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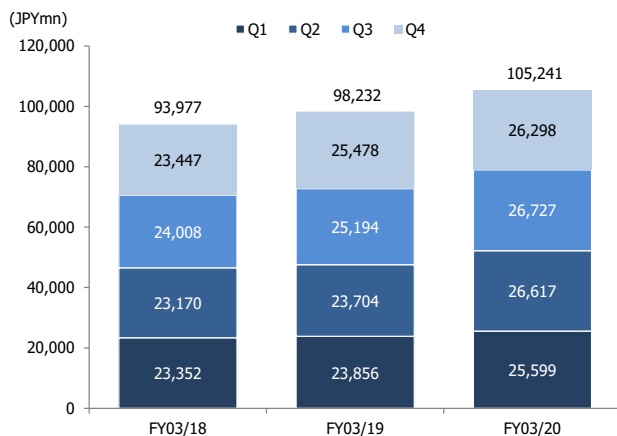
On **May 8, 2020**, Medical System Network Co., Ltd. announced earnings results for full-year FY03/20.

Cumulative (JPY mn)	FY03/19				FY03/20				FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	23,856	47,560	72,754	98,232	25,599	52,216	78,943	105,241	100.2%	105,000
YoY	2.2%	2.2%	3.2%	4.5%	7.3%	9.8%	8.5%	7.1%		6.9%
Gross profit	9,079	17,887	27,527	37,271	9,839	19,819	30,225	40,214		
YoY	0.1%	-1.2%	0.0%	1.8%	8.4%	10.8%	9.8%	7.9%		
GPM	38.1%	37.6%	37.8%	37.9%	38.4%	38.0%	38.3%	38.2%		
SG&A expenses	8,867	17,410	26,487	35,842	9,504	19,022	28,997	38,599		
YoY	4.6%	3.4%	5.0%	7.2%	7.2%	9.3%	9.5%	7.7%		
SG&A ratio	37.2%	36.6%	36.4%	36.5%	37.1%	36.4%	36.7%	36.7%		
Operating profit	212	476	1,040	1,428	334	796	1,228	1,615	105.6%	1,530
YoY	-64.2%	-62.5%	-54.5%	-54.9%	57.5%	67.2%	18.1%	13.1%		7.1%
OPM	0.9%	1.0%	1.4%	1.5%	1.3%	1.5%	1.6%	1.5%		1.5%
Recurring profit	192	438	1,010	1,501	323	784	1,208	1,560	104.0%	1,500
YoY	-67.5%	-65.6%	-56.7%	-53.8%	68.2%	79.0%	19.6%	3.9%		-0.1%
RPM	0.8%	0.9%	1.4%	1.5%	1.3%	1.5%	1.5%	1.5%		1.4%
Net income	101	119	372	462	97	218	326	-895	-	-250
YoY	-65.1%	-67.2%	-60.6%	-54.8%	-4.0%	83.2%	-12.4%	-		-
Net margin	0.4%	0.3%	0.5%	0.5%	0.4%	0.4%	0.4%	-		-

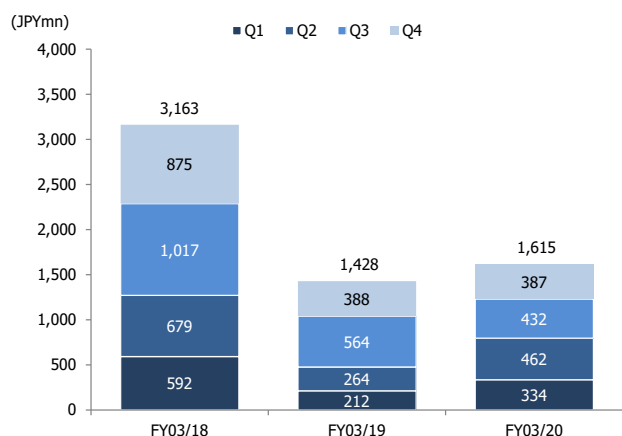
Quarterly (JPY mn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	23,856	23,704	25,194	25,478	25,599	26,617	26,727	26,298
YoY	2.2%	2.3%	4.9%	8.7%	7.3%	12.3%	6.1%	3.2%
Gross profit	9,079	8,808	9,640	9,744	9,839	9,980	10,406	9,989
YoY	0.1%	-2.6%	2.5%	7.2%	8.4%	13.3%	7.9%	2.5%
GPM	38.1%	37.2%	38.3%	38.2%	38.4%	37.5%	38.9%	38.0%
SG&A expenses	8,867	8,543	9,077	9,355	9,504	9,518	9,975	9,602
YoY	4.6%	2.2%	8.2%	13.8%	7.2%	11.4%	9.9%	2.6%
SG&A ratio	37.2%	36.0%	36.0%	36.7%	37.1%	35.8%	37.3%	36.5%
Operating profit	212	264	564	388	334	462	432	387
YoY	-64.2%	-61.1%	-44.5%	-55.7%	57.5%	75.0%	-23.4%	-0.3%
OPM	0.9%	1.1%	2.2%	1.5%	1.3%	1.7%	1.6%	1.5%
Recurring profit	192	246	572	491	323	461	424	352
YoY	-67.5%	-63.9%	-46.1%	-46.4%	68.2%	87.4%	-25.9%	-28.3%
RPM	0.8%	1.0%	2.3%	1.9%	1.3%	1.7%	1.6%	1.3%
Net income	101	18	253	90	97	121	108	-1,221
YoY	-65.1%	-75.7%	-56.5%	15.4%	-4.0%	572.2%	-57.3%	-
Net margin	0.4%	0.1%	1.0%	0.4%	0.4%	0.5%	0.4%	-

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly sales



Quarterly operating profit



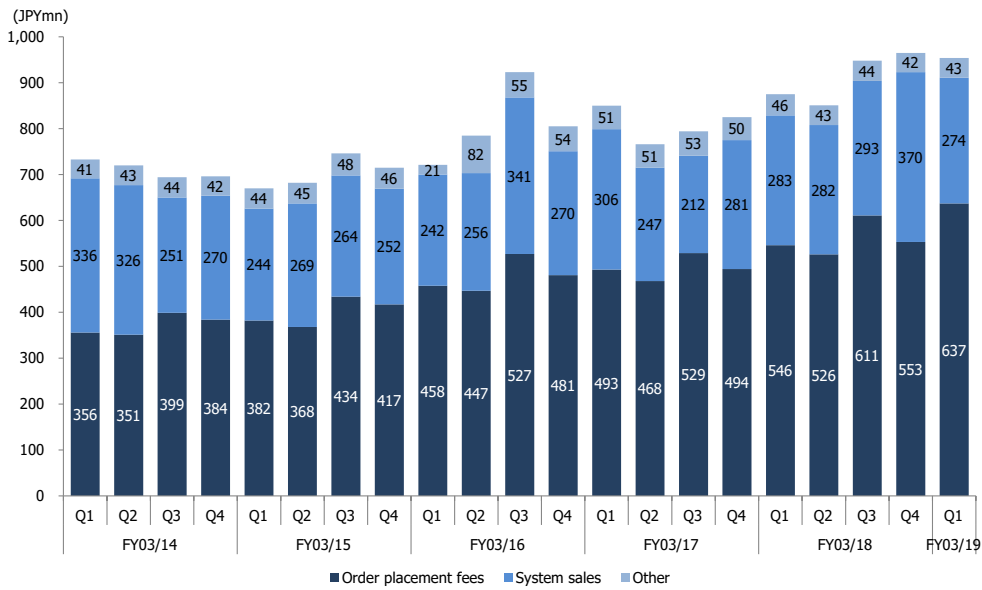
Source: Shared Research based on company data

Quarterly results

By segment (cumulative)		FY03/19				FY03/19				FY03/20				FY03/20	
(JPYmm)		Q1	Q2	Q3	Q4	Q1 retro	Q2 retro	Q3 retro	Q4 retro	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales		23,856	47,560	72,754	98,232	23,856	47,560	72,754	52,216	25,599	52,216	78,943	105,241	100.2%	105,000
YoY		2.2%	2.2%	3.2%	4.5%	2.2%	2.2%	3.2%	9.8%	7.3%	9.8%	8.5%	7.1%		6.9%
Pharmaceuticals Network		955	1,818	2,897	3,951	22,564	44,717	68,408	49,290	24,224	49,290	74,636	99,617		
YoY		9.1%	5.2%	8.3%	8.6%	-	-	-	10.2%	7.4%	10.2%	9.1%	7.9%		
% of total		3.9%	3.7%	4.0%	4.0%	94.1%	94.7%	94.4%	93.6%	94.1%	93.6%	93.8%	94.0%		
Dispensing Pharmacy		22,222	44,035	67,291	90,706	-	-	-	-	-	-	-	-		
YoY		3.2%	2.7%	3.2%	4.1%	-	-	-	-	-	-	-	-		
% of total		90.3%	89.8%	91.8%	91.7%	-	-	-	-	-	-	-	-		
Leasing and Facility-related		600	1,508	2,382	3,320	600	1,508	2,382	1,829	760	1,829	2,659	3,425		
YoY		15.2%	38.9%	52.6%	63.5%	15.2%	38.9%	52.6%	21.3%	26.7%	21.3%	11.6%	3.2%		
% of total		2.4%	3.1%	3.3%	3.4%	2.5%	3.1%	3.3%	3.5%	3.0%	3.5%	3.3%	3.2%		
Food Service		788	1,586	2,382	3,161	788	1,586	2,382	1,434	730	1,434	2,128	2,797		
YoY		-31.8%	-31.0%	-27.4%	-23.0%	-31.8%	-31.0%	-27.4%	-9.6%	-7.4%	-9.6%	-10.7%	-11.5%		
% of total		3.2%	3.2%	3.3%	3.2%	3.3%	3.2%	3.3%	2.7%	2.8%	2.7%	2.7%	2.6%		
Other		33	91	166	261	33	91	166	79	38	79	122	165		
YoY		0.0%	71.7%	133.8%	183.7%	0.0%	71.7%	133.8%	-13.2%	15.2%	-13.2%	-26.5%	-36.8%		
% of total		0.1%	0.2%	0.2%	0.3%	0.1%	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	0.2%		
Segment sales adjustments		-743	-1,479	-523	-674	-130	320	320	-417	-154	-417	-603	-764		
Operating profit		212	476	1,040	1,428	212	476	1,040	796	334	796	1,228	1,615	105.6%	1,530
YoY		-64.2%	-62.5%	-54.5%	-54.9%	-64.2%	-62.5%	-54.5%	67.2%	57.5%	67.2%	18.1%	13.1%		7.1%
Pharmaceuticals Network		554	1,060	1,697	2,331	642	1,227	2,332	1,736	825	1,736	2,764	3,743		
YoY		17.6%	13.5%	17.5%	19.6%	-	-	-	41.5%	28.5%	41.5%	18.5%	13.0%		
OPM		58.0%	58.3%	58.6%	59.0%	2.8%	2.7%	3.4%	3.5%	3.4%	3.5%	3.7%	3.8%		
Dispensing Pharmacy		130	202	712	1,068	-	-	-	-	-	-	-	-		
YoY		-78.0%	-83.4%	-67.8%	-65.1%	-	-	-	-	-	-	-	-		
OPM		0.6%	0.5%	1.1%	1.2%	-	-	-	-	-	-	-	-		
Leasing and Facility-related		-32	10	-51	-84	-32	10	-51	68	-8	68	67	45		
YoY		-	-	-	-	-	-	-	580.0%	-	580.0%	-	-		
OPM		-	0.7%	-	-	-	0.7%	-	-	-	-	-	-		
Food Service		1	18	28	34	1	18	28	-34	-12	-34	-38	-43		
YoY		-80.0%	-47.1%	-42.9%	-24.4%	-80.0%	-47.1%	-42.9%	-	-	-	-	-		
OPM		0.1%	1.1%	1.2%	1.1%	0.1%	1.1%	1.2%	-	-	-	-	-		
Other		-36	-57	-82	-101	-29	-57	-82	-39	-21	-39	-56	-71		
YoY		-	-	-	-	-	-	-	-	-	-	-	-		
OPM		-	-	-	-	-	-	-	-	-	-	-	-		
Segment profit adjustments		-405	-721	-1,186	-1,733	-369	-721	-721	-934	-447	-934	-1,508	-2,057		
By segment (quarterly)		FY03/19				FY03/19				FY03/20					
(JPYmm)		Q1	Q2	Q3	Q4	Q1 retro	Q2 retro	Q3 retro	Q4 retro	Q1	Q2	Q3	Q4		
Sales		23,856	23,704	25,194	25,478	23,856	23,704	25,194	26,617	25,599	26,617	26,727	26,298		
YoY		2.2%	2.3%	4.9%	8.7%	2.2%	2.3%	4.9%	12.3%	7.3%	12.3%	6.1%	3.2%		
Pharmaceuticals Network		955	863	1,079	1,054	22,564	22,153	23,691	25,066	24,224	25,066	25,346	24,981		
YoY		9.1%	1.2%	13.9%	9.3%	-	-	-	13.1%	7.4%	13.1%	7.0%	4.6%		
% of total		4.4%	3.5%	4.5%	4.1%	94.1%	95.3%	94.0%	93.3%	96.6%	93.3%	94.2%	94.4%		
Leasing and Facility-related		600	908	874	938	600	908	874	1,069	760	1,069	830	766		
YoY		15.2%	60.7%	84.0%	99.6%	-	-	-	17.7%	26.7%	17.7%	-5.0%	-18.3%		
% of total		2.8%	3.7%	3.6%	3.7%	2.5%	3.9%	3.5%	4.0%	3.0%	4.0%	3.1%	2.9%		
Food Service		788	798	796	779	788	798	796	704	730	704	694	669		
YoY		-31.8%	-30.1%	-18.9%	-5.5%	-	-	-	-11.8%	-7.4%	-11.8%	-12.8%	-14.1%		
% of total		3.7%	3.3%	3.3%	3.0%	3.3%	3.4%	3.2%	2.6%	2.9%	2.6%	2.6%	2.5%		
Other		33	58	75	95	33	58	75	41	38	41	43	43		
YoY		0.0%	190.0%	316.7%	352.4%	-	-	-	-29.3%	15.2%	-29.3%	-42.7%	-54.7%		
% of total		0.2%	0.2%	0.3%	0.4%	0.1%	0.2%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%		
Segment sales adjustments		2,320	-736	956	-151	-130	450	-	-263	520	-263	-186	-161		
Operating profit		212	264	564	388	212	264	564	462	334	462	432	387		
YoY		-64.2%	-61.1%	-44.5%	-55.7%	-64.2%	-61.1%	-44.5%	75.0%	57.5%	75.0%	-23.4%	-0.3%		
Pharmaceuticals Network		554	506	637	634	642	585	1,105	911	825	911	1,028	979		
YoY		17.6%	9.3%	24.9%	25.5%	-	-	-	80.0%	28.5%	80.0%	61.4%	-		
OPM		58.0%	58.6%	59.0%	60.2%	2.8%	2.6%	4.7%	3.6%	3.4%	3.6%	4.1%	-		
Dispensing Pharmacy		130	72	510	356	-	-	-	-	-	-	-	-		
YoY		-78.0%	-88.6%	-48.5%	-58.1%	-	-	-	-	-	-	-	-		
OPM		0.6%	0.3%	2.2%	1.5%	-	-	-	-	-	-	-	-		
Leasing and Facility-related		-32	42	-61	-33	-32	42	-61	76	-8	76	-1	-22		
YoY		-	-	-	-	-	-	-	-	-	-	-	-		
OPM		-	4.6%	-	-	-	-	-	7.1%	-	7.1%	-	-		
Food Service		1	17	10	6	1	17	10	-22	-12	-22	-4	-5		
YoY		-80.0%	-41.4%	-33.3%	-250.0%	-	-	-	-	-	-	-	-		
OPM		0.1%	2.1%	1.3%	0.8%	0.1%	2.1%	1.3%	-	-	-	-	-		
Other		-36	-21	-25	-19	-29	-28	-25	-18	-21	-18	-17	-15		
YoY		-	-	-	-	-	-	-	-	-	-	-	-		
OPM		-	-	-	-	-	-	-	-	-	-	-	-		
Segment profit adjustments		-405	-316	-465	-547	-369	-352	-	-487	-447	-487	-574	-549		

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

(Reference) Pharmaceuticals Network segment sales

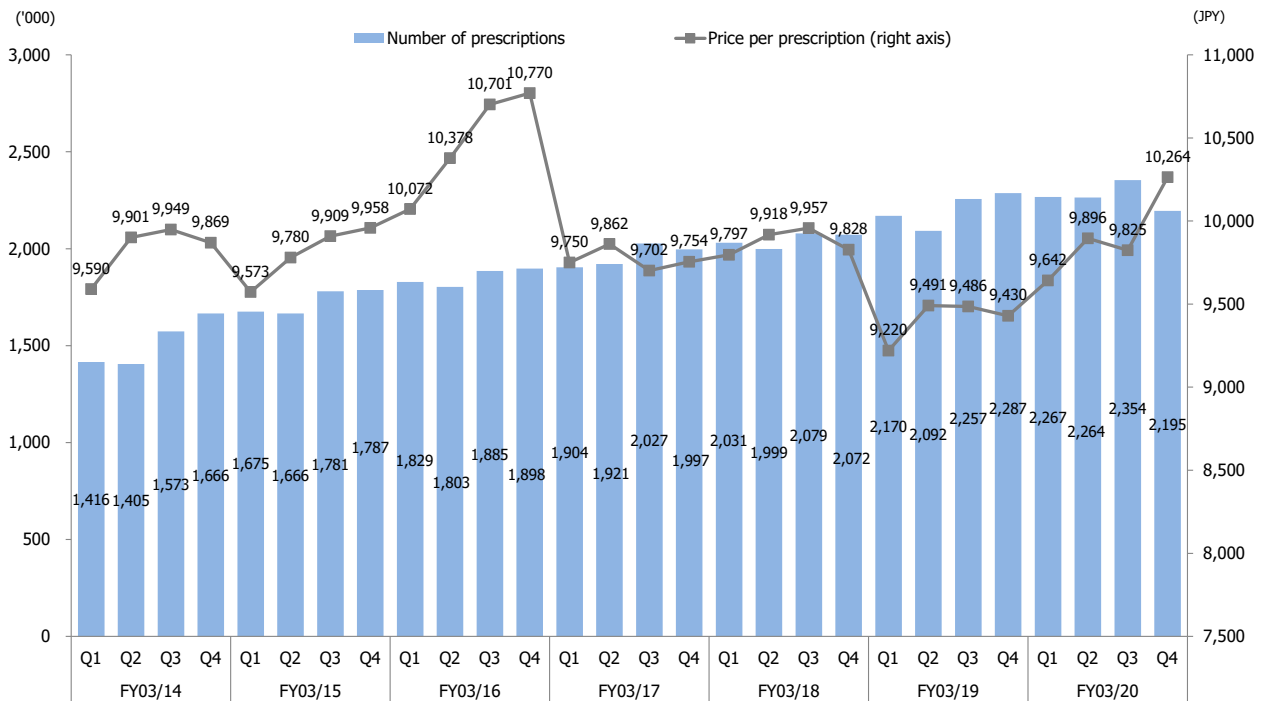


Source: Shared Research based on company data

Notes: Undisclosed from Q2 FY03/19

Integrated into the Community Pharmacy Network segment from FY03/20

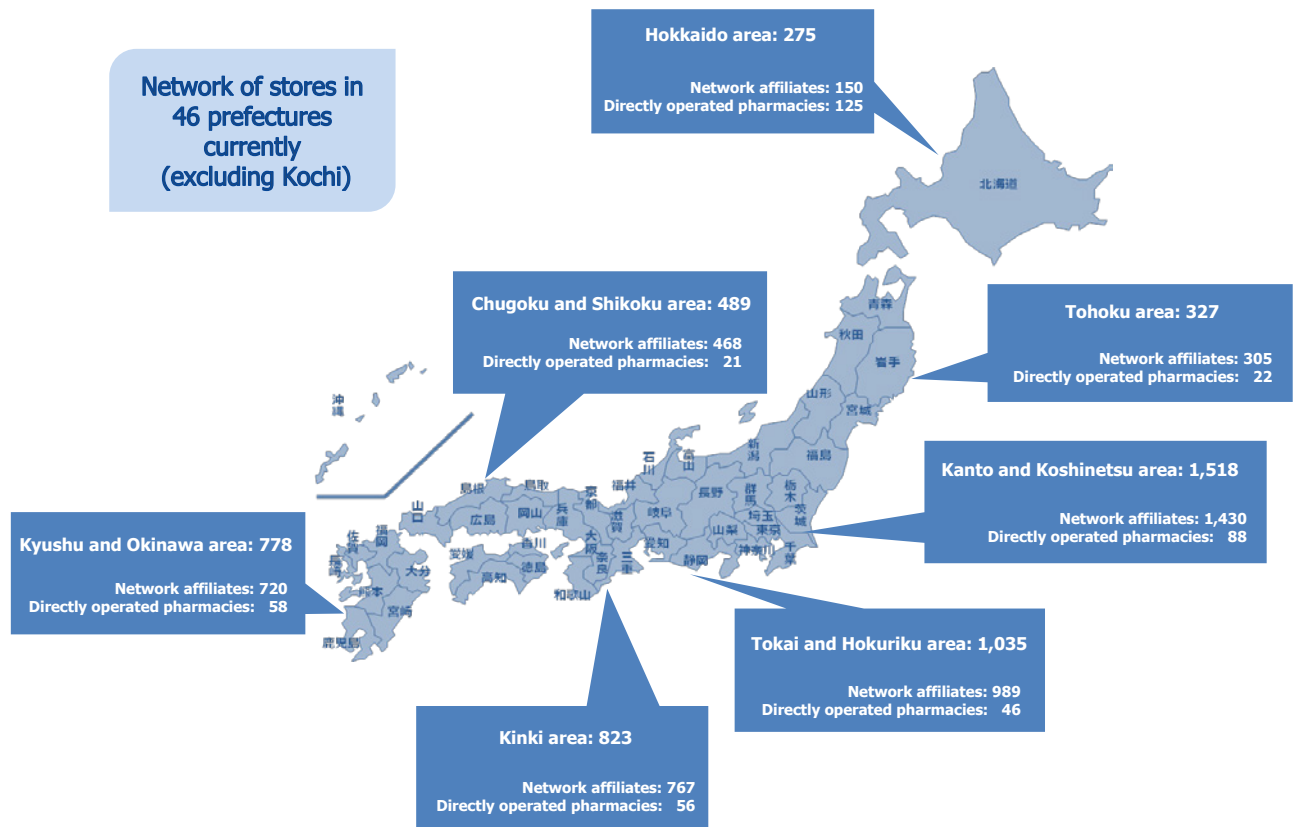
Quarterly trends in prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy business; all stores)



Source: Shared Research based on company data

Note: NHI drug price and dispensing fee revisions were put into effect on April 1, 2014, April 1, 2016, and April 1, 2018.

Distribution of network members (as of March 31, 2020)



Source: Shared Research based on company data

Number of dispensing pharmacies by region

Region	Directly operated pharmacies	Affiliates	Total network members
Hokkaido	125	150	275
Tohoku	22	305	327
Kanto and Koshinetsu	88	1,430	1,518
Tokai and Hokuriku	46	989	1035
Kinki	56	767	823
Chugoku and Shikoku	21	468	489
Kyushu and Okinawa	58	720	778
Total	416	4,829	5,245

Source: Shared Research based on company data (March 31, 2020)

Full-year FY03/20 earnings results (out May 8, 2020)

Overview

FY03/20 (April 2019 to March 2020) earnings results

- ▷ Sales: JPY105.2bn (+7.1% YoY)
- ▷ Operating profit: JPY1.6bn (+13.0% YoY)
- ▷ Recurring profit: JPY1.6bn (+3.9% YoY)
- ▷ Net loss*: JPY895mn (profit of JPY462mn)

*Net income/loss attributable to owners of the parent

- ▷ Business environment: NHI drug price and dispensing fee revisions were conducted in April 2018. Dispensing pharmacies had to streamline their management structures following the implementation of the MHLW “Guidelines for the Improvement of commercial transaction practices of ethical drugs for manufacturers, wholesalers, and medical institutions/pharmacies,” whose purpose was to ensure stable supply of ethical drugs.
- ▷ Company response and business conditions: Performance was strong at the core Community Pharmacy Network segment, fueled by steady expansion in the Pharmaceuticals Network business and contributions to the Dispensing Pharmacy business from pharmacies acquired in FY03/19 via M&A. There was also a rise in the average value of prescriptions filled in tandem with growth in long-term prescriptions and an increase in high-value prescriptions filled. The number of prescriptions filled, though, stagnated owing to fewer medical examinations as a result of COVID-19 and a low rate of influenza transmission compared to previous years.

Segment performance

Community Pharmacy Network

This is a new segment that integrates the former Pharmaceuticals Network business, the Dispensing Pharmacy business, and the manufacture and market pharmaceuticals business (mainly Feldsenf Pharma) previously included in Other.

Full-year FY03/20 (April 2019 to March 2020) segment earnings results

- ▷ Segment sales: JPY99.6bn (+7.9% YoY; includes internal sales or transfers between segments; same hereafter)
- ▷ Segment profit: JPY3.7bn (+13.0% YoY)
- ▷ Pharmaceuticals Network division: The number of new network members showed a strong increase driven by the need for improved distribution efficiency. As at end-March 2020, the number of network members was 5,245 (up 1,455 from end-FY03/19). This consisted of 416 directly operated pharmacies and 4,829 affiliates.
- ▷ Dispensing Pharmacy division: In addition to the contribution from stores acquired via M&A, sales at existing pharmacies remained steady. As at end-March 2020, there were 416 dispensing pharmacies, one care plan center, and eight cosmetic/drug stores.
- ▷ Manufacture and market pharmaceuticals division: This business aims to provide a stable supply of good-quality, low-priced generic drugs. The company sold 23 ingredients and 51 products as of end-March 2020.

Leasing and Facility-related

Full-year FY03/20 (April 2019 to March 2020) segment earnings results

- ▷ Segment sales: JPY3.4bn (+3.2% YoY)
- ▷ Segment profit: JPY45mn (loss of JPY84mn in FY03/19)

- ▷ The reason for sales and profit growth: Steady inflow of leasing revenue and rise in occupancy at the company's serviced elderly housing facilities contributed to earnings growth. The number of occupied units as of end-March 2020 was 67 out of 82 units total at Wisteria Senri-Chuo, and 71 out of 116 units total at Wisteria Minami Ichijo. The company continued to carry out aggressive sales activities.

Food Service

Full-year FY03/20 (April 2019 to March 2020) segment earnings results

- ▷ Segment sales: JPY2.8bn (-11.5% YoY)
- ▷ Segment loss: JPY43mn (profit of 34mn in FY03/19)
- ▷ Business reforms: Despite withdrawal from certain unprofitable facilities and pricing adjustments made to contracts, segment profit fell from higher labor costs as the company employed temporary resources in response to staff shortage.

Other

The main business is home-visit nursing care.

Full-year FY03/20 (April 2019 to March 2020) segment earnings results

- ▷ Segment sales: JPY165mn (+17.1% YoY)
- ▷ Segment loss: JPY71mn (loss of JPY101mn in FY03/19)

Full-year FY03/21 company forecasts

Recent performance and FY03/21 company forecasts

(JPYmn)	FY03/18			FY03/19			FY03/20			FY03/21
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.
Sales	46,522	47,455	93,977	47,560	50,672	98,232	52,216	53,025	105,241	103,500-105,500
YoY	7.2%	4.4%	5.8%	2.2%	6.8%	4.5%	9.8%	4.6%	7.1%	-
Cost of sales	28,413	28,957	57,370	29,673	31,288	60,961	32,397	32,630	65,027	
Gross profit	18,109	18,498	36,607	17,887	19,384	37,271	19,819	20,395	40,214	
GPM	38.9%	39.0%	39.0%	37.6%	38.3%	37.9%	38.0%	38.5%	38.2%	
SG&A expenses	16,837	16,607	33,444	17,410	18,432	35,842	19,022	19,577	38,599	
SG&A ratio	36.2%	35.0%	35.6%	36.6%	36.4%	36.5%	36.4%	36.9%	36.7%	
Operating profit	1,271	1,892	3,163	476	952	1,428	796	819	1,615	1,150-2,150
YoY	131.5%	21.0%	49.7%	-62.5%	-49.7%	-54.9%	67.2%	-14.0%	13.1%	-
OPM	2.7%	4.0%	3.4%	1.0%	1.9%	1.5%	1.5%	1.5%	1.5%	-
Recurring profit	1,272	1,978	3,250	438	1,063	1,501	784	776	1,560	1,100-2,100
YoY	134.7%	26.2%	54.1%	-65.6%	-46.3%	-53.8%	79.0%	-27.0%	3.9%	-
RPM	2.7%	4.2%	3.5%	0.9%	2.1%	1.5%	1.5%	1.5%	1.5%	-
Net income	363	659	1,022	119	343	462	218	-1,113	-895	-
YoY	450.0%	30.5%	79.0%	-67.2%	-48.0%	-54.8%	83.2%	-424.5%	-293.7%	-
Net margin	0.8%	1.4%	1.1%	0.3%	0.7%	0.5%	0.4%	-2.1%	-0.9%	-

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

- ▷ The company issued its full-year FY3/21 forecast in range form, citing uncertainty over the extent of effects from COVID-19. It is projecting full-year consolidated sales of JPY103.5–105.0bn (-1.7% to +0.2% YoY), operating profit of JPY1.2–2.2bn (-28.8% to +33.1% YoY), and recurring profit of JPY1.1–2.1bn (-29.5% to +34.6% YoY), with no forecast for net income (losses) attributable to owners of the parent.
- ▷ It targets an earnings recovery driven by growth in the number of network members at the Pharmaceuticals Network business, contributions to the Dispensing Pharmacy business from stores acquired via M&A, greatly diminished investment in dispensing pharmacy IT systems, and increased occupancy at serviced elderly housing facilities run by the Leasing and Facility-related segment. Medical System Network has chosen to issue forecasts in range form, though, as COVID-19 already has caused a

downturn in the number of prescriptions filled, and moreover it remains difficult to predict when spread of the virus will be contained.

This note is the most recent addition to the [full report](#).

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