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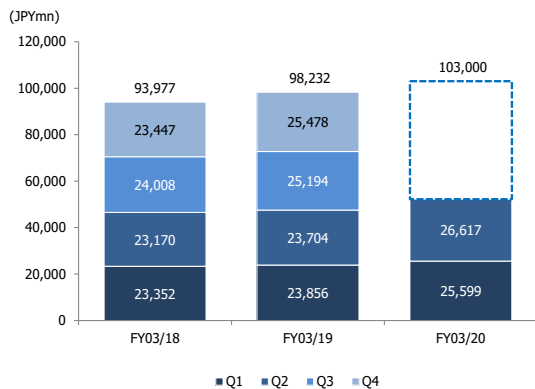
On **November 7, 2019**, Medical System Network Co., Ltd. announced earnings results for 1H FY03/20.

Cumulative (JPYmn)	FY03/18				FY03/19				FY03/20		FY03/20		FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of 1H	1H Est.	% of FY	FY Est.
Sales	23,352	46,522	70,530	93,977	23,856	47,560	72,754	98,232	25,599	52,216	103.8%	50,300	50.7%	103,000
YoY	8.6%	7.2%	6.5%	5.8%	2.2%	2.2%	3.2%	4.5%	7.3%	9.8%		5.8%		4.9%
Gross profit	9,069	18,109	27,515	36,607	9,079	17,887	27,527	37,271	9,839	19,819				
YoY	11.0%	10.0%	8.6%	7.2%	0.1%	-1.2%	0.0%	1.8%	8.4%	10.8%				
GPM	38.8%	38.9%	39.0%	39.0%	38.1%	37.6%	37.8%	37.9%	38.4%	38.0%				
SG&A expenses	8,476	16,837	25,226	33,444	8,867	17,410	26,487	35,842	9,504	19,022				
YoY	6.5%	5.8%	4.8%	4.3%	4.6%	3.4%	5.0%	7.2%	7.2%	9.3%				
SG&A ratio	36.3%	36.2%	35.8%	35.6%	37.2%	36.6%	36.4%	36.5%	37.1%	36.4%				
Operating profit	592	1,271	2,288	3,163	212	476	1,040	1,428	334	796	142.1%	560	31.8%	2,500
YoY	179.2%	131.5%	80.7%	49.7%	-64.2%	-62.5%	-54.5%	-54.9%	57.5%	67.2%		17.6%		75.1%
OPM	2.5%	2.7%	3.2%	3.4%	0.9%	1.0%	1.4%	1.5%	1.3%	1.5%				2.4%
Recurring profit	590	1,272	2,334	3,250	192	438	1,010	1,501	323	784	147.9%	530	32.7%	2,400
YoY	196.5%	134.7%	84.4%	54.1%	-67.5%	-65.6%	-56.7%	-53.8%	68.2%	79.0%		21.0%		59.9%
RPM	2.5%	2.7%	3.3%	3.5%	0.8%	0.9%	1.4%	1.5%	1.3%	1.5%				2.3%
Net income	289	363	944	1,022	101	119	372	462	97	218	-	-	33.5%	650
YoY	-	450.0%	185.2%	79.0%	-65.1%	-67.2%	-60.6%	-54.8%	-4.0%	83.2%				40.7%
Net margin	1.2%	0.8%	1.3%	1.1%	0.4%	0.3%	0.5%	0.5%	0.4%	0.4%				0.6%

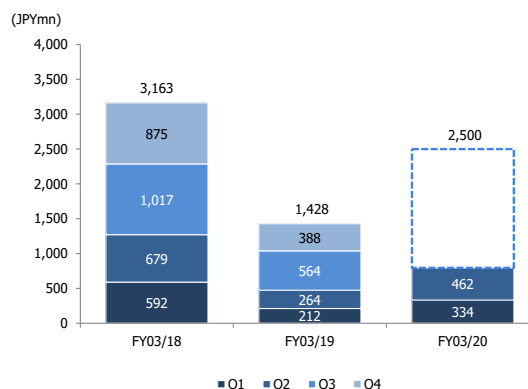
Quarterly (JPYmn)	FY03/18				FY03/19				FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	23,352	23,170	24,008	23,447	23,856	23,704	25,194	25,478	25,599	26,617
YoY	8.6%	5.8%	5.2%	3.5%	2.2%	2.3%	4.9%	8.7%	7.3%	12.3%
Gross profit	9,069	9,040	9,406	9,092	9,079	8,808	9,640	9,744	9,839	9,980
YoY	11.0%	9.1%	6.0%	2.9%	0.1%	-2.6%	2.5%	7.2%	8.4%	13.3%
GPM	38.8%	39.0%	39.2%	38.8%	38.1%	37.2%	38.3%	38.2%	38.4%	37.5%
SG&A expenses	8,476	8,361	8,389	8,218	8,867	8,543	9,077	9,355	9,504	9,518
YoY	6.5%	5.2%	2.8%	2.9%	4.6%	2.2%	8.2%	13.8%	7.2%	11.4%
SG&A ratio	36.3%	36.1%	34.9%	35.0%	37.2%	36.0%	36.0%	36.7%	37.1%	35.8%
Operating profit	592	679	1,017	875	212	264	564	388	334	462
YoY	179.2%	101.5%	41.8%	3.3%	-64.2%	-61.1%	-44.5%	-55.7%	57.5%	75.0%
OPM	2.5%	2.9%	4.2%	3.7%	0.9%	1.1%	2.2%	1.5%	1.3%	1.7%
Recurring profit	590	682	1,062	916	192	246	572	491	323	461
YoY	196.5%	98.8%	46.7%	8.7%	-67.5%	-63.9%	-46.1%	-46.4%	68.2%	87.4%
RPM	2.5%	2.9%	4.4%	3.9%	0.8%	1.0%	2.3%	1.9%	1.3%	1.7%
Net income	289	74	581	78	101	18	253	90	97	121
YoY	-	-1.3%	119.2%	-67.5%	-65.1%	-75.7%	-56.5%	15.4%	-4.0%	572.2%
Net margin	1.2%	0.3%	2.4%	0.3%	0.4%	0.1%	1.0%	0.4%	0.4%	0.5%

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

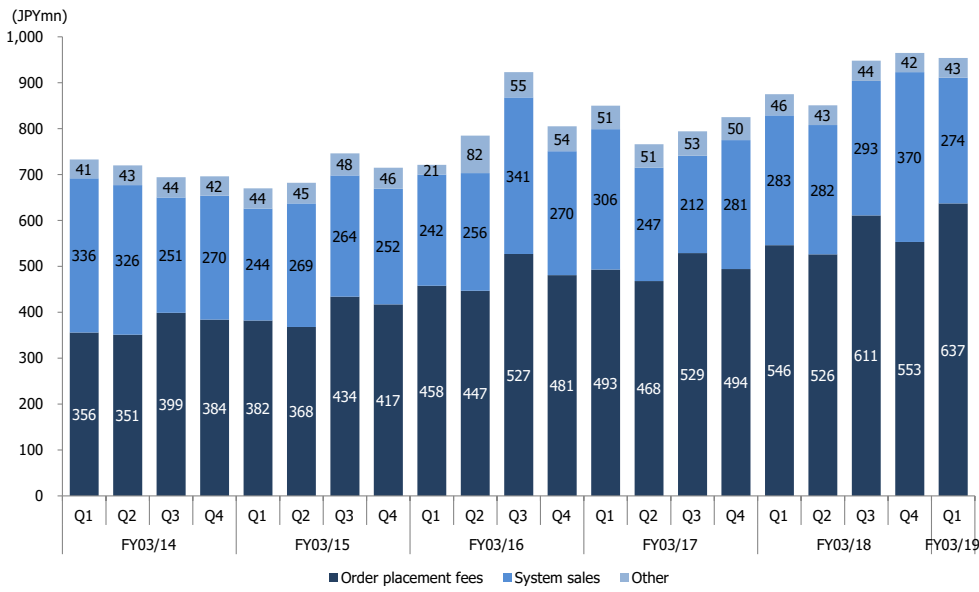
Quarterly results

By segment (cumulative)		FY03/19				FY03/19		FY03/20	
(JPYmn)		Q1	Q2	Q3	Q4	Q1 retro	Q2 retro	Q1	Q2
Sales		23,856	47,560	72,754	98,232	23,856	47,560	25,599	52,216
YoY		2.2%	2.2%	3.2%	4.5%	2.2%	2.2%	7.3%	9.8%
Pharmaceuticals Network		955	1,818	2,897	3,951	22,564	44,717	24,224	49,290
YoY		9.1%	5.2%	8.3%	8.6%	-	-	7.4%	10.2%
% of total		3.9%	3.7%	3.9%	3.9%	94.1%	94.7%	94.1%	93.6%
Dispensing Pharmacy		22,222	44,035	67,291	90,706				
YoY		3.2%	2.7%	3.2%	4.1%				
% of total		90.3%	89.8%	89.6%	89.5%				
Leasing and Facility-related		600	1,508	2,382	3,320	600	1,508	760	1,829
YoY		15.2%	38.9%	52.6%	63.5%	15.2%	38.9%	26.7%	21.3%
% of total		2.4%	3.1%	3.2%	3.3%	2.5%	3.1%	3.0%	3.5%
Food Service		788	1,586	2,382	3,161	788	1,586	730	1,434
YoY		-31.8%	-31.0%	-27.4%	-23.0%	-31.8%	-31.0%	-7.4%	-9.6%
% of total		3.2%	3.2%	3.2%	3.1%	3.3%	3.2%	2.8%	2.7%
Other		33	91	166	261	33	91	38	79
YoY		0.0%	71.7%	133.8%	183.7%	0.0%	71.7%	15.2%	-13.2%
% of total		0.1%	0.2%	0.2%	0.3%	0.1%	0.2%	0.1%	0.2%
Segment sales adjustments		-743	-1,479	-2,365	-3,167	-130	320	-154	-417
Operating profit		212	476	1,040	1,428	212	476	334	796
YoY		-64.2%	-62.5%	-54.5%	-54.9%	-64.2%	-62.5%	57.5%	67.2%
Pharmaceuticals Network		554	1,060	1,697	2,331	642	1,227	825	1,736
YoY		17.6%	13.5%	17.5%	19.6%	-	-	28.5%	41.5%
OPM		58.0%	58.3%	58.6%	59.0%	2.8%	2.7%	3.4%	3.5%
Dispensing Pharmacy		130	202	712	1,068				
YoY		-78.0%	-83.4%	-67.8%	-65.1%				
OPM		0.6%	0.5%	1.1%	1.2%				
Leasing and Facility-related		-32	10	-51	-84	-32	10	-8	68
YoY		-	-	-	-	-	-	-	580.0%
OPM		-5.3%	0.7%	-2.1%	-2.5%	-5.3%	0.7%	-1.1%	3.7%
Food Service		1	18	28	34	1	18	-12	-34
YoY		-80.0%	-47.1%	-42.9%	-24.4%	-80.0%	-47.1%	-	-
OPM		0.1%	1.1%	1.2%	1.1%	0.1%	1.1%	-1.6%	-2.4%
Other		-36	-57	-105	-136	-29	-57	-21	-39
YoY		-	-	-	-	-	-	-	-
OPM		-109.1%	-62.6%	-63.3%	-52.1%	-87.9%	-62.6%	-55.3%	-49.4%
Segment profit adjustments		-405	-721	-1,240	-1,784	-369	-721	-447	-934
By segment (quarterly)		FY03/19				FY03/19		FY03/20	
(JPYmn)		Q1	Q2	Q3	Q4	Q1 retro	Q2 retro	Q1	Q2
Sales		23,856	23,704	25,194	25,478	23,856	23,704	25,599	26,617
YoY		2.2%	2.3%	4.9%	8.7%	2.2%	2.3%	7.3%	12.3%
Pharmaceuticals Network		955	863	1,079	1,054	22,564	22,153	24,224	25,066
YoY		9.1%	1.2%	13.9%	9.3%	-	-	7.4%	2804.5%
% of total		4.4%	3.5%	4.1%	4.0%	94.1%	95.3%	107.3%	93.3%
Dispensing Pharmacy		22,222	21,813	23,256	23,415				
YoY		3.2%	2.2%	4.0%	6.6%				
% of total		103.2%	89.3%	89.2%	89.1%				
Leasing and Facility-related		600	908	874	938	600	908	760	1,069
YoY		15.2%	60.7%	84.0%	99.6%	-	-	26.7%	17.7%
% of total		2.8%	3.7%	3.4%	3.6%	2.5%	3.9%	3.4%	4.0%
Food Service		788	798	796	779	788	798	730	704
YoY		-31.8%	-30.1%	-18.9%	-5.5%	-	-	-7.4%	-11.8%
% of total		3.7%	3.3%	3.1%	3.0%	3.3%	3.4%	3.2%	2.6%
Other		33	58	75	95	33	58	38	41
YoY		0.0%	190.0%	316.7%	352.4%	-	-	15.2%	-29.3%
% of total		0.2%	0.2%	0.3%	0.4%	0.1%	0.2%	0.2%	0.2%
Segment sales adjustments		2,320	-736	-886	-802	-130	450	3,013	-263
Operating profit		212	264	564	388	212	264	334	462
YoY		-64.2%	-61.1%	-44.5%	-55.7%	-64.2%	-61.1%	57.5%	75.0%
Pharmaceuticals Network		554	506	637	634	642	585	825	911
YoY		17.6%	9.3%	24.9%	25.5%	-	-	28.5%	80.0%
OPM		58.0%	58.6%	59.0%	60.2%	2.8%	2.6%	3.4%	3.6%
Dispensing Pharmacy		130	72	510	356				
YoY		-78.0%	-88.6%	-48.5%	-58.1%				
OPM		0.6%	0.3%	2.2%	1.5%				
Leasing and Facility-related		-32	42	-61	-33	-32	42	-8	76
YoY		-	-	-	-	-	-	-	-
OPM		-5.3%	4.6%	-7.0%	-3.5%	-5.3%	4.6%	-1.1%	7.1%
Food Service		1	17	10	6	1	17	-12	-22
YoY		-80.0%	-41.4%	-33.3%	-250.0%	-	-	-	-229.4%
OPM		0.1%	2.1%	1.3%	0.8%	0.1%	2.1%	-1.6%	-3.1%
Other		-36	-21	-48	-31	-29	-28	-21	-18
YoY		-	-	-	-	-	-	-	-
OPM		-109.1%	-36.2%	-64.0%	-32.6%	-87.9%	-48.3%	-55.3%	-43.9%
Segment profit adjustments		-405	-316	-519	-544	-369	-352	-447	-487

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

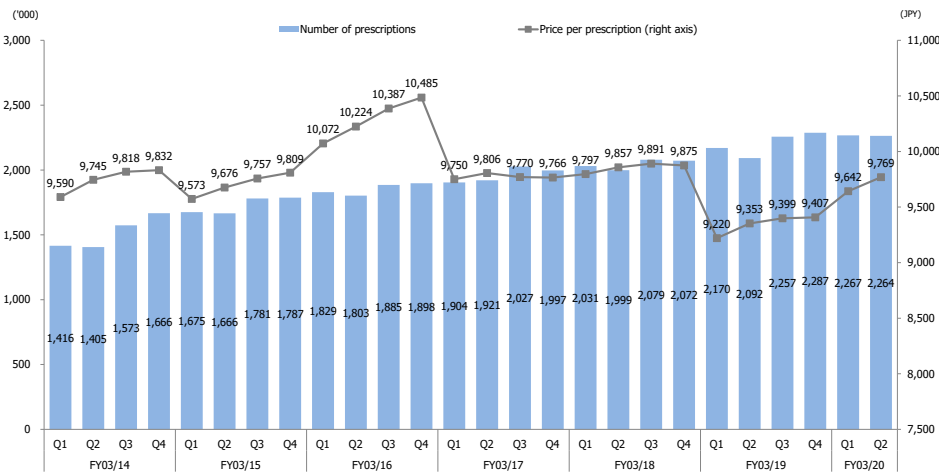


Source: Shared Research based on company data

Notes: *Undisclosed from Q2 FY03/19

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

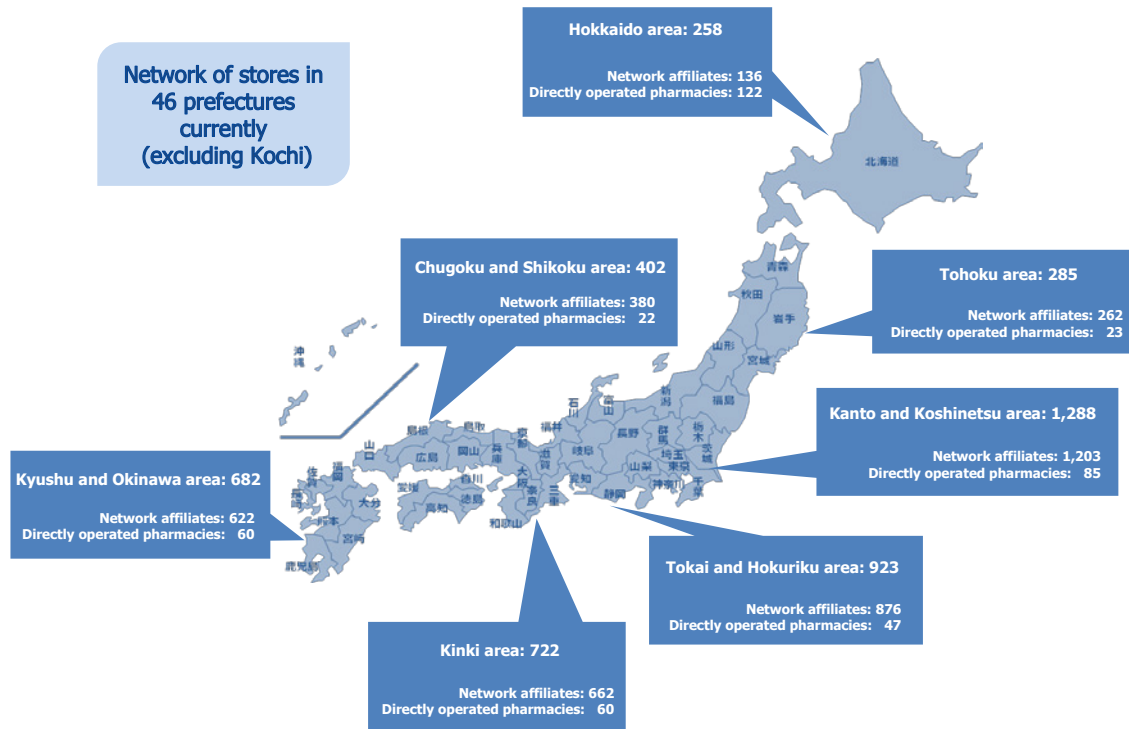
Prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy segment; all stores)



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 September 30, 2019)



Source: Shared Research based on company data

Number of dispensing pharmacies by region

Area	Directly operated dispensing pharmacies	Network affiliates	Total
Hokkaido	122	136	258
Tohoku	23	262	285
Kanto and Koshinetsu	85	1,203	1,288
Tokai and Hokuriku	47	876	923
Kinki	60	662	722
Chugoku and Shikoku	22	380	402
Kyushu and Okinawa	60	622	682
Total	419	4,141	4,560

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

1H FY03/20 earnings results (out November 7, 2019)

Overview

1H FY03/20 (April–September 2019) earnings results

- ▷ Sales: JPY52.2bn (+9.8% YoY)
- ▷ Operating profit: JPY796mn (+67.2% YoY)
- ▷ Recurring profit: JPY784mn (+79.0% YoY)
- ▷ Net income*: JPY218mn (+83.2% YoY)

*Net income attributable to owners of the parent

- ▷ No changes were made to the full-year FY03/20 earnings forecast.
- ▷ 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 was 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 9.8% YoY, reflecting an increase in the number of network members and the steady sales at existing pharmacies. The operating margin was 1.5% in 1H FY03/20, an improvement of 0.5pp YoY. This was driven by a margin improvement in the mainstay Community Pharmacy Network business from 2.7% in 1H FY03/19 to 3.5% in 1H FY03/20.

Segment performance

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.

1H FY03/20 (April–September 2019) segment earnings results

- ▷ Segment sales: JPY49.3bn (+10.2% YoY; includes internal sales or transfers between segments; same hereafter)
- ▷ Segment profit: JPY1.7bn (+41.5% YoY)
- ▷ Pharmaceuticals Network division: The number of new network members showed a strong increase driven by the need for improved distribution efficiency. As at end-September 2019, the number of network members was 4,560 (up 770 from end-FY03/19). This consisted of 419 directly operated pharmacies and 4,141 affiliates.
- ▷ Dispensing Pharmacy division: In addition to the contribution from stores acquired via M&A, sales at existing pharmacies remained steady. As at end-September 2019, there were 419 dispensing pharmacies, one care plan center, and seven drug stores.
- ▷ Manufacture and market pharmaceuticals division: This business aims to provide a stable supply of good-quality, low-priced generic drugs. The company sold 20 ingredients and 45 products as of end-September 2019.

Leasing and Facility-related

1H FY03/20 (April–September 2019) segment earnings results

- ▷ Segment sales: JPY1.8bn (+21.3% YoY)
- ▷ Segment profit: JPY68mn (+580.0% YoY)

- ▷ Reason for sales and profit growth: Steady inflow of leasing revenue and rise in occupancy at the company's serviced elderly housing facilities contributed to earnings growth. Number of occupied units as of end-September 2019 was 62 out of 82 units total at Wisteria Senri-Chuo, and 59 out of 116 units total at Wisteria Minami Ichijo. The company continued to carry out aggressive sales activities.

Food Service

1H FY03/20 (April–September 2019) segment earnings results

- ▷ Segment sales: JPY1.4bn (-9.6% YoY)
- ▷ Segment loss: JPY34mn (vs. profit of 18mn in 1H FY03/19)
- ▷ 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.

1H FY03/20 (April–September 2019) segment earnings results

- ▷ Segment sales: JPY79mn (+16.2% YoY)
- ▷ Segment loss: JPY39mn (vs. a loss of JPY57mn in 1H FY03/19)

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

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