



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Third Quarter of Fiscal Year Ending March 2020

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/>

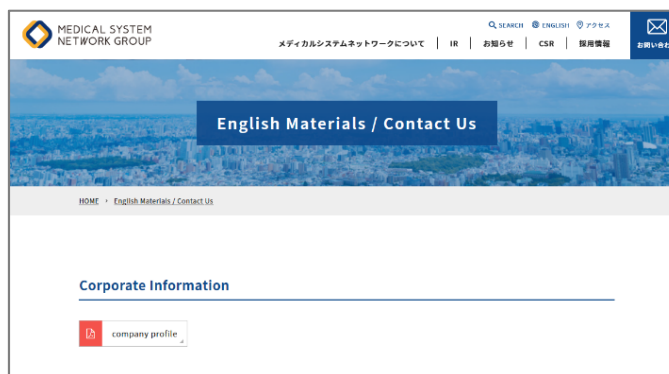


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Earnings Highlight

FY3/2020 3Q: Consolidated results



Earnings Summary

Steady increase of network affiliates in pharmaceutical network; increase in sales and profit against a backdrop of consistent sales at acquired and existing pharmacies, however there is a decrease in profit attributable to owners of parent due to the raise in taxes^{※1}

(Unit: million yen)	FY3/2019 3Q	FY3/2020 3Q	Year-on-year		FY3/2020 Full year forecast	Progress rate
			Change	Change (%)		
Net sales	72,754	78,943	6,189	8.5%	103,000	76.6%
Operating profit	1,040	1,228	188	18.1%	2,500	49.2%
Profit margin	1.4%	1.6%			2.4%	
Ordinary profit	1,010	1,208	198	19.6%	2,400	50.4%
Profit margin	1.4%	1.5%			2.3%	
Profit attributable to owners of parent ^{※1}	372	326	▲ 45	▲ 12.3%	650	50.2%
Profit margin	0.5%	0.4%			0.6%	
Earnings per share (Yen)	12.26	10.75	▲ 1.51	—	21.39	—
EBITDA ^{※2}	3,055	3,475	420	13.8%	—	—

※1 Decrease in profit due to tax increase in comparison to previous term where tax assets were deferred from merging consolidate subsidiaries

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

FY3/2020 3Q: Results in each segment

Factors for
increase in
sales and
profit

Community Pharmacy Network Segment:

Increase in sales and profit due to steady growth of network affiliates,
impact of M&A pharmacies from previous term, and rise of drug fee
at existing pharmacies

Other 3 segments: steady increase in occupancy rate at serviced residences for the elderly

■ Net sales

(Unit: million yen)

	FY3/2019 3Q	FY3/2020 3Q	Change	Change (%)
Net sales	72,754	78,943	6,189	+ 8.5%
Community Pharmacy Network Segment ^{※1}	68,408	74,637	6,228	+ 9.1%
Other 3 Segments ^{※2}	4,868	4,909	41	+ 0.8%
Adjustments	▲ 523	▲ 603	▲ 79	—

■ Operating profit

(Unit: million yen)
Profit margin in brackets

	FY3/2019 3Q	FY3/2020 3Q	Change	Change (%)
Segment profit	1,040 (1.4%)	1,228 (1.6%)	188 + 0.2 pt	+ 18.1%
Community Pharmacy Network Segment ^{※1}	2,332 (3.4%)	2,764 (3.7%)	432 + 0.3 pt	+ 18.5%
Other 3 Segments ^{※2}	▲ 105 (—)	▲ 27 (—)	77 —	—
Adjustments	▲ 1,186 (—)	▲ 1,508 (—)	▲ 321 —	—

※1 Pharmaceutical Network Business, Dispensing Pharmacy Business, Manufacture and Market Pharmaceuticals Business

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

FY3/2020 3Q: Consolidated balance sheet

Point

Assets: decrease in cash and deposits
Liabilities and net assets: decrease in loans

■ 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 stock	2,128
Goodwill	15,710	Capital surplus	1,185
Investments and other assets	5,922	Retained earnings	7,616
		Treasury stock	▲ 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

■ End of FY3/2020 3Q

(Unit: million yen)

Assets	66,957	Liabilities	56,235
Current assets	19,389	Current liabilities	24,356
Cash and deposits	9,068	Short-term loans [※]	8,513
		Fixed liabilities	31,878
Fixed assets	47,568	Long-term loans	25,848
Tangible fixed assets	25,593	Net assets	10,721
Intangible fixed assets	15,884	Capital stock	2,128
Goodwill	15,443	Capital surplus	1,183
Investments and other assets	6,090	Retained earnings	7,636
		Treasury stock	▲ 207
Total assets	66,957	Total liabilities and net assets	66,957

Equity ratio 16.0%

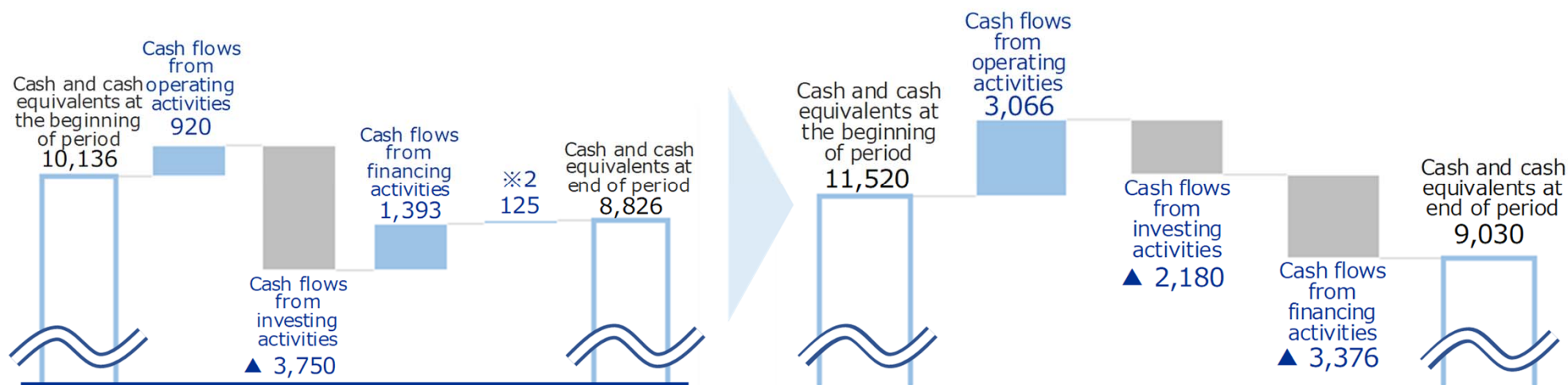
FY3/2020 3Q: Consolidated cash flows



Cash flows from operating activities	3,066 million yen	EBITDA※1 Income taxes paid Impact of increasing working capital	3,475 million yen ▲ 1,101 million yen 512 million yen
		※1 Calculated by "operating profit + depreciation + amortization of goodwill"	
Cash flows from investing activities	▲ 2,180 million yen	Acquisition of buildings, etc M&A(acquisition of shares, transfer of business and acquisition of business)	▲ 1,052 million yen ▲ 739 million yen
Cash flows from financing activities	▲ 3,376 million yen	Loan amount reduced Repayments of lease obligations	▲ 2,790 million yen ▲ 249 million yen

■ FY3/2019 3Q (Unit: million yen)

■ FY3/2020 3Q (Unit: million yen)



※2 Increase in cashequivalents resulting from change of scope of consolidation

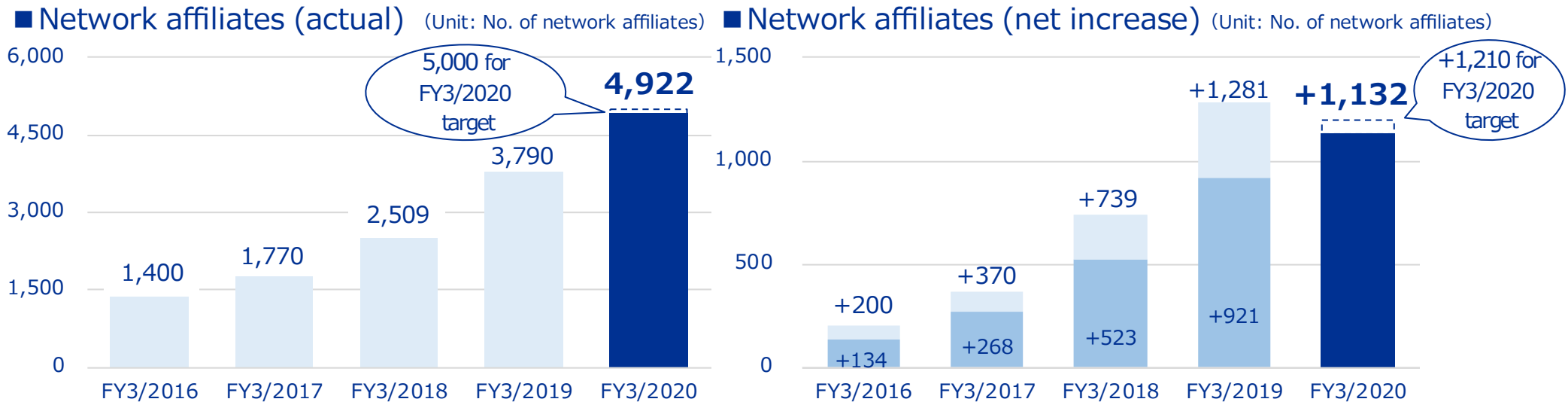
Topics

Pharmaceuticals Network Business: Earnings summary

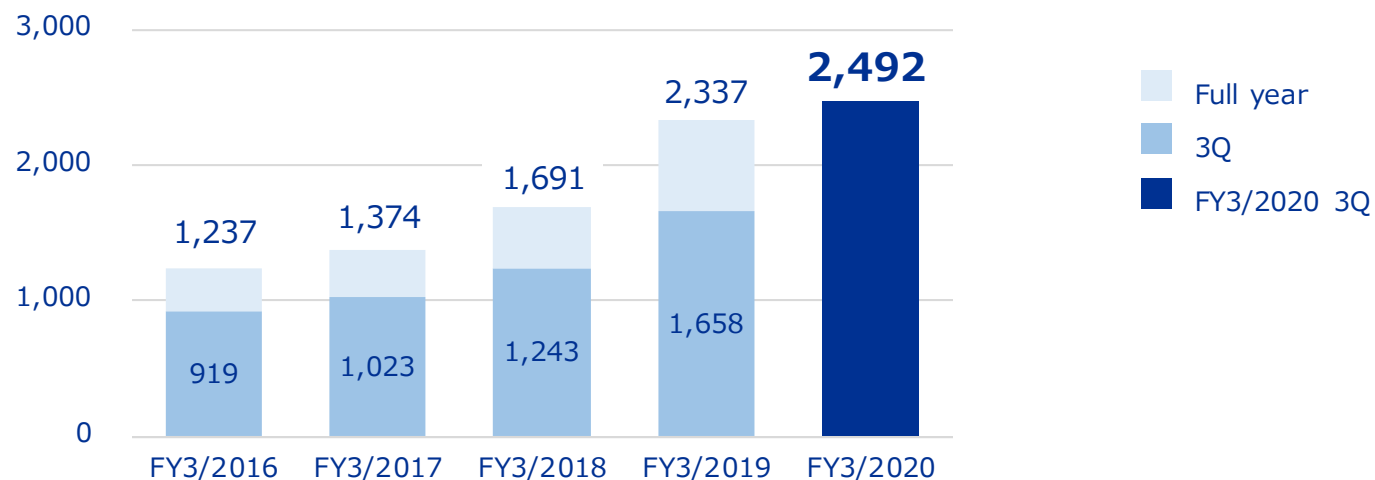
(as of December 31, 2019)



Continuous high growth in new network affiliates; increase of 1,132 from previous term for a total of 4,922



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



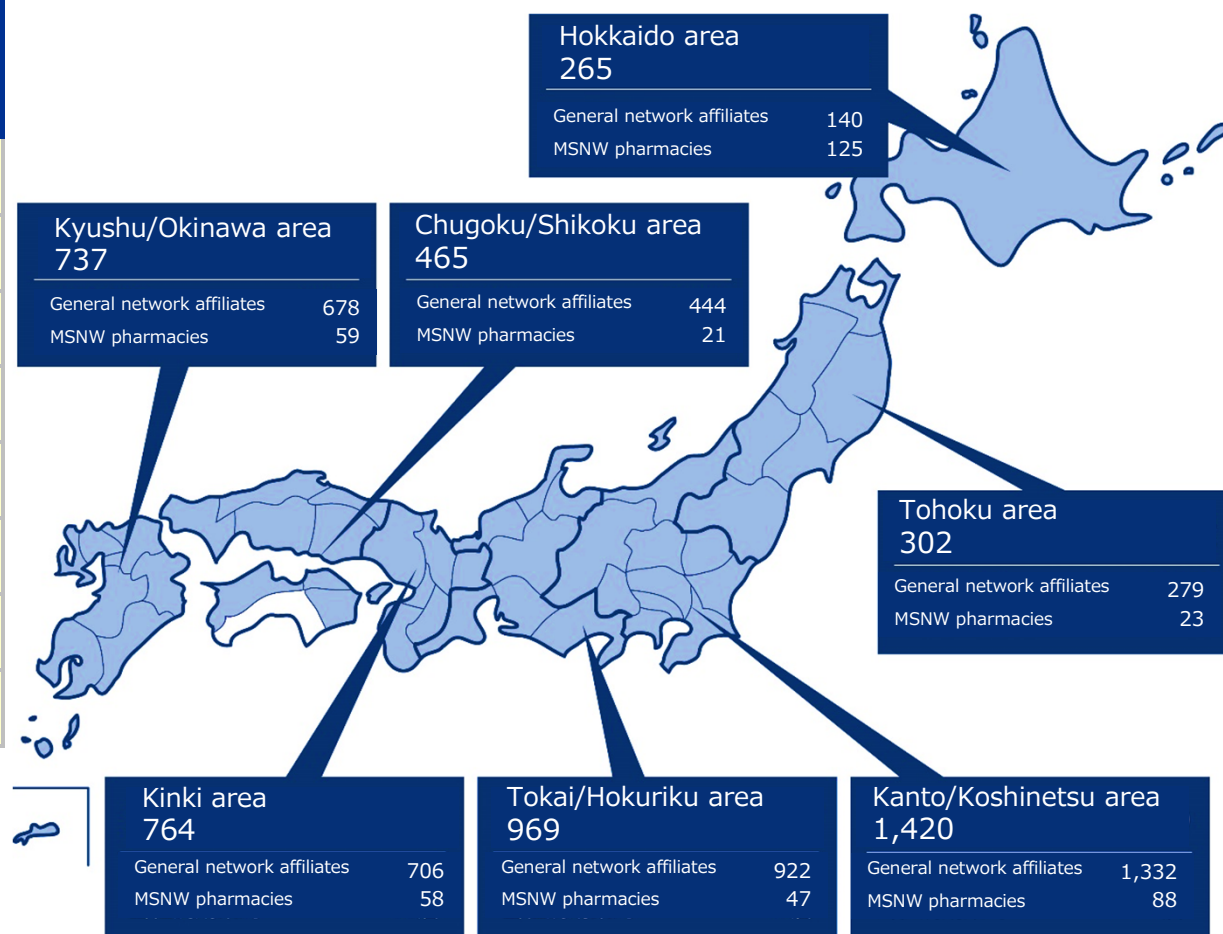
Pharmaceuticals Network Business:

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

Currently operating in 46 prefectures

【 Breakdown of network affiliates 】

(Unit: No. of network affiliates)	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	140	125	265
Tohoku	279	23	302
Kanto/Koshinetsu	1,332	88	1,420
Tokai/Hokuriku	922	47	969
Kinki	706	58	764
Chugoku/Shikoku	444	21	465
Kyushu/Okinawa	678	59	737
Total	4,501	421	4,922



5,135 network affiliates
as of February 3, 2020

Pharmaceutical Network Business: achieved 5,000 affiliates

Target of 5,000 network affiliate, expansion accelerated faster than anticipated



■ Contributions towards achievement of 5,000 affiliates

- Higher needs for efficient distribution and negotiating each unit price in correspondence to the “Guidelines for the Improvement of Commercial Transaction Practice of Ethical Drugs” implemented by the Ministry of Health, Labor and Welfare
- Amplified growth of new affiliates through existing affiliates

■ Monthly network affiliate trends



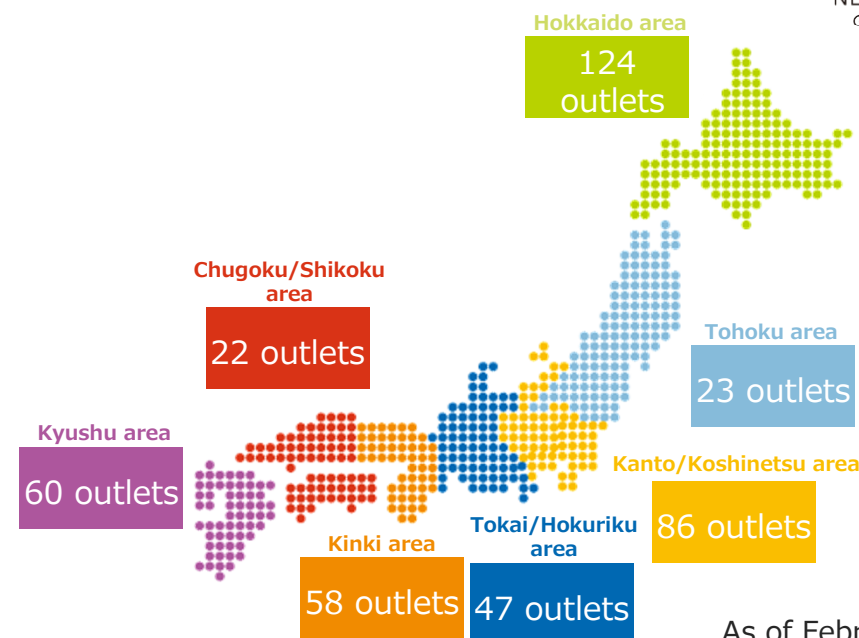
Dispensing Pharmacy Business: Trends in number of pharmacies



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8 new outlets, 3 outlets acquired through M&A, and 10 outlet closures since end of previous fiscal year

	Outlets at end of FY3/2019	Outlets at end of FY3/2020 3Q	Outlets as of February 3
Outlets at end of previous term	399	420	421
Openings	5	8	—
Closings and transferring businesses	▲ 14	▲ 10	▲ 3
M&A	30	3	—
Total	420	421	418

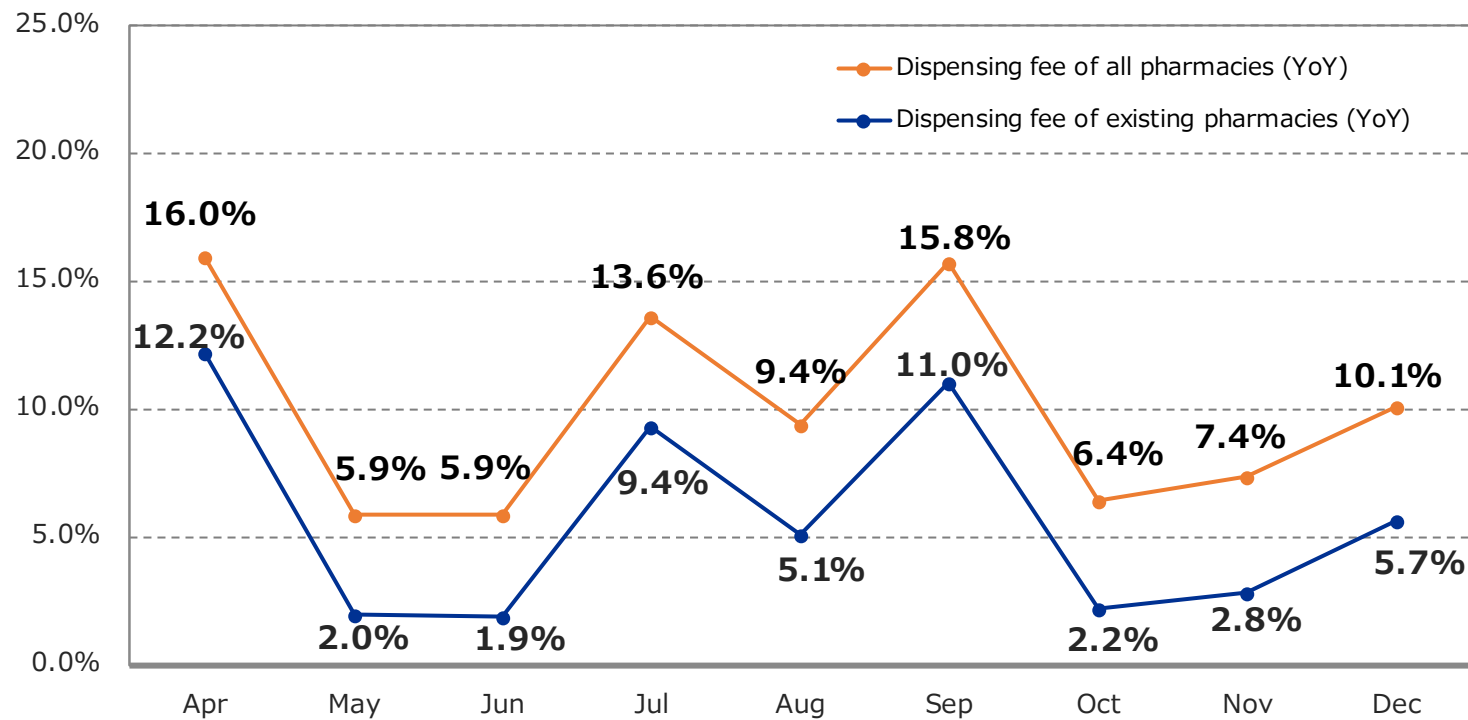


■ Dispensing pharmacy outlet number trends of the past 10 years

	FY9/2011	FY3/2012 [※]	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020 3Q
Openings	10	6	21	14	10	9	8	8	5	8
Closings and transferring of businesses	▲ 4	▲ 3	▲ 8	▲ 7	▲ 13	▲ 8	▲ 4	▲ 5	▲ 14	▲ 10
M&A	4	6	33	45	27	7	20	19	30	3
Number of outlets	214	223	269	321	345	353	377	399	420	421

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

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)



(Unit: %)	FY3/2020									FY3/2020
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	3Q
Dispensing fee of all pharmacies (YoY)	16.0	5.9	5.9	13.6	9.4	15.8	6.4	7.4	10.1	10.0
Dispensing fee of existing pharmacies (YoY)	12.2	2.0	1.9	9.4	5.1	11.0	2.2	2.8	5.7	5.7

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

Dispensing Pharmacy Business: Dispensing fee breakdown

Point

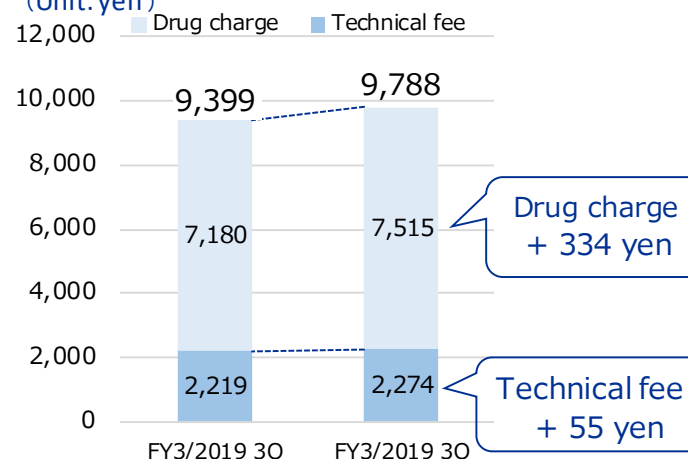
Increase in prescriptions through M&A pharmacies acquired last term
Growing ratio of high price drugs

■ All pharmacies

■ All pharmacies		FY3/2019 3Q	2020/3期 3Q	Change
No. of prescriptions (1000) a		6,519	6,885	+ 365 (+ 5.6 %)
Unit price (yen)	Drug charge per prescription	7,180	7,515	+ 334 (+ 4.7 %)
	Technical fee per prescription	2,219	2,274	+ 55 (+ 2.5 %)
	Total b	9,399	9,788	+ 389 (+ 4.1 %)
Dispensing fee (million yen) c = a x b		61,280	67,397	+ 6,116 (+ 10.0 %)

【Prescription unit price trends】

(Unit: yen)

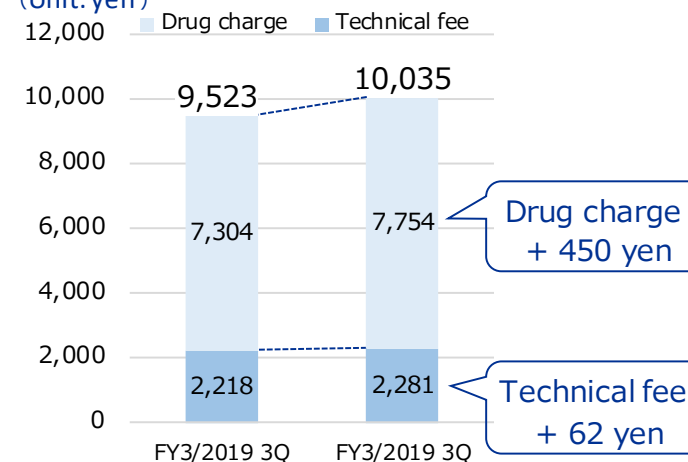


■ Existing pharmacies

■ Existing pharmacies		FY3/2019 3Q	2020/3期 3Q	Change
No. of prescriptions (1000) a		5,963	5,984	+ 20 (+ 0.4 %)
Unit price (yen)	Drug charge per prescription	7,304	7,754	+ 450 (+ 6.2 %)
	Technical fee per prescription	2,218	2,281	+ 62 (+ 2.8 %)
	Total b	9,523	10,035	+ 512 (+ 5.4 %)
Dispensing fee (million yen) c = a x b		56,791	60,056	+ 3,265 (+ 5.7 %)

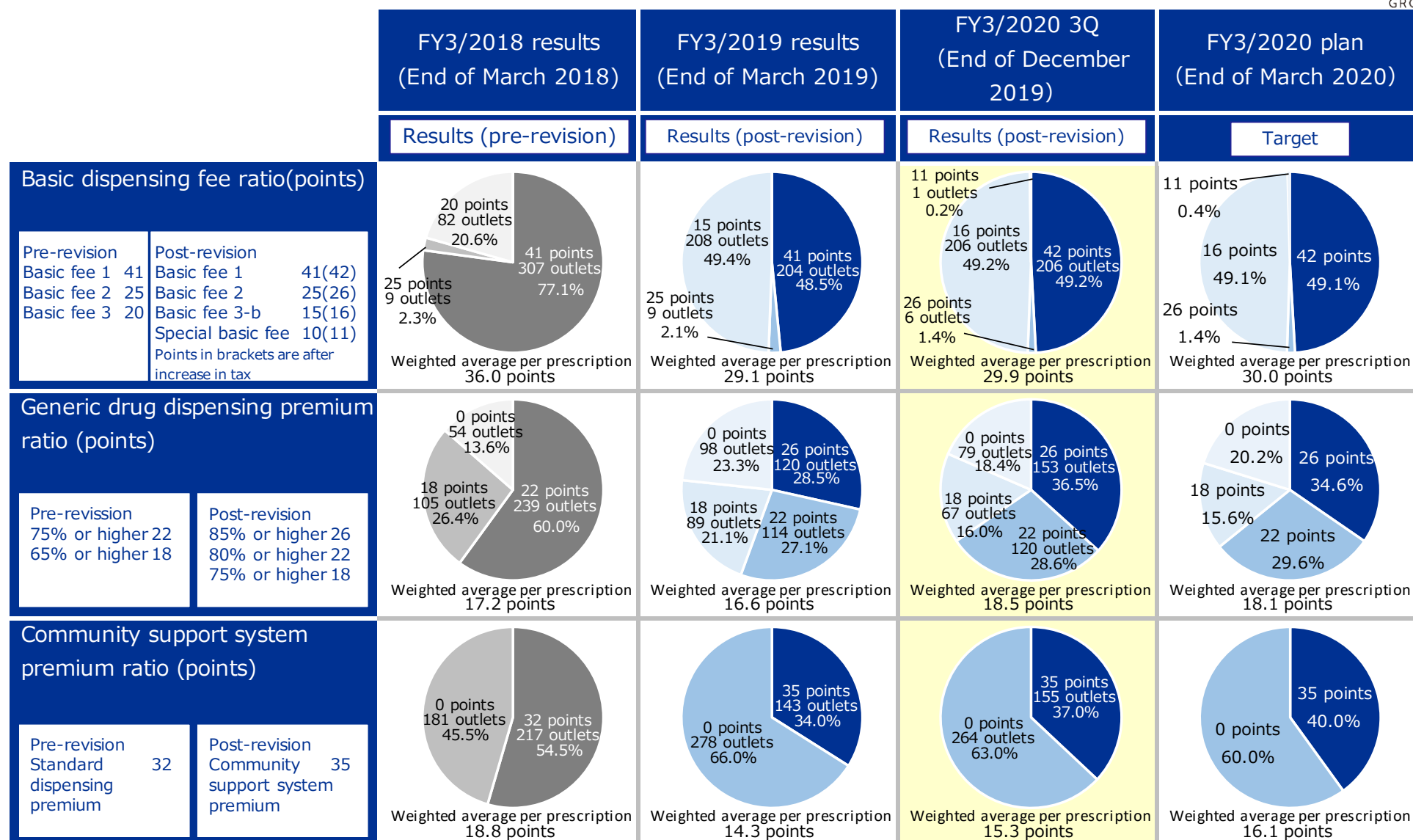
【Prescription unit price trends】

(Unit: yen)



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

Dispensing Pharmacy Business: Influence of the dispensing fee revision



※ Excludes suspended pharmacies (FY03/2019 results includes pharmacies closed on March 31)

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 (as of December 31, 2019)

<u>Building name</u>	<u>Occupancy</u>
• Wisteria N17	92.2%
• Wisteria Kiyota	96.0%
• Wisteria Otaru Inaho	95.1%
• Wisteria Senri Chuo	76.8%
• Wisteria M1	57.8%

■ Measures to promote occupancy

- Periodic events
(Wisteria classroom, health events, etc.)
- Advertising through different mediums
- Private viewings



Private viewing (Wisteria M1)

Medical malls, new doctors, and pharmacy openings



Medical Square Kitamaruyama (Sapporo, Hokkaido)
October 2019 Nanohana Pharmacy Kitamaruyama open



Medical mall in combined business establishment
(Sapporo, Hokkaido)
December 2019 Nanohana Pharmacy Sapporo M22 open

■ Providing community-oriented medical care

- Promote establishment of user-friendly medical malls
- Invite doctors required in surrounding area
- Support health of the community through health fairs and nutrition consultation events at Nanohana Pharmacy

Earnings Forecast for FY3/2020 and Core Strategies





■ Community Pharmacy Network Segment

Pharmaceuticals Network Business

- 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**

Dispensing Pharmacy Business

- 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 Business

- Expand lineup: in-house and concurrent products

■ Leasing and Facility related Segment

- Increase Wisteria Senri Chuo and
Wisteria M1 occupants

■ Meal Catering and Home Visit Nursing Segment

- 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

Earnings forecast for FY3/2020: Consolidated forecast

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Point

Strong extension of network affiliates in pharmaceuticals network business; contribution to performance from opening of new pharmacies and acquisitions 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 (%)
Net sales	98,232	103,000	+ 4,767	+ 4.9 %
Operating profit Profit margin	1,428 1.5 %	2,500 2.4 %	+ 1,071 + 0.9 %	+ 75.0 %
Ordinary profit Profit margin	1,501 1.5 %	2,400 2.3 %	+ 898 + 0.8 %	+ 59.9 %
Profit attributable to owners of parent Profit margin	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

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■ Net sales

(Unit: million yen)		FY3/19 (results)	FY3/20 (plan)	Change	Change (%)
Net sales		98,232	103,000	+ 4,767	+ 4.9 %
Community Pharmacy Network Segment ^{※1}		92,284	97,461	+ 5,176	+ 5.6 %
Other 3 Segments ^{※2}		6,622	6,113	▲ 509	▲ 7.7 %
Adjustments		▲ 674	▲ 574	+ 100	—

■ Operating Profit

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

※1 Pharmaceutical Network Business, Dispensing Pharmacy Business, Manufacture and Market Pharmaceuticals Business

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

Reference Materials

Key points in 2020 medical fee revision

■ 2020 revision rates

Overall ▲0.46% = medical fee +0.55% + drug price ▲1.01%

Medical fee +0.55%

Medicine
+0.53%

Dentistry
+0.59%

Dispensing
+0.16%

Work-style reform
of doctors +0.08%

NHI price revision (medical fee base) ▲1.01%

① Drug price ▲0.99%

② Material price ▲0.02%

Reference: drug price base rate ▲4.38%

Reference: recent medical fee revision rates (medical fee base)

Year	2006	2008	2010	2012	2014	2016	2018	2019	2020
Medical fee (real)	▲ 1.36	+ 0.38	+ 1.55	+ 1.379	+ 0.10	+ 0.49	+ 0.55	+0.41	+0.55
Dispensing fee	▲ 0.60	+ 0.17	+ 0.52	+ 0.46	+ 0.04	+ 0.17	+ 0.19	+0.12	+0.16
Drug price (real)	▲ 1.80	▲ 1.20	▲ 1.36	▲ 1.375	▲ 1.36	▲ 1.33	▲ 1.74	▲ 0.95	▲1.01
Drug price base	▲ 6.70	▲ 5.20	▲ 5.75	▲ 6.00	▲5.64	▲ 5.57	▲ 7.48	▲ 2.40	▲4.38
Tax included	-	-	-	-	+ 1.36	-	-	+0.48	-
Overall (nominal)	▲ 3.16	▲ 0.82	+ 0.19	+ 0.004	+ 0.10	▲ 0.84	▲ 1.19	▲ 0.07	▲0.46

Corporate profile (As of December 31, 2019)

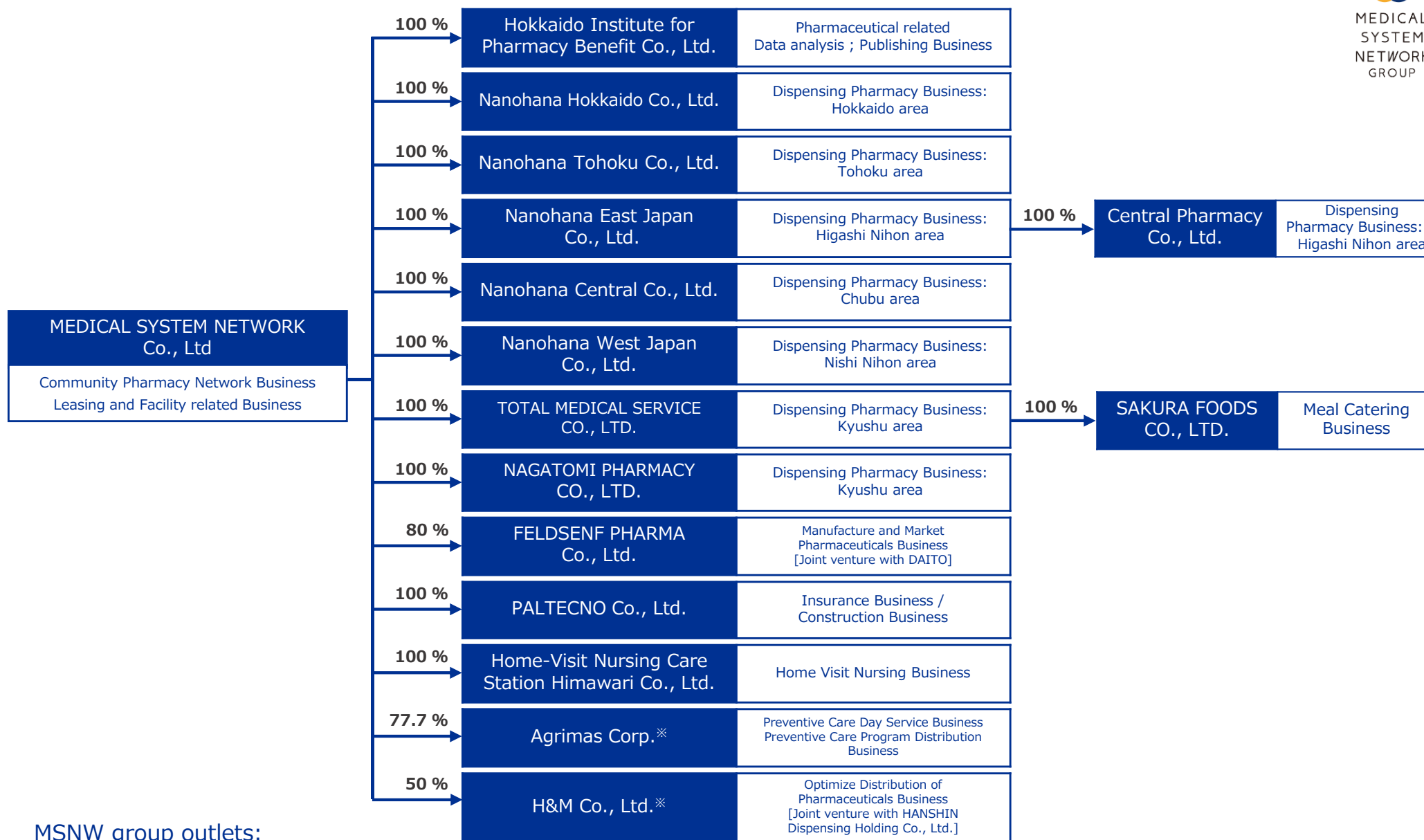


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Company	MEDICAL SYSTEM NETWORK Co., Ltd. (“MSNW”)														
Representative	Inao Tajiri President & Representative Director	Businesses	Community Pharmacy Network Segment Leasing and Facility related Segment Meal Catering Segment Home Visit Nursing Segment												
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. FELDSOLF PHARMA Co., Ltd.	Shareholders composition※ Excluding shares less than one unit. Treasury shares are included in Individuals and Others.	<table><caption>Shareholders composition</caption><thead><tr><th>Category</th><th>Percentage</th></tr></thead><tbody><tr><td>Individuals and Others</td><td>46.1%</td></tr><tr><td>Other Companies</td><td>18.4%</td></tr><tr><td>Financial Institutions</td><td>18.3%</td></tr><tr><td>Foreign Companies, etc</td><td>15.7%</td></tr><tr><td>Securiteis Firms</td><td>1.5%</td></tr></tbody></table>	Category	Percentage	Individuals and Others	46.1%	Other Companies	18.4%	Financial Institutions	18.3%	Foreign Companies, etc	15.7%	Securiteis Firms	1.5%
Category	Percentage														
Individuals and Others	46.1%														
Other Companies	18.4%														
Financial Institutions	18.3%														
Foreign Companies, etc	15.7%														
Securiteis Firms	1.5%														
Employees	267 (3,219 consolidated)	Total Shareholders※	7,782												
Stock listing	First Section of Tokyo Stock Exchange	Securities code	4350												
		Outstanding shares	30,642,600												

※ As of September 30, 2019

Organization chart (As of February 3, 2020)



MSNW group outlets:
total 430 outlets

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

※ Not consolidated

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