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## March 2020 1<sup>st</sup> Quarter Financial Statement [Japan Standard] (Consolidated)

August 9th, 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	August 9th, 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 2020 1<sup>st</sup> Quarter Financial Statement (April 1<sup>st</sup> 2019 through June 30<sup>th</sup>, 2019)

(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 2020 1 <sup>st</sup> quarter	3,284	2.9	544	(20.5)	708	(16.3)	471	(17.1)
March 2019 1 <sup>st</sup> quarter	3,192	2.5	684	19.2	846	14.1	569	14.4
(Note) Comprehensive income	March 2020 1 <sup>st</sup> Quarter	481	Millions of yen	( 15.9%)	March 2019 1 <sup>st</sup> Quarter	572	Millions of yen	17.0%
	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 2020 1 <sup>st</sup> quarter	13.42				13.22			
March 2019 1 <sup>st</sup> quarter	16.00				15.95			

(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 2020 1 <sup>st</sup> quarter	21,968	16,673	75.4	470.64
March 2019	22,351	16,618	73.8	469.07

(Refer to) Net capital March 2020 1<sup>st</sup> Quarter 16,553 Millions of yen March 2019 period 16,489 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
	Yen 100ths of a yen	Yen 100ths of a yen	Yen 100ths of a yen	Yen 100ths of a yen	Yen 100ths of a yen
March 2019	—	8.00	—	11.00	19.00
March 2020	—	8.00			
March 2020 (estimate)			—	11.00	19.00

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

3. Estimated consolidated results of March 2020 period (April 1<sup>st</sup>, 2019 through March 31<sup>st</sup>, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen 100ths of a yen
First half	6,516	(1.2)	710	(51.7)	1,010	(43.5)	679	(43.3)	19.31
Full year	13,174	0.3	1,358	(48.2)	1,980	(39.1)	1,307	(33.7)	37.18

(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 2020 1 <sup>st</sup> quarter	36,738,000 shares	March 2019 period	36,649,400 shares
2. Number of own shares at end of term	March 2020 1 <sup>st</sup> quarter	1,564,925 shares	March 2019 period	1,495,006 shares
3. Average number of shares outstanding during term (quarterly total)	March 2020 1 <sup>st</sup> quarter	35,140,415 shares	March 2019 1 <sup>st</sup> quarter	35,567,727 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 financial results

### (1) Explanation regarding operating results

In the healthcare (clinics and pharmacies) and long-term care/welfare industries during this 1st quarter consolidated cumulative period, it is thought that market scale will continue to expand due to Japan's increasingly aging society and government policies aimed at dealing with the issue. However, in the pharmacy industry, our main clients, major pharmacy chains and drug store chains showed a stark drop in profit rates in their dispensing business due to last year's simultaneous revision of medical and dispensing fees. They intend to continue to expand business scale and profits through M&A, etc.

In this environment, shifting our business model last October has enabled us to concentrate administrative resources with the aim of moving further toward a subscription business model, and we are greatly contributing to reducing the operating costs of our customers by providing products and services with high added value at lower prices.

In May, we began development of a prescription input support system in collaboration with GLORY LTD. This combines IT systems for pharmacies provided by EM Systems with optical character recognition technology from GLORY LTD. This system, which automates the input of prescription information that used to be typed into receipt computers by hand, streamlines operations and greatly contributes to the prevention of input errors. Through this collaboration, EM Systems is supporting the realization of workstyle reforms within the pharmacy industry.

On July 1, we acquired whole shares of Pop-Creation Co., Ltd., which conducts clinic and pharmacy-oriented business in the northern region of Kyushu. In the future, we will continue to expand our business in the northern region of Kyushu by providing our products and services to customers of Pop-Creation Co., Ltd. who use products from other companies and by applying the sales support abilities of Pop-Creation Co., Ltd.

We held a press conference on May 15 to announce "MAPs for PHARMACY," a pharmacy-oriented business support system. Together with "Maps for CLINIC," our "MAPs Series," a shared information system base applicable to all healthcare fields (medical departments, pharmacies and long-term care/welfare), has been extremely well-received. We intend to provide a higher level of support to improve the business and administration quality of clinics, pharmacies and long-term care/welfare service providers through the various functions possessed by this cloud-based system, which has unified systems in health care fields.

EM Systems aims to provide an environment that enables seamless information coordination between the medical (clinics and pharmacies) and long-term care/welfare fields, including hospitals, and in collaboration with NEC Corporation and CSI Co., Ltd., we are engaged in the creation of new services with a focus on the coming super-aging society by promoting utilization and application of ICT in the healthcare and medical fields.

In addition, we have been continuing cooperation between our medical-oriented systems and other services such as the drug evaluation bulletin board maintained by MedPeer, Inc. as well as provision of patient instruction slips in order to provide an additional level of safety for patients and create further social value.

We will continue to support long-term care/welfare providers by providing long-term care providers, disability welfare providers, and service providers targeting the facility-based service field and community-based integrated care centers with Tsunagaru Care NEXT, "Hibiki" series, "Symphony" and Sukoyaka-san.

As a result, our performance for this 1st quarter consolidated cumulative period was 3,284 million yen in sales (a 2.9% increase compared to the same period in the previous year), 544 million yen in operating profits (a 20.5% decrease), 708 million yen in ordinary profits (a 16.3% decrease), and 471 million yen in this quarterly net income belonging to parent company shareholders (a 17.1% decrease).

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

#### (IT Systems and Related Business for Pharmacies)

Regarding IT Systems and Related Business for Pharmacies, 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 and the amount of billing sales increased compared to the same period in the previous year, and sales of consumables have continued to be bullish. As a result, we achieved our planned sales and operating profits.

Consequently, IT Systems and Related Business for Pharmacies for this 1st quarter consolidated cumulative period resulted in 2,458 million yen in sales (a 3.2% decrease compared with the same period in the previous year) and 487 million yen in operating profits (a 26.0% decrease).

(IT Systems and Related Business for Clinics)

Regarding IT Systems and Related Business for Clinics, in order to expand our nation-wide sales channels, we have been cultivating the clinic market through retail outlets. Furthermore, we have continued to focus efforts on sales of the medical accounting systems "MRN (\*1) Clerk Style" as well as the electronic medical records systems "MRN Karte Style" and "Ortia."

"Maps for CLINIC," a diagnostic support system for clinics and one of the products in our "MAPs Series," a shared information system base that we announced last year in November, has been extremely well-received at exhibitions held in various regions.

Billing sales and sales of consumables were bullish due to sound increases in numbers of customers who newly started MRN or replaced from the competitors.

Consequently, IT Systems and Related Business for Clinics for this 1st quarter consolidated cumulative period resulted in 416 million yen in sales (a 1.9% decrease compared to the same period in the previous year) and 59 million yen in operating profits (a 52.7% increase).

(\*1) MRN: Medical Recepty NEXT

(Other businesses)

Regarding IT Systems for long-term care/welfare, we greatly exceeded planned sales through our "Hibiki" series and "Symphony," as well as through "Sukoyaka-san" by M-Win Soft Co., Ltd. As a result, we achieved our planned sales and operating profits. We achieved our planned sales and operating profits in our pharmacy operation business, sports gyms and nursery school operation business.

Furthermore, in the "commissioned project to install an online qualification checking system into the receipt creation support system for 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 EHR (\*2), in order to contribute to future developments in the healthcare industry. In regard to "infectious disease outbreak detection services," a joint research project between the Japan Medical Association, the Japan Pharmaceutical Association, and Nihon University, the number of pharmacies using the services has reached nearly 12,000 nationwide.

Consequently, other business for this 1st quarter consolidated cumulative period resulted in 436 million yen in sales (a 71.1% increase compared to the same period in the previous year) and 16 million yen in operating profits (previous period: 11 million yen in operating losses).

(\*2) EHR: Electronic Health Record

(2) Explanation regarding financial position

(Assets)

Current assets at the end of this 1st quarter consolidated cumulative period were 10,469 million yen, a 460 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 256 million yen decrease in cash on hand and in banks as well as a 289 million yen decrease in accounts receivable due to bullish performance and smooth collection of accounts receivable. Fixed assets were 11,498 million yen, a 77 million yen increase compared to the end of the previous consolidated fiscal year. While software in progress increased 230 million yen respectively accompanying development of next generation systems, this is due mainly to a decrease accompanying a 37 million yen depreciation in goodwill and a 21 million yen depreciation in software.

As a result, total assets were 21,968 million yen, a 382 million yen decrease compared to the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities at the end of this 1st quarter consolidated cumulative period were 3,377 million yen, a 287 million yen decrease compared to the end of the previous consolidated fiscal year. This is due mainly to respective decreases of 275 million yen in unpaid corporate taxes and 234 million yen in notes and accounts payable and 188 million yen in provision for bonuses, etc. Fixed liabilities were 1,916 million yen, a 150 million yen decrease compared to the end of the previous consolidated fiscal year. This is due mainly to respective decreases of 73 million yen in provision for product warranties and 43 million yen in Net defined benefit liability, etc.

As a result, total liabilities were 5,294 million yen, a 438 million yen decrease compared to the end of the previous consolidated fiscal year.

(Net assets)

Net assets at the end of this 1st quarter consolidated cumulative period were 16,673 million yen, a 55 million yen increase compared to the end of the previous consolidated fiscal year. This is due mainly to an increase of 84 million yen in earned surplus due to bullish performance, increase of 96 million yen in treasury shares due to acquisition of our own shares, etc., and respective increase on 33 million yen in capital and 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 75.4% (compared to 73.8% at the end of the previous consolidated fiscal year).

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

Estimated consolidated results for the full year ending March 2020 are unchanged from the information provided in the 2nd Quarter Consolidated Cumulative Period and Estimated Consolidated Results for the Full Year announced via the Summary of Accounts for the period ending in March 3rd Quarter 2020 Summary of Accounts that was released on May 8, 2019. In the future, if it becomes necessary to revise estimated results, we plan to disclose said revisions immediately.

## 2. Quarterly consolidated financial statements and major explanatory notes

### (1) Quarterly consolidated balance sheet

(Units: millions of yen)

	Previous consolidated fiscal year (March 31 <sup>st</sup> , 2019)	This 1 <sup>st</sup> quarter consolidated fiscal period (June 30 <sup>th</sup> , 2019)
<b>Assets</b>		
Current assets		
Cash on hand and in banks	7,487	7,231
Notes and accounts receivable	2,456	2,167
Merchandise and products	164	192
Raw materials and supplies	0	0
Others	842	897
Allowance for bad debts	(20)	(19)
Total current assets	10,930	10,469
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	737	729
Land	589	589
Lease assets (net)	57	49
Rental assets (net)	10	10
Construction in progress	210	225
Others (net)	70	65
Total tangible fixed assets	1,676	1,669
Intangible fixed assets		
Software	82	61
Software in progress	1,172	1,402
Reputation	669	632
Others	5	5
Total intangible fixed assets	1,930	2,101
Investments and other assets		
Investment securities	7	7
Investment real estate (net)	6,823	6,774
Net defined benefit asset	123	115
Others	861	831
Allowance for bad debts	(0)	(0)
Total investments and other assets	7,814	7,727
Total fixed assets	11,421	11,498
Total assets	22,351	21,968

(Units: millions of yen)

	Previous consolidated fiscal year (March 31 <sup>st</sup> , 2019)	This 1 <sup>st</sup> quarter consolidated fiscal period (June 30 <sup>th</sup> , 2019)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	1,011	776
Long-term debt planned for repayment within 1 year	104	104
Accounts payable-other	516	452
Lease obligations	34	33
Income taxes payable, etc.	530	255
Provision for bonuses	399	211
Provision for points card certificates	4	4
Others	1,064	1,540
Total current liabilities	3,665	3,377
Fixed liabilities		
Long-term loans payable	34	8
Lease obligations	53	44
Net defined benefit liability	1,029	985
Provision for product warranties	221	147
Long-term guarantee deposits	721	721
Long-term accounts payable-other	7	7
Total fixed liabilities	2,067	1,916
Total liabilities	5,733	5,294
<b>Net assets</b>		
Shareholder's equity		
Capital stock	2,558	2,591
Capital surplus balance	2,935	2,968
Retained earnings	12,140	12,224
Treasury stock	(1,097)	(1,193)
Total shareholder's equity	16,536	16,590
Cumulative amount of other comprehensive income		
Foreign currency translation adjustments	34	37
Remeasurements of defined benefit plans	(81)	(74)
Total other cumulative comprehensive income	(46)	(37)
Subscription rights to shares	128	120
Total net assets	16,618	16,673
Total liabilities and net assets	22,351	21,968

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

(Quarterly consolidated statements of income)

(1<sup>st</sup> quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 1 <sup>st</sup> quarter consolidated cumulative period (From April 1 <sup>st</sup> , 2018 To June 30 <sup>th</sup> , 2018)	This 1 <sup>st</sup> quarter consolidated cumulative period (From April 1 <sup>st</sup> , 2019 To June 30 <sup>th</sup> , 2019)
Sales	3,192	3,284
Cost of sales	1,366	1,489
Gross profit	1,825	1,794
Selling, general and administrative expenses	1,141	1,249
Operating profits	684	544
Non-operating profits		
Interest income	0	0
Real estate rental income	254	259
Others	2	4
Total non-operating profits	256	264
Non-operating expenses		
Interest expense	0	0
Real estate rental expenses	89	92
Others	5	7
Total non-operating expenses	95	101
Ordinary profits	846	708
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
Total special losses	0	0
Quarterly net income before adjustment for taxes, etc.	846	708
Corporation tax, etc.	277	236
Quarterly net income	569	471
Profit attributable to owners of parent	569	471

(Quarterly consolidated statements of comprehensive income)

(3<sup>rd</sup> quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 1 <sup>st</sup> quarter consolidated cumulative period (From April 1 <sup>st</sup> , 2018 To June 30 <sup>th</sup> , 2018)	This 1 <sup>st</sup> quarter consolidated cumulative period (From April 1 <sup>st</sup> , 2019 To June 30 <sup>th</sup> , 2019)
Quarterly net income	569	471
Other comprehensive income		
Foreign currency translation adjustments	(2)	2
Remeasurements of defined benefit plans	5	6
Total other comprehensive income	2	9
Quarterly comprehensive income	572	481
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	572	481
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 3<sup>rd</sup> quarter consolidated cumulative period.

(Important events after the reporting period)

There is no applicable information.

This financial report is solely a translation of the Company's Kessan Tanshin (including attachments) in Japanese, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.