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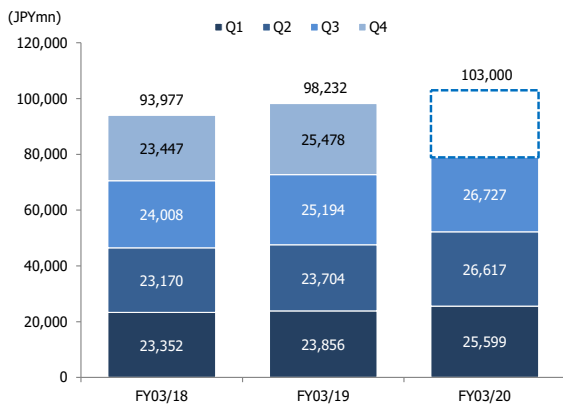
On **February 6, 2020**, Medical System Network Co., Ltd announced earnings results for Q3 FY03/20.

Cumulative (JPYmm)	FY03/18				FY03/19				FY03/20			FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% 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	78,943	76.6%	103,000
YoY	8.6%	7.2%	6.5%	5.8%	2.2%	2.2%	3.2%	4.5%	7.3%	9.8%	8.5%		4.9%
Gross profit	9,069	18,109	27,515	36,607	9,079	17,887	27,527	37,271	9,839	19,819	30,225		
YoY	11.0%	10.0%	8.6%	7.2%	0.1%	-1.2%	0.0%	1.8%	8.4%	10.8%	9.8%		
GPM	38.8%	38.9%	39.0%	39.0%	38.1%	37.6%	37.8%	37.9%	38.4%	38.0%	38.3%		
SG&A expenses	8,476	16,837	25,226	33,444	8,867	17,410	26,487	35,842	9,504	19,022	28,997		
YoY	6.5%	5.8%	4.8%	4.3%	4.6%	3.4%	5.0%	7.2%	7.2%	9.3%	9.5%		
SG&A ratio	36.3%	36.2%	35.8%	35.6%	37.2%	36.6%	36.4%	36.5%	37.1%	36.4%	36.7%		
Operating profit	592	1,271	2,288	3,163	212	476	1,040	1,428	334	796	1,228	49.1%	2,500
YoY	179.2%	131.5%	80.7%	49.7%	-64.2%	-62.5%	-54.5%	-54.9%	57.5%	67.2%	18.1%		75.1%
OPM	2.5%	2.7%	3.2%	3.4%	0.9%	1.0%	1.4%	1.5%	1.3%	1.5%	1.6%		2.4%
Recurring profit	590	1,272	2,334	3,250	192	438	1,010	1,501	323	784	1,208	50.3%	2,400
YoY	196.5%	134.7%	84.4%	54.1%	-67.5%	-65.6%	-56.7%	-53.8%	68.2%	79.0%	19.6%		59.9%
RPM	2.5%	2.7%	3.3%	3.5%	0.8%	0.9%	1.4%	1.5%	1.3%	1.5%	1.5%		2.3%
Net income	289	363	944	1,022	101	119	372	462	97	218	326	50.2%	650
YoY	-	450.0%	185.2%	79.0%	-65.1%	-67.2%	-60.6%	-54.8%	-4.0%	83.2%	-12.4%		40.7%
Net margin	1.2%	0.8%	1.3%	1.1%	0.4%	0.3%	0.5%	0.5%	0.4%	0.4%	0.4%		0.6%

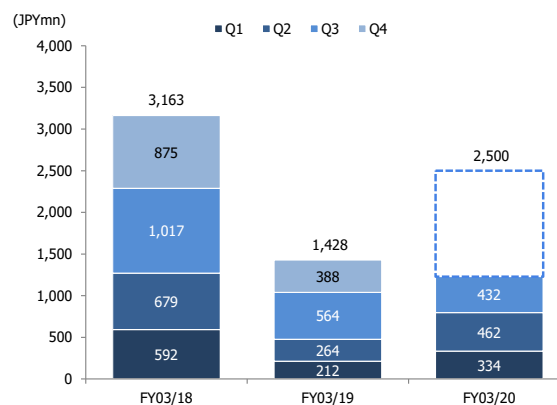
Quarterly (JPYmm)	FY03/18				FY03/19				FY03/20		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	23,352	23,170	24,008	23,447	23,856	23,704	25,194	25,478	25,599	26,617	26,727
YoY	8.6%	5.8%	5.2%	3.5%	2.2%	2.3%	4.9%	8.7%	7.3%	12.3%	6.1%
Gross profit	9,069	9,040	9,406	9,092	9,079	8,808	9,640	9,744	9,839	9,980	10,406
YoY	11.0%	9.1%	6.0%	2.9%	0.1%	-2.6%	2.5%	7.2%	8.4%	13.3%	7.9%
GPM	38.8%	39.0%	39.2%	38.8%	38.1%	37.2%	38.3%	38.2%	38.4%	37.5%	38.9%
SG&A expenses	8,476	8,361	8,389	8,218	8,867	8,543	9,077	9,355	9,504	9,518	9,975
YoY	6.5%	5.2%	2.8%	2.9%	4.6%	2.2%	8.2%	13.8%	7.2%	11.4%	9.9%
SG&A ratio	36.3%	36.1%	34.9%	35.0%	37.2%	36.0%	36.0%	36.7%	37.1%	35.8%	37.3%
Operating profit	592	679	1,017	875	212	264	564	388	334	462	432
YoY	179.2%	101.5%	41.8%	3.3%	-64.2%	-61.1%	-44.5%	-55.7%	57.5%	75.0%	-23.4%
OPM	2.5%	2.9%	4.2%	3.7%	0.9%	1.1%	2.2%	1.5%	1.3%	1.7%	1.6%
Recurring profit	590	682	1,062	916	192	246	572	491	323	461	424
YoY	196.5%	98.8%	46.7%	8.7%	-67.5%	-63.9%	-46.1%	-46.4%	68.2%	87.4%	-25.9%
RPM	2.5%	2.9%	4.4%	3.9%	0.8%	1.0%	2.3%	1.9%	1.3%	1.7%	1.6%
Net income	289	74	581	78	101	18	253	90	97	121	108
YoY	-	-1.3%	119.2%	-67.5%	-65.1%	-75.7%	-56.5%	15.4%	-4.0%	572.2%	-57.3%
Net margin	1.2%	0.3%	2.4%	0.3%	0.4%	0.1%	1.0%	0.4%	0.4%	0.5%	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

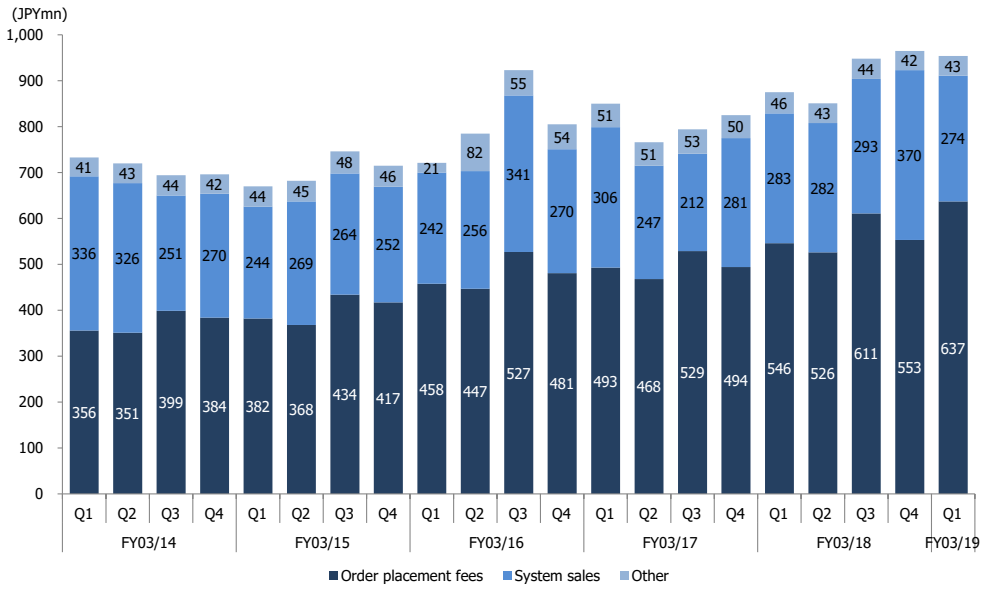
Quarterly results

By segment (cumulative)					FY03/19					FY03/20					FY03/20	
(JPYmm)	Q1	Q2	Q3	Q4	Q1 retro	Q2 retro	Q3 retro	Q1	Q2	Q3	% of FY	FY Est.				
Sales	23,856	47,560	72,754	98,232	23,856	47,560	25,599	25,599	52,216	78,943	76.6%	103,000				
YoY	2.2%	2.2%	3.2%	4.5%	2.2%	2.2%	7.3%	7.3%	9.8%	8.5%		4.9%				
Pharmaceuticals Network	955	1,818	2,897	3,951	22,564	44,717	24,224	24,224	49,290	74,636						
YoY	9.1%	5.2%	8.3%	8.6%	-	-	7.4%	7.4%	10.2%	9.1%						
% of total	3.9%	3.7%	4.0%	3.9%	94.1%	94.7%	94.1%	94.1%	93.6%	93.8%						
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%	91.8%	89.5%												
Leasing and Facility-related	600	1,508	2,382	3,320	600	1,508	760	760	1,829	2,659						
YoY	15.2%	38.9%	52.6%	63.5%	15.2%	38.9%	26.7%	26.7%	21.3%	11.6%						
% of total	2.4%	3.1%	3.3%	3.3%	2.5%	3.1%	3.0%	3.0%	3.5%	3.3%						
Food Service	788	1,586	2,382	3,161	788	1,586	730	730	1,434	2,128						
YoY	-31.8%	-31.0%	-27.4%	-23.0%	-31.8%	-31.0%	-7.4%	-7.4%	-9.6%	-10.7%						
% of total	3.2%	3.2%	3.3%	3.1%	3.3%	3.2%	2.8%	2.8%	2.7%	2.7%						
Other	33	91	166	261	33	91	38	38	79	122						
YoY	0.0%	71.7%	133.8%	183.7%	0.0%	71.7%	15.2%	15.2%	-13.2%	-26.5%						
% of total	0.1%	0.2%	0.2%	0.3%	0.1%	0.2%	0.1%	0.1%	0.2%	0.2%						
Segment sales adjustments	-743	-1,479	-523	-3,167	-130	320	-154	-154	-417	-603						
Operating profit	212	476	1,040	1,428	212	476	334	334	796	1,228	49.1%	2,500				
YoY	-64.2%	-62.5%	-54.5%	-54.9%	-64.2%	-62.5%	57.5%	57.5%	67.2%	18.1%		75.1%				
Pharmaceuticals Network	554	1,060	1,697	2,331	642	1,227	825	825	1,736	2,764						
YoY	17.6%	13.5%	17.5%	19.6%	-	-	28.5%	28.5%	41.5%	18.5%						
OPM	58.0%	58.3%	58.6%	59.0%	2.8%	2.7%	3.4%	3.4%	3.5%	3.7%						
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	-8	68	67						
YoY	-	-	-	-	-	-	-	-	580.0%	-						
OPM	-5.3%	0.7%	-2.1%	-2.5%	-5.3%	0.7%	-1.1%	-1.1%	3.7%	-						
Food Service	1	18	28	34	1	18	-12	-12	-34	-38						
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%	-1.6%	-2.4%	-						
Other	-36	-57	-82	-136	-29	-57	-21	-21	-39	-56						
YoY	-	-	-	-	-	-	-	-	-	-						
OPM	-109.1%	-62.6%	-49.4%	-52.1%	-87.9%	-62.6%	-55.3%	-55.3%	-49.4%	-						
Segment profit adjustments	-405	-721	-1,186	-1,784	-369	-721	-447	-447	-934	-1,508						
By segment (quarterly)	FY03/19				FY03/19			FY03/20								
(JPYmm)	Q1	Q2	Q3	Q4	Q1 retro	Q2 retro	Q3 retro	Q1	Q2	Q3						
Sales	23,856	23,704	25,194	25,478	23,856	23,704	25,599	25,599	26,617	26,727						
YoY	2.2%	2.3%	4.9%	8.7%	2.2%	2.3%	7.3%	7.3%	12.3%	6.1%						
Pharmaceuticals Network	955	863	1,079	1,054	22,564	22,153	24,224	24,224	25,066	25,346						
YoY	9.1%	1.2%	13.9%	9.3%	-	-	7.4%	7.4%	13.1%	2249.0%						
% of total	4.4%	3.5%	4.5%	3.7%	94.1%	95.3%	107.3%	107.3%	93.3%	94.2%						
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%	95.9%	83.3%												
Leasing and Facility-related	600	908	874	938	600	908	760	760	1,069	830						
YoY	15.2%	60.7%	84.0%	99.6%	-	-	26.7%	26.7%	17.7%	-5.0%						
% of total	2.8%	3.7%	3.6%	3.3%	2.5%	3.9%	3.4%	3.4%	4.0%	3.1%						
Food Service	788	798	796	779	788	798	730	730	704	694						
YoY	-31.8%	-30.1%	-18.9%	-5.5%	-	-	-7.4%	-7.4%	-11.8%	-12.8%						
% of total	3.7%	3.3%	3.3%	2.8%	3.3%	3.4%	3.2%	3.2%	2.6%	2.6%						
Other	33	58	75	95	33	58	38	38	41	43						
YoY	0.0%	190.0%	316.7%	352.4%	-	-	15.2%	15.2%	-29.3%	-42.7%						
% of total	0.2%	0.2%	0.3%	0.3%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%						
Segment sales adjustments	2,320	-736	956	-2,644	-130	450	3,013	3,013	-263	-186						
Operating profit	212	264	564	388	212	264	334	334	462	432						
YoY	-64.2%	-61.1%	-44.5%	-55.7%	-64.2%	-61.1%	57.5%	57.5%	75.0%	-23.4%						
Pharmaceuticals Network	554	506	637	634	642	585	825	825	911	1,028						
YoY	17.6%	9.3%	24.9%	25.5%	-	-	28.5%	28.5%	80.0%	61.4%						
OPM	58.0%	58.6%	59.0%	60.2%	2.8%	2.6%	3.4%	3.4%	3.6%	4.1%						
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	-8	76	-1						
YoY	-	-	-	-	-	-	-	-	-	-						
OPM	-5.3%	4.6%	-7.0%	-3.5%	-5.3%	4.6%	-1.1%	-1.1%	7.1%	-0.1%						
Food Service	1	17	10	6	1	17	-12	-12	-22	-4						
YoY	-80.0%	-41.4%	-33.3%	-250.0%	-	-	-	-	-229.4%	-140.0%						
OPM	0.1%	2.1%	1.3%	0.8%	0.1%	2.1%	-1.6%	-1.6%	-3.1%	-0.6%						
Other	-36	-21	-25	-54	-29	-28	-21	-21	-18	-17						
YoY	-	-	-	-	-	-	-	-	-	-						
OPM	-109.1%	-36.2%	-33.3%	-56.8%	-87.9%	-48.3%	-55.3%	-55.3%	-43.9%	-39.5%						
Segment profit adjustments	-405	-316	-465	-598	-369	-352	-447	-447	-487	-574						

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

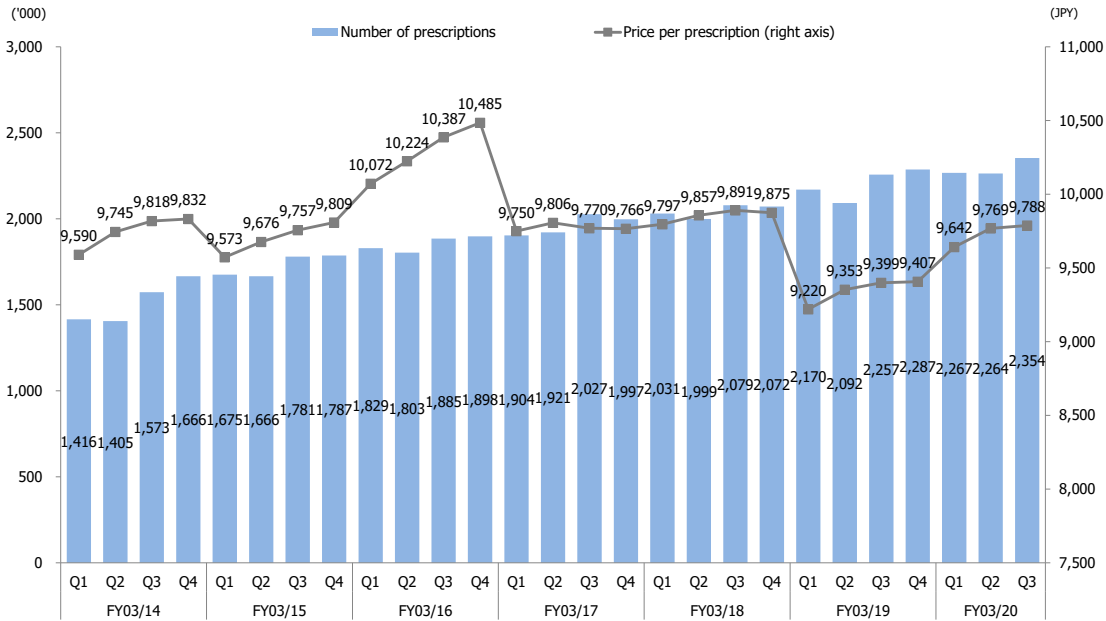


Source: Shared Research based on company data

Notes: *Undisclosed from Q2 FY03/19

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

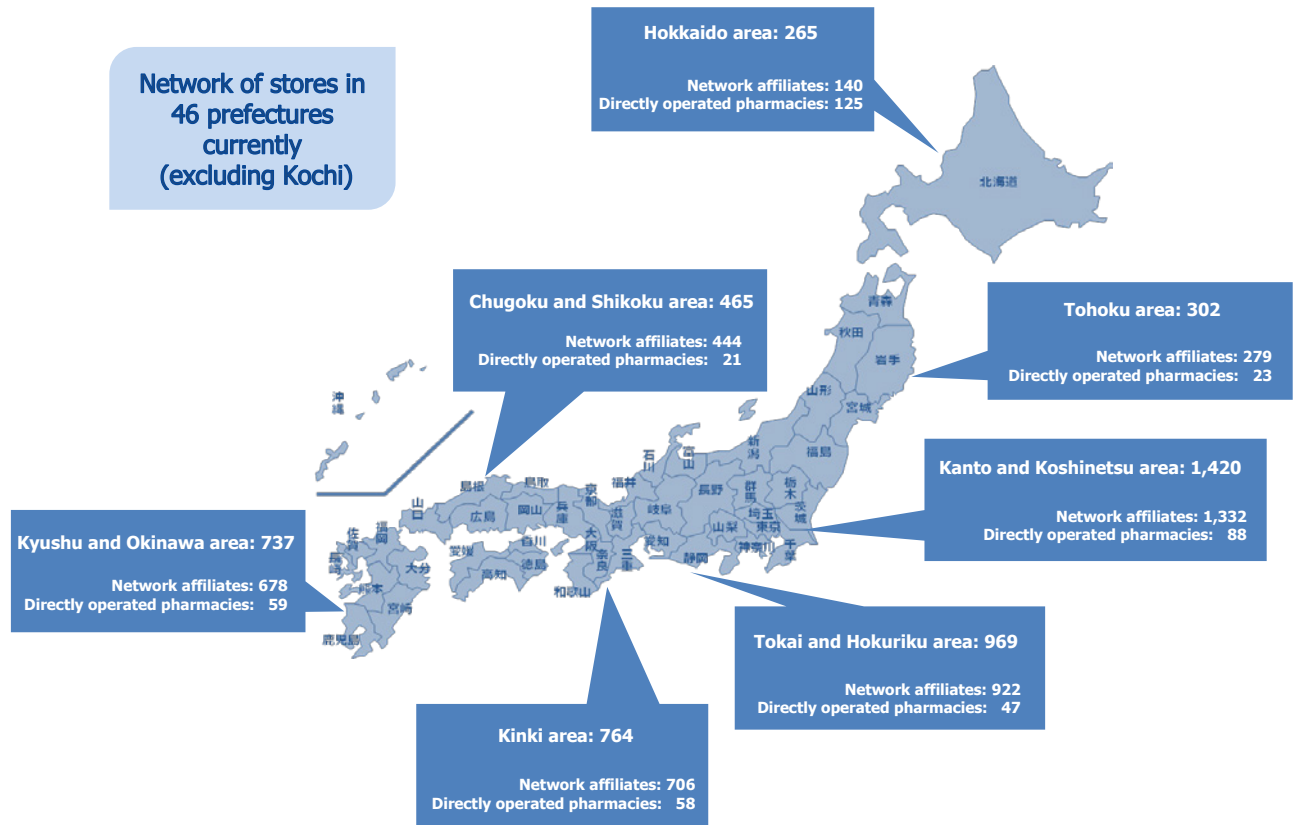
Prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy segment; all stores)



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 December 31, 2019)



Source: Shared Research based on company data

Number of dispensing pharmacies by region

Region	Directly operated pharmacies	Affiliates	Total network members
Hokkaido	125	140	265
Tohoku	23	279	302
Kanto and Koshinetsu	88	1,332	1,420
Tokai and Hokuriku	47	922	969
Kinki	58	706	764
Chugoku and Shikoku	21	444	465
Kyushu and Okinawa	59	678	737
Total	421	4,501	4,922

Source: Shared Research based on company data (December 31, 2019)

Q3 FY03/20 earnings results (out February 6, 2020)

Overview

Cumulative Q3 FY03/20 (April–December 2019) earnings results

- ▷ Sales: JPY78.9bn (+8.5% YoY)
- ▷ Operating profit: JPY1.2bn (+18.1% YoY)
- ▷ Recurring profit: JPY1.2bn (+19.6% YoY)
- ▷ Net income*: JPY326mn (-12.4% 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 the Improvement of commercial transaction practices of ethical drugs for manufacturers, wholesalers, and medical institutions/pharmacies,” 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 FY03/20. In cumulative Q3, sales in the Community Pharmacy Network business increased by 9.1% YoY, reflecting an increase in the number of network members and the steady sales at existing pharmacies. The segment operating profit margin was 3.7%, an improvement of 0.3pp YoY. These increases drove overall sales and profit growth for the period.

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.

Cumulative Q3 FY03/20 (April–December 2019) segment earnings results

- ▷ Segment sales: JPY74.6bn (+9.1% YoY; includes internal sales or transfers between segments; same hereafter)
- ▷ Segment profit: JPY2.8bn (+62.9% 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-December 2019, the number of network members was 4,922 (up 1,132 from end-FY03/19). This consisted of 421 directly operated pharmacies and 4,501 affiliates.
- ▷ Dispensing Pharmacy division: In addition to the contribution from stores acquired via M&A, sales at existing pharmacies remained steady. As at end-December 2019, there were 421 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 23 ingredients and 51 products as of end-September 2019.

Leasing and Facility-related

Cumulative Q3 FY03/20 (April–December 2019) segment earnings results

- ▷ Segment sales: JPY2.7bn (+11.6% YoY)
- ▷ Segment profit: JPY67mn (loss of JPY51mn in cumulative Q3 FY03/19)

- ▷ The 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. The number of occupied units as of end-December 2019 was 63 out of 82 units total at Wisteria Senri-Chuo, and 67 out of 116 units total at Wisteria Minami Ichijo. The company continued to carry out aggressive sales activities.

Food Service

Cumulative Q3 FY03/20 (April–December 2019) segment earnings results

- ▷ Segment sales: JPY2.1 bn (-10.7% YoY)
- ▷ Segment loss: JPY38mn (profit of 28mn in cumulative Q3 FY03/19)
- ▷ Business reforms: Despite withdrawal from certain unprofitable facilities and pricing adjustments made to contracts, 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.

Cumulative Q3 FY03/20 (April–December 2019) segment earnings results

- ▷ Segment sales: JPY122mn (-26.5% YoY)
- ▷ Segment loss: JPY56mn (loss of JPY82mn in cumulative Q3 FY03/19)

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

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