



NIHON CHOUZAI GROUP

INTEGRATED REPORT 2024

CEO Message

Towards becoming a Group that gives people the closest possible support, continuing to embrace challenges without the fear of change

Naoto Kasai
President and CEO

Kasai joined Mitsubishi Trust Bank (now Mitsubishi UFJ Trust Bank) in 1986. After working in the Corporate Sales Department in charge of lending operations, he served as Manager of the Human Resources Department at the head office, Manager of the New Business Planning Department, and Manager of the Nihonbashi Branch. Kasai joined Nihon Chouzai Co., Ltd. in 2013. After serving as General Manager of the Sales Management Department, he was appointed as Director in 2015, Managing Director in 2016, and Managing Executive Officer in 2022. He has been in his current position since May 2024.

We Will Build the Future of the Nihon Chouzai Group with Smiles and a Spirit of Challenge.

The operating environment for the pharmacy and generic drug industries has undergone dramatic changes in recent years, with both industries now entering into a restructuring process. On the management front, both industries have been impacted by generic drug supply issues, the rising costs of pharmaceutical raw materials due to mounting inflation, and the need to adapt to healthcare fee revisions. The roles society expects of pharmacies and pharmacists are also expanding rapidly, including the strengthening of pharmacy functions as family pharmacies, the spread of at-home healthcare, and the digital transformation of healthcare in the form of online medication guidance. In the midst of this period of change, I assumed the position of president of Nihon Chouzai Co., Ltd. on May 1, 2024. First, let me share my thoughts about the type of president I want to be.

After the decision was made that I would take the helm as president, I got an email from the business manager I know. It included this quote (in Japanese):

“The shadow of a single tree and the flow of a single river are ties to another life.”

I understand this proverb to mean that even things that seem like mere coincidences actually have a deep connection to what has happened earlier in life. I took this as an encouragement that my appointment as president was not a coincidence, that there was some significance behind it. At the same time, I wondered what that significance might be.

I started out my working life as a banker. I was involved in corporate sales for many years, during which I experienced many failures. I can't count the number of times I've gotten negative feedback from customers, but it's exactly at such times that I've always tried to stay positive and project a cheerful attitude. I determined that, even when I fail, I will keep a positive attitude, tirelessly

keep trying, and search for the future that lies beyond current circumstances. Now that I am the president of Nihon Chouzai, that stance remains unchanged.

The pharmacy and generic drug industries are expected to undergo further restructuring going forward. We will surely see calls for more forward-looking responses to these changes, including creating new value through innovation, boosting operational efficiency through collaboration with other companies, and reforming pharmacy operations. Surviving in times like these requires both embracing challenges and navigating recovery. To embrace challenges without fear of failure, and even if we fail, to use this as a learning experience to go on to succeed. I feel that this is the role that is expected of me as president.

Since Its Founding, People Have Been the Nihon Chouzai Group's Greatest Asset.

Armed with the strengths our predecessors have built up in the Nihon Chouzai Group while pursuing our own reforms, I'm convinced that we will be able to prevail amid industry restructuring as it gains momentum going forward.

What is Nihon Chouzai's greatest strength? Our people. When I became president, I began to go around visiting all 745 of our pharmacies (as of October 1, 2024) across the country. I did this because I wanted to get a sense of how employees on the frontlines felt about their work. I was able to reconfirm some things by actually visiting the pharmacies and engaging in numerous dialogues with pharmacists and other employees. One thing I reconfirmed was the high caliber of Nihon Chouzai pharmacists, and their strong commitment to interact closely with patients and contribute to their health.

Drugs have a huge impact on the physical condition of patients with illnesses. Keenly aware that our pharmacies deal in drugs that have the potential to be life-threatening, we have established strict rules to prevent dispensing errors. The pharmacists working at these pharmacies approach their jobs with advanced skills, taking pride in being healthcare professionals. Seeing this first-hand convinced me that Nihon Chouzai's people, as assets, as well as the organizational strengths and environment that foster such assets, are of an extremely high caliber. This was something I thought I had understood after working at Nihon Chouzai for over a decade, but I was once again struck by it, and renewed my desire to continue taking care of our people, the assets Nihon Chouzai has passed down over the years—in other words, our human capital.

Operating pharmacies is not the only business of Nihon Chouzai. When we include Group companies, we boast a wide range of other capabilities, ranging from the development, manufacturing, and sale of generic drugs to the staffing and placement of healthcare professionals. Our distinctive ability to respond to various needs in the healthcare field is a powerful advantage for us in the pharmacy industry as well, and I sense that this is something we should continue to reinforce alongside our human capital.

Three Pillars for Realizing Our Ideal for the Group

The Nihon Chouzai Group announced a Long-Term Vision 2035 in September 2024. Guided by our Group philosophy of giving people the closest possible support, the Group is aiming to be the most trusted partner in healthcare. To achieve this, we formulated three pillars: becoming the most vibrant and energetic Group in Japan, becoming a Group that can address all kinds of needs, and becoming a Group that continues to innovate.

The first pillar, becoming the most vibrant and energetic Group in Japan, reflects our desire to bring smiles to the faces of customers who visit our Group pharmacies and use our generic drugs and HR services. To achieve this, we ourselves have to become a vibrant, energetic, and hospitable presence.

The second pillar, becoming a Group that can address all kinds of needs, reflects our determination to evolve into a healthcare Group that can be closely involved in the increasingly diverse needs of customers and committed to addressing those needs. We still have a way to go in fully addressing customer needs. Waiting times at pharmacies are one example of this. Without compromising on our commitment to providing safe, secure, and high-quality healthcare, we are aiming to significantly reduce waiting times for patients. Achieving this mandates that we incorporate the latest technologies, including AI-based applications and the more widespread use of dispensing robots. We will meet customer needs by being the first to bring these technologies to bear on our operations.

The third pillar, becoming a Group that continues to innovate, is something I believe Nihon Chouzai is especially well-positioned to pursue as a company that has always prized originality and a pioneering attitude. We have developed a variety of ICT tools in-house, related to pharmacy operations, and have been taking advantage of these to provide services to patients. Numerous healthcare institutions were damaged in the Great East Japan Earthquake of 2011, and their medical records were lost. However, because our company had already digitized patient prescription information, it was possible to prescribe drugs even in disaster-stricken areas. Drawing on this experience, we developed our electronic medication notebook, *Okusuri Techo Plus*, which already has over 2 million subscribers. At the same time, some of the technological advances we are seeing today are simply astounding. An over-emphasis on self-reliance and on being distinctive runs the risk of causing us to fall behind in terms of technology and services. Going forward, therefore, we will continue to embrace the challenge of innovating through collaboration and co-creation with other companies.



Long-term vision briefing session

Toward Management Focused on Non-Financial Assets

In terms of management indicators, we are shifting toward a management approach that stresses and invests in profitability over sales, and non-financial assets (customer assets, human assets, organizational assets) over financial assets (physical assets, financial assets).

For FY2035, the final year of our long-term vision, we have set targets of increasing ROE from 4.4% as of March 2024 to 15%, ROIC from 4.8% to 15%, and operating profit to 40–50 billion yen. These are extremely ambitious targets, but in an environment of mounting competition in the pharmacy industry, both with drugstores that handle prescriptions and the entry of players from other industries, like Amazon Pharmacy, the Nihon Chouzai Group must achieve these targets if we are to remain competitive and survive.

Realizing these ambitious management indicators requires us first to change the way we think about management. We determined the kind of Group we want to become and then, using the concept of backcasting, created a roadmap to get there. We will work to expand our asset base by visualizing the non-financial assets that have the potential to grow into financial assets down the road. I believe reforming our business structure to one that can generate the earnings we need to achieve our management targets calls for a shift to a management approach that stresses non-financial assets. I also think we have to achieve both significant growth in existing businesses while leveraging innovation to develop new businesses. P.16

We Will Improve Profitability from a Long-Term Perspective

Let me first discuss our existing businesses. I'd like to highlight specific growth measures for the three business segments of the Nihon Chouzai Group: the Dispensing Pharmacy Business, the Pharmaceutical Manufacturing and Sales Business, and the Medical Professional Staffing and Placement Business.

In the Dispensing Pharmacy Business, we plan to expand our network, targeting the opening of 40 new pharmacies a year. We will focus in particular on strengthening our network of hybrid pharmacies, a pharmacy format unique to Nihon Chouzai that combines the elements of neighborhood pharmacies, which are in locations with convenient access, such as downtown areas or near train stations, with medical center-type pharmacies, which serve clusters of healthcare institutions. Meanwhile, we will enhance the ability of existing pharmacies to meet demand by providing online medication guidance and at-home healthcare. We will also strenuously examine unprofitable pharmacies and take steps to improve profits. In situations where we cannot expect improvement, we will take a scrap-and-build approach, and are even prepared to close down pharmacies if necessary. We will also move forward with a strategic focus on promising areas, including reallocating personnel made available through this realignment of

the network into growth areas, including medical center-type pharmacies and at-home and online healthcare. We also plan to fundamentally revisit our earnings and cost structures in pursuit of dramatic improvements in profitability.

Our top priority in the Pharmaceutical Manufacturing and Sales Business is to swiftly rectify the manufacturing management deficiencies at Choseido Pharmaceutical Co., Ltd., which have been a source of concern for patients and other stakeholders. At the same time, Nihon Generic Co., Ltd. aims to lower its cost ratio by expanding production volume while placing emphasis on stable supply and quality control. This subsidiary also aims to boost profit margins by increasing the proportion of products made in in-house. We will also reinforce collaboration with other companies and work to optimize resource allocation, pursuing greater efficiency by collaborating with other companies to integrate drugs and adopting a consortium approach to manufacturing, procurement, quality control, and sales.

We recognize the Medical Professional Staffing and Placement Business as an area that still has significant room for growth. The struggle to secure pharmacists as well as doctors, nurses, and other healthcare professionals is an issue in regional healthcare. We will further bolster our presence in healthcare fields, including by placing doctors and nurses and supporting corporate health management through initiatives to place occupational doctors and occupational health nurses.

In terms of innovation, we will also explore new areas beyond the bounds of our existing businesses. We will revise our current capital allocation, channeling 40% of long-term capital allocation into innovation and working aggressively to make headway in new business areas as we strive to secure new drivers of earnings. Nevertheless, taking on the challenge of new businesses is only possible when we have a solid foundation in existing businesses. In existing business areas, we will consider investing in AI-based applications and other digital transformation, investing in marketing based on our customer strategies, and incorporating new production technologies in the Pharmaceutical Manufacturing and Sales Business. At the same time, we will enhance capital return from a long-term perspective by cultivating profitable new businesses. P.17

We Will Reinforce Human Capital Management to Become the Pharmacy of Choice.

While we are undertaking an array of initiatives, I believe the most crucial element in terms of realizing our long-term vision is human capital management. As I mentioned earlier, the Nihon Chouzai Group's most important asset is its people. Positioning personnel training as its most important issue, Nihon Chouzai since its founding has worked to cultivate its human assets. Human assets are one of the non-financial assets emphasized in our long-term vision. To further hone our human assets going forward, we will pursue human capital management that is linked to our



management strategies, offering growth opportunities that encourage the independent career development of employees, revitalizing personnel and organizations, pursuing the sustainable growth of organizations, and providing rewarding working environments.

I also believe customer assets are just as important as human assets. Although pharmacies are healthcare institutions, they only become places of value when they have customers. We will be even more intentional about conveying gratitude to our customers for choosing Nihon Chouzai from among the more than 60,000 pharmacies across Japan. Now, as we prepare to face intensive industry restructuring, I believe nothing is more important than fostering a sense of gratitude. We have the same sense of gratitude for the shareholders who support the Nihon Chouzai Group. Our long-term vision calls for increasing shareholder returns to 10% of long-term capital allocation. To date, our policy for shareholder returns had stressed paying stable dividends. Going forward, we intend to aim for gradual improvements in returns.

P.25

| Pursuing Sustainability and More Advanced Governance

Recognizing that addressing the issue of sustainability is critical to contributing to a sustainable society and continuously enhancing corporate value, the Nihon Chouzai Group considers sustainability to be a key part of its management strategies.

One area the long-term vision focuses on in particular is our response to climate change. We aim to reduce CO₂ emissions per pharmacy by 30% by 2030 compared to FY2020 and to reduce CO₂ emissions generated in the process of manufacturing generic drugs by 30% per 100 million tablets produced. We will expand the share of renewable energy we use by strengthening our collaborative framework with related companies, promoting in-house power generation, and shifting to renewable energy. In terms of supporting a circular economy, we will expand the number of items to be recycled, including blister packs for pills and sludge, and promote the recycling of waste.

Along with sustainability initiatives, we have to make further improvements in our corporate governance. We will pursue innovation by ensuring the diversity of the Board of Directors and collaborating with personnel coming from different backgrounds and with different experiences. We will also clarify the oversight and execution roles, visualize financial and non-financial performance indicators and set targets, and place emphasis on reinforcing governance and compliance among Group companies, continuing to address issues that call for consideration.

I believe the most crucial question for achieving our new long-term vision and pursuing sustainable corporate management is whether all of our employees fully understand and buy into Our Mission and our ideal for the Group, and then put these ideals into concrete action. This is a lofty goal, but I believe if we all continue to embrace challenges and have the firm resolve to achieve it, we will definitely get there. As the representative of the Nihon Chouzai Group, I will take the helm and drive the growth of the Group by pressing forward tirelessly with the measures I have outlined above.

P.57

| Moving forward Together with Our Stakeholders

The real intention with Long-Term Vision 2035 is to bring smiles to the faces of customers who visit our Group pharmacies and use our generic drugs, HR services, and other products and services. By definition, customers who visit our pharmacies are suffering from physical ailments or illness and struggling with feelings of anxiety. Nothing brings me more joy than to see such customers leave our pharmacies with smiles on their faces. Our employees provide thorough explanations about medications to give patients peace of mind. When we make a real connection with customers through our generic drugs, I think we can see the look of relief on their faces. To see as many such looks of relief as possible, we will continue moving ahead in our growth into a vibrant and energetic company.

I am also convinced that increasing our customers' smiles will lead to smiles for all of our stakeholders, including employees, business partners, and shareholders. To be sure, Long-Term Vision 2035 sets out ambitious targets. However, I believe continuing to tirelessly engage in our businesses will enhance the corporate value of the Nihon Chouzai Group and carry the company forward. I invite you to look forward to what the Nihon Chouzai Group is able to accomplish.

Contents

01 Where Nihon Chouzai has been

Our reason for existing today

CEO Message	01
Contents, Editorial Policy	05
Group Philosophy	06
The Value We Have Created	08
Strengths Cultivated over More Than Four Decades	09
At a Glance	10
Business Overview	11

02 Where the Nihon Chouzai Group is going

The future we want to create

Long-Term Vision	The Kind of Group We Want to Become	13
	Roadmap to Achievement	14
	Anticipated Operating Environment, Risks and Opportunities	15
	Evolving Management Toward Realization	16
	Strategies for Realization	17
	Roadmap of Formulation	19
	Next-Generation Core Members Look ahead to the Future	20

On the Publication of Integrated Report 2024

As a healthcare group that gives people the closest possible support, the Nihon Chouzai Group is working to enhance corporate value over the longer term by creating social and economic value through its business activities.

The integrated report outlines our management policies, business strategies, and the story of our longer-term creation of corporate value. We publish the report to serve as an engagement tool for deepening communication with shareholders, investors, and other stakeholders.

Integrated Report 2024 places our new long-term vision, announced in September this year, at the center of our story. It discusses the hopes and aspirations of management and employees that have been incorporated into our vision for 2035 as well as the path and strategies we will pursue to achieve the vision. Our hope is that this report will help our stakeholders gain a better understanding of changes in our management approach and the new value Nihon Chouzai is creating.

03 How Nihon Chouzai Group Will Create the Future

Our Strategy

Value Creation Process	22	
Management Assets of the Nihon Chouzai Group	23	
Financial Strategy	24	
Human Capital Strategy	Reinforcing Human Capital	26
	Ensuring Diversity and Building a Sustainable Organization	27
	Boosting Employee Fulfillment and Satisfaction	29
	Cultivating an Environment that Facilitates Work	31
Stakeholder Engagement	32	
Business Overview	Dispensing Pharmacy Business	33
	Information Provision and Consulting Business	43
	Pharmaceutical Manufacturing and Sales Business	46
	Medical Professional Staffing and Placement Business	51
Sustainability	Material Issue	56
	Sustainability Management	57
	Special Feature: Initiatives to Contribute to a Carbon Neutral, Circular Economy	59
Corporate Governance	Governance to Support Value Creation	61
	Roundtable Discussion with Outside Directors	65
	Board of Directors	68
Company Profile	70	
Data Section	11-Year Summary of Financial and Non-Financial Data	71
	External Evaluations and Participation in External Organizations	72

04 A foundation to support value creation

Corporate Governance

Reporting period

The reporting period is FY2023 (April 2023-March 2024), with references to periods prior to FY2023 and FY2024 included as necessary.

Note on Forward-Looking Statements

Integrated Report 2024 contains forward-looking statements about the plans, strategies, and performance of the Nihon Chouzai Group. These statements are based on management's judgments derived from currently available information. Please note that actual business performance is subject to various risks and uncertainties and results may differ significantly from the statements.

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

Group Philosophy



✦ **Our Mission** The Nihon Chouzai Group's unchanging significance to society

To give people the closest possible support

Contributing to the health of all people. This has remained our primary aim from the start. We have continued to embrace an array of challenges to ensure that healthcare is available to every part of society. Driven by this ambition, we will continue to provide lifelong support for our customers, serving as the healthcare professionals most closely involved in their well-being.

✦ **Group Vision**

To be the most trusted partner in healthcare

✦ **The Commitments We Value**

Five commitments all employees should value to realize Our Mission and our ideal for the Group:

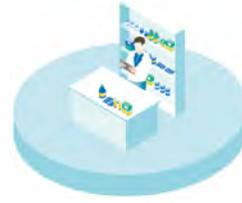
Ensure rigorous compliance.

Be considerate of others.

Deepen your knowledge, broaden your horizons.

Take initiative in thinking and acting.

Generate new ideas together.



01

Where Nihon Chouzai has been

Our reason for existing today

The Nihon Chouzai Group started out with a single pharmacy.

Guided by an unchanging mission, the Group has become what it is today buoyed by strengths cultivated over more than four decades and the value we have accumulated.

The Value We Have Created	08
Strengths Cultivated over More Than Four Decades	09
At a Glance	10
Business Overview	11

The Value We Have Created

We started out as a single pharmacy, animated by a founding philosophy of achieving the true separation of drug prescribing and dispensing services. By staying one step ahead of the times and by responding to a variety of healthcare needs to give all people the closest possible support, we have grown into a healthcare Group that leads the industry.

Starting separation of drug prescribing and dispensing services from the ground up

We carved out our own market by encouraging the still nearly un-practiced separation of drug prescribing and dispensing services among clinics in Sapporo, and opening “one-on-one pharmacies” near the clinics. The year after our founding, we opened unique medical center-type pharmacies to offer patients greater convenience, and went on to expand into the separation of drug prescribing and dispensing services for large hospitals as well, growing in business scale while further helping spread the separation of these services.



Aso Medical Center, our first medical center-type pharmacy

1980

2000

Launch of pharmacist staffing business

With the aim of addressing the issue of healthcare personnel shortages and avoiding poor fits, we established Pharma Staff (now Medical Resources) and launched Japan’s first pharmacist staffing business. Drawing on the pool of educational expertise of Nihon Chouzai’s pharmacist business, we are contributing to the creation of a sustainable healthcare framework.



Nihon Generic’s Tsukuba Plant, opened in the Tsukuba Northern Industrial Park

Entering the Pharmaceutical Manufacturing and Sales Business

Capitalizing on a revision to Japan’s Pharmaceutical and Medical Devices Act, we established Nihon Generic to enter into the business of manufacturing and selling generic drugs, a key element in the separation of drug prescribing and dispensing services. We later acquired Choseido Pharmaceutical, further expanding the range of our businesses.

2004

2005

2009

2012

2014

2024

Listing on the Tokyo Stock Exchange

We were listed on the Second Section of the Tokyo Stock Exchange (TSE) in 2004 and, in 2006, relisted on the First Section. Having our shares listed as one of Japan’s leading pharmacy companies not only gave us greater credibility but also helped raise the overall status of pharmacies and pharmacists.



Listed on the First Section of the TSE (September 2006, TSE Arrows)

Taking on the challenge of entering the neighborhood pharmacy market

To embody the true separation of drug prescribing and dispensing services, we are building a network of neighborhood pharmacies, which do not depend only on specific healthcare institutions but fill prescriptions from multiple institutions and serve as community healthcare hubs. We defined locations that offered the greatest convenience to customers and expanded our pharmacy network, drawing on Nihon Chouzai’s distinctive marketing methods and other expertise. We went on to develop hybrid pharmacies.



Our first neighborhood pharmacy, Nihon Chouzai Fujisawa Pharmacy (Fujisawa City, Kanagawa Prefecture)

In-house development of an electronic medication notebook

Our experience of the Great East Japan Earthquake made us keenly aware of the importance of patients being able to access their own medication information, even in times of disaster. Against this background, we began work to develop an electronic medication notebook service that would be easy for patients to use, one that retains the functions of a printed medication notebook while also incorporating the latest ICT-based features. We launched operation of our proprietary electronic medication notebook, *Okusuri Techo Plus*, in 2014.



Okusuri Techo Plus offering various functions to patients

Establishing Japan Medical Research Institute

Capitalizing on the vast pool of prescription data held by Nihon Chouzai, we launched a business to create value that will tie into the robust development of the healthcare industry and better lives for people in Japan, including through the analysis of drug data, the provision of information, and consulting services for pharmaceutical companies and other organizations. We established Japan Medical Research Institute in 2012 to take over this initiative, and continue to expand the scope of the business.

Strengths Cultivated over More Than Four Decades

Quality

As healthcare professionals, we have been committed to providing the highest-quality healthcare services. Our firm commitment to quality is a strength that has remained unchanged since our founding. Drawing on this strength, the Nihon Chouzai Group has been able to deliver safe, secure healthcare, gaining the trust of countless patients.



Flexibility

Amid significant changes to the environment for healthcare in Japan, we have pursued healthcare that is truly indispensable, addressing a spectrum of changing needs without being locked into past practices. The Group continues to draw on this flexibility as a unique advantage.



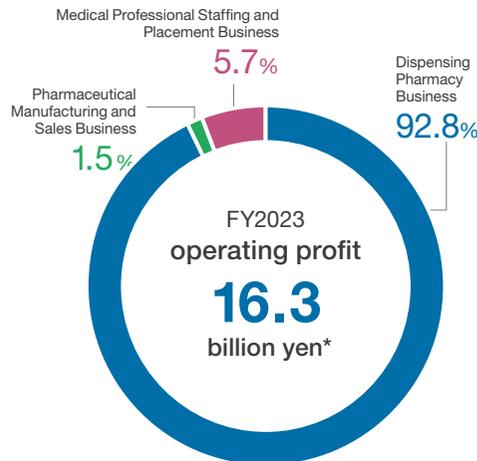
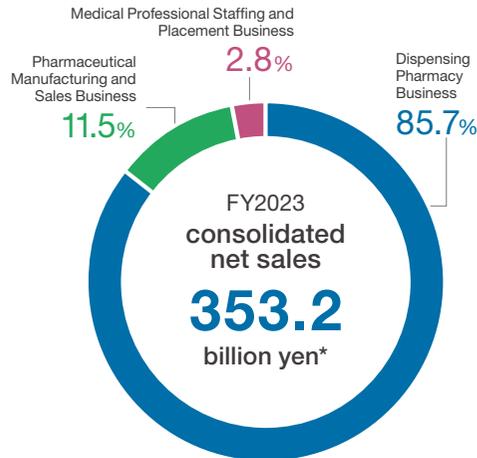
Pioneering Spirit

The ability to anticipate the times and embrace new challenges ahead of others is a unique strength of the Group, unchanged since our founding, that has enabled us to achieve significant growth. We will continue to take initiative in creating new value to contribute to the future of healthcare while supporting people in various aspects of their lives.



At a glance

Results for FY2023



EBITDA 18.2 billion yen

*Consolidated net sales and operating profit are the sums for the three business segments. Adjustments have not been eliminated. All figures are rounded down to the nearest unit, while ratios are rounded up or down to the nearest unit.

The people who support Nihon Chouzai Group



Number of employees
(consolidated, including part-time employees)

6,622
As of March 31, 2024



Number of Nihon Chouzai pharmacists

3,843
As of March 31, 2024



Ratio of female employees at Nihon Chouzai

72.4%
As of March 31, 2024

The value we provide nationwide



Number of Nihon Chouzai pharmacies

743
As of September 30, 2024



Number of electronic medication notebook Okusuri Techo Plus subscribers

2.13 million
As of September 30, 2024



Number of drugs handled by Nihon Generic

469
As of September 30, 2024



Number of Medical Resources healthcare professional job postings

Over 90,000
As of September 30, 2024

Quality healthcare services



Sales per Nihon Chouzai pharmacy

3.1 times the industry average*

416 million yen

As of March 31, 2024

*Nihon Chouzai estimate based on materials disclosed by the Ministry of Health, Labour and Welfare (MHLW). Comparison is between FY2022 results for MHLW and FY2023 results for Nihon Chouzai.



Proportion of Nihon Chouzai pharmacists certified in outpatient oncology by JASPO

No. 1 in pharmacy industry (One in four certified pharmacists work for Nihon Chouzai)

81

As of June 1, 2024



Satisfaction with Medical Resources career change consultation (pharmacists)

97.7%

As of September 30, 2024

Business Overview



Dispensing Pharmacy Business

We have pharmacies in all 47 prefectures in Japan, seeking to contribute to improving the health of patients and provide high-quality healthcare services across the country.

P.33

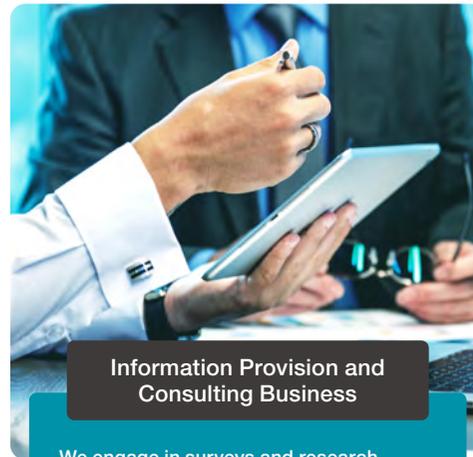
Services provided

- Pharmacy operation
- Online drug information service (FINDAT)
- Pharmacist staffing service for hospitals
- Online pharmacy services, etc.

TOPIC

Launch of Nihon Chouzai's Private Brand "5COINS PHARMA"

To promote self-medication, we are strengthening our private brand lineup of OTC drugs. The products are priced at a standard tax-inclusive amount of 550 yen and currently include 23 items available for sale.

Information Provision and Consulting Business

We engage in surveys and research and provide information and consulting services, based on the healthcare data resources cultivated through various Nihon Chouzai Group companies.

P.43

Services provided

- Drug information service
- Advertising media service
- Survey and research service
- Data health support service

TOPIC

Analysis of the Healthcare Cost Reduction Impact of Biosimilars Distributed

Our analysis of the impact of biosimilars in reducing healthcare costs, using NDB open data published by the Ministry of Health, Labor and Welfare, estimated that up to 130 billion yen in savings could be achieved every year.




Pharmaceutical Manufacturing and Sales Business

We manufacture and sell safe, high-quality drugs that meet the needs of healthcare practitioners, with a focus on generic drugs.

P.46

Services provided

- Drug manufacturing and sales
- Contract manufacturing of drugs

TOPIC

Exclusive Launch of EzeAto Tablets JG by Nihon Generic

We launched sales of EzeAto Tablets JG in September 2023. Reflecting our advanced development capabilities, this drug received regulatory approval for exclusive manufacturing and sales by a single company.




Medical Professional Staffing and Placement Business

We engage in healthcare professional staffing and placement services, specializing in pharmacists but also including doctors, nurses, registered pharmaceutical sellers, and other healthcare professionals.

P.51

Services provided

- Healthcare professional staffing services
- Healthcare professional placement services
- Healthcare services

TOPIC

Sales of Staffing Services up 40% Year-on-Year

FY2023 saw a rapid turnaround in the pharmacist staffing business, particularly for small and medium-sized pharmacies. Although placement services saw a drop-off in pandemic-related demand, we maintained a year-on-year increase in sales. We also enjoyed robust performance in the occupational doctor business.



We announced Long-Term Vision 2035 in September 2024.

Under this vision, management will continue evolving to realize the kind of Group we envision to be, steadily pursuing strategies formulated by backcasting from our future goals.

Where the Nihon Chouzai Group is going

The future we want to create

Long-Term Vision	The Kind of Group We Want to Become	13
	Roadmap to Achievement	14
	Anticipated External Environment, Risks and Opportunities	15
	Evolving Management Toward Realization	16
	Strategies for Realization	17
	Roadmap of Formulation	19
	Next-Generation Core Members Look ahead to the Future	20



The Kind of Group We Want to Become

To be the Most Trusted Partner in Healthcare

United in its unchanging mission of giving people the closest possible support, the Nihon Chouzai Group has set out a vision of becoming the most trusted partner in healthcare. We also formulated three pillars that embody the kind of Group we want to become to achieve our long-term vision.

Becoming the most vibrant and energetic Group in Japan

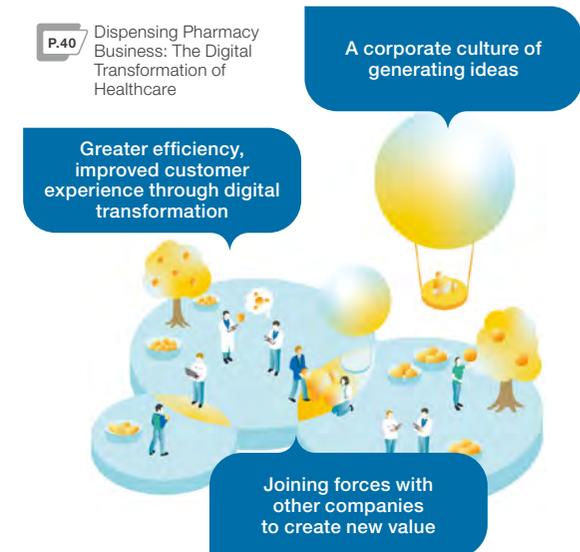
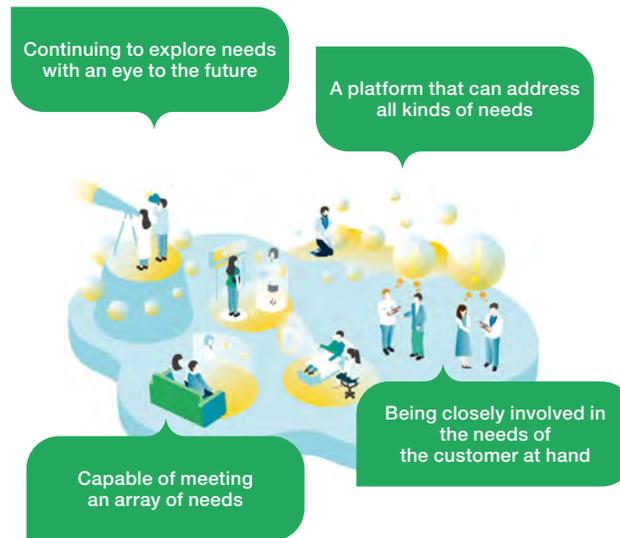
We aim to be a healthcare group that gains the trust of all people by closely engaging with our patients and customers and offering services that are marked by warm hospitality. To this end, we will build an organization capable of coming even more closely alongside customers, significantly expanding our non-financial human assets by offering training and education, reforming our systems, and ensuring diversity.

Becoming a Group that can address all kinds of needs

As times change, healthcare needs are becoming increasingly diverse. We aim to realize our vision of giving even more people the closest possible support in even more areas by being closely involved in the needs of customers. We will provide value that exceeds expectations by building the framework, facilities, and systems needed to meet an array of needs, drawing on customer feedback and revising our services from a customer-centered perspective.

Becoming a Group that continues to innovate

By taking on the challenge of pursuing innovation, we aim to enhance customer experiences and reform operations in our existing businesses while delivering new value to customers through the creation of new businesses. We will target further growth by pursuing collaboration and co-creation with other companies, fostering a corporate culture that encourages innovation, and creating an environment in which all employees can take initiative in embracing challenges.



Roadmap to Achieving the Long-Term Vision

Phase 1 Initiatives

Evolving management

Our first step toward achieving our lofty vision for 2035 will be for management to evolve from a focus on business growth to a focus on enhancing corporate value. Through aggressive investment and measures to reinforce our human capital and further hone our organizational strengths, we will foster greater business growth and innovation. Also, to create new value in a wider range of areas, we will move away from our former approach of self-reliance towards greater co-creation with other companies.

Shoring up existing businesses

To improve the return on capital, we will manage the business portfolio and investments using ROIC as a yardstick. By focusing more intently on the use of AI and IT and pursuing customer-centered innovation, we will seek to expand the value we provide through existing businesses and become a healthcare Group that can address all kinds of needs.

Establishing a foundation for exploring new areas

We will adapt an approach of creating new businesses centered on healthcare and peripheral areas, considering establishing a foundation for exploring new areas to be a high priority. Phase 1 will involve establishing the organizational framework needed for business creation, exploring co-creation with companies engaged in various healthcare areas, and moving forward with our transformation into a culture that encourages taking on challenges.

Long-Term Vision 2035 aims to improve the return on capital and ensure growth by stressing financial indicators such as ROE, ROIC, and the average annual growth rates of net sales and EBITDA. We have furthermore set the vitality of the organization and the capacity to innovate as non-financial indicators that will help us embody the Group we want to become. In achieving the long-term vision, we will continue to reinforce non-financial assets while steadily implementing initiatives throughout the first three-year phase leading up to March 2027.

Phase 2

Phase 3

Phase 4

Shoring up the sustainable management foundation

Human capital

Human capital management

Customer assets

Digital transformation of services

Organizational assets

Pursuing productivity through the use of AI and ITs

Vision for 2035

To be the most trusted partner in healthcare

Financial targets

Stress return on capital and growth

ROE 15% ROIC 15%

Average annual growth rates of net sales and EBITDA: 10%-

Non-financial targets

Improve the vitality of the organization and the capacity to innovate

Consider setting performance indicators based on the Net Promoter Score[®] metric, engagement scores, etc.

*A metric that measures customer loyalty (trust in and attachment to a service) and represents the percentage of people who would actually recommend the service.

Achieving Long-Term Vision 2035
Turning new businesses into new growth drivers

Anticipated Operating Environment, Risks and Opportunities in Achieving the Long-Term Vision

While recognizing and responding to risks involved in achieving the long-term vision, we will also welcome opportunities as forces that can drive growth, realizing dramatic growth gains by harnessing powerful synergies between our various businesses.

Anticipated operating environment in 2035

Political

- Balancing innovation with sustainable healthcare for everyone in Japan
- Offering incentives for providing high-quality healthcare services
- Interventions to prevent disease and treat pre-symptomatic illness

Economic

- Expansion of healthcare market due to growing health consciousness
- Rising wages due to higher value of human capital and a shrinking working-age population
- Inflation

Social

- Slowdown in spread of the separation of drug prescribing and dispensing services and the rate of generic drug use
- Diversifying customer needs and consumer behavior
- Mounting medical needs due to growth in the elderly population
- Growing need to address employee engagement, DE&I, and a shrinking workforce

Technological

- Rapid advances in digital technologies
- The spread of electronic prescriptions
- Expansion of online services
- Heightened security risks

Issues	Risks	Opportunities	Response measures
Changes to the Healthcare System	<ul style="list-style-type: none"> ● Decrease in dispensing fees due to revision of medical fees and reduction of drug prices due to revision of drug prices ● Entry of outside players into the pharmacy industry due to deregulation ● Waning competitiveness of existing business models 	<ul style="list-style-type: none"> ● Accelerating restructuring in the pharmacy industry due to revisions of dispensing fees and drug prices, deregulation, and other factors ● Expansion of online medical care and digital transformation of healthcare due to healthcare system reforms ● Accelerating restructuring in the generic drug industry due to the impact of drug price reductions 	<ul style="list-style-type: none"> D ● Develop pharmacies with a wide range of functions, collaborate with other companies, innovate M ● Boost profitability by developing newly NHI listed drugs <ul style="list-style-type: none"> ● Reviewing the product lineup and expanding the weight of in-house manufactured drugs
Safety and Quality of Medical and Pharmaceutical Products	<ul style="list-style-type: none"> ● Unexpected serious drug side effects or harmful drug interactions ● Greater time and effort required to meet stricter regulations on drug manufacturing and quality 	<ul style="list-style-type: none"> ● Ensuring safety and enhancing reliability by promoting proper drug use ● Enhancing reliability through proper manufacturing and quality control of drugs 	<ul style="list-style-type: none"> D ● Enhance educational programs and facilities to ensure the proper use of drugs <ul style="list-style-type: none"> ● Introduce, expand, and ingrain quality management M ● Provide employees with rigorous quality control and manufacturing control education <ul style="list-style-type: none"> ● Reinforce and continually monitor manufacturing and quality control framework
Stable Supply of Pharmaceuticals	<ul style="list-style-type: none"> ● Disruptions in the supply chain and increased procurement costs due to global conditions and accelerating inflation, etc. ● Increasingly acute drug shortages due to supply and demand disruptions 	<ul style="list-style-type: none"> ● Expanding responsible sales and provision of drugs based on a stable, efficient supply chain ● Construct a production framework to achieve both stable supply and profitability 	<ul style="list-style-type: none"> D ● Achieve stable generic drug supply through tie-ups with pharmaceutical wholesalers nationwide and synergies with the Pharmaceutical Manufacturing and Sales Business M ● Ensure a stable procurement framework by securing a second source of drug substances and coordinating with contract manufacturers <ul style="list-style-type: none"> ● Ensure a stable manufacturing framework by upgrading facilities and reviewing the product lineup
Securing Human Capital Needed to Operate, Grow Businesses	<ul style="list-style-type: none"> ● Shortage, poor fits of personnel to support business strategies, declining labor productivity 	<ul style="list-style-type: none"> ● Business expansion drawing on strengths in human capital development and recruitment, provision of competitive services 	<ul style="list-style-type: none"> G ● Secure highly skilled professionals and carry out employee training programs <ul style="list-style-type: none"> ● Recruit and train high-caliber new pharmacist graduates
Increasingly Sophisticated Digital Technology and Security Threats	<ul style="list-style-type: none"> ● Interruption of services and business due to cybercrime, personal information leaks ● Waning competitiveness of current business models 	<ul style="list-style-type: none"> ● Stable operation and expansion of businesses and services grounded in an information security infrastructure ● Leveraging digital transformation of healthcare to offer new services that address the changing needs of the times 	<ul style="list-style-type: none"> G ● Transform core businesses through digital transformation of healthcare <ul style="list-style-type: none"> ● Develop a more robust information security framework and thoroughly train employees ● Reinforce measures to prevent incidents and strengthen response capabilities
Climate Change and Pandemics	<ul style="list-style-type: none"> ● Higher costs due to stricter environmental regulations ● Expanding impact on business due to large-scale natural disasters and global pandemics 	<ul style="list-style-type: none"> ● Expanding needs and services to address changes in consumer behavior and lifestyles ● Growing demand for online medical care 	<ul style="list-style-type: none"> D ● Provide smart healthcare that enables medical consultation, medication guidance, and drug receipt to be carried out entirely online G ● Conduct and review of business continuity planning and augment resilience to prepare for natural disasters and other large-scale disasters H ● Address medical personnel shortages in regions with insufficient medical resources to better prevent the spread of infectious diseases and uphold healthcare frameworks

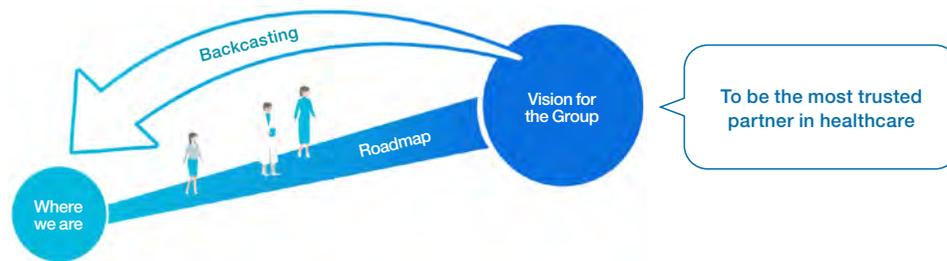
D : Dispensing Pharmacy Business **M** : Pharmaceutical Manufacturing and Sales Business **H** : Medical Professional Staffing and Placement Business **G** : Group

Evolving Management to Achieve Long-Term Vision 2035

Evolving our management approach to enhance corporate value

Backcasting from an ideal vision for the Group to create a roadmap

Our first step in formulating Long-Term Vision 2035 was to determine what kind of Group we want to become, and then backcasting from there to create a roadmap. We took a flexible approach in envisioning the future, bringing together the hopes and aspirations of both the next generation of employees and the management team. Our intention in doing so was to achieve a level of dramatic growth that would be impossible through discussions that were merely an extension of the past. We aim to enhance corporate value by putting strategies in place to bridge the gap between our vision for the future and the current reality.



Expanding financial and non-financial assets and pursuing a growth cycle

We consider non-financial assets to be assets with the potential to be converted into financial assets down the road. Our vision for 2035 is not simply to increase financial value, but also to achieve sustainable growth in corporate value by expanding human capital, customer assets, organizational assets, and other non-financial assets. To ensure that we can achieve this goal, we are exploring means of visualizing and implementing initiatives using non-financial indicators, such as organizational vitality and the degree of innovation.

Reference: Long-Term Vision briefing materials <https://www.nicho.co.jp/en/ir/library/vision.html>

Becoming a Group that continues to grow by shoring up existing businesses and exploring new businesses

We center our business portfolio around healthcare and peripheral areas. With this stance, we seek to achieve growth both by deepening our presence in existing businesses, including expanding the business portfolio, and by exploring new areas. To this end, we will enhance the value we provide our various stakeholders through a digital transformation strategy while also honing our competitive advantages and boosting profitability through the use of AI tools in our operations.

Expansion of business areas



Strategies for Achieving Long-Term Vision 2035

Shift to structures that generate robust profits

Vision for 2035

Our policy is to stress profitability over sales as a management indicator. To capitalize on our competitive strengths and prevail in an increasingly harsh competitive environment, including against entrants from other industries, we decided to set the ambitious targets of achieving 15% ROE and 15% ROIC by 2035, the final year of the long-term vision. The first three years will involve a business portfolio strategy that seeks to achieve robust profits and structural reforms through business management centered around ROIC metrics. At the same time, we will pursue further digital transformation, a long-standing focus, and seek out AI-based approaches to improving labor productivity and, ultimately, capital efficiency.

Business portfolio strategy

Guided by a policy of expanding the business portfolio with a focus on healthcare and peripheral areas, we will aim for growth by deepening our presence in existing businesses and exploring new areas.

With regard to our existing Dispensing Pharmacy, Pharmaceutical Manufacturing and Sales, and Healthcare Professional Staffing and Placement businesses, we will pursue capital efficiency above the cost of capital in each business. We will also step up initiatives to enhance profitability while ensuring high rates of growth.

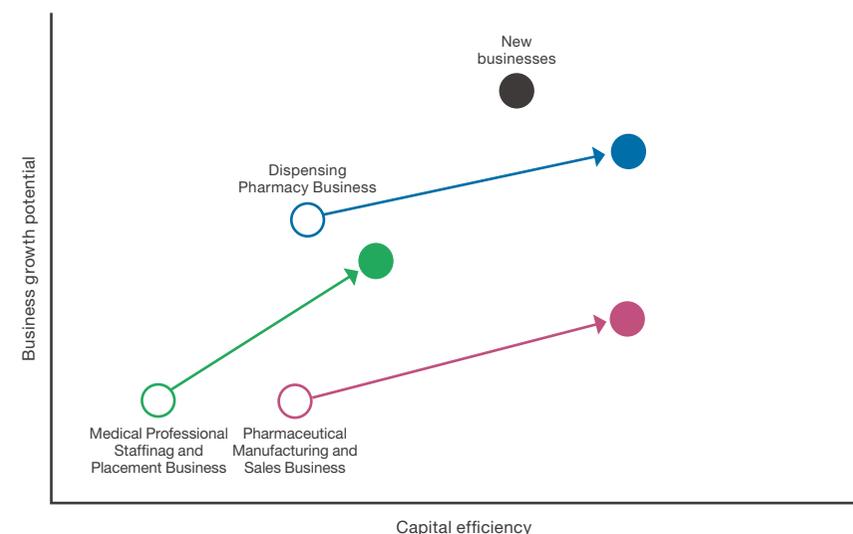
In terms of targets for each business, our target in the Dispensing Pharmacy Business is to raise the current ROIC of around 10% by 10% or more. To this end, we will first address the issue of unprofitable pharmacies, while at the same time investing in growth areas such as at-home healthcare and online medical care, allocating resources appropriately. Profitability in the Pharmaceutical Manufacturing and Sales Business is currently extremely low, reflecting the impact of a past warehouse fire and quality issues at Choseido Pharmaceuticals. Nevertheless, we aim to increase ROIC to 6%–7% by 2035. Our plan is to more than double the current ROIC of 7%–8% in the Healthcare Professional Staffing and Placement Business.

We will also actively invest in new businesses and move forward with business creation. Ultimately, we will work to achieve high capital efficiency in new businesses and move ahead in transforming these businesses into strong earners.

Profitability Targets

ROE 15% ROIC 15%

Our ideal business portfolio



Strategies for Achieving Long-Term Vision 2035

Shift to structures that generate robust profits

Managing businesses and investments using ROIC as a metric

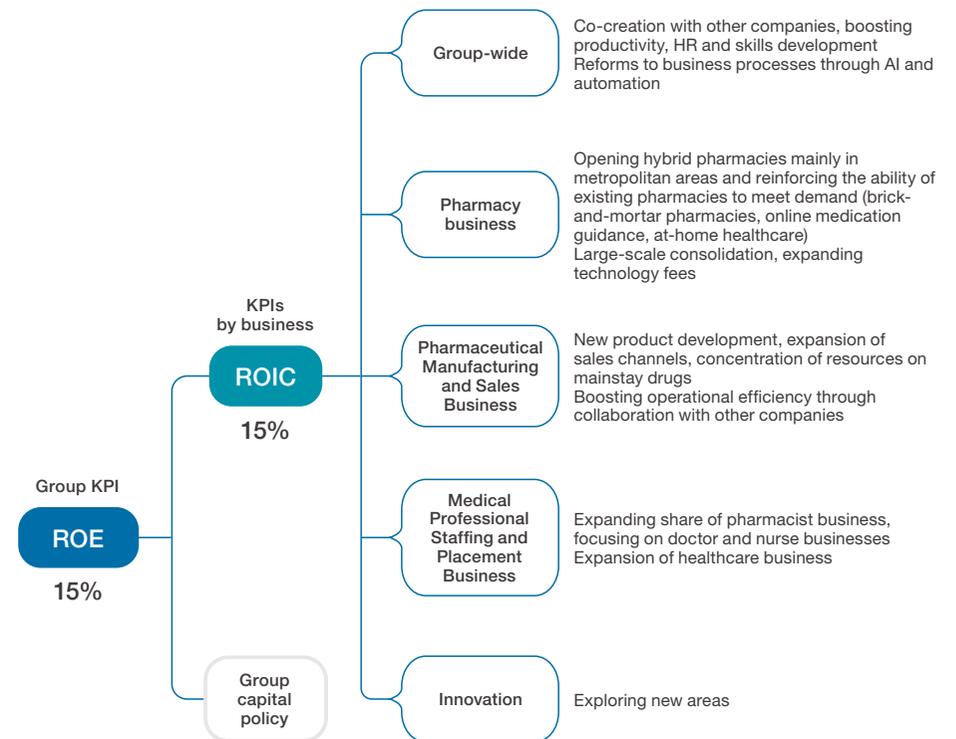
We will set ROIC targets that take into account the cost of capital in each business and incorporate these into our strategies based on the concept of an ROIC tree, to shift to structures that generate robust profits.

In the Dispensing Pharmacy Business, we are targeting drastic labor productivity gains through the use of AI, automation, and large-scale consolidation. The significant productivity gains these measures bring about will lower the ratio of labor costs to net sales and operating profit, contributing to improved ROIC. At the same time, using AI and replacing the bulk of dispensing work with machines will free up pharmacists to specialize in more patient-centered and highly specialized work.

In terms of our pharmacy strategy, we will work to enhance profitability by addressing the issue of unprofitable pharmacies, while continuing to expand the network of more profitable hybrid pharmacies. We will focus on opening highly profitable pharmacies, including large medical center-type pharmacies, chiefly in major metropolitan areas where we can expect population growth, aiming to expand the network by 500 pharmacies over the next 12 years. Furthermore, we will boost the volume of prescriptions filled per pharmacy and raise invested capital turnover from 20% to 30%, thus further increasing ROIC.

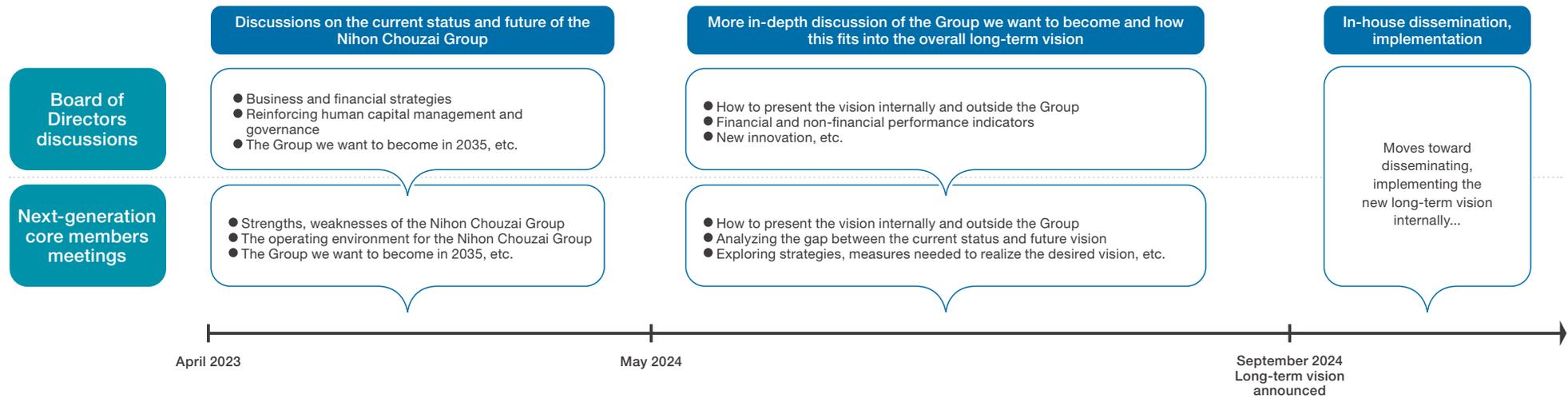
Our goal in the Pharmaceutical Manufacturing and Sales Business is to boost profitability and, ultimately, ROIC, by expanding production volume to lower the cost ratio and by increasing the proportion of products made in-house. Industry restructuring calls for a course correction away from a business of producing a wide range of drugs in small volumes. In response, the Group will proactively collaborate with other companies and boost production volume per drug through a tighter strategic focus on the products we manufacture. By increasing production volume and the proportion of products made in-house, we will seek to meet our ROIC targets.

Our goal in the Medical Professional Staffing and Placement Business is to expand our shares of the pharmacist and doctor staffing and placement businesses. Meanwhile, in the occupational healthcare professional business, where we expect further growth, we will expand the pool of occupational health nurses we place and make active use of acquisitions, seeking to significantly expand our healthcare business overall.



Roadmap of Formulation

Our new long-term vision brings together the bottom-up feedback that emerged out of next-generation core members meetings with the top-down views of management. The aim was to formulate a vision that could gain the buy-in of employees, our greatest asset, while also enabling the Group as a whole to grow over the longer term. At the management level, we organized discussions involving all members of the Board of Directors as well as separate discussions among the various businesses groups and divisions, taking an approach of considering issues both comprehensively and in terms of the various different groups.



Launch of next-generation core members meetings

In April 2023, Nihon Chouzai Group announced that it would revise its previous long-term vision. The operating environment for the Group had changed significantly since we formulated the previous long-term vision in 2018, making a new long-term vision necessary.

Whereas the previous long-term vision conveyed a strong, quantitative message based on financial indicators, the new vision sets out the kind of Group we want to become, without being constrained by numbers. At the same time, it places importance on realizing the vision through strategies centered on strengthening human capital, customer assets, and other non-financial assets.

We wanted to shape a new long-term vision that could incorporate employee feedback, gain buy-in from all employees, and guide proactive efforts towards meeting its goals. To this end, we started up a series of next-generation core members meetings, choosing participants from each Nihon Chouzai Group company. Members met numerous times to discuss issues from a variety of perspectives, backgrounds, and aspirations for the company.

The newly formulated vision for 2035 thus reflects employee opinions and aspirations from the bottom up. Meeting participants are core members of the Group's various business units. Going forward, as they

go about their respective jobs, these members will play a key role in putting our strategies into action to realize the vision and in disseminating the vision throughout the Group.

TOPIC Off-Site Training in Izu

To encourage freer discussions, we held an overnight training camp for the next-generation core members at a location in Izu. Participants were divided into groups, and tasked with thinking about the kind of Group we want to become when we achieve the 2035 goals of the vision. They then identified the challenges the Group needs to address to get there. By taking more time than usual to have in-depth deliberations, participants were able to dive into the long-term vision and future of the Nihon Chouzai Group.



Column

Next-Generation Core Members Look ahead to the Future

At the next-generation core members meetings, participants from different Group companies and divisions seriously discussed the future of the Nihon Chouzai Group twice a month. Here, four of the core members talk about the changes they experienced and insights they gained as a result of taking part in the meetings. They also share their thoughts on achieving the vision and their enthusiasm for disseminating and putting the vision into action across the Group.



Ryota Okuno
Corporate Planning Office,
Nihon Generic Co., Ltd.

In trying to settle upon “the kind of Group we want to become,” it was clear that there were various ways of approaching the question depending on the position of the various business units or the individual person. The process of delving into this abstract question also involved philosophical elements, and I found it very challenging.

The core members, brought together across the various dividing lines of the Group, all came with their own thoughts and ideas, so we took time to talk over issues from a variety of angles. This process enabled me to feel a mounting sense of excitement over the thought that the Group was going to improve even more going forward.

In the future, I'd like to bring the experience I gained in these meetings back to the Pharmaceutical Manufacturing and Sales Business, drawing on this experience as I work together with my colleagues to make the long-term vision a reality.

If you asked me whether I've had opportunities to give a lot of thought to the Group's philosophy or other Group companies on a day-to-day basis, to be honest, I haven't had many at all. While taking part in the next-generation core members meetings and interacting with people from different Group companies, I was once again struck with the fact that, although we belong to the same Group, I didn't know much about the other companies.

Naturally, each company has its own corporate culture and its employees have their own way of thinking, and these are all different and unique. But precisely because we are all different, we need some kind of guideline to help us move forward in the same direction. I believe that's what the new long-term vision is. But simply having a vision is meaningless unless everyone reflects on the vision and acts to bring it about. Going forward, rather than expecting “someone else” to take action, I'd like each of us to think about the vision and act as an evangelist for it.



Masahiro Kanaya
Doctor Division, Medical Resources Inc.



Hiroaki Ichikawa
Healthcare Consulting Division,
Japan Medical Research Institute Co., Ltd.

As a next-generation core member, I took part in discussions about formulating the long-term vision over a seven-month period from September 2023, and then served as a secretariat and member for the six months from April 2024.

When I first started attending the meetings, I was head of the Pharmacy Department at Yokohama Second Branch. So, I was primarily coming from the perspective of the dispensing business. But, after talking with people from other departments and Group companies, I found out about the breadth of the Nihon Chouzai Group's businesses, and got a sense of the further potential of the Group. My hope for the new vision is that the three pillars we deliberated on so many occasions will firmly take root in the Group. I look forward to generating synergies and creating innovation by setting aside more opportunities to talk about the future of the Nihon Chouzai Group across the dividing lines of departments and Group companies.



Hiroko Inoue
Group Corporate Planning Department,
Nihon Chouzai Co., Ltd.

Participating in the next-generation core members meetings and being involved in formulating the vision for the Group gave me a strong sense of both responsibility and fulfillment in being able to help shape the Group's future. Members with different job positions and perspectives were able to exchange opinions, working to arrive at a single vision and clarify common goals, which for me was a great opportunity for personal growth. In the next phase, it will be critical to gain the buy-in of all employees for the vision and foster an environment in which each employee can take initiative and act. I value the ability to align goals and share a common view with all of my colleagues, and am determined to fully embrace the challenge of making the new long-term vision a reality, laying the groundwork for the future of the Group.

How Nihon Chouzai Will Create the Future

Our Strategy



Value Creation Process		22
Management Assets of the Nihon Chouzai Group		23
Financial Strategy		24
Human Capital Strategy	Reinforcing Human Capital	26
	Ensuring Diversity and Building a Sustainable Organization	27
	Boosting Employee Fulfillment and Satisfaction	29
	Cultivating an Environment that Facilitates Work	31
Stakeholder Engagement		32
Business Overview	Dispensing Pharmacy Business	33
	Information Provision and Consulting Business	43
	Pharmaceutical Manufacturing and Sales Business	46
	Medical Professional Staffing and Placement Business	51

03

This section paints an overall picture of our value creation.

We aim to help address social issues and enhance long-term corporate value by reinforcing the five types of assets that are sources of our growth and by engaging in business activities that support people in various aspects of their lives.

Material Issues (Six Materiality Groups)

P.56

- Healthcare quality and accessibility
- Quality and stable supply of pharmaceuticals
- Resolving human issues at healthcare institutions
- Contributing to a carbon neutral, circular economy
- Fostering and utilizing diverse workforce
- Strengthening governance to fulfill social responsibilities

Our Mission

To give people the closest possible support

The Nihon Chouzai Group's unchanging significance to society

P.06

Our Vision (The Kind of Group We Want to Become)

To be the most trusted partner in healthcare

P.13

Five Types of Management Assets (Sources of Value Creation)

P.23

Non-financial assets



Organizational assets
Organizational culture and strengths cultivated over more than four decades of history, regulatory expertise



Human capital
Diverse workforce, including pharmacists and other highly specialized healthcare professionals



Customer assets
Trust of the 13 million patients, medical institutions, and healthcare professionals

Financial assets



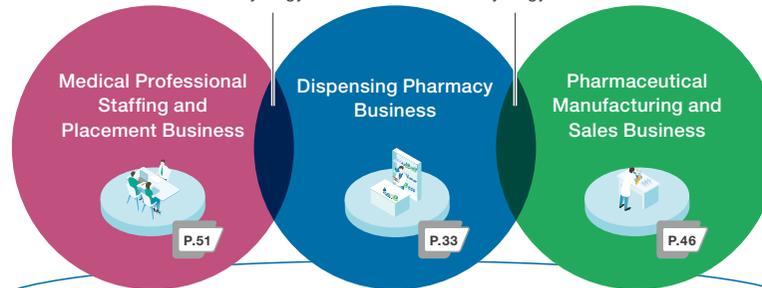
Physical assets
A network of 743 pharmacies across all prefectures in Japan, five drug manufacturing plants, one research laboratory



Financial assets
25 years in a row of sales growth

Business Activities

Three Businesses



Three strengths

Quality

Flexibility

Pioneering Spirit

Value Created

Dispensing Pharmacy Business

- Supporting health management for consumers
- Supporting medical treatment through healthcare collaboration
- Managing, supplying medications
- Maintaining the health, well-being of local communities

Pharmaceutical Manufacturing and Sales Business

- Reducing healthcare costs
- Improving access to medicines
- Ensuring a stable supply of drugs

Medical Professional Staffing and Placement Business

- Allocating healthcare resources efficiently
- Eliminating labor shortages
- Offering flexible working styles

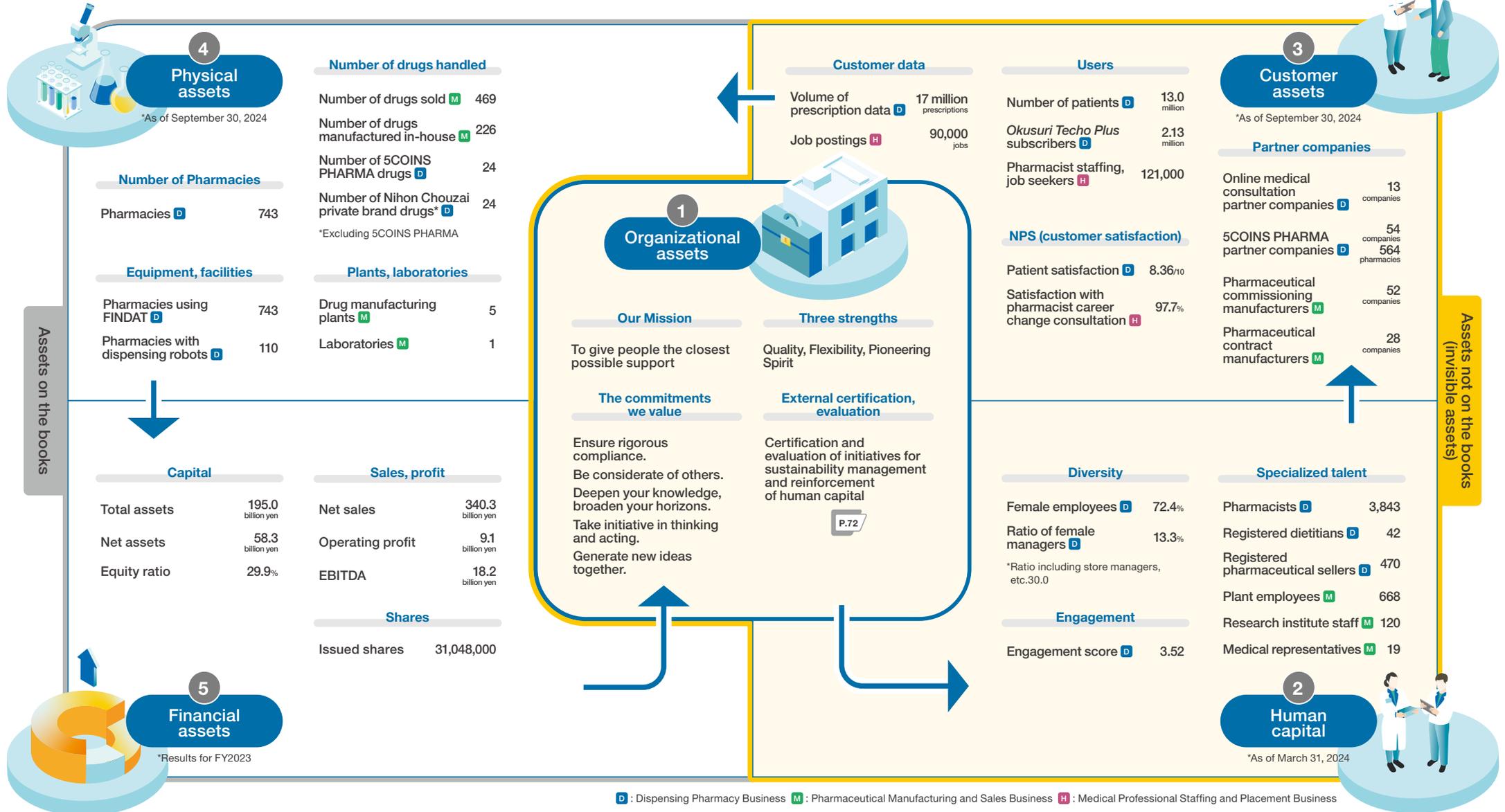


Enhancing overall corporate value through growth in five types of management assets

Management Assets of the Nihon Chouzai Group

(assets on the books and invisible assets)

The Nihon Chouzai Group has cultivated an array of assets over more than four decades. The type of assets varies widely, including physical, financial, and other tangible assets, and organizational assets, human capital, customer assets, and other intangible assets. The five types of assets are interconnected. Exerting a mutual influence on one another, the various assets will continue to contribute to the overall growth of our asset base.



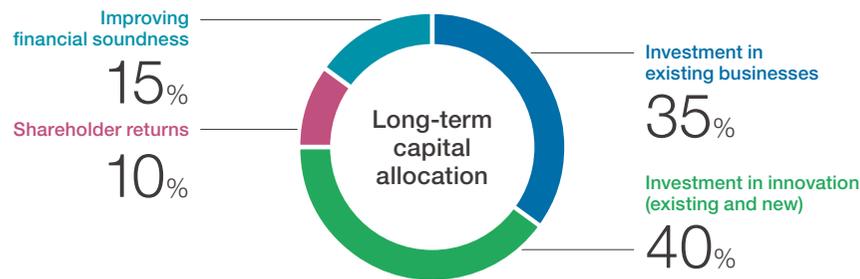
D : Dispensing Pharmacy Business **M** : Pharmaceutical Manufacturing and Sales Business **H** : Medical Professional Staffing and Placement Business

Financial Strategy

Financial Policy

To achieve Long-Term Vision 2035, the Nihon Chouzai Group will pursue a financial strategy that emphasizes the balance between growth investments in existing businesses and innovation, shareholder returns, and steps to improve financial soundness.

Long-term capital allocation



01 Investing in existing businesses and investing in innovation for growth

In addition to investing in existing businesses, the Nihon Chouzai Group is committed to investing aggressively in innovation.

In the Dispensing Pharmacy Business, we view drugs used to treat cancer and rare diseases and other specialty drugs, at-home healthcare in homes and care facilities, and online medication guidance and other online healthcare as growth areas. We are stepping up investments in pharmacies that can address needs in these areas.

In terms of online healthcare, we seek to respond to the Japanese government’s ongoing discussions about the digital transformation of healthcare, which gained momentum during the spread of COVID-19. Guided by our digital transformation strategy, the Nihon Chouzai Group is leading the industry in digitalization and online healthcare initiatives.

We are currently expanding online medication guidance services at our pharmacies nationwide by leveraging NiCOMS, the online pharmacy service Nihon Chouzai provides. Other aspects of the digital transformation strategy include providing smart healthcare and maximizing the effectiveness of drug treatments by capitalizing on *Okusuri Techo Plus*, our electronic medicine notebook which has over 2.13 million subscribers, and by automating dispensing work. We are also creating new

customer experiences and improving customer satisfaction, as well as boosting work efficiency and shifting to tasks that require human involvement.

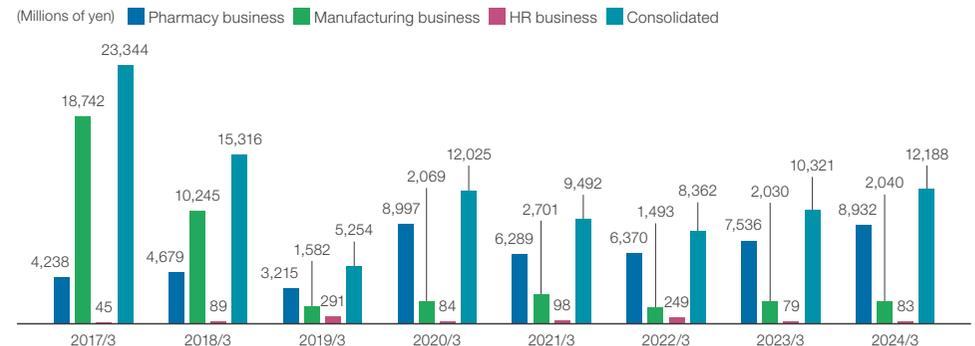
Furthermore, we are channeling efforts into cultivating highly specialized talent, such as professionals to support the advanced online drug information platform FINDAT, pharmacists certified in outpatient oncology, and pharmacists to engage in at-home healthcare.

The Pharmaceutical Manufacturing and Sales Business saw the completion in March 2018 of Nihon Generic’s Tsukuba Plant No. 2, equipped with state-of-the-art manufacturing equipment and quality control systems. The relocation and consolidation of research functions at that subsidiary’s Tsukuba Research Institute in June of that year marked the completion of a multiyear, large-scale capital investment strategy.

The utilization rate at Tsukuba Plant No. 2 steadily increased, and we are capitalizing on this foundation to push ahead with sales of newly NHI listed drugs and ramp up production volume. Going forward, we will ensure more robust data integrity across the entire manufacturing process, which entails frequent changes in the drugs manufactured, by rolling out a leading-edge manufacturing execution system (MES). We will also work to improve production technology and quality control, aiming to manufacture drugs under an efficient, labor-saving framework, including the introduction of a continuous production system.

In the Medical Professional Staffing and Placement Business, while the pharmacist staffing and placement businesses continue to draw on the strengths of the Group, we are also tightening our focus on the doctor HR business. We continue to expand the scale of our healthcare business (occupational doctor business) nationwide, and will help to improve the working environment of Japanese companies by supporting more effective corporate health and productivity management. We will also invest in innovation in healthcare fields to meet burgeoning social needs, including promoting health and productivity management, curbing healthcare costs, and extending the healthy life expectancy of the population.

Investments by business

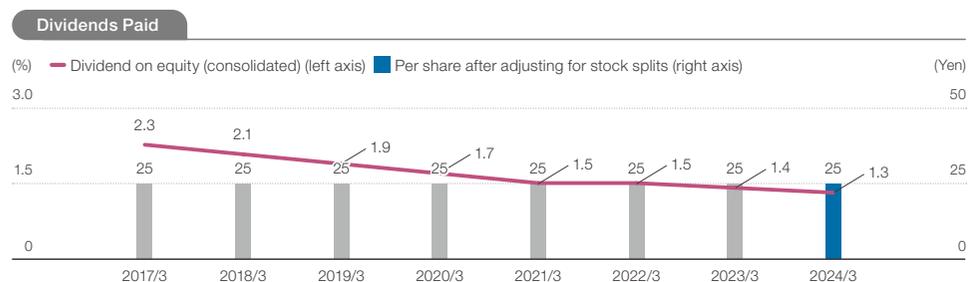


02 Shareholder Returns

Nihon Chouzai regards returning profits to shareholders as a key management issue.

Our policy is to return profits to shareholders through stable interim and year-end dividends, while also taking into consideration the need to secure funds for growth. Going forward, we intend to aim for gradual improvements in returns.

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



03 Fortifying the Financial Foundation

The Group will continue to shore up financial soundness to position us for continued growth as we work to achieve Long-Term Vision 2035. Our long-term capital allocation policy is to allocate about 15% of capital to steps to improve financial soundness.



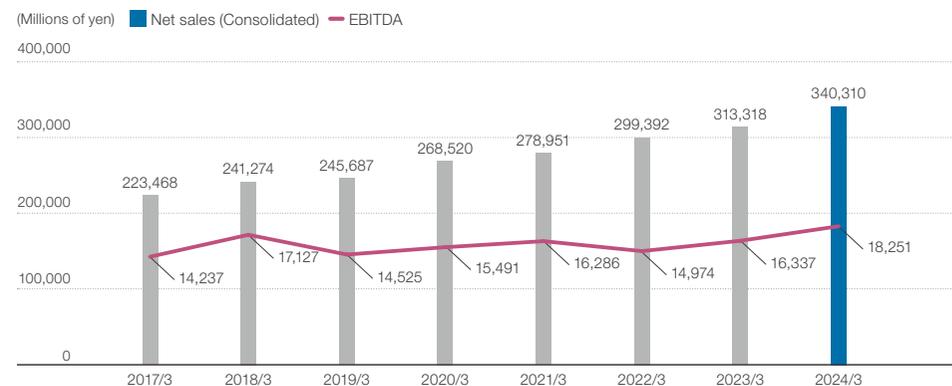
Management Indicators

Nihon Chouzai Group has set financial and non-financial performance indicators as long-term management indicators. In terms of key management indicators of financial performance, we are positioning ROE and ROIC as indicators of capital return, and the average annual growth rates of consolidated net sales and EBITDA as indicators of growth.

We are targeting ROE and ROIC of 15% in FY2035, and average annual growth rates of both consolidated net sales and EBITDA of over 10%, striving to improve the return on capital and ensure growth.

		Indicators	FY2023	Our vision for FY2035
Financial performance indicators	Return on capital	ROE	4.4%	15%
		ROIC	4.8%	15%
	Growth	Average annual growth rate of net sales (vs. FY03/24)	-	10% or more
		Average annual growth rate of EBITDA (vs. FY03/24)	-	10% or more

Net Sales and EBITDA (Consolidated)



Reinforcing Human Capital

Basic Approach

The Nihon Chouzai Group thinks of employees as human capital, a critical management resource. Since our founding, we have had a strong focus on education for our pharmacists and other employees. As we set out to achieve Long-Term Vision 2035, we will redouble our efforts to reinforce our human capital.

Our aim in reinforcing human capital is to deepen employee understanding of the Group philosophy and gain employee buy-in for it, as well as to create a vibrant workplace where employees can pour themselves into their work. In this way, we will strive to contribute to society while enhancing our corporate value over the longer term.



Three Pillars for Reinforcing Human Capital

We have set out three key strategies to enhance the value of our human assets: ensuring diversity and building a sustainable organization, boosting employee fulfillment and satisfaction, and cultivating an environment that facilitates work. We seek to maximize the potential of all employees by offering opportunities to learn and grow. At the same time, we are aiming for the sustainable growth of the organization by creating systems and an environment that foster employee buy-in and help employees derive fulfillment from their work, as well as pursuing initiatives to ensure diversity in the workforce, including promoting women's empowerment. These efforts will result in the increased value of our human assets and organizations through greater employee engagement and labor productivity, which will tie into our ability to provide enhanced, more robust value for customers and patients. Over the longer term, we see this translating into higher sales, profitability, and other financial value.

Enhancing human assets and organizational value through measures linked to the three pillars



Reinforcing
Human Capital

1

Ensuring Diversity and Building a
Sustainable Organization

Recognizing that supporting the active contribution of diverse personnel and securing and cultivating the human capital needed to take the reins of future management are indispensable to enhancing longer-term corporate value, we are planning and pursuing measures to create a working environment where employees can thrive regardless of race, nationality, age, gender, disability, or other characteristics.

We believe there are two ideal areas to strive for over the longer term: basing the development and placement of human resources on our business strategies and consistently ensuring the sufficient quality and quantity of personnel; and pursuing growth by understanding and bringing together diverse personnel in different positions.

To achieve this, we will foster an environment in which diverse personnel can flourish, including further increasing the ratio of female managers. In addition, we will work to build a human capital portfolio that contributes to sustainable growth, including formulating succession plans and cultivating leadership talent.

Building a talent portfolio

Cultivating management talent to lead sustainable growth

Succession Plans

It is vital for the longer-term growth of the Group to continuously formulate and update succession plans for the key positions that will shoulder the next generation of management. We are currently considering targets for formulating and monitoring such plans.

As for the General Manager of the Pharmaceutical Department, which is a key position in charge of directing the pharmacy business, we have already put a succession plan in place targeting section head-level employees. We are selecting a final candidate after analyzing the potential of the various candidates, including their ability to make management judgments, through a diagnosis of their strengths and weaknesses and interviews.

Developing Leadership Talent

We are running a variety of programs to develop the next generation of leadership talent, including mid-career employee training for new graduates on career tracks and evaluator training to ensure fair and impartial personnel evaluations.

We also offer outside training for newly appointed executive officers and other managers to teach the various skills and high-level perspectives needed for management. In FY2024, a total of four executive officers took part in three training courses.

Details of initiatives <https://www.nicho.co.jp/en/sustainability/esg/human/>

TOPIC Next-Generation Leadership
Development Project: NextForum

As a new initiative to develop leadership talent, we have begun conducting group training sessions called NextForum. The aim of this program is to share the knowledge and experience of the various Group companies and departments, deepen mutual understanding and buy-in, broaden the perspective of each participant, and encourage changes in work-related awareness and behavior. A total of 10 members selected from various Nihon Chouzai Group companies are taking part in this Group-wide training program, which will run for about a year. Training includes lectures by top management and in-depth discussions at training camps.

Participants are working hard towards the outcome of the training, which is a personal declaration of behavioral commitments. This project was born from suggestions offered by its predecessor, the Mitsuahara Business Academy (MBA) project. Going forward, our aim is for the project to continue as an autonomous, employee-driven initiative.



Recruitment strategy

Securing pharmacists and other talent is vitally important to our ability to offer high-quality pharmacy services and enhance the competitive strategies needed to expand the organization. We face the need to address major changes in the operating environment due in part to deregulation, regulatory reform, advances in digital transformation, and industry restructuring. We are thus focusing on reinforcing our framework for recruiting new graduates and mid-career professionals to be pharmacists, registered dietitians, medical office workers, and career-track employees.

Career-Track Employees

We are stepping up our recruitment of career-track employees to help set out a robust growth strategy for the future, including creating new businesses and frameworks. With the goal of securing excellent talent in various specialized fields, including human resources, planning, sales, finance and accounting, marketing, and IT engineering, we are engaged in activities capitalizing on a wide range of channels for both new graduate and mid-career hiring.

Reinforcing Recruitment of New Pharmacist Graduates

The importance of a pharmacist's patient-centered work—whether in the family pharmacist system, at-home medical care, or consultations about drug therapies in various specialized fields—is gaining attention. Securing excellent talent is the most critical issue in realizing the growth strategies needed to survive ongoing restructuring of the pharmacy industry in Japan. To this end, we are taking steps to recruit talented new pharmacist graduates.



Developed a wealth of media to convey the appeal of Nihon Chouzai.

Ensuring diversity

Empowerment of Women in the Workplace

P.72 External Evaluations and Participation in External Organizations

The percentage of female pharmacists has traditionally been high in Japan. About 70% of Nihon Chouzai pharmacists are female. For this reason, we are pursuing Group-wide initiatives to promote the active participation of women, including supporting the careers of our female employees and raising awareness among managers.

Action Plan

1 Increase the ratio of women in managerial positions to over 13% (April 2022–March 2025)

As of March 2024:
Female manager ratio 13.3%
Female area manager ratio 17.6%

2 Increase the ratio of full-time male employees who take childcare leave to over 40%.

As of March 2024:
Male employees taking childcare leave 84.3%

Female employees
72.4%
*Nihon Chouzai only

Number of people using the childcare reduced working hours system
632 people

Retention rate of employees returning to work after childcare leave
97.4%

(As of March 2024)

Diversity and Inclusion (DE&I)

Mid-Career Hires

To hone employee expertise and create new value different from that of existing employees, we are focusing on recruiting not only new graduates but also experienced employees. By acquiring highly specialized talent from outside the company, we not only fill open positions but also introduce new perspectives and experience, which brings renewed vitality to the organization as a whole.

Percentage of mid-career hires in managerial positions

59.5%
As of end-FY2021

58.2%
As of end-FY2022

59.6%
As of end-FY2023

Active Participation of People with Disabilities

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

Nihon Chouzai currently employs 144 staff with disabilities, representing 2.8% of all employees (as of June 2024). This exceeds the statutory employment rate. We are actively seeking to hire more employees with disabilities while broadening the scope of potential job positions.

Initiatives <https://www.nicho.co.jp/en/sustainability/esg/human/>

Reinforcing
Human Capital

2

Boosting Employee Fulfillment
and Satisfaction

Having long regarded human assets as the most important source of value creation, the Group has focused on cultivating human capital and honing the expertise of our pharmacists in particular. Our aim as we work to achieve our long-term vision is to maximize the capabilities of our employees by encouraging self-learning, which empowered employees to grow and chart new career paths. We are in the process of expanding our framework to better support career autonomy.

Furthermore, to boost employee engagement, we gauge gaps in engagement levels by carrying out regular surveys. Going forward, as a PDCA cycle based on survey results gets underway, we will seek to instill actions across the Group to further enhance employee engagement.

Career autonomy, heightening expertise

Expertise

Cultivating pharmacists and other highly specialized medical personnel

In the mainstay Dispensing Pharmacy Business, to fulfill its mission to be healthcare professionals, Nihon Chouzai is working to develop personnel who have a patient-centered perspective and a high degree of expertise. We have expanded the organization by opening multiple pharmacies across Japan. We therefore see it as a key management issue to seek to strengthen the human capital needed to manage the organization and continue to cultivate the next generation of leaders who can guide this process.

In the Dispensing Pharmacy Business, we are working to recruit pharmacists of a high caliber while further reinforcing our high-level educational programs. We launched the Pharmacist Stage evaluation system in April 2018. Under this system, we encourage employees to acquire in-house certification and offer full support to this end, preparing them for the next step of obtaining more advanced outside certification. Acquiring outside certification requires not only pharmacy experience but also hospital-based training. More than 30 of our pharmacists undergo such clinical training every year.

For details ▶  P.39/ Raising the Caliber of Our Pharmacists

Initiatives to support career autonomy

Enhancing Training for Specific Professional Skills

Nihon Chouzai's new personnel system spells out the qualities and abilities required for each professional qualification. We have started training to support employees in bringing these qualities and abilities to bear on their work. In the new middle-class training, which is common to all job positions, and in the new high-class training for career-track employees, training considers specific actions employees can take to properly understand and fulfill the roles expected of them at each job level. We also support employees in carrying out these roles in the workplace by aligning their expectations with those of the company through interviews with their superiors and follow-up training.

Providing Venues for Self-Learning

We want to empower all employees to take the initiative in shaping their own career paths. To this end, we launched an initiative to support employee learning by offering an online self-development curriculum on a platform accessible to all employees. We also provide digital training to motivated applicants seeking to acquire practical knowledge and skills. This training targets employees who are interested in broadening their knowledge about business in general and who are eager to use IT to improve work efficiency.

Improving employee engagement

Group Engagement Surveys

With the aim of building a more robust organization and fostering employee growth over the longer term, we regularly take stock of employee engagement levels. Results of the engagement survey conducted in FY2023 revealed positive views of the Group's management stance of taking initiatives ahead of other companies, strong buy-in for the Group philosophy, and a robust desire among employees to grow. We have taken steps to improve engagement, including instilling the Group philosophy, expanding opportunities for communication from management, and overhauling the personnel system. We will continue to take a range of measures targeting even further improvements in engagement going forward, such as promoting flexible working styles and strengthening our career support framework.

Group Engagement Survey 2023

Number of respondents (five Nihon Chouzai Group companies): 6,366 (response rate 92.4%)

Trends revealed as strengths

Growth ambition

Employees have a strong desire to grow, and want to contribute to their workplace and to colleagues by seriously engaging in healthcare. We have created an environment where people support the growth of their colleagues.

Business strategies

The company's management stance of embracing leading-edge initiatives and business development attuned to industry needs have gained buy-in from employees, and our management strategies received high marks.

Group policies

We have gained strong buy-in for the Group vision of being the most trusted partner in healthcare, Our Mission of giving people the closest possible support, and our basic approach to healthcare, and are seen to be putting these into practice.

Introduction of a New Personnel System at Nihon Chouzai

We introduced a new personnel system in April 2024. The new system aims to cultivate personnel who can embody our Group philosophy of giving people the closest possible support and contributing to society through the provision of high-quality healthcare services. The system indicates the direction employees should aim for, spelling out a model of the kind of person we are looking for to serve as a guideline for employees working in the Group. The system does away with former promotion requirements based on age and length of service. It also seeks to foster a greater sense of satisfaction among employees, with evaluations incorporating a behavioral assessment based on the Group philosophy and the model of the kind of person we are looking for. The system also brings in balanced benefits that more closely reflect job responsibilities and expertise. We aim in these ways to revitalize our personnel, shaping them into a foundation upon which we can achieve our long-term vision.

Model of the kind of person we are looking for

We are looking for professionals with sound, excellent character, strong leadership abilities, and the capacity to draw on a high level of expertise while gaining the trust of those around them. They will be unafraid of change, embrace challenges, bring together diverse strengths, and get strong longer-term results, thus helping to address social issues, primarily in the healthcare field.

Three pillars of the new personnel system

Grades

Supporting employee growth and career development by introducing a system that assigns two types of grades to each employee: a professional skills grade that stresses experience and ability, and a position grade determined by the degree of job responsibilities

Evaluation

The evaluation system uses two criteria—a behavioral assessment based on the Group philosophy and the model of the kind of person we are looking for, and a performance assessment based on the extent to which organizational goals are achieved—allowing more in-depth two-way dialogue between superiors and their teams and fostering a greater sense of satisfaction

Compensation

Formulating a clear compensation system that reflects the level of responsibility, ability, and accomplishments

Efforts to Instill the Group Philosophy and New Long-Term Vision

We are working to instill the Group Philosophy, which was formulated in April 2022. Through a combination of top-down and bottom-up initiatives, we aim to inculcate throughout the Group an outlook that expresses the Group's purpose in society and defines the actions needed to lead to future growth. Our goal is to create opportunities for employees to become aware of and take a personal stake in the Group philosophy. One step to this end is running a serial column in the in-house Group newsletter in which employees talk about the Group philosophy in their own words.

To realize Long-Term Vision 2035, announced in September 2024, we are also working to deepen employee understanding of and buy-in for the long-term vision. We are targeting better communication by distributing materials to employees and posting video messages from President Kasai. We are also exploring and implementing measures to raise awareness of the long-term vision so that each employee can take a personal stake in the vision and apply it to their work. One effort involves planning an in-house newsletter to field questions about the long-term vision submitted by employees.



Reinforcing
Human Capital

3

Cultivating an Environment that
Facilitates Work

Creating an environment in which all employees can embrace their work with enthusiasm is essential to building the vibrant and energetic organization we aim to be. Going forward, we will continue to consider various measures to improve the balance between work and private life by lowering restrictions on where and when employees can work and enabling flexible working styles, which will feed into higher labor productivity. We believe that maintaining sound individuals and organizations contributes to the realization of the Group philosophy and, by boosting productivity across the entire organization, to the realization of our long-term vision. For this reason, we are investing in health and productivity management in a strategic and systematic manner.

Flexible working styles

Initiatives to Support Flexible Working Styles

Fostering an environment that facilitates work leads to greater employee engagement and labor productivity, which in turn contributes to longer-term business growth. We are thus exploring ways to offer more flexibility in terms of working hours and locations.

Relocation of Head Office to Tamachi Tower

Amid the increasing diversity in working styles spurred by the pandemic, we sought to increase employee fulfillment by providing an office environment suited to the times. To this end, in September 2024, we relocated our Tokyo head office to Tamachi Tower in Tokyo's Minato-ku. We designed the workspace in the new office building to be seamless, making it easy for team members, departments, and Group companies to communicate with one another. To enable team members with differing values and backgrounds to exchange opinions and ideas, stimulate communication, and maximize business growth and organizational performance, various innovations to support more robust human and organizational assets have been incorporated throughout the building, including the creation of a new JP Lounge where employees can take breaks and hold casual meetings.



Health and productivity management

Reinforcing Health and Productivity Management

We believe that employee safety and health are crucial, fundamental prerequisites for raising individual and organizational productivity. An organization where every employee works energetically is able to provide healthcare that is grounded in regional communities and offer medical services adapted to the changing times. In FY2023, to foster an environment where employees can work more safely and without concerns, we upgraded various elements of the work environment, including revising the manual on preventing occupational accidents, expanding e-learning courses, and installing AEDs (defibrillators) and providing AED training at all branches. We are taking steps to further improve employee health. These include producing original in-house videos focusing on relevant themes such as mental health, simple exercises, and women's health issues, and regularly distributing the videos on an on-demand basis. To better encourage employees to quit smoking and prevent passive smoking, we launched our own in-house program that resulted in a 100% success rate in quitting smoking.

Support for employees and their families is also vital, and we have strengthened our return-to-work programs and established systems for balancing work and illness to ensure that employees undergoing medical treatment can continue to work with peace of mind, while also gaining greater understanding among their teams. Through these and other measures, we are promoting diverse working styles appropriate to each life stage.

Stakeholder Engagement

Through our various business activities, we aim to gauge the needs and expectations of stakeholders by engaging in constructive dialogue and working together to address social issues. Going forward, we will continue to work to deepen trust with stakeholders, build relationships that enable mutual flourishing, and increase corporate value.

	Why we engage	Stakeholders' interest	How we respond
 <p>Patients and customers</p>	<p>As a medical institution that provides quality healthcare throughout Japan, we believe pursuing the care that patients and customers demand is essential for the long-term development of our company.</p> <p>The Nihon Chouzai Group is constantly striving to ensure that patients and customers can receive the best possible healthcare without worry at our pharmacies and through our online pharmacy service throughout Japan.</p>	<ul style="list-style-type: none"> ● Providing safe, secure, high-quality healthcare ● Pharmacies available when needed / Providing home medical care ● Online pharmacy service that brings together high medical quality and convenience ● Supply of high-quality pharmaceuticals 	<ul style="list-style-type: none"> ● Providing high-quality healthcare at Nihon Chouzai pharmacies in all prefectures in Japan ● Providing high-quality generic drugs under the Nihon Generic brand ● Providing Nihon Chouzai's online pharmacy service NiCOMS ● Expansion of the functions of the electronic medication notebook <i>Okusuri Techo Plus</i>
 <p>Medical institutions (hospitals, pharmacies) and healthcare professionals</p>	<p>As a medical institution and as healthcare professionals responsible for regional healthcare, the Group collaborates with other medical care providers to better serve patients and local communities.</p> <p>In this way, we contribute to upholding a sustainable healthcare system in Japan. In addition, for medical institutions facing a shortage of medical staff, we are helping to redress regional disparities in healthcare by supplying appropriate medical personnel through the Group's Medical Professional Staffing and Placement Business.</p>	<ul style="list-style-type: none"> ● Collaboration with medical institutions to build sustainable community healthcare frameworks ● Redressing regional healthcare disparities caused by a shortage of medical personnel ● Cooperation with highly specialized pharmacies and pharmacists 	<ul style="list-style-type: none"> ● Healthcare collaboration by highly specialized pharmacists with regional medical institutions ● Staffing and placement businesses that connect medical institutions and healthcare professionals while avoiding poor fits ● Ensure the safety and quality of drugs
 <p>Employees</p>	<p>To achieve sustainable growth, it is vital to create workplaces where employees can take pride in their work as professionals supporting healthcare in Japan. The Nihon Chouzai Group is working not only to foster supportive, fulfilling workplaces, but also carry out employee engagement surveys to enhance employee satisfaction.</p>	<ul style="list-style-type: none"> ● Workplaces where employees can continue to work with a sense of security ● DE&I initiatives ● Fulfilling work that can contribute to healthcare in Japan ● Maintaining stable employment 	<ul style="list-style-type: none"> ● Offering working environments at financially sound medical institutions ● Providing a wide range of job positions that offer fulfillment as a healthcare professional ● Stable employment in the Nihon Chouzai Group (salary, benefits) ● One of the industry's best training programs ● Providing flexible career plans that empower women in the workplace
 <p>Shareholders and investors</p>	<p>As a company listed on the Prime Market of the Tokyo Stock Exchange, the Group places importance on appropriate disclosure and constructive dialogue with shareholders and investors to achieve sustainable growth and build corporate value over the longer term. Feedback and demands obtained through interactions with shareholders and investors are promptly shared within the Group and reflected in management and investor relations activities.</p>	<ul style="list-style-type: none"> ● Sustainable growth ● Longer-term improvement in corporate value ● Stable shareholder returns ● Appropriate disclosure 	<ul style="list-style-type: none"> ● Engagement activities with stakeholders and investors ● Growth strategies to achieve a sound financial structure and sustainable growth ● Stable shareholder returns
 <p>Government agencies</p>	<p>Effective collaboration with government agencies is indispensable to the Group's businesses. The Nihon Chouzai Group will continue to engage with government agencies to contribute to Japan's regional healthcare system.</p>	<ul style="list-style-type: none"> ● Provision of healthcare with guaranteed safety and stability ● Cooperative efforts with government agencies ● Reining in the costs of social security ● Understanding of ministry and agency policies 	<ul style="list-style-type: none"> ● Efforts to develop, manufacture, sell, and ensure a stable supply of high-quality generic drugs ● Promoting generic drugs to reduce medical expenses ● Contributing to regional healthcare ● Efforts to Achieve Digital Transformation of Healthcare
 <p>Society</p>	<p>As we seek to contribute to regional healthcare, cooperative efforts with various stakeholders in our communities are crucial to our businesses. The Group will continue to provide the best-possible healthcare throughout Japan to ensure that patients and customers can lead their daily lives with a sense of security and safety.</p>	<ul style="list-style-type: none"> ● Regional healthcare stations ● Family pharmacies and pharmacists ● Actions to contribute to society ● Expansion of pharmacies with specialized functions such as collaborating with medical institutions and providing advanced healthcare 	<ul style="list-style-type: none"> ● Functions to support community residents in staying healthy and to offer nutrition consultations ● Providing a safe and secure community healthcare system through dispensing pharmacies ● Nationwide expansion of specially certified pharmacies, such as regional cooperation pharmacies, specialized medical institution cooperation pharmacies, and health support pharmacies
 <p>Business partners</p>	<p>As a Group that is involved in a broad range of business areas, it is critical that we maintain solid relationships with all of our business partners. We will work together with our business partners to create significant value for society and respond to diverse healthcare needs.</p>	<ul style="list-style-type: none"> ● Provision of value or compensation ● Building long-term co-creation relationships ● Providing quality healthcare services 	<ul style="list-style-type: none"> ● Provision of quality healthcare services ● Innovating through collaboration and tie-ups ● Extensive business development by leveraging the strength of our nationwide network of pharmacies

Dispensing Pharmacy Business

Nihon Chouzai Co., Ltd., other dispensing subsidiaries

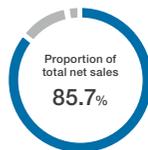
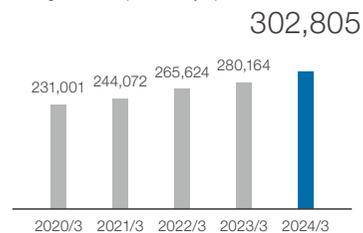
Since Nihon Chouzai was founded in 1980, to fulfill the functions and roles expected of pharmacies that support healthcare in Japan, we have consistently pursued the separation of drug prescribing and dispensing services and expanded our nationwide network of pharmacies.

The intentional inclusion of “Nihon” (Japan) in our company name at the time of our establishment embodies our commitment to providing quality healthcare throughout Japan, guided by our founding philosophy of “achieving the true separation of drug prescribing and dispensing services.”



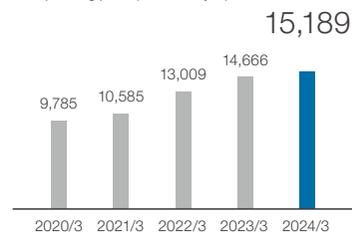
Net sales

■ Segment sales (millions of yen)



Operating profit

■ Operating profit (millions of yen)



Message from the Business Manager



Toshiyuki Koyanagi
Director and Senior
Executive Officer

Q Looking Back on FY2023

The volume of prescriptions filled rose sharply in the past fiscal year, reflecting in part the spread of various infections after the COVID-19 pandemic subsided. Growth in prescription volume was particularly evident among our hybrid pharmacies located in urban areas. These pharmacies contributed greatly to business performance. At the same time, we reinforced our framework for addressing needs in the area of at-home healthcare, centered on our 27 At-Home Medical Care Support Centers located across the country. As a result, we were able to achieve solid results in terms of both prescription volume and sales.

Our approach to date of opening hospital-front pharmacies, mainly to serve large hospitals, has given us a major advantage: These pharmacies have spearheaded growth in the volume of specialty drugs we handle, which made a significant contribution to sales growth for the year. So, the year saw balanced performance, with a rebound in prescription volume, expansion of at-home healthcare services, and growth in the volume of specialty drugs handled.

Q Initiatives for FY2024, Mid-Term Issues and Initiatives with a View to the Long-Term Vision

The Japanese government simultaneously revised dispensing fees and long-term care fees in June 2024. The revised fee structures include wage hikes for healthcare professionals, set new evaluation criteria for initiatives to promote the digital transformation of healthcare, and expand evaluation criteria in the area of at-home healthcare. At the same time, measures such as optimizing the community support system premium and the reduction of technical and dispensing fees for on-site pharmacies are having an adverse impact on Group performance.

In this context, we are working to strengthen the functions of family pharmacists, an area we have focused on for some time. We also to expand our framework for meeting demand by establishing new At-Home Medical Care Support Centers, which are chiefly responsible for dispensing drugs at facilities, and At-Home Specialized Care Centers that focus on specifically on providing at-home care to patients requiring specialized care, such as pediatric and palliative care. On the digital transformation front, we are aggressively working to raise awareness of the expanded use of health insurance cards linked to a national identification system, promoting online insurance eligibility verification, and developing a framework for filling electronic prescriptions. At the same time, we are actively exploring collaborations with platform providers to expand the use of NiCOMS, our online pharmacy service, aiming to hone our ability to fill prescriptions online.

Amid the change brought about by the advent of numerous initiatives drawing on new technologies, our mission continues to be to give patients the closest possible support, with a commitment to working from a patient-centered perspective. We will also continue to work to cultivate personnel characterized by smiles and exceptional hospitality.

Three strengths

Capacity to respond to diversifying medical needs

Nihon Chouzai leads the industry in responding to diversifying medical needs, continuing to grow as a comprehensive healthcare brand as we support regional healthcare collaboration and at-home healthcare, offer online pharmacy services, and expand our health support functions.

We are also flexibly navigating changes in Japan's healthcare context, including revisions in drug dispensing fees and drug prices and ongoing reforms to various systems.

Moreover, since our founding, we have successfully taken the lead over other companies in promoting the digital transformation of healthcare. This has included the in-house development of a dispensing system, the electronic medicine notebook *Okusuri Techo Plus*, and NiCOMS, our online pharmacy service.

Providing Quality Healthcare

With around 60% of Nihon Chouzai pharmacies located in front of university hospitals and major regional hospitals that provide advanced healthcare, our focus is on training pharmacists who can offer a high degree of expertise and extensive experience.

We are also stepping up efforts to handle specialty drugs, for which demand is expected to grow in the future. Anticancer drugs, drugs to treat rare diseases, and other specialty drugs are difficult to handle and require a high level of expertise.

Pharmacy Services That Patients Choose

Guided by the notion that the education of pharmacists and other employees is the top priority for offering better pharmacy services, since our founding we have consistently focused on educating pharmacy staff and improving customer satisfaction.

In 2015, we also launched a project to make Nihon Chouzai "the pharmacy of choice" for patients, which has yielded various measures and training programs to foster vibrant pharmacies that can gain the trust of patients.

Growth strategy

Addressing
Increasingly Diverse
and Sophisticated
Healthcare Needs

P.35

Education of High-
Caliber Pharmacists

P.39

Efforts to Achieve
Digital Transformation
of Healthcare

P.40

Addressing Increasingly Diverse and Sophisticated Healthcare Needs

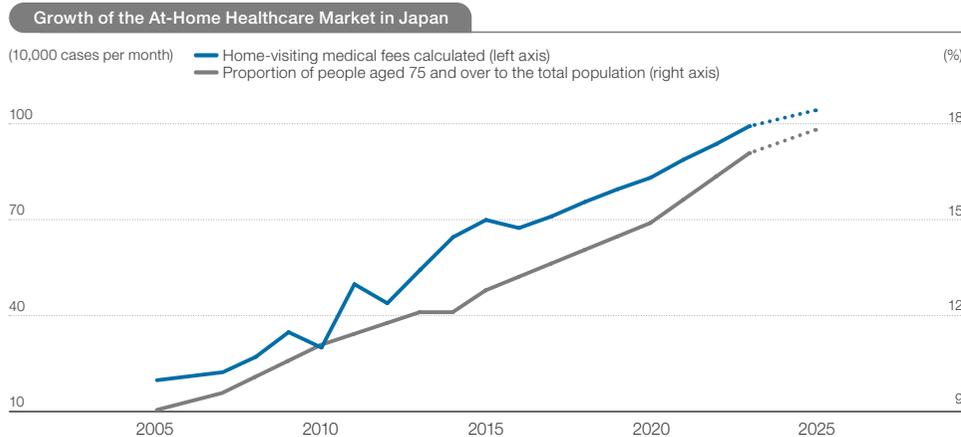
Reinforcing at-home healthcare

Supporting at-home healthcare

The advent of a super-aging society has triggered a shift away from inpatient treatment at medical institutions to ongoing at-home healthcare. As family pharmacies, the role of pharmacies in community-based healthcare teams is becoming more and more critical. Nihon Chouzai began augmenting its ability to respond to care needs at home and at long-term care facilities in 2009. We support patients in collaboration with facility staff, doctors, nurses, and care managers. We also started providing at-home care in 2010, offering a wide array of at-home healthcare services to meet needs in local communities, ranging from patients who are highly dependent on healthcare, such as patients undergoing cancer treatment and palliative care, to children with intractable diseases.

In terms of facilities at our pharmacies, we have remained ahead of the industry in equipping pharmacies with sterile dispensing rooms, which will be increasingly necessary for at-home healthcare going forward, allowing the preparation of injections, intravenous feeding solutions, and other sterile dispensing work.

In FY2011, Nihon Chouzai set up a department dedicated to at-home healthcare, and is actively promoting home-visiting drug management and guidance for patients being treated at home. All Nihon Chouzai pharmacies have now put in place a framework in which pharmacists can provide home-visiting drug management and guidance services.



At-Home Medical Care Support Centers

Facility and At-Home Care Centers

Working out of our 27 At-Home Medical Care Support Centers across the country, pharmacists with a high level of expertise specializing in at-home healthcare offer a wide range of services tailored to the needs of local communities, focusing particularly on elderly patients and patients who are highly dependent on healthcare, including those undergoing cancer treatment or palliative care, and children with intractable diseases. We make use of *Anshin Fukuyaku-kun*, an original medication support system developed in-house, to help boost adherence by preventing medication errors and managing medication information. Moreover, we actively support the health of patients in the region in collaboration with other healthcare professionals, including by having a pharmacist accompany patients to their medical examinations. Meanwhile, we are taking steps to ensure high-quality, safe healthcare services: Nihon Chouzai pharmacies are working to obtain ISO 9001, the international standard for quality management systems, for the provision of dispensing and medication distribution services by At-Home Medical Care Support Centers and drug sales operations.



At-Home Medical Care Support Centers **27**

At-Home Specialized Care Centers **20**

*As of July 31, 2024

At-Home Specialized Care Centers

We have established 20 At-Home Specialized Care Centers nationwide. Pharmacists who are drug experts visit patients at home and use their skills to offer detailed drug management and guidance, such as explaining medications and managing unused drugs, primarily for patients who are highly dependent on healthcare and being cared for at home. Our pharmacists are also part of care teams that bring together staff from local at-home care clinics, home-visit nursing stations, care managers, and hospital community liaison office staff. Our goal is for our pharmacies to serve as at-home healthcare hubs for the community as a whole, working closely with these care teams to provide the best possible at-home healthcare and long-term care environment for patients being cared for at home.

When engaging in at-home care, Nihon Chouzai pharmacists perform their daily work using Nihon Chouzai's proprietary tablet-based at-home healthcare communication system. In addition to providing accurate and timely medication guidance during home visits, these pharmacists promptly report back to and consult with collaborating medical institutions and care teams.

In terms of facilities, we are actively equipping pharmacies with the sterile dispensing rooms that will be increasingly necessary for at-home healthcare going forward, to allow the preparation of injections, intravenous feeding solutions, and other sterile dispensing work.

Addressing Increasingly Diverse and Sophisticated Healthcare Needs

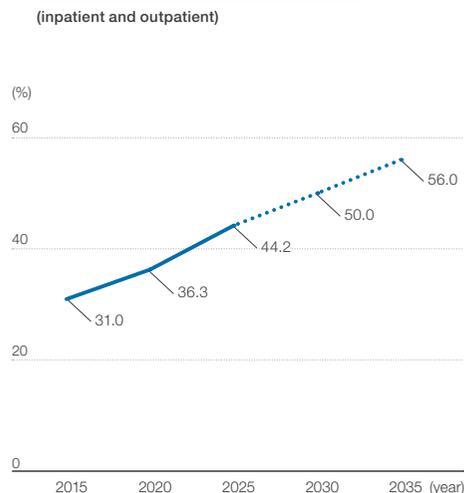
Initiatives Involving Specialty Drugs

Nihon Chouzai defines specialty drugs as high-priced drugs, including drugs used to treat cancer and rare diseases. Specialty drugs have grown to account for more than 39% of overall sales in Japan's prescription drug market, and the size of this market is expected to continue growing.

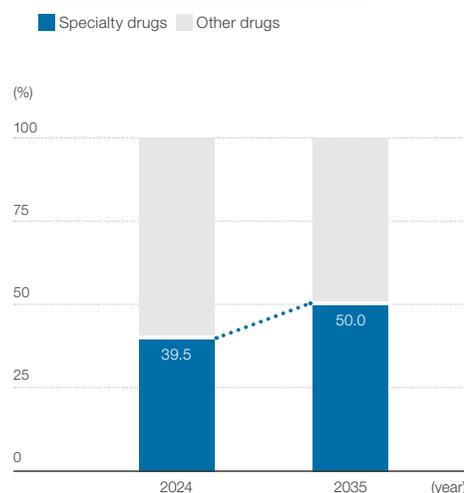
Over 60% of Nihon Chouzai Group pharmacies nationwide are located near large hospitals. Many of our highly specialized pharmacists, including those specializing in outpatient oncology, are on staff at these locations. They are distinguished by the large volume of anticancer drugs and other specialty drugs they handle. Such drugs account for a much higher proportion of drug sales at hospital-front pharmacies than the industry average.

To meet growing demand for specialty drugs, we are actively collaborating with specialized medical institutions that provide advanced healthcare and working to significantly boost sales of specialty drugs at our pharmacies.

Proportion of specialty drug sales in Japan's prescription drug market (inpatient and outpatient)



Proportion of specialty drug sales in Nihon Chouzai Group dispensing fees

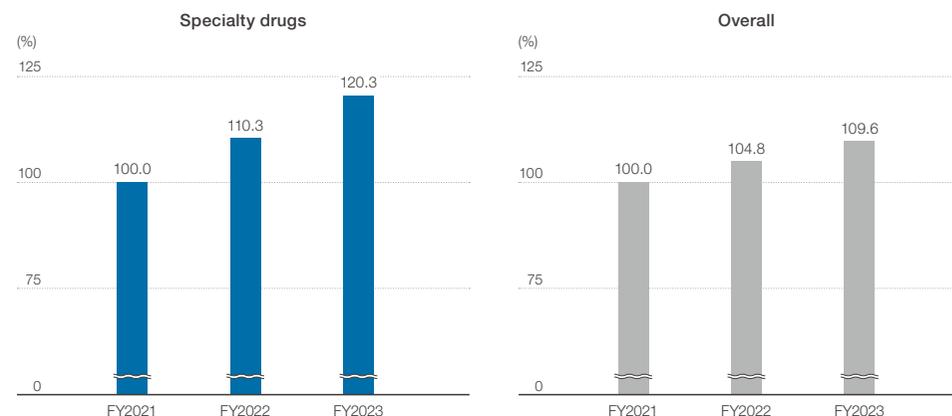


Ranking of Nihon Chouzai Group specialty drugs by value

Ranking	Drug name	Efficacy, use in treatment	Drug price* (yen)
1	Tagrisso Tablets 80mg	Cancer	18,540.2
2	Zytiga Tablets 500mg	Cancer	7,287.3
3	Alecensa Capsule 150mg	Cancer	6,737.1
4	Ofev Capsule 150mg	Cancer	5,966.4
5	Lynparza Tablets 150mg	Cancer	4,788
6	Humira 80mg Injection Pen 0.8mL	Rheumatoid arthritis, etc.	95,070
7	Dupixent 300mg Injection Pen	Atopic dermatitis, etc.	61,714
8	Ibrance Tablets 125mg	Cancer	20,538.9
9	Sprycel Tablets 50mg	Leukemia	5,857.7
10	Revolade Tablets 25mg	Thrombocytopenic purpura, etc.	4,356.5

*As of April 2024

Comparison of percentage change in drug sales (specialty vs. overall)



Addressing Increasingly Diverse and Sophisticated Healthcare Needs

Online Initiatives

With the partial deregulation of the online healthcare system in Japan in April 2022, an increasing number of people are turning to online healthcare. Offering NiCOMS, an online pharmacy service we developed in-house, the Nihon Chouzai Group is leading the industry in taking steps to expand the online market. Through tie-ups with various companies, we also provide comprehensive online healthcare, ranging from online medical consultations and medication guidance to drug deliveries. In FY2023, we expanded our network of partner companies and added new functions, and can now offer patients the choice of picking up drugs at the pharmacy or having them delivered to their homes. We will continue working to expand options and improve convenience for patients.

In-House Developed *Okusuri Techo Plus* Electronic Medication Notebook Over 2.0 million subscribers (As of July 31, 2024)

The electronic medication notebook *Okusuri Techo Plus* links with Nihon Chouzai's core dispensing system to enable centralized management of medication history. The app is also equipped with various functions that enhance convenience for patients, including a function for sending prescriptions and a calendar function. It also has a personal health record function that offers greater convenience by linking*1 to data from body composition monitors, blood sugar monitors, and other healthcare devices. In this way, it helps patients manage their daily habits and supports better health.

In addition, by using the app's "connect" function, patients can communicate with the pharmacy. With the addition of a chatbot function for medication consultation, if patients have questions about drugs, such as how to take drugs properly, how to administer a drug to a child, when to take medication, or their physical condition after taking a medication, they can easily consult with the pharmacy.

We were also the first*2 company to link our electronic medication notebook with Japan's My Number (individual ID) portal, now making it possible to centrally view and manage data on drugs dispensed at multiple medical institutions and pharmacies on the portal.

Moreover, even in an environment where internet connection is unavailable, such as during a natural disaster, users can view the drug information registered in *Okusuri Techo**3.

*1 Available for compatible healthcare devices and near field communication (NFC)-compatible Android devices

*2 Based on Nihon Chouzai research

*3 When the app is launched in an online environment, the user can view the past six months of drug information stored on the device, and patient information, history of side effects and allergies, physical constitution, medical history, regular pharmacy, and family pharmacist information recorded in the "subscriber information" section.



Users can start a chat by tapping on the "question about medication" link.

They can choose from different options and easily consult with the pharmacy.

Nihon Chouzai Online Pharmacy Service NiCOMS Supported by all Nihon Chouzai Group pharmacies

The revision of the Pharmaceuticals and Medical Devices Act made remote medication guidance available nationwide in September 2020. In response, Nihon Chouzai developed NiCOMS, an online pharmacy service that allows patients to receive medication guidance at home or elsewhere.

Deregulation of remote medication guidance went into effect in April 2022 and is expected to be given broader scope going forward, such as permission to provide medication guidance remotely for first-time patients.



TOPIC NiCOMS App Version Launched

We launched the app version of this service in May 2024. Previously, NiCOMS was only accessible via web browser. The launch of the app version has enhanced the convenience of our online pharmacy services for customers. We also added new features to the NiCOMS app.



- 1 A feature that allows users to check reservation availability at pharmacies registered in the "my preferred online pharmacy" section on the home screen
- 2 A pop-up notification feature
- 3 A feature that allows the video call screen to be displayed in a smaller size on the payment screen

Addressing Increasingly Diverse and Sophisticated Healthcare Needs

Pharmacy Openings and Strategies to Meet a Wide Range of Needs

To provide high-quality healthcare services nationwide, Nihon Chouzai is pursuing a balanced pharmacy network strategy. Based on the family pharmacist and pharmacy functions stipulated by the Ministry of Health, Labor and Welfare, we distinguish our pharmacies between those that offer advanced drug management requiring highly specialized knowledge and those that offer health support functions that contribute to better pre-symptomatic illness and disease prevention in the community. We have pharmacies in all 47 prefectures in Japan.

We are creating pharmacies that are efficient, taking into account the different roles and functions various pharmacies will have when they open.

In charge of healthcare in local communities, located in areas of growing needs due to population growth

Hybrid pharmacies

Pharmacies that combine the elements of neighborhood pharmacies, which are in locations with convenient access, such as downtown areas or near train stations, with medical center-type pharmacies, which serve clusters of medical institutions. Hybrid pharmacies fill prescriptions from medical facilities across a relatively wide area, but also serve as a familiar healthcare hub for neighborhood residents and people commuting to work or school.



Responding to the shift from outpatient to at-home healthcare due to population aging

Pharmacies supporting at-home healthcare

In nearly all of our pharmacies, Nihon Chouzai has built a framework that allows pharmacists to provide at-home drug management and guidance services. Some of our pharmacies are also equipped with sterile dispensing rooms and clean benches for drugs that require such equipment, including intravenous solutions and injections.



Addressing advanced healthcare needs

Hospital-front pharmacies

Located in front of university hospitals and major regional hospitals that provide advanced healthcare, these pharmacies offer advanced healthcare in a wide range of clinical specialties. Large hospitals often prescribe drugs that require advanced pharmaceutical management, which calls for highly specialized knowledge and skills and the highest level of healthcare services.



Pharmacies with various functions

The Vision of Pharmacies for Patients announced by the Ministry of Health, Labor and Welfare (MHLW) set forth concrete functions required of pharmacists and pharmacies going forward. In August 2021, MHLW began certifying pharmacies as regional cooperation pharmacies and specialized medical institution cooperation pharmacies. Under this system, Nihon Chouzai is developing a network of pharmacies offering an array of other functions as well. These include health support pharmacies, which offer consultation on a wide range of health-related issues; certified Nutrition Care Stations, where local residents can easily receive nutritional care support and guidance; and pharmacies equipped with a Health Check-Up Station, a distinctive initiative of Nihon Chouzai to help local residents stay healthy and to deal with pre-symptomatic illness and disease prevention.

Specialized medical institution cooperation pharmacies

61 pharmacies / 205 pharmacies nationwide

Pharmacies, authorized by prefectural governors, that cooperate closely with other healthcare facilities to serve patients who require specialized drug management. These pharmacies also engage in special kinds of dispensing that call for more advanced drug management and greater specialization. Currently, pharmacies with a high degree of expertise in oncology treatment can receive this accreditation.

Regional cooperation pharmacies

508 pharmacies / 4,297 pharmacies nationwide

Pharmacies, authorized by prefectural governors, that collaborate as needed with regional medical institutions and other pharmacies, serving as bridges between hospitals (medical care) and long-term care facilities or residences (long-term care).

Health Support Pharmacies

214 pharmacies

Pharmacies meeting health support standards established by the Ministry of Health, Labour and Welfare that have functions to actively support local residents and patients so that they can lead healthy and abundant lives.

Certified Nutrition Care Stations

20 pharmacies

Facilities certified by the Japan Dietetic Association as a community hub where local residents can easily receive nutritional care support and guidance. Through services such as nutrition consultations, health events, and nutrition classes, registered dietitians support residents in leading healthy and fulfilling lives.

*Number of Nihon Chouzai pharmacies is as of November 1, 2024.
Number of pharmacies nationwide is as of the end of September 2024.

Cultivating High-Caliber Pharmacists

Highly specialized pharmacists

Pharmacist education at Nihon Chouzai is based on a curriculum that is the top of its class in the industry.

Taking for granted the need to acquire adequate knowledge and skills related to pharmaceuticals, we see the basic approach to patients as a healthcare provider, the ability to communicate with patients, and the ability to manage pharmacy operations as equally essential skills. Under our robust training system, we are working to cultivate pharmacists of a high caliber.

Pharmacists

3,843

Pharmacists with in-house
disease-specific certification

Oncology: 47, etc.

(As of May 1, 2024)

Total 116

Pharmacists with outside certification
Board-Certified Pharmacist of
Ambulatory Cancer Chemotherapy
(BPACC)

85*

(As of October 1, 2024)

Percentage of
pharmacies with family
pharmacists

89%

*Around 25% of all BPACC certified pharmacists working in pharmacies are from the Nihon Chouzai Group. This is the highest percentage in the pharmacy sector.

Hospital Field Education

With the aim of fortifying collaboration between hospitals and pharmacies and improving the professional skills of pharmacists, we have introduced a program of practical training at university hospitals nationwide.

Pharmacists can gain a broad perspective and specialized knowledge by working in various healthcare settings, such as in dispensing, injection, and formulation rooms, doing work involving mixed injections, and engaging in drug information, ward duty, and pharmaceutical affairs operations. Field education at university hospitals helps pharmacists hone their personal skills and gives them experience that they can also apply to pharmacy work.

Support Framework with Outside Certification Team

We have established an in-house team to take the lead in supporting the greater acquisition of the pharmacist and specialty pharmacist certification of various academic societies. Amid growing expectations for pharmacists to have a high degree of expertise, including the ability to collaborate with specialized medical institutions, Nihon Chouzai is focusing on enhancing expertise in oncology care. As part of this emphasis, we have formed a team to encourage the acquisition of certification in outpatient oncology, palliative drug therapy, and regional drug care with a specialization in cancer.

Expertise Specializing in At-Home Healthcare

Specialized at-home
healthcare managers
(Pharmacists)

12

Head office at-home healthcare
specialist managing supervisors
(Pharmacists)

3

Specialized at-home healthcare managers are pharmacists with extensive experience in at-home care. In addition to promoting and coordinating such care in various local communities, they are responsible for staff training, so that Nihon Chouzai pharmacies can become the choice of multiple stakeholders, including staff from local at-home care clinics, home-visit nursing stations, care managers, and hospital community liaison office staff. Our pharmacies specializing in at-home care also strive to maintain and foster appropriate operations in conformity with ISO 9001 quality management system standards, ensuring the systematic ability to meet a wide range of needs.

Improving Hospitality at Pharmacies

Because we have numerous opportunities to interact with patients on a day-to-day basis, hospitality is a central focus at Nihon Chouzai. By ensuring that our pharmacists know how to closely engage with patients, we strive daily to alleviate patient anxiety and enable customers to visit our pharmacies without worry.

Patient Interaction Training

In this training, internal staff who are dedicated to customer satisfaction hold lectures and provide customer service training, teaching participants how to think from a patient-centered perspective and acquire the communication skills expected of healthcare professionals. In addition to pharmacists, medical office workers and registered dietitians also take part in training to learn effective approaches to engaging closely with patients.

Drawing on social style theory, the training teaches participants how to interact with individual patients appropriately, based on their particular communication style, thus striving to be even more hospitable.

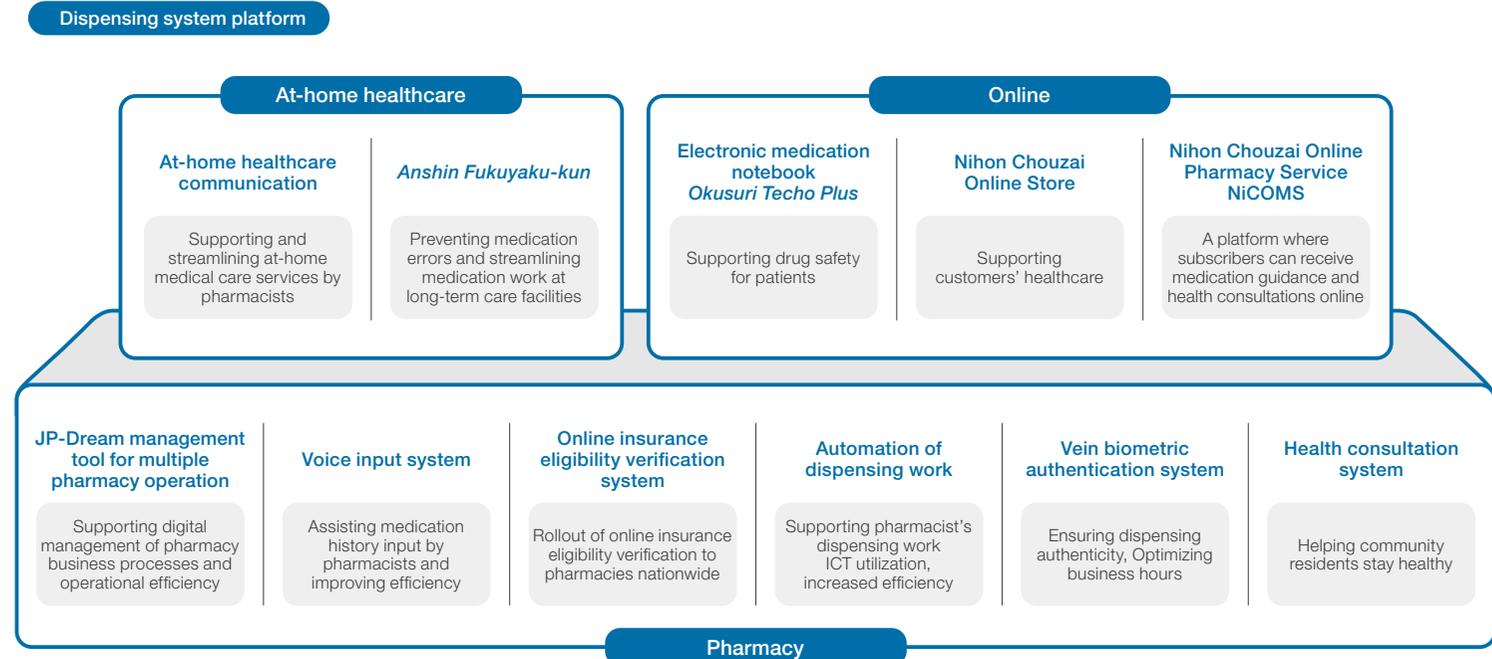


Efforts to Achieve the Digital Transformation of Healthcare

ICT Investment under the Digital Transformation Strategy

Nihon Chouzai develops and operates various ICT tools for healthcare in-house, centered on the dispensing systems used in pharmacy operations.

In the 1990s, we were first in the industry to develop an electronic dispensing system. Yearly upgrades to the system have enabled us to respond quickly to dispensing fee revision and the shift toward remote healthcare. The system also serves as a platform that can flexibly link with other systems. Moreover, in 2021, we started an overhaul of the dispensing system to support the expanded roles expected of pharmacies down the road. In addition to revamping the user interface, we are targeting a system design that will enable a more flexible response to upcoming digital transformation and deregulation in healthcare fields. We are positioning this overhaul as a growth investment with a view to future business development and expansion of the business scale.



Automation of dispensing work

While promoting efficiency through automation, we are creating more time for pharmacists to devote to patient-centered work and improving the quality of healthcare services.

Purpose	Name of tool	Drug Stations	ROBO-PICK II	DimeRoll	miniAQUA-zero	Pharmacies with dispensing robots 110 *As of May 2024	Reduction in work hours 233,000 hours
	Application	Fully automated blister pack feeding device	Automated drug picking device	Powder medication dispensing robot	Liquid medication dispensing machine		
	Functions/Features	Up to 3,000 items	Up to 1,300 items	Automatic weighing, cleaning	Automatic dispensing, cleaning		
	Purpose	<ul style="list-style-type: none"> ● Shifting pharmacist work to more patient-centered work ● Improving dispensing quality (including hygiene) ● Improving patient safety 					

FINDAT business

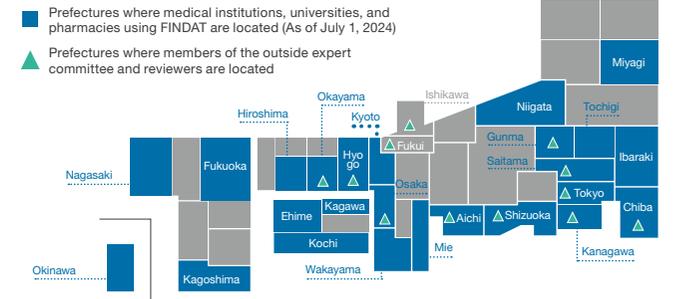
Business Overview

Accelerating Digital Transformation of Healthcare with the Web-Based FINDAT Platform

FINDAT is a drug information web platform for medical professionals. FINDAT gathers drug information from an extensive range of data sources in Japan and overseas, such as original articles, drug databases, and regulatory guidelines, processes these data to enhance use at clinical sites, and provides them online. FINDAT can respond to a wide range of social needs, and it is gaining a solid reputation, making inroads among a growing number of pharmacies that carry out advanced healthcare and at-home care as well as pharmacology educational institutions. In addition, the Japanese government's 4th Healthcare Cost Optimization Plan (2024-2029) clearly calls for the use of formularies to promote the use of generic drugs. We anticipate reductions in drug costs by means of prescription analysis using the formularies of prefectures and insurers.



FINDAT Spreads Nationwide Since 2020 Service Launch



Demand from Society

Hospital administrators

Cost reductions, medical safety, strengthening regional collaboration, working style reform for doctors, and other management issues

Healthcare professionals

Improving efficiency in collecting and evaluating vast amounts of drug information, standardizing work for the shift to task sharing

Pharmacies

Comprehensive, accurate drug information for advanced healthcare, refill prescriptions and advanced pharmacy management

Educational institutions

Cultivating the next generation of medical professionals

Prefectures, insurers

Visualization of generic drug use and reduction of drug costs through formulary-based prescription analysis

Value Provided by FINDAT

Managing drugs that have been adopted and creating formularies

Formularies are recommended lists of homologous drugs prepared and offered by FINDAT. They can be created efficiently by processing data according to the situation of each medical institution or region.

Comparing efficacy, safety, and cost-effectiveness of homologous drugs

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

More efficient data gathering when adopting new drugs

We gather and evaluate information on newly approved drugs that place a burden on medical institutions, and compile the information into materials that are easy to use in clinical settings.

Optimization of drug purchasing costs

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

Objective data reviewed and peer-reviewed by outside experts

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

Promoting proper medication use and enhancing medical safety

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

Strategies

1 Improving user satisfaction

- To improve user satisfaction, we will create content tailored to customer needs, provide individualized approaches, and hold user seminars.

2 Developing new channels

- We aim to capture new customers by co-hosting academic workshops and through academic exhibitions, web seminars, and our corporate website.

3 Developing new markets

- Pharmacies, at-home medical treatment**
We will roll out FINDAT to all Nihon Chouzai pharmacies and then target other pharmacies by leveraging its use in our pharmacies and in at-home medical treatment.
- Prefectures, insurers**
Working with Japan Medical Research Institute, we will help promote the use of generic drugs by prefectures and insurers by visualizing such use and reducing drug costs through formulary-based prescription analysis.

Case Study Interview

Cancer Institute Hospital of JFCR

Boosting Efficiency by Tapping into the Distinctive Drug Information Services of a Specialized Hospital, Carefully Selecting Drugs of Choice

The Cancer Institute Hospital of the Japanese Foundation for Cancer Research decided to introduce FINDAT to be able to create formularies while carrying out highly busy daily hospital operations. Patients often visit this hospital from far away. FINDAT is proving to be a reliable source of information for the hospital's distinctive drug information services as well as for preparing materials for its pharmaceutical council. We spoke with Dr. Masakazu Yamaguchi, director of the hospital's Pharmacy Department, and Dr. Yasuhiro Nakano about how the hospital, which specializes in oncology, is making use of FINDAT.



Dr. Masakazu Yamaguchi
Director of Pharmacy Department

Dr. Yasuhiro Nakano
Pharmacy Department

Introducing FINDAT has made it possible to move forward with creating formularies

Q Please tell us how you came to introduce FINDAT at the hospital and what your impressions were at the time.

Dr. Yamaguchi I'd heard reports from other hospitals that had adopted FINDAT, so in July 2021 I received an explanation about the platform together with a staff member from the Drug Information Office.

After a trial use, we officially rolled out the platform in May 2022.

Dr. Nakano One of my annual goals every year was to create a formulary. But all of our staff members have multiple responsibilities and are very busy, so in practice it was difficult for me to create a formulary on my own. But after hearing the explanation about FINDAT, I thought, "If standard formularies have been developed to this extent, maybe we can finally create our own in-house formularies."

Q What was the reaction from other departments when you decided to introduce FINDAT?

Dr. Yamaguchi Our hospital has a committee in which the various departments give explanations and make budget requests for equipment maintenance and new system purchases for the coming fiscal year, and I included the FINDAT platform on the list for the Pharmacy Department. When I did, the doctors on the committee said, "As a hospital, don't we actually need this kind of system?" The response to FINDAT was much more positive than I'd expected, so the rollout went ahead smoothly.

Q Who uses FINDAT at your hospital and how do they use it?

Dr. Nakano Both pharmacists like me who work in the Pharmacy Department in charge of drug information services and pharmacists who work in the wards use FINDAT on a daily basis. As a hospital that specializes in oncology, our patients don't just come from the greater Tokyo metropolitan area—many travel from quite far away, and they bring a wide array of medications with them. If we simply purchased ad hoc all the drugs patients bring with them, we would quickly build up a huge volume of obsolete stock. So, we often suggest alternative drugs. That's where FINDAT comes in handy.

Q What areas do you frequently propose alternative drugs for, and in what ways do you use the platform?

Dr. Nakano Most often, we use the platform when we want to switch out drugs prescribed for patients' existing illnesses to the drugs we use at the hospital. Patients have often taken certain medications over a long period of time, and many want to continue taking the medications even after being admitted to our hospital.

But in many cases, the drugs patients bring with them are not what we use here. So, our pharmacists have to explain to doctors and their patients that the alternative drugs can be used without any problems. The information we get from FINDAT serves to back up such explanations, helping pharmacists make their case. The platform contains a compilation of evidence that has been carefully screened, and I feel this helps pharmacists have confidence and be more persuasive when giving explanations.

Creating in-house formularies by therapeutic class to support standardized treatments

Q What kind of progress are you making regarding the creation of formularies, which was an initial challenge?

Dr. Nakano Using FINDAT, we have created formularies for insulin preparations and HMG-CoA reductase inhibitors*, and have publicized these throughout the hospital by posting them in the electronic medical records.

Dr. Yamaguchi We're a hospital that specializes in oncology treatment. So, we are taking advantage of the formularies to standardize treatment in other areas. If this results in a reduction in the amount of discarded drugs, I believe this will also satisfy the original purpose of the formularies.

Hope for FINDAT to play a greater role as a trusted third party

Q Are there any situations in which FINDAT can be useful in the oncology field?

Dr. Nakano New research results are constantly emerging in oncology and information is updated rapidly. So, it might be difficult for FINDAT to handle information beyond what is publicly available.

However, I think most FINDAT users access the platform because they want to know the clinical status of drugs.

For example, with FINDAT, we were able to confirm how much data was available about the usefulness of a newly developed anticancer drug and, conversely, what kind of data was not available. In terms of a drug's efficacy, being able to confirm when there is no data available is also very important in providing evidence-based treatment.

Q Finally, please tell us what you expect from FINDAT going forward.

Dr. Nakano I think if pharmacists can hone their ability to check drugs by using objective, neutral opinions and knowledge provided by a third-party organization like FINDAT, independent of regulatory authorities, this could help raise the quality of drugs in general.

*HMG-CoA reductase inhibitors: Drugs that suppress cholesterol synthesis in the liver, primarily lowering the amount of LDL cholesterol in the blood and preventing arteriosclerosis.

Full text of the interview (Japanese only)

<https://info.findat.jp/case/>

Information Provision and Consulting Business

Japan Medical Research Institute Co., Ltd.

We established Japan Medical Research Institute in 2012 as an information service and consulting company, to capitalize on the valuable information resources of the Nihon Chouzai Group in contributing to the medical and pharmaceutical industries and to society at large.

Based on information resources cultivated among Nihon Chouzai Group companies, we contribute to the sound development and growth of the pharmaceutical industry and provide valuable information services to help improve the lives of people in Japan.



Message from the Business Manager

Looking Back on FY2023

As a member of the Nihon Chouzai Group, we have leveraged our strengths as a group of data scientists with medical expertise to develop information services with a commitment to swiftly delivering high-quality, up-to-date information.

In recent years, along with the increase in anticancer drugs, drugs to treat rare diseases, and other highly specialized drugs, the information pharmacies can offer has grown in importance. To address this trend, we have augmented our hybrid information services, combining pharmacy-based promotional services with prescription data analysis. We provide these services to companies in the healthcare field.



Atsuhiko Hashizume
President and CEO
Japan Medical Research
Institute Co., Ltd.

Moreover, the Japanese government's 4th Healthcare Cost Optimization Plan, launched in 2024, calls for the creation of formularies and the establishment of biosimilar targets. In response, we developed a new analysis service that draws on formulary information held by the Group, and have started offering this service to insurers.

Initiatives for FY2024, Mid-Term Issues and Initiatives with a View to the Long-Term Vision

We will work to enhance the value of our prescription data by utilizing the various analytical technologies that have evolved in recent years, including machine learning, deep learning, and natural language processing. This will make it possible to analyze qualitative information, such as medical histories, that was previously technically difficult to handle. We will gain new knowledge by combining this with quantitative information on prescription drugs, which will position us to provide more appropriate information to patients and more useful data to companies in the healthcare field.

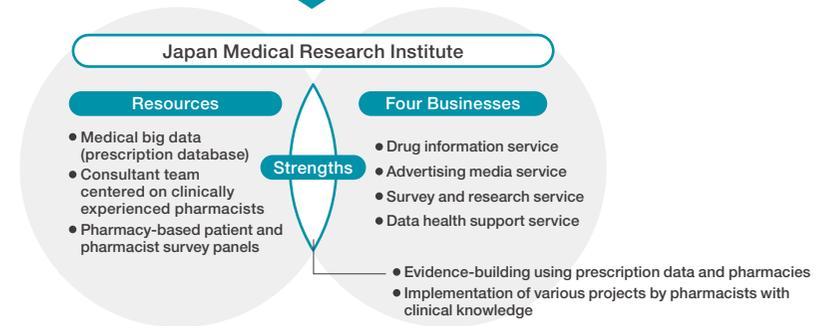
In addition, the data health environment for insurers is changing dramatically in Japan, due in part to the introduction of health insurance cards linked to a national identification system. We are developing a new data health support business to address these changes.

We will continue to focus on human capital management and health and productivity management, cultivating personnel that can straddle the roles of medical professionals and data scientists. We will also move forward in building a framework that will allow us to provide comprehensive services, ranging from highly accurate analysis to problem solving, and shore up the foundation for making our long-term vision a reality.

The Process of Value Provided

Demand from Society

- Government** Optimizing medical expenses, differentiating functions, optimizing medical consultation behaviors
- Medical and healthcare companies** Containing new drug development costs, gathering prescription data, identifying and supporting proper drug use, disease awareness, product sampling and surveys
- Insurers** Ensuring appropriate medical expenses, preventing damage to health, health promotion, disease prevention and prevention of progression



The Value We Provide to Society and Stakeholders

- Providing empirical data on drug use**
Offering anonymized and statistically processed prescription data held by Nihon Chouzai
- Providing a point of contact between patients and healthcare companies**
Providing various advertising media, surveys, and other promotional opportunities at Nihon Chouzai pharmacies
- Optimizing medical expenses**
Visualizing medical data such as trends in duplicate medications and overprescribing and in generic drug use; proposing effective response measures

Services Contributing to ongoing healthcare optimization through four services

- 1 Drug information service**
Analyzes the wealth of prescription information of Nihon Chouzai pharmacies throughout Japan to address issues of customers in the pharmaceutical sector.
- 2 Advertising media service**
By offering an array of advertising media throughout the patient flow from entering to leaving a Nihon Chouzai pharmacy, generates points of contact between pharmacy visitors and the pharmaceutical and healthcare sectors.
- 3 Survey and research service**
Addresses a wide range of issues through questionnaires and other outreach to patients visiting Nihon Chouzai pharmacies, pharmacists, and registered dietitians at pharmacies.
- 4 Data Health Support Service**
Pharmacists with extensive clinical and data analysis experience support high-level data health projects, such as addressing problems related to medication, preventing progression, and supporting health awareness.

Case Study Interview

Pharmaceutical Affairs Division, Medical Affairs Bureau,
Health and Medical Affairs Department, Ibaraki PrefectureEstimating the Effect of Introducing Regional
Formularies in Ibaraki Prefecture, Analyzing
Impact of Biosimilar Substitutions

Commissioned by Ibaraki Prefecture, we conducted an estimate and analysis of the current use of generic drugs and biosimilars in the prefecture and the impact, in terms of lowering drug costs, of introducing regional formularies. The results of our analysis offer basic information to help the prefecture promote the use of generic drugs. Our analysis of the regional formularies targeted proton pump inhibitors (PPI-P/CAB) and angiotensin receptor blockers (ARB)—the use of alternatives for both of these drugs holds the promise of lowering drug costs significantly. We conducted the analysis assuming the replacement of these drugs with the drugs of choice recommended in the standard formulary (FINDAT) currently used for the regional formularies of the Koga and Sashima districts in the prefecture.

Q Tell us what led you to estimate the effect of introducing the regional formularies and analyze the impact of biosimilar substitutions.

A significant factor was the national trend toward promoting the use of biosimilars (biological drugs highly similar to already approved biological drugs), accompanied by moves to set value-based targets in addition to the existing volume-based targets. On September 30, 2024, the Ministry of Health, Labour and Welfare (MHLW) formulated a Roadmap for the Proper Use of Generic Drugs Based on Ensuring a Stable Supply. The roadmap sets out several targets by the end of FY2029: 1. increasing the share of generic drugs to 80% or more by volume in all prefectures while maintaining a stable drug supply; 2. ensuring that the number of active ingredients consisting 80% or more of biosimilars accounts for 60% or more of all active ingredients; and 3. increasing the share of generic drugs to 65% or more by value.

MHLW's 4th Healthcare Cost Optimization Plan, revised on July 20, 2023, also clearly calls for effective initiatives on the part of prefectures to optimize healthcare costs. It points to two steps in particular: supporting efforts to notify patients of drug price differences by grasping and analyzing data on the proportion of drugs used, categorized by efficacy; and publicizing the use of formularies.

Ibaraki Prefecture carried out a questionnaire on public awareness of biosimilars on the FY2023 Ibaraki Net Monitor online platform. The survey found that, while over 90% of people knew of or had used generic drugs, around 90% did not know about biosimilars. Even among people who are using biodrugs, the percentage of those who knew about biosimilars was only around 40%. It was clear that, although awareness of generic drugs among residents of the prefecture is high, awareness of biosimilars remains low.

Given this situation, while continuing to educate prefectural residents, we felt it was also necessary to raise awareness among healthcare professionals about formularies and the promotion of biosimilar use. This was the thinking behind our request for an analysis to accurately gauge the current situation in the prefecture and explore effective approaches.

Q We understand that you explained this initiative to the relevant organizations ahead of time.

We gathered together experts to form working groups on promoting the use of generic drugs in Ibaraki Prefecture. After proposing the survey to the working groups, we decided to commission Japan Medical Research Institute in FY2023 to compile statistics on the promotion of generic drug use*.



Pharmaceutical Affairs Division, Medical Affairs
Bureau, Health and Medical Affairs Department,
Ibaraki Prefecture

Population of Ibaraki Prefecture: 2,812,901
(As of April 1, 2024)

In terms of "promoting the efficient provision of healthcare", we will strive to optimize healthcare costs through the use of generic drugs and biosimilars, ensure proper medical consultations and drug prescriptions, and take other steps to efficiently provide healthcare. To this end, we will work to raise awareness among residents and medical professionals in the prefecture to gain a better understanding of the issues.

Excerpt from the 4th Ibaraki Prefecture Healthcare Cost Optimization Plan

Q Having estimated the effect of introducing the regional formularies and analyzing the impact of biosimilar substitutions, did you detect any impact from either initiative?

We found that, if we introduced regional formularies and completely replaced existing drugs with the drugs of choice in the standard formulary, in terms of value, the share of generic drugs would rise from 53.9% to 65.3%—a difference of 11.4%—even if we only replaced the two therapeutic classes mentioned earlier. So, we estimated that we could reach our target of 65% or more. We realized that the spread of initiatives to introduce regional formularies in the prefecture would contribute markedly to increasing the share of generic drugs in terms of value. We were reminded of the significance of such formularies. We also estimated that the switch to formulary drugs could yield a cost savings of up to 1,393.3 million yen (over a 12 month period). The analysis of the impact of biosimilar substitutions provided us with basic information in considering how to approach the issue of active ingredients in drugs that have not yet met their targets, allowing us to gauge current usage of each ingredient.

Q Current social trends will necessitate various actions to gradually promote formularies and replace existing drugs with biosimilars. To gain public buy-in, what steps do you plan to take going forward to better raise awareness of these issues among relevant organizations and medical institutions?

In addition to sharing the results of the analysis with relevant organizations, we plan to carry out a survey, mainly among core hospitals in the prefecture, to find out where they stand with regard to introducing formularies and what kind of support they would like to see from the prefecture. We are also considering holding lectures by experts to showcase examples of the various initiatives taken by individual medical institutions based on analytical data, as well as case studies of the introduction of regional formularies. We will explore ways of putting these initiatives in place through ongoing discussions by two committees in the prefecture—the Working Group on Promoting the Use of Generic Drugs and the Generic Drug Use Promotion Review Committee—both of which are made up of people recommended by relevant organizations, insurer associations, and other groups.

*Details on the FY2023 Compilation of Statistical Information on the Promotion of Generic Drug Use

Commission Analysis of prefecture as a whole, by secondary medical area, and by medical institution

- (1) Estimate of healthcare cost reduction effect from introduction of regional formularies and trends in share of generic drugs
- (2) Analysis of the healthcare cost reduction effect of switch to biosimilars, survey of current situation

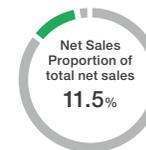
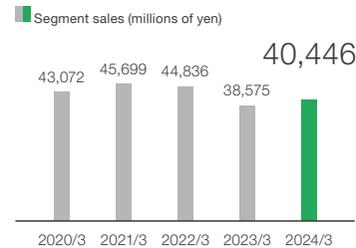
Pharmaceutical Manufacturing and Sales Business

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

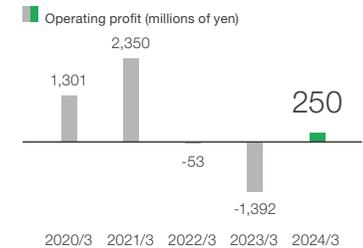
Nihon Generic was established in 2005 to provide high-quality generic drugs. Ever since, we have been providing generic drugs to medical institutions and pharmacies across the country. Taking advantage of our synergies within the Nihon Chouzai Group, we plan new drugs that reflect feedback from patients and pharmacies. In our manufacturing, trained staff use state-of-the-art equipment to ensure rigorous quality control in line with strict Good Manufacturing Practice (GMP) rules, so that patients can use our drugs without worry.



Net sales



Operating profit



Message from the Business Manager



Masahiro Inoue
President and CEO
Nihon Generic Co., Ltd.

Q Looking Back on FY2023

The Pharmaceutical Manufacturing and Sales Business faced two major challenges in FY2021: a fire at the West Japan Logistics Center used by Nihon Generic, and administrative disciplinary action taken against Choseido Pharmaceutical based on the Pharmaceuticals and Medical Devices Act. Even in this context, we continued to steadily gain new business, mainly in relation to drugs manufactured in-house and new drugs. Our operating profit was able to recover to 250 million yen as a result. Along the way, we also sought to steer the business away from manufacturing a wide range of generic drugs in small volumes, narrowing down the lineup of the drugs we sell from 681

items (FY2019) to 516 items (FY2023). We will continue to move forward on this trajectory, while striving for more efficient manufacturing, distribution, and management.

We regret to report that improvement efforts at some Choseido Pharmaceutical plants have fallen short of the business improvement plan that was in place. Choseido Pharmaceutical has now revised its improvement plan with the help of outside experts. Going forward, Nihon Generic and Choseido Pharmaceutical will join forces to become key manufacturers in the generic drug industry.

Q Initiatives for FY2024, Mid-Term Issues and Initiatives with a View to the Long-Term Vision

Nihon Generic is steadily honing its R&D capabilities and improving its manufacturing technologies. New products are truly the driving force behind our growth—in FY2023 we exclusively launched two new active ingredients, and continue to ensure a stable supply of these products. In particular, EzeAto Tablets JG have been well received in the market. In August 2024, we also obtained manufacturing and sales approval for EzeRosu Tablets JG, which has the same efficacy, and began sales in December of the same year. The drugs Nihon Generic develops and manufactures have also received high praise from pharmacies, medical institutions, and other customers. We plan to take a leading role in the industry by proactively increasing production efficiency and ensuring the quality of the drugs we develop and manufacture in-house. One step is the roll-out of a manufacturing management system tailored to generic drug manufacturers. We will also explore a continuous production system, a new manufacturing technology, to further increase market penetration of the JG brand.

Three strengths

Value-added product development capabilities

Having pharmacies within the Group allows us to develop drugs that incorporate the perspectives of patients and healthcare professionals. For example, we are trying to differentiate our generic drugs from those of other companies by offering added value, such as changing the size or flavor of a drug to make it easier for patients to take.

Additionally, by printing the name and volume of active ingredients on tablets, we are making drugs easier to identify and developing formulations that are easier to use in clinical settings.

Reduced procurement costs

Building on the foundation of our drug sales to Nihon Chouzai, we have a stable network of sales channels, including to customers outside the Group, which enables us to secure a certain volume of sales.

Being able to produce large quantities of drugs for medical institutions both within and outside the Group makes it possible to lower procurement costs for drug substances and materials. Through our website, we also disclose the country of origin of drug substances and the companies that manufacture and sell them, as part of our commitment to responsible procurement.

Capacity control

Our leading-edge plants and equipment enable low environmental impact and support high productivity. Equipped with the requisite manufacturing facilities and testing equipment, we are working to optimize the allocation of drugs between plants and automate production. We are committed to producing high-quality drugs under a manufacturing management and quality control framework that complies with revised GMP regulations.

Growth strategy

Strengthening In-House Manufacturing Capabilities

P.48

Ensuring Stable Supply

P.49

Initiatives to Improve Quality

P.50

Strengthening In-House Manufacturing Capabilities

Ongoing New Product Development Showcases Nihon Chouzai Group Synergies

With both a Dispensing Pharmacy Business and a Pharmaceutical Manufacturing and Sales Business, the Nihon Chouzai Group is motivated to develop generic drugs in house that reflect realities on the ground in the healthcare field, to address the needs of the 3,843 pharmacists staffing our pharmacies. To meet the needs of these pharmacies, which are the largest users of our drugs, we aim to develop a wide range of drugs without specifying certain disease areas, which allows us to accumulate the latest technology and expertise. We actively file patent applications for technologies obtained through our R&D activities while publicizing the results of new developments.

Moreover, because we can anticipate sales volumes to the Group's Dispensing Pharmacy Business in advance, we can forecast returns on investment from our drug development and realize efficient development planning. We will pursue effective R&D activities as we navigate annual NHI drug price revisions and an increasingly challenging earnings environment.

Continuous in-house development of new products

Under an increasingly stringent drug pricing system, achieving dramatic growth with existing drugs alone is difficult. Nihon Chouzai thus conducts R&D based on the notion that the ongoing launch of new drugs is essential for growth. We carry out R&D activities in a planned way both to avoid missing out on the timing of NHI drug price listings and to stay abreast of other companies launching generic drugs with the same active ingredients. Our focus going forward will be on carrying out in-house development to ensure that we can steadily bring new drugs to market that can become growth drivers.

Drugs Recently Developed In-House

Launched in FY2022

Dasatinib Tablets JG, Febuxostat Tablets JG, Escitalopram Tablets JG, Ramelteon Tablets 8mg JG



Launched in FY2023

Azilsartan Tablets JG, Sildenafil Tablets RE JG, EzeAto Tablets JG, Ambrisentan Tablets JG



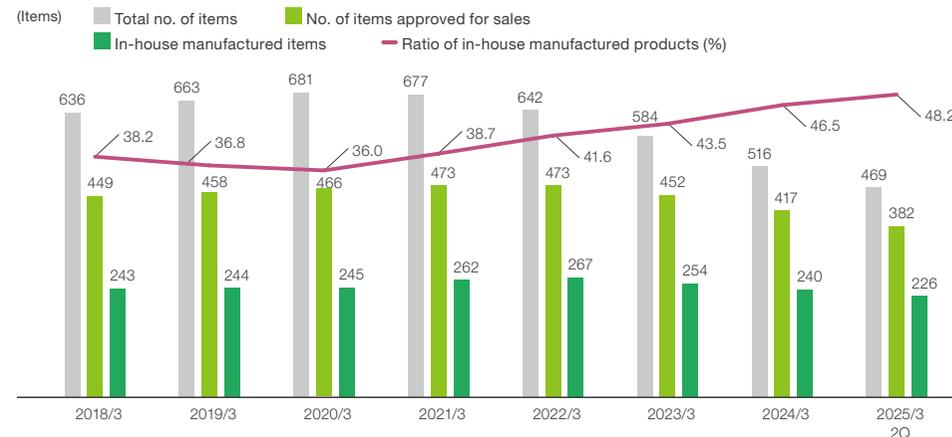
Increasing the Proportion of Drugs Manufactured In-House

We are shifting our strategy from expanding the drug lineup with an emphasis on sales to optimizing the drug lineup with an emphasis on stable supply. Given the relative ease of controlling costs for drugs manufactured in-house, we can expect to boost profitability by means of process improvements and increasing the scale of manufacturing. We see sales growth temporarily slowing down due to the discontinuation of in-licensed drugs and other drugs manufactured by outside companies. Going forward, however, we will continue to work toward significantly expanding the proportion of drugs manufactured in-house, which has now risen to 48.2%.

Shifting Outsourced Production to In-House

We are also exploring the in-house production at Group plants of drugs currently outsourced to other manufacturers, for which Nihon Chouzai already has manufacturing and sales approval. Producing these drugs in-house will enable us to shorten production lead times, respond more agilely to market demand, and boost profit margins.

Proportion of drugs manufactured in-house



Ensuring Stable Supply

Initiatives to ensure stable supply

To address recent instability in the supply of generic drugs, we are reviewing production plans over the medium term and adjusting to market demand. Although COVID-19 and recent international developments have lengthened lead times for the supply of drug substances and materials, we are working to secure inventories, taking various risks into consideration.

Plant Investment

The product portfolio of each plant is changing year by year with the launch of new drugs, transfers of drugs between manufacturing sites, and our efforts to shift outsourced production to in-house. Amid these changes, we continue to invest in the optimal equipment configuration for each context. We are also adding production lines as needed to enable us to manufacture more formulations. Plant equipment is basically made-to-order by equipment manufacturers, and manufacturing sometimes takes years. We have created forward-looking investment plans by working backwards from the production plans of our plants down the road so that we can roll out new equipment at the appropriate time. In addition, when making plant investments, we carefully consider the likelihood of recovering investments and strive to realize investments that are efficient.

Production Efficiency Capitalizing on the Characteristics of Each Plant

The Group has five plants. To ensure a stable drug supply, we are reviewing the manufacturing site for each product to create an optimal production framework for the Group as a whole. Increasing the amount of a drug that can be manufactured at one time will feed into greater production efficiency. In addition to enabling more efficient production planning for 226 products the Group manufactures, we also expect to bring down manufacturing costs.

The production framework of Nihon Generic centers on two locations: the Tsukuba Plant, which handles the production of a wide range of drugs in small quantities, and the Tsukuba Plant No. 2, which handles large-scale production. By adopting a production framework that capitalizes on the characteristics of each plant, we are working to ensure stable production volumes and enhance productivity.



Tsukuba Plant No. 2

Securing and Cultivating Human Resources

We are hiring and cultivating human resources with the aim of boosting production volume and improving operating rates at our plants. A larger workforce will make it possible to build a stable shift-based production framework. In addition to hiring new graduates, we also continue to hire mid-career employees who already possess the skills needed to work. We are also focusing on education, centered around on-the-job training, so that the people we hire can play an active role as soon as possible.



Establishing a Supply Framework

To improve our logistics services, we have located logistics centers in eastern and western Japan and in Sapporo, in Hokkaido. These three bases enable us to smoothly make wide-area deliveries. Furthermore, we have secured ample space for inventory management to support stable supply, anticipating the need to handle large-scale shipments. We have thus put in place a robust framework to ensure the smooth delivery of high-quality generic drugs to customers and patients across the country.



East Japan Logistics Center



Initiatives to Improve Quality

Rigorous Quality Control

To deliver a stable supply of generic drugs to patients, we are working to produce high-quality drugs under a manufacturing control and quality control framework that complies thoroughly with GxP* government regulations. We have introduced a system to ensure proper manufacturing and quality control. In addition, we are practicing quality risk management, setting quality targets based on our Quality Policy, and carrying out regular education and training for all employees at manufacturing sites, including in the manufacturing and quality departments. We pursued even more thorough-going quality control measures in FY2024, while also actively taking part in initiatives of the Japan Generic Medicines Association and working to help raise the level of quality across the generic drug industry as a whole.

* Abbreviation of Good x Practice. A general term for standards established by government agencies for the purpose of ensuring safety and quality. Includes GMP, GVP, etc.

Response to Manufacturing Management Deficiencies at Choseido Pharmaceutical

Choseido Pharmaceutical has formulated a business improvement plan with the help of outside specialists familiar with the Act on Quality, Efficacy and Safety Assurance of Drugs and Medical Devices (Pharmaceutical Affairs Law), and is working to establish and maintain a quality-conscious framework, including a review of its management structure.

Please see the following discussion for details. <https://www.choseido.com/>

FY2024 Quality Targets

1 Fostering a quality culture

Emphasizing quality, raising compliance awareness, enhancing education and training, ongoing communication from management, etc.

2 Maintaining, managing approval documentation that matches actual manufacturing conditions

Confirming consistency in GMP audits and request forms, eliminating inconsistencies through proper regulatory procedures, properly evaluating change management, etc.

3 Practicing quality risk management

Appropriately managing suppliers of drug substances, raw materials, drugs, etc., complying with elemental impurity guidelines, evaluating and managing mutagenic impurities, etc.

4 Strengthening the framework for delivering quality information to medical institutions and patients

Strengthening the ability to respond to inquiries related to manufacturing and quality, etc.

5 Ongoing improvements to a robust quality control system

Making QQP arrangements that reflect revised GMP regulations, revising drug quality manuals, exploring introduction of a document management system, etc.

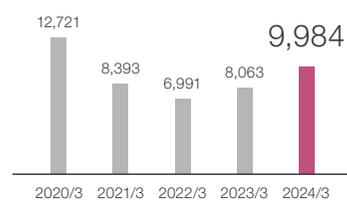
Medical Professional Staffing and Placement Business

Medical Resources Co., Ltd.

Medical Resources' basic approach to business is to do everything with integrity, recognizing that we work with people. We thus value face-to-face meetings with job seekers and job providers. Meeting in person allows us to grasp nuanced needs that are hard to convey over the telephone or in writing, and to craft proposals that match the needs of both job seekers and job providers.

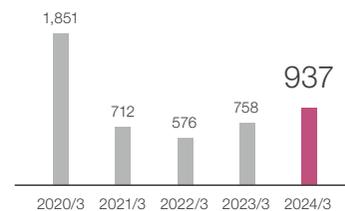
Net sales

■ Segment sales (millions of yen)



Operating Profit

■ Operating profit (millions of yen)



Message from the Business Manager

Q Looking Back on FY2023

Although demand for services related to COVID-19 vaccinations tapered off, demand was brisk in our mainstay businesses of staffing and placing pharmacists and placing occupational doctors and other doctors, feeding into solid performance.

In terms of the various businesses, demand in the pharmacist staffing business remained firm, mainly among small and medium-sized pharmacies, while sales in the pharmacist placement business were up amid a more favorable operating environment.

In the doctor placement business, although work related to COVID-19 vaccinations dropped off dramatically, we tapped into steady demand for full- and part-time doctors and the need for temporary assignments, generating significant growth in contract volume.

To meet burgeoning corporate demand for health and productivity management, we developed services in the healthcare field, which is fueling steady growth in the occupational doctor business.

Q Initiatives for FY2024, Mid-Term Issues and Initiatives with a View to the Long-Term Vision

It is critical for the stable growth of the business to pursue a strategy of maintaining a competitive edge over other companies in the mainstay pharmacist business. We will carve out greater market share in this area by shoring up our client base and raising brand awareness.

Among existing businesses, we view the doctor and nurse placement businesses as drivers of growth. At present, we are channeling most of our efforts into the doctor placement business and will significantly hone our sales capabilities and ability to attract new clients in this area.

Due to the large scale of the market, the nurse placement business is highly competitive. I see our path forward in this area to involve translating Medical Resources' strengths into a robust brand and building market presence, gaining client loyalty by offering services they can experience and appreciate. I believe we have a good chance of succeeding.

I also see substantial room for growth in the healthcare field. As Japan's falling birth rate continues to cause contraction in the working population, we project that companies will ramp up their efforts to manage human capital and enhance engagement. To tap into this movement, we will make a concerted effort to boost investments in innovation and acquisitions in the healthcare field. Another issue I consider to be of critical importance is digital transformation centered on improving usability, including offering customer-oriented user interfaces and user experiences and leveraging our database. Along with heightening the accuracy of our AI-based matching, we will aim to dramatically increase sales.

Four Strengths

A wealth of knowledge and expertise specialized in the healthcare industry

Specializing in the healthcare industry allows us to cultivate outstanding talent. Because we have accumulated a wide range of information, we can also deliver high added value to both job seekers and job providers.

Providing consistent services for job seekers and job providers

We value face-to-face meetings and dialogue with both job seekers and job providers because this allows us to accurately grasp needs on both sides and tailor information to the actual context of clients. The result is superlative matching quality.

A pool of healthcare personnel candidates and a network of relationships

We are building up a pool of medical personnel candidates by offering extensive, up-to-date information on job markets as well as a range of content needed for both study and work. Through this approach, combining online and offline strategies, we have been able to build relationships and increase registrations for our matching services.

Doing everything with integrity, recognizing that we work with people

At Medical Resources, people are our capital, and in a business where the main focus is on people, our employees act with integrity in all their dealings with clients and continue to grow by embracing the values of daily taking on new challenges, collaborating, and exceeding expectations.

Philosophy of Medical Resources (Japanese only)

<https://www.medical-res.co.jp/company/philosophy/>

Growth strategy

Setting Medical Resources apart from the Competition

P.53

Evolving to a Next-Generation Healthcare Model

P.54

Setting Medical Resources apart from the Competition

The Value Medical Resources Provides

Raising brand awareness to maintain a competitive edge

Specializing in the healthcare industry allows us to cultivate outstanding, highly specialized consultants who provide high added value to both job seekers and job providers.

We will raise brand awareness both inside and outside the Group in a way that our clients can experience and appreciate the services and quality that only Medical Resources can provide.

With a client-oriented mentality that stresses the value offered by intermediary services, we aim to be a company that clients trust and continue to choose.

Reinforcing our ability to attract healthcare professionals

As in other industries, needs in the healthcare HR market are growing increasingly diverse, driven by factors such as diversifying working styles and the need to correct regional disparities in healthcare, and the career change market continues to thrive.

In this context, in the wake of the COVID-19 outbreak, we significantly revamped our web marketing strategy, creating our own unique points of contact with clients by building up a pool of job candidates and forming a network of relationships.

By focusing on enhancing the quality of the interviews and job negotiations we conduct, we are strengthening our relationships of trust with job seekers and job providers.

We are working to build a stronger market presence and raise brand awareness, more broadly publicizing the value of our services, attracting job seekers without competing against other companies, and improving our rate of successful matches. This will be reflected in our performance.

Offering education and added value

Given the dramatic changes in the nature of pharmacies and pharmacists from a decade ago, many pharmacy managers are experiencing a sense of crisis and feel urgently that something needs to change.

Keeping up with this changing environment calls for cultivating employees, but the various issues managers are facing cannot be solved simply by hiring people. Medical Resources addresses these issues in the form of education, turning personnel into valuable human assets through reskilling.

ePractice dedicated pharmacy training platform

ePractice is a dedicated employee training platform for pharmacies.

Through an online platform, employees can learn technical content required of pharmacists, such as pharmaceutical affairs and pathology, as well as non-technical knowledge to help them grow as members of an organization, such as framework management.

ePractice learning areas

- 15 Step-Up training (online curriculum for pharmacists developed by Nihon Chouzai)
- Management (overview of management, coaching, regulatory management, labor)
- Communication (pharmacy customer service, handling complaints, teamwork)
- Industry administration (medical treatment fees, regulations, Pharmaceutical and Medical Devices Act)
- Organizational HR (hiring interviews, organizational training)
- Pharmacy operations (corporate philosophy, pharmacy accounting, dispensing work, digital transformation)
- Marketing (comprehensive community-based care, sales promotion, marketing frameworks)



Evolving to a Next-Generation Healthcare Model

Characteristics of Medical Resources' Businesses

Pharmacist businesses

Supporting recruitment of pharmacists and pharmacology students

Target Pharmacies, hospitals, drug stores, etc.



Medical Resources operates Pharma Staff at 12 locations nationwide, supporting the recruitment of pharmacists by pharmacies, hospitals, drug stores, and other job providers. Since the start of the HR business, the company has emphasized a stance of meeting both job providers and job seekers face-to-face. Its strengths lie in introducing personnel based on detailed interviews and information that cannot be obtained merely in writing or by telephone.

Doctor business

Support for recruiting doctors

Target Hospitals, clinics, health care facilities for the elderly, companies, etc.



Medical Resources has expanded outward from urban to regional areas, mainly in Tokyo, Sapporo, Nagoya, Osaka, and Fukuoka. Staff specializing in the healthcare industry support recruitment activities to meet the increasingly diverse needs of medical institutions.

Nurse business

Support for recruiting nurses

Target Hospitals, clinics, home-visit nursing stations, facilities for the elderly, companies, etc.



Our specialization in different areas is what enables us to support the recruitment of nurses, offering swift placement services. We closely analyze the career change market for nurses based on our extensive track record and experience, further gaining expertise in guiding successful career changes. We have also allocated staff specializing in the healthcare industry who understand the characteristics of each area of healthcare and job seeker trends.

Healthcare business

Outsourcing support for occupational health and health and productivity management

Target Companies, government agencies, health insurance associations, etc.



With over a decade of experience in the occupational health industry, we support the management of occupational doctors and occupational health nurses nationwide. Other support plans include comprehensive support for various health management and healthcare issues, such as support for health and productivity management certification, online consultation services, corporate seminars, stress checks and health management systems, and self-care tools (exercise, sleep, diet).

Registered pharmaceutical seller business

Support for recruiting registered pharmaceutical sellers

Target Drug stores, pharmacies, mass retailers, home centers, etc.



Medical Resources supports the recruitment of registered pharmaceutical sellers with high matching accuracy through a comprehensive service. One of our strengths is that specialists in the healthcare industry handle all stages of recruitment, from dealing with companies to dealing with job seekers.

Vision for the Future

Creating new businesses in the healthcare field

Amid efforts by companies to promote health and productivity management, government efforts to curb healthcare costs, and initiatives to extend people's healthy life expectancy, public awareness of health in Japan is higher than ever. Drawing on our broad pool of healthcare personnel, alongside our growing occupational doctor and occupational health nurse businesses, we will strive to improve the quality and volume of services across the healthcare business field through cooperation with partner companies and acquisitions. In collaboration with Nihon Chouzai, we will also create new end-to-end healthcare services.

Sales growth through the use of AI-based apps and digital transformation

At Medical Resources, people are our capital, and in a business where the main focus is on people, ongoing operational improvements and reforms are particularly vital. We will aggressively invest in

digital transformation to enhance convenience for customers, including rolling out AI-based apps and overhauling our systems. This will allow employees to focus on tasks that call for human involvement and contribute to higher sales by improving customer service.

TOPIC Healthcare Business Division established

We established a new Healthcare Business Division in April 2024. Our vision at Medical Resources is to become a partner in creating the future for people, medicine, and healthcare. Our efforts to realize this vision going forward will center on our core occupational doctor and occupational nurse businesses and business relating to disease prevention and the prevention of illness progression, narrowing our focus to mainly corporate clients.

Building on a pool of doctors and other people involved in occupational health, we will not only catch up to the competition in our existing businesses but also venture out into new services.



A foundation to support value creation

Corporate Governance

Sustainability	Material Issue	56
	Sustainability Management	57
	Special Feature: Initiatives to Contribute to a Carbon-Neutral Circular Economy	59
Corporate Governance	Governance to Support Value Creation	61
	Roundtable Discussion with Outside Directors	65
	Board of Directors	68
Company Profile		70
Data Section	11-Year Summary of Financial and Non-Financial Data	71
	External Evaluations and Participation in External Organizations	72

Recognizing that building a more robust foundation is essential to achieving sustainable value creation and enhancing corporate value, we will steadily put initiatives in place to reinforce our sustainability management and governance.



Material Issue

Six materiality groups Nihon Chouzai Group is addressing

The Nihon Chouzai Group has identified an array of material issues that will help us contribute to a sustainable society and continuously enhance corporate value. We broadly divided these issues into six materiality groups. Based on the issues, we are pursuing actions from the perspectives of both contributing through our business activities and strengthening our management foundation.

• 21 material issues • Processes for identifying materiality

Visit our sustainability site

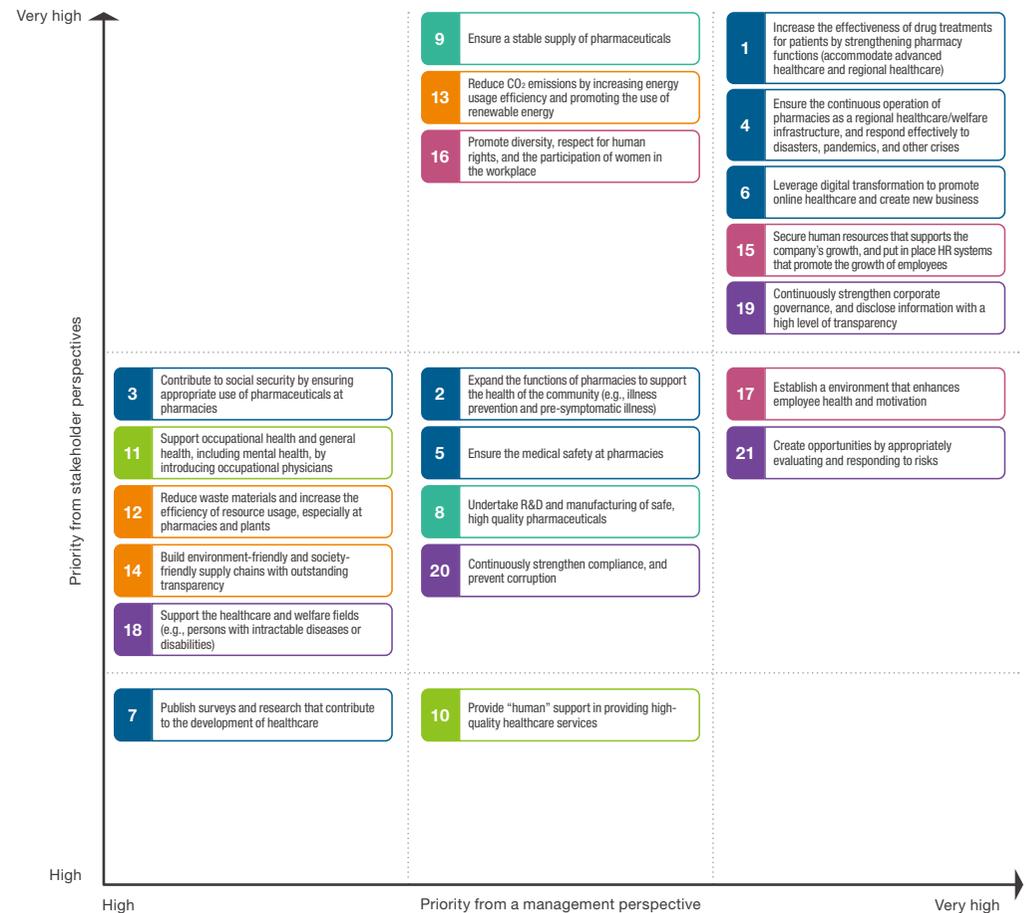
<https://www.nicho.co.jp/en/sustainability/materiality/>

Materiality Group	Approach	Aim	Overview
A Healthcare quality and accessibility	Contributing through business activities	To build a society where everyone has access to high-quality medical care	We are working to strengthen pharmacy functions. Specifically, we aim to support advanced healthcare and regional healthcare as well as illness prevention and pre-symptomatic illness, contribute to social security by ensuring proper drug use, respond to disasters and ensure medical safety, leverage digital transformation to promote online healthcare and create new businesses, and engage in surveys and research.
B Quality and stable supply of pharmaceuticals		To build a society where everyone can use drugs without worry	We will research, develop, manufacture, and ensure the stable supply of high-quality, safe pharmaceuticals.
C Resolving human issues at healthcare institutions		To provide society with talent to support advanced healthcare	We aim to provide human resources to support high-quality healthcare services, and to support occupational health and health in general through the placement of occupational doctors.
D Contributing to a carbon neutral, circular economy	Strengthening our management foundation	To ensure a sustainable natural environment for future generations	We will reduce waste and engage in recycling, lower CO ₂ emissions through the use of more efficient energy and renewable energy, and build environmentally and socially aware supply chains that ensure outstanding transparency.
E Fostering and utilizing a diverse workforce		To foster a corporate environment where all employees thrive	We will work to secure human resources to support the growth of the Group and put HR systems in place to further hone their capabilities. We will also promote respect for human rights, the empowerment of women in the workplace, and diversity, establishing a workplace environment that enhances employee health and motivation.
F Strengthening governance to fulfill social responsibilities		To become a socially responsible healthcare group	We will support the healthcare and welfare fields, such as for intractable diseases and disabilities, strengthen corporate governance and make transparent disclosure, stress compliance and prevent corruption, and create opportunities by appropriately assessing and responding to risks.

Map of Materiality Priorities

Materiality Group

- A** Healthcare quality and accessibility
- B** Quality and stable supply of pharmaceuticals
- C** Resolving human issues at healthcare institutions
- D** Contributing to a carbon neutral, circular economy
- E** Fostering and utilizing diverse workforce
- F** Strengthening governance to fulfill social responsibilities



Sustainability Management

Sustainability Strategy

The Nihon Chouzai Group positions sustainability as a key part of its management strategies for enhancing corporate value over the longer term and is taking action to help bring about a sustainable society.

We took steps in FY2023 to promote the cyclical use of resources as a way of lowering our environmental impact, including converting our pharmacies to LED lighting, recycling discarded blister packs in our Pharmaceutical Manufacturing and Sales Business, and introducing solar power generation at the Tsukuba Plant. As a result of such initiatives to address climate change and our progress in related disclosure, Nihon Chouzai has been selected for two years in a row as a constituent of both the FTSE Blossom Japan Index and the FTSE Blossom Japan Sector Relative Index, which target Japanese companies taking outstanding action in terms of ESG practices.

Longer-term actions will include setting performance indicators to help achieve sustainable growth and enhance corporate value, as well as further sustainability initiatives for the environment and in other areas, starting with measures to address climate change and contribute to a circular economy. As a healthcare group whose mission is to give people the closest possible support, we will continue to help address social issues while realizing corporate growth from a long-term perspective to meet stakeholder expectations.

Sustainability Goals in Long-Term Vision 2035

Challenge	Target	Measures	FY2023 results
Climate change response	CO₂ reductions Scope 1, 2 intensity (compared to FY2020) Dispensing Pharmacy Business: 30% reduction per pharmacy by FY2030 Pharmaceutical Manufacturing and Sales Business: 30% reduction per 100 million tablets produced Carbon neutral by FY2050	Dispensing Pharmacy Business ■ Converting pharmacies to LED lighting FY2023: 100 pharmacies FY2024: 200 pharmacies (planned) CO ₂ reductions 29.9% decrease per pharmacy	
		Pharmaceutical Manufacturing and Sales Business ■ Solar panel installation ■ Introduction of carbon neutral utility gas CO ₂ reductions Per 100 million tablets: 23.7% reduction	
		Pharmaceutical Manufacturing and Sales Business ■ In-house power generation ■ Switch to renewable energy Ratio of renewable energy 4.5%	
Contributing to a circular economy	Waste recycling Expanding recycling targets	Pharmaceutical Manufacturing and Sales Business Targets for mechanical recycling ■ Blister packs ■ Sludge ■ Collecting, recycling, and reusing waste ■ Use of fiber drums Treated waste volume/total waste volume ■ Blister packs: 25.0% (August 2023–March 2024) ■ Sludge: 27.3% (FY2023)	
		(Additional measures for waste recycling)	

Sustainability framework

We pursue sustainability management in line with our basic sustainability policy. The Board of Directors makes decisions regarding material sustainability issues. We have also formed a Sustainability Committee that reports directly to the Board of Directors. Chaired by the President, this committee meets at least twice a year in principle to sum up and evaluate the progress of initiatives for identified material issues, incorporates these issues into business strategies, ensures compliance with international guidelines, discusses taking part in sustainability initiatives, and reports and makes recommendations to the Board of Directors as appropriate. We have also clearly defined various departments responsible for sustainability initiatives, including within Group companies, which are spearheading progress. The Sustainability Supervision Office is tasked with taking action with regard to sustainability issues. The office has established a framework to steadily move ahead with initiatives in conjunction with the various departments.



Sustainability Committee Activities

Sustainability Committee Activities (FY2023)

- Number of meetings: 3
- Main topics of discussion
 - Review of materiality performance indicators
 - Support for TCFD recommendations; calculation and disclosure of Scope 1, 2, and 3 emissions; and exploration of CO₂ reduction measures
 - Gap analysis of sustainability assessment
 - Revisions to Ethical Conduct Guidelines
 - Formulation of Human Rights Policy, Environmental Policy, and Basic Procurement Policy and Supplier Code of Conduct
 - Response to environmental and human rights risks
 - Human capital management

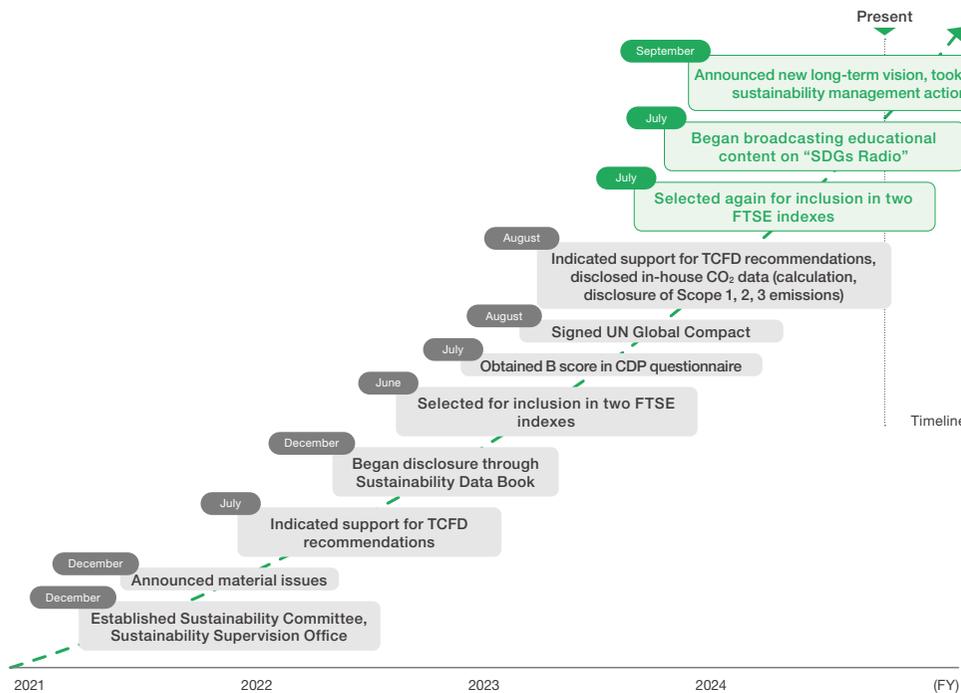
Sustainability Management

Sustainability Management Initiatives

Sustainability roadmap and major future objectives

To continuously enhance corporate value and address societal demands, we are proactively augmenting our governance framework and making disclosure about human capital.

Initiatives to date



FY2024 Initiatives and Results

- Selected again for inclusion in FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index
- Broadcast educational content on "SDGs Radio"
- Announced new long-term vision, took further sustainability management actions

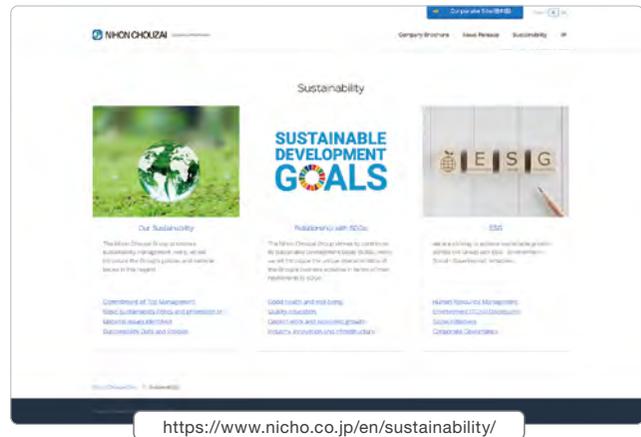
Sustainability disclosure framework

We publish a Sustainability Data Book for the purpose of comprehensively disclosing sustainability information to stakeholders. For details on sustainability management, including our basic sustainability policy and promotion framework, please refer to the following.

Sustainability site content

- Commitment of Top Management
- Basic sustainability policy and promotion framework
- Material issues identified
- Sustainability data and policies
- Relationship with SDGs
- ESG initiatives

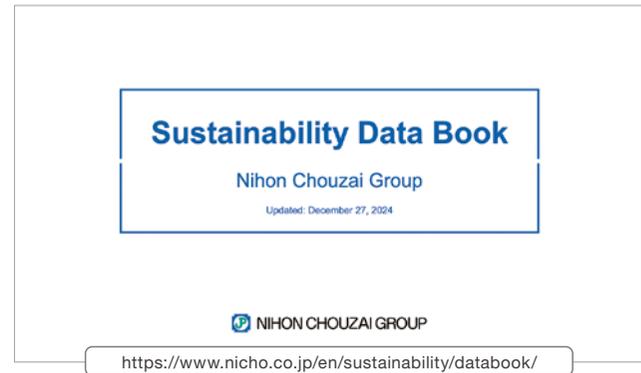
Sustainability website



Data Book Content

- Sustainability management
- Corporate Governance
- Compliance and risk management
- Environment
- Human rights and labor standards
- Supply chain management
- Responsibility to customers
- Local community relations

Sustainability Data Book



Sustainability Management

Special Feature

D Initiatives to Contribute to a Carbon-Neutral Circular Economy

Mechanical recycling of blister packs

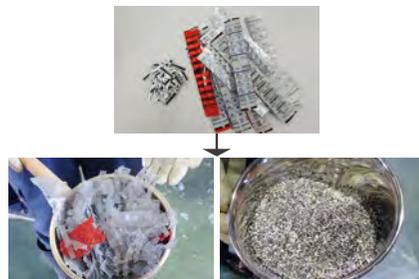
Nihon Generic is working with ORIX Eco Services, an industrial waste disposal company, to recycle blister packs, which are made from a single-layer plastic material. Formerly, blister packs that were no longer needed were disposed of as industrial waste and then incinerated, because it was impossible to separate the plastic and aluminum layers into a recyclable form. Now, drawing on a new technique and equipment that have been rolled out at ORIX Eco Services, it is possible to separate the plastic and aluminum layers of the packs. The plastic can then be used as a raw material for building materials and the aluminum can be melted down and reused in a variety of aluminum products.

Nihon Generic's Tsukuba Plant No. 2 discharged the equivalent of 29.5 tons of discarded blister packs in FY2023, all of which will now be eligible for recycling. Compared to the conventional incineration method, this approach is expected to reduce CO₂ emissions by around 90%.

12

Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants

FY2023 results	Targets for FY2024 and beyond
21,140 kilograms (August 2023–March 2024) (25% of total)	Expand number of participating plants



Mechanical recycling of sludge

Nihon Generic will also start recycling sludge materials in FY2024. Up until now, sludge generated in the drug manufacturing processes was discharged as industrial waste, incinerated at intermediate treatment facilities, and the residue was then disposed of in landfills at final treatment facilities. Now, by drawing on a new technique and equipment that have been rolled out at ORIX Environmental Resources Management, it is possible to recycle gas generated from the waste using a method of chemical recycling called pyrolysis-gasification reforming. Meanwhile, waste that has been dried and treated using pyrolysis and then melted (mechanical recycling) can be separated into slag, metal, metal hydroxide, and other materials and reused for roadbed materials and other applications. In FY2023, of the 30 tons of sludge discharged from Nihon Generic's Tsukuba Plant, nine tons of residue was disposed of in landfills after incineration. With the new recycling method, however, about 85% of waste will undergo chemical recycling (gasification) while around 15% will undergo mechanical recycling, yielding slag, metal, metal hydroxide, and other materials. This approach enables the complete recycling of sludge—it generates no incinerated or fly ash and no waste ends up in a landfill.

12

Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants

FY2023 results	Targets for FY2024 and beyond
46.59 tons (27.3% of total)	Expand number of participating plants



Adjustment of unused drugs

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

12

Reduce waste materials and increase the efficiency of resource usage, especially at pharmacies and plants

FY2023 results	Targets for FY2024 and beyond
Approximately 224.65 million yen	Implement schemes to reduce waste other than unused drugs



Converting pharmacies to LED lighting

Nihon Chouzai has set a goal of reducing CO₂ emissions per pharmacy by 30% by FY2030 (compared to FY2020). After exploring various avenues toward achieving this goal, we opted to convert our pharmacies to LED lighting as one of several initiatives. We have adopted LED lighting in all new pharmacies opened since June 2016. Around 460 pharmacies that opened before that have not yet made the changeover. We will convert these locations to LED lighting in stages to reduce Scope 2 CO₂ emissions while working to cut electricity costs.

13 Reduce CO₂ emissions by increasing energy usage efficiency and promoting the use of renewable energy

FY2023 results	Targets for FY2024 and beyond
Converted 97 pharmacies	Convert remaining 400 pharmacies to LED lighting in stages (200 in FY2024)



Solar power generation

Nihon Generic's Tsukuba Plant has installed solar power generation equipment under a corporate power purchase agreement with Tokyo Century and Kyocera Communication Systems, an in-house power generation support service offered by these two companies in an effort to help achieve the SDGs. The use of renewable energy generated by solar power generation equipment installed on the grounds of the plant will reduce CO₂ emissions by approximately 347.1 tons-CO₂ per year (estimate for the first year of operation). Tokyo Century and Kyocera Communication Systems are covering the startup costs and procedures for this service. In addition, Tokyo Century will donate a portion of the service fees paid by the Tsukuba Plant to NPOs and other organizations taking action to achieve the SDGs.

13 Reduce CO₂ emissions by increasing energy usage efficiency and promoting the use of renewable energy



Scaling down the number of wholesale deliveries

In April 2023, Nihon Chouzai began coordinating with drug wholesalers to scale down the number of drug deliveries to pharmacies. We have harnessed the strengths of our pharmacy chain to conduct more streamlined inventory management, reducing the number of deliveries from two or three times a day to once a day, thus achieving lower CO₂ emissions and more efficient operations. We will continue to engage with business partners to optimize the supply chain.

14 Build environment-friendly and society-friendly supply chains with outstanding transparency

FY2023 results	Targets for FY2024 and beyond
Launched initiative to scale down deliveries from two or three times a day to once	Expand initiative, achieve more optimal order quantities

Governance That Supports Value Creation

Nihon Chouzai's Concept of Corporate Governance

1

Improving management transparency and clarifying

2

Speedy decision-making

3

Strengthening management oversight functions

These three elements are essential to responding effectively to changes in the business environment, ensuring the ongoing soundness of the company, and further enhancing corporate value. Particularly as a corporate group operating in fields that are governed by various laws and regulations, Nihon Chouzai recognizes the critical importance of maintaining robust corporate governance and strict compliance. We are pursuing various measures based on this recognition. Given the scale and nature of our businesses, we determined that being a company with an Audit and Supervisory Committee was the most appropriate organizational form to enable Nihon Chouzai to fulfill its audit and oversight functions and corporate governance responsibilities.

Corporate Governance Framework

In June 2016, we transitioned from a company with a board of corporate auditors to a company with an Audit and Supervisory Committee. We also determined that the Board of Directors should be made up of eight directors (including two outside directors) and three directors who are Audit and Supervisory Committee members (including two outside directors). The role of the Board is to decide on important matters stipulated by laws and regulations and oversee the performance of duties by executives.

The Audit and Supervisory Committee comprises three directors, including two outside directors. They carry out their oversight functions by exercising their voting rights at meetings of the Board of Directors, as well as auditing the performance of duties by directors and preparing audit reports. Moreover, Deloitte Touche Tohmatsu LLC was appointed to be the accounting auditor for the company to ensure proper accounting and management transparency.

Current Status of Board of Directors Operation

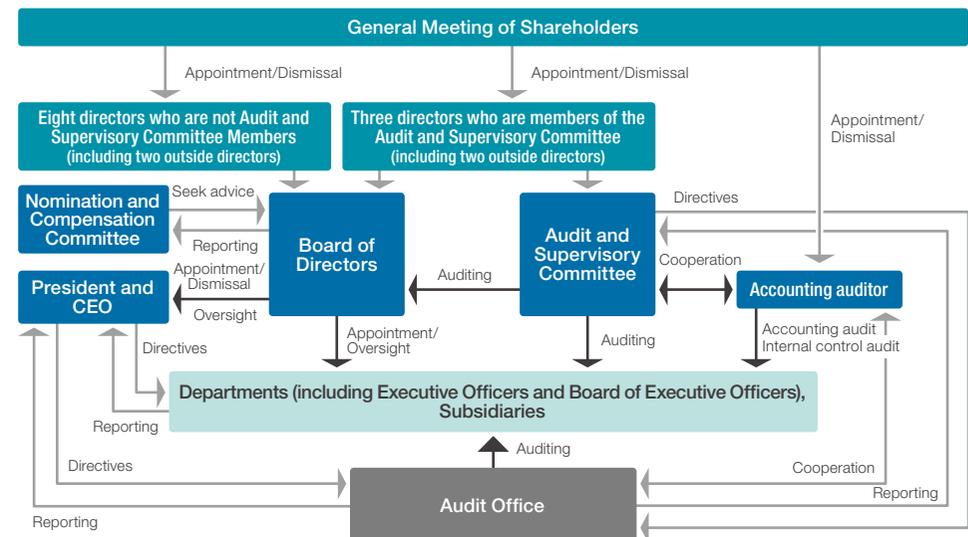
Activities in 2023

The Board of Directors met 14 times from April 1, 2023 to March 31, 2024. In principle, Board meetings are held once a month, or as needed. Officers from Nihon Chouzai also sit in on the Board meetings of group companies and take other actions to reflect the group as a whole in Board discussions. Audit and Supervisory Committee meetings are held separately.

Board of Directors Meetings and Key Topics of Deliberation

Frequency	In principle, once a month or as needed
Meetings Held	14 (April 1, 2023– March 31, 2024)
Key agenda items and resolutions for the Board of Directors for FY2023	<ul style="list-style-type: none"> ■ Decision to begin exploring revisions to long-term vision and announce medium-term management plan ■ Consolidated and non-consolidated results, financial standing, etc. ■ Pharmacy openings and closings (including acquisitions) in Dispensing Pharmacy Business, response to fee revisions ■ Decision to relocate head office to pursue better human capital management and reduce SG&A expenses ■ Progress of next-generation dispensing system, budget, etc. ■ Discussion of governance framework based on engagement reports from institutional investors ■ Start of new personnel system at Nihon Chouzai ■ Revision of sustainability guidelines and policies, TCFD-based disclosure

Corporate Governance Framework (as of June 25, 2024)



Governance That Supports Value Creation

Analyzing and Evaluating the Effectiveness of the Board of Directors

At least once a year, the Board of Directors conducts an evaluation to improve its effectiveness as a whole.

Process of Evaluating the Board's Effectiveness



Initiatives to address identified issues and evaluating effectiveness in FY2023

The results of an evaluation carried out in May 2024 confirmed that the effectiveness of the Board of Directors has been generally ensured in FY2023.

We took steps in FY2023 to address issues identified through the results of the previous year's evaluation. Discussions during the year focused in particular on the formulation of the new long-term vision, announced in September 2024. In the Board of Directors and other forums, we discussed and considered issues from multiple perspectives, including strategies and performance targets. Moreover, given the importance of bringing diverse perspectives and values into management and among our core personnel, we pursued measures to raise the ratio of female managers, among other initiatives, guided by our action plan. These efforts yielded improvements in the areas of ensuring diversity among core personnel and considering strategy from multiple angles, although these are still recognized as having outstanding issues.

On the other hand, some issues, including securing more time for deliberations and succession planning, are recognized as requiring an ongoing response. We will continue to take steps to address these issues.

Future Initiatives Based on Issues Identified

01 Securing more time for deliberations and consideration of strategy from multiple angles

We introduced an executive officer system in April 2022, aiming to better separate management decision-making and oversight functions from business execution functions and enhance management agility. The system further clarifies the division of roles between the Board of Directors and the Board of Executive Officers, resulting in more focused agendas from the perspective of the separation of oversight and execution. Meanwhile, delegating greater authority to the executive side frees up more time for discussion on longer-term themes at Board of Directors meetings.

We also expanded opportunities for discussions at the management level beyond Board meetings, particularly around longer-term strategies and issues, and are working to secure more time for deliberations and achieve more in-depth discussions. Efforts to secure more time for deliberations in FY2023 involved holding meetings and retreats targeting executive officers, primarily aimed at formulating the new long-term vision and medium-term roadmap.

02 Succession planning initiatives for executives

Members of the Nomination and Compensation Committee will deliberate on the method of framing discussions around succession planning for executives as well as on an objective, transparent screening process. Meanwhile, members of the Board of Directors will deliberate on how information from the Nomination and Compensation Committee should be linked to Board meetings in terms of ideal scope and depth.

03 Consideration of management and the business portfolio with an awareness of the cost of capital, more in-depth discussions from a Group perspective

Some respondents pointed out a lack of adequate discussion around business strategies that take into account the cost of capital and stock prices. Others noted that, while there is in-depth discussion about the core pharmacy business, discussions about the Group as a whole, including business portfolio strategies, are insufficient. Some also recognized issues with the role that the Group head office plays. Taking advantage of opportunities afforded by the revision of the long-term vision, we are currently holding discussions at the management level regarding topics such as a business portfolio that takes capital efficiency into account and investment strategies. We will continue striving to secure time for executive discussions and reinforce our monitoring of progress.

Governance That Supports Value Creation

Executive Compensation System

Basic Policy

- We will set executive compensation at an appropriate level to secure and retain outstanding personnel who act to realize the Group philosophy, motivating them to adequately carry out the roles expected of them in bringing about the sustainable enhancement of corporate and shareholder value.
- Acknowledging that we should be fully accountable to shareholders and other stakeholders, we will work to ensure reasonable, objective, and transparent compensation both in terms of content and the decision-making process.

Compensation Structure

- Outside directors responsible for oversight functions and directors who are members of the Audit and Supervisory Committee: Basic compensation.
- Directors and executive officers responsible for business execution: Basic compensation, performance-based compensation, stock-based compensation (stock ownership plan).
- The ratio of each type of compensation for directors and executive officers responsible for business execution will be determined based on factors such as their position and role and the trends of other companies that have a business scale similar to that of Nihon Chouzai.

Basic Compensation

We determine compensation amounts according to the common basic salary table for directors and executive officers, plus allowances according to position and role, and pay compensation at a fixed time every month. We will establish a basic salary table for each director and executive officer, and will review the table as appropriate based on annual evaluations, length of service, and other factors.

Performance-Based Compensation

To motivate directors and executive officers to contribute to the enhancement of business performance each fiscal year, we will pay bonuses on a fixed date every year, calculated based on the following formulas.

- 01 Directors:**
Profit-sharing method based on consolidated ordinary profit, and target method based on consolidated net sales and operating profit and individual evaluations of each director

- 02 Executive officers:**
Target method based on consolidated net sales and operating income and individual evaluations of each executive officer

Stock-based compensation

To motivate directors and executive officers to share value with shareholders and contribute to the enhancement of longer-term corporate and shareholder value, we will grant shares at a certain term after retirement based on a stock ownership system.

Procedures for Determining Compensation

Compensation for all directors (excluding outside directors and directors who are members of the Audit and Supervisory Committee) and executive officers is determined by resolution of the Board of Directors in consideration of the deliberations and reports of the Nomination and Compensation Committee, of which the majority of members are independent outside directors.

Total director compensation

Executive category	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)			Number of eligible officers
		Fixed compensation	Executive bonuses	Stock-based compensation (Board Incentive Plan Trust)	
Directors (excluding Audit and Supervisory Committee members and outside directors)	209	165	31	12	8
Audit and Supervisory Committee members (excluding outside directors)	14	14	-	-	1
Outside Director	34	34	-	-	4
Total	258	213	31	12	13

1. The amounts of director compensation do not include the employee salaries of directors who also serve as employees.
2. The company has introduced a stock-based compensation plan (Board Incentive Plan Trust). Regarding stock compensation, amounts recorded as expenses during the fiscal year in respect of the Board Incentive Plan Trust for executives are shown.

Cross-Shareholdings

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

		Number of issues	Shares other than unlisted shares
FY2022	Number of issues	1	-
	Amount* (millions of yen)	13	-
FY2023	Number of issues	1	-
	Amount* (millions of yen)	13	-

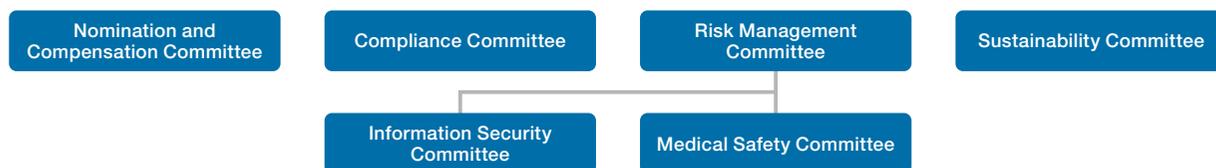
*Aggregate amount recorded on the balance sheet

Governance That Supports Value Creation

Organization and Activities of Internal Control System

Committee Organization

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



Formulation and Dissemination of Rules and Regulations

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

	Purpose	Related departments	Committee operation
Nomination and Compensation Committee	Seeks to strengthen the fairness, transparency, and objectivity of procedures related to the nomination and compensation of directors and executive officers, and further enhance the corporate governance framework.	General Affairs Department, Human Resources Department	Held three times in FY2023 (April 2023–March 2024). Made up of three or more members who are directors or executive officers, the majority of whom are independent outside directors. As an advisory body to the Board of Directors, the committee deliberates on such matters as composition of the Board of Directors, the rationales for appointing directors and executive officers, and the appropriateness of individual compensation amounts, and reports to the Board of Directors.
Compliance Committee	Ensures thorough compliance by defining basic matters related to compliance actions and constructing and properly managing a compliance framework.	Risk Management and Compliance Office, General Affairs Department, System Headquarters, Pharmaceutical Headquarters, Accounting Department, Human Resources Department, Public Relations Department, Audit and Supervisory Committee, etc.	In principle, meets once every three months. In addition to monitoring and reviewing the development and operation of the compliance framework, the committee takes up matters related to the planning and execution of compliance programs aimed at promoting compliance throughout the Group. Specifically, the committee considers the response to relevant business laws, the internal reporting framework, and training programs aimed at fostering employee compliance awareness. Subsidiaries hold similar meetings.
Risk Management Committee	To be aware of risks that may significantly impact the attainment of management goals and corporate sustainability, and to support appropriate judgments and responses to risks, the committee works to promote more sophisticated risk management.	Risk Management and Compliance Office, General Affairs Department, System Headquarters, Pharmaceutical Headquarters, Accounting Department, Human Resources Department, Public Relations Department, Audit and Supervisory Committee, etc.	In principle, meets once every three months. Based on the risk management policy, the committee works to develop and appropriately operate Group-wide risk management. Specifically, it identifies and examines risks based on the internal and external business environment, takes response measures, conducts regular monitoring, and takes necessary action based on circumstances. Subsidiaries hold similar meetings.
Information Security Committee	Promotes information security management, including implementing information security measures and disseminating policy, and constructs and operates a Group-wide information security framework.	System Headquarters, Pharmaceutical Headquarters, General Affairs Department, Human Resources Department, Risk Management and Compliance Office, etc.	In principle, meets once every three months. The committee shares information on measures based on the Security Guidelines for Medical Information Systems published by the Ministry of Health, Labour and Welfare and related laws and guidelines, assesses whether there are any information security violations, examines case studies of cyber security incidents, etc., while holding discussions on countermeasures.
Medical Safety Committee	Promotes appropriate medical safety management and contributes to the safe provision of healthcare.	Pharmaceutical Headquarters (Pharmaceutical Administration Department, Quality Control Department), Risk Management and Compliance Office, General Affairs Department, Audit and Supervisory Committee	The Medical Safety Committee discusses all events related to medical safety management. It also discusses the revision of measures to prevent the recurrence of safety incidents and improve safety.
Sustainability Committee	Aims to achieve sustainable growth and enhance corporate value of the Group over the longer term, while contributing to the creation of a sustainable society through Group business activities.	Group Corporate Planning Department, General Affairs Department, Sustainability Supervision Office, Group companies	Held three times in FY2023 (April 2023–March 2024). Supervises and evaluates the progress of initiatives to address the material issues the Group has identified, builds these issues into corporate and business strategies, ensures compliance with international guidelines, and engages in discussions on participation in global initiatives, reporting to the Board as needed.



Roundtable Discussion with Outside Directors

A New Step Forward for the Nihon Chouzai Group: Current Challenges and Hopes Going Forward

The Nihon Chouzai Group formulated Long-Term Vision 2035 in September 2024, outlining for stakeholders how the Group intends to grow going forward, grounded in a philosophy of giving people the closest possible support.

What is needed for the Nihon Chouzai Group to achieve Long-Term Vision 2035? The four outside directors sat down to exchange their views on where the Group currently stands, their hopes for the future, and outstanding issues, among other topics.

Photo (from left): Mikiharu Noma, Shio Harada, Yoshimitsu Onji, and Tomomi Nakano

After a Sudden Change in Top Management: Continuing to Evolve while Carrying on the Commitments of the Previous President

Onji I was shocked when Yosuke Mitsuahara, the previous president, suddenly stepped down due to health concerns, but I believe he did a wonderful job in the nearly five years since he took over as president in June 2019.

Noma I agree. That's exactly why this abrupt change gave us a lot to think about. I think it caused employees, inside directors, and especially the new President Kasai considerable apprehension.

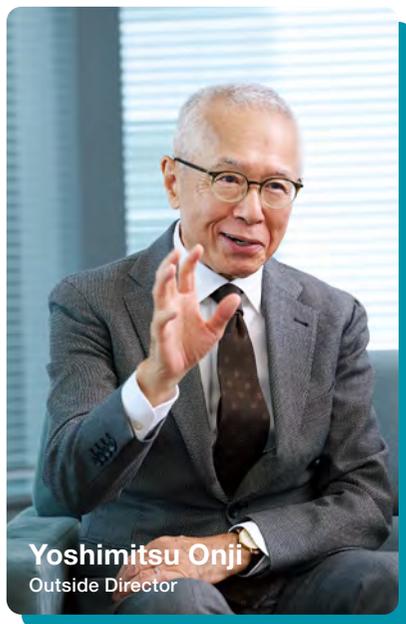
Harada I was personally worried that Group employees would be really shaken up, but I think it was great that President Kasai conveyed a very clear message to them—that of becoming the most vibrant and energetic Group in Japan. President Kasai also went around visiting Nihon Chouzai pharmacies across the country, actively engaging with employees. Thanks in part to his efforts, I think there's been no noticeable disruptions within the Group, and people keep going about their business.

Nakano I became an outside director in June 2024, so I can't make comparisons with the way things were before, but I feel that Board meetings have been very positive. Although we had many serious discussions, President Kasai's positive attitude was apparent, which led me to expect great things from the Nihon Chouzai Group going forward.

Onji We can thank President Mitsuahara's contributions in large part for creating an active Board of Directors where people can exchange opinions freely and frankly. He focused on creating a very lean company, not only in terms of the Board of Directors but also by laying the groundwork for a long-term vision. During his tenure, though, the Group experienced a number of issues, including the discovery of manufacturing management deficiencies at Choseido Pharmaceutical and a fire at a Group warehouse, which surely called for a great deal of effort on his part. This was the context in which this change in leadership came about, but my hope is that President Kasai and everyone involved in the Group will faithfully carry on the legacy President Mitsuahara built up.

Long-Term Vision 2035: A Vision Created by Listening to the Views of Young Employees

Nakano When Long-Term Vision 2035 came out, my impression was that it sets out some very high hurdles for the Group. The Group's current ROE is 4.4%, but the vision calls for raising this to 15% and raising ROIC from 4.8% to 15%. This will be difficult if the Group simply keeps moving in its current direction—such challenging targets will require the Group to incorporate new initiatives. I also



Yoshimitsu Onji
Outside Director

take it that the key will be whether management can effectively instill the vision throughout the Group, persuading all employees that the vision will be hard to realize unless everyone takes a personal stake in the targets and works hard to achieve them.

Harada The Group announced the long-term vision after extensive discussions, lasting about a year and a half. I think the bottom-up approach taken was a smart call—putting next-generation core members at the center of repeated discussions and feeding their opinions back to management. The core members were quite candid. Some of their opinions went well beyond the existing framework that has tended to hold the Group back at times, and these were reflected in the final output. I feel that it was precisely this kind of thinking-outside-the-box discussion that allowed the Group to come out with Long-Term Vision 2035.

Noma The process did indeed take a while, but during that time the kind of “intellectual combat” that went on between management and employees, among

other things, resulted in more in-depth discussions. It’s true that the ROE and ROIC targets are high, but the process of discussing these targets has begun to generate greater awareness of capital costs and share prices among executives and employees. So I suspect this was a valuable process in terms of enhancing corporate value.

*A concept proposed by Japanese management scholar Ikujiro Nonaka. The SECI model of knowledge creation (centered around the concepts of socialization, externalization, combination, and internalization) entails thorough-going dialogue to convert the knowledge held by individuals into organizational knowledge.

Onji I believe announcing a long-term vision is vital, not only for various stakeholders outside the Group but also as a way of indicating to Group employees the kind of company Nihon Chouzai is aiming to become. In this sense, it’s highly significant that discussions that included younger employees took place throughout the exploratory and decision-making process, and that a robust process was followed.

After determining ROIC and other management indicators, the Group is also setting its sights on human capital management. Given that it operates in an industry in which pharmacists and other employees need to be able to derive a sense of fulfillment from their work, the emphasis the Group is placing on human capital management is something to be commended.

Towards Achieving the Long-Term Vision: Human Capital and Other Resources Supporting Growth in the Nihon Chouzai Group

Noma Shifts in the operating environment and demographic changes, along with other factors, are expected to spur restructuring in the healthcare industry to which the Nihon Chouzai Group belongs.

How the Group navigates this restructuring will be a major challenge going forward.

I believe if the Nihon Chouzai Group can take effective advantage of its human capital, operational strengths, and its generic drug manufacturing and sales business, it will be able to take a leading role in transforming the industry. There are opportunities for growth in the way that the company maintains and augments these resources, and I sense that an exciting future awaits the Group.

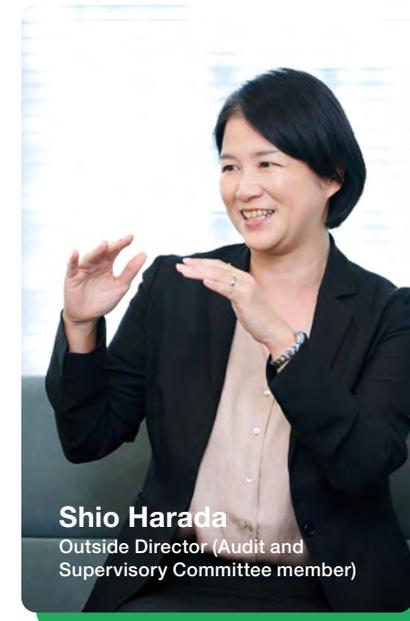
Harada It’s my feeling as well that the Nihon Chouzai Group has tremendous advantages in terms of its human capital. The pharmacists working at Nihon Chouzai pharmacies possess a high level of professional self-awareness and expertise, so the key will be how to combine their human capabilities with greater efficiency.

Onji Many characteristics of both the Dispensing Pharmacy and Pharmaceutical Manufacturing and Sales businesses set them apart from ordinary retail and manufacturing businesses—including dealing with government reforms to the healthcare system, helping to curb the costs of social security, and making efforts to closely engage with patients in delivering healthcare. Meanwhile, although they are in the same healthcare sector, the Medical Professional Staffing and Placement and Information Provision and Consulting businesses are quite different in nature. The Group has to find ways of capitalizing on the strengths of engaging in multiple businesses with different characteristics, while also balancing out the advantages and disadvantages of each business to achieve stronger performance. This kind of challenge doesn’t exist in most other industries.

Nakano I agree. Members of the healthcare industry are required to operate in compliance with various laws and regulations, and there is always a risk that healthcare system reforms and other factors can bring about dramatic changes in the business environment. Such challenges are unique to this industry. I think the only way to navigate them is to mount an agile response. However, the Group has also been investing in systems, and I believe it will be critical to make good use of the information accumulated through these systems to boost efficiency. I think using systems to increase work efficiency can also enable pharmacists to handle a higher volume of prescriptions, and I look for the Group to make greater use of AI-based applications and systems.

How the Nihon Chouzai Group Can Improve: Stimulating Deeper Group-Wide Dialogue around the Long-Term Vision

Nakano When a problem arises in the Group, if there is a gap between how management is thinking and employees out in the field are thinking, or a gap between that and the thinking underlying the long-term vision, this can undermine sound management. The follow up to the manufacturing management



Shio Harada
Outside Director (Audit and
Supervisory Committee member)

deficiencies that occurred at Choseido Pharmaceutical, which became a Group subsidiary in 2013, pointed out a lack of adequate communication between Group management and the executives and employees of the subsidiary. Going forward, I think more effort needs to be put into actions to instill the vision of management throughout the organization as a whole.

Onji That need to instill the vision you are talking about is the reason why, as I said, I think it was highly significant to bring younger employees into repeated discussions in the process of sounding out the long-term vision. In companies where a single family holds the majority of shares, decisions tend to be made in a top-down manner. My understanding is that the Nihon Chouzai Group has made a new start, intending to become a much more bottom-up company. That's something I would like the Group to focus on even more.

President Kasai has talked about becoming the most vibrant and energetic Group in Japan. I'd love to see smiles on the faces of all Group employees. But my sense is that the Group is still only halfway there—serious thought needs to be given to finding ways of making sure that there are smiles of employees on the front lines and fostering a vibrant organization.

Noma I fully agree with what you're saying. On that score, I'd like to suggest that there are two major challenges at hand. The first is reinforcing succession planning. Nihon Chouzai is a company whose operations are firmly centered on pharmacies out in the field. So, figuring out how to cultivate management talent from the front lines is a real challenge. That's why a succession plan is essential to making the Nihon Chouzai Group more sustainable. The second challenge involves discussions around how to approach investments, in terms of deepening existing businesses and exploring new businesses, and how to balance such investments with shareholder returns. I'd like to see more in-depth deliberation on this point. Of course, from our vantage point as outside directors, we also play a crucial role in

ensuring that the interests of minority shareholders and the common interests of all shareholders are protected.

Harada In terms of succession planning, I believe the Group should continue striving to promote more women to managerial and executive positions from within the company. Because the proportion of female employees is very high in the Group, it's also important to make more diverse working styles available to employees. This involves reaching out to women who have the ability and want to keep working but have to leave the workforce to raise children or for other reasons. The key is to foster an environment in which such women can fulfill their innate potential, such as by allowing a wider range of working styles, expanding the paths to advancement, and offering educational opportunities. I'd like to see further progress on this front because it will lead to an environment that actually facilitates work for all employees, both men and women, and will also feed into greater innovation.



Tomomi Nakano
Outside Director (Audit and
Supervisory Committee member)

Expectations for the Future: Bringing Well-Being to Employees and Customers through Sustainability Management

Onji To achieve Long-Term Vision 2035 will of course require all executives and employees to come together and carry forward the management of the Group. In addition, by emphasizing human capital management, my hope is that the Group will be an organization where employees can lead fulfilling lives marked by well-being, glad that they work at Nihon Chouzai.

Noma Investors and shareholders look for growth in the financial value of the Group, and management also tends to focus on Group performance. But employees working in pharmacies and out in the field, whose mission is to provide people with the closest possible support, derive a sense of joy and contentment from contributing to the health and well-being of customers. Ultimately, as this is reflected in financial outcomes, all stakeholders will be satisfied. So, I want management to do everything it can to foster workplaces that facilitate employee well-being.

Nakano What you said really resonates with me. I don't think short-term corporate performance is what motivates employees on a day-to-day basis. This is where I believe sustainability management comes into play. A company grows over the long term, not in the short term. In this context, sustainability aims to expand intangible assets, such as human capital and customer assets. Nihon Chouzai publishes a Sustainability Data Book, and has done a good job applying that document to the SDGs goals in setting various performance indicators. I think employees will be driven to put in the effort if they can sense that they are doing something useful for society. Young people today in particular tend to place importance on their own growth and development. So, if employees can take the sustainability initiatives of the Nihon Chouzai Group on board, I feel the Group can make headway in bringing about employee well-being and growing the company.

Harada As an outside director, I would like to be more intentional about offering advice in terms of whether everyone is moving forward toward a common goal.

Noma FY2024 got off to a tough start. Group executives and employees surely have a greater sense of crisis over the business than we do as outside directors. This sense of crisis bore fruit in a long-term vision that revealed a really strong determination. My hope is that all stakeholders will be inspired by this vision to expect a bright future for the Nihon Chouzai Group.



Mikiharu Noma
Outside Director

Governance That Supports Value Creation

Board of Directors (as of June 25, 2024)



Chairman and Representative Director

Hiroshi Mitsuvara

Mitsuvara is the founder of the Nihon Chouzai Group. As President and CEO of Nihon Chouzai, he promoted the company's founding philosophy of "achieving the true separation of drug prescribing and dispensing services." He also established Group companies Medical Resources, Nihon Generic, and Japan Medical Research Institute, spearheading the growth of the Nihon Chouzai Group. He became Chairman and Representative Director in June 2024.

Attendance (times)
(FY2023)

Board of Directors —

Nomination and Compensation Committee —



President and CEO

Naoto Kasai

At Mitsubishi UFJ Trust and Banking, Kasai was Manager of the Human Resources Department, Manager of the Corporate Planning Division, and a Branch Manager. As General Manager of the Sales Management Department in charge of new pharmacy openings for Nihon Chouzai, he set policy for pharmacy openings, acquisitions, and pharmacy development, and managed business operations. Kasai has been in charge of overall management, Group corporate planning, digital transformation strategy, overall sales, sales management, corporate information, development, public relations, and sustainability. He became President and CEO in May 2024.

Board of Directors 14/14

Nomination and Compensation Committee —



Director and Senior Executive Officer

Toshiyuki Koyanagi

Pharmacist. Koyanagi joined Nihon Chouzai after working in a hospital. He has since served as Manager and General Manager of the Pharmaceutical Department, General Manager of the Purchasing Department, and in other capacities. Koyanagi is in charge of the Dispensing Pharmacy Business and responsible for drug-related operations, overall systems, and branch management. With a wealth of experience in pharmacy management and thorough knowledge of medical administration, he has contributed to the expansion of the Dispensing Pharmacy Business by taking the lead in addressing changes in the operating environment, including medical service fee revisions.

Board of Directors 14/14



Director and Senior Executive Officer

Kazunori Ogi

Before joining Nihon Chouzai, Ogi worked for a leading bank and was involved in finance and MBO projects for major companies. After joining the Company, he was a Manager of the Finance Department. Ogi currently serves as a director of the company, in charge of accounting, finance, and affiliated companies. In terms of the Group as a whole, he helps to identify management issues for the Company and its subsidiaries and formulate management strategies to address them. Since October 2021, he has also served as President and CEO of Choseido Pharmaceutical Co., Ltd. and Director of Nihon Generic Co., Ltd.

Board of Directors 14/14

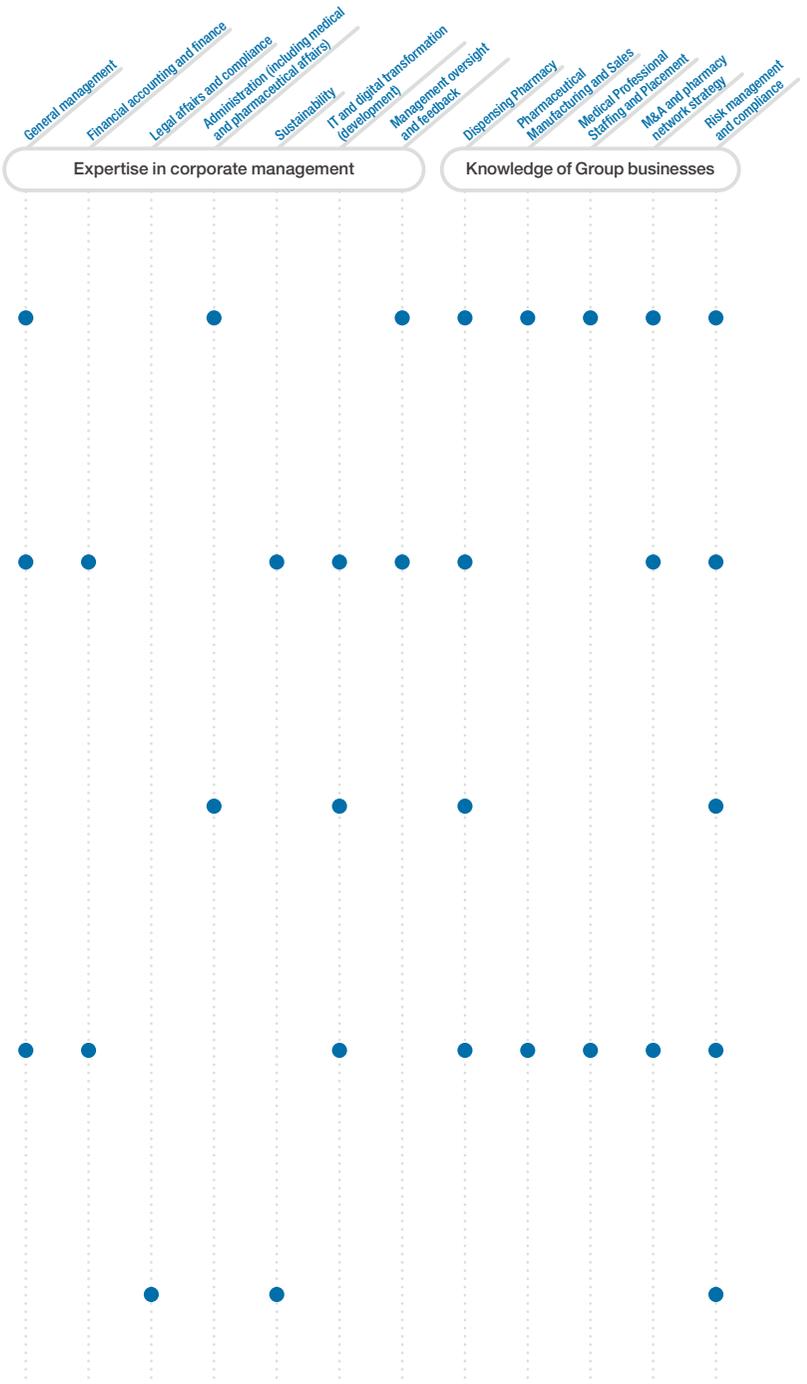


Director and Senior Executive Officer

Yoshihisa Fujimoto

Fujimoto is in charge of general affairs, human resources, recruitment for the pharmacy business, the insurance services business, risk management, and compliance, and serves as Chief Information Security Officer (CSO). He contributes to the governance of the entire company, including serving on the Information Security Committee, and the Risk Management and Compliance Committee.

Board of Directors 14/14





Director

Masahiro Inoue

Before joining Nihon Generic, Inoue served as branch manager and area branch manager for Sumitomo Mitsui Banking. Since joining that company, he has been in charge of its overall management, and possesses a wide range of knowledge and experience around the manufacture and sale of generic drugs. In June 2022, he began overseeing the Pharmaceutical Manufacturing and Sales Business as President & CEO of Nihon Generic.

Board of Directors

10/10



Outside Director

Yoshimitsu Onji

Outside

Independent

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

Board of Directors

14/14

Nomination and Compensation Committee

3/3



Outside Director

Mikiharu Noma

Outside

Independent

As a professor in the Graduate School of Business Administration of Hitotsubashi University, Noma has specialized knowledge in financial accounting and corporate valuation. He is also well-versed in building corporate value, investor engagement, ESG and human capital management.

Board of Directors

14/14

Nomination and Compensation Committee

3/3



Director

Nobuyuki Hatakeyama

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

Board of Directors

14/14

Audit and Supervisory Committee

15/15



Outside Director

Shio Harada

Outside

Independent

Attorney. Harada has a wealth of experience and insight regarding legal affairs as a whole, including as a lecturer in the area of civil affairs at the Legal Research and Training Institute. In addition to serving as outside director of another listed company, she has extensive knowledge of sustainability management centered on gender diversity.

Board of Directors

14/14

Nomination and Compensation Committee

3/3

Audit and Supervisory Committee

15/15



Outside Director

Tomomi Nakano

Outside

Independent

Nakano is a certified public accountant and tax accountant. She has been engaged in audit work at an auditing firm for 14 years, and has been involved in statutory audit work for listed companies, large companies under the Companies Act, and educational institutions. She has also served as a director and auditor for a charitable corporation, as an auditor for a regional bank, as an outside director for a company listed on the Tokyo Stock Exchange Prime Market, and as an auditor for an independent administrative agency.

Board of Directors

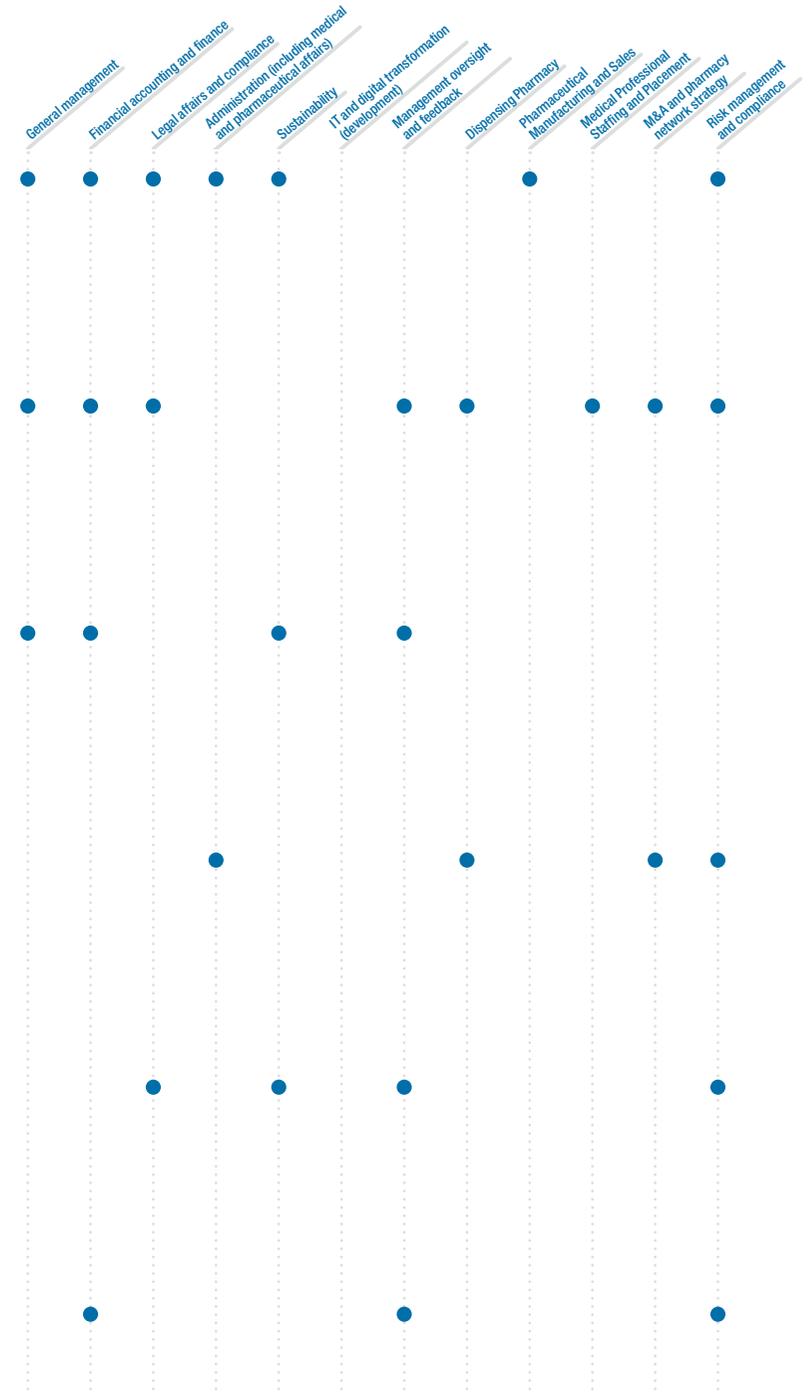
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Nomination and Compensation Committee

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Audit and Supervisory Committee

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Company Profile (As of March 31, 2024)

Company Profile

Trade name

NIHON CHOUZAI Co., Ltd.

Established

March 1980

Headquarters

108-0014
9F Tamachi Tower, 5-33-11, Shiba,
Minato-ku, Tokyo
+81-(0)3-6810-0800 (general)

Capital

3,953.02 million yen

Consolidated net sales

340.3 billion yen (FY2023)

Employees

Regular employees: 4,642;
part-time employees and others: 694
* Figures for part-time employees and others
represent the average annual number of
employees based on conversion to an 8-hour
workday

Main financing banks

Mizuho Bank, Ltd., Sumitomo Mitsui
Banking Corporation, MUFG Bank,
Ltd., Resona Bank, Ltd.

Main business area

Management of a dispensing
pharmacy chain

Affiliated companies

Nihon Generic Co., Ltd.

Manufacture and sale of
pharmaceuticals
8F Tamachi Tower, 5-33-11, Shiba,
Minato-ku, Tokyo
<https://www.nihon-generic.co.jp/en/>

Choseido Pharmaceutical Co., Ltd.

Manufacture and sale of
pharmaceuticals
92, Kokufuchoko, Tokushima,
Tokushima
<https://www.choseido.com/>

Medical Resources Co., Ltd.

Staffing and placement of healthcare
professionals
8F Tamachi Tower, 5-33-11, Shiba,
Minato-ku, Tokyo
<https://www.medical-res.co.jp/>

Japan Medical Research Institute Co., Ltd.

Research investigation, provision of
information and advertising media,
and consulting services related to the
healthcare industry in general
9F Tamachi Tower, 5-33-11, Shiba,
Minato-ku, Tokyo
<https://www.jpmedri.co.jp/>

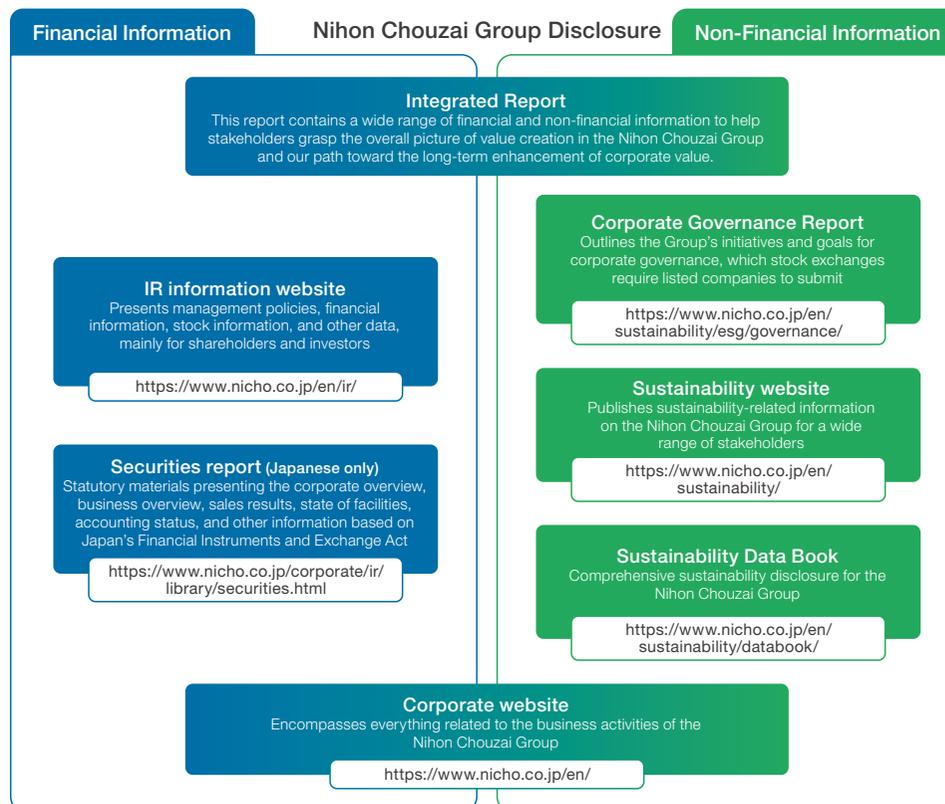
Cover Story

Moving Towards the Future We Want to Create

We have set the goal of being the most trusted partner in
healthcare as our vision for 2035.

We have laid out three specific initiatives to achieve this vision:
becoming the most vibrant and energetic Group in Japan,
becoming a Group that can address all kinds of needs, and
becoming a Group that continues to innovate.

Guided by our unchanging mission, we will continue evolving to
give even more people the closest possible support as we press
ahead toward being the Group we want to become.



DATA | 11-Year Summary of Financial and Non-Financial Data (As of March 31, 2024)

Consolidated Financial Data	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Fiscal year in which revisions to dispensing fees and NHI drug prices were made		Dispensing Fees NHI Drug Prices		Dispensing Fees NHI Drug Prices		Dispensing Fees NHI Drug Prices	Dispensing Fees NHI Drug Prices ¹¹	Dispensing Fees NHI Drug Prices	NHI Drug Prices	Dispensing Fees NHI Drug Prices	NHI Drug Prices
Business results (fiscal year)											
Net sales	165,347	181,844	219,239	223,468	241,274	245,687	268,520	278,951	299,392	313,318	340,310
Gross profit	25,623	31,929	39,068	39,258	43,837	41,975	46,372	49,374	52,422	53,643	57,236
Selling, general and administrative expenses	20,878	25,281	28,578	30,738	33,250	35,242	38,779	41,267	45,833	46,057	48,093
Operating profit	4,744	6,647	10,489	8,519	10,587	6,733	7,593	8,106	6,589	7,586	9,142
EBITDA ¹	9,129	10,923	15,615	14,237	17,127	14,525	15,491	16,286	14,974	16,337	18,251
Ordinary profit	4,188	6,003	9,878	7,976	10,138	6,077	7,405	8,409	6,767	7,682	9,439
Profit attributable to owners of parent	1,901	2,778	6,329	4,638	6,104	3,790	6,697	3,538	3,705	4,458	2,553
Cash flows (fiscal year)											
Cash flows from operating activities	6,243	5,831	19,327	△940	23,141	13,572	13,192	11,213	19,411	7,532	20,421
Cash flows from investing activities	△14,510	△8,437	△7,823	△28,444	△13,843	△1,770	△2,731	△7,767	△9,313	△10,018	△13,726
Cash flows from financing activities	8,782	1,422	7,031	18,205	△2,034	△10,516	△7,955	△2,806	△17,448	713	△4,430
Financial position (at year-end)											
Total assets ²	117,295	130,141	157,609	178,347	186,573	178,677	185,551	186,262	178,753	185,297	195,087
Net assets	15,849	17,635	32,473	36,447	41,506	41,073	47,072	49,868	52,876	56,483	58,351
Cash and cash equivalents	15,027	13,844	32,380	21,200	28,464	29,749	32,254	32,893	25,543	23,770	26,034
Merchandise and finished goods	12,165	15,911	15,328	21,455	20,873	22,272	22,988	23,139	23,024	28,416	28,992
Interest-bearing debt ³	62,037	68,327	66,794	86,524	87,611	81,302	74,381	73,219	56,597	58,128	54,925
Per share information											
Net assets per share (yen) ⁴	545.32	628.80	1,015.11	1,139.35	1,297.50	1,369.52	1,569.77	1,663.01	1,763.34	1,888.17	1,950.44
Net income per share (yen) ⁴	65.62	97.24	216.42	145.02	190.84	121.74	223.33	118.01	123.56	148.92	85.35
Financial and non-financial data											
Sales growth rate (%)	18.6	10.0	20.6	1.9	8.0	1.8	9.3	3.9	7.3	4.7	8.6
SG&A expense ratio (%)	12.6	13.9	13.0	13.8	13.8	14.3	14.4	14.8	15.3	14.7	14.1
Operating margin (%)	2.9	3.7	4.8	3.8	4.4	2.7	2.8	2.9	2.2	2.4	2.7
ROA (%) ⁵	1.8	2.2	4.4	2.8	3.3	2.1	3.6	1.9	2.0	2.4	1.3
ROE (%) ⁶	12.0	16.6	25.3	13.5	15.7	9.2	15.2	7.3	7.2	8.2	4.4
Equity ratio (%) ⁷	13.5	13.6	20.6	20.4	22.2	23.0	25.4	26.8	29.6	30.5	29.9
Interest coverage ratio (times) ⁸	8.6	7.1	24.4	—	37.1	25.8	34.9	35.1	64.8	28.2	68.7
Debt-to-equity ratio (times) ⁹	3.9	3.8	2.1	2.4	2.1	2.0	1.6	1.5	1.1	1.0	0.9
Capital expenditure	9,069	12,279	8,073	23,344	15,316	5,254	12,025	9,492	8,362	10,321	12,188
Depreciation	3,825	3,631	4,461	4,741	5,214	6,304	6,316	6,416	6,569	6,740	7,170
R&D expenses	1,534	1,767	1,913	2,388	2,784	2,764	2,991	2,776	3,411	3,065	2,765
Number of employees ¹⁰	3,009	3,283	3,435	3,781	4,075	4,383	4,904	5,221	5,552	5,689	5,864

* Figures have been rounded down.

Percentages have been rounded to the nearest first decimal place.

Notes: *1. EBITDA = Operating profit + depreciation + amortization of goodwill

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

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

*4. Nihon Chouzai conducted 2-for-1 stock splits on October 1, 2015 and April 1, 2020. Net assets per share and net income per share have been calculated as if these stock splits had taken place at the beginning of FY2013.

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

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

*7. Equity ratio = shareholders' equity ÷ total assets

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

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

*10. Number of employees indicates regular employees.

It does not include non-regular employees such as associate, contract, fixed-term, or part-time employees.

*11. NHI drug prices were revised in October 2019 in line with changes in the consumption tax rate.

DATA | External Evaluations and Participation in External Organizations

Sustainability

Signing the United Nations Global Compact

In August 2023, Nihon Chouzai signed the United Nations Global Compact, an international initiative to support greater corporate social responsibility. Participation in the Global Compact demonstrates a company's stance on Ten Principles related to four areas—human rights, labor, environment, and anti-corruption. While making all Group executives and employees aware of the purpose of this compact, we will identify areas for improvement and work to sustainably enhance corporate value by measuring our business activities against the yardstick of the values of the Ten Principles.



Support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations

We endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board (FSB) in June 2022 and have been making steady headway in our disclosure based on the recommendations.



Selected for inclusion in FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index

The Group has been continuously selected since 2023 as a constituent of both the FTSE Blossom Japan Index and the FTSE Blossom Japan Sector Relative Index, which target Japanese companies taking outstanding action in terms of ESG practices.



Received B Score in CDP Climate Change Report 2023

We received a B score in the Climate Change Report 2023 published by CDP, an international NPO. Our current B score is at the management level in CDP's classification, and indicates that the company understands its own environmental risks and impacts and takes actions on climate issues.



Human Capital Management

Certified as 2024 Health & Productivity Management Outstanding Organizations in the large enterprise category

Nihon Chouzai, Nihon Generic, and Medical Resources have all been selected as 2024 Certified Health & Productivity Management Outstanding Organizations in the large enterprise category, under the certification program established by the Ministry of Economy, Trade and Industry. Additionally, Japan Medical Research Institute has been selected as 2024 Certified Health & Productivity Management Outstanding Organizations in the small and medium-sized enterprise category. These programs recognize companies that take employee health management seriously from a management perspective and strategically pursue health and productivity management initiatives.

*The Japanese term for "Health and Productivity Management" (kenko keiei) is a registered trademark of the NPO Kenko Keiei Kenkyukai.



Kurumin

Nihon Chouzai and Nihon Generic have received Kurumin certification from the Ministry of Health, Labour and Welfare, recognizing them as companies that provide outstanding support for parenting.



Eruboshi certification

Nihon Chouzai has been recognized as an outstanding company for its efforts to empower women's participation in the workforce, receiving the highest level of Eruboshi certification, which is based on the Act on Promotion of Women's Participation and Advancement in the Workplace.



Tomonin

Nihon Chouzai in 2021 also acquired Tomonin certification, a symbol mark certifying that we provide a workplace environment where employees can balance work and long-term care. We continue taking steps to ensure that employees do not have to quit their jobs to care for family members.



Received DBJ Employee Health Management Rating

This rating is connected to a program administered by the Development Bank of Japan to extend loans based on sustainability assessment and certification. The program uses a proprietary screening system to select companies that demonstrate outstanding care for the health of executives and employees. Nihon Chouzai received the DBJ Employee Health Management Rating in 2023.





 NIHON CHOUZAI GROUP

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+81-(0)3-6810-0800 (general)

<https://www.nicho.co.jp/en/>