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March 2020 2nd Quarter Financial Statement [Japan Standard] (Consolidated)

November 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	November 13 th , 2019	Planned starting date of payment of dividends	December 3 rd , 2019	
Supplementary explanatory materials created for quarterly financial statement				: Yes
Quarterly financial results briefing held (For Use by Analysts)				: Yes

(Amounts of less than 1 million yen rounded down)

1. Consolidated results of March 2020 2nd Quarter Financial Statement (April 1st 2019 through September 30th, 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 2 nd quarter	7,086	7.5	964	(34.3)	1,283	(28.2)	862	(28.0)
March 2019 2 nd quarter	6,594	(4.1)	1,468	(2.7)	1,787	(2.1)	1,197	(1.4)
(Note) Comprehensive income	March 2020 2 nd Quarter	870	Millions of yen	(27.7%)	March 2019 2 nd Quarter	1,202	Millions of yen	(1.0%)
	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 2 nd quarter	24.51				24.15			
March 2019 2 nd quarter	33.79				33.25			

(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 2 nd quarter	23,169	17,152	73.5	483.07
March 2019	22,351	16,618	73.8	469.07

(Refer to) Net capital March 2020 2nd Quarter 17,039 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 1st, 2019 through March 31st, 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
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 2 nd quarter	36,817,000 shares	March 2019 period	36,649,400 shares
2. Number of own shares at end of term	March 2020 2 nd quarter	1,542,990 shares	March 2019 period	1,495,006 shares
3. Average number of shares outstanding during term (quarterly total)	March 2020 2 nd quarter	35,187,379 shares	March 2019 2 nd quarter	35,449,044 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 2nd 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. In the pharmacy industry, our main clients, major pharmacy chains and drug store chains have been expanding business scale and revenue through M&As, and it is thought that there will be a prolonged period of even more intense competition as the industry becomes dominated by a small number of large companies.

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.

It has been decided that Recepty NEXT, one of our pharmaceutical-related systems, will be used at medical facilities in Olympic Village during the 2020 Tokyo Olympic and Paralympic Games. It is a great honor for us to have our company's experience and track record acknowledged by an international agency.

In July, we entered into a cooperative business agreement with AS ONE Corporation (listed on First Section of Tokyo Stock Exchange), a general trading company for physical science and chemical equipment, regarding sales of equipment and consumables targeting medical and long-term care providers. We sell equipment and consumables targeting the medical (clinics and pharmacies) field through the EM Online Shop. Our sales results have been increasing year by year, but through this business tie-up, we are now capable of offering products to an even larger number of customers by adding to our lineup the products handled by AS ONE, which possesses advantages in the field of physical science and chemical equipment with a focus on equipment and consumables used on-site when providing medical and long-term care.

We announced "Maps for CLINIC," a diagnostic support system for clinics, and "MAPs for PHARMACY," a pharmacy-oriented business support system, as our "MAPs Series," a shared information system base applicable to all healthcare fields (medical departments, pharmacies and long-term care/welfare), and it was 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 developed 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.

In regard to long-term care providers, disability welfare providers, and service providers targeting the facility-based service field and community-based integrated care centers, we will continue to provide support, including information coordination with the medical field.

As a result, our performance for this 2nd quarter consolidated cumulative period was 7,086 million yen in sales (a 7.5% increase compared to the same period in the previous year), 964 million yen in operating profits (a 34.3% decrease), 1,283 million yen in ordinary profits (a 28.2% decrease), and 862 million yen in this quarterly net income belonging to parent company shareholders (a 28.0% 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 our market share relating to systems for pharmacies.

Under such circumstances, the number of systems sales and the amount of system usage fee 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 2nd quarter consolidated cumulative period resulted in 5,484 million yen in sales (a 4.2% increase compared with the same period in the previous year) and 960 million yen in operating profits (a 29.6% 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, has been extremely well-received at exhibitions held in various regions.

System usage fee sales and sales of consumables were bullish due to sound increases in the number of customers who newly started MRN or replaced from the competitors.

Consequently, IT Systems and Related Business for Clinics for this 2nd quarter consolidated cumulative period resulted in 924 million yen in sales (a 6.1% increase compared to the same period in the previous year) and 94 million yen in operating profits (a 22.2% decrease).

(*1) MRN: Medical Receipty NEXT

(Other businesses)

Regarding IT Systems for long-term care/welfare, we reorganized our sales scheme and restructured our systems for achieving future growth. In addition, in regard to our "Hibiki" series and "Symphony," during this 2nd quarter consolidated cumulative period, we changed initial sales from five-year gross sales to monthly sales.

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, , and the Japan Pharmaceutical Association, the number of pharmacies using the services has reached nearly 12,000 nationwide.

Consequently, other business for this 2nd quarter consolidated cumulative period resulted in 729 million yen in sales (a 42.2% increase compared to the same period in the previous year) and 139 million yen in operating losses (previous period: 17 million yen in operating losses).

(*2) EHR: Electronic Health Record

(2) Explanation regarding financial position

(Assets)

Current assets at the end of this 2nd quarter consolidated cumulative period were 11,608 million yen, a 678 million yen increase 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 672 million yen increase in cash on hand due to bullish performance and smooth collection of accounts receivable. Fixed assets were 11,561 million yen, a 140 million yen increase compared to the end of the previous consolidated fiscal year. This is due mainly to increase software in progress a 391 million yen and to a decrease accompanying a 97 million yen depreciation in investment real estate and a 75 million yen depreciation in goodwill and a 37 million yen depreciation in software.

As a result, total assets were 23,169 million yen, a 818 million yen increase compared to the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities at the end of this 2nd quarter consolidated cumulative period were 4,084 million yen, a 419 million yen increase compared to the end of the previous consolidated fiscal year. Current liabilities increased a 519 million yen, this is due mainly to increase deferred income. Fixed liabilities were 1,933 million yen, a 134 million yen decrease compared to the end of the previous consolidated fiscal year. This is due mainly to respective decreases of 62 million yen in provision for product warranties and 34 million yen in long-term loans payable, etc.

As a result, total liabilities were 6,017 million yen, a 284 million yen increase compared to the end of the previous consolidated fiscal year.

(Net assets)

Net assets at the end of this 2nd quarter consolidated cumulative period were 17,152 million yen, a 533 million yen increase compared to the end of the previous consolidated fiscal year. This is due mainly to an increase of 475 million yen in earned surplus due to bullish performance and respective increase on 62 million yen in capital and 82 million yen in capital surplus due to exercise of subscription rights and decrease on 78 million yen in treasury stock due to acquisition of treasury stock.

As a result, our capital adequacy ratio was 73.5% (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 estimated Consolidated Results for the Full Year announced via the 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 st , 2019)	This 2 nd quarter consoli- dated fiscal period (September 30 th , 2019)
Assets		
Current assets		
Cash on hand and in banks	7,487	8,159
Notes and accounts receivable	2,456	2,435
Merchandise and products	164	157
Raw materials and supplies	0	0
Others	842	876
Allowance for bad debts	(20)	(19)
Total current assets	10,930	11,608
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	737	720
Land	589	589
Lease assets (net)	57	43
Rental assets (net)	10	9
Construction in progress	210	233
Others (net)	70	86
Total tangible fixed assets	1,676	1,682
Intangible fixed assets		
Software	82	45
Software in progress	1,172	1,563
Reputation	669	594
Others	5	5
Total intangible fixed assets	1,930	2,208
Investments and other assets		
Investment securities	7	9
Investment real estate (net)	6,823	6,726
Net defined benefit asset	123	117
Others	861	818
Allowance for bad debts	(0)	(0)
Total investments and other assets	7,814	7,670
Total fixed assets	11,421	11,561
Total assets	22,351	23,169

(Units: millions of yen)

	Previous consolidated fiscal year (March 31 st , 2019)	This 2 nd quarter consoli- dated fiscal period (September 30 th , 2019)
Liabilities		
Current liabilities		
Notes and accounts payable	1,011	1,021
Long-term debt planned for repayment within 1 year	104	85
Accounts payable-other	516	464
Lease obligations	34	33
Income taxes payable, etc.	530	464
Provision for bonuses	399	344
Provision for points card certificates	4	4
Others	1,064	1,665
Total current liabilities	3,665	4,084
Fixed liabilities		
Long-term loans payable	34	—
Lease obligations	53	36
Net defined benefit liability	1,029	1,007
Provision for product warranties	221	159
Long-term guarantee deposits	721	721
Long-term accounts payable-other	7	7
Total fixed liabilities	2,067	1,933
Total liabilities	5,733	6,017
Net assets		
Shareholder's equity		
Capital stock	2,558	2,620
Capital surplus balance	2,935	3,018
Retained earnings	12,140	12,615
Treasury stock	(1,097)	(1,175)
Total shareholder's equity	16,536	17,078
Cumulative amount of other comprehensive income		
Foreign currency translation adjustments	34	28
Remeasurements of defined benefit plans	(81)	(67)
Total other cumulative comprehensive income	(46)	(39)
Subscription rights to shares	128	112
Total net assets	16,618	17,152
Total liabilities and net assets	22,351	23,169

(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 , 2018 To September 30 th , 2018)	This 2 nd quarter consolidated cumulative period (From April 1 st , 2019 To September 30 th , 2019)
Sales	6,594	7,086
Cost of sales	2,781	3,433
Gross profit	3,812	3,653
Selling, general and administrative expenses	2,343	2,689
Operating profits	1,468	964
Non-operating profits		
Interest income	0	1
Real estate rental income	509	514
Others	6	10
Total non-operating profits	516	526
Non-operating expenses		
Interest expense	1	1
Real estate rental expenses	183	198
Others	13	8
Total non-operating expenses	198	207
Ordinary profits	1,787	1,283
Special profits		
Gain on reversal of subscription rights to shares	–	0
Negative goodwill amortization	–	4
Total special profits	–	5
Special losses		
Losses on disposal of fixed assets	0	0
Losses on impairment of fixed assets	20	–
Total special losses	20	0
Quarterly net income before adjustment for taxes, etc.	1,767	1,287
Corporation tax, etc.	569	425
Quarterly net income	1,197	862
Profit attributable to owners of parent	1,197	862

(Quarterly consolidated statements of comprehensive income)

(2nd quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 2 nd quarter consoli- dated cumulative period (From April 1 st , 2018 To September 30 th , 2018)	This 2 nd quarter consolidated cumulative period (From April 1 st , 2019 To September 30 th , 2019)
Quarterly net income	1,197	862
Other comprehensive income		
Foreign currency translation adjustments	(5)	(6)
Remeasurements of defined benefit plans	10	13
Total other comprehensive income	5	7
Quarterly comprehensive income	1,202	870
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	1,202	870
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)

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.