

MEDICAL DATA VISION CO., LTD (3902 JP)

STRONG PERFORMANCE OF DATA UTILISATION SERVICE LED TO UPWARD REVISION OF FY21 GUIDANCE

FY21 Q2 RESULTS SUMMARY

Medical Data vision [MDV] reported FY21 (Dec year-end) 1H results with recurring profit [RP] of ¥719mil (+50.8% YoY) on sales of ¥2,635mil (+28.8% YoY). Sales growth accelerated compared to CAGR of 18.5% for the past 5 years, thanks to the strong performance from consolidated subsidiaries in the Data Network Service segment and ad-hoc services in the Data Utilisation Service segment. There were also fewer costs incurred due to remote marketing activities. Consequently, this led the firm to revise up its full-year guidance, as shown in the table below.

Medical Data Vision (3902 JP): Earnings Results Summary (Cumulative)					
(¥mil) / Dec year-end	FY20		FY21		
	Q1	Q2	Q1	Q2	YoY (%)
Sales	1,042	2,046	1,429	2,635	28.8
OP	229	475	454	720	51.4
OPM (%)	22.0	23.2	31.8	27.3	+4.1pp
RP	228	476	453	719	50.8
RPM (%)	21.9	23.3	31.7	27.3	+4.0pp
NP attributed to the parent's shareholders	151	319	309	484	51.7
NPM (%)	14.6	15.6	21.7	18.4	+2.8pp

Source: Nippon-IBR based on MDV's earnings results presentations

PERFORMANCE BY SEGMENT

MDV's business portfolio is largely divided into two business segments: 1) Data Network Service: With a one-off installation fee and a monthly subscription fee thereafter, the Data Network Service business provides data solutions to DPC hospitals – i.e., those with a Diagnosis Procedure Combination / Per Diem Payment System [DPC/PDPS] fee payment system, hereinafter referred to as DPC– to support their data management needs. MDV also has permission to reuse anonymised patients' information (payment, age, prescription, medical treatment, etc), which supports its other key business:

2) Data Utilisation Service: Here, MDV provides data and research analysis services for pharmaceutical companies and medical research institutions.

Data Network Service Segment

FY21 1H segment sales rose 32.0% YoY to ¥1,007mil on the back of a sharp 140% YoY rise in contributions from subsidiaries. The segment is categorized into three subsegments as below:

- Flow revenue (initial fees etc)

MDV charges an initial fee when a hospital takes on its data solutions system. Thanks to one large DPC hospital group introducing the firm's introductory software solution, EVE, the total number of hospitals using the service saw a net rise of 4-hospitals YoY from FY20's 772 to a total of 776 in the 1H. However, the number of hospitals using the more advanced solution, Medical Code, declined from 260 in FY20 to 252. Therefore, overall flow revenue fell 1.2% YoY to ¥107mil for FY21 1H. Through the firm's system solutions, DPC data of 36.41mil acute stage patients in Japan – equivalent of more than 25% of the entire

EXECUTIVE SUMMARY

- Medical Data Vision [MDV] reported better-than-expected FY21 1H results with accelerated sales growth of 28.8% compared to the previous 5-year CAGR of 18.5%. Sales growth largely came from 1) Data Utilisation Services, especially those delivered by ah-hoc services, and 2) contribution from consolidated subsidiaries.
- Data Network Service saw 32.0% YoY sales growth thanks entirely to added revenue from subsidiaries. Flow revenue and recurring revenue from monthly both fell YoY. However, given the number of hospitals MDV has as clients, the weaker segment sales will unlikely influence the amount of data needed for the Data Utilisation Service segment.
- Data Utilisation Service prospered in 1H as more pharmaceutical companies take up its ad-hoc research and data services. This led to higher profitability for the firm. The number of requests and the fee per request both improved, rising +29.9% YoY and +19.1% YoY respectively.
- Pharmaceutical companies are becoming more aware that presenting evidence in marketing is extremely important due to stricter compliance in activities by MRs and also restrictions present under COVID.
- FY21 guidance was revised up but only by the amount which surpassed the firm's target in 1H. MDV is guiding for lower 2H profits compared to 1H results because it plans to invest on R&D and hire appropriate engineers to focus on developing new services and BtoC solutions.
- Tie-ups with overseas partners, TriNetX (unlisted, US) and IQVIA (IQV, US) has started raising revenue but not reflected in FY21 revised guidance.

population – is accumulated. Given MDV's extensive client base, management does not expect flow revenue to progress at a fast pace. MDV is permitted to reuse the data from those hospitals in its Data Utilisation Service.

- **Recurring revenue (monthly subscription fees)**
Recurring revenue is generated from monthly subscription fees from hospitals using MDV's DPC data solution packages. 1H revenue was ¥443mil (-4.4% YoY).
- **New Business (Subsidiaries)**
MDV saw a rapid increase in revenues (+140.0% YoY to ¥455mil) from subsidiaries. Revenue from Doctorbook, which became a subsidiary in FY17, almost doubled YoY thanks to strong demand for its video seminars for dentists (e.g., video instructions from renowned specialists). The subsidiary also started a similar service for clinicians. System Be-alpha, which provides systems for health checks to hospitals, also became a subsidiary this year and is now included in this sub-segment.

Data Network Service New Sales Breakdown (Cumulative)											
¥mil	FY19				FY20				FY21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)
Data Network Total	359	733	1,144	1,514	404	762	1,136	1,602	552	1,007	32.0
Flow Revenue (initial fees)	105	221	342	407	65	109	145	220	68	107	-1.2
Recurring Revenue (monthly subscription fees)	232	468	704	940	236	463	685	909	220	443	-4.4
New Businesses (subsidiaries)	21	43	97	166	102	189	304	472	262	455	140.0

Source: Nippon-IBR based on MDV's supplementary material FY21 1H

Data Utilisation Service

MDV's business model focuses on providing various analytical services based on information collected through its Data Network Service solutions. From this service, the firm has accumulated the largest medical database in Japan. The segment enjoyed 1H revenue growth of 26.8% YoY to ¥1,628mil as demand for MDV's analysis services among pharmaceutical companies gained traction. Moreover, since pharmaceutical companies' medical representatives [MRs] cannot market medicine without evidence under the industry's compliance guidelines and visit hospitals freely due to COVID, demand for its services rose. The improved segment performance also contributed to the rise in overall profitability as the FY21 1H RPM rose 4.0ppt YoY to 27.3%.

The segment offers two key services:

- **Medical Data Survey Analysis (ad-hoc services)**
With the data MDV has been given permission to collect, the firm provides pharmaceutical companies ad-hoc research and analysis services. Ad-hoc service sales rose 28.3% YoY to ¥1,345mil thanks to (1) an increase in the number of requests (+29.9% YoY), and (2) a rise in fee per request (+19.1%) for data sets (which are more expensive than research reports). MDV also saw an increase in direct requests from the HQs of non-Japanese pharmaceutical companies. COVID-related research also supported the boost in revenues.
- **MDV analyzer**
MDV analyzer, a web-based system, analyses the real-time daily prescription trends in DPC hospitals. Pharmaceutical companies can access to the system for an annual prescription fee of ¥20mil. 1H revenues from this service rose 28.3% YoY to ¥245mil. The firm launched add-on functions to the service that improves the accuracy of sample data. This is achieved by using healthy population data received from insurance associations, and open data provided by the Ministry of Health, Labour and Welfare [MHLW]'s database, which includes data on the elderly.

FY21 OUTLOOK

Thanks to the solid performance of its Data Utilisation Service and subsidiaries' business in 1H, MDV revised FY21 earnings RP guidance to ¥1,400mil (+21.9% YoY) on sales of ¥5,450mil (+19.0% YoY), up from the initial forecast of ¥1,200mil on sales of ¥5,400mil. In addition, costs were lower than originally budgeted primarily because the firm was not able to hire as many IT engineers as it planned in 1H. The new guidance suggests that 2H profits will be lower than 1H despite higher sales due to 1) continued spending for R&D to develop BtoC solutions, and 2) hiring is expected to resume.

Data Network Service

Within Data Network Services, MDV's third and most advanced package product, CADA-BOX, has failed to gain traction. Despite launching in FY16, the number of hospitals subscribing to CADA BOX is just six – well below the firm's target of 100 hospitals at the time of launch. MDV reckons that this is because many of its clients are hesitant to share patients' medical records with the patients themselves. From this year, MDV has pulled back on promoting CADA-BOX and is now turning its focus on the promotion of Karteco, a free service used by patients to access their own medical records, either online or via a smartphone app.

MDV also intends to expand BtoC services, therefore it aims to hire IT engineers to gain expertise in BtoC areas that the firm does not currently have. The key risk to the roll out of these services is the shortage of IT engineers – MDV is finding it difficult to hire sufficient engineers to start new R&D initiatives.

Data Utilisation Service

MDV reckons that the domestic market still has growth opportunities for the firm, especially in the ad-hoc Medical Data Survey Analysis service business. Management expects data sets requests, which require a more complicated process than general ad-hoc research reports and therefore command a higher fee, to rise this year (no details provided), improving the segment sales mix, while Ad-hoc services have been seeing solid growth of around 20% p.a.

Management sees high growth opportunities from its global tie-ups with TriNetX (unlisted, US) and IQVIA (IQV, US). MDV announced a tie-up with TriNetX (unlisted, US) in FY20, which has a network of medical data in 29 countries to support the clinical trials platform by providing data to biopharmaceutical companies globally. MDV provides data to pharmaceutical companies via TriNetX in exchange for a fee which is based on the volume of data requested. IQVIA is a medical information technology platform and has networks in more than 100 countries. IQVIA supports the pharmaceutical industries in those countries, from marketing to clinical trials. MDV reckons that having a presence on such a platform helps promote awareness of its data capabilities outside Japan. Although the firm has started monetising those tie-ups, the impact to the earnings is still small, therefore is not reflected in the FY21 guidance.

Shareholder Return

In addition to the revision up to its FY21 guidance, MDV revised the annual dividend from ¥4.00/share to ¥5.00/share, which gives a dividend pay-out ratio 20.6%. The firm is currently prioritising investment for growth, such as R&D and costs associated with product development. It plans to spend total of ¥300mil on R&D in FY21 vs ¥113mil in FY20.

Earnings by Segment (Cumulative)									
¥mil / Dec Yr-end)	FY20				FY21				
	Q1	1H	Q3	FY	Q1	1H	YoY (%)	FYCE (New)	YoY (%)
Total Net Sales	1,042	2,046	3,153	4,579	1,429	2,635	28.8	5,450	19.0
Data Network Service	404	762	1,136	1,602	552	1,007	32.0		-100.0
Data Utilisation Service	638	1,283	2,017	2,977	877	1,628	26.8		-100.0
Recurring Profit	228	476	784	1,148	453	719	50.8	1,400	21.9
RPM (%)	21.9	23.3	24.9	25.1	31.7	27.3	+4.0pp	25.7	+0.6pp
Net Profit Attributed to the parent's shareholders	151	319	527	700	309	484	51.7	950	35.7
ROE (%)				17.3				17.8	+0.5pp

Source: Nippon-IBR based on MDV's earnings results presentations

Earnings Guidance Revision					
(¥mil)	FY20	FY21CE (Prev)	FY21CE (New)	Change (%)	YoY (%)
Sales	4,579	5,400	5,450	0.9	19.0
OP	1,146	1,199	1,402	16.9	22.3
RP	1,148	1,200	1,400	16.7	21.9
NP	700	800	950	18.8	35.7
Dividend (¥)	3.6	4.0	5.0	25.0	38.9

Source: Nippon-IBR based on MDV's FY21 1H earnings results material

Earnings Guidance Revision							
(¥mil)	FY20			FY21CE (New)			
	1H	2H	FY	1H	2HCE	FYCE	YoY (%)
Sales	2,046	2,533	4,579	2,635	2,814	5,450	19.0
OP	475	671	1,146	720	682	1,402	22.3
RP	476	672	1,148	719	680	1,400	21.9
NP	319	381	700	484	466	950	35.7
Dividend (¥)			3.6			5.0	38.9

Source: Nippon-IBR based on MDV's FY21 1H earnings results material

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