Medical System Network
4350 Tokyo Stock Exchange First Section

2-Jul.-15

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FISCO Ltd. Analyst
Yuzuru Sato

Posted record highs, while double-digit increases in sales and profits are also expected for this year

Medical System Network <4350> (hereafter, "the company") has developed two main businesses: a dispensing pharmacy business, and a pharmaceutical network business that caters to small and medium-sized pharmacies. In the dispensing pharmacy business, it is promoting its Group expansion strategy through proactively employing M&A. The company aims for consolidated sales in the order of ¥300 bn in 10 years.

Consolidated FY3/15 results saw record highs in both sales and profits, with sales increasing 14.2% YoY to ¥75,548 mn and operating profit 26.3% to ¥2,641 mn, mainly due to the rise in member numbers in the pharmaceutical network and revenue growth in the dispensing pharmacy business.

The company has newly announced its 4th Medium-Term Management Plan. For FY3/18, which is the final year of the plan, it is targeting sales of ¥105,000 mn and operating profit of ¥4,000 mn. It plans to increase the number of member pharmacies in its pharmaceutical network business from 1,200 at the end of the previous year to 2,200, and the number of dispensing pharmacies from 345 to 500, both of which would be a pace of increase greater than last three years, and the growth is expected to continue to accelerate.

In the pharmaceutical network business, against the backdrop of the restrictions on medical costs, the business environment for small and medium-sized dispensing pharmacies has become increasingly severe, which is proving to be a tailwind for the company's efforts to increase its number of member pharmacies. Moreover, in 2015, in January it formed a business alliance with Fuyo General Lease<8424> and in April with EM SYSTEMS<4820>. These alliances are furthering expanding its services and will become factors behind the accelerated growth.

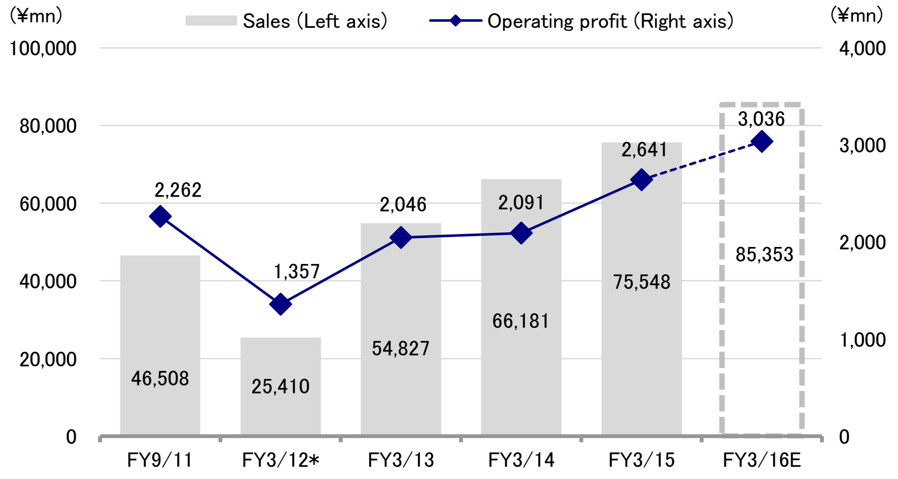
In the dispensing pharmacies business, under a holistic regional care system being advanced by the national government, its role is expected to become more important than ever as bases providing medical care, nursing, and preventive functions. For the company also, at the same time as pursuing the development of a next generation model of pharmacies to respond to these needs, its policy is to aim to increase its number of pharmacies while utilizing M&As.

Double-digit growth is forecast for the FY3/16 results, with sales are expected to rise 13.0% YoY to ¥85,353 mn and operating profit 14.9% to ¥3,036 mn. The two core businesses will continue to be the driving force behind the company's growth, while in this year the company also plans to shift "EHSS(elderly housing with supportive services)" facilities off the balance sheet to improve its financial position.

Check Point

- Posted new record highs for sales, operating profit, and recurring profit
- Announced a new medium-term plan targeting sales of ¥105bn in FY3/18
- Forecast to post double-digit increase in sales and profits in this year

Consolidated Results Trends



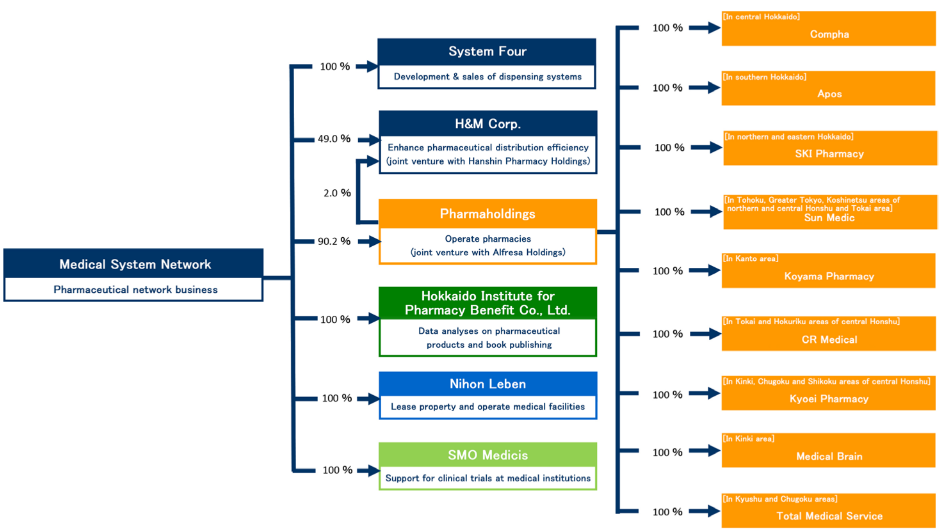
* Due to a change in the accounting year FY3/12 is an irregular 6-month set of accounts.

Company Outline

Its core businesses are the pharmaceutical network business and the dispensing pharmacy business

The company has two main businesses: the dispensing pharmacy business and the pharmaceutical network business. It is also undertaking peripheral businesses through its respective subsidiaries, including rental and other medical facility-related operations, catering services and clinical facility support services. The pharmaceutical network business is conducted by Medical System Network and subsidiaries System Four and H&M, while the dispensing pharmacy business is conducted by PHARMAHOLDINGS CO., LTD., its subsidiaries and the Hokkaido Institute for Pharmacy Benefit Co., Ltd.

Organization Chart of Medical System Network Group

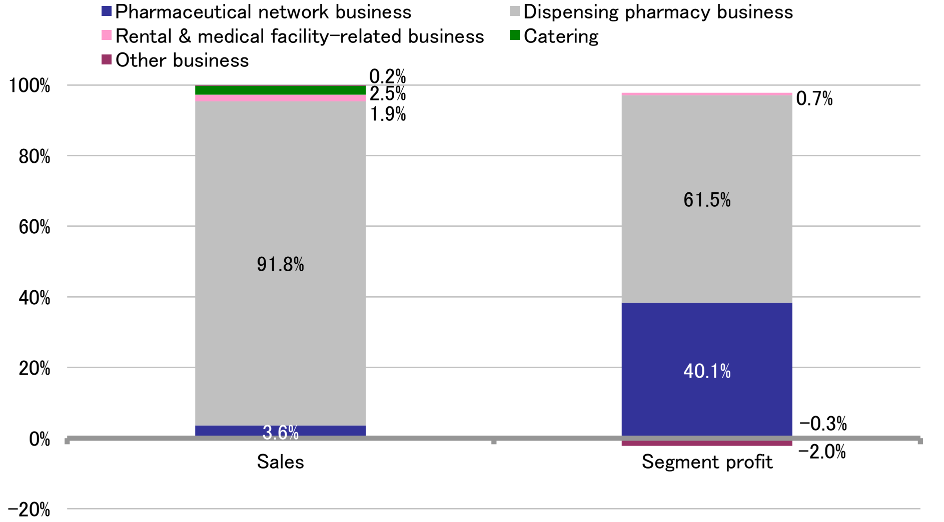


The subsidiaries of Pharmaholdings operated 361 stores, including drug stores, healthcare centers, and a welfare equipment rental center as of May 1, 2015.

Source: Company materials

Looking at the breakdown by segment (FY3/15) we see that while the operation of pharmacies represents more than 90% of total consolidated sales, operating profit may be virtually split into the pharmaceutical network and dispensing pharmacy businesses, which are the company's two core businesses. An overview of each segment is as set out below.

Contribution by Operating Segment (FY3/15)

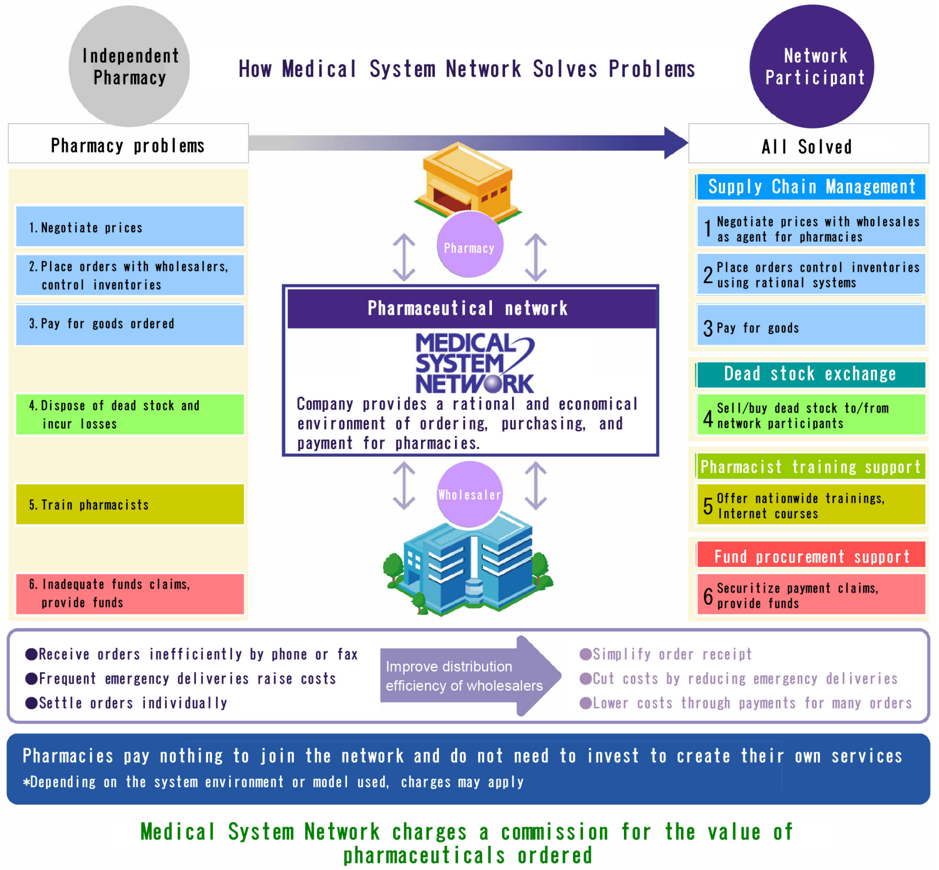


○Pharmaceutical Network Business

The business model for the pharmaceutical network business supports enhanced pharmaceutical distribution efficiency by acting as an intermediary in pharmaceutical sales between dispensing pharmacies, medical institutions and pharmaceutical wholesalers. Customers are mainly small or medium-sized dispensing pharmacies or those operated by sole traders.

The services the company provides in the pharmaceutical network are a supply chain management service where the company negotiates prices with wholesalers as an agent, orders as an agent, as well as acts as an agent for account functions, and a dead stock exchange service (immobile stock liquidation), which allows member pharmacies to exchange dead stock at each of their stores. It also provides pharmacist training support and fund procurement support.

Outline of Pharmaceutical Supply (Network) Business



Source: Company materials

By becoming a member of the network, dispensing pharmacies are able to conduct price negotiations with pharmaceutical wholesalers on more favorable terms than if they did so alone. In addition, they can enjoy a number of other operational benefits, such as reducing pharmaceutical disposal losses and simplifying order-related work. The benefits of becoming a member of the network are particularly large for small to medium-sized dispensing pharmacies.

Also, in its other businesses, the company conducts development, sales and maintenance operations for the receipt computer systems, O/E systems (pharmaceutical ordering system) and peripheral equipment that it installs in dispensing pharmacies, as well as sales of prescription dispensing machines, fixtures and fittings.

As of the end of March 2015, the combined number of member pharmacies in the network, including those in the Group and external members, was 1,200 (including 35 hospitals and clinics) and the number is continuing to increase. Ordering fees that arise corresponding with order volumes, and system sales represent the majority of overall sales of this segment. But revenue from ordering fees has become a major source of earnings and it is a stock business model in which sales rise stably in line with increases in member pharmacy numbers.

Breakdown of Contracted Network Store Numbers

(Unit: Stores)

By member type	FY9/11	FY3/12	FY3/13	FY3/14	FY3/15
General member	526	631	764	842	855
MSN Group	214	223	269	321	345
Total	740	854	1,033	1,163	1,200

By area	FY9/11	FY3/12	FY3/13	FY3/14	FY3/15
Hokkaido	180	197	212	216	207
Tohoku	31	63	80	91	93
Kanto/Koshinetsu	202	214	270	298	362
Tokai/Hokuriku	79	96	138	160	182
Kinki	150	150	178	187	131
Chugoku/Shikoku	55	70	77	87	84
Kyushu/Okinawa	43	64	78	124	141
Total	740	854	1,033	1,163	1,200

Note: From April 2014 figures reflect the withdrawal of one large trading counterparty (230 stores) that had ceased trading.

○Dispensing Pharmacy Business

The dispensing pharmacy business develops dispensing pharmacies in each area mainly under the Nanohana Pharmacy brand, and is expanding its number of Group stores while utilizing M&As. As of the end of March 2015, the number of dispensing pharmacies was 345, making it one of the market leaders. By area, it has the most pharmacies in Hokkaido at 112, followed by Kanto and Koshinetsu at 75, and then Kinki at 53. In addition to pharmacies, the company operates nine drug stores, two healthcare centers, and one welfare equipment rental center.

Further, its subsidiary, the Hokkaido Institute for Pharmacy Benefit, provides training services to pharmacists and operations staff at both internal Group and external dispensing pharmacies.

○Rental & Medical Facilities-related Business

Medical System Network subsidiary Nihon Leben mainly develops sites for building Group pharmacies, as well as renting buildings for medical services, car leasing and insurance services. Further, at the same time as offering consulting services for medical practices, it also operates medical malls that gather multiple treatment disciplines on the same floor, medical buildings that gather clinics in one building, and elderly housing with supportive services (herein "EHSS").

○Catering Business

Total Medical Service (TMS), which was consolidated as a subsidiary in November 2013, and its subsidiary Sakura Foods, engage in catering outsourcing operations within hospitals and welfare facilities.

○Other Business

Medical System Network subsidiary SMO Medisys (hereafter, SMO) contracts with clinical trial facilities (medical institutions) as a clinical site management organization to provide support services for clinical trials.

Business Trends

Posted new record highs in sales, operating profit, and recurring profit

(1) FY3/15 Results

The FY3/15 consolidated results announced on May 1 show consolidated sales up 14.2% YoY to ¥75,548 mn, operating profit up 26.3% YoY to ¥2,641 mn, recurring profit up 25.8% YoY to ¥2,540 mn, and net profit up 32.5% to ¥885 mn. The company posted record highs in each of sales, operating profit, and recurring profit and it exceeded the targets in its company plan for each item on a profits basis.

Consolidated FY3/15 Results

(¥mn)

	FY3/14		FY3/15				
	Actual	% Sales	Company plan	Actual	% Sales	YoY	Vs Plan
Sales	66,181	100.0%	76,013	75,548	100.0%	14.2%	-0.6%
COGs	43,444	65.6%	-	47,072	62.3%	8.3%	-
SG&A	20,645	31.2%	-	25,835	34.2%	25.1%	-
Operating profit	2,091	3.2%	2,404	2,641	3.5%	26.3%	9.9%
Recurring profit	2,019	3.1%	2,219	2,540	3.4%	25.8%	14.5%
Extraordinary profit	-249	-	-	-245	-	-	-
Net profit	668	1.0%	706	885	1.2%	32.5%	25.4%

Due to the effects of the M&As and the expansion in profits at existing stores, the dispensing pharmacy business performed strongly and posted double-digit increases in sales and profits. The pharmaceutical network business and rental & medical facility-related business also contributed to the increase in profits.

The COGs ratio declined from 65.6% in FY3/14 to 62.3%, while the SG&A ratio rose from 31.2% to 34.2% however, this was mainly in the dispensing pharmacy business, where, to ease increased burden from rises in the consumption tax (a cause for increases in the SG&A ratio), the impact from adjustments in the drug price revision percentages, aimed at expanding drug price margins (a cause for the lower COGs ratio) was significant. *Also, due to the expansion of the dispensing pharmacy business, the staff cost ratio rose from 18.2% to 19.2%, which was a factor behind the increase in the SG&A ratio.

* In purchasing pharmaceuticals, pharmacies bear the consumption tax (cost), however, given that no consumption tax is incurred at the point of sale, the consumption tax increase becomes a factor behind increased cost prices (increased tax and public dues). As a result, to ease the pharmacy's burden from increased taxes, drug prices are revised, aiming to expand drug price margins (selling price — purchase price).

Reasons for OP Fluctuations (FY3/15)

(¥mn)

Category	Amount Change	Category	Amount Change
Dispensing pharmacy business	△ 536	Pharmaceutical network business	△ 74
(Breakdown of change in OP)		Rental & medical facility-related business	△ 64
Existing stores	△ 493	Catering business	▲ 1
Stores opened last year (incl. M&A, excl. TMS)	△ 142	Other business	▲ 86
M&A FY3/14 (TMS)	△ 225	Group expenses (adjusted)	▲ 38
Stores opened this year	▲ 139		
Stores closed	▲ 111		
M&A FY3/15	△ 74		
Headquarter costs	▲ 150	Total	△ 550

Note: [△] increased profit, [▲] decreased profit

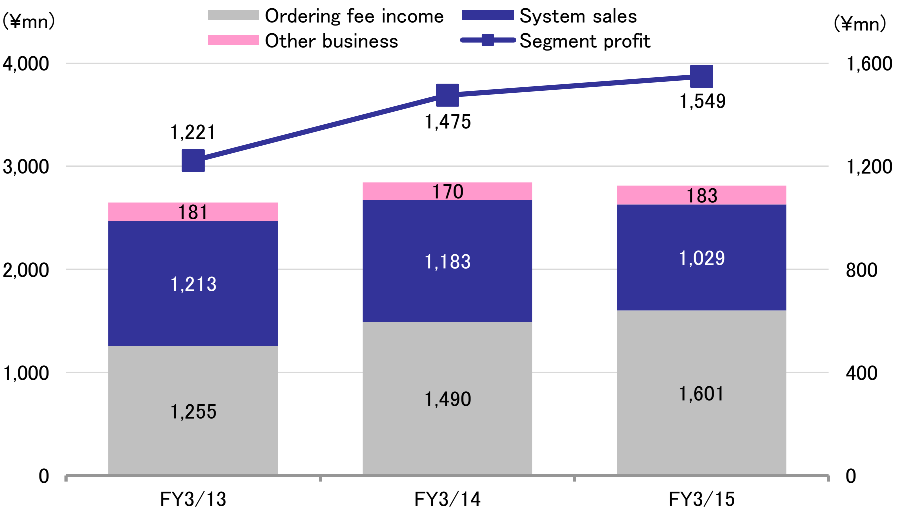
Profits increased in the pharmaceutical network business from the highly profitable ordering fee income

(2) Trends by Operating Segment

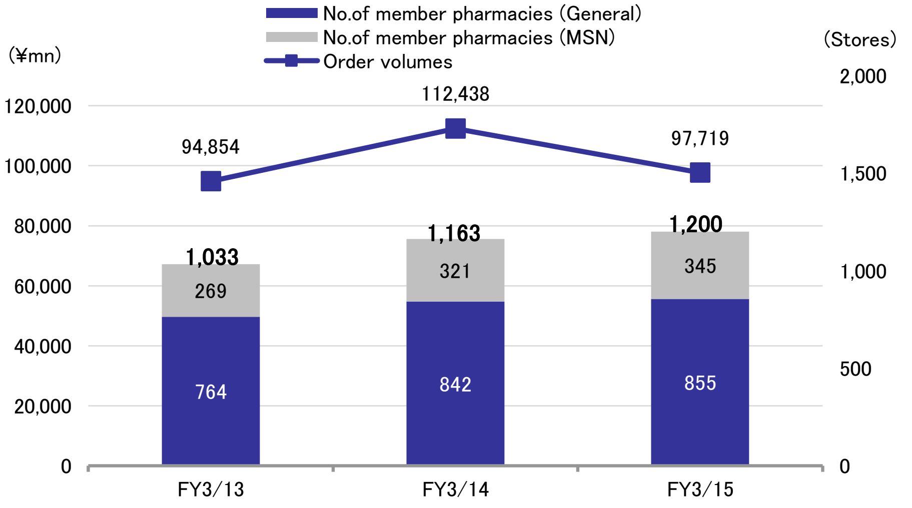
○Pharmaceutical Network Business

Consolidated sales from the pharmaceutical network business declined 1.0% YoY to ¥2,814 mn, while operating profit rose 5.1% YoY to ¥1,549 mn. While system sales declined, profits still increased due to the gain in revenue from the highly profitable ordering fee income.

Pharmaceutical Network Business



Member Pharmacy Numbers & Order Volumes



As of the end of March 2015, the number of member pharmacies had increased by 37 stores year-on-year to 1,200, meaning the pace of increase was sluggish. However, the impact from the withdrawal of one large trading counterparty (230 stores) group was significant. But if this impact is excluded, stores increased by 267, which is a record increase. The pharmaceutical order volume was also affected by the withdrawal of this one large trading counterparty and declined 13.1% YoY to ¥97,719 mn. But despite this, revenue from ordering fee income increased 7.4% to ¥1,601 mn. This was because the ordering fee for this customer was at a comparatively low level compared to that for the small and medium-sized member pharmacies.

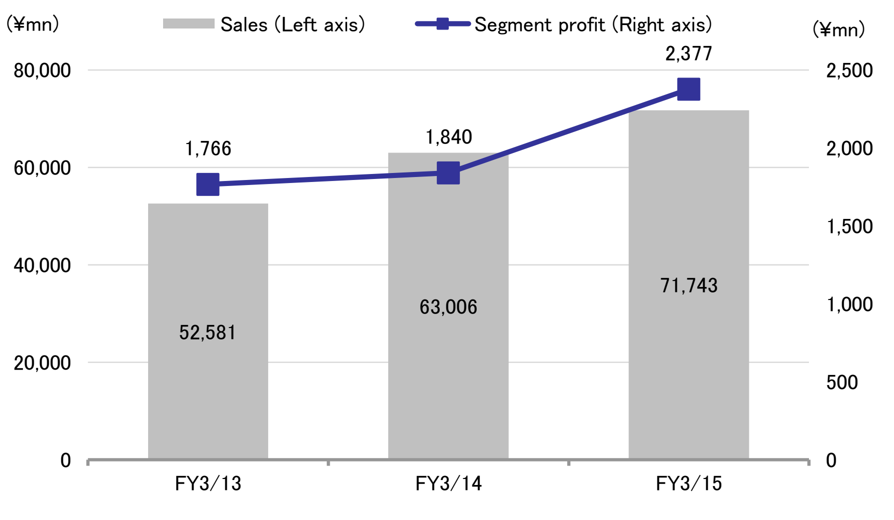
The factors behind the increase in the number of member pharmacies include that the business environment of small and medium-sized dispensing pharmacies is becoming more and more severe each year and therefore the benefits from becoming a member of the company's network are growing stronger. In addition, in January 2015 the company formed a business alliance with Fuyo General Lease and newly launched a pharmaceutical purchase price repayment service, which had a considerable effect on member numbers (the details are given below).

○Dispensing Pharmacy Business

Sales in the dispensing pharmacy business increased 13.9% to ¥71,743 mn and operating profit rose 29.2% to ¥2,377 mn. The status of store openings shows that dispensing pharmacies increased by 24 compared with the end of the previous fiscal year, to 345 stores (10 stores were newly opened, 27 acquired through M&As, and 13 were closed), while drug stores declined by 3 to 9 stores (3 stores were opened and 6 were closed).

In addition to the expansion in the number of stores that was mainly from M&As, a factor behind the higher sales was the steady performance of sales at existing stores, which rose 1.7% YoY. The number of prescriptions on an existing store basis grew 0.7% due to factors such as the influenza outbreak, while the prescription unit price also increased 1.0% because of the effects of the increase in the incentive points to promote the use of generics and the extension in the number of prescription days. The ratio of pharmacies eligible for generic dispensing systems incentives by handling generics had risen from 50.2% at the beginning of fiscal year to 77.1% by the end of the fiscal year.

Dispensing Pharmacy Business



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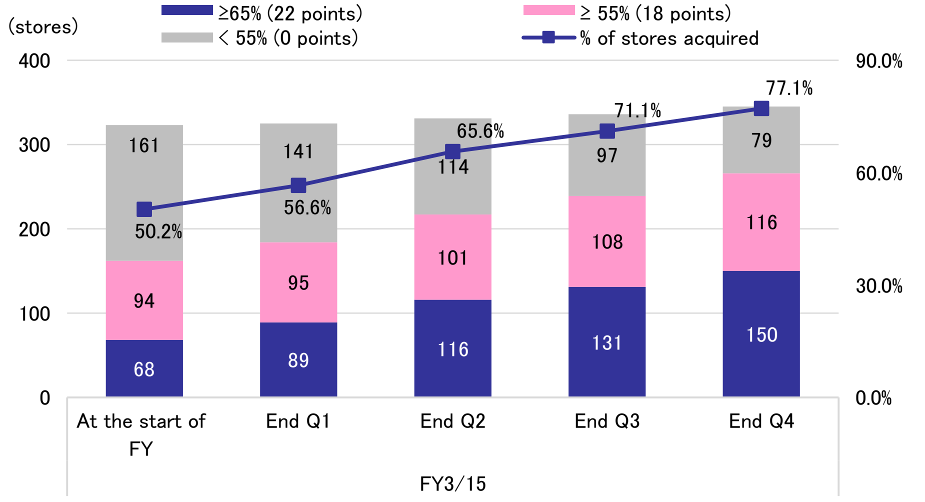
Trends in the Number of Pharmacies Eligible for Generic Dispensing Systems Incentive



In addition to the effects of the M&As, a major factor behind the increase in operating profits was the improvement in earnings at existing stores. Existing stores' operating profit increased ¥493 mn YoY, but within this amount, around half was from the effects of the rise in the acquisition of incentive points from promoting the handling of generics and from home care, and also from the improved productivity from optimizing staff deployments at each store. Also, in Q4 FY3/14, the adjustment difference from pricing negotiations with pharmaceutical wholesalers was recorded as an expense (¥588 mn, which was the amount for two years from April 2012), and the normalization of this item is thought to have contributed around ¥200 mn to ¥300 mn to the higher profits.

○Rental & Medical Facility-related Business

Sales from the rental and medical facility-related business rose 15.2% YoY to ¥1,517 mn, with an operating profit of ¥25 mn (versus a ¥39 mn loss in the previous term). The number of tenancy agreements at Wisteria Kiyota (Kiyota Ward, Sapporo City), which is an "EHSS" (elderly housing with supportive services) that commenced operations in May 2013, was 60 units out of a total of 75 units at the end of March, a steady increase from the 47 units at the end of the previous fiscal year, and this was a factor behind the improved earnings.

○Catering Business, Other Business

In the catering business, which was added by way of the consolidation of TMS as a subsidiary in November 2013, sales increased 218.3% YoY to ¥1,932 mn, while the operating loss was ¥13 mn (versus a loss of ¥12 mn in the previous fiscal year). This major increase in sales was because it only entered the scope of consolidation for 4 months in FY3/14, while the slightly higher loss was mainly the result of the rise in the purchase prices of foods.

The other business (clinical trial support operations) was affected by the delays in securing new projects and sales declined 55.2% YoY to ¥182 mn and the operating loss was ¥76 mn (compared to a profit of ¥10 mn in the previous fiscal year).

Medium-term Management Plan

Announced a new medium-term plan targeting sales of ¥105 bn in FY3/18

(1) Outline of the Medium-term Management Plan

The company announced its 4th Medium-term Management Plan at the same time as its results announcement. In a situation where the issues of providing medical care and nursing are becoming increasingly serious because of the aging of society, the company is focusing on "expanding the pharmaceutical network" and "enhancing the functions of community pharmacies," and its policy is to aim to achieve further growth as a company that supports local community medical care.

The 4th Medium-term Management Plan

Basic Policy
1. Invest resources in the pharmaceutical network, strengthen sales to small and medium-sized pharmacies, and expand member pharmacies by providing new services.
2. Further strengthen existing measures, including for medical safety, customer reception, medication counseling, home care, and reduction of waiting time, and establish the "Nanohana Standard" at an even higher level at every store.
3. Enhance to the greatest possible extent medical care, nursing, and preventative functions that are required within the holistic regional care system in accordance with conditions at existing stores, and develop new stores as next-generation pharmacies to provide customers with a full package.
4. Further strengthen support for doctors' medical practices to accelerate the construction of medical malls by attracting medical institutions to existing stores.
5. Aim to thoroughly implement cost controls with an eye to future payment system revisions.

The company's management targets for the plan's final year of FY3/18 are sales of ¥105,000 mn and recurring profit of ¥3,800 mn. Its core businesses of the pharmaceutical network business and the dispensing pharmacy business will continue to be the driving force behind its growth in earnings.

Medium-term Management Plan Targets

(¥mn)

	FY3/15	FY3/16E	FY3/18 target
Sales	75,548	85,353	105,000
Pharmaceutical network business	2,814	3,045	3,600
Dispensing pharmacy business	71,743	80,252	99,500
Operating profit	2,641	3,036	4,000
Pharmaceutical network business	1,549	1,690	2,200
Dispensing pharmacy business	2,377	2,591	3,000
Recurring profit	2,540	2,900	3,800
Recurring profit ratio	3.4%	3.4%	3.6%
Net profit	885	1,030	1,500
The number of member pharmacies in the pharmaceutical network business	1,200	1,485	2,200
The number of pharmacies	345	400	500

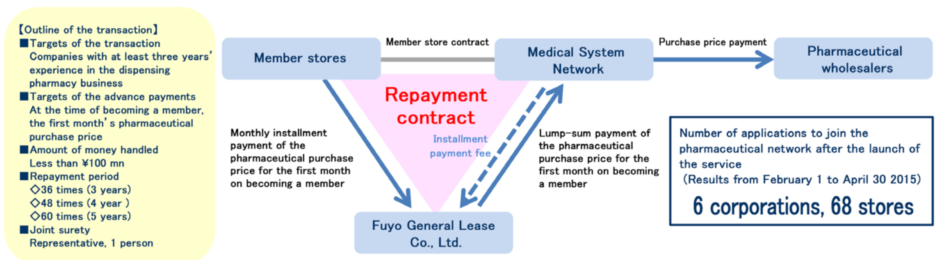
○Pharmaceutical Network Business

In the pharmaceutical network business, the company plans to greatly increase the number of member pharmacies in the network from 1,200 in FY3/15 to 2,200 in FY3/18. Due to this increase, the forecast is that sales will rise from the FY3/15 result of ¥2,814 mn to ¥3,600 mn and operating profit from ¥1,549 mn to ¥2,200 mn. Within this amount, as a source of earnings it expects revenue from ordering fee income to grow from the FY3/15 result of ¥1,601 mn to ¥2,500 mn, for an annual growth rate of 16%.

The result for the last three years in terms of the increase in the number of member pharmacies in the networks is 346 stores. But when the effect of the withdrawal of one large trading counterparty (230 stores) is removed, this result becomes 576 stores and the company plans to accelerate the pace of the increase. In the context of the measures to keep down medical costs, the business environment of small and medium-sized dispensing pharmacies has become more severe than ever before, which is proving to be a fair wind for the company's network services business. In addition, the two services created out of the business alliances it announced in 2015 are accelerating the pace of the increase in the number of member pharmacies.

The first service is the "pharmaceutical purchase price repayment service" that it launched from February 2015 following its business alliance with Fuyo General Lease. The payment period for the pharmaceutical purchase price was determined as two months as a condition to become a member of the company's pharmaceutical network services. But as it is normally three months for practically all small and medium-sized pharmacies, when these pharmacies become members they incur temporary costs due to this shortening of the payment period. Therefore, to eliminate this problem, the company developed a service in which Fuyo General Lease pays in bulk the pharmaceutical purchase prices of the members during the first month of membership on behalf of the customers, who can repay the amount advanced to them in installment payments.

The payments of duplicated payment months can be equalized (with no member store installment payment fee burden)



Source: Company materials

Since this service was launched in February, in the three months to the end of April the number of new members has increased by 6 corporations and 68 stores, which greatly exceeds the usual pace of increase, and the effects of this service are materializing immediately. For pharmaceutical wholesalers, this service reduces the time for the recovery of trade receivables and it is attracting attention as a service that benefits all those involved. It is expected that it will further increase the number of member pharmacies in the future.

The second service is the "dead stock exchange service (immobile stock liquidation)," for customers of EM SYSTEMS, with which the company announced a business alliance in April 2015. EM SYSTEMS is a major receipt computer system company that has as its customers around 16,000, or about 30%, of all domestic dispensing pharmacies, and this new dead stock exchange service function is provided as an additional function to its existing system.

Pharmacies' immobile stock is said to be approximately 0.2% of their annual sales. As the market scale is around ¥10 trillion, it is calculated that each year, the entire industry generates an inventory disposal loss of ¥20 billion. In the company's network, the immobile stock is at a level of 0.07%, which is one third of the industry average. The dead stock exchange service allows member pharmacies to exchange dead stock at each of their stores, efficiently reducing pharmaceutical disposal losses. Supposing a store with sales of ¥100 mn, which could generate an inventory disposal loss of ¥200,000, uses this service, its disposal loss would shrink to ¥60,000 to ¥70,000, improving its profit margin by 0.1%.

The dead stock exchange service is provided free to pharmacies when they join the company's network, but if an EM SYSTEMS' customer wishes only to use this service, the company is expected to collect a few percent of the inventory turnover as commission. Therefore, although the direct impact on the company's earnings will be negligible, it is entirely possible that the use of this service will result in an increase in members of its pharmaceutical network service.

The launch of this service is scheduled for April 2016, but to prepare the company's network system for the increase in member pharmacies, it plans to increase the system's processing capacity by 300% (invest ¥200 mn in the system over three years).

○Dispensing Pharmacy Business

In the dispensing pharmacy business, the company plans to expand the number of stores from 345 at the end of the previous fiscal year to 500 by FY3/18. From this increase, it is forecast that sales will rise from the FY3/15 result of ¥71,743 mn to ¥99,500 mn and operating profit from ¥2,377 mn to ¥3,000 mn. The operating profit margin is expected to fall slightly, from 3.3% in FY3/15 to 3.0%, but this is in anticipation of the continued severe business environment in the dispensing pharmacies industry. However, in actuality, there remains plenty of room for improvements, such as improving the productivity of stores, and it is entirely possible for the company to maintain or improve its profitability.

Enhancing the local community medical system has become more important alongside the aging of society, and in this context, the role played by dispensing pharmacies is expected to become increasingly large. Based on this notion, the company has been improving the quality of its services in its existing stores, including medical safety, customer reception, medication counseling, home medical care, and reductions in waiting time. At the same time, its policy is to continue to develop new stores as next-generation pharmacies that will provide customers with a full package of "medical care, nursing, and preventative functions (community care functions)".

The company is also aiming to improve the profitability of existing stores through constructing medical malls by attracting medical institutions to existing stores by further strengthening its support for doctors' medical practices. Moreover, it intends to achieve the plan's targets by actively advancing M&As and related strategies focused upon the Tokyo metropolitan area and Kansai, Aichi, and Fukuoka, which are the areas where demand for medical care for the elderly is expected to grow.

Forecast to post double-digit increase in sales and profits in this year

(2) FY3/16 Results Outlook

The FY3/16 consolidated results outlook is for double digit increases in both sales and profit, with sales up 13.0% to ¥85,353 mn, operating profit up 14.9% to ¥3,036 mn, recurring profit up 14.2% to ¥2,900 mn, and net profit up 16.3% to ¥1,030 mn. The outlook by operating segment is shown below.

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Results Forecasts by Segment

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16E	Chg %
Sales by segment					
Pharmaceutical network business	2,650	2,843	2,814	3,045	8.2%
Dispensing pharmacy business	52,581	63,006	71,743	80,252	11.9%
Rental & medical facility-related business	1,122	1,317	1,517	2,314	52.5%
Catering business	-	607	1,932	2,233	15.6%
Other business	252	407	182	276	51.7%
Adjustments	-1,779	-1,999	-2,641	-2,769	-
Total	54,827	66,181	75,548	85,353	13.0%
Segment profit					
Pharmaceutical network business	1,221	1,475	1,549	1,690	9.1%
Dispensing pharmacy business	1,766	1,840	2,377	2,591	9.0%
Rental & medical facility-related business	111	-39	25	106	318.7%
Catering business	-	-12	-13	-38	-
Other business	4	10	-76	7	-
Adjustments	-1,057	-1,183	-1,221	-1,321	-
Total	2,046	2,091	2,641	3,036	14.9%

○Pharmaceutical Network Business

In the pharmaceutical network business, sales are expected to increase 8.2% YoY to ¥3,045 mn and operating profit to rise 9.1% to ¥1,690 mn. Compared with the end of the previous fiscal year, the number of network members is forecast to increase by 285 to 1,485 pharmacies. As was previously described, the pace of this increase is being accelerated by the launch of new services, and attention will focus on how they are developed in the future.

○Dispensing Pharmacy Business

In the dispensing pharmacy business, sales are forecast to increase 11.9% YoY to ¥80,252 mn and operating profit to rise 9.0% to ¥2,591 mn. Compared with the end of the previous fiscal year, the number of dispensing pharmacies is expected to increase by 55 to 400. Within these 55 pharmacies, 50 will be acquisitions from M&As, and they are forecast to contribute around ¥3,500 mn to sales. Therefore, it is possible that the results will change depending on trends in M&As. Currently, although there are M&A projects, prices have risen slightly and the company's policy is to conduct M&As while investigating their profitability. Also, it expects sales from existing stores to increase 0.7% YoY, which is a somewhat conservative forecast.

Profitability is forecast to decline slightly, but an upside is also expected, for example from the measures the company is advancing for generics and the full-scale introduction of the dispensing headquarters' system that will contribute to improved productivity in clerical work. The dispensing headquarters' system has been in the process of being introduced sequentially since December 2014 and the company plans to have completed its introduction at all stores by the fall of 2015.

Concerning pharmacists, at the end of March 2015, including temporary staff, there was a 1,102 strong structure (a year-on-year increase of 93 staff members). The number of new graduates hired in the spring of 2015 was 97, which is double the 47 hired in the previous fiscal year, and the company plans to hire around 100 in the spring of 2016.

○Rental & Medical Facility-related Business

Sales in the rental & medical facility-related business are expected to be up 52.5% YoY to ¥2,314 mn and operating profit to be up 318.7% to ¥106 mn. The number of tenancy agreements for the "EHSS" property "Wisteria Kiyota" had grown steadily, to reach 64 units by the end of April. And, work is scheduled to begin on "Wisteria Otaru Inaho" (Otaru City, Hokkaido, 81 units) and "Wisteria Senri Chuo" (Toyonaka City, Osaka, 84 units), with the goal of completing these facilities during FY3/16.

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○Catering Business & Other Business

Sales in the catering business are expected to rise 15.6% YoY to ¥2,233 mn and for the operating loss to be ¥38 mn. The acquisition of new projects, including a rehabilitation hospital (Tokyo) will result in this double-digit increase in sales. But in terms of profits, a slight operating loss will continue due to the increase in start-up preparation costs. However, the outlook is for the operating loss to turn into an operating profit from FY3/17 as these new projects get on track.

In the other business, sales are forecast to increase 51.7% YoY to ¥276 mn, and the plan is for it to contribute to profits through an operating profit of ¥7 mn (versus a loss of ¥76 mn in the previous fiscal year). In March 2015, the company announced a business alliance with clinical support services major Sogo Rinsho Holdings<2399> and earnings are expected to recover as it acquires new projects and improves operational efficiency through the mutual cooperation with Sogo Rinsho Holdings.

■ Financial Position

Continuing a business expansion strategy that takes advantage of financial leverage under the low interest rate regime

The company's financial position at the end of FY3/15 was that total assets increased ¥2,473 mn YoY to ¥45,587 mn, with the major factors behind this increase being that while cash and deposits and trade receivables declined by ¥607 mn and ¥317 mn respectively, this was offset by increases in stock of ¥1,116 mn, fixed assets of ¥1,273 mn, and goodwill of ¥961 mn.

Conversely, liabilities increased ¥1,690 mn YoY to ¥39,451 mn. Interest-bearing liabilities increased ¥731 mn and accounts payable ¥800 mn. Additionally, net assets rose ¥783 mn YoY to ¥6,135 mn, mainly as a result of increases in retained earnings.

Within management indicators, the equity ratio improved 0.8 of a percentage point to 12.7%. The company's ratio of interest-bearing liabilities remains at a high level, and it is continuing its management policy of promoting a strategy of business expansion that takes advantage of financial leverage under current low interest rates. But, going forward, by shifting "EHSS" off the balance sheet, the company's idea is to increase capital efficiency and keep down interest bearing debt in the range of ¥20 bn, and it forecasts a capital adequacy ratio of around 20% in its Medium-term Management Plan.

Consolidated Balance Sheet

(¥mn)

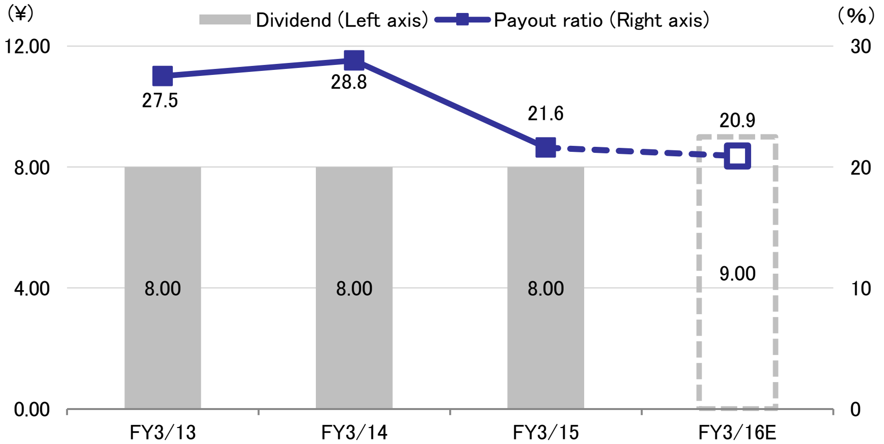
	FY3/13	FY3/14	FY3/15	Chg JPY
Current assets	8,271	10,941	11,023	81
(Cash & deposits)	2,091	3,106	2,499	-607
Fixed assets	22,518	32,172	34,564	2,391
(Goodwill)	8,176	12,253	13,214	961
Total Assets	30,789	43,114	45,587	2,473
Current liabilities	14,375	24,879	21,625	-3,254
Fixed liabilities	10,177	12,881	17,826	4,944
(Interest bearing debt)	12,193	22,011	22,743	731
Total liabilities	24,553	37,761	39,451	1,690
Total net assets	6,236	5,352	6,135	783
Key operational indicators				
(Safety)				
Current ratio (Current assets/Current liabilities)	57.5%	44.0%	51.0%	
Equity ratio	18.8%	11.9%	12.7%	
D/E ratio (Interest bearing debt/Total equity)	212.3%	433.3%	392.3%	
(Profitability)				
Recurring profit to total assets ratio (recurring profit/total assets)	6.7%	5.5%	5.7%	
Shareholders' equity to net profit ratio (net profit/ shareholders' equity)	13.7%	12.2%	16.2%	
Operating income margin	3.7%	3.2%	3.5%	

Shareholder Returns

The company's basic policy is to return profits to shareholders through dividends and dividend growth is expected in the future

The company's shareholder return policy is based on rewarding shareholders by way of dividends. Its basic policy is to pay stable dividends that reflect the company's results, after securing sufficient internal reserves to strengthen its financial position and expand operations. The company plans a payout ratio in the order of 20.9% for FY3/16, with a dividend of ¥9, which is an increase of ¥1 on the previous year. Divided growth can be expected if it continues to increase its profits in the future.

Dividend per Share and Payout Ratio



Note: the payout ratio for FY3/16 is prior to changes in the number of shares due to the implementation of a public offering and third-party allocation in June 2015

Consolidated Income Statement

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16E
Sales	54,827	66,181	75,548	85,353
(YoY)	-	20.7%	14.2%	13.0%
COGs	35,415	43,444	47,072	52,920
% sales	64.6%	65.6%	62.3%	62.0%
SG&A	17,365	20,645	25,835	29,397
% sales	31.7%	31.2%	34.2%	34.4%
Operating profit	2,046	2,091	2,641	3,036
(YoY)	-	2.2%	26.3%	14.9%
% sales	3.7%	3.2%	3.5%	3.6%
Non-operating profit	149	249	248	-
Non-operating expenses	284	321	349	-
Recurring profit	1,912	2,019	2,540	2,900
(YoY)	-	5.6%	25.8%	14.2%
% sales	3.5%	3.1%	3.4%	3.4%
Extraordinary profits	59	154	169	-
Extraordinary losses	64	403	415	-
Pretax profit	1,907	1,770	2,294	-
(YoY)	-	-7.2%	29.6%	-
% sales	3.5%	2.7%	3.0%	-
Corporate taxes	1,017	1,072	1,315	-
(Effective tax rate)	53.4%	60.6%	57.3%	-
Minority interests	133	29	92	-
Net profit	756	668	885	1,030
(YoY)	-	-11.6%	32.5%	16.3%
% sales	1.4%	1.0%	1.2%	1.2%
[Major Indices]				
Average number of shares during the fiscal year (thousands)*	25,968	24,099	23,888	23,888
EPS (JPY)	29.12	27.74	37.08	43.12
Dividend per share (JPY)	8.00	8.00	8.00	9.00
BPS (JPY)	222.86	214.70	243.31	-
Payout ratio (%)	27.5	28.8	21.6	20.9

*Average number of shares during the fiscal year excludes treasury shares
(Reference) The average number of shares during FY3/16 after the share issue in June 2015 (excluding overallotment option) will be 28,317,000 shares, and the earnings per share will be ¥36.37.

Disclaimer