



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Second 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

FY3/2020 2Q: Consolidated results



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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 2Q	FY3/2020 2Q (plan)	FY3/2020 2Q (result)	Year-on-year		Progress rate	
				Change	Change (%)	Difference	Difference (%)
(Unit: million yen)							
Net sales	47,560	50,300	52,216	+ 4,656	+ 9.8%	+ 1,916	103.8%
Operating profit	476	560	796	+ 319	+ 67.1%	+ 236	142.3%
Profit margin	1.0%	1.1%	1.5%				
Ordinary profit	438	530	784	+ 346	+ 78.9%	+ 254	148.1%
Profit margin	0.9%	1.1%	1.5%				
Profit attributable to owners of parent	119	— ※1	218	+ 98	+ 82.2%	—	—
Profit margin	0.3%		0.4%				
Earnings per share (Yen)	3.95	— ※1	7.19	+ 3.24	—	—	—
EBITDA ^{※2}	1,777	—	2,275	+ 497	+ 28.0%	—	—

※1 was not released considering cost fluctuations for reviewing pharmacy strategy

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

FY3/2020 2Q: 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
- Increase due to rising drug charge at existing pharmacies and technical fees due to new developments of the dispensing fee revision in the Dispensing Pharmacy Business

Other 3 segments: Substantial improvement in occupancy at serviced residence for the elderly

Net sales

	FY3/2019 2Q	FY3/2020 2Q	Change	Change (%)
Net sales (Unit: million yen)	47,560	52,216	4,656	+ 9.8%
Community Pharmacy Network Segment ^{※1}	44,718	49,290	4,572	+ 10.2%
Other 3 Segments ^{※2}	3,162	3,343	181	+ 5.7%
Adjustments	▲ 320	▲ 417	▲ 96	—

Operating profit

	FY3/2019 2Q	FY3/2020 2Q	Change	Change (%)
Segment profit (Unit: million yen) Profit margin in brackets	476 (1.0%)	796 (1.5%)	319 + 0.5 pt	+ 67.1%
Community Pharmacy Network Segment ^{※1}	1,227 (2.7%)	1,736 (3.5%)	509 + 0.8 pt	+ 41.5%
Other 3 Segments ^{※2}	▲ 28 (—)	▲ 5 (—)	23 —	—
Adjustments	▲ 721 (—)	▲ 934 (—)	▲ 212 —	—

※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

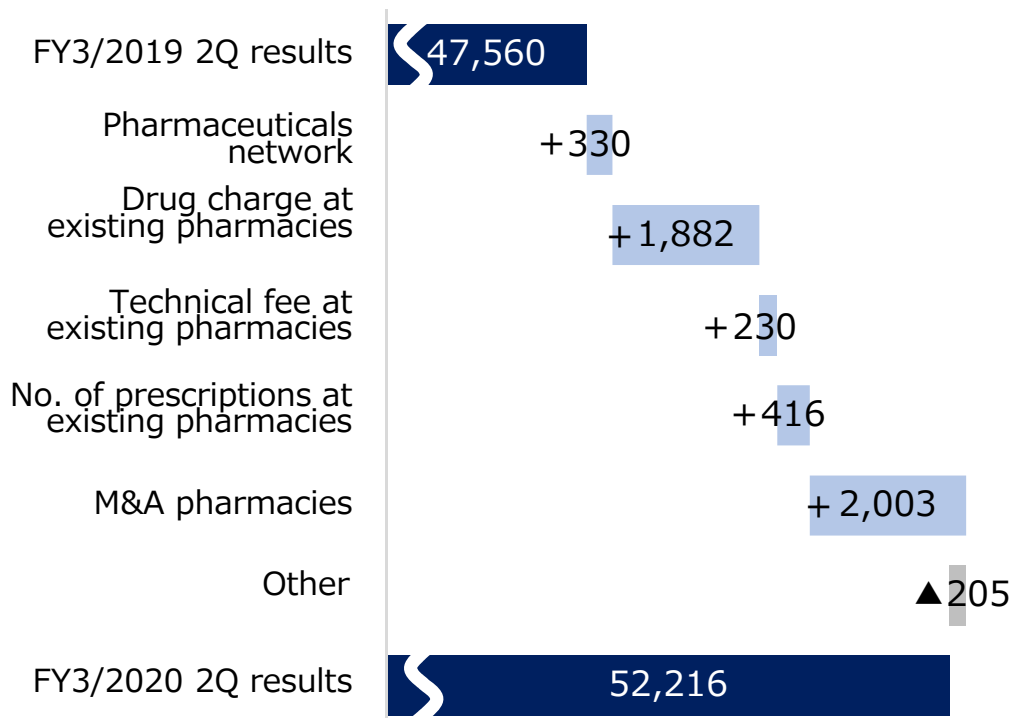
FY3/2020 2Q: Comparison to previous term



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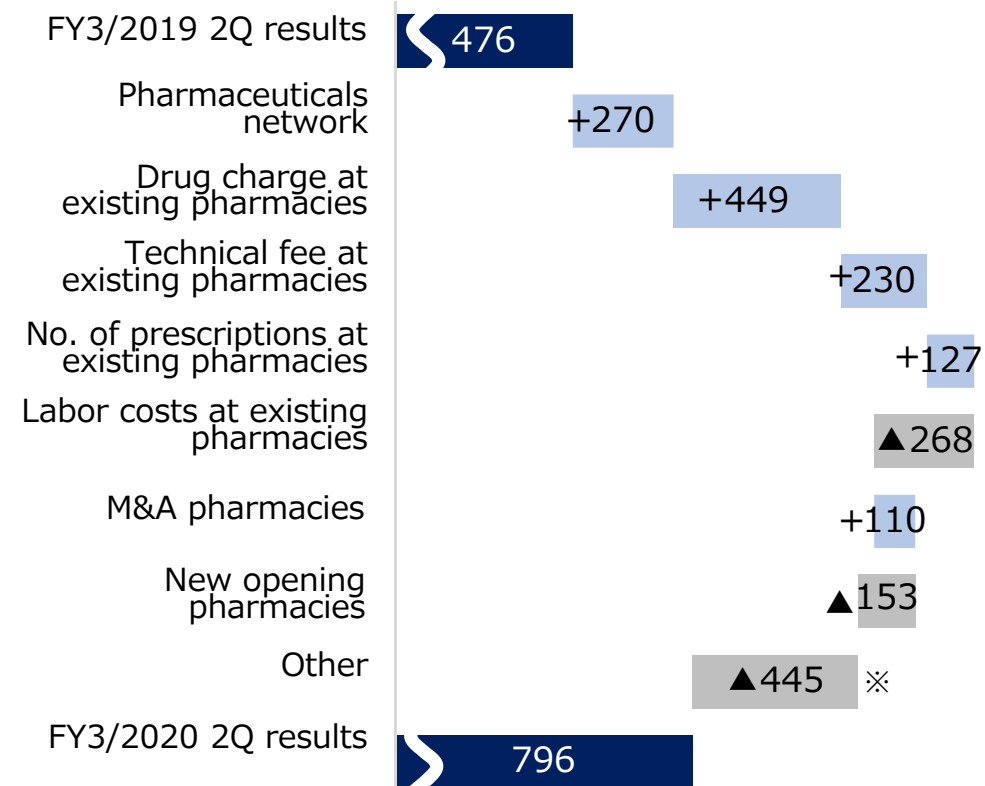
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)

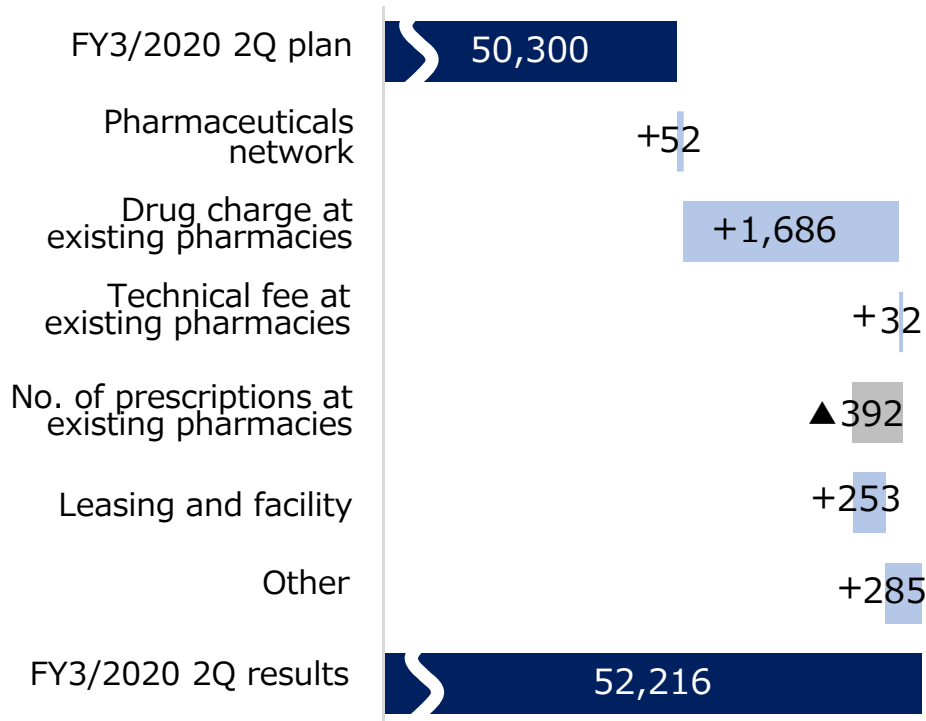


※ System investments, etc. ▲193
Other ▲252

FY3/2020 2Q: Comparison to plan

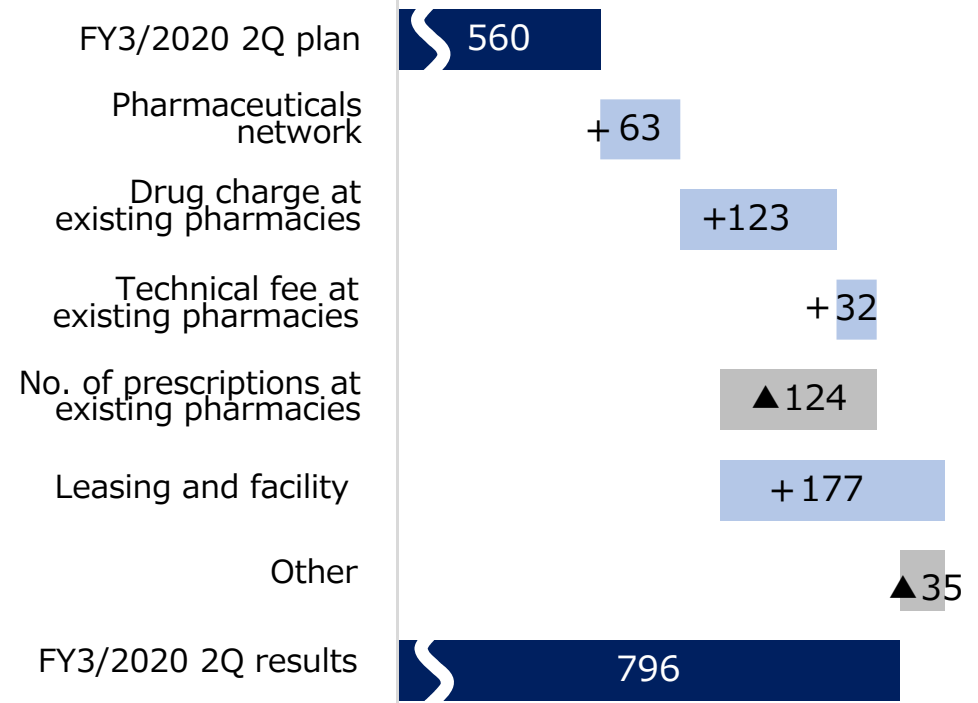
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)



【 Reference 】

	First-half plan (YoY)	First-half results (YoY)	Second-half plan (YoY)
No. of prescriptions at existing pharmacies	+2.2%	+1.1%	+3.6%
Unit price of prescriptions at existing pharmacies	+1.1%	+5.7%	+1.2%

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

FY3/2020 2Q: 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 2Q

(Unit: million yen)

Assets	66,541	Liabilities	55,798
Current assets	19,207	Current liabilities	23,014
Cash and deposits	10,182	Short-term loans [※]	7,459
		Fixed liabilities	32,783
Fixed assets	47,334	Long-term loans	26,784
Tangible fixed assets	25,780	Net assets	10,743
Intangible fixed assets	15,688	Capital stock	2,128
Goodwill	15,231	Capital surplus	1,183
Investments and other assets	5,865	Retained earnings	7,681
		Treasury stock	▲ 207
Total assets	66,541	Total liabilities and net assets	66,541

Equity ratio 16.2%

FY3/2020 2Q: Consolidated cash flows



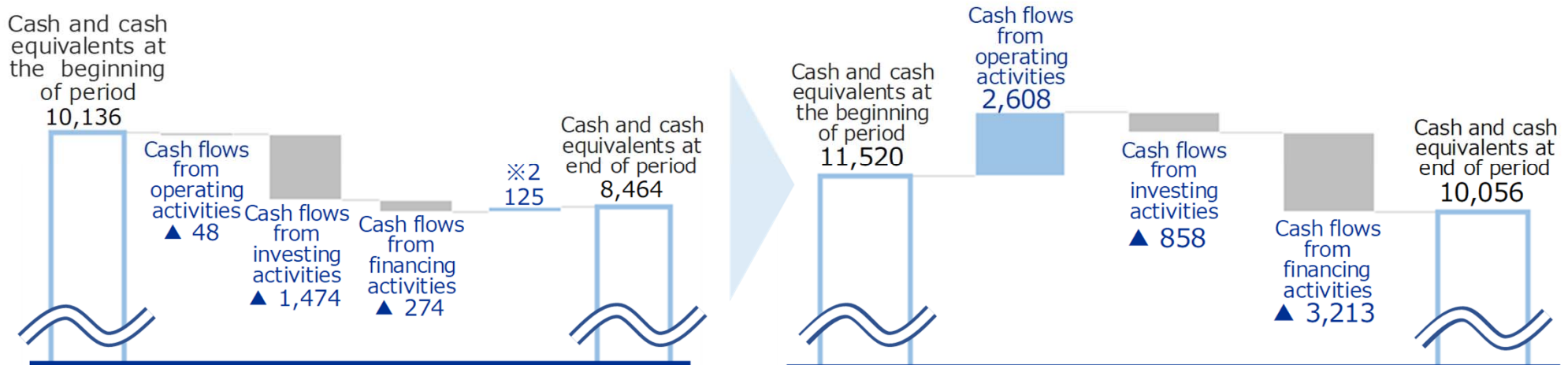
Cash flows from operating activities	2,608 million yen	EBITDA ^{※1} Income taxes paid Impact of increasing working capital	2,275 million yen ▲ 618 million yen 512 million yen
	※1 Calculated by "operating profit + depreciation + amortization of goodwill"		
Cash flows from investing activities	▲ 858 million yen	Acquisition of buildings, etc. M&A (transfer of business and acquisition of business)	▲ 756 million yen ▲ 184 million yen
	Cash flows from financing activities	▲ 3,213 million yen	Loan amount reduced Repayments of lease obligations

■ FY3/2019 2Q

(Unit: million yen)

■ FY3/2020 2Q

(Unit: million yen)



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

Topics

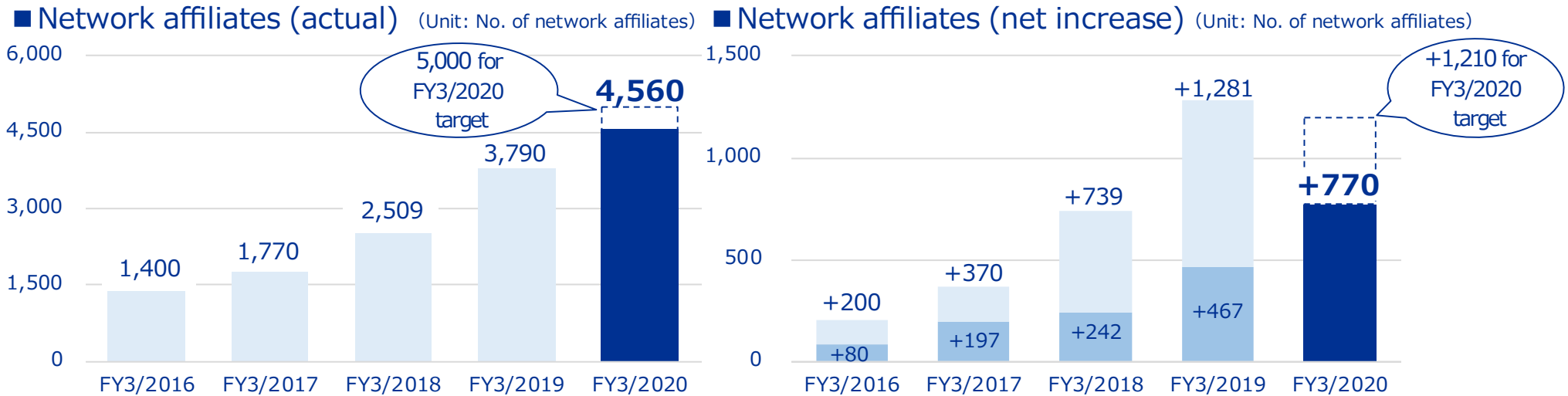
Pharmaceuticals Network Business: Earnings summary

(as of September 30, 2019)

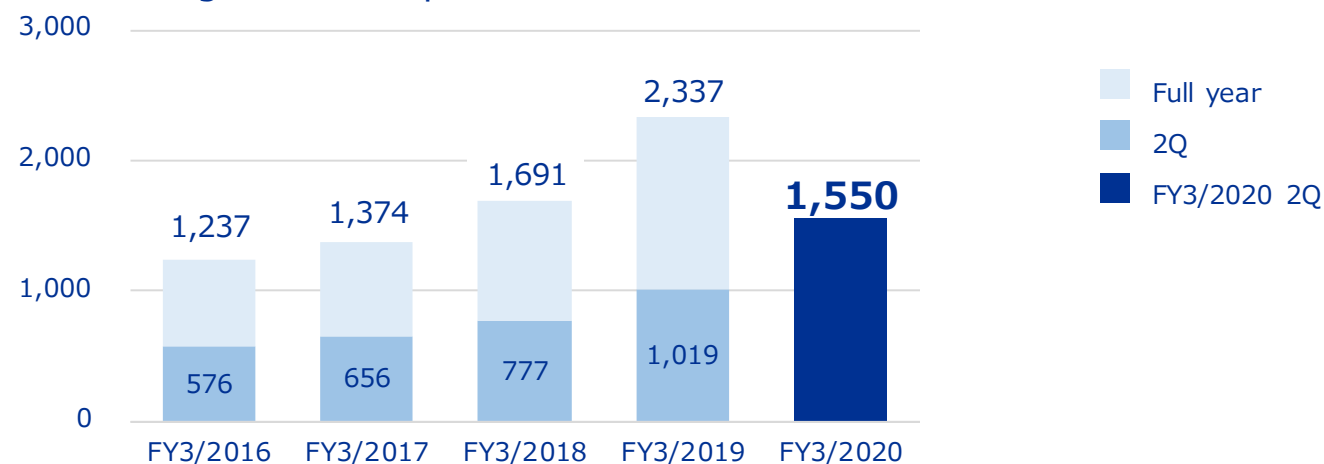


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Continuous high trends in number of new network affiliates; increase of 770 from previous term for a total of 4,560



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

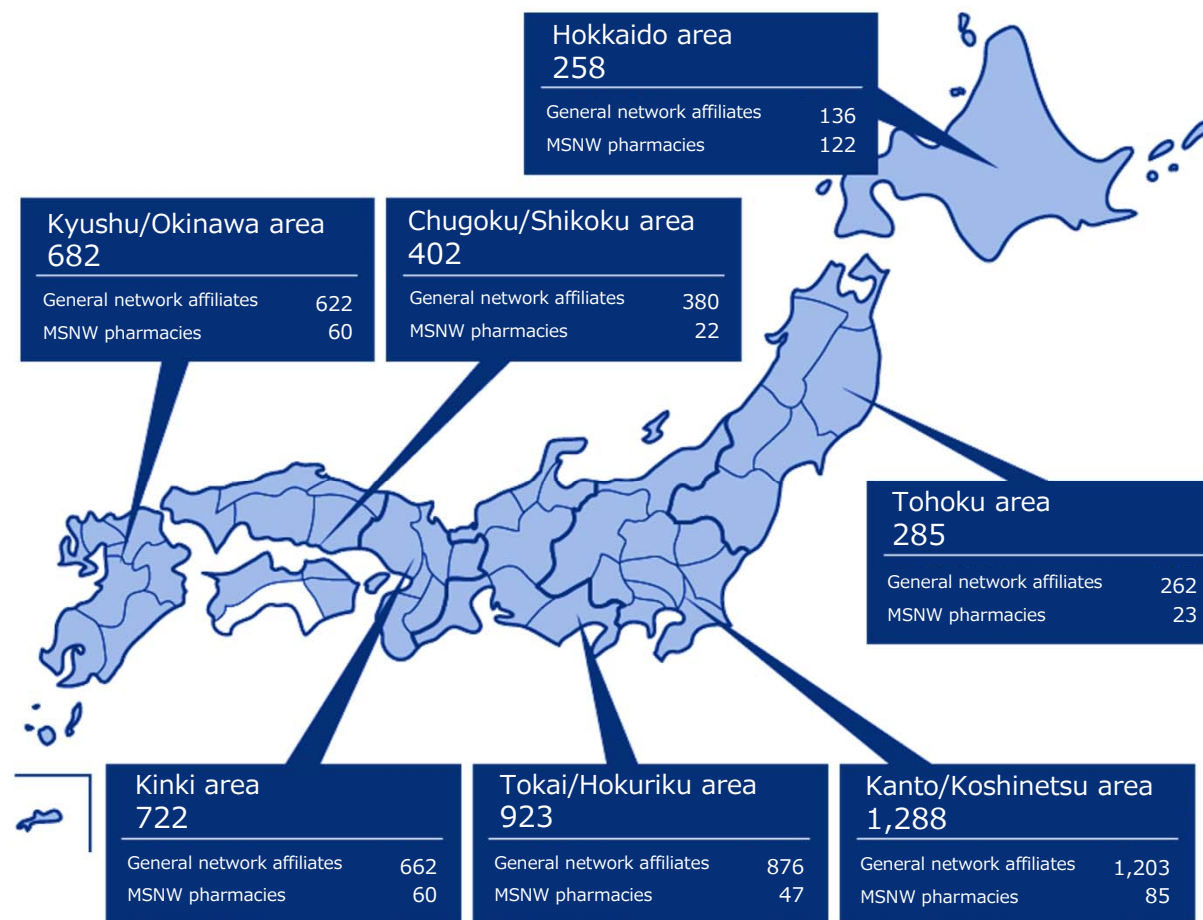


Pharmaceuticals Network Business: Network affiliates distribution map (as of September 30, 2019)

Currently operating in 46 prefectures

【 Breakdown of network affiliates 】

(Unit: No. of network affiliates)	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	136	122	258
Tohoku	262	23	285
Kanto/Koshinetsu	1,203	85	1,288
Tokai/Hokuriku	876	47	923
Kinki	662	60	722
Chugoku/Shikoku	380	22	402
Kyushu/Okinawa	622	60	682
Total	4,141	419	4,560



4,831 network affiliates
as of November 1, 2019

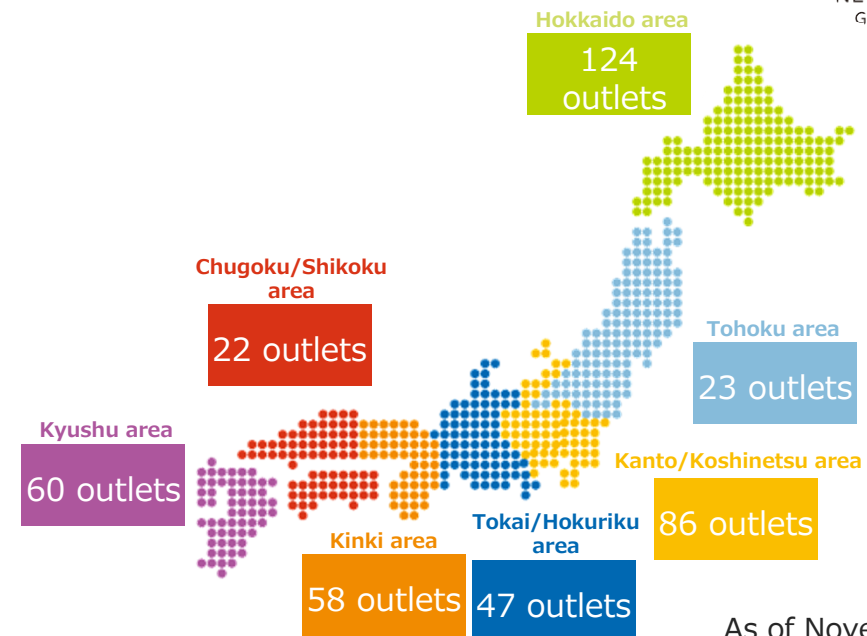
Dispensing Pharmacy Business: Trends in number of pharmacies



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4 new outlets, 1 outlet acquired through M&A, and 6 outlet closings since end of previous fiscal year

	Outlets at end of FY3/2019	Outlets at end of FY3/2020 2Q	Outlets as of November 1
Outlets at end of previous term	399	420	419
Openings	5	4	3
Closings and transferring businesses	▲ 14	▲ 6	▲ 2
M&A	30	1	–
Total	420	419	420



As of November 1

Dispensing pharmacy outlet number trends of the past 10 years

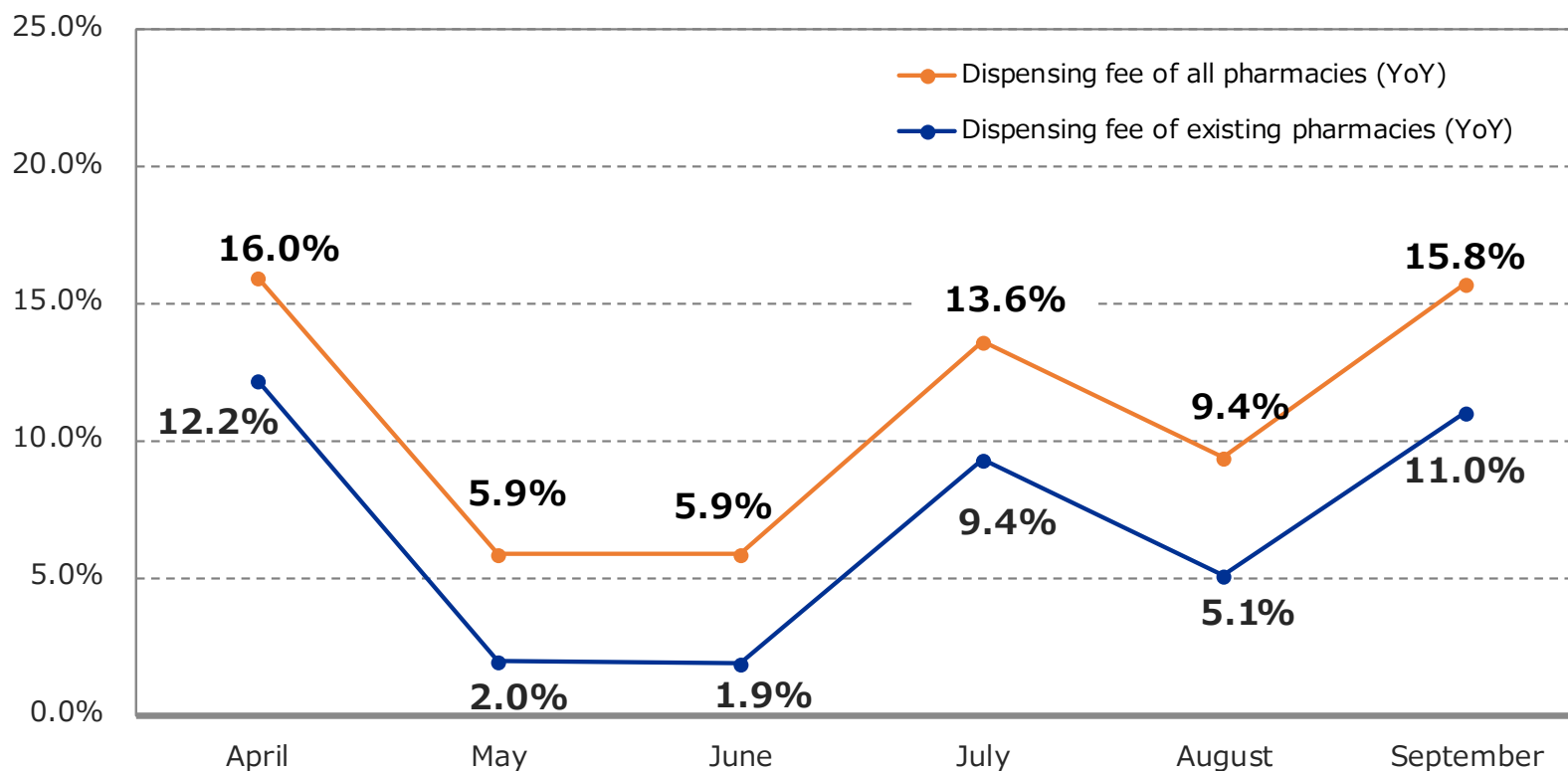
	FY9/2011	FY3/2012 [※]	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020 2Q
Openings	10	6	21	14	10	9	8	8	5	4
Closings and transferring of businesses	▲ 4	▲ 3	▲ 8	▲ 7	▲ 13	▲ 8	▲ 4	▲ 5	▲ 14	▲ 6
M&A	4	6	33	45	27	7	20	19	30	1
Number of outlets	214	223	269	321	345	353	377	399	420	419

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

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)



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(Unit: %)	FY3/2020						FY3/2020
	April	May	June	July	August	September	2Q
Dispensing fee of all pharmacies (YoY)	16.0	5.9	5.9	13.6	9.4	15.8	11.1
Dispensing fee of existing pharmacies (YoY)	12.2	2.0	1.9	9.4	5.1	11.0	6.9

※ "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

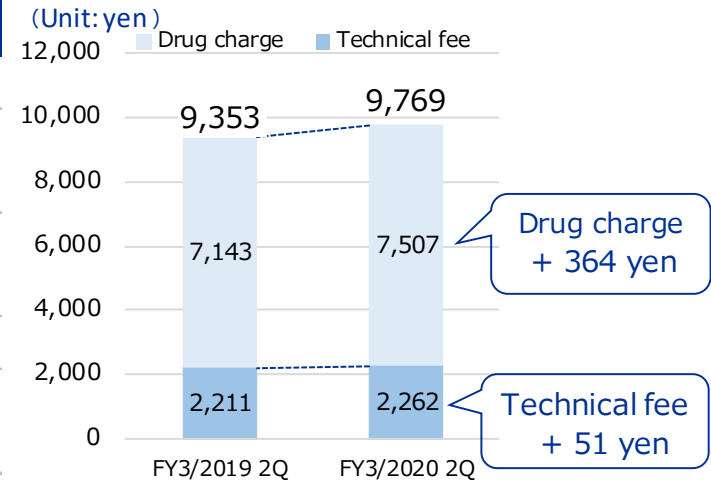
Point

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

All pharmacies

		FY3/2019 2Q	FY3/2020 2Q	Change
No. of prescriptions (1000) a		4,262	4,531	+ 269 (+ 6.3 %)
Unit price (yen)	Drug charge per prescription	7,143	7,507	+ 364 (+ 5.1 %)
	Technical fee per prescription	2,211	2,262	+ 51 (+ 2.3 %)
Total b		9,353	9,769	+ 415 (+ 4.4 %)
Dispensing fee (million yen) c = a x b		39,864	44,270	+ 4,406 (+ 11.1 %)

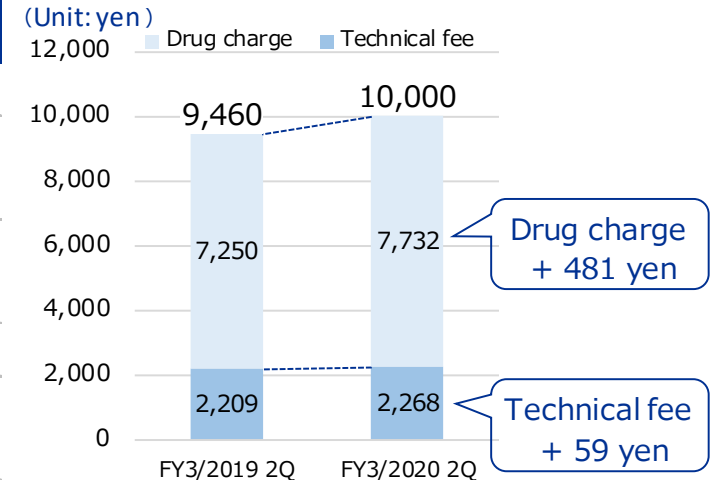
【Prescription unit price trends】



Existing pharmacies

		FY3/2019 2Q	FY3/2020 2Q	Change
No. of prescriptions (1000) a		3,911	3,955	+ 43 (+ 1.1 %)
Unit price (yen)	Drug charge per prescription	7,250	7,732	+ 481 (+ 6.6 %)
	Technical fee per prescription	2,209	2,268	+ 59 (+ 2.7 %)
Total b		9,460	10,000	+ 540 (+ 5.7 %)
Dispensing fee (million yen) c = a x b		37,002	39,549	+ 2,546 (+ 6.9 %)

【Prescription unit price trends】

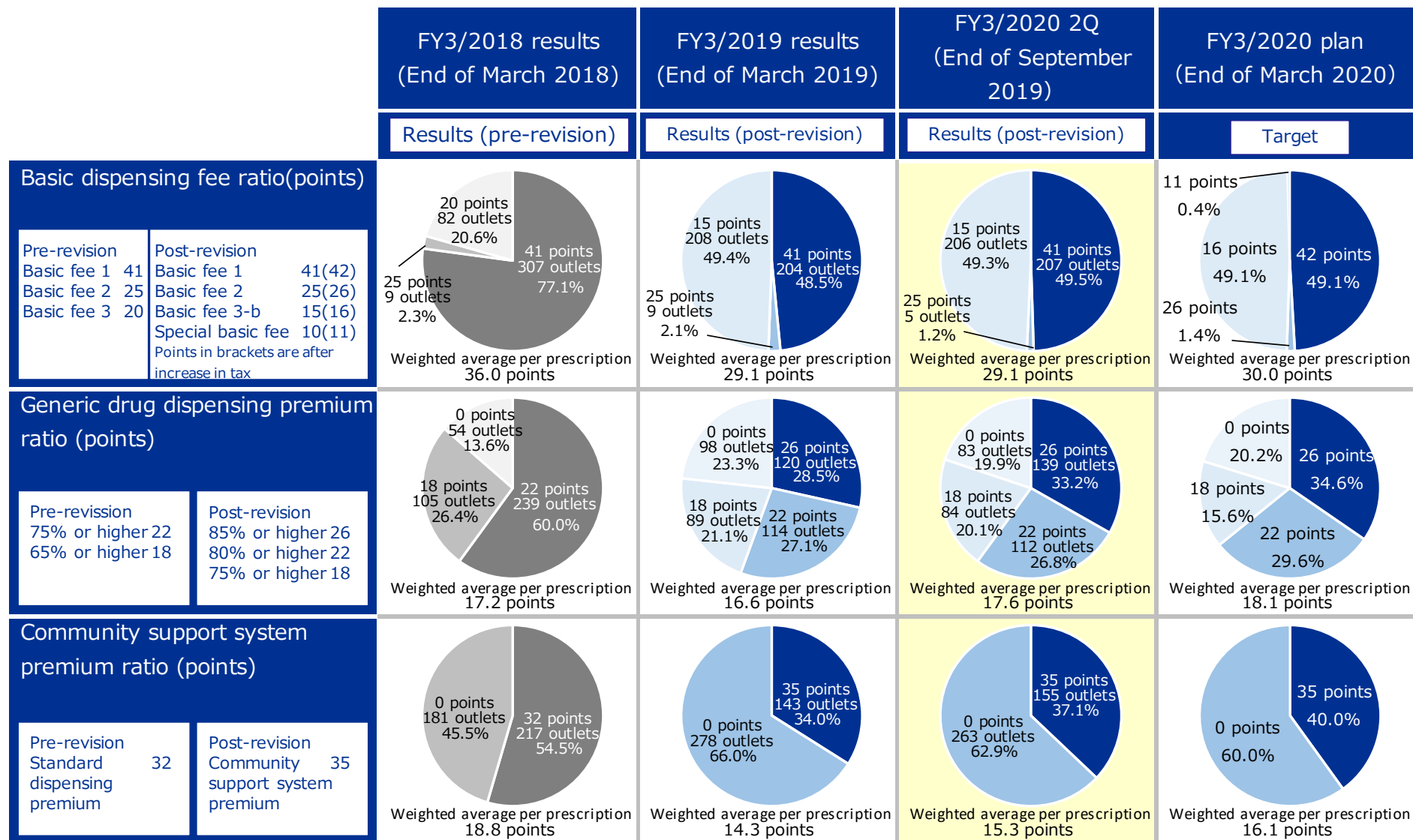


※ "Existing pharmacies" on this page refer to pharmacies that continue to be in business on or after April 1, 2018.

Dispensing Pharmacy Business: Influence of the dispensing fee revision



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※ Excludes suspended pharmacies (FY03/2019 results includes pharmacies closed on March 31, FY03/2020 2Q results includes pharmacies closed on September 27)

Leasing and Facility related Business: Building a community where medical care and nursing are one

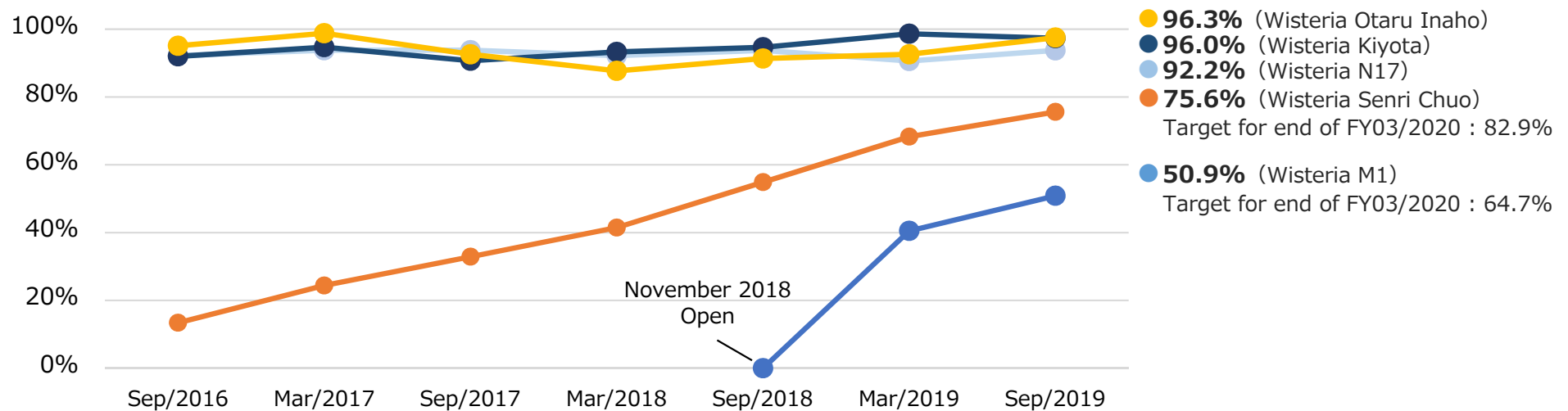


“Wisteria” Series

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

■ Occupancy trend (from September 2016)

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



■ Initiatives to improve occupancy



Seminar



Health event

<Initiatives>

- Hold seminars and health events
- Publish comments from occupants in newspapers and advertisements
- Trial move-ins

Increase brand awareness of Wisteria

Improve occupancy

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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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) 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 ^{※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

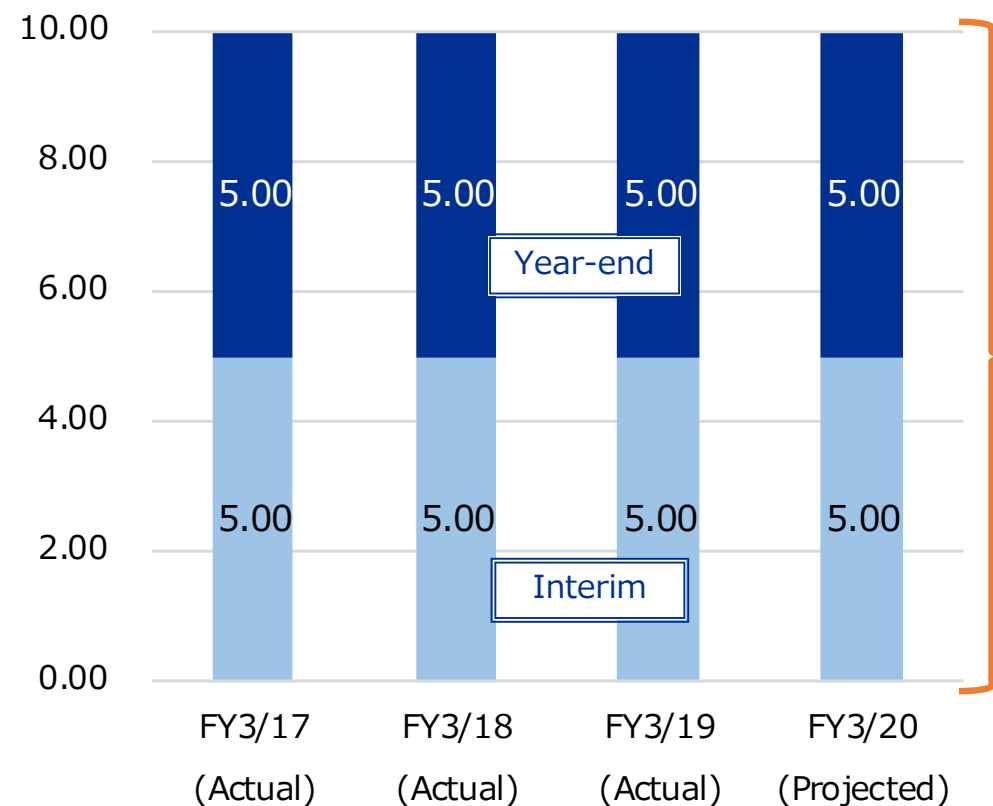
※2 Leasing and Facility related Segment, Meal Catering Segment, Home Visit Nursing Segment

Reference Materials

Interim dividend

- The projected dividend for FY3/20 is 10.00 yen per share (interim and year-end dividend of 5.00 yen each per share)

(Unit: yen) [Annual dividend per share]



《Reference》

① FY3/20 interim dividend

Base date : September 30, 2019

Payment : December 9, 2019

Dividend per share: 5.00 yen

② Shareholder return index

Projected year-end dividend per share: 10.00 yen

Projected payout ratio: 46.8%

Corporate profile (As of September 30, 2019)



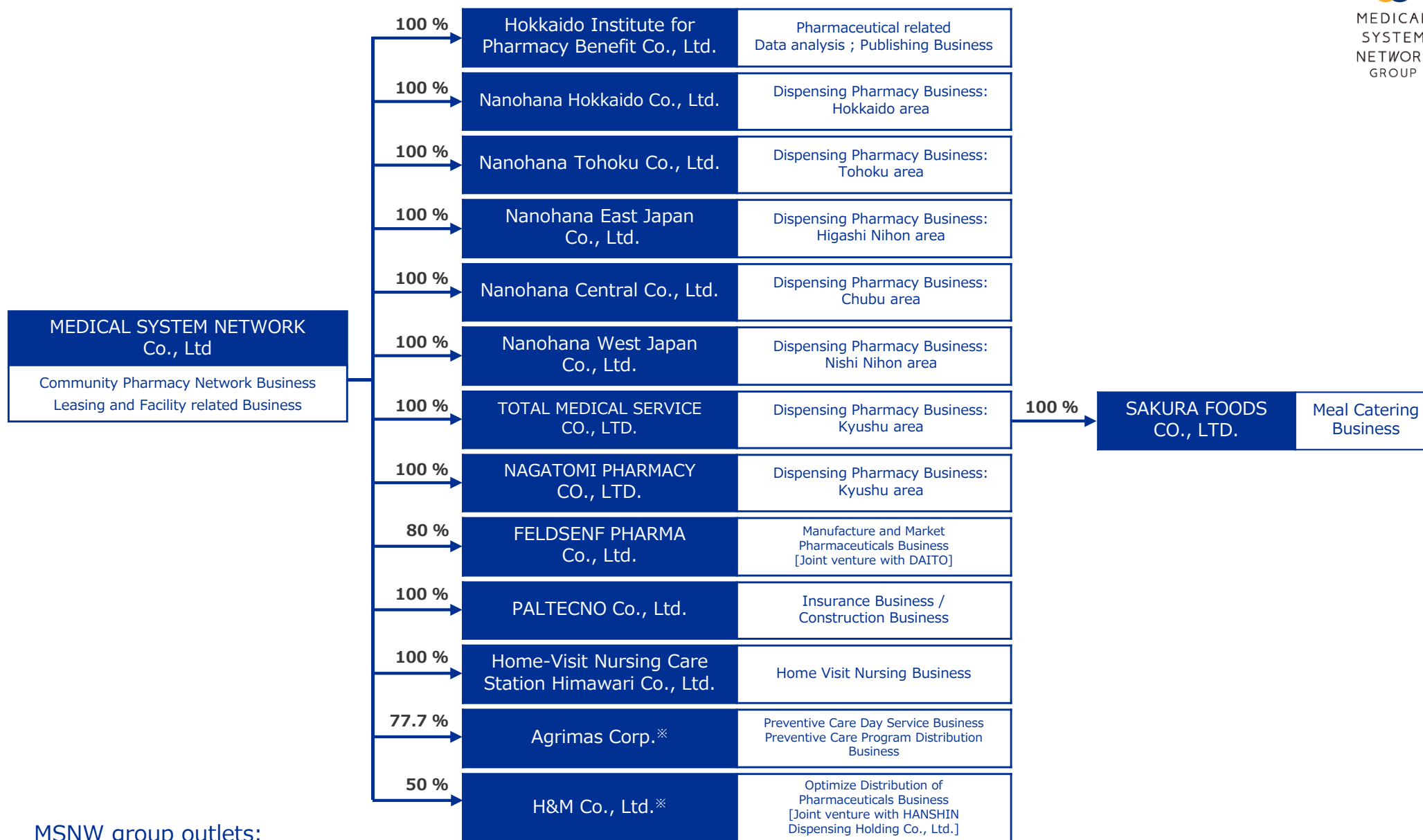
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Company	MEDICAL SYSTEM NETWORK Co., Ltd. ("MSNW")		
Representative	Inao Tajiri President & Representative Director	Businesses	Community Pharmacy Network Segment Leasing and Facility related Segment Meal Catering Segment Home Visit Nursing Segment
Established	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. FELDSENF PHARMA Co., Ltd.	Shareholders composition ※	<p>Excluding shares less than one unit. Treasury shares are included in Individuals and Others.</p>
Employees	263 (3,205 consolidated)	Total Shareholders ※	7,782
Stock listing	First Section of Tokyo Stock Exchange	Securities code	4350
		Outstanding shares	30,642,600

Organization chart (As of November 1, 2019)



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MSNW group outlets:
total 431 outlets

(Includes care plan center (1), drug stores (7), and home-nurse stations (3))

※ Not consolidated

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