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Consolidated Financial Results for the Three Months Ended June 30, 2022 (Japanese GAAP)

August 5, 2022

Company name: Medical System Network Co., Ltd.
Stock code: 4350

Listing: Tokyo Stock Exchange
URL: <https://www.msnw.co.jp/eng/>

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Scheduled date for quarterly report submission: August 9, 2022
Scheduled date for dividend payment: —
Preparation of supplemental explanatory materials: Yes
Results briefing to be held: None

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Three Months Ended June 30, 2022 (April 1 to June 30, 2022)

(1) Consolidated operating results

(Percentages indicate YoY change)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2022	26,299	1.5	1,061	(21.9)	348	(47.7)	392	(58.1)	91	(84.4)
Three months ended June 30, 2021	25,914	3.0	1,359	106.5	667	—	935	—	583	—

Note: Comprehensive income for the three months ended June 30, 2022 was 103 million yen ((84.8)% YoY), and comprehensive income for the three months ended June 30, 2021 was 679 million yen (— YoY).

Note: EBITDA = (operating profit + depreciation + goodwill amortization)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2022	3.02	—
Three months ended June 30, 2021	19.37	—

Note: Please refer to "Appropriate use of earnings forecast and other special notes 2" for details of earnings per share calculations.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2022	64,964	13,175	20.2	435.79
As of March 31, 2022	62,941	13,286	21.1	439.67

Reference: Shareholders' equity amounted to 13,151 million yen as of June 30, 2022 and 13,268 million as of March 31, 2022.

Note: Please refer to "Appropriate use of earnings forecast and other special notes 2" for details of shareholders' equity, equity ratio, and net assets per share calculations.

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	5.00	—	7.00	12.00
Fiscal year ending March 31, 2023	—				
Fiscal year ending March 31, 2023 (forecast)		6.00	—	6.00	12.00

Note: Revisions to the Company's most recently announced dividend forecast: No

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 to March 31, 2023)

(Percentages indicate YoY change)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	53,460	2.5	2,400	(26.2)	1,120	(39.9)	1,260	(43.6)	590	(58.8)	19.55
Full-year	110,000	3.1	6,200	(7.6)	3,500	(9.1)	3,700	(14.2)	1,750	(26.9)	57.99

Note: Revisions to the Company's most recently announced consolidated earnings forecast: No

Note: EBITDA = (operating profit + depreciation + goodwill amortization)

***Notes**

(1) Changes in significant subsidiaries during the period under review: None
(Transfers of specified subsidiaries associated with changes in the Company's scope of consolidation)

Newly added: None

Excluded: None

(2) Distinctive accounting methods applied when preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates and retrospective restatements

1. Accounting policy changes due to accounting standard revisions, etc.: None

2. Other accounting policy changes: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(4) Number of shares outstanding (common stock)

1. Shares outstanding
(including treasury
stock)

As of June 30, 2022	30,642,600	As of March 31, 2022	30,642,600
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2. Treasury shares
outstanding

As of June 30, 2022	464,055	As of March 31, 2022	464,055
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3. Period-average shares
outstanding (cumulative
quarterly figures)

Three months ended June 30, 2022	30,178,545	Three months ended June 30, 2021	30,153,545
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Note: Please refer to "Appropriate use of earnings forecast and other special notes 2" for details of calculation method regarding period-end treasury stock numbers and period-average shares outstanding (cumulative quarterly figures).

*The financial information in this quarterly report is not subject to review by certified public accountants or auditing firms.

*Appropriate use of earnings forecast and other special notes

1. The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to the Company, and certain assumptions it considers reasonable, but are not intended to be a promise that the Company will achieve. Actual results may vary materially from forecasts due to a variety of factors. For matters concerning earnings forecasts, please refer to page 3 of the attached materials "1. Qualitative Information on Quarterly Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Projections."

2. In the quarterly consolidated balance sheets, the Company's shares held as trust assets of the Board Benefit Trust (BBT) are recorded as treasury stock. They are included in treasury stock in calculations of earnings per share, equity ratio, net assets per share, shareholders' equity, period-end treasury stock numbers, and period-average shares outstanding (cumulative quarterly figures).

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1. Qualitative Information on Quarterly Financial Performance

(1) Explanation of Operating Results

During the three months ended June 30, 2022, the Community Pharmacy Business was affected by a decline in the prescription unit price due to the impact of the NHI drug price and dispensing fee revisions implemented in April 2022, but the opening of new stores and acquisition of stores contributed to earnings. In the Pharmaceutical Network Business, the number of new network affiliates remained strong. As a result of these, the Company recorded net sales of 26,299 million yen (+1.5% YoY). On the profit side, the Community Pharmacy Business was weighed down by factors such as the implementation of the NHI drug price and dispensing fee revisions and increased labor expenses accompanying efforts to strengthen interpersonal services. As a result, the Company recorded operating profit of 348 million yen (-47.7% YoY), ordinary profit of 392 million yen (-58.1% YoY), and profit attributable to owners of parent of 91 million yen (-84.4% YoY). Profit fell YoY despite sales growth, but it exceeded the initial forecast, resulting in a favorable outcome.

Results by segment were as follows. Net sales for individual segments include intersegment sales.

1) Community Pharmacy Network Segment

In the Community Pharmacy Network Segment, we aim to provide value throughout the entire pharmaceutical supply chain. Our businesses include community pharmacy operations, a pharmaceutical network to support pharmacy management, pharmaceutical manufacture and marketing, and support services to transition general pharmacies into family pharmacies using the LINE communication app.

In the Community Pharmacy Business, the prescription unit price fell due to the impact of the NHI drug price and dispensing fee revisions, but the opening of new stores and acquisition of stores contributed to earnings. These and other factors drove up the prescription count. During the three months ended June 30, 2022, we opened three community pharmacies, including two inside medical malls (facilities that organize different medical departments on single floors). As of June 30, 2022, the Company had 426 community pharmacies, one care plan center, and eight drug/cosmetic stores.

In the Pharmaceutical Network Business, the number of new network affiliates continued to grow steadily amid rising demand for business efficiency at pharmacies as pharmacists further concentrated on interpersonal work due to the impact of dispensing fee revisions and other factors. As of June 30, 2022, pharmaceutical network affiliates totaled 7,812, comprising 426 Group pharmacies and 7,386 general network affiliates (an increase of 411 from March 31, 2022).

In the Manufacture and Market Pharmaceuticals Business, we offered 82 products (41 ingredients) as of June 30, 2022. We supplied these to 1,732 general network affiliates (an increase of 34 from March 31, 2022), in addition to Group pharmacies.

In the Digital Shift Business, the number of pharmacies using our service and those having placed orders grew steadily, with the former reaching 1,549 as of June 30, 2022 (an increase of 638 from March 31, 2022) and the latter 2,194 (an increase of 551 from March 31, 2022).

As a result, segment sales for the three months ended June 30, 2022 were 25,045 million yen (+1.6% YoY), and operating profit was 1,014 million yen (-15.6% YoY).

2) Leasing and Facility-related Segment

In the Leasing and Facility-related Segment, real estate lease revenue was generally solid, and orders for construction projects increased. As a result, segment sales were 794 million yen (+7.5% YoY). On the profit side, the segment recorded an operating loss of 43 million yen (operating loss of 2 million yen in the same period of the previous fiscal year) due to factors such as increased advertising expenses accompanying aggressive sales promotion activities for the Wisteria serviced residences for the elderly and support services for physicians opening their own practices.

As of June 30, 2022, Wisteria Senri-Chuo had an occupancy rate of 76.8% (63 out of 82 units occupied), and Wisteria Minami-Ichijo an occupancy rate of 69.0% (80 out of 116 units occupied). The overall occupancy rate at the five serviced residences for the elderly stood at 81.8%. Moving forward, we will continue to aggressively conduct

sales activities that incorporate COVID-19 countermeasures in an effort to achieve our year-end occupancy target rate of 90%.

3) Meal Catering Segment

In the Meal Catering Segment, the number of meals supplied declined mainly because the Company withdrew from loss-making facilities. Segment sales were 573 million yen (-2.2% YoY), and the operating loss was 11 million yen (operating loss of 1 million yen in the same period of the previous fiscal year).

4) Other Segment

The Other Segment provides home-visit nursing care. Segment sales were 77 million yen (+3.2% YoY), and the operating loss was 2 million yen (operating loss of 7 million yen in the same period of the previous fiscal year).

(2) Explanation of Financial Position

As of June 30, 2022, total assets amounted to 64,964 million yen, up 2,023 million yen from March 31, 2022.

Current assets totaled 19,392 million yen, up 690 million yen from March 31, 2022. The growth was mainly attributable to an increase in merchandise.

Non-current assets were 45,572 million yen, up 1,332 million yen from March 31, 2022. The growth was primarily driven by an increase in leased assets (net) included in "Other, net" under property, plant and equipment.

Meanwhile, liabilities came to 51,788 million yen, up 2,134 million yen from March 31, 2022. Current liabilities were 21,146 million yen, up 710 million yen from March 31, 2022. This mainly reflected a decline in the provision for bonuses and increases in accounts payable – trade and short-term borrowings. Non-current liabilities came to 30,642 million yen, up 1,423 million yen from March 31, 2022. The growth was mainly driven by an increase in lease obligations included in "Other" under non-current liabilities.

Net assets totaled 13,175 million yen, down 110 million yen from March 31, 2022 due mainly to a decline in retained earnings resulting from the payment of the year-end dividend and other factors.

(3) Explanation of Consolidated Earnings Forecasts and Other Projections

The Company has made no changes to its first half and full-year earnings forecasts for the financial year ending March 31, 2023, which were announced on May 6, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended March 31, 2022 (as of March 31, 2022)	Three months ended June 30, 2022 (as of June 30, 2022)
Assets		
Current assets		
Cash and deposits	8,201	7,677
Accounts receivable - trade	2,891	2,396
Unearned revenue from sale of accounts receivable	954	988
Purchased receivables - dispensing fees	443	413
Merchandise	4,765	5,406
Raw materials	14	15
Work in process	1	0
Supplies	76	79
Other	1,355	2,417
Allowance for doubtful accounts	(3)	(2)
Total current assets	18,701	19,392
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,408	13,386
Land	8,847	8,847
Construction in progress	202	115
Other	2,165	4,094
Total property, plant and equipment	24,624	26,444
Intangible assets		
Goodwill	12,254	11,971
Software	401	409
Other	111	108
Total intangible assets	12,767	12,490
Investments and other assets		
Investment securities	155	155
Guarantee deposits	3,052	3,046
Deferred tax assets	2,894	2,678
Other	764	777
Allowance for doubtful accounts	(19)	(19)
Total investments and other assets	6,848	6,637
Total non-current assets	44,239	45,572
Total assets	62,941	64,964

(Millions of yen)

	Fiscal year ended March 31, 2022 (as of March 31, 2022)	Three months ended June 30, 2022 (as of June 30, 2022)
Liabilities		
Current liabilities		
Accounts payable – trade	9,680	10,349
Short-term borrowings	1,016	1,664
Current portion of long-term borrowings	4,756	4,724
Income taxes payable	617	75
Provision for bonuses	1,528	829
Provision for bonuses for directors (and other officers)	38	42
Other	2,798	3,461
Total current liabilities	20,435	21,146
Non-current liabilities		
Long-term borrowings	22,891	21,714
Provision for retirement benefits for directors (and other officers)	600	610
Provision for share awards for directors (and other officers)	210	219
Retirement benefit liability	3,752	3,840
Other	1,763	4,257
Total non-current liabilities	29,219	30,642
Total liabilities	49,654	51,788
Net assets		
Shareholders' equity		
Share capital	2,128	2,128
Capital surplus	1,182	1,182
Retained earnings	10,393	10,270
Treasury shares	(326)	(326)
Total shareholders' equity	13,377	13,254
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(7)	(7)
Deferred gains or losses on hedges	0	1
Remeasurements of defined benefit plans	(102)	(97)
Total accumulated other comprehensive income	(108)	(103)
Non-controlling interests	17	24
Total net assets	13,286	13,175
Total liabilities and net assets	62,941	64,964

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

	(Millions of yen)	
	Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)	Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)
Net sales	25,914	26,299
Cost of sales	15,175	15,236
Gross profit	10,738	11,062
Selling, general and administrative expenses	10,071	10,713
Operating profit	667	348
Non-operating income		
Interest and dividend income	4	2
Outsourcing service income	18	19
Rental income from facilities	21	32
Subsidy income	263	60
Miscellaneous income	30	21
Total non-operating income	338	136
Non-operating expenses		
Loss on sale of receivables	13	14
Interest expenses	48	70
Miscellaneous losses	7	8
Total non-operating expenses	69	93
Ordinary profit	935	392
Extraordinary income		
Gain on sale of non-current assets	0	—
Total extraordinary income	0	—
Extraordinary losses		
Loss on retirement of non-current assets	5	6
Loss on store closings	5	0
Total extraordinary losses	11	6
Profit before income taxes	925	385
Income taxes - current	35	74
Income taxes - deferred	308	213
Total income taxes	344	287
Profit	581	97
Profit (loss) attributable to non-controlling interests	(2)	6
Profit (loss) attributable to owners of parent	583	91

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)	Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)
Profit	581	97
Other comprehensive income		
Valuation difference on available-for-sale securities	95	(0)
Deferred gains or losses on hedges	(0)	1
Remeasurements of defined benefit plans, net of tax	3	4
Total other comprehensive income	98	5
Comprehensive income	679	103
(Breakdown)		
Comprehensive income attributable to owners of parent	682	96
Comprehensive income attributable to non-controlling interests	(2)	6

(3) Notes to Quarterly Consolidated Financial Statements

(Notes to going concern assumptions)

None to be reported.

(Notes in the event of significant changes in shareholders' equity)

None to be reported.

(Segment information)

I. Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

Information on sales and profit (loss) by reporting segment

(Millions of yen)

	Reporting segment					Adjustments (Note 1)	Amounts on consolidated statement of income (Note 2)
	Community Pharmacy Network	Leasing and Facility- related	Meal Catering	Other	Total		
Net sales							
Sales to external customers	24,657	596	586	74	25,914	—	25,914
Intersegment sales or transfers	0	143	—	—	143	(143)	—
Total	24,657	739	586	74	26,057	(143)	25,914
Segment profit (loss)	1,202	(2)	(1)	(7)	1,191	(523)	667

Notes: 1. The negative 523 million yen adjustment to segment profit (loss) includes 63 million yen in elimination of intersegment transactions and 587 million yen in companywide expenses not allocated to reporting segments. Companywide expenses mainly refer to general expenses that do not belong to reporting segments.

2. Segment profit (loss) is adjusted with operating profit (loss) in the quarterly consolidated statement of income.

II. Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

Information on sales and profit (loss) by reporting segment

(Millions of yen)

	Reporting segment					Adjustments (Note 1)	Amounts on consolidated statement of income (Note 2)
	Community Pharmacy Network	Leasing and Facility- related	Meal Catering	Other	Total		
Net sales							
Sales to external customers	25,043	605	572	77	26,299	—	26,299
Intersegment sales or transfers	1	189	0	—	190	(190)	—
Total	25,045	794	573	77	26,489	(190)	26,299
Segment profit (loss)	1,014	(43)	(11)	(2)	957	(608)	348

Notes: 1. The negative 608 million yen adjustment to segment profit (loss) includes 62 million yen in elimination of intersegment transactions and 671 million yen in companywide expenses not allocated to reporting segments. Companywide expenses mainly refer to general expenses that do not belong to reporting segments.

2. Segment profit (loss) is adjusted with operating profit (loss) in the quarterly consolidated statement of income.