

March 2019 3rd Quarter Financial Statement [Japan Standard] (Consolidated)

February 12th, 2019

Listed company name	EM Systems Co., Ltd.			Listed on: Tokyo Stock Exchange
Code No.	4820	URL:	http://www.emsystems.co.jp	
Representative:	(Job title)	Executive director and CEO	(Name)	Kozo Kunimitsu
Representative for inquiries	(Job title)	Managing director and operative officer, administrative planning office head	(Name)	Gen Aota
Planned date of submission of quarterly report	February 13th, 2019	Planned starting date of payment of dividends	—	
Supplementary explanatory materials created for quarterly financial statement				: None
Quarterly financial results briefing held				: None

(For Use by Analysts)

(Amounts of less than 1 million yen rounded down)

1. Consolidated results of March 2019 3rd Quarter Financial Statement (April 1st 2018 through December 31st, 2018)

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

	Sales		Operating profits		Ordinary profits		Quarterly net income belonging to parent company shareholders	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 2019 3 rd quarter	9,617	(8.0)	2,014	(13.0)	2,495	(10.4)	1,675	(10.0)
March 2018 3 rd quarter	10,448	6.2	2,315	30.6	2,785	27.2	1,861	29.6
(Note) Comprehensive income	March 2019 3 rd Quarter	1,683	Millions of yen	(10.0%)	March 2018 3 rd Quarter	1,870	Millions of yen	31.5%
	Quarterly net income per share				Quarterly net income per share after potential stock adjustment			
	Yen 100ths of a yen				Yen 100ths of a yen			
March 2019 3 rd quarter	47.27				46.56			
March 2018 3 rd quarter	52.44				52.21			

(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 1st, 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 the beginning of previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share		
	Millions of yen	Millions of yen	%	Yen 100ths of a yen		
March 2019 3 rd quarter	21,412	16,717	77.4	468.01		
March 2018	21,893	16,052	72.7	446.82		
(Refer to) Net capital	March 2019 3 rd Quarter	16,582	Millions of yen	March 2018 period	15,906	Millions of yen

2. State of dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of term	Total
March 2018	Yen 100ths of a yen –	Yen 100ths of a yen 13.00	Yen 100ths of a yen –	Yen 100ths of a yen 12.00	Yen 100ths of a yen –
March 2019	–	8.00			
March 2019 (estimate)			–	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 1st, 2018. Regarding the dividends of the 2nd quarter of the March 2018 period, we have included the amounts of actual dividends before said stock split. The annual dividend amount per share calculated under the post-stock split standard is 18.5 yen for the March 2018 period

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

(% refers to rate of change over the previous term)

	Sales		Operating profits		Ordinary profits		Quarterly net income belonging to parent company shareholders		Quarterly net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen 100ths of a yen
Full year	13,146	(5.8)	2,362	(22.9)	2,993	(17.3)	2,020	(14.7)	55.96

(Note) Revisions from the last published forecast of financial results : None

* Addendums

(1) Changes in major subsidiaries during cumulative quarterly consolidated period (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 "2. 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 3 rd quarter	36,578,600 shares	March 2018 period	36,347,400 shares
2. Number of own shares at end of term	March 2019 3 rd quarter	1,147,606 shares	March 2018 period	747,206 shares
3. Average number of shares outstanding during term (quarterly total)	March 2019 3 rd quarter	35,435,594 shares	March 2018 3 rd quarter	35,497,136 shares

(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 1st, 2018. We have calculated the "Average number of shares outstanding during term" for March 2018 2nd quarter assuming that said stock split was conducted at in the previous consolidated fiscal year.

* 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 financial results

(1) Explanation regarding operating results

In regard to our country's economic condition in this 3rd quarter consolidated cumulative period, while economic recovery temporarily dulled due to the effects of typhoon No. 21 and heavy rains in Western Japan, capital investments remained steady with a focus on investments in streamlining and economizing prompted by the labor shortage.

In the healthcare (clinics and pharmacies) and nursing care industries, the 2018 simultaneous revision of medical service and long-term care fees was conducted. As a result, difficulties continue to increase in the field of pharmacies, which are our company's major sales outlet, due to medicine dispensing fees and drug price reforms. In recent years, the nation's citizens have become more critical of the quality of healthcare and nursing care services, and it is necessary to meet these needs. In addition, in regard to major pharmacy chains and drug stores, we expanded business scale and profit through M&As, etc.

Our group develops systems utilizing AI in order to be able to develop and offer products and services capable of contributing to the citizens and healthcare industry. Focusing on the super-aging society which is symbolic of the "2025 problem" (*1), we provide an environment that enables seamless information coordination between the healthcare and nursing care fields by constructing a three-pronged network between systems for clinics, pharmacies, and nursing care operators in order to achieve information coordination with healthcare (clinics and pharmacies) and nursing care.

Furthermore, we have been conducting business collaborations since November 2018 to create further social value through improving safety for patients and optimizing operations at medical institutions and pharmacies by jointly developing new systems together with CSI Co. that link hospitals and pharmacies.

We have also been conducting business collaboration with Nippon Electric Company (NEC) 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.

In November 2018, our group announced the "MAPs Series," a shared information system base applicable to all healthcare fields (medical departments, pharmacies and nursing care). It is a completely cloud-based system that unifies systems in health care fields. Through the system's various functions, we will continue to support the operations of clinicians, pharmacists and nursing care service providers.

Performance during this 3rd quarter consolidated cumulative period was in line with plans in terms of sales owing to refurbishment of our business model from October as well as to demands to replace hardware. In addition, operating profits exceeded expectations as manufacturing costs were less than planned due to focusing on development of next generation systems.

One the other hand, we failed to achieve performance equal to the previous 3rd quarter consolidated cumulative period. As a result, our performance for this 3rd quarter consolidated cumulative period were 9,617 million yen in sales (an 8.0% decrease compared to the same period in the previous year), 2,014 million yen in operating profits (a 13.0% decrease), 2,495 million yen in ordinary profits (a 10.4% decrease), and 1,675 million yen in quarterly net income attributable to owners of parent (a 10.0% decrease).

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

By-segment results are as follows.

(Business for Pharmacies and related businesses)

Regarding business for pharmacies and related businesses, 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."

Billing sales increased favorably and sales of consumables continued to be bullish. As a result, while we nearly achieved our goals for sales and operating profits, we failed to achieve sales and operating profits equal to the previous 3rd quarter consolidated cumulative period.

Consequently, business for pharmacies and related businesses in this 3rd quarter consolidated cumulative period were 7,686 million yen in sales (a 9.9% decrease compared with the same period in the previous year) and 1,850 million yen in operating profits (a 15.3% decrease).

(Business for medical systems and related businesses)

Regarding business for medical systems and related businesses, 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."

In addition, in regard to "Maps for CLINIC," a diagnostic support systems for clinics and one of the products in the "MAPs Series," a shared information system base, we plan to begin shipping from the 4th quarter.

As a result, we have achieved sound expansion of sales channels as well as sound increases in numbers of new installations targeting newly-started customers and replacements for customers of MRN competitors. While billing sales increased favorably and sales of consumables were bullish, we failed to achieve sales and operating profits equal to the previous 3rd quarter consolidated cumulative period.

Consequently, business for medical systems and related businesses in this 3rd quarter consolidated cumulative period were 1,246 million yen in sales (a 4.9% decrease from the same period in the previous year) and 178 million yen in operating profits (a 37.6% increase).

(*2) MRN: Medical Receipty NEXT

(Other business)

Regarding our nursing care system business, while we are reviewing our business strategy, such as M&A, etc., we were not able to contribute to sales or profits. In our healthcare and nursing care business, we focused on increasing the number of subscribers to "Hirogaru Care Net" which we provide for clinics, pharmacies, and nursing care service operators.

Our pharmacy operation business was partially impacted by medicine dispensing fees and drug price reforms, but sales and operating profits were above initial estimates. Furthermore, Lasante Co., Ltd. achieved planned sales and operating profits.

Furthermore, in the "commissioned online qualification checking system for prescription receipt creation at pharmacies," with which we were commissioned by the Hiroshima Branch of the Japan Health Insurance Association (Kyokaikenpo), we 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), 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 3rd quarter consolidated cumulative period was 765 million yen in sales (a 5.6% increase over the same period in the previous year) and 8 million yen in operating losses (compared to 6 million yen in operating profits in the same period in the previous year).

(*3) HER: Electronic Health Record

(The aforementioned by-segment sales and operating profits and losses are the amounts before elimination of internal transactions between segments.)

(2) Explanation regarding financial position

(Assets)

Current assets at the end of this 3rd quarter consolidated cumulative period were 10,495 million yen, a 1,097 million yen decrease compared to the end of the previous consolidated fiscal year. While payments of dividends and corporation tax were made, this is due mainly to a 793 million yen decrease in cash on hand and in banks as well as a 408 million yen decrease in accounts receivable due to bullish performance and smooth collection of accounts receivable. Fixed assets were 10,917 million yen, a 616 million yen increase compared to the end of the previous consolidated fiscal year. While both construction in progress and software in progress increased 210 million yen and 671 million respectively accompanying development of next generation systems, this is due mainly to a decrease accompanying a 146 million yen depreciation in investment real estate and a 79 million yen depreciation in software.

As a result, total assets were 21,412 million yen, a 480 million yen decrease compared to the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities at the end of this 3rd quarter consolidated cumulative period were 2,672 million yen, a 1,110 million yen decrease compared to the end of the previous consolidated fiscal year. This is due mainly to respective decreases of 345 million yen in long-term debt planned for repayment within a year and 538 million yen in unpaid corporate taxes, etc. Fixed liabilities were 2,022 million yen, a 35 million yen decrease compared to the end of the previous consolidated fiscal year.

As a result, total liabilities were 4,695 million yen, a 1,145 million yen decrease compared to the end of the previous consolidated fiscal year.

(Net assets)

Net assets at the end of this 3rd quarter consolidated cumulative period were 16,717 million yen, a 665 million yen increase compared to the end of the previous consolidated fiscal year. This is due mainly to an increase of 964 million yen in earned surplus due to bullish performance, increase of 484 million yen in treasury shares due to acquisition of our own shares, etc., and respective increase on 86 million yen in capital and 100 million yen in capital surplus due to disposal of treasury shares accompanying execution of stock options and issuance of stocks with limitation on transfer.

As a result, our capital adequacy ratio was 77.4% (compared to 72.7% at the end of the previous consolidated fiscal year).

(3) Explanation regarding information on future prospects such as forecast of consolidated financial results

Forecast of consolidated financial results for the full year ending March 2019 are as explained in the "Notification regarding Revisions to the Forecast of Consolidated Financial Results for the Full Year Ending in March 2019," announced on November 9th, 2018.

2. Quarterly consolidated financial statements and major explanatory notes

(1) Quarterly consolidated balance sheet

(Units: millions of yen)

	Previous consolidated fiscal year (March 31 st , 2018)	This 3 rd quarter consolidated fiscal period (December 31 st , 2018)
Assets		
Current assets		
Cash on hand and in banks	8,528	7,735
Notes and accounts receivable	2,189	1,780
Merchandise and products	130	146
Raw materials and supplies	0	0
Others	762	851
Allowance for bad debts	(19)	(17)
Total current assets	11,592	10,495
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	777	742
Land	608	589
Lease assets (net)	102	70
Rental assets (net)	15	11
Construction in progress	–	210
Others (net)	77	71
Total tangible fixed assets	1,580	1,695
Intangible fixed assets		
Software	167	96
Software in progress	255	927
Reputation	254	211
Others	5	5
Total intangible fixed assets	682	1,240
Investments and other assets		
Investment securities	205	205
Investment real estate (net)	7,018	6,871
Net defined benefit asset	109	125
Others	704	778
Allowance for bad debts	(0)	(0)
Total investments and other assets	8,037	7,980
Total fixed assets	10,300	10,917
Total assets	21,893	21,412

(Units: millions of yen)

	Previous consolidated fiscal year (March 31 st , 2018)	This 3 rd quarter consolidated fiscal period (December 31 st , 2018)
Liabilities		
Current liabilities		
Notes and accounts payable	760	675
Long-term debt planned for repayment within 1 year	517	171
Arrears	418	436
Lease obligations	48	36
Income taxes payable, etc.	763	224
Provision for bonuses	350	188
Provision for points card certificates	3	4
Others	921	934
Total current liabilities	3,782	2,672
Fixed liabilities		
Long-term loans payable	137	60
Lease obligations	72	61
Net defined benefit liability	917	963
Provision for product warranties	214	223
Long-term guarantee deposits	715	714
Total fixed liabilities	2,058	2,022
Total liabilities	5,840	4,695
Net assets		
Shareholder's equity		
Capital stock	2,445	2,531
Capital surplus balance	2,808	2,908
Retained earnings	10,878	11,843
Treasury stock	(208)	(693)
Total shareholder's equity	15,924	16,590
Cumulative amount of other comprehensive income		
Foreign currency translation adjustments	48	41
Remeasurements of defined benefit plans	(66)	(50)
Total other cumulative comprehensive income	(17)	(8)
Subscription rights to shares	145	135
Total net assets	16,052	16,717
Total liabilities and net assets	21,893	21,412

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(3rd quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 3 rd quarter consolidated cumulative period (From April 1 st , 2017 To December 31 st , 2017)	This 3 rd quarter consolidated cumulative period (From April 1 st , 2018 To December 31 st , 2018)
Sales	10,448	9,617
Cost of sales	4,561	4,103
Gross profit	5,887	5,514
Selling, general and administrative expenses	3,571	3,499
Operating profits	2,315	2,014
Non-operating profits		
Interest income	0	0
Real estate rental income	751	764
Others	25	9
Total non-operating profits	778	774
Non-operating expenses		
Interest expense	4	1
Real estate rental expenses	294	277
Others	9	14
Total non-operating expenses	308	294
Ordinary profits	2,785	2,495
Special profits		
Gain on reversal of subscription rights to shares	0	—
Total special profits	0	—
Special losses		
Losses on disposal of fixed assets	0	0
Loss on impairment	20	20
Debt prepayment expenses	8	—
Total special losses	29	20
Quarterly net income before adjustment for taxes, etc.	2,755	2,474
Corporation tax, etc.	894	799
Quarterly net income	1,861	1,675
Profit attributable to owners of parent	1,861	1,675

(Quarterly consolidated statements of comprehensive income)

(3rd quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 3 rd quarter consolidated cumulative period (From April 1 st , 2017 To December 31 st , 2017)	This 3 rd quarter consolidated cumulative period (From April 1 st , 2018 To December 31 st , 2018)
Quarterly net income	1,861	1,675
Other comprehensive income		
Foreign currency translation adjustments	2	(6)
Remeasurements of defined benefit plans	5	15
Total other comprehensive income	8	8
Quarterly comprehensive income	1,870	1,683
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	1,870	1,683
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.

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

We have calculated tax expenses by multiplying quarterly net income before taxes and effective tax rate that were reasonably estimated, following application of tax effect accounting for the income before taxes of the consolidated accounting period including this 3rd quarter consolidated cumulative period.

(Important events after the reporting period)

Acquisition of treasury shares

At a meeting of the board of directors held on April 1st, 2019, this company resolved matters relating to acquisition of treasury shares based on the stipulations of Article 156 of the Companies Act applied through a re-interpretation of the stipulations of Item 3, Article 165 of the aforementioned Act.

1. Reason for acquiring treasury shares

To improve flexible capital strategies and capital efficiency in line with changes in administrative environment.

2. Details of matters relating to acquisition

- | | |
|--|---|
| (1) Type of shares to be acquired: | Ordinary shares in the company |
| (2) Total number of shares to be acquired: | 500,000 share (maximum)
(Ratio of total number of issued shares (excluding treasury shares): 1.4%) |
| (3) Total amount of acquisition price of shares: | 500 million yen (maximum) |
| (4) Acquisition period: | January 7th ~June 30th, 2019 |
| (5) Acquisition method: | Market buying on Tokyo Stock Exchange |

Corporate consolidation through acquisition

This company entered into a Business Transfer Agreement on February 1st, 2019, wherein the company transferred to Janis Co., Ltd. a portion of its business relating to development and sales of systems for nursing care service providers.

1. Overview of corporate consolidation

(1) Name of acquired company and description of its business

Name of acquired company: Janis Co., Ltd.

Description of business: Development and sales of systems for nursing care service providers

(2) Main reason for conducting corporate consolidation

Our group, focusing on the super-aging society which is symbolic of the "2025 problem," has been wholeheartedly participating in the business of providing systems to nursing care service providers ever since October 2016 in order to achieve information coordination with healthcare (clinics and pharmacies) and nursing care, and following the March 2017 release of "Hirogaru Care Net," which provides solutions through cooperation between the medical and nursing care fields, in August, we released our "Tsunagaru Care Next" function (for at-home nursing care support providers and care managers). We provide an environment that enables seamless information coordination between the medical and nursing care fields by constructing a three-pronged network between systems for clinics, pharmacies, and nursing care operator.

In addition, Janis Co., Ltd., which has accumulated extensive experience and skills since its founding through its business of providing systems for nursing care service providers, possesses excellent system development capabilities. In particular, the company possesses the industry's highest class of know-how and accomplishments in the field of disability welfare service, and concentrating management resources through the business transfer concerned is expected to further strengthen the business of providing systems for nursing care service providers in the future.

(3) Date of corporate consolidation

February 1st, 2019

- (4) Legal format of corporate consolidation
 - Business transfer
- 2. Acquisition price
 - 135 million yen (tax included)
- 3. Amount of goodwill, cause of occurrence, method of amortization and amortization period
 - To be determined later.
- 4. Amount of assets accepted on business transfer date and liabilities assumed and the breakdown
 - To be determined later.

Corporate consolidation through acquisition

At a meeting of the board of directors on February 12th, 2019, this company acquired all shares in M-Win Soft Co., Ltd. and entered into a Basic Agreement regarding transformation of said company into a subsidiary.

- 1. Overview of corporate consolidation
 - (1) Name of acquired company and description of its business
 - Name of acquired company: M-Win Soft Co., Ltd.
 - Description of business: Development and sales of the nursing care support system “Sukoyaka-san”
 - (2) Main reason for conducting corporate consolidation
 - M-Win Soft Co., Ltd., which has accumulated extensive experience and skills through its business of providing systems for nursing care service providers, possesses excellent system development capabilities. In particular, the company possesses the industry’s highest class of know-how and accomplishments in the field of services for regional comprehensive support centers, and in combination with the business transfer with Janis Co., Ltd., this is expected to further strengthen the business of providing systems for nursing care service providers in the future by unifying the nursing care service business field, the disability welfare business field and the comprehensive support business field.
 - (3) Date of corporate consolidation
 - February 28th, 2019
 - (4) Legal format of corporate consolidation
 - Share acquisition
- 2. Acquisition price
 - To be determined later.
- 3. Amount of goodwill, cause of occurrence, method of amortization and amortization period
 - To be determined later.
- 4. Amount of assets accepted on business transfer date and liabilities assumed and the breakdown
 - To be determined later.