

Notice: This document has been translated from Japanese original for reference purpose only, without any warranty as to its accuracy or as to the completeness of the information. The Japanese original version is the sole official version.

December 2021 3rd Quarter Financial Statement [Japan Standard] (Consolidated)

November 10th, 2021

Listed company name	EM Systems Co., Ltd.			Listed on: Tokyo Stock Exchange
Code No.	4820	URL:	http://www.emsystems.co.jp	
Representative:	(Job title)	President&Representative Director	(Name)	Hiromasa Kunimitsu
Representative for inquiries	(Job title)	Managing director in the company, General Manager of Administration Headquarters	(Name)	Megumi Seki
Planned date of submission of quarterly report	November 10 th , 2021	Planned starting date of payment of dividends	—	
Supplementary explanatory materials created for quarterly financial statement				: No
Quarterly financial results briefing held (For Use by Analysts)				: No

(Amounts of less than 1 million yen rounded down)

1. Consolidated results of December 2021 3rd Quarter Financial Statement (January 1st 2021 through September 30th, 2021)

(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	%
December 2021 3 rd quarter	10,386	—	1,172	—	1,762	—	1,251	—
December 2020 3 rd quarter	—	—	—	—	—	—	—	—
(Note) Comprehensive income	December 2021 3 rd Quarter	1,277	Millions of yen	(—)	December 2020 3 rd Quarter	—	Millions of yen	(—)
		Quarterly net income per share			Quarterly net income per share after potential stock adjustment			
		Yen 100ths of a yen			Yen 100ths of a yen			
December 2021 3 rd quarter		17.60			17.55			
December 2020 3 rd quarter		—			—			

(Note) The "Partial Amendment to the Articles of Incorporation" of the Company was approved at the 37th Ordinary General Meeting of Shareholders held on June 16, 2020, changing the settlement period from March 31st to December 31st beginning in FY2020. As a result, since the consolidated financial statements for the third quarter of the fiscal year ending December 2020 have not yet been prepared, the percentage change for the same quarter of the previous year and the consolidated operating results (cumulative) for the third quarter of the fiscal year ending December 2020 are not stated.

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio
	Millions of yen	Millions of yen	%
December 2021 3 rd quarter	23,505	18,252	77.2
December 2020	23,096	17,734	76.4

(Refer to) Net capital	December 2021 3 rd Quarter	18,151	Millions of yen	December 2020 period	17,655	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
December 2020	—	4.00	—	6.00	10.00
December 2021	—	4.00	—		
December 2021 (estimate)			—	6.00	—

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

3. Estimated consolidated results of December 2021 period (January 1st, 2021 through December 31st, 2021)

(% 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	13,974	—	1,508	—	2,017	—	1,357	—	19.10

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

2. Following the approval of the "Partial Amendment to the Articles of Incorporation" at the 37th Ordinary General Meeting of Shareholders held on June 16, 2020, as of the year ending December 2020, the company has changed the settlement date from March 31st to December 31st. In addition, domestic subsidiaries with fiscal periods ending on dates other than December 31st will make a similar change. Accordingly, consolidated performance for the December 2020 period (the duration after the change to the fiscal period closing date) will be calculated based on the nine-month period from April to December for the company and domestic subsidiaries with fiscal periods closing in March, and based on the twelve-month period from January to December for overseas subsidiaries with fiscal periods closing in December. Therefore, regarding the consolidated performance forecast for the December 2021 period, the year-on-year rate of change will not be listed for the entire fiscal period.

* 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.10 "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)	December 2021 3 rd quarter	74,514,800 shares	December 2020 period	74,514,800 shares
2. Number of own shares at end of term	December 2021 3 rd quarter	3,333,417 shares	December 2020 period	3,478,870 shares
3. Average number of shares outstanding during term (quarterly total)	December 2021 3 rd quarter	71,089,094 shares	December 2020 3 rd quarter	—

The company changed the settlement period from March 31st to December 31st beginning in FY2020. As a result, since the consolidated financial statements for the third quarter of the fiscal year ending December 2020 have not yet been prepared, average number of shares outstanding during term (quarterly total) are not stated.

* The quarter financial statement is not subject to quarterly review by certified public accountants or auditors.

* 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.

○Table of contents of attached materials

1. QUALITATIVE INFORMATION RELATING TO THIS QUARTER'S FINANCIAL RESULTS.....	5
(1) Explanation regarding operating results.....	5
(2) Explanation regarding financial position.....	7
(3) Explanation regarding information on future prospects such as forecast of consolidated financial results.....	7
2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AND MAJOR EXPLANATORY NOTES.....	8
(1) Quarterly consolidated balance sheet.....	8
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income.....	10
(3) Addendums relating to quarterly consolidated financial statement.....	12
(Explanatory notes regarding prerequisites of going concern).....	12
(Explanatory notes for cases of considerable changes in amounts of shareholder's equity).....	12
(Application of special accounts processing in the creation of the quarterly consolidated financial statement).....	12

1. Qualitative information relating to this quarter's financial results

Following the approval of the "Partial Amendment to the Articles of Incorporation" at the 37th Ordinary General Meeting of Shareholders held on June 16, 2020, our Group changed its fiscal year-end from March 31 to December 31 from the fiscal year ending December 31, 2020.

For this reason, the comparisons in each segment are based on the reference figures calculated for the nine months from April to December 2020 as the year over year basis.

(1) Explanation regarding operating results

Although vaccination against COVID-19 is progressing, Japan's economy was still in a difficult situation during the 3rd quarter of the current consolidated cumulative period due to recurring declarations of a state of emergency and semi-state of emergency measures as a result of an increase in the cases of infection, and it remains difficult to predict the future at this point in time.

In the pharmacy industry, a major customer of our Group, the number of prescriptions has decreased because of prolonged prescription due to the spread of COVID-19, and the environment surrounding small and medium-sized pharmacies is becoming more severe. In the medical (clinic) industry, the number of patients has decreased due to restrictions in consultations of medical care subjects, and in the long-term care/welfare-related industry, changes in the business environment of our customers, such as an increase of temporary closures in outpatient care and short-term accommodation facilities, have had a considerable impact on our Group.

Under such circumstances, our Group has been focusing on web activities in addition to its usual business activities while taking proper infection control measures.

In addition, as part of the introduction of ICT in the medical field, we have started to roll out a system that enables My Number or health insurance card chips to be used at medical institution reception desks for checking credentials online. Our Group has received orders from a large number of customers as planned, and the system has been in full operation since October, and we are gradually expanding the installation of the online qualification confirmation system for our customers.

As a result, our business results for this 3rd quarter consolidated cumulative period was 10,386 million yen in sales (a 7.5% increase compared to the same period in the previous year), 1,172million yen in operating profits (a 13.0% increase), 1,762million yen in ordinary profits (a 19.9%increase), and 1,251 million yen in this quarterly net income belonging to parent company shareholders (a 17.8% increase).

Both initial sales and billed sales increased on a Year-over-Year basis as a result of an increase in the number of existing systems sold. Furthermore, an expansion in the introduction of online qualification confirmation systems is contributing to sales. On the other hand, Capitalization following the release of the "MAPs series" has decreased, and manufacturing costs have increased due to higher maintenance costs.

On July 9, 2021, our Group received its primary judgment results regarding compliance with listing maintenance criteria in a new market category from Tokyo Stock Exchange, Inc., confirming that it meets the listing maintenance criteria for the new Prime Market category. Based on this result, the board of directors decided that the Company will apply to be listed in the Prime Market. Aiming to further promote understanding of the Company's management philosophy to all stakeholders amid the demand for major changes, our Group has newly rebuilt its brand identity to increase corporate value and growth, and has decided to adopt its new "#TX Thanks Transformation" brand logo.

By segment results are as follows.

(ITS Systems and Related Business for Pharmacies)

In the IT systems and related business for pharmacies, initial sales are increasing due to an expansion in the introduction of online qualification confirmation systems and an increase in the number of existing system sales. Billing sales are also increasing as the number of customers' increases. Consequently, IT Systems and Related Business for Pharmacies for this 3rd quarter consolidated cumulative period resulted in 8,016million yen in sales (a 7.6% increase compared with the same period in the previous year) and 1,197million yen in operating profits (a 10.9% increase).

In addition, our Group will launch its "EM Analysis Support" business support BI tool and "MAPs Option BunseQI" service in October to provide total support with workload reduction and operation of pharmacies.

To meet the increase in contactless needs and online medication guidance due to the spread of COVID-19, our Group will start independently selling "Followcare", a tool for online medication guidance and follow-ups during periods of administration, provided by Good Cycle System Inc.

(IT Systems and Related Business for Clinics)

Regarding IT systems and related business for Clinics, in order to expand the sales channels nationwide, we are taking a wide range of approaches by utilizing web marketing in addition to the conventional method of developing the clinic market.

In addition to increase in initial sales due to full-scale expansion of online qualification confirmation packs and the increase in sales of existing systems, the number of customers has steadily increased due to the introduction of "MAPs for CLINIC," etc., and billing sales are also steadily increasing.

Consequently, IT Systems and Related Business for Clinics for this 3rd quarter consolidated cumulative period resulted in 1,427 million yen in sales (a 10.1% increase compared to the same period in the previous year) and 20 million yen in operating profits (previous period: 35 million yen in operating losses).

In addition, to meet the various needs of medical institutions that require a transition to ICT, our Group has released the cloud-based electronic medical record software "MAPs for CLINIC with ORCA" that links with Japan Medical Association standard receipt software ORCA provided by ORCA Management Organization Co., Ltd.

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

In the IT systems and related business for long-term care/welfare, in addition to the introduction of "Sukoyaka Sun" by large-scale facilities, billing sales are steadily increasing due to an increase in the number of licenses.

On the other hand, following the revision of the Long-term Care Act, we have invested in new system development personnel to respond to the revision, resulting in a temporary decrease in new development of "MAPs for NURSING CARE" and increased manufacturing costs.

IT Systems and Related Business for Long-term Care/Welfare for this 3rd quarter consolidated cumulative period resulted in 430 million yen in sales (a 14.4% increase compared with the same period in the previous year) and 35 million yen in operating losses (previous period: 14 million yen in operating losses).

(Other businesses)

Due to the decrease in the number of prescriptions caused by the spread of COVID-19, both the sales and operating income of the pharmacy business decreased, and following the change in the operating system of rental conference rooms, rental conference room sales are no longer included in the calculation of sales and operating income of other businesses, and both sales and operating income decreased. In addition, SG&A expenses increased due to the initial development of the cashless business.

Consequently, other business for this 3rd quarter consolidated cumulative period resulted in 519 million yen in sales (a 9.8% decrease compared to the same period in the previous year) and 33 million yen in operating losses (previous period: 7 million yen in operating losses).

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

As a sports activity support initiative, our Group is supporting a tennis academy (Ai Love All Tennis Academy) that trains professional players competing in the world and young female players who are aiming to become professionals, and has signed a contract with professional tennis players. We hope to share the enjoyment and excitement of tennis with the world, and promote communication among people in our Group to improve their physical and mental health level.

In addition, our Group is considering ways to realize its efforts at the SDGs Committee. Materiality was recently resolved at the board of directors meeting. Going forward, we will set more specific goals and announce them as soon as the details of our initiatives are ready.

(2) Explanation regarding financial position

(Assets)

Current assets at the end of 3rd quarter of the current consolidated fiscal year were 11,155 million yen, a decrease of 114 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in merchandise and products of 388 million yen, and a decrease in cash deposits of 378 million yen. Fixed assets were 12,350 million yen, an increase of 445 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in investment securities of 688 million yen.

As a result, total assets were 23,505 million yen, an increase of 409 million yen from the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities at the end of 3rd quarter of the current consolidated fiscal year were 3,361 million yen, a decrease of 114 million yen from the end of the previous consolidated fiscal year. This was mainly the result of an increase in other current liabilities of 204 million yen, due to an increase in accrued corporate tax of 180 million yen, a decrease in Notes payable and accounts payable of 140 million yen, a decrease in unearned income of 92 million yen. Fixed liabilities were 1,891 million yen, an increase of 5 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in retirement benefit liability of 44 million yen and a decrease of 35 million yen in product warranty reserves.

As a result, total liabilities were 5,253 million yen, a decrease of 109 million yen from the end of the previous consolidated fiscal year.

(Net assets)

Net assets at the end of 3rd quarter of the current consolidated fiscal year were 18,252 million yen, an increase of 518 million yen from the end of the previous consolidated fiscal year. This was mainly due to attributable to owners of 1,251 million, a decrease in payment of dividend of 710 million yen and an increase in non-controlling interests of 22 million yen.

As a result, equity ratio was 77.2% (76.4% at the end of the whole 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 December 2021 are unchanged from the information provided in estimated Consolidated Results for the Full Year announced via the Summary of Accounts that was released on February 10, 2021. 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 (December 31 st , 2020)	This 3 rd quarter consoli- dated fiscal period (September 30 th , 2021)
Assets		
Current assets		
Cash on hand and in banks	7,982	7,604
Notes and accounts receivable	2,004	1,919
Merchandise and products	248	637
Raw materials and supplies	0	0
Short-term loans receivable	-	5
Others	968	988
Allowance for bad debts	(14)	(0)
Total current assets	11,191	11,155
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	660	619
Land	525	474
Lease assets (net)	13	5
Rental assets (net)	5	2
Construction in progress	-	100
Others (net)	237	186
Total tangible fixed assets	1,441	1,389
Intangible fixed assets		
Software	1,532	1,467
Software in progress	555	626
Reputation	383	310
Others	119	112
Total intangible fixed assets	2,591	2,516
Investments and other assets		
Investment securities	9	697
Investment real estate (net)	6,938	6,796
Net defined benefit asset	120	128
Others	805	834
Allowance for bad debts	(0)	(12)
Total investments and other assets	7,872	8,444
Total fixed assets	11,905	12,350
Total assets	23,096	23,505

(Units: millions of yen)

	Previous consolidated fiscal year (December 31 st , 2020)	This 3 rd quarter consoli- dated fiscal period (September 30 th , 2021)
Liabilities		
Current liabilities		
Notes and accounts payable	833	693
Accounts payable-other	506	416
Lease obligations	24	5
Income taxes payable, etc.	176	356
Provision for bonuses	344	502
Provision for points card certificates	3	4
Others	1,586	1,382
Total current liabilities	3,476	3,361
Fixed liabilities		
Lease obligations	5	2
Net defined benefit liability	1,065	1,109
Provision for product warranties	86	51
Long-term guarantee deposits	728	728
Total fixed liabilities	1,885	1,891
Total liabilities	5,362	5,253
Net assets		
Shareholder's equity		
Capital stock	2,785	2,785
Capital surplus balance	3,283	3,347
Retained earnings	13,216	13,538
Treasury stock	(1,610)	(1,539)
Total shareholder's equity	17,675	18,131
Cumulative amount of other comprehensive income		
Foreign currency translation adjustments	31	56
Remeasurements of defined benefit plans	(51)	(36)
Total other cumulative comprehensive income	(19)	20
Subscription rights to shares	55	55
Minority interests	23	46
Total net assets	17,734	18,252
Total liabilities and net assets	23,096	23,505

(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)

	This 3 rd quarter consolidated cumulative period (From January 1 st , 2021 To September 30 th , 2021)
Sales	10,386
Cost of sales	5,367
Gross profit	5,018
Selling, general and administrative expenses	3,845
Operating profits	1,172
Non-operating profits	
Interest income	1
Dividend income	190
Real estate rental income	754
Others	7
Total non-operating profits	953
Non-operating expenses	
Interest expense	0
Real estate rental expenses	349
Others	14
Total non-operating expenses	363
Ordinary profits	1,762
Special profits	
Gain on reversal of subscription rights to shares	—
Total special profits	—
Special losses	
Losses on sale of fixed assets	—
Losses on disposal of fixed assets	1
Total special losses	1
Quarterly net income before adjustment for taxes, etc.	1,760
Corporation tax, etc.	522
Quarterly net income	1,237
Loss attributable to non-controlling interests	(13)
Profit attributable to owners of parent	1,251

(Quarterly consolidated statements of comprehensive income)

(3rd quarter consolidated cumulative period)

(Units: millions of yen)

	This 3 rd quarter consolidated cumulative period (From January 1 st , 2021 To September 30 th , 2021)
Quarterly net income	1,237
Other comprehensive income	
Foreign currency translation adjustments	24
Remeasurements of defined benefit plans	15
Total other comprehensive income	39
Quarterly comprehensive income	1,277
(Breakdown)	
Quarterly comprehensive income concerning parent company shareholders	1,290
Quarterly comprehensive income concerning non-controlling shareholders	(13)

(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 2nd quarter consolidated cumulative period.

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.