

**NIHON CHOUZAI  
Co.,Ltd.**3341 Tokyo Stock Exchange First  
Section

28-Jun.-16

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and disclaimers appear  
at the end of this document.FISCO Ltd. Analyst  
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## ■ Absorbing the impact of revisions to dispensing fees and continuing to increase sales and profits

Nihon Chouzai Co., Ltd. <3341> (hereinafter, also “the Company”) is a leading domestic dispensing pharmacy company that ranks second in sales in the dispensing pharmacy industry. The Nihon Chouzai Group manufactures generic pharmaceuticals, so one of its key characteristics is that it has a manufacturing function. It additionally has a staffing business for medical practitioners and is developing its operations with a structure that covers three business departments.

The pharmaceutical dispensing fees were revised in FY16. The Japanese government, in its Vision of Pharmacies for Patients that indicates the form that dispensing pharmacies should take, is seeking for them to exist as a local infrastructure (social life infrastructure) as “family pharmacies” with advanced functions. The content of the current round of revisions to the dispensing fees is in accordance with this vision.

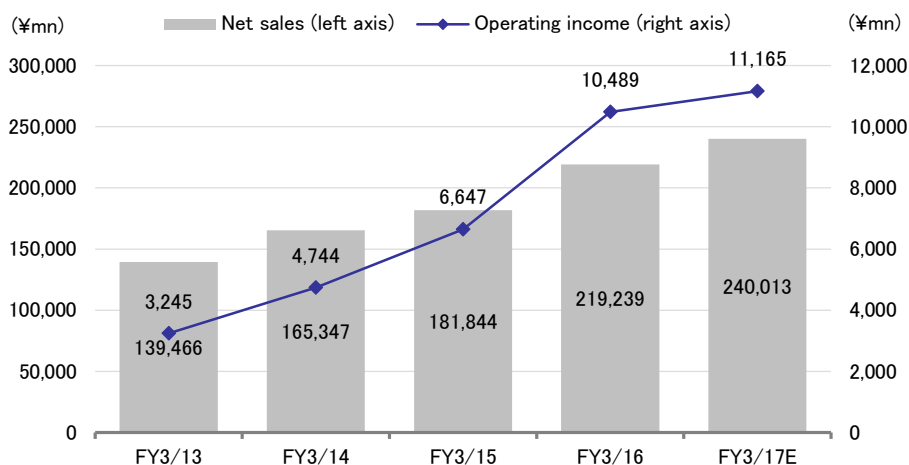
The Company has been advancing measures in advance of the government’s initiatives and it possesses industry-leading performance in terms of promoting the use of generic pharmaceuticals and providing home medical care services. For “family pharmacies” also, since the fall of last year it has been carrying out various campaigns, and in addition it has been steadily increasing its number of family pharmacists. At FISCO, we think that through this rapid initial response, the Company has the potential to convert the Japanese government’s revisions to dispensing fees and strengthening of regulations into its own growth engine.

The Company’s results continue to be positive. It upwardly revised its forecasts during FY3/16, and the results were in line with these revisions and it achieved record high profits. For FY3/17 also, it is aiming to absorb the impact of the revisions to the dispensing fees and continue to achieve record high profits. Moreover, a growth scenario can be envisaged in the medium-to-long term, including through the expansion of the dispensing pharmacies market and industry reorganization, and at FISCO we considered that the Company will leverage its strength – namely, of moving all of its business segments, including the Dispensing Pharmacy business, in the same direction as the initiatives being promoted by the Japanese government – and it can be expected to achieve growth that exceeds the industry average.

## ■ Check Point

- The situation is that firmly ascertaining patient information has become important for pharmacies
- The Company could convert the initiatives the Japanese government is promoting into its own growth engine
- The dispensing market will reach a scale of ¥10 trillion by FY20 if it maintains its growth rate up to the present time

### Trends in the consolidated results



## Overview of the FY3/16 results

### Major increases in sales and profits in FY3/16

#### (1) Analysis of the results

In March 2015, the Company announced its three year, medium-term management plan for FY3/16 to FY3/18. In the results for FY3/16, which is the plan's first fiscal year, net sales were ¥219,239mn (up 20.6% year-on-year (y-o-y)), operating income was ¥10,489mn (up 57.8%), recurring income was ¥9,878mn (up 64.5%), and net income attributable to the owners of the parent company was ¥6,329mn (up 127.8%), for major increases in both sales and profits. The Company upwardly revised its forecasts during the fiscal year, and the results were in-line with these revisions.

#### Overview of the FY3/16 results

	FY3/15			FY3/16					
	1H results	2H results	Full fiscal year results	1H results	2H results	Full fiscal year forecasts	Full fiscal year results		
							219,239	10,489	57.8%
Net sales	87,418	94,426	181,844	100,269	118,970	220,455	219,239	20.6%	-0.6%
Operating income	2,623	4,024	6,647	4,214	6,275	10,742	10,489	57.8%	-2.4%
Recurring income	2,318	3,685	6,003	3,936	5,942	9,491	9,878	64.5%	4.1%
Net income attributable to the owners of the parent company	1,157	1,621	2,778	2,471	3,858	5,611	6,329	127.8%	12.8%

Source: prepared by FISCO from the Company's financial results summary

Net sales grew by double-digit growth rates y-o-y in each of the 3 business departments, and on a Company-wide basis also, they increased by 20.6%. In terms of profits, the gross margin rose from 17.6% in the previous fiscal period to 17.8% in the current fiscal period, while the ratio of SG&A expenses to net sales fell from 13.9% to 13.0%. As a result, the operating income margin increased greatly, from 3.7% to 4.8% in the current fiscal period. SG&A expenses rose ¥3,296mn, but within this amount, ¥2,039mn was consumption tax payable as a result of the higher sales.

A feature of FY3/16 was that within the overall growth in the 3 business departments, the percentages of total income contributed by the Pharmaceutical Manufacturing and Sales business and the Medical Professional Staffing and Placement business each rose to new levels, and the total percentage contributed by both these segments in FY3/16 grew to 29%. This is twice the level of 2 years ago, of 15% in FY3/14.



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Results by business segment

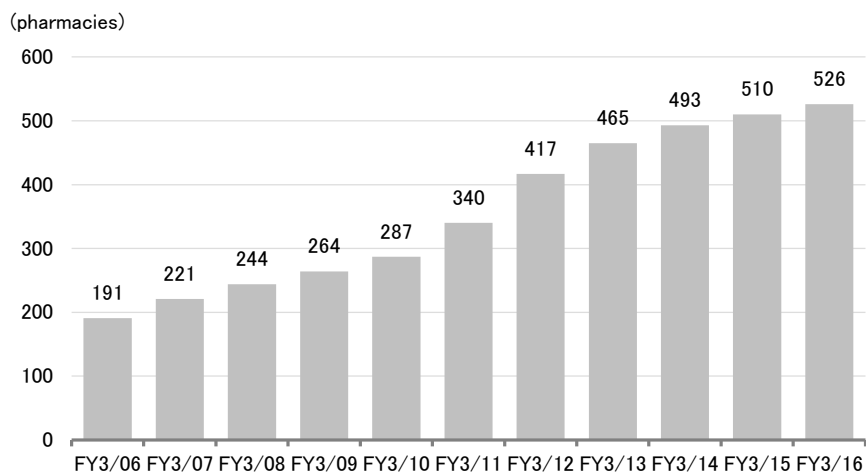
(¥mn)

	FY3/15			FY3/16						
	1H	2H	Full fiscal year	1H		2H		Full fiscal year		
				Results	y-o-y	Results	y-o-y	Results	y-o-y	
Net sales	Dispensing Pharmacy business	75,970	82,029	157,999	87,208	14.8%	103,666	26.4%	190,874	20.8%
	Pharmaceutical Manufacturing and Sales business	13,389	14,161	27,550	15,367	14.8%	17,231	21.7%	32,598	18.3%
	Medical Professional Staffing and Placement business	3,010	3,544	6,554	4,188	39.1%	4,746	33.9%	8,934	36.3%
	Before adjustment	92,371	99,733	192,104	106,764	15.6%	125,642	26.0%	232,406	21.0%
	Adjusted amount	-4,952	-5,307	-10,259	-6,494	-	-6,672	-	-13,166	-
	Net sales total	87,418	94,426	181,844	100,269	14.7%	118,970	26.0%	219,239	20.6%
Operating income	Dispensing Pharmacy business	3,113	4,585	7,698	4,252	36.6%	6,455	40.8%	10,707	39.1%
	Pharmaceutical Manufacturing and Sales business	836	1,052	1,888	1,210	44.7%	1,458	38.6%	2,668	41.3%
	Medical Professional Staffing and Placement business	619	647	1,266	820	32.5%	779	20.4%	1,599	26.3%
	Before adjustment	4,570	6,283	10,853	6,283	37.5%	8,691	38.3%	14,974	38.0%
	Adjusted amount	-1,947	-2,258	-4,205	-2,068	-	-2,416	-	-4,484	-
	Operating income total	2,623	4,024	6,647	4,214	60.7%	6,275	55.9%	10,489	-
Operating income margin	Dispensing Pharmacy business	4.1%	5.6%	4.9%	4.9%	-	6.2%	-	5.6%	-
	Pharmaceutical Manufacturing and Sales business	6.2%	7.4%	6.9%	7.9%	-	8.5%	-	8.2%	-
	Medical Professional Staffing and Placement business	20.6%	18.3%	19.3%	19.6%	-	16.4%	-	17.9%	-
	Company-wide total	3.0%	4.3%	3.7%	4.2%	-	5.3%	-	4.8%	-

Source: prepared by FISCO from Company materials

Looking in more detail at the business segments, in the mainstay Dispensing Pharmacy business, net sales were ¥190,874mn (up 20.8% y-o-y) and operating income was ¥10,707mn (up 39.1%). The Company upwardly revised its forecasts at the time it announced its Q2 results, mainly due to the strong performance of the Dispensing Pharmacy business. The factors behind the growth in net sales included the opening of new large-scale pharmacies, that sales trended favorably in existing pharmacies, and from the increase in prescriptions for a new drug to treat hepatitis C with a high drug price. In profits, in the context of it being a year without fee revisions, dispensing fees increased from factors such as the growth in generic pharmaceuticals and the promotion of home medical care services, while the Company's various measures to keep down costs were also successful, resulting in the major increase in profits.

Trends in the number of Nihon Chouzai dispensing pharmacies



Note: does not include specialist retail stores.

Source: prepared by FISCO from the Company's financial reports briefing materials

In the Pharmaceutical Manufacturing and Sales business, net sales were ¥32,598mn (up 18.3% y-o-y) and operating income was ¥2,668mn (up 41.3%). Demand for generic pharmaceuticals continued to steadily increase on the back of the initiatives being pursued by Japanese government to promote their usage. In this situation, the Company aimed to expand and strengthen its production system, including by increasing the production capacity of the Tsukuba plant S building of Nihon Generic Co., Ltd., while Choseido Pharmaceutical Co., Ltd. has completed the second plant at its headquarters. In addition, the Company worked to expand and arrange its product lineup, and in these ways, it succeeded in increasing sales and profits.

**Generic pharmaceuticals production capacity**

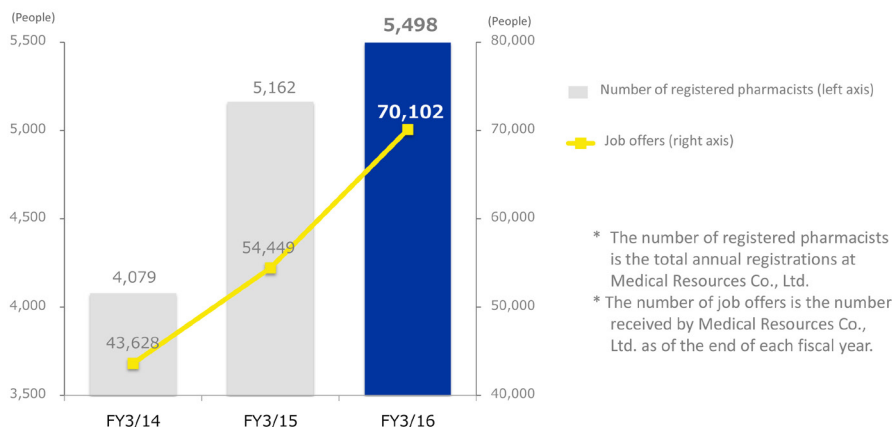
Company name	Plant name	Production capacity (100mn tablets/year)			
		FY3/15	FY3/16	FY3/17 (E)	Target
Nihon Generic	Tsukuba plant N building	10	10	10	10
	Tsukuba plant S building	13	13	26	26
	Tsukuba second plant	-	-	-	100
	Kasukabe plant	9	9	9	9
	Sub-total	32	32	45	145
Choseido Pharmaceutical	Headquarters first plant	7	7	7	7
	Headquarters second plant	2	2	2	2
	Kawauchi plant	2	3	3	3
	Sub-total	11	12	12	12
<b>Total</b>		<b>43</b>	<b>44</b>	<b>57</b>	<b>157</b>

Source: prepared by FISCO from the Company's financial reports briefing materials

In the Medical Professional Staffing and Placement business, net sales were ¥8,934mn (up 36.3% y-o-y), and operating income was ¥1,599mn (up 26.3%). In addition to sales efforts to develop new clients for staff placements and to retain existing registered users, in conjunction with the further expansion and strengthening of the roles of pharmacists described in the Vision of Pharmacies for Patients published by the Ministry of Health, Labour and Welfare in October 2015, demand for pharmacist staffing and placement services has risen to the next level, pushing-up profits in this business.

**Trends in the results of the Medical Professional Staffing and Placement business**

◆ Number of Registered Pharmacists and Job Offers



Source: the Company's FY3/16 financial results briefing materials

**(2) Disposal of treasury stock and new share allotment**

On November 24, 2015, the Company resolved to dispose of treasury stock of 2 million shares and to carry out a new share allotment alongside its revision to the dividend forecast, and finally it raised funds of ¥9.2bn through a general public offering of 1.75 million shares and a disposal of treasury stock by third party allotment of 223,700 shares. Within the amount raised of approximately ¥9.2bn, around ¥7.2bn is scheduled to be used for investment to strengthen the production capacity of its subsidiary Nihon Generic, with the remaining ¥2bn to be used to redeem corporate bonds.

A feature of the Company is that the manufacture and sale of the generic pharmaceuticals is carried out by subsidiaries within the Group, and the core subsidiary of Nihon Generic is currently constructing a new plant that will have a production capacity of 10 billion tablets, with it being scheduled for completion by March 2018. At FISCO, we think that the current disposal of treasury stock and the new share allotment will have positive effects for the Company in the medium-to-long term by contributing to improving its equity ratio, which has been an issue for the Company up until now, and by stabilizing its financial foundations.

## ■ The main details of the FY16 dispensing fee revisions

### In FY16, the Japanese government also revised the dispensing fee points table in accordance with it being a medical fees revision year

#### (1) Dispensing pharmacies' revenue structure

Fundamentally, together with hospitals (doctors), dispensing pharmacies are incorporated into the Japanese government's health insurance system, and are therefore also known as insurance pharmacies. Insurance pharmacies' fees (revenue) are determined by a (medical fees) points system that forms the basis for the revenue calculations stipulated in the health insurance system. The Japanese government (the Ministry of Health, Labour and Welfare) changes and adjusts these medical fees to keep down medical costs and to motivate the relevant parties toward achieving its health care policies, and the fees are revised once every two years. FY16 was a medical fees revision year, and as part of these revisions, the dispensing fees points table was also revised.

The main content of these revisions are described in detail below, but in order to understand them, it is first necessary to understand dispensing pharmacies' basic revenue structure. When breaking down the revenue of dispensing pharmacies, the most easy-to-understand way is to look at the details of the receipts issued by the dispensing pharmacies. The dispensing fees per prescription are comprised of three main fees; the dispensing technical fee, the pharmacy admin fee, and the drug fee. For the drug fee, even if the fee points are high, a significant portion is comprised of the cost price. So from the perspective of profits, the dispensing technical fee and the pharmacy admin fee are more significant.

The dispensing technical fee is further subdivided, including into the basic dispensing fee, the standard dispensing incentives, the generic pharmaceuticals dispensing system incentives, and the compounding fee. Within these fees, it can be said that essentially, it is difficult for the dispensing pharmacies to affect the compounding fee through their management efforts. In contrast, the basic dispensing fee, the standard dispensing incentives, and the generic pharmaceuticals dispensing system incentives not only form the basis of the dispensing pharmacies' revenue, to a considerable extent they are elements that can be changed through the pharmacies' own management efforts. To say this in other way, the items that are the easiest for the Japanese government to utilize when it wants to keep down medical costs and to promote specific initiatives by revising the dispensing fees are the basic dispensing fee, the standard dispensing incentives, and the generic pharmaceuticals dispensing system incentives.

### The situation is that firmly ascertaining patient information has become important for pharmacies

#### (2) Revisions to the basic dispensing fee

In the FY16 revisions to the dispensing fees, the basic dispensing fee was revised targeting the major dispensing chains, including the Company. Previously, the basic dispensing fee was calculated based on the basic dispensing fee level 1 (41 points) and the basic dispensing fee level 2 (25 points) for pharmacies deemed to be "special cases." The requirement to be deemed a special case was to fill over 4,000 prescriptions per month and to have a concentration ratio\* exceeding 70%, or to fill over 2,500 prescriptions per month and have a concentration ratio exceeding 90%. (There was a provision to exempt 24-hour pharmacies from the 2,500 prescriptions per month with 90% concentration ratio requirement.)

\* the concentration ratio is the dispensing ratio of prescriptions from specified health care institutions.

As this difference of 16 points is applied to all of the prescriptions handled by the relevant pharmacies, its impact on their revenues is huge. In the case of a pharmacy that handles an average of 200 prescriptions per day, the calculation becomes 200 prescriptions x 16 points x 22 days (assuming it is closed 2 days per week) x 12 months x ¥10/point = ¥8,448,000, meaning that its annual sales are reduced by this amount.

**The basic dispensing fees after the FY16 revisions**

	Basic dispensing fee classification		In the case of a special exemption	In the case of the application of a 50/100 subtraction
Normally	Basic dispensing fee level 1	41 points	-	21 points
Special case	Basic dispensing fee level 2 (previous special case)	25 points	Becomes basic fee level 1	13 points
	Basic dispensing fee level 3 (a hospital adjacent-type pharmacy special case)	20 points	Becomes basic fee level 1	10 points
	Basic dispensing fee level 4 (basic fee level 1 uncompleted subtraction)	31 points	-	16 points
	Basic dispensing fee 5 (basic fee level 2 uncompleted subtraction)	19 points	Becomes basic fee level 4	10 points
	Special basic dispensing fee (basic fee level 3 uncompleted subtraction)	15 points	Becomes basic fee level 4	8 points

Source: prepared by FISCO

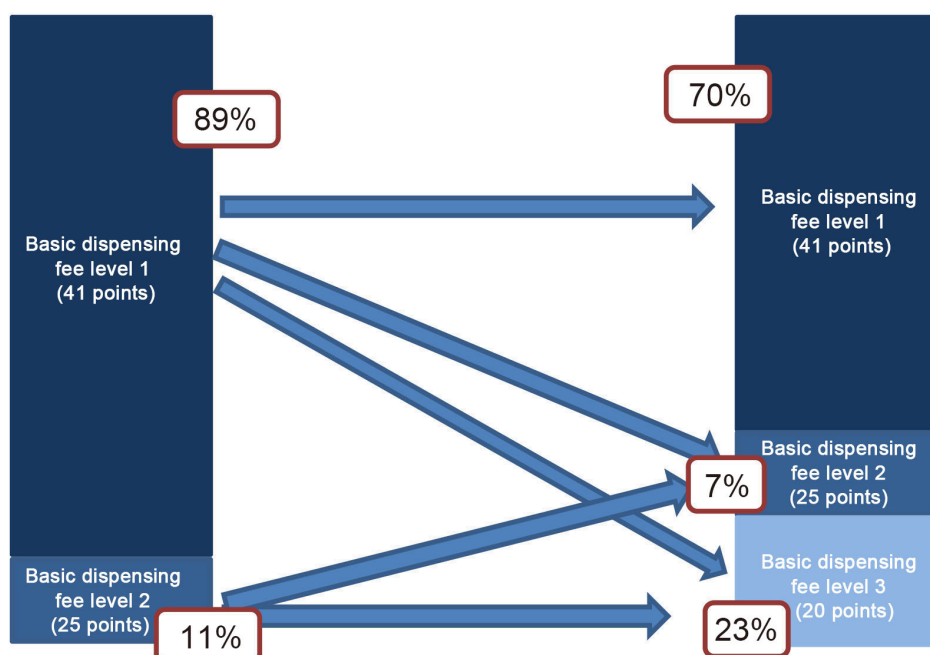
In the FY16 revisions, the basic dispensing fee level 3 (20 points) was added, targeting hospital adjacent-type pharmacy chains. The special case conditions are that among insurance pharmacies belonging to a corporate group that fill in excess of 40,000 prescriptions per month from within the same corporate group, those pharmacies with a concentration ratio exceeding 95%, or those with a real estate leasing relationship with a specified health care institution\*. From this, it is anticipated that there will be cases of pharmacies corresponding to the basic dispensing fee level 1 or level 2 classification that will be changed to the basic dispensing fee level 3 classification.

Also, the previously described condition to correspond to the basic dispensing fee level 2 was changed and newly set as “fill over 2,000 prescriptions per month and have a concentration ratio exceeding 90%” and “fill over 4,000 prescriptions per month from specified medical institutions (regardless of the concentration ratio),” and it is expected that from the current fiscal period, there will be cases of pharmacies that previously calculated fees using basic dispensing fee level 1 being changed to basic dispensing fee level 2.

With regards to the basic dispensing fees level 4 and level 5, and the special basic dispensing fee, there are special cases of the subtraction of points from pharmacies that have not concluded negotiations with pharmaceutical manufacturers for the drug purchase prices, but the Company does not have any pharmacies corresponding to this.

\* “A real estate leasing relationship with a specified health care institution” refers typically to a pharmacy that has opened in a medical mall

**The impact of the revisions to the basic dispensing fee**



Source: prepared by FISCO

The figure above shows the impact on the Company of the revisions to the basic dispensing fees. Prior to the revisions, within all of its pharmacies (526 pharmacies), 89% calculated fees using the basic dispensing fee level 1. But on applying the standards after the revisions, the percentage of pharmacies that calculate fees using basic dispensing fee level 1 is reduced to 70%. Conversely, 23% of pharmacies are changed to using basic dispensing fee level 3.

With regards to the basic dispensing fee itself, as medical institutions are densely concentrated in urban areas, even if there is a pharmacy adjacent to a major hospital, in many cases there are several other medical facilities and clinics scattered around in the surrounding area. The Company is strengthening its sales efforts to capture more of the prescription demand from these sorts of medical facilities in surrounding areas, and thereby increase the total number of prescriptions that it fills, which will at the same time ultimately lead to a lowering of the concentration ratio.

At FISCO, we think that the Company's pharmacy-opening strategy, of continuing to open pharmacies of a certain scale with an emphasis on them functioning as family pharmacies, is persuasive. More details are given below, but the situation is that the direction that the Japanese government is promoting and which the Company itself is aiming for is transforming the nature of pharmacists' work into having an interpersonal-relations aspect, and therefore firmly ascertaining patient information has become an important factor. It would seem that rather than the location of the pharmacy being important, what will become important is the role and functions that the pharmacy can play.

## **The Company's generic pharmaceuticals usage ratio has reached 80% as the Company-wide average**

### **(3) Revisions to the standard dispensing incentives**

Standard dispensing incentives have the quality of adding points (incentivizing) to the basic dispensing fee in the pharmacy "system". In terms of the revised points, previously there was a two-level configuration of standard dispensing incentives level 1 (12 points) and level 2 (36 points) according to the degree of enhancement of the pharmacy's system. But after the revisions, it was simplified to 32 points only. The check items for the "system" include the pharmacy's opening times, the number of items in stock, if it has a 24-hour system, and its home care services, and while these items have not been changed, the level to be cleared in order to obtain the additional points has been raised overall.

However, the item we should pay most attention to is "Other", in which items such as "A structure considerate of privacy," "Health consultations or a pharmacy noticeboard to the effect of providing a health classroom," "Notifications on family pharmacist guidance fees, etc.," and "The practical experience of management pharmacists," have been added. Through this, it is considered that there will be cases of pharmacies that previously took the standard dispensing incentives level 1 (12 points) that will now no longer take any standard dispensing incentives points. In addition, even if they continue to take the standard dispensing incentives points, pharmacies that previously took the standard dispensing incentives level 2 (36 points) will be reduced to taking 32 points. On the other hand, as there will be cases where pharmacies must extend their opening hours, their profitability is expected to worsen.



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The main points in the revisions to the standard dispensing incentives

	Before the revisions			After the revisions	
	Standard dispensing incentives level 1 (12 points)	Standard dispensing incentives level 2 (36 points)	No additional points	Standard dispensing incentives (32 points)	No additional points
Pharmacy opening hours	Pharmacy opening hours in accordance with the demands of local insurance medical institutions and patients			Weekdays, 8 hours or more. Open for a certain number of hours on either Saturday or Sunday, and also open for 45 hours or more a week.	
Items in stock	700 items or more	1,000 items or more		1,200 items or more	
24-hour system	Independently or in cooperation with neighboring insurance pharmacies (less than 10 cooperating pharmacies)	The relevant pharmacy responds independently		Independently or in cooperation with neighboring insurance pharmacies (less than 3 cooperating pharmacies)	
Home care services				Establishment of a home care services system	
				Provision of home care services (provided more than 10 times a year)	
Number of prescriptions filled, concentration ratio	Not applicable as a basic dispensing fee special case			Not applicable as a basic dispensing fee special case	
				Pharmacies filling over 600 prescriptions per month and a concentration ratio of less than 70%	
Other	Medical narcotic retailer license			Medical narcotic retailer license	
	Implementing regular training			Implementing regular training	
	Collecting and disseminating information through the Internet			Collecting and disseminating information through the Internet, PMDA Medinavi registration requirements	
				A structure considerate of privacy	
				Health consultations or a pharmacy noticeboard to the effect of providing a health classroom	
				Notifications on family pharmacist guidance fees, etc.	
Ratio of Nihon Chouzai's pharmacies				The practical experience of management pharmacists	
				Pharmacies with a prescription concentration ratio exceeding 90% to have a generic pharmaceuticals dispensing ratio of more than 30%	
	58%	30%	12%	38%	62%

Source: prepared by FISCO

Looking at the impact on the Company of the revisions to the standard dispensing incentives, before the revisions, 12% of its pharmacies had no incentives points, but applying the post-revision rules, this increases to 62%. With regards to this, the requirements have been relaxed for the Company, such as decreasing the standards for the number of times home care services are to be provided, and to a certain extent it is possible that the ratio of pharmacies obtaining incentives will increase.

**(4) Revisions to the generic pharmaceuticals dispensing system incentives**

The generic pharmaceuticals dispensing system incentives is a system in which a number of points are provided as incentives once the generic pharmaceuticals dispensing ratio (volume basis) exceeds a certain amount. In the previous calculations, if the generic pharmaceuticals ratio was above 55%, incentives level 1 (18 points) were applied, and if above 65%, incentives level 2 (22 points) were applied. After the revisions, while the number of incentives points remains the same, the generic pharmaceuticals dispensing ratios were raised to above 65% for incentives level 1, and to above 75% for incentives level 2.





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The main points in the revisions to the  
generic pharmaceuticals dispensing system incentives

	Before the revisions			After the revisions		
	Number of points	The generic pharmaceuticals dispensing ratio	The ratio of Nihon Chouzai's pharmacies	Number of points	The generic pharmaceuticals dispensing ratio	The ratio of Nihon Chouzai's pharmacies
The generic pharmaceuticals dispensing system incentives level 1	18 points	Above 55%	6%	18 points	Above 65%	20%
The generic pharmaceuticals dispensing system incentives level 2	22 points	Above 65%	91%	22 points	Above 75%	71%
No incentives	0 points	Less than 55%	3%	0 points	Less than 65%	9%

Source: prepared by FISCO

Upon estimating the impact of the revisions to the generic pharmaceuticals dispensing system incentives based on the situation at the end of March, we find that the ratio of pharmacies that obtained incentives level 2 (22 points) before the revisions was 91%, but after the revisions this declines to 71%. But considering that as of April 2016, the Company's generic pharmaceuticals usage ratio had reached a Company-wide average of 80%, at FISCO we think it is possible that to a considerable extent it will be able to negate the impact of the revisions to the generic pharmaceuticals dispensing system incentives.

**(5) Revisions toward promoting the use of generic pharmaceutical in medicine**

Within the current revisions to medical fees, there are those revisions that can be expected to have positive effects for the Company. These are the revisions to the policy to promote the use of generic pharmaceuticals in hospitals. The point here is that the formula for the index for the generic pharmaceuticals quantity system incentives relative to the hospitalization basic fee has been changed (changed from an "items-selected ratio" to a "quantity-used ratio"). It is considered that through this change, the quantity of generic pharmaceuticals that must be used to obtain the incentives will increase. In addition, when doctors write a prescription, the generic name prescription incentive was added if the pharmaceutical's generic name was written, but this has been revised in the direction of being more generalized, rather than having a generic name on the prescription. Further, the functional evaluation coefficient of DPC-targeted hospitals has been reviewed, and the system of incentives for the outpatient use of generic pharmaceuticals has been newly established.

The main points in the measures to promote the use of generic pharmaceuticals in medicine

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

Source: the Ministry of Health, Labour and Welfare's homepage

The Company's Pharmaceutical Manufacturing and Sales business is expected to benefit from these initiatives, as they are likely to have a major impact on the total demand for generic pharmaceuticals within Japan. The Company has been forecasting for some time this strengthening of government initiatives to promote the use of generics, and therefore it has been continuously bolstering its facilities and production capabilities at its subsidiaries, Nihon Generic and Choseido Pharmaceutical.

## ■ Nihon Chouzai's growth strategy and investment viewpoint

### Made an extremely strong start in the first fiscal year of the medium-term management plan

#### (1) Overview of the medium-term management plan

In April 2015, the Company announced its three year, medium-term management plan for FY3/16 to FY3/18. As previously described, it has made an extremely strong start in FY3/16, which is the first fiscal year of the plan. In this plan, based on its corporate philosophy of "realizing the true separation of drug prescribing and dispensing," the Company has set its main targets for FY3/18 of net sales of ¥273.8bn, and operating income of ¥12.2bn, and the plan describes the priority measures toward achieving these targets.

#### The main targets in the new medium-term management plan

<b>Our objective</b>	Achieve the "true separation of the roles of drug prescribing and dispensing services"		
<b>Major targets (FY3/18)</b>	Net sales	<b>50% growth</b>	FY3/15: ¥181.8 billion <b>FY3/18: ¥273.8 billion</b>
	Operating income	<b>100% growth</b>	FY3/15: ¥6.6 billion <b>FY3/18: ¥12.2 billion</b>
	Operating income margin	<b>Increase to 4.5%</b>	FY3/15: 3.7% <b>FY3/18: 4.5%</b>
	Corporate governance	Properly implement Japan's Corporate Governance Code for more growth in corporate value	

Source: FY3/15 results briefing materials

#### Priority measures in each business

<b>Dispensing pharmacy business</b>	<ul style="list-style-type: none"> <li>Increase at-home medical care</li> <li>Use many actions to encourage the use of generic drugs</li> <li>Continue to open many pharmacies by using a variety of store formats</li> <li>Establish a sound framework for adapting to Japan's medical system reforms</li> </ul>
<b>Pharmaceutical manufacturing and sales business</b>	<ul style="list-style-type: none"> <li>Grow faster than the overall market</li> <li>Rank among the industry leaders in the number of products sold</li> <li>Build an infrastructure for the stable supply of high-quality products</li> </ul>
<b>Medical professional staffing and placement business</b>	<ul style="list-style-type: none"> <li>Quickly increase annual sales to more than 10 billion yen</li> <li>Increase the monthly number of medical professionals newly registering for placements</li> </ul>
<b>Information provision and consulting services</b>	<ul style="list-style-type: none"> <li>Develop new products in the data provision business</li> </ul>

Source: FY3/15 results briefing materials

\* Sales and earnings of this sector are included in the dispensing pharmacy business.

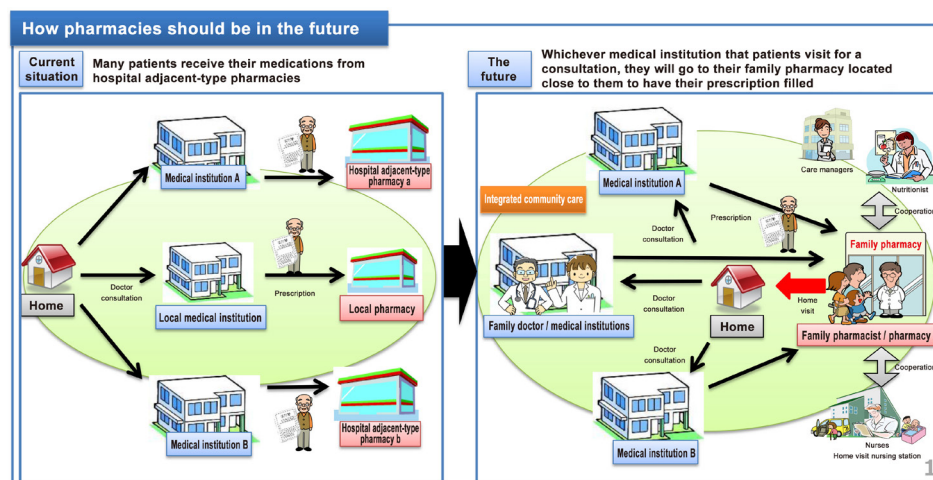
**(2) The direction of the Japanese government's initiatives**

One of the most important issues in the Japanese government's health care management is the "separation of drug prescribing and dispensing." The aim of this is to improve the quality of the nation's health care by separating the duties of drug prescribing (doctors) and dispensing (pharmacists), and to try to realize the provision of effective and safe drug therapies. As of FY14, the drug prescribing-dispensing separation rate had reached 68.7%.

A public discussion was held in March 2015 and the regulations relating to the promotion of the separation of drug prescribing and dispensing were reviewed. This review pointed to various problems, such as that "hospital adjacent-type pharmacies are mushrooming in the vicinity of medical institutions, and they cannot execute functions such as centrally ascertaining information on patient medications" and that "in order to promote the separation of drug prescribing and dispensing, while on the one hand the burden placed on the patients has grown larger, they are not able to feel the improvements to services to an extent comparable to this increased burden, or the effects of the separation of duties."

Based on these circumstances, in October 2015 the Ministry of Health, Labour and Welfare published A Vision of Pharmacies for Patients as a basic policy describing a shift from "location" to "function." We can more clearly understand the aim of the Japanese government's policy by reading "location" as "hospital adjacent-type pharmacies" and "function" as "family pharmacies."

**The Japanese government's image of pharmacies in the future**



Source: A Vision of Pharmacies for Patients published on the homepage of the Ministry of Health, Labour and Welfare

The FY16 revisions to the dispensing fees were in accordance with the previously described basic policy of shifting "from hospital adjacent-type pharmacies to family pharmacies." In the revisions to the basic dispensing fees, this can be clearly seen in the establishment of special cases targeting hospital adjacent-type pharmacies; the establishment of a provision to subtract by 50/100 (half) the basic dispensing fee for pharmacies with a total of less than 10 times a year calculated as the number of operations relating to the basic functions of family pharmacies; and the establishment of a provision for the "family pharmacist guidance fees, etc.," as the basic dispensing fee special case exclusion requirements (when the exclusion requirement applies, basic dispensing fee level 2 pharmacies can be calculated as level 1 (41 points)).

As described above, the number of points for the basic dispensing fees can be calculated from any pharmacy at the time that the prescription is filled, but in this case, the pace of the reduction is fast. On the other hand, the standard dispensing incentives and generic pharmaceuticals dispensing system incentives can be calculated based on whether the "pharmacy has in place a system that meets a certain standard," so in these cases, the incisions for the reductions are only being made little by little. In contrast, the new establishment of the family pharmacist guidance fees (70 points) and the family pharmacist comprehensive management fee (270 points) are calculated according to "the role and function played by the pharmacy," and therefore going forward, they are areas that can be expected to become sources of revenue.

## The family pharmacist guidance fees calculation requirements

### ◆ Personal Care Pharmacist Guidance Fee (70 points)

#### Requirements

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

Source: the homepage of the Ministry of Health, Labour and Welfare

## The Company could convert the initiatives the Japanese government is promoting into its own growth engine

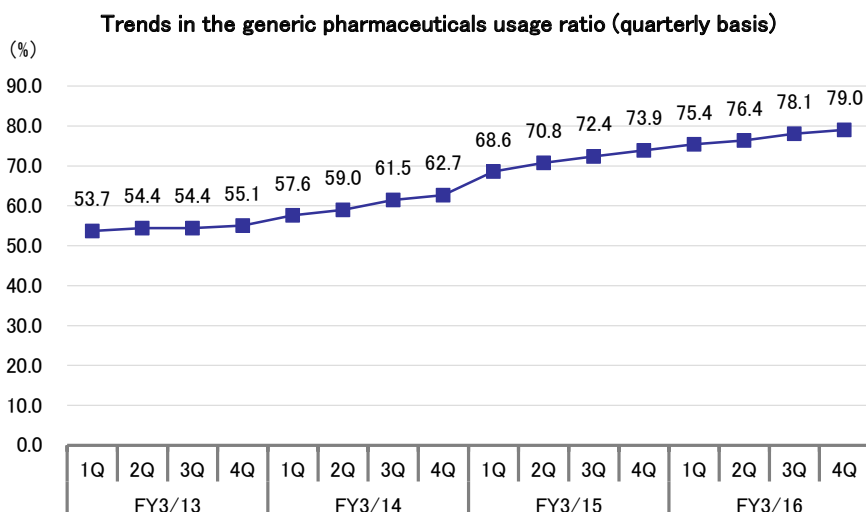
### (3) The situation for Nihon Chouzai's responses

#### a) Overview

At FISCO, we expect that the Vision of Pharmacies for Patients, and the FY16 revisions to the dispensing fees that were based upon it, will have a major impact both in the short term and the medium-to-long term on the dispensing pharmacy industry as a whole. In this situation, we think that the Company may be able to limit the short-term impact on its results and maintain revenue growth, and in the medium-to-long term, to actually convert the initiatives that the Japanese government is promoting into its own growth engine.

The reason why we think this is that the Company has been taking measures and achieving results in advance of the initiatives being promoted by the Japanese government.

An example of this is the government's initiative to promote generic pharmaceuticals as a key policy to reduce the nation's medical expenses. In its Dispensing Pharmacy business, the Company's generic pharmaceuticals usage rate, as of FY3/16, had reached 79.0%, so it seems likely it will achieve at an early stage the target set by the Japanese government of 80%. In addition, in 2005 it established its subsidiary Nihon Generic and began manufacturing and selling generic pharmaceuticals. The Japanese government is promoting the use of generic pharmaceuticals for hospitalized patients, and this is a field in which continuous market expansion can be expected. Since the Pharmaceutical Manufacturing and Sales business department became profitable in FY3/13, it has continued to achieve steady growth in profits.



Source: prepared by FISCO from Company materials

**b) Promoting the shift to family pharmacies**

Going forward, a central theme for the industry as a whole will be its response to “family pharmacies and pharmacists.” The Company has already taken action on this point also. Since September 2015, it has been broadcasting its “Family Pharmacies Declaration” TV commercial as part of its family pharmacies campaign, and in addition on its homepage, it is currently publishing special content that explains the merits of family pharmacies. There is no official definition of family pharmacies, and it does not correspond directly to the previously described additions of family pharmacist guidance fees. The Company itself has positioned family pharmacies as “pharmacies with a system to build strong relationships with patients” while replacing various infrastructure elements, such as establishing a pharmacies system and improving the quality of its pharmacists.

The reason why the Company is focusing on the government initiatives to promote the shift to family pharmacies is that there is the concept of the “integrated community care system” that the government is promoting on a line of extension from these initiatives, which is expected to be met by family pharmacy services from within home medical care services. Home medical care services previously referred to the medical services provided centrally by hospitals, but can now be said to refer to the provision of services in patients’ homes with the various roles being allocated to individual medical institutions in the local area. Specifically, doctors make home visits for consultations, nurses make home visits for nursing, and physical therapists make home visits for rehabilitation. Within this circle of the division of roles, pharmacies and pharmacists are expected to make home visits to provide patients with guidance on medications.

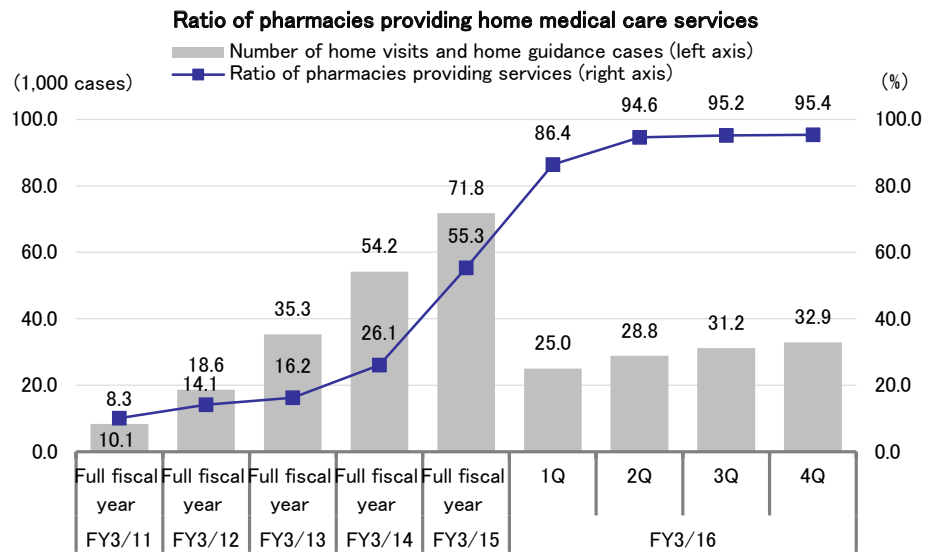
The Company has anticipated this development and is already achieving results in home medical care services. Since the FY16 revisions, the implementation of appropriate pharmaceutical management and guidance to home patients has become one of the facilities standard for the calculation of standard dispensing incentives points, while the home care management and guidance fees can be collected as nursing insurance fees. In addition, as the patient consent form is necessary in order to calculate the family pharmacist guidance fees, the “interpersonal relations” aspect of pharmacists’ work duties is becoming even stronger. At FISCO, we think that the importance of home medical care services in order to strengthen these interpersonal relations is increasing.



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Source: prepared by FISCO from Company materials

### c) Responding to the industry reorganization

In the long term, industry reorganization is likely to become an important theme for the Company's growth strategy. This is because it is considered that the shift to highly functional pharmacies, such as the shift to family pharmacies and their provision of home medical care services, will lead to the need to strengthen various human resources, not only improving the quality of pharmacists, and this will result in the weeding-out of pharmacies managed by individuals and by medium- to small-scale pharmacy chains.

It goes without saying that the major companies in the industry, including the Company, have foreseen this development and are implementing their respective measures in response to it. More specifically, at FISCO we think that the industry-leading major dispensing pharmacies chains, such as the Company, will play a key role in the industry reorganization. It would seem that rather than expanding its network of pharmacies, the Company is aiming to survive the wave of reorganization by giving priority to improving the quality of its pharmacies. The revisions to dispensing fees will work as a factor decreasing sales at existing pharmacies, but as the Company has already formulated policies for the incentives and to avoid subtractions, it is thought that by steadily implementing these policies and absorbing the negative impact of the revisions, it expects these factors to actually work to enhance the profitability of its pharmacies.

At FISCO, we think that this basic policy of the Company is sufficiently persuasive. Generally speaking, the revenue of dispensing pharmacies is determined by the unit prices of prescriptions and the number of prescriptions (the number of customers). The unit prices of prescriptions are made-up of the technical fees (including the basic dispensing fee, the various incentives, the compounding fee, and the pharmacy admin fee) and the drug fee. So in order to increase revenues, the two main items that a pharmacy can influence by its own efforts are the technical fee and the number of customers. The reason why the measures that the Company is implementing can be positively evaluated is that they are adapted to this revenue structure of dispensing pharmacies.

At FISCO, we think that the best indicator to measure the profitability of pharmacy companies is net sales per pharmacy. This is because within the breakdown of revenue previously described, the structure is that the technical fee becomes gross profit as it is, and that a certain percentage (about 10%) of the drug fee becomes gross profit, and therefore above all, securing sales leads to securing profits. For the Company in FY3/16, net sales per pharmacy were ¥368mn, meaning it maintained its top position among the major dispensing pharmacies chains, and its management's basic policy can be evaluated as proceeding smoothly.



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### Comparison of sales per dispensing pharmacy

Company name	Code	Dispensing Pharmacy business						Dispensing net sales per pharmacy	Remarks
		Number of pharmacies		Number of pharmacies		Net sales			
		(pharmacies)	Point in time	(pharmacies)	Point in time	(¥mn)	Fiscal period	(¥mn)	
Nihon Chouzai	3341	510	End of 3/15	526	End of 3/16	190,874	FY3/16	368	The number of pharmacies is the number of dispensing pharmacies only and does not include product-sales drug stores.
Ain Holdings	9627	754	End of FY 4/15	844	End of FY4/16 (E)	194,280	FY4/16 (E)	243	The number of pharmacies is the number of dispensing pharmacies, and the FY15 interim period is based on the forecast.
Qol	3034	538	End of FY3/15	563	End of FY3/16	115,308	FY3/16	209	The number of pharmacies includes 37 Lawson stores, 4 Bic Camera stores, and 3 West Japan Railway stores.
Sogo Medical	4775	538	End of FY3/15	576	End of FY3/16	96,405	FY3/16	173	
Welcia Holdings	3141	687	End of FY2/15	894	End of FY2/16	76,487	FY2/16	97	The number of pharmacies is the number of "pharmacies/stores handling dispensing." CFS net sales are for 6 months only.
Cocokara Fine	3098	234	End of FY3/15	232	End of FY3/16	50,228	FY3/16	216	The number of pharmacies is the number of "pharmacies/stores handling dispensing." Dispensing net sales are assumed to increase 5% y-o-y.

Note: dispensing net sales per pharmacy are calculated by dividing the dispensing business net sales by the average of the number of pharmacies and stores handling dispensing at the beginning and at the end of the fiscal period.  
Source: prepared by FISCO from each Company's financial results summaries and briefing materials

## The dispensing market will reach a scale of ¥10 trillion yen by FY20 if it maintains its growth rate up to the present time

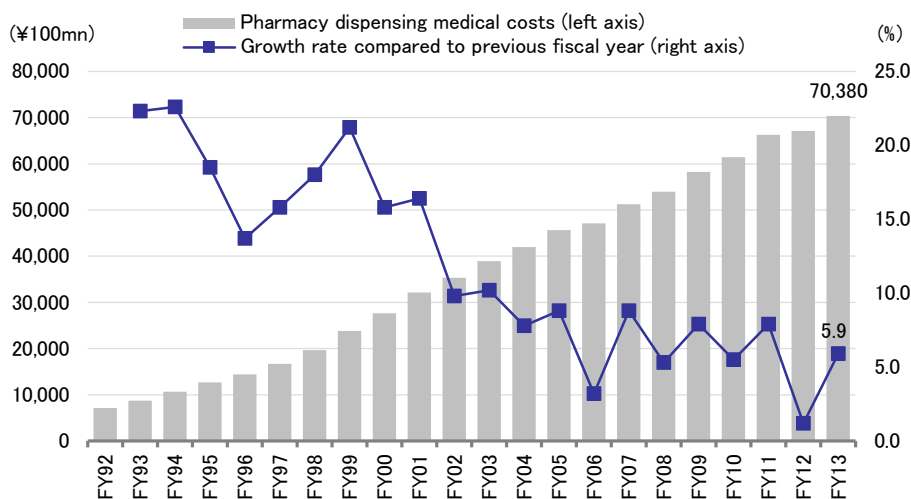
### (4) The investment viewpoint

The healthcare sector has continuously occupied an important position in the securities market, and this is not expected to change in the future. Pharmaceutical manufacturers and medical device manufacturers account for large positions with regards to the point of investors' preferences for sub-sectors or individuals stocks within the healthcare sector. In this situation, at FISCO we think that it is possible that the presence of the stocks of dispensing pharmacies will increase within the healthcare sector. The three reasons for this are given below.

#### a) Growth in the dispensing market itself

According to the Ministry of Health, Labour and Welfare, the FY13 national medical costs were ¥40.061 trillion, of which, pharmacy dispensing medical costs were estimated to be ¥7.038 trillion. The average growth rate over the 10 year period from FY03 to FY13 was 6.2%. Taking FY13 as the first year and supposing that a 5% annual growth rate will continue, by FY20, pharmacy dispensing medical costs will have reached ¥10 trillion, so it can be said to be an impressive growth market.

**Trends in pharmacy dispensing medical costs**



Source: prepared by FISCO from the statistics of the Ministry of Health, Labour and Welfare

**b) Improvement in corporate value from the expansion in market shares of the major pharmacy chains as a result of industry reorganization**

The situation is that there are around 57,000 insurance pharmacies nationwide crowded into the dispensing market that is worth around ¥7 trillion. Among them, the total net sales of the 10 major pharmacy chains are in excess of ¥700bn, and they have a combined market share in the region of 10%. As previously stated, the Japanese government's image for pharmacies in the future is for them to be local infrastructure as "family pharmacies" with advanced functions. In this process, the positions of the medium- and small-scale pharmacy companies, which constitute the majority of the 57,000 pharmacies, are expected to come to be occupied by the major pharmacy chains.

**c) The transfer of added value from hospitals to pharmacies, and their function as an alternative to investment in hospitals**

Approximately 70% of national medical costs are medical facility medical costs; or in other words, hospital costs. But as previously explained, the government's major policies are to promote the "separation of drug prescribing and dispensing" and home medical care. Taking medication administered to hospitalized patients as an example, the current situation is that as this medication is administered within hospitals, it is included in the medical facility medical costs. But from the promotion of home medical care, the medication of these patients will instead be administered at their homes under the supervision of their family pharmacist and it will come to be included in pharmacy dispensing medical costs, so it is possible that the growth in the dispensing market described in a) will accelerate. Also, as the management of hospitals by stock companies is not permitted in Japan, investors cannot invest in stocks for hospitals. So as an alternative to investing in hospitals, investors are also likely to be interested in investing in dispensing pharmacies.

In addition to these growth scenarios for the major dispensing chains and the industry as a whole, there are factors that are unique to the Company. In the Dispensing Pharmacy business, its previously described strong profitability on an individual pharmacy basis can be said to be highly appealing to investors. Another appeal of the Company is its Pharmaceutical Manufacturing and Sales business, whose strength is the point that it specializes in generic pharmaceuticals that are being strongly promoted by the Japanese government. The Company's business portfolio as a whole, including the Medical Professional Staffing and Placement business, is aligned to the initiatives being promoted by the government, and this point can be said to be a factor differentiating it from its industry peers and also a very appealing point when thinking about investment.



## ■ Outlook for the FY3/17 results

### The negative impact of the revisions to dispensing fees to be covered by the higher sales from the opening of new pharmacies

For FY3/17, the Company is forecasting net sales of ¥240,013mn (up 9.5% y-o-y), operating income of ¥11,165mn (up 6.4%), recurring income of ¥10,778mn (up 9.1%), and net income attributable to the owners of the parent company of ¥6,642mn (up 4.9%), for increases in both sales and profits. With regards to the fact that the growth rates for sales and profits will be single digits, which will be slower than the rates in the previous fiscal year, at FISCO we estimate that this will be because of the impact of FY3/17 being a year in which dispensing fees are revised.

#### Summary of the outlook for the FY3/17 results

	FY3/16			FY3/17					
	1H results	2H results	Full fiscal year results	1H forecast		2H forecast		Full fiscal year forecast	
					y-o-y		y-o-y		y-o-y
Net sales	100,269	118,970	219,239	118,321	18.0%	121,692	2.3%	240,013	9.5%
Operating income	4,214	6,275	10,489	4,991	18.4%	6,174	-1.6%	11,165	6.4%
Recurring income	3,936	5,942	9,878	4,829	22.7%	5,949	0.1%	10,778	9.1%
Net income attributable to the owners of the parent company	2,471	3,858	6,329	3,086	24.9%	3,556	-7.8%	6,642	4.9%

Source: prepared by FISCO from the Company's financial results summary

In the Dispensing Pharmacy business, the forecast for FY3/17 net sales (before segment eliminations) is ¥197,536mn (up 3.5% y-o-y). While the revisions to dispensing fees will have a negative impact, the aim is for the higher sales from the full fiscal year contributions of the pharmacies opened in the previous fiscal year, and also from the opening of new pharmacies during the fiscal year, to cover this impact. The Company plans to open 50 new pharmacies in FY3/17 (not including the increase from M&As), but considering the results in the past few years, we think it should be viewed more conservatively.

Within the Company forecasts, the sales-increase amount in the Dispensing Pharmacy business is ¥6,662mn, but when taking into account the sales-decrease portion of the forecast for a major drug for hepatitis C (¥6,000mn under the company plan), the sales-increase forecast amount after excluding this major drug for hepatitis C becomes ¥12,662mn. Assuming that the Company opens 40 new pharmacies, with average annual sales of ¥150mn, their total annual sales will be ¥6,000mn. So when dividing the remaining ¥6,662mn by the 527 existing pharmacies, we estimate that the Company will be able to reach its target if annual sales increase by ¥12mn per pharmacy. When considering that the generic pharmaceuticals usage ratio is increasing and that prices are falling from the effects of the drug price revisions, while not necessarily optimistic, at FISCO we think that this forecast is fully achievable when referring to the pace of the increase in net sales per pharmacy in the past.

#### Sales targets by business segment

		FY3/15		FY3/16		FY3/17	
		Full fiscal year		Full fiscal year		Full fiscal year	
		Results	y-o-y	Results	y-o-y	Forecast	y-o-y
Net sales	Dispensing Pharmacy business	157,999	8.3%	190,874	20.8%	197,536	3.5%
	Pharmaceutical Manufacturing and Sales business	27,550	18.8%	32,598	18.3%	46,271	41.9%
	Medical Professional Staffing and Placement business	6,554	29.9%	8,934	36.3%	10,500	17.5%
	Before adjustment	192,104	10.3%	232,406	21.0%	254,308	9.4%
	Adjusted amount	-10,259	-	-13,166	-	-14,295	-
	Net sales total	181,844	10.0%	219,239	20.6%	240,013	9.5%

Source: prepared by FISCO from the Company's financial reports briefing materials

In the Pharmaceutical Manufacturing and Sales business, FY3/17 net sales are forecast to increase considerably to ¥46,271mn (up 41.9% y-o-y). As previously explained, the government's initiatives to promote the use of generic pharmaceuticals were further strengthened in the 2016 revisions to the dispensing fees. By FY3/16, the Company had established a production capacity of 4.4 billion tablets a year at the 5 plants of its 2 subsidiaries, and further in FY3/16, Group cooperation is being strengthened in order to arrange the externally procured items and items produced in-company, and to optimize the production locations. In FY3/17 also, as before there will be strong demand and the Company has in place a highly efficient production system, so at FISCO we expect the scale of sales in this business to steadily increase.

In the Medical Professional Staffing and Placement Business, the forecast for the FY3/17 net sales is ¥10,500mn (up 17.5% y-o-y). At FISCO, we also think that this is a business that can be expected to benefit from the 2016 revisions to the dispensing fees. As explained above, we consider that the strengthening of the functions of "family pharmacies," for which expectations will rise in the future as dispensing pharmacies, is an aspect that cannot be considered separately to the enhancement of pharmacists as human resources. The Company has the industry leading number of registered users and results for the staffing and placement of pharmacists, and we think the results in this business will continue to steadily expand in FY3/17 and beyond.

In terms of profits, the forecast for operating income is ¥11,165mn. The decline in the operating income margin by 0.1 of a percentage point compared to the FY3/16 result will be due to the effects of the revisions to the dispensing fees and to drug prices in the Dispensing Pharmacy business, due to an increase in depreciation and amortization in the Pharmaceutical Manufacturing and Sales business, and also due to an increase in recruitment costs in the Medical Professional Staffing and Placement business, and it seems that there are concerns that the respective profit margins will be lower than in the previous fiscal year.

In the Dispensing Pharmacy business, at FISCO we forecast that as a result of the decline in sales for a major drug for hepatitis C, the ratio of technical fee revenue will increase and the gross profit rate will rise. In the Pharmaceutical Manufacturing and Sales business, we think that while the increase in depreciation and amortization is a cause for concern, the sales-increase rate, of up 41.9% y-o-y, is fully sufficient to cover its impact. In the Medical Professional Staffing and Placement business also, there are causes for concern such as the increase in recruitment costs and costs to train and recruit managers within the Company itself. But we think that these costs can be absorbed by higher unit prices for the staffing and placement fees, and also by the increase in the number of pharmacists being staffed and placed.

#### Income statement and the main indicators

	(¥mn)						
	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17		
	Full year	Full year	Full year	Full year	1H (E)	2H (E)	Full year (E)
Net sales	139,466	165,347	181,844	219,239	118,321	121,692	240,013
y-o-y	7.2%	18.6%	10.0%	20.6%	18.0%	2.3%	9.5%
Gross profit	21,494	25,623	31,929	39,068	-	-	-
Gross profit margin	15.4%	15.5%	17.6%	17.8%	-	-	-
SG&A expenses	18,248	20,878	25,281	28,578	-	-	-
Ratio of SG&A expenses to net sales	13.1%	12.6%	13.9%	13.0%	-	-	-
Net income attributable to the owners of the parent company	3,245	4,744	6,647	10,489	4,991	6,174	11,165
y-o-y	-40.6%	46.2%	40.1%	57.8%	18.4%	-1.6%	6.4%
Operating income margin	2.3%	2.9%	3.7%	4.8%	4.2%	5.1%	4.7%
Recurring income	2,855	4,188	6,003	9,878	4,829	5,949	10,778
y-o-y	-42.2%	46.7%	43.3%	64.5%	22.7%	0.1%	9.1%
Net income	184	1,901	2,778	6,329	3,086	3,556	6,642
y-o-y	-91.2%	933.2%	46.1%	127.8%	24.9%	-7.8%	4.9%
EPS (¥)	25.67	262.48	388.96	432.85	193.00	222.27	415.27
Dividend per share (¥)	70	70	70	65	25	25	50
BPS (¥)	2,034.09	2,181.26	2,515.19	2,030.22	-	-	-
EPS after adjustment for stock-split (¥)	12.84	131.24	194.48	-	-	-	-
Dividend per share after adjustment for stock-split (¥)	35	35	35	45	-	-	-
BPS after adjustment for stock-split (¥)	1,017.05	1,090.63	1,257.59	-	-	-	-

## Balance sheet

	(¥mn)				
	End of FY3/12	End of FY3/13	End of FY3/14	End of FY3/15	End of FY3/16
Current assets	36,543	43,037	53,373	60,096	84,838
Cash and deposits	12,622	14,583	15,429	13,952	32,385
Accounts receivable, etc.	12,868	13,645	17,579	21,413	26,810
Inventories	8,879	12,405	16,396	21,066	22,016
Fixed assets	50,071	52,102	63,921	70,044	72,770
Tangible fixed assets	30,796	32,459	42,123	48,819	51,997
Intangible fixed assets	9,845	9,423	11,103	10,376	10,122
Investments, etc.	9,429	10,219	10,694	10,848	10,650
Total assets	86,615	95,140	117,295	130,141	157,609
Current liabilities	36,757	44,702	55,666	53,474	68,985
Accounts payable	21,884	24,542	28,963	33,392	44,653
Short-term debt, etc.	8,373	14,055	18,639	11,169	12,963
Fixed liabilities	35,141	35,735	45,779	59,031	56,151
Long-term debt	33,610	33,845	42,165	53,184	50,621
Shareholders' equity	14,562	14,353	15,845	17,515	32,507
Capital	3,953	3,953	3,953	3,953	3,953
Capital surplus	4,754	4,754	4,754	4,754	10,926
Retained earnings	8,233	7,915	9,310	11,868	17,672
Treasury stock	-2,378	-2,269	-2,171	-3,059	-44
Total accumulated other comprehensive income	153	349	3	119	-34
Net assets, total	14,716	14,702	15,849	17,635	32,473
Total liabilities and net assets	86,615	95,140	117,295	130,141	157,609

## Cash flow statement

	(¥mn)				
	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16
Cash flow from operating activities	7,127	2,885	6,243	5,831	19,327
Cash flow from investing activities	-9,694	-6,422	-14,510	-8,437	-7,823
Cash flow from financing activities	7,920	5,496	8,782	1,422	7,031
Change in cash and deposits balance	5,353	1,958	514	-1,183	18,535
Cash and deposits balance at start of fiscal year	7,200	12,544	14,513	15,027	13,844
Cash and deposits balance at end of fiscal year	12,544	14,513	15,027	13,844	32,380

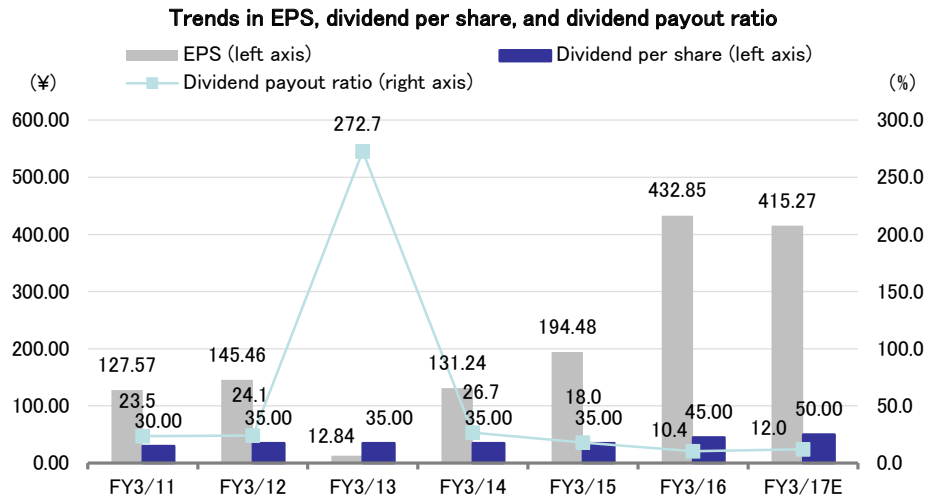
## ■ Returns to shareholders

### On adjusting for the stock split, dividend to increase y-o-y in FY3/17

The Company's basic approach to shareholder returns is to pay dividends linked to business performance while ensuring it maintains the internal reserves necessary for growth

In FY3/16, the Company paid an annual dividend of ¥65, comprised of an interim dividend of ¥40 and a year-end dividend of ¥25. As it carried out a two-for-one stock split with October 1, 2015, as the date of record, after adjusting for this stock split and returning to the same basis as FY3/15, the annual dividend becomes ¥90 (compared to the annual dividend of ¥70 in FY3/15).

For FY3/17, the Company has announced its forecast of an annual dividend of ¥50, comprised of an interim dividend of ¥25 and a year-end dividend of ¥25. Upon adjusting for the previously mentioned stock split, the annual dividend for FY3/16 becomes ¥45, meaning the dividend will increase by ¥5 from the previous fiscal year. The FY/17 forecast EPS is ¥415.27, and the dividend payout ratio calculated based on this is 12.0%.



Note: the Company implemented a two-for-one stock split on October 1, 2015, and the EPS and the dividend per share in the graph take into account this stock split.

Source: prepared by FISCO from the Company's financial results summary

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