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Consolidated Financial Results for the Six Months Ended September 30, 2022 (Japanese GAAP)

November 4, 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: November 8, 2022
Scheduled date for dividend payment: December 12, 2022
Preparation of supplemental explanatory materials: Yes
Results briefing to be held: Yes(for institutional investors and analysts)

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2022 (April 1 to September 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	%
Six Months ended September 30, 2022	53,340	2.2	2,537	(22.0)	1,099	(40.9)	1,242	(44.4)	502	(64.9)
Six Months ended September 30, 2021	52,169	2.2	3,253	16.7	1,862	37.4	2,235	60.0	1,431	147.2

Note: Comprehensive income for the six months ended September 30, 2022 was 523 million yen ((63.9)% YoY), and comprehensive income for the six months ended September 30, 2021 was 1,451 million yen (+153.1% YoY)

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

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six Months ended September 30, 2022	16.64	—
Six Months ended September 30, 2021	47.46	—

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 September 30, 2022	64,124	13,596	21.2	449.60
As of March 31, 2022	62,941	13,286	21.1	439.67

Reference: Shareholders' equity amounted to 13,568 million yen as of September 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	—	6.00			
Fiscal year ending March 31, 2023 (forecast)			—	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
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 September 30, 2022	30,642,600	As of March 31, 2022	30,642,600
2. Treasury shares outstanding	As of September 30, 2022	464,055	As of March 31, 2022	464,055
3. Period-average shares outstanding (cumulative quarterly figures)	Six months ended September 30, 2022	30,178,545	Six months ended September 30, 2021	30,163,381

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 six months ended September 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 53,340 million yen (+2.2% YoY). On the profit side, the Community Pharmacy Business was weighed down by factors such as 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 booked operating profit of 1,099 million yen (-40.9% YoY), ordinary profit of 1,242 million yen (-44.4% YoY), and profit attributable to owners of parent of 502 million yen (-64.9% YoY). Although sales were up and profits fell compared with the same period of the previous fiscal year, they were generally in line with the Company's plan at the beginning of the year.

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 help general pharmacies transition into family pharmacies using the LINE communication app.

In the Community Pharmacy Business, although the prescription unit price fell due to the impact of the NHI drug price and dispensing fee revisions, the prescription count rose on the back of the contribution of stores newly opened and acquired. During the first six months ended September 30, 2022, we opened four community pharmacies, including three inside medical malls (facilities housing various medical clinics and departments). As of September 30, 2022, the Company had 427 community pharmacies, one care plan center, and nine 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 September 30, 2022, pharmaceutical network affiliates totaled 8,173, comprising 427 Group pharmacies and 7,746 general network affiliates (an increase of 772 from March 31, 2022).

In the Manufacture and Market Pharmaceuticals Business, we offered 85 products (42 ingredients) as of September 30, 2022. We supplied these to 1,886 general network affiliates (an increase of 188 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 2,332 as of September 30, 2022 (an increase of 1,421 from March 31, 2022) and the latter 2,866 (an increase of 1,223 from March 31, 2022).

As a result, segment sales for the six months ended September 30, 2022 were 50,792 million yen (+2.3% YoY), and operating profit was 2,384 million yen (-17.4% 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 1,673 million yen (+8.9% YoY). On the profit side, the segment recorded an operating loss of 65 million yen (operating profit of 32 million yen in the same period of the previous fiscal year) due to factors such as higher labor expenses resulting from an increase in the number of employees to strengthen sales, and increased advertising expenses accompanying aggressive sales promotion activities for the Wisteria serviced residences for the elderly and support services for physicians establishing their own practices.

As of September 30, 2022, Wisteria Senri-Chuo had an occupancy rate of 69.5% (57 out of 82 units occupied), and Wisteria Minami-Ichijo an occupancy rate of 69.0% occupancy rate (80 out of 116 units occupied). The overall occupancy rate at the five serviced residences for the elderly stood at 80.6%. 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 due to the impact of COVID-19 and gross margins fell due to higher purchase prices. Segment sales were 1,135 million yen (-2.7% YoY), and the operating loss was 33 million yen (operating profit 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 151 million yen (-1.1% YoY), and the operating loss was 10 million yen (operating loss of 12 million yen in the same period of the previous fiscal year).

(2) Explanation of Financial Position

As of September 30, 2022, total assets amounted to 64,124 million yen, up 1,182 million yen from March 31, 2022.

Current assets totaled 18,721 million yen, up 20 million yen from March 31, 2022. Non-current assets were 45,402 million yen, up 1,162 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, which offset a decrease in goodwill.

Liabilities came to 50,527 million yen, up 872 million yen from March 31, 2022. Current liabilities were 20,966 million yen, up 530 million yen from March 31, 2022. This mainly reflected an increase in short-term borrowings. Non-current liabilities totaled 29,561 million yen, up 342 million yen from March 31, 2022. The growth was mainly driven by an increase in lease obligations included in "Other" under non-current liabilities, which offset a decrease in long-term borrowings.

Net assets totaled 13,596 million yen, up 309 million yen from March 31, 2022, due mainly to an increase in retained earnings.

(Status of Cash flows)

Cash and cash equivalents on a consolidated basis as of September 30, 2022 amounted to 6,743 million yen, down 1,427 million yen from March 31, 2022. The status of cash flows during the six months ended September 30, 2022 is as follows.

(Cash flows from operating activities)

Net cash provided by operating activities totaled 1,701 million yen (versus 913 million yen provided in the same period of the previous fiscal year). This was primarily due to inflows of 1,165 million yen in profit before income taxes and 872 million yen in depreciation.

(Cash flows from investing activities)

Net cash used in investing activities came to 902 million yen (versus 832 million yen used in the same period of the previous fiscal year). The main factor was an outflow of 670 million yen in purchase of property, plant, and equipment.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 2,226 million yen (versus 1,982 million yen used in the same period of the previous fiscal year). This was mainly attributable to an outflow of 2,392 million yen in repayments of long-term borrowings.

(3) Explanation of Consolidated Earnings Forecasts and Other Projections

The Company has made no changes to the earnings forecast for the fiscal year ending March 31, 2023, which was 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)	Six months ended September 30, 2022 (as of September 30, 2022)
Assets		
Current assets		
Cash and deposits	8,201	6,774
Accounts receivable - trade	2,891	3,328
Unearned revenue from sale of accounts receivable	954	981
Purchased receivables - dispensing fees	443	431
Merchandise	4,765	5,220
Raw materials	14	16
Work in process	1	3
Supplies	76	75
Other	1,355	1,901
Allowance for doubtful accounts	(3)	(10)
Total current assets	18,701	18,721
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,408	13,257
Land	8,847	8,901
Construction in progress	202	151
Other	2,165	3,998
Total property, plant and equipment	24,624	26,307
Intangible assets		
Goodwill	12,254	11,689
Software	401	496
Other	111	106
Total intangible assets	12,767	12,292
Investments and other assets		
Investment securities	155	156
Guarantee deposits	3,052	3,067
Deferred tax assets	2,894	2,865
Other	764	732
Allowance for doubtful accounts	(19)	(19)
Total investments and other assets	6,848	6,802
Total non-current assets	44,239	45,402
Total assets	62,941	64,124

(Millions of yen)

	Fiscal year ended March 31, 2022 (as of March 31, 2022)	Six months ended September 30, 2022 (as of September 30, 2022)
Liabilities		
Current liabilities		
Accounts payable – trade	9,680	9,830
Short-term borrowings	1,016	1,516
Current portion of long-term borrowings	4,756	4,662
Income taxes payable	617	603
Provision for bonuses	1,528	1,605
Provision for bonuses for directors (and other officers)	38	8
Other	2,798	2,740
Total current liabilities	20,435	20,966
Non-current liabilities		
Long-term borrowings	22,891	20,592
Provision for retirement benefits for directors (and other officers)	600	620
Provision for share awards for directors (and other officers)	210	227
Retirement benefit liability	3,752	3,913
Other	1,763	4,207
Total non-current liabilities	29,219	29,561
Total liabilities	49,654	50,527
Net assets		
Shareholders' equity		
Share capital	2,128	2,128
Capital surplus	1,182	1,182
Retained earnings	10,393	10,681
Treasury shares	(326)	(326)
Total shareholders' equity	13,377	13,665
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(7)	(6)
Deferred gains or losses on hedges	0	2
Remeasurements of defined benefit plans	(102)	(92)
Total accumulated other comprehensive income	(108)	(97)
Non-controlling interests	17	28
Total net assets	13,286	13,596
Total liabilities and net assets	62,941	64,124

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

Consolidated Statement of Income

(Millions of yen)

	Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)
Net sales	52,169	53,340
Cost of sales	30,307	31,024
Gross profit	21,861	22,315
Selling, general and administrative expenses	19,999	21,215
Operating profit	1,862	1,099
Non-operating income		
Interest and dividend income	4	3
Outsourcing service income	37	35
Rental income from facilities	52	71
Subsidy income	366	176
Miscellaneous income	59	38
Total non-operating income	520	325
Non-operating expenses		
Loss on sale of receivables	27	27
Interest expenses	95	138
Miscellaneous losses	24	16
Total non-operating expenses	146	182
Ordinary profit	2,235	1,242
Extraordinary income		
Gain on sale of non-current assets	0	7
Gain on sale of investment securities	112	—
Total extraordinary income	113	7
Extraordinary losses		
Loss on sale of non-current assets	10	—
Loss on retirement of non-current assets	5	47
Impairment losses	90	18
Loss on store closings	5	13
Other	0	6
Total extraordinary losses	112	85
Profit before income taxes	2,236	1,165
Income taxes - current	622	629
Income taxes - deferred	189	23
Total income taxes	812	653
Profit	1,424	512
Profit (loss) attributable to non-controlling interests	(6)	10
Profit (loss) attributable to owners of parent	1,431	502

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)
Profit	1,424	512
Other comprehensive income		
Valuation difference on available-for-sale securities	17	0
Deferred gains or losses on hedges	1	1
Remeasurements of defined benefit plans, net of tax	7	9
Total other comprehensive income	27	11
Comprehensive income	1,451	523
(Breakdown)		
Comprehensive income attributable to owners of parent	1,458	513
Comprehensive income attributable to non-controlling interests	(6)	10

(3) Consolidated Statement of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)
Cash flows from operating activities		
Profit before income taxes	2,236	1,165
Depreciation	827	872
Impairment losses	90	18
Amortization of goodwill	564	565
Increase (decrease) in provision for bonuses	27	76
Increase (decrease) in provision for bonuses for directors (and other officers)	(65)	(30)
Increase (decrease) in allowance for doubtful accounts	(0)	7
Increase (decrease) in provision for point card certificates	(2)	—
Increase (decrease) in provision for share awards for directors (and other officers)	16	16
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(217)	20
Increase (decrease) in retirement benefit liability	198	175
Interest and dividend income	(4)	(3)
Interest expenses	95	138
Loss (gain) on sale of investment securities	(112)	—
Loss (gain) on sale of non-current assets	9	(7)
Loss on retirement of non-current assets	5	47
Decrease (increase) in trade receivables	(7)	(437)
Decrease (increase) in unearned revenue from sale of accounts receivable	16	(26)
Decrease (increase) in purchased receivables - dispensing fees	24	11
Decrease (increase) in inventories	(531)	(456)
Increase (decrease) in trade payables	1	150
Increase (decrease) in accrued consumption taxes	45	(98)
Other	(322)	205
Subtotal	2,893	2,410
Interest and dividends received	4	2
Interest paid	(94)	(138)
Income taxes paid	(1,889)	(572)
Net cash provided by (used in) operating activities	913	1,701

	(Millions of yen)	
	Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)
Cash flows from investing activities		
Payments into time deposits	(0)	(0)
Purchase of property, plant and equipment	(927)	(670)
Proceeds from sale of property, plant and equipment	19	22
Purchase of intangible assets	(112)	(156)
Proceeds from sale of investment securities	379	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(209)	—
Proceeds from sale of businesses	11	—
Loan advances	(1)	(0)
Proceeds from collection of loans receivable	6	3
Payments of guarantee deposits	(54)	(49)
Proceeds from refund of guarantee deposits	18	30
Other	36	(81)
Net cash provided by (used in) investing activities	(832)	(902)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	498	500
Repayments of long-term borrowings	(2,195)	(2,392)
Repayments of lease obligations	(134)	(120)
Dividends paid	(152)	(213)
Net cash provided by (used in) financing activities	(1,982)	(2,226)
Net increase (decrease) in cash and cash equivalents	(1,902)	(1,427)
Cash and cash equivalents at beginning of period	10,088	8,171
Cash and cash equivalents at end of period	8,185	6,743

(4) 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. Six months ended September 30, 2021 (from April 1, 2021 to September 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	49,663	1,186	1,166	152	52,169	—	52,169
Intersegment sales or transfers	0	350	—	—	350	(350)	—
Total	49,663	1,536	1,166	152	52,519	(350)	52,169
Segment profit (loss)	2,885	32	1	(12)	2,906	(1,043)	1,862

Notes: 1. The negative 1,043 million yen adjustment to segment profit (loss) includes 117 million yen in elimination of intersegment transactions and 1,161 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. Six months ended September 30, 2022 (from April 1, 2022 to September 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	50,785	1,268	1,134	151	53,340	—	53,340
Intersegment sales or transfers	7	404	0	—	412	(412)	—
Total	50,792	1,673	1,135	151	53,752	(412)	53,340
Segment profit (loss)	2,384	(65)	(33)	(10)	2,275	(1,175)	1,099

Notes: 1. The negative 1,175 million yen adjustment to segment profit (loss) includes 145 million yen in elimination of intersegment transactions and 1,321 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.