

On August 6, 2021, Medical System Network Co., Ltd. announced earnings results for Q1 FY03/22; see the results section for details.

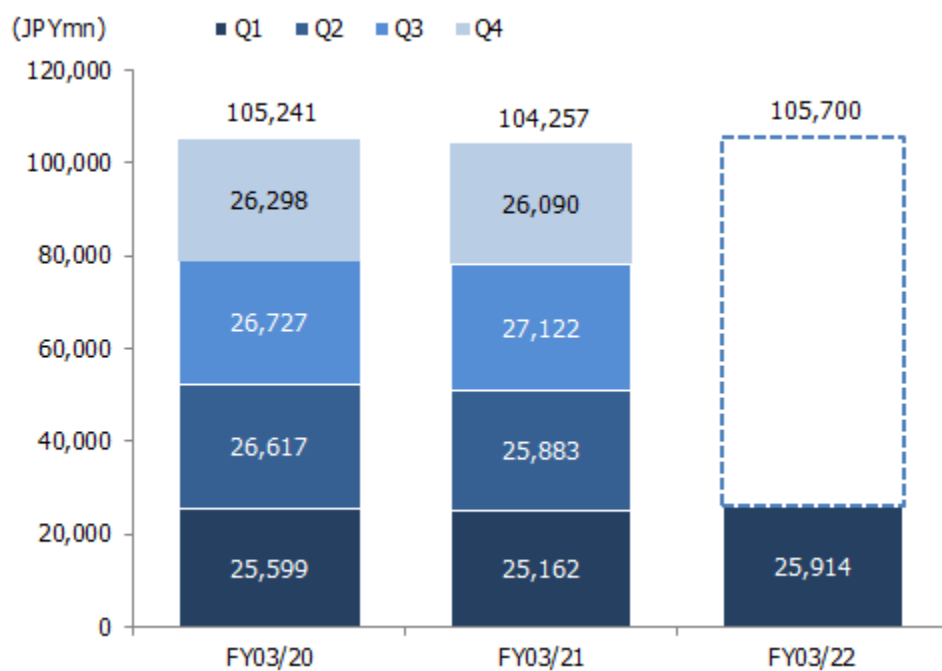
## Quarterly trends and results

Cumulative (JPYmn)	FY03/20				FY03/21				FY03/22	FY03/21			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	% of Est.	1H Est.	% of Est.	FY Est.
Sales	25,599	52,216	78,943	105,241	25,162	51,045	78,167	104,257	25,914	50.0%	51,850	24.5%	105,700
YoY	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%	-1.0%	-0.9%	3.0%		1.6%		1.4%
Gross profit	9,839	19,819	30,225	40,214	9,704	20,502	31,665	42,412	10,738				
YoY	8.4%	10.8%	9.8%	7.9%	-1.4%	3.4%	4.8%	5.5%	10.7%				
Gross profit margin	38.4%	38.0%	38.3%	38.2%	38.6%	40.2%	40.5%	40.7%	41.4%				
SG&A expenses	9,504	19,022	28,997	38,599	9,765	19,147	28,892	38,982	10,071				
YoY	7.2%	9.3%	9.5%	7.7%	2.7%	0.7%	-0.4%	1.0%	3.1%				
SG&A ratio	37.1%	36.4%	36.7%	36.7%	38.8%	37.5%	37.0%	37.4%	38.9%				
Operating profit	334	796	1,228	1,615	-61	1,355	2,773	3,429	667	47.6%	1,400	19.1%	3,500
YoY	57.5%	67.2%	18.1%	13.1%	-	70.2%	125.8%	112.3%	-		3.3%		2.1%
Operating profit margin	1.3%	1.5%	1.6%	1.5%	-	2.7%	3.5%	3.3%	2.6%				3.3%
Recurring profit	323	784	1,208	1,560	-62	1,397	2,770	3,479	935	53.4%	1,750	23.4%	4,000
YoY	68.2%	79.0%	19.6%	3.9%	-	78.2%	129.3%	123.0%	-		25.3%		15.0%
Recurring profit margin	1.3%	1.5%	1.5%	1.5%	-	2.7%	3.5%	3.3%	3.6%				3.8%
Net income	97	218	326	-895	-201	578	2,013	2,198	583	77.7%	750	32.4%	1,800
YoY	-4.0%	83.2%	-12.4%	-	-	165.1%	517.5%	-	-		29.8%		-18.1%
Net margin	0.4%	0.4%	0.4%	-	-	1.1%	2.6%	2.1%	2.2%				1.7%
Quarterly (JPYmn)	FY03/20				FY03/21				FY03/22				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1				
Sales	25,599	26,617	26,727	26,298	25,162	25,883	27,122	26,090	25,914				
YoY	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%	1.5%	-0.8%	3.0%				
Gross profit	9,839	9,980	10,406	9,989	9,704	10,798	11,163	10,747	10,738				
YoY	8.4%	13.3%	7.9%	2.5%	-1.4%	8.2%	7.3%	7.6%	10.7%				
Gross profit margin	38.4%	37.5%	38.9%	38.0%	38.6%	41.7%	41.2%	41.2%	41.4%				
SG&A expenses	9,504	9,518	9,975	9,602	9,765	9,382	9,745	10,090	10,071				
YoY	7.2%	11.4%	9.9%	2.6%	2.7%	-1.4%	-2.3%	5.1%	3.1%				
SG&A ratio	37.1%	35.8%	37.3%	36.5%	38.8%	36.2%	35.9%	38.7%	38.9%				
Operating profit	334	462	432	387	-61	1,416	1,418	656	667				
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%	2.6%				
Recurring profit	323	461	424	352	-62	1,459	1,373	709	935				
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%	3.6%				
Net income	97	121	108	-1,221	-201	779	1,435	185	583				
YoY	-4.0%	572.2%	-57.3%	-	-	543.8%	1,228.7%	-	-				
Net margin	0.4%	0.5%	0.4%	-	-	3.0%	5.3%	0.7%	2.2%				

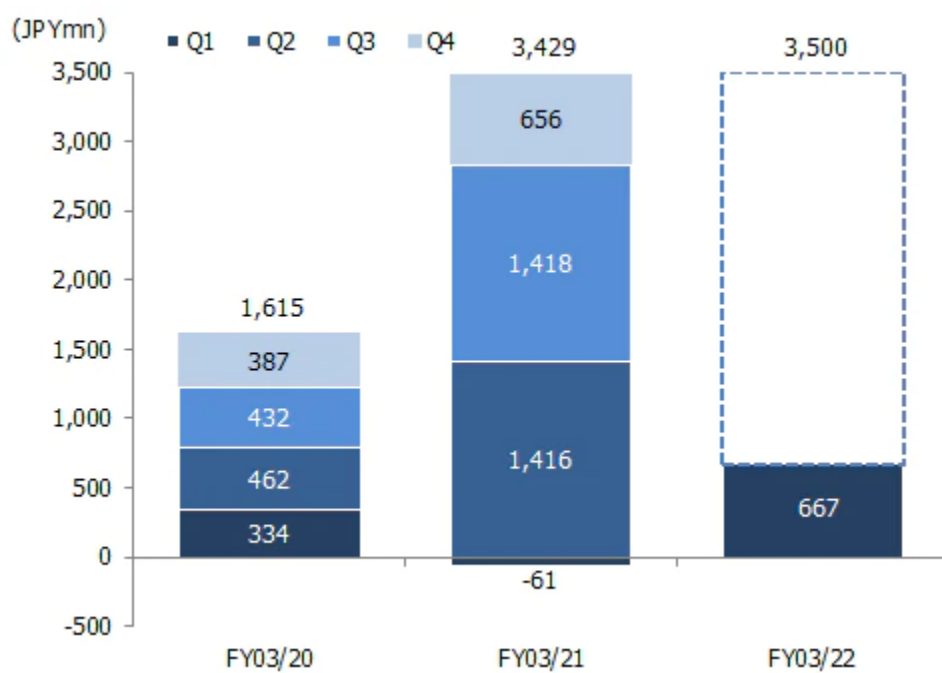
Source: Shared Research based on company data

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

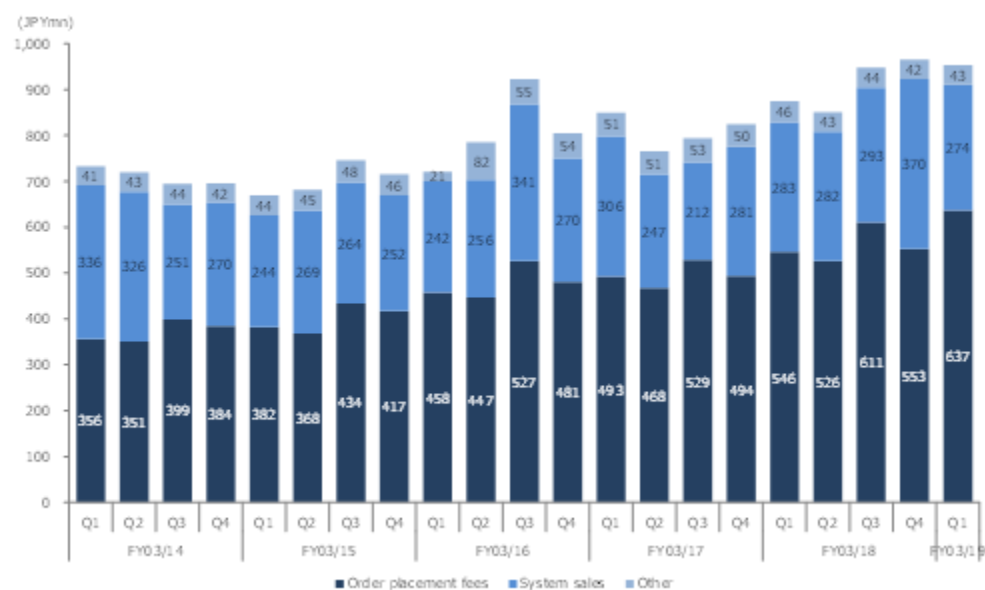
## Quarterly results

By segment (cumulative)	FY03/20				FY03/21				FY03/22
(JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1
<b>Sales</b>	<b>25,599</b>	<b>52,216</b>	<b>78,943</b>	<b>105,241</b>	<b>25,162</b>	<b>51,045</b>	<b>78,167</b>	<b>104,257</b>	<b>25,914</b>
YoY	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%	-1.0%	-0.9%	3.0%
Community Pharmacy Network	24,224	49,290	74,637	99,617	23,922	48,539	74,368	99,214	24,657
YoY	7.4%	10.2%	9.1%	7.9%	-1.2%	-1.5%	-0.4%	-0.4%	3.1%
% of total	94.1%	93.6%	93.8%	94.0%	94.5%	94.5%	94.6%	94.6%	94.6%
Leasing and Facility-related	760	1,829	2,659	3,425	723	1,438	2,194	2,940	739
YoY	26.7%	21.3%	11.6%	3.2%	-4.9%	-21.4%	-17.5%	-14.2%	2.2%
% of total	3.0%	3.5%	3.3%	3.2%	2.9%	2.8%	2.8%	2.8%	2.8%
Food Service	730	1,434	2,128	2,797	612	1,248	1,874	2,474	586
YoY	-7.4%	-9.6%	-10.7%	-11.5%	-16.2%	-13.0%	-11.9%	-11.5%	-4.2%
% of total	2.8%	2.7%	2.7%	2.6%	2.4%	2.4%	2.4%	2.4%	2.2%
Other	38	79	122	165	51	110	171	229	74
YoY	15.2%	-13.2%	-26.5%	-36.8%	34.2%	39.2%	40.2%	38.8%	45.1%
% of total	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%
Segment sales adjustments	-154	-417	-603	-764	-154	-292	-442	-601	-143
<b>Operating profit</b>	<b>334</b>	<b>796</b>	<b>1,228</b>	<b>1,615</b>	<b>-61</b>	<b>1,355</b>	<b>2,773</b>	<b>3,429</b>	<b>667</b>
YoY	57.5%	67.2%	18.1%	13.1%	-	70.2%	125.8%	112.3%	-
Community Pharmacy Network	825	1,736	2,764	3,743	434	2,369	4,329	5,703	1,202
YoY	28.5%	41.5%	18.5%	13.0%	-47.4%	36.5%	56.6%	52.4%	177.0%
Operating profit margin	3.4%	3.5%	3.7%	3.8%	1.8%	4.9%	5.8%	5.7%	4.9%
Leasing and Facility-related	-8	68	67	45	6	16	34	32	-2
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%	-0.3%
Food Service	-12	-34	-38	-43	-19	-13	-2	-21	-1
YoY	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-	-
Other	-21	-39	-56	-71	-11	-13	-17	-31	-7
YoY	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-	-
Segment profit adjustments	-447	-934	-1,508	-2,057	-472	-1,003	-1,569	-2,253	-523
	FY03/20				FY03/21				FY03/22
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Sales</b>	<b>25,599</b>	<b>26,617</b>	<b>26,727</b>	<b>26,298</b>	<b>25,162</b>	<b>25,883</b>	<b>27,122</b>	<b>26,090</b>	<b>25,914</b>
YoY	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%	1.5%	-0.8%	3.0%
Community Pharmacy Network	24,224	25,066	25,347	24,980	23,922	24,617	25,829	24,846	24,657
YoY	7.4%	13.1%	7.0%	4.6%	-1.2%	-1.8%	1.9%	-0.5%	3.1%
% of total	96.6%	93.3%	94.2%	94.4%	94.5%	94.6%	94.7%	94.7%	93.5%
Leasing and Facility-related	760	1,069	830	766	723	715	756	746	739
YoY	26.7%	17.7%	-5.0%	-18.3%	-4.9%	-33.1%	-8.9%	-2.6%	2.2%
% of total	3.0%	4.0%	3.1%	2.9%	2.9%	2.7%	2.8%	2.8%	2.8%
Food Service	730	704	694	669	612	636	626	600	586
YoY	-7.4%	-11.8%	-12.8%	-14.1%	-16.2%	-9.7%	-9.8%	-10.3%	-4.2%
% of total	2.9%	2.6%	2.6%	2.5%	2.4%	2.4%	2.3%	2.3%	2.2%
Other	38	41	43	43	51	59	61	58	74
YoY	15.2%	-29.3%	-42.7%	-54.7%	34.2%	43.9%	41.9%	34.9%	45.1%
% of total	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%
Segment sales adjustments	520	-263	-186	-161	-154	-138	-150	-159	-463
<b>Operating profit</b>	<b>334</b>	<b>462</b>	<b>432</b>	<b>387</b>	<b>-61</b>	<b>1,416</b>	<b>1,418</b>	<b>656</b>	<b>667</b>
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	1,202
YoY	28.5%	80.0%	61.4%	-	-47.4%	112.4%	90.7%	40.3%	177.0%
Operating profit margin	3.4%	3.6%	4.1%	-	1.8%	7.9%	7.6%	5.5%	4.9%
Leasing and Facility-related	-8	76	-1	-22	6	10	18	-2	-2
YoY	-	-	-	-	-	-86.8%	-	-	-
Operating profit margin	-	7.1%	-	-	0.8%	1.4%	2.4%	-	-0.3%
Food Service	-12	-22	-4	-5	-19	6	11	-19	-1
YoY	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	0.9%	1.8%	-	-
Other	-21	-18	-17	-15	-11	-2	-4	-14	-7
YoY	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-	-
Segment profit adjustments	-447	-487	-574	-549	-472	-531	-566	-684	-523

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

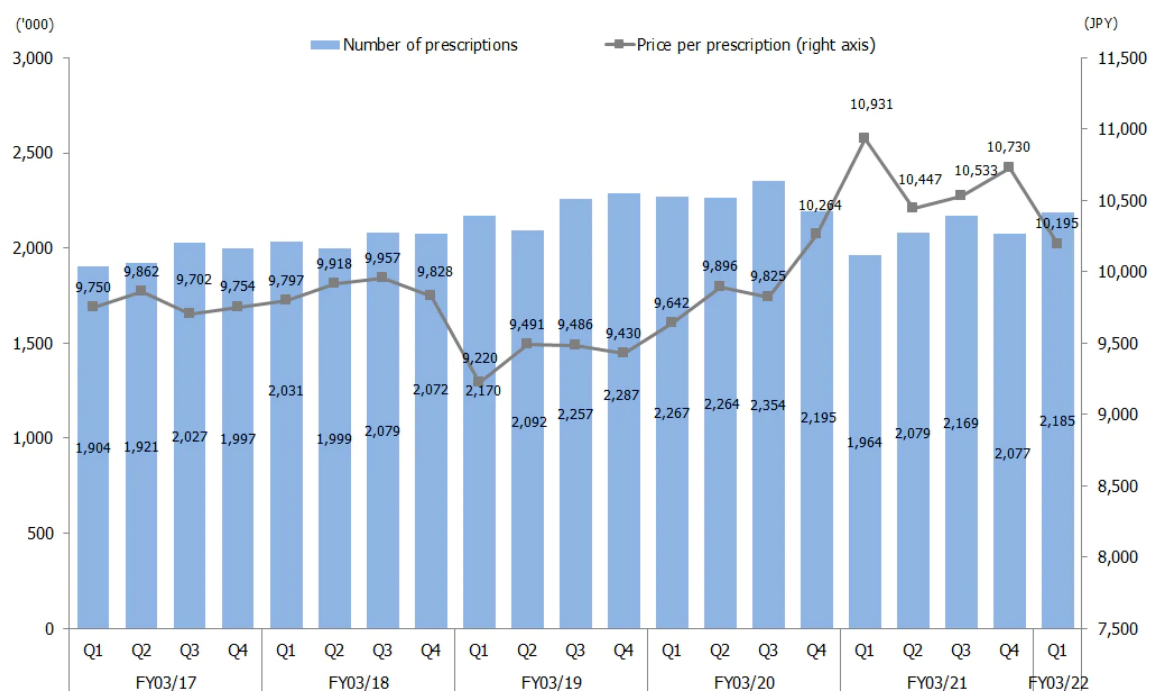


Source: Shared Research based on company data

Notes: Undisclosed from Q2 FY03/19

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

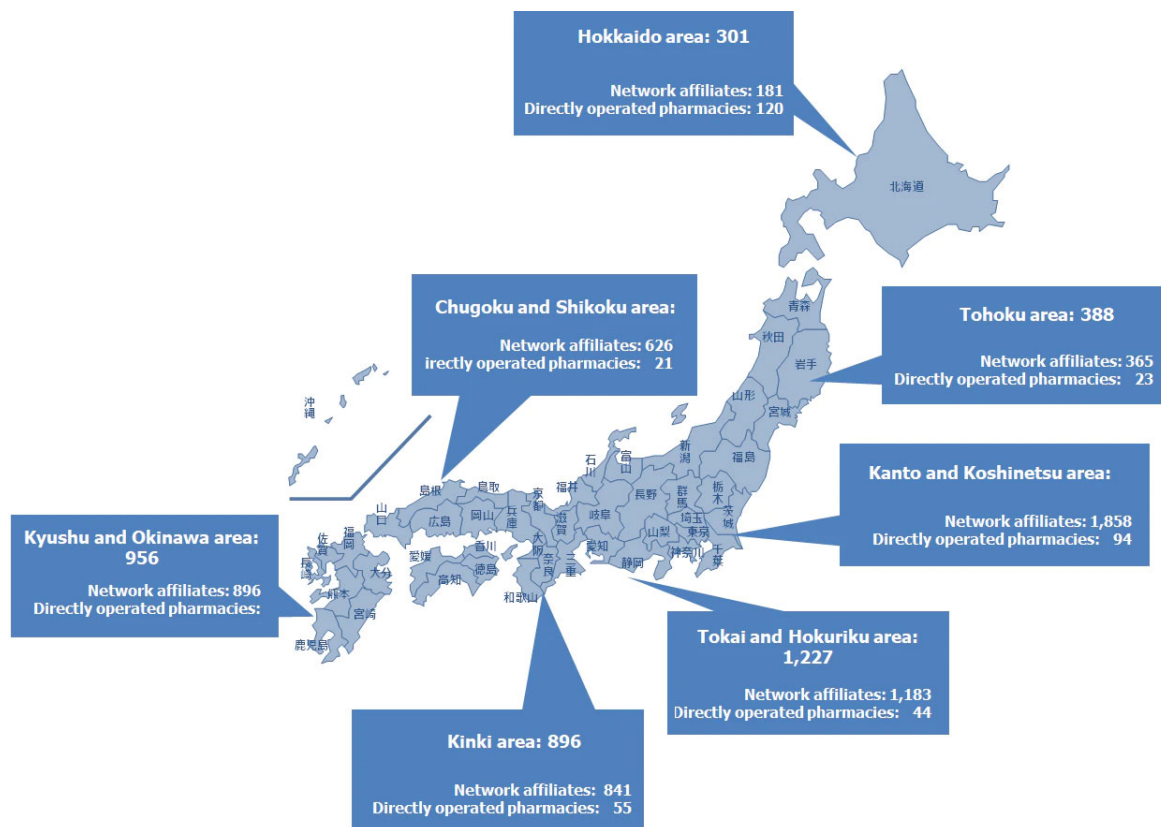
## Quarterly trends in prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy business; all stores)



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 June 30, 2021)



Source: Shared Research based on company data

## Number of dispensing pharmacies by region

Area	Directly operated pharmacies	Affiliates	Total
Hokkaido	120	181	301
Tohoku	23	365	388
Kanto and Koshinetsu	94	1,858	1,952
Tokai and Hokuriku	44	1,183	1,227
Kinki	55	841	896
Chugoku and Shikoku	21	626	647
Kyushu and Okinawa	60	896	956
<b>Total</b>	<b>417</b>	<b>5,950</b>	<b>6,367</b>

## Q1 FY03/22 earnings results (out August 6, 2021)

### Overview

Q1 FY03/22 (April–June 2021) earnings results

- Sales: JPY25.9bn (+3.0% YoY)
- Operating profit: JPY667mn (loss of JPY61mn in Q1 FY03/21)
- Recurring profit: JPY935mn (loss of JPY62mn in Q1 FY03/21)
- Net income attributable to owners of the parent: JPY583mn (loss of JPY201mn in Q1 FY03/21)

### Company response and business conditions

The Pharmaceuticals Network business recorded a steady increase in new network members in general, and the Dispensing Pharmacy business saw some recovery in the number of prescriptions filled despite a drop in the average prescription price. The increase in Pharmaceuticals Network business network members contributed to profit growth.

# Breakdown of Q1 FY03/22 (April–June 2021) results by segment

## Community Pharmacy Network

- Segment sales: JPY24.7bn (+3.1% YoY)
- Segment profit: JPY1.2bn (+177.0% 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. A digital shift business that utilizes instant messaging app LINE was added to the segment from FY03/21.

## Pharmaceuticals Network

The number of new network members continued to increase, driven by the need for improved operating stability amid harsh business environments in the dispensing pharmacy industry. As of end-June 2021, network members numbered 6,367 (+251 versus end-FY03/21), consisting of 417 directly operated pharmacies and 5,950 affiliates. By end-June 2021, the company's market share exceeded 10%.

## Dispensing Pharmacy

The number of prescriptions filled during the period recovered to some extent, despite a drop in the average prescription price. As of end-June 2021, the group had 417 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-June 2021, the company was selling 37 different ingredients and 74 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. As of end-June 2021, the official LINE account had more than 87,000 friends (users), with 350 stores having introduced the service.

## Leasing and Facility-related

- Segment sales: JPY739mn (+2.2% YoY)
- Segment loss: JPY2mn (profit of JPY6mn in Q1 FY03/21)

## Reasons for segment loss

In Q1 FY03/22, the spread of COVID-19 limited sales activities for the company's serviced elderly housing facilities, leading to sluggish growth in occupancy. The company also incurred increased expenses for implementing counter-infection measures. As of end-June 2021, the company reported stable occupancy rates at three 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: JPY586mn (-4.2% YoY)
- Segment loss: JPY1mn (versus loss of JPY19mn in Q1 FY03/21)

## Loss improved

Losses narrowed due to a decline in the number of meals supplied due to the pandemic, withdrawal from unprofitable facilities, and changes in suppliers.

## Other (mostly home-visit nursing care)

- Segment sales: JPY74mn (+45.1% YoY)

- Segment loss: JPY7mn (versus loss of JPY11mn in Q1 FY03/21)

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## Contact Details

Company name

**Shared Research Inc.**

Phone

**+81 (0)3 5834-8787**

Address

**3-31-12 Sendagi Bunkyo-ku Tokyo, Japan**

Email

**[info@sharedresearch.jp](mailto:info@sharedresearch.jp)**

Website

**<https://sharedresearch.jp>**

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