

August 15, 2017

Results of Operations for the First Quarter of the Fiscal Year Ending March 31, 2018 (April 1, 2017 to June 30, 2017)



NIHON CHOUZAI Co.,Ltd.
(Tokyo Stock Exchange, First Section / Stock code: 3341)

Contents

- I. 1Q FY3/18 Consolidated Financial Highlights
- II. 1Q FY3/18 Segment Information
- III. 1Q FY3/18 Topics
- IV. Reference Materials

I. 1Q FY3/18 Consolidated Financial Highlights

Consolidated Statement of Income

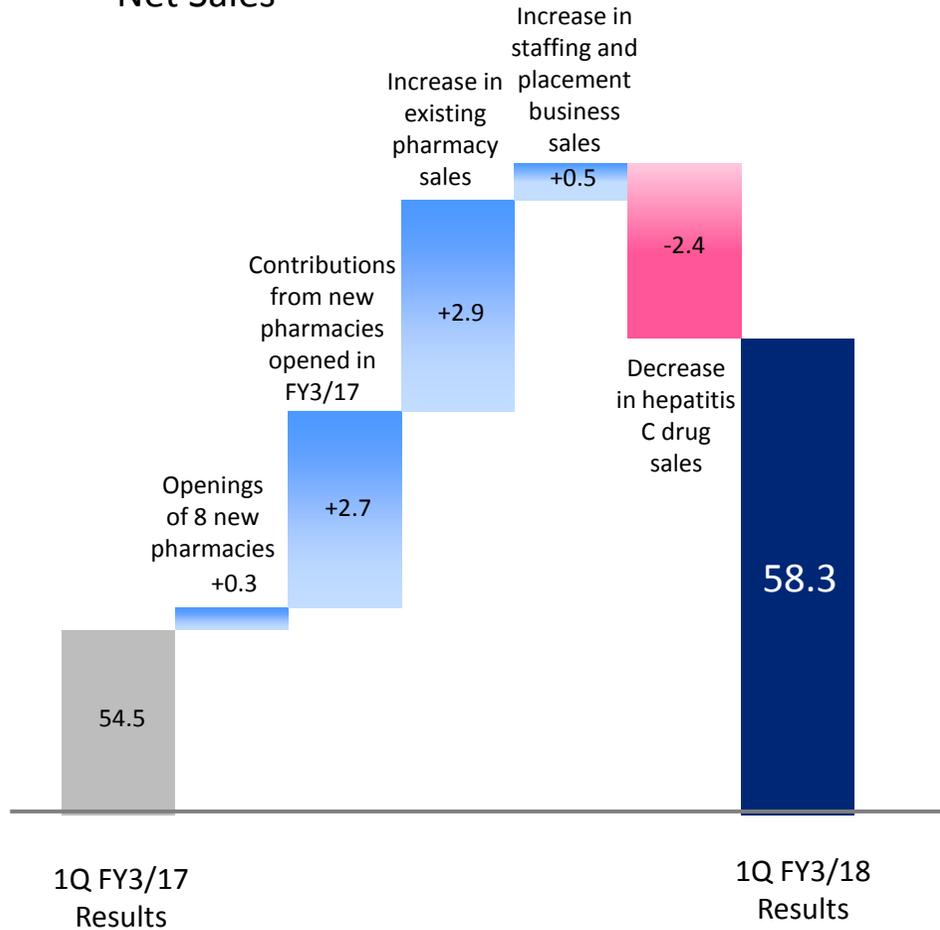
(Millions of yen)	1Q FY3/16 Results	1Q FY3/17 Results	1Q FY3/18 Plan	1Q FY3/18 Results	YoY change	YoY growth rate	Vs. plan
Net sales	48,895	54,476	56,108	58,346	3,869	+7.1%	+4.0%
Cost of sales	40,136	45,248	45,943	47,693	2,444	+5.4%	+3.8%
Gross profit	8,759	9,228	10,165	10,652	1,424	+15.4%	+4.8%
% to sales	17.9%	16.9%	18.1%	18.3%	-	-	-
SG&A expenses	6,706	7,607	8,187	8,468	860	+11.3%	+3.4%
% to sales	13.7%	14.0%	14.6%	14.5%	-	-	-
Consumption taxes	2,654	3,057	2,756	3,070	12	+0.4%	+11.4%
R&D expenses	431	507	861	795	288	+56.7%	-7.6%
Operating profit	2,052	1,620	1,977	2,184	564	+34.8%	+10.5%
% to sales	4.2%	3.0%	3.5%	3.7%	-	-	-
Ordinary profit	1,896	1,545	1,918	2,090	544	+35.2%	+8.9%
% to sales	3.9%	2.8%	3.4%	3.6%	-	-	-
Profit attributable to owners of parent	1,221	981	1,062	1,122	141	+14.5%	+5.7%
% to sales	2.5%	1.8%	1.9%	1.9%	-	-	-
Net income per share (Yen)	87.10	61.34	66.40	70.21	8.87	+14.5%	+5.7%

Consolidated Statement of Income

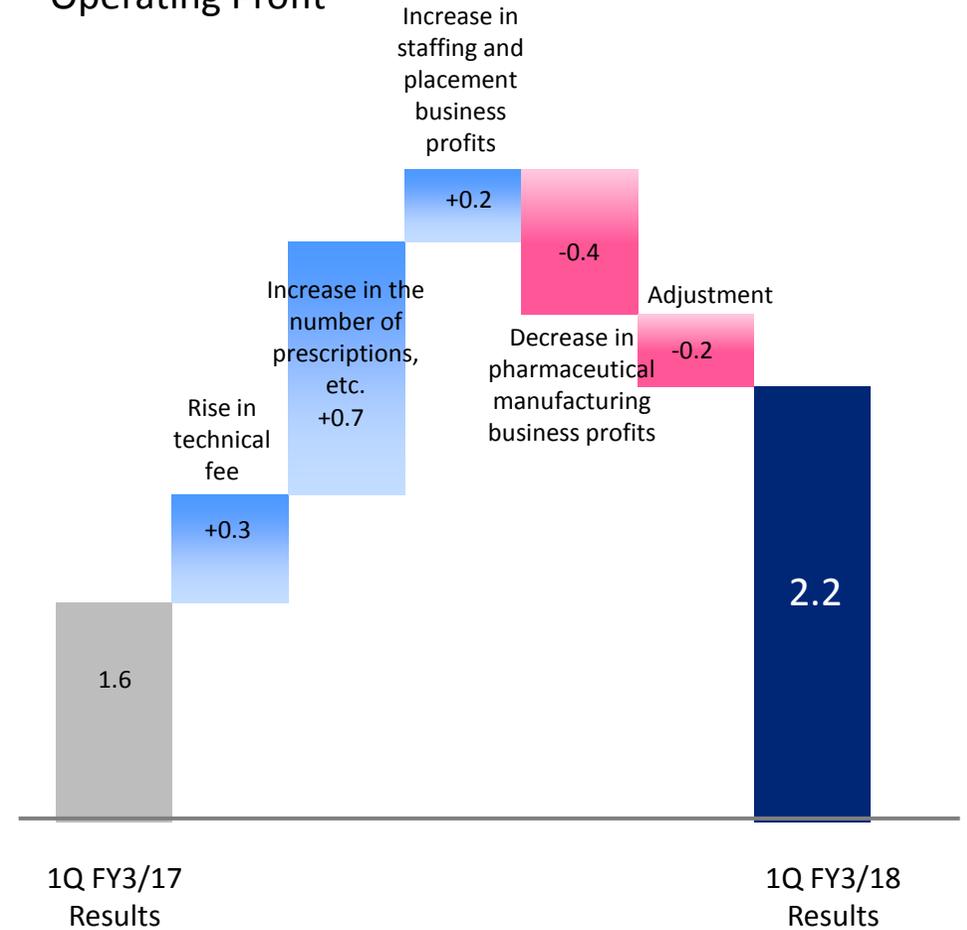
■ Major components of YoY changes (net sales / operating profit)

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

Net Sales



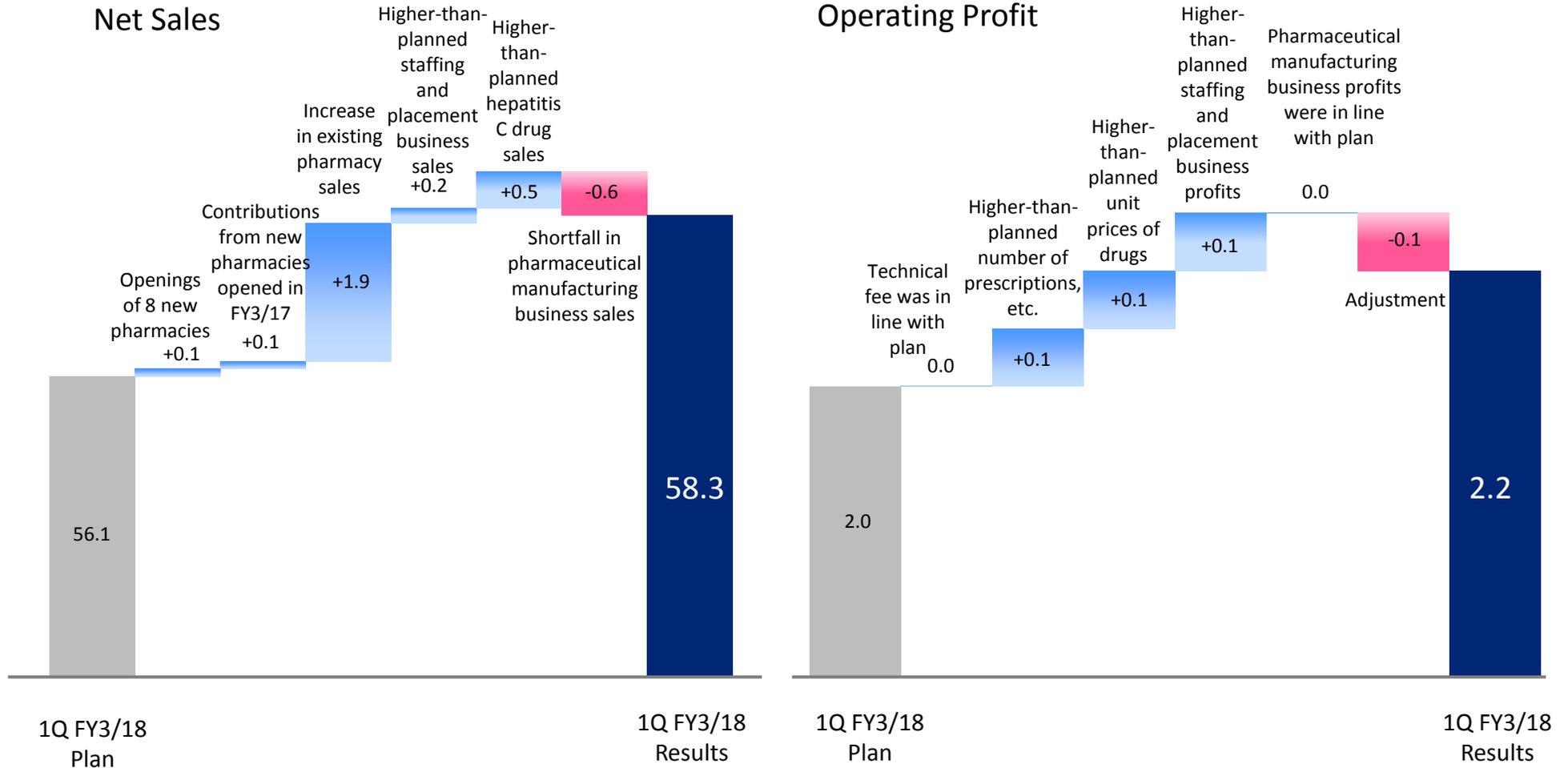
Operating Profit



Consolidated Statement of Income

Major components of changes vs. plan (net sales / operating profit)

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



Consolidated Balance Sheet

(Millions of yen)	End of Jun. 2016 (1Q FY3/17)	End of Mar. 2017 (FY3/17)	End of Jun. 2017 (1Q FY3/18)	Change from the end of the FY3/17	Change from the end of the FY3/17 (%)
Current assets	88,551	82,327	88,677	6,349	+7.7%
Non-current assets	74,967	96,019	96,894	874	+0.9%
Property, plant and equipment	54,402	68,513	68,208	-305	-0.4%
Intangible assets	10,033	16,773	17,994	1,221	+7.3%
Investments and other assets	10,531	10,733	10,691	-41	-0.4%
Total assets	163,518	178,347	185,572	7,224	+4.1%
Current liabilities	74,663	66,305	72,915	6,609	+10.0%
Non-current liabilities	55,810	75,595	75,485	-109	-0.1%
Total liabilities	130,474	141,900	148,400	6,499	+4.6%
Total net assets	33,044	36,447	37,171	724	+2.0%
Shareholders' equity	33,044	36,447	37,171	724	+2.0%
Equity ratio	20.2%	20.4%	20.0%	-	-

FY3/18 Consolidated Forecast

(Millions of yen)	FY3/16 Results	FY3/17 Results	FY3/18 Plan	YoY change	YoY growth rate
Net sales	219,239	223,468	234,697	11,229	+5.0%
Cost of sales	180,171	184,210	192,436	8,226	+4.5%
Gross profit	39,068	39,258	42,261	3,003	+7.6%
% to sales	17.8%	17.6%	18.0%	-	-
SG&A expenses	28,578	30,738	32,155	1,416	+4.6%
% to sales	13.0%	13.8%	13.7%	-	-
Consumption taxes	11,483	11,600	10,684	-915	-7.9%
R&D expenses	1,913	2,388	3,116	727	+30.5%
Operating profit	10,489	8,519	10,105	1,586	+18.6%
% to sales	4.8%	3.8%	4.3%	-	-
Ordinary profit	9,878	7,976	9,804	1,828	+22.9%
% to sales	4.5%	3.6%	4.2%	-	-
Profit attributable to owners of parent	6,329	4,638	5,639	1,000	+21.6%
% to sales	2.9%	2.1%	2.4%	-	-
Net income per share (Yen) ^{note}	432.85	290.03	352.59	62.56	+21.6%
Dividend per share (Yen)	45	50	50	0	+0.0%

Note: Nihon Chouzai conducted a 2-for-1 stock split effective in October 2015. Net income per share for FY3/16 has been calculated as if this stock split had taken place at the beginning of the fiscal year.

II. 1Q FY3/18 Segment Information

Dispensing Pharmacy Business / Statement of Income

Double-digit growth after excluding the impact of hepatitis C drugs (114.0% YoY)

(Millions of yen)	1Q FY3/16 Results	1Q FY3/17 Results	1Q FY3/18 Plan	1Q FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY3/18 Plan
Net sales	42,322	45,912	46,853	49,387	3,474	+7.6%	+5.4%	196,681
Cost of sales	35,932	39,608	39,722	41,589	1,980	+5.0%	+4.7%	166,685
Gross profit	6,389	6,304	7,131	7,797	1,493	+23.7%	+9.4%	29,995
% to sales	15.1%	13.7%	15.2%	15.8%	-	-	-	15.3%
SG&A expenses	4,374	4,828	4,829	5,286	458	+9.5%	+9.5%	18,975
% to sales	10.3%	10.5%	10.3%	10.7%	-	-	-	9.6%
Operating profit	2,015	1,475	2,302	2,511	1,035	+70.2%	+9.1%	11,019
% to sales	4.6%	3.2%	4.9%	5.1%	-	-	-	5.6%
No. of pharmacies at the end of each period	512	533	564	564	31	+5.8%	+0.0%	607
Prescription drug sales per pharmacy ^{note}	82	86	83	88	1	+1.7%	+5.4%	327

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

YoY Growth Rate by Year of Opening

	Sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	+1.5%	+1.4%	+0.1%
Pharmacies opened in FY3/17	+692.5%	+590.2%	+13.0%
Total	+7.6%	+7.4%	+0.2%

No. of prescriptions: 3,356,000 +7.4% YoY
 Prescription unit prices: 14,547 yen +0.2% YoY
 Excluding hepatitis C drugs: 14,038 yen +6.4% YoY

Dispensing Pharmacy Business / Hepatitis C Drug Sales

(Billions of yen)

25

20.2

20

Reduction of more than 30% in NHI drug price

Prescription volume decreased

10.7

Planning on a decrease of about 60% in prescription volume

15

4.2

10

5

1.5

FY3/15 Results

FY3/16 Results

FY3/17 Results

FY3/18 Plan

4.1

1Q FY3/17 Results

1.2

1Q FY3/18 Plan

1.7

1Q FY3/18 Results

YoY change -¥2.4 billion
Vs. plan +¥0.5 billion

Expect FY3/18 hepatitis C drug sales to **drop by ¥6.5 billion** YoY

Planning on FY3/18 dispensing pharmacy segment sales growth of 3.9%

Excluding hepatitis C drugs, sales growth of 7.7% is expected

(Figures are rounded to the nearest 100 million yen)

Dispensing Pharmacy Business / Pharmacy Opening Strategy-1

Total No. of Pharmacies (end of June 2017)

564 pharmacies

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

A faster pace of mergers and acquisitions
since FY3/17

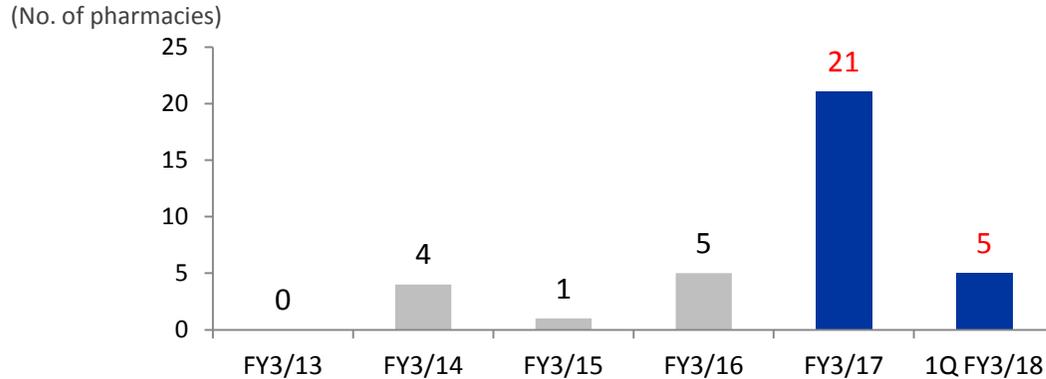
Store Openings by Region (end of June 2017)	
Hokkaido	47
Tohoku	43
Kanto/ Koshinetsu	295
Tokai	53
Kansai/Hokuriku	57
Chugoku / Shikoku	33
Kyushu / Okinawa	36
Total	564

Store Openings

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	1Q FY3/18
Opened	59	37	29	27	42	8
Organic growth	59	33	28	22	21	3
M&A	-	4	1	5	21	5
Closed	10	9	12	11	12	1
No. of pharmacies at the end of each period	466	494	511	527	557	564

Dispensing Pharmacy Business / Pharmacy Opening Strategy-2

The Nihon Chouzai M&A Strategy and Business Climate



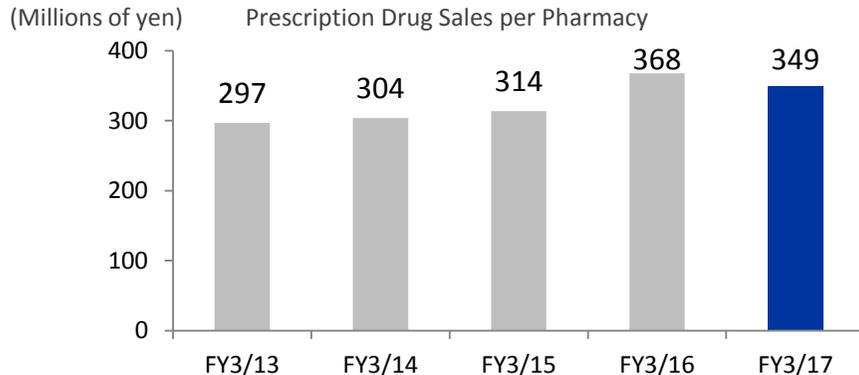
Increasing number of pharmacy company revitalization deals due to the negative impact of revisions to prescription dispensing fees

As in the past, Nihon Chouzai is aggressively pursuing opportunities to acquire pharmacies at a fair value based on strict standards.

Priorities of the M&A Strategy

(Figures are rounded to the nearest million yen)

	FY3/17 Pharmacies added by M&A (21)	1Q FY3/18 Pharmacies added by M&A (5)
Annual sales per pharmacy prior to acquisition by Nihon Chouzai (Millions of yen)	427	402



Critical need to adapt to challenging revisions to prescription dispensing fees

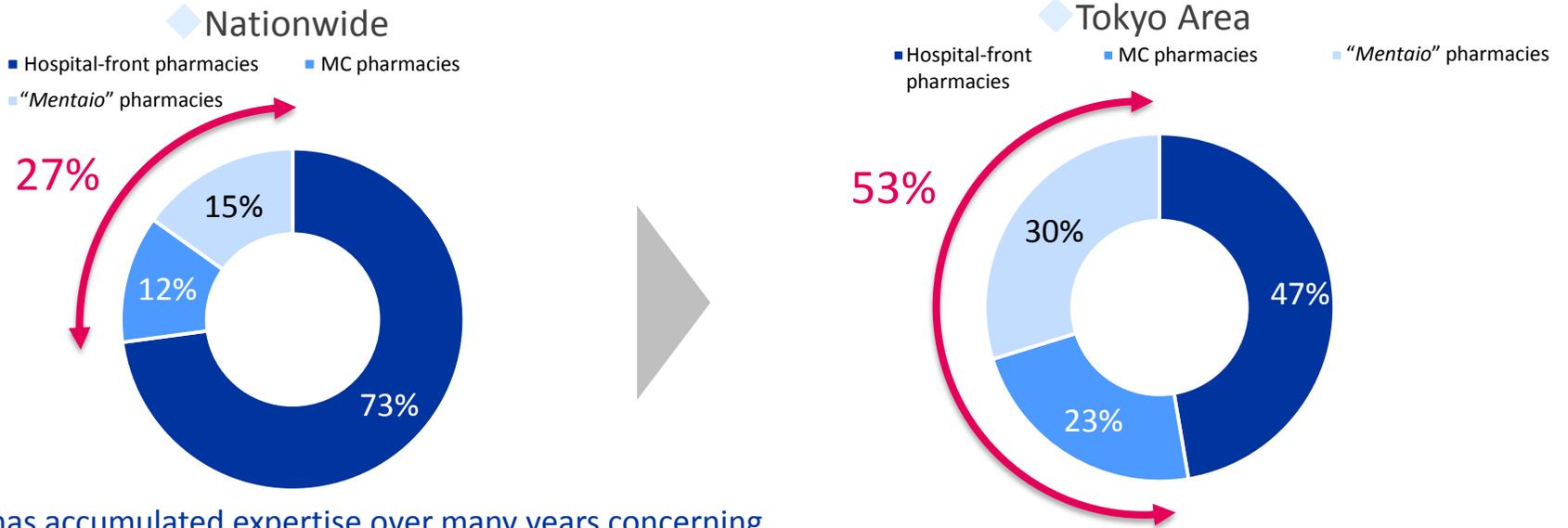
Pharmacy size and quality will remain the key points for M&A activity

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

Dispensing Pharmacy Business / Pharmacy Opening Strategy-3

(As of the end of June 2017)

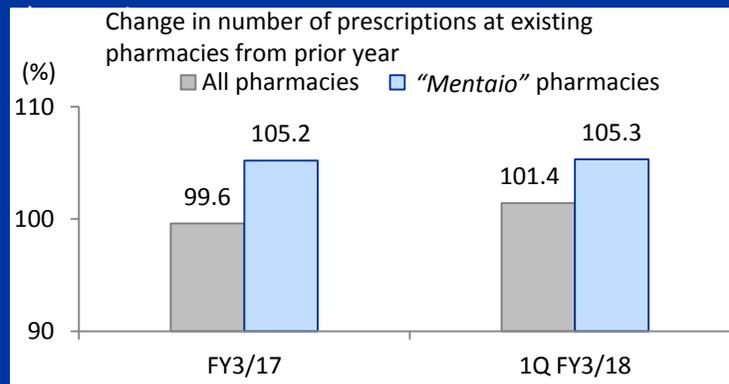
- “Mentaio”(diversified customer-oriented) and MC (medical mall) pharmacies: An initiative that started in the Tokyo area (Tokyo, Kanagawa, Saitama, Chiba)



Nihon Chouzai has accumulated expertise over many years concerning opening and operating “mentaio” / MC pharmacies

→ Speeding up pharmacy openings in the Tokyo area as well as in Japan’s other two major metropolitan areas

The Fast Growth of “Mentaio” Pharmacies



Average annual growth in the number of prescriptions at “mentaio” pharmacies operating for at least five years (March 2013 to March 2017)

+ 8.5%

Note: Compound Annual Growth Rate (CAGR)

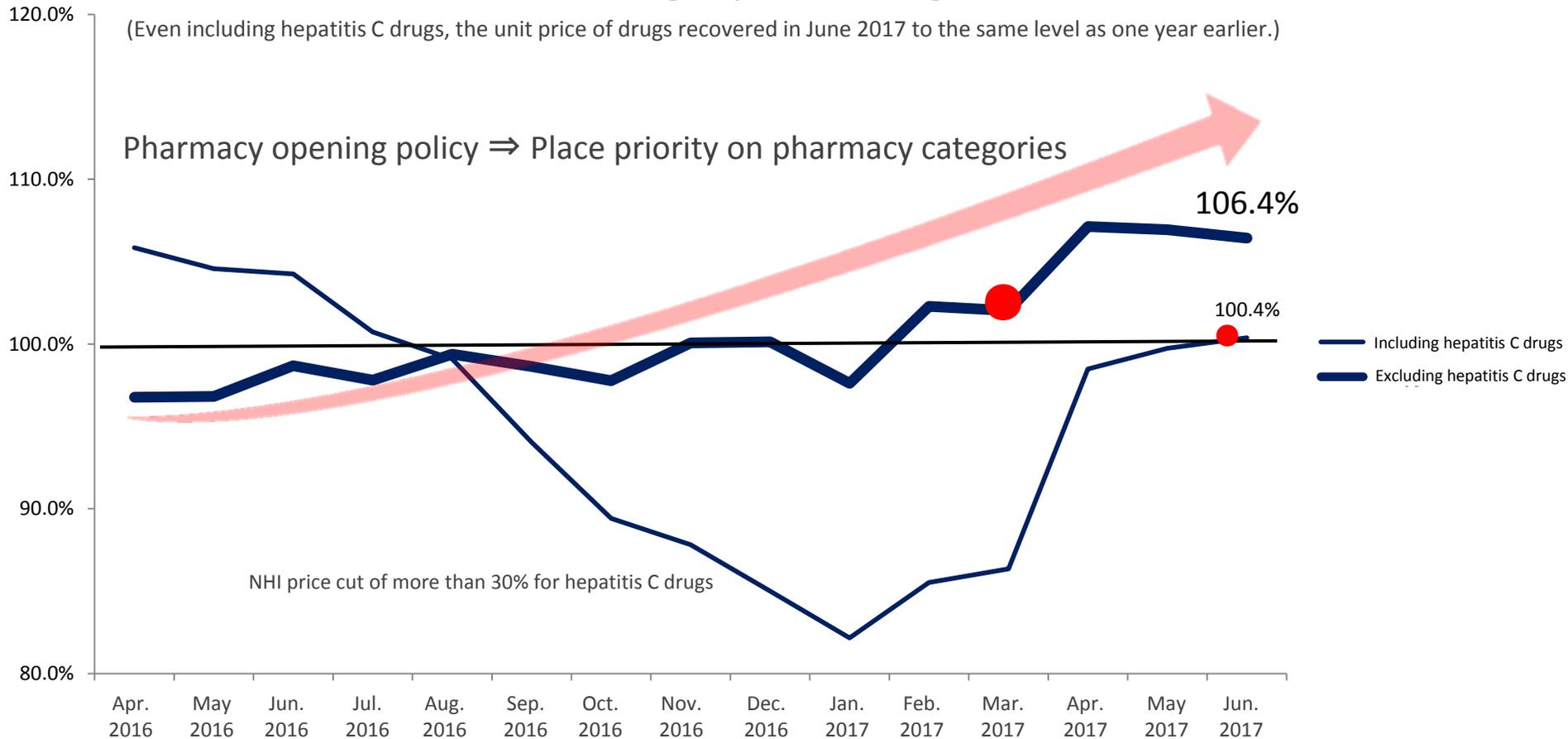
Dispensing Pharmacy Business / Progress with Improving Drug Fees

(April 2016 to June 2017)

Improvement in unit prices of drugs (Change vs. same month of prior year)

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

The unit price of drugs was recovering up to the end of FY3/17, after excluding hepatitis C drugs



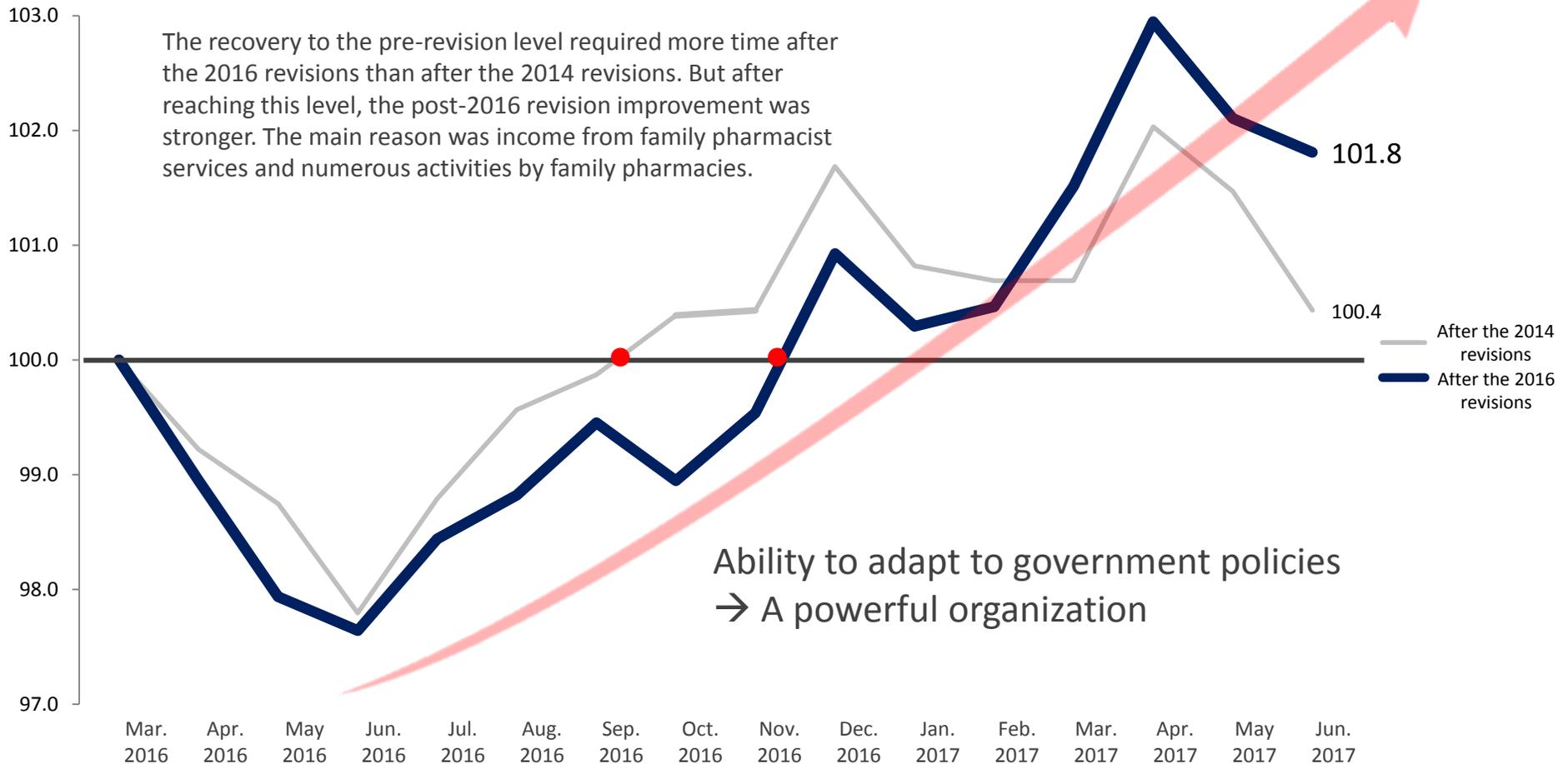
Dispensing Pharmacy Business / Progress with Increasing Technical Fees-1

(March 2016 to June 2017)

Improvements following the April 2016 revisions to prescription dispensing fees (Change using March 2016 technical fees as 100)

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

Technical fees recovered to the pre-revision level by the end of FY3/17
 ⇒ This recovery will raise earnings in FY3/18

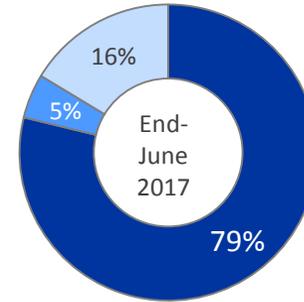
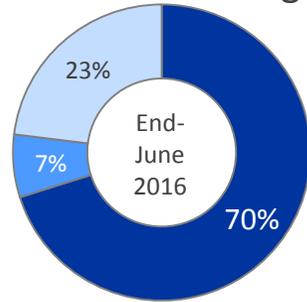


Dispensing Pharmacy Business

/ Progress with Increasing Technical Fees-2

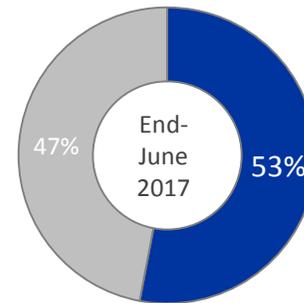
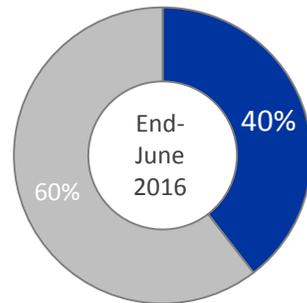
Improvements in the three major components of technical fees
 (Change in pct. of pharmacies receiving each fee or premium)

Basic Dispensing Fee



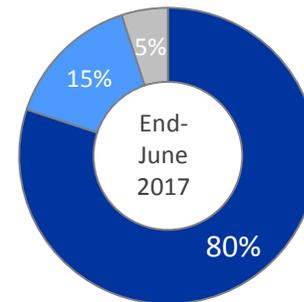
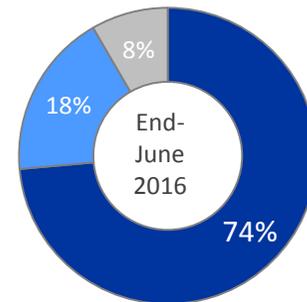
- Basic fee 1 (41pt)
- Basic fee 2 (25pt)
- Basic fee 3 (20pt)

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%)

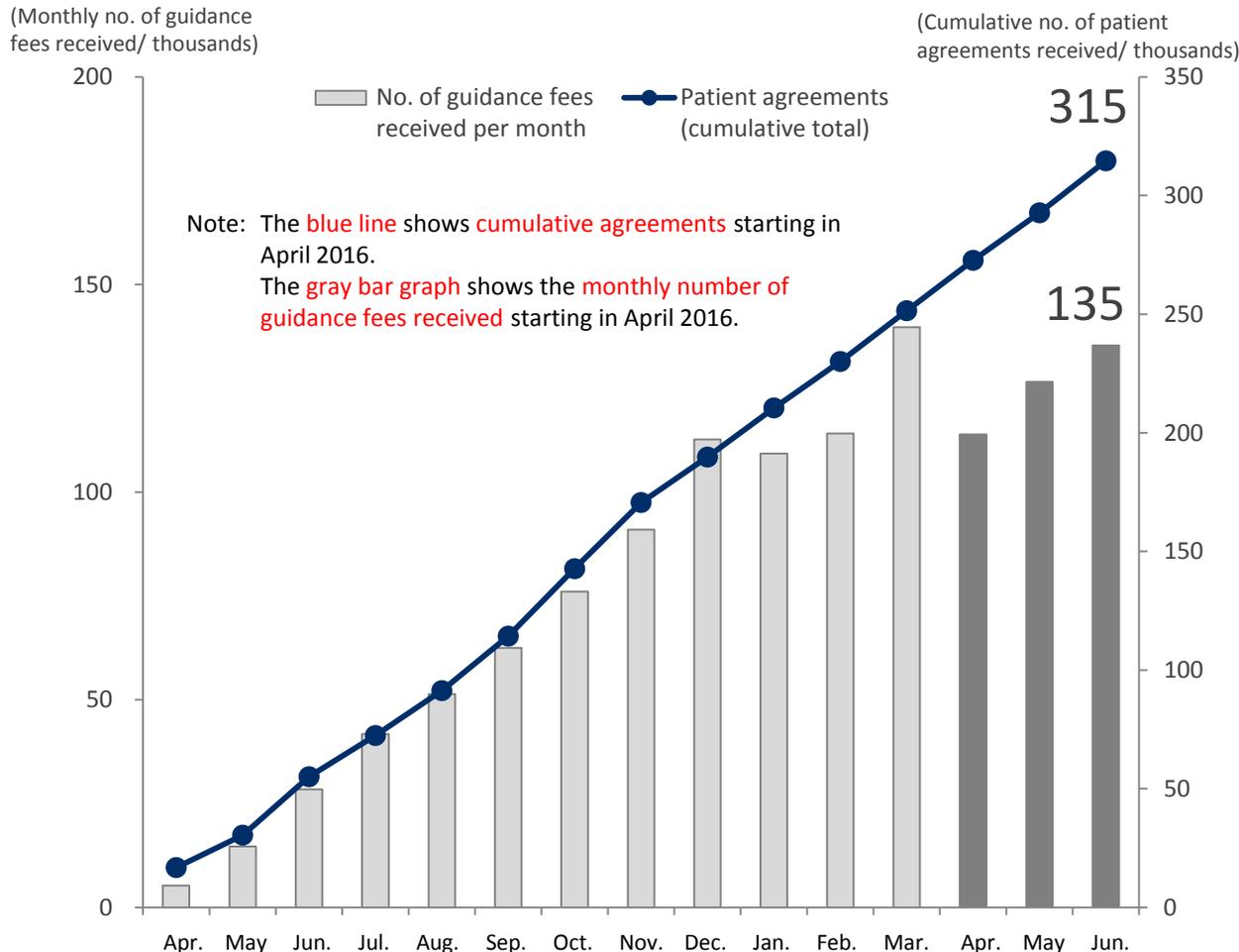
Note: Figures on this page include all pharmacies, including newly opened locations.

Dispensing Pharmacy Business / Progress with Increasing Technical Fees-3

■ Patient Agreements and Receipt of Guidance Fee regarding Family Pharmacists

◆ Monthly Progress

◆ Agreements and Fees since Start of the Family Pharmacist System



Patient agreements

About 320,000

Cumulative number of agreements for each pharmacist – 169

No. of guidance fees received

About 1,220,000

Number of monthly guidance fees received in June for each pharmacist – 72

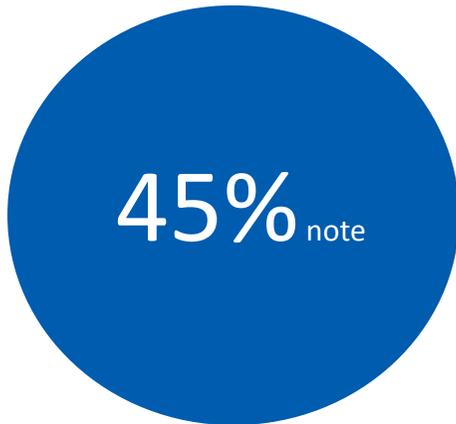
Note: Per pharmacist figures are calculated by using the number of pharmacists employed by the Nihon Chouzai Group as of July 16.

Note: Figures shown have been rounded to the nearest thousands.

Dispensing Pharmacy Business / Family Pharmacist and Family Pharmacy Activities

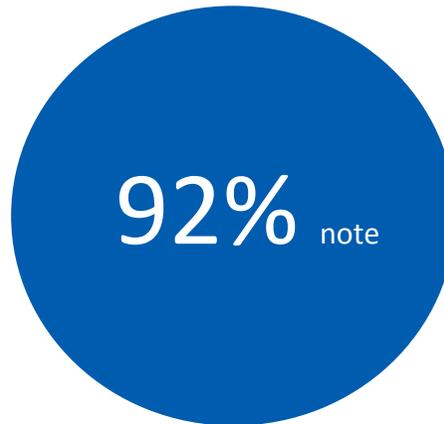
■ Results of Family Pharmacist and Family Pharmacy Activities

Family pharmacists



Family pharmacists
All pharmacists

Family pharmacies



Pharmacies that submitted notice of meeting the
standard for a pharmacy with a family pharmacist
All pharmacies (except pharmacies open for less
than six months)

Adjustment for patients'
left-over/ unused drugs

On pace to exceed ¥100 million in 2017



Amount of reduction due to left-over/
unused drug adjustment performed by
family pharmacists (during FY3/18 1Q)

Dispensing Pharmacy Business / ICT Strategy Progress

ICT x Family pharmacists

Electronic medication notebook “Okusuri Techo Plus”

Evaluation of activities involving family pharmacists and family pharmacies (proposal)

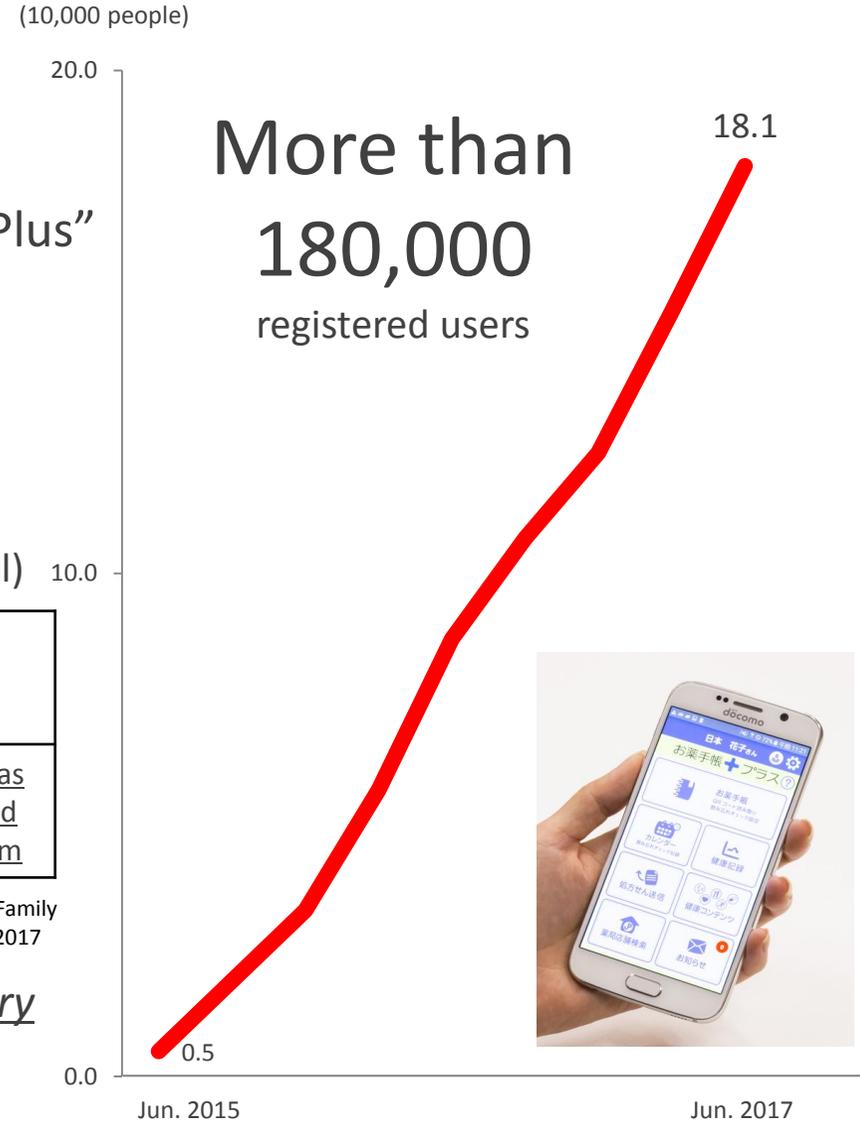
Upgrade and expand system for supplying pharmacy function information and establish key performance indicators (proposal)

Functions required to achieve the Vision for Pharmacies That Put Customers First	Items to be evaluated (proposal)
Centralized and continuous monitoring of an individual’s medications	<u>Number of pharmacies using ICT, such as the electronic medication notebook and the electronic medication history system</u>

Source: Nihon Chouzai based on the Document 2-2 “Evaluation Indicators for Family Pharmacists and Family Pharmacies (2)” of the Second Drug and Medical Equipment System Study Group on June 22, 2017

One of the best performances in the pharmacy industry

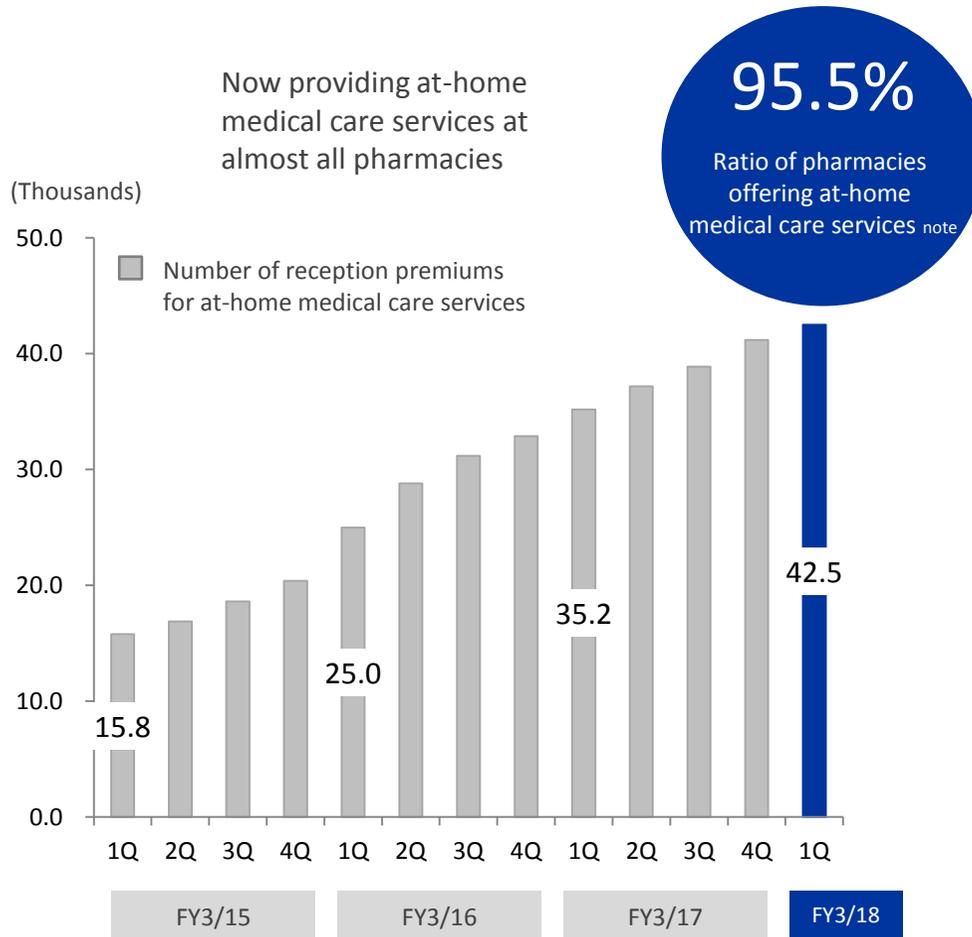
Using an internally developed system is a key competitive advantage



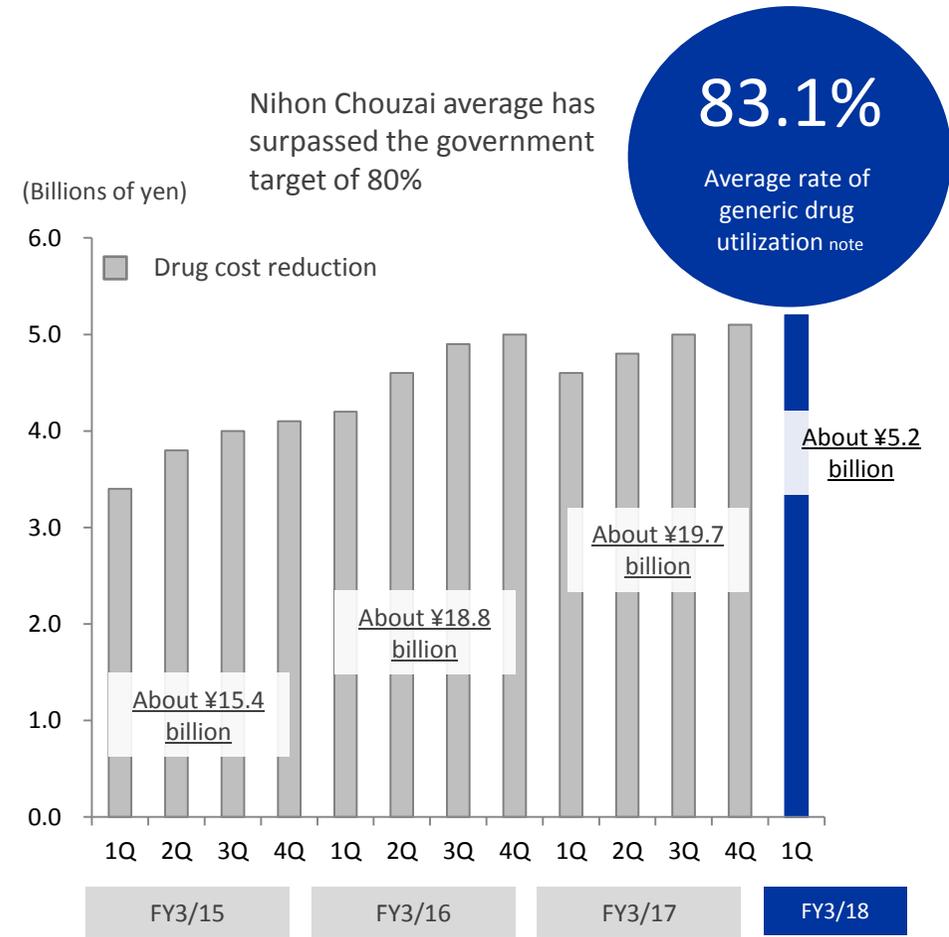
Dispensing Pharmacy Business

/ Initiatives to Increase the Use of At-home Medical Care and Generic Drugs

Number of Premiums and Ratio of Pharmacies Offering At-home Medical Care



Average Rate of Generic Drug Utilization for Nihon Chouzai and Drug Cost Reduction by Converting to Generic Drugs



Note: The ratio of pharmacies offering at-home medical care services are results at the end of each period. (Pharmacies that provided at-home medical care in the prior 12 months)

Note: Average Rate of Generic Drug Utilization for Nihon Chouzai Pharmacies (volume basis)

Pharmaceutical Manufacturing and Sales Business

/ Statement of Income

(Millions of yen)	1Q FY3/16 Results	1Q FY3/17 Results	1Q FY3/18 Plan	1Q FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY3/18 Plan
Net sales	7,702	9,387	10,031	9,407	19	+0.2%	-6.2%	41,500
Cost of sales	6,148	7,515	8,153	7,727	211	+2.8%	-5.2%	33,932
Gross profit	1,554	1,872	1,878	1,680	-191	-10.3%	-10.5%	7,567
% to sales	20.2%	19.9%	18.7%	17.9%	-	-	-	18.2%
SG&A expenses	964	1,128	1,604	1,362	234	+20.8%	-15.1%	5,894
% to sales	12.5%	12.0%	16.0%	14.5%	-	-	-	14.2%
Operating profit	589	744	273	318	-426	-57.3%	+16.3%	1,673
% to sales	7.7%	7.9%	2.7%	3.4%	-	-	-	4.0%

■ Components of YoY changes

◆ Net sales

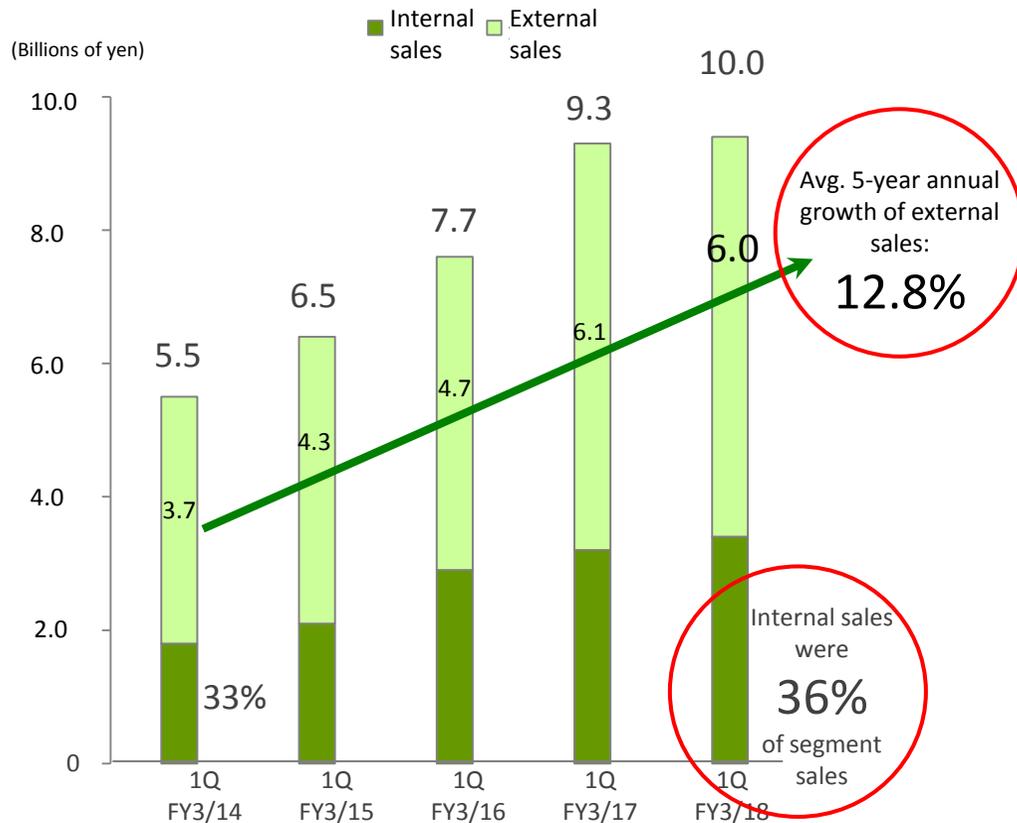
1. Internal sales: Increases with growth in the number of group pharmacies
2. External sales: Affected by competition among drug manufacturers

◆ Operating profit

1. Increase in R&D expenditures
2. Increase in depreciation resulting from the purchase of equipment
3. Decrease in gross profit margin caused by price-based competition

Pharmaceutical Manufacturing and Sales Business / Progress with Sales Initiatives

Pharmaceutical Manufacturing and Sales Business: Consolidated Net Sales (segment sales)



Two-way transactions
with drug wholesalers

Growth of external sales

Maintaining a growth rate higher than overall market growth

Market growth rate

11.4% note

(2011 to 2015)

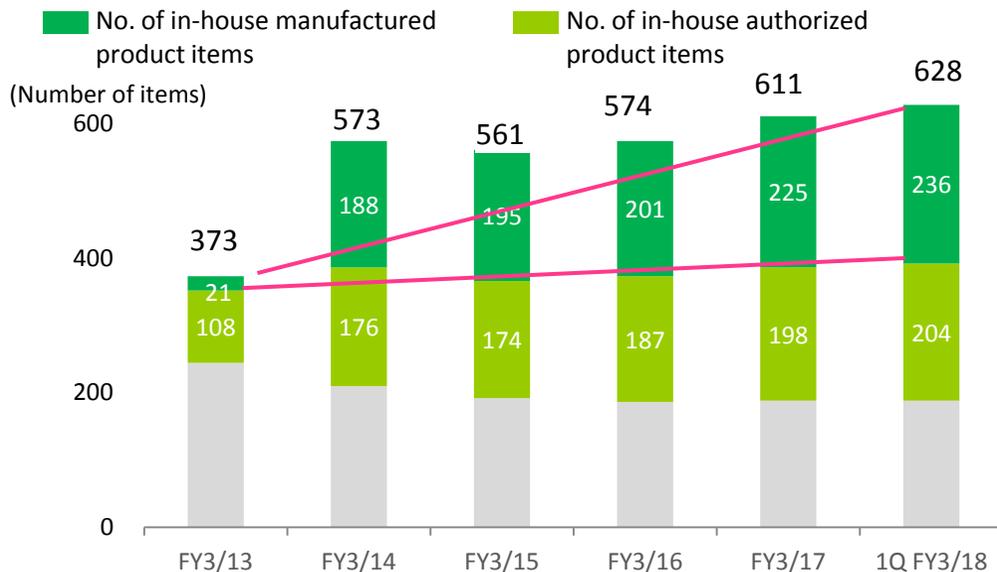
Internal sales, a base for net sales

Growth of Dispensing Pharmacy Business

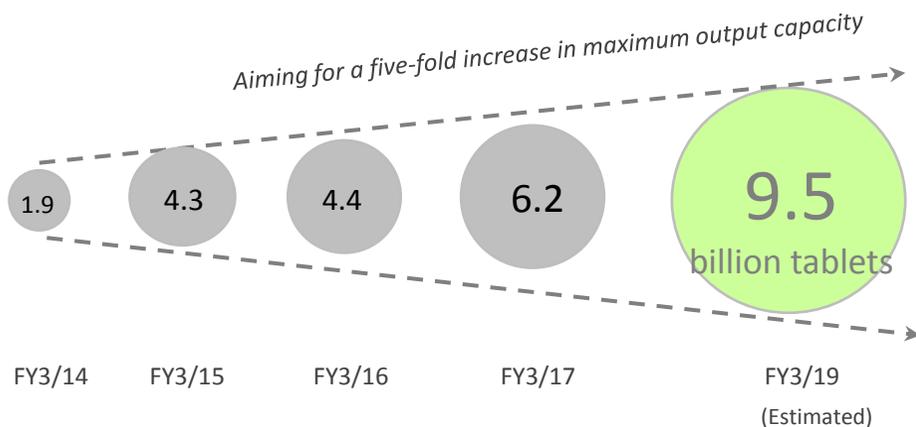
Gain competitive advantage
amid a market realignment

Pharmaceutical Manufacturing and Sales Business / Progress with R&D and Manufacturing Initiatives

Number of Product Items



Maximum Annual Output Capacity



Increase in the number of in-house authorized product items → R&D

(Billions of yen)	FY3/14 Results	FY3/15 Results	FY3/16 Results	FY3/17 Results	1Q FY3/18 Results	FY3/18 (est.)
R&D expenses	1.5	1.7	1.9	2.3	0.7	3.4

R&D expenses on a consolidated basis

More Products Manufactured Internally
= Increase in profitability

Increase Output Capacity → Capital investments

(Billions of yen)	FY3/14 Results	FY3/15 Results	FY3/16 Results	FY3/17 Results	1Q FY3/18 Results	FY3/18 (est.)
Depreciation	1.1	1.2	2.0	2.2	0.6	2.5

Depreciation for the Pharmaceutical Manufacturing and Sales Business

Medical Professional Staffing and Placement Business

/ Statement of Income

(Millions of yen)	1Q FY3/16 Results	1Q FY3/17 Results	1Q FY3/18 Plan	1Q FY3/18 Results	YoY change	YoY growth rate	Vs. plan	FY18/3 Plan
Net sales	2,087	2,588	2,909	3,107	518	+20.0%	+6.8%	12,000
Cost of sales	1,167	1,537	1,737	1,833	296	+19.3%	+5.5%	7,265
Gross profit	920	1,051	1,172	1,273	222	+21.1%	+8.6%	4,734
% to sales	44.1%	40.6%	40.3%	41.0%	-	-	-	39.5%
SG&A expenses	478	611	661	671	60	+9.9%	+1.5%	2,734
% to sales	22.9%	23.6%	22.7%	21.6%	-	-	-	22.8%
Operating profit	441	440	510	601	161	+36.7%	+17.9%	2,000
% to sales	21.2%	17.0%	17.5%	19.4%	-	-	-	16.7%

Components of YoY changes

◆ Net sales

1. Growth of the pharmacist temporary staffing business because of the shortage of pharmacists in Japan
2. Growth of the pharmacist placement business resulting from a revision in the personnel placement system

◆ Operating profit

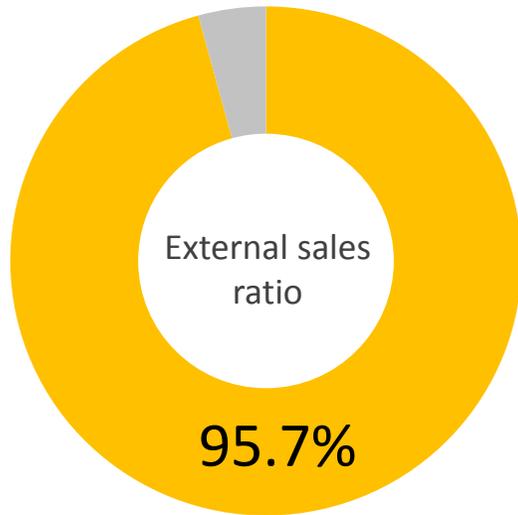
1. Higher sales contributed to earnings
2. Lower SG&A ratio due to cost controls
3. Growth of the placement business, which has a high gross profit margin

Medical Professional Staffing and Placement Business / Sales Composition

Sales Composition (1Q FY3/18 Results) and Goals

◆ External sales account for most sales

■ External sales ■ Internal sales

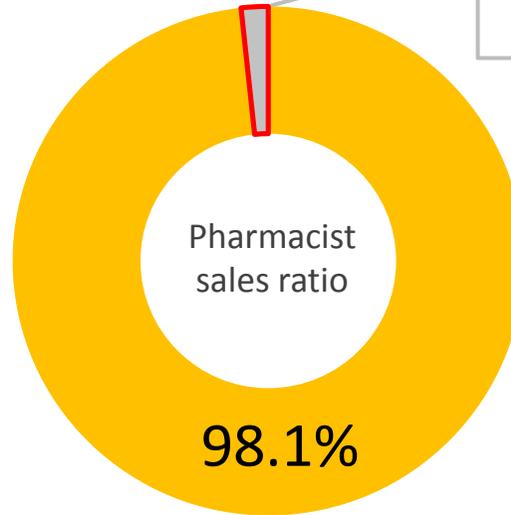


Use pharmacist recruiting skill

Grow by meeting needs for temporary and permanent placements

◆ Pharmacists account for most sales

■ Pharmacists ■ Others



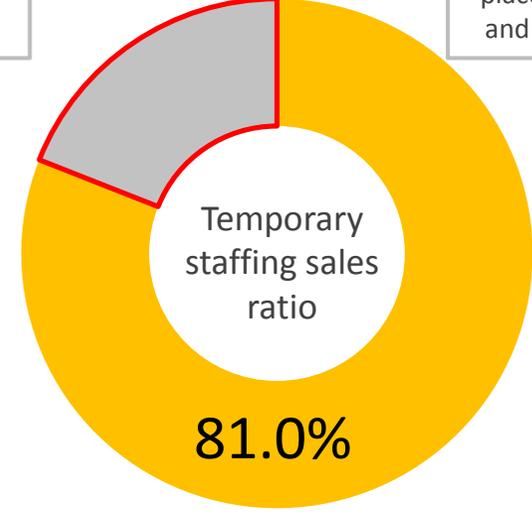
Physicians, nurses and others

Temporary staffing and permanent placements of people with added value created by education programs

Expand the physician placement business by leveraging strength in the medical sector

◆ A leader in pharmacist temporary staffing services

■ Temporary staffing ■ Others



Permanent placements and others

Use expertise concerning the temporary staffing business

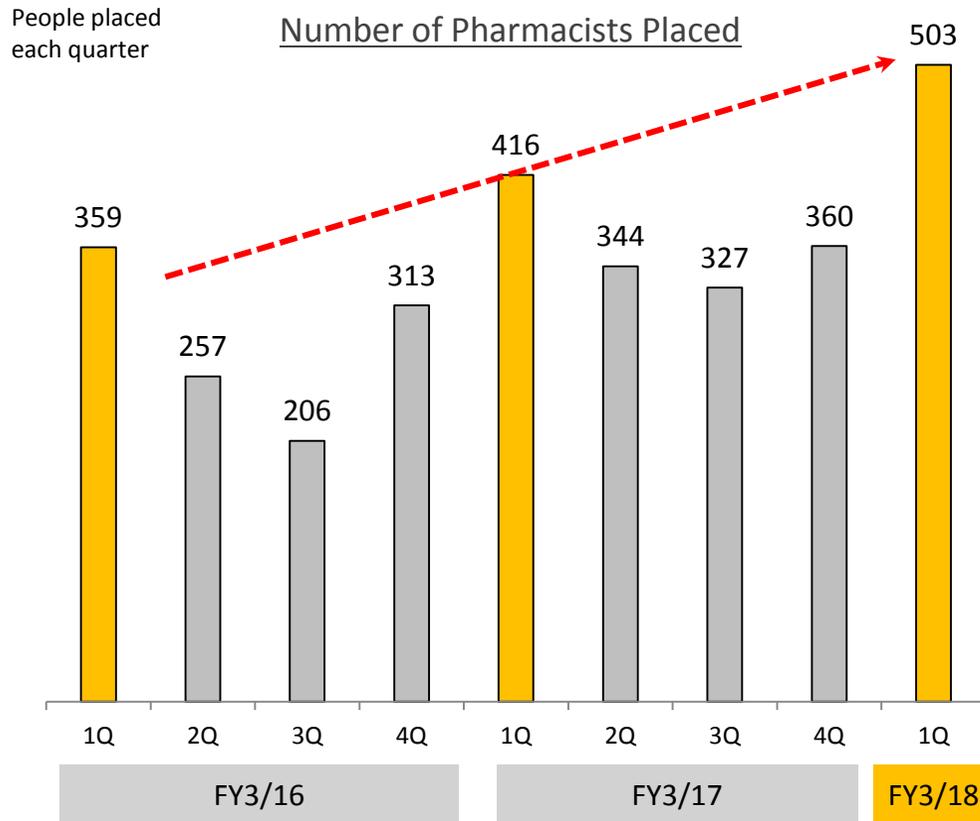
Strengthen pharmacist placement business

Medical Professional Staffing and Placement Business / Number of Placements

Pharmacist Placement Activities and Performance

Focusing on high-margin placement services that target the need for pharmacists associated with the family pharmacist system

→ Aiming for growth backed by face-to-face counseling and emphasis on matching quality



優良派遣事業者

Certified as an outstanding temporary staffing services agency

(March 31, 2016)

Reliability



1402013(01)

Certified as an outstanding job placement services agency

(March 12, 2015)

Medical Professional Staffing and Placement Business / Number of Registered Pharmacists and Job Offers

Initiatives and Performance in the Pharmacist Staffing and Placement Business

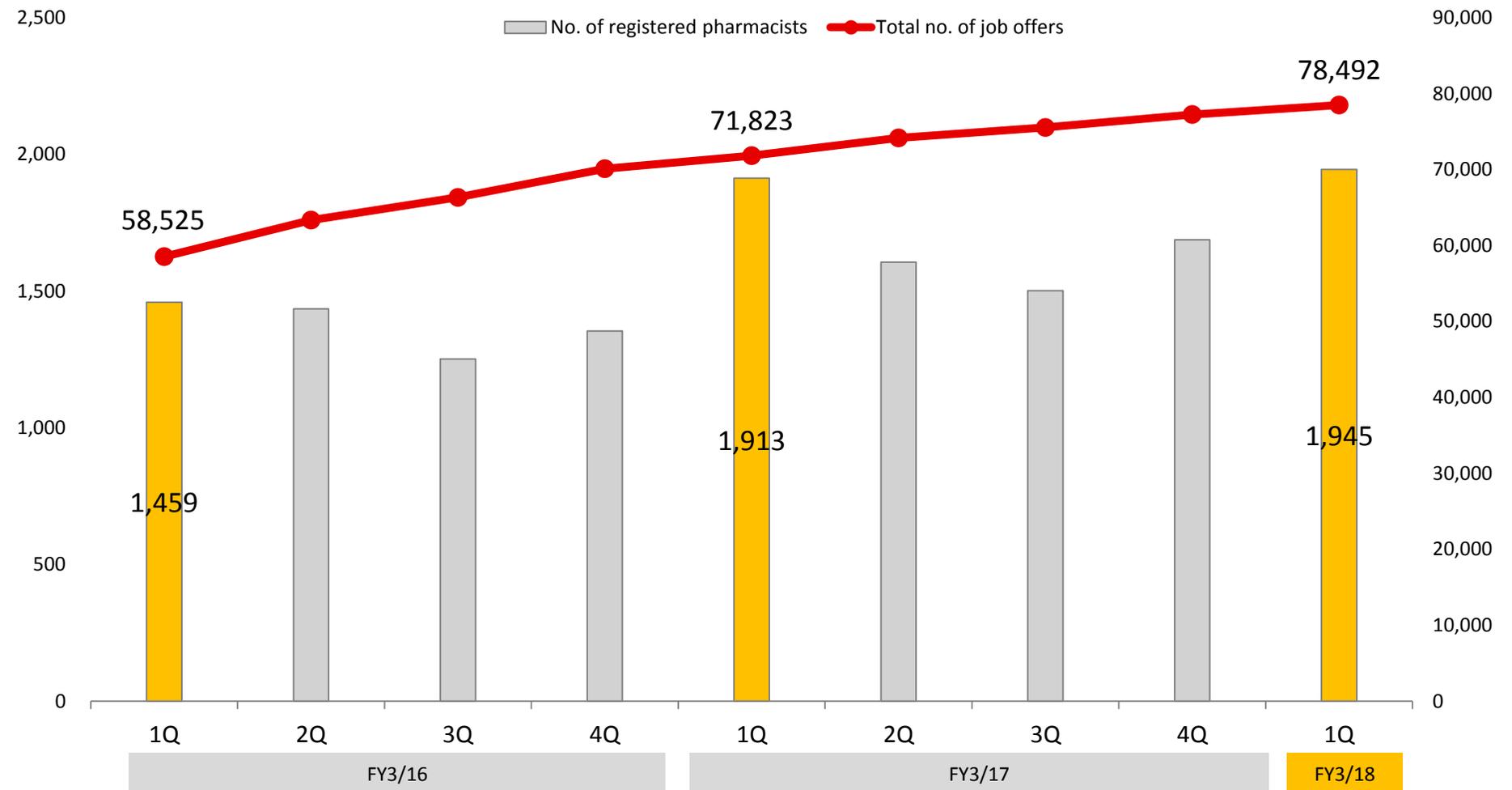
Both pharmacist job offers (temporary and permanent)

and the number of registrations are climbing

→ Continue to strengthen ability to recruit pharmacists

Quarterly number of registered pharmacists

Total number of job offers (At the end of period)

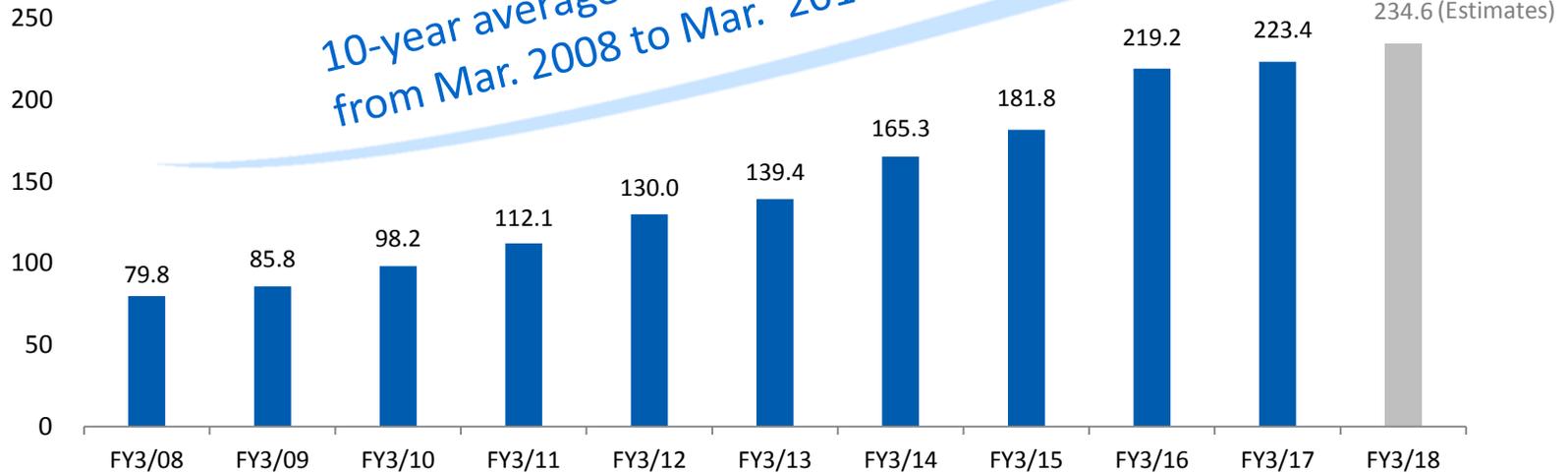


IV. Reference Materials

Consolidated Results: Net Sales / Operating Profit

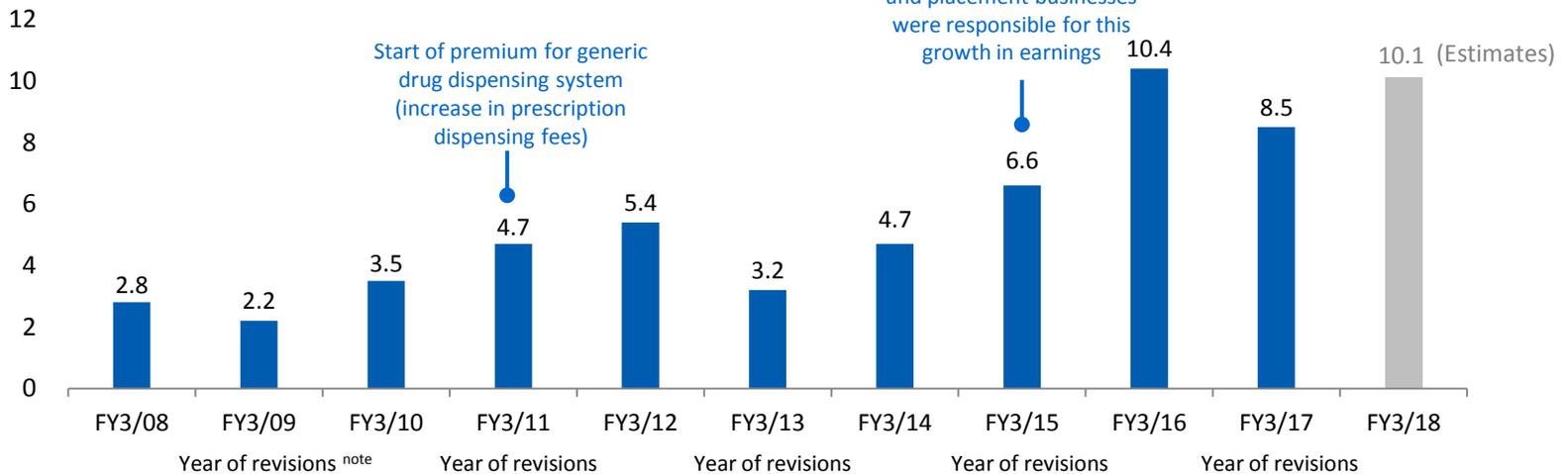
◆ Consolidated Net Sales

(Billions of yen)



◆ Consolidated Operating Profit

(Billions of yen)



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

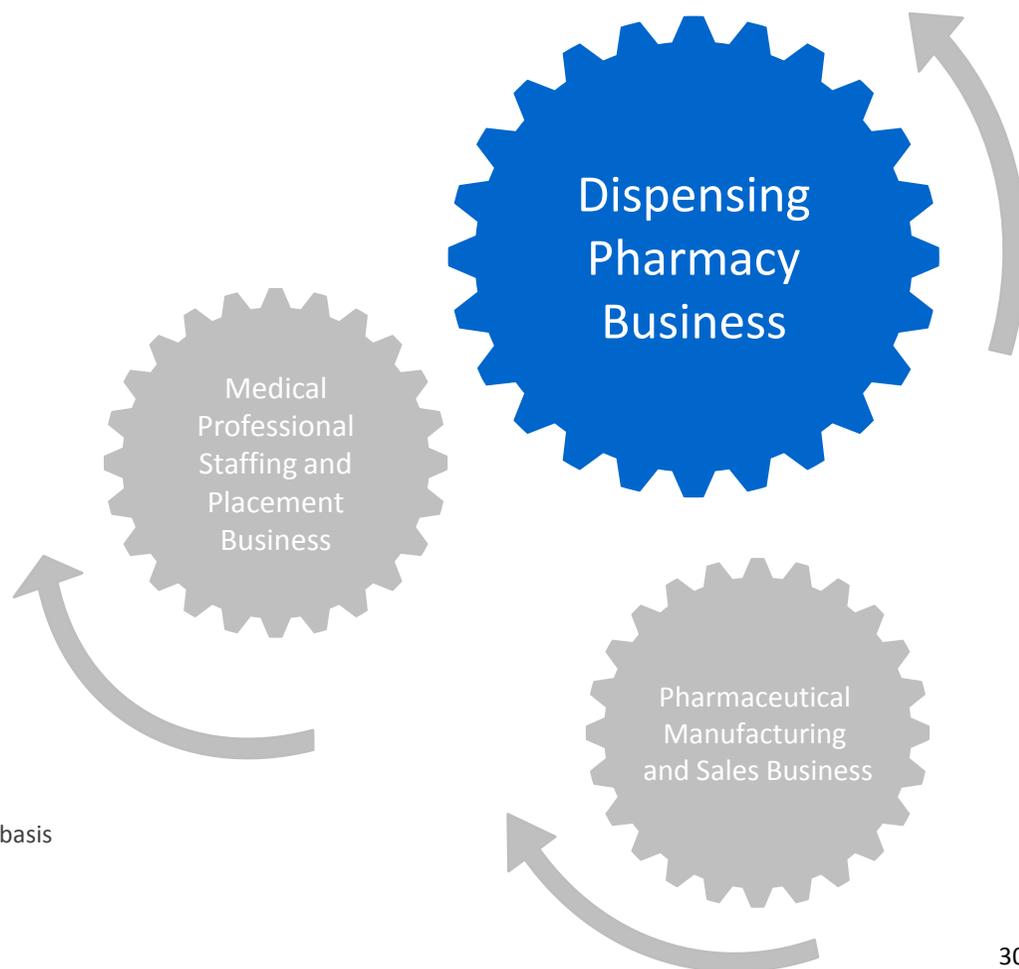
Number of Dispensing Pharmacies: 564 (as of June 30, 2017)

Note: Including one location 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.”



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.

Inquiries:



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