



MEDICAL
SYSTEM
NETWORK
GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Second Quarter of Fiscal Year Ending March 2023

Earnings Report

Prime Market 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.
- * Furthermore, this report is not prepared for the purposes of investment solicitation. Readers are responsible for their own judgement in any decision regarding investments.

Please see the following link for our English information.

<https://www.msnw.co.jp/eng/>



■ 2nd Quarter Results

Profits decreased from the same period of the previous FY, but mostly remained broadly in line with our forecast

- vs Forecast -
 - Overall sales and profits were broadly in line with forecasts
 - ✓ In terms of profit, the three pharmacy support businesses (Pharmaceutical Network Business, Manufacture and Market Pharmaceuticals Business, and Digital Shift Business) performed well, while the Community Pharmacy Business and Leasing and Facility related Business fell slightly short of the forecast
 - YoY change -
 - Net sales increased due to the contribution both of newly opened community pharmacies and pharmacies acquired through M&A
- The steady growth in the number of new affiliates of the pharmaceutical network also contributed to Net sales increasing
- ✓ Dispensing fees for all pharmacies +1.5% (YoY)
 - Profits decreased due to NHI price and dispensing fee revisions, strengthening of interpersonal work at Community pharmacies, and an increase in labor costs in Leasing and Facility related Businesses to strengthen sales and marketing

Figures in parentheses indicate changes from the end of the previous FY

< Community Pharmacy Network Segment >

Community Pharmacy	427 pharmacies (+2)
Prescription Unit price(All pharmacies)	10,061 yen (-193 yen)*
No. of prescriptions (All pharmacies)	4,517K (+3.4%)*
No. of prescriptions (Existing pharmacies)	4,316K (+1.2%)*
	* YoY

~ The three pharmacy support businesses ~

Pharmaceutical Network affiliates	8,173 affiliates (+772)
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FELDSOLF PHARMA

• No. of ingredients	42 ingredients (+1)
• No. of products	85 products (+3)
• No. of affiliates	1,886 affiliates (+188)

Tsunagaru Pharmacy

• User registrations	440K (+130K)
• Order received pharmacies	2,866 pharmacies (+1,223)
• Installed pharmacies	2,332 pharmacies (+1,421)

< Leasing and Facility related Segment >

Wisteria	
• Occupancy rate of all 5 facilities	80.6% (-2.7%)

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Earnings Highlight

FY3/2023 2Q : Consolidated results

	FY3/2022 2Q (results)	FY3/2023 2Q (forecast)	FY3/2023 2Q (results)	YoY		Progress rate v.s. forecast	
				Change	Change (%)	Difference	Difference (%)
(Unit: million yen)							
Net sales	52,169	53,460	53,340	+ 1,170	+ 2.2%	(119)	99.8%
EBITDA ^{*1} Profit margin	3,253 6.2%	2,400 4.5%	2,537 4.8%	(716)	(22.0%)	+ 137	105.7%
Operating profit Profit margin	1,862 3.6%	1,120 2.1%	1,099 2.1%	(762)	(40.9%)	(20)	98.2%
Ordinary profit Profit margin	2,235 ^{*2} 4.3%	1,260 2.4%	1,242 2.3%	(992)	(44.4%)	(17)	98.6%
Profit attributable to owners of parent Profit margin	1,431 2.7%	590 1.1%	502 0.9%	(929)	(64.9%)	(87)	85.1%
Earnings per share (Yen)	47.46	19.55	16.64	(30.82)	—	(2.91)	—

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

*2 Includes 366 million yen in subsidy income for countermeasures against COVID-19

FY3/2023 2Q : Results in each segment part

■ Net sales

(Unit: million yen)

	FY3/2022 2Q (results)	FY3/2023 2Q (results)	YoY	
			Change	Change(%)
Net sales	52,169	53,340	+ 1,170	+ 2.2%
Community Pharmacy Network Segment ^{*1}	49,663	50,792	+ 1,129	+ 2.3%
Other 3 Segments ^{*2}	2,856	2,959	+ 103	+ 3.6%
Adjustments	(350)	(412)	(62)	—

■ Operating profit

(Unit: million yen)
Profit margin in brackets

Segment profit	1,862 3.6%	1,099 2.1%	(762) (1.5pt)	(40.9%)
Community Pharmacy Network Segment ^{*1}	2,885 5.8%	2,384 4.7%	(501) (1.1pt)	(17.4%)
Other 3 Segments ^{*2}	20 0.7%	(108) —	(129) —	—
Adjustments	(1,043) —	(1,175) —	(131) —	—

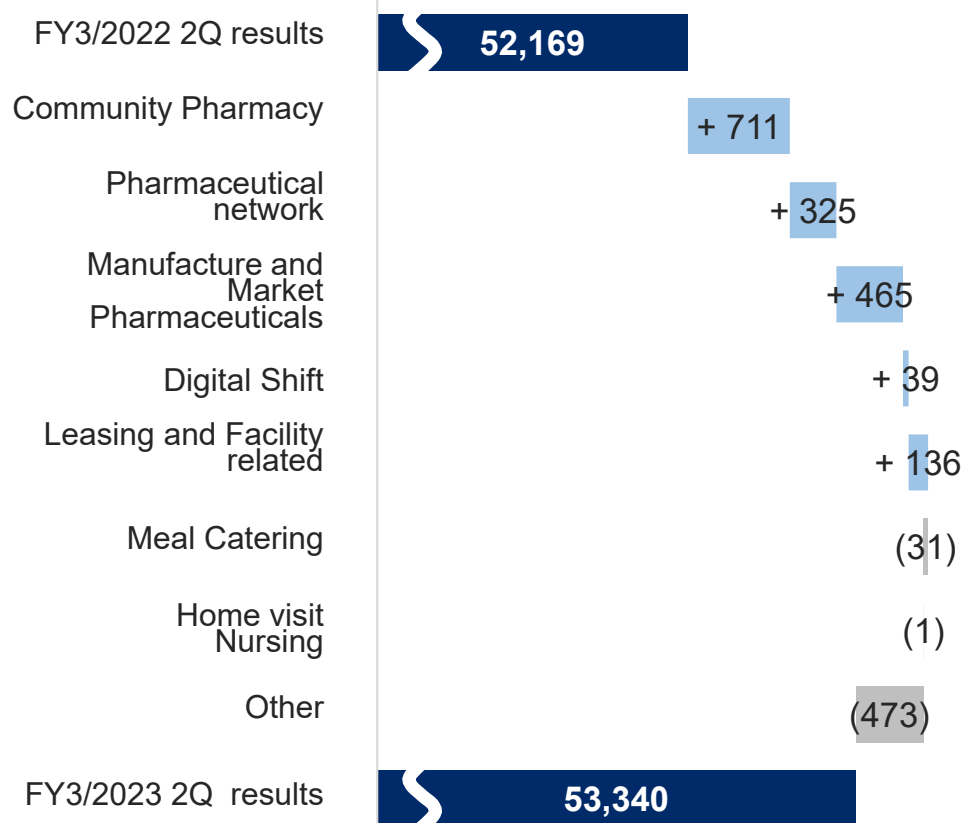
*1 Community Pharmacy Business, Pharmaceutical Network Business, Manufacture and Market Pharmaceuticals Business, and Digital Shift Business

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

FY3/2023 2Q : Comparison to previous FY

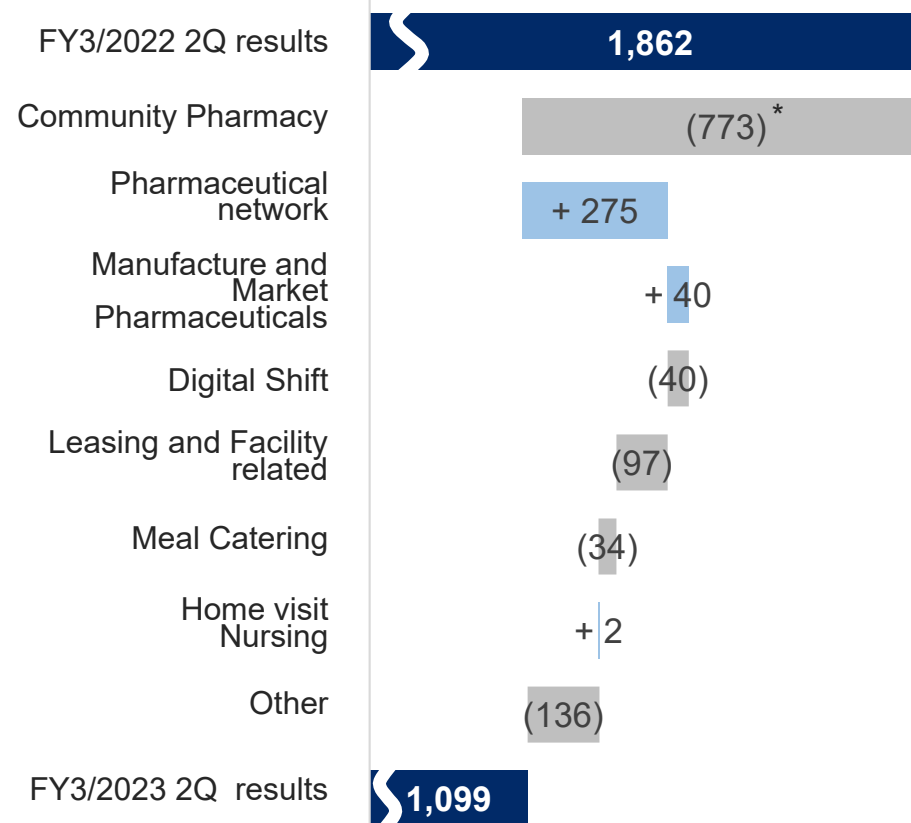
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)

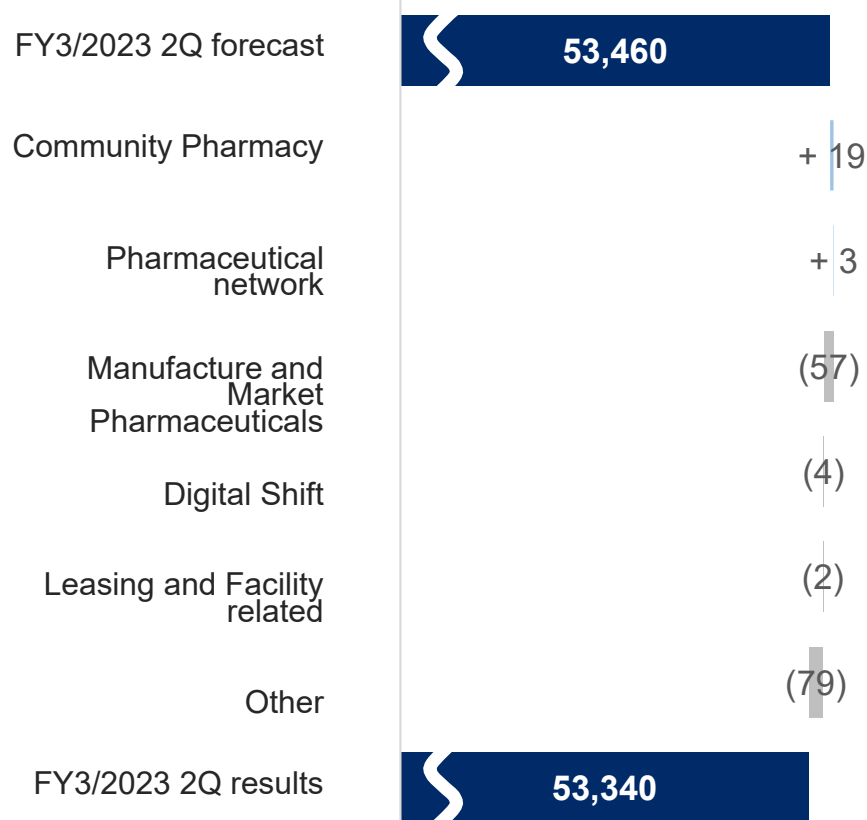


* Existing pharmacies : No. of prescriptions & Unit price factors (308) ,
Labor cost (227) , Opening of new pharmacies : (126)

FY3/2023 2Q : Comparison to original forecast

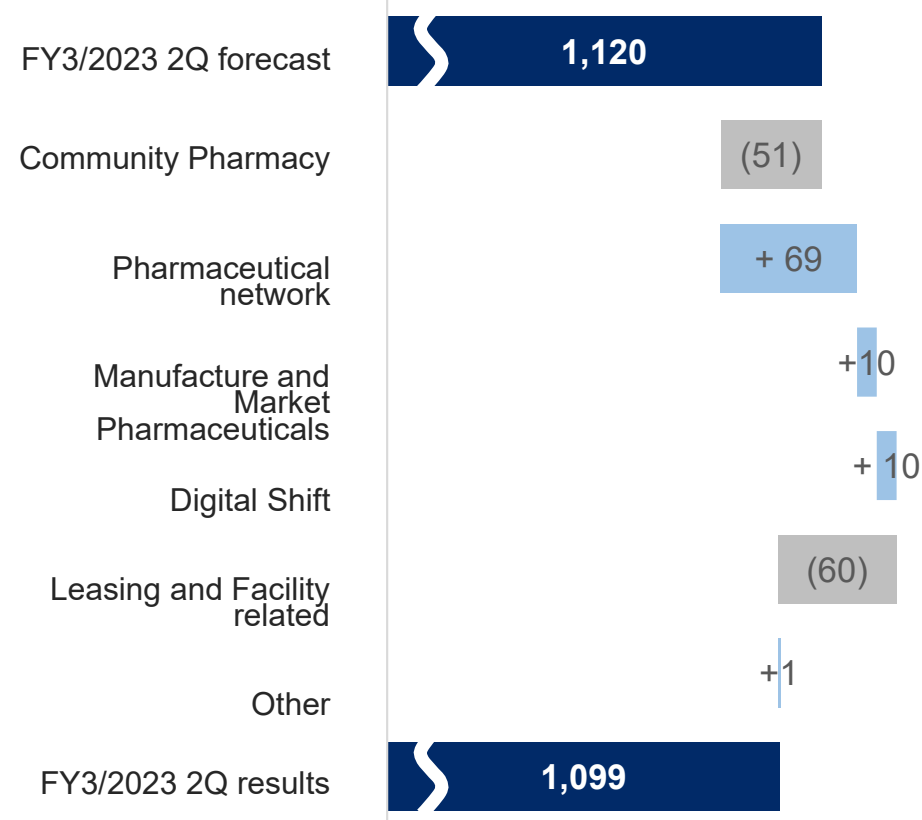
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)



FY3/2023 2Q : Consolidated balance sheet

■ End of FY3/2022

(Unit: million yen)

Assets	62,941	Liabilities	49,654
Current assets	18,701	Current liabilities	20,435
Cash and deposits	8,201	Short-term loans ^{*1}	5,772
		Fixed liabilities	29,219
Fixed assets	44,239	Long-term loans	22,891
Tangible fixed assets	24,624	Net assets	13,286
Intangible fixed assets	12,767	Capital stock	2,128
Goodwill	12,254	Capital surplus	1,182
Investments and other assets	6,848	Retained earnings	10,393
		Treasury stock	(326)
Total assets	62,941	Total liabilities and net assets	62,941

Equity ratio

21.1%

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

24.2%

■ End of FY3/2023 2Q

(Unit: million yen)

Assets	64,124	Liabilities	50,527
Current assets	18,721	Current liabilities	20,966
Cash and deposits	6,774	Short-term loans ^{*1}	6,178
		Fixed liabilities	29,561
Fixed assets	45,402	Long-term loans	20,592
Tangible fixed assets	26,307	Net assets	13,596
Intangible fixed assets	12,292	Capital stock	2,128
Goodwill	11,689	Capital surplus	1,182
Investments and other assets	6,802	Retained earnings	10,681
		Treasury stock	(326)
Total assets	64,124	Total liabilities and net assets	64,124

Equity ratio

21.2%

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

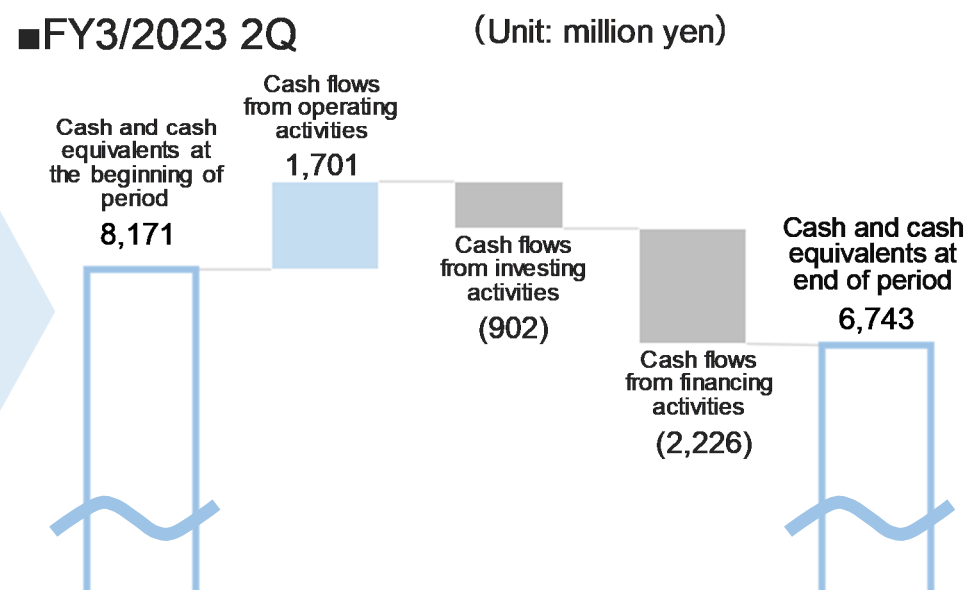
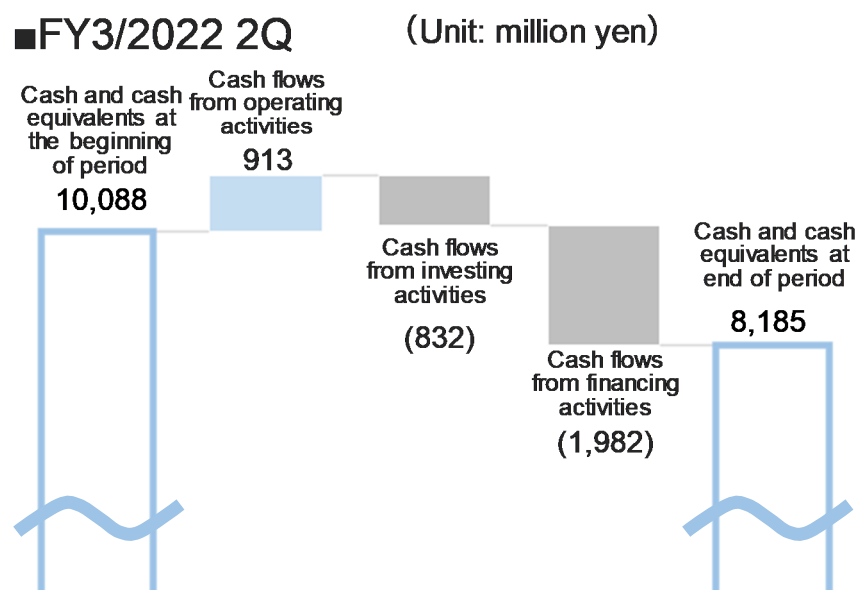
23.7%

*1 Includes long-term loans that will be repaid within the year

*2 Own capital / (Total assets – Cash and deposits)

FY3/2023 2Q : Consolidated cash flows

Cash flows from operating activities	1,701 million yen	EBITDA* Income taxes paid Changes in working capital * Calculated by "operating profit + depreciation + amortization of goodwill"	2,537 million yen (572) million yen (743) million yen
Cash flows from investing activities	(902) million yen	Opening of new pharmacies Existing pharmacies (System development , Acquisition of equipment and fixtures, etc.)	(365) million yen (362) million yen
Cash flows from financing activities	(2,226) million yen	Loan amount reduced	(1,892) million yen





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Business Summary

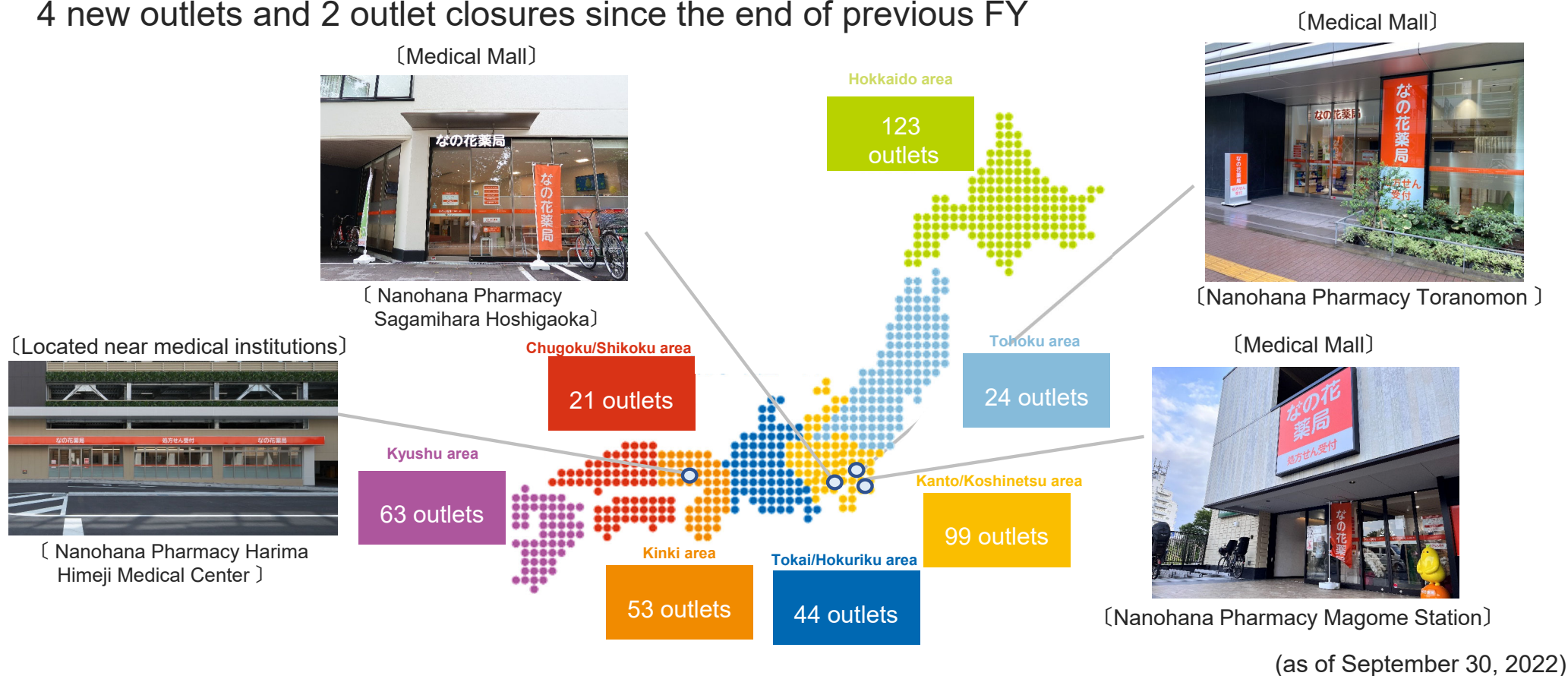
		Core strategies and numerical targets for the current fiscal year
Community Pharmacy Network Segment	Community Pharmacy Business	<ul style="list-style-type: none"> ■ Strengthening interpersonal work and provide quality drug treatment ■ Acquisition of prescriptions using on-line (LINE, prescription transmission) tools ■ Development of 15 pharmacies, mainly in medical malls
	Pharmaceuticals* Network Business	<ul style="list-style-type: none"> ■ 8,900 affiliates at the end of March 2023 (+1,499 YoY) ■ Building a system to reach 12,000 affiliates longer term ■ Further promotion of streamlined distribution ■ Expansion of services for affiliates
	Manufacture and Market Pharmaceuticals Business	<ul style="list-style-type: none"> ■ Expand clientele, primarily amongst our pharmaceutical network affiliates → Target 2,700 at the end of March 2023 (+1,002 YoY)
	Digital Shift* Business	<ul style="list-style-type: none"> ■ Expansion of pharmacies with official LINE accounts → Target Order received 4,400 (+2,757 YoY) / Installed 3,400(+2,489 YoY) at the end of March 2023
Leasing and facility related Segment		<ul style="list-style-type: none"> ■ Achieve 90% occupancy ; steady operation
Meal Catering Segment, Home Visit Nursing Segment		<ul style="list-style-type: none"> ■ Safety-first operation ■ Steady balance of payments
Finance		<ul style="list-style-type: none"> ■ Securing profits through cost control
ESG/Health management		<ul style="list-style-type: none"> ■ Projects according to SDGs; promote CSR activities

* 3 Pharmacy Support Businesses

Community Pharmacy Business :

Trends in number of pharmacies

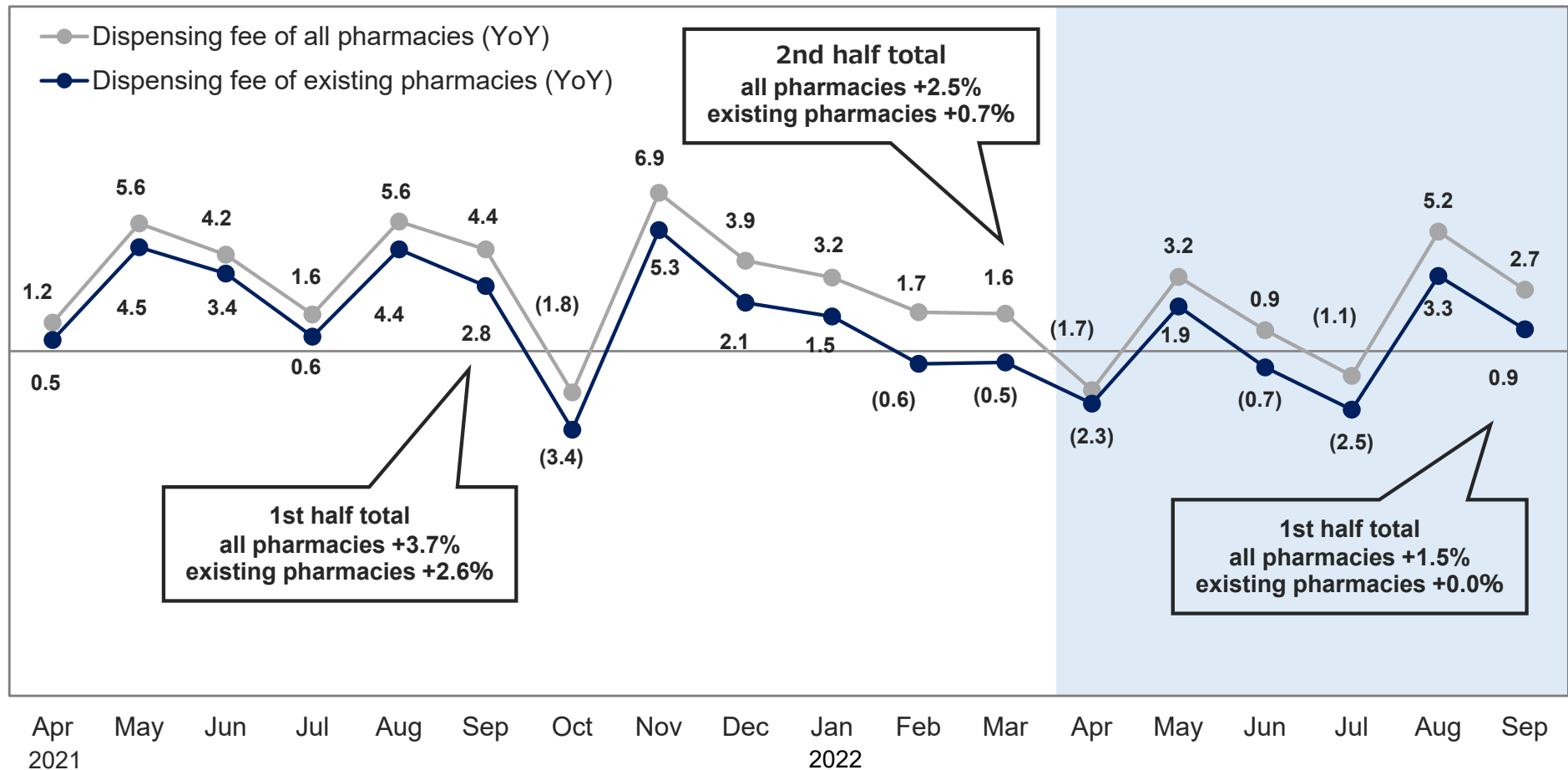
4 new outlets and 2 outlet closures since the end of previous FY



	FY3/2014	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021	FY3/2022	FY3/2023 2Q
Openings	14	10	9	8	8	5	8	7	12	4
Closings and transferring of businesses	(7)	(13)	(8)	(4)	(5)	(14)	(15)	(13)	(6)	(2)
M&A	45	27	7	20	19	30	3	6	3	0
Number of outlets	321	345	353	377	399	420	416	416	425	427

Community Pharmacy Business :

Monthly dispensing fee (YoY)

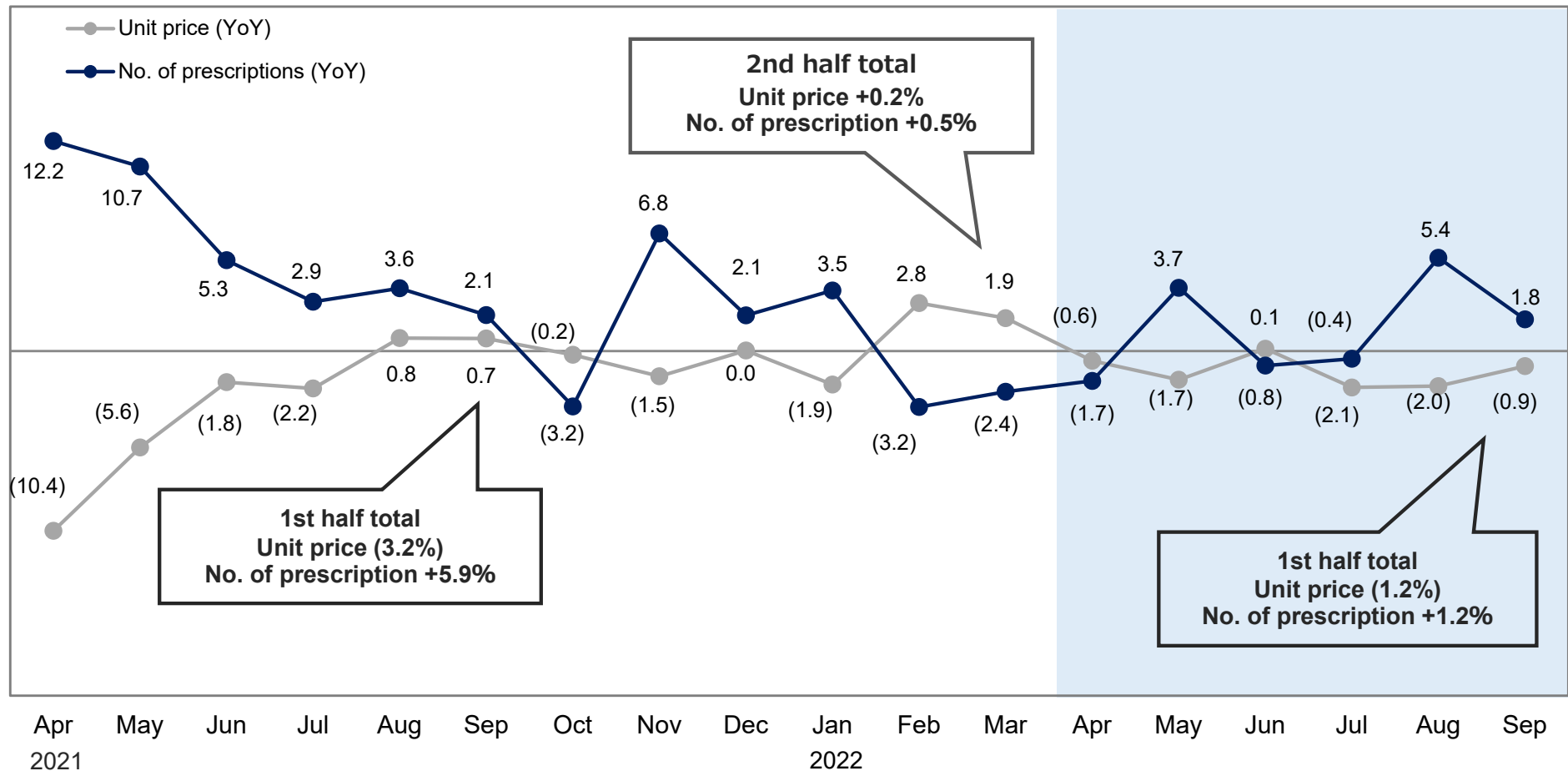


* Existing pharmacies definition : Pharmacies that have been continuously open since April 1, 2020 for the previous FY and since April 1, 2021 for the current FY

Community Pharmacy Business :

Monthly prescription volume and unit price of Existing Pharmacies (YoY)

Despite an increase in the no. of prescriptions, the unit price of prescriptions declined due to the impact of the revision of dispensing fees



Community Pharmacy Business : Dispensing fee breakdown

■ All pharmacies		FY3/2022 2Q	FY3/2023 2Q	Change	Change (%)
No. of prescriptions (1,000)		4,367	4,517	+ 149	+ 3.4%
Unit price (yen)	Drug charge per prescription	7,819	7,634	(185)	(2.4%)
	Technical fee per prescription	2,435	2,427	(8)	(0.3%)
	Total	10,254	10,061	(193)	(1.9%)
Dispensing fee (million yen)		44,784	45,448	+ 663	+ 1.5%

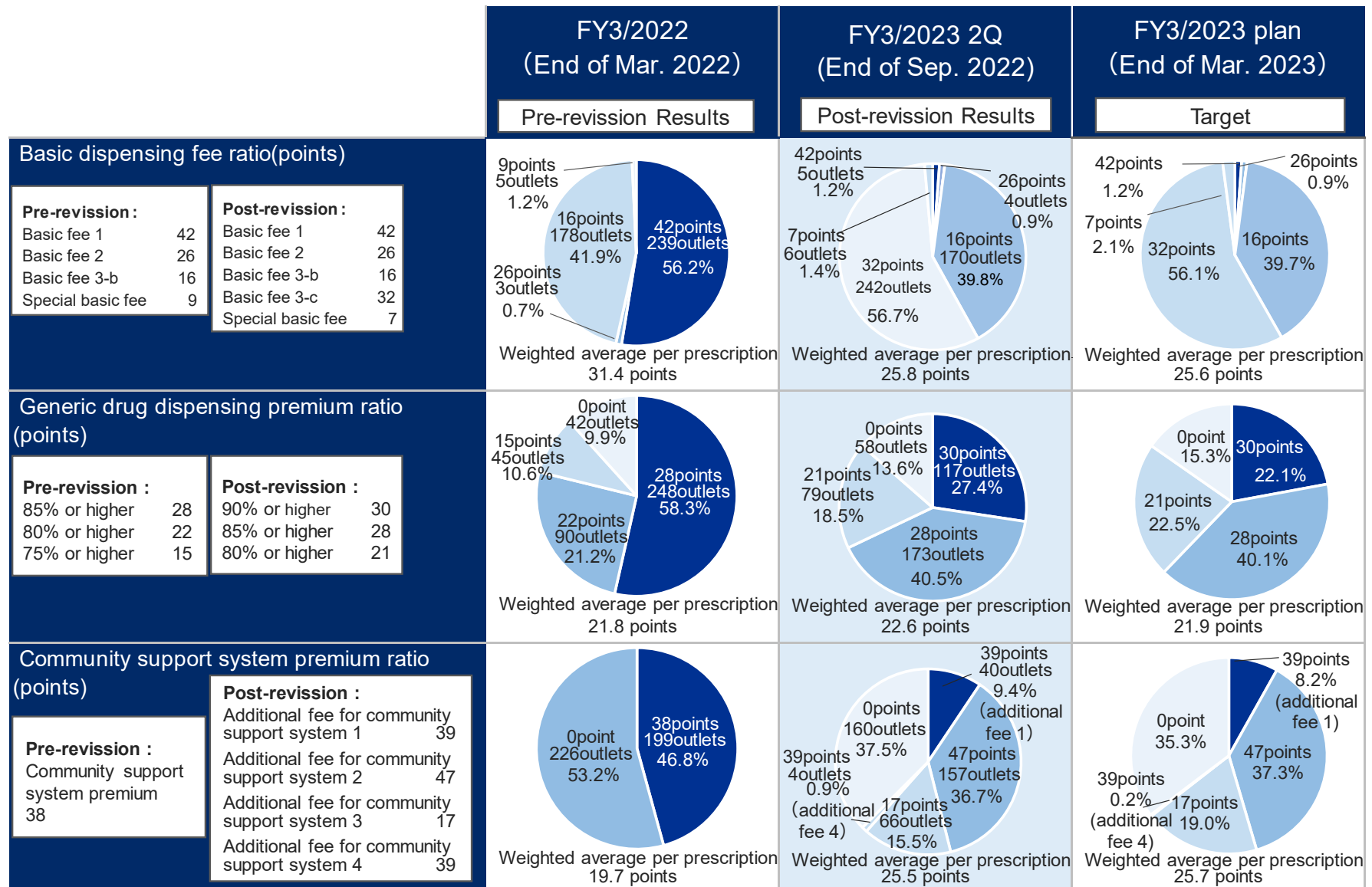
■ Existing pharmacies

No. of prescriptions (1,000)		4,263	4,316	+ 52	+ 1.2%
Unit price (yen)	Drug charge per prescription	7,805	7,680	(126)	(1.6%)
	Technical fee per prescription	2,439	2,444	+ 5	+ 0.2%
	Total	10,244	10,123	(120)	(1.2%)
Dispensing fee (million yen)		43,673	43,694	+ 21	+ 0.0%

*Dispensing fees are calculated based on the number of prescriptions x unit price of prescriptions

Community Pharmacy Business : Dispensing fee revision

Acquisition of dispensing fee is progressing mostly as planned. We are continuing to focus on interpersonal services



Community Pharmacy Business :

Pharmacists and Staff working together to become the Pharmacy of Choice

Promotion of interpersonal work by pharmacists and strengthening of hospitality services from staff

■ Promotion of home healthcare support and deeper engagement pharmacy functions (pharmacist)

- Promote interpersonal work and strengthen multidisciplinary collaboration with physicians, nurses, and other professionals
- Aiming to implement "one pharmacist, one home healthcare support" and to foster a mindset of wellness
- The number of prescriptions calculated for Family Pharmacist Supervision Fee and Guidance material for the administration of drugs for in-home patients fees are trending strongly

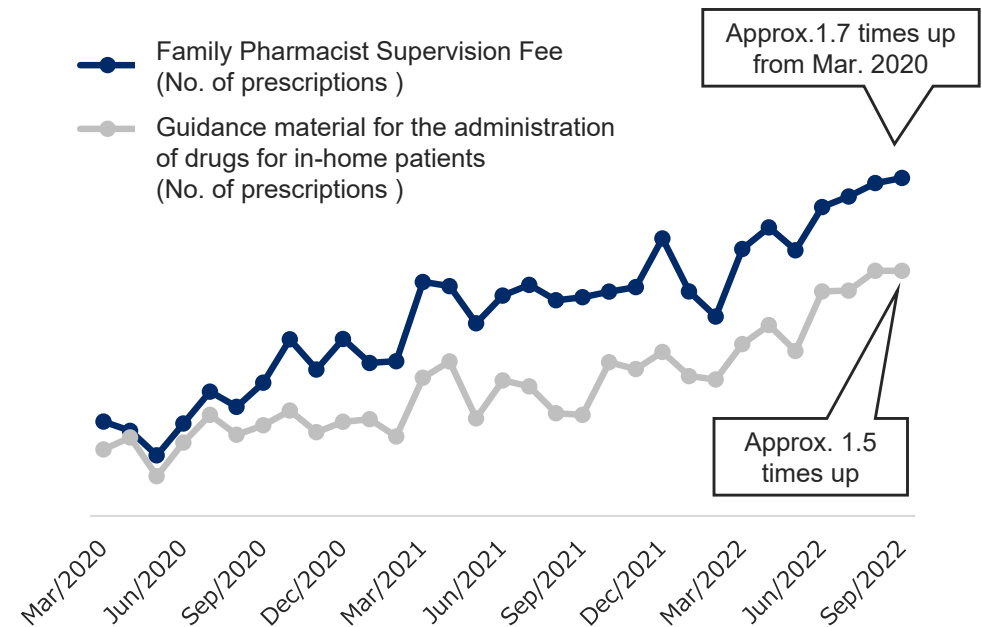
➡ Continue to focus not only on medication follow-ups but also on home healthcare support to acquire patients and become the Pharmacy of Choice in the community

■ Mastering Hospitality System (staff and nutritionist)

- Thoroughly perform basic duties such as talking to patients, starting with greetings
- Review and improve patient care and pharmacy cleanliness

➡ Introducing "mystery shoppers" (undercover investigations) to respond to suggestions from outside sources, and creating and implementing a PDCA cycle for each pharmacy to enhance customer service

Expanding those best practices to our broader pharmacies



Pharmaceuticals Network Business :

Performance summary (As of September 30, 2022)

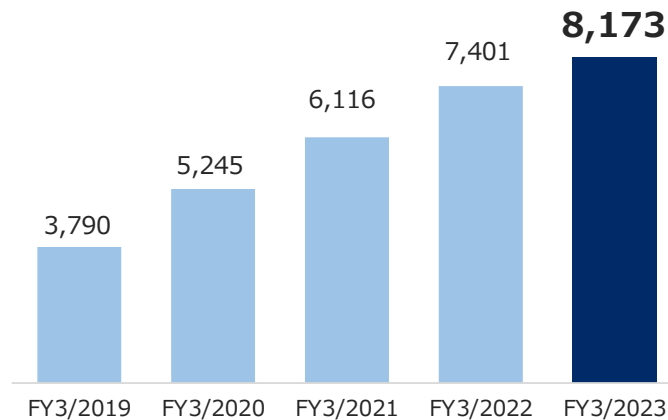


Network affiliates remained steady, up 772 from the end of the previous FY to 8,173

■ Full year ■ 2Q

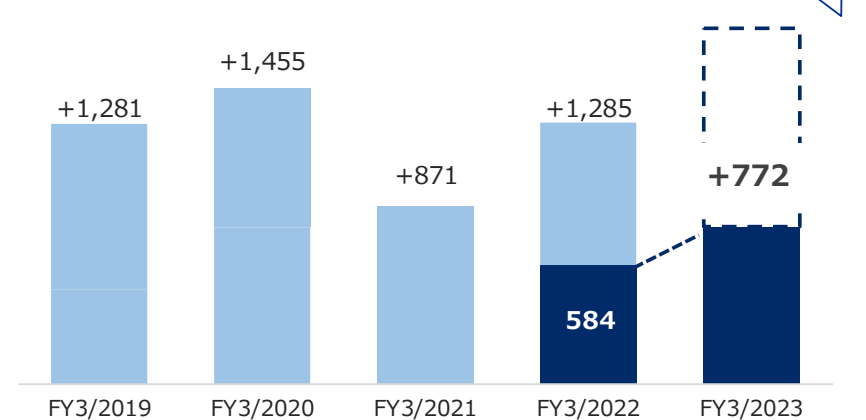
■ Network affiliates (actual)

(Unit: No. of network affiliates)



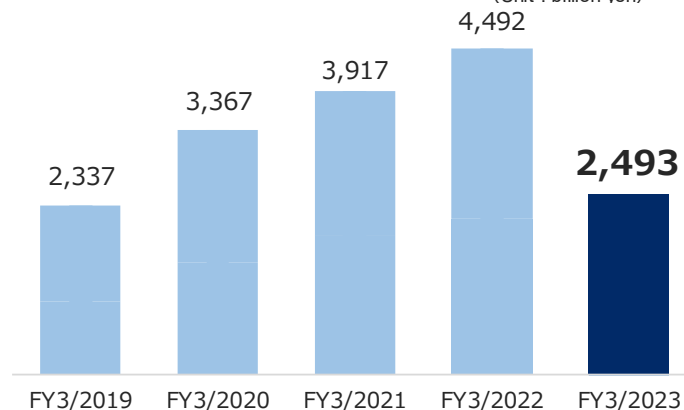
■ Network affiliates (net increase)

(Unit: No. of network affiliates)



■ Ordering volume of pharmaceuticals

(Unit : billion yen)



■ FY3/2022 Breakdown of network affiliates

(New/Withdrawal)

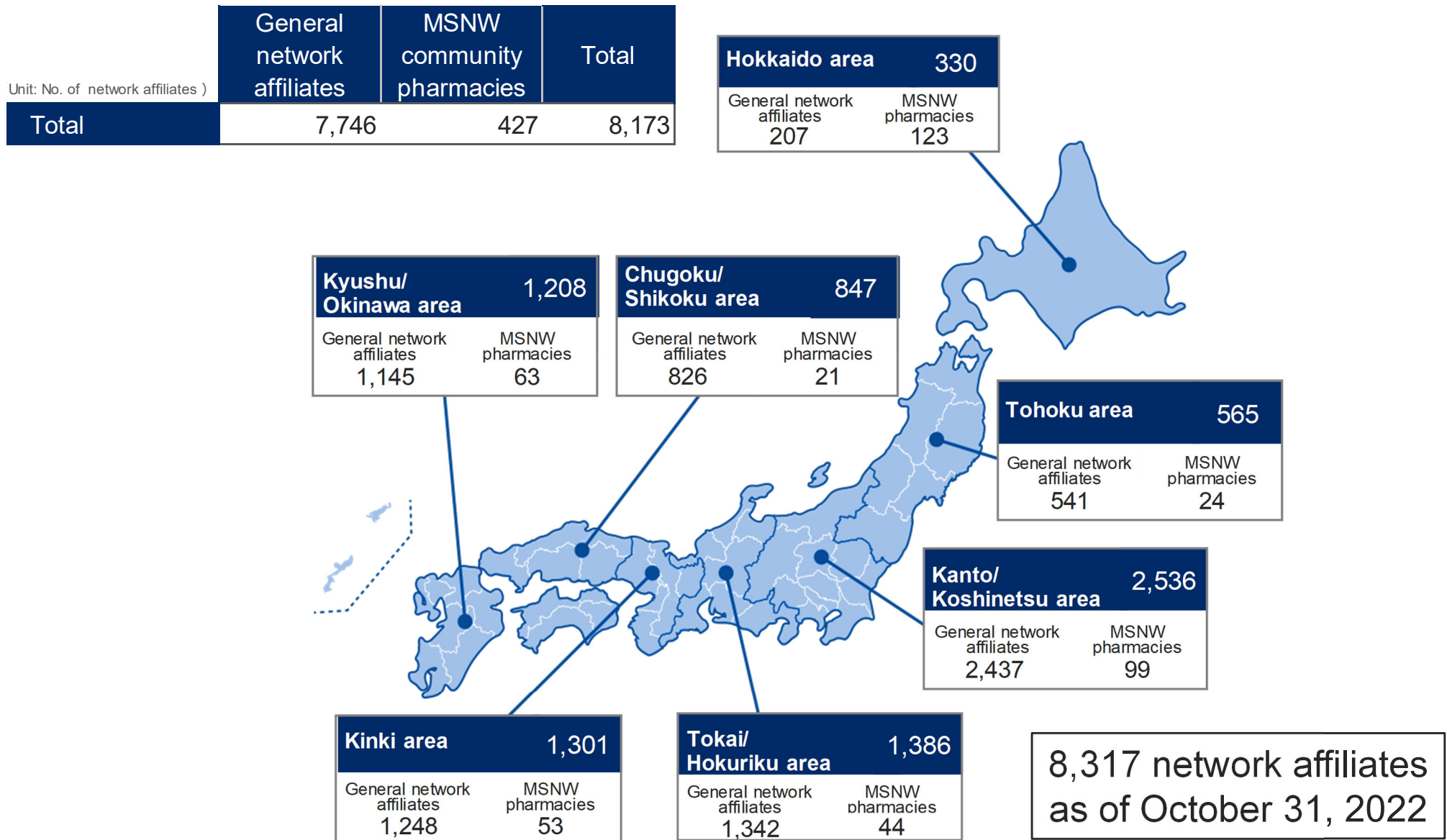
	1Q	2Q	3Q	4Q	Total
New	405	395	379	463	1,642
Withdrawal	(154)	(62)	(76)	(65)	(357)

■ FY3/2023 Breakdown of network affiliates

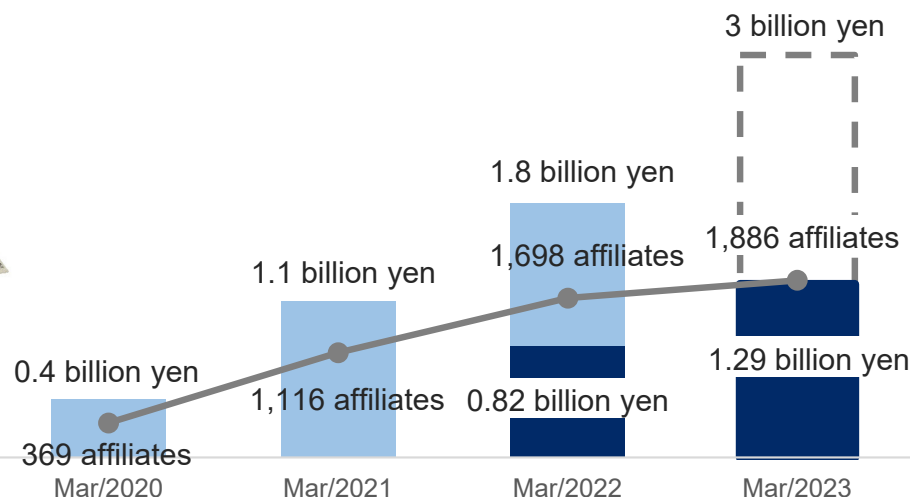
	1Q	2Q
New	525	420
Withdrawal	(114)	(59)

Pharmaceuticals Network Business :

Network affiliates distribution map (as of September 30, 2022)



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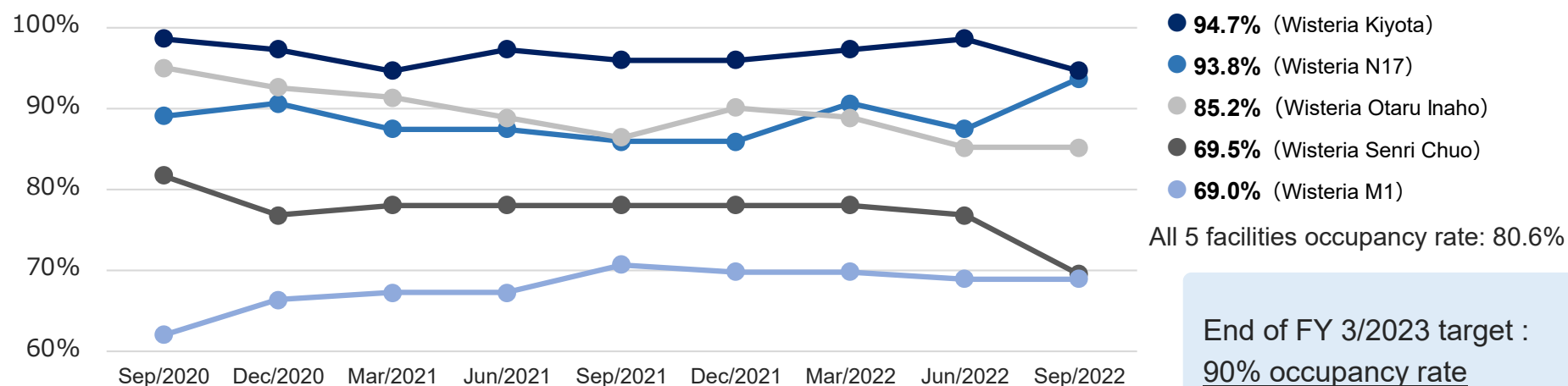


Available products (ingredients) :
85 products (42 ingredients)

Sales to general network affiliates :
1,886 affiliates
(End of FY 3/2023 target : 2,700 affiliates)



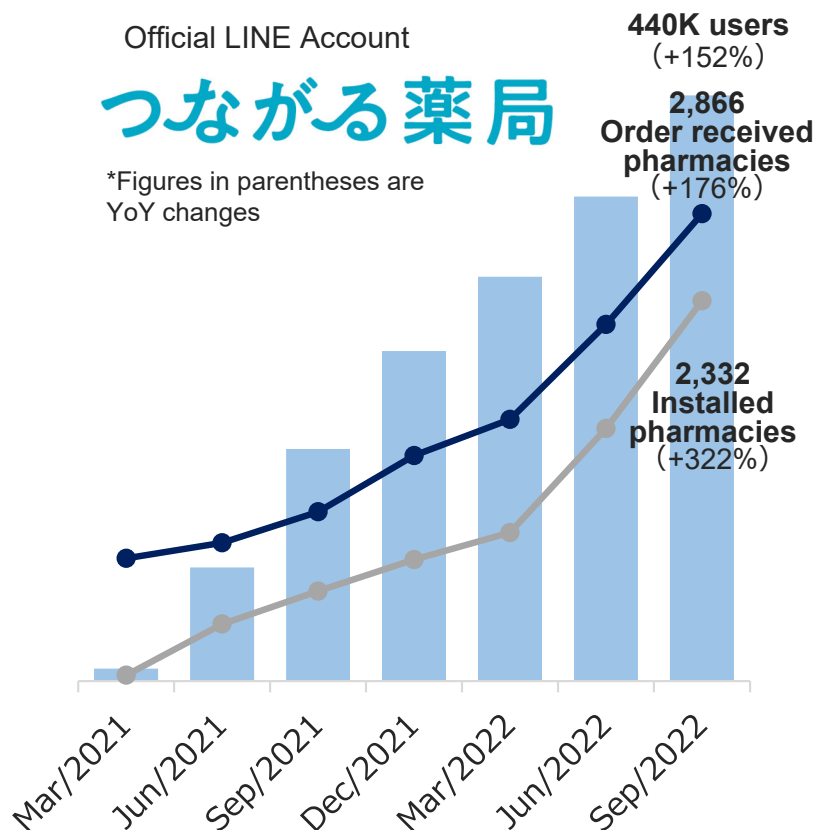
Occupancy rate trends in Wisterias (serviced elderly housing facilities)



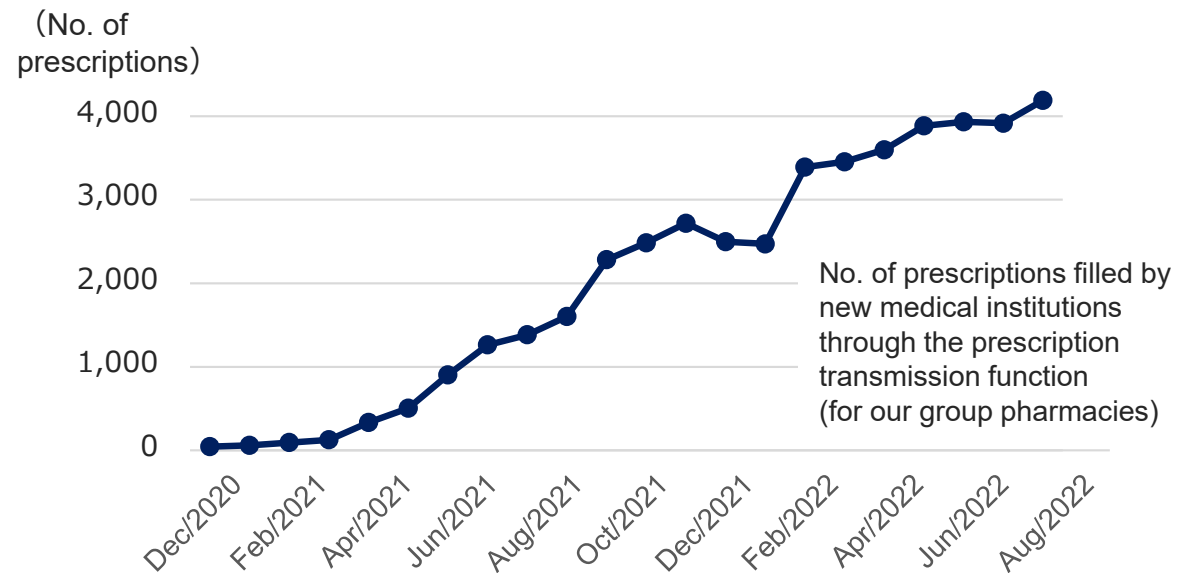
Pharmashift

- Steady growth in orders, installations, and user registrations, each up more than 150% from 1 year ago
- The 1st Digital Pharmacy Consortium Meeting was held, and Frontier Inc. newly joined the Consortium

■ Number of users registered and number of order received / installed pharmacies



■ Effect of new prescription acquisition



■ The 1st Digital Pharmacy Consortium Meeting Held

- Frontier Inc. is a new participant, and all 156 pharmacies are gradually installed the system
- Aiming to build a pharmaceutical platform that includes collaboration among multiple professions by promoting the use of Tsunagaru Pharmacies and further enhancing their functions



3

Core strategies,
Earnings
Forecast for
FY3/2023

Earnings forecast for FY3/2023 :

Consolidated forecasts

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Although the number of pharmaceutical network affiliates is expected to grow steadily and the number of prescriptions filled is expected to increase (Net sales will increase), Income is expected to decrease due to cost precedence from new store openings and dispensing fee revisions, etc.

(Unit: million yen)	FY3/22 (results)	FY3/23 (forecast)	Change	Change (%)
Net sales	106,685	110,000	+ 3,314	+ 3.1 %
EBITDA	6,708 6.3 %	6,200 5.6 %	(508) (0.7 pt.)	(7.6 %)
Operating profit Profit margin	3,852 3.6 %	3,500 3.2 %	(352) (0.4 pt.)	(9.1 %)
Ordinary profit Profit margin	^{*1} 4,313 4.0 %	3,700 3.4 %	(613) (0.6 pt.)	(14.2 %)
Profit attributable to owners of parent Profit margin	^{*2} 2,394 2.2 %	1,750 1.6 %	(644) (0.6 pt.)	(26.9 %)
Earnings per share (Yen)	79.35	57.99	(21.36)	—

*1 Includes 421 million yen in subsidy income for COVID-19

*2 Includes 272 million yen increase due to one-time factors such as gain on sales of investment securities

Earnings forecast for FY3/2023 :

Forecast in each segment

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■ Net sales

(Unit: million yen)		FY3/22 (results)	FY3/23 (forecast)	Change	Change (%)
Net sales		106,685	110,000	+ 3,314	+ 3.1 %
	Community Pharmacy Network Segment ^{*1}	101,457	104,701	+ 3,244	+ 3.2 %
	Other 3 Segments ^{*2}	5,954	6,172	+ 218	+ 3.7%
	Adjustments	(727)	(874)	(147)	—

■ Operating Profit

(Unit: million yen)
Profit percentage in brackets

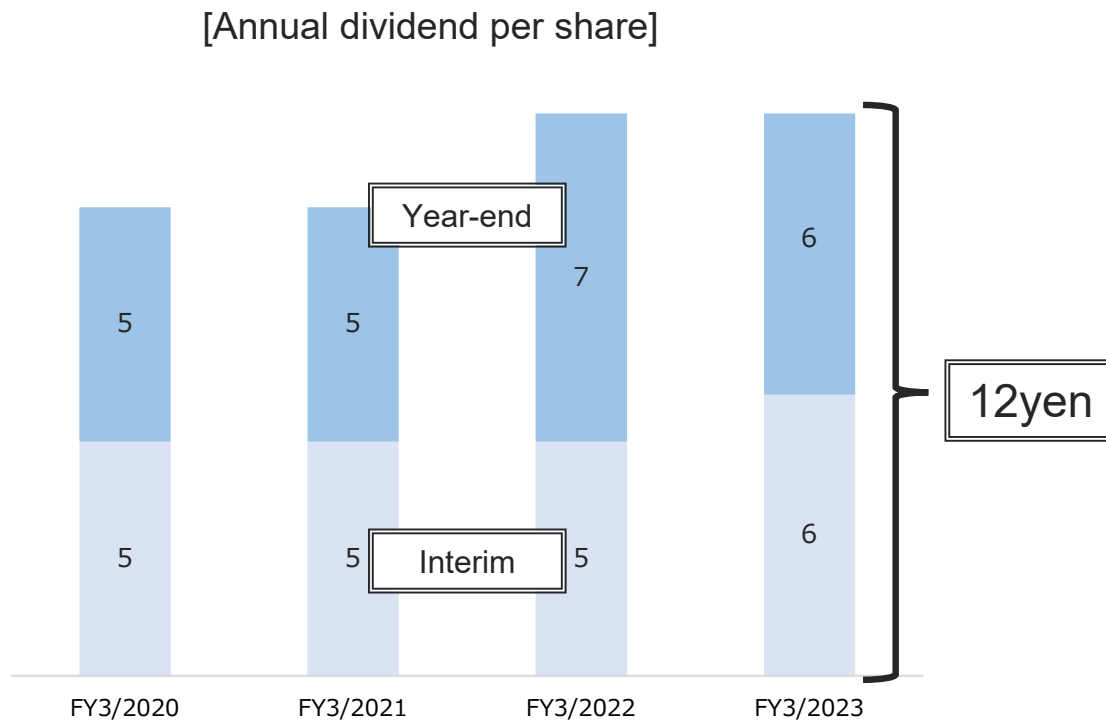
Segment profit		3,852	3.6 %	3,500	3.2 %	(352)	(0.4 pt.)	(9.1 %)
	Community Pharmacy Network Segment ^{*1}	6,117	6.0 %	6,026	5.8 %	(90)	(0.2 pt.)	(1.5 %)
	Other 3 Segments ^{*2}	28	0.5%	61	1.0 %	+ 32	+ 0.5 pt.	+114.1%
	Adjustments	(2,293)	—	(2,588)	—	(294)	—	—

^{*1} Community Pharmacy Business, Pharmaceutical Network Business, Manufacture and Market Pharmaceuticals Business, Digital Shift Business

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

Interim dividend

- For the current fiscal year, the Company plans to pay an interim dividend and a year-end dividend of 6 yen per share each, for an annual dividend of 12 yen per share.



《Reference》

- ① FY3/23 interim dividend
Base date : September 30, 2022
Payment : December 12, 2022
Dividend per share: 6 yen
- ② Shareholder return index
Projected year-end dividend per share: 12 yen
Projected payout ratio: 20.7%

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This video introduces the business activities of our group in an easy-to-understand manner. Please take a look.



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