Financial Strategy Overview of FY2022

In FY2022, despite the impact of limited shipments in the Pharmaceutical Manufacturing and Sales Business, consolidated net sales increased 4.7% year on year on the back of strong contributions from the Dispensing Pharmacy Business. Consolidated operating profit increased by 15.1% year on year due in part to the success of Group-wide cost control measures. Consolidated EBITDA was up 9.1% year on year.

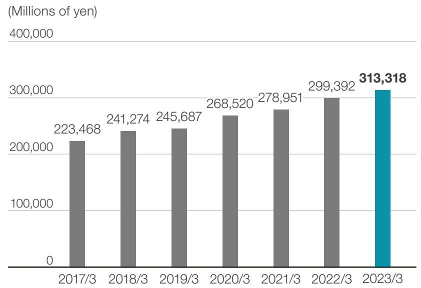
The Dispensing Pharmacy Business opened 40 new pharmacies in the previous fiscal year and 38 in the year under review, supporting an increase in prescription volume at existing pharmacies. As a result, although the unit price of prescriptions was down 1.1% year on year, prescription volume increased by 6.3%. As a result, net sales were 280.1 billion yen (up 5.5% year on year) and operating profit was 14.6 billion yen (up 12.7% year on year).

The Pharmaceutical Manufacturing and Sales Business saw ongoing brisk sales of newly NHI listed drugs since 2019. On the other hand, prices of existing drugs were down in line with the April 2022 NHI drug price revision. Expenses were also up due to an increase in limited shipment items caused by a fire at the West Japan Logistics Center used by Nihon Generic, in addition to R&D outlays. As a result, net sales were 38.5 billion yen (down 14.0% year on year) and operating loss was 1.3 billion yen (53 million yen loss in the previous year).

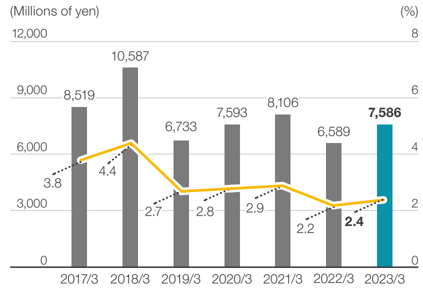
In the Medical Professional Staffing and Placement Business, revenue was down from contracts related to COVID-19 vaccination work, mainly for doctors. On the other hand, the number of pharmacist staffing and placement contracts, which had trended downward under the impact of the pandemic, exceeded the previous year's level. As a result, net sales were 8.0 billion yen (up 15.3% year on year) and operating profit was 0.7 billion yen (up 31.5% year on year).

Consolidated cash flows included a 7.5 billion yen inflow from operating activities, a 10.0 billion yen outflow for investing activities, and a 0.7 billion yen inflow from financing activities. The balance of cash and cash equivalents as of March 31, 2023 was down 1.7 billion yen from March 31, 2022 to 23.7 billion yen.

Net sales



Operating Profit and Operating Margin



Financial Policy

Embracing dramatic changes in the operating environment as opportunities, the Group is pursuing a financial strategy that stresses a balance between growth investment, shareholder returns, and fortifying the financial foundation.

1. Growth Investment

The Group invests in growth while paying particular attention to the areas of human resources development, responding to the digital transformation of healthcare, and sustainability management.

In terms of growth areas in the Dispensing Pharmacy Business, we are looking at specialty pharmaceuticals, including drugs to treat cancer and rare diseases, at-home medical care in homes and healthcare facilities, and online medical care such as online medication guidance. We are stepping up investment in pharmacies equipped to address these areas. Regarding online medical care, in order to respond to the medical version of DX, which is being discussed at an accelerated pace by the government against the backdrop of the increase in COVID-19 infections, the Group is also taking industry-leading initiatives in the digitization of medical care and the shift to online medical care based on its DX strategy. We are currently seeking to expand remote medication guidance at pharmacies nationwide by leveraging our NiCOMS online pharmacy service. We are also pursuing several initiatives drawing on our electronic medication notebook *Okusuri Techo Plus,* which already has over 1.4 million subscribers, to provide smart healthcare, create new customer experiences, and improve customer satisfaction and maximize treatment effectiveness. Furthermore, we are channeling efforts into cultivating highly specialized talent, such as professionals to support the advanced online drug information platform FINDAT, pharmacists certified in outpatient oncology, and pharmacists to engage in at-home healthcare.

The Pharmaceutical Manufacturing and Sales Business saw the completion in March 2018 of Nihon Generic's Tsukuba

Amount of Investment

(Millions of yen)

	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3	2023/3
Pharmacy business	4,238	4,679	3,215	8,997	6,289	6,370	7,536
Manu-facturing business	18,742	10,245	1,582	2,069	2,701	1,493	2,030
HR business	45	89	291	84	98	249	79
Con-solidated	23,344	15,316	5,254	12,025	9,492	8,362	10,321

Plant No. 2, equipped with state-of-the-art manufacturing equipment and quality control systems. The relocation and consolidation of research functions at that subsidiary's Tsukuba Research Institute in June of that year marked the completion of a multiyear, large-scale capital investment strategy. The utilization rate at Tsukuba Plant No. 2 steadily increased in FY2022, and we are capitalizing on this foundation to push ahead with sales of newly NHI listed drugs and ramp up production volume. Meanwhile, Choseido Pharmaceutical received a business improvement order in October 2021 regarding its failure to take appropriate measures in its manufacturing methods and to follow protocols for monitoring drug stability. Taking these issues to heart, we have been working to revise that company's quality and manufacturing control framework and product lineup, and continue to take action to improve based on the business improvement plan we formulated, including shutting down and folding Choseido Pharmaceutical's research arm into the Tsukuba Research Institute of Nihon Generic.

While continuing to prioritize quality control and the stable supply of generic drugs, we will take steps to reduce fixed costs under rigorous cost control measures while pursuing a growth strategy centered on further boosting sales and improving profitability through expansion of the in-house production lineup.

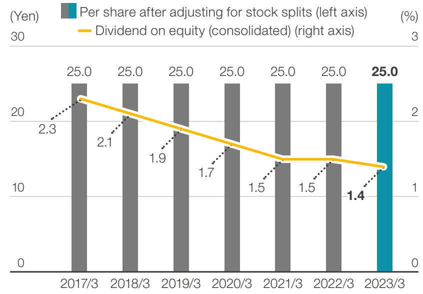
In the Medical Professional Staffing and Placement Business, while the pharmacist staffing and placement businesses continue to draw on the strengths of the Group, we are also tightening our focus on the doctor HR business. Revenue from contracts related to COVID-19 vaccination work was down compared to FY2021, but demand among medical institutions for doctor referrals remained robust, and this business is expanding steadily. Meanwhile, the occupational doctor HR business, which began in FY2020, continues to expand in scale nationwide. We will continue to contribute to improving the working environment of Japanese companies by supporting more effective corporate health management.

2. Shareholder Returns

Nihon Chouzai regards returning profits to shareholders as a key management issue. Our basic policy is to return profits to shareholders through stable dividends twice a year (interim and year-end) while considering securing funds for growth.

Furthermore, to express our gratitude to shareholders for their constant support, as well as to gain greater understanding of the Group's businesses and encourage the holding of Nihon Chouzai shares over the longer term, we have set up a shareholder benefit program.

Dividends Paid



3. Fortifying the Financial Foundation

For a company to continue to grow, it is essential to build a stable financial foundation. In FY2022, the Group worked to curb the increase in interest-bearing debt while expanding investments to capitalize on the digital transformation of healthcare. Assets increased 6.5 billion yen due in part to an increase in merchandise and finished goods. Liabilities increased by 2.9 billion yen due in part to a 1.1 billion yen increase in long-term loans payable. Although net interest-bearing debt was 34.3 billion yen, a year-on-year increase of 3.3 billion yen, this was still at the lowest level since FY2012. Net assets increased by 3.6 billion yen due in part to an increase in retained earnings. As a result, the equity ratio rose 0.9 points from the end of March 2022 to 30.5%, reflecting ongoing improvements in Group financial stability. Going forward, the Group will continue striving to fortify the financial foundation to support further growth.

Profitability Indicators

The Group considers consolidated EBITDA to be a key indicator of profitability, which helps guide our efforts to continuously grow the business while maintaining earnings through aggressive growth investments in the Dispensing Pharmacy and Pharmaceutical Manufacturing and Sales Businesses. We also stress cash flow to drive business growth and enable stable dividend payments and seek to boost capital productivity. In these ways, we strive to improve ROE as a key indicator in terms of maximizing corporate value.

In FY2022, consolidated EBITDA was up 9.1% year on year to 16.3 billion yen due to strong contributions from the Dispensing Pharmacy Business and Group-wide cost control measures. ROE was up 1.0 point year on year, from 7.2% in the previous fiscal year to 8.2%.The improvement reflected a higher profit margin attributable to owners of parent on the back of strong performance, particularly in the Dispensing Pharmacy Business, despite a year-on-year decrease in financial leverage in line with improvements to financial stability.

	ROE	=	Profit margin	×	total asset turnover	×	financial leverage
2022/3	7.2%	=	1.2%	×	164.0%	×	355.3%
2023/3	8.2%	=	1.4%	×	172.1%	×	332.9%

EBITDA