

MEDICAL DATA VISION CO., LTD (3902 JP)

Q2 RESULTS IN LINE. THE NEXT STAGE GROWTH STRATEGY TO BE EXPLAINED WITH A MEDIUM-TERM PLAN

FY22 Q2 RESULTS SUMMARY

Medical Data vision [MDV] reported FY22 1H (Dec year-end) results with recurring profit [RP] of ¥776mil on sales of ¥2,856mil. Due to the introduction of the new revenue recognition method from FY22, which affects the sales recognition of the Data Utilisation Service segment, YoY comparisons were not given with the 1H results. However, on a like-for-like basis with FY21 Q2 earnings, FY22 Q2 sales and RP would have expanded +11.6% YoY and +18.9% YoY, respectively.

In Q2 alone, the firm reported RP of ¥315mil sales of ¥1,345mil. While 1H sales were in line with expectations, achieving 45.3% of the full-year forecast, 1H RP slightly surpassed the firm's expectation with the progress rate of 48.5% to the FY22 RP forecast of ¥1,600mil, thanks to an improved sales mix.

MDV (3902 JP): Earnings Summary (Cumulative)						
(Dec year-end / ¥mil)	FY20	FY21		FY22		
	FY	1H	FY	1H	YoY (%)	FYCE
Sales	4,579	2,635	5,672	2,856	n/a	6,300
GP	3,882	2,150	4,643	2,360	n/a	n/a
GPM (%)	84.8	81.6	81.9	82.6	n/a	n/a
SG&A	2,736	1,430	3,049	1,575	n/a	n/a
SG&A / Sales (%)	59.8	54.3	53.8	55.1	n/a	n/a
OP	1,146	720	1,594	785	n/a	1,599
OPM (%)	25.0	27.3	28.1	27.5	n/a	25.4
RP	1,148	719	1,592	776	n/a	1,600
RPM (%)	25.1	27.3	28.1	27.2	n/a	25.4
NP	700	484	1,087	522	n/a	1,098
Dividend (¥)	3.6	n/a	5.6	n/a	n/a	6.0

Source: Nippon-IBR based on MDV's FY21 & FY22Q2 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.

EXECUTIVE SUMMARY

- Medical Data vision [MDV] reported FY22 1H (Dec year-end) results with recurring profit [RP] of ¥776mil on sales of ¥2,856mil. Due to the introduction of the new revenue recognition method as of FY22, which impacts the Data Utilisation Service segment, YoY comparisons were not given with the 1H results.
- FY22 1H Data Network Service Segment earnings were in line with MDV's expectation with sales and gross profit [GP] down 3.6% YoY and 8.4%, respectively, mainly due to decline in sales of subsidiaries.
- Revenue recognition for MDV's Medical Data Survey Analysis (an ad-hoc service) for the Data Utilisation Service segment was changed from FY22. The segment reported FY22 1H GP of ¥1,734mil (+18.2% YoY) on sales of ¥1,885mil (+15.8% YoY) as demand for MDV's analysis services among pharmaceutical companies continue to gain traction. In Q2 alone, segment GP was ¥788mil (-16.7% QoQ) on sales of ¥865mil (+15.3% YoY / -15.2% QoQ).
- 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 lower than that of sales as the firm plans to increase R&D by 34.5% YoY to ¥425mil for the future growth.
- MDV exchanged a business alliance contract DeNA (2432 JP) over co-usage of medical big data on 10 May 2022. Both companies will co-build access to medical big data. However, it is premature to discuss earnings impact from this potential alliance.

Data Network Service Segment

FY22 1H segment sales and gross profit [GP] fell -3.6% YoY to ¥971mil and -8.4% YoY to ¥626mil, respectively, mainly due to a decline in sales of subsidiaries, Medical Domain Inc. [MDI] and System B Alpha. This was due to tough comps, given they were consolidated in the same period last year, therefore boosting segment sales at that time. However, approx. ¥60mil of the drop in the segment sales was in line with MDV's assumption for this year's earnings forecast. In Q2 alone, segment sales were ¥480mil (+5.7% YoY / -2.0% QoQ).

The segment is categorized into three sub-segments as described below:

Flow revenue (initial fees etc)

MDV charges an initial fee when a hospital takes on its data solutions system. In Q2 alone, a total of 750 hospitals were using the firm's introductory solution EVE, just three hospitals shy of the number that had signed up in Q1. However, the firm has come to the stage where a rise in the number of users of this service will not add extra value to its data bank, thus the number of EVE users is within the firm's assumption for FY22 of 750~770 hospitals.

The flow revenue from initial fees increased 71.8% YoY / flat QoQ to ¥67mil in Q2. The firm identifies that the KPIs for the segment are (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 patients' anonymised data through subscription to EVE, or a cloud-based service MDV Act. It has been ten years since EVE was launched – a period by when the firm reckons that the data other than DPC data needs to be accumulated – hence the development of MDV Act.

Furthermore, having gathered data on 40.16mil acute patients, MDV is now looking to build out data from patients with chronic illnesses, less serious illnesses as well as healthy people. To increase access to such data, the firm started MDV Act, a cloud-based application that hospitals can use to (1) access to their main performance indicators at a single glance, and (2) 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 Main Story, a function offered as part of the MVD Act application, 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 increase to 1,000 hospitals from 558 in FY21. 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 Q2, number of hospitals that deploy MDV Act reached 809, a substantial increase from the 558 as of the end of FY21, and 757 as of Q1.

While MDV initially promoted the subscription to MDV Act to its existing customers, in 1H, the firm managed to capture 160 new MDV Act users. MDV Act's target customer group is the smaller scale hospitals (1,000) that are not DPC hospitals (who are the main subscribers of EVE) as well as DPC hospitals. While there is no fixed subscription rate for users of the Main Story function, as MDV continues to launch add-ons, customers can choose the services that they will require, resulting in an increase in ARPU per customer.

Recurring revenue (monthly subscription fees)

Recurring revenue is generated from monthly subscription fees from hospitals using MDV's DPC data solution packages. FY22 Q2 revenue was ¥220mil (-0.9% YoY/ -0.9% QoQ). The flattish YoY and QoQ numbers indicate that ARPU by existing EVE users (who pay the subscription fees) has improved, despite a decline in number of EVE users.

New Business (Subsidiaries)

MDV saw a decline in FY22 Q2 subsidiaries revenues (flat YoY / -4.0% QoQ to ¥200mil) as 1) System B Alpha sales contracted, and 2) MDI, which develops software solutions for medical check-ups and exams, was removed. 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	Q2	YoY (%)	QoQ (%)
Data Network Total	404	358	373	465	552	454	494	560	490	480	5.7	-2.0
Flow Revenue (initial fees)	65	43	36	74	68	39	43	101	67	67	71.8	0.0
Recurring Revenue (monthly subscription fees)	236	227	221	223	220	222	221	220	222	220	-0.9	-0.9
New Businesses (subsidiaries)	102	87	114	167	262	192	229	238	200	192	0.0	-4.0
Source: Nippon-IBR Based on MDV's FY21 & FY22Q2 earnings results material												

Data Utilisation Service

MDV's Data Utilisation Service model 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).

Under the new method, annual revenue from the service will be evened out into 12 equal payments, instead of an upfront payment at the beginning of an annual contract. Based on a like-for-like comparison to FY21 1H, the segment reported FY22 1H GP of ¥1,734mil (+18.2% YoY) on sales of ¥1,885mil (+15.8% YoY) as demand for MDV's analysis services from pharmaceutical companies continues to gain traction. In Q2 alone, segment GP was ¥788mil (-16.7% QoQ) on sales of ¥865mil (+15.3% YoY / -15.2% QoQ) [NB: the volatility in the YoY comps is partly due to the low seasonality in Q2 and partly a reflection of the change in revenue recognition method]

Since pharmaceutical companies' medical representatives [MRs] cannot market any drugs 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 have risen. Segment gross profit margin [GPM] improved to 92.0% in FY22 1H, compared to 89.9% in FY21 1H and 90.6% in FY21. KPIs of this segment are the number of companies using the service and ARPU growth.

The segment offers two key services:

Medical Data Survey Analysis (ad-hoc services)

With the data MDV has been given permission to collect and reuse, the firm provides pharmaceutical companies ad-hoc research and analysis services. FY22 Q2 Ad-hoc service sales rose 11.2% YoY to ¥1,494mil. In Q2 alone, sales of this service were ¥668mil (+10.2% YoY / -19.1% QoQ). Although the firm does not disclose quarterly progress of (1) the rise in the number of users, which was 118 companies as of the end of FY21 (+14.5% YoY), and (2) increases in fees from its top ten customers, which came in at ¥1,667mil as of the end of FY21, segment revenues hit a Q2 record, though it is usually a low period.

MDV analyzer

This is a web-based system which analyses numbers of patients, prescription trends and dosing periods in DPC hospitals. Pharmaceutical companies can access the system for an annual subscription fee of ¥20mil. The number of MDV analyzer subscribers declined to 40 in Q2 from 45 in Q1, however, revenue remained the same. This is because while the number of users cancelled as of June is deducted from number of users, sales from some of those customers end up recorded in the Q2 figures. FY22 1H revenues from this service rose 51.8% YoY to ¥372mil. In Q2 alone, MDV analyzer sales were ¥186mil (+43.1% YoY / +0.0% QoQ). As noted above, MDV's data bank now has DPC data for 40.16mil patients' (up from 39.40mil as of the end of FY22 Q1) and data from insurance associations for 7.8mil individual's (vs 7.7mil as of the end of FY22 Q1).

Data Utilisation Service Segment : Sales Breakdown by Service (Quarterly)												
(¥mil)	FY20				FY21				FY22			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)	QoQ (%)
Data Utilisation Total	638	645	733	960	877	750	822	1,159	1,020	865	15.3	-15.2
MDV analyzer	96	94	98	111	114	130	157	175	186	186	43.1	0.0
Ad-Hoc	509	539	622	836	738	606	652	974	826	668	10.2	-19.1
Subsidiaries	31	12	12	12	23	13	12	10	7	10	-23.1	42.9
Source: Nippon-IBR Based on MDV's FY21 & FY22Q2 earnings results material												

FY22 OUTLOOK AND BUSINESS STRATEGY

MDV's FY22 guidance, which calls for GP of ¥5,029mil (+8.3% YoY) and RP of 1,600mil (+0.4% YoY) on sales of ¥6,300mil (+11.1% YoY), is 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. Of the ¥627mil rise expected in absolute sales, COGS will likely rise ¥241mil, primarily due to an increase in subcontractor costs for product development, and a ¥183mil increase in personnel cost included in SG&A, to hire in-house IT engineers. Future growth relies on how successfully MDV can secure engineers who, ideally, have knowledge in healthcare and develop solutions that improves the firm's proposals to customers. Hiring of in-house engineers has not been progressing as planned, however, R&D capability has been sufficiently prepared with alliance subcontractors.

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). 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.

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, which 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 the following three key areas in FY22:

- 1. Data Network Service:** Shifting 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.
- 2. 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), to develop new insurance products by using medical data from MDV's databank.
- 3. 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 B2B2C 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:

- Stable revenue from the Data Network Service,
- A near 15% CAGR in Data Utilisation Service sales, and
- 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% over the FY24~FY25 period and is targeting FY25 RP of ¥2,500mil or more on sales of ¥10,000mil.

The firm also announced that it has commenced talks with DeNA (2432 JP) 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 holds hospital patient data of 40.16mil individuals and health insurance data of 7.8mil. DeNA has a data base of more than 8mil people through insurance associations and municipalities through its healthcare data service subsidiary DeSC Healthcare which currently provides a service called kencom. However, it is premature to discuss any earnings impact from this alliance.

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 of ¥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.

Earnings Guidance Revision				
(¥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

R&D Breakdown		
(¥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		

GENERAL DISCLAIMER AND COPYRIGHT

This report has been commissioned by Medical Data Vision Co., Ltd. [MDV] (the Sponsor) and prepared and issued by Nippon Investment Bespoke Research UK Ltd (Nippon-IBR), in consideration of a fee payable by MDV. Fees are paid on delivery of the report in cash without recourse. Nippon-IBR may seek additional fees for the provision of follow-up research reports and associated IR services for the Sponsor but does not get remunerated for any investment banking services. We never take payment in stock, options, or warrants for any of our services.

Accuracy of content: *All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however Nippon-IBR does not guarantee the accuracy or completeness of this report and has not sought for this information to be independently verified. Opinions contained in this report represent those of the Nippon-IBR analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of their subject matter to be materially different from current expectations.*

Exclusion of Liability: *To the fullest extent allowed by law, Nippon-IBR shall not be liable for any direct, indirect, or consequential losses, loss of profits, damages, costs, or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.*

No personalised advice: *The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Nippon-IBR's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.*

Investment in securities mentioned: *Nippon-IBR has a restrictive policy relating to personal dealing and conflicts of interest. It does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees, and contractors of Nippon-IBR may have a position in any or related securities mentioned in this report, subject to its policies on personal dealing and conflicts of interest.*

Copyright: Copyright 2022 Nippon Investment Bespoke Research UK Ltd.

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



Research Beyond Horizons
Japanese Equity Specialist

Nippon Investment Bespoke Research UK Ltd (formerly known as NIB Research UK Ltd.) is registered in England and Wales (9100028) and is authorised and regulated by the Financial Conduct Authority (FRN: 928332).