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Consolidated Financial Results for the Three Months Ended June 30, 2024 (Japanese GAAP)

August 7, 2024

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
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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, 2024 (April 1 to June 30, 2024)

(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, 2024	29,419	6.4	1,278	6.3	468	3.7	468	14.2	170	15.1
Three months ended June 30, 2023	27,656	5.2	1,202	13.3	451	29.4	410	4.6	148	62.8

Note: Comprehensive income for the three months ended June 30, 2024 was 189 million yen (16.5% YoY), and comprehensive income for the three months ended June 30, 2023 was 162 million yen ((57.5)YoY).

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

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2024	5.85	—
Three months ended June 30, 2023	4.92	—

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, 2024	67,779	15,230	22.4	519.25
As of March 31, 2023	68,149	15,219	22.3	519.06

Reference: Shareholders' equity amounted to 15,176 million yen as of June 30, 2024 and 15,171 million as of March 31, 2024.

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, 2024	—	6.00	—	6.00	12.00
Fiscal year ending March 31, 2025	—				
Fiscal year ending March 31, 2025 (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, 2025 (April 1, 2024 to March 31, 2025)

(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	59,500	5.4	3,260	28.5	1,600	(6.6)	1,590	(6.1)	785	(8.9)	26.86
Full-year	122,000	5.8	7,450	6.5	4,000	4.4	3,950	3.3	2,000	7.5	68.43

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

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

***Notes**

(1) Significant changes in the scope of consolidation during the period: Yes

Newly added: 2 companies (MEDI LOGI NET Co., Ltd. ,Takeuchi Pharmacy Ltd.)

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.: Yes

2. Other accounting policy changes: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(Note) For details, please see "2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to Quarterly Consolidated Financial Statements (Notes to accounting policy changes)" on pg. 8 of the attached materials.

(4) Number of shares outstanding (common stock)

1. Shares outstanding
(including treasury
stock)

As of June 30, 2024	30,642,600	As of March 31, 2024	30,642,600
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2. Treasury shares
outstanding

As of June 30, 2024	1,414,055	As of March 31, 2024	1,414,055
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3. Period-average shares
outstanding (cumulative
quarterly figures)

Three months ended June 30, 2024	29,228,545	Three months ended June 30, 2023	30,178,545
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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).

*Review by a certified public accountant or auditing firm of the attached quarterly consolidated financial statements: None

*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

In the three months ended June 30, 2024, the number of prescriptions filled increased in the Community Pharmacy Business, despite an absence of boost from the outbreak of multiple respiratory infections seen in the previous fiscal year, due to contributions from new pharmacies opened in the previous fiscal year and those acquired through M&A, digitalization initiatives including the use of the Tsunagaru Pharmacy official LINE account to send and receive prescriptions, and post-dispensing patient follow-up. In the Pharmaceutical Network Business, the number of pharmaceutical network affiliates exceeded 10,000, backed by a steady increase in new network affiliates. As a result, net sales amounted to 29,419 million yen (+6.4% YoY), operating profit 468 million yen (+3.7% YoY), ordinary profit 468 million yen (+14.2% YoY), and profit attributable to owners of parent 170 million yen (+15.1% YoY).

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 are committed to providing value throughout the entire pharmaceutical supply chain. To this end, we operate community pharmacies, support pharmacy management through our pharmaceutical networks, manufacture and market pharmaceuticals, and support pharmacies transition into family pharmacies using the Tsunagaru Pharmacy service.

In the Community Pharmacy Business, the number of prescriptions filled increased despite the absence of boost from multiple respiratory infection outbreaks seen in the previous fiscal year, owing to contributions from new pharmacies opened in the previous fiscal year and those acquired through M&A, digitalization initiatives including the use of Tsunagaru Pharmacy official LINE account to send and receive prescriptions, and post-dispensing patient follow-up. In the three months ended June 30, 2024, we opened six community pharmacies, including four in medical malls, and acquired one community pharmacy through M&A, while closing or transferring six. As of June 30, 2024, we had 451 community pharmacies, one care plan center, and nine drug/cosmetics stores.

In the Pharmaceutical Network Business, new network affiliates steadily increased thanks to our efforts to expand services, including a service for sharing pharmaceutical inventory information on a regional basis and various training programs. As of June 30, 2024, pharmaceutical network affiliates totaled 10,178, up 422 from March 31, 2024, consisting of 451 Group pharmacies and 9,727 general affiliates.

In the Manufacture and Market Pharmaceutical Business, as of June 30, 2024, the Group offered 113 products representing 49 different active pharmaceutical ingredients (APIs) (shipments of six products representing three APIs were under adjustment) In the three months ended June 30, 2024, new partner pharmacies steadily increased, with the total number of partner pharmacies reaching 5,171 as of June 30, 2024, up 1,529 year-on-year.

In the Digital Shift Business, the number of pharmacies that have adopted the Group's services firmly grew against a backdrop of increased needs to respond to the 2024 Dispensing Fee Revisions, totaling 5,217 as of June 2024 (up 535 from March 31, 2024).

As a result, segment sales for the three months ended June 30, 2024 were 28,029 million yen (+6.3% YoY) and operating profit was 1,061 million yen (-1.5% YoY). The decline in profit was because we included preparatory expenses for the Distribution Business slated to start operations in October in this segment.

2) Leasing and Facility-related Segment

In the Leasing and Facility-related Segment, sales amounted to 942 million yen (+17.8% YoY) and operating profit was 56 million yen (+145.5% YoY), reflecting an increase in orders for construction services and the revision of advertising expenses for the Wisteria serviced residence for the elderly.

As of June 30, 2024, Wisteria Senri-Chuo had an occupancy rate of 58.5% (48 out of 82 units occupied), and Wisteria Minami-Ichijo an occupancy rate of 75.9% (88 out of 116 units occupied). The overall occupancy rate at the five serviced residences for the elderly stood at 82.3%. 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, sales decreased year-on-year due to a decline in the number of facility users, but the operating loss narrowed owing to improved gross profit margin, attributed to the revision of contract unit price in the previous fiscal year. As a result, segment sales were 586 million yen (-0.7% YoY), and the operating loss was 2 million yen (loss of 14 million yen in the same period of the previous fiscal year).

4) Other Segment

In the Other Segment, the Group provides home-visit nursing care services. Segment sales amounted to 85 million yen (+9.1% YoY), and the operating loss narrowed to 7 million yen (from a loss of 8 million yen in the same period of the previous fiscal year), due in part to an increase in the number of home visits.

(2) Overview of Financial Position

As of June 30, 2024, total assets amounted to 67,779 million yen, a decrease of 370 million yen from March 31, 2024.

Current assets were 20,016 million yen, down 756 million yen from March 31, 2024. This was largely due to a decline in cash and deposits, despite an increase in merchandise.

Non-current assets were 47,762 million yen, up 386 million yen from March 31, 2024. This mainly reflected increases in buildings and structures, net and guarantee deposits, offsetting decreases in goodwill and deferred tax assets.

Total liabilities were 52,548 million yen, down 381 million yen from March 31, 2024. Current liabilities were 23,918 million yen, up 704 million yen from March 31, 2024, primarily due to an increase in accounts payable – trade, despite a decrease in income taxes payable. Non-current liabilities were 28,630 million yen, down 1,086 million yen from March 31, 2024, mainly reflecting a decrease in long-term borrowings.

Net assets totaled 15,230 million yen, up 11 million yen from March 31, 2024.

(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, 2025, which were announced on May 10, 2024.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended March 31, 2024 (as of March 31, 2024)	Three months ended June 30, 2024 (as of June 30, 2024)
Assets		
Current assets		
Cash and deposits	8,273	6,723
Accounts receivable - trade	4,239	3,977
Unearned revenue from sale of accounts receivable	1,078	1,082
Purchased receivables - dispensing fees	423	418
Merchandise	5,404	6,234
Raw materials	16	15
Work in process	38	35
Supplies	81	92
Other	1,231	1,452
Allowance for doubtful accounts	(14)	(14)
Total current assets	20,773	20,016
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,996	13,282
Land	9,290	9,296
Construction in progress	325	314
Other	5,723	5,856
Total property, plant and equipment	28,336	28,751
Intangible assets		
Goodwill	10,613	10,463
Software	594	603
Other	73	71
Total intangible assets	11,281	11,139
Investments and other assets		
Investment securities	184	191
Guarantee deposits	3,419	3,660
Deferred tax assets	3,339	3,160
Other	835	879
Allowance for doubtful accounts	(19)	(19)
Total investments and other assets	7,759	7,872
Total non-current assets	47,376	47,762
Total assets	68,149	67,779

(Millions of yen)

	Fiscal year ended March 31, 2024 (as of March 31, 2024)	Three months ended June 30, 2024 (as of June 30, 2024)
Liabilities		
Current liabilities		
Accounts payable – trade	10,935	12,304
Short-term borrowings	588	1,421
Current portion of long-term borrowings	5,122	4,856
Income taxes payable	999	114
Provision for bonuses	1,689	931
Provision for bonuses for directors (and other officers)	86	93
Other	3,791	4,195
Total current liabilities	23,213	23,918
Non-current liabilities		
Long-term borrowings	18,309	17,189
Provision for retirement benefits for directors (and other officers)	691	697
Provision for share awards for directors (and other officers)	278	273
Retirement benefit liability	4,534	4,630
Other	5,902	5,838
Total non-current liabilities	29,716	28,630
Total liabilities	52,930	52,548
Net assets		
Shareholders' equity		
Share capital	2,128	2,128
Capital surplus	937	946
Retained earnings	13,100	13,094
Treasury shares	(882)	(891)
Total shareholders' equity	15,284	15,277
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19	24
Deferred gains or losses on hedges	2	3
Remeasurements of defined benefit plans	(134)	(127)
Total accumulated other comprehensive income	(112)	(100)
Non-controlling interests	47	53
Total net assets	15,219	15,230
Total liabilities and net assets	68,149	67,779

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

Consolidated Statement of Income

	(Millions of yen)	
	Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)	Three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)
Net sales	27,656	29,419
Cost of sales	16,223	17,145
Gross profit	11,433	12,274
Selling, general and administrative expenses	10,981	11,806
Operating profit	451	468
Non-operating income		
Interest and dividend income	2	3
Outsourcing service income	16	16
Rental income from facilities	30	32
Subsidy income	6	20
Miscellaneous income	18	20
Total non-operating income	74	93
Non-operating expenses		
Loss on sale of receivables	14	20
Interest expenses	93	65
Miscellaneous losses	7	8
Total non-operating expenses	115	93
Ordinary profit	410	468
Extraordinary income		
Gain on sale of non-current assets	—	0
Gain on sale of businesses	—	31
Total extraordinary income	—	31
Extraordinary losses		
Loss on retirement of non-current assets	0	4
Loss on store closings	1	3
Other	0	2
Total extraordinary losses	2	10
Profit before income taxes	407	488
Income taxes - current	102	107
Income taxes - deferred	154	204
Total income taxes	256	311
Profit	151	176
Profit (loss) attributable to non-controlling interests	2	6
Profit (loss) attributable to owners of parent	148	170

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)	Three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)
Profit	151	176
Other comprehensive income		
Valuation difference on available-for-sale securities	6	4
Deferred gains or losses on hedges	(1)	0
Remeasurements of defined benefit plans, net of tax	6	6
Total other comprehensive income	11	12
Comprehensive income	162	189
(Breakdown)		
Comprehensive income attributable to owners of parent	159	183
Comprehensive income attributable to non-controlling interests ^非	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.

(Notes to accounting policy changes)

(Application of "Accounting Standard for Current Income Taxes")

From the beginning of the three months ended June 30, 2024, the Group has applied the "Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022; hereafter, the "2022 Revised Accounting Standard").

Regarding revisions related to the classification of corporate taxes (taxes on other comprehensive income), the Group complies with the transitional measures prescribed in the proviso to Paragraph 20-3 of the 2022 Revised Accounting Standard and the proviso to Paragraph 65-2 (2) of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022; hereafter, the "2022 Revised Guidance"). This change in accounting policy has no impact on the quarterly consolidated financial statements.

Further, from the beginning of the three months under review, the Group has applied the 2022 Revised Guidance for revisions related to the treatment in the consolidated financial statements of the gains or losses on the sale of shares in subsidiaries, etc. resulting from intra-group transactions, where such gains or losses can be deferred for tax purposes. This change in accounting policy has been applied retrospectively to the quarterly and full-year consolidated financial statements for the previous fiscal year. This change, however, has no impact on the quarterly and full-year consolidated financial statements for the previous fiscal year.

(Notes to segment information, etc.)

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

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.

II. Three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)

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	28,017	731	585	85	29,419	—	29,419
Intersegment sales or transfers	12	211	0	—	224	(224)	—
Total	28,029	942	586	85	29,643	(224)	29,419
Segment profit (loss)	1,061	56	(2)	(7)	1,107	(639)	468

Notes: 1. The negative 639 million yen adjustment to segment profit (loss) includes 51 million yen in elimination of intersegment transactions and 690 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.

(Notes to the statement of cash flows)

We have not prepared a consolidated statement of cash flows for the three months ended June 30, 2024. Depreciation (including amortization of intangible assets excluding goodwill) and amortization of goodwill for the said period are as follows.

	Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)	Three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)
Depreciation and amortization	472 Millions of yen	523 Millions of yen
Amortization of goodwill	278 Millions of yen	286 Millions of yen