



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Fiscal Year Ending March 2019

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.

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



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Earnings Highlight

FY3/2019: Consolidated results

Factors for
increase in
sales and
decrease in
profit

Steady performance in leading Pharmaceuticals Network Business;
decrease in profits due to NHI drug price and dispensing fee
revision implemented in April 2018

	① FY3/18 (results)	② FY3/19 (plan)	③ FY3/19 (results)	Year-to-year comparison		Progress rate	
				Change (③-①)	Change (%)	Difference (③-②)	Percentage achieved
(Unit: million yen)							
Sales	93,977	95,500	98,232	+ 4,254	+ 4.5 %	+ 2,732	102.9 %
Operating profit Profit percentage	3,163 3.4 %	1,700 1.8 %	1,428 1.5 %	▲ 1,734	▲ 54.8 %	▲ 271	84.1 %
Ordinary profit Profit percentage	3,250 3.5 %	1,650 1.7 %	1,501 1.5 %	▲ 1,749	▲ 53.8 %	▲ 148	91.0 %
Profit attributable to owners of parent Profit percentage	1,022 1.1 %	520 0.5 %	462 0.5 %	▲ 559	▲ 54.7 %	▲ 57	89.0 %
Earnings per share (Yen)	34.45	16.57	15.25	▲ 19.20	—	▲ 1.32	—
EBITDA [※]	5,711	—	4,200	▲ 1,511	▲ 26.5 %	—	—

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

FY3/2019: Results in each segment

Sales

(Unit: million yen)	① FY3/18 (results)	② FY3/19 (plan)	③FY3/19 (results)	Year-to-year comparison		Progress rate	
				Change (③-①)	Change (%)	Difference (③-②)	Percentage achieved
Sales	93,977	95,500	98,232	+ 4,254	+ 4.5 %	+ 2,732	102.9 %
Pharmaceuticals Network Business	3,639	3,658	3,951	+ 311	+ 8.6 %	+ 293	108.0 %
Dispensing Pharmacy Business	87,172	88,457	90,706	+ 3,533	+ 4.1 %	+ 2,248	102.5 %
Other 4 Businesses※	6,228	6,310	6,742	+ 514	+ 8.3 %	+ 432	106.9 %
Adjustments	▲ 3,063	▲ 2,926	▲ 3,167	▲ 104	—	▲ 241	—

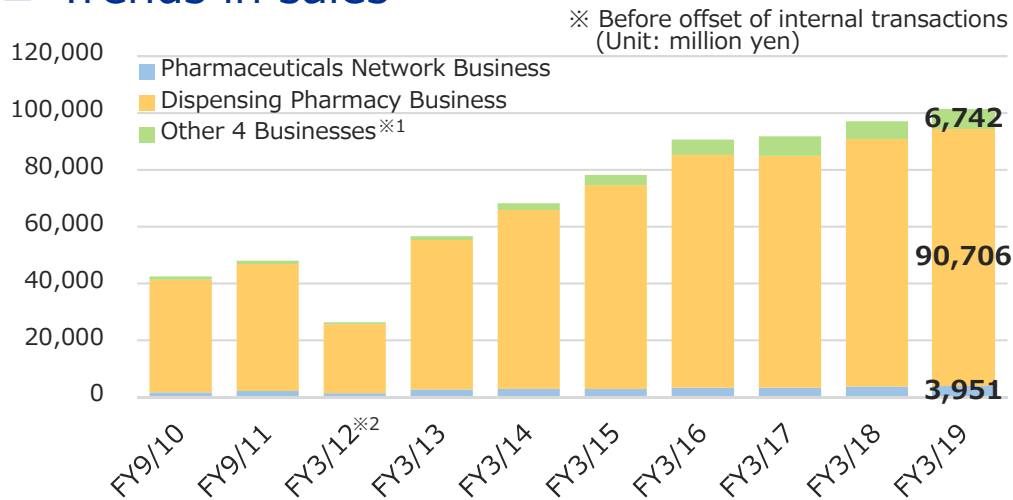
Operating Profit

(Unit: million yen) Profit percentage in brackets	① FY3/18 (results)	② FY3/19 (plan)	③FY3/19 (results)	Year-to-year comparison		Progress rate	
				Change (③-①)	Change (%)	Difference (③-②)	Percentage achieved
Profit of segments	3,163 (3.4 %)	1,700 (1.8 %)	1,428 (1.5 %)	▲ 1,734 (▲ 1.9 %)	▲ 54.8 %	▲ 271	84.1 %
Pharmaceuticals Network Business	1,949 (53.6 %)	2,034 (55.6 %)	2,331 (59.0 %)	+ 381 (+ 5.4 %)	+ 19.6 %	+ 296	114.6 %
Dispensing Pharmacy Business	3,060 (3.5 %)	1,699 (1.9 %)	1,068 (1.2 %)	▲ 1,992 (▲ 2.3 %)	▲ 65.1 %	▲ 631	62.8 %
Other 4 Businesses※	▲ 235 (—)	▲ 335 (—)	▲ 186 (—)	+ 48 (—)	—	+ 149	—
Adjustments	▲ 1,610 (—)	▲ 1,699 (—)	▲ 1,784 (—)	▲ 173 (—)	—	▲ 85	—

※ Leasing and Facility related Business, Meal Catering Business, Home Visit Nursing Business, Manufacture and Market Pharmaceuticals Business

FY3/2019: Results in each segment

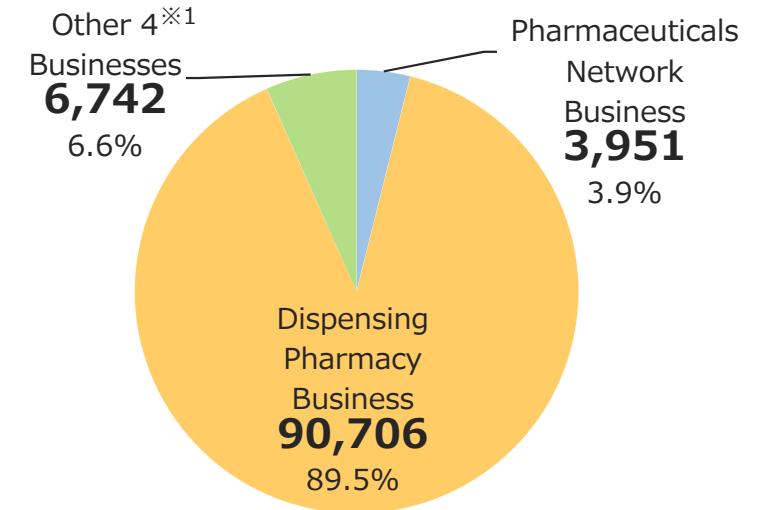
Trends in sales



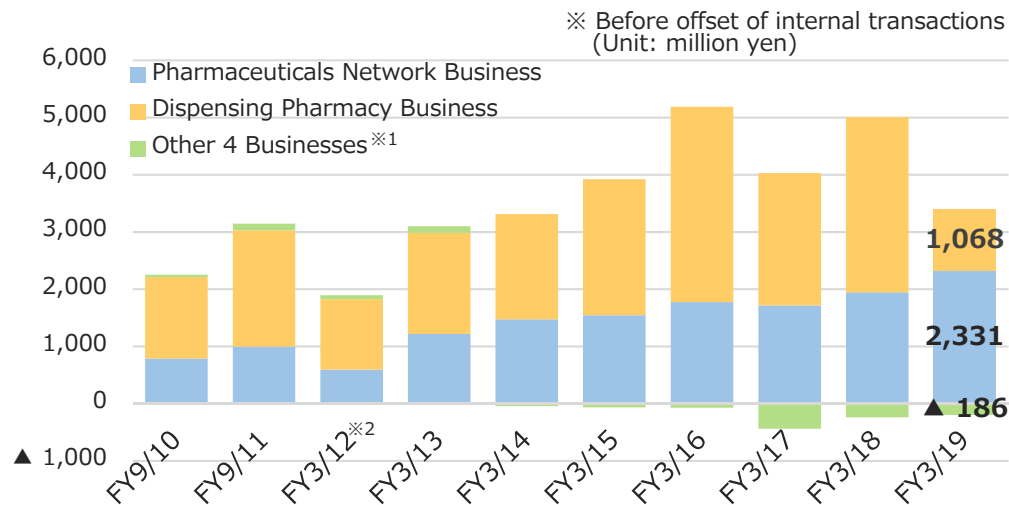
Composition ratio

※ Before offset of internal transactions
(Unit: million yen)

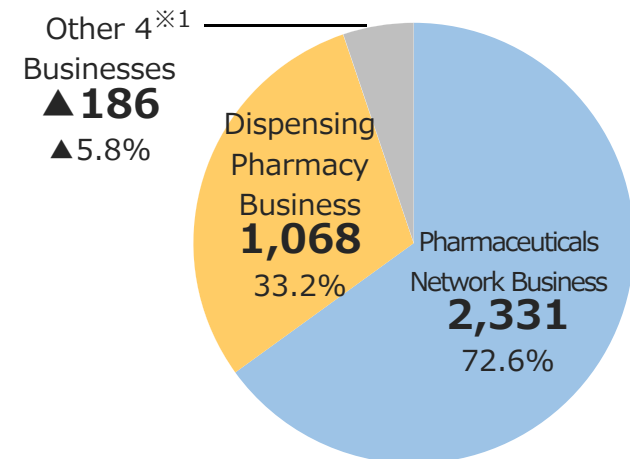
【Sales】



Trends in operating profit



【Operating profit】



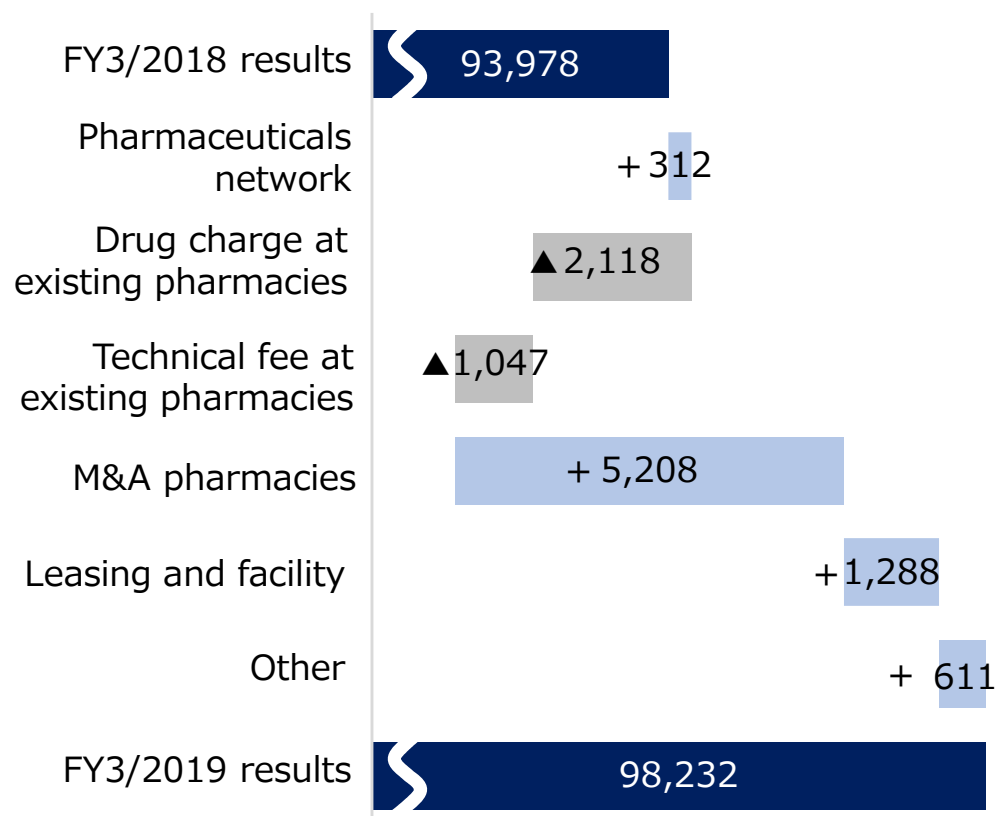
※1 Leasing and Facility related Business, Meal Catering Business, Home Visit Nursing Business, Manufacture and Market Pharmaceuticals Business

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

FY3/2019: Comparison to previous term

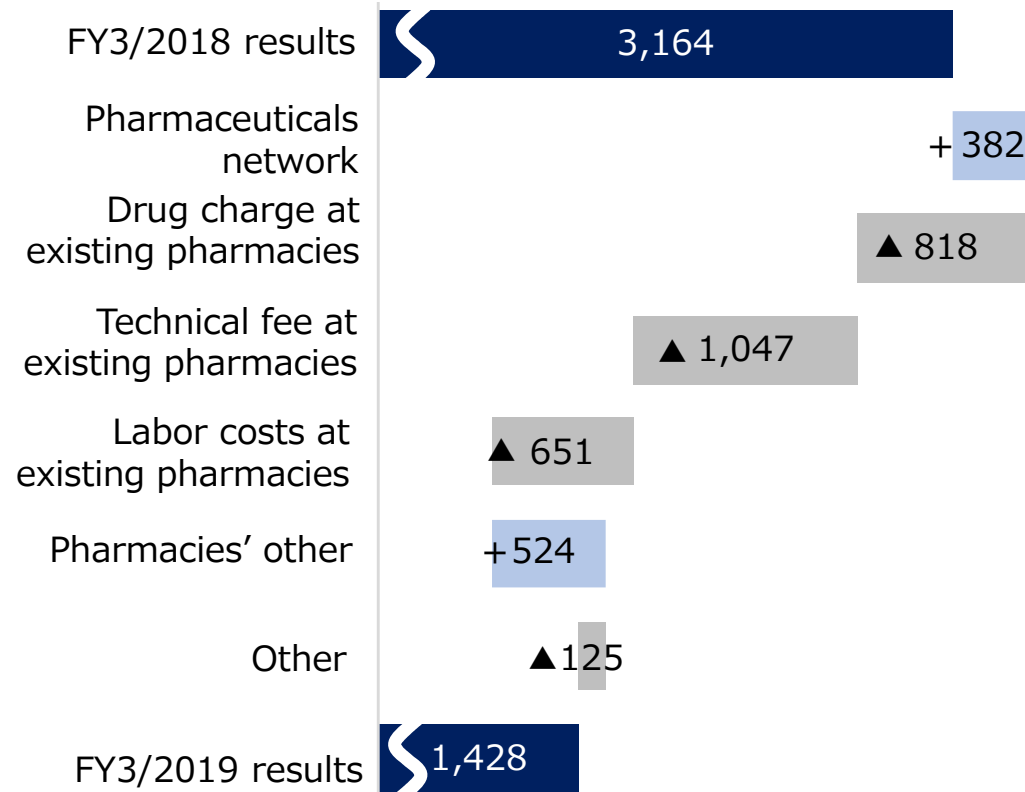
■ Sales

(Unit: million yen)



■ Operating profit

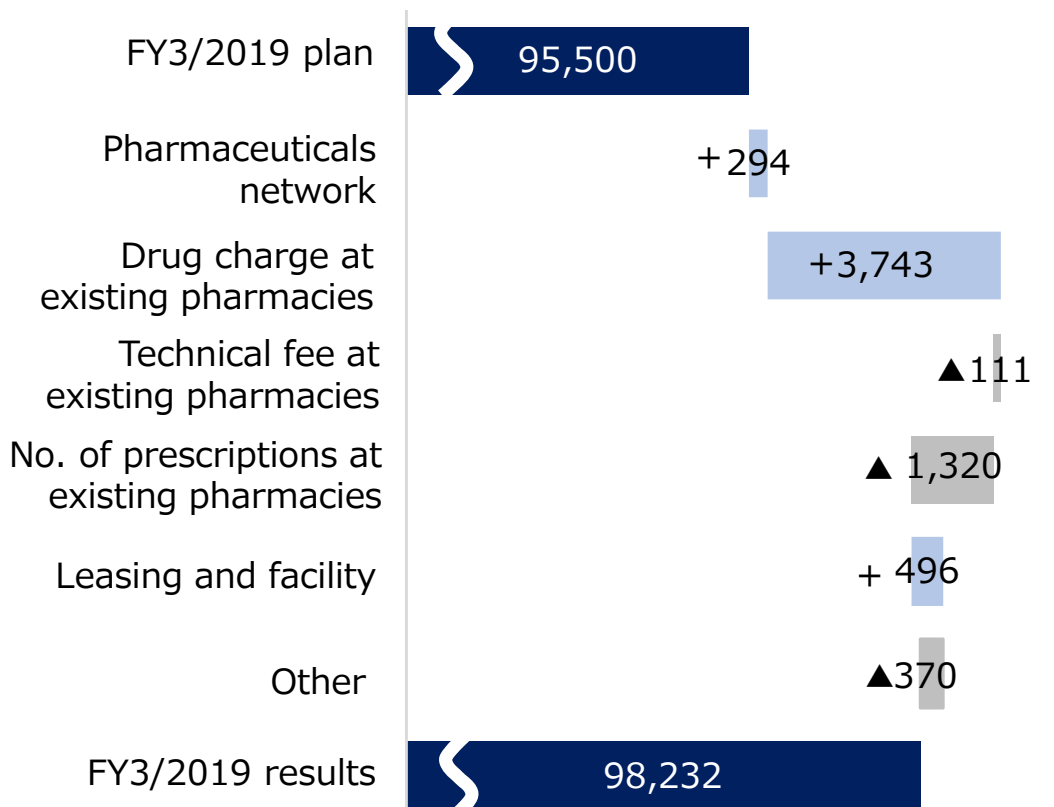
(Unit: million yen)



FY3/2019: Comparison to plan

■ Sales

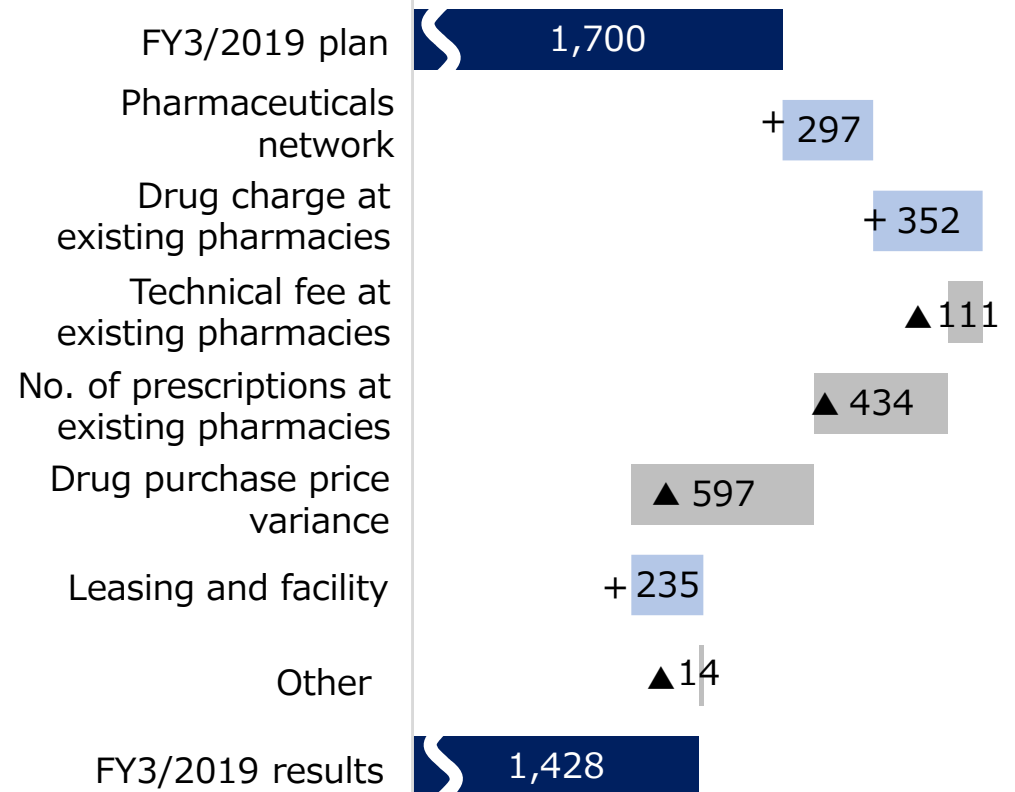
(Unit: million yen)



【Reference】

■ Operating profit

(Unit: million yen)



	Full-year plan (Compared to same term previous year)	Full-year results (Compared to same term previous year)
No. of prescriptions at existing pharmacies	2.5%	0.7%
Unit price of prescriptions at existing pharmacies	-8.6%	-4.0%

※ "Existing pharmacies" on this page refer to pharmacies continue to be in business on or after April 1, 2017.

FY3/2019: Consolidated balance sheet

Point

Assets: increase in cash and deposits and in buildings and structures

Liabilities and net assets: increase in loans

■ End of FY3/2018

(Unit: million yen)

Assets	62,759	Liabilities	52,174
Current assets	18,004	Current liabilities	21,769
Cash and deposits	10,201	Short-term loans※	6,899
		Fixed liabilities	30,404
Fixed assets	44,754	Long-term loans	24,679
Tangible fixed assets	24,129	Net assets	10,584
Intangible fixed assets	15,045	Capital	2,097
Goodwill	14,451	Capital surplus	1,160
Investments and other assets	5,578	Earned surplus	7,459
		Own shares	▲275
Total assets	62,759	Total liabilities and net assets	62,759
Equity ratio	16.9 %		

■ End of FY3/2019

(Unit: million yen)

Assets	68,935	Liabilities	58,173
Current assets	21,055	Current liabilities	23,844
Cash and deposits	11,703	Short-term loans※	8,692
		Fixed liabilities	34,329
Fixed assets	47,879	Long-term loans	28,341
Tangible fixed assets	25,721	Net assets	10,761
Intangible fixed assets	16,235	Capital	2,128
Goodwill	15,710	Capital surplus	1,185
Investments and other assets	5,922	Earned surplus	7,616
		Own shares	▲233
Total assets	68,935	Total liabilities and net assets	68,935
Equity ratio	15.6 %		

※ Includes long-term loans that will be repaid within the year

FY3/2019: Consolidated cash flows

Cash flows from
operating activities

2,840
million yen

EBITDA※
Income taxes paid
Impact of increasing working capital

4,200 million yen
▲1,672 million yen
▲50 million yen

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

Cash flows from
investing activities

▲**5,921**
million yen

Acquisition and selling of land and buildings, etc.
M&A (acquisition of businesses and shares)

▲2,686 million yen
▲3,866 million yen

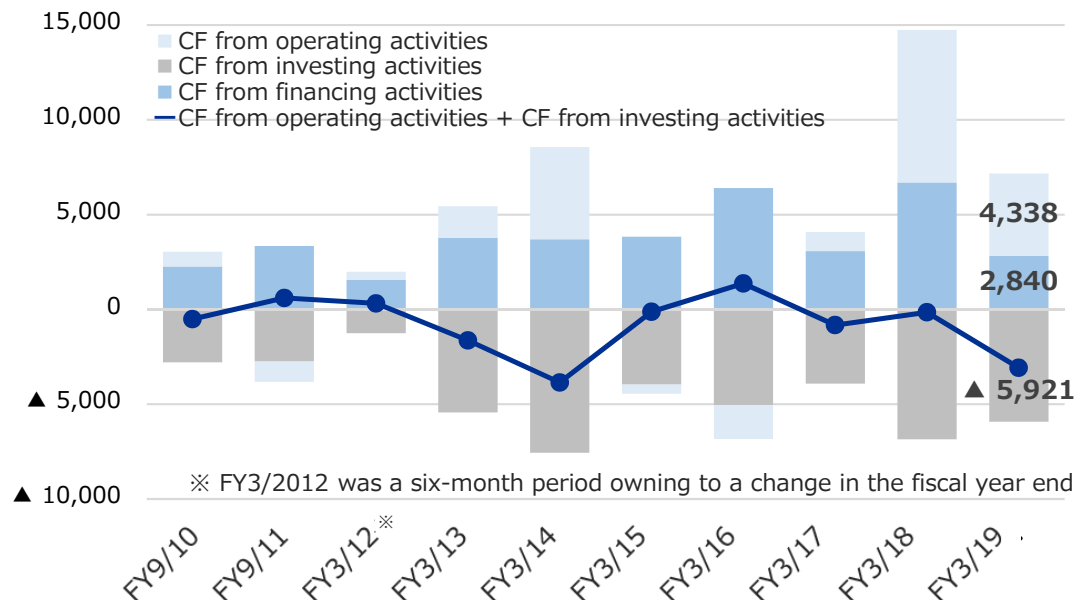
Cash flows from
financing activities

4,338
million yen

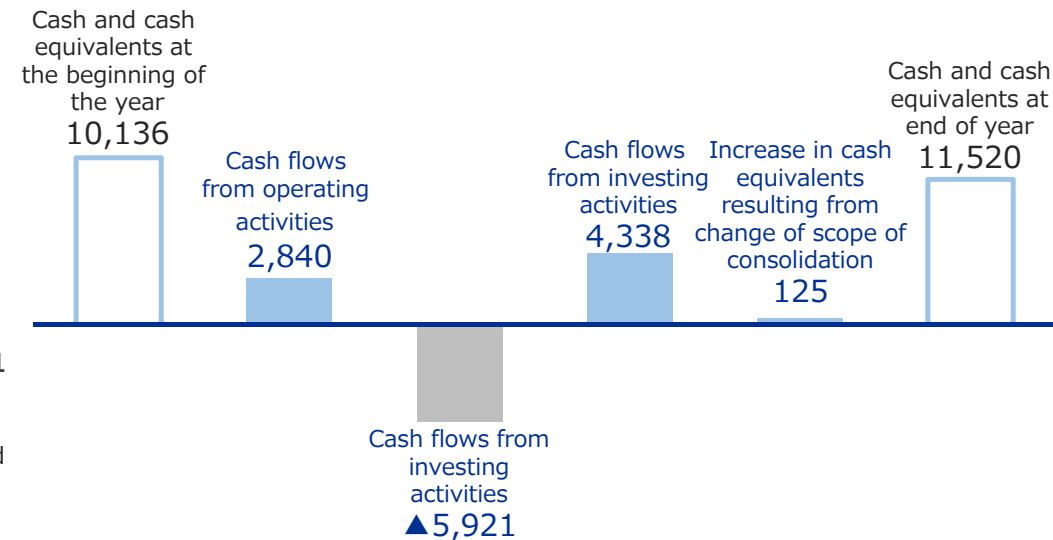
Increase in loans
Repayments of lease obligations

5,173 million yen
▲591 million yen

■ Cash flows transition (Unit: million yen)



■ FY3/2019 (Unit: million yen)



Topics

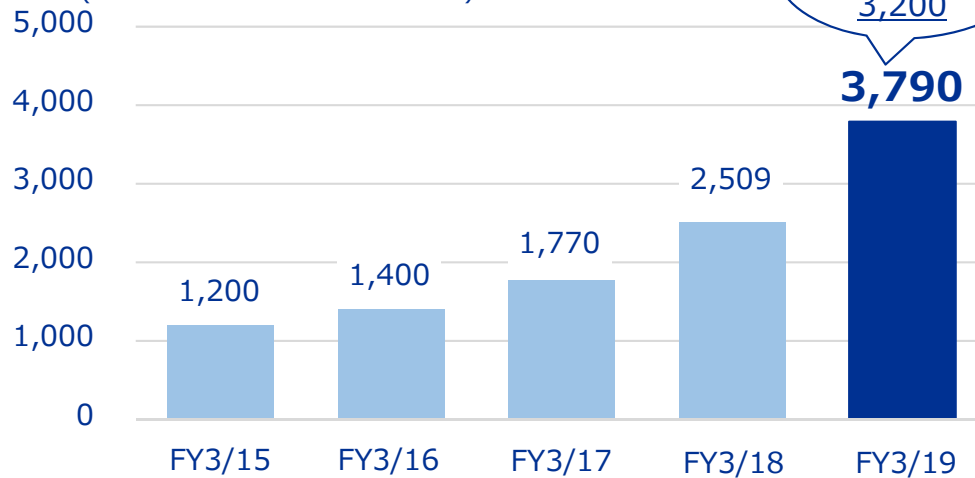
Pharmaceuticals Network Business: Earnings summary

(as of March 31, 2019)

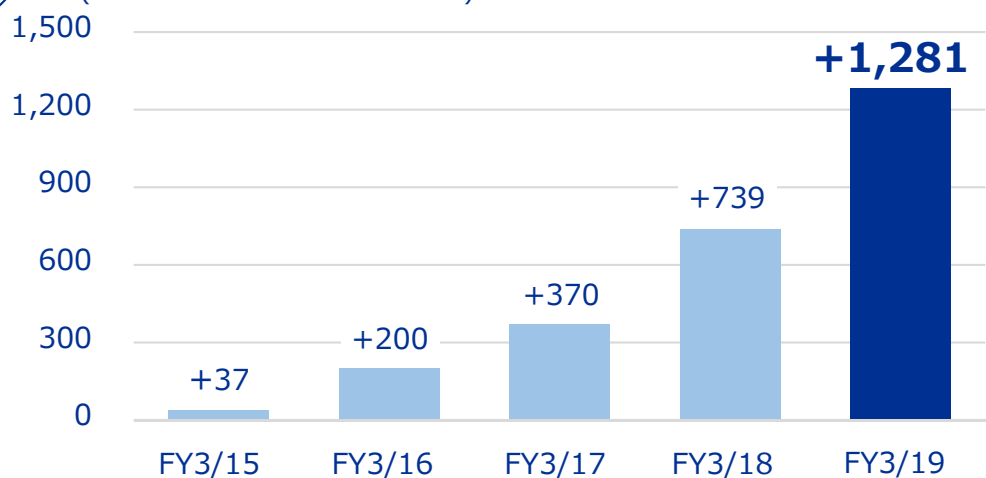


Continuous high trends in number of new network affiliates; increase of 1,281 from previous term for a total of 3,790

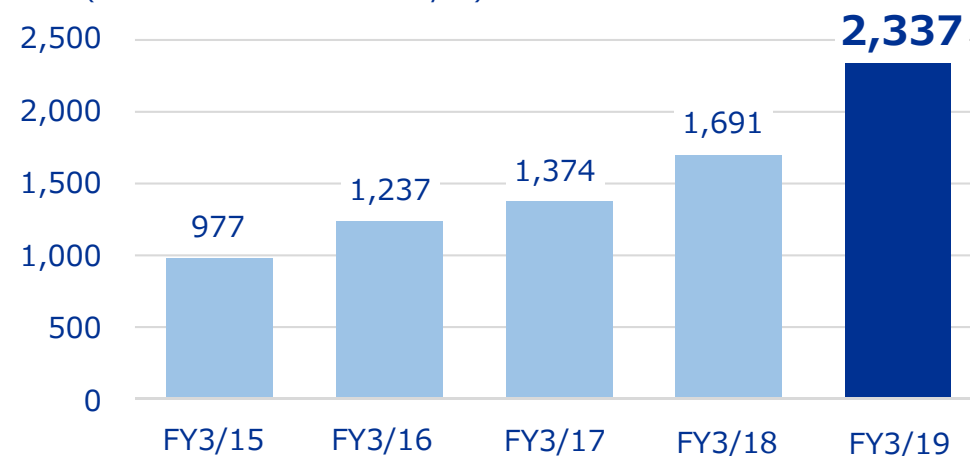
■ Network affiliates (actual)
(Unit: No. of network affiliates)



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



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



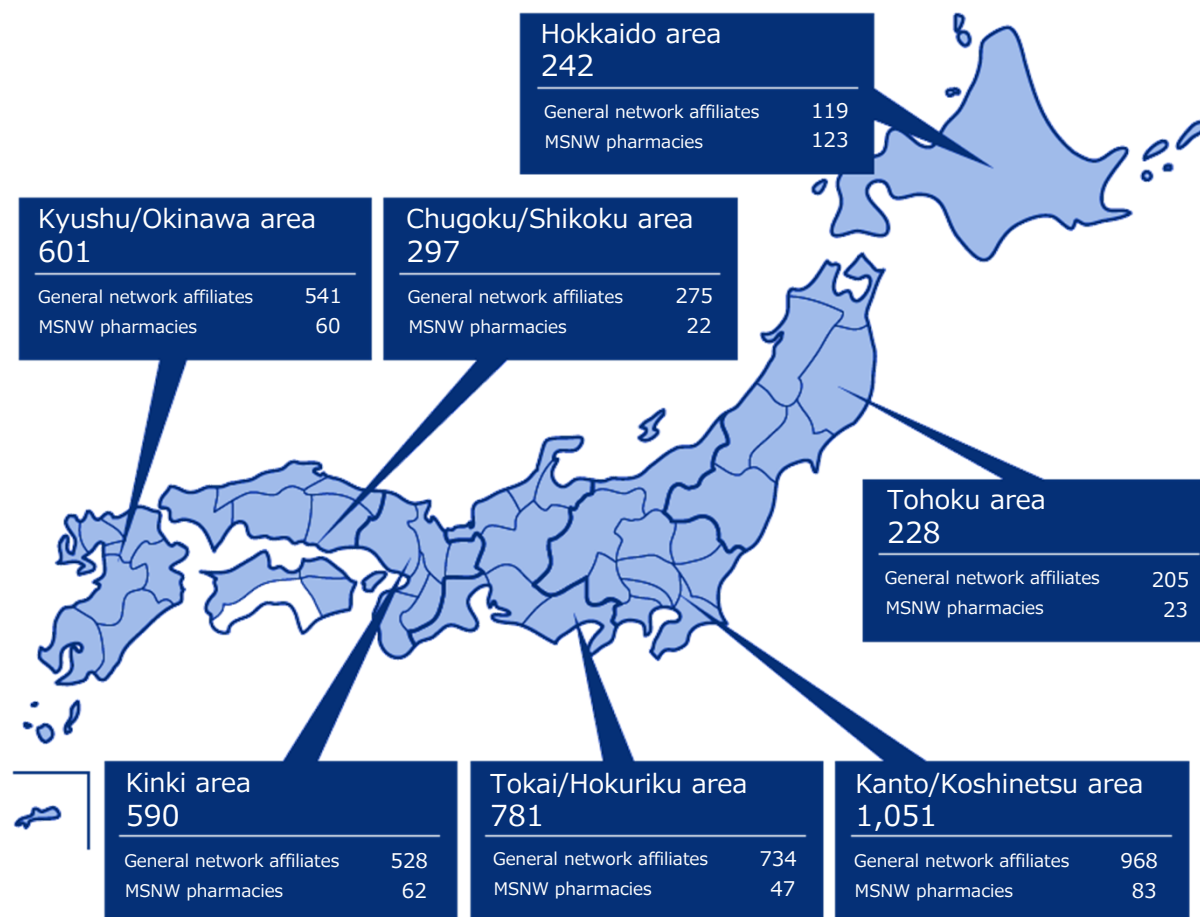
Pharmaceuticals Network Business:

Network affiliates distribution map (as of March 31, 2019)

Currently operating in 46 prefectures; reached 4,000 affiliates in May 2019
(Prefectures not yet advanced into: only Kochi Prefecture)

【Breakdown of network affiliates】

(Unit: No. of network affiliates)	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	119	123	242
Tohoku	205	23	228
Kanto/Koshinetsu	968	83	1,051
Tokai/Hokuriku	734	47	781
Kinki	528	62	590
Chugoku/Shikoku	275	22	297
Kyushu/Okinawa	541	60	601
Total	3,370	420	3,790



4,019 network affiliates
as of May 7, 2019

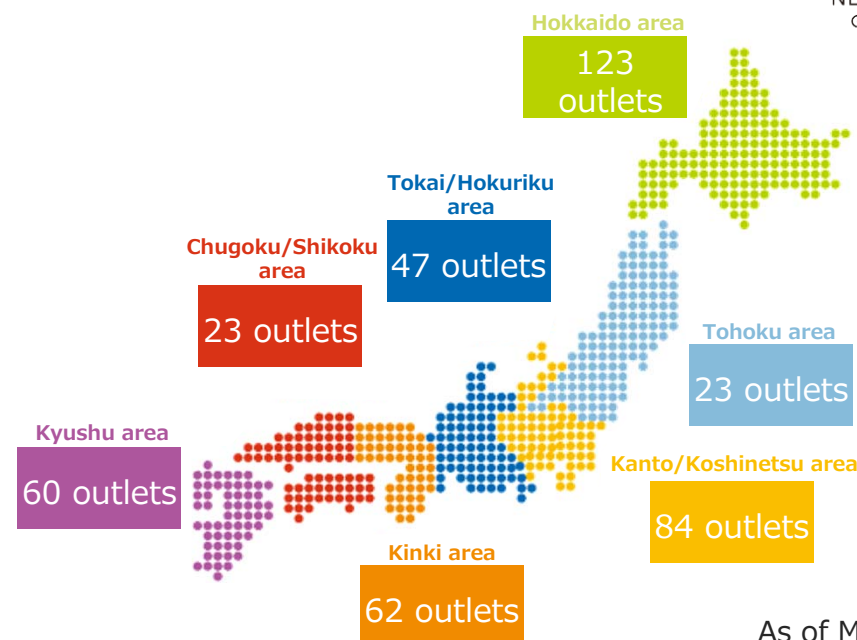
Dispensing Pharmacy Business: Trends in number of pharmacies



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5 new outlets, 30 outlets acquired through M&A, and 14 outlet closings since end of previous fiscal year

	Outlets at end of FY3/2018	Outlets at end of FY3/2019	Outlets as of May 7
Outlets at end of previous term	377	399	420
Openings	8	5	1
Closings and transferring businesses	▲5	▲14	—
M&A	19	30	—
Total	399	420	421



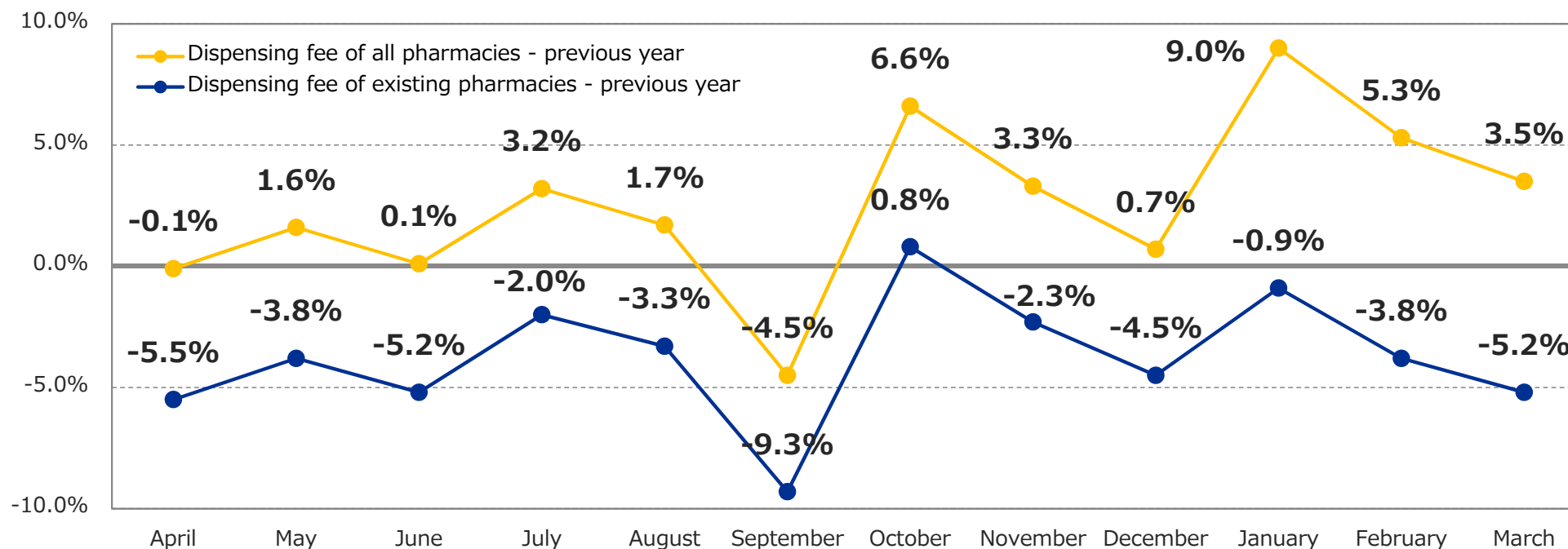
Number of outlets continue to increase every year through new openings and M&A

■ Dispensing pharmacy outlet number trends of the past 10 years

	FY9/2010	FY9/2011	FY3/2012 [※]	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019
Openings	6	10	6	21	14	10	9	8	8	5
Closings and transferring of businesses	▲2	▲4	▲3	▲8	▲7	▲13	▲8	▲4	▲5	▲14
M&A	28	4	6	33	45	27	7	20	19	30
Number of outlets	204	214	223	269	321	345	353	377	399	420

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

Dispensing Pharmacy Business: Comparison of monthly dispensing fee with previous year



(Unit: %)	FY3/2019												Full-year total
	April	May	June	July	August	September	October	November	December	January	February	March	
Dispensing fee of all pharmacies for previous year	▲ 0.1	+ 1.6	+ 0.1	+ 3.2	+ 1.7	▲ 4.5	+ 6.6	+ 3.3	+ 0.7	+9.0	+5.3	+3.5	+2.5
Dispensing fee of existing pharmacies for previous year	▲ 5.5	▲ 3.8	▲ 5.2	▲ 2.0	▲ 3.3	▲ 9.3	+ 0.8	▲ 2.3	▲ 4.5	▲0.9	▲3.8	▲5.2	▲3.8

※ "Existing pharmacies" refer to pharmacies that have been open for 13 or more months, thus the number can vary depending on month

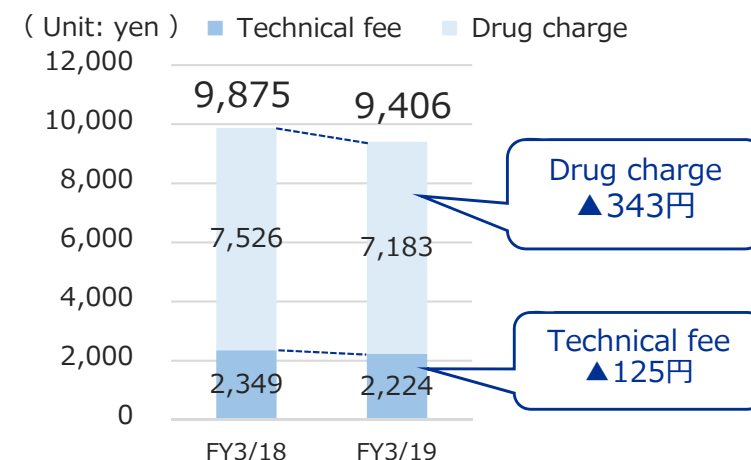
Dispensing Pharmacy Business: Dispensing fee breakdown

Point

Unit price of prescriptions has declined due to the NHI drug price and dispensing fee revisions
New pharmacy openings and M&A contribute to earnings

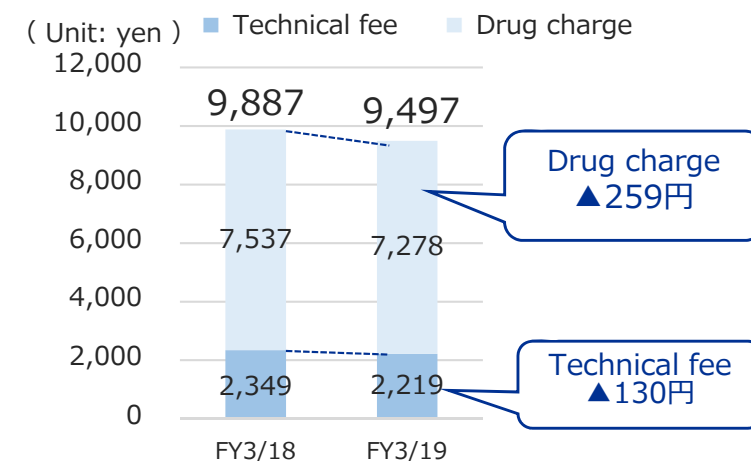
All pharmacies		FY3/18	FY3/19	Change	
No. of prescriptions (1000) a		8,181	8,806	+624	(+ 7.6%)
Unit price (yen)	Drug charge per prescription	7,526	7,183	▲ 343	(▲ 4.6%)
	Technical fee per prescription	2,349	2,224	▲ 125	(▲ 5.3%)
Total b		9,875	9,406	▲ 468	(▲ 4.7%)
Dispensing fee (million yen) c = a x b		80,788	82,834	+2,046	(+ 2.5%)

【 Prescription unit price trends 】



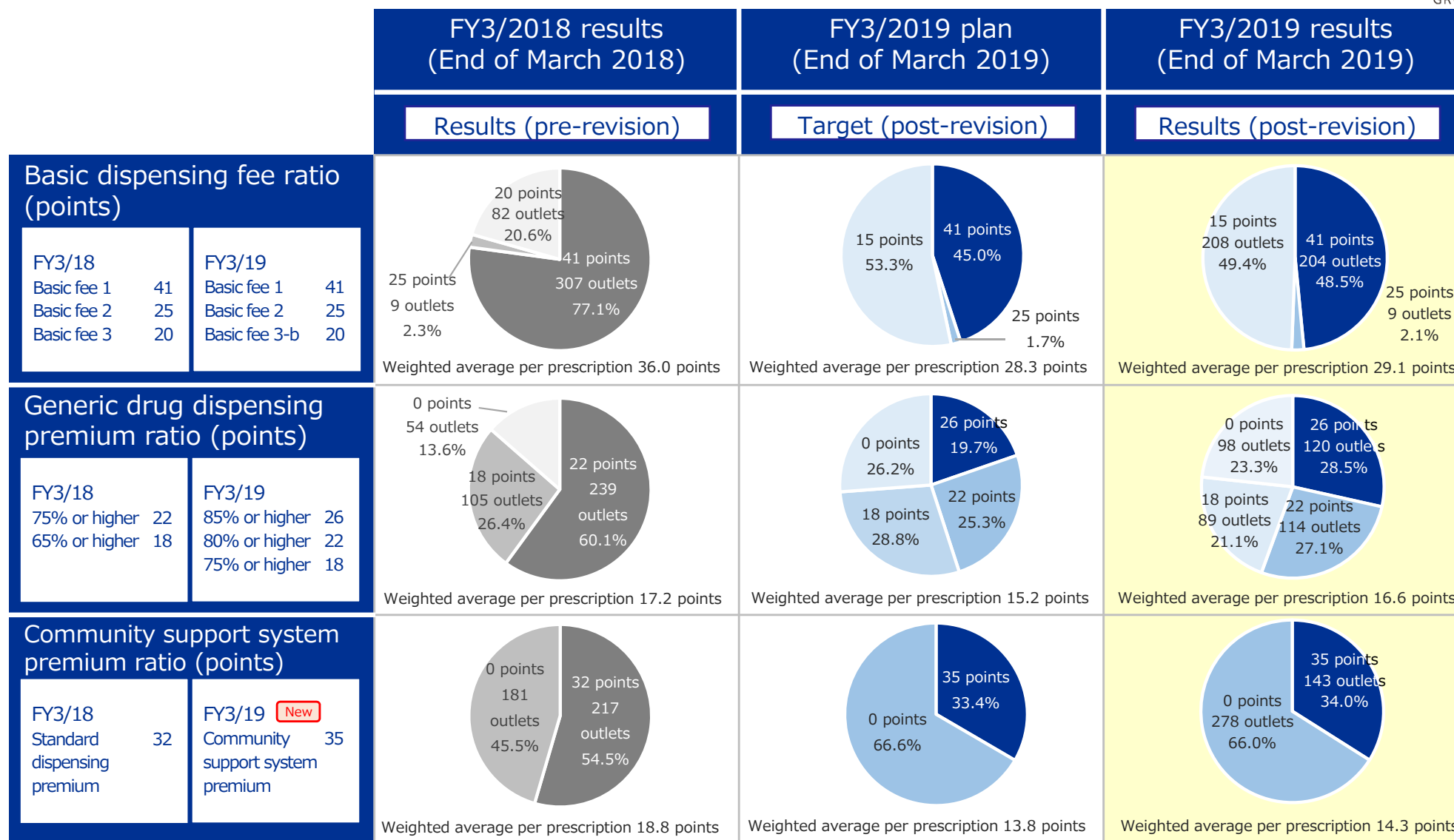
Existing pharmacies		FY3/18	FY3/19	Change	
No. of prescriptions (1000) a		8,114	8,129	+15	(+ 0.2%)
Unit price (yen)	Drug charge per prescription	7,537	7,278	▲ 259	(▲ 3.4%)
	Technical fee per prescription	2,349	2,219	▲ 130	(▲ 5.5%)
Total b		9,887	9,497	▲ 390	(▲ 3.9%)
Dispensing fee (million yen) c = a x b		80,221	77,203	▲ 3,018	(▲ 3.8%)

【 Prescription unit price trends 】



※ "Existing pharmacies" refer to pharmacies that have been open for 13 or more months, thus the number can vary depending on month

Dispensing Pharmacy Business: Influence of the dispensing fee revision



※ Includes pharmacies closed on March 31, excluding suspended pharmacies

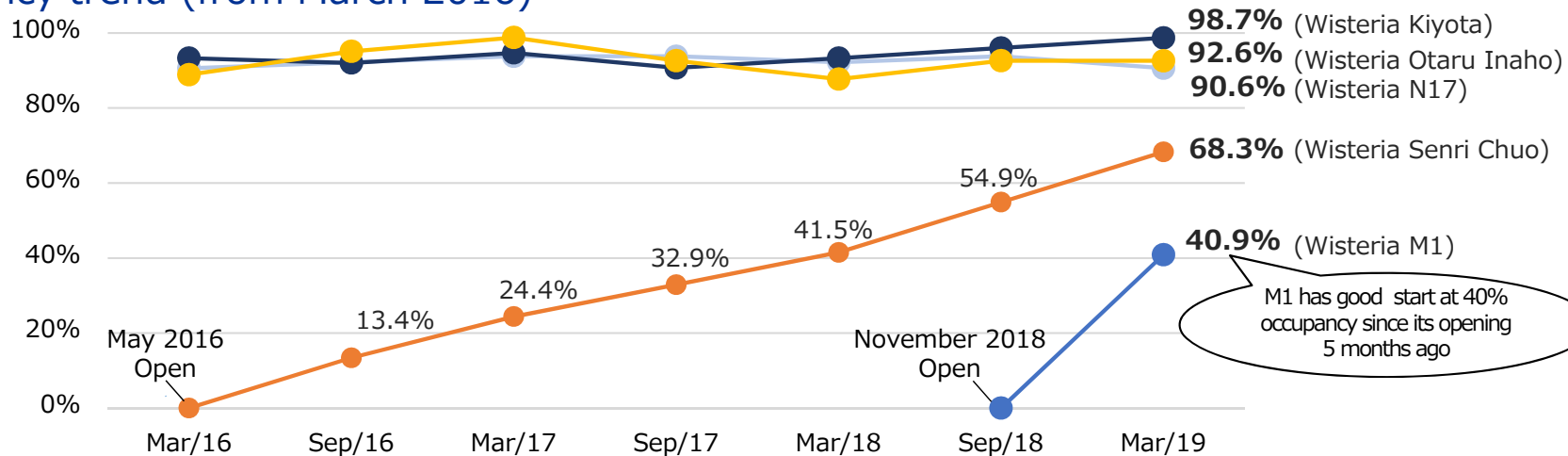
Leasing and Facility related Business: Building a community where medical care and nursing are one



"Wisteria" Series

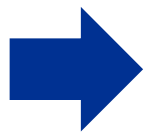
Serviced residence for the elderly + dispensing pharmacies, clinics, care offices, nurseries

■ Occupancy trend (from March 2016)

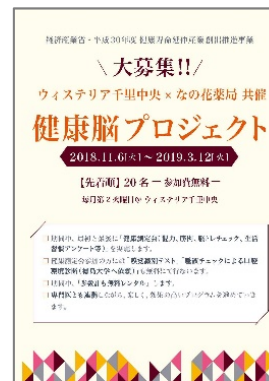


■ Wisteria Senri Chuo: initiatives to improve occupancy

Raise recognition through media for a more centralized customer experience



- Various media advertisements
- Transportation service for facility tours
- Move-in trial and period extension
- Periodic health events



Leaflet for
health event



Earnings Forecast for FY3/2020 and Core Strategies



■ Community Pharmacy Network Business

Pharmaceuticals Network

- Streamline distribution:
follow-up on EOS order and return rates
- More local network initiatives
(local collaboration between affiliates)
- Network affiliates target for end of term: **5,000**
(2 years ahead of medium-term plan target)

Dispensing Pharmacy

- Promote family pharmacy initiatives and
acquire prescriptions:
implementation of strategies for each pharmacy
and reduce waiting times
- Streamline operations:
medication history on tablets and
automatic ordering systems
- Enhance home and health care support functions

Manufacture and Market Pharmaceuticals

- Expand lineup: in-house and concurrent products

■ Leasing and Facility related Business

- Increase Wisteria Senri Chuo and
Wisteria M1 occupants

■ Meal Catering and Home Visit Nursing Business

- Stabilize profit and loss

■ Other themes

Responding to the revision of the Pharmaceuticals and Medical Devices Law

- Follow-up during medication period
- Pharmacies' classification by functions
- Remote medication guidance

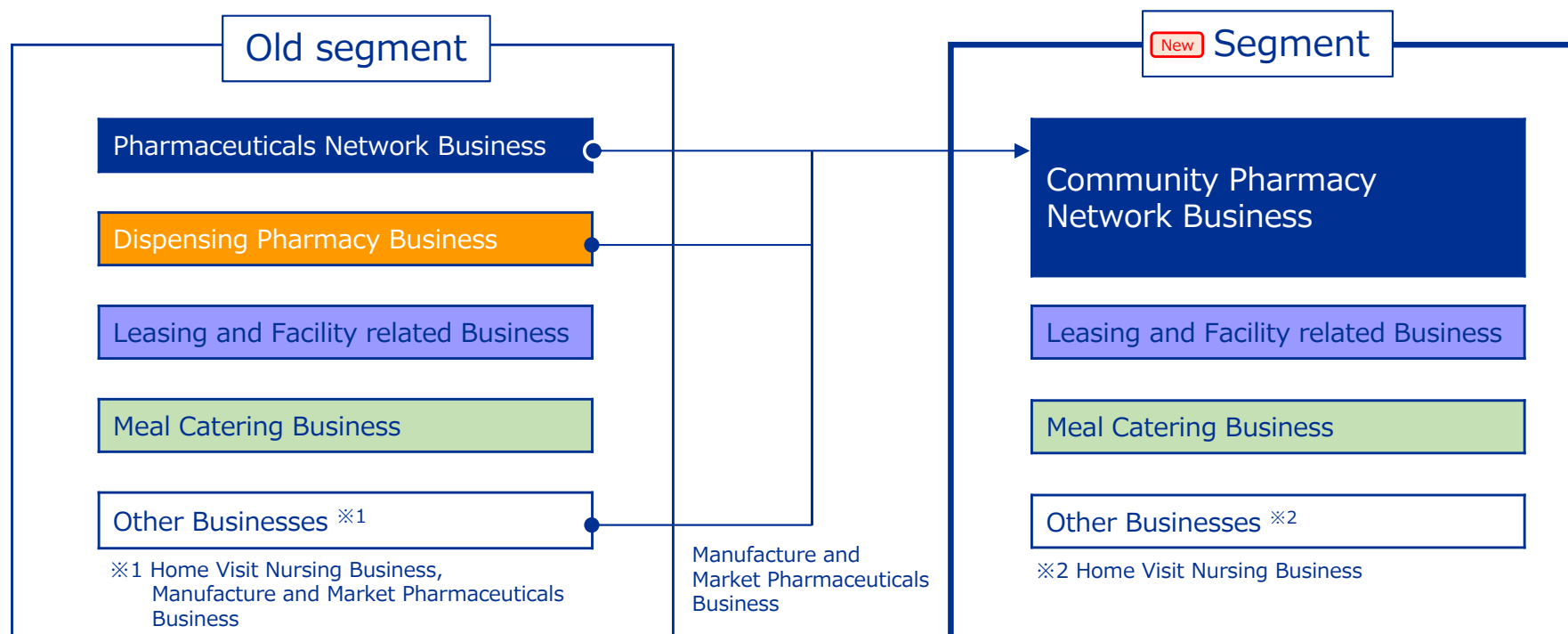
Main duties
of community
pharmacies

Creating a system in preparation for medical fee revision next term

- Find time for pharmacists to utilize their
professional abilities
- Cut down at headquarters and reconsider
employee allocation

Changes in Segment Classification

The classification of segments was changed and reorganized to the following in April of this year



【Main reasons for reorganization】

- With a growing number of Network Affiliates, we are expanding business lines to cover the entire supply chain (manufacturing etc.)
- In response to this, we have changed the classification of segments to a developed system that accounts for conflicts in overlapping business lines, while promoting value to the entire chain.

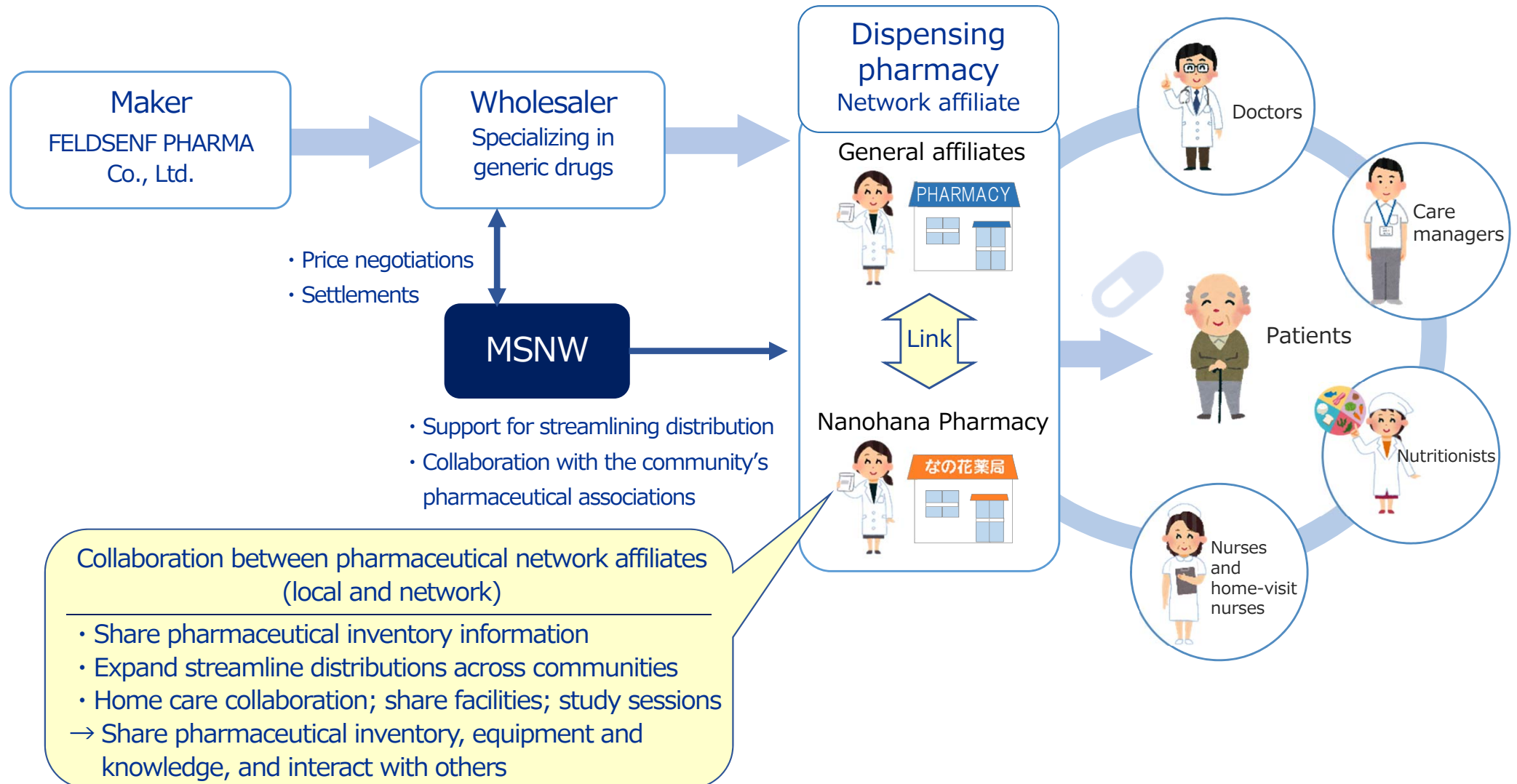
※ All values listed for this term in the “Earnings Forecast and Core Strategies” section of this document are values from after the change in segment classification

Community Pharmacy Network Business OVERVIEW

Pharmaceutical supply chain



A community network
of medical facility and interprofessional
collaboration



Earnings forecast for FY3/2020: Consolidated forecast

Point

Satisfactory extension of network affiliates in pharmaceuticals network business; contribution to performance from opening of new pharmacies and M&A in previous term; anticipated gain in income and profit from increase in prescriptions at existing pharmacies

(Unit: million yen)	FY3/19 (results)	FY3/20 (plan)	Change	Change (%)
Sales	98,232	103,000	+ 4,767	+ 4.9 %
Operating profit Profit percentage	1,428 1.5 %	2,500 2.4 %	+ 1,071 + 0.9 %	+ 75.0 %
Ordinary profit Profit percentage	1,501 1.5 %	2,400 2.3 %	+ 898 + 0.8 %	+ 59.9 %
Profit attributable to owners of parent Profit percentage	462 0.5 %	650 0.6 %	+ 187 + 0.1 %	+ 40.4 %
Earnings per share (Yen)	15.25	21.39	+ 6.14	—

Earnings forecast for FY3/2020: Forecast in each segment

Sales

(Unit: million yen)		FY3/19 (results)	FY3/20 (plan)	Change	Change (%)
Sales		98,232	103,000	+ 4,767	+ 4.9 %
	Community Pharmacy Network Business	92,284	97,461	+ 5,176	+ 5.6 %
	Other 3 Businesses※	6,622	6,113	▲ 509	▲ 7.7 %
	Adjustments	▲ 674	▲ 574	+ 100	—

Operating Profit

(Unit: million yen) Profit percentage in brackets		FY3/19 (results)	FY3/20 (plan)	Change	Change (%)
Profit of segments		1,428 (1.5 %)	2,500 (2.4 %)	+ 1,071 (+ 0.9 %)	+ 75.0 %
	Community Pharmacy Network Business	3,313 (3.6 %)	4,783 (4.9 %)	+ 1,470 (+ 1.3 %)	+ 44.4 %
	Other 3 Businesses※	▲ 150 (—)	▲ 240 (—)	▲ 89 (—)	—
	Adjustments	▲ 1,733 (—)	▲ 2,042 (—)	▲ 308 (—)	—

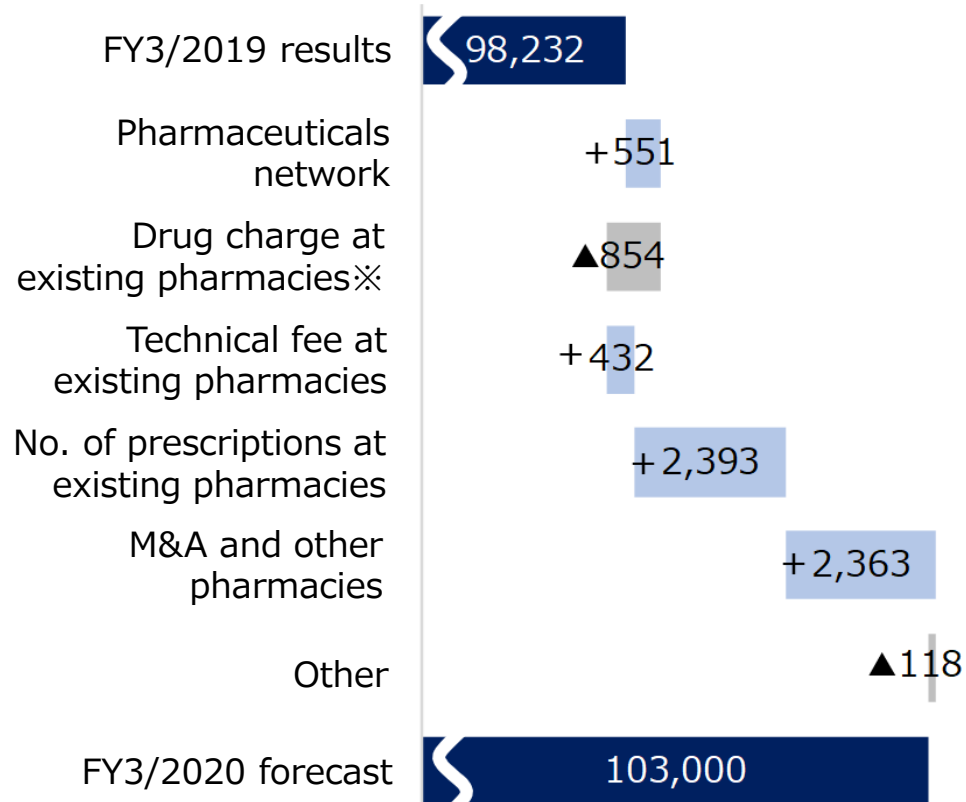
※ Leasing and Facility related Business, Meal Catering Business, Home Visit Nursing Business

Earnings forecast for FY3/2020: Comparison to previous term



■ Sales

(Unit: million yen)

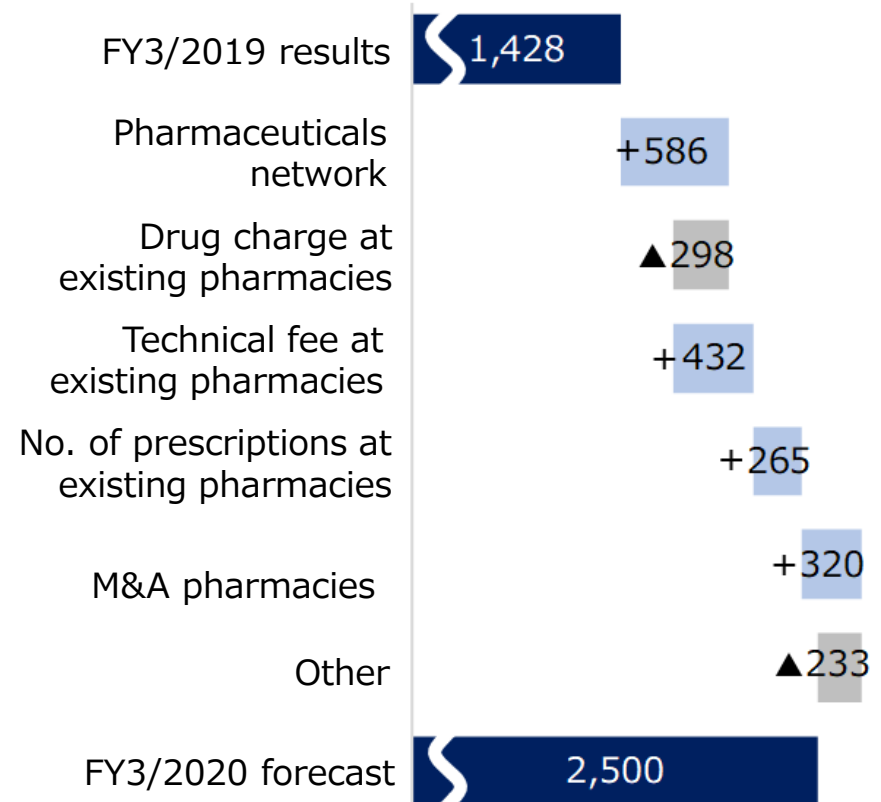


※Includes anticipated amount of impact by Drug price revision in October 2019.

【Reference】

■ Operating profit

(Unit: million yen)



	Full-year plan (Compared to same term previous year)	Full-year results (Compared to same term previous year)
No. of Prescriptions at existing pharmacies	0.7%	3.1%
Unit price of prescriptions at existing pharmacies	-4.0%	-0.6%

※ "Existing pharmacies" on this page refer to pharmacies continue to be in business on or after April 1, 2018.

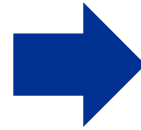
FY3/2020: About anticipated dividends

The dividend forecasts for FY3/20 are estimated to be at 5 yen per share for interim and year-end dividends each, and 10 yen per share for annual dividends

[Shareholder return index]

■ FY3/19 (prospects)

Annual dividend per share 10 yen
Dividend payout ratio 65.6%

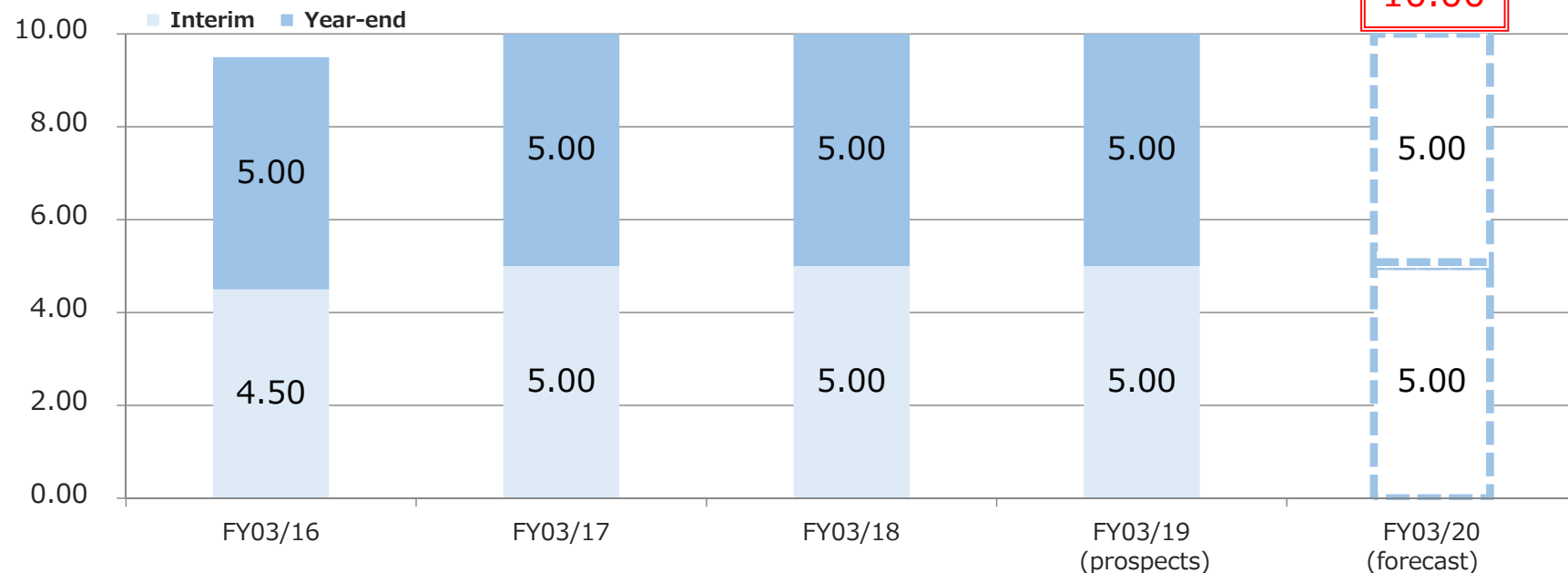


■ FY3/20 (forecast)

Annual dividend per share 10 yen
Dividend payout ratio 46.8%

(Unit: yen)

[Annual dividend per share trend]



Reference Materials

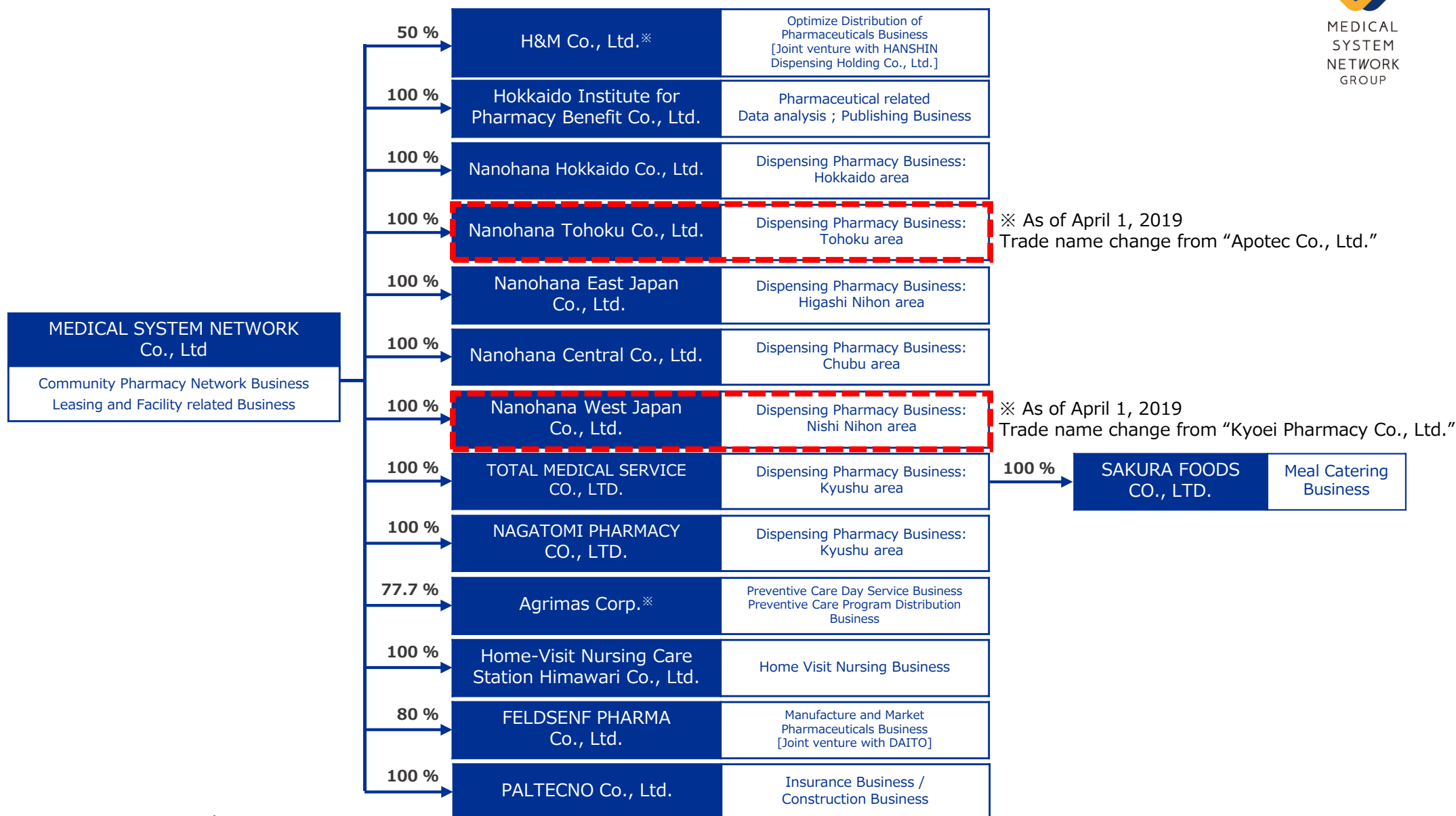
Corporate profile (As of March 1, 2019)



Company	MEDICAL SYSTEM NETWORK Co., Ltd. ("MSNW")		
Representative	Inao Tajiri President & Representative Director	Businesses ※	Community Pharmacy Network Business Leasing and Facility related Business Meal Catering Business Home Visit Nursing Business
Established	September 16, 1999		
Location	24-3 Kitajujo-Nishi, Chuo-ku, Sapporo	Capital	2.128 billion yen
Main consolidated subsidiaries ※	Hokkaido Institute for Pharmacy Benefit Co., Ltd. Nanohana Hokkaido Co., Ltd. Nanohana Tohoku Co., Ltd. Nanohana East Japan Co., Ltd. Nanohana Central Co., Ltd. Nanohana West Japan Co., Ltd. TOTAL MEDICAL SERVICE CO., LTD. NAGATOMI PHARMACY CO., LTD. FELDSENF PHARMA Co., Ltd.	Major shareholders	S&S G.K. 9.03 % Yasuyuki Okinaka 8.17 % KBL EPB S.A. 107704 7.97 % Jiro Akino 7.23 % Japan Trustee Services Bank 4.82 % The Master Trust Bank of Japan (Trust account)
Employees	257 (3,076 consolidated)	Total shareholders	7,782
Stock listing	First Section of Tokyo Stock Exchange	Securities code	4350
		Outstanding shares	30,642,600

※ As of April 1, 2019

Organization chart (As of May 7, 2019)



MSNW group outlets:
total 433 outlets

(Includes care plan center (1), drug stores (8), and home-nurse stations (3))

※ Not consolidated

MEDICAL SYSTEM NETWORK Co., Ltd.

<http://www.msnw.co.jp/>

MSNW

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