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Consolidated Financial Results for the Six Months Ended September 30, 2023 (Japanese GAAP)

November 7, 2023

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: November 9, 2023
Scheduled date for dividend payment: December 11, 2023
Preparation of supplemental explanatory materials: Yes
Results briefing to be held: Yes(for institutional investors and analysts)

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2023 (April 1 to September 30, 2023)

(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	%
Six Months ended September 30, 2023	56,461	5.9	3,247	28.0	1,712	55.7	1,692	36.2	861	71.5
Six Months ended September 30, 2022	53,340	2.2	2,537	(22.0)	1,099	(40.9)	1,242	(44.4)	502	(64.9)

Note: Comprehensive income for the six months ended September 30, 2023 was 892 million yen (70.3% YoY), and comprehensive income for the six months ended September 30, 2022 was 523 million yen ((63.9)% YoY)

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

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six Months ended September 30, 2023	28.54	—
Six Months ended September 30, 2022	16.64	—

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 September 30, 2023	66,255	15,197	22.9	502.18
As of March 31, 2023	66,223	14,488	21.8	478.86

Reference: Shareholders' equity amounted to 15,155 million yen as of September 30, 2023 and 14,451 million as of March 31, 2023.

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, 2023	—	6.00	—	6.00	12.00
Fiscal year ending March 31, 2024	—	6.00			
Fiscal year ending March 31, 2024 (forecast)			—	6.00	12.00

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(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	113,800	3.9	6,600	7.8	3,500	10.6	3,450	2.8	1,650	2.4	54.67

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.: 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 September 30, 2023	30,642,600	As of March 31, 2023	30,642,600
2. Treasury shares outstanding	As of September 30, 2023	464,055	As of March 31, 2023	464,055
3. Period-average shares outstanding (cumulative quarterly figures)	Six months ended September 30, 2023	30,178,545	Six months ended September 30, 2022	30,178,545

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 4 of the attached materials "1. Qualitative Information on Quarterly Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Projections."

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

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1. Qualitative Information on Quarterly Financial Performance

(1) Explanation of Operating Results

In the six months ended September 30, 2023, the prescription unit price decreased in the Community Pharmacy Business as the transitional measures for community support premiums came to an end. However, the number of prescriptions filled increased, owing to lessened concerns about visiting doctors with the downgrading of COVID-19 to a Class 5 infectious disease, the outbreak of multiple respiratory infections, and the utilization of digital technologies, such as the transmission of prescriptions using LINE, and patient follow-up during medication periods. In the Pharmaceutical Network Business, the number of new network affiliates fell short of expectations but still grew steadily, leading to an increase in the total value of pharmaceuticals orders placed by network affiliates. On the expense front, the Company worked on company-wide productivity-improvement measures in efforts to contain costs. As a result, in the six-month period under review, net sales amounted to 56,461 million yen (+5.9% YoY), operating profit 1,712 million yen (+55.7% YoY), ordinary profit 1,692 million yen (+36.2% YoY), and profit attributable to owners of parent 861 million yen (+71.5% YoY).

Results by segment were as follows. Sales in each segment include intersegment sales.

From the first quarter of the fiscal year under review, the costs of the business development division, which were previously allocated to the Leasing and Facility-related Segment, have been transferred to the Community Pharmacy Network Segment, as the division will focus on the development of the Company's community pharmacies (the amount transferred in the six-month period under review was 78 million yen).

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, the prescription unit price dropped as the transitional measures for community support premiums came to an end. Meanwhile, the number of prescriptions filled grew, owing to diminished concerns about visiting healthcare facilities with the downgrading of COVID-19 to a Class 5 infectious disease, the outbreak of several respiratory infections, and the utilization of digital technologies, such as the transmission of prescriptions using LINE, and patient follow-up during medication periods. Further, in the six-month period under review, the Group opened eight new community pharmacies, including four in medical malls. As of September 30, 2023, the Group had 434 community pharmacies, one care plan center, and 10 drug/cosmetics stores.

In the Pharmaceutical Network Business, the number of new network affiliates fell short of expectations but still grew steadily, and the total value of pharmaceuticals orders placed by network affiliates expanded. As of September 30, 2023, the number of pharmaceutical network members totaled 9,374 (up 462 from March 31, 2023), broken down to 434 Group pharmacies and 8,940 affiliates.

In the Manufacture and Market Pharmaceutical Business, as of September 30, 2023, the Company's product lineup included 98 products spanning 47 active pharmaceutical ingredients. While the Company stopped accepting orders for some products due to the impact of shipment adjustments, the number of new partner pharmacies steadily grew in the second quarter of the fiscal year under review, with the total number of partner pharmacies reaching 3,894 as of September 30, 2023, up 663 year-on-year.

In the Digital Shift Business, the number of pharmacies that have adopted the Group's services as of September 30, 2023 totaled 4,195 (up 804 compared with March 31, 2023).

As a result, segment sales for the six months ended September 30, 2023 were 53,765 million yen (+5.9% YoY), and operating profit was 2,947 million yen (23.6% YoY).

2) Leasing and Facility-related Segment

In the Leasing and Facility-related segment, sales were 1,687 million yen (+0.8% YoY) and operating profit was 69 million yen (versus an operating loss of 65 million yen in the same period of the previous year). Growth in sales and

profit were attributed to the transfer of the business development division costs, which were previously allocated to this segment, to the Community Pharmacy Network Segment, as the division will now focus on the development of the Group's community pharmacies, and the revision of staff allocation and advertising expenses for the Wisteria serviced residence for the elderly.

As of September 30, 2023, Wisteria Senri-Chuo had an occupancy rate of 67.1% (55 out of 82 units occupied), and Wisteria Minami-Ichijo an occupancy rate of 67.2% occupancy rate (78 out of 116 units occupied). The overall occupancy rate at the five serviced residences for the elderly stood at 82.1%. The Group will focus on meeting the changing needs of residents and cultivate new sales routes, and continue to conduct aggressive sales activities.

3) Meal Catering Segment

In the Meal Catering Segment, while sales grew owing to a revision of the contract unit price, the gross profit margin declined due to soaring purchase prices. As a result, segment sales were 1,189 million yen (+4.8% YoY), and the operating loss was 23 million yen (versus an operating loss of 33 million yen in the same period of the previous year).

4) Other Segment

In the Other segment, the Group provides home-visit nursing care. While the number of home visits rose, the Group incurred upfront expenditures due to an increase in headcount. As a result, sales were 155 million yen (+2.8% YoY) and the operating loss was 20 million yen (versus an operating loss of 10 million yen in the same period of the previous year).

(2) Explanation of Financial Position

As of September 30, 2023, total assets amounted to 66,255 million yen, up 31 million yen from March 31, 2023.

Current assets amounted to 19,668 million yen, down 596 million yen from March 31, 2023. This was primarily due to a decline in consumption taxes refund receivable included in other. Non-current assets were 46,586 million yen, up 628 million yen from March 31, 2023, mainly reflecting an increase in leased assets, net, included in other, net, under property, plant and equipment, despite a decline in goodwill.

Total liabilities were 51,057 million yen, down 677 million yen from March 31, 2023. Current liabilities totaled 22,158 million, up 808 million yen from March 31, 2023. This was mainly due to increases in accounts payable-trade and short-term borrowings. Non-current liabilities were 28,899 million yen, down 1,486 million yen from March 31, 2023. The decrease here was mainly attributed to a decline in long-term borrowings.

Net assets were 15,197 million yen, up 708 million yen from March 31, 2023. The main reason for this was an increase in retained earnings.

(Status of Cash flows)

Cash and cash equivalents on a consolidated basis as of September 30, 2023 amounted to 7,613 million yen, down 497 million yen from March 31, 2023. The status of cash flows during the six months ended September 30, 2023 is as follows.

(Cash flows from operating activities)

Net cash provided by operating activities totaled 3,611 million yen (versus 1,701 million yen provided in the same period of the previous fiscal year). This was primarily due to inflows of 1,705 million yen in profit before income taxes and 972 million yen in depreciation.

(Cash flows from investing activities)

Net cash used in investing activities came to 1,209 million yen (versus 902 million yen used in the same period of the previous fiscal year). The main factor was an outflow of 968 million yen in purchase of property, plant, and equipment.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 2,899 million yen (versus 2,226 million yen used in the same period of the previous fiscal year). This was mainly attributable to an outflow of 2,630 million yen in repayments of long-term borrowings.

(3) Explanation of Consolidated Earnings Forecasts and Other Projections

The Company has revised the consolidated earnings forecast released on May 9, 2023. For details, please see the “Notice Regarding Differences between Forecasts and Actual Consolidated Operating Results for the Six Months Ended September 30, 2023, Revision of Consolidated Operating Results Forecasts for Fiscal Year Ending March 2024, Dividends from Surplus and Revision of the Year-End Cash Dividends Forecast” released today (November 7, 2023).

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended March 31, 2023 (as of March 31, 2023)	Six months ended September 30, 2023 (as of September 30, 2023)
Assets		
Current assets		
Cash and deposits	8,141	7,643
Accounts receivable - trade	3,437	3,676
Unearned revenue from sale of accounts receivable	1,039	1,078
Purchased receivables - dispensing fees	463	408
Merchandise	5,160	5,595
Raw materials	17	17
Work in process	2	27
Supplies	74	79
Other	1,939	1,152
Allowance for doubtful accounts	(11)	(11)
Total current assets	20,265	19,668
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,164	13,285
Land	8,916	9,031
Construction in progress	165	145
Other	4,814	5,665
Total property, plant and equipment	27,060	28,128
Intangible assets		
Goodwill	11,183	10,622
Software	548	575
Other	74	74
Total intangible assets	11,807	11,272
Investments and other assets		
Investment securities	159	177
Guarantee deposits	3,222	3,303
Deferred tax assets	2,926	2,927
Other	802	797
Allowance for doubtful accounts	(19)	(19)
Total investments and other assets	7,090	7,185
Total non-current assets	45,958	46,586
Total assets	66,223	66,255

(Millions of yen)

	Fiscal year ended March 31, 2023 (as of March 31, 2023)	Six months ended September 30, 2023 (as of September 30, 2023)
Liabilities		
Current liabilities		
Accounts payable – trade	9,937	10,135
Short-term borrowings	1,016	1,136
Current portion of long-term borrowings	5,152	4,905
Income taxes payable	600	687
Provision for bonuses	1,569	1,630
Provision for bonuses for directors (and other officers)	2	12
Other	3,071	3,651
Total current liabilities	21,349	22,158
Non-current liabilities		
Long-term borrowings	20,226	17,843
Provision for retirement benefits for directors (and other officers)	637	648
Provision for share awards for directors (and other officers)	243	260
Retirement benefit liability	4,157	4,299
Other	5,121	5,847
Total non-current liabilities	30,385	28,899
Total liabilities	51,735	51,057
Net assets		
Shareholders' equity		
Share capital	2,128	2,128
Capital surplus	1,182	1,182
Retained earnings	11,606	12,284
Treasury shares	(326)	(326)
Total shareholders' equity	14,590	15,268
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(2)	10
Deferred gains or losses on hedges	2	2
Remeasurements of defined benefit plans	(139)	(126)
Total accumulated other comprehensive income	(139)	(113)
Non-controlling interests	37	42
Total net assets	14,488	15,197
Total liabilities and net assets	66,223	66,255

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

Consolidated Statement of Income

(Millions of yen)

	Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)
Net sales	53,340	56,461
Cost of sales	31,024	33,008
Gross profit	22,315	23,453
Selling, general and administrative expenses	21,215	21,740
Operating profit	1,099	1,712
Non-operating income		
Interest and dividend income	3	3
Outsourcing service income	35	33
Rental income from facilities	71	75
Subsidy income	176	28
Miscellaneous income	38	39
Total non-operating income	325	179
Non-operating expenses		
Loss on sale of receivables	27	28
Interest expenses	138	157
Miscellaneous losses	16	13
Total non-operating expenses	182	199
Ordinary profit	1,242	1,692
Extraordinary income		
Gain on sale of non-current assets	7	0
Gain on sale of businesses	—	22
Total extraordinary income	7	22
Extraordinary losses		
Loss on retirement of non-current assets	47	1
Impairment losses	18	5
Loss on store closings	13	1
Other	6	0
Total extraordinary losses	85	9
Profit before income taxes	1,165	1,705
Income taxes - current	629	852
Income taxes - deferred	23	(13)
Total income taxes	653	839
Profit	512	866
Profit (loss) attributable to non-controlling interests	10	5
Profit (loss) attributable to owners of parent	502	861

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)
Profit	512	866
Other comprehensive income		
Valuation difference on available-for-sale securities	0	12
Deferred gains or losses on hedges	1	0
Remeasurements of defined benefit plans, net of tax	9	12
Total other comprehensive income	11	25
Comprehensive income	523	892
(Breakdown)		
Comprehensive income attributable to owners of parent	513	887
Comprehensive income attributable to non-controlling interests	10	5

(3) Consolidated Statement of Cash Flows

	(Millions of yen)	
	Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)
Cash flows from operating activities		
Profit before income taxes	1,165	1,705
Depreciation	872	972
Impairment losses	18	5
Amortization of goodwill	565	561
Increase (decrease) in provision for bonuses	76	60
Increase (decrease) in provision for bonuses for directors (and other officers)	(30)	10
Increase (decrease) in allowance for doubtful accounts	7	0
Increase (decrease) in provision for share awards for directors (and other officers)	16	16
Increase (decrease) in provision for retirement benefits for directors (and other officers)	20	11
Increase (decrease) in retirement benefit liability	175	161
Interest and dividend income	(3)	(3)
Interest expenses	138	134
Loss (gain) on sale of non-current assets	(7)	(0)
Loss on retirement of non-current assets	47	1
Loss (gain) on sale of businesses	—	(22)
Decrease (increase) in trade receivables	(437)	(239)
Decrease (increase) in unearned revenue from sale of accounts receivable	(26)	(39)
Decrease (increase) in purchased receivables - dispensing fees	11	55
Decrease (increase) in inventories	(456)	(470)
Increase (decrease) in trade payables	150	198
Increase (decrease) in accrued consumption taxes	(98)	772
Other	205	490
Subtotal	2,410	4,385
Interest and dividends received	2	2
Interest paid	(138)	(132)
Income taxes paid	(572)	(644)
Net cash provided by (used in) operating activities	1,701	3,611

	(Millions of yen)	
	Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)
Cash flows from investing activities		
Purchase of property, plant and equipment	(670)	(968)
Proceeds from sale of property, plant and equipment	22	0
Purchase of intangible assets	(156)	(122)
Proceeds from sale of businesses	—	31
Loan advances	(0)	(1)
Proceeds from collection of loans receivable	3	1
Payments of guarantee deposits	(49)	(132)
Proceeds from refund of guarantee deposits	30	35
Other	(81)	(54)
Net cash provided by (used in) investing activities	(902)	(1,209)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	500	120
Repayments of long-term borrowings	(2,392)	(2,630)
Repayments of lease obligations	(120)	(205)
Dividends paid	(213)	(182)
Net cash provided by (used in) financing activities	(2,226)	(2,899)
Net increase (decrease) in cash and cash equivalents	(1,427)	(497)
Cash and cash equivalents at beginning of period	8,171	8,111
Cash and cash equivalents at end of period	6,743	7,613

(4) 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. Six months ended September 30, 2022 (from April 1, 2022 to September 30, 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	50,785	1,268	1,134	151	53,340	—	53,340
Intersegment sales or transfers	7	404	0	—	412	(412)	—
Total	50,792	1,673	1,135	151	53,752	(412)	53,340
Segment profit (loss)	2,384	(65)	(33)	(10)	2,275	(1,175)	1,099

Notes: 1. The negative 1,175 million yen adjustment to segment profit (loss) includes 145 million yen in elimination of intersegment transactions and 1,321 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. Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

1. Information on sales and profit (loss) by reporting segment

(Millions of yen)

	Reporting segment					Adjustments (Note 1)	Amounts on consolidated statement of income (Note 2)
	Community Pharmacy Network	Leasing and Facility- related	Meal Catering	Other	Total		
Net sales							
Sales to external customers	53,741	1,375	1,189	155	56,461	—	56,461
Intersegment sales or transfers	24	311	0	—	336	(336)	—
Total	53,765	1,687	1,189	155	56,797	(336)	56,461
Segment profit (loss)	2,947	69	(23)	(20)	2,974	(1,261)	1,712

Notes: 1. The negative 1,261 million yen adjustment to segment profit (loss) includes 130 million yen in elimination of intersegment transactions and 1,392 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. From the first quarter of the fiscal year under review, the costs of the business development division, which were previously allocated to the Leasing and Facility-related Segment, have been transferred to the Community Pharmacy Network Segment, as the division will focus on the development of the Company's community pharmacies (the amount transferred in the six-month period under review was 78 million yen).