



MEDICAL SYSTEM
NETWORK GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Third 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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FY3/2022 3Q : Topics and Business Overview

- April 2021 drug price revision details were announced.
- 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.
- Number of pharmaceutical network affiliates exceeded 7,000 in December 2021.
- As of the end of December 2021, PharmaShift LINE official- account registered users exceeded 250K and 745 pharmacies have adopted the service (The number of pharmacies receiving orders is 1,425).
- Opening 2 pharmacies inside train stations that cope with a wide range of prescriptions using the official LINE account "Tsunagaru Pharmacy".
- Joining the application process for the "Prime Market" at the Tokyo Stock Exchange.
(Transition on April 4, 2022)
- February 2022 Announced upward revision of full-year earnings forecast for the fiscal year ending March 31, 2022 and a dividend increase.

Table of Contents

Earnings Highlight	• • •	5
Business Summary and Core Strategies	• • •	10
Earnings Forecast for FY3/2022	• • •	20

Earnings Highlight

FY3/2022 3Q : Consolidated results

(Unit: million yen)	FY3/2021 3Q	FY3/2022 3Q (result)	Year-on-year		FY3/2022 ^{*4} Full year forecast (Revised on February 4, 2022)	Progress rate
			Change	Change (%)		
Net sales	78,167	79,868	+ 1,701	+ 2.2%	106,500	75.0%
EBITDA ^{*1}	4,922	5,173	+ 251	+ 5.1%	+ 6,800	76.1%
Profit margin	6.3%	6.5%			6.4%	
Operating profit	2,773	3,063	+ 289	+ 10.5%	+ 3,800	80.6%
Profit margin	3.5%	3.8%			3.6%	
Ordinary profit	2,770	3,485 ^{*2}	+ 714	+ 25.8%	+ 4,200	83.0%
Profit margin	3.5%	4.4%			3.9%	
Profit attributable to owners of parent	2,013	2,144 ^{*3}	+ 130	+ 6.5%	+ 2,300	93.2%
Profit margin	2.6%	2.7%			2.2%	
Earnings per share (Yen)	66.37	71.08	+ 4.71	—	+ 76.23	—

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

^{*2} Includes 398 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} Announced revision of consolidated earnings forecast on February 4, 2022

FY3/2022 3Q : Results in each segment part

■ Net sales

(Unit: million yen)

	FY3/2021 3Q	FY3/2022 3Q	Change	Change (%)
Net sales	78,167	79,868	+ 1,701	+ 2.2%
Community Pharmacy Network Segment ^{*1}	74,368	75,986	+ 1,618	+ 2.2%
Other 3 Segments ^{*2}	4,241	4,446	+ 204	+ 4.8%
Adjustments	(442)	(563)	(121)	—

■ Operating profit

(Unit: million yen)

	FY3/2021 3Q	Profit margin	FY3/2022 3Q	Profit margin	Change	Change (%)
Segment profit	2,773	3.5%	3,063	3.8%	+289 + 0.3 pt	+ 10.5%
Community Pharmacy Network Segment ^{*1}	4,329	5.8%	4,663	6.1%	+334 + 0.3 pt	+ 7.7%
Other 3 Segments ^{*2}	13	(0.3%)	50	(1.1%)	+36 + 0.8 pt	+ 262.5%
Adjustments	(1,569)	—	(1,650)	—	(80) —	—

*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 3Q : Consolidated balance sheet

Point

Assets: Increase in inventories of pharmaceutical merchandise, Decrease in 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 3Q

(Unit: million yen)

Assets	65,239	Liabilities	52,183
Current assets	21,145	Current liabilities	27,039
Cash and deposits	9,427	Short-term loans ^{*1}	10,880
		Fixed liabilities	25,143
Fixed assets	44,093	Long-term loans	18,967
Tangible fixed assets	24,861	Net assets	13,055
Intangible fixed assets	12,952	Capital stock	2,128
Goodwill	12,445	Capital surplus	1,182
Investments and other assets	6,279	Retained earnings	10,143
		Treasury stock	(326)
Total assets	65,239	Total liabilities and net assets	65,239

Equity ratio

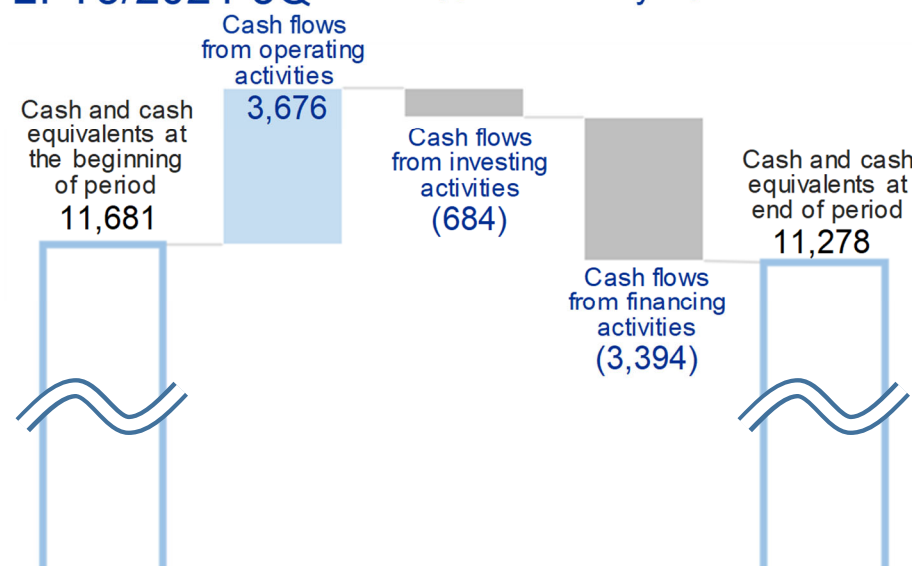
20.0%

(Equity ratio with taking into account net cash^{*2} 23.4%)

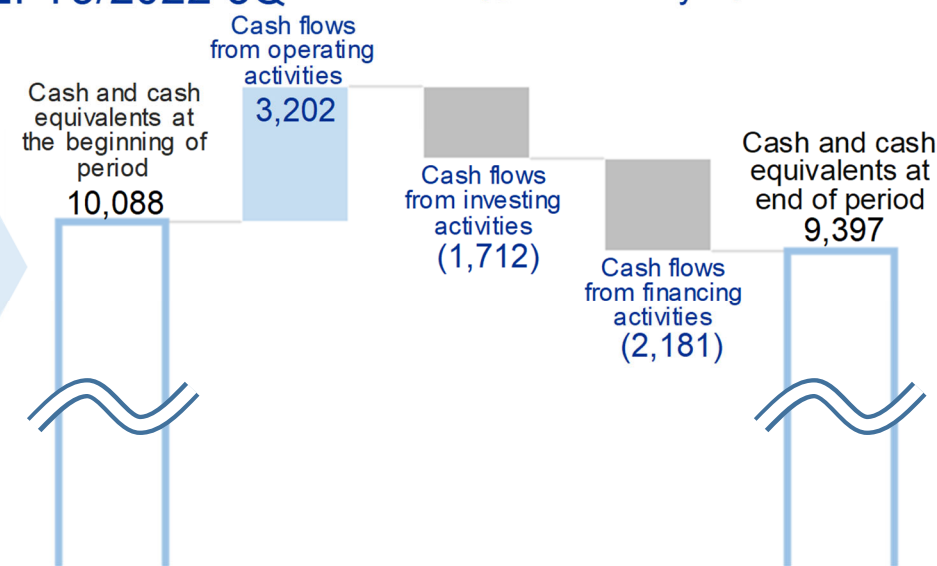
FY3/2022 3Q : Consolidated cash flows

Cash flows from operating activities	3,202 million yen	EBITDA* Income taxes paid Changes in working capital * Calculated by "operating profit + depreciation + amortization of goodwill"	5,173 million yen (2,866) million yen 538 million yen
Cash flows from investing activities	(1,712) million yen	Acquisition of buildings, etc.	(1,645) million yen
Cash flows from financing activities	(2,181) million yen	Loan amount reduced Cash dividends paid	(1,685) million yen (302) million yen

■FY3/2021 3Q (Unit: million yen)



■FY3/2022 3Q (Unit: million yen)



Business Summary

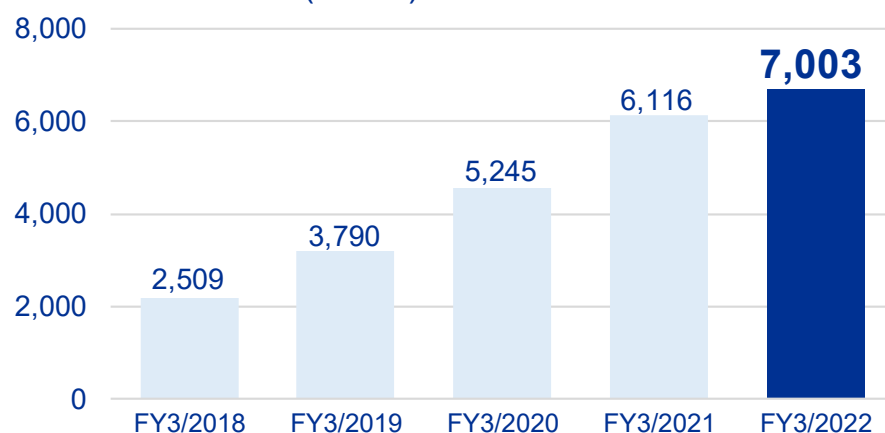
Pharmaceuticals Network Business: Earnings summary

(as of December 31, 2021)

Affiliates increased by 887 from the end of the previous fiscal year to 7,003

■ Full year ■ 3Q of FY3/2022

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

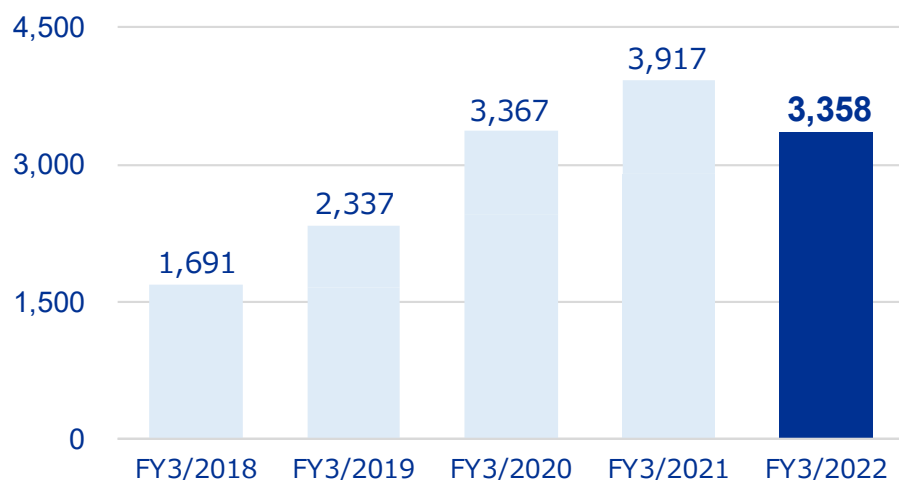


■ Network affiliates (net increase) (Unit: No. of network affiliates)



■ 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	3Q
New	405	395	379
Withdrawal	(154)	(62)	(76)

➡ The number of new affiliates was steady

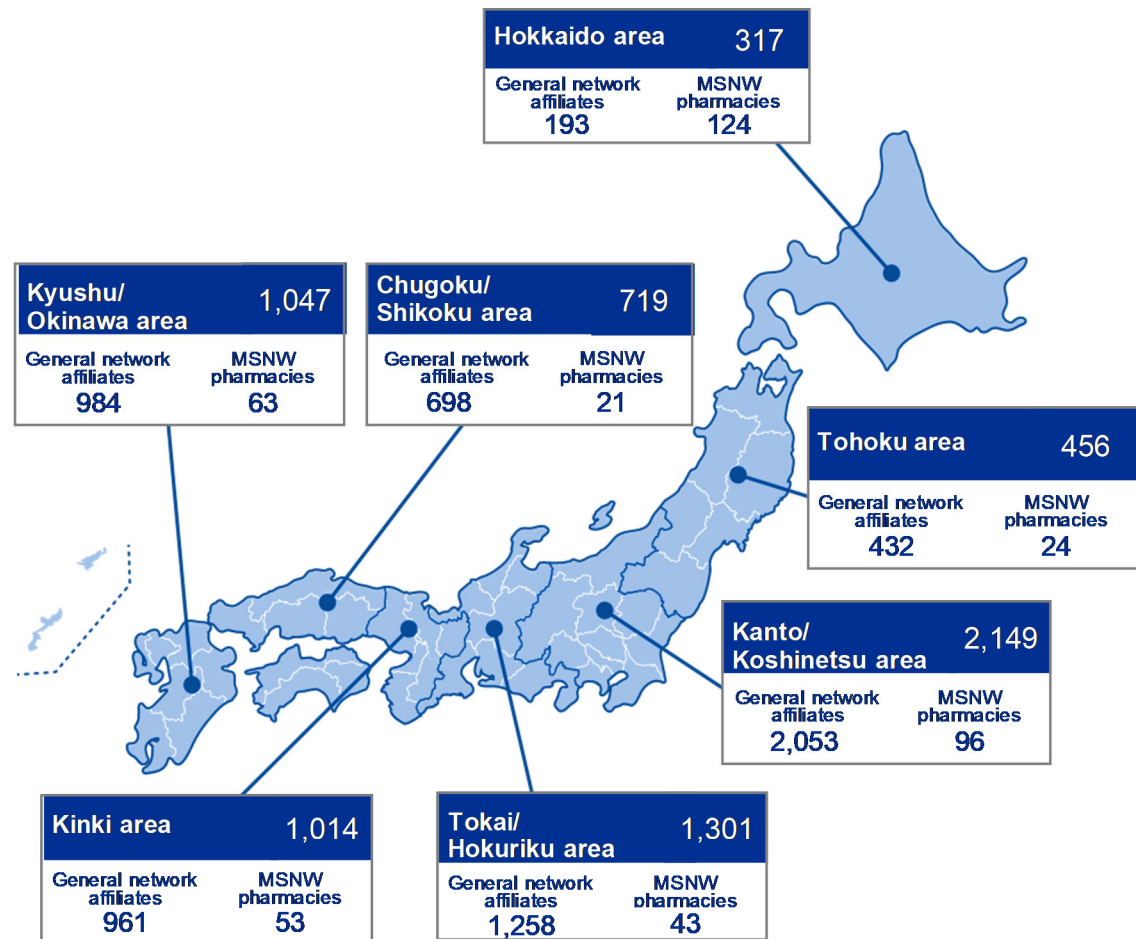
Pharmaceuticals Network Business:

Network affiliates distribution map (as of December 31, 2021)

【 Breakdown of network affiliates 】

(Unit: No. of network affiliates)

	General network affiliates	MSNW dispensing pharmacies	Total
Hokkaido	193	124	317
Tohoku	432	24	456
Kanto/Koshinetsu	2,053	96	2,149
Tokai/Hokuriku	1,258	43	1,301
Kinki	961	53	1,014
Chugoku/Shikoku	698	21	719
Kyushu/Okinawa	984	63	1,047
Total	6,579	424	7,003

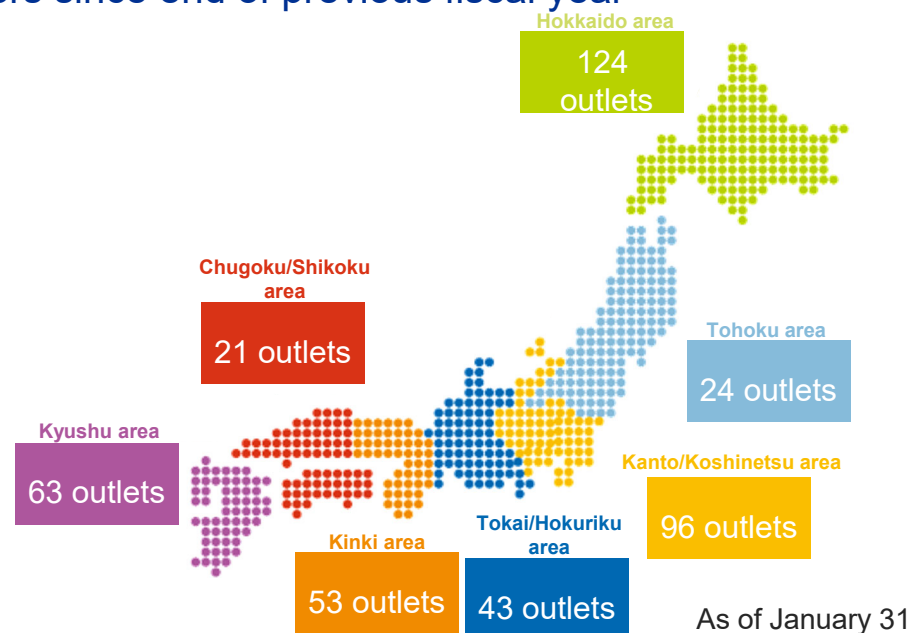


7,125 network affiliates
as of January 31, 2022

Dispensing Pharmacy Business: Trends in number of pharmacies

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

	Outlets at end of FY3/2021	Outlets at end of FY3/2022 3Q	Outlets as of January 31
Outlets at end of previous term	416	416	424
Openings	7	11	—
Closings and transferring businesses	(13)	(5)	—
M&A	6	2	—
Total	416	424	424

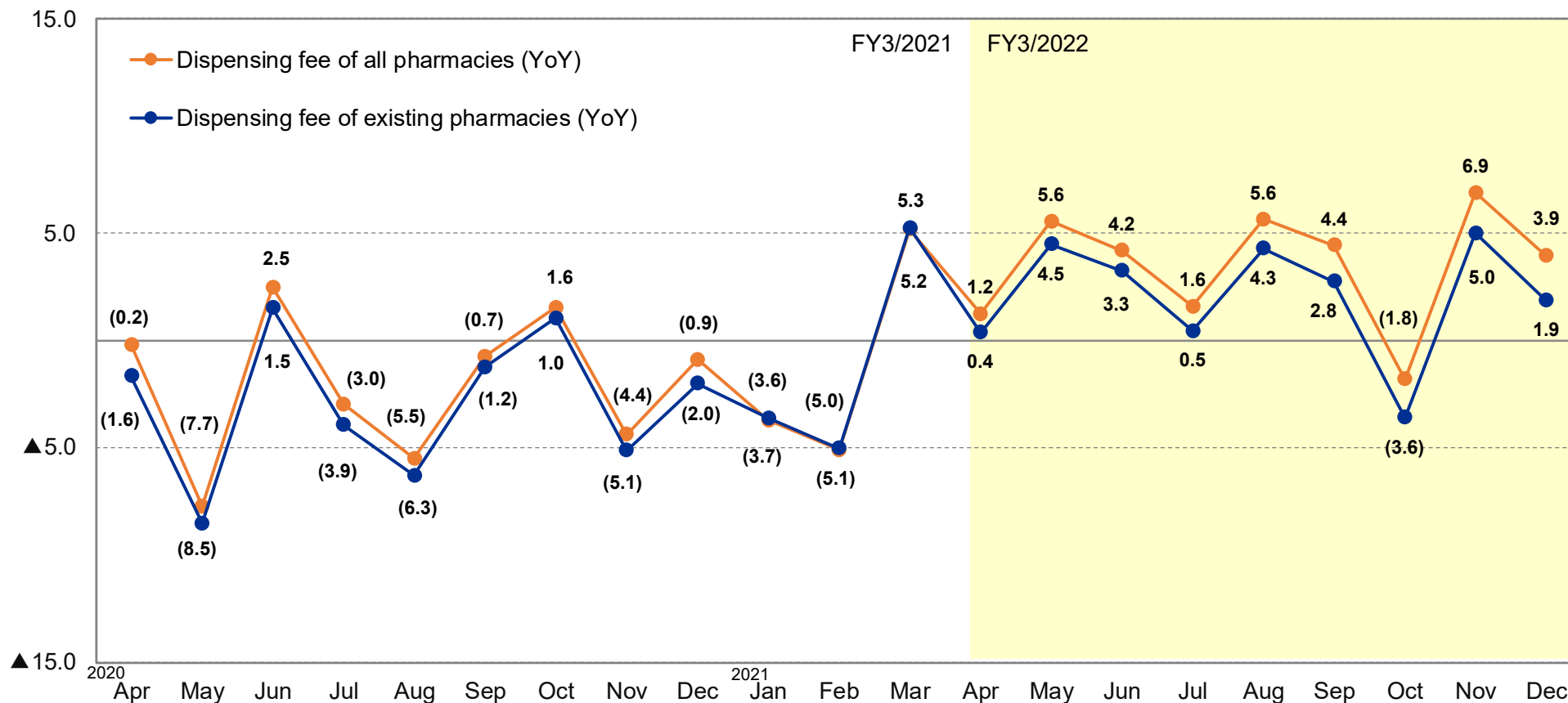


Dispensing pharmacy outlet number trends of the past 10 years

	FY3/2013	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021	FY3/2022 3Q
Openings	21	14	10	9	8	8	5	8	7	11
Closings and transferring of businesses	(8)	(7)	(13)	(8)	(4)	(5)	(14)	(15)	(13)	(5)
M&A	33	45	27	7	20	19	30	3	6	2
Number of outlets	269	321	345	353	377	399	420	416	416	424

Dispensing Pharmacy Business: Monthly dispensing fee (YoY)

(単位: %)



(unit:%)	FY3/2021														FY3/2022										
	Apr	May	Jun	Jul	Aug	Sep	1st half total	Oct	Nov	Dec	Jan	Feb	Mar	2nd half total	Apr	May	Jun	Jul	Aug	Sep	1st half total	Oct	Nov	Dec	total
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	(1.8)	6.9	3.9	3.4
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	(3.6)	5.0	1.9	2.0

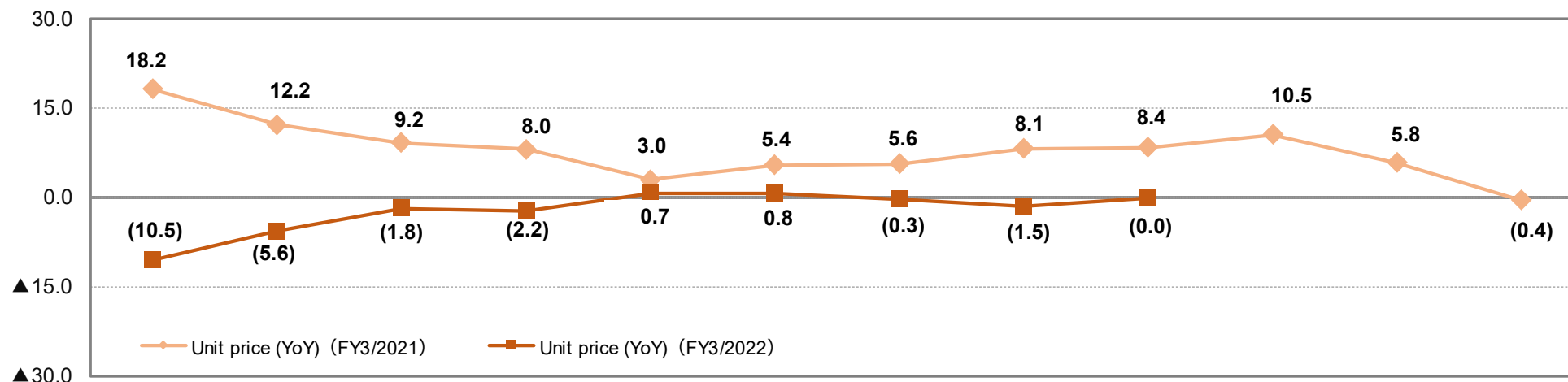
※ “Existing pharmacies” refer to pharmacies that continue to be in business on or after April 1, 2019 and April 1, 2020.

Dispensing Pharmacy Business: Monthly prescription volume and unit price of Existing pharmacies (YoY)

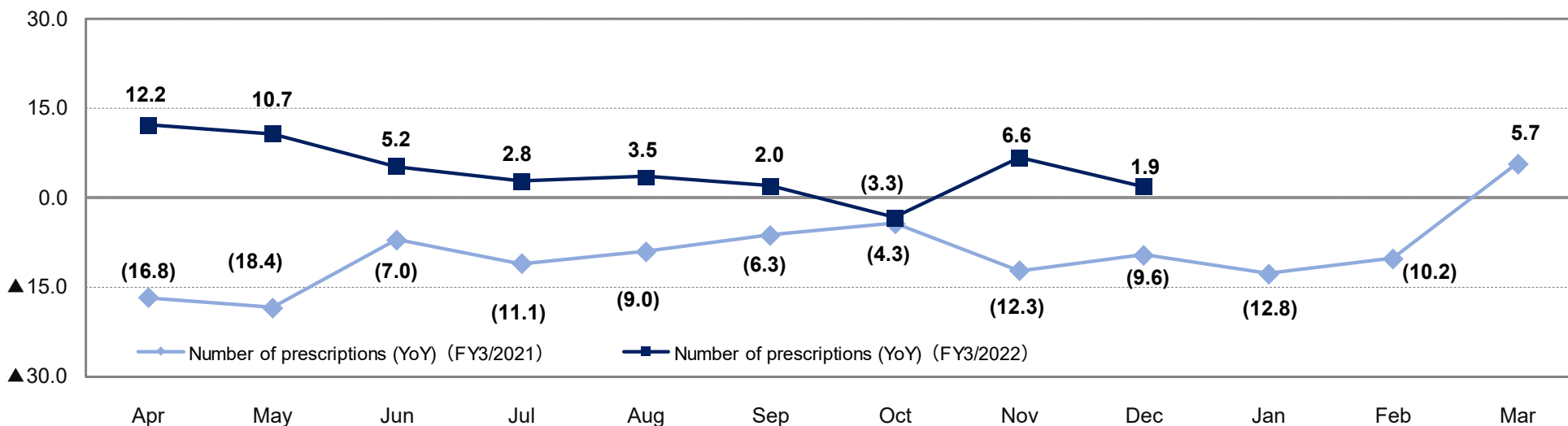
Point

- Unit price of prescriptions had declined due to a decrease in long-term prescriptions, but recovered to almost the same level as the previous year
- The number of prescriptions has recovered to some extent

(Unit:%) Prescription unit price



Number of prescriptions

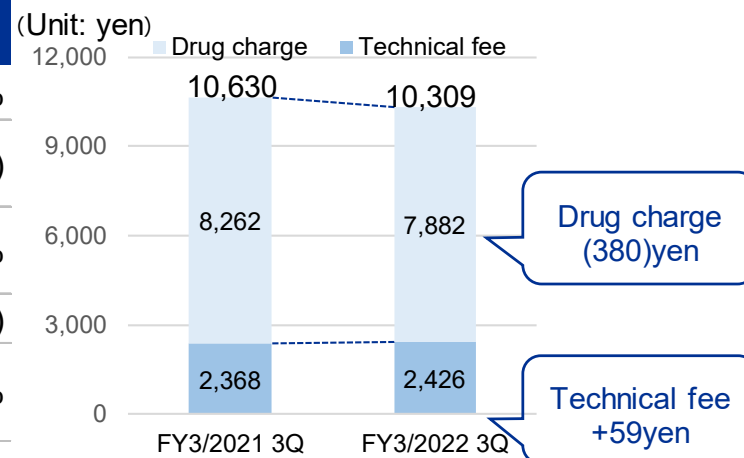


Dispensing Pharmacy Business: Dispensing fee breakdown

■ All pharmacies

		FY3/2021 3Q	FY3/2022 3Q	Change	Change (%)
No. of prescriptions (1000) a		6,212	6,625	+ 412	+6.6%
Unit price (yen)	Drug charge per prescription	8,262	7,882	(380)	(4.6%)
	Technical fee per prescription	2,368	2,426	+59	+2.5%
	Total b	10,630	10,309	(321)	(3.0%)
Dispensing fee (million yen) c = a x b		66,039	68,296	+2,257	+3.4%

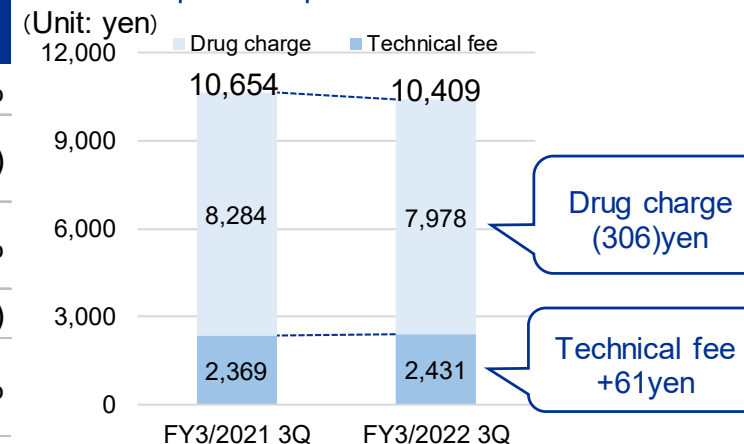
【Prescription unit price trends】



■ Existing pharmacies

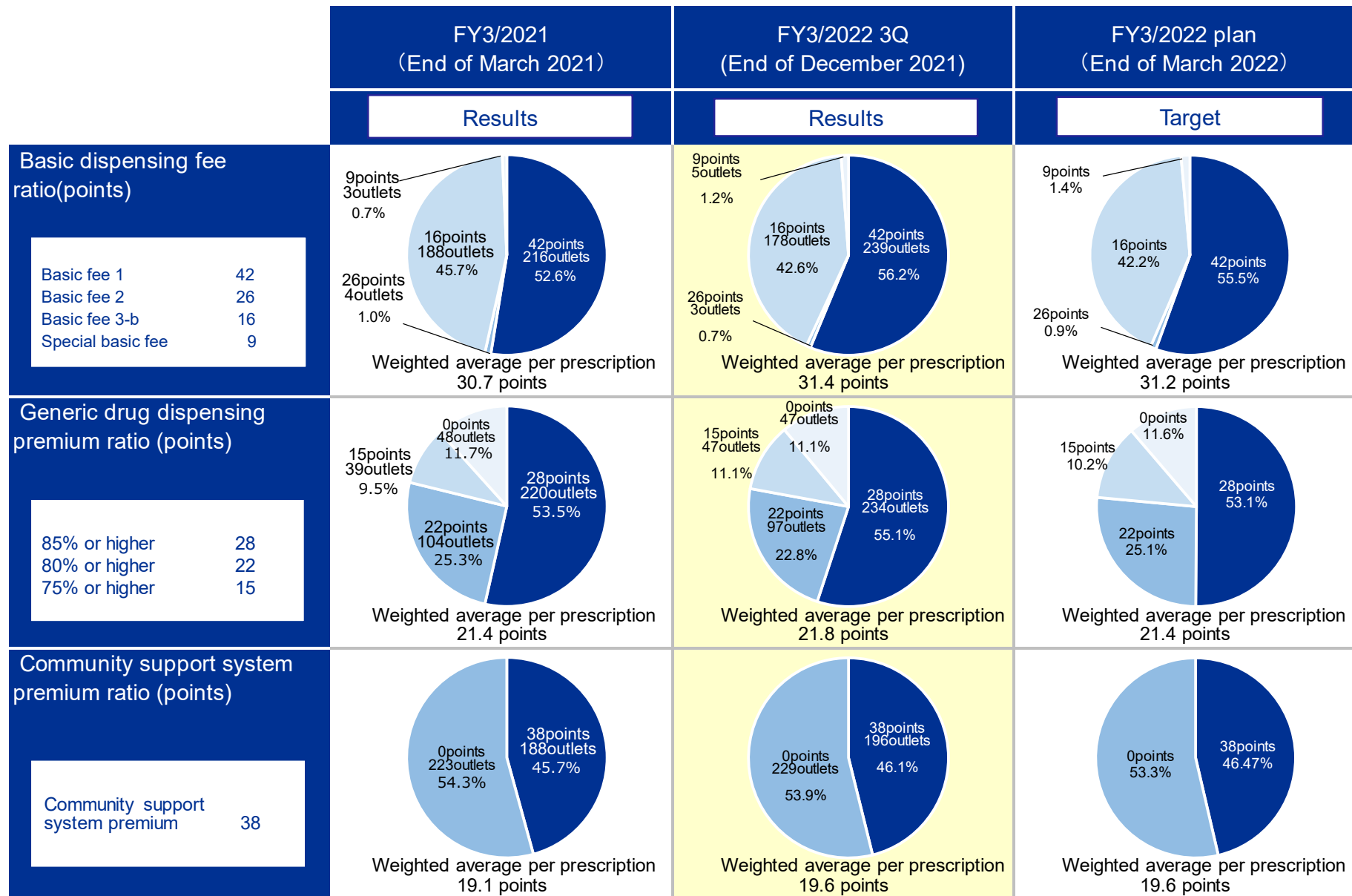
		FY3/2021 3Q	FY3/2022 3Q	Change	Change (%)
No. of prescriptions (1000) a		6,140	6,409	+269	+4.4%
Unit price (yen)	Drug charge per prescription	8,284	7,978	(306)	(3.7%)
	Technical fee per prescription	2,369	2,431	+61	+2.6%
	Total b	10,654	10,409	(245)	(2.3%)
Dispensing fee (million yen) c = a x b		65,414	66,712	+1,298	+2.0%

【Prescription unit price trends】



Dispensing Pharmacy Business: Dispensing fee revision

Achieved the year-end target at the end of 3Q. We are continuing to focus on interpersonal services

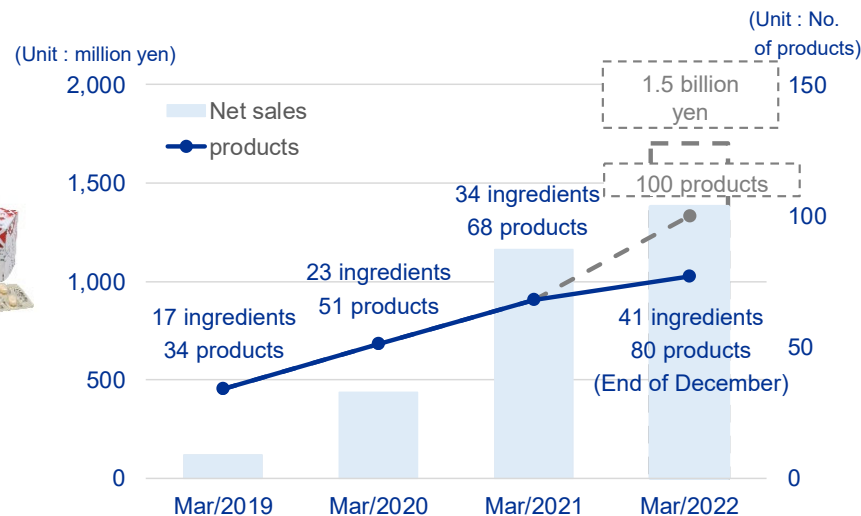


* 2022/3 3Q results include pharmacies closed on Dec. 31

Manufacture and Market Pharmaceuticals Business: New generic drugs of 3 products (2 ingredients) in FY3/2022 3Q



New products launched
in FY3/2022 3Q



As of end of December 2021

Available products (ingredients)

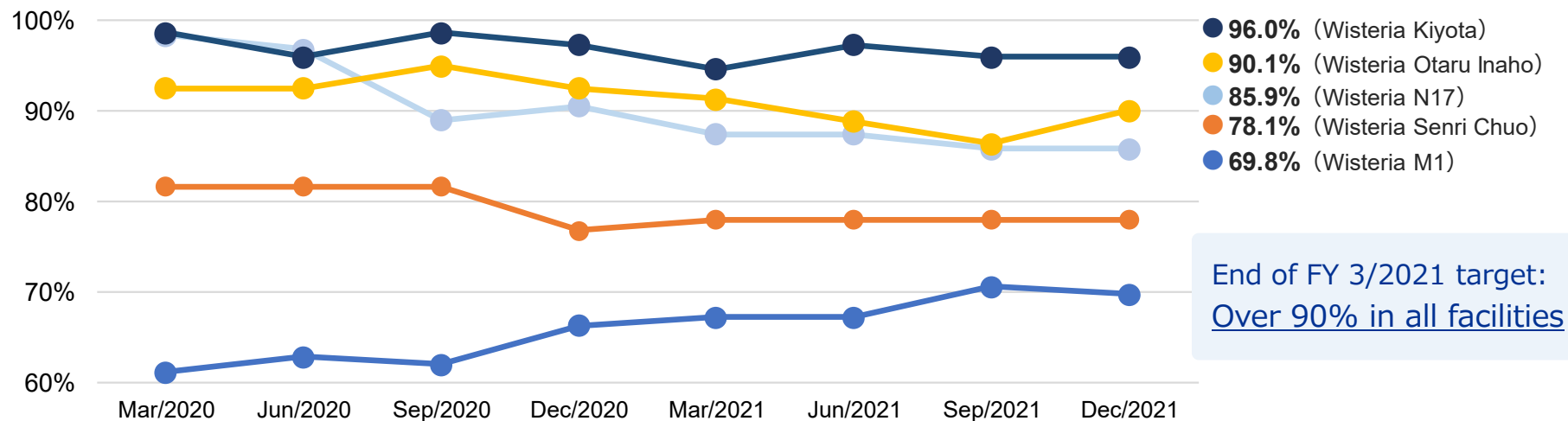
80 products (41 ingredients)

Number of available locations

1,592 affiliates

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

Leasing and Facility related Business: Occupancy rate trends in Wisteria



End of FY 3/2021 target:
Over 90% in all facilities

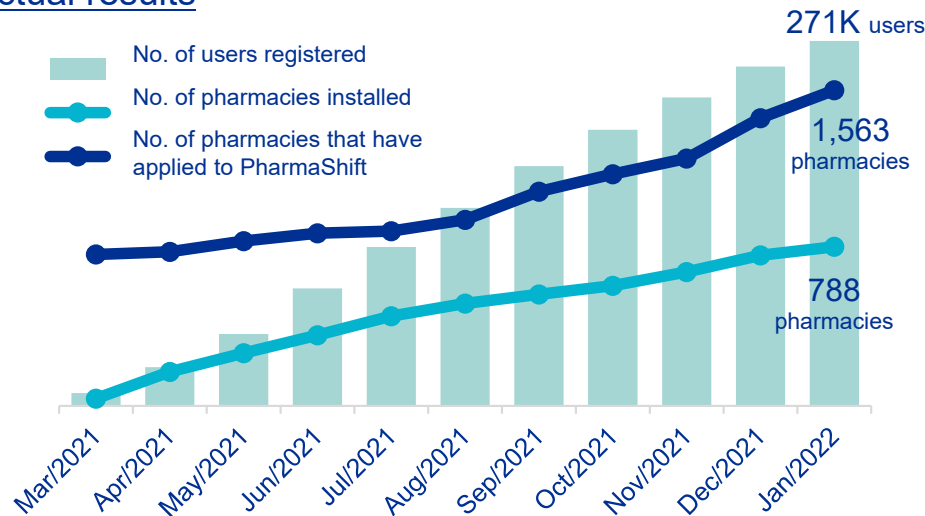
Digital Shift Business — Exceeded 270K user registrations (As of end of January 2022)

Point

- Using LINE to connect with patients in order to deliver a service of support aiming at "becoming a family pharmacy"
- We have received applications from over 1500 pharmacies for our service, and the number of messages and prescriptions sent increased steadily
- Added new functions such as inviting family members to the service



Actual results

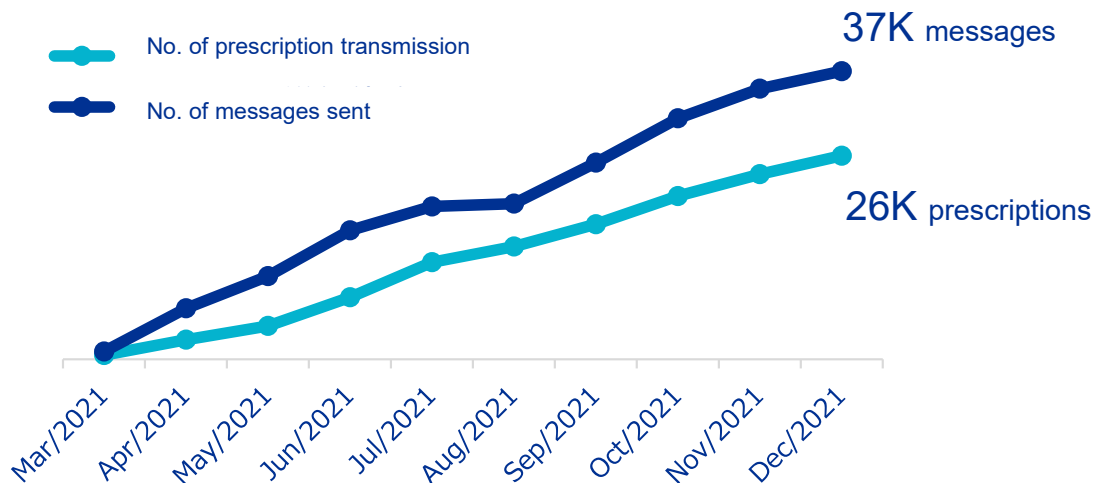


Recent added functions

- Invitation functions (patient side)
 - Invite a different LINE user for each patient registered
 - Parents can use it to refer to their children's medication information
- Medication follow-up - to-do functionality (pharmacy side)
 - To-do list of when and what to follow up on when taking medication, etc.
 - To-dos of non-Line users can also be registered

[To-do list]

2022年01月							リスト形式
日	月	火	水	木	金	土	
26日	27日	28日	29日	30日	31日	1月 1日	
	全件: 2件 完了: 2件	全件: 2件 薬歴記載待ち: 1 完了: 1件	全件: 2件 薬歴記載待ち: 1 完了: 1件	全件: 1件 完了: 1件			
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Earnings Forecast for FY3/2022



Earnings forecast for FY3/2022: Consolidated forecasts

Point

- While the number of prescriptions was generally in line with the plan, the unit price of prescriptions exceeded the plan, and the volume of pharmaceuticals handled by member stores of the pharmaceutical network also exceeded plan.
- Cost control of travel and transportation expenses, etc.
- Net income was boosted by gains on sales of marketable securities and a decrease in the tax burden ratio due to the absorption of consolidated subsidiaries.

(Unit: million yen)	FY3/21 (results)	FY3/22 (Initial forecast) On May 7, 2021	FY3/22 (Revision forecast) On Feb. 4, 2022	Change	Change (%)
Net sales	104,257	105,700	106,500	+ 800	+ 0.8 %
EBITDA ^{*1}	6,426 6.2 %	6,500 6.1 %	6,800 6.4 %	+ 300 +0.3 pt	+ 4.6 %
Operating profit Profit margin	3,429 3.3 %	3,500 3.3 %	3,800 3.6 %	+ 300 +0.3 pt	+ 8.6 %
Ordinary profit Profit margin	3,479 3.3 %	4,000 3.8 %	4,200 3.9 %	+ 200 +0.1 pt	+ 5.0 %
Profit attributable to owners of parent Profit margin	2,198 2.1 %	1,800 1.7 %	2,300 2.2 %	+ 500 +0.5 pt	+ 27.8 %
Earnings per share (Yen)	72.51	59.69	76.23	—	—

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

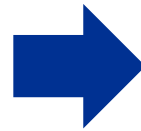
FY3/2022 : Revision of year-end dividend forecast

The year-end dividend forecast for the fiscal year ending March 31, 2022 has been revised upward by 2 yen from the previous forecast (announced on May 7, 2021) of 5 yen to 7 yen (Ordinary dividend of 6 yen, commemorative dividend of 1 yen for) per share in accordance with the revision of the full-year earnings forecast and the 20th anniversary of listing

【 Shareholder Return Indicators 】

■ Previous forecast

Annual dividend per share 10yen
Dividend payout ratio 16.8%

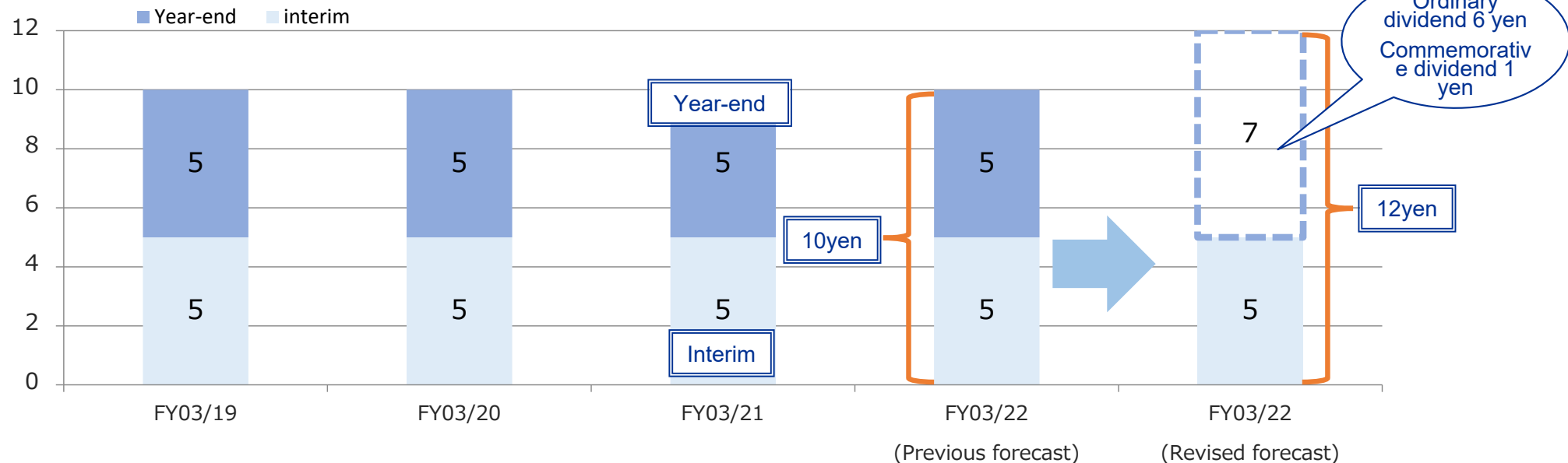


■ Revised forecast

Annual dividend per share 12円
Dividend payout ratio 15.7%

(Unit : Yen)

【 Annual dividend per share trend 】



Reference Materials

Key points in 2022 medical fee revision

■ 2022 revision rates

Overall (0.94%) = medical fee +0.43% + drug price (1.37%)

Medical fee +0.43%

Medicine
+0.26%

Dentistry
+0.29%

Dispensing
+0.08%

Improving
treatment of
nursing +0.20%

Refill
prescription
introduced (0.10%)

Exceptional
treatment for
infertility +0.20%

Additional Infection
Prevention
Measures for
Children Expires (0.10%)

NHI price revision (medical fee base) (1.37%)

① Drug price (1.35%)

② Material price (0.02%)

Reference: recent medical fee revision rates (medical fee base)

Year	2010	2012	2014	2016	2018	2019	2020	2021	2022
Medical fee (real)	+ 1.55	+ 1.379	+ 0.10	+ 0.49	+ 0.55	+0.41	+0.55	-	+0.43
Dispensing fee	+ 0.52	+ 0.46	+ 0.04	+ 0.17	+ 0.19	+0.12	+0.16	-	+0.08
Drug price (real)	(1.36)	(1.375)	(1.36)	(1.33)	(1.74)	(0.95)	(1.01)	-	(1.37)
Drug price base	(5.75)	(6.00)	(5.64)	(5.57)	(7.48)	(2.40)	(4.38)	-	-
Tax included	-	-	+ 1.36	-	-	+0.48	-	-	-
Overall (nominal)	+ 0.19	+ 0.004	+ 0.10	(0.84)	(1.19)	(0.07)	(0.46)	-	(0.94)

*The revision rate for FY2021 has not been announced by the Ministry of Health, Labor and Welfare

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Corporate Strategy Department
E-mail : info@msnw.co.jp