

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2023
(Three Months Ended June 30, 2022)

[Japanese GAAP]

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Stock code: 3910

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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, 2022

(April 1, 2022 – June 30, 2022)

(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, 2022 | 625 | 7.2 | (6) | - | (4) | - | (17) | - |
| Three months ended Jun. 30, 2021 | 583 | 10.5 | (10) | - | (9) | - | (19) | - |

Note: Comprehensive income (million yen)

Three months ended Jun. 30, 2022: (17) (-%)

Three months ended Jun. 30, 2021: (22) (-%)

| | Basic earnings per share | | Diluted earnings per share | |
|----------------------------------|--------------------------|--|----------------------------|--|
| | Yen | | Yen | |
| Three months ended Jun. 30, 2022 | (3.14) | | - | |
| Three months ended Jun. 30, 2021 | (3.62) | | - | |

(2) Consolidated financial position

| | Total assets | | Net assets | | Equity ratio | |
|---------------------|--------------|--|-------------|--|--------------|--|
| | Million yen | | Million yen | | % | |
| As of Jun. 30, 2022 | 2,435 | | 1,363 | | 55.7 | |
| As of Mar. 31, 2022 | 2,231 | | 1,424 | | 63.5 | |

Reference: Shareholders' equity (million yen)

As of Jun. 30, 2022: 1,357

As of Mar. 31, 2022: 1,417

2. Dividends

| | Dividend per share | | | | |
|---|--------------------|--------|--------|----------|-------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total |
| | Yen | | | | |
| Fiscal year ended Mar. 31, 2022 | - | 0.00 | - | 8.00 | 8.00 |
| Fiscal year ending Mar. 31, 2023 | - | - | - | - | - |
| Fiscal year ending Mar. 31, 2023 (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, 2023 (April 1, 2022 – March 31, 2023)

(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 | 1,418 | 14.3 | 37 | 25.9 | 42 | 343.9 | 22 | - | 4.17 |
| Full year | 3,115 | 13.6 | 272 | 87.6 | 282 | 118.3 | 175 | 92.6 | 32.42 |

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 shares issued (common stock)

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

| | | | |
|----------------------|------------------|----------------------|------------------|
| As of Jun. 30, 2022: | 5,428,000 shares | As of Mar. 31, 2022: | 5,428,000 shares |
|----------------------|------------------|----------------------|------------------|

2) Number of treasury shares at the end of period

| | | | |
|----------------------|------------|----------------------|------------|
| As of Jun. 30, 2022: | 506 shares | As of Mar. 31, 2022: | 506 shares |
|----------------------|------------|----------------------|------------|

3) Average number of shares outstanding during the period

| | | | |
|-----------------------------------|------------------|-----------------------------------|------------------|
| Three months ended Jun. 30, 2022: | 5,427,494 shares | Three months ended Jun. 30, 2021: | 5,427,494 shares |
|-----------------------------------|------------------|-----------------------------------|------------------|

* 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, 2023 (hereinafter “the period under review”), the Japanese economy resumed full-scale economic activities amid the promotion of COVID-19 vaccination; however, considering rapid yen depreciation, surges in resource prices stemmed from the Russian and Ukraine situation and supply chain disruption, the impact of such factors on the domestic and foreign economies still remained unpredictable.

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 took a cautious attitude toward investment as demonstrated by the postponement of some new investments because of concern about impacts of the above on the domestic and foreign economies.

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 625 million yen (up 7.2% year on year), gross profit of 293 million yen (up 6.7% year on year), operating loss of 6 million yen (compared with loss of 10 million yen for the same period of the previous fiscal year), ordinary loss of 4 million yen (compared with loss of 9 million yen for the same period of the previous fiscal year), loss attributable to owners of parent of 17 million yen (compared with loss attributable to owners of parent of 19 million yen for the same period of the previous fiscal year). In addition, the return on equity (ROE), one of the KPIs for the Group, was -1.2% (improvement of 0.3 percentage points compared with the same period of the previous fiscal year) on a consolidated basis and 1.1% (up 0.3 percentage points compared with the same period of the previous fiscal year) on a non-consolidated basis.

Results by business segment were as follows.

The Shalom Business

We provide the software to support business of labor and social security attorney offices, labor insurance administration associations and general corporations by facilitating their operations and processes for the social security insurance, labor insurance and payroll calculation. Our products mainly consist of the following cloud services: Shalom series as our flagship product, MYNABOX series as a My Number management system, and eNEN as a web-based year-end adjustment filing system.

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.

Thanks to a steady increase in the aggregate monthly subscription fees for Shalom and other cloud services 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, we successfully increased the number of the House Plan contracts. In addition, we also ran a booth at the 10th HR EXPO (Personnel Labor / Education / Recruitment), which is Japan’s largest exhibition hosted by JETRO for administrative departments, to attract new user companies.

Net sales of the segment consist of those from the cloud services of 509 million yen (up 8.4% year on year), of which the ASP services under the subscription model amounted to 483 million yen (up 9.7%) and the system construction services amounted to 25 million yen (down 10.9%); and those from the system products of 20 million yen (down 18.0%).

On the other hand, we reduced the overall costs, which was attributable to decreases in software amortization as a

result of certain products being fully amortized and recruiting expenses as we refrained from actively hiring new employees.

Consequently, the segment recorded net sales of 533 million yen (up 5.6% year on year), gross profit of 277 million yen (up 7.9%), and operating profit of 21 million yen (up 12.8%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 4.1% (up 0.3 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, GooooN, which brings 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 contracted development of front-end systems, sales of maintenance business ordered by large companies and local governments have steadily increased. Meanwhile, we have delivered new development projects that respond to demand for investment in updating systems at the same pace as in the past years. In the cloud service business GooooN, we focused on functional enhancement and cultivation of sales channels.

On the cost front, we continued to reduce cost of sales to improve development efficiency and maintained stable profit margins.

As a result, the segment recorded net sales of 92 million yen (up 8.4% year on year), gross profit of 16 million yen (down 8.2%), and operating loss of 31 million yen (compared with operating loss of 31 million yen for the same period 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 1,238 million yen (up 17.2% from the end of the previous fiscal year), consisting primarily of 739 million yen in cash and deposits and 390 million yen in accounts receivable-trade.

The balance of non-current assets was 1,196 million yen (up 1.9% from the end of the previous fiscal year), consisting primarily of 453 million yen in software, 165 million yen in goodwill, and 162 million yen in guarantee deposits.

As a result, the balance of total assets was 2,435 million yen (up 9.1 % from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 817 million yen (up 8.7% from the end of the previous fiscal year), consisting primarily of 240 million yen in current portion of long-term borrowings, 164 million yen in accounts payable-other, 126 million yen in short-term borrowings, and 101 million yen in advances received.

The balance of non-current liabilities was 255 million yen (up 359.0% from the end of the previous fiscal year), consisting primarily of 253 million yen in long-term borrowings.

As a result, the balance of total liabilities was 1,072 million yen (up 32.8% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,357 million yen (down 4.3% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 202 million yen in capital surplus, and 936 million yen in retained earnings.

As a result, the balance of net assets was 1,363 million yen (down 4.3% 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, 2023, which was announced in the “Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (Japanese GAAP)” on May 9, 2022.

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 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, 2023.

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

(Thousands of yen)

| | FY3/22 (As of Mar. 31, 2022) | First quarter of FY3/23 (As of Jun. 30, 2022) |
|-------------------------------------|---------------------------------|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 468,147 | 739,158 |
| Accounts receivable-trade | 475,057 | 390,355 |
| Merchandise | 35,267 | 34,582 |
| Work in process | 7,096 | 19,210 |
| Supplies | 155 | 93 |
| Prepaid expenses | 60,730 | 44,940 |
| Income taxes refund receivable | 5,300 | 5,300 |
| Other | 5,229 | 5,273 |
| Total current assets | 1,056,984 | 1,238,914 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings, net | 124,164 | 121,276 |
| Vehicles, net | 866 | 648 |
| Tools, furniture and fixtures, net | 118,476 | 107,157 |
| Total property, plant and equipment | 243,507 | 229,082 |
| Intangible assets | | |
| Software | 438,283 | 453,408 |
| Software in progress | 124,583 | 168,468 |
| Trademark right | 1,086 | 1,028 |
| Telephone subscription right | 1,218 | 1,218 |
| Goodwill | 174,878 | 165,163 |
| Total intangible assets | 740,050 | 789,287 |
| Investments and other assets | | |
| Investments in capital | 60 | 60 |
| Guarantee deposits | 162,956 | 162,861 |
| Deferred tax assets | 28,285 | 15,459 |
| Other | 98 | 98 |
| Total investments and other assets | 191,400 | 178,479 |
| Total non-current assets | 1,174,958 | 1,196,849 |
| Total assets | 2,231,942 | 2,435,763 |

| | (Thousands of yen) | |
|---|---------------------------------|--|
| | FY3/22 (As of Mar. 31, 2022) | First quarter of FY3/23 (As of Jun. 30, 2022) |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 61,632 | 30,135 |
| Short-term borrowings | 126,000 | 126,000 |
| Current portion of long-term borrowings | 197,259 | 240,597 |
| Accounts payable-other | 156,920 | 164,731 |
| Accrued expenses | 16,222 | 81,654 |
| Income taxes payable | 8,619 | 3,432 |
| Accrued consumption taxes | 17,139 | 20,947 |
| Advances received | 86,840 | 101,769 |
| Provision for retirement benefits for directors (and other officers) | 5,000 | - |
| Provision for bonuses | 67,789 | 34,695 |
| Other | 8,283 | 13,091 |
| Total current liabilities | 751,705 | 817,054 |
| Non-current liabilities | | |
| Long-term borrowings | 55,592 | 253,928 |
| Retirement benefit liability | - | 1,212 |
| Total non-current liabilities | 55,592 | 255,140 |
| Total liabilities | 807,297 | 1,072,194 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 219,110 | 219,110 |
| Capital surplus | 202,122 | 202,122 |
| Retained earnings | 996,759 | 936,295 |
| Treasury shares | (499) | (499) |
| Total shareholders' equity | 1,417,493 | 1,357,028 |
| Non-controlling interests | 7,152 | 6,540 |
| Total net assets | 1,424,645 | 1,363,569 |
| Total liabilities and net assets | 2,231,942 | 2,435,763 |

(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 FY3/22 (Apr. 1, 2021 – Jun. 30, 2021) | First three months of FY3/23 (Apr. 1, 2022 – Jun. 30, 2022) |
|--|--|--|
| Net sales | 583,017 | 625,028 |
| Cost of sales | 308,037 | 331,615 |
| Gross profit | 274,980 | 293,412 |
| Selling, general and administrative expenses | 284,984 | 299,893 |
| Operating loss | (10,004) | (6,481) |
| Non-operating income | | |
| Dividend income | 1 | 1 |
| Rental income | 10,701 | 10,701 |
| Purchase discounts | - | 5 |
| Outsourcing service income | - | 1,500 |
| Other | 308 | - |
| Total non-operating income | 11,010 | 12,207 |
| Non-operating expenses | | |
| Interest expenses | 545 | 450 |
| Rental costs | 9,507 | 9,507 |
| Total non-operating expenses | 10,052 | 9,957 |
| Ordinary loss | (9,046) | (4,231) |
| Loss before income taxes | (9,046) | (4,231) |
| Income taxes-current | 618 | 597 |
| Income taxes-deferred | 12,905 | 12,826 |
| Total income taxes | 13,524 | 13,423 |
| Loss | (22,570) | (17,655) |
| Loss attributable to non-controlling interests | (2,945) | (611) |
| Loss attributable to owners of parent | (19,624) | (17,043) |

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

| | (Thousands of yen) | |
|--|--|--|
| | First three months of FY3/22 (Apr. 1, 2021 – Jun. 30, 2021) | First three months of FY3/23 (Apr. 1, 2022 – Jun. 30, 2022) |
| Loss | (22,570) | (17,655) |
| Comprehensive income | (22,570) | (17,655) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (19,624) | (17,043) |
| Comprehensive income attributable to non-controlling interests | (2,945) | (611) |

(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 FY3/22 (Apr. 1, 2021 – Jun. 30, 2021)

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 | 498,192 | 84,824 | 583,017 | - | 583,017 |
| Inter-segment sales and transfers | 7,083 | 900 | 7,983 | (7,983) | - |
| Total | 505,275 | 85,724 | 591,000 | (7,983) | 583,017 |
| Segment profit (loss) | 19,452 | (31,762) | (12,310) | 2,305 | (10,004) |

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 loss presented on the quarterly consolidated statement of income.

First three months of FY3/23 (Apr. 1, 2022 – Jun. 30, 2022)

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 | 532,893 | 92,134 | 625,028 | - | 625,028 |
| Inter-segment sales and transfers | 570 | 765 | 1,335 | (1,335) | - |
| Total | 533,463 | 92,900 | 626,364 | (1,335) | 625,028 |
| Segment profit (loss) | 21,950 | (31,727) | (9,777) | 3,295 | (6,481) |

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 loss presented on the quarterly consolidated statement of income.

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.