Pharmarise HDS | 2796

TSE Standard

Full report

Navigating industry restructuring and positioning for growth from today's upfront investments

Summary

Japan's elderly population is projected to continue to grow through 2040, and Pharmarise HDS will benefit from the corresponding increase in the number of prescriptions. However, there are expected to be revisions to national health insurance (NHI) drug prices , one measure to restrain medical spending, and revisions to dispensing fees, which are made once every two years. Among the industry, the company is keen on preparing to counter downward pressure on prices by focusing on capturing technical fees, including community support system premiums and family pharmacist guidance fees. In addition, the Company acquired the GOOD AID Group (38 stores) in January 2024 and announced the acquisition of the Nagisa Group (54 stores) in December 2024 while expanding its store network, laying the foundation for future growth.

JPY mn, %	Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS	DPS
FY2021/5 C	52,324	*2.5%*	1,246	*20.4%*	1,288	*25.9%*	426	*(26.2%)*	45.8	14.0
FY2022/5 C	51,608	*(1.4%)*	1,520	*22.0%*	1,517	*17.7%*	447	*5.0%*	48.0	14.0
FY2023/5 C	52,030	*0.8%*	1,438	*(5.4%)*	1,431	*(5.7%)*	333	*(25.6%)*	35.5	14.0
FY2024/5 C	54,466	*4.7%*	916	*-36.3%*	833	*(-41.8%)*	(351)	*TR*	(31.2)	20.0
FY2025/5 CE	64,734	*18.9%*	350	*-61.8%*	143	*(-82.8%)*	(214)	*DC*	(19.0)	14.0

Source: Complied by SIR from the company TANSHIN report. TR= Turn red. DC=Deficit continues.

Corporate Profile

Established as Tokyo Bussan in 1984, Pharmarise HDS launched its dispensing pharmacy business with the opening of its first dispensing pharmacy in Yushima, Tokyo in 1987. As of November 2024, the company possessed a chain of 349 dispensing pharmacies (400 stores including non-dispensing stores), which it achieved through new store developments and M&As. The company's business is centered on its dispensing pharmacy business, which accounts for 80% of net sales, and the goods sales business is accounting for remaining sales.

The company's chain of dispensing pharmacies has grown as the company continues to open new ones, primarily through its core subsidiary Pharmarise Co., Ltd., and acquires and merges multiple chain stores, such as Kusuri No Higuchi. However, over the past several years, because of the COVID-19 pandemic and relatively small number of acquired stores, the company has struggled to expand the number of prescriptions it fills. Even under these conditions, the company is preparing for consolidation in the dispensing pharmacy industry that is likely to come.

In particular, the company can capture additional technical fees for prescriptions by actively accepting family pharmacist consent forms, which independently-managed dispensing pharmacies and small-scale dispensing pharmacy chains struggle to do, and meeting the requirements for the community support system premium (which is discussed below). With its dispensing pharmacy store count having grown to over 300 stores as of the end of FY2024/5, the Company's basic dispensing fee was reclassified and reduced. In addition, it was affected by a reduction in community support system premiums in line with the reclassification of basic dispensing fees, as well as an increase in the number of stores that were not eligible for the premiums as a result of stricter eligibility requirements. However, the Company is laying the groundwork to overcome these hurdles and further expand its chain.

Pharmarise HOLDINGS

Focus Point

Pharmarise HDS, one of the major dispensing pharmacy chain operators, is preparing for future industry consolidation. The two acquisitions announced in 2024 will increase the possibility of future expansion.

Key Indicators	
Share price (2/21)	488
52W H (24/1/12)	722
52W L (25/1/27)	477
10YH (20/9/29)	851
10YL (16/7/14)	456
Shrs out. (mn shrs)	12.06
Mkt cap (JPY bn)	5.86
Equity ratio (24/5)	24.97%
FY24/5 P/B (act)	0.77x
FY25/5 P/E (CE)	-
FY24/5 ROE (act)	-
FY25/5 DY (CE)	2.9%

Stock Price Chart - One year



Source: Trading view

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Company Profile

One of the major dispensing pharmacy companies

According to the Ministry of Health, Labour and Welfare (MHLW), there are 62,828 pharmacies in Japan (as of March 2024), of which the ten major dispensing pharmacy companies account for 6,369 stores, only about 10% of the total. Therefore, small and medium-sized pharmacies account for the majority of pharmacies, which means there is substantial room for future consolidation of the industry. Until now M&As were primarily conducted by major dispensing pharmacy companies, and industry consolidation will likely accelerate as activity at medical institutions normalizes following the COVID-19 pandemic, decrease in NHI drug price marginal gain and appropriate dispensing fees.

On the other hand, dispensing-related medical expenses in Japan totaled JPY 8,307.7 bn (MHLW). In FY24/5, Pharmarise HDS recorded annual net sales of about JPY 44.1 bn for its dispensing pharmacy business, which translates into a market share of only slightly more than 0.5%. However, in terms of the number of stores, the amount of sales , and business areas, the company is one of the major dispensing pharmacy chain companies with more than 300 stores (including drugstores) in Japan, and there appears to be substantial room for the company to grow its chain through new store developments and M&As.

In terms of the stock market, the company was listed on the Tokyo Stock Exchange's Prime Market through October 2023 but chose to move to the Standard Market because it failed to meet requirements related to market capitalization of the tradable shares and average daily trading volume. (As of February 2025, the company had a market capitalization of the tradable shares of JPY 1.8 bn, and average daily trading volume of JPY 130 mn). However, thanks to its capital and business alliance with Suzuken (9987) launched in November 2023, the company will have a dramatically greater chance of expanding its business in the future, in our view.

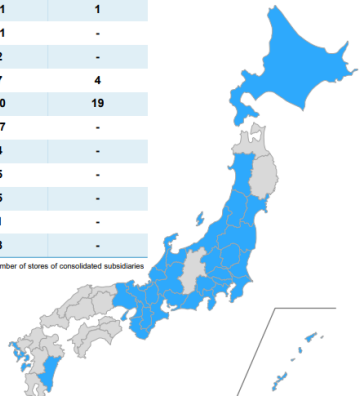
In January 2024, the company also announced the establishment of a share buyback framework (12.07% of its issued shares), which can be viewed as a sign of the company's willingness to inc

Store Networks by prefecture

	Number of dispensing stores	Number of non-dispensing stores
Hokkaido	42	1
Miyagi	10	-
Akita	2	-
Yamagata	1	-
Fukushima	12	1
Ibaraki	5	1
Tochigi	2	-
Gunma	7	-
Saitama	8	-
Chiba	6	3
Tokyo	46	14
Kanagawa	12	5
Niigata	19	-
Yamanashi	1	-
Toyama	4	-
Ishikawa	6	1
Fukui	7	-

	Number of dispensing stores	Number of non-dispensing stores
Gifu	2	-
Shizuoka	16	1
Aichi	31	1
Mie	11	-
Shiga	2	-
Kyoto	7	4
Osaka	50	19
Hyogo	17	-
Nara	4	-
Wakayama	5	-
Nagasaki	5	-
Miyazaki	1	-
Okinawa	8	-

* Total number of stores of consolidated subsidiaries



Source: Excerpt from the company IR material.

Dividend and capital measures

Pharmarise HDS has paid an annual dividend of JPY 14 per share for many years. The company paid a total dividend of JPY 20 per share in FY24/5, which includes a commemorative dividend of JPY 6 for the 40th anniversary of its founding. Considering its policy on stable dividends and the possibility of additional M&As, the company appears likely to return to paying a dividend of JPY 14 per share in FY25/5.

Although it has not announced any other capital-related measures, the company is working to improve its measurement of Enterprise Value by comparing its ROIC and WACC. The company has clearly indicated a target ROIC of 6.8% in its medium-term management plan, too. It is SIR's opinion that the company could win greater understanding from investors by more actively disclosing its ROE target and thoughts on payout ratio.

Business Model

Summary for individual businesses

An examination of the composition of Pharmarise HDS's businesses based on its FY24/5 financial results reveals that the company's dispensing pharmacy business accounts for 81.1% of net sales followed by the goods sales business (Drug/Convenience Store), which accounts for 15.2%. The company has other businesses such as its storage and management of medical documents business and medical mall business.

In terms of segment profit, the dispensing pharmacy business accounts for the lion's share of company-wide profit, while the goods sales business is still unprofitable. Envisioning a time when prescriptions are issued through remote doctor visits, without patients having to visit a hospital, and then sent electronically to pharmacies, the company aims to open stores in locations and with store designs that offer customers easier access. Therefore, for its goods sales business, the company is moving forward with opening new stores in collaboration with such convenience stores as FamilyMart, which has the feel of an upfront investment.

The operating margin for the Company's core dispensing pharmacy business had hovered around 3%-4% until FY2023/5, but has fallen below 1% for three consecutive quarters since Q4 FY2024/5 (see page 11, "Latest Performance" for further details). While the Company continues to work toward raising its prescription points above that of small and medium-sized dispensing pharmacies by earning family pharmacist guidance fees and community support system premiums, it appears that its operating margin will remain low through FY2025/5 owing to upfront investments such as personnel expenses and system integration costs for newly acquired companies. As for areas with room for margin improvement, the company is actively working to provide "dispensing at facilities" services, which entails going to elderly care facilities and dispensing medications, which is expected to expand the company's business scale from next fiscal year onwards.

Results by segment and Segment profit

Net sales by segment

JPY mn, % FY	2019/5	2020/5	2021/5	2022/5	2023/5	2024/5
Dispensing Pharmacy	40,613	40,417	42,530	42,038	42,327	44,178
Drug/Convenience Store	9,244	8,816	7,963	7,602	7,771	8,283
Medical Mall	511	505	491	503	505	506
Storage and Management of Medical Documents	702	667	622	699	646	664

Segment profit

JPY mn, % FY	2019/5	2020/5	2021/5	2022/5	2023/5	2024/5
Dispensing Pharmacy	945	1,323	1,444	1,745	1,685	1,096
Drug/Convenience Store	(153)	(136)	(42)	(146)	(199)	(50)
Medical Mall	89	73	60	67	90	113
Storage and Management of Medical Documents	94	72	64	107	81	91

Source: Complied by SIR from the company IR material.

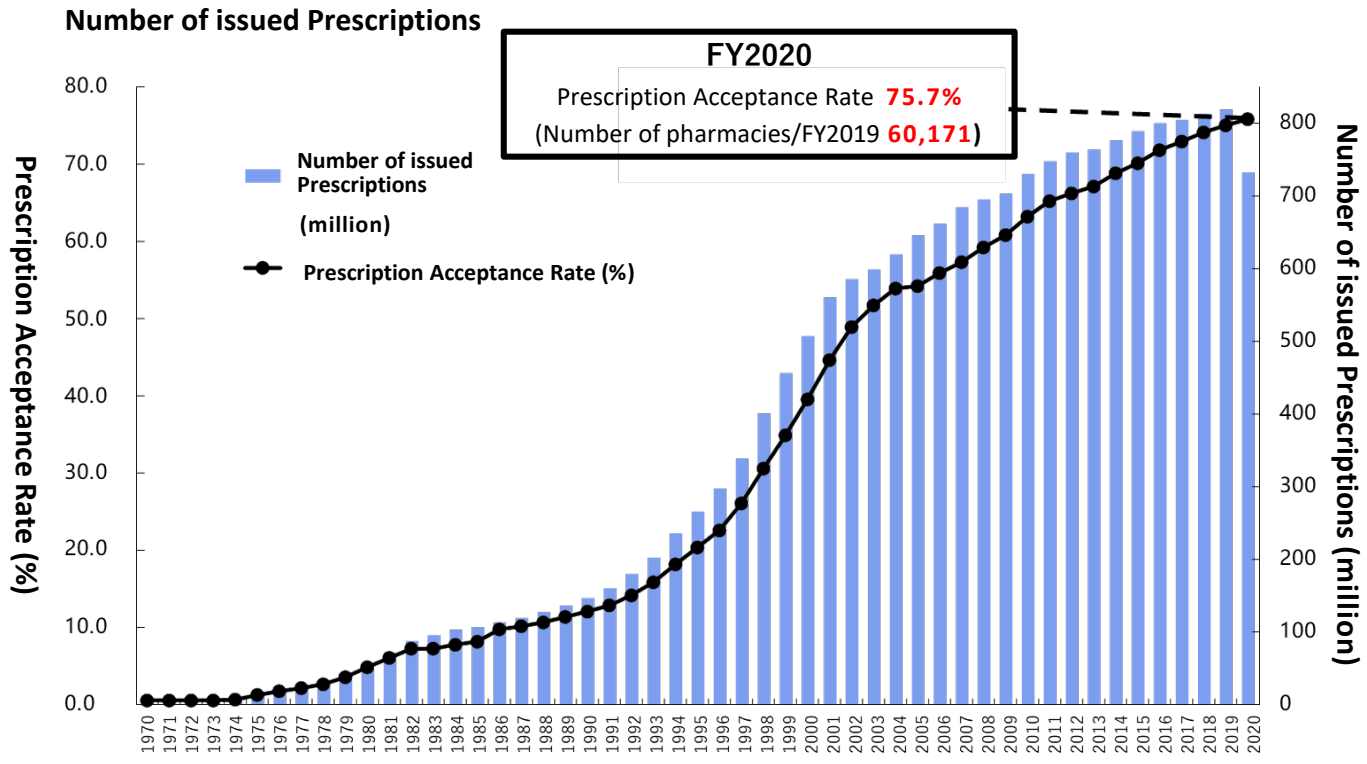
The number of prescriptions accepted is important

The number of prescriptions accepted is an important factor for understanding Pharmarise HDS's dispensing pharmacy business. The number of Japanese 65 or older is expected to continue to increase into 2040. Therefore, the number of issued prescriptions will probably continue to gradually grow in except for such unexpected events as the COVID-19 pandemic.

In this sense, it can be argued that for the company's core business, "**revenue = number of prescriptions accepted x price per prescription**." However, even if the number of prescriptions is stable, drug costs and dispensing technical fees (dispensing pharmacy's service fee), which make up the per-prescription price, could change. For example, per-prescription price can differ JPY 300–JPY 500 depending on such factors as whether family pharmacist consent (this allows the pharmacy to earn a guidance fee) is obtained, whether generic drugs are proactively used, and whether there are systems that make it possible to earn the community support system premium.

As for dispensing fee points, set by MHLW, the number of additional points pharmacies earn depends on each company's know-how, and some of these additional points are probably difficult for small and medium-sized dispensing pharmacies to capture. Thus, Pharmarise HDS moved forward with investing in DX and building a system to earn premiums over the COVID-19 pandemic period. When conducting M&As, these efforts will probably be important for making it possible to increase the efficiency of acquired companies in addition to expanding size.

The chart below shows the figures up to 2020 (Long-term data disclosed by MHLW, up to 2020). Excepting the COVID-19 pandemic, the long-term trend shows an increase in the number of prescriptions.



Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"

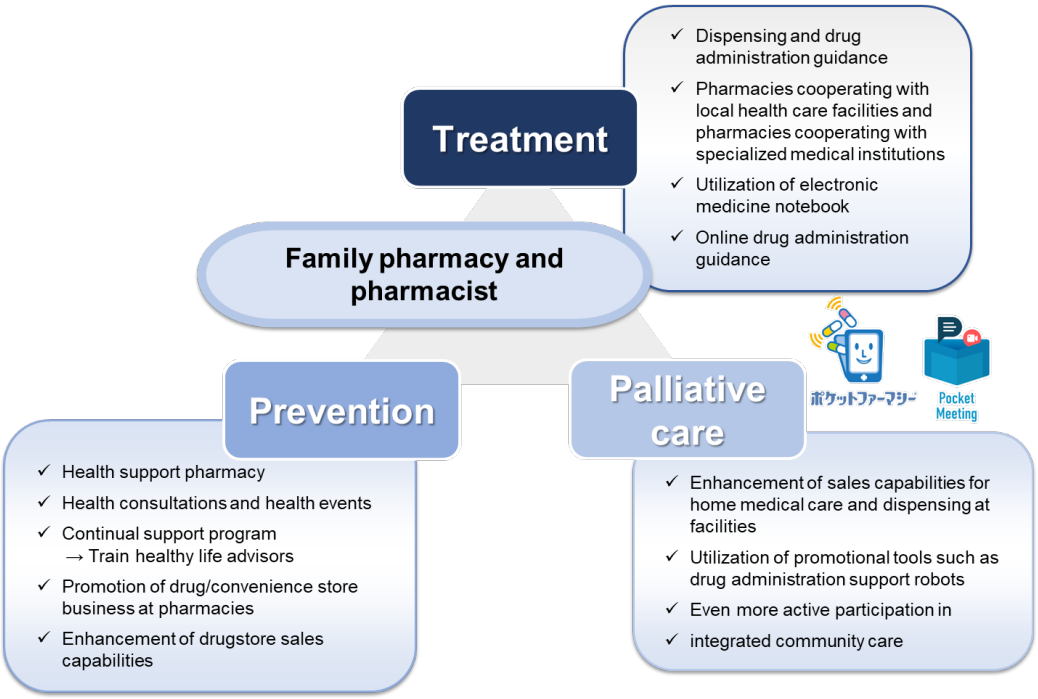
Medium-term Management Plan

Leading to Sustainable Growth 2024

Pharmarise HDS is currently implementing its "Medium-term Management Plan LSG (Leading to Sustainable Growth) 2024," which was announced in December 2021. The company aims to create a business model that can withstand future changes in the environment in order to "lay the foundations for sustainable growth, in preparation for 2030, when one third of Japan's population will be 65 or older".

Increased contribution to community health care, targeting elderly

Strengthen contributions to community medical the targets elderly



Source: Complied by SIR from the company IR material.

However, Pharmarise HDS revised its performance targets for the final year of the medium-term management plan (FY2025/5) three times as it implemented measures that will lower its prescription points as it expands its scale, such as from the impact of dispensing fee revisions and NHI drug price revisions, which will be covered later. The Company upwardly revised its sales target thanks to an increase in prescription volume and efforts to add dispensing technical fees, but substantially lowered its profit targets (see "Latest Performance" on page 11). In its next medium-term management plan, SIR expects the Company to provide a roadmap for improving its profit margin by streamlining operations at its stores following the substantial increase in store count.

Medium-term Management Plan FY2025/5 (The final fiscal year)

(JPY bn)	Initial Target	Sep.2023 Revised	Aug.2024 Revised	Dec.2024 Revised
Net Sales	58.4	57.06	60.88	64.73
Operating Profit	2.5	1.88	0.94	0.35
Net Profit	1.1	0.88	0.04	-0.21
ROIC	7.90%	6.80%	1.60%	0.10%

Source: Complied by SIR from the company IR material.

The downward revision to this medium-term management plan was based on a new development related to the FY2022 Dispensing Fee Revisions by MHLW, which stipulated that dispensing pharmacies with more than 300 stores under the same group would be subject to lower dispensing fees. The Company's dispensing pharmacy store count had just surpassed 300 stores in FY2025/5, which means it inevitably will be affected by the new revisions this fiscal year.

In November 2023, Suzuken acquired 19% of outstanding shares of Pharmarise HDS from an investment fund and concluded a capital and business alliance with the Company, and increased to 20% as of January 2024. Suzuken's core business is wholesale drug sales, and it also possesses a chain of 572 dispensing pharmacies (as of September 2023), and thus, collaboration between Suzuken and the company is expected to have a positive impact on its FY25/5 earnings. As mentioned earlier, the Company acquired the GOOD AID Group in January 2024 and the Nagisa Group in December 2024, making them wholly owned subsidiaries. As a result, a total of 92 pharmacies were added to the Company's store network.

It seems that during the period of the current medium-term management plan up until this announcement, doctor visits at medical institutions and number of prescriptions did not increase and the size of M&As remained small because of the COVID-19 pandemic, but there are some expectations that that company will grow more dynamically as the flow of people and economic activity returns to normal after the pandemic.

The next medium-term management plan will likely be announced together with FY2026/5 earnings forecast. Various factors pressured the Company into downwardly revising its current medium-term management plan, but SIR expects it to provide a roadmap for turning these challenges into strengths in the next medium-term management plan.

Systems that impact the Company

Dispensing fees system summary

Once a year revisions are made to the NHI drug prices, while once every two years, revisions are made to dispensing fees. The last time revisions were made in June 2024.

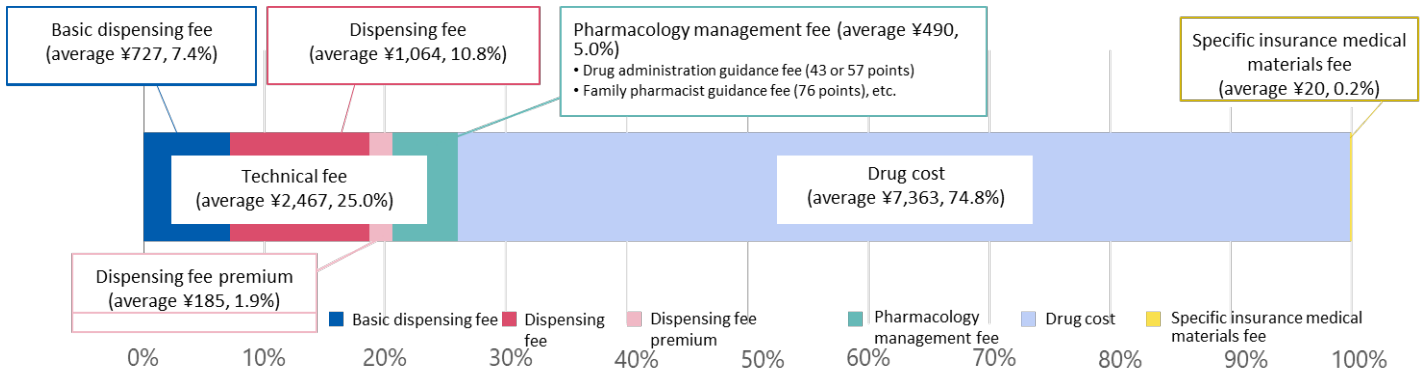
According to 2020 MHLW's materials used for the previous revisions, dispensing-related medical expenses totaled about JPY 7.9 tn, about 3/4 of which drug cost (price of drugs) accounts and about 1/4 of which were technical fees (basic dispensing fee, etc.). That means that roughly speaking 1/4 of the cost of a prescription is dispensing revenue, and 3/4 is the cost of the drugs.

Restating this in per-prescription terms, for the average prescription in FY2023, which costed JPY 9,343, technical fee was JPY 2,540, and the drug cost was JPY 6,785. The earnings of dispensing pharmacies vary depending on the cost of purchasing drugs and the technical fees earned based on the work performed by the pharmacy. The one that Pharmarise HDS is focusing on is the family pharmacist guidance fee, which can be earned by obtaining the consent to serve as a customer's family pharmacist. About 10% of the prescriptions that Pharmarise HDS handles, it does so as a family pharmacist, which pays an additional fee. For small and medium-sized dispensing pharmacies, that percentage is about 1%-3%, which is one point that differentiates Pharmarise HDS. It is expected that the company can earn an additional JPY 170–JPY 310 per prescription by further increasing the number of its customers that it serves as their family pharmacist.

The community support system premium is also important for Pharmarise HDS. The premium is paid to recognize pharmacies that contribute to community health care, and the amount rises as the number of various requirements are met. These requirements include dispensing pharmacies handling customers on holidays and at nights, serving as a family pharmacist, and offering pharmacist home visit service. There is room for Pharmarise HDS to capture greater dispensing fees by expanding its systems to earn these premiums. In addition, the 2024 revision introduced new basic dispensing fees, including the comprehensive home pharmacy system premium and the medical DX promotion system development premium. By adding these premiums, the Company has room to boost its average prescription price.

Building a system to capture various premiums is expected to become more difficult for small and medium-sized dispensing pharmacies going forward, which is another point that will work in favor of the Company as the industry undergoes restructuring.

Breakdown of Per-Prescription Dispensing Fee (Average of JPY 9,849 in FY2020)



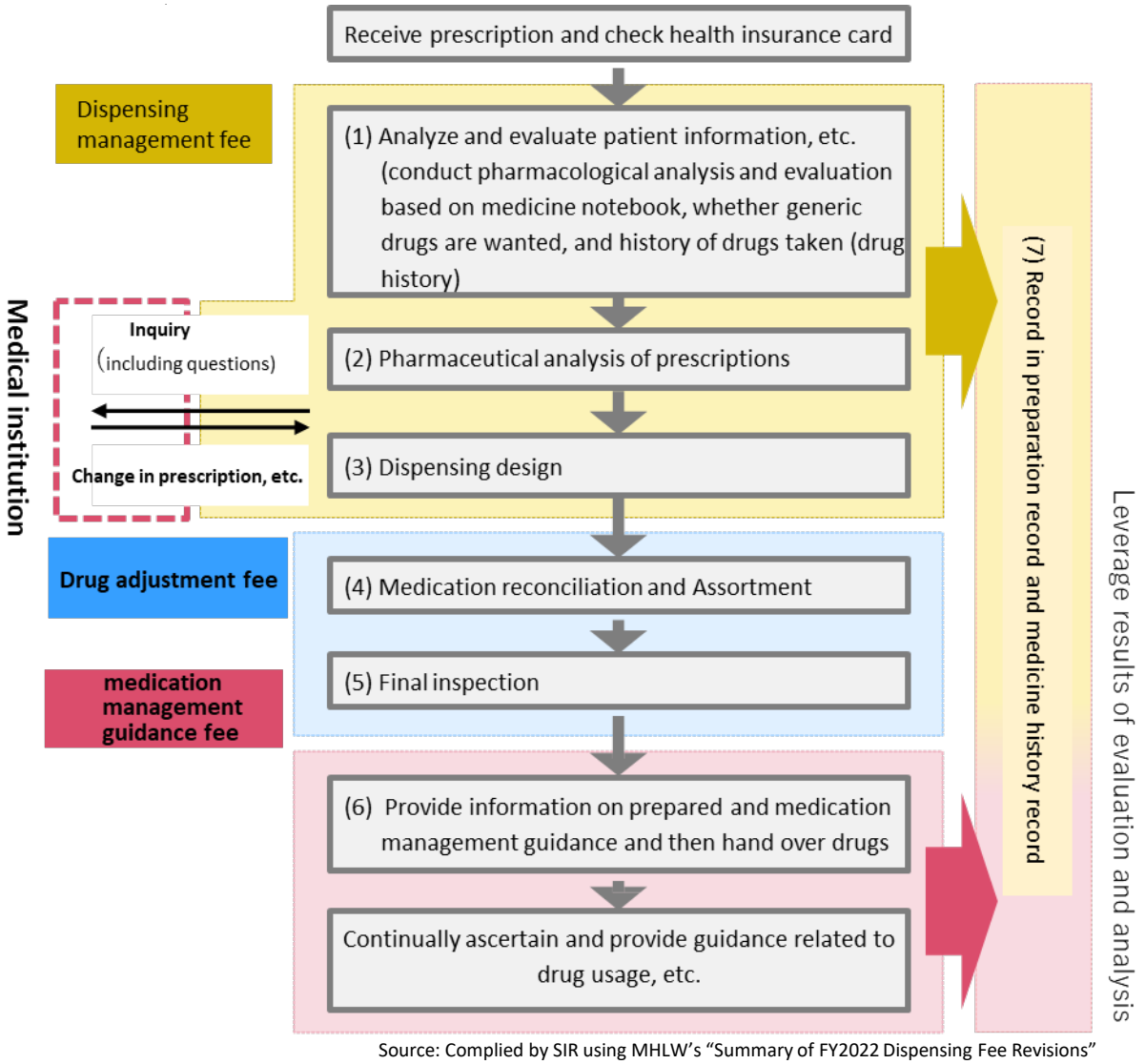
Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"

Types of dispensing fees (technical fee portion)

As noted above, dispensing pharmacies do not merely preserve drugs and supply them to customers. As shown in the following diagram, these pharmacies undertake various operations, including making confirmations, providing information, recording information, and providing guidance. These are reflected as dispensing fees, and broadly categorized as (1) dispensing management fee, (2) drug adjustment fee, and (3) medication management guidance fee. These are insurance points paid for prescriptions, but it is necessary to keep in mind that insurance points are not the same for all dispensing pharmacies. In other words, when a pharmacist who has obtained the consent of a customer to serve as their family pharmacist provides guidance, a medication management guidance fee, which pays higher points, is included. Furthermore, dispensing pharmacies that use a large percentage of generics are paid a generic drug dispensing system premium.

The FY2022 Dispensing Fee System Revisions extol a shift "from 'pharmacies located near medical institutions' to 'family pharmacies' and then 'community pharmacies'" as its "Vision of Pharmacies for Patients," and demands that dispensing pharmacies not only prepare and provide drugs but also provide personal service that includes guidance for customers and follow up and contribute to community health care.

Dispensing Workflow at Pharmacies (FY2022 Revisions)



Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"

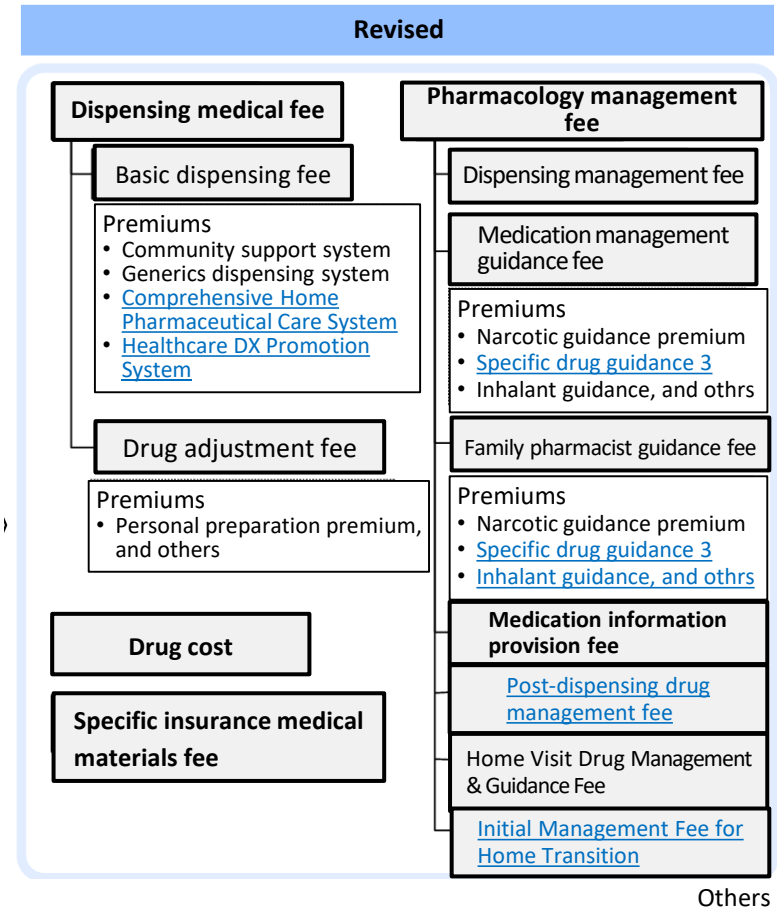
System of dispensing fee premiums

Fiscal 2024 Dispensing Fee System revisions include an important policy that is expected to be seismic shift in the dispensing pharmacy industry. In addition to extoling a shift "from 'pharmacies located near medical institutions' to 'family pharmacies' and then 'community pharmacies'," the MHLW "Vision of Pharmacies for Patients" outlines such changes as an increase in technical fee if consent to serve as family pharmacist is obtained and payment of a premium based on creating a community support system. Within the dispensing pharmacy industry, this will make it difficult for small and medium-sized chains to differentiate themselves and earn insurance points by only serving as a pharmacy near a medical institution.

In other words, dispensing pharmacies that are keen on contributing to local health care will benefit by earning various insurance points, although upfront investments are required. It will also likely make it possible for dispensing chains that are larger and can earn premiums by establishing systems different from the current dispensing system to differentiate themselves.

It can be argued that Pharmarise HDS, one of the major chains, possesses a system through which it actively earns additional points. One can also say that the company is steadily making progress with preparations necessary to add small and medium-size pharmacies into its network as industry consolidation approaches.

Revision to Pharmacy/Pharmacist Operations Evaluation System



Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"
Note：Items in blue border are new items

Classifying as a Large Group, once the number of stores exceeds 300

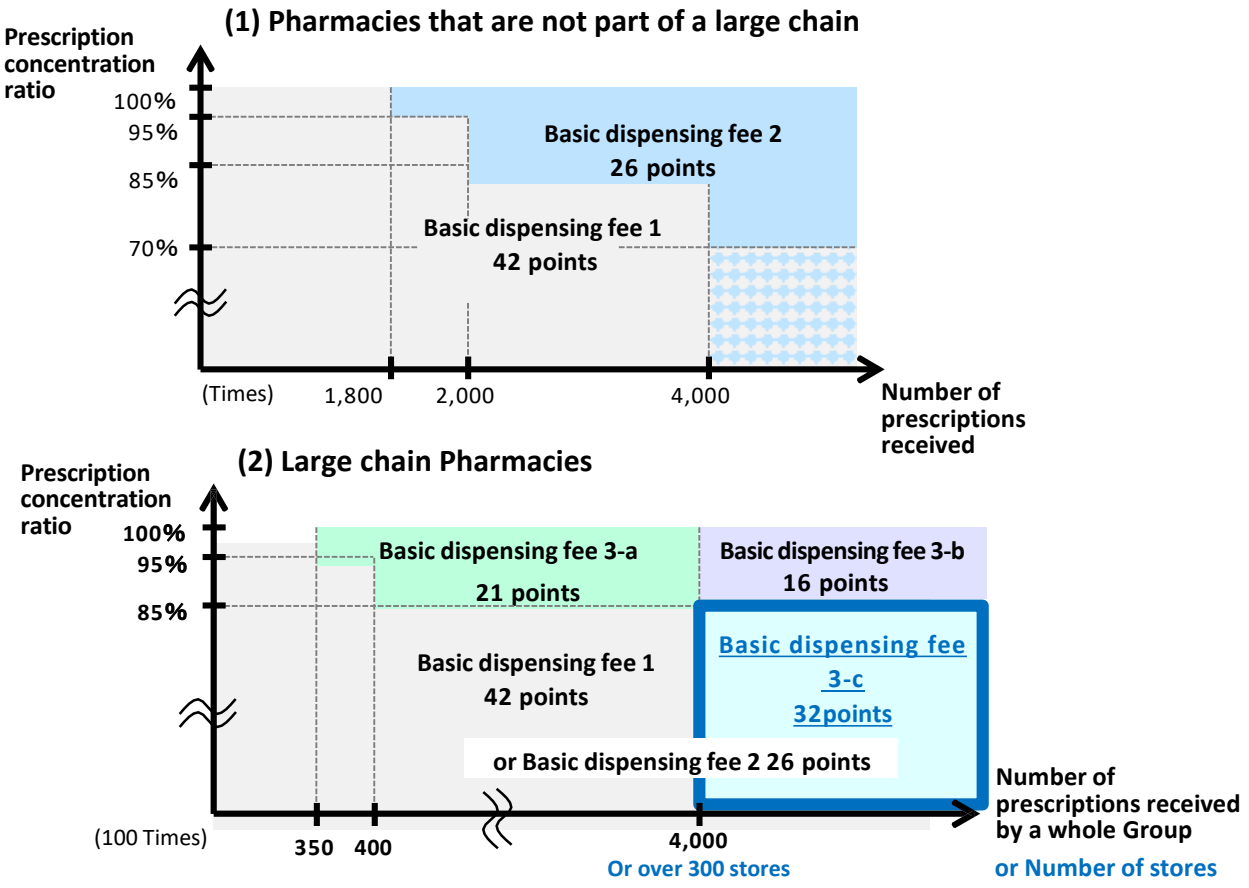
Fiscal 2022 revisions to the payment system for medical services lowered the number of basic dispensing fee points provided to large chains with more than 300 pharmacies. As a result, except for ones serving areas with few medical care resources, large dispensing pharmacy chains with more than 300 pharmacies are not paid basic dispensing fee 1 and 2 but earn 32 points and 16 points (see the following diagram). Furthermore, some of the ones that previously earned 42 points will earn 32 points.

These changes appear to reflect aspects that can be done more efficiently as dispensing pharmacy chains grow in size, but because Pharmarise HDS is trying to achieve the target of more than 300 stores in FY24/5, the revisions will temporarily have a negative impact on its FY25/5 earnings.

That target is an important milestone toward the company's goal of additional growth as a large chain, and the negative impact will probably be temporary. Accordingly, under the current medium-term management plan ending in FY2025/5, the Company projects a net loss in FY2025/5, as it does not expect to be able to absorb this loss and other negative factors.

SIR considers the capital and business alliance with Suzuken, which Pharmarise HDS announced in November 2023, a key element that will determine the company's future direction. Through its pharmacy business, Suzuken has a large chain with more than 572 stores (as of September 2023), and because it is also actively implementing a DX, focus is on future joint initiatives between Suzuken and Pharmarise HDS.

Revision to Basic Dispensing Fee for Large Group Pharmacies



Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"

Current Financial Results

Quarterly Financial Results

JPY mn, %		Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS
FY24/05	Q1	13,471	4.7%	331	-4.9%	331	(-2.9%)	123	10.8%	13.1
	Q2	13,477	4.6%	379	68.4%	370	64.4%	150	TB	12.8
	Q3	13,726	5.7%	153	-52.6%	98	(69.8%)	-96	TR	-8.2
	Q4	13,792	3.7%	53	-90.2%	34	(93.7%)	-528	TR	-47.0
FY25/05	Q1	15,231	13.1%	52	-84.3%	23	(93.1%)	-131	TR	-11.7
	Q2	**15,313**	**13.6%**	**48**	**-87.3%**	**6**	**(98.4%)**	**18**	**-88.0%**	**1.6**

Source: Complied by SIR from the company IR material. TR= Turn Red. TB=Turn Black.

Q2 FY2025/5 earnings result summary

In terms of recent results, Pharmarise HDS has reported four consecutive quarters of higher sales but substantially lower profits from Q2 FY2024/5 to Q2 FY2025/5. Its operating margin has fallen from 2.8% to 0.3% in Q2 FY2025/5. There are several Company-specific factors behind this.

The details will be discussed on the next page, but the main reason is that temporary and structural factors came together in the core dispensing business. While the Company will incur integration costs for the GOOD AID Group and the average prescription price will drop owing to its store count exceeding 300 stores, the addition of other premiums will likely push the average prescription price up from the next fiscal year onward. On the other hand, the cost of purchasing drugs (from pharmaceutical companies) may continue to rise in the future owing to the annual NHI drug price revisions. This is because even when a dispensing pharmacy purchases drugs at a certain discount, the per-unit profit of the drug will fall if the NHI drug price (the price at which the drug is sold at the pharmacy) falls as a result of the NHI drug price revision.

SIR believes the Company plans to improve the operational efficiency of the stores it has taken over and continue raising the average prescription price by adding dispensing technical fees.

H1 FY25/5 Operating profit factor analysis (YoY, JPY mn)



Source: Complied by SIR from the company IR material.

The following is a detailed breakdown of the factors contributing to the YoY decline in operating profit mentioned on the previous page.

The first factor is the cost of integrating the GOOD AID Group, which the Company acquired and included in its scope of consolidation from FY2025/5. Many of these costs would have run its course with the completion of system integration by March 2025, which should help reduce costs for the GOOD AID Group.

The second factor is that the Company is increasing its personnel expenses, particularly for pharmacists, in line with the intentions of the MHLW. When this is added to the cost of stores acquired through M&A deals (excluding GOOD AID Group stores) and new stores opened, minus the cost of stores closed, the net increase in costs comes out to around JPY 180 mn for H1 FY2025/5.

The third factor is the rise in the cost of purchasing drugs. This is likely also a result of the drug shortage that has persisted for the past year or so, and had a negative impact of around JPY 110 mn in H1 FY2025/5.

The fourth factor is that the Company's dispensing pharmacy store count has exceeded 300 stores in FY2025/5. As the basic dispensing fee for chain stores with more than 300 stores is subject to a reduction, the Company has felt the impact of this in FY2025/5. The drop in unit prices, including drug prices, had a negative impact of around JPY 330 mn in H1 FY2025/5, which the Company mostly offset with a positive impact of around JPY 290 mn from higher prescription volume. As a result, it managed to minimize the net negative impact on operating profit from prescriptions to around JPY 39 mn in H1.

These special factors have combined to bring down the operating margin of the Company's dispensing pharmacy business, which would normally be around 3-4%, to below 1% over the past year or so.

To put it another way, investors can expect to see some improvement in the above-mentioned special factors from FY2025/5 onward. Specifically, integration costs for the GOOD AID Group will come in lower, drug purchasing terms for the Pharmarise Group will improve, and store operations are expected to improve.

Furthermore, the drop in average prescription price resulting from the Company's store count exceeding 300 stores (expected to be around JPY 500-600 mn for FY2025/5) is unlikely to negatively impact results in FY2026/5. Instead, SIR believes that dispensing technical fees will gradually increase on the back of management efforts. In addition, the significant increase in personnel expenses seen in FY2025/5 will likely level off in FY2026/5. The GOOD AID Group has had a relatively high employee turnover rate in the past, which has led to high recruiting costs, but this will likely stabilize now that the GOOD AID Group has joined the Pharmarise Group.

Share Price Insights

Dispensing pharmacy industry during a historic transition period

The dispensing pharmacy industry is probably in a transition period moving gradually toward massive chains. This has similar implications as when small food product retailers were rapidly replaced by convenience stores.

However, in the case of dispensing pharmacies, the fact that dispensing fees (technical fees) depend on the size of pharmacies and the existence of pharmacies located near medical institutions would be probably the reasons that the shift toward chains in the pharmacy industry is progressing at a slow pace. Even so, Pharmarise HDS believes that the shift towards chains will accelerate. This is because that the MHLW's policy extols a shift "from 'pharmacies located near medical institutions' to 'family pharmacies' and then 'community pharmacies'," and for Japan, which is facing a more aged society, dispensing pharmacies that contribute to community health care will grow in importance, and this is not difficult to envision considering their favorable treatment in terms of insurance points.

The Company has been preparing for expansion over the past few years. In addition to the 38 stores under the GOOD AID Group, 54 stores from the Nagisa Group will also be added to the Pharmarise Group in FY2025/5. The Company plans to transfer its know-how to stores that have not been able to adequately invest in DX or efficiency improvements to date in order to quickly boost efficiency and profitability.

However, a number of factors have contributed to the recent slump in performance, including the upfront investment associated with M&A deals, securing human resources by raising personnel expenses, and the reduction in basic dispensing fees caused by surpassing the 300-store mark. For the time being, investors must monitor how much the Company's performance recovers in FY2026/5, but SIR believes that its performance will recover centered on the dispensing pharmacy business, with the absence of the irregular cost increases seen in FY2025/5.

SIR believes that Pharmarise HDS can create upside potential for its share price as it aims to achieve investment returns that exceed its cost of capital by expanding its chain of dispensing pharmacies and increasing the number of insurance points it receives. Furthermore, a return to the Tokyo Stock Exchange's Prime Market may also be on the horizon when the Company is able to make this happen.

Valuation comparison of peers

TSE Code	Company Name	Mkt Cap. (JPY mn)	PER (X)	PBR (X)	EV/EBITDA (X)	OPM (%)	ROE (%)	ROIC (%)	Payout ratio (Act.) (%)	DY (Act.) (%)
2796	**Pharmarise Holdings**	**7,779**	**-**	**1.0**	**6.2**	**1.7**	**-**	**2.4**	**-**	**3.1**
9627	AIN HOLDINGS	211,506	18.3	1.5	5.3	5.1	8.7	9.2	24.6	1.3
3341	NIHON CHOUZAI	49,180	18.6	0.8	4.2	2.7	4.4	5.8	29.3	1.6
3034	Qol Holdings	68,741	13.5	1.2	5.2	4.6	9.6	5.6	22.9	1.7
4350	MEDICAL SYSTEM NETWORK	20,377	10.4	1.3	5.8	3.3	12.6	5.0	19.1	1.8
3353	Medical Ikkou Group	9,503	8.4	0.7	4.8	3.9	8.2	4.3	16.3	1.9
7129	Miahelsa Holdings	2,651	441.8	0.8	4.9	1.7	0.2	4.2	1,250.0	2.9

Source: Compiled by SIR from SPEEDA data. (As of February 13, 2025)

Income Statement

JPY mn, %	FY2018/05 Full year	FY2019/05 Full year	FY2020/05 Full year	FY2021/05 Full year	FY2022/05 Full year	FY2023/05 Full year	FY2024/05 Full year	FY2025/05 CE
Total Revenue	**54,562**	**51,728**	**51,030**	**52,324**	**51,608**	**52,030**	**54,466**	**64,734**
Total Cost of Sales	46,612	44,386	43,593	44,257	43,491	43,896	46,017	
Cost of Sales	46,612	44,386	43,592	44,256	43,491	43,896	46,017	
Gross Profit	7,950	7,342	7,437	8,067	8,117	8,134	8,449	
Gross Margin	14.6	14.2	14.6	15.4	15.7	15.6	15.5	
Selling, General and Administrative Expenses	6,771	6,702	6,402	6,821	6,596	6,695	7,533	
Operating Profit	**1,179**	**640**	**1,034**	**1,246**	**1,520**	**1,438**	**916**	**350**
Operating Profit Margin	2.2	1.2	2.0	2.4	2.9	2.8	1.7	0.5
Non-Operating Income	109	132	122	448	153	76	51	
Interest and Dividends Income	6	3	2	2	2	2	1	
Non-Operating Expenses	195	181	133	405	156	82	135	
Interest Expenses	106	82	74	75	65	55	66	
Income from Equity Method - Non-Operating	(39)	(14)	(17)					
Ordinary Profit	**1,092**	**590**	**1,023**	**1,288**	**1,517**	**1,431**	**833**	**143**
Ordinary Profit Margin	2.0	1.1	2.0	2.5	2.9	2.8	1.5	0.2
Extraordinary Gains/Losses	(678)	(190)	(204)	(86)	(195)	(381)	(689)	
Extraordinary Gain	1	7	63	26	23	137	63	
Extraordinary Loss	679	197	267	112	218	518	752	
Pretax Profit	414	400	819	1,202	1,322	1,049	143	
Pretax Profit Margin	0.8	0.8	1.6	2.3	2.6	2.0	*0*	
Income Taxes	622	409	238	782	863	702	487	
Income Taxes - Current	609	391	469	764	816	749	658	
Income Taxes - Deferred	13	18	(231)	18	47	(47)	(171)	
Net Profit Attribute to parent company shareholders	(28)	23	577	426	447	333	**(351)**	**(214)**
Net Profit	(208)	(10)	580	419	458	347	(342)	
Net Profit Attribute to non-controlling shareholders	(179)	(33)	3	(6)	10	14	9	
Net Profit Margin (Attribute to parent company shareholders)	(0.1)	0.0	1.1	0.8	0.9	0.6	(1)	(0.3)
Other Comprehensive Income	29	(12)	0	(5)	(5)	24	16	
Net Gain on Revaluation of Available-for-sale Financial Assets(CI)	0	(1)	0	0	0	0	0	
Unfunded Retirement Benefit Obligation with Respect to Foreign Consolidated Companies	29	(11)	0	(4)	(4)	24	16	
Comprehensive Income	(178)	(22)	580	414	453	372	(325)	
Comprehensive Income Attributable to Owners of the Parent	0	10	576	421	442	357	(334)	

Source: Compiled by SIR from SPEEDA data.
Note: Figures may differ from the Company's materials due to differences in SIR's financial data processing and the Company's reporting standards.

Balance Sheet

JPY mn, %	FY2018/05 Full year	FY2019/05 Full year	FY2020/05 Full year	FY2021/05 Full year	FY2022/05 Full year	FY2023/05 Full year	FY2024/05 Full year
Total Assets	**24,265**	**24,217**	**25,206**	**24,724**	**23,746**	**23,421**	**29,486**
Current Assets	9,122	9,601	10,676	10,546	10,878	11,372	13,737
Cash Cash Equivalents And Short-term Investments	3,653	4,403	4,472	4,604	3,991	4,742	7,150
Cash & Cash Equivalents	3,653	4,403	4,472	4,604	3,991	4,742	7,150
Accounts Receivables	728	784	967	936	484	611	1,442
Accounts Receivable - Other and Accrued Income	2,193	2,070	2,366	2,159	3,786	3,412	2,117
Inventories	2,106	2,115	2,644	2,587	2,302	2,290	2,645
Finished Goods and Merchandise	2,050	2,059	2,577	2,512	2,237	2,225	2,576
Other Inventories	56	56	67	75	65	65	69
Deferred Tax Assets - Current	179						
Allowance for Doubtful Accounts - Assets	(57)	(4)	(10)	(10)	(5)	(6)	(6)
Non-Current Assets	15,135	14,608	14,524	14,175	12,866	12,048	15,748
Property, Plant & Equipment (PPE)	6,503	6,290	6,332	6,434	6,355	6,010	6,198
Lands	2,620	2,547	2,567	2,607	2,616	2,587	2,659
Construction In Progress	178	62	130	180	115	30	14
Intangible Assets	5,642	5,175	5,285	4,464	3,629	3,250	6,419
Goodwill	5,345	4,874	4,697	4,025	3,220	2,748	5,917
Investments and Other Assets	2,990	3,141	2,906	3,276	2,881	2,787	3,130
Investment Securities (inc. Subsidiaries and Affiliates)	448	444	68	61	60	82	67
Investment Securities	448	444	68	61	60	82	67
Long-Term Loans	31	27	10	2	1	1	0
Deferred Tax Assets - Non-Current	381	549	802	786	741	778	834
Allowance for Doubtful Accounts - Fixed	(130)	(130)	(193)	(164)	(164)	(152)	(192)
Deferred Assets	7	8	4	2	1	0	
Total Liabilities	**18,640**	**18,597**	**19,259**	**18,392**	**17,047**	**16,433**	**22,043**
Current Liabilities	10,769	9,347	10,036	9,392	8,477	9,835	10,688
Trade Payables	5,456	5,023	5,192	4,609	4,109	4,252	5,690
Accounts Payable - Other and Accrued Expenses	580	537	514	652	662	760	842
Short-Term Debt	3,603	2,943	3,096	2,819	2,490	3,677	2,831
Short-Term Borrowings	0	0	20	0	0	0	0
Current Portion of Long-term Debt	3,603	2,943	3,076	2,819	2,490	3,677	2,831
Current Portion of Long-Term Borrowings	3,449	2,789	2,948	2,792	2,490	2,195	2,831
Current Portion of Straight Bonds	154	154	128	27		1,482	
Non-Current Liabilities	7,870	9,250	9,223	9,000	8,570	6,598	11,355
Long-Term Debt	6,947	8,195	8,133	7,878	7,422	5,461	9,918
Long-Term Borrowings	6,638	6,558	6,624	6,396	5,940	5,461	9,918
Straight Bonds	309	1,637	1,509	1,482	1,482		
Deferred Tax Liabilities - Non-Current	2	2					
Provision for Retirement Benefits	521	605	676	708	781	791	941
Asset Retirement Obligations - Non-Current	83	100	103	108	111	111	233
Total Net Assets	5,624	5,619	5,946	6,331	6,699	6,987	7,442
Total Shareholders' Equity	5,437	5,466	5,909	6,221	6,608	6,882	7,362
Shareholders' Equity	5,279	5,287	5,693	6,013	6,405	6,655	7,118
Capital Stock	1,174	1,229	1,229	1,251	1,274	1,298	1,961
Capital Surplus	1,252	1,307	1,437	1,476	1,529	1,553	2,177
Retained Earnings	2,852	2,749	3,197	3,494	3,811	4,014	3,530
Treasury Stock			(172)	(208)	(210)	(210)	(550)
Accumulated Other Comprehensive Income	17	4	3	(1)	(6)	17	34
Valuation Difference On Available-for-sale Securities	2	0	0	0	0	0	
Share Warrants	140	173	211	208	208	208	208
Non-controlling interest	187	153	37	110	91	105	80
Loans to Affiliates and Other						20	20

Source: Compiled by SIR from SPEEDA data.
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Statements of Cash Flows

JPY mn, %	FY2018/05 Full year	FY2019/05 Full year	FY2020/05 Full year	FY2021/05 Full year	FY2022/05 Full year	FY2023/05 Full year	FY2024/05 Full year
Cash Flows from Operating Activities	**1,330**	**895**	**1,572**	**1,945**	**713**	**2,520**	**2,714**
Depreciation and Amortization - CF	1,326	1,223	1,228	1,344	1,308	1,224	1,170
Depreciation - CF	626	531	522	606	608	589	613
Amortization of Goodwill - CF	700	692	706	738	700	635	557
Gain/Loss on Valuation of Securities and Investment Securities			1	5			
Gain/Loss on Sale of Securities and Investment Securities	(1)			(1)			(19)
Gain/Loss on Sale of Investment Securities	(1)			(1)			(19)
Gain/Loss on Sale of PPE	2	54	(58)	(1)	16	62	5
Interest and Dividends Received - Operating CF	4	2	0	1	2	1	1
Interest Paid - Operating CF	(108)	(86)	(73)	(75)	(66)	(55)	(71)
Cash Flows from Investing Activities	**(527)**	**(501)**	**(734)**	**(1,076)**	**(292)**	**(703)**	**(3,120)**
Payments for Purchases of Securities and Investment Securities	(5)	(10)					
Payments for Purchases of Investment Securities	(5)	(10)					
Proceeds from Sales of Securities and Investment Securities	6			2			35
Proceeds from Sales of Investment Securities	6			2			35
Purchases/Sales of PPE	(403)	(248)	(327)	(467)	(377)	(348)	(456)
Payments for Purchases of PPE	(403)	(400)	(349)	(508)	(379)	(380)	(472)
Proceeds from Sales of PPE	0	152	22	41	2	32	16
Purchases/Sales of Intangible Assets	(2)	(58)	10	(44)	(87)	(162)	(147)
Payments for Purchases of Intangible Assets	(2)	(58)	(108)	(44)	(87)	(162)	(147)
Proceeds from Sales of Intangible Assets			118				
Cash Flows from Financial Activities	**(894)**	**354**	**(766)**	**(728)**	**(1,034)**	**(1,072)**	**2,771**
Repayments of Short-Term Borrowings		(13)		(20)			
Increase in Long-Term Debt	2,600	3,728	2,600	2,500	2,000	1,700	6,100
Proceeds from Long-Term Borrowings	2,600	2,250	2,600	2,500	2,000	1,700	6,100
Proceeds from Issuance of Bonds		1,478					
Repayments of Long-Term Debt	(3,153)	(3,114)	(2,829)	(2,857)	(2,636)	(2,419)	(2,586)
Repayments of Long-Term Borrowings	(2,999)	(2,960)	(2,675)	(2,729)	(2,609)	(2,419)	(2,358)
Redemption of Bonds	(154)	(154)	(154)	(128)	(27)		(228)
Proceeds from Issuance of Stock		103					
Redemption/Retirement of Stock			(173)	(36)	(2)		(340)
Cash Dividends Paid	(126)	(125)	(129)	(129)	(131)	(131)	(127)
Changes in Cash & Cash Equivalent	(91)	749	71	140	(613)	743	2,366
Cash & Cash Equivalent - Beginning	3,734	3,643	4,393	4,464	4,604	3,991	4,734
Cash & Cash Equivalent - Ending	3,643	4,393	4,464	4,604	3,991	4,734	7,100
Free Cash Flow (FCF)	**803**	**394**	**838**	**869**	**421**	**1,817**	**(406)**

Source: Compiled by SIR from SPEEDA data.
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