Coverage initiated on: 2018-05-02
Last update: 2026-02-07

4350

Medical System Network

Company Name
Medical System Network Co., Ltd.

Head Office
24-3 Kitajujo-Nishi, Chuo-ku, Sapporo, Hokkaido

Listed On
Tokyo Stock Exchange, Standard Market

Fiscal Year-End
Mar

Established
1999-09-16

Exchange Listing
2002-03-18

Shared Research Inc. has produced this report by request from the company discussed in the report. The aim is to provide an “owner’s manual” to investors. We at Shared Research Inc. make every effort to provide an accurate, objective, and neutral analysis. In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such. Our views are ours where stated. We do not try to convince or influence, only inform. We appreciate your suggestions and feedback. Write to us at sr_inquiries@sharedresearch.jp.

Research Coverage Report by **Shared Research Inc.**

Table of Contents

Executive summary	**4**
Business overview	4
Trends and outlook	4
Strengths and weaknesses	5
Key financial data	**6**
Trends and outlook	**7**
Quarterly trends and results	**7**
Cumulative Q3 FY03/26 results (out February 6, 2026)	9
Overview	9
Segment results	9
Company forecast for FY03/26	11
Medium-term management plan	12
Long-term vision, Machino Akari Vision 2035 (out October 24, 2025)	12
The sixth medium-term management plan (out May 6, 2022)	13
Review of the fifth medium-term management plan	15
Business	**17**
Business model	**17**
Overview of business segments	17
Community Pharmacy Network segment	18
Community Pharmacy business	18
Pharmaceutical Network business	20
Manufacture and Market Pharmaceuticals business	23
Digital Shift business (established in FY03/21)	24
Leasing and Facility-related business	25
Meal Catering	26
Other	27
Market and value chain	**28**
Dispensing pharmacy market	28
Role of dispensing pharmacies in community-based integrated care system: transforming to family, regional pharmacies	29
Industry peers (dispensing pharmacy chains)	**33**
Strengths and weaknesses	**35**
Strengths	35
Weaknesses	36
Historical performance and financial statements	**37**
Income statement	**37**

Balance sheet	**38**
Assets	38
Liabilities	39
Net assets	39
Cash flow statement	**40**
Cash flows from operating activities	40
Cash flows from investing activities	40
Cash flows from financing activities	41
Historical performance	**41**
1H FY03/26 results (out November 7, 2025)	41
Overview	41
Segment results	42
Q1 FY03/26 results (out August 8, 2025)	43
Overview	43
Segment results	43
Full-year FY03/25 results (out May 9, 2025)	45
Overview	45
Segment results	45
Cumulative Q3 FY03/25 results (out February 7, 2025)	47
Overview	47
Segment results	47
News and topics	**50**
Other information	**52**
History	52
Corporate governance and top management	52
Corporate governance	52
Top management	54
Dividend policy	54
Major shareholders	54
Employees	54

Executive summary

Business overview

Medical System Network (TSE Standard: 4350) primarily focuses on managing dispensing pharmacies and offering pharmacy support services. Alongside operating its Nanohana Pharmacy chain, the company delivers diverse support services to member medical institutions belonging to its pharmaceutical network, including both directly operated and affiliated pharmacies. These services encompass pharmaceutical procurement and pharmacist training. As its core service, the company specializes in comprehensive pharmaceutical supply chain management, covering aspects such as wholesale price determination, drug ordering, and payment settlement. As of end-March 2025, its pharmaceutical network had 11,003 members (+1,247 from end-March 2024), consisting of 457 directly operated pharmacies and 10,546 affiliated pharmacies.

The company has four business segments: Community Pharmacy Network (accounting for 95.0% of sales in FY03/25; based on sales to external customers), Leasing and Facility-related (2.8%), Meal Catering (1.9%), and Other (0.3%). Almost all segment profit (before adjustment) is generated by the Community Pharmacy Network segment.

The Community Pharmacy Network segment is a new mainstay segment that has been disclosed since FY03/20. It was formed through the integration of several former businesses, and presently consists of five business divisions. In addition to the Community Pharmacy business, which operates dispensing pharmacies, the segment includes four businesses that support the operation of dispensing pharmacies: the Pharmaceutical Network business, the Manufacture and Market Pharmaceuticals business, the Digital Shift business added from FY03/21, and the Pharmaceutical Logistics business added from FY03/25. The company discloses the operating conditions for each business within the segment, but does not disclose a sales and profit breakdown by business.

The Community Pharmacy business within the Community Pharmacy Network segment mainly operates the Nanohana Pharmacy chain, which is directly managed by the group. The majority of dispensing pharmacies in Japan are medium-sized regional pharmacy chains or small family-run pharmacies. The dispensing pharmacies operated by Medical System Network are generally located near large medical institutions or in medical malls or complexes that integrate multiple clinics and hospitals.

According to the Ministry of Health, Labour and Welfare, there were 63,203 dispensing pharmacies in Japan in FY2024. Dispensing pharmacies directly operated by Medical System Network accounted for 0.7% of this market. Major dispensing pharmacy chains, including Medical System Network, each hold less than a 5% share based on pharmacy numbers. Since FY03/21, Medical System Network's pharmaceutical network affiliates (including both directly operated pharmacies and affiliates) have collectively accounted for over 10% of the domestic market, rising to approximately 17% in FY03/25.

The businesses supporting the Community Pharmacy business within the Community Pharmacy Network segment are as follows: By acting as an intermediary in pharmaceutical transactions between pharmacies, hospitals, and drug wholesalers, the Pharmaceutical Network business contributes to efficiency gains in the drug distribution process and provides comprehensive management support services to dispensing pharmacies. In the Manufacture and Market Pharmaceuticals business, consolidated subsidiary Feldsenf Pharma Co., Ltd. manufactures and markets generic pharmaceuticals. In the Digital Shift Business, consolidated subsidiary PharmaShift Co., Ltd. aims to build a new pharmaceutical platform by supporting pharmacies' digital transformation, and is conducting family pharmacy support services using tools such as LINE.

The Leasing and Facility-related segment develops locations for pharmacies, rents out buildings, and operates its own four serviced housing facilities for the elderly. The Meal Catering segment is a contracted food service business providing meals to hospitals and welfare facilities, and the Other segment is a home-visit nursing service that supports at-home care.

Trends and outlook

In FY03/25, sales were JPY122.4bn (+6.1% YoY), EBITDA was JPY6.6bn (-6.1% YoY), operating profit was JPY3.2bn (-17.7% YoY), recurring profit was JPY3.2bn (-17.3% YoY), and net income attributable to owners of the parent was JPY1.3bn (-32.2% YoY). The mainstay Community Pharmacy Network sales was JPY117.0bn (+6.4% YoY), driving the

overall performance. Profit declined due to higher procurement and labor costs stemming from wage hikes, as well as preparation expenses for the new Pharmaceutical Logistics business launched in FY03/25.

For FY03/26, Medical System Network forecasts sales of JPY125.5bn (+2.5% YoY), EBITDA of JPY6.9bn (+4.9% YoY), operating profit of JPY3.4bn (+7.8%), recurring profit of JPY3.2bn (+1.2%), and net income attributable to owners of the parent of JPY1.3bn (+3.0%). As of the cumulative Q3 earnings announcement on February 6, 2026, the company maintained its full-year forecast. The company is continuing wage hikes as in FY03/25 and aims to increase prescription volume in the Community Pharmacy business, expand its network affiliates, and grow generic drug sales to achieve higher sales and profit.

When reporting FY03/22 results, Medical System Network also released its sixth medium-term management plan spanning FY03/23 through FY03/26. However, the company is unlikely to achieve the FY03/26 targets, as indicated in the FY03/26 forecast. In response to the current environment, the company discussed a new long-term vision to enhance corporate value and drive sustainable growth. The company released its long-term vision on October 24, 2025. It is formulating its seventh medium-term management plan based on this vision, and plans to release the plan in May 2026.

Strengths and weaknesses

Strengths: a management support network service available to small and mid-tier pharmacies; certified pharmacist training support system that appeals to pharmacies struggling with the pharmacist shortage; and regional dispensing pharmacy strategy in line with administrative guidance. Weaknesses: potential conflict of interest between M&A-driven pharmacy chain expansion and support services for small pharmacies; low profit margins for dispensing pharmacies without drugstore function; and relatively small assets being a disadvantage in acquisitions. (See the Strengths and weaknesses section for details.)

Key financial data

Income statement	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25	FY03/26
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Sales	**87,715**	**88,865**	**93,977**	**98,232**	**105,241**	**104,257**	**106,685**	**109,551**	**115,361**	**122,387**	**125,500**
YoY	16.1%	1.3%	5.8%	4.5%	7.1%	-0.9%	2.3%	2.7%	5.3%	6.1%	2.5%
Gross profit	32,801	34,164	36,607	37,271	40,214	42,412	44,429	45,921	47,925	50,736	
YoY	15.2%	4.2%	7.2%	1.8%	7.9%	5.5%	4.8%	3.4%	4.4%	5.9%	
Gross profit margin	37.4%	38.4%	39.0%	37.9%	38.2%	40.7%	41.6%	41.9%	41.5%	41.5%	
Operating profit	**3,783**	**2,113**	**3,163**	**1,428**	**1,615**	**3,429**	**3,852**	**3,163**	**3,832**	**3,154**	**3,400**
YoY	43.2%	-44.1%	49.7%	-54.9%	13.1%	112.3%	12.3%	-17.9%	21.2%	-17.7%	7.8%
Operating profit margin	4.3%	2.4%	3.4%	1.5%	1.5%	3.3%	3.6%	2.9%	3.3%	2.6%	2.7%
Recurring profit	**3,860**	**2,109**	**3,250**	**1,501**	**1,560**	**3,479**	**4,313**	**3,355**	**3,825**	**3,162**	**3,200**
YoY	52.0%	-45.4%	54.1%	-53.8%	3.9%	123.0%	24.0%	-22.2%	14.0%	-17.3%	1.2%
Recurring profit margin	4.4%	2.4%	3.5%	1.5%	1.5%	3.3%	4.0%	3.1%	3.3%	2.6%	2.5%
Net income	**1,720**	**571**	**1,022**	**462**	**-895**	**2,198**	**2,394**	**1,610**	**1,860**	**1,262**	**1,300**
YoY	94.4%	-66.8%	79.0%	-54.8%	-	-	8.9%	-32.7%	15.5%	-32.2%	3.0%
Net margin	2.0%	0.6%	1.1%	0.5%	-	2.1%	2.2%	1.5%	1.6%	1.0%	1.0%
Per-share data											
Shares issued at year-end (000 shares)	29,890	29,890	30,523	30,643	30,643	30,643	30,643	30,643	30,643	30,643	
EPS	60.1	19.3	34.5	15.3	-29.5	72.5	79.4	53.4	61.9	43.2	44.5
EPS (fully diluted)	-	-	34.3	15.0	-	-	-	-	-	-	
Dividend per share	9.5	10.0	10.0	10.0	10.0	10.0	12.0	12.0	12.0	12.0	12.0
Book value per share	334.9	345.3	351.4	354.8	310.4	370.2	439.7	478.9	519.1	556.3	
Balance sheet (JPYmn)											
Cash and cash equivalents	2,081	2,252	10,201	11,703	11,722	10,118	8,201	8,141	8,273	8,461	
Total current assets	**10,783**	**11,098**	**18,736**	**21,055**	**20,578**	**19,313**	**18,701**	**20,265**	**20,773**	**22,627**	
Tangible fixed assets	20,253	21,246	24,129	25,721	25,126	24,634	24,624	27,060	28,336	28,473	
Investments and other assets	4,329	4,559	4,847	5,922	6,143	6,926	6,848	7,090	7,759	9,578	
Intangible assets	13,481	13,833	15,045	16,235	14,615	13,572	12,767	11,807	11,281	9,908	
Total assets	**48,847**	**50,737**	**62,759**	**68,935**	**66,464**	**64,448**	**62,941**	**66,223**	**68,149**	**70,586**	
Accounts payable	9,525	9,144	9,416	10,198	10,021	9,258	9,680	9,937	10,935	11,480	
Short-term debt	6,910	3,863	7,463	9,158	8,905	10,210	5,935	6,377	6,116	6,637	
Total current liabilities	**21,061**	**16,920**	**21,769**	**23,844**	**23,296**	**25,418**	**20,435**	**21,349**	**23,213**	**24,377**	
Long-term debt	14,859	20,186	26,329	29,739	28,653	22,348	23,631	24,139	23,063	23,152	
Total fixed liabilities	**17,520**	**23,172**	**30,404**	**34,329**	**33,749**	**27,841**	**29,219**	**30,385**	**29,716**	**29,863**	
Total liabilities	**38,581**	**40,092**	**52,174**	**58,173**	**57,045**	**53,260**	**49,654**	**51,735**	**52,930**	**54,241**	
Total net assets	**10,265**	**10,644**	**10,584**	**10,761**	**9,418**	**11,187**	**13,286**	**14,488**	**15,219**	**16,345**	
Total interest-bearing debt	21,769	24,049	33,792	38,897	37,558	32,558	29,566	30,516	29,179	29,789	
Cash flow statement (JPYmn)											
Cash flows from operating activities	6,409	3,084	6,699	2,840	4,232	5,205	4,010	4,973	7,725	4,459	
Cash flows from investing activities	-5,040	-3,909	-6,848	-5,921	-2,383	-1,485	-2,511	-2,114	-3,649	-3,726	
Cash flows from financing activities	-1,792	998	8,050	4,338	-1,687	-5,312	-3,415	-2,918	-3,944	-544	
Financial ratios											
ROA (RP-based)	8.2%	4.2%	5.7%	2.3%	2.3%	5.3%	6.8%	5.2%	5.7%	4.6%	
ROE	21.9%	5.7%	9.8%	4.3%	-8.9%	21.3%	19.6%	11.6%	12.6%	8.0%	
Equity ratio	20.3%	20.1%	16.9%	15.6%	14.2%	17.3%	21.1%	21.8%	22.3%	23.0%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Trends and outlook

Quarterly trends and results

Cumulative	FY03/24				FY03/25				FY03/26			FY03/26	
(JPYmn)	Q1	Q1–Q2	Q1–Q3	Q1-Q4	Q1	Q1–Q2	Q1–Q3	Q1-Q4	Q1	Q1–Q2	Q1–Q3	% of Est.	FY Est.
Sales	27,656	56,461	86,175	115,361	29,419	59,761	91,891	122,387	31,100	63,863	98,680	78.6%	125,500
YoY	5.2%	5.9%	5.2%	5.3%	6.4%	5.8%	6.6%	6.1%	5.7%	6.9%	7.4%		2.5%
Gross profit	11,433	23,453	35,882	47,925	12,274	24,664	38,178	50,736	12,953	26,246	40,161		
YoY	3.4%	5.1%	4.7%	4.4%	7.4%	5.2%	6.4%	5.9%	5.5%	6.4%	5.2%		
Gross profit margin	41.3%	41.5%	41.6%	41.5%	41.7%	41.3%	41.5%	41.5%	41.6%	41.1%	40.7%		
SG&A expenses	10,981	21,740	32,813	44,093	11,806	23,636	35,604	47,582	12,513	24,959	37,788		
YoY	2.5%	2.5%	2.7%	3.1%	7.5%	8.7%	8.5%	7.9%	6.0%	5.6%	6.1%		
SG&A ratio	39.7%	38.5%	38.1%	38.2%	40.1%	39.6%	38.7%	38.9%	40.2%	39.1%	38.3%		
Operating profit	451	1,712	3,069	3,832	468	1,027	2,573	3,154	439	1,286	2,373	69.8%	3,400
YoY	29.6%	55.8%	30.9%	21.2%	3.8%	-40.0%	-16.2%	-17.7%	-6.2%	25.2%	-7.8%		7.8%
Operating profit margin	1.6%	3.0%	3.6%	3.3%	1.6%	1.7%	2.8%	2.6%	1.4%	2.0%	2.4%		2.7%
Recurring profit	410	1,692	3,044	3,825	468	1,020	2,623	3,162	404	1,215	2,255	70.5%	3,200
YoY	4.6%	36.2%	21.8%	14.0%	14.1%	-39.7%	-13.8%	-17.3%	-13.7%	19.1%	-14.0%		1.2%
Recurring profit margin	1.5%	3.0%	3.5%	3.3%	1.6%	1.7%	2.9%	2.6%	1.3%	1.9%	2.3%		2.5%
Net income	148	861	1,693	1,860	170	207	1,445	1,262	78	452	1,010	77.7%	1,300
YoY	62.6%	71.5%	41.7%	15.5%	14.9%	-76.0%	-14.6%	-32.2%	-54.1%	118.4%	-30.1%		3.0%
Net margin	0.5%	1.5%	2.0%	1.6%	0.6%	0.3%	1.6%	1.0%	0.3%	0.7%	1.0%		1.0%
Earnings (quarterly)	**FY03/24**				**FY03/25**				**FY03/26**				
(JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**		
Sales	27,656	28,805	29,714	29,186	29,419	30,342	32,130	30,496	31,100	32,763	34,817		
YoY	5.2%	6.5%	4.1%	5.5%	6.4%	5.3%	8.1%	4.5%	5.7%	8.0%	8.4%		
Gross profit	11,433	12,020	12,429	12,043	12,274	12,390	13,514	12,558	12,953	13,293	13,915		
YoY	3.4%	6.8%	3.8%	3.5%	7.4%	3.1%	8.7%	4.3%	5.5%	7.3%	3.0%		
Gross profit margin	41.3%	41.7%	41.8%	41.3%	41.7%	40.8%	42.1%	41.2%	41.6%	40.6%	40.0%		
SG&A expenses	10,981	10,759	11,073	11,280	11,806	11,830	11,968	11,978	12,513	12,446	12,829		
YoY	2.5%	2.4%	3.2%	4.3%	7.5%	10.0%	8.1%	6.2%	6.0%	5.2%	7.2%		
SG&A ratio	39.7%	37.4%	37.3%	38.6%	40.1%	39.0%	37.2%	39.3%	40.2%	38.0%	36.8%		
Operating profit	451	1,261	1,357	763	468	559	1,546	581	439	847	1,087		
YoY	29.6%	67.9%	9.0%	-6.8%	3.8%	-55.7%	13.9%	-23.9%	-6.2%	51.5%	-29.7%		
Operating profit margin	1.6%	4.4%	4.6%	2.6%	1.6%	1.8%	4.8%	1.9%	1.4%	2.6%	3.1%		
Recurring profit	410	1,282	1,352	781	468	552	1,603	539	404	811	1,040		
YoY	4.6%	50.8%	7.6%	-8.8%	14.1%	-56.9%	18.6%	-31.0%	-13.7%	46.9%	-35.1%		
Recurring profit margin	1.5%	4.5%	4.6%	2.7%	1.6%	1.8%	5.0%	1.8%	1.3%	2.5%	3.0%		
Net income	148	713	832	167	170	37	1,238	-183	78	374	558		
YoY	62.6%	73.5%	20.1%	-59.8%	14.9%	-94.8%	48.8%	-	-54.1%	910.8%	-54.9%		
Net margin	0.5%	2.5%	2.8%	0.6%	0.6%	0.1%	3.9%	-	0.3%	1.1%	1.6%		

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly results by segment

By segment (cumulative)	FY03/24				FY03/25				FY03/26		
(JPYmn)	Q1	Q1–Q2	Q1–Q3	Q1-Q4	Q1	Q1–Q2	Q1–Q3	Q1-Q4	Q1	Q1–Q2	Q1–Q3
Sales	**27,656**	**56,461**	**86,175**	**115,361**	**29,419**	**59,761**	**91,891**	**122,387**	**31,100**	**63,863**	**98,680**
YoY	5.2%	5.9%	5.2%	5.3%	6.4%	5.8%	6.6%	6.1%	5.7%	6.9%	7.4%
Community Pharmacy Network	26,356	53,765	82,105	109,904	28,029	57,074	87,815	116,968	29,850	61,407	94,849
YoY	5.2%	5.9%	5.2%	5.3%	6.3%	6.2%	7.0%	6.4%	6.5%	7.6%	8.0%
% of total	94.7%	94.7%	94.7%	94.6%	94.6%	94.9%	95.0%	95.0%	95.5%	95.7%	95.5%
Leasing and Facility-related	800	1,687	2,560	3,611	942	1,729	2,625	3,468	747	1,457	2,508
YoY	0.8%	0.8%	4.6%	3.3%	17.8%	2.5%	2.5%	-4.0%	-20.7%	-15.7%	-4.5%
% of total	2.9%	3.0%	3.0%	3.1%	3.2%	2.9%	2.8%	2.8%	2.4%	2.3%	2.5%
Meal Catering	590	1,189	1,781	2,360	586	1,177	1,768	2,359	581	1,161	1,735
YoY	3.0%	4.8%	4.7%	3.1%	-0.7%	-1.0%	-0.7%	0.0%	-0.9%	-1.4%	-1.9%
% of total	2.1%	2.1%	2.1%	2.0%	2.0%	2.0%	1.9%	1.9%	1.9%	1.8%	1.7%
Other	78	155	237	314	85	174	261	342	85	169	255
YoY	1.3%	2.6%	3.9%	3.3%	9.0%	12.3%	10.1%	8.9%	0.0%	-2.9%	-2.3%
% of total	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Segment sales adjustments	-168	-336	-510	-828	-224	-394	-578	-751	-165	-331	-668
Operating profit	**451**	**1,712**	**3,069**	**3,832**	**468**	**1,027**	**2,573**	**3,154**	**439**	**1,286**	**2,373**
YoY	29.6%	55.8%	30.9%	21.2%	3.8%	-40.0%	-16.2%	-17.7%	-6.2%	25.2%	-7.8%
Community Pharmacy Network	1,077	2,947	4,965	6,433	1,061	2,241	4,420	5,626	1,065	2,557	4,329
YoY	6.2%	23.6%	15.5%	9.3%	-1.5%	-24.0%	-11.0%	-12.5%	0.4%	14.1%	-2.1%
Operating profit margin	4.1%	5.5%	6.0%	5.9%	3.8%	3.9%	5.0%	4.8%	3.6%	4.2%	4.6%
Leasing and Facility-related	22	69	129	158	56	99	188	190	23	41	129
YoY	-	-	-	-	154.5%	43.5%	45.7%	20.3%	-58.9%	-58.6%	-31.4%

Operating profit margin	2.8% 4.1% 5.0%	4.4%	5.9%	5.7%	7.2%	5.5%	3.1%	2.8%	5.1%			
	Meal Catering	-14	-23	-24	-43	-2	-7	1	10	-3	-8	-9
	YoY	-	-	-	-	-	-	-	-	-	-	-
	Operating profit margin	-	-	-	-	-	-	0.1%	0.4%	-	-	-
	Other	-8	-20	-30	-43	-7	-12	-17	-29	-3	-10	-11
	YoY	-	-	-	-	-	-	-	-	-	-	-
	Operating profit margin	-	-	-	-	-	-	-	-	-	-	-
	Segment profit adjustments	-626	-1,261	-1,970	-2,671	-639	-1,293	-2,019	-2,644	-642	-1,292	-2,064
			FY03/24				FY03/25				FY03/26	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales		**27,656**	**28,805**	**29,714**	**29,186**	**29,419**	**30,342**	**32,130**	**30,496**	**31,100**	**32,763**	**34,817**
	YoY	5.2%	6.5%	4.1%	5.5%	6.4%	5.3%	8.1%	4.5%	5.7%	8.0%	8.4%
	Community Pharmacy Network	26,356	27,409	28,340	27,799	28,029	29,045	30,741	29,153	29,850	31,557	33,442
	YoY	5.2%	6.5%	3.9%	5.6%	6.3%	6.0%	8.5%	4.9%	6.5%	8.6%	8.8%
	% of total	94.7%	94.6%	94.8%	94.2%	94.6%	95.2%	95.1%	95.1%	95.5%	95.8%	95.1%
	Leasing and Facility-related	800	887	873	1,051	942	787	896	843	747	710	1,051
	YoY	0.8%	0.9%	12.6%	0.5%	17.8%	-11.3%	2.6%	-19.8%	-20.7%	-9.8%	17.3%
	% of total	2.9%	3.1%	2.9%	3.6%	3.2%	2.6%	2.8%	2.7%	2.4%	2.2%	3.0%
	Meal Catering	590	599	592	579	586	591	591	591	581	580	574
	YoY	3.0%	6.6%	4.6%	-1.5%	-0.7%	-1.3%	-0.2%	2.1%	-0.9%	-1.9%	-2.9%
	% of total	2.1%	2.1%	2.0%	2.0%	2.0%	1.9%	1.8%	1.9%	1.9%	1.8%	1.6%
	Other	78	77	82	77	85	89	87	81	85	84	86
	YoY	1.3%	4.1%	6.5%	1.3%	9.0%	15.6%	6.1%	5.2%	0.0%	-5.6%	-1.1%
	% of total	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%
	Segment sales adjustments	-168	-168	-174	-318	-224	-170	-184	-173	-165	-166	-337
Operating profit		**451**	**1,261**	**1,357**	**763**	**468**	**559**	**1,546**	**581**	**439**	**847**	**1,087**
	YoY	29.6%	67.9%	9.0%	-6.8%	3.8%	-55.7%	13.9%	-23.9%	-6.2%	51.5%	-29.7%
	Community Pharmacy Network	1,077	1,870	2,018	1,468	1,061	1,180	2,179	1,206	1,065	1,492	1,772
	YoY	6.2%	36.5%	5.4%	-7.6%	-1.5%	-36.9%	8.0%	-17.8%	0.4%	26.4%	-18.7%
	Operating profit margin	4.1%	6.8%	7.1%	5.3%	3.8%	4.1%	7.1%	4.1%	3.6%	4.7%	5.3%
	Leasing and Facility-related	22	47	60	29	56	43	89	2	23	18	88
	YoY	-	-	-	480.0%	154.5%	-8.5%	48.3%	-93.1%	-58.9%	-58.1%	-1.1%
	Operating profit margin	2.8%	5.3%	6.9%	2.8%	5.9%	5.5%	9.9%	0.2%	3.1%	2.5%	8.4%
	Meal Catering	-14	-9	-1	-19	-2	-5	8	9	-3	-5	-1
	YoY	-	-	-	-	-	-	-	-	-	-	-
	Operating profit margin	-	-	-	-	-	-	1.4%	1.5%	-	-	-
	Other	-8	-12	-10	-13	-7	-5	-5	-12	-3	-7	-1
	YoY	-	-	-	-	-	-	-	-	-	-	-
	Operating profit margin	-	-	-	-	-	-	-	-	-	-	-
	Segment profit adjustments	-626	-635	-709	-701	-639	-654	-726	-625	-642	-650	-772

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)

	FY03/23				FY03/24				FY03/25				FY03/26		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Price per prescription	10,041	10,061	10,173	10,235	9,871	10,033	10,070	10,141	10,027	10,228	10,231	10,283	10,370	10,583	10,651
YoY	-1.3%	-1.9%	-1.3%	-1.7%	-1.7%	-0.3%	-1.0%	-0.9%	1.6%	1.9%	1.6%	1.4%	3.4%	3.5%	4.1%
Drug fee	7,620	7,634	7,733	7,789	7,526	7,687	7,709	7,773	7,640	7,828	7,813	7,849	7,874	8,080	8,145
Technical fee	2,421	2,427	2,440	2,446	2,345	2,346	2,361	2,368	2,387	2,400	2,419	2,434	2,496	2,503	2,506
Number of prescriptions filled ('000)	2,230	4,517	6,828	9,088	2,379	4,777	7,266	9,640	2,481	4,947	7,568	10,018	2,505	5,003	7,646
YoY	2.1%	3.4%	3.1%	3.9%	6.7%	5.8%	6.4%	6.1%	4.3%	3.6%	4.2%	3.9%	1.0%	1.1%	1.0%
Dispensing fees	22,399	45,448	69,472	93,029	23,484	47,935	73,168	97,765	24,878	50,600	77,438	103,018	25,979	52,957	81,446
YoY	0.7%	1.5%	1.7%	2.2%	4.8%	5.5%	5.3%	5.1%	5.9%	5.6%	5.8%	5.4%	4.4%	4.7%	5.2%

Source: Shared Research based on company materials

Number of network affiliates by region

Area	Directly operated pharmacies	Affiliates	Total
Hokkaido	128	256	384
Tohoku	35	825	860
Kanto and Koshinetsu	114	3,685	3,799
Tokai and Hokuriku	45	1,904	1,949
Kinki	55	1,796	1,851
Chugoku and Shikoku	20	1,112	1,132
Kyushu and Okinawa	74	1,720	1,794
Total	**471**	**11,298**	**11,769**

Source: Shared Research based on company data (as of December 31, 2025)

Cumulative Q3 FY03/26 results (out February 6, 2026)

Overview

Cumulative Q3 FY03/26 results (April–December 2025)

- Sales: JPY98.7bn (+7.4% YoY)
- Operating profit: JPY2.4bn (-7.8% YoY)
- Recurring profit: JPY2.3bn (-14.0% YoY)
- Net income attributable to owners of the parent: JPY1.0bn (-30.1% YoY)

Operating results and business conditions

The Japanese economy continued to recover moderately, supported by improvements in employment and income. However, concerns persist over ongoing price increases, the US trade policy, and fluctuations in financial and capital markets, creating uncertainty in economic conditions.

Under these circumstances, sales increased 7.4% YoY, mainly driven by the steady acquisition of network affiliates in the Pharmaceutical Network within the Community Pharmacy Network. Operating profit declined 7.8% YoY, reflecting a decrease in acute-phase patients in Community Pharmacy and higher personnel expenses due to an increase in the salary level. Recurring profit declined 14.0% YoY, while net income decreased 30.1% YoY, and EBITDA declined 3.5% to JPY4.9bn.

Segment results

Cumulative Q3 FY03/26 results by segment were as follows.

Community Pharmacy Network

- Segment sales: JPY94.8bn (+8.0% YoY)
- Segment profit: JPY4.3bn (-2.1% 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 segment. The Digital Shift business was incorporated into the segment structure in FY03/21, followed by the addition of the Pharmaceutical Logistics business in FY03/25.

In this core segment, segment sales increased YoY, supported by the steady acquisition of network affiliates. However, segment profit decreased YoY, reflecting higher personnel expenses and a reduced number of prescriptions at existing stores.

Community Pharmacy

The company continued to focus on new openings and acquisitions through M&A, opening 12 community pharmacies in cumulative Q3, including 10 mall format locations, and acquiring nine pharmacy through M&A. The company closed or transferred seven stores. As of end-cumulative Q3 FY03/26, the company operated 471 community pharmacies, one in-home care plan support center, and eight drug stores.

Pharmaceutical Network

Network affiliates continued to grow steadily. As of end-cumulative Q3 FY03/26, pharmaceutical network members totaled 11,769 (+766 from end-FY03/25), comprising 471 directly operated pharmacies and 11,298 affiliates.

Manufacture and Market Pharmaceuticals

The company offered 125 products (54 ingredients) as of end-cumulative Q3 FY03/26. As a result of efforts to develop new business partners, the number of new client stores grew steadily, bringing the total to 8,560 as of end-cumulative Q3 FY03/26, up 1,198 from end-FY03/25.

Pharmaceutical Logistics business

In this business, the company is working to expand its client base. The number of new client stores has been growing steadily, reaching 3,406 as of end-cumulative Q3 FY03/26, up 1,834 from end-FY03/25.

Digital Shift

In March 2021, the company launched Tsunagaru Pharmacy, a service in the Digital Shift business that uses its official LINE account. This segment works to expand its customer base by providing successful experiences for both patients and pharmacies. As of end-cumulative Q3 FY03/26, the number of installed locations stood at 6,549, up 529 from end-FY03/25.

Leasing and Facility-related

- Segment sales: JPY2.5bn (-4.5% YoY)
- Segment profit: JPY129mn (-31.4% YoY)

Operating conditions of serviced elderly housing facilities

Revenue fell 4.5% YoY, reflecting the absence of large projects recorded in cumulative Q3 FY03/25, and segment profit declined 31.4% YoY. As of end-cumulative Q3 FY03/26, occupancy at all four serviced elderly housing facilities was 90.5%.

Meal Catering

- Segment sales: JPY1.7bn (-1.9% YoY)
- Segment loss: JPY9mn (versus segment profit of JPY1mn in cumulative Q3 FY03/25)

Lower sales

In response to a prolonged labor shortage, the company sought to introduce fully prepared meals and worked to improve profitability through price revisions and other measures. However, higher ingredients and personnel expenses led to lower sales and a larger loss.

Other (mostly home-visit nursing care)

- Segment sales: JPY255mn (-2.3% YoY)
- Segment loss: JPY11mn (versus a loss of JPY17mn in cumulative Q3 FY03/25)

Company forecast for FY03/26

Recent performance and FY03/26 company forecast

	FY03/24			FY03/25			FY03/26		
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	**56,461**	**58,900**	**115,361**	**59,761**	**62,626**	**122,387**	**63,863**	**61,637**	**125,500**
YoY	5.9%	4.8%	5.3%	5.8%	6.3%	6.1%	6.9%	-1.6%	2.5%
Cost of sales	31,024	36,412	67,436	35,097	36,554	71,651	37,617		
Gross profit	**23,453**	**24,472**	**47,925**	**24,664**	**26,072**	**50,736**	**26,246**		
Gross profit margin	41.5%	41.5%	41.5%	41.3%	41.6%	41.5%	41.1%		
SG&A expenses	21,740	22,353	44,093	23,636	23,946	47,582	24,959		
SG&A ratio	38.5%	38.0%	38.2%	39.6%	38.2%	38.9%	39.1%		
Operating profit	**1,712**	**2,120**	**3,832**	**1,027**	**2,127**	**3,154**	**1,286**	**2,114**	**3,400**
YoY	55.8%	2.7%	21.2%	-40.0%	0.3%	-17.7%	25.2%	-0.6%	7.8%
Operating profit margin	3.0%	3.6%	3.3%	1.7%	3.4%	2.6%	2.0%	3.4%	2.7%
Recurring profit	**1,692**	**2,133**	**3,825**	**1,020**	**2,142**	**3,162**	**1,215**	**1,985**	**3,200**
YoY	36.2%	0.9%	14.0%	-39.7%	0.4%	-17.3%	19.1%	-7.3%	1.2%
Recurring profit margin	3.0%	3.6%	3.3%	1.7%	3.4%	2.6%	1.9%	3.2%	2.5%
Net income	**861**	**999**	**1,860**	**207**	**1,055**	**1,262**	**452**	**848**	**1,300**
YoY	71.5%	-9.8%	15.5%	-76.0%	5.6%	-32.2%	118.4%	-19.6%	3.0%
Net margin	1.5%	1.7%	1.6%	0.3%	1.7%	1.0%	0.7%	1.4%	1.0%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

While results for 1H exceeded the company's expectations, the company maintained its full-year forecast as of the cumulative Q3 earnings announcement on February 6, 2026. In cumulative Q3, the rate of progress toward the full-year forecast was 78.6% for sales, 69.8% for operating profit, 70.5% for recurring profit, and 77.7% for net income. The full-year FY03/26 forecast, announced on May 9, 2025, was as follows:

- Sales: JPY125.5bn (+2.5% YoY)
- EBITDA: JPY6.9bn (+4.9% YoY)
- Operating profit: JPY3.4bn (+7.8% YoY)
- Recurring profit: JPY3.2bn (+1.2% YoY)
- Net income attributable to owners of the parent: JPY1.3bn (+3.0% YoY)
- Net income per share: JPY44.48 (JPY43.20 in FY03/25)

Performance outlook

Dispensing fees in Japan tend to be reduced in the biennial NHI healthcare reimbursement revisions. The company believes that under this pharmaceutical policy environment, dispensing pharmacies are being required to shift from product-focused services to patient-centered services to sustain profitability. The company sees the business environment for dispensing pharmacies worsening due to rising personnel costs and a pharmacist shortage.

For the Community Pharmacy Network segment, Medical System Network has established specific business strategies as follows:

- Community Pharmacy business: enhance interpersonal services at dispensing pharmacies.
- Pharmaceutical Network business: expand service offerings, strengthen affiliate networks, and develop new services.
- Manufacture and Market Pharmaceuticals business: ensure stable supply and pursue customer growth.
- Digital Shift business: expand store adoption of the LINE account "Tsunagaru (Connected) Pharmacy" and enhance new services.

Forecast by key segment

At the time of cumulative Q3 results announcement, the company maintained its initial segment forecasts.

- Community Pharmacy Network segment: sales of JPY120.1bn (+2.7% YoY), segment profit of JPY6.0bn (+6.2% YoY)

In the Community Pharmacy business within Community Pharmacy Network, the company aims to support healthcare digitalization, enhance interpersonal services through Tsunagaru (Connected) Pharmacy, and increase prescriptions filled, the number of which stagnated on an existing-store basis in 1H. The forecast incorporates higher costs associated

with new store openings and increased personnel expenses. Numerical targets for the four businesses that support the Community Pharmacy business are as follows:

- Pharmaceutical Network: 12,000 network affiliates (+997 YoY)
- Manufacture and Market Pharmaceuticals: 9,000 partner pharmacies (+1,819 YoY)
- Digital Shift: 6,850 pharmacies adopting the company's service (+830 YoY)
- Pharmaceutical Logistics: 3,700 unique annual stores (+2,128 YoY)

Among the major subsidiaries in these pharmacy support businesses, the following have disclosed sales targets:

- Feldsenf Pharma (Manufacture and Market Pharmaceuticals business): JPY7.0bn (+40% YoY)
- Medi Logi Net (Pharmaceutical Logistics business): JPY4.8bn (3.2x the FY03/25 result)

- Numerical targets for the other segments (total for Leasing and Facility-related, Meal Catering, and Other including home-visit nursing care): Sales of JPY6.2bn (+0.9% YoY), segment profit of JPY217mn (+27.0% YoY).

- Adjustments: -JPY826mn for sales, -JPY2.8bn for segment profit.

Medium-term management plan

Long-term vision, Machino Akari Vision 2035 (out October 24, 2025)

The current sixth medium-term management plan ends in FY03/26, but the company anticipates difficulty achieving its final-year targets due to a tough business environment. On May 9, 2025, the company announced its forecast for FY03/26, which falls short of the targets set for the final year of its sixth medium-term management plan.

To align with the current business environment and enhance corporate value and sustainable growth, Medical System Network announced its long-term vision, Machino Akari Vision 2035, in October 2025. The vision positions the company as a beacon of light in the community and outlines its strategic direction and roadmap through FY03/35.

The company defined three domains in its long-term vision to achieve its goals.

- Medical domain (B2C) : community pharmacy, home-visit nursing care, meal catering, and housing for the elderly with home-care services provided

In this domain, the company leverages professional expertise and advanced technologies, positioning its community pharmacies as hubs that help integrate healthcare into daily life and contribute to local communities in new ways.

- Medical support domain (B2B2C) : pharmaceutical network and digital shift

In this domain, the company provides a range of services that support the approximately 60,000 pharmacies across Japan, thereby creating value for both pharmacies and patients.

- Medical supply domain (B2B) : manufacture and market pharmaceuticals and pharmaceutical logistics

In this domain, the company promotes efficiency and stable supply in drug distribution through the Medysis Network, contributing to enhancing value for society as a whole.

The company formulates and executes strategies for DX, human resources, and finance as part of its efforts to build a management foundation that supports each business.

Medical System Network seeks to restructure its earnings model and significantly improve capital efficiency as it pursues business growth. The company aims to raise operating profit from JPY3.1bn in FY03/25 to JPY10.0bn in FY03/35 and improve ROE from 8% to 12–15%. The company aims to expand support for dispensing pharmacies from over 15,000 pharmacies in FY03/25 to 45,000 pharmacies by FY03/35 and raise its market coverage rate (company's system utilization rate) from about 25% to roughly 75–80%.

As outlined in its long-term vision, the company plans to generate a cumulative total of JPY70.0bn in cash over the ten years to FY03/35. It plans to allocate this cash to a balance of growth investment and shareholder returns. Specifically, it

intends to deploy about JPY50.0bn for capital expenditures—approximately JPY45.0bn for new pharmacy openings and M&A, and about JPY5.0bn for DX investments to introduce new services and improve operational efficiency. It has earmarked roughly JPY7.0bn to reinforce its financial base, including about JPY4.0bn for increased working capital and about JPY3.0bn for repayment of borrowings. The remaining JPY13.0bn will go toward shareholder returns. The company adopts a basic policy of maintaining a 35% payout ratio and plans to repurchase shares flexibly.

The company is formulating its seventh medium-term plan in line with this vision, and plans to publish it in May 2026.

The sixth medium-term management plan (out May 6, 2022)

When reporting FY03/22 results, Medical System Network also released its sixth medium-term management plan kicking off in FY03/23. While under the fifth medium-term management plan the company sought to expand both market share and the scale of operations, under the new plan it aims to transition to a new stage in which the company's networks form a foundation platform that functions as a new pharmacy infrastructure with group pharmacies at the core but also including affiliates. Medical System Network plans to utilize this platform to pursue growth in various businesses. The quantitative targets for the final year (FY03/26) of the plan are sales of JPY140.0bn (CAGR of 7.0% over the span of the sixth medium-term management plan), operating profit of JPY6.5bn (14.0%), 12,000 network members in the Pharmaceutical Network business, and 550 community pharmacies (directly operated pharmacies). The company maintained these targets as of end-FY03/24.

Positioning of the plan and basic policy

Up until the fifth medium-term management plan, the company mainly sought to expand market share and scale of operations under its pharmaceutical network. As a result of focusing on scale expansion, sales grew 1.9x over the past decade from JPY54.8bn in FY03/13 to JPY106.7bn in FY03/22, with recurring profit increasing 2.3x from JPY1.9bn to JPY4.3bn over the same period.

Medical System Network primarily operates in two areas: pharmaceutical network (the Pharmaceutical Network business under the current Community Pharmacy Network segment) and dispensing pharmacies (Community Pharmacy business). Now that its pharmaceutical network has expanded to account for 10% of the domestic dispensing pharmacy market by number of pharmacies, the company thinks these two businesses have strengthened their correlation, and are evolving into a “platform” for community pharmacies. It maintains that the sixth medium-term management plan positions this platform as a foundation based on which the company will seek to expand into new growth areas and further bolster overall scale. In this way, the company plans to transition into a new growth stage and build a new growth model.

The company says the platform, comprising network affiliates with directly operated pharmacies at its core, will function as an infrastructure for community pharmacies. Put differently, the platform can be described as a base formed by the Community Pharmacy business (directly operated pharmacies) overlaid with the Pharmaceutical Network business, which involves all network affiliates. One of the growth strategies under the sixth medium-term management plan seeks to establish multiple layers of new growth businesses over this platform to achieve multifaceted operations. While improving the pharmacy infrastructure, the company will step up efforts to provide quality healthcare, goods, and services, and streamline pharmaceuticals distribution to ensure sustainability of local healthcare and the distribution market.

Another growth strategy under the sixth medium-term management plan calls for continued expansion of the platform's base. The company's directly operated pharmacies managed under the Nanohaha Pharmacy brand underwent eliminations, new openings, and acquisitions, and reached a total of 425 locations as of end-FY03/22. Over the four years of the sixth medium-term management plan, Medical System Network plans to increase this number to 550 through acquisitions and new openings. At the same time, it will continue to expand network affiliateship, roughly doubling the current member count to 12,000 (including directly operated pharmacies) over the same period. If the company manages to achieve this number, it would capture about 20% of the domestic dispensing pharmacy market (by number of pharmacies). Because boosting network affiliateship leads to an increase in pharmaceuticals transactions, Shared Research understands that an upscaled network will grant the company an even greater presence in pharmaceuticals distribution.

Numerical targets for the sixth medium-term management plan

(JPYmn)	Fifth medium-term management plan results		Sixth medium-term management plan targets
	FY03/22	FY03/26 forecast	FY03/26
Consolidated sales	106,685	125,500	140,000
Consolidated operating profit	3,852	3,400	6,500
Operating profit margin	3.6%	2.7%	4.6%
Consolidated EBITDA	6,708	6,890	10,000
No. of network members	7,401	12,000	12,000
No. of community pharmacies	425	482	550
Equity ratio	21.1%	-	30.0%

Source: Shared Research based on company data
Notes: 1. Figures may differ from company materials due to differences in rounding methods.
2. Calculated by Shared Research by adding the planned number of new store openings to FY03/25 results (store closures not included).
3. Segment figures include internal transactions.

Business strategies and measures by business category

Medical System Network places its community pharmacies—in other words, the directly operated pharmacy business—at the core of the aforementioned platform. In the first two years of the sixth medium-term management plan, the company will seek to establish how individual dispensing pharmacies should play a role in the community-based integrated care systems. The plan is to elevate their functions from a simple “monzen” pharmacy (conveniently located near hospitals) to a family pharmacy, and to a community pharmacy, enhancing the quality of their services by shifting the focal point from objects to people. For example, enhanced services cover centralized and continuous management of medication information, home healthcare support, 24-hour support, and collaboration with various internal and external specialists in the areas of medical care, long-term care, food, and daily care.

The objective for the latter two years of the medium-term management plan is to equip the company's pharmacies with the means to function as the central body or a hub supporting local healthcare and community at large. The company will seek to achieve optimization for the area rather than within the boundaries of its own operations. For instance, it will work to share knowledge, human resources, and pharmaceuticals across the community, maximize and jointly use local resources, and expand the network of hub pharmacies. The company's goal is to have the platform provide values and functions needed in the community while also maintaining profitability as a business. The breakdown of the plan by segment and business is as follows.

Community Pharmacy

The sixth medium-term management plan's principal theme for this business is “be ‘the town's beacon of light’ supporting local communities and bolster area coverage.” Priority measures comprise improving quality and efficiency of store operations to prepare for enhanced interpersonal work (the initiative includes pharmacist training), providing medical care that supports community-based integrated care systems, and strengthening store development capabilities. The company is laying the groundwork to open 25 new pharmacies per year, and says that costs will temporarily precede earnings when it begins spending upfront on these store openings.

Pharmaceutical Network

The plan's principal theme for this business is “target of 12,000 network affiliates × (distribution improvement + service expansion).” Priority measures include boosting network member count to 12,000 by FY03/26 (the final year of plan), capturing 20% industry share, improving distribution and establishing supply chain management, and contributing to community-based medical care by building an area network.

Manufacture and Market Pharmaceuticals

The plan's principal theme for this business is "stable supply of safe and secure pharmaceuticals." Group company Feldsenf Pharma is the main driver of this business. Priority measures include creating a system to ensure quality and safety, building a system to ensure stable supply, and expanding the product lineup and sales channels. The company targets sales of JPY10.0bn in this business in the plan's final year.

Digital Shift

The plan's principal theme for this business is "establishment of pharmacy business infrastructure and expansion to multiple business lines." Priority measures include expanding market share (raising the number of pharmacies using the Tsunagaru (Connected) Pharmacy service on the official LINE account to 20,000 by the plan's final year), upgrading services with highly value-added functions (such as the ability to network with medical institutions and long-term care facilities), and launching new businesses.

Nursing care, long-term care, and nutrition

The plan's principal theme for this business is "deepen cooperation between medical and long-term care." Separate priority measures have been set for nursing care, long-term care, and nutrition. In nursing care, the plan calls for expansion of collaborative opportunities with dispensing pharmacies and development of service locations. In long-term care, the company will roll out home-visit services at its Wisteria series serviced elderly housing facilities. In nutrition, it will pursue expansion in scale and earnings.

Earnings structure to achieve targets; financial outlook

Historically speaking, the company's earnings growth was propelled by expansion of the Pharmaceutical Network business and profitability improvement in the Community Pharmacy business. However, with the sixth medium-term management plan, Medical System Network made a major turn toward proactively opening more pharmacies to further develop the platform structure. Since this means that the company will be making front-loaded spending in the Community Pharmacy business, it expects profit from this business to decline over the span of the medium-term management plan. Accordingly it has positioned the three pharmacy support businesses (Pharmaceutical Network, Manufacture and Market Pharmaceuticals, and Digital Shift) to take on the role of absorbing the earnings drop in the Community Pharmacy business.

In the final year of the plan (FY03/26), the company targets sales of JPY140.0bn, an increase by roughly JPY35.0bn from FY03/22, which it plans to generate in the Community Pharmacy business (+JPY20.0bn) and the pharmacy support businesses (+JPY15.0bn). Meanwhile, the target for operating profit in the final year is JPY6.5bn, up roughly JPY2.7bn from FY03/22. Since the company anticipates operating profit in the Community Pharmacy business to fall due to the burden of upfront opening costs, the three pharmacy support businesses are expected to underpin profit growth, lifting the operating profit margin by 1.0pp as well, by the final year.

In terms of cumulative cash flows over the four years of the medium-term management plan, the company expects JPY20.0bn in net cash inflow from operating activities and JPY18.0bn in net cash outflow from investing activities (business development and acquisitions focusing on investment efficiency). The free cash flow of JPY2.0bn will be used mainly to reduce debt (JPY2.0bn in net cash outflow from financing activities). By reducing interest-bearing debts that account for about 60% of total liabilities in FY03/22, the company will seek to achieve equity ratio of 30% by the final year of plan (FY03/26).

Review of the fifth medium-term management plan

Medical System Network announced its fifth medium-term management plan (FY03/19–FY03/22) at the time of its earnings announcement for FY03/18. Starting from the fifth medium-term management plan, the company changed the plan's term from three years to four years, which would be in line with the cycle of medical treatment fee revisions.

The company was unable to fulfill the quantitative targets of its fifth medium-term management plan due to the spread of COVID-19. Consolidated sales in FY03/22 (plan's final year) stood at JPY106.7bn versus the JPY120.0bn target, consolidated operating profit was JPY3.9bn versus the JPY5.0bn target, and consolidated EBITDA came to JPY6.7bn versus the JPY7.5bn target. The equity ratio was 21.1% versus the target of at least 30%.

Meanwhile, network members in the Pharmaceutical Network business continued a steady increase, surpassing the 6,000 mark in FY03/21, well above the plan's target of 5,000. By number of pharmacies, the company captured over 10% of the domestic dispensing pharmacy market. The network member count continued to expand in the final year of FY03/22, reaching a total of 7,401. In addition to business growth in the Pharmaceutical Network business, profitability improvements at directly managed pharmacies in the Community Pharmacy business contributed to earnings, and the recurring profit margin in the final year reached 4.0%, largely in line with the 4.1% target.

Core strategies of the fifth medium-term management plan

The core strategies of the fifth medium-term management plan were as follows. The first four were in response to the NHI drug price and dispensing fee revisions implemented in April 2018. The third strategy was linked to the company's full-scale entry into the generic drug business (manufacture and sales), and the company expected earnings contribution from its consolidated subsidiary Feldsenf Pharma, which has a central role in managing the business. Regarding the fifth strategy, given that the construction of a new serviced elderly housing facility was near completion as of end FY03/18, the company aimed to focus on boosting occupancy rates for these units. Also, having made continued investments into these new facilities, the company saw the period covered by the fifth medium-term management plan as a time to focus on stepping up its financial base.

- Drive collective efforts of all network affiliates to expand the pharmaceutical network and provide management support to small and mid-tier pharmacies that help sustain community-based medical care; also improve drug distribution efficiency through collective efforts.
- Position directly operated pharmacies as medical institutions and raise their caliber; promote their family pharmacy functions, allowing them to take initiative in resolving issues surrounding community medical care.
- Assist government-driven efforts to increase generic drug utilization and help develop efficient drug distribution systems by expanding manufacture and sales of quality generic drugs.
- Strengthen collaboration among group businesses and take a unified approach in providing community care functions (medical care, long-term care, and disease prevention) that are considered essential to the community-based integrated care system.
- Improve cash flows, take further steps to achieve efficient management structure, and fortify financial base.

Shared Research understands that in the medium- to long-term, Feldsenf Pharma, a generic drugs subsidiary (manufacture and sales) established by the company, will take on a significant role in Medical System Network's generic drug business cited in the third strategy. In the final year of the fifth medium-term management plan, the company planned on sourcing around 50% of its consolidated operating profit from the Supply Chain Management (SCM) business, which is the combination of the generic drugs business centering on Feldsenf Pharma, and the Pharmaceutical Network business.

Although the business environment surrounding Medical System Network changed during the fifth medium-term management plan because of the spread of COVID-19, the company did not change its basic policy outlined above, even from FY03/20 when the effects of the pandemic were felt strongly. It did, however, revise the sales and profit targets for the plan's final year (FY03/22) to reflect the pandemic's impact.

Business

Business model

Medical System Network provides dispensing pharmacy support services to its own pharmacies and to affiliates. Based on the FY03/19 results reported under the former segment classifications, approximately 90% of the company's sales came from the operation of dispensing pharmacies (Community Pharmacy business*). The dispensing pharmacy support services (Pharmaceuticals Network business**) are highly profitable.
*The former Dispensing Pharmacy segment; currently the Community Pharmacy business under the Community Pharmacy Network segment
**The former Pharmaceuticals Network segment; currently the Pharmaceutical Network business under the Community Pharmacy Network segment

The dispensing pharmacy support service developed by Medical System Network is provided not only to directly operated pharmacies, but also to non-group dispensing pharmacies (affiliates), on the condition that they join the company's network. Shared Research understands that the then Dispensing Pharmacy business generated about 30% of operating profit (unadjusted for internal transactions) in FY03/19 while the then Pharmaceuticals Network business accounted for about 70%, suggesting high OPM for the latter considering the segment's small share of sales.

Dispensing pharmacies in Japan are regulated by the nation's universal healthcare insurance system governed by the Ministry of Health, Labour and Welfare (MHLW). The system requires the separation of prescription and dispensary practices, where patients receive prescriptions from physicians at medical institutions and have them filled at dispensing pharmacies by a pharmacist. Under the universal healthcare insurance system, the cost of medication is split between patients and their insurance plans. When a pharmacy dispenses drugs, it collects the patient co-payment (30% of total cost for most company employees) in cash and obtains dispensing fee receivables for the insurance plan portion (70%), for which a reimbursement claim is later submitted. The prices for drugs and medical services are set and periodically revised by MHLW, which is the governing authority.

Overview of business segments

Medical System Network comprised five segments until FY03/19, which were consolidated into four segments in FY03/20. Previously, the mainstay segments were former Pharmaceuticals Network and former Dispensing Pharmacy, but these two segments were consolidated into the Community Pharmacy Network segment along with the Manufacture and Market Pharmaceuticals business (mainly operated by Feldsenf Pharma) previously included in the former Other business segment. Then in FY03/21 the company added the family pharmacy support service (operated by PharmaShift Co., Ltd., established on October 1, 2020), and in FY03/25, it added the Pharmaceutical Logistics business, operated by Medi Logi Net Co., Ltd. (established on April 1, 2024).

As of end-FY03/25, the Community Pharmacy Network segment comprises the five businesses outlined below. The company does not disclose a sales and profit breakdown by business.

As peripheral business in healthcare and care-related businesses, the company maintains its three segments (Leasing and Facility-related, Meal Catering, and Other businesses) even after the FY03/23 segment reshuffle. Following the transfer out of the Manufacture and Market Pharmaceuticals business to the Community Pharmacy Network segment, the main business in the Other business segment is home-visit nursing care. With the exception of the Other segment, all business segments continue to be operated by the respective core subsidiaries.

Status of affiliated companies

Segment and business	Company	Location	Ratio of voting rights
Community Pharmacy Network	Hokkaido Institute for Pharmacy Benefit Co., Ltd.	Sapporo, Hokkaido	100.0%
	Nanohana Hokkaido Co., Ltd.	Sapporo, Hokkaido	100.0%
	Nanohana Tohoku Co., Ltd.	Hachinohe, Aomori	100.0%
	Nanohana East Japan Co., Ltd.	Minato-ku, Tokyo	100.0%
	Nanohana Central Co., Ltd.	Nagoya, Aichi	100.0%
	Nanohana West Japan Co., Ltd.	Toyonaka, Osaka	100.0%
	Total Medical Service Co., Ltd.	Kasuya, Fukuoka	100.0%
	Nagatomi Pharmacy Co., Ltd.	Oita, Oita	100.0%
–Manufacture and Market Pharmaceuticals business	Feldsenf Pharma Co., Ltd.	Sapporo, Hokkaido	80.0%
–Pharmaceutical Logistics business	Medi Logi Net Co., Ltd.	Minato-ku, Tokyo	100.0%
–Digital Shift business	PharmaShift Co., Ltd.	Minato-ku, Tokyo	100.0%
Leasing and Facility-related	Paltecno Co., Ltd.	Sapporo, Hokkaido	100.0%
Meal Catering	Sakura Foods Co., Ltd.	Kasuya, Fukuoka	100.0%

Source: Shared Research based on company data
Note: Four Kyushu-based companies—including Total Medical Service Co., Ltd. and Nagatomi Dispensing Pharmacy Co., Ltd.—were integrated into Nanohana Kyushu Co., Ltd. as of April 1, 2025.

Community Pharmacy Network segment

The Community Pharmacy Network segment is a new segment created in FY03/20 from consolidating the former Pharmaceuticals Network and Dispensing Pharmacy segments and part of the Other segment (only the Manufacture and Market Pharmaceuticals business).

The Digital Shift business—providing family pharmacy support services through PharmaShift Co., Ltd.—was added in FY03/21. In FY03/25, the Pharmaceutical Logistics business, operated by Medi Logi Net Co., Ltd., was also added. As of FY03/25, the Community Pharmacy Network segment comprises five businesses: Community Pharmacy, Pharmaceutical Network, Manufacture and Market Pharmaceuticals, Digital Shift, and Pharmaceutical Logistics.

The company cited the following two reasons for the reorganization:

- To accommodate expansion of the company's business scope to the entire supply chain accompanied by the rise in pharmaceutical network affiliates and full-scale development of the Manufacture and Market Pharmaceuticals business
- To transition to a structure that can provide value to the entire supply chain while taking into account possible conflicts of interest between business segments due to the aforementioned changes

Community Pharmacy Network segment

(JPYmn)	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
Sales	**92,284**	**99,617**	**99,214**	**101,457**	**104,399**	**109,904**	**116,968**
YoY	-	7.9%	-0.4%	2.3%	2.9%	5.3%	6.4%
Operating profit	**3,313**	**3,743**	**5,703**	**6,117**	**5,887**	**6,433**	**5,626**
YoY	-	13.0%	52.4%	7.3%	-3.8%	9.3%	-12.5%
Operating profit margin	3.6%	3.8%	5.7%	6.0%	5.6%	5.9%	4.8%

Source: Shared Research based on company data

Community Pharmacy business

Business overview

The company's core businesses is the Community Pharmacy business (operation of dispensing pharmacies), which corresponds to the former Dispensing Pharmacy business. While the company does not disclose sales and profits for this

business, FY03/19 results for the former Dispensing Pharmacy business were sales (to external customers) of JPY90.7bn (92.3% of total sales) and segment profit of JPY1.1bn (33.2%, pre-adjustment basis). Since the company has continued to promote renewal of directly operated pharmacies since then, Shared Research believes this business accounts for the majority of the company's total sales, and its operating profit, combined with that from the below-mentioned Pharmaceutical Network business, accounts for the bulk of the company's profits.

The company's directly operated dispensing pharmacies are found in most areas nationwide, although the home base of Hokkaido has the highest concentration followed by the Kanto and Koshinetsu area (for recent regional patterns see the figure Number of network member by region in the Trends and Outlook section). The group's dispensing pharmacies (Nanohana Pharmacy) had been operating under the umbrella of a holding company Pharmaholdings Co., Ltd., which was the company's subsidiary until October 2017, when it was absorbed by the company.

At present, the group's dispensing pharmacies are operated through regional consolidated subsidiaries. In terms of operational support, directly operated stores also receive services provided by the below-mentioned Pharmaceutical Network business, as do general affiliates. Another subsidiary, Hokkaido Institute for Pharmacy Benefit Co., Ltd., publishes specialized books for pharmacists and other healthcare professionals and analyzes pharmaceuticals-related data.

Dispensing fees at Community Pharmacy business (companywide basis)

(JPYmn)	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
Dispensing fees	89,919	88,320	91,056	93,029	97,765	103,018
Rate of change	8.6%	-1.8%	3.1%	2.2%	5.1%	5.4%

Source: Shared Research based on company materials

Directly operated pharmacies

Functions provided by the company's directly operated dispensing pharmacies do not dramatically differ from those of other dispensing pharmacies, although one distinguishing characteristic is that they tend to be located in residential areas where homes and medical institutions coexist (categorized by the company as the medical mall format including medical plazas). As such, they are well suited to take on the "family pharmacy" function advocated by MHLW. The company aims to strengthen the family pharmacy functions of its pharmacies by offering consultation services concerning nutrition, health, and self-care.

The company regularly provides guidance to directly operated pharmacies. It sets a bar for their financial performance, and when the pharmacies fail to meet those targets, the company investigates the cause and seeks possible solutions. It also advises pharmacy managers, on matters including potential closures. With such guidance, the company continues to promote revitalization of pharmacies, and in FY03/19 it closed 15 outlets while opening eight new stores and acquiring three through M&A.

Market position of directly operated Nanohana Pharmacy

The company's directly operated community pharmacies, mostly of the Nanohana brand, totaled 457 at end-March 2025. The following table compares sales and pharmacy numbers for other major pharmacy chains as of their fiscal year-ends. Companies mainly operating dispensaries within drugstores are excluded. The figure for Medical System Network represents sales of the Community Pharmacy Network segment including the network business. The company has far fewer own-brand outlets than the top-ranking pharmacy chains, but in terms of all network affiliates including affiliates in the company's pharmaceutical network, the total exceeds the counts of major chains. Medical System Network also ranks among the top companies by sales.

Sales and number of pharmacies in dispensing pharmacy-related businesses

	FY end	Sales (JPYmn)	No. of pharmacies
1 Ain Holdings	April	357,571	1,231
2 Qol	March	171,735	948
3 Kraft Inc.	April	153,700	833
4 Sogo Medical	March	144,630	798
5 Nihon Chouzai	March	321,951	753
6 Toho Holdings	March	95,553	707
7 Suzuken	March	84,038	534
8 Medical System Network	March	116,968	457
9 Aisei Pharmacy	March	61,862	408
10 Pharmarise Holdings	May	44,178	351

Source: Shared Research based on data from each company's websites and materials
Notes: 1. Sales figures are the aggregate of each company's dispensing pharmacy segment. Aisei Pharmacy Co., Ltd. and Kraft Inc. are unlisted, Sogo Medical Co., Ltd. was delisted in April 2020, and companies that are primarily drugstore chains were excluded.
2. Based on earnings announcement data disclosed as of May 2025. KRAFT Inc. (Sakura Pharmacy) will come under Ain Holdings in August 2025, and Nihon Chouzai is scheduled to be delisted in December 2025 following its acquisition by an investment fund.

Initiatives in line with the distribution improvement guidelines

The company has taken steps in line with the MHLW objective of reducing medical expenses through streamlining distribution to establish a more efficient supply chain that bolsters online ordering, reduces product returns, and lowers delivery frequency. Particularly noteworthy is its local network initiatives. The company has incorporated these initiatives into its sixth medium-term management plan.

A local network aims to foster collaboration among local affiliates of the company's pharmaceutical network within a community with the following four objectives:

- Information sharing by affiliates of available pharmaceuticals and inventories
- Enhanced distribution for the entire region
- Cooperation on at-home medical care, facility sharing, holding study sessions and exchange meetings
- Product sharing, interaction and collaboration among employees, and knowledge sharing

Efforts to streamline Nanohana Pharmacy operations

Several measures have been taken to streamline operations of the directly operated pharmacy chain, Nanohana Pharmacy, as shown below. The company plans to expand these efficient pharmacy models nationwide and apply the same measures at affiliate locations.

- Reduce time required to input medication history and register drugs to be reviewed: Tablet computers are provided to each pharmacist thus making work more flexible and enabling utilization of free time between dispensing work. Average time required for this task was reduced from 60 minutes to 30 minutes a day.
- Reduce time spent on ordering drugs: Full adoption of in-house developed automated drug ordering system reduced the time spent on ordering drugs from a daily average of 30 minutes to less than 10 minutes.
- Reduce patient waiting time: Improvement of waiting time measurement system helped identify causes of long waiting time. A successful case showed that waiting time was cut by about five minutes three months after the identified problem was solved.
- Optimization of staffing: Setting standard working hours for pharmacists and staff (appropriate number of staff) for each pharmacy and installing management tools enabled the company to gauge appropriate staffing for any given week or any given day of the week.

Pharmaceutical Network business

Business overview

This business provides services that support multiple tasks essential to the operation of dispensing pharmacies, such as pharmaceutical price negotiations, distribution including purchasing, and profit management. These services are first developed for, and provided to, directly operated dispensing pharmacies, but are also provided to general pharmacies for a fee. General dispensing pharmacies must join the company's network to receive this service.

While the company does not disclose sales and profits for this business, FY03/19 results for the former Pharmaceuticals Network business—the predecessor of the business—were sales of JPY4.0bn (1.6% of total sales), of which sales to

external customers were JPY1.6bn and inter-segment sales or transfers were JPY2.4bn, and segment profit of JPY2.3bn (72.5%, pre-adjustment basis). The company has since expanded its range of support services and revised membership fees, but Shared Research believes that this business continues to make a significant contribution to segment profit.

General dispensing pharmacies can receive support services by joining the network operated by the company and becoming general network affiliates. The company's network thus consists of directly operated pharmacies and general network affiliates. As shown below, both directly operated pharmacies and general network affiliates continue to increase in number. Growth in the number of general network affiliates has been especially strong, which Shared Research attributes to increasingly tough measures taken by the government each year to curb increases in the nation's medical expenditure. The Ministry of Health, Labour and Welfare (MHLW) now regularly revises drug prices and dispensing fees, and conditions for earning higher dispensing fees, which are an important source of income for dispensing pharmacies, are becoming ever more stringent. This translates to an increasingly tough operating environment for small- to medium-sized dispensing pharmacies not affiliated with any of the major chains.

As of end-FY03/25, the number of pharmaceutical network member stores (the total of directly operated stores and general network affiliates) reached 11,003, surpassing 10,000 for the first time. The 10-year CAGR stood at approximately 26% as of end-FY03/25, with network member stores continuing to increase. According to the MHLW, there were 63,203 dispensing pharmacies in Japan in FY2024, and the share of the company's network member stores exceeded 17%, making it the No. 1 group in Japan. As the number of member stores in the company's network has expanded, the group's pharmaceutical order value similarly has grown to JPY678.3bn (+9.7% YoY) in FY03/25, among the largest in Japan and a scale that cannot be ignored by pharmaceutical wholesalers.

Number of directly operated pharmacies and affiliates, and total value of drug orders

	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
Directly operated pharmacies	353	377	399	420	450	416	425	428	450	457
Affiliates	1,047	1,393	2,110	3,370	4,829	5,700	6,976	8,484	9,306	10,546
Total of directly operated pharmacies and affiliates	1,400	1,770	2,509	3,790	5,279	6,116	7,401	8,912	9,756	11,003
Pharmaceutical order value (JPYbn)	123.7	137.4	169.2	233.7	336.8	391.7	449.2	526.2	618.2	678.3

Source: Shared Research based on company data

Four functions

The business offers comprehensive support to dispensing pharmacies, not only in the form of distribution support contributing to the sourcing of drugs that are essential for business operation, but also in terms of pharmacist training and financing. It can be broken down into the following major functions.

(1) Pharmaceuticals supply chain management

Medical System Network determines appropriate transaction prices with drug wholesalers on behalf of its network affiliates. Typically, dispensing pharmacies have to negotiate prices separately with each wholesaler. In contrast, after receiving authorization from its member affiliates, the company determines unit prices per product with wholesalers around the country on their behalf. The wholesalers benefit from the company's services in a number of ways. They can receive payment from all network affiliates two months after closing instead of the standard three months, which reduces interest expenses. The company's collection service helps them minimize the cost of recovering outstanding payments for pharmaceutical products. The online ordering system improves and optimizes inventory control for pharmacies, reducing order frequency and emergency deliveries, thus lowering wholesaler costs. These cost-saving advantages give the company the power to negotiate better prices with wholesalers. Price negotiation is crucial to dispensing pharmacies since the difference between the actual drug sourcing cost and official price of prescription drugs represents their profit stream, but it is also a source of heavy operational burden.

In negotiating terms with wholesalers, Medical System Network does not hold the exclusive wholesaler designation rights in its price negotiations. Instead of leveraging order volume as bargaining power to reduce purchase prices, the company bases its negotiations on a per-product pricing structure that accounts for factors such as regional differences and the individual conditions necessary to ensure stable supply. Affiliates can choose which wholesaler to buy from on the basis of service and other conditions, rather than relying solely on price. This system lowers the barrier to joining the network for pharmacies that wish to maintain existing accounts with their wholesalers, and is also appreciated by wholesalers, who can retain their trading relationships. It is thus a win-win for both retailers and wholesalers. The company also benefits, because it can attract new network affiliates by allowing them to maintain their existing accounts.

Medical System Network is also focusing on handling generics, whose use is being strongly promoted by MHLW. The company gathers and analyzes detailed information such as interview forms** mainly about drugs added to the NHI list that it receives from pharmaceutical companies. The company then negotiates with wholesalers about stable supply of the product, price, and other conditions, and provides information on the product to network affiliates if it concludes that it can be dispensed safely by the pharmacists. The company also provides a substantial support system to its affiliates to increase their handling of generics, including an inventory management system with the same features as the generic drug recommendation system used by its directly operated pharmacies.

In FY03/25, the company's network affiliates—directly operated dispensing pharmacies (the Nanohana Pharmacy chain under the Community Pharmacy business) and affiliates (non-group pharmacies) in its pharmaceutical network, combined—have accounted for over 17% of the domestic dispensing pharmacy market. Shared Research understands that the company's strength in drug price negotiations is growing.

*Regular supplier/trading account: A relationship between retailer and wholesaler whereby the retailer has a trading account with the wholesaler. For a retailer, a regular supplier is a wholesaler with which it has a history of doing business.
**Interview form: Pharmaceutical Interview Form (IF), whose purpose is to supplement information that is not fully covered in package inserts of prescription drugs. These forms are supplied by pharmaceutical companies and provide all-round product information. Japan Society of Hospital Pharmacists (JSHP) sets IF drafting guidelines and instructs pharmaceutical companies to distribute the forms. Historically produced by pharmacists interviewing companies, the current format was established in 1988.

(2) Slow moving inventory clearance service (dead stock exchange)

This system allows for the exchange of dead stock pharmaceuticals among network affiliates. A pharmaceutical product can no longer be dispensed once it expires, so the disposal of dead stock becomes a cost burden on dispensing pharmacies. The primary objective of the system is to reduce inventory disposal losses substantially by registering members' dead stock in the system and matching the stock with other members that can use it. Charges for matched dead stock can be settled together with order placement commissions to Medical System Network, so member pharmacies do not need to make payments to each other.

The MHLW has identified wasted pharmaceuticals as a cost burden that needs to be addressed in healthcare reforms. For affiliates, reductions in wasted pharmaceutical contribute to greater operational efficiency and stable management. Note that Medical System Network has acquired a patent for this system.

(3) Pharmacist training support

An attractive training system can improve staff loyalty and draw talented recruits to dispensing pharmacies. The company holds nationwide training courses for pharmacists including those working at network pharmacies in collaboration with training organization Iyaku Sogo Kenkyukai (ISK), with both in-person and online formats available. These workshops are run by dispensing pharmacies and online courses are also available. The workshops cover timely topics aligned with the evolving business environment of dispensing pharmacies. ISK is a registered organization that conducts practical training sessions. By attending the workshops and earning the required credits, participants can obtain the qualification of a certified pharmacist in-training from the Japan Pharmacists Education Center (JPEC), a public interest incorporated foundation.

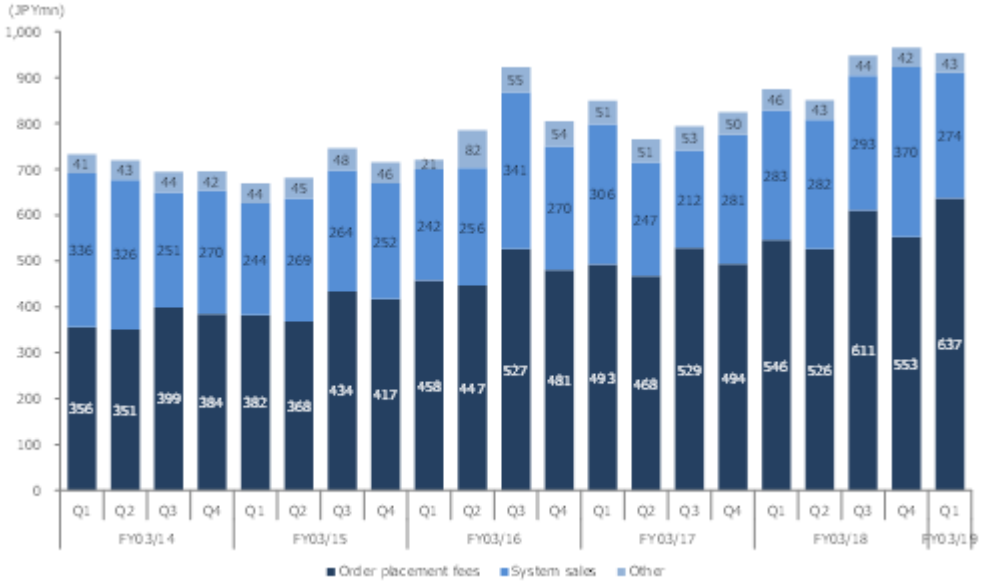
ISK is one of the few private-sector organizations registered as a provider of various certification programs for pharmacists. Medical System Network and ISK help pharmacies run training sessions and apply for accreditation, which enables them to become members of the ISK organization and run JPEC accredited training courses. ISK awards certification credits to pharmacists who complete these courses, offering an incentive for network pharmacies by supporting their pharmacist recruitment efforts.

*POS: Problem Oriented System. A predetermined logical and scientific resolution approach used in team medical care, wherein patient information and healthcare professionals' records are shared to clearly ascertain patient medical problems from each professional's point of view.

(4) Financing support

In Japan, the cost of prescription drugs is borne by patients and the public health insurance programs (such as social insurance for company employees and the National Health Insurance [NHI] for non-employees). Dispensing pharmacies receive the patient co-payment over the counter when dispensing drugs and the portion covered by insurance becomes dispensing fee receivables until it gets monetized two months later when pharmacies receive payment from the insurance programs. Under the company's financing support service (optional), these receivables are purchased and securitized, and directly operated pharmacies are provided cash funding more than a month earlier than the payment from insurance programs. This service offers dispensing pharmacies stable low-cost financing, as unlike financing from a bank, no collateral is required. There are also no restrictions on how the funds can be utilized. Social insurance and NHI claims can be securitized separately. Dispensing fee receivables are converted into small-lot securities through financial institutions and sold to investors for capital recovery.

(Reference) Former Pharmaceuticals Network segment sales (through Q1 FY03/19)



Source: Shared Research based on company data
Notes: 1. Undisclosed from Q2 FY03/19
2. The former Pharmaceutical Network segment was integrated into the new Community Pharmacy Network segment from FY03/20

Manufacture and Market Pharmaceuticals business

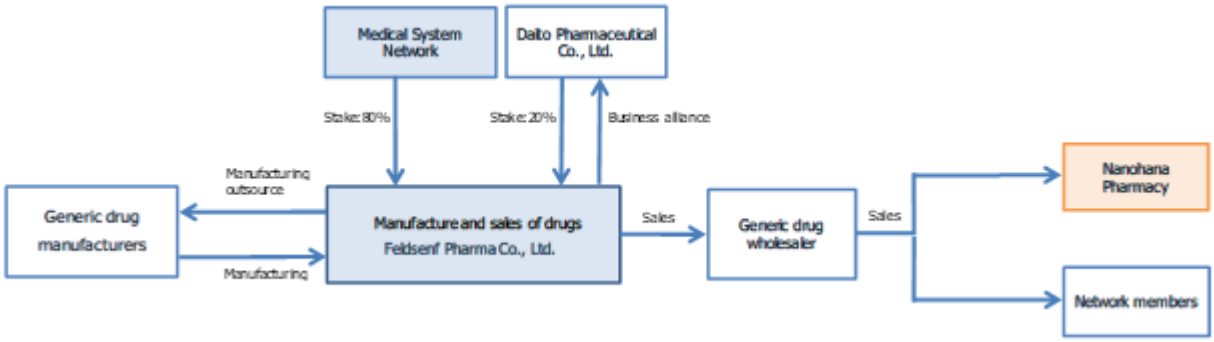
Business overview

The Manufacture and Market Pharmaceuticals business was transferred from the Other business to the Community Pharmacy Network segment in FY03/20. It is operated by consolidated subsidiary Feldsenf Pharma Co., Ltd.

Feldsenf Pharma was established in September 2016 to manufacture and market ethical drugs. It does not have manufacturing capabilities or facilities but aims to develop an efficient pharmaceutical distribution system from manufacturing through the filling of prescriptions at the pharmacy by building a collaborative relationship with pharmaceutical manufacturers with capability to provide a stable supply of high-quality, lower-priced generic drugs. In 2018, it formed a business alliance with Daito Pharmaceutical Co., Ltd. (TSE Prime: 4577), which manufactures and supplies ethical drugs to Feldsenf Pharma. In April 2024, the company established Medi Logi Net Co., Ltd. to build a stable supply system for pharmaceuticals under the Feldsenf Pharma brand.

Feldsenf Pharma started marketing generic drugs from 2018. It mainly supplies directly-operated pharmacies and network affiliates of Medical System Network; in FY03/25, it supplied drugs to 7,181 affiliates. Feldsenf Pharma also has eyes set on expanding its lineup of in-house brand generic drugs in the future to become a supplier first to the company's dispensing pharmacies and its affiliates, and then to non-affiliated dispensing pharmacies and medical institutions nationwide.

Feldsenf Pharma's generic drugs supply chain



Source: Shared Research based on company data

Business scale, profit trends

In FY03/19, Feldsenf Pharma started out with 17 active pharmaceutical ingredients (API) across 34 items, and expanded to 52 APIs across 120 products as of FY03/25. Medical System Network aims to further expand Feldsenf Pharma's product lineup of in-house drugs and sales tie-up products. In addition to first expanding supply of Feldensf Pharma products to its directly operated dispensing pharmacies, the company also has stepped up sales to affiliates members of its network. Sales grew to JPY5.0bn in FY03/25, and the business switched to profits at the operating level in FY03/22, according to the company.

Feldsenf Pharma sales

(JPYbn)	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
Sales	0.1	0.4	1.1	1.8	2.6	3.2	5.0
Number of items handled	17 ingredients, 34 items	23 ingredients, 51 items	34 ingredients, 68 items	41 ingredients, 82 items	45 ingredients, 93 items	48 ingredients, 103 items	52 ingredients, 120 items

Source: Shared Research based on company data

Digital Shift business (established in FY03/21)

Family pharmacy support service

The company established a joint venture, PharmaShift Inc. in September 2020 with OPT, Inc. (unlisted; trade name changed to Re:teigi, Inc. following organizational change), a core subsidiary of Digital Holdings (TSE Prime: 2389). PharmaShift became a wholly owned subsidiary of the company in FY03/24.

PharmaShift's main business is family pharmacy support service. Medical System Network created the Digital Shift business as a new business in its Community Pharmacy Network segment with the establishment of PharmaShift.

The family pharmacy support service business engages in and pursues the following three points:

- Facilitates smooth communication between patients and pharmacies by leveraging official LINE∗ accounts and aggregating patients' medical information
- Contributes to strengthening functionality and enhancing efficiency of family pharmacies while also supporting non-dispensing businesses such as health and nutrition counseling
- Building an information infrastructure that can be linked with various other businesses such as physicians by aggregating information obtained from having strengthened functionality of family pharmacies

Utilization of official LINE accounts

The plan is to further integrate various functions based on the company's LINE communication app to facilitate communication between patients and pharmacies using the official LINE account. Specifically, Medical System Network looks to incorporate functions such as prescription transmittal, electronic medication records, surveys of pharmacy visits, and follow-ups during medication. It aims to develop services using the LINE official account based on a common platform for dispensing pharmacies so that it can provide the products not only to directly-operated and network member pharmacies, but to all pharmacies nationwide.

The family pharmacy support service utilizing the official LINE account launched from March 15, 2021. In FY03/25, the number of registered friends (users) increased about 39% YoY to 1.5mn as the number of directly operated and affiliated pharmacies using the service expanded. For dispensing pharmacies, the service offers functions such as centralized management of medication (which could lead to additional medical fee points), medication follow-ups, and online medication guidance, all available on the LINE app. The service apparently is being used more and more for sending prescriptions and providing online medication guidance. Dispensing pharmacies pay a predetermined fee to PharmaShift to use the service, and the number of pharmacies using the service has risen to 6,020.

According to the company, the number of prescriptions sent to pharmacies that have adopted the service more than doubled that of those that have not. Safe management of personal information is a high priority, so proactive measures being taken include no need to fill out personal information on the LINE Talk screen, making service available on external website apps, and utilizing highly secure domestic servers. The company is encouraging its network affiliates to adopt the service, and also plans to promote the system as a standard service of its network among dispensing pharmacy operators that are not affiliates.

*LINE is a messaging application developed and operated by LY Corporation (TSE Prime: 4689; formed through the merger of the former LINE Corporation and the former Yahoo! Japan Corporation in October 2023). The LINE messaging application has achieved substantial market penetration in Asian countries such as Japan, Thailand, and Taiwan.

Leasing and Facility-related business

Leasing and Facility-related

(JPYmn)	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
Sales	**3,320**	**3,425**	**2,940**	**3,326**	**3,494**	**3,611**	**3,468**
YoY	-	3.2%	-14.2%	13.1%	5.1%	3.3%	-4.0%
Operating profit	**-84**	**45**	**32**	**39**	**-92**	**158**	**190**
YoY	-	-	-28.9%	21.9%	-	-	20.3%
Operating profit margin	-	1.3%	1.1%	1.2%	-	4.4%	5.5%

Source: Shared Research based on company data

Planning and development of medical buildings and medical plazas

In addition to private practice clinics, the company engages in the planning and development of facilities that house multiple medical clinics (medical buildings and medical plazas). The real estate business is mainly operated by subsidiary Nihon Leben, which was a subsidiary, but was absorbed in October 2017.

This business supports development of clinics that goes beyond just real estate brokerage. The focus is on providing a broad range of support to physicians looking to start a practice, beginning with the stage of formulating a basic business plan for the clinic, and spanning the creation of a management philosophy and strategy, investigating the medical area, selecting real estate property, overseeing design and construction, financing, and processing the business start-up application.

The company develops medical malls* where multiple medical institutions are located in one area, which benefit both patients and physicians. Grouping various medical institutions in the same premises provides patients with opportunities

to receive one-stop treatment from multiple specialists. It is also more efficient for physicians, as they can lower costs by sharing facilities and benefit from synergies in patient traffic and advertising.

*Medical mall: Where several specialized clinics and dispensing pharmacies are located in the same building or area. It is called a medical building when they are in the same building and a medical plaza when they are located in the same area.

Medical malls have different formats. For the building format where tenants are only clinics and dispensing pharmacies, the building is often constructed based on the assumption that clinics will move in, so the floor space and specifications are designed accordingly. Another type is a medical area located within a shopping mall or a commercial facility attached to a train station; since station users and local residents frequent these commercial facilities, they can see their physicians after shopping or on their way home. A third format is a congregation of multiple detached clinics in the same area, often established along suburban main roads where land is easy to acquire.

An example of a medical building developed by the company is the Leben Building in Sapporo, Hokkaido. Standing near a general hospital in Sapporo, in an area where multiple specialty clinics are also located, the building houses four clinics, including surgery and internal medicine, and a Nanohana Pharmacy. An example of a medical plaza is the Shizunai Aoyagi district, located in Hidaka, Hokkaido, with five clinics, including internal medicine and otolaryngology, and the two directly operated Nanohana Pharmacies. The company notes the latter is a medical mall with roots in the local community, and has been attracting attention as a model case for supporting regional medical care in cities experiencing depopulation and aging.

Planning and development of long-term care facilities

The company operates serviced elderly housing facilities that collaborate with medical institutions, long-term care centers, and dispensing pharmacies to ensure an environment where residents can live safely with peace of mind. Wisteria N17, located in Sapporo, Hokkaido, is the company's first serviced elderly housing facility. Standard services include daily safety checks and 24-hour on-call emergency service while fee-based services such as meal catering and long-term care services are also available. Wisteria N17 is also networked with local medical institutions such as the general hospital, specialty clinics, dental clinics, and dispensing pharmacies. The company operates four facilities. Wisteria Senri-Chuo (Toyonaka, Osaka Prefecture), opened in 2016, was transferred in FY03/25, while Wisteria Minami Ichijo (Sapporo, Hokkaido) began operations in November 2018.

According to the company, investment in expanding serviced elderly housing facilities concluded in FY03/19. The current focus is on raising occupancy rates at existing Wisteria facilities—particularly at Wisteria Minami Ichijo, where occupancy remains around 80%, compared with over 90% at the other three locations. The company plans to focus on building a community where medical care and long-term care are offered as one, with local dispensing pharmacies, hospitals, and long-term care and childcare facilities surrounding the serviced elderly housing facilities.

The business of serviced housing for the elderly has a large effect on earnings, and occupancy rates have a particularly significant impact. In FY03/24, the segment was adversely affected by factors such as a slowdown in the number of new residents entering facilities due to effects from the pandemic, and higher utility costs amid rising energy costs. However, in FY03/25, segment sales declined 4.0% YoY to JPY3.5bn, and the segment profit came to JPY190mn (+20.3% YoY).

Meal Catering

Meal Catering business

(JPYmn)	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
Sales	**3,161**	**2,797**	**2,474**	**2,322**	**2,289**	**2,360**	**2,359**
YoY	-	-11.5%	-11.5%	-6.1%	-1.4%	3.1%	0.0%
Operating profit	**34**	**-43**	**-21**	**1**	**-65**	**-43**	**10**
YoY	-	-	-	-	-	-	-
Operating profit margin	1.1%	-	-	0.0%	-	-	0.4%

Source: Shared Research based on company data

The company provides meals to hospitals and welfare facilities. The meal catering service is provided by Total Medical Service, Kyushu Iryo Shoku Co., Ltd. (merged with Total Medical Service in April 2018), and Sakura Foods Co., Ltd. (wholly owned subsidiary of Total Medical Service) in the Kyushu and Chugoku areas (Fukuoka, Saga, Kumamoto, Miyazaki, and Kagoshima prefectures).

In FY03/25, sales were flat at JPY2.4bn (–0.0% YoY), as the impact of withdrawing from unprofitable facilities was offset by cost improvements from revised contract pricing. Segment profit came to JPY10mn, compared with a loss of JPY43mn in FY03/24.

Other

The major business in this segment is home-visit nursing care carried out by subsidiary Home-Visit Nursing Station Himawari Co., Ltd., which is slated for an absorption-type merger from July 1, 2021. In addition, the Manufacture and Market Pharmaceuticals business, conducted by subsidiary Feldsenf Pharma Co., Ltd., was consolidated into the newly established Community Pharmacy Network segment from FY03/20.

The home-visit nursing care business dispatches specialized nurses to patients' homes to check on their conditions, and provides appropriate nursing care and advice. It collaborates with physicians, healthcare and long-term care professionals, and pharmacists working in the company's Nanohana Pharmacy chain.

Market and value chain

Dispensing pharmacy market

Dispensing pharmacies fill prescriptions issued by medical institutions. This is based on the separation of prescribing and dispensing functions, in an effort to raise the quality of medical care by letting physicians focus on examining patients and determining appropriate treatment while allowing pharmacists to specialize in dispensing drugs, managing medication history, and providing guidance on usage. According to the Japan Pharmaceutical Association (JPA), the separation accelerated sharply from 1997 when the Ministry of Health and Welfare (the predecessor of MHLW) instructed 37 national hospitals to adopt complete separation (more than 70% of prescriptions must be filled outside the hospital). The out-of-hospital dispensing ratio exceeded 50% nationwide for the first time in 2003, and thereafter surpassed 70% in FY2016 and reached 80.3% in FY2023.

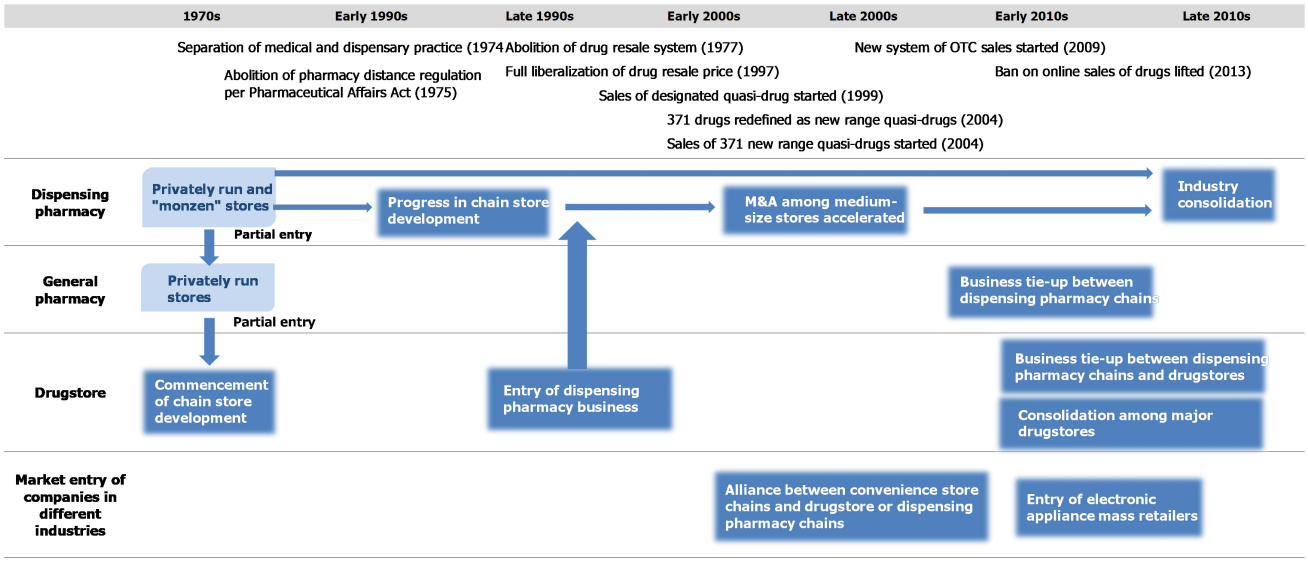
The number of dispensing pharmacies steadily increased as separation of prescribing/dispensing advanced and pharmacies that previously marketed OTC drugs became dispensing pharmacies. There was also a pronounced increase in independent pharmacies operating near large hospitals—so-called "monzen" (Japanese meaning "in front of the gate") pharmacies. Another factor driving growth has been the expansion of drugstores into the dispensary business. Prescription volumes issued by medical institutions have also been rising.

Number of dispensing pharmacies in Japan

(No. of pharmacies, year)	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
No. of pharmacies	48,252	49,332	49,956	50,600	51,233	51,952	52,539	53,304
	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
No. of pharmacies	53,642	53,001	54,780	55,797	57,071	57,784	58,326	58,678
	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
No. of pharmacies	59,138	59,613	60,171	60,951	61,791	62,375	62,828	63,203

Source: Shared Research based on MHLW's Report on Public Health Administration and Services
Note: Data for FY2010 does not include parts of Miyagi and Fukushima Prefectures

Developments surrounding dispensing pharmacies



Source: Shared Research based on MHLW's Report on Public Health Administration and Services

Number of prescriptions

(mn, year)	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Number of prescriptions filled	730.56	761.69	778.51	789.86	794.30	808.31	823.72	829.99
	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Number of prescriptions filled	838.86	843.61	842.84	764.97	802.05	837.62	887.59	898.59

Source: Shared Research based on MHLW's Trends in Dispensing and Medical Care Expenses
Note: Shared Research attributes the decline in the number of prescriptions in 2020 to an increase in long-term prescriptions amid the spread of COVID-19.

Role of dispensing pharmacies in community-based integrated care system: transforming to family, regional pharmacies

Environment facing smaller pharmacies: dispensing fee revisions

The dispensing fee revision implemented in April 2014 reduced the basic dispensing fee for pharmacies that receive more than 90% of their prescriptions from specific medical institutions. The government enacted the changes after reassessing medical care finances amid chronic fiscal deficits, a health insurance program on the verge of collapse, and continually expanding long-term care expenditures. Since then, dispensing fees have been further lowered in stages. In addition, faced with concerns of rising medical costs, the government opted to expand the functions of dispensing pharmacies rather than increase physician numbers. Thus, it has promoted home medical care services such as prescription delivery and offered preferential treatment to dispensing pharmacies that can provide a 24-hour on-call service. This perspective is based on the community-based integrated care system promoted by MHLW, a framework under which the functions required of dispensing pharmacies and pharmacists are diversifying.

Community-based integrated care system
This is a social collaboration concept promoted by MHLW. It is defined as a system that ensures comprehensive support for healthcare, nursing care, prevention of long-term care, housing, and independent daily living, enabling elderly individuals to lead independent daily lives in their familiar communities to the extent possible in accordance with their capabilities. The system consists of five components: housing, healthcare, nursing care, preventive care, and daily living support. These elements are expected to work together, forming organic relationships. The practical implementation of the system is not uniform but needs to be tailored to the characteristics of each region. For example, different models include those geared toward rural villages (hilly and mountainous areas), island/coastal areas, urban areas, metropolitan areas, and housing complexes. Once established, the system is expected to yield various benefits such as reducing the number of bedridden elderly, slowing the growth rate of medical expenses, and stimulating regional economic activity.

However, this trend often works against smaller pharmacies (such as those near large hospitals) that do not belong to major chains, in the sense of increased costs and a shortage of human resources. At a time of virtually flat dispensing fee expenditures, survival for community pharmacies hinges on strengthening family pharmacy functions and services that directly generate sales such as technical fees.

Dispensing and medical care expenses

(JPYbn)	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Dispensing fee (Total)	7,874.6	7,495.3	7,712.9	7,474.6	7,746.4	7,544.7	7,751.5	7,882.1	8,307.7	8,434.7
Technical fee	1,828.3	1,849.0	1,912.2	1,931.1	1,977.1	1,877.9	2,010.3	2,126.4	2,247.4	2,325.1
Drug fee	5,978.3	5,577.8	5,741.3	5,483.4	5,711.4	5,605.8	5,680.0	5,690.8	6,004.1	6,059.2

Source: Shared Research based on MHLW's Trends in Dispensing and Medical Care Expenses

MHLW initiates "Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs"

The "Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs" (so-called distribution improvement guidelines) were adopted starting April 2018. Issued by MHLW, the guidelines targeting industry members reflect the ministry's initiative to shift the role of spearheading improvement in prescription drug distribution from the

distributors to the government. Items of note on the relationship between drug wholesalers and medical institutions/dispensing pharmacies include the avoidance of excessive discounts. According to these guidelines, offering prices involving excessive discounts that do not reflect the actual value of pharmaceuticals, such as using a benchmark without considering transaction terms, is incompatible with the current NHI drug price system (where individual drug price reflects the value). The guidelines urge wholesalers and medical institutions/dispensing pharmacies also to consider distribution costs and stable provision/sourcing of pharmaceuticals, and to take a comprehensive perspective on each price negotiation, seeing it as an extension of the price negotiations between drug manufacturers and wholesalers.

Key points from the "distribution improvement guidelines"

- Items of note between manufacturers and wholesalers:
  - Elimination of negative primary margins, presentation of appropriate prices
- Items of note between wholesalers and medical institutions/dispensing pharmacies:
  - Rapid settlement of transaction prices and promotion of individual drug unit price transactions
  - In principle, all drugs should have individual drug unit prices (no bundling contracts)
  - At a minimum, the percentage of individual drug unit price contracts must exceed previous year levels
  - Adjustment of excessive price discounts that do not reflect pharmaceuticals value and distribution costs
- Ensured efficiency and safety of distribution
  - Avoidance of costly practices such as frequent and emergency deliveries that can impede stable supply

MHLW will establish a consultation office to support guideline compliance and plans to proactively disclose cases as they come up. In addition to confirming compliance, it will also check to see if the guidelines' intent and substance are reflected in medical fees.

Expanding roles of dispensing pharmacists

Number of pharmacists

('000)	FY2006	FY2008	FY2010	FY2012	FY2014	FY2016	FY2018	FY2020	FY2022
Pharmacies	125.25	135.72	145.60	153.01	161.20	172.14	180.42	188.98	190.74
Hospitals and clinics	48.96	50.34	52.01	52.70	54.88	58.04	59.96	61.60	62.46
Other	78.32	81.70	78.90	74.34	72.07	71.14	70.92	71.40	70.49
Total	252.53	267.75	276.52	280.05	288.15	301.32	311.29	321.98	323.69

Source: Shared Research based on MHLW's Survey of Physicians, Dentists and Pharmacists

Amid changes in business conditions such as the advancement and increasing complexity of medical care and Japan's declining birthrate and aging society, the roles and tasks required of pharmacists are evolving. In 2019, the Act on Pharmaceuticals and Medical Devices Law was revised to the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices, which redefined the roles of pharmacists and dispensing pharmacies.

Specific changes involved the promotion of family pharmacists and pharmacies, the advancement of team-based medical care in medical institutions, and measures undertaken as a member of the community-based integrated care system. These changes reflected a shift in roles and tasks beyond traditional dispensing operations.

As the community-based integrated care system is further developed, dispensing pharmacies and pharmacists will be called on to fulfill their roles by collaborating and sharing information with physicians and other professionals as well as related medical institutions in accordance with regional conditions. This collaboration will ensure the provision of uniform and continuous drug therapies to patients.

Pharmacists are expected to exercise pharmaceutical management by keeping track of medication conditions not only when drugs are dispensed but continuously throughout the medication period. They must provide information and guidance to patients based on their pharmaceutical expertise as necessary. Such information also needs to be shared with primary care physicians, dentists, and other professionals, as well as related organizations. Moreover, to ensure appropriate pharmaceutical management and encourage necessary medical consultations, pharmacists have to

understand the usage conditions and other details for prescribed medications, over-the-counter drugs, and so-called "health foods" that require medication guidance.

As the roles of pharmacists expand, dispensing pharmacies need to create a work environment that allows pharmacists to fully perform their duties. This includes strengthening interpersonal services provided by pharmacists. From this perspective, it is necessary to improve the efficiency of tasks such as dispensing drugs with the underlying aim of ensuring service quality.

FY2024 medical fee revisions

The FY2024 medical fee revisions were as follows.

Net medical fee revision -0.12% = medical fee +0.88% + drug reimbursement price, etc. -1.00%

The increase in the core medical fee includes +0.61% for wage increases, +0.06% for inpatient meal costs, -0.25% for the optimization of prescription fees, etc., and +0.46% for other revisions (+0.52% for medical fees, +0.57% for dental fees, and +0.16% for dispensing fees). While the overall medical fee has increased, the breakdown includes reductions of -0.97% for NHI drug prices and -0.02% for medical material prices. Shared Research thinks the result of the revisions is a shift from a merchandise-based approach to a patient-centered one, evidenced by the expansion of guidance fees for pharmacists who interact with patients, and an ongoing recognition of pharmacies that contribute to community-based medical care such as through provision of medication information to hospitals.

The Ministry of Health, Labour and Welfare released information concerning temporary revisions to the medical fee reimbursement system starting from April 1, 2024. Under these temporary revisions, the following three special measures apply. Shared Research understands that the measures ultimately will lead to higher costs for dispensing pharmacies.

(1) Grace period pertaining to in-principle obligatory introduction of online eligibility verification

A grace period applies when medical institutions and pharmacies covered by insurance are unable to comply with this requirement due to unavoidable circumstances such as system maintenance, network shortcomings, renovation work, and plans to cease/suspend trading. In principle, the grace period extends to the end of September 2023.

(2) Special measures awarding bonus points for introduction and increased uptake of online eligibility verification

Medical care providers already can earn points for performing online eligibility verification at the time of initial consultation and dispensing, but under this new measure awarding bonus points for improving medical information and system infrastructure, the above points have been revised, and points also are awarded at the time of follow-up consultations. The government also has reviewed the calculation method for these bonus points, adding one to two points. This measure is in place from April to December 2023.

(3) Special measures for medical fees to ensure more stable supply of pharmaceuticals

In light of the unstable supply of medicines and from the perspective of prescribing appropriate drugs to patients and promoting cooperation among local pharmacies, one to three additional bonus points are being temporarily awarded for such acts as prescribing generic drugs, promoting greater use of generic drugs, and providing community support systems. This measure is in place from April to December 2023.

Medical fee revision (%)

Year of revision	2006	2008	2010	2012	2014	2016	2018	2019	2020	2022	2024
Core medical fees (actual)	-1.36	+0.38	+1.55	+1.379	+0.10	+0.49	+0.55	+0.41	+0.55	+0.43	+0.88
Dispensing fee	-0.60	+0.17	+0.52	+0.46	+0.04	+0.17	+0.19	+0.12	+0.16	+0.08	+0.16
Drug prices (actual)	-1.80	-1.20	-1.36	-1.375	-1.36	-1.33	-1.74	-0.95	-1.01	-1.35	-1.00
NHI basis	-6.70	-5.20	-5.75	-6.00	-5.64	-5.57	-7.48	-2.40	-4.38	-1.44	-0.97
Consumption tax addition	-	-	-	-	+1.36	-	-	+0.48	-	-	-
Total (nominal)	-3.16	-0.82	+0.19	+0.004	+0.10	-0.84	-1.19	-0.07	-0.46	-0.94	-0.12

Source: Shared Research based on company data

The key point regarding dispensing fees raised around the time of the FY2018 revision is a reassessment of the role of dispensing pharmacies with an emphasis on patient-centered service. Specifically, it promotes evaluation of family

pharmacies and pharmacists, patient-centric businesses and at-home medical care; and promotes the use of generic drugs.

Mid-year revision of NHI drug price

NHI drug price revisions, previously held once every other year, were shifted to an annual basis effective from 2021 (medical fee revision continues to be held every one year), with the first mid-year revision conducted in April 2021. The shift is driven by the intention of the Japanese government and MHLW to reduce healthcare expenditures by reflecting the drop in market values more quickly into official pricing, and thereby also properly reflect market values into NHI drug prices.

MHLW considers it appropriate to widen the scope of the mid-year revision of NHI drug prices as much as possible to reduce the national burden. Under this approach, revisions are applied across all categories of pharmaceuticals with a high pricing differential, such as new drugs, long-listed drugs, generics, and others. However, annual NHI drug price revisions—mostly downward—are taking place amid rising manufacturing costs driven by higher energy and raw material prices. This has placed financial and operational strain on pharmaceutical manufacturers, including both new drug and generic producers. Shared Research anticipates the impact of the annual NHI price revisions will be far-reaching, not limited to generic and brand drug manufacturers but also extending to pharmaceutical distribution-related companies and dispensing pharmacies. Backed by opposition from pharmaceutical industry groups and other related organizations, MHLW has also stated it will continue to study the structure of the new system.

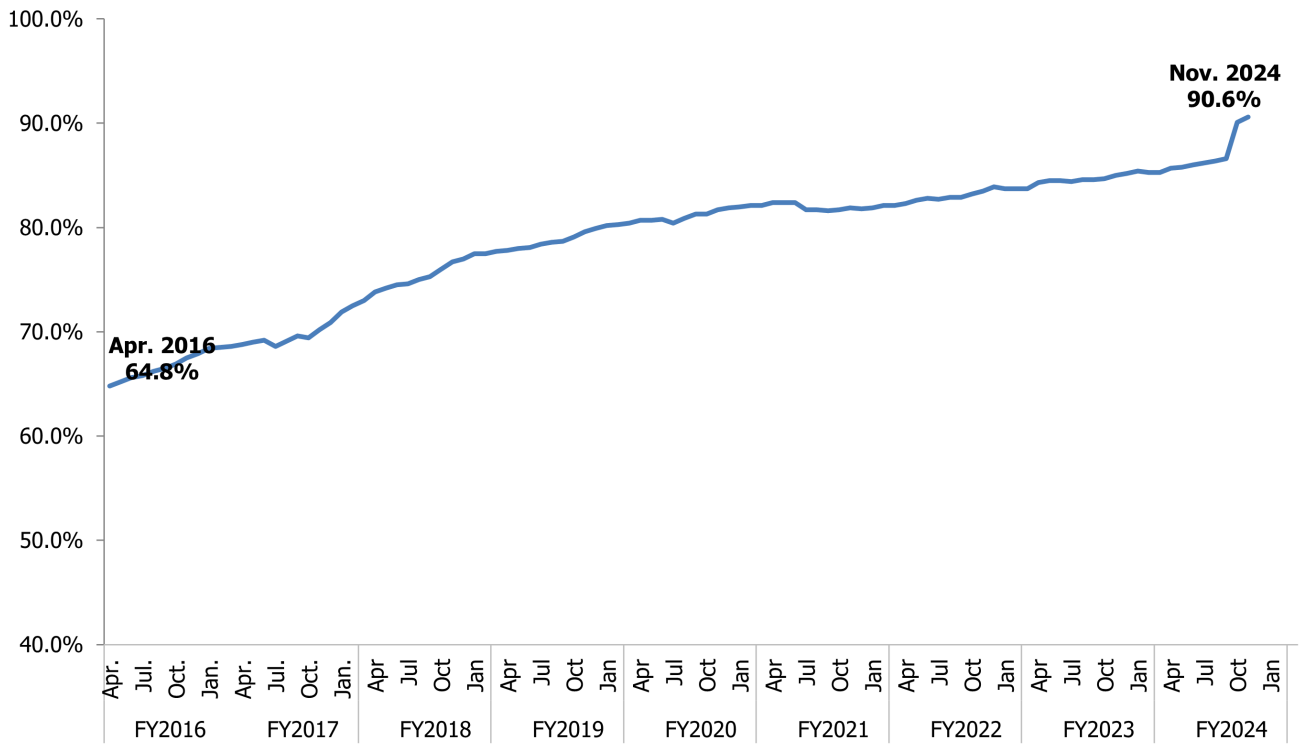
FY2025 mid-year NHI drug price revision

For the 2025 mid-year NHI drug price revision, the government decided to determine the price reduction targets by pharmaceutical category and to implement measures such as the cumulative deduction under the promotion of new drug development and off-label use resolution scheme, as well as the re-pricing of unprofitable drugs deemed medically essential.

For the 2025 drug price revision, pharmaceuticals exceeding the threshold based on an average price divergence rate of 5.2% will be subject to price reductions. The thresholds vary by category: 1.0x for drugs eligible for the premium to promote the development of new drugs and eliminate off-label use, and for generics; 0.75x for other new drugs not eligible for the premium; 0.5x for long-listed drugs; and 1.0x for other pharmaceuticals. MHLW expects this revision to reduce drug costs by JPY246.6bn and government expenditure by JPY64.8bn. On the other hand, essential drugs will be exempt. These are defined as drugs with high clinical necessity that have been widely used over time, have established efficacy and safety, and require a stable supply. In implementing the revision, the minimum drug price will be raised—by approximately 3%—to reflect wage growth and other factors.

The introduction of the Selected Medical Treatment System in October 2024—which requires patients to bear an additional cost when choosing a long-listed drug over a generic alternative without medical necessity—has increased the burden on dispensing pharmacies in explaining medication options to patients. As a result, the point value for category (ii) under the special drug management guidance fee (add-on 3) was raised from 5 points to 10 points.

Generic drug ratio



Source: Shared Research based on MHLW's Recent Trends of Dispensing Medical Costs (electronically processed)

Industry peers (dispensing pharmacy chains)

As industry peers, we selected listed companies that operate dispensing pharmacies as their mainstay business. In 2025, Ain Holdings (TSE Prime: 9627) had the highest operating profit margin among the operating profit margins of the business segments that operated dispensing pharmacies. The whole industry was affected by the NHI medical fee revision in FY2019, with almost all companies recording lower profit margin than in FY2018. The profit margin of Medical System Network's dispensing pharmacy business has remained in the 5.0–6.0% range since FY03/19, mainly reflecting a change in segmentation.

Comparison of profit margins of industry peers' pharmacy operation segments

Ticker	Company	FY end	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
2796	Pharmarise Holdings	May	3.5%	2.3%	3.4%	3.4%	4.1%	4.0%	2.5%	1.1%
3034	Qol Holdings	Mar	6.4%	4.7%	4.7%	6.5%	7.7%	7.4%	6.5%	5.8%
3341	Nihon Chouzai	Mar	6.0%	4.2%	4.2%	4.3%	4.3%	5.2%	5.0%	4.2%
4350	Medical System Network	Mar	3.5%	3.6%	3.8%	5.7%	6.0%	5.6%	5.9%	4.8%
—	Sogo Medical Holdings	Mar	6.5%	5.0%	-	-	-	-	-	-
7649	Sugi Holdings	Feb	5.4%	5.3%	5.5%	5.6%	5.1%	4.7%	4.9%	4.8%
9627	Ain Holdings	Apr	9.5%	7.5%	7.9%	8.0%	8.9%	7.5%	7.7%	6.3%

Source: Shared Research based on materials and websites of the various companies (as of end-May 2025)
Notes:1. Values for Medical System Network are profit margins of the Community Pharmacy Network segment from 2019.
2. Sogo Medical Holdings was delisted on April 17, 2020. Nihon Chouzai is scheduled to be delisted on December 19, 2025.
3. Sugi Holdings: Total company profit margins since there is only one segment.
4. Ain Holdings Inc. concluded a share transfer agreement in August 2025 to acquire all shares of the Sakura Pharmacy Group.

Main industry peers

Ticker	Company	Latest FY results			Business description
		Sales (JPYmn)	Operating profit margin (%)	ROE (%)	
2796	Pharmarise Holdings	63,508	0.5%	-5.3%	Middle-tier pharmacy chain. Leverages partnerships with regional drug wholesalers to acquire local dispensing chains. Has a reputation for community care support. Established joint ventures with Higuchi and FamilyMart to develop pharmacies.
3034	Qol	263,972	5.1%	9.4%	Major pharmacy chain. Started as monzen pharmacy. Opened stores with Lawson and Bic Camera. Also developing MR and pharmacist dispatch business.
3341	Nihon Chouzai	360,512	1.7%	2.4%	Top-ranked dispensing pharmacy chain. Nationwide expansion centered on monzen pharmacies in Kanto-Koshinetsu area. Established generic drug manufacturing subsidiary, also developing in-house drugs. Referral & placement of medical staff such as pharmacists. Scheduled to be delisted in December 2025.
4350	Medical System Network	122,387	2.6%	8.0%	Dispensing pharmacy holding company that also operates a pharmaceutical information intermediary network business. Started in Hokkaido, but expanding nationwide through M&A.
7649	Sugi Holdings Co., Ltd.	878,021	4.8%	10.6%	Developed drugstore/dispensing pharmacy, Sugi Pharmacy, in its stronghold Tokai area. The holding company also has discount stores. Merged a consolidated subsidiary in February 2025.
9627	Ain Holdings	456,804	3.7%	6.7%	Top-ranked dispensing pharmacy chain. Originated in Hokkaido, expanded into metropolitan areas, with nationwide coverage of mainly monzen pharmacies. Concluded capital and business tie-up with Seven & i Holdings. Made Sakura Pharmacy Group a wholly owned subsidiary in 2025.

Source: Shared Research based on company data

Medical System Network (specifically, its Community Pharmacy Network segment) ranks among the top ten dispensing pharmacy chains by sales. They all have negative cash flow from investment activities, which Shared Research attributes to their strategies of achieving growth by absorbing smaller local dispensing pharmacies. In 2025, Ain Holdings made the Sakura Pharmacy Group (unlisted) a wholly owned subsidiary, while Nihon Chouzai was acquired by an investment fund and is scheduled to be delisted in December 2025.

In terms of unifying the management style of dispensing pharmacies under one group, the company envisions two scenarios. One involves dispensing pharmacies joining the Nanohana Pharmacy group through capital means such as M&A, which is the approach taken by other major chains. Under the second scenario, dispensing pharmacies retain their original management structure, but join the company's network as members. The company is continuing to expand its group through these measures, while independently managed dispensing pharmacies that join as network members benefit from the same operational services as those offered by large chains without losing their management rights.

Financials of industry peers

(JPYmn)	Medical System Network (4350)			Pharmarise Holdings (2796)			Qol Holdings (3034)		
	FY03/23	FY03/24	FY03/25	FY05/23	FY05/24	FY05/25	FY03/23	FY03/24	FY03/25
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	109,551	115,361	122,387	52,030	54,466	63,508	170,036	180,052	263,972
Gross profit	45,921	47,925	50,736	8,134	8,449	8,965	23,504	23,249	39,056
SG&A expenses	42,758	44,093	47,582	6,695	7,533	8,671	14,009	14,925	25,591
Operating profit	3,163	3,832	3,154	1,438	916	293	9,495	8,324	13,465
Recurring profit	3,355	3,825	3,162	1,431	833	136	10,098	9,256	13,831
Net income	1,610	1,860	1,262	333	-351	-367	5,656	4,880	7,476
ROE	11.6%	12.6%	8.0%	5.1%	-5.1%	-5.3%	12.2%	9.6%	9.4%
ROA (RP-based)	5.2%	5.7%	4.6%	6.1%	3.1%	0.4%	10.2%	8.4%	10.0%
Operating profit margin	2.9%	3.3%	2.6%	2.8%	1.7%	0.5%	5.6%	4.6%	5.1%
Total assets	66,223	68,149	70,586	23,421	29,486	31,924	101,905	117,779	159,669
Net assets	14,488	15,219	16,345	6,987	7,442	6,918	48,856	52,837	62,138
Equity ratio	21.8%	22.3%		28.5%	24.3%	20.9%	47.9%	44.8%	35.8%
Operating CF	4,973	7,725	4,459	2,520	2,714	1,311	11,662	13,533	12,593
Investing CF	-2,114	-3,649	-3,726	-703	-3,120	-4,462	-7,013	-13,155	-20,360
Financing CF	-2,918	-3,944	-544	-1,072	2,771	939	-2,569	7,969	7,201
Cash and deposits	8,111	8,242	8,431	4,734	7,100	4,891	18,596	26,944	26,378
Interest-bearing debt	30,516	29,179	29,789	7,411	12,485	13,850	22,750	31,632	27,571
Net debt	22,405	20,937	21,358	2,677	5,385	8,959	4,154	4,688	1,193
	Nihon Chouzai (3341)			Sugi Holdings (7649)			Ain Holdings (9627)		
	FY03/23	FY03/24	FY03/25	FY02/23	FY02/24	FY02/25	FY04/23	FY04/24	FY04/25
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	313,318	340,310	360,512	667,647	744,477	878,021	358,742	399,824	456,804
Gross profit	53,643	57,236	57,365	202,524	228,837	275,043	53,698	59,522	74,436
SG&A expenses	46,057	48,093	51,125	170,865	192,215	232,479	37,694	39,090	57,565
Operating profit	7,586	9,142	6,239	31,658	36,622	42,563	16,004	20,432	16,871
Recurring profit	7,682	9,439	6,915	32,391	38,039	41,993	17,064	21,377	18,080
Net income	4,458	2,553	1,391	19,007	21,979	25,689	9,234	11,401	9,261
ROE	8.2%	4.4%	2.4%	8.8%	9.8%	10.6%	7.5%	8.7%	6.7%
ROA (RP-based)	4.2%	5.0%	3.5%	9.4%	10.2%	9.5%	7.7%	8.9%	6.4%
Operating profit margin	2.4%	2.7%	1.7%	4.7%	4.9%	4.8%	4.5%	5.1%	3.7%
Total assets	185,297	195,087	197,105	351,895	390,563	495,116	23,175	249,409	311,921

Net assets	56,483	58,351	59,097	216,538	233,362	250,704	126,546	135,411	142,632
Equity ratio	30.5%	29.9%	30.0%	61.5%	59.8%	50.6%	54.6%	54.3%	45.7%
Operating CF	7,532	20,421	8,824	38,279	39,041	36,941	20,267	23,023	23,146
Investing CF	-10,018	-13,726	-9,921	-23,256	-30,976	-33,285	-22,292	-15,748	-65,920
Financing CF	713	-4,430	2,526	-14,209	-5,284	11,633	-11,237	-5,110	21,051
Cash and deposits	23,770	26,034	27,463	34,622	37,406	52,736	46,217	48,381	26,655
Interest-bearing debt	58,126	54,923	58,269	0	837	2,283	8,723	6,732	38,725
Net debt	34,356	28,889	30,806	-34,622	-36,569	-50,453	-37,494	-41,649	12,070
	MatsukiyoCocokara & Co. (3088)			**Welcia HD (3141)**			**Tsuruha HD (3391)**		
	FY03/23	**FY03/24**	**FY03/25**	**FY03/23**	**FY03/24**	**FY03/25**	**FY05/23**	**FY05/24**	**FY02/25**
	Cons.	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**
Sales	951,247	1,022,531	1,061,626	1,144,278	1,217,339	1,285,005	970,079	1,027,462	845,603
Gross profit	329,320	354,097	372,235	349,254	370,107	390,356	312,276	312,276	257,540
SG&A expenses	267,043	278,392	290,153	303,619	326,875	353,947	263,071	265,125	219,645
Operating profit	62,276	75,705	82,082	45,635	43,231	36,409	45,572	47,151	37,894
Recurring profit	66,721	80,499	86,271	52,149	47,756	40,837	45,689	47,466	37,840
Net income	4,545	52,347	54,675	27,030	26,451	14,958	25,258	21,743	17,207
ROE	8.6%	10.5%	10.6%	12.7%	11.4%	6.2%	9.4%	7.8%	6.1%
ROA (RP-based)	10.0%	11.4%	12.0%	10.4%	8.8%	7.2%	8.3%	8.7%	6.7%
Operating profit margin	6.5%	7.4%	7.7%	4.0%	3.6%	2.8%	4.7%	4.6%	4.5%
Total assets	688,132	724,747	712,780	537,362	551,860	579,985	539,830	549,551	583,362
Net assets	482,718	515,176	521,499	232,384	244,367	254,486	304,144	305,297	306,377
Equity ratio	70.1%	71.0%	73.1%	42.0%	43.0%	42.8%	51.2%	50.9%	48.2%
Operating CF	64,061	63,506	81,472	60,296	46,529	47,845	804	51,964	64,643
Investing CF	-19,669	-22,760	-20,792	-36,068	-22,028	-22,736	-29,774	-36,068	-19,713
Financing CF	-23,734	-18,273	-66,662	-14,849	-26,812	-20,774	-19,005	-36,259	-10,872
Cash and deposits	95,224	117,720	111,750	33,307	30,065	34,404	78,916	58,554	92,605
Interest-bearing debt	3,012	20,663	2,205	86,071	82,699	81,249	54,863	50,039	63,764
Net debt	-92,212	-97,057	-109,545	52,764	52,634	46,845	-24,053	-8,515	-28,841

Source: Shared Research based on each company's data
Note: Sogo Medical (4775) became Sogo Medical HD (9277) in October 2018 and delisted on April 17, 2020.

Strengths and weaknesses

Strengths

Management support network service available to small and mid-tier pharmacies:

Small pharmacies and mid-tier regional chains (80% of the market; based on the company's research) fall behind major nationwide chains in buying power versus drug wholesalers and means to optimize pharmaceuticals inventory. However, by joining the company's network and becoming an affiliate, they can tap into majors-class strength and infrastructure without giving up their autonomy to a major pharmacy chain. The process does not involve a business transfer, so the hurdle for joining the network is relatively low.

The company has a network system boasting the largest pharmaceuticals order volume in Japan, and negotiates procurement terms with suppliers on behalf of its members. It is also the only company that offers a dead stock clearance service, which matches members' inventory surpluses with deficiencies to reduce costly write-offs.

Certified pharmacist training support system that appeals to pharmacies struggling with pharmacist shortage:

The company's Pharmaceutical Network business collaborates with a training organization to support pharmacists (both network member pharmacists and others) enrolled in a certification program authorized by the Japan Pharmacists Education Center (JPEC). Aimed at raising the skill level of pharmacists, the JPEC program certifies those pharmacists who have completed their credit requirements through participation in various training courses (40 credits within four years and 30 credits every three years thereafter). The certification is one of the criteria of a "family pharmacist," whose pharmacy becomes eligible to charge an additional family pharmacist guidance fee.

The company mainly utilizes its directly operated pharmacies and affiliates to help the training organization Iyaku Sogo Kenkyukai (ISK) run its accredited training courses nationwide. The service strengthens pharmacists' loyalty to their employers and improves recruitment outcomes. ISK is one of the few private-sector organizations registered with JPEC as a training organization and is authorized to assist pharmacists in applying for credits toward the certified pharmacist qualification, as issued by JPEC through its training courses.

Regional dispensing pharmacy strategy in line with administrative guidance:

A distinguishing feature of the company's dispensing pharmacies is their high concentration in medical malls. This is in line with MHLW's vision for the role of pharmacies in the face of an aging society, and the company's outlet-location strategy benefits from the revised insurance point system. MHLW has revised dispensing fees to encourage a shift away from the pharmacy model linked to specific hospitals (pharmacies operating adjacent to large hospitals) and toward the family pharmacy and regional medical care models that accept prescriptions from a wide range of medical institutions. The company's strategy of opening pharmacies in medical complexes is in line with MHLW guidance and works to its favor in terms of dispensing fee eligibility.

Weaknesses

Potential conflict of interest between businesses pursuing M&A-driven pharmacy chain expansion and those offering support services for small pharmacies:

The Pharmaceutical Network business provides non-directly operated pharmacies (i.e., affiliates) access to the company's proprietary system, thus allowing them to maintain management independence, but this has the potential negative effect of impeding growth of the Dispensing Pharmacy business. While the company's peers are expanding through acquisition of smaller pharmacies, the availability of membership to the Pharmaceutical Network system is a possible lifeline to smaller pharmacies that could encourage them to delay M&A action.

Low profit margins for dispensing pharmacies without drugstore function:

The Dispensing Pharmacy business OPM of about 3.0% (based on disclosed data through FY03/19) is 2–5pp below that of other major chains. This is mainly because most of the company's dispensing operations are limited to prescription drugs and are not accompanied by drugstore functions handling items such as OTC drugs, long-term care products, and toiletries.

Many of the other major chains have adopted the strategy to boost pharmacy profit margins by integrating drugstore operations with added floor space for food products and cosmetics. The company is looking to expand its product offerings to include various long-term care products like adult diapers as part of a family pharmacy service, but it will take time to transition to this business format.

Relatively small assets, a disadvantage in acquisitions:

The company is at a disadvantage versus the major players in terms of asset scale when it comes to acquisitions—a key initiative for expanding its pharmacy chain network. In terms of total assets—an important indicator of a buyer's financial strength in M&A deals—comparable companies operating dispensaries within drugstores typically exceed JPY500.0bn, whereas Medical System Network falls behind at approximately JPY70.0bn. To advance acquisitions and increase pharmacy outlets in regions other than its Hokkaido, its primary trading area, the company will need to be able to demonstrate its financial strength to the sell-side companies' management as well as M&A intermediaries.

Historical performance and financial statements

Income statement

Income statement (JPYmn)	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.	FY03/22 Cons.	FY03/23 Cons.	FY03/24 Cons.	FY03/25 Cons.
Sales	**87,715**	**88,865**	**93,977**	**98,232**	**105,241**	**104,257**	**106,685**	**109,551**	**115,361**	**122,387**
YoY	16.1%	1.3%	5.8%	4.5%	7.1%	-0.9%	2.3%	2.7%	5.3%	6.1%
Cost of sales	54,913	54,700	57,369	60,961	65,027	61,845	62,256	63,630	67,435	71,651
Gross profit	**32,801**	**34,164**	**36,607**	**37,271**	**40,214**	**42,412**	**44,429**	**45,921**	**47,925**	**50,736**
YoY	15.2%	4.2%	7.2%	1.8%	7.9%	5.5%	4.8%	3.4%	4.4%	5.9%
Gross profit margin	37.4%	38.4%	39.0%	37.9%	38.2%	40.7%	41.6%	41.9%	41.5%	41.5%
SG&A expenses	29,018	32,050	33,444	35,842	38,599	38,982	40,576	42,758	44,093	47,582
SG&A ratio	33.1%	36.1%	35.6%	36.5%	36.7%	37.4%	38.0%	39.0%	38.2%	38.9%
Operating profit	**3,783**	**2,113**	**3,163**	**1,428**	**1,615**	**3,429**	**3,852**	**3,163**	**3,832**	**3,154**
YoY	43.2%	-44.1%	49.7%	-54.9%	13.1%	112.3%	12.3%	-17.9%	21.2%	-17.7%
Operating profit margin	4.3%	2.4%	3.4%	1.5%	1.5%	3.3%	3.6%	2.9%	3.3%	2.6%
Non-operating income	457	275	378	405	288	361	758	550	384	446
Non-operating expenses	380	279	291	333	343	312	296	358	392	438
Recurring profit	**3,860**	**2,109**	**3,250**	**1,501**	**1,560**	**3,479**	**4,313**	**3,355**	**3,825**	**3,162**
YoY	52.0%	-45.4%	54.1%	-53.8%	3.9%	123.0%	24.0%	-22.2%	14.0%	-17.3%
Recurring profit margin	4.4%	2.4%	3.5%	1.5%	1.5%	3.3%	4.0%	3.1%	3.3%	2.6%
Extraordinary gains	88	57	19	49	48	914	146	7	119	374
Extraordinary losses	470	260	976	128	1,586	426	447	343	493	811
Income taxes	1,599	1,262	1,271	962	918	1,769	1,624	1,389	1,579	1,424
Implied tax rate	46.0%	66.2%	55.4%	67.7%	4172.7%	44.6%	40.5%	46.0%	45.8%	52.3%
Net income attributable to non-controlling interests	158	72	0	-2	0	0	-5	19	10	37
Net income	**1,720**	**571**	**1,022**	**462**	**-895**	**2,198**	**2,394**	**1,610**	**1,860**	**1,262**
YoY	94.4%	-66.8%	79.0%	-54.8%	-293.7%	-345.6%	8.9%	-32.7%	15.5%	-32.2%
Net margin	2.0%	0.6%	1.1%	0.5%	-0.9%	2.1%	2.2%	1.5%	1.6%	1.0%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

As seen in its medium-term management plan, the company's basic growth strategy is to increase the number of network member pharmacies and grow its own dispensing pharmacies.

OPM has remained in the 1% range in FY03/19 and FY03/20 amid a severe business environment characterized by NHI drug price revisions and price negotiations with wholesalers, but recovered to the 3% level in FY03/21 owing to growth of the Pharmaceutical Network business and improved profitability of the Dispensing Pharmacy business (currently, Community Pharmacy business). In FY03/22, OPM improved thanks to a boost in the number of network affiliates and further profitability improvement in the Community Pharmacy business (name changed from Dispensing Pharmacy business). In FY03/23, however, OPM was below 3% due to increases in personnel, utilities, and other costs. In FY03/24, the company made progress in controlling expenses and returned to the 3% of OPM. In FY03/25, operating profit declined due to higher pharmaceutical procurement costs, increased personnel expenses in anticipation of future business expansion, and upfront costs associated with launching new businesses.

SG&A expenses

SG&A expenses	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Salaries and allowances	10,406	12,088	12,481	13,467	14,195	14,435	15,301	15,938	16,215	17,361
Provision for employee bonuses	1,062	1,133	1,418	1,333	1,393	1,486	1,526	1,561	1,675	1,773
Retirement benefit expenses	329	361	466	457	596	566	576	602	647	666
Provision for directors' bonuses	55	47	35	33	41	42	39	40	37	37
Provision for directors' stock benefits	33	52	38	33	35	29	32	32	34	21
Taxes and dues	4,479	4,374	4,420	4,692	5,691	5,818	6,068	6,247	6,645	7,027
Depreciation	1,029	1,052	1,491	1,624	1,811	1,859	1,727	1,825	2,031	2,281
Amortization of goodwill	917	1,009	1,056	1,147	1,217	1,136	1,128	1,132	1,132	1,133
Other	8,486	9,630	9,559	15,827	16,648	16,606	14,179	15,381	15,677	17,283
Total	29,018	32,050	33,444	35,842	38,599	38,982	40,576	42,758	44,093	47,582

Source: Shared Research based on company data

Extraordinary losses in excess of JPY400mn were booked in each of the three years between FY03/14–FY03/16; these were mainly impairment losses at pharmacies that failed to reach projected earnings. The company monitors the profitability of each pharmacy based on specific criteria and provides guidance when they are not met. If improvements are not made within a specified period of time, the company closes the pharmacy and sells off the business rights.

Balance sheet

Balance sheet	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Assets										
Cash and deposits	2,081	2,252	10,201	11,703	11,722	10,118	8,201	8,141	8,273	8,461
Notes and accounts receivable	2,614	2,223	2,332	2,420	2,313	2,646	2,891	3,437	4,239	5,053
Inventories	3,431	4,053	3,520	4,361	4,544	4,483	4,869	5,268	5,539	6,235
Other	927	958	868	1,464	848	919	1,346	1,928	1,235	1,367
Allowance for doubtful accounts	-7	-10	-11	-12	-12	-12	-3	-11	-14	-18
Total current assets	**10,783**	**11,098**	**18,736**	**21,055**	**20,578**	**19,313**	**18,701**	**20,265**	**20,773**	**22,627**
Total tangible fixed assets	**20,253**	**21,246**	**24,129**	**25,721**	**25,126**	**24,634**	**24,624**	**27,060**	**28,336**	**28,473**
Total intangible assets	**13,481**	**13,833**	**15,045**	**16,235**	**14,615**	**13,572**	**12,767**	**11,807**	**11,281**	**9,908**
Investment securities	524	583	812	726	483	397	155	159	184	704
Long-term loans receivable										
Other	3,838	4,008	4,066	5,217	5,686	6,549	6,712	6,950	7,594	8,894
Allowance for doubtful accounts	-33	-32	-31	-21	-26	-20	-19	-19	-19	-20
Investment and other assets	**4,329**	**4,559**	**4,847**	**5,922**	**6,143**	**6,926**	**6,848**	**7,090**	**7,759**	**9,578**
Total fixed assets	**38,063**	**39,639**	**44,023**	**47,879**	**45,885**	**45,134**	**44,239**	**45,958**	**47,376**	**47,959**
Total assets	**48,847**	**50,737**	**62,759**	**68,935**	**66,464**	**64,448**	**62,941**	**66,223**	**68,149**	**70,586**
Liabilities										
Notes and accounts payable	9,525	9,144	9,416	10,198	10,021	9,258	9,680	9,937	10,935	11,480
Short-term debt	6,910	3,863	7,463	9,158	8,905	10,210	5,935	6,377	6,116	6,637
Income taxes payable	1,065	413	1,135	695	454	1,556	617	600	999	864
Other	3,561	3,500	3,755	3,793	3,916	4,394	4,203	4,435	5,163	5,396
Total current liabilities	**21,061**	**16,920**	**21,769**	**23,844**	**23,296**	**25,418**	**20,435**	**21,349**	**23,213**	**24,377**
Long-term debt	14,859	20,186	26,329	29,739	28,653	22,348	23,631	24,139	23,063	23,152
Deferred tax liabilities	1	1								
Other	2,660	2,985	4,075	4,590	5,096	5,493	5,588	6,246	6,653	6,711
Total fixed liabilities	**17,520**	**23,172**	**30,404**	**34,329**	**33,749**	**27,841**	**29,219**	**30,385**	**29,716**	**29,863**
Total liabilities	**38,581**	**40,092**	**52,174**	**58,173**	**57,045**	**53,260**	**49,654**	**51,735**	**52,930**	**54,241**
Net assets										
Capital stock	1,932	1,932	2,097	2,128	2,128	2,128	2,128	2,128	2,128	2,128
Capital surplus	1,742	1,742	1,160	1,185	1,183	1,182	1,182	1,182	937	946
Retained earnings	6,467	6,735	7,459	7,616	6,414	8,305	10,393	11,606	13,100	14,001
Treasury stock	-328	-302	-275	-233	-206	-344	-326	-326	-882	-891
Valuation differences on securities	15	49	143	83	-37	-24	-7	-2	19	34
Other	-17	23	52,316	58,239	56,945	53,154	49,547	51,596	52,819	54,317
Non-controlling interests	469	514	2	0	0	23	17	37	47	85
Total net assets	**10,265**	**10,644**	**10,584**	**10,761**	**9,418**	**11,187**	**13,286**	**14,488**	**15,219**	**16,345**
Total liabilities and net assets	**48,846**	**50,736**	**62,759**	**68,935**	**66,464**	**64,448**	**62,941**	**66,223**	**68,149**	**70,586**
Working capital	-3,480	-2,868	-3,564	-3,417	-3,164	-2,129	-1,920	-1,232	-1,157	-192
Total interest-bearing debt	21,769	24,049	33,792	38,897	37,558	32,558	29,566	30,516	29,179	29,789
Net debt	19,708	21,814	23,591	27,194	25,836	22,440	21,365	22,375	20,906	21,328

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Assets

The company's business transformed in 2012–13, due in part to the formulation of its third medium-term management plan. The company's consolidated subsidiary Pharmaholdings Co., Ltd., which operates dispensing pharmacies, entered a business alliance in December 2012 with Hanshin Dispensing Pharmacy Co., Ltd. (later became a subsidiary of Hanshin Dispensing Holding Co., Ltd. [merged into I&H Co., Ltd. in November 2019]). In July 2013, the two companies established a joint venture, H&M Co., Ltd.

The main purpose of the joint venture was joint sourcing and distribution of pharmaceuticals, purchase of medical devices, and clearance of dead stock. H&M's chief goal was not to win pricing concessions from drug wholesalers as a result of buying power due to large-volume procurement, but to collaborate with drug wholesalers to set economically rational prices. This is the core objective of the company's pharmaceutical network operations. Note that H&M Co., Ltd. was dissolved in February 2020.

Assets have continued to increase under the fourth medium-term management plan and beyond. The company has sought to increase the number of dispensing pharmacies by M&A, but has carefully monitored the performance of pharmacies and booked impairment charges or disposed of those whose earnings have not improved. Under the fifth medium-term management plan, assets have shrunk reflecting the impact of the COVID-19 pandemic since FY03/20. In FY03/22, the company continued to reduce assets through absorption of Home-visit Nursing Care Station Himawari Co., Ltd. among other means. Tangible fixed assets increased due to store development centered on medical malls in FY03/23, and due to M&A activity and other factors in FY03/24. In FY03/25, while inventories increased slightly, the company had largely completed its phase of active investment.

Liabilities

Liabilities rose during this period as the number of directly operated pharmacies increased in line with a rising network member count. The increase in current assets, which is working capital, was especially pronounced in FY03/14, when in addition to the increase in current assets, tangible fixed assets increased JPY4.5bn (+JPY2.5bn for buildings, +JPY1.9bn for land) and intangible fixed assets increased JPY4.1bn (JPY4.1bn increase in goodwill). Assets also increased in FY03/15 (buildings and structures +JPY237mn, land +JPY640mn, goodwill +JPY961mn). Growing demand for funds was met primarily through external financing.

Short-term borrowings increased by about JPY7.0bn to JPY102.7bn in FY03/14, while long-term borrowings increased by about JPY4.5bn to JPY14.2bn in FY03/15 and have continued to rise gradually thereafter. Short- and long-term borrowings have been over JPY30.0bn since FY03/18. Profits recovered in FY03/21 and FY03/22, and although interest-bearing debt declined YoY in both years, it was more or less flat in FY03/23–FY03/25.

Net assets

The company increased capital and retired treasury stock in FY03/16, lifting the equity ratio in line with one of the third medium-term management plan targets of achieving a ratio of 20% or higher. At the same time, management shored up the balance sheet through reducing short-term borrowing by JPY6.2bn YoY. Improving its financial position remains a key initiative of its fifth medium-term management plan, and of its sixth medium-term management plan unveiled together with the announcement of FY03/22 results. Since FY03/23, following the end of the COVID-19 pandemic, net assets have continued to grow, driven particularly by an increase in retained earnings in FY03/25.

Cash flow statement

Cash flow statement (JPYmn)	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.	FY03/22 Cons.	FY03/23 Cons.	FY03/24 Cons.	FY03/25 Cons.
Cash flows from operating activities (1)	6,409	3,084	6,699	2,840	4,232	5,205	4,010	4,973	7,725	4,459
Pre-tax profit	3,479	1,906	2,293	1,422	22	3,967	4,012	3,019	3,451	2,724
Depreciation	1,362	1,594	1,491	1,624	1,811	1,859	1,727	1,825	2,031	2,281
Amortization of goodwill	917	1,009	1,056	1,147	1,217	1,136	1,128	1,132	1,054	1,133
Change in trade receivables	191	812	496	500	285	-239	-214	-505	-421	-777
Change in inventories	455	-472	759	-620	-140	72	-406	-377	-192	-707
Change in trade payables	683	-765	-569	69	-328	-864	400	211	735	512
Cash flows from investing activities (2)	-5,040	-3,909	-6,848	-5,921	-2,383	-1,485	-2,511	-2,114	-3,649	-3,726
Purchase of tangible fixed assets	-3,674	-2,170	-4,050	-3,094	-1,351	-1,375	-1,934	-1,343	-1,765	-2,687
Purchase of intangible assets	-273	-192	-190	-82	-107	-154	-194	-234	-248	-377
Purchase, sale, and redemption of investment securities	-267	-19	-39	-16	102	18	379	0	6	-
Change in loans (short- and long-term; net)	-106	-38	-95	-3	-102	-233	7	-124	-43	1,428
Free cash flow (1+2)	**1,369**	**-825**	**-149**	**-3,081**	**1,849**	**3,720**	**1,499**	**2,859**	**4,076**	**733**
Cash flows from financing activities	-1,792	998	8,050	4,338	-1,687	-5,312	-3,415	-2,918	-3,944	-544
Change in short-term borrowings	-2,314	-3,241	2,598	1,471	-505	0	-2,901	-	-428	-
Change in long-term borrowings	-896	5,292	7,292	3,701	-376	-4,634	33	-2,269	-1,946	250
Acquisition of treasury stock	1,005	0								
Dividends paid	-229	-297	-297	-304	-305	-304	-304	-395	-365	-355

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cash flows from operating activities

Cash flow from operating activities has trended around JPY3.7bn–3.8bn, approximately half of which is derived from pre-tax profit, except for FY03/16–FY03/17 when profits fluctuated sharply.

FY03/16–FY03/17 earnings were impacted by a number of temporary factors and a changing business environment owing to NHI drug price and dispensing fee revisions. The company notes temporary factors that boosted FY03/16 profits such as JPY242mn in gains from the sale of real estate, JPY100mn in subsidies for opening a serviced elderly housing facility, and a JPY90mn tax benefit from the acquisition of subsidiary shares. The decline in FY03/17 profits was exacerbated by factors such as drug price and dispensing fee revisions, a winding down of major hepatitis C drug sales, and the absence of temporary factors that boosted FY03/16 profits.

Operating cash flow in FY03/19 declined by half YoY owing to the April 2018 NHI price revision, but increased YoY in FY03/20 and FY03/21 as earnings recovered. In FY03/22, operating cash flow fell YoY again due to an increase in inventories and income taxes paid accompanying an earnings recovery. In FY03/23, operating cash flow increased as the surplus of inflows over outflows widened due to a decline in corporate tax payments. In FY03/24, the surplus of operating cash inflow continued to grow due to higher pre-tax profit and depreciation. In FY03/25, operating profit declined due to rising expenses, resulting in a smaller surplus in cash flow from operating activities.

Depreciation and goodwill have been steadily increasing (except during the abbreviated accounting period) on business expansion owed to an upswing in the number of directly operated pharmacies, and this has had a positive impact on cash flow. Accounts receivable and accounts payable tend to fluctuate from year-end to year-end, showing no set pattern as the timing of receivable collections and the debt repayment period varies. Further, fiscal years with negative cash flow for inventory assets are common. We think this is due to the nature of Medical System Network's business of handling prescription drugs, which calls for the maintenance of sufficient inventories to avert shortage versus prescriptions.

Cash flows from investing activities

Cash flows from investing activities were consistently negative for the 10 years through FY03/17 owing to a business expansion strategy that leverages alliances and M&A.

In FY03/14, the company posted its largest cash flow deficit in 10 years, but this was mostly due to acquisition of tangible fixed assets: JPY4.2bn for serviced elderly housing facilities and land/buildings for new pharmacies and JPY4.2bn for

shares acquired through M&A and from business transfers. Even in other fiscal years, the acquisition of land and buildings had a major impact on cash flow from investing activities—JPY3.7bn in FY03/16 and JPY3.1bn in JPY03/19, accounting for the bulk of the deficit in both years. The company commented that the opening of Wisteria Minami Ichijo in November 2018 would mark the last elderly housing planning and development project for a while.

The company has aimed to make its network system an industry standard by expanding the number of affiliates and to improve profitability of the directly operated pharmacy business. Accordingly, in the third to fifth medium-term management plans, it focused on profitability improvements in these mainstay businesses. Since the company's businesses call for front-loaded spending by nature, free cash flow has been negative up to FY03/19, with the exception of FY03/16 when free cash flow turned positive due to temporary factors that sharply lifted profits. From FY03/20 to FY03/25, free cash flow has remained positive after taking into account M&A deals and other factors.

Cash flows from financing activities

Financing will be indispensable as the company looks to continue expanding its business. In addition to using internal funds, the company raises funds through short- and long-term borrowing. We list the relatively large-scale financings of the past 10 years below. Most were short- and long-term borrowings, of which a large majority was for business expansion, such as purchase of real estate for new pharmacies and M&A.

In FY03/14, there was a JPY1.2bn cash flow deficit due to a share buyback accompanying the restructuring of an affiliated company. In FY03/16, cash flow saw a JPY2.8bn surplus as the company increased capital and sold treasury shares to improve its financial standing. Total borrowing also increased JPY5.2bn in FY03/19, but JPY3.9bn was invested in M&A, including the acquisition of Nagatomi Pharmacy. There were few M&A deals in FY03/20 and FY03/21 because the company prioritized improving profitability of existing stores. Under better financial standing, the company reduced its interest-bearing debts, and this trend continued in FY03/22–FY03/25.

Historical performance

1H FY03/26 results (out November 7, 2025)

Overview

1H FY03/26 results (April–September 2025)

- Sales: JPY63.9bn (+6.9% YoY)
- Operating profit: JPY1.3bn (+25.2% YoY)
- Recurring profit: JPY1.2bn (+19.1% YoY)
- Net income attributable to owners of the parent: JPY452mn (+118.4% YoY)

Operating results and business conditions

The Japanese economy continued to recover moderately, supported by improvements in employment and income. However, concerns persist over ongoing price increases, the US trade policy, and fluctuations in financial and capital markets, creating uncertainty in economic conditions.

Under these circumstances, sales rose 6.9% YoY, marking a record high for 1H. In Community Pharmacy Network, sales increased in the Community Pharmacy business, supported by pharmacies opened in FY03/25 and by growth in high-price medical care, while sales in the Pharmaceutical Network business increased due to growth in new network members.

Gross profit reached JPY26.2bn (+6.4% YoY), with the gross profit margin of 41.1% (-0.2pp YoY). In the Community Pharmacy business, sales exceeded expectations as the average prescription value increased due to growth in high-price medical care, but because these high-priced medical care services have a lower profit margin, the overall profit margin declined. In the Pharmaceutical Network business, sales exceeded the company's expectations, driven by steady growth in new affiliates. SG&A expenses increased to JPY25.0bn (+5.6% YoY), driven mainly by higher personnel expenses following higher salary standards. Operating profit increased 25.2% YoY, operating profit margin was 2.0% (+0.3pp), and recurring profit rose 19.1% YoY. Net income attributable to owners of the parent increased 118.4% YoY, reflecting a decrease in impairment losses. EBITDA was JPY3.0bn (+11.0% YoY).

The company's consolidated results for 1H exceeded the initial forecast for sales and all profit categories. Within the Community Pharmacy Network, steady performances in the Community Pharmacy business and the Pharmaceutical Network business supported overall segment results despite higher personnel expenses resulting from higher base salaries. The achievement rates versus 1H forecast were 104.7% for sales, 122.5% for operating profit, 135.0% for recurring profit, and 196.5% for net income.

Segment results

1H FY03/26 results by segment were as follows.

Community Pharmacy Network

- Segment sales: JPY61.4bn (+7.6% YoY)
- Segment profit: JPY2.6bn (+14.1% 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 the Other segment. The Digital Shift business was incorporated into the segment in FY03/21, followed by the addition of the Pharmaceutical Logistics business in FY03/25.

In this core segment, sales increased 7.6% YoY, driven by sales from new pharmacies opened in FY03/25 in the Community Pharmacy business and by a higher average prescription value associated with growth in high-price medical care. Segment profit increased 14.1% YoY, with a segment profit margin of 4.2% (+0.3pp YoY). Sales exceeded projections and gross profit remained largely unchanged YoY, while steady expansion in the Pharmaceutical Network business supported segment profitability and offset higher personnel expenses.

Community Pharmacy

The company continued to focus on new openings and acquisitions through M&A, opening seven community pharmacies in 1H, including five mall format locations, and acquiring eight pharmacies through M&A. The company closed or transferred three stores. As of end-1H FY03/26, the company operated 469 community pharmacies, one in-home care plan support center, and nine drug stores.

The number of new dispensing pharmacies opened reached 17 by end-1H, achieving 68.0% of the full-year target of 25. The number of confirmed participating medical institutions totaled 17, exceeding the full-year target of 10. Dispensing fees —the main source of sales—increased to JPY53.0bn (+4.7% YoY) on a total-store basis, supported by an increase in prescriptions to 5,003,000 (+1.1% YoY) and a rise in price per prescription to JPY10,583 (+3.5% YoY). On an existing-store basis, dispensing fees reached JPY50.6bn (+2.5% YoY), with the number of prescriptions at 4,773,000 (-1.5% YoY) and price per prescription at JPY10,601 (+4.1% YoY).

Pharmaceutical Network

Network affiliates continued to grow steadily, resulting in higher sales from network usage fees. As of end-1H FY03/26, pharmaceutical network membership totaled 11,511 (+508 from end-FY03/25), consisting of 469 directly operated pharmacies and 11,042 affiliates. The company targets 12,000 members by end-FY03/26.

Manufacture and Market Pharmaceuticals

The company offered 120 products (52 ingredients) as of end-1H FY03/26. As a result of efforts to develop new business partners, the number of client stores added grew steadily, bringing the total to 7,823 at end-1H FY03/26, up 2,123 from end-FY03/25. At its major subsidiary Feldsenf Pharma, sales reached JPY3.2bn for 1H, up 52.4% YoY. Sales from its major subsidiary Feldsenf Pharma reached JPY3.2bn for 1H, up 52.4% YoY.

Pharmaceutical Logistics business

The company is working to expand the client base for this segment. Established in FY03/25, the segment serves as a channel for delivering pharmaceuticals manufactured in the Manufacture and Market Pharmaceuticals business to group companies and general affiliates. The number of new client stores has been growing steadily, reaching 3,064 at end-1H FY03/26, up 1,492 from end-FY03/25. At its major subsidiary Medi Logi Net Co., Ltd., 1H sales increased to JPY2.5bn—25x the 1H FY03/25 level, when full-year FY03/25 sales were JPY1.5bn.

Digital Shift

In March 2021, the company launched Tsunagaru (Connected) Pharmacy, a service in the Digital Shift business that uses its official LINE account. The company earns usage fees from dispensing pharmacies that adopt the service. At these pharmacies, users can access typical pharmacy-related services through LINE, including sending prescriptions to pharmacies, consulting about prescriptions, receiving online medication guidance, and managing medication records. As of end-1H FY03/26, the number of pharmacies using the service stood at 6,339, up 319 from end-FY03/25. Registered users increased 37.6% YoY to 1.7mn.

Leasing and Facility-related

- Segment sales: JPY1.5bn (-15.7% YoY)
- Segment profit: JPY41mn (-58.6% YoY)

Sales fell 15.7% YoY, reflecting the absence of large design projects recorded in 1H FY03/25, and segment profit declined 58.6% YoY. As of end-1H FY03/26, occupancy at all four serviced elderly housing facilities was 87.5%.

Meal Catering

- Segment sales: JPY1.2bn (-1.4% YoY)
- Segment loss: JPY8mn (versus a loss of JPY7mn in 1H FY03/25)

In response to a prolonged labor shortage, the company sought to introduce fully prepared meals and worked to improve profitability through price revisions and other measures. However, higher ingredients and personnel expenses led to lower sales and a larger loss.

Other (mostly home-visit nursing care)

- Segment sales: JPY169mn (-2.9% YoY)
- Segment loss: JPY10mn (versus a loss of JPY12mn in 1H FY03/25)

Q1 FY03/26 results (out August 8, 2025)

Overview

Q1 FY03/26 results (April–June 2025)

- Sales: JPY31.1bn (+5.7% YoY)
- Operating profit: JPY439mn (-6.2% YoY)
- Recurring profit: JPY404mn (-13.7% YoY)
- Net income attributable to owners of the parent: JPY78mn (-54.1% YoY)

Operating results and business conditions

The Japanese economy showed a gradual recovery, driven by improved employment and income. However, concerns persist over ongoing price increases, the US trade policy, and fluctuations in financial and capital markets, creating uncertainty in economic conditions.

Under these circumstances, sales rose 5.7% YoY, mainly driven by contributions from pharmacies opened in FY03/25 in the Community Pharmacy business of the Community Pharmacy Network segment.

Gross profit increased 5.5% YoY to JPY12.9bn, driven by a higher price per prescription, while the gross profit margin declined 0.1pp to 41.6%. SG&A expenses rose 6.0% YoY to JPY12.5bn, reflecting an increase in store count in the Community Pharmacy Network business and higher personnel expenses. As a result, operating profit fell 6.2% YoY, recurring profit declined 13.7% YoY, and net income dropped 54.1% YoY. EBITDA edged up 0.2% YoY to JPY1.3bn. According to the company, in Q1 sales were roughly in line with plan, while profit slightly exceeded expectations due to a higher-than-anticipated price per prescription.

Segment results

Q1 FY03/26 results by segment were as follows.

Community Pharmacy Network

- Segment sales: JPY29.9bn (+6.5% YoY)
- Segment profit: JPY1.1bn (+0.4% YoY), Segment profit margin: 3.6% (-0.2pp YoY)
- This is a new segment that integrates the former Pharmaceutical Network business, the former Dispensing Pharmacy business, and the manufacture pharmaceuticals business (mainly Feldsenf Pharma) previously included in the Other segment. The company added the Digital Shift business, which utilizes the LINE instant messaging app, to the segment in FY03/21, and the Pharmaceutical Logistics business in FY03/25.

Segment sales rose 6.5% YoY, supported by pharmacies opened in FY03/25 in the Community Pharmacy business. Segment profit was essentially flat, rising 0.4% YoY. This reflected an increase in network member stores in the Pharmaceutical Network business and a higher price per prescription in the Community Pharmacy business, partly offset by higher labor costs from wage increases.

Community Pharmacy

The company continued from FY03/25 to focus on new openings and acquisitions through M&A, opening six community pharmacies in Q1, including five mall format locations, and acquiring one pharmacy through M&A. The company closed or transferred two stores. As of end-Q1 FY03/26, the company operated 462 community pharmacies, one in-home care plan support center, and nine drug stores.

In Q1, dispensing fees (on a total store basis) increased 4.4% YoY to JPY26.0bn. Prescriptions rose 1.0% YoY to 2,505,000, while price per prescription grew 3.4% YoY to JPY10,370, supported by a higher share of high-priced pharmaceuticals, which contributed to the overall increase.

Pharmaceutical Network

In this business, the company is expanding services by offering training courses and promoting a region-specific pharmaceutical inventory information sharing service. Network members continued to grow steadily, supported by improved service. As of end-Q1 FY03/26, network members totaled 11,264 (+261 from end-FY03/25), comprising 462 directly operated pharmacies and 10,802 affiliates.

In Q1, the total value of pharmaceuticals handled through the company's network rose 10.2% YoY to JPY177.3bn, continuing to expand.

Regional pharmacist associations are increasingly adopting the company's proprietary dispensing performance data-sharing system, LINCLE regional version. The system enables dispensing pharmacies within each region to share pharmaceuticals, helping them secure a stable supply and reduce the need for emergency deliveries. Broader adoption allows the company to support local communities while remaining aligned with its basic sustainability policy.

Manufacture and Market Pharmaceuticals

The company offered 120 products (52 ingredients) as of end-Q1 FY03/26. As a result of efforts to develop new business partners, the number of new client stores grew steadily, bringing the total to 6,993 stores as of end-Q1 FY03/26, up 1,822 from end-Q1 FY03/25.

At major subsidiary Feldsenf Pharma, Q1 sales expanded 67% YoY to JPY1.5bn, and the sales target for FY03/26 is JPY7.0bn (+40% YoY).

Pharmaceutical Logistics business

In this business, the company is working to expand its client base by enhancing services, such as increasing delivery frequency. The number of new client stores has been growing steadily, reaching 2,408 as of end-Q1 FY03/26, up 836 from end-FY03/25.

At major subsidiary Medi Logi Net, Q1 sales were JPY0.9bn, and the sales target for FY03/26 is JPY4.8bn, approximately 3.2 times the FY03/25 result.

Digital Shift

In March 2021, the Digital Shift business launched the Tsunagaru (Connected) Pharmacy service utilizing its official LINE account. This business works to expand its customer base by providing successful experiences for both patients and

pharmacies. As of end-Q1 FY03/26, the number of adopting pharmacies stood at 6,226, up 206 from end-FY03/25. The company targets 6,850 pharmacies adopting the service in FY03/26.

Leasing and Facility-related

- Segment sales: JPY747mn (-20.7% YoY)
- Segment profit: JPY23mn (-58.9% YoY)

Operating conditions of serviced elderly housing facilities

Sales fell 20.7% YoY due to the absence of large design projects recorded in Q1 FY03/25. Segment profit dropped 58.9% YoY, and the segment profit margin decreased 2.8pp YoY to 3.1%. As of end-Q1 FY03/26, the serviced elderly housing facilities business remained steady, with occupancy at all four facilities at 87.8%.

Meal Catering

- Segment sales: JPY581mn (-0.9% YoY)
- Segment loss: JPY3mn (versus a loss of JPY2mn in Q1 FY03/25)

Lower sales and a recorded loss

In response to a prolonged labor shortage, the company sought to introduce fully prepared products and worked to improve profitability through price revisions and other measures. However, higher material and personnel costs led to lower sales and a larger loss.

Other (mostly home-visit nursing care)

- Segment sales: JPY85mn (+0.0% YoY)
- Segment loss: JPY3mn (versus a loss of JPY7mn in Q1 FY03/25)

Full-year FY03/25 results (out May 9, 2025)

Overview

FY03/25 results (April 2024–March 2025)

- Sales: JPY122.4bn (+6.1% YoY)
- Operating profit: JPY3.2bn (-17.7% YoY)
- Recurring profit: JPY3.2bn (-17.3% YoY)
- Net income attributable to owners of the parent: JPY1.3bn (-32.2% YoY)

Operating results and business conditions

The Japanese economy showed a gradual recovery, driven by improved employment and income. However, concerns persist over ongoing price increases, potential financial policy revisions in the US, and market fluctuation, creating uncertainty in economic conditions.

Under these circumstances, sales grew 6.1% YoY. In the core Community Pharmacy Network segment, higher dispensing fees in the Community Pharmacy business and steady growth in member pharmacy enrollments in the Pharmaceutical Network business contributed to overall performance.

Gross profit increased 5.9% YoY to JPY50.7bn, while the gross profit margin was flat at 41.5%. Although sales grew, this result reflected factors such as higher procurement costs for pharmaceuticals. SG&A expenses rose 7.9% YoY to JPY47.6bn, due in part to costs associated with new store openings, higher personnel expenses following wage increases, and expenses related to the launch of a new Pharmaceutical Logistics business. Operating profit fell 17.7% YoY, operating profit margin declined 0.7pp to 2.6%, EBITDA was JPY6.6bn (-6.1% YoY), recurring profit dropped by 17.3% YoY, and net income attributable to owners of the parent declined by 32.2%, partly due to impairment losses.

FY03/25 results were generally in line with the downwardly revised forecast announced in Q2 FY03/25. The rate of progress toward the company's full-year forecast was 100.3% for sales, 105.1% for operating profit, 105.4% for recurring profit, and 101.0% for profit attributable to owners of the parent.

Segment results

FY03/25 results by segment were as follows.

Community Pharmacy Network

- Segment sales: JPY117.0bn (+6.4% YoY)
- Segment profit: JPY5.6bn (-12.5% 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 segment. Digital Shift business that utilizes instant messaging app LINE was added to the segment from FY03/21, followed by the Pharmaceutical Logistics business in March 2025.

Segment sales increased but profit fell due to higher drug costs, personnel expenses, and preparation expenses for the new Pharmaceutical Logistics business launched in FY03/25.

Community Pharmacy

Dispensing fees increased 5.4% YoY to JPY103.0bn (on a total store basis), driven by new stores developed and acquired through M&A in FY03/24, digital technologies like the LINE official account Tsunagaru (Connected) Pharmacy for prescription transmission, and patient follow-up during medication periods. The number of stores rose by seven YoY, reflecting 21 new community pharmacy openings, one acquisition, and the closure or transfer of 15 stores. As of end-FY03/25, the company operated 457 community pharmacies, one in-home care plan support center, and eight drug stores.

Pharmaceutical Network

New network members exceeded the company's initial plan, supported by improved service. As of end-FY03/25, pharmaceutical network members totaled 11,003 (+1,247 YoY), comprising 457 directly operated pharmacies and 10,546 affiliates.

Manufacture and Market Pharmaceuticals

The company offered 120 products (52 ingredients) as of end-FY03/25. New partner pharmacies steadily increased, totaling 7,181 (+2,183 YoY) as of end-FY03/25. Sales from Feldsenf Pharma Co., Ltd. reached JPY5.0bn (+56% YoY), exceeding its target of JPY4.4bn.

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 (Connected) Pharmacy service utilizing its official LINE account. Stores using the service steadily increased in response to rising demand to address the NHI drug price revision. As of end-FY03/25, 6,020 pharmacies used the service (+1,338 from end-FY03/25).

Pharmaceutical Logistics

The company recorded preparation expenses in the segment.

Leasing and Facility-related

- Segment sales: JPY3.5bn (-4.0% YoY)
- Segment profit: JPY190mn (+20.3% YoY)

Operating conditions of serviced elderly housing facilities

Segment sales declined 6.0% YoY, despite higher construction orders. Profit growth was attributed to a review of advertising expenses related to the Wisteria serviced residences for the elderly. As of end-FY03/25, overall occupancy across the four residences was 90.2%, with Wisteria Minami Ichijo at 79.3% (92 of 116 units).

Meal Catering

- Segment sales: JPY2.4bn (-0.0% YoY)
- Segment profit: JPY10mn (versus a loss of JPY43mn in FY03/24)

Lower sales but a return to profitability

Sales were flat due to the closure of unprofitable facilities in FY03/24. However, revised contract prices improved the gross margin and restored profitability.

Other (mostly home-visit nursing care)

- Segment sales: JPY342mn (+8.9% YoY)
- Segment loss: JPY29mn (versus a loss of JPY43mn in FY03/24)

Cumulative Q3 FY03/25 results (out February 7, 2025)

Overview

Cumulative Q3 FY03/25 results (April–December 2024)

- Sales: JPY91.9bn (+6.6% YoY)
- Operating profit: JPY2.6bn (-16.2% YoY)
- Recurring profit: JPY2.6bn (-13.8% YoY)
- Net income attributable to owners of the parent: JPY1.4bn (-14.6% YoY)

Operating results and business conditions

The Japanese economy showed a gradual recovery during the cumulative Q3, driven by improved employment and income. However, concerns persist over ongoing price increases and potential financial policy revisions, creating uncertainty in economic conditions.

The company's sales increased by 6.6% YoY in cumulative Q3.

Gross profit increased to JPY38.2bn (+6.4% YoY), while the profit margin remained largely unchanged at 41.5% (-0.1pp). In the Community Pharmacy business, store expansion through new openings and M&A offset sluggish growth in number of prescriptions filled at existing directly operated dispensing pharmacies and higher procurement costs for pharmaceuticals. Strong growth in new memberships in the Pharmaceutical Network business contributed to the profit increase. SG&A expenses rose by 8.5% YoY to JPY35.6bn due to higher personnel and related expenses, as well as expenses associated with M&A in the pharmacy business. Operating profit declined by 16.2% YoY, and the OPM declined by 0.8pp to 2.8%. EBITDA was JPY5.1bn (-5.7% YoY). Recurring profit fell by 13.8% YoY, and net income attributable to owners of the parent declined by 14.6%.

Profit in the mainstay Community Pharmacy Network segment decreased YoY due to a decrease in number of prescriptions filled at existing pharmacies, rising procurement costs for medicine, and wage increases.

Progress toward the full-year earnings forecast by the end of cumulative Q3 was 75.3% for sales, 85.8% for operating profit, 87.4% for recurring profit, and 115.6% for net income.

Segment results

Cumulative Q3 FY03/25 results by segment were as follows.

Community Pharmacy Network

- Segment sales: JPY87.8bn (+7.0% YoY)
- Segment profit: JPY4.4bn (-11.0% 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

This segment primarily generates sales from the company's directly operated insurance pharmacies, mainly under the "Nanohana Pharmacy" brand. In cumulative Q3, dispensing fees (on a total store basis) increased by 5.8% YoY to

JPY77.4bn. This broke down to 7,568,000 prescriptions (+4.2% YoY) and an average price per prescription of JPY10,231 (+1.6% YoY). Higher technical and drug fees led to an increase in the average price per prescription. Dispensing fees exceeded cumulative Q3 FY03/24 levels in cumulative Q3 FY03/25, driven by new pharmacy openings or acquisitions in FY03/24, the use of digital technologies like the LINE official account Tsunagaru (Connected) Pharmacy for prescription transmission, and improved patient follow-up during medication periods.

Due to the revision of dispensing fees in 2024, the points for the community support system premiums decreased. However, the weighted average medical fees at end-Q3 improved to 80.4 points, exceeding the 70.3 points recorded at end-FY03/24 (excluding points from stores acquired in Q4 FY03/24) due to the strengthening of interpersonal interactions and the digitalization of healthcare premium.

During the period under review, the company opened 17 community pharmacies, acquired one store, and closed or transferred 14 stores. As of end-December 2024, the company operated 455 community pharmacies, one in-home care plan support center, and eight drug stores.

Pharmaceutical Network

Service improvements supported the increase in the number of new network affiliates. As of end-December 2024, pharmaceutical network members totaled 10,737 (+981 from end-FY03/24), comprising 455 directly operated pharmacies and 10,282 affiliates.

Manufacture and Market Pharmaceuticals

The company offered 117 products (52 ingredients) as of end-December 2024. The number of new partner pharmacies steadily grew, with the total number of partner pharmacies reaching 6,562 (+2,148 YoY) as of end-December 2024. Sales for consolidated subsidiary Feldsenf Pharma increased 59% to JPY3.5bn.

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 (Connected) 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-December 2024, the number of pharmacies using the service was 5,823 (+1,141 from end-FY03/24).

Segment profit

Segment profit fell 11.0% YoY, with the segment profit margin down 1.0pp to 5.0%, mainly due to fewer number of prescriptions filled at existing pharmacies in the Community Pharmacy business, higher pharmaceutical procurement costs, and increased labor costs from wage increases. Additionally, this segment absorbed the preparation costs for the Pharmaceutical Logistics business launched in FY03/25, reducing profitability.

Leasing and Facility-related

- Segment sales: JPY2.6bn (+2.5% YoY)
- Segment profit: JPY188mn (+45.7% YoY)

Operating conditions and results of serviced elderly housing facilities

Segment sales grew 2.5% YoY, driven by an increase in construction orders. Segment profit increased 45.7%, and segment profit margin increased 2.2pp to 7.2%. Profit growth was attributed to improved occupancy rates and expense control, including a review of advertising expenses related to the Wisteria serviced residences for the elderly.

As of end-December 2024, three of the four serviced residences maintained stable occupancy rates, with an overall occupancy rate of 89.0%. Wisteria Minami Ichijo reported an occupancy rate of 78.4% (91 out of 116 units occupied). The company sold Wisteria Senri-Chuo and related fixed assets on October 1, 2024.

Meal Catering

- Segment sales: JPY1.8bn (-0.7% YoY)
- Segment profit: JPY1mn (versus a loss of JPY24mn in cumulative Q3 FY03/24)

Lower sales but a return to profitability

Sales declined due to the closure of unprofitable facilities in FY03/24. However, a review of contract unit prices improved the gross profit margin, leading to a turnaround in profitability.

Other (mostly home-visit nursing care)

- Segment sales: JPY261mn (+10.1% YoY)
- Segment loss: JPY17mn (versus a loss of JPY30mn in cumulative Q3 FY03/24)

News and topics

Formulation of the long-term vision

2025-10-27

On October 24, 2025, Medical System Network Co., Ltd. announced its long-term vision, Machino Akari Vision 2035—a vision of serving as a beacon of light in the community, outlining its strategic direction and roadmap through FY03/35.

Targets of the long-term vision

Medical System Network aims to position itself as a central player in community-based medical care amid structural shifts such as population decline, aging demographics, rising healthcare costs, and increasing unevenness in regional access to medical services. By supporting dispensing pharmacies nationwide and leveraging diverse data accumulated through the Medysis Network, the company seeks to enhance coordination and efficiency in community-based healthcare and generate social value. By leveraging the capabilities of its group subsidiaries, the company seeks to expand its pharmaceutical distribution business across the medical, medical support, and medical supply domains.

Overview of the long-term vision

Medical System Network seeks to restructure its earnings model and significantly improve capital efficiency as it pursues business growth. The company aims to raise operating profit from JPY3.1bn in FY03/25 to JPY10.0bn in FY03/35 and improve ROE from 8% to 12–15%. The company aims to expand support for dispensing pharmacies from over 15,000 pharmacies in FY03/25 to 45,000 pharmacies by FY03/35 and raise its market coverage rate (system utilization rate) from about 25% to roughly 75–80%.

- Operating profit: JPY3.1bn in FY03/25 → JPY10.0bn in FY03/35
  ROE: 8% → 12–15%

- Number of supported pharmacies: over 15,000 in FY03/25 → 45,000 in FY03/35
  Market coverage: Approximately 25% → around 75–80%

Through this growth strategy, Medical System Network aims to increase the proportion of higher-margin businesses in its operating profit composition, thereby optimizing the business portfolio.

- Operating profit breakdown in FY03/25: medical domain 51.0%, medical support domain 47.3%, and medical supply domain 1.7%

- Operating profit breakdown target for FY03/35: medical domain 35%, medical support domain 45%, and medical supply domain 20%

Over the ten years to FY03/35, the company aims to generate JPY70.0bn in cash and allocate JPY50.0bn for growth investments, JPY7.0bn for strengthening its financial base, and JPY13.0bn for shareholder returns.

Error in dispensing fee calculation

2025-09-05

On September 5, 2025, Medical System Network Co., Ltd. announced some of its group's dispensing pharmacies had miscalculated the additional fee for dispensing generic drugs and had consequently overcharged dispensing fees.

Facts

Following a staff member's report at one of its group pharmacies, the company confirmed in October 2024 its in-house receipt computer had miscalculated the generic drug usage rate required for filing for the additional fee. The error stemmed from incorrect handling of the identification numbers assigned to pharmaceuticals, which led to the erroneous inclusion of drugs that should not have been classified as generics.

After recognizing the issue, the company promptly reported it to the MHLW and local health bureaus. As coordination with related parties required time, the company disclosed the confirmed facts and future response policy on September 5, 2025.

The receipt computer program was corrected on October 28, 2024, resolving the issue. The company is implementing preventive measures by reviewing business processes and addressing awareness, technology, internal controls, and organizational structure.

Scope of impact

(1) Period: April 2020 to October 2024 (based on the month of dispensing)

(2) Scope: A company-wide investigation confirmed the following cases are subject to repayment.

・Pharmacies: 255
・Cases: approx. 2.42mn
・Patients: approx. 620,000
・Repayment amount: approx. JPY191mn (including approx. JPY36mn refunded to patients)

Impact on earnings

The company expects the impact on group earnings from FY03/21 to FY03/25 to be minimal and will not make retrospective corrections. The company has already recorded part of the impact in FY03/25 based on its outlook and expects only a minor effect on FY03/26 consolidated results.

Other information

History

Data	Description
Sep 1999	Established Medical System Network (capital stock :JPY 10mn) in Chuo-Ward, Sapporo, to streamline hospital operation and pharmaceuticals distribution
Mar 2002	Registered shares on Osaka Stock Exchange NASDAQ Japan market (now JASDAQ)
Dec	Acquired 100% of Pharmaholdings and Nihon Leben shares, making them wholly owned subsidiaries
Feb 2005	Established joint venture MM net with Mitsui & Co. (capital JPY 200mn, Medical System Network held 51% equity stake, but dissolved alliance and absorbed MM net in 2013)
Oct	Pharmaholdings acquired 100% of Sunmedic Co., Ltd. (now Nanohana East Japan Co., Ltd.) shares, making it a wholly owned subsidiary
	Pharmaholdings acquired 100% of Hankyu Kyoei Pharmacy (now Kyoei Pharmacy) shares, making it a wholly owned subsidiary
Jan 2007	Acquired 100% of CR Medical (now Nanohana central Co., Ltd.), making it a wholly owned subsidiary
Mar	Acquired 100% of Hokkaido Hiclips (now SMO-MDS) shares, making it a wholly owned subsidiary
Sep 2008	Listed shares on the Second Section of the Tokyo Stock Exchange
Jun 2010	Listed shares on the First Section of the Tokyo Stock Exchange
Nov 2012	Formed Business alliance with Hansin Dispensing Pharmacy (Switched to alliance with parent Hansin Pharmacy Holdings when the holding company was established in December 2012)
May 2013	Formed business alliance with FamilyMart
Jul	Pharmaholdings and Hansin Dispensing Holdings established joint venture, H&M Co.
Nov	Pharmaholdings acquired 98.96% of Total Medical Service shares through public tender offer, making it a subsidiary
Jan 2015	Concluded comprehensive strategic alliance with Fuyo General Lease Co., Ltd.
Mar	Formed business alliance with Sogo Clinical Holdings (now EP-Sogo)
Apr	Formed business alliance with EM Systems
May	Concluded capital tie-up with Sogo clinical Holdings (now EP-Sogo)
Jun	Formed Business alliance with Yakuju Corporation
May 2016	Pharmaholdings acquired 100% of Home-Visit Nursing Care Station Himawari Co. shares and entered home-visit nursing care business
Oct	Formed business alliance with Zoo Corporation
Jan 2017	Formed business alliance with Career Brain
May	Formed business alliance with Okura Information System
Jun	Sold shares of SMO-MDS (no longer a subsidiary)
Oct	Absorbed subsidiaries System Four, Pharmaholdings, and Nihon Leben
Jan 2018	Acquired all shares in Apotec and made it a wholly owned subsidiary
	Formed business alliance with Polaris Co., Ltd.
Feb	Feldsenf Pharma Co., Ltd. formed Business alliance with Daito Pharmaceutical Co., Ltd.
Jun	Feldsenf Pharma Co., Ltd. started sales of generic drugs
Jan 2019	Acquired all shares in Nagatomi Pharmacy Corporation and made it a wholly owned subsidiary
Apr	Acquired A-System Co., Ltd. in a absorption-type merger
Feb 2020	Dissolved H&M Co., Ltd, terminating business tie-up with I&H Co., Ltd.
Oct	Established PharmaShift Co., Ltd., a joint venture with Opt, Inc. (now Re:teigi, Inc.)
July 2021	Acquired Home-visit Nursing Care Station Himawari Co., Ltd. in a absorption-type merger
Nov 2023	Acquired additional shares in PharmaShift Co., Ltd., and made it a subsidiary
Apr 2024	Established Medi Logi Net Co., Ltd.

Source: Shared Research based on company data (as of March 2025)

Corporate governance and top management

Corporate governance

The company recognizes the importance of legal compliance and corporate ethics, and aims to continuously enhance corporate value through rapid decision-making and improved management soundness. While looking to aggressively expand its business in line with growth of the overall medical market, Medical System Network is aware of the importance of ensuring a fair management system and accordingly maintains a flexible meeting of the board of directors, has developed a system to monitor business execution, and has enhanced internal controls. The company further recognizes that management of subsidiaries is especially crucial to internal control, and thus aims to enhance corporate governance by ensuring thorough compliance, building a risk management system, and establishing a system for reporting financial and other important matters.

Compliance

Management has established the Medical System Network Group Charter of Corporate Behavior, a Code of Conduct for corporate ethics and compliance, and the basic regulations to clarify the company's basic stance on corporate ethics and compliance. The company appoints an officer in charge of compliance as stipulated in its group compliance basic regulations, under whose supervision a compliance department has been established to develop a compliance system for the group.

Risk management

The company has established an organization and management system based on Medical System Network Group Risk Management Basic Rules that enables efficient execution of duties through the clarification of directors' authorities and responsibilities. Discussions of important matters by each group company's board of directors are held after preliminary consultations with the company. In addition, appropriate management control of subsidiaries is conducted in accordance with management regulations for affiliated companies. Reports of business results, financial status, and important matters are received at regularly scheduled Board of Directors and other important meetings. A system is in place for the prompt reporting of serious risk factors such as compliance violations.

Internal and corporate audits

The Internal Audit Office is in charge of internal auditing and its manager is responsible for drafting the basic internal audit plan prior to the start of the fiscal year, obtaining approval by the President and Representative Director, and formulating an implementation agenda based on the basic internal audit plan. In terms of auditing by corporate auditors, corporate auditors attend regular and extraordinary meetings of the board of directors to observe the performance of duties by company officers such as directors and Internal Audit Office managers as part of a system to audit performance of directors and the status of internal controls. Auditing efficiency is further enhanced through mutual cooperation and information-sharing with the accounting auditor and the Internal Audit Office. To ensure transparency in management decision-making and oversight of business execution, the company has established an Audit and Supervisory Committee composed of four outside directors.

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Committee
Controlling shareholder	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	19
Number of directors	17
Directors' term of office under Articles of Incorporation	1 year
Chairperson of the Board of Directors	President
Number of outside directors	7
Number of independent outside directors	7
Number of members on the Audit and Supervisory Committee	4
Number of Outside Members on the Audit and Supervisory Committee	4
Other	
Participation in electronic voting platform	In place
Providing convocation notice in English	In place
Implementation of measures regarding director incentives	Performance-linked remuneration, other
Disclosure of directors' compensation	None
Policy to determine amount and calculation method of remuneration	In place
Corporate takeover defenses	None

Source: Shared Research based on company data (as of June 25, 2025)

Top management

President and director (Representative Director) Inao Tajiri

Mar 1974	Joined Ichino Yamagata Pharmaceutical Co., Ltd.
Jan 1981	Joined Medical Yamagata Pharmaceutical Co., Ltd.
Nov 1989	Representative director of Medical Yamagata Pharmaceutical Co., Ltd.
Jun 1991	Director of Akiyama Aiseikan Co., Ltd. (now Suzuken Co., Ltd)
Sep 1999	Established Medical System Network and became representative director and president (current)
Apr 2000	President (current) of Social Welfare Corporation Nomad-Fukushikai
Dec 2004	Representative director of Nihon Leben Co., Ltd.
Feb 2005	Representative director of MM Net Co., Ltd.
Apr 2013	President and representative director of SMO-MDS Co., Ltd.
Jul 2013	Vice president and representative director of H&M Co., Ltd.
Jun 2015	President and representative director of H&M Co., Ltd.
Jan 2016	President of Social Welfare Corporation Hokushikai
Sep 2016	President and representative director of Feldsenf Pharma Co., Ltd.
Jun 2020	President and representative director (current) of Feldsenf Pharma Co., Ltd.

Source: Shared Research based on company data (as of March 2025)

Dividend policy

The company's basic policy on dividends is to maintain stable disbursements to shareholders in line with earnings while retaining sufficient internal reserves to reinforce its financial position, expand business operations, and develop human resources. Since FY03/13, dividends have been paid twice a year—an interim dividend and a fiscal year-end dividend. The dividend decision-making bodies are the general shareholders meeting for year-end dividends and the board of directors for interim dividends. The articles of incorporation stipulate the board of directors has the authority to decide on interim dividends through a resolution.

Major shareholders

Top shareholders	Shares held	Share holding ratio
S&S G.K.	2,769,100	9.28%
The Master Trust Bank of Japan, Ltd. (trust account)	2,545,300	8.53%
Yasuyuki Okinaka	2,506,000	8.40%
Jiro Akino	2,221,200	7.45%
Hikari Tsushin KK Investment Limited Partnership	1,349,000	4.52%
MSIP CLIENT SECURITIES	1,153,099	3.86%
Custody Bank of Japan, Ltd. (trust account)	931,900	3.12%
Medical System Network Employees Stockholding Association	870,000	2.91%
Inao Tajiri	807,400	2.70%
INTERACTIVE BROKERS LLC	656,100	2.20%
Total	15,809,099	53.03%

Source: Shared Research based on company data (as of September 30, 2025)

Employees

Segment	No. of employees	No. of temporary employees	Total
Community Pharmacy Network	3,366	564	3,930
Pharmacists	1,572	312	1,884
Leasing and Facility-related	132	11	143
Meal Catering	157	221	378
Other	43	14	57
Corporate (administration)	162	14	176
Total	3,860	824	4,684

Source: Shared Research based on company data (as of March 31, 2025)
Note: The sum of temporary employees does not equal to the total due to differences in rounding methods (based on eight– hour work days).

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.

Contact Details

2-6-10 Kanda-Sarugakucho Chiyoda-ku Tokyo, Japan

+81 (0)3 5834-8787

info@sharedresearch.jp

https://sharedresearch.jp

Disclaimer

This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report. The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report's objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer: The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion from us that could influence investment decisions in the company, such an opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.