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December 2022 2nd Quarter Financial Statement [Japan Standard] (Consolidated)

August 9th, 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	August 9 th , 2022	Planned starting date of payment of dividends	September 2 nd 2022	TEL: +81(0)6-6397-1888
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 December 2022 2nd Quarter Financial Statement (January 1st 2022 through June 30th, 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 2 nd quarter	8,164	21.0	1,360	133.4	1,603	56.7	1,089	58.4	
December 2021 2 nd quarter	6,672	5.5	582	(31.6)	1,023	(11.7)	687	(14.3)	
(Note) Comprehensive income	December 2022 2 nd Quarter	1,134	Millions of yen	(59.4)	December 2021 2 nd Quarter	711	Millions of yen	(13.1)	
		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 2 nd quarter		15.35				15.31			
December 2021 2 nd quarter		9.68				9.65			

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	net assets per share
December 2022 2 nd quarter	Millions of yen 24,787	Millions of yen 19,088	% 76.6	Yen 100ths of a yen 268.51
December 2021	24,809	18,826	75.5	263.12
(Refer to) Net capital	December 2022 2 nd Quarter 18,999	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				
December 2021	–	4.00	–	7.00	11.00
December 2022	–	4.00	–	–	–
December 2022 (estimate)	–	–	–	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
Full year	16,436	13.9	2,431	30.0	2,977	14.2	2,063	12.8	29.07

(Note) 1. Revisions from the last published forecast of financial results: Yes

* 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

1. Changes to accounting policies accompanying revision to accounting standards, etc. : Yes

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 2022 2 nd quarter	74,514,800 shares	December 2021 period	74,514,800 shares
2. Number of own shares at end of term	December 2022 2 nd quarter	3,755,549 shares	December 2021 period	3,335,617 shares
3. Average number of shares outstanding during term (quarterly total)	December 2022 2 nd quarter	70,960,450 shares	December 2021 2 nd quarter	71,042,583 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

Although economic and social activities are gradually returning to normal owing to the progression of COVID-19 vaccinations and other factors, the Japanese economy during this 2nd quarter consolidated period remains unpredictable due to the prolonged situation in Ukraine, the rising prices of goods due to the rapid depreciation of the yen in foreign exchange markets, and other reasons.

In the pharmacy industry, our main clients, in addition to the initialization 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. as well as the establishment of new evaluation items that address utilization of ICT and integration of digitalization due to revisions to the medical system conducted in April 2022, there have been further efforts to promote and enhance systems to transition from drug-focused services to patient-focused services at pharmacies.

Against this backdrop, we have been securing the materials and personnel necessary to install online eligibility verification systems, and expanding the scope of installations to encompass customers who plan to initialize the system.

In addition, our billing sales volume has also increased due to an increase in the number of customers.

As a result, our business results for this 2nd quarter consolidated cumulative period was 8,164 million yen in sales (a 22.4% increase compared to the same period in the previous year), 1,360 million yen in operating profits (a 133.4% increase), 1,603 million yen in ordinary profits (a 56.7% increase), and 1,089 million yen in this quarterly net income belonging to parent company shareholders (a 58.4% 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 2nd quarter consolidated cumulative period resulted in 6,500 million yen in sales (a 27.4% increase compared with the same period in the previous year) and 1,496 million yen in operating profits (a 153.2% increase).

We also began joint development together with Good Cycle Systems Inc., one of our group companies, of MAPs for PHARMACY DX (tentative name) as a system to support pharmacies and pharmacists in their 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 2nd quarter consolidated cumulative period resulted in 1,072 million yen in sales (a 16.5% increase compared to the same period in the previous year) and 184 million yen in operating losses (previous period: 16 million yen in operating losses).

(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 pre-

vious year. We also experienced an increase in manufacturing costs due to investments in new system development personnel in response to revisions to the Long-Term Care Act in excess of those expected in the same period of the previous year.

Consequently, IT Systems and Related Business for Long-term Care/Welfare for this 2nd quarter consolidated cumulative period resulted in 268 million yen in sales (a 11.4% decrease compared with the same period in the previous year) and 55 million yen in operating profits (previous period: 4 million yen in operating profits)

(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 2nd quarter consolidated cumulative period resulted in 347 million yen in sales (a 2.3% decrease compared to the same period in the previous year) and 22million yen in operating losses (previous period: 11 million yen in operating losses).

(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 2nd quarter consolidated accounting period came to 12,362 million yen, a decrease of 212 million yen compared to the end of the previous consolidated fiscal year. Primarily, this is due to a 241million yen decrease in notes and accounts receivable. Fixed assets came to 12,425 million yen, an increase of 190 million yen over the end of the previous consolidated fiscal year. This was primarily due to an increase of 365 million yen in investment securities and a decrease of 202 million yen in software.

As a result, total assets were 24,787 million yen, a decrease of 21 million yen from the end of the previous consolidated fiscal year

(Liabilities)

Current liabilities during this 2nd quarter consolidated accounting period came to 3,788 million yen, a decrease of 378 million yen compared to the end of the previous consolidated fiscal year. This was primarily due to decreases of 111 million yen in provision for bonuses due to payment of bonuses as well as 107 million yen in notes and accounts payable. Fixed liabilities came to 1,910 million yen, an increase of 94 million yen compared to the end of the previous consolidated fiscal year. This was primarily due to an increase of 73 million yen in lease obligations resulting from the acquisition of lease assets.

As a result, total liabilities were 5,699 million yen, a decrease of 283 million yen from the end of the previous consolidated fiscal year.

(Net assets)

Net assets at the end of this 2nd quarter consolidated accounting period came to 19,088 million yen, an increase of 262 million yen compared to the end of the previous consolidated fiscal year. This was primarily due to acquisition of 344 million yen in treasury stock, while retained earnings increased by 561 million yen.

As a result, equity ratio was 76.6% (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 2022 have been changed from the information provided in Estimated Consolidated Results for the Full Year announced via the Summary of Accounts for Fiscal Year Ending December 2021 that was released on February 9, 2022. For details, please see to the Notification on Estimated Results for 2nd Quarter Consolidated Accounting Period in Fiscal Year Ending December 2022 and Variance from Actual Values & Revision to Estimated Consolidated Results for the Full Year, released on August 9, 2022.

2. Quarterly consolidated financial statements and major explanatory notes

(1) Quarterly consolidated balance sheet

(Units: millions of yen)

	Previous consolidated fiscal year (December 31st, 2021)	This 2 nd quarter consoli- dated fiscal period (June 30th, 2022)
Assets		
Current assets		
Cash on hand and in banks	8,289	8,418
Notes and accounts receivable	2,555	2,314
Merchandise and products	688	634
Raw materials and supplies	0	0
Others	1,040	995
Allowance for bad debts	(0)	(1)
Total current assets	12,574	12,362
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	604	586
Land	474	474
Lease assets (net)	4	115
Rental assets (net)	2	1
Construction in progress	72	71
Others (net)	174	159
Total tangible fixed assets	1,333	1,408
Intangible fixed assets		
Software	1,393	1,191
Software in progress	732	860
Reputation	285	237
Others	109	104
Total intangible fixed assets	2,521	2,393
Investments and other assets		
Investment securities	677	1,043
Investment real estate (net)	6,733	6,622
Net defined benefit asset	29	29
Others	955	941
Allowance for bad debts	(15)	(13)
Total investments and other assets	8,380	8,623
Total fixed assets	12,234	12,425
Total assets	24,809	24,787

(Units: millions of yen)

	Previous consolidated fiscal year (December 31 st , 2021)	This 2 nd quarter consoli- dated fiscal period (June 30th, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable	852	744
Accounts payable-other	465	494
Lease obligations	4	37
Income taxes payable, etc.	663	596
Provision for bonuses	403	292
Provision for points card certificates	4	
Contract liability	—	1,042
Others	1,773	580
Total current liabilities	4,167	3,788
Fixed liabilities		
Lease obligations	1	74
Net defined benefit liability	1,039	1,072
Provision for product warranties	50	24
Long-term guarantee deposits	724	739
Total fixed liabilities	1,815	1,910
Total liabilities	5,983	5,699
Net assets		
Shareholder's equity		
Capital stock	2,785	2,785
Capital surplus balance	3,347	3,347
Retained earnings	14,116	14,678
Treasury stock	(1,539)	(1,883)
Total shareholder's equity	18,708	18,926
Cumulative amount of other comprehensive income		
Foreign currency translation adjustments	69	115
Remeasurements of defined benefit plans	(49)	(42)
Total other cumulative comprehensive income	19	72
Subscription rights to shares	55	55
Minority interests	42	33
Total net assets	18,826	19,088
Total liabilities and net assets	24,809	24,787

(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 January 1 st , 2021 To June 30 th , 2021)	This 2 nd quarter consolidated cumulative period (From January 1 st , 2022 To June 30 th , 2022)
Sales	6,672	8,164
Cost of sales	3,551	4,051
Gross profit	3,120	4,113
Selling, general and administrative expenses	2,537	2,753
Operating profits	582	1,360
Non-operating profits		
Interest income	1	0
Dividend income	190	—
Real estate rental income	492	517
Others	4	5
Total non-operating profits	688	525
Non-operating expenses		
Interest expense	0	4
Real estate rental expenses	235	208
Equity Losses of Affiliated Companies	—	65
Others	12	4
Total non-operating expenses	248	283
Ordinary profits	1,023	1,603
Special losses		
Losses on disposal of fixed assets	1	0
Total special losses	1	0
Quarterly net income before adjustment for taxes, etc.	1,021	1,603
Corporation tax, etc.	341	522
Quarterly net income	679	1,080
Loss attributable to non-controlling interests	(7)	(8)
Profit attributable to owners of parent	687	1,089

(Quarterly consolidated statements of comprehensive income)

(2nd quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 2 nd quarter consolidated cumulative period (From January 1 st , 2021 To June 30 th , 2021)	This 2 nd quarter consolidated cumulative period (From January 1 st , 2022 To June 30 th , 2022)
Quarterly net income	679	1,080
Other comprehensive income		
Foreign currency translation adjustments	21	46
Remeasurements of defined benefit plans	10	7
Total other comprehensive income	31	53
Quarterly comprehensive income	711	1,134
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	719	1,142
Quarterly comprehensive income concerning non-controlling shareholders	(7)	(8)

(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.