

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

Q1 RESULTS IN LINE. PREPARING TO SHIFT DATABASE TO THE CLOUD THROUGH THE NEW PLATFORM

**FY22 Q1 RESULTS SUMMARY**

Medical Data vision [MDV] reported FY22Q1 (Dec year-end) results with recurring profit [RP] of ¥461mil on sales of ¥1,511mil. From FY22, the new revenue recognition method (discussed further on p2) is applied, which affects the sales recognition of the Medical Data Survey Analysis service included in the Data Utilisation Service segment. The Medical Data Survey Analysis service comprises some 55% of the firm's total sales. Due to the change in the revenue recognition for this service, YoY comparisons are not presented with the Q1 results. Excluding the changes in the revenue recognition, Q1 sales and RP rose +5.7% YoY and +1.6% YoY, respectively. However, on a like-for-like basis, the firm has disclosed that sales improved +0.8% YoY.

MDV (3902 JP): Earnings Summary					
¥mil	FY20	FY21	FY22		
	FY	FY	Q1	YoY (%)	FYCE
Sales	4,579	5,672	1,511	n/a	6,300
GP	3,882	4,644	1,259	n/a	5,029
GPM (%)	84.8	81.9	83.3	n/a	n/a
SG&A	2,736	3,050	789	n/a	n/a
SG&A / Sales (%)	59.8	53.8	52.2	n/a	n/a
OP	1,146	1,594	470	n/a	1,599
OPM (%)	25.0	28.1	31.1	n/a	25.4
RP	1,148	1,592	461	n/a	1,600
RPM (%)	25.1	28.1	30.5	n/a	n/a
NP	700	1,098	313	n/a	1,098
Dividend (¥)	3.6	6.0	n/a	n/a	n/a

Source: Nippon-IBR based on MDV's FY21 % FY22Q1 earnings results material

**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 patient 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**

FY22 Q1 segment sales and gross profit [GP] declined 11.2% YoY to ¥490mil and -15.4% YoY to ¥312mil, respectively, mainly due to a decrease in sales of subsidiaries, Medical Domain Inc. [MDI] and System B Alpha. However, some ¥60mil of the drop in the segment sales was in line with MDV's assumption for this year's earnings forecast.

**EXECUTIVE SUMMARY**

- Medical Data vision [MDV] reported FY22 Q1 (Dec year-end) recurring profit [RP] of ¥461mil on sales of ¥1,511mil. On the like-to-like basis, sales saw +0.8% YoY.
- Data Network Service segment earnings were in line with MDV's expectation FY22 Q1 with sales and gross profit [GP] fell 11.2% YoY% YoY to ¥490mil and 15.4% YoY to ¥312mil, respectively, mainly due to a decline in sales of subsidiaries.
- The Data Utilisation Services segment reported FY22 Q1 GP of ¥946mil on sales of ¥1,020mil. Revenue recognition of Medical Data Survey Analysis, which is included in the Data Utilisation Service segment, was changed from FY22. Despite that change, and the tough comps from the same period a year ago when sales surged, the overall YoY growth trend, thus far in FY22, remains positive. Although a like-for-like comparison is impossible, a simple comparison to FY21 Q1 (sales +16.3% YoY and GP +19.5% YoY) still suggests that the overall growth trend is positive.
- MDV is guiding for FY22 GP of ¥5,029mil (+8.3% YoY) and RP of 1,600mil (+0.4% YoY) on sales of ¥6,300mil (+11.1% YoY), unchanged from the previous report. RP growth is much lower than that of sales because of the firm's plan to increase R&D by 34.5% YoY to ¥425mil for the future growth.
- MDV entered a talk with DeNA (2432) over co-usage of medical big data. If an agreement is reached, the aim is to co-build medical big data which would incorporate data from the 39.6mil hospitals and 15mil insurance companies covered between them as of April 2022. However, at this stage, it would be premature to discuss any earnings impact from this potential alliance.

The Data Network Service segment is categorized into three subsegments as described below:

### 1. Flow revenue (initial fees etc)

MDV charges an initial fee when a hospital takes on its data solutions system. As of FY22 Q1, a total of 753 hospitals were using the firm's introductory solution EVE service, a little less than the 770 hospitals that had signed up as of the end of FY21. However, the firm has come to the stage where a rise in the number of users of solutions will not add extra value to its data bank. In FY22 Q1, the flow revenue from initial fees declined 1.5% YoY / 33.7% QoQ to ¥67mil.

Key performance indicators [KPIs] for the segment includes (1) the actual numbers of patients in its data bank, Sakura Data Bank, and (2) the number of hospitals that permit the firm to reuse the patient's' anonymised data through subscription to EVE or a free cloud-based service MDV Act. To increase access to such data, the firm started MDV Act, a cloud-based service that hospitals can use for free. The reason that MDV offers the cloud-based entry-level service for free is to gain permission to use the patients' anonymised data. As of FY22 Q1, the number of hospitals that deploy MDV Act reached 757 hospitals, a rapid rise from 558 as of the end of FY21. The firm aims to increase users of MDV Act to 1,000 hospitals by the end of FY22.

### 2. Recurring revenue (monthly subscription fees)

Recurring revenue is generated from monthly subscription fees from hospitals using MDV's DPC data solution packages. FY22 Q1 revenue was ¥222mil (+0.9% YoY / +0.9% QoQ).

### 3. New Business (Subsidiaries)

MDV saw a decline in FY22 Q1 revenues from subsidiaries (-23.7% YoY / -16.0% QoQ to ¥200mil) due to (1) the sales recognition of System B Alpha was pushed back to later this year, and (2) the removal of MDI, which develops software solutions for medical check-ups and exams. Excluding those factors, revenues from subsidiaries were in line with the firm's expectation.

Data Network Service New Sales Breakdown (Quarterly)											
(¥mil)	FY20				FY21				FY22		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Data Network Total	404	358	373	465	552	454	494	560	490	-11.2	-12.5
Flow Revenue (initial fees)	65	43	36	74	68	39	43	101	67	-1.5	-33.7
Recurring Revenue (monthly subscription fees)	236	227	221	223	220	222	221	220	222	0.9	0.9
New Businesses (subsidiaries)	102	87	114	167	262	192	229	238	200	-23.7	-16.0

Source: Nippon-IBR Based on MDV's FY21 & FY22Q1 earnings results material

### Data Utilisation Service

MDV's business model in Data Utilisation Service Segment focuses on providing various analytical services based on information collected through its Data Network Service solutions. The segment's revenue is affected by the change in revenue recognition of Medical Data Survey Analysis (ad-hoc services), which earns approx. 80% of the segment revenue. Under the new method, annual revenue from the service will be consist of 12 equal payments across the year, instead of 90% of the annual fee being received upfront at the beginning of an annual contract. Although the firm has not given like-for-like comparisons to FY21 Q1's revenue, a simple YoY comparison is still useful to gauge the general direction in earnings: Segment GP grew 19.5% YoY to ¥946mil on sales of ¥1,020mil (+16.3% YoY) in FY22 Q1 and follows tough comps from the same period a year ago when there was a surge in demand for MDV's analysis services among Japanese pharmaceutical companies under COVID. Since pharmaceutical companies' medical representatives [MRs] cannot market medicine without evidence under the industry's compliance guidelines, nor can they visit hospitals freely due to COVID restrictions which are still in place in Japan, demand for MDV's services continues to rise.

The segment gross profit margin [GPM] improved to 92.7% in FY22 Q1, compared to 90.6% in FY21. KPIs for this segment are the number of companies using the service and ARPU growth.

The segment offers two key services:

#### 1. Medical Data Survey Analysis (ad-hoc services)

With the data MDV has been given permission to collect and reutilise, the firm provides pharmaceutical companies ad-hoc research and analysis services. FY22 Q1 Ad-hoc service sales rose 11.9% YoY to ¥826mil. Although the firm does not disclose quarterly progress, thanks to (1) a +14.5% YoY rise in the number of users, from 103 companies as of the end of FY21 to 118 users, and (2) a 18.2% YoY increase in fees from its top ten customers from ¥1,410mil in FY20 to ¥1,667mil as of the end of FY21, FY22 Q1 revenue hit a record level, despite it being a seasonally low period.

#### 2. MDV analyzer

This is a web-based system which analyses the number of patients, prescription trends and dosing period in DPC hospitals. Pharmaceutical companies can access the system for an annual prescription fee of ¥20mil. FY22 Q1 revenues from this service rose 63.2% YoY / +6.3% QoQ to ¥186mil. MDV's data bank now has 39.4mil patients' DPC data (up from 38.5mil as of the end of FY21) and data on 769 individuals from the insurance associations (up from 762 as of the end of FY21).

Data Utilisation Service Segment: Sales Breakdown by Service (Quarterly)											
(¥mil)	FY20				FY21				FY22		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Data Utilisation Total	638	645	733	960	877	750	822	1,159	1,020	16.3	-12.0
MDV analyzer	96	94	98	111	114	130	157	175	186	63.2	6.3
Ad-Hoc	509	539	622	836	738	606	652	974	826	11.9	-15.2
Subsidiaries	31	12	12	12	23	13	12	10	7	-69.6	-30.0

Source: Nippon-IBR Based on MDV's FY21 & FY22Q1 earnings results material

## FY22 OUTLOOK AND BUSINESS STRATEGY

MDV is guiding for FY22 GP of ¥5,029mil (+8.3% YoY) and RP of 1,600mil (+0.4% YoY) on sales of ¥6,300mil (+11.1% YoY), unchanged from the previous report. RP growth is much lower than that of sales as the firm plans to increase R&D by 34.5% YoY to ¥425mil for the future growth. Although sales will rise by ¥627mil YoY in absolute terms, COGS will likely rise ¥241mil, primarily due to (1) an increase in subcontractor costs for product development, and (2) a ¥183mil rise in personnel costs included in SG&A, to hire in-house IT engineers. The future growth relies on how successfully MDV can secure the engineers who ideally have knowledge in healthcare and develop solutions that improves the firm's proposals to customers.

### Data Network Service

MDV is guiding for Data Network Service GP of ¥1,270mil (-7.5% YoY) on sales of ¥2,068mil (+0.3% YoY). Key KPIs for this segment are (1) the number of hospitals using EVE and (2) those using MDV Act. Patient data gathered from hospitals using these services, and for which MDV has been given permission to store in its own database and use itself, plays a vital role in the firm's Data Utilisation Service business. The number of patients on its database rose from 38.49mil as of the end of FY21 to 39.60mil as of April 2022.

MDV Act is a cloud-based application through which hospitals can instantly access their main performance indicators. It enables hospitals to analyse their performance more accurately if used in combination with EVE and Medical Code (a solution that supports more efficient management of a hospital by linking EVE). Currently, the firm offers MDV Act for free and assumes that in FY22, (1) the number of DPC hospitals that use EVE will remain stable between 750~770, and that (2) the number of hospitals that use MDV Act will reach 1,000, up from 558 in FY21 and 757 as of Q1.

Furthermore, the firm will roll out a cloud-based online health check and follow-up service, Alpha Salus in FY22. The number of hospitals using Alpha Salus will become another KPI for the segment. Data extracted from Alpha Salus will also add the data of healthy people that will enhance the accuracy of the sample data.

### Data Utilisation Service

MDV is guiding for FY22 Data Utilisation Service GP of ¥3,758mil (+14.9% YoY) on sales of ¥4,231mil (+17.2% YoY). The firm assumes that both KPIs – (1) the number of users of the firm's services, and (2) ARPU per customer – will be met as (a) the number of pharmaceutical companies using MDV analyzer is expected to rise from 44 in FY21 to 50 in FY22, along with the number of clients that use its ad-hoc services rising from 118 in FY21 to 130 in FY22, and (b) by increasing the frequency of use by customers. For example, the firm assumes revenue from its top ten customers will increase from ¥1,667mil in FY21 to ¥1,800mil in FY22 as they use the service more frequently.

### Business Strategy

For both Data Network Service and Data Utilisation Service, the firm will less likely engage in M&A, unlike it did in FY20 and FY21. The firm reckons that it has come to the stage where it has ample alliances with other companies to create services that add value to its customers. Management sees the need for these existing services to become cloud-based is an important step to develop further solutions. As such, MDV's Sakura Databank is fully cloud-based, enabling its services to have data links with other service providers and create new services.

MDV will focus on three key areas in FY22:

- Data Network Service:** The shift to a cloud-based operation which will enable the firm to create a pathway from health check data to Karteco, an information storage and browsing service used by patients. MDV also aims to solidify MDV Act.
- Data Utilisation Service:** The firm aims to expand data sales to customers, including overseas, and strengthen the insurance field. MDV appointed a new non-Japanese executive director to lead the overseas business. Moreover, as a new data utilisation business, the firm aims to generate revenue from the insurance field by 2025 through a tie-up with a non-life insurer of SBI Holdings (8473 JP), which will develop new insurance products by using medical data from MDV's databank.
- Hyper Medical Vision [HMV]:** MDV plans to invest ¥167mil (up from ¥99mil in FY20) on the HMV business, whose main feature will be to provide a data utilisation infrastructure via its proprietary blockchain PadBlock. The firm believes that a blockchain infrastructure is necessary to realise a society connected via various data. MDV aims to link not only medical and healthcare data through PadBlock but also other data such as insurance, fitness, life improvement app, merchandise, etc. Through the data infrastructure, the firm will be able to cultivate a BtoBtoC data service value chain.

MDV continues focus its investments on these areas over the FY22~FY23 period with the aim of achieving 3-year (FY21~23) sales CAGR of 15~16% on the back of (1) a stable revenue from Data Network Service, (2) near 15% CAGR in Data Utilisation Service sales, and (3) the expansion of new services in Data Utilisation Service. Although the firm is scheduled to officially announce its next three-year plan for FY23~FY25 within this fiscal year, MDV is hoping to achieve sales CAGR of some 20% and is targeting FY25 RP of ¥2,500mil or more on sales of ¥10,000mil.

The firm also announced that the firm has commenced talks with DeNA (2432) over co-usage of medical big data. The details are yet to be discussed but the cooperation aims to (1) utilise the data accumulated by both companies, and (2) use services and data to promote health and optimise medical costs. As of April 2022, MDV has a hospital patient data of 39.6mil and health insurance data of 7.7mil people. DeNA has a data base of more than 8mil people through insurance associations and municipalities through its healthcare data service subsidiary DeSC. However, it would be premature to discuss any earnings impact from this alliance talk.

**Shareholders Return**

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 and ¥889mil in FY21, which saw total shareholder returns of 104.3% and 101.8%, respectively. In FY22, the firm plans to maintain a pay-out of approx. 20%+ of net profit as an annual cash dividend.

<b>Earnings Guidance Revision</b>				
(¥mil)	FY20	FY21	FY22	
	FY	FY	FYCE	YoY (%)
Sales	4,579	5,672	6,300	11.1
OP	1,146	1,594	1,599	0.3
RP	1,148	1,592	1,600	0.4
RPM (%)	25.1	28.1	25.4	-2.7pp
NP	700	1,087	1,098	1.1
Dividend (¥)	3.6	5.6	6.0	7.1

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

<b>R&amp;D Breakdown</b>		
(¥mil)	FY21	FY22
Existing Business (Evidence-based Medicine [EBM] function development, MDV Act, Alpha Salus etc.)	216	125
HMV Business (AI Blockchain Platform, Diabetes AI etc)	99	167
Others (new businesses, reserve fund)	0	132
Total	316	425

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

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For further enquiry, please contact:

Nippon Investment Bespoke Research UK Ltd  
118 Pall Mall  
London SW1Y 5EA  
TEL: +44 (0)20 7993 2583  
Email: [enquiries@nippon-ibr.com](mailto:enquiries@nippon-ibr.com)



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Japanese Equity Specialist

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