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March 2020 3rd Quarter Financial Statement [Japan Standard] (Consolidated)

February 12th, 2020

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 3rd Quarter Financial Statement (April 1st 2019 through December 31st, 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 3 rd quarter	10,310	7.2	1,265	(37.2)	1,748	(29.9)	1,171	(30.0)
March 2019 3 rd quarter	9,617	(8.0)	2,014	(13.0)	2,495	(10.4)	1,675	(10.0)
(Note) Comprehensive income	March 2020 3 rd Quarter	1,180	Millions of yen	(29.9%)	March 2019 3 rd Quarter	1,683	Millions of yen	(10.0%)
	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 3 rd quarter	16.63				16.39			
March 2019 3 rd quarter	23.64				23.28			

(Note) Our company conducted a stock split (effective day: January 1, 2020) at a ratio of 2 shares per 1 ordinary share. "Net quarterly profits per share" and "net quarterly profits per share after potential voting adjustments" were calculated as though the stock split concerned occurred at the beginning of previous consolidated accounting period.

(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 3 rd quarter	22,545	17,238	76.0	242.26
March 2019	22,351	16,618	73.8	234.53

(Refer to) Net capital March 2020 3rd Quarter 17,134 Millions of yen March 2019 period 16,489 Millions of yen

(Note) Our company conducted a stock split (effective day: January 1, 2020) at a ratio of 2 shares per 1 ordinary share. "Net assets per share" was calculated as though the stock split concerned occurred at the beginning of previous consolidated accounting period.

2. State of dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of term	Total
March 2019	Yen 100ths of a yen —	Yen 100ths of a yen 8.00	Yen 100ths of a yen —	Yen 100ths of a yen 11.00	Yen 100ths of a yen 19.00
March 2020	—	8.00			
March 2020 (estimate)			—	5.50	—

(Note)1. Revisions from the last published dividend estimates: None

2. Our company conducted a stock split (effective day: January 1, 2020) at a ratio of 2 shares per 1 ordinary share. 2nd quarter allotments for the fiscal years ending in March 2019 and March 2020 are recorded as the actual amount of allotment prior to this stock split.

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)	18.59

(Note) 1. Revisions from the last published forecast of financial results : None

2. Our company conducted a stock split (effective day: January 1, 2020) at a ratio of 2 shares per 1 ordinary share. Net profits per share for this period listed in the consolidated performance forecast for the fiscal year ending in March 2020 take into account the effects of this stock split.

* 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

- Changes to accounting policies accompanying revision to accounting standards, etc. : None
- Changes to accounting policies other than 1. : None
- Changes to estimates in accounting : None
- Revised restatement : None

(4) Number of shares outstanding (ordinary stock)

1. Number of shares outstanding at end of term (including own stock)	March 2020 3 rd quarter	73,813,600 shares	March 2019 period	73,298,800 shares
2. Number of own shares at end of term	March 2020 3 rd quarter	3,087,870 shares	March 2019 period	2,990,012 shares
3. Average number of shares outstanding during term (quarterly total)	March 2020 3 rd quarter	70,470,781 shares	March 2019 3 rd quarter	70,871,188 shares

(Note) Our company conducted a stock split (effective day: January 1, 2020) at a ratio of 2 shares per 1 ordinary share. Number of shares outstanding at end of term (including own stock)" and "Number of own shares at end of term" and "Average number of shares outstanding during term (quarterly total)" were calculated as though the stock split concerned occurred at the beginning of previous consolidated accounting period.

* 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 3rd 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 in October 2018 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 regard to "MAPs for CLINIC," a diagnostic support system for clinics from October 2019, we commenced shipping from Osaka and Tokyo and are in turn expanding operations into other administrative districts. We have received high praise from customers that have used to service. "MAPs for PHARMACY," our pharmacy-oriented business support system, has begun customer-side monitoring. In addition, we have begun development of "MAPs for NURSING CARE," and expectations from the market have further increased as we work to provide support for improving the quality of clinicians, pharmacists and nursing care/welfare service providers through the functions possessed by our "MAPs Series," a cloud-based system that integrates other systems within the health care field.

In collaboration with GLORY LTD., we began sales of "Prescription Reader," a prescription input support system. 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. "Prescription Reader" can be connected to "Recepty NEXT," a system for pharmacies.

In addition, there was a surge in demand for hardware replacement accompanying Microsoft's termination of support for Windows7 on January 14, 2020, which contributed to an increase in sales during this 3rd quarter period.

As a result, our performance for this 3rd quarter consolidated cumulative period was 10,310 million yen in sales (a 7.2% increase compared to the same period in the previous year), 1,257 million yen in operating profits (a 37.6% decrease), 1,740 million yen in ordinary profits (a 30.2% decrease), and 1,163 million yen in this quarterly net income belonging to parent company shareholders (a 30.5% decrease). Sales increased during the previous period, and major factors behind the decrease in profits are a switch in hardware maintenance from maintenance conducted by us to maintenance conducted by manufactures accompanying our change in business model as well as a change in sales price to further reduce customer burden.

By-segment results are as follows. In addition, we have changed the description of "IT Systems for Long-term Care/Welfare" belonged to "other business" as the report segment owing to the increasing quantitative importance from this 3rd quarter consolidated fiscal period. The results compared to the same period in the previous year were published according to the part of report segment of this 3rd quarter consolidated cumulative period.

(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.

In addition, regarding "Prescription Reader", we are actively promoting to our customers using "Recepty NEXT," a system for pharmacies.

Under such circumstances, the number of systems sales and the amount of system usage fee sales (with a focus on customers who replaced from competitors) increased compared to the same period in the previous year, and although there was a downturn after the consumption tax hike, 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 3rd quarter consolidated cumulative period resulted in 8,012 million yen in sales (a 4.2% increase compared with the same period in the previous year) and 1,336 million yen in operating profits (a 27.8% 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 by taking a broad approach using online marketing as well as conventional methods. 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."

Customers have begun full-scale operation of "MAPs for CLINIC," a diagnostic support system for clinics.

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 3rd quarter consolidated cumulative period resulted in 1,335 million yen in sales (a 7.1% increase compared to the same period in the previous year) and 158 million yen in operating profits (a 11.5% decrease).

(*1) MRN: Medical Receipty NEXT

(IT Systems and Related Business for Long-term Care/Welfare)

Regarding IT Systems for nursing care/welfare, we reorganized our sales scheme and restructured our systems for achieving future growth. We commenced development of "MAPs for NURSING CARE," and we are working toward achieving synergy with clinics and pharmacies. 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.

Consequently, IT Systems and Related Business for Long-term Care/Welfare for this 3rd quarter consolidated cumulative period resulted in 335 million yen in sales (previous period : 27 million yen in sales) and 305 million yen in operating losses (previous period: 82 million yen in operating losses).

(Other businesses)

Sales and operating profits in our pharmacy administration business are proceeding according to plan.

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 were beyond 12,000 nationwide.

Consequently, other business for this 3rd quarter consolidated cumulative period resulted in 705 million yen in sales (a 4.5% decrease compared to the same period in the previous year) and 74 million yen in operating profits (a 0.2% increase).

(*2) EHR: Electronic Health Record

(2) Explanation regarding financial position

(Assets)

Current assets at the end of this 3rd quarter consolidated cumulative period were 10,860 million yen, a 70 million yen decrease compared to the end of the previous consolidated fiscal year. Primarily, this is due to the fact that, although the company paid corporate taxes, etc. and allotted year-end dividends, there was a 430 million yen decrease in notes receivables and accounts receivable even though there was a 289 million yen increase in cash and savings due to smooth collection of accounts receivable. Fixed assets were 11,677 million yen, a 256 million yen increase compared to the end of the previous consolidated fiscal year. This is due mainly to increase software a 806 million yen and to a decrease accompanying a 187 million yen depreciation in construction in

progress and a 223 million yen software in progress and a 145 million yen depreciation in investment real estate depreciation and a 112 million yen depreciation in goodwill.

As a result, total assets were 22,537 million yen, a 185 million yen increase compared to the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities at the end of this 3rd quarter consolidated cumulative period were 3,383 million yen, a 281 million yen decrease compared to the end of the previous consolidated fiscal year. This was primarily due to a decrease of 152 million yen in notes payable and a 189 million yen in reserves for bonuses. Fixed liabilities were 1,924 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 64 million yen in provision for product warranties and 34 million yen in long-term loans payable, etc.

As a result, total liabilities were 5,307 million yen, a 425 million yen increase 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 17,230 million yen, a 611 million yen increase compared to the end of the previous consolidated fiscal year. This is due mainly to an increase of 494 million yen in earned surplus due to bullish performance and respective increase on 95 million yen in capital and 116 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 76.0% (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 3 rd quarter consoli- dated fiscal period (December 31 th , 2019)
Assets		
Current assets		
Cash on hand and in banks	7,487	7,776
Notes and accounts receivable	2,456	2,026
Merchandise and products	164	223
Raw materials and supplies	0	0
Others	842	852
Allowance for bad debts	(20)	(19)
Total current assets	10,930	10,860
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	737	709
Land	589	589
Lease assets (net)	57	37
Rental assets (net)	10	8
Construction in progress	210	23
Others (net)	70	295
Total tangible fixed assets	1,676	1,662
Intangible fixed assets		
Software	82	889
Software in progress	1,172	948
Reputation	669	565
Others	5	5
Total intangible fixed assets	1,930	2,408
Investments and other assets		
Investment securities	7	9
Investment real estate (net)	6,823	6,677
Net defined benefit asset	123	119
Others	861	809
Allowance for bad debts	(0)	(0)
Total investments and other assets	7,814	7,614
Total fixed assets	11,421	11,685
Total assets	22,351	22,545

(Units: millions of yen)

	Previous consolidated fiscal year (March 31 st , 2019)	This 3 rd quarter consoli- dated fiscal period (December 31 th , 2019)
Liabilities		
Current liabilities		
Notes and accounts payable	1,011	858
Long-term debt planned for repayment within 1 year	104	60
Accounts payable-other	516	539
Lease obligations	34	33
Income taxes payable, etc.	530	53
Provision for bonuses	399	210
Provision for points card certificates	4	4
Others	1,064	1,623
Total current liabilities	3,665	3,383
Fixed liabilities		
Long-term loans payable	34	—
Lease obligations	53	28
Net defined benefit liability	1,029	1,009
Provision for product warranties	221	156
Long-term guarantee deposits	721	721
Long-term accounts payable-other	7	7
Total fixed liabilities	2,067	1,924
Total liabilities	5,733	5,307
Net assets		
Shareholder's equity		
Capital stock	2,558	2,654
Capital surplus balance	2,935	3,051
Retained earnings	12,140	12,642
Treasury stock	(1,097)	(1,176)
Total shareholder's equity	16,536	17,172
Cumulative amount of other comprehensive income		
Foreign currency translation adjustments	34	22
Remeasurements of defined benefit plans	(81)	(60)
Total other cumulative comprehensive income	(46)	(38)
Subscription rights to shares	128	103
Total net assets	16,618	17,238
Total liabilities and net assets	22,351	22,545

(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 , 2018 To December 31 th , 2018)	This 3 rd quarter consolidated cumulative period (From April 1 st , 2019 To December 31 th , 2019)
Sales	9,617	10,310
Cost of sales	4,103	5,005
Gross profit	5,514	5,304
Selling, general and administrative expenses	3,499	4,039
Operating profits	2,014	1,265
Non-operating profits		
Interest income	0	0
Real estate rental income	764	772
Others	9	15
Total non-operating profits	774	788
Non-operating expenses		
Interest expense	1	0
Real estate rental expenses	277	292
Others	14	12
Total non-operating expenses	294	305
Ordinary profits	2,495	1,748
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.	2,474	1,753
Corporation tax, etc.	799	582
Quarterly net income	1,675	1,171
Profit attributable to owners of parent	1,675	1,171

(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 , 2018 To December 31 th , 2018)	This 3 rd quarter consolidated cumulative period (From April 1 st , 2019 To December 31 th , 2019)
Quarterly net income	1,675	1,171
Other comprehensive income		
Foreign currency translation adjustments	(6)	(12)
Remeasurements of defined benefit plans	15	20
Total other comprehensive income	8	8
Quarterly comprehensive income	1,683	1,180
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	1,683	1,180
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)

Stock split

Our company conducted a stock split dated January 1, 2020, based on a resolution at a meeting of the board of directors held on December 10, 2019.

1. Purpose of stock split

The purposes are to improve the fluidity of the shares concerned and to expand the number of investors by lowering the monetary amount of each investment unit.

2. Overview of stock split

(1) Method of split

The record date is set as December 31, 2019, and ordinary shares possessed by shareholders listed or recorded in the shareholder registry as of the end of said record date are to be split at a ratio of 2 shares per 1 ordinary share.

(2) Number of increased shares due to the split

Number of issued shares prior to stock split: 36,906,800 shares

Number of increased shares due to stock split: 36,906,800 shares

Number of issued shares after stock split: 73,813,600 shares

Total number of issuable shares after stock split: 132,000,000 shares

(3) Schedule for the split

Date of public announcement of record date: December 10, 2019

Record date: December 31, 2019

Effective day: January 1, 2020

(4) Effects on information per share

Information per share is as follows when calculated as though the stock split concerned occurred at the beginning of previous consolidated accounting period.

	Previous 3rd quarter consolidated cumulative period (From April 1 st , 2018 To December 31 st , 2018)	This 3rd quarter consolidated cumulative period (From April 1 st , 2019 To December 31 st , 2019)
Net quarterly profits per share	Yen 100ths of a yen 23.64	Yen 100ths of a yen 16.63
Net quarterly profits per share after poten- tial voting adjustments	Yen 100ths of a yen 23.28	Yen 100ths of a yen 16.39

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.