



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

First 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 1Q : Topics and Business Overview

- April 2021 drug price revision details were announced.
- The number of new pharmaceutical network affiliates was generally 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. Earning results was also going well compared to the plan.
- As of the end of June 2021, PharmaShift LINE official-account registered friends exceeded 87K (this has subsequently surpassed 100K in July).
- We have confirmed we are able to meet the listing standards of the newly formed TSE “Prime Market” segment.

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Earnings Highlight

FY3/2022 1Q : Consolidated results

	FY3/2021 1Q	FY3/2022 1Q	YoY		FY3/2022 Full year forecast	Progress rate
			Change	Change (%)		
(Unit: million yen)						
Net sales	25,162	25,914	+ 751	+ 3.0%	105,700	24.5%
EBITDA*1	658	1,359	+ 701	+ 106.5%	6,500	20.9%
Profit margin	2.6%	5.2%			6.1%	
Operating profit	(61)	667	+ 728	—	3,500	19.1%
Profit margin	—	2.6%			3.3%	
Ordinary profit	(62)	935*2	+ 998	—	4,000	23.4%
Profit margin	—	3.6%			3.8%	
Profit attributable to owners of parent	(201)	583	+ 785	—	1,800	32.4%
Profit margin	—	2.3%			1.7%	
Earnings per share (Yen)	(6.63)	19.37	+ 26.00	—	59.69	—

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

*2 Includes subsidy income related with COVID-19 of 263 million yen

FY3/2022 1Q : Results in each segment

■ Net sales		FY3/2021	FY3/2022	Change	Change (%)
(Unit: million yen)		1Q	1Q		
Net sales	Net sales	25,162	25,914	+ 751	+ 3.0%
	Community Pharmacy Network Segment ^{*1}	23,922	24,657	+ 735	+ 3.1%
	Other 3 Segments ^{*2}	1,386	1,399	+ 13	+ 1.0%
	Adjustments	(146)	(143)	3	—

■ Operating profit		FY3/2021	Profit	FY3/2022	Profit	Change	Change (%)
(Unit: million yen)		1Q	margin	1Q	margin		
Segment profit	Segment profit	(61)	—	667	2.6%	+728	—
	Community Pharmacy Network Segment ^{*1}	434	1.8%	1,202	4.9%	+767	+ 3.1 pt
	Other 3 Segments ^{*2}	(24)	—	(11)	—	+12	—
	Adjustments	(472)	—	(523)	—	(51)	—

*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 1Q : Consolidated balance sheet

Point

Assets: Decrease in cash and deposits

Liabilities and Net Assets: Decrease in liabilities by accrued corporate tax

■ 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 1Q

(Unit: million yen)

Assets	63,029	Liabilities	51,314
Current assets	18,310	Current liabilities	24,626
Cash and deposits	8,583	Short-term loans ^{*1}	10,421
		Fixed liabilities	26,688
Fixed assets	44,718	Long-term loans	20,643
Tangible fixed assets	24,635	Net assets	11,714
Intangible fixed assets	13,388	Capital stock	2,128
Goodwill	12,966	Capital surplus	1,182
Investments and other assets	6,694	Retained earnings	8,736
		Treasury stock	(344)
Total assets	63,029	Total liabilities and net assets	63,029

Equity ratio 18.6%

(Equity ratio with taking into account net cash^{*2} 21.5%)

FY3/2022 1Q : Consolidated cash flows

Cash flows from
operating activities

(231)
million yen

EBITDA*
Income taxes paid

1,359 million yen
(1,650) million yen

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

Cash flows from
investing activities

(634)
million yen

Acquisition of buildings, etc.

(493) million yen

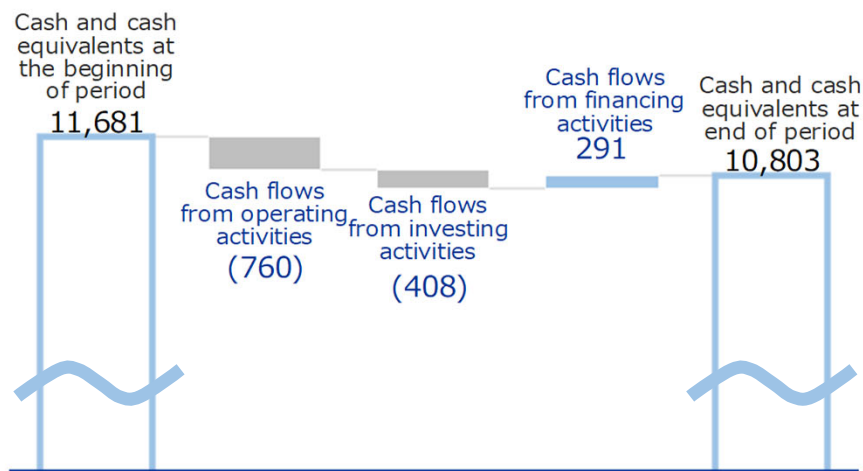
Cash flows from
financing activities

(669)
million yen

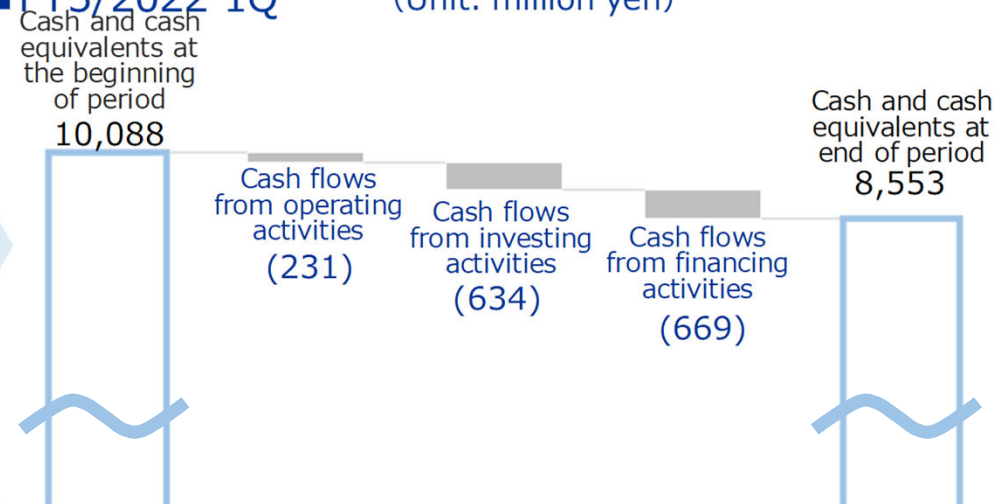
Loan amount reduced
Cash dividends paid

(468) million yen
(130) million yen

■ FY3/2021 1Q (Unit: million yen)



■ FY3/2022 1Q (Unit: million yen)



Business Summary

Pharmaceuticals Network Business: Earnings summary

(as of June 30, 2021)

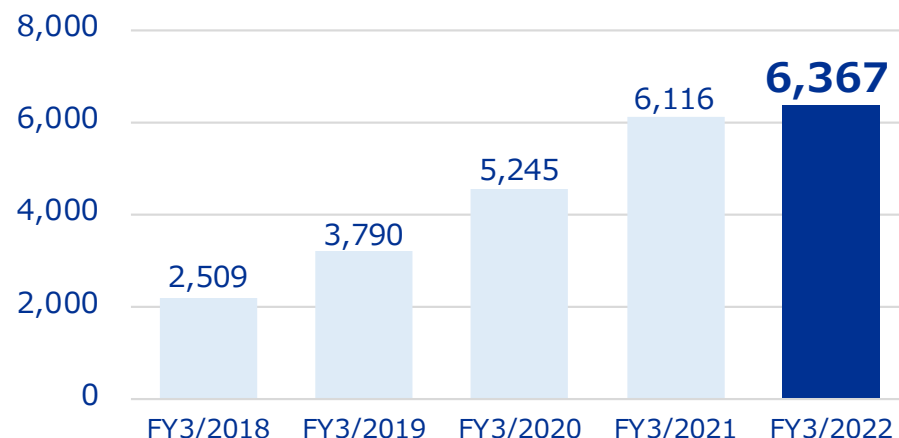


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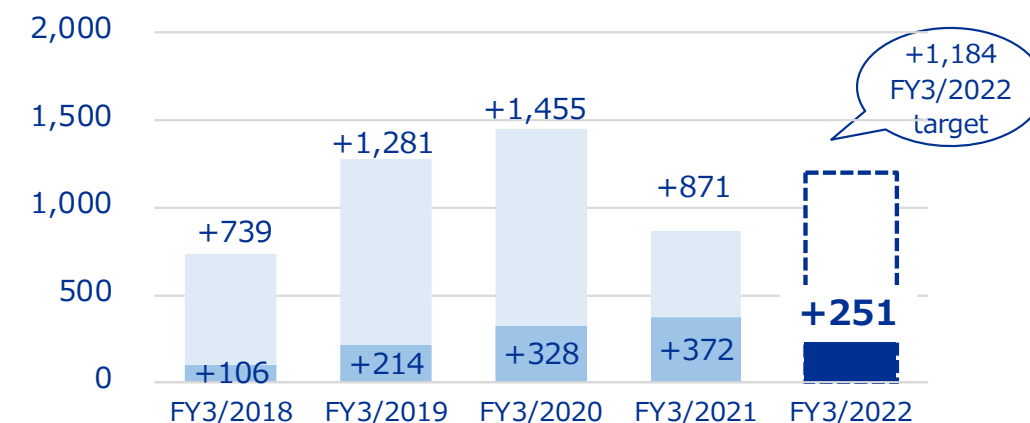
Affiliates increased by 251 from the end of the previous fiscal year to 6,367

■ Full year ■ 1Q ■ 1Q of FY3/2022

■ Network affiliates (actual) (Unit: No. of network affiliates)

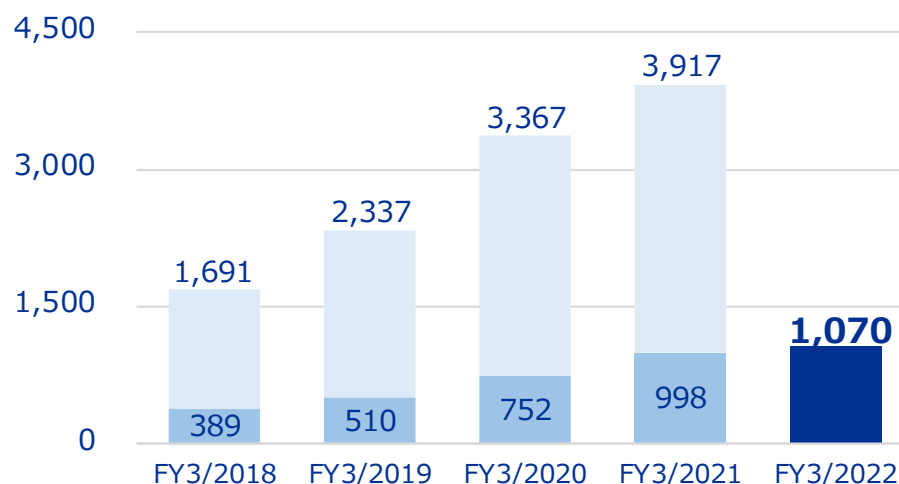


■ Network affiliates (net increase) (Unit: No. of network affiliates)



■ Ordering volume of pharmaceuticals

(Unit: one hundred million yen)



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

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

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

	1Q
New	405
Withdrawal	(154)



The number of new affiliates was generally steady.

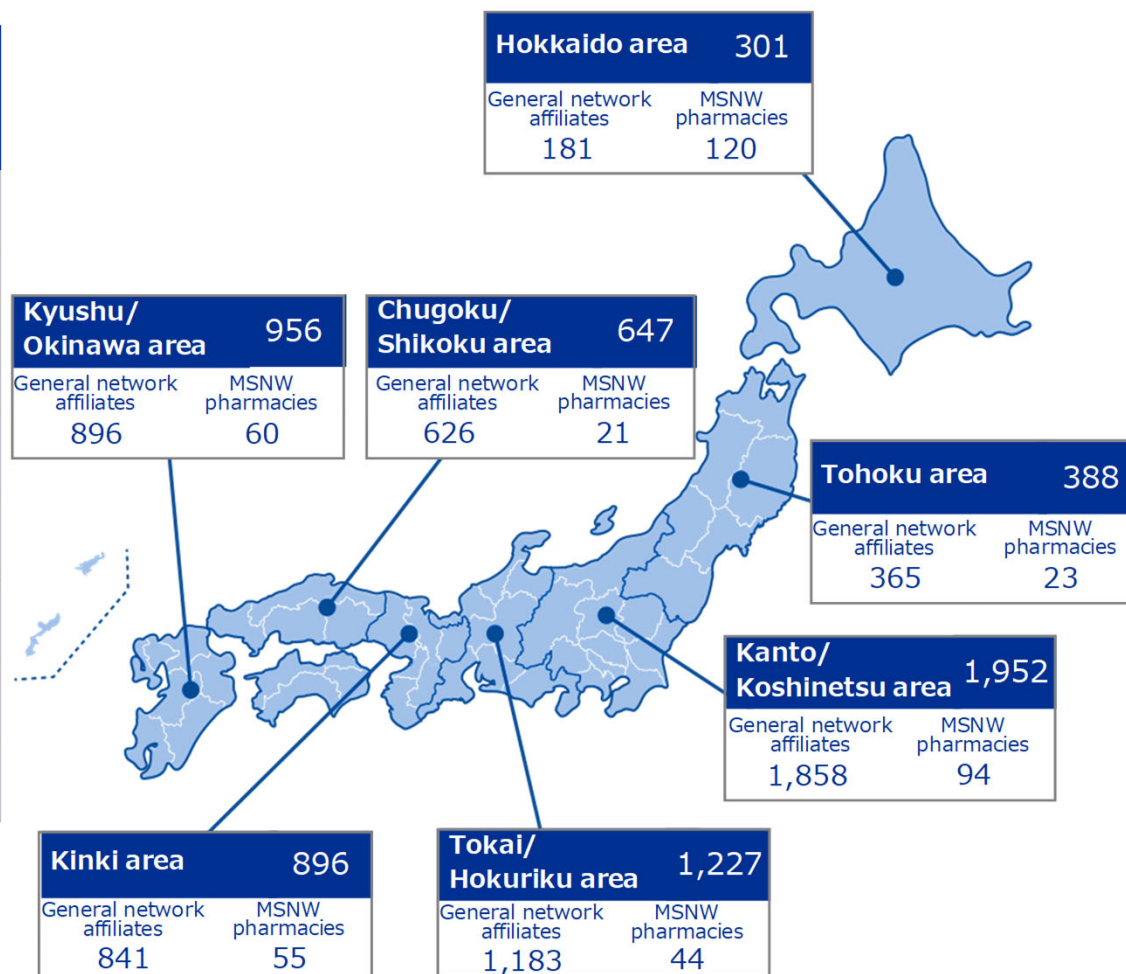
Pharmaceuticals Network Business:

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

【 Breakdown of network affiliates 】

(Unit: No. of network affiliates)

	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	181	120	301
Tohoku	365	23	388
Kanto/Koshinetsu	1,858	94	1,952
Tokai/Hokuriku	1,183	44	1,227
Kinki	841	55	896
Chugoku/Shikoku	626	21	647
Kyushu/Okinawa	896	60	956
Total	5,950	417	6,367



6,440 network affiliates
as of July 31, 2021

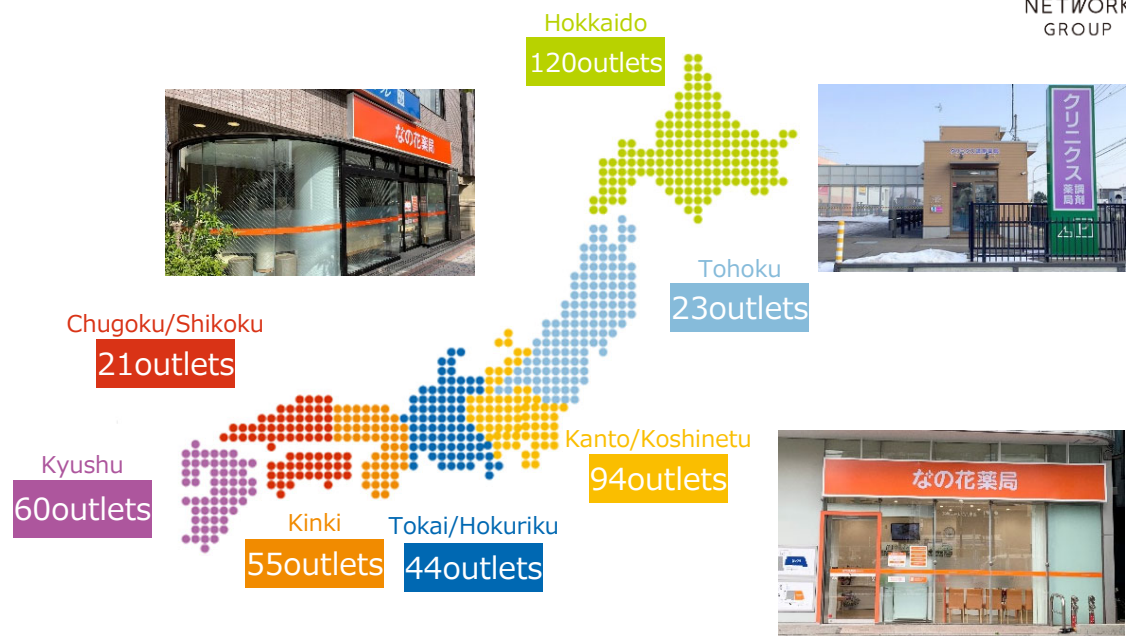
Dispensing Pharmacy Business: Trends in number of pharmacies



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3 new outlets (1 from acquisition) and 2 outlet closures since end of previous term

	Outlets at end of FY3/2021	Outlets at end of FY3/2022 1Q	Outlets as of July 31
Outlets at end of previous term	416	416	417
Openings	7	2	1
Closings and transferring businesses	(13)	(2)	—
M&A	6	1	—
Total	416	417	418

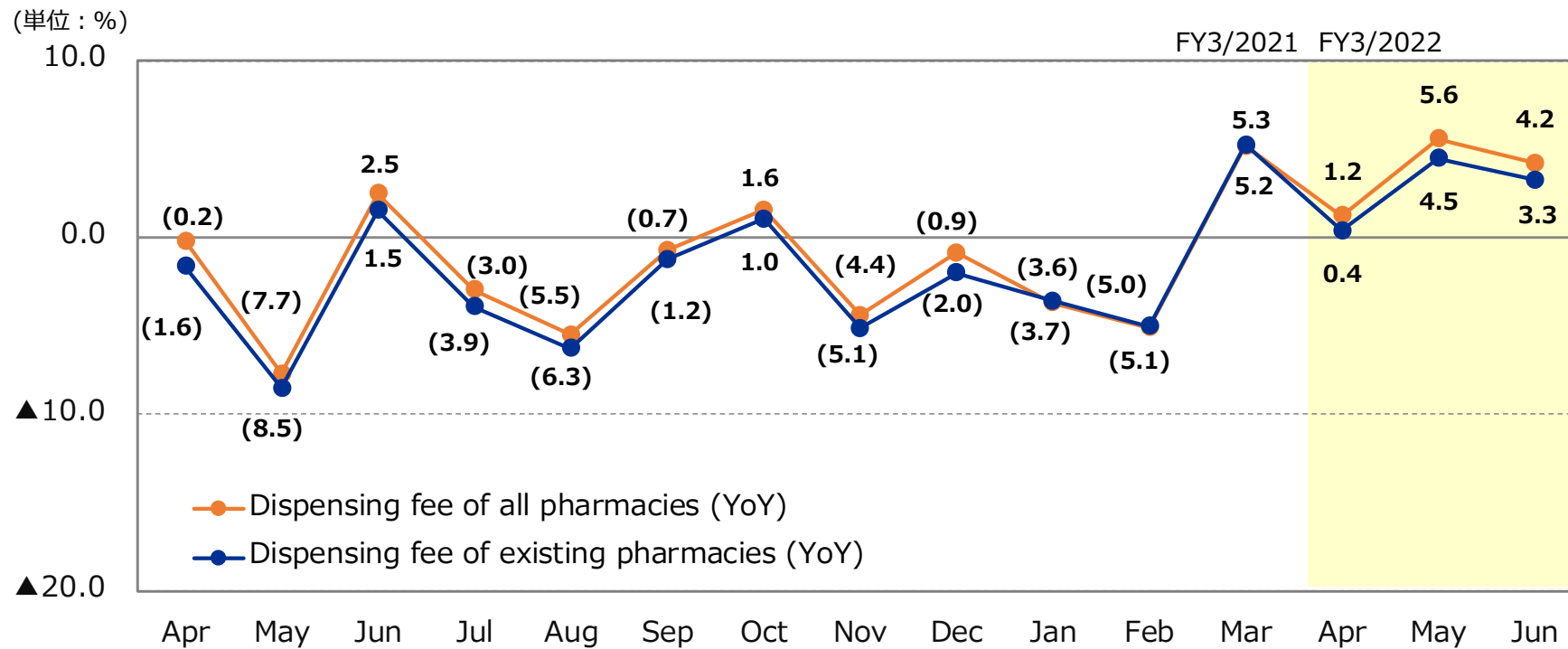


As of June 30

■ Dispensing pharmacy outlet number trends of the past 10 years

	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021	FY3/2022 1Q
Openings	21	14	10	9	8	8	5	8	7	2
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	417

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)



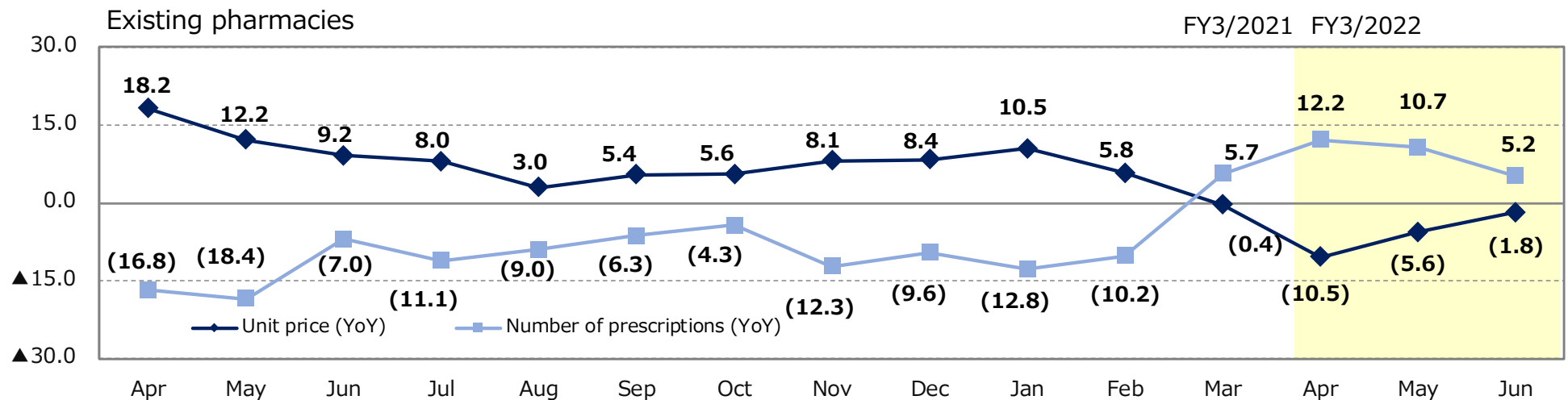
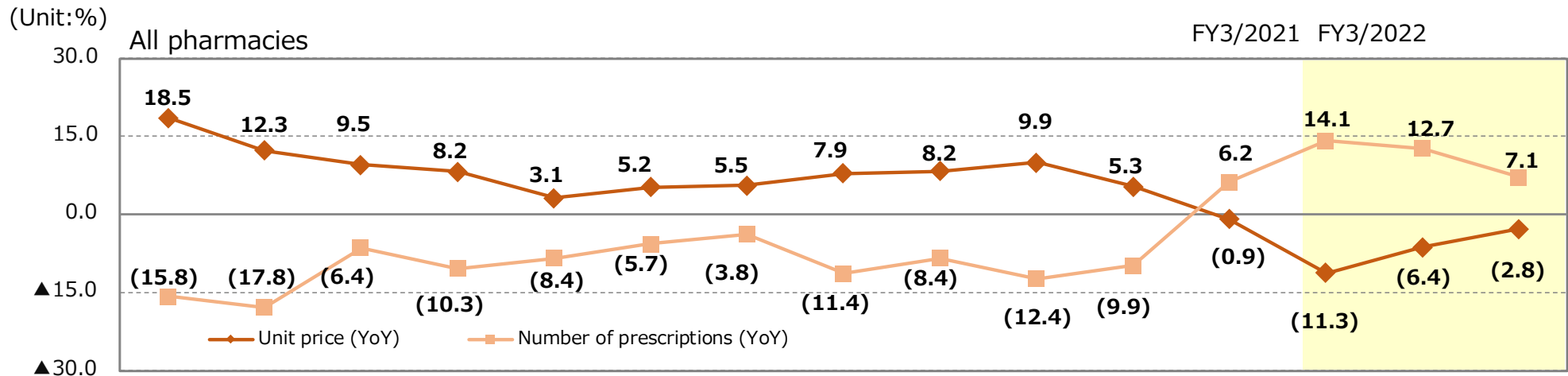
	FY3/2021												FY3/2022			FY3/2022 1Q
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Dispensing fee of all pharmacies (YoY)	(0.2)	(7.7)	2.5	(3.0)	(5.5)	(0.7)	1.6	(4.4)	(0.9)	(3.7)	(5.1)	5.2	1.2	5.6	4.2	3.6
Dispensing fee of existing pharmacies (YoY)	(1.6)	(8.5)	1.5	(3.9)	(6.3)	(1.2)	1.0	(5.1)	(2.0)	(3.6)	(5.0)	5.3	0.4	4.5	3.3	2.6

※ “Existing pharmacies” refer to pharmacies that continue to be in business from April 1, 2019 for FY3/2021 and from April 1, 2020 for FY3/ 2022.

Dispensing Pharmacy Business: Comparison of monthly prescription volume and unit price (YoY)

Point

- The number of prescriptions has recovered to some extent
- Prescription unit price fell due to decrease in long-term prescriptions

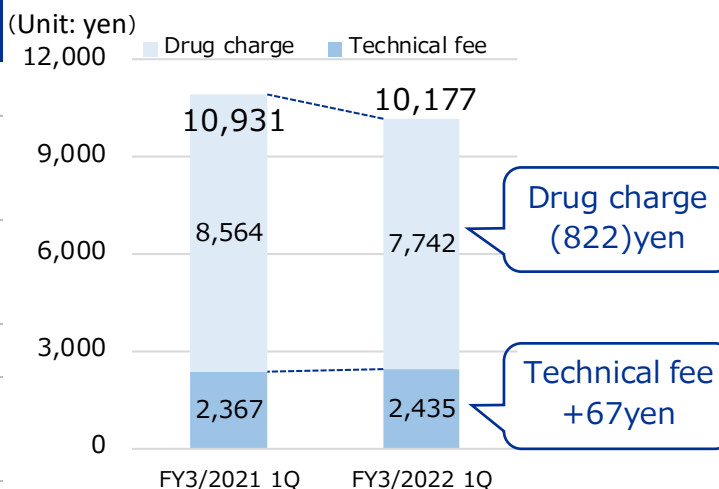


Dispensing Pharmacy Business: Dispensing fee breakdown

■ All pharmacies

■ All pharmacies		FY3/2021 1Q	FY3/2022 1Q	Change	Change (%)
No. of prescriptions (1000) a		1,964	2,185	+ 220	+11.2%
Unit price (yen)	Drug charge per prescription	8,564	7,742	(822)	(9.6%)
	Technical fee per prescription	2,367	2,435	+67	+2.8%
Total b		10,931	10,177	(754)	(6.9%)
Dispensing fee (million yen) c = a x b		21,476	22,238	+762	+3.6%

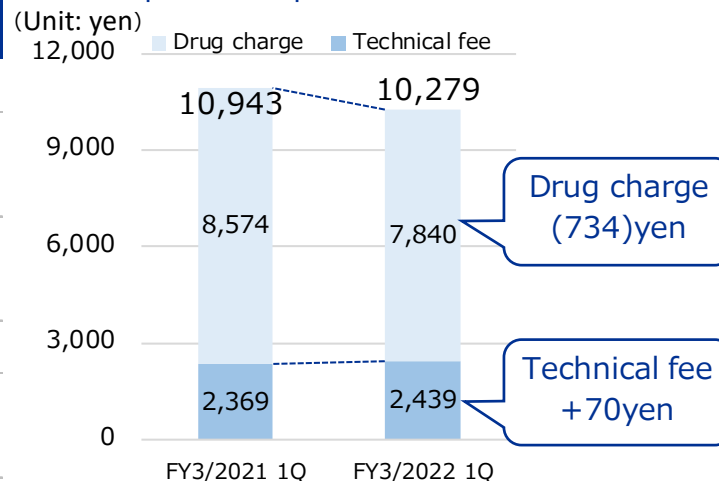
【Prescription unit price trends】



■ Existing pharmacies

■ Existing pharmacies		FY3/2021 1Q	FY3/2022 1Q	Change	Change (%)
No. of prescriptions (1000) a		1,941	2,120	+179	+9.2%
Unit price (yen)	Drug charge per prescription	8,574	7,840	(734)	(8.6%)
	Technical fee per prescription	2,369	2,439	+70	+2.9%
Total b		10,943	10,279	(664)	(6.1%)
Dispensing fee (million yen) c = a x b		21,240	21,793	+552	+2.6%

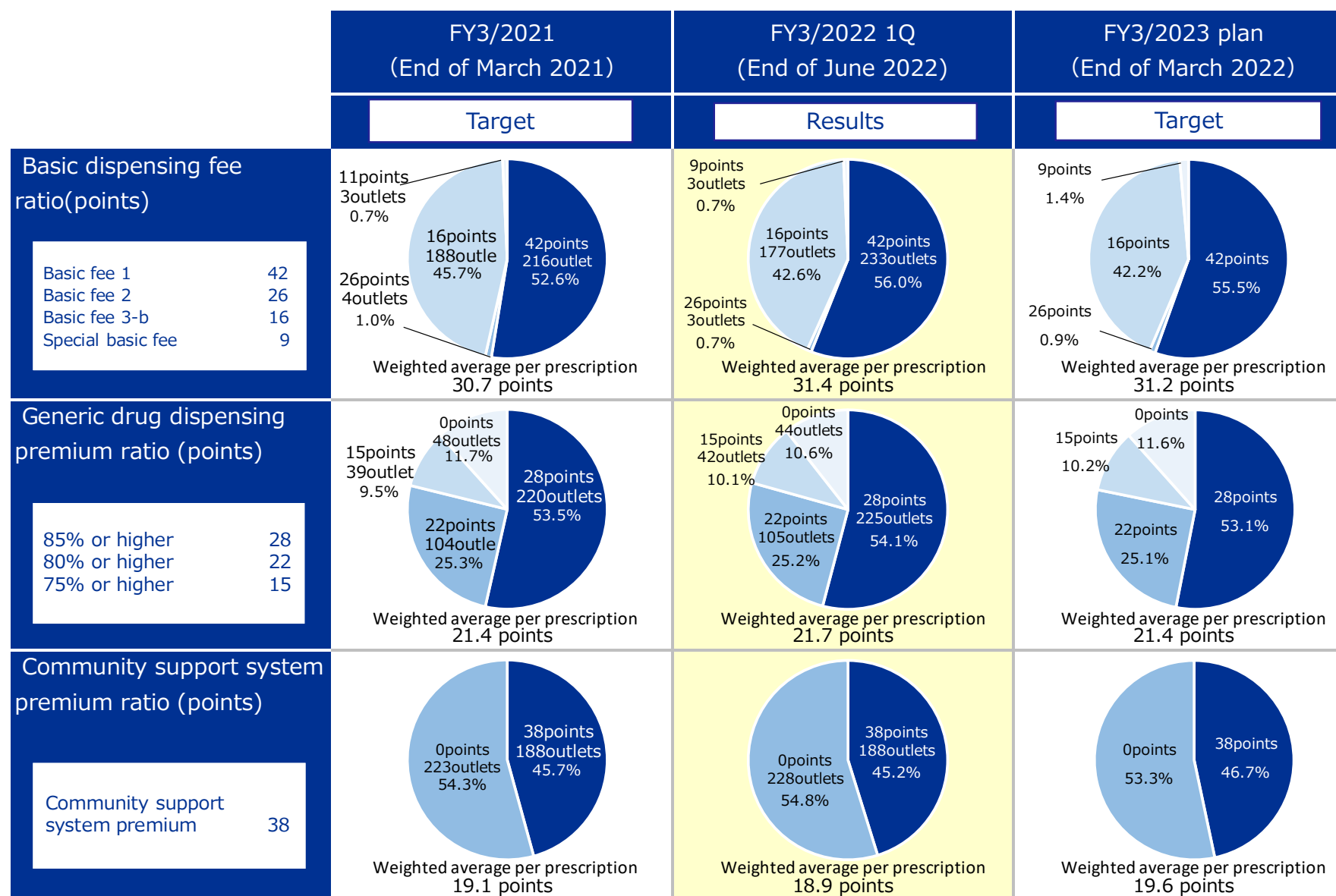
【Prescription unit price trends】



* "Existing pharmacies" on this page refer to pharmacies continue to be in business on or after April 1, 2020.

Dispensing Pharmacy Business: Dispensing fee revision

Trends in dispensing fee progressing mostly as planned



* Excluding pharmacies that are suspended and not consolidated

Manufacture and Market Pharmaceuticals Business: New generic drugs of 6 products (3 components) for sale



As of end of June 2021

Available components & products
74 products(37 components)

(End of FY3/2022 target: 100 products)

Number of available locations
1,159 affiliates

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



New products released this quarter

■ Upcoming releases of 3 products (2 components)

Released on July 29

• Duloxetine Tablet 20mg/30mg 「FELDSENF」

Scheduled to be released in August

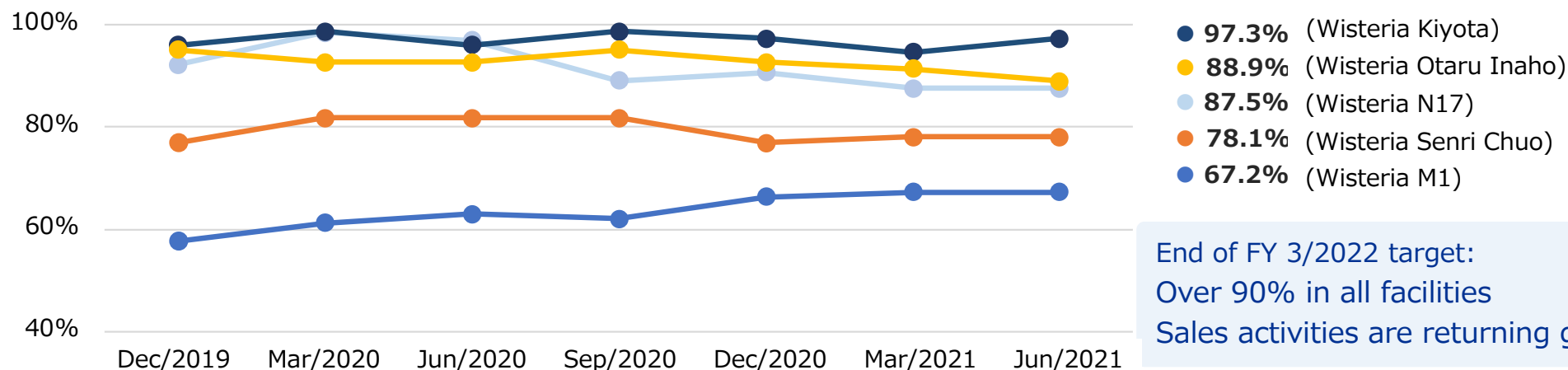
• Brimonidine Tartrate Ophthalmic Solution 0.1% 「NITTEN」

The lineup will be expanded to a total of 77 products (39 components)

Leasing and Facility related Business: Trends in Wisteria Occupancy Rate



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



Digital Shift Business — Achieved over 110,000 user registrations

Point

- The number of registered LINE friends exceeded **110,000**, the largest among the dispensing pharmacies here in Japan in terms of LINE official account numbers
- Renamed to "Tsunagaru Pharmacy*" on July 26
- Electronic Prescription Note, online medication and payment are implemented to make it an all-in-one system.

* Tsunagaru means that patients easily connect with various medical professionals and institutions.

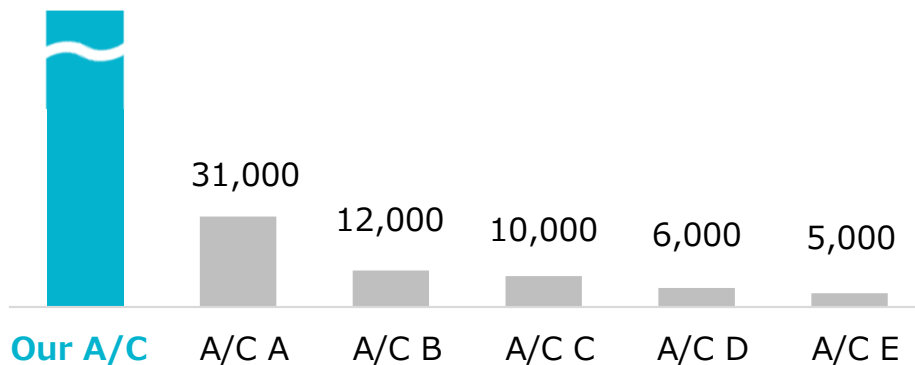
LINE official account name change

つながる薬局
"Tsunagaru Pharmacy"

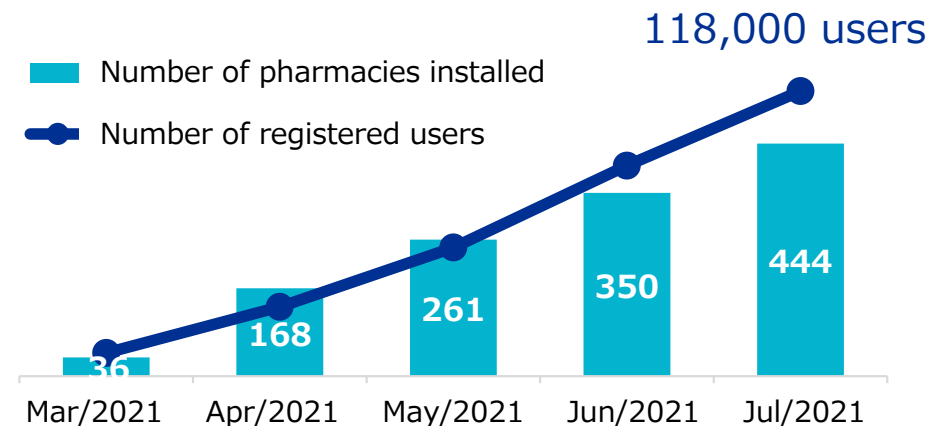
User registration numbers for each competitors official LINE account

As of July 31

118,000 users



Growth trend



Key Functions

- Prescription Submission
- Prescription Note
- Medical consultation
- Health & drugs consultation
- Follow up on medications
- Medication counseling
- Online payment



Core strategies, Earnings Forecast for FY3/2022



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

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)		FY3/21 (results)	FY3/22 (forecast)	Change	Change (%)
Profit percentage in brackets					
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 , Digital Shift Business

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

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