

March 2019 2nd Quarter Financial Statement [Japan Standard] (Consolidated)

November 9th, 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	November 12 th , 2018	Planned starting date of payment of dividends	December 3 rd , 2018		
Supplementary explanatory materials created for quarterly financial statement					: Yes
2 nd quarter financial statement briefing held					: Yes

(For Use by Analysts)

(Amounts of less than 1 million yen rounded down)

1. Consolidated results of March 2019 2nd Quarter Financial Statement (April 1st 2018 through September 30th, 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 2 nd quarter	6,594	△4.1	1,468	△2.7	1,787	△2.1	1,197	△1.4
March 2018 2 nd quarter	6,873	5.4	1,509	31.4	1,825	27.3	1,214	26.8
(Note) Comprehensive income	March 2019 2 nd Quarter	1,202	Millions of yen	(△ 1.0%)	March 2018 2 nd Quarter	1,215	Millions of yen	(29.3%)
	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 2 nd quarter	33.79				33.25			
March 2018 2 nd quarter	34.23				34.07			

(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		
March 2019 2 nd quarter	Millions of yen	Millions of yen	%	Yen 100ths of a yen		
March 2018	21,754	16,479	75.1	461.93		
	21,893	16,052	72.7	446.82		
(Refer to) Net capital	March 2019 2 nd Quarter	16,338	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 estimated results: Yes

* 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 2 nd quarter	36,516,600 shares	March 2018 period	36,347,400 shares
2. Number of own shares at end of term	March 2019 2 nd quarter	1,147,106 shares	March 2018 period	747,206 shares
3. Average number of shares outstanding during term (quarterly total)	March 2019 2 nd quarter	35,449,044 shares	March 2018 2 nd quarter	35,472,978 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 statement

(1) Explanation regarding management performance

In regard to our country's economic condition in this consolidated cumulative 2nd quarter, business conditions are expected to continue steadily transitioning as the real GDP showed a high growth rate during the April to June periods. However, due to the effects of typhoon No. 21 and heavy rains in western Japan, there exists the possibility that business recovery will temporarily slow due to suspension of plant operations and slowed exports. However, employment and income environments continue to improve and the consumption mentality of individuals is steadily transitioning, so the Japanese economy is expected to be able to remain firm.

In pharmacies, which are our company's major sales outlet, difficulties continue to increase due to the 2018 simultaneous revision of medical service and long-term care fees. In addition, in regard to major pharmacy chains, business restructuring continues due to expansions in scale caused by M&As, etc.

Our group, focusing on the super-aging society which is symbolic of the "2025 problem" (*1), offers an environment that enables seamless information coordination by constructing a three-pronged network between systems for clinics, pharmacies, and nursing operators in order to achieve information coordination with healthcare (clinics and pharmacies) 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 becoming a 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.

Performance in this consolidated cumulative 2nd quarter exceeded plans in terms of sales and operating profits. In addition, manufacturing costs were less than planned due to focusing on development of next generation systems.

On the other hand, we failed to achieve performance equal to the previous consolidated cumulative 2nd quarter. As a result, our performance for this consolidated cumulative 2nd quarter were 6,594 million yen in sales (a 4.1% decrease compared to the same period in the previous year), 1,468 million yen in operating profits (a 2.7% decrease), 1,787 million yen in ordinary profits (a 2.1% decrease), and 1,197 million yen in quarterly net income belonging to parent company shareholders (a 1.4% 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 and medical costs, and lack of workers in nursing.

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".

Under such circumstances, the number of systems sales reached the planned amount and billing sales have also 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 operating profits, but we failed to achieve sales and operating profit equal to the previous consolidated cumulative 2nd quarter.

Consequently, business for pharmacies and related businesses in this consolidated cumulative 2nd quarter were 5,263 million yen in sales (a 6.4% decrease compared with the same period in the previous year) and 1,365 million yen in operating profits (a 3.9% decrease).

(Business for Clinics and related businesses)

Regarding business for clinics 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".

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 clinics and related businesses in this consolidated cumulative 2nd quarter were 871 million yen in sales (a 2.3% increase over the same period in the previous year) and 122 million yen in operating profits (a 59.7% increase).

(*2) MRN: Medical Recepty NEXT

(Other business)

Regarding other business, our 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 drug price reforms, but sales and operating profits were above initial estimates. Furthermore, Lasante Co., Ltd. exceeded planned sales and operating profits.

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

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), 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 consolidated cumulative 2nd quarter was 513 million yen in sales (a 6.5% increase over the same period in the previous year) and 17 million yen in operating losses (compared to 3 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 consolidated cumulative 2nd quarter were 11,413 million yen, a 178 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 152 million yen decrease in cash on hand and in banks as well as a 105 million yen decrease in accounts receivable due to steady performance transitions and smooth collection of accounts receivable. Fixed assets were 10,340 million yen, a 40 million yen increase compared to the end of the previous consolidated fiscal year. This is due mainly to a decrease accompanying a 290 million yen increase in software in progress, a 97 million yen depreciation in investment real estate and a 47 million yen depreciation in software.

As a result, total assets were 21,754 million yen, a 138 million yen decrease compared to the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities at the end of this consolidated cumulative 2nd quarter were 3,261 million yen, a 521 million yen decrease compared to the end of the previous consolidated fiscal year. This is due mainly to respective decreases of 240 million yen in long-term debt planned for repayment within a year and 143 million yen in unpaid corporation tax, etc. Fixed liabilities were 2,013 million yen, a 44 million yen decrease compared to the end of the previous consolidated fiscal year. This is due mainly to a 53 million yen decrease in long-term debt.

As a result, total liabilities were 5,274 million yen, a 565 million yen decrease compared to the end of the previous consolidated fiscal year.

(Net assets)

Net assets at the end of this consolidated cumulative 2nd quarter were 16,479 million yen, a 427 million yen increase compared to the end of the previous consolidated fiscal year. This is due mainly to a steady transition of performance and a 770 million yen increase in accumulated earnings, as well as to a 63 million yen increase in capital stock and a 77 million yen increase in capital surplus balance due to disposal of our own stock accompanying execution of stock options and issuance of stocks with limitation on transfer. Another factor was a 484 million yen increase due to acquisition of our own stock.

As a result, our capital adequacy ratio was 75.1% (compared to 72.7% at the end of the previous consolidated fiscal year).

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

Estimated consolidated results for the full year ending March 2019 are as explained in the "Notification regarding Revisions to the Estimated Consolidated 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 2 nd quarter consolidated fiscal period (September 30 th , 2018)
Assets		
Current assets		
Cash on hand and in banks	8,528	8,376
Notes and accounts receivable	2,189	2,083
Merchandise and products	130	129
Raw materials and supplies	0	0
Others	762	841
Allowance for bad debts	△ 19	△ 18
Total current assets	11,592	11,413
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	777	753
Land	608	589
Lease assets (net)	102	70
Rental assets (net)	15	13
Construction in progress	—	4
Others (net)	77	74
Total tangible fixed assets	1,580	1,505
Intangible fixed assets		
Software	167	119
Software in progress	255	545
Reputation	254	225
Others	5	5
Total intangible fixed assets	682	896
Investments and other assets		
Investment securities	205	205
Investment real estate (net)	7,018	6,920
Net defined benefit asset	109	124
Others	704	689
Allowance for bad debts	△ 0	△ 0
Total investments and other assets	8,037	7,939
Total fixed assets	10,300	10,340
Total assets	21,893	21,754

(Units: millions of yen)

	Previous consolidated fiscal year (March 31 st , 2018)	This 2 nd quarter consolidated fiscal period (September 30 th , 2018)
Liabilities		
Current liabilities		
Promissory notes and accounts payable	760	722
Long-term debt planned for repayment within 1 year	517	277
Arrears	418	439
Lease liabilities	48	37
Unpaid corporation tax, etc.	763	619
Provision for bonuses	350	367
Provision for points	3	4
Others	921	793
Total current liabilities	3,782	3,261
Fixed liabilities		
Long-term debt	137	83
Lease liabilities	72	57
Net defined benefit liability	917	954
Provision for product warranties	214	202
Long-term guarantee deposits	715	714
Total fixed liabilities	2,058	2,013
Total liabilities	5,840	5,274
Net assets		
Shareholder's equity		
Capital stock	2,445	2,508
Capital surplus balance	2,808	2,885
Accumulated earnings	10,878	11,649
Own stock	△ 208	△ 693
Total shareholder's equity	15,924	16,350
Cumulative amount of other comprehensive income		
Foreign currency translation adjustments	48	43
Remeasurements of defined benefit plans	△ 66	△ 55
Total other cumulative comprehensive income	△ 17	△ 12
Stock acquisition rights	145	141
Total net assets	16,052	16,479
Total liabilities and net assets	21,893	21,754

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

(Quarterly consolidated statements of income)

(2nd quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 2 nd quarter consolidated cumulative period (From April 1 st , 2017 To September 30 th , 2017)	This 2 nd quarter consolidated cumulative period (From April 1 st , 2018 To September 30 th , 2018)
Sales	6,873	6,594
Cost of sales	2,956	2,781
Gross profit	3,917	3,812
Selling, general and administrative expenses	2,408	2,343
Operating profits	1,509	1,468
Non-operating profits		
Received interest	0	0
Real estate rental income	498	509
Others	13	6
Total non-operating profits	512	516
Non-operating expenses		
Paid interest	3	1
Real estate rental expenses	188	183
Others	4	13
Total non-operating expenses	196	198
Ordinary profits	1,825	1,787
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
Impairment loss	20	20
Debt prepayment expenses	8	–
Total special losses	29	20
Quarterly net income before adjustment for taxes, etc.	1,796	1,767
Corporation tax, etc.	581	569
Quarterly net income	1,214	1,197
Quarterly net income belong to parent company shareholders	1,214	1,197

(Quarterly consolidated statements of comprehensive income)

(2nd quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 2 nd quarter consolidated cumulative period (From April 1 st , 2017 To September 30 th , 2017)	This 2 nd quarter consolidated cumulative period (From April 1 st , 2018 To September 30 th , 2018)
Quarterly net income	1,214	1,197
Other comprehensive income		
Foreign currency translation adjustments	△3	△5
Remeasurements of defined benefit plans	3	10
Total other comprehensive income	0	5
Quarterly comprehensive income	1,215	1,202
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	1,215	1,202
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)

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 fiscal year including this 2nd quarter consolidated fiscal period, and we have calculated said estimated effective tax rate for our quarterly net income before taxes.