



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

Results of Operations for the Third Quarter of the Fiscal Year Ending March 31, 2022 (April 1, 2021 to December 31, 2021)

January 31, 2022



1 Financial Highlights



Consolidated Results

Sales and profits increased due to the expansion of the dispensing pharmacy business, but the bottom line declined due to the impact of the fire at the contract logistics center outsourced by the pharmaceutical manufacturing and sales business. The company expects to record insurance claim income by the end of the current fiscal year.

Dispensing Pharmacy Business

Sales and profit were up on the back of steady growth in prescription volumes, on top of contributions from 29 pharmacies opened in the previous fiscal year and 30 in the current fiscal year.

Pharmaceutical Manufacturing and Sales Business

Drugs newly listed since FY3/20 drove higher sales. Profit was down due to product recalls over quality issues at Choseido Pharmaceutical and temporary suspension of business operations due to administrative disciplinary action.

Medical Professional Staffing and Placement Business

Demand has dropped off for vaccination-related work, but the number of doctor placement contracts grew. Sales and operating profit were down due to lower temporary staffing and placements in the pharmacist business.

Consolidated Statement of Income

Despite the impact of COVID-19, sales and profit were up owing to robust performance in the Dispensing Pharmacy Business. However, an extraordinary loss related to fire damage caused the bottom line to decrease.

(Millions of yen)	3Q FY3/20 Results	3Q FY3/21 Results	3Q FY3/22 Revised Forecast	3Q FY3/22 Results	Change Vs. Revised Forecast	Vs. Revised Forecast	YoY growth rate
Net sales	199,040	208,337	220,800	223,439	2,639	1.2%	7.2%
Cost of sales	164,688	171,658	182,100	183,714	1,614	0.9%	7.0%
Gross profit	34,351	36,679	38,600	39,724	1,124	2.9%	8.3%
% to sales	17.3%	17.6%	17.5%	17.8%	—	—	—
SG&A expenses	28,719	30,911	34,000	33,897	(102)	(0.3%)	9.7%
% to sales	14.4%	14.8%	15.4%	15.2%	—	—	—
Consumption taxes	11,452	13,665	14,900	14,913	13	0.1%	9.1%
R&D expenses	2,110	2,039	2,400	2,475	75	3.2%	21.4%
Operating profit	5,632	5,767	4,600	5,827	1,227	26.7%	1.0%
% to sales	2.8%	2.8%	2.1%	2.6%	—	—	—
Ordinary profit	5,449	5,773	4,700	6,058	1,358	28.9%	4.9%
% to sales	2.7%	2.8%	2.1%	2.7%	—	—	—
Profit attributable to owners of parent	3,059	3,410	2,700	1,096	(1,603)	(59.4%)	(67.8%)
% to sales	1.5%	1.6%	1.2%	0.5%	—	—	—
Net income per share (Yen) Note	102.03	113.74	90.04	36.57	(53.47)	(59.4%)	(67.8%)

Impact of Fire at a Contract Logistics Center

A fire at a contract logistics center in western Japan to which Nihon Generic outsources product warehousing operations damaged 34% of inventory.

■ Date and time of fire

Broke out around 8:50 a.m. November 29, 2021

Extinguished at 5:00 p.m. December 4, 2021

(Police/fire investigation is ongoing)

■ Damage

- 34% of inventory, 1.4 months of sales
- Distribution has returned to normal, mainly through a logistics center in eastern Japan.

■ Impact on financial results

- Extraordinary loss of 3.91 billion yen recorded as “loss on disaster” in Q3 this year.
- All of the products damaged by the fire were covered by insurance, and the Company expects to record insurance claim income by the end of the current fiscal year. The insurance company is in the process of finalizing the insurance claim amount, but we will promptly make an announcement should matters requiring disclosure arise.

Consolidated Balance Sheet

Changes in assets primarily consisted of a 7.8 billion yen decrease in cash and deposits. Changes in liabilities mainly consisted of a 12.2 billion yen decrease in long term borrowings. The equity ratio has been improving continuously, and financial stability has also been improving.

(Millions of yen)	End of Mar. 2020 (FY3/20)	End of Mar. 2021 (FY3/21)	End of Dec. 2021 (3Q FY3/22)	YoY change	YoY change (%)
Current assets	87,414	89,246	84,696	(4,550)	(5.1%)
Cash and deposits	32,254	32,893	25,073	(7,820)	(23.8%)
Non-current assets	98,137	97,015	97,208	192	0.2%
Property, plant and equipment	66,082	64,785	63,990	(794)	(1.2%)
Intangible assets	19,425	18,952	18,894	(58)	(0.3%)
Investments and other assets	12,628	13,277	14,322	1,045	7.9%
Total assets	185,551	186,262	181,904	(4,358)	(2.3%)
Current liabilities	70,107	87,720	89,448	1,727	2.0%
Current portion of long term loans payable	9,406	27,966	21,966	(6,000)	(21.5%)
Non-current liabilities	68,370	48,673	42,225	(6,448)	(13.2%)
Long-term loans payable	62,963	42,997	36,752	(6,245)	(14.5%)
Total liabilities	138,478	136,394	131,673	(4,720)	(3.5%)
Total net assets	47,072	49,868	50,231	362	0.7%
Shareholders' equity	47,072	49,868	50,231	362	0.7%
Equity ratio	25.4%	26.8%	27.6%	—	—

Dispensing Pharmacy Business

Higher prescription volumes coupled with contributions from 29 pharmacies opened in FY3/21 and 30 in FY3/22 yielded a 9.0% year-on-year rise in sales and a 30.3% rise in operating profit—3.5% above revised forecast.

(Millions of yen)	3Q FY3/20 Results	3Q FY3/21 Results	3Q FY3/22 Revised Forecast	3Q FY3/22 Results	Change Vs. Revised Forecast	Vs. Revised Forecast	YoY growth rate
Net sales	170,695	181,125	195,400	197,389	1,989	1.0%	9.0%
Cost of sales	145,386	153,347	164,000	165,775	1,775	1.1%	8.1%
Gross profit	25,309	27,777	31,400	31,613	213	0.7%	13.8%
% to sales	14.8%	15.3%	16.1%	16.0%	—	—	—
SG&A expenses	18,727	20,786	22,600	22,504	(95)	(0.4%)	8.3%
% to sales	11.0%	11.5%	11.6%	11.4%	—	—	—
Operating profit	6,581	6,991	8,800	9,108	308	3.5%	30.3%
% to sales	3.9%	3.9%	4.5%	4.6%	—	—	—
No. of pharmacies at the end of each period (stores) <small>note 1</small>	641	670	699	690	(9)	(1.3%)	3.0%
Prescription drug sales per pharmacy <small>note 2</small>	275	274	285	290	4	1.7%	5.8%

Note: Rounding down to the nearest unit

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

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

Pharmaceutical Manufacturing and Sales Business

Drugs newly listed from FY3/20 onwards drove a 0.1% increase in sales.

Operating profit was down 41.3% year on year due to product recalls over quality issues at Choseido

Pharmaceutical and temporary suspension of business operations under administrative disciplinary action. On the other hand, sales of new NHI-listed products in December at Nihon Generic were strong, resulting in a 223.7% increase compared to the revised forecast.

(Millions of yen)	3Q FY3/20 Results	3Q FY3/21 Results	3Q FY3/22 Revised Forecast	3Q FY3/22 Results	Change Vs. Revised Forecast	Vs. Revised Forecast	YoY growth rate
Net sales	32,564	35,235	35,000	35,274	274	0.8%	0.1%
Cost of sales	27,599	29,668	31,000	30,376	(623)	(2.0%)	2.4%
Gross profit	4,965	5,566	4,000	4,897	897	22.4%	(12.0%)
% to sales	15.2%	15.8%	11.4%	13.7%	—	—	—
SG&A expenses	3,430	3,360	3,600	3,602	(2)	(0.1%)	7.2%
% to sales	10.5%	9.5%	10.3%	10.0%	—	—	—
Operating profit	1,534	2,205	400	1,294	894	223.7%	(41.3%)
% to sales	4.7%	6.3%	1.1%	3.7%	—	—	—

Note: Rounding down to the nearest unit

Medical Professional Staffing and Placement Business

Sales and profit were down as COVID-19 continued to constrain demand for temporary staffing and placements of pharmacists. Demand for vaccination-related work has dropped off, but the doctor placement business maintains high growth potential while performance in the industrial doctor HR business launched in FY3/21 remains firm.

(Millions of yen)	3Q FY3/20 Results	3Q FY3/21 Results	3Q FY3/22 Revised Forecast	3Q FY3/22 Results	Change Vs. Revised Forecast	Vs. Revised Forecast	YoY growth rate
Net sales	9,737	6,644	5,100	5,207	107	2.1%	(21.6%)
Cost of sales	5,607	3,187	1,800	1,912	112	6.2%	(40.0%)
Gross profit	4,130	3,456	3,300	3,295	(4)	(0.1%)	(4.7%)
% to sales	42.4%	52.0%	64.7%	63.3%	—	—	—
SG&A expenses	2,687	2,803	2,900	2,871	(28)	(1.0%)	2.4%
% to sales	27.6%	42.2%	56.9%	55.1%	—	—	—
Operating profit	1,442	653	400	423	23	6.0%	(35.1%)
% to sales	14.8%	9.8%	7.8%	8.1%	—	—	—

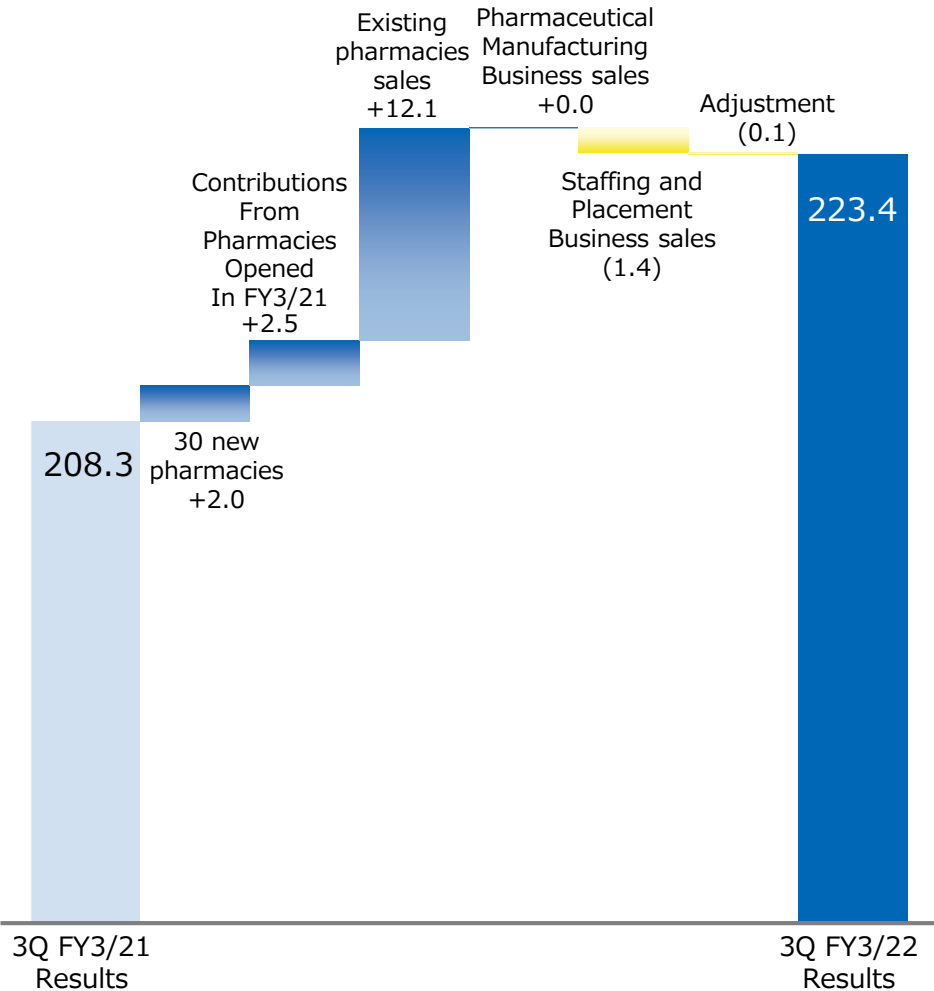
Note: Rounding down to the nearest unit

Reference Materials

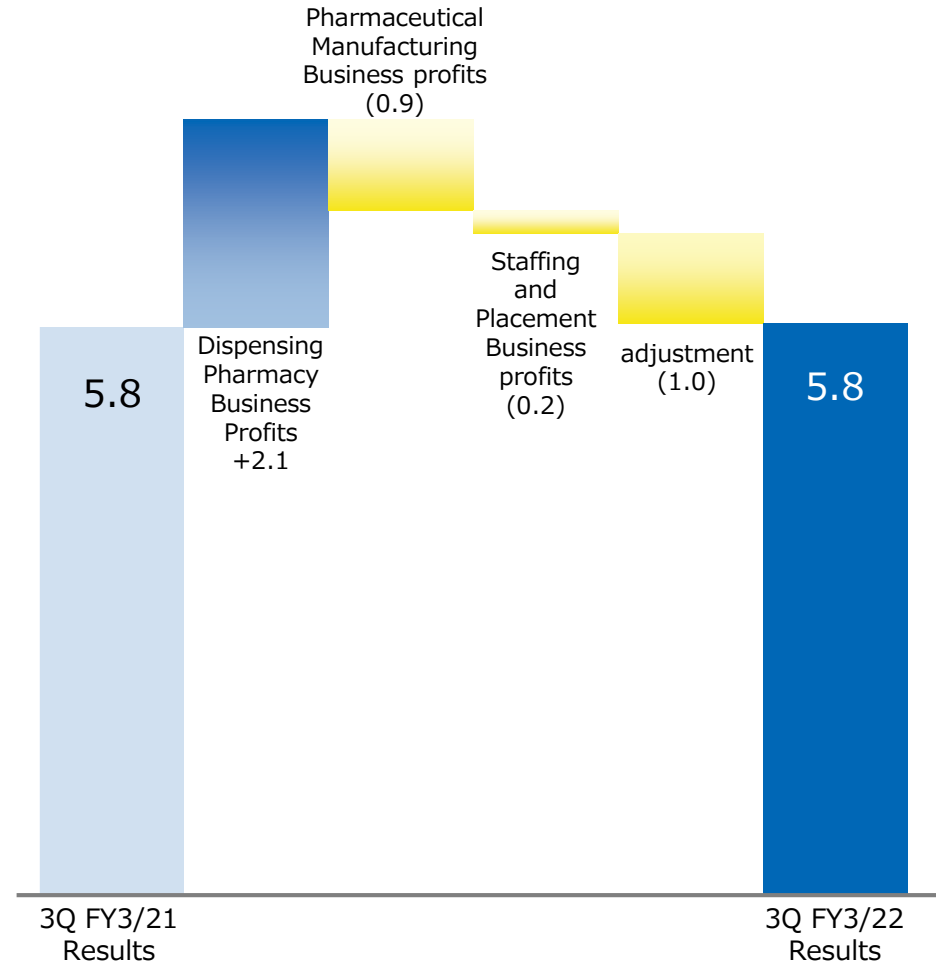
Consolidated Results: Major Components of YoY Changes (Net Sales / Operating Profit)

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

■ Net Sales



■ Operating Profit

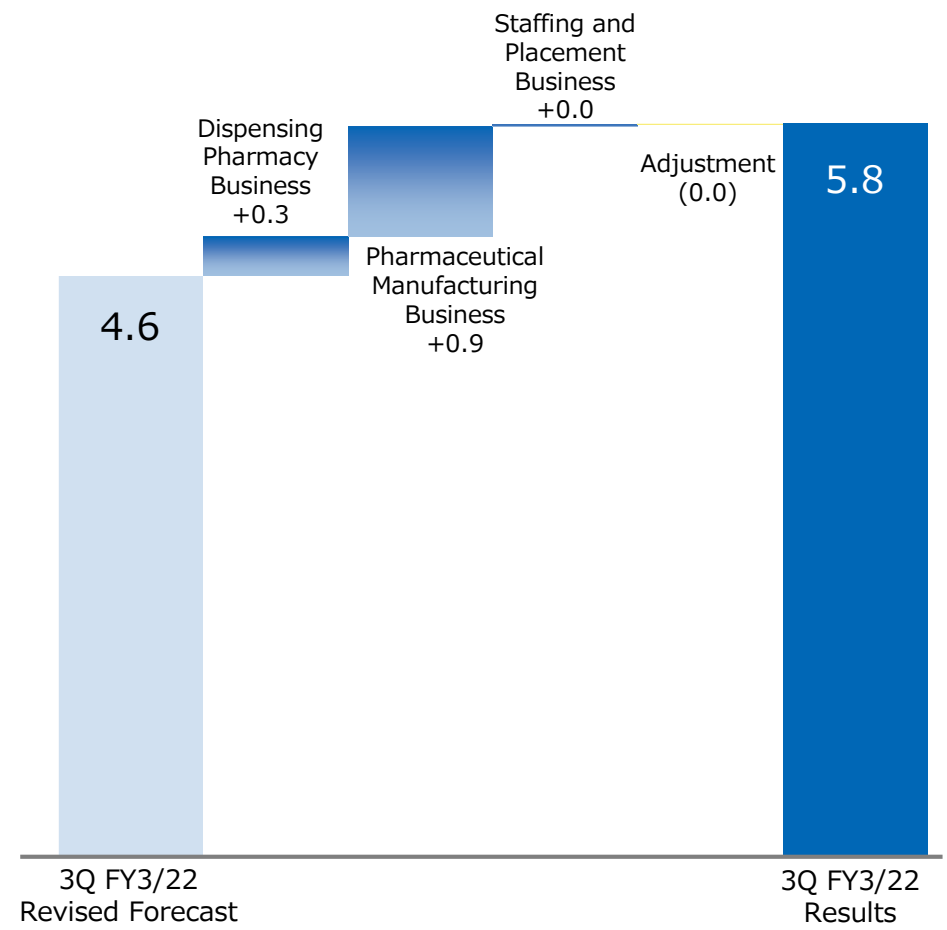
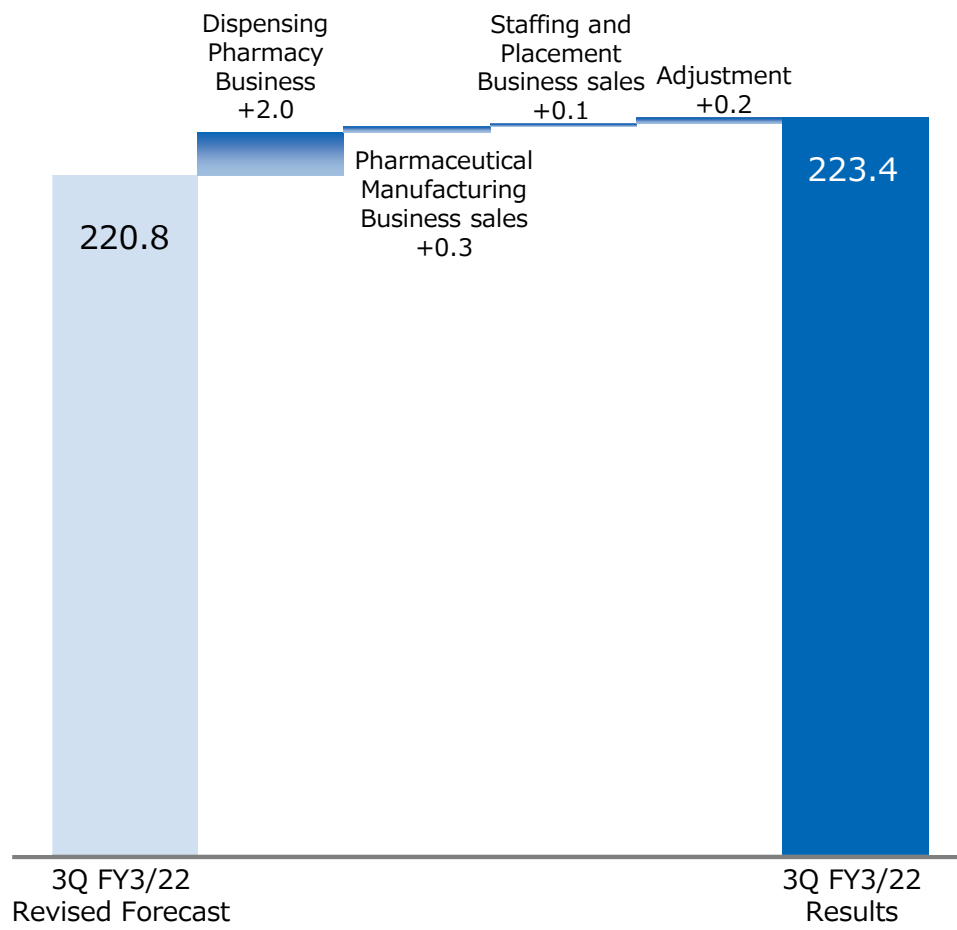


Reference Materials
Consolidated Results: Major Components of Changes vs. Revised Forecast
(Net Sales / Operating Profit)

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

Net Sales

Operating Profit



2 Growth strategy



Dispensing Pharmacy Business

New pharmacy openings with an emphasis on balance

Ongoing strategy of opening pharmacies with an emphasis on balance between hospital-front pharmacies and hybrid pharmacies

Pharmaceutical Manufacturing and Sales Business

Business expansion, steady progress in business improvement plan

Choseido Pharmaceutical's business improvement plan is steadily progressing. Voluntary inspections were completed at all plants.

Medical Professional Staffing and Placement Business

Expanding temporary staffing and placements of medical professionals

Demand has dropped off for vaccination-related work, but the doctor business continues to expand.



Well-Balanced Pharmacy Network

Along with pharmacy openings through organic growth and additions through M&A, we are working to open larger stores and meet the needs of advanced medical care, and growing per-pharmacy sales. We implement balanced growth while making use of acquisitions as well.

Pharmacy Openings	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	3Q FY3/22
Opened	27	42	36	32	65 note	29	30
Organic growth (percentage)	22 (81.5%)	21 (50.0%)	23 (63.9%)	26 (81.2%)	35 (53.8%)	22 (75.9%)	25 (83.3%)
M&A	5	21	13	6	30	7	5
Closed	11	12	8	19	13	9	10
No. of pharmacies at the end of period	527	557	585	598	650	670	690

• Including one location specializing in the sales of general merchandise

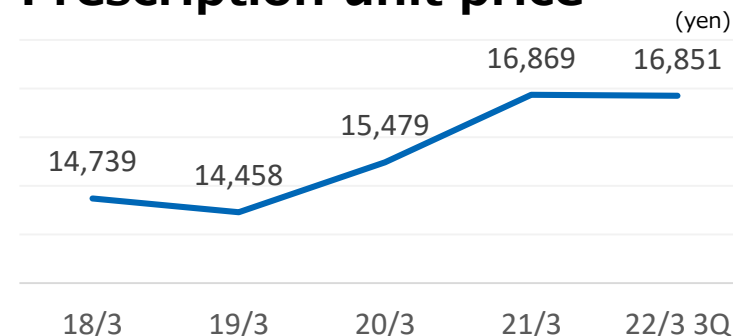
Note: Including one location that was converted from a store specializing in the sale of general merchandise to a pharmacy

3Q FY3/22 Results

(YoY growth rate)	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	+6.9%	+5.9%	+0.9%
Pharmacies opened in FY3/21	+166.5%	+150.4%	+6.5%
Total	+8.9%	+8.8%	+0.1%

No. of prescriptions 11,512,000 Prescription unit price 16,851yen

Prescription unit price



Well-Balanced Pharmacy Network

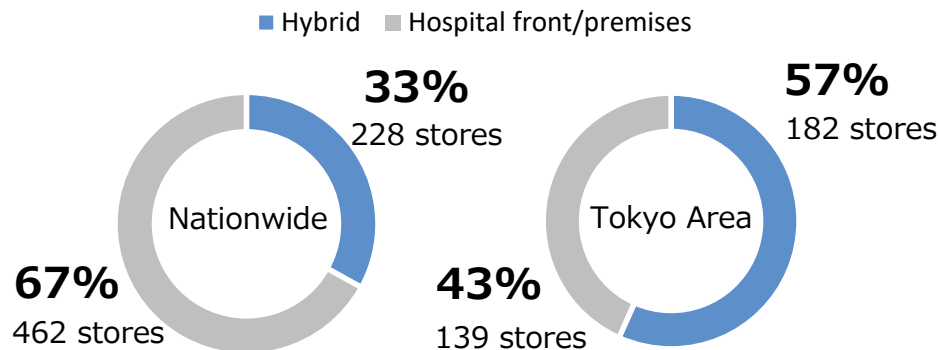
In addition to steadily increasing hospital-front pharmacies and pharmacies within hospital premises, we will strengthen our opening of “hybrid pharmacies,” which are becoming increasingly crucial to community medical care, and continue to run a well-balanced pharmacy network.

Pharmacy Openings

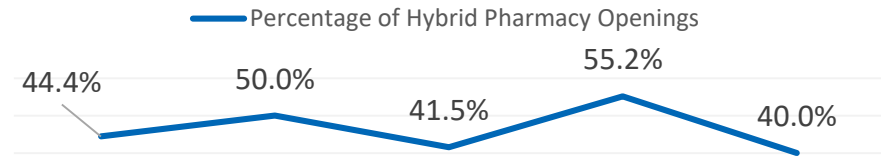
	FY3/18	FY3/19	FY3/20	FY3/21	3Q FY3/22
Opened	36	32	65 ^{note}	29	30
Hospital-front pharmacies / Pharmacies within hospital premises	20	16	38	13	18
Hybrid pharmacies	16	16	27	16	12
Closed	8	19	13	9	10
No. of pharmacies at the end of period	585	598	650	670	690

• Including one location specializing in the sales of general merchandise
 Note: Including one location that was converted from a store specializing in the sale of general merchandise to a pharmacy

Ratio of Pharmacies



Percentage of Pharmacy Openings



Region	FY3/18	FY3/19	FY3/20	FY3/21	3Q FY3/22
	Pharmacy openings in 3Q FY3/22	No. of pharmacies at 3Q FY3/22	Percentage		
Kanto	17	321	46.5%		
Kansai	5	72	10.4%		
Other	8	297	43.0%		
Total	30	690	100.0%		

Hybrid Pharmacy: Combination of non-hospital-front (Mentaio) & medical center type pharmacies
 Hybrid pharmacies are located in front of train stations, in shopping districts, and in other such areas, and combine the company's Mentaio-type pharmacies (serving a wide catchment area) and its medical center-type pharmacies.

Progress of Choseido Pharmaceutical Business Improvement Plan

Progress is generally in line with plan. Manufacturing and sales plans following administrative disciplinary action are proceeding as revised forecast.

Outline of Business Improvement Plan

1. Efforts to restore trust

- (1) Renewing management system, etc.
- (2) Fostering a corporate culture
- (3) Regular consistency checks
- (4) Developing internal reporting system easy for employees to use

2. Measures to prevent recurrence at distributors

- (1) Renewing three key posts framework
- (2) Clarifying duties and scope of work of persons in charge

3. Measures to prevent recurrence at manufacturers

- (1) Clarifying duties and scope of work of persons in charge
- (2) Optimizing production planning
- (3) Framework for exploring drug development and industrialization
- (4) Framework for ongoing inspections to address quality issues
- (5) Ensuring independence of quality assurance/control and clarifying roles
- (6) Introducing and reinforcing systems, and maintaining equipment

Progress of Choseido Pharmaceutical Business Improvement Plan

		Completed or expected to be completed by fiscal year-end	Currently being addressed, ongoing
Efforts to restore trust	Reinforcing management system	<ul style="list-style-type: none"> • Make Nihon Generic wholly owned subsidiary • Renew the management team • Clarify duties and business scope of responsible officers • Establish external supervisory framework to conduct regular business audits • Set quality policy by management 	<ul style="list-style-type: none"> • Set quality objectives and conduct quality management reviews by management
	Fostering a corporate culture	<ul style="list-style-type: none"> • Publish Compliance Declaration • Clarify roles of each department and ensure cooperation between departments 	<ul style="list-style-type: none"> • Ongoing messaging by management regarding quality policy and compliance • Implement radical education and training throughout the Group
	Regular consistency checks	<ul style="list-style-type: none"> • Create guidelines for consistency checks 	<ul style="list-style-type: none"> • Consistency checks of products manufactured by in-house plants and products manufactured by other companies
	Upgrading internal reporting system	<ul style="list-style-type: none"> • Benchmark GMP-specific internal reporting system • Specify internal reporting system (including external and anonymous reporting) • Maintain operational regulations, etc. 	
Measures to prevent recurrence at distributors	Renewing three key posts framework	<ul style="list-style-type: none"> • Appoint personnel to three key posts 	
	Clarifying duties and scope of work of persons in charge	<ul style="list-style-type: none"> • Revise quality verification standards manual • Establish Reliability Promotion Department • Consolidate rooms 	<ul style="list-style-type: none"> • Meeting of personnel in three key posts held jointly by Choseido and Nihon Generic

Progress of Choseido Pharmaceutical Business Improvement Plan

		Completed or expected to be completed by fiscal year-end	Currently being addressed, ongoing
Measures to prevent recurrence at manufacturers	Clarifying duties and scope of work of persons in charge	<ul style="list-style-type: none"> • Prepare GMP management standards (regulations on organization and authority) • Create master file for three plant sites 	
	Optimizing production planning	<ul style="list-style-type: none"> • Monitor manpower for manufactured drugs • Identify manufacturing issues for each item and clarify production lead time • Select drugs for operation under manufacturing execution system (MES) • Formulate master plan for discontinuation of production and clarify responsible department 	<ul style="list-style-type: none"> • Operate MES • Select discontinued items • Initiate consultations with related manufacturers and distributors and research societies
	Framework for exploring drug development and industrialization	<ul style="list-style-type: none"> • Clarify division of roles and establish procedure manuals 	<ul style="list-style-type: none"> • Formulate master plan for site transfer • Pursue site transfer
	Framework for ongoing inspections to address quality issues	<ul style="list-style-type: none"> • Select target drugs and set priorities 	<ul style="list-style-type: none"> • Formulate master plan • Explore change in manufacturing methods and production lines to resolve quality issues
	Ensuring independence of quality assurance/control and clarifying roles	<ul style="list-style-type: none"> • Position independent quality control and assurance departments and establish department heads 	<ul style="list-style-type: none"> • Reinforce monitoring in manufacturing execution • Reinforce monitoring in quality control
	Introducing/reinforcing systems and maintaining equipment		<ul style="list-style-type: none"> • Introduce, overhaul manufacturing and analysis equipment that record logs, roll out management system • Thorough regular maintenance of manufacturing equipment • Renovate manufacturing equipment

Self-Inspection in Generic Drug Manufacturing and Sales Business

Based on guidelines for ensuring the reliability of generic drugs issued by Japan Generic Medicines Association (March 25, 2021), a concerted check of the consistency between manufacturing and marketing approval materials and actual manufacturing conditions is being carried out according to the following schedule.

In December 2021, inspections at both Nihon Generic and Choseido Pharmaceutical were completed.

Schedule

	May	June	July	Aug	Sept	Oct	Nov	Dec
Inspection by plant								
Evaluation by manufacturer								

Scope of inspection

	Nihon Generic	Choseido
In-house manufacturing sites	134 items	262 items
Contract manufacturing sites	223 items	98 items
Total	357 items	360 items

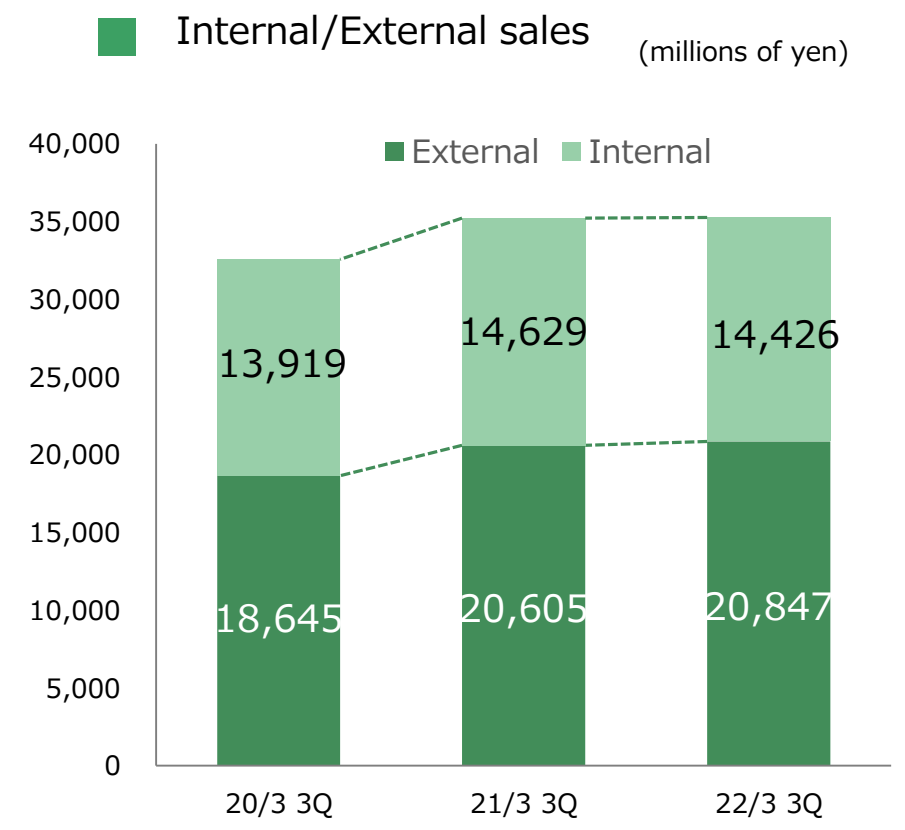
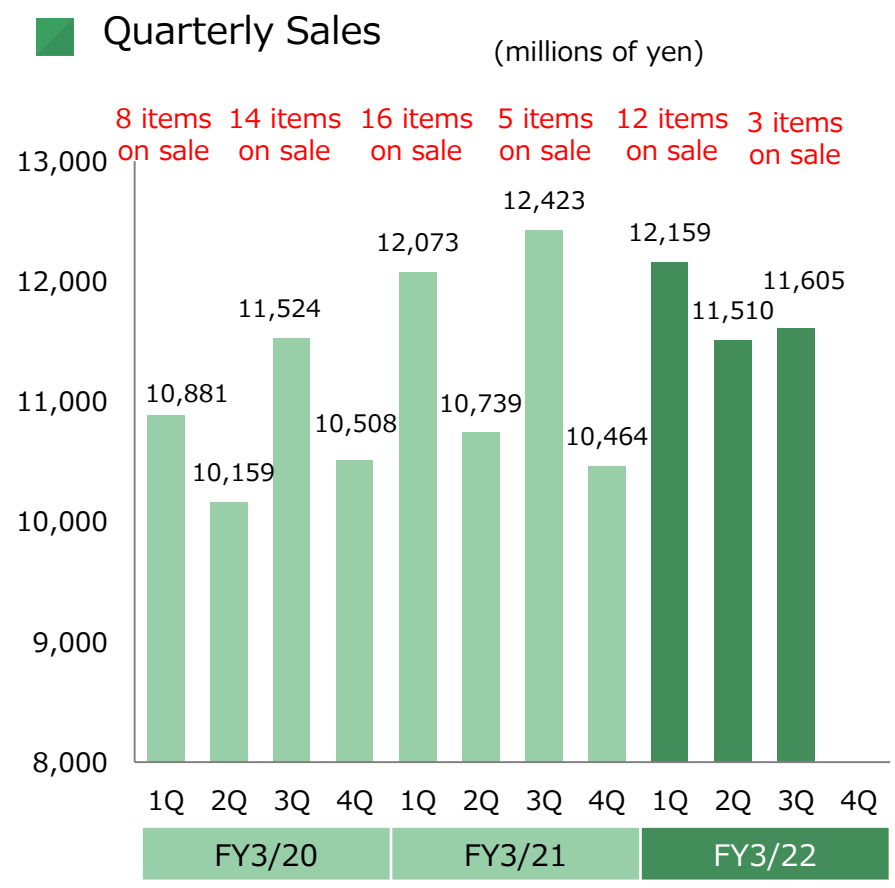
Progress

	Nihon Generic	Choseido
Inspection by plant	100.0%	100.0%
Evaluation by manufacturer	100.0%	100.0%

Growth of the Pharmaceutical Manufacturing and Sales Business

Net sales have increased steadily thanks to the launch of new NHI listed drugs. Despite the grim market conditions, net sales have grown on the back of rising sales volumes.

Net sales and their breakdown



New NHI Listed Drugs

Product Items for New NHI Listing in December 2021: **3 Items**

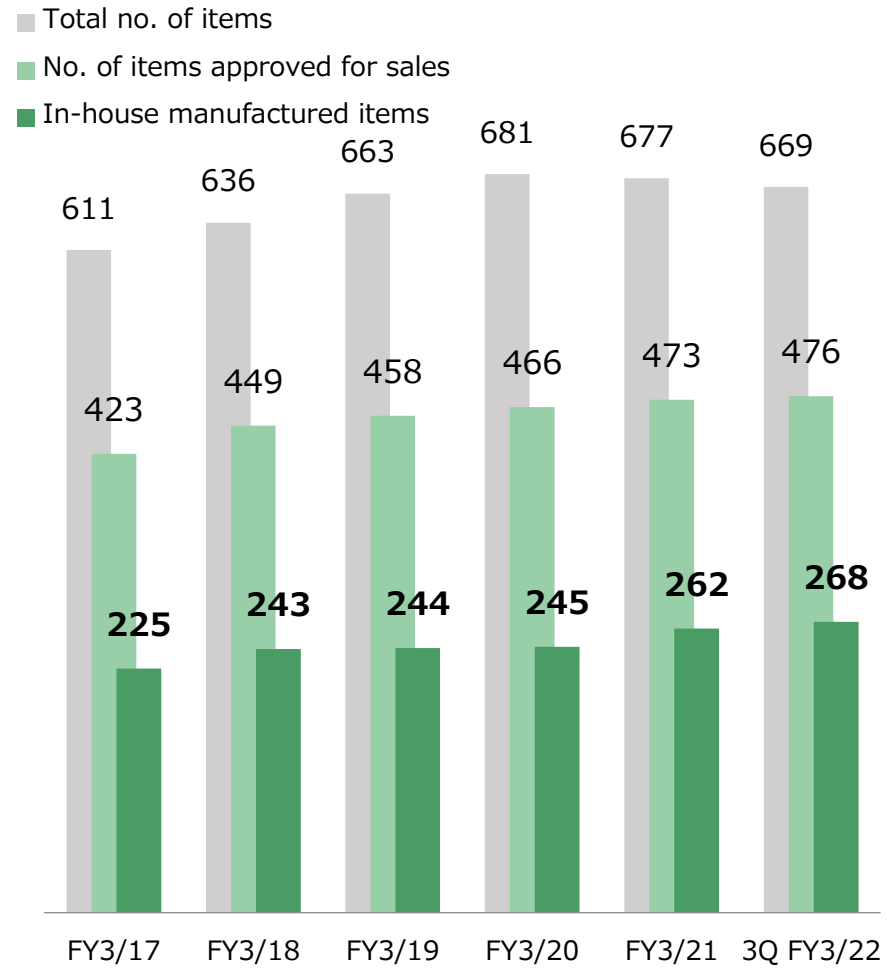
Scale of potential conversion to generic drugs (estimated*)

44.0 billion yen

Product name	
Levetiracetam Tablets 250mg "JG"	Levetiracetam Dry Syrup 50% "JG"
Levetiracetam Tablets 500mg "JG"	

* Calculated by Nihon Chouzai based on the annual usage volume of brand-name products

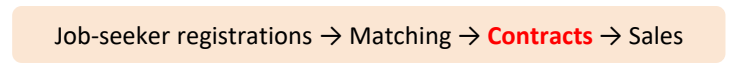
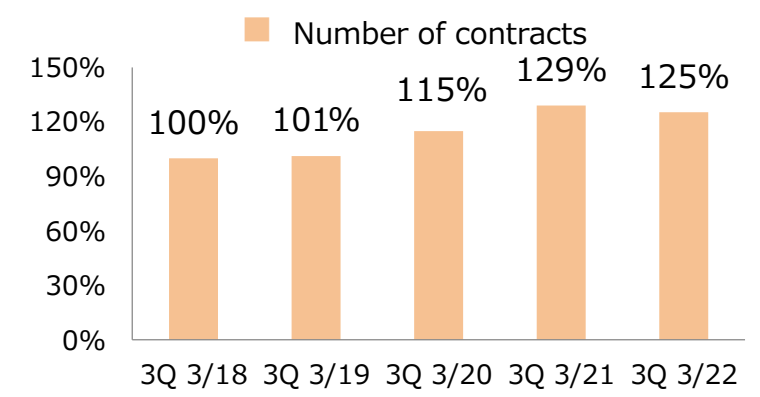
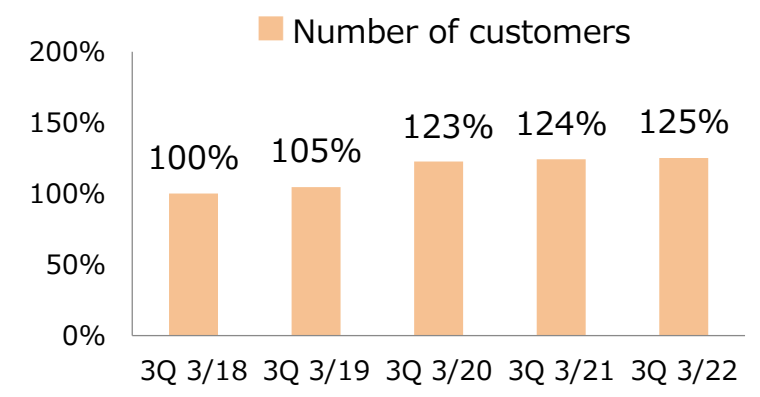
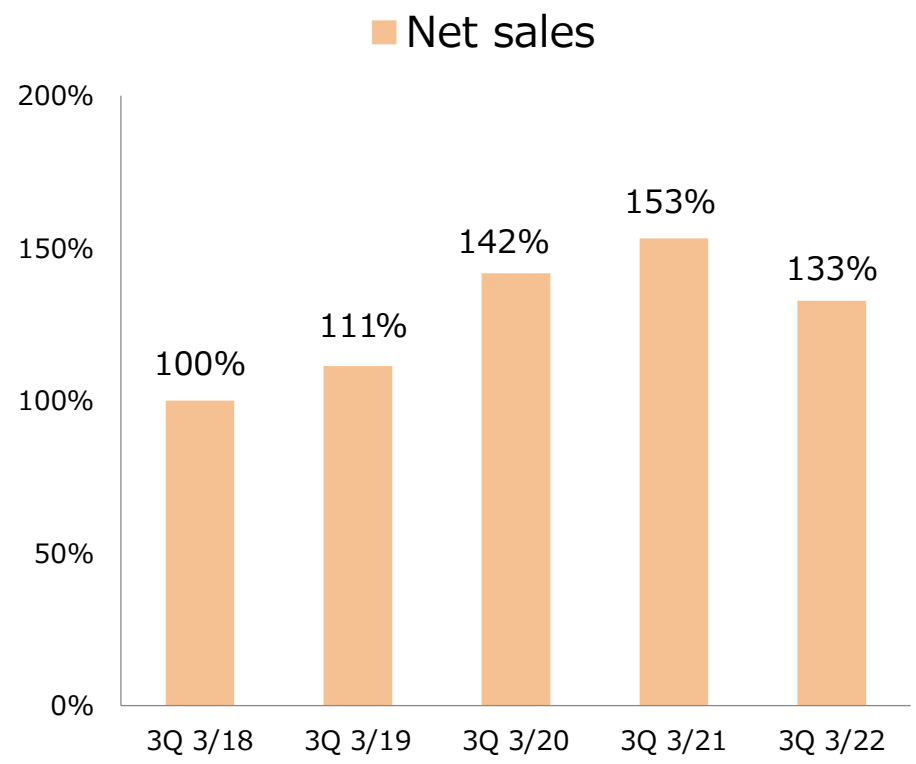
Number of Product Items



Growth of the Medical Professional Staffing and Placement Business

The Group has worked to shift the focus from staffing to placement in the pharmacist business to meet changing demand trends. The pandemic further constrained the market for temporary pharmacist staffing. Meanwhile, demand for pharmacist placements has also declined. Although the Group has maintained its customer base, lower placement volume and sales per placement caused a downturn in placement sales.

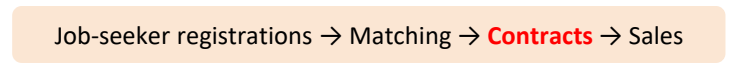
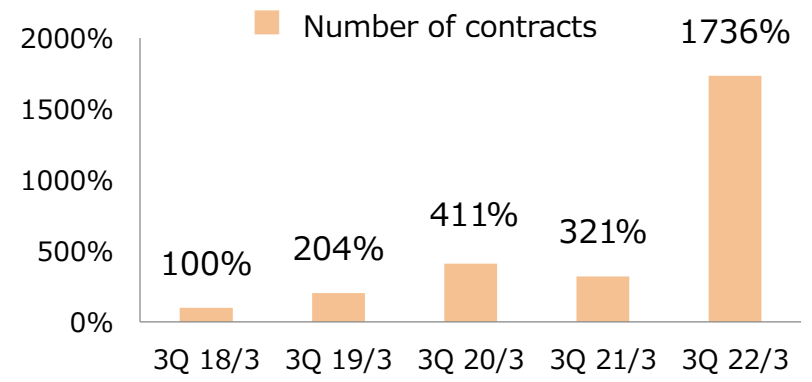
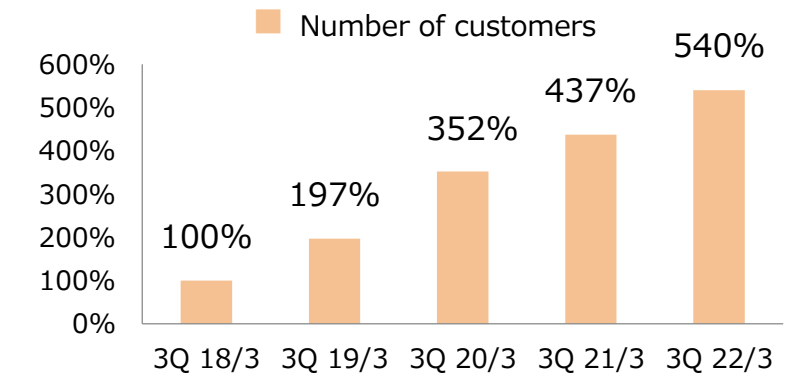
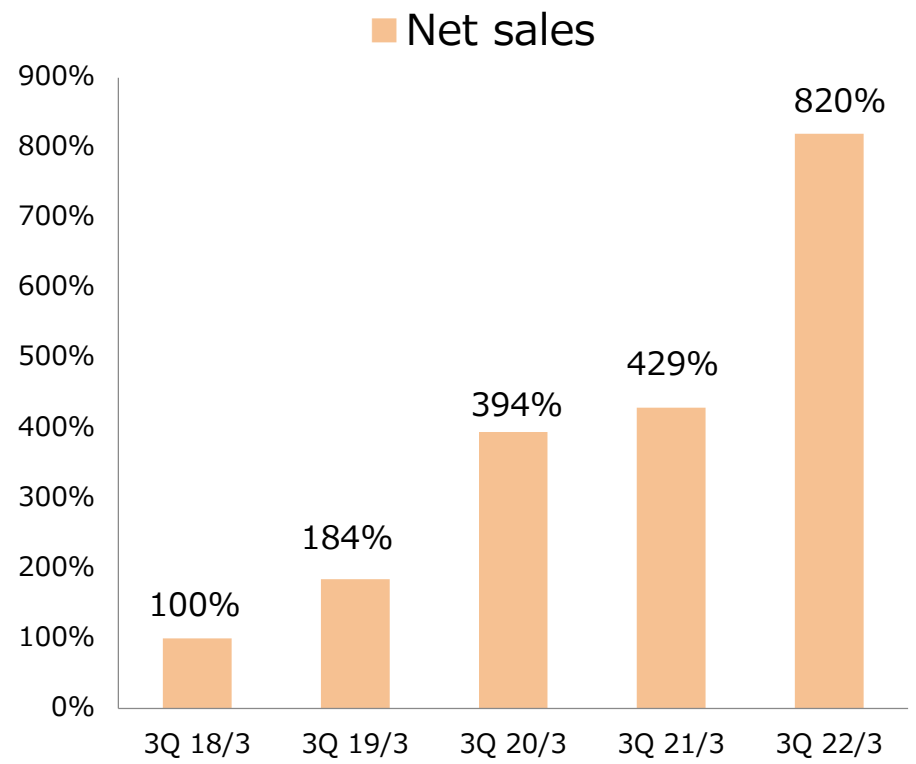
Growth of the pharmacist placement business



Growth of the Medical Professional Staffing and Placement Business

The doctor placement business saw growing demand even amid the pandemic and continues to demonstrate high growth potential. Demand has dropped off for vaccination-related work, but the business continues to expand.

Growth of the physician placement business



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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