

Quarterly trends and results

Cumulative (JPYmn)	FY03/22				FY03/23				FY03/24		FY03/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	% of Est.	1H Est.	% of Est.	FY Est.
Sales	25,914	52,169	79,868	106,685	26,299	53,340	81,878	109,551	27,656	56,461	103.3%	54,670	49.6%	113,800
YoY	3.0%	2.2%	2.2%	2.3%	1.5%	2.2%	2.5%	2.7%	5.2%	5.9%		2.5%		3.9%
Gross profit	10,738	21,861	33,443	44,429	11,062	22,315	34,287	45,921	11,433	23,453				
YoY	10.7%	6.6%	5.6%	4.8%	3.0%	2.1%	2.5%	3.4%	3.4%	5.1%				
Gross profit margin	41.4%	41.9%	41.9%	41.6%	42.1%	41.8%	41.9%	41.9%	41.3%	41.5%				
SG&A expenses	10,071	19,999	30,379	40,576	10,713	21,215	31,942	42,758	10,981	21,740				
YoY	3.1%	4.4%	5.1%	4.1%	6.4%	6.1%	5.1%	5.4%	2.5%	2.5%				
SG&A ratio	38.9%	38.3%	38.0%	38.0%	40.7%	39.8%	39.0%	39.0%	39.7%	38.5%				
Operating profit	667	1,862	3,063	3,852	348	1,099	2,344	3,163	451	1,712	214.0%	800	48.9%	3,500
YoY	-	37.4%	10.5%	12.3%	-47.8%	-41.0%	-23.5%	-17.9%	29.6%	55.8%		-27.2%		10.7%
Operating profit margin	2.6%	3.6%	3.8%	3.6%	1.3%	2.1%	2.9%	2.9%	1.6%	3.0%				3.1%
Recurring profit	935	2,235	3,485	4,313	392	1,242	2,499	3,355	410	1,692	225.6%	750	49.0%	3,450
YoY	-	60.0%	25.8%	24.0%	-58.1%	-44.4%	-28.3%	-22.2%	4.6%	36.2%		-39.6%		2.8%
Recurring profit margin	3.6%	4.3%	4.4%	4.0%	1.5%	2.3%	3.1%	3.1%	1.5%	3.0%				3.0%
Net income	583	1,431	2,144	2,394	91	502	1,195	1,610	148	861	344.4%	250	52.2%	1,650
YoY	-	147.6%	6.5%	8.9%	-84.4%	-64.9%	-44.3%	-32.7%	62.6%	71.5%		-50.2%		2.5%
Net margin	2.2%	2.7%	2.7%	2.2%	0.3%	0.9%	1.5%	1.5%	0.5%	1.5%		0.5%		1.4%

Quarterly (JPYmn)	FY03/22				FY03/23				FY03/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	25,914	26,255	27,699	26,817	26,299	27,041	28,538	27,673	27,656	28,805		
YoY	3.0%	1.4%	2.1%	2.8%	1.5%	3.0%	3.0%	3.2%	5.2%	6.5%		
Gross profit	10,738	11,123	11,582	10,986	11,062	11,253	11,972	11,634	11,433	12,020		
YoY	10.7%	3.0%	3.8%	2.2%	3.0%	1.2%	3.4%	5.9%	3.4%	6.8%		
Gross profit margin	41.4%	42.4%	41.8%	41.0%	42.1%	41.6%	42.0%	42.0%	41.3%	41.7%		
SG&A expenses	10,071	9,928	10,380	10,197	10,713	10,502	10,727	10,816	10,981	10,759		
YoY	3.1%	5.8%	6.5%	1.1%	6.4%	5.8%	3.3%	6.1%	2.5%	2.4%		
SG&A ratio	38.9%	37.8%	37.5%	38.0%	40.7%	38.8%	37.6%	39.1%	39.7%	37.4%		
Operating profit	667	1,195	1,201	789	348	751	1,245	819	451	1,261		
YoY	-	-15.6%	-15.3%	20.3%	-47.8%	-37.2%	3.7%	3.8%	29.6%	67.9%		
Operating profit margin	2.6%	4.6%	4.3%	2.9%	1.3%	2.8%	4.4%	3.0%	1.6%	4.4%		
Recurring profit	935	1,300	1,250	828	392	850	1,257	856	410	1,282		
YoY	-	-10.9%	-9.0%	16.8%	-58.1%	-34.6%	0.6%	3.4%	4.6%	50.8%		
Recurring profit margin	3.6%	5.0%	4.5%	3.1%	1.5%	3.1%	4.4%	3.1%	1.5%	4.5%		
Net income	583	848	713	250	91	411	693	415	148	713		
YoY	-	8.9%	-50.3%	35.1%	-84.4%	-51.5%	-2.8%	66.0%	62.6%	73.5%		
Net margin	2.2%	3.2%	2.6%	0.9%	0.3%	1.5%	2.4%	1.5%	0.5%	2.5%		

Source: Shared Research based on company data

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

Quarterly results

By segment (cumulative) (JPYmn)	FY03/22				FY03/23				FY03/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Sales	25,914	52,169	79,868	106,685	26,299	53,340	81,878	109,551	27,656	56,461		
YoY	3.0%	2.2%	2.2%	2.3%	1.5%	2.2%	2.5%	2.7%	5.2%	5.9%		
Community Pharmacy Network	24,657	49,663	75,986	101,457	25,045	50,792	78,078	104,399	26,356	53,765		
YoY	3.1%	2.3%	2.2%	2.3%	1.6%	2.3%	2.8%	2.9%	5.2%	5.9%		
% of total	94.6%	94.6%	94.5%	94.5%	94.5%	94.5%	94.7%	94.5%	94.7%	94.7%		
Leasing and Facility-related	739	1,536	2,461	3,326	794	1,673	2,448	3,494	800	1,687		
YoY	2.2%	6.8%	12.2%	13.1%	7.4%	8.9%	-0.5%	5.1%	0.8%	0.8%		
% of total	2.8%	2.9%	3.1%	3.1%	3.0%	3.1%	3.0%	3.2%	2.9%	3.0%		
Meal Catering	586	1,166	1,752	2,322	573	1,135	1,701	2,289	590	1,189		
YoY	-4.2%	-6.6%	-6.5%	-6.1%	-2.2%	-2.7%	-2.9%	-1.4%	3.0%	4.8%		
% of total	2.2%	2.2%	2.2%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%		
Other	74	152	232	305	77	151	228	304	78	155		
YoY	45.1%	38.2%	35.7%	33.2%	4.1%	-0.7%	-1.7%	-0.3%	1.3%	2.6%		
% of total	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%		
Segment sales adjustments	-143	-350	-563	-727	-190	-412	-579	-937	-168	-336		
Operating profit	667	1,862	3,063	3,852	348	1,099	2,344	3,163	451	1,712		
YoY	-	37.4%	10.5%	12.3%	-47.8%	-41.0%	-23.5%	-17.9%	29.6%	55.8%		
Community Pharmacy Network	1,202	2,885	4,663	6,117	1,014	2,384	4,299	5,887	1,077	2,947		
YoY	177.0%	21.8%	7.7%	7.3%	-15.6%	-17.4%	-7.8%	-3.8%	6.2%	23.6%		
Operating profit margin	4.9%	5.8%	6.1%	6.0%	4.0%	4.7%	5.5%	5.6%	4.1%	5.5%		
Leasing and Facility-related	-2	32	53	39	-43	-65	-97	-92	22	69		
YoY	-	100.0%	55.9%	21.9%	-	-	-	-	-	-		
Operating profit margin	-	2.1%	2.2%	1.2%	-	-	-	-	2.8%	4.1%		
Meal Catering	-1	1	7	1	-11	-33	-55	-65	-14	-23		
YoY	-	-	-	-	-	-	-	-	-	-		
Operating profit margin	-	0.1%	0.4%	0.0%	-	-	-	-	-	-		
Other	-7	-12	-10	-12	-2	-10	-14	-22	-8	-20		
YoY	-	-	-	-	-	-	-	-	-	-		
Operating profit margin	-	-	-	-	-	-	-	-	-	-		
Segment profit adjustments	-523	-1,043	-1,650	-2,293	-608	-1,175	-1,787	-2,542	-626	-1,261		

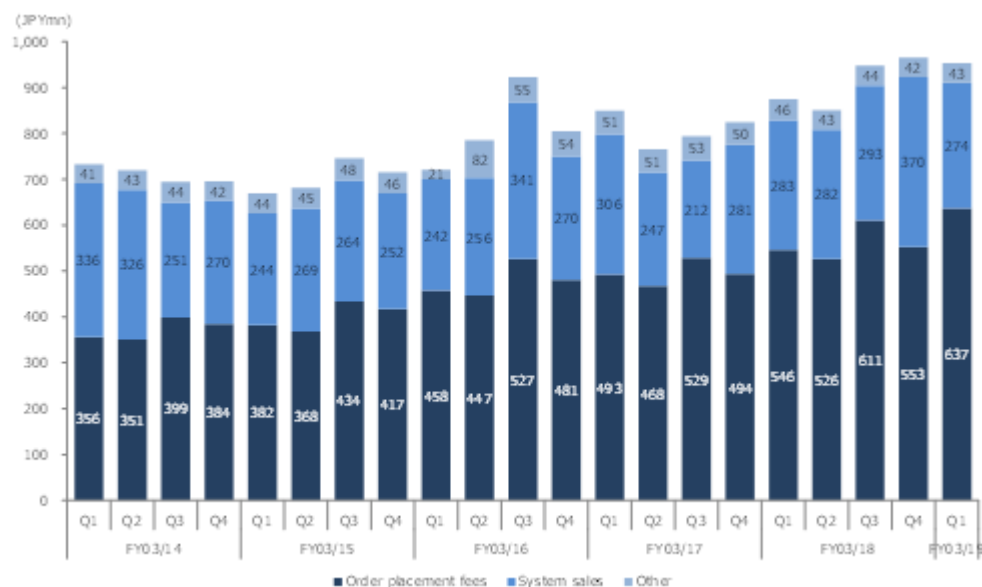
Sales	FY03/22				FY03/23				FY03/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	25,914	26,255	27,699	26,817	26,299	27,041	28,538	27,673	27,656	28,805		
YoY	3.0%	1.4%	2.1%	2.8%	1.5%	3.0%	3.0%	3.2%	5.2%	6.5%		
Community Pharmacy Network	24,657	25,006	26,323	25,471	25,045	25,747	27,286	26,321	26,356	27,409		
YoY	3.1%	1.6%	1.9%	2.5%	1.6%	3.0%	3.7%	3.3%	5.2%	6.5%		

% of total	94.6%	94.5%	94.3%	94.4%	94.5%	94.4%	95.1%	93.9%	94.7%	94.6%
Leasing and Facility-related	739	797	925	865	794	879	775	1,046	800	887
YoY	2.2%	11.5%	22.4%	16.0%	7.4%	10.3%	-16.2%	20.9%	0.8%	0.9%
% of total	2.8%	3.0%	3.3%	3.2%	3.0%	3.2%	2.7%	3.7%	2.9%	3.1%
Meal Catering	586	580	586	570	573	562	566	588	590	599
YoY	-4.2%	-8.8%	-6.4%	-5.0%	-2.2%	-3.1%	-3.4%	3.2%	3.0%	6.6%
% of total	2.2%	2.2%	2.1%	2.1%	2.2%	2.1%	2.0%	2.1%	2.1%	2.1%
Other	74	78	80	73	77	74	77	76	78	77
YoY	45.1%	32.2%	31.1%	25.9%	4.1%	-5.1%	-3.8%	4.1%	1.3%	4.1%
% of total	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Segment sales adjustments	-143	-207	-213	-164	-190	-222	-167	-358	-168	-168
Operating profit	667	1,195	1,201	789	348	751	1,245	819	451	1,261
YoY	-	-15.6%	-15.3%	20.3%	-47.8%	-37.2%	3.7%	3.8%	29.6%	67.9%
Community Pharmacy Network	1,202	1,683	1,778	1,454	1,014	1,370	1,915	1,588	1,077	1,870
YoY	177.0%	-13.0%	-9.3%	5.8%	-15.6%	-18.6%	7.7%	9.2%	6.2%	36.5%
Operating profit margin	4.9%	6.7%	6.8%	5.7%	4.0%	5.3%	7.0%	6.0%	4.1%	6.8%
Leasing and Facility-related	-2	34	21	-14	-43	-22	-32	5	22	47
YoY	-	240.0%	16.7%	-	-	-	-	-	-	-
Operating profit margin	-	4.3%	2.3%	-	-	-	-	-	2.8%	5.3%
Meal Catering	1	2	6	-6	-11	-22	-22	-10	-14	-9
YoY	-	-66.7%	-45.5%	-	-	-	-	-	-	-
Operating profit margin	-	0.3%	1.0%	-	-	-	-	-	-	-
Other	-7	-5	2	-2	-2	-8	-4	-8	-8	-12
YoY	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	2.5%	-	-	-	-	-	-	-
Segment profit adjustments	-523	-520	-607	-643	-608	-567	-612	-755	-626	-635

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

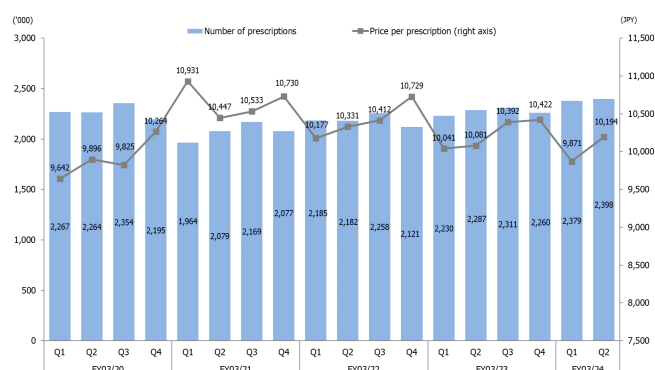


Source: Shared Research based on company data

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; Community Pharmacy business [former 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.

Number of network members by region

Area	Directly operated pharmacies	Affiliates	Total
Hokkaido	123	230	353
Tohoku	25	646	671
Kanto and Koshinetsu	103	2,786	2,889
Tokai and Hokuriku	44	1,549	1,593
Kinki	53	1,484	1,537
Chugoku and Shikoku	21	927	948
Kyushu and Okinawa	65	1,318	1,383
Total	434	8,940	9,374

Source: Shared Research based on company data (as of June 30, 2023)

1H FY03/24 results (out November 7, 2023)

Overview

1H FY03/24 (April–September 2023) earnings results

- Sales: JPY56.4bn (+5.9% YoY)
- Operating profit: JPY1.7bn (+55.8% YoY)
- Recurring profit: JPY1.7bn (+36.2% YoY)
- Net income attributable to owners of the parent: JPY861mn (+71.5% YoY)

Operating results and business conditions

Sales rose 5.9% YoY due to an increase in the number of prescription filled in the Community Pharmacy Network segment. The prescription unit price fell in the Community Pharmacy Business owing 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 patients 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 and the total value of pharmaceuticals orders placed by network affiliates expanded.

Operating profit rose 55.8% YoY, and EBITDA reached JPY3.2bn (+28.0% YoY). This was mainly due to company-wide efforts to improve productivity and contain various expenses. Note that starting from Q1, 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.

Progress against the company's initial 1H forecast was 103.3% for sales, 214.0% for operating profit, 225.6% for recurring profit, and 344.4% for net income. Based on the significantly better-than-expected 1H results, the company has upwardly revised its full-year earnings forecast (details to follow).

Segment results

1H FY03/24 results by segment were as follows.

Community Pharmacy Network

- Segment sales: JPY53.8bn (+5.9% YoY; including intra-group sales and transfers between segments, same applies below)
- Segment profit: JPY2.9bn (+23.6% 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.

Community Pharmacy

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, but the number of prescriptions filled increased, as patients felt more at ease with seeking medical consultations following the downgrading of COVID-19 to a Class 5 infectious disease. The outbreak of several respiratory infections, and the utilization of digital technologies, such as the transmission of prescriptions using LINE, also pushed up the prescription volume. During 1H, the company opened eight community pharmacies, including four inside medical malls. As of end-September 2023, the company had 434 community pharmacies, one care plan center, and 10 cosmetics/drug stores.

Pharmaceuticals Network

The number of new network affiliates fell short of expectations, but still grew steadily. The total value of pharmaceutical orders placed by network affiliates also expanded. As of end-September 2023, pharmaceutical network affiliates totaled 9,374 (+462 from end-FY03/23), comprising 434 directly operated pharmacies and 8,940 affiliates.

Manufacture and Market Pharmaceuticals

In this business, the company group aims to provide a stable supply of good-quality, low-priced generic drugs. The company offered 98 products (47 ingredients) as of end-September 2023. While the company stopped accepting orders for some products due to the impact of shipment adjustments, the total number of partner pharmacies (including group pharmacies, general network affiliates, and other customers) grew to 3,894 (+663 YoY) as of September 30, 2023.

Digital Shift

The company established subsidiary PharmaShift Co., Ltd. on October 1, 2020, to create a "new pharmaceutical platform" for the digital age. In March 2021, the subsidiary launched the "Tsunagaru Pharmacy" service utilizing its official LINE account. As of end-September 2023, the number of pharmacies using the service was 4,195 (+804 from end-FY03/23).

Leasing and Facility-related

- Segment sales: JPY1.7bn (+0.8% YoY)
- Segment profit: JPY69mn (versus loss of JPY65mn in 1H FY03/23)

Operating conditions of serviced elderly housing facilities

Segment sales grew 0.8% YoY, driven by a steady increase in management fee income from managed properties. The segment remained profitable in Q2 for the second consecutive quarter. This was attributed to the transfer of the costs of the business development division to the Community Pharmacy Network segment and the review of staff allocation and advertising expenses for the Wisteria serviced residence for the elderly. As of end-September 2023, the company reported stable occupancy rates at three of its five properties (the total occupancy rate at the five serviced residences for the elderly stood at 82.1%), while for the remaining two, at Wisteria Senri-Chuo it reported an occupancy rate of 67.1% (with 55 out of 82 units occupied), and at Wisteria Minami Ichijo it reported an occupancy rate of 67.2% (with 78 out of 116 units occupied).

Meal Catering

- Segment sales: JPY1.2bn (+4.8% YoY)
- Segment loss: JPY23mn (versus loss of JPY33mn in 1H FY03/23)

Lower sales and operating loss

While sales grew owing to a revision of the contract unit price, the gross profit margin declined due to rising purchase prices. The segment remained in the red as a result.

Other (mostly home-visit nursing care)

- Segment sales: JPY155mn (+2.8% YoY)
- Segment loss: JPY20mn (versus a loss of JPY10mn in 1H FY03/23)

Company forecast for FY03/24

Recent performance and FY03/24 company forecast

	FY03/22			FY03/23			FY03/24		
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	52,169	54,516	106,685	53,340	56,211	109,551	56,461	57,339	113,800
YoY	2.2%	2.5%	2.3%	2.2%	3.1%	2.7%	5.9%	2.0%	3.9%
Cost of sales	30,307	31,949	62,256	31,024	32,606	63,630	31,024		
Gross profit	21,861	22,568	44,429	22,315	23,606	45,921	23,453		
Gross profit margin	41.9%	41.4%	41.6%	41.8%	42.0%	41.9%	41.5%		
SG&A expenses	19,999	20,577	40,576	21,215	21,543	42,758	21,740		
SG&A ratio	38.3%	37.7%	38.0%	39.8%	38.3%	39.0%	38.5%		
Operating profit	1,862	1,990	3,852	1,099	2,064	3,163	1,712	1,788	3,500
YoY	37.4%	-4.1%	12.3%	-41.0%	3.7%	-17.9%	55.8%	-13.4%	10.7%
Operating profit margin	3.6%	3.7%	3.6%	2.1%	3.7%	2.9%	3.0%	3.1%	3.1%
Recurring profit	2,235	2,078	4,313	1,242	2,113	3,355	1,692	1,758	3,450
YoY	60.0%	-0.2%	24.0%	-44.4%	1.7%	-22.2%	36.2%	-16.8%	2.8%
Recurring profit margin	4.3%	3.8%	4.0%	2.3%	3.8%	3.1%	3.0%	3.1%	3.0%
Net income	1,431	963	2,394	502	1,108	1,610	861	789	1,650
YoY	147.6%	-40.6%	8.9%	-64.9%	15.1%	-32.7%	71.5%	-28.8%	2.5%
Net margin	2.7%	1.8%	2.2%	0.9%	2.0%	1.5%	1.5%	1.4%	1.4%

Source: Shared Research based on company data

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

The company's announced an upward revision to its full-year earnings forecast for FY03/24 at the time of the 1H results announcement (dated November 7, 2023). Note that the company changed its listing market from the Prime Market to the Standard Market on October 20, 2023.

- Sales: JPY113.8bn (+3.9% YoY)
- EBITDA: JPY6.6bn (+7.8% YoY)
- Operating profit: JPY3.5bn (+10.7% YoY)
- Recurring profit: JPY3.5bn (+2.8% YoY)
- Net income attributable to owners of the parent: JPY1.7bn (+2.5% YoY)
- EPS: JPY54.67 (versus JPY53.38 in FY03/23)

Reason for the revision

Although the company foresees the impacts of shipment adjustments in the Manufacture and Market Pharmaceuticals business from Q3 onwards, it has revised upwards its full-year earnings forecasts in light of the better-than exceeded 1H results. In terms of sales, the number of prescriptions filled in the Community Pharmacy business was ahead of plan, and in the Pharmaceutical Network business, the number of new network affiliates steadily increased, and the value of pharmaceutical orders placed by network affiliates exceeded plan. On the profit side, efforts to improve productivity across the company and contain various expenses were successful.

Based on the revised earnings forecast, the company has also raised its annual dividend forecast from JPY10 per share to JPY12 per share.

Forecast by key segment (announced on November 7, 2023)

- ▶ Community Pharmacy Network business: sales of JPY108.4bn (+3.8% YoY), segment profit of JPY6.0bn (+2.3% YoY; from FY03/24, expenses associated with development sales—previously booked under Leasing and Facility-related segment—is being booked under the Community Pharmacy business. The impact of this change is estimated at JPY124mn)
- ▶ Other three businesses (total for Leasing and Facility-related, Meal Catering, and home-visit nursing care): sales of JPY6.1bn (+0.5% YoY), segment profit of JPY115mn (loss of JPY180mn in FY03/23)
- ▶ Adjustments: JPY712mn for sales, JPY2.6bn for segment profit

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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