

MEDICAL DATA VISION CO., LTD (3902 JP)

MEDIUM-TERM RP TARGET CAN BE REACHED BY ORDER BACKLOG, MORE STAFF AND COST REDUCTION

EXECUTIVE SUMMARY**➤ FY24 earnings results**

Medical Data Vision [MDV] reported FY24 (Dec year-end) earnings results with full-year gross profit [GP] of ¥4,331mil (-13.9% YoY), an operating profit [OP] of ¥3mil (-99.8% YoY) on sales of ¥5,906mil (-8.0% YoY). Given the Q3 performance, the firm revised down its full-year forecasts on 11 November, however, the full-year results fell short of the revised guidance of OP of ¥510mil on sales of ¥6,600mil. The weak sales performance vs the 11 November revised number was primarily due to slower than expected Q4 orders. This resulted in a shortfall in sales of the medical data survey analysis (ad hoc) services in the Data Utilisation business, including large scale orders that the firm expected to receive in FY24, due to marketing staff shortages. The sales shortfall directly led to the deterioration in OP.

➤ Will MDV be able to achieve the medium-term plan [MTP] target in FY25?

MTP's profit targets remain unchanged, guiding for FY25 OP of ¥2,600mil and RP of ¥2,500mil. While the sales target was revised down from ¥10,000mil to ¥9,000mil, largely due to more conservative forecasts on Karteco, MDV views the RP target to be achievable. The firm proactively invested in FY24 to capture growth in FY25. Issues that dragged sales down in FY24 have already been remedied.

➤ Shareholders Return

MDV's shareholders return policy offers an annual dividend pay-out ratio of 20%+. The firm paid an annual dividend of ¥6.5/share in FY24 (in line with the firm's forecast and unchanged from FY23) on a net loss/share of -¥20.73 and generated a DOE of 6.7%. The firm aims to pay an annual dividend of ¥9.00/share in FY25, which will generate a pay-out ratio of 20.6%.

MDV (3902 JP): Share Information

Market Cap (¥mil)		16,700	Market Cap (\$mil)		111	
22-day Average Trading Volume (¥mil)		115	22-day Average Trading Volume (\$mil)		0.8	
Share performance (%)	3902	TOPIX	Earnings Summary (¥mil, %)	FY23	FY24	FY25 CE
Share price (27 Feb 2025)	439	2,736.53	Sales	6,419	5,906	9,000
3mo (from 27 Nov 2024)	-8.3	+2.7	OP	1,770	3	2,600
6mo (from 27 Aug 2024)	-24.5	+2.1	OPM (%)	27.6	0.1	28.9
YTD (from 6 Jan 2025)	+0.2	-0.7	EBITDA	1,818	105	2,700*
1yr (from 27 Feb 2024)	-28.3	+2.2	EPS (¥)	25.63	-20.73	43.59
5yrs (from 28 Feb 2020)	-49.1	+81.1	Financial Leverage (X)	1.4	1.5	1.5
Per-share and Valuations	3902	TOPIX	Net D/E Ratio (X)	0.8	0.5	-0.4*
EPS (¥, FY25 CE)	43.59	184.82	FCF	1,179	-1,469	2,000*
DPS (¥, FY25 CE)	9.0	N/A	Shareholder Return Summary	FY23	FY24	FY25 CE
BPS (¥, Dec-24)	111.21	1956.43	Dividend (¥)	6.5	6.5	9
FCFPS (¥, FY25EST)	50.00	N/A	Dividend Payout (%)	25.4	-	20.6
Forward PER	10.1	14.8	Dividend Yield (%)	N/A	N/A	2.1
PBR (x)	3.9	1.4	DOE (%)	N/A	6.7	8.2*
PCFR (x)	8.8	N/A	Treasury Shares (%)	N/A	5.4	5.4*
EV/EBITDA	6.0	N/A	ROE (%)	23.0	N/A	29.0

Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai / *Nippon-IBR estimates

FY24 RESULTS SUMMARY

Medical Data Vision [MDV] reported its full-year FY24 (Dec year-end) results and produced gross profit [GP] of ¥4,331mil (-13.9% YoY), an operating profit [OP] of ¥3mil (-99.8% YoY) on sales of ¥5,906mil (-8.0% YoY). Given the Q3 performance, the firm revised down its full-year forecasts on 11 November, however, the full-year results fell short of the revised guidance of OP of ¥510mil on sales of ¥6,600mil. The weak sales performance vs the 11 November revised number was primarily due to slower than expected Q4 orders. This resulted in a shortfall in sales of the medical data survey analysis (ad hoc) services in the Data Utilisation business, including large scale orders that the firm expected to receive in FY24, due to marketing staff shortages. The sales shortfall directly led to the deterioration in OP.

The gross profit margin [GPM] continues to contract, declining from 82.4% in FY22, to 78.4% in FY23, and then to 73.3% in FY24. FY24 COGS rose +¥187mil / +13.5% YoY to ¥1,575mil, of which +¥96mil YoY was primarily due to higher data centre costs (for Amazon Web Services [AWS]) related to the support costs for the cloud-based services.

In Q4 alone, the company reported OP of ¥144mil (-78.1% YoY / vs an operating loss of -¥167mil in Q3) on sales of ¥1,780mil (-7.8% YoY / +32.4% QoQ), due to higher advertisement costs including that of Karteco (+¥105mil YoY). The firm budgeted ¥400mil for advertisement costs to promote Karteco in FY24. The impact from a boost in advertising is evident in the surge in the number of downloads [DLs] of the app, which increased from 62,105 DLs in FY24 Q1, 167,698 DLs in FY24 Q2, 630,369 DLs in FY24 Q3, and FY24 Q4 873,681 vs the FY24 target of 780,000 DLs. The ultimate goal is to boost fee-paying users of the Karteco app, however, the app only generated ¥9mil sales in FY24 vs the target of ¥520mil. This includes Karteco services used by corporates, such as Sony Biz Network Corporation [SBNC, Unlisted]. MDV also released Karteco workwell, an app linked to SBNC's attendance management system.

MDV (3902 JP): Earnings Summary (Cumulative)							
¥mil	FY23		FY24				
	1H	FY	1H	FY	YoY (%)	FYCE	vs CE (%)
Sales	3,002	6,419	2,780	5,906	-8.0	6,600	-10.5
GP	2,345	5,031	2,061	4,331	-13.9	N/A	N/A
GPM (%)	78.1	78.4	74.1	73.3	-5.1ppt	N/A	N/A
SG&A	1,625	3,260	2,034	4,327	32.7	N/A	N/A
SG&A / Sales (%)	54.1	50.8	73.2	73.3	+22.5ppt	N/A	N/A
OP	719	1,770	26	3	-99.8	510	-99.4
OPM (%)	24.0	27.6	1.0	0.1	-27.5ppt	7.7	N/A
RP	700	1,700	-32	-509	N/A	390	N/A
RPM (%)	23.3	26.5	-1.2	-8.6	N/A	5.9	N/A
NP*	445	979	-86	-791	N/A	180	N/A
Dividend (¥)	N/A	6.5	N/A	6.5	0.0	6.5	0.0

Source: Nippon-IBR based on MDV's earnings results materials
* NP attributed to the parent's shareholders

PERFORMANCE BY SEGMENT

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

1. Data Network Services

The segment FY24 full-year GP fell -54.9% YoY to ¥284mil on sales of ¥1,222mil (-16.4% YoY). In FY24, MDV generated annual stock (recurring) revenue of ¥864mil (-1.3% YoY). Stock revenue declined in FY24, as existing customers shifted to cloud-based MDV Act, rather than promoting the service to new customers. FY24 flow revenue declined -33.0% YoY to ¥171mil due primarily to the removal of part of sales from flow revenue.

Sales of System Be α has been included in both stock and flow revenues from FY24 Q3, however, due to post-debugging testing, sales from the subsidiary remained negligible during 2H.

Data Network Service New Sales Breakdown (Cumulative)									
(¥mil)	FY23				FY24				YoY
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Data Network Total	388	723	1,053	1,462	332	625	900	1,222	-16.4
Flow Revenue (initial fees)	72	133	158	256	48	50	88	171	-33.0
Recurring Revenue (monthly subscription fees)	230	442	655	875	220	428	646	864	-1.3
New Businesses (subsidiaries)	86	146	239	330	63	146	161	176	-46.6
Karteco	N/A	N/A	N/A	N/A	0	0	4	9	N/A
Other services	147	271	402	521	127	249	389	515	-1.1

Source: Nippon-IBR Based on MDV's earnings results materials

Data Network Service New Sales Breakdown (Quarterly)										
(¥mil)	FY23				FY24				YoY	QoQ
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Data Network Total	388	334	330	409	332	293	274	322	-21.3	17.5
Flow Revenue (initial fees)	72	61	24	97	48	1	37	83	-14.4	124.3
Recurring Revenue (monthly subscription fees)	230	212	212	220	220	208	217	218	-0.9	0.5
New Businesses (subsidiaries)	86	60	93	90	63	82	14	15	-83.3	7.1
Karteco	N/A	N/A	N/A	N/A	0	0	4	5	N/A	25.0
Other services	147	124	130	118	127	122	139	126	6.8	-9.4

Source: Nippon-IBR Based on MDV's earnings results materials

Data Network Services comprise: (1) MDV Act, (2) Alpha Salus, and (3) Karteco:

MDV Act: The segment saw a 73.3% YoY increase in sales. While fee-paying services started in FY23 Q2, sales growth fell short of target for 78.4%, as the firm gained fewer than expected new customers. So far, MDV has focused on encouraging existing on-premises EVE users to switch to the cloud-based MDV Act. Given the transition is now almost complete, the firm aims to cultivate new customers from FY25.

Management remains confident that shift to fee-paying customers will steadily continue and boost sales. Furthermore, the release of new functions on MDV Act will encourage existing customers to take up the fee-paying services as well as bring in new customers. In FY24, MDV aimed to realise a +78.4% YoY rise in “stock-based” (recurring) sales of fee-paying MDV Act from the 638 hospitals (those which started using the fee-paying services in FY23), and by mobilising more customers to its fee-paying services. The number of fee-paying hospitals increased from 652 hospitals in FY24 Q1, to 674 hospitals in FY24 Q2, to 683 hospitals in FY24 Q3 and then hit 689 hospitals in FY24 Q4.

Alpha Salus: Onboarding of the health check system recommenced in FY23 Q4, which improved the number of health check facilities that have introduced MDV's system to 100 facilities. However, this fell to 97 facilities in FY24 Q2 and then declined further to 86 facilities in Q4 due to existing customers switching to competitors' systems. MDV had to suspend the promotion and onboarding of new customers due to a new bug found in the system during the nine months and followed by testing the system during Q4. However, now that the debugging issue has been dealt with, the firm's focus will be on how to onboard the 20 customers which are currently included in order backlogs in FY25.

Karteco: One of the segment's potential growth drivers is Karteco, a service ultimately used by consumers to monitor their health records online or via an app. MDV launched a large-scale promotion campaign to boost the number of downloads [DLs] for the service in FY24 by spending advertisement cost of ¥446mil including that of Karteco. While the advertisement boosted Karteco app DLs to 873,681 vs. the target of 780,000 in FY24, FY24 Karteco sales landed at only ¥9mil, far from the target of ¥520mil. The reasons for the short fall were 1) fee-paying users did not grow and 2) while MDV expects to increase the number of fee-paying app users by first launching a bio-sensing contents for cats and dogs, the launch of the version for cats has been delayed to FY24 Q4. On the other hand, Karteco's corporate service was launched and deployed by Sony Biz Networks, which is included in the ¥9mil revenue in FY24.

2. Data Utilisation Services

Segment GP for FY24 was ¥3,615mil (-9.3% YoY) on sales of ¥4,168mil (-6.0% YoY). Sales of ad hoc, medical data survey analysis services fell -8.5% YoY to ¥3,265mil, mainly due to a lack of experienced marketing staff who could attract higher-value ad hoc services. MDV expects this dip in its medical data survey analysis services sales to be temporary as new sales and marketing staff members are undergoing training. Once the new staff training is completed, senior staff can be fully allocated to sales and marketing activities, and this should halt any loss of business opportunities.

On the other hand, MDV analyzer sales rose +4.3% YoY to ¥903mil in FY24, thanks to users opting to have MDV analyzer for multiple services, such as DPC data set (number of patients, prescription dosage, number of days prescribed etc) and that of insurance patients' data. Consequently, ARPU improved.

Data Utilisation Service Segment: Sales Breakdown by Service (Cumulative)									
¥mil	FY23				FY24				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
Data Utilisation Total	1,022	2,007	3,030	4,434	928	1,904	2,836	4,168	-6.0
MDV analyzer	217	443	657	865	225	453	678	903	4.3
Medical data survey analysis	805	1,563	2,373	3,569	702	1,451	2,157	3,265	-8.5

Source: Nippon-IBR Based on MDV's earnings results materials

Data Utilisation Service Segment: Sales Breakdown by Service (Quarterly)										
¥mil	FY23				FY24					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	QoQ
Data Utilisation Total	1,022	984	1,023	1,403	928	976	931	1,332	-5.1	43.1
MDV analyzer	217	226	213	208	225	227	225	224	7.7	-0.4
Medical data survey analysis	805	758	810	1,195	702	748	706	1,108	-7.3	56.9

Source: Nippon-IBR Based on MDV's earnings results materials

FY25 OUTLOOK

FY25 is the last year of the ongoing 3-year medium-term management plan [MTP]. The firm aims to achieve an OP of ¥2,600mil and RP of ¥2,500mil by FY27, a significant jump from FY24's OP of ¥3mil in FY24. The firm guides for FY25 sales of ¥9,000mil (+52.4% YoY), which will comprise data network service sales of ¥2,220mil (+81.6% YoY), data utilisation service sales of ¥6,100mil (+46.3% YoY) and other services sales of ¥ 680mil (+31.8% YoY).

MDV (3902 JP): Earnings Guidance							
¥mil	FY20	FY21	FY22	FY23	FY24	FY25	
	FY	FY	FY	FY	FY	FY CE	YoY (%)
Sales	4,579	5,672	6,104	6,419	5,906	9,000	52.4
OP	1,146	1,594	1,758	1,770	3	2,600	N/A
RP	1,148	1,592	1,750	1,700	-509	2,500	N/A
RPM (%)	25.1	28.1	28.7	26.5	-8.6	27.8	N/A
NP*	700	1,087	870	979	-791	1,650	N/A
Dividend (¥)	3.6	5.6	6.0	6.5	6.5	9.0	38.5

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

* NP attributed to the parent's shareholders

In Data Network Service, MDV is guiding for FY25 segment sales to surge +81.6% YoY to ¥2,220mil due to the following factors:

- The largest increase (+¥817mil YoY) is expected to come from Alpha Salus. The firm aims to onboard 77 medical check-up facilities to the system with the average initial payment of approx. ¥10mil per facility. Of the targeted 77 facilities, the firm has already accumulated more than 20 order backlogs during FY24.

- FY25 Karteco sales are estimated at +¥90mil YoY (+10x YoY), a much more conservative forecast than that of FY24 (¥520mil) to reflect the level of actual sales the app raised in FY24. The firm analyses activities of app users to grow numbers of fee-paying users. There are approx. 5mil pet owners of dogs and cats respectively in Japan, but only 2.5% of dog owners and 3.2% of cat owners have used some sort of pet health monitoring apps. MDV thinks there is still vast potential to capture market share in this market. Furthermore, in addition to SMN Corp. (6185 JP), a Sony group company, six companies including those from the warehouse and logistics sector have already placed an order for Karteco workwell, which enables the employers to monitor and detect mental illness of their employees.
- Sales growth of MDV Act is estimated at +¥57mil YoY, supported by stable revenue flow from existing hospitals as well as cross selling newly released fee-paying functions.

In Data Utilisation Service, MDV assumes FY25 segment sales growth of +46.3% YoY to +¥1,931mil by:

- Organic growth by reinforcing the marketing team, which is expected to result in greater contributions from new staff who joined the firm in FY24 as well as more profitable returns from existing staff members.
- In addition to ad hoc services, the firm will start a consulting service mainly to pharmaceutical companies' marketing teams, so as to support them utilising real world data.

In FY25, MDV assumes COGS will expand +¥457mil YoY for AWS data centre-related costs and cloud-based services vs a sales increase of +¥3,093mil YoY (+52.4% YoY). In SG&A, personnel costs are budgeted to rise +¥388mil YoY and support costs to increase +¥101mil YoY. However, the higher SG&A costs will be offset by a reduction in Karteco-related costs such as advertisements (-¥236mil YoY) and R&D (-¥241mil YoY).

SHAREHOLDER RETURNS

MDV's shareholders return policy offers an annual dividend pay-out ratio of 20%+. However, in FY24, MDV paid a planned dividend of ¥6.5/share, no change from FY23, on a net loss/share of -¥20.73, primarily due to 1) a -¥514mil loss from investments including a -¥400mil impairment loss on SENSING, and 2) an extraordinary loss from valuation losses on investment securities (-¥127mil). The ¥6.5/share dividend also translates to DOE of 6.7%. In FY25, MDV aims to pay ¥9.00/share, which generates a dividend pay-out ratio of 20.6%.

As of December 2024, 5.4% of shares outstanding remained as treasury shares. For the medium-term plan, MDV has not yet detailed the additional shareholder return policy.

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