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Consolidated Financial Results for the Third Quarter of Fiscal Year Ending December 31, 2024 (Under Japanese GAAP)

November 14, 2024

Listing: TSE

Company name: EM SYSTEMS CO., LTD

Securities code 4820 URL <https://emsystems.co.jp>

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Scheduled date to commence dividend payments: -

Preparation of supplementary material on financial results: Yes

Holding of financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

Consolidated results of December 1,2024 3rd Quarter (January 1st, 2024 to September 30th, 2024)

(1) Consolidated Operating Results (Cumulative) (% refers to rate of change over the same quarter in the previous year)

	Sales		Operating profits		Ordinary profits		Belong to parent company shareholders Quarterly net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 2024, 3rd Quarter	17,755	16.8	3,201	77.5	3,715	68.9	1,510	11.3
December 2023, 3rd Quarter	15,198	21.7	1,804	Δ14.6	2,199	Δ10.5	1,357	Δ17.4

(N.B.) Comprehensive income December 2024, 3rd Quarter 1,461Millions of yen (0.8%) December 2023, 3rd Quarter 1,450Millions of yen (Δ14.1%)

	Per share Quarterly net income	Diluted Per share Quarterly net income
	Yen	Yen
December 2024, 3rd Quarter	21.54	21.47
December 2023, 3rd Quarter	19.21	19.15

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy
	Millions of yen	Millions of yen	%
December 2024, 3rd Quarter	28,990	19,800	68.0
December 2023	29,387	20,566	69.6

(Refer to) Net capital December 2024, 3rd Quarter 19,719Millions of yen December 2023 20,464Millions 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	Yen	Yen	Yen	Yen
December 2023	-	7.00	-	7.00	14.00
December 2024	-	9.00	-		
December 2024 period (estimate)				20.00	29.00

(N.B.) Revisions from the last published dividend forecast: Yes

3. Estimated consolidated results of December 2024 period (January 1st, 2024 through December 31st, 2024)

(% refers to rate of change over the previous term)

	Sales		Operating profits		Ordinary profits		Attributable to owners of parent Net income		Per share Net income Yen
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	
Full year	23,739	16.6	3,797	63.0	4,501	56.9	1,978	0.8	27.99

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

* Addendums

(1) Changes in major subsidiaries during cumulative quarter of consolidation: None

(2) Application of special accounts processing in the creation of the quarterly consolidated financial statement: Yes

(N.B.) For details, please see the attached document P11 [2. Quarterly consolidated financial statements and major explanatory notes (3) Addendums relating to quarterly consolidated financial statement (Explanatory notes regarding 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. : None

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 2024, 3rd quarter	74,514,800shares	December 2023	74,514,800shares
2. Number of own shares at end of term	December 2024, 3rd quarter	5,065,894shares	December 2023	3,818,649shares
3. Average number of shares outstanding during term (quarterly total)	December 2024, 3rd quarter	70,138,331shares	December 2023, 3rd Quarter	70,675,864shares

* Review of the accompanying quarterly consolidated financial statements by certified public accountants or auditors: None

* Explanation regarding appropriate use of forecasts of financial results and other special notes

(Caution regarding forward-looking statements, etc.)

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 do not guarantee that they will be achieved. Actual results may differ significantly from these forecasts for a number of reasons.

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1. Overview of Operating Results, etc.

(1) Overview of Quarterly Operating Results

Prolonged restrictive fiscal policies primarily in the U.S. and Europe have impacted the Japanese economy during this interim consolidated accounting period, and the outlook of economic trends, such as soaring energy and raw material prices due to depreciation of the yen in the foreign exchange market, remains uncertain.

In the medical industry, the Group's main customer base, the timing at which revisions to the various fees are to take effect have been dispersed throughout the year, with 2024 being the year of revisions to the fees simultaneously for medical, long-term care, and welfare services once every six years, and the frequency at which changes to the number of fee points and their method of calculation are occurring has increased. In addition, medical fees are to be raised under the revisions as a means of securing human resources and raising wages among medical and long-term care/welfare practitioners, while at the same time aiming to improve the stability and sustainability of the medical insurance system through greater efficiency and optimization by promoting digital transformation in the medical field.

In order to achieve high quality medical care via the promotion of Medical Digital Transformation and innovation, our group has also continued to incorporate Online eligibility verification systems, as the scope of coverage of Online eligibility verification systems is expected to expand and Electronic Prescriptions are expected to become more commonplace. We are also providing medical assistance services, a new operational target, as well as gradually increasing the number of Electronic Prescriptions installations, and the number of installations in the current 3rd quarter consolidated cumulative period exceeded expectations.

In each segment of our group's business, sales activities are progressing steadily leading to more efficient generation of projects in conjunction with enhancing inside sales from conventional face-to-face centered sales through organizational restructuring in the previous fiscal year. In addition, we continue to acquire potential projects through website renewals, the utilization of MA tools, videos, and the application of digital marketing, including enhancements to the content of examples of introduction.

In this 3rd quarter consolidated cumulative period, sales and operating profits increased year-on-year due to the consolidation of Good Cycle System Inc. and UNIKE SOFTWARE RESEARCH CO., LTD. during the previous fiscal year, respectively, and to progress in responding to Medical Digital Transformation. In addition, IT Systems for Clinics and IT Systems for Long-term care/welfare record impairments.

Consequently, our operating results for this 3rd quarter consolidated cumulative period was 17.755 billion yen in sales (a 16.8% increase compared to the same period in the previous year), 3.201 billion yen in operating profits (a 77.5% increase) and 3.715 billion yen in ordinary profits (a 68.9% increase), and 1.51 billion yen in this quarterly net income belonging to parent company shareholders (a 11.3% increase).

By segment operating results are as follows.

(IT Systems for Pharmacies)

In regard to IT Systems for Pharmacies, despite the end of intensive demand for Online eligibility verification systems, in this 3Q, in addition to accelerated installations of Electronic Prescriptions and related optional software, mainly at chain pharmacies, in addition to Good Cycle System Inc. and UNIKE SOFTWARE RESEARCH CO., LTD. being subject to consolidation, sales and operating profits in the segment increased, along with billing sales increasing due to an increase in the number of customers.

Consequently, IT Systems for Pharmacies for this 3rd quarter consolidated cumulative period was 14.733 billion yen in sales (a 23.3% increase compared to the same period in the previous year) and 3.801 billion yen in operating (a 75.2% increase).

(IT Systems for Clinics)

In regard to IT Systems for Clinics, in addition to restructuring our organizational structure, we are taking a wide range of approaches utilizing digital marketing.

Expanded sales of "MAPs for CLINIC" have led to steady growth in billing sales in the segment. On the other hand, operating losses increased due to the end of intensive demand for Online eligibility verification systems as well as to post incident response expenses for system failures in the 2nd quarter.

Consequently, IT systems for IT Systems for Clinics for this 3rd quarter consolidated cumulative period resulted in 1.84 billion yen in sales (a 18.2% decrease compared to the same period in the previous year) and 340 million yen in operating losses (previous period: 20 million yen in operating losses).

(IT Systems for Long-term care/welfare)

In regard to IT Systems for Long-term care/welfare, although replacements for conventional products caused a drop in maintenance sales, initial sales increased due to the incorporation of "Sukoyaka san" in large-scale long-term care facilities, and billing sales also remained steady due to an increase in the number of "MAPs for NURSING CARE" licenses. In addition, operating losses narrowed slightly due to an improvement in the burden of fixed costs in the segment.

Consequently, IT systems for IT Systems for Long-term care/welfare for this 3rd quarter consolidated cumulative period resulted in 447 million yen in sales (a 7.4% increase compared with the same period in the previous year) and 320 million yen in operating losses (previous period: 404 million yen in operating losses).

(Other businesses)

In other businesses, sales and operating profits increased due to growth in the cashless business of ChoQi Co., Ltd. and in the IT systems business of PERSONNEL SYSTEMS DEVELOPMENT (NANJING) CO., LTD., as well as to contributions from the temporary staffing business of UNIKE SOFTWARE RESEARCH CO., LTD.

Consequently, other business for this 3rd quarter consolidated cumulative period resulted in 8,490,000 yen in sales (a 26.5% increase compared to the same period in the previous year) and 47 million yen in operating profits (a 90.8% increase).

(Sales and operating profits (losses) by segment above are the amounts before elimination of internal transactions between segments.)

(2) Overview of financial position for this quarter

(Assets)

Current assets at the end of this 3rd quarter consolidated accounting period were 16.075 billion yen, an increase of 1.274 billion yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 849 million yen in cash on hand and in banks, and 697 million yen in notes and accounts receivable. Fixed assets were 12.914 billion yen, a decrease of 1.672 billion yen from the end of the previous consolidated fiscal year. This was mainly due to a decrease of 1.083 billion yen in software, 156 million yen in buildings and structures, 160 million yen in goodwill, and 128 million yen in other intangible assets. This was mainly due to the recording of impairments in IT Systems for Clinics and IT Systems for Long-term care/welfare.

As a result, total assets were 28.99 billion yen, a decrease of 397 million yen from the end of the previous consolidated fiscal year.

(Liabilities)

Current liabilities at the end of this 3rd quarter consolidated accounting period were 6.802 billion yen, an increase of 1.183 billion yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 659 million yen in income taxes payable and 318 million yen in provision for bonuses. Fixed liabilities were 2.387 billion yen, a decrease of 815 million yen from the end of the previous consolidated fiscal year. This was due to a 749 million yen decrease in long-term loans payable.

As a result, total liabilities were 9.189 billion yen, an increase of 368 million yen from the end of the previous consolidated fiscal year.

(Net assets)

Net assets at the end of this 3rd quarter consolidated accounting period came to 19.8 billion yen, a decrease of 765 million yen from the end of the previous consolidated fiscal year. This was mainly due to a 789 million yen decrease due to the acquisition of treasury stock.

As a result, equity ratio was 68.0% (compared to 69.6% at the end of the previous consolidated fiscal year).

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

Regarding the results for this 3rd quarter consolidated cumulative period and future forecasts, the full year consolidated results forecast has been revised due to the fact that results are expected to fluctuate in consideration of past results and the recent business environment. For details, please see [Notice of Revision of Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2024] announced today (November 14, 2024).

2. Quarterly consolidated financial statements and major explanatory notes

(1) Quarterly consolidated balance sheet

(Units: millions of yen)

	Previous consolidated fiscal year (December 31st, 2023)	This 3rd quarter consolidated accounting period (September 30, 2024)
Assets		
Current assets		
Cash on hand and in banks	9,441	10,291
Notes and accounts receivable	3,082	3,779
Inventories	1,143	920
Others	1,132	1,084
Allowance for bad debts	(0)	(0)
Total current assets	14,800	16,075
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	575	419
Land	474	348
Lease assets (net)	65	29
Others (net)	214	301
Total tangible fixed assets	1,330	1,099
Intangible fixed assets		
Software	2,296	1,213
Software in progress	164	41
Goodwill	1,475	1,314
Others	1,250	1,121
Total intangible fixed assets	5,186	3,691
Investments and other assets		
Investment securities	962	844
Investment real estate (net)	6,393	6,246
Others	725	1,045
Allowance for bad debts	△11	△12
Total investments and other assets	8,070	8,123
Total fixed assets	14,587	12,914
Total assets	29,387	28,990

(Units: millions of yen)

	Previous consolidated fiscal year (December 31st, 2023)	This 3rd quarter consolidated accounting period (September 30, 2024)
Liabilities		
Current liabilities		
Notes and accounts payable	1,121	1,155
Current portion of long-term loans payable	966	837
Accounts payable-other	997	1,175
Lease obligations	36	37
Income taxes payable, etc.	241	901
Provision for bonuses	348	666
Contract liability	877	896
Others	1,028	1,132
Total current liabilities	5,618	6,802
Fixed liabilities		
Long-term loans payable	1,527	777
Lease obligations	37	3
Net defined benefit liability	135	128
Provision for product warranties	3	1
Long-term accounts payable	396	396
Long-term guarantee deposits	763	754
Others	339	324
Total fixed liabilities	3,202	2,387
Total liabilities	8,821	9,189
Net assets		
Shareholder's equity		
Capital stock	2,785	2,785
Capital surplus balance	3,376	3,104
Retained earnings	16,101	16,486
Treasury stock	△1,990	△2,780
Total shareholder's equity	20,272	19,595
Cumulative amount of other comprehensive income		
valuation difference on available-for-sale securities	85	2
Foreign currency translation adjustments	106	121
Total other cumulative comprehensive income	191	124
Subscription rights to shares	56	55
Non-Controlling interest	45	25
Total net assets	20,566	19,800
Total liabilities and net assets	29,387	28,990

(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 3rd quarter consolidated cumulative period (From January 1st, 2023 To September 30th, 2023)	This 3rd quarter consolidated cumulative period (From January 1st, 2024 To September 30th, 2024)
Sales	15,198	17,755
Cost of sales	7,766	8,282
Gross profit	7,432	9,473
Selling, general and administrative expenses	5,628	6,272
Operating profits	1,804	3,201
Non-operating profits		
Interest income	4	8
Real estate rental income	723	800
Others	18	31
Total non-operating profits	747	839
Non-operating expenses		
Interest expense	5	6
Real estate rental expenses	303	285
Equity Losses of Affiliated Companies	35	-
Others	7	33
Total non-operating expenses	352	326
Ordinary profits	2,199	3,715
Special profits		
Gain on termination of retirement benefit plan	33	-
Total special profits	33	-
Special losses		
Losses on sales of fixed assets	1	-
Losses on disposal of fixed assets	9	47
Loss on step acquisitions	140	-
Impairment losses	-	1,344
Total special losses	152	1,392
Quarterly net income before adjustment for taxes, etc.	2,081	2,323
Corporation tax, etc.	725	793
Quarterly net income	1,355	1,529
Quarterly net income belonging to non-controlling interests or quarterly net loss belonging to non-controlling interests (Δ)	Δ 2	18
Quarterly net income belonging to parent company shareholders	1,357	1,510

(Quarterly consolidated statements of comprehensive income)
(3rd quarter consolidated cumulative period)

(Units: millions of yen)

	Previous 3rd quarter consolidated cumulative period (From January 1st, 2023 To September 30th, 2023)	This 3rd quarter consolidated cumulative period (From January 1st, 2024 To September 30th, 2024)
Quarterly net income	1,355	1,529
Other comprehensive income		
Valuation difference on available for sale securities	29	△83
Foreign currency translation adjustments	39	15
Remeasurements of defined benefit plans	26	-
Total other comprehensive income	95	△67
Quarterly comprehensive income	1,450	1,461
(Breakdown)		
Quarterly comprehensive income concerning parent company shareholders	1,452	1,443
Quarterly comprehensive income concerning non- controlling shareholders	△2	18

(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.

(Explanatory notes relating to quarterly consolidated cash flow statement)

The quarterly consolidated cash flow statement relating to this 3rd quarter consolidated cumulative period is not prepared. Depreciation relating to the third quarter consolidated cumulative period (including amortization relating to intangible fixed assets excluding goodwill) and amortization of goodwill are as follows.

	Previous 3rd quarter consolidated cumulative period (From January 1st, 2023 To September 30th, 2023)	This 3rd quarter consolidated cumulative period (From January 1st, 2024 To September 30th, 2024)
Depreciation	887 million yen	1.067 billion yen
Amortization of goodwill	142 million yen	160 million yen

(Explanatory notes regarding segment information, etc.)

[Segment information]

I Previous 3rd quarter consolidated cumulative period (From January 1st, 2023 to September 30th, 2023)

1. Information on amount of sales and profit and loss by reportable segment and breakdown of income

(Units: millions of yen)

	Reportable segment					Adjustment (N.B.) 1	Quarterly consolidated Income statement Amount recorded
	IT Systems for Pharmacies	IT Systems for Clinics	IT Systems for Long-term care/welfare	Other Businesses	Total		
Sales							
Initial sales	5,734	1,448	30	-	7,214	-	7,214
System usage fee sales	4,164	625	171	-	4,961	-	4,961
Consumable goods sales	1,384	42	-	-	1,427	-	1,427
Maintenance service sales	656	132	213	-	1,002	-	1,002
Other businesses	-	-	-	593	593	-	593
Revenue from contracts with customers	11,939	2,249	416	593	15,198	-	15,198
External sales	11,939	2,249	416	593	15,198	-	15,198
Inter segment sales and transfers	14	-	-	77	92	△92	-
Total	11,953	2,249	416	671	15,290	△92	15,198
Segment income or loss (△) (N.B.)2	2,169	△20	△404	25	1,769	34	1,804

(N.B.) 1. Adjustments to segment income (loss) include elimination of intersegment transactions, etc.

2. Segment profit is adjusted to be consistent with operating profit recorded in the quarterly consolidated statements of income.

2. Information on Impairment Loss on Fixed Assets and Goodwill by Reportable Segment

(Significant impairment losses on fixed)

There is no applicable information.

(Significant changes in the amount of goodwill)

In the "IT Systems for Pharmacies" segment, goodwill of 532 million yen was recognized in the 1st quarter consolidated cumulative period due to the acquisition of additional shares of Good Cycle System Inc. and making this company a consolidated subsidiary.

In addition, regarding the acquisition of shares of UNIKE SOFTWARE RESEARCH CO., LTD. and its management purpose company, Launchpad13 CO., LTD., which were conducted during the 2nd quarter consolidated accounting period, the amount of goodwill was a tentatively calculated amount because the allocation of the acquisition cost had not been completed. However, the amount of goodwill has been revised because the allocation of the acquisition cost was completed in the 3rd quarter consolidated accounting period under review and the tentative accounting treatment was finalized.

(Significant gain on negative goodwill)

There is no applicable information.

II This 3rd quarter consolidated cumulative period (From January 1st, 2024 to September 30th, 2024)

1. Information on amount of sales and profit and loss by reportable segment and breakdown of income

(Units: millions of yen)

	Reportable segment					Adjustment (N.B.) 1	Quarterly consolidated Income statement Amount recorded
	IT Systems for Pharmacies	IT Systems for Clinics	IT Systems for Long-term care/welfare	Other Businesses	Total		
Sales							
Initial sales	7,340	1,057	84	-	8,482	-	8,482
System usage fee sales	5,166	652	183	-	6,002	-	6,002
Consumable goods sales	1,525	39	0	-	1,565	-	1,565
Maintenance service sales	687	90	179	-	957	-	957
Other businesses	-	-	-	747	747	-	747
Revenue from contracts with customers	14,719	1,840	447	747	17,755	-	17,755
External sales	14,719	1,840	447	747	17,755	-	17,755
Inter segment sales and transfers	13	-	-	101	115	△115	-
Total	14,733	1,840	447	849	17,871	△115	17,755
Segment income or loss (△) (N.B.)2	3,801	△340	△320	47	3,188	13	3,201

(N.B.) 1. Adjustments to segment income (loss) include elimination of intersegment transactions, etc.

2. Segment profit is adjusted to be consistent with operating profit recorded in the quarterly consolidated statements of income.

2. Information on Impairment Loss on Fixed Assets and Goodwill by Reportable Segment

(Significant impairment losses on fixed)

In the "IT Systems for Clinics" and "IT Systems for Long-term care/welfare" segments, impairments of fixed assets are recorded. The amount of such impairments was 423 million yen for "IT Systems for Clinics" and 920 million yen for "IT Systems for Long-term care/welfare" for this 3rd quarter consolidated cumulative period.

(Significant changes in the amount of goodwill)

There is no applicable information.

(Significant gain on negative goodwill)

There is no applicable information.

(Explanatory notes regarding 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 3rd quarter consolidated accounting period.