



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

First Quarter of Fiscal Year Ending March 2021

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.
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Please see the following link for our English information.

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

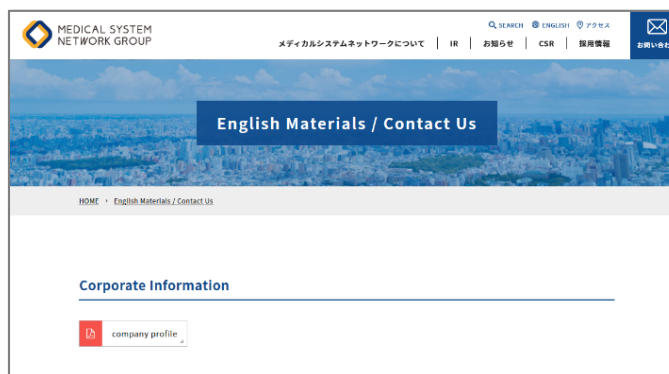


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Earnings Highlight

FY3/2021 1Q : Consolidated results

Earnings Summary

- Steady growth of network affiliates
- Despite an increased ratio of longer-term prescriptions and rising unit price, we saw an operating loss on a decrease in number of prescriptions and medical examinations (loss within budget range).

	FY3/2020 1Q	FY3/2021 1Q	Year-on-year		FY3/2021 Full year forecast ^{*2}
			Change	Change (%)	
(Unit: million yen)					
Net sales	25,599	25,162	(436)	(1.7%)	103,500 ~ 105,500
Operating profit	334	(61)	(396)	—	1,150 ~ 2,150
Profit margin	1.3%	—			1.1% ~ 2.0%
Ordinary profit	323	(62)	(385)	—	1,100 ~ 2,100
Profit margin	1.3%	—			1.1% ~ 2.0%
Profit attributable owners of parent	97	(201)	(298)	—	—
Profit margin	0.4%	—			
Earnings per share (Yen)	3.21	(6.63)	(9.84)	—	—
EBITDA ^{*1}	1,062	658	(404)	(38.0%)	—

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

*2 Range used to account any influence from COVID-19

FY3/2021 1Q : Results in each segment part



Earnings Summary

- Pharmaceuticals Network Business : Steady growth of network affiliates; significant decrease in number of prescriptions as a result of COVID-19
- Other 3 segments: Decrease in level of operating loss on improving profitability mix and increase in occupancy at our Wisteria properties

Net sales

(Unit: million yen)

	FY3/2020 1Q	FY3/2021 1Q	Change	Change (%)
Net sales	25,599	25,162	(436)	(1.7%)
Community Pharmacy Network Segment ^{*1}	24,224	23,922	(302)	(1.2%)
Other 3 Segments ^{*2}	1,529	1,386	(142)	(9.3%)
Adjustments	(154)	(146)	+ 8	—

Operating profit

(Unit: million yen)

	FY3/2020 1Q	Profit margin	FY3/2021 1Q	Profit margin	Change	Change (%)
Segment profit	334	1.3%	(61)	—	(396)	—
Community Pharmacy Network Segment ^{*1}	825	3.4%	434	1.8%	(391)	(1.6 pt)
Other 3 Segments ^{*2}	(43)	—	(24)	—	+18	—
Adjustments	(447)	—	(472)	—	(24)	—

*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

FY3/2021 1Q : Consolidated balance sheet

Point

Assets: decrease in cash and deposits and goodwill

Liabilities and net assets: decrease in bonus provisions and retained earnings

■ 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%)

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

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

■ End of FY3/2021 1Q

(Unit: million yen)

Assets	65,440	Liabilities	56,406
Current assets	20,101	Current liabilities	23,822
Cash and deposits	10,834	Short-term loans ^{*1}	10,219
		Fixed liabilities	32,584
Fixed assets	45,339	Long-term loans	26,500
Tangible fixed assets	24,973	Net assets	9,034
Intangible fixed assets	14,314	Capital stock	2,128
Goodwill	13,885	Capital surplus	1,182
Investments and other assets	6,051	Retained earnings	6,058
		Treasury stock	(225)
Total assets	65,440	Total liabilities and net assets	65,440

Equity ratio

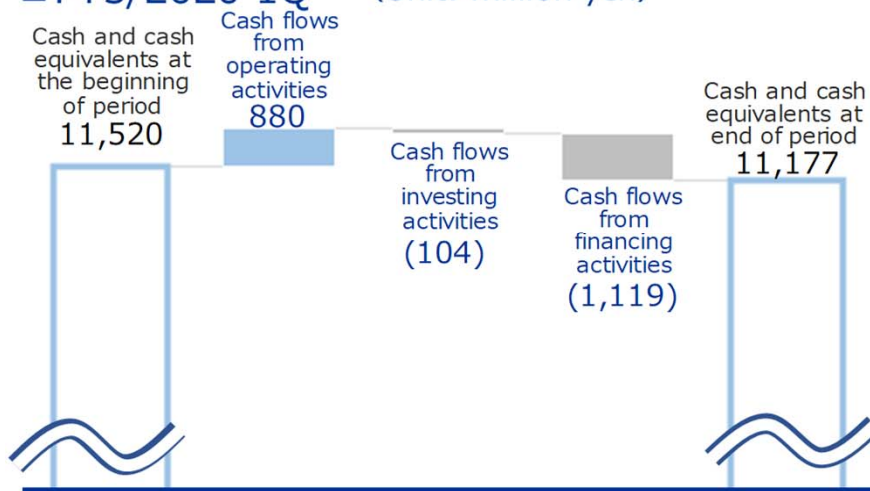
13.8%

(Equity ratio with taking into account net cash^{*2} 16.5%)

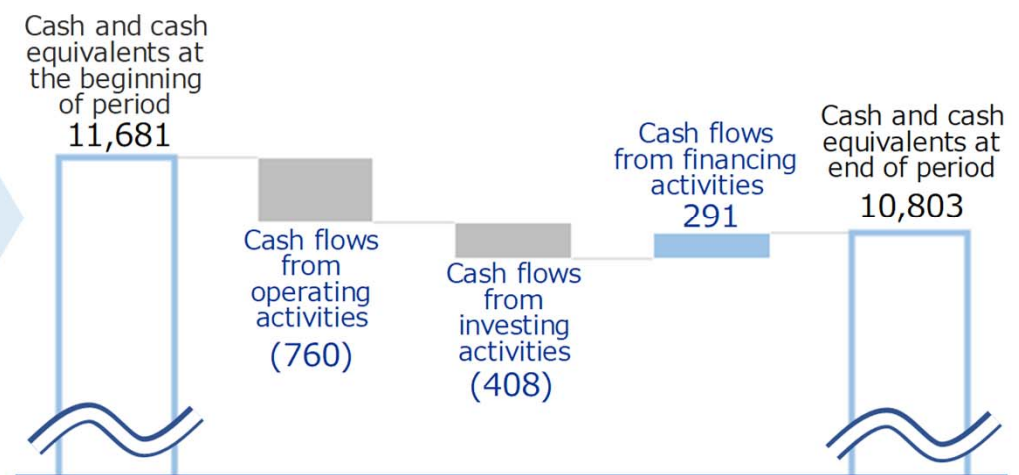
FY3/2021 1Q : Consolidated cash flows

Cash flows from operating activities	(760) million yen	EBITDA* Income taxes paid Increasing working capital	658 million yen (520) million yen (631) million yen
		* Calculated by "operating profit + depreciation + amortization of goodwill"	
Cash flows from investing activities	(408) million yen	Acquisition of buildings, etc.	(323) million yen
Cash flows from financing activities	291 million yen	Loan amount reduced Repayments of lease obligations Cash dividends paid	568 million yen (98) million yen (147) million yen

■ FY3/2020 1Q (Unit: million yen)



■ FY3/2021 1Q (Unit: million yen)



Topics

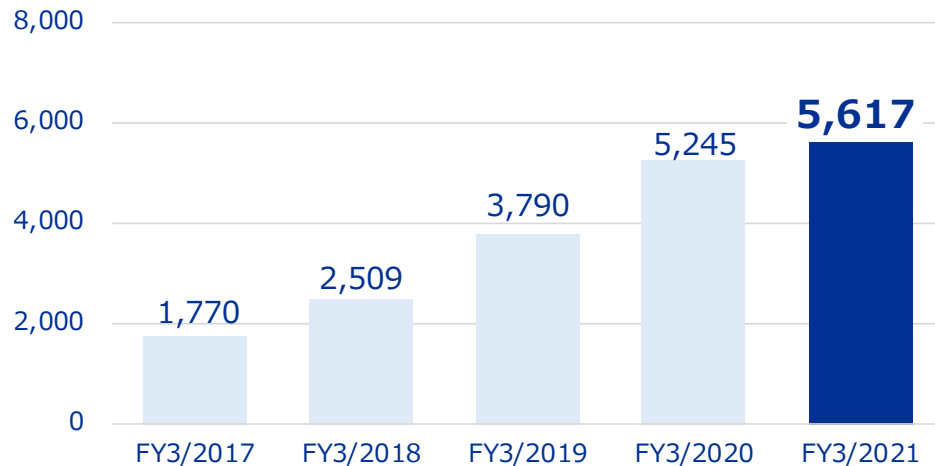
Pharmaceuticals Network Business: Earnings summary

(as of June 30, 2020)

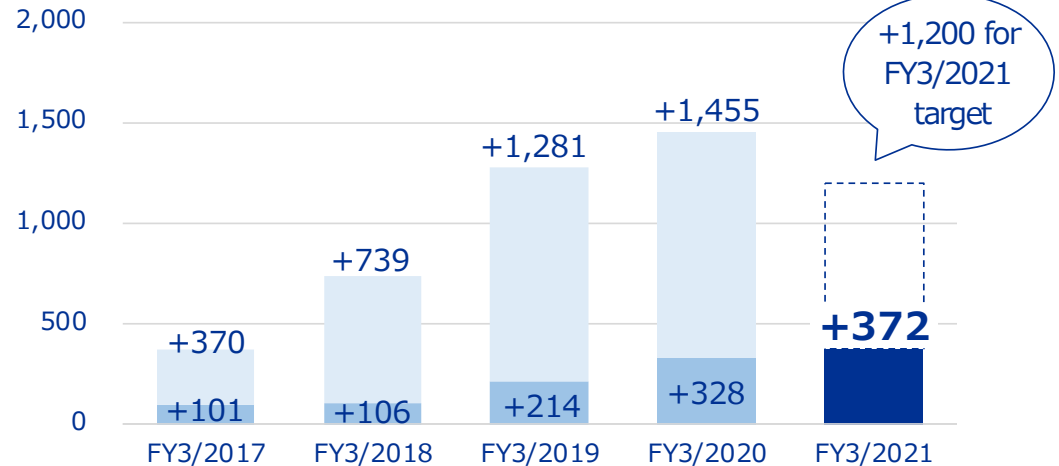


Continuous steady growth in new network affiliates; increase of 372 from previous term for a total of 5,617

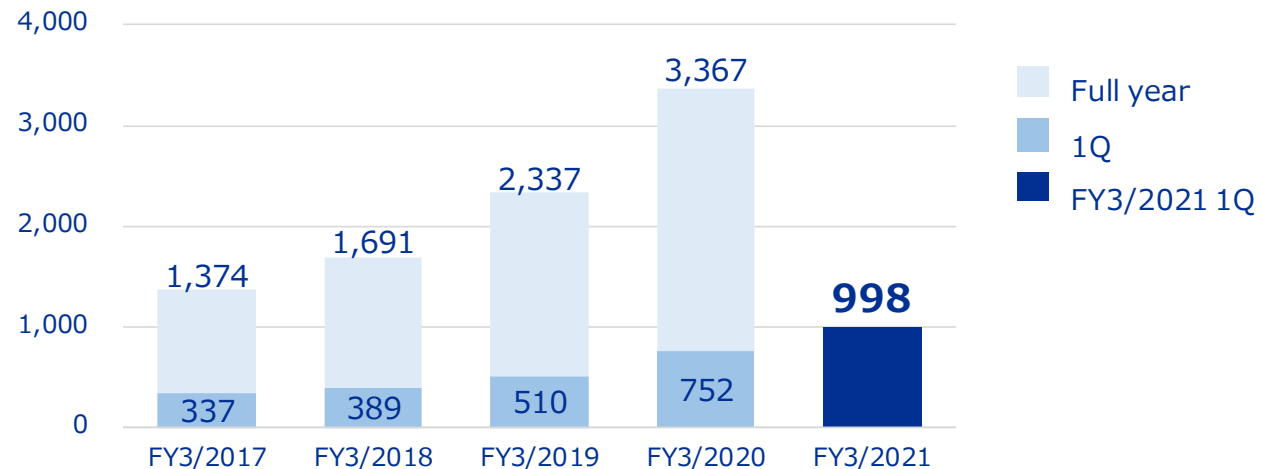
■ Network affiliates (actual) (Unit: No. of network affiliates)



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



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

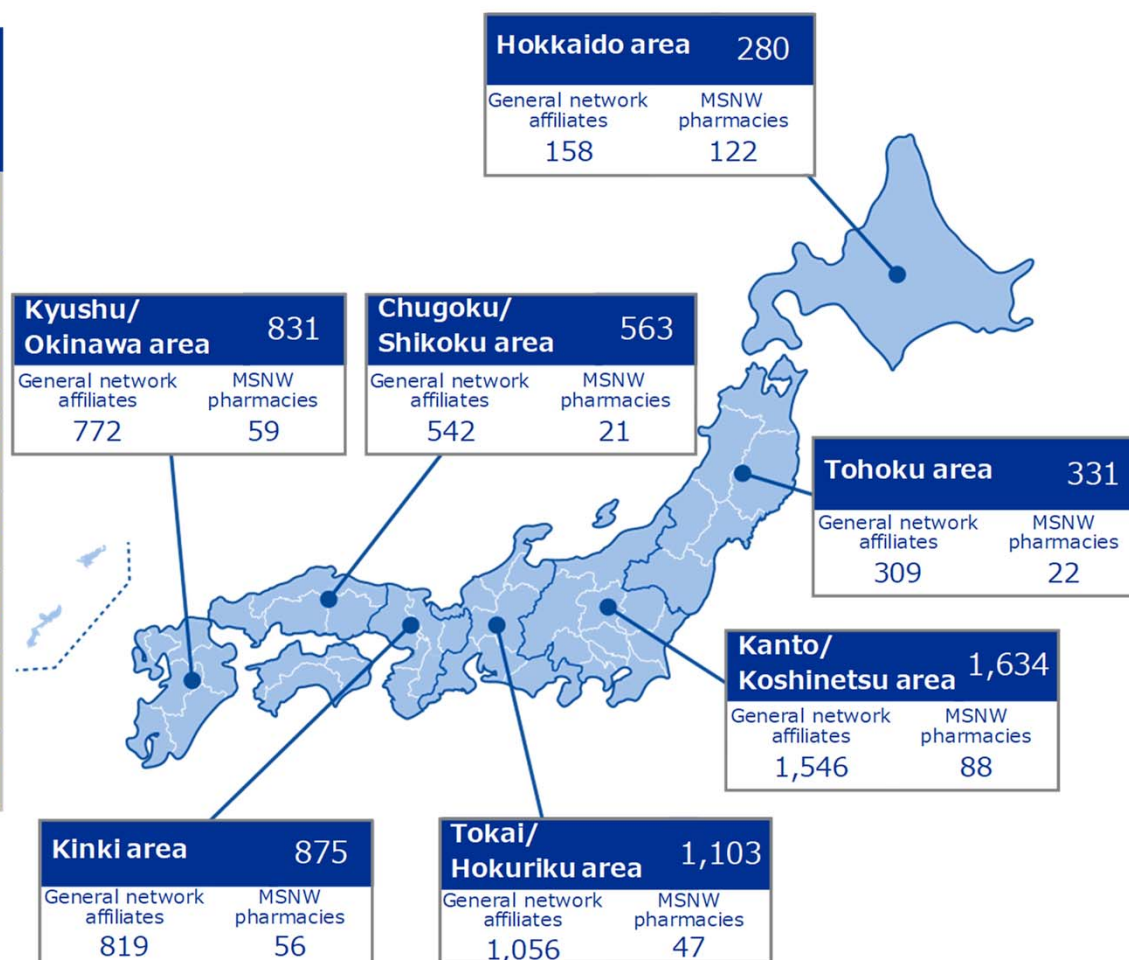


Pharmaceuticals Network Business:

Network affiliates distribution map (as of June 30, 2020)

【 Breakdown of network affiliates 】

(Unit: No. of network affiliates)	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	158	122	280
Tohoku	309	22	331
Kanto/Koshinetsu	1,546	88	1,634
Tokai/Hokuriku	1,056	47	1,103
Kinki	819	56	875
Chugoku/Shikoku	542	21	563
Kyushu/Okinawa	772	59	831
Total	5,202	415	5,617



5,589 network affiliates
as of August 3, 2020

* Temporary decrease due to withdrawal of affiliate group at the end of July 2020

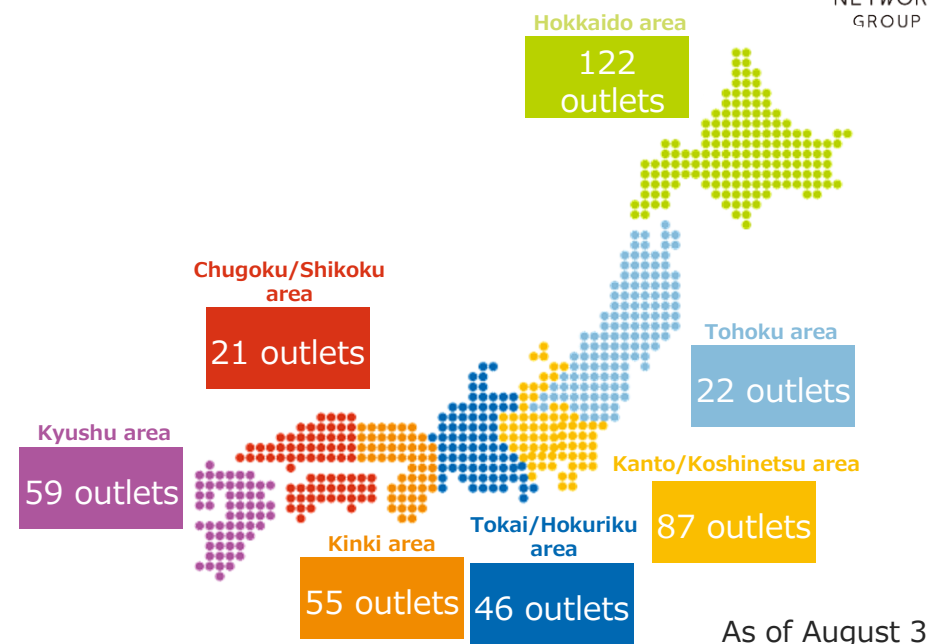
Dispensing Pharmacy Business: Trends in number of pharmacies



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2 new outlets and 3 outlet closures/transfers since end of previous fiscal year

	Outlets at end of FY3/2020	Outlets at end of FY3/2021 1Q	Outlets as of August 3
Outlets at end of previous term	420	416	415
Openings	8	2	–
Closings and transferring businesses	(15)	(3)	(3)
M&A	3	–	–
Total	416	415	412



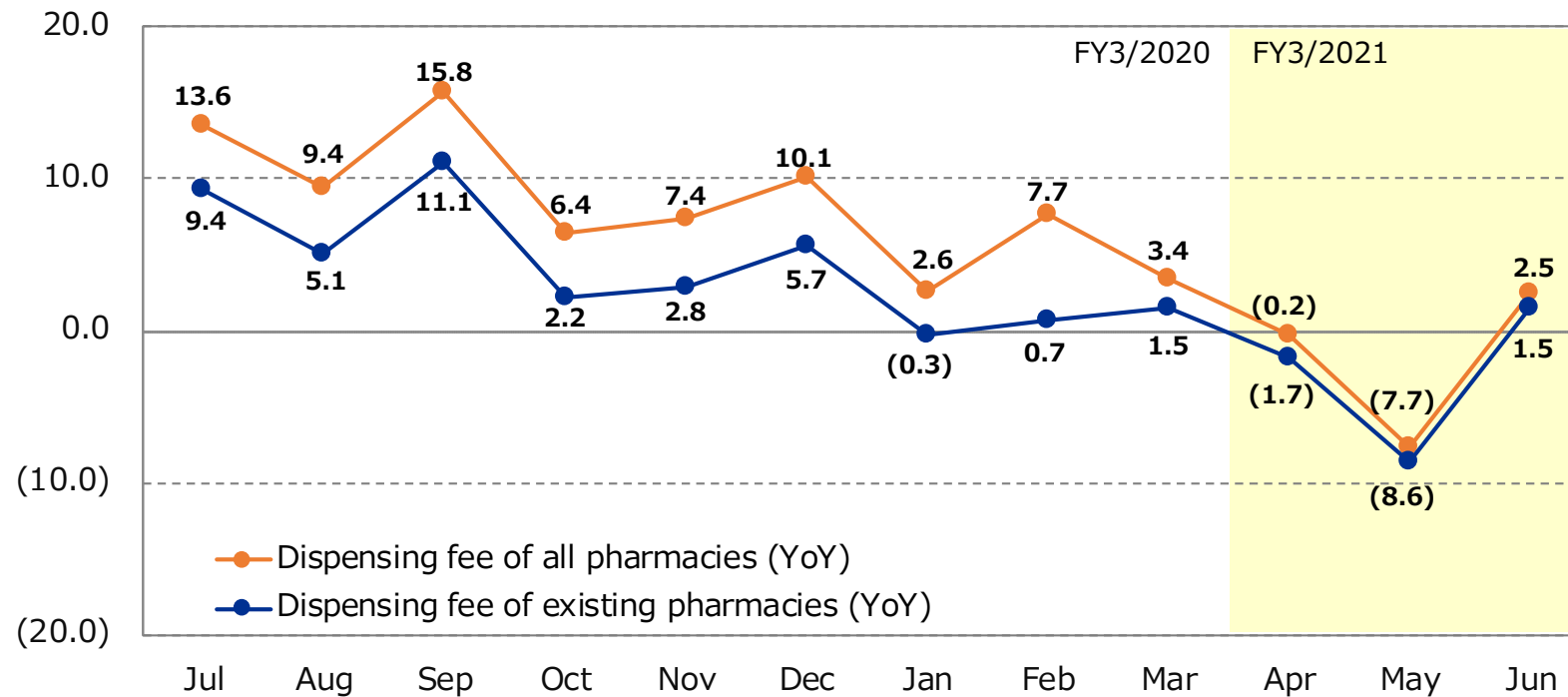
■ Dispensing pharmacy outlet number trends of the past 10 years

	FY3/2012*	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021 1Q
Openings	6	21	14	10	9	8	8	5	8	2
Closings and transferring of businesses	(3)	(8)	(7)	(13)	(8)	(4)	(5)	(14)	(15)	(3)
M&A	6	33	45	27	7	20	19	30	3	–
Number of outlets	223	269	321	345	353	377	399	420	416	415

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

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)

(Unit:%)



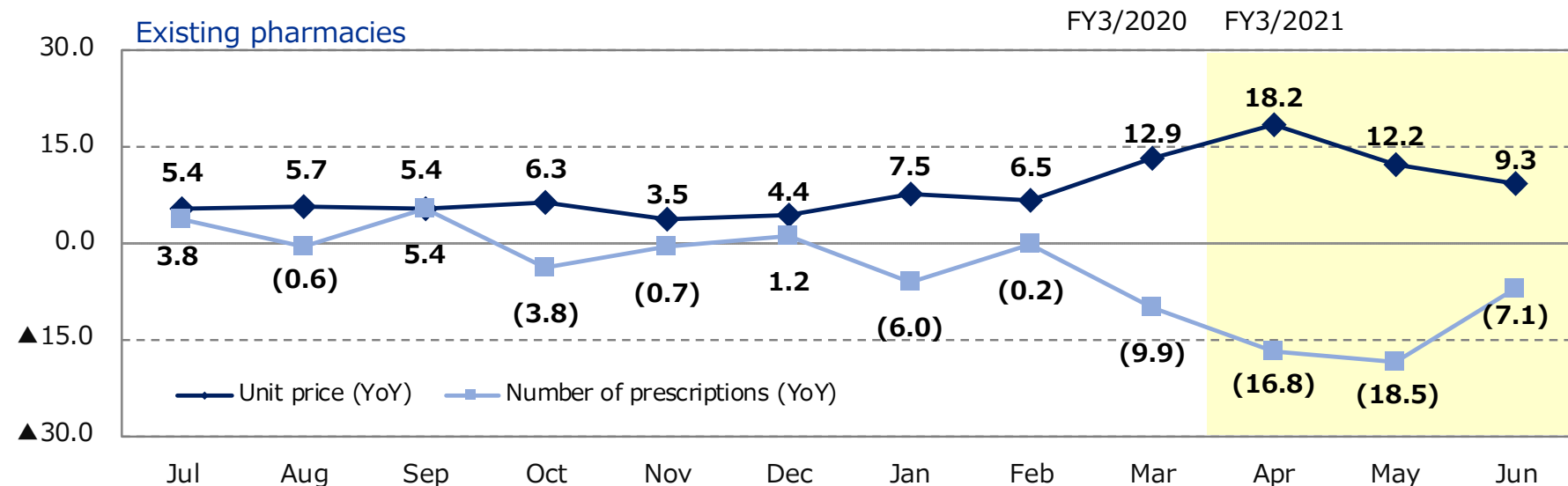
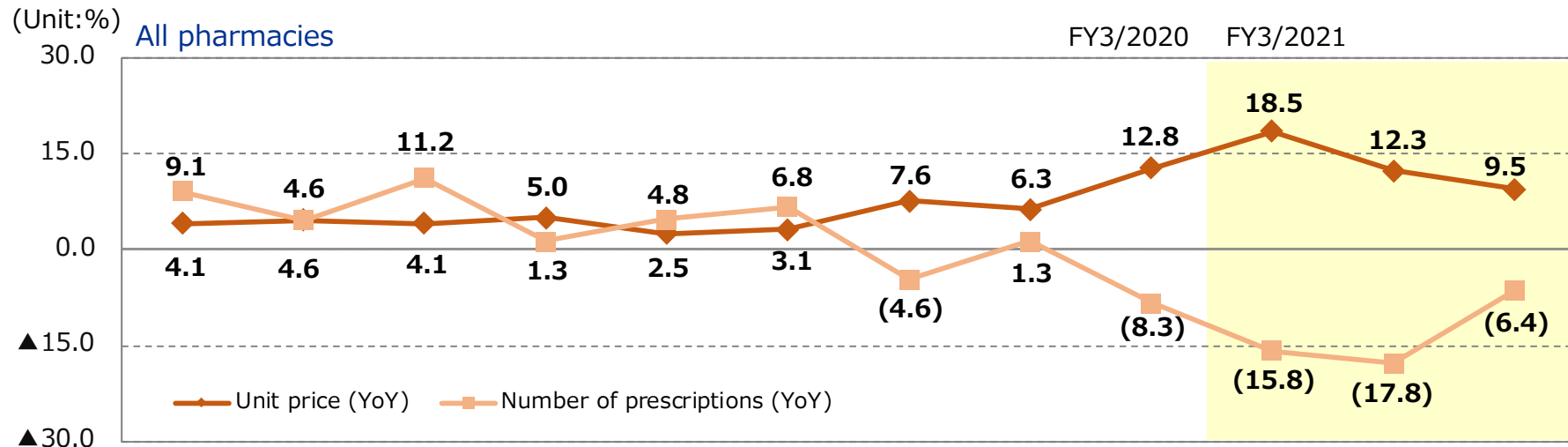
	FY3/2020									FY3/2021			FY3/2021 1Q
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Dispensing fee of all pharmacies (YoY)	13.6	9.4	15.8	6.4	7.4	10.1	2.6	7.7	3.4	(0.2)	(7.7)	2.5	(1.8)
Dispensing fee of existing pharmacies (YoY)	9.4	5.1	11.1	2.2	2.8	5.7	(0.3)	0.7	1.5	(1.7)	(8.6)	1.5	(2.9)

※ "Existing pharmacies" refer to pharmacies that continue to be in business on or after April 1, 2018 and April 1, 2019.

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

Point

- Increase of unit price from higher volume of long-term prescriptions as a result of COVID-19
- Slow recovery in number of prescriptions in June



Dispensing Pharmacy Business: Dispensing fee breakdown

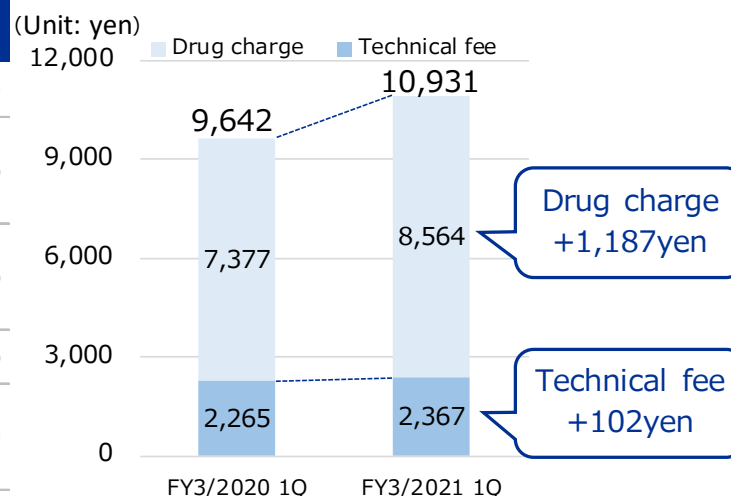
Point

- Decrease in number of prescriptions as a result of COVID-19
- Rise in unit price due to increase in long-term prescriptions

All pharmacies

■ All pharmacies		FY3/2020 1Q	FY3/2021 1Q	Change	Change (%)
No. of prescriptions (1000) a		2,267	1,964	(302)	(13.4%)
Unit price (yen)	Drug charge per prescription	7,377	8,564	+1,187	+16.1%
	Technical fee per prescription	2,265	2,367	+102	+4.5%
Total b		9,642	10,931	+1,289	+13.4%
Dispensing fee (million yen) c = a x b		21,865	21,476	(389)	(1.8%)

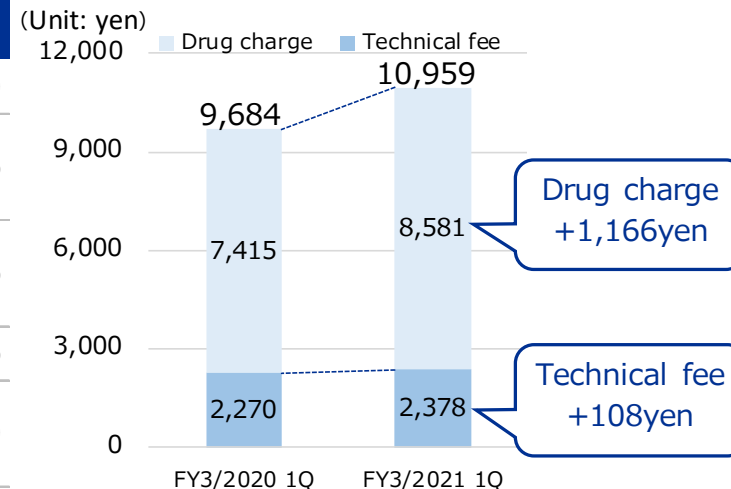
【Prescription unit price trends】



Existing pharmacies

■ Existing pharmacies		FY3/2020 1Q	FY3/2021 1Q	Change	Change (%)
No. of prescriptions (1000) a		2,222	1,906	(315)	(14.2%)
Unit price (yen)	Drug charge per prescription	7,415	8,581	+1,166	+15.7%
	Technical fee per prescription	2,270	2,378	+108	+4.8%
	Total b	9,684	10,959	+1,274	+13.2%
Dispensing fee (million yen) c = a x b		21,519	20,894	(625)	(2.9%)

【Prescription unit price trends】

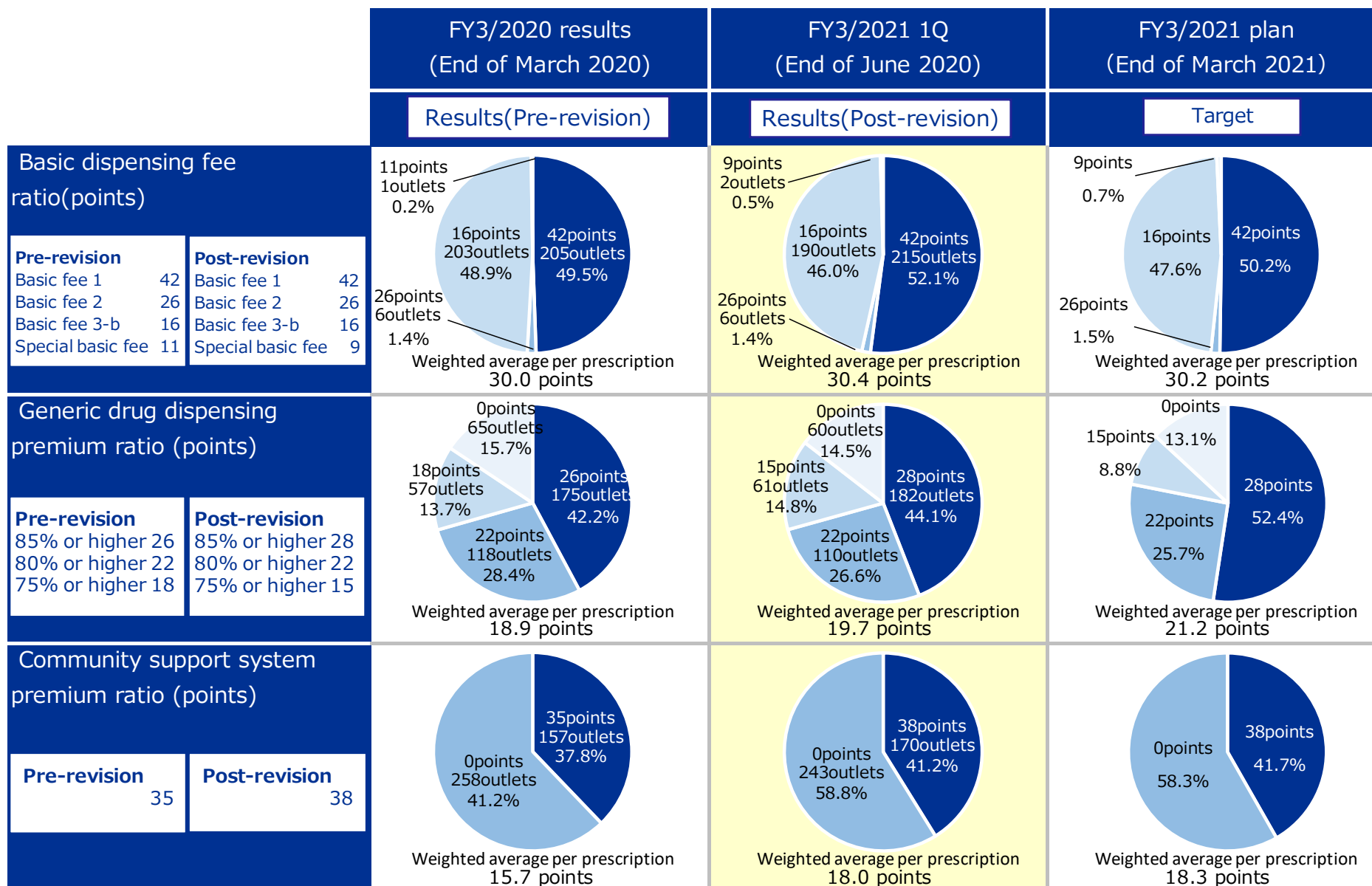


* "Existing pharmacies" on this page refer to pharmacies continue to be in business on or after April 1, 2019.

Dispensing Pharmacy Business: Influence of the dispensing fee revision



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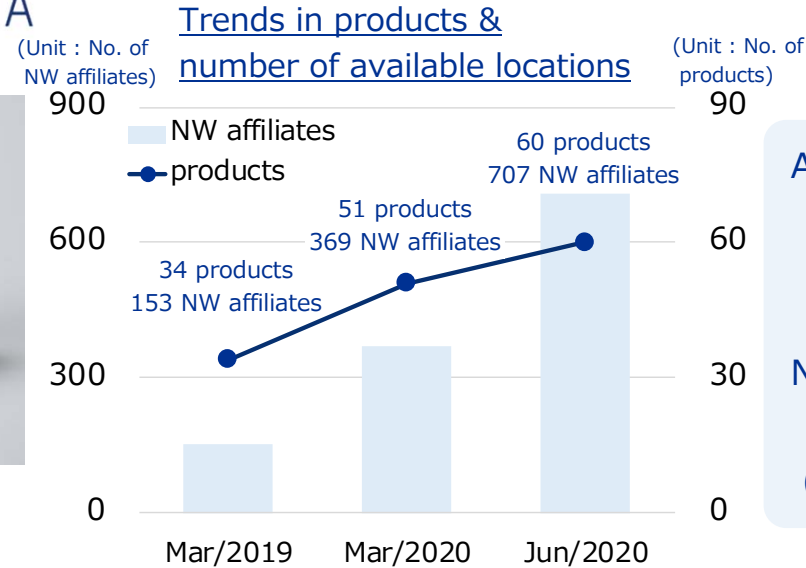


* Excludes suspended pharmacies (FY03/2020 results includes pharmacies closed on March 31)

Manufacture and Market Pharmaceuticals Business: New generic drugs of 6 components and 9 products for sale



On sale June 19

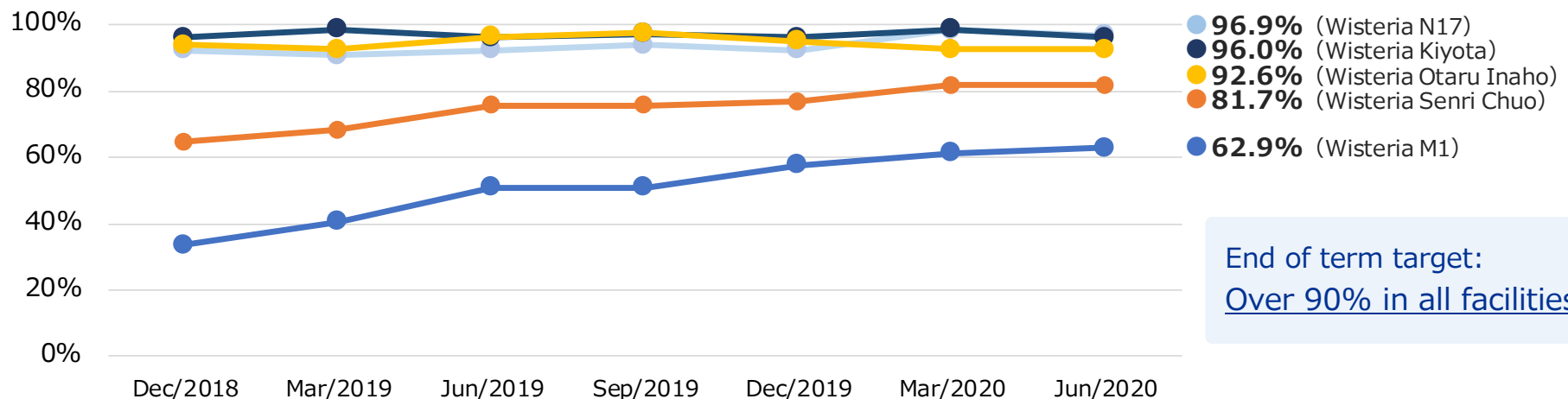


As of end of June 2020

Available components & products
29 components 60 products
 (FY3/2022 target: 100 products)

Number of available locations
707 NW affiliates
 (FY3/2021 target: 1,000 NW affiliates)

Leasing and Facility related Business: Occupancy rate trends in Wisteria



End of term target:
Over 90% in all facilities

Earnings Forecast for FY3/2021 and Core Strategies

FY3/2021: Core strategies

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■ 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

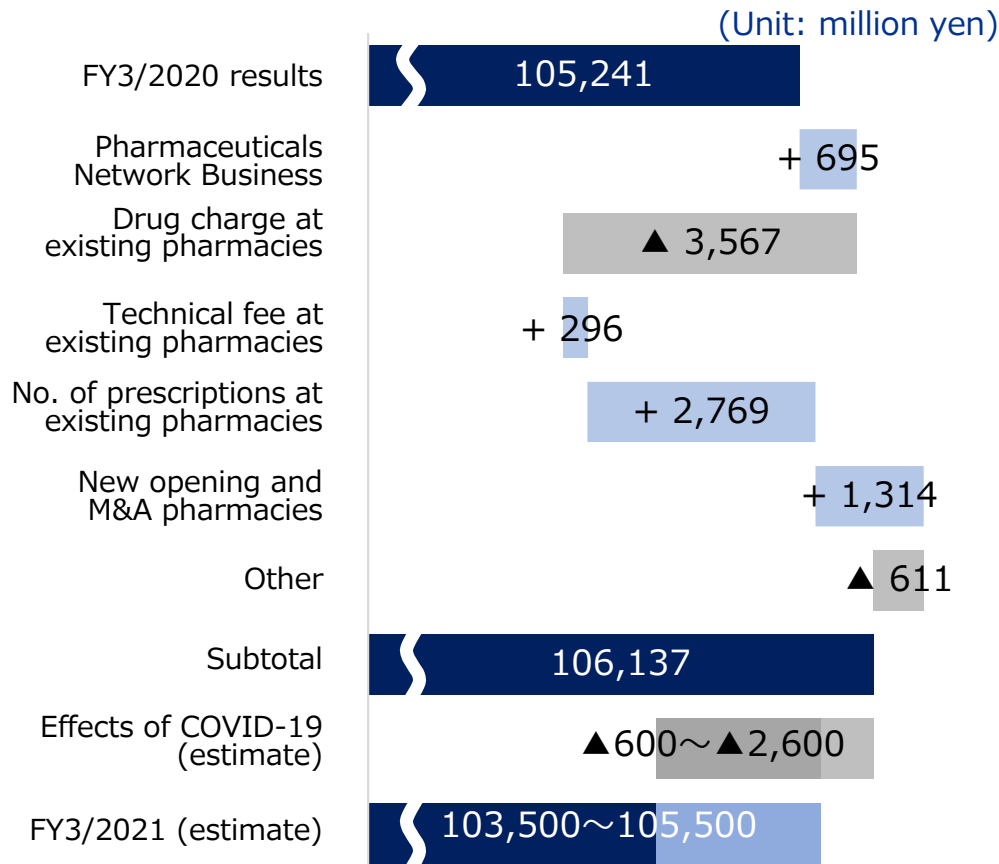
FY3/2021: Earnings forecast (comparison to previous term)

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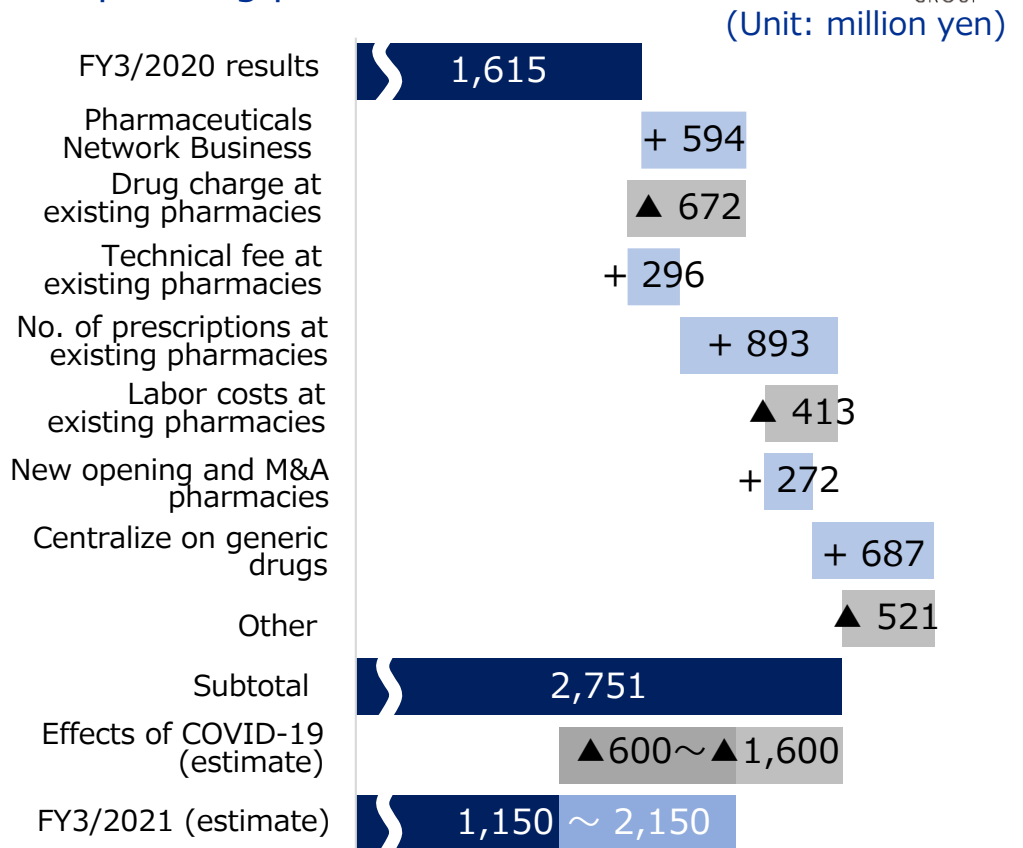
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■ Sales



✓ 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.

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[Contact us]
Corporate Planning Division
E-mail : info@msnw.co.jp