



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Second Quarter of Fiscal Year Ending March 2022

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.
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Please see the following link for our English information.

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



FY3/2022 2Q : Topics and Business Overview

- April 2021 drug price revision details were announced.
- The number of new pharmaceutical network affiliates was steady.
- Although the prescription unit price of dispensing pharmacies fell, the number of prescriptions recovered to a certain extent and as a result, sales and profits increased.
- As of the end of September 2021, PharmaShift LINE official- account registered friends exceeded 170K and 552 pharmacies have adopted the service.
- Joining the application process for the "Prime Market" at the Tokyo Stock Exchange.

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Earnings Highlight

FY3/2022 2Q : Consolidated results

(Unit: million yen)	FY3/2021 2Q	FY3/2022 2Q (original ^{*4} forecast)	FY3/2022 2Q (result)	Year-on-year		Progress rate v.s. forecast	
				Change	Change (%)	Difference	Difference (%)
Net sales	51,045	51,850	52,169	+ 1,124	+ 2.2%	+ 319	100.6%
EBITDA ^{*1}	2,787	2,800	3,253	+ 466	+ 16.7%	+ 453	116.2%
Profit margin	5.5%	5.4%	6.2%				
Operating profit	1,355	1,400	1,862	+ 506	+ 37.4%	+ 462	133.0%
Profit margin	2.7%	2.7%	3.6%				
Ordinary profit	1,397	1,750	2,235 ^{*2}	+ 838	+ 60.0%	+ 485	127.8%
Profit margin	2.7%	3.4%	4.3%				
Profit attributable to owners of parent	578	750	1,431 ^{*3}	+ 852	+ 147.2%	+ 681	190.9%
Profit margin	1.1%	1.4%	2.7%				
Earnings per share (Yen)	19.08	24.87	47.46	+ 28.38	—	+ 22.59	—

^{*1} EBITDA is the calculated value of “operating profit + depreciation + amortization of goodwill”

^{*2} Includes 366 million yen in subsidy income for countermeasures against COVID-19

^{*3} Includes gain on sales of investment securities and tax effect of absorption-type merger of Himawari Nursing Station, Inc. totaling 272 million yen.

^{*4} Figures are original forecast announced on May 7, 2021, separately revision forecast announced on October 28, 2021

FY3/2022 2Q : Results in each segment part

■ Net sales

(Unit: million yen)

	FY3/2021 2Q	FY3/2022 2Q	Change	Change (%)
Net sales	51,045	52,169	+ 1,124	+ 2.2%
Community Pharmacy Network Segment ^{*1}	48,540	49,663	+ 1,122	+ 2.3%
Other 3 Segments ^{*2}	2,796	2,856	+ 59	+ 2.1%
Adjustments	(292)	(350)	(57)	—

■ Operating profit

(Unit: million yen)

	FY3/2021 2Q	Profit margin	FY3/2022 2Q	Profit margin	Change	Change (%)
Segment profit	+1,355	2.7%	1,862	3.6%	+506 + 0.9 pt	+ 37.4%
Community Pharmacy Network Segment ^{*1}	2,369	4.9%	2,885	5.8%	+516 + 0.9 pt	+ 21.8%
Other 3 Segments ^{*2}	(10)	—	+20 (0.7%)	—	+30 —	—
Adjustments	(1,003)	—	(1,043)	—	(40) —	—

*1 Pharmaceutical Network Business, Dispensing Pharmacy Business, Manufacture and Market Pharmaceuticals Business, Digital Shift Business

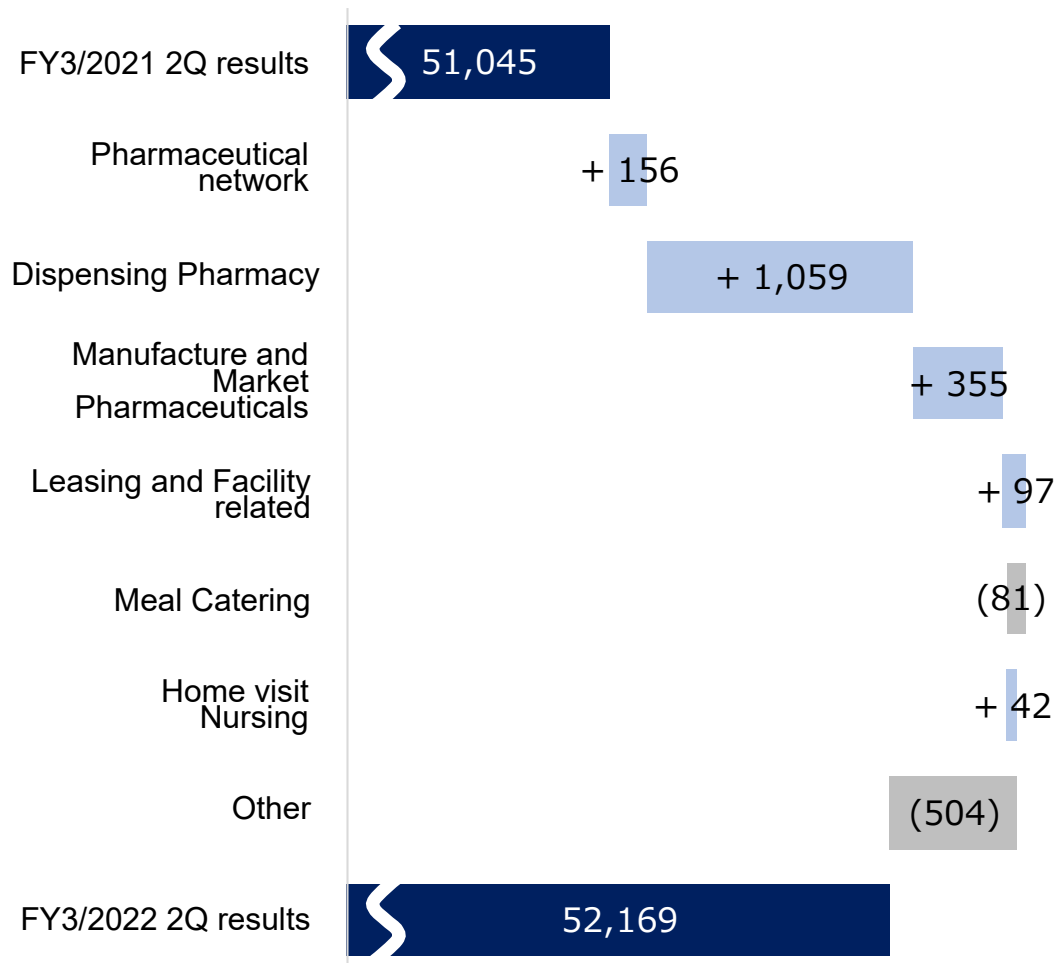
*2 Leasing and Facility related Segment, Meal Catering Segment, Home Visit Nursing Segment

FY3/2022 2Q: Comparison to previous term



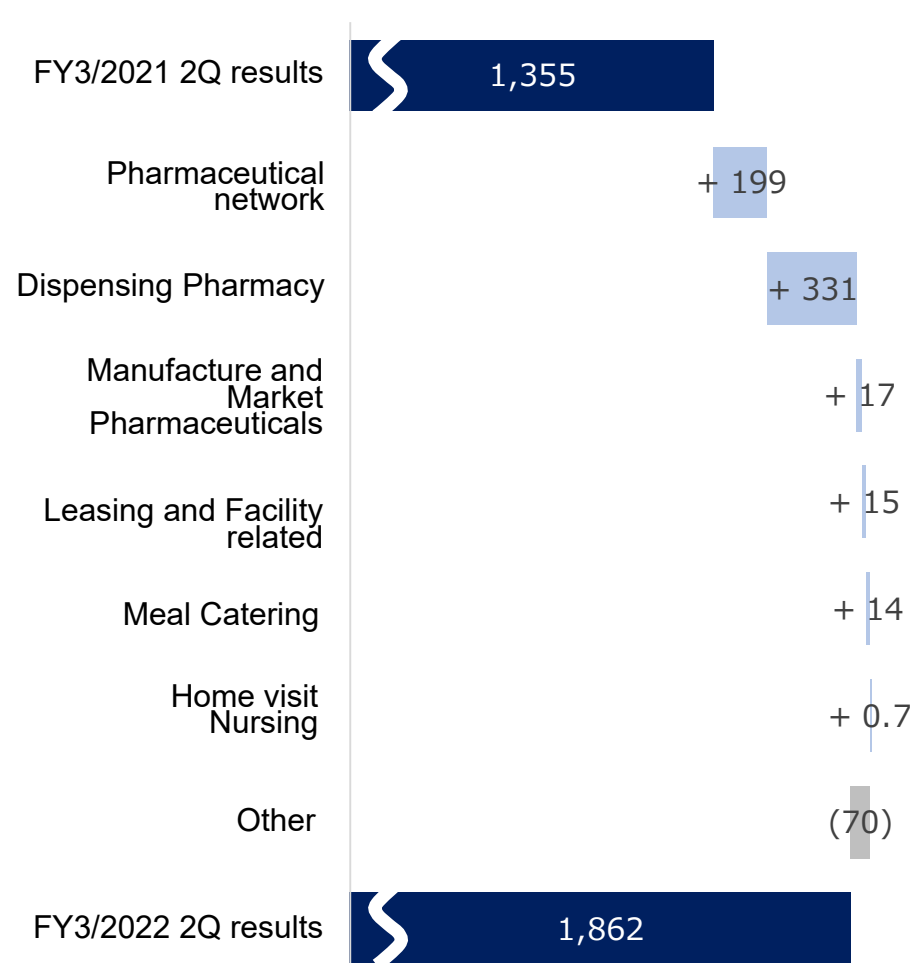
■ Net sales

(Unit: million yen)



■ Operating profit

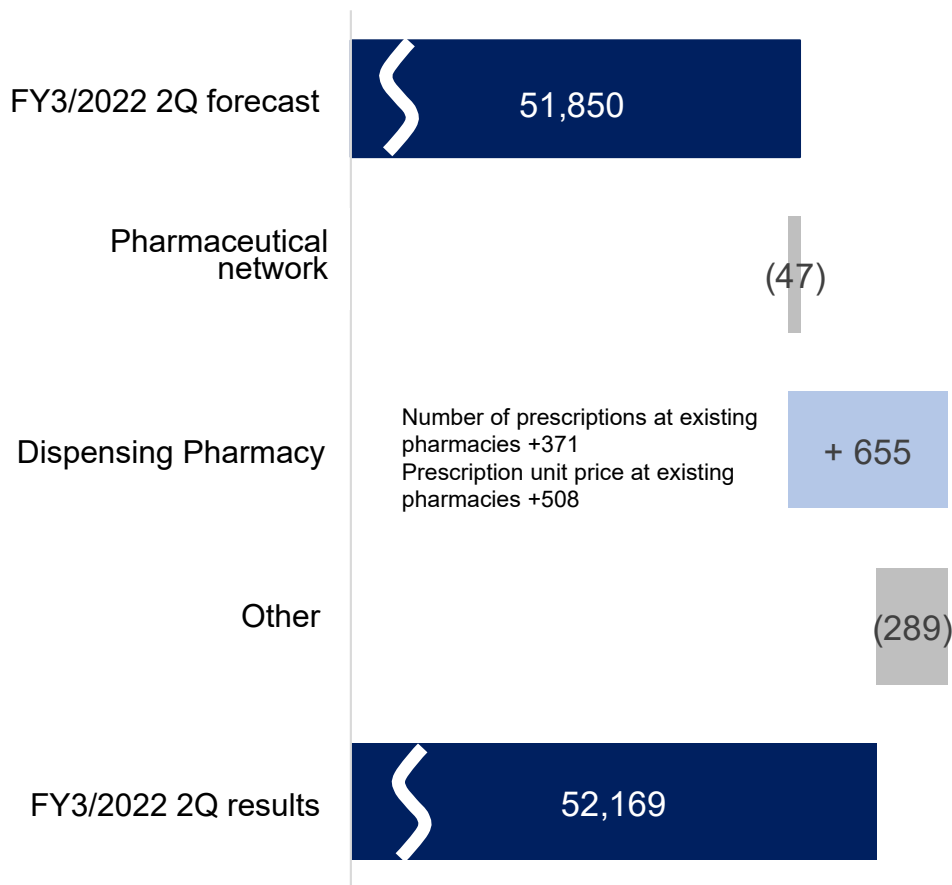
(Unit: million yen)



FY3/2022 2Q : Comparison to original forecast

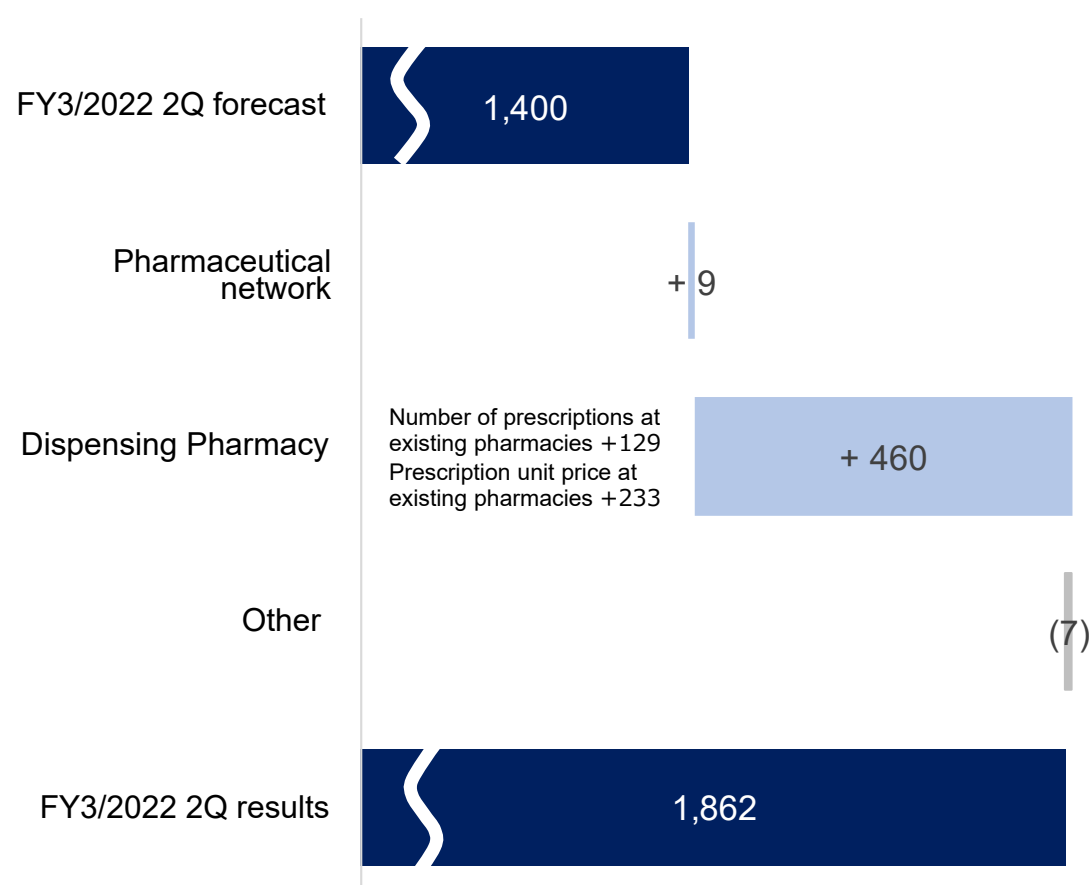
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)



FY3/2022 2Q : Consolidated balance sheet

Point

Assets: Decrease in cash & deposits and goodwill

Liabilities and Net Assets: Decrease in loans, increase in retained earnings

■ End of FY3/2021

(Unit: million yen)

Assets	64,448	Liabilities	53,260
Current assets	19,313	Current liabilities	25,418
Cash and deposits	10,118	Short-term loans ^{*1}	9,961
		Fixed liabilities	27,841
Fixed assets	45,134	Long-term loans	21,556
Tangible fixed assets	24,634	Net assets	11,187
Intangible fixed assets	13,572	Capital stock	2,128
Goodwill	13,145	Capital surplus	1,182
Investments and other assets	6,926	Retained earnings	8,305
		Treasury stock	(344)
Total assets	64,448	Total liabilities and net assets	64,448

Equity ratio 17.3%

(Equity ratio with taking into account net cash^{*2} 20.5%)

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

*2 Own capital/(Total assets – Cash and deposits)

■ End of FY3/2022 2Q

(Unit: million yen)

Assets	62,433	Liabilities	49,928
Current assets	18,086	Current liabilities	24,116
Cash and deposits	8,215	Short-term loans ^{*1}	10,079
		Fixed liabilities	25,811
Fixed assets	44,346	Long-term loans	19,757
Tangible fixed assets	24,727	Net assets	12,504
Intangible fixed assets	13,134	Capital stock	2,128
Goodwill	12,657	Capital surplus	1,182
Investments and other assets	6,484	Retained earnings	9,583
		Treasury stock	(326)
Total assets	62,433	Total liabilities and net assets	62,433

Equity ratio 20.0%

(Equity ratio with taking into account net cash^{*2} 23.0%)

FY3/2022 2Q : Consolidated cash flows



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Cash flows from
operating activities

913
million yen

EBITDA*

Income taxes paid

Changes in working capital

* Calculated by "operating profit + depreciation + amortization of goodwill"

3,253 million yen
(1,889) million yen
(537) million yen

Cash flows from
investing activities

(832)
million yen

Acquisition of furniture, fixtures, and buildings, etc. (1,020) million yen

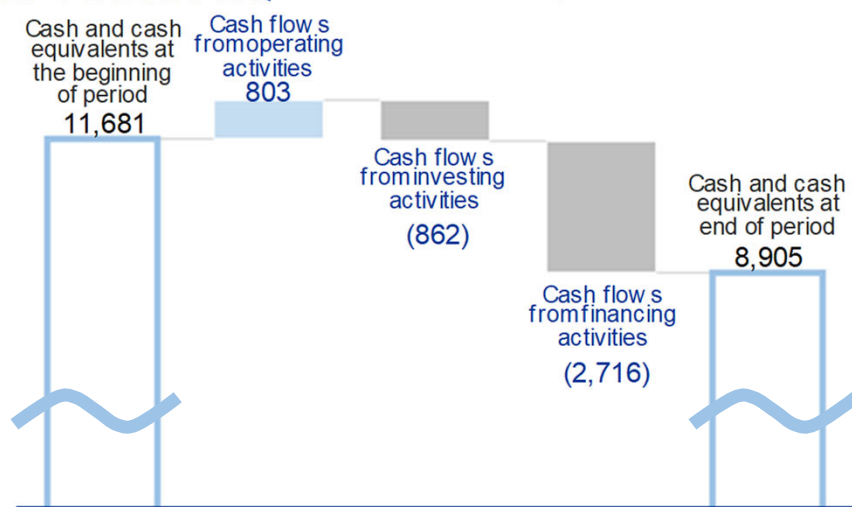
Cash flows from
financing activities

(1,982)
million yen

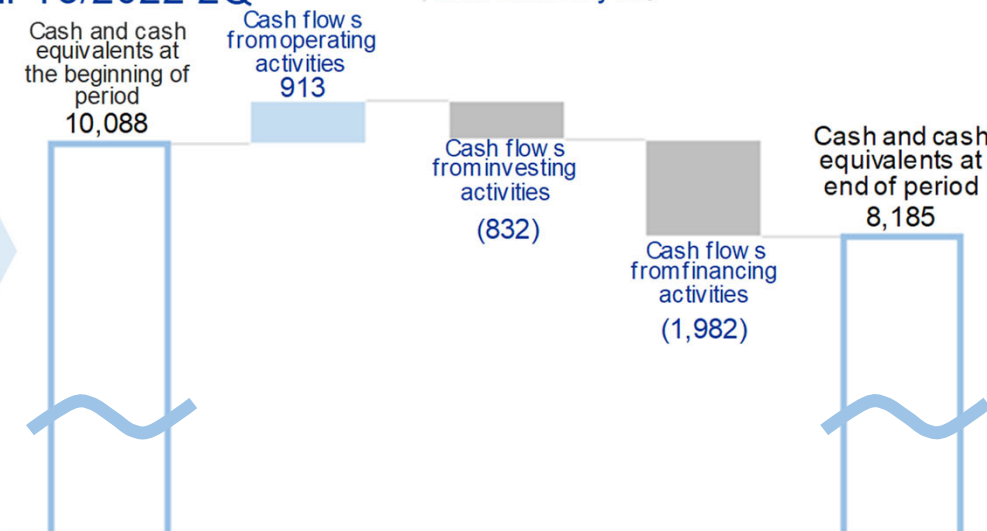
Loan amount reduced
Cash dividends paid

(1,696) million yen
(152) million yen

■FY3/2021 2Q (Unit: million yen)



■FY3/2022 2Q (Unit: million yen)



Business Summary and Core Strategies

FY3/2022: Core strategies

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■ Establish a pharmacy management model to deal with COVID-19 related challenges and maintaining earnings through synergies from inter-business collaboration

		Summary: first 3 years	Core strategies and numerical targets for the current fiscal year
Community Pharmacy Network Segment	Pharmaceuticals Network Business	<ul style="list-style-type: none"> 5,000 affiliates expansion achieved 2 years earlier than anticipated Single unit price negotiation for all ethical drugs 	<ul style="list-style-type: none"> 7,300 affiliates at the end of March 2022 (+1,184 YoY) Building a system to reach 10,000 affiliates longer term Further promotion of streamlined distribution
	Dispensing Pharmacy Business	<ul style="list-style-type: none"> Improving the efficiency of pharmacy operations (tablet medication history, automatic ordering system) Promote enhancement of pharmacy functions (health support functions) Commencement of improved personnel allocation 	<ul style="list-style-type: none"> Strengthening interpersonal work and introducing a new education system Acquisition of prescriptions using on-line (LINE, prescription transmission) tools Develop outlets mainly in medical malls
	Manufacture and Market Pharmaceuticals Business	<ul style="list-style-type: none"> Expansion of product lineup by also utilizing products developed by other companies Became profitable in fiscal year ending March 31, 2021 	<ul style="list-style-type: none"> Expand sales to pharmaceutical network affiliates → Target 1,700 at the end of March 2022
	Digital Shift Business	<ul style="list-style-type: none"> Service started in March 2021 	<ul style="list-style-type: none"> Expansion of pharmacies with official LINE accounts → Target 3,300 at the end of March 2022
Leasing and facility related Segment		<ul style="list-style-type: none"> Improved occupancy rates for Wisteria Senri Chuo and M1 	<ul style="list-style-type: none"> Achieve 90% occupancy in all facilities; steady operation
Meal Catering Segment, Home Visit Nursing Segment		<ul style="list-style-type: none"> Base relocation and cost revisions 	<ul style="list-style-type: none"> Safety-first operation Steady balance of payments
Finance		<ul style="list-style-type: none"> Careful selection of investments 	<ul style="list-style-type: none"> Securing profits through cost control
ESG/Health management		<ul style="list-style-type: none"> Recognized as a 2020 Certified Health & Productivity Management Outstanding Organization in the "large organization" category 	<ul style="list-style-type: none"> Projects according to SDGs; promote CSR activities

Pharmaceuticals Network Business: Earnings summary

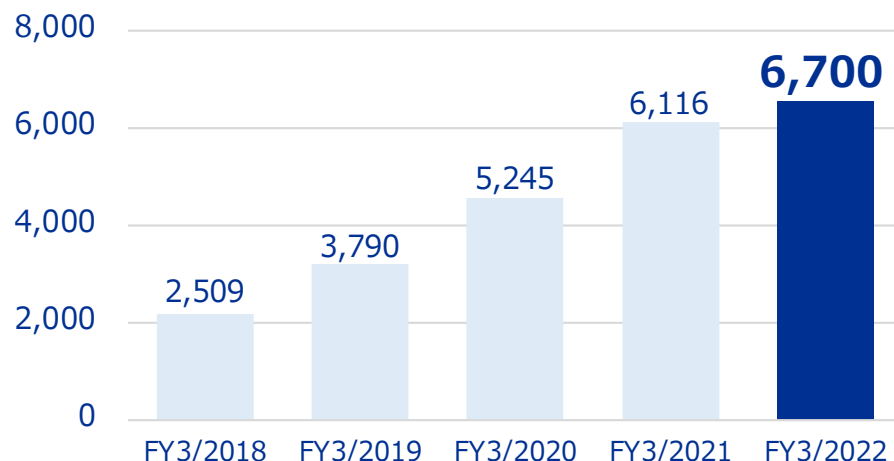
(as of September 30, 2021)



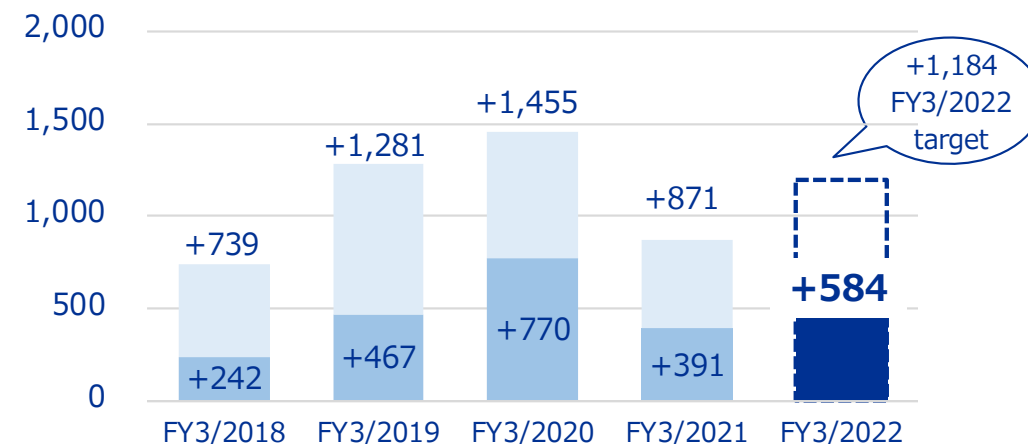
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Affiliates increased by 584 from the end of the previous fiscal year to 6,700

■ Full year ■ 2Q ■ 2Q of FY3/2022
■ Network affiliates (actual) (Unit: No. of network affiliates)

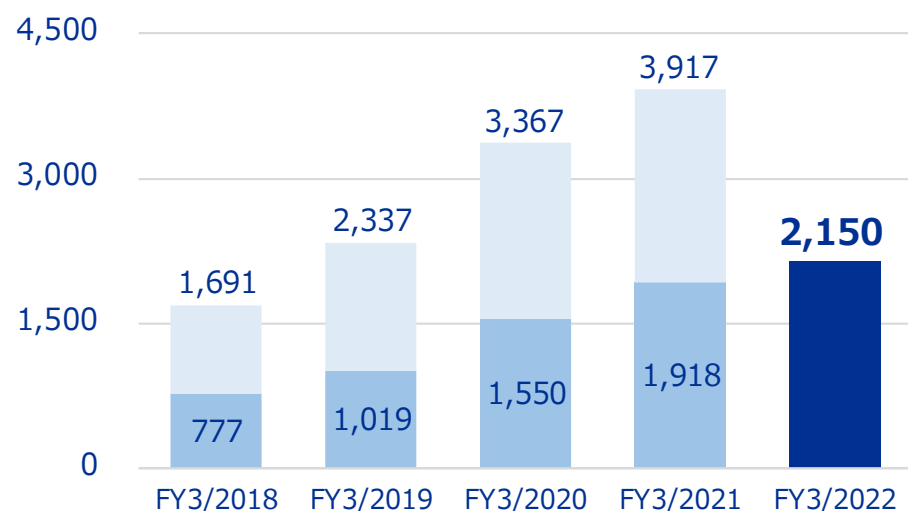


■ Network affiliates (net increase) (Unit: No. of network affiliates)



■ Ordering volume of pharmaceuticals

(Unit: one hundred million yen)



■ FY3/2021 Breakdown of network affiliates (New/Withdrawal)

	1Q	2Q	3Q	4Q	Total
New	440	353	244	466	1,503
Withdrawal	(68)	(334)	(135)	(95)	(632)

■ FY3/2022 Breakdown of network affiliates (New/Withdrawal)

	1Q	2Q
New	405	395
Withdrawal	(154)	(62)



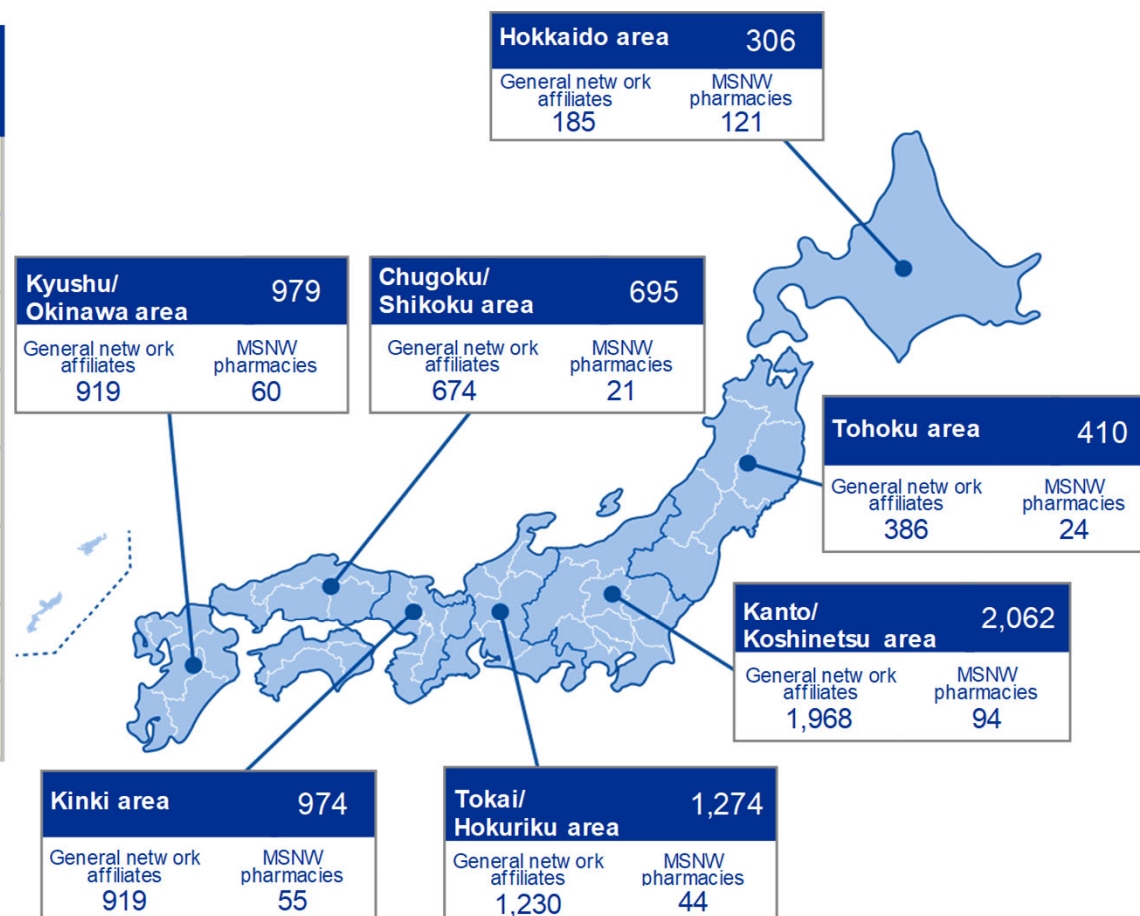
The number of new affiliates was steady

Pharmaceuticals Network Business:

Network affiliates distribution map (as of September 30, 2021)

【 Breakdown of network affiliates 】

(Unit: No. of network affiliates)	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	185	121	306
Tohoku	386	24	410
Kanto/Koshinetsu	1,968	94	2,062
Tokai/Hokuriku	1,230	44	1,274
Kinki	919	55	974
Chugoku/Shikoku	674	21	695
Kyushu/Okinawa	919	60	979
Total	6,281	419	6,700



6,798 network affiliates
as of October 31, 2021

Pharmaceuticals Network Business : Strengthen support for pharmacy management

■ Renewal of PARTNERS NAVI, a portal site for affiliates



Revamped in July 2021

Expanded functions and created a simple screen to make it easier to use, with the aim of further contributing to the support of affiliates

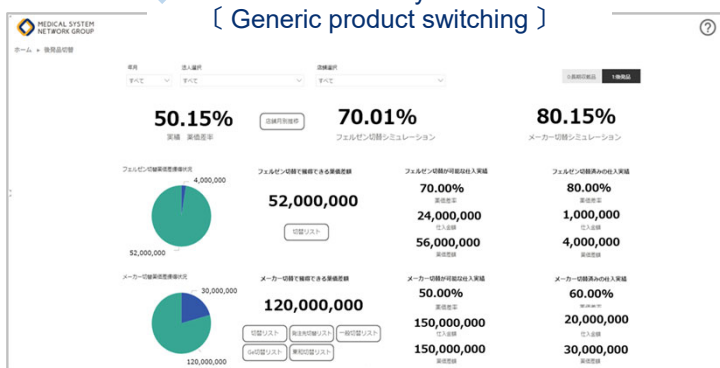
Newly installed functions

✓ Data Analysis

Purchase Analysis Function : NHI drug price difference • EOS order rate • Return rate • Daily visualize data such as DSE digestibility data
Generic product switching function : List items that can be switched to generics with higher profit margins based on actual purchasing information
Management can simulate the improvement of profit by themselves

✓ New consultation service for home visits

Pharmacists with extensive experience in home visits provide support and are available to address a variety of concerns



* Dead Stock Exchange

■ Created an introduction video for pharmaceutical network services



Created a 2-minute, 17-second introductory video to inform the public about how the service works and the benefits of joining

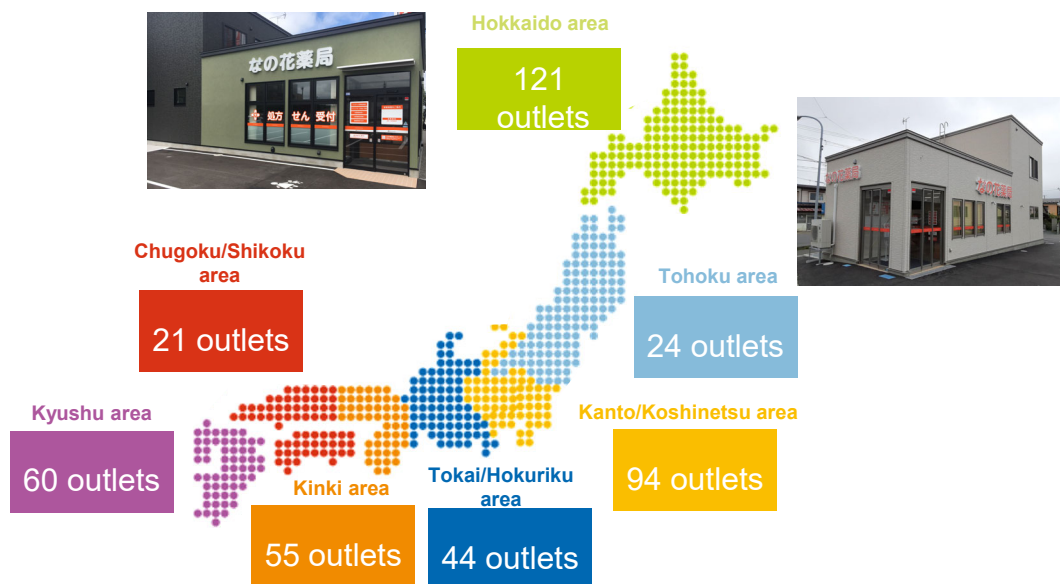
Please visit our website for more information

<https://www.msnw.co.jp/pharmacy-management/>

Dispensing Pharmacy Business: Trends in number of pharmacies

5 new outlets (1 from acquisition) and 2 outlet closures/transfer since end of previous fiscal year

	Outlets at end of FY3/2021	Outlets at end of FY3/2022 2Q	Outlets as of October 31
Outlets at end of previous term	416	416	419
Openings	7	4	3
Closings and transferring businesses	(13)	(2)	(1)
M&A	6	1	—
Total	416	419	421



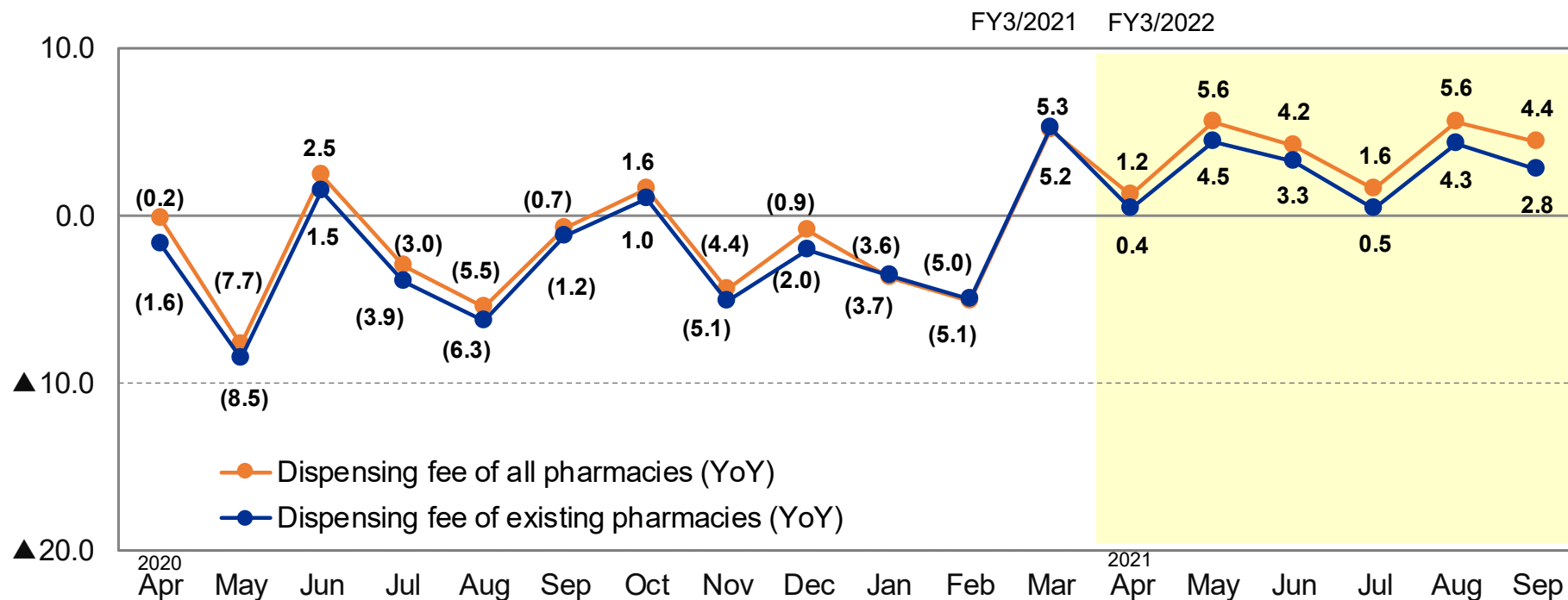
Dispensing pharmacy outlet number trends of the past 10 years

As of September 30

	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021	FY3/2022 2Q
Openings	21	14	10	9	8	8	5	8	7	4
Closings and transferring of businesses	(8)	(7)	(13)	(8)	(4)	(5)	(14)	(15)	(13)	(2)
M&A	33	45	27	7	20	19	30	3	6	1
Number of outlets	269	321	345	353	377	399	420	416	416	419

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)

(Unit:%)



(unit:%)	FY3/2021														FY3/2022						FY3/2022 2Q
	Apr	May	Jun	Jul	Aug	Sep	Total for the first half	Oct	Nov	Dec	Jan	Feb	Mar	Total for the second half	Apr	May	Jun	Jul	Aug	Sep	
Dispensing fee of all pharmacies (YoY)	(0.2)	(7.7)	2.5	(3.0)	(5.5)	(0.7)	(2.4)	1.6	(4.4)	(0.9)	(3.7)	(5.1)	5.2	(1.1)	1.2	5.6	4.2	1.6	5.6	4.4	3.7
Dispensing fee of existing pharmacies (YoY)	(1.6)	(8.5)	1.5	(3.9)	(6.3)	(1.2)	(3.4)	1.0	(5.1)	(2.0)	(3.6)	(5.0)	5.3	(1.5)	0.4	4.5	3.3	0.5	4.3	2.8	2.5

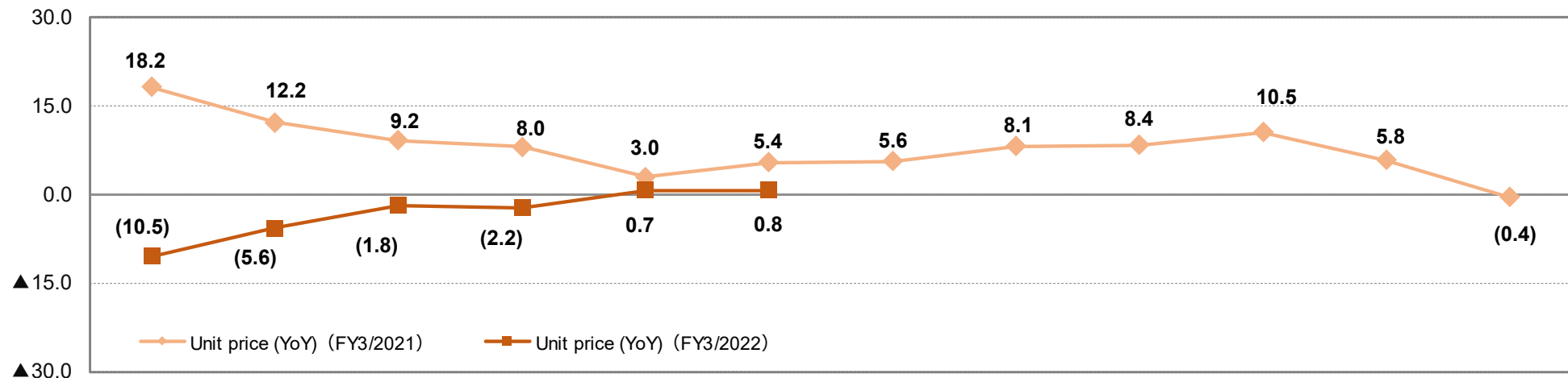
※ “Existing pharmacies” refer to pharmacies that continue to be in business on or after April 1, 2019 and April 1, 2020.

Dispensing Pharmacy Business: Monthly unit price and number of prescriptions at existing pharmacies (YoY)

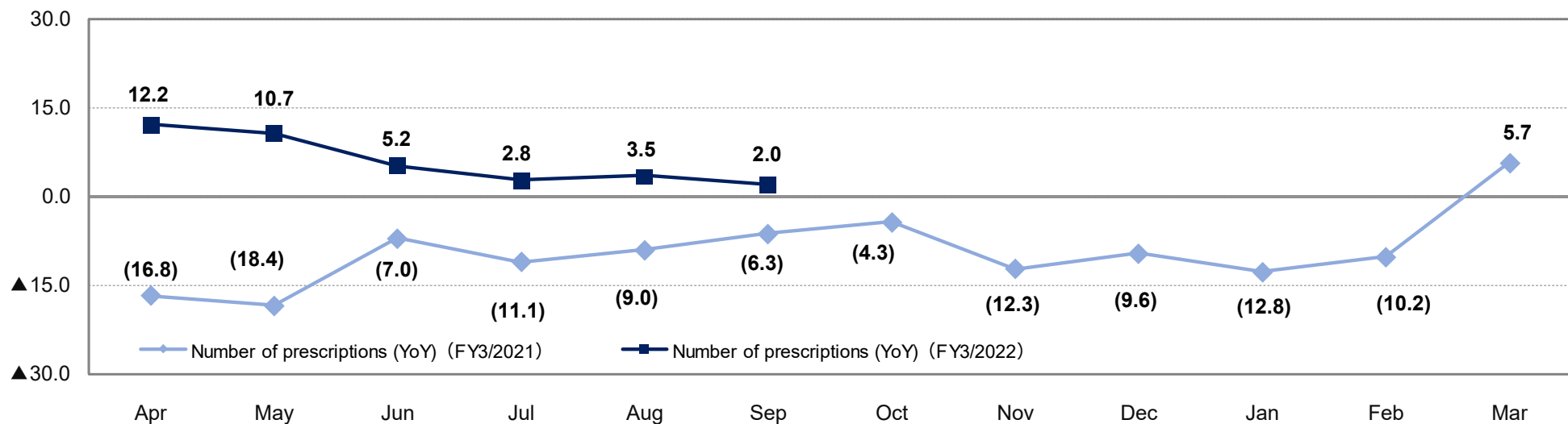
Point

- The unit price of prescriptions had been declining due to a decrease in long-term prescriptions, but is now on around a par with the previous year.
- The number of prescriptions has recovered to some extent

(Unit:%) Prescription unit price



Number of prescriptions

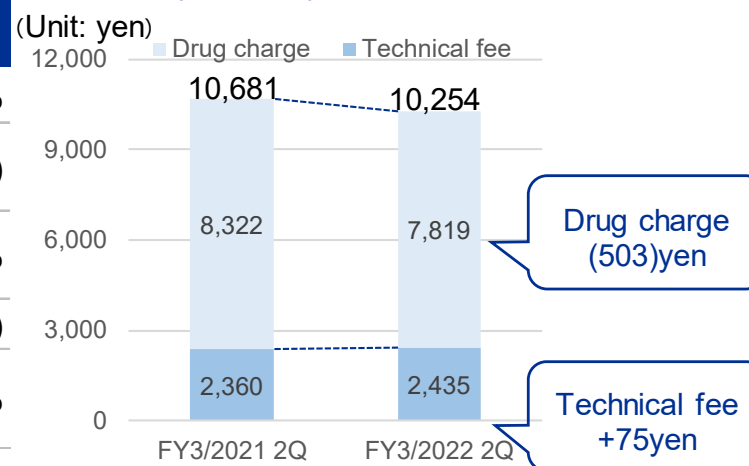


Dispensing Pharmacy Business: Dispensing fee breakdown

■ All pharmacies

		FY3/2021 2Q	FY3/2022 2Q	Change	Change (%)
No. of prescriptions (1000) a		4,043	4,367	+ 324	+8.0%
Unit price (yen)	Drug charge per prescription	8,322	7,819	(503)	(6.0%)
	Technical fee per prescription	2,360	2,435	+75	+3.2%
Total b		10,681	10,254	(428)	(4.0%)
Dispensing fee (million yen) c = a x b		43,188	44,784	+1,596	+3.7%

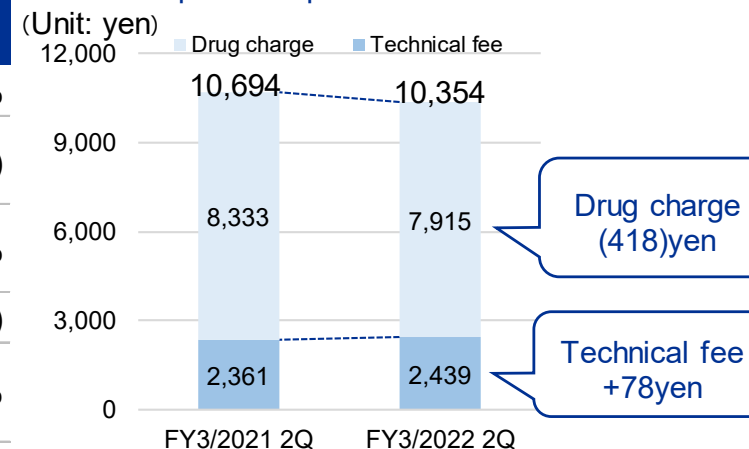
【Prescription unit price trends】



■ Existing pharmacies

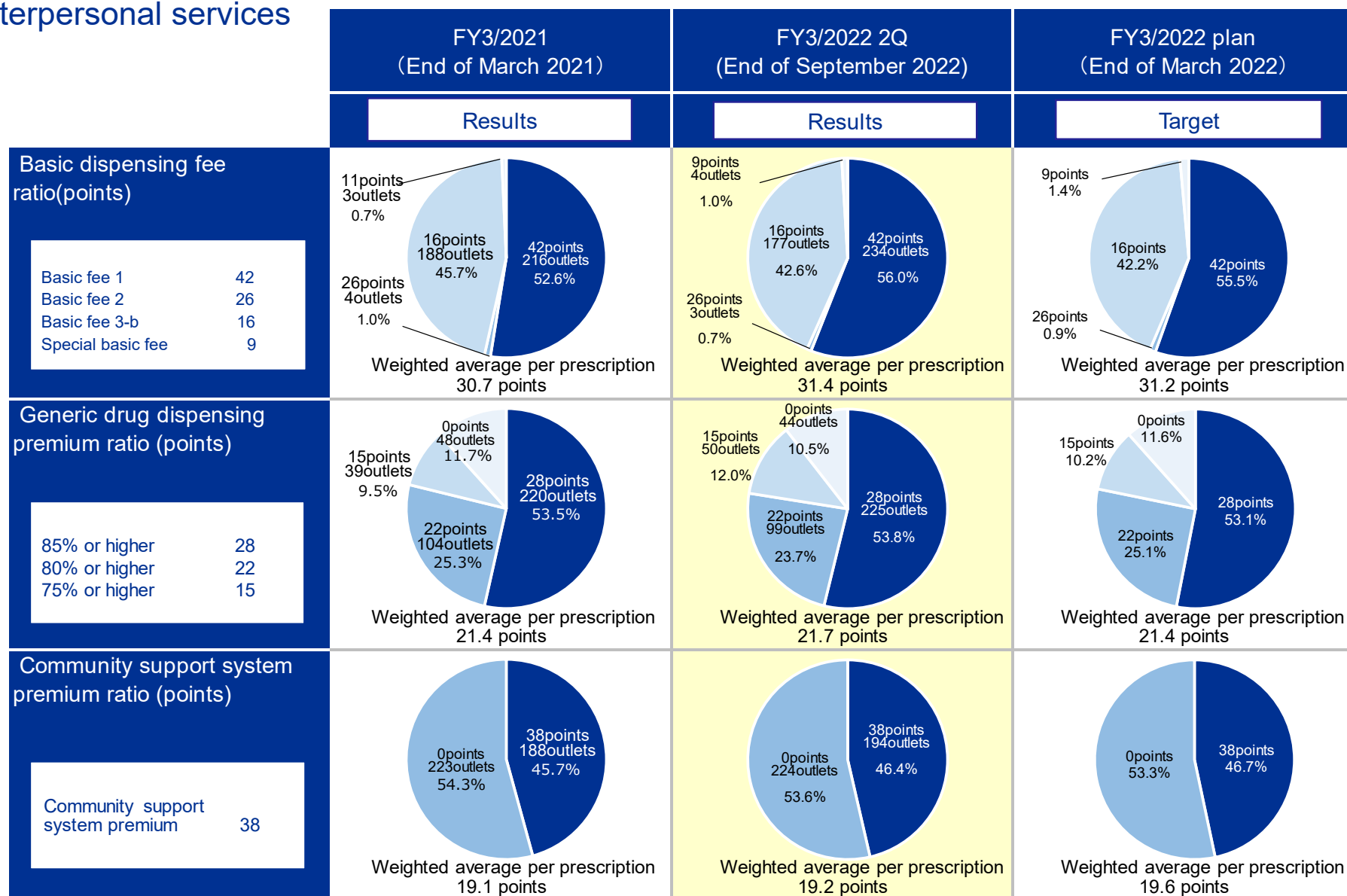
		FY3/2021 2Q	FY3/2022 2Q	Change	Change (%)
No. of prescriptions (1000) a		3,998	4,234	+235	+5.9%
Unit price (yen)	Drug charge per prescription	8,333	7,915	(418)	(5.0%)
	Technical fee per prescription	2,361	2,439	+78	+3.3%
Total b		10,694	10,354	(340)	(3.2%)
Dispensing fee (million yen) c = a x b		42,763	43,844	+1,080	+2.5%

【Prescription unit price trends】



Dispensing Pharmacy Business: Dispensing fee revision

Acquisition of dispensing fee is progressing mostly as planned. We are continuing to focus on interpersonal services



* Excludes suspended pharmacies

Dispensing Pharmacy Business:

Strengthening our function as a community pharmacy

■ Follow-up during the medication period

- In accordance with the amendment of the Pharmaceutical and Medical Device Act ((PMD Act) , follow-up during the medication period is now mandatory as of September 2020, and we monitor patients' medication status and provide guidance as necessary

Case	<ul style="list-style-type: none"> Follow-up after insulin unit change
Cooperation with doctors	<ul style="list-style-type: none"> Symptoms of suspected hypoglycemia occur and inform prescribing physician Receive instructions for unit changes and respond to patients
Follow-up contents	<ul style="list-style-type: none"> Doctor prescribes and pharmacist provides medication follow-up Provide results to medical institutions as soon as possible Provide benefits to patients by implementing measures in cooperation with medical institutions



As pharmacists have been able to follow-up, we have been able to help patients avoid certain difficult or adverse situations

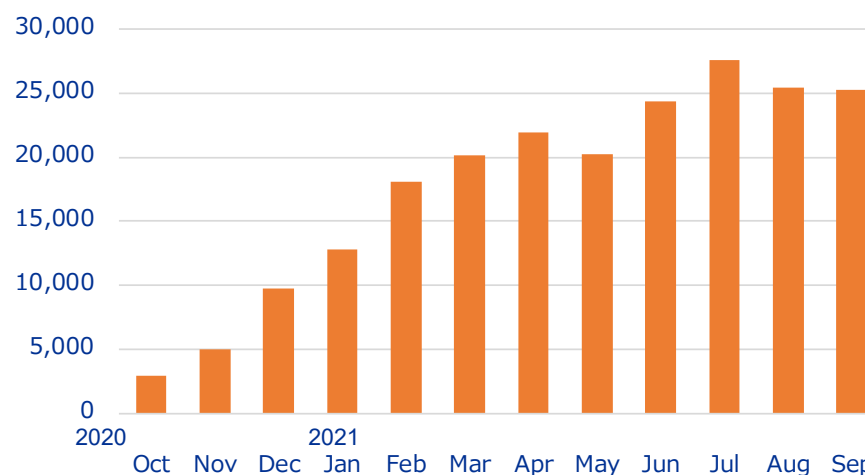
■ Strengthen functions through pharmacy certification system

- "Pharmacy Certification System by Function" started in August 2021 by the revision of the PMD Act
- A system in which prefectural governors certify pharmacies with specific functions, and classify them as down below
 - Community collaborative pharmacy : Pharmacies that can respond to / deal with information linkage with local medical institutions and other pharmacies
 - Pharmacy collaborating with specialized medical institutions : Pharmacies that can handle specialized preparations that require a high level of expertise for patients with cancer, etc.

⇒ Patients can choose the pharmacy that is right for them

■ Number of follow-ups per month

(Unit: case)



Number of results for the first half

Sep/2021 : 25,261

Total : 144,756

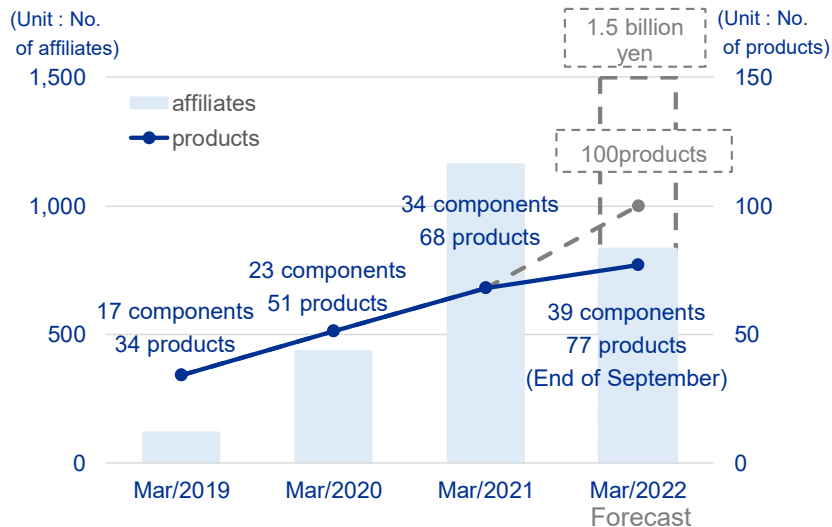
- To provide higher quality medication therapy through medication follow-up
- Also focus on education to ensure quality pharmacotherapy

Partnering with local medical institutions to become the pharmacy of choice for patients

As of September 30, 2021

Community Collaborative Pharmacy 8 pharmacies
(50 stores expected during this fiscal year)

Manufacture and Market Pharmaceuticals Business: New generic drugs of 9 products (5 components) in the first half.



As of end of September 2021

Available products (components)

77 products (39 components)

Upcoming releases

3 products (2 components) in Dec. 2021

(End of FY3/2022 target: 100 products)

Number of available locations

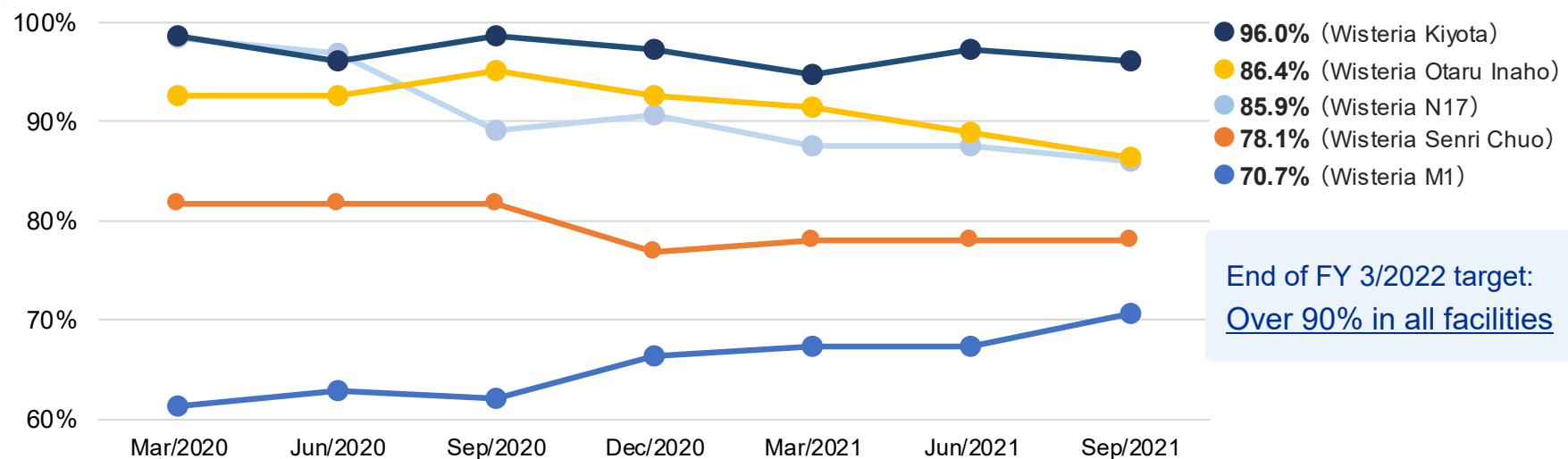
1,362 affiliates

(End of FY3/2022 target: 1,700 affiliates)

Leasing and Facility related Business: Occupancy rate trends in Wisteria



Sluggish occupancy growth due to restrictions on sales activities caused by COVID-19

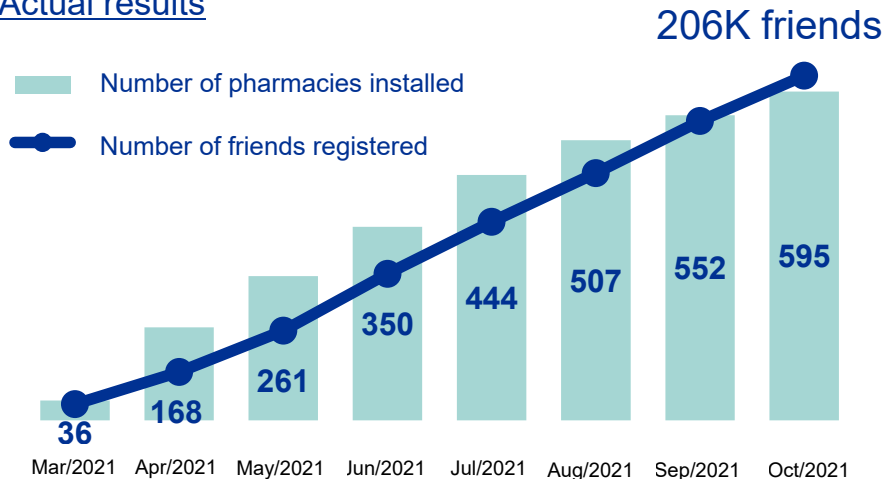


Digital Shift Business — Exceeded 200K friend registrations

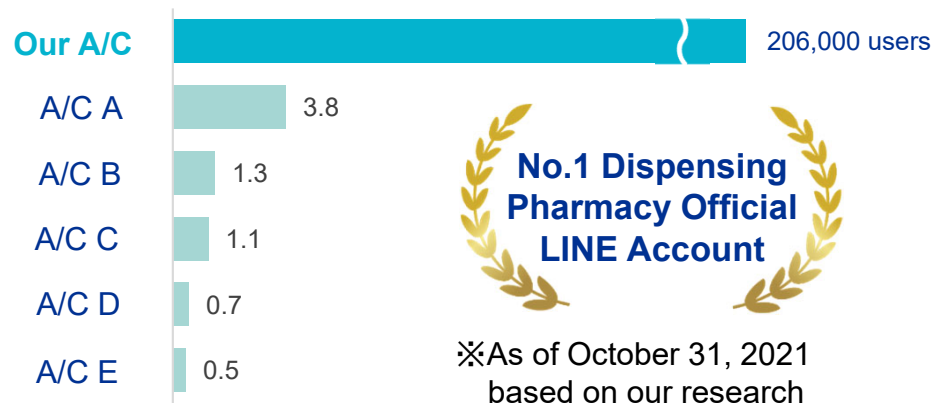
Point

- Service of support for "becoming a family pharmacy" that connects with patients via LINE
- In the 7 months since the service was launched, 200K friends have registered and approximately 600 pharmacies have installed the service.
- Focus on improving functions and developing new services

Actual results



Number of registered friends of the official LINE account



Service Description

- Patients register their pharmacies to use on the official LINE account "Tsunagaru Pharmacy".
- Main functions:
Electronic medication organizer, prescription transmission, medication follow-up, online medication guidance/payment
- Pharmacies can use the above all-in-one functions for 10,000 yen per month, with full security (meets 3 ministries and 2 guidelines for medical information management)



Main initiatives

- Business alliance with Shinryo Co., Ltd. which has strengths in medicine bags and packaging containers
- Holding regular webinars
- Exhibited and lectured at large-scale exhibitions (business meetings with over 300 companies)
- Development of advanced prescription transmission, medication follow-up, and multidisciplinary collaboration
- New Service Development

Earnings Forecast for FY3/2022 and Interim dividend

Earnings forecast for FY3/2022: Consolidated forecasts

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Point

- Sales and profits are expected to increase slightly this fiscal year. Although the number of affiliates in the pharmaceutical network and the number of prescriptions are expected to increase, these will be offset somewhat by the impact of the NHI price revision and increase in expenses
- Net income expected to decrease due to the absence of one-time extraordinary gains recorded in the previous fiscal year.

(Unit: million yen)	FY3/21 (results)	FY3/22 (forecast)	Change	Change (%)
Net sales	104,257	105,700	+ 1,442	+ 1.4 %
EBITDA ^{*1}	6,426 6.2 %	6,500 6.1 %	+ 73 (0.1 pt.)	+ 1.2 %
Operating profit Profit margin	3,429 3.3 %	3,500 3.3 %	+ 70 —	+ 2.0 %
Ordinary profit Profit margin	3,479 3.3 %	4,000 3.8 %	+ 520 + 0.5 pt.	+ 15.0 %
Profit attributable to owners of parent Profit margin	2,198 ^{*2} 2.1 %	1,800 1.7 %	(398) (0.4 pt.)	(18.1 %)
Earnings per share (Yen)	72.51	59.69	(12.82)	—

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

*2 Of this amount, ¥630 million was due to the recording of extraordinary income from partial share sales of a group affiliate .

Earnings forecast for FY3/2022: Forecast in each segment

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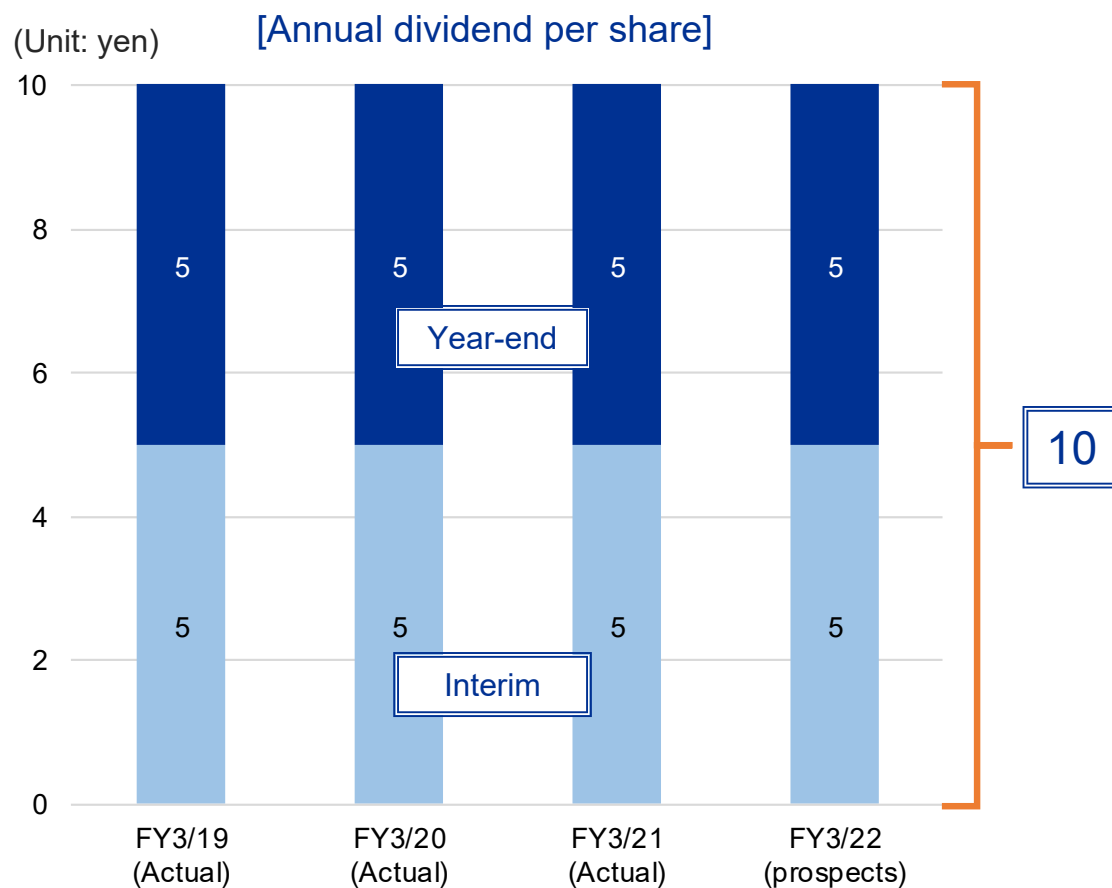
■ Net sales (Unit: million yen)		FY3/21 (results)	FY3/22 (forecast)	Change		Change (%)
Net sales		104,257	105,700	+ 1,442		+ 1.4 %
	Community Pharmacy Network Segment* ¹	99,214	100,146	+ 932		+ 0.9 %
	Other 3 Segments* ²	5,644	6,166	+ 521		+ 9.2%
	Adjustments	(601)	(612)	(11)		—
■ Operating Profit (Unit: million yen) Profit percentage in brackets		FY3/21 (results)	FY3/22 (forecast)	Change		Change (%)
Segment profit		3,429 3.3 %	3,500 3.3 %	+ 70 —		+ 2.0 %
	Community Pharmacy Network Segment* ¹	5,703 5.7 %	5,733 5.7 %	+ 29 —		+ 0.5 %
	Other 3 Segments* ²	(20) —	167 2.7 %	+ 188 —		—
	Adjustments	(2,253) —	(2,400) —	(147) —		—

*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

Interim dividend

- The projected dividend for FY3/22 is 10 yen per share
(interim and year-end dividend of 5 yen each per share)



《Reference》

- ① FY3/22 interim dividend
Base date : September 30, 2021
Payment : December 13, 2021
Dividend per share: 5 yen
- ② Shareholder return index
Projected year-end dividend per share: 10 yen
Projected payout ratio: 16.8%

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[Contact us]
Corporate Strategy Department
E-mail : info@msnw.co.jp