

August 7, 2018

Results of Operations for the First Quarter of the Fiscal Year Ending March 31, 2019 (April 1, 2018 to June 30, 2018)



NIHON CHOUZAI Co.,Ltd.
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I. 1Q FY3/19 Consolidated Financial Highlights

Consolidated Statement of Income

Sales increased even though it was the first quarter after NHI drug price and prescription dispensing fee revisions. Large decrease in earnings was caused by these revisions and substantial upfront investments in all business segments.

Note: Refer to Reference Materials for the components of YoY changes.

(Millions of yen)	1Q FY3/17 Results	1Q FY3/18 Results	1Q FY3/19 Plan	1Q FY3/19 Results	YoY change	YoY growth rate	Vs. plan
Net sales	54,476	58,346	60,676	59,305	959	+1.6%	-2.3%
Cost of sales	45,248	47,693	51,080	49,547	1,854	+3.9%	-3.0%
Gross profit	9,228	10,652	9,595	9,757	(895)	-8.4%	+1.7%
% to sales	16.9%	18.3%	15.8%	16.5%	-	-	-
SG&A expenses	7,607	8,468	9,414	9,256	787	+9.3%	-1.7%
% to sales	14.0%	14.5%	15.5%	15.6%	-	-	-
Consumption taxes	3,057	3,070	3,367	3,411	340	+11.1%	+1.3%
R&D expenses	507	795	722	549	(246)	-30.9%	-23.9%
Operating profit	1,620	2,184	181	501	(1,683)	-77.1%	+176.3%
% to sales	3.0%	3.7%	0.3%	0.8%	-	-	-
Ordinary profit	1,545	2,090	133	398	(1,692)	-81.0%	+199.0%
% to sales	2.8%	3.6%	0.2%	0.7%	-	-	-
Profit attributable to owners of parent	981	1,122	143	40	(1,081)	-96.4%	-71.5%
% to sales	1.8%	1.9%	0.2%	0.1%	-	-	-
Net income per share (Yen)	61.34	70.21	8.98	2.56	(67.65)	-96.4%	-71.5%

Consolidated Balance Sheet

Total assets increased 9.45 billion yen mainly due to an increase in merchandise and finished goods resulting from the inventory level recovery in the dispensing pharmacy business. Net assets decreased 0.33 billion yen due to the small first quarter profit. As a result, the equity ratio decreased 1.2 pct. points from the end of FY3/18.

(Millions of yen)	End of Jun. 2017 (1Q FY3/18)	End of Mar. 2018 (FY3/18)	End of Jun. 2018 (1Q FY3/19)	Change from the end of FY3/18	Change from the end of FY3/18 (%)
Current assets	88,677	81,613	90,742	9,128	+11.2%
Non-current assets	96,894	104,956	105,287	331	+0.3%
Property, plant and equipment	68,208	75,662	75,449	(213)	-0.3%
Intangible assets	17,994	17,952	17,627	(325)	-1.8%
Investments and other assets	10,691	11,341	12,211	870	+7.7%
Total assets	185,572	186,569	196,030	9,460	+5.1%
Current liabilities	72,915	70,310	87,003	16,693	+23.7%
Non-current liabilities	75,485	74,752	67,854	(6,897)	-9.2%
Total liabilities	148,400	145,062	154,858	9,795	+6.8%
Total net assets	37,171	41,506	41,171	(335)	-0.8%
Shareholders' equity	37,171	41,504	41,170	(334)	-0.8%
Equity ratio	20.0%	22.2%	21.0%	-	-

Note: FY3/18 figures have been adjusted retrospectively in accordance with the Partial Amendments to Accounting Standard for Tax Effect Accounting.

Dispensing Pharmacy Business / Statement of Income

Lower NHI drug prices and challenging revisions to prescription dispensing fees caused prescription unit prices to decrease 2.2% from one year earlier. But the number of prescriptions increased 3.9% because of steady growth in the number of pharmacies. The result was higher sales even though this quarter followed NHI price and fee revisions. Earnings were down from one year earlier but about the same as in 1Q FY3/17, when the previous NHI price and fee revisions were enacted.

(Millions of yen)	1Q FY3/17 Results	1Q FY3/18 Results	1Q FY3/19 Plan	1Q FY3/19 Results	YoY change	YoY growth rate	Vs. plan
Net sales	45,912	49,387	50,906	50,449	1,062	+2.2%	-0.9%
Cost of sales	39,608	41,589	43,771	43,399	1,810	+4.4%	-0.9%
Gross profit	6,304	7,797	7,135	7,050	(747)	-9.6%	-1.2%
% to sales	13.7%	15.8%	14.0%	14.0%	-	-	-
SG&A expenses	4,828	5,286	5,928	5,645	359	+6.8%	-4.8%
% to sales	10.5%	10.7%	11.6%	11.2%	-	-	-
Operating profit	1,475	2,511	1,206	1,404	(1,106)	-44.1%	+16.4%
% to sales	3.2%	5.1%	2.4%	2.8%	-	-	-
No. of pharmacies at the end of each period (stores)	533	564	595	589	25	+4.4%	-1.0%
Prescription drug sales per pharmacy ^{note}	86	88	86	85	(2)	-2.5%	-0.2%

YoY Growth Rate by Year of Opening

	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	-1.1%	+0.0%	-1.0%
Pharmacies opened in FY3/18	+475.6%	+815.6%	-37.1%
Total	+1.6%	+3.9%	-2.2%

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

No. of prescriptions	3,483 thousand	+3.9%
Prescription unit prices	14,234 yen	-2.2%

Pharmaceutical Manufacturing and Sales Business / Statement of Income

(Millions of yen)	1Q FY3/17 Results	1Q FY3/18 Results	1Q FY3/19 Plan	1Q FY3/19 Results	YoY change	YoY growth rate	Vs. plan
Net sales	9,387	9,407	10,202	9,754	346	+3.7%	-4.4%
Cost of sales	7,515	7,727	9,015	8,192	465	+6.0%	-9.1%
Gross profit	1,872	1,680	1,186	1,562	(118)	-7.0%	+31.7%
% to sales	19.9%	17.9%	11.6%	16.0%	-	-	-
SG&A expenses	1,128	1,362	1,372	1,503	140	+10.3%	+9.5%
% to sales	12.0%	14.5%	13.5%	15.4%	-	-	-
Operating profit	744	318	(186)	59	(259)	-81.4%	-
% to sales	7.9%	3.4%	-	0.6%	-	-	-

Components of YoY changes

◆ Net sales

1. Internal sales: Significant growth in volume-based sales ratio of dispensing pharmacy business (higher sales)
2. External sales: Continued sales strategy to increase priority on profitability (slight decrease in sales)

Plan for more growth in external sales mainly by using synergies among group companies and expanding the contract manufacturing business.

◆ Operating profit

1. Higher sales contributed to earnings (higher profit)
2. Higher depreciation and other expenses due to start of production at Tsukuba Plant No. 2 with state-of-the-art manufacturing equipment (lower profit)

Planned on a loss because of expenses involving substantial upfront investments, but this segment was profitable due primarily to a review of all categories of expenses.

Medical Professional Staffing and Placement Business / Statement of Income

(Millions of yen)	1Q FY3/17 Results	1Q FY3/18 Results	1Q FY3/19 Plan	1Q FY3/19 Results	YoY change	YoY growth rate	Vs. plan
Net sales	2,588	3,107	3,203	3,217	110	+3.5%	+0.4%
Cost of sales	1,537	1,833	1,908	1,958	125	+6.8%	+2.6%
Gross profit	1,051	1,273	1,295	1,258	(15)	-1.2%	-2.8%
% to sales	40.6%	41.0%	40.4%	39.1%	-	-	-
SG&A expenses	611	671	867	857	185	+27.6%	-1.1%
% to sales	23.6%	21.6%	27.1%	26.7%	-	-	-
Operating profit	440	601	428	401	(200)	-33.4%	-6.3%
% to sales	17.0%	19.4%	13.4%	12.5%	-	-	-

Components of YoY changes

◆ Net sales

1. Steady growth of the pharmacist staffing and placement business because of the pharmacist shortage in Japan (higher sales)
2. Growth of the physician placement business and benefits of expansion of service network and sales team (higher sales)

The advanced pharmacist education system in the dispensing pharmacy business is helping to meet the demand for pharmacists.

◆ Operating profit

1. Higher sales contributed to earnings (higher profit)
 2. Growth of the placement business, which has a high gross profit margin (higher profit)
 3. Upfront investments to strengthen the physician placement business (lower profit)
- More advertisements, more sales and service offices, more personnel

Substantial upfront investments caused expenses to increase as planned. Operating profit decreased but was about the same as the plan.

FY3/19 Consolidated Forecast

Forecast higher sales but lower earnings because of revisions to prescription dispensing fees and higher expenses due to the start of operations at Tsukuba Plant No. 2.

Many initiatives are under way to improve profitability in every segment and achieve a rapid recovery in earnings.

Note: Refer to Business Segment Forecast on the next page.

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Results	FY3/19 Plan	YoY change	YoY growth rate
Net sales	219,239	223,468	241,274	253,893	12,618	+5.2%
Cost of sales	180,171	184,210	197,437	212,392	14,955	+7.6%
Gross profit	39,068	39,258	43,837	41,500	(2,336)	-5.3%
% to sales	17.8%	17.6%	18.2%	16.3%	-	-
SG&A expenses	28,578	30,738	33,250	35,182	1,932	+5.8%
% to sales	13.0%	13.8%	13.8%	13.9%	-	-
Consumption taxes	11,483	11,600	11,892	12,434	541	+4.6%
R&D expenses	1,913	2,388	2,784	2,833	49	+1.8%
Operating profit	10,489	8,519	10,587	6,318	(4,268)	-40.3%
% to sales	4.8%	3.8%	4.4%	2.5%	-	-
Ordinary profit	9,878	7,976	10,138	6,078	(4,060)	-40.1%
% to sales	4.5%	3.6%	4.2%	2.4%	-	-
Profit attributable to owners of parent	6,329	4,638	6,104	3,756	(2,348)	-38.5%
% to sales	2.9%	2.1%	2.5%	1.5%	-	-
Net income per share (Yen)	432.85	290.03	381.69	234.84	(146.85)	-38.5%
Dividend per share (Yen)	45.00	50.00	50.00	50.00	0	+0.0%

FY3/19 Business Segment Forecast

In the dispensing pharmacy business, the severe impact of prescription dispensing fee revisions is expected to result in higher sales but lower earnings. Measures for growth of family pharmacist and pharmacy activities will continue.

In the pharmaceutical manufacturing and sales business, higher expenses caused by the start-up of Tsukuba Plant No. 2 are expected to significantly reduce earnings. Reinforcing sales activities to aim for a rapid recovery in FY3/20.

In the medical professional staffing and placement business, planning on higher sales and earnings despite higher expenses for strengthening the placement business.

	(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Results	FY3/19 Plan	YoY change	YoY growth rate
Dispensing pharmacy business	Net sales	190,874	189,327	205,192	213,133	7,940	+3.9%
	Gross profit	28,841	28,738	32,928	30,721	(2,206)	-6.7%
	% to sales	15.1%	15.2%	16.0%	14.4%	-	-
	Operating profit	10,707	9,560	12,411	9,436	(2,975)	-24.0%
	% to sales	5.6%	5.0%	6.0%	4.4%	-	-
Pharmaceutical manufacturing and sales business	Net sales	32,598	36,821	38,066	42,123	4,057	+10.7%
	Gross profit	6,735	6,465	6,319	5,301	(1,017)	-16.1%
	% to sales	20.7%	17.6%	16.6%	12.6%	-	-
	Operating profit	2,668	1,719	1,194	51	(1,143)	-95.7%
	% to sales	8.2%	4.7%	3.1%	0.1%	-	-
Medical professional staffing and placement business	Net sales	8,934	10,500	11,970	13,500	1,529	+12.8%
	Gross profit	3,560	4,084	4,604	5,519	914	+19.9%
	% to sales	39.8%	38.9%	38.5%	40.9%	-	-
	Operating profit	1,599	1,710	1,842	1,950	107	+5.9%
	% to sales	17.9%	16.3%	15.4%	14.4%	-	-

II. Management Strategies of the Nihon Chouzai Group

■ Pharmacy Opening Strategy

Add stores that optimize the pharmacy portfolio

Dispensing
Pharmacy Business

■ Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Achieve the Vision of Pharmacies for Patients

Dispensing
Pharmacy Business

■ Growth of the Pharmaceutical Manufacturing and Sales Business

Increase internal sales and expand contract manufacturing and sales alliance businesses

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Medical
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Pharmacy Opening Strategy / Pharmacy Portfolio

The number of hybrid pharmacies is increasing and performance was the same as one year earlier. Increase in potential M&A deals. No change in M&A standards – Pharmacy size and quality remain the priorities.

Pharmacy Openings and Closings (Categories)

	1Q FY3/19
Opened	8
Hospital-front pharmacies	5
Hybrid pharmacies	3
Closed	4
No. of pharmacies at the end of period	589

(Including three locations specializing in the sales of general merchandise)

Opened a health care shop “NICOH + Kurashiki”



NICOH+Kurashiki store opens

A new business that operates health care shops for self-medication Shop concept

- Safe and reliable self-medication products selected with the assistance of drug and nutrition professionals
- A Health Check-up Station that helps prevent diseases
- Digital signage to sell many types of products in a small space

Region	End of Mar. 2018	End of Jun. 2018	Change
Hokkaido	46	46	
Tohoku	44	44	
Kanto	287	287	
Koshinetsu	24	23	-1
Tokai	52	53	1
Kansai/Hokuriku	61	64	3
Chugoku/Shikoku	35	36	1
Kyushu/Okinawa	36	36	
Total	585	589	

Store Openings (No. of pharmacies)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	1Q FY3/19
Opened	37	29	27	42	36	8
Organic growth	33	28	22	21	23	8
M&A	4	1	5	21	13	0
Closed	9	12	11	12	8	4
No. of pharmacies at the end of each period	494	511	527	557	585	589

Pharmacy Opening Strategy

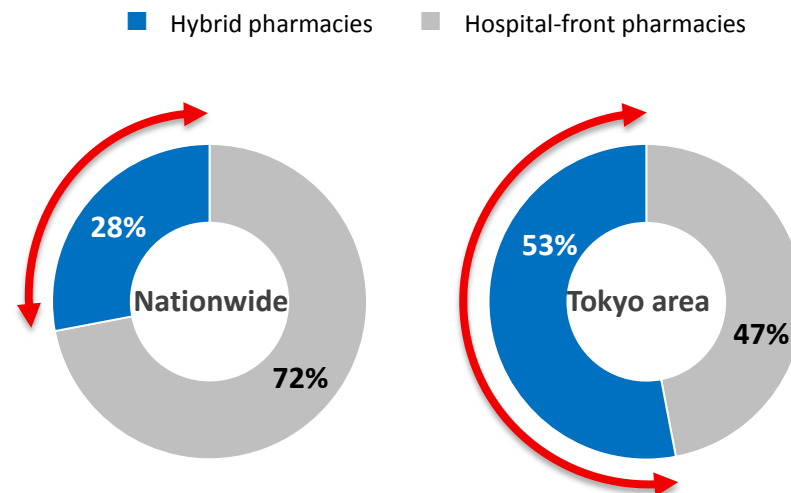
Separation of Pharmacy Functions and Opening of Hybrid Pharmacies

Separating pharmacy functions by strengthening advanced pharmacology management at hospital-front pharmacies and health support at hybrid pharmacies. Hybrid pharmacies have already increased to 53% of all Nihon Chouzai pharmacies in the Tokyo area. Plan to open these pharmacies faster in metropolitan areas, mainly Tokyo, Osaka and Nagoya.

Separation of Pharmacy Functions and Medical Service Structure

Pharmacy Portfolio	Separation of pharmacy functions	Medical service structure
Hospital-front pharmacies	<p>Advanced pharmacology management</p> <p>+</p> <p>Family pharmacists/ family pharmacies (serving medium to large areas)</p>	<ul style="list-style-type: none"> • Services for advanced medical care • Training for pharmacists specializing in specific diseases
Hybrid pharmacies	<p>Health support</p> <p>+</p> <p>Family pharmacists/ family pharmacies (serving only nearby area)</p>	<ul style="list-style-type: none"> • Support for staying healthy • Activities to help people prevent diseases

Pharmacy Portfolio (1Q FY3/19)



► Moving faster to open hybrid pharmacies mainly in the Tokyo, Osaka and Nagoya areas

Pharmacy Opening Strategy / Health Support Function

The number of Health Check-up Stations increased to 41 and there were many activities to help people stay healthy and prevent diseases. Nihon Chouzai pharmacies in all areas of Japan held many types of events for staying healthy.

Health Support Function: Pharmacies with a Health Check-up Station

	FY3/17	FY3/18	1Q FY3/19
Pharmacies with Health Check-up Stations <small>note</small>	3	37	41

Note: Health Check-up Station is a registered trademark of Nihon Chouzai.



1. Advice for meals and exercise from a supervising nutritionist
2. Health Fairs to promote the use of Health Check-up Stations
3. Consultation booth for health maintenance and enhancement
4. Health maintenance by using equipment for measuring blood pressure and body composition, etc.
5. Sell over-the-counter drugs, health food and other self-medication products (more than 500 items)
6. Provide referrals to clinics and other providers of medical care based on an individual's symptoms

Events for Staying Healthy (April – June 2018)

- | | |
|---|---|
| Heatstroke prevention seminar | Synapsology for having fun using your brain |
| Summer fatigue prevention seminar | Oral care seminar |
| Diabetes seminar | Eye self-checking event |
| Nutrition consultation | An enjoyable exercise class |
| Hearing consultation | Locomotive syndrome check and prevention |
| Brain and blood vessel age measurement | Skin care event |
| Blood pressure check and guidance on low-salt diets | Leg muscle checking event |
| Healthy lifestyle checking event | Bone health measurement event |
| Body composition measurements | How to use drugs properly |

■ Pharmacy Opening Strategy

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Medical
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Actions to Provide High-quality Medical Services

All Nihon Chouzai pharmacies have activities to provide high-quality medical services in order to establish a community-based integrated medical care system. → Progress involving the 8 items for the regional support system premium^{note} is the KPI

Note: Activities receiving this premium at pharmacies other than basic dispensing fee 1

Framework for proper drug use oversight for each patient

Framework for meeting a variety of patient needs

Framework for cooperation among many occupations

Premium for prevention of overlapping dosages and harmful drug interactions, etc.

Drug use adjustment assistance fee

Family pharmacist guidance fee

Outpatient drug use assistance fee

After-hours premium or night/weekend /holiday premium

At-home pharmacist supervision and guidance fee of a one patient in a single building

Narcotic drug use guidance premium

Drug use information provision fee

Be a winner as the pharmacy industry reorganizes and become an essential pharmacy that contributes to regional health care

Premium for regional support system: Newly established when medical treatment fees were revised in April 2018

Demands are increasing for pharmacies to play a major role in supporting regional health care and other activities. The regional support system premium was established to provide payments to pharmacies that contribute to these support systems as part of the comprehensive regional medical care system.^{note}

Note: Prepared by Nihon Chouzai based on "Fiscal 2018 Revisions to Medical Treatment Fees -dispensing," Ministry of Health, Labour and Welfare

Actions to Provide High-quality Medical Services

Nihon Chouzai pharmacies have been taking many actions to improve the quality of medical services and a high percentage of pharmacies provide activities involving the 8 items required to receive the regional support system premium. Pharmacies are reinforcing activities so that patients feel they are receiving even more benefits.

Progress with the 8 activities for the regional support system premium, the KPI for reinforcing activities for the provision of high-quality medical services (1)

■ Framework for meeting a variety of patient needs

After-hours premium or night/weekend/holiday premium

92.8%

Pharmacies receiving this premium

Responding to the needs of medical institutions and patients

At-home pharmacist supervision and guidance fee of a one patient in a single building

91.2%

Pharmacies receiving this premium

High pct. of pharmacies providing at-home medical care, including for children

Narcotic drug use guidance premium

83.7%

Pharmacies receiving this premium

This premium supports palliative care through the proper supervision of the use of these drugs

■ Framework for cooperation among many occupations

Drug use information provision fee

73.4%

Pharmacies receiving this premium

Increased activities involving tracking reports

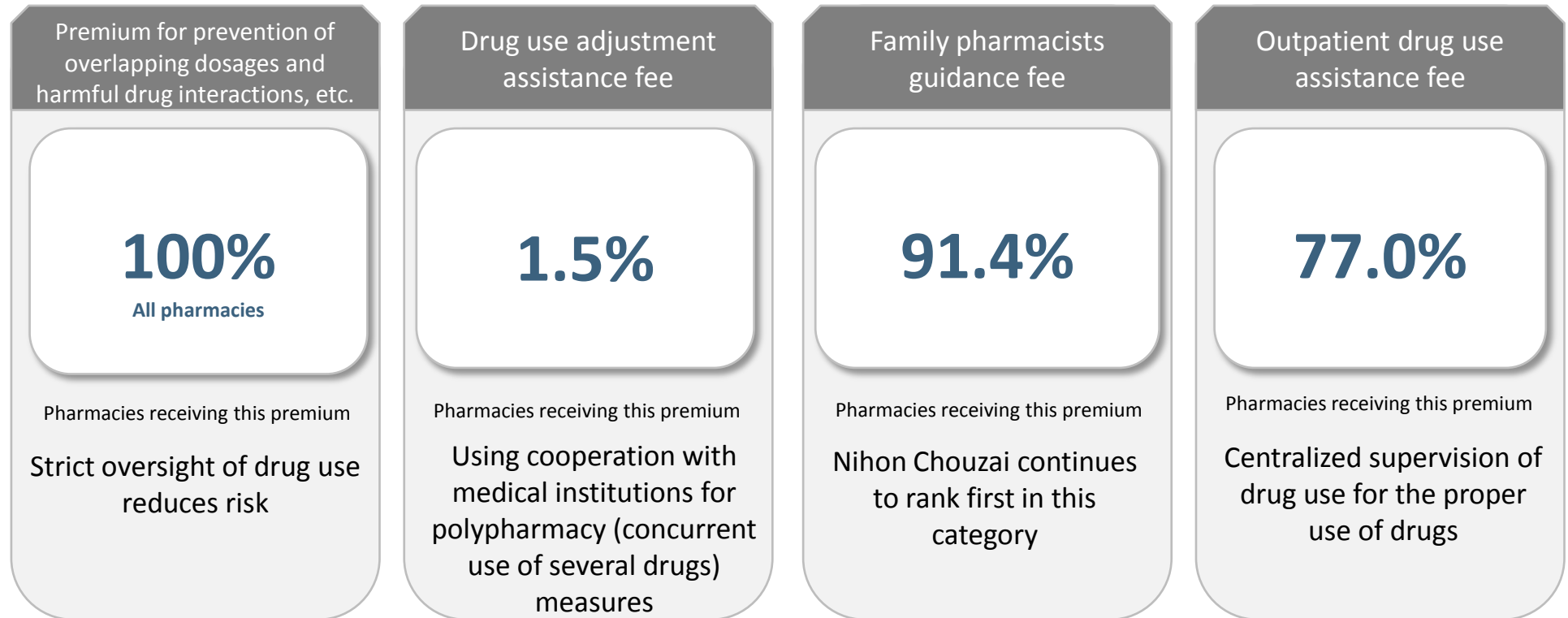
Notes: Percentages are based on all pharmacies (performance for the 12-month period that ended in June 2018). Percentages are rounded to the first decimal place.

Actions to Provide High-quality Medical Services

All pharmacies have activities involving the premium for preventing overlapping dosages, harmful drug interactions and other problems. Pharmacies are increasing cooperation with medical institutions because their support is needed to receive the drug use adjustment assistance fee and other fees.

Progress with the 8 activities for the regional support system premium, the KPI for reinforcing activities for the provision of high-quality medical services (2)

Framework for proper drug use oversight for each patient

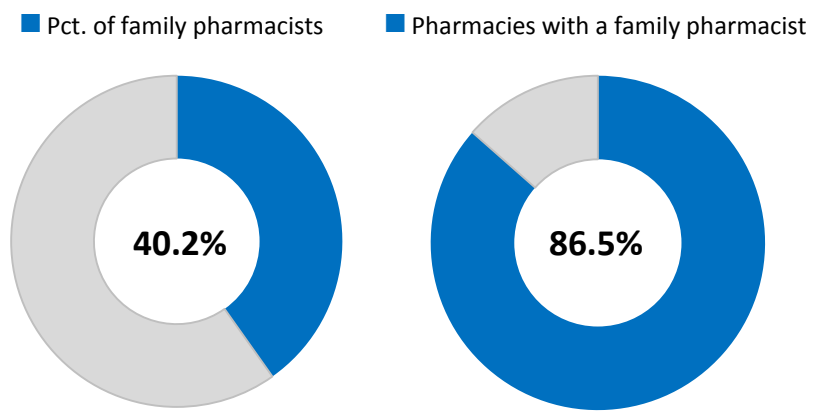


Notes: Percentages are based on all pharmacies (performance for the 12-month period that ended in June 2018). Percentages are rounded to the first decimal place.

Actions to Provide High-quality Medical Services

The family pharmacist ratio decreased briefly because a record number of new pharmacy school graduates were hired. Many activities continue to train family pharmacists. A big increase in at-home medical care services and an increase in the number of services per pharmacy.

Family Pharmacists and Pharmacies (as of July 16, 2018)

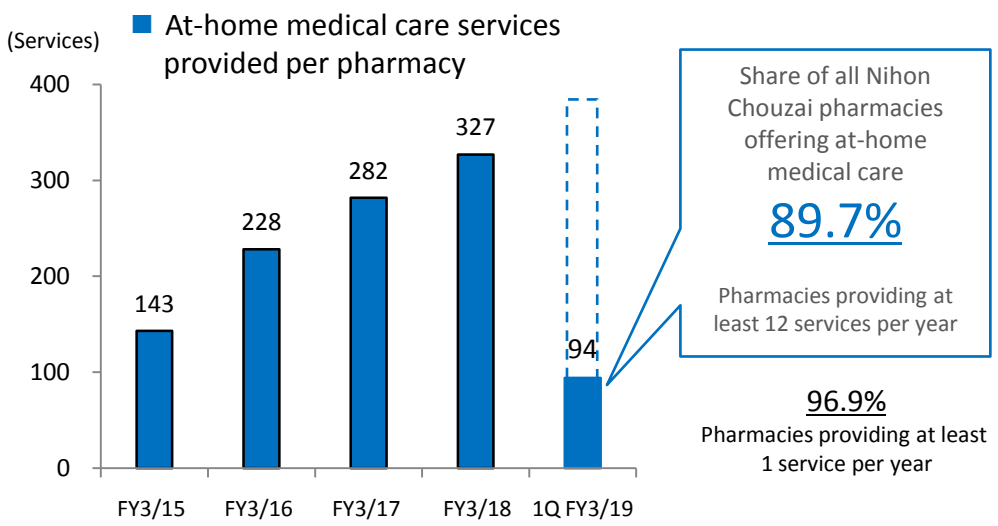


Number of family pharmacists per pharmacy

1.9

Note: Pct. of family pharmacists = No. of family pharmacists / all Nihon Chouzai Group pharmacists

Promotion of high-quality at-home medical care



Major activities to support at-home medical care



- Support system of At-home Medical Care Department
- Sterile rooms for drug dispensing
- Higher efficiency by combining at-home medical care management system with the prescription system

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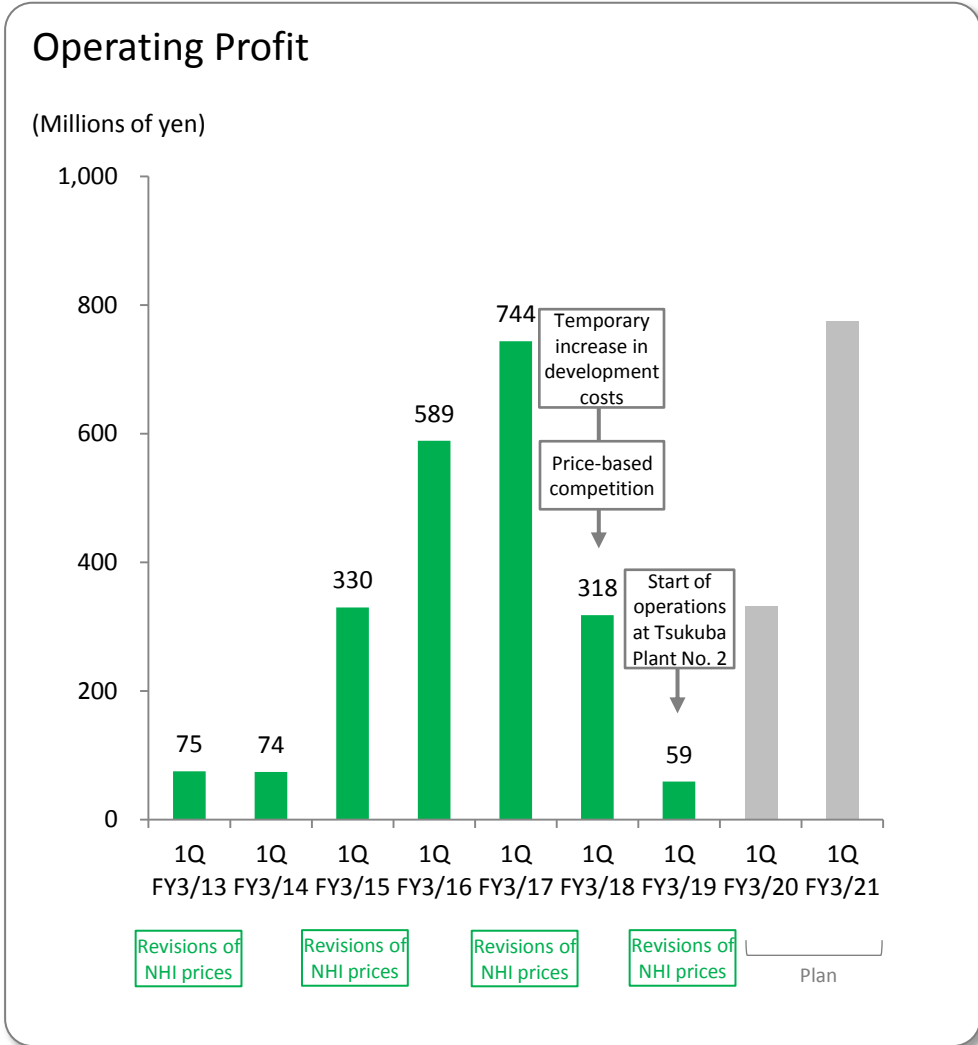
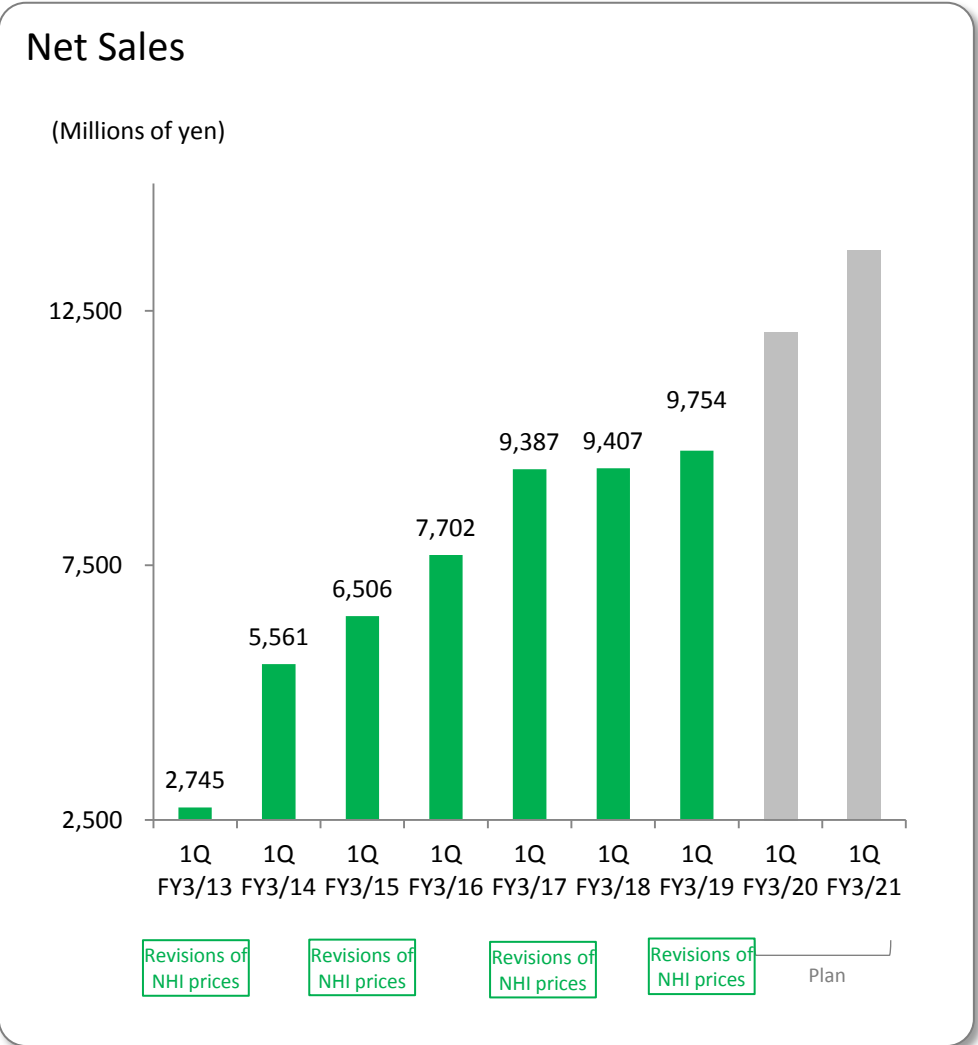
Upgrade pharmacist temporary staffing and permanent placement capabilities and expand activities to cover more professions

Medical
Professional
Staffing and
Placement Business

Growth of the Pharmaceutical Manufacturing and Sales Business

Sales up 3.7% due to higher internal sales. Using synergies among group companies. Aiming to increase external sales by expanding contract manufacturing and taking other actions.

Big drop in earnings but the 59 million yen profit was better than the expected 186 million yen loss. Earnings benefited from cost controls at all operations other than the Tsukuba Plant No. 2.



Note: The 1Q FY3/20 and 1Q FY3/21 plans are one quarter of the corresponding fiscal year plans.

Growth of the Pharmaceutical Manufacturing and Sales Business

Big increase in internal sales because of growth of the dispensing pharmacy business and the rising volume-based share of generic drug use at Nihon Chouzai pharmacies. Steady increase in the number of production contracts and sales alliances in the contract manufacturing and sales alliance businesses, which are new drivers of growth. Aiming for sales growth by adding sales channel other than existing internal channels.

	Sales system	FY3/18	FY3/19-
Internal sales	Nihon Chouzai Group - Pharmacies	○	◎
	Outside the Nihon Chouzai Group - Hospitals - Pharmacies - Drug stores	○	○
External sales	Contract manufacturing business	○	◎
	Sales alliance business	△	○

Reorganization of Japan's dispensing pharmacy industry

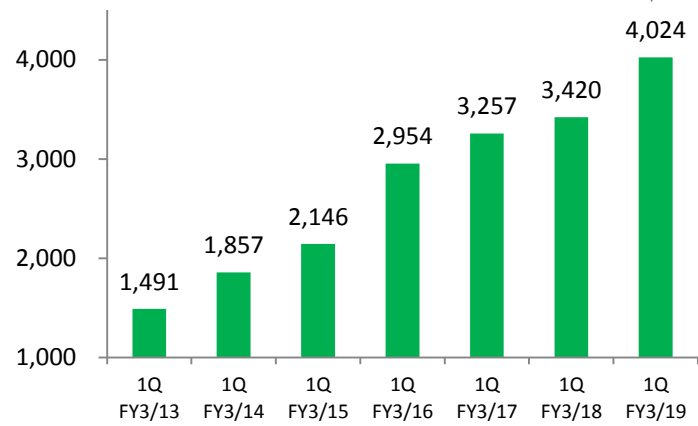
Government volume-based generic drug share target of 80%

Synergies with dispensing pharmacy business
Increase internal sales along with expansion of dispensing pharmacy business

New drivers of growth
Expand contract manufacturing business
Start a sales alliance business

Internal sales

(Millions of yen)



New manufacturing contracts (1Q FY3/19)

5 contracts for 8 drugs

New contracts were received from other generic drug manufacturers for the production of these drugs. Increasing sales activities targeting mainly drug manufacturers that are unable to make more capital expenditures.

New sales alliances ^{note} (1Q FY3/19)

2 alliances for 2 drugs

Strengthening sales alliance operations, which also help add sales channels other than existing internal channels

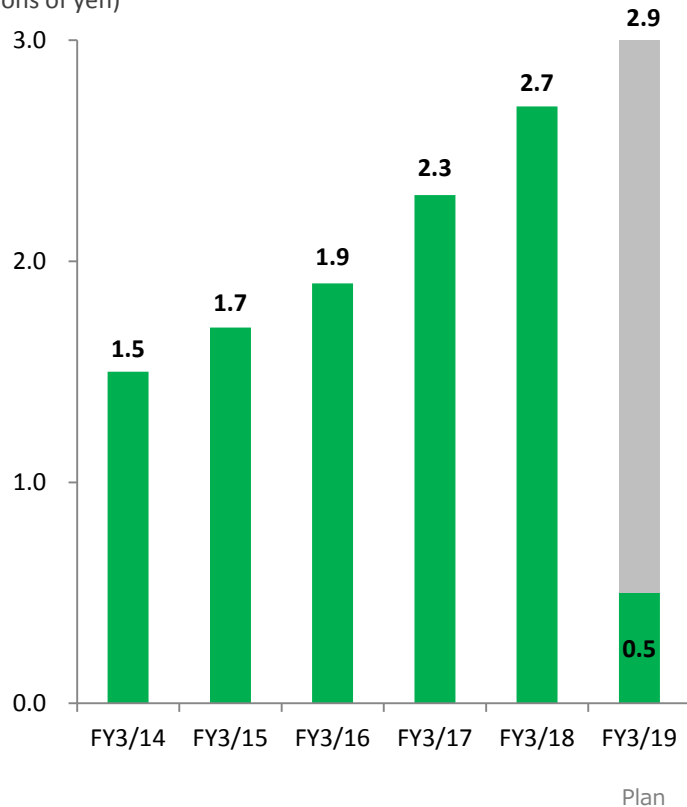
Note: Number of alliances and drugs since the start in 4Q FY3/18 of measures to strengthen this business

Growth of the Pharmaceutical Manufacturing and Sales Business

The goal is even faster earnings growth. The start of operations at Tsukuba Plant No. 2 raised depreciation but fixed expenses are level because capital expenditures are no longer high. Expect that higher expenses will be more than offset by sales growth.

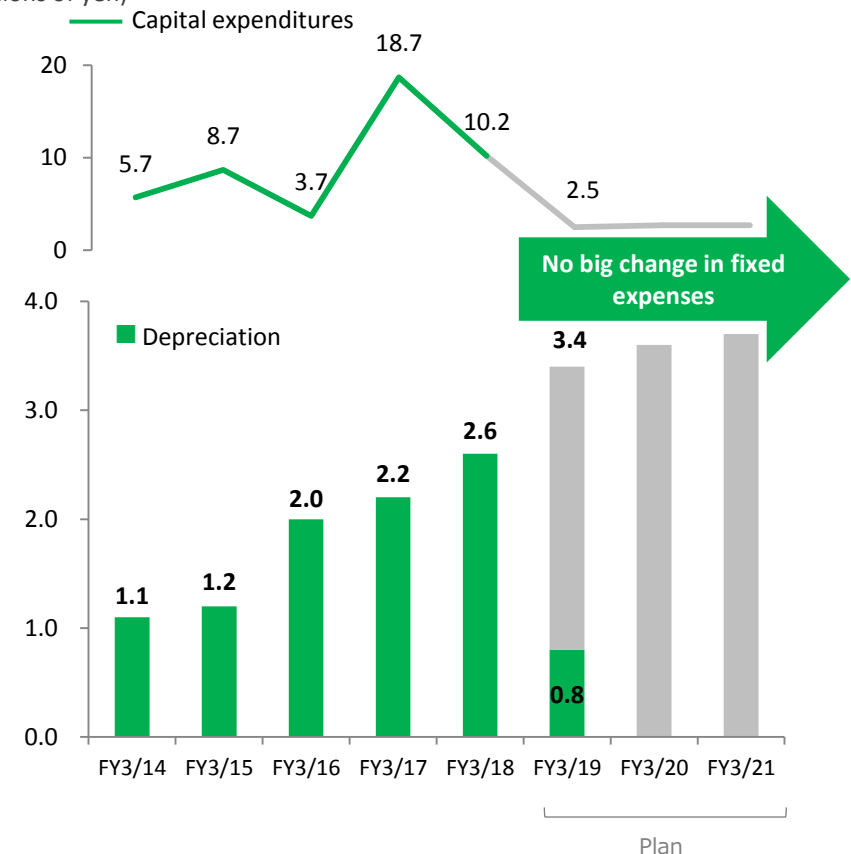
R&D Expenses (consolidated basis)

(Billions of yen)



Capital Expenditures and Depreciation

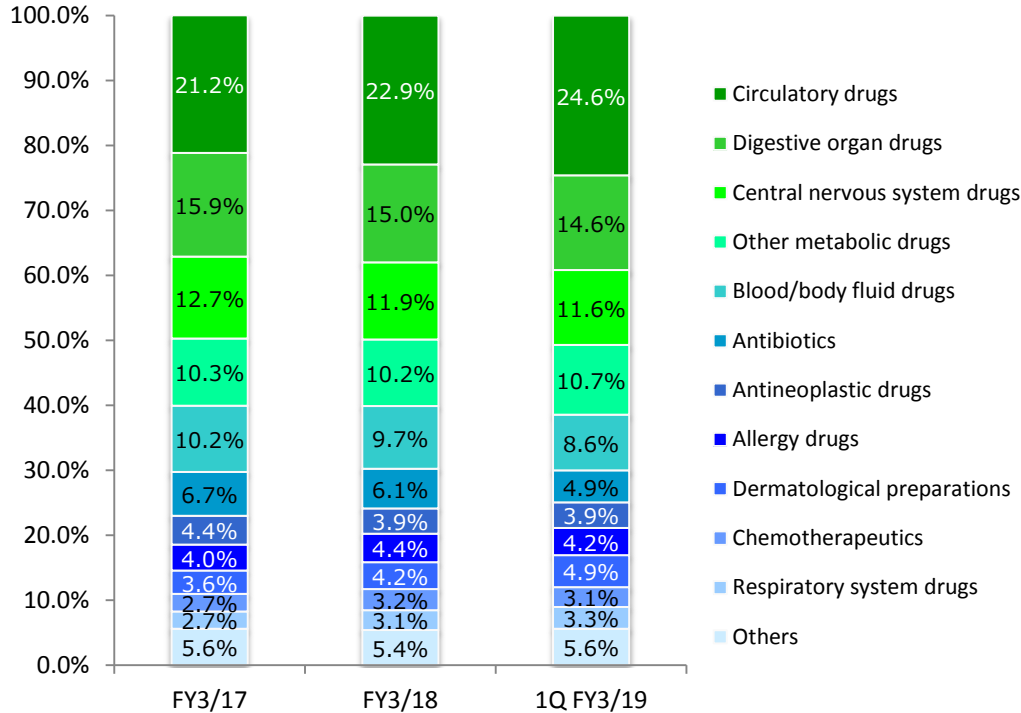
(Billions of yen)



Growth of the Pharmaceutical Manufacturing and Sales Business

Having dispensing pharmacy operations within the same group makes it possible to conduct highly efficient R&D activities centered on drugs that are used frequently. The number of product items increased as 13 new items were added in June.

Sales Breakdown (1Q FY3/19)



YoY Growth Rate by Drug Efficacy

Drug efficacy category	1Q FY3/19
Circulatory drugs	+15.1%
Digestive organ drugs	+0.8%
Central nervous system drugs	-3.3%
Other metabolic drugs	+11.2%
Blood/body fluid drugs	-6.1%
Antibiotics	-11.7%
Allergy drugs	+7.9%
Dermatological preparations	+38.6%
Antineoplastic drugs	+5.8%
Chemotherapeutics	+4.4%
Respiratory system drugs	+45.5%
Others	+11.7%
Total	+6.9%

New Items Launched in June (New NHI Drug Listings)

Lamotrigine Tablets 25mg "JG"	Irbesartan OD Tablets 50mg "JG"	Minodronic Acid Tablets 1mg "JG"	Bepotastine Besilate Tablets 5mg "JG"	Iluamix Combination Tablets HD "JG"
Lamotrigine Tablets 100mg "JG"	Irbesartan OD Tablets 100mg "JG"	Minodronic Acid Tablets 50mg "JG"	Bepotastine Besilate Tablets 10mg "JG"	
Nalfurafine Hydrochloride Capsules 2.5µg "BMD"	Irbesartan OD Tablets 200mg "JG"	Methotrexate Tablets 2mg "DAITO"	Iluamix Combination Tablets LD "JG"	

*Does not include contract manufacturing at all plants

■ Pharmacy Opening Strategy

Add stores that optimize the pharmacy portfolio

Dispensing
Pharmacy Business

■ Actions to Provide High-quality Medical Services and Hold Down Growth in Health Care Expenditures

Achieve the Vision of Pharmacies for Patients

Dispensing
Pharmacy Business

■ Growth of the Pharmaceutical Manufacturing and Sales Business

Increase internal sales and expand contract manufacturing and sales alliance businesses

Pharmaceutical
Manufacturing and
Sales Business

■ Growth of the Medical Professional Staffing and Placement Business

Upgrade pharmacist temporary staffing and permanent placement capabilities and expand activities to cover more professions

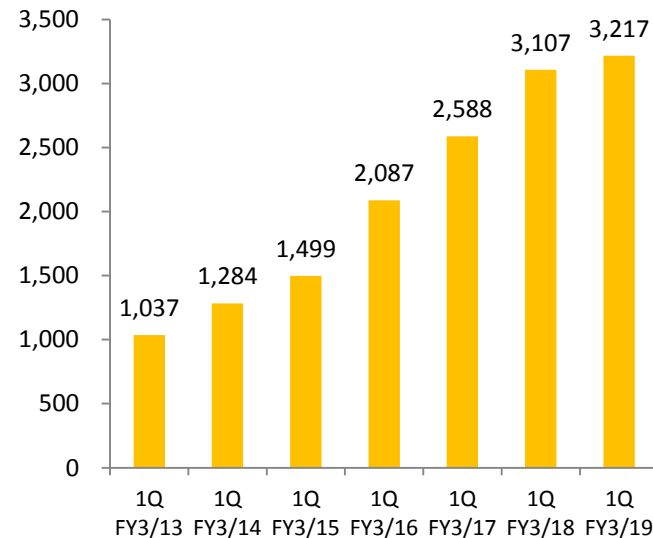
Medical
Professional
Staffing and
Placement Business

Growth of the Medical Professional Staffing and Placement Business

Net sales are increasing steadily. Higher SG&A expenses for advertising and other upfront expenditures for growth of the physician staffing and placement business are temporarily impacting the operating profit and margin. Aiming for higher operating profit backed by the growth of pharmacist placement and physician staffing and placement services.

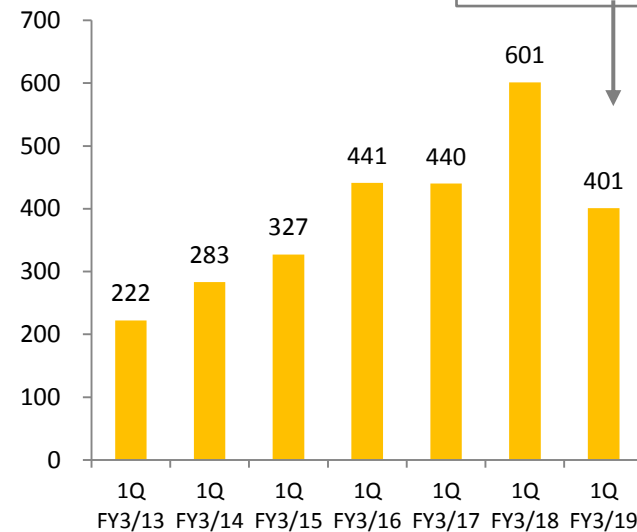
Net Sales

(Millions of yen)



Operating Profit

(Millions of yen)



Sales growth potential

7-year average growth rate
(FY3/13-FY3/19)

20.8%

Profitability

Operating margin
(1Q FY3/19)

12.5%

Growth of the Medical Professional Staffing and Placement Business

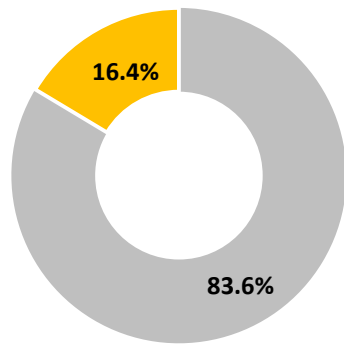
The number of pharmacist placements is increasing due to the strengthened placement business to target changes in demand. A high-quality education system created in the dispensing pharmacy business is used to meet the demand for pharmacist with specialized skills. Strengthen the permanent placement business, which has higher profitability and growth potential, while maintaining the stability of the temporary staffing business, which produces a steady income stream.

Sales Composition (Pharmacists)

- ▶ Strengthen the placement business to prepare for growth

Expand placement business to meet market needs

■ Temporary staffing
■ Permanent placements and others



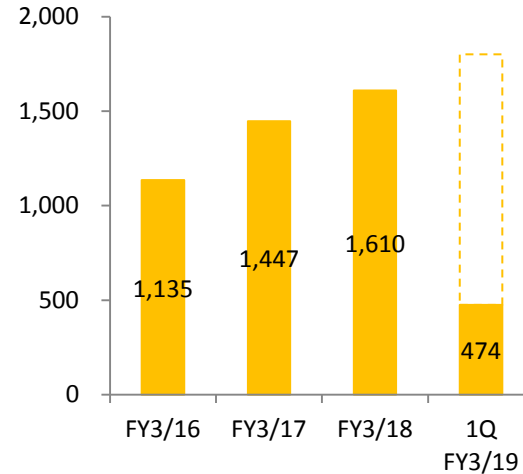
1Q FY3/19

Number of Placements (Pharmacists)

- ▶ Hire more salespeople to strengthen placement business

Growth resulting from expansion of the placement business

(Pharmacists) ■ Pharmacist placements



Synergy with the Dispensing Pharmacy Business

- ▶ Use of a high-quality education system created in the dispensing pharmacy business
- ▶ Take full advantage of membership in the well-known Nihon Chouzai Group

Placements of value-added pharmacists

Supervised by Nihon Chouzai

Accepting applications for academic credits for certified pharmacists

e-learning materials for certified pharmacists JP Learning

A large lineup of courses to cover all necessary information



Growth of the Medical Professional Placement Business

Started expanding the physician placement business in response to the strong demand for placement services for physicians. Added 4 sales offices and significantly increased the sales force. Sales were about three times higher than one year earlier.

Adding More Staffing and Placement Service Market Sectors

Pharmacist services

Physician services

Nurse services

Registered salesperson services

Others

Upfront Investments for the Physician Placement Business Expansion

A stronger service network

Add Sapporo, Nagoya, Osaka and Fukuoka as new sales offices

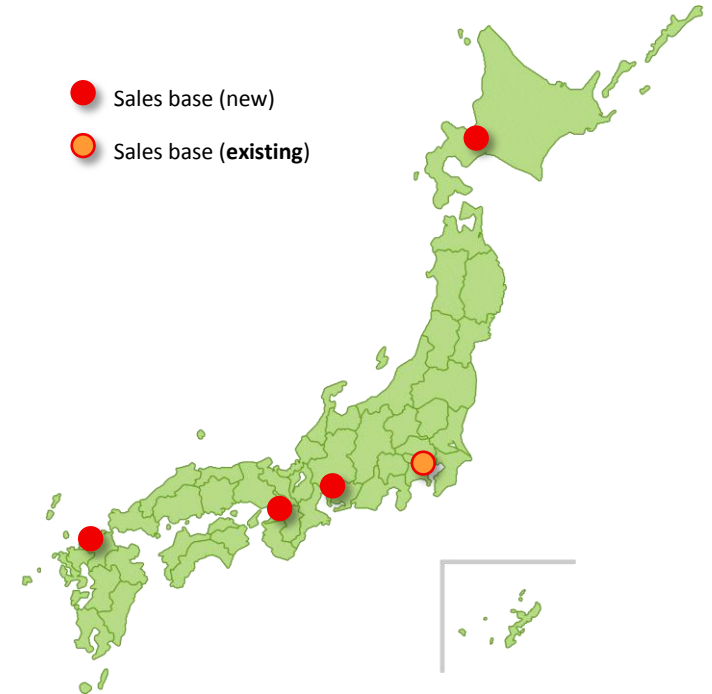
More salespeople

Big increase in salespeople solely for physician placements

1Q FY3/19 sales were about three times higher than in 1Q FY3/18

As with pharmacists, there are big variations in the number of physicians per 100,000 people^{note} among different regions of Japan. There is a persistent severe shortage of physicians in all regions of Japan other than Tokyo and other major metropolitan areas. By operating a physician placement operation, this business plans to help increase the number of physicians in regions where there are shortages.

● Sales base (new)
● Sales base (existing)



Note: Survey of Physicians, Dentists and Pharmacists 2016, Ministry of Health, Labour and Welfare

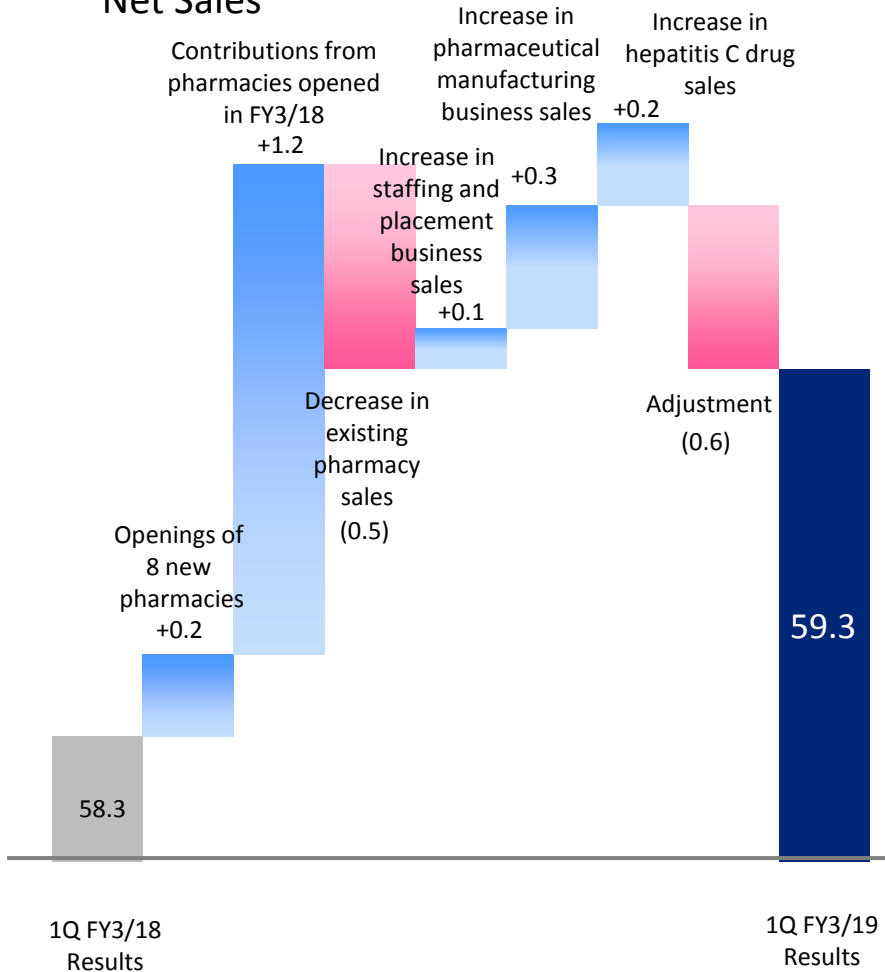
III. Reference Materials

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

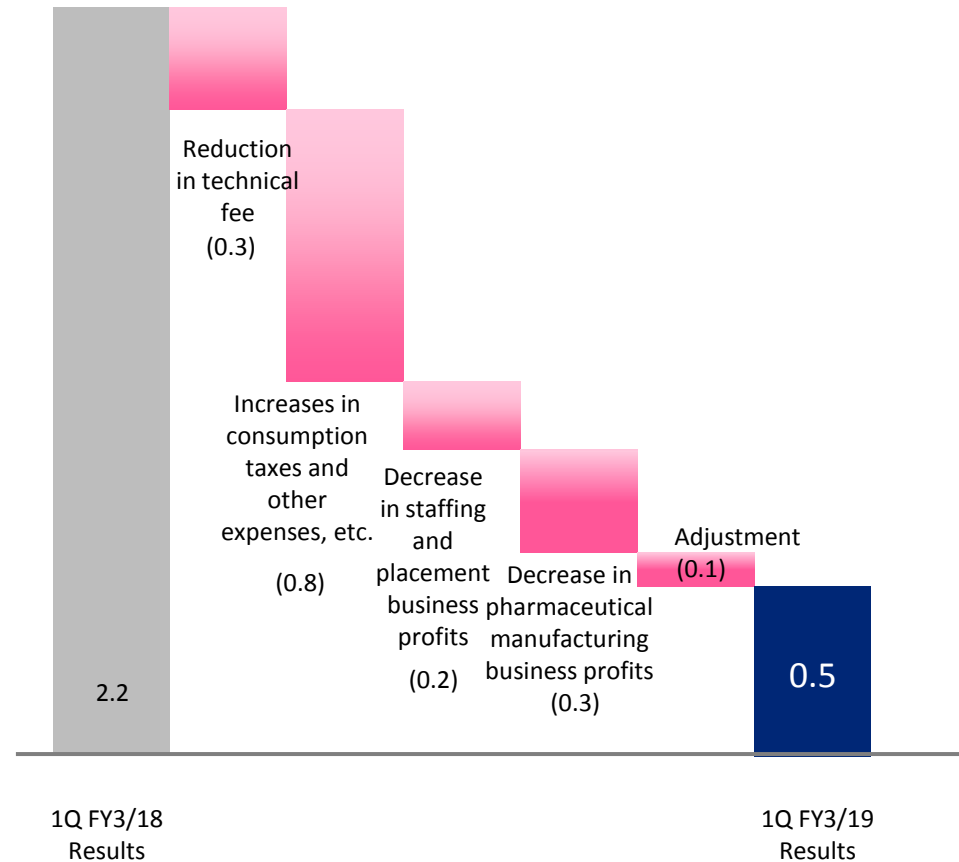
In the dispensing pharmacy business, existing pharmacy sales decreased but new pharmacies and pharmacies opened in FY3/18 contributed to sales growth. Sales in the other two segments also increased, resulting in higher consolidated sales. The negative impact of NHI price and fee revisions and substantial upfront investments in all businesses were responsible for the sharp drop in operating profit.

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

Net Sales



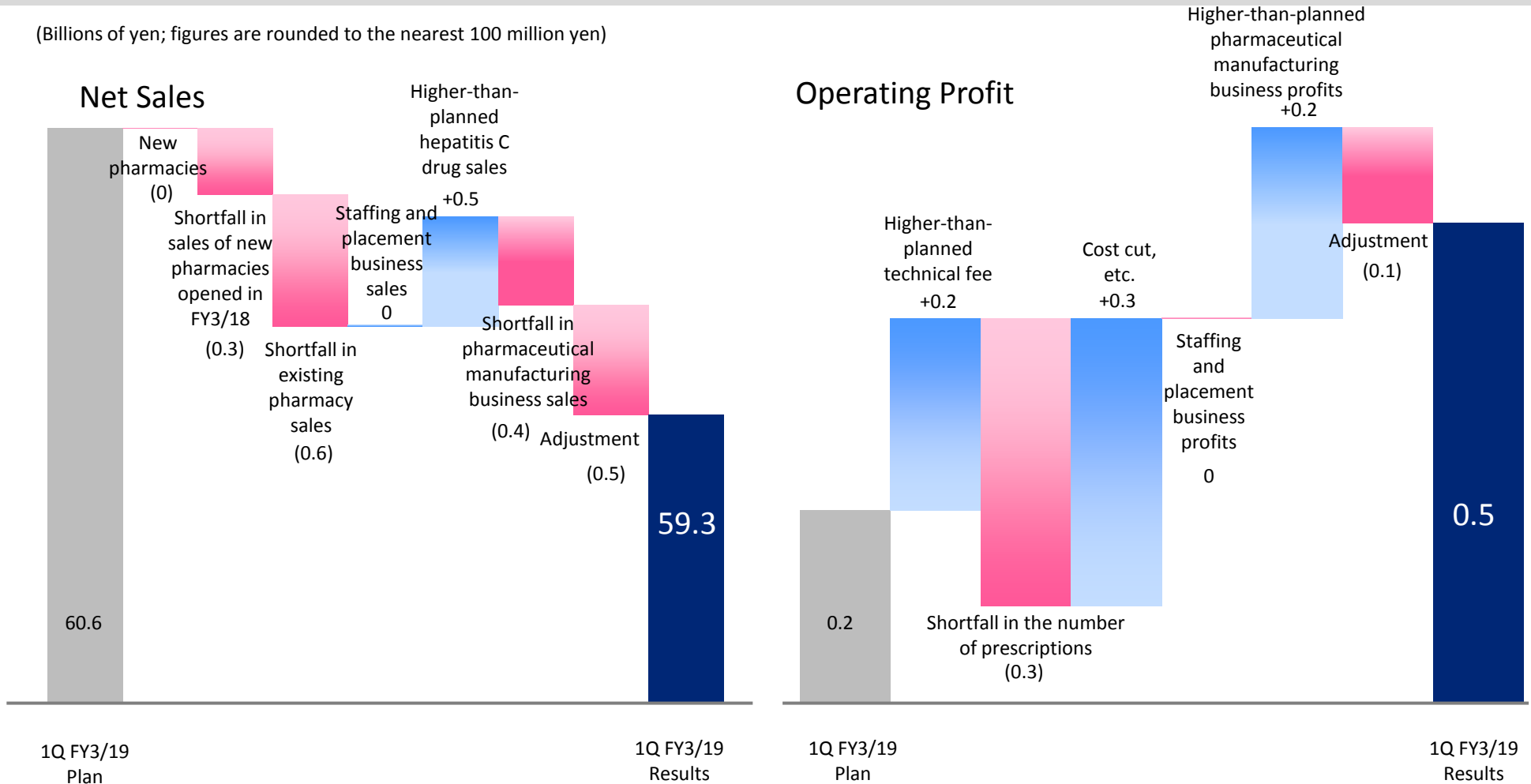
Operating Profit



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

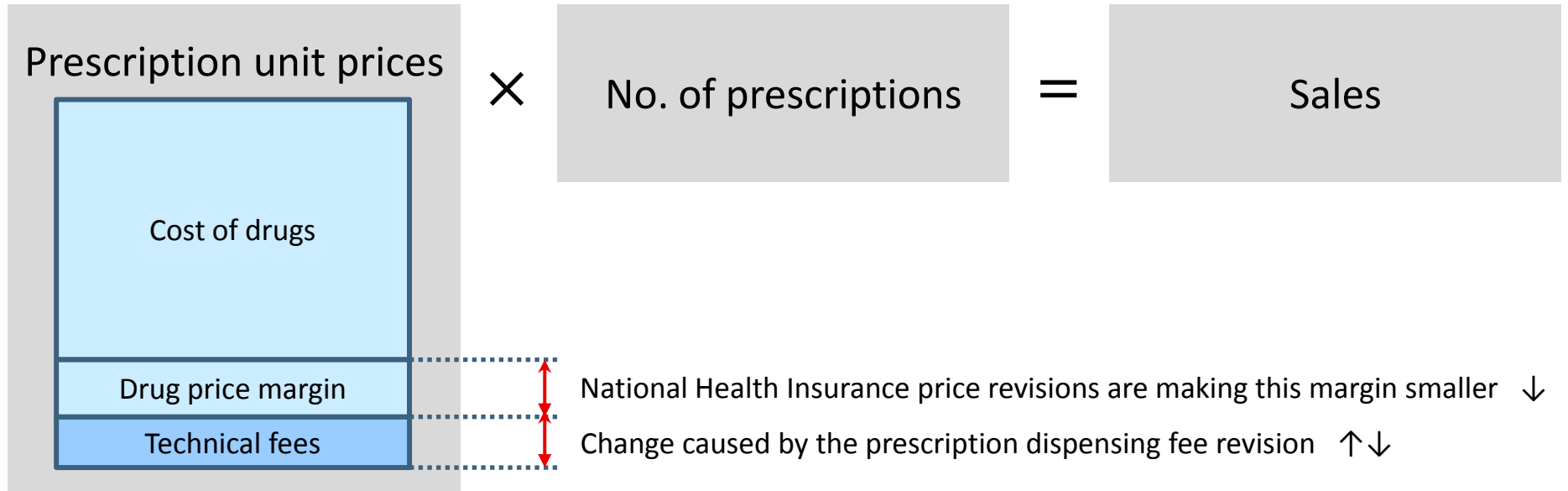
Sales were slightly below the plan because the increase in the number of prescriptions did not offset the decrease in prescription unit prices. Operating profit was higher than planned mainly because of reexaminations of expenses in all business segments.

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

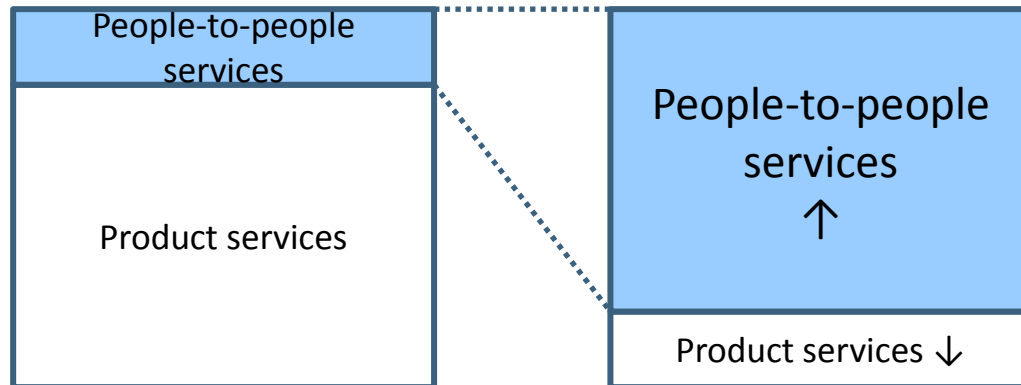


Dispensing Pharmacy Business / Changes in Dispensing Pharmacy Profit Structure

Changes in Dispensing Pharmacy Profit Structure



Changes in technical fees



“Emphasis on evaluation of people-to-people services”

Vision of Pharmacies for Patients, Ministry of Health, Labour and Welfare

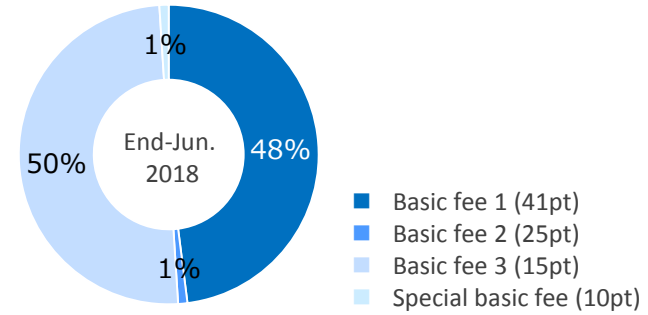
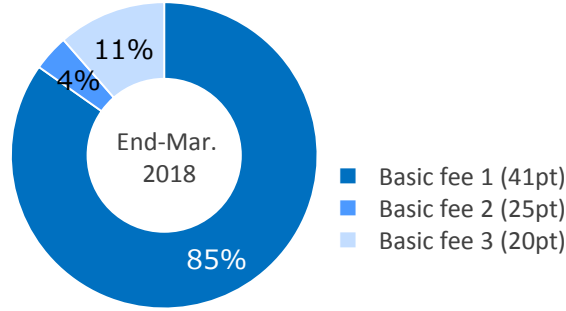
Dispensing Pharmacy Business / Progress with Increasing Technical Fees

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

Pharmacies receiving the Generic Drug Dispensing System Type III premium have increased from 38% in April to 43% in June.

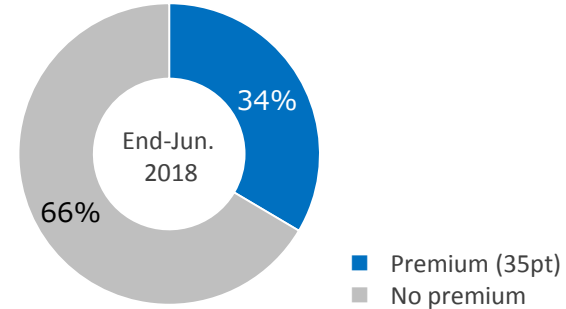
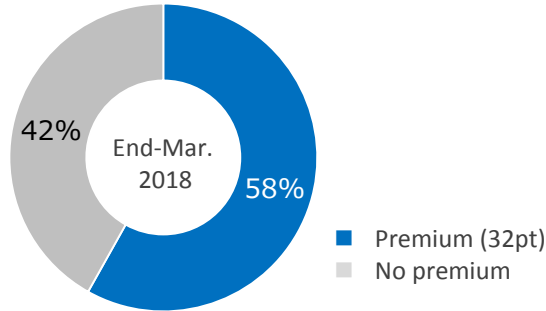
Note: Figures on this page include all pharmacies, including newly opened locations.

Basic Dispensing Fee

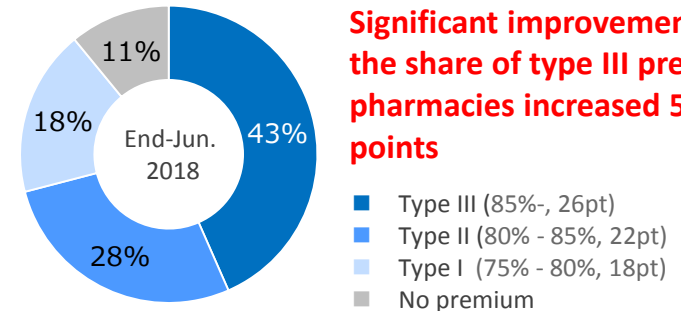
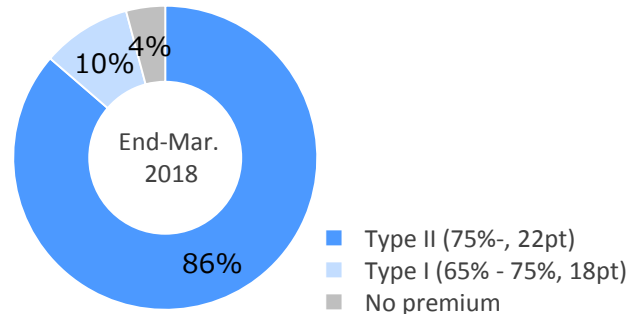


Premium for Standard Dispensing System

↓
Premium for regional support system



Premium for Generic Drug Dispensing System



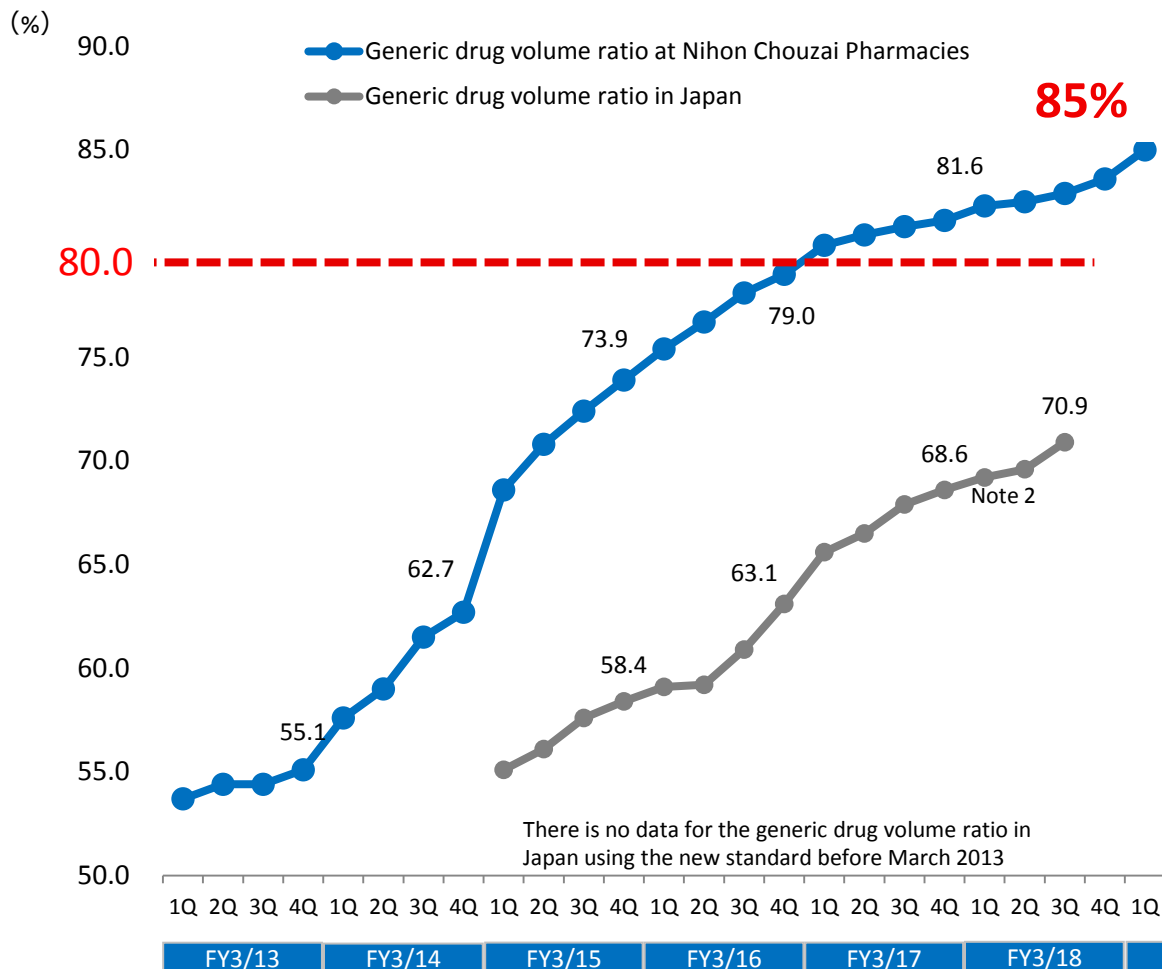
Significant improvement as the share of type III premium pharmacies increased 5 pct. points

Dispensing Pharmacy Business / Actions to Hold Down the Growth in Health Care Expenditures

Increase the Use of Generic Drugs

The government target of 80% has been reached. → The volume-based share has continued to climb and is now above 85%

Growth in Generic Drug Volume



Surpassed 85!

The government target of 80% has been reached

Reduction in medical expenses due to increasing the use of generic drugs (Year ended March 2018)

23.7 billion yen

1Q FY3/19: 5.9 billion yen

- Note 1: Cabinet Office, Government of Japan, Basic Policy on Economic and Fiscal Management and Reform 2017
- Note 2: The Ministry of Health, Labour and Welfare, Trends in Prescription Drug Expenses
Volume-based Generic Drug Share (New indicator)

Opened “NICH0+Kurashiki”

June 1, 2018

<https://www.nicho.co.jp/corporate/info/18922/>

NICH0+Kurashiki store opened

A new business that operates health care shops for self-medication



Shop Concept

Safe and reliable self-medication products selected with the assistance of drug and nutrition professionals

A Health Check-up Station that helps prevent diseases

Digital signage to sell many types of products in a small space

NICH0+ is a new Nihon Chouzai brand for stores selling merchandise centered on OTC drugs and health care products. The brand uses the slogan “more health in your life.” By operating a chain of stores selling products that help people lead more healthy lives, NICH0+ is dedicated to improving the health of people in all areas of Japan.

NICH0+Kurashiki is the second store after NICH0+Irinaka in Nagoya, which was the first store opened in December 2017 to use this brand. Nihon Chouzai will continue to be a source of a diverse array of health-related services throughout Japan in order to contribute to the provision of high-quality medical services.

Obtained “Eruboshi” Certification (highest level)

June 25, 2018

<https://www.nicho.co.jp/corporate/info/19193/>

Nihon Chouzai received the highest level of “Eruboshi” certification based on the Act on Promotion of Women’s Participation and Advancement in the Workplace



The medical clerical procedures leadership seminar



Eruboshi Grade 3 is the highest level of this certification

< Examples of how Nihon Chouzai supports women >

- Work-family life balance programs (alliance with non-certified nursery school, alliance with babysitting service, numerous child care subsidies)
- Training programs and seminars to make employees more aware of issues concerning women in the workplace
- Medical clerical procedures leadership seminar

Nihon Chouzai has a strong commitment to maintaining a pleasant and productive workplace environment for women as well as to equal opportunities for men and women. There are many activities for these purposes.

On June 14, 2018, Nihon Chouzai **received Grade 3** “Eruboshi” certification as an outstanding company based on the Act on Promotion of Women’s Participation and Advancement in the Workplace.

Nihon Chouzai wants everyone to have the opportunity to upgrade skills and advance their careers and aims for the company’s sustainable growth. By using many programs and creating positive environments, the goal is to play a role in the provision of high-quality medical services.

Development Bank of Japan Employees' Health Management Rating

July 17, 2018

<https://www.nicho.co.jp/corporate/info/19513/>

Nihon Chouzai became the first pharmacy company to receive the DBJ Employees' Health Management Rating

< Reasons for receipt of this rating >

Education for pharmacists is one of the highest priorities of the pharmacy business. Nihon Chouzai has an e-learning program and training activities designed for different job categories and levels. In addition, there are full-time training personnel at branch offices throughout Japan to assist employees achieve their career goals. There is also a JP-STAR Pharmacist Stage System, which enables pharmacists to earn one of four ratings by acquiring knowledge and skills designated by Nihon Chouzai. These activities give the company a pleasant and rewarding workplace environment.

Pharmacies accurately monitor and manage working time by using measures that include a prescription system with biometric authentication. At Board of Directors meetings every month, the reasons that people worked long hours are identified and actions are determined for reducing overtime work in the associated departments. These measures help maintain working time at a suitable level.

Nihon Chouzai is increasing the use of technologies like the Okusuri Techo Plus electronic medication notebook and Health Check-up Stations for health measurements and consultations at pharmacies. The objective is to contribute to improving the health of customers and others through pharmacy operations.

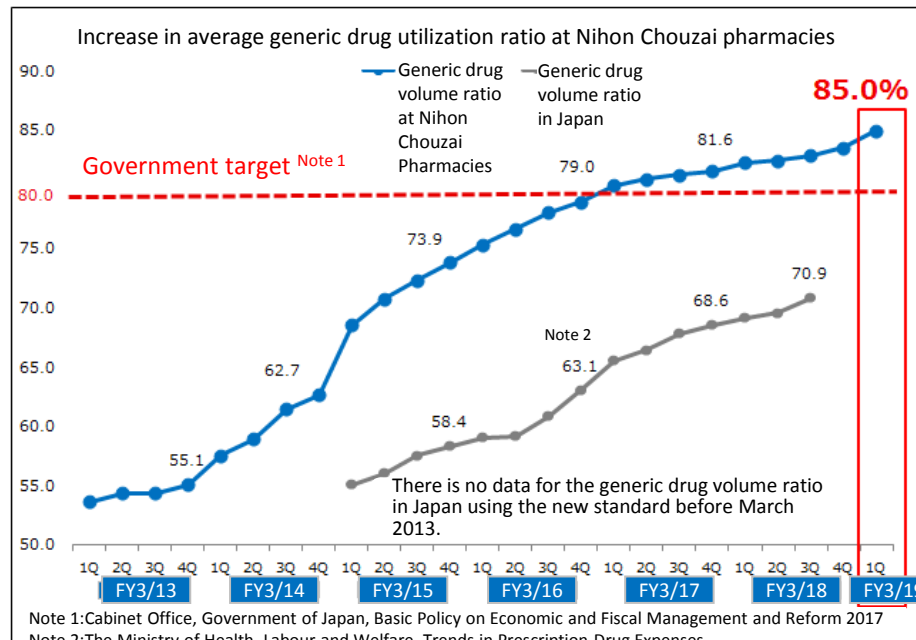
Nihon Chouzai has become the first company engaged primarily in the dispensing pharmacy business to receive a DBJ Employees' Health Management Rating under the Health Management Rated Loan Program of Development Bank of Japan Inc. Nihon Chouzai remains committed to helping employees preserve and improve their health in order to contribute to society as a source of high-quality medical services.

Generic Drug Use Increases to 85% Based on Volume

July 24, 2018

<https://www.nicho.co.jp/corporate/info/19525/>

The average ratio of generic drug use based on volume at all Nihon Chouzai pharmacies reached 85% in June 2018



Many measures for increasing the use of generic drugs

Pharmacies constantly maintain a large selection of approximately 500 types of generic drugs

Many initiatives for providing patients with information about generic drugs

Estimated annual saving of about 23.7 billion yen (in FY3/18) from switching individuals from original to generic drugs

Nihon Chouzai Group member Nihon Generic Co., Ltd. supplies high-quality generic drugs to Nihon Chouzai pharmacies and other pharmacies and medical institutions in Japan

Nihon Chouzai is dedicated to increasing the understanding and use of generic drugs, which cost much less than other drugs. In June 2018, generic drugs accounted for 85% by volume of all prescriptions at Nihon Chouzai pharmacies.

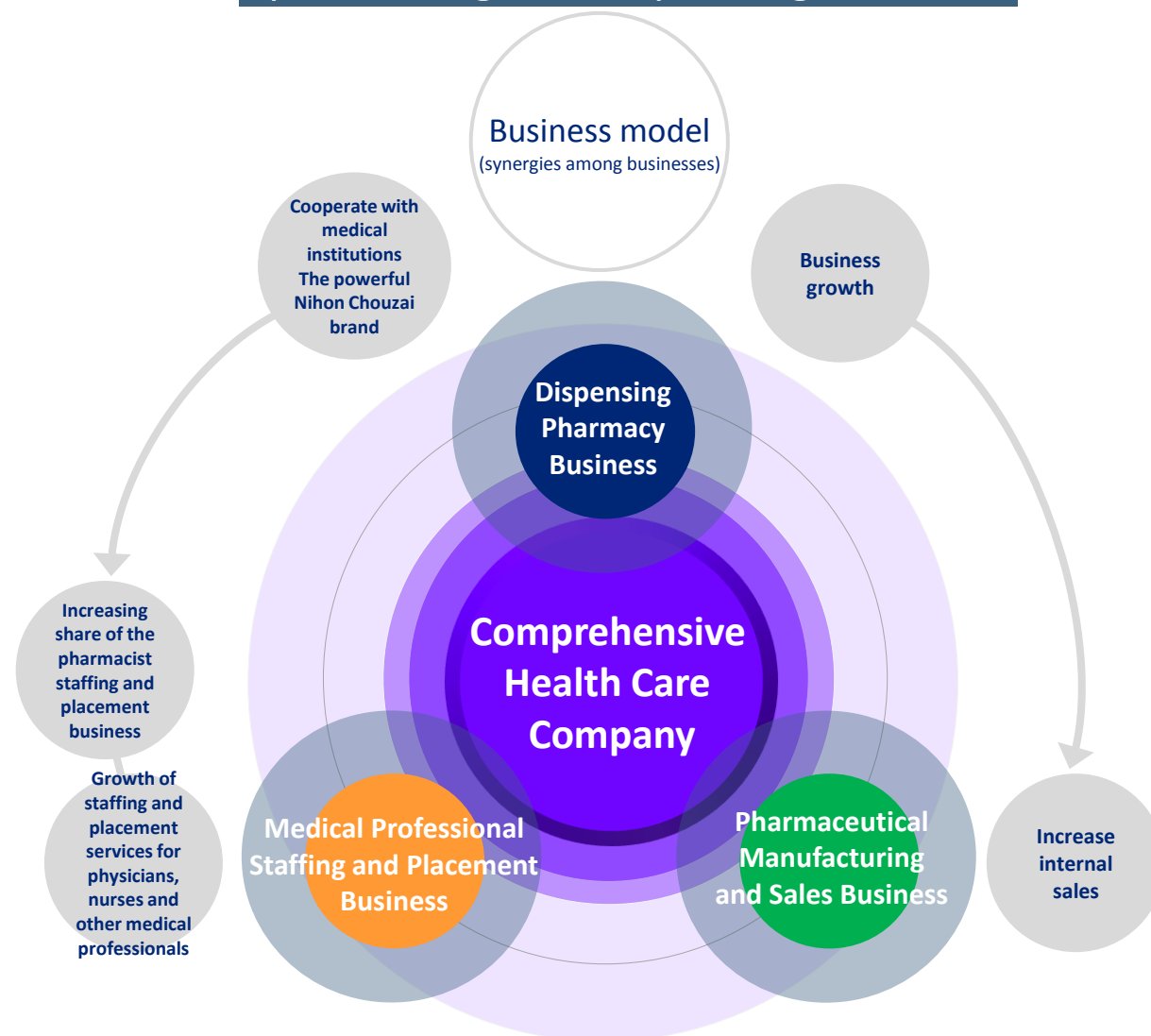
Nihon Chouzai will continue to use many activities to increase the use of generic drugs as an effective way to reduce the cost of health care in Japan.

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	Hiroshi Mitsuhara
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	4,876 (as of March 31, 2018) Note: Including part-time employees based on 8-hour conversion, consolidation basis
Number of pharmacies	Dispensing pharmacies: 589 Pharmacies specializing in the sales of general merchandise: 3 (as of June 30, 2018)

Our Objective

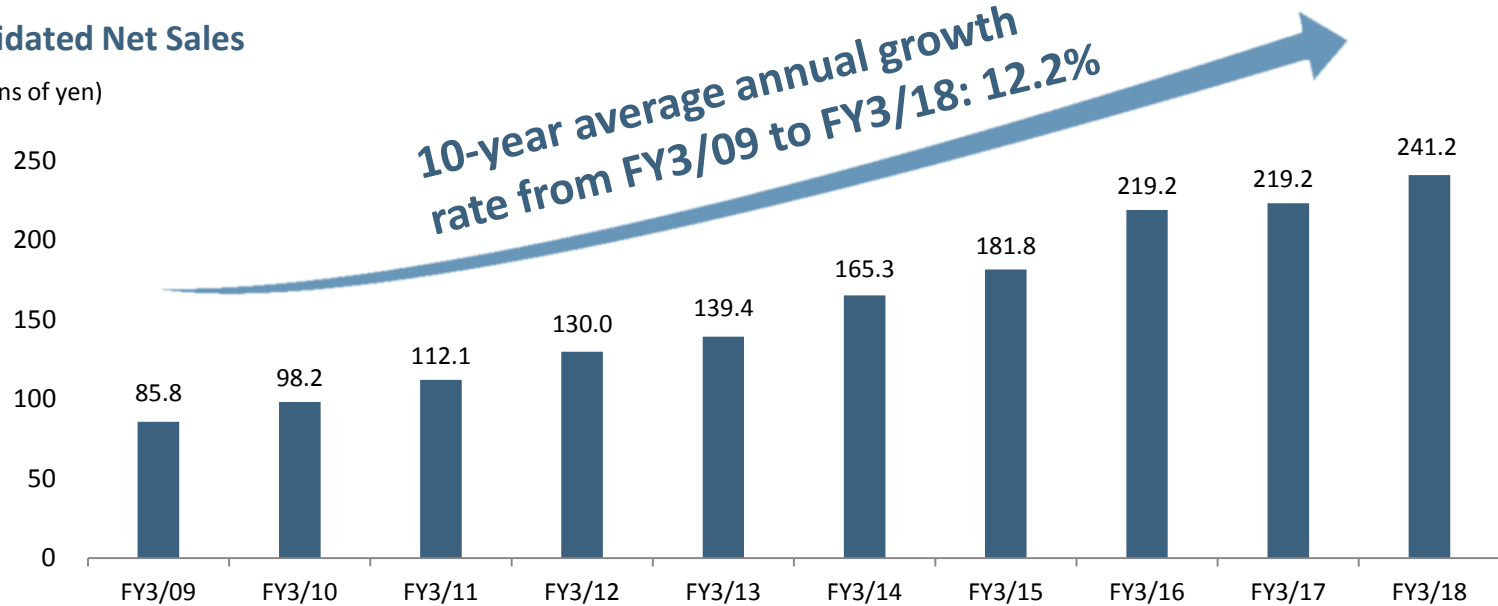
“True separation of the roles of drug prescribing and dispensing services”



Consolidated Results: Net Sales / Operating Profit

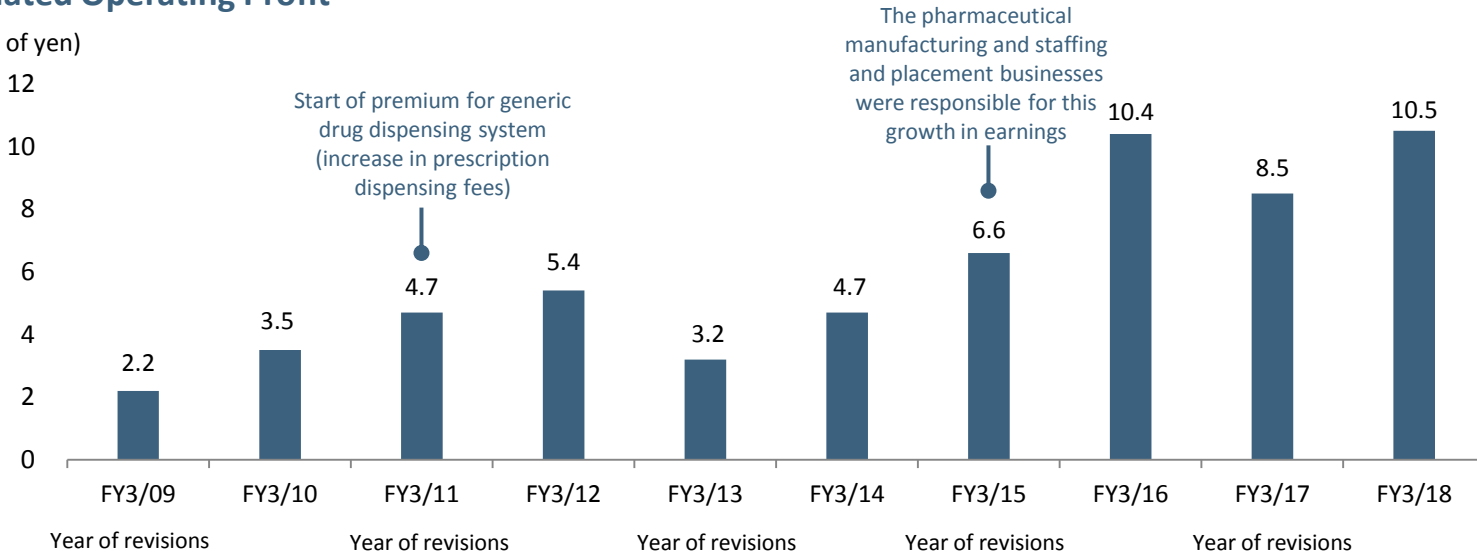
Consolidated Net Sales

(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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