



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Fiscal Year Ending March 2020

Earnings Report

First Section of Tokyo Stock Exchange; Securities Code: 4350

About contents covered

- ※ The contents of this report pertaining future earnings described are based on information the company has held, and on certain assumptions supervising rational judgement, and are not what the company promises to achieve. There are numerous factors that may cause actual earnings to differ. Caution is given to the accuracy of information, and we do not take responsibility for loss etc., as a result of misinformed information.
- ※ Furthermore, this report is not prepared for the purposes of investment solicitation. Readers are responsible for their own judgement in any decision regarding investments.

Please see the following link for our English information.

<https://www.msnw.co.jp/eng/>

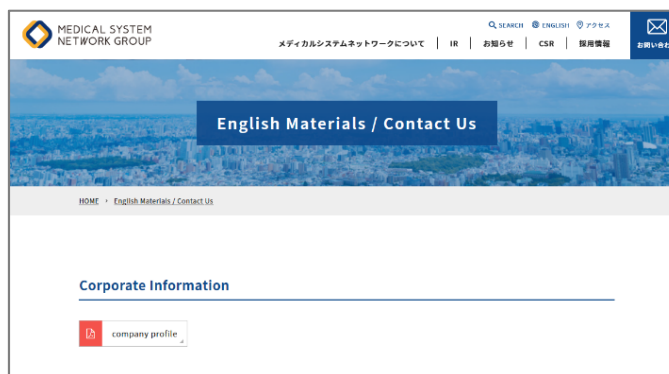


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Earnings Highlight

FY3/2020 : Consolidated results part 1



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Earnings Summary

- Steady growth of network affiliates; increase in M&A contributions and prescription unit price
- Depressed earnings on the back of a fall in the number of prescriptions due to fewer medical examinations since January 2020 as a result of COVID-19 and low trends in influenza flu transmissions compared to previous years.

	FY3/2019 (result)	FY3/2020 (plan)	FY3/2020 (result)	Year-on-year		Progress rate	
				Change	Change (%)	Difference	Difference (%)
(Unit: million yen)							
Net sales	98,232	103,000	105,241	+ 7,009	+ 7.1%	+ 2,241	102.2%
Operating profit	1,428	2,500	1,615	+ 186	+ 13.0%	▲ 884	64.6%
Profit margin	1.5%	2.4%	1.5%				
Ordinary profit	1,501	2,400	1,560	+ 59	+ 3.9%	▲ 839	65.0%
Profit margin	1.5%	2.3%	1.5%				
Profit attributable to owners of parent	462	650	▲ 895	▲ 1,358	—	▲ 1,545	—
Profit margin	0.5%		—				
Earnings per share (Yen)	15.25	21.39	▲ 29.48	▲ 44.73	—	▲ 50.87	—
EBITDA※	4,200	—	4,645	+ 444	+ 10.6%	—	—

※ EBITDA is the calculated value of "operating profit + depreciation + amortization of goodwill"

FY3/2020: Consolidated results part 2

■ Net loss attributable to owners of parent

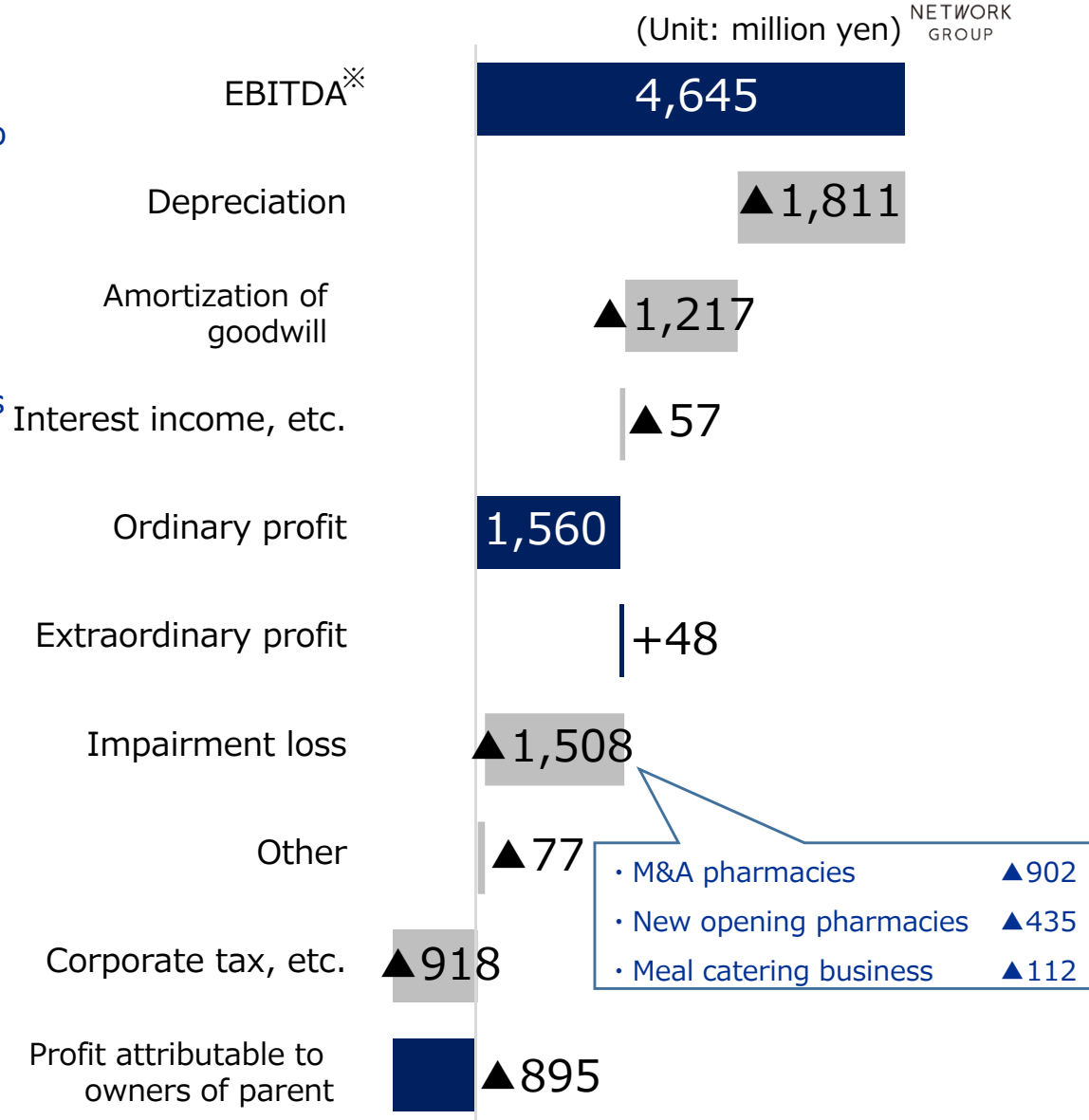
- EBITDA※ at 4,645 million yen; ordinary profit at 1,560 million yen (plus 59 million yen compared to previous term)

- Due to the fall of profitability in the current business environment as a result of COVID-19 we saw an impairment loss of 1,508 million yen from goodwill of M&A subsidiary shares and fixed assets of dispensing pharmacies

- Large tax burden from ordinary profit due to past non-deductible depreciation expenses of goodwill from M&A pharmacies and the above impairment losses

- As a result, profit attributable to owners of parent at a 895 million yen loss

※ EBITDA is the calculated value of "operating profit + depreciation + amortization of goodwill"



FY3/2020: Results in each segment part 1

■ Net Sales

(Unit: million yen)

	FY3/2019 (result)	FY3/2020 (plan)	FY3/2020 (result)	Year-to-Year comparison		Progress rate	
				Change	Change(%)	Difference	Difference(%)
Segment profit	98,232	103,000	105,241	+ 7,009	+ 7.1%	+ 2,241	102.2%
Community Pharmacy Network Segment※1	92,284	97,461	99,617	+ 7,332	+ 7.9%	+ 2,155	102.2%
Other 3 Segments※2	6,622	6,113	6,389	▲ 233	▲ 3.5%	+ 275	104.5%
Adjustments	▲ 674	▲ 574	▲ 764	▲ 90	—	▲ 190	—

■ Operating profit

(Unit: million yen)
Profit margin in brackets

	FY3/2019 (result)	FY3/2020 (plan)	FY3/2020 (result)	Year-to-Year comparison		Progress rate	
				Change	Change(%)	Difference	Difference(%)
Segment profit	1,428 (1.5%)	2,500 (2.4%)	1,615 (1.5%)	+ 186 + 0.0pt	+ 13.0%	▲ 884 ▲ 0.9pt	64.6%
Community Pharmacy Network Segment※1	3,313 (3.6%)	4,783 (4.9%)	3,743 (3.8%)	+ 430 + 0.2pt	+ 13.0%	▲ 1,039 ▲ 1.1pt	78.3%
Other 3 Segments※2	▲ 150 (—)	▲ 240 (—)	▲ 70 (—)	+ 80 —	—	+ 170 —	—
Adjustments	▲ 1,733 (—)	▲ 2,042 (—)	▲ 2,057 (—)	▲ 324 —	—	▲ 15 —	—

※1 Pharmaceutical Network Business, Dispensing Pharmacy Business, Manufacture and Market Pharmaceuticals Business

※2 Leasing and Facility related Business, Meal Catering Business, Home Visit Nursing Business

FY3/2020: Results in each segment part 2

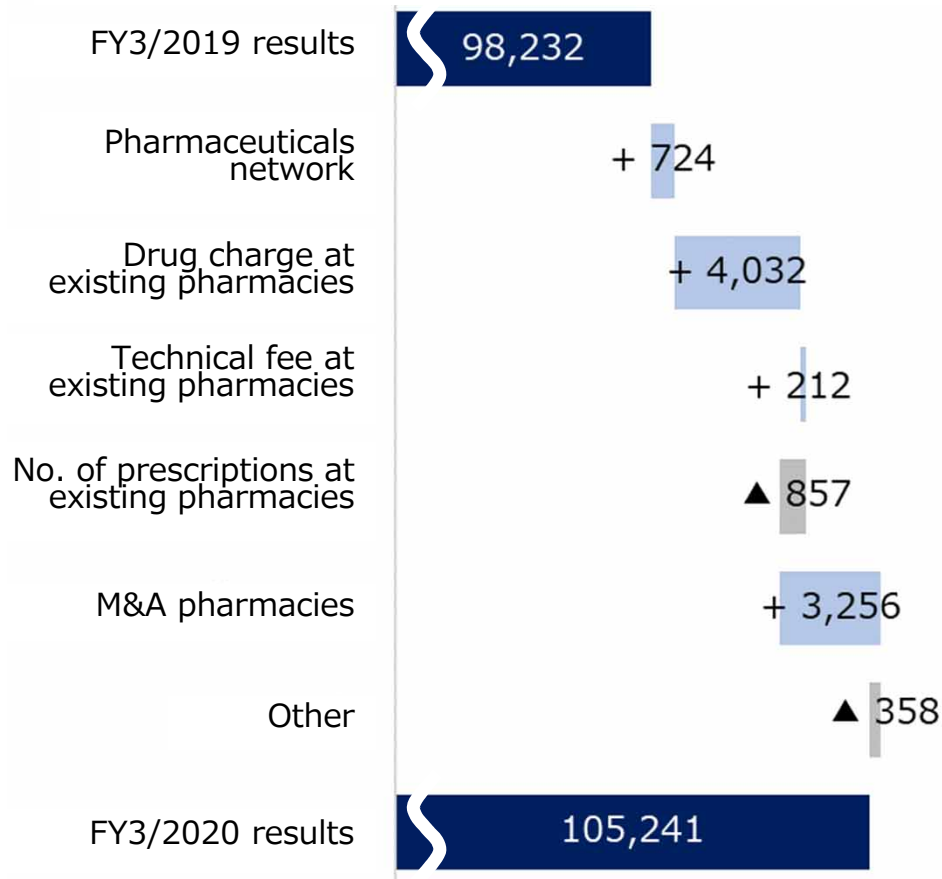
Segment		Earnings summary
Community Pharmacy Network Segment	Pharmaceuticals Network Business	<ul style="list-style-type: none"> Steady trends in number of network affiliates (+1,455 from previous term for a total of 5,245)
	Dispensing Pharmacy Business	<ul style="list-style-type: none"> Contributions to earnings from M&A pharmacies in previous term Increase of 433 yen in prescription unit price due to bundled longer-term prescriptions and high cost drugs Number of processed prescriptions fell considerably due to fewer medical examinations as a result of COVID-19 and low trends in influenza flu transmissions compared to previous years <p>Difference in number of prescriptions: 0.3% in 3Q to -1.1% in full year (cumulative)</p>
	Manufacture and Market Pharmaceuticals Business	<ul style="list-style-type: none"> 23 components and 51 products for sale as of the end of March 2020 Number of network stores handling these products up to 369 (vs 153 in previous term)
Leasing and Facility related Segment		<ul style="list-style-type: none"> Steady trends in rental income and occupancy rates at serviced residences for the elderly <p>Occupancy rate: Senri Chuo 81.7%; M1 61.2%</p>
Meal Catering Segment		<ul style="list-style-type: none"> Continues to remove unprofitable establishments Increase in labor cost due to use of dispatch agencies to compensate shortage of workers <p>Operating profit: 34 million yen (previous) to -43 million yen (current)</p>
Home Visit Nursing Segment		<ul style="list-style-type: none"> Cut in operating loss <p>Operating loss: -101 million yen (previous) to -71 million yen (current)</p>

FY3/2020 : Comparison to previous term



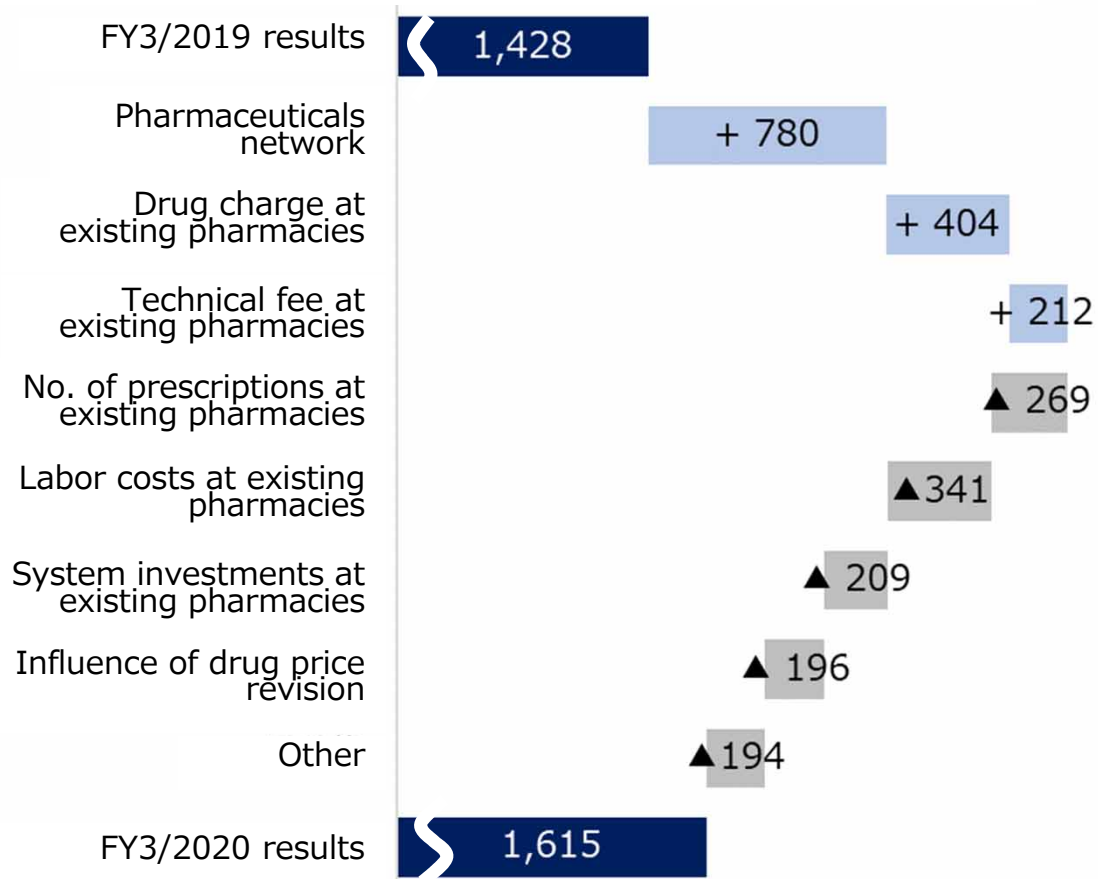
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)

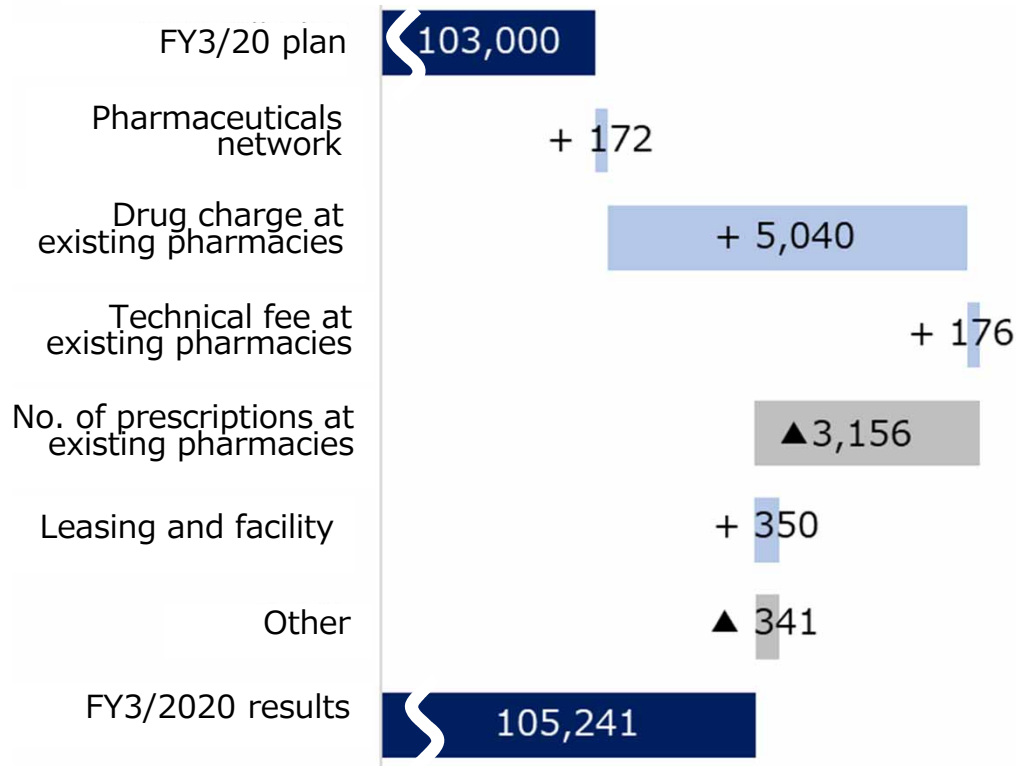


FY3/2020 : Comparison to plan



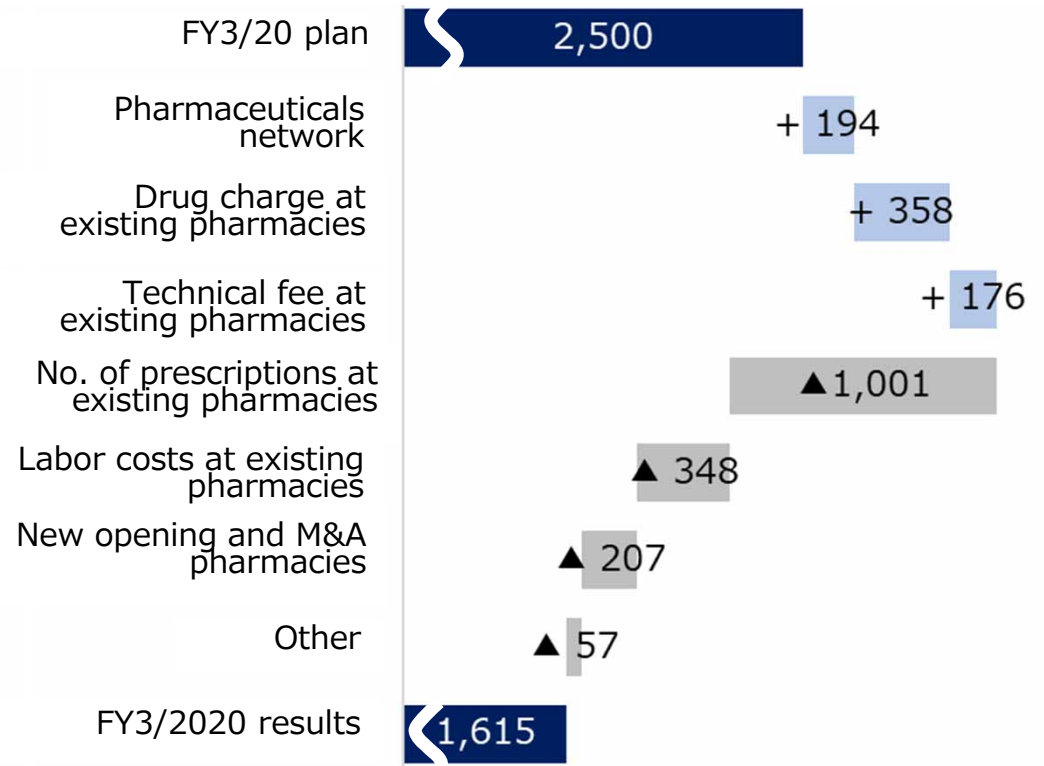
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)



【 Reference 】

	First-half plan (YoY)	First-half results (YoY)	Second-half plan (YoY)	Second-half plan (YoY)
No. of prescriptions at existing pharmacies	+2.2%	+1.1%	+3.7%	▲3.3%
Unit price of prescriptions at existing pharmacies	+1.1%	+5.7%	+1.1%	+5.6%

※ "Existing pharmacies" on this page refer to pharmacies continue to be in business on or after April 1, 2018.

FY3/2020 : Consolidated balance sheet

Point

Assets: decrease in goodwill

Liabilities and net assets: decrease in loans

■ End of FY3/2019

(Unit: million yen)

Assets	68,935	Liabilities	58,173
Current assets	21,055	Current liabilities	23,844
Cash and deposits	11,703	Short-term loans ^{※1}	8,692
		Fixed liabilities	34,329
Fixed assets	47,879	Long-term loans	28,341
Tangible fixed assets	25,721	Net assets	10,761
Intangible fixed assets	16,235	Capital stock	2,128
Goodwill	15,710	Capital surplus	1,185
Investments and other assets	5,922	Retained earnings	7,616
		Treasury stock	▲ 233
Total assets	68,935	Total liabilities and net assets	68,935

Equity ratio

15.6%

(Equity ratio with taking into account net cash^{※2} 18.3%)

※1 Includes long-term loans that will be repaid within the year

※2 Own capital/(Total assets – Cash and deposits)

■ End of FY3/2020

(Unit: million yen)

Assets	66,464	Liabilities	57,045
Current assets	20,578	Current liabilities	23,296
Cash and deposits	11,722	Short-term loans ^{※1}	8,550
		Fixed liabilities	33,749
Fixed assets	45,885	Long-term loans	27,601
Tangible fixed assets	25,126	Net assets	9,418
Intangible fixed assets	14,615	Capital stock	2,128
Goodwill	14,179	Capital surplus	1,183
Investments and other assets	6,143	Retained earnings	6,414
		Treasury stock	▲ 206
Total assets	66,464	Total liabilities and net assets	66,464

Equity ratio

14.2%

(Equity ratio with taking into account net cash^{※2} 17.2%)

FY3/2020 : Consolidated cash flows

Cash flows from operating activities

4,232
million yen

EBITDA^{※1}

Increase in net defined benefit liability
Income taxes paid

4,645 million yen
378 million yen
▲ 1,098 million yen

※1 Calculated by "operating profit + depreciation + amortization of goodwill"

Cash flows from investing activities

▲ 2,383
million yen

Acquisition of buildings, etc
M&A(acquisition of shares, transfer of
business and acquisition of business)

▲ 1,333 million yen
▲ 714 million yen

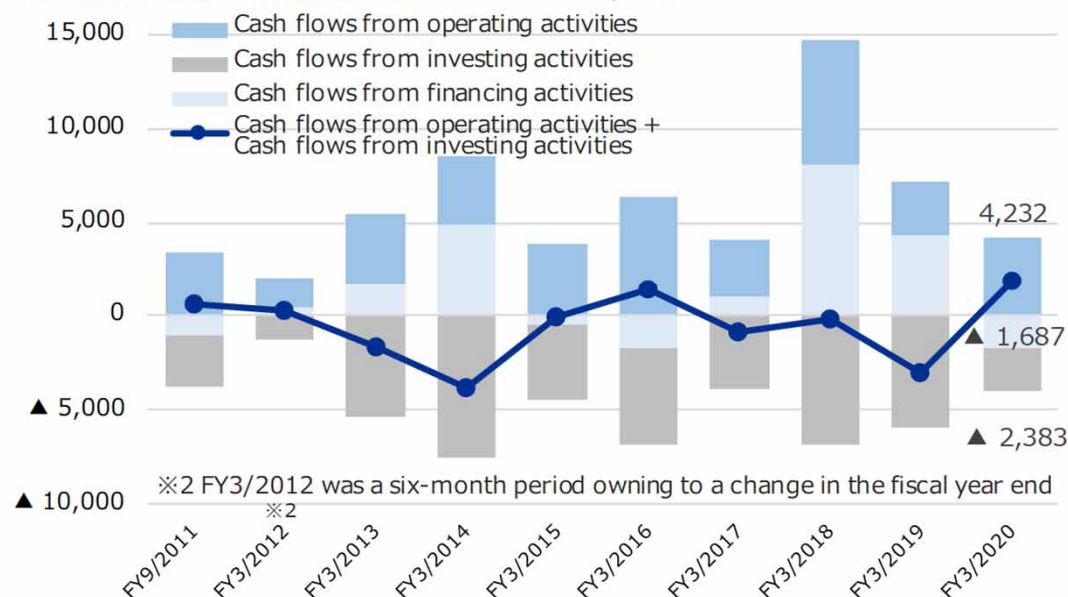
Cash flows from financing activities

▲ 1,687
million yen

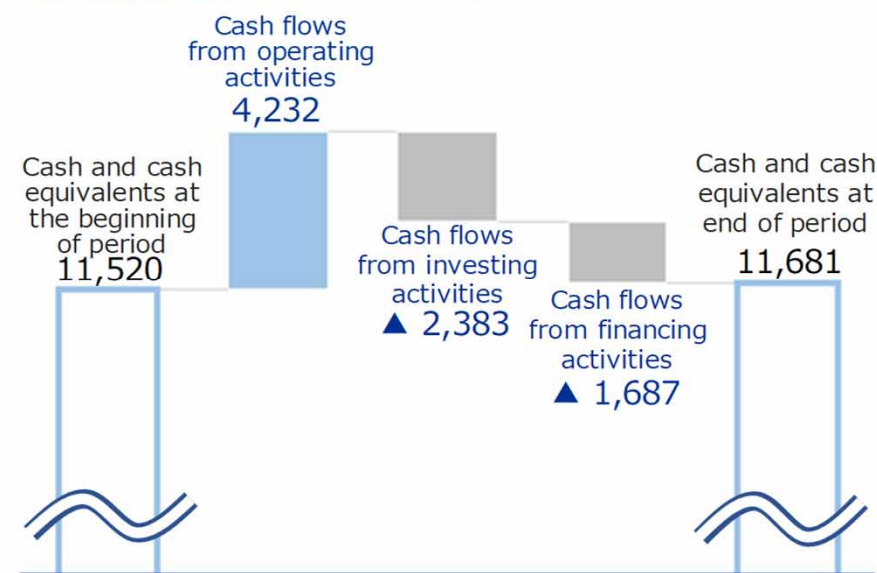
Loan amount reduced
Repayments of lease obligations

▲ 882 million yen
▲ 479 million yen

■ Cash flow trends (Unit: million yen)



■ FY3/2020 (Unit: million yen)



Topics

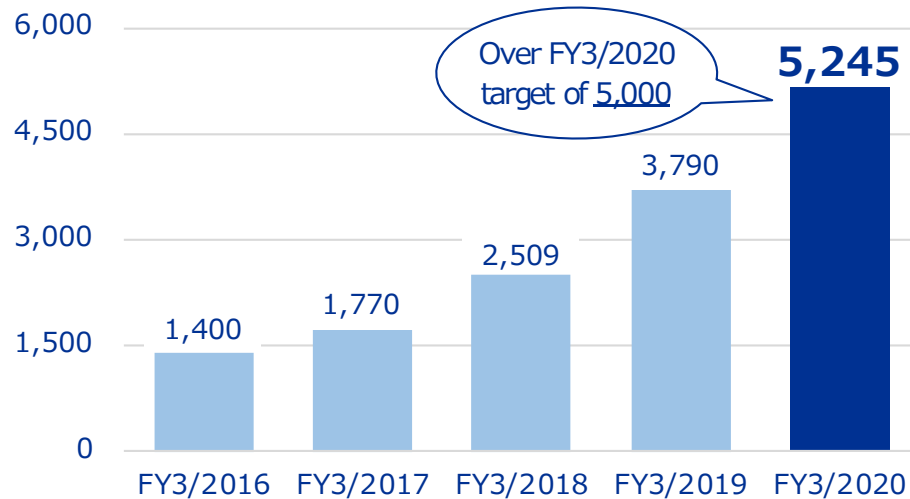
Pharmaceuticals Network Business: Earnings summary

(as of March 31, 2020)

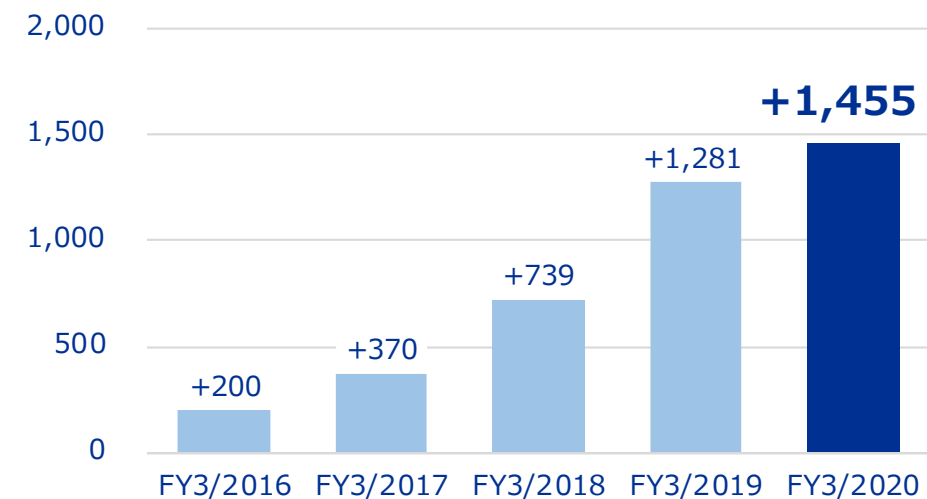


Continuous high growth in new network affiliates; increase of 1,455 from previous term for a total of 5,245

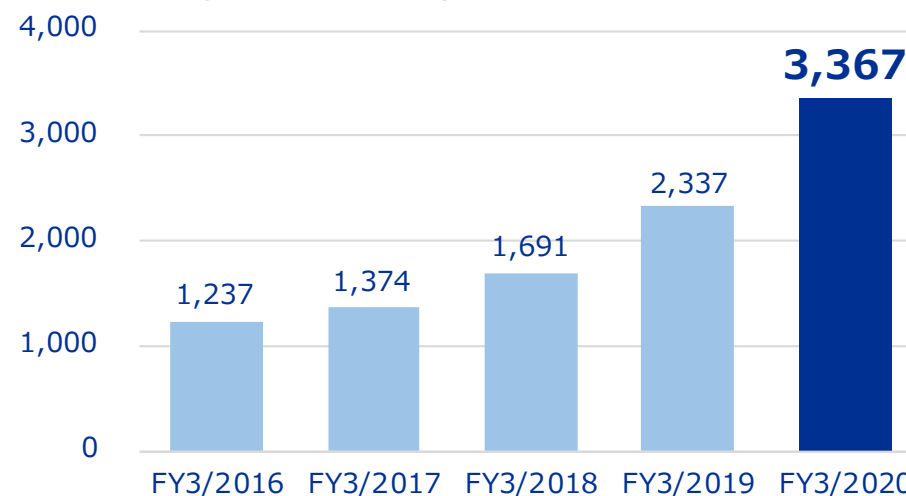
■ Network affiliates (actual) (Unit: No. of network affiliates)



■ Network affiliates (net increase) (Unit: No. of network affiliates)



■ Ordering volume of pharmaceuticals (Unit: one hundred million yen)



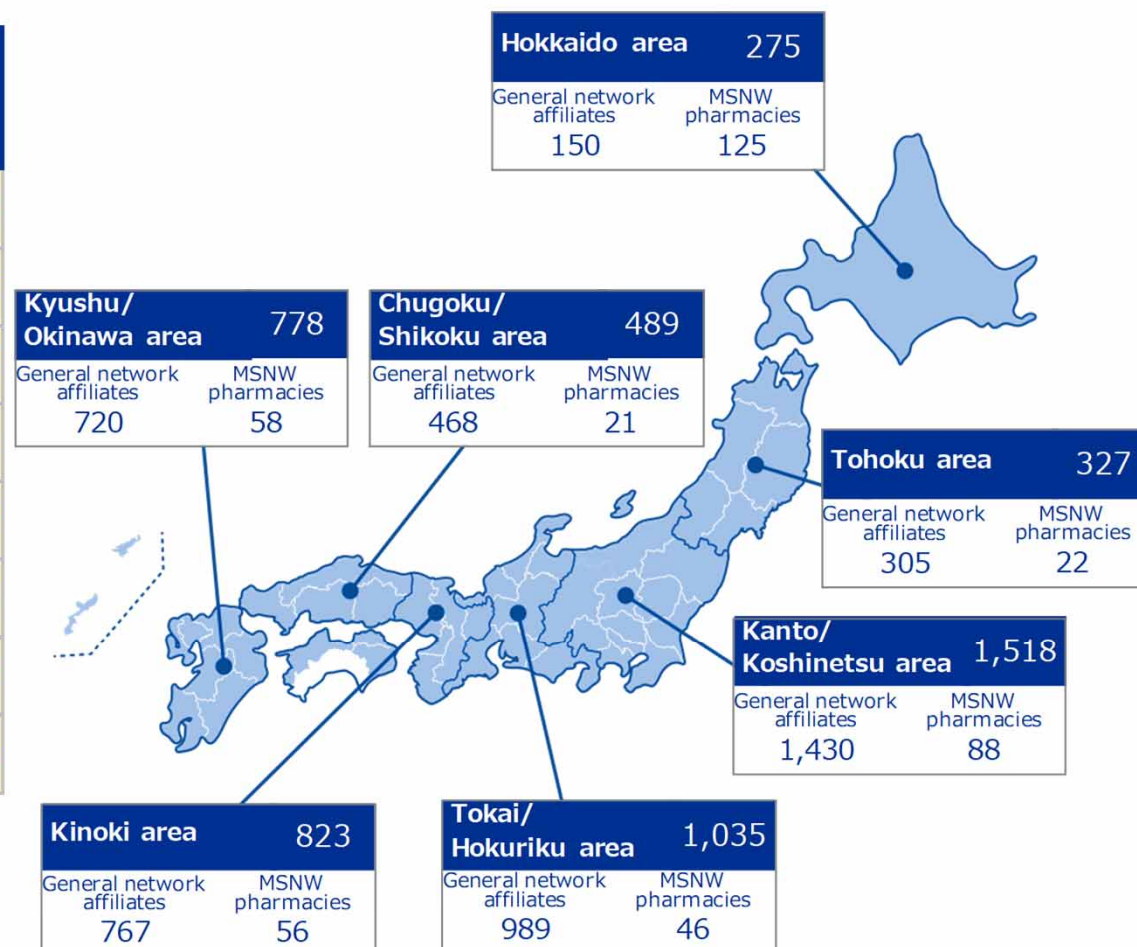
Pharmaceuticals Network Business:

Network affiliates distribution map (as of March 31, 2020)

Operating in 46 prefectures as of March 31, 2020 (now operating in all 47 prefectures since May 1, 2020)

【 Breakdown of network affiliates 】

(Unit: No. of network affiliates)	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	150	125	275
Tohoku	305	22	327
Kanto/Koshinetsu	1,430	88	1,518
Tokai/Hokuriku	989	46	1,035
Kinki	767	56	823
Chugoku/Shikoku	468	21	489
Kyushu/Okinawa	720	58	778
Total	4,829	416	5,245



5,557 network affiliates
as of May 1, 2020

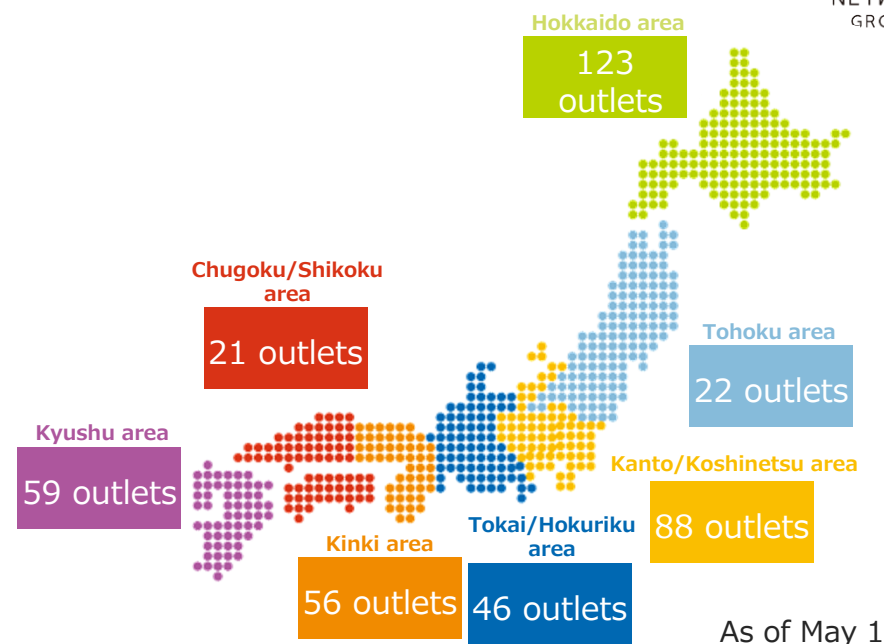
Dispensing Pharmacy Business: Trends in number of pharmacies



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8 new outlets, 3 outlets acquired through M&A, and 15 outlet closures since end of previous fiscal year

	Outlets at end of FY3/2019	Outlets at end of FY3/2020	Outlets as of May 1
Outlets at end of previous term	399	420	416
Openings	5	8	1
Closings and transferring businesses	▲ 14	▲ 15	▲ 2
M&A	30	3	—
Total	420	416	415

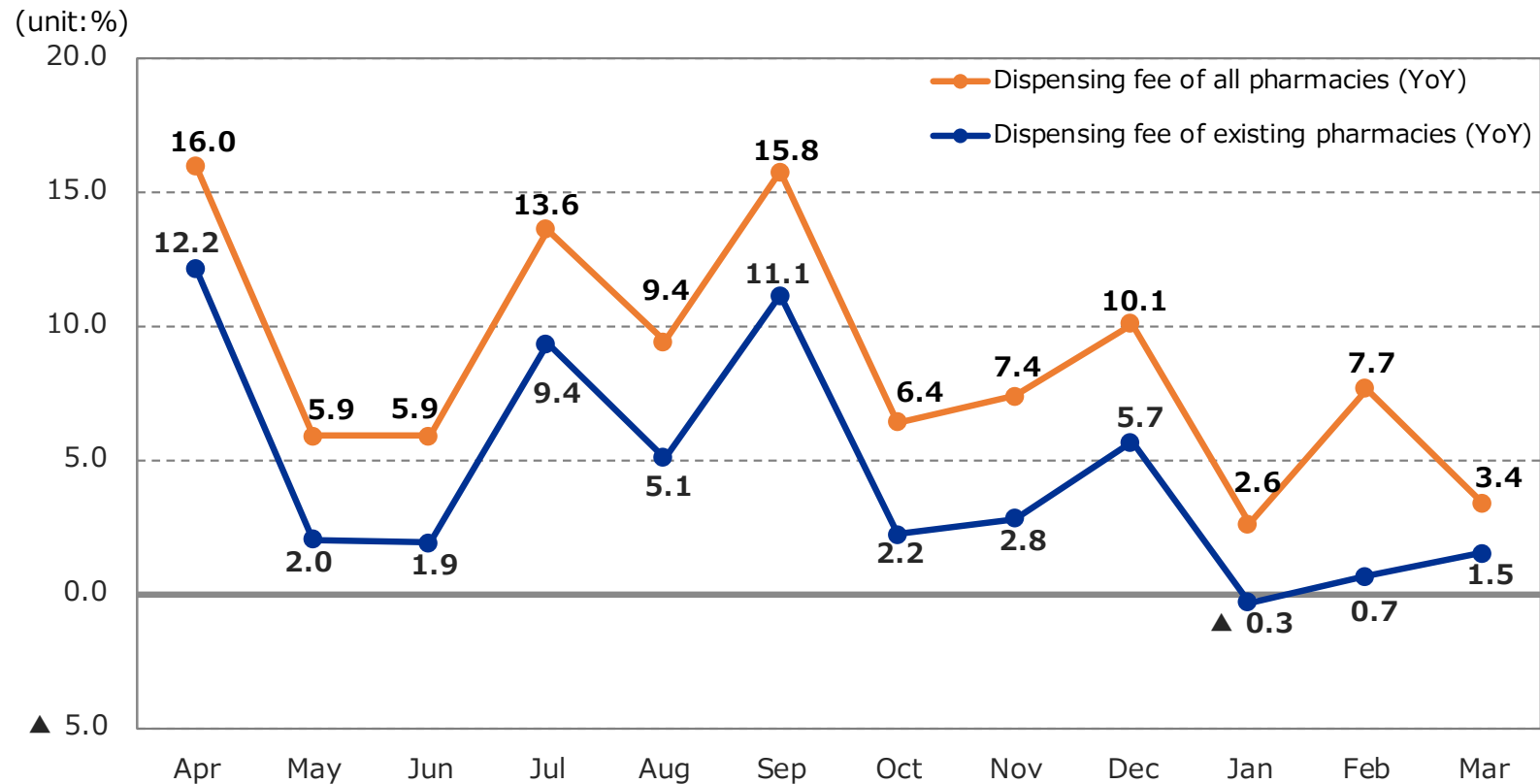


Dispensing pharmacy outlet number trends of the past 10 years

	FY9/2011	FY3/2012 [※]	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020
Openings	10	6	21	14	10	9	8	8	5	8
Closings and transferring of businesses	▲ 4	▲ 3	▲ 8	▲ 7	▲ 13	▲ 8	▲ 4	▲ 5	▲ 14	▲ 15
M&A	4	6	33	45	27	7	20	19	30	3
Number of outlets	214	223	269	321	345	353	377	399	420	416

※ FY3/2012 was a six-month period owing to a change in the fiscal year end

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)



	FY3/2020												Full-year total
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Dispensing fee of all pharmacies (YoY)	16.0	5.9	5.9	13.6	9.4	15.8	6.4	7.4	10.1	2.6	7.7	3.4	8.6
Dispensing fee of existing pharmacies (YoY)	12.2	2.0	1.9	9.4	5.1	11.1	2.2	2.8	5.7	▲0.3	0.7	1.5	4.4

※ "Existing pharmacies" on this page refer to pharmacies that continue to be in business on or after April 1, 2018.

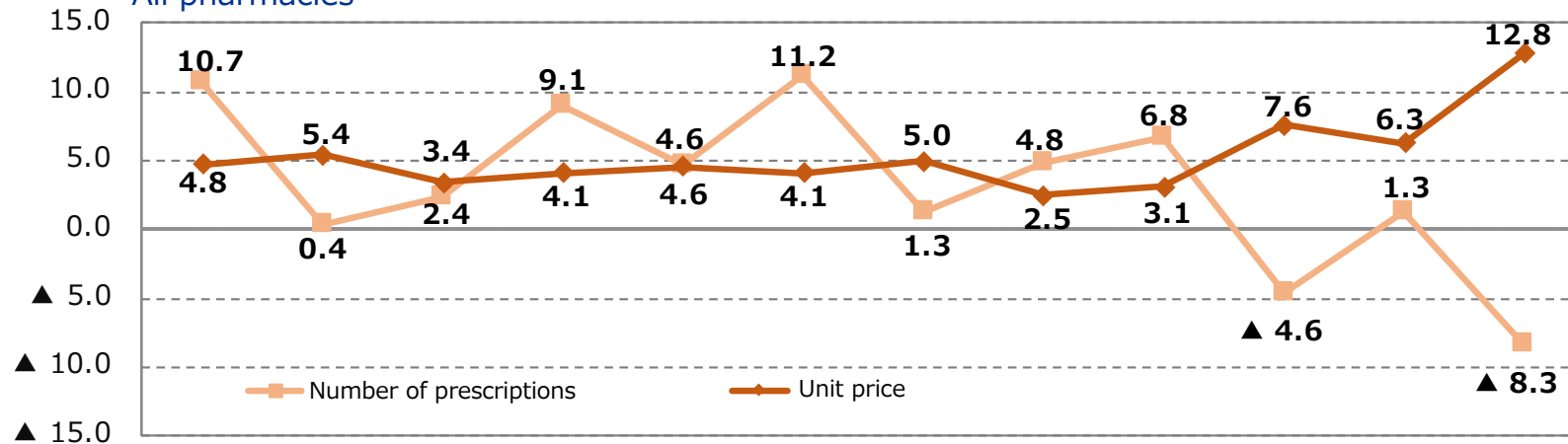
Dispensing Pharmacy Business: Comparison of monthly prescription volume and unit price

Point

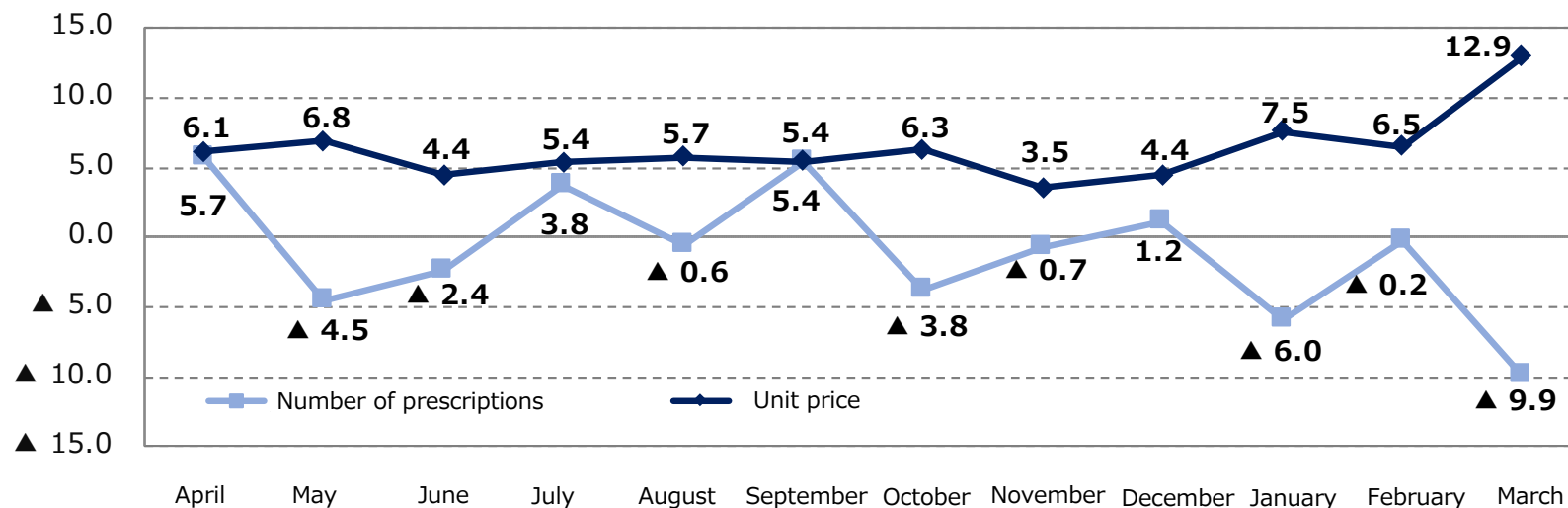
Prescription unit price increase due to bundled longer-term prescriptions and high cost drugs; decrease in prescription volume due to COVID-19 since January and fewer influenza flu transmissions compared to previous years

(Unit: %)

All pharmacies



Existing pharmacies



Dispensing Pharmacy Business: Dispensing fee breakdown

Point

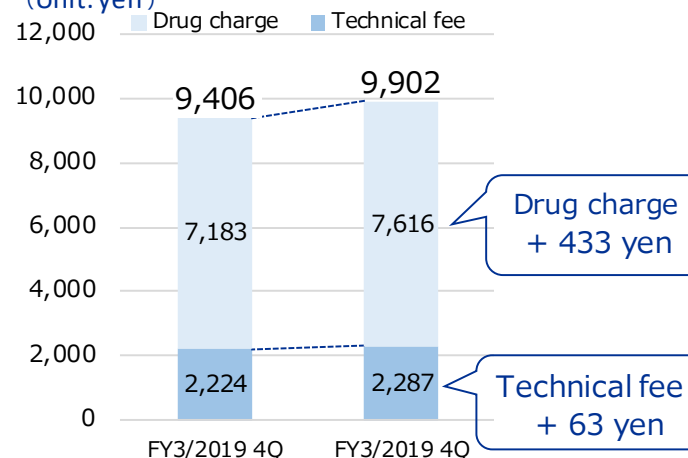
- Increase in prescriptions through M&A pharmacies acquired last term
- Growing unit price due to long-term prescriptions and high cost drugs

■ All pharmacies

■ All pharmacies		FY3/2019	FY3/2020	Change
No. of prescriptions (1000) a		8,806	9,080	+ 274 (+ 3.1 %)
Unit price (yen)	Drug charge per prescription	7,183	7,616	+ 433 (+ 6.0 %)
	Technical fee per prescription	2,224	2,287	+ 63 (+ 2.8 %)
	Total b	9,406	9,902	+ 496 (+ 5.3 %)
Dispensing fee (million yen) c = a x b		82,834	89,919	+ 7,084 (+ 8.6 %)

【Prescription unit price trends】

(Unit: yen)

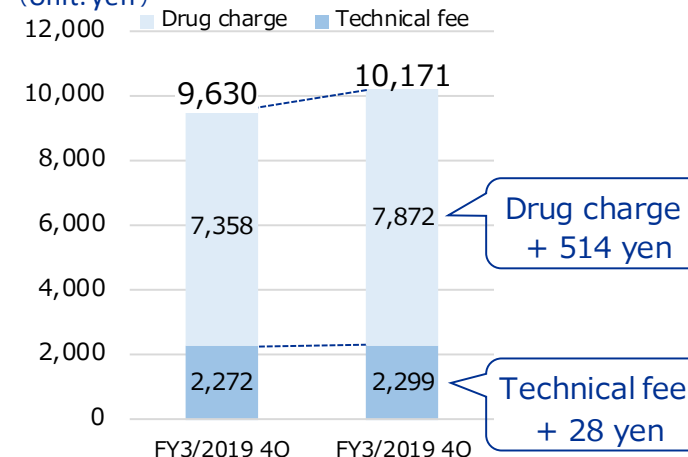


■ Existing pharmacies

■ Existing pharmacies		FY3/2019	FY3/2020	Change
No. of prescriptions (1000) a		7,934	7,845	▲ 89 (▲ 1.1 %)
Unit price (yen)	Drug charge per prescription	7,358	7,872	+ 514 (+ 7.0 %)
	Technical fee per prescription	2,272	2,299	+ 28 (+ 1.2 %)
	Total b	9,630	10,171	+ 542 (+ 5.6 %)
Dispensing fee (million yen) c = a x b		76,408	79,800	+ 3,391 (+ 4.4 %)

【Prescription unit price trends】

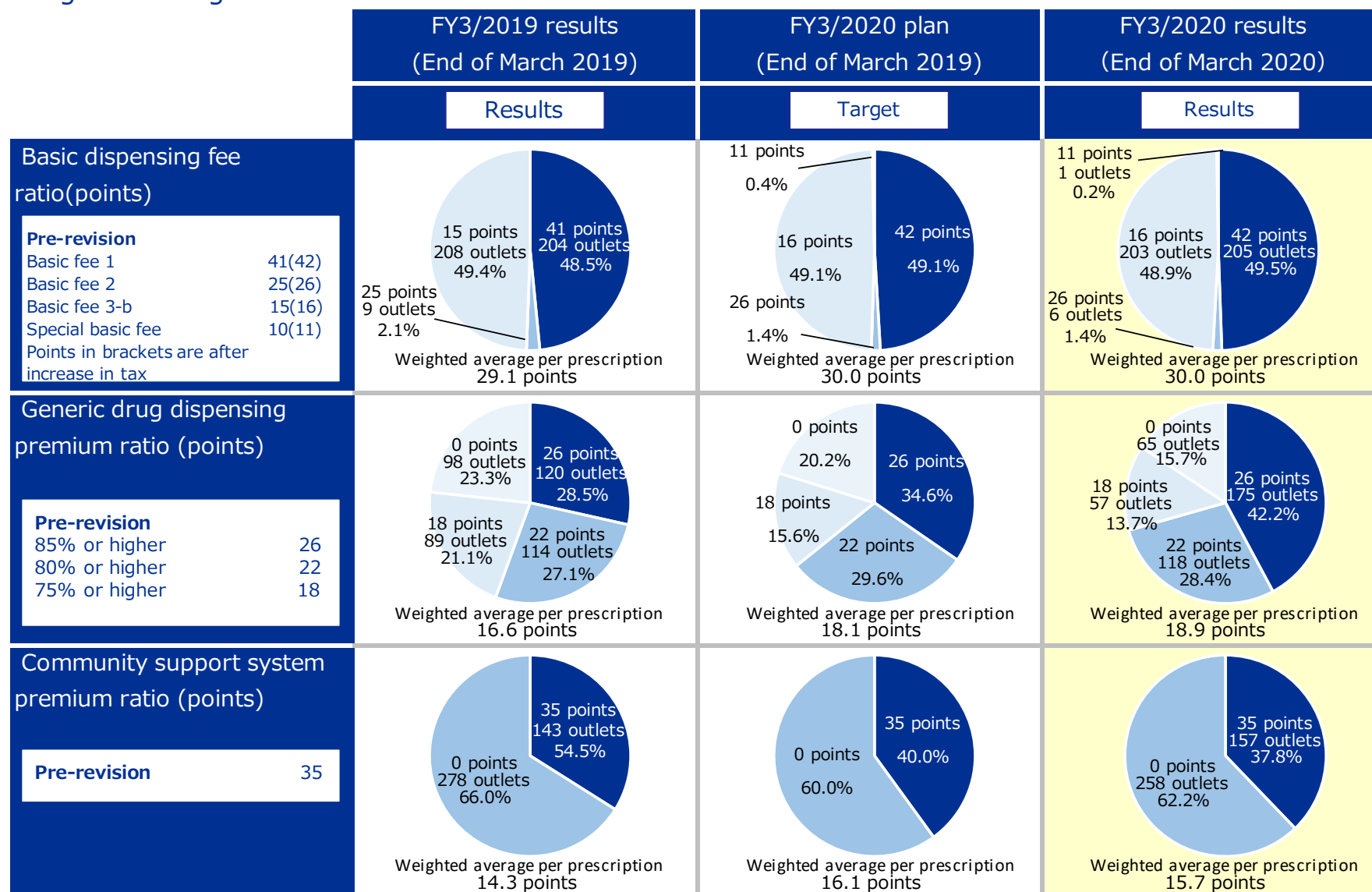
(Unit: yen)



※ "Existing pharmacies" on this page refer to pharmacies continue to be in business on or after April 1, 2018.

Dispensing Pharmacy Business: Influence of the dispensing fee revision

FY3/2020 generally progressing as planned; will continue to promote interpersonal work and use of generic drugs



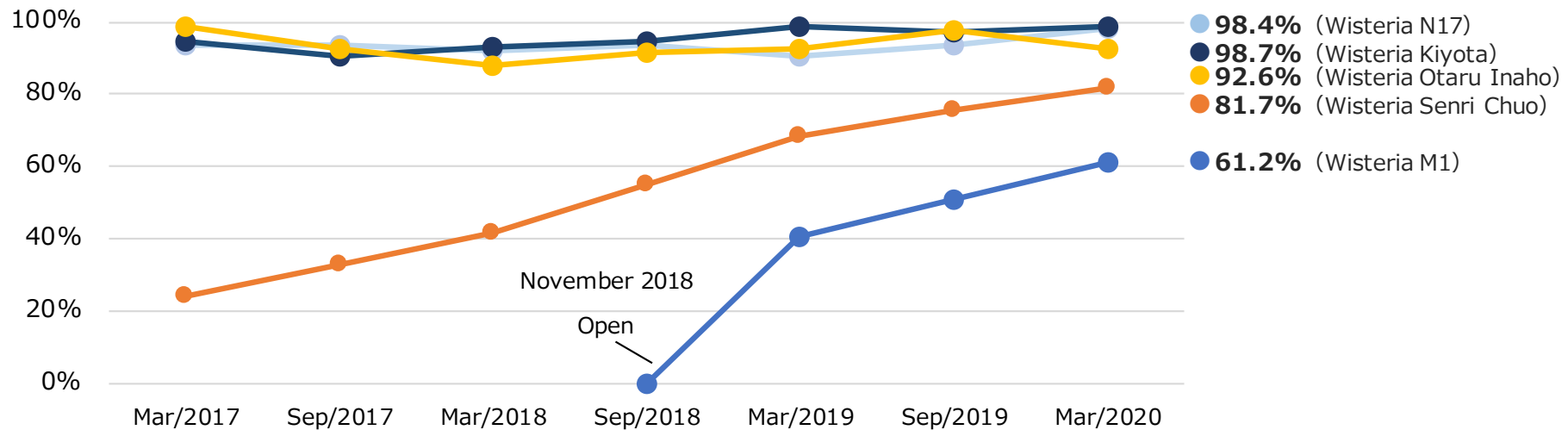
※ Excludes suspended pharmacies (FY03/2019 and FY03/2020 results includes pharmacies closed on March 31)

Leasing and Facility related Business: Building a community where medical care and nursing are one



"Wisteria" Series

Serviced residence for the elderly + dispensing pharmacies, clinics, care offices, nurseries



■ Various efforts to increase occupancy rate



- Social management gathering
Goal: to maintain occupancy by increasing overall satisfaction of occupants
Feedback and requests from occupants and their families are shared with management



- Periodic tours of facilities
Held once a month
M1: from Aug 2019 - Jan 2020
Otaru Inaho: Feb 2020
(currently cancelled due to COVID-19)

Earnings Forecast for FY3/2021 and Core Strategies

FY3/2021: Core strategies

■ Steadily promote business initiatives while handling COVID-19 related challenges

– Will review quantitative goals of Fifth Mid-Term Management considering the wider COVID-19 impact

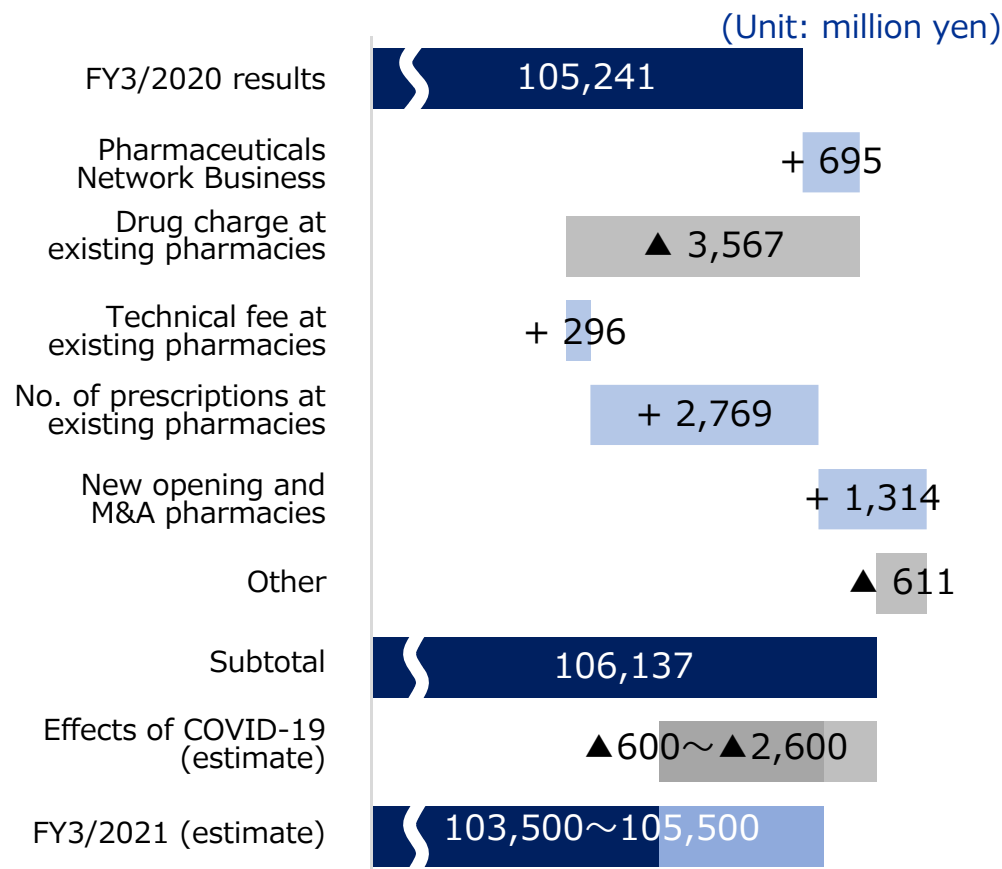
	Summary: first 2 years	Core strategies this term
Community Pharmacy Network Segment	Pharmaceuticals Network Business <ul style="list-style-type: none"> 5,000 affiliates expansion achieved 2 years earlier than anticipated Strengthened roadmap framework for “8 items for streamlining distribution” 	<ul style="list-style-type: none"> ■ Increase 1,200 affiliates ■ Make use of inventory management system; promote streamline distribution
	Dispensing Pharmacy Business <ul style="list-style-type: none"> Start of business efficiency projects Digital medication history; stronger IT for automated ordering Restructure of management in response to notification 0402 from the Ministry of Health, Labor and Welfare 	<ul style="list-style-type: none"> ■ Stronger community pharmacy functions ■ Centralize on generic drugs ■ Increase productivity <ul style="list-style-type: none"> ✓ Secure prescriptions ✓ Improve profit
	Manufacture and Market Pharmaceuticals Business <ul style="list-style-type: none"> Expanded lineup with bundle products 	<ul style="list-style-type: none"> ■ Expand sales to pharmaceutical network affiliates
Leasing and facility related Segment	<ul style="list-style-type: none"> Improved occupancy rates for Wisteria Senri Chuo and M1 	<ul style="list-style-type: none"> ■ Achieve 90% occupancy in all establishments; steady operation
Meal Catering Segment, Home Visit Nursing Segment	<ul style="list-style-type: none"> Base relocation and cost revisions 	<ul style="list-style-type: none"> ■ Steady balance of payments
Finance	<ul style="list-style-type: none"> Responses to large investments 	<ul style="list-style-type: none"> ■ Implement measures to increase equity ratio to goal of 30%
ESG/Health management	<ul style="list-style-type: none"> Recognized as 2020 Certified Health & Productivity Management Outstanding Organization in the “large organization” category 	<ul style="list-style-type: none"> ■ Projects according to SDGs; promote CSR activities

FY3/2021: Earnings forecast (comparison to previous term)



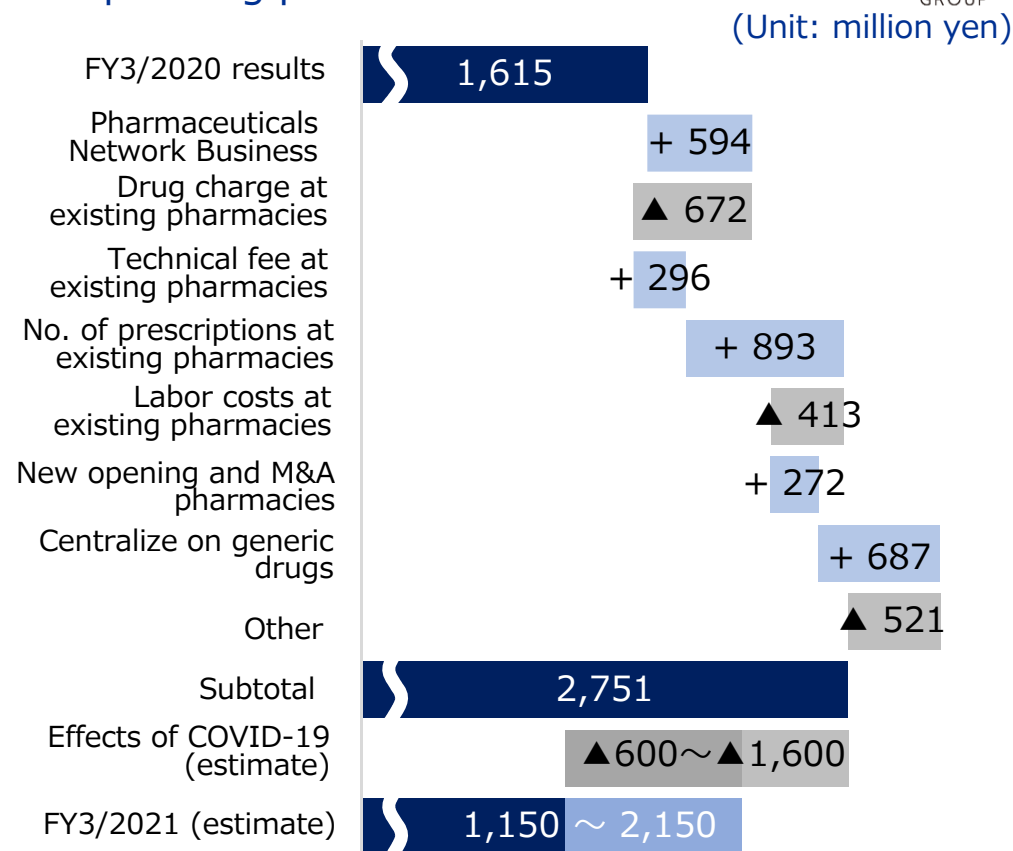
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■ Sales



- ✓ Expecting definite effect on number of processed prescriptions throughout the year due to COVID-19

■ Operating profit



[Reference]

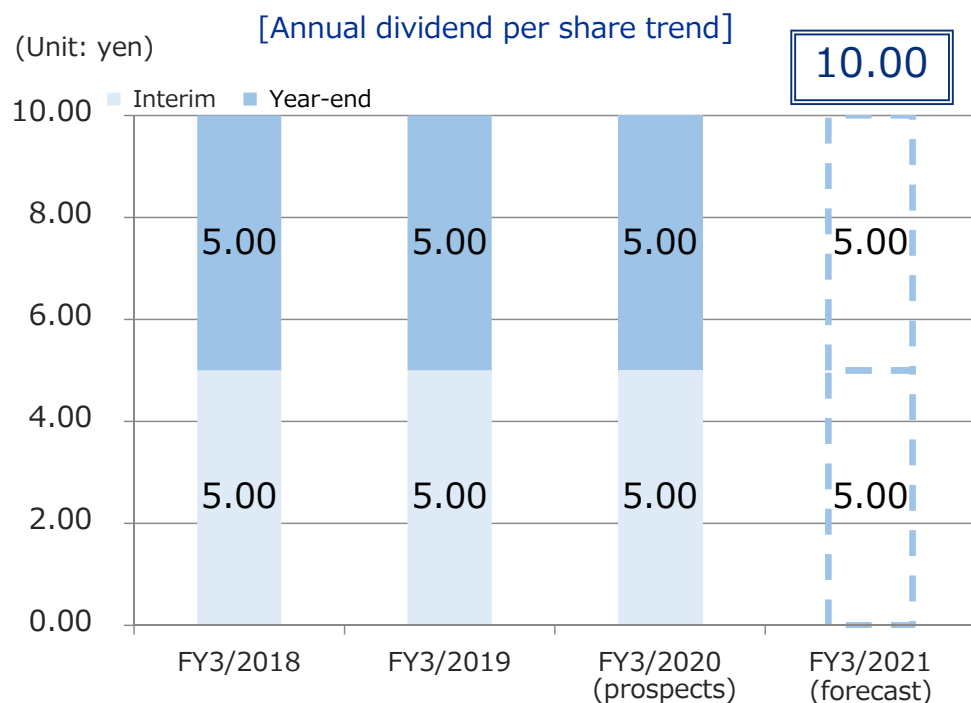
(compared to previous year)	FY3/2020 results	FY3/2021 estimate	
		Without COVID-19	With COVID-19
Number of prescriptions at existing pharmacies	▲ 1.1%	+ 3.3%	▲ 2.7% ~ + 1.2%
Prescription unit price at existing pharmacies	+ 5.6%	▲ 3.7%	▲ 0.9% ~ ▲ 2.2%

※ "Existing pharmacies" refer to pharmacies that continue to be in business on or after April 1, 2019.

FY3/2021: Prospective dividends and treasury share acquisition

■ Prospective dividends

	FY3/2020 (prospects)		FY3/2021 (forecast)
Annual dividend per share	10 yen	➡	10 yen
Dividend payout ratio	—		—



■ Treasury share acquisition

The purpose of treasury share acquisition is to improve shareholder returns and capital efficiency, as well as implement motivational capital policies in response to the changing business environment.

Acquisition details

Share type	MSNW common shares
Share limit	250,000 shares (maximum) 0.81% of issued shares (excluding treasury shares)
Total share price	100,000,000 yen (maximum)
Acquisition period	April 1, 2020 – June 30, 2020
Current shares acquired as of April 30	1,300 shares 519,800 yen
[Reference] As of March 31, 2020	
Total issued shares (excluding treasury shares)	30,641,485 shares
Treasury shares	1,115 shares

Reference Materials

2020 medical fee revision: Effects on results

Main initiatives

- Acquire generic dispensing premiums through promotion of generic drugs
- Acquire community support premiums at pharmacies with basic dispensing fee 1
- Acquire drug adjustment support fee 2 which is calculated by reducing overprescription through documentation with the prescriber

Main revisions	FY3/2020 results (Points per prescription)	FY3/2021 plan (Points per prescription)	FY3/2021 impacts (million yen)	Reference
[Drug price revision]	—	—	▲667 million yen	Existing pharmacies: ▲651M yen
Inventory evaluation loss	—	—	+21 million yen	Current: ▲141M yen (as of April 2020) Previous: ▲163M yen (as of October 2019)
Decrease of drug price difference	—	—	▲688 million yen	Decrease in operating profit following drug price drop Existing pharmacies: ▲672M yen
[Dispensing fee revision]	—	—	+353 million yen	Includes 1~3 below and other fees※ Existing pharmacies: +296M yen
1. Basic dispensing fee	30.0 points	30.2 points	+55 million yen	Drop in special basic dispensing fee points (11 points to 9 points)
2. Generic dispensing premiums	18.9 points	21.2 points	+240 million yen	Change in points for premium 1 and 3
3. Community support premiums	15.7 points	18.3 points	+242 million yen	Rise in points (35 points to 38 points)
Total	—	—	▲314 million yen	Existing pharmacies: ▲ 355M yen

※ Numbers listed are after implementation of main initiatives

Preparing to centralize on generic drugs to improve 687M yen in correspondence to drop in profit

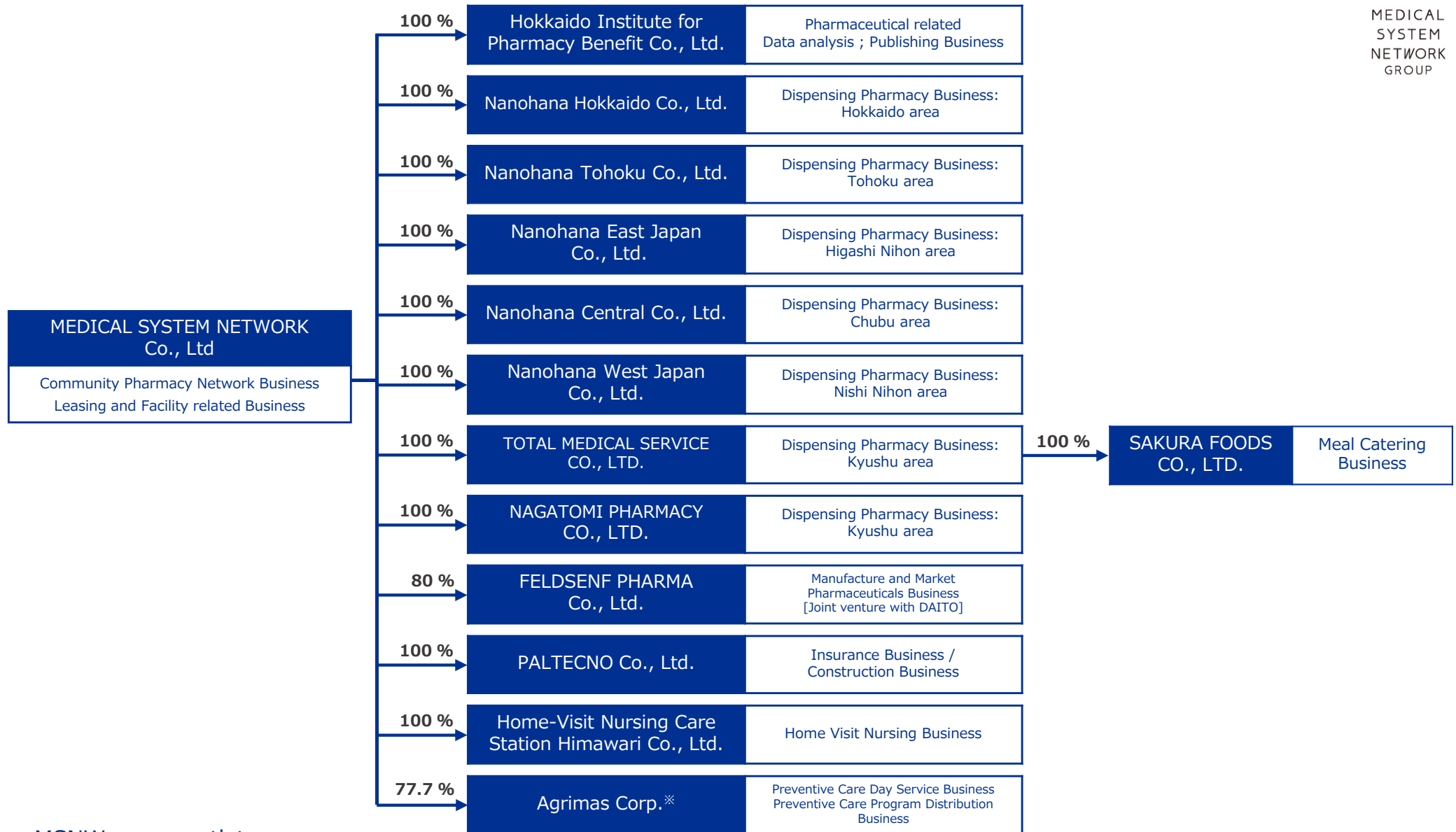
Corporate profile (As of March 31, 2020)



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Company	MEDICAL SYSTEM NETWORK Co., Ltd. ("MSNW")		
Representative	Inao Tajiri President & Representative Director	Businesses	Community Pharmacy Network Segment Leasing and Facility related Segment Meal Catering Segment Home Visit Nursing Segment
Established	September 16, 1999		
Location	24-3 Kitajujo-Nishi, Chuo-ku, Sapporo	Capital	2.128 billion yen
Main consolidated subsidiaries	Hokkaido Institute for Pharmacy Benefit Co., Ltd. Nanohana Hokkaido Co., Ltd. Nanohana Tohoku Co., Ltd. Nanohana East Japan Co., Ltd. Nanohana Central Co., Ltd. Nanohana West Japan Co., Ltd. TOTAL MEDICAL SERVICE CO., LTD. NAGATOMI PHARMACY CO., LTD. FELDSENF PHARMA Co., Ltd.	Shareholders composition	<p>Excluding shares less than one unit. Treasury shares are included in Individuals and Others.</p>
Employees	262 (3,205 consolidated)	Total Shareholders	7,709
Stock listing	First Section of Tokyo Stock Exchange	Securities code	4350
		Outstanding shares	30,642,600

Organization chart (As of May 1, 2020)



MSNW group outlets:
total 427 outlets

(Includes care plan center (1), cosmetic/drug stores (8), and home-nurse stations (3))

※ Not consolidated

MEDICAL SYSTEM NETWORK Co., Ltd.

<https://www.msnw.co.jp/>

MSNW

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