

January 31, 2020

Results of Operations for the Third Quarter of the Fiscal Year Ending March 31, 2020 (April 1, 2019 to December 31, 2019)



NIHON CHOUZAI Co.,Ltd.

(Tokyo Stock Exchange, First Section / Stock code: 3341)

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I. Financial Highlights

Consolidated Statement of Income

Sales and earnings were higher than one year earlier in all business segments. Consolidated sales increased 8.5% (9.8% after excluding hepatitis C drugs). There was a substantial increase of 28.4% in consolidated operating profit due to measures to improve the profitability of all business segments. In addition, there was progress with the establishment of a multilayer profit structure.

(Millions of yen)	1Q-3Q FY3/18 Results	1Q-3Q FY3/19 Results	1Q-3Q FY3/20 Plan	1Q-3Q FY3/20 Results	YoY change	YoY growth rate	Vs. plan
Net sales	180,250	183,404	200,583	199,040	15,635	+8.5%	-0.8%
Cost of sales	147,146	152,731	166,476	164,688	11,957	+7.8%	-1.1%
Gross profit	33,103	30,672	34,106	34,351	3,678	+12.0%	+0.7%
% to sales	18.4%	16.7%	17.0%	17.3%	-	-	-
SG&A expenses	24,775	26,287	29,012	28,719	2,432	+9.3%	-1.0%
% to sales	13.7%	14.3%	14.5%	14.4%	-	-	-
Consumption taxes	9,199	9,733	10,302	11,452	1,719	+17.7%	+11.2%
R&D expenses	2,013	1,871	2,577	2,110	238	+12.8%	-18.1%
Operating profit	8,328	4,385	5,093	5,632	1,246	+28.4%	+10.6%
% to sales	4.6%	2.4%	2.5%	2.8%	-	-	-
Ordinary profit	7,988	3,855	4,991	5,449	1,593	+41.3%	+9.2%
% to sales	4.4%	2.1%	2.5%	2.7%	-	-	-
Profit attributable to owners of parent	5,015	2,369	2,798	3,059	690	+29.1%	+9.3%
% to sales	2.8%	1.3%	1.4%	1.5%	-	-	-
Net income per share (Yen)	313.61	150.51	186.62	204.05	53.54	+35.6%	+9.3%

Consolidated Balance Sheet

The major changes in assets were increases of about 5.3 billion yen in merchandise and finished goods and about 4.5 billion yen in goodwill. The major changes in liabilities were an increase of about 15.6 billion yen in accounts payable-trade and a decrease of about 6.4 billion yen in borrowings.

(Millions of yen)	End of Dec. 2018 (3Q FY3/19)	End of Mar. 2019 (FY3/19)	End of Dec. 2019 (3Q FY3/20)	Change from the end of FY3/19	Change from the end of FY3/19 (%)
Current assets	78,967	80,132	87,384	7,252	+9.1%
Non-current assets	101,857	98,545	102,446	3,901	+4.0%
Property, plant and equipment	72,835	69,806	69,216	(589)	-0.8%
Intangible assets	17,743	16,906	21,432	4,525	+26.8%
Investments and other assets	11,278	11,833	11,797	(35)	-0.3%
Total assets	180,824	178,677	189,831	11,153	+6.2%
Current liabilities	71,416	69,100	78,189	9,089	+13.2%
Non-current liabilities	69,145	68,504	68,241	(262)	-0.4%
Total liabilities	140,562	137,604	146,431	8,827	+6.4%
Total net assets	40,262	41,073	43,399	2,326	+5.7%
Shareholders' equity	40,260	41,068	43,399	2,331	+5.7%
Equity ratio	22.3%	23.0%	22.9%	-	-

Borrowings **decreased about 6.4 billion yen** from the end of FY3/19

Dispensing Pharmacy Business / Statement of Income

Sales reached the plan with an increase of 9.6% and 11.2% growth after excluding hepatitis C drugs. Earnings were higher than one year earlier and far above the plan despite higher expenses resulting from hiring a large number of newly graduated pharmacists. Increases in the number and unit price of prescriptions were the main reason.

(Millions of yen)	1Q-3Q FY3/18 Results	1Q-3Q FY3/19 Results	1Q-3Q FY3/20 Plan	1Q-3Q FY3/20 Results	YoY change	YoY growth rate	Vs. plan
Net sales	152,799	155,703	168,689	170,695	14,991	+9.6%	+1.2%
Cost of sales	128,167	133,346	144,566	145,386	12,039	+9.0%	+0.6%
Gross profit	24,632	22,356	24,122	25,309	2,952	+13.2%	+4.9%
% to sales	16.1%	14.4%	14.3%	14.8%	-	-	-
SG&A expenses	15,581	16,321	18,058	18,727	2,406	+14.7%	+3.7%
% to sales	10.2%	10.5%	10.7%	11.0%	-	-	-
Operating profit	9,050	6,035	6,064	6,581	545	+9.0%	+8.5%
% to sales	5.9%	3.9%	3.6%	3.9%	-	-	-
No. of pharmacies at the end of each period (stores) ^{note 1}	580	597	626	641	44	+7.4%	+2.4%
Prescription drug sales per pharmacy ^{note 2}	268	263	275	275	12	+4.6%	+0.0%

Note 1. No. of pharmacies at the end of each period includes locations specializing in the sales of general merchandise.

Note 2. Prescription drug sales per pharmacy = Prescription drug sales / Average No. of pharmacies during the period

Components of YoY Changes

◆ Net sales

1. Growth in number of prescriptions backed by balanced pharmacy openings and measures to improve existing pharmacy performance (higher sales)
2. Increase in unit price of prescriptions due partly to more sales of higher-priced drugs (higher sales)

◆ Operating profit

1. Higher sales due to increases in number of prescriptions and unit price of prescriptions (higher profit)

Pharmaceutical Manufacturing and Sales Business / Statement of Income

Although sales were negatively affected by drug price revisions associated with the October 2019 consumption tax increase, sales were 6.2% higher than one year earlier, the result of higher internal sales (more pharmacies in the Dispensing Pharmacy business and a higher volume of generic drugs) and external sales.

Operating profit was up 29.4% because of a sales strategy prioritizing profitability and a reexamination of all categories of expenses.

(Millions of yen)	1Q-3Q FY3/18 Results	1Q-3Q FY3/19 Results	1Q-3Q FY3/20 Plan	1Q-3Q FY3/20 Results	YoY change	YoY growth rate	Vs. plan
Net sales	29,300	30,664	34,903	32,564	1,900	+6.2%	-6.7%
Cost of sales	24,180	25,755	29,058	27,599	1,843	+7.2%	-5.0%
Gross profit	5,120	4,909	5,845	4,965	56	+1.1%	-15.1%
% to sales	17.5%	16.0%	16.7%	15.2%	-	-	-
SG&A expenses	3,689	3,723	4,239	3,430	(292)	-7.9%	-19.1%
% to sales	12.6%	12.1%	12.1%	10.5%	-	-	-
Operating profit	1,431	1,185	1,605	1,534	348	+29.4%	-4.4%
% to sales	4.9%	3.9%	4.6%	4.7%	-	-	-

Components of YoY Changes

◆ Net sales

1. Internal sales: Increase in volume-based sales ratio of dispensing pharmacy business, and effects of new store openings (higher sales)
2. External sales: Growth of contracted production, sales alliance and other new sales channels (higher sales)

◆ Operating profit

1. Improvement in the gross profit margin resulting from sales growth and a sales strategy prioritizing profitability based on distribution improvement guidelines (higher profit)
2. Negative effect on sales caused by drug price revisions (lower profit)

Medical Professional Staffing and Placement Business / Statement of Income

Gross profit increased because of emphasis on the pharmacist placement business and the growth of the placement business for physicians and registered salespeople.

A big increase in operating profit as the higher gross profit offset an increase in SG&A expenses.

(Millions of yen)	1Q-3Q FY3/18 Results	1Q-3Q FY3/19 Results	1Q-3Q FY3/20 Plan	1Q-3Q FY3/20 Results	YoY change	YoY growth rate	Vs. plan
Net sales	8,948	9,706	10,675	9,737	31	+0.3%	-8.8%
Cost of sales	5,471	6,058	6,505	5,607	(451)	-7.4%	-13.8%
Gross profit	3,477	3,647	4,170	4,130	482	+13.2%	-1.0%
% to sales	38.9%	37.6%	39.1%	42.4%	-	-	-
SG&A expenses	2,060	2,591	2,805	2,687	95	+3.7%	-4.2%
% to sales	23.0%	26.7%	26.3%	27.6%	-	-	-
Operating profit	1,416	1,056	1,365	1,442	386	+36.6%	+5.7%
% to sales	15.8%	10.9%	12.8%	14.8%	-	-	-

Components of YoY Changes

◆ Net sales

1. Growth of the physician placement business and benefits of expansion of service network and sales team in FY3/19 (higher sales)

◆ Operating profit

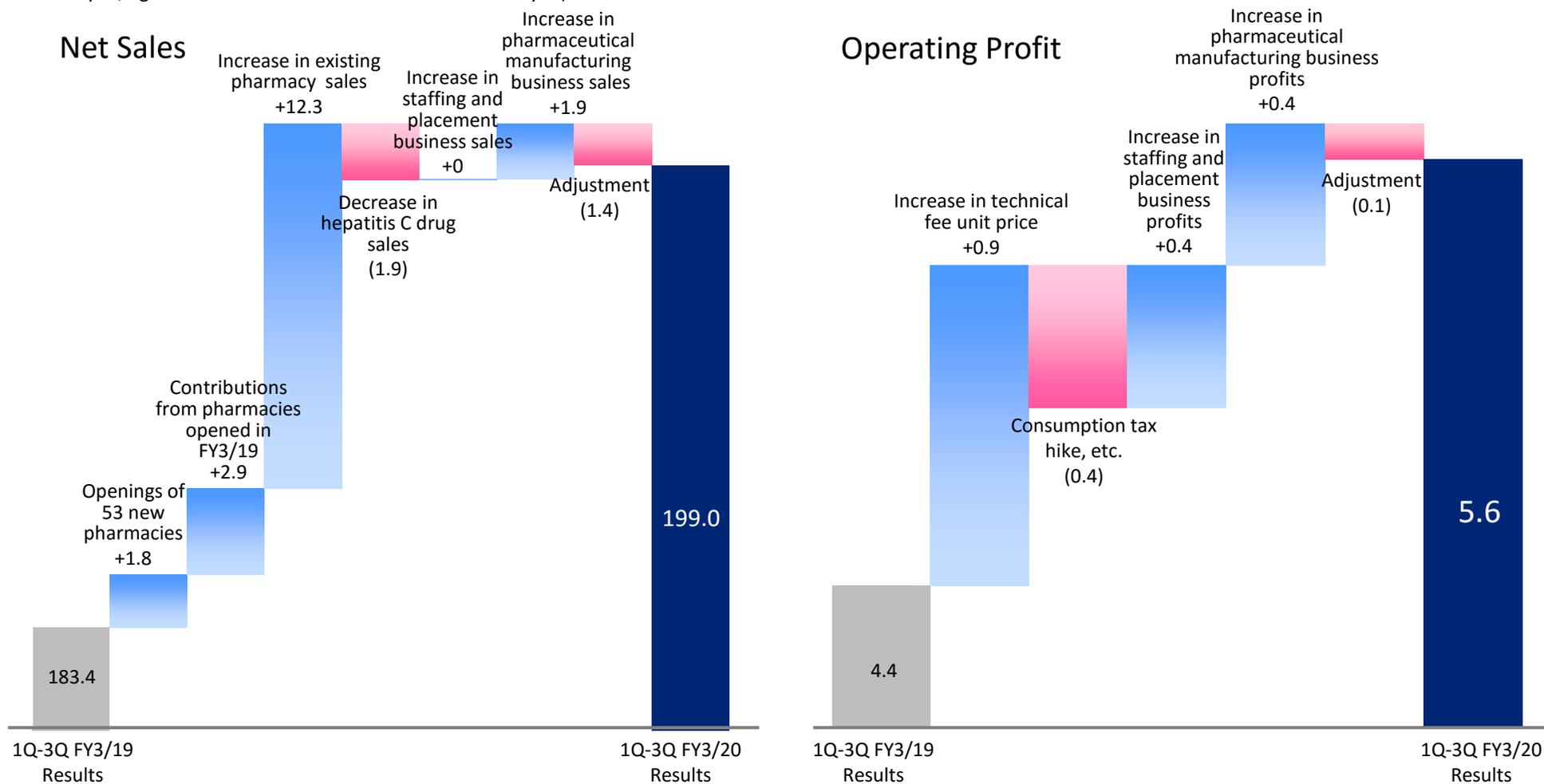
1. Demand has shifted from pharmacist temporary staffing category to pharmacist permanent placement category (higher gross profit margin)
2. Growth of the placement business for physicians and registered salespeople (higher gross profit margin)

Consolidated Results: Major Components of YoY Changes (Net Sales / Operating Profit)

Sales at existing pharmacies as well as at new pharmacies and stores opened in the previous fiscal year contributed to a significant increase in sales. Sales were also higher in the pharmaceutical manufacturing and sales business and the medical professional staffing and placement business, resulting in higher sales in all business segments.

Operating profit increased despite the negative effect of the consumption tax hike because of strong performance and cost cutting in all business segments.

(Billions of yen; figures are rounded to the nearest 100 million yen)

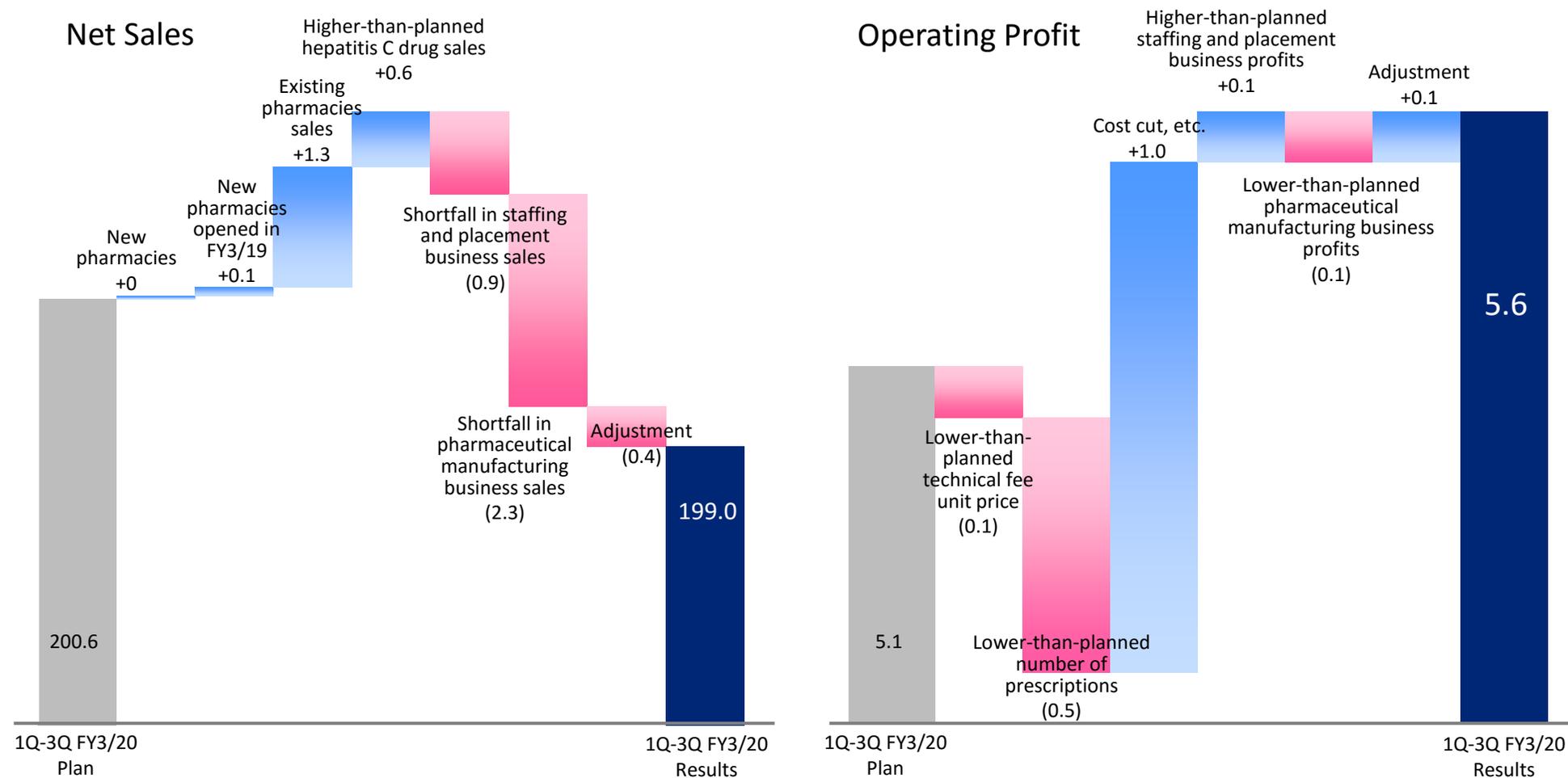


Consolidated Results: Major Components of Changes vs. Plan (Net Sales / Operating Profit)

Sales were below the plan mainly because of the shortfall in the pharmaceutical manufacturing and sales business, which was partly the result of drug price revisions associated with the consumption tax hike.

Operating profit exceeded the plan by about 500 million yen as the benefits of cost cutting and other measures outweighed the negative impact of the sales shortfall.

(Billions of yen; figures are rounded to the nearest 100 million yen)



II. Segment Information

Dispensing Pharmacy Business

Pharmacy Opening Strategy / Benefits of Organic Growth

Much faster pace of store openings than in FY3/19 by using well-balanced growth consisting of organic growth and acquisitions. All M&A opportunities will be considered in order to add more pharmacies while increasing the size and efficiency of stores.

Pharmacy Openings

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	1Q-3Q FY3/20
Opened	37	29	27	42	36	32	53 note
Organic growth	33	28	22	21	23	26	26
M&A	4	1	5	21	13	6	27
Closed	9	12	11	12	8	19	10
No. of pharmacies at the end of each period	494	511	527	557	585	598	641

(Including one location specializing in the sales of general merchandise)

Note: Including one location that was converted from a store specializing in the sale of general merchandise to a pharmacy

YoY Growth Rate by Year of Opening (1Q-3Q FY3/19 vs 1Q-3Q FY3/20)

	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	+8.1%	+0.9%	+7.1%
Pharmacies opened in FY3/19	+185.0%	+196.3%	-3.8%
Total	+9.9%	+3.5%	+6.2%

Number and Unit Price of Prescriptions (1Q-3Q FY3/20)

No. of prescriptions	10,980,000
Prescription unit price	15,199 yen

Pharmacy Opening Strategy / Emphasis on a Well-Balanced Pharmacy Network

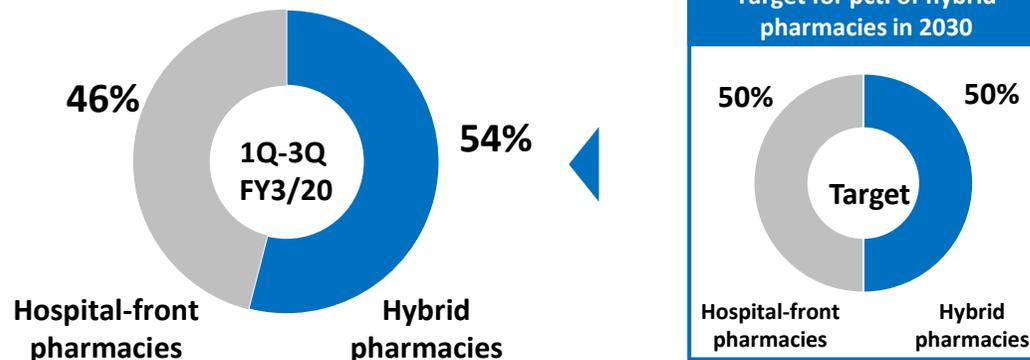
Build a pharmacy network resistant to shifts in market conditions by achieving the proper balance between hospital-front pharmacies and hybrid pharmacies. More sales personnel and upgraded skills for faster hybrid pharmacy growth.

Pharmacy Openings and Closings (Categories)

	FY3/19	1Q-3Q FY3/20
Opened	32	53
Hospital-front pharmacies (Pharmacies within hospital premises)	16 (3)	31 (5)
Hybrid pharmacies	16	22
Closed	19	10
No. of pharmacies at the end of period	598	641

Note: Includes one location specializing in the sales of general merchandise and relocations to open pharmacies in hospitals

Ratio of Pharmacies in Tokyo Area



Composition of Pharmacy Network

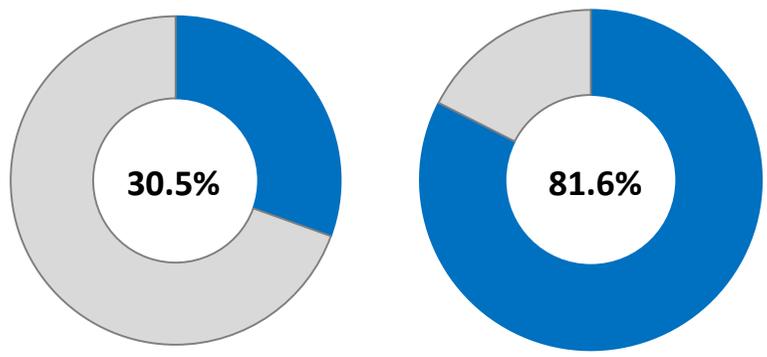
Region	Pharmacy openings 1Q-3Q FY3/20	No. of pharmacies at the end of period 3Q FY3/20
Hokkaido	0	43
Tohoku	3	46
Kanto	35	326
Koshinetsu	0	23
Tokai	4	55
Kansai/Hokuriku	7	71
Chugoku/Shikoku	3	39
Kyushu/Okinawa	1	38
Total	53	641

Initiatives for Family Pharmacists/Pharmacies and At-Home Medical Care

The goal is to provide high-quality medical services by continuing to conduct many activities involving family pharmacists/pharmacies and at-home medical care.
Plan to continue expanding at-home medical care to meet the increasing number of requests for this service.

Family Pharmacists and Pharmacies (As of January 16, 2020)

■ Pct. of family pharmacists ■ Pharmacies with a family pharmacist



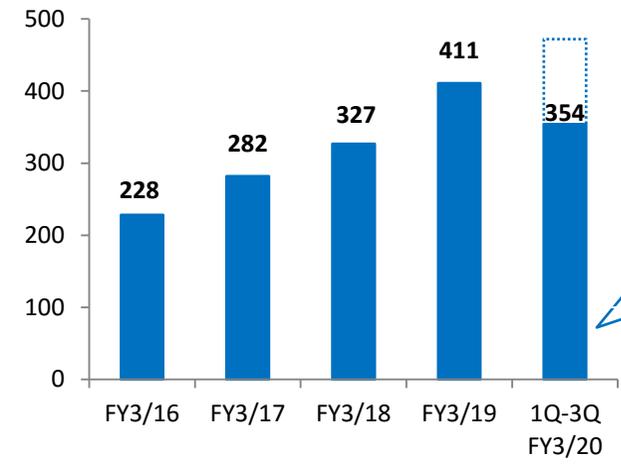
■ Number of family pharmacists per pharmacy



Note: The pct. of family pharmacists is the ratio of these pharmacists to all Nihon Chouzai pharmacists. (including full-time and part-time pharmacists)

Promotion of High-quality At-home Medical Care

(Services) ■ At-home medical care services provided per pharmacy



Share of all Nihon Chouzai pharmacies offering at-home medical care
94.1%
Pharmacies providing at least 1 service per year (including new pharmacies)

Regional cooperation and interaction pharmacies (proposal)

- **Pharmacists visit patients at their homes**
- Capable of filling prescriptions for narcotic drugs and sterile pharmaceuticals
- Pharmacists have completed the required training
- Sharing of drug information about a patient with a hospital when an individual is admitted or discharged
- Pharmacy is configured to protect the privacy of patients

Excerpts from the proposed law submitted to the 198th Ordinary Diet Session as posted on the Ministry of Health, Labour and Welfare website

Reference Materials

Three Major Components of Technical Fees

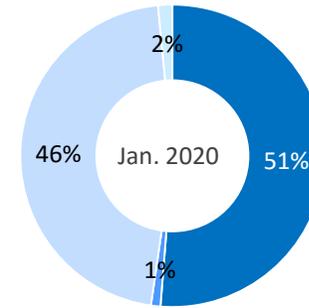
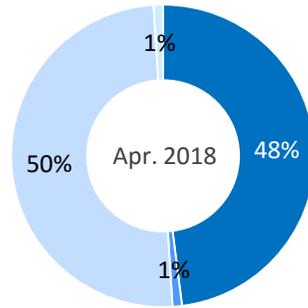
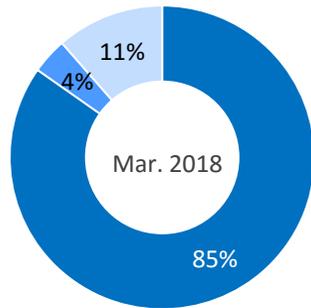
Note: Figures on this page include all pharmacies, including newly opened locations.

Stepping up a variety of initiatives for achieving the Vision of Pharmacies for Patients.

Pharmacies receiving the Generic Drug Dispensing System Type II and III premium have changed from 86% in March 2018 to 65% in April 2018 and to 91% in January 2020.

Basic Dispensing Fee

- Basic fee 1 (41pt)
- Basic fee 2 (25pt)
- Basic fee 3 (20pt)

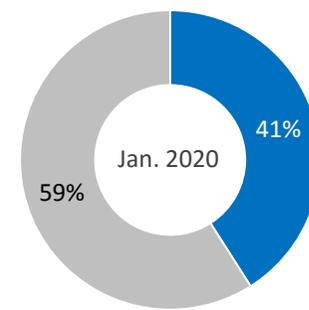
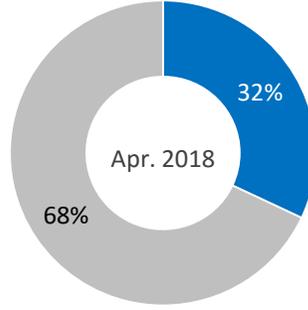
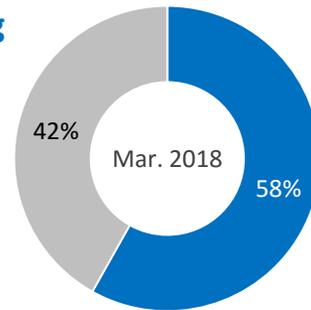


- Basic fee 1 (41pt)
- Basic fee 2 (25pt)
- Basic fee 3 (20pt)
- Special basic fee (10pt)

Premium for Standard Dispensing System

↓ Premium for Regional Support System

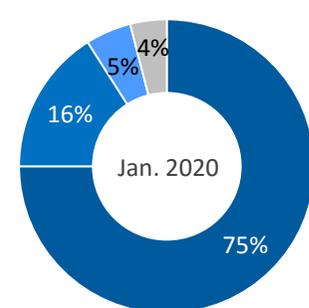
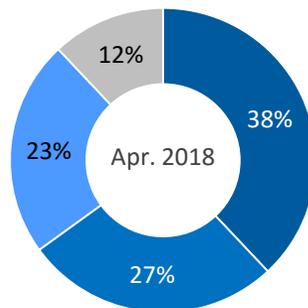
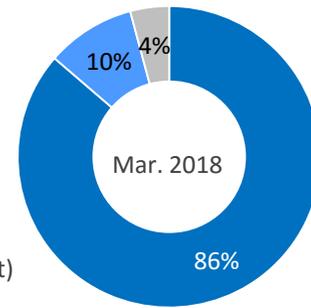
- Premium (32pt)
- No premium



- Premium (35pt)
- No premium

Premium for Generic Drug Dispensing System

- Type II (75%-, 22pt)
- Type I (65% - 75%, 18pt)
- No premium



- Type III (85%-, 26pt)
- Type II (75%-, 22pt)
- Type I (65% - 75%, 18pt)
- No premium

II. Segment Information

Pharmaceutical Manufacturing and Sales Business

Strengthen the Distinctive Nihon Chouzai Business Model

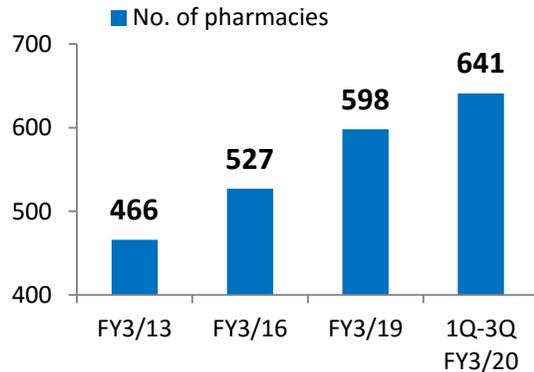
The volume of generic drugs used increased because of new pharmacies and the acquisition of pharmacies in the dispensing pharmacy business. This demonstrates how Nihon Chouzai continues to strengthen its unique business model in which growth of the dispensing pharmacy business contributes to growth of the pharmaceutical manufacturing and sales business. Furthermore, external sales benefited from improvements in sales channels for generic drugs and made a contribution to sales growth.

Growth of the Dispensing Pharmacy Business

Growth of the Pharmaceutical Manufacturing and Sales Business

Dispensing Pharmacy Business

Increase in the number of pharmacies



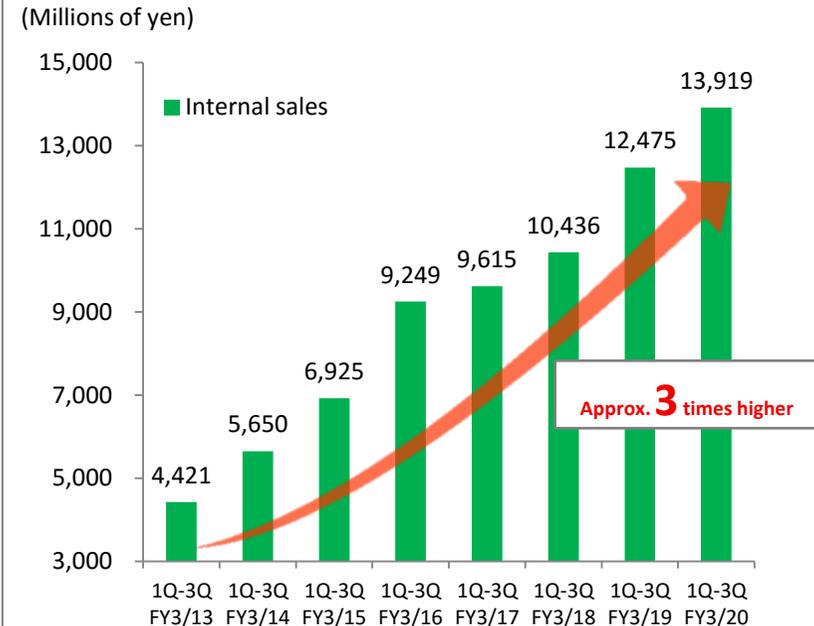
The share of generic drugs is increasing

Volume-based share
of generic drugs
(End-Dec 2019)

88.6%

Pharmaceutical Manufacturing and Sales Business

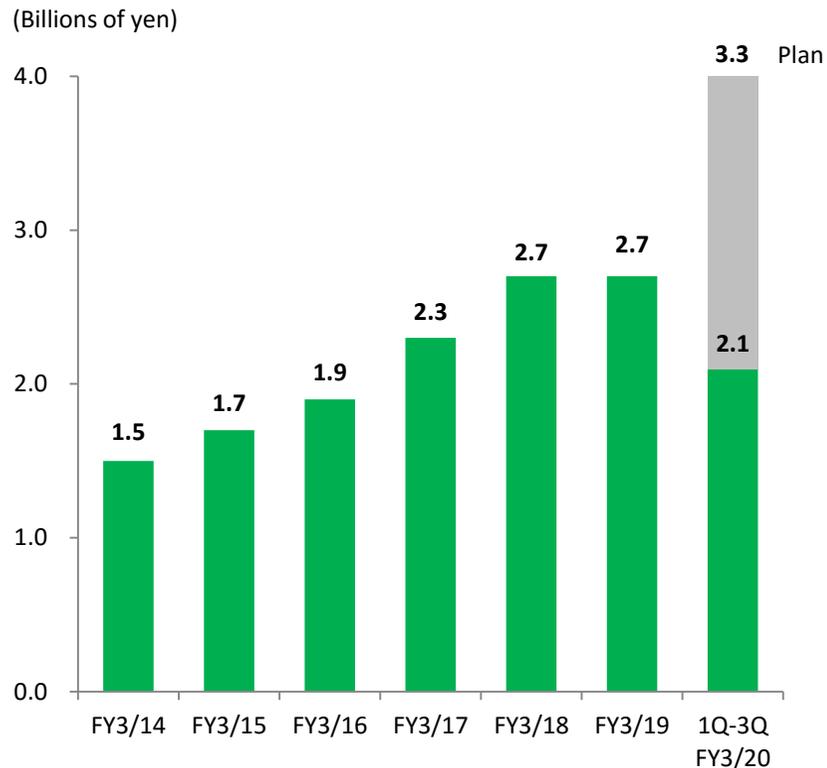
Increase in internal sales



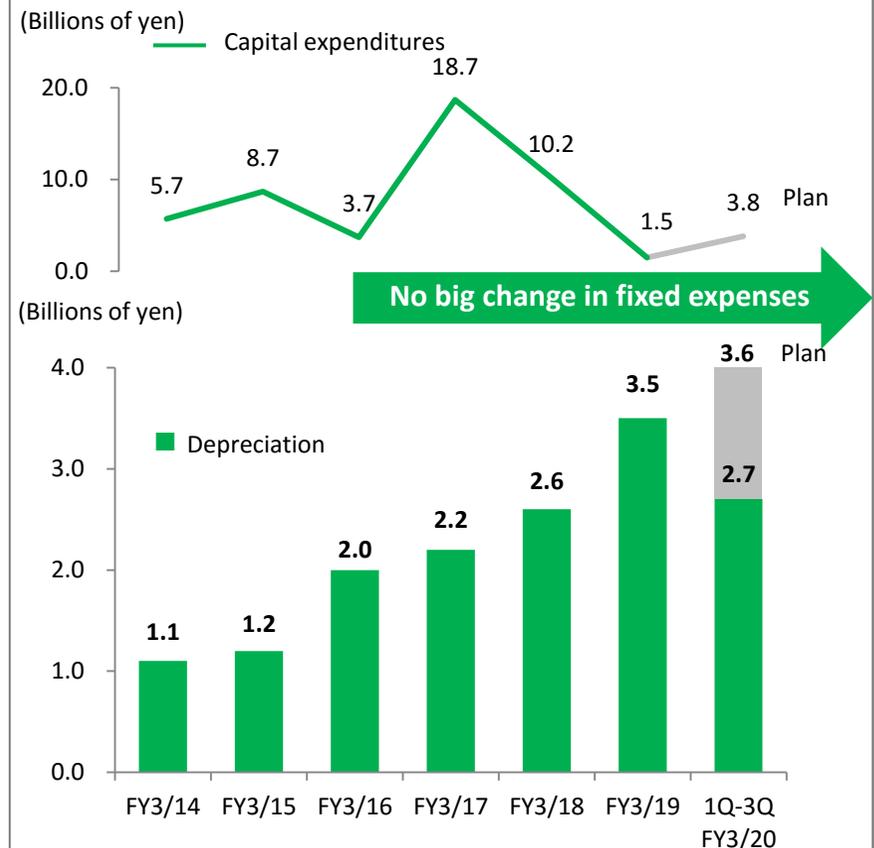
Increase in Profitability / Sales Growth of Internally Manufactured Products

R&D activities focus on new NHI listed drugs. To increase efficiency and raise capacity utilization, outsourced drugs are switched to internal production and the production of certain products has been moved to a different plant. The goal is higher profitability now that the recent period of substantial capital expenditures has ended.

■ R&D Expenses (consolidated basis)



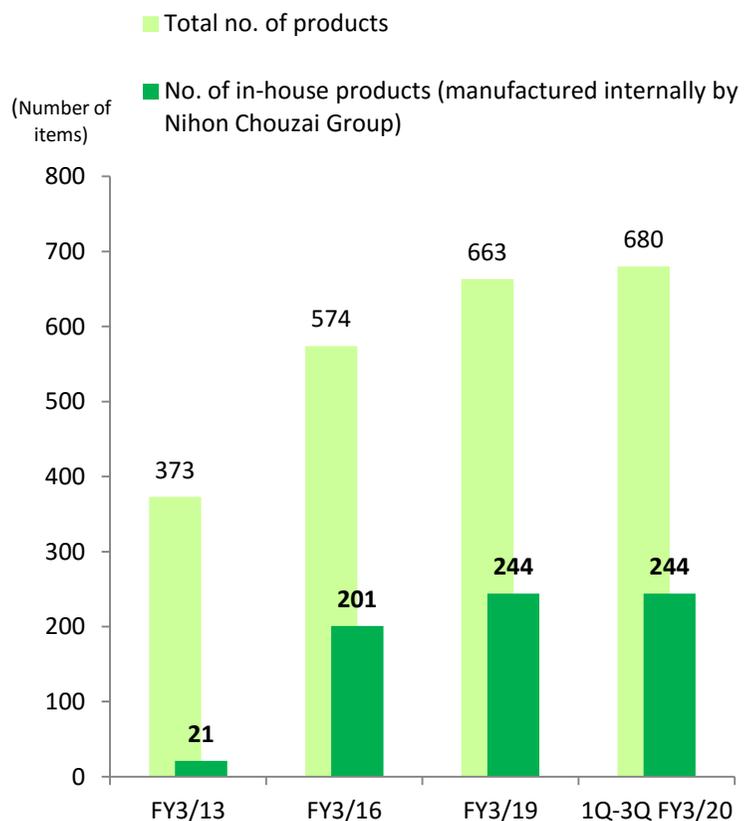
■ Capital Expenditures and Depreciation



Increase in Profitability / Reexamination of the Product Lineup

In December, 14 products were newly listed as NHI drugs and activities continued to shift some drugs from external to internal production. In addition, an examination of the profitability of individual drugs resulted in the removal of some items from the lineup of drugs handled. As a result, there was almost no change in the number of in-house products. BudeForu Dry Powder Inhaler and Lanthanum Carbonate OD Tablets are expected to contribute to sales growth because few other companies sell these two products.

Number of Product Items



New NHI Listed Drugs Sold in December 2019

14 drugs were listed



BudeForu Dry Powder Inhaler 30 doses "JG" **BudeForu Dry Powder Inhaler 60 doses "JG"** **Lanthanum Carbonate OD Tablets 250mg "JG"** **Lanthanum Carbonate OD Tablets 500mg "JG"**

Name	Name
Atomoxetine Tablets 5mg "JG"	BudeForu Dry Powder Inhaler 30 doses "JG"
Atomoxetine Tablets 10mg "JG"	BudeForu Dry Powder Inhaler 60 doses "JG"
Atomoxetine Tablets 25mg "JG"	Mometasone Nasal Spray 50µg "JG" 56 sprays
Atomoxetine Tablets 40mg "JG"	Mometasone Nasal Spray 50µg "JG" 112 sprays
Atomoxetine Oral Solution 0.4% "JG"	Capecitabine Tablets 300mg "JG"
Flecainide Acetate Tablets 50mg "TE"	Lanthanum Carbonate OD Tablets 250mg "JG" note
Flecainide Acetate Tablets 100mg "TE"	Lanthanum Carbonate OD Tablets 500mg "JG" note

Note: Lanthanum Carbonate OD Tablets are launched in January 2020

Started selling the second OTC drug on January 24, 2020

Loxoprofen Tablets "JG"



II. Segment Information

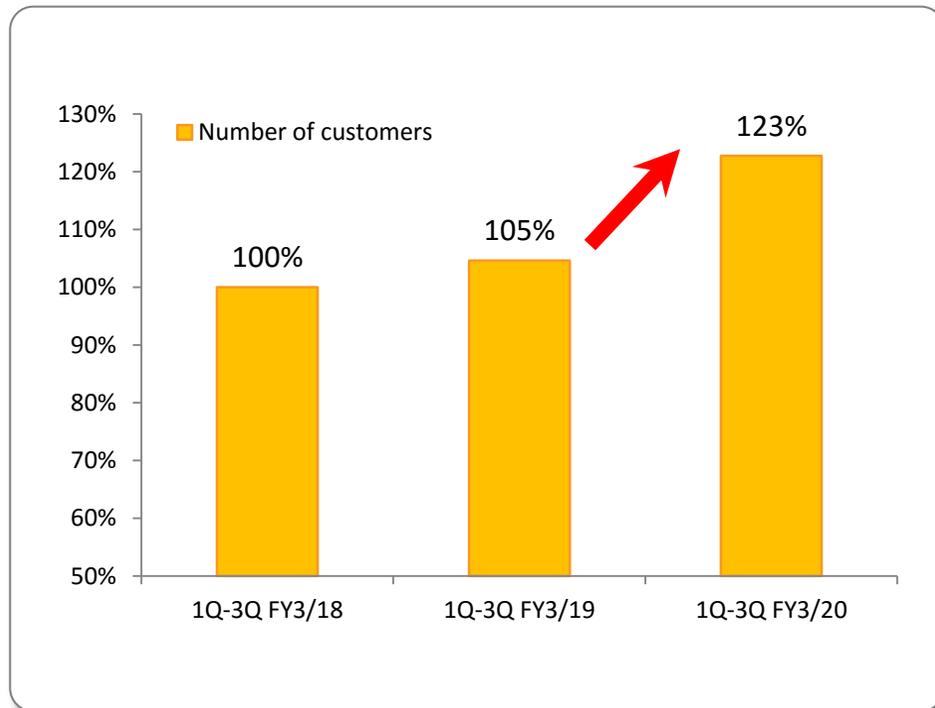
Medical Professional Staffing and Placement Business

Growth of the Pharmacist Placement Business

More salespeople were hired in FY3/19 to prepare for expected growth in demand for pharmacist placements. As expected, this business grew as the number of pharmacist placement customers and contracts increased. This business is shifting emphasis to the placement business while continuing to provide temporary staffing services as well.

Growth of Pharmacist Placement Customers

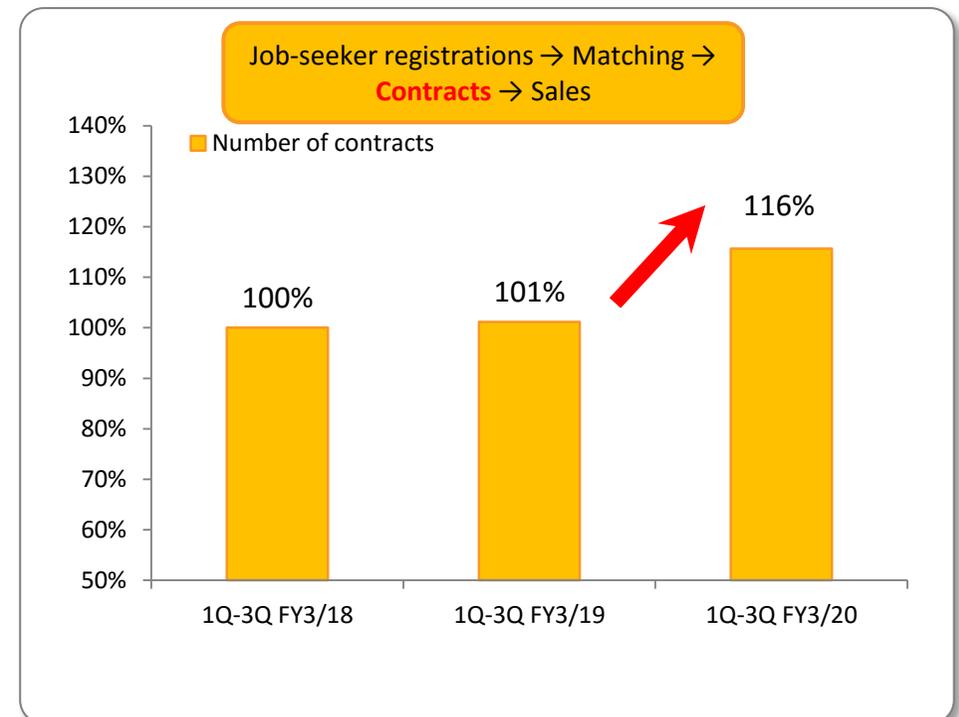
1Q-3Q FY3/18 customers = 100%



▶ Stronger sales capabilities are raising the number of customers using the pharmacist placement business.

Number of Placement Contracts

1Q-3Q FY3/18 placements = 100%



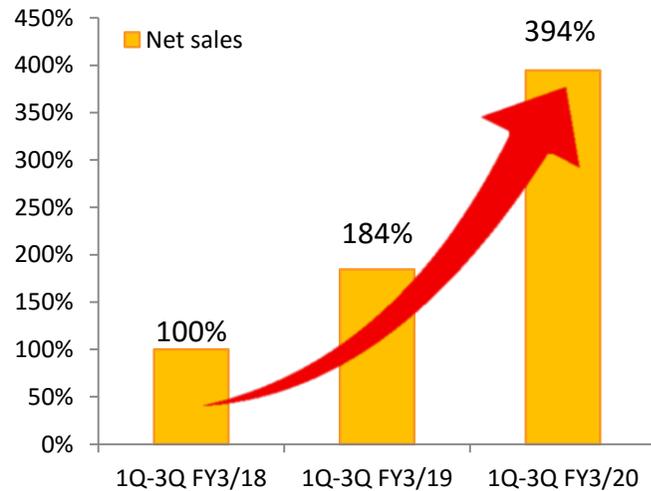
▶ Steady increase in the number of contracts, an indicator of upcoming sales.

Rapid Growth of Physician Placements and Contribution to Earnings

Physician placement sales increased because of the sales offices and salespeople added during FY3/19. From the first three quarters of FY3/18, the number of customers increased by about 3.5 times, and the number of contracts, which is a forward indicator of sales, by more than 3 times. As a result, this business made a bigger contribution to earnings growth. Planning on expanding operations to include nurses and other professionals in the health care sector.

Growth of the Physician Placement Business

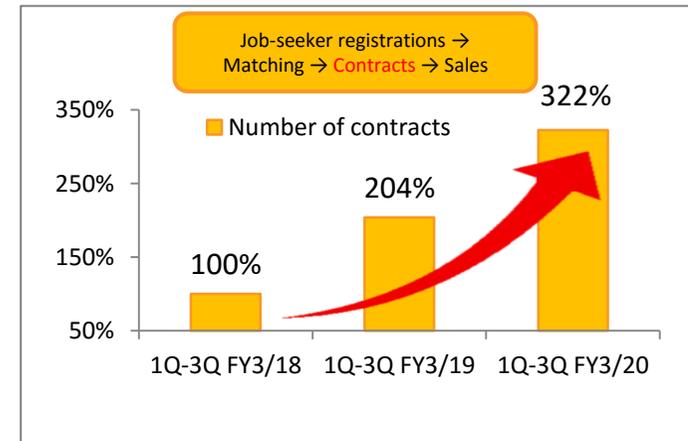
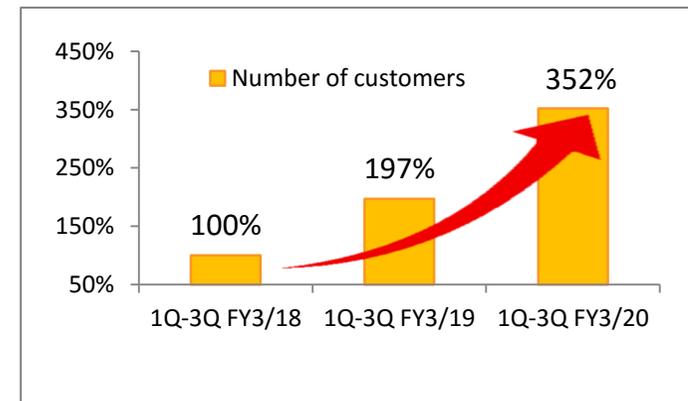
1Q-3Q FY3/18 sales = 100%



- ▶ Solid growth of physician placement business. A contribution to higher profits in 1Q-3Q FY3/20.

Number of Placement Contracts / Customers

1Q-3Q FY3/18 contracts and placements = 100%



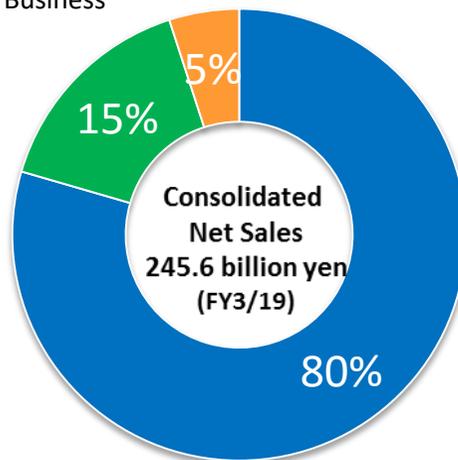
III. Reference Materials

Company Profile

Trade name	NIHON CHOUZAI Co., Ltd.
Established	March 1980
Headquarters	37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda Ward, Tokyo 100-6737, JAPAN +81-(0) 3-6810-0800 (general)
Representative	Yosuke Mitsuahara
Capital	3,953.02 million yen
Number of shares outstanding (including treasury shares)	16,024,000 shares
Fiscal year-end	March
Stock code	3341
Businesses (consolidated)	Management of health insurance dispensing chain pharmacies Manufacture and sales of generic drugs, etc. Medical professional staffing and placement business Information provision and consulting business, etc.
Number of employees	5,110 (as of March 31, 2019) Note: Including part-time employees based on 8- hour conversion, consolidation basis
Number of pharmacies	Dispensing pharmacies: 641 Pharmacies specializing in the sales of general merchandise: 1 (as of December 31, 2019)

Sales Composition

- Dispensing Pharmacy Business
- Pharmaceutical Manufacturing and Sales Business
- Medical Professional Staffing and Placement Business



Our goal for 2030

**Become a group
with sales of
1 trillion yen**

Dispensing Pharmacy Business

Japan's leading pharmacy
company

Ranks first
in sales per pharmacy

Pharmaceutical Manufacturing
and Sales Business

A full-line generic drug
manufacturer

A business model no
competitor can match

The only 1

Medical Professional Staffing and
Placement Business

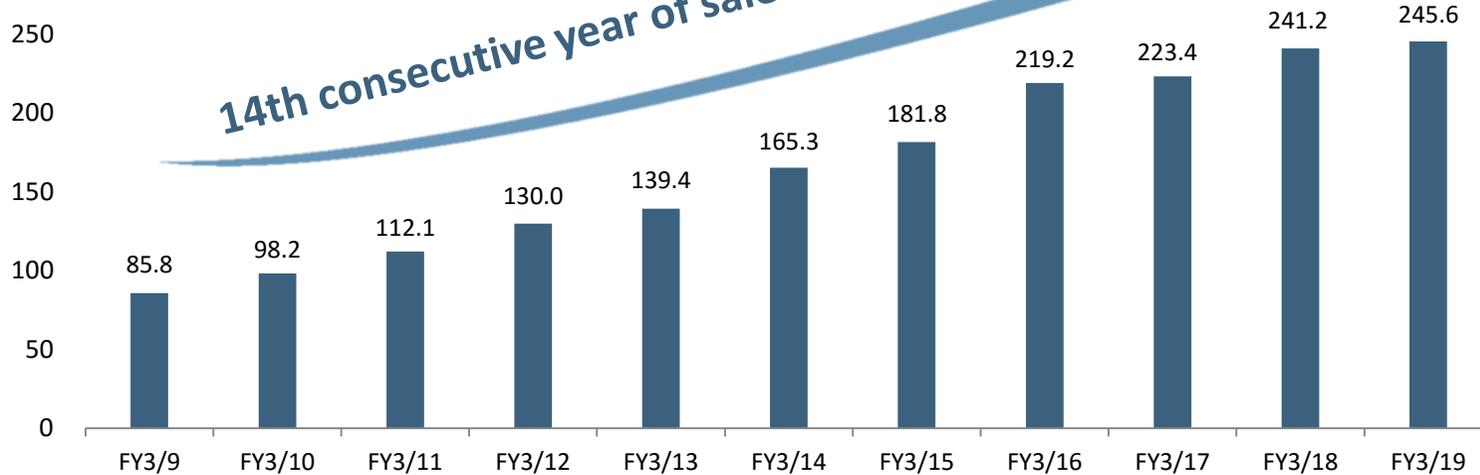
A human resources
business specializing in
the medical field

No.1
in temporary staffing of
pharmacists

Consolidated Results: Net Sales / Operating Profit

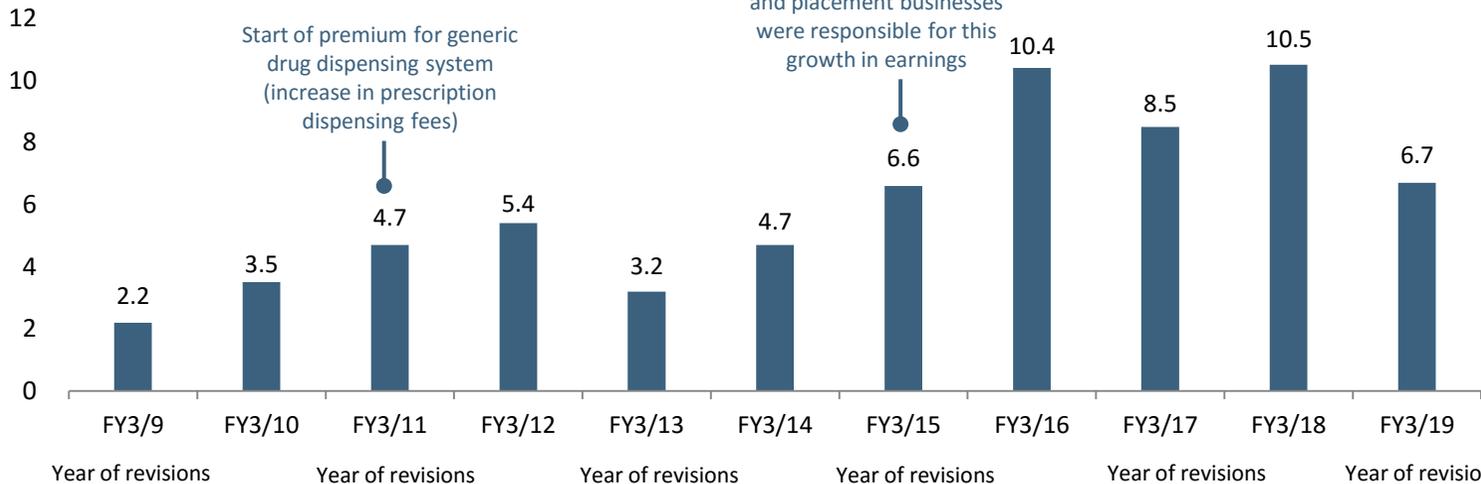
Consolidated Net Sales

(Billions of yen)



Consolidated Operating Profit

(Billions of yen)



Precautions

Performance targets, plans, business activities and other forward-looking statements concerning Nihon Chouzai and its subsidiaries are based on information that was available when this presentation was made. There may be significant changes to these statements due to business and other risk factors and other uncertainties. These statements are not promises concerning future performance. Actual results of operations may differ significantly from the outlook in this presentation for a number of reasons. In addition, this presentation is not a solicitation to make an investment in Nihon Chouzai. Investment decisions are the responsibility of individual investors.

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