

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

FY24 IS THE YEAR OF BUILDING FOUNDATIONS FOR THE FUTURE GROWTH BEYOND FY25

**FY23 RESULTS SUMMARY**

Medical Data Vision [MDV] reported full year FY23 (Dec year-end) gross profit [GP] of ¥5,031mil (0.0% YoY), OP of ¥1,770mil (+0.7% YoY) and RP of ¥1,700mil (-2.9% YoY) on sales of ¥6,419mil (+5.2% YoY). The FY23 results came in below the firm's original guidance, prompting the firm to disclose the differences between forecasts and actual results on the day the results were announced.

FY23 full year sales, operating profit [OP] and recurring profit [RP] were revised down by -10.8%, -1.7% and -5.6%, respectively. This was primarily due to the weaker-than-expected performance of two main subsidiaries, System Be Alpha and Doctorbook, however, in the Data Network Service business, MDV saw 1,153 hospitals shift to its cloud-based service, of which 638 hospitals are now using the fee-paying services of MDV Act.

MDV (3902 JP): Earnings Summary (Cumulative)								
(¥mil)	FY22		FY23					
	1H	FY	1H	YoY (%)	FY	YoY (%)	FY CE	FY vs. FYCE
Sales	2,856	6,104	3,002	5.1	6,419	5.2	7,200	-10.9
GP	2,360	5,030	2,345	-0.7	5,031	0.0	N/A	N/A
GPM (%)	82.6	82.4	78.1	-4.5ppt	78.4	-4.0ppt	N/A	N/A
SG&A	1,575	3,271	1,625	3.1	3,260	-0.4	N/A	N/A
SG&A / Sales (%)	55.2	53.6	54.1	-1.0ppt	50.8	-2.8ppt	N/A	N/A
OP	784	1,758	719	-8.2	1,770	0.7	1,800	-1.6
OPM (%)	27.5	28.8	24.0	-3.5ppt	27.6	-1.2ppt	25.0	+2.6ppt
RP	775	1,750	700	-9.7	1,700	-2.9	1,800	-5.5
RPM (%)	27.2	28.7	23.3	-3.9ppt	26.5	-2.2ppt	25.0	+1.5ppt
NP*	521	870	445	-14.7	979	12.5	1,200	-18.4
Dividend (¥)	N/A	6.0	N/A	N/A	6.5	8.3	6.5	0.0

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

The gross profit margin [GPM] continues to contract, declining from 82.4% in FY22 to 78.4% in FY23. This is due to a +¥313mil / +29.2% YoY rise in FY23 COGS to ¥1,388mil related to 1) a rise in costs associated with the launch of cloud-based services such as fee-paying MDV Act and Alpha Salus (+¥112mil YoY), and 2) higher insurance data acquisition costs (+¥121mil YoY)

In addition, Personnel costs included in SG&A rose +5.8% YoY to ¥1,807mil as the firm took on more engineers and marketing staff, as well as awarding employees with a +5% pay rise.

MDV also reported non-operating losses of -¥72mil in FY23 from an equity method investment in SENSING – a software company that develops a contactless vital sensing technology.

**EXECUTIVE SUMMARY**

- Medical Data Vision [MDV] reported full year FY23 (Dec year-end) gross profit [GP] of ¥5,031mil (0.0% YoY), OP of ¥1,770mil (+0.7% YoY) and RP of ¥1,700mil (-2.9% YoY) on sales of ¥6,419mil (+5.2% YoY). FY23 results came in below the firm's original forecast, which led to a downward revision to the guidance on the same day the FY23 results were released.
- The shortfall in earnings was primarily due to 1) the weaker-than-expected performance of System Be Alpha and Doctorbook – two main subsidiaries in the Data Network Service Segment and, 2) a shortage of marketing staff led to less than expected FY23 segment sales.
- MDV identifies FY24 as a year to invest for growth, with the aim to see contributions to earnings from FY25 onwards. Therefore, higher personnel and promotion investments to boost the usage of Karteco, an app that are used by patients, the firm forecasts FY24 OP of ¥1,630mil (-8.0% YoY) and RP of ¥1,540mil (-9.4% YoY) on sales of ¥8,000mil (+24.6% YoY).
- FY24 is the second year of MDV's current medium-term management plan. Although FY23 earnings fell short of the initial target primarily due to performance of subsidiaries, the firm still views its medium-term target for FY25 RP of ¥2,500mil+ (CAGR of +16.1%+) on sales of ¥10,000mil (CAGR of +16.7%+),
- Shareholder returns MDV's shareholder return policy offers an annual dividend pay-out ratio of 20%+. Currently, 4.5% of shares outstanding remains as treasury shares. For the medium-term plan, MDV has not yet detailed the 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 being an on-premises data solutions service provider to offering a cloud-based service. FY23 segment GP fell -31.6% YoY to ¥630mil on sales of ¥1,462mil (-4.7% YoY).

Under the on-premises business model, MDV received a one-off installation fee and a monthly subscription fee thereafter for 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 Q4 alone, MDV earned quarterly stock (recurring) revenue of ¥220mil (-2.2% YoY / +3.8% QoQ) from on-premises solutions. Quarterly flow revenue, which is from one-off initial fees, was ¥97mil (+40.6% YoY / +304.2% 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 1,153 facilities as of FY23 Q4 – an increase of +59 hospitals during Q4. However, the number of hospitals on board fell slightly short of MDV's target to get 1,200 users signed up in FY23. 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. Consequently, the number of hospitals that deploy the fee-paying services of MDV Act reached 638 as of Q4, surpassing the firm's FY23 target of 600. Thus, management remains confident that the shift from the on-premises system to the cloud-based MDV Act service 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. Onboarding of the health check system recommenced in Q4, which improved the number of health check facilities that introduced MDV's health check system to 100 facilities from 93 in Q3, although did not meet the firm's FY23 target of 109.

MDV included quarterly revenues from new businesses of ¥90mil (-29.7% YoY / -3.2% QoQ) on a like-for-like basis) in Q4 alone, though most of the revenue from new businesses has been separated out to the Other Services subsegment from FY23. Doctorbook, a subsidiary which provides online training platform mainly for dentists, underperformed management expectation after reopening since many dentists went back to face-to-face training rather than virtual.

MDV reported impairment cost of ¥115mil in FY23 for: 1) delay in monetisation from System Be Alpha to FY24 and beyond, and 2) assets developed by Doctorbook for online dental consultation.

Data Network Service New Sales Breakdown (Cumulative) in new segment group									
(¥mil)	FY22				FY23				YoY (%)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Data Network Total	374	731	1,111	1,534	388	723	1,053	1,462	-4.7
Flow Revenue (initial fees)	67	135	168	237	72	133	158	256	7.9
Recurring Revenue (monthly subscription fees)	222	443	664	890	230	442	655	875	-1.6
New Businesses (subsidiaries)	83	153	278	407	86	146	239	330	-18.8
Other services	116	239	394	566	147	271	402	521	-7.9

Source: Nippon-IBR Based on MDV's FY22 & FY23 Q1, Q2, Q3 and Q4 earnings results materials

Data Network Service New Sales Breakdown (Quarterly) in new segment group										
¥mil	FY22				FY23					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%)	QoQ (%)
Data Network Total	374	357	380	423	388	334	330	409	-3.3	23.9
Flow Revenue (initial fees)	67	67	33	69	72	61	24	97	40.6	304.2
Recurring Revenue (monthly subscription fees)	222	220	221	225	230	212	212	220	-2.2	3.8
New Businesses (subsidiaries)	83	69	125	128	86	60	93	90	-29.7	-3.2
Other services	116	122	154	171	147	124	130	118	-30.8	-9.2

Source: Nippon-IBR Based on MDV's FY22 & FY23 Q1, Q2, Q3 and Q4 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 was ¥3,988mil (+8.7% YoY) on sales of ¥4,434mil (+10.8% YoY).

The GPM declined from 91.7% in FY22 to 89.9% in FY23, 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 Q4 alone, the segment achieved sales of ¥1,403mil (+18.7% YoY / +37.1% QoQ), thanks to the high seasonality in Q4 earnings. However, due to a shortage of marketing staff, FY23 segment sales fell short of the firm's initial expectation by approx. ¥300mil – hence, was one of the reasons for downward revision of FY23 guidance.

MDV analyzer, a web-based system which analyses numbers of patients, prescription trends and dosing periods in DPC hospitals, which now includes data samples from insurance associations, reported Q4 sales of ¥208mil (+11.8% YoY / -2.3% QoQ). However, sales of data for insured patients fell short of the initial FY23 target of ¥500mil and landed ¥297mil (2.4x YoY).

Data Utilisation Services: Sales Breakdown by Service (Quarterly: Adjusted to new segment)										
¥mil	FY22				FY23					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%)	QoQ (%)
Data Utilisation Total	1,020	865	935	1,182	1,022	984	1,023	1,403	18.7	37.1
MDV analyzer	186	186	176	186	217	226	213	208	11.8	-2.3
Ad-Hoc	833	678	759	996	805	758	810	1,195	20.0	47.5

Source: Nippon-IBR Based on MDV's FY23 Q4 earnings results material

KPIs for the Data Utilisation segment include the following:

- **Sales trend of insurance data:** As noted above, this reached ¥297mil in FY23 vs the FY23 target of ¥500mil.
- **Sales of the data trial field:** This is a powerful tool which helps clinical trials become more efficient. FY23 sales were ¥26mil vs the FY23 target of ¥80mil.
- **Number of samples in MDV's databases:** The amount of data from DPC hospitals stored in MDV's Sakura databank increased to 46.00mil patients, up from 42.32mil as of the end of FY22.
- **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 21.02mil patients from 17.97mil as of the end of FY22.

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

MDV separated out its new businesses to the Others segment. The segment reported FY23 GP of ¥411mil (-6.2% YoY) sales of ¥521mil (-7.9% YoY) and in Q4 alone, sales were ¥118mil (-30.8% YoY / -9.2% QoQ).

As noted above, 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 for promoting Clinical Cloud 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.

## FY2024 OUTLOOK

MDV identifies FY24 as a year to invest for growth, contributions of which are expected to be realised from FY25 onwards. Due to investments associated with increase in personnel and promotion to boost usage of Karteco, an app that are used by consumers, the firm forecasts FY24 OP of ¥1,630mil (-8.0% YoY) and RP of ¥1,540mil (-9.4% YoY) on sales of ¥8,000mil (+24.6% YoY).

The RP growth is much lower than that of sales due to 1) higher COGS (+¥491mil) associated with Karteco and data centre costs, 2) increase in personnel costs (+¥351mil), which will boost sales, and 3) a +¥434mil increase in advertisement and promotion costs on Karteco.

Earnings Guidance								
¥mil	FY20	FY21	FY22	FY23			FY24 CE	
	FY	FY	FY	FY	YoY (%)	vs. CE	FYCE	YoY (%)
Sales	4,579	5,672	6,104	6,419	5.2	-10.9	8,000	24.6
OP	1,146	1,594	1,758	1,770	0.7	-1.6	1,630	-8.0
RP	1,148	1,592	1,750	1,700	-2.9	-5.5	1,540	-9.4
RPM (%)	25.1	28.1	28.7	26.5	-2.2ppt	+1.5ppt	19.3	-7.2ppt
NP*	700	1,087	870	979	12.5	-18.4	1,000	2.1
Dividend (¥)	3.6	5.6	6.0	6.5	8.3	N/A	6.5	0.0

Source: Nippon-IBR based on MDV's FY23 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 ¥1,135mil (+79.9% YoY) on sales of ¥2,438mil (+66.7% YoY). Management primarily set three main strategies for the segment's growth in FY24: 1) Promoting sales of MDV Act's fee-paying services, 2) expanding sales of Alpha Sarus to health check facilities so as to grow the business to the second growth pillar of the segment, and 3) Promoting use of Karteco to patients:

#### 1) Promoting sales of fee-paying MDV Act services.

During FY23, MDV achieved to gain 638 hospitals that use fee-paying MDV Act services. MDV aims to achieve sales growth of +78.4% YoY in sales of MDV Act fee-paying services. In FY24, the firm plans to launch a series of fee-paying services, each of which will generate monthly subscription fees, and will be categorised into three services such as:

- I. Hospital Management Analysis Solutions, which will support hospitals to maximise revenue and standardise consultation procedures. For example, MDV plans to charge ¥50,000/month for Medical Analysis package that was released in FY23. In FY24, the firm plans to launch multiple services, each charging between ¥10,000~¥30,000 per month. MDV aims to achieve sales growth of +78.4% YoY in sales of MDV Act fee-paying services.
- II. Administrative Support Solutions which will support hospitals in managing appointments, bed control for inpatient and departmental administration. MDV expects to charge ¥20,000 ~ ¥100,000 per month per solution.
- III. Marketing Solutions which will support hospitals in patient acquisition and other analysis tools at monthly subscription of ¥10,000 and ¥50,000 per function.

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

In FY23, MDV aims to further increase the number of users to 161 facilities from 100 in FY23 and earn sales of ¥357mil (+8.2% YoY). The firm aims to reaccelerate the promotion of Alpha Salus, which the firm considers as its second pillar of Data Network Service segment. After fixing a bug in FY23, MDV reckons that the system supports healthcare facilities to integrate processes from health checks to consultations to patients.

**3) Promoting use of Karteco to patients.**

MDV completed update of its Karteco app, a BtoC service in FY23, to ensure more user-friendly access and practicality for patients. From FY24 onwards, the firm aims to launch a series of killer content to promote patients to download the app. The ultimate goal of Karteco is to offer preventive medicine information to patients by enabling them to access to their own medical records and medical check results.

Karteco itself can function as a versatile app through which patients can access data and purchase goods and services. In FY24, MDV forecasts sales of ¥520mil from Karteco (sales of ¥0mil in FY23) with 780,000 downloads and aims to expand the user base. From FY25, revenue will likely be further generated from monthly subscription of fee-paying contents. The firm plans to launch series of fee-paying content such as vital check on pets and future forecasts on a user's own finances. From FY26 onwards, MDV plans to construct a combined database with Sakura Data Bank that have both DPC hospital and Karteco's data for Karteco users. Subsequently, the firm will reuse the anonymous data.

**Data Utilisation Service**

MDV forecasts Data Utilisation Service sales of ¥4,971mil (+12.1% YoY) in FY24. While the segment will likely see organic growth, there are still shortages in marketing and sales promotion staff. MDV has been hiring from FY23, but contributions from new staff members are expected to come in from FY24 2H onwards.

**PROGRESS ON MEDIUM-TERM MANAGEMENT PLAN**

FY24 is the second year of MDV's three-year medium-term management plan. Although FY23 earnings fell short of the initial target, primarily due to performance of subsidiaries, the firm still views its medium-term 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 – to be achievable.

For the firm to achieve the medium-term plan targets, it will need to see 1) an increase in marketing staff in Data Utilisation Service to capture more users, 2) sequential launches of fee-paying functions on MDV Act, 3) a rise in the number of health check facilities that use the Alpha Salus system, and 4) Karteco downloads to hits 780,000 in FY24 and then to 2mil in FY25.

**GROWTH INVESTMENTS AND SHAREHOLDER RETURN**

There are primarily three areas to which the firm's financial resources will be allocated:

- 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 who are able to create a medical data infrastructure that will be attractive for other companies to join. The firm does not limit its human resources by nationality, gender, and age, but rather it tries to hire those with a variety of skills and expertise. In FY24, the firm plans to hire 70 new staff of which 30 will be joining the firm as new graduates in April 2024. Although MDV's primary HR focus is to hire engineers, management plans to boost marketing staff especially for Data Utilisation Service.
- 2) **R&D:** MDV plans to spend approx. 5~8% of sales every year on R&D and will concentrate funds on fee-paying services of MDV Act and killer content for Karteco in FY24. In FY23, the firm invested ¥68mil (-79.5% YoY) in R&D, including existing businesses, HMV business such as AI blockchain platform, and others (including new businesses and minor investments that will lead to alliances). FY22 R&D spending was ¥332mil (+5.2% YoY) but below the budget of ¥425mil, due to a review of R&D spending at subsidiaries. As a result, R&D/sales ratio was 5.4%. The firm has not yet announced detailed figures on R&D for the medium-term plan.

- 3) **Shareholder returns** MDV's shareholders return policy offers an annual dividend pay-out ratio of 20%+. The firm also implemented share buybacks of ¥589mil in FY20 and ¥889mil in FY21, which saw total shareholder returns of 104.5% and 101.8%, respectively. As a result, 4.5% of shares outstanding remains as treasury shares. For the medium-term plan, MDV has not yet detailed the shareholder return policy.

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