

July 31, 2019

**Results of Operations for the
First Quarter of the Fiscal Year
Ending March 31, 2020
(April 1, 2019 to June 30, 2019)**



NIHON CHOUZAI Co.,Ltd.

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

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I. Consolidated Financial Highlights

Consolidated Statement of Income

Sales and earnings were higher than one year earlier in all business segments. Excluding hepatitis C drugs, first quarter sales increased 10.4%. Both sales and operating profit (up about 253%) achieved the initial plan.

(Millions of yen)	1Q FY3/18 Results	1Q FY3/19 Results	1Q FY3/20 Plan	1Q FY3/20 Results	YoY change	YoY growth rate	Vs. plan
Net sales	58,346	59,305	63,000	64,316	5,011	+8.5%	+2.1%
Cost of sales	47,693	49,547	52,821	53,169	3,621	+7.3%	+0.7%
Gross profit	10,652	9,757	10,178	11,147	1,390	+14.2%	+9.5%
% to sales	18.3%	16.5%	16.2%	17.3%	-	-	-
SG&A expenses	8,468	9,256	9,393	9,377	121	+1.3%	-0.2%
% to sales	14.5%	15.6%	14.9%	14.6%	-	-	-
Consumption taxes	3,070	3,411	3,044	3,589	178	+5.2%	+17.9%
R&D expenses	795	549	883	624	74	+13.6%	-29.4%
Operating profit	2,184	501	784	1,770	1,268	+253.1%	+125.5%
% to sales	3.7%	0.8%	1.3%	2.8%	-	-	-
Ordinary profit	2,090	398	740	1,710	1,312	+329.7%	+130.9%
% to sales	3.6%	0.7%	1.2%	2.7%	-	-	-
Profit attributable to owners of parent	1,122	40	239	833	792	+1,935.1%	+248.1%
% to sales	1.9%	0.1%	0.4%	1.3%	-	-	-
Net income per share (Yen)	70.21	2.56	15.98	55.61	53.05	+2,072.3%	+248.0%

Consolidated Balance Sheet

Now the peak of capital expenditures has passed, long-term borrowings decreased about 7.5 billion yen and equity increased. However, current liabilities increased because of an increase in accounts payable and other reasons. As a result, the equity ratio was down 0.5 pct. points to 22.5% from the end of FY3/19.

(Millions of yen)	End of Jun. 2018 (1Q FY3/19)	End of Mar. 2019 (FY3/19)	End of Jun. 2019 (1Q FY3/20)	Change from the end of FY3/19	Change from the end of FY3/19 (%)
Current assets	90,742	80,132	86,742	6,609	+8.2%
Non-current assets	105,287	98,545	97,868	(677)	-0.7%
Property, plant and equipment	75,449	69,806	69,005	(800)	-1.1%
Intangible assets	17,627	16,906	16,649	(257)	-1.5%
Investments and other assets	12,211	11,833	12,213	380	+3.2%
Total assets	196,030	178,677	184,610	5,932	+3.3%
Current liabilities	87,003	69,100	77,836	8,736	+12.6%
Non-current liabilities	67,854	68,504	65,234	(3,269)	-4.8%
Total liabilities	154,858	137,604	143,070	5,466	+4.0%
Total net assets	41,171	41,073	41,539	466	+1.1%
Shareholders' equity	41,170	41,068	41,534	465	+1.1%
Equity ratio	21.0%	23.0%	22.5%	-	-

FY3/20 Consolidated Forecast

Forecast sales and earnings growth in FY3/20 even though market conditions will remain challenging in all business segments. Forecast sales growth in all business segments mainly due to benefits from upfront investments despite the drug price revision in October. Although personnel investments will raise expenses in the dispensing pharmacy business, forecast higher earnings backed by the medical professional staffing and placement business. ***Refer to Business Segment Forecast on the next page.**

(Millions of yen)	FY3/17 Results	FY3/18 Results	FY3/19 Results	FY3/20 Plan	YoY change	YoY growth rate
Net sales	223,468	241,274	245,687	268,599	22,912	+9.3%
Cost of sales	184,210	197,437	203,711	222,774	19,063	+9.4%
Gross profit	39,258	43,837	41,975	45,824	3,848	+9.2%
% to sales	17.6%	18.2%	17.1%	17.1%	-	-
SG&A expenses	30,738	33,250	35,242	38,593	3,350	+9.5%
% to sales	13.8%	13.8%	14.3%	14.4%	-	-
Consumption taxes	11,600	11,892	12,537	13,727	1,189	+9.5%
R&D expenses	2,388	2,784	2,764	3,308	543	+19.7%
Operating profit	8,519	10,587	6,733	7,231	498	+7.4%
% to sales	3.8%	4.4%	2.7%	2.7%	-	-
Ordinary profit	7,976	10,138	6,077	7,069	991	+16.3%
% to sales	3.6%	4.2%	2.5%	2.6%	-	-
Profit attributable to owners of parent	4,638	6,104	3,790	4,020	230	+6.1%
% to sales	2.1%	2.5%	1.5%	1.5%	-	-
Net income per share (Yen)	290.03	381.69	243.47	268.17	24.70	+10.1%
Dividend per share (Yen)	50.00	50.00	50.00	50.00	-	-

FY3/20 Business Segment Forecast

Higher dispensing pharmacy sales by adding stores based on a sound pharmacy opening strategy (accompanied by substantial personnel investments for growth)

No change in pharmaceutical manufacturing and sales earnings because of the drug price revisions in October 2019 and April 2020

Higher medical professional staffing and placement sales and earnings due to the benefits of upfront investments in prior years

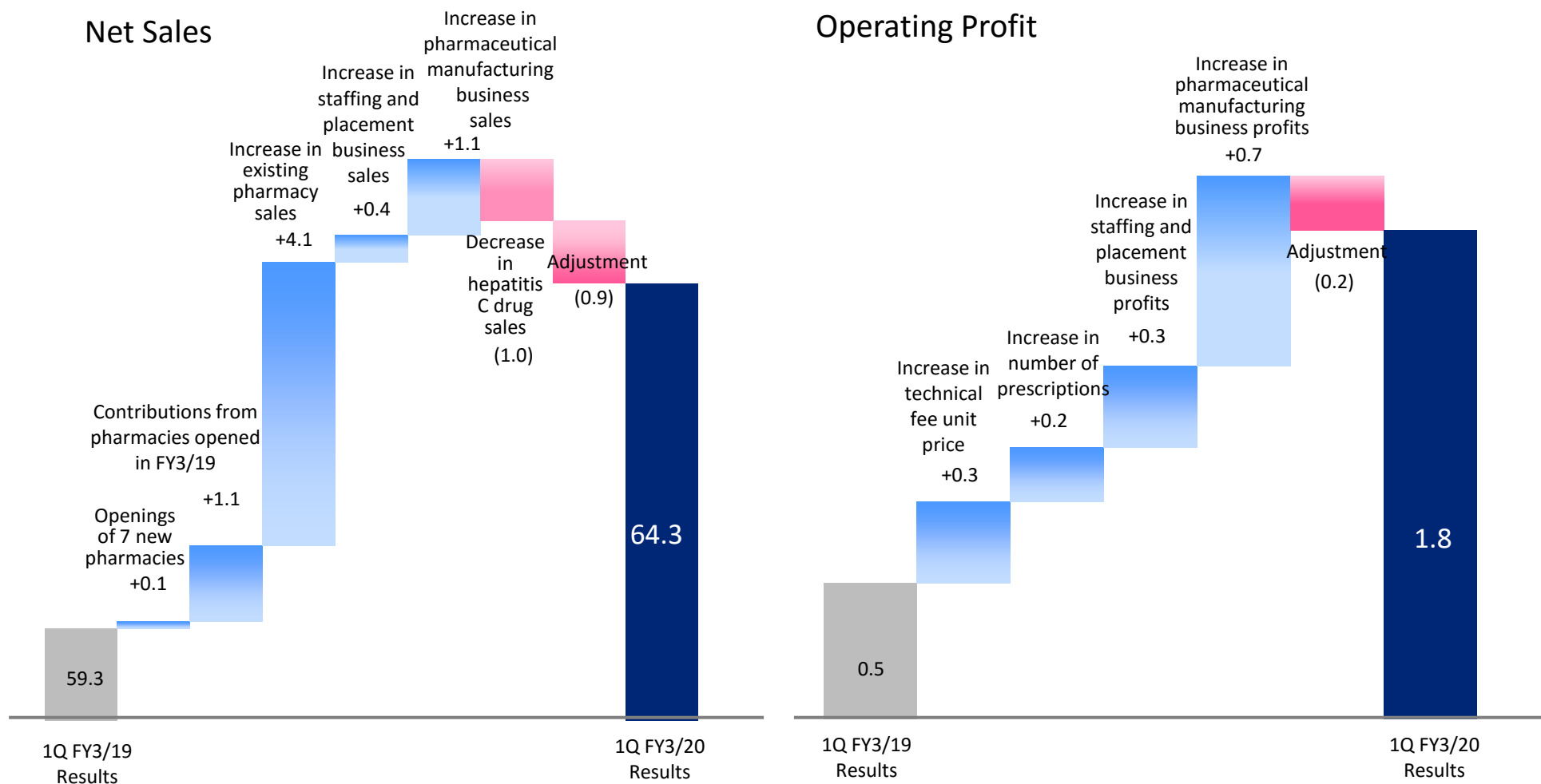
	(Millions of yen)	FY3/17 Results	FY3/18 Results	FY3/19 Results	FY3/20 Plan	YoY change	YoY growth rate
Dispensing pharmacy business	Net sales	189,327	205,192	208,622	226,908	18,285	+8.8%
	Gross profit	28,738	32,928	30,282	32,998	2,715	+9.0%
	% to sales	15.2%	16.0%	14.5%	14.5%	-	-
	Operating profit	9,560	12,411	8,707	8,794	86	+1.0%
	% to sales	5.0%	6.0%	4.2%	3.9%	-	-
Pharmaceutical manufacturing and sales business	Net sales	36,821	38,066	40,659	45,493	4,833	+11.9%
	Gross profit	6,465	6,319	6,877	7,304	426	+6.2%
	% to sales	17.6%	16.6%	16.9%	16.1%	-	-
	Operating profit	1,719	1,194	1,885	1,884	(0)	-0.0%
	% to sales	4.7%	3.1%	4.6%	4.1%	-	-
Medical professional staffing and placement business	Net sales	10,500	11,970	13,083	14,300	1,216	+9.3%
	Gross profit	4,084	4,604	4,950	5,570	619	+12.5%
	% to sales	38.9%	38.5%	37.8%	39.0%	-	-
	Operating profit	1,710	1,842	1,478	1,849	371	+25.1%
	% to sales	16.3%	15.4%	11.3%	12.9%	-	-

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

Although hepatitis C drugs negatively affected pharmacy sales, consolidated sales were higher mainly because of contributions to sales growth from new and existing pharmacies and higher sales in the pharmaceutical manufacturing and sales business and medical professional staffing and placement business.

Consolidated operating profit increased as earnings were higher in all business segments because of sales growth and measures to hold down expenses.

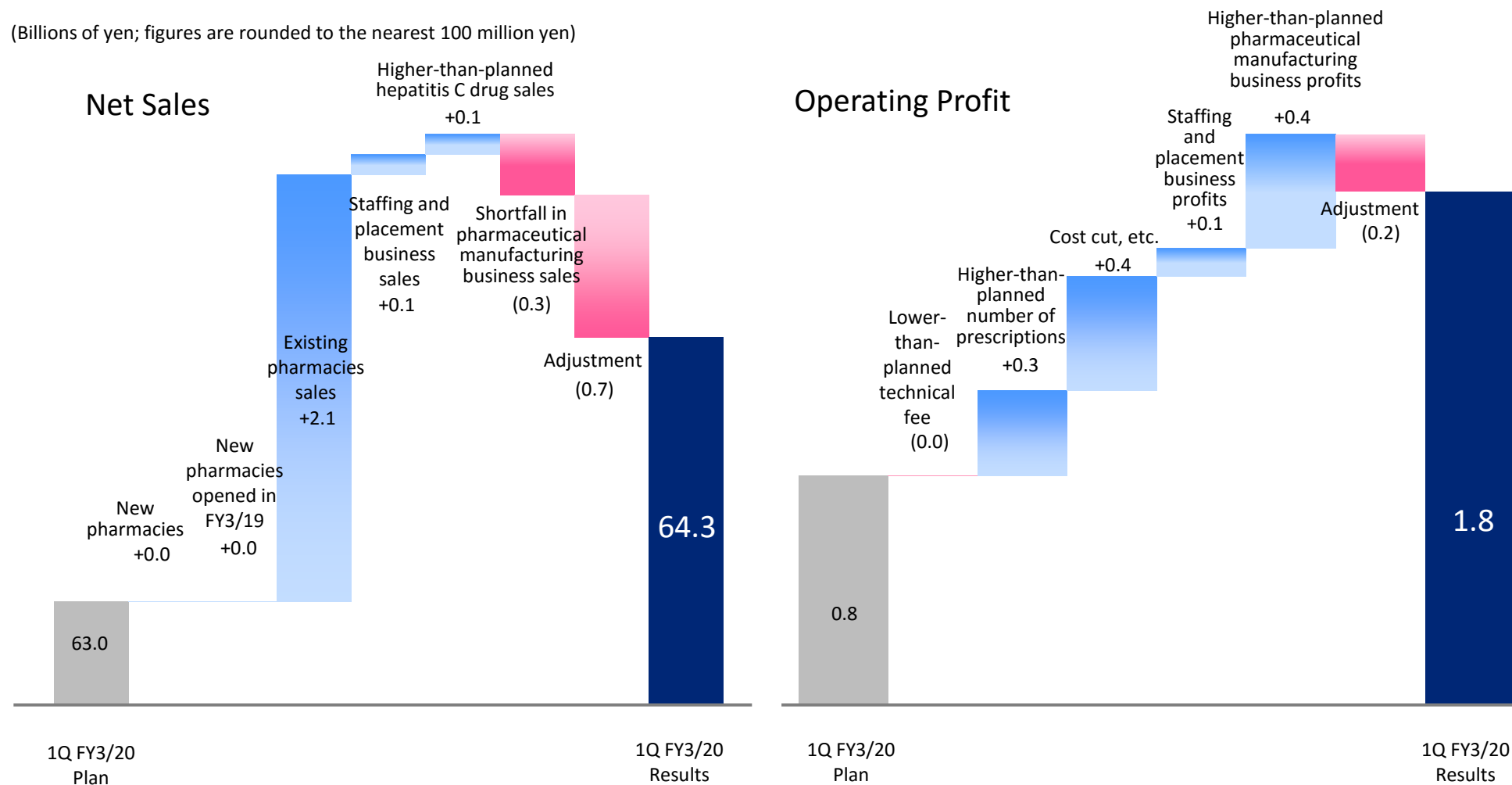
(Billions of yen; figures are rounded to the nearest 100 million yen)



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

Sales were consistent with the plan as higher sales in the dispensing pharmacy and medical professional staffing and placement businesses offset a sales shortfall vs. the plan in the pharmaceutical manufacturing and sales business. Growth in sales at existing pharmacies in the dispensing pharmacy business was a major reason that the first quarter sales goal was achieved. Operating profit exceeded the plan in all three business segments.

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



II. Segment Information

Dispensing Pharmacy Business / Statement of Income

Sales reached the plan with an increase of 8.7% and 11.0% growth after excluding hepatitis C drugs. Earnings were much higher than one year earlier and far above the plan despite higher expenses resulting partly from hiring a record number of newly graduated pharmacists. Increases in the number and unit price of prescriptions were the main reason.

(Millions of yen)	1Q FY3/18 Results	1Q FY3/19 Results	1Q FY3/20 Plan	1Q FY3/20 Results	YoY change	YoY growth rate	Vs. plan
Net sales	49,387	50,449	52,561	54,814	4,364	+8.7%	+4.3%
Cost of sales	41,589	43,399	45,707	47,049	3,649	+8.4%	+2.9%
Gross profit	7,797	7,050	6,854	7,765	715	+10.1%	+13.3%
% to sales	15.8%	14.0%	13.0%	14.2%	-	-	-
SG&A expenses	5,286	5,645	5,648	5,921	275	+4.9%	+4.8%
% to sales	10.7%	11.2%	10.7%	10.8%	-	-	-
Operating profit	2,511	1,404	1,206	1,843	439	+31.3%	+52.9%
% to sales	5.1%	2.8%	2.3%	3.5%	-	-	-
No. of pharmacies at the end of each period (stores) ^{note 1}	564	589	606	600	11	+1.9%	-1.0%
Prescription drug sales per pharmacy ^{note 2}	88	85	87	91	5	+6.5%	+5.0%

Note 1. No. of pharmacies at the end of each period includes locations specializing in the sales of general merchandise.

Note 2. Prescription drug sales per pharmacy = Prescription drug sales / Average No. of pharmacies during the period

YoY Growth Rate of the Number and Unit Price of Prescriptions

No. of prescriptions	3,576,000	+2.7%
Prescription unit price	15,110 yen	+6.2%

YoY Growth Rate by Year of Opening

	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	+7.9%	+0.3%	+7.5%
Pharmacies opened in FY3/19	+547.0%	+938.9%	-37.7%
Total	+9.0%	+2.7%	+6.2%

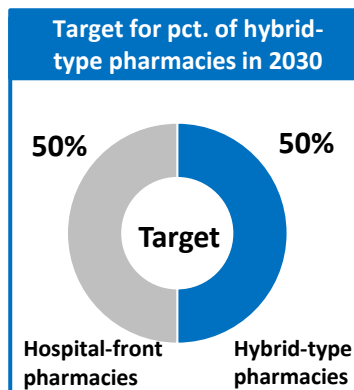
Pharmacy Opening Strategy / Create Pharmacies That Can Win the Competition for Survival

The number of hybrid-type pharmacies is growing, mainly in Tokyo, Osaka and Nagoya. No change in organic growth and M&A policies – Only deals that meet strict standards for potential benefits and growth.

Pharmacy Openings and Closings (Categories)

	FY3/19	1Q FY3/20
Opened	32	7
Hospital-front pharmacies	16	3
Hybrid-type pharmacies	16	4
Closed	19	5
No. of pharmacies at the end of period	598	600

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



Region	End of Mar. 2019	End of Jun. 2019	Change
Hokkaido	44	44	0
Tohoku	44	44	0
Kanto	294	295	1
Koshinetsu	23	23	0
Tokai	52	52	0
Kansai/Hokuriku	66	66	0
Chugoku/Shikoku	38	38	0
Kyushu/Okinawa	37	38	1
Total	598	600	2

Store Openings (No. of pharmacies)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	1Q FY3/20
Opened	37	29	27	42	36	32	7
Organic growth	33	28	22	21	23	26	5
M&A	4	1	5	21	13	6	2
Closed	9	12	11	12	8	19	5
No. of pharmacies at the end of each period	494	511	527	557	585	598	600

Two Major Components of Technical Fees

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

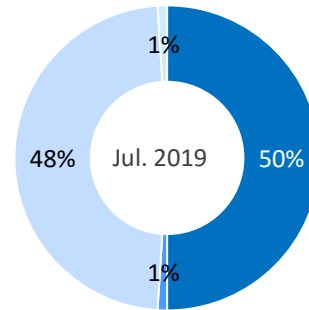
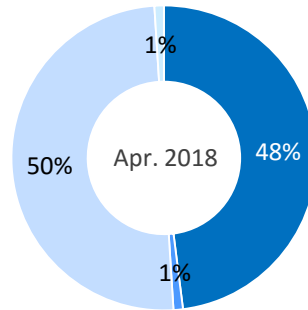
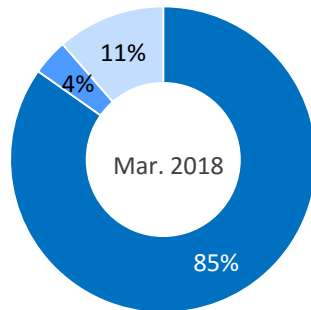
Activities for strengthening pharmacy services other than prescription dispensing in order to achieve the Vision of Pharmacies for Patients.

Slow pace of the recovery in basic dispensing fees toward the level prior to the revision.

Pct. of pharmacies receiving the regional support premium is increasing because of a variety of initiatives, mainly for at-home medical care.

Basic Dispensing Fee

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

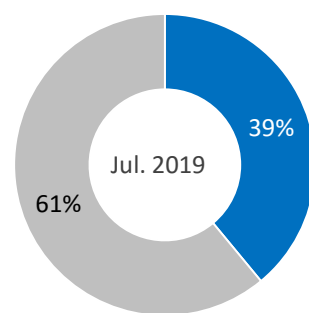
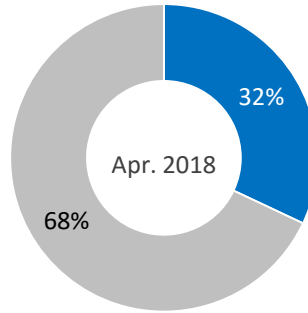
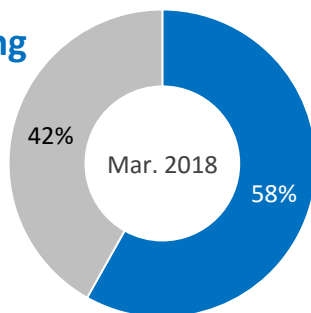


- Basic fee 1 (41pt)
- Basic fee 2 (25pt)
- Basic fee 3-2 (15pt)
- Special basic fee (10pt)

Premium for Standard Dispensing System

↓
Premium for Regional Support System

- Premium (32pt)
- No premium

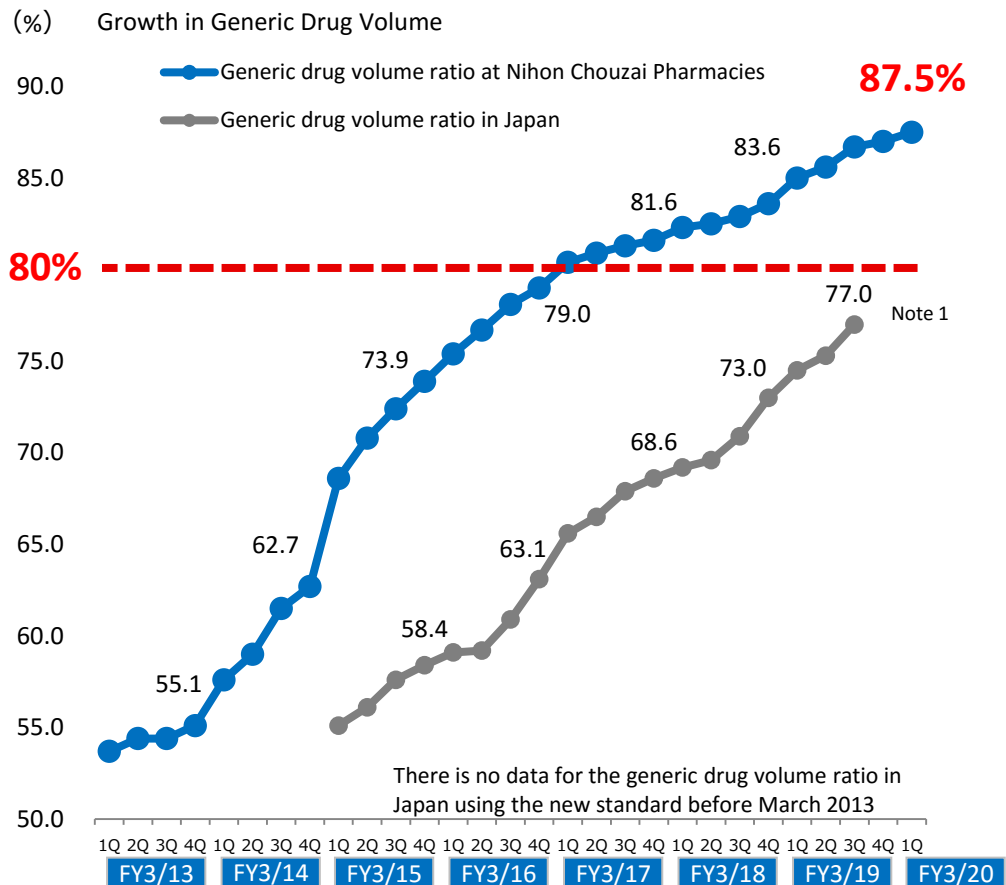


Share of premium pharmacies increased 7 pct. points (vs. April 2018)

- Premium (35pt)
- No premium

Promotion of the Use of Generic Drugs

Promotion of the Use of Generic Drugs

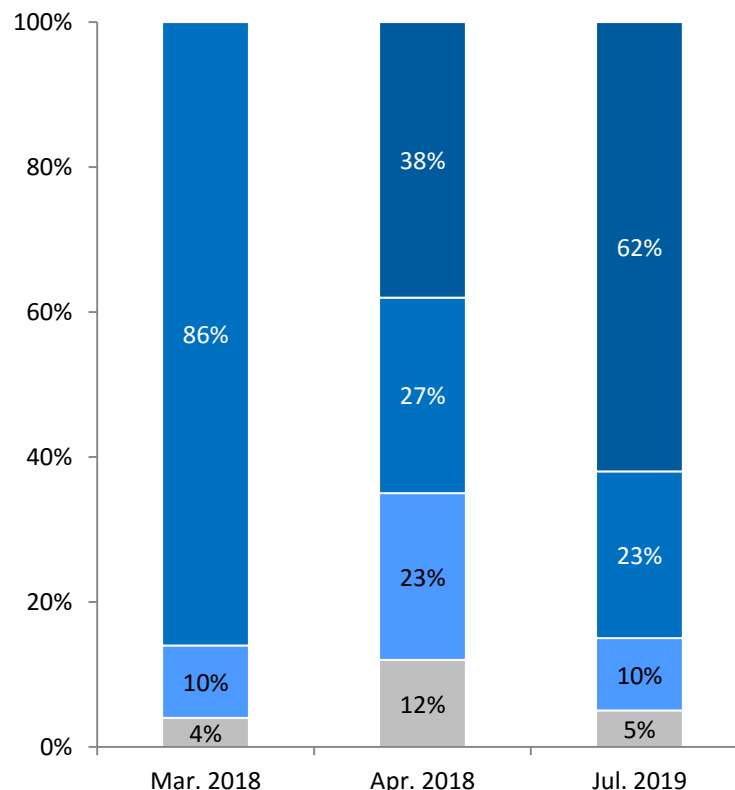


Promotion of the use of generic drugs →
Holds down the growth of health care expenditures

Increase internal sales in the pharmaceutical
manufacturing and sales business (Group synergies)

Note 1: The Ministry of Health, Labour and Welfare, Trends in Prescription Drug Expenses
Volume-based Generic Drug Share (New indicator)

Premium for Generic Drug Dispensing System



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

Type III (85%-, 26pt)
Type II (80% - 85%, 22pt)
Type I (75% - 80%, 18pt)
No premium

Share of type III premium pharmacies increased
24 pct. points (vs. April 2018)

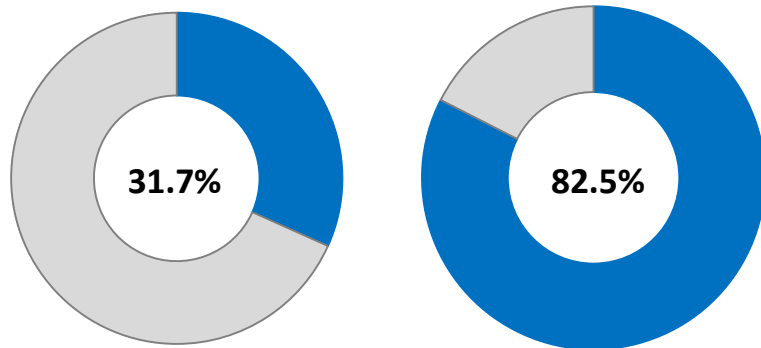
Initiatives for Family Pharmacists/Pharmacies and At-Home Medical Care

The pct. of family pharmacists decreased following the hiring of a large number of newly graduated pharmacists, but this pct. increased to 36.5% after excluding these new pharmacists. More measures for at-home medical care have produced a big increase in the number of these services provided per pharmacy.

Family Pharmacists and Pharmacies

(as of July 11, 2019, including newly hired new pharmacist graduates)

■ Pct. of family pharmacists ■ Pharmacies with a family pharmacist

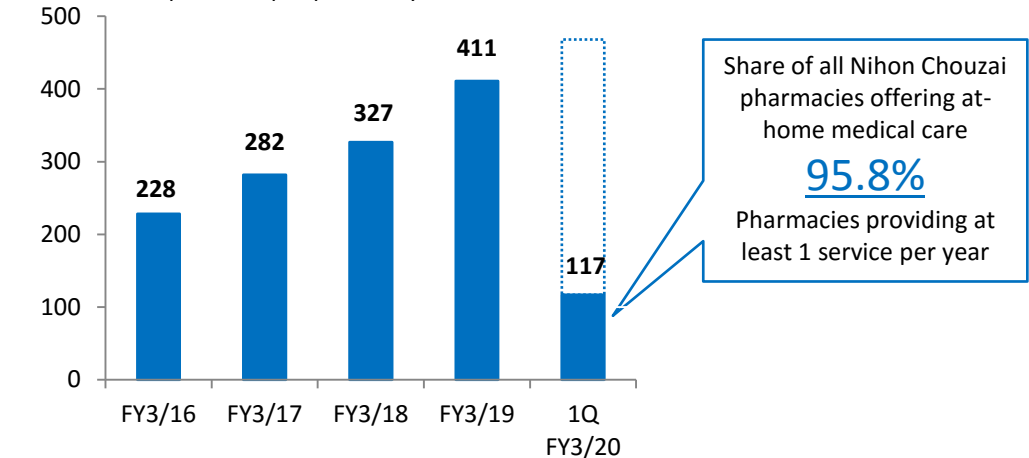


■ Number of family pharmacists per pharmacy



Promotion of High-quality At-home Medical Care

(Services) ■ At-home medical care services provided per pharmacy



Regional cooperation and interaction pharmacies (proposal)

- **Pharmacists visit patients at their homes**
- Capable of filling prescriptions for narcotic drugs and sterile pharmaceuticals
- Pharmacists have completed the required training
- Sharing of drug information about a patient with a hospital when an individual is admitted or discharged
- Pharmacy is configured to protect the privacy of patients

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

Excerpts from the proposed law submitted to the 198th Ordinary Diet Session as posted on the Ministry of Health, Labour and Welfare website

Pharmaceutical Manufacturing and Sales Business / Statement of Income

Sales increased 11.6% as internal and external sales were both higher.

Gross profit was up 22.0% mainly because of a sales strategy prioritizing profitability. Holding down SG&A expenses produced a big increase in operating profit. Earnings were far above the plan and set a new first-quarter record.

(Millions of yen)	1Q FY3/18 Results	1Q FY3/19 Results	1Q FY3/20 Plan	1Q FY3/20 Results	YoY change	YoY growth rate	Vs. plan
Net sales	9,407	9,754	11,176	10,881	1,126	+11.6%	-2.6%
Cost of sales	7,727	8,192	9,289	8,975	782	+9.6%	-3.4%
Gross profit	1,680	1,562	1,887	1,906	343	+22.0%	+1.0%
% to sales	17.9%	16.0%	16.9%	17.5%	-	-	-
SG&A expenses	1,362	1,503	1,485	1,107	(395)	-26.3%	-25.4%
% to sales	14.5%	15.4%	13.3%	10.2%	-	-	-
Operating profit	318	59	402	798	739	+1250.1%	+98.6%
% to sales	3.4%	0.6%	3.6%	7.3%	-	-	-

Components of YoY changes

◆ Net sales

1. Internal sales: Increase in volume-based sales ratio of dispensing pharmacy business, and effects of new store openings (higher sales)
2. External sales: Continued sales strategy to increase priority on profitability (slight increase in sales)

◆ Operating profit

1. Contribution to earnings from sales growth and a sales strategy prioritizing profitability based on distribution improvement guidelines (higher profit)
2. Higher depreciation and other expenses due to start of production at Tsukuba Plant No. 2 with state-of-the-art manufacturing equipment (lower profit)

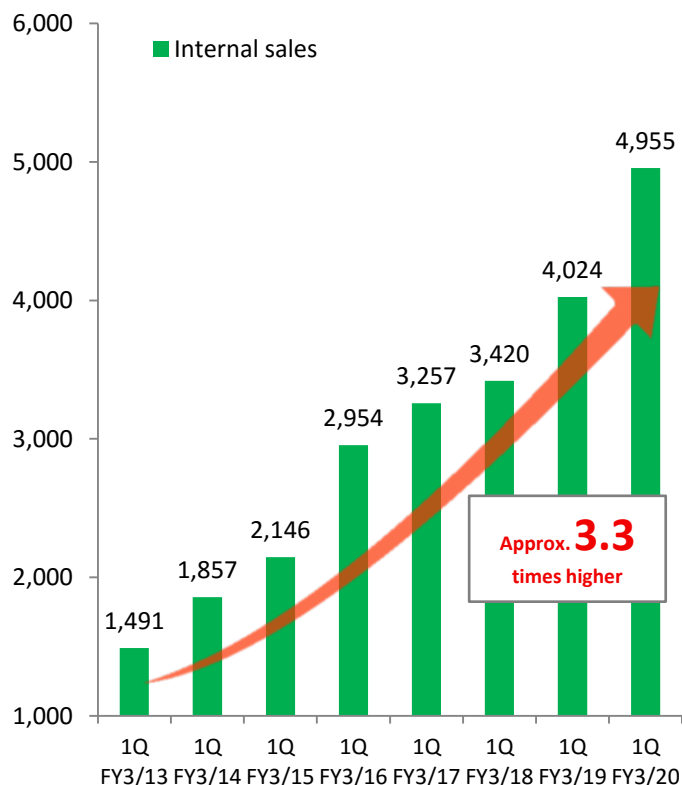
Growth of the Pharmaceutical Manufacturing and Sales Business

Internal sales increased steadily because volume-based share of generic drugs continued to increase in the dispensing pharmacy business and the number of Nihon Chouzai pharmacies rose due to new openings.

Pharmaceutical Manufacturing and Sales Business

Increase in internal sales

(Millions of yen)



Higher sales of generic drugs

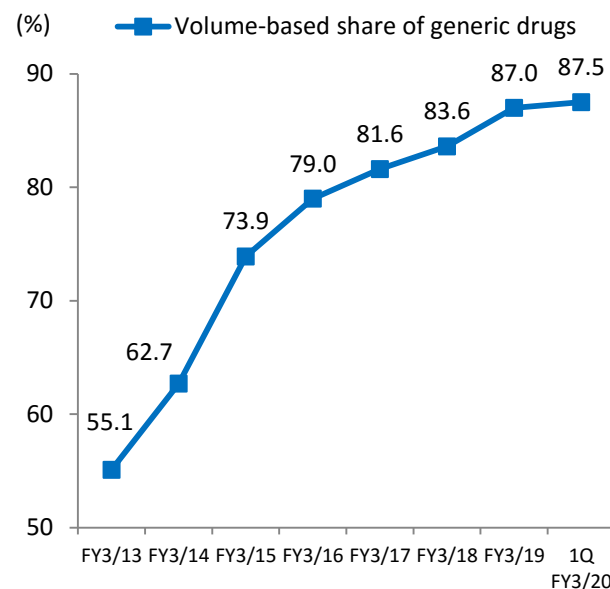
Growth of the Dispensing Pharmacy Business

Growth of the Pharmaceutical Manufacturing and Sales Business

Contribution to increase in internal sales

Dispensing Pharmacy Business

Increase in the volume-based share of generic drugs



Increase in pharmacy openings by using M&A and organic growth



Growth of the Pharmaceutical Manufacturing and Sales Business

Started selling 8 prescription drugs. Using R&D to increase the number of in-house drugs. Growth in capital expenditures ended with completion of Tsukuba Plant No. 2. Now that fixed expenses are stable, the goal is more earnings growth backed by higher sales.

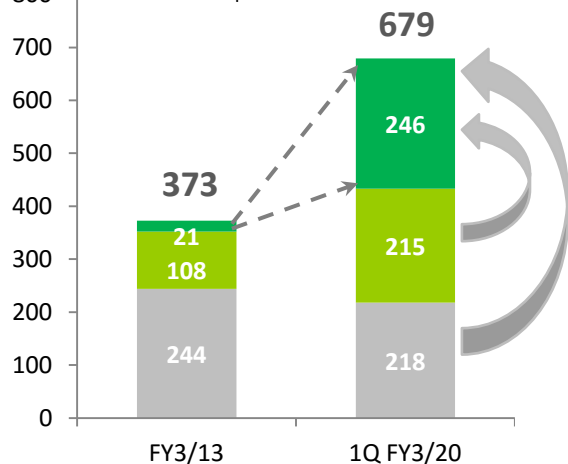
■ New NHI Listed Drugs sold in June 2019

8 prescription drugs were listed

■ Number of Product Items

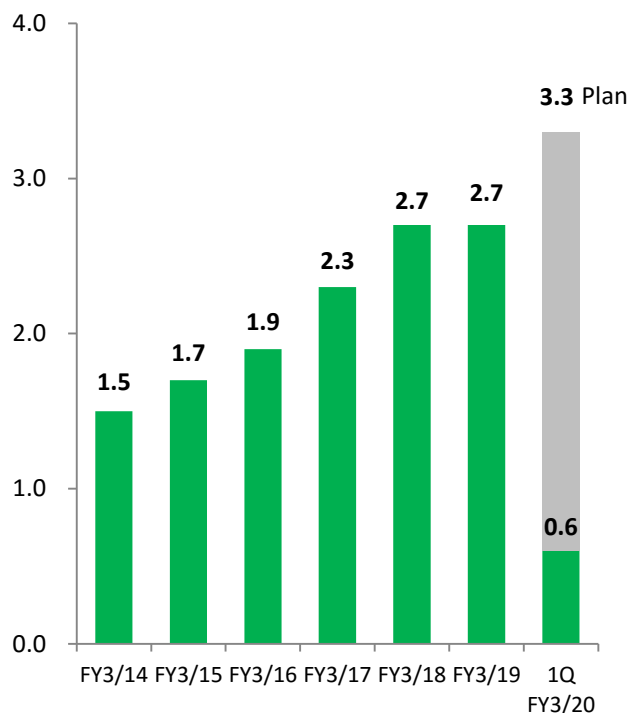
(Number of items)

- No. of in-house products (manufactured internally by Nihon Chouzai Group)
- No. of in-house products (manufacturing outsourced to other companies)
- In-licensed products



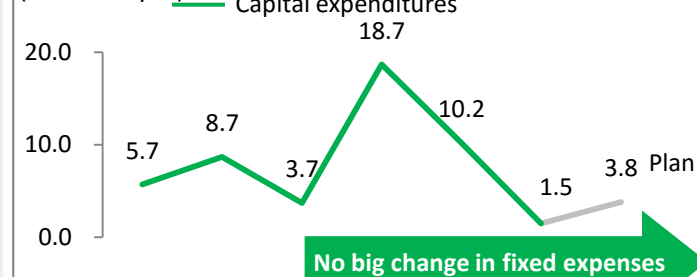
■ R&D Expenses (consolidated basis)

(Billions of yen)

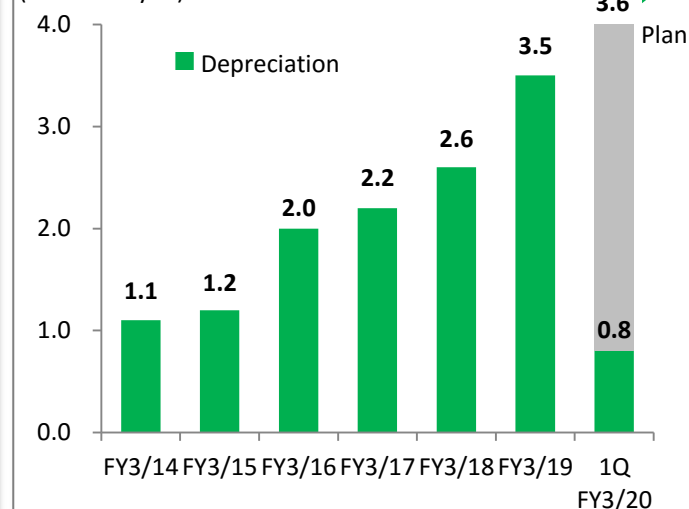


■ Capital Expenditures and Depreciation

(Billions of yen)



(Billions of yen)



Medical Professional Staffing and Placement Business / Statement of Income

Sales increased 11.8%, achieving the plan, as sales continued to increase for pharmacist and physician placements. Earnings were much higher, reaching the plan and setting a new first quarter record for this business. The main reason is the emergence of benefits of up-front investments in prior years for physician placement services.

(Millions of yen)	1Q FY3/18 Results	1Q FY3/19 Results	1Q FY3/20 Plan	1Q FY3/20 Results	YoY change	YoY growth rate	Vs. plan
Net sales	3,107	3,217	3,522	3,597	380	+11.8%	+2.1%
Cost of sales	1,833	1,958	2,077	2,026	68	+3.5%	-2.4%
Gross profit	1,273	1,258	1,445	1,570	312	+24.8%	+8.7%
% to sales	41.0%	39.1%	41.0%	43.7%	-	-	-
SG&A expenses	671	857	939	919	61	+7.2%	-2.1%
% to sales	21.6%	26.7%	26.7%	25.6%	-	-	-
Operating profit	601	401	505	651	250	+62.4%	+28.7%
% to sales	19.4%	12.5%	14.4%	18.1%	-	-	-

Components of YoY changes

◆ Net sales

1. Lower demand for pharmacist temporary staffing was offset by growth of the pharmacist permanent placement category (higher sales)
2. Growth of the physician placement business and benefits of expansion of service network and sales team (higher sales)

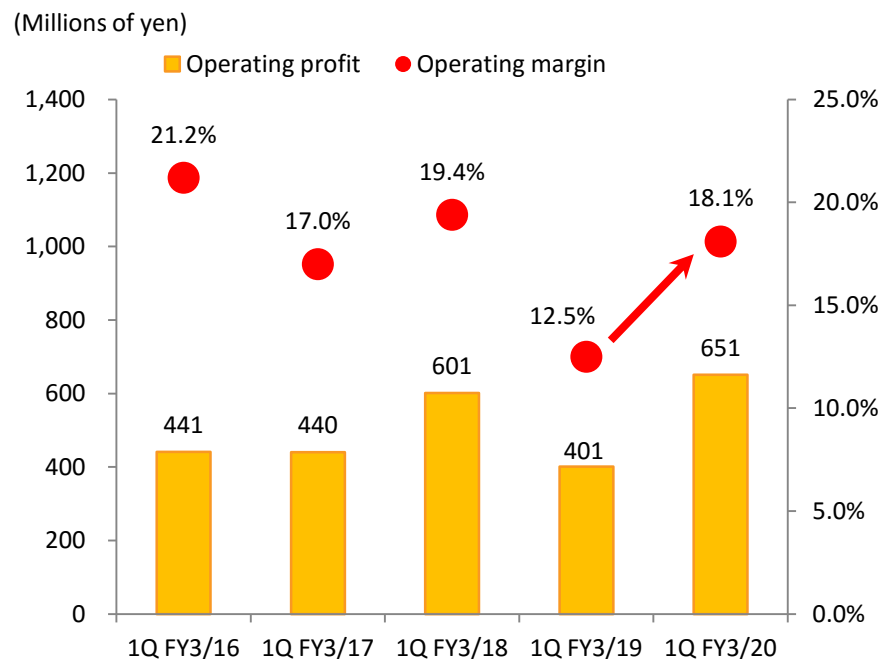
◆ Operating profit

1. Higher sales contributed to earnings (higher profit)
2. The physician placement category has advanced from the up-front investment phase to the stage of generating returns from these investments (higher profit)

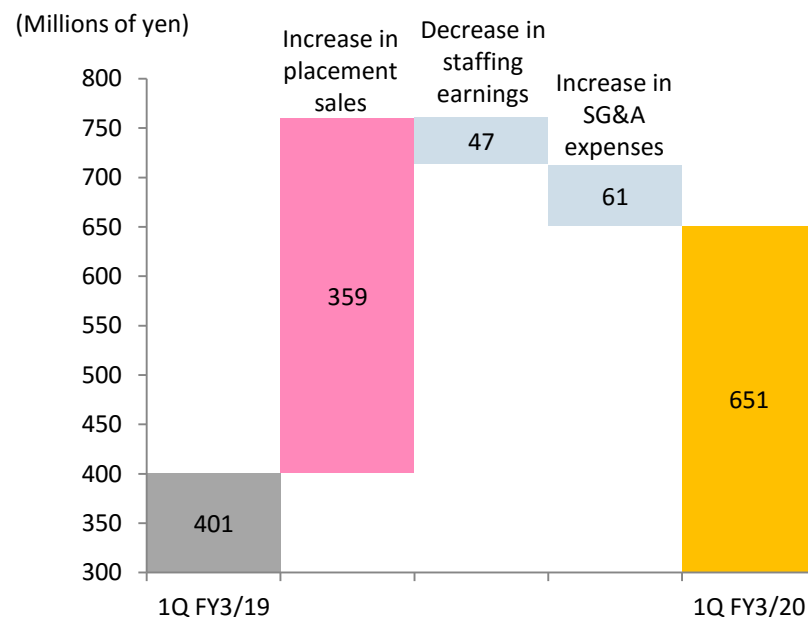
Growth of the Medical Professional Staffing and Placement Business

Double-digit sales growth despite declining demand for pharmacist temporary staffing and intense competition. A big increase in operating profit even though the temporary staffing profit margin declined. The main reason was a large increase in placement sales resulting from heightened sales capabilities that offset higher SG&A expenses. The operating margin improved significantly to 18.1%.

Operating Profit and Operating Margin



Components of Operating Profit

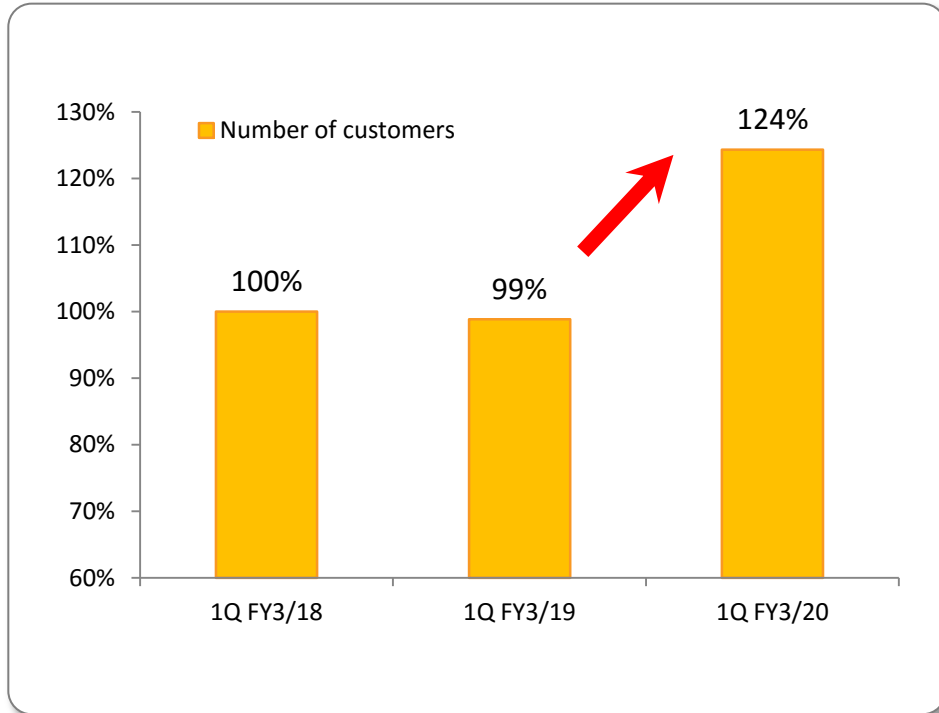


Growth of the Medical Professional Staffing and Placement Business / Pharmacist Staffing and Placement Business (Permanent Placement)

Newly hired salespeople are contributing to performance and the number of placement customers is significantly increasing along with the number of placement contracts, creating a sound base for growth of pharmacist placements. Strengthen the permanent placement business, which has higher profitability and growth potential, with the stable foundation of the temporary staffing business, which produces a steady income stream.

Growth of Pharmacist Placement Customers

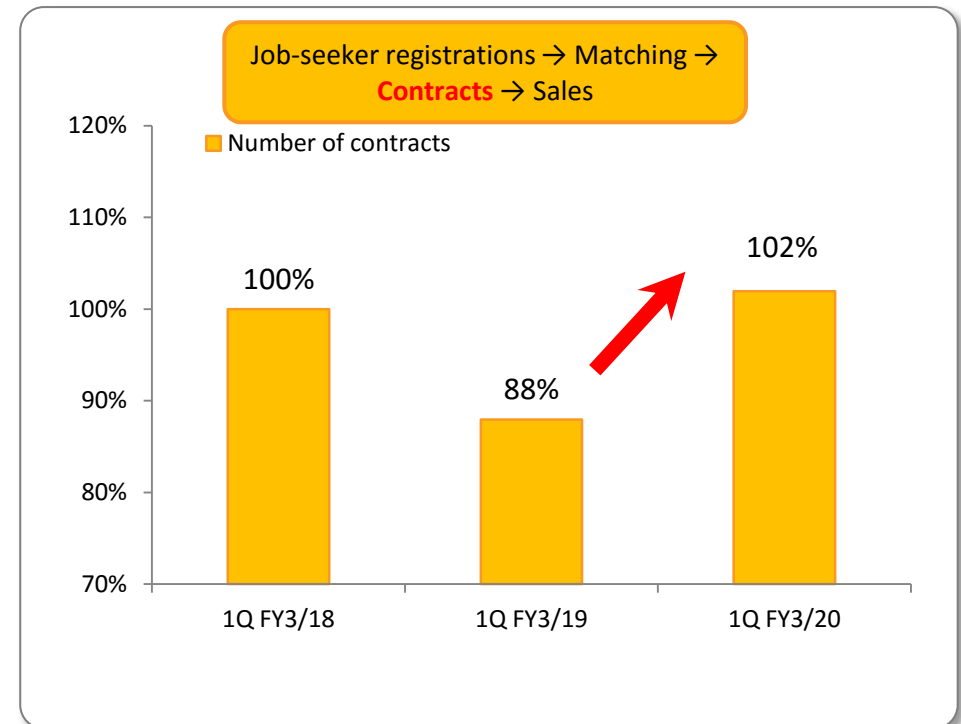
1Q FY3/18 sales = 100%



▶ Stronger sales capabilities are raising the number of customers using the pharmacist placement business, contributing to growth of sales and earnings.

Number of Placement Contracts

1Q FY3/18 placements = 100%

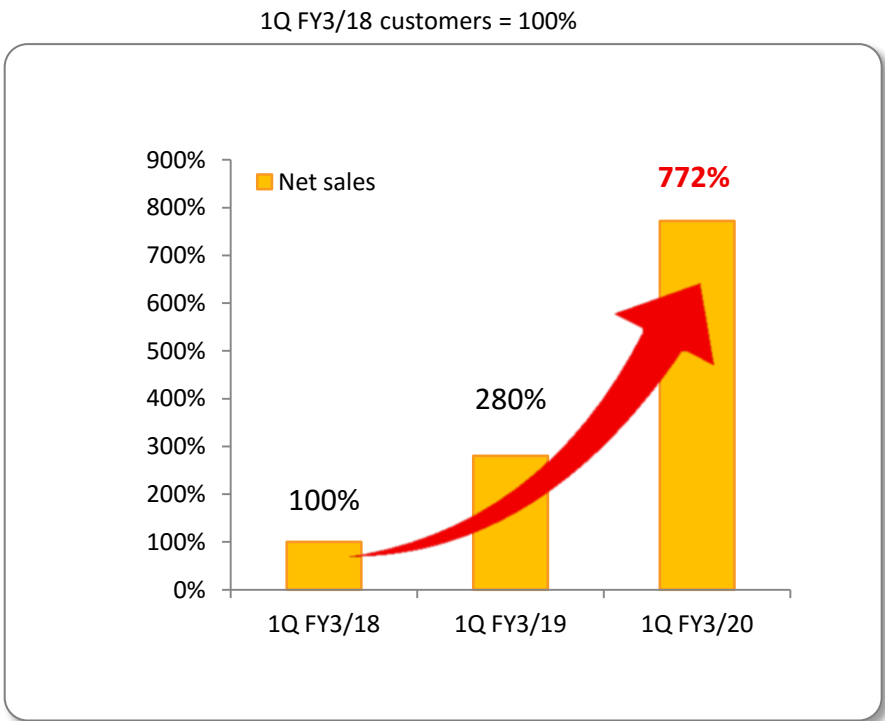


▶ V-shaped recovery in the number of contracts, an indicator of upcoming sales.

Growth of the Medical Professional Staffing and Placement Business / Physician Placement Business

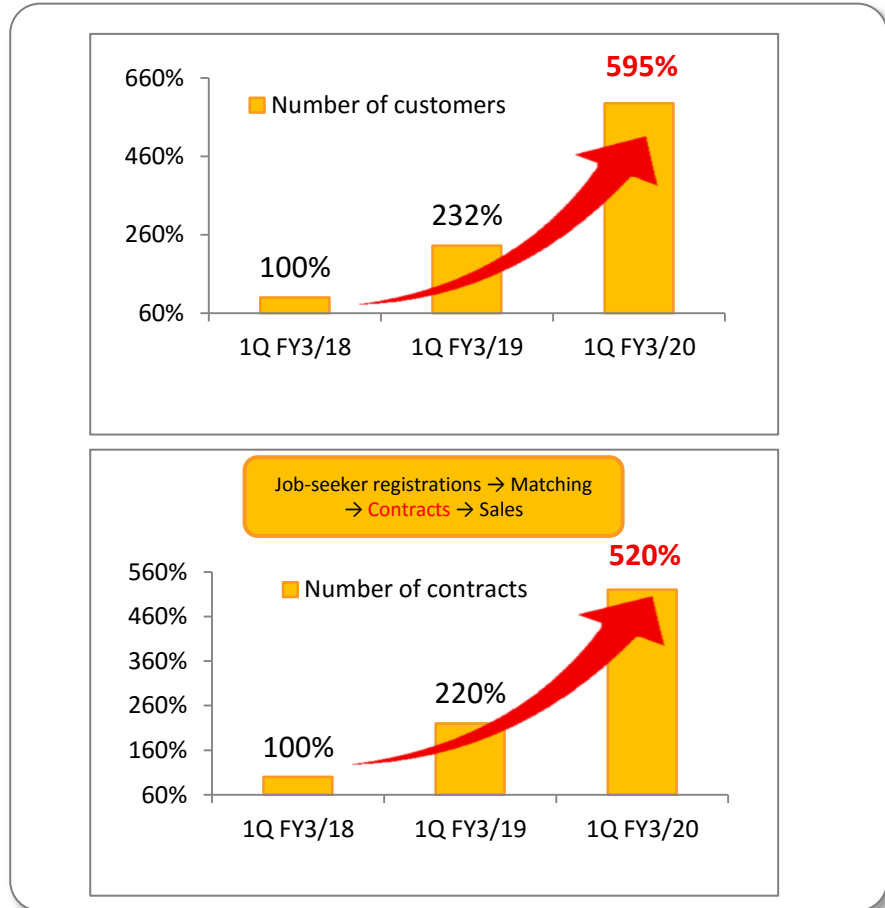
A larger number of salespeople for physician placements contributed to sales growth. The number of placement contracts, a forward indicator of sales, increased and the number of customers also increased. As a result, FY3/20 operating profit is expected to increase significantly in the physician placement business.

Growth of the Physician Placement Business



▶ Solid growth of physician placement business. A contribution to higher sales in 1Q FY3/20.

Number of Placement Contracts / Customers



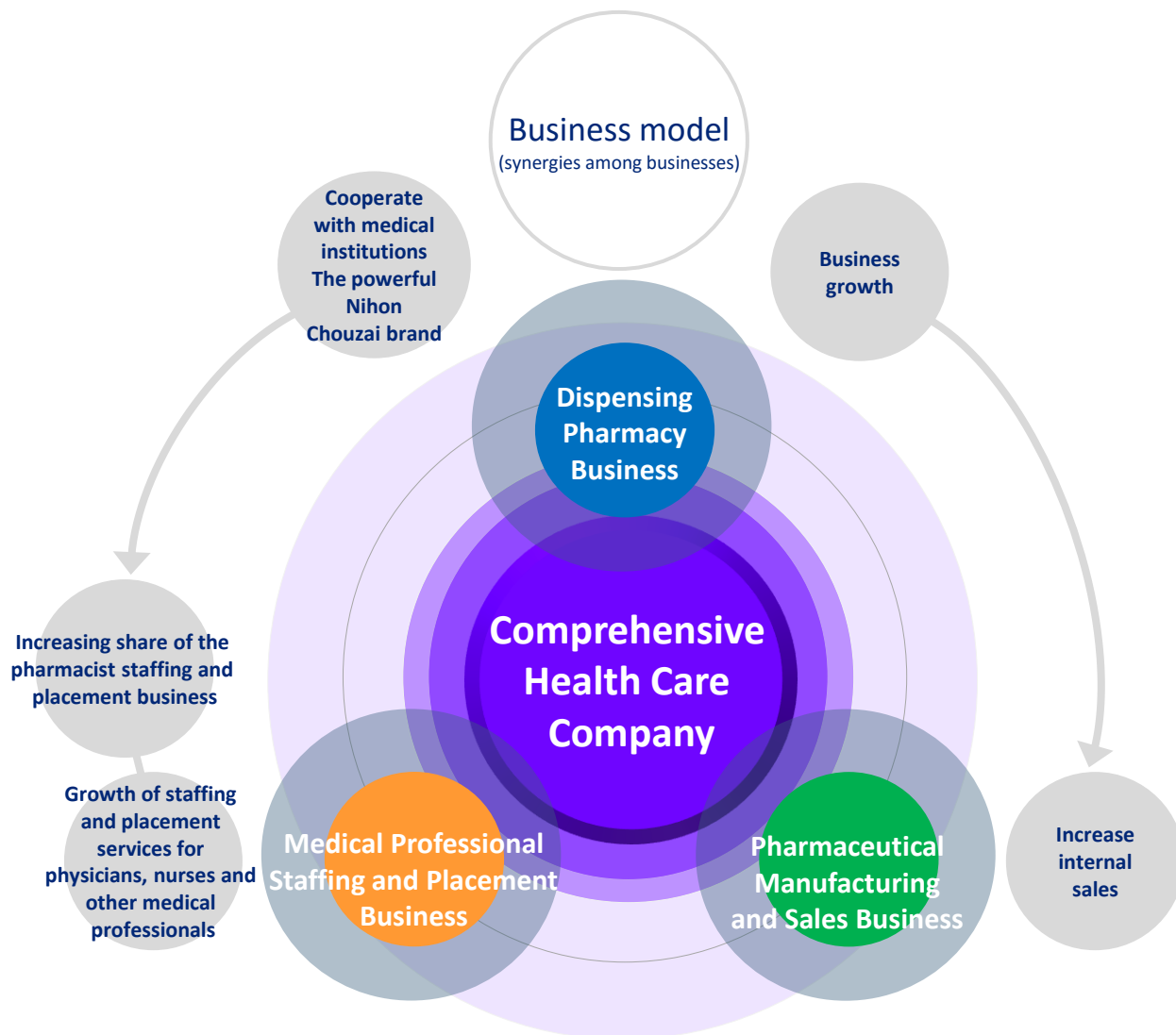
III. Reference Materials

Company Profile

Trade name	NIHON CHOUZAI Co., Ltd.
Established	March 1980
Headquarters	37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda Ward, Tokyo 100-6737, JAPAN +81-(0) 3-6810-0800 (general)
Representative	Yosuke Mitsuhara
Capital	3,953.02 million yen
Number of shares outstanding (including treasury shares)	16,024,000 shares
Fiscal year-end	March
Stock code:	3341
Businesses (consolidated)	Management of health insurance dispensing chain pharmacies Manufacture and sales of generic drugs, etc. Medical professional staffing and placement business Information provision and consulting business, etc.
Number of employees	5,110 (as of March 31, 2019) Note: Including part-time employees based on 8- hour conversion, consolidation basis
Number of pharmacies	Dispensing pharmacies: 600 Pharmacies specializing in the sales of general merchandise: 2 (as of June 30, 2019)

Our Objective

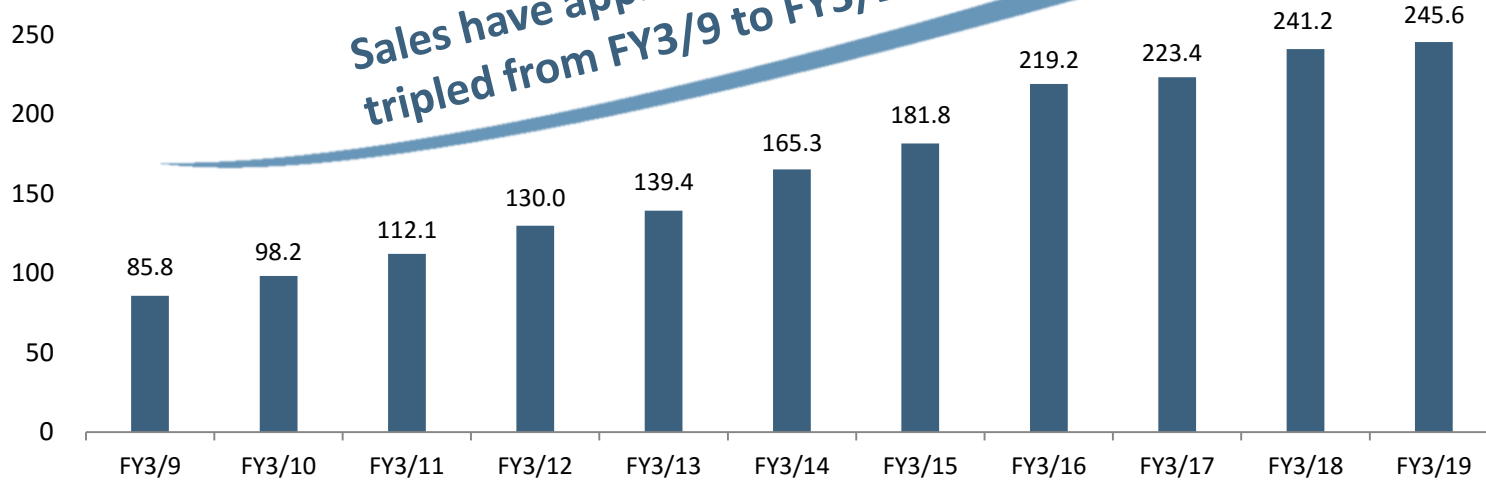
“True separation of the roles of drug
prescribing and dispensing services”



Consolidated Results: Net Sales / Operating Profit

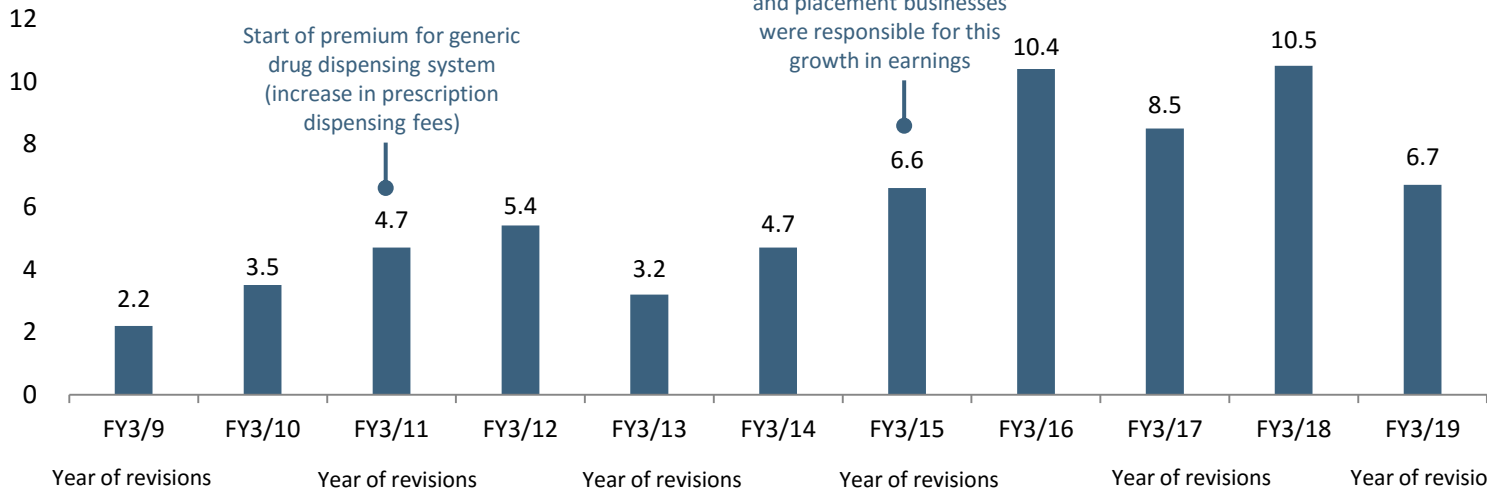
Consolidated Net Sales

(Billions of yen)



Consolidated Operating Profit

(Billions of yen)



Precautions

Performance targets, plans, business activities and other forward-looking statements concerning Nihon Chouzai and its subsidiaries are based on information that was available when this presentation was made. There may be significant changes to these statements due to business and other risk factors and other uncertainties. These statements are not promises concerning future performance. Actual results of operations may differ significantly from the outlook in this presentation for a number of reasons. In addition, this presentation is not a solicitation to make an investment in Nihon Chouzai. Investment decisions are the responsibility of individual investors.

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