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December 2023 1st Quarter Financial Statement [Japan Standard] (Consolidated)

May 11th, 2023

Listed company name	EM Systems Co., Ltd.			Listed on: Tokyo Stock Exchange
Code No.	4820	URL:	https://emsystems.co.jp	
Representative:	(Job title)	President&Representative Director	(Name)	Hirosasa 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 11 th , 2023	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 2023 1st Quarter Financial Statement (January 1st 2023 through March 31st, 2023)

(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 2023 1 st quarter	4,877	22.4	851	25.4	961	16.6	511	(9.3)	
December 2022 1 st quarter	3,985	21.0	679	110.3	824	83.5	563	88.2	
(Note) Comprehensive income	December 2023 1 st Quarter	535	Millions of yen	(8.7)	December 2022 1 st Quarter	586	Millions of yen	83.7	
		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 2023 1 st quarter		7.24				7.22			
December 2022 1 st quarter		7.93				7.91			

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
December 2023 1 st quarter	Millions of yen 26,684	Millions of yen 19,468	% 72.7	Yen 100ths of a yen 274.47
December 2022	26,349	19,503	73.7	274.94
(Refer to) Net capital	December 2023 1 st Quarter 19,390	Millions of yen	December 2022 period 19,424	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
December 2022	Yen 100ths of a yen -	Yen 100ths of a yen 4.00	Yen 100ths of a yen -	Yen 100ths of a yen 8.00	Yen 100ths of a yen 12.00
December 2023 (estimate)	-	5.00	-	7.00	12.00

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

3. Estimated consolidated results of December 2023 period (January 1st, 2023 through December 31st, 2023)

(% 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	9,342	14.4	1,033	(24.0)	1,290	(19.5)	827	(24.0)	11.72
Full year	19,608	15.9	2,827	18.0	3,333	19.4	2,217	17.1	31.39

(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.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. : 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 2023 1 st quarter	74,514,800 shares	December 2022 period	74,514,800 shares
2. Number of own shares at end of term	December 2023 1 st quarter	3,865,949 shares	December 2022 period	3,865,149 shares
3. Average number of shares outstanding during term (quarterly total)	December 2023 1 st quarter	70,649,018 shares	December 2022 1 st quarter	71,092,683 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.

○Table of contents of attached materials

1. QUALITATIVE INFORMATION RELATING TO THIS QUARTER'S FINANCIAL RESULTS	4
(1) Explanation regarding operating results	4
(2) Explanation regarding financial position	5
(3) Explanation regarding information on future prospects such as forecast of consolidated financial results	6
2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AND MAJOR EXPLANATORY NOTES	7
(1) Quarterly consolidated balance sheet	7
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income	9
(3) Addendums relating to quarterly consolidated financial statement	10
(Explanatory notes regarding prerequisites of going concern)	10
(Explanatory notes for cases of considerable changes in amounts of shareholder's equity)	10
(Application of special accounts processing in the creation of the quarterly consolidated financial statement)	10
(Accounting policy revisions)	10

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

(1) Explanation regarding operating results

During this consolidated fiscal year, the Japanese economy showed signs of recovery in some areas, mainly in terms of personal consumption, as the country sought to engage in economic activities while still preventing new COVID-19 infections. However, uncertainty regarding international affairs, instabilities in the European and US financial markets due to sustained interest rate hikes, and sharp fluctuations in the yen exchange rate resulted in soaring energy costs and raw material prices, and the impact of these rising prices on households and supply-side constraints continue to require attention.

In the medical industry, our main clients, medical institutions, etc. continue to introduce systems that enable online verification of eligibility information using one's Individual Number or health insurance card at the reception counter, and the pace of introduction is accelerating as this becomes mandatory from April 2023 (transitional measures apply until September 2023) due to revisions to the medical system enacted in April 2022. In addition, use of these online eligibility verification systems began in January 2023, and the commencement of electronic processing of prescriptions, which are currently paper-based, will gradually increase the number of applications for installation and expand deployment of the system.

In addition, special demand for the replacement of PCs due to the end of extended support for Windows 8.1 has also proceeded ahead of schedule, contributing to an increase in sales.

In order to improve the Group's name recognition and expand sales of the next-generation MAPs series products, we began restructuring the Group's internal organizational structure last year and ran our first TV commercial to increase our market share. At the same time, we have also seen steady results in the clinic segment from our efforts to enhance digital marketing, including website renewal, utilization of MA tools, provision of online seminars, and improvements to the contents of installation case studies.

Furthermore, on February 27, the Group resolved to turn Good Cycle Systems Inc. (hereinafter "GCS Inc."), an equity-method affiliate, into a consolidated subsidiary. The Group and GCS Inc. collaborated to jointly develop "MAPs for PHARMACY DX," a system well-suited to our new era, and moving forward, we will strengthen cooperation within the Group to accelerate the development of systems and related businesses for pharmacies and improve our competitiveness. Moreover, GCS Inc.'s conversion into a consolidated subsidiary resulted in a loss on step acquisition.

As a result, our business results for this 1st quarter consolidated cumulative period was 4,877 million yen in sales (a 22.4% increase compared to the same period in the previous year), 851 million yen in operating profits (a 25.4% increase), 961 million yen in ordinary profits (a 16.6% increase), and 511 million yen in this quarterly net income belonging to parent company shareholders (a 9.3% decrease).

By segment results are as follows.

(IT Systems for Pharmacies)

In regard to IT systems and related business for pharmacies, initial sales increased significantly due to expanded incorporation of the online eligibility verification system as well as to an increase in the number of hardware replacements following the end of extended support for Windows 8.1. Billing sales also increased along with the increase in the number of customers.

By turning GCS Inc. into a consolidated subsidiary, we were able to further increase the Group's market share and maintain a firm position in the pharmacy segment.

Consequently, IT Systems and Related Business for Pharmacies for this 1st quarter consolidated cumulative period resulted in 3,783 million yen in sales (a 20.1% increase compared with the same period in the previous year) and 892 million yen in operating profits (a 18.9% increase).

(IT Systems for Clinics)

In regard to IT systems and related business for clinics, in addition to the organizational restructuring implemented in the previous fiscal year, we are also taking a wide range of approaches utilizing web marketing.

Selling and administrative expenses have increased due to initiatives aimed at expanding our share of the market for clinic systems. However, in addition to expanded incorporation of the online eligibility verification system, initial sales increased significantly due to an increase in sales of "MAPs for CLINIC," which also resulted in steady growth in billing sales in the clinic segment.

Consequently, IT Systems and Related Business for Clinics for this 1st quarter consolidated cumulative period resulted in 791 million yen in sales (a 47.0% increase compared to the same period in the previous year) and 51 million yen in operating profits (previous period: 95 million yen in operating losses).

(IT Systems for Long-term Care/Welfare)

In regard to IT systems and related business for long-term care/welfare, billing sales remain bullish due to an increase in the number of licenses, while depreciation associated with the release of “MAPs for NURSING CARE” has commenced and our sales and administrative expenses have also risen due to our efforts in expanding sales channels.

Consequently, IT Systems and Related Business for Long-term Care/Welfare for this 1st quarter consolidated cumulative period resulted in 140 million yen in sales (a 2.9% increase compared with the same period in the previous year) and 108 million yen in operating losses (previous period: 27 million yen in operating profits)

(Other businesses)

Sales have increased due to the expansion of our subsidiary cashless business, operating income in the black due to improvements in revenue and profits.

Consequently, other business for this 1st quarter consolidated cumulative period resulted in 187 million yen in sales (a 8.7% increase compared to the same period in the previous year) and million yen in operating profits (previous period: 9 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 1st quarter consolidated accounting period were 13.950 billion yen, an increase of 101 million yen from the end of the previous consolidated fiscal year. This was mainly due to a 660-million-yen increase in goods and products, and a 574 million yen decrease in other current assets. Fixed assets were 12.734 billion yen, an increase of 233 million yen from the end of the previous consolidated fiscal year. This was mainly due to a 508 million yen increase in goodwill resulting from turning GCS Inc. into a consolidated subsidiary, and a 368 million yen decrease in investment securities.

As a result, total assets were 26.684 billion yen, an increase of 335 million yen from the end of the previous consolidated fiscal year

(Liabilities)

Current liabilities at the end of this 1st quarter consolidated accounting period were 5.209 billion yen, an increase of 264 million yen from the end of the previous consolidated fiscal year. This was mainly due to a decrease of 293 million yen in income taxes payable, etc. resulting from the payment of income taxes. Fixed liabilities were 2.006 billion yen, an increase of 104 million yen from the end of the previous consolidated fiscal year. This was mainly due to a 222 million yen increase in long-term debts and a 97 million yen decrease in long-term guarantee deposits received.

As a result, total liabilities were 7.216 billion yen, an increase of 369 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 19,468 million yen, a decrease of 34 million yen compared to the end of the previous consolidated fiscal year. This was primarily due to retained earnings decreased by 59 million yen.

As a result, equity ratio was 72.7% (73.7% 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 2023 remain unchanged from those announced on February 14, 2023 in the December 2022 Financial Statement.

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 , 2022)	This 1 st quarter consoli- dated fiscal period (March 31 st , 2023)
Assets		
Current assets		
Cash on hand and in banks	8,881	8,163
Notes and accounts receivable	2,761	3,494
Merchandise and products	1,084	1,744
Others	1,123	548
Allowance for bad debts	(1)	(1)
Total current assets	13,849	13,950
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	575	586
Land	474	474
Lease assets (net)	97	89
Rental assets (net)	1	1
Others (net)	222	256
Total tangible fixed assets	1,371	1,407
Intangible fixed assets		
Software	1,574	1,816
Software in progress	461	559
Reputation	188	696
Others	99	96
Total intangible fixed assets	2,323	3,169
Investments and other assets		
Investment securities	1,263	895
Investment real estate (net)	6,519	6,470
Net defined benefit asset	7	9
Others	1,025	794
Allowance for bad debts	(11)	(11)
Total investments and other assets	8,805	8,157
Total fixed assets	12,500	12,734
Total assets	26,349	26,684

(Units: millions of yen)

	Previous consolidated fiscal year (December 31 st , 2022)	This 1 st quarter consoli- dated fiscal period (March 31 st , 2023)
Liabilities		
Current liabilities		
Notes and accounts payable	1,398	1,691
Accounts payable-other	957	735
Current portion of long-term loans payable	—	182
Lease obligations	35	36
Income taxes payable, etc.	601	307
Provision for bonuses	285	462
Contract liability	999	1,096
Others	666	697
Total current liabilities	4,944	5,209
Fixed liabilities		
Long-term loans payable	—	222
Lease obligations	74	37
Net defined benefit liability	1,061	1,075
Provision for product warranties	20	18
Long-term guarantee deposits	745	647
Others	—	5
Total fixed liabilities	1,901	2,006
Total liabilities	6,846	7,216
Net assets		
Shareholder's equity		
Capital stock	2,785	2,785
Capital surplus balance	3,362	3,362
Retained earnings	15,199	15,139
Treasury stock	(2,017)	(2,017)
Total shareholder's equity	19,329	19,270
Cumulative amount of other comprehensive income		
valuation difference on available-for-sale securities	35	49
Foreign currency translation adjustments	85	94
Remeasurements of defined benefit plans	(26)	(23)
Total other cumulative comprehensive income	94	120
Subscription rights to shares	55	56
Minority interests	23	21
Total net assets	19,503	19,468
Total liabilities and net assets	26,349	26,684

(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 , 2022 To March 31 st , 2022)	This 1 st quarter consolidated cumulative period (From January 1 st , 2023 To March 31 st , 2023)
Sales	3,985	4,877
Cost of sales	1,930	2,232
Gross profit	2,054	2,645
Selling, general and administrative expenses	1,375	1,793
Operating profits	679	851
Non-operating profits		
Interest income	0	1
Real estate rental income	258	251
Others	3	5
Total non-operating profits	263	258
Non-operating expenses		
Interest expense	4	3
Real estate rental expenses	110	108
Equity Losses of Affiliated Companies	—	35
Others	2	1
Total non-operating expenses	117	148
Ordinary profits	824	961
Special losses		
Losses on disposal of fixed assets	0	0
Loss on step acquisitions	—	140
Total special losses	0	141
Quarterly net income before adjustment for taxes, etc.	824	820
Corporation tax, etc.	265	310
Quarterly net income	559	509
Loss attributable to non-controlling interests	(4)	(1)
Profit attributable to owners of parent	563	511

(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 , 2022 To March 31 st , 2022)	This 1 st quarter consolidated cumulative period (From January 1 st , 2023 To March 31 st , 2023)
Quarterly net income	559	509
Other comprehensive income		
valuation difference on available-for-sale securities	—	13
Foreign currency translation adjustments	23	9
Remeasurements of defined benefit plans	3	3
Total other comprehensive income	27	26
Quarterly comprehensive income	586	535
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	591	537
Quarterly comprehensive income concerning non-controlling shareholders	(4)	(1)

(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)
(Calculation of tax expense)

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.

(Accounting policy revisions)

(Application of Accounting Standard for Calculation of Market Value)

The "Accounting Standard for Calculation of Market Value" (Corporate Accounting Standards Statement No. 31, June 17, 2021; hereinafter referred to as "Accounting Standard for Calculation of Market Value") went into effect from the beginning of the 1st Quarter consolidated cumulative period, and the new accounting policy stipulated by the "Accounting Standard for Calculation of Market Value" is considered effective going forward in accordance with paragraph 27-2 of the "Accounting Standard for Financial Instruments". Note, however, that the above does not entail any impact on the quarterly consolidated financial statements.

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.