



MEDICAL SYSTEM  
NETWORK GROUP

**MEDICAL SYSTEM NETWORK Co., Ltd.**

First 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.

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



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# Earnings Highlight

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# FY3/2020 1Q: Consolidated results



Factors for  
increase in  
sales and  
profit

Steady increase of network affiliates in pharmaceutical network; increase in sales and profit against a backdrop of consistent sales at acquired and existing pharmacies

	FY3/2019 1Q	FY3/2020 1Q	Year-on-year		FY3/2020 Full year forecast	Progress rate
			Change	Change (%)		
(Unit: million yen)						
Net sales	23,856	25,599	1,742	7.3%	103,000	24.9%
Operating profit Profit margin	212 0.9%	334 1.3%	122	57.6%	2,500 2.4%	13.4%
Ordinary profit Profit margin	192 0.8%	323 1.3%	130	67.7%	2,400 2.3%	13.5%
Profit attributable to owners of parent Profit margin	101 0.4%	97 0.4%	▲ 3	▲ 3.7%	650 0.6%	15.0%
Earnings per share (Yen)	3.34	3.21	▲ 0.13	—	21.39	—
EBITDA <sup>※</sup>	866	1,062	195	22.6%	—	—

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

# FY3/2020 1Q: Results in each segment



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Factors for  
increase in  
sales and  
profit

Community Pharmacy Network Segment:

- Network business is enjoying operating leverage off reasonably fixed cost base
- Technical fee growth for existing pharmacies bases driven by further efforts on dealing with dispensing fee revision in April 2018.

Other 3 segments: substantial trends in occupancy at serviced residence for the elderly

## ■ Net sales

	FY3/2019		FY3/2020		Change	Change (%)
	1Q		1Q			
(Unit: million yen)						
Net sales	23,856		25,599		1,742	+ 7.3%
Community Pharmacy Network Segment <sup>※1</sup>	22,564		24,224		1,660	+ 7.4%
Other 3 Segments <sup>※2</sup>	1,422		1,529		106	+ 7.5%
Adjustments	▲ 130		▲ 154		▲ 24	—

## ■ Operating profit

	FY3/2019		FY3/2020		Change	Change (%)
	1Q		1Q			
(Unit: million yen) Profit margin in brackets						
Segment profit	212	(0.9%)	334	(1.3%)	122 + 0.4 pt	+ 57.6%
Community Pharmacy Network Segment <sup>※1</sup>	642	(2.8%)	825	(3.4%)	183 + 0.6 pt	+ 28.5%
Other 3 Segments <sup>※2</sup>	▲ 60	(-)	▲ 43	(-)	17 -	-
Adjustments	▲ 369	(-)	▲ 447	(-)	▲ 78 -	-

※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

# FY3/2020 1Q: Consolidated balance sheet



Point

Assets: increase in products; decrease in cash and deposits as well as accounts receivable

Liabilities and net assets: increase in accounts payable; decrease in loans

## ■ End of FY3/2019

(Unit: million yen)

<b>Assets</b>	<b>68,935</b>	<b>Liabilities</b>	<b>58,173</b>
<b>Current assets</b>	<b>21,055</b>	<b>Current liabilities</b>	<b>23,844</b>
Cash and deposits	11,703	Short-term loans <sup>※</sup>	8,692
		<b>Fixed liabilities</b>	<b>34,329</b>
<b>Fixed assets</b>	<b>47,879</b>	Long-term loans	28,341
Tangible fixed assets	25,721	<b>Net assets</b>	<b>10,761</b>
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
<b>Total assets</b>	<b>68,935</b>	<b>Total liabilities and net assets</b>	<b>68,935</b>

**Equity ratio** 15.6%

## ■ End of FY3/2020 1Q

(Unit: million yen)

<b>Assets</b>	<b>67,802</b>	<b>Liabilities</b>	<b>57,152</b>
<b>Current assets</b>	<b>20,631</b>	<b>Current liabilities</b>	<b>23,419</b>
Cash and deposits	11,334	Short-term loans <sup>※</sup>	8,458
		<b>Fixed liabilities</b>	<b>33,732</b>
<b>Fixed assets</b>	<b>47,171</b>	Long-term loans	27,752
Tangible fixed assets	25,578	<b>Net assets</b>	<b>10,650</b>
Intangible fixed assets	15,897	Capital stock	2,128
Goodwill	15,408	Capital surplus	1,185
Investments and other assets	5,694	Retained earnings	7,560
		Treasury stock	▲ 232
<b>Total assets</b>	<b>67,802</b>	<b>Total liabilities and net assets</b>	<b>67,802</b>

**Equity ratio** 15.8%

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

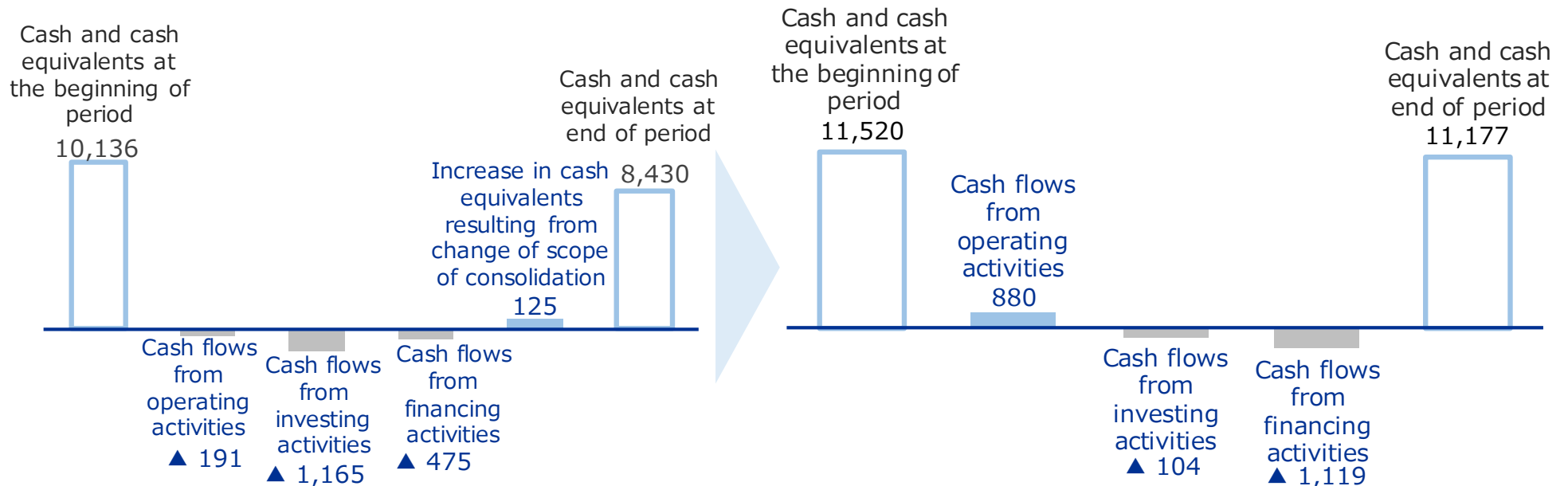
# FY3/2020 1Q: Consolidated cash flows



	FY3/2019 1Q	FY3/2020 1Q
Cash flows from operating activities	880 million yen	1,062 million yen
Cash flows from investing activities	▲ 104 million yen	▲ 757 million yen
Cash flows from financing activities	▲ 1,119 million yen	▲ 309 million yen

	(Unit: million yen)	(Unit: million yen)
EBITDA※		1,062 million yen
Income taxes paid		▲ 757 million yen
Impact of increasing working capital		309 million yen
※ Calculated by "operating profit + depreciation + amortization of goodwill"		
Acquisition of buildings, etc.		▲ 198 million yen
Sales of investment securities		102 million yen
Loan amount reduced		▲ 822 million yen
Cash dividends paid		▲ 145 million yen





# Topics

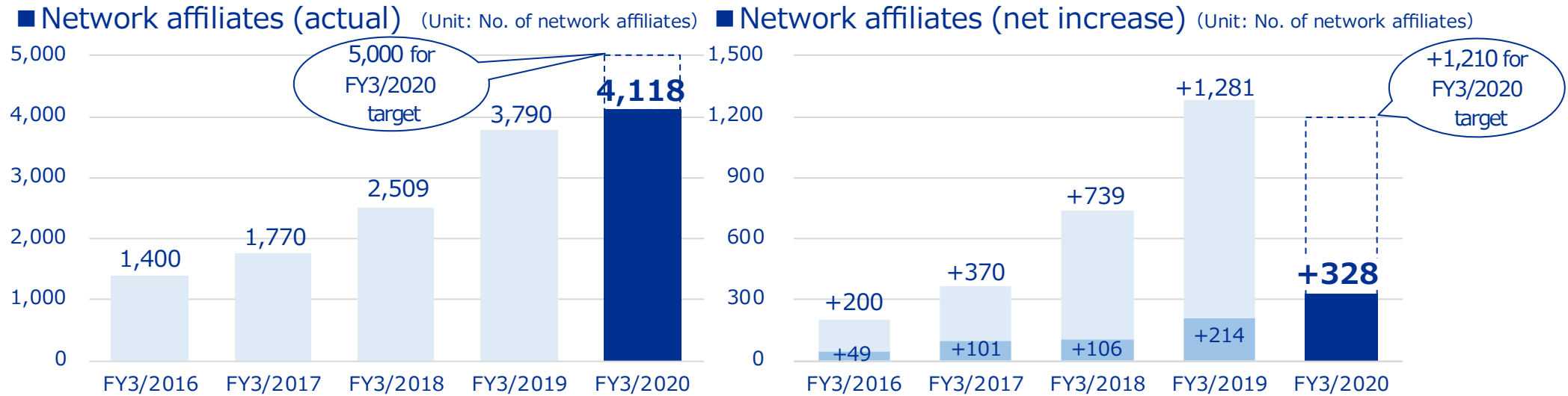
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# Pharmaceuticals Network Business: Earnings summary

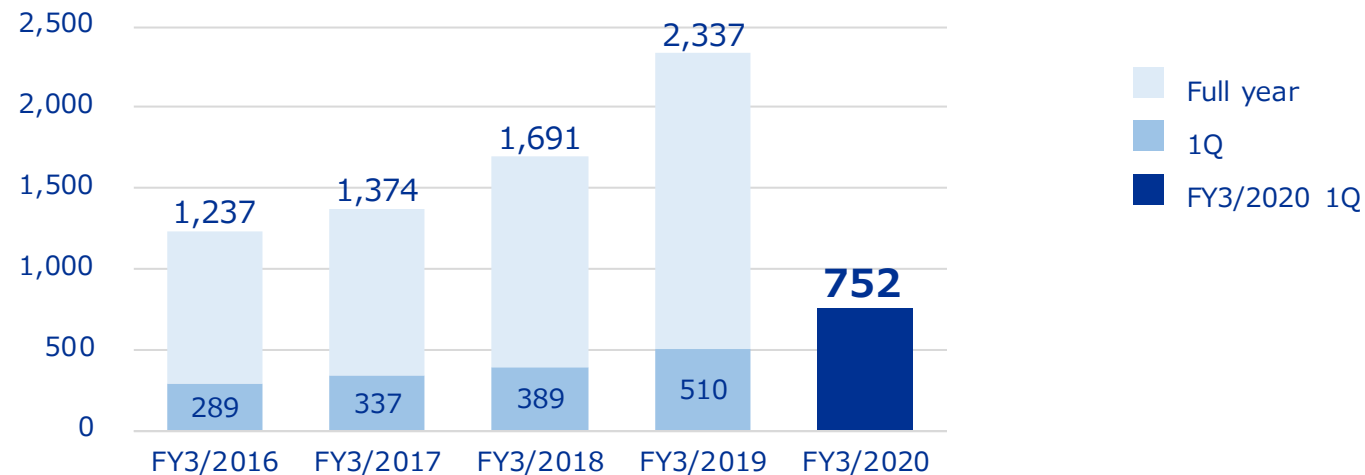
(as of June 30, 2019)



Continuous high trends in number of new network affiliates; increase of 328 from previous term for a total of 4,118



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

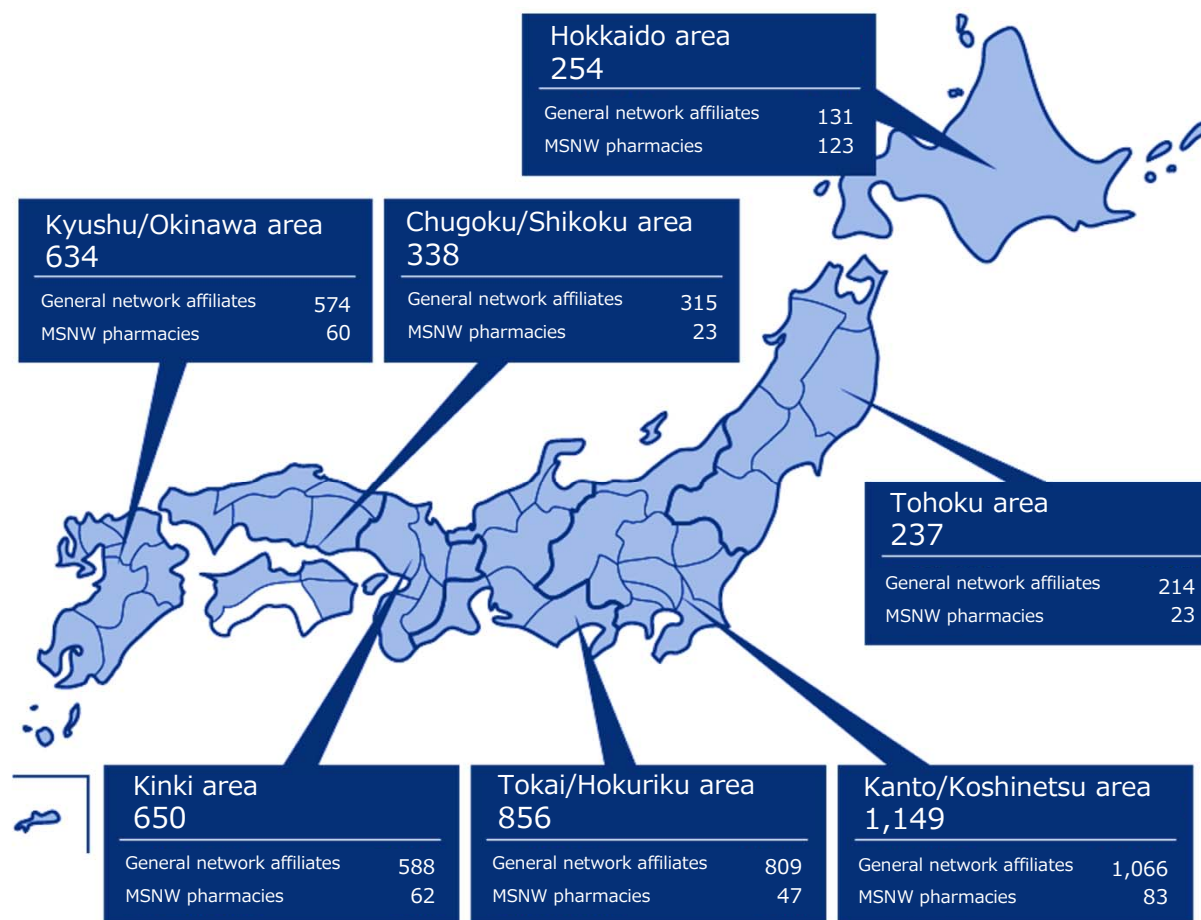


# Pharmaceuticals Network Business: Network affiliates distribution map (as of June 30, 2019)

Currently operating in 46 prefectures; reached 4,000 affiliates in May 2019

## 【 Breakdown of network affiliates 】

(Unit: No. of network affiliates )	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	131	123	254
Tohoku	214	23	237
Kanto/Koshinetsu	1,066	83	1,149
Tokai/Hokuriku	809	47	856
Kinki	588	62	650
Chugoku/Shikoku	315	23	338
Kyushu/Okinawa	574	60	634
<b>Total</b>	<b>3,697</b>	<b>421</b>	<b>4,118</b>



**4,409 network affiliates  
as of August 1, 2019**

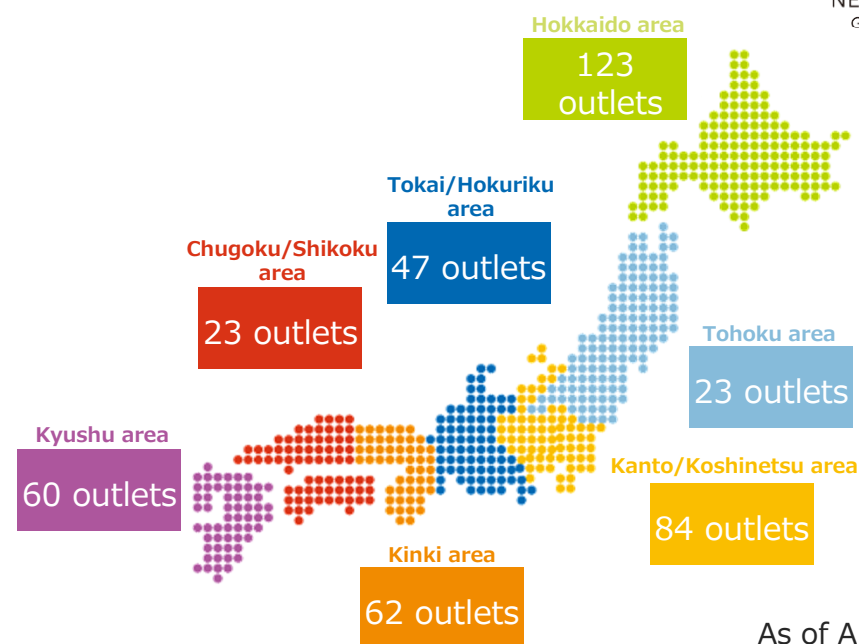
# Dispensing Pharmacy Business: Trends in number of pharmacies



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2 new outlets and 1 outlet closings since end of previous fiscal year

	Outlets at end of FY3/2019	Outlets at end of FY3/2020 1Q	Outlets as of August 1
Outlets at end of previous term	399	420	421
Openings	5	2	1
Closings and transferring businesses	▲ 14	▲ 1	–
M&A	30	–	–
<b>Total</b>	<b>420</b>	<b>421</b>	<b>422</b>



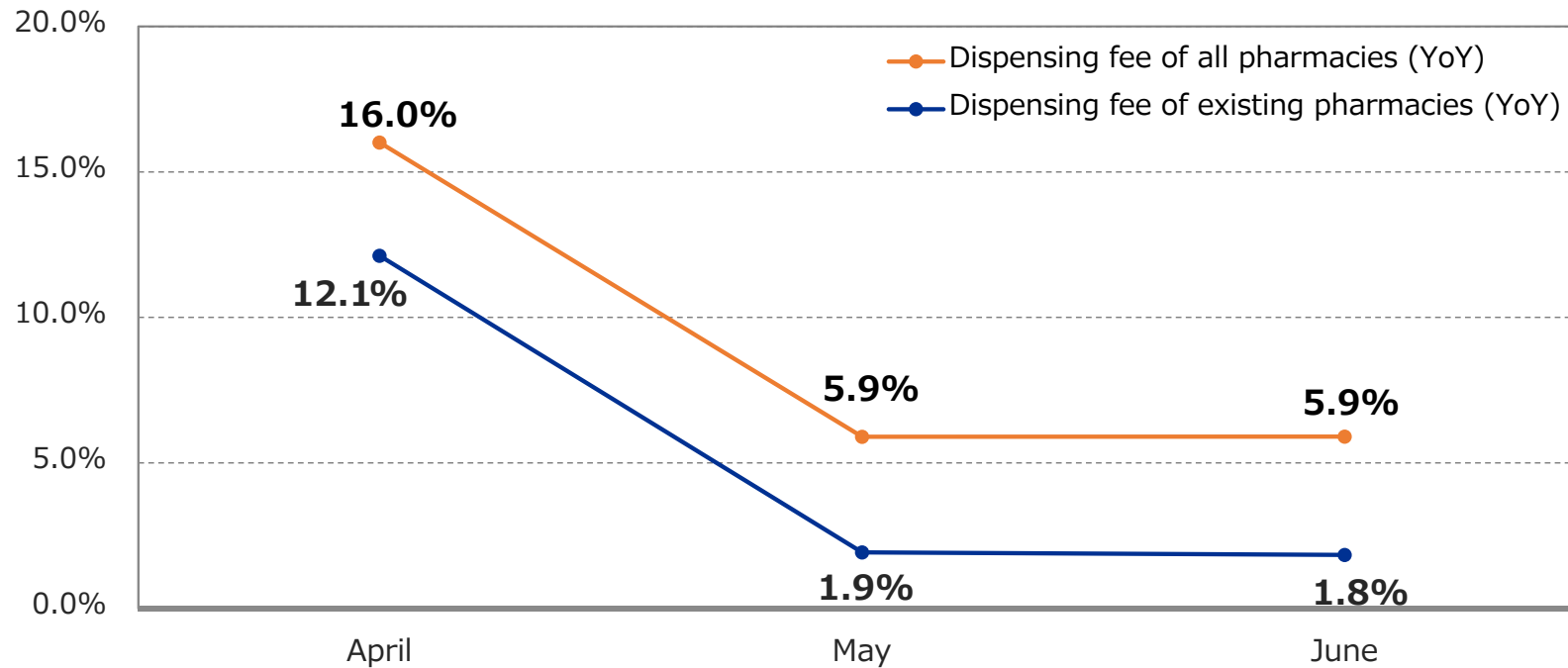
As of August 1

## Dispensing pharmacy outlet number trends of the past 10 years

	FY9/2011	FY3/2012 <sup>※</sup>	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020 1Q
Openings	10	6	21	14	10	9	8	8	5	2
Closings and transferring of businesses	▲ 4	▲ 3	▲ 8	▲ 7	▲ 13	▲ 8	▲ 4	▲ 5	▲ 14	▲ 1
M&A	4	6	33	45	27	7	20	19	30	–
<b>Number of outlets</b>	<b>214</b>	<b>223</b>	<b>269</b>	<b>321</b>	<b>345</b>	<b>353</b>	<b>377</b>	<b>399</b>	<b>420</b>	<b>421</b>

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

# Dispensing Pharmacy Business: Monthly dispensing fee (YoY)



(Unit: %)	FY3/2019			FY3/2020 1Q
	April	May	June	
Dispensing fee of all pharmacies (YoY)	16.0	5.9	5.9	9.3
Dispensing fee of existing pharmacies (YoY)	12.1	1.9	1.8	5.3

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

# Dispensing Pharmacy Business: Dispensing fee breakdown

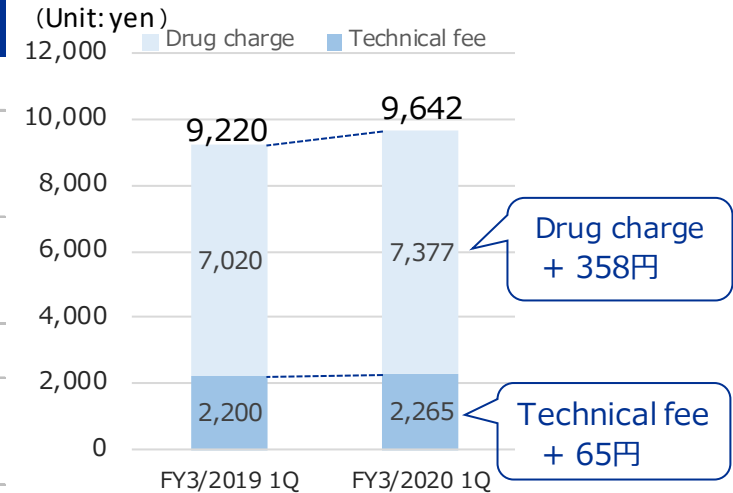
Point

Increase in prescriptions through M&A pharmacies acquired last term  
Increase in prescription unit price in response to dispensing fee revision

## ■ All pharmacies

		FY3/2019 1Q	FY3/2020 1Q	Change
No. of prescriptions (1000) a		2,170	2,267	+ 97 (+ 4.5 %)
Unit price (yen)	Drug charge per prescription	7,020	7,377	+ 358 (+ 5.1 %)
	Technical fee per prescription	2,200	2,265	+ 65 (+ 2.9 %)
Total b		9,220	9,642	+ 422 (+ 4.6 %)
Dispensing fee (million yen) c = a x b		20,012	21,865	+ 1,852 (+ 9.3 %)

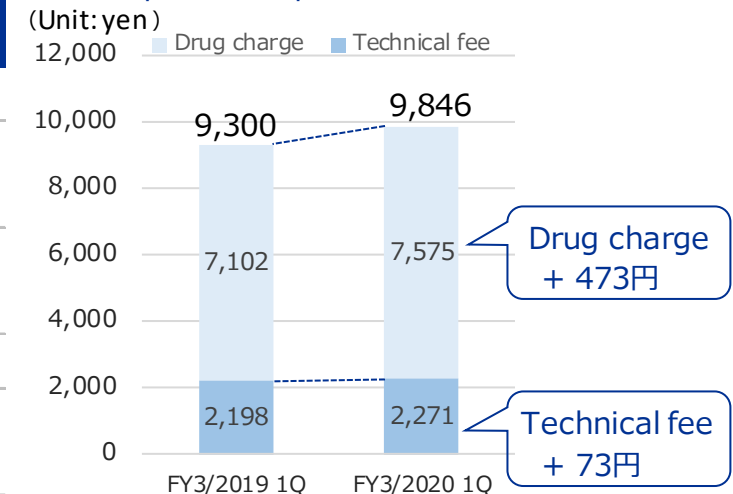
【Prescription unit price trends】



## ■ Existing pharmacies

		FY3/2019 1Q	FY3/2020 1Q	Change
No. of prescriptions (1000) a		2,003	1,992	▲ 11 (▲ 0.6 %)
Unit price (yen)	Drug charge per prescription	7,102	7,575	+ 473 (+ 6.7 %)
	Technical fee per prescription	2,198	2,271	+ 73 (+ 3.3 %)
Total b		9,300	9,846	+ 546 (+ 5.9 %)
Dispensing fee (million yen) c = a x b		18,629	19,613	+ 983 (+ 5.3 %)

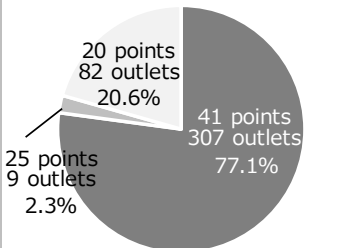
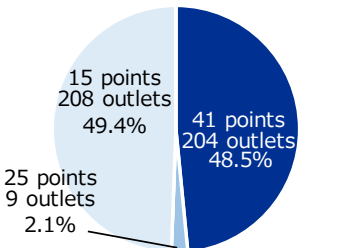
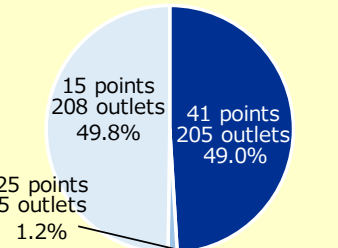
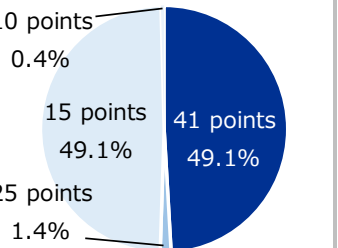
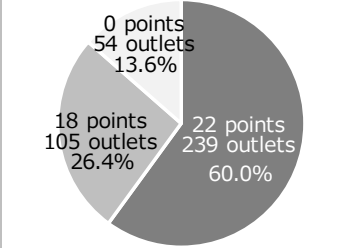
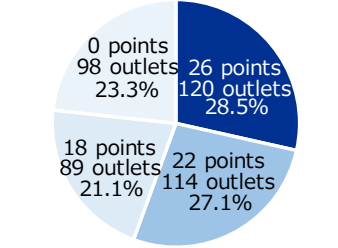
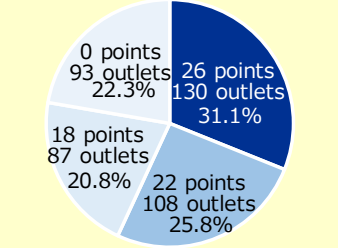
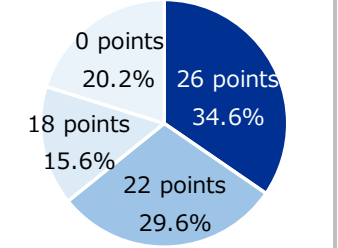
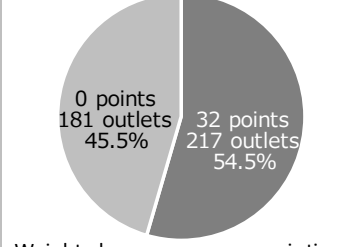
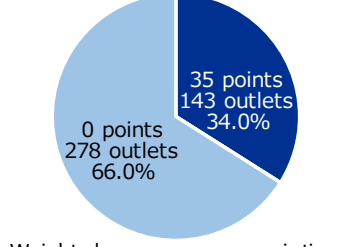
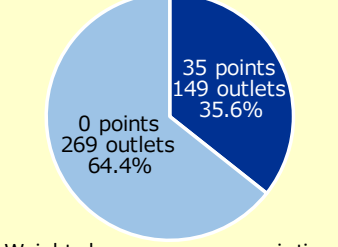
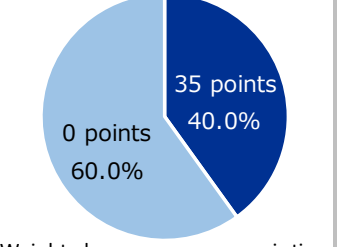
【Prescription unit price trends】



※ "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

As a “community pharmacy,” MSNW continues aspiring to contribute to society and focuses on acquiring premiums through various measures

	FY3/2018 results (End of March 2018)	FY3/2019 results (End of March 2019)	FY3/2020 1Q (End of June 2019)	FY3/2020 plan (End of March 2020)										
	Results (pre-revision)	Results (post-revision)	Results (post-revision)	Target										
<b>Basic dispensing fee ratio(points)</b>  <table border="1"> <tr> <td>pre-revision</td> <td>post-revision</td> </tr> <tr> <td>Basic fee 1 41</td> <td>Basic fee 1 41</td> </tr> <tr> <td>Basic fee 2 25</td> <td>Basic fee 2 25</td> </tr> <tr> <td>Basic fee 3 20</td> <td>Basic fee 3-b 15</td> </tr> <tr> <td></td> <td>Special basic fee 10</td> </tr> </table>	pre-revision	post-revision	Basic fee 1 41	Basic fee 1 41	Basic fee 2 25	Basic fee 2 25	Basic fee 3 20	Basic fee 3-b 15		Special basic fee 10	 <p>Weighted average per prescription 36.0 points</p>	 <p>Weighted average per prescription 29.1 points</p>	 <p>Weighted average per prescription 29.1 points</p>	 <p>Weighted average per prescription 29.0 points</p>
pre-revision	post-revision													
Basic fee 1 41	Basic fee 1 41													
Basic fee 2 25	Basic fee 2 25													
Basic fee 3 20	Basic fee 3-b 15													
	Special basic fee 10													
<b>Generic drug dispensing premium ratio (points)</b>  <table border="1"> <tr> <td>pre-revision</td> <td>post-revision</td> </tr> <tr> <td>75% or higher 22</td> <td>85% or higher 26</td> </tr> <tr> <td>65% or higher 18</td> <td>80% or higher 22</td> </tr> <tr> <td></td> <td>75% or higher 18</td> </tr> </table>	pre-revision	post-revision	75% or higher 22	85% or higher 26	65% or higher 18	80% or higher 22		75% or higher 18	 <p>Weighted average per prescription 17.2 points</p>	 <p>Weighted average per prescription 16.6 points</p>	 <p>Weighted average per prescription 16.9 points</p>	 <p>Weighted average per prescription 18.1 points</p>		
pre-revision	post-revision													
75% or higher 22	85% or higher 26													
65% or higher 18	80% or higher 22													
	75% or higher 18													
<b>Community support system premium ratio (points)</b>  <table border="1"> <tr> <td>pre-revision</td> <td>post-revision</td> </tr> <tr> <td>Standard 32</td> <td>Community 35</td> </tr> <tr> <td>dispensing premium</td> <td>support system premium</td> </tr> </table>	pre-revision	post-revision	Standard 32	Community 35	dispensing premium	support system premium	 <p>Weighted average per prescription 18.8 points</p>	 <p>Weighted average per prescription 14.3 points</p>	 <p>Weighted average per prescription 14.7 points</p>	 <p>Weighted average per prescription 16.1 points</p>				
pre-revision	post-revision													
Standard 32	Community 35													
dispensing premium	support system premium													

※ 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

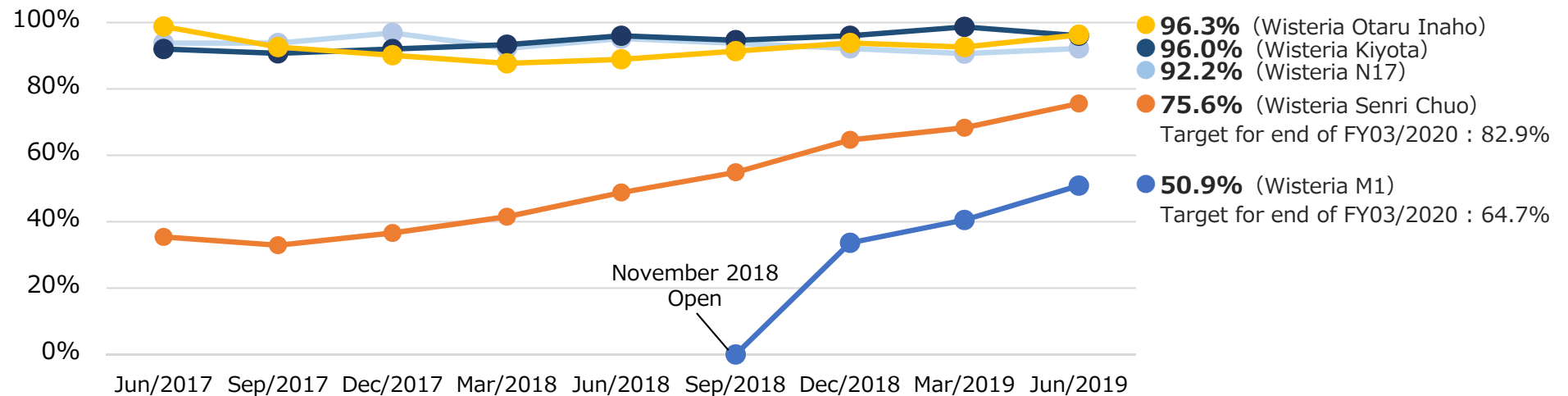


## “Wisteria” Series

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

### ■ Occupancy trend (from June 2017)

Steady increase in occupancy rate at “Wisteria Senri Chuo” and “Wisteria M1”



### ■ Implemented events for occupants to promote health



#### ■ Therapy dog

Restore physical and mental functions through interactions with a trained dog.

Occupants experienced physical interaction and walks with dogs at the terrace within the building.



#### ■ Health event

Karate chair gymnastics was held for the purposes of preventing dementia.

Occupants and neighboring citizens participated promoting community exchange.



# Earnings Forecast for FY3/2020 and Core Strategies

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## ■ 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



### 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 <sup>※1</sup>	92,284	97,461	+ 5,176	+ 5.6 %
Other 3 Segments <sup>※2</sup>	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 (%)
Segment profit	1,428 (1.5 %)	2,500 (2.4 %)	+ 1,071 (+ 0.9 %)	+ 75.0 %
Community Pharmacy Network Segment <sup>※1</sup>	3,313 (3.6 %)	4,783 (4.9 %)	+ 1,470 (+ 1.3 %)	+ 44.4 %
Other 3 Segments <sup>※2</sup>	▲ 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

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# Corporate profile (As of June 30, 2019)



MEDICAL  
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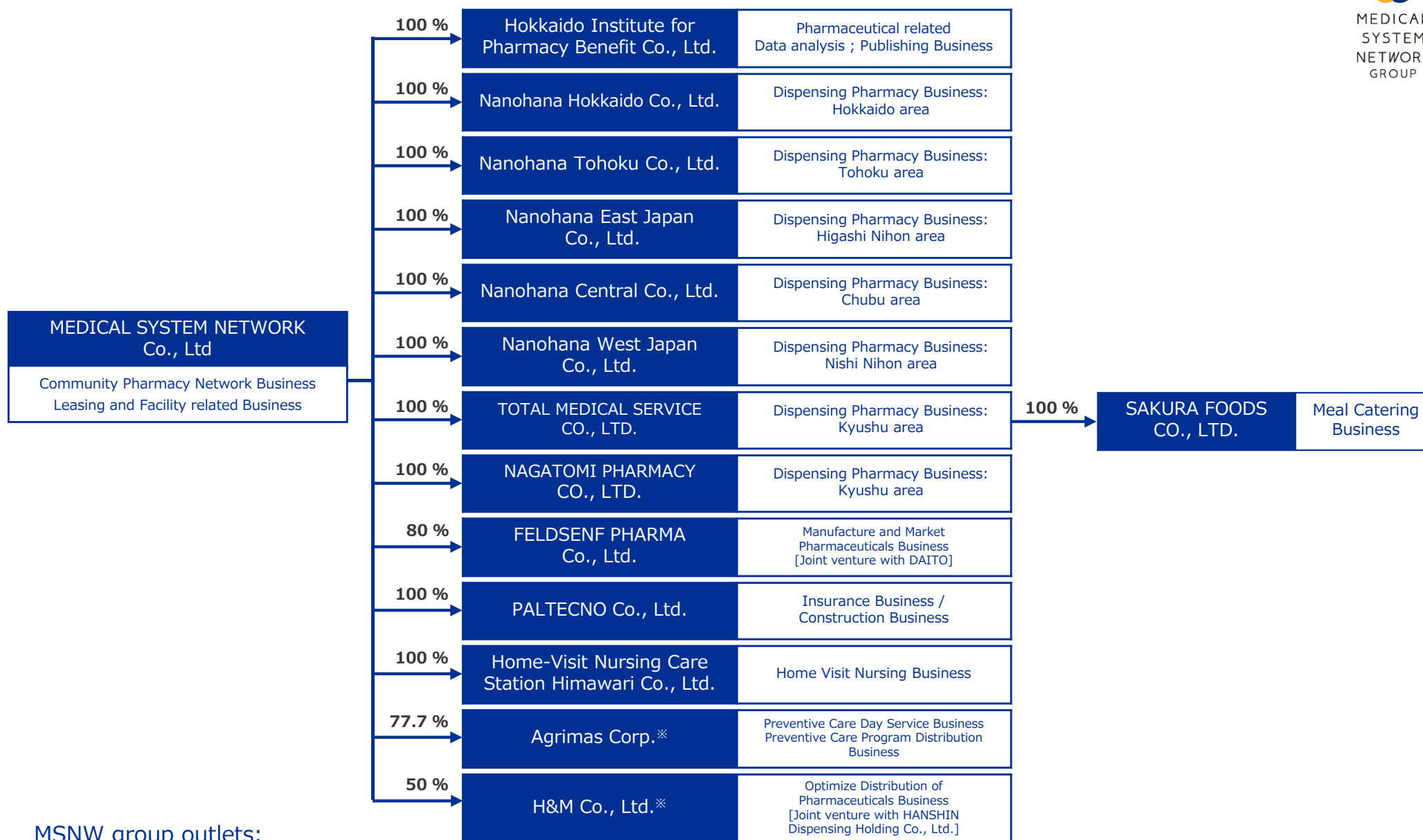
<b>Company</b>	MEDICAL SYSTEM NETWORK Co., Ltd. ("MSNW")														
<b>Representative</b>	Inao Tajiri President & Representative Director	<b>Businesses</b>	Community Pharmacy Network Segment Leasing and Facility related Segment Meal Catering Segment Home Visit Nursing Segment												
<b>Established</b>	September 16, 1999														
<b>Location</b>	24-3 Kitajujo-Nishi, Chuo-ku, Sapporo	<b>Capital</b>	2.128 billion yen												
<b>Main consolidated subsidiaries</b> ※	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.	<b>Shareholders composition</b> ※  Excluding shares less than one unit.  Treasury shares are included in Individuals and Others.	<table border="1"> <caption>Shareholders composition</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Individuals and Others</td> <td>48.1%</td> </tr> <tr> <td>Financial Institutions</td> <td>18.3%</td> </tr> <tr> <td>Other Companies</td> <td>18.4%</td> </tr> <tr> <td>Foreign Companies, etc.</td> <td>13.3%</td> </tr> <tr> <td>Securiteis Firms</td> <td>1.9%</td> </tr> </tbody> </table>	Category	Percentage	Individuals and Others	48.1%	Financial Institutions	18.3%	Other Companies	18.4%	Foreign Companies, etc.	13.3%	Securiteis Firms	1.9%
Category	Percentage														
Individuals and Others	48.1%														
Financial Institutions	18.3%														
Other Companies	18.4%														
Foreign Companies, etc.	13.3%														
Securiteis Firms	1.9%														
<b>Employees</b>	265 (3,218 consolidated)	<b>Total Shareholders</b> ※	7,782												
<b>Stock listing</b>	First Section of Tokyo Stock Exchange	<b>Securities code</b>	4350												
		<b>Outstanding shares</b>	30,642,600												

※ As of March 31, 2019

# Organization chart (As of August 1, 2019)



MEDICAL  
SYSTEM  
NETWORK  
GROUP



MSNW group outlets:  
total 434 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/>



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