

March 2019 1st Quarter Financial Statement [Japan Standard] (Consolidated)

August 9, 2018

Listed company name EM Systems Co., Ltd.

Listed on: Tokyo Stock Exchange

Code No. 4820 URL <http://www.emsystems.co.jp>

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Planned date of submission of quarterly report August 10, 2018

Planned starting date of payment of dividends —

Supplementary explanatory materials created for the 1st quarter financial statement : None

1st quarter financial statement briefing held : None

(Amounts less than 1 million yen rounded down)

1. Consolidated results of March 2019 1st Quarter Financial Statement (April 1 2018 through June 30, 2018)

(1) Consolidated management performance (total) (% refers to rate of change over the same quarter in the previous year)

	Sales		Operating profits		Ordinary profits		Belong to parent company shareholders Quarterly net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 2019 1st Quarter Financial Statement	3,192	2.5	684	19.2	846	14.1	569	14.4
March 2018 1st Quarter	3,113	2.9	574	10.9	741	11.0	497	12.6

(Note) Comprehensive income March 2019 1st Quarter Financial Statement 572 Millions of yen (17.0%) March 2018 1st Quarter 488 Millions of yen (12.2%)

	Per 1 share Quarterly net income	After potential stock adjustment Quarterly net income per 1 share
	Yen 100th of yen	Yen 100th of yen
March 2019 1st Quarter Financial Statement	16.00	15.95
March 2018 1st Quarter	14.05	13.97

(Note) This company implemented a stock split at a rate of 2 shares per 1 share of ordinary stock with an effective date of March 1, 2018. We have calculated "quarterly net income per share" and "quarterly net income after potential stock adjustment" assuming that said stock split was conducted at in the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	
March 2019 1st Quarter Financial Statement	21,178	16,099	75.3	449.02
March 2018 period	21,893	16,052	72.7	446.82

(Refer to) Net capital March 2019 1st Quarter Financial Statement 15,941 Millions of yen March 2018 period 15,906 Millions of yen

(Note) This company implemented a stock split at a rate of 2 shares per 1 share of ordinary stock with an effective date of March 1, 2018. We have calculated "net income per share" assuming that said stock split was conducted at in the previous fiscal year.

2. State of dividends

	Annual dividends									
	End of 1st quarter		End of 2nd quarter		End of 3rd quarter		End of term		Total	
	Yen	100th of yen	Yen	100th of yen	Yen	100th of yen	Yen	100th of yen	Yen	100th of yen
March 2018 period		—		13.00		—		12.00		—
March 2019 period		—								
March 31 period (estimate)				8.00		—		10.00		18.00

(Note) Revisions from the last published dividend estimates: None

This company implemented a stock split at a rate of 2 shares per 1 share of ordinary stock with an effective date of March 1, 2018. Regarding the dividends of the 2nd quarter of the March 2018 period and earlier, we have included the amounts of actual dividends before said stock split. The annual dividend amount per share calculate under the post-stock split standard is 18.5 yen for the March 2018 period

3. Estimated consolidated results of March 2019 period (April 1 2018 through March 31, 2019)

(% refers to rate of change over the previous term for the full year, and rate of change over the same quarter in the previous year for quarters)

	Sales		Operating profits		Ordinary profits		Net income this term belonging to parent company shareholders		Per 1 share Net income of this term	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	100th of yen
2nd quarter (total)	6,398	Δ6.9	1,186	Δ21.4	1,500	Δ17.8	970	Δ20.1		26.49
Full year	12,875	Δ7.7	1,509	Δ50.7	2,138	Δ40.9	1,432	Δ39.6		39.11

(Note) Revisions from the last published estimated results: None

* Addendums

(1) Changes in major subsidiaries during consolidated cumulative quarter (changes in designated subsidiaries accompanied by changes within the scope of consolidation) : None

(2) Application of special accounts processing in the creation of the quarterly consolidated financial statement: Yes

(Note) For details, please see the attached document P.8 "Quarterly consolidated financial statement and major explanatory notes (3) addendums relating to quarterly consolidated financial statement (application of special accounts processing in the creation of the quarterly consolidated financial statement)".

(3) Changes to accounting policy, changes to estimates in accounting, revised restatements

1. Changes to accounting policies accompanying revision to accounting standards, etc.: None
2. Changes to accounting policies other than 1. : None
3. Changes to estimates in accounting : None
4. Revised restatement : None

(4) Number of shares outstanding (ordinary stock)

1. Number of shares outstanding at end of term (including own stock)	March 2019 period 1Q	36,347,400 Shares	March 2018 period	36,347,400 Shares
2. Number of own shares at end of term	March 2019 period 1Q	844,606 Shares	March 2018 period	747,206 Shares
3. Average number of shares outstanding during term (quarterly total)	March 2019 period 1Q	35,567,727 Shares	March 2018 period 1Q	35,401,180 Shares

* The quarter financial statement is not subject to quarterly review by certified public accountants or auditors

* Explanation regarding appropriate use of estimated results and other special notes

The descriptions of the future such as estimated results contained in this document are based on information possessed by this company at the present time and certain assumptions this company deems reasonable, and they may differ greatly to actual results due to a variety of factors.

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1. Qualitative information relating to this quarter's statement

(1) Explanation regarding management performance

Our country's economic condition in the 1st quarter consolidated cumulative period remains partially uncertain with the overseas economy due to US economic policies, however corporate earnings are firm centered on companies exporting capital goods, and employment conditions have improved due to this. As real income increases bullishly, consumer confidence among individuals also transitions bullishly, and Japan's economy is seen as continuing to gently recover.

In pharmacies, which are our company's major sales outlet, while business restructuring continues due to expansions in scale caused by major pharmacy chain M&As, etc., the environment surrounding the pharmacy industry is increasingly harsh, and added value is currently required in the pharmacy business. The influence on the results of our company caused by the simultaneous fee revisions in health insurance and nursing insurance implemented in April 2018 have resulted in a favorable increase in monthly sales, but they remained minimal.

Our group, focusing on the super-aging society which is symbolic of the "2025 problem" (*1), has made full-blown inroads into the systems for nursing operators business since October 2016 in order to achieve information coordination with healthcare (clinics and pharmacies) and nursing. By constructing a network between systems for clinics, pharmacies, and nursing operators, we will offer an environment that enables seamless information coordination between healthcare and nursing. Additionally, in order to be able to develop and offer products and services which can contribute even more to the citizens and healthcare industry in the future, we are developing systems utilizing AI. Furthermore, in March 2018 we started collaborations with Nippon Electric Company (NEC). As Japan approaches super-aging society, we are jointly developing next-generation systems in electronic medical records for clinics and medicine dispensing systems for insurance pharmacies as a first step toward solving the issues of longer healthier lives for citizens and optimization of social welfare spending. In the future we also plan to promote the utilization of ITC in the health and medical care fields such as information coordination between hospitals, clinics, insurance pharmacies, etc., and create new services.

Our company has donated to the "Medical AI Development Studies", the endowed course of the Tokyo University Graduate School of Medicine and Affiliated Hospital. Our company will continue to support such research and development as best we can based on our corporate policy of "contributing to the improvement of the health standards of citizens by applying the latest technology".

As a result, our performance for this 1st quarter consolidated cumulative period were 3,192 million yen in sales (2.5% increase over the same period in the previous year), 684 million yen in operating profits (19.2% increase), 846 million yen in ordinary profits (14.1% increase), and 569 million yen in quarterly net income belonging to parent company shareholders (14.4% increase).

(*1) The baby boomer generation said to number approximately 8 million will reach age 75 by 2025, thereby worsening issues such as increased social welfare spending and lack of workers in nursing.

By-segment results are as follows. Furthermore, by-segment sales and operating profits and losses are the amounts before elimination of internal transactions between segments.

(Business for Pharmacy and related business)

Regarding business for pharmacy and related business, we have continued to strengthen our approaches to pharmacy chains and our sales channels through OEM provision, etc., and we have focused our efforts on expanding sales in systems for pharmacies, namely "Recepty NEXT" and "Bungyo Mate".

Under such circumstances, although number of systems sales was not as high as planned, the billing sales have increased favorably and with hardware replacement also proceeding as planned, our supply sales have continued to be bullish. As a result, we achieved our planned sales and continued compression of cost prices and expenses has contributed to our profits.

Consequently, business for pharmacy and related business in this 1st quarter consolidated cumulative period were 2,540 million yen in sales (0.1% increase over the same period in the previous year) and 658 million yen (15.9% increase).

(Business for Clinic and related business)

Regarding business for clinic and related business, in order to expand our nation-wide sales channels we have been cultivating markets in clinics through retail outlets. Furthermore, we have continued to focus efforts on sales of the medical accounting systems "MRN (*2) Clerk Style" and "Uni-Medical", as well as the electronic medical records systems "MRN Karte Style" and "Ortia".

As a result, we have achieved sound expansion of sales channels as well as sound increases in numbers of new installations of MRN and system sales through third-party replacements. Furthermore, our billing sales have increased favorably, with our supply sales also promising. Consequently, business for clinic and related business in this 1st quarter consolidated cumulative period were 424 million yen in sales (14.1% increase over the same period in the previous year) and 38 million yen (550.3% increase).

(*2)MRN:Medical Receipty NEXT

(Other business)

Regarding other business nursing system business did not contribute to sales or profits due to a review of our business strategy, etc. Our pharmacy operation business was partially impacted by medicine dispensing fees and NHI drug price reforms, but sales were above initial estimates and operating profits only fell slightly below estimates. Furthermore, Lasante Co., Ltd. exceeded planned sales and operating profits.

In our healthcare and nursing business, the number of subscribers to "Hirogaru Care Net" which we provide for clinics, pharmacies, and nursing service operators increased slightly.

Furthermore, in the "commissioned online qualification checking system for prescription receipt creation at pharmacies", with which we were commissioned by the Japan Health Insurance Association (Kyokaikenpo) on December 13, 2016, we started offering it to clinics as well and have extended the initial contract periods to continue providing the service.

At our company we are proactively engaged in the realization of electronic prescriptions and research and development as well as verification projects relating to HER(*3) and PHR(*4), in order to contribute to future developments in the healthcare industry. In the "infectious disease outbreak detection services", which is a joint research project between the Japan Medical Association, the Japan Pharmaceutical Association, and Nihon University, the number of pharmacies using it has exceeded 10,000 nationwide.

Consequently, other business in this 1st quarter consolidated cumulative period was 255 million yen in sales (5.6% increase over the same period in the previous year) and 11 million yen in operating losses (0 million yen in operating profits in the same period in the previous year).

(*3) HER:Electronic Health Record

(*4) PHR:Personal Health Record

(2) Explanation regarding financial position

(Assets)

Current assets at the end of this 1st quarter consolidated cumulative period were 10,857 million yen, a 735 million yen decrease compared to the end of the previous fiscal year. This is due mainly to a 539 million yen decrease in cash on hand and in banks due to the payment of dividends and corporation tax. Fixed assets were 10,320 million yen, a 20 million yen increase compared to the end of the previous fiscal year. This is due mainly to a decrease caused by a 136 million yen increase in software in progress and depreciation.

As a result, total assets were 21,178 million yen, a 714 million yen decrease compared to the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of this 1st quarter consolidated cumulative period were 3,054 million yen, a 728 million yen decrease compared to the end of the previous fiscal year. This is due mainly to respective decreases of 121 million yen in long-term debt planned for repayment within a year, 44 million yen in payments of promissory notes and accounts payable, 49 million yen in arrears, 459 million yen in unpaid corporation tax, etc., and 156 million yen in provision for bonuses, as well as a 125 million yen increase in deposits due to end of term dividends and income tax withheld at the source for summer bonus payments, etc. Fixed liabilities were 2,025 million yen, an 32 million yen decrease compared to the end of the previous fiscal year. This is due mainly to a 22 million yen increase in liabilities relating to retirement packages, and 20 million yen and 7 million yen decreases in provision for product warranties and lease obligations, respectively.

As a result, total liabilities were 5,079 million yen, a 761 million yen decrease compared to the end of the previous fiscal year.

(Net assets)

Net assets at the end of this 1st quarter consolidated cumulative period were 16,099 million yen, a 46 million yen increase compared to the end of the previous fiscal year. This is due mainly to a 141 million yen increase in accumulated earnings and a 109 million yen decrease due to acquisition of our own stock.

As a result, our capital adequacy ratio was 75.3% (72.7% at the end of the previous fiscal year).

(3) Explanation regarding information on future prospects such as estimated consolidated results

Regarding estimated consolidated results of the full year ending March 2019, there are no changes since the 2nd quarter consolidated cumulative period and full year estimated consolidated results announced in the May 8, 2018 "March 2018 Period Financial Short Statement".

2. Quarterly consolidated financial statements and major explanatory notes

(1) Quarterly consolidated balance sheet

(Units: millions of yen)

	Previous fiscal year (March 31, 2018)	This 1st quarter consolidated cumulative period (June 30, 2018)
Assets		
Current assets		
Cash on hand and in banks	8,528	7,989
Notes and accounts receivable	2,189	1,924
Merchandise and products	130	138
Raw materials and supplies	0	0
Others	762	823
Allowance for bad debts	Δ 19	Δ 18
Total current assets	11,592	10,857
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	777	765
Land	608	608
Lease assets (net)	102	85
Rental assets (net)	15	13
Construction in progress	—	4
Others (net)	77	70
Total tangible fixed assets	1,580	1,548
Intangible fixed assets		
Software	167	143
Software in progress	255	392
Reputation	254	240
Others	5	5
Total intangible fixed assets	682	780
Investments and other assets		
Investment securities	205	205
Investment real estate (net)	7,018	6,969
Assets concerning bonus packages	109	122
Others	704	695
Allowance for bad debts	Δ 0	Δ 0
Total investments and other assets	8,037	7,991
Total fixed assets	10,300	10,320
Total assets	21,893	21,178

(Units: millions of yen)

	Previous fiscal year (March 31, 2018)	This 1st quarter consolidated cumulative period (June 30, 2018)
Liabilities		
Current liabilities		
Promissory notes and accounts payable	760	715
Long-term debt planned for repayment within 1 year	517	396
Arrears	418	368
Lease liabilities	48	41
Unpaid corporation tax, etc.	763	303
Provision for bonuses	350	193
Provision for points	3	4
Others	921	1,030
Total current liabilities	3,782	3,054
Fixed liabilities		
Long-term debt	137	111
Lease liabilities	72	65
Liabilities concerning bonus packages	917	940
Provision for product warranties	214	193
Long-term guarantee deposits	715	714
Total fixed liabilities	2,058	2,025
Total liabilities	5,840	5,079
Net assets		
Shareholder's equity		
Capital stock	2,445	2,445
Capital surplus balance	2,808	2,808
Accumulated earnings	10,878	11,020
Own stock	△ 208	△ 318
Total shareholder's equity	15,924	15,956
Cumulative amount of other comprehensive income		
Foreign currency translation adjustments	48	46
Cumulative amount of adjustments concerning bonus packages	△ 66	△ 61
Total other cumulative comprehensive income	△ 17	△ 14
Stock acquisition rights	145	157
Total net assets	16,052	16,099
Total liabilities and net assets	21,893	21,178

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
 (Quarterly consolidated statements of income)
 (1st quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 1st quarter consolidated cumulative period (From April 1, 2017 to June 30, 2017)	This 1st quarter consolidated cumulative period (From April 1, 2018 to June 30, 2018)
Sales	3,113	3,192
Cost of sales	1,327	1,366
Gross profit	1,786	1,825
Selling, general and administrative expenses	1,212	1,141
Operating profits	574	684
Non-operating profits		
Received interest	0	0
Real estate rental income	249	254
Others	12	2
Total non-operating profits	261	256
Non-operating expenses		
Paid interest	2	0
Real estate rental expenses	90	89
Others	1	5
Total non-operating expenses	93	95
Ordinary profits	741	846
Special losses		
Losses on disposal of fixed assets	0	0
Debt prepayment expenses	8	—
Total special losses	8	0
Quarterly net income before adjustment for taxes, etc.	733	846
Corporation tax, etc.	236	277
Quarterly net income	497	569
Quarterly net income belong to parent company shareholders	497	569

(Quarterly consolidated statements of comprehensive income)
(1st quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 1st quarter consolidated cumulative period (From April 1, 2017 to June 30, 2017)	This 1st quarter consolidated cumulative period (From April 1, 2018 to June 30, 2018)
Quarterly net income	497	569
Other comprehensive income		
Foreign currency translation adjustments	△ 7	△ 2
Adjustments concerning bonus packages	△ 0	5
Total other comprehensive income	△ 8	2
Quarterly comprehensive income	488	572
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	488	572
Quarterly comprehensive income concerning non-controlling shareholders	—	—

(3) Addendums relating to quarterly consolidated financial statement

(Explanatory notes regarding prerequisites of going concern)

There is no applicable information.

(Explanatory notes for cases of considerable changes in amounts of shareholder's equity)

There is no applicable information.

(Changes in major subsidiaries during consolidated cumulative quarter)

There is no applicable information.

(Application of special accounts processing in the creation of the quarterly consolidated financial statement)

Regarding tax expenses, we have reasonably estimated the effective tax rate after application of tax effect accounting for the income before taxes of the consolidated accounting period including this 1st quarter consolidated cumulative period, and we have calculated said estimated effective tax rate for our quarterly net income before taxes.

(Important events after the reporting period)

There is no applicable information.

