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Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Japanese GAAP)

February 3, 2023

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

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

Representative: Inao Tajiri, President and Representative Director
Contact: Eiji Hirashima, Executive Officer, Director of Finance and Director
Tel: +81-11-613-7750

Scheduled date for quarterly report submission: February 7, 2023
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, 2022 (April 1 to December 31, 2022)

(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, 2022	81,878	2.5	4,525	(12.5)	2,344	(23.5)	2,499	(28.3)	1,195	(44.3)
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

Note: Comprehensive income for the nine months ended December 31, 2022 was 1,235 million yen (-42.7% YoY), and comprehensive income for the nine months ended December 31, 2021 was 2,155 million yen (+7.6% YoY)

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

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine Months ended December 31, 2022	39.60	—
Nine Months ended December 31, 2021	71.08	—

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, 2022	68,520	14,125	20.6	466.99
As of March 31, 2022	62,941	13,286	21.1	439.67

Reference: Shareholders' equity amounted to 14,093 million yen as of December 31, 2022 and 13,268 million as of March 31, 2022.

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, 2022	—	5.00	—	7.00	12.00
Fiscal year ending March 31, 2023	—	6.00	—		
Fiscal year ending March 31, 2023 (forecast)				6.00	12.00

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 to March 31, 2023)

(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	110,000	3.1	6,200	(7.6)	3,500	(9.1)	3,700	(14.2)	1,750	(26.9)	57.99

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

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.: None

2. Other accounting policy changes: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(4) Number of shares outstanding (common stock)

1. Shares outstanding (including treasury stock)	As of December 31, 2022	30,642,600	As of March 31, 2022	30,642,600
2. Treasury shares outstanding	As of December 31, 2022	464,055	As of March 31, 2022	464,055
3. Period-average shares outstanding (cumulative quarterly figures)	Nine months ended December 31, 2022	30,178,545	Nine months ended December 31, 2021	30,168,454

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).

Accompanying Materials – Contents

1. Qualitative Information on Quarterly Financial Performance	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Earnings Forecasts and Other Projections	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Consolidated Balance Sheet	4
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes to going concern assumptions)	8
(Notes in the event of significant changes in shareholders' equity)	8
(Segment information)	8

1. Qualitative Information on Quarterly Financial Performance

(1) Explanation of Operating Results

During the nine months ended December 31, 2022, the Community Pharmacy Business was affected by a decline in the prescription unit price due to the impact of the NHI drug price and dispensing fee revisions implemented in April 2022, but the opening of new stores and acquisition of stores contributed to earnings. In the Pharmaceutical Network Business, the number of new network affiliates remained strong. As a result of these, the Company recorded net sales of 81,878 million yen (+2.5% YoY). On the profit side, the Community Pharmacy Business was weighed down by factors such as implementation of the NHI drug price and dispensing fee revisions and increased labor expenses accompanying efforts to strengthen interpersonal services. As a result, the Company booked operating profit of 2,344 million yen (-23.5% YoY), ordinary profit of 2,499 million yen (-28.3% YoY), and profit attributable to owners of parent of 1,195 million yen (-44.3% YoY). Although sales were up and profits fell compared with the same period of the previous fiscal year, they were generally in line with the Company's plan at the beginning of the year.

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 community pharmacy operations, a pharmaceutical network to support pharmacy management, pharmaceutical manufacture and marketing, and support services to help general pharmacies transition into family pharmacies using the LINE communication app.

In the Community Pharmacy Business, although the prescription unit price declined due to the impact of the NHI drug price and dispensing fee revisions, the prescription count rose on the back of the contribution of stores newly opened and acquired. During the nine months ended December 31, 2022, the Company opened six new community pharmacies, including five inside medical malls, and acquired one store (one company) through stock acquisition. As of December 31, 2022, the Company had 429 community pharmacies, one care plan center, and nine drug/cosmetic stores.

In the Pharmaceutical Network Business, the number of new network affiliates continued to grow steadily amid rising demand for business efficiency at pharmacies as pharmacists further concentrated on interpersonal work due to the impact of dispensing fee revisions and other factors. As of December 31, 2022, pharmaceutical network affiliates totaled 8,555, comprising 429 Group pharmacies and 8,126 general network affiliates (an increase of 1,154 from March 31, 2022).

In the Manufacture and Market Pharmaceuticals Business, we offered 90 products (44 ingredients) as of December 31, 2022. We supplied these to 2,042 general network affiliates (an increase of 344 from March 31, 2022), in addition to Group pharmacies.

In the Digital Shift Business, the number of pharmacies using our service and those having placed orders grew steadily, with the former reaching 3,071 as of December 31, 2022 (an increase of 2,160 from March 31, 2022) and the latter 3,381 (an increase of 1,738 from March 31, 2022).

As a result, segment sales for the nine months ended December 31, 2022 were 78,078 million yen (+2.8% YoY), and operating profit was 4,299 million yen (-7.8% YoY).

2) Leasing and Facility-related Segment

In the Leasing and Facility-related Segment, real estate lease revenue was generally firm, but segment sales were down 0.5% YoY to 2,448 million yen, mainly due to an impact from the timing of the recording of sales, as the completion of construction projects will be concentrated in Q4. On the profit side, the segment recorded an operating loss of 97 million yen (operating profit of 53 million yen in the same period of the previous fiscal year) due to factors such as higher labor expenses resulting from an increase in the number of employees to strengthen sales, and increased advertising expenses accompanying aggressive sales promotion activities for the Wisteria serviced residences for the elderly and support services for physicians establishing their own practices.

As of December 31, 2022, Wisteria Senri-Chuo had an occupancy rate of 72.0% (59 out of 82 units occupied), and Wisteria Minami-Ichijo an occupancy rate of 71.6% occupancy rate (83 out of 116 units occupied). The overall

occupancy rate at the five serviced residences for the elderly stood at 81.8%. Moving forward, we will continue to aggressively conduct sales activities that incorporate COVID-19 countermeasures in an effort to achieve our year-end occupancy target rate of 90%.

3) Meal Catering Segment

In the Meal Catering Segment, the number of meals supplied declined due to the impact of COVID-19 and gross margins fell due to higher purchase prices. Segment sales were 1,701 million yen (-2.9% YoY), and the operating loss was 55 million yen (operating profit of 7 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 228 million yen (-1.5% YoY), and the operating loss was 14 million yen (operating loss of 10 million yen in the same period of the previous fiscal year).

(2) Explanation of Financial Position

Total assets as of December 31, 2022, were 68,520 million yen, an increase of 5,579 million yen from March 31, 2022. Current assets amounted to 22,893 million yen, up 4,192 million yen from March 31, 2022. This mainly reflected increases in cash and deposits and merchandise. Non-current assets totaled 45,626 million yen, an increase of 1,386 million yen from March 31, 2022. This is mainly attributable to an increase in leased assets (net) included in "Other, net" under property, plant and equipment,

Total liabilities were 54,395 million yen, up 4,740 million yen from March 31, 2022. Current liabilities totaled 24,341 million yen, an increase of 3,905 million yen from March 31, 2022. This was mainly due to increases in accounts payable-trade and short-term borrowings. Non-current liabilities totaled 30,053 million yen, an increase of 834 million yen from March 31, 2022. The main factor here was an increase in lease obligations included in "Other" under non-current liabilities, which offset a decrease in long-term borrowings.

Net assets were 14,125 million yen, an increase of 838 million yen from March 31, 2022. This was mainly due to an increase in retained earnings.

(3) Explanation of Consolidated Earnings Forecasts and Other Projections

The Company has made no changes to the earnings forecast for the fiscal year ending March 31, 2023, which was announced on May 6, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended March 31, 2022 (as of March 31, 2022)	Nine months ended December 31, 2022 (as of December 31, 2022)
Assets		
Current assets		
Cash and deposits	8,201	9,594
Accounts receivable - trade	2,891	3,866
Unearned revenue from sale of accounts receivable	954	1,017
Purchased receivables - dispensing fees	443	448
Merchandise	4,765	5,936
Raw materials	14	20
Work in process	1	2
Supplies	76	82
Other	1,355	1,936
Allowance for doubtful accounts	(3)	(10)
Total current assets	18,701	22,893
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,408	13,280
Land	8,847	8,929
Construction in progress	202	138
Other	2,165	4,490
Total property, plant and equipment	24,624	26,838
Intangible assets		
Goodwill	12,254	11,527
Software	401	519
Other	111	104
Total intangible assets	12,767	12,151
Investments and other assets		
Investment securities	155	164
Guarantee deposits	3,052	3,119
Deferred tax assets	2,894	2,566
Other	764	806
Allowance for doubtful accounts	(19)	(19)
Total investments and other assets	6,848	6,636
Total non-current assets	44,239	45,626
Total assets	62,941	68,520

(Millions of yen)

	Fiscal year ended March 31, 2022 (as of March 31, 2022)	Nine months ended December 31, 2022 (as of December 31, 2022)
Liabilities		
Current liabilities		
Accounts payable – trade	9,680	12,300
Short-term borrowings	1,016	2,664
Current portion of long-term borrowings	4,756	4,871
Income taxes payable	617	104
Provision for bonuses	1,528	807
Provision for bonuses for directors (and other officers)	38	12
Other	2,798	3,581
Total current liabilities	20,435	24,341
Non-current liabilities		
Long-term borrowings	22,891	20,441
Provision for retirement benefits for directors (and other officers)	600	630
Provision for share awards for directors (and other officers)	210	235
Retirement benefit liability	3,752	3,998
Other	1,763	4,747
Total non-current liabilities	29,219	30,053
Total liabilities	49,654	54,395
Net assets		
Shareholders' equity		
Share capital	2,128	2,128
Capital surplus	1,182	1,182
Retained earnings	10,393	11,190
Treasury shares	(326)	(326)
Total shareholders' equity	13,377	14,174
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(7)	(1)
Deferred gains or losses on hedges	0	7
Remeasurements of defined benefit plans	(102)	(87)
Total accumulated other comprehensive income	(108)	(81)
Non-controlling interests	17	32
Total net assets	13,286	14,125
Total liabilities and net assets	62,941	68,520

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

Consolidated Statement of Income

	(Millions of yen)	
	Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)	Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)
Net sales	79,868	81,878
Cost of sales	46,425	47,591
Gross profit	33,443	34,287
Selling, general and administrative expenses	30,379	31,942
Operating profit	3,063	2,344
Non-operating income		
Interest and dividend income	6	5
Outsourcing service income	58	59
Rental income from facilities	80	101
Subsidy income	398	197
Miscellaneous income	102	59
Total non-operating income	647	423
Non-operating expenses		
Loss on sale of receivables	41	41
Interest expenses	140	206
Miscellaneous losses	44	20
Total non-operating expenses	225	268
Ordinary profit	3,485	2,499
Extraordinary income		
Gain on sale of non-current assets	3	7
Gain on sale of investment securities	112	—
Gain on sale of businesses	16	—
Total extraordinary income	131	7
Extraordinary losses		
Loss on sale of non-current assets	12	0
Loss on retirement of non-current assets	14	51
Impairment losses	90	18
Loss on store closings	16	14
Other	2	18
Total extraordinary losses	136	103
Profit before income taxes	3,480	2,403
Income taxes - current	821	855
Income taxes - deferred	532	338
Total income taxes	1,353	1,194
Profit	2,126	1,209
Profit (loss) attributable to non-controlling interests	(18)	14
Profit (loss) attributable to owners of parent	2,144	1,195

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)	Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)
Profit	2,126	1,209
Other comprehensive income		
Valuation difference on available-for-sale securities	14	5
Deferred gains or losses on hedges	2	6
Remeasurements of defined benefit plans, net of tax	11	14
Total other comprehensive income	29	26
Comprehensive income	2,155	1,235
(Breakdown)		
Comprehensive income attributable to owners of parent	2,173	1,221
Comprehensive income attributable to non-controlling interests	(18)	14

(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.

(Segment information)

I. 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.

II. Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

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	78,061	1,886	1,700	228	81,878	—	81,878
Intersegment sales or transfers	17	562	0	—	579	(579)	—
Total	78,078	2,448	1,701	228	82,457	(579)	81,878
Segment profit (loss)	4,299	(97)	(55)	(14)	4,131	(1,787)	2,344

Notes: 1. The negative 1,787 million yen adjustment to segment profit (loss) includes 235 million yen in elimination of intersegment transactions and 2,022 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.