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On **August 7, 2020**, Medical System Network Co., Ltd. announced earnings results for Q1 FY03/21.

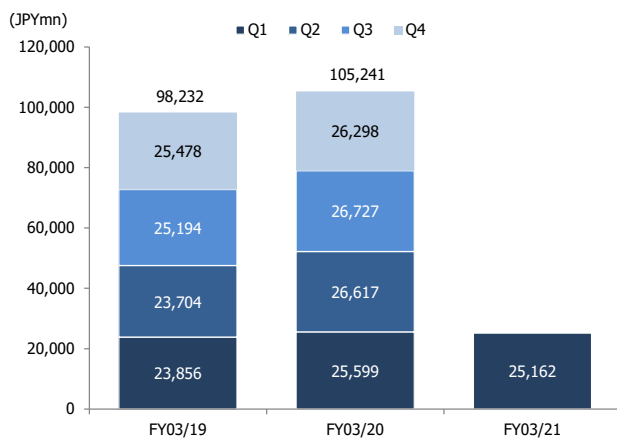
Cumulative (JPYmn)	FY03/19				FY03/20				FY03/21	FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	FY Est.
Sales	23,856	47,560	72,754	98,232	25,599	52,216	78,943	105,241	25,162		103,500~105,500
YoY	2.2%	2.2%	3.2%	4.5%	7.3%	9.8%	8.5%	7.1%	-1.7%		
Gross profit	9,079	17,887	27,527	37,271	9,839	19,819	30,225	40,214	9,704		
YoY	0.1%	-1.2%	0.0%	1.8%	8.4%	10.8%	9.8%	7.9%	-1.4%		
GPM	38.1%	37.6%	37.8%	37.9%	38.4%	38.0%	38.3%	38.2%	38.6%		
SG&A expenses	8,867	17,410	26,487	35,842	9,504	19,022	28,997	38,599	9,765		
YoY	4.6%	3.4%	5.0%	7.2%	7.2%	9.3%	9.5%	7.7%	2.7%		
SG&A ratio	37.2%	36.6%	36.4%	36.5%	37.1%	36.4%	36.7%	36.7%	38.8%		
Operating profit	212	476	1,040	1,428	334	796	1,228	1,615	-61		1,150~2,150
YoY	-64.2%	-62.5%	-54.5%	-54.9%	57.5%	67.2%	18.1%	13.1%	-		
OPM	0.9%	1.0%	1.4%	1.5%	1.3%	1.5%	1.6%	1.5%	-		
Recurring profit	192	438	1,010	1,501	323	784	1,208	1,560	-62		1,100~2,100
YoY	-67.5%	-65.6%	-56.7%	-53.8%	68.2%	79.0%	19.6%	3.9%	-		
RPM	0.8%	0.9%	1.4%	1.5%	1.3%	1.5%	1.5%	1.5%	-		
Net income	101	119	372	462	97	218	326	-895	-201		
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 (JPYmn)	FY03/19				FY03/20				FY03/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	23,856	23,704	25,194	25,478	25,599	26,617	26,727	26,298	25,162
YoY	2.2%	2.3%	4.9%	8.7%	7.3%	12.3%	6.1%	3.2%	-1.7%
Gross profit	9,079	8,808	9,640	9,744	9,839	9,980	10,406	9,989	9,704
YoY	0.1%	-2.6%	2.5%	7.2%	8.4%	13.3%	7.9%	2.5%	-1.4%
GPM	38.1%	37.2%	38.3%	38.2%	38.4%	37.5%	38.9%	38.0%	38.6%
SG&A expenses	8,867	8,543	9,077	9,355	9,504	9,518	9,975	9,602	9,765
YoY	4.6%	2.2%	8.2%	13.8%	7.2%	11.4%	9.9%	2.6%	2.7%
SG&A ratio	37.2%	36.0%	36.0%	36.7%	37.1%	35.8%	37.3%	36.5%	38.8%
Operating profit	212	264	564	388	334	462	432	387	-61
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	-62
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	-201
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%	-	-

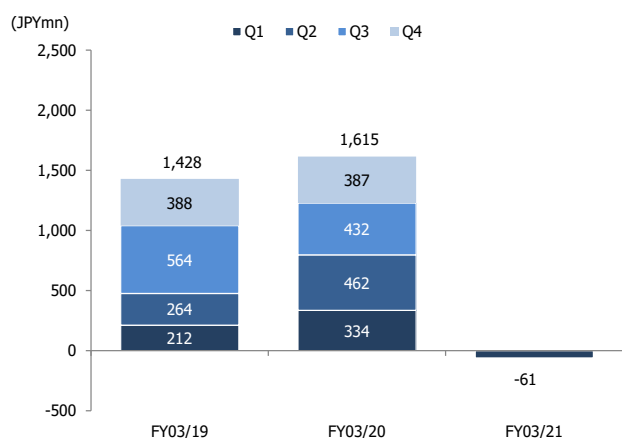
Source: Shared Research based on company data

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

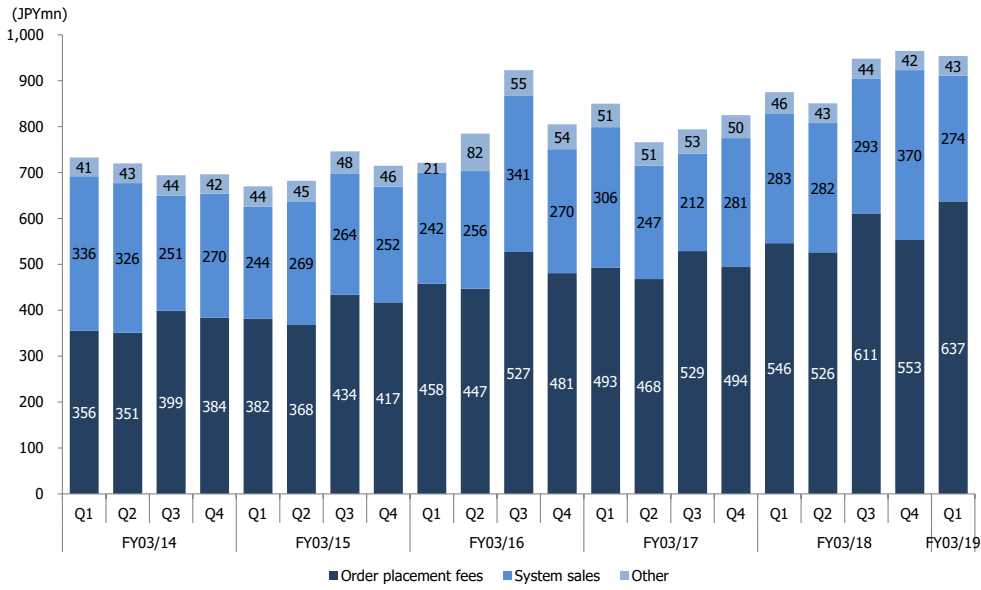
Quarterly results

By segment (cumulative)		FY03/19				By segment (cumulative)		FY03/19				FY03/20				FY03/21	
(JPYmm)		Q1	Q2	Q3	Q4	(JPYmm)		Q1 retro	Q2 retro	Q3 retro	Q4 retro	Q1	Q2	Q3	Q4	Q1	
Sales		23,856	47,560	72,754	98,232	Sales		23,856	47,560	72,754	52,216	25,599	52,216	78,943	105,241	25,162	
YoY		2.2%	2.2%	3.2%	4.5%	YoY		2.2%	2.2%	3.2%	9.8%	7.3%	9.8%	8.5%	7.1%	-1.7%	
Pharmaceuticals Network		955	1,818	2,897	3,951	Community Pharmacy Network		22,564	44,717	68,408	49,290	24,224	49,290	74,636	99,617	23,922	
YoY		9.1%	5.2%	8.3%	8.6%	YoY		-	-	-	10.2%	7.4%	10.2%	9.1%	7.9%	-1.2%	
% of total		3.9%	3.7%	4.0%	4.0%	% of total		94.1%	94.7%	94.4%	93.6%	94.1%	93.6%	93.8%	94.0%	94.5%	
Dispensing Pharmacy		22,222	44,035	67,291	90,706	Leasing and Facility-related		600	1,508	2,382	1,829	760	1,829	2,659	3,425	723	
YoY		3.2%	2.7%	3.2%	4.1%	YoY		15.2%	38.9%	52.6%	21.3%	26.7%	21.3%	11.6%	3.2%	-4.9%	
% of total		90.3%	89.8%	91.8%	91.7%	% of total		2.5%	3.1%	3.3%	3.5%	3.0%	3.5%	3.3%	3.2%	2.9%	
Food Service		788	1,586	2,382	3,161	Food Service		788	1,586	2,382	1,434	730	1,434	2,128	2,797	612	
YoY		-31.8%	-31.0%	-27.4%	-23.0%	YoY		-31.8%	-31.0%	-27.4%	-9.6%	-7.4%	-9.6%	-10.7%	-11.5%	-16.2%	
% of total		3.2%	3.2%	3.3%	3.2%	% of total		3.3%	3.2%	3.3%	2.7%	2.8%	2.7%	2.7%	2.6%	2.4%	
Other		33	91	166	261	Other		33	91	166	79	38	79	122	165	51	
YoY		0.0%	71.7%	133.8%	183.7%	YoY		0.0%	71.7%	133.8%	-13.2%	15.2%	-13.2%	-26.5%	-36.8%	34.2%	
% of total		0.1%	0.2%	0.2%	0.3%	% of total		0.1%	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	
Segment sales adjustments		-743	-1,479	-523	-674	Segment sales adjustments		-130	320	320	-417	-154	-417	-603	-764	-154	
Operating profit		212	476	1,040	1,428	Operating profit		212	476	1,040	796	334	796	1,228	1,615	-61	
YoY		-64.2%	-62.5%	-54.5%	-54.9%	YoY		-64.2%	-62.5%	-54.5%	67.2%	57.5%	67.2%	18.1%	13.1%	-	
Pharmaceuticals Network		554	1,060	1,697	2,331	Community Pharmacy Network		642	1,227	2,332	1,736	825	1,736	2,764	3,743	434	
YoY		17.6%	13.5%	17.5%	19.6%	YoY		-	-	-	41.5%	28.5%	41.5%	18.5%	13.0%	-47.4%	
OPM		58.0%	58.3%	58.6%	59.0%	OPM		2.8%	2.7%	3.4%	3.5%	3.4%	3.5%	3.7%	3.8%	1.8%	
Dispensing Pharmacy		130	202	712	1,068	Leasing and Facility-related		-32	10	-51	68	-8	68	67	45	6	
YoY		-78.0%	-83.4%	-67.8%	-65.1%	YoY		-	-	-	580.0%	-	580.0%	-	-	-	
OPM		0.6%	0.5%	1.1%	1.2%	OPM		-	0.7%	-	-	-	-	-	-	-	
Food Service		1	18	28	34	Food Service		1	18	28	-34	-12	-34	-38	-43	-19	
YoY		-80.0%	-47.1%	-42.9%	-24.4%	YoY		-80.0%	-47.1%	-42.9%	-	-	-	-	-	-	
OPM		0.1%	1.1%	1.2%	1.1%	OPM		0.1%	1.1%	1.2%	-	-	-	-	-	-	
Other		-36	-57	-82	-101	Other		-29	-57	-82	-39	-21	-39	-56	-71	-11	
YoY		-	-	-	-	YoY		-	-	-	-	-	-	-	-	-	
OPM		-	-	-	-	OPM		-	-	-	-	-	-	-	-	-	
Segment profit adjustments		-405	-721	-1,186	-1,733	Segment profit adjustments		-369	-721	-721	-934	-447	-934	-1,508	-2,057	-472	

By segment (quarterly)		FY03/19				By segment (quarterly)		FY03/19				FY03/20				FY03/21	
(JPYmm)		Q1	Q2	Q3	Q4	(JPYmm)		Q1 retro	Q2 retro	Q3 retro	Q4 retro	Q1	Q2	Q3	Q4	Q1	
Sales		23,856	23,704	25,194	25,478	Sales		23,856	23,704	25,194	26,617	25,599	26,617	26,298	26,298	25,162	
YoY		2.2%	2.3%	4.9%	8.7%	YoY		2.2%	2.3%	4.9%	12.3%	7.3%	12.3%	6.1%	3.2%	-1.7%	
Pharmaceuticals Network		955	863	1,079	1,054	Community Pharmacy Network		22,564	22,153	23,691	25,066	24,224	25,066	25,346	24,981	23,922	
YoY		9.1%	1.2%	13.9%	9.3%	YoY		-	-	-	13.1%	7.4%	13.1%	7.0%	4.6%	-1.2%	
% of total		4.4%	3.5%	4.5%	4.1%	% of total		94.1%	95.3%	94.0%	93.3%	96.6%	93.3%	94.2%	94.4%	94.5%	
Leasing and Facility-related		600	908	874	938	Leasing and Facility-related		600	908	874	1,069	760	1,069	830	766	723	
YoY		15.2%	60.7%	84.0%	99.6%	YoY		-	-	-	17.7%	26.7%	17.7%	-5.0%	-18.3%	-4.9%	
% of total		2.8%	3.7%	3.6%	3.7%	% of total		2.5%	3.9%	3.5%	4.0%	3.0%	4.0%	3.1%	2.9%	2.9%	
Food Service		788	798	796	779	Food Service		788	798	796	704	730	704	694	669	612	
YoY		-31.8%	-30.1%	-18.9%	-5.5%	YoY		-	-	-	-11.8%	-7.4%	-11.8%	-12.8%	-14.1%	-16.2%	
% of total		3.7%	3.3%	3.3%	3.0%	% of total		3.3%	3.4%	3.2%	2.6%	2.9%	2.6%	2.6%	2.5%	2.4%	
Other		33	58	75	95	Other		33	58	75	41	38	41	43	43	51	
YoY		0.0%	190.0%	316.7%	352.4%	YoY		-	-	-	-29.3%	15.2%	-29.3%	-42.7%	-54.7%	34.2%	
% of total		0.2%	0.2%	0.3%	0.4%	% of total		0.1%	0.2%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
Segment sales adjustments		2,320	-736	956	-151	Segment sales adjustments		-130	450	-	-263	520	-263	-186	-161	-154	
Operating profit		212	264	564	388	Operating profit		212	264	564	462	334	462	432	387	-61	
YoY		-64.2%	-61.1%	-44.5%	-55.7%	YoY		-64.2%	-61.1%	-44.5%	75.0%	57.5%	75.0%	-23.4%	-0.3%	-	
Pharmaceuticals Network		554	506	637	634	Community Pharmacy Network		642	585	1,105	911	825	911	1,028	979	434	
YoY		17.6%	9.3%	24.9%	25.5%	YoY		-	-	-	80.0%	28.5%	80.0%	61.4%	-	-47.4%	
OPM		58.0%	58.6%	59.0%	60.2%	OPM		2.8%	2.6%	4.7%	3.6%	3.4%	3.6%	4.1%	-	1.8%	
Dispensing Pharmacy		130	72	510	356	Leasing and Facility-related		-32	42	-61	76	-8	76	-1	-22	6	
YoY		-78.0%	-88.6%	-48.5%	-58.1%	YoY		-	-	-	-	-	-	-	-	-	
OPM		0.6%	0.3%	2.2%	1.5%	OPM		-	4.6%	-	-	-	7.1%	-	-	-	
Food Service		1	17	10	6	Food Service		1	17	10	-22	-12	-22	-4	-5	-19	
YoY		-80.0%	-41.4%	-33.3%	-250.0%	YoY		-	-	-	-	-	-	-	-	-	
OPM		0.1%	2.1%	1.3%	0.8%	OPM		0.1%	2.1%	1.3%	-	-	-	-	-	-	
Other		-36	-21	-25	-19	Other		-29	-28	-25	-18	-21	-18	-17	-15	-11	
YoY		-	-	-	-	YoY		-	-	-	-	-	-	-	-	-	
OPM		-	-	-	-	OPM		-	-	-	-	-	-	-	-	-	
Segment profit adjustments		-405	-316	-465	-547	Segment profit adjustments		-369	-352	-	-487	-447	-487	-574	-549	-472	

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

(Reference) Former Pharmaceuticals Network segment sales

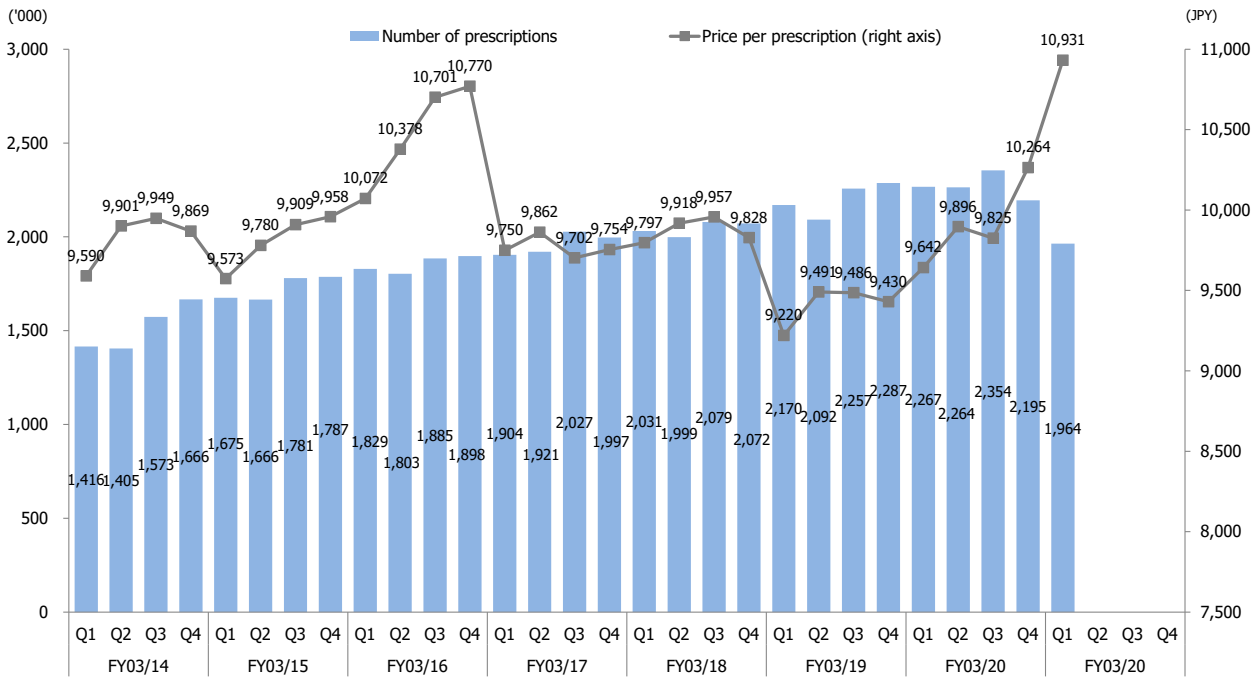


Source: Shared Research based on company data

Notes: Undisclosed from Q2 FY03/19

The former Pharmaceuticals Network segment was integrated into the new Community Pharmacy Network segment from FY03/20

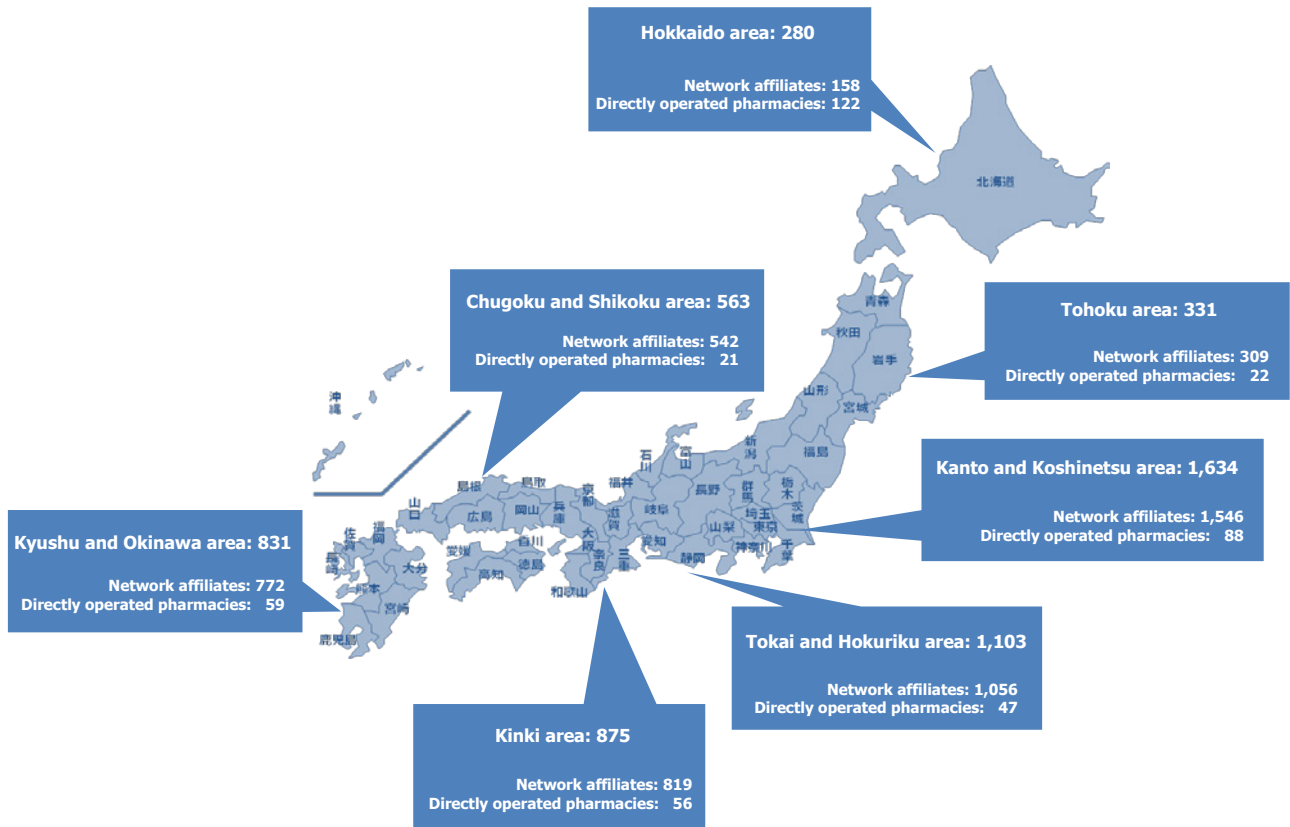
Quarterly trends in prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy business; all stores)



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 June 30, 2020)



Source: Shared Research based on company data

Number of dispensing pharmacies by region

Region	Directly operated pharmacies	Affiliates	Total network members
Hokkaido	122	158	280
Tohoku	22	309	331
Kanto and Koshinetsu	88	1,546	1,634
Tokai and Hokuriku	47	1,056	1,103
Kinki	56	819	875
Chugoku and Shikoku	21	542	563
Kyushu and Okinawa	59	772	831
Total	415	5,202	5,617

Source: Shared Research based on company data (June 30, 2020)

Q1 FY03/21 earnings results (out August 7, 2020)

Overview

Q1 FY03/21 (April–June 2020) earnings results

- ▷ Sales: JPY25.2bn (-1.7% YoY)
- ▷ Operating loss: JPY61mn (profit of JPY334mn in Q1 FY03/20)
- ▷ Recurring loss: JPY62mn (profit of JPY323mn in Q1 FY03/20)
- ▷ Net loss*: JPY201mn (profit of JPY97mn in Q1 FY03/20)

*Net income/loss attributable to owners of the parent

- ▷ Company response and business conditions: Performance was strong at the core Community Pharmacy Network segment. The Pharmaceuticals Network business recorded a steady increase in new network members, while the Dispensing Pharmacy business saw a rise in the average value of prescriptions filled in tandem with growth in long-term prescriptions filled, but the number of prescriptions filled stagnated owing to fewer medical examinations as a result of COVID-19.

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.

Q1 FY03/21 (April–June 2020) segment earnings results

- ▷ Segment sales: JPY23.9bn (-1.2% YoY; includes internal sales or transfers between segments; same hereafter)
- ▷ Segment profit: JPY434mn (-47.4% YoY)
- ▷ Pharmaceuticals Network division: The number of new network members continued to increase, driven by the need for improved distribution efficiency. As at end-June 2020, the number of network members was 5,617 (up 372 from end-FY03/20). This consisted of 415 directly operated pharmacies and 5,202 affiliates.
- ▷ Dispensing Pharmacy division: The average value of prescriptions filled rose in tandem with growth in long-term prescriptions and an increase in high-value prescriptions filled, but the number of prescriptions filled fell sharply due to fewer medical examinations as a result of COVID-19. As at end-June 2020, there were 415 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 29 ingredients and 60 products as of end-June 2020.

Leasing and Facility-related

Q1 FY03/21 (April–June 2020) segment earnings results

- ▷ Segment sales: JPY723mn (-5.0% YoY)
- ▷ Segment profit: JPY6mn (loss of JPY8mn in Q1 03/20)
- ▷ The reason for lower sales and profit improvement: Although leasing revenue and rise in occupancy at the company's serviced elderly housing facilities were generally brisk, the postponement of some construction projects associated with COVID-19 contributed to the sales decline. The number of occupied units as of end-June 2020 was 67 out of 82 units total (occupancy rate: 81.7%) at Wisteria Senri-Chuo, and 73 out of 116 units total (occupancy rate: 62.9%) at Wisteria Minami Ichijo. The company is carrying out sales activities that take into account measures to prevent the spread of COVID-19 toward achieving its target occupancy rates of 90%.

Food Service

Q1 FY03/21 (April–June 2020) segment earnings results

- ▷ Segment sales: JPY612mn (-16.2% YoY)
- ▷ Segment loss: JPY19mn (loss of 12mn in Q1 FY03/20)
- ▷ Loss expands: Withdrawal from certain unprofitable facilities and a decrease in the number of meals supplied due to COVID-19 hurt profits.

Other

The main business is home-visit nursing care.

Q1 FY03/21 (April–June 2020) segment earnings results

- ▷ Segment sales: JPY51mn (+34.2% YoY)
- ▷ Segment loss: JPY11mn (loss of JPY21mn in Q1 FY03/20)

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

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