

**Summary of Consolidated Financial Results**  
**for the First Quarter of the Fiscal Year Ending March 31, 2021**  
**(Three Months Ended June 30, 2020)**

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange (JASDAQ)  
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Scheduled date of filing of Quarterly Report: August 6, 2020  
 Scheduled date of payment of dividend: -  
 Preparation of supplementary materials for quarterly financial results: None  
 Holding of quarterly financial results meeting: None

*(All amounts are rounded down to the nearest million yen)***1. Consolidated Financial Results for the First Quarter Ended June 30, 2020 (April 1, 2020 – June 30, 2020)**(1) Consolidated operating results (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2020	527	2.7	31	3.2	32	6.5	10	(11.1)
Three months ended Jun. 30, 2019	513	23.6	30	263.2	30	277.3	11	-

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2020: 8 (up 46.0%)

Three months ended Jun. 30, 2019: 5 (-%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended Jun. 30, 2020	1.96	-
Three months ended Jun. 30, 2019	2.21	-

## (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2020	2,157	1,269	57.4
As of Mar. 31, 2020	2,234	1,304	56.8

Reference: Shareholders' equity (million yen) As of Jun. 30, 2020: 1,237 As of Mar. 31, 2020: 1,270

**2. Dividends**

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2020	-	0.00	-	8.00	8.00
Fiscal year ending Mar. 31, 2021	-	-	-	-	-
Fiscal year ending Mar. 31, 2021 (forecast)	-	0.00	-	8.00	8.00

Note: Revisions to the most recently announced dividend forecast: None

**3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)**

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	1,200	1.4	26	(83.6)	25	(84.2)	14	(85.8)	2.65
Full year	2,749	15.5	324	3.2	322	3.1	201	2.1	37.08

Note: Revisions to the most recently announced earnings forecasts: None

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of issued shares (common stock)

1) Number of shares issued at the end of period (including treasury shares)

As of Jun. 30, 2020:	5,428,000 shares	As of Mar. 31, 2020:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2020:	474 shares	As of Mar. 31, 2020:	474 shares
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3) Average number of shares during the period

Three months ended Jun. 30, 2020:	5,427,526 shares	Three months ended Jun. 30, 2019:	5,427,681 shares
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\* This quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

\* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in this report are based on assumptions judged to be valid and information available to the MKSystem's management at the time the materials were prepared but are not promises by MKSystem regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements" on page 4 for forecast assumptions and notes of caution for usage.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

During the first quarter of the fiscal year ending March 31, 2021 (hereinafter “the period under review”), the Japanese economy faced an extremely severe situation as economic activity plunged mainly due to the abrupt drop in consumer spending because of the state of emergency declared by the central government in response to the outbreak of the novel coronavirus disease (COVID-19). The future is expected to remain unpredictable for the moment as COVID-19 continues to spread mainly in the greater Tokyo area even after the lifting of the state of emergency.

The domestic information service industries have been seeing an accelerated trend of providing services typically through the cloud computing. Amid such a trend, these industries have been working on initiatives to increase added value by, for example, utilizing the latest technologies such as AI (Artificial Intelligence) and strengthening linkages between cloud services. In the field of the personnel and labor management, which MKSystem Corporation and its group companies (hereinafter collectively “the Group”) are involved, many companies in Japan continue to be highly motivated to make relevant investments on the background of the work-style reform promoted by the government and a rapid transition to teleworking due to the spread of the COVID-19 infections.

Under these circumstances, the Group worked to help our customers to improve operational efficiency and increase added value, as well as to further enhance our customers’ satisfaction. The “Shalom” series, our mainstay service, are the systems that support the business processes associated primarily with social insurance and labor insurance, and have been introduced broadly by more than 2,500 labor and social security attorney offices. In recent years, in relation to mandatory electronic applications, we have received increasing inquiries from companies in various industries about our system construction services for the “Company Edition” series, which are designed for general corporation customers. In the CuBe Business, we worked to expand our business by enhancing the service functions of “CuBe Cloud” and strengthening marketing activities to cultivate sales channels.

As a result, the Group reported net sales for the period under review of 527 million yen (up 2.7% year on year), cost of sales of 281 million yen (up 11.1%), the ratio of cost of sales to net sales of 53.3% (up 4.0 percentage points), gross profit of 246 million yen (down 5.4%), operating profit of 31 million yen (up 3.2%), the ratio of operating profit to net sales of 6.0% (up 0.0 percentage points), ordinary profit of 32 million yen (up 6.5%), and profit attributable to owners of parent of 10 million yen (down 11.1%). In addition, the return on equity (ROE), one of the KPIs for the Group, was 2.4% (compared with 4.4% for the same period of the previous fiscal year) on a non-consolidated basis and 0.8% (compared with 1.1% for the same period of the previous fiscal year) on a consolidated basis.

Results by business segment were as follows.

#### The Shalom Business

A growing number of companies as well as labor and social security attorney offices, our main customers, are motivated to introduce relevant systems from an increasing need for operational efficiency for the work-style reforms including teleworking. At the same time, we expect an intensified competition and pricing pressure as we witness an active entries in the market.

For the period under review, labor and social security attorneys were busy providing advice on the utilization of the treatments for their corporate clients that comply with the government’s requests to suspend operations, such as compensation for absence from work and subsidies for employment adjustment. In the general corporate market, we experienced delays in negotiations and installations because our customers in personnel divisions and in decision-making positions were on a tight schedule. Furthermore, our in-person sales activities were mostly restricted. This is mainly because Human Capital 2020—a professional event on HR-related solutions at which we have exhibited every year and received many inquiries—was cancelled due to the spread of the COVID-19 infections and also because we were forced to call off the Company-sponsored seminars that were to be held at physical venues.

Under such circumstances, we have strengthened web-based promotional activities by holding following up meetings for the Shalom brand products and various seminars online. In addition, we have enhanced the service

functions of “DirectHR,” which we released in the previous fiscal year as a new solution for small- and medium-sized companies, as well as “eNEN (renamed from Nenmatsu-chosei CuBe Cloud),” which was acquired by the Company from Business Net Corporation Co., Ltd. (hereinafter “BNC”), a consolidated subsidiary, through the business transfer.

As a result, sales of the cloud services, which consist of ASP services and system construction services, were 420 million yen (up 5.6% year on year). Specifically, sales of ASP services amounted to 395 million yen (up 13.9%) due to increased use by general corporations as well as accumulated monthly usage fees in line with an increase in the number of customers who use our main services of Shalom brand products. However, sales of system construction services decreased to 24 million yen (down 51.2%) due to the slower-than-expected progress of orders received for Shalom House Plan and new installation orders received from general corporations. In addition, sales of system products also decreased to 22 million yen (down 17.1%), affected by a trend of customers transitioning to telework.

Cost of sales increased year on year due mainly to increases in labor cost and software amortization expenses. This is primarily as a result of the following two transactions entered into in the previous fiscal year between the Company and BNC: succession of BNC’s system development business at Matsuyama Development Center through a company split and acquisition of BNC’s “eNEN (renamed from Nenmatsu-chosei CuBe Cloud)” business.

Consequently, the segment recorded net sales of 451 million yen (up 6.0% year on year), gross profit of 225 million yen (down 8.1%) and operating profit of 56 million yen (down 26.3%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 12.5% (down 5.5 percentage points).

### **The CuBe Business**

We have been engaged in the contracted development of front-end systems, customized to needs of an individual company, for the personnel and general affairs divisions of large companies to improve their business processes. The CuBe Business also provides cloud services that bring the convenience to small- and medium-sized companies by leveraging our know-how gained through the contracted development of systems for large companies.

In the previous fiscal year, the “eNEN (renamed from Nenmatsu-chosei CuBe Cloud)” business was transferred by BNC to its parent company, MKSystem Corporation.

Particularly in the contracted development of front-end systems, the influence of the spread of the COVID-19 infections resulted in delays in negotiations and installations because our customers in corporations and local governments, who are in charge of the installation and in decision-making positions, were making the transition to working from home and on a tight schedule. In the cloud service business, on the other hand, we have developed new sales channels for and enhanced the service functions of “GooooN.”

As a result, the segment recorded net sales of 87 million yen (down 0.8% year on year), gross profit of 21 million yen (up 36.4%), and operating loss of 25 million yen (compared with operating loss of 46 million yen for the same quarter of the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 9 million yen.

## **(2) Explanation of Financial Position**

### Assets

The balance of current assets at the end of the period under review was 1,050 million yen (down 12.2% from the end of the previous fiscal year), consisting primarily of 648 million yen in cash and deposits, and 333 million yen in accounts receivable-trade.

The balance of non-current assets was 1,106 million yen (up 6.5% from the end of the previous fiscal year), consisting primarily of 452 million yen in software, 242 million yen in goodwill, 180 million yen in guarantee deposits, and 115 million yen in construction in progress.

As a result, the balance of total assets was 2,157 million yen (down 3.5% from the end of the previous fiscal year).

### Liabilities

The balance of current liabilities at the end of the period under review was 598 million yen (down 0.2% from the end of the previous fiscal year), consisting primarily of 171 million yen in accounts payable-other, 166 million yen in current portion of long-term borrowings, 73 million yen in accrued expenses, and 65 million yen in advances received.

The balance of non-current liabilities was 288 million yen (down 12.6% from the end of the previous fiscal year), consisting solely of 288 million yen in long-term borrowings.

As a result, the balance of total liabilities was 887 million yen (down 4.6% from the end of the previous fiscal year).

### Net assets

The balance of shareholders' equity at the end of the period under review was 1,237 million yen (down 2.6% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 821 million yen in retained earnings.

As a result, the balance of net assets was 1,269 million yen (down 2.7% from the end of the previous fiscal year).

## **(3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements**

There are no revisions to the consolidated earnings forecast for the fiscal year ending March 31, 2021, which was announced in the "Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (Japanese GAAP)" on May 11, 2020.

The consolidated earnings forecast is based mainly on information currently available to the Group and is subject to significant uncertainty. We have seen the apparent impact, including a decrease in productivity and delays in negotiations due to the adoption of working from home, as well as cancellations of seminars at physical venues. In case such impact changes according to how long the COVID-19 pandemic lingers and how the situation develops, we may make downward revisions to the consolidated earnings forecast because such change may affect the results of operations.

We will disclose promptly if, in light of future business performance, we decide that we should revise the consolidated earnings forecasts for the first half and full year of the fiscal year ending March 31, 2021.

**2. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY3/20 (As of Mar. 31, 2020)	First quarter of FY3/21 (As of Jun. 30, 2020)
Assets		
Current assets		
Cash and deposits	749,960	675,917
Accounts receivable-trade	420,149	333,121
Merchandise	5,904	6,438
Work in process	1,451	6,370
Supplies	173	82
Prepaid expenses	17,623	21,493
Other	1,004	7,381
Total current assets	1,196,267	1,050,805
Non-current assets		
Property, plant and equipment		
Buildings, net	18,455	18,120
Vehicles, net	2,608	2,390
Tools, furniture and fixtures, net	41,623	40,326
Construction in progress	-	115,885
Total property, plant and equipment	62,688	176,723
Intangible assets		
Software	476,781	452,322
Software in progress	29,507	28,598
Trademark right	1,535	1,483
Telephone subscription right	1,218	1,218
Goodwill	252,602	242,887
Total intangible assets	761,646	726,510
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	180,890	180,890
Deferred tax assets	33,078	21,943
Other	98	98
Total investments and other assets	214,137	203,002
Total non-current assets	1,038,471	1,106,236
Total assets	2,234,739	2,157,041

(Thousands of yen)

	FY3/20 (As of Mar. 31, 2020)	First quarter of FY3/21 (As of Jun. 30, 2020)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	27,019	11,351
Short-term borrowings	10,000	10,000
Current portion of long-term borrowings	166,644	166,644
Accounts payable-other	91,235	171,777
Accrued expenses	32,347	73,794
Income taxes payable	81,720	14,993
Accrued consumption taxes	94,545	28,890
Advances received	33,341	65,166
Provision for bonuses	55,634	30,413
Other	7,099	25,192
<b>Total current liabilities</b>	<b>599,588</b>	<b>598,224</b>
<b>Non-current liabilities</b>		
Long-term borrowings	330,595	288,934
<b>Total non-current liabilities</b>	<b>330,595</b>	<b>288,934</b>
<b>Total liabilities</b>	<b>930,183</b>	<b>887,158</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	219,110	219,110
Capital surplus	197,457	197,457
Retained earnings	854,151	821,514
Treasury shares	(466)	(466)
<b>Total shareholders' equity</b>	<b>1,270,251</b>	<b>1,237,614</b>
<b>Non-controlling interests</b>	<b>34,303</b>	<b>32,268</b>
<b>Total net assets</b>	<b>1,304,555</b>	<b>1,269,883</b>
<b>Total liabilities and net assets</b>	<b>2,234,739</b>	<b>2,157,041</b>

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income****Quarterly Consolidated Statement of Income  
(For the Three-month Period)**

(Thousands of yen)

	First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)	First three months of FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)
Net sales	513,935	527,696
Cost of sales	253,110	281,080
Gross profit	260,825	246,616
Selling, general and administrative expenses	229,966	214,758
Operating profit	30,858	31,858
Non-operating income		
Dividend income	1	1
Royalty income	-	150
Subsidy income	-	1,056
Surrender value of insurance policies	-	11
Purchase discounts	5	138
Interest on tax refund	337	-
Other	46	17
Total non-operating income	390	1,374
Non-operating expenses		
Interest expenses	594	587
Other	0	-
Total non-operating expenses	595	587
Ordinary profit	30,654	32,645
Profit before income taxes	30,654	32,645
Income taxes-current	10,367	12,764
Income taxes-deferred	14,295	11,134
Total income taxes	24,662	23,899
Profit	5,991	8,746
Loss attributable to non-controlling interests	(5,991)	(1,901)
Profit attributable to owners of parent	11,983	10,648

**Quarterly Consolidated Statement of Comprehensive Income**  
**(For the Three-month Period)**

	(Thousands of yen)	
	First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)	First three months of FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)
Profit	5,991	8,746
Comprehensive income	5,991	8,746
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	11,983	10,648
Comprehensive income attributable to non-controlling interests	(5,991)	(1,901)

**(3) Notes to Quarterly Consolidated Financial Statements****Going Concern Assumption**

Not applicable.

**Significant Changes in Shareholders' Equity**

Not applicable.

**Segment Information**

First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)

Information related to net sales and profit/loss for each reportable segment

(Thousands of yen)

	Shalom Business	CuBe Business	Total	Adjustment (Note)	Amounts recorded in quarterly consolidated statement of income
Net sales					
External sales	426,070	87,865	513,935	-	513,935
Inter-segment sales and transfers	138	51	189	(189)	-
Total	426,208	87,916	514,124	(189)	513,935
Segment profit (loss)	76,623	(46,695)	29,928	930	30,858

Notes: 1. The adjustment to segment profit (loss) is the elimination of inter-segment transactions.

2. Segment profit (loss) is adjusted to be consistent with operating profit presented on the quarterly consolidated statement of income.

First three months of FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)

Information related to net sales and profit/loss for each reportable segment

(Thousands of yen)

	Shalom Business	CuBe Business	Total	Adjustment (Note)	Amounts recorded in quarterly consolidated statement of income
Net sales					
External sales	443,088	84,607	527,696	-	527,696
Inter-segment sales and transfers	8,733	2,587	11,320	(11,320)	-
Total	451,821	87,195	539,016	(11,320)	527,696
Segment profit (loss)	56,447	(25,698)	30,749	1,108	31,858

Notes: 1. The adjustment to segment profit (loss) is the elimination of inter-segment transactions.

2. Segment profit (loss) is adjusted to be consistent with operating profit presented on the quarterly consolidated statement of income.

**Additional Information**

The impact of the spread of the COVID-19 infections

As impacted by the spread of the COVID-19 infections, the economic outlook has become increasingly uncertain. The Group has seen the apparent impact of the pandemic, including a decrease in productivity and delays in negotiations due to the adoption of working from home, as well as cancellations of seminars at physical venues. However, the majority of the Group's sales is comprised of the monthly license fee for the "Shalom" series, our mainstay service, which continues to provide a highly stable revenue stream. Therefore, we have decided that currently there have been no events that significantly affect the accounting-based estimates, including recoverability of deferred tax assets.

The estimates are based mainly on the information currently available to the Group and subject to significant uncertainty. In case the impact changes according to how long the COVID-19 pandemic lingers and how the situation develops, there may be effects on the estimates, which may affect the financial position and results of operations for the following fiscal years.

*This financial report is solely a translation of MKSystem'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.*