

Note: This document is a translation of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.

Consolidated Financial Results for the Three Months Ended June 30, 2023 (Japanese GAAP)

August 8, 2023

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

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

Representative: Inao Tajiri, President and Representative Director
Contact: Eiji Hirashima, Executive Officer, Director of Finance and Director
Tel: +81-11-613-7750

Scheduled date for quarterly report submission: August 10, 2023
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, 2023 (April 1 to June 30, 2023)

(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, 2023	27,656	5.2	1,202	13.3	451	29.4	410	4.6	148	62.8
Three months ended June 30, 2022	26,299	1.5	1,061	(21.9)	348	(47.7)	392	(58.1)	91	(84.4)

Note: Comprehensive income for the three months ended June 30, 2023 was 162 million yen (57.5% YoY), and comprehensive income for the three months ended June 30, 2022 was 103 million yen ((84.8)YoY).

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

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2023	4.92		—	
Three months ended June 30, 2022	3.02		—	

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, 2023	67,932		14,467		21.2		478.07	
As of March 31, 2023	66,223		14,488		21.8		478.86	

Reference: Shareholders' equity amounted to 14,427 million yen as of June 30, 2023 and 14,451 million as of March 31, 2023.

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, 2023	—	6.00	—	6.00	12.00
Fiscal year ending March 31, 2024	—				
Fiscal year ending March 31, 2024 (forecast)		5.00	—	5.00	10.00

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(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	54,670	2.5	2,250	(11.3)	800	(27.3)	750	(39.7)	250	(50.2)	8.28
Full-year	112,500	2.7	5,600	(8.5)	2,600	(17.8)	2,550	(24.0)	1,000	(37.9)	33.14

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, 2023	30,642,600	As of March 31, 2023	30,642,600
2. Treasury shares outstanding	As of June 30, 2023	464,055	As of March 31, 2023	464,055
3. Period-average shares outstanding (cumulative quarterly figures)	Three months ended June 30, 2023	30,178,545	Three months ended June 30, 2022	30,178,545

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).

Accompanying Materials – Contents

1. Qualitative Information on Quarterly Financial Performance	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position.....	3
(3) Explanation of Consolidated Earnings Forecasts and Other Projections	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Consolidated Balance Sheet	4
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income.....	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes to going concern assumptions).....	8
(Notes in the event of significant changes in shareholders' equity).....	8
(Segment information).....	8

1. Qualitative Information on Quarterly Financial Performance

(1) Explanation of Operating Results

In the three months ended June 30, 2023, the prescription unit price fell in the Community Pharmacy Business due to the impact of off-year National Health Insurance (NHI) drug price revisions and the end of the transitional measures for community support system premiums, but the number of prescriptions filled increased, as consumers felt more at ease with seeking medical consultations following the downgrading of COVID-19 to a Class 5 infectious disease. Further, in the Pharmaceutical Network Business, the number of new network affiliates grew steadily. As a result, in the three-month period under review, net sales amounted to 27,656 million yen (+5.2% YoY), operating profit 451 million yen (+29.4% YoY), ordinary profit 410 million yen (+4.6% YoY), and profit attributable to owners of parent 148 million yen (+62.8% YoY).

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

Starting from the three-month period under review, the costs of the business development division, which were previously allocated to the Leasing and Facility-related Segment, have been transferred to the Community Pharmacy Network Segment due to the decision to focus on pharmacy development (the amount transferred in the three months ended June 30, 2023 was 46 million yen).

1) Community Pharmacy Network Segment

In the Community Pharmacy Business, the prescription unit price fell due to the impact of off-year NHI drug price revisions and the end of the transitional measures for community support system premiums. Meanwhile, the number of prescriptions filled increased as consumers felt more at ease with seeking medical consultations following the downgrading of COVID-19 to a Class 5 infectious disease. Further, in the three months ended June 30, 2023, the Group opened two new community pharmacies, including one in a medical mall. As of June 30, 2023, the Group had 430 community pharmacies, one care plan center, and nine drug/cosmetics stores.

In the Pharmaceutical Network Business, the business environment was characterized by pharmacies demanding further efficiency improvements, including measures to optimize the distribution of drugs and responses to dispensing fee revisions. Under such an environment, the Group's initiatives to improve drug distribution and its management support services attracted much attention, leading to a steady increase in new network affiliates. As of June 30, 2023, the number of pharmaceutical network affiliates totaled 9,172 (up 260 compared with March 31, 2023), consisting of 430 Group pharmacies and 8,742 general network affiliates.

In the Manufacture and Market Pharmaceuticals Business, the Group provided 96 products (46 ingredients). While the Group suspended accepting orders for some products due to shipment adjustments, the number of new partner pharmacies increased 345 in the three-month period under review, bringing the total number of partner pharmacies as of June 30, 2023 to 3,642, up 727 YoY.

In the Digital Shift Business, the number of pharmacies that have adopted the Group's services as of June 30, 2023 totaled 3,797 (up 406 compared with March 31, 2023).

As a result, segment sales for the three months ended June 30, 2023 were 26,356 million yen (+5.2% YoY), and operating profit was 1,077 million yen (+6.2% YoY).

2) Leasing and Facility-related Segment

In the Leasing and Facility-related Segment, sales grew 0.7% YoY to 800 million yen, on the back of a steady increase in management fee income from managed properties. In terms of profit, the costs of the business development division previously allocated to this segment were transferred to the Community Pharmacy Network Segment due to the decision to focus on pharmacy development. In addition, the absence of one-time advertising expenses for the Wisteria serviced residence for the elderly booked in the previous fiscal year impacted the results. As a result, operating profit amounted to 22 million yen (versus an operating loss of 43 million yen in the same period of the previous year). In addition, the absence of one-time advertising expenses for the Wisteria serviced residence for the elderly booked in the previous fiscal year impacted the results. As a result, operating profit amounted to 22 million yen (versus an operating loss of 43 million yen in the same period of the previous year).

As of June 30, 2023, Wisteria Senri-Chuo had an occupancy rate of 68.3% (56 out of 82 units occupied), and Wisteria Minami-Ichijo an occupancy rate of 67.2% (78 out of 116 units occupied). The overall occupancy rate at the five serviced residences for the elderly stood at 80.6%. The Group will focus on meeting the changing needs of residents and cultivate new sales routes, and continue to conduct aggressive sales activities.

3) Meal Catering Segment

In the Meal Catering Segment, while sales grew owing to a revision of the contract unit price, the gross profit margin declined due to soaring purchase prices. As a result, segment sales were 590 million yen (+3.0% YoY) and the operating loss was 14 million yen (versus an operating loss of 11 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 78 million yen (+1.6% YoY), and the operating loss was 8 million yen (operating loss of 2 million yen in the same period of the previous fiscal year).

(2) Explanation of Financial Position

As of June 30, 2023, total assets amounted to 67,932 million yen, up 1,708 million yen from March 31, 2023.

Current assets amounted to 21,445 million yen, up 1,180 million yen from March 31, 2023, mainly reflecting increases in cash and deposits and merchandise.

Non-current assets were 46,486 million yen, up 528 million yen from March 31, 2023.

Total liabilities were 53,465 million yen, up 1,729 million yen from March 31, 2023. Current liabilities totaled 23,348 million yen, up 1,998 million yen from March 31, 2023, mainly reflecting an increase in accounts payable-trade. Non-current liabilities were 30,117 million yen, down 268 million yen from March 31, 2023.

Net assets were 14,467 million yen, down 21 million yen from March 31, 2023.

(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, 2024, which were announced on May 9, 2023.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended March 31, 2023 (as of March 31, 2023)	Three months ended June 30, 2023 (as of June 30, 2023)
Assets		
Current assets		
Cash and deposits	8,141	9,751
Accounts receivable - trade	3,437	2,717
Unearned revenue from sale of accounts receivable	1,039	1,060
Purchased receivables - dispensing fees	463	413
Merchandise	5,160	5,862
Raw materials	17	16
Work in process	2	10
Supplies	74	77
Other	1,939	1,546
Allowance for doubtful accounts	(11)	(10)
Total current assets	20,265	21,445
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,164	13,187
Land	8,916	8,986
Construction in progress	165	144
Other	4,814	5,692
Total property, plant and equipment	27,060	28,011
Intangible assets		
Goodwill	11,183	10,905
Software	548	568
Other	74	73
Total intangible assets	11,807	11,547
Investments and other assets		
Investment securities	159	167
Guarantee deposits	3,222	3,208
Deferred tax assets	2,926	2,766
Other	802	806
Allowance for doubtful accounts	(19)	(19)
Total investments and other assets	7,090	6,928
Total non-current assets	45,958	46,486
Total assets	66,223	67,932

(Millions of yen)

	Fiscal year ended March 31, 2023 (as of March 31, 2023)	Three months ended June 30, 2023 (as of June 30, 2023)
Liabilities		
Current liabilities		
Accounts payable – trade	9,937	11,721
Short-term borrowings	1,016	1,664
Current portion of long-term borrowings	5,152	5,039
Income taxes payable	600	68
Provision for bonuses	1,569	837
Provision for bonuses for directors (and other officers)	2	8
Other	3,071	4,009
Total current liabilities	21,349	23,348
Non-current liabilities		
Long-term borrowings	20,226	19,003
Provision for retirement benefits for directors (and other officers)	637	647
Provision for share awards for directors (and other officers)	243	251
Retirement benefit liability	4,157	4,232
Other	5,121	5,981
Total non-current liabilities	30,385	30,117
Total liabilities	51,735	53,465
Net assets		
Shareholders' equity		
Share capital	2,128	2,128
Capital surplus	1,182	1,182
Retained earnings	11,606	11,571
Treasury shares	(326)	(326)
Total shareholders' equity	14,590	14,555
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(2)	3
Deferred gains or losses on hedges	2	1
Remeasurements of defined benefit plans	(139)	(133)
Total accumulated other comprehensive income	(139)	(128)
Non-controlling interests	37	40
Total net assets	14,488	14,467
Total liabilities and net assets	66,223	67,932

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

Consolidated Statement of Income

(Millions of yen)

	Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)	Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)
Net sales	26,299	27,656
Cost of sales	15,236	16,223
Gross profit	11,062	11,433
Selling, general and administrative expenses	10,713	10,981
Operating profit	348	451
Non-operating income		
Interest and dividend income	2	2
Outsourcing service income	19	16
Rental income from facilities	32	30
Subsidy income	60	6
Miscellaneous income	21	18
Total non-operating income	136	74
Non-operating expenses		
Loss on sale of receivables	14	14
Interest expenses	70	93
Miscellaneous losses	8	7
Total non-operating expenses	93	115
Ordinary profit	392	410
Extraordinary losses		
Loss on retirement of non-current assets	6	0
Loss on store closings	0	1
Other	—	0
Total extraordinary losses	6	2
Profit before income taxes	385	407
Income taxes - current	74	102
Income taxes - deferred	213	154
Total income taxes	287	256
Profit	97	151
Profit (loss) attributable to non-controlling interests	6	2
Profit (loss) attributable to owners of parent	91	148

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)	Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)
Profit	97	151
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	6
Deferred gains or losses on hedges	1	(1)
Remeasurements of defined benefit plans, net of tax	4	6
Total other comprehensive income	5	11
Comprehensive income	103	162
(Breakdown)		
Comprehensive income attributable to owners of parent	96	159
Comprehensive income attributable to non-controlling interests	6	2

(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, 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.

II. Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

1. 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	26,343	644	590	78	27,656	—	27,656
Intersegment sales or transfers	12	155	0	—	168	(168)	—
Total	26,356	800	590	78	27,825	(168)	27,656
Segment profit (loss)	1,077	22	(14)	(8)	1,077	(626)	451

Notes: 1. The negative 626 million yen adjustment to segment profit (loss) includes 62 million yen in elimination of intersegment transactions and 688 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.

2. Starting from the three-month period under review, the costs of the business development division, which were previously allocated to the Leasing and Facility-related Segment, have been transferred to the Community Pharmacy Network Segment due to the decision to focus on pharmacy development (the amount transferred in the three months ended June 30, 2023 was 46 million yen).