

MEDICAL DATA VISION CO., LTD (3902 JP)

NO CHANGE IN FY24 GUIDANCE DESPITE SALES OF SEVERAL KEY SERVICES PUSHED BACK TO 2H

FY24 1H RESULTS SUMMARY

Medical Data Vision [MDV] reported FY24 (Dec year-end) 1H gross profit [GP] of ¥2,061mil (-12.1% YoY), operating profit [OP] of ¥26mil (-96.3% YoY) on sales of ¥2,780mil (-7.4% YoY). At the recurring level, the firm reported a loss of -¥32mil due to non-operating cost of -¥60mil associated with equity method investments. This includes SENSING – a software company that develops contactless vital sensor technology as well as developing and selling services that utilises the technology.

Although FY24 1H sales fell short of MDV's guidance, profits landed in line with the company estimate. MDV assumed a YoY decline in sales while efforts to (1) reinforce the sales and marketing team, (2) boost marketing for its cloud services and (3) to promote its Karteco services took place in 1H, for which the associated costs were accounted for in management's forecast.

1H sales were negatively affected by (1) a delay in the progression of MDV's Data Utilisation Services, and 2) the launch of an advertising campaign to showcase the new content – cat biosensing functions on cats – for Karteco which had also been delayed. On the other hand, sales of MDV Act, MDV's cloud-based Data Network service, progressed steadily, thanks to a rise in the number of fee-paying hospitals.

The gross profit margin [GPM] continues to contract, declining from 78.1% in FY23 1H and 78.4% in FY23, to 74.1% in FY24 1H. FY24 1H COGS rose +¥62mil / +9.5% YoY to ¥719mil on higher service costs (+¥23mil YoY) for the firm's fee-paying MDV Act and its personal health record [PHR] service Karteco.

The -96.3% YoY slump in 1H OP reflected proactive investments such as hiring and service developments, which includes 1) development costs for Alpha Salus (+¥110mil YoY), MDV Act (+¥24mil YoY) and Karteco (+¥6mil), 2) an increase in advertisement and promotion costs for Karteco services and shareholder rewards (+¥107mil YoY), 3) general personnel costs (+¥61mil) including the rapid hiring of staff to help the recovery in Data Utilisation Services (+¥42mil YoY) and 4) service fees to external service providers such as AWS and Salesforce (+¥49mil YoY).

MDV (3902 JP): Earnings Summary (Cumulative)						
(¥mil)	FY23		FY24			
	1H	FY	1H	YoY (%)	FY CE	YoY (%)
Sales	3,002	6,419	2,780	-7.4	8,000	24.6
GP	2,345	5,031	2,061	-12.1	N/A	N/A
GPM (%)	78.1	78.4	74.1	-4.0ppt	N/A	N/A
SG&A	1,625	3,260	2,034	25.1	N/A	N/A
SG&A / Sales (%)	54.1	50.8	73.2	+19.1ppt	N/A	N/A
OP	719	1,770	26	-96.3	1,630	-8.0
OPM (%)	24.0	27.6	1.0	-23.0ppt	20.4	-7.2ppt
RP	700	1,700	-32	-	1,540	-9.4
RPM (%)	23.3	26.5	-1.2	-24.5ppt	19.3	-7.2ppt
NP*	445	979	-86	-	1,000	2.1
Dividend (¥)	N/A	6.5	N/A	N/A	6.5	0.0

Source: Nippon-IBR based on MDV's FY23 and FY24 H1 earnings results material

* NP attributed to the parent's shareholders

EXECUTIVE SUMMARY

- Medical Data Vision [MDV] produced FY24 (Dec year-end) 1H GP of ¥2,061mil (-12.1% YoY), on OP of ¥26mil (-96.3% YoY), on sales of ¥2,780mil (-7.4% YoY).
- MDV identifies FY24 as the year to invest for growth, with the aim to see contributions to earnings from FY25 onwards. Consequently, the higher personnel and promotion costs to boost the usage of Karteco, an app used by patients, has resulted in the firm 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 and FY24 1H earnings fell short of guidance, mainly due to the weak performance of its subsidiaries and delays in key services, the firm still views its medium-term target for FY25 RP of ¥2,500mil+ (CAGR +16.1%+) on sales of ¥10,000mil (CAGR +16.7%+) to be achievable.
- MDV's shareholders return policy is for an annual dividend pay-out ratio of 20%+. The FY24 guided dividend will remain unchanged at ¥6.50/share, which generates a dividend pay-out ratio of 24.8%.
- For the medium-term plan, MDV has not yet provided details on the shareholder return policy. Some 4.6% of outstanding shares remain as treasury shares

PERFORMANCE BY SEGMENT

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

Data Network Services

The segment saw a steady increase in the number of fee-paying customers for MDV Act, which rose from 652 hospitals in FY24 Q1 to 674 hospitals in FY24 Q2. FY24 1H segment GP fell -50.8% YoY to ¥171mil on sales of ¥625mil (-13.5% YoY).

Data Network Service New Sales Breakdown (Cumulative) in new segment group											
(¥mil)	FY22				FY23				FY24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)
Data Network Total	374	731	1,111	1,534	388	723	1,053	1,462	332	625	-13.5
Flow Revenue (initial fees)	67	135	168	237	72	133	158	256	48	50	-62.3
Recurring Revenue (monthly subscription fees)	222	443	664	890	230	442	655	875	220	428	-3.1
New Businesses (subsidiaries)	83	153	278	407	86	146	239	330	63	146	-0.4
Other services	116	239	394	566	147	271	402	521	127	249	-8.1

Source: Nippon-IBR Based on MDV's FY24 H1 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	Q2	YoY (%)	QoQ (%)
Data Network Total	374	357	380	423	388	334	330	409	332	293	-12.2	-12.2
Flow Revenue (initial fees)	67	67	33	69	72	61	24	97	48	1	-96.8	-96.0
Recurring Revenue (monthly subscription fees)	222	220	221	225	230	212	212	220	220	208	-1.8	-5.3
New Businesses (subsidiaries)	83	69	125	128	86	60	93	90	63	82	36.7	29.5
Other services	116	122	154	171	147	124	130	118	127	122	-1.4	-4.3

Source: Nippon-IBR Based on MDV's FY24 H1 earnings results materials

In FY24 1H, MDV generated semi-annual stock (recurring) revenue of ¥428mil (-3.1% YoY) as the numbers of fee-paying hospitals rose. YoY to 1H flow revenue declined -62.3% YoY to ¥50mil due to a removal of part of sales from flow revenue. In Q2 alone, stock revenue fell -1.8% YoY / -5.3% QoQ to ¥208mil and flow revenue slumped -96.8% YoY / -96.0% QoQ to ¥1mil.

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 674 as of FY24 Q2, up from 652 as of FY24 Q1, and 638 as of the end of FY23. Thus, management remains confident that shift to fee-paying customers will steadily continue and contribute to sales increase. Furthermore, the release of new functions on MDV Act will encourage existing customers to take up the fee-paying services 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 more customers to fee-paying services.

System Be Alpha, a subsidiary included in this segment that develops Alpha Salus, 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 system to 100 facilities. However, this fell to 97 facilities in FY24 Q1 and there has been no improvement in Q2 due to existing customers switching to systems offered by other companies. Additionally, MDV had to suspend the promotion and onboarding of new customers due to a new bug found in the system during Q2. Despite these obstacles, MDV hopes to see a recovery in 2H, with a target of 161 health check facilities taking up the system 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 a large-scale promotion campaign to boost the number of downloads for the service, however, it was pushed back to FY24 2H. As a result, the number of downloads in 1H was just 167,698 – well

short of the pace required to meet the firm's FY24 target of 780,000 downloads, or FY24 sales of ¥520mil (¥0mil in FY24 1H). 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 2H. Thus, the Karteco ad campaign was also delayed to the 2H.

Data Utilisation Services

Segment GP for FY24 1H was ¥1,681mil (-5.4% YoY) on sales of ¥1,904mil (-5.1% YoY). 1H sales of ad hoc services declined -7.2% YoY to ¥1,451mil, primarily due to the launch of high fee-paying ad hoc services were pushed back to Q3 onwards. MDV reckons this dip in ad hoc services sales is temporary while the sales and marketing team is under training.

In Q2 alone, sales of ad hoc services were ¥748mil (-1.3% YoY / +6.6% QoQ). As a result, segment GPM declined from 89.9% in FY23 to 88.3% in FY24 1H. On the other hand, the number MDV analyzer users is edging up [1H sales ¥453mil (+2.2% YoY], in particular those users opting to have MDV analyzers for multiple services, 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	Q2	YoY (%)	QoQ (%)	H1	YoY (%)
Data Utilisation Total	1,020	865	935	1,182	1,022	984	1,023	1,403	928	976	-0.8	5.2	1,904	-5.1
MDV analyzer	186	186	176	186	217	226	213	208	225	227	0.6	0.8	453	2.2
Ad-Hoc	833	678	759	996	805	758	810	1,195	702	748	-1.3	6.6	1,451	-7.2

Source: Nippon-IBR Based on MDV's FY24 H1 earnings results material

FY2024 OUTLOOK

Despite 1H sales and OP achieving only 34.8% and 1.7% of FY24 sales and OP guidance, respectively, 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 decline in profit growth is due to 1) higher COGS (+¥491mil) associated with Karteco and cloud-based services, 2) higher personnel costs (+¥351mil), 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). 1H earnings only achieved 25.6% in sales and 15.1% in GP to the full-year segment forecast, respectively. Management's three main strategies for segment growth focuses on the following factors:

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

During FY24 1H, 674 hospitals (+22 hospitals QoQ) signed up to use the fee-paying MDV Act services. MDV Act sales in 1H surged almost +196.8% YoY vs FY24 sales growth forecast of +78.4% YoY. To ensure the firm achieves the full-year targets, it 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 are to 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/month per solution.
- III. Marketing Solutions which will support hospitals in patient acquisition and other analysis tools at monthly subscription of ¥10,000 ~ ¥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 in FY23 and boost group's sales by some ¥400mil by aggressively promoting Alpha Salus – considered to be MDV's second pillar of growth in the Data Network Service segment. The new bug found was solved and the newly added functions will be launched in October. However, MDV admits that there is still a risk of shortfall in the Alpha Salus business as the new functions will only be released in Q4.

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. One of which is a pet biosensing app for cats and dogs, though the launch has been delayed because MDV aims to improve the accuracy of sensing. The app launch was delayed from Q1 to Q3, hence the planned promotion cost of ¥400mil will mostly be spent in 2H. MDV launched TV commercial ads on 12 Aug. On that day alone, the number of downloads surged to 15,000 compared to 7,000~8,000 downloads per week. To achieve the target of 780,000 downloads, there needs some 25,000 downloads per week in 2H.

In FY24, MDV forecasts sales of ¥520mil from Karteco (vs zero sales in FY23 and in FY24 1H) with 780,000 downloads and aims to expand the user base. From FY25, revenue will likely be further generated from monthly subscriptions 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. As of 1H, the segment sales achieved 38.3% of the full-year forecast. Order from a large joint project with several other companies has not yet been realised, leaving it a potential risk to 2H segment earnings. While the segment will likely see organic growth, there are still shortages in marketing and sales promotion capabilities while newly hired staff members are under training. 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 (FY23~FY25)

FY24 is the second year of MDV's three-year medium-term management plan. Although FY23 and so far FY24 1H 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 Data Utilisation Service marketing staff 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. The number of employees increased to 297 as of the end of 1H, up from 262 at the beginning of FY24. 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 direct funds to the 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 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 shareholder 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 FY24 1H, 4.6% of shares outstanding remained as treasury shares. In FY24, MDV plans to pay a dividend of ¥6.5/share, no change from FY23, which generates a dividend pay-out ratio of 24.8%. For the medium-term plan, MDV has not yet detailed the shareholder return policy.

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