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December 2023 2nd Quarter Financial Statement [Japan Standard] (Consolidated)

August 9th, 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 | August 9 th , 2023 | Planned starting date of payment of dividends | September 4 th , 2023 | 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 2023 2nd Quarter Financial Statement (January 1st 2023 through June 30th, 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 2 nd quarter | 9,818 | 20.3 | 1,144 | (15.9) | 1,394 | (13.0) | 789 | (27.6) |
| December 2022 2 nd quarter | 8,164 | 22.4 | 1,360 | 133.4 | 1,603 | 56.7 | 1,089 | 58.4 |
| (Note) Comprehensive income | December 2023 2 nd Quarter | 873 | Millions of yen | (23.0) | December 2022 2 nd Quarter | 1,134 | Millions of yen | 59.4 |
| | 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 2 nd quarter | 11.17 | | | | 11.13 | | | |
| December 2022 2 nd quarter | 15.35 | | | | 15.31 | | | |

(2) Consolidated financial position

| | Total assets | Net assets | Capital adequacy ratio | Net assets per share |
|---------------------------------------|---|---------------------------|--------------------------------|-------------------------------|
| December 2023 2 nd quarter | Millions of yen 27,170 | Millions of yen 19,852 | % 72.8 | Yen 100ths of a yen 279.75 |
| December 2022 | 26,349 | 19,503 | 73.7 | 274.94 |
| (Refer to) Net capital | December 2023 2 nd Quarter 19,777 | 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 |
| | 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 2022 | – | 4.00 | – | 8.00 | 12.00 |
| December 2023 | – | 7.00 | – | – | – |
| December 2023 (estimate) | – | – | – | 7.00 | 14.00 |

(Note)1. Revisions from the last published dividend estimates: Yes

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 |
| 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 2 nd quarter | 74,514,800 shares | December 2022 period | 74,514,800 shares |
| 2. Number of own shares at end of term | December 2023 2 nd quarter | 3,816,949 shares | December 2022 period | 3,865,149 shares |
| 3. Average number of shares outstanding during term (quarterly total) | December 2023 2 nd quarter | 70,665,301 shares | December 2022 2 nd quarter | 70,960,450 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

During the first half of the current consolidated fiscal year, the Japanese economy showed some signs of revitalization in some economic spheres, especially in capital investment and consumer spending, as “with Corona” moved into a new phase, but the prolonged uncertainty in the global situation, combined with the depreciation of the yen in the foreign exchange market, has caused energy and raw material prices to soar and the impact on businesses and households is becoming more apparent. Against this background, the business environment is expected to remain harsh.

In the medical industry, the Group's main customer base, the introduction of a system that enables online verification of eligibility information at medical institutions' points of contact using a My Number Card or health insurance card is progressing, and, encouraged by the introduction of special measures for the revision of the medical service fee system, the number of medical institutions that have introduced such systems has been increasing in the run-up to the system becoming mandatory in April 2023 (transitional measures in effect until September 2023).

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 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.

In light of the above initiatives, we have decided to provide special compensation to employees for their contribution to the improvement of our business performance to date and to further encourage their efforts to this end going forward.

Good Cycle System Inc. (hereinafter referred to as "Good Cycle System"), an equity-method affiliate, became a consolidated subsidiary of the Group on February 27, and as of the second quarter, Good Cycle System is now accounted for under the Group's consolidated income statement, contributing to an increase in net sales.

On June 30, the Group acquired all shares of Unike Software Research Co., Ltd. (hereinafter referred to as “Unike Co.”) and its management company from JMDC Inc., making it a consolidated subsidiary. By combining our knowledge of IT-based services, we hope to further strengthen the Group's customer base and contribute to the digital transformation of the pharmaceutical industry.

As a result, our business results for this 2nd quarter consolidated cumulative period was 9,818 million yen in sales (a 20.3% increase compared to the same period in the previous year), 1,144 million yen in operating profits (a 15.9% decrease), 1.394 million yen in ordinary profits (a 13.0% decrease), and 789 million yen in this quarterly net income belonging to parent company shareholders (a 27.6% 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.

In addition, since Good Cycle System Inc. has become a consolidated subsidiary on the income statement, billing sales have increased significantly in line with the increase in the number of customers. However, SG&A expenses have increased due to the implementation of the Group's TV commercials, enhanced digital marketing, and special compensation paid to employees.

The Group has further increased its market share in the dispensing sector by making Unike Software Research Co., Ltd. a consolidated subsidiary, and has thus been able to maintain its solid position in the pharmacy industry.

Consequently, IT Systems and Related Business for Pharmacies for this 2nd quarter consolidated cumulative period resulted in 7,681 million yen in sales (a 18.2% increase compared with the same period in the previous year) and 1,405 million yen in operating profits (a 6.1% decrease).

(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.

Initial sales increased significantly due to the expansion of implementation measures for the online eligibility verification system as well as expansion in sales of "MAPs for CLINIC," and billing sales in the medical segment also grew steadily. However, SG&A expenses increased due to initiatives seeking to expand market share in the medical systems market and due to special compensation paid to employees.

Consequently, IT Systems and Related Business for Clinics for this 2nd quarter consolidated cumulative period resulted in 1,529 million yen in sales (a 42.6% increase compared to the same period in the previous year) and 7 million yen in operating losses (previous period: 184 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 SG&A 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 2nd quarter consolidated cumulative period resulted in 278 million yen in sales (a 3.8% increase compared with the same period in the previous year) and 285 million yen in operating losses (previous period: 55 million yen in operating profits)

(Other businesses)

Sales have increased due to the expansion of our subsidiary cashless business. Profit contributions from overseas subsidiaries led to an improvement in the overall profitability of the sector, and operating income was positive.

Consequently, other business for this 2nd quarter consolidated cumulative period resulted in 386 million yen in sales (a 11.1% increase compared to the same period in the previous year) and 5 million yen in operating profits (previous period: 22 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 the 2nd quarter of the current fiscal year totaled 12.301 billion yen, down 1.547 billion yen from the end of the previous fiscal year. This was mainly due to a 2.435 billion yen decrease in cash and deposits and a 489 million yen increase in notes and accounts receivable resulting from the acquisition of shares of Unike Software Research Co., Ltd. and its management company, Launchpad13 Inc., acquisition of additional Good Cycle System Inc. shares. Fixed assets totaled 14.869 billion yen, up 2.368 billion yen from the end of the previous fiscal year. This was mainly due to an increase of 2.190 billion yen in goodwill.

As a result, total assets were 27.170 billion yen, an increase of 820 million yen from the end of the previous consolidated fiscal year

(Liabilities)

Current liabilities at the end of the 2nd quarter amounted to 5.195 billion yen, up 250 million yen from the end of the previous fiscal year. This was mainly due to a 315 million yen increase in other current liabilities. Long-term liabilities totaled 2.121 billion yen, an increase of 220 million yen from the end of the previous consolidated fiscal year. This was mainly due to a 186 million yen increase in long-term loans payable resulting from a change in the scope of consolidation and a 162 million yen increase in liabilities for retirement benefits.

As a result, total liabilities were 7,317 million yen, an increase of 470 million yen from the end of the previous consolidated fiscal year.

(Net assets)

Net assets in the 2nd quarter totaled 19.852 billion yen, an increase of 349 million yen from the end of the previous fiscal year. This was mainly the result of a 223 million yen increase in retained earnings and a 62 million yen increase in marketable securities valuation difference.

As a result, equity ratio was 72.8% (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 2 nd quarter consoli- dated fiscal period (June 30 th , 2023) |
|---|--|--|
| Assets | | |
| Current assets | | |
| Cash on hand and in banks | 8,881 | 6,445 |
| Notes and accounts receivable | 2,761 | 3,250 |
| Merchandise and products | 1,084 | 1,555 |
| Others | 1,123 | 1,049 |
| Allowance for bad debts | (1) | 0 |
| Total current assets | 13,849 | 12,301 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures (net) | 575 | 593 |
| Land | 474 | 475 |
| Lease assets (net) | 97 | 81 |
| Rental assets (net) | 1 | 0 |
| Others (net) | 222 | 253 |
| Total tangible fixed assets | 1,371 | 1,404 |
| Intangible fixed assets | | |
| Software | 1,574 | 2,034 |
| Software in progress | 461 | 676 |
| Reputation | 188 | 2,378 |
| Others | 99 | 95 |
| Total intangible fixed assets | 2,323 | 5,185 |
| Investments and other assets | | |
| Investment securities | 1,263 | 968 |
| Investment real estate (net) | 6,519 | 6,491 |
| Net defined benefit asset | 7 | 9 |
| Others | 1,025 | 821 |
| Allowance for bad debts | (11) | (11) |
| Total investments and other assets | 8,805 | 8,278 |
| Total fixed assets | 12,500 | 14,869 |
| Total assets | 26,349 | 27,170 |

(Units: millions of yen)

| | Previous consolidated fiscal year (December 31 st , 2022) | This 2 nd quarter consoli- dated fiscal period (June 30 th , 2023) |
|---|--|--|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable | 1,398 | 1,238 |
| Accounts payable-other | 957 | 853 |
| Current portion of long-term loans payable | — | 157 |
| Lease obligations | 35 | 36 |
| Income taxes payable, etc. | 601 | 492 |
| Provision for bonuses | 285 | 406 |
| Contract liability | 999 | 1,027 |
| Others | 666 | 982 |
| Total current liabilities | 4,944 | 5,195 |
| Fixed liabilities | | |
| Long-term loans payable | — | 186 |
| Lease obligations | 74 | 37 |
| Net defined benefit liability | 1,061 | 1,224 |
| Provision for product warranties | 20 | 3 |
| Long-term guarantee deposits | 745 | 647 |
| Others | — | 22 |
| Total fixed liabilities | 1,901 | 2,121 |
| Total liabilities | 6,846 | 7,317 |
| Net assets | | |
| Shareholder's equity | | |
| Capital stock | 2,785 | 2,785 |
| Capital surplus balance | 3,362 | 3,376 |
| Retained earnings | 15,199 | 15,423 |
| Treasury stock | (2,017) | (1,990) |
| Total shareholder's equity | 19,329 | 19,594 |
| Cumulative amount of other comprehensive income | | |
| valuation difference on available-for-sale securities | 35 | 97 |
| Foreign currency translation adjustments | 85 | 108 |
| Remeasurements of defined benefit plans | (26) | (23) |
| Total other cumulative comprehensive income | 94 | 183 |
| Subscription rights to shares | 55 | 56 |
| Minority interests | 23 | 19 |
| Total net assets | 19,503 | 19,852 |
| Total liabilities and net assets | 26,349 | 27,170 |

(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 , 2022 To June 30 th , 2022) | This 2 nd quarter consolidated cumulative period (From January 1 st , 2023 To June 30 th , 2023) |
|--|---|---|
| Sales | 8,164 | 9,818 |
| Cost of sales | 4,051 | 4,960 |
| Gross profit | 4,113 | 4,858 |
| Selling, general and administrative expenses | 2,753 | 3,713 |
| Operating profits | 1,360 | 1,144 |
| Non-operating profits | | |
| Interest income | 2 | 3 |
| Real estate rental income | 517 | 484 |
| Others | 5 | 14 |
| Total non-operating profits | 525 | 502 |
| Non-operating expenses | | |
| Interest expense | 4 | 4 |
| Real estate rental expenses | 208 | 210 |
| Equity Losses of Affiliated Companies | 65 | 35 |
| Others | 4 | 3 |
| Total non-operating expenses | 283 | 253 |
| Ordinary profits | 1,603 | 1,394 |
| Special losses | | |
| Losses on disposal of fixed assets | 0 | 9 |
| Loss on step acquisitions | — | 140 |
| Total special losses | 0 | 150 |
| Quarterly net income before adjustment for taxes, etc. | 1,603 | 1,244 |
| Corporation tax, etc. | 522 | 459 |
| Quarterly net income | 1,080 | 784 |
| Loss attributable to non-controlling interests | (8) | (4) |
| Profit attributable to owners of parent | 1,089 | 789 |

(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 , 2022 To June 30 th , 2022) | This 2 nd quarter consolidated cumulative period (From January 1 st , 2023 To June 30 th , 2023) |
|--|---|---|
| Quarterly net income | 1,080 | 784 |
| Other comprehensive income | | |
| valuation difference on available-for-sale securities | — | 62 |
| Foreign currency translation adjustments | 46 | 23 |
| Remeasurements of defined benefit plans | 7 | 3 |
| Total other comprehensive income | 53 | 88 |
| Quarterly comprehensive income | 1,134 | 873 |
| (Breakdown) | | |
| Quarterly comprehensive income concerning parent company shareholders | 1,142 | 878 |
| Quarterly comprehensive income concerning non-controlling shareholders | (8) | (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)
(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 2nd, 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.