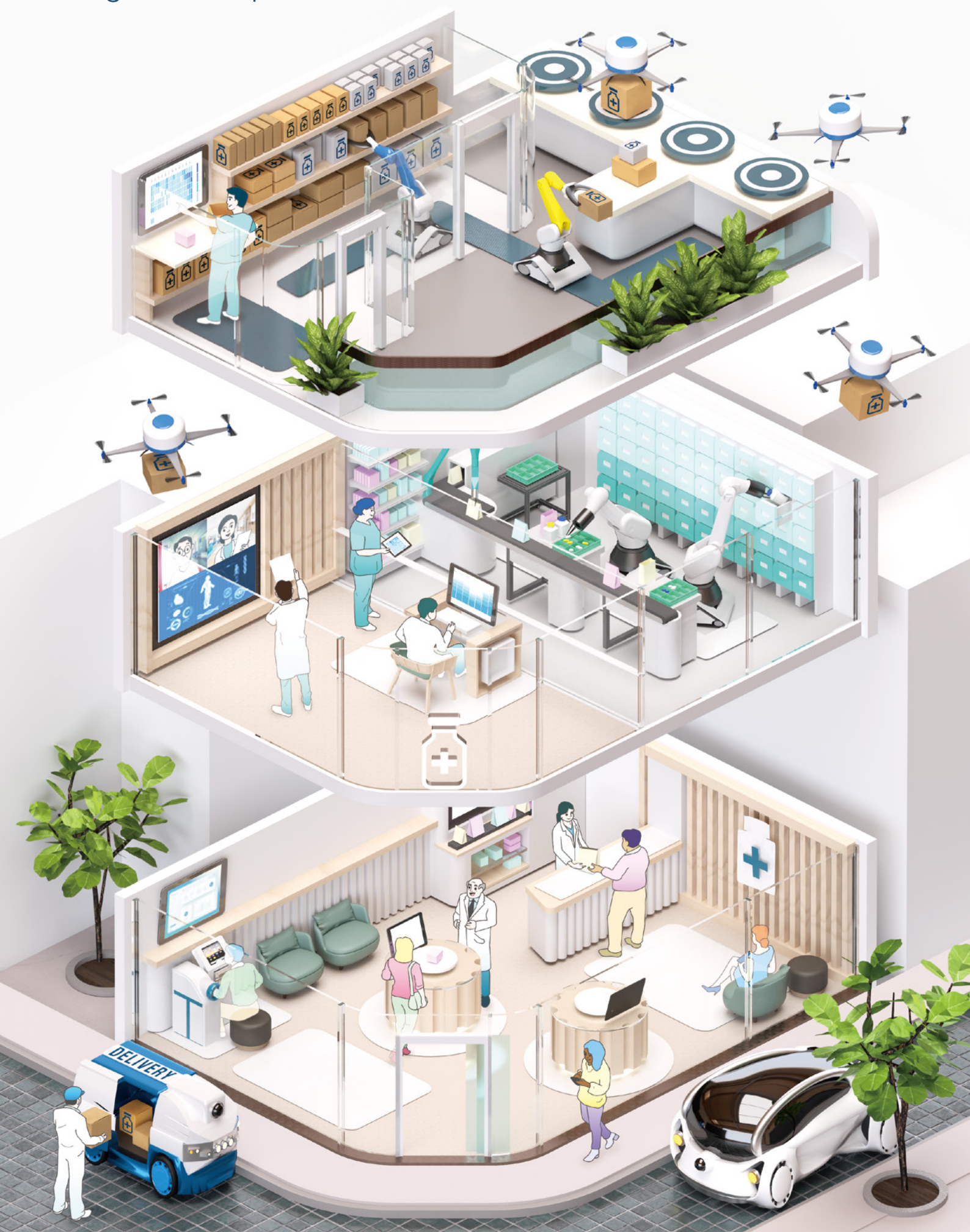


NIHON CHOUZAI

Integrated Report 2021

 NIHON CHOUZAI Co.,Ltd.



Toward Becoming an Innovative Corporate Group That Provides the Best Possible Healthcare Services

With pharmacies in all of Japan's 47 prefectures, Nihon Chouzai is one of Japan's largest pharmacy business operators. In addition to our core Dispensing Pharmacy Business, we also operate Pharmaceutical Manufacturing and Sales, Medical Professional Staffing and Placement, and Information Provision and Consulting Businesses.

Our Vision Toward Becoming a Comprehensive Healthcare Company

The Nihon Chouzai Group is seeking to grow as a comprehensive healthcare company rooted in the pharmacy business. We are pursuing dramatic growth in the Dispensing Pharmacy Business through the combined strategies of developing a distinctively balanced pharmacy network portfolio and implementing DX to achieve digital transformation in the healthcare field. From this starting point, we are also expanding our Pharmaceutical Manufacturing and Sales and Medical Professional Staffing and Placement Businesses to achieve sustainable growth as a comprehensive healthcare company.

Our Purpose Achieving the True Separation of Drug Prescribing and Dispensing Services

The “true separation of drug prescribing and dispensing services” means that doctors and pharmacists assume a clear division of roles based on their particular area of expertise and work together closely as a team to support patient care. Under this framework, we are working to ensure medical safety and provide high-quality healthcare services to patients, while helping to curb rising medical costs.

About COVID-19 measures and the content of this Integrated Report:
Nihon Chouzai puts top priority on the safety of patients and employees at its sites and pharmacies nationwide. We have put in place various measures related to preventing the infection and spread of COVID-19. Please note, however, that this Report may contain some discussions and photographs from before the COVID-19 outbreak.

Business Portfolio



* Sales and operating profit are the total of the three main business segments. Adjustment amounts have not been subtracted. Percentages are rounded to the nearest unit.

Dispensing Pharmacy Business
Nihon Chouzai Co., Ltd.
Other dispensing subsidiaries

P31

A leading company in the pharmacy sector

Net sales	244.0 billion yen
Operating profit	10.5 billion yen
Pharmacies with family pharmacists	86% <small>(as of July 29, 2021)</small>
Pharmacies conducting at-home healthcare	94% <small>(one or more visit per year, as of June 2021)</small>

Pharmaceutical Manufacturing and Sales Business
Nihon Generic Co., Ltd.
Choseido Pharmaceutical Co., Ltd.

P43

A manufacturer of a full line of generic drugs

Net sales	45.6 billion yen
Operating profit	2.3 billion yen
Number of drugs on the market	677 <small>(including two over-the-counter drugs)</small>
Development, manufacturing bases	5 plants, 2 laboratories

Information Provision and Consulting Business
Japan Medical Research Institute, Inc.

P41

* Information Provision and Consulting Business results are included in the Dispensing Pharmacy Business segment.

Providing high value-added information and services

Supporting customers through six business lines

- Drug Information Service
- Advertising Media Service
- Survey and Research Services
- Data Health Support Service
- Consulting Services
- Drug formulary implementation and education

Medical Professional Staffing and Placement Business
Medical Resources Co., Ltd.

P51

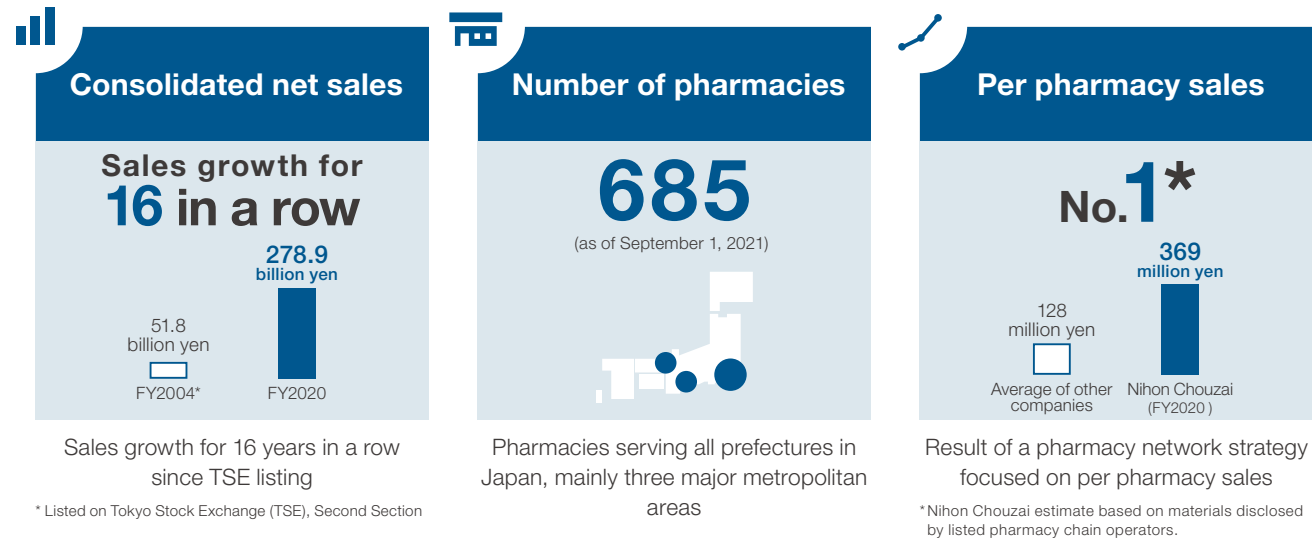
An HR services company specializing in professionals in healthcare fields

Net sales	8.3 billion yen
Operating profit	7.0 billion

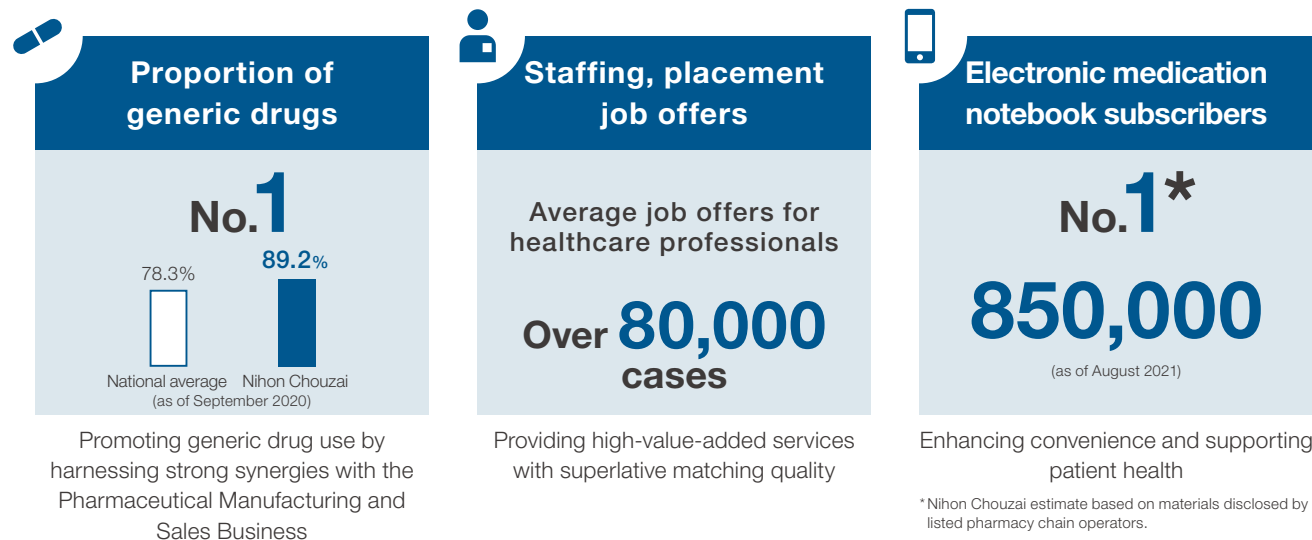
Reliability



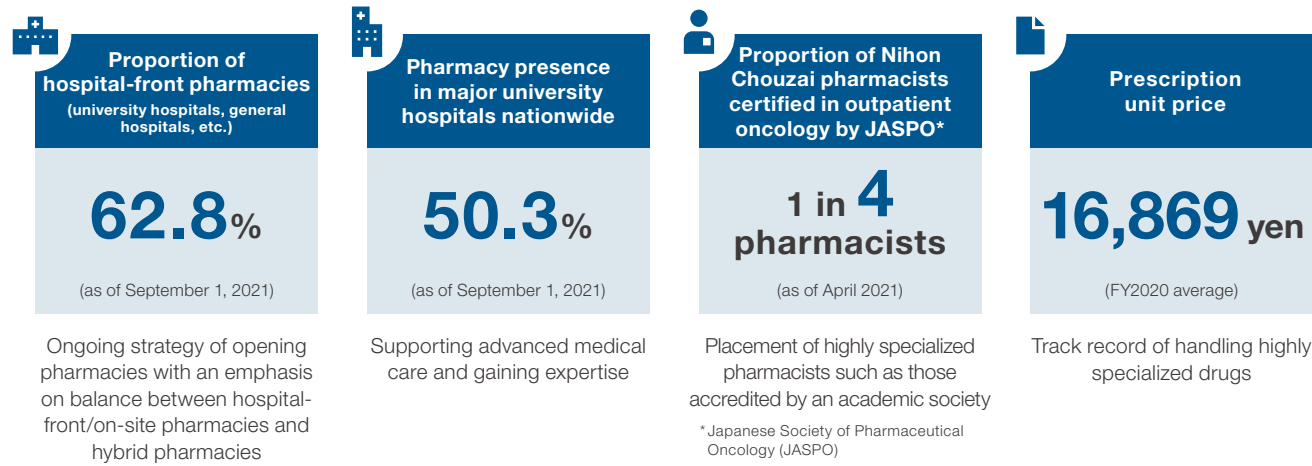
Taking the Lead in the Japanese Pharmacy Market



Addressing Healthcare Issues Facing Japanese Society

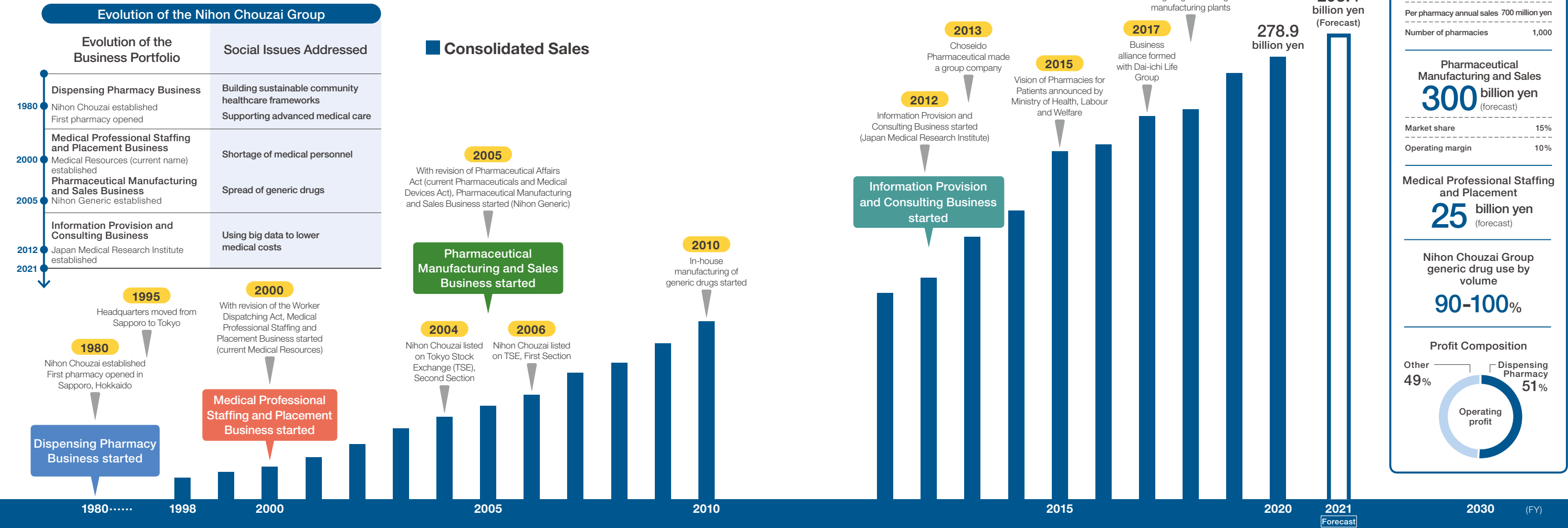


Support for Advanced Medical Care



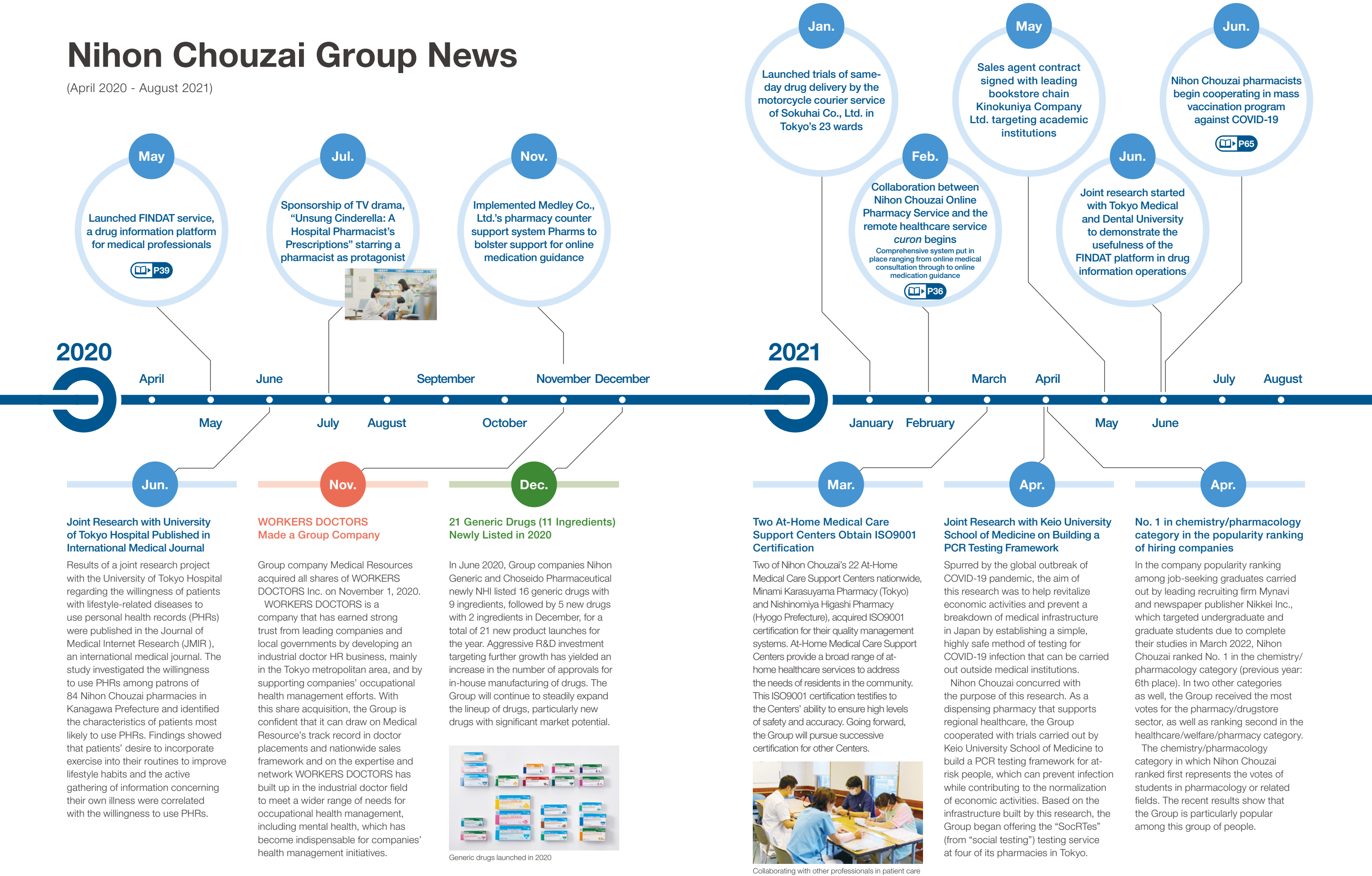
Evolving the business portfolio by being first to grasp changing social needs.

Growing into a comprehensive healthcare company making widespread contributions to healthcare in Japan



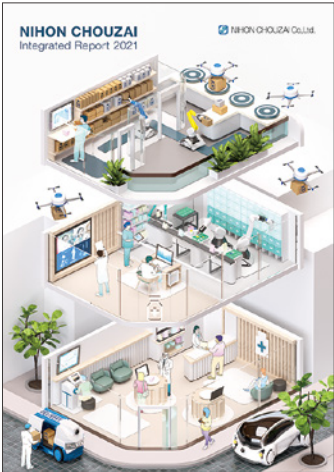
Nihon Chouzai Group News

(April 2020 - August 2021)





CONTENTS



COVER STORY

Integrated Report 2021 envisions the “pharmacy of the future” that Nihon Chouzai Group is striving to become, a company that extensively supports the health of every member of our communities. We aim to create a base that supports the health of the community, where pharmacists can broaden their points of contact with patients through effective use of digital and automation technologies.

Introduction

- 01 Who we are
- 03 At a glance
- 05 Long-Term Results
- 07 News from the Group
- 10 Editorial Policy

Message from Management

- 11 Message from the CEO
- 17 Financial Strategies

How We Create Value

- 19 Value Creation Process
- 21 Stakeholder Engagement
- 23 Business Model and Value Chain
- 25 Overview of Long-Term Vision and Strategy
- 27 Risks and opportunities
- 29 FEATURE: Digital Transformation Strategy
- Business Overview
- 31 Dispensing Pharmacy Business
- 41 Information Provision and Consulting Business
- 43 Pharmaceutical Manufacturing and Sales Business
- 51 Medical Professional Staffing and Placement Business

Sustainability

- 57 Sustainability
- 59 Human (human resources, culture, organization)
- 65 Social (our contributions to society)
- 67 Environment (environmental initiatives)

Corporate Governance

- 69 Board of Directors
- Messages from Outside Directors and Audit and Supervisory Committee Members
- 73 Corporate Governance

Data

- 78 Data Section

Note on Forward-Looking Statements

Integrated Report 2021 contains forward-looking statements about the plans, strategies, and performance of the Nihon Chouzai Group. These statements are based on management’s judgments derived from currently available information. Please note that actual business performance is subject to various risks and uncertainties and results may differ significantly from the

statements. Factors that can affect the outlook include economic conditions surrounding the various business areas, the status of revisions to relevant laws and regulations, the status of revisions to medical fees, and the status of product development. However, factors that can affect business performance are not limited to these.

Editorial Policy

In addition to discussing the management policies and business strategies of the Nihon Chouzai Group, Integrated Report 2021 provides comprehensive financial and non-financial information, with the goal of gaining a clearer understanding among our shareholders, investors, and other stakeholders about our medium- and long-term corporate value creation. The reporting period is FY2020 (April 2020–March 2021). However, the Report also refers as necessary to FY2021 (April 2021–March 2022).



We will enhance our corporate value as a comprehensive healthcare company with a growth strategy that brings about innovation in the healthcare industry.

Yosuke Mitsuhashi President and CEO

Mitsuhashi joined Nihon Chouzai in 1999. Having served as General Manager of the Corporate Planning Department, Subsidiary Director, Managing Director, and Senior Managing Director, he became President and CEO of the Company in 2019. With thorough knowledge of ICT, he spearheaded development of the Company's electronic medication notebook and has implemented company-wide digital transformation initiatives. With an MBA from Waseda University Graduate School and a master's degree from Johns Hopkins Bloomberg School of Public Health, he is contributing to management from both management and medical perspectives.

We will promote the true separation of drug prescribing and dispensing services and create value while addressing the changing needs of society.

It has been two short years since I became president. As of September 1, 2021, we have 685 pharmacies stretching from Hokkaido to Okinawa. Even in the midst of a harsh operating environment brought about by the spreading impact of the COVID-19 pandemic, we remain firmly committed to our mission as a medical institution. Thus, while implementing rigorous infection prevention measures, we continue to provide quality medical care. Medical professionals in Japan are currently making a concerted effort to promote the country's mass vaccination program. Our Group is cooperating in this

program as well, responding to requests from local governments, pharmacist associations, and other related organizations nationwide. Specifically, as of June 11, 2021, Nihon Chouzai had dispatched 604 pharmacists to vaccination centers in 23 prefectures. I believe the steady growth of the Group even in such adverse business conditions is the result of the ability of the medical care we provide to respond adequately to the needs of society. Nihon Chouzai is a company that has worked to bring about the true separation of drug prescribing and dispensing services for 41 years since its founding. The environment for pharmacies has changed dramatically over that time. When the company was founded, the rate of separation of prescribing and dispensing in Japan was less than 5%. So, for the first 20 years, for the sake of patients, we devoted ourselves to clearly delineating doctor and pharmacist roles.

Since then, Japan's population has continued to age, and our focus turned to promoting the use of generic drugs to contain rising medical costs. In recent years, we have seen a growing shift toward family pharmacists and pharmacies as well as mounting demands for at-home care and online medication guidance. Today, although the rate of separation of prescribing and dispensing has risen to nearly 80%, I think a lot remains for us to do. The strength of our Group is our ability to respond swiftly and flexibly to changes in the times. The medical version of digital transformation, which has started to gain tremendous momentum amid the COVID-19 pandemic, is a recent example. As a manager, I am committed to always being a step ahead of the times, boldly taking on new challenges, and increasing customer value and, by extension, corporate value.

We now face an era where the role of pharmacies and pharmacists in providing the medical care patients truly need is being revisited. With the accelerating growth of its super-aging population, Japan will likely find it difficult to maintain the prosperity it has known for many years. Even as the working population is shrinking, the rise in medical costs is inevitable. In the healthcare sector, including pharmacies, my sense is that we are approaching the time when only medical institutions that can provide the care patients truly need will survive. In 2015, the Ministry of Health, Labour and Welfare (MHLW) formulated the Vision of Pharmacies for Patients, which laid out the ideal form of pharmacies in the future. In



line with this Vision, the Nihon Chouzai Group is combining its efforts to further promote the patient-centered separation of drug prescribing and dispensing services, which is the primary duty of pharmacists.

In August 2021, the revised Pharmaceuticals and Medical Devices Act introduced a certification system for insurance pharmacies with specific functions. Under this system it is now possible to obtain certification as a regional cooperation pharmacy or as a specialized medical institution cooperation pharmacy. Pharmacies with their respective functions are required to collaborate with various facilities involved in regional medical care and to support advanced medical care. Here, the Group is already out ahead of our competitors, having cultivated pharmacists who are equipped to respond to these social needs. Consequently, among the pharmacists certified in outpatient oncology by the Japanese Society of Pharmaceutical Oncology (JASPO), who are required to be assigned to specialized medical institution cooperation pharmacies, about one in four active pharmacists nationwide is from the Nihon Chouzai Group. This is the highest number of people in the pharmacy industry. I feel strongly that the Group has a framework in place that allows us to dig deeper into healthcare, make further inroads into medical settings, and take more initiative in working to solve medical issues.

Since becoming president, another goal for me has been to position Nihon Chouzai as the pharmacy brand of choice. We have seen success here in terms of our recruiting activities. In the Mynavi/Nikkei College Student Company Popularity Ranking of companies graduates want to work for, we have been number one in the pharmaceuticals industry in three categories for three years in a row. For patients and the general public, however, my sense is that we have not yet become the medical institution people feel the most affinity for. As the role of pharmacies in Japan shifts from an emphasis on location to an emphasis on function, we will continue striving to enhance the Nihon Chouzai brand while increasing the perceived value of each and every pharmacy.

We will bring innovation to the healthcare industry and evolve our business model by incorporating digital transformation and sustainability into our business strategy.

The COVID-19 pandemic has brought healthcare in Japan to the threshold of a major transformation. One change is the call to construct frameworks for delivering more medical care online. Since our founding, the Nihon Chouzai Group has been a pioneer in the industry in terms of innovation, drawing on ICT to develop dispensing systems in-house, digitalizing medication notebooks, and automating dispensing operations, among other efforts. Amid the pandemic, we enabled reduced waiting times at pharmacies and helped prevent infection as patients took advantage of the advance prescription sending function of our electronic medication notebook, *Okusuri Techo Plus*. This application is supporting the health management and effective use of time for a growing number of patients: The number of subscribers for the app was around 500,000 in April 2020 but had surpassed 850,000 as of August 2021.

Going forward, pharmacies and pharmacists will have to take actions to support the provision of smart healthcare, under which anyone can receive health consultation, medication guidance, and drug delivery seamlessly online. Online drug orders are skyrocketing in the U.S., with major e-commerce companies launching services to take orders for prescription drugs, and their share of the drug dispensing market is growing rapidly. Leading e-commerce companies in Japan are also hungrily eyeing this market, paying close attention to possible deregulation.

Nihon Chouzai's competitive advantages are the track record we have built up over many years of providing advanced healthcare at brick-and-mortar pharmacies, and our relationships of trust with medical institutions throughout Japan. If we can add to these strengths by using digital technologies to transform our business processes and build an online presence as well, we can generate a competitive edge that e-commerce

sites cannot emulate. Drawing on the expertise in ICT we have accumulated since our founding, and taking these technologies to the next level, we will bring about innovation in the healthcare industry.

As an upfront investment for this purpose, the Group announced we would invest approximately 5 billion yen over three years in the development of a next-generation dispensing system. We developed the dispensing system currently in operation in-house in the latter half of the 1990s, and it remains the backbone of the Group's digital transformation effort. We decided to develop a next-generation system to seize the initiative in responding to rapidly accelerating digital transformation in healthcare. The lifting of restrictions on electronic prescriptions in 2022 is expected to give further impetus to online healthcare. Leveraging our industry-leading expertise in ICT, we will target further growth through the fusion of the Group's highly skilled medical personnel with healthcare-related digital transformation.

One new business linked to our digital transformation strategy is FINDAT, an advanced online drug information platform launched in June 2020. This business has grown significantly, driven by the expanding role of pharmacists in society. The platform has been rated highly not only by regional general hospitals, our target client base so far, but also by pharmacies inside and outside the Group that are tasked with supporting increasingly sophisticated healthcare, and by educational institutions aiming to train highly qualified doctors and pharmacists. We have already started rolling out FINDAT to Group pharmacies—this is a prime example of our ability to deliver advanced healthcare through the fusion of our pharmacists with healthcare-related digital transformation.

The Information Provision and Consulting Business involves the work of data analysts, mainly from subsidiary Japan Medical Research Institute, who analyze anonymized healthcare-related big data gathered from within the Group. This data is useful in numerous applications, including treating patients, preventing disease progression, and optimizing medical costs for insurers. Many companies in Europe and the U.S. are already pursuing innovation in a wide range of healthcare fields, such as building off a base in the pharmacy business to enter the insurance field. With the aim of becoming a comprehensive healthcare company, Nihon Chouzai has also developed four businesses centered on the Dispensing Pharmacy Business. But our sights are by no means limited to existing pharmacy services and generic drug provision: We are also looking at other innovation that capitalizes on digital transformation in healthcare fields. I invite you to keep an eye out for the evolution of our business portfolio in line with the changing times.

By keeping our businesses one step ahead of the times, we will be perfectly positioned to be indispensable to society.

In the Dispensing Pharmacy Business, we are implementing a unique pharmacy network strategy that emphasizes a balance between both hospital-front/on-site pharmacies and hybrid pharmacies, and between organic pharmacy openings and acquisitions. In addition to being next-generation pharmacies offering the functions patients will need in the future, we are focusing on opening pharmacies that demonstrate the potential for high net sales per pharmacy and superior operating efficiency. The Group's pharmacies throughout Japan are vigorously pushing forward to attain regional cooperation pharmacy and specialized medical institution cooperation certification under the revised Pharmaceuticals and Medical Devices Act, and preparations are coming along well.

In the Pharmaceutical Manufacturing and Sales Business, despite an operating environment made difficult by downward revisions to NHI drug prices almost every year, we were able to significantly improve business performance while placing top priority on quality and stable supply. We newly listed 21 generic drugs in June and December 2020. Leveraging development capabilities that are on a par with those of major generic manufacturers, we have expanded the lineup of MHLW-certified drugs developed and manufactured in-house in recent years. The generic drug industry has come under severe scrutiny due to repeated issues with instability in the supply chain. As a comprehensive healthcare



company that helps care for patient lives, the Group will always keep a patient-centered focus in addressing the needs of society.

Regarding the Medical Professional Staffing and Placement Business, the pandemic brought about a shift in the demand structure for the pharmacist temporary staffing business. Accordingly, we are stepping up our transition to the pharmacist and doctor placement business. In addition, dramatic changes in the social fabric are giving rise to calls for more effective corporate health management. To support companies in addressing calls for better mental health and other health care for their employees, we made WORKERS DOCTORS, which operates an industrial doctor HR business mainly in the Tokyo metropolitan area, a group company in November 2020. Going forward, we will capitalize on the Group’s network to expand our business nationwide in support of better health management in Japan.

Graduated from the School of Public Health at Johns Hopkins, a global authority in the public health field.

I graduated from Johns Hopkins Bloomberg School of Public Health in the U.S. in May 2021. Public health is an academic discipline that seeks to cooperate with an array of organizations and people in the community to prevent illness and injury, maintain and improve health, identify the causes of illness and disability, and address health threats. It deals with community health issues from a broad perspective, including healthy life expectancy, disease prevention, and even economic conditions. The focus of my studies was healthcare management, and I did research on the utilization of health data. Except for me, all of my Japanese classmates were doctors, but through my interactions with them and by listening to their concerns, I felt a

greater sense of crisis about the future of healthcare in Japan. At the same time, I came away convinced once more about the importance of the role that the Nihon Chouzai Group should play.

I did not want to waste any time in using the fruits of my research to inform my management of the Group, and immediately put a number of measures in place. Going forward, I will continue to reflect my research in Group actions that lead to sustainable growth and enhanced corporate value.

Managing with an emphasis on employee engagement, taking the Nihon Chouzai brand to the next level.

In the June 17, 2021 electronic version of The Nikkei newspaper, a leading popular review website released an announcement about firms whose review among female employees had improved. Out of a survey of about 10,000 companies, Nihon Chouzai ranked number one in terms of the degree of improvement in both 2020 and 2017.

I take personal pride in this. Since my time as a recruiting officer and even now as president, I have continued to take the lead in introducing recruitment initiatives for new graduates and pursuing engagement with new employees, and have used feedback from that engagement in making working style reforms. At the time, I was also the Group’s public relations officer, so I thought I had no choice but to come to the forefront myself in making the Nihon Chouzai brand more well known, and I recall giving many energetic lectures. Compared to five years ago, I am struck by how much the Nihon Chouzai brand has grown.

More than 500 pharmacists joined the Group this year. New graduates hired within the past five years now account for half of our total pharmacist workforce. With many of them dispersed to various regions around



the country, I feel that it is physically difficult to instill in them our corporate culture and mindset. To take employee engagement to the next level, therefore, I plan to conduct a survey of all employees this year. I also started an in-house blog to convey my message directly. In addition, we are actively taking steps to communicate with the roughly 6,000 employees and part-time staff working for us nationwide, such as holding our first online meeting bringing together pharmacy managers from all of our pharmacies.

It will become increasingly vital to foster an environment in which every employee can fulfill their potential and play an active role in the business. Our goal is to be an organization with high employee engagement, one that embraces diverse human resources and working styles. We are achieving this through working style reforms and health management and diversity and inclusion initiatives—we obtained Kurumin certification from the Ministry of Health, Labour and Welfare recognizing our support for parenting.

We will create a robust management foundation by cultivating management personnel and grow into a sustainable company.

Nihon Chouzai has long focused on cultivating highly talented human resources, primarily pharmacists. In recent years, however, as the scale of the company has grown, we have put greater priority on the development

of top management, middle management, and managers in the field. Our training initiatives involve management seminars where participants compile proposals for resolving selected management issues. In addition, in June 2021, we appointed Mikiharu Noma as an Outside Director for the Group. Professor Noma teaches in the Graduate School of Business Administration of Hitotsubashi University and was a member of the “Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors” Project (Ito Review) set up by the Ministry of Economy, Trade and Industry. I look forward to his involvement in Group management.

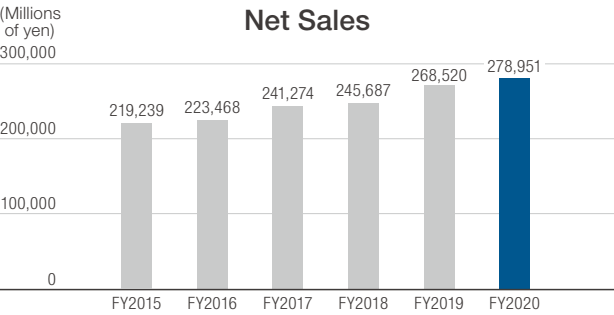
Inculcating a corporate culture is no easy task. In the conservative healthcare industry, we are an advanced company which puts emphasis on speed. We have a culture of taking risks and making investments when none of our competitors have even started to take action. It feels like we have always been running a few years ahead of the pack, so we have had our fair share of friction. But, having weathered this, I think Nihon Chouzai has become a stronger organization. Going forward, by reinforcing our cultivation of management personnel, I am confident we will be able to demonstrate growth with the kind of corporate governance that is fitting for the prime market.

The Nihon Chouzai Group will constantly take action looking one step ahead of the times, seeking to achieve further growth as a comprehensive healthcare company. I look forward to your continued support.

Financial Impact of COVID-19 Pandemic

In FY2020, the impact of the COVID-19 pandemic notwithstanding, full-year consolidated sales and profits were both up year on year, with net sales rising 3.9% and operating profit rising 6.8%.

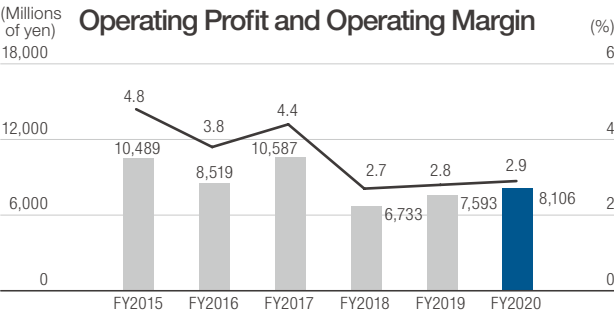
In the Dispensing Pharmacy Business, although numerous medical institutions nationwide put restrictions on health consultations and patients tended to refrain from visiting hospitals or clinics, the situation gradually turned around in the second half. As a result, although the number of prescriptions decreased 3.2% year on year, the prescription unit price rose 9.0%. In addition, the 65 pharmacies that opened during the previous fiscal year made full-year contributions to results. This, coupled with the fruits of cost reduction efforts the Group has been making since FY2018 and success in curbing travel costs and other expenses during the pandemic, led to a recovery of business performance. Consequently, net sales were 244 billion yen (up 5.7% year on year) and operating profit was 10.5 billion yen (up 8.2% year on year).



In the Pharmaceutical Manufacturing and Sales Business, while the selling prices of existing drugs declined following the April 2020 NHI drug price revision, sales of drugs newly NHI listed in December 2019, June 2020, and December 2020 were brisk, fueling a 6.1% year-on-year increase in sales to 45.6 billion yen and an 80.6% year-on-year increase in operating profit to 2.3 billion yen.

In the Medical Professional Staffing and Placement Business, demand for temporary staffing of pharmacists saw a significant downturn amid the pandemic, primarily in urban areas, although placements of pharmacists and doctors remained firm. These and other factors resulted in sales of 8.3 billion yen (down 34.0% year on year) and operating profit of 700 million yen (down 61.5% year on year).

Cash provided by operating activities was 11.2 billion yen, cash used in investing activities was 7.7 billion yen, and cash used in financing activities was 2.8 billion yen. The balance of cash and cash equivalents as of March 2021 was up 600 million yen year on year to 32.8 billion yen.



Financial Policy

To achieve the Long-Term Vision — On the Road to 2030, the Group is seizing upon changes in the operating environment as opportunities and pursuing a financial strategy that emphasizes a balance between growth investment, shareholder returns, and fortifying of the financial foundation.

1. Growth Investment

The Group invests in growth while paying particular attention to the areas of human resources investment, digital transformation investment, and sustainability.

The Group plans to step up the pace of our growth strategy in the Dispensing Pharmacy Business by continuing to reinforce a pharmacy network strategy that emphasizes a balance between organic new pharmacy openings and acquisitions. We are also ahead of the industry in developing next-generation dispensing systems to support healthcare digital transformation. Furthermore, we are channeling efforts into cultivating highly specialized human resources, such as professionals to support the advanced online drug information platform FINDAT, pharmacists certified in outpatient oncology, and pharmacists to engage in at-home healthcare.

The Pharmaceutical Manufacturing and Sales

Business saw the completion in 2018 of Tsukuba Plant No. 2, equipped with state-of-the-art manufacturing equipment and quality control systems. The relocation and consolidation of research functions at the Tsukuba Research Institute in June of that year marked the completion of a multiyear, large-scale capital investment strategy. Going forward, we will work to stabilize fixed costs under rigorous cost control measures while pursuing a growth strategy centered on boosting sales and improving profitability through the expansion of drugs both approved and manufactured in-house.

In the Medical Professional Staffing and Placement Business, pharmacist staffing and placement businesses continue to draw on the competitive strengths of the Group. In addition, the doctor HR business is now fully up and running. In FY2020, the Group made WORKERS

DOCTORS, which operates an industrial doctor HR business mainly in the Tokyo metropolitan area, a group company. As the demand for more effective corporate health management continues to heighten the importance of the role industrial doctors play, the Group will seek to generate new synergies by capitalizing on the expertise WORKERS DOCTORS has built up in the industrial doctor HR field together with the Group's nationwide sales framework and track record in doctor placements.

2. Shareholder Returns

Nihon Chouzai regards returning profits to shareholders as a key management issue. Our basic policy is to return profits to shareholders through stable dividends twice a year (interim and year-end) while considering the internal reserves needed to ensure future growth potential.

Furthermore, to express our gratitude to shareholders for their constant support, as well as to gain greater understanding of the Group's businesses and encourage the holding of Nihon Chouzai shares over the longer term, we have set up a shareholder benefit program.

3. Fortifying the Financial Foundation

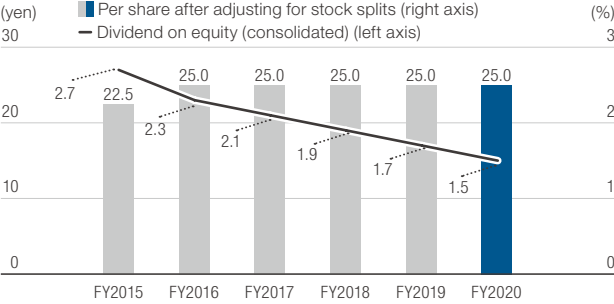
For a company to continue to grow, it is essential to build a stable financial foundation. In FY2020, the Group worked to draw down interest-bearing debt while ensuring sufficient liquidity on hand to meet changes in the business environment brought about by COVID-19.

Although consolidated net sales rose by 3.9% year on year, net assets only increased by 0.4%, indicating greater asset efficiency. Assets increased by roughly 700 million yen while accounts payable increased by roughly 1.4 billion yen, owing to an increase in raw materials and supplies to ensure stable supply capacity in the

Amount of Investment

(Millions of yen)	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Pharmacy business	4,046	4,238	4,679	3,215	8,997	6,289
Manufacturing business	3,663	18,742	10,245	1,582	2,069	2,701
HR business	30	45	89	291	84	98
Consolidated	8,073	23,344	15,316	5,254	12,025	9,492

Dividends Paid



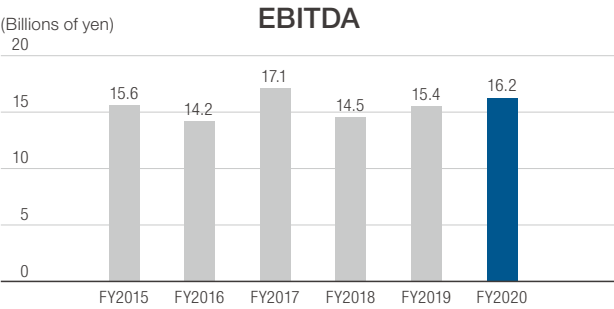
Pharmaceutical Manufacturing and Sales Business. On the other hand, income taxes payable were down by approximately 3.2 billion yen, resulting in approximately a 2 billion yen decrease in liabilities, while net assets were up by 2.7 billion yen due to an increase in retained earnings. Consequently, the equity ratio rose 1.4 points year on year to 26.8%, reflecting the Group's success in further enhancing the capital base.

Going forward, the Group will continue striving to improve its financial position and strengthen the financial foundation for further growth.

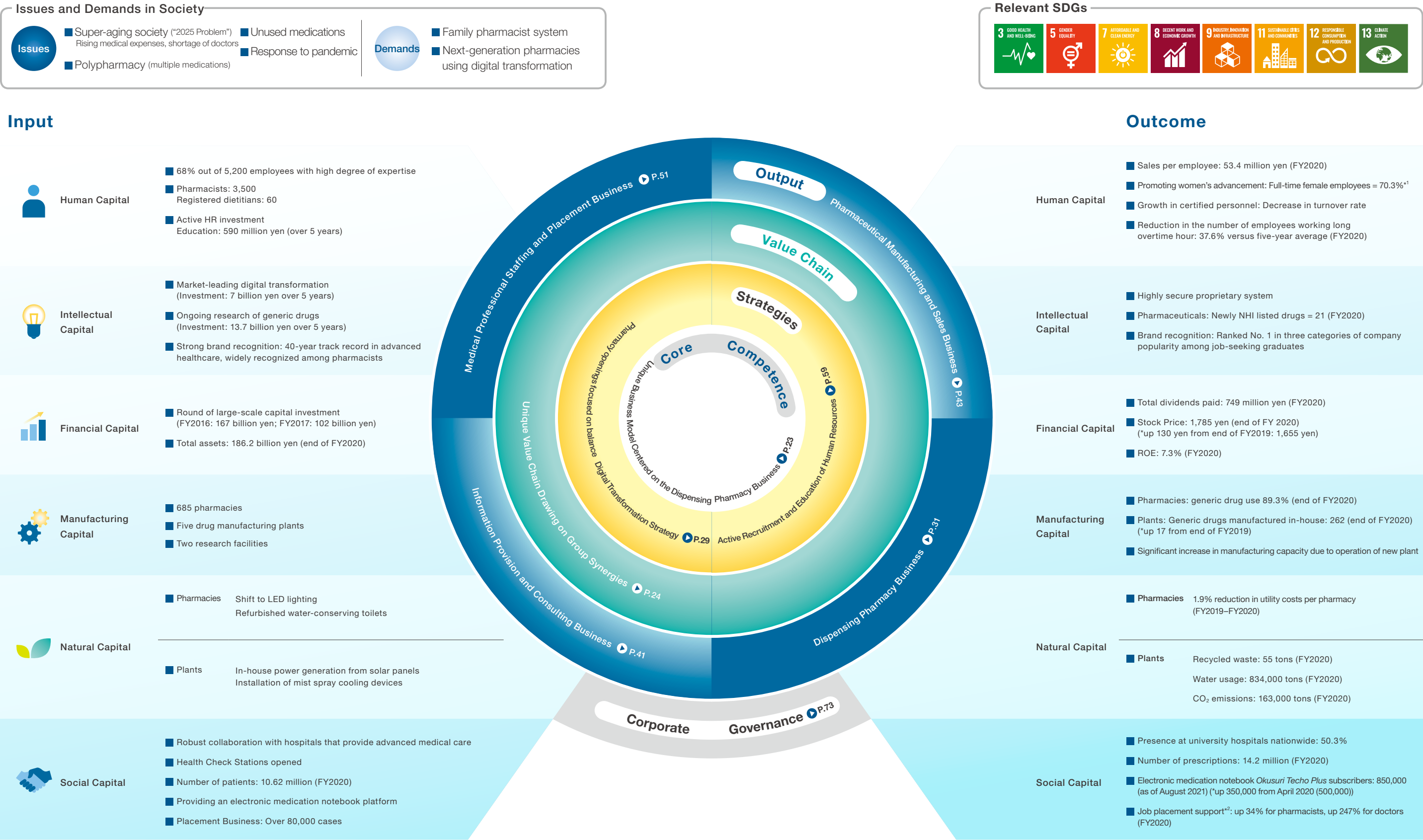
Profitability Indicators

In FY2020, the Group achieved higher sales and profits in each category from sales to ordinary profit. Although total asset turnover and financial leverage have remained at high levels, ROE was down year on year, from 15.2% to 7.3%, reflecting a decline in the net profit margin attributable to owners of parent due in part to impairment losses on equipment in the Pharmaceutical Manufacturing and Sales Business. On the other hand, EBITDA, a profitability indicator, has been steadily rising in recent years, and the Group will continue working to sustain this momentum.

	ROE	=	Net profit margin	×	total asset turnover	×	financial leverage
FY2019	15.2%	=	2.5%	×	147.4%	×	413.2%
FY2020	7.3%	=	1.3%	×	150.0%	×	383.5%



Value Creation Process



Input

Human Capital

- 68% out of 5,200 employees with high degree of expertise
- Pharmacists: 3,500
Registered dietitians: 60
- Active HR investment
Education: 590 million yen (over 5 years)

Intellectual Capital

- Market-leading digital transformation
(Investment: 7 billion yen over 5 years)
- Ongoing research of generic drugs
(Investment: 13.7 billion yen over 5 years)
- Strong brand recognition: 40-year track record in advanced healthcare, widely recognized among pharmacists

Financial Capital

- Round of large-scale capital investment
(FY2016: 167 billion yen; FY2017: 102 billion yen)
- Total assets: 186.2 billion yen (end of FY2020)

Manufacturing Capital

- 685 pharmacies
- Five drug manufacturing plants
- Two research facilities

Natural Capital

- Pharmacies
 - Shift to LED lighting
 - Refurbished water-conserving toilets
- Plants
 - In-house power generation from solar panels
 - Installation of mist spray cooling devices

Social Capital

- Robust collaboration with hospitals that provide advanced medical care
- Health Check Stations opened
- Number of patients: 10.62 million (FY2020)
- Providing an electronic medication notebook platform
- Placement Business: Over 80,000 cases

Output

Human Capital

- Sales per employee: 53.4 million yen (FY2020)
- Promoting women's advancement: Full-time female employees = 70.3%*1
- Growth in certified personnel: Decrease in turnover rate
- Reduction in the number of employees working long overtime hour: 37.6% versus five-year average (FY2020)

Intellectual Capital

- Highly secure proprietary system
- Pharmaceuticals: Newly NHI listed drugs = 21 (FY2020)
- Brand recognition: Ranked No. 1 in three categories of company popularity among job-seeking graduates

Financial Capital

- Total dividends paid: 749 million yen (FY2020)
- Stock Price: 1,785 yen (end of FY 2020)
(*up 130 yen from end of FY2019: 1,655 yen)
- ROE: 7.3% (FY2020)

Manufacturing Capital

- Pharmacies: generic drug use 89.3% (end of FY2020)
- Plants: Generic drugs manufactured in-house: 262 (end of FY2020)
(*up 17 from end of FY2019)
- Significant increase in manufacturing capacity due to operation of new plant

Natural Capital

- Pharmacies
 - 1.9% reduction in utility costs per pharmacy (FY2019–FY2020)
- Plants
 - Recycled waste: 55 tons (FY2020)
 - Water usage: 834,000 tons (FY2020)
 - CO₂ emissions: 163,000 tons (FY2020)

Social Capital

- Presence at university hospitals nationwide: 50.3%
- Number of prescriptions: 14.2 million (FY2020)
- Electronic medication notebook *Okusuri Techo Plus* subscribers: 850,000 (as of August 2021) (*up 350,000 from April 2020 (500,000))
- Job placement support*2: up 34% for pharmacists, up 247% for doctors (FY2020)

Value Chain

Strategies

Core Competence

Pharmaceutical Manufacturing and Sales Business P.43

Dispensing Pharmacy Business P.31

Information Provision and Consulting Business P.41

Medical Professional Staffing and Placement Business P.51

Unique Value Chain Drawing on Group Synergies P.24

Pharmacy openings focused on balance Digital Transformation Strategy P.29

Unique Business Model Centered on the Dispensing Pharmacy Business P.23





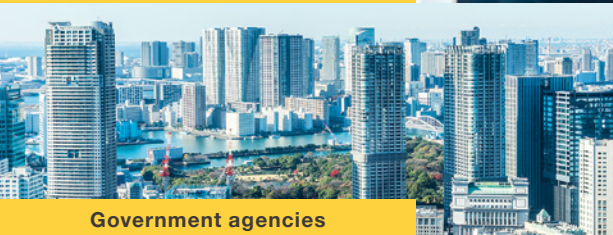


Active Recruitment and Education of Human Resources P.23

Corporate Governance P.73

*1 Nihon Chouzai only (end of March 2021)
*2 Number of placement contracts (versus FY2017)

Stakeholder Engagement

The Nihon Chouzai Group seeks to hold constructive dialogues with stakeholders in each of its business areas to identify their expectations and needs, and to work together with them to help resolve the issues facing society as a whole. Going forward, we will continue to work to deepen relationships of trust with stakeholders, build relationships that enable mutual flourishing, and increase corporate value.

	Why we engage	Stakeholders' concerns	How we respond
 <div>Patients and customers</div>	<p>As a medical institution that provides quality healthcare throughout Japan, we believe pursuing the care that patients and customers demand is essential for the long-term development of our company. The Nihon Chouzai Group is constantly striving to ensure that patients and customers can receive the best possible healthcare without worry regardless of where they are in Japan.</p>	<ul style="list-style-type: none">■ Provision of high-quality healthcare through the safe, secure Nihon Chouzai brand■ Ability to receive the proper pharmacy services whenever needed nationwide■ Supply of high-quality pharmaceuticals	<ul style="list-style-type: none">■ Providing high-quality healthcare at Nihon Chouzai pharmacies in all prefectures in Japan■ Providing high-quality generic drugs under the Nihon Generic brand
 <div>Medical institutions (hospitals, pharmacies) and medical professionals</div>	<p>As a medical institution and as medical professionals responsible for regional healthcare, the Group collaborates as appropriate with other institutions and professionals to deliver healthcare to patients and members of the local community, and in this way are helping to uphold a sustainable healthcare system in Japan. In addition, for medical institutions facing a shortage of medical staff, we are helping to redress regional disparities in healthcare by supplying appropriate medical personnel through the Group's Medical Professional Staffing and Placement Business.</p>	<ul style="list-style-type: none">■ Collaboration with medical institutions to build sustainable community healthcare frameworks■ Redressing regional healthcare disparities caused by a shortage of medical personnel■ Cooperation with highly specialized pharmacies and pharmacists	<ul style="list-style-type: none">■ Healthcare collaboration by highly specialized pharmacists with regional medical institutions■ Staffing and placement businesses that connect medical institutions and medical professionals while avoiding poor fits■ Stable supply<ul style="list-style-type: none">• Safe, high-quality drugs• Interviews to provide personnel while avoiding poor fits
 <div>Employees</div>	<p>To achieve sustainable growth, it is vital to create workplaces where employees can take pride in their work as medical professionals who are supporting healthcare in Japan. The Nihon Chouzai Group is working not only to foster supportive, fulfilling workplaces, but also carries out employee engagement surveys to enhance employee satisfaction.</p>	<ul style="list-style-type: none">■ Workplaces where employees can continue to work with a sense of security■ Fulfilling work that can contribute to healthcare in Japan■ Maintaining stable employment	<ul style="list-style-type: none">■ Offering working environments at financially sound medical institutions■ Providing a wide range of job positions that offer fulfillment as a medical professional■ Stable employment in the Nihon Chouzai Group (salary, benefits)■ One of industry's best training programs■ Providing flexible career plans that empower women in the workplace
 <div>Shareholders, investors</div>	<p>As a company listed on the First Section of the Tokyo Stock Exchange, the Group places importance on appropriate disclosure and on constructive dialogue with shareholders and investors for the sake of achieving sustainable growth and building corporate value over the longer term. Feedback and demands obtained through interactions with shareholders and investors are promptly shared within the Group and reflected in management and investor relations activities.</p>	<ul style="list-style-type: none">■ Sustainable growth■ Longer-term improvement in corporate value■ Stable shareholder returns■ Appropriate disclosure	<ul style="list-style-type: none">■ Engagement activities with shareholders and investors■ Growth strategies to achieve a sound financial structure and sustainable growth■ Stable shareholder returns
 <div>Government agencies</div>	<p>Effective collaboration with government agencies is indispensable to the Group's businesses. The Nihon Chouzai Group will continue to engage with government agencies to contribute to Japan's regional healthcare system.</p>	<ul style="list-style-type: none">■ Provision of healthcare with guaranteed safety and stability■ Cooperative efforts with government agencies■ Reduction of medical expenses■ Understanding of ministry, agency policies	<ul style="list-style-type: none">■ Developing high-quality generic drugs■ Stable drug supply■ Contributing to regional healthcare in Japan■ Demonstrating the Group's value to society
 <div>Society</div>	<p>As we seek to contribute to regional healthcare, cooperative efforts with various stakeholders in our communities are crucial to our businesses. The Group will continue to provide the best-possible healthcare throughout Japan to ensure that patients and customers can lead their daily lives with a sense of security and safety.</p>	<ul style="list-style-type: none">■ Regional healthcare stations■ Family pharmacies, pharmacists■ Actions to contribute to society	<ul style="list-style-type: none">■ Functions to support community residents in staying healthy■ Pharmacy-based community healthcare frameworks to enable people to lead their daily lives with a sense of security
 <div>Business partners</div>	<p>As a Group that is involved in a broad range of business areas, it is critical that we maintain solid relationships with all of our business partners. By building a robust supply chain, we will seek to provide stable, quality medical services to patients and customers nationwide.</p>	<ul style="list-style-type: none">■ Stability■ Growth potential■ Products■ Services	<ul style="list-style-type: none">■ Over-the-counter (OTC) drug sales■ Scale merits■ Sound financial structure■ Sales of goods and services

A distinctive business model and value

Core Competencies of the Nihon Chouzai Group

The Nihon Chouzai Group is drawing on expertise gained through the nationwide growth of the core Dispensing Pharmacy Business to expand into other healthcare-related fields through our Pharmaceutical Manufacturing and Sales Business and our Medical Professional Staffing and Placement Business.

With the Dispensing Pharmacy Business at the core, we are harnessing powerful synergies through organic collaboration between the three main businesses as we pursue growth across the Group.

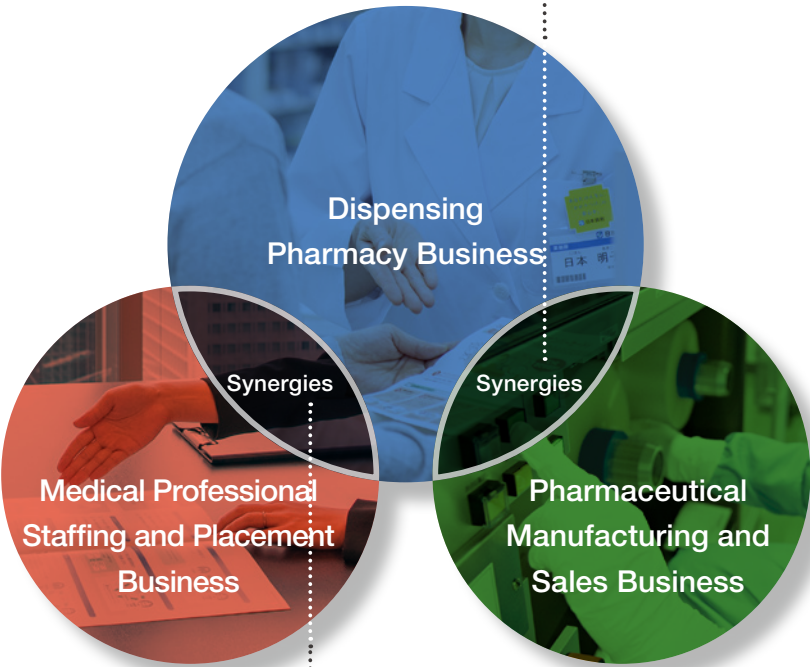
Core Competencies Centered on the Dispensing Pharmacy Business

- 1 Pharmacy network development capabilities centered on a history of organic growth since the company's founding
- 2 High specialization and ability to support advanced medical care nationwide
- 3 Long-standing ability to incorporate ICT, including in-house developed dispensing systems and processing/analysis of big data
- 4 Organizational ability to respond on a national scale to changes in public policy and the environment
- 5 Being first off the mark in forward-looking risk-taking and investment

Synergies

Dispensing Pharmacy Business ↔ Pharmaceutical Manufacturing and Sales Business

The Group boasts a business model unrivaled by other companies, in which growth in the Dispensing Pharmacy Business is tied in with growth in the Pharmaceutical Manufacturing and Sales Business.



Synergies

Dispensing Pharmacy Business ↔ Medical Professional Staffing and Placement Business

Through the Dispensing Pharmacy Business network we are able to quickly identify hiring demand for medical professionals. Our business model enables us to quickly expand into new HR fields.

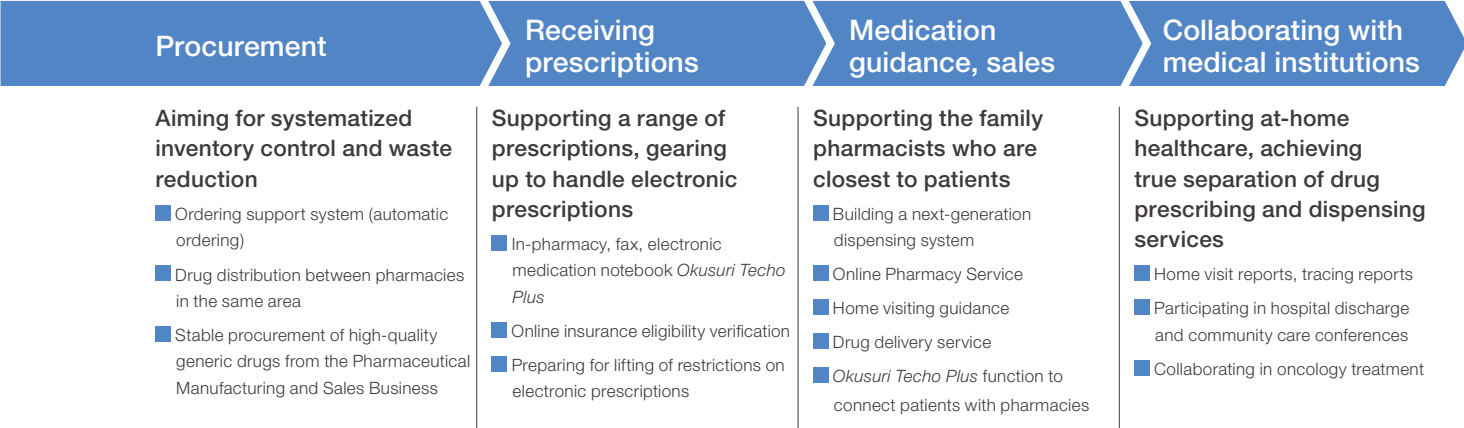
chain leveraging Group synergies

Value Chain

Dispensing Pharmacy Business

A leading company in the pharmacy sector

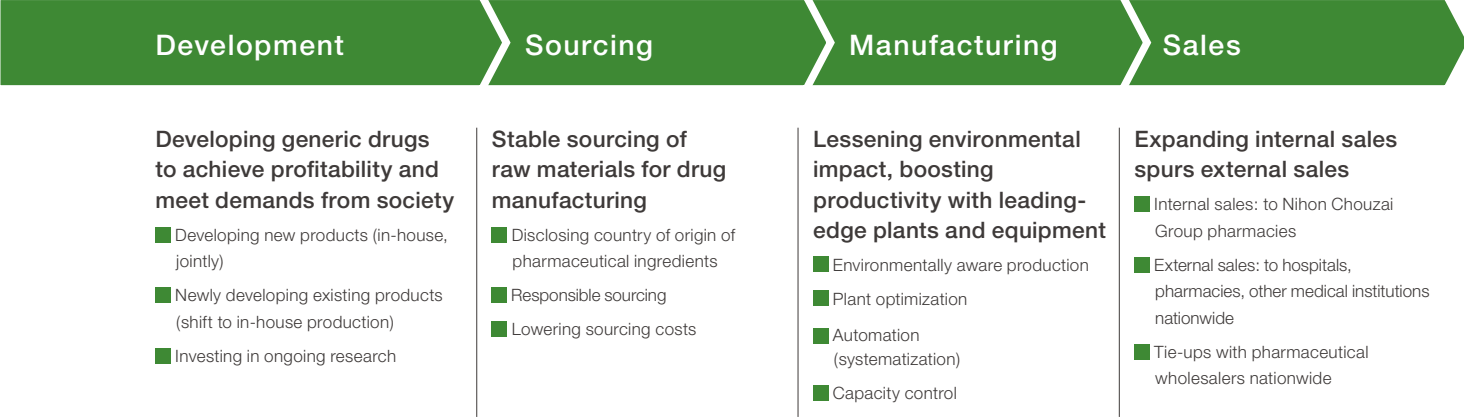
P31



Pharmaceutical Manufacturing and Sales Business

A manufacturer of a full line of generic drugs

P43



Medical Professional Staffing and Placement Business

An HR services company specializing in professionals in healthcare fields

P51





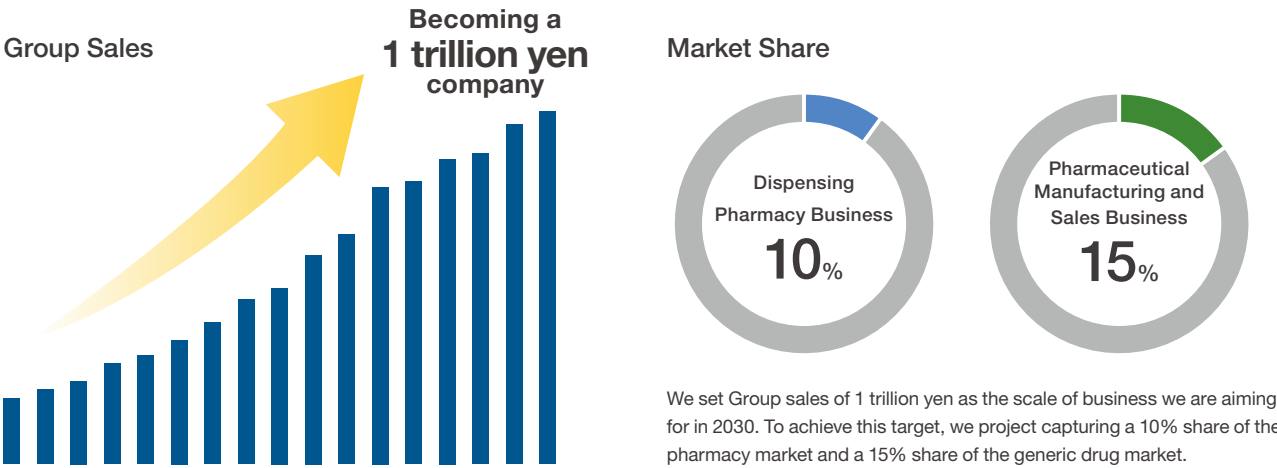
Overview of Long-Term Vision and Strategy

In April 2018, Nihon Chouzai announced a long-term vision describing the kind of company we want to be in 2030. The business environment for the Group is undergoing dramatic changes, including the super-aging society in Japan and the global spread of COVID-19. Embracing these dramatic changes as opportunities, we summarize on this page the strategies and results we are targeting to achieve substantial growth.

Strategies for Making the Long-Term Vision a Reality

The company we want to be in 2030

A comprehensive healthcare company



Our View of the Long-Term Business Environment

Strategies

Strategic Outcomes

Embracing major changes in the operating environment as opportunities

Growth of the aging population

Increasingly sophisticated healthcare

Healthcare-related digital transformation

Functional differentiation of pharmacies

Industry restructuring

New pharmacy openings with an emphasis on balance

Digital Transformation Strategy P29

Active recruitment and education of human resources P59

- 1 More robust profitability

 - Synergies from substantial expansion in the Dispensing Pharmacy Business
 - Growth of the pharmaceutical manufacturing business (expansion of internal sales) P45
 - Expansion into new areas in staffing and placement businesses (stronger tie-ups with medical institutions)
- 2 Greater efficiency

 - Larger, more centralized pharmacies
 - Containing rising healthcare costs
 - Greater productivity
 - Growth of online healthcare P36
- 3 Pursuit of quality and safety

 - Ensuring safe healthcare
 - Stable supply and quality improvement P49

Key risks and opportunities projected in carrying out the long-term vision

At Nihon Chouzai, to achieve our long-term vision, we will seek to control risks, embrace opportunities as a force driving future growth, and harness strong synergies between our businesses to realize dramatic growth.

Area	Risks	Opportunities	Impact	Action
Dispensing fee revisions	Changes in dispensing fees due to national dispensing fee revisions	Accelerating restructuring in the pharmacy industry due to the impact of dispensing fee revisions	Failure to adapt to dispensing fee revisions may affect performance in the Dispensing Pharmacy Business.	Dispensing pharmacy business <ul style="list-style-type: none">Foster specialized professionals to handle advanced healthcare Expand business areas by strengthening pharmacy functions to support a care cycle ranging from disease prevention and pre-symptomatic illness to treatment, prevention of progression, and at-home healthcare
Drug price revisions	Reduction in drug prices due to national drug price revisions	Accelerating restructuring in the pharmacy and generic drug industries due to the impact of drug price reductions	Drug price revisions may affect Group performance, such as causing lower profits in the Dispensing Pharmacy Business and Pharmaceutical Manufacturing and Sales Business.	Dispensing Pharmacy Business <ul style="list-style-type: none">Expand the customer base through new pharmacy openings and growth of existing pharmaciesExpand the customer base through construction of online healthcare systems Pharmaceutical Manufacturing and Sales Business <ul style="list-style-type: none">Develop highly profitable drugs Boost profit margins by reviewing portfolio to increase ratio of products manufactured in-houseLower costs through more efficient production
Entry of outside players into the pharmacy industry	Entry of players from other industries following deregulation in the pharmacy sector	Spread of remote healthcare and online medication guidance following deregulation in the pharmacy sector	If deregulation in the pharmacy sector draws in new players from other industries, this may affect Group performance.	Dispensing Pharmacy Business <ul style="list-style-type: none">Achieve dramatic growth by transforming our businesses through the fusion of highly skilled medical personnel with healthcare-related digital transformation, bringing about business reform, new business creation, and work process reform <div>Digital Transformation Strategy </div>
COVID-19 Pandemic	Long-term prolongation of the pandemic	Growing demand to provide healthcare online and other means that do not involve interpersonal contact	Business continuity may be partially disrupted due to employee infections. Patients refraining from visiting medical institutions may cause lower profitability.	Dispensing Pharmacy Business <ul style="list-style-type: none">Amid advancing digital transformation in healthcare fields, provide smart healthcare that enables medical consultation, medication guidance, and drug receipt to be carried out entirely online  Medical Professional Staffing and Placement Business <ul style="list-style-type: none">Meet demand for medical personnel to man vaccination venues and serve in areas where medical resources are scarce 
Cyber Security	Leaks of vital information due to cyber attack	Reinforcing security by continuously upgrading risk response	If a risk is exposed, privacy breaches, leaks of confidential company information, and other information protection issues may affect Group performance through the loss of social credibility or of access to information critical to management.	Conduct cyber security assessments through an external auditing agency. Minimize risks by continuously upgrading cyber security measures.
Medical and pharmaceutical safety and quality	Side effects or harmful interactions caused by drugs; quality defects of pharmaceutical products	Ensuring and improving safety by promoting the proper use of pharmaceuticals; maintaining and improving quality through proper drug manufacturing	Dispensing Pharmacy Business If drugs are not used properly, this may affect Group performance through the loss of social credibility and patient trust due to the occurrence of side effects or harmful interactions. Pharmaceutical Manufacturing and Sales Business If a quality defect occurs in a generic drug, this may affect Group performance through the loss of social credibility and patient trust, and through measures required to improve quality.	Dispensing Pharmacy Business <ul style="list-style-type: none">Continue to reinforce education to ensure the proper use of drugs, using e-learning, the FINDAT platform, and other formatsDesign programs to support the proper use of drugs and implement dispensing equipment to ensure safety  Pharmaceutical Manufacturing and Sales Business <ul style="list-style-type: none">Carry out ongoing education to maintain and enhance quality standardsOperate an ongoing framework to regularly monitor proper quality levels (practice quality risk management)
Stable Supply of Pharmaceuticals	Instability in domestic pharmaceutical supply	Increased demand for in-house products	If the stable supply of pharmaceuticals is affected, such as when supply cannot keep up with market demand for pharmaceuticals, this may affect Group performance, such as through the loss of trust from patients and healthcare professionals.	<ul style="list-style-type: none">Augment production capacity to meet surges in demand for pharmaceuticals



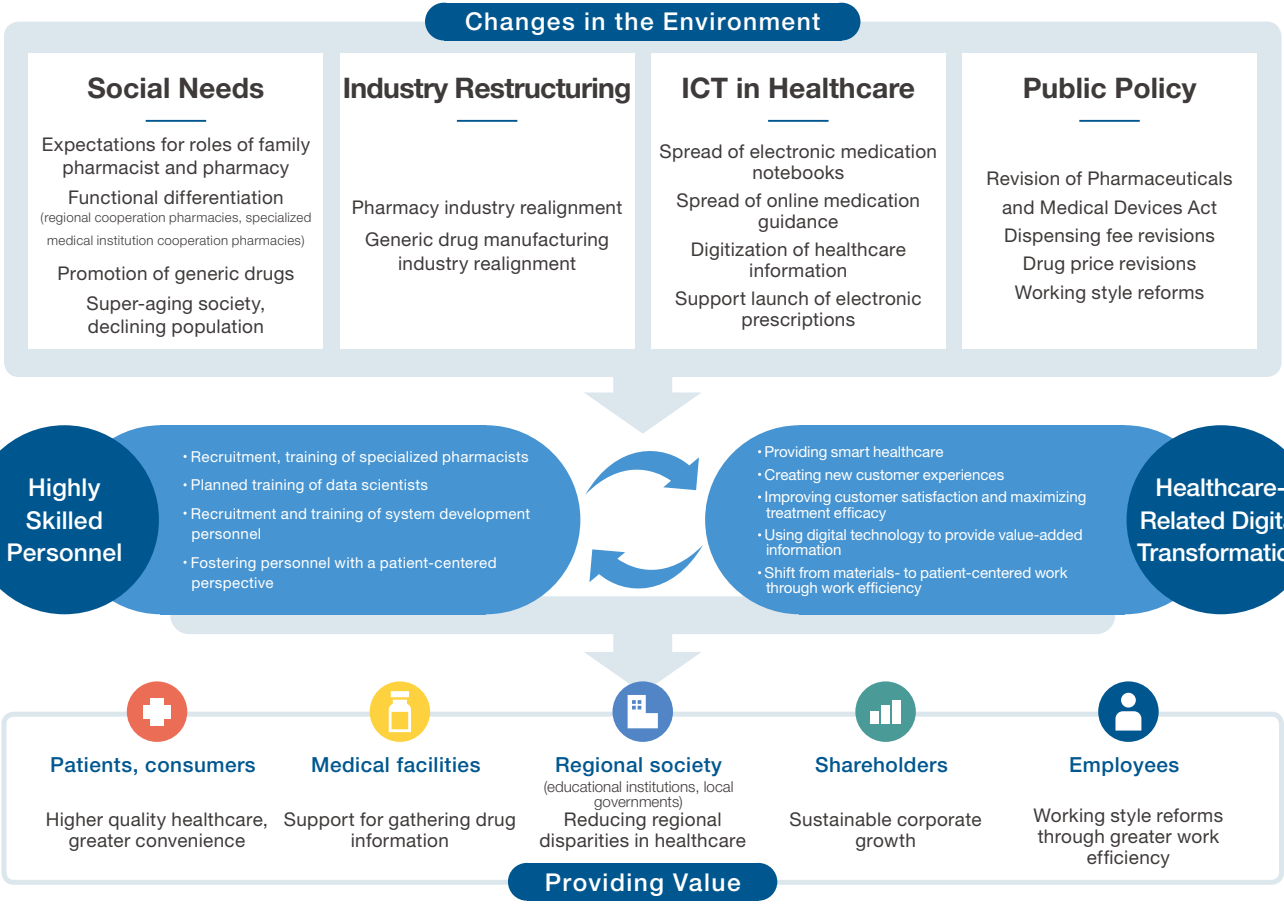
Achieving sustainable growth by incorporating digital transformation and sustainability into the management strategy

Nihon Chouzai regards ICT as a key factor in growth and has been developing an ICT strategy for many years. Going forward, we will continue to pursue business transformation through the use of digital technology (digital transformation) to create value and achieve further growth.

Providing Value Through Healthcare-Related Digital Transformation in a Changing Environment

A Fusion of Personnel and Healthcare-Related Digital Transformation Shaping Next-Generation Pharmacies

Amid a super-aging society and shrinking population, the healthcare environment in Japan is being rocked by moves to curb social security costs and labor shortages. Nihon Chouzai will realize the digital transformation of existing businesses and create a new earnings base through the fusion of highly skilled personnel with healthcare-related digital transformation. We will help solve social issues by achieving both healthcare safety and an efficient operating framework. Moreover, the Group will evolve existing services and create new medical services to provide new value to patients, medical institutions, local communities, and all of our key stakeholders.



Five Digital Transformation Strategies

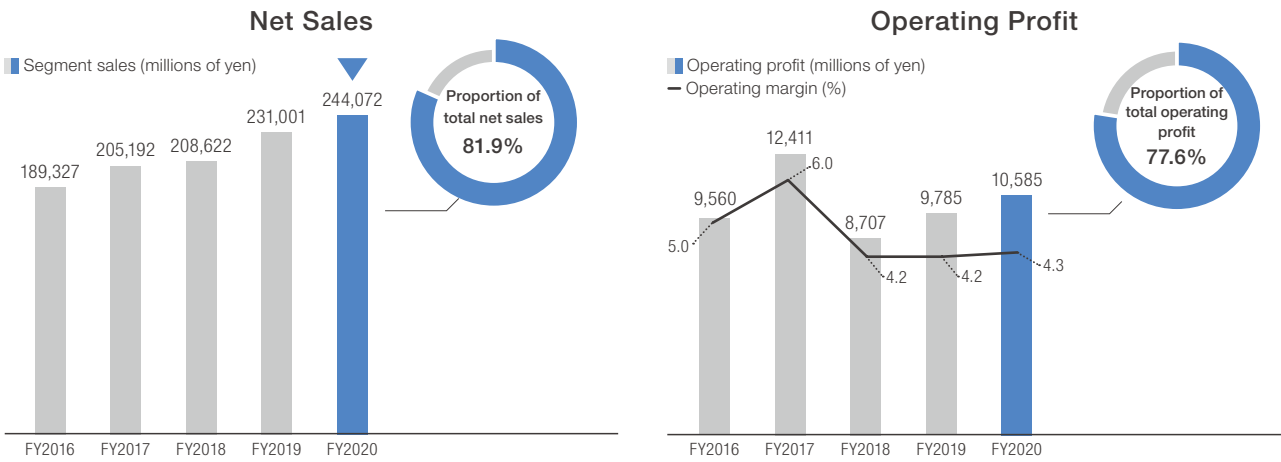
Nihon Chouzai is targeting dramatic growth as we move forward in achieving our long-term vision for FY2030. To support such growth, we have formulated five Digital Transformation Strategies to meet changes in the environment and provide new services that will bring innovation to the healthcare industry in Japan. The five Digital Transformation Strategies will significantly transform our businesses, focusing on the areas of business reform, new business creation, and work process reform. Through these approaches, we will provide new value to a wide range of stakeholders, not only the patients and consumers who receive our services but also medical facilities, regional society, shareholders, and employees.





Dispensing Pharmacy Business

Nihon Chouzai Co., Ltd.
and dispensing pharmacy subsidiaries



Long-Term Vision: Pushing Ahead to Embrace Industry Restructuring

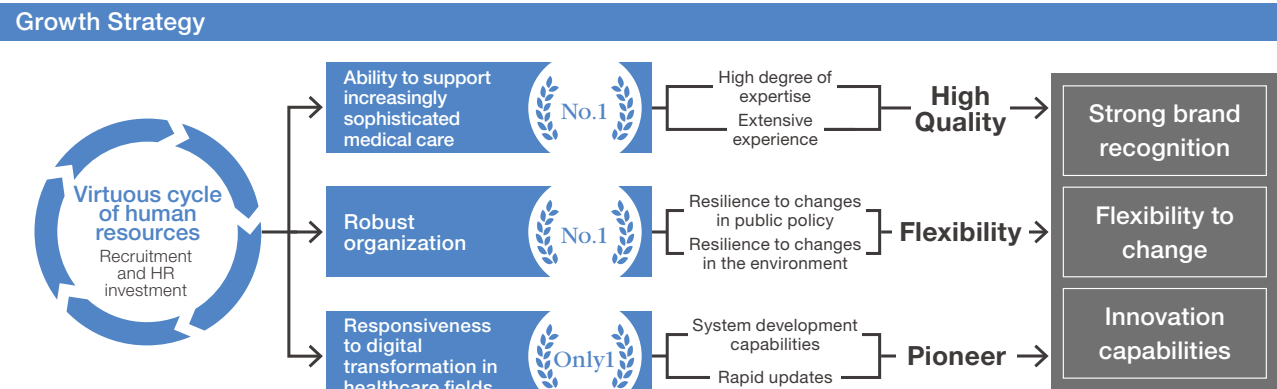
Nihon Chouzai's Growth Strategy

Nihon Chouzai is realizing sustainable growth by harnessing the strengths that are generated out of three key factors in its growth strategy.

The first factor is our ability to support increasingly sophisticated healthcare. Since the company's founding, we have forged a history of opening pharmacies in front of university hospitals and major regional hospitals that provide advanced healthcare. We have been able to create high-value-added services thanks to our high degree of specialization and extensive experience accumulated over the years.

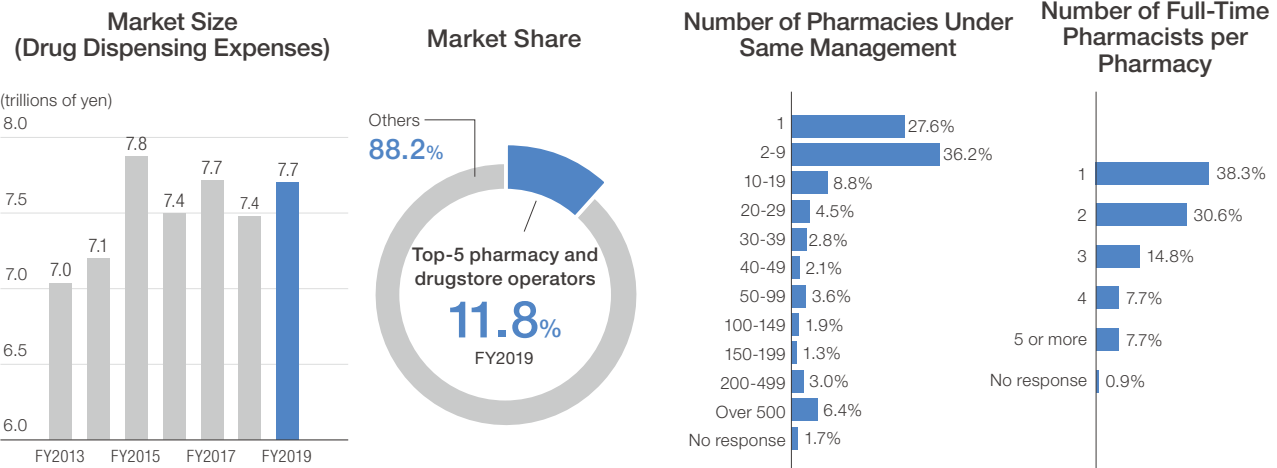
The second factor is our robust organization. For 40 years we have constantly weathered the impact of NHI drug price and drug dispensing fee revisions, taking progressive initiatives in response to changes in government policy and in the healthcare industry environment.

The third factor is our ability to adapt to digital transformation in healthcare fields. Nihon Chouzai has been developing dispensing systems in-house since the 1990s. Most recently, we constructed a forward-looking, efficient system that will be crucial in enabling future pharmacy management, such as supporting online healthcare.



Market Environment

In the Japanese healthcare industry, the government takes initiative in setting NHI drug prices and drug dispensing fees. Drug prices are revised every year while dispensing fees are revised once every two years, and the industry is subject to strict regulations. With an eye toward 2025 when all baby boomers (those born between 1946 and 1949) will be 75 or older, the government has rapidly taken a series of measures to contain healthcare costs. Given pressures on the national budget, we can continue to expect sharp downward revisions in NHI drug prices and drug dispensing fees. This adverse business environment is a driving force behind the restructuring of the pharmacy industry, and we are likely to see further consolidation as the number of pharmacies decreases. To weather ongoing waves of consolidation and survive as a business, Nihon Chouzai considers it necessary to boost the sales volume of individual pharmacies and increase the number of pharmacists per pharmacy.



Market size, market share: Prepared by Nihon Chouzai based on MHLW, "Trend of Dispensing and Medical Care Expenses" and based on the securities reports of each company.
Number of pharmacies under same management and number of full-time pharmacists: MHLW, "Fact-Finding Survey Report for Achieving the Vision of Pharmacies for Patients," March 31, 2017

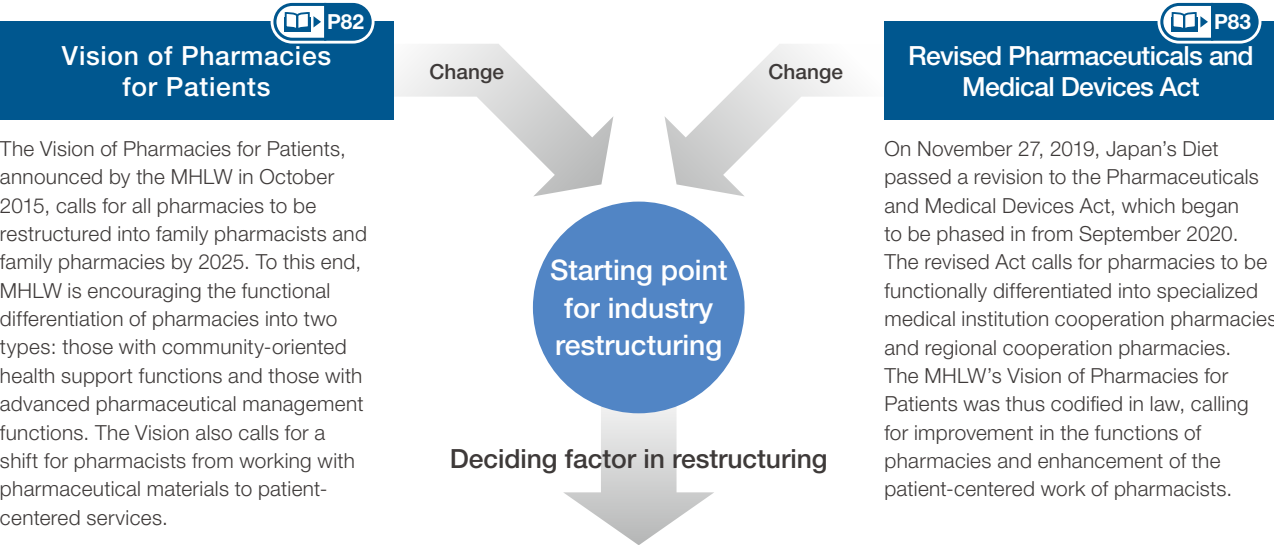
Growth Strategy: Realizing a Virtuous Cycle

Investing in Human Resources

At Nihon Chouzai, we view the people who support the Group as an essential management resource and continuously invest in human resources. We are recognized within the industry as a company that provides its employees with top-notch education, including offering an array of career development opportunities and training.

Nihon Chouzai believes the starting point for industry restructuring is strengthening the patient-centered skills of pharmacists, which is a common theme of both the Vision of Pharmacies for Patients announced by the Ministry of Health, Labour and Welfare (MHLW) in

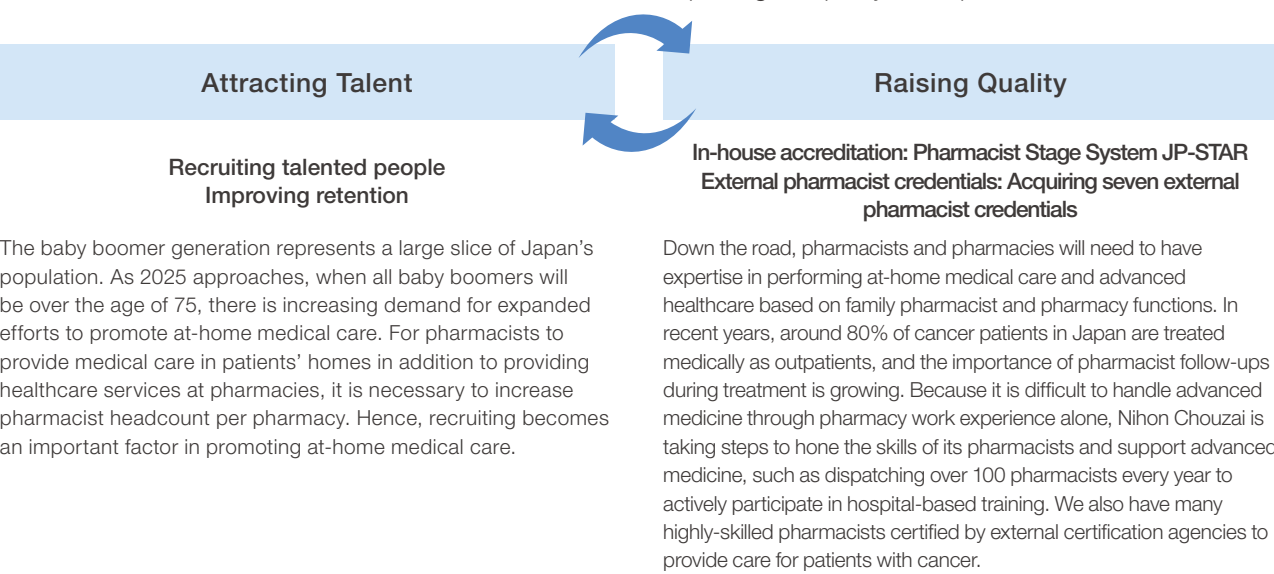
October 2015 and the revised Pharmaceuticals and Medical Devices Act, which is being gradually phased in since September 2020. We expect that pharmacists will be required to engage in even more extensive patient-centered work, and that the fee system of pharmacies will reflect such differences. Anticipating that unprecedented, far-reaching changes will give rise to further industry restructuring, the Group has for several years been strategically investing resources in its people, who are the deciding factor in successful restructuring, and has largely put in place a foundation for growth.



Investing in Human Resources

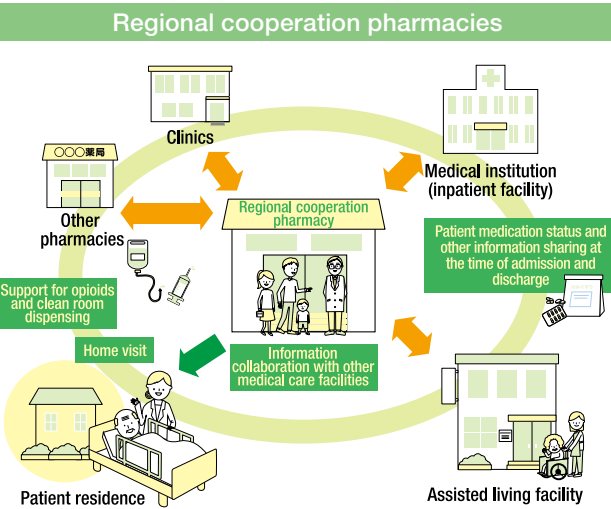
Going forward, pharmacies will be required to improve their functions and pharmacists will be required to perform more extensive patient-centered work. Meanwhile, regulatory evaluation of services that involve simply handling materials, such as medication selection and other dispensing work, is being reviewed and drug dispensing fees for such work are being lowered. For

these reasons, recruiting skilled pharmacists and further honing the skills of pharmacists, who are the critical resources engaging in patient-centered work, has become essential. Nihon Chouzai has invested in human resources with a view to longer-term growth, and is now shifting from the phase of attracting talent to the phase of improving the quality of our personnel.



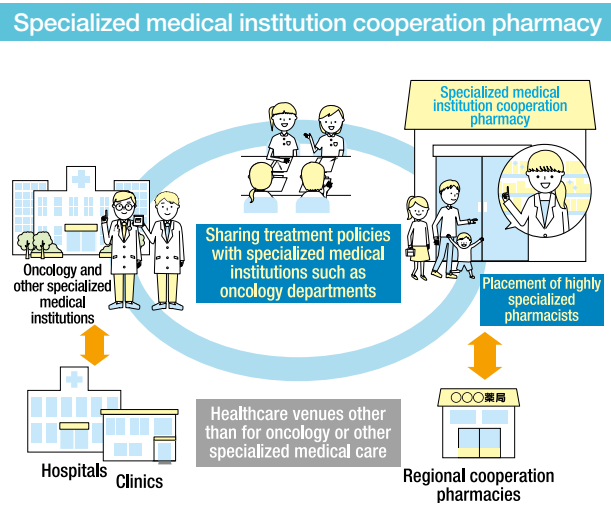
Strengthening Pharmacy Functions and Enhancing Healthcare Service Quality

The Vision of Pharmacies for Patients announced by the MHLW set forth concrete functions required of pharmacists and pharmacies going forward. Under the revised Pharmaceuticals and Medical Devices Act, which is being phased in from September 2020, pharmacies recognized by the prefectural governor as having a certain function can display signs indicating their specific function. In order to receive the certification, pharmacies need to closely cooperate with medical institutions.



Regional cooperation pharmacies build a collaborative framework with medical staff at medical institutions, pharmacies, and other healthcare facilities and carry out centralized, continuous sharing of medication information. Such pharmacies act as bridges between hospitals (medical care) and care facilities or residences (long-term care), not only when the patient makes an outpatient hospital visit but also by supporting at-home medical care and at the time of admission and discharge from the hospital. These pharmacies are expected to provide quality healthcare to the community by complementing the role of health support pharmacies that are on the front lines of health promotion for community residents, including pre-symptomatic illnesses.

Moreover, in addition to the core functions of family pharmacists and pharmacies, specialized medical institution cooperation pharmacies are required to have pharmacists on site with academic society certification or other specialized training. Nihon Chouzai is actively strengthening its patient-centered operations and steadily laying the groundwork to fulfill the functions that will be demanded of pharmacies in the future.



Specialized medical institution cooperation pharmacies serve patients who require oncology and other specialized pharmaceutical management. They engage in special kinds of dispensing that call for more advanced medication management and greater specialization, while closely coordinating with specialized medical institutions. Currently, oncology is the only specialty for which certification is required at specialized medical institution cooperation pharmacies, but there are plans to include other disease types in the future.

Family pharmacists

86%

Percentage of pharmacies with family pharmacists (including new pharmacies that will meet the criterion one year after opening) (As of July 29, 2021)

At-home medical care

94%

Percentage of pharmacies providing at-home care (one visit or more per year) (As of June 2021)

Securing and fostering highly specialized pharmacists such as those accredited by an academic society

1 in 4 pharmacists

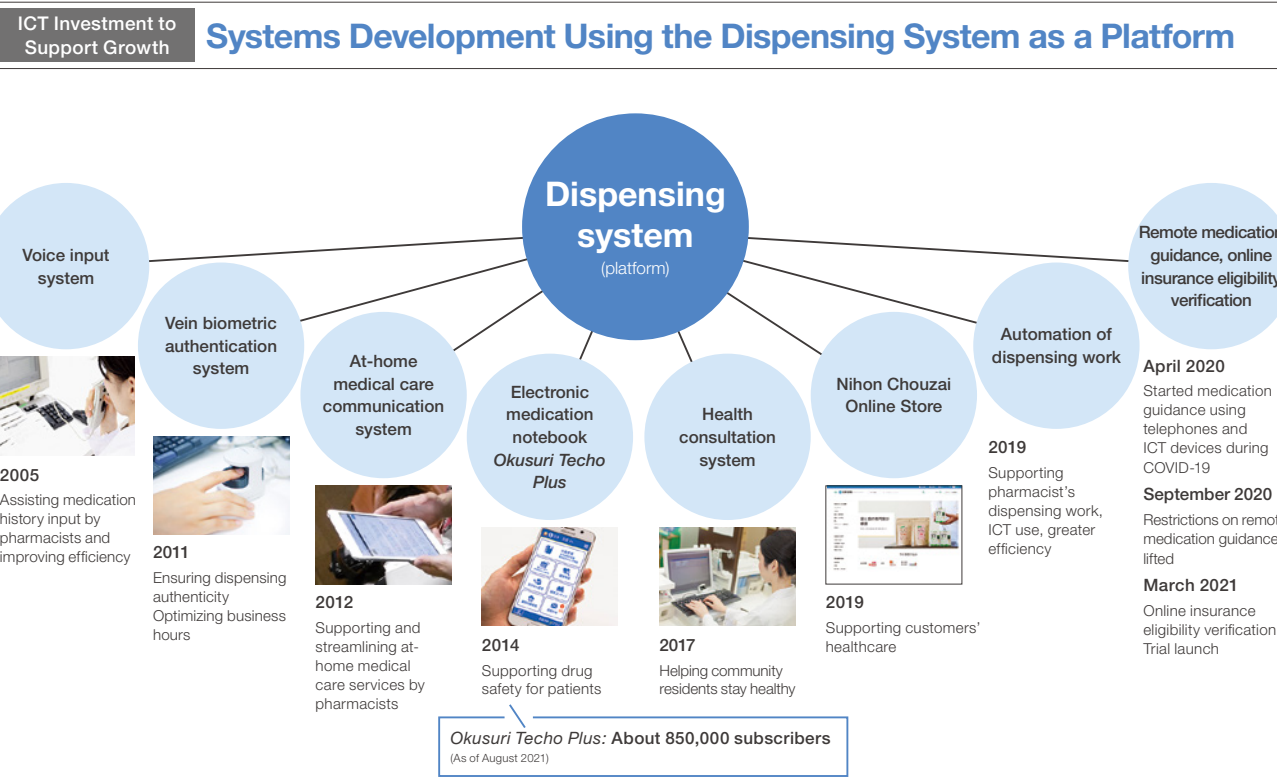
Percentage of Nihon Chouzai pharmacists among all pharmacists qualified as Accredited Pharmacists of Ambulatory Cancer Chemotherapy (As of April 30, 2021)

Health Support Pharmacies

93

Number of Nihon Chouzai pharmacies that meet MHLW criteria (As of July 2021)

Growth Strategy: Realizing a Virtuous Cycle



Dispensing system

Nihon Chouzai is the only company in Japan's dispensing pharmacy industry to have internally developed and operate its own dispensing system for use in pharmacy operations. In-house development of the first system began in the 1990s. By updating the system every year, we have been able to respond quickly to revisions in drug dispensing fees and the move toward remote healthcare. The system also serves as a platform that can flexibly link with other systems. In 2021, we started development of a next-generation dispensing system to address emerging needs, earmarking 5 billion yen for development costs. In addition to overhauling the user interface, we are targeting a system design that will enable a flexible response to upcoming digital transformation and deregulations in healthcare fields. We are positioning this development as a growth investment with a view to future business development and expansion of the business scale.

Voice input system

We introduced a voice input system that assists with the input of medication history after a pharmacist has provided the medication guidance. It is equipped with functionality to learn the traits and other elements of individual voices. The system's voice recognition is highly accurate and supports technical terminology. Pharmacies where the system has been rolled out can input and update medication history in much shorter times.

Vein biometric authentication system

Nihon Chouzai introduced a vein biometric authentication system using finger veins that is linked to the dispensing system. The system allows the user to put a time stamp on work performed and guarantees the authenticity of dispensing. It can also be used for work time management, contributing to reform of working styles through the optimization of working hours.

At-home healthcare communication system

We have devised a system that allows pharmacists to access an at-home healthcare communication system via tablet when carrying out at-home care. Records of medication history and healthcare logs can be entered on the spot. The system serves as a tool both to streamline the work of home-visiting pharmacists and to support collaboration with local doctors, thus contributing to greater healthcare quality.

Electronic medication notebook Okusuri Techo Plus

The electronic medication notebook *Okusuri Techo Plus* links with Nihon Chouzai's core dispensing system to enable centralized management of medication history. The notebook is equipped with various functions that enhance the convenience of pharmacy services, including a function for sending prescriptions, where users can send photos of their prescriptions taken with their smartphones to pharmacies in advance for a hassle-free pickup, and a calendar function for managing medication and out-patient visit schedules. The notebook also has a personal health record function that offers greater convenience by linking to data from weight scales and blood sugar measuring devices. In this way, it helps patients manage their daily habits and supports better health. In August 2021, a "connect" function will be added to allow users to communicate with pharmacies in the form of short messages. This will reinforce patient follow-up after pharmacy visits.

Health consultation system

We have developed a system that supports the health of patients by centrally recording data such as health consultations at pharmacies and those conducted by registered dietitians at our Health Check-Up Stations. Because information on over-the-counter drugs for local residents without prescriptions can also be centrally recorded alongside prescription data, pharmacists and dietitians can conduct more informed counseling, helping local residents stay healthy.

Nihon Chouzai Online Store

We opened an online store that provides comprehensive support for healthcare, offering high-performance, high-quality products carefully selected by professional pharmacists and registered dietitians working in our pharmacies. We support healthcare for a wide range of users, offering approximately 2,000 different drugs, medical devices, cosmetics, health foods, hygiene, and other specialized healthcare products. The online store also sells original products available exclusively online.

Remote medication guidance Online insurance eligibility verification

P36

Automation of dispensing work

P37

ICT Investment to Support Growth

Remote Medication Guidance

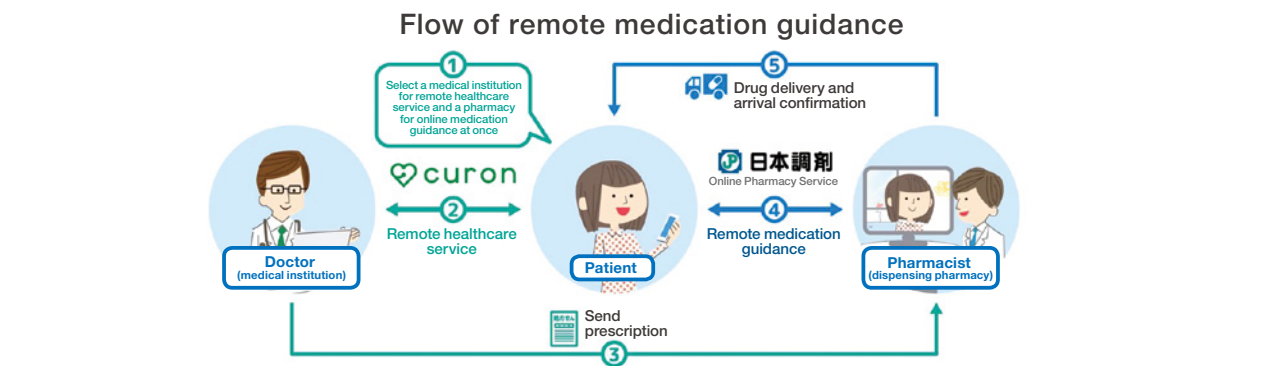
Nihon Chouzai Online Pharmacy Service

For some time, Nihon Chouzai has been actively involved in providing remote medication guidance in Japan's National Strategic Special Zones (business-friendly zones in major urban areas with special regulatory provisions). With the revision of the Pharmaceuticals and Medical Devices Act, remote medication guidance became available nationwide from September 2020. In response, we developed Nihon Chouzai Online Pharmacy Service, a service which allows patients to receive medication guidance at home. The service has started at our pharmacies nationwide, with some exceptions. As demand for non-face-to-face medication guidance increases, we have established a system that allows patients to easily receive medication guidance anytime, anywhere without going to the trouble of downloading an app.

As of June 2021, we had conducted over 37,000 cases of remote guidance (including support measures related to COVID-19)

Collaboration with Remote Healthcare Services

We have begun collaboration between Nihon Chouzai Online Pharmacy Service and the remote healthcare service *curon* of MICIN, Inc. Through this collaboration, patients can select any pharmacy of the nationwide Nihon Chouzai Group when making a reservation for an online healthcare consultation through the *curon* service. After the online consultation, users can smoothly transition to the Nihon Chouzai Online Pharmacy Service and make a reservation for online medication guidance. Since information is linked with the patient ID on the *curon* platform, even first-time pharmacy users can start registration with their basic information already entered. This collaboration is enabling a system that offers smoother use from online consultation through to online medication guidance.



ICT Investment to Support Growth

Online Insurance Eligibility Verification

On March 4, 2021, Nihon Chouzai began participation in the trial launch of an online insurance eligibility verification system using patients' Individual Number Cards, which are equivalent to tax ID number cards (full-fledged operations are slated to begin in October 2021). By using Individual Number Cards, participating medical institutions and pharmacies can quickly verify the accuracy of the required patient insurance eligibility information.

Use of Individual Number Cards avoids the conventional process where pharmacy staff enter and verify information from health insurance cards. Using face recognition in the reception step offers the benefit of being able to easily complete the verification process online.

Online insurance eligibility verification will improve convenience for patients, while reinforcing the family pharmacist and pharmacy system Nihon Chouzai is actively working to implement, enabling detailed

Growth Strategy: Realizing a Virtuous Cycle

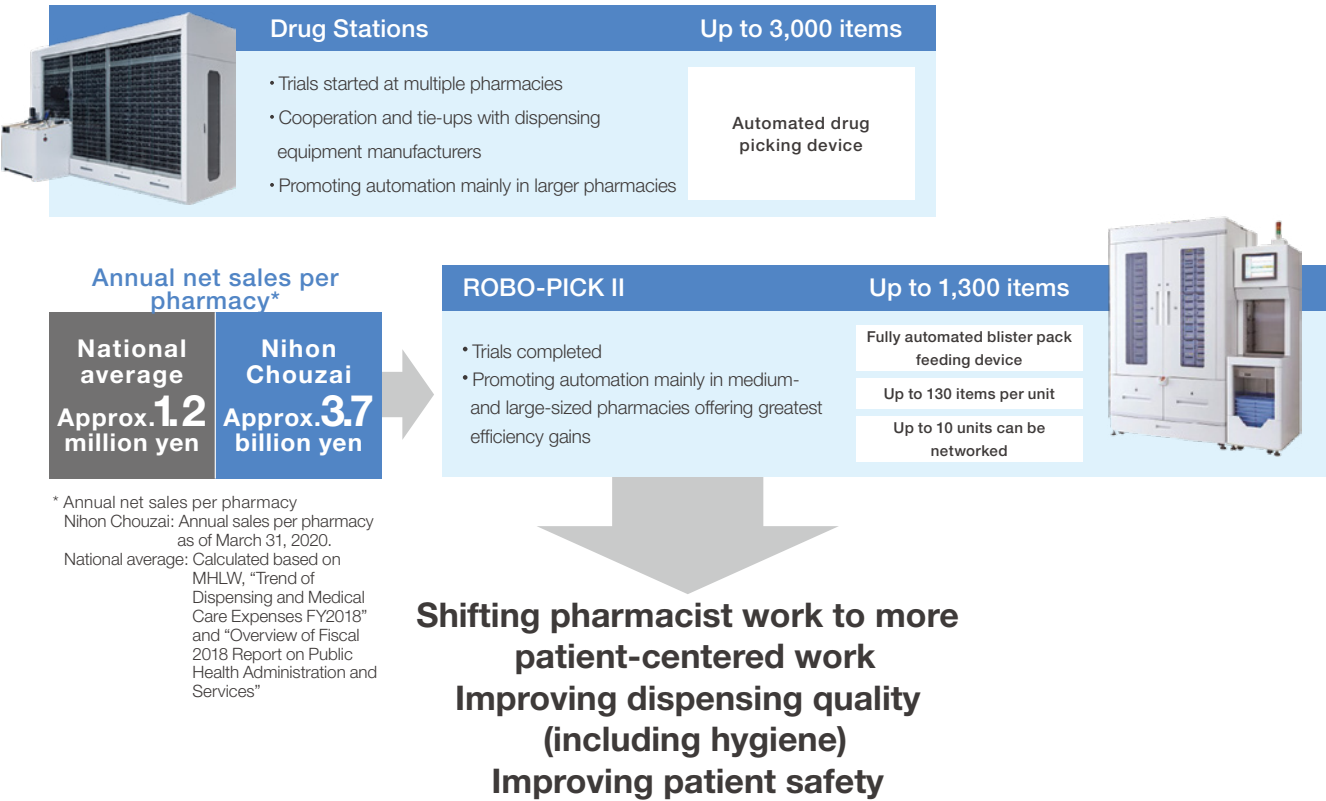
ICT Investment to Support Growth Automation of Dispensing Work

System Changes to Promote Automation

On April 2, 2019, the Ministry of Health, Labour and Welfare issued a public notice on the performance of dispensing work, which emphasized the need to enhance patient-centered work. To do this requires streamlining work that involves handling materials. The notice declared that it is now possible for staff other than pharmacists to pick out and sort medicines from inventory that are still packaged in blister packs (PTP sheets), as long as they are visually monitored by a pharmacist. It also became possible to actively utilize dispensing equipment in the process of dispensing drugs.

Initiatives at Nihon Chouzai Pharmacies

While promoting efficiency through automation, we are striving to raise the quality of healthcare services by freeing up time for pharmacists to focus on patient-centered work.



Trials of New Dispensing Equipment

In May 2020, Nihon Chouzai was first in the industry to introduce the newly released Drug Station, a system that is capable of dispensing up to 3,000 pharmaceutical products, and began trials to test its efficiency. Based on the results of the trials, we plan to roll out Drug Stations to pharmacies with sales levels that promise significant efficiency gains through the rollout.

Going forward, we will continue to stay out ahead of the competition by investing efficiently in and testing new equipment.

Automation Rollout Schedule

Nihon Chouzai initiated its rollout of automation initiatives in FY2020. Based on knowledge gained from the start of operations on the ground, we updated the schedule targeting a more effective rollout.

The schedule calls for the rollout of equipment at 50 pharmacies in FY2021 and at 30-50 pharmacies in FY2022.

We believe that automation not only improves efficiency, but also has the benefit of helping to ensure medical safety by minimizing human error.

Growth Strategy: New Businesses, Various Initiatives

Community-Based Nutrition Care Support

Certified Nutrition Care Stations

Certified Nutrition Care Stations are facilities certified by the Japan Dietetic Association as community-based hubs where local residents can receive support and guidance for nutritional care.

Through services such as nutrition consultations, health events, and nutrition classes, nutritionists and registered dietitians who are specialists in food and nutrition are supporting residents in leading healthy and fulfilling lives.

Number of pharmacies with certified Nutrition Care Stations: 25

Initiatives for Quality Medical Services

Home Support Centers Obtain ISO9001

Two Nihon Chouzai Home Support Centers have acquired ISO9001 certification for their quality management systems. The Centers provide a broad range of at-home healthcare services to address the needs of residents in the community.

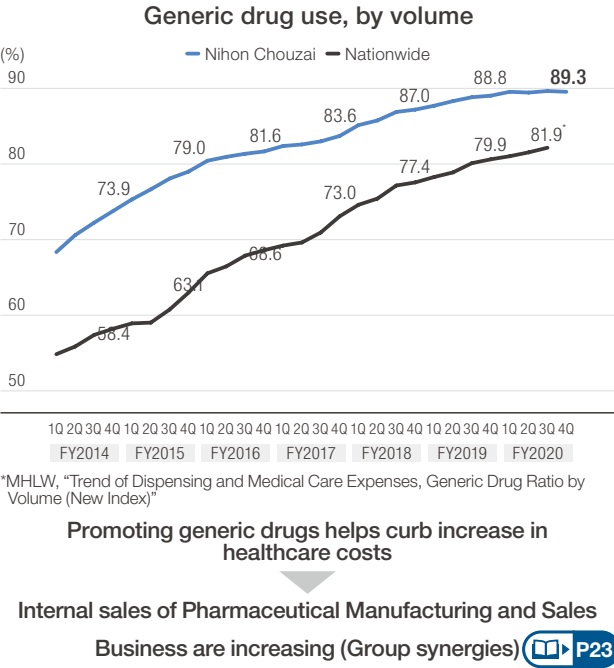
The ISO9001 standard is used to evaluate how an organization manages its mechanisms for continuously providing products and services that meet customer needs. Both bases that acquired certification are able to ensure high levels of safety and accuracy through the quality management systems they have built.

In addition to these two Centers, Nihon Chouzai plans to acquire successive ISO9001 certification for the 20 other Home Support Centers it operates nationwide.

Initiatives to Control Increasing Healthcare Costs

Promoting the Use of Generic Drugs

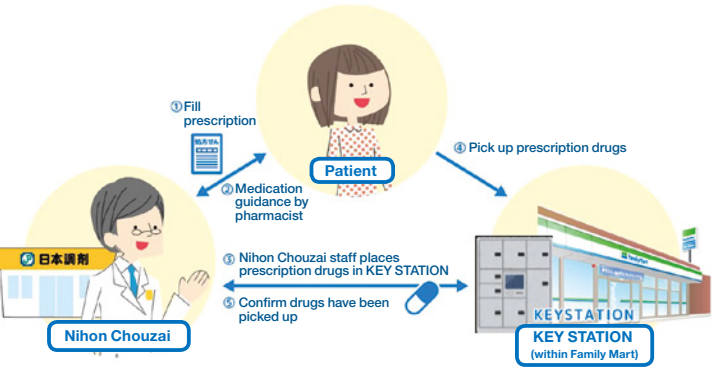
Nihon Chouzai achieved the government-mandated target of raising the proportion of generic drugs to 80% set for September 2020 three years ahead of schedule. As of March 2021, we had achieved the industry's leading share of generic drug use by volume, at 89.3%.



Non-Contact Prescription Drug Pick-Up Service

KEY STATION

In collaboration with leading convenience store operator FamilyMart Co., Ltd., Nihon Chouzai has started trials of a prescription delivery service using KEY STATION, a pick-up box installed at FamilyMart stores that is equipped with an authentication function. Because KEY STATION boxes conduct identity verification, they allow patients to receive prescription drugs 24 hours a day safely, even outside pharmacy business hours, and without interpersonal contact. The new service is expected to help reduce COVID-19 infection risk and enhance convenience.



Initiatives for Community Health Support Functions

Health Check-Up Stations

As a community-oriented health support function, we have set up Health Check-Up Stations* in selected pharmacies which are actively working to help local residents stay healthy and to deal with pre-symptomatic illness and disease prevention. Health Check-Up Stations offer health consultations at a booth that helps ensure privacy, and are equipped with blood pressure monitors, body composition meters, and other measuring devices that can check patients' health condition.

In addition, Nihon Chouzai has begun offering a COVID-19 PCR testing service at several of our Health Check-Up Stations in pharmacies nationwide (74 pharmacies).

Through the provision of PCR testing services, we are contributing both to prevention of COVID-19 infection and to the resumption of economic activity.

Community Health Support: Pharmacies with Health Check-Up Stations

	March 2018	March 2019	June 2020	June 2021
Number of Health Check-Up Stations	37	62	75	76

- *Health Check-Up Station is a registered trademark of Nihon Chouzai.
- ①Advice on diet and exercise from registered dietitians
 - ②Attract resident utilization through health fairs
 - ③Dedicated booths for maintaining and improving health
 - ④Help patients stay healthy with various devices such as sphygmomanometer and body composition monitor
 - ⑤Support self-medication with over 500 items, including OTC drugs and health foods
 - ⑥Depending on symptoms, recommend medical consultation or refer medical institutions

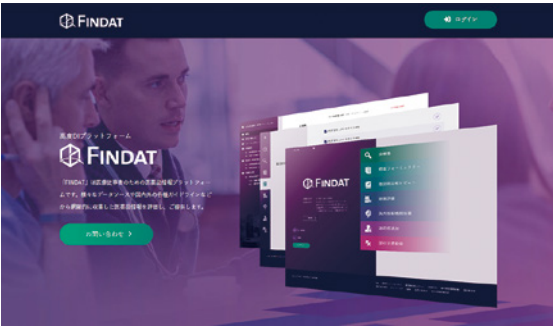
Growth Strategy: FINDAT Business

Accelerating Digital Transformation in Healthcare with FINDAT

FINDAT is Nihon Chouzai's advanced online drug information platform.

FINDAT gathers drug information from an extensive range of data sources in Japan and overseas, such as original articles, drug databases, and regulatory guidelines, processes these data to enhance utilization at clinical sites, and provides them online.

FINDAT can respond to a wide range of social needs, and it is gaining a solid reputation, making inroads among a growing number of pharmacies that carry out advanced healthcare and at-home care as well as pharmacology educational institutions.



Demand from Society

Hospital administrators	Medical professionals	Pharmacies	Educational institutions
Cost reductions, medical safety, strengthening regional collaboration, and other management issues	Improving the efficiency of collecting and evaluating vast amounts of drug information	Comprehensive, accurate drug information for advanced healthcare	Training the next generation of medical professionals

Value Provided by FINDAT

- 1 Used in creating and updating drug formularies***

These are recommended lists of homologous drugs prepared and offered by FINDAT. Formularies can be created efficiently by processing data according to the situation of each medical institution or region.
- 2 Comparing efficacy, safety, and cost-effectiveness of homologous drugs**

Comparisons of similar drugs with similar efficacy provided by FINDAT are created using data on the efficacy, safety, and cost-effectiveness of the drugs gathered from a wide range of sources including package inserts, interview forms, original articles, secondary information databases, and various regulatory guidelines. FINDAT compiles these data into a table or other formats to compare and evaluate individual drugs.
- 3 More efficient data gathering when adopting new drugs**

FINDAT gathers information on and evaluates newly approved drugs, tasks that place burden on medical institutions, and compiles these findings into materials that can be easily utilized at clinical sites and distributes them.
- 4 Optimization of drug purchasing costs**

Utilizing the abovementioned materials on drug evaluation in terms of efficacy, safety, and cost-effectiveness provided by FINDAT, customers can narrow down the range of drugs to use and decide whether to adopt a new drug. In this way, FINDAT contributes to the optimization of drug purchasing costs.
- 5 Objective data reviewed and peer-reviewed by outside experts**

Standardized formularies are published after being reviewed and approved by the Formulary Expert Review Committee. New drug evaluations and additional indications are published after being peer-reviewed by outside pharmacists who are active in clinical practice. This ensures the fairness and appropriateness of information.
- 6 Promoting proper medication use and enhancing medical safety**

By providing information on proper medication use as well as latest drug safety information, FINDAT promotes the proper use of drugs, contributing to enhanced medical safety.

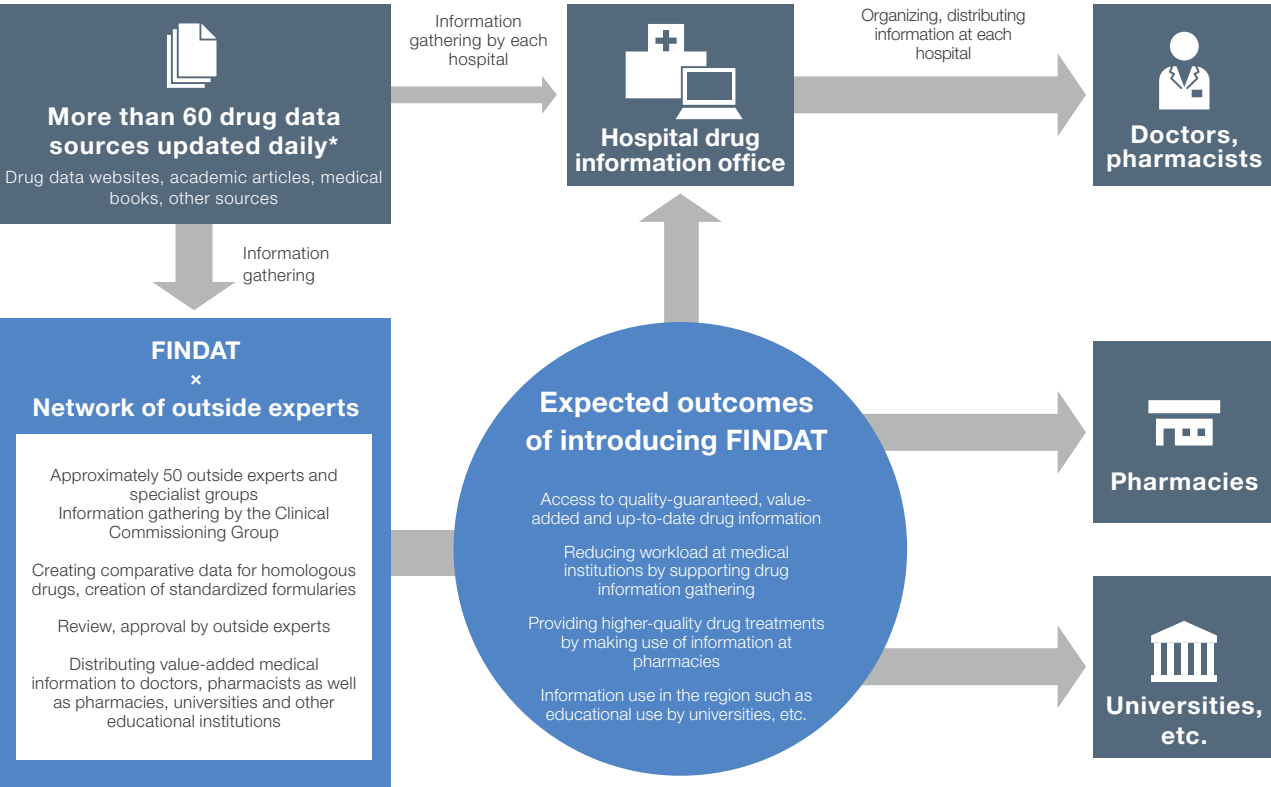
About Formularies

Formularies are guidelines for the most effective, safest, most cost-effective use of drugs for the patients of medical institutions. These drug management tools were first introduced in the 1990s, mainly in Europe and the U.S. Moves toward the full-scale introduction of formularies are gaining momentum in Japan as well, as a means of improving efficiency in healthcare, with surveys underway on the extent to which hospitals have introduced these tools. Formularies use evidence-based drug selection, which leads to more economical treatment practices. Creating a formulary yields numerous benefits, including economic merits such as the effective use of generic drugs as well as contributions to medical safety through the more systematic organization of drugs that are used.

Providing Value-Added Information through the FINDAT Platform

Supporting the Drug Information* Operations of Hospitals and Pharmacies

Because they involve collecting and organizing a massive number of information sources, drug information operations require each hospital to hire specialized personnel and invest significant resources. Introducing the FINDAT platform will enable hospitals to offer high-value-added information, while at the same time reducing the workload of each hospital's drug information office.



* Drug information operations involve gathering and handling evidence and information needed to optimize the benefit-risk balance of drug treatments.
* Japan Society of Hospital Pharmacists; from sources of information available for use in DI operations

Drug information is a “must have” for pharmacists to perform their functions

In Japan, reducing healthcare costs has become a pressing issue, as a rapidly declining birthrate and aging population are driving an ongoing increase in such costs. As a tool for reducing healthcare costs, moves to introduce formularies, whose effectiveness has already been proven in the U.S. and European countries, are rapidly gaining momentum.

Formularies need to be created based on extensive information collected from highly reliable sources. Nihon Chouzai launched FINDAT, an advanced online drug information platform, in its efforts to help maintain a sustainable healthcare system—through such efforts as to promote standard drug treatments, curtail healthcare costs, and reduce burden on patients—with the aim of contributing to society.

In team-based healthcare, pharmacists ought to be able to collaborate with, and discuss pharmacological treatments with doctors with a sense of responsibility. Until now, the separation of drug prescribing and dispensing services focused on the separation of “things,” that is, medications. But separation is also necessary in terms of the “people” who carry out team-based medicine; that is, pharmacists need to participate in pharmacological treatments based on scientific and theoretical grounds.

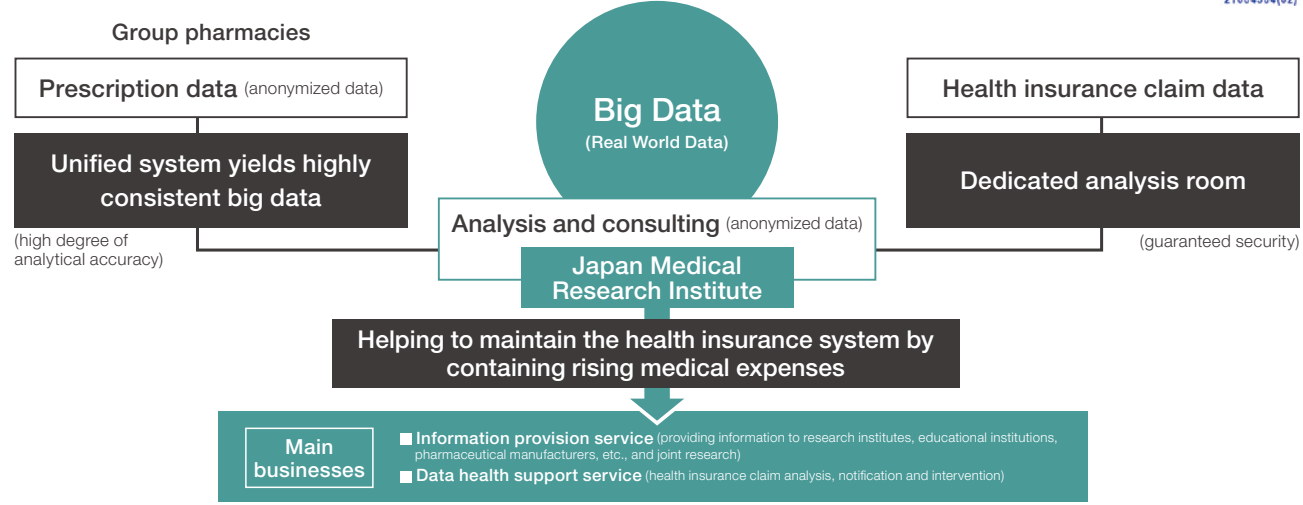
The advanced online drug information platform FINDAT exhaustively collects data from reliable sources and provides information peer reviewed with outside experts to guarantee neutrality. We are confident that in doing so, FINDAT will facilitate sharing of drug information within a medical institution, support increased efficiency, and take charge in providing a sustainable healthcare system to the Japanese people.





For the Abundant Medical Care of the Future

Japan Medical Research engages in operations in pursuit of "low cost, high quality" medical care



1 High-Quality Information Provision Service Using Real-World Data

Based on RI-CORE, an analytical system it launched in FY2017, Japan Medical Research Institute develops and operates analytical tools that support the processing of entire five-year blocks of prescription data (big data representing 250 million prescription records) harvested from Nihon Chouzai Group pharmacies. By integrating this data with information provided by pharmacists, we are able to fully harness synergies with the Dispensing Pharmacy Business to provide high-value-added data that is unrivaled in the industry. Providing this real-world data to research institutes, educational institutions, pharmaceutical manufacturers, and others, as well as conducting joint research, contributes to improving patient adherence (medication management) and optimization of medical expenses.

2 Data Health Support Service: Helping to Optimize Medical Costs

Japan Medical Research Institute is engaged in various data healthcare-related initiatives that draw on the expertise in data analysis and consulting it has cultivated through the information provision service. Based on data provided by health insurers, the company conducts the analysis needed to optimize medical costs and provides insurance holders with notifications about medication, including price differences of generic drugs, duplicate medications, and overprescribing. Through pharmacists, we also provide practical support services, such as methods of optimizing medication, support for persons with developing or not-yet-diagnosed medical conditions, as well as prevention of disease progression. Healthcare-related events and seminars are another venue through which we contribute to optimizing medical costs, such as by helping to set up drug consultation days and various other support services.

Information Provision Service: RI-CORE

Our information provision service involves developing and operating analytical tools for information harvested from prescription data, based on the RI-CORE analytical system. The company conducts surveys, research, information provision, and consulting for research institutes, educational institutions, pharmaceutical manufacturers and others.

Integrating big data, such as anonymized prescription data from Nihon Chouzai Group pharmacies, with questionnaire data collected from pharmacy staff, yields high-value-added information that is unparalleled in the industry. This information is contributing to the optimization of medical care expenses.

Advertising Media Service: In-Store Promotions

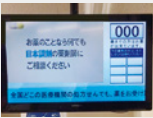
Also helps promote self-administered medication

JRI is engaged in in-pharmacy promotions and pharmacy-based advertising media services, reaching over 14 million patients every year. Examples of services include:

- Video broadcasts commissioned by companies and government entities aired on pharmacy monitors, as well as poster displays and leaflets
- Providing useful information on self-administered medication in the form of brochures and free samples from companies, which pharmacists can provide directly to patients
- Providing registered dietitians with information useful for dietary guidance and the use of samples to support pre-symptomatic disease and disease prevention

Through our businesses, we make it possible for pharmacists and other healthcare professionals to daily provide patients who visit the pharmacy with healthcare guidance on many levels, always based on the most up-to-date information. Going forward, a focus for this business will be using new media to help promote self-administered medication by patients.

- 1. In-pharmacy broadcasts**
- Can be seen annually by over 14 million pharmacy visitors nationwide
 - Pharmacy visitors show high awareness of broadcast content



- 2. Sample provision**
- Hand-delivery by pharmacists offers a better sense of security and reliability
 - Informative comments by pharmacists enhance product appeal
 - Direct approach to target demographics is possible
 - Pharmacist recommendation increases brand recognition



- 3. Poster displays**
- Noticed by patients waiting for prescriptions to be filled
 - Outreach to all pharmacy visitors is possible



- 4. Leaflet placement**
- Patients can read material while waiting or after returning home
 - Outreach to all pharmacy visitors is possible



Results in FY2020

Data Health Support Service

Notifications on Price Differentials, Drug Duplications, Over-Prescriptions

Contributing to healthcare continuity by helping to reduce medical costs

Optimizing Healthcare Costs (Generic Drug Promotion)

Japan is aiming to optimize medical expenses through the promotion of generic drugs. For local governments where the generic drug use rate is sluggish, we issue pharmacy notifications for each individual pharmacy to help applicable individuals understand the usage status and outline of generic drugs, along with notifications about price difference. Using health insurance claim data, we can identify the generic drug usage rates of the individual pharmacies and gauge the potential impact of generic drug use on those pharmacies that fall below certain criteria or on all pharmacies in a region. For pharmacies with large claim data and drug volumes, after consulting with the local government, we send out notifications to those pharmacies. To clarify the issues involved, we administer questionnaires to pharmacies, identify problems, and make proposals that can lead to new projects.

Collaborating with Insurers, Medical Associations, and Pharmacists to Optimize Medical Expenses

Activities in the data health support service business include efforts to help optimize medical expenses, particularly through promoting and raising awareness about generic drugs and helping to prevent overlapping prescribing and duplicate medications. In a project for one city in Japan, which is pursuing collaboration between insurers and medical and pharmacist associations, we analyzed overall generic drug use, as well as the status of over-prescriptions and multiple medications by health insurance claim type, age, gender, medical institution, drug efficacy, region, and other categories. Based on the results of this analysis, we determined who to notify, and created and sent out notifications, including the amount of cost

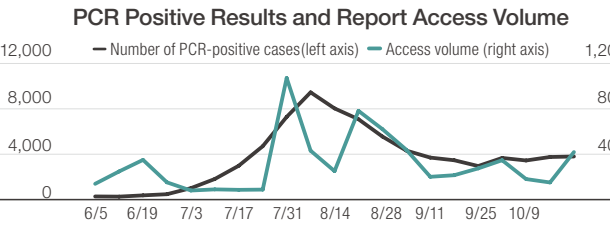
savings from switching to generic drugs and cautions about multiple medications or taking drugs in combination. In addition to referring patients to family doctors and family pharmacists, we set up a support desk to address concerns of individuals who received notifications, and encouraged them to consult with medical institutions and pharmacies. For patients without a family pharmacy, we enlisted the support of the Japan Pharmaceutical Association in providing medication management and other guidance.

Survey and Research Services

Dissemination of Information

COVID-19 Reports Posted

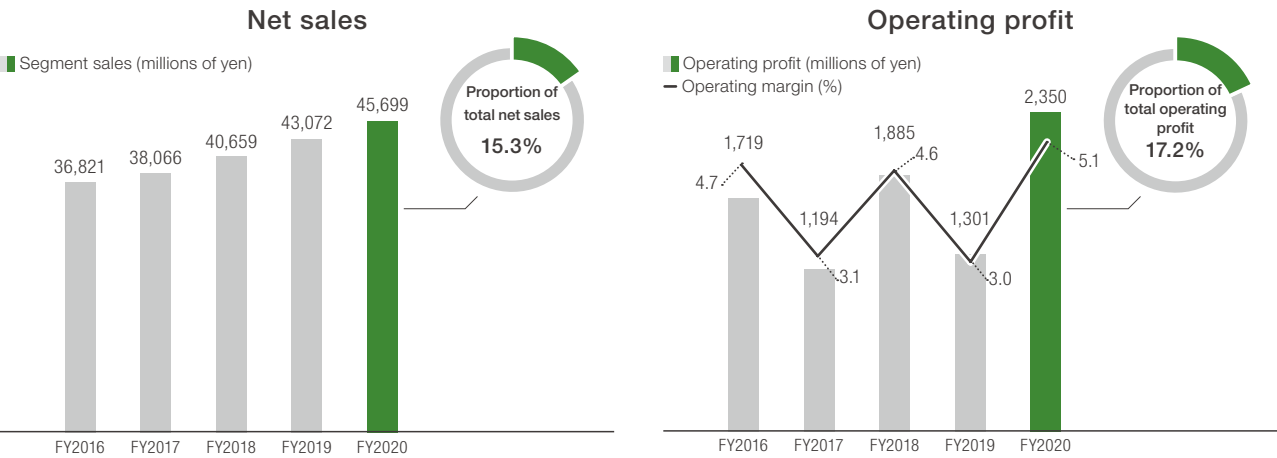
Amid the ongoing spread of COVID-19, global attention is on the impacts of the pandemic and on countermeasures. Based on our proprietary prescription database, we have been investigating the impact of the pandemic on pharmacy prescriptions in Japan and posting the results on our website (<https://www.jpmedri.co.jp>). We also put out a press release in August, and have posted nine reports as of August 2021. As seen in the graph below, in posting these reports we have observed a correlation between the rise in the number of people testing positive in PCR tests and access volume for the reports, suggesting that we were able to put out information at a time when demand in society was strongest. We are committed to continuing to disseminate the information that society needs.





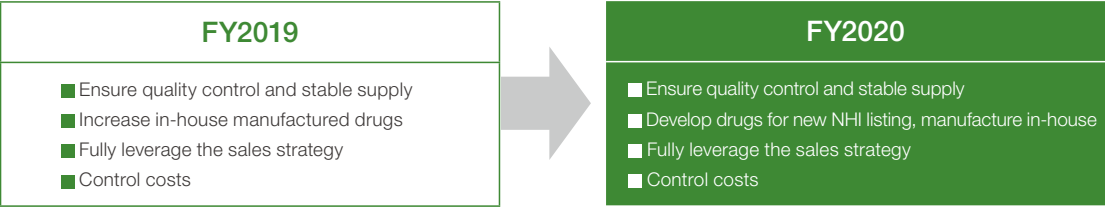
Pharmaceutical Manufacturing and Sales Business

Nihon Generic Co., Ltd.
Choseido Pharmaceutical Co., Ltd.



Growth Strategy: Realizing a Virtuous Cycle

Growth Strategy



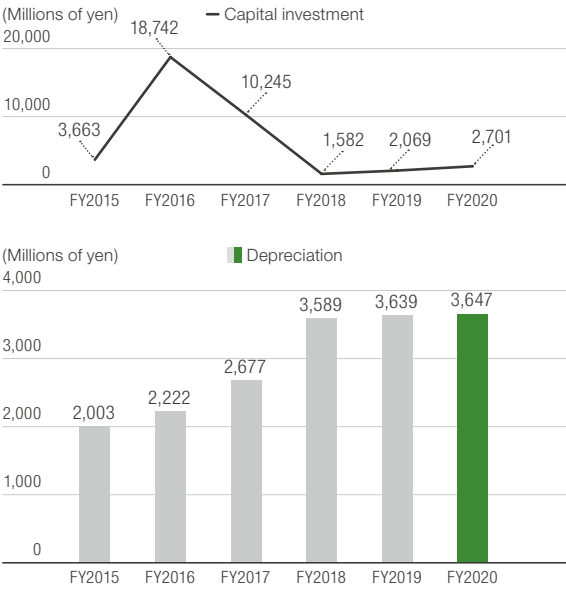
The completion of Nippon Generic’s Tsukuba Plant No. 2 in March 2018 and the relocation and consolidation of the Tsukuba Research Institute in June 2018 marked the end of a series of investments that had been carried out over several years. There were concerns that higher depreciation and utilities and personnel costs associated with the new plant going online would place downward pressure on profitability from March 2019. However, by revising the sales strategy, expanding the number of new drugs manufactured in-house, and boosting efficiency by shifting product lines of existing plants, we were able to significantly expand the output of generic drugs, leading to solid growth in both sales and profits.

There were constraining pressures on profitability in FY2020, notably NHI drug price revisions. Nevertheless, operating profit rose to 2,350 million yen, owing to increases in both internal sales and sales of new drugs.



Nihon Generic Tsukuba Plant No. 2

Capital Investment and Depreciation



License acquisition ➔ Sales of in-house manufactured drugs

New NHI drug price listings of generic drugs are carried out twice a year in Japan, in June and December, at which time it becomes possible to release drugs whose patents have expired. In 2020, Nihon Chouzai acquired approval for 21 drugs with 11 ingredients. This included several drugs that enjoy a large market, although most were sold internally as in-house manufactured drugs. This, together with strong sales of existing drugs, contributed to higher sales and gross profit. By continuing to launch new drugs and expand the proportion of drugs manufactured in-house, we can expect growth in sales going forward.



June 2020 Newly NHI price listed: 16 drugs

Drug name	
Celecoxib Tablets 100mg JG	Memantine hydrochloride OD Tablets 20mg JG
Celecoxib Tablets 200mg JG	Galantamine OD Tablets 4mg JG
Ezetimibe Tablets 10mg JG	Galantamine OD Tablets 8mg JG
Levocetirizine Hydrochloride Tablets 5mg JG	Galantamine OD Tablets 12mg JG
Imidafenacin Tablets 0.1mg JG	Dutasteride Capsule 0.5mg AV JG
Imidafenacin OD Tablets 0.1mg JG	Tadalafil Tablets 2.5mg ZA JG
Memantine Hydrochloride OD Tablets 5mg JG	Tadalafil Tablets 5mg ZA JG
Memantine Hydrochloride OD Tablets 10mg JG	Rabeprazole Sodium Tablets 5mg JG

December 2020 Newly NHI price listed: 5 drugs

Drug name	
Pregabalin OD Tablets 25mg JG	Silodosin OD Tablets 2mg JG
Pregabalin OD Tablets 75mg JG	Silodosin OD Tablets 4mg JG
Pregabalin OD Tablets 150mg JG	

Growth Strategy: Realizing a Virtuous Cycle

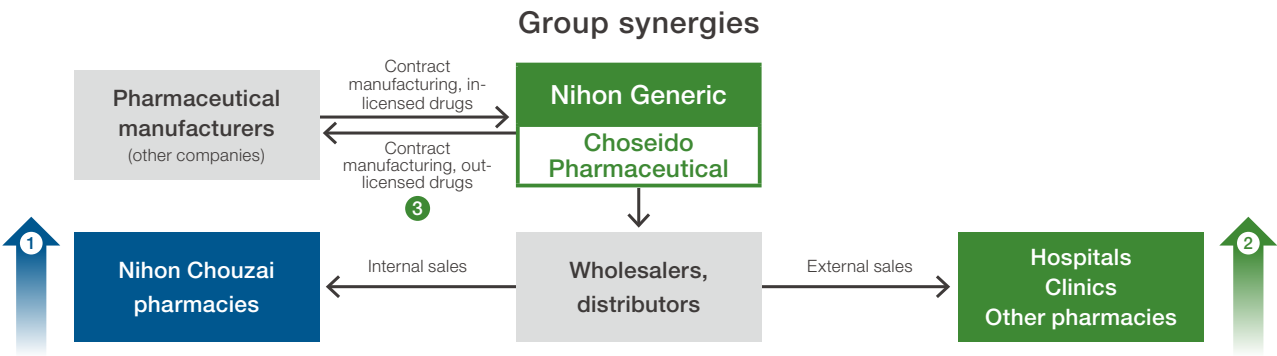
Harnessing Group Synergies to Expand the Business

- 1

The Nihon Chouzai Group boasts a business model that is unparalleled in Japan’s pharmacy sector, in which the Pharmaceutical Manufacturing and Sales Business operated by Nihon Generic and Choseido Pharmaceutical expands in tandem with growth in the Group’s Dispensing Pharmacy Business. Having both dispensing pharmacies and drug manufacturers within the same Group enables us to harness Group synergies to steadily grow both businesses.
- 2

The Group has built a unique business model, unmatched by any other pharmacy operator or drug manufacturer in Japan. Nihon Chouzai pharmacies purchase generic drugs made by Nihon Generic and Choseido Pharmaceutical through wholesalers. As a result, the distribution network for our generic drugs has expanded nationwide through these wholesale channels. This, in turn, feeds into growth in external sales.
- 3

The Group has also established a leading position in the Japanese pharmaceutical manufacturing industry by contracting in manufacturing from other pharmaceutical manufacturers as well as out-licensing our own drugs to other manufacturers.



Internal sales

Expecting synergies with Nihon Chouzai’s pharmacy network strategy

Internal sales in the Pharmaceutical Manufacturing and Sales Business rise in conjunction with the expansion of the Dispensing Pharmacy Business’s pharmacy network through organic growth or acquisitions.

Nihon Chouzai pharmacies shifting pharmaceutical inventories to generic drugs made by Nihon Generic and Choseido Pharmaceutical

For the generic drugs they dispense, Nihon Chouzai pharmacies as a general rule handle products manufactured in-house. The pharmacies are further stimulating sales by transitioning their pharmaceutical inventories from brand-name drugs and off-patent drugs to generic drugs in a timely manner.

External sales

Extending generic drug use into new customer areas

The Group is working to boost external sales by extending the adoption of its generic drugs by pharmacy chains other than Nihon Chouzai, major university hospitals, and corporate infirmaries, as well as strengthening its presence within the pharmaceutical sector.

Formularies

As momentum grows in Japan to adopt the use of drug formularies, more and more major hospitals and other institutions are moving forward in creating their own formularies. One expected outcome of this is a dramatic upsurge in the use of generic drugs. The Pharmaceutical Manufacturing and Sales Business is also taking steps to establish a framework to take full advantage of this trend.

Entry into the over-the-counter (OTC) drug business

The Group entered the new OTC drug business in anticipation of further harnessing Group synergies. Following the launch of Minoxidil in 2018, the Group in January 2020 launched its second OTC product, Loxoprofen Tablets JG. We plan to start by placing OTC products in Nihon Chouzai pharmacies, and then make use of a PDCA cycle to further expand this business line.

Business Expansion through Contract Manufacturing, Out-Licensing

Contract manufacturing	Manufacturing of drugs developed by other companies at Nihon Generic and Choseido Pharmaceutical plants.
------------------------	--

About contract manufacturing

Transferring large-lot drug production from the Tsukuba Plant to the Tsukuba Plant No. 2 freed up the production lines, enabling the Group to take on even more contract manufacturing of drugs from other companies. In recent years, demand for such manufacturing has grown in connection with increasing use of generic drugs in Japan. Because the Group has the capacity to accept more contract manufacturing, we are seeing an increase in requests from other companies.

In addition, the Kawauchi Plant of Choseido Pharmaceutical is dedicated to the production of cephem antibiotic formulations, boasting the largest market share in Japan. The originality of this plant is unparalleled in the industry.

The NHI drug price revision system, coupled with demands for more rigorous quality assurance and other factors, is expected to put even greater downward pressure on profitability for Japanese pharmaceutical manufacturers. We expect some caution among manufacturers about investing in new facilities, as well as a much sharper division of focus product areas between manufacturers. To respond to these developments, the Group will maintain a production framework capable of handling production scales ranging from small-lot to mass production, while expanding our contract manufacturing business across a broader range of drug lines, from off-patent drugs to generic drugs.

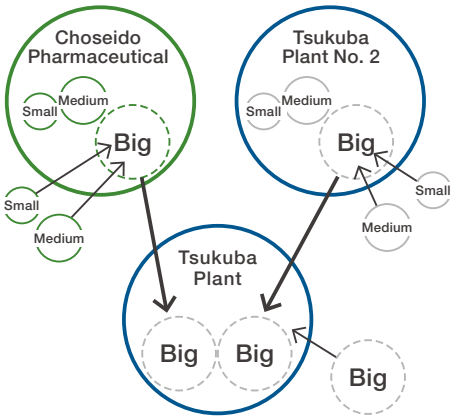
Out-licensing	Sales by other companies of drugs for which the Group has obtained manufacturing and marketing approval (in-house licensed drugs).
---------------	--

The freeing up of excess capacity with the start of operations at the Tsukuba Plant No. 2 has positioned the Group to be able to more aggressively engage in manufacturing of drugs for out-licensing. The Group boasted 473 in-house licensed products as of March 2021, representing a solid product lineup capable of responding to inquiries from other manufacturers. We are building on this foundation to expand the manufacturing for out-licensing.

Optimization of production resources

Securing more contract manufacturing, out-licensing business

The Group is making effective use of each of its production facilities. Transferring production of large-lot drug lines to the completed Tsukuba Plant No. 2 freed up production lines at the Tsukuba Plant and Choseido Pharmaceutical plants, creating a foundation from which to pursue more contract manufacturing, out-licensing, and other new businesses.



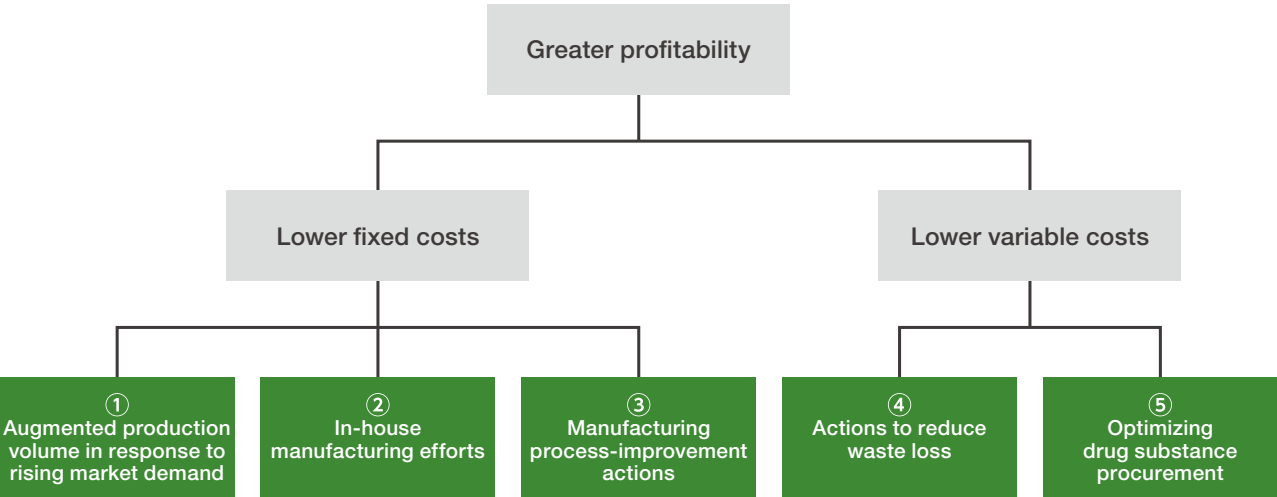
Plant Profiles	
Nihon Generic	
Tsukuba Plant	■ Small to medium scale production ■ Tablets
Tsukuba Plant No. 2	■ Medium to large scale production ■ Tablets
Choseido Pharmaceutical	
Headquarters Plant	■ Small to medium scale production ■ Tablets, capsules, powders
Headquarters No. 2 Plant	■ Small to medium scale production ■ Tablets, capsules, powders
Kawauchi Plant	■ Small to medium scale production (dedicated to antibiotics) ■ Tablets, capsules, powders

Growth Strategy: Realizing a Virtuous Cycle

Boosting Profitability

Capping fixed costs and boosting profitability

In anticipation of public policy measures to reduce healthcare costs, such as the promotion of generic drugs and annual NHI drug price revisions, as well as working style reforms and other changes in the labor environment, the Group is working to fully capitalize on its existing resources, seeking to capture more production business and boost profitability. The main thrust of boosting profitability will involve steps to lower fixed and variable costs.



① Augmented production volume in response to rising market demand

Japan’s generic market is growing, as the government continues to set an 80% minimum target for the use of generic drugs by volume. In addition, major hospitals and other institutions are already taking steps to introduce drug formularies into their management, a trend which is expected to spread to standardized formularies in the various regions of the country.

Ongoing growth in demand for generic drugs is expected to drive expansion of this market and rising production volumes.

② In-house manufacturing efforts

The Group is taking steps to expand in-house manufacturing at its plants, focusing on drugs that are currently outsourced to other manufacturers. Since these drugs are already being used by Nihon Chouzai pharmacies, medical institutions, and pharmacies outside the Group, the production shift will not directly feed into higher sales, but will lead to improvements in plant utilization and in the gross margin ratio.

③ Manufacturing process-improvement actions

We are working to lower fixed costs through more efficient manufacturing by setting goals for the detailed

review and improvement of the manufacturing process and by means of an ongoing PDCA cycle. Part of our improvement efforts focus on employee education, as we aim to foster a corporate culture where employees can take satisfaction in bringing about improvements. To this end, we are building a mechanism to support ongoing improvement activities while sustaining employee motivation.

④ Actions to reduce waste loss

By formulating and implementing efficient production schedules that allow us to produce the right amount of products at the right time, we are working to reduce waste product disposal at our plants. In our sales efforts, we are carrying out improvement actions with an eye to the cash conversion cycle. We have also formulated a supply chain management strategy tailored to the characteristics of each product line, such as where there is a large gap between production and sales volumes. These efforts are leading to lower waste loss and greater operational efficiency.

⑤ Optimizing drug substance procurement

To ensure a stable supply of drugs, we are pursuing the utilization of multiple sources of drug substances. Also, by dealing with multiple suppliers, we are able to achieve a lower purchase price for drug substances.

R&D

R&D that Maximizes Group Synergies

Efficient R&D focused on the drugs most used by Nihon Chouzai pharmacies

- The ability to grasp expected sales volumes at Group pharmacies in advance makes possible accurate profit and recovery forecasting and efficient development planning.
- We have built an R&D framework that allows other manufacturers to participate in joint development without concern. Even for drugs newly NHI listed after their patents have expired, the drug volume used by Group pharmacies can be projected with relative certainty. This enables us to carry out development according to plan.
- The largest users of the drugs we develop are pharmacies. Because the Group must meet demand from these users, we engage in a wide range of research and development not weighted toward any particular disease type. Handling an array of drugs gives rise to a virtuous cycle, ultimately enabling us to accumulate the latest expertise and technology.

Minimizing investment in capacity expansion by developing drugs suited to each plant

- In June 2018, Nihon Generic consolidated two separate laboratories into the Tsukuba Research Institute. The Group now has laboratories at two sites, one at Nihon Generic and one at Choseido Pharmaceutical. Leveraging the technological capabilities and expertise each lab specializes in

yields a framework for the efficient development of new drugs. Having expanded the drug lineup to a certain level, we have entered a stage of increasing the proportion of drugs for which we have obtained manufacturing approval, and actively moving forward with R&D.

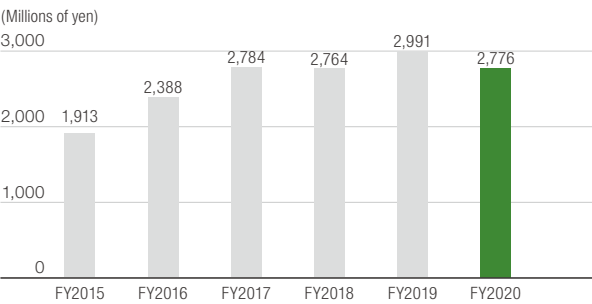


Nihon Generic Tsukuba Plant No. 2

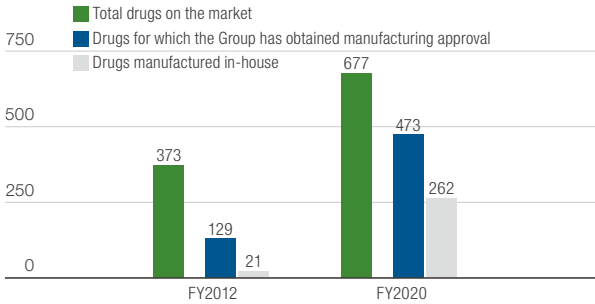


Choseido Pharmaceutical Tokushima Research Institute

R&D expenses (consolidated)



Number of drugs on the market



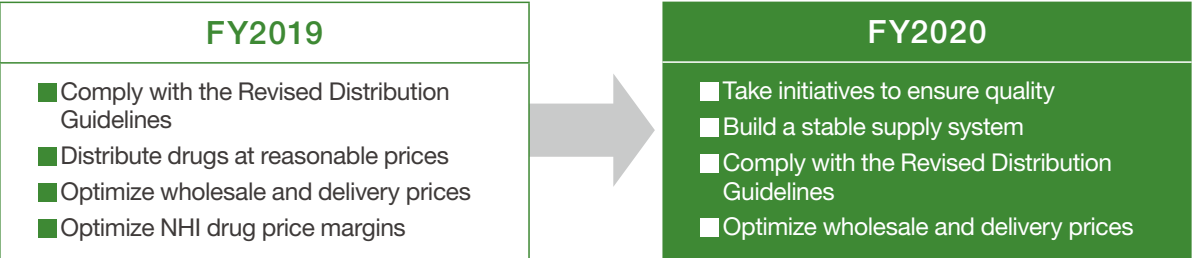
Quality Control

The Group strives to manufacture high-quality drugs, setting quality targets every fiscal year and making sure that all executives and employees are familiar with them.

FY2019 Quality Objectives

- 1) Foster a Quality Culture
 - Implement compliance training and conduct a fact-finding survey of contract manufacturing partners
- 2) Maintain approval documentation that matches actual manufacturing conditions
 - Conduct an annual audit of approval documentation and conditions on the ground at manufacturers and distributors
 - Eliminate inconsistencies between approval documentation and conditions on the ground through appropriate pharmaceutical regulatory procedures
- 3) Practice quality risk management
 - Promote projects that comply with the Guideline for Elemental Impurities (ICH Q3D)
- 4) Enhance quality information provided to medical institutions and patients
 - Step up the ability to support customers in consultation settings
- 5) Ongoing improvement and implementation of a robust quality system
 - Conduct gap analysis and eliminate gaps with regard to revised Good Manufacturing Practice (GMP) regulations (August 2021)
 - Establish management procedures related to data integrity

Market Environment



Distribution channels for prescription drugs in Japan



Revised Distribution Guidelines

(in effect from April 2018)

- (1) Set appropriate market prices to eliminate negative primary margins on sales
- (2) Promote swift drug price settlement and unit price-based per product transactions
- (3) Rectify excessive discount negotiations

Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs

(Revised Pharmaceuticals and Medical Devices Act, 2nd Revision)

- (1) Organizational framework to comply with GMP and other laws and regulations
- (2) Formulation of standard practices to be observed
- (3) Education, training, and assessment of executives and employees
- (4) Creating, managing, and keeping work records

Concerning the Setting of Appropriate Wholesale Prices and Discounts

(October 3, 2018 notification from Economic Affairs Division, Health Policy Bureau, Ministry of Health, Labour and Welfare)

- (1) Set appropriate discounts in line with evaluation of wholesale functions
- (2) Reflect discounts used to correct wholesale prices in actual wholesale prices

Generic Drug Supply Guidelines

(March 2014, Federation of Pharmaceutical Manufacturers' Association of Japan)

- (1) Establish organizations, persons in charge to contribute to stable supply
- (2) Formulate stable supply manuals

Topics

Upgrade of Nihon Generic brand website

Nihon Generic will renew its website to better provide information on the generic drugs offered by the Nihon Chouzai Group to a wider range of stakeholders, including medical personnel, in an easy-to-understand format.

The Nihon Chouzai Group directly draws on “Voices from the Field,” the feedback received from its more than 680 pharmacies throughout Japan, in product development efforts. We are working to more clearly communicate this competitive advantage, which is unique among Japanese pharmaceutical manufacturers, while also aiming to establish and build greater recognition of the JG (Japan generic) brand of Nihon Generic drugs.

In addition, as a pharmaceutical company that seeks to listen to the voices of users, we are upgrading the Nihon Generic website to make it more responsive to user feedback and easier to use.



Smartphone compatibility



Drug information page

Content to be expanded (partial)

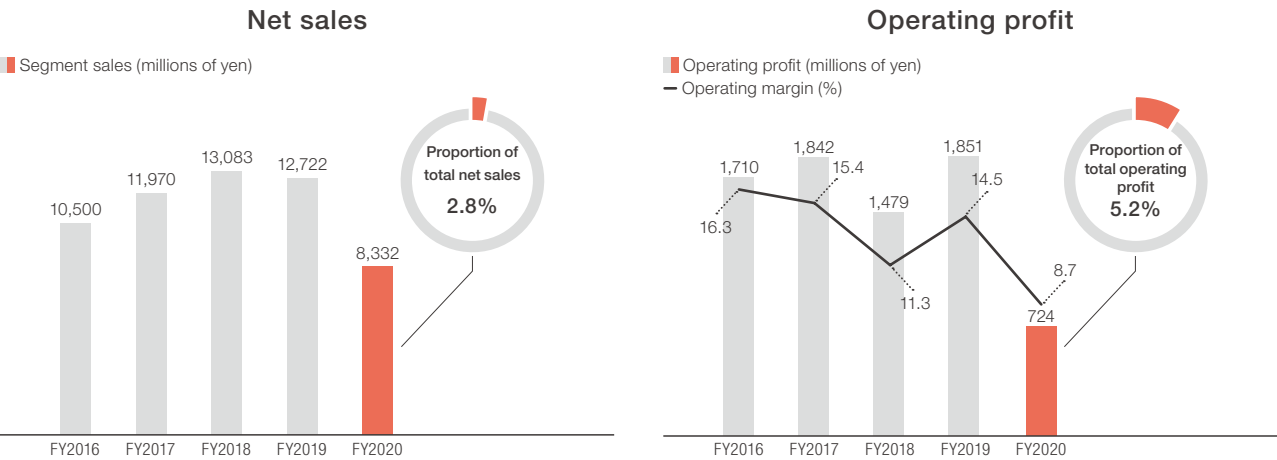
- Enhanced features on the drug information page
- Measures to promote generic drugs
- Sustainability and SDG initiatives
- Virtual plant and research facility tours

*The website is under construction, and content and specifications are subject to change. The screens pictured are images.



Medical Professional Staffing and Placement Business

Medical Resources Co., Ltd.



Medical Resources by the Numbers

We believe communication with job seekers (medical professionals) and job providers (medical institutions and companies) is extremely important for our human resources business. Medical Resources values face-to-face meetings with both client groups, and have set up offices nationwide to establish a framework for meetings and conversations. We have gained the trust and satisfaction of both job seekers and job providers through our efforts to grasp nuanced needs that are hard to convey over the telephone or in writing and crafting proposals that match the needs of both parties.



Temporary staffing of pharmacists

Estimated by Nihon Chouzai based on results of the MHLW FY2020 Worker Dispatch Business Report.



Best sites for nurses changing careers in Tokyo and Kanagawa



Nurse career-change sites people are watching



Sites with trustworthy consultant support

Survey by Japan Marketing Research Organization (conducted in April 2021)



Career-change site chosen by pharmacists No.1

Survey by Japan Marketing Research Organization (conducted in July 2019)



Best career-change sites for registered pharmaceutical sellers who are experienced store managers and deputy store managers



Best companies for registered pharmaceutical sellers changing careers



Best career-change sites for registered pharmaceutical sellers in their 20s and 30s

Survey by Japan Marketing Research Organization (conducted in December 2020)

Medical Resources' Competitive Advantages

Offering high-value-added services to job providers (medical institutions and companies) and job seekers (doctors, pharmacists, and other medical professionals) as a comprehensive HR services company for the healthcare industry

In FY2020, we continued to shift our focus from staffing to placement in the core pharmacist business. Behind this strategy is the expanding scope of work demanded of pharmacists, such as serving as family pharmacists, which has fueled demand for the placement of high-quality personnel. Conversely, demand for temporary staffing of pharmacists is waning. The majority of pharmacies in Japan are privately owned or part of small- and medium-sized chains. Many of these pharmacies lack the resources to recruit pharmacists, which is undergirding ongoing high demand for staff placements. Our transition away from temporary staffing toward pharmacist and physician placements coincided with the impact of the

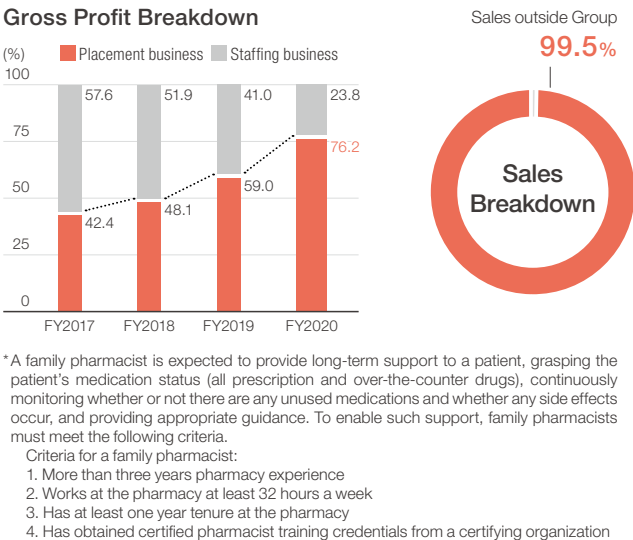
COVID-19 pandemic, which put further downward pressure on temporary pharmacist staffing demand. As a result, sales in the pharmacist staffing business were down year on year. Placements of pharmacists, doctors, and other medical professionals were up, however, driving a year-on-year increase in sales from this business. Going forward, we expect to see progress in working style reforms and significant changes in the social conditions governing the medical professions. We will continue to respond swiftly to these changes and achieve sustainable growth by capitalizing on the synergy brought about by having a dispensing pharmacy business within the Group.

Growth Strategy

Ensuring high profitability and creating a balanced business portfolio by expanding the placement business

As the industry's leading company, Medical Resources boasts numerous strengths in the area of pharmacist staffing. Meanwhile, we are transitioning toward a more balanced business portfolio while targeting high profitability by expanding our placement business.

Going forward, in addition to capturing rising demand for family pharmacists* and growing the pharmacist placement service, we will expand our placement business for doctors, nurses, registered pharmaceutical sellers, and other medical professionals, to achieve even higher growth. Although Medical Resources is part of the Nihon Chouzai Group, the Group only accounts for 0.5% of total transactions. We will further expand the range of services we provide to the medical institutions and companies seeking qualified human resources and to the medical professionals who are considering a career change.



We offer highly reliable HR services. Only 16 companies* in Japan have acquired all three types of certification

Three Reassurances We Offer Pharmacy Staff

We offer three kinds of reassurance to support the successful career changes of pharmacists.

Privacy Mark

As a company that has acquired Privacy Mark business certification, we recognize the value of personal information entrusted to us by customers. We rigorously manage customer information in accordance with our privacy policy.

Excellent Job Placement Agency certification

Medical Resources has been certified as a company that complies with the Conduct Guidelines established by the Excellent Job Placement Agency Recommendation Council. We have met certain criteria including stability of management, thorough compliance with laws and regulations, and proper business operation.

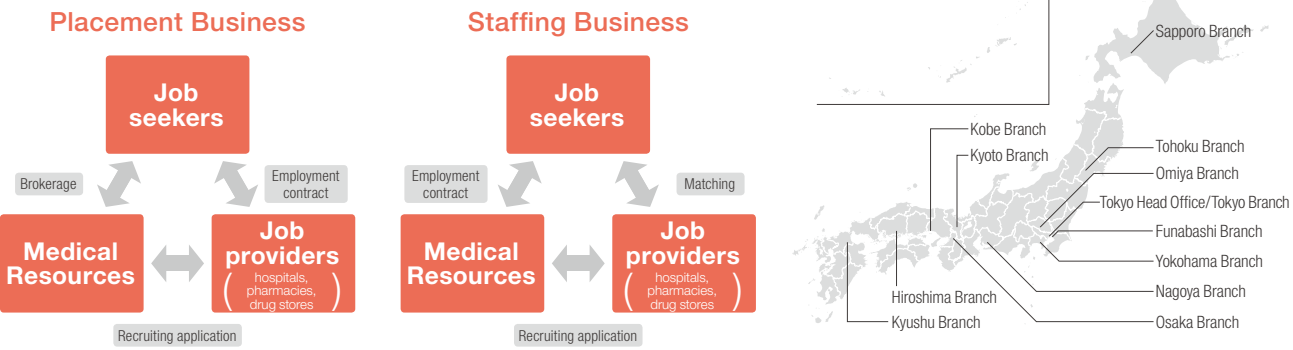
Excellent Temporary Staffing Agency certification

We are certified as a company that not only complies with laws and regulations, but also provides reassuring services to both temporary staff and the companies where they work. We support career development for temporary staff, help ensure better working environments, and work to prevent problems at the companies where they work.

*Number of Certified Companies: Excellent Job Placement Agency certification: 38; Excellent Temporary Staffing Agency certification: 152; Privacy Mark: 16,639
*Companies with all three types of certification were extracted from all certified companies appearing in the following: JIPDEC, List of Excellent Job Placement Agencies, List of Excellent Temporary Staffing Agencies (as of July 14, 2021)

We have continued to improve matching quality over many years through our detail-oriented counseling. As a company that handles important personal information, we have acquired Privacy Mark certification and have sought to build a high-quality, highly reliable staffing and placement business. A company that obtains these certifications has not only demonstrated the quality of its placement and staffing services, but proven that it meets numerous other criteria,

including having a sound business and a framework for compliance management. Furthermore, as 99.5% of our sales derive from staffing and placement services to privately owned pharmacies and pharmacy chains other than Nihon Chouzai, we are well-positioned to help achieve a true separation of drug prescribing and dispensing services by sending high-quality pharmacists into the field throughout Japan.



Business Development

Pharmacist Businesses

High brand recognition

Face-to-face engagement

Competitive advantages in pharmacist business

Education

Ability to attract customers

High brand recognition

Medical Resources undertakes HR services for Nihon Chouzai, a company with overwhelmingly high brand recognition in the healthcare industry, which is renowned for its high caliber of education. By providing high-quality educational content to the pharmacists we staff and place, we deliver high-value-added human resources. We are striving to further enhance our brand recognition, such as by providing client pharmacies with business support plans and high-value-added services that draw on the pharmacy management expertise of the Nihon Chouzai Group.

Face-to-face engagement

With offices throughout Japan, we place great value on the information that can be gleaned by speaking directly with medical professionals as we meet face-to-face and offer career change counseling. We stress the importance not only of identifying desired employment conditions of job seekers, but also their optimal working environments and needs, to be able to present them with ideal job offers.

Working styles have a tremendous influence on people's lives. We seek to provide a sense of security to job seekers with regard to working styles by leveraging our high brand recognition and cultivating trust through direct dialogue. For job providers, we provide detailed information about the latest developments in the career change market. Combined with the high quality of our matching services, this supports our unflagging efforts to ensure a win-win situation for both job seekers and recruiters at hiring companies.



Education

By providing high-quality educational content to pharmacists in our staffing and placement businesses, we cultivate high-value-added human resources. The advanced educational program developed for pharmacies in Nihon Chouzai's Dispensing Pharmacy Business is a strength unmatched by other companies.

Content for Pharmacists	
JP Learning	JP Learning is an e-learning course that allows participants to earn the credits needed to acquire certified pharmacist training credentials. The course provides more than 1,000 pages of substantial content
Seminars for pharmacists	We hold seminars for pharmacists several times a year, teaching the drug dispensing and medical knowledge required of pharmacists and new industry trends
Retention program	This program forms part of the health and welfare benefits for temporarily staffed pharmacists. We also hold money management seminars as well as other seminars for working women
Yaku-Tore (medication training)	A drug dispensing textbook edited by Nihon Chouzai, provided as a smartphone-based app. The textbook also covers drug dispensing fee revisions

Content for Pharmacies	
Management seminars	A pharmacy management seminar teaching the management know-how of Nihon Chouzai
Business support planning	This program for companies addresses various issues in pharmacy management through seminars and practical training

Doctor Businesses

We began our full-scale involvement in the doctor staffing and placement business in FY2017, and began expanding nationwide from April 2018. Having a dispensing pharmacy business within the Group affords the advantage of being able to quickly identify the needs of doctors opening up new practices. We are also expanding our placement business for doctors by demonstrating the mutual benefits of collaboration with the MC-Mentaio Sales Division, which operates pharmacies in medical centers, near train stations and in shopping districts for Nihon Chouzai's Dispensing Pharmacy Business.

In FY2020, upfront investments made up until the preceding year began to bear fruit. Having doubled our

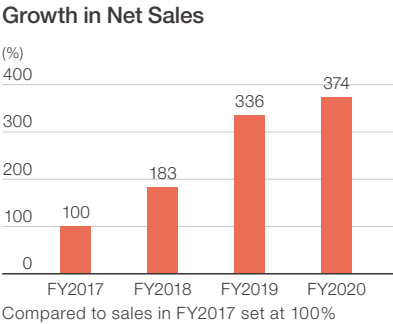
salesforce, we saw a 374% jump in net sales compared to the FY2017, before we launched full-scale efforts in the doctor staffing business. Moreover, to attract more job candidates, we bolstered our efforts to secure job offers, resulting in a significant 167% year-on-year increase in sales. We will continue to improve the appeal of our HR businesses for doctors by fostering an environment that can meet the needs of job seekers.

Further, from April 2021, we were able to make social contributions by referring doctors for workplace vaccination programs of companies and municipalities throughout Japan in response to heightened demand for COVID-19 vaccination.

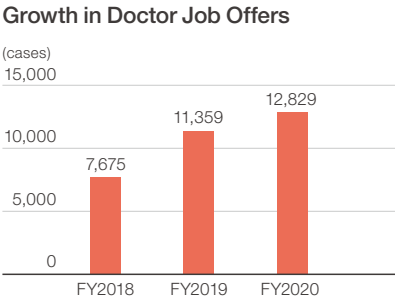
Four regional sales offices added in FY2018



Contributing to sales in FY2020



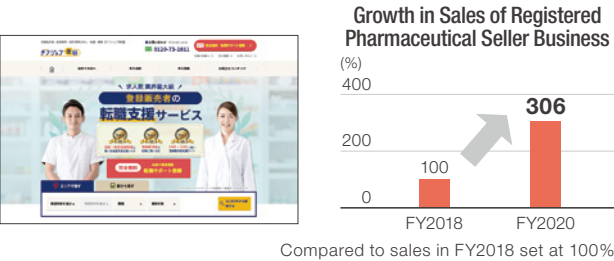
Increase in the number of job offers in FY2020



Registered Pharmaceutical Seller Business

More companies are seeking to hire registered pharmaceutical sellers, who are qualified to sell Class 2 (medium-risk) and Class 3 (low-risk) over-the-counter (OTC) drugs. The scale of this market is also expanding, as drug stores, convenience stores, and other retailers broaden their lineup of OTC drugs. Medical Resources entered the registered pharmaceutical seller staffing and placement field in FY2018, and although sales in FY2020 decreased amid the COVID-19 pandemic, we expect a turnaround as the pandemic wanes. We overhauled our recruitment website in March 2020, drawing broad

support, and have been chosen as the No. 1 company among registered pharmaceutical sellers considering a career change.



Nurse Business

We overhauled the recruitment website for nurses in August 2019 to make it easier to use for job seekers. In FY2019, we augmented the number of staff in this business and have been carrying out nurse-centered sales activities. One outcome has been that we were voted the No. 1 recruitment site with trustworthy consultant support. Though fairly new, the business is off to a solid start, and we will continue to take actions to grow the business going forward.

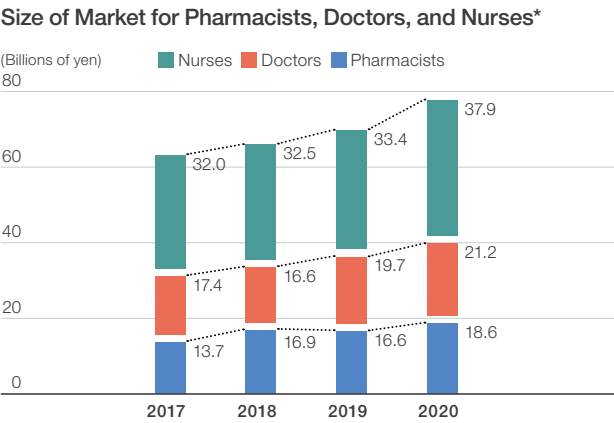


Market Environment

Size of Market for Pharmacists, Doctors, and Nurses

For the fiscal year ending March 2020, the size of the personnel placement market was 18.6 billion yen for pharmacists, 21.2 billion yen for doctors, and 37.9 billion yen for nurses. We can expect further growth in our placement businesses. The pharmacist placement business still has room for expansion, while the potential scale of the market for doctors and nurses is much larger than that for pharmacists.

In FY2020, the COVID-19 pandemic brought about a significant shift in the market supply and demand balance, but we will continue to pursue greater business expansion by leveraging the strengths the Group has built up over time, including its strong brand recognition, reputation for reliability, and the appeal of face-to-face support.



Number of pharmacists (2018)	Number of doctors (2018)	Number of nurses (2019)	Number of pharmacies (2018)	Number of hospitals (January 2021)	Number of clinics (January 2021)
311,289	327,210	1,683,295	59,138	8,372	103,071

Sources: MHLW Statistical Results of FY2018 Report on Employment Placement Business (Preliminary Report); 2018 Overview of Statistics on Doctors, Dentists, and Pharmacists; Japanese Nursing Association, Statistical Data on Nursing Service in Japan; MHLW Handbook of Health and Welfare Statistics (FY2018) Part 2 "Health", Chapter 4 "Pharmaceutical Affairs"; Summary of Surveys (Dynamic) of Medical Institutions and Hospital Report

*Size of market for pharmacists includes dentists and veterinarians.

Business Development

WORKERS DOCTORS: A Resource for Registration, Placement, Requests, and Support for Industrial Doctors

As part of the key strategy of promoting the industrial doctor business, in November 2020, we consolidated WORKERS DOCTORS Co., Ltd., a long-term player in the industrial doctor HR business. We will expand our presence in the healthcare field by capturing the growing demand for effective health management as part of companies' ESG management. By drawing on Medical Resource's track record in doctor placements and nationwide sales framework as well as the expertise and network WORKERS DOCTORS has built up in the industrial doctor field, we will expand the industrial doctor HR business nationwide while also broadening the business to meet a wider range of needs for occupational health management, including mental health, which has become indispensable for companies' health management initiatives.



Placing Medical Staff for Mass Vaccination Efforts

Increasingly in Japan, local governments and companies are turning to doctor and nurse staffing and placement to carry out mass vaccination efforts to combat COVID-19. Securing adequate medical staff is a major issue constraining these efforts, but through its comprehensive medical HR services, Medical Resources is positioned to

provide the needed pharmacists, doctors, and nurses, and boasts expertise in gathering medical staff with a short turnaround time. To date, we have placed medical professionals with more than 30 local governments, companies, and corporate groups.

Sustainability

Nihon Chouzai's Approach to Sustainability

Helping to bring about a sustainable society through business activities grounded in our philosophy

Since Nihon Chouzai's establishment in 1980, guided by a philosophy of "achieving true separation of drug prescribing and dispensing services," we have sought to carry out the ideal functions and roles demanded of pharmacies that support healthcare in Japan, and have

conducted business with the aim of solving issues facing society and healthcare. Our role and our commitment remain unchanged as we strive to bring about a sustainable society and contribute to the communities we serve through our core businesses.

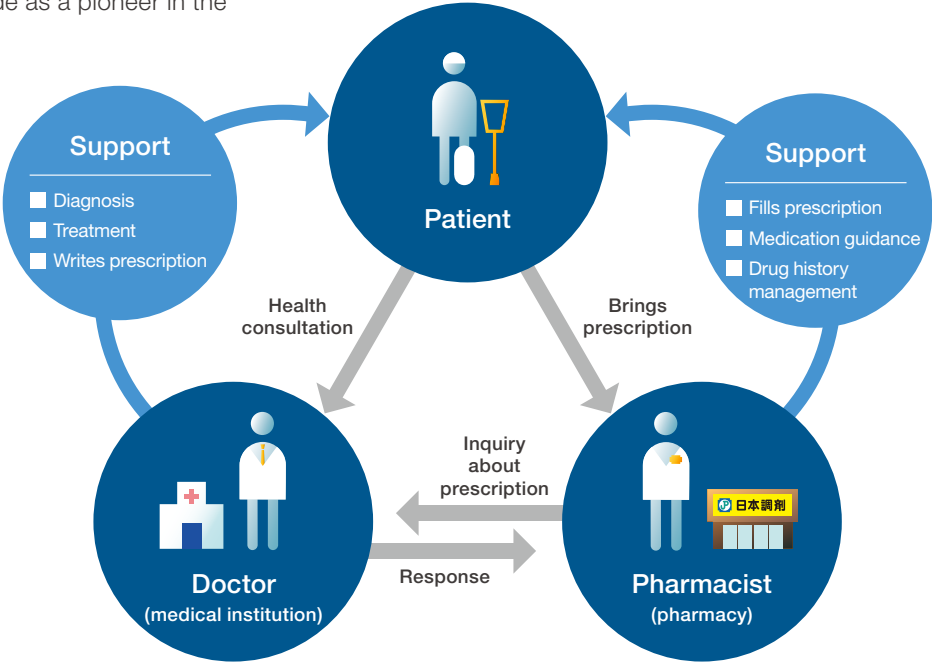
Corporate Philosophy

Achieving true separation of drug prescribing and dispensing services

True separation of drug prescribing and dispensing services indicates the healthcare system in Japan in which doctors and pharmacists assume a clear division of roles based on their respective areas of expertise, and work together closely as a team to support patient care. This is considered to be the indispensable framework for realizing a healthcare system patients can trust. Since its founding, Nihon Chouzai's Corporate Philosophy has consistently been "Achieving true separation of drug prescribing and dispensing services." The Group has grown nationwide as a pioneer in the pursuit of this ideal healthcare system.

Although Japan has come a long way in creating a structural separation of drug prescribing and dispensing services, much remains to be done to fully realize the functions originally envisioned for this system.

Although the division of professional roles and functions is an essential aspect supporting the healthcare of people in Japan, this division has not yet been fully realized. The COVID-19 pandemic caused



SDG Initiatives

Our Group supports the UN's Sustainable Development Goals (SDGs). Of the 17 SDGs, Goal 3 is "Good health and well-being." This means ensuring healthy lifestyles for all people of any age, and promoting the well-being of society. We are convinced that pursuing our core businesses and realizing sustainable growth is the means by which the Group will help to achieve the SDGs.

As a company listed on the First Section of the Tokyo Stock Exchange, Nihon Chouzai creates significant economic value. We have also invested the earnings generated by our sustained growth back into the development of healthcare in Japan. We will continue to fulfill our core calling as a healthcare company as we help address the issues facing society. At the same time, we will meet stakeholder expectations by steadily moving forward with investments from a long-term perspective, and returning value and profits in a variety of forms.



Priority Issues

The Group categorizes its priority issues based on stakeholder group and specifies key initiatives needed to address these issues.

We have positioned these initiatives as the Sustainability Strategy in our long-term vision, and view them as the goals we need to achieve in realizing the vision.

To help bring about a sustainable society through our business activities, we have established priority issues and are undertaking key initiatives to address them.

We are broadening our initiatives with regard to relevant SDGs.

Stakeholders	Initiatives	Relevant SDGs
Patients Consumers	Engagement with Stakeholders <ul style="list-style-type: none">■ Providing high-quality healthcare services that allow patients to undergo treatment without worry■ Addressing pre-symptomatic illness and disease prevention to sustainably support healthy lifestyles■ Promoting generic drugs, etc. to lessen the burden of healthcare expenses	1 NO POVERTY, 3 GOOD HEALTH AND WELL-BEING, 11 SUSTAINABLE CITIES AND COMMUNITIES, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Employees	Recruiting and Training <ul style="list-style-type: none">■ Recruiting diverse human resources needed to support business growth and providing a range of opportunities for active participation■ Fostering personnel who have expertise and can partner with others■ Fostering personnel who can function autonomously and improve themselves Diversity and Inclusion <ul style="list-style-type: none">■ Enabling a wide range of working styles■ Promoting health management■ Empowering women in the workplace■ Employing people with disabilities	4 QUALITY EDUCATION, 8 DECENT WORK AND ECONOMIC GROWTH, 17 PARTNERSHIPS FOR THE GOALS, 3 GOOD HEALTH AND WELL-BEING, 5 GENDER EQUALITY, 10 REDUCED INEQUALITIES, 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Medical Institutions	Strengthening Collaboration with Medical Institutions <ul style="list-style-type: none">■ Raising the quality of healthcare services through more robust collaboration with medical institutions■ Supporting outpatient treatment by following up after medication guidance■ Feedback of useful information to medical institutions through tracing reports, etc.	4 QUALITY EDUCATION, 8 DECENT WORK AND ECONOMIC GROWTH, 17 PARTNERSHIPS FOR THE GOALS
Regional Society	Providing Value to Local Communities <ul style="list-style-type: none">■ Bringing about a society where everyone can receive healthcare without worry■ Securing a resilient drug delivery system in times of crisis■ Energy-saving buildings and equipment, use of company cars■ Ensuring proper drug use to prevent duplicate prescriptions or harmful drug interactions■ Enhancing healthcare and long-term care systems in the community through multidisciplinary collaboration	1 NO POVERTY, 3 GOOD HEALTH AND WELL-BEING, 7 AFFORDABLE AND CLEAN ENERGY, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 11 SUSTAINABLE CITIES AND COMMUNITIES, 13 CLIMATE ACTION

Human (human resources, culture, organization)

At Nihon Chouzai, we view our employees as an essential management resource and aggressively invest in them. We are working to strengthen our human resources, culture, and organization with the aim of achieving our long-term vision for 2030 and dramatically expanding the business to a scale of Group sales of 1 trillion yen.

Human resources

- Be Active
- Commitment
- Professionalism

Our recruitment and development of human resources are informed by three concepts: Be Active, Commitment, and Professionalism.

Recruitment

To be able to provide high-quality pharmacy services and hone our competitive strengths to expand the organization, we are actively recruiting pharmacists and staff in various other disciplines.

New pharmacist graduates

Of the duties of a pharmacist, the importance of interpersonal work—whether in the family pharmacist system, at-home medical care, or consultations about drug therapies in various specialized fields—is gaining attention. Securing excellent human resources is the most critical issue for realizing the growth strategy we need to survive ongoing reorganization of the pharmacy sector in Japan. To this end, we are taking steps to recruit talented new pharmacist graduates.

505
new hires

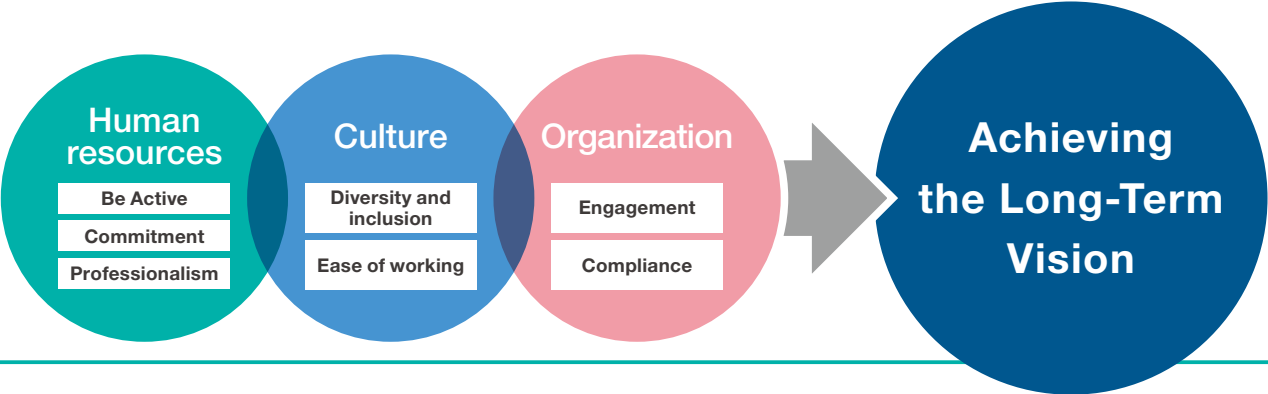
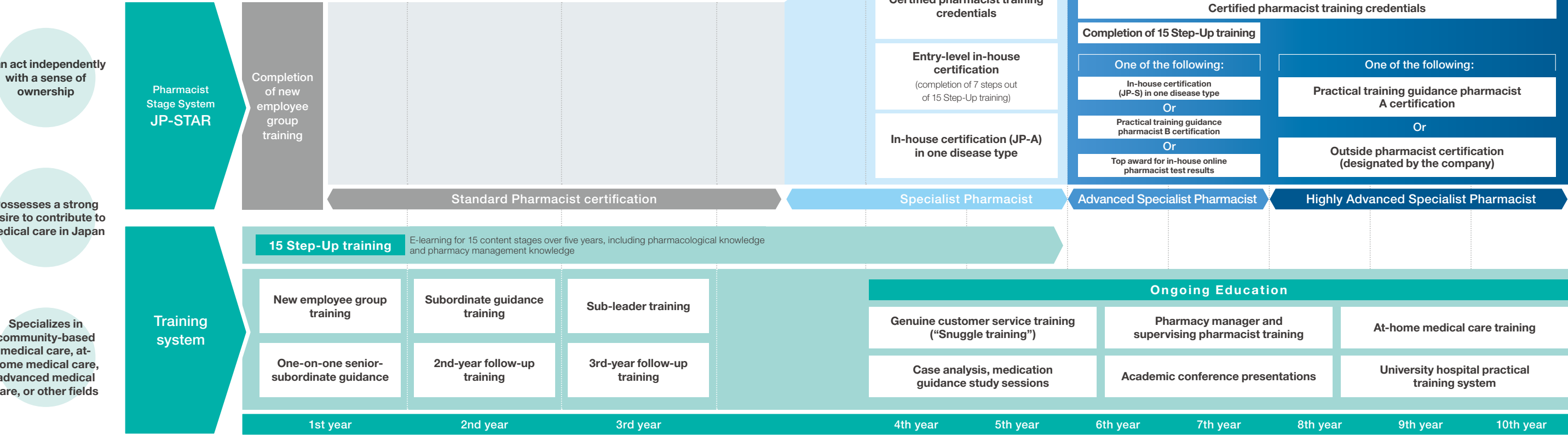
Nihon Chouzai ranked No. 1 in the industry in three categories

Chemistry/pharmacy majors	1st place <small>(last year: 6th place)</small>
Science majors overall	24th place <small>(last year: 43rd place)</small>
Female science majors	8th place <small>(last year: 15th place)</small>

Company popularity ranking among job-seeking university graduates
Mynavi/Nikkei survey 2022

The ideal Nihon Chouzai pharmacist and career possibilities

We seek pharmacists who can contribute to the true separation of drug prescribing and dispensing services, as expressed in three concepts: Be Active, Commitment, and Professionalism.



Managerial resources

We are also strengthening the recruitment of personnel in managerial positions who are capable of mapping out solid strategies for future growth, including new business generation and new operating frameworks. We are capitalizing on a wide range of recruiting channels to attract both new graduates and mid-career personnel, with the aim of securing the best talent in each discipline, from HR and business development to marketing and engineering.



Personnel development

We provide opportunities for all employees to acquire the knowledge and skills they need in their fields, including theme-based training and career development measures, with training grouped by job description and level in the company.

Raising up next-generation leaders

Nihon Chouzai has two training tracks to develop the next generation of managers.

Management seminars

In this next-generation leader development program, each participating team delves into issues facing the company and makes specific proposals to management. Under the direction of Kunio Ito, Professor in the School of Business Administration of Hitotsubashi University, we are fostering the growth of next-generation leaders by instilling an awareness of issues and engaging in repeated exchanges of opinions.



Coaching

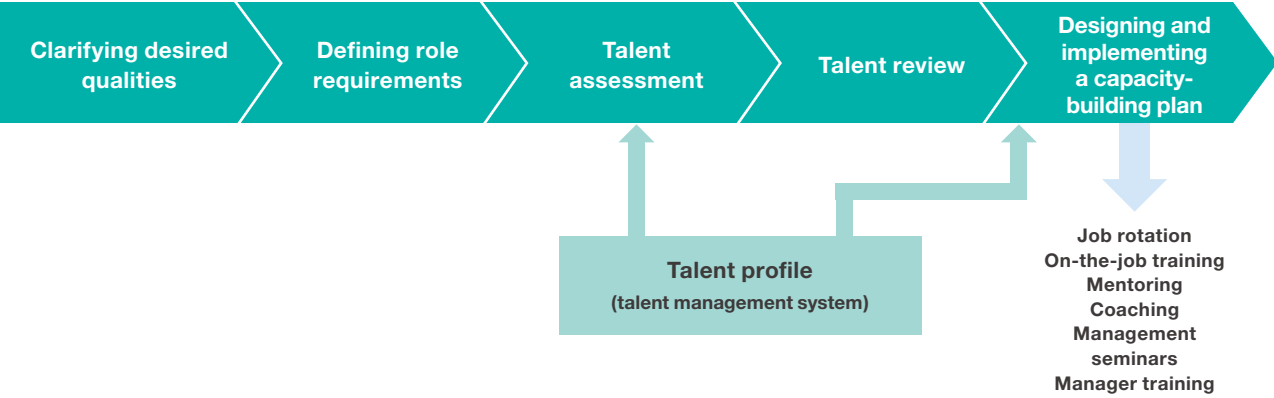
In 2017, we implemented a coaching program with the help of an outside specialist firm to promote one-on-one guidance for selected managers. The results of the program are shared and brought to bear not only in relation to stakeholders but also in offering guidance to subordinates.



Talent management

We are preparing a talent management program to further develop a cadre of next-generation leaders. As Nihon Chouzai expands its business to achieve the long-term vision for 2030, the need for leaders is growing. We are working to build up a pipeline of employees who can operate from a management perspective, planning to be able to assign needed

personnel to key positions at any time. After clarifying the ideal qualities and qualifications demanded of a next-generation leader, we will assess, review, and identify talented employees, and implement a capacity-building plan to generate leaders who can assume responsibility for the future of Nihon Chouzai.



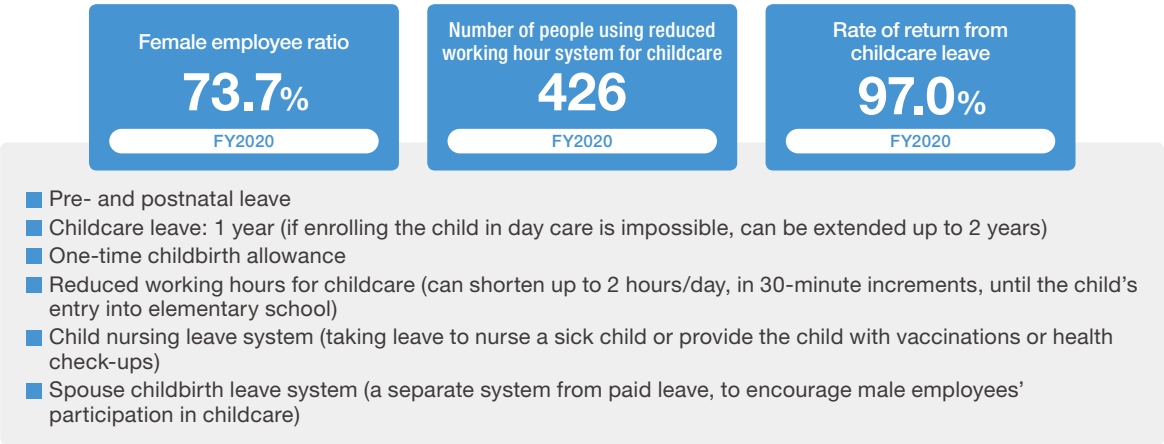
Culture

Diversity and inclusion **Ease of working**

We aim to foster a culture in which diverse human resources can play an active role.

Empowerment of women in the workplace

About 60% of Nihon Chouzai employees are pharmacists, and about 70% of these pharmacists are women. Given this reality, we recognize that, to grow the company, it is essential that we create a framework that allows women to reach their full potential and to provide opportunities for the active participation of every employee regardless of gender. This thinking guides our efforts to build a working environment conducive to ease of working.



Balanced life support training for child-rearing female employees

Nihon Chouzai offers career design training to female employees who are raising young children. The training seeks to help employees take a more positive view of the life stage of child-rearing.

Our hope is that women who have gone through the training program will gain a clearer sense of direction for their career vision and be able to form a support network with other female employees who are raising children. In turn, we hope these employees can exert a positive influence on their various departments and further develop as role models for other employees.



Outside recognition (diversity and inclusion)

Nihon Chouzai has been recognized for its ongoing efforts to foster an environment which makes it easier for women to work and to create opportunities for the active participation of all employees regardless of gender. These efforts have earned the company the following certifications from the Ministry of Health, Labour and Welfare.



Eruboshi
Empowering the participation of women in the workplace
Obtained in 2018



Kurumin
Support for parenting
Acquired in 2021



Tomonin
Support for long-term care providers
Acquired in 2021

Active participation of people with disabilities

Nihon Chouzai is promoting various initiatives to enable diverse human resources to play an active role in business operations.

Nihon Chouzai currently employs 110 staff with disabilities, representing 2.35% of all employees (as of June 2021). This exceeds the statutory employment rate. We are actively seeking to hire more employees with disabilities while broadening the scope of potential job positions.

Broadening the scope of job positions

In addition to existing jobs, such as pharmacy work, medical office work, and clerical work, we are expanding the scope of potential job positions, such as serving as a driver for pharmacists conducting home-visiting services.

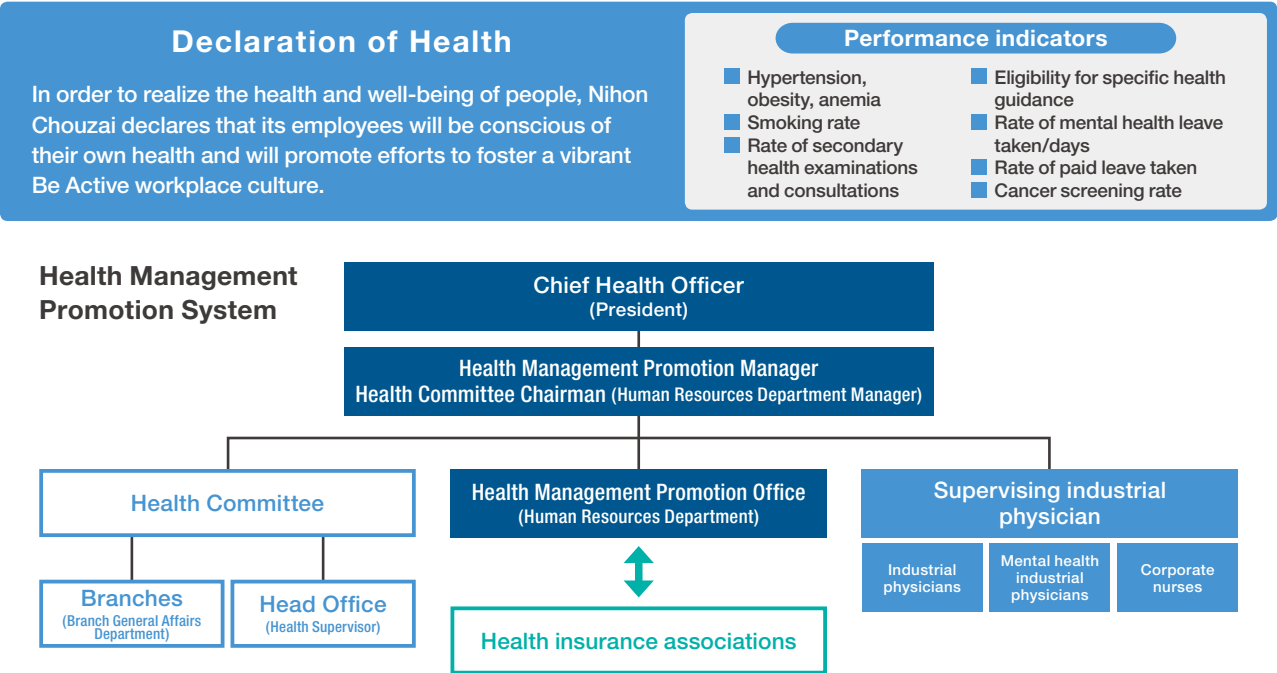
Sign language to deal with customers and give medication guidance

Hearing-impaired pharmacists at some pharmacies communicate with customers using sign language. Moreover, in-house e-learning content is available to all Nihon Chouzai pharmacists teaching the sign language and other considerations needed to deal with hearing-impaired pharmacy customers.

Promotion of health management

In order for Nihon Chouzai to provide the best possible medical services to the communities we serve, health management aiming to maintain and improve the health of our own employees is a priority.

We have issued a Declaration of Health and established performance indicators striving to promote health, improve productivity, retain staff, and recruit talented employees. We have also built an organizational framework to allow industrial physicians to be involved in our health promotion from a professional standpoint. We are creating a system in which all employees are conscious of their own health and can contribute to fostering a vibrant workplace culture.



* Kenkoikei® is a registered trademark of the Nonprofit Organization Kenkoikei.

Organization

Engagement Compliance

We aim to be an organization that realizes high employee engagement while ensuring rigorous compliance.

Engagement

We place great importance on employee engagement as the basis for increasing corporate value.

Survey

Target All Group companies	Number of questions About 150	Response rate 96.8%
-------------------------------	----------------------------------	------------------------

The Nihon Chouzai Group believes that greater engagement between the company and its employees is essential to increasing corporate value by generating and drawing on group synergies.

We carried out our first engagement survey for the entire Group in 2021. Survey scores in areas regarding the future of the company were extremely high compared to survey data for other companies. This result represents a significant advantage for the Group in terms of achieving stable, ongoing growth.

We will continue to conduct regular surveys, and take steps across the Group to improve employee engagement.

In-house workshop

As part of our efforts to foster a corporate culture that elicits employee engagement, we held an online in-house workshop drawing participants from across various businesses and administrative departments, including Group companies. In addition to grasping the current situation for employees quantitatively through surveys, we also sought to understand employee attitudes and concerns by means of discussions on the unique characteristics and issues of the Group, as well as engage in dialogue about the future direction of the organization. The workshop enabled a lively exchange of ideas on how to create an organization that can provide customer-oriented value, and how to foster a culture that encourages the autonomous growth of each individual.

We will continue taking action to enhance the effectiveness of the organization and the cohesiveness of the Group, based on the fruits of such discussions as well as an analysis of findings from engagement surveys.

Compliance

- E-learning on insider trading regulations
- Compliance education for new employees
- Starting June 2021: Compliance lectures held as part of training for newly appointed pharmacy managers
- Distribution of compliance learning materials on a monthly basis, monitoring of learning compliance
- Compliance education using case studies of industry misconduct at the Pharmacy Department managers' meeting
- Use of a finger vein authentication system

New employee compliance training

Finger vein authentication system

Social (Together With Local Communities)

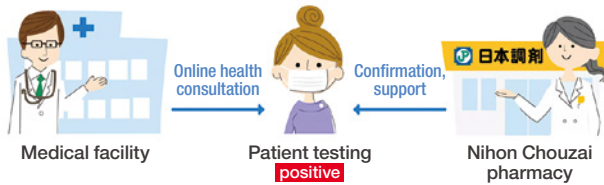
As a comprehensive healthcare company supporting healthcare in Japan, the Nihon Chouzai Group will actively contribute to the development and growth of society and healthcare.

Pharmacists Cooperate in COVID-19 Mass Vaccination Efforts

Based on requests from local governments, pharmacist associations, and other organizations nationwide, the Nihon Chouzai Group joined in helping to carry out the mass COVID-19 vaccination efforts that are underway across the country. As of June 8, 2021, a total of 604 Nihon Chouzai pharmacists had taken part in vaccination programs set up in 23 prefectures (including scheduled cooperation). As mass vaccination efforts got underway nationwide, issues such as a shortage of medical staff to take charge of vaccinations became apparent. Various regional government bodies have responded by building frameworks to move forward with vaccinations quickly and accurately. Government departments responsible for the vaccination efforts in various regions in Japan have reached out to Nihon Chouzai, requesting the cooperation of pharmacists.

SocRTes PCR Testing Offered at 74 Health Check-Up Stations

The Group collaborated with Keio University School of Medicine on research into building a PCR testing framework for COVID-19 using saliva samples, which was accepted for a program grant from the Japan Agency for Medical Research and Development, and moved forward with building screening infrastructure. Based on the infrastructure developed by this research, Nihon Chouzai began rolling out a PCR testing service on April 12, 2021. As of June 2021, 74 Health Check-Up Stations nationwide are providing the service. The main purpose of the “SocRTes” (from “social testing”) PCR testing is to determine whether or not a person is infectious. In other words, the test mainly seeks to protect other people, and as such, is highly useful as a PCR test that can be carried out prior to encountering important persons, such as before participating in events, attending important ceremonial occasions, joining in business discussions, or visiting elderly relatives or other family.



Group-Wide Initiatives to Prevent COVID-19 Infection

Nihon Chouzai is implementing various measures across the Group to prevent the spread of COVID-19 infection. Major initiatives are summarized below. As a company that provides healthcare, we are reinforcing initiatives to ensure that no one from within the Group gets infected or infects others.

- Major Initiatives to Prevent Infection in Pharmacies**
 - Regular disinfecting, mainly in pharmacy areas with a lot of contact, such as automatic door buttons, customer prescription counters, and seats; seating that incorporates social distancing
 - All employees wear masks, register daily body temperatures and attendance status online; confirmed by supervisors
 - Acrylic and vinyl partitions installed at reception and medication guidance counters to prevent droplet transmission
- Major Initiatives to Prevent Infection in Administrative Departments (Head Office, Branches)**
 - Revised working days and hours; working from home and flexible working hours; work systems distributed across multiple locations
 - Cancellation of internal meetings; shift to online meetings; cancellation of welcome/farewell parties and social gatherings
 - All employees wear masks; daily temperature measurement and attendance reports
 - Cancellation of customer visits, business trips; introduction of video conferencing systems; securing laptops
 - Shift from group training to online training



Health Check-Up Stations

Nihon Chouzai has been actively establishing Health Check-Up Stations in its pharmacies since fiscal 2016. As of the end of June 2021, the number of Stations nationwide has increased to 76. Health Check-Up Stations provide various services for pre-symptomatic diseases and disease prevention for community residents. In addition to hosting a variety of health-related events and drug consultation services open to the public, registered dietitians provide nutrition-related consultation and other services at our main pharmacies to help community residents stay healthy and improve their daily lives.



Pharmacies with Health Check-Up Stations
76
(as of June 30, 2021)

Certified Nutrition Care Stations

As of September 1, 2021, 25 Nihon Chouzai pharmacies have been designated Certified Nutrition Care Stations. Certified Nutrition Care Stations are facilities certified by the Japan Dietetic Association as community-based hubs where registered dietitians and nutritionists provide nutrition-related care. By providing nutritional care support and guidance, registered dietitians and nutritionists aim to create local communities where residents can lead productive, fulfilling, and healthy lives. Certified Nutrition Care Stations take a multifaceted approach to supporting community health promotion. In collaboration with medical institutions, Station

staff visit residences to offer nutrition consultation for people undergoing medical diets or who have difficulty going to the hospital. They also run cooking classes and devise menus for local governments, health insurance associations, companies, and healthcare institutions, and provide specific health guidance and a range of other nutrition-related services. Further reinforcing collaboration with medical institutions and long-term care facilities, the Group will heighten its focus on health promotion for community residents as well as long-term care and preventive healthcare.

Pharmacies with Certified Nutrition Care Stations
25
(as of September 1, 2021)

Sending Prescriptions through Okusuri Techo Plus Helps to Prevent COVID-19 Infection

One of the Group’s efforts to prevent COVID-19 infection involves our electronic medication notebook, *Okusuri Techo Plus*. To minimize waiting times in the pharmacy, the application offers a feature that allows patients to send prescriptions to pharmacies in advance. This makes it possible to deliver medications promptly when the patient arrives. This feature was used more than 1.28 million times in FY2020, and, in conjunction with the Group’s other infection prevention measures, helped to establish a framework that puts priority on protecting patients and staff from infection.

The Group’s initiatives drawing on our electronic medication notebook *Okusuri Techo Plus* were posted as a model example for pharmacies on a website*, established through a collaboration led by the Distribution Economics Institute of Japan, that features various examples of efforts to prevent the spread of the pandemic.

Okusuri Techo Plus subscribers
850,000
(as of August 31, 2021)



*<https://distribute-dei-taisaku.jp> (Japanese only)

Building an End-to-End, Non-Face-to-Face Healthcare Provision System

Following the lifting of restrictions on online medication guidance in Japan in September 2020, moves to build an end-to-end online healthcare provision system based on non-face-to-face interactions are accelerating. To promote this development, Nihon Chouzai in October participated in trial flights to transport medications by drone to Japan’s outlying islands. The trial flights are associated with the remote healthcare and online medication guidance initiatives being undertaken by Chita Kosei Hospital in Aichi Prefecture. In addition, in collaboration with delivery locker operator Fulltime System Co., Ltd., Nihon Chouzai in November 2020 launched trials of a prescription delivery service that does not involve person-to-person contact. In July 2021, in collaboration

with leading convenience store chain operator FamilyMart Co., Ltd., we also started trials of a prescription delivery service utilizing pick-up boxes equipped with an authentication function that are installed at FamilyMart convenience stores. Trials began with three stores in Yokohama, in Kanagawa Prefecture. By making use of non-face-to-face delivery formats, patients can receive prescriptions safely, without interpersonal contact and at any time, even outside pharmacy business hours. This is expected not only to reduce the risk of COVID-19 infection but also heighten convenience.



Environment (Environmental Initiatives)

At Nihon Chouzai, we are working to lower our environmental footprint by creating environmentally aware pharmacies, reducing the number of unused medications, and designing environmentally friendly production facilities. We will continue to make investments and take initiatives to reduce our impact on the environment.

Dispensing Pharmacy Business

In the Dispensing Pharmacy Business, we are working to lower our environmental impact by creating environmentally aware pharmacies, promoting the use of personal shopping bags, and reducing unused medications. While considering convenience for the patients who visit our pharmacies, we will comply with all environmental laws and regulations and take proactive measures to protect the environment, while striving to make effective use of resources across all of our business activities.

Creating Environmentally Aware Pharmacies

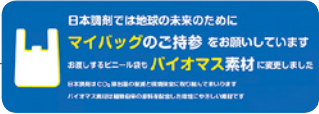
The Group is taking the following initiatives to create environmentally aware pharmacies.

- Reducing electric power consumption through the use of LED lighting and sensor-based lights and adopting natural ventilation
- Lowering dependency on air conditioning through the use of heat blocking film in windows
- Using flooring materials that comply with the Green Purchasing Law
- Adopting wooden building structures that use less energy in manufacturing and generate less CO₂ emissions during construction
- Reducing water usage by adopting water-conserving bathroom facilities

Promoting the Use of Personal Shopping Bags

After the revised Containers and Packaging Recycling Law went into effect on July 1 2020, there is now a mandatory charge on plastic shopping bags in Japan. At Nihon Chouzai pharmacies, to protect the environment, we have transitioned to plastic shopping bags containing 30% plant-derived biomass materials. We do not pass on the plastic shopping

bag charge to customers, who are free to use these bags to take home prescriptions and other products as before. However, stickers are posted at each pharmacy asking for customers to bring their own personal bags, requesting their cooperation in reducing waste and protecting the environment.

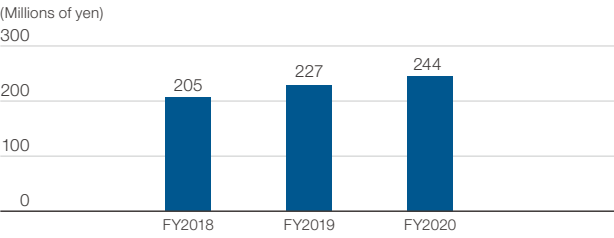


Reducing Unused Medications

If patients receive a new prescription while still having unused medications at home, they may confuse the new and unused medications and use them incorrectly. Likewise, they may take unused medications without realizing they are past their expiration date. There is a chance that this will interfere with the correct use of medications at the correct dosage. Reducing unused medications is not only necessary to ensure that patients use drugs properly, but also leads to fewer drugs being thrown away. At Nihon Chouzai pharmacies, pharmacists can confirm the status and number of medications and contact the prescribing doctor to have them adjust prescription lengths.

Pharmacists are also seeking to reduce unused medications by preparing memos explaining the situation for patients to give to the doctor directly at their next visit. Pharmacies also collect medications to be disposed of.

Amount of Unused Medication Adjustments



Other Environmental Initiatives

- Collection of needles for insulin and other self-injected medications and proper disposal as medical waste
- Gradual transition of company car fleet to hybrid models
- Rolling out an in-house workflow system to allow paperless operations

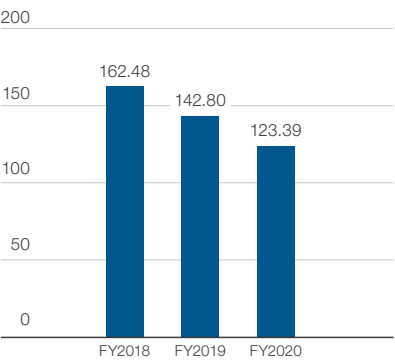
Pharmaceutical Manufacturing and Sales Business

The Pharmaceutical Manufacturing and Sales Business renovates the production facilities it acquires, installing the latest equipment to ensure low CO₂ emissions, fresh-water usage, and electrical power usage. Newly constructed plants are designed from the planning stages to be environmentally friendly. We will continue to make investments and take initiatives to reduce our impact on the environment.

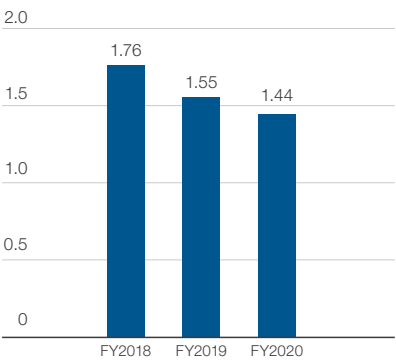
Initiatives in the Manufacturing Division

- Reducing power consumption at Nihon Generic Tsukuba No. 2 Plant and Choseido Pharmaceutical Headquarters No. 2 Plant by lowering dependency on chillers through the use of mist spray cooling using plant wastewater
- Shifting to LED lighting at Nihon Generic Tsukuba Plant and Tsukuba No. 2 Plant and the Tokushima Research Institute of Choseido Pharmaceutical
- Lowering dependency on air conditioning load by adopting a low air flow draft chamber at Nihon Generic Tsukuba No. 2 Plant
- Adopting ultra-high-rate transformers capable of cutting power loss by about 35% versus top-runner transformers at Nihon Generic Tsukuba No. 2 Plant
- Introducing a heat pump system for simultaneous heating and cooling at Choseido Pharmaceutical
- Reducing LP gas by lowering dependency on chillers through the use of mist spray cooling using plant wastewater
- Installing solar panels at Choseido Pharmaceutical
- Reducing the amount of external electrical power through the use of power generated on-site

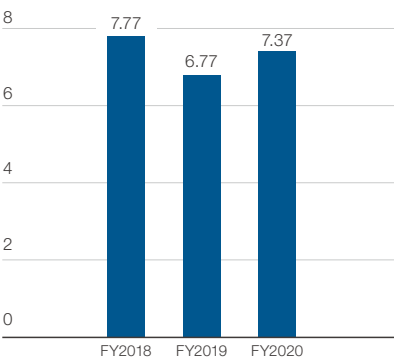
Municipal Gas Usage (thousands of square meters) (per 100 million tablets produced)



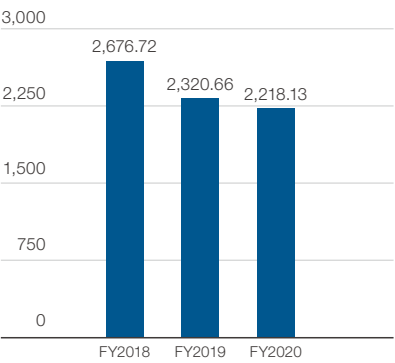
CO₂ Emissions (thousands of tons) (per 100 million tablets produced)



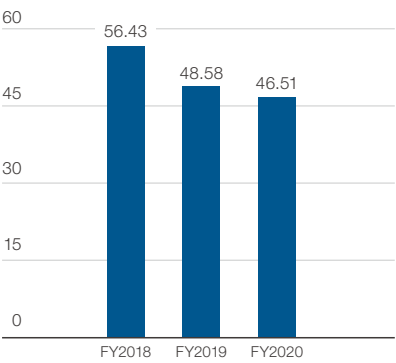
Freshwater or Water Consumption (thousands of square meters) (per 100 million tablets produced)



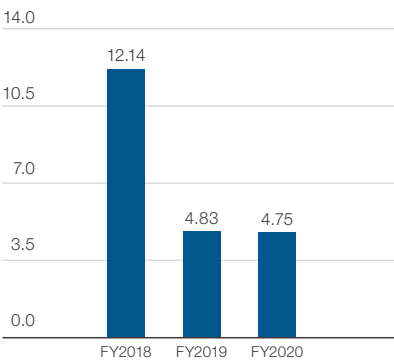
Electric Power Consumption (thousands of kilowatt hours) (per 100 million tablets produced)



Total Waste Generated (tons) (per 100 million tablets produced)



Amount Recycled (tons) (per 100 million tablets produced)



Yosuke Mitsuvara
President and CEO



Having served as General Manager of the Corporate Planning Department, Subsidiary Director, Managing Director, and Senior Managing Director, Mitsuvara became President and CEO of the Company in 2019. With thorough knowledge of ICT, he spearheaded development of the Company's electronic medication notebook and has implemented company-wide digital transformation initiatives. With an MBA from Waseda University Graduate School and a master's degree from John Hopkins University Bloomberg School of Public Health, he is contributing to management from both management and medical perspectives.

Noriaki Miyata
Director



Pharmacist. Real Estate Transaction Agent. Since he first joined the Company, Miyata has been consistently engaged in the development of the pharmacy network, drawing on his knowledge of real estate and extensive experience in the pharmaceutical industry to grow the network. Over his many years of sales activities, he helped to open hospital-front pharmacies, pharmacies serving medical centers, and pharmacies located on hospital premises. He also helped expand the network of Nihon Chouzai's unique hybrid pharmacies.

Kazunori Ogi
Director



Before joining Nihon Chouzai, Ogi worked for a leading bank and was involved in finance and MBO projects for major companies. After joining the Company, he was a Manager of the Finance Department. Currently, as Director and General Manager, he is in charge of settlement of accounts, budget, medium- and long-term corporate planning, investor relations, and systems. In terms of the Group as a whole, he helps to identify management issues for the Company and its subsidiaries and formulate management strategies to address them.

Katsuhiko Fukai
Managing Director



Pharmacist. Joining Nihon Chouzai after having worked in a hospital, Fukai developed the Company's 15-step-up training program. After working as Branch Manager in the Pharmaceutical Department, he was in charge of Medical Care Cooperation, where he sought to improve the quality of pharmacists, and then drew on his knowledge of systems from his time in the hospital while in charge of Business Development. His experience of working in hospitals and pharmacies gives him a thorough knowledge of medical administration. Among his accomplishments, he established a hospital training program and has helped pharmacists get certified in outpatient cancer treatment.

Naoto Kasai
Managing Director



At Mitsubishi UFJ Trust and Banking, Kasai was Manager of the Human Resources Department, Manager of the Corporate Planning Division, and a Branch Manager. As General Manager of the Sales Promotion Department in charge of new pharmacy openings for Nihon Chouzai, he sets policy for pharmacy openings, acquisitions, and pharmacy development, and manages the department.

Toshiyuki Koyanagi
Director



Pharmacist. Koyanagi joined Nihon Chouzai after working in a hospital. He has since served as General Manager of the Pharmaceutical Department, Branch Manager, at Pharmaceutical Headquarters, and in other capacities. He is in charge of the Dispensing Pharmacy Business as a whole. His responsibilities include personnel training, marketing, generic drug promotion, purchasing, at-home care, healthcare promotion, and pharmacy branch management. With a wealth of experience in pharmacy management and thorough knowledge of medical administration, he has contributed to the expansion of the Dispensing Pharmacy Business by taking the lead in addressing changes in the operating environment, including medical service fee revisions.

Yoshihisa Fujimoto
Director



Fujimoto is responsible for corporate governance, working style reform, empowering women in the workplace, recruitment, and corporate branding, as well as serving as Chief Security Officer (CSO). He contributes to the governance of the entire company, including serving on the Information Security, and Risk Management, and Compliance Committees.

Keiso Masuhara
Director



Pharmacist. As Director of the Department of Pharmacy at St. Marianna University School of Medicine Hospital, Masuhara was the first person in Japan to create generic prescriptions and formularies based on pharmaceutical care concepts. He is in charge of Nihon Chouzai's FINDAT Business Department. He launched FINDAT, Japan's first advanced online drug information platform, and has used the platform to support drug information management in hospitals and to help achieve drug cost reductions.

Mikiharu Noma
Outside Director
Independent



As a professor in the Graduate School of Business Administration of Hitotsubashi University, Noma has specialized knowledge in financial accounting and corporate valuation. Since 2013, he has been chair of the Corporate Reporting Lab set up by the Ministry of Economy, Trade and Industry, and is well-versed in building corporate value, investor engagement, and ESG management.

Tadashi Urabe
Outside Director
Independent
Audit and Supervisory Committee member



Attorney. Urabe is well-versed in corporate law and legal affairs as a whole. He has a wealth of experience and insight into the management of general meetings of shareholders and general corporate law, and has many years of experience as an outside auditor of listed companies. As an Audit and Supervisory Committee member, he helps to oversee and give feedback on the operation of the Board of Directors, focusing on various legal issues on the agenda.

Yoshimitsu Onji
Outside Director
Independent



Onji has experience as a company president and chairman. Prior to joining Nihon Chouzai, he was involved in starting up a staffing firm and in numerous corporate acquisitions, as well as being responsible for financial strategy. As a manager with a wealth of experience in funding and M&A transactions, he is helping to oversee management of the Company and provides feedback as an outside director.

Nobuyuki Hatakeyama
Director
Audit and Supervisory Committee member



Since the early days of Nihon Chouzai's founding, Hatakeyama has held a wide range of key positions, including Sales Manager, Branch Manager, General Manager of the Operational Audits Department, and Director. With a wealth of experience and knowledge in pharmacy development and pharmacy operations in the Dispensing Pharmacy Business, in addition to his auditing role as an Audit and Supervisory Committee member, he also oversees management and provides appropriate feedback.

Arata Toyoshi
Outside Director
Independent
Audit and Supervisory Committee member



Certified public accountant, licensed tax accountant, Master of Business Administration. As part of a leading auditing firm, Toyoshi gained extensive knowledge of manufacturing, IT, finance, distribution, as well as of public enterprises. He also has experience as a director of human resources management at the headquarters of a company. As an Audit and Supervisory Committee member, he helps to oversee and provide feedback on the management of the Board of Directors, with an awareness of the perspectives of various stakeholders.

Skill Set Distribution of Directors

	Mitsuvara	Fukai	Kasai	Miyata	Koyanagi	Ogi	Fujimoto	Masuhara	Onji	Noma	Hatakeyama	Urabe	Toyoshi
									Outside	Outside		Outside	Outside
Expertise in corporate management	General management	●	●						●	●			
	Financial accounting/finance	●	●			●			●	●			●
	Legal affairs/compliance						●		●			●	●
	Administration (including medical and pharmaceutical affairs)	●	●		●	●		●			●		
	Sustainability	●					●			●			
	IT/digital transformation (development)	●	●			●							
Knowledge of Group businesses	Management oversight, feedback								●	●		●	●
	Dispensing Pharmacy	●	●		●	●		●	●		●	●	
	Pharmaceutical Manufacturing and Sales	●				●							
	Medical Professional Staffing and Placement	●	●			●			●			●	●
	M&A/pharmacy network strategy	●		●		●			●		●	●	●
	Risk management/compliance	●				●	●	●	●		●	●	●

In addition to its Dispensing Pharmacy Business, which is one of the largest in Japan, with pharmacies in all 47 prefectures nationwide, Nihon Chouzai has expanded into the Pharmaceutical Manufacturing and Sales Business, the Medical Professional Staffing and Placement Business, and the Information Provision and Consulting Business. It is a truly comprehensive

healthcare company, contributing to medical care in communities throughout Japan. Because Nihon Chouzai is active in such a large sphere of operations, we feel the roles and responsibilities required of the Company’s outside directors and Audit and Supervisory Committee members are increasing daily.

I want Nihon Chouzai to seek to be number one in quality in each category.



Outside Director
Independent
Yoshimitsu Onji

Nihon Chouzai’s outside directors include specialists, such as an attorney and a certified public accountant, but I am the only one who has actual management experience. Being in top management is a lonely job; you have to take final responsibility for everything your company does. In my work as an outside director for the Nihon Chouzai Group, I draw on my experience of heading up various projects at an owner-run company, Daiei, as well as my experience in completing numerous M&A deals and of running a company. From my perspective as an outside director, I feel that the Group takes an extremely straightforward approach to its businesses. It is a company that values the Corporate Philosophy—“achieving true separation of drug prescribing and dispensing services”—

and my role is to monitor operations so that the Company does not deviate from that philosophy. To that end, what is important is improving the quality of each business. If the Company strives to be number one in each category, such as the Dispensing Pharmacy Business, the Pharmaceutical Manufacturing and Sales Business, and the Medical Professional Staffing and Placement Business, the scope of its business is certain to grow even further. My hope going forward is that the Board of Directors will take up more fundamental matters for discussion, such as business strategy and management strategy. For example, I think there is a way to create a project team within the Company that could draft a medium-term business plan, and then bring that plan to the Board of Directors for discussion.

Auditing business execution drawing on a wide range of knowledge as a generalist
Acting as a conduit helping to share information with outside directors



Director
Audit and Supervisory Committee member
Nobuyuki Hatakeyama

Having joined Nihon Chouzai in 1987, I gained experiences in each department of the Company, as a generalist rather than a specialist, so I have a broad and deep understanding of the Group’s business activities as a whole. To meet the expectations of stakeholders, especially shareholders, the Board of Directors and the Audit and Supervisory Committee work from the standpoint of monitoring and oversight to prevent fraud, violations, and conflicts of interest. I seek to communicate the ideas of each director to our outside directors and actively share information with them. The other two members of the Audit and Supervisory Committee are experts in law and accounting, so we have a system in place for them to approach their roles from their own perspectives, and consult and offer advice as appropriate. In Board meetings it is becoming more common for directors to speak their minds freely when the president asks for opinions,

and I feel that meetings have become even more open than before. Until now, Board meetings were dominated only by elements coming from within the Group. Over the past year or two, though, the direction of the Board has shifted toward considering external elements as well, including our response to SDGs and ESG issues, which society is demanding more and more. What makes Nihon Chouzai different from other pharmaceutical companies is that we are honestly aiming to “achieve true separation of drug prescribing and dispensing services.” Nihon Chouzai will not move away from the world of medical care, its core business, just because of the lure of other highly profitable businesses. It has been 41 years since the Company was founded, and I feel that it is the duty of the Nihon Chouzai Group to continue contributing to and giving back to medical care in Japan through our areas of specialty for the next 50 years, 100 years, and beyond.

Checking on issues related to corporate legal affairs from the perspective of corporate governance

As a lawyer who handles a lot of corporate legal affairs, mainly in civil law, I am in a position to check on important matters of the Company and discussions of the Board of Directors from the perspective of compliance and corporate governance. Taking advantage of my experience as a corporate legal expert, I point out potential legal problems and exercise my authority to prevent and contain them. At recent Board meetings, management matters are presented in considerable detail, and we hold thorough discussions, such as on numerical analysis, comparisons with other companies, and forecasts. Regarding matters related to the opening and closing of new pharmacies and corporate acquisitions, I consider the economic impact on the Company from my standpoint as an Audit and Supervisory Committee member. I think one advantage of the Company lies in its ability to make flexible management

decisions in the rapidly changing healthcare industry. The Company also benefits from its involvement in the Pharmaceutical Manufacturing and Sales Business for generic drugs, which have been earmarked as being effective in controlling medical costs. Today, in an era when the “true separation of drug prescribing and dispensing services” has become commonplace, I believe the Company will be able to provide unprecedented medical services to patients, using the medical equivalent of digital transformation. That question, among others, is something I would like to discuss at future Board meetings, in terms of concrete ways of achieving this. It is essential to develop a well-balanced business from a long-term perspective, without being bound by short-term results, and I hope to contribute to this.



Outside Director
Independent
Audit and Supervisory Committee member
Tadashi Urabe

Building a well-balanced earnings base while remaining responsive to the changing needs of society

From my standpoint as a certified public accountant and licensed tax accountant, I see my role as covering areas such as disclosure, financial accounting, internal control, and compliance. The Board actively discusses a fairly wide range of issues, including short-, medium-, and long-term management plans and development of the pharmacy network and pharmacy operations, as well as occasional incidents and risk awareness. Discussions are not limited to Nihon Chouzai; we also consider the situation of affiliates. The Audit and Supervisory Committee is tasked with strengthening governance, collaborating with the Audit Office, and conducting interviews with officers as needed. In addition, the committee, led by full-time director Nobuyuki Hatakeyama, reports on day-to-day business audits and provides feedback on these.

In terms of financial aspects such as the earnings base and cash flow, my sense is that Nihon Chouzai is in an even more solid position now than before I became a director. As a pharmacy operator and as a manufacturer of generic drugs, the Group handles pharmaceutical products and deals with a wide range of business partners, including medical institutions. Because it directly affects the lives of patients, the medical industry operates under various regulations. So, the key is to conduct business in accordance with the various regulations and the social welfare system established by the Ministry of Health, Labour and Welfare while considering the optimal structure needed to generate profits. My hope is that employees and management will share the same vision of the future and move forward together in dialogue with a wide range of stakeholders.



Outside Director
Independent
Audit and Supervisory Committee member
Arata Toyoshi

With the aim of becoming a company that is indispensable to society, Nihon Chouzai is constantly working to reinforce its corporate governance to achieve sustainable growth and build corporate value.

1 Improving management transparency and clarifying management responsibilities	2 Speedy decision-making	3 Strengthening management oversight functions
--	--------------------------	--

various measures based on this recognition. Given the scale and nature of our businesses, we determined that being a company with an Audit and Supervisory Committee was the most appropriate organizational form to enable Nihon Chouzai to fulfill its audit and oversight functions and corporate governance responsibilities.

Internal Control System	May 2006 Formulated policy on creation of an internal control system	June 2016 Revised policy	January 2021 Revised policy
Internal Reporting System	March 2011 Established an internal reporting system, Nihon Chouzai Hotline		
Information Security Committee	April 2012 Established an Information Security Committee		
Corporate Code of Conduct	February 2014 Formulated a Corporate Code of Conduct	April 2018 Revised the Code	
Code of Ethics	February 2014 Established a Code of Ethics	April 2018 Revised the Code	June 2019 Revised the Code
Compliance Committee	February 2014 Established a Compliance Committee		
Medical Safety Committee	October 2014 Established a Medical Safety Committee		
Outside Directors	June 2015 Brought in an outside director		
Risk Management Committee	March 2016 Established a Risk Management Committee		
Company with Audit and Supervisory Committee	June 2016 Transitioned from a company with a board of corporate auditors to a company with an Audit and Supervisory Committee		
Privacy Mark	November 2016 Acquired Privacy Mark business certification.		
Business Continuity Plan	May 2017 Established a business continuity plan.		
Risk Management and Compliance Office	April 2020 Established a Risk Management and Compliance Office.		

At the 36th General Meeting of Shareholders held on June 28, 2016, Nihon Chouzai resolved to transition from being a company with a board of corporate auditors to a company with an Audit and Supervisory Committee. It also determined that the Board of Directors is made up of 10 directors (excluding directors who are Audit and Supervisory Committee members, and including two outside directors) and three directors who are Audit and Supervisory Committee members (including two outside directors). The role of the Board is to decide on important matters stipulated by laws and regulations and oversee the performance of duties by executives.

The Audit and Supervisory Committee is made up of three directors, including two outside directors. They

Corporate Governance Framework (as of June 24, 2021)	
Board of Directors*	Directors: 10 (including two outside directors/independent officers)
Audit and Supervisory Committee	Directors: 3 (including two outside directors/independent officers)

*Excluding directors who are Audit and Supervisory Committee members

The diagram illustrates the internal control system of a company, organized into three horizontal layers separated by dashed lines:

- Top Layer (Management/Oversight):**
 - General Meeting of Shareholders:** The highest authority, responsible for the Appointment/Dismissal of the Board of Directors, the Audit and Supervisory Committee, and the Accounting auditor.
 - Board of Directors:** Composed of 10 directors (including two outside directors). It is responsible for the Appointment/Dismissal of the Representative Director and the Accounting auditor, and provides Directives to the Representative Director.
 - Audit and Supervisory Committee:** Composed of three directors (including two outside directors). It provides Directives to the Accounting auditor and performs Auditing of the Board of Directors.
 - Accounting auditor:** Performs the Accounting audit and Internal control audit, reporting to the Accounting auditor.
 - Representative Director:** Receives Directives from the Board of Directors and reports to the Audit Office.
- Middle Layer (Business execution):**
 - Departments, subsidiaries:** Execute business operations, reporting to the Audit Office.
- Bottom Layer (Internal control):**
 - Audit Office:** Performs Auditing of the Departments, subsidiaries, and reports to the Representative Director and the Accounting auditor.

Key relationships and flows include:

- Appointment/Dismissal:** General Meeting of Shareholders appoints/dismisses the Board of Directors, the Audit and Supervisory Committee, and the Accounting auditor.
- Directives:** The Board of Directors issues directives to the Representative Director. The Audit and Supervisory Committee issues directives to the Accounting auditor.
- Auditing:** The Audit and Supervisory Committee audits the Board of Directors. The Audit Office audits the Departments, subsidiaries.
- Cooperation:** The Accounting auditor cooperates with the Audit Office.
- Reporting:** The Representative Director reports to the Audit Office. The Accounting auditor reports to the Audit Office.

The primary responsibilities of the Board of Directors are to promote the sustainable growth of the company and the improvement of corporate value over the medium and long term, as well as enhance profitability and capital efficiency. The Board carries out the following measures to achieve these ends.

- 1 Carefully manage the progress of corporate strategies.
- 2 Foster an environment in which senior management can take appropriate risks.
- 3 Effectively monitor the company's management team and directors from an independent, objective standpoint.

Analyzing and Evaluating the Effectiveness of the Board of Directors

Process of Evaluating the Board’s Effectiveness

Again in FY2020, the company evaluated and took measures to improve the effectiveness of the Board of Directors. The Board set aside sufficient time for meetings to allow for more thorough deliberation on critical issues, such as how to enhance reporting on matters before the Board and share the results of analyses. We also secured adequate time for training with officers as needed.

Addressing Issues before the Board

A range of issues have been identified as necessitating training for the company’s management team, including management methods, legal affairs, labor and personnel, and crisis management. In FY2020, we held lectures on themes ranging from branding and risk management to compliance, accounting, and auditing. Separate training for employees other than officers aimed at deepening understanding across the company and shoring up the organization.

Issues to Be Carefully Considered and Addressed

1. Sustainability Issues

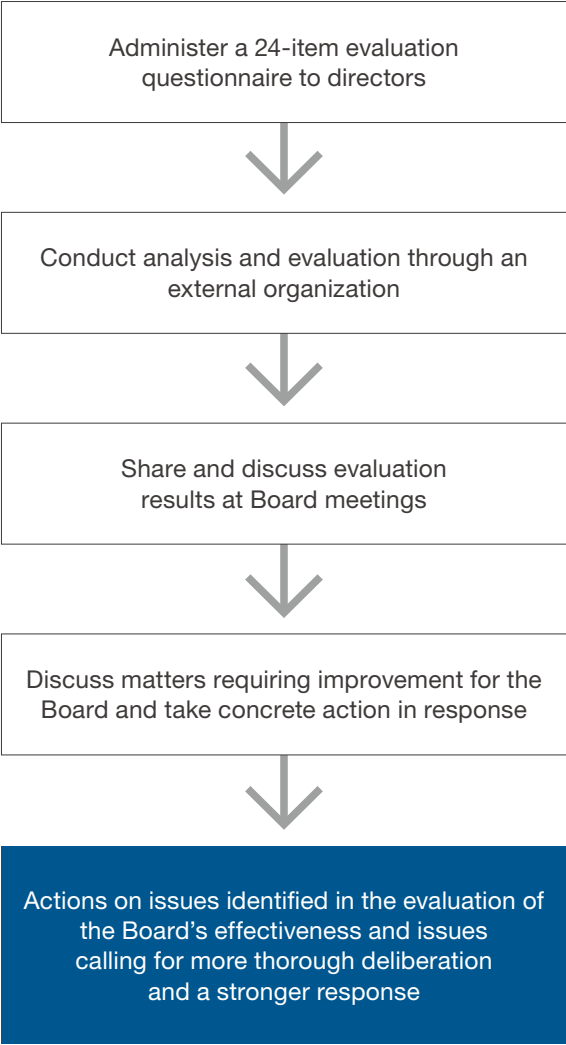
Recognizing that addressing social and environmental issues and other matters related to sustainability is a critical task for management, Nihon Chouzai is taking forward-looking, proactive steps to respond appropriately. By setting sustainable development goals, we are committed to achieving longer-term improvements in corporate value while striking a balance between economics, the environment, and society.

2. Issues Involving Corporate Governance

Having reaffirmed the importance of both “offensive” and “defensive” governance in terms of group management, we will build an optimal business portfolio across the group, and improve overall corporate value.

Enabling More Lively Board Discussions

To facilitate lively, productive discussions and exchanges of opinions, including problem areas pointed out by outside directors, we deliver Board meeting materials in advance to all directors, including outside directors, along with the annual schedule for Board meetings.



Board of Directors Operations

Activities in FY2020

The Board met 14 times from April 1, 2020 to March 31, 2021. In principle, Board meetings are held once a month, or as needed. Officers from Nihon Chouzai also sit in on the Board meetings of group companies and take other actions to reflect the group as a whole in

Board discussions. Audit and Supervisory Committee meetings are held separately. We also conduct follow-up training with officers as needed after meetings of the Board of Directors.

Name	Title	Responsibilities and significant concurrent positions	Board Meeting Attendance
Yosuke Mitsuhashi	Representative Director	Overall management	14 out of 14
Katsuhiko Fukai	Managing Director	Medical collaboration, business development	14 out of 14
Naoto Kasai	Managing Director	Sales management, development, corporate information	14 out of 14
Noriaki Miyata	Director	General Manager of Sales Promotion Department. Sales promotion, Medical Center and Mentaio (pharmacies near stations and in shopping districts) sales	14 out of 14
Toshiyuki Koyanagi	Director	General Manager of Pharmaceutical Headquarters. Pharmaceutical administration and promotion, education and information, generic drug promotion, purchasing, at-home care, healthcare promotion, marketing, pharmaceutical planning, pharmacy management	14 out of 14
Kazunori Ogi	Director	General Manager of Finance Department. Accounting, finance, systems, corporate planning	14 out of 14
Yoshihisa Fujimoto	Director	General Manager of Administration Department. General affairs, personnel, Pharmaceutical Recruitment Center, public relations, private health insurance, risk and compliance management, Chief Security Officer	14 out of 14
Keiso Masuhara	Director	General Manager of FINDAT Business Department. FINDAT web business	14 out of 14
Yoshimitsu Onji	Outside Director	Outside Director of Tokyo Tatemono Co., Ltd., Outside Auditor of United Foods International Co., Ltd., Outside Director of Sotetsu Holdings, Inc.	14 out of 14
Nobuyuki Hatakeyama	Audit and Supervisory Committee member Director	Audit and Supervisory Committee member	14 out of 14
Tadashi Urabe	Audit and Supervisory Committee member Outside Director	Outside Director (Audit and Supervisory Committee member) of the Company, attorney, Partner of Meitetsu Law Offices	14 out of 14
Arata Toyoshi	Audit and Supervisory Committee member Outside Director	Certified Public Accountant, Licensed Tax Accountant, Auditor-Secretary of Seikei Alumni Association, Auditor-Secretary of the Yuumi Memorial Foundation for Home Health Care, Substitute Audit & Supervisory Committee Member of Japan Private REIT Inc., Outside Corporate Auditor of SMC Corporation	14 out of 14

Board of Directors Meetings and Key Topics of Deliberation

Frequency	Meetings Held	Key Topics of Deliberation
In principle, once a month or as needed	14 (April 1, 2020-March 31, 2021)	Director nomination and compensation, pharmacy openings, acquisitions, budget, financial results, personnel and labor, fund procurement, formulation of rules, organizational changes, corporate governance code, acquisition and disposal of assets

Board of Directors Meetings and Key Topics of Deliberation

The company may hold, as cross-shareholdings, shares of companies that it deems necessary for maintaining and strengthening business relationships. The Board of Directors meets annually to carefully examine whether the purpose of owning individual cross-shareholdings is appropriate and whether the benefits and risks associated with these holdings are commensurate with the cost of capital, among other considerations, in this way verifying the suitability of cross-shareholdings. The company’s policy is to exercise voting rights pertaining to cross-shareholdings from the perspective of whether or not such exercise will contribute to enhancing the corporate value of the company invested in, along with due consideration of the purpose of the holding.

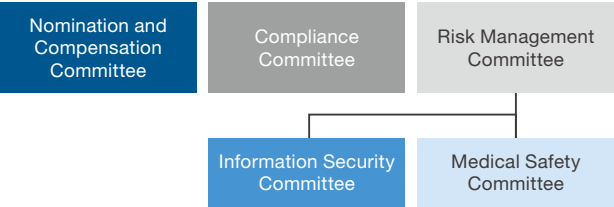
		Unlisted shares	Shares other than unlisted shares
Shares held in FY2019	Number of issues	1	-
	Issue amount* (millions of yen)	13	-
Shares held in FY2020	Number of issues	1	-
	Issue amount* (millions of yen)	13	-

*Aggregate amount recorded on the balance sheet.

Organization and Activities of Internal Control System

Committee Organization

The purpose, related departments, and activities of each committee are as described below.



Nomination and Compensation Committee	
Purpose	To strengthen the fairness, transparency, and objectivity of procedures related to the nomination and compensation of directors, and to further enhance the corporate governance framework.
Related departments	Human Resources Department, General Affairs Department
Committee activities	Meets at least once a year.

Information Security Committee	
Purpose	To protect all information assets held by the Nihon Chouzai Group and to build an information security framework to gain customer satisfaction and the trust of society by complying with laws, regulations, and other rules.
Related departments	Same as Compliance Committee
Committee activities	In principle, the Information Security Committee meets once every three months. Nihon Chouzai's information security policy sets out the conditions for ensuring security as defined in the Security Guidelines for Medical Information Systems published by the Ministry of Health, Labour and Welfare. The committee reports and shares information on the information management activities of each department, such as any intentional or negligent information security violations by employees or cyber security incidents.

Medical Safety Committee	
Purpose	To promote appropriate medical safety management and contribute to the safe provision of healthcare.
Related departments	Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department), Risk Management and Compliance Office, General Affairs Department, Audit and Supervisory Committee
Committee activities	The Medical Safety Committee discusses all events related to medical safety management. It also discusses the revision of measures to prevent recurrence of safety incidents and improve safety.

Compliance Committee	
Purpose	To ensure thorough compliance and gain the greater trust of society by defining basic matters related to compliance actions and constructing and properly managing a compliance framework.
Related departments	Risk Management and Compliance Office, General Affairs Department, System Departments I and II, Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department), Accounting Department, Human Resources Department, Public Relations Department, Audit and Supervisory Committee
Committee activities	In principle, the Compliance Committee meets once every three months. It reports and shares information, such as on compliance activities and upcoming plans, compliance education, measures to comply with the Act on the Protection of Personal Information, labor compliance, and the internal reporting system. Subsidiaries hold similar meetings. To raise employee awareness of compliance, the committee publishes a monthly "Compliance Education" corner on the corporate intranet as well as distributing a newsletter and email magazine.

Risk Management Committee	
Purpose	To implement risk management for the Nihon Chouzai Group.
Related departments	Same as Compliance Committee
Committee activities	In principle, the Risk Management Committee meets once every three months. It reports and shares information, such as on the progress of risk management and upcoming plans, and business continuity plans. Subsidiaries hold similar meetings.

Formulation and Dissemination of Rules and Regulations

To ensure the appropriateness of the Group's business operations, Nihon Chouzai has formulated various rules, operation flow charts and manuals, a Mission Statement & Compliance Card for all employees, a Mission Statement & Compliance Policy, business continuity plans, and a disaster response pocket manual. It seeks to ensure employee awareness of these matters by circulating materials and posting them on the corporate intranet.

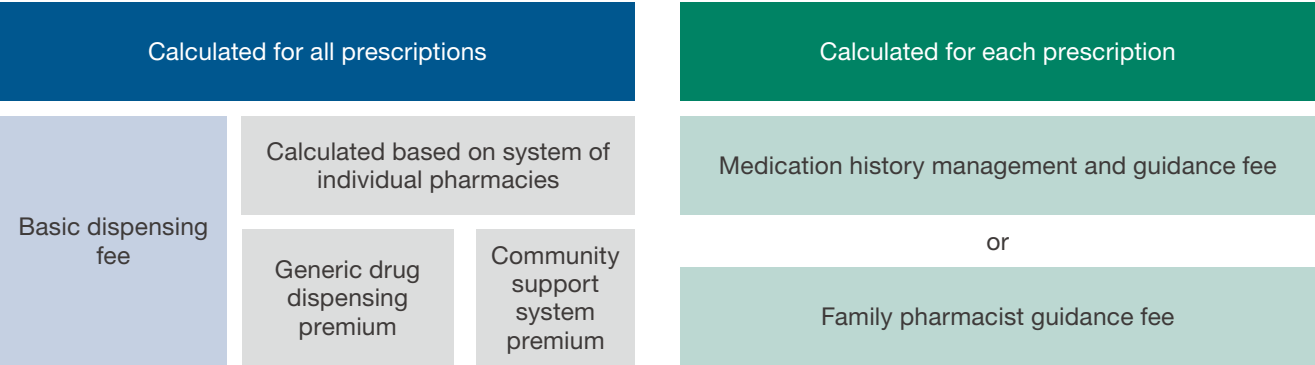


Data Section

- 79 ▶ Major Revisions to Drug Dispensing Fees
- 82 ▶ Explanation of Terms
- 85 ▶ 11-Year Summary of Financial and Non-Financial Data
- 87 ▶ Consolidated Balance Sheet
- 88 ▶ Consolidated Statement of Income
- 89 ▶ Consolidated Statement of Comprehensive Income
- Consolidated Statement of Changes in Net Assets
- 90 ▶ Consolidated Statement of Cash Flows
- 91 ▶ Company Profile

Major Revisions to Drug Dispensing Fees

Reference Changes in main technical fees as part of the FY2018 revision



Basic dispensing fees

FY2020 revision (changes are shown in blue)

Number of prescriptions		Concentration rate	Points
Basic dispensing fee ¹	Basic dispensing fee other than basic dispensing fee 2, 3, and special basic dispensing fee		42 points
Basic dispensing fee ²	2,001–4,000 per month	Over 85%	26 points
	Over 4,000 per month	Over 70%	
	1,801–2,000 per month (added)	Over 95%	
	Over 4,000 per month from specific medical institutions	—	
Basic dispensing fee ^{3 a)}	35,001–40,000 per month within the same group (added)	Over 95%	21 points
	40,001–400,000 per month within the same group	Over 85%	
Basic dispensing fee ^{3 b)}	Over 400,000 per month within the same group		16 points

FY2018 revision

Requirements	Concentration rate	Points
● Have real estate transactions with a medical institution ● Other special relationship	Over 95%	11 points

- 50% reduction in basic dispensing fee if the pharmacy conducts basic operations related to family pharmacy functions less than 10 times a year

FY2020 revision

Requirements	Concentration rate	Points
● Real estate transactions with a medical institution (including a clinic) ● Other special relationship	Over 70%	9 points

- 50% reduction in basic dispensing fee if the pharmacy conducts basic operations related to family pharmacy functions less than 100 times a year

Generic drug dispensing premium

April 2018–March 2020		Points	April 2020–March 2022		Points
Generic drug dispensing premium 1	Over 75%	18 points	Over 75%		15 points
Generic drug dispensing premium 2	Over 80%	22 points	Over 80%		22 points
Generic drug dispensing premium 3	Over 85%	26 points	Over 85%		28 points

- 2 point reduction in basic dispensing fee if proportion of generic drugs dispensed (volume) is 20% or less

- 2 point reduction in basic dispensing fee if proportion of generic drugs dispensed (volume) is 40% or less

Community support system premium

April 2018–March 2020		Points	April 2020–March 2022		Points
Community support system premium	<ul style="list-style-type: none">● Basic dispensing fee 1 pharmacies must satisfy all of the following: (1) License of narcotics retailer (2) Record of at least one home visit for medication management per year (3) Submission of family pharmacist notification - Supervising pharmacist has five years of pharmacy experience, at least one year tenure at the pharmacy, and works at least 32 hours per week.● For pharmacies other than basic dispensing fee 1 pharmacies, every full-time pharmacist must achieve the following each year: (1) Record of patient support during nighttime hours/holidays 400 times (2) Record of charging premium for narcotics guidance and management 10 times (3) Record of charging premium for preventing duplicate prescriptions or harmful drug interactions, etc. 40 times (4) Record of charging family pharmacist guidance fee, etc. 40 times (5) Record of charging outpatient medication support fee 12 times (6) Record of charging medication adjustment support fee 1 time (7) Record of conducting at-home medication management (one patient per pharmacy) 12 times (8) Record of charging medication information provision fee 60 times	35 points	<div></div>	<p>Basic dispensing fee 1 pharmacies must satisfy (1)–(3) and either (4) or (5): (1) License of narcotics retailer (2) Record of at least 12 home visit for medication management per year (3) Submission of family pharmacist notification (4) Record of charging medication information provision fee At least 12 times/year (5) Participation in multidisciplinary conference in the community At least 1 time/year - Supervising pharmacist has five years of pharmacy experience, at least one year tenure at the pharmacy, and works at least 32 hours per week.</p> <ul style="list-style-type: none">● Pharmacies other than basic dispensing fee 1 pharmacies must satisfy eight out of items (1)–(9) [for (1)–(8) every full-time pharmacist must achieve each item each year, and each pharmacy must achieve (9) each year]: (1) Record of patient support during nighttime hours/holidays 400 times (2) Record of dispensing narcotics 10 times (3) Record of charging premium for preventing duplicate prescriptions or harmful drug interactions, etc. 40 times (4) Record of charging family pharmacist guidance fee, etc. 40 times (5) Record of charging outpatient medication support fee 12 times (6) Record of charging medication adjustment support fee 1 time (7) Record of conducting at-home medication management (one patient per pharmacy) 12 times (8) Record of charging medication information provision fee 60 times (9) Participation in multidisciplinary conference in the community At least 1 time/year	38 points

Medication history management and guidance fee

April 2018–March 2020		Basic dispensing fee ¹	Other than basic dispensing fee ¹	April 2020–March 2022		Basic dispensing fee ¹	Other than basic dispensing fee ¹
Repeat visit within 6 months	With medication notebook	41 points	53 points	Repeat visit within 3 months	With medication notebook	43 points	
	Without medication notebook	53 points			Without medication notebook	57 points	
No repeat visit within 6 months	With/without medication notebook	53 points		No repeat visit within 3 months	With/without medication notebook	57 points	

Family pharmacist guidance fee

April 2018–March 2020		Points	April 2020–March 2022		Points
Family pharmacist guidance fee	● Three years pharmacy experience, one year tenure at the pharmacy, works at least 32 hours/week ● Certified pharmacist training credentials ● Participation in community activities related to medical care	73 points		● Three years pharmacy experience, one year tenure at the pharmacy, works at least 32 hours/week ● Certified pharmacist training credentials ● Participation in community activities related to medical care ● Separate counter divided by partition	76 points

Dispensing fee

	1-7	8-14	15-21	22-30	Over 31
April 2018–March 2020	5 points/day (avg. 27 points)	4 points/day (avg. 61 points)	67 points	78 points	86 points
April 2020–March 2022	28 points	55 points	64 points	77 points	86 points

Online medication guidance (new)

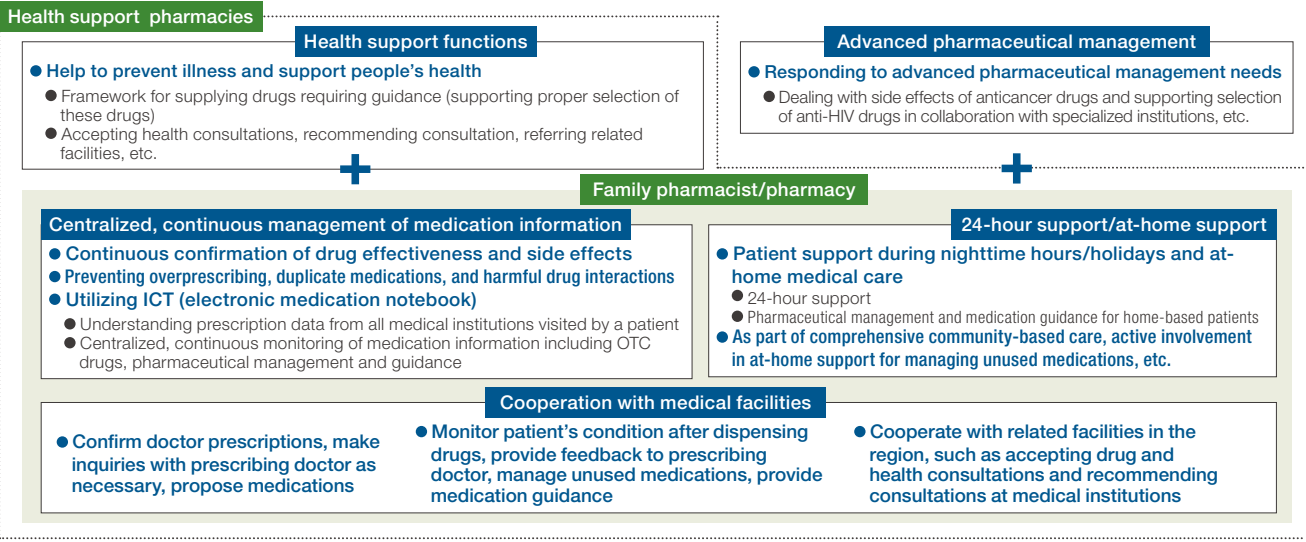
April 2018–March 2020		Points
Medication history management and guidance fee ⁴	When medication guidance is given via information and communication equipment: Patients issued prescription from online medical consultation In principle, patients given face-to-face medication guidance within three months (1) Draft a medication guidance plan, carry out the plan (2) In principle, the pharmacist providing online medication guidance is the same as the face-to-face pharmacist (3) From medication notebook, confirm medication history and medications being taken	43 points Up to once a month
At-home medication management guidance fee	Online at-home medication management guidance fee Patients issued a prescription from home-visit medical consultation Patients receiving a monthly visit for at-home medical care (1) Can be calculated up to 10 times/week per pharmacist, or 40 times/week for combined at-home medication management guidance fees 1–3 (2) Draft a medication guidance plan, carry out the plan (3) In principle, the pharmacist providing online medication guidance is the same as the face-to-face pharmacist (4) Provide written information to doctor conducting home-visit medical consultation	57 points Up to 1 time/month

Explanation of Terms

[Vision of Pharmacies for Patients]

Guidelines announced by the Ministry of Health, Labour and Welfare in October 2015. Under a comprehensive community-based care system, pharmacies perform functions such as the centralized, continuous monitoring and management of medication information, at-home care,

and other drug management and guidance, to try to bring about a patient-centered separation of drug prescribing and dispensing services within the community. The guidelines indicate the direction and expected functions of dispensing pharmacies going forward.



[Family pharmacist]

In tandem with the April 2016 dispensing fee revision, a family pharmacist system was started in Japan. The purpose was to allow patients to designate a single pharmacist of their choosing as a family pharmacist, from a pool of pharmacists who have cleared certain nationally established requirements. After receiving a signed consent form, the pharmacist in charge can offer continuity to patients in explaining and consulting about medications. Becoming a family pharmacist requires prior notification to local health authorities.

(1) Family pharmacists have a centralized grasp of medication information

The pharmacist has an overall grasp of a patient's prescriptions received from other medical institutions or pharmacies, OTC medicines, health foods, and supplements. The pharmacist checks for duplicate medications and harmful drug interactions, and gives advice such as precautions on how to take medicine or what foods to avoid.

(2) Confirming changes in physical condition and adjusting unused medications

The pharmacist in charge continuously monitors a drug's effectiveness and changes in a patient's physical condition after taking a drug, with reference to past medication records and history of side effects. When necessary, the pharmacist makes inquiries with medical institutions and provides feedback on side effects and status of medication compliance. Moreover, when there is a large amount of unused medications, the pharmacist adjusts the length of future prescriptions and takes other steps to manage medications.

(3) Patient support and consultations during nighttime hours/holidays

By continually grasping a patient's medication status and changes in physical condition, the pharmacist in charge can respond to consultations regarding the proper use of medications and how to maintain health. In emergencies, the pharmacist will support patients by phone during nighttime hours and holidays.

Criteria for a family pharmacist:	1. More than three years pharmacy experience 2. Works at the pharmacy at least 32 hours a week 3. Has at least one year tenure at the pharmacy 4. Has obtained certified pharmacist training credentials from a certifying organization 5. Participates in community activities related to medical care 6. Pharmacy is equipped with a separate counter divided by partition (added April 2020)
-----------------------------------	--

[Family pharmacist/pharmacy]

The Vision of Pharmacies for Patients describes three functions that are expected of family pharmacists and pharmacies, but includes no criteria for pharmacy facilities, and pharmacies are not required to submit notification. The work of family pharmacists and pharmacies is highly interpersonal, and the main operations of pharmacies other than basic dispensing fee 1 pharmacies must satisfy the nine categories (listed above) to be eligible to charge a community support system premium. The goal of the Ministry of Health, Labour and Welfare is to reorganize all pharmacies in Japan into family pharmacists and pharmacies by 2025.

[Health support pharmacies]

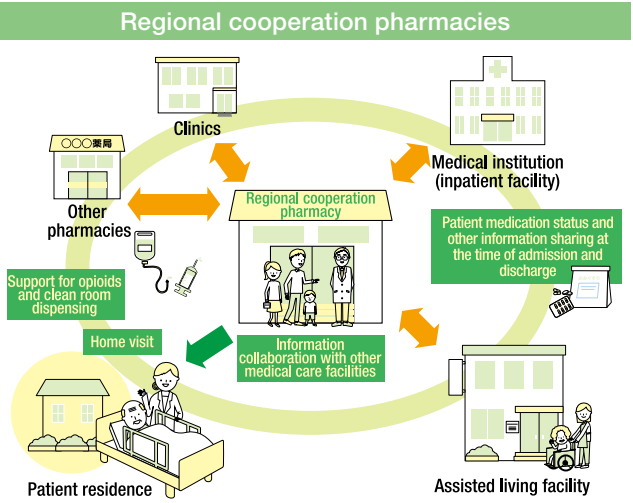
Health support pharmacies have the basic functions of family pharmacists and pharmacies, but also actively support members of the local community in autonomously maintaining and improving their health. Qualifying as a health support pharmacy requires prior notification to health authorities. The Ministry of Health, Labour and Welfare aims to register 10,000 to 15,000 health support pharmacies by 2025.

Criteria for health support pharmacies:	1. Collaborates with medical institutions, long-term care providers, and other business operators under the comprehensive community-based care system 2. A pharmacist who has completed training related to health support pharmacies and has more than five years of work experience must be on-site 3. Has a consultation counter that takes privacy into consideration 4. "Health support pharmacy" is clearly displayed on the outside and inside of the pharmacy 5. Handles drugs requiring guidance, long-term care products, etc.
---	--

Source: Ministry of Health, Labour and Welfare "Vision of Pharmacies for Patients"

[Partial revision to the Pharmaceuticals and Medical Devices Act]

Following revisions to the Pharmaceuticals and Medical Devices Act, pharmacies began providing online medication guidance from September 2020. Previously, remote medication guidance was allowed only in National Strategic Special Zones (business-friendly zones in major urban areas with special regulatory provisions). The revised law allows guidance for prescriptions resulting from medical care administered by online video conferencing to be conducted online, and on a nationwide scale.



[Aging Population Projections]

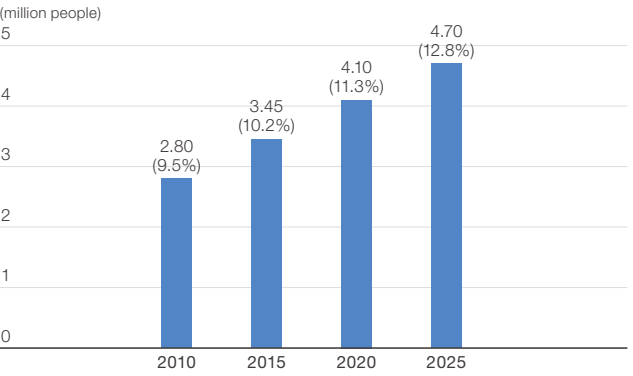
1 The number of people aged 65 and over in Japan is expected to reach 36.57 million in 2025 and peak at 38.78 million in 2042. Moreover, the proportion of people aged 75 and over in the total population will continue to rise, and is expected to exceed 25% by 2055.

	August 2012	2015	2025	2055
Population of people aged 65 and over (proportion)	30.58 million (24.0%)	33.95 million (26.8%)	36.57 million (30.3%)	36.26 million (39.4%)
Population of people aged 75 and over (ratio)	15.11 million (11.8%)	16.46 million (13.0%)	21.79 million (18.1%)	24.01 million (26.1%)

Source: Ministry of Health, Labour and Welfare White Paper FY2015

2 Among those aged 65 and over, the number of elderly people with level 2 dementia or higher (ranking the degree of independence in daily life) will increase.

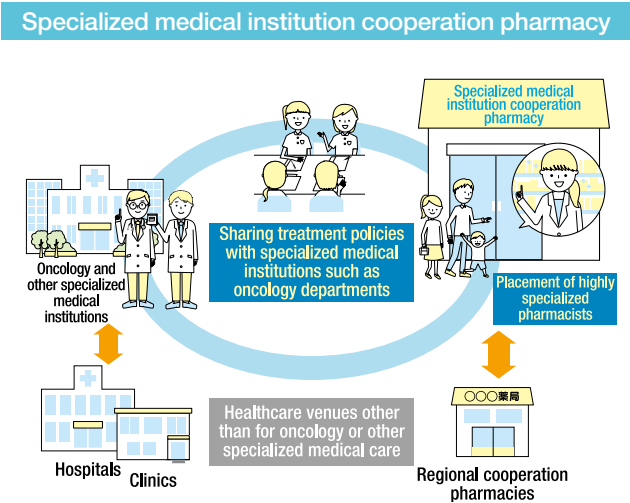
Estimated number of elderly people with level 2 dementia or higher (ranking the degree of independence in daily life). Percentage of total population aged 65 and over.



[Separation of drug prescribing and dispensing services]

A system which seeks to improve the quality of medical care by allowing doctors and pharmacies to assume responsibility for their respective specialties. Doctors examine patients and prescribe medications. Based on prescriptions issued by doctors, independently managed pharmacists fill prescriptions, manage medication history, and provide medication guidance.

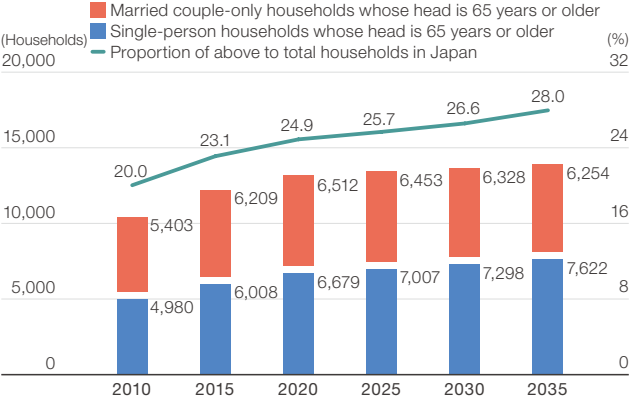
Eligible disease types, including prevention of diabetic progression and chronic headaches, have also been expanded. In addition, from August 2021, the functions of pharmacies are stipulated by the Act, and with the permission of the prefectural governor, pharmacies can display their functions—as regional cooperation pharmacies or specialized medical institution cooperation pharmacies—on their signboards or other media. This will allow patients to choose the pharmacy that suits them best.



[Aging Population Projections]

3 The number of single-person and married couple-only households whose head is 65 years or older will increase.

Estimate of single-person and married couple-only households whose head is 65 years or older



Source: Ministry of Health, Labour and Welfare, Projections of Future Aging Population

[Generic drugs]

A drug with the same active ingredient manufactured and supplied by a pharmaceutical company other than the original manufacturer after expiration of the patent period for the drug's active ingredient (chemical patent). Although official regulations in Japan use a different term to describe these drugs, the Group refers to them by the more well-known English term "generic."

[Medical treatment fee revisions]

In Japan, the fees healthcare providers may charge for services covered by health insurance are determined by a medical treatment fee schedule established by the Ministry of Health, Labor and Welfare, which covers medical fees, dental fees, and dispensing fees. In addition, drug prices are determined by the National Health Insurance (NHI) drug price list. Medical treatment fees are revised every two years.

[Dispensing fee revisions]

A part of the medical treatment fee revision, this refers to the revision of fees related to drug dispensing. Dispensing fees are revised every two years.

[Drug price revisions]

Official drug prices for medical treatment covered by health insurance are determined by the National Health Insurance (NHI) drug price list. New drugs may be listed four times a year, and generic drugs may be listed twice a year. Since April 2020, NHI drug price revisions have been implemented every year based on a survey of market prices for drugs conducted among medical institutions and pharmacies.

[Basic dispensing fee]

Compensation paid to a pharmacist for dispensing drugs at a pharmacy, for each prescription filled. Fees a pharmacy can charge are represented by points (1 point=fee of 10 yen). There are differences in points depending on whether the pharmacy functions as a family pharmacy, the concentration of prescriptions it handles from a specific medical institution, and whether it is part of a pharmacy group.

[Generic drug dispensing premium]

Compensation added to the basic dispensing fee for pharmacies that actively dispense generic drugs. The calculation standard has been raised with each medical treatment fee revision, reflecting the government's goal of further promoting the use of generic drugs.

[Community support system premium]

Compensation added to the basic dispensing fee to recognize pharmacies where pharmacists assume the functions of a family pharmacist and which contribute to medical care in the community under the comprehensive community-based care system, such as offering patient support during nighttime hours and holidays. This premium was newly introduced with the April 2018 medical treatment fee revision.

[At-home medical care]

Care where a pharmacist visits the home of a patient for whom physical disabilities or other circumstances make it difficult to visit a hospital or pharmacy. The visiting pharmacist explains medications to the patient, monitors and manages the patient's medication status, and provides medical care in cooperation with doctors, nurses, and other care providers.

[Hospital-front pharmacies]

Although no formal definition exists, hospital-front pharmacies are typically located near a hospital, and mainly fill prescriptions for that hospital. Some hospital-front pharmacies also function as family pharmacies, filling prescriptions from multiple medical institutions and engaging in at-home medical care.

[Hybrid pharmacies]*¹

Pharmacies located near train stations or within shopping districts, which combine the characteristics of a neighborhood pharmacy, which fills prescriptions from medical facilities across a relatively wide area rather than a single specific facility, and the characteristics of a medical center-type pharmacy, which fills prescriptions issued by multiple clinics gathered in a central "medical mall" location.

*1"Hybrid pharmacy" is Nihon Chouzai's own term. *2Health Check-Up Station is a registered trademark of Nihon Chouzai.

[On-site pharmacy]

The relaxation in October 2016 of regulations mandating the structural independence of pharmacies and medical institutions made it possible to open pharmacies on the premises of hospitals. Pharmacies are now able to collaborate with hospitals, which demand support for advanced medical care. At the same time, the (special) basic dispensing fee for on-site pharmacies is set lower than that for hospital-front pharmacies.

[Electronic medication notebook]

A notebook application that centrally manages information on and records of medications prescribed, which helps to avoid duplicate prescriptions and unforeseen side effects from taking medications at the same time. Records can be stored on a smartphone. Nihon Chouzai has developed its own electronic medication notebook application, *Okusuri Techo Plus*. Although multiple companies have developed their own applications, the products of companies participating in the mutual browsing service provided by the Japan Pharmaceutical Association can browse information even from other companies' products.

[Automatic medication picking device, fully automated blister pack dispenser]

In Japan, most medications patients take are sealed in blister packs, also called press through packs (PTP). At pharmacies, human staff have to pick out blister packs containing the proper medications from among a large inventory. These two devices store multiple PTP sheets in separate cassettes, and when prescription data is sent, automatically prepare the required number of PTP sheets. These machines are gaining wider acceptance in Japan.

[Health Check-Up Stations]*²

Health Check-Up Stations are dedicated spaces within Nihon Chouzai pharmacies where patients can consult with pharmacists about health issues and take health measurements. They serve to support the health of community residents through disease prevention and pre-symptomatic illness initiatives.

[Formularies]

Guidelines for drug use formulated by individual medical institutions or regions based on a comprehensive scientific assessment of the efficacy and safety of drugs, as well as their economic efficiency. The goal is to promote standardized drug treatment based on guidelines for the use of high-quality, inexpensive drugs. It is expected that the spread of regional formularies will promote the use of generic drugs and curb the continued rise in medical costs. Most countries in Europe and the U.S. have already introduced formularies, which have been introduced in some areas of Japan as well.

[Worker Dispatch Act]

The official name is the "Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers." This law stipulates rules that temporary staffing companies and companies that hire temporary staff must observe in order to protect the rights of dispatched workers. The law has been improved by, for example, establishing the period of time that a worker can be dispatched to the same office of the company hiring the temporary staff.

[Certified Nutrition Care Stations]

Certified Nutrition Care Stations are facilities certified by the Japan Dietetic Association as regional bases for providing nutrition care support and guidance for members of regional communities. Nutritionists and registered dietitians—professionals of food and nutrition—provide support for members of regional communities to live healthy and fulfilling lives.

(As of March 31, 2021)											
Consolidated Financial Data	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Fiscal year in which revisions to dispensing fees and NHI drug prices were made	○		○		○		○		○	△ ¹¹	○
Business results (fiscal year)											
Net sales	112,128	130,041	139,466	165,347	181,844	219,239	223,468	241,274	245,687	268,520	278,951
Gross profit	19,182	22,038	21,494	25,623	31,929	39,068	39,258	43,837	41,975	46,372	49,374
Selling, general and administrative expenses	14,398	16,574	18,248	20,878	25,281	28,578	30,738	33,250	35,242	38,779	41,267
Operating profit	4,784	5,464	3,245	4,744	6,647	10,489	8,519	10,587	6,733	7,593	8,106
EBITDA ¹	7,479	8,968	7,319	9,129	10,923	15,615	14,237	17,127	14,525	15,491	16,286
Ordinary profit	4,358	4,941	2,855	4,188	6,003	9,878	7,976	10,138	6,077	7,405	8,409
Profit attributable to owners of parent	1,821	2,085	184	1,901	2,778	6,329	4,638	6,104	3,790	6,697	3,538
Cash flows (fiscal year)											
Cash flows from operating activities	6,723	7,127	2,885	6,243	5,831	19,327	△940	23,141	13,572	13,192	11,213
Cash flows from investing activities	△8,269	△9,694	△6,422	△14,510	△8,437	△7,823	△28,444	△13,843	△1,770	△2,731	△7,767
Cash flows from financing activities	1,109	7,920	5,496	8,782	1,422	7,031	18,205	△2,034	△10,516	△7,955	△2,806
Financial position (at year-end)											
Total assets ²	72,701	86,615	95,140	117,295	130,141	157,609	178,347	186,573	178,677	185,551	186,262
Net assets	12,780	14,716	14,702	15,849	17,635	32,473	36,447	41,506	41,073	47,072	49,868
Cash and cash equivalents	7,200	12,554	14,513	15,027	13,844	32,380	21,200	28,464	29,749	32,254	32,893
Merchandise and finished goods	8,595	8,419	11,908	12,165	15,911	15,328	21,455	20,873	22,272	22,988	23,139
Interest-bearing debt ³	33,891	42,279	48,281	62,037	68,327	66,794	86,524	87,611	81,302	73,918	72,757
Per share information											
Net assets per share ⁴ (yen)	446.70	511.99	508.52	545.32	628.80	1,015.11	1139.35	1,297.50	1,369.52	1,569.77	1,663.01
Net income per share ⁴ (yen)	63.78	72.73	6.42	65.62	97.24	216.42	145.02	190.84	121.74	223.33	118.01
Financial and non-financial data											
Sales growth rate (%)	14.1	16.0	7.2	18.6	10.0	20.6	1.9	8.0	1.8	9.3	3.9
SG&A expense ratio (%)	12.8	12.7	13.1	12.6	13.9	13.0	13.8	13.8	14.3	14.4	14.8
Operating margin (%)	4.3	4.2	2.3	2.9	3.7	4.8	3.8	4.4	2.7	2.8	2.9
ROA ⁵ (%)	2.7	2.6	0.2	1.8	2.2	4.4	2.8	3.3	2.1	3.6	1.9
ROE ⁶ (%)	15.1	15.2	1.3	12.0	16.6	25.3	13.5	15.7	9.2	15.2	7.3
Equity ratio ⁷ (%)	17.6	17.0	15.5	13.5	13.6	20.6	20.4	22.2	23.0	25.4	26.8
Interest coverage ratio ⁸ (times)	12.8	13.0	4.9	8.6	7.1	24.4	—	37.1	25.8	34.9	35.1
Debt-to-equity ratio ⁹ (times)	2.7	2.9	3.3	3.9	3.8	2.1	2.4	2.1	2.0	1.6	1.5
Capital expenditure	7,885	8,961	5,566	9,069	12,279	8,073	23,344	15,316	5,254	12,025	9,492
Depreciation	2,333	3,028	3,591	3,825	3,631	4,461	4,741	5,214	6,304	6,316	6,416
R&D expenses	985	1,224	1,023	1,534	1,767	1,913	2,388	2,784	2,764	2,991	2,776
Number of employees ¹⁰	2,112	2,304	2,488	3,009	3,283	3,435	3,781	4,075	4,383	4,904	5,221

*Figures have been rounded down. Percentages have been rounded to the nearest first decimal place.

Notes:1: EBITDA = Operating profit + depreciation

2: Figures before FY2017 are not retroactively adjusted in accordance with a change in accounting standards.

3: Interest-bearing debt = loans + lease obligations + installment accounts payable + bonds

4: Nihon Chouzai conducted 2-for-1 stock splits on October 1, 2015 and April 1, 2020. Net assets per share and net income per share have been calculated as if these stock splits had taken place at the beginning of FY2010.

5: ROA = profit attributable to owners of parent ÷ average of total assets at the beginning and end of the fiscal year

6: ROE = profit attributable to owners of parent ÷ average equity at the beginning and end of the fiscal year

7: Equity ratio = shareholders' equity ÷ total assets

8: Interest coverage ratio = operating cash flows ÷ interest payment. This figure is not presented when operating cash flows are negative.

9: Debt-to-equity ratio = interest-bearing debt ÷ net assets

10: Number of employees indicates regular employees but does not include non-regular employees such as associate, contract, fixed-term, or part-time employees.

11: NHI drug prices were revised in October 2019 in line with changes in the consumption tax rate. In line with NHI drug price revisions, some dispensing fees were also adjusted and revised.

87 Consolidated Balance Sheet

Nihon Chouzai Co., Ltd. and subsidiaries (as of March 31, 2020 and 2021)

	(Millions of yen)	
Assets	FY2019	FY2020
Current Assets		
Cash and deposits	32,254	32,893
Notes receivable — trade	181	80
Accounts receivable — trade	20,587	21,050
Electronically recorded monetary claims — operating	1,080	831
Merchandise and finished goods	22,988	23,139
Work in process	1,541	1,413
Raw materials and supplies	5,431	6,174
Other	3,354	3,668
Allowance for doubtful accounts	(6)	(6)
Total current assets	87,414	89,246
Non-current assets		
Property, plant and equipment		
Buildings and structures	53,112	53,669
Accumulated depreciation	(22,189)	(24,102)
Buildings and structures, net	30,922	29,566
Machinery, equipment and vehicles	20,944	20,960
Accumulated depreciation	(5,860)	(6,927)
Machinery, equipment and vehicles, net	15,084	14,033
Land	14,653	14,198
Leased assets	2,883	2,789
Accumulated depreciation	(2,228)	(1,592)
Leased assets, net	655	1,196
Construction in progress	967	1,649
Other	17,947	19,595
Accumulated depreciation	(14,148)	(15,455)
Other, net	3,798	4,140
Total property, plant and equipment	66,082	64,785
Intangible assets		
Goodwill	16,994	16,508
Other	2,431	2,443
Total intangible assets	19,425	18,952
Investments and other assets		
Investment securities	16	16
Long-term loans receivable	703	635
Lease and guarantee deposits	7,765	8,288
Deferred tax assets	3,090	3,368
Other	1,052	967
Total investments and other assets	12,628	13,277
Total non-current assets	98,137	97,015
Total assets	185,551	186,262

	(Millions of yen)	
Liabilities	FY2019	FY2020
Current liabilities		
Accounts payable — trade	42,659	44,044
Electronically recorded monetary obligations — operating	3,131	2,742
Short-term borrowings	100	—
Current portion of long-term loans payable	9,406	27,966
Lease obligations	82	139
Income taxes payable	4,132	884
Provision for bonuses	3,318	3,602
Provision for directors' bonuses	76	46
Asset retirement obligations	9	80
Other	7,191	8,214
Total current liabilities	70,107	87,720
Non-current liabilities		
Long-term loans payable	62,963	42,997
Lease obligations	479	1,229
Long-term accounts payable — installment purchase	886	424
Provision for directors' retirement benefits	474	199
Net defined benefit liabilities	1,957	2,153
Asset retirement obligations	1,289	1,336
Other	318	332
Total non-current liabilities	68,370	48,673
Total liabilities	138,478	136,394
Net assets		
	(Millions of yen)	
	FY2019	FY2020
Shareholders' equity		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	35,762	38,551
Treasury stock	(3,499)	(3,500)
Total shareholders' equity	47,143	49,931
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	(70)	(63)
Total accumulated other comprehensive income	(70)	(63)
Total net assets	47,072	49,868
Total liabilities and net assets	185,551	186,262

88 Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries
For the years ended March 31, 2020 and 2021

	(Millions of yen)	
	FY2019	FY2020
Net sales	268,520	278,951
Cost of sales	222,147	229,577
Gross profit	46,372	49,374
Selling, general and administrative expenses	38,779	41,267
Operating profit	7,593	8,106
Non-operating income		
Interest income	0	0
Commissions received	41	36
Rent income	426	446
Compensation income	80	51
Insurance claim income	88	34
Subsidy income	75	655
Other	165	183
Total non-operating income	878	1,408
Non-operating expenses		
Interest expenses	364	314
Commissions paid	20	10
Rent expenses	336	331
Loss on retirement of non-current assets	98	261
Other	246	188
Total non-operating expenses	1,066	1,105
Ordinary profit	7,405	8,409
Extraordinary income		
Gain on sales of non-current assets	6,662	398
Gain on transfer of business	34	—
Reversal of provision for retirement benefits for directors (and other officers)	634	—
Total extraordinary income	7,332	398
Extraordinary losses		
Loss on abandonment of non-current assets	187	375
Loss on sales of non-current assets	1	1
Impairment losses	2,663	1,920
Loss on sales of investment securities	0	—
Loss due to disaster	—	27
Total extraordinary losses	2,852	2,324
Profit before income taxes	11,885	6,483
Income taxes — current	5,544	3,218
Income taxes — deferred	(357)	(273)
Total income taxes	5,186	2,945
Profit	6,698	3,538
Profit income attributable to non-controlling interests	1	—
Profit attributable to owners of parent	6,697	3,538

89 Consolidated Statement of Comprehensive Income

Nihon Chouzai Co., Ltd. and subsidiaries (Millions of yen)
For the years ended March 31, 2020 and 2021

	FY2019	FY2020
Profit	6,698	3,538
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	—
Remeasurements of defined benefit plans, net of tax	57	6
Total other comprehensive income	57	6
Comprehensive income	6,756	3,545
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	6,754	3,545
Comprehensive income attributable to non-controlling interests	1	—

Consolidated Statement of Changes in Net Assets

Nihon Chouzai Co., Ltd. and subsidiaries

Shareholders' equity						Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at the beginning of the period	3,953	10,926	29,815	(3,498)	41,196	0	(127)	(127)	4	41,073
Changes of items during the period										
Dividends from surplus			(749)		(749)					(749)
Profit attributable to owners of parent			6,697		6,697					6,697
Purchase of treasury stock				(0)	(0)					(0)
Net changes of items other than shareholders' equity						(0)	57	57	(4)	52
Total changes of items during the period	—	—	5,947	(0)	5,946	(0)	57	57	(4)	5,999
Balance at the end of the period	3,953	10,926	35,762	(3,499)	47,143	—	(70)	(70)	—	47,072

Shareholders' equity						Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at the beginning of the period	3,953	10,926	35,762	(3,499)	47,143	—	(70)	(70)	—	47,072
Changes of items during the period										
Dividends from surplus			(749)		(749)					(749)
Profit attributable to owners of parent			3,538		3,538					3,538
Purchase of treasury stock				(0)	(0)					(0)
Net changes of items other than shareholders' equity						—	6	6	—	6
Total changes of items during the period	—	—	2,789	(0)	2,788	—	6	6	—	2,795
Balance at the end of the period	3,953	10,926	38,551	(3,500)	49,931	—	(63)	(63)	—	49,868

Consolidated Statement of Cash Flows

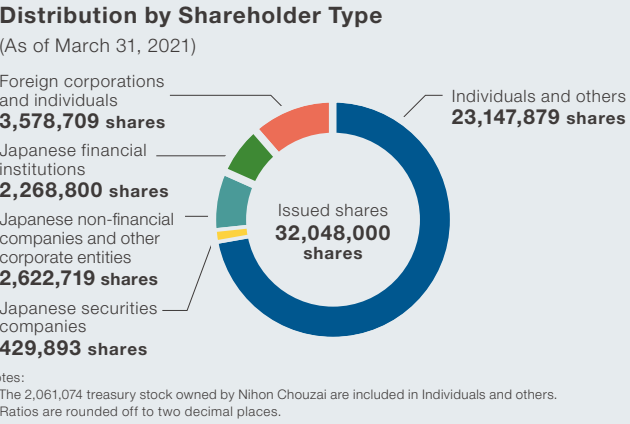
Nihon Chouzai Co., Ltd. and subsidiaries (Millions of yen)
For the years ended March 31, 2020 and 2021

	FY2019	FY2020
Cash flows from operating activities		
Profit before income taxes	11,885	6,483
Depreciation	6,316	6,416
Amortization of long-term prepaid expenses	169	154
Impairment losses	2,663	1,920
Loss due to disaster	—	27
Amortization of goodwill	1,581	1,763
Increase (decrease) in allowance for doubtful accounts	0	0
Increase (decrease) in provision for bonuses	283	282
Increase (decrease) in provision for directors' bonuses	(10)	(30)
Increase (decrease) in net defined benefit liabilities	122	193
Increase (decrease) in provision for directors' retirement benefits	(726)	(275)
Interest and dividend income	(0)	(1)
Interest expenses	364	314
Loss (gain) on sales of non-current assets	(6,661)	(396)
Loss (gain) on sales of investment securities	0	—
Loss (gain) on transfer of business	(34)	—
Decrease (increase) in notes and accounts receivable–trade	(2,902)	(20)
Decrease (increase) in inventories	74	(694)
Increase (decrease) in notes and accounts payable–trade	3,486	1,250
Decrease (increase) in prepaid expenses	(149)	128
Increase (decrease) in accrued expenses	(51)	(248)
Decrease (increase) in accounts receivable–other	422	(456)
Increase (decrease) in accounts payable–other	(225)	718
Other, net	6	717
Subtotal	16,615	18,246
Interest and dividend income received	0	1
Interest expenses paid	(377)	(319)
Income taxes paid	(3,046)	(6,716)
Net cash provided by (used in) operating activities	13,192	11,213
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,624)	(5,955)
Proceeds from sales of property, plant and equipment	9,644	1,124
Purchase of intangible assets	(606)	(573)
Proceeds from sales of investment securities	0	—
Increase in long-term prepaid expenses	(92)	(116)
Payments for transfer of business	(771)	(907)
Proceeds from transfer of business	52	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(5,057)	(823)
Payments for loans receivable	(76)	(18)
Collection of loans receivable	85	88
Payments for lease and guarantee deposits	(626)	(769)
Proceeds from collection of lease and guarantee deposits	302	203
Other, net	37	(20)
Net cash provided by (used in) investing activities	(2,731)	(7,767)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	100	(100)
Proceeds from long-term loans payable	9,900	8,000
Repayments of long-term loans payable	(16,261)	(9,406)
Repayments of lease obligations	(266)	(87)
Repayments of installment payable	(677)	(462)
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(749)	(749)
Net cash provided by (used in) financing activities	(7,955)	(2,806)
Net increase (decrease) in cash and cash equivalents	2,505	639
Cash and cash equivalents at beginning of period	29,749	32,254
Cash and cash equivalents at end of period	32,254	32,893

Company Profile

Trade name
NIHON CHOUZAI Co., Ltd.
Established
March 1980
Headquarters
37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo 100-6737 +81-(0) 3-6810-0800 (general)
Capital
3,953.02 million yen
Consolidated net sales
278.9 billion yen (FY2020)
Regular employees: 5,221 Part-time employees and others: 851
*Figures for part-time employees and others represent the average annual number of employees based on conversion to an 8-hour workday.
Main financing banks
Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, MUFG Bank, Ltd., Resona Bank, Ltd.
Main business area
Management of a dispensing pharmacy chain
Shareholder Information
Authorized shares
88,384,000
Issued shares
32,048,000
Number of shareholders
7,642
Annual General Meeting of Shareholders
June
Administrator of shareholder registry
Mitsubishi UFJ Trust and Banking Corporation 1-1, Nikko-cho, Fuchu City, Tokyo 183-0044 0120-232-711 (toll-free)
Listed stock exchange
Tokyo Stock Exchange (TSE) First Section
Securities code
3341
Settlement date
March 31

Stock Information



Changes in Shareholder Composition

Share (%)	Mar. 2020	Mar. 2021
Individuals and others	74.34	72.23
Japanese securities companies	0.41	1.34
Japanese non-financial companies and other corporate entities	8.18	8.18
Japanese financial institutions	7.31	7.08
Foreign corporations and individuals	9.76	11.17

Major Shareholders (Top 10 Shareholders)

Shareholder name	Number of shares held	Investment ratio (%)
Hiroshi Mitsuvara	8,400,000	28.01
Yosuke Mitsuvara	6,640,000	22.14
Max Planning, Inc.	2,240,000	7.47
Nihon Chouzai Employee Shareholding Association	935,000	3.12
Yoko Mitsuvara	800,000	2.67
The Master Trust Bank of Japan, Ltd. (trust account)	714,000	2.38
Keiko Yeow	538,600	1.80
STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002	430,600	1.44
Custody Bank of Japan, Ltd. (trust account)	342,000	1.14
SMBC Nikko Securities Inc.	234,800	0.78

Notes:
1. Investment ratios are calculated after excluding treasury stock (2,061,074 shares).
2. Investment ratios are rounded off to two decimal places.

Affiliated companies

Nihon Generic Co., Ltd. Manufacture and sale of pharmaceuticals GranTokyo North Tower 39th floor, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo http://www.nihon-generic.co.jp/
Choseido Pharmaceutical Co., Ltd. Manufacture and sale of pharmaceuticals 92, Kokufuchokou, Tokushima, Tokushima https://www.choseido.com/
Medical Resources Co., Ltd. Staffing and placement of medical professionals GranTokyo North Tower 40th floor, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo https://www.medical-res.co.jp/
Japan Medical Research Institute Co., Ltd. Research investigation, provision of information and advertising media, and consulting business GranTokyo North Tower 39th floor, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo https://www.jpmedri.co.jp/
WORKERS DOCTORS Inc. Industrial doctor HR business GranTokyo North Tower 40th floor, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo https://www.workersdoctors.co.jp/

 NIHON CHOUZAI Co.,Ltd.

