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December 2022 1st Quarter Financial Statement [Japan Standard] (Consolidated)

May 13th, 2022

| | | | | |
|---|-----------------------------|--|----------------------------|---------------------------------|
| 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 | May 13 th , 2022 | 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 2022 1st Quarter Financial Statement (January 1st 2022 through March 31st, 2022)

(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 2022 1 st quarter | 3,985 | 21.0 | 679 | 110.3 | 824 | 83.5 | 563 | 88.2 |
| December 2021 1 st quarter | 3,294 | — | 322 | — | 449 | — | 299 | — |
| (Note) Comprehensive income | December 2022 1 st Quarter | 586 | Millions of yen | (83.7) | December 2021 1 st Quarter | 319 | 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 2022 1 st quarter | 7.93 | | | | 7.91 | | | |
| December 2021 1 st quarter | 4.22 | | | | 4.21 | | | |

(Note) Due to a change in fiscal period, the fiscal year ending on December 31, 2020 is calculated as a 9-month accounting period from April 1, 2020 to December 31, 2020. As a result of this change in fiscal period, the 1st quarter of the fiscal year ending on December 31, 2021 (January 31, 2021 to March 31, 2021) and the 1st quarter of the fiscal year ending on December 31, 2020 (April 1, 2020 to June 30, 2020) are different periods of time. Accordingly, this document does not list the year-on-year quarterly ratio of increase/decrease for the 1st quarter of the fiscal year ending on December 31, 2021.

(2) Consolidated financial position

| | Total assets | Net assets | Capital adequacy ratio | net assets per share |
|---------------------------------------|---|---------------------------|------------------------|-------------------------------|
| December 2022 1 st quarter | Millions of yen 24,572 | Millions of yen 18,782 | % 76.1 | Yen 100ths of a yen 263.26 |
| December 2021 | 24,809 | 18,826 | 75.5 | 263.12 |
| (Refer to) Net capital | December 2022 1 st Quarter 18,707 | Millions of yen | December 2021 period | 18,728 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 2021 | – | 4.00 | – | 7.00 | 11.00 |
| December 2022 | – | | – | | |
| December 2022 (estimate) | | 4.00 | – | 7.00 | 11.00 |

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

3. Estimated consolidated results of December 2022 period (January 1st, 2022 through December 31st, 2022)

(% 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 | 7,493 | 12.3 | 896 | 53.8 | 1,172 | 14.6 | 797 | 15.9 | 11.20 |
| Full year | 15,682 | 8.6 | 2,003 | 7.1 | 2,635 | 1.1 | 1,817 | (0.6) | 25.53 |

(Note) 1. 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.9 "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. : Yes
- 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) | December 2022 1 st quarter | 74,514,800 shares | December 2021 period | 74,514,800 shares |
| 2. Number of own shares at end of term | December 2022 1 st quarter | 3,521,917 shares | December 2021 period | 3,335,617 shares |
| 3. Average number of shares outstanding during term (quarterly total) | December 2022 1 st quarter | 71,092,683 shares | December 2021 1 st quarter | 71,033,316 shares |

* 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.

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

(1) Explanation regarding operating results

The Japanese economy during this 1st quarter consolidated cumulative period is expected to remain harsh due to impediments to the recovery of economic activities throughout society, including temporary re-application of Focused Anti-infection Measures due to the spread of COVID-19, rising prices of resources around the world due to the situation in Ukraine, and the rising prices of goods due to the further weakening of the yen in foreign exchange markets.

In the pharmacy industry, our main clients, prescriptions are being issued for longer periods of time due to the influence of COVID-19, which has reduced the overall number of prescription slips issued. Although drug prices have been revised negatively due to revisions to the medical system conducted in April 2022, there have been efforts to promote and enhance systems to transition from drug-focused services to patient-focused services at pharmacies, including the establishment of new evaluation items such as utilization of ICT and integration of digitalization.

Against this backdrop, as a way of promoting ICT in healthcare and other fields, the government commenced development in October 2021 of a system that enables online confirmation of eligibility information using one's Individual Number or health insurance card at the reception counter of medical institutions, etc. Since last fiscal year, we have been sequentially providing service to customers scheduled to install the online eligibility verification system in time for full-scale operation.

In addition to existing systems, our billing sales volume has also increased due to expanded sales of MAPs for PHARMACY and MAPs for CLINIC.

As a result, our business results for this 1st quarter consolidated cumulative period was 3,985 million yen in sales (a 21.0% increase compared to the same period in the previous year), 679 million yen in operating profits (a 110.3% increase), 824 million yen in ordinary profits (a 83.5% increase), and 563 million yen in this quarterly net income belonging to parent company shareholders (a 88.2% increase).

By segment results are as follows.

(ITS Systems and Related Business for Pharmacies)

In regard to IT systems and related business for pharmacies, in addition to the increase of initial sales, billing sales have also increased accompanying an increase in the number of customers due to expanded incorporation of the online eligibility verification system and MAPs for PHARMACY, as well as due to an increase in the number of existing systems sold.

Consequently, IT Systems and Related Business for Pharmacies for this 1st quarter consolidated cumulative period resulted in 3,148 million yen in sales (a 26.6% increase compared with the same period in the previous year) and 751 million yen in operating profits (a 173.9% increase).

We also released MAPs Option | Prescription Reader, which we jointly developed with NeoX, Inc. with the aim of reducing the workload at pharmacy counters to support our customers' shift to patient-focused services.

(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 an increase in initial sales due to expanded incorporation of the online eligibility verification system, billing sales have also been bullish due to an increase in sales of existing systems, as well as due to a steady increase in the number of billing customers who installed MAPs for CLINIC, etc. At the same time, selling and administrative expenses have also increased due to initiatives aimed at expanding our share of the market for clinic systems.

Consequently, IT Systems and Related Business for Clinics for this 1st quarter consolidated cumulative period resulted in 538 million yen in sales (a 16.5% increase compared to the same period in the previous year) and 95 million yen in operating losses (previous period: 3 million yen in operating profits).

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

In our long-term care/welfare system business, billing sales remain bullish due to an increase in the number of licenses, while initial sales decreased due to initialization of a large project during the same period in the previous year.

Consequently, IT Systems and Related Business for Long-term Care/Welfare for this 1st quarter consolidated cumulative period resulted in 136 million yen in sales (a 18.2% decrease compared with the same period in the previous year) and 27 million yen in operating profits (a 38.7% decrease)

(Other businesses)

Both sales and operating profits in our pharmacy business decreased due to the impact of the spread of COVID-19.

Consequently, other business for this 1st quarter consolidated cumulative period resulted in 179 million yen in sales (a 8.9% decrease compared to the same period in the previous year) and 9million yen in operating losses (previous period: 0 million yen in operating profits).

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

(2) Explanation regarding financial position

(Assets)

Current assets at the end of this 1st quarter consolidated accounting period came to 11,954 million yen, a decrease of 620 million yen compared to the end of the previous consolidated fiscal year. Primarily, this is due to a 439million yen decrease in other current assets resulting from a lag in the month of receipt of accounts receivable. Fixed assets came to 12,617 million yen, an increase of 383 million yen over the end of the previous consolidated fiscal year. This was primarily due to an increase of 460 million yen in investment securities resulting from the acquisition of shares of Good Cycle Systems Inc.

As a result, total assets were 24,572 million yen, a decrease of 236 million yen from the end of the previous consolidated fiscal year

(Liabilities)

Current liabilities during this 1st quarter consolidated accounting period came to 3,872 million yen, a decrease of 294 million yen compared to the end of the previous consolidated fiscal year. This was primarily due to decreases of 352 million yen in corporate tax payable resulting from the payment of corporate tax as well as an increase of 138 million yen in reserves for bonuses. Fixed liabilities came to 1,916 million yen, an increase of 100 million yen compared to the end of the previous consolidated fiscal year. This was primarily due to an increase of 74 million yen in lease debt resulting from a new lease of a computer server.

As a result, total liabilities were 5,789 million yen, a decrease of 193 million yen from the end of the previous consolidated fiscal year.

(Net assets)

Net assets at the end of this 1st quarter consolidated accounting period came to 18,782 million yen, a decrease of 43 million yen compared to the end of the previous consolidated fiscal year. This was primarily due to an increase of 65 million yen in earned surplus resulting from dividend payments, etc. of 498 million yen, and a decrease of 131 million yen resulting from the acquisition of treasury shares, while quarterly net income belonging to parent company shareholders totaled 563 million yen.

As a result, equity ratio was 76.1% (75.5% 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 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 9, 2022. 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 , 2021) | This 1 st quarter consoli- dated fiscal period (March 31 st , 2022) |
|------------------------------------|--|---|
| Assets | | |
| Current assets | | |
| Cash on hand and in banks | 8,289 | 8,206 |
| Notes and accounts receivable | 2,555 | 2,421 |
| Merchandise and products | 688 | 725 |
| Raw materials and supplies | 0 | 0 |
| Others | 1,040 | 601 |
| Allowance for bad debts | (0) | (1) |
| Total current assets | 12,574 | 11,954 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures (net) | 604 | 594 |
| Land | 474 | 474 |
| Lease assets (net) | 4 | 124 |
| Rental assets (net) | 2 | 1 |
| Construction in progress | 72 | 71 |
| Others (net) | 174 | 159 |
| Total tangible fixed assets | 1,333 | 1,425 |
| Intangible fixed assets | | |
| Software | 1,393 | 1,301 |
| Software in progress | 732 | 805 |
| Reputation | 285 | 261 |
| Others | 109 | 106 |
| Total intangible fixed assets | 2,521 | 2,475 |
| Investments and other assets | | |
| Investment securities | 677 | 1,138 |
| Investment real estate (net) | 6,733 | 6,669 |
| Net defined benefit asset | 29 | 30 |
| Others | 955 | 893 |
| Allowance for bad debts | (15) | (14) |
| Total investments and other assets | 8,380 | 8,717 |
| Total fixed assets | 12,234 | 12,617 |
| Total assets | 24,809 | 24,572 |

(Units: millions of yen)

| | Previous consolidated fiscal year (December 31 st , 2021) | This 1 st quarter consoli- dated fiscal period (March 31 st , 2022) |
|---|--|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable | 852 | 809 |
| Accounts payable-other | 465 | 525 |
| Lease obligations | 4 | 37 |
| Income taxes payable, etc. | 663 | 311 |
| Provision for bonuses | 403 | 542 |
| Provision for points card certificates | 4 | — |
| Contract liability | — | 4 |
| Others | 1,773 | 1,640 |
| Total current liabilities | 4,167 | 3,872 |
| Fixed liabilities | | |
| Lease obligations | 1 | 75 |
| Net defined benefit liability | 1,039 | 1,056 |
| Provision for product warranties | 50 | 49 |
| Long-term guarantee deposits | 724 | 734 |
| Total fixed liabilities | 1,815 | 1,916 |
| Total liabilities | 5,983 | 5,789 |
| Net assets | | |
| Shareholder's equity | | |
| Capital stock | 2,785 | 2,785 |
| Capital surplus balance | 3,347 | 3,347 |
| Retained earnings | 14,116 | 14,181 |
| Treasury stock | (1,539) | (1,671) |
| Total shareholder's equity | 18,708 | 18,642 |
| Cumulative amount of other comprehensive income | | |
| Foreign currency translation adjustments | 69 | 92 |
| Remeasurements of defined benefit plans | (49) | (46) |
| Total other cumulative comprehensive income | 19 | 46 |
| Subscription rights to shares | 55 | 55 |
| Minority interests | 42 | 37 |
| Total net assets | 18,826 | 18,782 |
| Total liabilities and net assets | 24,809 | 24,572 |

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

(Quarterly consolidated statements of income)

(1st quarter consolidated cumulative period)

(Units: millions of yen)

| | Previous 1 st quarter consolidated cumulative period (From January 1 st , 2021 To March 31 st , 2021) | This 1 st quarter consolidated cumulative period (From January 1 st , 2022 To March 31 st , 2022) |
|--|--|--|
| Sales | 3,294 | 3,985 |
| Cost of sales | 1,666 | 1,930 |
| Gross profit | 1,628 | 2,054 |
| Selling, general and administrative expenses | 1,305 | 1,375 |
| Operating profits | 322 | 679 |
| Non-operating profits | | |
| Interest income | 0 | 0 |
| Real estate rental income | 244 | 258 |
| Others | 6 | 3 |
| Total non-operating profits | 251 | 263 |
| Non-operating expenses | | |
| Interest expense | 0 | 4 |
| Real estate rental expenses | 120 | 110 |
| Others | 4 | 2 |
| Total non-operating expenses | 125 | 117 |
| Ordinary profits | 449 | 824 |
| Special losses | | |
| Losses on disposal of fixed assets | 1 | 0 |
| Total special losses | 1 | 0 |
| Quarterly net income before adjustment for taxes, etc. | 447 | 824 |
| Corporation tax, etc. | 149 | 265 |
| Quarterly net income | 297 | 559 |
| Loss attributable to non-controlling interests | (1) | (4) |
| Profit attributable to owners of parent | 299 | 563 |

(Quarterly consolidated statements of comprehensive income)

(1st quarter consolidated cumulative period)

(Units: millions of yen)

| | Previous 1 st quarter consolidated cumulative period (From January 1 st , 2021 To March 31 st , 2021) | This 1 st quarter consolidated cumulative period (From January 1 st , 2022 To March 31 st , 2022) |
|--|--|--|
| Quarterly net income | 297 | 559 |
| Other comprehensive income | | |
| Foreign currency translation adjustments | 16 | 23 |
| Remeasurements of defined benefit plans | 5 | 3 |
| Total other comprehensive income | 21 | 27 |
| Quarterly comprehensive income | 319 | 586 |
| (Breakdown) | | |
| Quarterly comprehensive income concerning parent company shareholders | 321 | 591 |
| Quarterly comprehensive income concerning non-controlling shareholders | (1) | (4) |

(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 1st 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.