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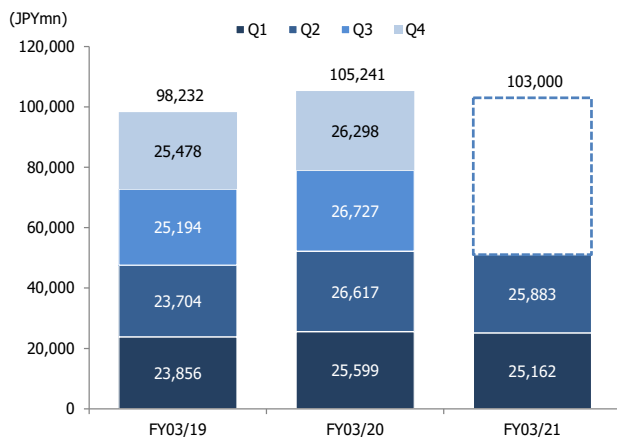
On November 6, 2020, Medical System Network Co., Ltd. announced earnings results for 1H FY03/21.

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/21		FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Sales	23,856	47,560	72,754	98,232	25,599	52,216	78,943	105,241	25,162	51,045	49.6%	103,000
YoY	2.2%	2.2%	3.2%	4.5%	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%		-2.1%
Gross profit	9,079	17,887	27,527	37,271	9,839	19,819	30,225	40,214	9,704	20,502		
YoY	0.1%	-1.2%	0.0%	1.8%	8.4%	10.8%	9.8%	7.9%	-1.4%	3.4%		
GPM	38.1%	37.6%	37.8%	37.9%	38.4%	38.0%	38.3%	38.2%	38.6%	40.2%		
SG&A expenses	8,867	17,410	26,487	35,842	9,504	19,022	28,997	38,599	9,765	19,147		
YoY	4.6%	3.4%	5.0%	7.2%	7.2%	9.3%	9.5%	7.7%	2.7%	0.7%		
SG&A ratio	37.2%	36.6%	36.4%	36.5%	37.1%	36.4%	36.7%	36.7%	38.8%	37.5%		
Operating profit	212	476	1,040	1,428	334	796	1,228	1,615	-61	1,355	54.2%	2,500
YoY	-64.2%	-62.5%	-54.5%	-54.9%	57.5%	67.2%	18.1%	13.1%	-	70.2%		54.8%
OPM	0.9%	1.0%	1.4%	1.5%	1.3%	1.5%	1.6%	1.5%	-	2.7%		2.4%
Recurring profit	192	438	1,010	1,501	323	784	1,208	1,560	-62	1,397	55.9%	2,500
YoY	-67.5%	-65.6%	-56.7%	-53.8%	68.2%	79.0%	19.6%	3.9%	-	78.2%		60.3%
RPM	0.8%	0.9%	1.4%	1.5%	1.3%	1.5%	1.5%	1.5%	-	2.7%		2.4%
Net income	101	119	372	462	97	218	326	-895	-201	578	77.1%	750
YoY	-65.1%	-67.2%	-60.6%	-54.8%	-4.0%	83.2%	-12.4%	-	-	165.1%		-
Net margin	0.4%	0.3%	0.5%	0.5%	0.4%	0.4%	0.4%	-	-	1.1%		0.7%

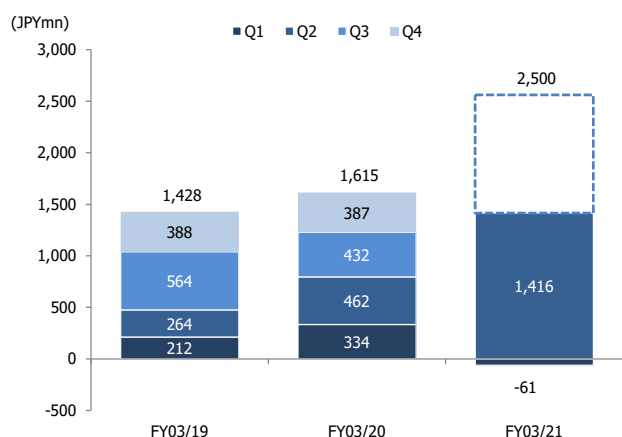
Quarterly (JPYmn)	FY03/19				FY03/20				FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	23,856	23,704	25,194	25,478	25,599	26,617	26,727	26,298	25,162	25,883
YoY	2.2%	2.3%	4.9%	8.7%	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%
Gross profit	9,079	8,808	9,640	9,744	9,839	9,980	10,406	9,989	9,704	10,798
YoY	0.1%	-2.6%	2.5%	7.2%	8.4%	13.3%	7.9%	2.5%	-1.4%	8.2%
GPM	38.1%	37.2%	38.3%	38.2%	38.4%	37.5%	38.9%	38.0%	38.6%	41.7%
SG&A expenses	8,867	8,543	9,077	9,355	9,504	9,518	9,975	9,602	9,765	9,382
YoY	4.6%	2.2%	8.2%	13.8%	7.2%	11.4%	9.9%	2.6%	2.7%	-1.4%
SG&A ratio	37.2%	36.0%	36.0%	36.7%	37.1%	35.8%	37.3%	36.5%	38.8%	36.2%
Operating profit	212	264	564	388	334	462	432	387	-61	1,416
YoY	-64.2%	-61.1%	-44.5%	-55.7%	57.5%	75.0%	-23.4%	-0.3%	-	206.5%
OPM	0.9%	1.1%	2.2%	1.5%	1.3%	1.7%	1.6%	1.5%	-	5.5%
Recurring profit	192	246	572	491	323	461	424	352	-62	1,459
YoY	-67.5%	-63.9%	-46.1%	-46.4%	68.2%	87.4%	-25.9%	-28.3%	-	216.5%
RPM	0.8%	1.0%	2.3%	1.9%	1.3%	1.7%	1.6%	1.3%	-	5.6%
Net income	101	18	253	90	97	121	108	-1,221	-201	779
YoY	-65.1%	-75.7%	-56.5%	15.4%	-4.0%	572.2%	-57.3%	-	-	543.8%
Net margin	0.4%	0.1%	1.0%	0.4%	0.4%	0.5%	0.4%	-	-	3.0%

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

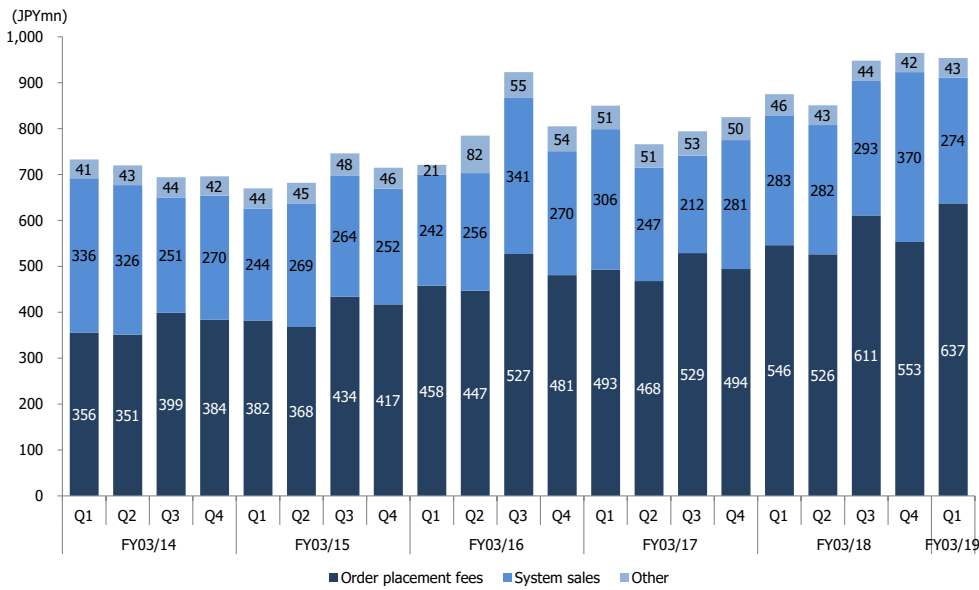
Quarterly results

	FY03/19				FY03/20				FY03/21	
	Q1 retro	Q2 retro	Q3 retro	Q4 retro	Q1	Q2	Q3	Q4	Q1	Q2
Sales	23,856	47,560	72,754	98,232	25,599	52,216	78,943	105,241	25,162	51,045
YoY	2.2%	2.2%	3.2%	4.5%	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%
Community Pharmacy Network	22,564	44,717	68,408	92,283	24,224	49,290	74,636	99,617	23,922	48,540
YoY	-	-	-	-	7.4%	10.2%	9.1%	7.9%	-1.2%	-1.5%
% of total	94.1%	94.7%	94.4%	94.3%	94.1%	93.6%	93.8%	94.0%	94.5%	94.6%
Leasing and Facility-related	600	1,508	2,382	3,320	760	1,829	2,659	3,425	723	1,438
YoY	15.2%	38.9%	52.6%	63.5%	26.7%	21.3%	11.6%	3.2%	-4.9%	-21.4%
% of total	2.5%	3.1%	3.3%	3.4%	3.0%	3.5%	3.3%	3.2%	2.9%	2.8%
Food Service	788	1,586	2,382	3,161	730	1,434	2,128	2,797	612	1,248
YoY	-31.8%	-31.0%	-27.4%	-23.0%	-7.4%	-9.6%	-10.7%	-11.5%	-16.2%	-13.0%
% of total	3.3%	3.2%	3.3%	3.2%	2.8%	2.7%	2.7%	2.6%	2.4%	2.4%
Other	33	91	166	261	38	79	122	165	51	110
YoY	0.0%	71.7%	133.8%	183.7%	15.2%	-13.2%	-26.5%	-36.8%	34.2%	39.2%
% of total	0.1%	0.2%	0.2%	0.3%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
Segment sales adjustments	-130	320	320	320	-154	-417	-603	-764	-154	-292
Operating profit	212	476	1,040	1,428	334	796	1,228	1,615	-61	1,355
YoY	-64.2%	-62.5%	-54.5%	-54.9%	57.5%	67.2%	18.1%	13.1%	-	70.2%
Community Pharmacy Network	642	1,227	2,332	3,313	825	1,736	2,764	3,743	434	2,369
YoY	-	-	-	-	28.5%	41.5%	18.5%	13.0%	-47.4%	36.5%
OPM	2.8%	2.7%	3.4%	3.6%	3.4%	3.5%	3.7%	3.8%	1.8%	4.9%
Leasing and Facility-related	-32	10	-51	-84	-8	68	67	45	6	16
YoY	-	-	-	-	-	580.0%	-	-	-	-76.5%
OPM	-	0.7%	-	-	-	-	-	-	-	-
Food Service	1	18	28	34	-12	-34	-38	-43	-19	-13
YoY	-80.0%	-47.1%	-42.9%	-24.4%	-	-	-	-	-	-
OPM	0.1%	1.1%	1.2%	1.1%	-	-	-	-	-	-
Other	-29	-57	-82	-101	-21	-39	-56	-71	-11	-13
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
Segment profit adjustments	-369	-721	-721	-721	-447	-934	-1,508	-2,057	-472	-1,003

	FY03/19				FY03/20				FY03/21	
	Q1 retro	Q2 retro	Q3 retro	Q4 retro	Q1	Q2	Q3	Q4	Q1	Q2
Sales	23,856	23,704	25,194	25,478	25,599	26,617	26,727	26,298	25,162	25,883
YoY	2.2%	2.3%	4.9%	8.7%	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%
Community Pharmacy Network	22,564	22,153	23,691	23,875	24,224	25,066	25,346	24,981	23,922	24,618
YoY	-	-	-	-	7.4%	13.1%	7.0%	4.6%	-1.2%	-1.8%
% of total	94.1%	95.3%	94.0%	93.7%	96.6%	93.3%	94.2%	94.4%	94.5%	94.6%
Leasing and Facility-related	600	908	874	938	760	1,069	830	766	723	715
YoY	-	-	-	-	26.7%	17.7%	-5.0%	-18.3%	-4.9%	-33.1%
% of total	2.5%	3.9%	3.5%	3.7%	3.0%	4.0%	3.1%	2.9%	2.9%	2.7%
Food Service	788	798	796	779	730	704	694	669	612	636
YoY	-	-	-	-	-7.4%	-11.8%	-12.8%	-14.1%	-16.2%	-9.7%
% of total	3.3%	3.4%	3.2%	3.1%	2.9%	2.6%	2.6%	2.5%	2.4%	2.4%
Other	33	58	75	95	38	41	43	43	51	59
YoY	-	-	-	-	15.2%	-29.3%	-42.7%	-54.7%	34.2%	43.9%
% of total	0.1%	0.2%	0.3%	0.4%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Segment sales adjustments	-130	450	-	-	520	-263	-186	-161	-154	-138
Operating profit	212	264	564	388	334	462	432	387	-61	1,416
YoY	-64.2%	-61.1%	-44.5%	-55.7%	57.5%	75.0%	-23.4%	-0.3%	-	206.5%
Community Pharmacy Network	642	585	1,105	981	825	911	1,028	979	434	1,935
YoY	-	-	-	-	28.5%	80.0%	61.4%	-	-47.4%	112.4%
OPM	2.8%	2.6%	4.7%	4.1%	3.4%	3.6%	4.1%	-	1.8%	7.9%
Leasing and Facility-related	-32	42	-61	-33	-8	76	-1	-22	6	10
YoY	-	-	-	-	-	-	-	-	-	-86.8%
OPM	-	-	-	-	-	7.1%	-	-	-	1.4%
Food Service	1	17	10	6	-12	-22	-4	-5	-19	6
YoY	-	-	-	-	-	-	-	-	-	-
OPM	0.1%	2.1%	1.3%	0.8%	-	-	-	-	-	-
Other	-29	-28	-25	-19	-21	-18	-17	-15	-11	-2
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
Segment profit adjustments	-369	-352	-	-	-447	-487	-574	-549	-472	-531

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

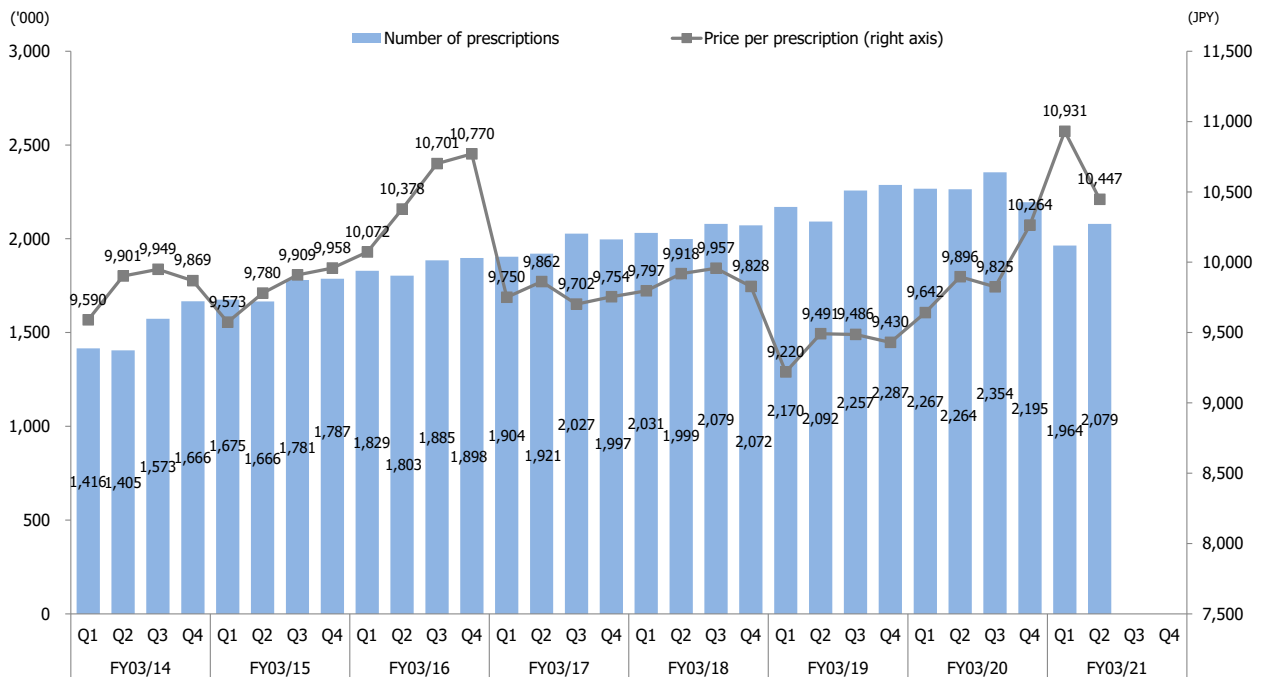


Source: Shared Research based on company data

Notes: Undisclosed from Q2 FY03/19

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

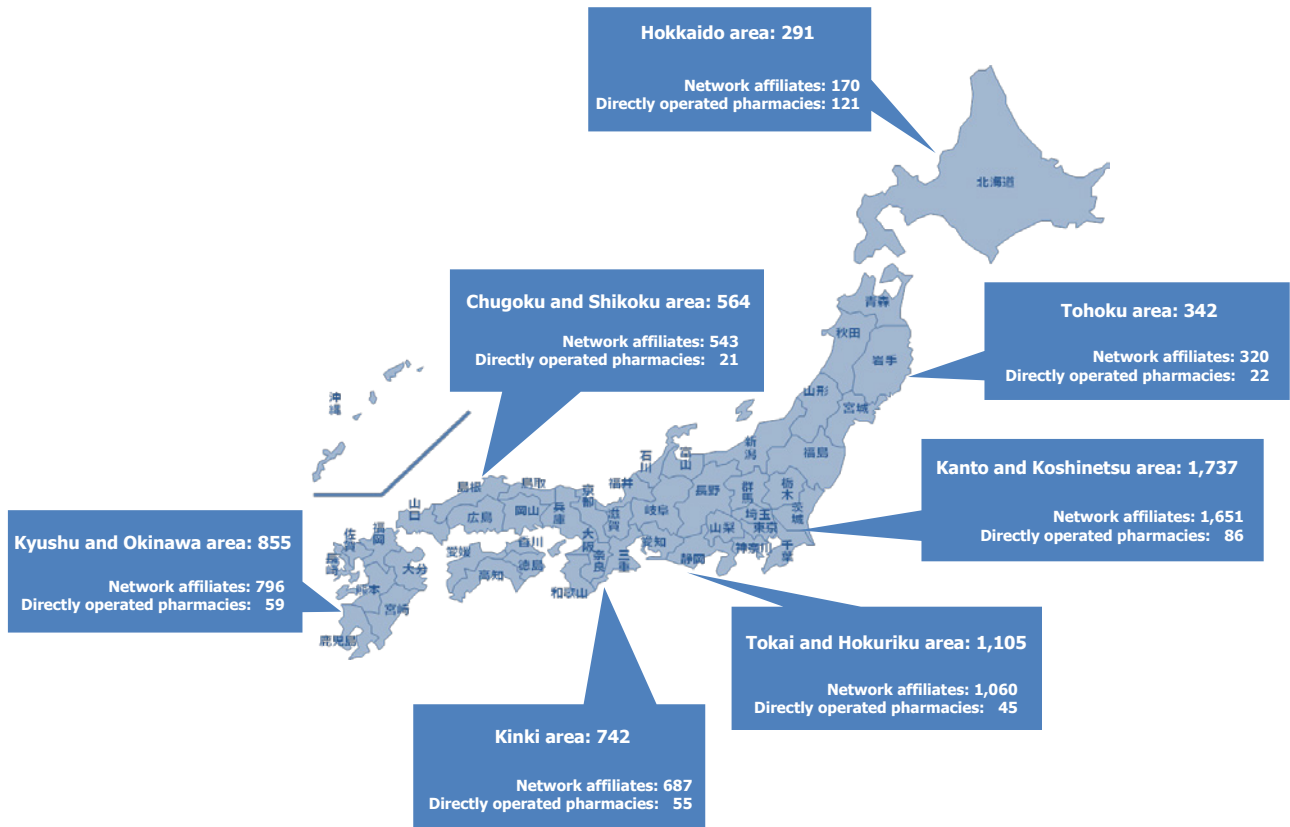
Quarterly trends in prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy business; all stores)



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 September 30, 2020)



Source: Shared Research based on company data

Number of dispensing pharmacies by region

Region	Directly operated pharmacies	Affiliates	Total network members
Hokkaido	121	170	291
Tohoku	22	320	342
Kanto and Koshinetsu	86	1,651	1,737
Tokai and Hokuriku	45	1,060	1,105
Kinki	55	687	742
Chugoku and Shikoku	21	543	564
Kyushu and Okinawa	59	796	855
Total	409	5,227	5,636

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

1H FY03/21 earnings results (out November 6, 2020)

Overview

Consolidated results for 1H FY03/21 (April–September 2020)

- ▷ Sales: JPY51.0bn (-2.2% YoY)
- ▷ Operating profit: JPY1.4bn (+70.2% YoY)
- ▷ Recurring profit: JPY1.4bn (+78.2% YY)
- ▷ Net income*: JPY578mm (+165.1% YoY)

*Net income attributable to owners of the parent

- ▷ Company response and business conditions: The Pharmaceuticals Network business recorded a steady increase in new network members, while the Dispensing Pharmacy business saw a drop in the number of prescriptions filled owing to fewer medical examinations as a result of the COVID-19 pandemic.

Breakdown of results by segment

Note: Reported sales and earnings at the segment level include intra-group sales and transfers between segments.

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.

Results for 1H FY03/21 (April–September 2020)

- ▷ Segment sales: JPY48.5bn (-1.5% YoY)
- ▷ Segment profit: JPY2.4bn (+36.5% YoY)
- ▷ Pharmaceuticals Network division: The number of new network members continued to increase, driven by the need for improved distribution efficiency. As of end-September 2020, network members numbered 5,636 (up 391 versus end-FY03/20), consisting of 409 directly managed pharmacies and 5,227 affiliated pharmacies. ,
- ▷ Dispensing Pharmacy division: Reflecting the decline in medical exams in the wake of the pandemic, the number of prescriptions filled during the period was down. As of end-September 2020, the group had 409 dispensing pharmacies, one care plan center, and eight cosmetics/drug stores.
- ▷ Manufacture and market pharmaceuticals division: This business aims to provide a stable supply of good-quality, low-priced generic drugs. As of end-September 2020, the company was selling 32 different ingredients and 63 products.

Leasing and Facility-related

Results for 1H FY03/21 (April–September 2020)

- ▷ Segment sales: JPY1.4bn (-21.4% YoY)
- ▷ Segment profit: JPY16mn (-76.5% YoY)
- ▷ The decline in sales reflected pandemic-related postponements of certain construction projects; on the plus side, the company saw solid growth in leasing revenues and occupancy numbers at its serviced elderly housing facilities. As of end-September 2020, the company reported stable occupancy rates at three out of its five properties; as for the remaining two, at Wisteria Senri-Chuo it reported an occupancy rate of 81.7% (with 67 out of 82 units being occupied), and at Wisteria Minami Ichijo it reported an occupancy rate of 62.1% (with 72 out of 116 units being occupied). Going forward, the company plans to

continue taking all due precautions to prevent novel coronavirus infections while continuing its marketing efforts aimed at getting its overall occupancy rate up to 90% by the end of the fiscal year.

Food Service

Results for 1H FY03/21 (April–September 2020)

- ▷ Segment sales: JPY1.2bn (-13.0% YoY)
- ▷ Segment loss: JPY13mn (versus loss of JPY34mn in 1H FY03/21)
- ▷ Loss improved: The loss reflects the company's withdrawal from unprofitable facilities and a decline in the number of meals supplied in the wake of the pandemic.

Other

The main business is home-visit nursing care.

Results for 1H FY03/21 (April–September 2020)

- ▷ Segment sales: JPY110mn (+39.2% YoY)
- ▷ Segment loss: JPY13mn (versus loss of JPY39mn in 1H FY03/20)

Company forecast for FY03/21

Recent performance and FY03/21 company forecast

(JPYmn)	FY03/19			FY03/20			FY03/21	
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	FY Act.
Sales	47,560	50,672	98,232	52,216	53,025	105,241	51,045	103,000
YoY	2.2%	6.8%	4.5%	9.8%	4.6%	7.1%	-2.2%	-2.1%
Cost of sales	29,673	31,288	60,961	32,397	32,630	65,027	30,542	
Gross profit	17,887	19,384	37,271	19,819	20,395	40,214	20,502	
GPM	37.6%	38.3%	37.9%	38.0%	38.5%	38.2%	40.2%	
SG&A expenses	17,410	18,432	35,842	19,022	19,577	38,599	19,147	
SG&A ratio	36.6%	36.4%	36.5%	36.4%	36.9%	36.7%	37.5%	
Operating profit	476	952	1,428	796	819	1,615	1,355	2,500
YoY	-62.5%	-49.7%	-54.9%	67.2%	-14.0%	13.1%	70.2%	54.8%
OPM	1.0%	1.9%	1.5%	1.5%	1.5%	1.5%	2.7%	2.4%
Recurring profit	438	1,063	1,501	784	776	1,560	1,397	2,500
YoY	-65.6%	-46.3%	-53.8%	79.0%	-27.0%	3.9%	78.2%	60.3%
RPM	0.9%	2.1%	1.5%	1.5%	1.5%	1.5%	2.7%	2.4%
Net income	119	343	462	218	-1,113	-895	578	750
YoY	-67.2%	-48.0%	-54.8%	83.2%	-	-	165.1%	-
Net margin	0.3%	0.7%	0.5%	0.4%	-2.1%	-0.9%	1.1%	0.7%

Source: Shared Research based on company data

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

Revised company forecast for full-year FY03/21

- ▷ Sales: JPY103.0bn (versus previous estimate of JPY103.5–105.5bn)
- ▷ Operating profit: JPY2.5bn (JPY1.2–2.2bn)
- ▷ Recurring profit: JPY2.5bn (JPY1.1–2.1bn)
- ▷ Net income: JPY750mn (no estimate given previously)
- ▷ EPS: JPY24.73 (no estimate given previously)

At the time of its FY03/20 results announcement on May 8, 2020, the company issued range estimates for FY03/21 sales, operating profit, and recurring profit, explaining that it did not have a good basis at that time on which to make more precise

estimates as to how much the pandemic would impact full-year results. Although exactly when the pandemic will come to an end remains to be seen, with the first six months of the fiscal year in the rearview mirror and more data in hand, the company has been able to fine-tune its projections and revise its forecast based on this new information.

The main impetus for the revision at this time is the Dispensing Pharmacy business, where the company had initially expected to see the worst of the pandemic-driven downturn in prescriptions (resulting from cutbacks in patient exams at hospitals) no later than July, with prescriptions then gradually recovering from there. Now, however, the company sees the fallout from the pandemic lingering through the end of the fiscal year and, with this weighing on sales, does not expect the recovery in prescription volumes it is currently seeing to take sales in this area all the way back to where they were in FY03/20. With prescriptions related to the flu, hay fever, and other types of seasonal maladies also expected to be down this year, the company sees consolidated sales for the full year coming in below the lower end of its initial range estimate. In contrast, the company sees full-year earnings coming in above the upper end of its initial range estimate, the credit here going mainly to accelerated efforts to reduce costs, including speeding up the shift to generic drugs (which have the advantage of being cheaper and can be reliably procured) and increasing worker productivity through better shift scheduling and reductions in overtime.

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

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