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Consolidated Financial Results for the Nine Months Ended December 31, 2021 (Japanese GAAP)

February 4, 2022

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

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

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Scheduled date for quarterly report submission: February 8, 2022
Scheduled date for dividend payment: —
Preparation of supplemental explanatory materials: Yes
Results briefing to be held: None

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2021 (April 1 to December 31, 2021)

(1) Consolidated operating results

(Percentages indicate YoY change)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2021	79,868	2.2	5,173	5.1	3,063	10.5	3,485	25.8	2,144	6.5
Nine months ended December 31, 2020	78,167	(1.0)	4,922	41.6	2,773	125.7	2,770	129.2	2,013	516.6

Note: Comprehensive income for the nine months ended December 31, 2021 was 2,155 million yen (+7.6% YoY), and comprehensive income for the nine months ended December 31, 2020 was 2,003 million yen (+659.0% YoY).

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

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2021	71.08	—
Nine months ended December 31, 2020	66.37	—

Note: Please refer to "Appropriate use of earnings forecast and other special notes 2" for details of earnings per share calculations.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2021	65,239	13,055	20.0	432.42
As of March 31, 2021	64,448	11,187	17.3	370.23

Reference: Shareholders' equity amounted to 13,049 million yen as of December 31, 2021 and 11,163 million as of March 31, 2021.

Note: Please refer to "Appropriate use of earnings forecast and other special notes 2" for details of shareholders' equity, equity ratio, and net assets per share calculations.

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	—	5.00	—	5.00	10.00
Fiscal year ending March 31, 2022	—	5.00	—		
Fiscal year ending March 31, 2022 (forecast)				7.00	12.00

Note: Revisions to the Company's most recently announced dividend forecast: Yes

The year-end dividend for the fiscal year ending March 31, 2022 consists of an ordinary dividend of 6 yen and a commemorative dividend of 1 yen (commemorating the 20th anniversary of the Company's listing)

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2022 (April 1, 2021 to March 31, 2022)

(Percentages indicate YoY change)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	106,500	2.2	6,800	5.8	3,800	10.8	4,200	20.7	2,300	4.6	76.23

Note: Revisions to the Company's most recently announced consolidated earnings forecast: Yes

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

*Notes

(1) Changes in significant subsidiaries during the period under review: None
(Transfers of specified subsidiaries associated with changes in the Company's scope of consolidation)

Newly added: None

Excluded: None

(2) Distinctive accounting methods applied when preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates and retrospective restatements

1. Accounting policy changes due to accounting standard revisions, etc.: Yes

2. Other accounting policy changes: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

Note: Please refer to "(3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)" within "2. Quarterly Consolidated Financial Statements and Primary Notes" on page 8 of the attached materials for details.

(4) Number of shares outstanding (common stock)

1. Shares outstanding (including treasury stock)	As of December 31, 2021	30,642,600	As of March 31, 2021	30,642,600
2. Treasury shares outstanding	As of December 31, 2021	464,055	As of March 31, 2021	489,055
3. Period-average shares outstanding (cumulative quarterly figures)	Nine months ended December 31, 2021	30,168,454	Nine months ended December 31, 2020	30,336,063

Note: Please refer to "Appropriate use of earnings forecast and other special notes 2" for details of calculation method regarding period-end treasury stock numbers and period-average shares outstanding (cumulative quarterly figures).

*The financial information in this quarterly report is not subject to review by certified public accountants or auditing firms.

*Appropriate use of earnings forecast and other special notes

1. The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to the Company, and certain assumptions it considers reasonable, but are not intended to be a promise that the Company will achieve. Actual results may vary materially from forecasts due to a variety of factors. For matters concerning earnings forecasts, please refer to page 3 of the attached materials "1. Qualitative Information on Quarterly Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Projections."

2. In the quarterly consolidated balance sheets, the Company's shares held as trust assets of the Board Benefit Trust (BBT) are recorded as treasury stock. They are included in treasury stock in calculations of earnings per share, equity ratio, net assets per share, shareholders' equity, period-end treasury stock numbers, and period-average shares outstanding (cumulative quarterly figures).

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1. Qualitative Information on Quarterly Financial Performance

(1) Explanation of Operating Results

During the nine months ended December 31, 2021, the Company recorded consolidated net sales of 79,868 million yen (+2.2% YoY), operating profit of 3,063 million yen (+10.5%YoY), and ordinary profit of 3,485 million yen (+25.8% YoY). There was solid growth in the number of new network affiliates in the Pharmaceutical Network Business, and while prescription unit price fell in the Dispensing Pharmacy Business, the number of prescriptions recovered to a certain extent. Profit attributable to owners of parent was 2,144 million yen (+6.5% YoY), due to gains on the sale of investment securities and a reduction in corporate tax burden as a result of the absorption-type merger with the Company's consolidated subsidiary, Home-Visit Nursing Care Station Himawari Co., Ltd., in July 2021.

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

1) Community Pharmacy Network Segment

In the Community Pharmacy Network Segment, we aim to provide value throughout the entire pharmaceutical supply chain. Our businesses include a pharmaceutical network to support pharmacy management, dispensing pharmacy operations, pharmaceutical manufacture and marketing, and a digital shift business using the communication app LINE.

In the Pharmaceutical Network Business, the environment surrounding the pharmacy industry has become increasingly severe as the NHI drug price list, which was previously revised every other year, is subject to the annual revision from April 2021. The number of new network affiliates continued to post solid growth amid mounting needs for operational stability in these circumstances. As of December 31, 2021, network affiliates totaled 7,003, comprising 424 Group dispensing pharmacies and 6,579 general network affiliates (an increase of 887 from March 31, 2021).

In the Dispensing Pharmacy Business, while the prescription unit price fell, the number of prescriptions recovered to a certain extent. In December 2021, as a new store format, we opened two pharmacies inside train stations in Fukuoka Prefecture that accept prescriptions from a wide range of medical institutions by utilizing the prescription transmission function of our official LINE account "Tsunagaru Pharmacy". As of December 31, 2021, the Company had 424 dispensing pharmacies, one care plan center, and eight drug/cosmetic stores.

In the Manufacture and Market Pharmaceuticals Business, we launched seven products (12 ingredients) in the nine months ended December 31, 2021, and had 80 products (41 ingredients) available as of December 31, 2021.

In the Digital Shift Business, as of the end of December 2021, the number of registered LINE users exceeded 250,000, with 745 pharmacies using the service (1,425 pharmacies have placed orders).

As a result, segment sales for the nine months ended December 31, 2021 were 75,986 million yen (+2.2% YoY) and operating profit was 4,663 million yen (+7.7% YoY).

2) Leasing and Facility-related Segment

In the Leasing and Facility-related Segment, while real estate lease revenue was generally solid, and orders for construction projects increased, occupancy rates at serviced residences for the elderly were sluggish. As a result, segment sales were 2,461 million yen (+12.1% YoY) and operating profit was 53 million yen (+55.5% YoY).

As of December 31, 2021, occupancy rates were stable at three of our five serviced residences for the elderly. At the remaining two, Wisteria Senri-Chuo had an occupancy rate of 78.1% (64 out of 82 units occupied), and Wisteria Minami-Ichijo had an occupancy rate of 69.8% (81 out of 116 units occupied). We plan to carry out marketing activities to reach our fiscal year-end target occupancy rate of 90%, while taking care to prevent COVID-19 infections.

3) Meal Catering Segment

In the Meal Catering Segment, the number of meals supplied fell during the COVID-19 pandemic, but gross profit improved as we changed suppliers. Segment sales were 1,752 million yen (-6.5% YoY) and operating profit was 7 million yen (operating loss of 2 million yen in the same period of the previous fiscal year).

4) Other Segment

The Other Segment provides home-visit nursing care. Segment sales were 232 million yen (+35.4% YoY) and the operating loss was 10 million yen (operating loss of 17 million yen in the same period of the previous fiscal year).

(2) Explanation of Financial Position

As of December 31, 2021, total assets amounted to 65,239 million yen, up 791 million yen from their level on March 31, 2021. Current assets totaled 21,145 million yen, up 1,832 million yen from March 31, 2021, mainly due to a rise in merchandise. Non-current assets were 44,093 million yen, down 1,040 million yen compared to March 31, 2021, mainly due to a decline in goodwill.

Liabilities came to 52,183 million yen, down 1,076 million yen compared to March 31, 2021. Current liabilities were 27,039 million yen, a decline of 1,621 million yen from March 31, 2021, mainly due to an increase in accounts payable-trade. Non-current liabilities came to 25,143 million yen, down 2,698 million yen from March 31, 2021, mainly due to a decrease in long-term borrowings.

Net assets totaled 13,055 million yen, up 1,867 million yen compared to March 31, 2021, mainly due to an increase in retained earnings.

(3) Explanation of Consolidated Earnings Forecasts and Other Projections

The Company has made revisions to its full-year earnings forecast for the financial year ending March 31, 2022, which was initially announced on May 7, 2021. For details, please refer to the "Notice of Revision of Full-year Earnings Forecasts and Dividend Forecasts " released today (February 4, 2022).

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended March 31, 2021 (as of March 31, 2021)	Nine months ended December 31, 2021 (as of December 31, 2021)
Assets		
Current assets		
Cash and deposits	10,118	9,427
Accounts receivable - trade	2,646	3,329
Unearned revenue from sale of accounts receivable	735	753
Purchased receivables - dispensing fees	424	428
Merchandise	4,390	5,673
Raw materials	12	20
Work in process	6	19
Supplies	75	82
Other	916	1,414
Allowance for doubtful accounts	(12)	(2)
Total current assets	19,313	21,145
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,608	13,521
Land	9,091	9,075
Construction in progress	64	123
Other	1,870	2,141
Total property, plant and equipment	24,634	24,861
Intangible assets		
Goodwill	13,145	12,445
Software	304	392
Other	122	114
Total intangible assets	13,572	12,952
Investments and other assets		
Investment securities	397	151
Guarantee deposits	2,748	2,856
Deferred tax assets	2,958	2,453
Other	843	839
Allowance for doubtful accounts	(20)	(20)
Total investments and other assets	6,926	6,279
Total non-current assets	45,134	44,093
Total assets	64,448	65,239

(Millions of yen)

	Fiscal year ended March 31, 2021 (as of March 31, 2021)	Nine months ended December 31, 2021 (as of December 31, 2021)
Liabilities		
Current liabilities		
Accounts payable - trade	9,258	11,776
Short-term borrowings	3,916	5,364
Current portion of long-term borrowings	6,045	5,516
Income taxes payable	1,556	97
Provision for bonuses	1,495	778
Provision for bonuses for directors (and other officers)	83	27
Provision for point card certificates	2	—
Other	3,060	3,479
Total current liabilities	25,418	27,039
Non-current liabilities		
Long-term borrowings	21,556	18,967
Provision for retirement benefits for directors (and other officers)	798	590
Provision for share awards for directors (and other officers)	196	202
Retirement benefit liability	3,347	3,637
Other	1,942	1,745
Total non-current liabilities	27,841	25,143
Total liabilities	53,260	52,183
Net assets		
Shareholders' equity		
Share capital	2,128	2,128
Capital surplus	1,182	1,182
Retained earnings	8,305	10,143
Treasury shares	(344)	(326)
Total shareholders' equity	11,270	13,127
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(24)	(9)
Deferred gains or losses on hedges	(3)	(0)
Remeasurements of defined benefit plans	(78)	(67)
Total accumulated other comprehensive income	(106)	(77)
Non-controlling interests	23	5
Total net assets	11,187	13,055
Total liabilities and net assets	64,448	65,239

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

Consolidated Statement of Income

	(Millions of yen)	
	Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)	Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)
Net sales	78,167	79,868
Cost of sales	46,501	46,425
Gross profit	31,665	33,443
Selling, general and administrative expenses	28,892	30,379
Operating profit	2,773	3,063
Non-operating income		
Interest and dividend income	8	6
Outsourcing service income	55	58
Rental income from facilities	72	80
Subsidy income	0	398
Miscellaneous income	100	102
Total non-operating income	237	647
Non-operating expenses		
Loss on sale of receivables	39	41
Interest expenses	164	140
Miscellaneous losses	36	44
Total non-operating expenses	240	225
Ordinary profit	2,770	3,485
Extraordinary income		
Gain on sale of non-current assets	2	3
Gain on sale of investment securities	—	112
Gain on sale of shares of subsidiaries and associates	907	—
Gain on sale of businesses	4	16
Total extraordinary income	914	131
Extraordinary losses		
Loss on sale of non-current assets	19	12
Loss on retirement of non-current assets	7	14
Impairment losses	143	90
Loss on store closings	20	16
Other	5	2
Total extraordinary losses	196	136
Profit before income taxes	3,489	3,480
Income taxes - current	1,233	821
Income taxes - deferred	245	532
Total income taxes	1,478	1,353
Profit	2,010	2,126
Profit (loss) attributable to non-controlling interests	(2)	(18)
Profit (loss) attributable to owners of parent	2,013	2,144

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)	Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)
Profit	2,010	2,126
Other comprehensive income		
Valuation difference on available-for-sale securities	(14)	14
Deferred gains or losses on hedges	(1)	2
Remeasurements of defined benefit plans, net of tax	8	11
Total other comprehensive income	(7)	29
Comprehensive income	2,003	2,155
(Breakdown)		
Comprehensive income attributable to owners of parent	2,005	2,173
Comprehensive income attributable to non-controlling interests	(2)	(18)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes to going concern assumptions)

None to be reported.

(Notes in the event of significant changes in shareholders' equity)

None to be reported.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter, "revenue recognition standard") and related implementation guidance at the beginning of the current fiscal year. The Company recognizes revenue when control of promised goods or services is transferred to the customer, in the amount expected to be received in exchange for the goods or services.

The Company previously recognized the gross amount received from the customer as revenue for certain transactions. Following the change, when the Company acts as an agent in providing goods or services to the customer, it will recognize revenue based on the net amount received from the customer less the amount paid to the supplier.

Regarding points awarded under the customer loyalty program at the time of sale, the Company previously recognized revenue at the time of sale and booked the amount expected to be needed to redeem the points in the future as a provision for point card certificates, and recorded this under selling, general and administrative expenses. However, since the points are insignificant from a monetary perspective, the Company now applies a method that does not identify separate performance obligations.

The Company participates in point programs operated by third parties and awards those parties' points at the time of product sales. Previously the Company recognized revenue at the time of sale and booked the amount equivalent to points awarded under selling, general and administrative expenses. However, this amount does not constitute a separate performance obligation, and the Company now excludes the amount paid to other companies at the time of sale from revenue as an amount collected on behalf of third parties.

Regarding construction contracts, the Company previously applied the percentage of completion method when the outcome of the construction activity was deemed certain. However, we have changed our revenue recognition method. When control over goods or services is transferred to the customer over a certain period, we now recognize revenue for that period as our performance obligation to transfer the goods or services to the customer is satisfied. To measure the progress toward fulfilling performance obligations for each reporting period, costs incurred until the last day of the period as a percentage of total expected costs are calculated. When it is not possible to reasonably estimate progress in the initial phase of a contract, but the Company expects to recover costs incurred, the Company recognizes revenue under the cost recovery method. For contracts with a very short period from the start of the transaction until the performance obligation is expected to be fully satisfied, we apply an alternative treatment under which revenue is not recognized for a set period but only when the performance obligation is fully satisfied.

The Company has applied the revenue recognition standard in accordance with transitional treatment prescribed in the proviso to paragraph 84 of the revenue recognition standard. The cumulative effect of retroactively applying the new accounting policy prior to the beginning of the fiscal year was added to or deducted from retained earnings at the beginning of the fiscal year, and the new accounting policy was applied from the opening balance at the start of the fiscal year, but there was no impact on the opening balance.

As a result, in the nine months ended December 31, 2021, net sales declined by 559 million yen, cost of sales declined by 509 million yen, selling, general and administrative expenses declined by 50 million yen, and ordinary profit and profit before income taxes each increased by 2 million yen. There was no impact on operating profit.

In accordance with the transitional treatment prescribed in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), the Company has not presented information on revenue from contracts with customers broken down for the nine months ended December 31, 2020.

(Application of Accounting Standard for Fair Value Measurement)

The company applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter, "fair value measurement standard") and related implementation guidance from the beginning of the current fiscal year. In accordance with the transitional treatment prescribed in paragraph 19 of the fair value measurement standard and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed in the fair value measurement standard will be applied prospectively. There was no impact on the quarterly consolidated financial statements.

(Segment information)

I. Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

Information on sales and profit (loss) by reporting segment

(Millions of yen)

	Reporting segment					Adjustments (Note 1)	Amounts on consolidated statement of income (Note 2)
	Community Pharmacy Network	Leasing and Facility-related	Meal Catering	Other	Total		
Net sales							
Sales to external customers	74,365	1,755	1,874	171	78,167	—	78,167
Intersegment sales or transfers	2	439	—	—	442	(442)	—
Total	74,368	2,194	1,874	171	78,609	(442)	78,167
Segment profit (loss)	4,329	34	(2)	(17)	4,343	(1,569)	2,773

Notes: 1. The negative 1,569 million yen adjustment to segment profit (loss) includes 216 million yen in elimination of intersegment transactions and 1,786 million yen in companywide expenses not allocated to reporting segments. Companywide expenses mainly refer to general expenses that do not belong to reporting segments.
2. Segment profit (loss) is adjusted with operating profit (loss) in the quarterly consolidated statement of income.

II. Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

Information on sales and profit (loss) by reporting segment

(Millions of yen)

	Reporting segment					Adjustments (Note 1)	Amounts on consolidated statement of income (Note 2)
	Community Pharmacy Network	Leasing and Facility-related	Meal Catering	Other	Total		
Net sales							
Sales to external customers	75,985	1,897	1,752	232	79,868	—	79,868
Intersegment sales or transfers	0	563	—	—	563	(563)	—
Total	75,986	2,461	1,752	232	80,432	(563)	79,868
Segment profit (loss)	4,663	53	7	(10)	4,713	(1,650)	3,063

Notes: 1. The negative 1,650 million yen adjustment to segment profit (loss) includes 182 million yen in elimination of intersegment transactions and 1,832 million yen in companywide expenses not allocated to reporting segments. Companywide expenses mainly refer to general expenses that do not belong to reporting segments.
2. Segment profit (loss) is adjusted with operating profit (loss) in the quarterly consolidated statement of income.

2. Changes in reporting segments, etc.

As noted in the section on accounting policy changes, the Company changed its accounting policy and applied the Accounting Standard for Revenue Recognition from the start of the current fiscal year, and segment profit and loss calculation methods have changed similarly.

The effect of this change was to reduce sales in the Community Pharmacy Network Segment by 529 million yen and

sales in the Leasing and Facility-related Segment by 30 million yen for the nine months ended December 31, 2021. The new accounting treatment had no effect on segment profit or loss during the period under review.