

As a healthcare group giving people the closest possible support, we do everything in our power to positively impact all aspects of society.

In the 43 years since its founding, Nihon Chouzai has continued to evolve into a healthcare group that gives people the closest possible support. We are now in the fourth year since the 2020 outbreak of COVID-19. Over this period, the business portfolio of the Nihon Chouzai Group, made up of four healthcare businesses, has grown steadily despite drastic changes in the business environment. Japan's healthcare system is currently entering a period of major upheaval, sparked in large part by government efforts to overhaul the system, promote the digital transformation of healthcare, and revise medical treatment fees. I am convinced that our ability to stay abreast of such changes and continue to lead the industry rests in the steady commitment of all of our officers and employees to fulfill our mission of giving people the closest possible support. Even in this time of mounting uncertainties, including developments in overseas situations, soaring prices, and the increasing frequency of natural disasters worldwide, we cannot stop providing healthcare to patients. I am proud of how the pharmacists and other medical professionals who are part of the Nihon Chouzai Group are drawing on their expertise as medical personnel to pursue their high calling of contributing to Japan's regional healthcare.

Management is Also Embracing the Challenge of Major Reforms.

After unveiling our new Group philosophy in April last year, we announced plans to revise the long-term vision for 2030 in April 2023. We sensed the need to formulate management

Yosuke Mitsuvara

President and CEO

Mitsuvara joined Nihon Chouzai in 1999. Having served as General Manager of the Corporate Planning Department, Subsidiary Director, Managing Director, and Senior Managing Director, Mitsuvara became President and CEO of the Company in 2019. With thorough knowledge of ICT, he spearheaded development of the Company's electronic medication notebook and has implemented company-wide digital transformation initiatives. With an MBA from Waseda University Graduate School and a master's degree from Johns Hopkins University Bloomberg School of Public Health, he is contributing to management from both management and medical perspectives.

strategies that reflect current public healthcare policy and the business environment, which have both changed significantly since we first formulated the vision in 2018. Furthermore, societal expectations are mounting for us as a listed company in the wake of our re-listing on the Prime Market of the Tokyo Stock Exchange after it reorganized its markets. To meet stakeholder expectations, we are exploring a more comprehensive vision that includes aspects such as corporate governance, financial strategy, and sustainability management. We will also disclose medium-term management strategies for achieving the long-term vision, addressing the expectations of our investors and shareholders by clearly laying out the long-term vision and the path to achieving it.



Dialogue With Outside Director

President and CEO **X** Outside Director Dialogue

Perception of the Business Environment and FY2022 Results

Noma First off, please share your thoughts on the business environment facing the Nihon Chouzai Group.

Mitsuhara I suspect that, at least in the short term, we will feel the impact of major changes in public healthcare policy in Japan. A variety of changes to the healthcare system have already been put in place. Factors such as revisions to drug prices, medical treatment fees, and drug dispensing fees may temporarily put greater downward pressure on our earnings. Over the longer term, however, I envision a society in which the healthcare market continues to grow as the population ages. While weathering the downward pressure on drug prices and fees in the short term, we are pursuing greater business efficiency to position the Group to capture longer-term growth in the market. Moreover, I believe we still have room for improvement in terms of expanding the scale of the business.

Noma So, you have to think about business growth from a long-term perspective without being overly caught up in short-term changes to the environment. Meanwhile, how do you rate the results of Group management in FY2022?

Mitsuhara Regarding the Dispensing Pharmacy Business, our efforts over the past three to five years to realize the Vision of Pharmacies for Patients announced by the Ministry of Health, Labour and Welfare (MHLW) have paid off, specifically in terms of sales and earnings. FY2022 saw our highest-ever profit in this segment. I believe this is the fruit of our longer-term efforts on the ground at our pharmacies, including our response to healthcare fee revisions, which were rewarded under the new medical fee system. Given that the Dispensing Pharmacy Business is the real backbone of the Group, this strikes me as a very positive outcome. Regarding the Pharmaceutical Manufacturing and Sales Business, which is another growth business for the Group, it has been harder than I imagined to regain the trust of customers that was lost following the 2021 administrative disciplinary action taken against Choseido Pharmaceutical and the fire that occurred at a warehouse of Nihon Generic. Over time, we have improved business operations and drug inventories are recovering, but I have to admit that performance has yet to return to a recovery trend. Regarding the Medical Professional Staffing and Placement Business, HR demand for pharmacists, the mainstay of that segment, has bottomed out with the waning impact of COVID-19, and is now moving into recovery. I take this as solid result for the year. Overall, considering that record-high earnings in the pharmacy business compensated for disappointing performance in the generic drugs business, I think we can say that this was a win for the Group as a whole.

We will implement bold changes to make Nihon Chouzai the healthcare group of choice.

Yosuke Mitsuhara
President and CEO

I am committed to enhancing corporate value from a long-term perspective as a representative of a wide range of stakeholders.

Mikiharu Noma
Outside Director



Noma The mainstay Dispensing Pharmacy Business seems to continue to be the pillar of growth for the Group. The segment operates several types of pharmacies. For example, you have hospital-front/on-site pharmacies, hybrid pharmacies that combine elements of neighborhood and medical center-type pharmacies, and an online pharmacy. How do you rate each of these in FY2022?

Mitsuhara I believe our mainstay hospital-front and on-site pharmacies made a significant contribution to higher sales for the year. In terms of earnings, though, prescription volumes steadily increased, especially in Tokyo and Kanagawa, particularly at our neighborhood and medical center-type pharmacies, and this became a driver of growth. One of our strengths is a well-balanced pharmacy network that capitalizes on the characteristics of each pharmacy format. The opening of new neighborhood and medical center-type pharmacies in FY2022, which is our strategic focus in Japan's three major metropolitan centers, fed into the record earnings. My feeling is that the segment can still grow if we pursue a balanced pharmacy opening strategy that is attuned to current conditions.

Noma Another strength of the Group is that it has many hybrid pharmacies, mainly in Japan's three major metropolitan centers. What was the rationale behind this focus?

Mitsuhara As Japanese society wrestles with overall population decline, the population in rural areas is shrinking faster than in urban areas. Of course, the number of patients is also decreasing in absolute terms. From a long-term management perspective, our basic approach is to expand the pharmacy network in a balanced manner, taking into account demographic risks five and ten years down the road.

Noma In other words, you say that demographics guide Nihon Chouzai's decisions on which regions to open new pharmacies in, with the upshot being that the Group is performing well compared to its competitors.

Thinking and Vision Behind the New Group Philosophy and Its Growth Strategy

Noma Nihon Chouzai announced a new Group philosophy in April 2022: "To give people the closest possible support." Can you tell us about the thinking that went into this philosophy, and the ideal for the Group that the philosophy points toward?

Mitsuhara Nihon Chouzai's founding philosophy was "achieving true separation of drug prescribing and dispensing services." But as we expanded, there was some question about whether this was the best fit for the Group as a whole. We were in discussions for about a year and a half to come up with a Group philosophy that all Nihon Chouzai Group employees could buy into. As we considered mounting healthcare demands from

the government and the needs of patients in Japan's aging society, and looked at the fact that society is likely to change even faster than we can imagine, we realized that not only the roles of our pharmacists and pharmacies but also the roles of our generic drug and healthcare HR businesses will also expand. In this context, our desire was to give people the closest possible support by proactively offering services in areas that can positively impact the lives of people throughout Japan.

Noma Given the expanding demands of the government and the expectations of customers, it sounds like you announced a Group philosophy that was broad enough to include support in all these areas. At the same time, your ideal for the Group in 2030 is to be the most trusted partner in healthcare. It strikes me that the phrases "most trusted" and "partner in healthcare" mark a new direction for the Group compared with the founding philosophy. What kind of Group do you see Nihon Chouzai becoming?

Mitsuhara For our portfolio of healthcare businesses, we consider not only patients, but also medical professionals, research institutions, companies, government agencies, and an array of other people to be our customers and stakeholders. Because we are a healthcare institution, in addition to addressing various issues related to healthcare, we must respond flexibly to changes in the definition of healthcare itself under shifts in public healthcare policy in Japan. As a result, we looking to broaden our view from strictly speaking "medical care" to emphasize more holistic "healthcare," which would include diet and exercise.

Noma You will flexibly take on board changes in the environment to offer healthcare suited to the needs of the times. Going forward, do you see the Dispensing Pharmacy Business and the expectations for pharmacists changing under the new Group philosophy?

Mitsuhara People lament the lack of pharmacists in regional areas, but at the same time there are statistics that suggest there will be a surplus of pharmacists in the future. In addition, as the definition of healthcare changes, more and more people, especially younger pharmacists, have a sense of urgency about further sharpening their own specialties or exploring and delving into different specialties. In keeping with the changing times, to better capitalize on the abilities and responsibilities of our pharmacists and to heighten their potential, we would like to compete across a broader range of fields closely related to healthcare.

Noma I can imagine how Group pharmacists will broaden their scope of activities. You talked about heightening the potential of young people. To achieve the vision for the Group, are you providing more robust support than other companies in terms of, say, training pharmacists?



Mitsuahara As a company, we give backup to employees seeking to become certified or specialized pharmacists, encouraging them to seek qualification. We have established an in-house team to augment various frameworks to support board certification, for example for pharmacists seeking to be certified in outpatient oncology. Already, 62 Nihon Chouzai employees are board certified in this field. This corresponds to 28% of all certified pharmacists working in pharmacies in Japan. We were already known as “the teaching Nihon Chouzai” because of the robust educational framework we have put in place for pharmacists. It is gratifying that people always cite this as one of their top reasons for joining the company.

Noma Given that you are a representative pharmacy chain in Japan, our discussion has focused on pharmacists, but to put a slightly different spin on it, one could say that you have been working on human capital management for a long time now. Also, what impresses me is that the company every year ranks so high in the employment rankings sponsored by Mynavi and newspaper publisher Nikkei. This year as well, in employer rankings among 2024 university graduates, in addition to ranking first among chemistry and pharmacology majors, I heard that the company also ranked seventh among female science majors. You were also No. 1 in the pharmacy/drugstore sector in multiple categories, including among healthcare, welfare, and pharmacy majors. It seems like new graduates really appreciate the various measures you have put in place to grow as a company, and come with expectations to grow after they join the company.

Next, please tell us about your strategy for achieving the vision for the Group.

Mitsuahara There are 65,000 pharmacies in Japan. In our growth strategy for the Dispensing Pharmacy Business, the strategy for expanding the pharmacy network is extremely important—the key is how to discern changes in the pharmacy market. We believe there is still considerable room for opening new pharmacies serving medical centers (medical malls) where multiple medical facilities are located in the same area. Because such locations bring together multiple medical practitioners and there is constant turnover, they tend to last. On the other hand, while we have already established numerous

hospital-front pharmacies at major general hospitals—which play a pivotal role in regional healthcare—the scope for opening such pharmacies is limited. In terms of expanding the network through acquisitions, we fully take into account regional needs, and focus mainly on larger-scale pharmacies. Our rationale is that, we can assign multiple pharmacists to larger pharmacies, some of whom can take charge of at-home services.

One new growth strategy in the Dispensing Pharmacy Business involves investing aggressively in expanding areas of demand to support healthcare for everyone, including at-home healthcare, specialty drugs, and online healthcare.

Nihon Chouzai first entered the field of at-home healthcare in 2009. We offer a wide range of at-home services to address the needs of the community, ranging from serious diseases such as cancer to children with intractable diseases. Government statistics project that the total number of outpatients in Japan will reach a peak in 2025, while the number of at-home patients will continue increasing until 2040. For this reason as well, we will maintain a focus on at-home healthcare at least until the peak in 2040, targeting growth in this business.

I would also like to say a word about so-called specialty drugs, including high-priced drugs for cancer and rare diseases. Such drugs are mainly the purview of hospital-front and on-site pharmacies that are tasked with advanced healthcare. Until now, prescriptions for most specialty drugs were filled in hospitals, but we anticipate an increase in the number of out-of-hospital prescriptions going forward. In fact, specialty drugs accounted for more than a third of drug sales for the Nihon Chouzai Group in FY2023. We reckon that this will increase to about 60% in the future.

The last point I want to make concerns online healthcare. Although at present the volume of online prescriptions overall is small, it is clearly on the rise, and we sense that there is burgeoning demand in this area. We see further deregulation and the more widespread acceptance of electronic prescriptions as key to expansion in this market. To date, Nihon Chouzai is the only company in the industry to develop our own prescription apps, so I think we have a leg up in that respect alone. Looking at the very long term, our growth strategy leading up to 2040 is to capture demand in this area by making upfront investments over the next five to ten years.

Noma Online healthcare is a key part of the digital transformation of healthcare. I personally also use Nihon Chouzai pharmacies. I feel that the standard of hospitality of your pharmacists is very high. By pursuing both warm hospitality and the digitalization of operations, I am confident that the Dispensing Pharmacy Business will be able to carve out a unique place in the pharmacy market. The company also has strengths in terms of its pharmacy network strategy. As both the industry and the market changes, my hope is that you will develop a distinctive business centered on people as you work to achieve your vision for 2030, which is to be the most trusted partner in healthcare.

What are some other growth strategies for the business portfolio?

Mitsuhara I believe that Nihon Generic and Choseido Pharmaceutical, which engage in the Pharmaceutical Manufacturing and Sales Business within the Group's business portfolio, have to expand the number of drugs they manufacture in-house. Given the current situation of yearly NHI drug price revisions, simply distributing drugs made by other companies entails very thin profit margins, contributing almost nothing to our results. So our basic approach is to pursue more in-house development and manufacturing to expand the profitability of the drugs we manufacture.

Regarding the Medical Professional Staffing and Placement Business run by Medical Resources, our staffing and placement of numerous healthcare workers to deal with mass COVID-19 vaccination efforts gained Medical Resources a name in the industry, sparking an increase in the number of medical institutions requesting personnel and in the number of registered doctors. Moreover, the importance of occupational doctors is growing as companies step up their health management initiatives. I sense there is a great deal of room for increased earnings in the occupational doctor business, including through collaboration with Nihon Chouzai's other businesses.

Aiming for Sustainability Management and Corporate Governance Fit for a Company Listed on the Prime Market

Noma The sustainability management initiatives of Nihon Chouzai include bolstering corporate governance and putting human capital management in place. Where do you see these efforts going forward?

Mitsuhara In terms of bolstering corporate governance, first off, I fully understand those who say it's better to have outside directors make up the majority of the Board of Directors. Since I became president, we have increased the number of outside directors and introduced an executive officer system to separate business execution and oversight functions. To be honest, amid even more rapid change in both the business execution and governance frameworks, I believe in general we have been able to change our management mindset. I realize challenges remain, but I also recognize that reforms to the Board of Directors are making headway little by little.

In terms of sustainability, we already had a strong sense of our responsibilities as a company engaged in healthcare, and have undertaken a range of initiatives. We established a Sustainability Committee in 2021, which guided us in identifying material issues for the Group and endorsing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We are making steady headway in addressing sustainability issues, including making disclosure in line with TCFD recommendations.

As a result, the Group was selected for the first time in 2023 as a constituent of both the FTSE Blossom Japan Index and the FTSE Blossom Japan Sector Relative Index, which target Japanese companies taking outstanding action in terms of ESG practices. These indexes have been chosen as representative indexes for ESG investment, including their adoption as the ESG index of the Government Pension Investment Fund (GPIF), the world's

largest public pension fund. The Group will continue to position sustainability initiatives as one of our most critical management issues as we seek to address issues facing society.

Noma You noted that reforms are making gradual progress. Until now, the company's Board of Directors was made up entirely of Nihon Chouzai officers, but at the general meeting of shareholders in June, Mr. Inoue, the president of Nihon Generic, was newly appointed as a director. Should we see this as a step toward increased Group-based management going forward?

Mitsuhara That's exactly right. Within the Group, Nihon Chouzai currently fulfills the roles of both an operating company and a holding company. It goes without saying the Board of Directors has to deliberate not only on the business of Nihon Chouzai but also management of the Group as a whole. Given the increasing contributions of Nihon Generic to the Group overall, we welcomed its president, Mr. Inoue, to the Board of Directors.

Noma As president, you are seeking to bring a range of voices into the discussions at Board meetings, not only from outside directors but also from inside directors, and this year you started an executive retreat to talk about governance and the long-term vision. My hope is that that Board meetings will include even more in-depth conversations around Group management.

Next, what are your thoughts on the human capital of the Group?

Mitsuhara This year, I started what I called the Mitsuhara Business Academy (MBA). This is a staff development program that brought together nine young executives to analyze management issues at Nihon Chouzai and offer proposals to our directors. By personally coaching these nine executives, I am seeking to increase the pool of young executives throughout the Group.

Another focus is on digital professionals. The characteristics of IT have been on our radar since the company's founding, and we have led the industry in incorporating IT into pharmacy operations. To further promote the digital transformation of healthcare, we have established a training program for digital professionals, and are now carrying out training for employees to acquire an IT passport. We've already trained more than 700 people. We plan to have certified employees undergo more advanced training. These initiatives involve personnel training, but at the same time they are an effort to harness the diverse capabilities of our employees.

Noma Cultivating digital professionals isn't only about accelerating digital transformation—for example, a person who joins the company as a pharmacist not only grows as a pharmacist, but also has a good chance of becoming someone responsible for the management of Nihon Chouzai down the road.

Finally, could you say a word about the company's capital allocation and financial strategy?

Mitsuahara Because the Group is engaged in making generic drugs, we inevitably carry more assets on the balance sheet than our competitors. With this in mind, I believe the key to enhancing corporate value is boosting the profitability of the Pharmaceutical Manufacturing and Sales Business and improving the ROE of the Group as a whole.

We are also prioritizing fortifying the financial foundation and boosting profitability. As we steadily draw down interest-bearing debt, our equity ratio has risen to its highest level since FY2006. We are striving to curb costs in our various businesses to further boost profitability, while also increasing the proportion of generic drugs we develop and manufacture in-house.

Moreover, we will make growth investments in digital areas and promote the digital transformation of healthcare to realize online healthcare. We lead the industry in this area, including among drugstores. Our overhauled dispensing system is scheduled to go online in FY2024.

In terms of M&A, financially we are not at a point where we can pursue large-scale acquisitions, but we are positive about acquiring relatively small companies to shore up the Medical Professional Staffing and Placement Business. In fact, we acquired the occupational doctor business for about 300 million yen in 2021 and subsequently grew that business.

Noma So, it seems that you are working on group management that takes capital cost into account.

Changing the subject, as president, what do you think is your most important role in realizing the growth strategy? Also, where do you see yourself focusing your time?

Mitsuahara I believe the ability to make measured judgments is crucial when implementing a strategy. This presumes that I stay healthy and fit and have the ability to take in a wide range of factors in assessing the times. I also think it is vital to gather various types of information by reading the expressions of the staff I work with and listening to opinions from the front lines, which helps me be more attuned to what's going on in the company.

As for how I use my time, I want to enhance my ability to communicate both within the Group and externally. Internally, we started up a meeting called the National Pharmacy Managers Conference, in which 720 pharmacy managers from all over the country took part. Since it isn't feasible to bring 720 people to Tokyo, we hold the meetings online, but as president my goal for these meetings is to convey my message as accurately as possible.

Noma Amid changes in healthcare in Japan brought about by reforms to public healthcare policy and demographic trends, in your leadership role as president, you intend to broadcast various messages and maintain close communication with employees while managing the Group in step with the times.

What message do you want to send to all your stakeholders?

Mitsuahara I would say Nihon Chouzai is a company that enjoys embracing challenges in response to the changing times. My hope is that all of our stakeholders will support Nihon Chouzai as we steadily pursue industry-leading initiatives.

Noma The business environment for the Nihon Chouzai Group is poised to undergo major qualitative changes, while the expectations of customers and society for Nihon Chouzai are also changing rapidly. What I look for from you as president and from all of your employees is your ability to navigate change. As an outside director, I want to work together with the Nihon Chouzai Group in embracing challenges going forward.

By doing so, I hope we can increase the Group's corporate value and yield results that will satisfy investors, especially minority shareholders.

Mikiharu Noma Outside Director

As a professor in the Graduate School of Business Administration of Hitotsubashi University, Noma has specialized knowledge in financial accounting and corporate valuation. Since 2013, he has been chair of the Corporate Reporting Lab set up by the Ministry of Economy, Trade and Industry, and is well-versed in building corporate value, investor engagement, ESG and human capital management.



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.

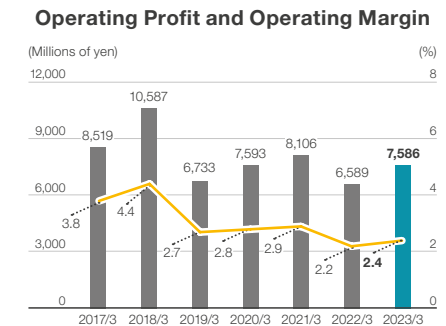
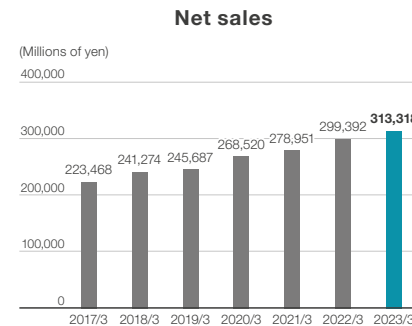
The Dispensing Pharmacy Business opened 40 new pharmacies in the previous fiscal year and 38 in the year under review, supporting an increase in prescription volume at existing pharmacies. As a result, although the unit price of prescriptions was down 1.1% year on year, prescription volume increased 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.



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
Manufacturing business	18,742	10,245	1,582	2,069	2,701	1,493	2,030
HR business	45	89	291	84	98	249	79
Consolidated	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.

Profitability Indicators

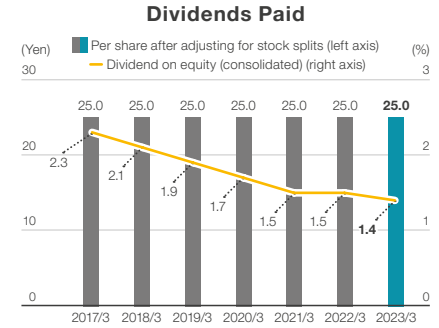
The Group considers consolidated EBITDA to be a key indicator of profitability, which helps guide our efforts to continuously grow the business while maintaining earnings through aggressive growth investments in the Dispensing Pharmacy and Pharmaceutical Manufacturing and Sales Businesses. We also stress 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,

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.

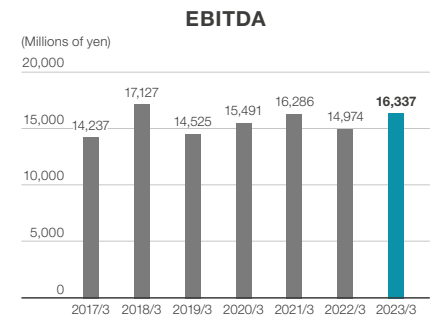


3. Fortifying the Financial Foundation

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.

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%



Long-Term Vision and Strategy

Revision of the Long-Term Vision

Amid dramatic changes in Nihon Chouzai's business environment, we have begun exploring the formulation of a new long-term vision to achieve further growth.

The Nihon Chouzai Group announced its Long-Term Vision — On the Road to 2030 in 2018. Our approach to realizing that vision has centered on three strategies: expansion in each business, a digital transformation strategy, and cultivating excellent talent. These strategies have guided our growth into becoming a leading company in the healthcare industry. At the same time, we have worked to expand group synergies.

Meanwhile, reforms to Japan's healthcare system and other factors have shifted the business environment for the Group significantly since we formulated the Long-Term Vision, giving rise to the need to more fully analyze the context in which we operate and prepare the Group for further growth.

Furthermore, as a company listed on the Prime Market of the Tokyo Stock Exchange, every year we face mounting expectations and calls from stakeholders to enhance corporate value over the longer term. We are thus moving ahead in exploring the formulation of a new Long-Term Vision and strategies to address these expectations.

Grounded in the new Group philosophy announced in April 2022, we will craft a new Long-Term Vision that will enable us to achieve further growth along with our stakeholders, and aim to disclose a new medium-term management plan that will guide us in achieving this goal.

Long-Term Vision -- On the Road to 2030 (announced in 2018)

