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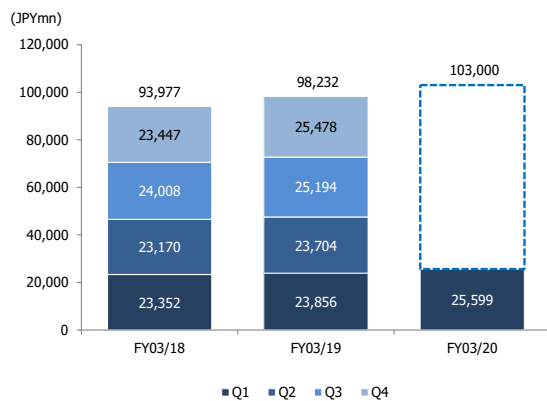
On **August 6, 2019**, Medical System Network Co., Ltd. announced earnings results for Q1 FY03/20.

Cumulative (JPYmn)	FY03/18				FY03/19				FY03/20	FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Sales	23,352	46,522	70,530	93,977	23,856	47,560	72,754	98,232	25,599	24.9%	103,000
YoY	8.6%	7.2%	6.5%	5.8%	2.2%	2.2%	3.2%	4.5%	7.3%		4.9%
Gross profit	9,069	18,109	27,515	36,607	9,079	17,887	27,527	37,271	9,839		
YoY	11.0%	10.0%	8.6%	7.2%	0.1%	-1.2%	0.0%	1.8%	8.4%		
GPM	38.8%	38.9%	39.0%	39.0%	38.1%	37.6%	37.8%	37.9%	38.4%		
SG&A expenses	8,476	16,837	25,226	33,444	8,867	17,410	26,487	35,842	9,504		
YoY	6.5%	5.8%	4.8%	4.3%	4.6%	3.4%	5.0%	7.2%	7.2%		
SG&A ratio	36.3%	36.2%	35.8%	35.6%	37.2%	36.6%	36.4%	36.5%	37.1%		
Operating profit	592	1,271	2,288	3,163	212	476	1,040	1,428	334	13.4%	2,500
YoY	179.2%	131.5%	80.7%	49.7%	-64.2%	-62.5%	-54.5%	-54.9%	57.5%		75.1%
OPM	2.5%	2.7%	3.2%	3.4%	0.9%	1.0%	1.4%	1.5%	1.3%		2.4%
Recurring profit	590	1,272	2,334	3,250	192	438	1,010	1,501	323	13.5%	2,400
YoY	196.5%	134.7%	84.4%	54.1%	-67.5%	-65.6%	-56.7%	-53.8%	68.2%		59.9%
RPM	2.5%	2.7%	3.3%	3.5%	0.8%	0.9%	1.4%	1.5%	1.3%		2.3%
Net income	289	363	944	1,022	101	119	372	462	97	14.9%	650
YoY	-	450.0%	185.2%	79.0%	-65.1%	-67.2%	-60.6%	-54.8%	-4.0%		40.7%
Net margin	1.2%	0.8%	1.3%	1.1%	0.4%	0.3%	0.5%	0.5%	0.4%		0.6%

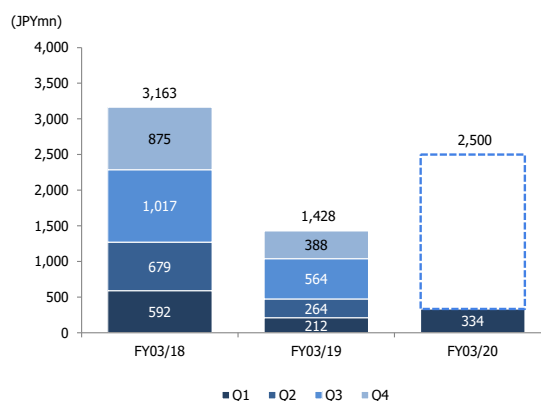
Quarterly (JPYmn)	FY03/18				FY03/19				FY03/20
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	23,352	23,170	24,008	23,447	23,856	23,704	25,194	25,478	25,599
YoY	8.6%	5.8%	5.2%	3.5%	2.2%	2.3%	4.9%	8.7%	7.3%
Gross profit	9,069	9,040	9,406	9,092	9,079	8,808	9,640	9,744	9,839
YoY	11.0%	9.1%	6.0%	2.9%	0.1%	-2.6%	2.5%	7.2%	8.4%
GPM	38.8%	39.0%	39.2%	38.8%	38.1%	37.2%	38.3%	38.2%	38.4%
SG&A expenses	8,476	8,361	8,389	8,218	8,867	8,543	9,077	9,355	9,504
YoY	6.5%	5.2%	2.8%	2.9%	4.6%	2.2%	8.2%	13.8%	7.2%
SG&A ratio	36.3%	36.1%	34.9%	35.0%	37.2%	36.0%	36.0%	36.7%	37.1%
Operating profit	592	679	1,017	875	212	264	564	388	334
YoY	179.2%	101.5%	41.8%	3.3%	-64.2%	-61.1%	-44.5%	-55.7%	57.5%
OPM	2.5%	2.9%	4.2%	3.7%	0.9%	1.1%	2.2%	1.5%	1.3%
Recurring profit	590	682	1,062	916	192	246	572	491	323
YoY	196.5%	98.8%	46.7%	8.7%	-67.5%	-63.9%	-46.1%	-46.4%	68.2%
RPM	2.5%	2.9%	4.4%	3.9%	0.8%	1.0%	2.3%	1.9%	1.3%
Net income	289	74	581	78	101	18	253	90	97
YoY	-	-1.3%	119.2%	-67.5%	-65.1%	-75.7%	-56.5%	15.4%	-4.0%
Net margin	1.2%	0.3%	2.4%	0.3%	0.4%	0.1%	1.0%	0.4%	0.4%

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

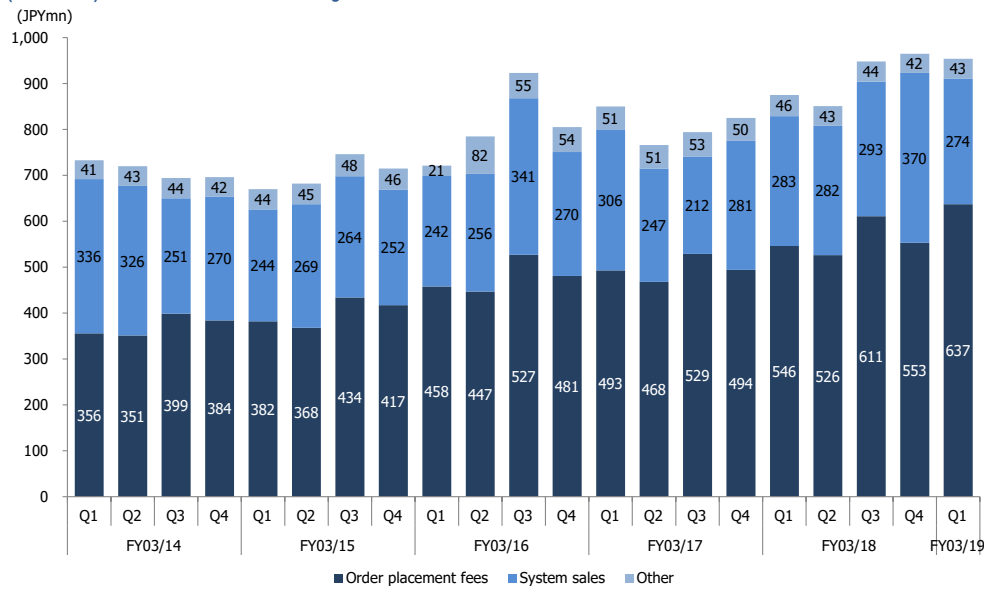
Quarterly results

By segment (cumulative) (JPY mn)	FY03/18				FY03/19				FY03/19	FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Total sales	23,352	46,522	70,530	93,977	23,856	47,560	72,754	98,232	Total sales	23,856	25,599
YoY	8.6%	7.2%	6.5%	5.8%	2.2%	2.2%	3.2%	4.5%	YoY	2.2%	7.3%
Pharmaceuticals Network	875	1,728	2,675	3,639	955	1,818	2,897	3,951	Pharmaceuticals Network	22,564	24,224
YoY	2.8%	6.9%	10.9%	12.4%	9.1%	5.2%	8.3%	8.6%	YoY	-	7.4%
% of total sales	3.6%	3.6%	3.7%	3.8%	3.9%	3.7%	3.9%	3.9%	% of total sales	94.1%	94.1%
Dispensing Pharmacy	21,525	42,863	65,215	87,172	22,222	44,035	67,291	90,706			
YoY	9.2%	7.5%	7.2%	6.8%	3.2%	2.7%	3.2%	4.1%			
% of total sales	89.3%	89.3%	89.6%	89.8%	90.3%	89.8%	89.6%	89.5%			
Leasing and Facility-related	521	1,086	1,561	2,031	600	1,508	2,382	3,320	Leasing and Facility-related	600	760
YoY	4.0%	9.8%	3.0%	-0.7%	15.2%	38.9%	52.6%	63.5%	YoY	15.2%	26.7%
% of total sales	2.2%	2.3%	2.1%	2.1%	2.4%	3.1%	3.2%	3.3%	% of total sales	2.5%	3.0%
Food Service	1,156	2,298	3,279	4,103	788	1,586	2,382	3,161	Food Service	788	730
YoY	0.1%	-0.7%	-6.0%	-12.1%	-31.8%	-31.0%	-27.4%	-23.0%	YoY	-31.8%	-7.4%
% of total sales	4.8%	4.8%	4.5%	4.2%	3.2%	3.2%	3.2%	3.1%	% of total sales	3.3%	2.8%
Other	33	53	71	92	33	91	166	261	Other	33	38
YoY	-8.3%	-31.2%	-37.7%	-43.6%	0.0%	71.7%	133.8%	183.7%	YoY	0.0%	15.2%
% of total sales	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	% of total sales	0.1%	0.1%
Segment sales adjustments	-759	-1,478	-2,274	-3,063	-743	-1,479	-2,365	-3,167	Segment sales adjustments	-130	-154
Operating profit	592	1,271	2,288	3,163	212	476	1,040	1,428	Operating profit	212	334
YoY	179.2%	131.5%	80.7%	49.7%	-64.2%	-62.5%	-54.5%	-54.9%	YoY	-64.2%	57.5%
Pharmaceuticals Network	471	934	1,444	1,949	554	1,060	1,697	2,331	Pharmaceuticals Network	642	825
YoY	7.3%	11.5%	12.8%	13.4%	17.6%	13.5%	17.5%	19.6%	YoY	-	28.5%
OPM	53.8%	54.1%	54.0%	53.6%	58.0%	58.3%	58.6%	59.0%	OPM	2.8%	3.4%
Dispensing Pharmacy	591	1,220	2,210	3,060	130	202	712	1,068			
YoY	118.9%	72.8%	50.4%	32.2%	-78.0%	-83.4%	-67.8%	-65.1%			
OPM	2.7%	2.8%	3.4%	3.5%	0.6%	0.5%	1.1%	1.2%			
Leasing and Facility-related	-40	-73	-109	-182	-32	10	-51	-84	Leasing and Facility-related	-32	-8
YoY	-	-	-	-	-	-	-	-	YoY	-	-
OPM	-7.7%	-6.7%	-7.0%	-9.0%	-5.3%	0.7%	-2.1%	-2.5%	OPM	-5.3%	-1.1%
Food Service	5	34	49	45	1	18	28	34	Food Service	1	-12
YoY	-110.6%	-133.3%	-135.3%	-134.9%	-80.0%	-47.1%	-42.9%	-24.4%	YoY	-	-
OPM	0.4%	1.5%	1.5%	1.1%	0.1%	1.1%	1.2%	1.1%	OPM	0.1%	-1.6%
Other	-35	-58	-75	-97	-36	-73	-105	-136	Other	-29	-21
YoY	-	-	-	-	-	-	-	-	YoY	-	-
OPM	-106.1%	-109.4%	-105.6%	-105.4%	-109.1%	-80.2%	-63.3%	-52.1%	OPM	-87.9%	-55.3%
Segment profit adjustments	-400	-785	-1,231	-1,610	-405	-741	-1,240	-1,784	Segment profit adjustments	-369	-447

By segment (quarterly) (JPY mn)	FY03/18				FY03/19				FY03/19	FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Total sales	23,352	23,170	24,008	23,447	23,856	23,704	25,194	25,478	Total sales	23,856	25,599
YoY	8.6%	5.8%	5.2%	3.5%	2.2%	2.3%	4.9%	8.7%	YoY	2.2%	7.3%
Pharmaceuticals Network	875	853	947	964	955	863	1,079	1,054	Pharmaceuticals Network	22,564	24,224
YoY	2.8%	11.4%	19.3%	16.7%	9.1%	1.2%	13.9%	9.3%	YoY	-	7.4%
% of total sales	3.6%	3.6%	3.8%	4.0%	4.4%	3.5%	4.1%	4.0%	% of total sales	94.1%	107.3%
Dispensing Pharmacy	21,525	21,338	22,352	21,957	22,222	21,813	23,256	23,415	Dispensing Pharmacy		
YoY	9.2%	5.9%	6.6%	5.4%	3.2%	2.2%	4.0%	6.6%	YoY		
% of total sales	89.3%	89.3%	90.1%	90.6%	103.2%	89.3%	89.2%	89.1%	% of total sales		
Leasing and Facility-related	521	565	475	470	600	908	874	938	Leasing and Facility-related	600	760
YoY	4.0%	15.8%	-9.9%	-11.3%	15.2%	60.7%	84.0%	99.6%	YoY	-	26.7%
% of total sales	2.2%	2.4%	1.9%	1.9%	2.8%	3.7%	3.4%	3.6%	% of total sales	2.5%	3.4%
Food Service	1,156	1,142	981	824	788	798	796	779	Food Service	788	730
YoY	0.1%	-1.6%	-16.3%	-30.2%	-31.8%	-30.1%	-18.9%	-5.5%	YoY	-	-7.4%
% of total sales	4.8%	4.8%	4.0%	3.4%	3.7%	3.3%	3.1%	3.0%	% of total sales	3.3%	3.2%
Other	33	20	18	21	33	58	75	95	Other	33	38
YoY	-8.3%	-51.2%	-51.4%	-57.1%	0.0%	190.0%	316.7%	352.4%	YoY	-	15.2%
% of total sales	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.4%	% of total sales	0.1%	0.2%
Segment sales adjustments	-759	-719	-796	-789	2,320	-736	-886	-802	Segment sales adjustments	-130	3,013
Operating profit	592	679	1,017	875	212	264	564	388	Operating profit	212	334
YoY	179.2%	101.5%	41.8%	3.3%	-64.2%	-61.1%	-44.5%	-55.7%	YoY	-64.2%	57.5%
Pharmaceuticals Network	471	463	510	505	554	506	637	634	Pharmaceuticals Network	642	825
YoY	7.3%	16.0%	15.4%	15.3%	17.6%	9.3%	24.9%	25.5%	YoY	-	28.5%
OPM	53.8%	54.3%	53.9%	52.4%	58.0%	58.6%	59.0%	60.2%	OPM	2.8%	3.4%
Dispensing Pharmacy	591	629	990	850	130	72	510	356	Dispensing Pharmacy		
YoY	118.9%	44.3%	29.8%	0.6%	-78.0%	-88.6%	-48.5%	-58.1%	YoY		
OPM	2.7%	2.9%	4.4%	3.9%	0.6%	0.3%	2.2%	1.5%	OPM		
Leasing and Facility-related	-40	-33	-36	-73	-32	42	-61	-33	Leasing and Facility-related	-32	-8
YoY	-	-	-	-	-	-	-	-	YoY	-	-
OPM	-7.7%	-5.8%	-7.6%	-15.5%	-5.3%	4.6%	-7.0%	-3.5%	OPM	-5.3%	-1.1%
Food Service	5	29	15	-4	1	17	10	6	Food Service	1	-12
YoY	-110.6%	-152.7%	-140.5%	-	-80.0%	-41.4%	-33.3%	-250.0%	YoY	-	-
OPM	0.4%	2.5%	1.5%	-0.5%	0.1%	2.1%	1.3%	0.8%	OPM	0.1%	-1.6%
Other	-35	-23	-17	-22	-36	-37	-32	-31	Other	-29	-21
YoY	-	-	-	-	-	-	-	-	YoY	-	-
OPM	-106.1%	-115.0%	-94.4%	-104.8%	-109.1%	-63.8%	-42.7%	-32.6%	OPM	-87.9%	-55.3%
Segment profit adjustments	-400	-385	-446	-379	-405	-336	-499	-544	Segment profit adjustments	-369	-447

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

(Reference) Pharmaceuticals Network segment sales

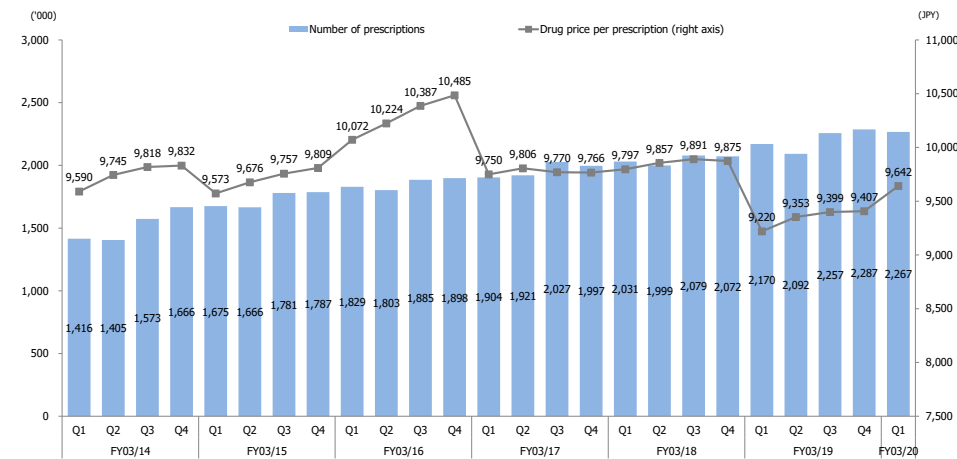


Source: Shared Research based on company data

Notes: *Undisclosed from Q2 FY03/19

*Integrated into the Community Pharmacy Network segment from FY03/20

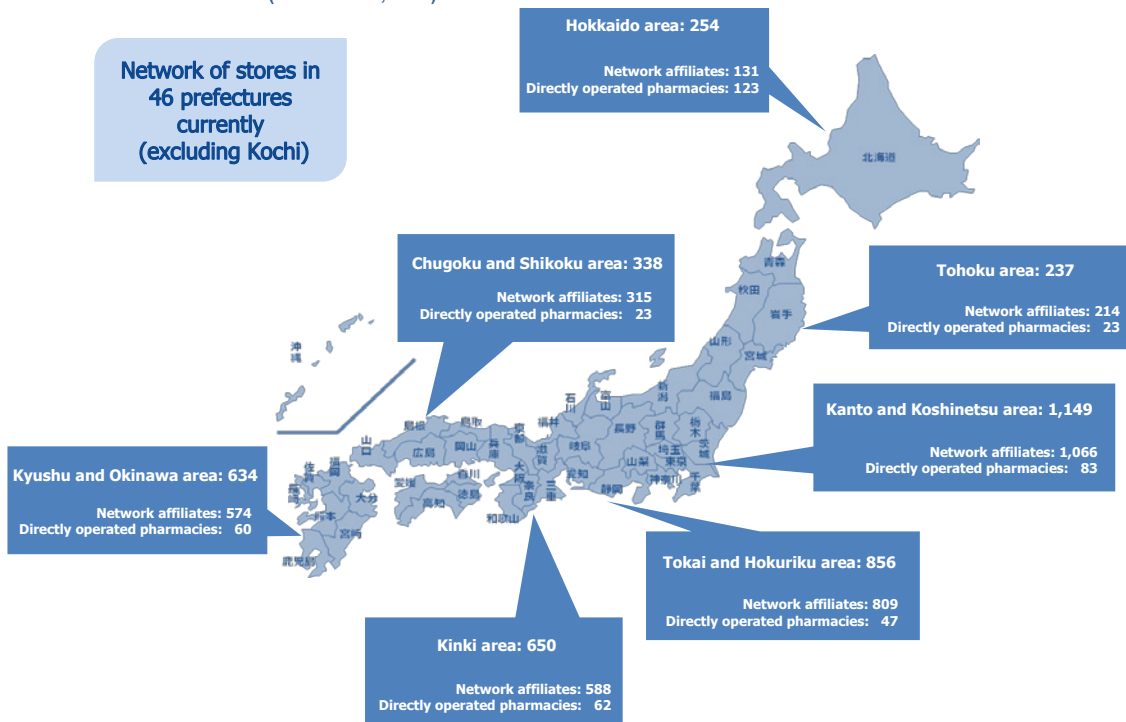
Prescription volume and drug price per prescription (Dispensing Pharmacy segment; all stores)



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 June 30, 2019)



Source: Shared Research based on company data

Number of dispensing pharmacies by region

Area	Directly operated dispensing pharmacies	Network affiliates	Total
Hokkaido	123	131	254
Tohoku	23	214	237
Kanto and Koshinetsu	83	1,066	1,149
Tokai and Hokuriku	47	809	856
Kinki	62	588	650
Chugoku and Shikoku	23	315	338
Kyushu and Okinawa	60	574	634
Total	421	3,697	4,118

Source: Shared Research based on company data (June 30, 2019)

Q1 FY03/20 earnings results (out August 6, 2019)

Overview

Q1 FY03/20 (April to June 2019) earnings results

- ▷ Sales: JPY25.6bn (+7.3% YoY)
- ▷ Operating profit: JPY334mn (+57.5% YoY)
- ▷ Recurring profit: JPY323mn (-68.2% YoY)
- ▷ Net income*: JPY97mn (-4.0% YoY)

*Net income refers to net income attributable to parent company shareholders.

- ▷ Business environment: NHI drug price and dispensing fee revisions were conducted in April 2018. Dispensing pharmacies had to streamline their management structures following the implementation of the MHLW “Guidelines for distributor compliance to improve ethical drug distribution” whose purpose is to ensure stable supply of ethical drugs.
- ▷ Company response: The company streamlined and consolidated the Pharmaceuticals Network and Dispensing Pharmacy businesses into the Community Pharmacy Network business and began disclosure under the new segmentation from this fiscal year. Sales in the Community Pharmacy Network business increased by 7.3% YoY, reflecting an increase in the number of network members and the steady sales at existing pharmacies. The operating margin was 1.3% in Q1 FY03/20, an improvement of 0.4pp compared to the previous year. This was driven by margin improvement in the core Community Pharmaceutical Network business from 2.8% in the previous year to 3.4% in the current year.

Segment performance

Community Pharmacy Network

This is a new segment that integrates the former Pharmaceuticals Network business, the Dispensing Pharmacy business, and the pharmaceutical manufacturing and sales business (mainly Feldsenf Pharma) previously included in Other.

Q1 FY03/20 (April – June 2019) segment earnings results

- ▷ Segment sales: JPY24.2bn (+7.4 YoY; includes internal sales or transfers between segments; same hereafter)
- ▷ Segment profit: JPY825mn (+28.5% YoY)
- ▷ Pharmaceuticals Network division: The number of new network members showed a strong increase driven by customers’ need for improved distribution efficiency. As at the end of June 2019, the number of network members was 4,118 (up 328 from the end of FY03/19). This consisted of 421 directly operated pharmacies and 3,697 affiliates.
- ▷ Dispensing Pharmacy division: In addition to the contribution from stores acquired via M&A, sales at existing pharmacies remained steady. As at the end of June 2019, there were 421 dispensing pharmacies, one care plan center, and eight drug stores.
- ▷ Pharmaceutical manufacturing and sales division: This business aims to provide a stable supply of good-quality, low-priced generic drugs. The company sold 18 ingredients and 39 products as of the end of June 2019.

Leasing and Facility-related

Q1 FY03/20 (April – June 2019) segment earnings results

- ▷ Segment sales: JPY760mn (+26.7% YoY)
- ▷ Segment loss: JPY8mn (loss of JPY32mn in Q1 FY03/19)
- ▷ Reason for increase in sales: Steady inflow of leasing revenue and rise in occupancy at the company’s serviced elderly housing facilities contributed to sales growth.

- ▷ Reason for the segment loss: The segment remained in loss reflecting depreciation expenses related to Wisteria Minami Ichijo, the serviced elderly housing facility opened in November 2018.

Food Service

Q1 FY03/20 (April – June 2019) segment earnings results

- ▷ Segment sales: JPY730mn (-7.4% YoY)
- ▷ Segment loss: JPY12mn (vs. 1mn segment profit in the previous year)
- ▷ Business reforms: Despite withdrawal from certain unprofitable facilities, segment profit fell from higher labor costs as the company employed temporary resources in response to staff shortage.

Other

The main business is home-visit nursing care.

Q1 FY03/20 (April – June 2019) segment earnings results

- ▷ Segment sales: JPY38mn (+15.2% YoY)
- ▷ Segment loss: JPY21mn (loss of JPY29mn in Q1 FY03/19)

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

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