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Consolidated Financial Results for the Nine Months Ended December 31, 2023 (Japanese GAAP)

February 6, 2024

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 8, 2024
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, 2023 (April 1 to December 31, 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 | % |
| Nine Months ended December 31, 2023 | 86,175 | 5.2 | 5,406 | 19.5 | 3,069 | 30.9 | 3,044 | 21.8 | 1,693 | 41.7 |
| 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) |

Note: Comprehensive income for the nine months ended December 31, 2023 was 1,730 million yen (40.0% YoY), and comprehensive income for the nine months ended December 31, 2022 was 1,235 million yen (-42.7% YoY)

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

| | Earnings per share | Diluted earnings per share |
|-------------------------------------|--------------------|----------------------------|
| | Yen | Yen |
| Nine Months ended December 31, 2023 | 56.11 | — |
| Nine Months ended December 31, 2022 | 39.60 | — |

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, 2023 | 67,503 | 15,607 | 23.1 | 515.66 |
| As of March 31, 2023 | 66,223 | 14,488 | 21.8 | 478.86 |

Reference: Shareholders' equity amounted to 15,561 million yen as of December 31, 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: No

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

In the nine months ended December 31, 2023, the Community Pharmacy Business saw a decline in the prescription unit price as the transitional measures for community support system premiums came to an end. However, there was an increase in the number of prescriptions filled. This rise can be attributed to diminished concerns over visiting hospitals following the downgrading of COVID-19 to a Class 5 infectious disease, the outbreak of multiple respiratory infections, the utilization of digital technologies (including the use of the LINE instant messaging app for transmitting prescriptions), and enhanced patient follow-up during medication periods. In the Pharmaceutical Network Business, net increase in the number of network affiliates fell short of expectations due to pharmacy closures and withdrawals resulting from M&A, but the total value of pharmaceuticals orders placed by network affiliates was largely in line with projections, thanks to an increase in the value of pharmaceuticals procurement by existing affiliates. On the expense front, the Group as a whole worked to improve profitability and contain various costs. As a result, in the nine-month period under review, net sales amounted to 86,175 million yen (+5.2% YoY), operating profit 3,069 million yen (+30.9% YoY), ordinary profit 3,044 million yen (+21.8% YoY), and profit attributable to owners of parent 1,693 million yen (+41.7% 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 nine-month period under review was 110 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 fell as the transitional measures for community support premiums came to an end, but the number of prescriptions filled increased. This uptick was due to reduced concerns over visiting hospitals with the downgrading of COVID-19 to a Class 5 infectious disease, the outbreak of multiple respiratory infections, the utilization of digital technologies (including the use of LINE for prescription transmission), and enhanced patient follow-up during medication periods. Further, in the nine-month period under review, the Group opened nine new community pharmacies, including four in medical malls, and one drug store. It acquired three community pharmacies through M&A, while closing or transferring four. As of December 31, 2023, the Group had 436 community pharmacies, one in-home care plan support center, and 10 drug/cosmetics stores.

In the Pharmacy Network Business, net increase in the number of network affiliates fell short of expectations due to pharmacy closures and withdrawals resulting from M&A. However, the total value of pharmaceuticals orders placed by network affiliates was largely in line with projections, backed by an increase in the value of pharmaceuticals procurement by existing affiliates. As of December 31, 2023, the number of pharmaceutical network members totaled 9,503, up 591 from March 31, 2023, comprising 436 Group pharmacies and 9,067 affiliates.

In the Manufacture and Market Pharmaceutical Business, as of December 31, 2023, the Company's product lineup included 101 products spanning 48 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 third quarter of the fiscal year under review, with the total number of partner pharmacies reaching 4,414 as of December 31, 2023, up 847 year-on-year.

In the Digital Shift Business, the number of pharmacies that have adopted the Group's services as of December 31, 2023 totaled 4,445 (up 1,054 compared with March 31, 2023).

As a result, segment sales for the nine months ended December 31, 2023 were 82,105 million yen (+5.2% YoY), and operating profit was 4,965 million yen (+15.5% YoY).

2) Leasing and Facility-related Segment

In this segment, sales amounted to 2,560 million yen (+4.6% YoY), due to robust management fee income from properties under management and an increase in construction orders. Operating profit was 129 million yen, improving from an operating loss of 97 million yen booked in the same period of the previous fiscal year, owing to the reallocation of business development division costs, which were previously booked in this segment, to the Community Pharmacy Network Segment, as the division will now focus on the development of the Group's community pharmacies. Also contributing to the profit improvement was the revision of staff allocation and advertising expenses for the Wisteria serviced residence for the elderly.

As of December 31, 2023, Wisteria Senri-Chuo had an occupancy rate of 62.2% (51 out of 82 units occupied), and Wisteria Minami-Ichijo an occupancy rate of 75.9% occupancy rate (88 out of 116 units occupied). The overall occupancy rate at the five serviced residences for the elderly stood at 83.3%. 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 1,781 million yen (+4.7% YoY), and the operating loss was 24 million yen (versus an operating loss of 55 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 costs due to increased headcount. As a result, sales came to 237 million yen (+3.6% YoY) while the segment posted an operating loss of 30 million yen (versus an operating loss of 14 million yen in the same period of the previous fiscal year).

(2) Explanation of Financial Position

As of December 31, 2023, total assets amounted to 67,503 million yen, up 1,279 million yen from March 31, 2023. Current assets amounted to 21,024 million yen, up 758 million yen from March 31, 2023, primarily due to an increase in merchandise. Non-current assets were 46,479 million yen, up 521 million yen from March 31, 2023, mainly reflecting an increase in leased assets, net, included in other, net, under property, plant and equipment.

Total liabilities were 51,896 million yen, up 160 million yen from March 31, 2023. Current liabilities totaled 23,736 million yen, up 2,386 million yen from March 31, 2023, mainly due to an increase in accounts payable-trade. Non-current liabilities were 28,159 million yen, down 2,226 million yen from March 31, 2023, largely as a result of a decline in long-term borrowings.

Net assets were 15,607 million yen, an increase of 1,118 million yen from March 31, 2023. 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, 2024, which was announced on 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) | Nine months ended December 31, 2023 (as of December 31, 2023) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 8,141 | 8,536 |
| Accounts receivable - trade | 3,437 | 3,198 |
| Unearned revenue from sale of accounts receivable | 1,039 | 1,085 |
| Purchased receivables - dispensing fees | 463 | 452 |
| Merchandise | 5,160 | 6,350 |
| Raw materials | 17 | 20 |
| Work in process | 2 | 8 |
| Supplies | 74 | 78 |
| Other | 1,939 | 1,305 |
| Allowance for doubtful accounts | (11) | (13) |
| Total current assets | 20,265 | 21,024 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 13,164 | 13,185 |
| Land | 8,916 | 9,139 |
| Construction in progress | 165 | 313 |
| Other | 4,814 | 5,520 |
| Total property, plant and equipment | 27,060 | 28,159 |
| Intangible assets | | |
| Goodwill | 11,183 | 10,558 |
| Software | 548 | 578 |
| Other | 74 | 101 |
| Total intangible assets | 11,807 | 11,238 |
| Investments and other assets | | |
| Investment securities | 159 | 174 |
| Guarantee deposits | 3,222 | 3,327 |
| Deferred tax assets | 2,926 | 2,788 |
| Other | 802 | 810 |
| Allowance for doubtful accounts | (19) | (19) |
| Total investments and other assets | 7,090 | 7,081 |
| Total non-current assets | 45,958 | 46,479 |
| Total assets | 66,223 | 67,503 |

(Millions of yen)

| | Fiscal year ended March 31, 2023 (as of March 31, 2023) | Nine months ended December 31, 2023 (as of December 31, 2023) |
|--|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable – trade | 9,937 | 11,911 |
| Short-term borrowings | 1,016 | 1,847 |
| Current portion of long-term borrowings | 5,152 | 4,703 |
| Income taxes payable | 600 | 384 |
| Provision for bonuses | 1,569 | 836 |
| Provision for bonuses for directors (and other officers) | 2 | 53 |
| Other | 3,071 | 3,999 |
| Total current liabilities | 21,349 | 23,736 |
| Non-current liabilities | | |
| Long-term borrowings | 20,226 | 17,113 |
| Provision for retirement benefits for directors (and other officers) | 637 | 657 |
| Provision for share awards for directors (and other officers) | 243 | 269 |
| Retirement benefit liability | 4,157 | 4,387 |
| Other | 5,121 | 5,731 |
| Total non-current liabilities | 30,385 | 28,159 |
| Total liabilities | 51,735 | 51,896 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 2,128 | 2,128 |
| Capital surplus | 1,182 | 937 |
| Retained earnings | 11,606 | 12,933 |
| Treasury shares | (326) | (326) |
| Total shareholders' equity | 14,590 | 15,672 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (2) | 8 |
| Deferred gains or losses on hedges | 2 | 1 |
| Remeasurements of defined benefit plans | (139) | (120) |
| Total accumulated other comprehensive income | (139) | (110) |
| Non-controlling interests | 37 | 45 |
| Total net assets | 14,488 | 15,607 |
| Total liabilities and net assets | 66,223 | 67,503 |

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

Consolidated Statement of Income

| | (Millions of yen) | |
|---|--|--|
| | Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022) | Nine months ended December 31, 2023 (from April 1, 2023 to December 31, 2023) |
| Net sales | 81,878 | 86,175 |
| Cost of sales | 47,591 | 50,292 |
| Gross profit | 34,287 | 35,882 |
| Selling, general and administrative expenses | 31,942 | 32,813 |
| Operating profit | 2,344 | 3,069 |
| Non-operating income | | |
| Interest and dividend income | 5 | 5 |
| Outsourcing service income | 59 | 46 |
| Rental income from facilities | 101 | 106 |
| Subsidy income | 197 | 38 |
| Miscellaneous income | 59 | 80 |
| Total non-operating income | 423 | 275 |
| Non-operating expenses | | |
| Loss on sale of receivables | 41 | 44 |
| Interest expenses | 206 | 221 |
| Miscellaneous losses | 20 | 34 |
| Total non-operating expenses | 268 | 300 |
| Ordinary profit | 2,499 | 3,044 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 7 | 13 |
| Gain on sale of businesses | — | 27 |
| Total extraordinary income | 7 | 41 |
| Extraordinary losses | | |
| Loss on sale of non-current assets | 0 | — |
| Loss on retirement of non-current assets | 51 | 15 |
| Impairment losses | 18 | 5 |
| Loss on store closings | 14 | 6 |
| Other | 18 | 3 |
| Total extraordinary losses | 103 | 31 |
| Profit before income taxes | 2,403 | 3,054 |
| Income taxes - current | 855 | 1,114 |
| Income taxes - deferred | 338 | 238 |
| Total income taxes | 1,194 | 1,352 |
| Profit | 1,209 | 1,701 |
| Profit (loss) attributable to non-controlling interests | 14 | 8 |
| Profit (loss) attributable to owners of parent | 1,195 | 1,693 |

Consolidated Statement of Comprehensive Income

(Millions of yen)

| | Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022) | Nine months ended December 31, 2023 (from April 1, 2023 to December 31, 2023) |
|--|--|--|
| Profit | 1,209 | 1,701 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 5 | 11 |
| Deferred gains or losses on hedges | 6 | (1) |
| Remeasurements of defined benefit plans, net of tax | 14 | 19 |
| Total other comprehensive income | 26 | 29 |
| Comprehensive income | 1,235 | 1,730 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 1,221 | 1,722 |
| Comprehensive income attributable to non-controlling interests | 14 | 8 |

(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, 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.

II. Nine months ended December 31, 2023 (from April 1, 2023 to December 31, 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 | 82,069 | 2,087 | 1,780 | 237 | 86,175 | — | 86,175 |
| Intersegment sales or transfers | 36 | 472 | 0 | — | 510 | (510) | — |
| Total | 82,105 | 2,560 | 1,781 | 237 | 86,685 | (510) | 86,175 |
| Segment profit (loss) | 4,965 | 129 | (24) | (30) | 5,039 | (1,970) | 3,069 |

Notes: 1. The negative 1,970 million yen adjustment to segment profit (loss) includes 208 million yen in elimination of intersegment transactions and 2,178 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 nine-month period under review was 110 million yen).