

% of total	94.5%	94.4%	95.1%	93.9%	94.7%	94.6%	94.8%	94.2%	94.6%	95.2%
Leasing and Facility-related	794	879	775	1,046	800	887	873	1,051	942	787
YoY	7.4%	10.3%	-16.2%	20.9%	0.8%	0.9%	12.6%	0.5%	17.8%	-11.3%
% of total	3.0%	3.2%	2.7%	3.7%	2.9%	3.1%	2.9%	3.6%	3.2%	2.6%
Meal Catering	573	562	566	588	590	599	592	579	586	591
YoY	-2.2%	-3.1%	-3.4%	3.2%	3.0%	6.6%	4.6%	-1.5%	-0.7%	-1.3%
% of total	2.2%	2.1%	2.0%	2.1%	2.1%	2.1%	2.0%	2.0%	2.0%	1.9%
Other	77	74	77	76	78	77	82	77	85	89
YoY	4.1%	-5.1%	-3.8%	4.1%	1.3%	4.1%	6.5%	1.3%	9.0%	15.6%
% 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	-190	-222	-167	-358	-168	-168	-174	-318	-224	-170
Operating profit	348	751	1,245	819	451	1,261	1,357	763	468	559
YoY	-47.8%	-37.2%	3.7%	3.8%	29.6%	67.9%	9.0%	-6.8%	3.8%	-55.7%
Community Pharmacy Network	1,014	1,370	1,915	1,588	1,077	1,870	2,018	1,468	1,061	1,180
YoY	-15.6%	-18.6%	7.7%	9.2%	6.2%	36.5%	5.4%	-7.6%	-1.5%	-36.9%
Operating profit margin	4.0%	5.3%	7.0%	6.0%	4.1%	6.8%	7.1%	5.3%	3.8%	4.1%
Leasing and Facility-related	-43	-22	-32	5	22	47	60	29	56	43
YoY	-	-	-	-	-	-	-	480.0%	154.5%	-8.5%
Operating profit margin	-	-	-	-	2.8%	5.3%	6.9%	2.8%	5.9%	5.5%
Meal Catering	-11	-22	-22	-10	-14	-9	-1	-19	-2	-5
YoY	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-	-	-
Other	-2	-8	-4	-8	-8	-12	-10	-13	-7	-5
YoY	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-	-	-	-	-	-	-	-	-	-
Segment profit adjustments	-608	-567	-612	-755	-626	-635	-709	-701	-639	-654

Source: Shared Research based on company data

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

Number of prescriptions filled and price per prescription (Community Pharmacy business, all-store basis)

	FY03/22				FY03/23				FY03/24				FY03/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Price per prescription	10,177	10,254	10,308	10,410	10,041	10,061	10,173	10,235	9,871	10,033	10,070	10,141	10,027	10,228
YoY	-6.9%	-4.0%	-3.0%	-2.3%	-1.3%	-1.9%	-1.3%	-1.7%	-1.7%	-0.3%	-1.0%	-0.9%	1.6%	1.9%
Drug fee	7,742	7,819	7,882	7,984	7,620	7,634	7,733	7,789	7,526	7,687	7,709	7,773	7,640	7,828
Technical fee	2,435	2,435	2,426	2,426	2,421	2,427	2,440	2,446	2,345	2,346	2,361	2,368	2,387	2,400
Number of prescriptions filled('000)	2,185	4,367	6,625	8,746	2,230	4,517	6,828	9,088	2,379	4,777	7,266	9,640	2,481	4,947
YoY	11.3%	8.0%	6.6%	5.5%	2.1%	3.4%	3.1%	3.9%	6.7%	5.8%	6.4%	6.1%	4.3%	3.6%
Dispensing fees	22,238	44,784	68,296	91,056	22,399	45,448	69,472	93,029	23,484	47,935	73,168	97,765	24,878	50,600
YoY	3.5%	3.7%	3.4%	3.1%	0.7%	1.5%	1.7%	2.2%	4.8%	5.5%	5.3%	5.1%	5.9%	5.6%

Source: Shared Research based on company materials

Number of network members by region

Area	Directly operated pharmacies	Affiliates	Total
Hokkaido	123	229	352
Tohoku	31	722	753
Kanto and Koshinetsu	106	3,183	3,289
Tokai and Hokuriku	44	1,664	1,708
Kinki	55	1,674	1,729
Chugoku and Shikoku	22	997	1,019
Kyushu and Okinawa	71	1,514	1,585
Total	452	9,983	10,435

Source: Shared Research based on company data (as of September 30, 2024)

1H FY03/25 results (out November 8, 2024)

Overview

1H FY03/25 (April–September 2024) earnings results

- Sales: JPY59.8bn (+5.8% YoY)
- Operating profit: JPY1.0bn (-40.0% YoY)
- Recurring profit: JPY1.0bn (-39.7% YoY)
- Net income attributable to owners of the parent: JPY207mn (-76.0% YoY)

Operating results and business conditions

The Japanese economy saw a gradual recovery in 1H, driven by improved employment and income. However, economic conditions remain uncertain due to concerns over persistent price increases and potential revisions to financial policies. Sales rose 5.8% YoY in 1H FY03/25.

Operating profit declined 40.0% YoY, EBITDA reached JPY2.7bn (-16.9% YoY), recurring profit decreased by 39.7% YoY, and net income attributable to owners of the parent fell 76.0%. Profit in the Community Pharmacy Network business declined YoY due to a decrease in prescriptions filled at existing stores, higher medicine procurement costs, and preparation costs for the new logistics business.

Following the revision of the company's 1H earnings forecast on October 31, 2024, the progress rate reached 100.0% for sales, operating profit, recurring profit, and net income. The rate of progress toward the company's full-year earnings forecast was 49.0% for sales, 34.2% for operating profit, 34.0% for recurring profit, and 16.6% for net income.

Segment results

1H FY03/25 results by segment were as follows.

Community Pharmacy Network

- Segment sales: JPY57.1bn (+6.2% YoY)
Segment profit: JPY2.2bn (-24.0% 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

Dispensing fees exceeded 1H FY03/24 levels in 1H FY03/25, driven by new stores developed and acquired through M&A in FY03/24, the use of digital technologies like the LINE messaging app for prescription transmission, and improved patient follow-up during medication periods. During the period under review, the company opened 11 community pharmacies, acquired one store, and closed or transferred 10 stores. As of end-September 2024, the company operated 452 community pharmacies, one in-home care plan support center, and nine cosmetics/drug stores.

Pharmaceuticals Network

Service improvements supported the increase in the number of new network affiliates. As of end-September 2024, pharmaceutical network affiliates totaled 10,435 (+679 from end-FY03/24), comprising 452 directly operated pharmacies and 9,983 affiliates.

Manufacture and Market Pharmaceuticals

The company offered 113 products (49 ingredients) as of end-September 2024. The number of new partner pharmacies steadily grew, with the total number of partner pharmacies reaching 5,700 (+1,806 YoY) as of end-September 2024.

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. The number of new stores using the service steadily grew in response to increased demand to address the NHI drug price revision. As of end-September 2024, the number of pharmacies using the service was 5,576 (+894 from end-FY03/24).

Leasing and Facility-related

- Segment sales: JPY1.7bn (+2.5% YoY)
- Segment profit: JPY99mn (+43.5% YoY)

Operating conditions of serviced elderly housing facilities

Segment sales grew 2.5% YoY, driven by an increase in construction orders. The segment profit was attributed to the review of advertising expenses for the Wisteria serviced residence for the elderly. As of end-September 2024, occupancy rates were stable at three of the five properties (the total occupancy rate at the five serviced residences for the elderly stood at 83.7%). For the remaining two properties, Wisteria Senri-Chuo reported an occupancy rate of 61.0% (with 50 out of 82 units occupied), and Wisteria Minami Ichijo reported an occupancy rate of 75.0% (with 87 out of 116 units occupied). On October 1, 2024, the company transferred its Wisteria Senri-Chuo business and sold related fixed assets.

Meal Catering

Segment sales: JPY1.2bn (-1.0% YoY)

- Segment loss: JPY7mn (versus a loss of JPY23mn in 1H FY03/24)

Lower sales but a narrowed operating loss

Sales declined due to the closure of unprofitable facilities in 1H FY03/24. However, a review of the contract unit price improved the gross profit margin, which in turn narrowed the operating loss.

Other (mostly home-visit nursing care)

- Segment sales: JPY174mn (+12.3% YoY)
- Segment loss: JPY12mn (versus a loss of JPY20mn in 1H FY03/24)

Company forecast for FY03/25

Recent performance and FY03/25 company forecast

(JPYmn)	FY03/23			FY03/24			FY03/25		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	53,340	56,211	109,551	56,461	58,900	115,361	59,761	62,239	122,000
YoY	2.2%	3.1%	2.7%	5.9%	4.8%	5.3%	5.8%	5.7%	5.8%
Cost of sales	31,024	32,606	63,630	31,024	36,412	67,436	35,097		
Gross profit	22,315	23,606	45,921	23,453	24,472	47,925	24,664		
Gross profit margin	41.8%	42.0%	41.9%	41.5%	41.5%	41.5%	41.3%		
SG&A expenses	21,215	21,543	42,758	21,740	22,353	44,093	23,636		
SG&A ratio	39.8%	38.3%	39.0%	38.5%	38.0%	38.2%	39.6%		
Operating profit	1,099	2,064	3,163	1,712	2,120	3,832	1,027	1,973	3,000
YoY	-41.0%	3.7%	-17.9%	55.8%	2.7%	21.2%	-40.0%	-6.9%	-21.7%
Operating profit margin	2.1%	3.7%	2.9%	3.0%	3.6%	3.3%	1.7%	3.2%	2.5%
Recurring profit	1,242	2,113	3,355	1,692	2,133	3,825	1,020	1,980	3,000
YoY	-44.4%	1.7%	-22.2%	36.2%	0.9%	14.0%	-39.7%	-7.2%	-21.6%
Recurring profit margin	2.3%	3.8%	3.1%	3.0%	3.6%	3.3%	1.7%	3.2%	2.5%
Net income	502	1,108	1,610	861	999	1,860	207	1,043	1,250
YoY	-64.9%	15.1%	-32.7%	71.5%	-9.8%	15.5%	-76.0%	4.4%	-32.8%
Net margin	0.9%	2.0%	1.5%	1.5%	1.7%	1.6%	0.3%	1.7%	1.0%

Source: Shared Research based on company data

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

The company revised its full-year FY03/25 earnings forecast on October 31, 2024, as below. The company maintained its forecast with the announcement of 1H results on November 8, 2024.

- Sales: JPY122.0bn (no change from the previous forecast)
- EBITDA: JPY6.4bn (down JPY1.0bn from the previous forecast JPY7.5bn)
- Operating profit: JPY3.0bn (down JPY1.0bn from JPY4.0bn)
- Recurring profit: JPY3.0bn (down JPY950mn from JPY4.0bn)
- Net income attributable to owners of the parent: JPY1.3bn (down JPY750mn from 2.0bn)
- Net income per share: JPY42.77 (from the previous forecast JPY68.43, JPY61.83 in FY03/24)

Reasons for revision

The company anticipates that 1H FY03/25 sales will exceed its prior forecast. However, profits are expected to fall short due to lower-than-expected number of prescriptions filled in the Community Pharmacy business at existing stores and rising pharmaceutical procurement costs.

For the full-year forecast, while sales are projected to align with prior expectations, profit estimates have been revised downward. This adjustment reflects the 1H FY03/25 revision and ongoing uncertainties around the number of prescriptions filled in 2H.

Performance outlook

Following the revisions to NHI drug prices and dispensing fees in 2024, pharmacies will aim to enhance interpersonal interactions while navigating a challenging business environment. The company anticipates continued demand within the pharmacy industry for operational efficiency and management stability, as well as increased expectations for the company's network.

For the Community Pharmacy Network segment, the company has established specific business strategies for each area of operation. In the Community Pharmacy business, it will enhance interpersonal services at dispensing pharmacies and support the digitalization of healthcare, including promoting the use of Individual Number Cards as health insurance cards.

In the Pharmaceuticals Network business, the company intends to expand its service offerings, acquire new network affiliates, and improve the efficiency of pharmaceutical distribution. In the Manufacture and Market Pharmaceuticals business, efforts will be concentrated on ensuring a stable supply and broadening the customer base. For the Digital Shift business, the focus will be on increasing the adoption of the official LINE account "Tsunagaru (Connected) Pharmacy" and enhancing new services.

In April 2024, Medical System Network established a new subsidiary mainly engaged in pharmaceutical distribution, but expects costs to precede any profits in the short term.

Forecast by key segment

- ▶ Community Pharmacy Network segment: sales of JPY116.4bn (+5.9% YoY), segment profit of JPY5.5bn (-14.0% YoY). The company also set numerical targets for the three subdivisions that support the Community Pharmacy business:
 - 1) Pharmaceutical Network business: 10,756 network affiliates (+1,000 YoY)
 - 2) Manufacture and Market Pharmaceuticals business: 7,000 partner pharmacies (+2,002 YoY)
 - 3) Digital Shift business: 5,700 pharmacies adopting the company's service (+1,018 stores YoY) and 1.4mn registered users (+350,000 YoY).
- ▶ Other three segments (total for Leasing and Facility-related, Meal Catering, and Home-visit Nursing Care): sales of JPY6.2bn (-1.4% YoY), segment profit of JPY200mn (+285.7% YoY).
- ▶ Adjustments: JPY548mn for sales, JPY2.7bn for segment profit.

Priority measures

In FY03/25, the company aims to take measures in anticipation of changes in its business environment and advance specific initiatives to support inter-business collaboration as it heads toward FY03/26, the final year of its sixth medium-term management plan. For example, in the Community Pharmacy Network segment, the company plans to enhance pharmacy functions in the Community Pharmacy business and strengthen inter-business collaboration in the three supporting businesses mainly by introducing the inventory management system LINCLE. In the Leasing and Equipment-related segment and other businesses, it intends to take measures to address inflationary pressures and review unprofitable operations.

As part of initiatives in new growth areas, the company plans to establish the pharmaceutical logistics company MediLogiNet as a new business, and make investments centered on core systems for its pharmaceutical network and customer management systems.

Medical fee revisions

In the NHI drug price and dispensing fee revisions of April 2024, drug prices were reduced by 0.97% on average, while dispensing fees were increased by 0.16% and by another 0.28% as part of the government's measures to propel wage increases. To ease the impact on medical institutions and pharmacies, the implementation dates for these revisions have been staggered, with the drug price revision taking effect on April 1 and the medical fee revision taking effect on June 1.

The basic policy for the revision takes into account inflation, wage increases, management situations, the need for securing personnel, and the impact on patient and insurance burdens. Through the revision, the MHLW aims to address challenges surrounding healthcare by establishing a social security system for all generations; strengthening coordination between medical, nursing care, and disability welfare services; and responding to emerging infectious diseases. For more details, see "FY2024 medical fee revisions" in the "Market and valuation" section.

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