify in the future and affect the performance of the Group.

**IV. Medical Professional Staffing and Placement Business**

**1. Legal regulations for Medical Professional Staffing and Placement Business**

Regarding the Medical Professional Staffing and Placement Business of the Group, 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, commis-

**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 Pharmaceuticals and Medical Devices Act) enforced in April 2005, we distribute products to the market in the form of outsourcing the manufacturing section of generic drugs manufacture and sales 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**

In this business, we develop products by 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.

sioned 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

(As of March 31, 2020)

## 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

268,500 million yen (FY2019)

### Consolidated Number of employees

Regular employees: 4,904

Part-time employees and others: 811

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

### 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

5,917 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

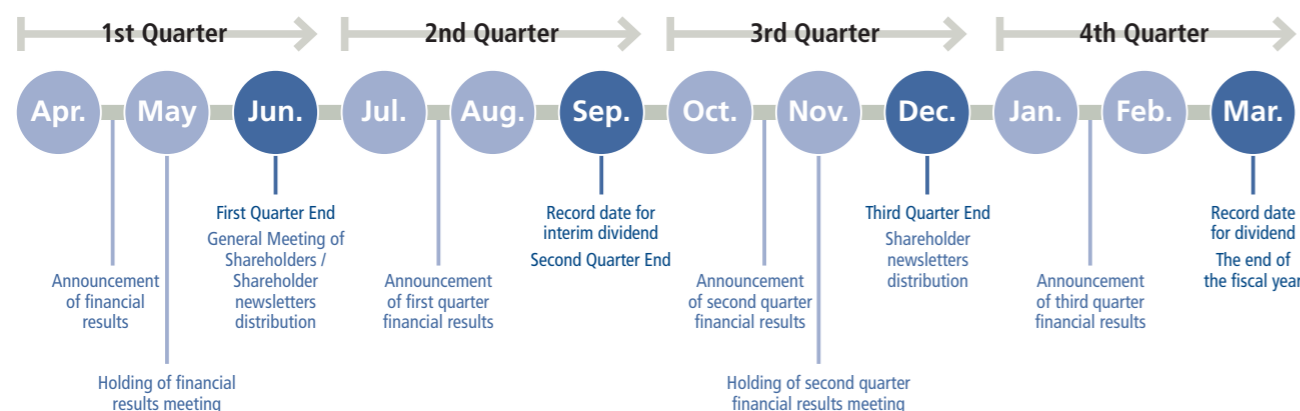
### Securities code

3341

### Settlement date

March 31

## IR Calendar



# History

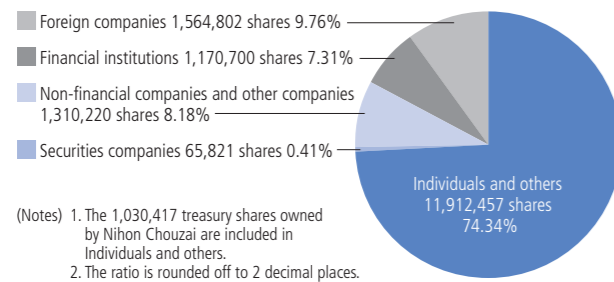
April 1974	Prescription fee was raised from 100 yen to 500 yen due to revisions of medical treatment fee (The first year of separation of prescribing and dispensing)
March 1980	Established Nihon Chouzai Co., Ltd. in Sapporo City to manage dispensing pharmacies
April 1980	Opened the first pharmacy, Nihon 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 Pharmaceuticals 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
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	Tsukuba Plant No. 2 of Nihon Generic Co., Ltd. completed
June 2018	Tsukuba Research Laboratory of Nihon Generic Co., Ltd. relocated to Tsukuba Northern Industrial Park
July 2018	Expanded both the East Japan Logistics Center and West Japan Logistics Center, and closed the Kanto Logistics Center
March 2019	Headquarter of Medical Resources Co., Ltd. relocated to 1-9-1, Marunouchi, Chiyoda-ku, Tokyo

The law amendment or system changes are written in blue.

# Stock Information

(As of March 31, 2020)

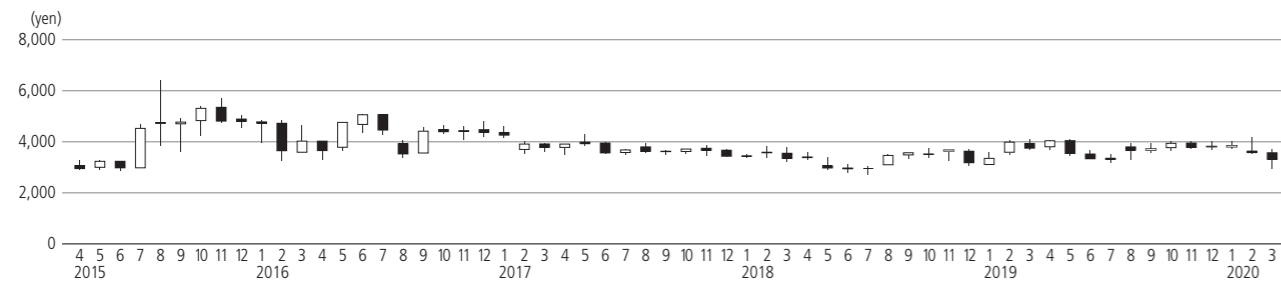
## Distribution of Shares for Each Owner



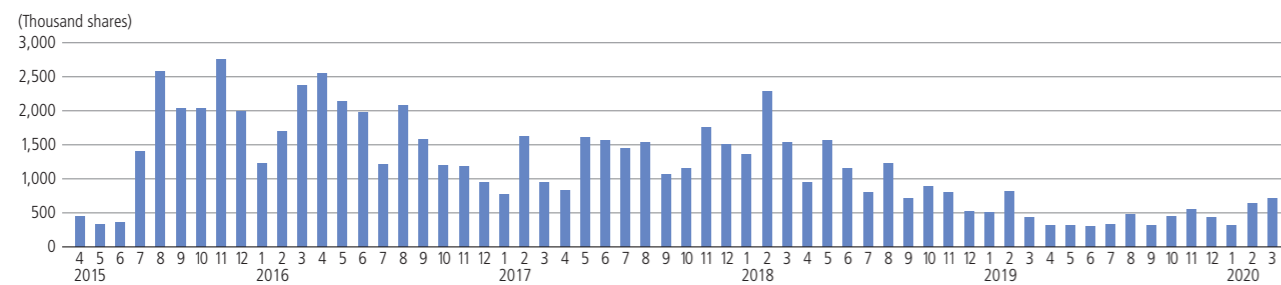
## Trend of Holding Stock Ratio

Ratio for number of shares	Mar.2019	Mar.2020
Individuals and others	74.94	74.34
Securities companies	0.71	0.41
Non-financial companies and other companies	8.17	8.18
Financial institutions	8.03	7.31
Foreign companies	8.15	9.76

## Trend of Share Price



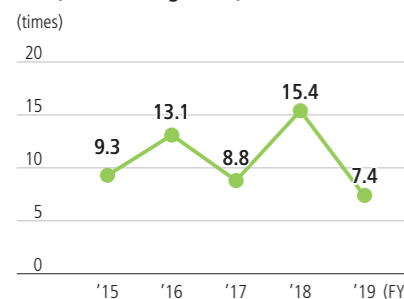
## Trend of Turnover



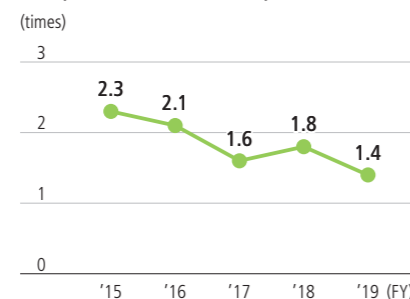
The Company split the share in a ratio of 1:2 on October 1, 2015. The share prices before September 2015 are adjusted with the assumption that the share splitting was conducted at the end of March 2014.

## Stock Price Index

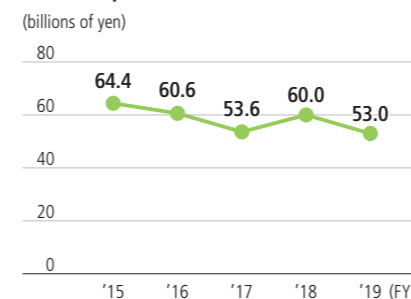
### PER (Price earnings ratio)



### PBR (Price-book value ratio)



### Market capitalization



## Major Shareholders (Top 10 Shareholders)

Names of the shareholders	Number of owned shares (Shares)	Investment ratio (%)
Hiroshi Mitsuahara	4,680,000	31.21
Yosuke Mitsuahara	3,320,000	22.14
Max Planning, Inc.	1,120,000	7.47
Nihon Chouzai Employee shareholding association	452,600	3.02
Yoko Mitsuahara	400,000	2.67
The Master Trust Bank of Japan, Ltd. (Trust account)	327,200	2.18
Keiko Yeow	269,300	1.8
STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OMO2 505002	210,900	1.41
Japan Trustee Services Bank, Ltd. (Trust account 9)	180,700	1.21
Japan Trustee Services Bank, Ltd. (Trust account)	161,900	1.08

(Notes) 1. The investment ratio was calculated excluding the number of treasury stock (1,030,417 shares).  
2. The investment ratio is rounded down to 2 decimal places.

# 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	<b>Company Profile ▶ Corporate philosophy</b> <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 Business performance	<b>Company Profile ▶ Nihon Chouzai Group</b> <a href="https://www.nicho.co.jp/corporate/profile/group/">https://www.nicho.co.jp/corporate/profile/group/</a> <b>Businesses</b> <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	
Management strategy	Message from the President	<b>IR information ▶ Management information ▶ Message from the President</b> <a href="https://www.nicho.co.jp/corporate/profile/topmessage/">https://www.nicho.co.jp/corporate/profile/topmessage/</a>
Relevant laws and regulations	Main Prescription Dispensing Fee Revisions Explanation of Terminology	<b>IR information ▶ Management information ▶ Business environment and issues to be addressed by the Company</b> <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 Human	<b>Company Profile ▶ Social Contribution Activities by Nihon Chouzai</b> <a href="https://www.nicho.co.jp/corporate/profile/contribution/">https://www.nicho.co.jp/corporate/profile/contribution/</a>
Corporate governance	Corporate governance	<b>IR information ▶ Management information ▶ Corporate governance</b> <a href="https://www.nicho.co.jp/corporate/ir/governance.html">https://www.nicho.co.jp/corporate/ir/governance.html</a>
Financial data	Financial highlights Data section	<b>IR information ▶ Financial highlights</b> <a href="https://www.nicho.co.jp/corporate/ir/highlight.html">https://www.nicho.co.jp/corporate/ir/highlight.html</a> <b>IR information ▶ IR library</b> <a href="https://www.nicho.co.jp/corporate/ir/irlibrary.html">https://www.nicho.co.jp/corporate/ir/irlibrary.html</a>

### For further information, please contact

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Corporate Communications Div.  
  
+81-(0)3-6810-0800 (Main No.)  
URL : <https://www.nicho.co.jp>