

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending March 31, 2022
(Nine Months Ended December 31, 2021)

[Japanese GAAP]

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 Scheduled date of filing of Quarterly Report: February 7, 2022
 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, 2021

(April 1, 2021 – December 31, 2021)

(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, 2021	2,007	14.9	119	(11.0)	100	(24.6)	69	(3.1)
Nine months ended Dec. 31, 2020	1,746	(0.6)	133	(35.4)	133	(35.1)	72	(43.2)

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2021: 75 (down 6.9%)

Nine months ended Dec. 31, 2020: 70 (down 42.2%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec. 31, 2021	12.88	-
Nine months ended Dec. 31, 2020	13.29	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2021	2,142	1,434	64.9
As of Mar. 31, 2021	2,241	1,402	60.9

Reference: Shareholders' equity (million yen) As of Dec. 31, 2021: 1,391 As of Mar. 31, 2021: 1,364

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2021	-	0.00	-	8.00	8.00
Fiscal year ending Mar. 31, 2022	-	0.00	-	-	-
Fiscal year ending Mar. 31, 2022 (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, 2022 (April 1, 2021 – March 31, 2022)

(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	2,892	18.6	220	0.2	219	0.2	138	0.2	25.47

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: Yes

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, 2021:	5,428,000 shares	As of Mar. 31, 2021:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Dec. 31, 2021:	506 shares	As of Mar. 31, 2021:	506 shares
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3) Average number of shares during the period

Nine months ended Dec. 31, 2021:	5,427,494 shares	Nine months ended Dec. 31, 2020:	5,427,508 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.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements	4
2. Quarterly Consolidated Financial Statements and Notes	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
(3) Notes to Quarterly Consolidated Financial Statements	9
Going Concern Assumption	9
Significant Changes in Shareholders' Equity	9
Changes in Accounting Policies	9
Segment Information	10

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, 2022 (hereinafter “the period under review”), while the promotion of vaccination against COVID-19 was expected to bring about a pick up in the Japanese economy, the impact of the development of infections on the domestic and foreign economies still remained unpredictable due to factors such as the new threat from the variant.

In the domestic information service industry and the field of personnel and labor management, in which MKSystem Corporation and its group companies (hereinafter collectively “the Group”) are involved, the government has promoted the work-style reform, the rapid transition to teleworking as a measure against the COVID-19 infections, or furtherance of DX (digital transformation) to improve business efficiency. On these backgrounds corporate investment demand remained increasing, though companies are being cautious about investing and postponing new investment considering the impact of COVID-19 situation, which repeatedly worsens and improves, on corporate performance.

Under these circumstances, the Group worked to further enhance our customers’ satisfaction, by actively utilizing online seminars and remote meetings so that customers could improve their operational efficiency and create added value.

As a result, for the period under review, the Group reported net sales of 2,007 million yen (up 14.9% year on year), cost of sales of 1,044 million yen (up 18.7% year on year), the ratio of cost of sales to net sales of 52.0% (up 1.6 percentage points year on year), gross profit of 963 million yen (up 11.1% year on year), operating profit of 119 million yen (down 11.0% year on year), the ratio of operating profit to net sales of 5.9% (down 1.7 percentage points year on year), ordinary profit of 100 million yen (down 24.6% year on year), and profit attributable to owners of parent of 69 million yen (down 3.1% year on year). In addition, the return on equity (ROE), one of the KPIs for the Group, was 5.1% (compared with 5.6 percentage points for the same period of the previous fiscal year) on a consolidated basis and 4.2% (compared with 8.0 percentage points for the same period of the previous fiscal year) on a non-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.

Under these circumstances, in the Shalom Business, we promoted quality improvement and function enhancement of the product lines, including Shalom, “eNEN,” a web-based year-end tax adjustment system, and “ShaRobo,” an official Shalom RPA. For services for labor and social security attorneys, the “Shalom” series, our mainstay service, saw an increase in the number of contracts for the House Plan. This is thanks to a campaign to discount the initial cost and the adoption of the subsidies under the Project to Support Introduction of IT for Improvement of Service Productivity, which lead to increased inquiries from potential customers every year. For corporate services, we boosted sales with an increase in new orders of “eNEN,” a web-based year-end tax adjustment system and a resulting increase of the number of employees using the system. At the same time, we, as a new action to acquire higher potential projects, published an article about the Shalom Company Edition on “IT Trend,” one of the largest websites in Japan providing information to compare IT products and allowing the website users to request information materials.

As a result, sales of the cloud services, which consist of ASP services and system construction services, were 1,493 million yen (up 12.7% year on year). This was attributable to sales of ASP services amounted to 1,342 million yen (up 10.6%) due to accumulated monthly usage fees in line with increases in the number of IDs issued and the number of customers who use our main services of Shalom brand products, and sales of system construction services amounted to 150 million yen (up 35.3%) mainly due to an increase in the number of Shalom House Plan

contracts. In addition, sales of system products was 73 million yen (down 5.1%).

On the other hand, personnel and labor costs increased due to the active recruitment in conjunction with strengthening of sales and development systems. In addition, promotion expenses increased due to the strengthening of digital marketing aimed at increasing customer acquisition.

Consequently, the segment recorded net sales of 1,593 million yen (up 11.4% year on year), gross profit of 811 million yen (up 6.1%) and operating profit of 97 million yen (down 44.6%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 6.1% (down 6.2 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 contract development of front-end systems, customers of large companies and local governments have been actively investing in system renewal for the purpose of work-style reform, teleworking promotion, and personnel system reform. Responding to such a situation, we strengthened our sales system and stimulated our clients into ordering, which brought about several large-scale development projects that we have not seen in recent years and a significant increase in sales. In the cloud service business, on the other hand, we strove to develop new sales channels for “GooooN” and win new users.

On the cost front, efforts to improve development efficiency and reduce the cost of sales ratio on a project-by-project basis have resulted in improved profit margin compared to that for the previous fiscal year.

As a result, the segment recorded net sales of 438 million yen (up 25.7% year on year), gross profit of 156 million yen (up 53.7%) and operating profit of 16 million yen (compared with operating loss of 44 million yen for the same period of the previous fiscal year). Operating profit 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 1,047 million yen (down 10.7% from the end of the previous fiscal year), consisting primarily of 376 million yen in cash and deposits and 538 million yen in accounts receivable-trade.

The balance of non-current assets was 1,094 million yen (up 2.4% from the end of the previous fiscal year), consisting primarily of 441 million yen in software, 184 million yen in goodwill, and 163 million yen in guarantee deposits.

As a result, the balance of total assets was 2,142 million yen (down 4.4% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 611 million yen (up 4.2% from the end of the previous fiscal year), consisting primarily of 213 million yen in current portion of long-term borrowings, 122 million yen in accounts payable-other, 27 million yen in accrued expenses, and 68 million yen in advances received.

The balance of non-current liabilities was 97 million yen (down 61.5% from the end of the previous fiscal year), consisting solely of 97 million yen in long-term borrowings.

As a result, the balance of total liabilities was 708 million yen (down 15.6% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,391 million yen (up 1.9% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 975 million yen in retained earnings.

As a result, the balance of net assets was 1,434 million yen (up 2.3% 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, 2022, which was announced in the "Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (Japanese GAAP)" on May 10, 2021.

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

(Thousands of yen)

	FY3/21 (As of Mar. 31, 2021)	Third quarter of FY3/22 (As of Dec. 31, 2021)
Assets		
Current assets		
Cash and deposits	644,492	376,754
Accounts receivable-trade	467,416	538,370
Merchandise	7,054	35,919
Work in process	3,261	23,874
Supplies	77	80
Prepaid expenses	37,741	48,754
Income taxes receivable	-	18,443
Other	12,879	5,754
Total current assets	1,172,924	1,047,951
Non-current assets		
Property, plant and equipment		
Buildings, net	135,248	126,455
Vehicles, net	1,737	1,083
Tools, furniture and fixtures, net	85,789	93,690
Total property, plant and equipment	222,775	221,229
Intangible assets		
Software	397,537	441,223
Software in progress	40,416	62,298
Trademark right	1,316	1,144
Telephone subscription right	1,218	1,218
Goodwill	213,740	184,594
Total intangible assets	654,229	690,479
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	161,362	163,124
Deferred tax assets	30,495	19,785
Other	98	98
Total investments and other assets	192,016	183,068
Total non-current assets	1,069,021	1,094,776
Total assets	2,241,946	2,142,728

	(Thousands of yen)	
	FY3/21 (As of Mar. 31, 2021)	Third quarter of FY3/22 (As of Dec. 31, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	45,006	33,306
Short-term borrowings	-	71,000
Current portion of long-term borrowings	233,304	213,921
Accounts payable-other	98,889	122,119
Accrued expenses	37,730	27,009
Income taxes payable	45,235	135
Accrued consumption taxes	11,841	20,668
Advances received	42,880	68,562
Provision for bonuses	64,113	35,180
Other	7,684	19,540
Total current liabilities	586,685	611,443
Non-current liabilities		
Long-term borrowings	252,851	97,256
Total non-current liabilities	252,851	97,256
Total liabilities	839,536	708,699
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	197,457	197,457
Retained earnings	948,784	975,258
Treasury shares	(499)	(499)
Total shareholders' equity	1,364,852	1,391,326
Non-controlling interests	37,557	42,702
Total net assets	1,402,410	1,434,028
Total liabilities and net assets	2,241,946	2,142,728

(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 FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)	First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)
Net sales	1,746,828	2,007,812
Cost of sales	879,700	1,044,130
Gross profit	867,128	963,681
Selling, general and administrative expenses	733,315	844,646
Operating profit	133,813	119,034
Non-operating income		
Interest income	4	3
Dividend income	1	1
Royalty income	450	-
Rental income	17,736	32,103
Subsidy income	1,056	-
Surrender value of insurance policies	25	-
Purchase discounts	190	52
Other	69	3,324
Total non-operating income	19,532	35,484
Non-operating expenses		
Interest expenses	2,014	1,514
Rental costs	17,736	28,521
Compensation expenses	-	23,700
Other	0	-
Total non-operating expenses	19,751	53,735
Ordinary profit	133,594	100,782
Extraordinary losses		
Loss on retirement of non-current assets	1,904	-
Total extraordinary losses	1,904	-
Profit before income taxes	131,689	100,782
Income taxes-current	54,432	15,034
Income taxes-deferred	7,064	10,709
Total income taxes	61,497	25,744
Profit	70,192	75,038
Profit (loss) attributable to non-controlling interests	(1,947)	5,144
Profit attributable to owners of parent	72,140	69,894

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

	(Thousands of yen)	
	First nine months of FY3/21 (Apr. 1, 2020 – Dec. 31, 2020)	First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)
Profit	70,192	75,038
Comprehensive income	70,192	75,038
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	72,140	69,894
Comprehensive income attributable to non-controlling interests	(1,947)	5,144

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

MKSystem started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) at the beginning of the first quarter of the fiscal year ending in March 2022. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

In addition, MKSystem applies the alternative treatment prescribed in Paragraph 98 of the Guidance on Accounting Standard for Revenue Recognition, and recognizes revenue at the time of shipment when the period between the time of shipment and the time when control of the relevant goods is transferred to the customer is a normal period for domestic sales of goods.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year. The new standard is then applied beginning with this amount of retained earnings. However, MKSystem has applied the method prescribed in Paragraph 86 of this standard and has not retrospectively applied the new accounting policy to contracts in which almost all revenue were recognized in accordance with the previous treatment prior to the beginning of the first quarter of the current fiscal year. In addition, MKSystem has applied the method prescribed in Paragraph 86, Article 1 of the Accounting Standard for Revenue Recognition, and accounted for contract changes made prior to the beginning of the first quarter of the current fiscal year based on the contract terms after reflecting all contract changes, and added or subtracted the cumulative effect of such changes to retained earnings at the beginning of the first quarter of the current fiscal year.

This change has no impact on profit and loss for the first nine months of the current fiscal year or the beginning balance of retained earnings for the first quarter of the current fiscal year.

Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), MKSystem has not presented information on revenue from contracts with customers broken down for the first nine months of the previous fiscal year.

Segment Information

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.

First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)

Information related to net sales and profit 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	1,574,843	432,968	2,007,812	-	2,007,812
Inter-segment sales and transfers	18,249	5,389	23,638	(23,638)	-
Total	1,593,092	438,358	2,031,450	(23,628)	2,007,812
Segment profit	97,057	16,859	113,917	5,116	119,034

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

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

3. Information related to revisions for reportable segments

As described in Changes in Accounting Policies, MKSystem has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter of FY3/22 and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well. This change has no impact on the first nine months of FY3/22.

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.