



MEDICAL
SYSTEM
NETWORK
GROUP

MEDICAL SYSTEM NETWORK Co., Ltd.

Second Quarter of Fiscal Year Ending March 2024

Earnings Report

Standard Market of Tokyo Stock Exchange ; Securities Code: 4350

About contents covered

- * The contents of this report pertaining future earnings described are based on information the company has held, and on certain assumptions supervising rational judgement, and are not what the company promises to achieve. There are numerous factors that may cause actual earnings to differ. Caution is given to the accuracy of information, and we do not take responsibility for loss etc., as a result of misinformed information.
- * Furthermore, this report is not prepared for the purposes of investment solicitation. Readers are responsible for their own judgement in any decision regarding investments.

Please see the following link for our English information.

<https://www.msnw.co.jp/eng/>



■ 2nd Quarter Results

Net sales remained strong, and profits at all levels increased significantly YoY and exceeded the plan by a wide margin.

- YoY change -

● Increase in Net sales and profit

(Net sales +5.9%, Operating profit +55.7%)

• The unit price of prescriptions declined on the back of the end of the transitional measures for additional fees related to community support system.

→ Existing **pharmacies** unit price of technical fee -3.1%

• Due to category 5 migration of COVID-19, infectious disease outbreaks, prescription transmission benefits through the impact of DX utilization, and medication follow-ups we saw ;

→ No. of prescriptions at existing pharmacies +4.0%

- vs Forecast -

● Both of Net sales and profit exceeded the plan.

(Net sales +3.3%, Operating profit +114.1%)

• No. of prescriptions filled at existing pharmacies +1.9% vs. plan

• No. of Pharmaceutical network affiliates fell short of the plan, but ordering volume of pharmaceuticals increased compared to the plan.

■ Upwardly revised full-year earnings forecast and increased dividend forecast

Figures in parentheses indicate changes from the end of the previous FY
* YoY

< Community Pharmacy Network Segment >

Community Pharmacy	434 pharmacies (+6)
Prescription Unit price(All pharmacies)	10,033 yen (-28 yen)*
No. of prescriptions (All pharmacies)	4,777K (+5.8%)*
No. of prescriptions (Existing pharmacies)	4,642K (+4.0%)*

~ Our 3 Pharmacy Support Businesses ~

Pharmaceutical Network Business

- No. of affiliates **9,374** affiliates (+462)

Manufacture and Market Pharmaceuticals Business

- No. of ingredients **47** ingredients (+2)
- No. of products **98** products (+5)
- No. of affiliates **3,894** affiliates (+663)*

Digital Shift Business

- No. User registrations **842K** (+193K)
- No. Installed pharmacies **4,195** pharmacies (+804)

< Leasing and Facility related Segment >

Wisteria

- Occupancy rate of all 5 facilities **82.1%** (+1.7%)

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Earnings Highlight

FY3/2024 2Q : Consolidated Results

(Unit: million yen)	FY3/2023 2Q (results)	FY3/2024 2Q (plan)	FY3/2024 2Q (results)	YoY		Progress rate v.s. forecast	
				Change	Change (%)	Difference	Difference (%)
Net sales	53,340	54,670	56,461	+ 3,121	+ 5.9%	+ 1,791	103.3%
EBITDA*1 Profit margin	2,537 4.8%	2,250 4.1%	3,247 5.8%	+ 710	+ 28.0%	+ 997	144.3%
Operating profit Profit margin	1,099 2.1%	800 1.5%	1,712 3.0%	+ 612	+ 55.7%	+ 912	214.1%
Ordinary profit Profit margin	1,242*2 2.3%	750 1.4%	1,692 3.0%	+ 449	+36.2%	+ 942	225.7%
Profit attributable to owners of parent Profit margin	502 0.9%	250 0.5%	861 1.5%	+ 359	+ 71.5%	+ 611	344.5%
Earnings per share (Yen)	16.64	8.28	28.54	+ 11.90	—	+ 20.26	—

*1 Calculated as "Operating income + Depreciation and amortization + Amortization of goodwill"

*2 Includes 114 million yen in subsidy income related to online qualification verification

FY3/2024 2Q : Results by Segment

■ Net sales

	(Unit: million yen)	FY3/2023 2Q(results)	FY3/2024 2Q(results)	Change	Change (%)
Net sales		53,340	56,461	+ 3,121	+ 5.9 %
Community Pharmacy Network Segment*1		50,792	53,765	+ 2,972	+ 5.9 %
Leasing and Facility related Segment Meal Catering Segment Home Visit Nursing Segment		2,959	3,032	+ 72	+2.5%
Adjustments		(412)	(336)	+ 75	—

■ Operating profit

(Unit: million yen)
Profit margin in brackets

Segment profit		1,099 2.1 %	1,712 3.0 %	+ 612 + 0.9pt	+ 55.7 %
Community Pharmacy Network Segment*1		2,384 4.7 %	2,947*2 5.5 %	+ 563 + 0.8pt	+ 23.6 %
Leasing and Facility related Segment Meal Catering Segment Home Visit Nursing Segment		(108) —	26*2 0.9 %	+ 135 —	—
Adjustments		(1,175) —	(1,261) —	(85) —	—

*1 Community Pharmacy Business, Pharmaceutical Network Business, Manufacture and Market Pharmaceuticals Business, and Digital Shift Business

*2 Transferring expenses related to the development of pharmacies from the Leasing and Equipment Related Business to the Community Pharmacy Business from FY3/2024. Transfer of expenses 78 million yen

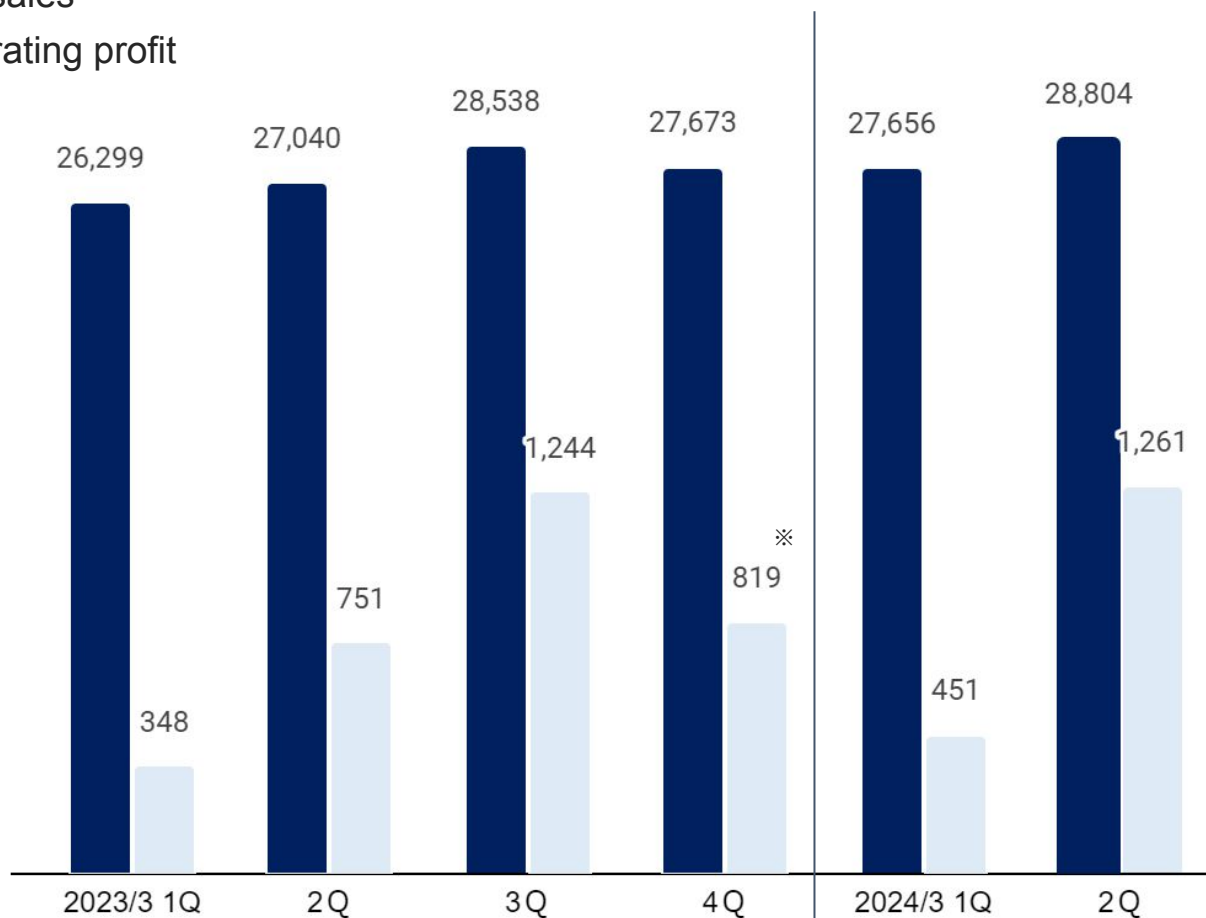
FY3/2024 2Q : Consolidated Results Quarterly Changes

■ Net sales · Operating profit (Quarterly Changes)

Operating profit significantly increased as the No. of prescriptions filled has been strong due to the outbreak of multiple infectious diseases and strengthened medication follow-ups.

- Net sales
- Operating profit

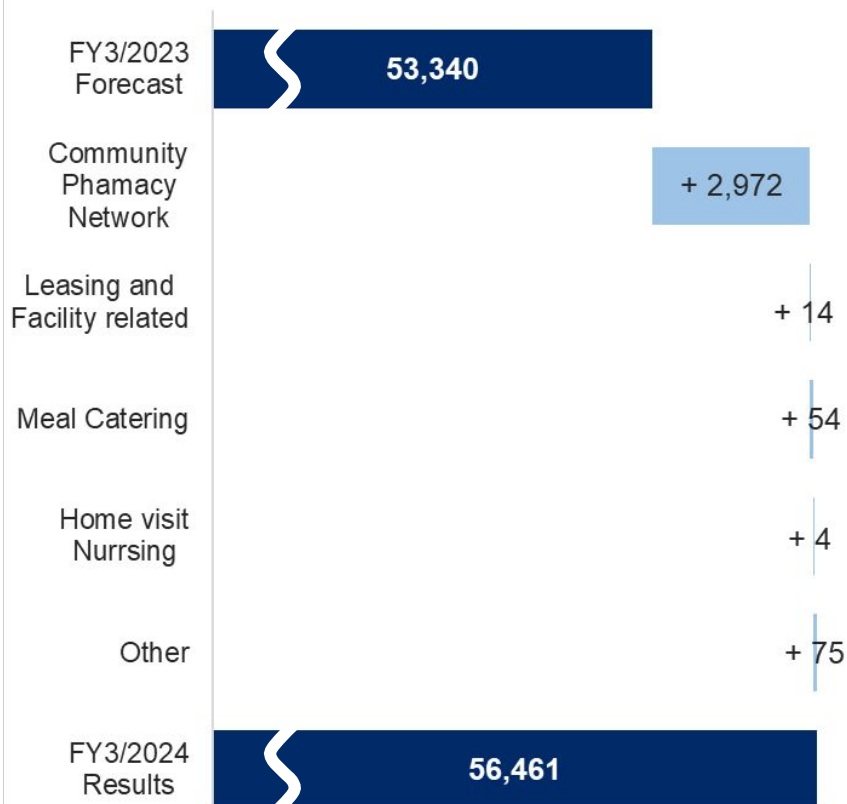
(Unit: million yen)



※ 2023/3 4Q: Inflation allowance 202 million yen including

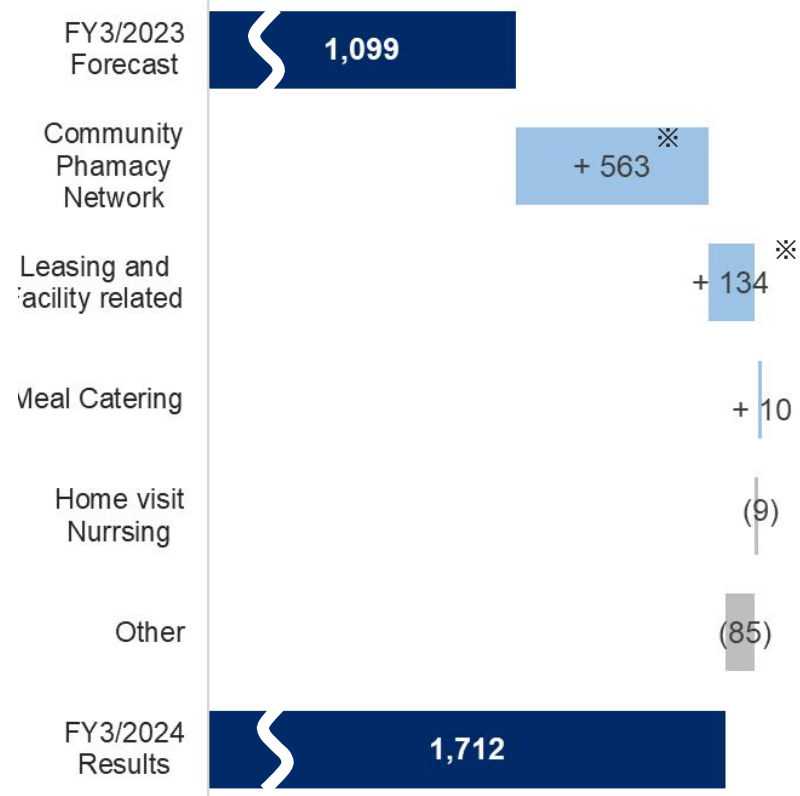
■ Net sales

(Unit: million yen)



■ Operating profit

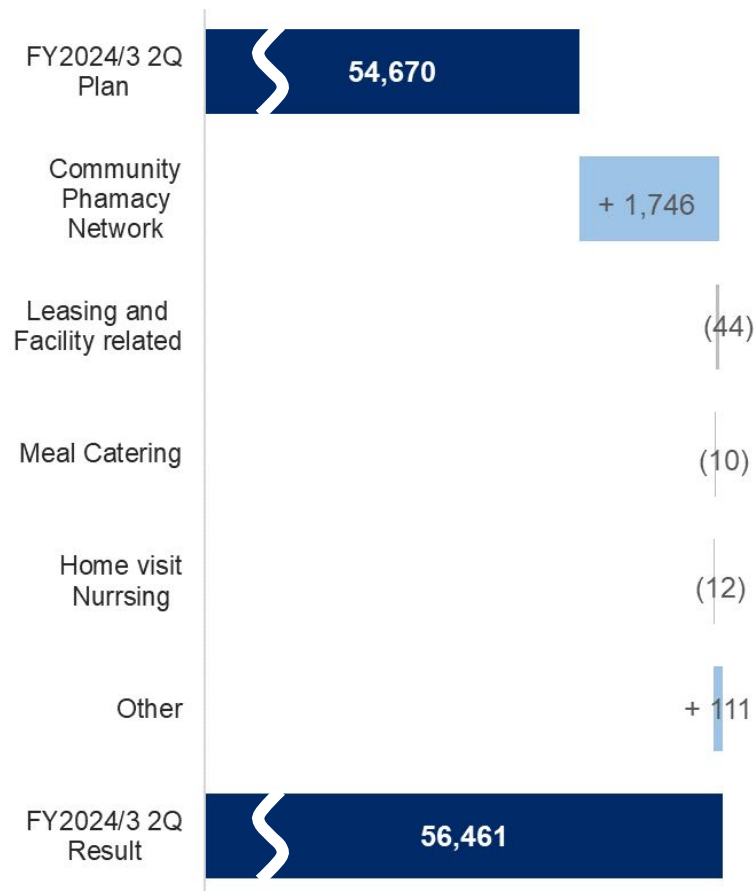
(Unit: million yen)



※ From FY3/2024, Development sales expenses is shifted from Leasing and Facility related Segment to Community Pharmacy Business.
Amount of expenses : 78 million yen

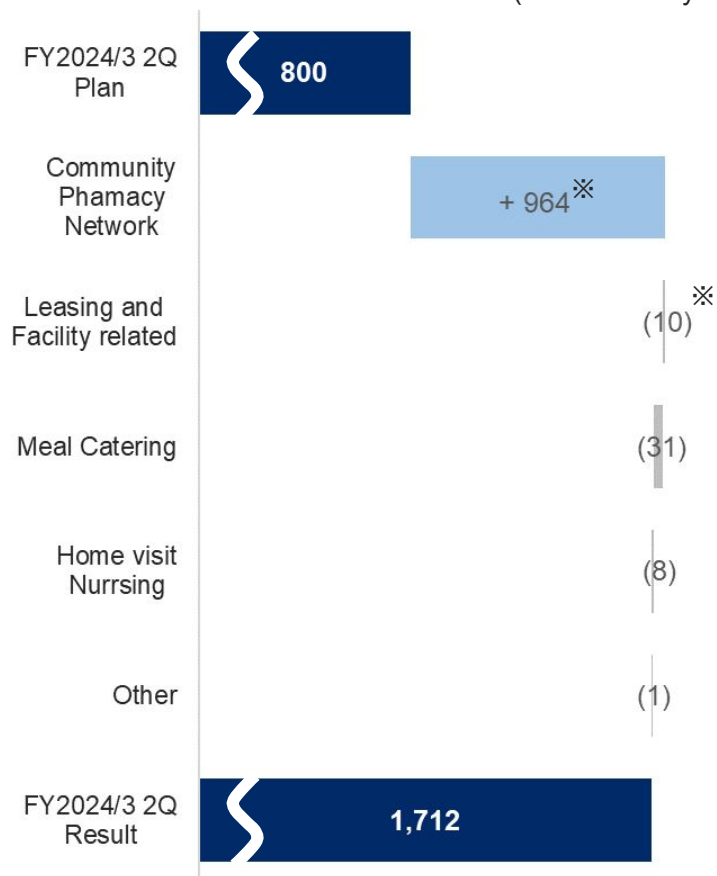
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)



※Existing Pharmacies: No. of prescriptions +1.9%, unit price +2.0 compared to forecast

FY3/2024 2Q : Consolidated Balance Sheet

■ End of FY3/2023

(Unit: million yen)

Assets	66,223	Liabilities	51,735
Current assets	20,265	Current liabilities	21,349
Cash and deposits	8,141	Short-term loans*1	6,168
		Fixed liabilities	30,385
Fixed assets	45,958	Long-term loans	20,226
Tangible fixed assets	27,060	Net assets	14,488
Intangible fixed assets	11,807	Share capital	2,128
Goodwill	11,183	Capital surplus	1,182
Investments and other assets	7,090	Retained earnings	11,606
		Treasury shares	(326)
Total assets	66,223	Total liabilities and net assets	66,223
Equity ratio			21.8%

(Equity ratio with taking into account net cash** 24.9%)

*1 Includes long-term loans that will be repaid within 1 year

*2 Own capital / (Total assets – Cash and deposits)

■ End of FY3/2024 2Q

(Unit: million yen)

Assets	66,255	Liabilities	51,057
Current assets	19,668	Current liabilities	22,158
Cash and deposits	7,643	Short-term loans*1	6,041
		Fixed liabilities	28,899
Fixed assets	46,586	Long-term loans	17,843
Tangible fixed assets	28,128	Net assets	15,197
Intangible fixed assets	11,272	Share capital	2,128
Goodwill	10,622	Capital surplus	1,182
Investments and other assets	7,185	Retained earnings	12,284
		Treasury shares	(326)
Total assets	66,255	Total liabilities and net assets	66,255
Equity ratio			22.9%

(Equity ratio with taking into account net cash** 25.9%)

FY3/2024 2Q : Consolidated Cash Flows

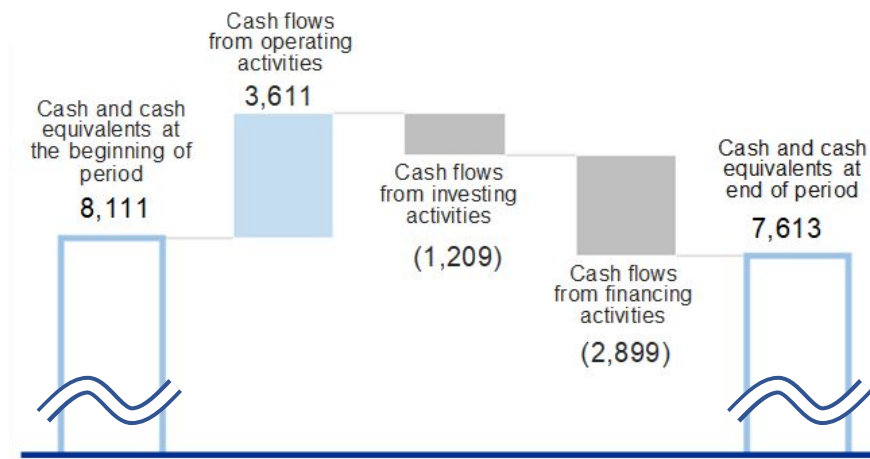
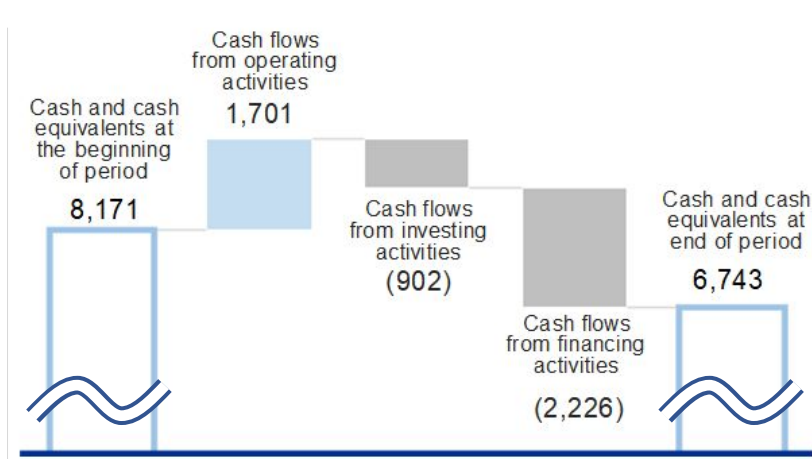
Cash flows from operating activities	3,611 million yen	EBITDA* * Calculated by "operating profit + depreciation + amortization of goodwill"	3,247 million yen
Cash flows from investing activities	(1,209) million yen	Opening of new pharmacies Existing pharmacies renovation costs, etc.	(710) million yen (291) million yen
Cash flows from financing activities	(2,899) million yen	Loan amount reduced	(2,510) million yen

■FY3/2023 2Q

(Unit: million yen)

■FY3/2024 2Q

(Unit: million yen)





2

Core
strategies
▪
Business
Summary

		Focused measures for the current period and Target value
	Community Pharmacy Business	<ul style="list-style-type: none"> ■ Acquisition of prescriptions using on-line tools (LINE, prescription transmission) tools No. of existing pharmacies prescriptions :+1.9%(YoY) ■ Strengthen interpersonal services and provide quality drug treatments ■ Development of new 15 pharmacies, mainly in medical malls ■ Increased productivity through appropriate cost controls
Community Pharmacy Network Segment	Pharmaceuticals Network Business*	<ul style="list-style-type: none"> ■ 10,400 affiliates at the end of March 2024 (+1,488) ■ Promote distribution improvement; Our pharmacies Deliver once a day on weekdays, no deliveries on Saturdays, and reduce urgent deliveries ■ Core system renovation and renewal ■ Expansion of services for affiliates
* 3 Pharmacy Support Businesses	Manufacture and Market Pharmaceuticals Business*	<ul style="list-style-type: none"> ■ Stable supply ■ No. of transaction pharmacies including network affiliates : 5,000 (+1,263)
	Digital Shift Business*	<ul style="list-style-type: none"> ■ No. of installed pharmacies : 5,300 (+1,909), 1 million user registrations (+360K) ■ Continued enhancements
Leasing and Facility related Segment		<ul style="list-style-type: none"> ■ Achieved 90% occupancy rate and stable operation in Wisteria ■ Appropriate cost control and review of labor and advertising costs
Meal Catering Segment, Home Visit Nursing Segment		<ul style="list-style-type: none"> ■ As the impact of Corona fades, returns to normal operations and raises break-even line
Investment and Financial Strategies		<ul style="list-style-type: none"> ■ IT investment in building area collaboration ■ Secure profit through cost control while building up capital

Community Pharmacy Business:

Trends in No. of Pharmacies

8 new outlets and 2 outlet closures/transfers since end of the previous FY

①Nanohana Pharmacy Higashijujo



②Nanohana Pharmacy Tenroku Station



③Sakura Pharmacy Ito



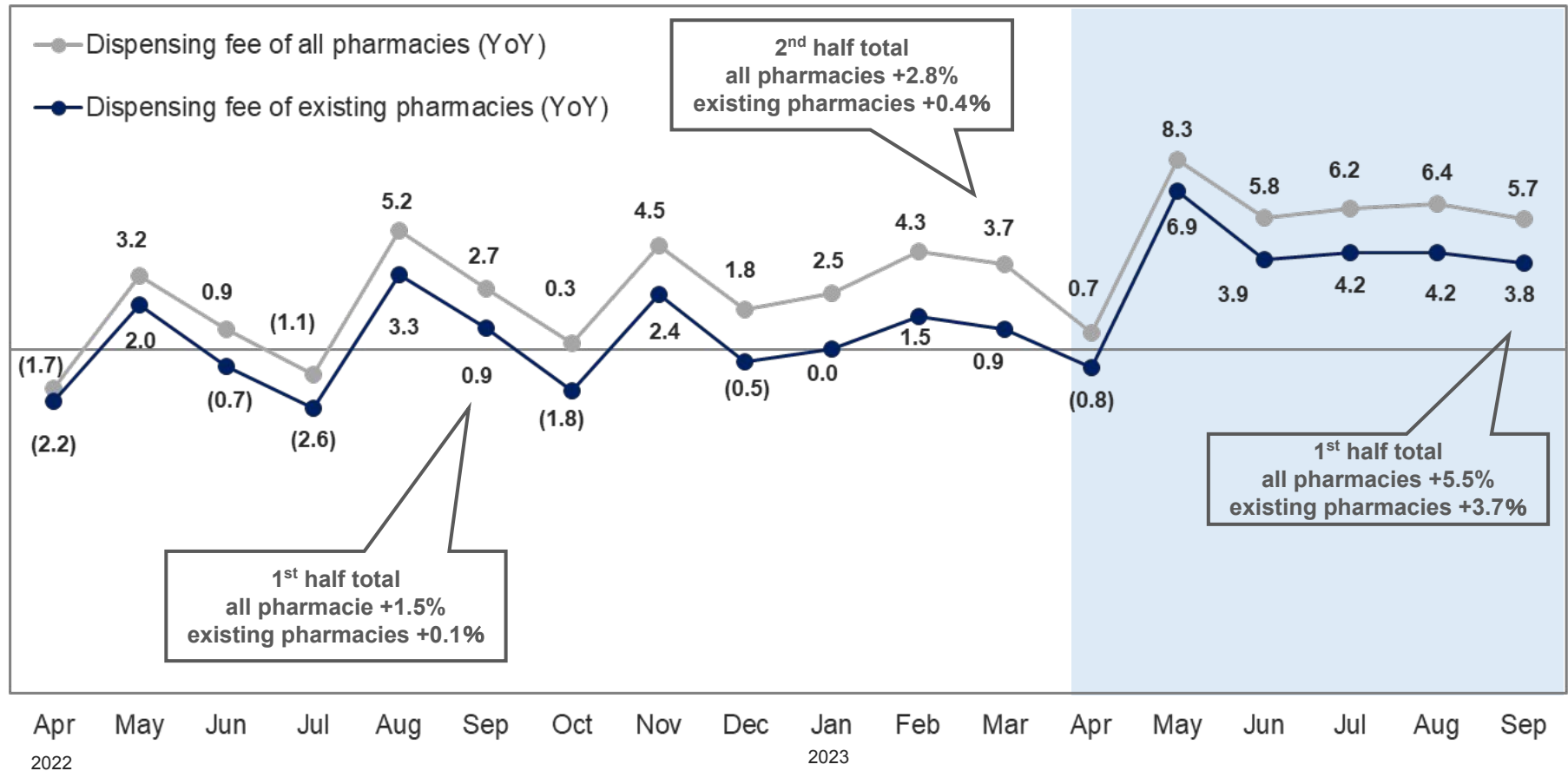
	FY3/2024 (As of September 30)	
	Fixed No. / results in 2Q	Full Year Plan
No. of openings	14 / 8	15
No. of prospects connected to Medical Institutions	16 / 12	10

Community pharmacy outlet no. trends of the past 10 years

As of September 30, 2023

	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021	FY3/2022	FY3/2023	FY3/2024 2Q	FY3/2026 midterm plan
Openings	10	9	8	8	5	8	7	12	8	8	—
Closing and transferring	(13)	(8)	(4)	(5)	(14)	(15)	(13)	(6)	(7)	(2)	—
M&A	27	7	20	19	30	3	6	3	2	0	—
No. of outlets	345	353	377	399	420	416	416	425	428	434	550

Community Pharmacy Business : Monthly Dispensing Fee (YoY)



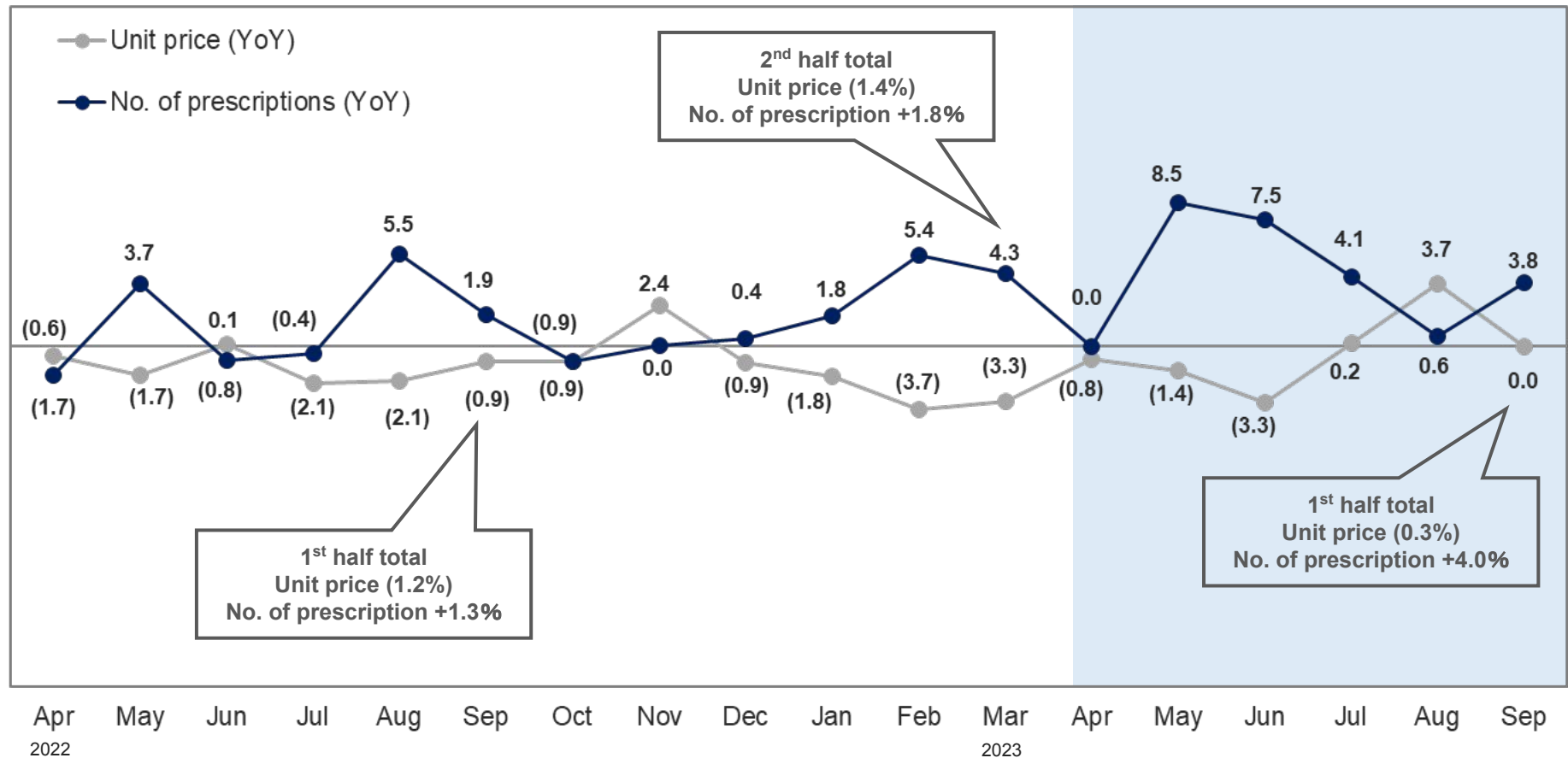
- Existing pharmacies definition: Pharmacies that have been continuously open since April 1, 2021 for the previous fiscal year and since April 1, 2022 for the current fiscal year

Community Pharmacy Business :

Monthly Prescription Volume and Unit Price of Existing Pharmacies (YoY)



- With the end of the transitional measures for the additional fee related to the community support system, the unit price of prescriptions declined.
- Increase in the number of prescriptions due to category 5 migration of COVID-19, epidemic of infectious diseases, prescription transmission benefits through the impact of DX utilization, and medication follow-ups.



Community Pharmacy Business : Dispensing Fee Breakdown

■ All pharmacies		FY3/2023 2Q	FY3/2024 2Q	Change	Change (%)
No. of prescriptions (1,000)		4,517	4,777	+ 260	+ 5.8%
Unit price (yen)	Drug charge per prescription	7,634	7,687	+ 54	+ 0.7%
	Technical fee per prescription	2,427	2,346	▲ 81	▲ 3.3%
	Total	10,061	10,033	▲ 28	▲ 0.3%
Dispensing fee (million yen)		45,448	47,935	+ 2,487	+ 5.5%

■ Existing pharmacies

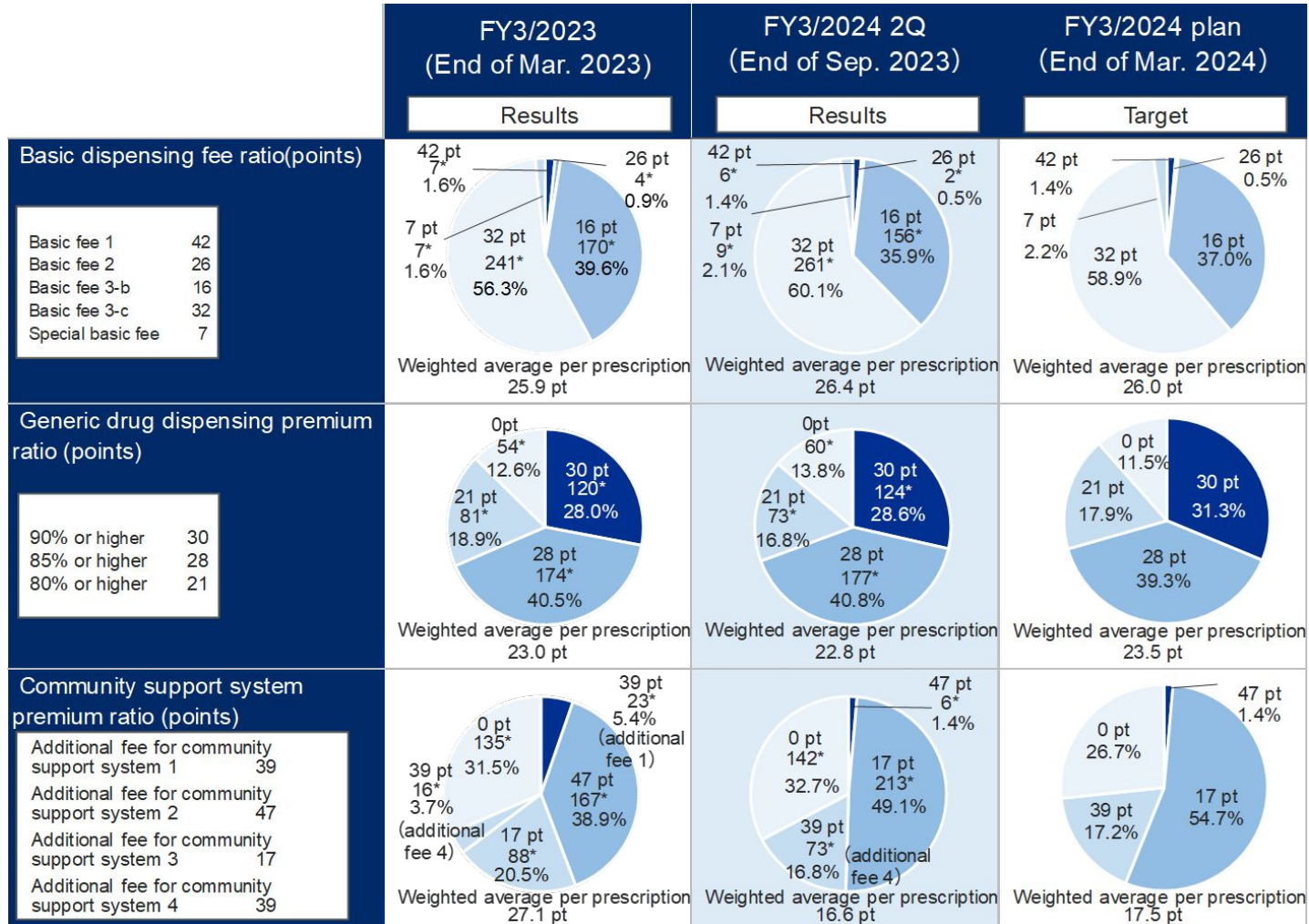
No. of prescriptions (1,000)		4,463	4,642	+ 179	+ 4.0%
Unit price (yen)	Drug charge per prescription	7,593	7,635	+ 42	+ 0.5%
	Technical fee per prescription	2,431	2,356	▲ 74	▲ 3.1%
	Total	10,024	9,991	▲ 33	▲ 0.3%
Dispensing fee (million yen)		44,737	46,383	+ 1,645	+ 3.7%

*Dispensing fees are calculated based on the number of prescriptions x unit price of prescriptions

Community Pharmacy Business : Dispensing Fee Revision



- The weighted average number of points decreased from the end of the previous fiscal year due to the end of the transitional measures for the additional allowance related to community support system. That said, the acquisition of points exceeded our original plan.
- We continue to focus on interpersonal services.



Community Pharmacy Business :

Implementation of new inventory management system.

Introduced LINCLE, a new inventory management system developed in-house, to all directly managed pharmacies.

● Effects of Introducing LINCLE

- Reduction in the amount of work required to place orders ⇒ Reduced workload at all directly managed pharmacies through automated ordering, reducing ordering related workload by approximately 60%.
- Reduction of shortages due to fewer forgotten orders ⇒ Reduced product shortages in approx. 70% of pharmacies

【Pharmacy Concerns】



- Losses incurred due to shortages or disposal of pharmaceuticals
 - Time required for ordering and inventory control
- ⇒ Decrease in time spent on interpersonal tasks



【Effects of Introducing LINCLE】



- Appropriate ordering based on drug supply and demand forecasts
 - Reduction of ordering work by automatic ordering function
- ⇒ Creation of time for interpersonal tasks

【Pharmacy Voice】



■ Nanohana Pharmacy Chitose

Although the No. of items and the amount of inventory are large, automatic calculations are used to determine the appropriate amount to order, leading to time savings.



■ Nanohana Pharmacy Sapporo Tsukisamu

The response to pharmaceutical shipment adjustments can also be transferred from one pharmacies to another using other pharmacies inventory information.

• Automatic ordering of appropriate inventory significantly reduces labor hours required for physical handling and contributes to cost control by reducing waste loss.

• October 2023 - Sales to merchants and general pharmacies

3 Pharmacy Support Businesses[※]

Performance Summary (as of September 30, 2023)



Supporting community pharmacies through 3 businesses : Our core Pharmaceutical Network, Manufacture and Market Pharmaceuticals, and Digital Shift Initiative

■ Progress against numerical targets for this fiscal year

	Numerical Targets for the Current Term	Progress (As of September 30)
Pharmaceutical Network Business	10,400 affiliates (+1,488 affiliates)	9,374 affiliates +462 affiliates (From the end of the previous FY) 9,417 affiliates (As of October 31)
Manufacture and Market Pharmaceuticals Business	5,000 transacting pharmacies* (+1,263 pharmacies)	3,894 transacting pharmacies* +663 pharmacies (YoY) * No. of transacting pharmacies is total pharmacies that have actually transacted business since April of each year.
Digital Shift Business	5,300 installed pharmacies (+1,909 pharmacies) 1 million registered users (+360K users)	4,195 installed pharmacies +804 pharmacies (From the end of the previous FY) 842K registered users +193K users (From the end of the previous FY)

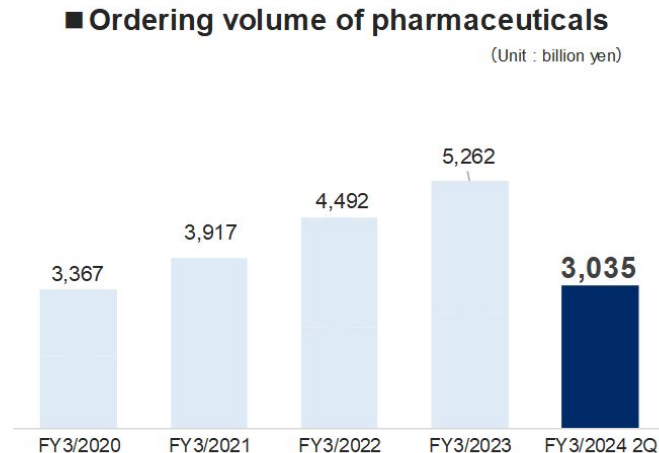
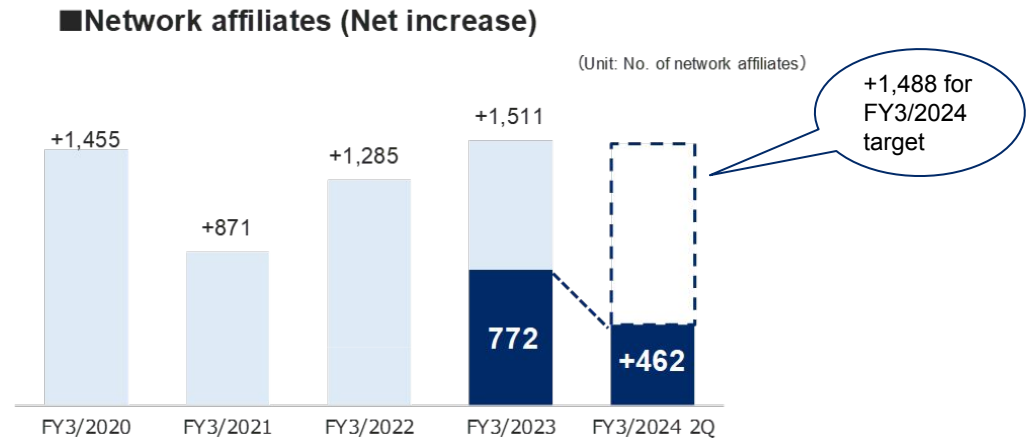
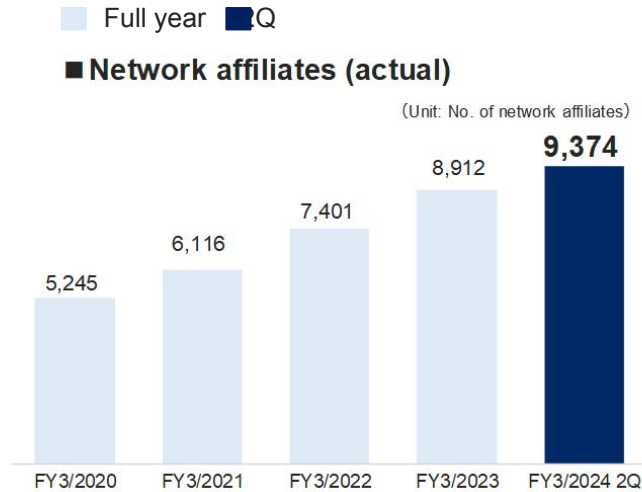
※ Pharmaceutical Network Division, Pharmaceutical Manufacturing and Sales Division, Digital Shift Division

Pharmaceuticals Network Business:

Performance Summary (as of September 30, 2023)



No. of Pharmaceutical network affiliates fell short of the plan, but ordering volume of pharmaceutical increased vs plan.



■ FY3/2024 Breakdown of network affiliates

	1Q	2Q
New	342	307
Withdrawal	(82)	(105)

➔ In the 2Q, many pharmacies took a wait-and-see attitude toward affiliation as they monitored the progress of price negotiations, etc.

(Reference) ■ FY3/2023

	1Q	2Q	3Q	4Q	Total
New	525	420	477	439	1,861
Withdrawal	(114)	(59)	(95)	(82)	(350)

Pharmaceuticals Network Business :

Launched an inventory information sharing service.



- Service enables sharing of pharmaceutical inventory information among member pharmacies / merchants for the purpose of flexible distribution of medicines on a regional basis. This initiative was launched in September 2023.
- Contributing to reducing the workload of both pharmacies and wholesalers under the uncertainty of pharmaceutical supply.

■ Advantages of Inventory Information Sharing Service

Pharmacy

- Bring our facilities up to standards eligible for additional points under the Community Support System
- Reduce the workload for securing inventory
- Searchable by latest delivery data

■ Services

Patient

- Reduced waiting time

Wholesaler

- Decrease in urgent deliveries
- Ease of dealing with uncertainty of generic drugs supply



876 pharmacies are using the service in the first month since its launch.

※As of October 31, 2023

① Enter a drug name and search for nearby pharmacies that may have the drug in stock.



② Check pharmacy information and routes on a map



③ Contact and receive medical supplies



※ Indicate pharmacies that have purchased the specified drugs within 3 months. Our company updates delivery data three times a day.

Manufacture and Market Pharmaceuticals Business :

98 products / 47 ingredients (5 products / 2 ingredients were added from the end of the previous FY)



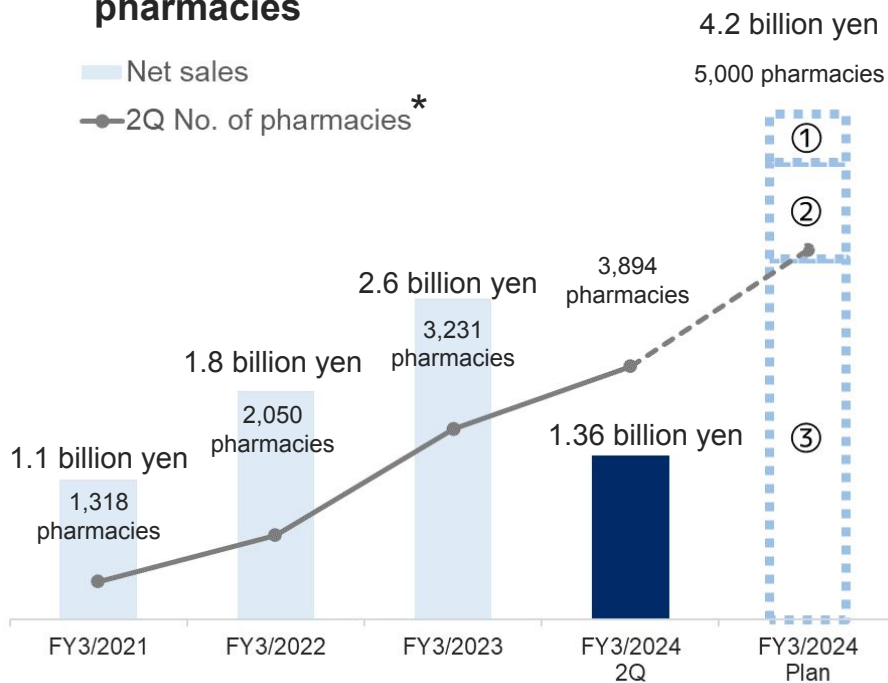
- Although some orders have been suspended due to shipment adjustments, no. of new transacting pharmacies increased steadily.
 - ✓ Compared to the same period of the previous year +663
- Shipments have resumed as needed, but shipment adjustments continued for some products. Expect to fall short of full-year target.

*No. of products adjusted for shipment as of September 30: 10 products / 6 ingredients (End of March 2023 : 19 products / 7 ingredients)

■ Net sales and No. of transaction

■ Breakdown of sales plan for this fiscal year

pharmacies



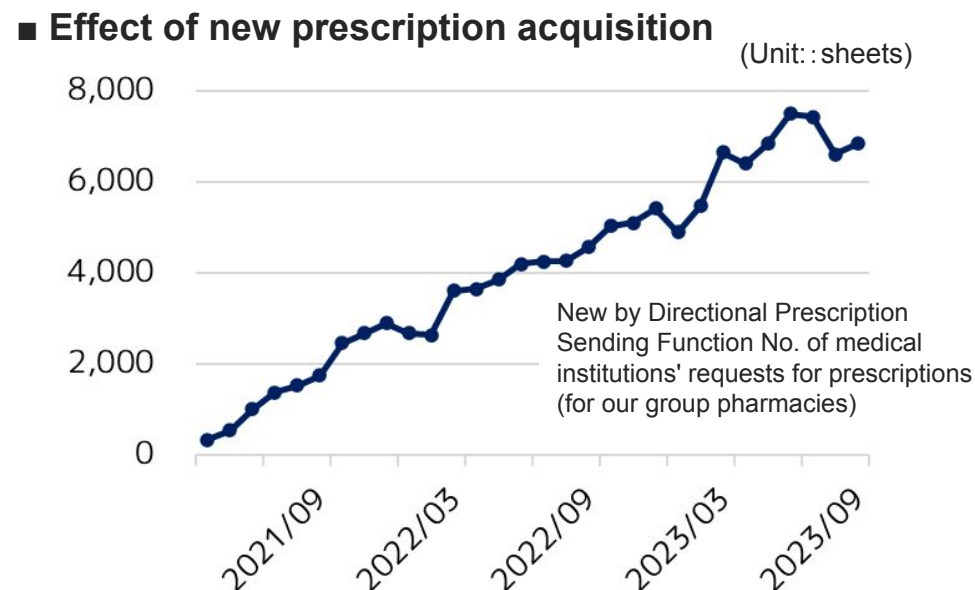
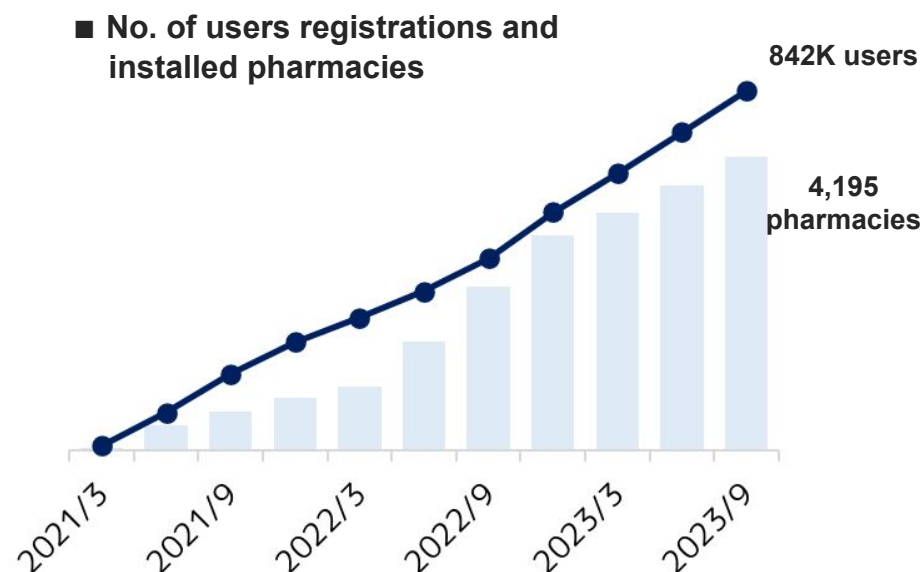
	Release Date	Product name	products / ingredients
①	June 2023	Azilsartan OD tablet 10mg/20mg/40mg「Feldsenf」	12 products / 5 ingredients
	August 2023	olopatadine hydrochloride tablets 2.5mg/5mg「Feldsenf」	
	December 2023	3 products / 1 ingredients(plan)	
	January - March 2024	4 products / 2 ingredients(plan)	
②	April 2022 - March 2023	articles for sale	11 products / 4 ingredients
③	Products released before March 2022		82 products / 41 ingredients

*No. of transaction pharmacies is total pharmacies that have actually transacted business since April of each year.

Digital Shift Business : — 840K users registered



- 842K users have registered and 4,195 pharmacies have installed the service.
- We have dissolved the joint venture agreement with Reteigi Co., Ltd. and made Pharmashift a wholly owned subsidiary – The Service to continue as before

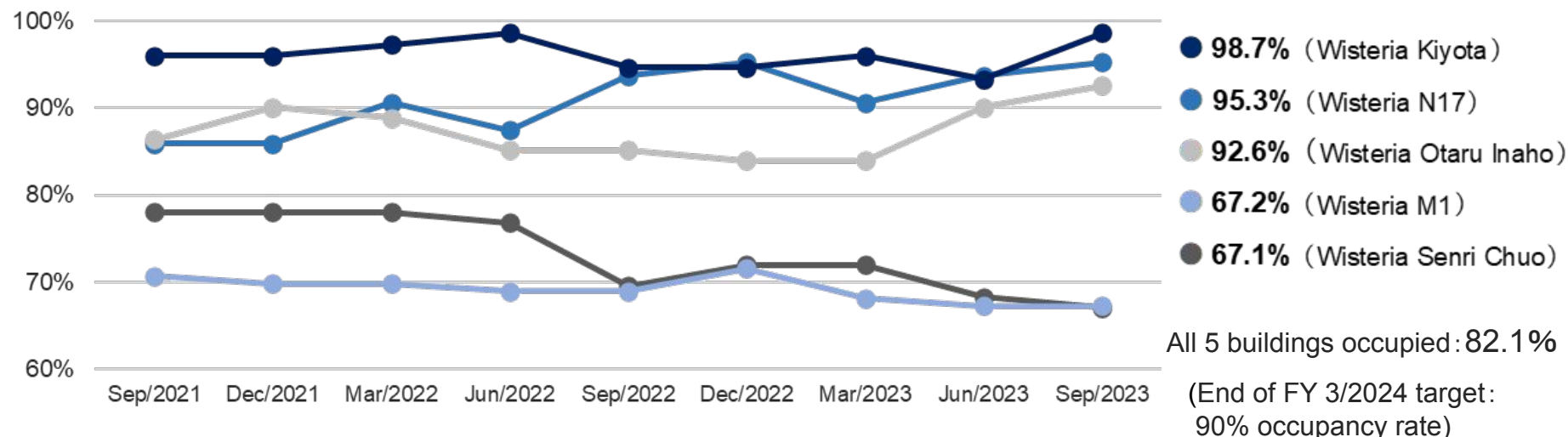


- Dissolution of joint venture agreement
 - Announced termination of joint venture agreement with Reteigi on November 7, 2023 (scheduled to expire on November 30, 2023)
 - We acquired a 49% stake in Pharmashift from a subsidiary of Reteigi, and made it a wholly owned subsidiary.
 - Pharmashift acquired the related business from above subsidiary.

Leasing and Facility related Segment



Wisteria Occupancy Rate Trends



- In 2Q, 35 new move-in and 28 move-out of Wisteria locations.
- Reviewed Wisteria's staffing and advertising expenditures.
- Transferring expenses related to the development of pharmacies from the Leasing and Equipment Related Segment to the Community Pharmacy Business from FY3/2024. Transfer of expenses 78 million yen.

✓ Leasing and Facility related Segment

Net sales 1,687 million yen (YoY +0.8%)

Operating profit 69 million yen (Operating loss for the same period of the previous FY 65 million yen)

A photograph of a business meeting. Several people in dark suits are gathered around a table. On the table are several documents featuring colorful charts, including bar graphs and donut charts. One person's hand is visible, holding a blue pen and pointing at a chart. The scene is brightly lit, suggesting an office environment with large windows in the background.

3

Earnings
Forecast for
FY3/2024

·
Interim
dividends

Upwardly revised earnings forecast for the FY3/2024:

Consolidated Forecast



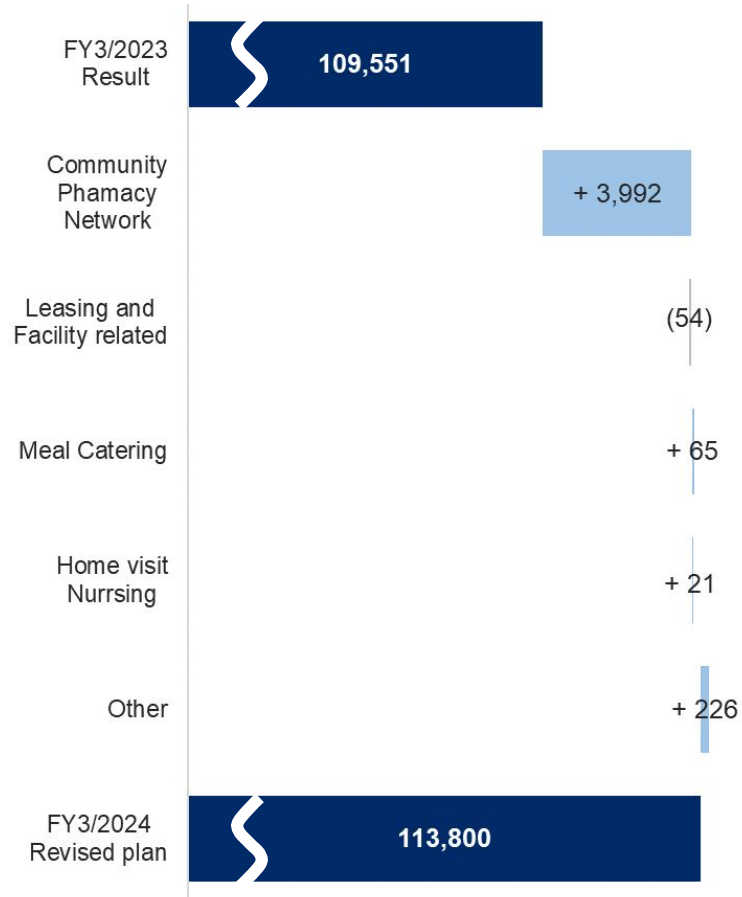
Considering the strong performance up to the second quarter of the current fiscal year, we have revised up our FY 3/2024 forecasts significantly.

(Unit: million yen)	FY3/23 (Results)	FY3/24 (Initial forecast)	FY3/24 (Revised Forecast)	Change	Change (%)
Net sales	109,551	112,500	113,800	+ 1,300	+ 1.2 %
EBITDA	6,122 5.6 %	5,600 5.0 %	6,600 5.8 %	+ 1,000 0.8 pt	+ 17.9 %
Operating profit Profit margin	3,163 2.9 %	2,600 2.3 %	3,500 3.1 %	+ 900 0.8 pt	+ 34.6 %
Ordinary profit Profit margin	3,355 3.1 %	2,550 2.3 %	3,450 3.0 %	+ 900 0.7 pt	+ 35.3 %
Profit attributable to owners of parent Profit margin	1,610 1.5 %	1,000 0.9 %	1,650 1.4 %	+ 650 0.5 pt	+ 65.0 %
Earnings per share (Yen)	53.38	33.14	54.67	+ 21.53	—

Forecast for the FY3/ 2024: Revised Segment Performance (YOY)

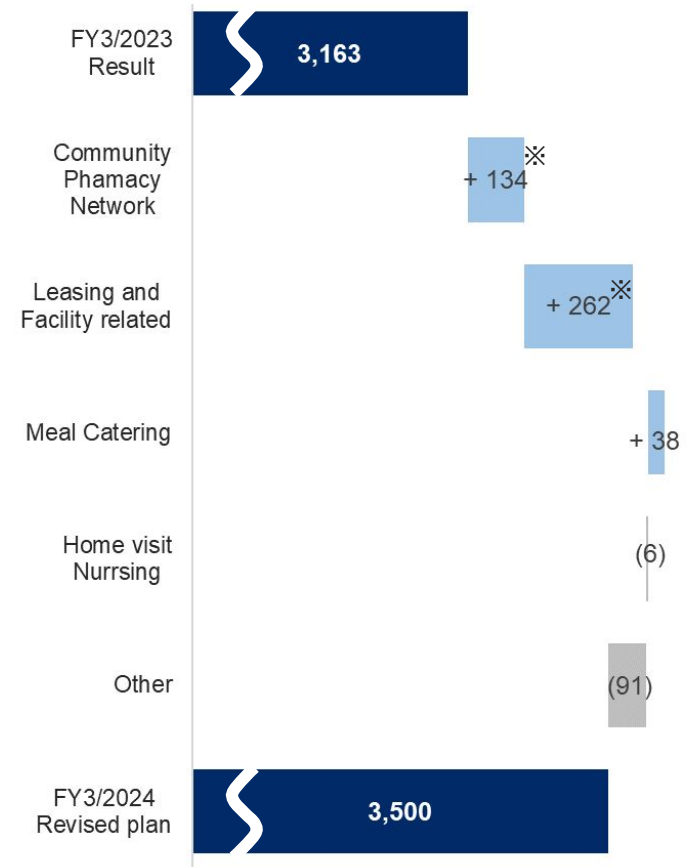
■ Net sales

(Unit: million yen)



■ Operating profit

(Unit: million yen)



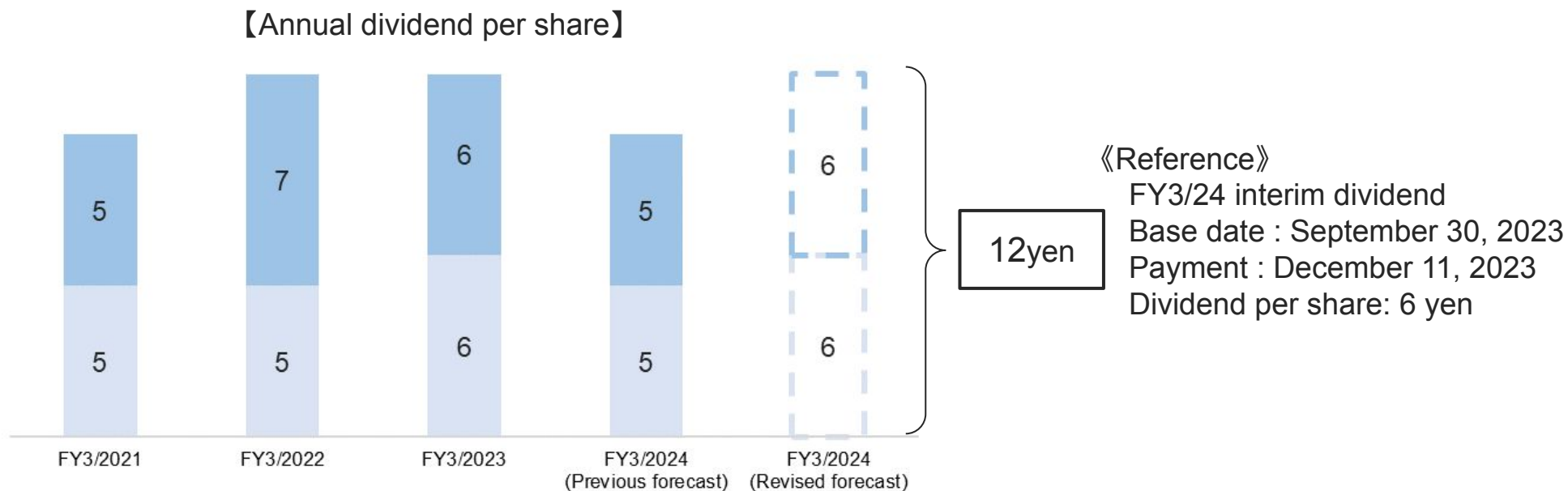
※ From FY3/2024, Development sales expenses are shifted from Leasing and Facility related Segment to Community Pharmacy Business.
Amount of expenses :142 million yen

Upwardly revised dividend forecast for the FY3/ 2024

- Revised dividend forecast for the FY ending March 31, 2024 to 12 yen per share (interim dividend: 6 yen, year-end dividend: 6 yen), an increase of 2 yen from the previous forecast of 10 yen per share (announced on May 9, 2023), on the back of the revised full-year earnings forecast.

【 Shareholder Return Indicators 】

■ Previous forecast		➔	■ Revised forecast	
Annual dividend per share	10 yen		Annual dividend per share	12 yen
Dividend payout ratio	30.2%		Dividend payout ratio	21.9%



Nanohana Pharmacy educational video featuring actress Momoko Fukuchi is now available!



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