



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

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

May 11, 2022



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Financial Highlights



**Consolidated
Results**

Net sales increased driven by favorable performance of the Dispensing Pharmacy Business, but profit fell due to the booking of a one-time loss resulting from quality issues in the Pharmaceutical Manufacturing and Sales Business.

**Dispensing
Pharmacy
Business**

Net sales and profit were up on the back of steady pharmacy openings in FY3/21 and FY3/22 and robust increase in the number of prescriptions filled.

**Pharmaceutical
Manufacturing
and Sales
Business**

Despite strong sales of new products, profit declined due to a one-time loss attributed to write-offs of inventory found to have quality issues at Choseido Pharmaceutical.

**Medical
Professional
Staffing and
Placement
Business**

Sales and profit fell in the mainstay pharmacist staffing and placement business due to the impact of the COVID-19 pandemic, but earnings from the physician placement business, including for COVID-19 vaccine rollout programs, expanded.

Consolidated Statement of Income

Net sales were up 7.3% YoY thanks to strong performance of the Dispensing Pharmacy Business despite the impact of the pandemic, but operating profit fell 18.7% YoY and was 5.9% below the forecast due to the booking of a one-time loss attributed to quality issues in the Pharmaceutical Manufacturing and Sales Business.

(Millions of yen)	FY20/3 Results	FY21/3 Results	FY3/22 Revised Forecast	FY3/22 Results	Change Vs. Revised Forecast	Vs. Revised Forecast	YoY growth Rate
Net sales	268,520	278,951	294,600	299,392	4,792	1.6%	7.3%
Cost of sales	222,147	229,577	242,800	246,969	4,169	1.7%	7.6%
Gross profit	46,372	49,374	51,800	52,422	622	1.2%	6.2%
% to sales	17.3%	17.7%	17.6%	17.5%	(0.1pt)	–	–
SG&A expenses	38,779	41,267	44,800	45,833	1,033	2.3%	11.1%
% to sales	14.4%	14.8%	15.2%	15.3%	0.1pt	–	–
Consumption taxes	15,413	17,828	19,300	19,437	137	0.7%	9.0%
R&D expenses	2,991	2,776	3,100	3,411	311	10.0%	22.9%
Operating profit	7,593	8,106	7,000	6,589	(410)	(5.9%)	(18.7%)
% to sales	2.8%	2.9%	2.4%	2.2%	(0.2pt)	–	–
Ordinary profit	7,405	8,409	7,000	6,767	(232)	(3.3%)	(19.5%)
% to sales	2.8%	3.0%	2.4%	2.3%	0.1pt	–	–
Profit attributable to owners of parent	6,697	3,538	4,000	3,705	(294)	(7.4%)	4.7%
% to sales	2.5%	1.3%	1.4%	1.2%	(0.2pt)	–	–
EBITDA	15,491	16,286	15,700	14,974	(726)	(4.6%)	(8.1%)

Consolidated Balance Sheet

Changes in assets were primarily attributed to a decline in cash and deposits of 7.3 billion yen. Changes in liabilities were mainly due to a 17.0 billion yen decline in long-term loans payable. Net interest-bearing debt of 31.0 billion yen was at its lowest since FY3/13, contributing to improved equity ratio and increased financial stability.

(Millions of yen)	End of Mar. 2020 (FY3/20)	End of Mar. 2021 (FY3/21)	End of Mar. 2022 (FY3/22)	YoY change	YoY change (%)
Current assets	87,414	89,246	81,651	(7,595)	(8.5%)
Cash and deposits	32,254	32,893	25,543	(7,350)	(22.3%)
Non-current assets	98,137	97,015	97,102	86	0.1%
Property, plant and equipment	66,082	64,785	64,025	(760)	(1.2%)
Intangible assets	19,425	18,952	18,969	16	0.1%
Investments and other assets	12,628	13,277	14,107	830	6.3%
Total assets	185,551	186,262	178,753	(7,509)	(4.0%)
Current liabilities	70,107	87,720	78,931	(8,788)	(10.0%)
Current portion of long term loans payable	9,406	27,966	12,366	(15,600)	(55.8%)
Non-current liabilities	68,370	48,673	46,944	(1,728)	(3.6%)
Long-term loans payable	62,963	42,997	41,531	(1,466)	(3.4%)
Total liabilities	138,478	136,394	125,876	(10,517)	(7.7%)
Total net assets	47,072	49,868	52,876	3,008	6.0%
Shareholders' equity	47,072	49,868	52,876	3,008	6.0%
Equity ratio	25.4%	26.8%	29.6%	2.8pt	—
Net interest-bearing debt	42,127	40,325	31,054	(9,271)	(23.0%)

Consolidated Statement of Cash Flows

Cash flows from operating activities increased, with profit before income taxes and depreciation combined sufficient to cover for cash outflows from investing activities. Cash provided by financing activities fell substantially due to repayments of long-term loans payable.

(Millions of yen)	FY20/3	FY21/3	FY22/3	YoY change
Cash flows from operating activities	13,192	11,213	19,411	8,197
Profit before income taxes	11,885	6,483	6,217	(266)
Depreciation	6,316	6,416	6,569	152
Amortization of goodwill	1,581	1,763	1,814	51
Decrease (increase) in trade receivables	(2,902)	(20)	1,185	1,205
Decrease (increase) in inventories	74	(694)	(4,147)	(3,452)
Increase (decrease) in trade payables	3,486	1,250	4,363	3,112
Cash flows from investing activities	2,731	(7,767)	(9,313)	(1,545)
Purchase of property, plant and equipment	(5,624)	(5,955)	(5,956)	(1)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(5,057)	(823)	(597)	225
Payments for acquisition of business	(771)	(907)	(348)	559
Cash flows from financing activities	(7,955)	(2,806)	(17,448)	(14,641)
Proceeds from long-term loans payable	9,900	8,000	10,900	2,900
Repayments of long-term loans payable	(16,261)	(9,406)	(27,966)	(18,560)
Net increase (decrease) in cash and cash equivalents	2,505	639	(7,350)	(7,989)
Cash and cash equivalents at beginning of period	29,749	32,254	32,893	639
Cash and cash equivalents at end of period	32,254	32,893	25,543	(7,350)

Consolidated Financial Indicators

EBITDA was maintained above 15.0 billion yen. D/E ratio and equity ratio continued to improve on progress in repayment of interest-bearing debt.

	FY20/3	FY21/3	FY22/3	YoY change
EBITDA (Millions of yen) note1	15,491	16,286	14,974	(1,312)
EV/EBITDA (Times) note1	6.1	6.0	4.9	(1.1)
Free cash flow (Millions of yen)	10,460	3,445	10,097	6,652
D/E ratio (Times)	1.6	1.5	1.1	(0.4)
Equity ratio (%)	25.4%	26.8%	29.6%	2.8pt
Net income per share (yen) EPS note2	223.33	118.01	123.56	5.55
Net assets per share (Yen) BPS note2	1,569.77	1,663.01	1,763.34	100.33
Return on equity (%)	15.2%	7.3%	7.2%	(0.1pt)
Return on assets (%)	4.1%	4.5%	3.7%	(0.8pt)
Operating margin (%)	2.8%	2.9%	2.2%	(0.7pt)

Note1 : EBITDA=Operating profit/loss+Depreciation+Amortization of goodwill EV=Market cap at the end of each period+Net interest-bearing

Note2 : The company conducted a 2-for-1 stock split effective on Apr.1,2020.

Per-share figures for FY3/2017 to FY3/2019 is adjusted to reflect the stock split.

Dispensing Pharmacy Business

Net sales were up 8.8% YoY and operating profit up 22.9% YoY (0.9% above the forecast), owing to an increase in the number of prescriptions filled and contributions from newly opened pharmacies (29 in FY3/21 and 40 in FY3/22).

(Millions of yen)	FY3/20 Results	FY3/21 Results	FY3/22 Revised Forecast	FY3/22 Results	Change Vs. Revised Forecast	Vs. Revised Forecast	YoY growth rate
Net sales	231,001	244,072	261,400	265,624	4,224	1.6%	8.8%
Cost of sales	196,103	206,018	219,000	222,837	3,837	1.8%	8.2%
Gross profit	34,898	38,054	42,400	42,786	386	0.9%	12.4%
% to sales	15.1%	15.6%	16.2%	16.1%	(0.1pt)	—	—
SG&A expenses	25,112	27,468	29,500	29,776	276	0.9%	8.4%
% to sales	10.9%	11.3%	11.3%	11.2%	(0.1pt)	—	—
Operating profit	9,785	10,585	12,900	13,009	109	0.9%	22.9%
% to sales	4.2%	4.3%	4.9%	4.9%	0.0pt	—	—
No. of pharmacies at the end of each period (stores) <small>note 1</small>	650	670	710	697	(13)	(1.8%)	4.0%
Prescription drug sales per pharmacy <small>note 2</small>	370	369	378	388	9	2.6%	5.1%

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

Net sales fell 1.9% YoY despite favorable sales of products newly listed in the NHI drug price list in FY2019 and later. The Business posted an operating loss of 500 million yen due to a one-time loss resulting from write-offs of inventory found to have quality issues at Choseido Pharmaceutical.

(Millions of yen)	FY3/20 Results	FY3/21 Results	FY3/22 Revised Forecast	FY3/22 Results	Change Vs. Revised Forecast	Vs. Revised Forecast	YoY growth rate
Net sales	43,072	45,699	45,300	44,836	(463)	(1.0%)	(1.9%)
Cost of sales	36,995	38,804	40,100	39,635	(464)	(1.2%)	2.1%
Gross profit	6,076	6,894	5,200	5,200	0	0.0%	(24.6%)
% to sales	14.1%	15.1%	11.5%	11.6%	0.1pt	—	—
SG&A expenses	4,774	4,543	4,800	5,254	454	9.5%	15.6%
% to sales	11.1%	9.9%	10.6%	11.7%	1.1pt	—	—
Operating profit	1,301	2,350	400	(53)	(453)	—	—
% to sales	3.0%	5.1%	0.9%	—	—	—	—

Note: Rounding down to the nearest unit

Differences between revised forecast and actual results in the Pharmaceutical Manufacturing and Sales Business

(Millions of yen)	FY3/22 Forecast	FY3/22 Revised Forecast	FY3/22 Results	Change Vs. Forecast	Change Vs. Revised Forecast
Net sales	49,800	45,300	44,836	(4,963)	(463)
Cost of sales	41,800	40,100	39,635	(2,164)	(464)
Gross profit	8,000	5,200	5,200	(2,799)	0
% to sales	16.1%	11.5%	11.6%	(4.5pt)	0.1pt
SG&A expenses	5,300	4,800	5,254	45	454
% to sales	10.6%	10.6%	11.7%	1.1pt	1.1pt
Operating profit	2,700	400	(53)	(2,753)	(453)
% to sales	5.4%	0.9%	—	—	—

Note: Rounding down to the nearest unit

Actual results vs. revised forecast (which took into account impact of quality issues)

■ Assumptions underlying the revised forecast

- Projects a 2.3 billion yen decline in operating profit.
- Impact of fire at the contract logistics center in West Japan in November was not taken into account.

■ Breakdown of differences

Net sales: -463 million yen

- Net sales fell on expanded inventory adjustments as the fire at the logistics center damaged a third of inventory.

Operating profit: -453 million yen

- Decrease due to one-time loss on disposal of bad inventory and raw materials for products caused by quality problems and increase in development costs

※One-time loss due to quality issues

- 2,563 million yen in one-time loss on disposal of bad inventories and disposal of raw materials and other materials due to review of JG/CH production items

■ Impact on FY3/23 earnings

- Losses attributed to write-offs of defective inventory and production item review have already been booked in full.
- Expects recovery in net sales as discrepancies in items produced are resolved

Medical Professional Staffing and Placement Business

Net sales fell 16.7% YoY and operating profit fell 19.1% YoY, as demand for pharmacist staffing and placement slumped due to the pandemic. Meanwhile, the physician placement business maintained robust growth as demand related to COVID-19 vaccine programs expanded. Further, industrial physician services, in which the Company newly invested in FY3/21, performed strong, with profit exceeding the revised forecast by 44.2%.

(Millions of yen)	FY3/20 Results	FY3/21 Results	FY3/22 Revised Forecast	FY3/22 Results	Change Vs. Revised Forecast	Vs. Revised Forecast	YoY growth rate
Net sales	12,721	8,393	6,800	6,991	191	2.8%	(16.7%)
Cost of sales	7,316	3,916	2,500	2,576	76	3.1%	(34.2%)
Gross profit	5,404	4,477	4,300	4,414	114	2.7%	(1.4%)
% to sales	42.5%	53.3%	63.2%	63.1%	(0.1pt)	—	—
SG&A expenses	3,553	3,764	3,900	3,837	(62)	(1.6%)	1.9%
% to sales	27.9%	44.9%	57.4%	54.9%	(4.3pt)	—	—
Operating profit	1,851	712	400	576	176	44.2%	(19.1%)
% to sales	14.6%	8.5%	5.9%	8.2%	2.4pt	—	—

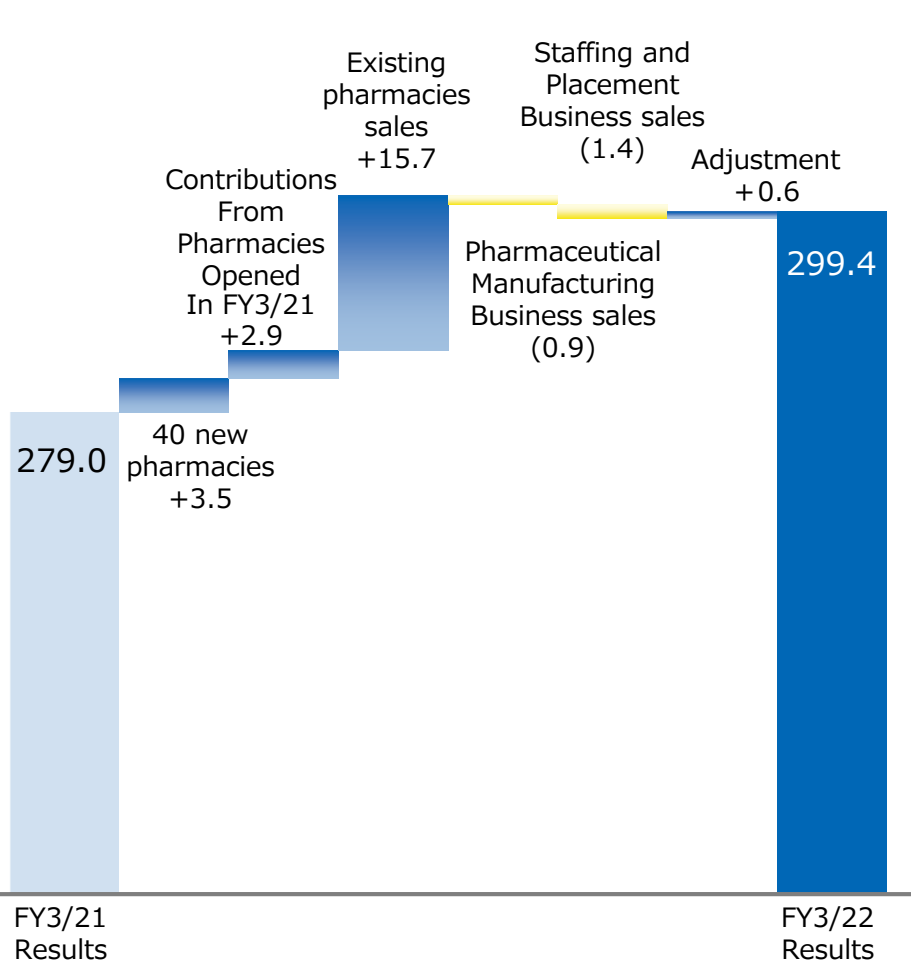
Note: Rounding down to the nearest unit

Reference Materials

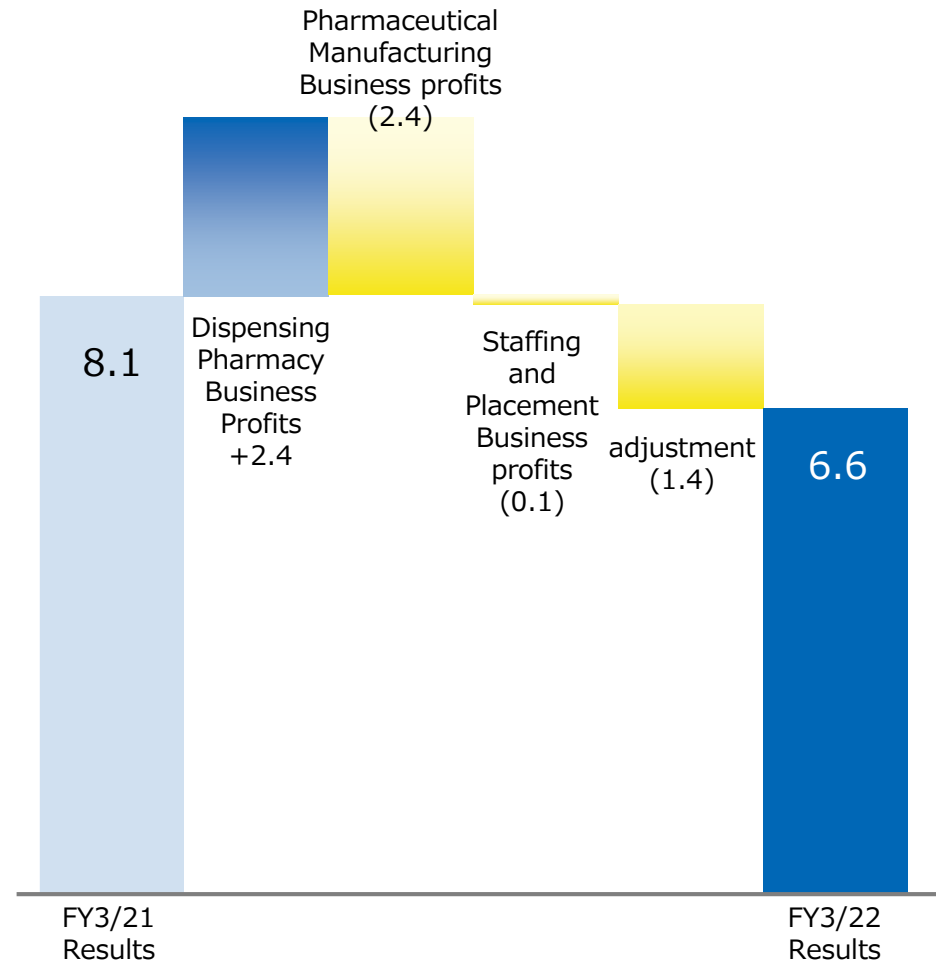
Consolidated Results: Major Components of YoY Changes (Net Sales / Operating Profit)

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

Net Sales



Operating Profit

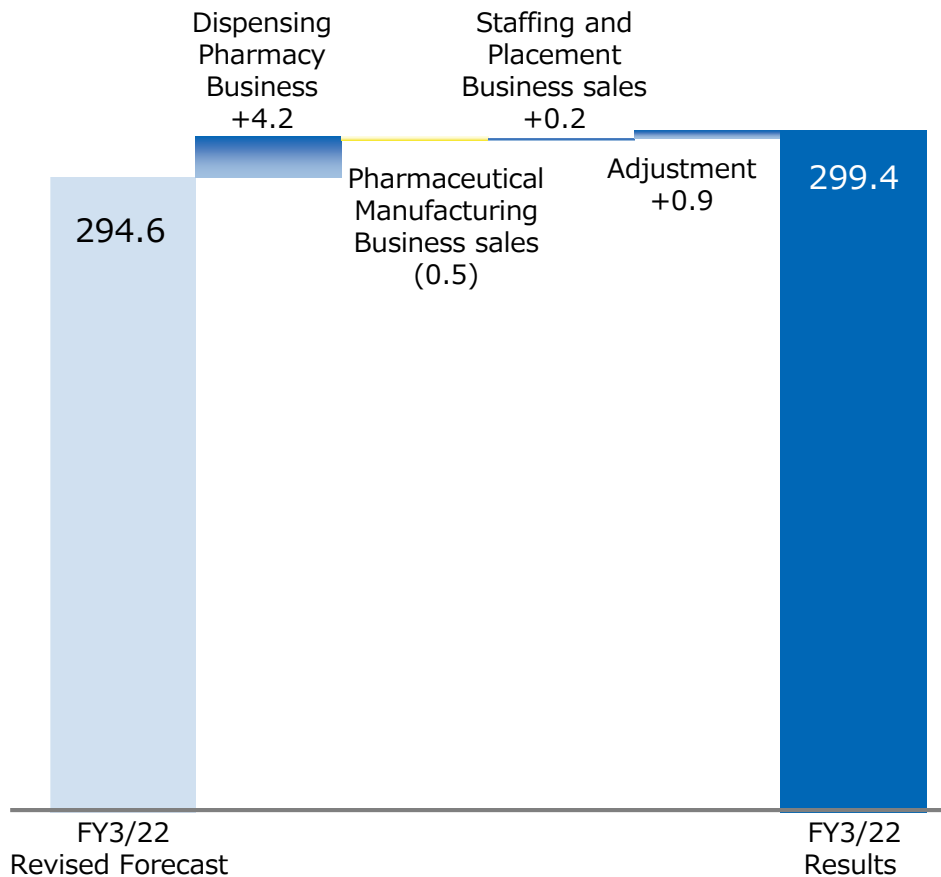


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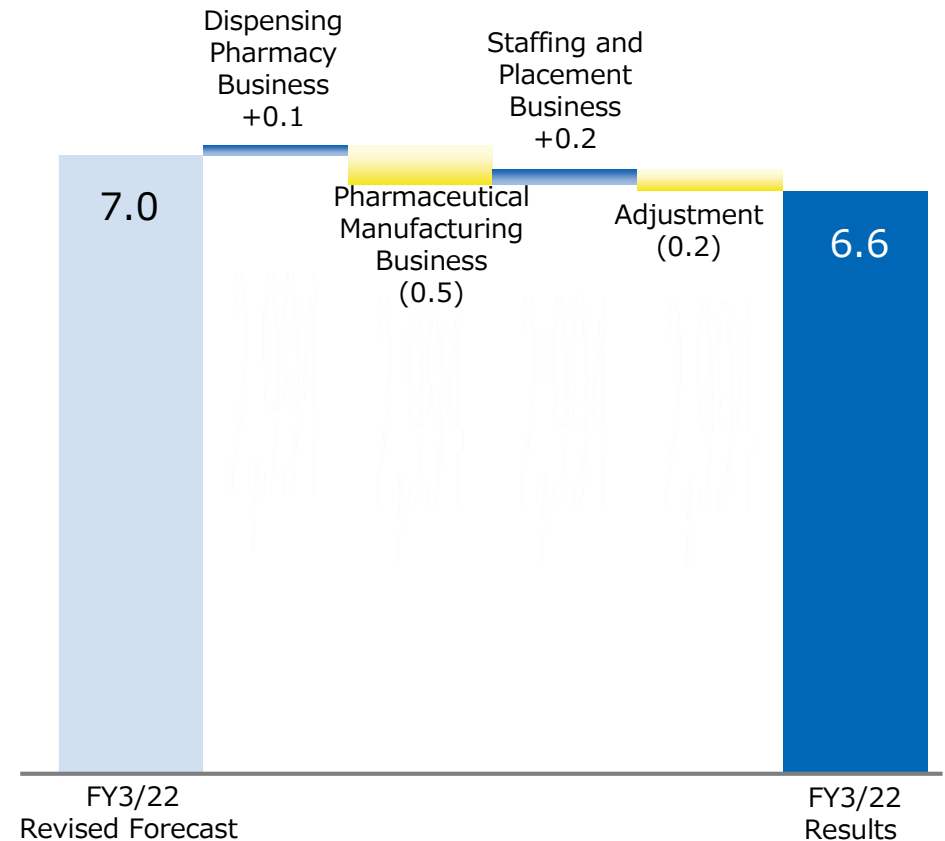
Consolidated Results: Major Components of Changes vs. Revised Forecast (Net Sales / Operating Profit)

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

Net Sales



Operating Profit



FY3/23 Consolidated Forecast

We project higher net sales and profit despite dispensing fee and drug price revisions and ongoing impact of the pandemic.

(Millions of yen)	FY3/20 Results	FY3/21 Results	FY3/22 Results	FY3/23 Forecast	YoY change	YoY growth rate
Net sales	268,520	278,951	299,392	321,400	22,007	7.4%
Cost of sales	222,147	229,577	246,969	265,200	18,230	7.4%
Gross profit	46,372	49,374	52,422	56,200	3,777	7.2%
% to sales	17.3%	17.7%	17.5%	17.5%	0.0pt	–
SG&A expenses	38,779	41,267	45,833	47,300	1,466	3.2%
% to sales	14.4%	14.8%	15.3%	14.7%	(0.6pt)	–
Consumption taxes	15,413	17,828	19,437	20,800	1,362	7.0%
R&D expenses	2,991	2,776	3,411	3,100	(311)	(9.1%)
Operating profit	7,593	8,106	6,589	8,500	1,910	29.0%
% to sales	2.8%	2.9%	2.2%	2.6%	0.4pt	–
Ordinary profit	7,405	8,409	6,767	8,400	1,632	24.1%
% to sales	2.8%	3.0%	2.3%	2.6%	0.3pt	–
Profit attributable to owners of parent	6,697	3,538	3,705	4,400	694	18.7%
% to sales	2.5%	1.3%	1.2%	1.4%	0.2pt	–
Net income per share (Yen) ^{Note}	223.33	118.01	123.56	146.73	23.17	18.8%
EBITDA	15,491	16,286	14,974	17,600	2,626	17.5%
Dividend per share (Yen) ^{Note}	25.00	25.00	25.00	25.00	–	–

FY3/23 Business Segment Forecast

For the Dispensing Pharmacy Business, we forecast growth in net sales and profit, even as we account for the impact of the pandemic throughout the year and dispensing fee revisions. For the Pharmaceutical Manufacturing and Sales Business, we project higher net sales and profit despite the impact of drug price revisions, owing to increased sales of in-house manufactured products.

	(Millions of yen)	FY3/20 Results	FY3/21 Results	FY3/22 Results	FY3/23 Plan	YoY change	YoY growth rate
Dispensing pharmacy business	Net sales	231,001	244,072	265,624	283,300	17,675	6.7%
	Gross profit	34,898	38,054	42,786	43,900	1,113	2.6%
	% to sales	15.1%	15.6%	16.1%	15.5%	(0.6pt)	—
	Operating profit	9,785	10,585	13,009	13,900	890	6.8%
	% to sales	4.2%	4.3%	4.9%	4.9%	0.0pt	—
	EBITDA	13,536	14,596	17,328	18,600	1,270	7.3%
Pharmaceutical manufacturing and sales business	Net sales	43,072	45,699	44,836	48,200	3,363	7.5%
	Gross profit	6,076	6,894	5,200	7,600	2,399	46.1%
	% to sales	14.1%	15.1%	11.6%	15.8%	4.2pt	—
	Operating profit	1,301	2,350	(53)	2,100	2,153	—
	% to sales	3.0%	5.1%	—	4.4%	—	—
	EBITDA	5,038	6,096	3,523	3,700	176	5.0%
Medical professional staffing and placement business	Net sales	12,721	8,393	6,991	7,100	108	1.6%
	Gross profit	5,404	4,477	4,414	4,500	85	1.9%
	% to sales	42.5%	53.3%	63.1%	63.4%	0.2pt	—
	Operating profit	1,851	712	576	500	(76)	(13.3%)
	% to sales	14.6%	8.5%	8.2%	7.0%	(1.2pt)	—
	EBITDA	1,925	807	693	700	6	0.9%

FY3/23 Consolidated and Business Segment Forecast by Quarter

(Millions of yen)		1Q	2Q	3Q	4Q
Consolidated	Net sales	76,200	79,800	82,500	82,900
	Gross profit	12,700	14,100	14,800	14,500
	% to sales	16.7%	17.7%	17.9%	17.5%
	Operating profit	200	2,300	3,100	2,800
% to sales	0.3%	2.9%	3.8%	3.4%	
Dispensing pharmacy business	Net sales	66,400	70,400	72,400	73,900
	Gross profit	9,500	11,000	11,500	11,700
	% to sales	14.3%	15.6%	15.9%	15.8%
	Operating profit	1,400	3,700	4,200	4,500
% to sales	2.1%	5.3%	5.8%	6.1%	
Pharmaceutical manufacturing and sales business	Net sales	12,100	11,900	12,700	11,300
	Gross profit	1,900	1,900	2,100	1,500
	% to sales	15.7%	16.0%	16.5%	13.3%
	Operating profit	500	500	800	100
% to sales	4.1%	4.2%	6.3%	0.9%	
Medical professional staffing and placement business	Net sales	1,800	1,600	1,700	1,800
	Gross profit	1,200	1,000	1,100	1,100
	% to sales	66.7%	62.5%	64.7%	61.1%
	Operating profit	200	0	0	100
% to sales	11.1%	0.0%	0.0%	5.6%	

* Figures in the plan are rounded down to the nearest 100 million yen.

2 Growth strategy



Nihon Chouzai Group

- Unveil a new group philosophy
- Strengthen financial stability and invest in medium-term growth
- Promote sustainable management

Dispensing Pharmacy Business

- respond to digital transformation (DX) of the healthcare industry
- Implement initiatives for at-home medical care
- Pharmacy opening strategy that prioritizes balance

Pharmaceutical Manufacturing and Sales Business

- Elimination of unprofitable items and continuous development, manufacturing and marketing of new products
- Stable supply and strengthening of quality control Maximizing synergies at Nihon Generic and Choseido Pharmaceutical
- Progress of business improvement plan at Choseido Pharmaceutical

Medical Professional Staffing and Placement Business

- Expand healthcare professional staffing and placement business
The physician placement business grew steadily thanks to robust demand related to COVID-19 vaccine programs



New Group Philosophy

Our Mission

To give people the closest possible support

From the start, our primary aim has been to contribute to the health of all people. It is as true today as ever. We work to ensure that medical care is available to every part of society, regardless of the challenges involved. Moving forward, we will continue to provide lifelong support for our customers, serving as the healthcare professionals most closely involved in their wellbeing.

Group vision 2030

The most trusted partner in healthcare

Looking toward 2030, we know that we cannot fulfill our mission in isolation.

We will embrace input from everyone we serve, including patients, medical professionals, research institutions, companies, and governments.

We will endeavor to become the healthcare group of choice for each of them, and work together to create new standards of care.

We will ensure they think of us first for their provision, and trust us as a healthcare group whose focus is the future of our industry.

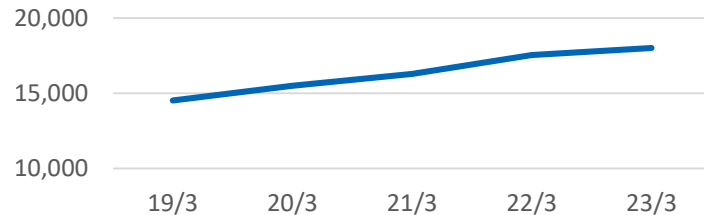


Strengthening financial stability and medium-term growth strategy

Increase financial stability

■ Growth in consolidated EBITDA

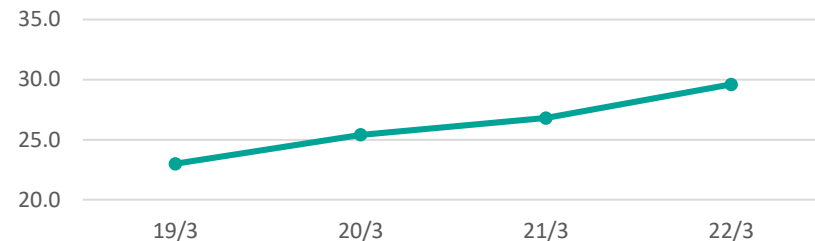
Aim for growth in consolidated EBITDA, despite projections for increased cash outflows from investing activities due to growth investment



*Excluding a one-time loss of 2.56 billion yen from the pharmaceutical manufacturing and sales business in FY2022/3

■ Improvement in equity ratio

Continue to actively invest in growth, while also focusing on improving the equity ratio



Medium-term growth strategy

■ Nihon Chouzai Group

- ✓ **Strengthen sustainable management**
 - See page 20
- ✓ **Strengthen Group governance**
 - See page 20
- ✓ **Nurture human resources that can contribute to sustainable growth**
 - Promote diversity & inclusion

■ Dispensing Pharmacy Business

- ✓ **Respond to DX of the healthcare industry**
 - See page 21
- ✓ **Initiatives for at-home medical care**
 - See page 22
- ✓ **Strategically open pharmacies focused on maintaining balance**
 - See page 23,24

■ Pharmaceutical Manufacturing and Sales Business

- ✓ **Elimination of unprofitable items and continuous development, manufacturing and marketing of new products**
 - See page 25,29,30
- ✓ **Stable supply and strengthening of quality control Maximizing synergies at Nihon Generic and Choseido Pharmaceutical**
 - See page 25

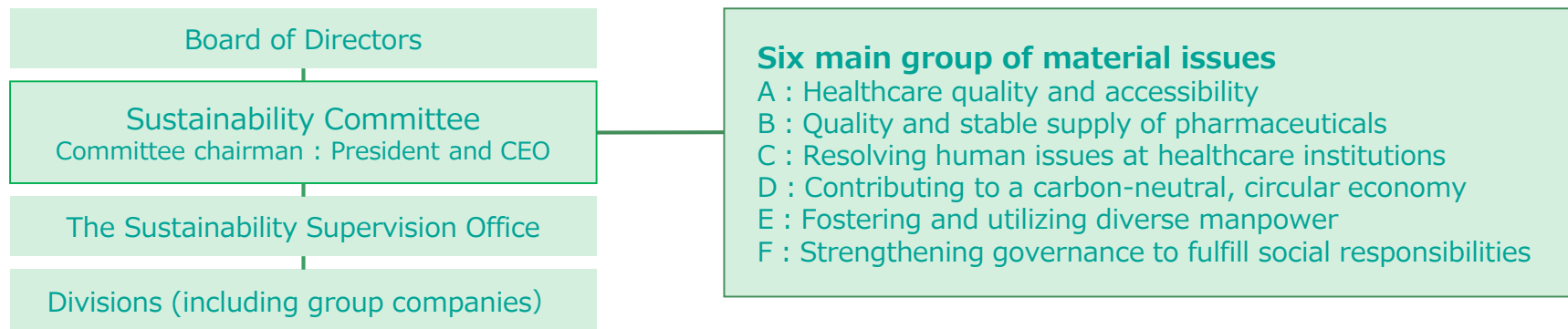
■ Medical Professional Staffing and Placement Business

- ✓ **Physician business**
 - Strengthen partnerships with business operators that have introduced a health management system, and accelerate growth of industrial physician services; promote health management
- ✓ **Pharmacist business**
 - Expand share of pharmacist placement business by raising recognition of Medical Resources

Initiatives for sustainable management

■ Established Sustainability Committee and identified key management issues (materiality)

Established Sustainability Committee chaired by President and CEO, and identified 21 material issues categorized into six key groups



■ Strengthening Group Governance

Introduced executive officer system in April 2022

To separate management decision-making and supervisory functions from business execution function; to further clarify business execution authorities and responsibilities; to expedite decision making; and to enhance management ability

Strengthening the Group Internal Control System

-Nihon Chouzai's Risk Management and Compliance Office to expand and promote a comprehensive risk management and compliance promotion system for the entire Group

-Establishment of an Audit Office at Nihon Generic and establishment of a system for collaboration among the Audit Offices of each Group company.



Dispensing Pharmacy Business Medium-term growth strategy

Response to digital transformation (DX) of the healthcare industry

■ Government and economic policies

- ✓ **Policies for appropriate implementation of telemedicine** (March 2018, MHLW)
 - **Further improve quality of healthcare** by obtaining information on patients' daily lives
 - Ensure patients requiring medical attention have **access to healthcare**, and increase their opportunities to receive higher-quality healthcare
 - **Maximize effectiveness of healthcare** by encouraging active patient involvement

■ Deregulation by the Japanese government and the Company's initiatives

- ✓ **Online medication guidance (from September 2020)**
 - Rolled out Nihon Chouzai online pharmacy service NiCOMS at group pharmacies nationwide
- ✓ **Mandatory patient follow-up after dispensing drugs (from September 2020)**
 - Added "Tsunagaru (connect)" function to electronic medication notebook Okusuri Techo Plus; registered users exceeded one million (no. 1 in user count among pharmacy-developed healthcare apps*)
- ✓ **Online insurance eligibility verification (from March 2021)**
 - Almost all group pharmacies nationwide can verify patients' insurance eligibility online
- ✓ **Introduction of prescription refill service (April 2022)**
- ✓ **Electronic prescription service (scheduled to come into effect in January 2023)**
 - Project to overhaul drug dispensing system underway, enabling provision of seamless services benefit of a digital era

■ Policies for future medical DX initiatives

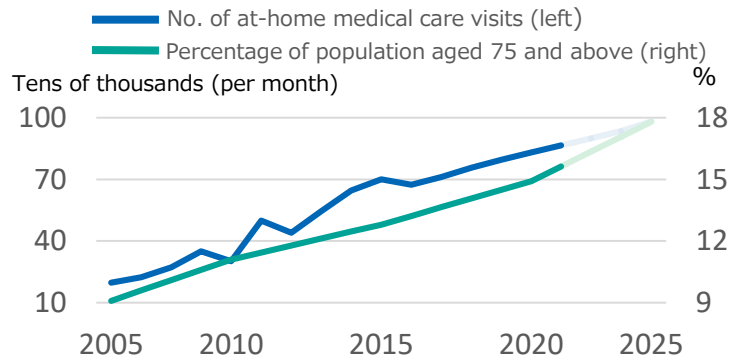
- ✓ **Ensure accessibility to medical care**
 - Further expansion of linkage between online medical care/face-to-face medical care and online medication guidance
 - Linkage with community healthcare and electronic prescriptions/online eligibility verification
- ✓ **Further improvement of the quality of medical care**
 - Sharing of patients' daily medication concerns
 - Real-time information on adverse drug reactions
 - Provide patients with online medication support information
 - Medication support such as medication reminders
- ✓ **Maximize the effectiveness of healthcare**
 - Online healthcare choices
 - Prevention of serious injury with apps
 - Remote patient monitoring by pharmacists

*Note: Survey by AppApe, an app analysis tool

Dispensing Pharmacy Business Medium-term growth strategy

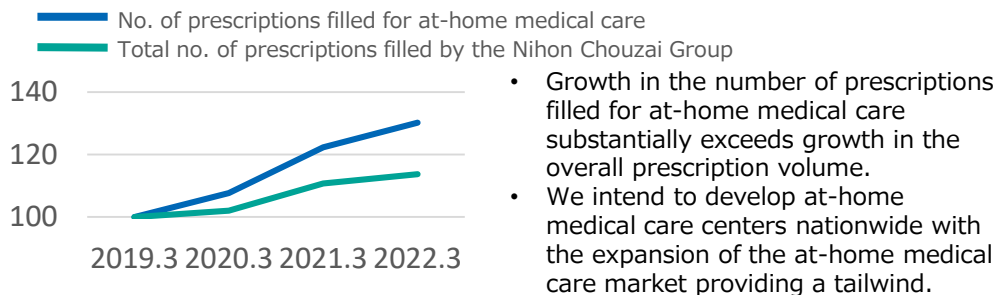
Initiatives for at-home medical care

■ Expansion of at-home medical care market



Note: Company estimate based on reference materials for the First Working Group on At-Home Medical Care and Cooperation of Healthcare and Elderly Care, and the MIC's Statistical Analysis of Japan's Elderly Population

■ Number of prescriptions filled (monthly) indexed to 100 as of March 2019



■ Initiatives for at-home medical care

- ✓ **Expansion of at-home medical care support centers**
 - Operated 26 at-home medical care centers (as of May 1, 2022)
 - Open more at-home medical care support centers that specialize in supporting at-home medical care
 - By installing large dispensing equipment, take advantage of support centers' strengths as being specialized institutions in increasing efficiency of tasks involving handling of goods
 - Twenty-one centers obtained ISO9001 certification
- ✓ **Established Quality Management Division in February 2022**
 - Plan and implement various measures to improve medical safety and quality management, including improving quality control of dispensing pharmacy operations in general, and making proposals for measures to prevent dispensing errors and formulating effective measures to prevent such errors.
 - Increase the number of support centers with ISO9001 certification
- ✓ **Deploy managers specifically in charge of at-home medical care**
 - Place these at-home medical care managers in all areas of operation nationwide
- ✓ **FINDAT, a pharmaceutical information platform, was introduced at Nihon Chouzai pharmacy outlets.**
 - Utilize evidence-based, trustworthy pharmaceuticals information in at-home medical care through introduction of FINDAT

Well-Balanced Pharmacy Network ①

In addition to pharmacy openings through organic growth and M&A, we are working to open larger pharmacies and meet demand for advanced medical care, which has led to growth in per-pharmacy sales. While maintaining the share of pharmacies opened through organic growth, we aim to utilize M&A for balanced pharmacy openings.

Pharmacy Openings	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22
Opened	27	42	36	32	65*	29	40
Organic growth (percentage)	22 (81.5%)	21 (50.0%)	23 (63.9%)	26 (81.2%)	35 (53.8%)	22 (75.9%)	34 (85.0%)
M&A	5	21	13	6	30	7	6
Closed	11	12	8	19	13	9	13
No. of pharmacies at the end of period	527	557	585	598	650	670	697

* Including one location specializing in the sales of general merchandise

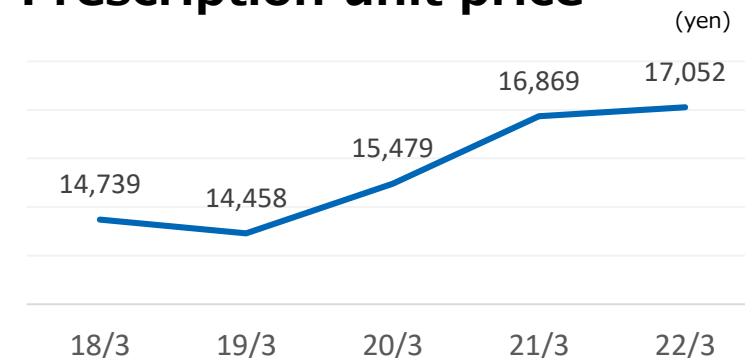
Note: Including one location that was converted from a store specializing in the sale of general merchandise to a pharmacy

FY3/22 Results

(YoY growth rate)	Prescription drug sales	No. of prescriptions	Prescription unit prices
Existing pharmacies	+6.6%	+4.6%	+1.9%
Pharmacies opened in FY3/21	+107.5%	+97.7%	+4.9%
Total	+8.7%	+7.6%	+1.1%

No. of prescriptions 15,300,000 Prescription unit price 17,052yen

Prescription unit price



Well-Balanced Pharmacy Network②

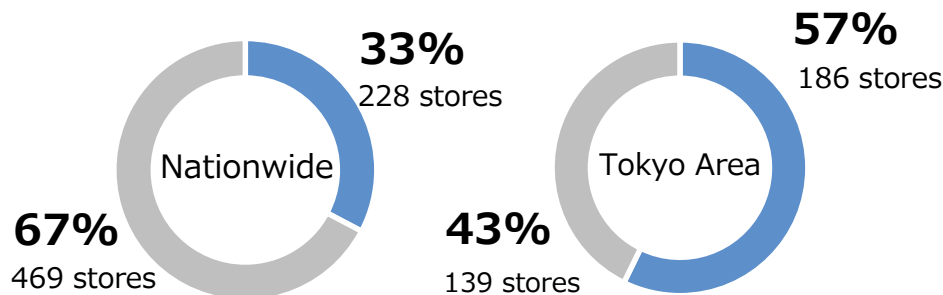
In addition to steadily increasing hospital-front pharmacies and pharmacies within hospital premises, we will strengthen our opening of “hybrid pharmacies,” which are becoming increasingly crucial to community medical care, and continue to run a well-balanced pharmacy network. On-site pharmacies will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

Pharmacy Openings

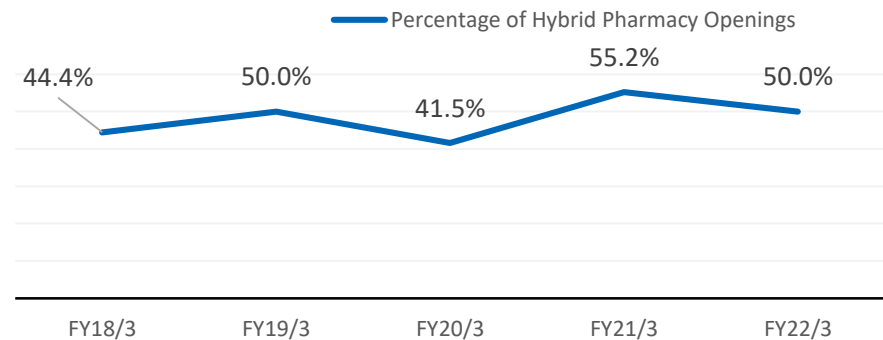
	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22
Opened	36	32	65 note	29	40
Hospital-front pharmacies / Pharmacies within hospital premises	20	16	38	13	20
Hybrid pharmacies	16	16	27	16	20
Closed	8	19	13	9	13
No. of pharmacies at the end of period	585	598	650	670	697

• 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	Pharmacy openings in FY3/22	No. of pharmacies at 4Q FY3/22	Percentage
Kanto	24	357	51.2%
Kansai	5	82	11.8%
Other	11	258	37.0%
Total	40	697	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.

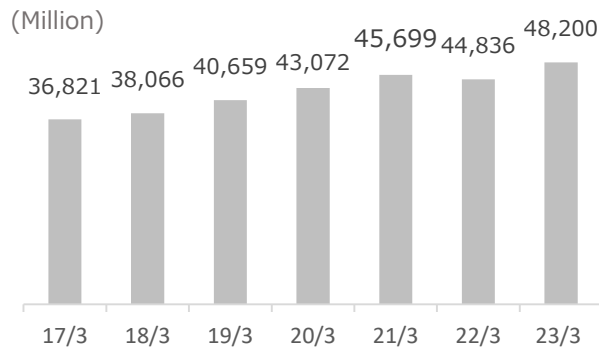
Pharmaceutical Manufacturing and Sales Business

Medium-term growth strategy

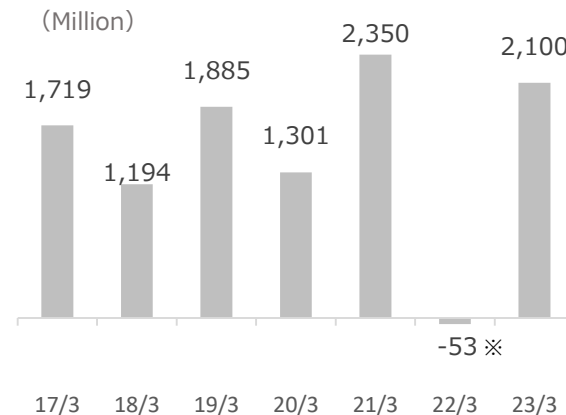
Maximize group synergies to ensure stable supply and strengthen quality control.

Improve sales growth and operating margin by eliminating unprofitable items and increasing the ratio of in-house manufactured products.

Net sales

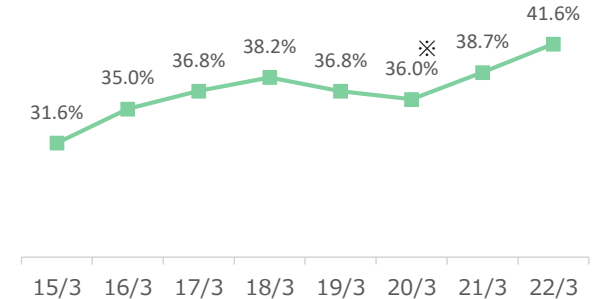


Operating profit



*Substantial decrease due to loss on disposal of defective inventory caused by quality problems, etc.

Enhanced profitability by increasing the ratio of in-house manufactured products



※The number of in-house manufactured product items declined due to the sale of Kasukabe Plant

Growth Strategy

-Reduction of unprofitable items and continuous development, manufacturing and sales of new products

- Eliminate unprofitable items in JG/CH
- Expansion of in-house manufacturing ratio (41.6% (2022/3) → 70-80% target)
- Achieve high quality control and stable supply through in-house manufacturing.
- Mid-term operating margin target: 10%.

-Maximization of synergies between Nippon Generics and Choseido Pharmaceutical to strengthen stable supply and quality control

- Optimization of product portfolio
- Efficient production system
- Hiring and training human resources for manufacturing expansion
- Implementation of measures to strengthen quality control

Progress of Choseido Pharmaceutical Business Improvement Plan

Progress of Business Improvement Plan

The progress of Choseido Pharmaceutical's improvement plan is regularly reported to the Tokushima Pharmaceutical Affairs Council, where the status of improvement is discussed.

At the Pharmaceutical Affairs Council meeting held on March 25, 2022, the Tokushima Prefectural Pharmaceutical Affairs Division reported the following, and the Council was of the opinion that the plan was progressing without problems.

The Council expressed its opinion that the project was proceeding without any problems.

(Report from Tokushima Pharmaceutical Affairs Division)

As a result of on-site inspections of the three factories as a distributor and a manufacturer, the Council stated, "At present, improvements are being made appropriately based on the improvement plan, and there are no problems with inappropriate manufacturing."

Progress of Choseido Pharmaceutical Business Improvement Plan

		Completed	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, revise quality assurance manual 	<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. 	<ul style="list-style-type: none"> • Regularly conduct employee surveys • Inspect reports received through the internal reporting system and outcomes of actions taken at the Risk Management Committee
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

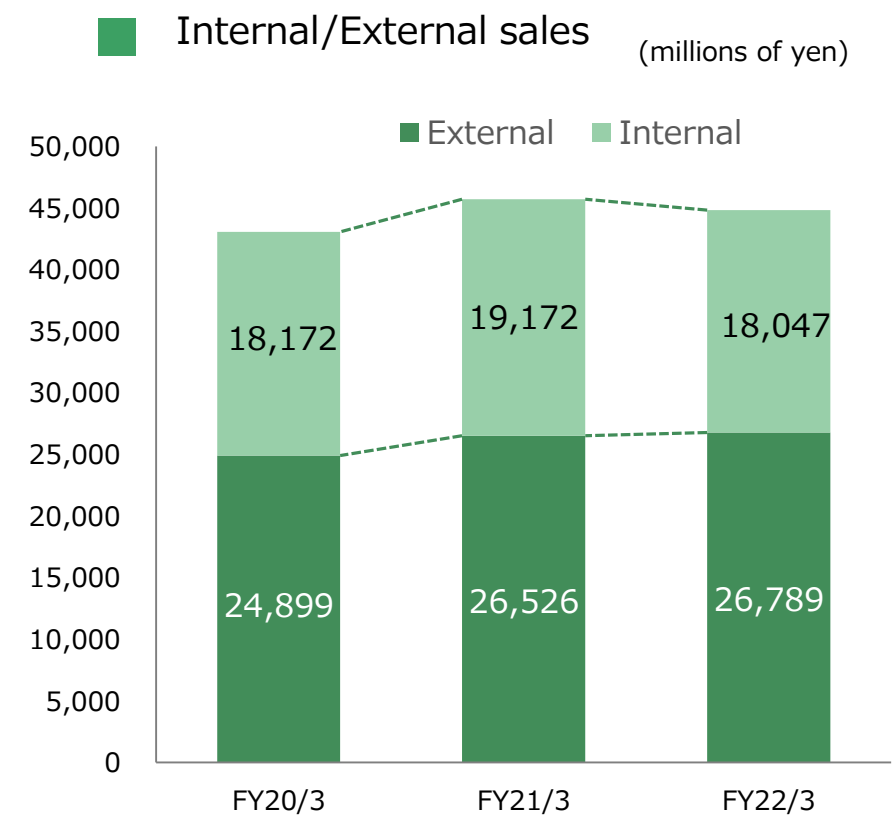
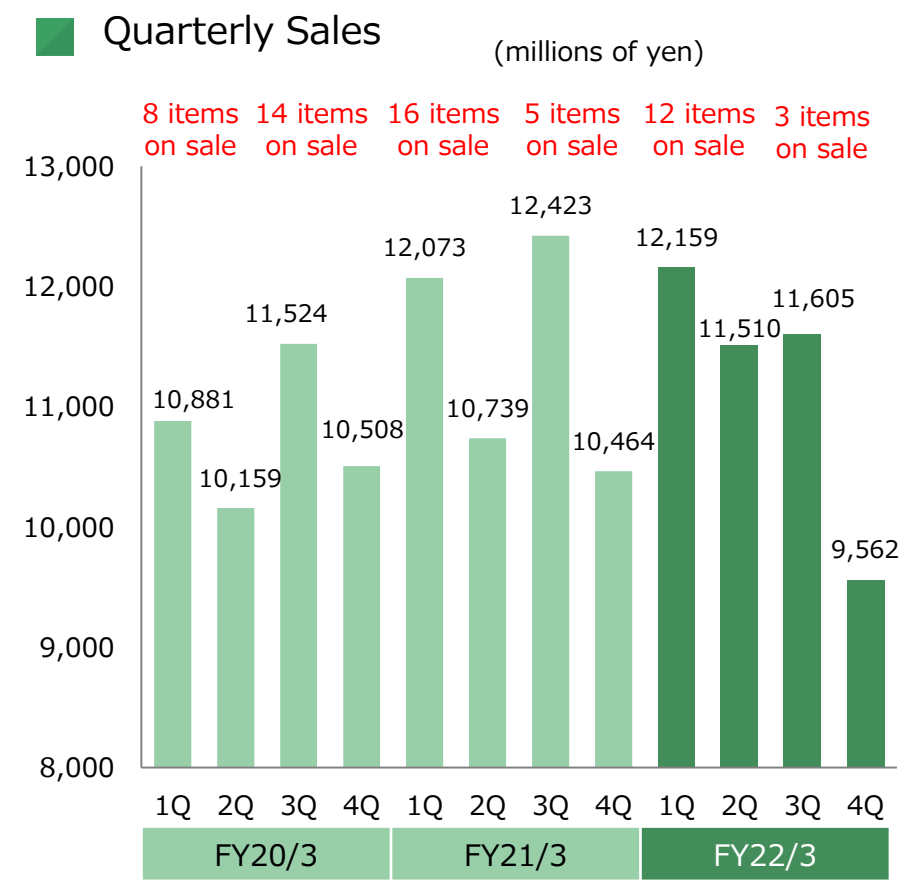
Progress of Choseido Pharmaceutical Business Improvement Plan

		Completed	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) • Select items for which to discontinue production • Formulate master plan for discontinuation of production and clarify responsible department 	<ul style="list-style-type: none"> • Operate MES • 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 • Formulate a master plan for site transfers 	<ul style="list-style-type: none"> • Pursue site transfer
	Framework for ongoing inspections to address quality issues	<ul style="list-style-type: none"> • Select target drugs and set priorities • Formulate a master plan 	<ul style="list-style-type: none"> • 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"> • Examine current conditions of production and analysis equipment, and select equipment for repair and accordingly create a budget 	<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 • Introduce laboratory information management systems (LIMS)

Growth of the Pharmaceutical Manufacturing and Sales Business

The Business struggled due to inventory damage caused by a fire at a contract logistics center and lost sales opportunities resulting from shipment adjustments to ensure stable supply, but the Company aims for recovery driven by sales of in-house manufactured products newly listed in the NHI drug price list.

Net sales and their breakdown



New NHI Listed Drugs

Product Items for New NHI Listing in June 2022: **5 Items**

Scale of potential conversion to generic drugs (estimated*)

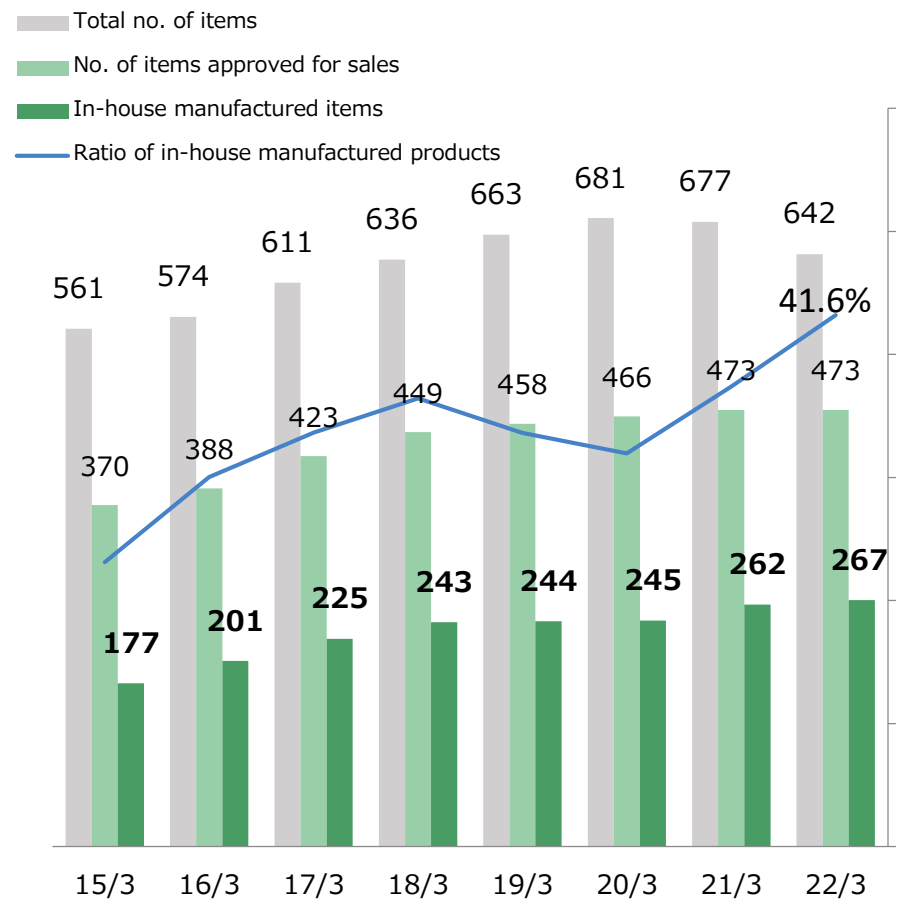
44.3 billion yen

Product name	
Febuxostat Tablets 10mg "JG"	Dasatinib Tablets 20mg "JG"
Febuxostat Tablets 20mg "JG"	Dasatinib Tablets 50mg "JG"
Febuxostat Tablets 40mg "JG"	

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

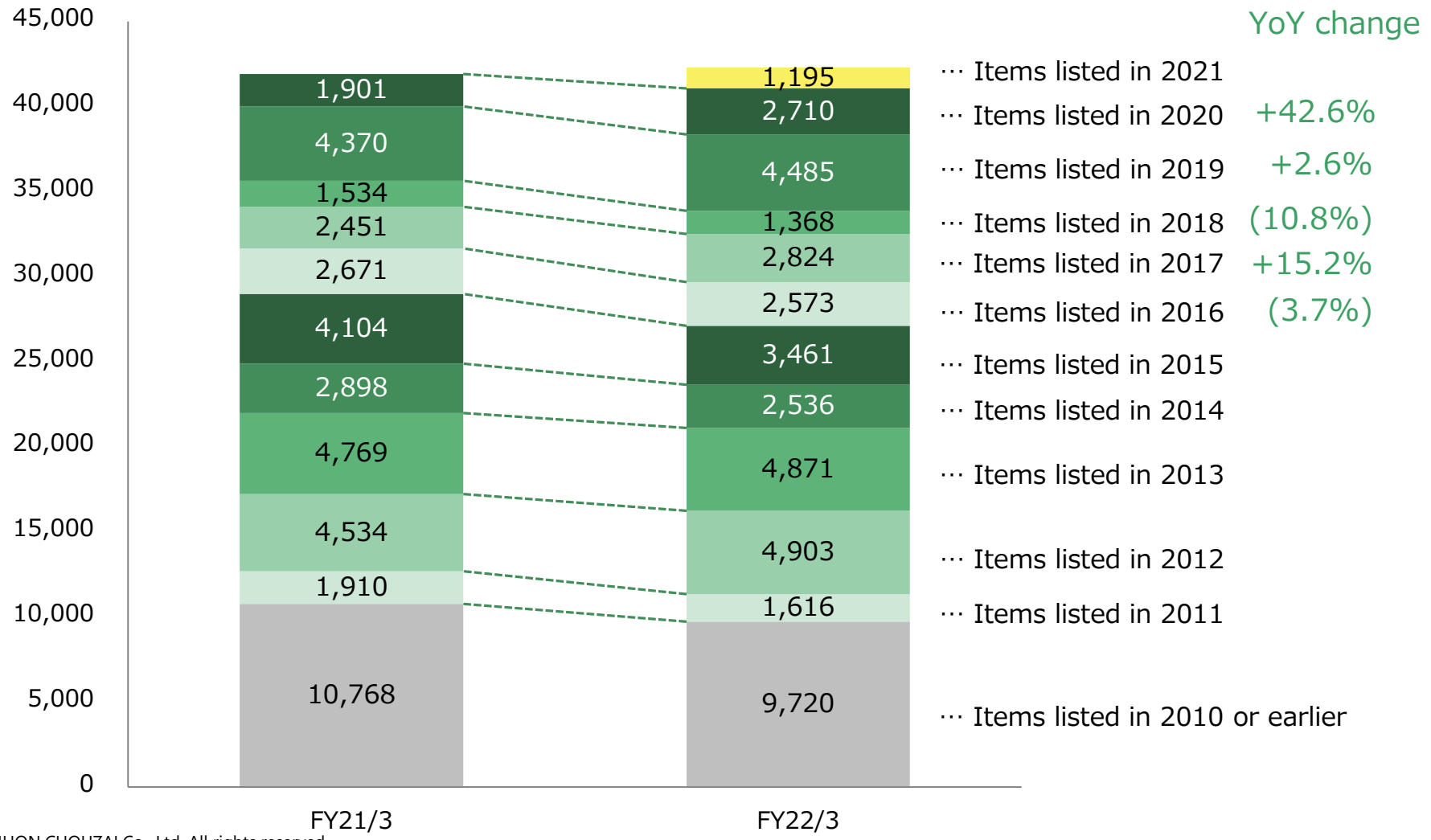
Number of Product Items

While the total number of products sold is expected to decrease due to the reduction of unprofitable items, the ratio of products manufactured in-house is expected to increase.



New NHI Listed Drugs

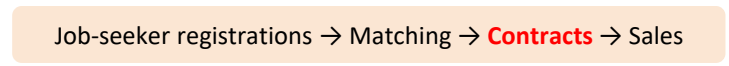
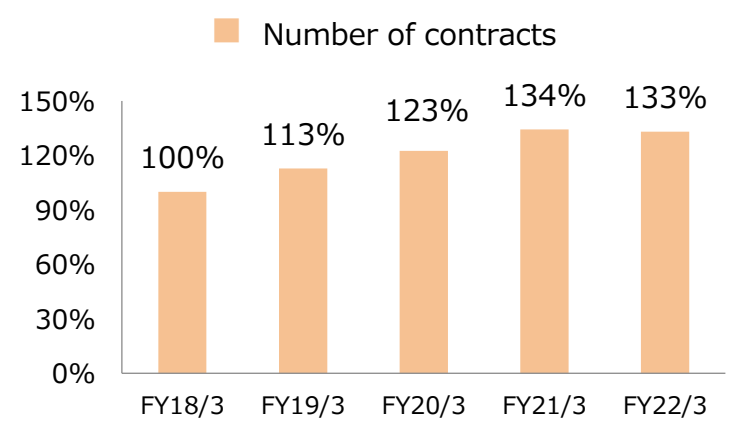
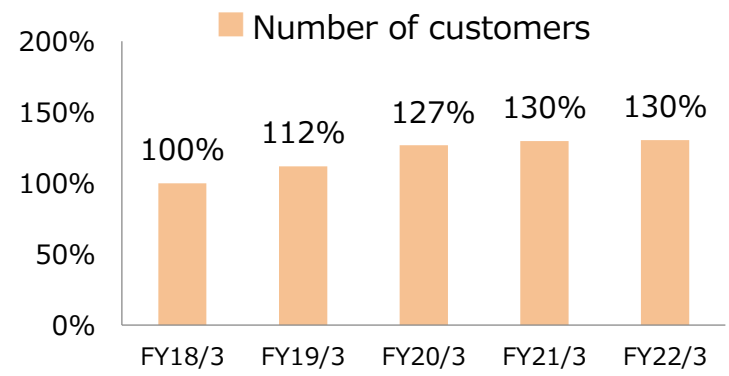
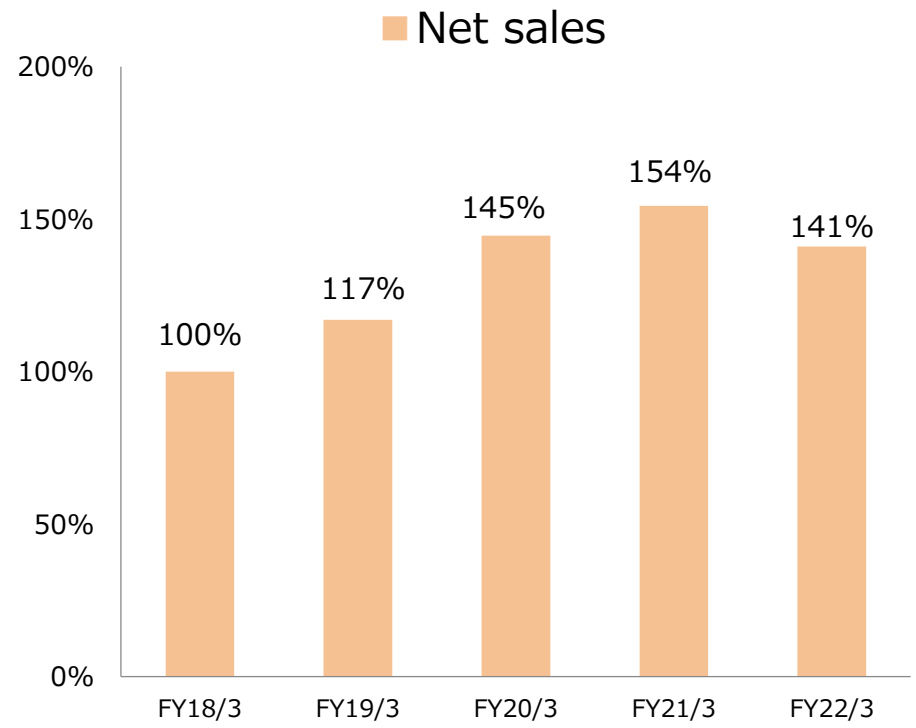
NHI Listed Drug Sales by Year Listed (million yen)



Growth of the Medical Professional Staffing and Placement Business

As the Company shifted its focus to pharmacist placement in response to changing demand in the pharmacist staffing market, the market shrank due to a decline in personnel demand caused by the pandemic. Demand for pharmacist placement was also down, and while the number of costumers has not changed, price per contract and number of contracts fell, leading to lower net sales.

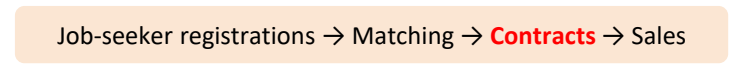
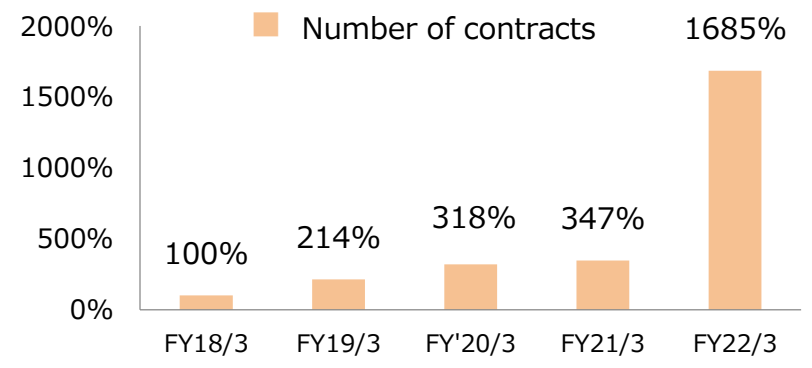
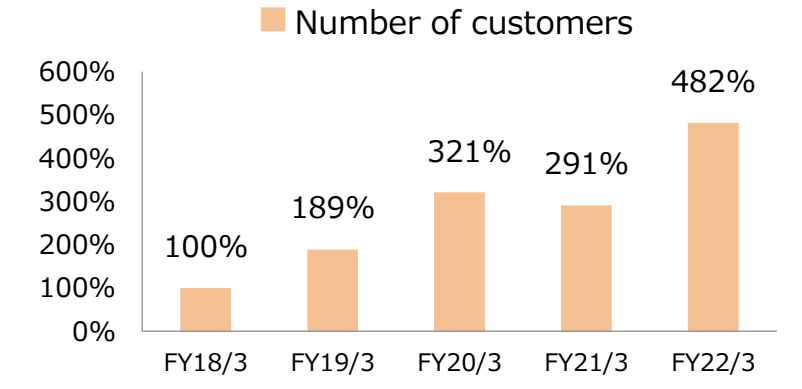
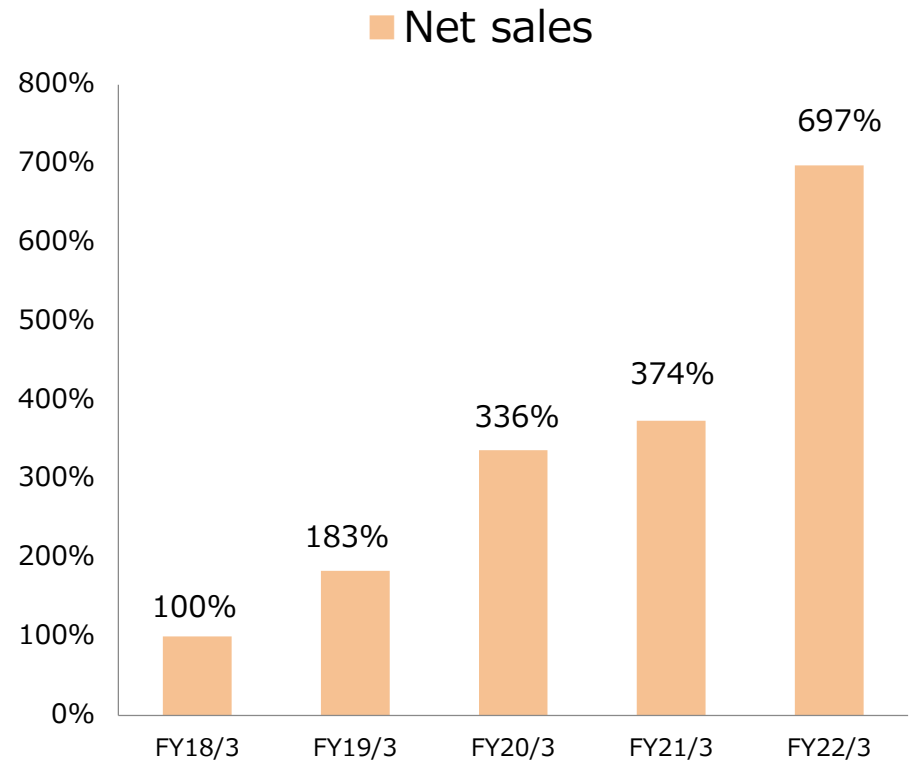
Growth of the pharmacist placement business



Growth of the Medical Professional Staffing and Placement Business

The physician placement business maintained a high level of growth as demand continued to increase even amid the pandemic. The business continued to expand thanks to demand associated with the COVID-19 vaccination programs for third (booster) shots.

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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