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December 2023 3rd Quarter Financial Statement [Japan Standard] (Consolidated)

November 10th, 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)	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 , 2023	Planned starting date of payment of dividends	–	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 3rd Quarter Financial Statement (January 1st 2023 through September 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 3 rd quarter	15,198	21.7	1,804	(14.6)	2,199	(10.5)	1,357	(17.4)	
December 2022 3 rd quarter	12,491	20.3	2,113	80.3	2,457	39.5	1,644	31.4	
(Note) Comprehensive income	December 2023 3 rd Quarter	1,450	Millions of yen	(14.1)	December 2022 3 rd Quarter	1,688	Millions of yen	32.2	
		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 3 rd quarter		19.21				19.15			
December 2022 3 rd quarter		23.21				23.13			

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio
December 2023 3 rd quarter	Millions of yen 29,646	Millions of yen 19,934	% 67.0
December 2022	26,349	19,503	73.7

(Refer to) Net capital December 2023 3rd Quarter 19,857 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				
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: 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
Full year	20,455	20.9	2,256	(5.8)	2,805	0.5	1,764	(6.8)	24.97

(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 P10 "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 3 rd quarter	74,514,800 shares	December 2022 period	74,514,800 shares
2. Number of own shares at end of term	December 2023 3 rd quarter	3,818,149 shares	December 2022 period	3,865,149 shares
3. Average number of shares outstanding during term (quarterly total)	December 2023 3 rd quarter	70,675,864 shares	December 2022 3 rd quarter	70,851,772 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 this 3rd quarter consolidated period, the Japanese economy showed signs of recovery, such as increased inbound travel and improved business performance among export-related companies, against the backdrop of a weak yen in the foreign exchange market due to the long-term interest rate differential between Japan and the U.S. However, with prolonged uncertainty in the global condition, the business environment is expected to remain harsh as the impact of soaring energy and raw material prices on import-related companies and households becomes more apparent.

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. In particular, encouraged by the introduction of special measures for the revision of the medical service fee system, introduction of the system had been accelerated 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.

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. As a result, as of the 3rd quarter, it is accounted for under the Group's consolidated income statement, contributing to an increase in net sales.

On the other hand, SG&A expenses increased due to the airing of TV commercials and the payment of special compensation to employees for their contribution to the improvement of our business performance to date.

As a result, our business results for this 3rd quarter consolidated cumulative period was 15.198 million yen in sales (a 21.7% increase compared to the same period in the previous year), 1.804 million yen in operating profits (a 14.6% decrease) 2.199 million yen in ordinary profits (a 10.5% decrease), and 1.357 million yen in this quarterly net income belonging to parent company shareholders (a 17.4% decrease).

By segment results are as follows.

(IT Systems for Pharmacies)

In regard to IT systems and related business for pharmacies, in addition to progress in replacements for "MAPs for PHARMACY DX" among our customers, initial sales also increased due to an increase in the number of hardware replacements following the end of extended support for Windows 8.1. In addition, since Unike Software Research Co., Ltd. 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.

Consequently, IT Systems and Related Business for Pharmacies for this 3rd quarter consolidated cumulative period resulted in 11.953 million yen in sales (a 19.8% increase compared with the same period in the previous year) and 2.169 million yen in operating profits (a 8.5% 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 3rd quarter consolidated cumulative period resulted in 2,249 million yen in sales (a 38.6% increase compared to the same period in the previous year) and 20 million yen in operating losses (previous period: 210 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 3rd quarter consolidated cumulative period resulted in 416 million yen in sales (a 3.7% increase compared with the same period in the previous year) and 404 million yen in operating losses (previous period: 33 million yen in operating losses)

(Other businesses)

Sales increased due to expansion of the cashless business of the subsidiary ChoQi Co., Ltd. as well as due to the contributions of the temporary staffing business of the subsidiary Unike Software Research Co., Ltd. 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 3rd quarter consolidated cumulative period resulted in 671 million yen in sales (a 27.1% increase compared to the same period in the previous year) and 25 million yen in operating profits (previous period: 35 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 3rd quarter consolidated accounting period totaled 14.717 billion yen, up 868 million yen from the end of the previous consolidated accounting year. This was mainly due to a 450 million yen increase in notes and accounts receivable and a 297 million yen increase in cash and deposits resulting from the acquisition of shares of Unike Software Research Co., Ltd. and its management company, Launchpad13 Inc. and acquisition of additional Good Cycle System Inc. shares. Fixed assets totaled 14.928 billion yen, up 2.428 billion yen from the end of the previous consolidated accounting year. This was mainly due to an increase of 1.353 billion yen in goodwill resulting from the aforementioned acquisition of shares, as well as due to an increase of 1.167 billion yen in intangible fixed assets.

As a result, total assets were 29.646 billion yen, an increase of 3.296 billion yen from the end of the previous consolidated fiscal year

(Liabilities)

Current liabilities at the end of the 3rd quarter consolidated accounting period totaled 6.031 billion yen, up 1.086 billion yen from the end of the previous consolidated accounting year. Although there was a 336 million yen decrease in income taxes payable, etc. due to payment, this was mainly due to a 987 million yen increase in the current portion of long-term loans payable, a 422 million yen increase in other current liabilities due to an increase in deposits received in connection with the expansion of the cashless business in the other businesses segment, and a 253 million yen increase in provision for bonuses. Long-term liabilities totaled 3.680 billion yen, up 1.778 billion yen from the end of the previous consolidated accounting year. This was mainly due to a 909 million yen decrease in net defined benefit liability in connection with termination of the retirement benefit system, a 602 million yen increase long-term accounts payable, a 1.759 billion yen increase

in long-term loans payable, and a 390 million yen increase in other fixed liabilities.

As a result, total liabilities were 9.711 billion yen, an increase of 2.865 billion yen from the end of the previous consolidated fiscal year.

(Net assets)

Net assets in the 3rd quarter totaled 19.934 billion yen, an increase of 431 million yen from the end of the previous fiscal year. This was mainly the result of a 297 million yen increase in quarterly net income belonging to parent company shareholders although due to the payment of dividends.

As a result, equity ratio was 67.0% (73.7% at the end of the previous consolidated fiscal year).

(1)Explanation regarding information on future prospects such as forecast of consolidated financial results

The Company has revised its full-year consolidated performance forecast for the fiscal year ending December 2023 as it pertains to performance during this consolidated accounting period and the future forecast due to expected fluctuations in earnings accompanying the increase in the number of consolidated subsidiaries. For details, please refer to the "Notification regarding Revisions to the Forecast of Consolidated Financial Results for the Full Year Ending December 2023," announced on November 10th, 2023.

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 3 rd quarter consoli- dated fiscal period (September 30 th , 2023)
Assets		
Current assets		
Cash on hand and in banks	8,881	9,178
Notes and accounts receivable	2,761	3,211
Merchandise and products	1,084	1,247
Others	1,123	1,082
Allowance for bad debts	(1)	(2)
Total current assets	13,849	14,717
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	575	582
Land	474	474
Lease assets (net)	97	73
Rental assets (net)	1	0
Others (net)	222	241
Total tangible fixed assets	1,371	1,372
Intangible fixed assets		
Software	1,574	2,125
Software in progress	461	486
Reputation	188	1,542
Others	99	1,267
Total intangible fixed assets	2,323	5,421
Investments and other assets		
Investment securities	1,263	928
Investment real estate (net)	6,519	6,440
Net defined benefit asset	7	—
Others	1,025	775
Allowance for bad debts	(11)	(11)
Total investments and other assets	8,805	8,134
Total fixed assets	12,500	14,928
Total assets	26,349	29,646

(Units: millions of yen)

	Previous consolidated fiscal year (December 31 st , 2022)	This 3 rd quarter consoli- dated fiscal period (September 30 th , 2023)
Liabilities		
Current liabilities		
Notes and accounts payable	1,398	1,222
Accounts payable-other	957	966
Current portion of long-term loans payable	—	987
Lease obligations	35	36
Income taxes payable, etc.	601	264
Provision for bonuses	285	539
Contract liability	999	925
Others	666	1,089
Total current liabilities	4,944	6,031
Fixed liabilities		
Long-term loans payable	—	1,759
Lease obligations	74	37
Net defined benefit liability	1,061	151
Provision for product warranties	20	3
Long-term guarantee deposits	745	735
Others	—	390
Total fixed liabilities	1,901	3,680
Total liabilities	6,846	9,711
Net assets		
Shareholder's equity		
Capital stock	2,785	2,785
Capital surplus balance	3,362	3,376
Retained earnings	15,199	15,496
Treasury stock	(2,017)	(1,990)
Total shareholder's equity	19,329	19,667
Cumulative amount of other comprehensive income		
valuation difference on available-for-sale securities	35	65
Foreign currency translation adjustments	85	124
Remeasurements of defined benefit plans	(26)	—
Total other cumulative comprehensive income	94	189
Subscription rights to shares	55	56
Minority interests	23	21
Total net assets	19,503	19,934
Total liabilities and net assets	26,349	29,646

(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)

	Previous 3 rd quarter consolidated cumulative period (From January 1 st , 2022 To September 30 th , 2022)	This 3 rd quarter consolidated cumulative period (From January 1 st , 2023 To September 30 th , 2023)
Sales	12,491	15,198
Cost of sales	6,230	7,766
Gross profit	6,260	7,432
Selling, general and administrative expenses	4,147	5,628
Operating profits	2,113	1,804
Non-operating profits		
Interest income	2	4
Real estate rental income	783	723
Others	12	18
Total non-operating profits	798	747
Non-operating expenses		
Interest expense	4	5
Real estate rental expenses	307	303
Equity Losses of Affiliated Companies	132	35
Others	10	7
Total non-operating expenses	454	352
Ordinary profits	2,457	2,199
Special profits		
Gain on abolishment of retirement benefit plan	—	33
Total special profits	—	33
Special losses		
Losses on sale of fixed assets	—	1
Losses on disposal of fixed assets	0	9
Loss on step acquisitions	—	140
Total special losses	0	152
Quarterly net income before adjustment for taxes, etc.	2,457	2,081
Corporation tax, etc.	828	725
Quarterly net income	1,629	1,355
Loss attributable to non-controlling interests	(14)	(2)
Profit attributable to owners of parent	1,644	1,357

(Quarterly consolidated statements of comprehensive income)

(3rd quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 3 rd quarter consolidated cumulative period (From January 1 st , 2022 To September 30 th , 2022)	This 3 rd quarter consolidated cumulative period (From January 1 st , 2023 To September 30 th , 2023)
Quarterly net income	1,629	1,355
Other comprehensive income		
valuation difference on available-for-sale securities	2	29
Foreign currency translation adjustments	45	39
Remeasurements of defined benefit plans	10	26
Total other comprehensive income	58	95
Quarterly comprehensive income	1,688	1,450
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	1,702	1,452
Quarterly comprehensive income concerning non-controlling shareholders	(14)	(2)

(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 3rd, 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.