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EMMA

March 2020 First Quarter Financial results



EM SYSTEMS CO., LTD.

(TSE 1st Section: 4820)

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I . i . Highlights of Financial results



March 2020 1st Quarter Financial results (consolidated)

	2019 March 1Q	2019 March 1Q	(Millions of yen) Compared to estimated results
Sales	3,192	3,284	2.9%
Operating Profits	684	544	(20.5%)
Ordinary Profits	846	708	(16.3%)
Net Income	569	471	(17.1%)

March 2020 1st Quarter Topics

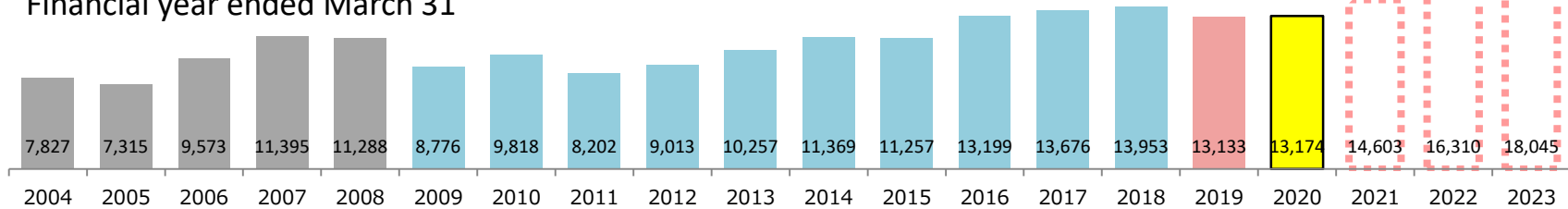
- On May 15, 2019, we issued a press announcement regarding MAPs for PHARMACY, a pharmacy-oriented business support system.
- From May, in collaboration with GLORY LTD, we began development of a system that automates input of prescription information.
- Both sales and gross profits in our long-term care/welfare business have exceeded initial plans. M&A conducted during the previous fiscal term greatly contributed to results.
- Initial costs decreased due to changes to HW provision methods and the number of Recepty NEXT sales greatly increased due to acquisition of major chain stores. (From 135 cases to 205 cases, a 51.8% increase over the same period in the previous year.)
- On July 1, we acquired all shares in Pop-Creation Co., Ltd. (thus acquiring sole ownership of the subsidiary), which conducts clinic and pharmacy-oriented business in the northern region of Kyushu.
- Subscription-based sales have increased bullishly. (Pharmacy and medical segments)

I . ii . Changes in consolidate results by fiscal year



Sales

(Millions of yen)
Financial year ended March 31

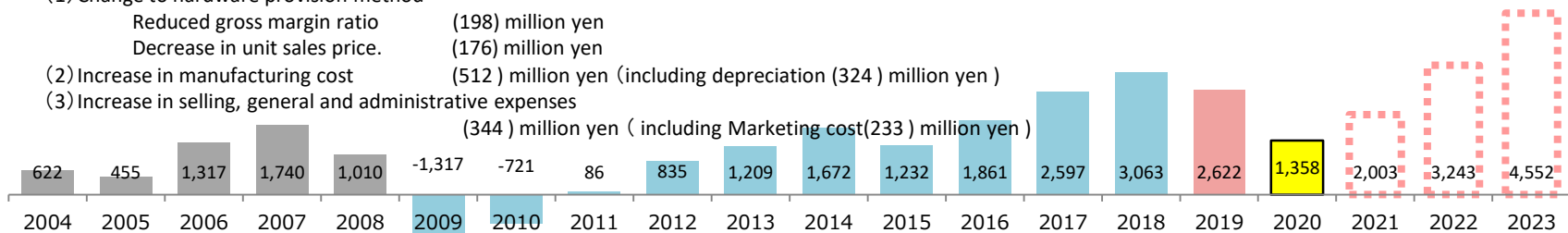


Values after March 2020 are planned values.

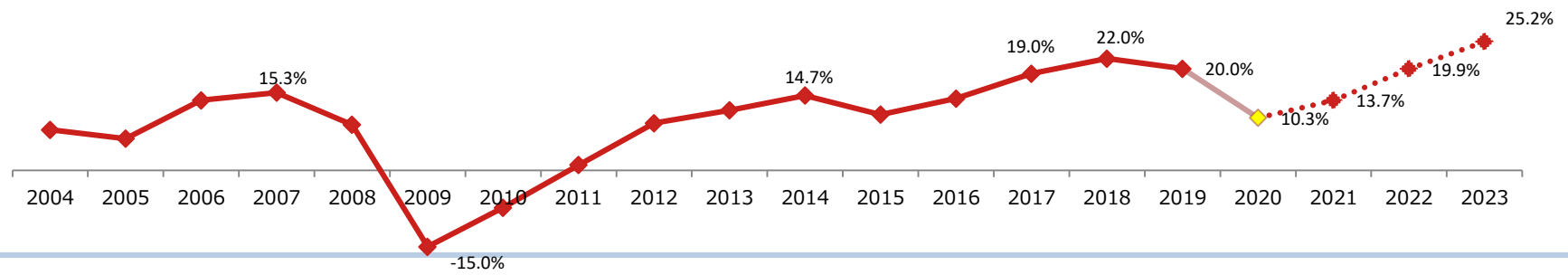
Operating Profits

Major factors in decreased operating profits regarding March 2019 and March 2020.

- (1) Change to hardware provision method
 - Reduced gross margin ratio (198) million yen
 - Decrease in unit sales price. (176) million yen
- (2) Increase in manufacturing cost (512) million yen (including depreciation (324) million yen)
- (3) Increase in selling, general and administrative expenses (344) million yen (including Marketing cost(233) million yen)



Profit Margin ratio



I . iii . Balance Sheet Summary (Units: Millions of yen)



	March 31 2019	March 31 2020 1st quarter	YoY change	YoY % change
Assets	22,351	21,968	(382)	(1.7%)
Current assets	10,930	10,469	(460)	(4.2%)
Fixed assets	11,421	11,498	77	0.7%
Tangible fixed assets	1,676	1,669	(6)	(0.4%)
Intangible fixed assets	1,930	2,101	171	8.9%
Investments and other assets	7,814	7,727	(86)	(1.1%)
Liabilities	5,733	5,294	(438)	(7.6%)
Current liabilities	3,665	3,377	(287)	(7.8%)
Fixed liabilities	2,067	1,916	(150)	(7.3%)
Net assets	16,618	16,673	55	0.3%
Shareholder's equity	16,536	16,590	54	0.3%
Cumulative amount of other comprehensive	(46)	(37)	9	(20.4%)
Stock acquisition rights	128	120	(8)	(6.7%)

Major YoY Changes

Cash on hand and in banks	(256) millions of yen
Notes and accounts receivable	(289) millions of yen

Software in progress	230 millions of yen
Goodwill	(37) millions of yen
Software	(21) millions of yen

Income taxes payable, etc.	(276) millions of yen
Notes and accounts payable	(234) millions of yen
deposits payable	155 millions of yen
deferred income	124 millions of yen

I . iv . By Segment Sales/Operating Profits



(Millions of yen)

	March 31 2019 1st quarter		March 31 2020 1st quarter					
	Sales	Operating Profits	Sales			Operating Profits		
			Results	Increase/ decrease amounts	Increase/ decrease rates	Results	Increase/ decrease amounts	Increase/ decrease rates
IT Systems for Pharmacy	2,540	658	2,458	(81)	(3.2%)	487	(170)	(26.0%)
IT Systems for Clinic	424	38	416	(7)	(1.9%)	59	20	52.7%
Other Business	255	(11)	436	181	71.1%	16	28	-

※Segmented sales and operating profits and losses are the amounts before elimination of internal transactions between segments.

- ✓IT Systems for Pharmacies···Income and profits have fallen due to decreases in initial sales and gross profits accompanying change to hardware provision method.
- ✓IT Systems for Clinics·····The number of MRN customers has steadily increased. Accompanying this, system usage fee sales have also smoothly increased.
- ✓Other Businesses ······ Both sales and gross profits in our long-term care/welfare business have exceeded initial plans. M&A conducted during the previous fiscal term greatly contributed to results.

I . v . By Segment Sales Breakdown



(Millions of yen)

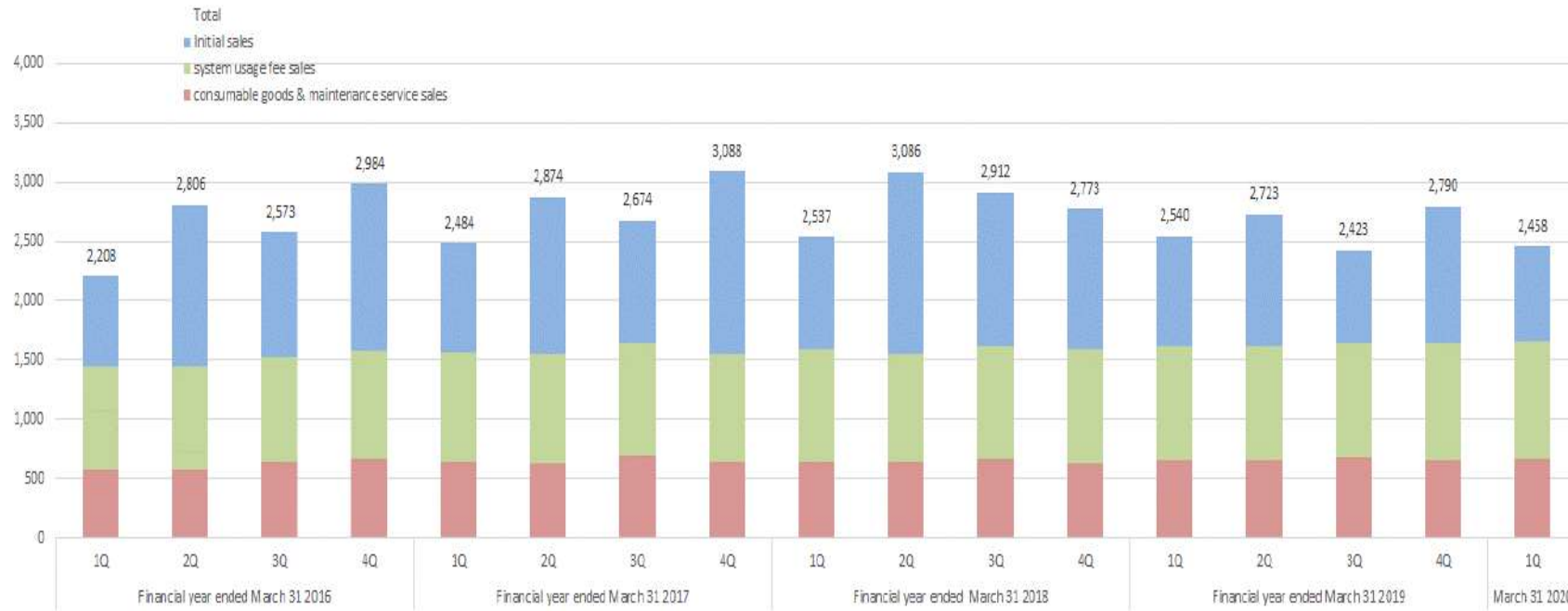
	2019 March 1Q	2020 March 1Q	YoY change	YoY % change
Net sales	3,192	3,284	91	2.9%
IT Systems for Pharmacies	2,540	2,458	(81)	(3.2%)
(initial sales)	918	801	(116)	(12.7%)
(system usage fee sales)	969	989	19	2.0%
(consumable goods sales)	500	504	4	0.9%
(maintenance service sales)	151	162	10	7.1%
IT Systems for Clinics	424	416	(7)	(1.9%)
(initial sales)	203	189	(14)	(7.2%)
(system usage fee sales)	114	132	18	15.7%
(consumable goods sales)	23	23	0	1.0%
(maintenance service sales)	82	70	(11)	(14.0%)
Other Businesses	255	436	181	71.1%
IT Systems for long-term care/welfare	11	169	158	1407.6%
(initial sales)	3	79	75	2077.9%
(system usage fee sales)	6	9	3	52.6%
(consumable goods sales)	0	0	0	(50.3%)
(maintenance service sales)	1	81	79	6438.8%
Other Businesses	244	266	22	9.4%
Adjustments	(27)	(28)	0	0.6%

* Net sales by segment are the amounts before elimination of inter-segment transactions.

I . vi . IT Systems for Pharmacies



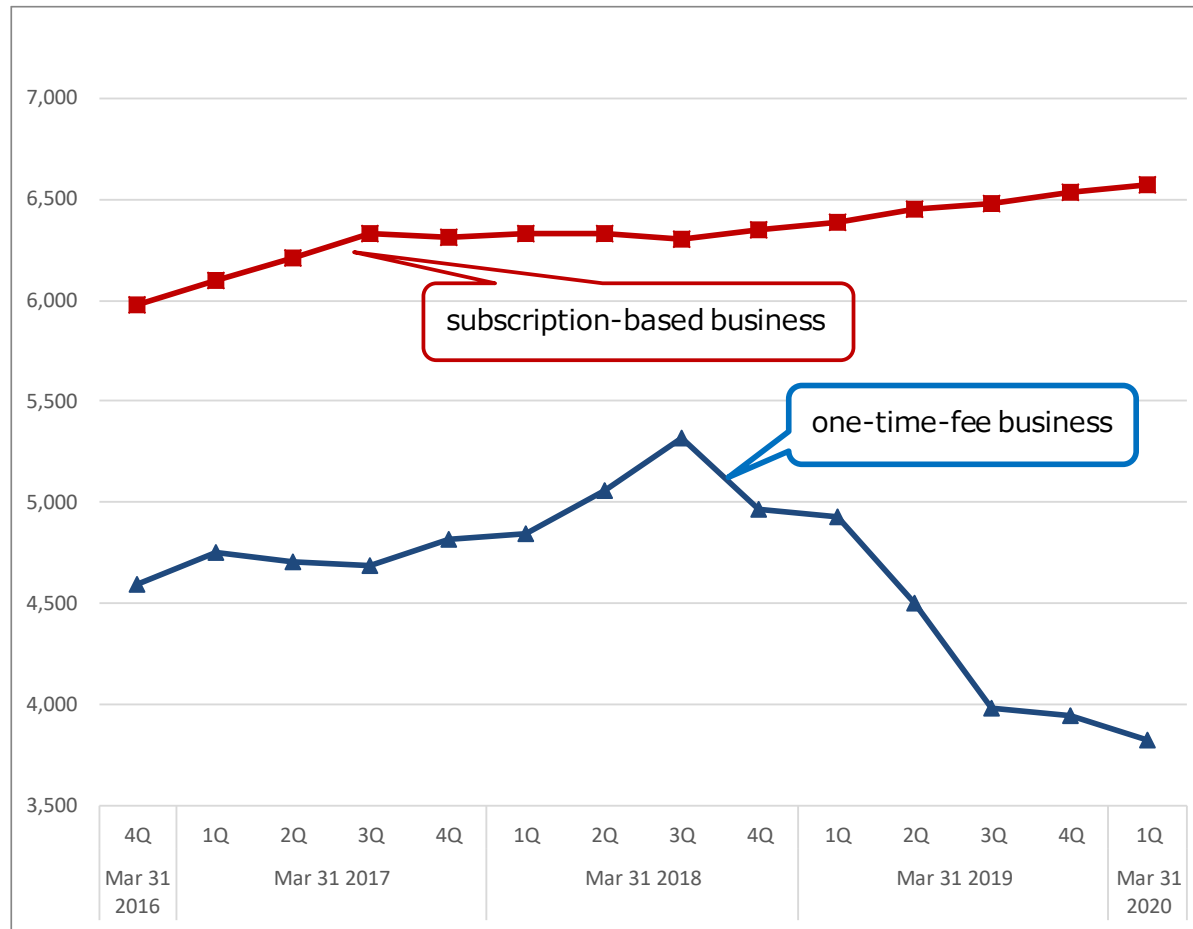
Quarterly Sales (Units: Millions of yen)



	Financial year ended March 31 2016				Financial year ended March 31 2017				Financial year ended March 31 2018				Financial year ended March 31 2019				March 31 2020
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Initial sales	768	1,365	1,055	1,409	920	1,319	1,037	1,536	953	1,532	1,297	1,179	919	1,102	776	1,144	801
system usage fee sales	862	866	884	907	928	925	951	910	946	920	948	964	969	964	972	987	989
consumable goods & maintenance service sales	578	575	634	658	636	630	686	642	638	634	667	630	652	657	675	659	668

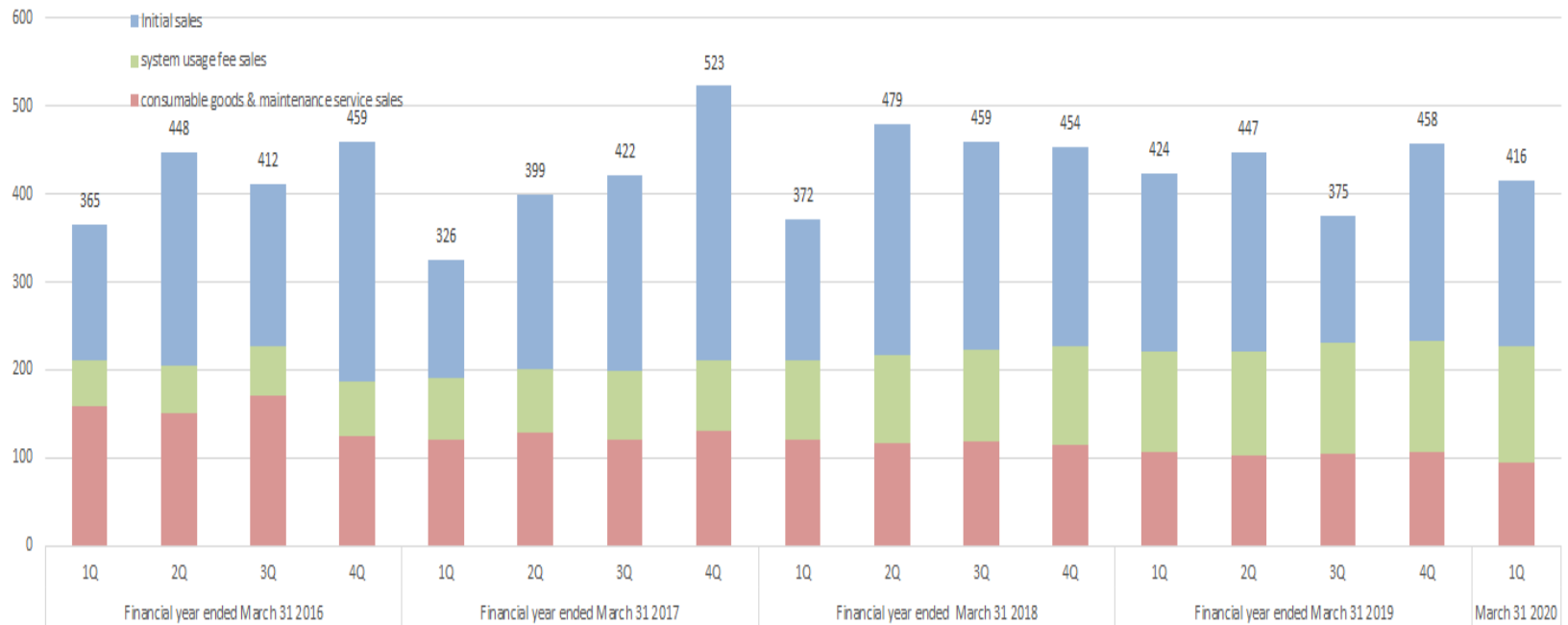
I . vi . IT Systems for Pharmacies

Moving Annual Total (Units: Millions of yen)



I . vii. IT Systems for Clinics

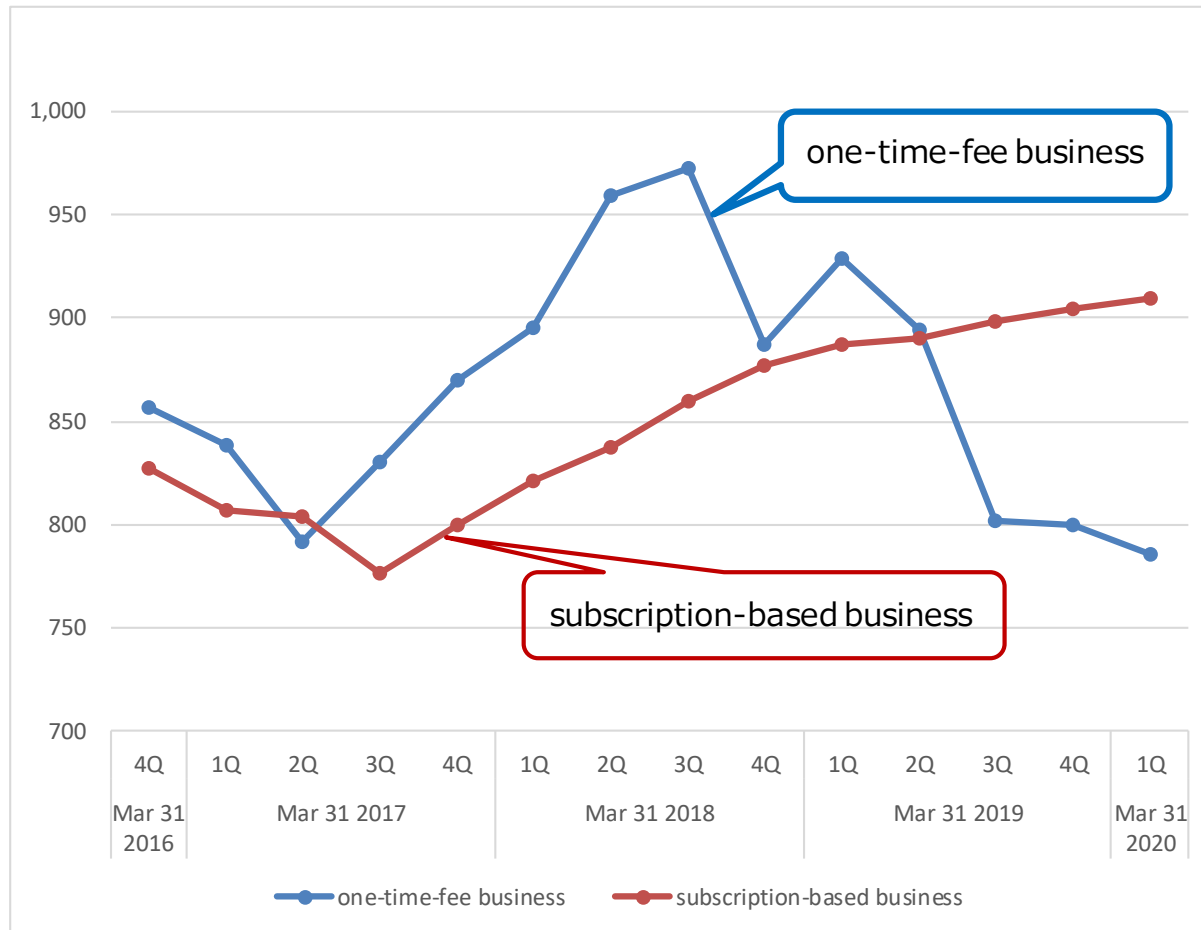
Quarterly Sales (Units: Millions of yen)



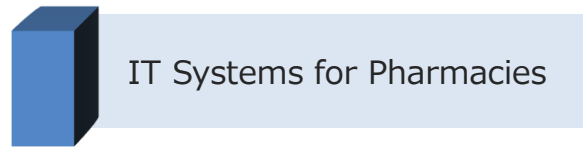
	Financial year ended March 31 2016				Financial year ended March 31 2017				Financial year ended March 31 2018				Financial year ended March 31 2019				March 31 2020
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Initial sales	155	244	185	273	136	198	223	313	161	262	237	227	203	227	145	225	189
system usage fee sales	51	53	56	61	70	73	78	80	91	101	104	113	115	118	126	127	132
consumable goods & maintenance service sales	159	151	171	125	120	128	121	130	120	116	118	114	106	102	104	106	95

I . vii. IT Systems for Clinics

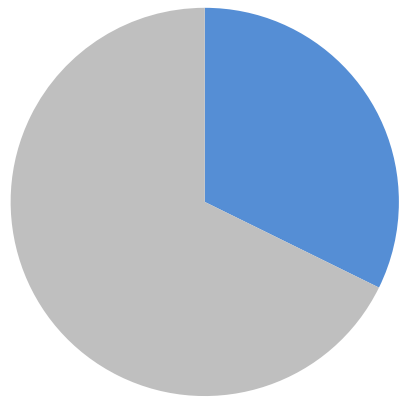
Moving Annual Total (Units: Millions of yen)



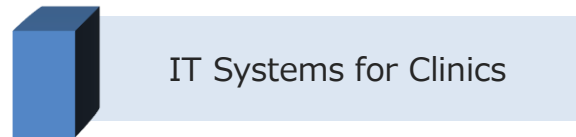
I . viii. Market Share and Number of Customers



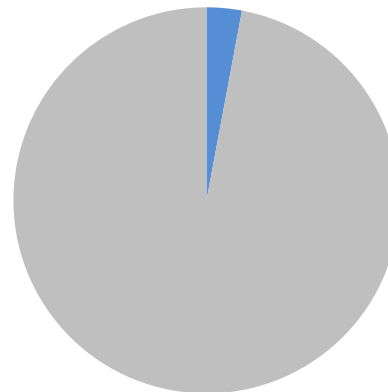
Market share 32.3%



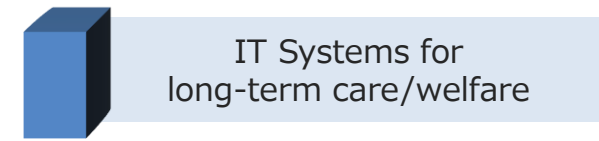
Number of customers : 16,137
 Target population : 50,000
 Mid-term goals : 25,000



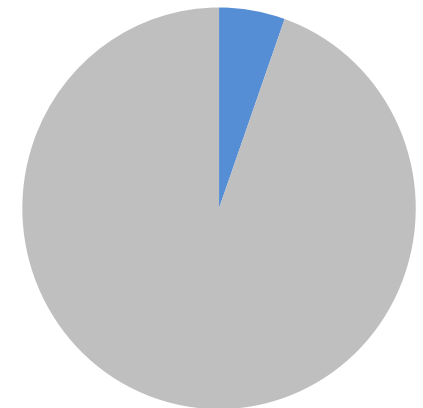
Market share 2.9%



Number of customers : 2,650
 Target population : 90,000
 Mid-term goals : 10,000



Market share 5.4%



Number of customers : 13,500
 Target population : 250,000
 Mid-term goals : 10,000

*1 The number of customers indicates the number of pharmacies and clinics that purchased our system products.

*2 The above target populations represent the number of pharmacies and clinics that we considered as our potential customers, and differ from the actual number of registered pharmacies and clinics.

*3 Mid-term goals are as announced in May 2018.

(as of June 30 , 2019)

Market environment

Pharmacies

- Due to the influence of the simultaneous reforms to medical fees and nursing fees in April 2018, our major pharmacy operations business has seen decreased profits across the board
- Due to changes in the pharmacy operations environment, pharmacies chains have been hurriedly transitioning to holding companies restructuring through M&A, etc., one after another
- Wholesale-price negotiations with various drug wholesalers relating to new drug prices is resulting in increased difficulties in pharmacy administration. (Guidelines from Ministry of Health, Labour and Welfare)
- It is possible for non-pharmacists to conduct picking and packaging operations (based on pharmacist instructions) (The General Affairs Division of the Pharmaceutical Safety and Environmental Health Bureau within the Ministry of Health, Labour and Welfare issued a notification to all administrative divisions dated April 2.)

Clinics

- The government has announced efforts toward spreading and expanding online examinations and online medication instructions. However they grow at a sluggish rise.
 - ⇒ Online examinations.....The regulatory reform conference proposed raising medical fee prices
- Proliferation of electronic medical records has exceeded 40% in clinics

Long-term care/welfare

- The market is growing due to a decrease in the number of hospital beds and an increase in the number of new facilities accompanying the aging of the population
- Increase in large-scale chain welfare facilities
- Symbiotic-type services have newly been established in order to make it easier for elderly and disabled individuals to receive services at the same office

Ⅱ . ii .Measures of first half for year ended March 31 2020

- Acquisition of new customers or those replaced from competitors through our new product (MAPs Series)
- Active development of sales in the nursing care/welfare market utilizing the powerful business tool of EM Solutions and M-Win Soft
- Commencement of development and improvement of product competitiveness in regard to MAPs for NURCING CARE in our Nursing care/welfare business
- Contribution to industry standardization and cost reduction by provision of OEM through a common engine
- Active investment in branding
- Active development of marketing activities
- Shift of branch-based sales resources toward the medical and nursing care/welfare markets
- Collaboration with GLORY LTD. on a system to support input of prescriptions (Commencement of provision from Oct. 2019)
- Promotion of work-style reform and improvement of work productivity



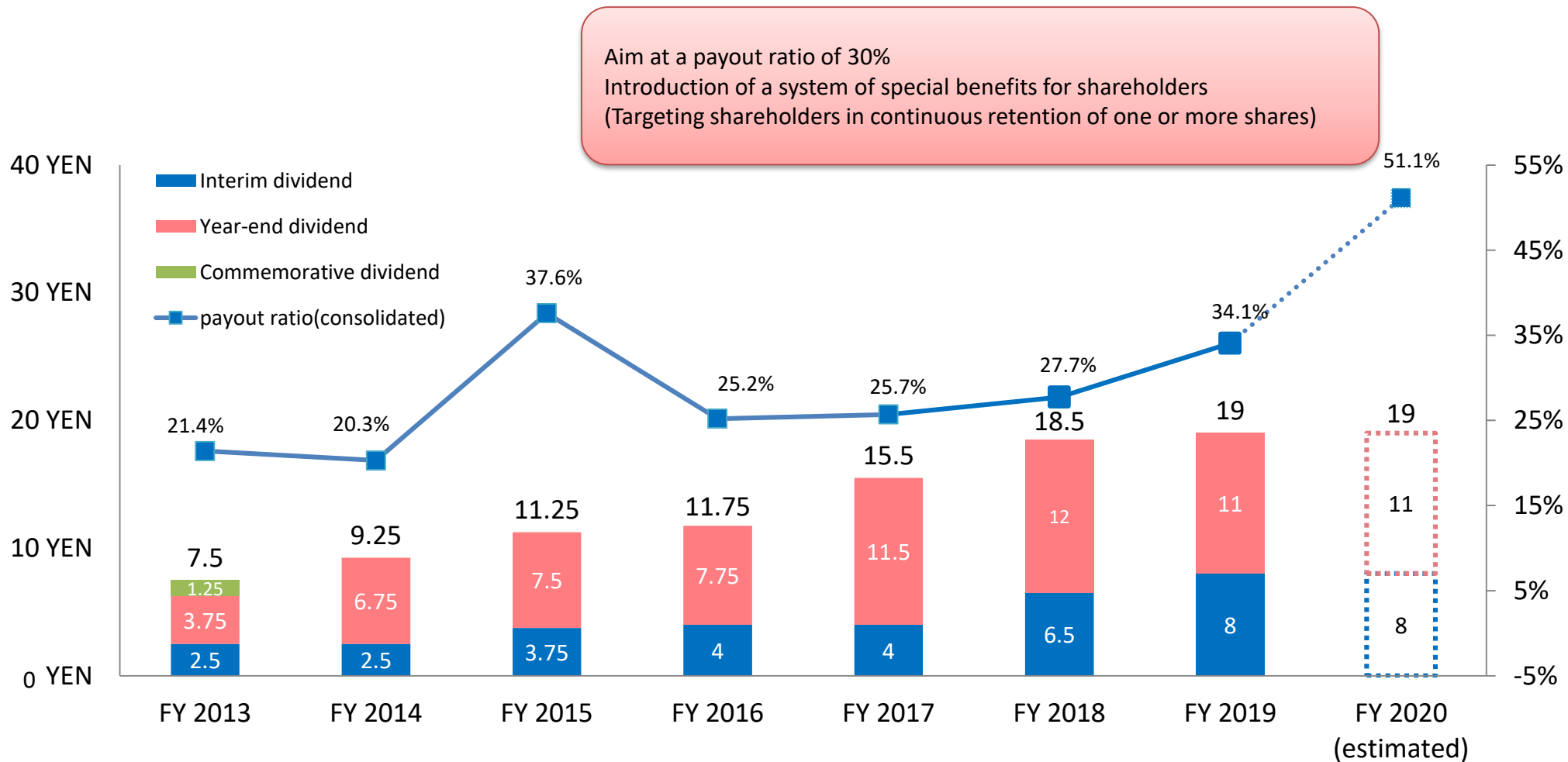
II . iii . Forecast for the fiscal year ending March 2020

(Millions of yen)

	Fiscal year ended March 31 2019 (actual)	Fiscal year ended March 31 2020 (forecast)	Compared to previous year
Sales	13,133	13,174	0.3%
Business for Pharmacy	10,476	9,423	△10.1%
Business for Clinic	1,704	2,202	29.2%
Other Business	1,063	1,648	55.0%
Adjustment	△ 109	△ 99	△9.3%
Operating Profits	2,623	1,358	△48.2%
Business for Pharmacy	2,389	1,086	△54.5%
Business for Clinic	239	258	7.9%
Other Business	0	20	—
Adjustment	(7)	(7)	△2.8%
Ordinary Profits	3,248	1,980	△39.1%
Net Income	1,971	1,307	△33.7%

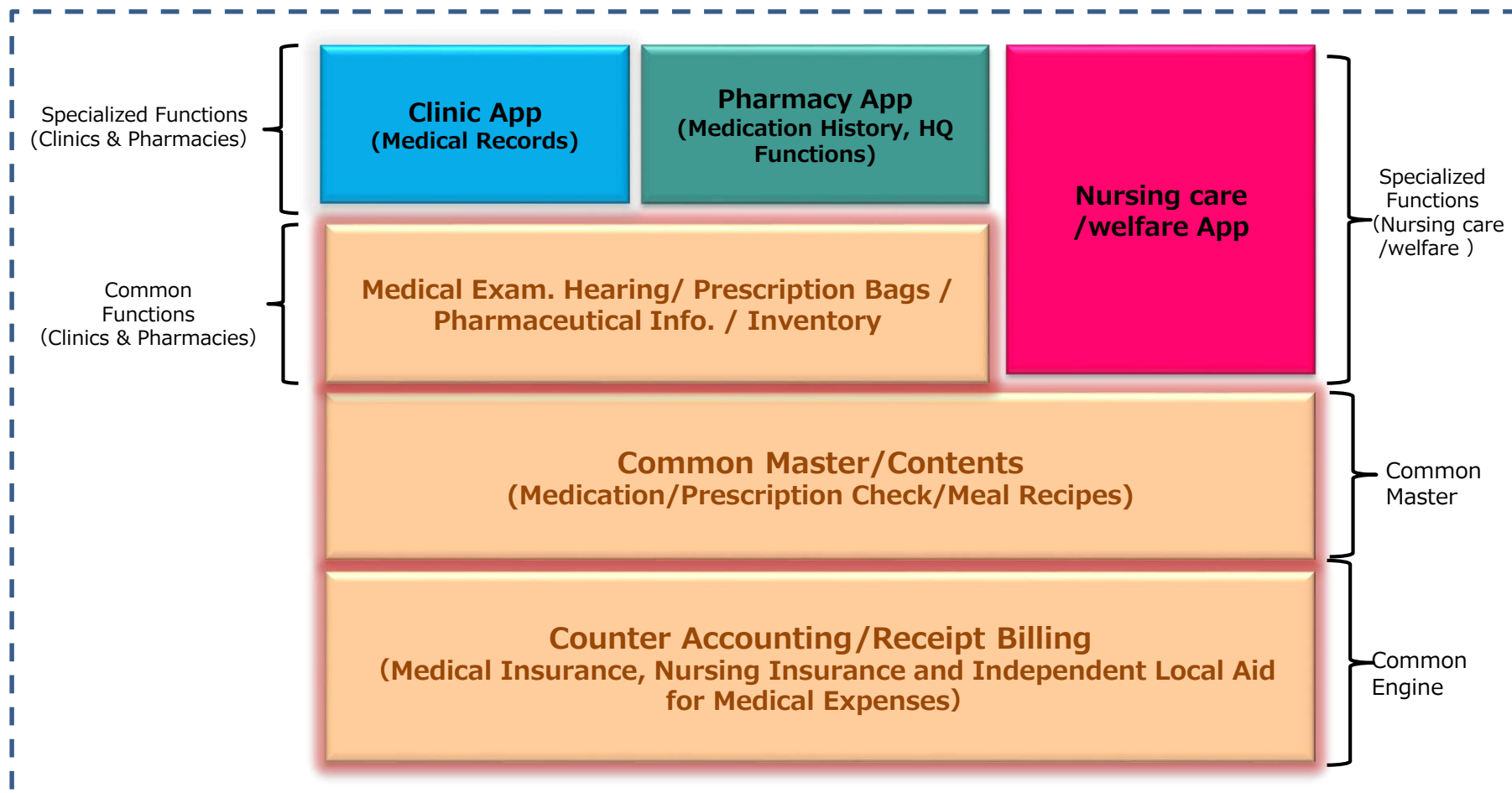
※Segmented sales and operating profits and losses are the amounts before elimination of internal transactions between segments.

II . iv . shareholder returns



*We conducted stock splits on April 1st, 2016 and March 1st, 2018 at a ratio of two shares per one ordinary share. The aforementioned information assumes that each stock split occurred at the beginning of March 2013.

II . v . Shared Information System Foundation



“MAPs Series” is the industry’s first ‘shared information system base’ that is broadly applicable across the fields of clinics, pharmacies and long-term care/welfare.

Our ‘shared information system base’ possesses the following advantages.

- Cloud-based systems and system integration within healthcare fields (clinics, pharmacies and long-term care/welfare) enables those engaged in clinics, pharmacies and long-term care/welfare to be linked together.
- Reduction in customer burden at time of introduction by enabling customers to procure desired equipment, learn how to operate the system and decide initial settings, etc. on their own.
- Medical examination and interview functions that combine “information from family doctors (in close contact with patients)” and “expertise in each field of medicine.”
- Functions that provide suggestions utilizing the latest technologies. (A feature in which the system offers suggestions to customers.)
- Functions to support creation of medical records, medication records, etc.
- Reduction in customer burden by realizing no-cost initial licensing and reduced monthly costs.

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