



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Second 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.
- ※ 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.

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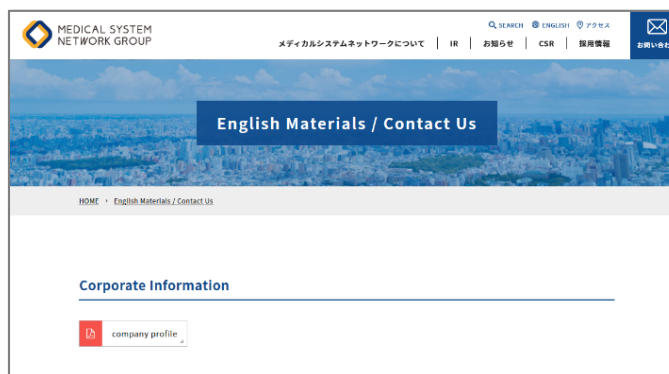


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Earnings Highlight

FY3/2021 2Q : Consolidated results



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Earnings Summary

- Despite steady growth in network affiliates we saw a drop in net sales due to fewer medical examinations as a result of COVID-19 leading to less prescriptions
- Rise in profit attributable to a shift to high margin generic drugs and cost reductions through streamlining operations

	FY3/2020 2Q	FY3/2021 2Q	Year-on-year		FY3/2021 Full year forecast *2	Progress rate
			Change	Change (%)		
(Unit: million yen)						
Net sales	52,216	51,045	(1,171)	(2.2%)	103,000	49.6%
Operating profit	796	1,355	+ 558	+ 70.1%	2,500	54.2%
Profit margin	1.5%	2.7%			2.4%	
Ordinary profit	784	1,397	+ 612	+ 78.1%	2,500	55.9%
Profit margin	1.5%	2.7%			2.4%	
Profit attributable owners of parent	218	578	+ 360	+ 165.1%	750	77.2%
Profit margin	0.4%	1.1%			0.7%	
Earnings per share (Yen)	7.19	19.08	+ 11.89	—	24.73	—
EBITDA *1	2,275	2,787	+ 511	+ 22.5%	—	—

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

*2 Values presented are the full year earnings forecast revision announced on November 6, 2020

FY3/2021 2Q : Results in each segment part

Earnings Summary

- Pharmaceuticals Network Business : Steady growth of network affiliates. A drop in prescriptions due to COVID-19 led to a decline in net sales. Profitability improved from shifting to high margin generic drugs and reducing costs through streamlining operations
- Other 3 segments: Less meal catering and construction orders on account of COVID-19

Net sales

(Unit: million yen)

	FY3/2020 2Q	FY3/2021 2Q	Change	Change (%)
Net sales	52,216	51,045	(1,171)	(2.2%)
Community Pharmacy Network Segment ^{*1}	49,290	48,540	(749)	(1.5%)
Other 3 Segments ^{*2}	3,343	2,796	(546)	(16.4%)
Adjustments	(417)	(292)	+ 124	—

Operating profit

(Unit: million yen)

	FY3/2020 2Q	Profit margin	FY3/2021 2Q	Profit margin	Change	Change (%)
Segment profit	796	1.5%	1,355	2.7%	+558 + 1.2 pt	+ 70.1%
Community Pharmacy Network Segment ^{*1}	1,736	3.5%	2,369	4.9%	+633 + 1.4 pt	+ 36.5%
Other 3 Segments ^{*2}	(5)	—	(10)	—	(5) —	—
Adjustments	(934)	—	(1,003)	—	(69) —	—

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

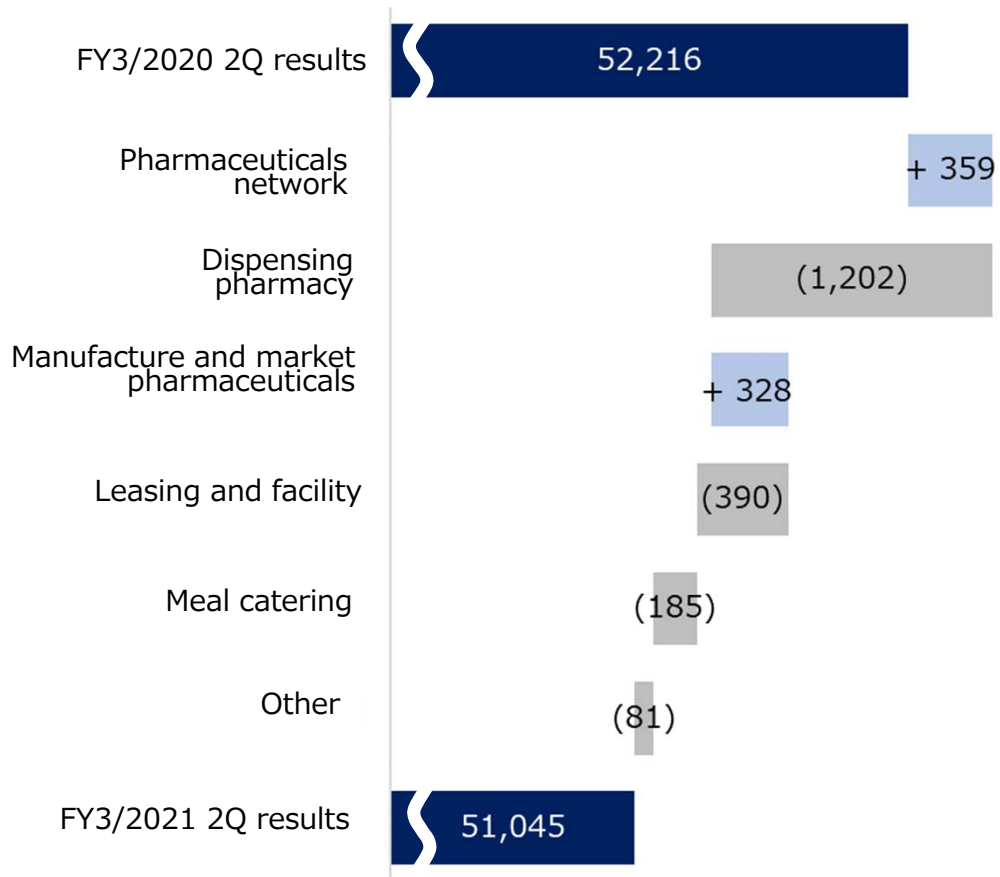
*2 Leasing and Facility related Segment, Meal Catering Segment, Home Visit Nursing Segment

FY3/2021 2Q: Comparison to previous term



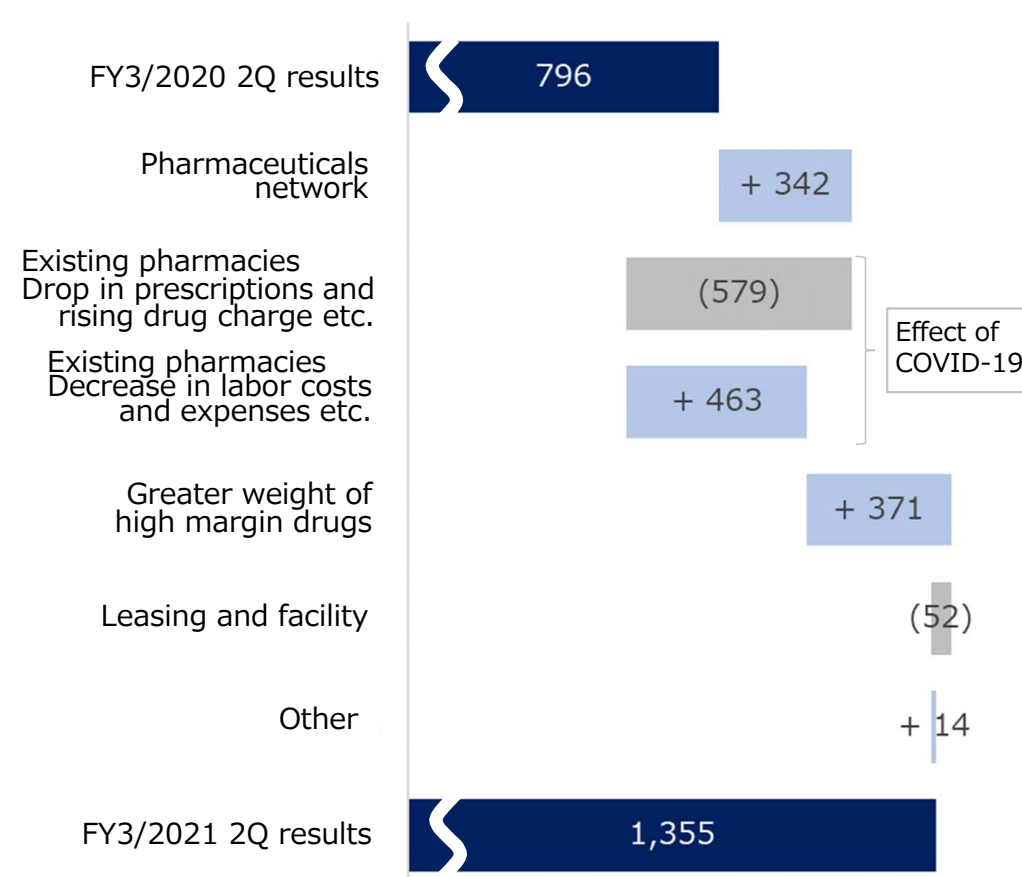
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)



FY3/2021 2Q : Consolidated balance sheet

Point

Assets: Decrease in Cash & Deposits and Goodwill

Liabilities and Net Assets: Decrease in Accounts Payable and Loans

■ 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 2Q

(Unit: million yen)

Assets	63,269	Liabilities	53,451
Current assets	18,232	Current liabilities	21,933
Cash and deposits	8,936	Short-term loans ^{*1}	8,388
		Fixed liabilities	31,518
Fixed assets	45,037	Long-term loans	25,420
Tangible fixed assets	24,602	Net assets	9,817
Intangible fixed assets	14,060	Capital stock	2,128
Goodwill	13,607	Capital surplus	1,182
Investments and other assets	6,374	Retained earnings	6,838
		Treasury stock	(225)
Total assets	63,269	Total liabilities and net assets	63,269

Equity ratio

15.5%

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

18.1%)

FY3/2021 2Q : Consolidated cash flows



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Cash flows from
operating activities

803
million yen

EBITDA*

Income taxes paid

Changes in working capital

2,787 million yen

(570) million yen

(1,583) million yen

* Calculated by "operating profit + depreciation + amortization of goodwill"

Cash flows from
investing activities

(862)
million yen

Acquisition of buildings, etc.

Payments of guarantee deposits

(472) million yen

(283) million yen

Cash flows from
financing activities

(2,716)
million yen

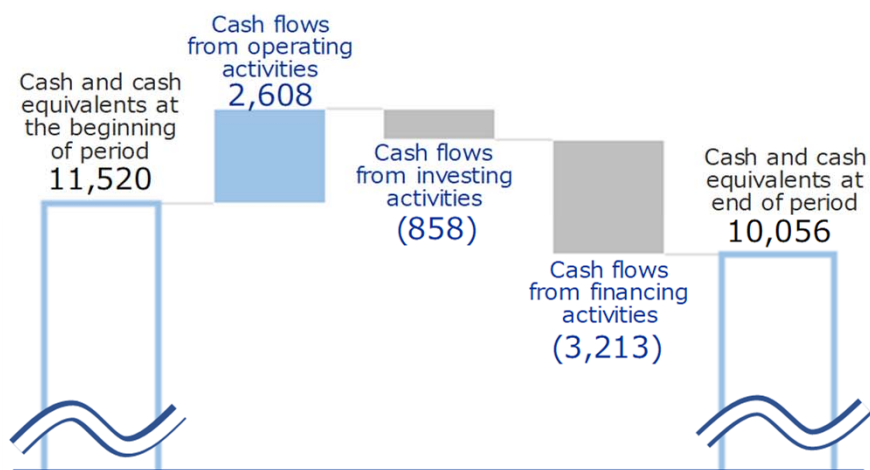
Loan amount reduced

Repayments of lease obligations

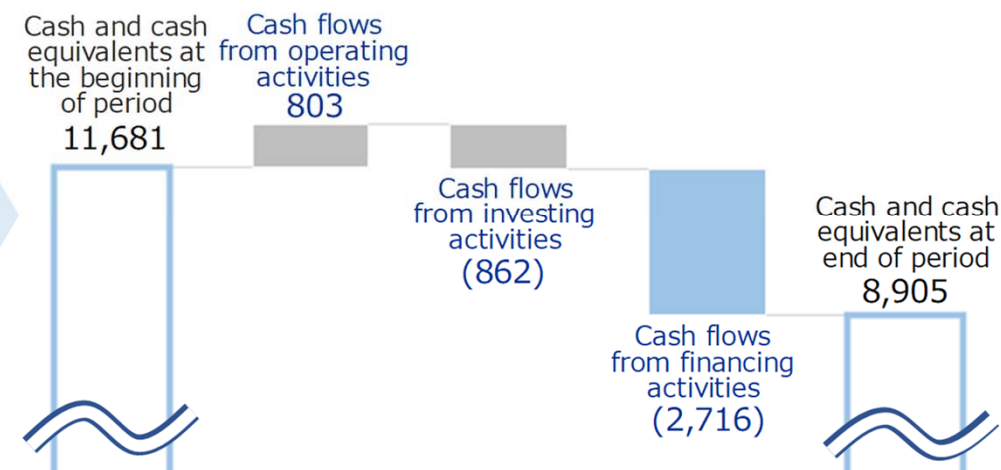
(2,343) million yen

(190) million yen

■ FY3/2020 2Q (Unit: million yen)



■ FY3/2021 2Q (Unit: million yen)



Business Summary and Core Strategies

FY3/2021: Core strategies

Republish



■ 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

Pharmaceuticals Network Business: Earnings summary

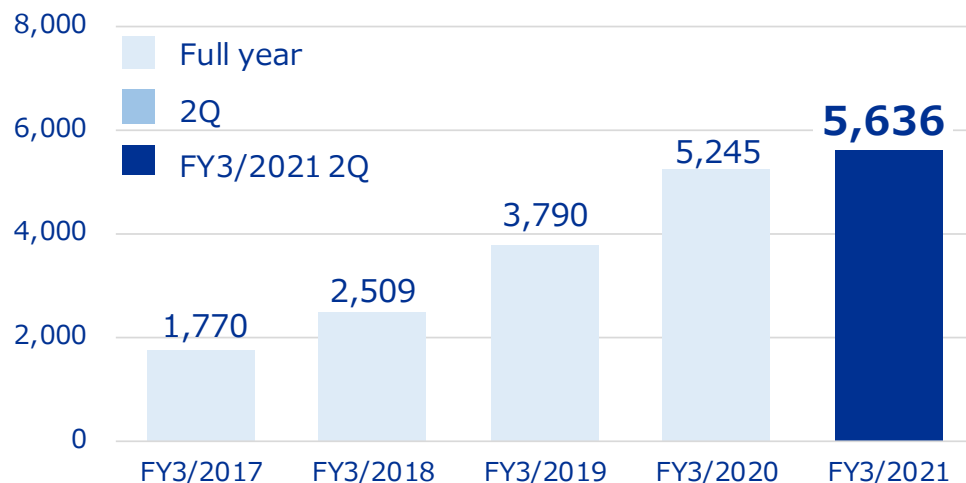
(as of September 30, 2020)

Our headline growth in network affiliates slowed somewhat in the first half given a temporary cancellation of a few large network clients.

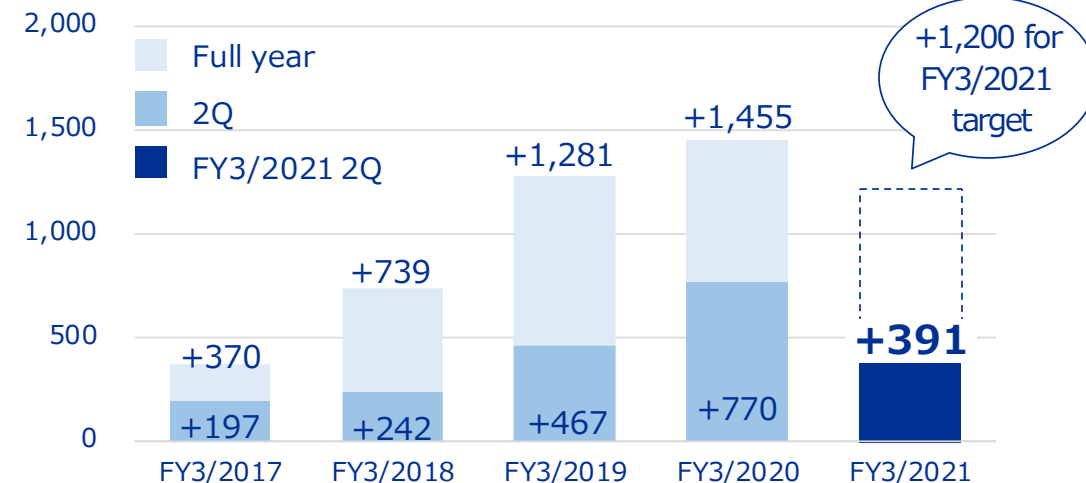
We look for a recovery in pace in the second half and continue with our 1,200 affiliates addition target.



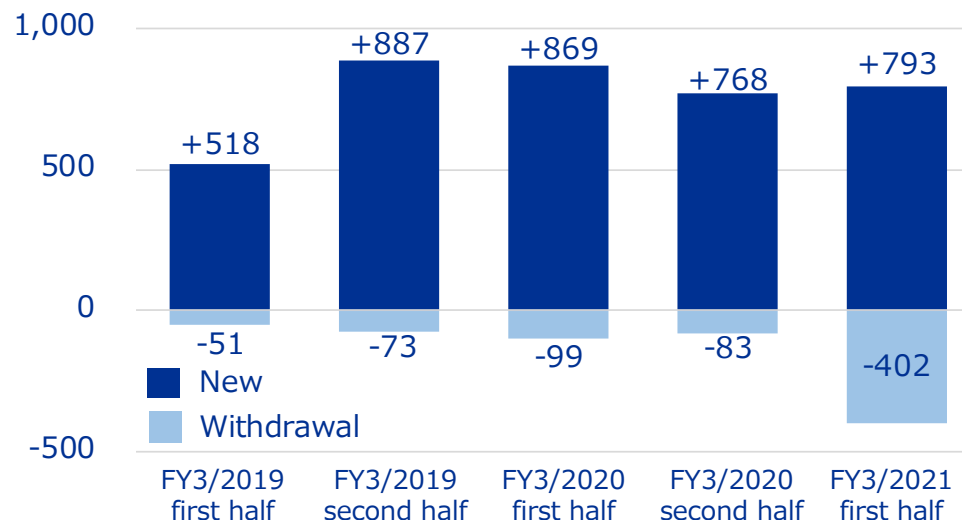
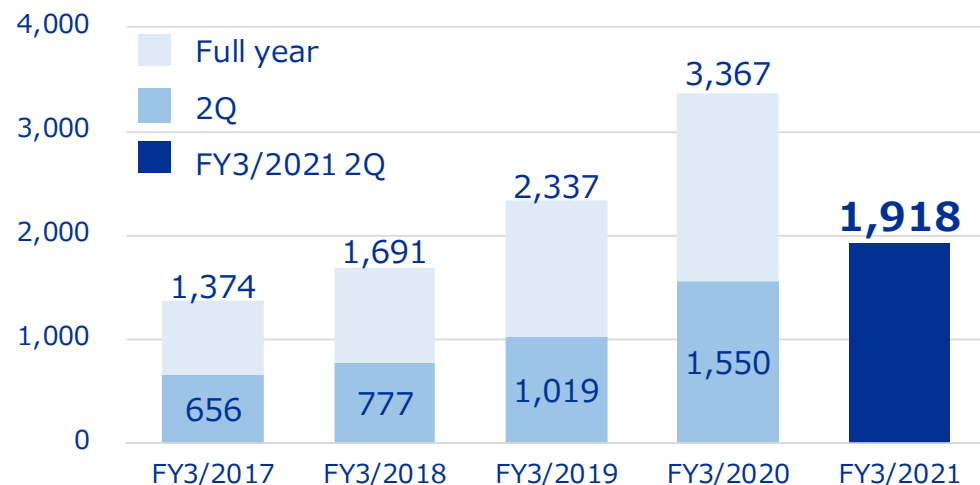
■ Network affiliates (actual) (Unit: No. of network affiliates)



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



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

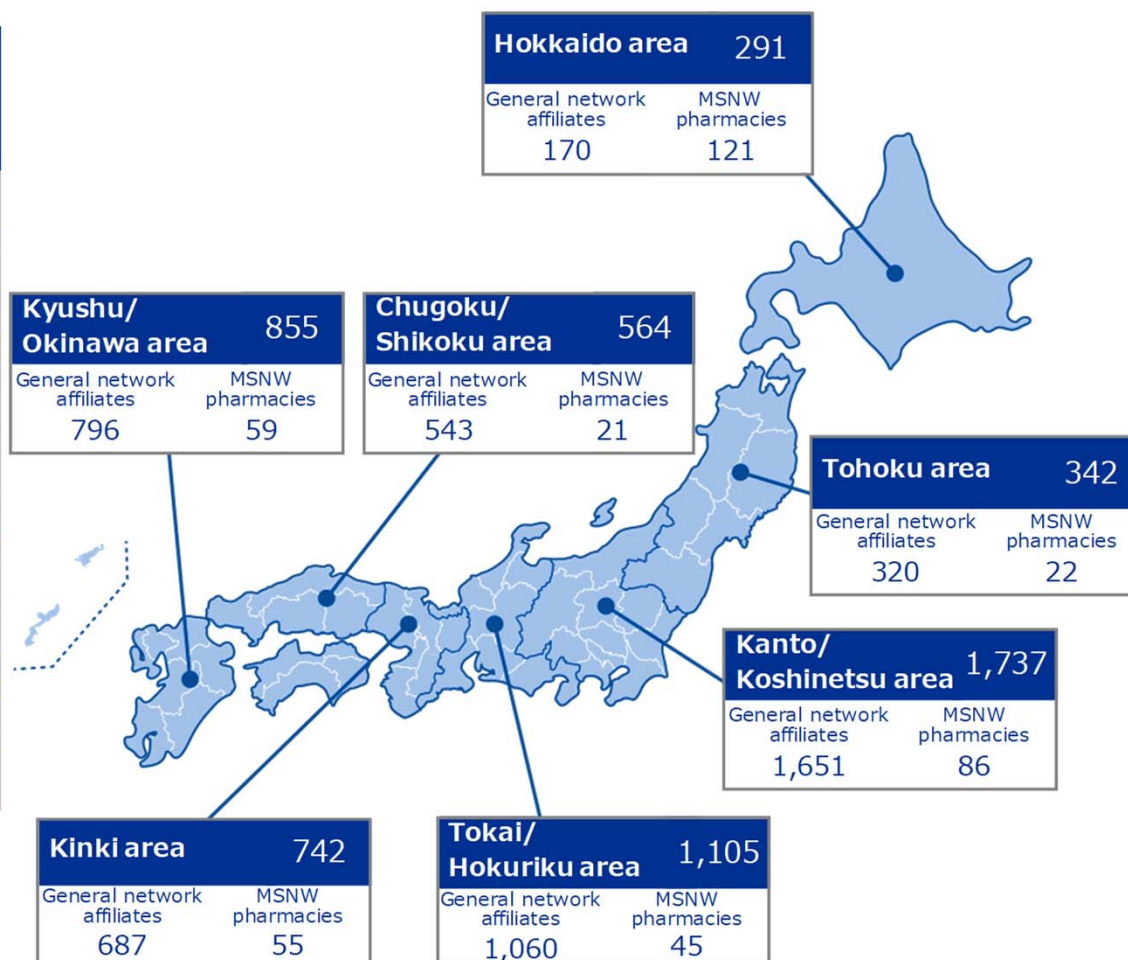


Pharmaceuticals Network Business:

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

【 Breakdown of network affiliates 】

(Unit: No. of network affiliates)	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	170	121	291
Tohoku	320	22	342
Kanto/Koshinetsu	1,651	86	1,737
Tokai/Hokuriku	1,060	45	1,105
Kinki	687	55	742
Chugoku/Shikoku	543	21	564
Kyushu/Okinawa	796	59	855
Total	5,227	409	5,636



5,709 network affiliates
as of November 2, 2020

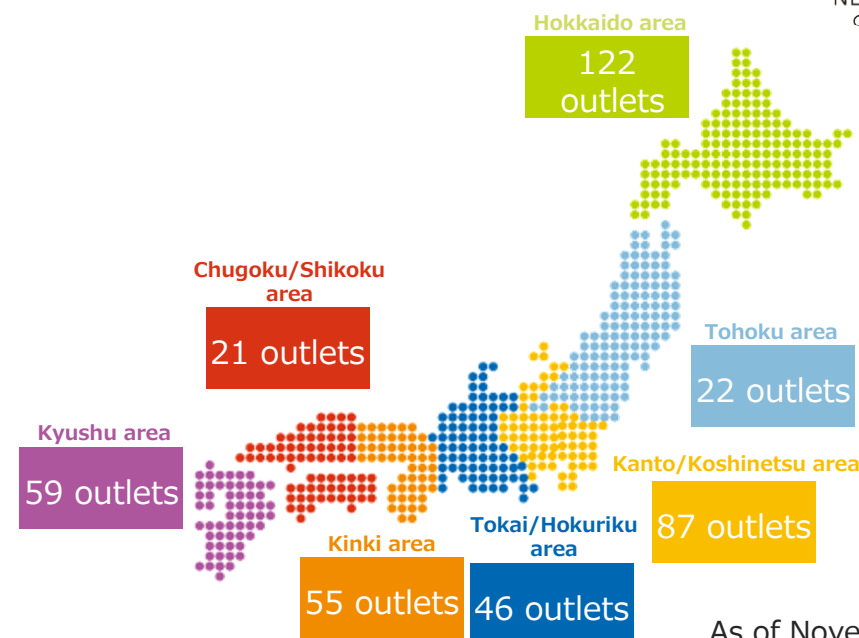
Dispensing Pharmacy Business: Trends in number of pharmacies



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2 new outlets and 9 outlet closures/transfers since end of previous fiscal year

	Outlets at end of FY3/2020	Outlets at end of FY3/2021 2Q	Outlets as of November 2
Outlets at end of previous term	420	416	409
Openings	8	2	3
Closings and transferring businesses	(15)	(9)	(1)
M&A	3	—	2
Total	416	409	413

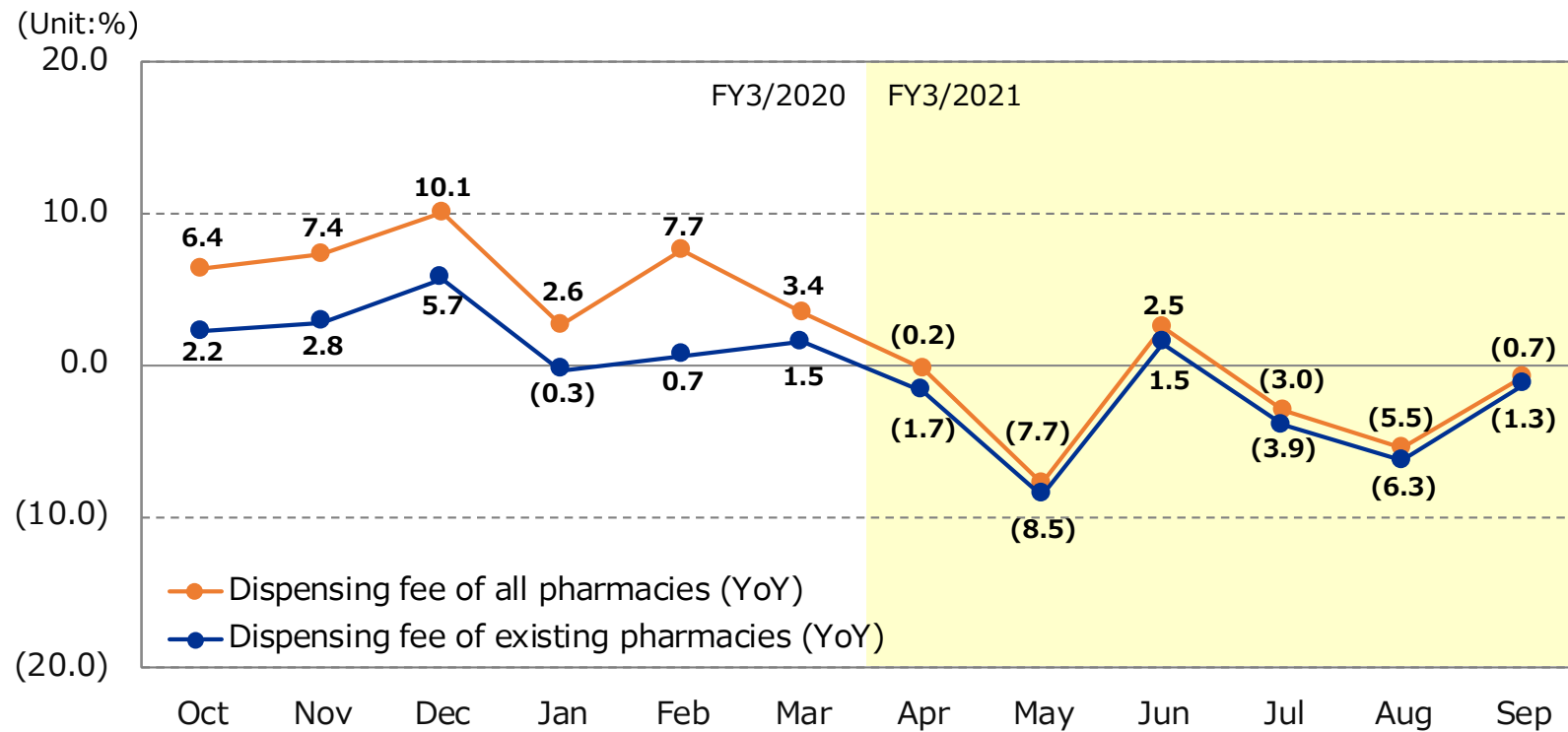


■ Dispensing pharmacy outlet number trends of the past 10 years

	FY3/2012*	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021 2Q
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)	(9)
M&A	6	33	45	27	7	20	19	30	3	—
Number of outlets	223	269	321	345	353	377	399	420	416	409

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

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)



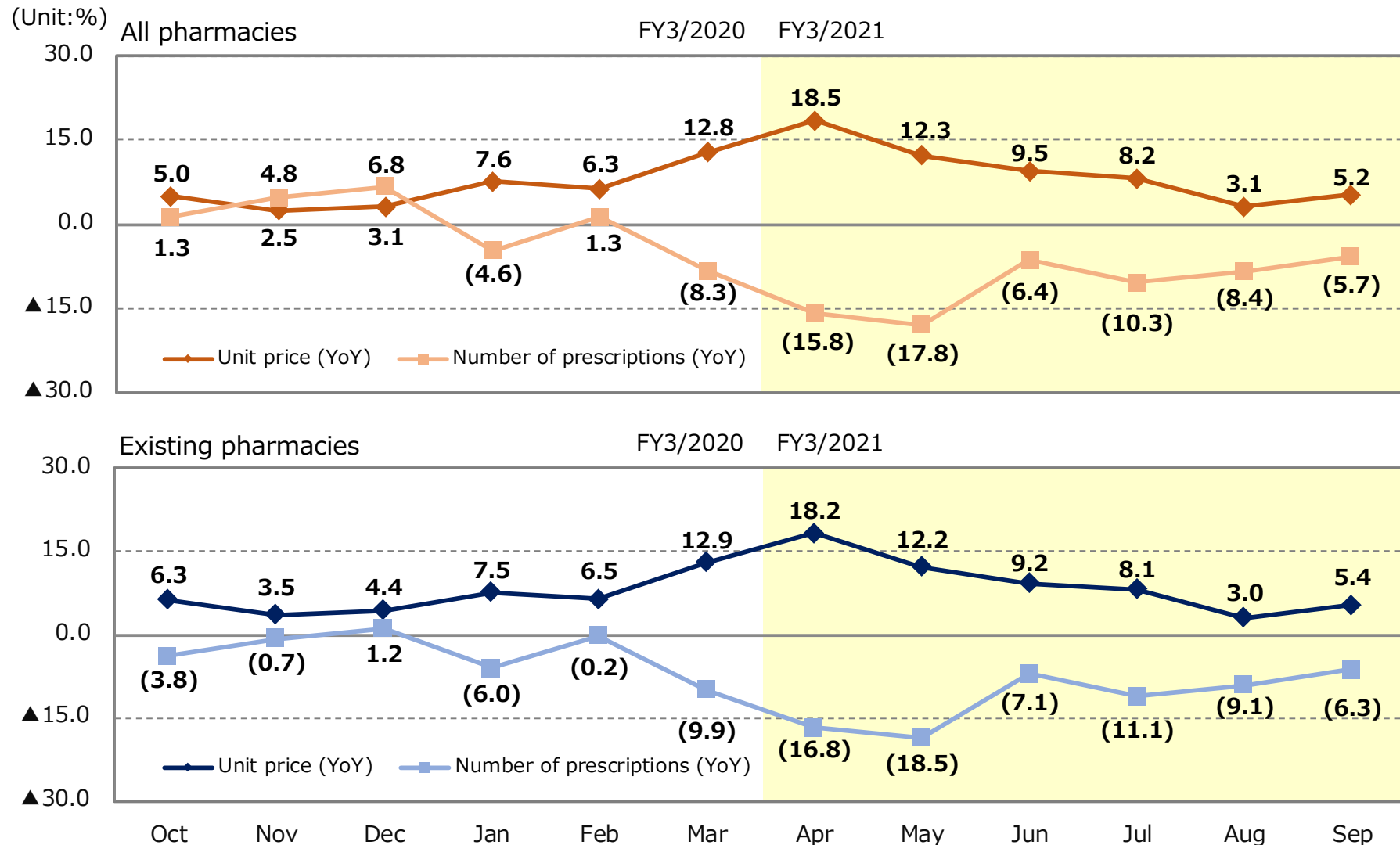
	FY3/2020						FY3/2021						FY3/2021 2Q
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Dispensing fee of all pharmacies (YoY)	6.4	7.4	10.1	2.6	7.7	3.4	(0.2)	(7.7)	2.5	(3.0)	(5.5)	(0.7)	(2.4)
Dispensing fee of existing pharmacies (YoY)	2.2	2.8	5.7	(0.3)	0.7	1.5	(1.7)	(8.5)	1.5	(3.9)	(6.3)	(1.3)	(3.4)

※ "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
- Seeing a gradual recovery in number of prescriptions



Dispensing Pharmacy Business: Dispensing fee breakdown

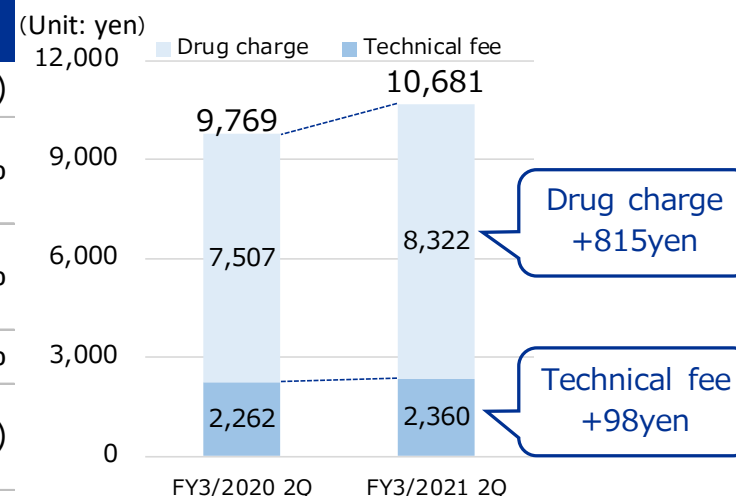
Point

- 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 2Q	FY3/2021 2Q	Change	Change (%)
No. of prescriptions (1000) a		4,531	4,043	(488)	(10.8%)
Unit price (yen)	Drug charge per prescription	7,507	8,322	+815	+10.9%
	Technical fee per prescription	2,262	2,360	+98	+4.3%
Total b		9,769	10,681	+913	+9.3%
Dispensing fee (million yen) c = a x b		44,270	43,188	(1,082)	(2.4%)

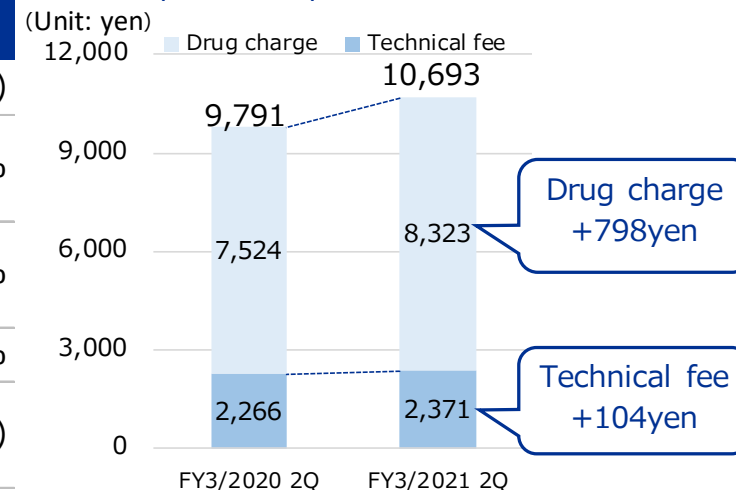
【Prescription unit price trends】



Existing pharmacies

■ Existing pharmacies		FY3/2020 2Q	FY3/2021 2Q	Change	Change (%)
No. of prescriptions (1000) a		4,427	3,915	(511)	(11.6%)
Unit price (yen)	Drug charge per prescription	7,524	8,323	+798	+10.6%
	Technical fee per prescription	2,266	2,371	+104	+4.6%
	Total b	9,791	10,693	+903	+9.2%
Dispensing fee (million yen) c = a x b		43,344	41,872	(1,472)	(3.4%)

【Prescription unit price trends】



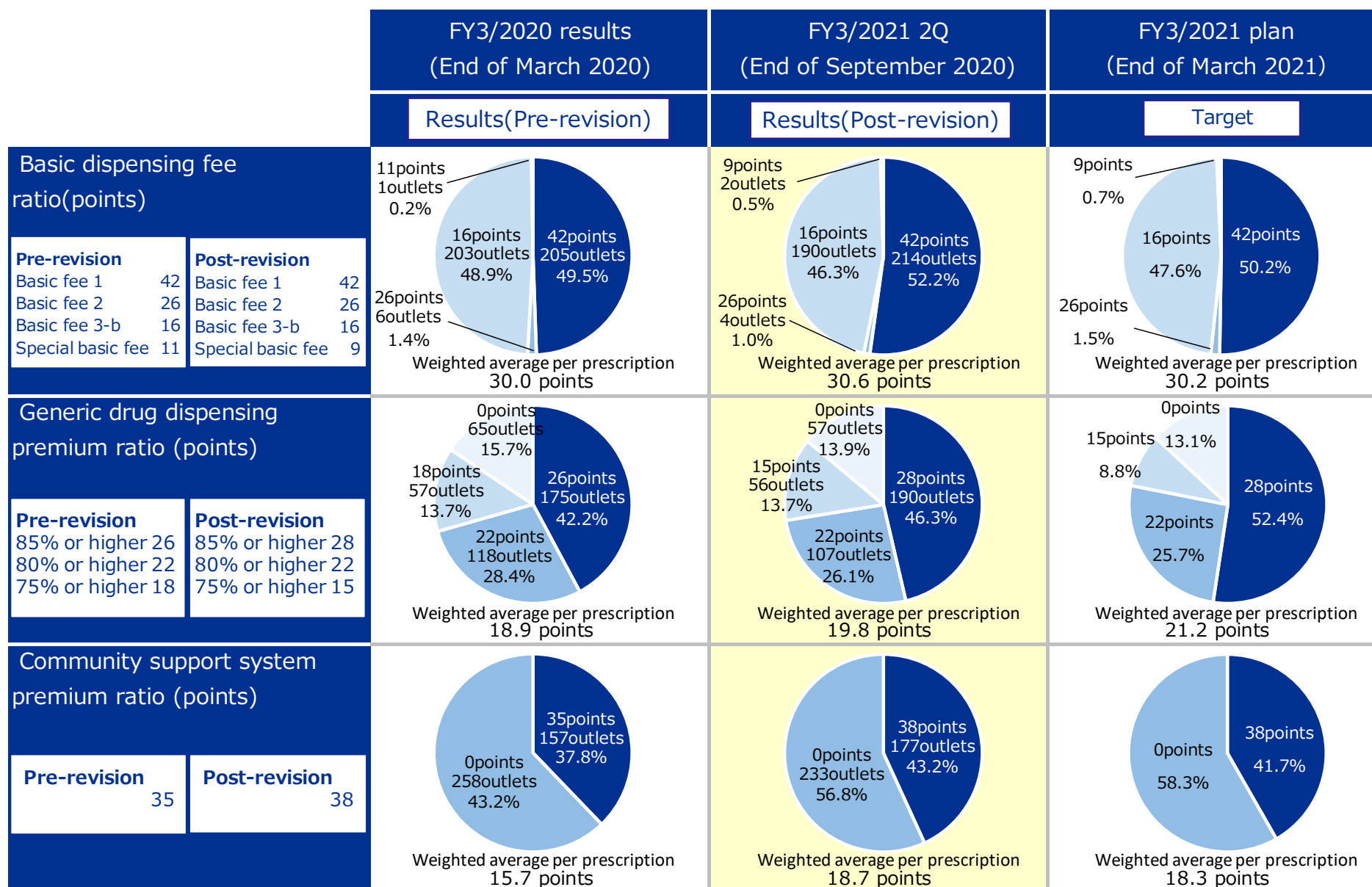
* "Existing pharmacies" on this page refer to pharmacies continue to be in business on or after April 1, 2019.

Dispensing Pharmacy Business: Dispensing fee revision

Acquisition of each dispensing fee progresses almost as planned



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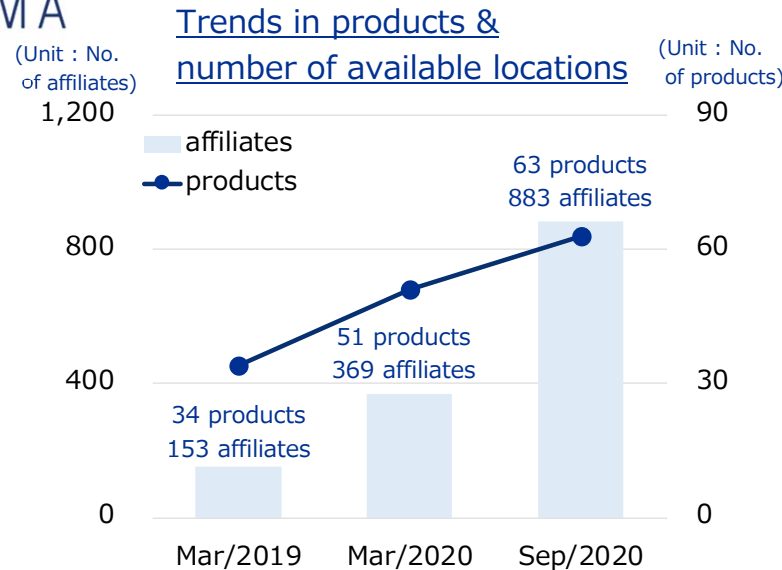


* Excludes suspended pharmacies (FY03/2020 results includes pharmacies closed on March 31 and FY3/2021 2Q includes pharmacies closed on September 30)

Manufacture and Market Pharmaceuticals Business: New generic drugs of 9 components and 12 products for sale as of the end of first half.



Our first eye drop products released on July 22



As of end of September 2020

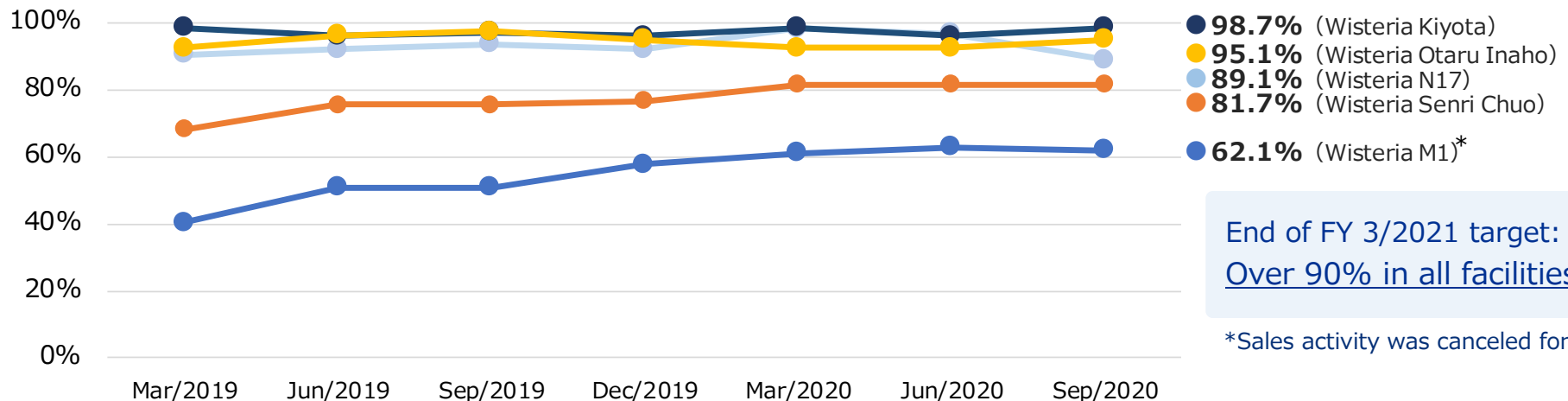
Available components & products
32 components 63 products
 (FY3/2022 target: 100 products)

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

Leasing and Facility related Business: Occupancy rate trends in Wisteria



Senri Chuo turned to the black in first half results
 M1 is expected to achieved profitability for the full year



End of FY 3/2021 target:
Over 90% in all facilities

*Sales activity was canceled for the first half

Digital Shift Business: Establishment of PharmaShift Co., Ltd.

Business description

- DX support for pharmacies and other healthcare industries
- New innovative platform

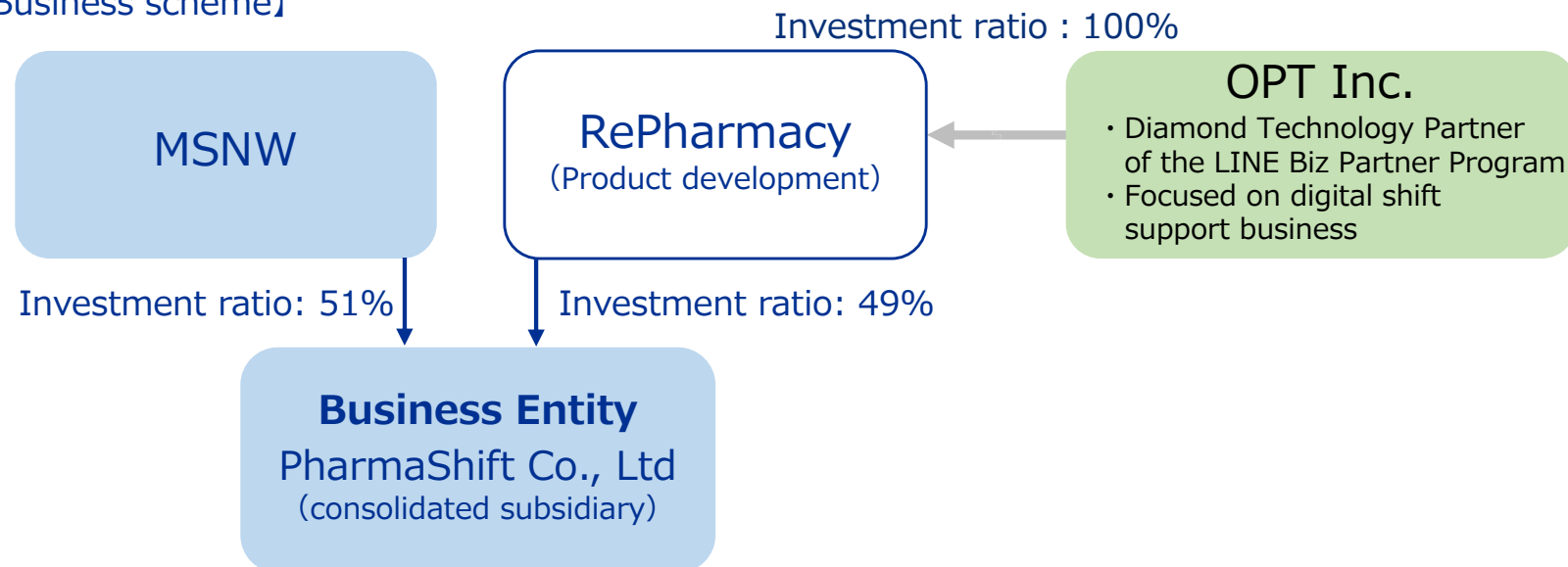
【Vision】

Create a new patient-centered healthcare platform for the new digital age



- Provide services using an official account on LINE's application; features include sending prescriptions, digital medication history, and follow-up consultation during medication period

【Business scheme】



- Service is scheduled to begin in Jan 2021
- Aiming to become the core platform for the pharmacy industry

Earnings Forecast for FY3/2021 and Interim dividend

Earnings forecast for FY3/2021: Consolidated forecasts

Point

- We foresee the trend of fewer medical examinations to continue until the end of the fiscal year on account of new COVID-19 cases during the winter season. On the other hand, we continue to see strong growth in network affiliates
- Anticipated increase in profit from continuing shift to high margin generic drugs and reducing costs through streamlining operations

(Unit: million yen)	FY3/20 (results)	FY3/21 (plan)	Change	Change (%)
Net sales	105,241	103,000	(2,241)	(2.1 %)
Operating profit Profit margin	1,615 1.5 %	2,500 2.4 %	+ 884 + 0.9 pt	+ 54.8 %
Ordinary profit Profit margin	1,560 1.5 %	2,500 2.4 %	+ 939 + 0.9 pt	+ 60.2 %
Profit attributable to owners of parent Profit margin	(895) —	750 0.7 %	+ 1,645 —	—
Earnings per share (Yen)	(29.48)	24.73	+ 54.21	—

* Values presented are the full year earnings forecast revision announced on November 6, 2020

Earnings forecast for FY3/2021: Forecast in each segment

■ Net sales

(Unit: million yen)		FY3/19 (results)	FY3/20* ³ (plan)	Change		Change (%)
Net sales		105,241	103,000	(2,241)		(2.1 %)
	Community Pharmacy Network Segment* ¹	99,617	97,909	(1,707)		(1.7 %)
	Other 3 Segments* ²	6,389	5,678	(710)		(11.1 %)
	Adjustments	(764)	(588)	+ 175		—

■ Operating Profit

(Unit: million yen)		FY3/19 (results)		FY3/20 (plan)		Change		Change (%)
Profit percentage in brackets								
Segment profit		1,615	1.5 %	2,500	2.4 %	+ 884	+ 0.9 pt	+ 54.8 %
	Community Pharmacy Network Segment* ¹	3,743	3.8 %	4,704	4.8 %	+ 937	+ 1.0 pt	+ 25.7 %
	Other 3 Segments* ²	(70)	—	30	0.5 %	+ 101	—	—
	Adjustments	(2,057)	—	(2,235)	—	(177)	—	—

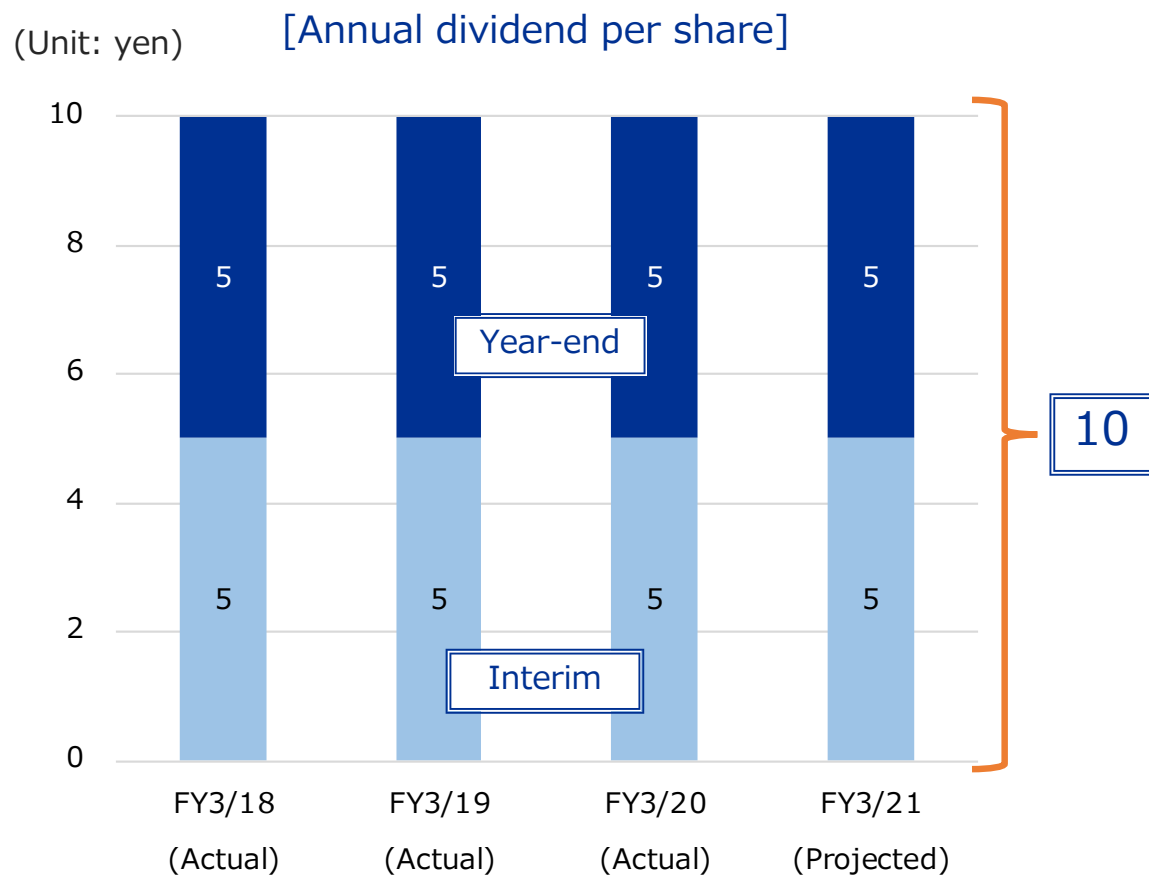
*1 Pharmaceutical Network Business, Dispensing Pharmacy Business, Manufacture and Market Pharmaceuticals Business

*2 Leasing and Facility related Segment, Meal Catering Segment, Home Visit Nursing Segment

*3 Values presented are the full year earnings forecast revision announced on November 6, 2020

Interim dividend

- The projected dividend for FY3/21 is 10 yen per share
(interim and year-end dividend of 5 yen each per share)



《Reference》

- ① FY3/20 interim dividend
Base date : September 30, 2020
Payment : December 14, 2020
Dividend per share: 5 yen
- ② Shareholder return index
Projected year-end dividend per share: 10 yen
Projected payout ratio: 40.4%

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