

**Summary of Consolidated Financial Results**  
**for the Third Quarter of the Fiscal Year Ending March 31, 2021**  
**(Nine Months Ended December 31, 2020)**

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange (JASDAQ)  
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Scheduled date of filing of Quarterly Report: February 4, 2021  
 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 Third Quarter Ended December 31, 2020**

(April 1, 2020 – December 31, 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	%
Nine months ended Dec. 31, 2020	1,746	(0.6)	133	(35.4)	133	(35.1)	72	(43.2)
Nine months ended Dec. 31, 2019	1,756	20.2	207	20.7	205	21.5	127	160.9

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2020: 70 (down 42.2%)  
 Nine months ended Dec. 31, 2019: 121 (up 191.4%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec. 31, 2020	13.29	-
Nine months ended Dec. 31, 2019	23.41	-

**(2) Consolidated financial position**

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2020	2,180	1,331	59.6
As of Mar. 31, 2020	2,234	1,304	56.8

Reference: Shareholders' equity (million yen) As of Dec. 31, 2020: 1,299 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	-	0.00	-		
Fiscal year ending Mar. 31, 2021 (forecast)				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
Full year	2,421	1.7	203	(35.4)	202	(35.4)	122	(38.1)	22.48

Note: Revisions to the most recently announced earnings forecasts: Yes

**\* 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 Dec. 31, 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 Dec. 31, 2020:	506 shares	As of Mar. 31, 2020:	474 shares
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3) Average number of shares during the period

Nine months ended Dec. 31, 2020:	5,427,508 shares	Nine months ended Dec. 31, 2019:	5,427,614 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 nine months of the fiscal year ending March 31, 2021 (hereinafter “the period under review”), the future outlook of the Japanese economy remained uncertain affected by a rebound of the spread of the COVID-19 infection although personal consumption and production activities had shown signs of a temporary recovery out of stagnation from the first wave. As there was no sign of the end of the pandemic, it is concerned that economic activity is expected to remain restrained for an extended period of time.

The information service industries in Japan have been seeing an accelerated transition to DX (Digital Transformation) that flexibly transforms the way of business and life by adopting digital technology, whereas some conservative stance is viewed recently such as postponing or restraining IT investments due to the economic downturn. In the field of the personnel and labor management, which MKSystem Corporation (hereinafter the “Company”) and its group companies (hereinafter collectively the “Group”) are involved, some corporations and local governments readjust or postpone their investment plans despite a rapid transition to teleworking due to the work-style reform promoted by the central government as well as the spread of the COVID-19 infection.

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 addition, the Group strengthened marketing activities to expand sales for “Company Edition” series designed for general corporation customers, “eNEN (renamed from Nenmatsu-chosei CuBe Cloud),” a year-end tax adjustment tool, as well as “Cloud Pocket,” which was newly released in July 2020. In the CuBe Business, we worked to expand our business by enhancing the service functions of “GooooN” and strengthening marketing activities to expand sales channels.

During the period under review, the Company relocated its Tokyo office. The new office site has not only the Company’s Tokyo office but also the offices of our consolidated subsidiary, partner companies and other affiliated organizations, which relocated at the same time, in order to work more closely and streamline the operations. As a result of the relocation, the Company reported rental income of 17 million yen from the partner companies and other affiliated organizations as non-operating income and rental costs of 17 million yen as non-operating expenses.

As a result, the Group reported net sales for the period under review of 1,746 million yen (down 0.6% year on year), cost of sales of 879 million yen (up 0.2%), the ratio of cost of sales to net sales of 50.4% (up 0.4 percentage points), gross profit of 867 million yen (down 1.3%), operating profit of 133 million yen (down 35.4%), the ratio of operating profit to net sales of 7.7% (down 4.1 percentage points), ordinary profit of 133 million yen (down 35.1%), and profit attributable to owners of parent of 72 million yen (down 43.2%). In addition, the return on equity (ROE), one of the KPIs for the Group, was 8.0% (compared with 14.4% for the same period of the previous fiscal year) on a non-consolidated basis and 5.6% (compared with 11.1% 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 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 follow-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 1,324 million yen (up 8.0% year on year). Specifically, sales of ASP services amounted to 1,213 million yen (up 12.7%) 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 111 million yen (down 25.5%) due to the slower-than-expected progress of orders received for Shalom House Plan and new installation by general corporations, which was impacted by curtailed sales activities. In addition, sales of system products also decreased to 77 million yen (down 8.8%), 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 1,429 million yen (up 9.0% year on year), gross profit of 764 million yen (up 0.3%) and operating profit of 175 million yen (down 34.3%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 12.3% (down 8.1 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 348 million yen (down 23.8% year on year), gross profit of 102 million yen (down 13.8%), and operating loss of 44 million yen (compared with operating loss of 60 million yen for the same period of the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 29 million yen.

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

### Assets

The balance of current assets at the end of the period under review was 1,105 million yen (down 7.6% from the end of the previous fiscal year), consisting primarily of 651 million yen in cash and deposits, and 385 million yen in accounts receivable-trade.

The balance of non-current assets was 1,075 million yen (up 3.6% from the end of the previous fiscal year), consisting primarily of 400 million yen in software, 223 million yen in goodwill, 161 million yen in guarantee deposits, and 138 million yen in buildings.

As a result, the balance of total assets was 2,180 million yen (down 2.4% from the end of the previous fiscal year).

### Liabilities

The balance of current liabilities at the end of the period under review was 538 million yen (down 10.2% from the end of the previous fiscal year), consisting primarily of 233 million yen in current portion of long-term borrowings, 94 million yen in accounts payable-other, and 52 million yen in advances received.

The balance of non-current liabilities was 311 million yen (down 5.9% from the end of the previous fiscal year), consisting solely of 311 million yen in long-term borrowings.

As a result, the balance of total liabilities was 849 million yen (down 8.7% from the end of the previous fiscal year).

### Net assets

The balance of shareholders' equity at the end of the period under review was 1,299 million yen (up 2.3% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 883 million yen in retained earnings.

As a result, the balance of net assets was 1,331 million yen (up 2.0% from the end of the previous fiscal year).

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

Based on performance in the period under review and other factors, we have revised the consolidated earnings forecasts for the fiscal year ending March 31, 2021 that we announced on May 11, 2020.

For more information, please refer to "Revisions to Earnings Forecast" (Japanese version only) that was announced on February 3, 2021.

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

(Thousands of yen)

	FY3/20 (As of Mar. 31, 2020)	Third quarter of FY3/21 (As of Dec. 31, 2020)
Assets		
Current assets		
Cash and deposits	749,960	651,469
Accounts receivable-trade	420,149	385,918
Merchandise	5,904	7,407
Work in process	1,451	15,241
Supplies	173	80
Prepaid expenses	17,623	37,201
Consumption taxes receivable	-	1,612
Other	1,004	6,132
Total current assets	1,196,267	1,105,063
Non-current assets		
Property, plant and equipment		
Buildings, net	18,455	138,200
Vehicles, net	2,608	1,955
Tools, furniture and fixtures, net	41,623	78,677
Total property, plant and equipment	62,688	218,833
Intangible assets		
Software	476,781	400,812
Software in progress	29,507	42,525
Trademark right	1,535	1,374
Telephone subscription right	1,218	1,218
Goodwill	252,602	223,456
Total intangible assets	761,646	669,387
Investments and other assets		
Investments in capital	70	60
Guarantee deposits	180,890	161,362
Deferred tax assets	33,078	26,013
Other	98	98
Total investments and other assets	214,137	187,534
Total non-current assets	1,038,471	1,075,755
Total assets	2,234,739	2,180,818

(Thousands of yen)

	FY3/20 (As of Mar. 31, 2020)	Third quarter of FY3/21 (As of Dec. 31, 2020)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	27,019	21,628
Short-term borrowings	10,000	10,000
Current portion of long-term borrowings	166,644	233,304
Accounts payable-other	91,235	94,039
Accrued expenses	32,347	45,830
Income taxes payable	81,720	23,651
Accrued consumption taxes	94,545	8,308
Advances received	33,341	52,185
Provision for bonuses	55,634	31,299
Other	7,099	18,098
<b>Total current liabilities</b>	<b>599,588</b>	<b>538,345</b>
<b>Non-current liabilities</b>		
Long-term borrowings	330,595	311,177
<b>Total non-current liabilities</b>	<b>330,595</b>	<b>311,177</b>
<b>Total liabilities</b>	<b>930,183</b>	<b>849,522</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	883,006
Treasury shares	(466)	(499)
<b>Total shareholders' equity</b>	<b>1,270,251</b>	<b>1,299,073</b>
<b>Non-controlling interests</b>	<b>34,303</b>	<b>32,222</b>
<b>Total net assets</b>	<b>1,304,555</b>	<b>1,331,296</b>
<b>Total liabilities and net assets</b>	<b>2,234,739</b>	<b>2,180,818</b>

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

(Thousands of yen)

	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)	First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)
Net sales	1,756,594	1,746,828
Cost of sales	878,011	879,700
Gross profit	878,582	867,128
Selling, general and administrative expenses	671,459	733,315
Operating profit	207,123	133,813
Non-operating income		
Interest income	3	4
Dividend income	1	1
Royalty income	-	450
Rental income	-	17,736
Subsidy income	100	1,056
Surrender value of insurance policies	21	25
Purchase discounts	11	190
Interest on tax refund	358	-
Other	105	69
Total non-operating income	601	19,532
Non-operating expenses		
Interest expenses	1,957	2,014
Rental costs	-	17,736
Other	1	0
Total non-operating expenses	1,959	19,751
Ordinary profit	205,765	133,594
Extraordinary losses		
Loss on retirement of property, plant and equipment	-	1,904
Total extraordinary losses	-	1,904
Profit before income taxes	205,765	131,689
Income taxes-current	42,820	54,432
Income taxes-deferred	41,450	7,064
Total income taxes	84,270	61,497
Profit	121,494	70,192
Loss attributable to non-controlling interests	(5,584)	(1,947)
Profit attributable to owners of parent	127,078	72,140

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

	(Thousands of yen)	
	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)	First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)
Profit	121,494	70,192
Comprehensive income	121,494	70,192
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	127,078	72,140
Comprehensive income attributable to non-controlling interests	(5,584)	(1,947)

### (3) Notes to Quarterly Consolidated Financial Statements

#### Going Concern Assumption

Not applicable.

#### Significant Changes in Shareholders' Equity

Not applicable.

#### Segment Information

First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 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	1,310,240	446,353	1,756,594	-	1,756,594
Inter-segment sales and transfers	1,303	11,383	12,686	(12,686)	-
Total	1,311,543	457,737	1,769,280	(12,686)	1,756,594
Segment profit (loss)	266,943	(60,711)	206,232	891	207,123

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 nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 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	1,405,523	341,304	1,746,828	-	1,746,828
Inter-segment sales and transfers	24,399	7,558	31,957	(31,957)	-
Total	1,429,922	348,863	1,778,786	(31,957)	1,746,828
Segment profit (loss)	175,249	(44,761)	130,487	3,325	133,813

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.*