

Results of Operations for the Fiscal Year Ended March 31, 2016 (April 1, 2015 to March 31, 2016)

May 11, 2016

 **NIHON CHOUZAI Co.,Ltd.**

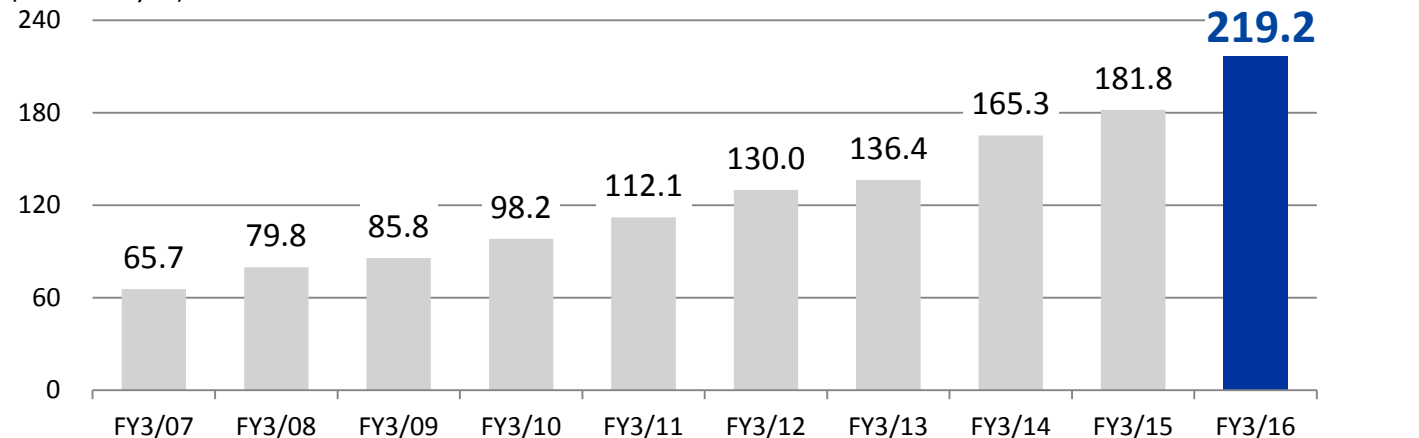
(Tokyo Stock Exchange, First Section / Stock code: 3341)

I. Results for FY3/16

Consolidated Results: Net Sales / Operating Income

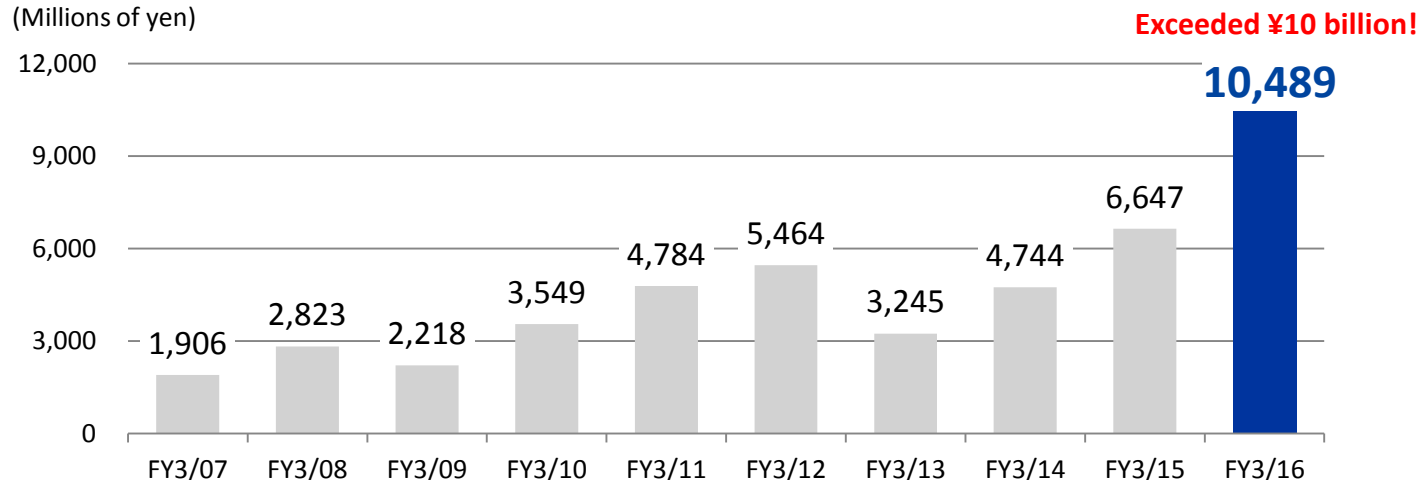
◆ Consolidated Net Sales

(Billions of yen)



◆ Consolidated Operating Income

(Millions of yen)



Progress in the New Medium-term Management Plan

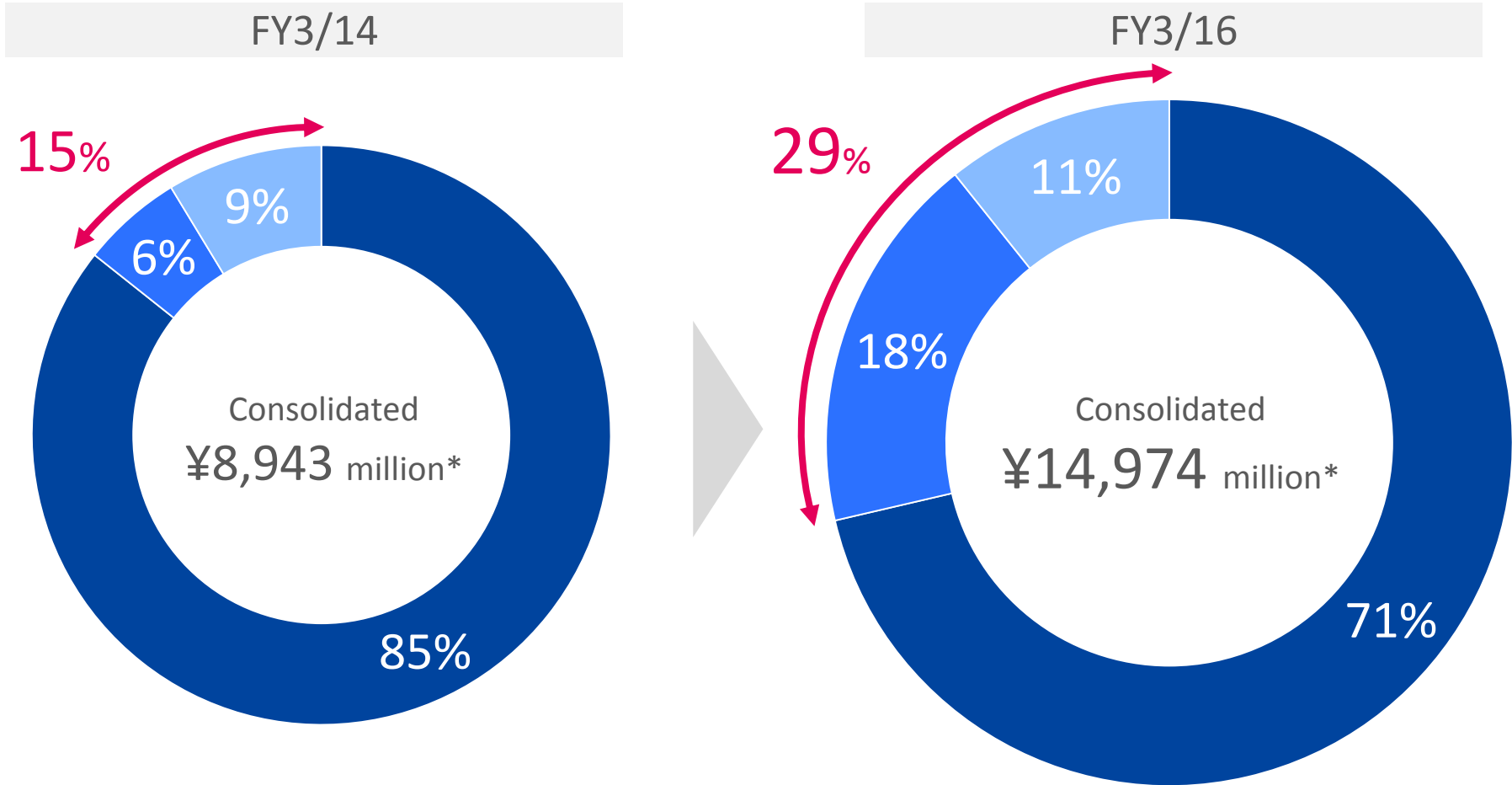


Increase in net sales:
Achievement ratio **40%**



Increase in operating income:
Achievement ratio **68%**

Segment Operating Income



- Dispensing pharmacy business
- Pharmaceutical manufacturing and sales business
- Medical professional staffing and placement business

* Before adjustments for segment profit

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16
Net income per share (Yen) *	145.46	12.84	131.24	194.48	432.85
Return on equity	15.2%	1.3%	12.5%	16.6%	25.3%
Ordinary income on total assets	6.2%	3.1%	3.9%	4.9%	6.9%
Operating income to net sales	4.2%	2.3%	2.9%	3.7%	4.8%
Equity ratio	17.0%	15.5%	13.5%	13.6%	20.6%
Free cash flows (Millions of yen)	-2,567	-3,537	-8,267	-2,606	11,509
Net assets per share (Yen)*	1,023.97	1,017.04	1,090.63	1,257.59	2,030.22
Share price at year-end (Yen)*	1,342.5	1,127.5	1,332.5	3,055.0	4,025
Market cap at year-end (Millions of yen)	21,512	18,067	21,351	48,953	64,496
Price book-value ratio (PBR) at year-end	1.31	1.11	1.22	2.43	1.98
Price earnings ratio (PER) at year-end	9.23	87.85	10.15	15.71	9.30
Dividend per share (Yen)	35.00	35.00	35.00	35.00	45.00
<Before stock split>	<70.00>	<70.00>	<70.00>	<70.00>	<90.00>

* Nihon Chouzai conducted a 2-for-1 stock split effective on October 1, 2015.
Per-share figures and share price for FY3/12 to FY3/15 is adjusted to reflect the stock split.

Consolidated Statement of Income

(Millions of yen)

	FY3/14	FY3/15	FY3/16	Difference	YoY growth rate	FY3/16 Initial target	Achievement ratio
Net sales	165,347	181,844	219,239	37,394	20.6%	207,523	105.6%
Cost of sales	139,723	149,915	180,171	30,256	20.2%	170,113	105.9%
Gross profit	25,623	31,929	39,068	7,138	22.4%	37,410	104.4%
SG&A expenses	20,878	25,281	28,578	3,296	13.0%	29,210	97.8%
Consumption taxes	5,580	9,443	11,483	2,039	21.6%	-	-
R&D expenses	1,534	1,767	1,913	145	8.3%	-	-
Operating income	4,744	6,647	10,489	3,842	57.8%	8,200	127.9%
% to sales	2.9%	3.7%	4.8%	-	-	4.0%	-
Ordinary income	4,188	6,003	9,878	3,874	64.5%	7,434	132.9%
Profit attributable to owners of parent	1,901	2,778	6,329	3,551	127.8%	3,583	176.6%

*Non-deductible consumption taxes are included in SG&A expenses.

Consolidated Balance Sheet

(Millions of yen)

Major components

	End of Mar. 2015	End of Mar. 2016	Difference
Current assets	60,096	84,838	24,742
Non-current assets	70,044	72,770	2,726
Property, plant and equipment	48,819	51,997	3,177
Intangible assets	10,376	10,122	-253
Investments and other assets	10,848	10,650	-198
Total assets	130,141	157,609	27,468
Current liabilities	53,474	68,985	15,510
Non-current liabilities	59,031	56,151	-2,880
Total liabilities	112,505	125,136	12,630
Interest-bearing debts	68,327	66,794	-1,533
Total net assets	17,635	32,473	14,837
Shareholders' equity	17,635	32,473	14,837
Equity ratio	13.6%	20.6%	-

Current assets

- Cash and deposits +18,432
- Accounts receivable-trade +5,838

Non-current assets

- Buildings and structures +2,888
- Lease assets +856
- Construction in progress +1,990

Current liabilities

- Accounts payable-trade +10,683
- Short-term loans payable -5,100
- Current portion of bonds +7,000

Non-current liabilities

- Long-term loans payable +4,436
- Bonds payable -7,000

Net assets

- Capital surplus +6,172
- Retained earnings +5,803
- Treasury shares +3,015

Consolidated Statement of Cash Flows

(Millions of yen)

	FY3/15	FY3/16
Net cash provided by operating activities	5,831	19,327
Net cash used in investing activities	-8,437	-7,823
Net cash provided by financing activities	1,422	7,031
Net increase (decrease) in cash and cash equivalents	-1,183	18,535
Cash and cash equivalents at beginning of period	15,027	13,844
Cash and cash equivalents at end of period	13,844	32,380

Major components

Net cash provided by operating activities

- Profit before income taxes 9,681
- Depreciation 4,461
- Decrease (increase) in notes and accounts payable-trade -5,339
- Decrease (increase) in inventories -881
- Increase (decrease) in notes and accounts payable-trade 11,212
- Income taxes paid -2,695

Net cash used in investing activities

- Purchase of property, plant and equipment -6,880

Net cash provided by financing activities

- Net increase (decrease) in short-term loans payable -5,100
- Proceeds from long-term loans payable 10,400
- Repayments of long-term loans payable -6,069
- Proceeds from disposal of treasury shares 9,194

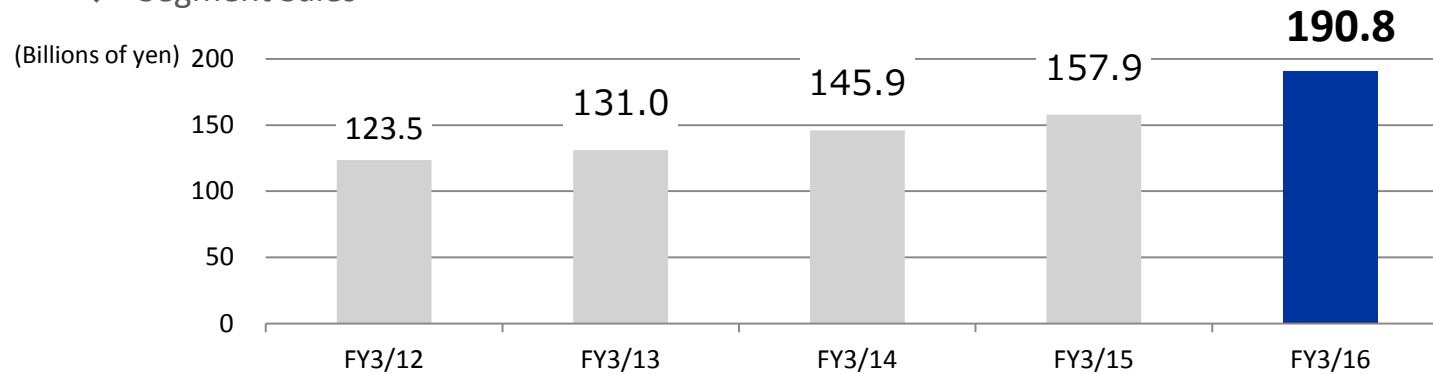
Dispensing Pharmacy Business: Segment Sales / Operating Income

(Millions of yen)

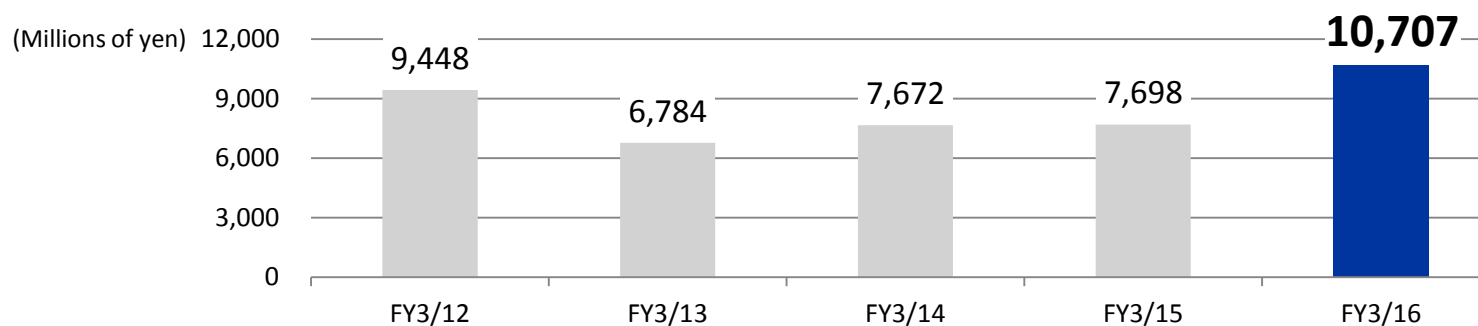
	FY3/14	FY3/15	FY3/16	Difference	YoY growth rate
Net sales	145,957	157,999	190,874	32,874	20.8%
Operating income	7,672	7,698	10,707	3,008	39.1%
% to sales	5.3%	4.9%	5.6%	-	-

*Before eliminations for inter-segment transactions

◆ Segment Sales



◆ Segment Operating Income



◆ Nihon Chouzai Group: Store Sales by Year of Opening

(Millions of yen)

	No. of pharmacies at end of Mar. 2016	FY3/15	FY3/16	Difference	YoY growth rate
Existing pharmacies (until Mar. 2014)	470	151,262	176,430	25,167	16.6%
Opened FY3/15 (Apr. 2014 to Mar. 2015)	29	3,064	8,456	5,391	176.0%
Opened FY3/16 (Apr. 2015 to Mar. 2016)	27	-	3,609	3,609	-
Others	-	1,580	319	-1,261	-79.8%
Total	526	155,907	188,815	32,908	21.1%

- Sales are only for prescriptions (do not include over-the-counter drugs, etc.) and are recorded when prescriptions are filled (no adjustment for returned prescriptions).
- Sales of pharmacies that were closed are included in the others category.
- The number of pharmacies does not include one location specializing in the sales of general merchandise.

Pharmaceutical Manufacturing and Sales Business:

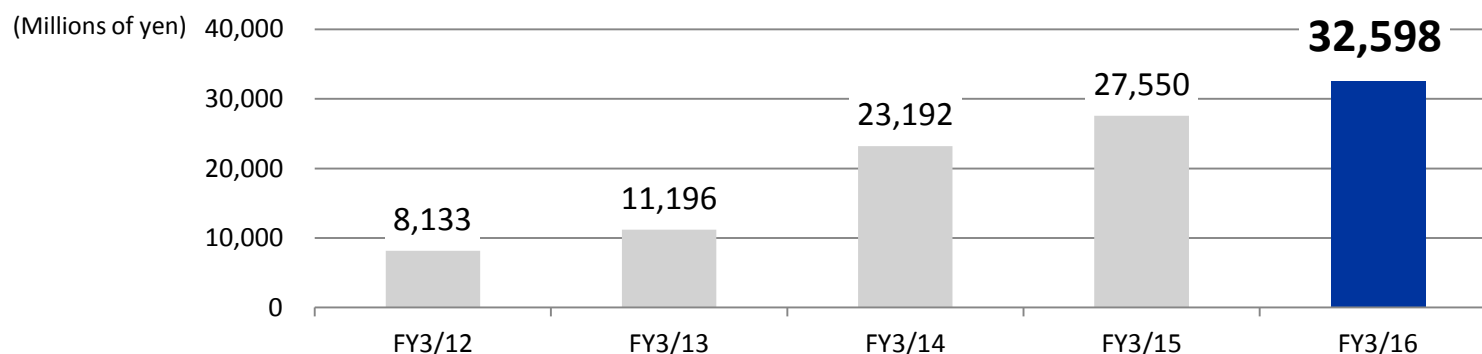
Segment Sales / Operating Income

(Millions of yen)

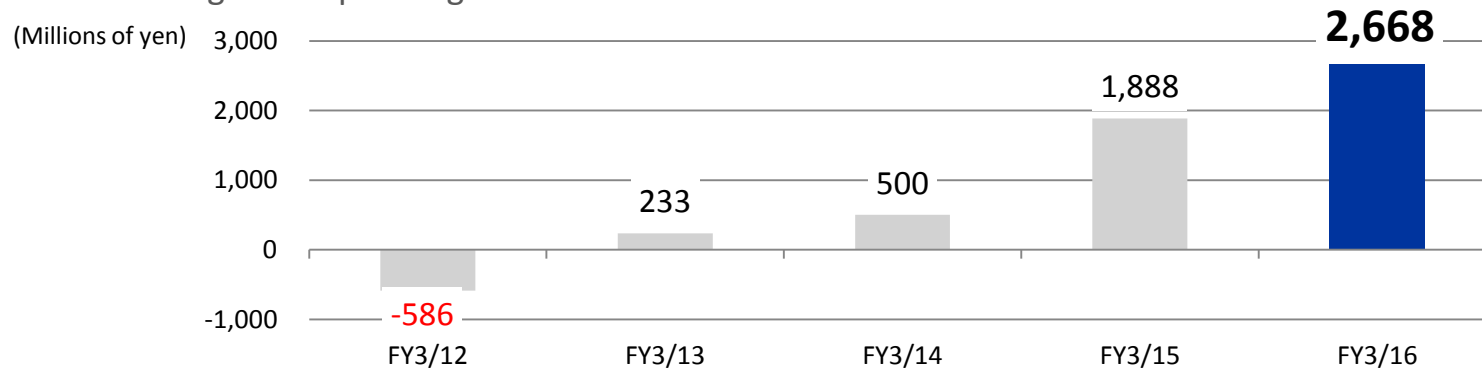
	FY3/14	FY3/15	FY3/16	Difference	YoY growth rate
Net sales	23,192	27,550	32,598	5,047	18.3%
Operating income	500	1,888	2,668	779	41.3%
% to sales	2.2%	6.9%	8.2%	-	-

*Before eliminations for inter-segment transactions

◆ Segment Sales



◆ Segment Operating Income



Medical Professional Staffing and Placement Business:

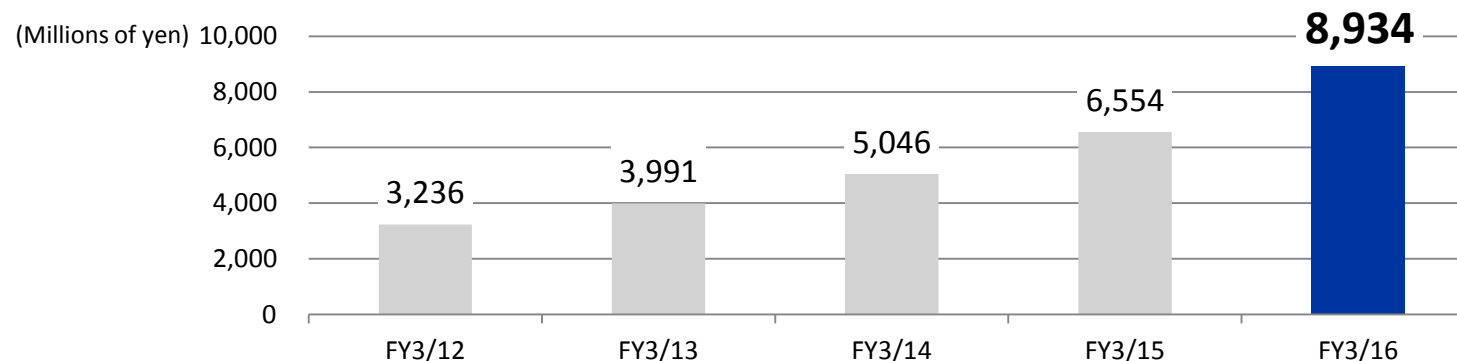
Segment Sales / Operating Income

(Millions of yen)

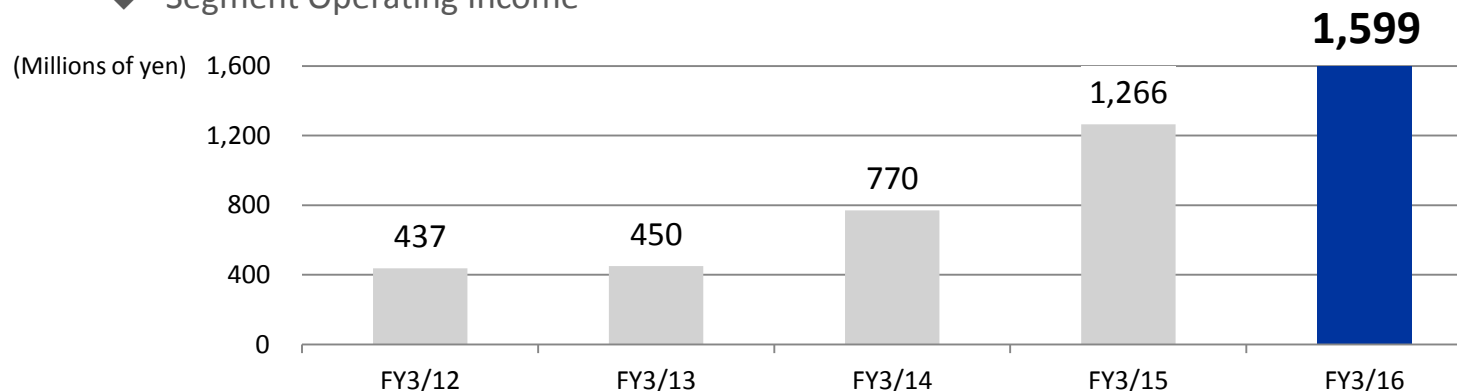
	FY3/14	FY3/15	FY3/16	Difference	YoY growth rate
Net sales	5,046	6,554	8,934	2,379	36.3%
Operating income	770	1,266	1,599	332	26.3%
% to sales	15.3%	19.3%	17.9%	-	-

*Before eliminations for inter-segment transactions

◆ Segment Sales



◆ Segment Operating Income



◆ Consolidated Target

(Millions of yen)

	FY3/15 Results	FY3/16 Results	FY3/17 Target	YoY change	
				Amount	Ratio
Net sales	181,844	219,239	240,013	20,773	9.5%
Operating income	6,647	10,489	11,165	675	6.4%
% to sales	3.7%	4.8%	4.7%	-	-
Ordinary income	6,003	9,878	10,778	900	9.1%
Profit attributable to owners of parent	2,778	6,329	6,642	312	4.9%

◆ Sales Target By Business Segment (before eliminations for inter-segment transactions)

(Millions of yen)

	FY3/15 Results	FY3/16 Results	FY3/17 Target	YoY change	
				Amount	Ratio
Dispensing pharmacy business	157,999	190,874	197,536	6,662	3.5%
Pharmaceutical manufacturing and sales business	27,550	32,598	46,271	13,673	41.9%
Medical professional staffing and placement business	6,554	8,934	10,500	1,565	17.5%
Total	192,104	232,406	254,308	21,901	9.4%

II. Business Development of the Nihon Chouzai Group

1. Major Fee Revisions in FY3/17

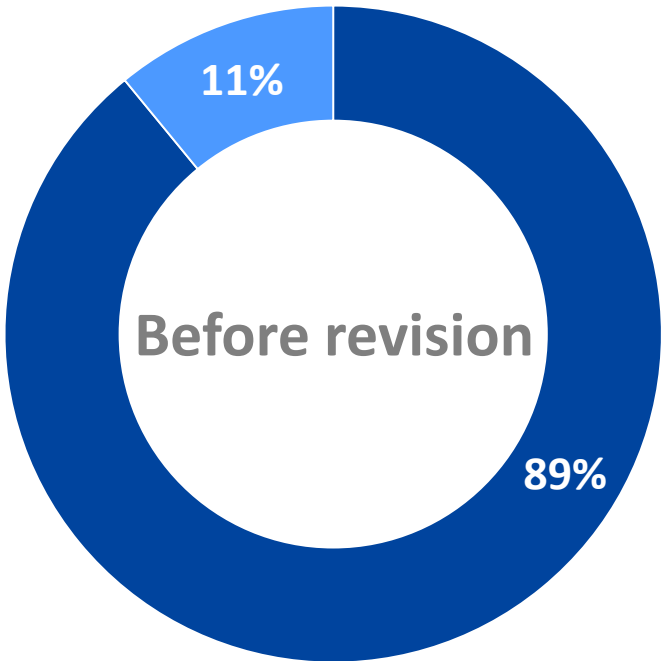
◆ FY3/17 Revisions to Medical Fees

Source: Website of Ministry of Health, Labour and Welfare

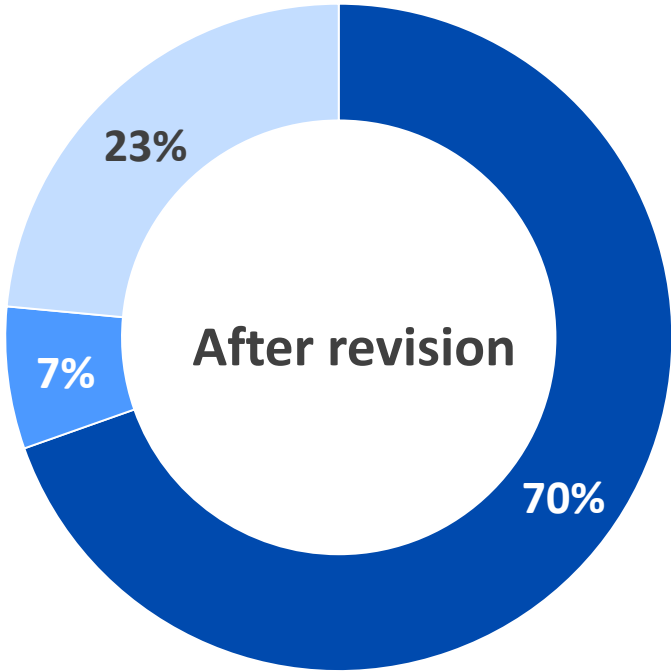
Item revised	Before revision	After revision	Change
Basic dispensing fee	Basic fee 1 (41pt) Basic fee 2 (25pt)	Basic fee 1 (41pt) Basic fee 2 (25pt) Basic fee 3 (20pt)	<ul style="list-style-type: none"> • Larger range of exceptions for basic fee 2 (more than 2,000 prescriptions when prescriptions from a single medical institution account for more than 90% of all prescriptions filled) • Added basic fee 3 (for pharmacy groups filling more than 40,000 prescriptions per month, when prescriptions from a single medical institution account for more than 95% of all prescriptions filled, and other conditions)
Premium for standard dispensing system	Type I (12pt) Type II (36pt)	Premium (32pt)	<ul style="list-style-type: none"> • Combined the two standard dispensing premiums into a single premium • Reviewed requirements (at-home care at least once each year, pharmacy open at least 45 hours each week, measures to protect privacy, and others)
Premium for generic drug dispensing system	Type I (more than 55%, 18pt) Type II (more than 65%, 22pt)	Type I (more than 65% , 18pt) Type II (more than 75% , 22pt)	<ul style="list-style-type: none"> • Raised the generic dispensing ratios for this premium
Personal care pharmacist guidance fee	None	Guidance Fee (70pt)	<ul style="list-style-type: none"> • Newly standards for evaluation of personal care pharmacists (the pharmacist must have been employed at least three years at one or more pharmacies, currently work at least 32 hours each week at the same pharmacy, the pharmacist must have been employed by the current pharmacy for at least six months, receipt of training certification, and others)

2. Effect of Revisions to Prescription Dispensing Fees

◆ Basic Dispensing Fee (Percentage of pharmacies in each fee category)



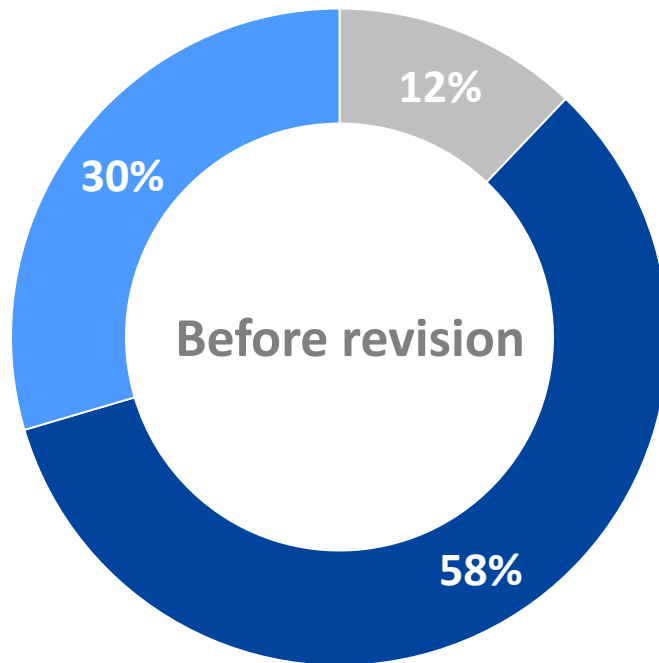
- Basic fee 1 (41pt)
- Basic fee 2 (25pt)



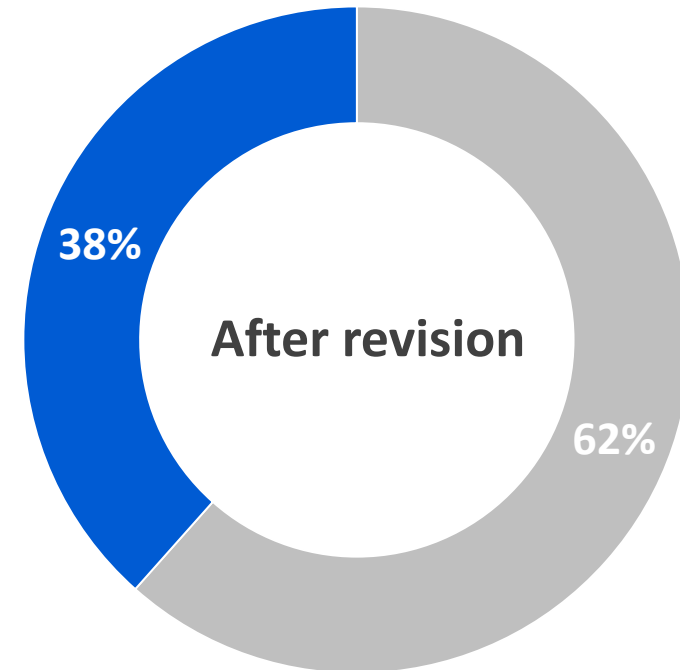
- Basic fee 1 (41pt)
- Basic fee 2 (25pt)
- Basic fee 3 (20pt)

2. Effect of Revisions to Prescription Dispensing Fees

- ◆ Premium for Standard Dispensing System
(Percentage of pharmacies in each fee category)



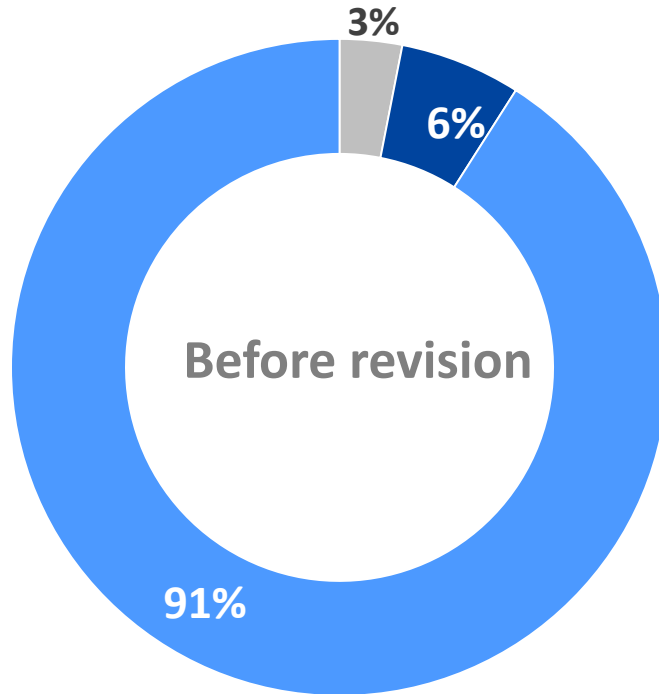
- No premium
- Type I (12pt)
- Type II (36pt)



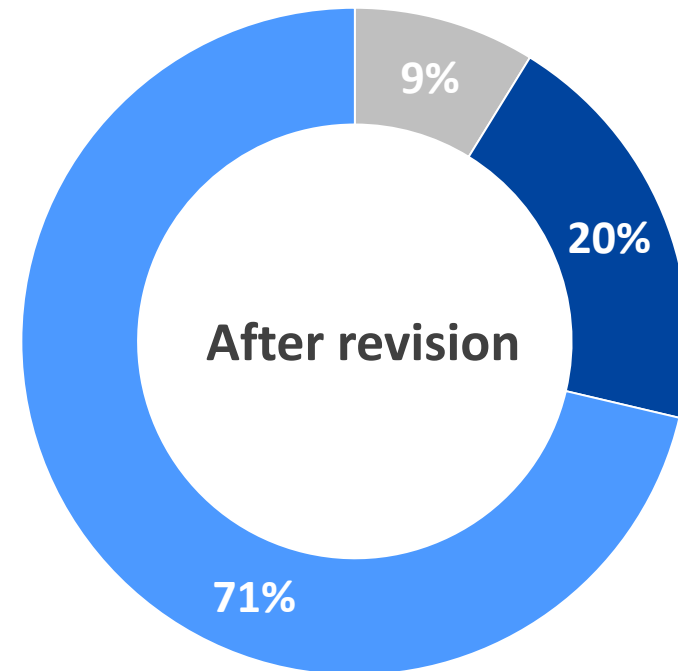
- No premium
- Premium (32pt)

2. Effect of Revisions to Prescription Dispensing Fees

- ◆ Premium for Generic Drug Dispensing System
(Percentage of pharmacies in each fee category)



- No premium (less than 55%)
- Type I (more than 55%, 18pt)
- Type II (more than 65%, 22pt)



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

3. Responses to Revisions of Prescription Dispensing Fees

◆ Nihon Chouzai Actions in Response to Revised Fees

Item revised	Response difficulty	Actions
Basic dispensing fee	High	Increase the number of community pharmacies (more guidance provided by personal care pharmacists)
Premium for standard dispensing system	Medium	Use human resources in the best possible manner Continue to provide at-home medical care
Premium for generic drug dispensing system	Medium	Increase generic drugs as a pct. of all drugs used

◆ Personal Care Pharmacist Guidance Fee (70 points)

Requirements

1. An individual must agree to use the pharmacist selected as the personal care pharmacist and an agreement is prepared and signed by that individual. Then points can be added for only one personal care pharmacist for one individual.
2. Guidance fees are added starting with the first visit to the pharmacy after the [agreement](#) is signed.
3. The pharmacist must have been employed at least [three years](#) at one or more pharmacies and currently work at least [32 hours each week](#) at the same pharmacy. In addition, the pharmacist must have been employed by the current pharmacy for at least [six months](#).
4. The pharmacist must receive [training certification](#) from a training certification system that is approved by Council on Pharmacists' Credentials (This requirement will become effective on April 1, 2017.)
5. The pharmacist must be involved in [community activities](#) involving health care.

Source: Website of Ministry of Health, Labour and Welfare

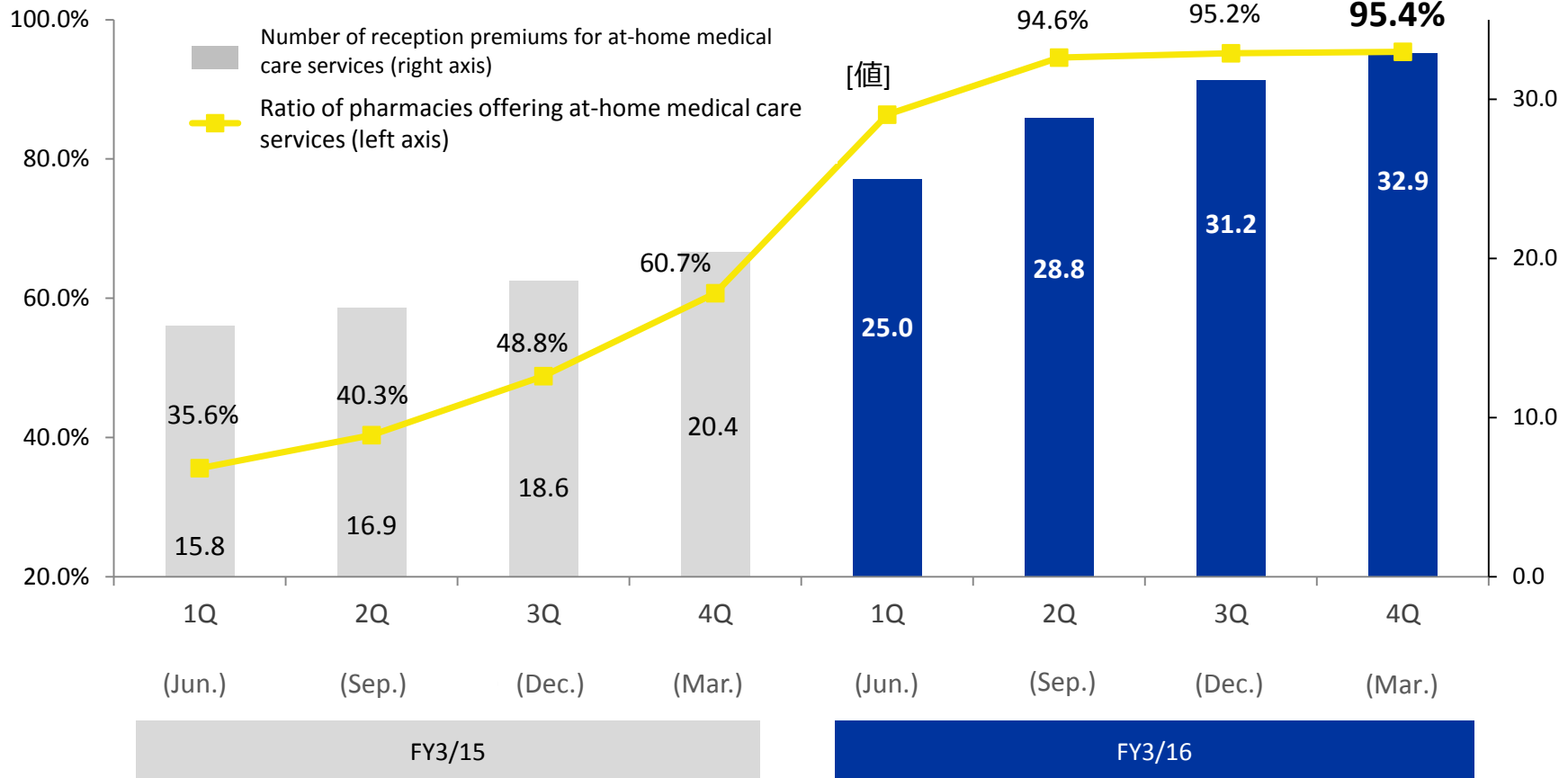
More Actions for Providing At-home Medical Care at all Pharmacies

◆ Number of Premiums and Ratio of Pharmacies Involving At-home Medical Care

*The ratio of pharmacies offering at-home medical care services as of the end of each period (pharmacies that provided at-home medical care in the prior 12 months).

(Ratio of pharmacies offering at-home medical care services)

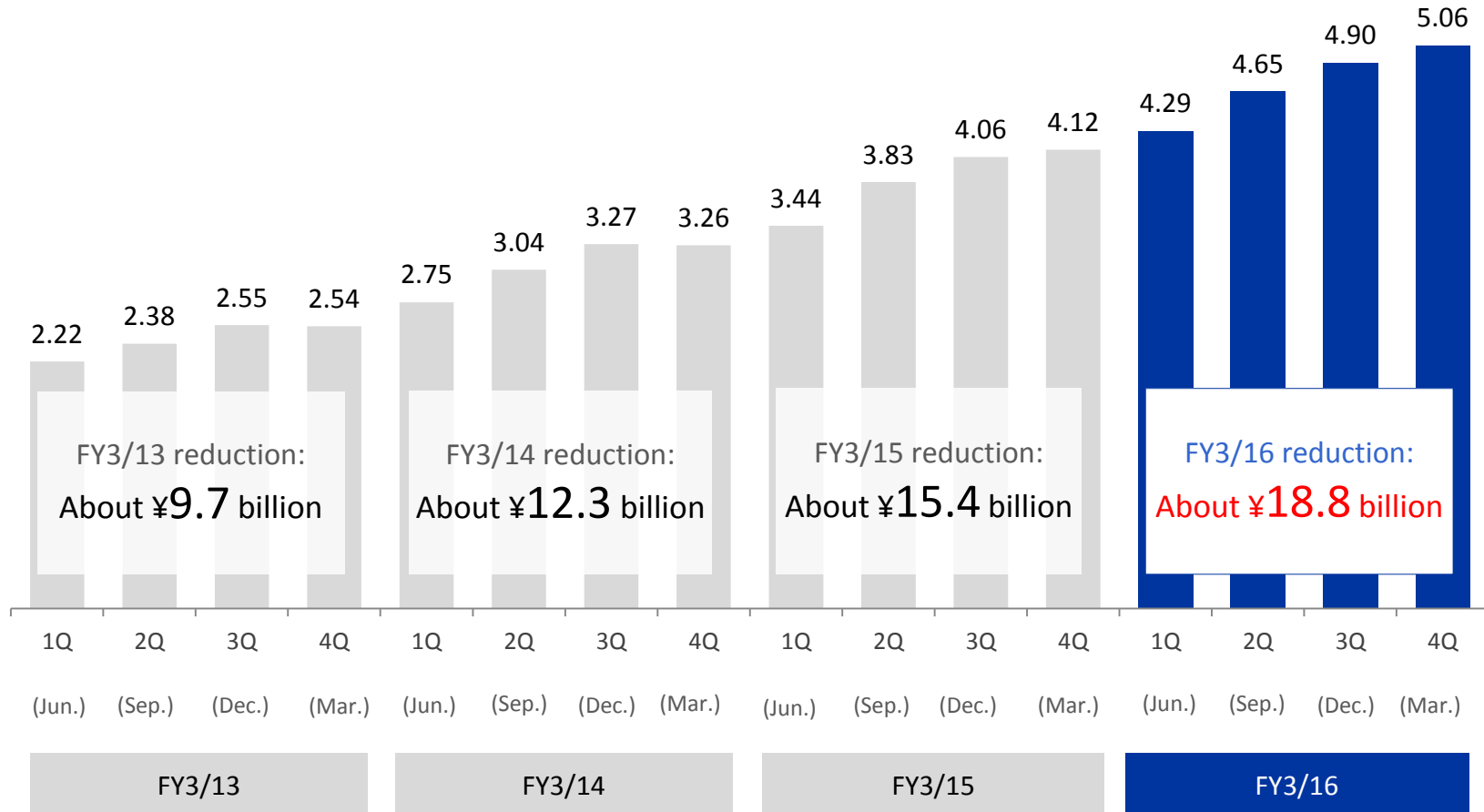
(Thousands)



Helping Lower Healthcare Expenditures in Japan

◆ Drug Cost Reduction by Converting to Generic Drugs

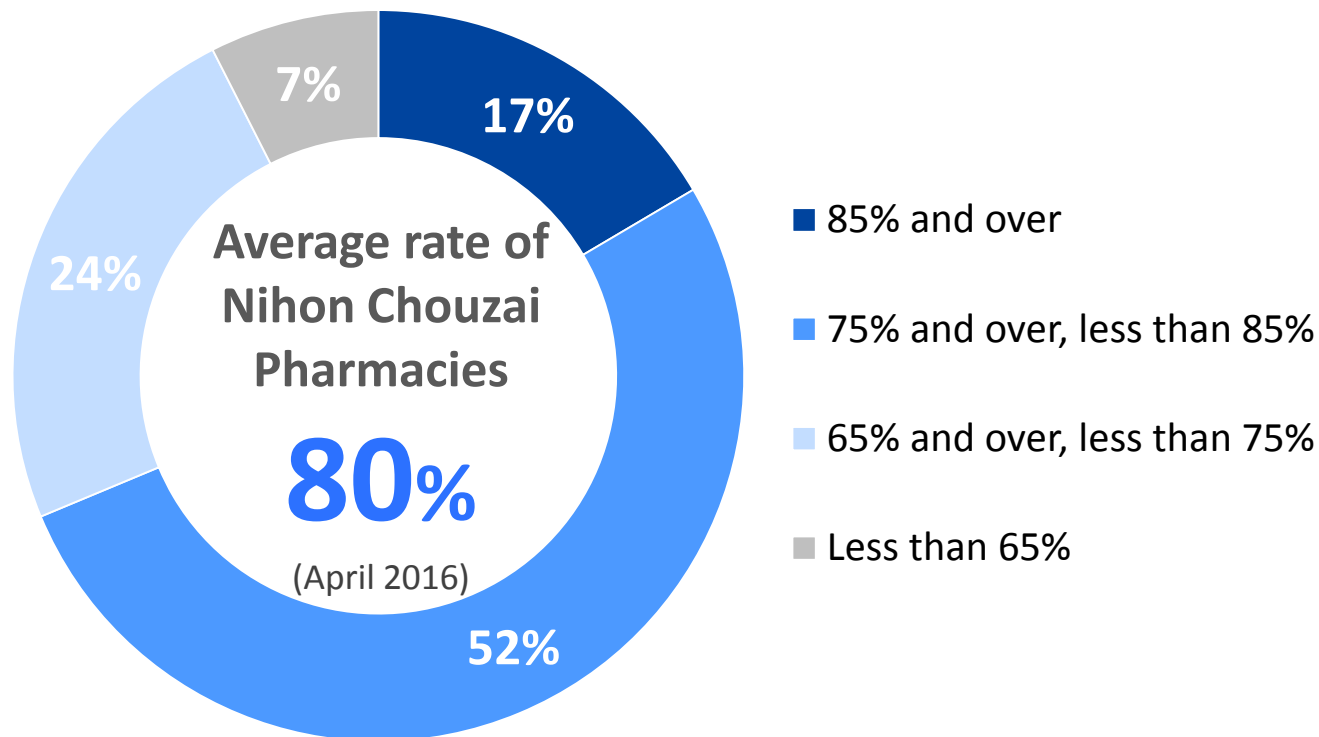
(Billions of yen)



Already Achieved the Japanese Government Target

◆ Generic Drug Utilization Rate by Nihon Chouzai Pharmacies (Volume basis)

*The ratio of pharmacies are results for the end of FY3/16



More than 77,000 Users of Electronic Medication Notebooks!*

*As of May 9, 2016

- ◆ Companies participating in the electronic medication notebook access service (server with Japan Pharmaceutical Association link)

Companies Offering an Electronic Medication Notebook Service

Service	Provider	Data storage	Storage company
Osaka e-Kusuri Techo	Osaka Pharmacist Association	Kenko no Kura	STNet
Nichiyaku e-Kusuri Techo	Japan Pharmaceutical Association		
Okusuri Techo Plus	Nihon Chouzai	Nihon Chouzai	Nihon Chouzai
Pharmo Kusuri Techo	Pharumo	Pharumo Cloud	Pharumo
Kanagawa My Carte			
Sanki Richetta			
Hoppe	Lebens	Lebens	Lebens
Kusuri Techo Link	NTT Docomo	NTT Docomo	NTT Docomo

The only large pharmacy company providing this service

Includes services that have not yet started.

Source: Japan Pharmaceutical Association website

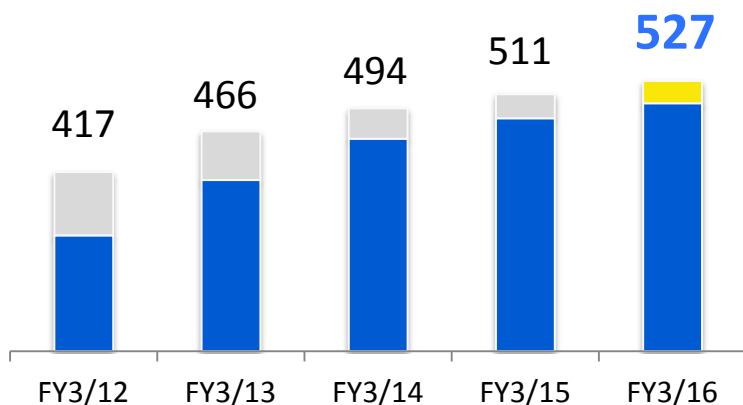
More premiums for **higher customer satisfaction**



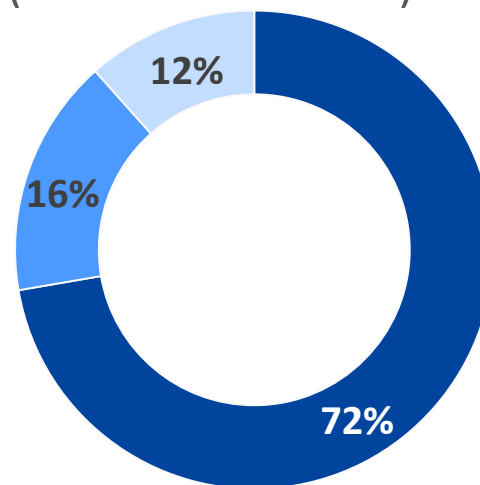
Sales growth at existing pharmacies

Opening Pharmacies with a Variety of Functions

◆ Number of Pharmacies opened (planned)



◆ Number of Pharmacies by Type (as of March 2016)



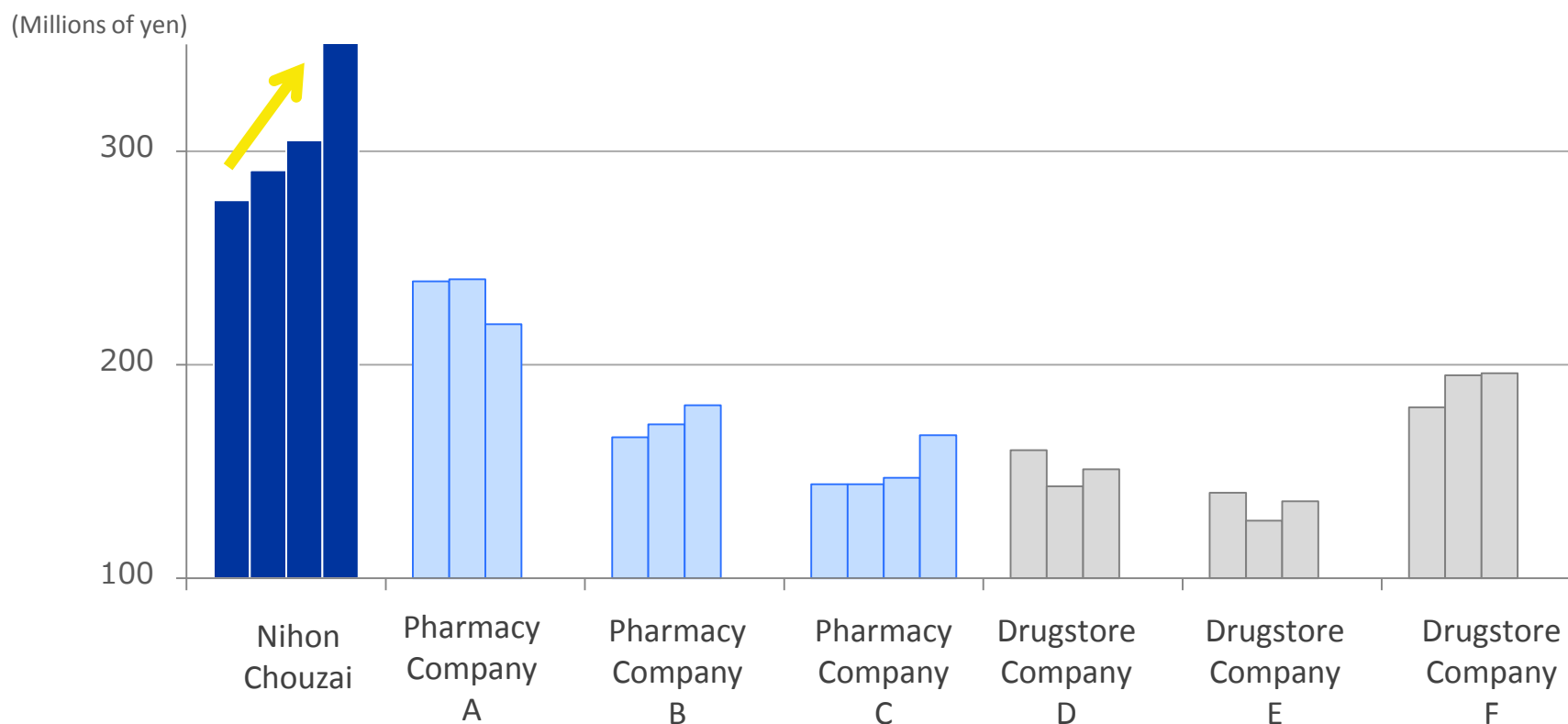
* Including one location specializing in the sales of general merchandise.

- No. of pharmacies opened: **27**
(Including M&A 5)
- No. of pharmacies closed: **11**
- FY3/17 goal for new pharmacies: About **50**

- Hospital-front pharmacies
- "Mentaio" (diversified customer-oriented) pharmacies
- MC (medical mall) pharmacies

Higher **Efficiency and Quality** are the Priorities for New Pharmacies and M&A

◆ Prescription Drug Sales per Pharmacy (FY3/12-FY3/16)



* Source: Pharmaceutical Industry Ranking
Data up to FY3/15 for some pharmacies and all drugstores

Measures to Increase the Use of Generic Drugs in Medical Institutions

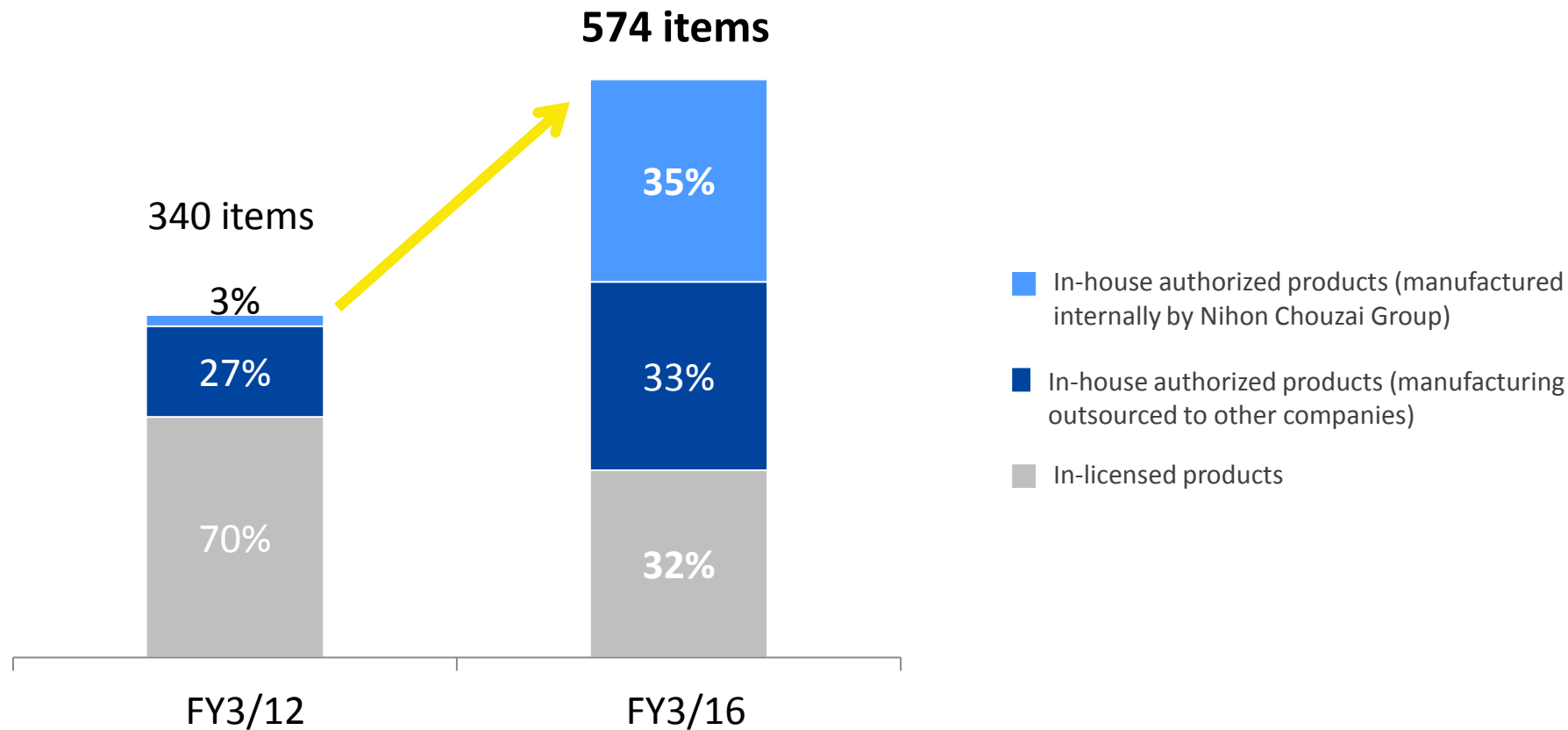
Type of medical institution	Before	After revision	Change
DPC hospitals Revision to function evaluation coefficient II (generic drug index)	Up to 60% share for generic drug use	Up to 70% share for generic drug use	Increase
Other hospitals Revision to index for generic drug use system premium	Pct. of number of items used Type I (more than 30% of the old index: 35pt) Type II (more than 20% of the old index: 28pt)	Pct. of volume used Type I (more than 70% of the new index: 42pt) Type II (more than 60% of the new index: 35pt) Type III (more than 50% of the new index: 28pt)	Change in indicator used
Clinics Premium for outpatient generic drug use system	None	Pct. of volume used Type I (more than 70% of the new index: 4pt) Type II (more than 60% of the new index: 3pt)	Newly established

Source: Ministry of Health, Labour and Welfare website

More growth of Japan's market for generic drugs

More Products Manufactured Internally

◆ Number of Product Items



Increase Output Capacity

◆ Maximum Annual Output Capacity (tablets and capsules)

(Unit: 100 million tablets)

Company name	Plant name	FY3/14	FY3/15	FY3/16	FY3/17 (Forecast)	Plan
Nihon Generic	Tsukuba Plant (N)	10	10	10	10	10
	Tsukuba Plant (S)		13	13	26	26
	Tsukuba Plant No. 2					100
	Kasukabe Plant		9	9	9	9
Choseido Pharmaceutical	Head Office Plant	7	7	7	7	7
	Head Office Plant No. 2		2	2	2	2
	Kawauchi Plant	2	2	3	3	3
Total		1.9 billion tablets	4.3 billion tablets	4.4 billion tablets	5.7 billion tablets	15.7 billion tablets

The Growing Need in Japan for Personal Care Pharmacists



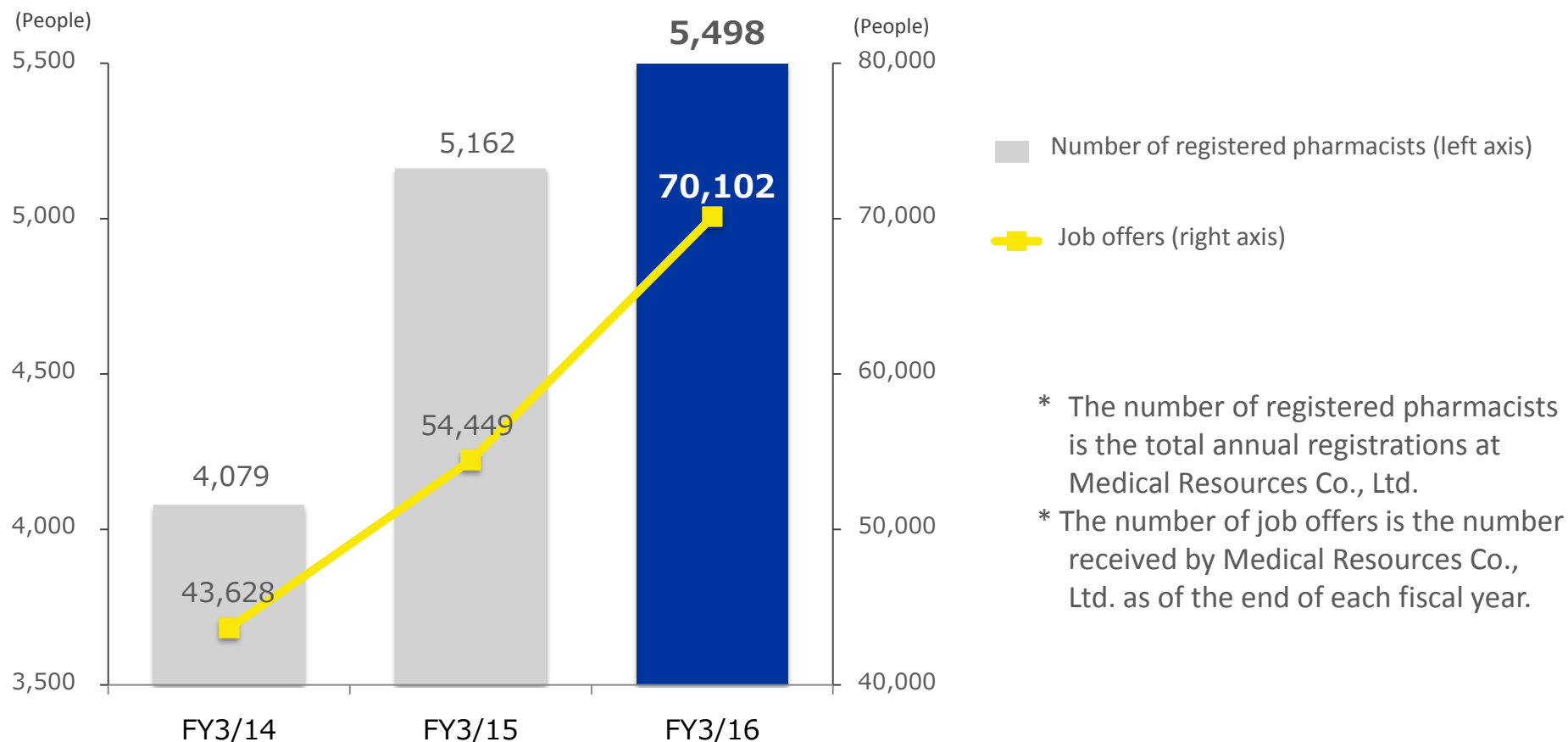
Use the power of the Nihon Chouzai Group to supply pharmacists with substantial added value

Leading share of the pharmacist staffing and placement services market

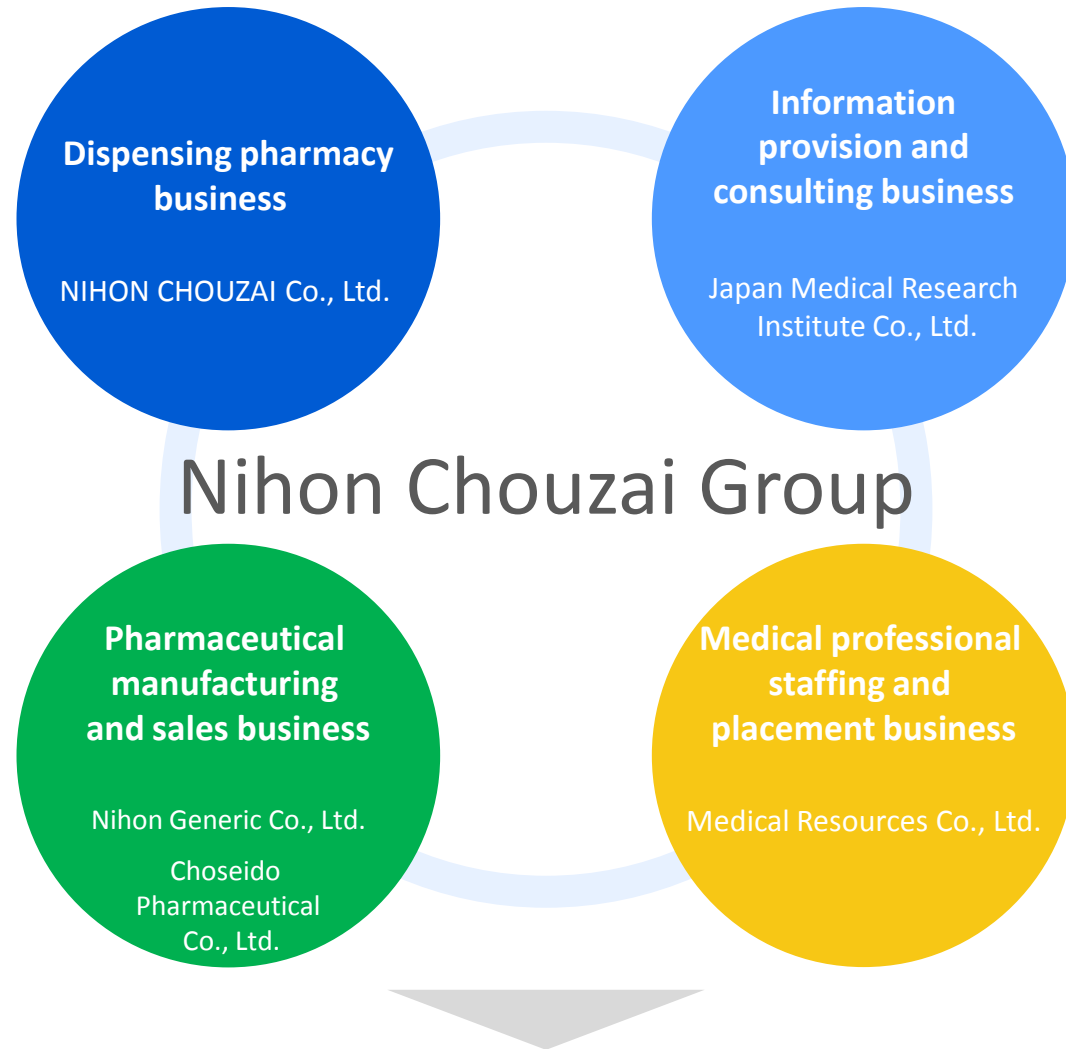
One of the industry's best training programs

The Number of Registrations and Job Offers Continue to **Grow**

◆ Number of Registered Pharmacists and Job Offers



7. Business Activities of the Nihon Chouzai Group



Our goal is to become a comprehensive pharmaceutical group

Precautions

This presentation was prepared for the purpose of providing additional information concerning the April 28, 2016 announcement of results of operations for the fiscal year ended on March 31, 2016 (*kessan tanshin*). 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. In addition, 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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