

**MEDICAL DATA VISION CO., LTD (3902 JP)**

FY23 GUIDANCE CAN STILL BE ACHIEVED BY FOCUSING ON RAW DATA SERVICE TO PHARMACEUTICAL MAKERS

**FY23 Q3 RESULTS SUMMARY**

Medical Data Vision's [MDV] FY23 (Dec year-end) Q3 results came in below company guidance. Compared to the progress rate to the full-year target of 69.5% – the average over the past four years (FY19~FY22) – FY23 Q3 sales only achieved 62.3%. Cumulative nine-month sales fell short of expectations by approx. -¥200mil, primarily due to the weaker-than-expected performance of two main subsidiaries, System Be Alpha and Doctorbook.

The firm reported gross profit [GP] of ¥3,501mil (-1.4% YoY) and recurring profit [RP] of ¥1,063mil (-8.0% YoY) on sales of ¥4,487mil (+3.7% YoY).

MDV (3902 JP): Earnings Summary (Cumulative)							
(¥mil)	FY22		FY23				
	1H	FY	1H	Q3	YoY (%)	FY CE	YoY (%)
Sales	2,856	6,104	3,002	4,487	3.7	7,200	17.9
GP	2,360	5,030	2,345	3,501	-1.4	N/A	N/A
GPM (%)	82.6	82.4	78.1	78.0	-4.0ppt	N/A	N/A
SG&A	1,576	3,271	1,625	2,390	0.4	N/A	N/A
SG&A / Sales (%)	55.2	53.6	54.1	53.3	-1.7ppt	N/A	N/A
OP	784	1,758	719	1,111	-4.6	1,800	2.4
OPM (%)	27.5	28.8	24.0	24.8	-2.1ppt	25.0	-3.8ppt
RP	775	1,750	700	1,063	-8.0	1,800	2.8
RPM (%)	27.1	28.7	23.3	23.7	-3.0ppt	25.0	-3.7ppt
NP*	521	870	445	659	-15.0	1,200	37.9
Dividend (¥)	N/A	6.0	N/A	N/A	N/A	6.5	8.3

Source: Nippon-IBR based on MDV's FY22, FY23 Q2 and Q3 earnings results materials  
\* NP attributed to the parent's shareholders

The gross profit margin [GPM] continues to contract, declining from 82.4% in FY22, down to 78.1% in FY23 1H and then to 78.0% in FY23 Q3. This is due to a +¥208mil / +26.8% YoY rise in FY23 Q1~Q3 COGS to ¥985mil related to 1) higher insurance association data acquisition costs (+¥103mil YoY), and 2) a rise in costs associated with the launch of cloud-based services, such as fee-paying MDV Act and Alpha Salus (+¥67mil YoY).

In addition, Personnel costs included in SG&A rose +0.3% YoY to ¥2,390mil as the firm took on more engineers and marketing staff, and employees were awarded a +5% pay rise.

MDV also reported non-operating losses of -¥49mil in cumulative Jan~Sep 2023 from an equity method investment in SENSING – a software company that develops a contactless vital sensing technology. As a result, despite the YoY rise in sales, RP declined -8.0% YoY.

**EXECUTIVE SUMMARY**

- Medical Data Vision's [MDV]'s FY23 (Dec year-end) Q3 results came in below guidance. Compared to a rate of 69.5% – the average progress rate to full-year targets as of Q3 over the past four years (FY19~FY22) – FY23 Q3 sales only achieved a rate of 62.3%.
- Cumulative nine-month sales fell short by approx. -¥200mil, primarily due to lower-than-expected sales of two main subsidiaries.
- MDV's full-year FY23 guidance remains unchanged and calls for GP of ¥5,555mil (+10.4% YoY) and RP of 1,800mil (+2.8% YoY) on sales of ¥7,200mil (+17.9% YoY). MDV aims to offset the shortfall in sales of subsidiaries by capturing demand for raw data of insured patients in its Data Utilisation Service segment.
- FY23 is the first year of MDV's three-year medium-term management plan. Although there are currently some apparent earnings risks in the Data Network segment, the target for FY25 RP of ¥2,500mil+ (CAGR of +16.1%+) on sales of ¥10,000mil (CAGR of +16.7%+), solely from organic growth of the firm's existing businesses, is viewed as achievable by management.
- In FY23, the firm plans to pay an annual dividend of ¥6.50/share and maintain a pay-out of approx. 20%+ of net profit. For the medium-term plan, MDV has not yet detailed its shareholder return policy.

## PERFORMANCE BY SEGMENT

MDV's business portfolio is largely divided into two segments:

**(1) Data Network Services:** The business model continues to be in transition from an on-premises data solutions service provider to offering a cloud-based service. FY23 Q1~Q3 segment GP fell -26.7% YoY to ¥482mil on sales of ¥1,053mil (-5.2% YoY).

Under the on-premises business model, MDV received a one-off installation fee and a monthly subscription fee thereafter from its data solutions services, such as EVE 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.

In FY23 Q3, MDV earned quarterly stock (recurring) revenue of ¥212mil (-4.1% YoY / 0.0% QoQ) from on-premises solutions. Quarterly flow revenue, which is from one-off initial fees, was ¥24mil (-27.3% YoY / -60.7% QoQ).

With the promotion of the firm's cloud-based service, MDV Act, the number of hospitals which now subscribe to this service has surpassed the 1,000-mark to reach 1,094 facilities as of FY23 Q3 – an increase of +47 hospitals during Q3. However, the number of hospitals on board is falling slightly short of MDV's target to get 1,200 users signed up in FY23. The number of hospitals that deploy the fee-paying services of MDV Act reached 570 hospitals as of Q3, edging close to the firm's FY23 target of 600).

The new fee-paying services that MDV Act offers are the most used functions under the existing DPC system. Out of 570 hospitals using the service, some 10% are new customers. Although the total number of hospitals that have subscribed to MDV Act is still short of its target for 1,200, demand for MDV's cloud-based system is strong. Thus, management remains confident that the shift from the on-premises system to the cloud-based MDV Act will steadily continue and, consequently, will bring in new customers.

System Be Alpha, a subsidiary included in this segment, has been working on debugging its cloud-based health check system since 1H. During the debugging process, the onboarding of the system was suspended, which led to a shortfall in full-year sales at the subsidiary. The number of health check facilities that introduced MDV's health check system, reached 93 facilities vs the FY23 target of 109, no change from Q2.

Also in this segment, MDV included quarterly revenues from new businesses of ¥93mil (-26.2% YoY / +55.0% QoQ) on a like-for-like basis) in Q3 alone, though most of the revenue from new businesses has been separated out to the Other Services segment from FY23, as described below.

Data Network Service New Sales Breakdown (Quarterly) in new segment group								
(¥mil)	FY22				FY23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)
Data Network Total	374	357	380	594	388	334	330	-13.1
Flow Revenue (initial fees)	67	67	33	69	72	61	24	-27.3
Recurring Revenue (monthly subscription fees)	222	220	221	225	230	212	212	-4.1
New Businesses (subsidiaries)	83	69	125	299	86	60	93	-26.2
Other services	116	122	154	0	147	124	130	-15.5

Source: Nippon-IBR Based on MDV's FY22 & FY23 Q1, Q2 and Q3 earnings results materials

**(2) Data Utilisation Services:** MDV's model for this business focuses on providing various analytical services based on information collected through its Data Network Service Solutions. Segment GP for FY23 Q1~Q3 was ¥2,698mil (+4.4% YoY) on sales of ¥3,030mil (+7.4% YoY).

The GPM declined from FY22 Q1~Q3's 91.6% to 89.0% in FY23 Q1~Q3, primarily on the back of higher costs related to the surging demand for insurance patients' data – MDV must acquire anonymised insurance associations' data from DeNA (2432 JP) and JAST – which subsequently led to a deterioration in the sales mix.

In Q3 alone, total segment sales landed in line with expectations with sales of ¥1,023mil (+9.4% YoY / +4.0% QoQ), however, MDV anticipates further upside in Q4 segment revenue, thanks to the high seasonality in Q4 earnings. MDV analyzer, a web-based system which analyses numbers of patients, prescription trends and dosing periods in DPC hospitals, now added with data samples from insurance associations, reported Q3 sales of ¥213mil (+21.0% YoY / -5.8% QoQ). The QoQ decline in sales is likely due to pharmaceutical companies increasingly preferring to acquire patient's raw data rather than subscribe for MDV analyzer.

KPIs for the Data Utilisation segment include the following:

- **Sales trend of insurance data:** This reached ¥213mil in Q1~Q3 vs the FY23 target of ¥500mil.
- **Sales of the data trial field:** This is a powerful tool which helps clinical trials become more efficient. Q1~Q3 sales were ¥22mil vs the FY23 target of ¥80mil.
- **Numbers of samples in MDV's databases:** The amount of data from DPC hospitals stored in MDV's Sakura databank increased to 45.01mil patients up from 42.32mil as of the end of FY22, 43.22mil as of FY23 Q1, and 44.06mil as of FY23 1H.
- **Number of samples gained through insurance associations' data:** MDV focuses on increasing the variety of samples by gaining accesses to insurance associations' data through its alliance with DeNA and JAST. This rose to 19.66mil from 17.97mil patients as of the end of FY22, 19.11mil in Q1, 19.46mil in Q2, and then 19.66mil in Q3.

Data Utilisation Services: Sales Breakdown by Service (Quarterly: Adjusted to new segment)								
(¥mil)	FY22				FY23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)
Data Utilisation Total	1,020	865	935	1,182	1,022	984	1,023	9.4
MDV analyzer	186	186	176	186	217	226	213	21.0
Ad-Hoc	833	678	759	996	805	758	810	6.7

Source: Nippon-IBR Based on MDV's FY23 Q3 earnings results material

### (3) Other services (new services)

MDV separated out its new businesses to the Others segment. The segment reported FY23 Q1~Q3 GP of ¥320mil (+4.1% YoY) sales of ¥402mil (+2.1% YoY) and in Q3 alone, sales were ¥130mil (-15.5% YoY / +4.8% QoQ).

One of the subsidiaries included in this segment is Doctorbook, which distributes management support and training live videos to dentists and doctors. Sales of Doctorbook were negatively affected by the decline in live streaming as COVID-related restrictions were lifted.

Also, MDV appointed Medipal Holdings (7459 JP) as a marketing partner of Doctorbook for doctors, therefore, sales tend to be affected by how committed Medipal marketing staff are at promoting the system.

In addition to Doctorbook, MDV has been preparing to launch new services, though no details have been provided. It will likely take some time for these new services to make any contribution to earnings.

## FY2023 OUTLOOK

MDV's FY23 guidance remains unchanged and calls for GP of ¥5,555mil (+10.4% YoY) and RP of 1,800mil (+2.8% YoY) on sales of ¥7,200mil (+17.9% YoY). The parent Medical Data Vision [MDV]' sales were in line until Q3, however, sales of two subsidiaries have been falling behind as aforementioned.

The RP growth is much lower than that of sales due to higher costs: Of the +¥1,095mil rise expected in absolute sales, COGS will likely rise +¥570mil YoY primarily due to the need to acquire insurance associations' data, and a +¥126mil YoY rise in personnel costs, especially for marketing staff and subcontractor costs (+¥243mil YoY).

Earnings Guidance						
(¥mil)	FY20	FY21	FY22		FY23 CE	
	FY	FY	FY	YoY (%)	FYCE	YoY (%)
Sales	4,579	5,672	6,104	7.6	7,200	17.9
OP	1,146	1,594	1,758	10.3	1,800	2.4
RP	1,148	1,592	1,750	9.9	1,800	2.8
RPM (%)	25.1	28.1	28.7	+0.6ppt	25.0	-3.7ppt
NP*	700	1,087	870	-20.0	1,200	37.9
Dividend (¥)	3.6	5.6	6.0	7.1	6.5	8.3

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

\* NP attributed to the parent's shareholders

Assumptions and forecasts for each segment are as follows:

### Data Network Service

MDV is guiding for Data Network Service GP of ¥850mil on sales of ¥1,584mil (+3.2% YoY). Although management initially set two main strategies for growth – 1) Getting all clients to shift to its cloud-based services, and 2) expanding sales of Alpha Sarus, a cloud-based system for medical exams – segment sales will likely fall short of the FY23 forecast for sales of ¥1,584mil (+3.2% YoY), of which ¥461mil (+13.4% YoY) is from subsidiaries. However, as of Q3, sales from subsidiaries only reached ¥239mil, a mere 51.8% of the full year forecast, mainly due to delays in the commencement of operations by customers because of debugging process. We discuss these further below:

#### 1) Shift the client base to the cloud-based services.

FY23 will be a transformation year for the Data Network Service segment. MDV had originally sold on-premises type services, such as EVE, targeting 1,764 DPC hospitals. The aim for FY23 is to shift the entire client base over to the firm's cloud-based service platform, which can also be loaded with services such as MDV Act.

KPIs for the cloud services include:

- **The number of users:** In FY23, the firm aims to raise the number of users to 1,200 hospitals from 993 in FY22, and
- **The number of fee-paying customers for MDV Act platform:** Of the 1,200 users, MDV aims to monetise 600 users by offering them fee-charging services. While the target to get the number of cloud-based users to reach 1,200 hospitals in FY23 will likely be missed, what affects the firm's FY23 segment earnings the most is the number of fee-paying customers.

Given number of subscribers for fee-paying services having hit 570 hospitals in Q3, the FY23 target of 600 hospitals appears within reach. However, full earnings contribution from those fee-paying users will be more apparent in FY24 onwards.

#### 2) Increase the number of medical check facilities that use System Be Alpha's cloud system, Alpha Salus:

In FY22 Q4, segment sales were boosted from the full contribution of the subsidiary's online health check system and follow-up service that targets medical check facilities. In FY23, MDV aims to further increase the number of users to 109 facilities from 94 in FY22, however as of Q3, number of users was 93. This was due to a bug found, which took the subsidiary six months to solve the issue, during which time the onboarding of new customers was pending.

Although the debugging issue is now resolved, MDV expects sales from the subsidiary to fall short of guidance because the required induction processes which takes approx. three months before a customer is onboarded. As a result, System Be Alpha's underperformance will negatively affect the FY23 segment sales.

### Data Utilisation Service

MDV has kept its FY23 segment guidance for the Data Utilisation Service segment earnings for GP of ¥4,014mil (+9.4% YoY) on sales of ¥4,780mil (+19.4% YoY) unchanged. MDV's focus is to maintain its market share in this growing medical big data analysis market. In addition to data from DPC hospitals, MDV can now add data from insurance associations and medical check facilities. The firm is also working in alliance with DeNA and JAST as they have access to insurance associations' data. However, the change in sales mix due to the sourcing of data from the insurance associations, will likely lead to a decline in segment GPM from the previous level of over 90% to a figure above 80%.

MDV is also aiming to gain business of providing raw data of insured patients to pharmaceutical companies, which will earn an upfront fee of ¥JPY100mil per customer vs. MDV analyzer's ¥20mil. The number of raw data customers MDV can gain during Q4 will be the key for the firm to achieve FY23 earnings guidance.

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### **PROGRESS ON MEDIUM-TERM MANAGEMENT PLAN**

FY23 is the first year of MDV's three-year medium-term management plan. Although there is currently an earnings risk due to performance of subsidiaries, the firm still views its medium-term target for FY25 RP of ¥2,500mil<sup>+</sup> (CAGR of +16.1%+) on sales of ¥10,000mil (CAGR of +16.7%+), solely from organic growth of the firm's existing businesses, to be achievable.

At the launch of the medium-term management plan, the firm said that any potential earnings from its BtoC service initiative, Karteco, is not included in the FY23 guidance. A user of Karteco can readily access their health data, book online triage consultations – the service will direct the patient to an appropriate medical care provider – and use specialised sensing technology to obtain vital data, such as take a pulse, check respiratory count, and the general state of one's sympathetic and parasympathetic nervous system. While the B2C service through the Karteco app will change MDV's business model, it is premature to see any development in this service during FY23. Rather, MDV plans to focus on achieving the full-year guidance, especially through capturing pharmaceutical makers' demand for raw data of the insured patients.

MDV plans to introduce a subscription model in the Karteco services. Initially, the firm considered building a blockchain, with Karteco being a part of it. However, for the time being, Karteco itself can function as a versatile app through which patients can access data and purchase goods and services. Revenue will be derived from 1) a monthly subscription fee and, 2) commission payments from service providers who gain customers via Karteco.

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### **GROWTH INVESTMENTS AND SHAREHOLDER RETURN**

There are primarily three areas where the firm's financial resources will be focused:

- 1) **Human Resources:** MDV plans to hire 20~30 new staff members every year between FY23~FY25. Management think it is crucial to hire engineers to realise the medical data infrastructure that will be attractive for other companies to participate in. The firm does not limit human resources by nationality, gender and age and tries to hire those with a variety of skills and expertise.
- 2) **R&D:** MDV plans to spend approx. 5~8% of sales every year on R&D and will concentrate funds on MDV Act and health check system-related fields during FY23~FY24.
- 3) **Shareholder Returns:** MDV's shareholders return policy offers an annual dividend pay-out ratio of 20%+. Over the past two fiscal years, the firm also implemented share buybacks (¥589mil in FY20 / ¥889mil in FY21) which generated total shareholder returns of +104.5% and +101.8%, respectively.

In FY23, the firm plans to pay an annual dividend of ¥6.50/share and maintain a pay-out of approx. 20%<sup>+</sup> of net profit. For the medium-term plan, MDV has not yet detailed its shareholder return policy.

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