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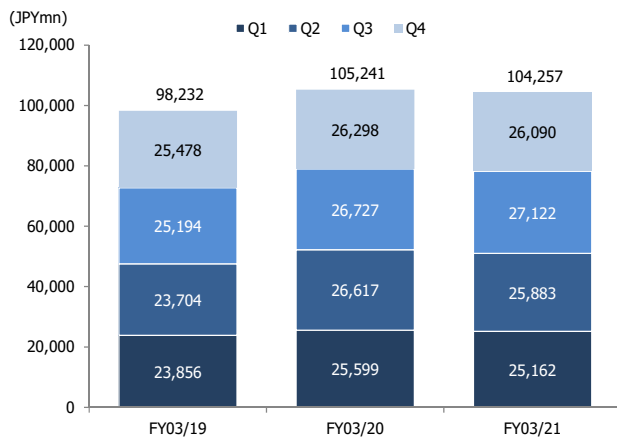
On May 7, 2021, Medical System Network Co., Ltd. announced earnings results for full-year FY03/21.

Cumulative (JPYmn)	FY03/20				FY03/21				FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	25,599	52,216	78,943	105,241	25,162	51,045	78,167	104,257	101.2%	103,000
YoY	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%	-1.0%	-0.9%		-2.1%
Gross profit	9,839	19,819	30,225	40,214	9,704	20,502	31,665	42,412		
YoY	8.4%	10.8%	9.8%	7.9%	-1.4%	3.4%	4.8%	5.5%		
Gross profit margin	38.4%	38.0%	38.3%	38.2%	38.6%	40.2%	40.5%	40.7%		
SG&A expenses	9,504	19,022	28,997	38,599	9,765	19,147	28,892	38,982		
YoY	7.2%	9.3%	9.5%	7.7%	2.7%	0.7%	-0.4%	1.0%		
SG&A ratio	37.1%	36.4%	36.7%	36.7%	38.8%	37.5%	37.0%	37.4%		
Operating profit	334	796	1,228	1,615	-61	1,355	2,773	3,429	100.9%	3,400
YoY	57.5%	67.2%	18.1%	13.1%	-	70.2%	125.8%	112.3%		110.5%
Operating profit margin	1.3%	1.5%	1.6%	1.5%	-	2.7%	3.5%	3.3%		3.3%
Recurring profit	323	784	1,208	1,560	-62	1,397	2,770	3,479	102.3%	3,400
YoY	68.2%	79.0%	19.6%	3.9%	-	78.2%	129.3%	123.0%		117.9%
Recurring profit margin	1.3%	1.5%	1.5%	1.5%	-	2.7%	3.5%	3.3%		3.3%
Net income	97	218	326	-895	-201	578	2,013	2,198	109.9%	2,000
YoY	-4.0%	83.2%	-12.4%	-	-	165.1%	517.5%	-		-
Net margin	0.4%	0.4%	0.4%	-	-	1.1%	2.6%	2.1%		1.9%

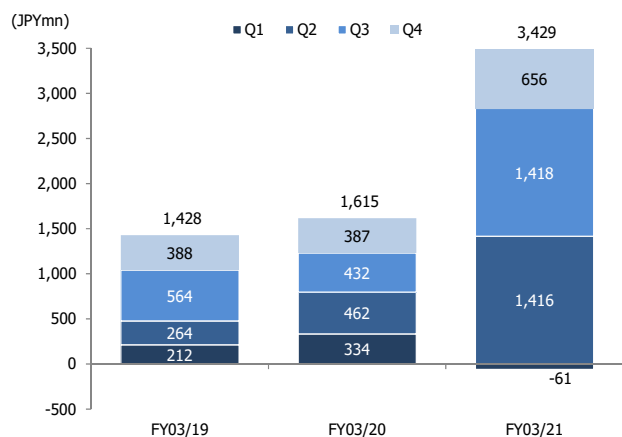
Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	25,599	26,617	26,727	26,298	25,162	25,883	27,122	26,090
YoY	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%	1.5%	-0.8%
Gross profit	9,839	9,980	10,406	9,989	9,704	10,798	11,163	10,747
YoY	8.4%	13.3%	7.9%	2.5%	-1.4%	8.2%	7.3%	7.6%
Gross profit margin	38.4%	37.5%	38.9%	38.0%	38.6%	41.7%	41.2%	41.2%
SG&A expenses	9,504	9,518	9,975	9,602	9,765	9,382	9,745	10,090
YoY	7.2%	11.4%	9.9%	2.6%	2.7%	-1.4%	-2.3%	5.1%
SG&A ratio	37.1%	35.8%	37.3%	36.5%	38.8%	36.2%	35.9%	38.7%
Operating profit	334	462	432	387	-61	1,416	1,418	656
YoY	57.5%	75.0%	-23.4%	-0.3%	-	206.5%	228.2%	69.5%
Operating profit margin	1.3%	1.7%	1.6%	1.5%	-	5.5%	5.2%	2.5%
Recurring profit	323	461	424	352	-62	1,459	1,373	709
YoY	68.2%	87.4%	-25.9%	-28.3%	-	216.5%	223.8%	101.4%
Recurring profit margin	1.3%	1.7%	1.6%	1.3%	-	5.6%	5.1%	2.7%
Net income	97	121	108	-1,221	-201	779	1,435	185
YoY	-4.0%	572.2%	-57.3%	-	-	543.8%	1228.7%	-
Net margin	0.4%	0.5%	0.4%	-	-	3.0%	5.3%	0.7%

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

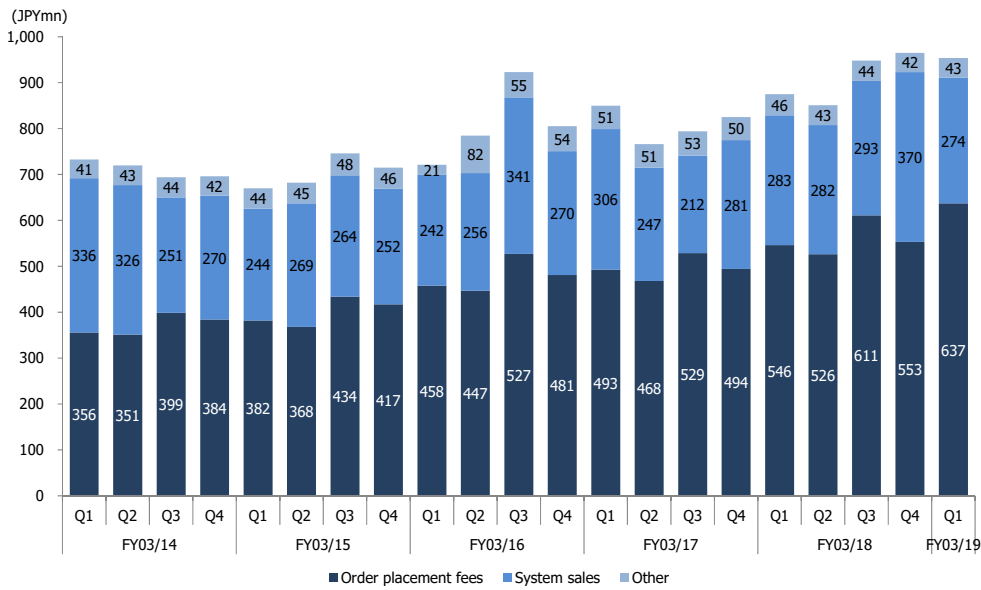
	FY03/20				FY03/21				FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	25,599	52,216	78,943	105,241	25,162	51,045	78,167	104,257	101.2%	103,000
YoY	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%	-1.0%	-0.9%		-2.1%
Community Pharmacy Network	24,224	49,290	74,637	99,617	23,922	48,539	74,368	99,214	101.3%	97,908
YoY	7.4%	10.2%	9.1%	7.9%	-1.2%	-1.5%	-0.4%	-0.4%		-1.7%
% of total	94.1%	93.6%	93.8%	94.0%	94.5%	94.5%	94.6%	94.6%		
Leasing and Facility-related	760	1,829	2,659	3,425	723	1,438	2,194	2,940		
YoY	26.7%	21.3%	11.6%	3.2%	-4.9%	-21.4%	-17.5%	-14.2%		
% of total	3.0%	3.5%	3.3%	3.2%	2.9%	2.8%	2.8%	2.8%		
Food Service	730	1,434	2,128	2,797	612	1,248	1,874	2,474		
YoY	-7.4%	-9.6%	-10.7%	-11.5%	-16.2%	-13.0%	-11.9%	-11.5%		
% of total	2.8%	2.7%	2.7%	2.6%	2.4%	2.4%	2.4%	2.4%		
Other	38	79	122	165	51	110	171	229		
YoY	15.2%	-13.2%	-26.5%	-36.8%	34.2%	39.2%	40.2%	38.8%		
% of total	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%		
Segment sales adjustments	-154	-417	-603	-764	-154	-292	-442	-601		-590
Operating profit	334	796	1,228	1,615	-61	1,355	2,773	3,429	100.9%	3,400
YoY	57.5%	67.2%	18.1%	13.1%	-	70.2%	125.8%	112.3%		110.5%
Community Pharmacy Network	825	1,736	2,764	3,743	434	2,369	4,329	5,703	103.9%	5,489
YoY	28.5%	41.5%	18.5%	13.0%	-47.4%	36.5%	56.6%	52.4%		46.6%
Operating profit margin	3.4%	3.5%	3.7%	3.8%	1.8%	4.9%	5.8%	5.7%		
Leasing and Facility-related	-8	68	67	45	6	16	34	32		
YoY	-	580.0%	-	-	-	-76.5%	-49.3%	-28.9%		
Operating profit margin	-	3.7%	2.5%	1.3%	0.8%	1.1%	1.5%	1.1%		
Food Service	-12	-34	-38	-43	-19	-13	-2	-21		
YoY	-	-	-	-	-	-	-	-		
Operating profit margin	-	-	-	-	-	-	-	-		
Other	-21	-39	-56	-71	-11	-13	-17	-31		
YoY	-	-	-	-	-	-	-	-		
Operating profit margin	-	-	-	-	-	-	-	-		
Segment profit adjustments	-447	-934	-1,508	-2,057	-472	-1,003	-1,569	-2,253		-2,126

	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	25,599	26,617	26,727	26,298	25,162	25,883	27,122	26,090
YoY	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%	1.5%	-0.8%
Community Pharmacy Network	24,224	25,066	25,347	24,980	23,922	24,617	25,829	24,846
YoY	7.4%	13.1%	7.0%	4.6%	-1.2%	-1.8%	1.9%	-0.5%
% of total	96.6%	93.3%	94.2%	94.4%	94.5%	94.6%	94.7%	94.7%
Leasing and Facility-related	760	1,069	830	766	723	715	756	746
YoY	26.7%	17.7%	-5.0%	-18.3%	-4.9%	-33.1%	-8.9%	-2.6%
% of total	3.0%	4.0%	3.1%	2.9%	2.9%	2.7%	2.8%	2.8%
Food Service	730	704	694	669	612	636	626	600
YoY	-7.4%	-11.8%	-12.8%	-14.1%	-16.2%	-9.7%	-9.8%	-10.3%
% of total	2.9%	2.6%	2.6%	2.5%	2.4%	2.4%	2.3%	2.3%
Other	38	41	43	43	51	59	61	58
YoY	15.2%	-29.3%	-42.7%	-54.7%	34.2%	43.9%	41.9%	34.9%
% of total	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Segment sales adjustments	520	-263	-186	-161	-154	-138	-150	-159
Operating profit	334	462	432	387	-61	1,416	1,418	656
YoY	57.5%	75.0%	-23.4%	-0.3%	-	206.5%	228.2%	69.5%
Community Pharmacy Network	825	911	1,028	979	434	1,935	1,960	1,374
YoY	28.5%	80.0%	61.4%	-	-47.4%	112.4%	90.7%	40.3%
Operating profit margin	3.4%	3.6%	4.1%	-	1.8%	7.9%	7.6%	5.5%
Leasing and Facility-related	-8	76	-1	-22	6	10	18	-2
YoY	-	-	-	-	-	-86.8%	-	-
Operating profit margin	-	7.1%	-	-	0.8%	1.4%	2.4%	-
Food Service	-12	-22	-4	-5	-19	6	11	-19
YoY	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	0.9%	1.8%	-
Other	-21	-18	-17	-15	-11	-2	-4	-14
YoY	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-
Segment profit adjustments	-447	-487	-574	-549	-472	-531	-566	-684

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

(Reference) Former Pharmaceuticals Network segment sales

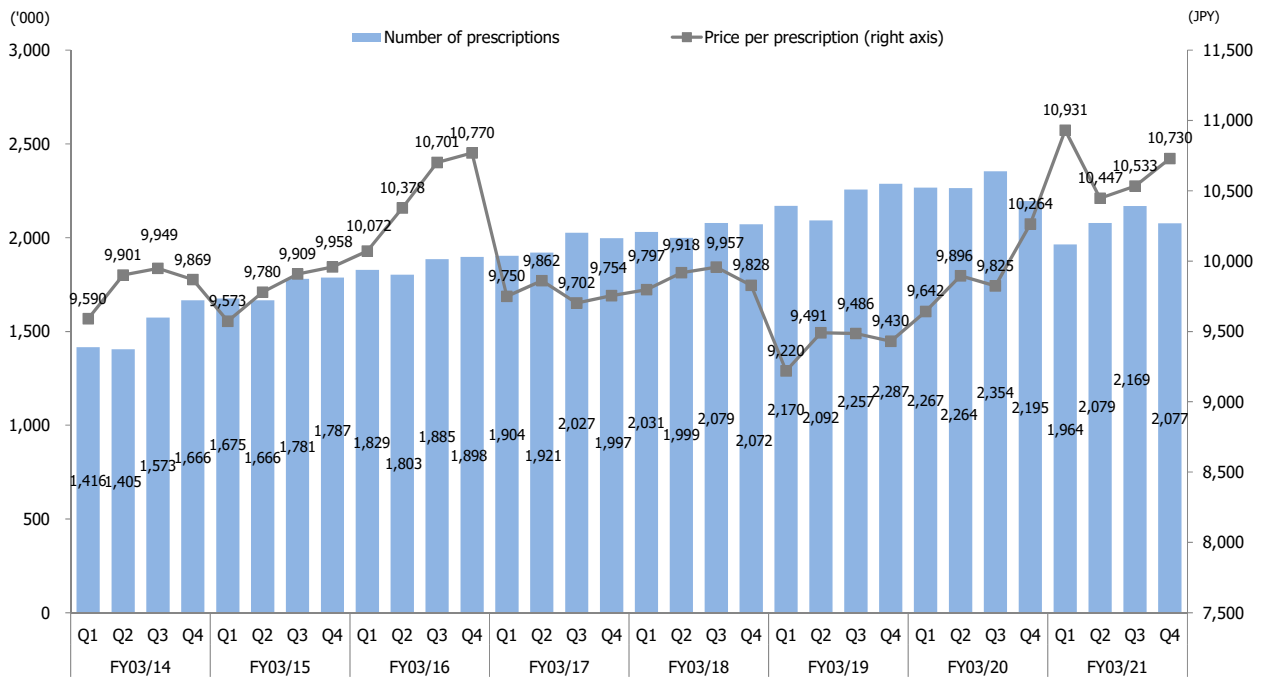


Source: Shared Research based on company data

Notes: Undisclosed from Q2 FY03/19

The former Pharmaceuticals Network segment was integrated into the new Community Pharmacy Network segment from FY03/20

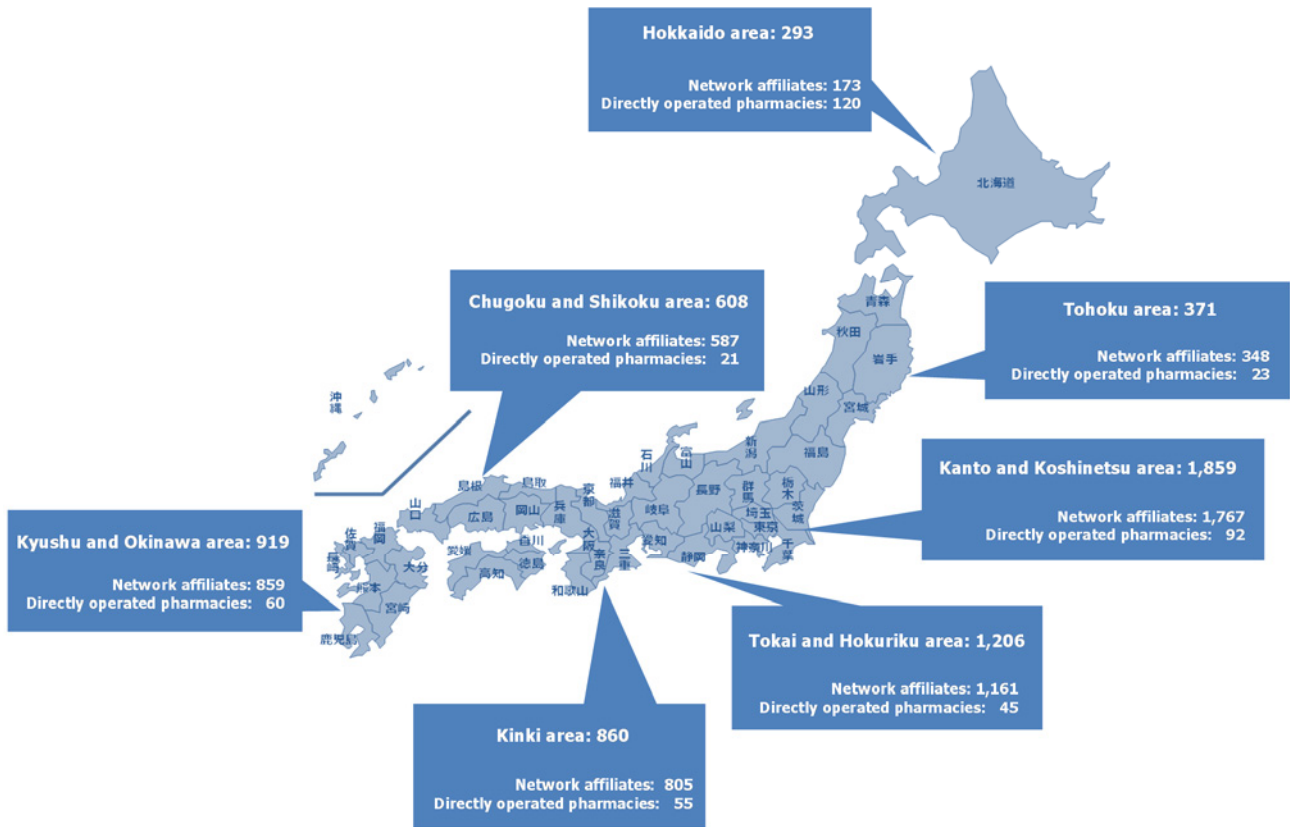
Quarterly trends in prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy business; all stores)



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 March 31, 2021)



Source: Shared Research based on company data

Number of dispensing pharmacies by region

Region	Directly operated pharmacies	Affiliates	Total network members
Hokkaido	120	173	293
Tohoku	23	348	371
Kanto and Koshinetsu	92	1,767	1,859
Tokai and Hokuriku	45	1,161	1,206
Kinki	55	805	860
Chugoku and Shikoku	21	587	608
Kyushu and Okinawa	60	859	919
Total	416	5,700	6,116

Source: Shared Research based on company data (March 31, 2021)

Full-year FY03/21 earnings results (out May 7, 2021)

Overview

FY03/21 (April 2020–March 2021) earnings results

- ▷ Sales: JPY104.3bn (-0.9% YoY)
- ▷ Operating profit: JPY3.4bn (+112.3% YoY)
- ▷ Recurring profit: JPY3.5bn (+123.0% YoY)
- ▷ Net income*: JPY2.2bn (versus loss of JPY895mn in FY03/20)

*Net income attributable to owners of the parent

Company response and business conditions

The Pharmaceuticals Network business recorded a steady increase in new network members, while the Dispensing Pharmacy business saw a drop in the number of prescriptions filled owing to fewer medical examinations as a result of the COVID-19 pandemic. The increase in Pharmaceuticals Network business network members contributed to profit growth, as did progress in the Dispensing Pharmacy business with promoting the switch to generics, streamlining operations, improving productivity, and reducing expenses. The company also turned into the black at the net income level, due to JPY907mn in proceeds from the sale of some shares in a non-equity-method affiliate in December 2020, booked as extraordinary gains.

Breakdown of FY03/21 (April 2020–March 2021) results by segment

Note: Reported sales and earnings at the segment level include intra-group sales and transfers between segments.

Community Pharmacy Network

- ▷ Segment sales: JPY99.2bn (-0.4% YoY)
- ▷ Segment profit: JPY5.7bn (+52.4% YoY)
- ▷ 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.

Pharmaceuticals Network

Despite the loss of some major customers, the number of new network members continued to increase, driven by the need for improved distribution efficiency. As of end-March 2021, network members numbered 6,116 (+871 versus end-FY03/20), consisting of 416 directly operated pharmacies and 5,700 affiliates. By end-March 2021, the company's market share exceeded 10%.

Dispensing Pharmacy

Reflecting the decline in medical examinations in the wake of the pandemic, the number of prescriptions filled during the period was down. However, the company worked to promote the switch to generics as an economic alternative with stable supply, as well as to streamline operations, optimize personnel deployment, and reduce overtime. As of end-March 2021, the group had 416 dispensing pharmacies, one care plan center, and eight cosmetics/drug stores.

Manufacture and market pharmaceuticals

This business aims to provide a stable supply of good-quality, low-priced generic drugs. As of end-March 2021, the company was selling 34 different ingredients and 68 products.

Digital shift

Subsidiary PharmaShift Co., Ltd. was established on October 1, 2020, to create a "new pharmaceutical platform" for the digital age. In March 2021 the subsidiary launched the "Your Family Pharmacy" service utilizing its official LINE account.

Leasing and Facility-related

- ▷ Segment sales: JPY2.9bn (-14.2% YoY)
- ▷ Segment profit: JPY32mn (-28.7% YoY)

Reasons for declines in sales and profit

In FY03/21, the spread of COVID-19 limited sales activities for the company's serviced elderly housing facilities, leading to sluggish growth in occupancy. There were also pandemic-related postponements of certain construction projects. As of end-March 2021, the company reported stable occupancy rates at three out of its five properties, while for the remaining two, at Wisteria Senri-Chuo it reported an occupancy rate of 78.1% (with 64 out of 82 units occupied), and at Wisteria Minami Ichijo it reported an occupancy rate of 67.2% (with 78 out of 116 units occupied).

Food Service

- ▷ Segment sales: JPY2.5bn (-11.6% YoY)
- ▷ Segment loss: JPY21mn (versus loss of JPY43mn in FY03/20)

Loss improved

While there was a decline in the number of meals supplied due to the pandemic, losses narrowed owing to the company's withdrawal from unprofitable facilities.

Other (mostly home-visit nursing care)

- ▷ Segment sales: JPY229mn (+38.6% YoY)
- ▷ Segment loss: JPY31mn (versus loss of JPY71mn in FY03/20)

Company forecast for FY03/22

Recent performance and FY03/22 company forecast

(JPYmn)	FY03/20			FY03/21			FY03/22		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	52,216	53,025	105,241	51,045	53,212	104,257	51,850	53,850	105,700
YoY	9.8%	4.6%	7.1%	-2.2%	0.4%	-0.9%	1.6%	1.2%	1.4%
Cost of sales	32,397	32,630	65,027	30,542	31,303	61,845			
Gross profit	19,819	20,395	40,214	20,502	21,910	42,412			
Gross profit margin	38.0%	38.5%	38.2%	40.2%	41.2%	40.7%			
SG&A expenses	19,022	19,577	38,599	19,147	19,835	38,982			
SG&A ratio	36.4%	36.9%	36.7%	37.5%	37.3%	37.4%			
Operating profit	796	819	1,615	1,355	2,074	3,429	1,400	2,100	3,500
YoY	67.2%	-14.0%	13.1%	70.2%	153.2%	112.3%	3.3%	1.3%	2.1%
Operating profit margin	1.5%	1.5%	1.5%	2.7%	3.9%	3.3%	2.7%	3.9%	3.3%
Recurring profit	784	776	1,560	1,397	2,082	3,479	1,750	2,250	4,000
YoY	79.0%	-27.0%	3.9%	78.2%	168.3%	123.0%	25.3%	8.1%	15.0%
Recurring profit margin	1.5%	1.5%	1.5%	2.7%	3.9%	3.3%	3.4%	4.2%	3.8%
Net income	218	-1,113	-895	578	1,620	2,198	750	1,050	1,800
YoY	83.2%	-	-	165.1%	-	-	29.8%	-35.2%	-18.1%
Net margin	0.4%	-2.1%	-0.9%	1.1%	3.0%	2.1%	1.4%	1.9%	1.7%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

- ▷ Sales: JPY105.7bn (+1.4% YoY)
- ▷ EBIDTA: JPY6.5bn (+1.2% YoY; adopted as a new yardstick for profitability)
- ▷ Operating profit: JPY3.5bn (+2.1% YoY)

- ▷ Recurring profit: JPY4.0bn (+15.0% YoY)
- ▷ Net income*: JPY1.8bn (-18.1% YoY)
- ▷ EPS: JPY59.70 (-17.7% YoY)

*Net income attributable to owners of the parent

Sales forecast by segment

Community Pharmacy Network segment: Sales of JPY100.1bn (+0.9% YoY), segment profit of JPY5.7bn (+0.5% YoY)

Other three businesses: Sales of JPY6.2bn (+9.2% YoY), segment profit of JPY167mn (versus a loss of JPY20mn in FY03/21)

Adjustments: -JPY612mn for sales, -JPY2.4bn for segment profit

Background to earnings forecasts

In the dispensing pharmacy industry, earnings traditionally have been at the mercy of biennial NHI drug price revisions. The first-ever “off-year” revision took place in April 2021, with revisions applied to some 70% of all pharmaceuticals on the NHI drug price list. Going forward, drug price revisions will take place annually (incorporating the off-year revisions), and Medical System Network foresees further deterioration in the business climate for dispensing pharmacies, heightening the need for operational stability. The company sees this change in the business climate as an opportunity for the Community Pharmacy Network segment’s Pharmaceuticals Network business to expand via growth in the number of network members. In the Dispensing Pharmacy business, the company will focus on filling more prescriptions by strengthening family pharmacy functions and utilizing its LINE official account to enhance communication with customers. At the Leasing and Facility-related business, the company seeks to stabilize earnings by targeting 90% occupancy for all serviced residences for the elderly.

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

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