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On February 5, 2021, Medical System Network Co., Ltd. announced earnings results for Q3 FY03/21.

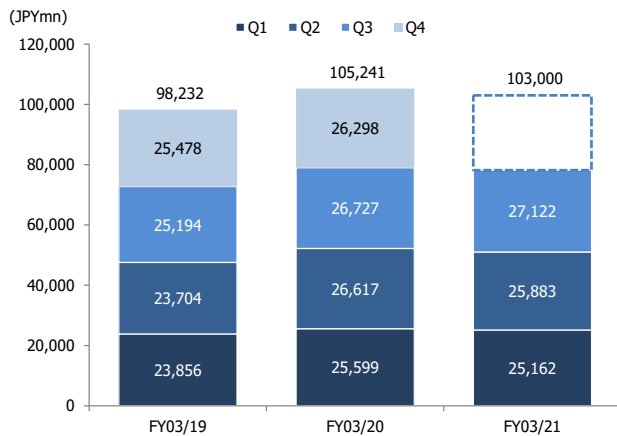
Cumulative (JPYmn)	FY03/20				FY03/21			FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of Est.	FY Est.
Sales	25,599	52,216	78,943	105,241	25,162	51,045	78,167	75.9%	103,000
YoY	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%	-1.0%		-2.1%
Gross profit	9,839	19,819	30,225	40,214	9,704	20,502	31,665		
YoY	8.4%	10.8%	9.8%	7.9%	-1.4%	3.4%	4.8%		
Gross profit margin	38.4%	38.0%	38.3%	38.2%	38.6%	40.2%	40.5%		
SG&A expenses	9,504	19,022	28,997	38,599	9,765	19,147	28,892		
YoY	7.2%	9.3%	9.5%	7.7%	2.7%	0.7%	-0.4%		
SG&A ratio	37.1%	36.4%	36.7%	36.7%	38.8%	37.5%	37.0%		
Operating profit	334	796	1,228	1,615	-61	1,355	2,773	81.6%	3,400
YoY	57.5%	67.2%	18.1%	13.1%	-	70.2%	125.8%		110.5%
Operating profit margin	1.3%	1.5%	1.6%	1.5%	-	2.7%	3.5%		3.3%
Recurring profit	323	784	1,208	1,560	-62	1,397	2,770	81.5%	3,400
YoY	68.2%	79.0%	19.6%	3.9%	-	78.2%	129.3%		117.9%
Recurring profit margin	1.3%	1.5%	1.5%	1.5%	-	2.7%	3.5%		3.3%
Net income	97	218	326	-895	-201	578	2,013	100.7%	2,000
YoY	-4.0%	83.2%	-12.4%	-	-	165.1%	517.5%		-
Net margin	0.4%	0.4%	0.4%	-	-	1.1%	2.6%		1.9%

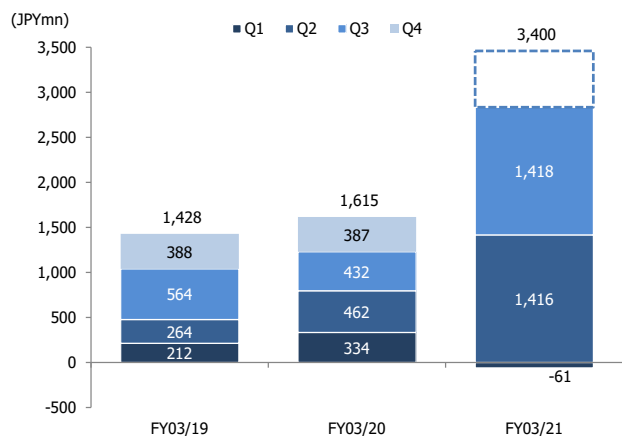
Quarterly (JPYmn)	FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	25,599	26,617	26,727	26,298	25,162	25,883	27,122
YoY	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%	1.5%
Gross profit	9,839	9,980	10,406	9,989	9,704	10,798	11,163
YoY	8.4%	13.3%	7.9%	2.5%	-1.4%	8.2%	7.3%
Gross profit margin	38.4%	37.5%	38.9%	38.0%	38.6%	41.7%	41.2%
SG&A expenses	9,504	9,518	9,975	9,602	9,765	9,382	9,745
YoY	7.2%	11.4%	9.9%	2.6%	2.7%	-1.4%	-2.3%
SG&A ratio	37.1%	35.8%	37.3%	36.5%	38.8%	36.2%	35.9%
Operating profit	334	462	432	387	-61	1,416	1,418
YoY	57.5%	75.0%	-23.4%	-0.3%	-	206.5%	228.2%
Operating profit margin	1.3%	1.7%	1.6%	1.5%	-	5.5%	5.2%
Recurring profit	323	461	424	352	-62	1,459	1,373
YoY	68.2%	87.4%	-25.9%	-28.3%	-	216.5%	223.8%
Recurring profit margin	1.3%	1.7%	1.6%	1.3%	-	5.6%	5.1%
Net income	97	121	108	-1,221	-201	779	1,435
YoY	-4.0%	572.2%	-57.3%	-	-	543.8%	1228.7%
Net margin	0.4%	0.5%	0.4%	-	-	3.0%	5.3%

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

	FY03/20				FY03/21			FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of FY	FY Est.
<b>Sales</b>	<b>25,599</b>	<b>52,216</b>	<b>78,943</b>	<b>105,241</b>	<b>25,162</b>	<b>51,045</b>	<b>78,167</b>	<b>75.9%</b>	<b>103,000</b>
YoY	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%	-1.0%		-2.1%
Community Pharmacy Network	24,224	49,290	74,637	99,617	23,922	48,539	74,368	76.0%	97,908
YoY	7.4%	10.2%	9.1%	7.9%	-1.2%	-1.5%	-0.4%		-1.7%
% of total	94.1%	93.6%	93.8%	94.0%	94.5%	94.5%	94.6%		
Leasing and Facility-related	760	1,829	2,659	3,425	723	1,438	2,194		
YoY	26.7%	21.3%	11.6%	3.2%	-4.9%	-21.4%	-17.5%		
% of total	3.0%	3.5%	3.3%	3.2%	2.9%	2.8%	2.8%		
Food Service	730	1,434	2,128	2,797	612	1,248	1,874		
YoY	-7.4%	-9.6%	-10.7%	-11.5%	-16.2%	-13.0%	-11.9%		
% of total	2.8%	2.7%	2.7%	2.6%	2.4%	2.4%	2.4%		
Other	38	79	122	165	51	110	171		
YoY	15.2%	-13.2%	-26.5%	-36.8%	34.2%	39.2%	40.2%		
% of total	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%		
Segment sales adjustments	-154	-417	-603	-764	-154	-292	-442		-590
<b>Operating profit</b>	<b>334</b>	<b>796</b>	<b>1,228</b>	<b>1,615</b>	<b>-61</b>	<b>1,355</b>	<b>2,773</b>	<b>81.6%</b>	<b>3,400</b>
YoY	57.5%	67.2%	18.1%	13.1%	-	70.2%	125.8%		110.5%
Community Pharmacy Network	825	1,736	2,764	3,743	434	2,369	4,329	78.9%	5,489
YoY	28.5%	41.5%	18.5%	13.0%	-47.4%	36.5%	56.6%		46.6%
Operating profit margin	3.4%	3.5%	3.7%	3.8%	1.8%	4.9%	5.8%		
Leasing and Facility-related	-8	68	67	45	6	16	34		
YoY	-	580.0%	-	-	-	-76.5%	-49.3%		
Operating profit margin	-	3.7%	2.5%	1.3%	0.8%	1.1%	1.5%		
Food Service	-12	-34	-38	-43	-19	-13	-2		
YoY	-	-	-	-	-	-	-		
Operating profit margin	-	-	-	-	-	-	-		
Other	-21	-39	-56	-71	-11	-13	-17		
YoY	-	-	-	-	-	-	-		
Operating profit margin	-	-	-	-	-	-	-		
Segment profit adjustments	-447	-934	-1,508	-2,057	-472	-1,003	-1,569		-2,126

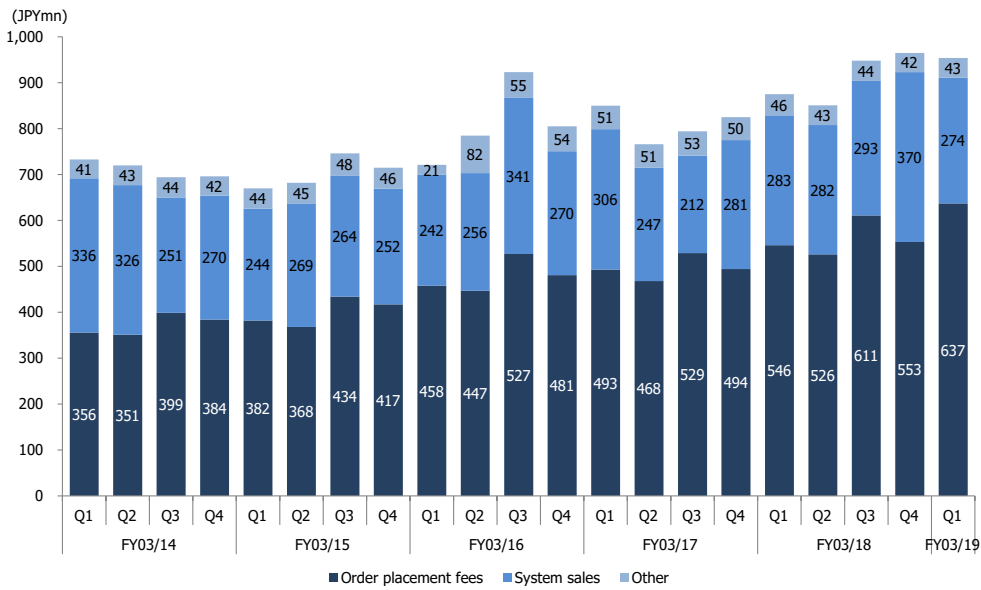
  

	FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Sales</b>	<b>25,599</b>	<b>26,617</b>	<b>26,727</b>	<b>26,298</b>	<b>25,162</b>	<b>25,883</b>	<b>27,122</b>
YoY	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%	1.5%
Community Pharmacy Network	24,224	25,066	25,347	24,980	23,922	24,617	25,829
YoY	7.4%	13.1%	7.0%	4.6%	-1.2%	-1.8%	1.9%
% of total	96.6%	93.3%	94.2%	94.4%	94.5%	94.6%	94.7%
Leasing and Facility-related	760	1,069	830	766	723	715	756
YoY	26.7%	17.7%	-5.0%	-18.3%	-4.9%	-33.1%	-8.9%
% of total	3.0%	4.0%	3.1%	2.9%	2.9%	2.7%	2.8%
Food Service	730	704	694	669	612	636	626
YoY	-7.4%	-11.8%	-12.8%	-14.1%	-16.2%	-9.7%	-9.8%
% of total	2.9%	2.6%	2.6%	2.5%	2.4%	2.4%	2.3%
Other	38	41	43	43	51	59	61
YoY	15.2%	-29.3%	-42.7%	-54.7%	34.2%	43.9%	41.9%
% of total	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Segment sales adjustments	520	-263	-186	-161	-154	-138	-150
<b>Operating profit</b>	<b>334</b>	<b>462</b>	<b>432</b>	<b>387</b>	<b>-61</b>	<b>1,416</b>	<b>1,418</b>
YoY	57.5%	75.0%	-23.4%	-0.3%	-	206.5%	228.2%
Community Pharmacy Network	825	911	1,028	979	434	1,935	1,960
YoY	28.5%	80.0%	61.4%	-	-47.4%	112.4%	90.7%
Operating profit margin	3.4%	3.6%	4.1%	-	1.8%	7.9%	7.6%
Leasing and Facility-related	-8	76	-1	-22	6	10	18
YoY	-	-	-	-	-	-86.8%	-
Operating profit margin	-	7.1%	-	-	-	1.4%	-
Food Service	-12	-22	-4	-5	-19	6	11
YoY	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-
Other	-21	-18	-17	-15	-11	-2	-4
YoY	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-
Segment profit adjustments	-447	-487	-574	-549	-472	-531	-566

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

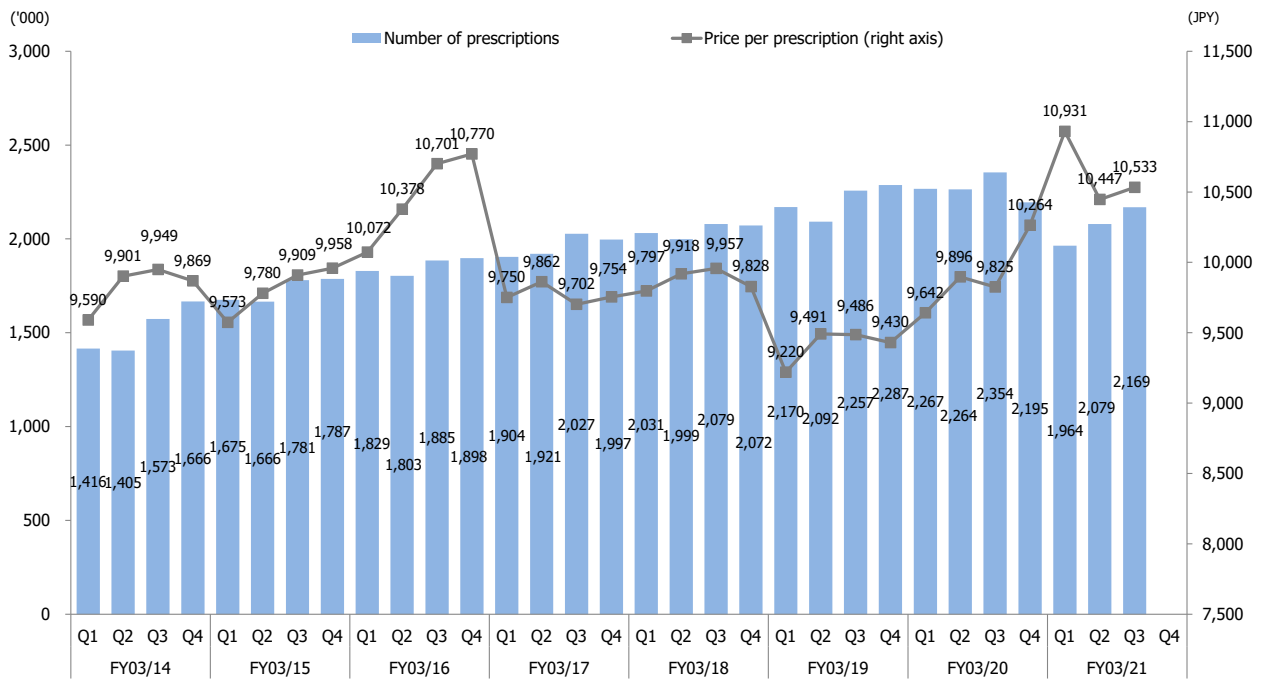


Source: Shared Research based on company data

Notes: Undisclosed from Q2 FY03/19

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

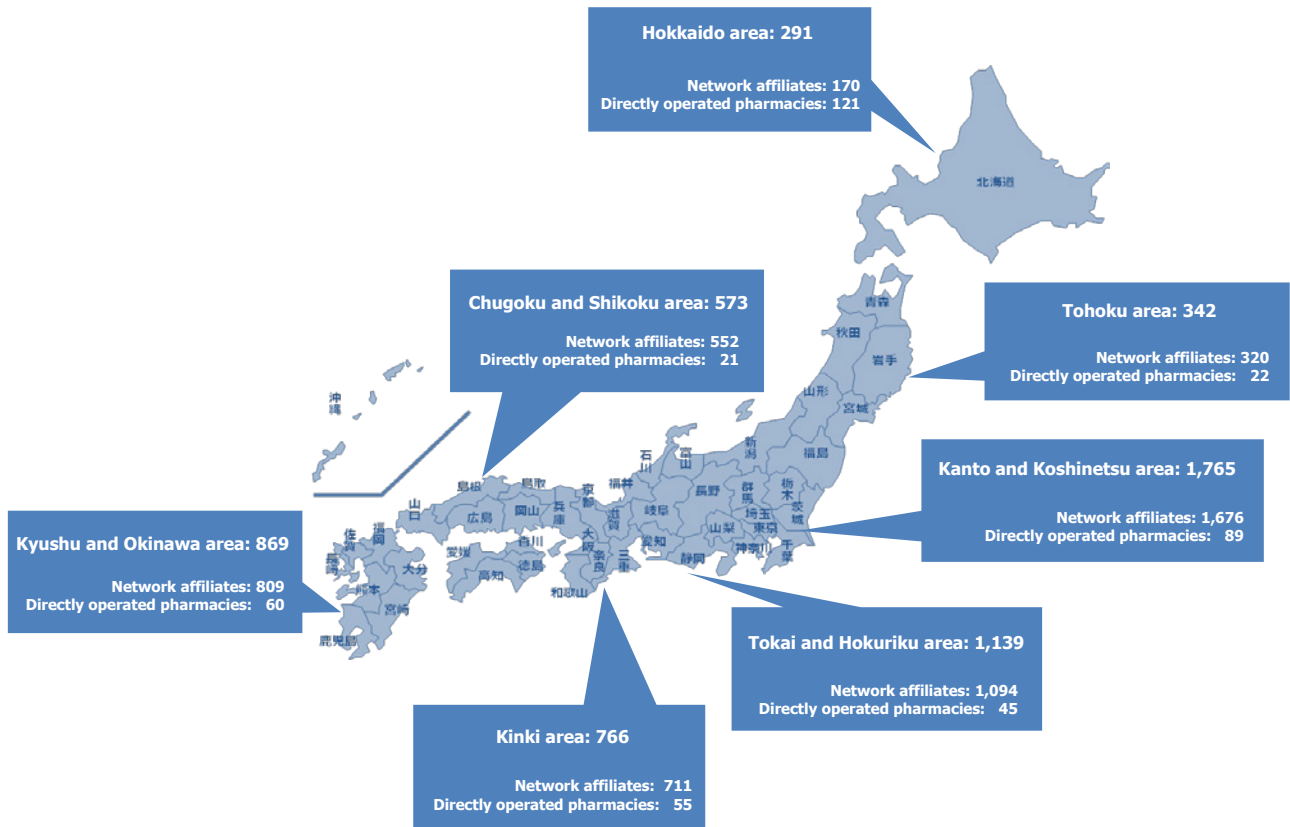
### Quarterly trends in prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy business; all stores)



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 December 31, 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	89	1,676	1,765
Tokai and Hokuriku	45	1,094	1,139
Kinki	55	711	766
Chugoku and Shikoku	21	552	573
Kyushu and Okinawa	60	809	869
<b>Total</b>	<b>413</b>	<b>5,332</b>	<b>5,745</b>

Source: Shared Research based on company data (December 31, 2020)

## Q3 FY03/21 earnings results (out February 5, 2021)

### Overview

#### Consolidated results for cumulative Q3 FY03/21 (April–December 2020)

- ▷ Sales: JPY78.2bn (-1.0% YoY)
- ▷ Operating profit: JPY2.8bn (+125.8% YoY)
- ▷ Recurring profit: JPY2.8bn (+129.3% YoY)
- ▷ Net income\*: JPY2.0bn (+517.5% 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. Progress in the Dispensing Pharmacy business with promoting the switch to generics, streamlining operations, improving productivity, and reducing expenses contributed to profit growth. Net income increased sharply due to the sale of some shares in an equity-method affiliate in December 2020, booked as extraordinary gains.

### 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 cumulative Q3 FY03/21 (April–December 2020)
- ▷ Segment sales: JPY74.4bn (-0.4% YoY)
- ▷ Segment profit: JPY4.3bn (+56.6% YoY)
- ▷ Pharmaceuticals Network: 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 5,745 (up 500 versus end-FY03/20), consisting of 413 directly operated pharmacies and 5,332 affiliates.
- ▷ Dispensing Pharmacy: Reflecting the decline in medical examinations in the wake of the pandemic, the number of prescriptions filled during the period was down. However, the company worked to promote the switch to generics as an economic alternative with stable supply, streamline operations, optimize personnel deployment, and reduce overtime. As of end-December 2020, the group had 413 dispensing pharmacies, one care plan center, and nine 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-December 2020, the company was selling 33 different ingredients and 66 products.

#### Leasing and Facility-related

Results for cumulative Q3 FY03/21 (April–December 2020)

- ▷ Segment sales: JPY2.2bn (-17.5% YoY)
- ▷ Segment profit: JPY34mn (-49.3% YoY)
- ▷ The decline in sales and profit 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-December 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 76.8% (with 63 out of 82 units being occupied), and at Wisteria Minami Ichijo it reported an occupancy rate of 66.4% (with 77 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 cumulative Q3 FY03/21 (April–December 2020)

- ▷ Segment sales: JPY1.9bn (-11.9% YoY)
- ▷ Segment loss: JPY2mn (versus loss of JPY38mn in cumulative Q3 FY03/20)
- ▷ 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 cumulative Q3 FY03/21 (April–December 2020)

- ▷ Segment sales: JPY171mn (+40.2% YoY)
- ▷ Segment loss: JPY17mn (versus loss of JPY56mn in cumulative Q3 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.	2H Est.	FY Est.
<b>Sales</b>	<b>47,560</b>	<b>50,672</b>	<b>98,232</b>	<b>52,216</b>	<b>53,025</b>	<b>105,241</b>	<b>51,045</b>	<b>51,955</b>	<b>103,000</b>
YoY	2.2%	6.8%	4.5%	9.8%	4.6%	7.1%	-2.2%	-2.0%	-2.1%
Cost of sales	29,673	31,288	60,961	32,397	32,630	65,027	30,542		
<b>Gross profit</b>	<b>17,887</b>	<b>19,384</b>	<b>37,271</b>	<b>19,819</b>	<b>20,395</b>	<b>40,214</b>	<b>20,502</b>		
Gross profit margin	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%		
<b>Operating profit</b>	<b>476</b>	<b>952</b>	<b>1,428</b>	<b>796</b>	<b>819</b>	<b>1,615</b>	<b>1,355</b>	<b>2,045</b>	<b>3,400</b>
YoY	-62.5%	-49.7%	-54.9%	67.2%	-14.0%	13.1%	70.2%	149.7%	110.5%
Operating profit margin	1.0%	1.9%	1.5%	1.5%	1.5%	1.5%	2.7%	3.9%	3.3%
<b>Recurring profit</b>	<b>438</b>	<b>1,063</b>	<b>1,501</b>	<b>784</b>	<b>776</b>	<b>1,560</b>	<b>1,397</b>	<b>2,003</b>	<b>3,400</b>
YoY	-65.6%	-46.3%	-53.8%	79.0%	-27.0%	3.9%	78.2%	158.1%	117.9%
Recurring profit margin	0.9%	2.1%	1.5%	1.5%	1.5%	1.5%	2.7%	3.9%	3.3%
<b>Net income</b>	<b>119</b>	<b>343</b>	<b>462</b>	<b>218</b>	<b>-1,113</b>	<b>-895</b>	<b>578</b>	<b>1,422</b>	<b>2,000</b>
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%	2.7%	1.9%

Source: Shared Research based on company data

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

### Revised full-year FY03/21 consolidated earnings forecast (out February 5, 2021)

- Sales: JPY103.0bn (previous forecast: JPY103.0bn)
- Operating profit: JPY3.4bn (JPY2.5bn)
- Recurring profit: JPY3.4bn (JPY2.5bn)
- Net income\*: JPY2.0bn (JPY1.4bn)
- EPS: JPY65.94 (JPY45.50)

\*Net income attributable to owners of the parent

## Reason for revision

- ▷ The company revised up its profit estimates at all levels, because profitability of its core Community Pharmacy Network segment is likely to be better than expected. In cumulative Q3, the total value of drug orders by network members were ahead of forecast in the Community Pharmacy Network segment, and although the number of prescriptions filled declined as expected in the Dispensing Pharmacy business, the price per prescription trended higher than expected. The company also made more progress than expected in group-wide efforts to streamline operations, improve productivity, and cut costs through rigorous control of expenses. All of these factors contributed to the upward revision of profit estimates.
  
- ▷ When the company released its FY03/21 results forecast on May 8, 2020, it issued range estimates for 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 COVID-19 pandemic would impact full-year performance. At the time of 1H results announcement, although when the pandemic would come to an end remained uncertain, with the first six months of the fiscal year in the rearview mirror and more data in hand, the company was able to fine-tune its projections and revise its forecast based on this new information. The revised sales forecast of JPY103.0bn was close to the low end of the previous range estimate while the operating profit forecast of JPY2.5bn was above the upper end of the previous range estimate. The company further revised up its profit estimates across the board when announcing Q3 results to reflect improved profitability of the Community Pharmacy Network segment and companywide expense reduction effects.

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

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