



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Third Quarter of Fiscal Year Ending March 2021
Earnings Report

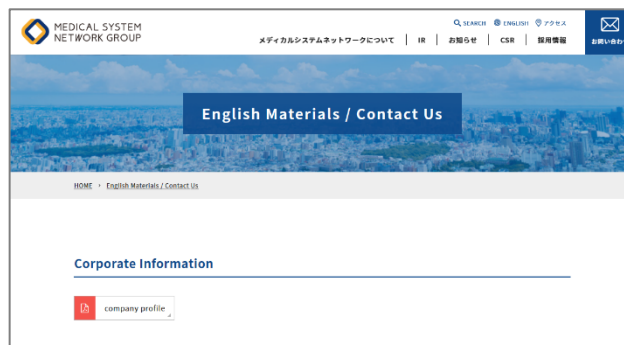
First Section of Tokyo Stock Exchange; Securities Code: 4350

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.

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



FY3/2021 3Q : MSNW's earnings and business overview



- Factors related to the outbreak of COVID-19
 - ✓ As people refrain from taking medical examinations, the number of prescriptions written decreased
 - ✓ An increase in long-term prescriptions is prompting a rise in prescription unit price
- Profit increase from shifting to high margin generic drugs and controlling costs
- Revision of Pharmaceutical and Medical Device Act in September 2020
 - ✓ Obligatory follow-up on medication required by pharmacists
 - ✓ New deployment of online medication counselling
- Establishment of Pharmashift Co., Ltd. in October 2020
 - ✓ New digital transformation business for pharmacies
- Partial sale of shares in December 2020 of investment in group affiliate
 - ✓ Recorded 907 million yen extraordinary income

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Earnings Highlight

FY3/2021 3Q : Consolidated results



Earnings Summary

- Despite general steady growth in network affiliates, we saw a drop in net sales due to overall less prescriptions on the back of the outbreak of COVID-19
- Rise in profit attributable to a shift to high margin generic drugs and cost reductions through streamlining operations
- Substantial growth in Net Income from partial share sales of a group affiliate

	FY3/2020 3Q	FY3/2021 3Q	Year-on-year		FY3/2021 Full year forecast Announced on Dec, 2020	Progress rate
			Change	Change (%)		
(Unit: million yen)						
Net sales	78,943	78,167	(776)	(1.0%)	103,000	75.9%
Operating profit	1,228	2,773	1,544	+ 125.7%	2,500	110.9%
Profit margin	1.6%	3.5%			2.4%	
Ordinary profit	1,208	2,770	1,562	+ 129.2%	2,500	110.8%
Profit margin	1.5%	3.5%			2.4%	
Profit attributable to owners of parent	326	2,013	1,686	+ 516.6%	1,380	145.9%
Profit margin	0.4%	2.6%			1.3%	
Earnings per share (Yen)	10.75	66.37	55.62	—	45.50	—
EBITDA ^{*1}	3,475	4,922	1,446	+ 41.6%	—	—

*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 February 5, 2021

FY3/2021: Full year consolidated earnings forecast revision

Point

- Revision of consolidated earnings forecast announced on December 15, 2020
- Number of prescriptions is in general as predicted; unit price trends exceed forecast
- Pharmaceutical transaction trends of network affiliates exceed forecast
- Broad management of costs and continued streamlining of operations

→ Upward revision on each profitability level

(Unit: million yen)	FY3/20 Results	FY3/21 Forecast Announced on Dec 15, 2020	FY3/21 Forecast Revision	FY3/21 Forecast Change	FY3/21 Forecast Change(%)
Net sales	105,241	103,000	103,000	—	—
Operating profit Profit margin	1,615 1.5 %	2,500 2.4 %	3,400 3.3 %	+ 900 + 0.9 pt	+ 36.0 %
Ordinary profit Profit margin	1,560 1.5 %	2,500 2.4 %	3,400 3.3 %	+ 900 + 0.9 pt	+ 36.0 %
Profit attributable to owners of parent Profit margin	▲ 895 —	1,380 1.3 %	2,000 1.9 %	+ 620 + 0.6 pt	+ 44.9 %
Earnings per share (Yen)	▲ 29.48	45.50	65.94	+ 20.44	—

FY3/2021 3Q : Results in each segment part

Earnings Summary

- Community Pharmacy Network Segment: Increase in income from streamlining operations, optimal staffing, and reducing expenses
- Others: Despite a drop in sales due to less meal catering and construction order delays, the segment secured a positive result on account of profitability controls in Meal Catering and Home Visit Nursing Segments

■ Net sales

	FY3/2020 3Q	FY3/2021 3Q	Change	Change (%)
(Unit: million yen)				
Net sales	78,943	78,167	(776)	(1.0%)
Community Pharmacy Network Segment ^{*1}	74,637	74,368	(268)	(0.4%)
Other 3 Segments ^{*2}	4,909	4,241	(668)	(13.6%)
Adjustments	(603)	(442)	+ 160	—

■ Operating profit

	FY3/2020 3Q	Profit margin	FY3/2021 3Q	Profit margin	Change	Change (%)
(Unit: million yen)						
Segment profit	1,228	1.6%	2,773	3.5%	+1,544	+ 125.7%
Community Pharmacy Network Segment ^{*1}	2,764	3.7%	4,329	5.8%	+1,564	+ 56.6%
Other 3 Segments ^{*2}	(27)	—	+13	(0.3%)	+41	—
Adjustments	(1,508)	—	(1,569)	—	(61)	—

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

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

FY3/2021 3Q : Consolidated balance sheet

Point

Assets: Decrease in buildings and structures, and goodwill

Liabilities and Net Assets: Decrease in accounts payable and loans; increase in 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 3Q

(Unit: million yen)

Assets	66,300	Liabilities	55,181
Current assets	21,641	Current liabilities	24,673
Cash and deposits	11,308	Short-term loans ^{*1}	8,993
		Fixed liabilities	30,507
Fixed assets	44,659	Long-term loans	24,362
Tangible fixed assets	24,608	Net assets	11,119
Intangible fixed assets	13,874	Capital stock	2,128
Goodwill	13,423	Capital surplus	1,182
Investments and other assets	6,175	Retained earnings	8,120
		Treasury stock	(225)
Total assets	66,300	Total liabilities and net assets	66,300

Equity ratio 16.7%

(Equity ratio with taking into account net cash^{*2} 20.2%)

FY3/2021 3Q : Consolidated cash flows



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Cash flows from
operating activities

3,676
million yen

EBITDA*

Income taxes paid

Changes in working capital

4,922 million yen

(988) million yen

(617) million yen

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

Cash flows from
investing activities

(684)
million yen

Acquisition and sales of buildings, etc.

Payments of guarantee deposits

Partial share sales of non-equity affiliate

(1,070) million yen

(339) million yen

960 million yen

Cash flows from
financing activities

(3,394)
million yen

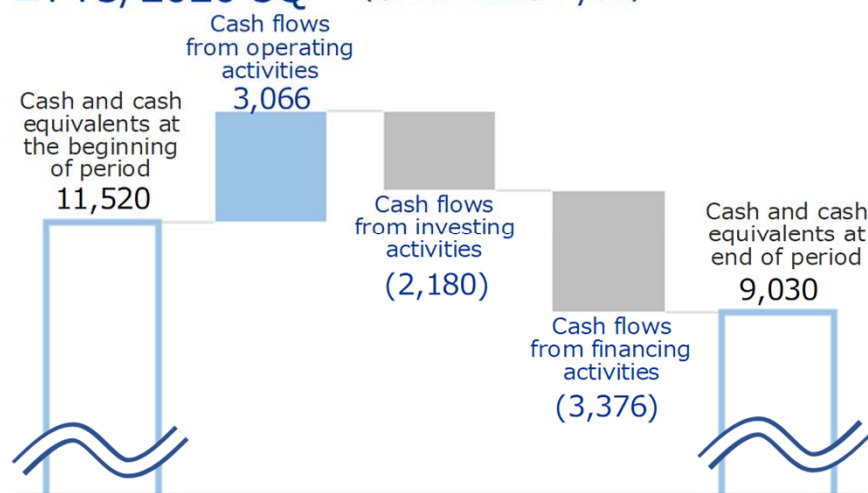
Loan amount reduced

Repayments of lease obligations

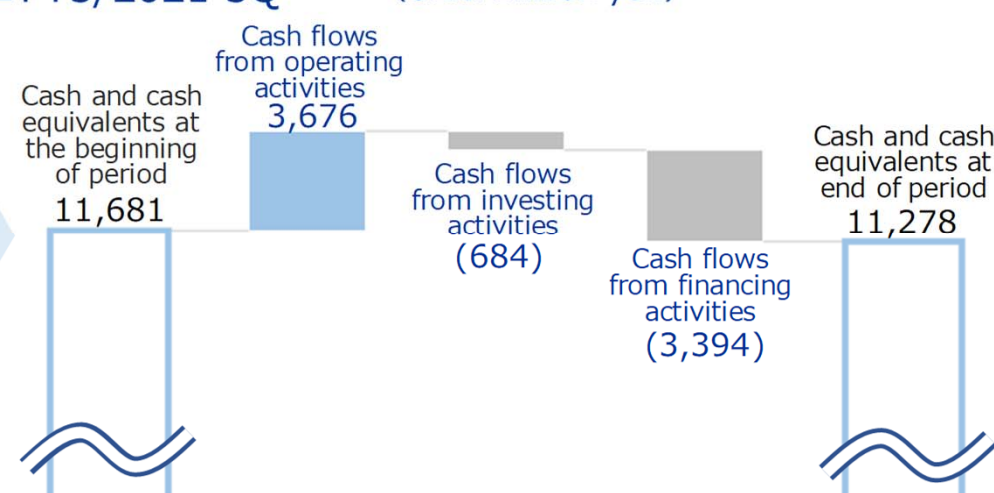
(2,795) million yen

(290) million yen

■ FY3/2020 3Q (Unit: million yen)



■ FY3/2021 3Q (Unit: million yen)



Business Summary

Pharmaceuticals Network Business: Earnings summary

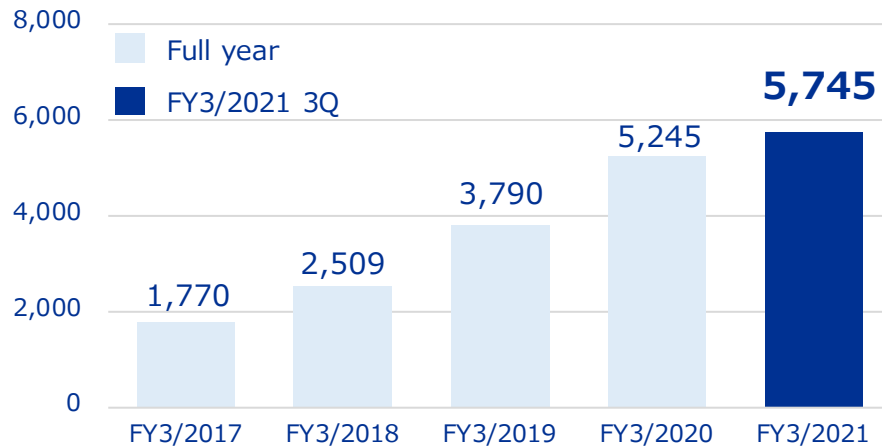
(as of December 31, 2020)

Our headline growth in network affiliates temporarily slowed somewhat in fiscal year-to-date given the withdrawal of a few large network clients. However, it has recovered for the most part resulting in +500 affiliates for a total of 5,745.

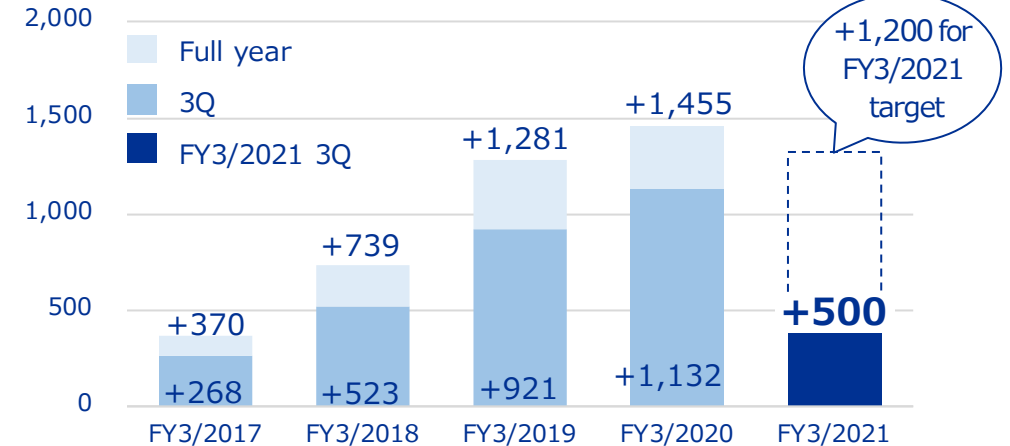
We continue to refine operations and maintain with our target of +1,200 affiliates.



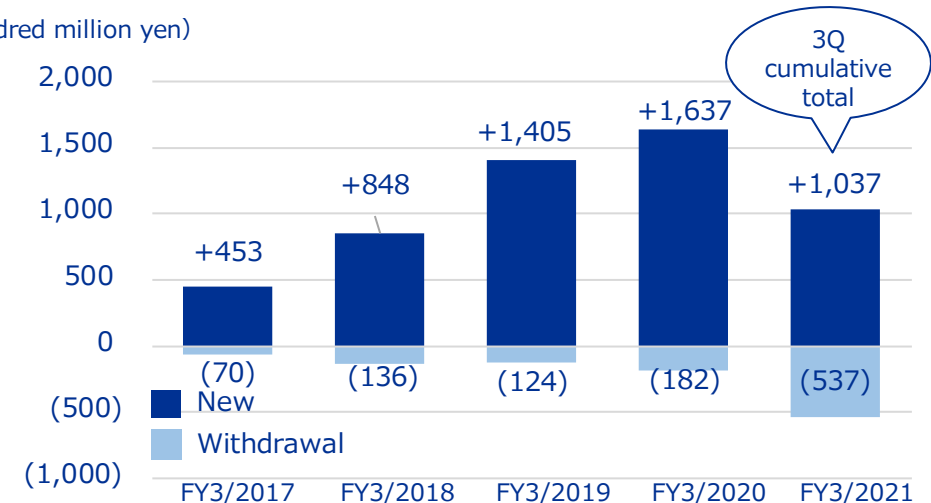
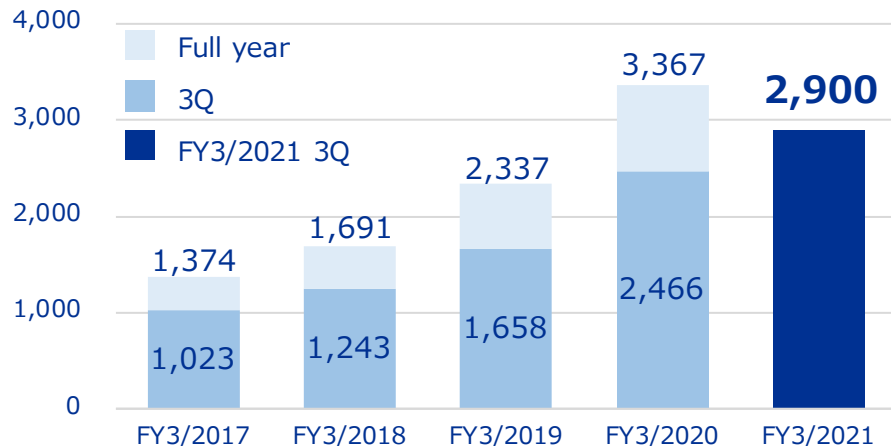
■ Network affiliates (actual) (Unit: No. of network affiliates)



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



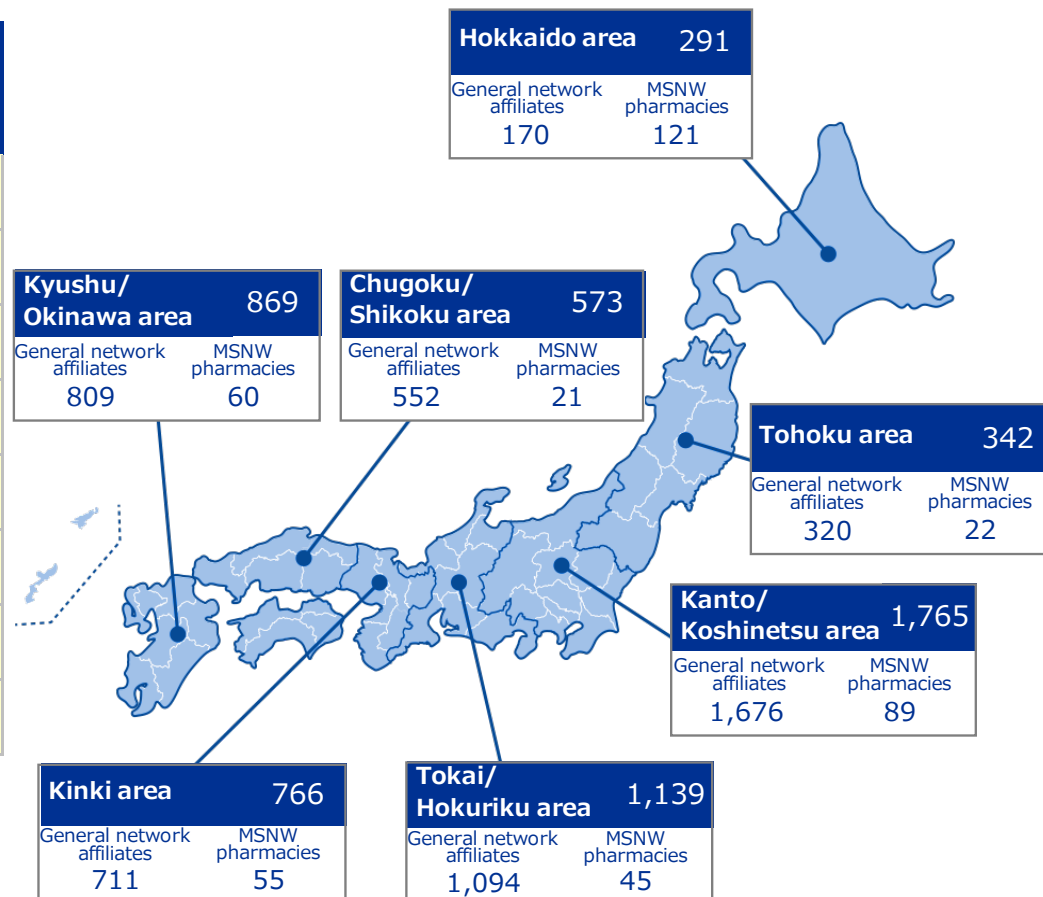
■ Ordering volume of pharmaceuticals (Unit: one hundred million yen)



Pharmaceuticals Network Business: Network affiliates distribution map (as of December 31, 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	1,676	89	1,765
Tokai/Hokuriku	1,094	45	1,139
Kinki	711	55	766
Chugoku/Shikoku	552	21	573
Kyushu/Okinawa	809	60	869
Total	5,332	413	5,745



5,845 network affiliates
as of January 31, 2021

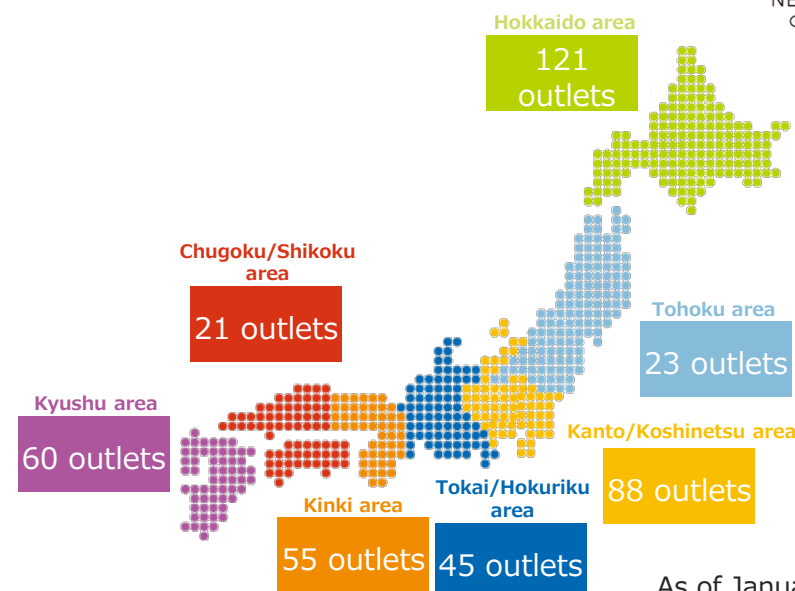
Dispensing Pharmacy Business: Trends in number of pharmacies



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8 new outlets (2 from acquisition) and 11 outlet closures/transfers since end of previous term

	Outlets at end of FY3/2020	Outlets at end of FY3/2021 3Q	Outlets as of January 31
Outlets at end of previous term	420	416	413
Openings	8	6	1
Closings and transferring businesses	(15)	(11)	(1)
M&A	3	2	—
Total	416	413	413



■ Dispensing pharmacy outlet number trends of the past 10 years

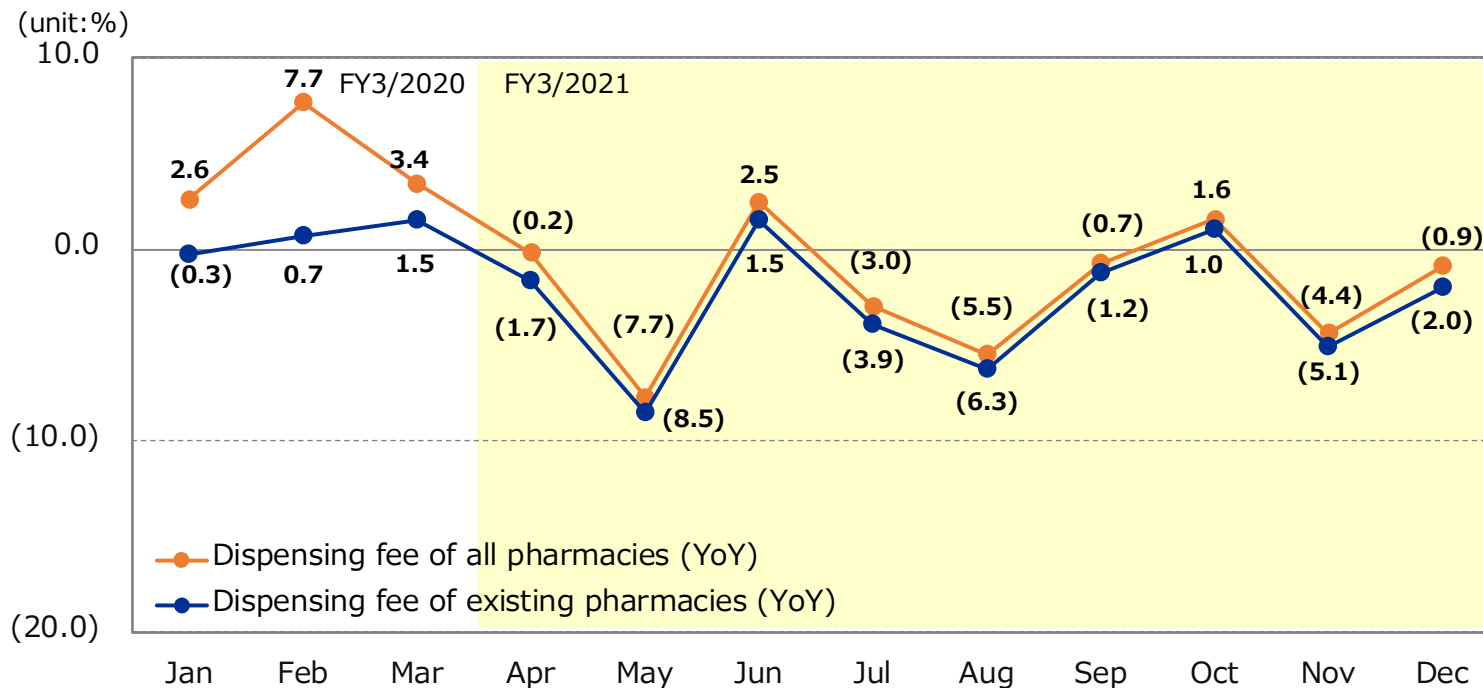
	FY3/2012*	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021 3Q
Openings	6	21	14	10	9	8	8	5	8	6
Closings and transferring of businesses	(3)	(8)	(7)	(13)	(8)	(4)	(5)	(14)	(15)	(11)
M&A	6	33	45	27	7	20	19	30	3	2
Number of outlets	223	269	321	345	353	377	399	420	416	413

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

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)



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	FY3/2020			FY3/2021									FY3/2021 3Q
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Dispensing fee of all pharmacies (YoY)	2.6	7.7	3.4	(0.2)	(7.7)	2.5	(3.0)	(5.5)	(0.7)	1.6	(4.4)	(0.9)	(2.0)
Dispensing fee of existing pharmacies (YoY)	(0.3)	0.7	1.5	(1.7)	(8.5)	1.5	(3.9)	(6.3)	(1.2)	1.0	(5.1)	(2.0)	(2.9)

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

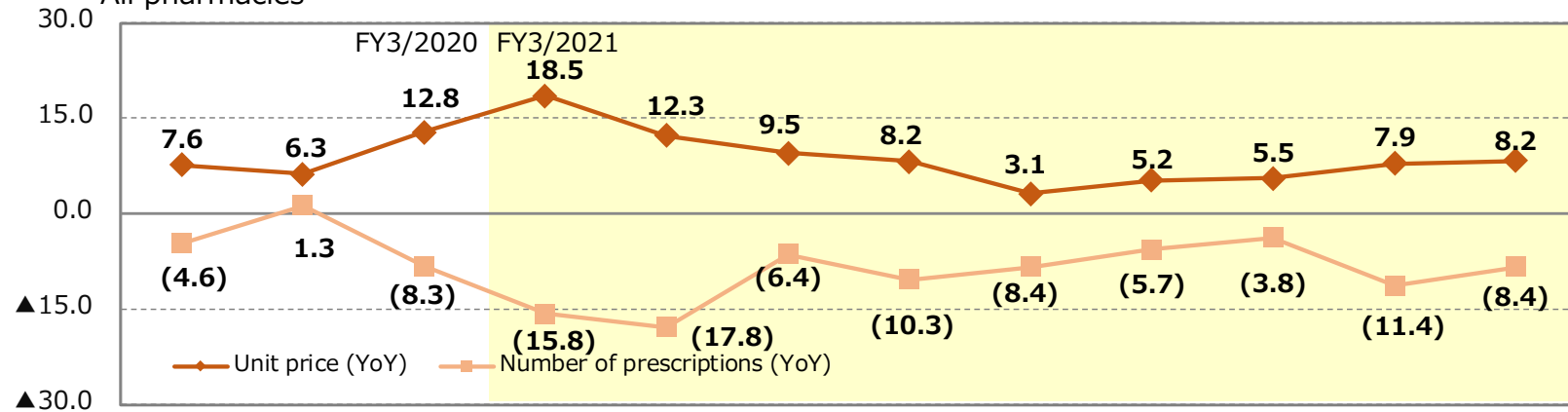
Dispensing Pharmacy Business: Comparison of monthly prescription volume and unit price

Point

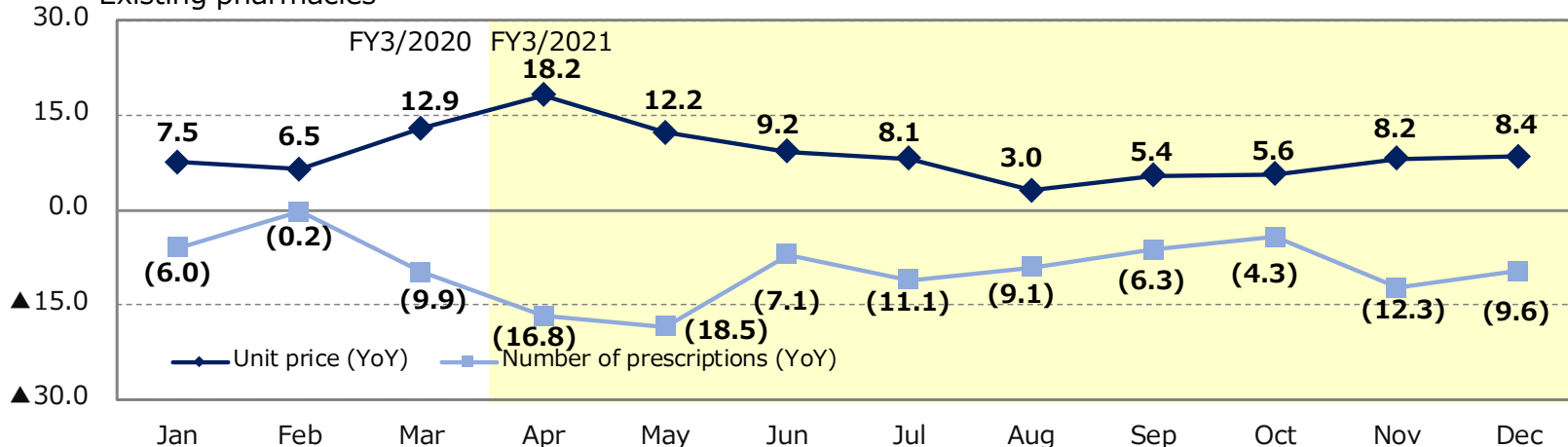
- Increase in unit price due to higher volume of long-term prescriptions
- Drop in number of prescriptions

(Unit:%)

All pharmacies



Existing pharmacies



Dispensing Pharmacy Business: Dispensing fee breakdown

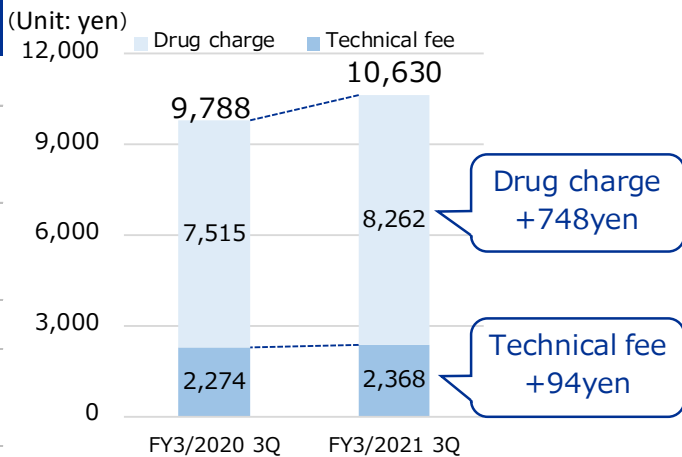
Point

- 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 3Q	FY3/2021 3Q	Change	Change (%)
No. of prescriptions (1000) a		6,885	6,212	(673)	(9.8%)
Unit price (yen)	Drug charge per prescription	7,515	8,262	+748	+9.9%
	Technical fee per prescription	2,274	2,368	+94	+4.1%
	Total b	9,788	10,630	+842	+8.6%
Dispensing fee (million yen) c = a x b		67,397	66,039	(1,357)	(2.0%)

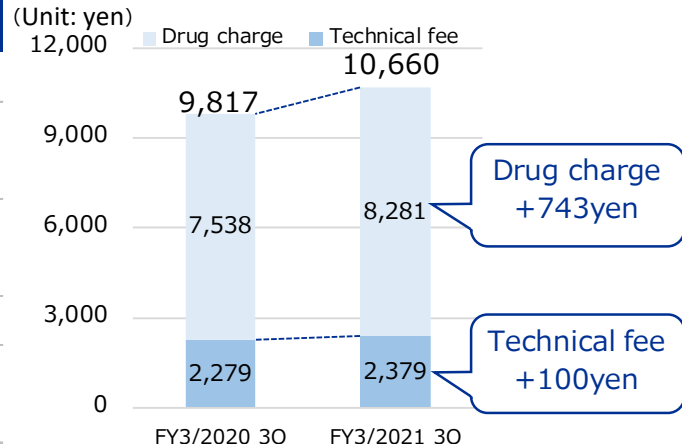
【Prescription unit price trends】



Existing pharmacies

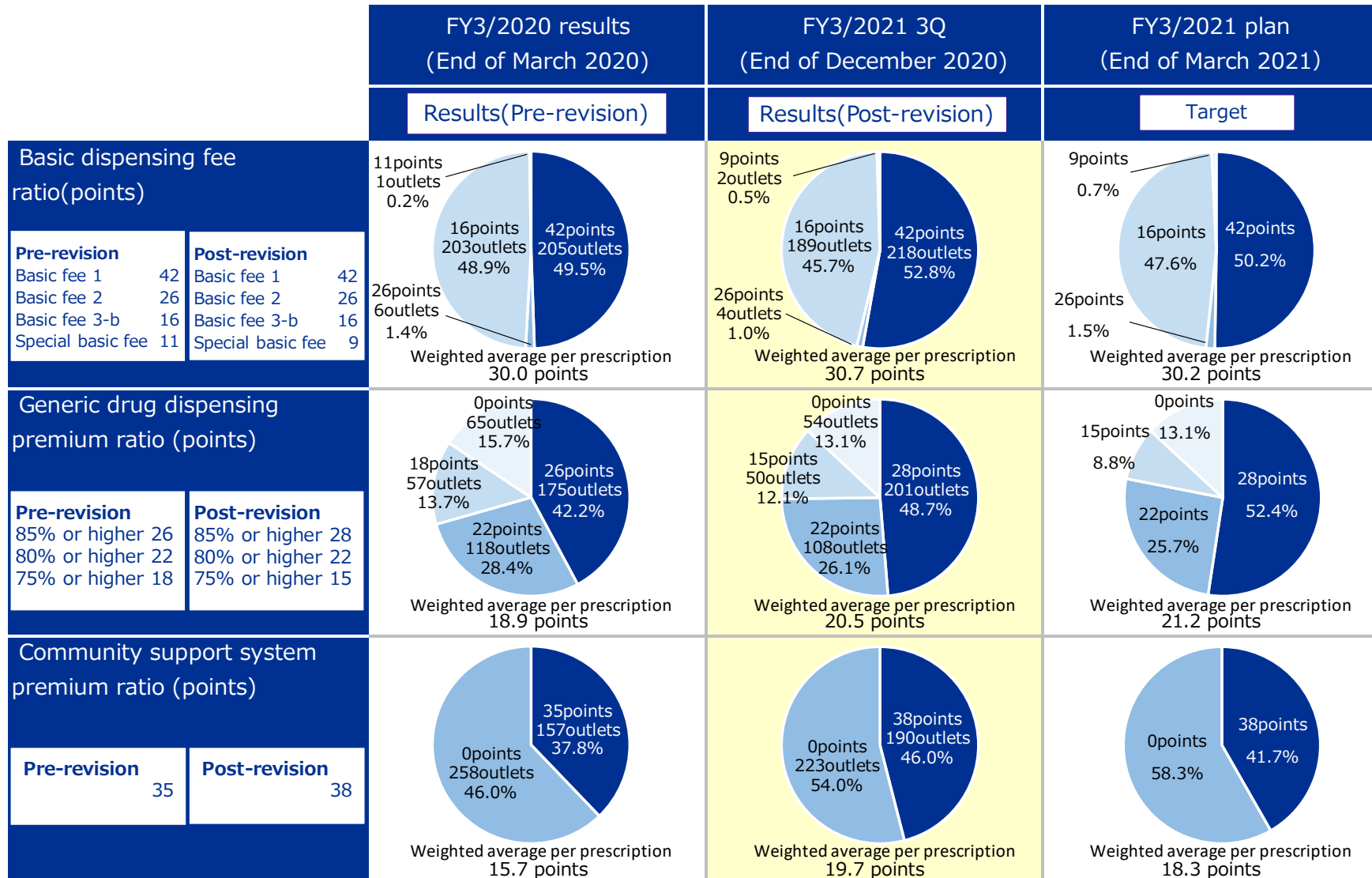
■ Existing pharmacies		FY3/2020 3Q	FY3/2021 3Q	Change	Change (%)
No. of prescriptions (1000) a		6,697	5,988	(708)	(10.6%)
Unit price (yen)	Drug charge per prescription	7,538	8,281	+743	+9.9%
	Technical fee per prescription	2,279	2,379	+100	+4.4%
	Total b	9,817	10,660	+843	+8.6%
Dispensing fee (million yen) c = a x b		65,745	63,840	(1,904)	(2.9%)

【Prescription unit price trends】



Dispensing Pharmacy Business: Dispensing fee revision

Acquisition of dispensing fee progressing mostly as planned



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

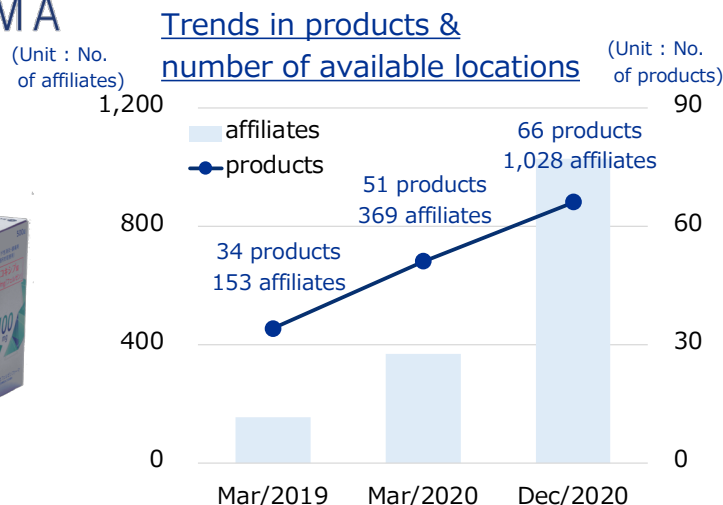
Manufacture and Market Pharmaceuticals Business: New generic drugs of 1 component and 3 products for sale



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New products released this quarter



As of end of December 2020

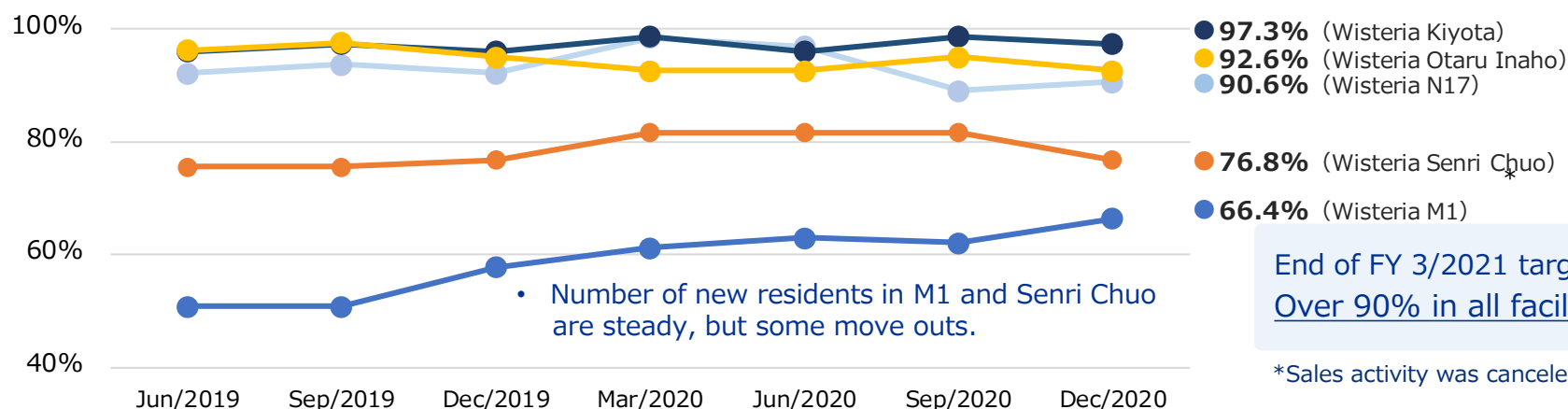
Available components & products
33 components 66 products
(FY3/2022 target: 100 products)

Number of available locations
1,028 affiliates
(FY3/2021 target: 1,000 affiliates)

Leasing and Facility related Business: Occupancy rate trends in Wisteria



Senri Chuo location continues to maintain profitability
M1 location is expecting 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 Segment: Digital Pharmacy Consortium



Point

- Organized the “Digital Pharmacy Consortium” to promote digital transformation of pharmacies
- 750 pharmacies from 7 companies will implement “Family Pharmacy Support Service” with Line official account.
- Will continue expansion of new businesses and promote services to extend to all pharmacies nationwide

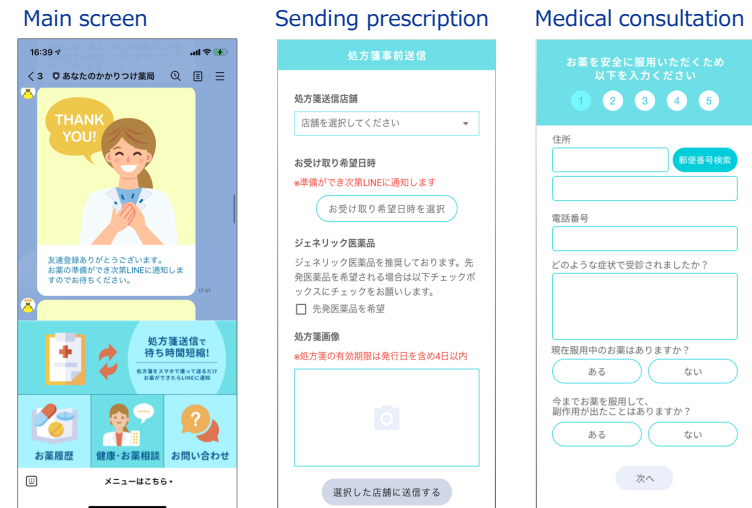
Idea of consortium



Aiming to implement services at 2,000 pharmacies by the end of 2021, and 15,000 by the end of 2023

“Family Pharmacy Support Service”

Example screenshots on smartphone

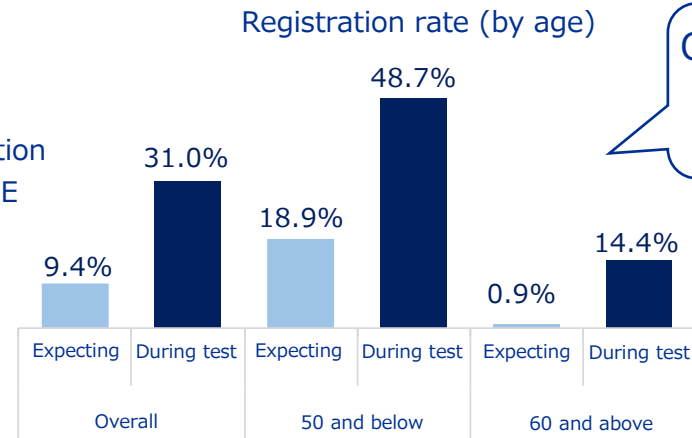
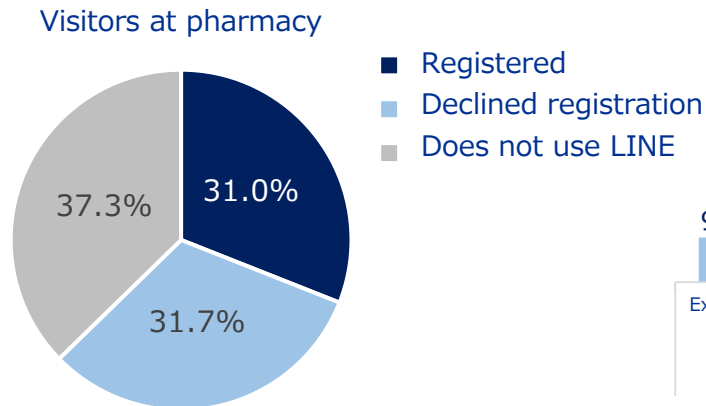


※Above screenshots are demonstration test ver.

Digital Shift Segment: Service tests conducted at pharmacies

- We have tested “Family Pharmacy Support Service” at 10 Nanohana Pharmacies
- Around half of all those using LINE’s application agreed to friend registration
 - Number of friend registrations in each age category has exceeded expectations.

Registration rate



Over **5,000** people
have registered
(As of January 2021)

Research conducted at 10 pharmacies of Nanohana East Co., Ltd.
(from November 26, 2020 to December 31, 2020)

Earnings Forecast for FY3/2021

Earnings forecast for FY3/2021: Consolidated forecasts

Point

- Continue to aim for strong growth in network affiliates. We do however also expect the situation for fewer medical examinations (due to COVID-19's impact) to continue until the end of the fiscal year
- 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 %	3,400 3.3 %	+ 1,784 + 1.8 pt	+ 110.5 %
Ordinary profit Profit margin	1,560 1.5 %	3,400 3.3 %	+ 1,839 + 1.8 pt	+ 117.9 %
Profit attributable to owners of parent Profit margin	(895) —	2,000 1.9 %	+ 2,895 —	—
Earnings per share (Yen)	(29.48)	65.94	+ 95.42	—

* Values presented are the full year earnings forecast revision announced on February 5, 2021

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	97,908	(1,708)	(1.7 %)
	Other 3 Segments* ²	6,389	5,681	(707)	(11.1 %)
	Adjustments	(764)	(590)	+ 174	—

■ Operating Profit

Operating Profit (Unit: million yen) Profit percentage in brackets		FY3/19 (results)		FY3/20 (plan)		Change		Change (%)
Segment profit		1,615	1.5 %	3,400	3.3 %	+ 1,784	+ 1.8 pt	+ 110.5 %
	Community Pharmacy Network Segment※1	3,743	3.8 %	5,489	5.6 %	+ 1,746	+ 1.8 pt	+ 46.7 %
	Other 3 Segments※2	(70)	—	36	0.6 %	+ 107	—	—
	Adjustments	(2,057)	—	(2,126)	—	(68)	—	—

*1 Pharmaceutical Network Business, Dispensing Pharmacy Business, Manufacture and Market Pharmaceuticals Business , Digital Shift 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 February 5, 2021

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