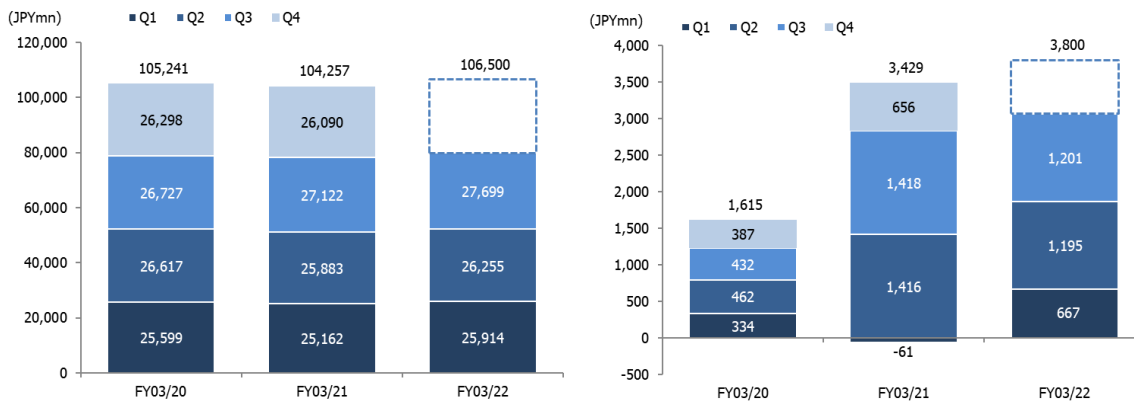


Cumulative (JPYmn)	FY03/20				FY03/21				FY03/22			FY03/22	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	% of Est.	FY Est.
Sales	25,599	52,216	78,943	105,241	25,162	51,045	78,167	104,257	25,914	52,169	79,868	75.0%	106,500
YoY	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%	-1.0%	-0.9%	3.0%	2.2%	2.2%		2.2%
Gross profit	9,839	19,819	30,225	40,214	9,704	20,502	31,665	42,412	10,738	21,861	33,443		
YoY	8.4%	10.8%	9.8%	7.9%	-1.4%	3.4%	4.8%	5.5%	10.7%	6.6%	5.6%		
Gross profit margin	38.4%	38.0%	38.3%	38.2%	38.6%	40.2%	40.5%	40.7%	41.4%	41.9%	41.9%		
SG&A expenses	9,504	19,022	28,997	38,599	9,765	19,147	28,892	38,982	10,071	19,999	30,379		
YoY	7.2%	9.3%	9.5%	7.7%	2.7%	0.7%	-0.4%	1.0%	3.1%	4.4%	5.1%		
SG&A ratio	37.1%	36.4%	36.7%	36.7%	38.8%	37.5%	37.0%	37.4%	38.9%	38.3%	38.0%		
Operating profit	334	796	1,228	1,615	-61	1,355	2,773	3,429	667	1,862	3,063	80.6%	3,800
YoY	57.5%	67.2%	18.1%	13.1%	-	70.2%	125.8%	112.3%	-	37.4%	10.5%		10.8%
Operating profit margin	1.3%	1.5%	1.6%	1.5%	-	2.7%	3.5%	3.3%	2.6%	3.6%	3.8%		3.6%
Recurring profit	323	784	1,208	1,560	-62	1,397	2,770	3,479	935	2,235	3,485	83.0%	4,200
YoY	68.2%	79.0%	19.6%	3.9%	-	78.2%	129.3%	123.0%	-	60.0%	25.8%		20.7%
Recurring profit margin	1.3%	1.5%	1.5%	1.5%	-	2.7%	3.5%	3.3%	3.6%	4.3%	4.4%		3.9%
Net income	97	218	326	-895	-201	578	2,013	2,198	583	1,431	2,144	93.2%	2,300
YoY	-4.0%	83.2%	-12.4%	-	-	165.1%	517.5%	-	-	147.6%	6.5%		4.6%
Net margin	0.4%	0.4%	0.4%	-	-	1.1%	2.6%	2.1%	2.2%	2.7%	2.7%		2.2%
Quarterly (JPYmn)	FY03/20				FY03/21				FY03/22				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
Sales	25,599	26,617	26,727	26,298	25,162	25,883	27,122	26,090	25,914	26,255	27,699		
YoY	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%	1.5%	-0.8%	3.0%	1.4%	2.1%		
Gross profit	9,839	9,980	10,406	9,989	9,704	10,798	11,163	10,747	10,738	11,123	11,582		
YoY	8.4%	13.3%	7.9%	2.5%	-1.4%	8.2%	7.3%	7.6%	10.7%	3.0%	3.8%		
Gross profit margin	38.4%	37.5%	38.9%	38.0%	38.6%	41.7%	41.2%	41.2%	41.4%	42.4%	41.8%		
SG&A expenses	9,504	9,518	9,975	9,602	9,765	9,382	9,745	10,090	10,071	9,928	10,380		
YoY	7.2%	11.4%	9.9%	2.6%	2.7%	-1.4%	-2.3%	5.1%	3.1%	5.8%	6.5%		
SG&A ratio	37.1%	35.8%	37.3%	36.5%	38.8%	36.2%	35.9%	38.7%	38.9%	37.8%	37.5%		
Operating profit	334	462	432	387	-61	1,416	1,418	656	667	1,195	1,201		
YoY	57.5%	75.0%	-23.4%	-0.3%	-	206.5%	228.2%	69.5%	-	-15.6%	-15.3%		
Operating profit margin	1.3%	1.7%	1.6%	1.5%	-	5.5%	5.2%	2.5%	2.6%	4.6%	4.3%		
Recurring profit	323	461	424	352	-62	1,459	1,373	709	935	1,300	1,250		
YoY	68.2%	87.4%	-25.9%	-28.3%	-	216.5%	223.8%	101.4%	-	-10.9%	-9.0%		
Recurring profit margin	1.3%	1.7%	1.6%	1.3%	-	5.6%	5.1%	2.7%	3.6%	5.0%	4.5%		
Net income	97	121	108	-1,221	-201	779	1,435	185	583	848	713		
YoY	-4.0%	572.2%	-57.3%	-	-	543.8%	1,228.7%	-	-	8.9%	-50.3%		
Net margin	0.4%	0.5%	0.4%	-	-	3.0%	5.3%	0.7%	2.2%	3.2%	2.6%		

Source: Shared Research based on company data

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

Quarterly sales and operating profit



Source: Shared Research based on company data

Quarterly results

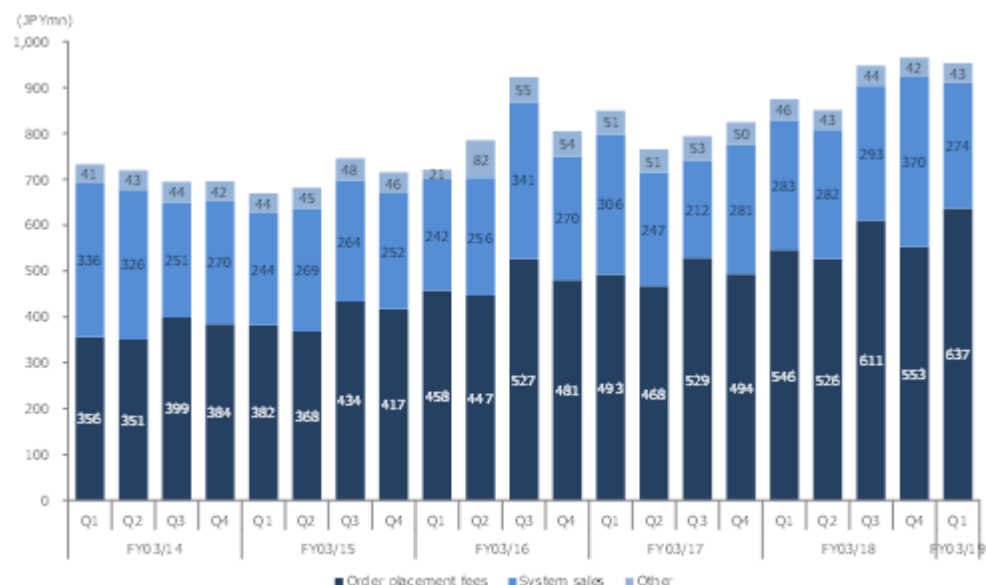
By segment (cumulative) (JPYmn)	FY03/20				FY03/21				FY03/22			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	
Sales	25,599	52,216	78,943	105,241	25,162	51,045	78,167	104,257	25,914	52,169	79,868	
YoY	7.3%	9.8%	8.5%	7.1%	-1.7%	-2.2%	-1.0%	-0.9%	3.0%	2.2%	2.2%	
Community Pharmacy Network	24,224	49,290	74,637	99,617	23,922	48,539	74,368	99,214	24,657	49,663	75,986	
YoY	7.4%	10.2%	9.1%	7.9%	-1.2%	-1.5%	-0.4%	-0.4%	3.1%	2.3%	2.2%	
% of total	94.1%	93.6%	93.8%	94.0%	94.5%	94.5%	94.6%	94.6%	94.6%	94.6%	94.5%	
Leasing and Facility-related	760	1,829	2,659	3,425	723	1,438	2,194	2,940	739	1,536	2,461	
YoY	26.7%	21.3%	11.6%	3.2%	-4.9%	-21.4%	-17.5%	-14.2%	2.2%	6.8%	12.2%	
% of total	3.0%	3.5%	3.3%	3.2%	2.9%	2.8%	2.8%	2.8%	2.8%	2.9%	3.1%	
Food Service	730	1,434	2,128	2,797	612	1,248	1,874	2,474	586	1,166	1,752	
YoY	-7.4%	-9.6%	-10.7%	-11.5%	-16.2%	-13.0%	-11.9%	-11.5%	-4.2%	-6.6%	-6.5%	
% of total	2.8%	2.7%	2.7%	2.6%	2.4%	2.4%	2.4%	2.4%	2.2%	2.2%	2.2%	
Other	38	79	122	165	51	110	171	229	74	152	232	
YoY	15.2%	-13.2%	-26.5%	-36.8%	34.2%	39.2%	40.2%	38.8%	45.1%	38.2%	35.7%	

% of total	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%
Segment sales adjustments	-154	-417	-603	-764	-154	-292	-442	-601	-143	-350	-563
Operating profit	334	796	1,228	1,615	-61	1,355	2,773	3,429	667	1,862	3,063
YoY	57.5%	67.2%	18.1%	13.1%	-	70.2%	125.8%	112.3%	-	37.4%	10.5%
Community Pharmacy Network	825	1,736	2,764	3,743	434	2,369	4,329	5,703	1,202	2,885	4,663
YoY	28.5%	41.5%	18.5%	13.0%	-47.4%	36.5%	56.6%	52.4%	177.0%	21.8%	7.7%
Operating profit margin	3.4%	3.5%	3.7%	3.8%	1.8%	4.9%	5.8%	5.7%	4.9%	5.8%	6.1%
Leasing and Facility-related	-8	68	67	45	6	16	34	32	-2	32	53
YoY	-	580.0%	-	-	-	-76.5%	-49.3%	-28.9%	-	100.0%	55.9%
Operating profit margin	-	-	2.5%	1.3%	0.8%	1.1%	1.5%	1.1%	-0.3%	2.1%	2.2%
Food Service	-12	-34	-38	-43	-19	-13	-2	-21	-1	1	7
YoY	-	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-	-	-	-
Other	-21	-39	-56	-71	-11	-13	-17	-31	-7	-12	-10
YoY	-	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-	-	-	-
Segment profit adjustments	-447	-934	-1,508	-2,057	-472	-1,003	-1,569	-2,253	-523	-1,043	-1,650
	FY03/20				FY03/21				FY03/22		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	25,599	26,617	26,727	26,298	25,162	25,883	27,122	26,090	25,914	26,255	27,699
YoY	7.3%	12.3%	6.1%	3.2%	-1.7%	-2.8%	1.5%	-0.8%	3.0%	1.4%	2.1%
Community Pharmacy Network	24,224	25,066	25,347	24,980	23,922	24,617	25,829	24,846	24,657	25,006	26,323
YoY	7.4%	13.1%	7.0%	4.6%	-1.2%	-1.8%	1.9%	-0.5%	3.1%	1.6%	1.9%
% of total	96.6%	93.3%	94.2%	94.4%	94.5%	94.6%	94.7%	94.7%	93.5%	94.5%	94.3%
Leasing and Facility-related	760	1,069	830	766	723	715	756	746	739	797	925
YoY	26.7%	17.7%	-5.0%	-18.3%	-4.9%	-33.1%	-8.9%	-2.6%	2.2%	11.5%	22.4%
% of total	3.0%	4.0%	3.1%	2.9%	2.9%	2.7%	2.8%	2.8%	2.8%	3.0%	3.3%
Food Service	730	704	694	669	612	636	626	600	586	580	586
YoY	-7.4%	-11.8%	-12.8%	-14.1%	-16.2%	-9.7%	-9.8%	-10.3%	-4.2%	-8.8%	-6.4%
% of total	2.9%	2.6%	2.6%	2.5%	2.4%	2.4%	2.3%	2.3%	2.2%	2.2%	2.1%
Other	38	41	43	43	51	59	61	58	74	78	80
YoY	15.2%	-29.3%	-42.7%	-54.7%	34.2%	43.9%	41.9%	34.9%	45.1%	32.2%	31.1%
% of total	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%
Segment sales adjustments	520	-263	-186	-161	-154	-138	-150	-159	-463	-207	-213
Operating profit	334	462	432	387	-61	1,416	1,418	656	667	1,195	1,201
YoY	57.5%	75.0%	-23.4%	-0.3%	-	206.5%	228.2%	69.5%	-	-15.6%	-15.3%
Community Pharmacy Network	825	911	1,028	979	434	1,935	1,960	1,374	1,202	1,683	1,778
YoY	28.5%	80.0%	61.4%	-	-47.4%	112.4%	90.7%	40.3%	177.0%	-13.0%	-9.3%
Operating profit margin	3.4%	3.6%	4.1%	-	1.8%	7.9%	7.6%	5.5%	4.9%	6.7%	6.8%
Leasing and Facility-related	-8	76	-1	-22	6	10	18	-2	-2	34	21
YoY	-	-	-	-	-	-86.8%	-	-	-	240.0%	16.7%
Operating profit margin	-	7.1%	-	-	0.8%	1.4%	2.4%	-	-0.3%	4.3%	2.3%
Food Service	-12	-22	-4	-5	-19	6	11	-19	-1	2	6
YoY	-	-	-	-	-	-	-	-	-	-66.7%	-45.5%
Operating profit margin	-	-	-	-	-	0.9%	1.8%	-	-	0.3%	1.0%
Other	-21	-18	-17	-15	-11	-2	-4	-14	-7	-5	2
YoY	-	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-	-	-	-
Segment profit adjustments	-447	-487	-574	-549	-472	-531	-566	-684	-523	-520	-607

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

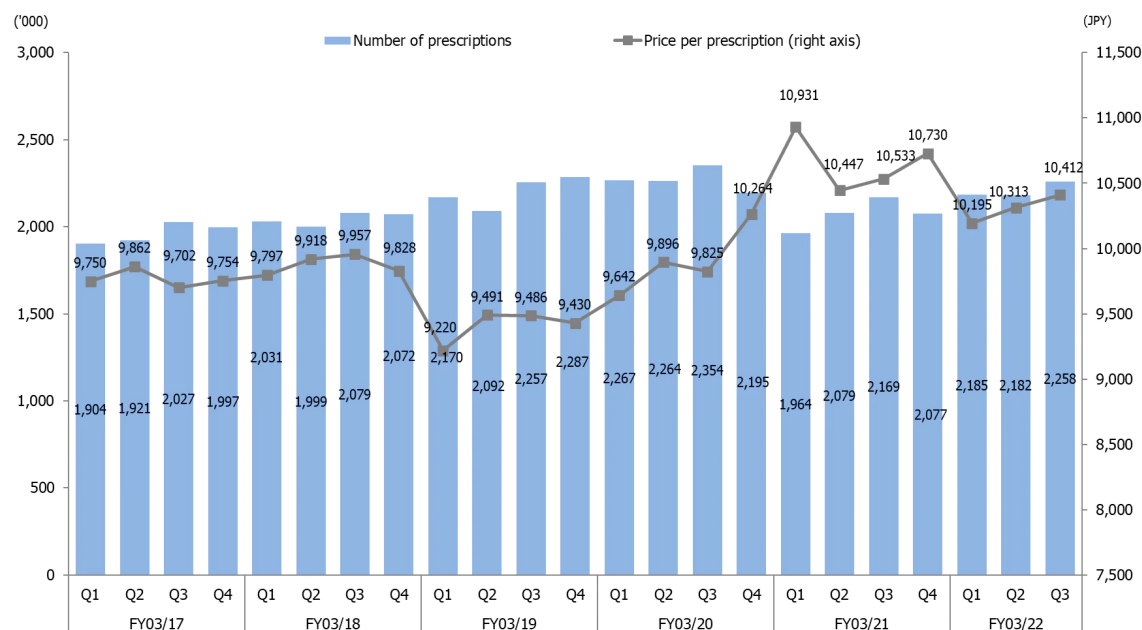


Source: Shared Research based on company data

Notes: Undisclosed from Q2 FY03/19

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

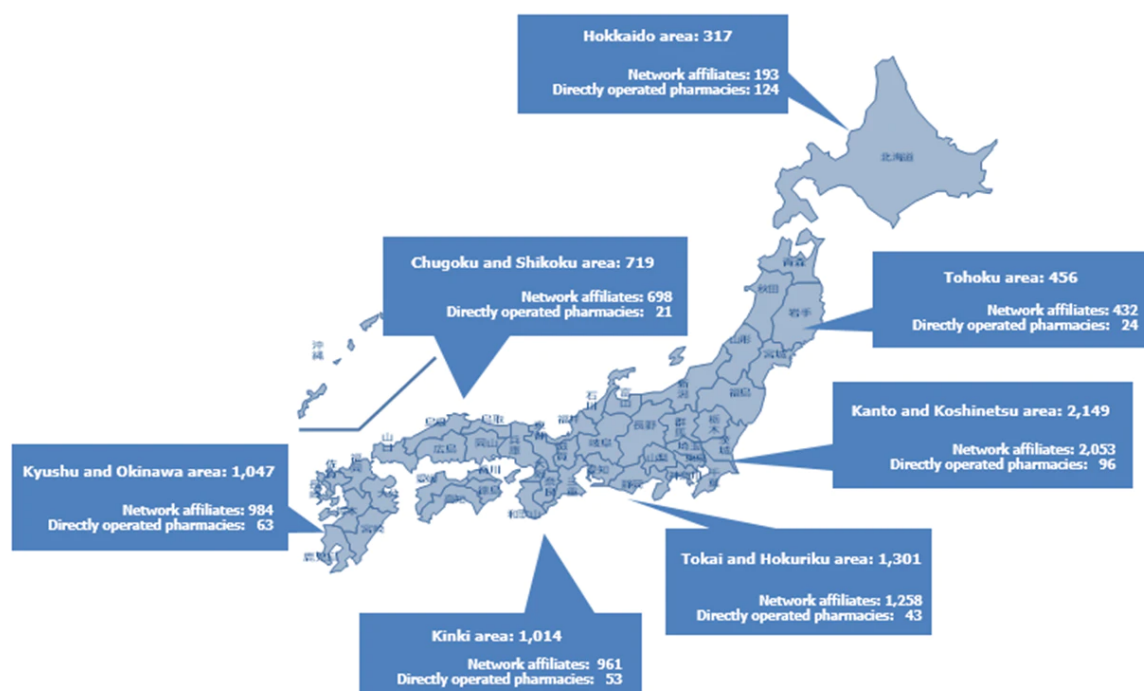
Quarterly trends in prescription volume and price per prescription (drug price + technical fees; Dispensing Pharmacy business; all stores)



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 December 31, 2021)



Source: Shared Research based on company data

Number of dispensing pharmacies by region

Area	Directly operated pharmacies	Affiliates	Total
Hokkaido	124	193	317
Tohoku	24	432	456
Kanto and Koshinetsu	96	2,053	2,149
Tokai and Hokuriku	43	1,258	1,301
Kinki	53	961	1,014
Chugoku and Shikoku	21	698	719
Kyushu and Okinawa	63	984	1,047
Total	424	6,579	7,003

Source: Shared Research based on company data (as of December 31, 2021)

Q3 FY03/22 earnings results (out February 4, 2022)

Overview

Q3 FY03/22 (April–December 2021) earnings results

- Sales: JPY79.9bn (+2.2% YoY)
- Operating profit: JPY3.1bn (+10.5% YoY)
- Recurring profit: JPY3.5bn (+25.8% YoY)
- Net income attributable to owners of the parent: JPY2.1bn (+6.5% YoY)

Company response and business conditions

The Pharmaceuticals Network business recorded a steady increase in new network members, 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. Net income attributable to owners of the parent increased 6.5% as a result of profit from the sale of investment securities and tax effect of the absorption-type merger with Home-Visit Nursing Care Station Himawari Co., Ltd.

Breakdown of Q3 FY03/22 (April–December 2021) results by segment

Community Pharmacy Network

- Segment sales: JPY76.0bn (+2.2% YoY; including intra-group sales and transfers between segments, same applies below)
- Segment profit: JPY4.7bn (+7.7% 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 for dispensing pharmacies amid harsh business conditions in the industry, including annual NHI drug price revisions starting in April 2021. As of end-December 2021, network members numbered 7,003 (+887 versus end-FY03/21), consisting of 424 directly operated pharmacies and 6,579 affiliates.

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-December 2021, the group had 424 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-December 2021, the company was selling 41 different ingredients and 80 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-December 2021, the official LINE account had more than 250,000 registered users, with 745 stores having introduced the service.

Leasing and Facility-related

- Segment sales: JPY2.5bn (+12.2% YoY)
- Segment profit: JPY53mn (+55.9% YoY)

Operating conditions of serviced elderly housing facilities

Property leasing revenue was generally strong and orders for construction projects increased. However, occupancy rates at the company's serviced elderly housing facilities remained sluggish. As of end-December 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 69.8% (with 81 out of 116 units occupied).

Food Service

- Segment sales: JPY1.8bn (-6.5% YoY)
- Segment profit: JPY7mn (versus a loss of JPY2mn in the previous year)

Segment turns profitable

Despite a drop in the number of meals supplied due to the pandemic, the segment turned profitable in Q2 as the company revised its operations and changed its suppliers. The segment remained in the black in Q3.

Other (mostly home-visit nursing care)

- Segment sales: JPY232mn (+35.7% YoY)
- Segment loss: JPY10mn (versus a loss of JPY17mn in the same period last year)

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 Act.	2H Est.	FY Est.
Sales	52,216	53,025	105,241	51,045	53,212	104,257	52,169	54,331	106,500
YoY	9.8%	4.6%	7.1%	-2.2%	0.4%	-0.9%	2.2%	2.1%	2.2%
Cost of sales	32,397	32,630	65,027	30,542	31,303	61,845	30,307		
Gross profit	19,819	20,395	40,214	20,502	21,910	42,412	21,861		
Gross profit margin	38.0%	38.5%	38.2%	40.2%	41.2%	40.7%	41.9%		
SG&A expenses	19,022	19,577	38,599	19,147	19,835	38,982	19,999		
SG&A ratio	36.4%	36.9%	36.7%	37.5%	37.3%	37.4%	38.3%		
Operating profit	796	819	1,615	1,355	2,074	3,429	1,862	1,938	3,800
YoY	67.2%	-14.0%	13.1%	70.2%	153.2%	112.3%	37.4%	-6.6%	10.8%
Operating profit margin	1.5%	1.5%	1.5%	2.7%	3.9%	3.3%	3.6%	3.6%	3.6%
Recurring profit	784	776	1,560	1,397	2,082	3,479	2,235	1,965	4,200
YoY	79.0%	-27.0%	3.9%	78.2%	168.3%	123.0%	60.0%	-5.6%	20.7%
Recurring profit margin	1.5%	1.5%	1.5%	2.7%	3.9%	3.3%	4.3%	3.6%	3.9%
Net income	218	-1,113	-895	578	1,620	2,198	1,431	869	2,300
YoY	83.2%	-	-	165.1%	-	-	147.6%	-46.4%	4.6%
Net margin	0.4%	-2.1%	-0.9%	1.1%	3.0%	2.1%	2.7%	1.6%	2.2%

Source: Shared Research based on company data

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

- Sales: JPY106.5bn (versus previous forecast of JPY105.7bn)
- EBITDA: JPY6.8bn (versus previous forecast of JPY6.5bn; adopted as a new yardstick for profitability)
- Operating profit: JPY3.8bn (versus previous forecast of JPY3.5bn)
- Recurring profit: JPY4.2bn (versus JPY4.0bn)
- Net income attributable to owners of the parent: JPY2.3bn (JPY1.8bn)
- EPS: JPY76.23 (JPY59.69)

At the time of the Q3 results announcement (February 4, 2022), the company revised its full-year earnings forecast as above.

Forecast by segment

Community Pharmacy Network business: sales of JPY101.1bn (+1.9% YoY; JPY100.1bn previously), segment profit of JPY6.1bn (+6.4% YoY; JPY5.7bn previously)

Other three businesses: sales of JPY6.1bn (+7.9% YoY; JPY6.2bn previously), segment profit of JPY67mn (versus a loss of JPY20mn in FY03/21; JPY167mn previously)

Adjustment: JPY707mn for sales (JPY612mn previously), JPY2.3bn for segment profit (JPY2.4bn previously)

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. On the other hand, the company noted progress has been made in winning the understanding of wholesalers on previously promoted improvements to drug distribution. Shared Research sees that the company is making progress toward its goal of building a relationship with pharmaceutical wholesalers as business partners.

At the time of the Q3 results announcement, the company revised up its full-year sales forecast by JPY800mn, as the prescription unit price at its directly operated pharmacies and the pharmaceutical transaction volume at its network member pharmacies have trended above the initial plan. In addition, the company revised up its operating profit forecast by JPY300mn as it successfully curbed travel and transportation expenses. It has revised up the forecast for net income by JPY500mn in light of a gain on the sale of investment securities and a lower tax burden resulting from the absorption-type merger with Home-Visit Nursing Care Station Himawari Co., Ltd.

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <https://sharedresearch.jp>.

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