M3, Inc.
Presentation Material

July 2018



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M3, Inc.

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FY2018 Q1 Consolidated Results

(million yen)	FY2017 Q1	FY2018 Q1	YoY
Sales	21,874	26,898	+23%
Operating Profit	6,643	7,840	+18%
Pre-tax Profit	6,706	7,879	+18%
Net Profit	4,487	5,398	+20%

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FY2018 Q1 Consolidated Results by Segment

(million yen)

			FY2017 Q1	FY2018 Q1	YoY (cumulative)
Domestic	Medical Platform	Sales	6,968	8,788	+26%
		Profit	3,354	3,097	-8%*
	Evidence Solution	Sales	5,407	5,387	-0%
		Profit	1,183	1,292	+9%
	Career Solution	Sales	3,433	4,765	+39%
		Profit	1,447	2,135	+48%
	Other Emerging Businesses	Sales	1,355	2,655	+96%
		Profit	208	283	+36%
Overseas		Sales	5,386	5,996	+11%
		Profit	767	844	+10%

Upfront investment in sales force and new businesses such as AI

Revival of orders and profits at Neues vs. de-consolidation of IDA

Both physician and pharmacist placements healthy

Healthy expansion of future growth drivers

Steady expansion of sales and profit

* Newly consolidated subsidiaries contributed more to sales, upfront investment in personnel

** Due to sale of IDA, and trough in sales at SMO Neues.

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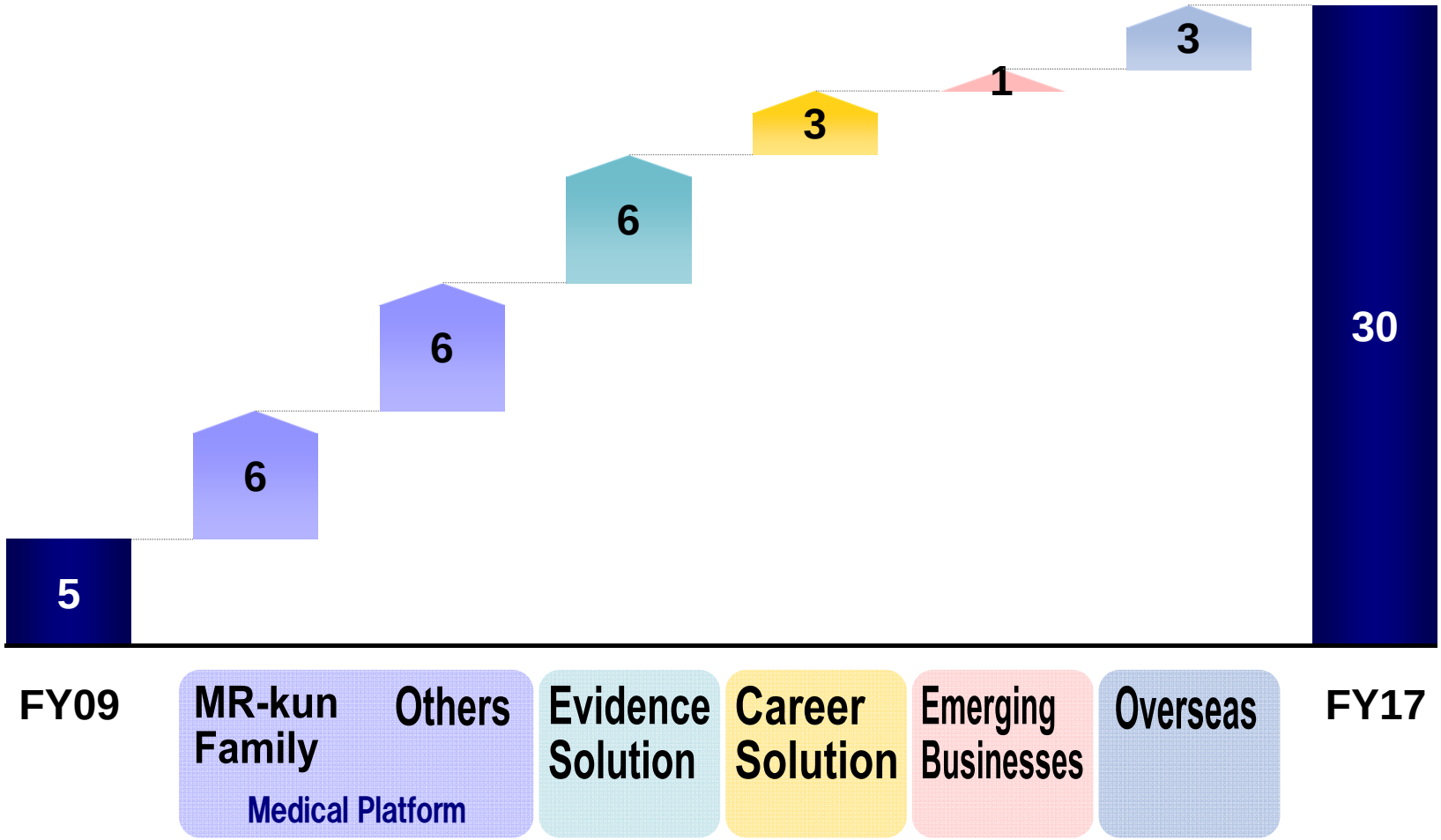
Segment Contribution to Profit Growth (FY09 → FY17)

(billion yen)



☞ **All segments are driving growth. MR-kun family growth continues, however is now only 24% of group profit**

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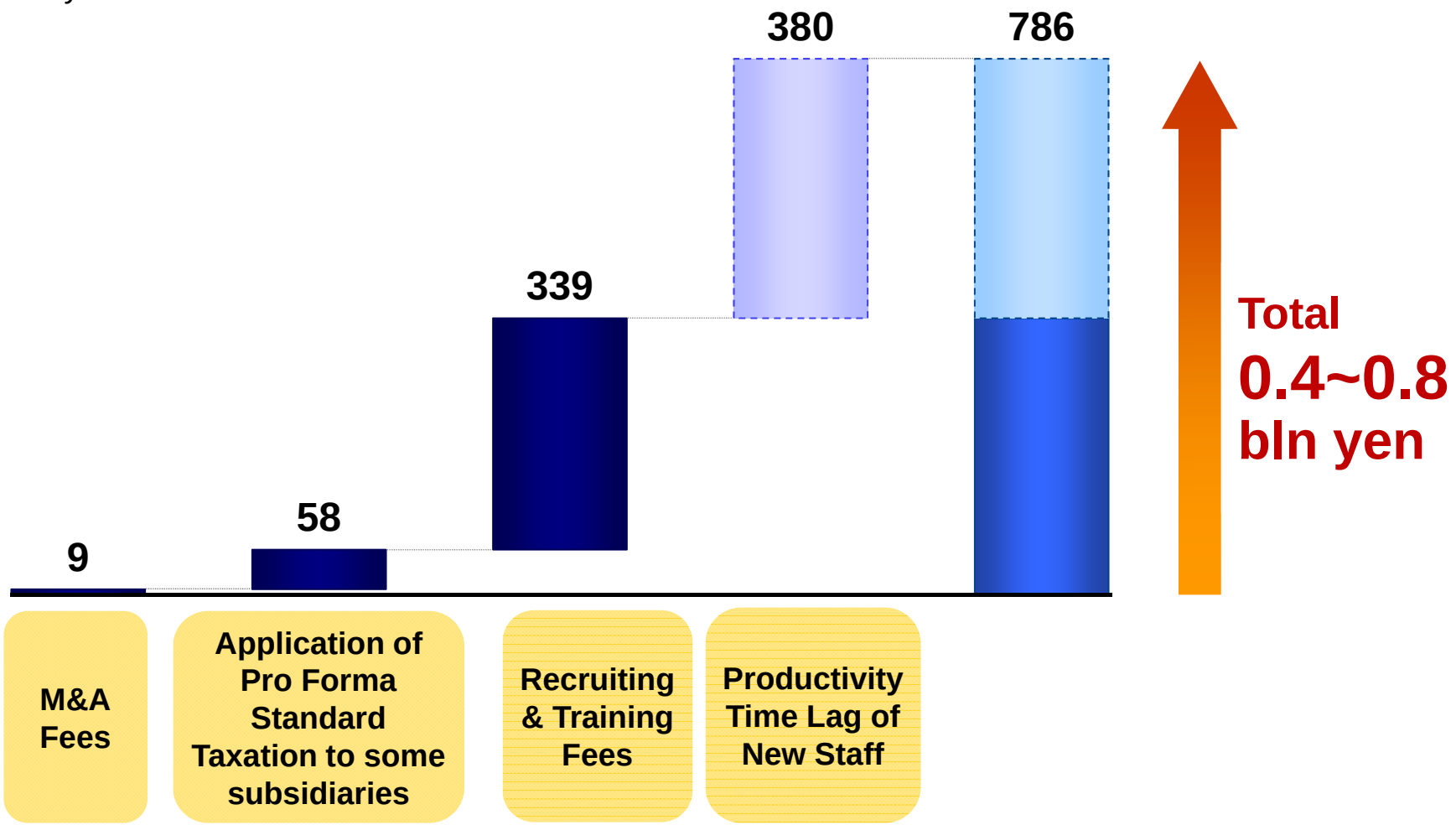
Upfront Investment Costs for Future Growth

Unit: million yen



☞ **Special costs incurred dampened profits by 0.4 ~ 0.8 bn yen. Aggressive upfront investment to continue.**

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FY2018 Q1 Overview

Medical Platform

- Expansion of marketing support business for pharmaceutical and medical device companies drove sales higher by +26% yoy
- Precedent costs in FY18 from aggressive upfront investments (advanced medicine business such as AI, marketing team reinforcements)

Evidence Solution

- Deconsolidation of IDA kept sales at 5.4 bn yen, in line with previous year levels. Profits improved to +9% yoy
- Orders backlog remains at 27 bn yen, with op margins stable at 24%

Career Solution

- Both physician and pharmacist inflow robust, with sales at 4.8 bn yen (+39% yoy) and op. profit at 2.1 bn yen (+48% yoy)

Emerging Businesses

- Acceleration in initiatives within the field of advanced medicine. DuraBeam™ developments proceeding as scheduled
- Next growth drivers such as home care and PSP continue to expand

Overseas

- Continued sales and profit growth with contribution from consolidation of WAKE
- Sales: 6.0 bn yen (+11% yoy), Op. Profit: 0.8 bn yen (+10% yoy)

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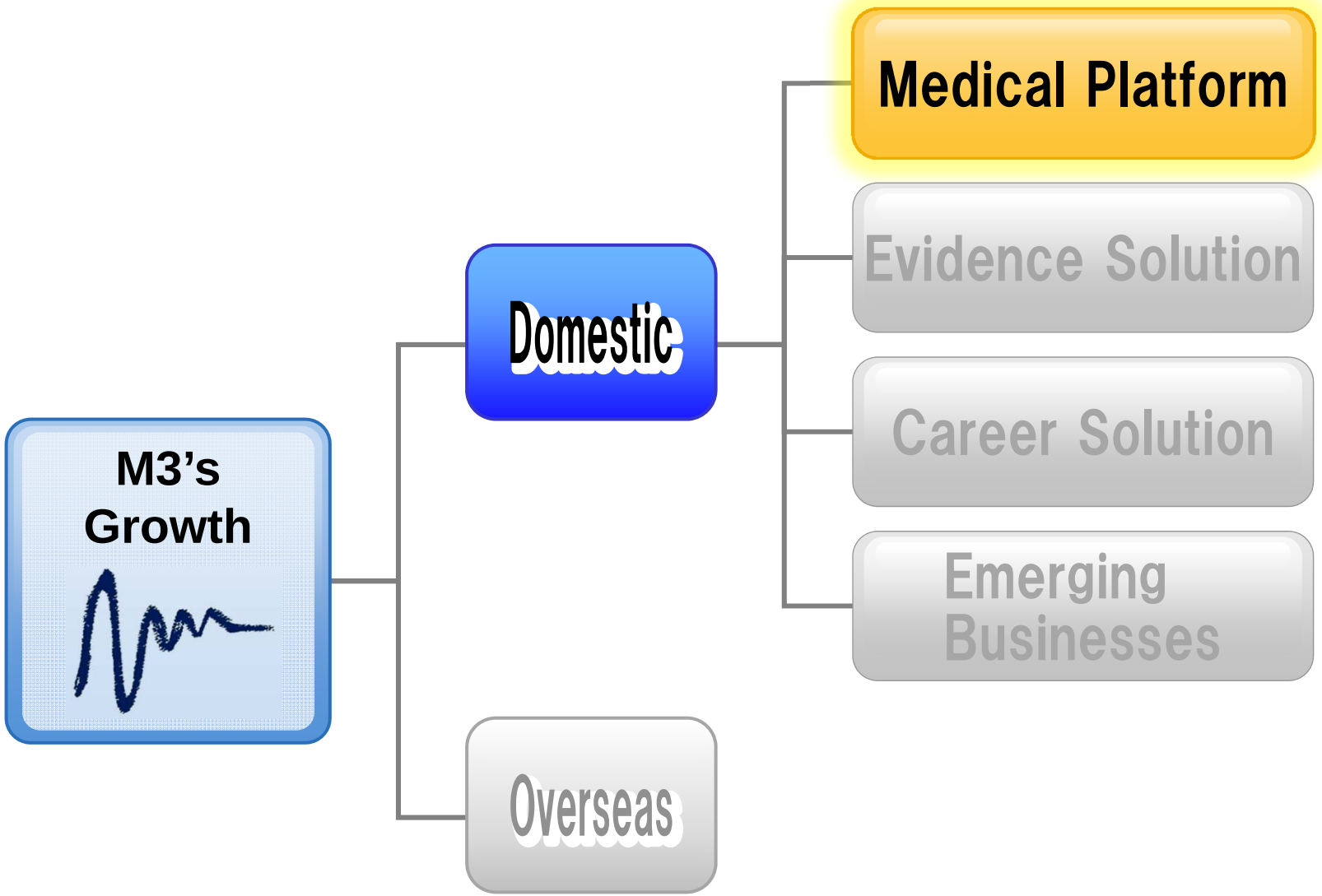

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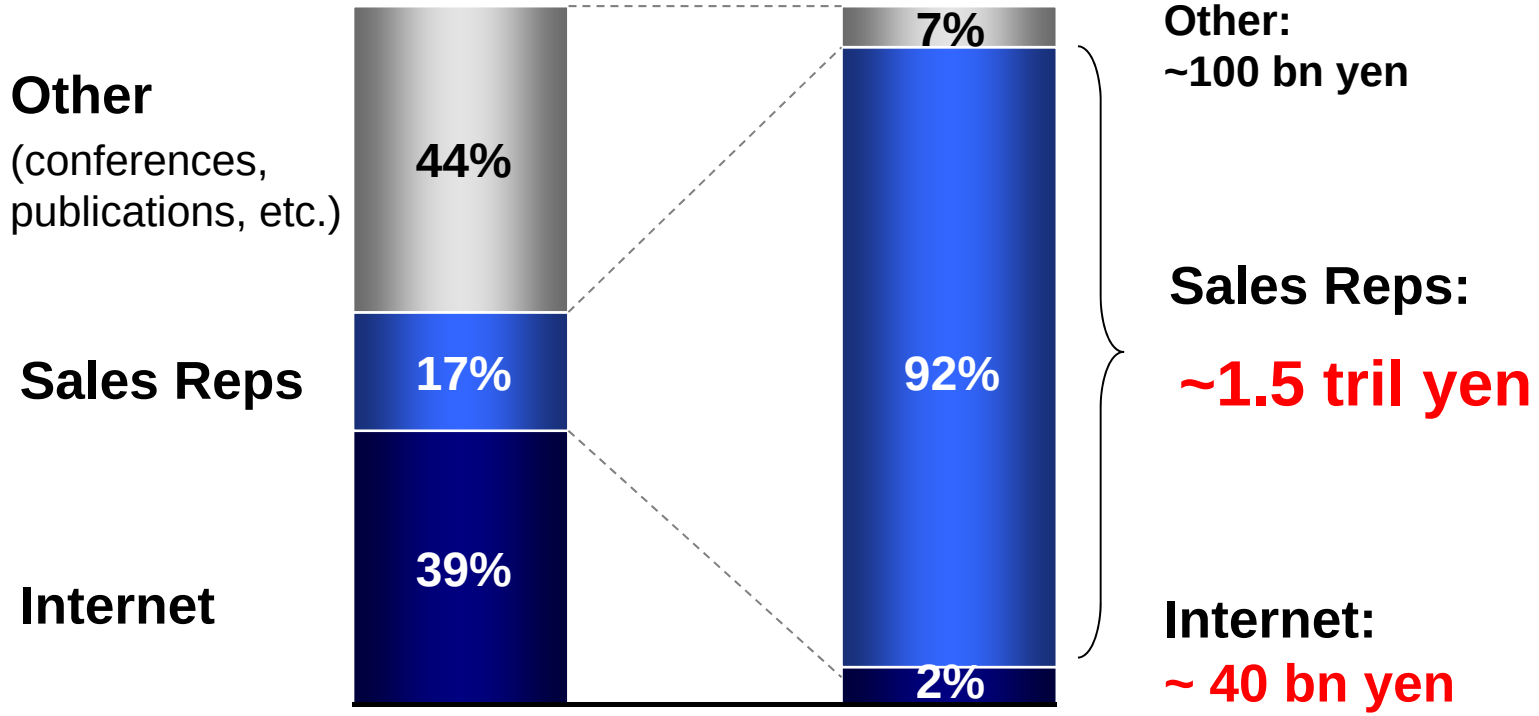
Doctor's Time Allocation vs Pharma's Budget Allocation

Doctors spend the most time collecting information via the Internet. However, pharmaceutical firms operating in Japan spend the majority of their marketing budget on off-line sales rep related costs.

Time Allocation
of doctors collecting info

Marketing Budget Allocation
of drug companies in Japan



Source: M3 research, percentages are approximate

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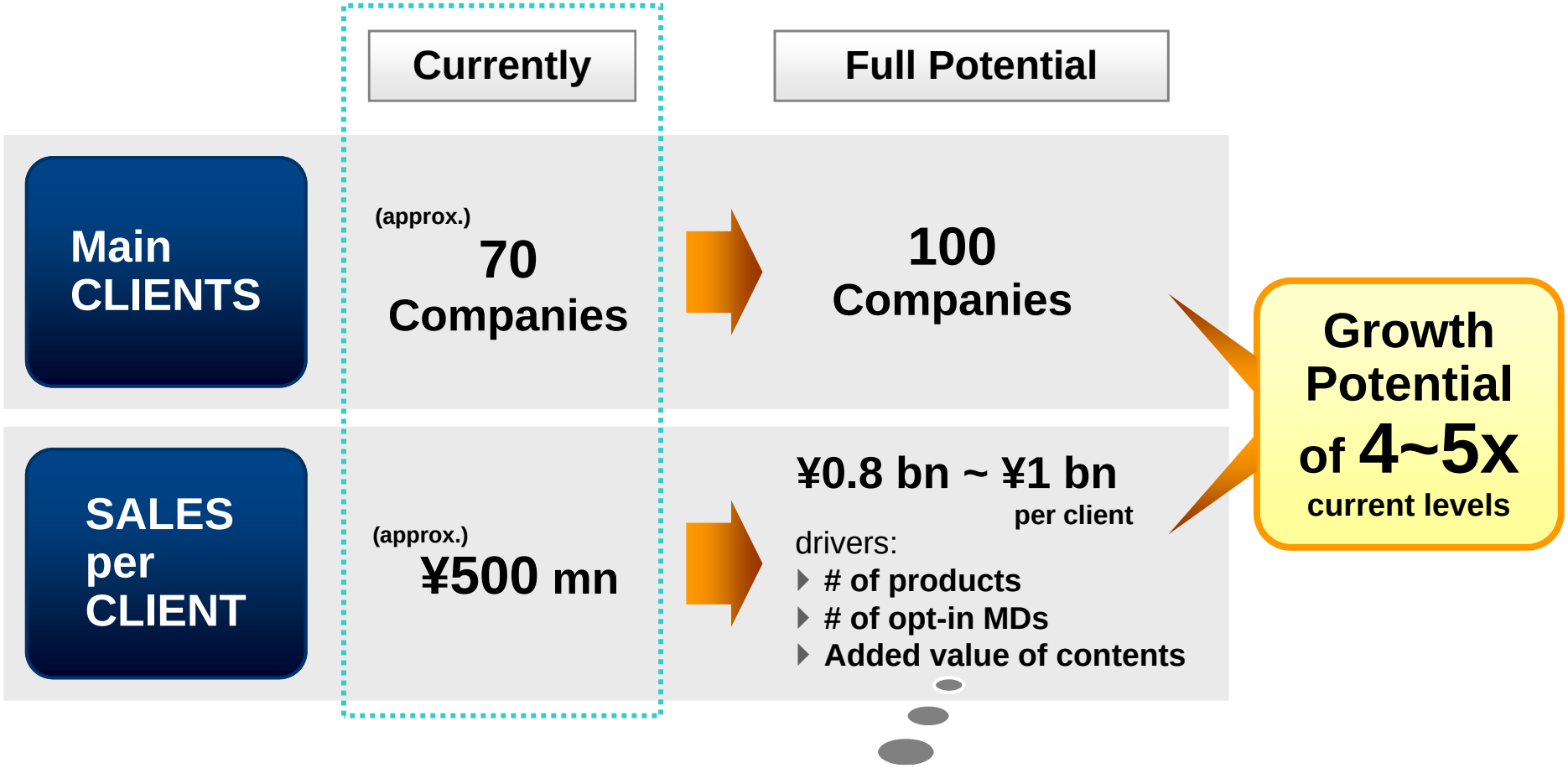
Medical Platform Growth Potential in Japan



In addition to pharma companies, sales from device companies are growing

Sales from Device Companies grew over 2x YoY

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Medical Platform Services

MR-kun
MR-kun Family
Extended Services

Marketing Process at Healthcare Related Companies

	Strategy Planning	Content Production	Message Delivery	Deal Closing
Pharma Company Needs	■ Product strategy development	■ Key message identification and content production	■ Efficient message delivery to the medical scene	■ Product sales expansion
Corresponding Department	■ Corporate Planning ■ Marketing	■ Marketing	■ Marketing ■ Multi-channel Group	■ Sales ■ Corporate Planning
M3 Services	■ M3 Research ■ Mx Data	■ Web Content Creation ■ Agency Business	■ MR-kun ■ Web Conference ■ One Point eDetail	■ CSO ■ Medical Marketer ■ M3 Database

☞ **Expanded service line-up to accommodate a wider range of marketing needs, unlimited to just information delivery (original MR-kun), as a one stop shop**

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Medical Platform Upfront Investment

m3.com

1) Reinforcement of m3.com

Increase in site management team staff by +33%yoy, investment in various new contents and strengthening of mobile capabilities

Pharmaceutical Marketing Support

2) Pharmaceutical Marketing team Reinforcement (Personnel investment)

Team members increased +50% versus FY2017 Q1

3) Transition into Success Based Schemes

Increase proposal sizes, launch of two large scale revenue share projects. Sales and profit upside to follow with large upside potential

New Businesses

4) Upfront Investment in AI Businesses

Priority investment in areas such as in-house engine development and industry standardizing platform launch (DOC+AI)

5) Other New Service Development

Investment in roughly 10 new incubation businesses such as regional medical care, cancer patient sites, regional cooperation support for medical sites, and genome platform

Aggressive investments across the entire Medical Platform

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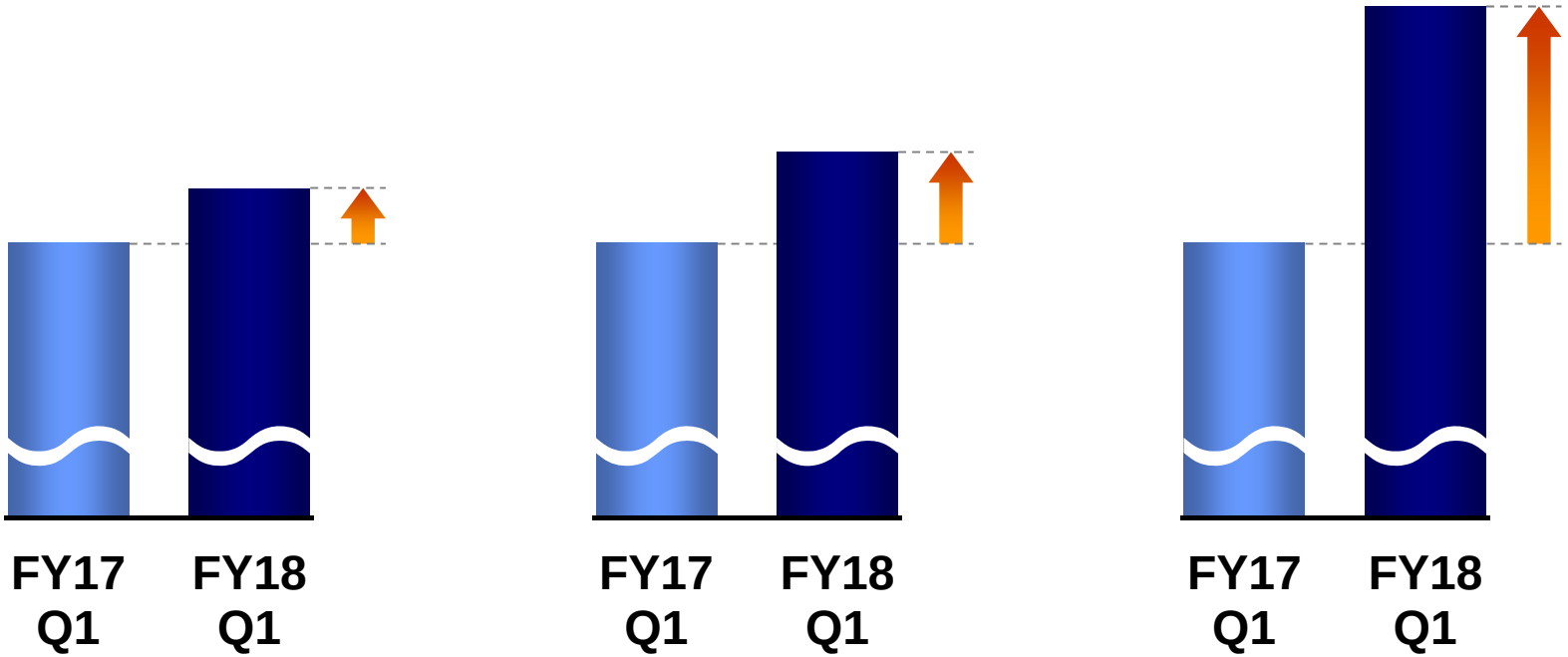
m3.com：Platform Strength Continues to Strengthen

Doctor Membership		Annual Logins		Medical Platform Sales
+6%	<	+10%	<	+26%



☞ **The platform strength growth exceeds that of membership growth, as revenue sources diversify**

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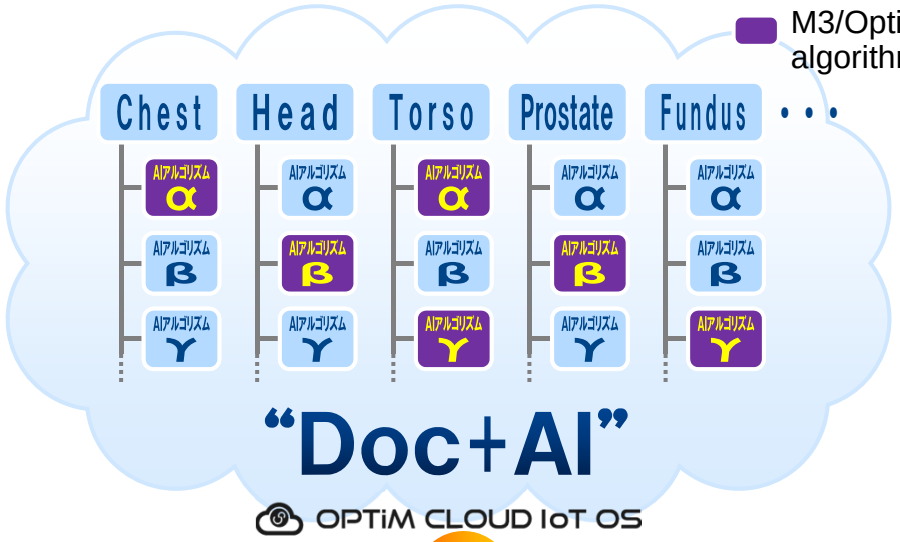
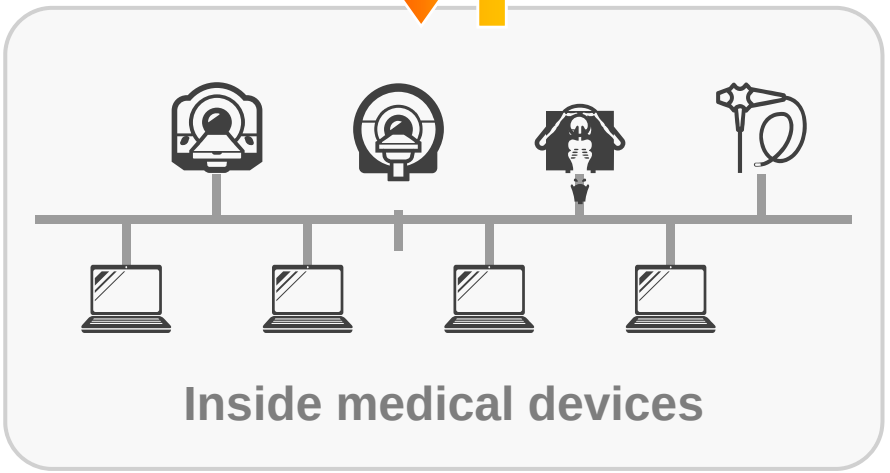
AI Platform “Doc+AI” Development



Cloud Processing



- **In addition to M3/Optim developed algorithms, various lineup of algorithms from external developers will also be made available**
- **NVIDIA and DeepCore cooperative efforts also will benefit**

- **Doctors can freely utilize algorithms from the diagnostic support tool lineup**
- **Ability to select multiple algorithms within a certain body region (head, lung, heart, etc.)**

☞ **Major modality (CT, MRI equipment) makers plan to participate on this platform**

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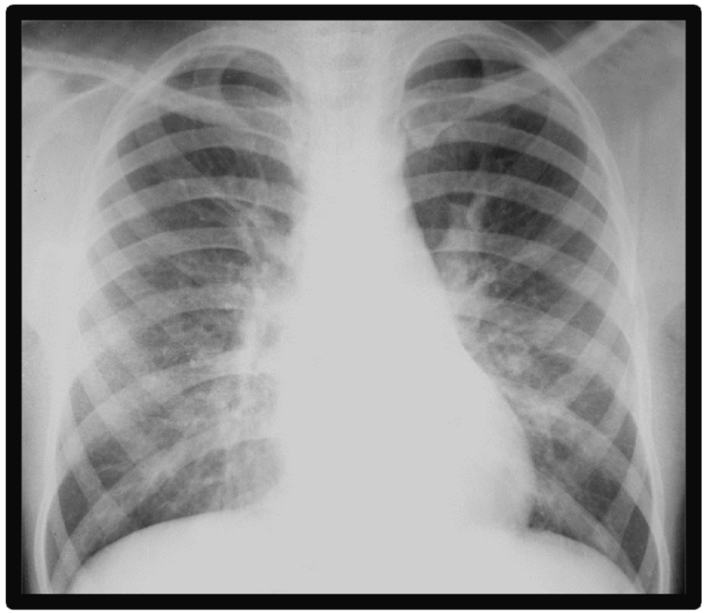
M3 A.I. Diagnostic Engine Accuracy



- **M3's original A.I. diagnostic engine has already reached the highest global standards**
- **A.I. diagnostic accuracy largely depends on the amount of data. M3's ability for collection surpasses that of any competitor**

☞ **Accuracy of A.I. diagnostic engine on par with highest global standards. M3 has largest advantage over data volume accumulation, which dictates A.I. accuracy.**

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Implication of Upfront Investment in Medical PF Businesses

Reference

Million jpy

		FY2016 Q1	FY2017 Q1	YoY
Medical Platform	Sales	6,057	6,968	+15%
	Profit	3,033	3,364	+11%
Evidence Solution	Sales	5,156	5,407	+5%
	Profit	974	1,183	+22%
Career Solution	Sales	3,111	3,433	+10%
	Profit	1,553	1,447	-7%
Overseas	Sales	3,751	5,386	+44%
	Profit	242	767	+216%
Other Emerging Businesses	Sales	621	1,355	+118%
	Profit	165	208	+26%

Upfront investment in the career business last year contributed to strong growth this year (sales +39%, profits +48%)

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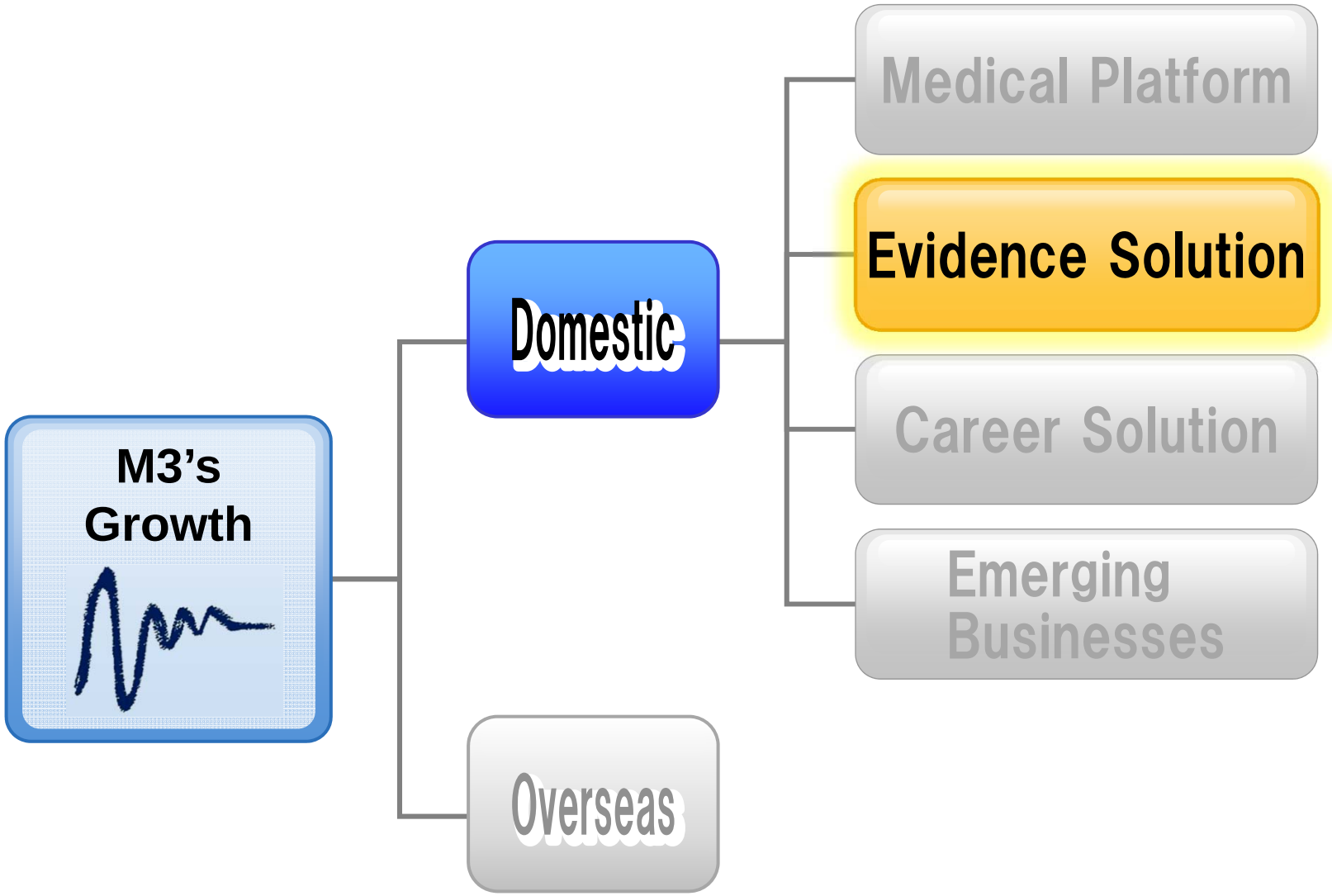

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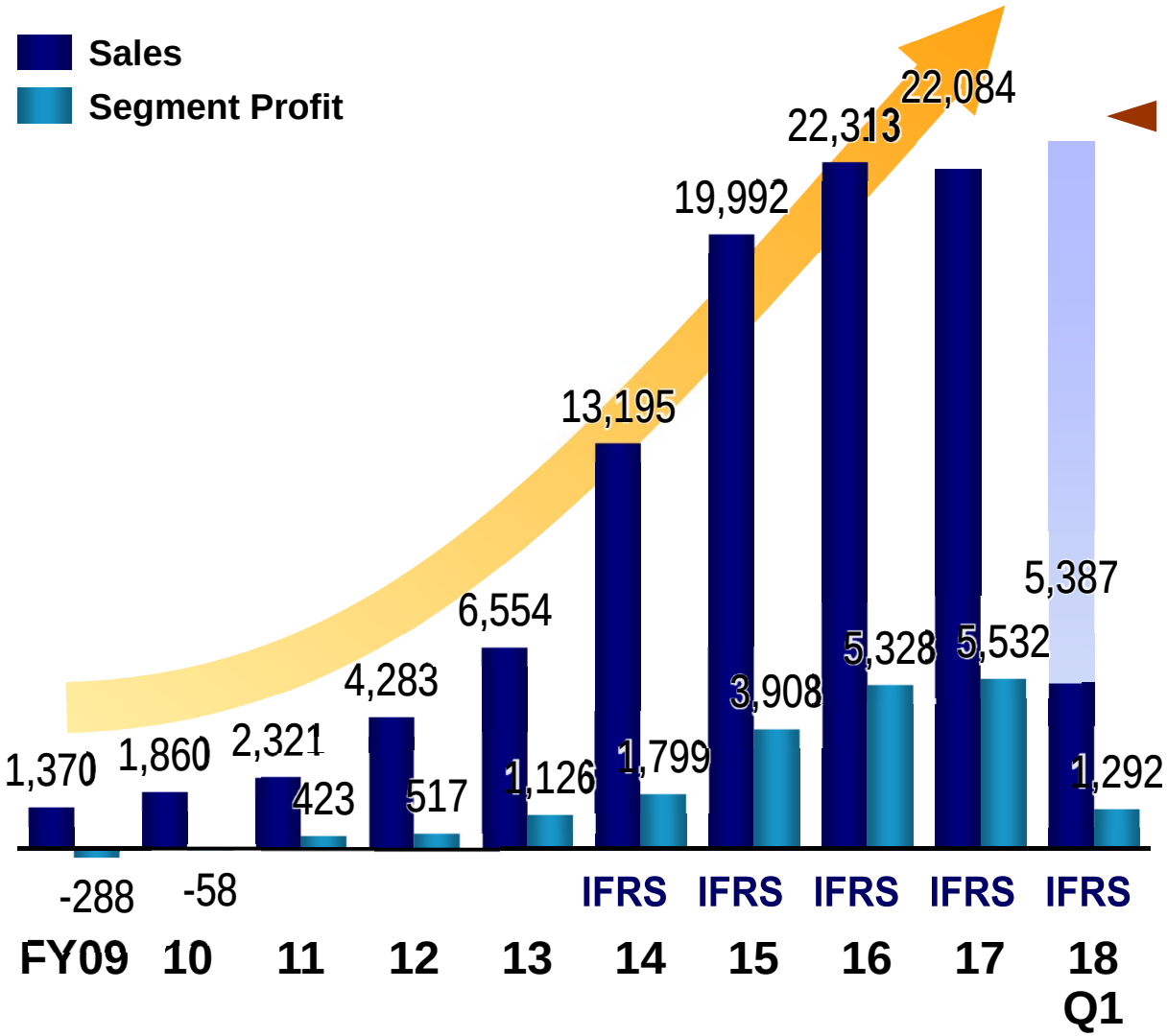
Sales and Profit Trend of Evidence Solution

(million yen)



FY18 FCT
23 bn yen

- **Orders backlog remained around 27bn yen, with upfront personnel investing corresponding to increase in orders**
- **Deconsolidation if IDA resulted in flat sales yoe**
- **Profits expanded as projects progressed and Neues sales and profits recovered**
- **Margins remain high at 24%**

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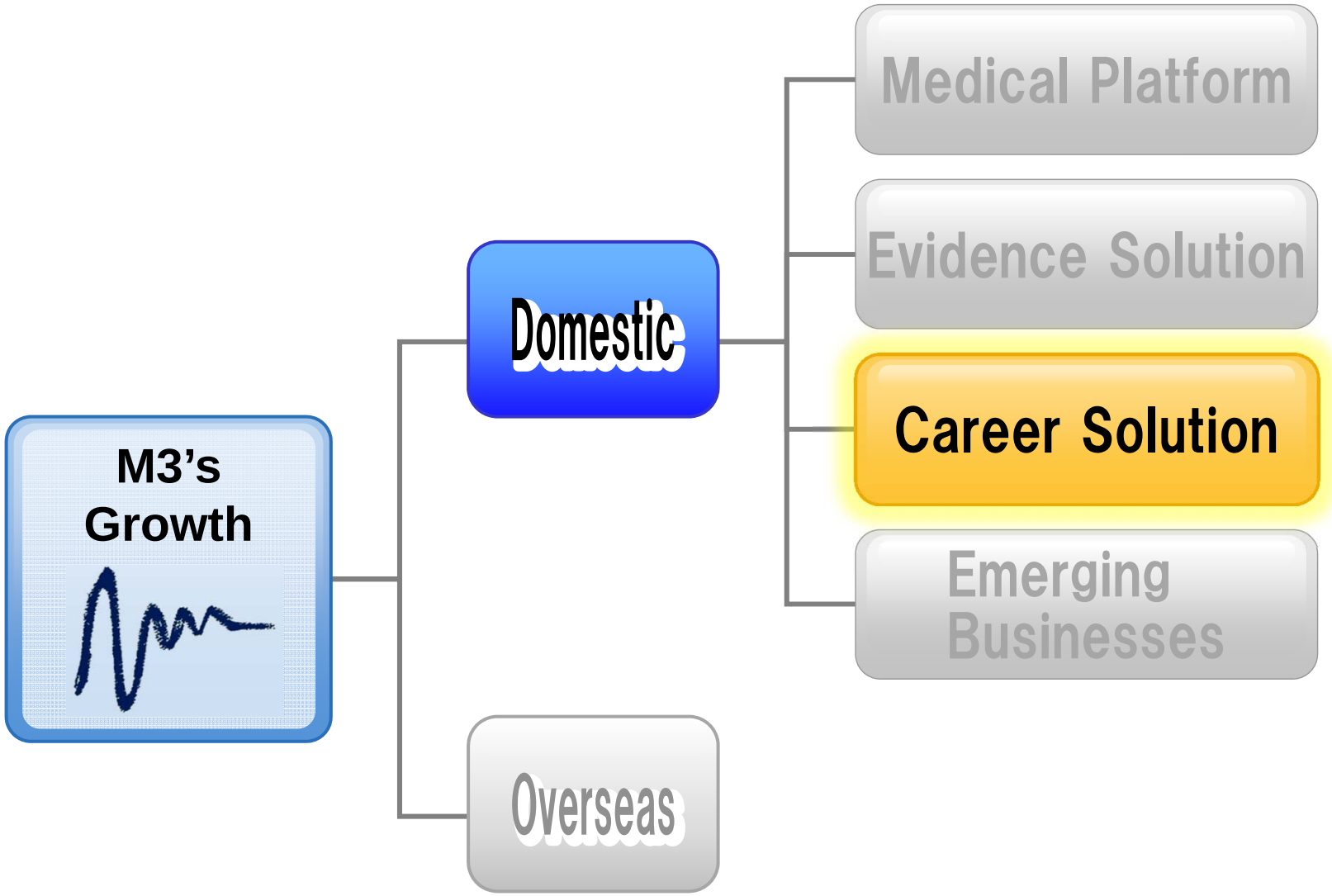

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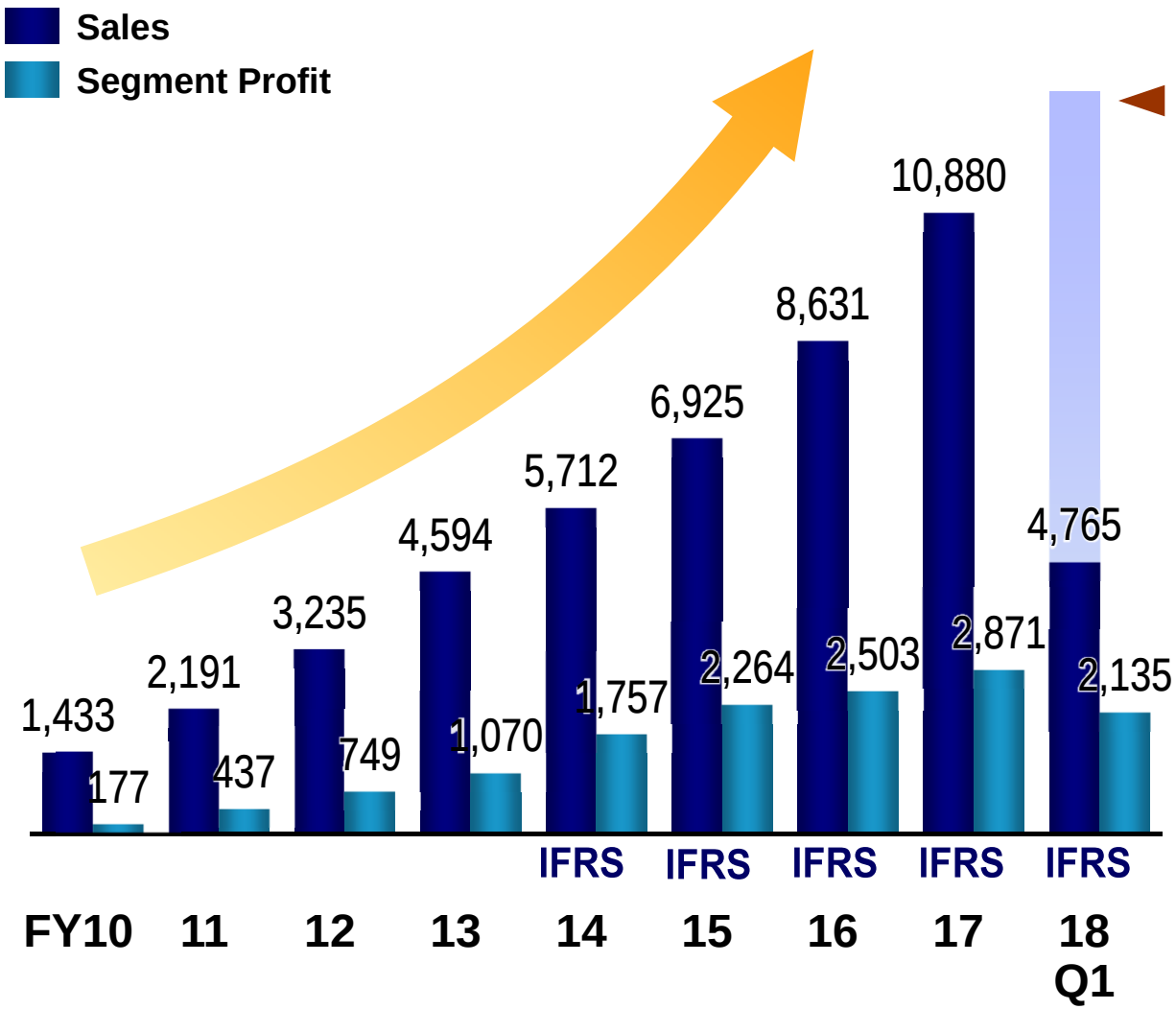
Sales and Profit Trend of Career Solutions

(million yen)



- Sales and profit expansion from increase in staff and productivity
- Fully absorbed hiring impact from FY18Q1, resulting in accelerated growth rate from norm

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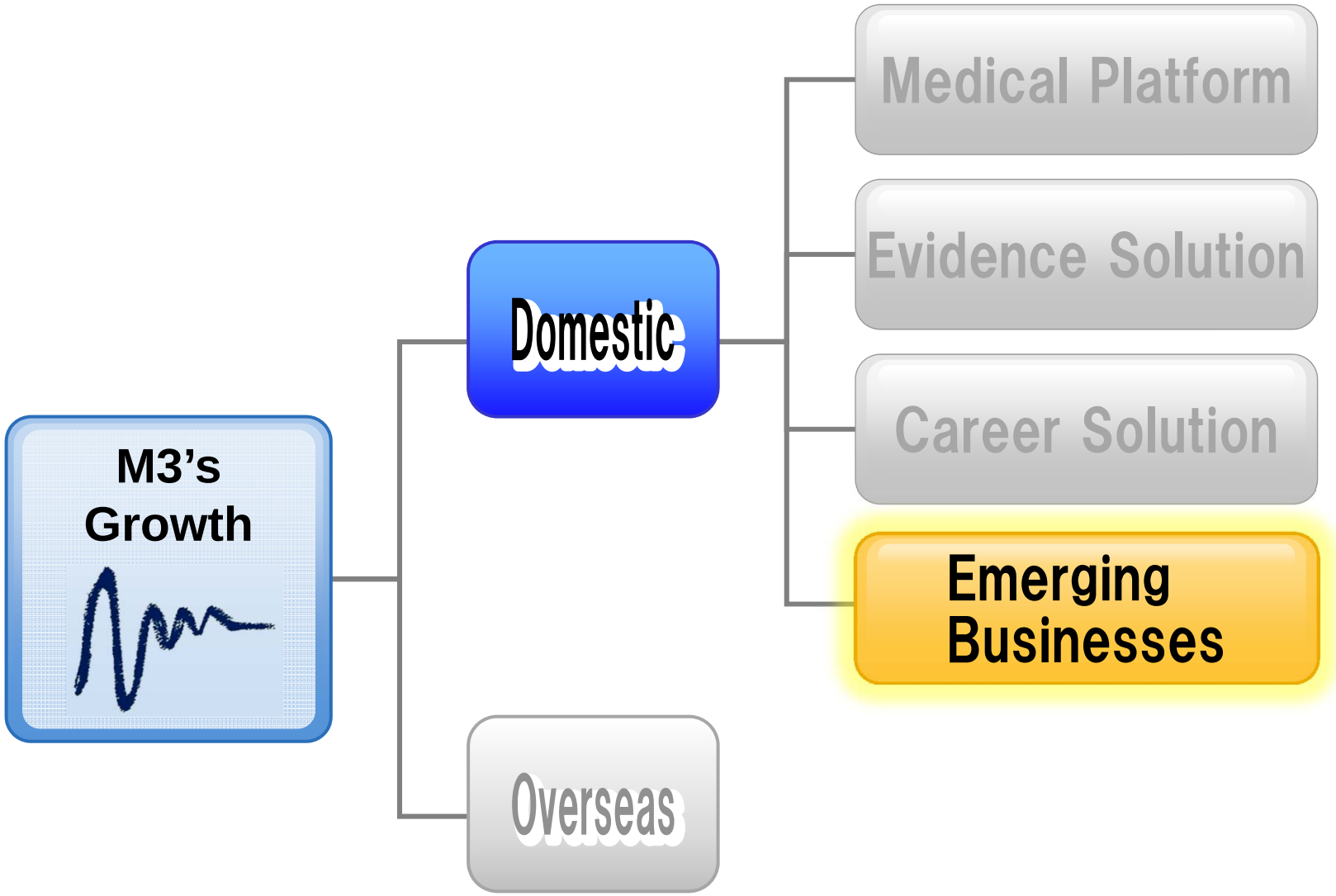

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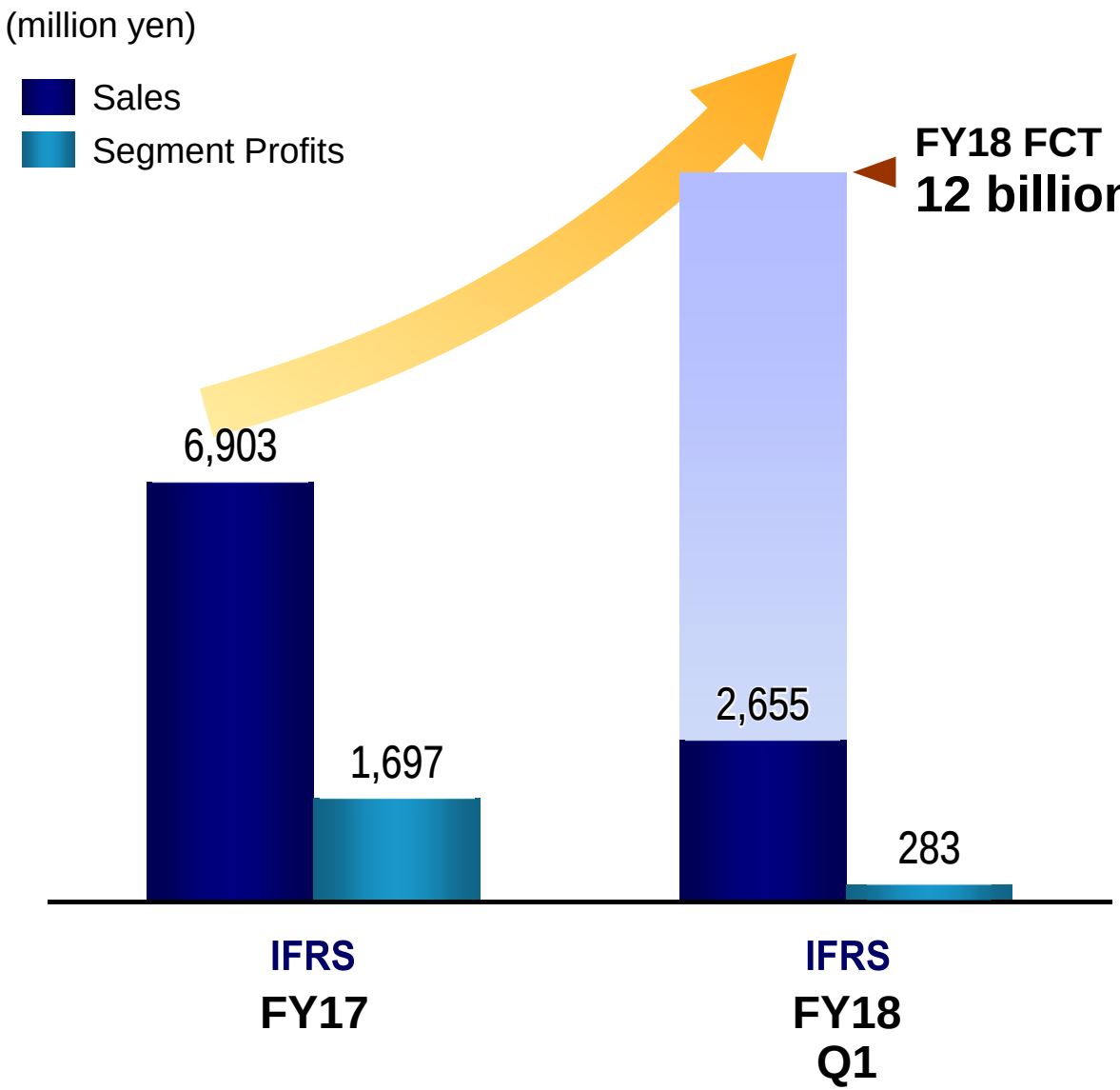
Sales and Profit Trend of Emerging Businesses



- **Advanced medicine initiatives accelerate. Durabeam business proceeding as planned**
- **Each business continues to expand steadily, with development in next growth drivers as well**

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Hot Topics within Emerging Businesses

TamaBio

- Durabeam®(Class IV) gained PMDA approval in Japan, with additional application currently in process in Japan, US, and UK
- Newly acquired several patents (effective for 20 yr)
- Gained complete adoption at an advanced medical site (university hospital)

Sofiamedi

- Acquire Sofiamedi, which operates visiting nursing care stations to provide services such as home care, and home medical care
- 46 offices, roughly 3 billion yen in sales, servicing approximately 6,300 at home patients, the largest coverage in the metropolitan area

Patient Support Program

- NPS：extremely high user satisfaction at 84
- Induction in progress at approximately 20 corporates

DuraBeam Marketability

Physician's Intent to Utilize DuraBeam Upon Launch

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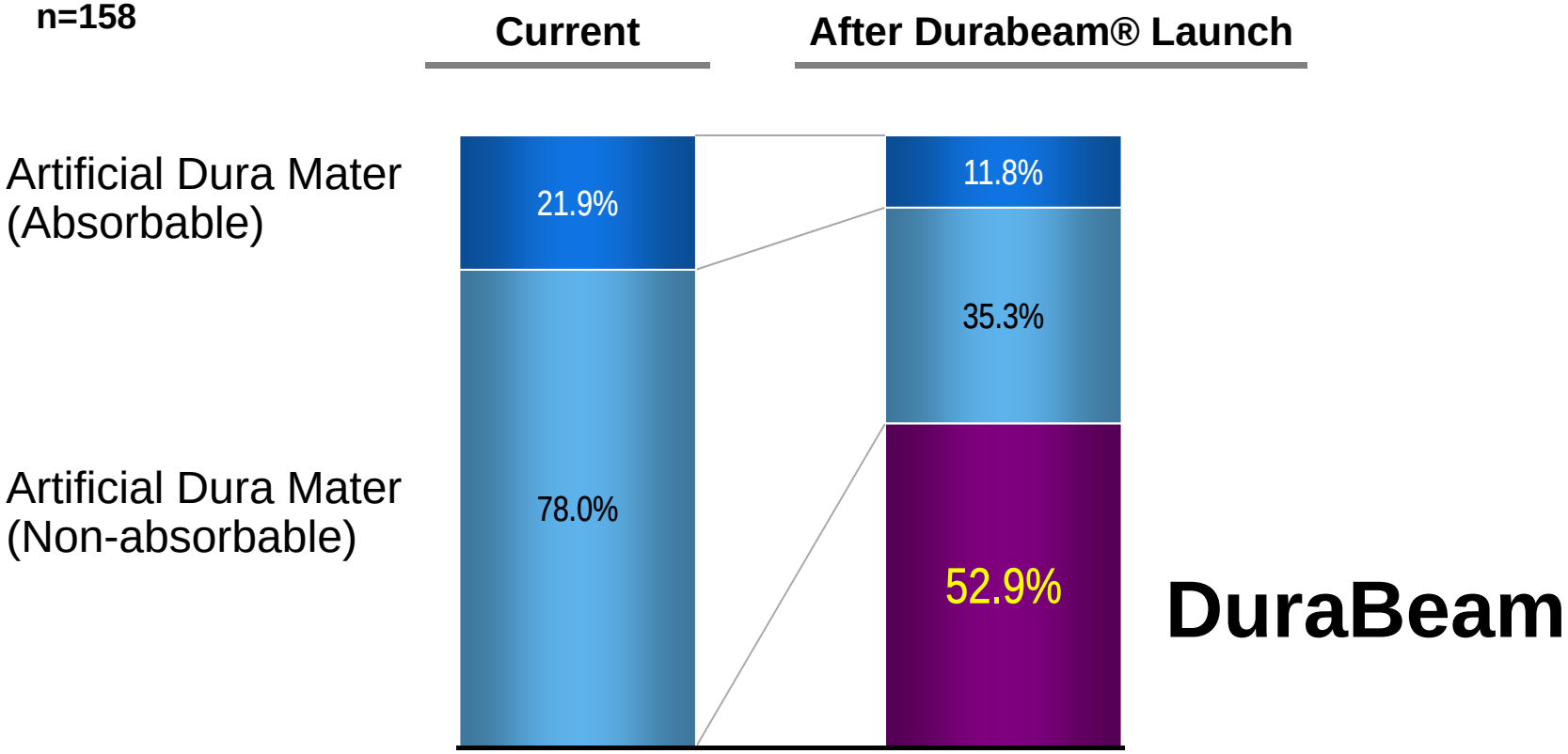

☞ **DuraBeam has potential to become over 50% of the artificial dura mater market, with one large advanced medial site (university hospital) deciding on full switch to DuraBeam**

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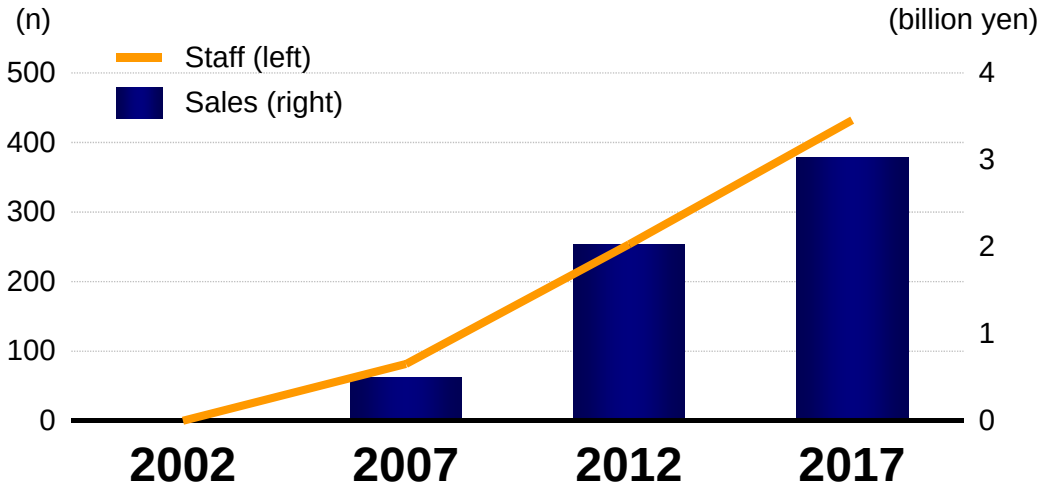
Entry into the Home Care Industry - Sofiamedi

Sales and Staff Trend





- **Operates visiting nursing care stations to provide services such as home care, and home medical care**
- **Offices: 46**
- **Staff**: **480**
  (150 nurses, 100 physical therapists, 75occupational therapists, 25 speech therapists, and more)
- **Serviced patients**: **6,300**
- **Annual sales: 3 bio yen** (approx.)

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Patient Support Program

AskDoctors

Japan's Largest Doctors Consultation Service

Access from smartphone and PCs to consult with a physician, 24 hours a day, 365 days a week, plus access to over 2 million archived consultations

Best Doctor Selection

Doctors and Hospitals Recommended by other Doctors

Receive a detailed report listing the most recommended doctors and hospitals within your region



Medical Access Support

Determine and Access the Best Medical Care

Consult specialists regarding treatment options with the support of expert staff, to determine the best method, for important medical decisions cancer treatment and large operations.



P5 Cancer Genome Report

Most Appropriate Care for Cancer Patients

Full report of DNA analysis of the cancer to pinpoint the type of mutation in order to find the exact treatment



☞ **PSP offers the above 4 services as a comprehensive package toward corporates to provide as employee benefits.**

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NPS of Industry Leaders



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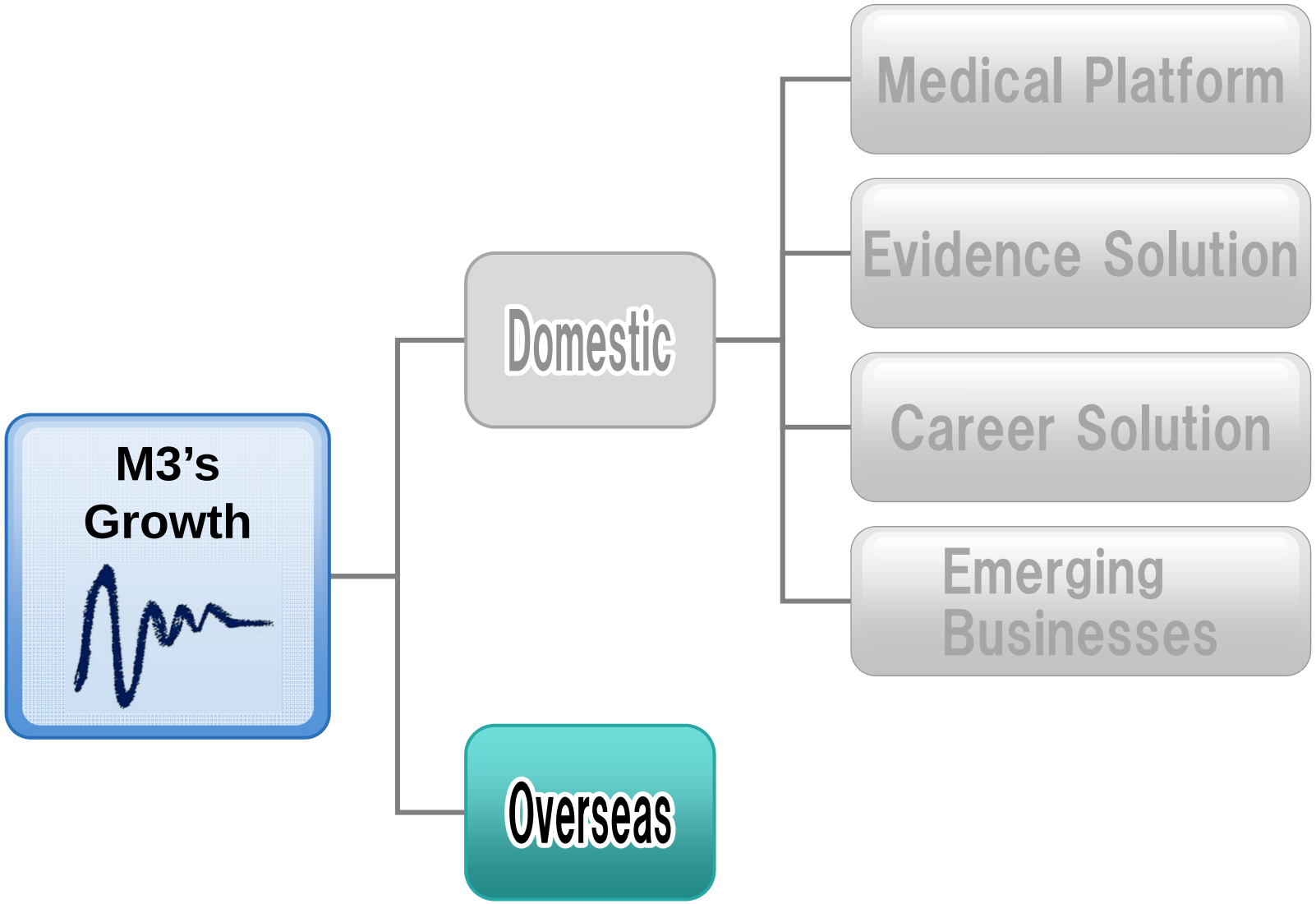

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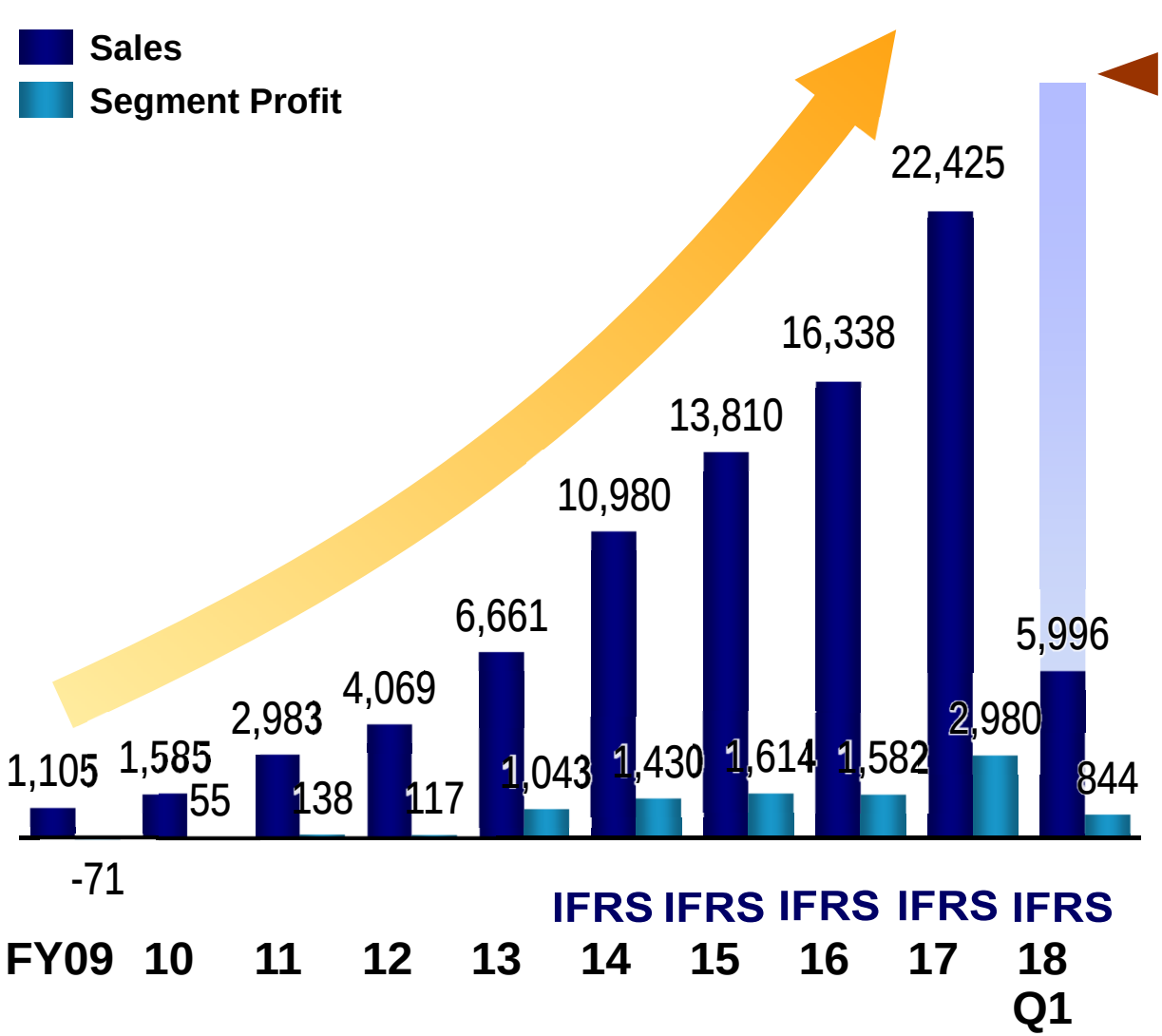
Sales and Profit Trend of Overseas

(million yen)



- Newly consolidated Wake Research (US clinical trial business)
- Profit expansion from operational improvements. Dispatched personnel from Japan to share accumulated business expertise

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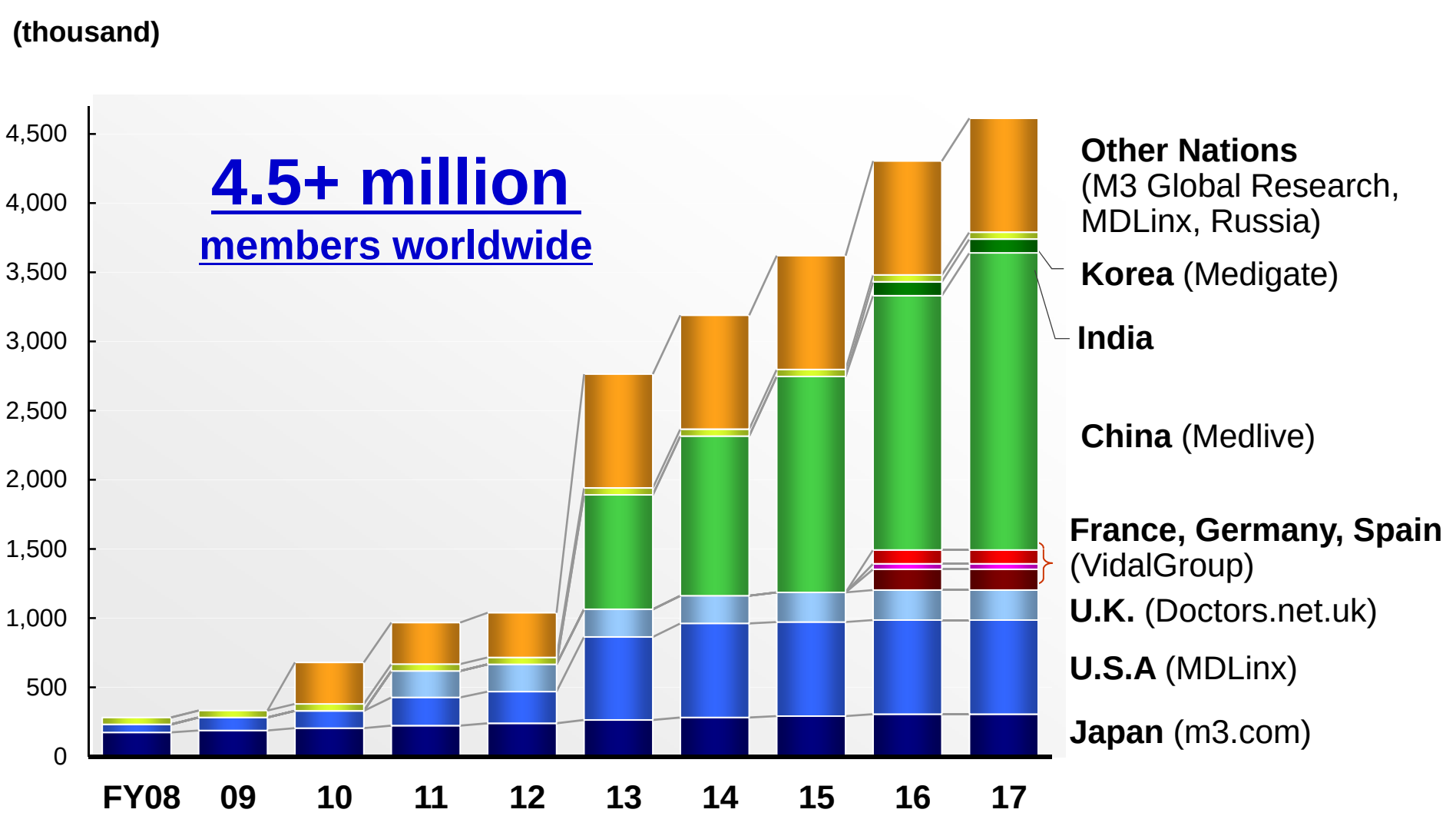
Number of Physician Members and Panelists (Global)



☞ **Over 4.4 million physicians utilize M3's global platforms**

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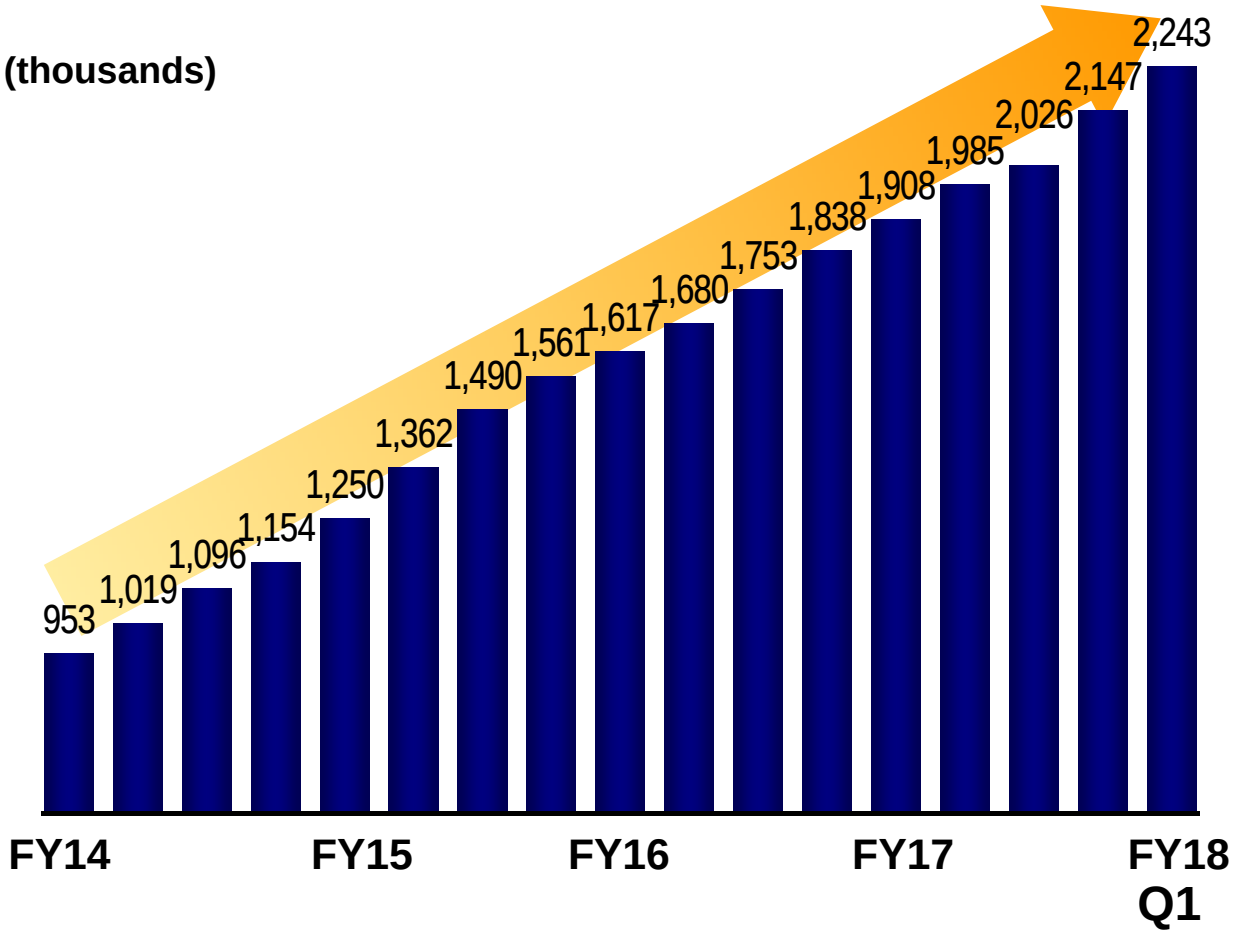
China: Membership Expansion

Number of Physician Members in China



- Marketing services for drug companies starting with MR-kun, and research services showed steady growth
- MR-kun is now being utilized by 12 pharma companies across 36 drugs
- Newly approaching local clients, in addition to MNCs
- Launched career services for physicians

☞ **Topped 2.2 million physicians members, covering the majority of doctors in China**

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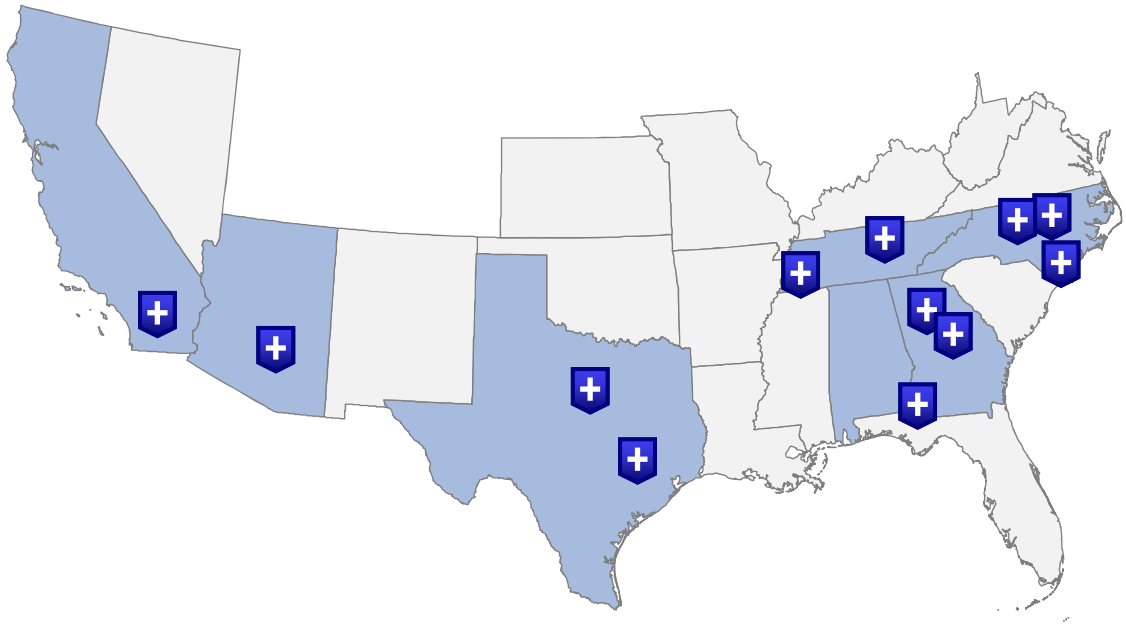
Acquisition of Wake



- Clinical trial site management market size: $14B
- Number of managed sites: 12
  Sales: $20M
- Phase I~IV with strength in Neurology, Gastrointestinal, Dermatology, and Women's Health
- Expected synergies:
  - Patient recruitment optimization
  - First step in provision of efficient large scale clinical trial service
- Launched a JV with Cape Fear Healthcare Systems to further expand the network

☞ **Wake to potentially function an M&A engine for M3**
Plan to roughly double the number of sites in 1 to 2 yrs

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M3 Group's Business Strategy

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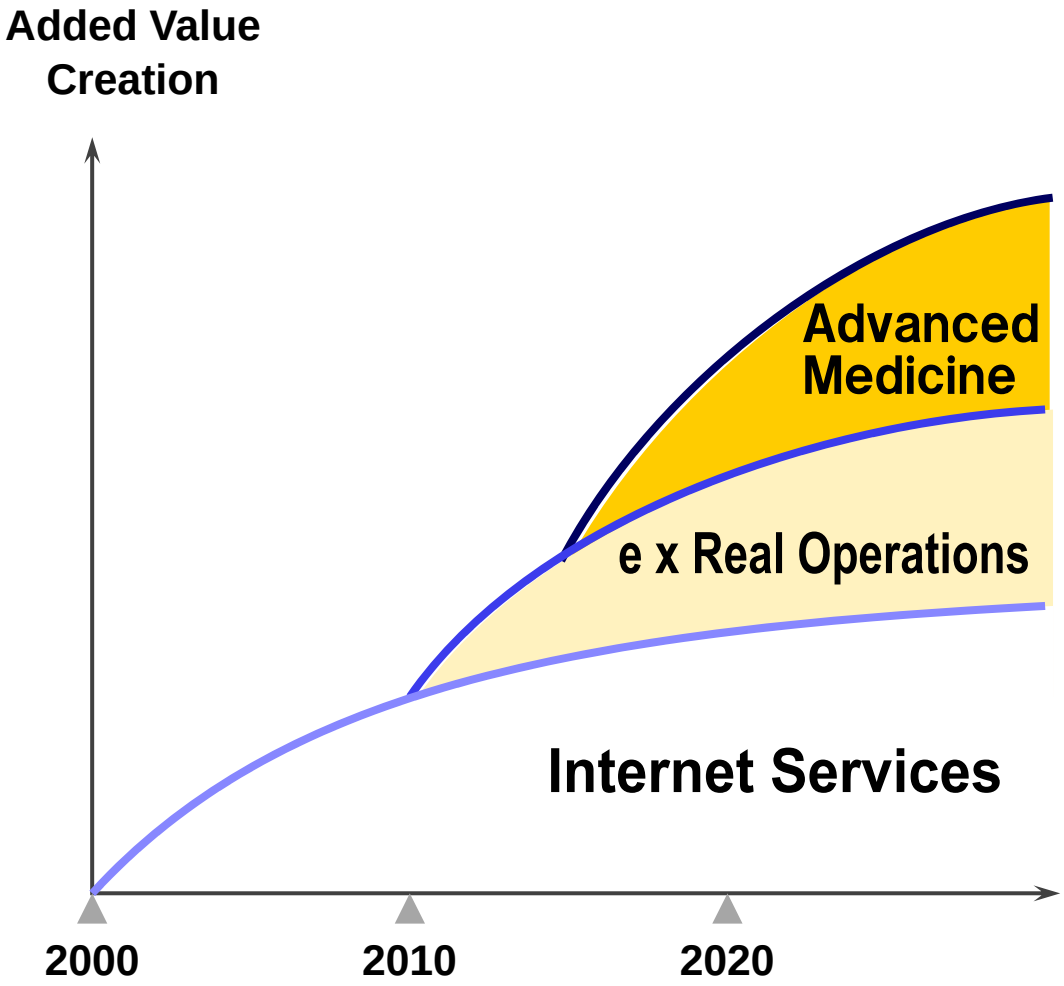
Evolution of M3 Growth Drivers



Main Initiatives

- Seeds Rocket / M3i
- Various solutions within cancer specialties
- M3 AI Labo
- Genome Diagnosis / G-TAC

- e-Clinical Trials
- M3 Career (Job placement for physicians)

- MR-kun Family
- Web Surveys

☞ **Full-scale entry into the field of Advanced Medicine, as the *third* growth driver for M3**

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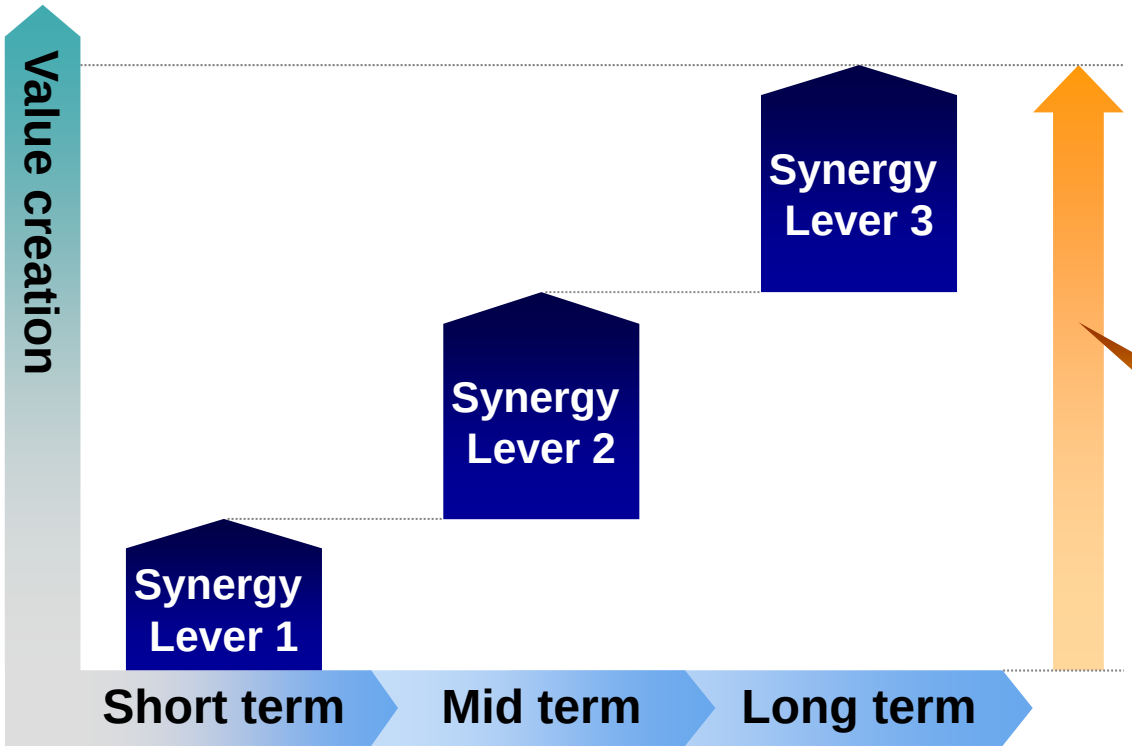
Value Creation via M&A



Short term	Mid term	Long term
PE type Cost Restructuring	Topline improvement via m3.com integration	Cross-business synergy maximization, new business model creation
ex. Reviewing indirect cost	ex. Expanding product pipelines that utilize m3.com	ex. Offering new clinical trial services utilizing e-Medical Charts

- We aim to create value across 3 successive terms after execution of M&A.
- Execution of 50+ M&As in the past 5 years have created more synergistic effects than expected and has provided accumulation of turn-around expertise
- PE-style investment will be applied to create value overseas as well going forward.

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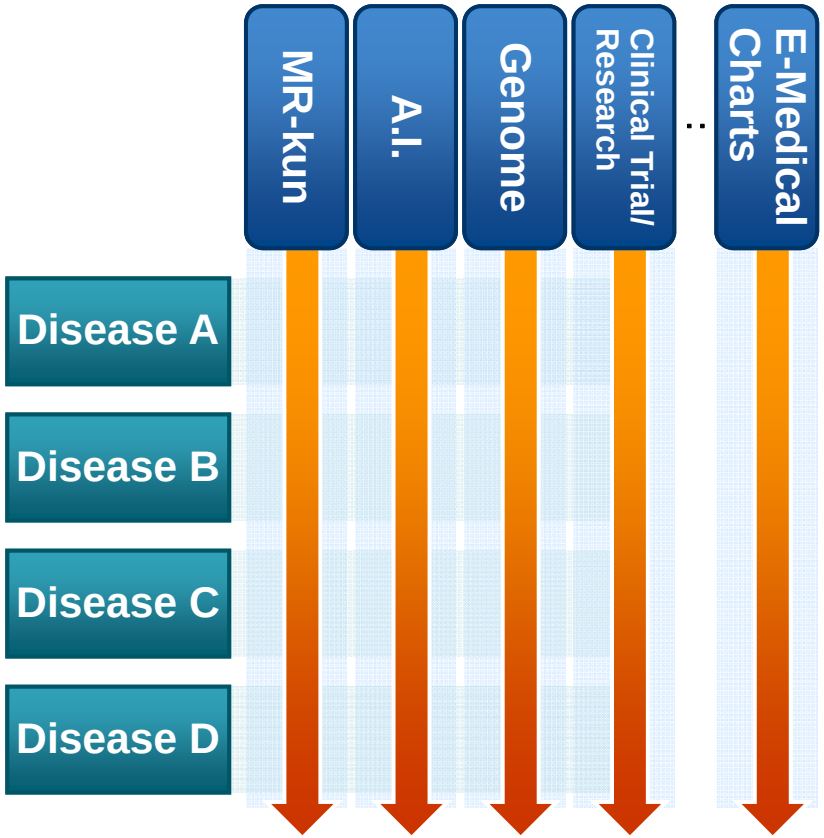
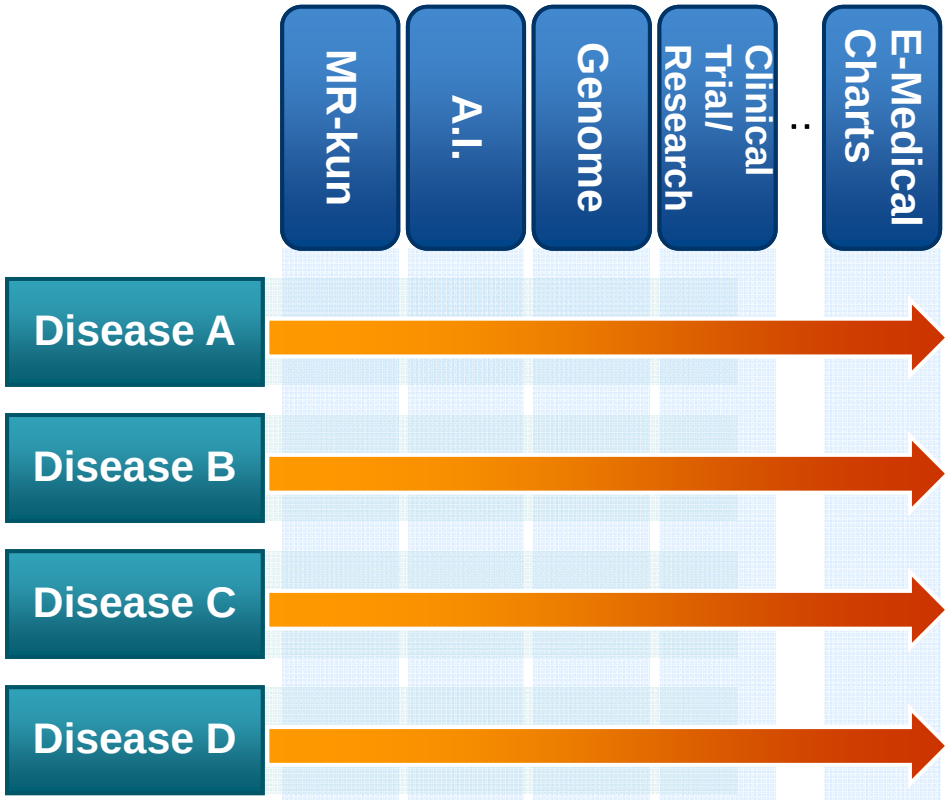
Value Creation Going Forward

Until Now



- **Individual service and function development . . . the Dots**

New Approach to be Strengthened



- **Strengthen solutions for disease and medical issues . . . the Lines**

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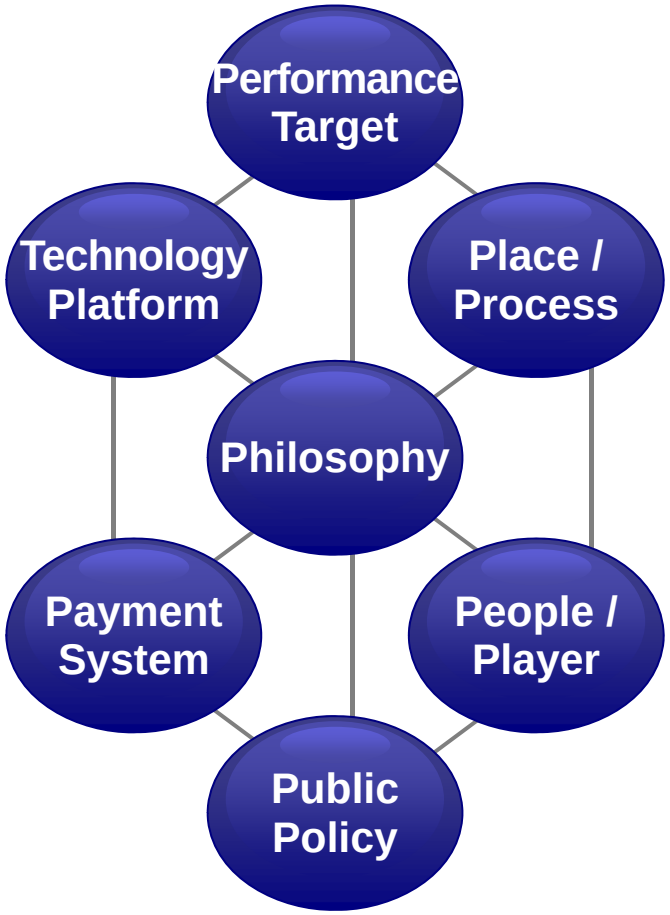
7Ps of Healthcare Business



7P: a Problem Solving Framework for Healthcare

7 P's	Description	Example
■ Performance Target	■ Concrete directionality of solution	■ Patient reduction ■ Medical cost redux
■ Philosophy	■ Fundamental principle	■ Overall optimum over local optimum
■ Technology Platform	■ Products/ technology and their utilization	■ Diagnostic and treatment technology ■ A.I., Genome
■ Place / Process	■ Place of medical care delivery	■ Hospital ■ Home care, hospital coordination
■ Payment System	■ Payment system, cash flow	■ Medical and long-term care insurance, patient expenses
■ People / Player	■ Healthcare service provider	■ Doctors, medical sites ■ Cloud workers
■ Public Policy	■ Legal and political frameworks	■ Insurance system, medical regulations

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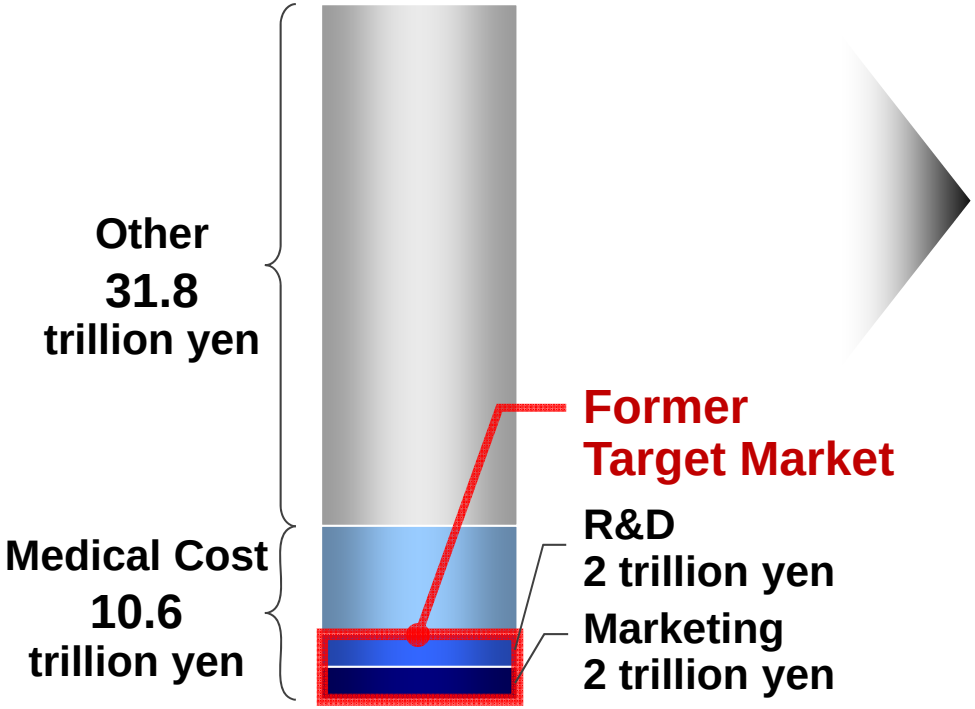
Expansion of M3's Addressable Market

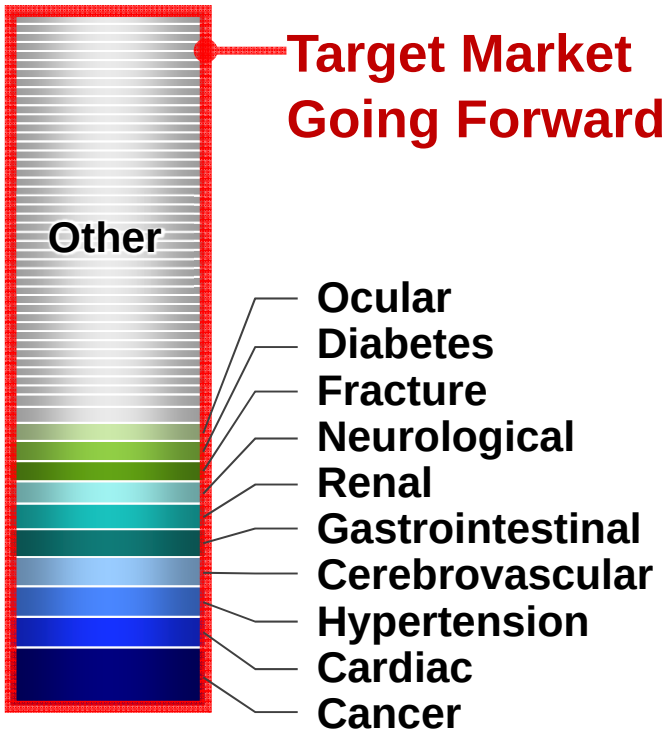
Former Market

National Healthcare Expenditure (Japan)
42.4 trillion yen



7P Project Market

National Healthcare Expenditure (Japan)
42.4 trillion yen



☞ **Creating solutions across the entire healthcare eco-system (7P Project), not limited to marketing and R&D, expands our addressable market from 4 trillion yen to 40 trillion yen, and up to 500 trillion yen including overseas markets.**

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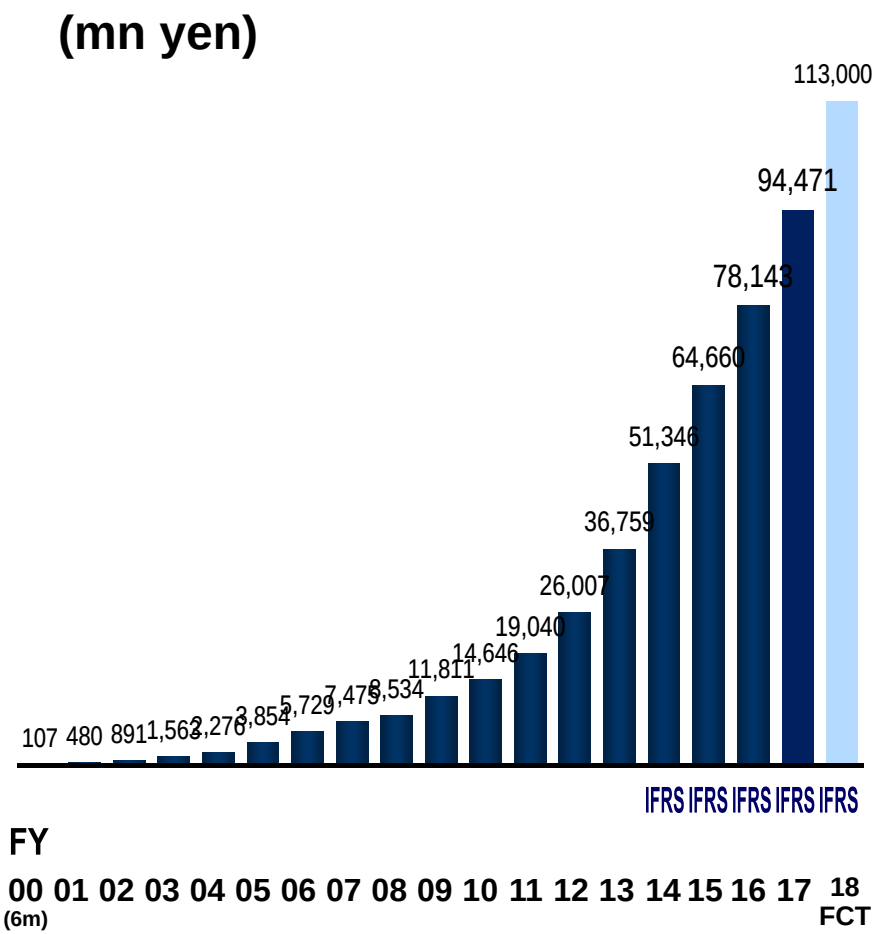
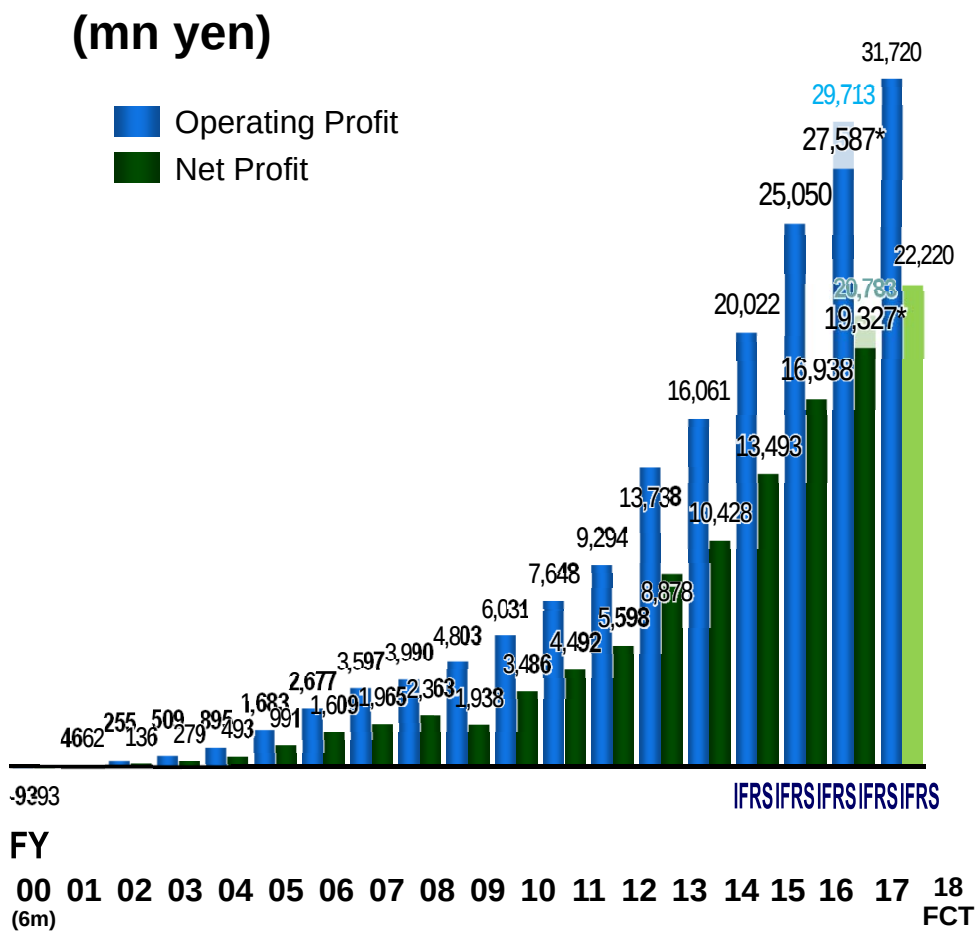
Annual Results & Forecast for FY2018

Sales



Operating Profit & Net Profit



* FY17 results retroactively restated according to IFRS9 (Financial Instruments)

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Stock Split

- **Split Ratio: Two-for-one**
- **Reference Date: September 30, 2018 (Sunday)**
- **Effective Date: October 1, 2018 (Monday)**

☞ **Compared to the stock price of 1,702 after the previous split (April 1, 2014), the price has increased by 2.5 times. The split was determined with the objective to reduce investment unit size and to increase liquidity**

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Creating New Value in Healthcare



M3

Medicine
Media
Metamorphosis

Healthcare sector is enormous…

- **Japanese national spending on medical services is approximately ¥42tn** (¥70tn including peripheral businesses)
- **Equivalent to 10% of Japanese GDP**
- **Sector controlled by only 300,000 physicians** (0.2% of the national population)

Aim to create new value

- **Provide solutions within the healthcare sector**
- **Provide new and unique business models**
- **Specialize in niches areas that provide opportunity for high value creation and high profits in order to boost enterprise value**

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