

MEDICAL DATA VISION CO., LTD (3902 JP)

NO CHANGE IN FY24 GUIDANCE AMID PLANNED INVESTMENT FOR GROWTH DURING 1H

FY22 Q1 RESULTS SUMMARY

Medical Data Vision [MDV] reported FY24 Q1 (Dec year-end) gross profit [GP] of ¥1,045mil (-15.6% YoY / -31.7% QoQ), an operating profit [OP] of ¥53mil (-87.3% YoY / -92.0% QoQ) and recurring profit [RP] of ¥22mil (-94.6% YoY / -96.5% QoQ) on sales of ¥1,388mil (-11.0% YoY / -28.1% QoQ).

The FY24 Q1 results progressed as expected to meet the firm's 1H guidance. However, since MDV has flagged its aggressive investment plans for the 2H to capture growth, the Q1 sales and OP represent just 17.4% and 3.3% of the full-year FY24 guidance.

Q1 sales were negatively affected by 1) delay in sales recognition (-¥94mil YoY) of large ad hoc services in the Data Utilisation segment, 2) a decline in sales of subsidiaries (-¥42mil YoY), including that of System Be Alpha (-¥19 mil YoY), 3) a decline in flow revenue in Data Network Services (-¥24mil YoY) due to decline in sales of data conversion business which charges an initial fee to a cloud-based one which is subscription-based service.

The gross profit margin [GPM] continues to contract, declining from 79.4% in FY23 Q1 to 78.4% in FY23 to 75.3%. This is due to a +¥22mil / +6.9% YoY rise in FY24 Q1 COGS to ¥342mil related to a rise in costs associated with fee-paying MDV Act and its personal health record [PHR] service Karteco (+¥20mil YoY).

The -87.3% YoY slump in Q1 OP reflected proactive investment on R&D for Alpha Salus, a software solution for health check facilities (+¥114mil YoY), but also cost increases in 1) human resources (+¥19mil YoY), and 2) service fees to external service providers such as AWS and Salesforce (+¥34mil YoY).

MDV also reported non-operating losses of -¥32mil in FY24 Q1 from an equity method investment in SENSING – a software company that develops a contactless vital sensing technology and develops and sells services that utilises the technology.

MDV (3902 JP): Earnings Summary (Cumulative)							
(¥mil)	FY23		FY24				
	Q1	FY	Q1	YoY (%)	QoQ (%)	FY CE	YoY (%)
Sales	1,559	6,419	1,388	-11.0	-28.1	8,000	24.6
GP	1,238	5,031	1,045	-15.6	-31.7	N/A	N/A
GPM (%)	79.4	78.4	75.3	-4.1ppt	-3.9ppt	N/A	N/A
SG&A	815	3,260	991	21.7	14.1	N/A	N/A
SG&A / Sales (%)	52.3	50.8	71.4	+19.1ppt	+26.4ppt	N/A	N/A
OP	423	1,770	53	-87.3	-92.0	1,630	-8.0
OPM (%)	27.2	27.6	3.9	-23.3ppt	-30.3ppt	20.4	-7.2ppt
RP	424	1,700	22	-94.6	-96.5	1,540	-9.4
RPM (%)	27.2	26.5	1.6	-25.6ppt	-31.4ppt	19.3	-7.2ppt
NP*	275	979	-15	N/A	N/A	1,000	2.1
Dividend (¥)	N/A	6.5	N/A	N/A	N/A	6.5	0.0
Source: Nippon-IBR based on MDV's FY23 & FY24 Q1 earnings results materials							
* NP attributed to the parent's shareholders							

EXECUTIVE SUMMARY

- MDV's FY24 (Dec year-end) Q1 results progressed as expected to meet the firm's 1H guidance. However, since MDV has flagged its aggressive investment plans for the 2H to capture growth, the Q1 sales and OP represent just 17.4% and 3.3% of the full-year FY24 guidance.
- Q1 GP was ¥1,045mil (-15.6% YoY / -31.7% QoQ), on a -87.3% YoY / -92.0% QoQ slump in OP to ¥53mil and RP of ¥22mil (-94.6% YoY / -96.5% QoQ) on sales of ¥1,388mil (-11.0% YoY / -28.1% QoQ).
- MDV identifies FY24 as a year to invest for growth, with the aim to see contributions to earnings from FY25 onwards. Thus, higher personnel and promotion costs to boost the usage of Karteco, an app used by patients, MDV is guiding for 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 2nd year of the current medium-term plan. Although FY23 earnings fell short of initial guidance, primarily due to the weak performance of its 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%+),
- MDV's shareholders return policy offers an annual dividend pay-out ratio of 20%+. Currently, 4.5% of shares outstanding remain 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 now offering a cloud-based service. FY24 Q1 segment GP fell -43.6% YoY to ¥112mil on sales of ¥332mil (-14.5% 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 analysis needs.

In FY24 Q1, MDV generated quarterly stock (recurring) revenue of ¥220mil (-4.4% YoY / +0.0% QoQ) from on-premises and cloud solutions. Quarterly flow revenue, which is from one-off initial fees, was ¥48mil (-33.2% YoY / +50.3% QoQ).

With the promotion of the firm's cloud-based service, MDV Act, the number of hospitals that deploy the fee-paying services of MDV Act reached 652 as of FY24 Q1, up from 638 as of the end of FY23. 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. In FY24, MDV aims to realise +78.4% YoY in "stock-based" (recurring) sales of fee-paying MDV Act from the 638 hospitals, and by mobilising customers to fee-paying services.

System Be Alpha, a subsidiary included in this segment, spent FY23 debugging its cloud-based health check system. Therefore, the onboarding of the system was suspended, which led to a shortfall in FY23 sales at the subsidiary. Onboarding of the health check system recommenced in FY23 Q4, which improved the number of health check facilities that introduced MDV's health check system to 100 facilities in FY23 Q4. However, this fell to 97 facilities in FY24 Q1 due to existing customers switching to the system offered by other companies. MDV aims to achieve 161 health check facilities to hire the system in FY24.

In FY24, one of the segment's growth drivers is Karteco, a service ultimately used by consumers to monitor their health records online or via an app. MDV planned to launch advertisements to boost number of downloads, however, the campaign was pushed back to FY24 Q2. As a result, the number of downloads in Q1 only reached 62,105 – well short of the pace require to meet the firm's FY24 target of 780,000 downloads, or FY24 sales of ¥520mil (¥0mil in FY23). MDV plans to increase the number of fee-paying app users by first launching a bio-sensing app for cats and dogs. However, the launch of the version for cats has been delayed to FY24 Q2. As a result, the Karteco ad campaign was also delayed to Q2.

Data Network Service New Sales Breakdown (Cumulative) in new segment group											
(¥mil)	FY22				FY23					FY24	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%)	Q1	YoY (%)
Data Network Total	374	731	1,111	1,534	388	723	1,053	1,462	-4.7	332	-14.5
Flow Revenue (initial fees)	67	135	168	237	72	133	158	256	7.9	48	-33.2
Recurring Revenue (monthly subscription fees)	222	443	664	890	230	442	655	875	-1.6	220	-4.4
New Businesses (subsidiaries)	83	153	278	407	86	146	239	330	-18.8	63	-26.0
Other services	116	239	394	566	147	271	402	521	-7.9	127	-13.7

Source: Nippon-IBR Based on MDV's FY24 Q1 earnings results materials

Data Network Service New Sales Breakdown (Quarterly) in new segment group											
(¥mil)	FY22				FY23				FY24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Data Network Total	374	357	380	423	388	334	330	409	332	-14.5	-18.7
Flow Revenue (initial fees)	67	67	33	69	72	61	24	97	48	-33.2	-50.3
Recurring Revenue (monthly subscription fees)	222	220	221	225	230	212	212	220	220	-4.4	-0.0
New Businesses (subsidiaries)	83	69	125	128	86	60	93	90	63	-26.0	-30.0
Other services	116	122	154	171	147	124	130	118	127	-13.7	7.8
Source: Nippon-IBR Based on MDV's FY24 Q1 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 FY24 Q1 was ¥826mil (-9.9% YoY) on sales of ¥928mil (-9.2% YoY).

Q1 sales of ad hoc services decline 12.7% YoY to ¥702mil, primarily on the back of delay in sales of high fee-paying ad hoc services, which were pushed back to Q2 onwards. As a result, The GPM declined from 89.9% in FY23 to 88.9% in FY24 Q1. On the other hand, number of users of MDV analyzer increased, which led to +3.9% YoY growth in Q1 sales of MDV analyzer to ¥225mil. Especially, users choose to have multiple services of MDV analyzers such as DPC data set (number of patients, prescription dosage, number of days prescribed etc) and that of insurance patients' data, which improved ARPU.

Data Utilisation Services: Sales Breakdown by Service (Quarterly: Adjusted to new segment)											
(¥mil)	FY22				FY23				FY24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Data Utilisation Total	1,020	865	935	1,182	1,022	984	1,023	1,403	928	-9.2	-33.9
MDV analyzer	186	186	176	186	217	226	213	208	225	3.9	8.5
Ad-Hoc	833	678	759	996	805	758	810	1,195	702	-12.7	-41.2
Source: Nippon-IBR Based on MDV's FY23 & FY24 Q1 earnings results material											

FY2024 OUTLOOK

MDV kept its FY24 guidance unchanged. The firm 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 an increase in personnel and promotion costs to boost the use of Karteco, 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 FY24 RP growth is expected to be much lower than that of sales due to 1) higher COGS (+¥491mil) associated with Karteco and cloud-based services, 2) higher 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 FY24 Data Network Service GP of ¥1,135mil (+79.9% YoY) on sales of ¥2,438mil (+66.7% YoY). Management's three main strategies for segment growth focuses on the following factors:

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

During FY23, 638 hospitals signed up to use the fee-paying MDV Act services. MDV is targeting FY24 sales growth of +78.4% YoY in sales from the service. To achieve this, 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 improve revenue and standardise consultation procedures. For example, MDV plans to charge ¥50,000/month for its Medical Analysis package that was released in FY23. In FY24, several new services will be launched, each charging between ¥10,000~¥30,000 per month.
- II. Administrative Support Solutions to aid hospitals in managing appointments, bed control for inpatients 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 FY24, MDV aims to further increase the number of users to 161 facilities from 100 and increase the group's sales by some ¥400mil by aggressively promoting Alpha Salus, which the firm considers as the second pillar of Data Network Service segment. After fixing a bug in FY23, the system is back on track to support healthcare facilities to integrate processes from health checks to consultations to patients.

3) Promoting use of Karteco to patients.

MDV completed the update of its Karteco app, a BtoC service in FY23, to ensure more user-friendly access and practicality for patients. 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. From FY24 onwards, the firm aims to launch a series of "killer content" to promote patients to download the app.

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 (vs zero sales 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. A series of fee-paying content, such as vital checks on one's pets and future forecasts on a user's own finances, will also be launched. From FY26 onwards, MDV plans to construct a combined database with Sakura Data Bank that will 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 since FY23, but contributions from new staff members are not expected to come in until 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 firm's initial guidance, primarily due to the weak performance of its subsidiaries, the firm still views its medium-term targets 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.

To achieve these goals, MDV 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 reach 2mil in FY25.

GROWTH INVESTMENTS AND SHAREHOLDER RETURN

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

- 1) **Human resources:** MDV plans to hire 20~30 new staff members every year between FY23~FY25. Management believe 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 some 70 new staff of which 28 joined 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, the HVM 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, ¥889mil in FY21, and ¥862mil in FY22 which saw total shareholder returns of 104.5%, 101.8%, 125.4%, respectively. The firm did not buy back any shares in FY23. As of the end of FY23, 4.5% of shares outstanding remained as treasury shares. For the medium-term plan, MDV has not yet detailed the shareholder return policy.

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