

February 9, 2018

Results of Operations for the Third Quarter of the Fiscal Year Ending March 31, 2018 (April 1, 2017 to December 31, 2017)

 NIHON CHOUZAI Co.,Ltd.

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

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I. 3Q FY3/18 Consolidated Financial Highlights

Consolidated Statement of Income

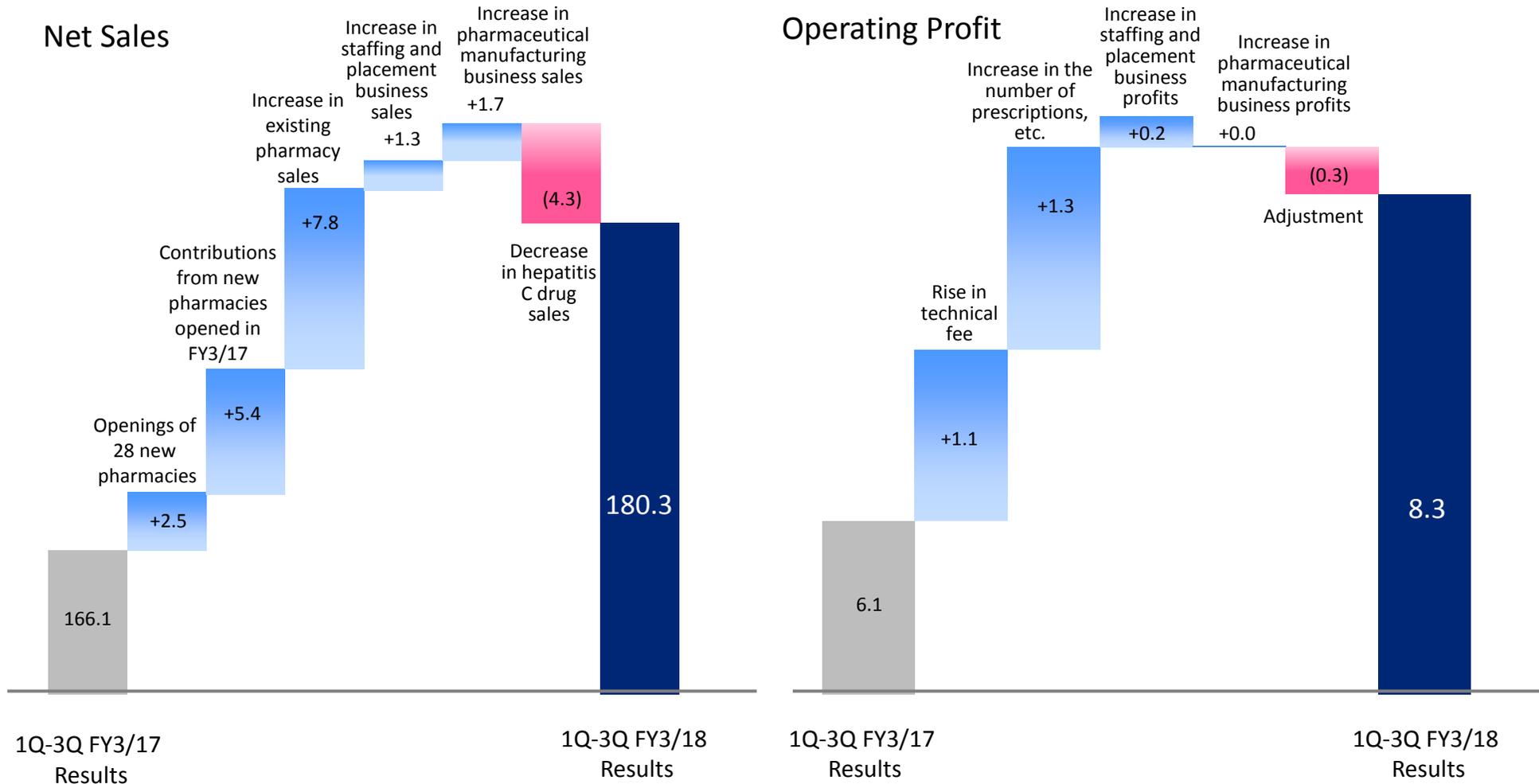
- Strong growth in sales and earnings resulted in a new record high following the 2Q all-time high earnings.
- Consolidated net sales increased 11.8% YoY excluding the impact of hepatitis C drugs.

(Millions of yen)	1Q-3Q FY3/16 Results	1Q-3Q FY3/17 Results	1Q-3Q FY3/18 Plan	1Q-3Q FY3/18 Results	YoY change	YoY growth rate	Vs. plan
Net sales	158,645	166,051	174,734	180,250	14,199	+8.6%	+3.2%
Cost of sales	130,386	137,190	142,809	147,146	9,955	+7.3%	+3.0%
Gross profit	28,259	28,860	31,924	33,103	4,243	+14.7%	+3.7%
% to sales	17.8%	17.4%	18.3%	18.4%	-	-	-
SG&A expenses	20,905	22,759	24,135	24,775	2,016	+8.9%	+2.6%
% to sales	13.2%	13.7%	13.8%	13.7%	-	-	-
Consumption taxes	8,751	8,845	8,211	9,199	354	+4.0%	+12.0%
R&D expenses	1,275	1,581	2,260	2,013	432	+27.3%	-10.9%
Operating profit	7,353	6,101	7,788	8,328	2,227	+36.5%	+6.9%
% to sales	4.6%	3.7%	4.5%	4.6%	-	-	-
Ordinary profit	6,889	5,773	7,589	7,988	2,215	+38.4%	+5.3%
% to sales	4.3%	3.5%	4.3%	4.4%	-	-	-
Profit attributable to owners of parent	4,305	3,307	4,456	5,015	1,708	+51.6%	+12.6%
% to sales	2.7%	2.0%	2.6%	2.8%	-	-	-
Net income per share (Yen)	303.88	206.81	278.62	313.61	106.80	+51.6%	+12.6%

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

- Sales increased in all business segments.
- Operating profit was higher mainly because dispensing pharmacy sales rose due to increases in the number of prescriptions and the technical fee.

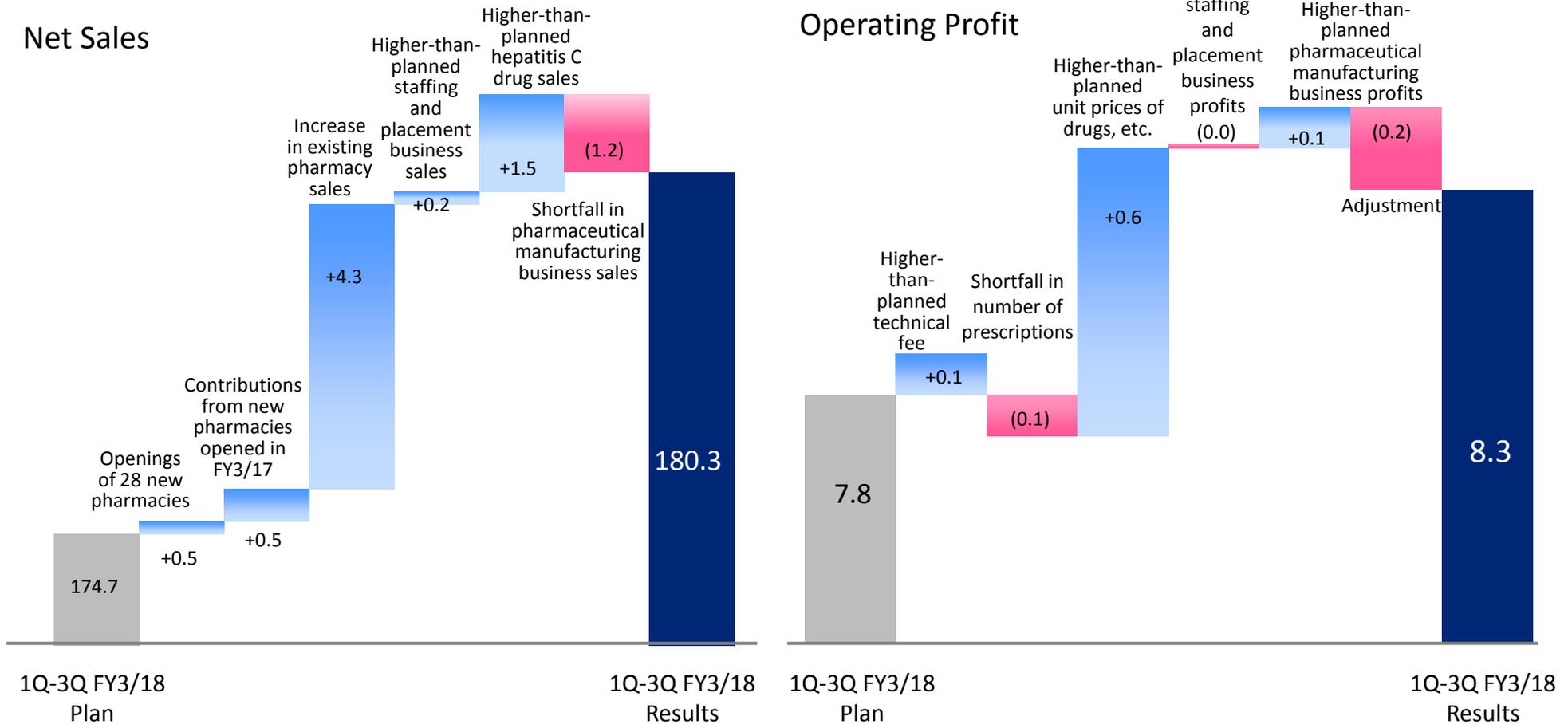
(Billions of yen; figures are rounded to the nearest 100 million yen)



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

- Sales growth was backed by higher existing pharmacy sales in the dispensing pharmacy business.
- Higher-than-planned unit prices of drugs in the dispensing pharmacy business was the main reason for operating profit growth.

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



Consolidated Balance Sheet

- Main reasons for asset growth were increases in merchandise and finished goods and in the construction in progress due to ongoing construction of Tsukuba Plant No. 2.
- The equity ratio improved by 1.1% from the end of FY3/17 as retained earnings increased.

(Millions of yen)	End of Dec. 2016 (3Q FY3/17)	End of Mar. 2017 (FY3/17)	End of Dec. 2017 (3Q FY3/18)	Change from the end of FY3/17	Change from the end of FY3/17 (%)
Current assets	79,836	82,327	85,480	3,152	+3.8%
Non-current assets	90,790	96,019	102,121	6,101	+6.4%
Property, plant and equipment	63,366	68,513	74,437	5,924	+8.6%
Intangible assets	16,495	16,773	17,863	1,090	+6.5%
Investments and other assets	10,928	10,733	9,820	(912)	-8.5%
Total assets	170,626	178,347	187,601	9,254	+5.2%
Current liabilities	72,074	66,305	73,574	7,268	+11.0%
Non-current liabilities	63,446	75,595	73,607	(1,987)	-2.6%
Total liabilities	135,521	141,900	147,181	5,281	+3.7%
Total net assets	35,104	36,447	40,419	3,972	+10.9%
Shareholders' equity	35,104	36,447	40,419	3,972	+10.9%
Equity ratio	20.6%	20.4%	21.5%	-	-

II. 3Q FY3/18 Segment Information

Dispensing Pharmacy Business / Statement of Income

- Segment sales achieved a double-digit growth of 12.5% YoY excluding the impact of hepatitis C drugs.
- Operating profit significantly increased due to more prescriptions at existing pharmacies and higher prescription unit prices.

(Millions of yen)	1Q-3Q FY3/16 Results	1Q-3Q FY3/17 Results	1Q-3Q FY3/18 Plan	1Q-3Q FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY3/18 Plan
Net sales	137,850	140,758	146,210	152,799	12,041	+8.6%	+4.5%	196,681
Cost of sales	117,170	119,717	123,589	128,167	8,450	+7.1%	+3.7%	166,685
Gross profit	20,679	21,041	22,621	24,632	3,590	+17.1%	+8.9%	29,995
% to sales	15.0%	14.9%	15.5%	16.1%	-	-	-	15.3%
SG&A expenses	13,532	14,341	14,288	15,581	1,239	+8.6%	+9.1%	18,975
% to sales	9.8%	10.2%	9.8%	10.2%	-	-	-	9.6%
Operating profit	7,147	6,699	8,333	9,050	2,351	+35.1%	+8.6%	11,019
% to sales	5.2%	4.8%	5.7%	5.9%	-	-	-	5.6%
No. of pharmacies at the end of each period	524	553	594	580	27	+4.9%	-2.4%	607
Prescription drug sales per pharmacy ^{note}	266	260	254	268	8	+3.1%	+5.8%	327

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

YoY Growth Rate by Year of Opening

	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	+3.3%	+1.0%	+2.2%
Pharmacies opened in FY3/17	+142.7%	+131.0%	+5.0%
Total	+8.4%	+6.1%	+2.2%

Prescriptions

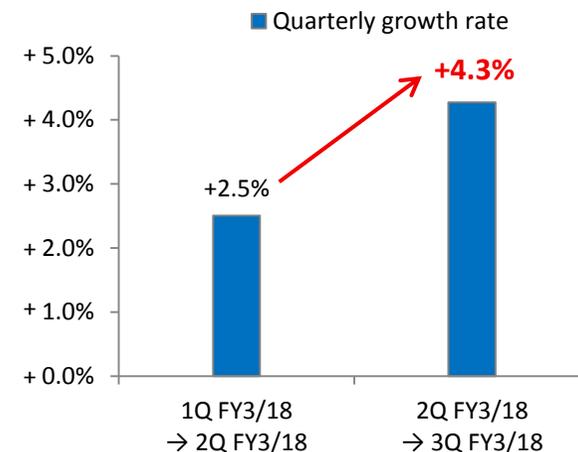
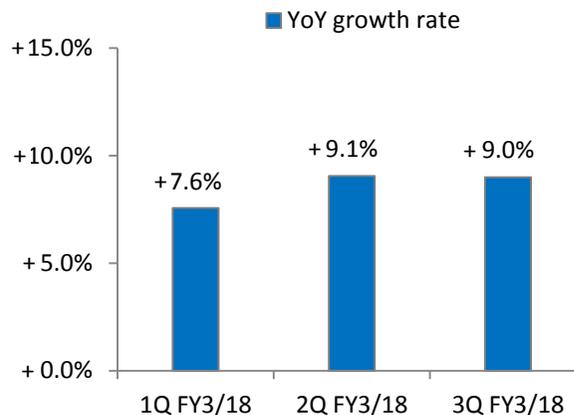
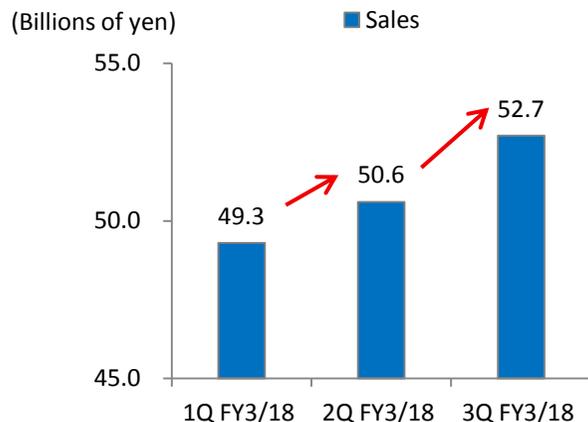
	3Q Results (end-Dec. 2017)	YoY growth rate
No. of prescriptions	10,256 thousand	+6.1%
Prescription unit prices	14,701 yen	+2.2%
Excluding hepatitis C drugs	14,228 yen	+5.9%

Dispensing Pharmacy Business / Quarterly Sales and No. of Prescriptions

- Quarterly sales growth rate steadily increased to 104.3% from 2Q to 3Q FY3/18.
- Quarterly growth rate of prescriptions also increased to 103.2%.

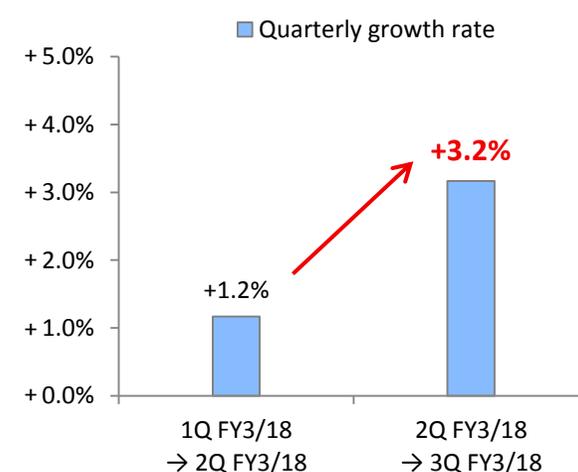
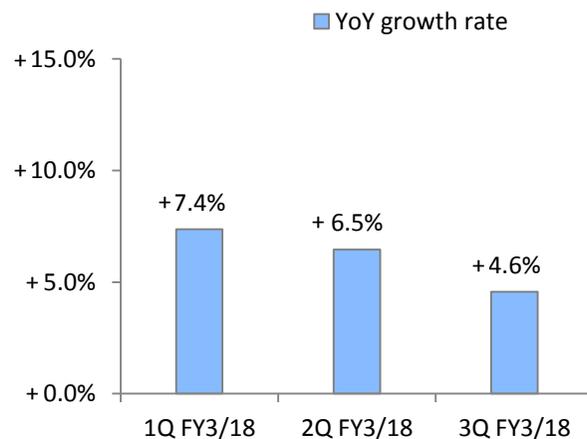
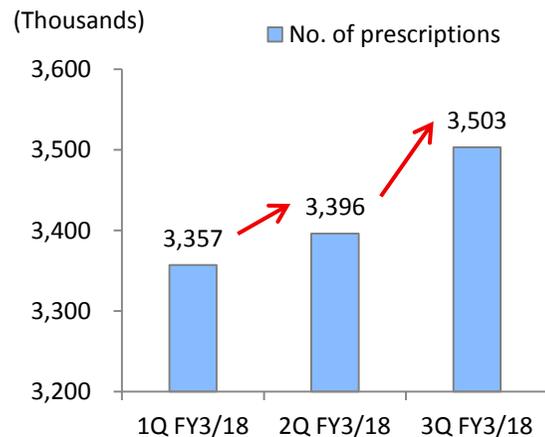
Quarterly Sales (three month basis)

(Billions of yen)



Quarterly No. of Prescriptions (three months basis)

(Thousands)



Dispensing Pharmacy Business / Pharmacy Portfolio Strategy (1)

- Implemented numerous mergers and acquisitions while adhering to strict standards
- Big decline in closings because of improved accuracy for opening new pharmacies

Total No. of Pharmacies (end of December 2017)

Stores opened:

Organic growth	: 17 stores
M&A	: 11 stores
Total	: 28 stores

No. of pharmacies at

the end of period : 580 stores (Including two locations specializing in the sales of general merchandise)

Store Openings by Region (end of December 2017)

Hokkaido	46
Tohoku	44
Kanto/Koshinetsu	308
Tokai	52
Kansai/Hokuriku	60
Chugoku/Shikoku	34
Kyushu/Okinawa	36
Total	580

Store Openings (No. of pharmacies)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	1Q-3Q FY3/18
Opened	59	37	29	27	42	28
Organic growth	59	33	28	22	21	17
M&A	-	4	1	5	21	11
Closed	10	9	12	11	12	5
No. of pharmacies at the end of each period	466	494	511	527	557	580

Dispensing Pharmacy Business / Pharmacy Portfolio Strategy (2)

- Newly opened “*mentaio*,” MC*¹, and hybrid pharmacies*² significantly increased.
- Open pharmacies with the Vision of Pharmacies for Patients under strict standards

*1 MC is medical mall pharmacies.

*2 Hybrid pharmacies combine the growth of “*mentaio*” pharmacies with the stability of MC pharmacies.

Pharmacies Opened by Category (end of December 2017)

	3Q-end FY3/17	3Q-end FY3/18
Opened	34	28
Hospital-front pharmacies	30	16
MC / “ <i>mentaio</i> ” pharmacies	4	12
Closed	8	5
No. of pharmacies at the end of period	553	580

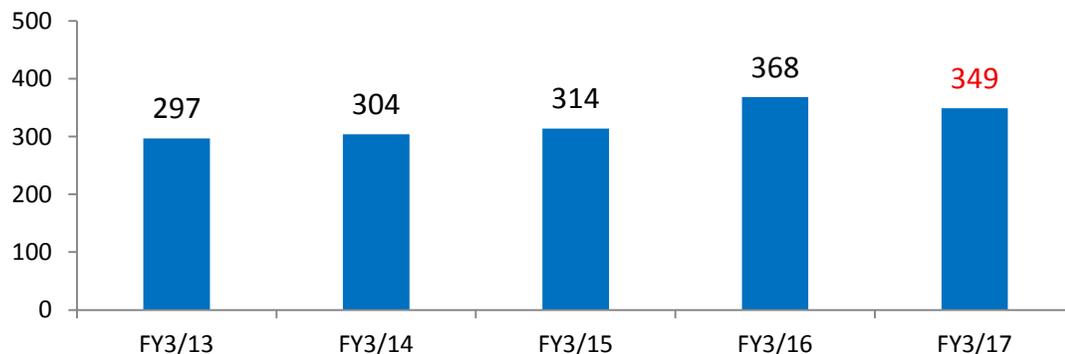
Open hybrid pharmacies faster

Benefits of reinforced organization

(Reorganized MC and “*mentaio*” department into two departments and increased the staffing of these departments)

Prescription Drug Sales per Pharmacy

(Millions of yen) ■ Annual sales per pharmacy (Nihon Chouzai pharmacies)



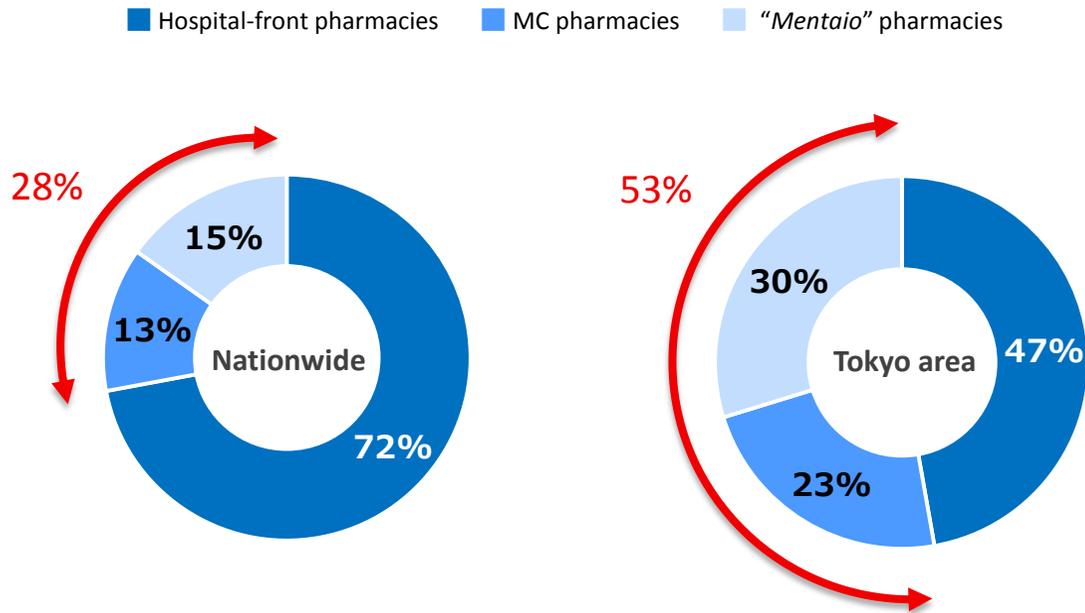
Open pharmacies using strict standards to achieve the Vision of Pharmacies for Patients

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

Dispensing Pharmacy Business / Pharmacy Portfolio Strategy (3)

- **“Mentaio” and MC pharmacies have been raised to 53% of all locations in the Tokyo area.**
(Average of 28% for all Nihon Chouzai pharmacies)
- **Add a health support function to help people prevent diseases by using health check-up stations**

Pharmacy Portfolio (end of December 2017)



Moving faster to open pharmacies in Tokyo area as well as the Osaka and Nagoya areas

Health check-up station

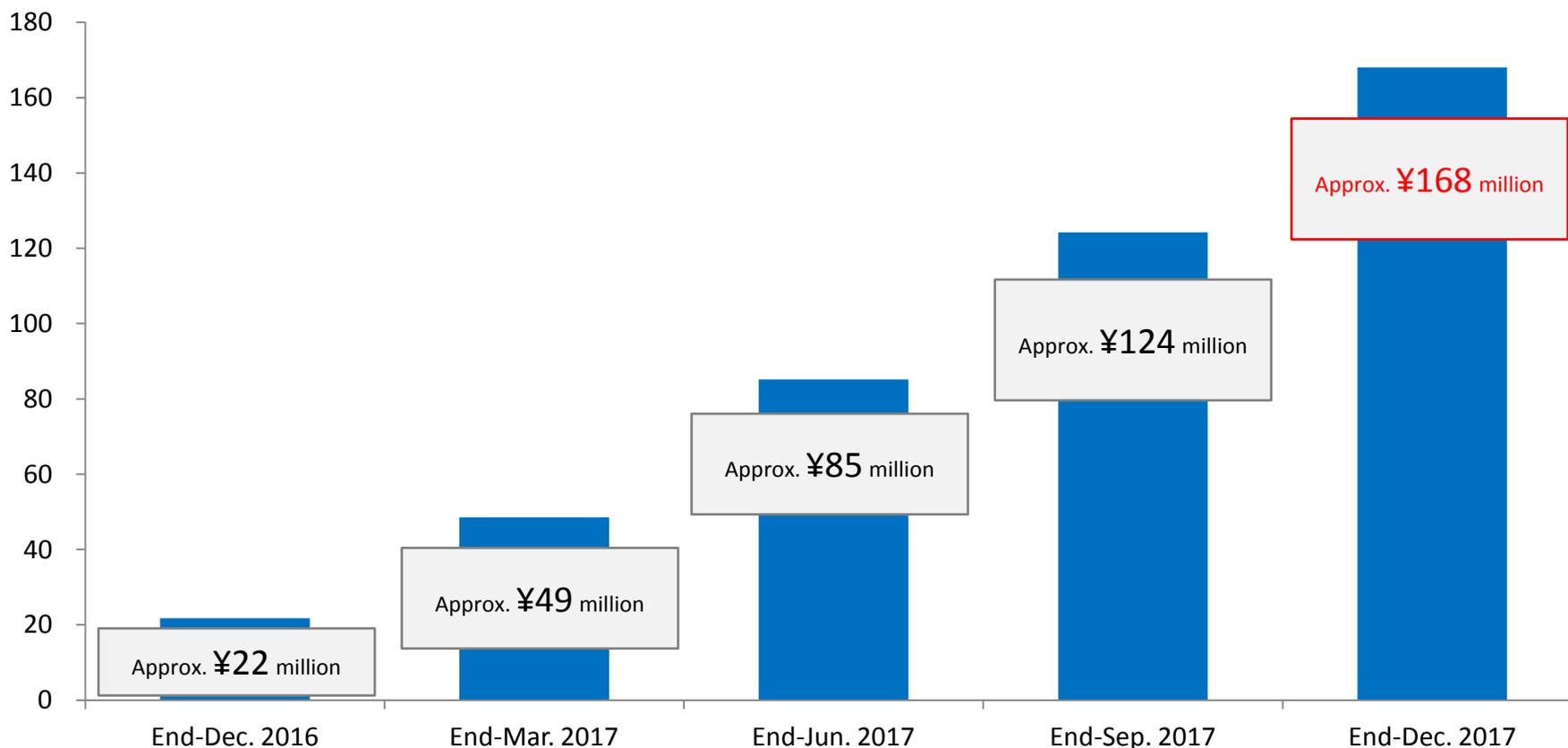


34 pharmacies had these stations at the end of January 2018 and the number is increasing quickly to reach the medium-term goal of 150.

- Increased measures for left-over/unused drugs have reduced drug expenses by about a cumulative 168 million yen. Family pharmacists have made a big contribution to this saving.

■ Cumulative Reduction due to Left-over/Unused Drug Management

(Millions of yen)

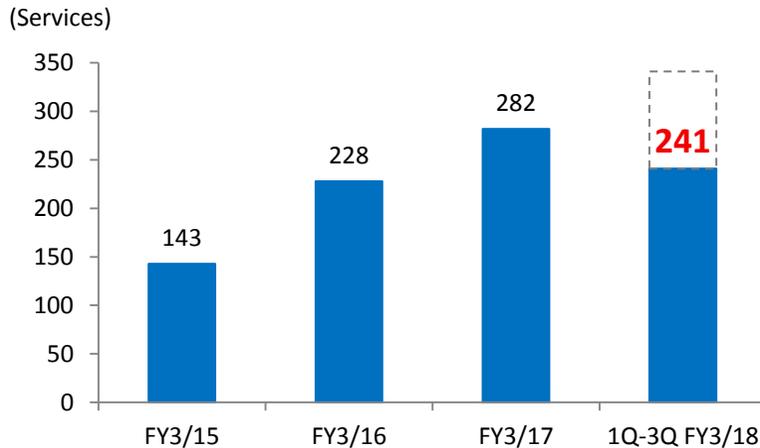


At-home Medical Care Initiatives

- Consistent growth in at-home medical services provided per pharmacy (241 per pharmacy in first nine months of FY3/18)
- The share of pharmacies offering at-home medical care is very high at 90%.

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

At-home Medical Care Services Provided per Pharmacy



Share of all Nihon Chouzai pharmacies offering at-home medical care

90%

Note: At-home Medical Care Services Provided per Pharmacy = No. of services / Average No. of pharmacies during the period
Note: Share of all Nihon Chouzai pharmacies offering at-home medical care is the result at the end of the period. (Pharmacies that provided at-home medical care in the prior 12 months)

Major At-home Medical Care Activities



- Training of pharmacists specializing in at-home medical care



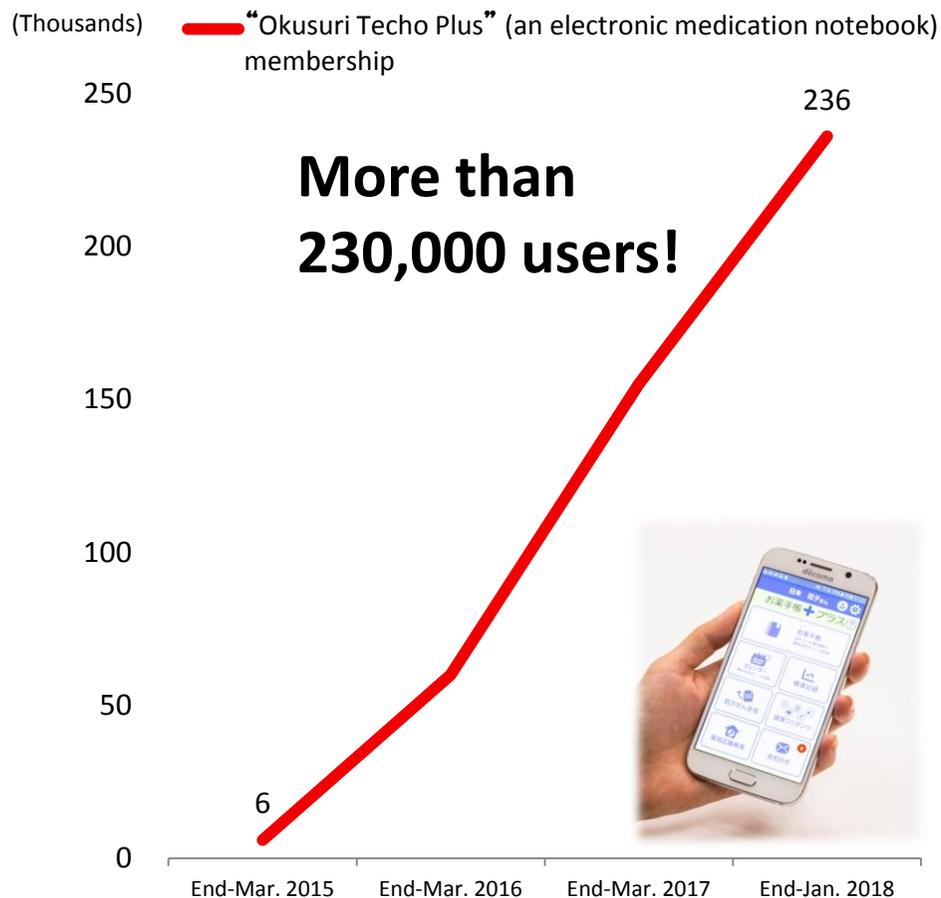
- Sterile rooms for drug dispensing



- Use iPads for patient information
- Collaboration with physicians/nursing care providers

- Use as an ICT tool for centralization of drug use data for continuous monitoring

“Okusuri Techo Plus” (an electronic medication notebook) Membership



Nihon Chouzai Electric Medication Notebook

Monitoring drug use data with smartphone

Okusuri Techo + Plus

Electronic medication notebook + PHR (Personal Health Record)

Top-level membership in the dispensing pharmacy industry

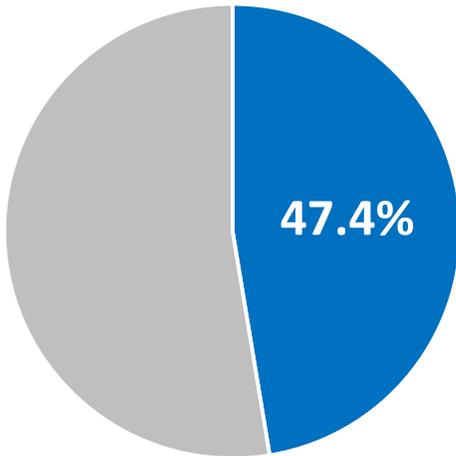
Improving functions by developing Nihon Chouzai own system

Family Pharmacist and Family Pharmacy Activities

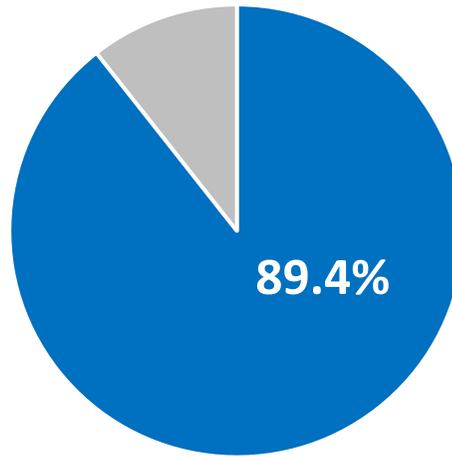
- Increase family pharmacist and pharmacy activities to reflect the Vision of Pharmacies for Patients
- Pct. of family pharmacists: 47.4% → Continue increasing

Family Pharmacist and Pharmacy Activities (as of January 16, 2018)

■ Pct. of family pharmacists:



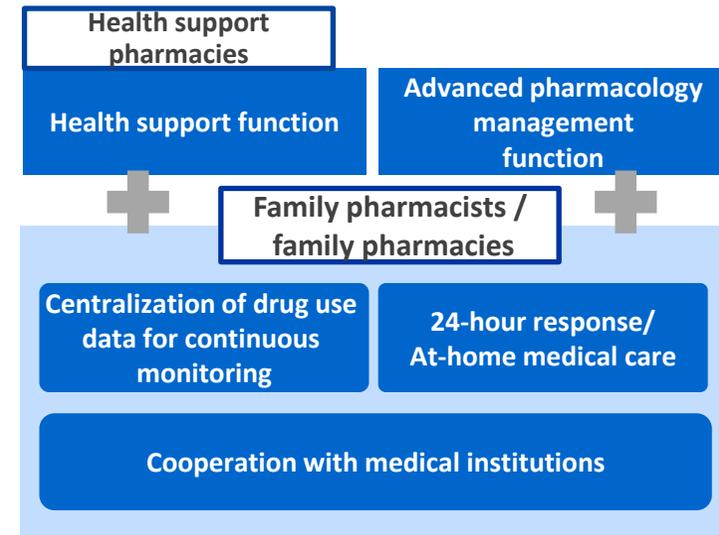
■ Pharmacies with a family pharmacist



Major requirements for family pharmacists

- At least 3 years at an insurance pharmacy
- At least 6 months at the current pharmacy
- At least 32 working hours every week
- Certified completion of extra pharmacist training

Vision of Pharmacies for Patients



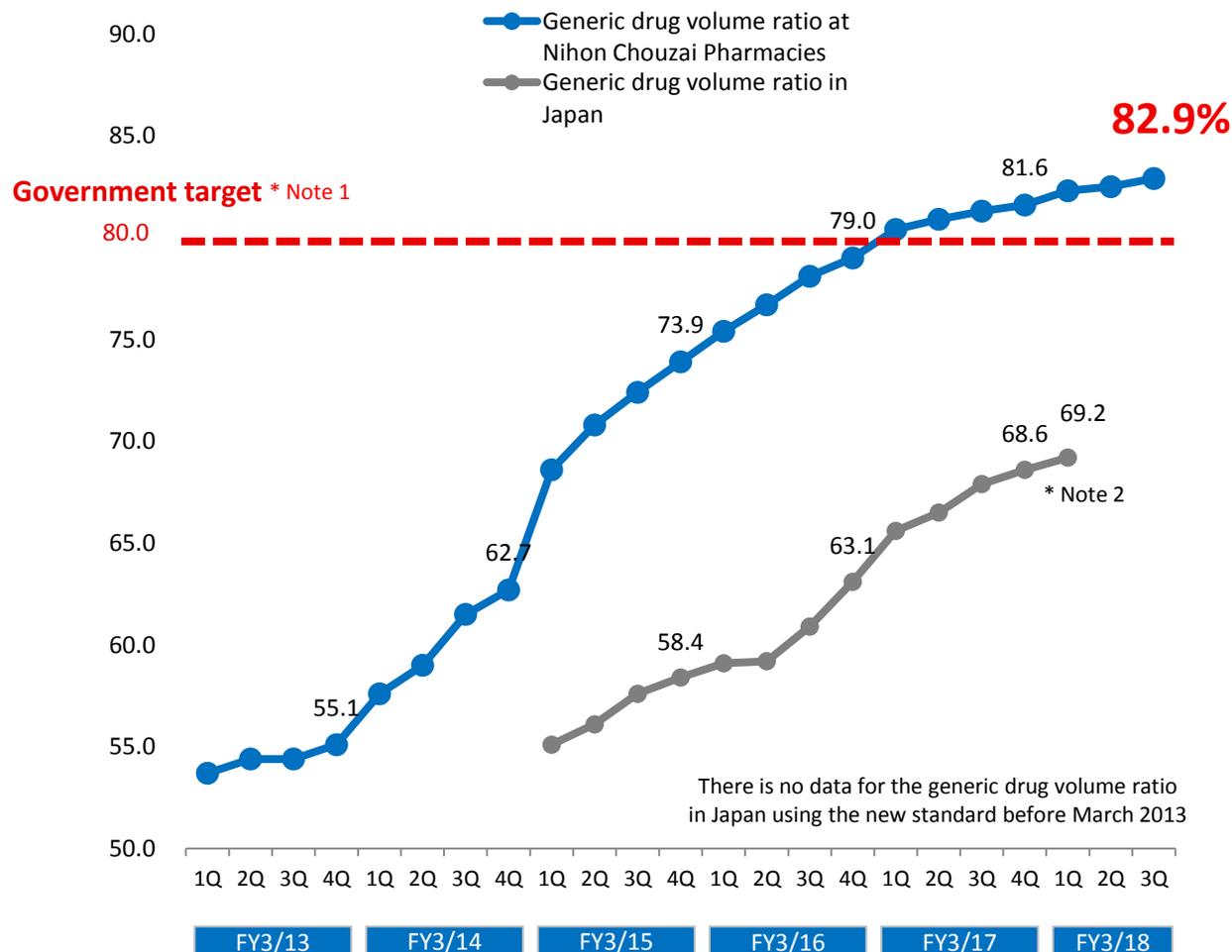
Note: Pct. of family pharmacists = No. of family pharmacists / all Nihon Chouzai Group pharmacists

Dispensing Pharmacy Business / Initiatives to Increase the Use of Generic Drugs

- The government target of 80% has been reached. → Still aiming for an even higher ratio
- 82%* of pharmacies receive the Premium for Generic Drug Dispensing System Type II due to a generic drug volume ratio of at least 75%.

* Refer to p.19 for details

Growth in Generic Drug Volume



Nihon Chouzai achieved the government target of 80%

Premium for Generic Drug Dispensing System (current)

Type II (75% or more)

Type I (65% or more)

No premium (less than 65%)

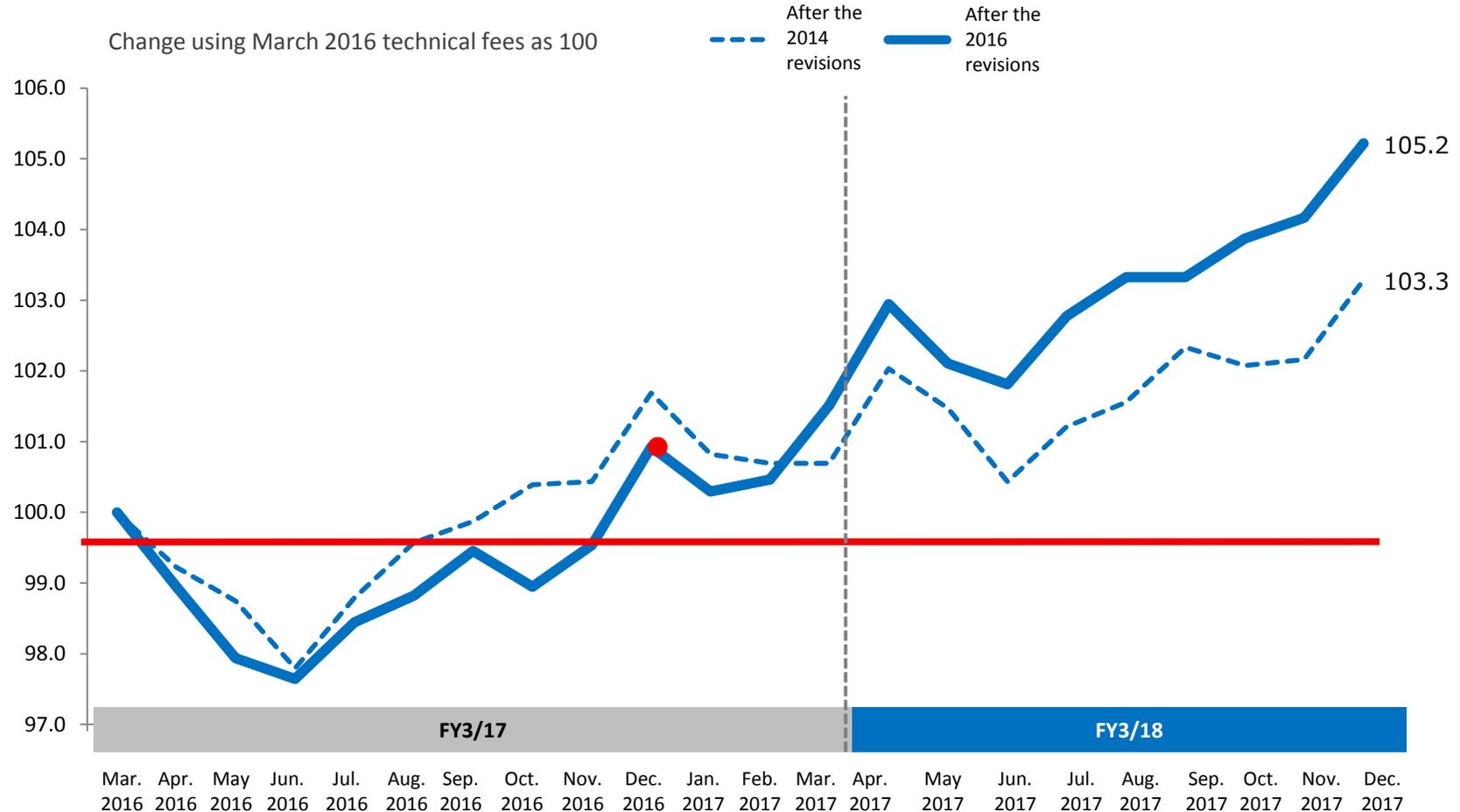
Note 1: Cabinet Office, Government Of Japan, Basic Policy on Economic and Fiscal Management and Reform 2017

Note 2: The Ministry of Health, Labour and Welfare, Trends in Prescription Drug Expenses

Dispensing Pharmacy Business / Progress with Increasing Technical Fees (1)

- Technical fees continued to improve at a high level.
- Ability to adapt to government policies, chiefly the Vision of Pharmacies for Patients → A powerful organization

Progress with Increasing Technical Fees



Note: For reference, the improvement following the previous prescription dispensing fee revision in April 2014 is shown using March 2014 technical fees as 100.

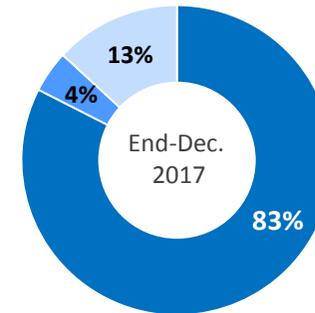
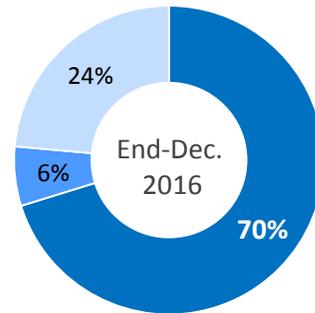
Dispensing Pharmacy Business / Progress with Increasing Technical Fees (2)

Improvements in the three major components (YoY change in pct. of pharmacies receiving each fee or premium)

- Steady improvements in all three fees are the result of numerous activities at pharmacies.
→ Higher fees reflect activities that are consistent with government policies, chiefly the Vision of Pharmacies for Patients.

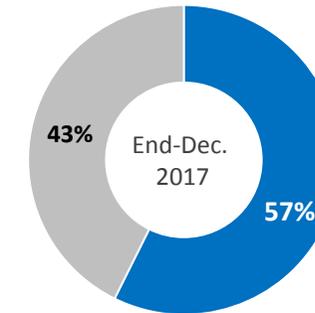
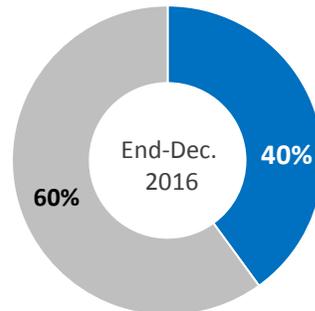
Note: Figures on this page include all pharmacies, including newly opened locations.

Basic Dispensing Fee



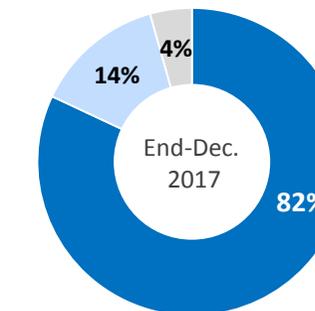
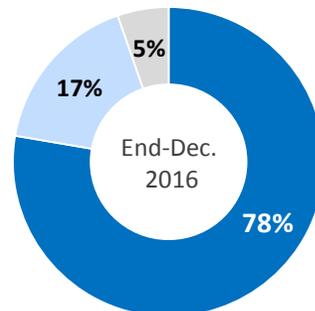
- Basic fee 1 (41pt)
- Basic fee 2 (25pt)
- Basic fee 3 (20pt)

Premium for Standard Dispensing System



- Premium (32pt)
- No premium

Premium for Generic Drug Dispensing System



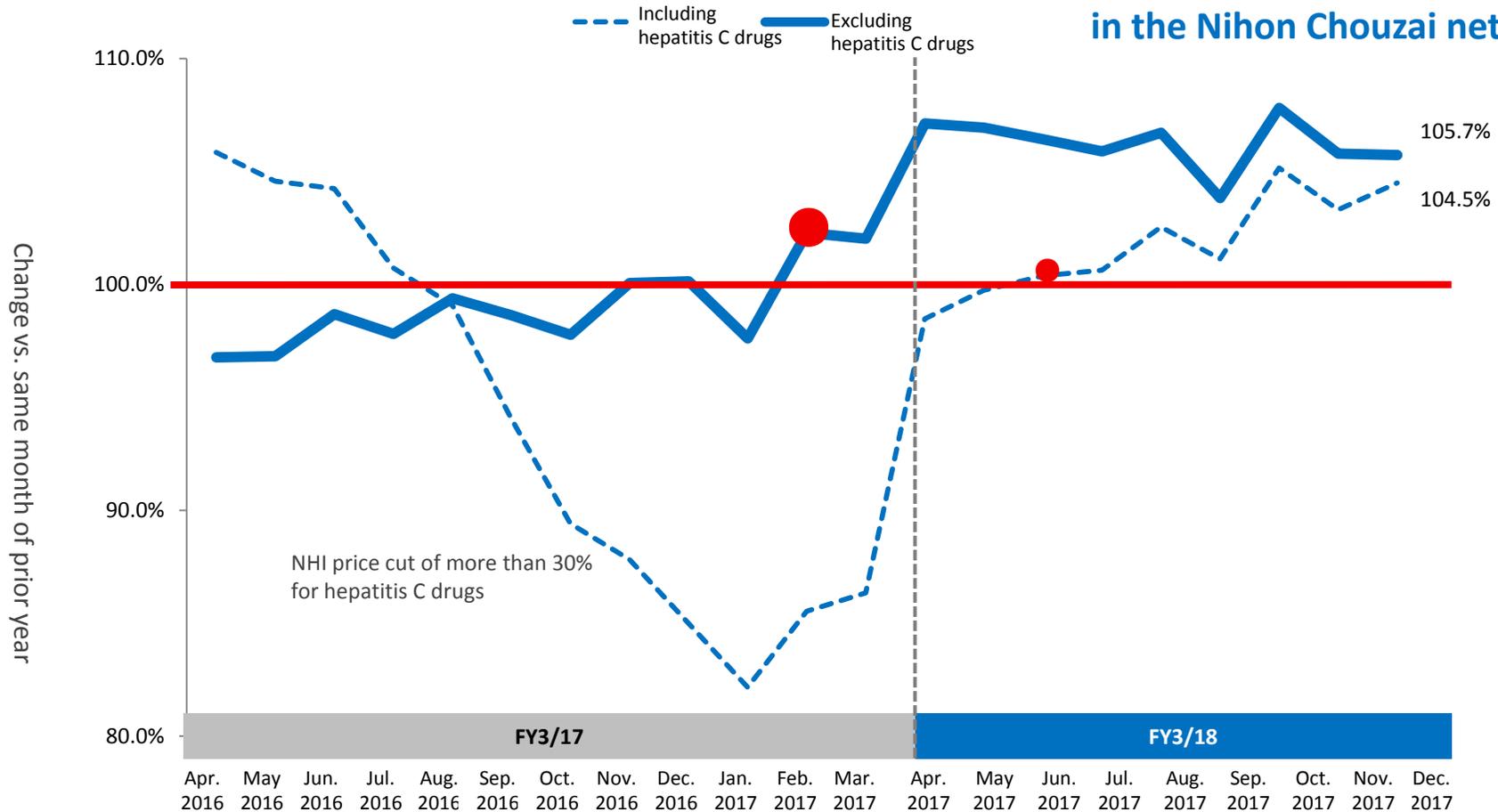
- Type II (more than 75%, 22pt)
- Type I (more than 65%, 18pt)
- No premium (less than 65%)

Dispensing Pharmacy Business / Progress with Improving Drug Fees

- The unit prices of drugs have been higher than one year earlier every month.
- The negative effect of hepatitis C drugs on drug unit prices is slowly declining.

Improvement in Unit Prices of Drugs

Demonstrates the superior composition of pharmacy categories in the Nihon Chouzai network



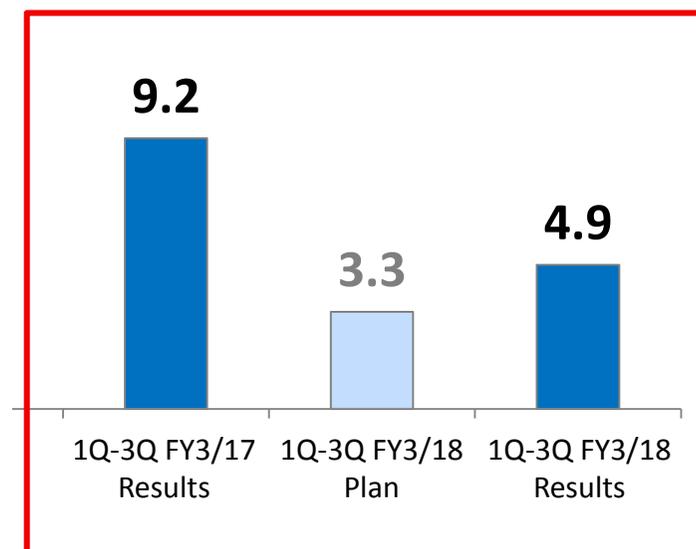
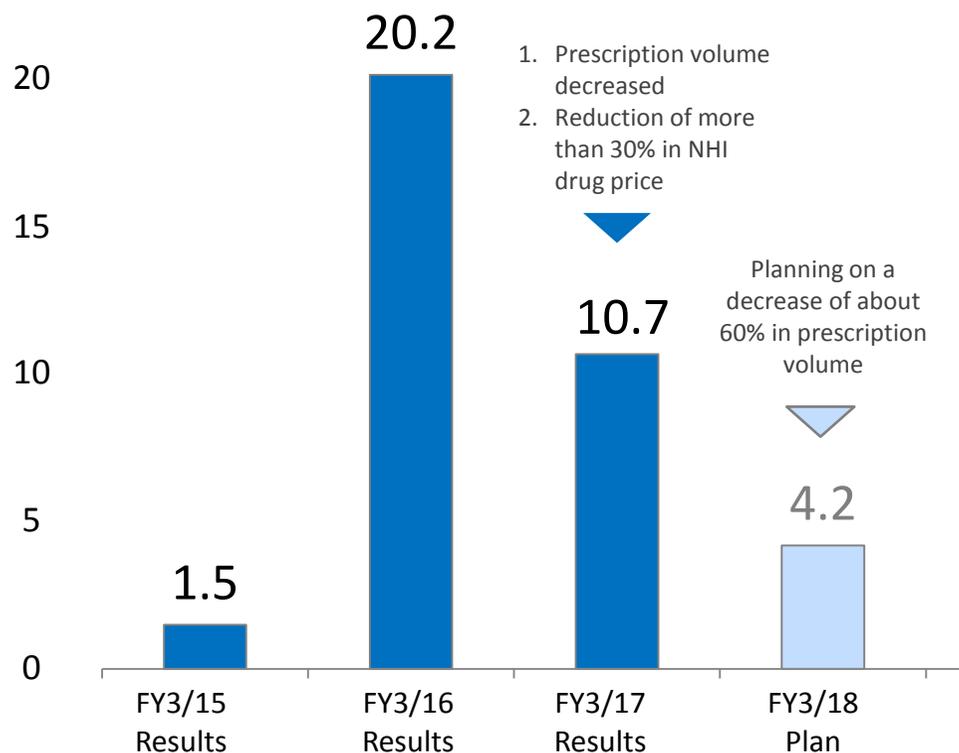
Note: In April 2016, the National Health Insurance (NHI) price for hepatitis C drugs was cut by more than 30%; separate figures are shown above for total performance and performance excluding hepatitis C drugs.

Dispensing Pharmacy Business / Hepatitis C Drug Sales

- Initially expected a drop of about 6.5 billion yen YoY for hepatitis C drug sales in FY3/18
- But sales in the first nine months are about 1.5 billion yen above the plan because of higher drug unit prices.

Hepatitis C Drug Sales (cumulative)

(Billions of yen)
25



Note: Figures are rounded to the nearest 100 million yen.

Pharmaceutical Manufacturing and Sales Business / Statement of Income

(Millions of yen)	1Q-3Q FY3/16 Results	1Q-3Q FY3/17 Results	1Q-3Q FY3/18 Plan	1Q-3Q FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY3/18 Plan
Net sales	24,354	27,634	31,226	29,300	1,665	+6.0%	-6.2%	41,500
Cost of sales	19,202	22,769	25,361	24,180	1,410	+6.2%	-4.7%	33,932
Gross profit	5,151	4,865	5,865	5,120	254	+5.2%	-12.7%	7,567
% to sales	21.2%	17.6%	18.8%	17.5%	-	-	-	18.2%
SG&A expenses	2,950	3,454	4,511	3,689	234	+6.8%	-18.2%	5,894
% to sales	12.1%	12.5%	14.4%	12.6%	-	-	-	14.2%
Operating profit	2,201	1,410	1,354	1,431	20	+1.5%	+5.7%	1,673
% to sales	9.0%	5.1%	4.3%	4.9%	-	-	-	4.0%

Components of YoY changes

◆ Net sales

1. Internal sales: Growth in volume-based sales ratio of group pharmacies (higher sales)
2. External sales: Expansion of generic drug market (higher sales)

◆ Operating profit

1. Increase in R&D expenditures (lower profit)
2. Increase in depreciation resulting from the purchase of equipment (lower profit)

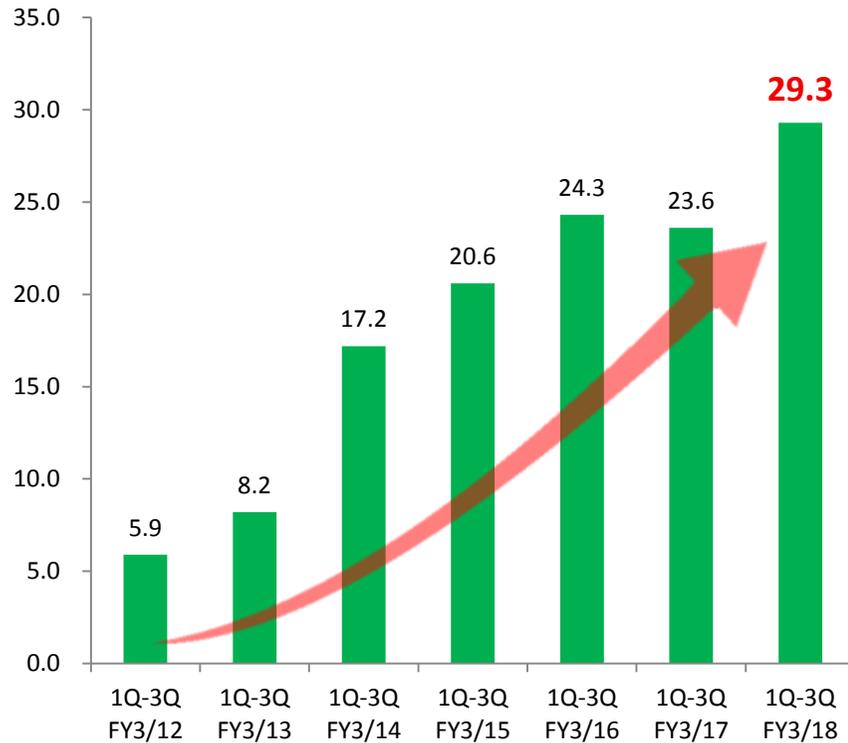
Operating profit was 5.7% above the initial plan as higher earnings from sales growth more than offset higher expenses resulting from up-front investments.

Pharmaceutical Manufacturing and Sales Business / Segment Sales and Operating Profit

- Steady growth in sales amid intense sales competition
- Significant increase in operating profit for 3Q FY3/18 due to a review of sales strategy

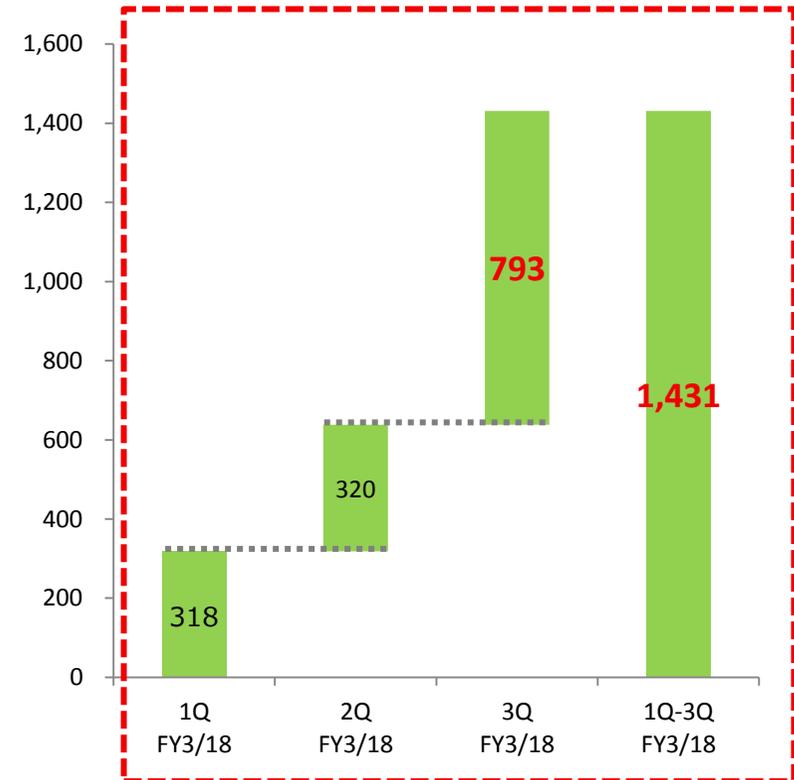
3Q Sales (cumulative)

(Billions of yen)



Quarterly Operating Profit (three month basis)

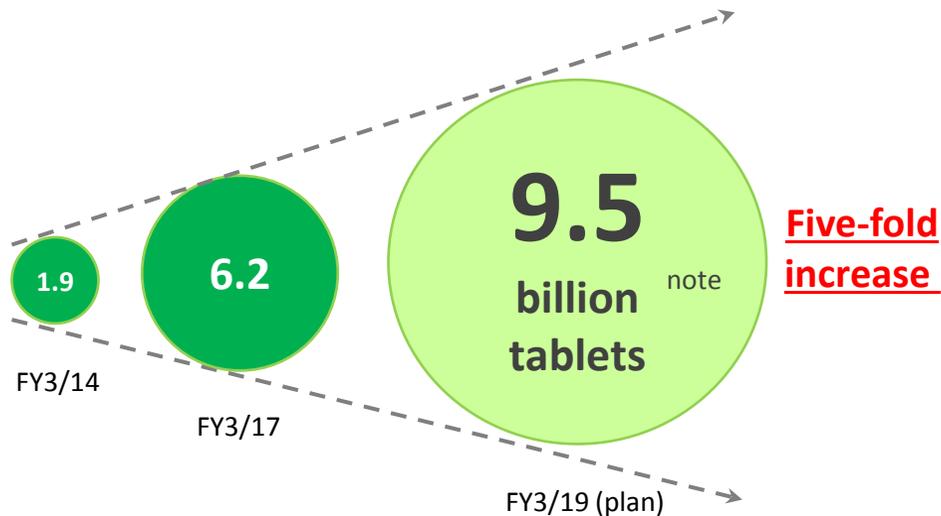
(Millions of yen)



Pharmaceutical Manufacturing and Sales Business / Growth Strategy

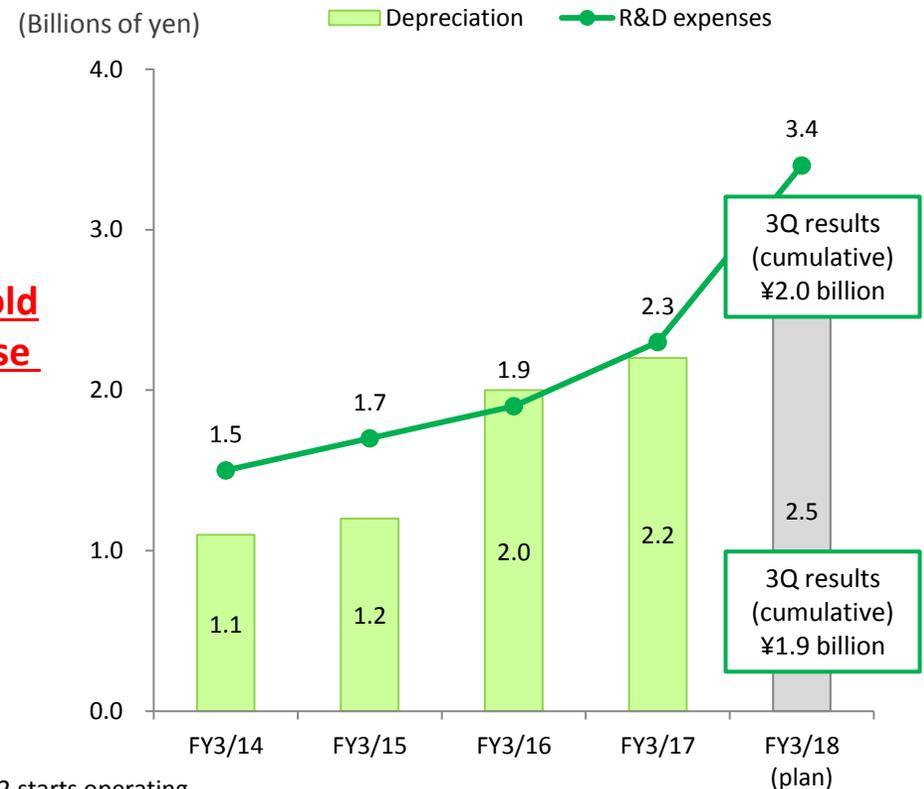
- Higher maximum output capacity to reflect market growth and the increasing number of items produced internally
- Higher earnings benefited from sales growth which offset higher depreciation and R&D expenses due to capital investments

Maximum Annual Output Capacity at Plants



Note: Expect a capacity increase of 3.3 billion tablets when the first phase of Tsukuba Plant No. 2 starts operating

R&D Expenses and Depreciation

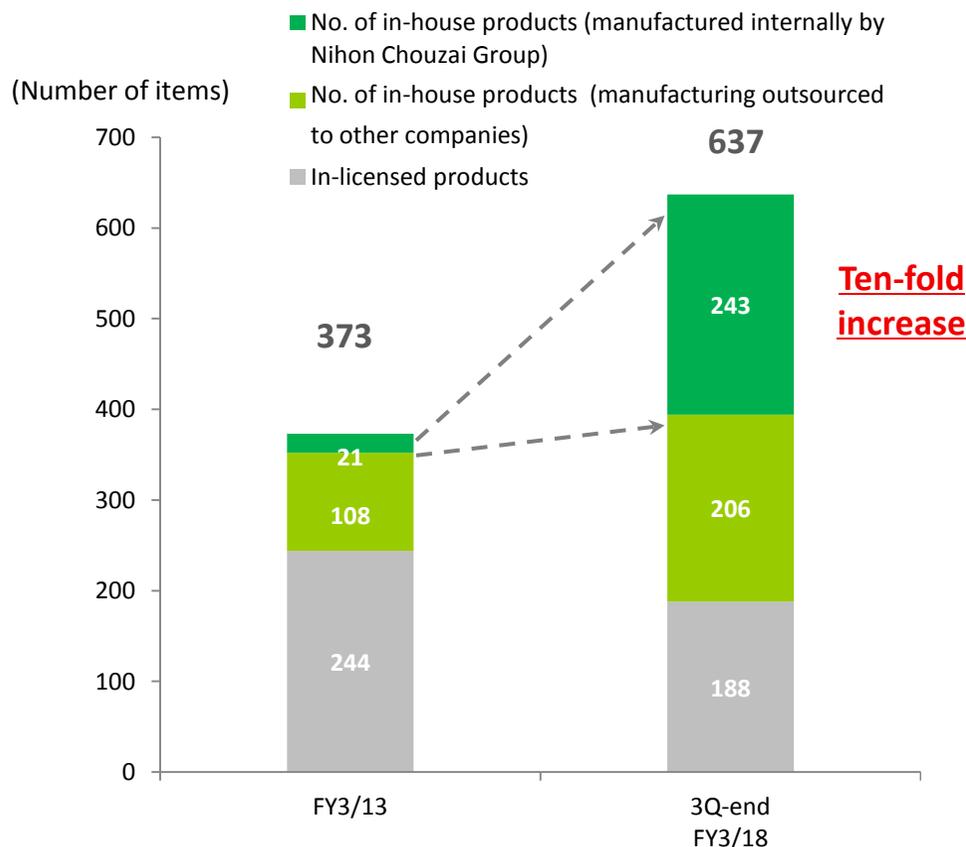


* R&D expenses are on consolidated basis.
* Figures are rounded to the nearest 100 million yen.

Pharmaceutical Manufacturing and Sales Business / Growth Strategy

- More product items due to strengthened R&D and a shift to high-margin internally produced drugs
- Contract manufacturing through a joint development for FY3/18 newly listed drugs
→ Big contribution to sales and earnings growth
- Started producing and selling drugs with high pharmacological activity in June 2017 and plan to add more of these drugs

Number of Product Items



New NHI Listed Drugs in December 2017 (18 items with 7 different active ingredients)

Name	Name	Name
OLMESARTAN Tablets 5mg "JG"	Rosuvastatin OD Tablets 2.5mg "JG"	Irbesartan Tablets 50mg "Ohara"
OLMESARTAN Tablets 10mg "JG"	Rosuvastatin OD Tablets 5mg "JG"	Irbesartan Tablets 100mg "Ohara"
OLMESARTAN Tablets 20mg "JG"	Adapalene Gel 0.1% "JG"	Irbesartan Tablets 200mg "Ohara"
OLMESARTAN Tablets 40mg "JG"	Famciclovir Tablets 250mg "JG"	Bisoprolol Fumarate Tablets 0.625mg "JG"
Rosuvastatin Tablets 2.5mg "JG"	TERAMURO Combination Tablets AP "JG"	Bisoprolol Fumarate Tablets 2.5mg "JG"
Rosuvastatin Tablets 5mg "JG"	TERAMURO Combination Tablets BP "JG"	Bisoprolol Fumarate Tablets 5mg "JG"



* Telmisartan Amlodipine besilate (combination drug), which is the active ingredient of TERAMURO Combination Tablet AP "JG" and TERAMURO Combination Tablet BP "JG," is counted as a single ingredient.

Medical Professional Staffing and Placement Business / Statement of Income

(Millions of yen)	1Q-3Q FY3/16 Results	1Q-3Q FY3/17 Results	1Q-3Q FY3/18 Plan	1Q-3Q FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY3/18 Plan
Net sales	6,419	7,675	8,788	8,948	1,273	+16.6%	+1.8%	12,000
Cost of sales	3,845	4,661	5,321	5,471	809	+17.4%	+2.8%	7,265
Gross profit	2,574	3,014	3,466	3,477	463	+15.4%	+0.3%	4,734
% to sales	40.1%	39.3%	39.4%	38.9%	-	-	-	39.5%
SG&A expenses	1,447	1,788	2,029	2,060	272	+15.2%	+1.6%	2,734
% to sales	22.5%	23.3%	23.1%	23.0%	-	-	-	22.8%
Operating profit	1,127	1,225	1,437	1,416	190	+15.6%	-1.5%	2,000
% to sales	17.6%	16.0%	16.4%	15.8%	-	-	-	16.7%

Components of YoY changes

◆ Net sales

1. Growth of the pharmacist temporary staffing business because of the shortage of pharmacists in Japan (higher sales)
2. Growth of the pharmacist placement business resulting from prescription dispensing fee revisions (higher sales)

◆ Operating profit

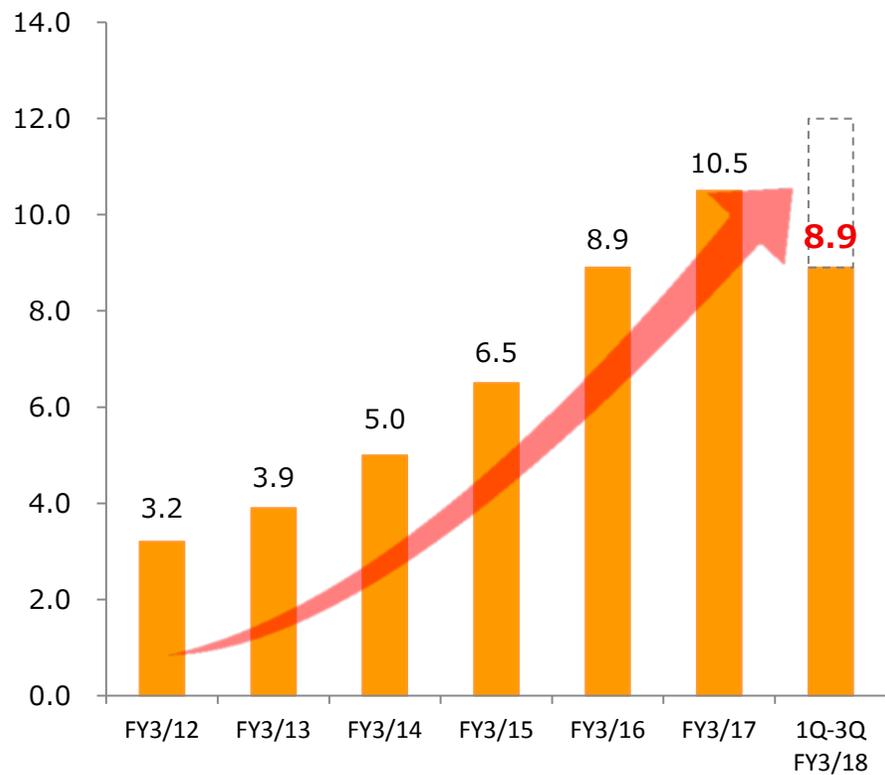
1. Higher sales contributed to earnings (higher profit)
2. Lower SG&A ratio due to cost controls (higher profit)

Medical Professional Staffing and Placement Business / Segment Sales and Operating Profit

- Sales and operating profit increased to a record high (for the first nine months).
- Strong growth in sales and earnings is continuing.

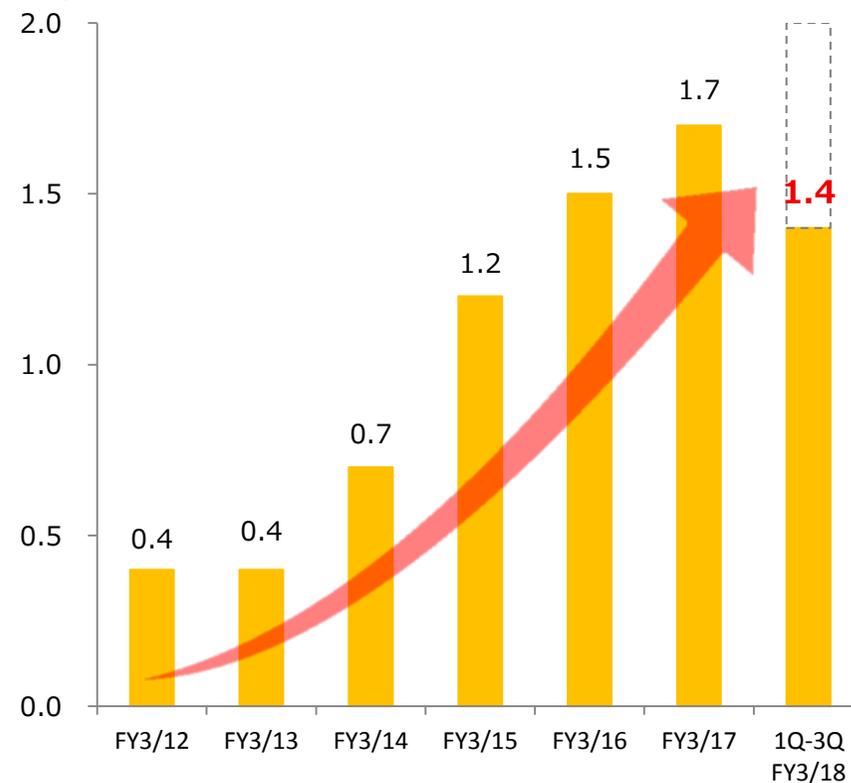
Net Sales

(Billions of yen)



Operating Profit

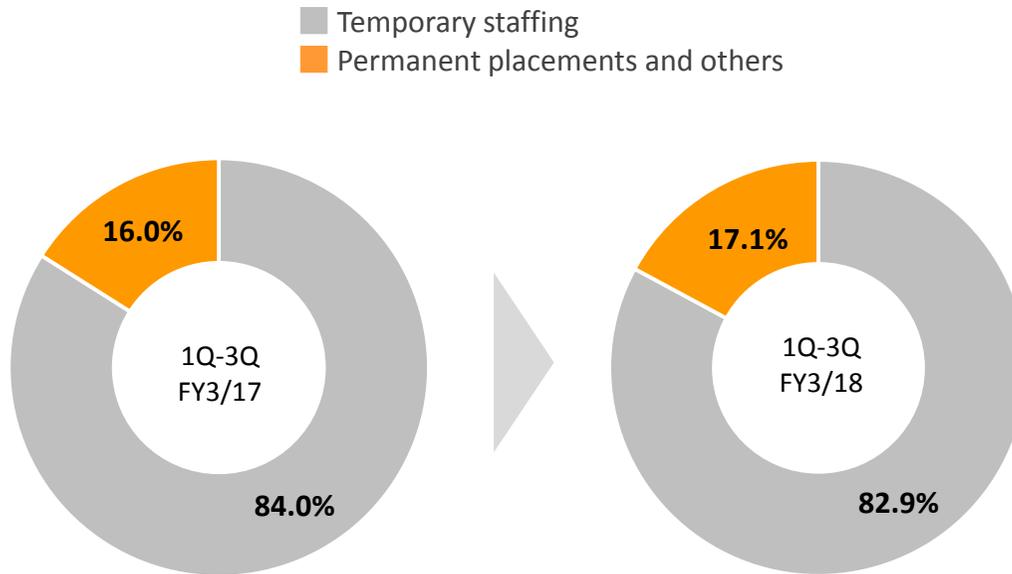
(Billions of yen)



Medical Professional Staffing and Placement Business / Growth Strategy

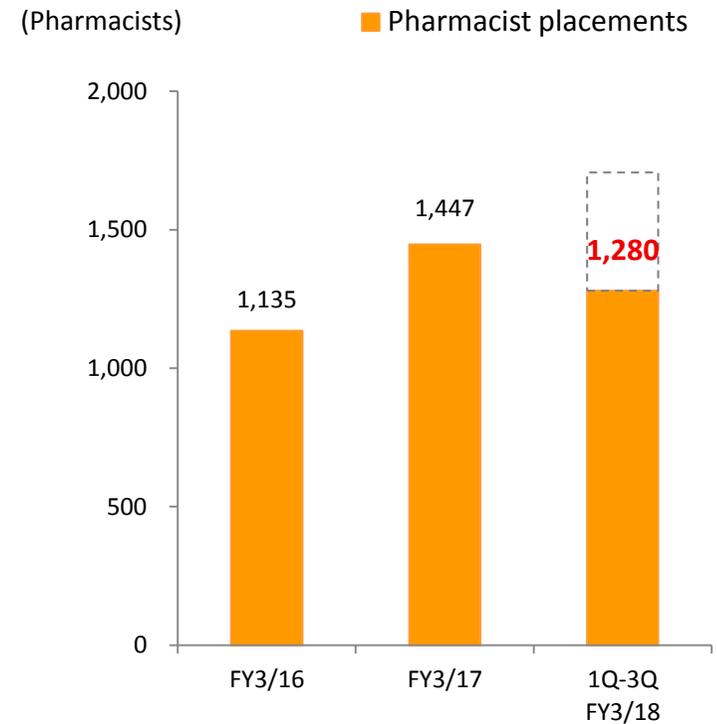
- Permanent placements continue to increase as a pct. of total sales in this business.
- Big increase in permanent placements → First nine-month placements exceeded FY3/16 results and near placements for all of FY3/17

Staffing/Placement Sales Composition



Expand placement business to meet market needs

Pharmacists Placed

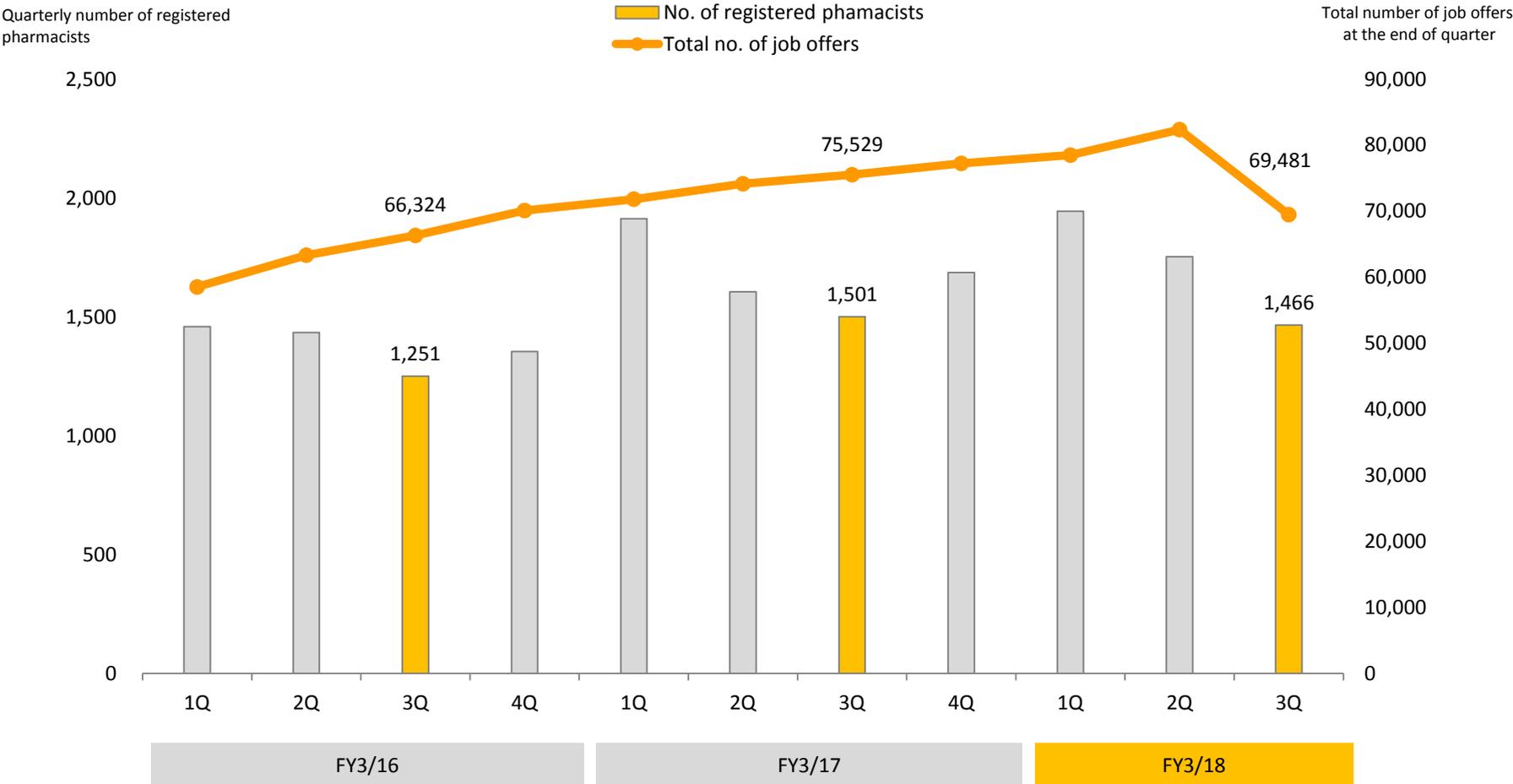


Strengthen pharmacist placement business

Medical Professional Staffing and Placement Business / Growth Strategy

• Total number of job offers temporarily dropped because of the reorganization and replacement of job information. But the increase in placement accuracy and other improvements offset the impact of this drop on sales, resulting in higher earnings.

Number of Job Offers and Registered Pharmacists



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: Hiroshi Mitsuhara

Capital: 3,953.02 million yen

Number of shares outstanding: 16,024,000 shares
(including treasury 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: 4,600 (as of March 31, 2017)

Note: Including part-time employees based on 8-hour conversion, consolidation basis

Number of dispensing pharmacies: 580 (as of December 31, 2017)

Note: Including two locations specializing in the sales of general merchandise

Our Objective

Business activities that contribute to

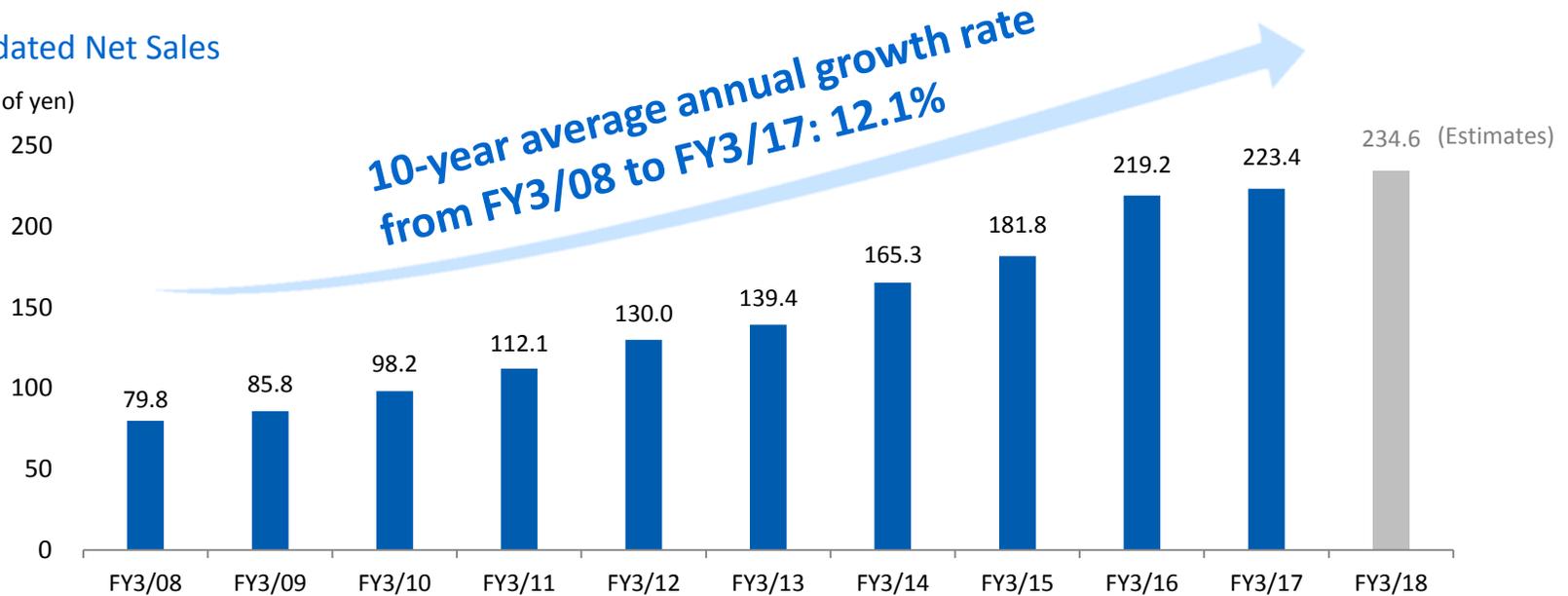
“True separation of the roles of drug
prescribing and dispensing services”



Consolidated Results: Net Sales / Operating Profit

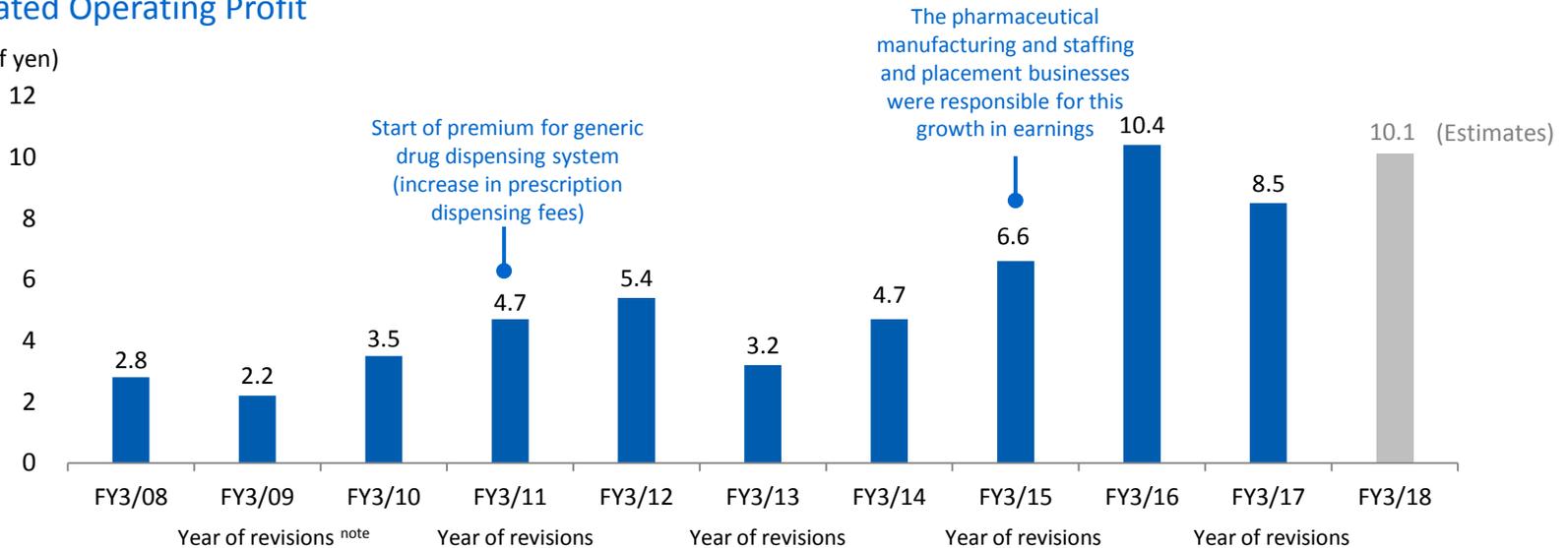
◆ Consolidated Net Sales

(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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