

Presentation Materials for the Earnings Briefing

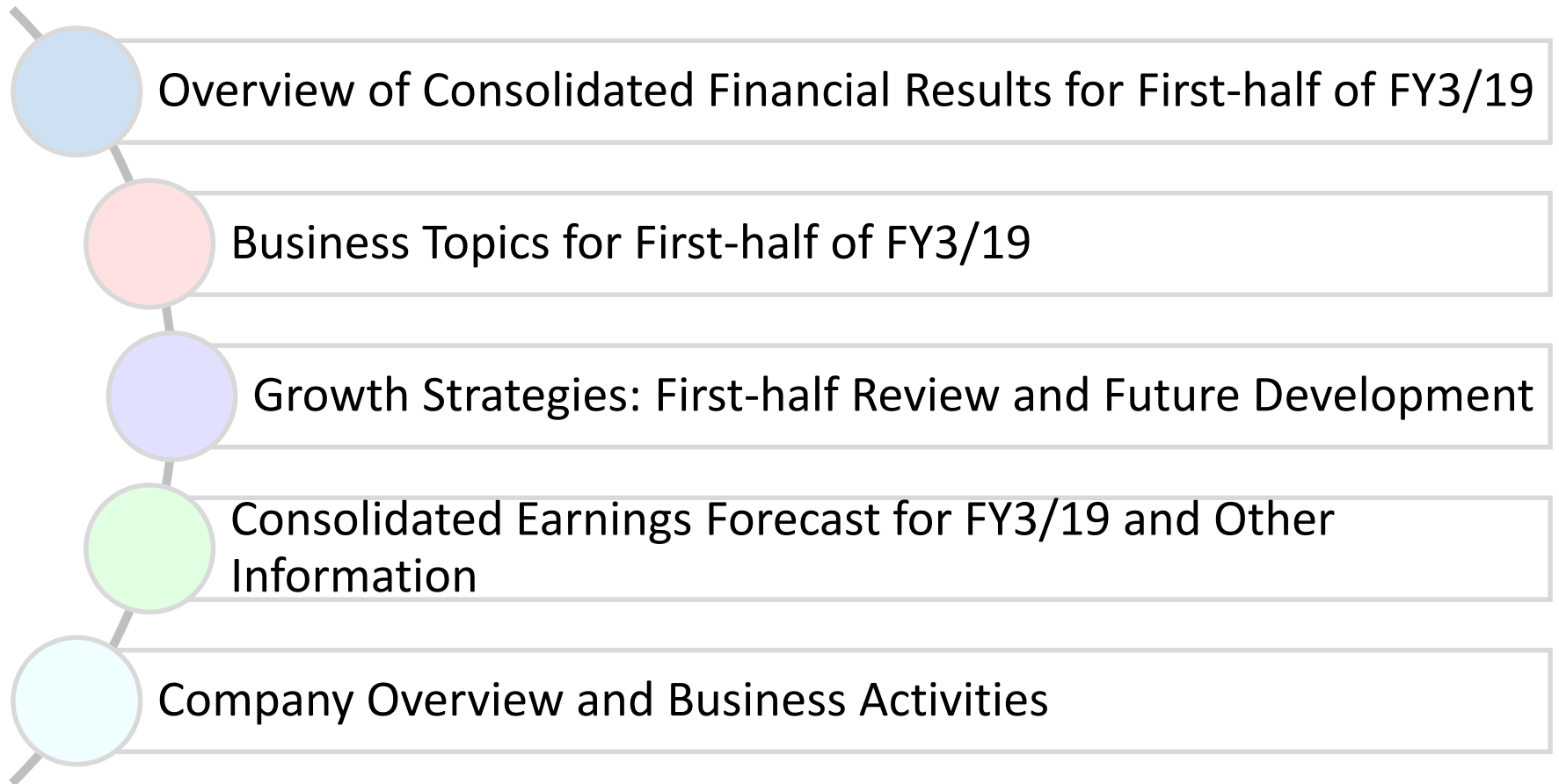
for the First Half of the Fiscal Year Ending March 31, 2019



MKSystem Corporation

November 19, 2018

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Overview of Consolidated Financial Results for First-half of FY3/19

Summary of consolidated financial results

Shalom Business

Sales: The segment reported significantly lower-than-expected sales to customers utilizing the subsidy for introduction of IT systems.

Costs: The delayed release of the next generation systems resulted in lower-than-expected amortization.

CuBe Business

Contracted development: The segment failed to achieve planned sales, with declined development efficiency having led to an increase in the cost of sales ratio.

Cloud services: The segment suffered a sluggish growth in sales of new services, with development costs having exceeded an initial estimate.

(Thousands of yen, %)

	1H FY3/19 Actual	1H FY3/19 Forecast	Vs. Plan	Vs. Plan (%)
Net sales	946,740	1,028,844	(82,103)	(8.0)%
Shalom Business	711,714	768,387	(56,673)	(7.4)%
CuBe Business	235,458	260,456	(24,998)	(9.6)%
Operating profit	78,733	100,513	(21,779)	(21.7)%
Shalom Business	156,875	144,115	12,759	+8.9%
CuBe Business	(79,401)	(43,602)	(35,799)	-
Profit attributable to owners of parent	(11,792)	1,627	(13,419)	-
Basic earnings per share (Yen)	(2.17)	0.30	(2.47)	-

* The figures of 1H FY3/19 forecast above were those announced on June 29, 2018.

Consolidated balance sheet

- Cash and deposits and accounts payable-other decreased and loans payable increased due to the payment concerning license fees incurred in prior periods.
- Intangible assets increased due to investments in the next-generation Shalom and development of new services.

(Thousands of yen, %)

	1H FY3/19 (Sep. 30, 2018)	FY3/18 (Mar. 31, 2018)	Change	% Change	Notes
Current assets	846,997	1,167,074	(320,077)	(27.4)%	Cash and deposits (316) million yen
Non-current assets	1,103,721	1,011,245	+92,475	+9.1%	Software in progress +99 million yen Goodwill (19) million yen
Current liabilities	522,785	991,776	(468,990)	(47.3)%	Current portion of long-term loans payable +90 million yen Accounts payable-other (484) million yen Income taxes payable (80) million yen
Non-current liabilities	385,632	50,315	+335,317	+666.4%	Long-term loans payable +335 million yen
Total liabilities	908,417	1,042,091	(133,673)	(12.8)%	-
Shareholders' equity	993,552	1,065,232	(71,680)	(6.7)%	Retained earnings (71) million yen
Total net assets	1,042,300	1,136,229	(93,928)	(8.3)%	-
Total assets	1,950,718	2,178,320	(227,601)	(10.4)%	-
Equity ratio	50.9%	48.9%	+2.0%	-	-

Consolidated statement of cash flows

- The payment concerning license fees incurred in prior periods caused significantly negative operating cash flow, which was partially covered by borrowings.
- (Thousands of yen, %)

	1H FY3/19	1H FY3/18	YoY Change	Notes
Cash flows from operating activities	(490,753)	309,968	(800,722)	<ul style="list-style-type: none"> A decrease in profit before income taxes by 161 million yen Payment of 605 million yen concerning license fees incurred in prior periods
Profit before income taxes	(16,790)	144,697	(161,487)	
Increase (decrease) in accounts payable-other	(479,282)	70,311	(549,594)	
Others	5,319	94,959	(89,639)	
Cash flows from investing activities	(135,197)	(156,395)	+21,198	<ul style="list-style-type: none"> Investment in software increased by 61 million yen to 167 million yen Proceeds of 40 million yen from withdrawal of time deposits
Investments in non-current assets	(177,053)	(136,265)	(40,787)	
Others	41,856	(20,130)	+61,986	
Cash flows from financing activities	348,986	(112,282)	+461,268	<ul style="list-style-type: none"> Proceeds of 500 million yen from a new loan drawn down in July 2018 Repayments of loans increased to 74 million yen Cash dividends payment of 59 million yen
Proceeds from loans payable	500,000	-	+500,000	
Repayments of long-term loans payable	(74,002)	(57,075)	(16,927)	
Others	(77,011)	(55,207)	(21,804)	
Net increase (decrease) in cash and cash equivalents	(276,964)	+41,290	(318,255)	-
Cash and cash equivalents at end of period	376,078	671,687	(295,608)	-

Operating results of the Shalom Business

(Thousands of yen, %)

	1H FY3/19	1H FY3/18	YoY Change	YoY % Change	Notes
Net sales	711,714	657,318	+54,396	+8.3%	(ASP service) • Net de Shalom 192 million yen (+8.0%) • Shalom House 180 million yen (+17.7%) • Shalom CE 18 million yen (+119.8%) • Shalom CE Lite 11 million yen (+99.5%) • MyNum de Shalom 93 million yen (+13.2%) (System construction service) • Initial implementation service fee 49 million yen (-45.8%)
Cloud service	661,104	609,741	+51,363	+8.4%	
ASP service	586,182	502,493	+83,689	+16.7%	
System construction service	74,922	107,248	(32,326)	(30.1)%	
System product sale	48,361	46,150	+2,210	+4.8%	
Other services	2,248	1,426	+822	+57.7%	
Gross profit	474,036	451,170	+22,865	+5.1%	Cost of sales: +31 million yen (+15.3%) • Labor cost increased approx. 40% YoY
Gross margin	66.6%	68.6%	(2.0)%	-	
Operating profit	156,875	159,328	(2,453)	(1.5)%	SG&A expenses: +25 million yen (+8.7%)
Operating margin	22.0%	24.2%	(2.2)%	-	

Operating results of the CuBe Business

(Thousands of yen, %)

	1H FY3/19	1H FY3/18	YoY Change	YoY % Change	Notes
Net sales	235,458	267,879	(32,420)	(12.1)%	Breakdown of contracted developments: Develop-and-deliver projects 126 million yen (-19.5%) Maintenance, etc. 102 million yen (-0.7%)
Contracted development	229,170	267,879	(38,708)	(14.5)%	
Cloud services	6,287	-	+6,287	-	
Gross profit	50,941	113,482	(62,540)	(55.1)%	Cost of sales: 184 million yen (of which) Contracted development: 130 million yen Cloud services: 54 million yen
Gross margin	21.6%	42.4%	(20.7)pt	-	
Operating profit (loss)*	(79,401)	(15,676)	(63,725)	-	SG&A expenses: 130 million yen (+0.9%)
Operating margin	(33.7)%	(5.9)%	(27.9)pt	-	
Order backlog	256,458	390,584	(134,126)	(34.3)%	A year-on-year decrease in the number of long-term large-scale projects

*Operating profit (loss) includes amortization of goodwill of 19,430 thousand yen.

Business Topics for First-half of FY3/19

Sales promotion activities for labor and social security attorney offices

Seminars for Labor and Social Security Attorneys (14 times),
Workshops for Shalom House Owners (4 times), Shalom User Meetings (8 times)



Apr. 2018 in Kanagawa
–Shalom User Meeting



Apr. 2018 in Osaka
– Seminar for Labor and Social Security Attorneys



May 2018 in Nagoya
– Workshop for Shalom House Owners



Aug. 2018 in Fukuoka
– Seminar for Labor and Social Security Attorneys



Sep. 2018 in Tokyo
– Seminar for Labor and Social Security Attorneys



Sep. 2018 in Nagoya
– Seminar for Labor and Social Security Attorneys

Sales promotion activities for general corporations

Participated in the event sponsored by Nikkei and co-hosted seminars

Total of 189 (97 for MKSystem and 92 for BNC) professionals from the personnel and general affairs divisions of major companies attended the co-hosted seminars.

MKSystem sponsored seminars

(May, Jun., Sep. 2018)

Seminars concerning RPA and AI; Inter-industry meetings



RPA Seminar in May 2018



Inter-industry meeting in Jun. 2018



BNC sponsored seminars

Seminars on year-end tax adjustment (4 times)

Seminars on human resources management (3 times)



Seminar for establishing HR development and personnel system in Aug. 2018

NIKKEI
Smart Work
Human Capital 2018
ヒューマンキャピタル

2018.7.4 Wed - 7.6 Fri
TOKYO INTERNATIONAL FORUM
(Yurakucho, Tokyo)

Development and sales of new cloud services in the CuBe Business

Realized integration of MKSystem's experience on cloud services and BNC's know-how for business process

Released in Oct. 2017



Nenmatsu-chosei (year-end tax adjustment) CuBe Cloud

- Service to improve efficiency of year-end tax adjustment of employees, etc.
- Released an updated version in November 2018 corresponding to FY2018 amendments to relevant laws.

The number of customers who introduced the system as of Nov. 2018: 16 general corporations and 23 labor and social security attorney offices, used by approx. 40,000 employees in total. (*The labor and social security attorney offices are MKSystem's existing customers.)

Released in Apr. 2018



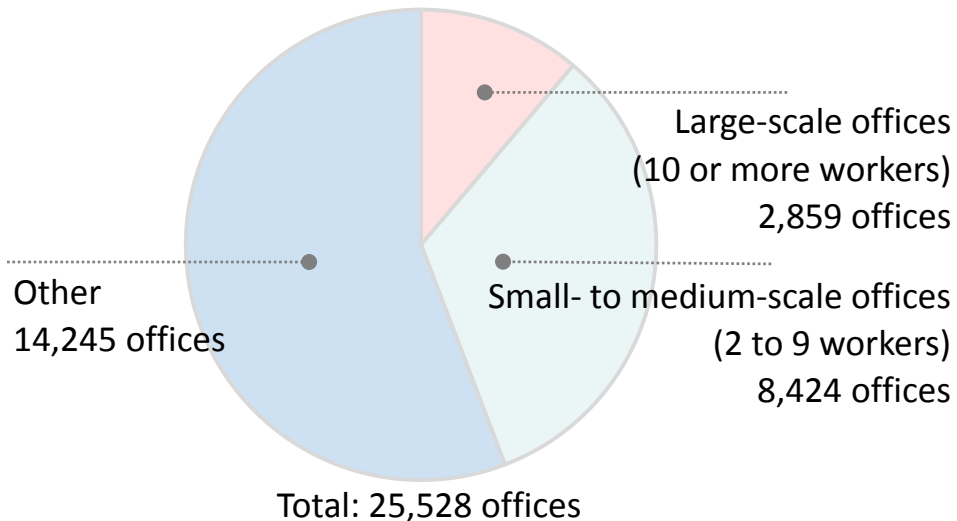
Jinzai (human resources) CuBe Cloud

- Crystalized know-how that has been used by large corporations for more than 20 years
- Cloud service for personnel evaluation and training, consisting of three modules: performance management, self-assessment, and human resource profile

The number of customers who introduced the system as of Nov. 2018: 5 companies, used by approx. 1,150 employees (*All of the 5 companies are group companies of BNC's existing customers.)

Target markets and market shares

Labor and Social Security Attorney Office Market

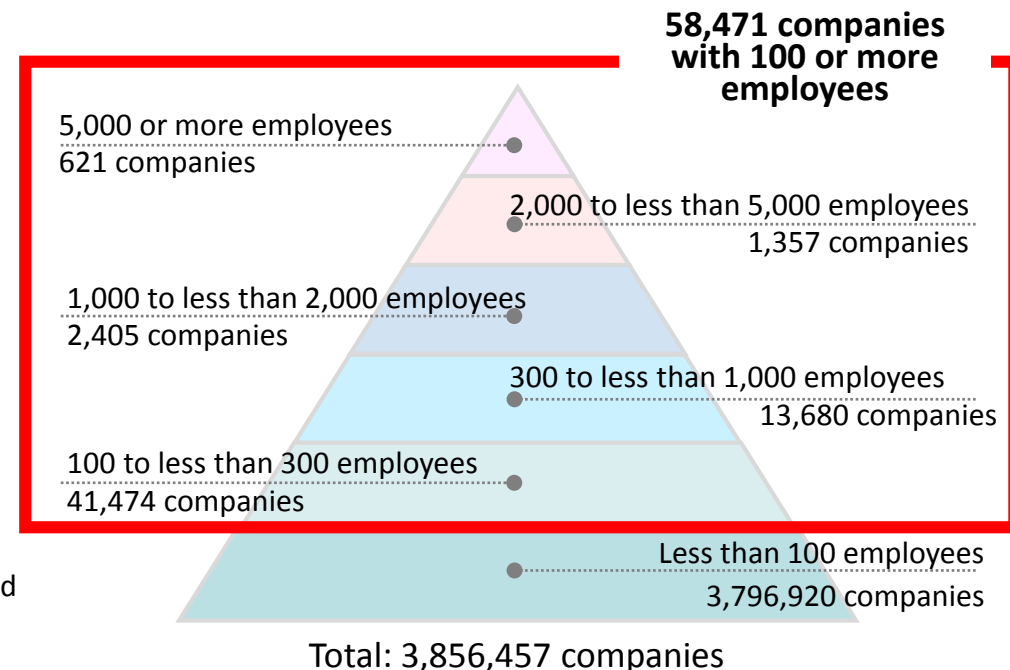


The number of labor and social security attorney offices was aggregated by MKSystem based on the Business Report for the fiscal year 2016 prepared by Japan Labor and Social Security Attorney's Association.

Offices with our systems introduced	2,330 offices
YoY change	up 74 offices
Our market share	9.1 %
Number of clients registered in our systems	560,000 offices

* Offices with our systems introduced are the number of systems for which we started to provide service as of September 30, 2018.

General Corporate Market

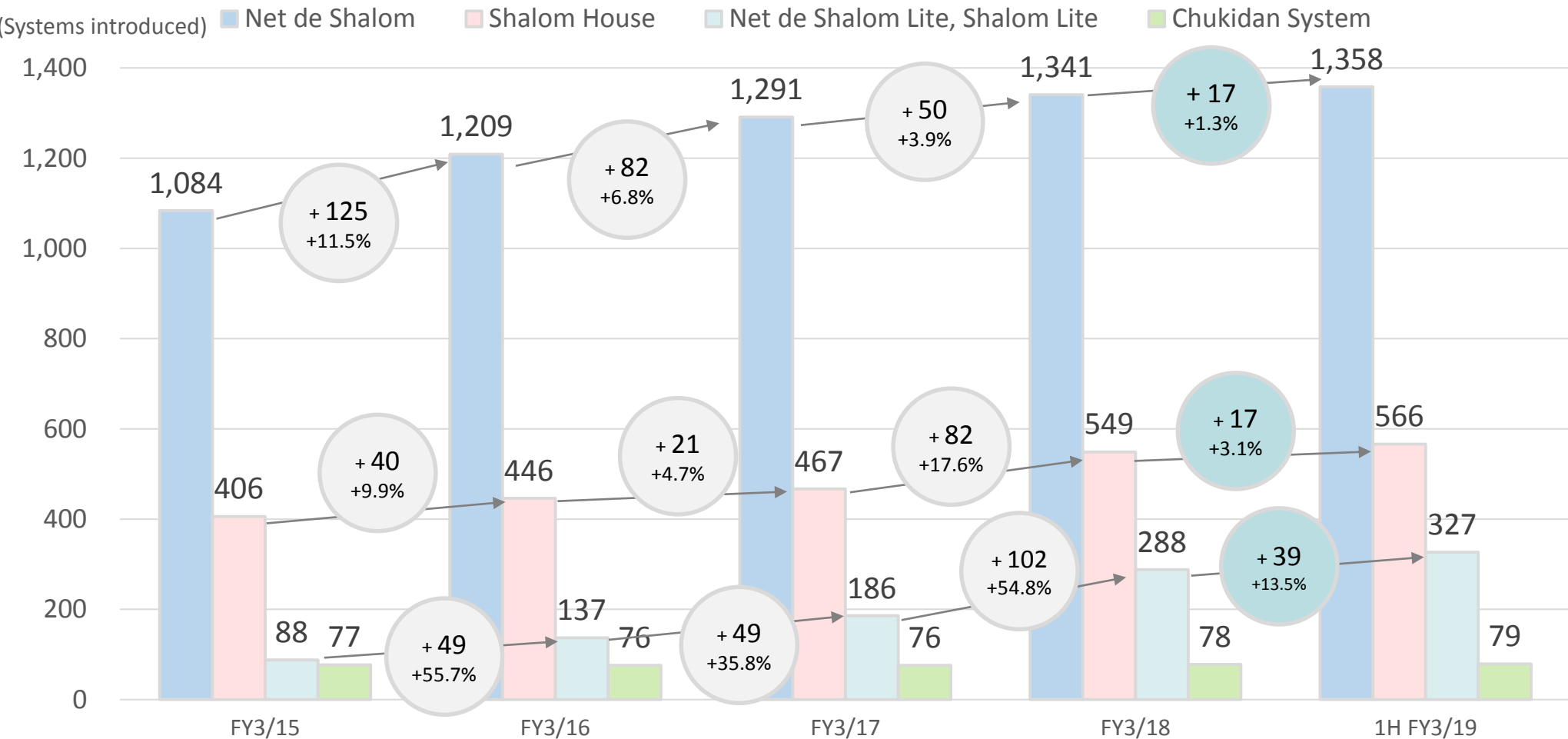


Aggregated by MKSystem based on the 2012 Economic Census for Business Activity (Tabulation of Enterprises, etc. and Tabulation across industries) conducted by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry.

Introductions in the Shalom Business	97 companies
Introductions in the CuBe Business	63 companies

Trends in services for labor and social security attorneys

The number of customers increased with the effect of the subsidy for introduction of IT systems and strengthening of low price service lines



Growth Strategies: First-half Review and Future Development

Strategies by segment in FY3/19

Shalom Business:

Market-specific strategies

Labor and social security
attorney market

Large companies market

Small- and medium-sized
companies market

CuBe Business:

Service-specific strategies

Contracted development
type semi-customized
services

Jinzai CuBe Cloud

Nenmatsu-chosei CuBe
Cloud

Shalom Business: Market overview

Overview of the current market

- ✓ In terms of the number of labor and social security attorney offices:
Given that our market share is **9.1%**, there is a large market waiting to be tapped.
- ✓ In terms of the number of companies involved by labor and social security attorneys:
The number of clients registered in our systems is **560,000** (45%+ market share).
- ✓ In terms of the number of companies not yet involved by labor and social security attorneys:
There is a sufficiently large market still available.

$$\frac{560,000}{4,000,000 \times 30\%}$$

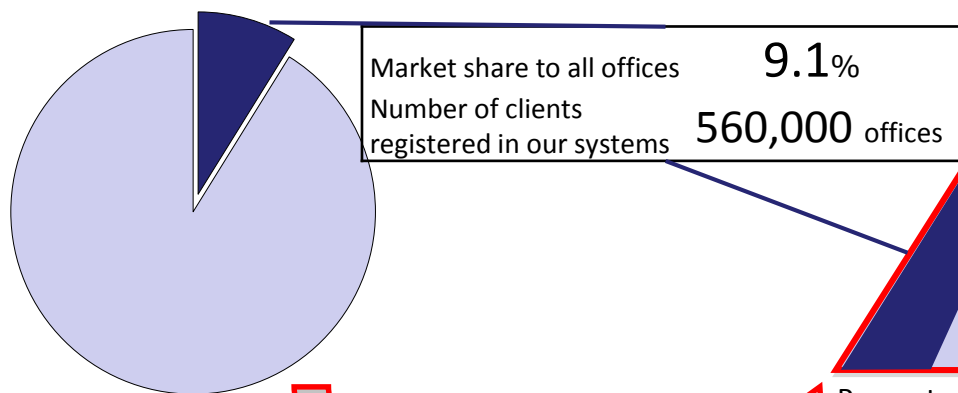
Labor and social security attorney offices

Number of offices with our systems introduced

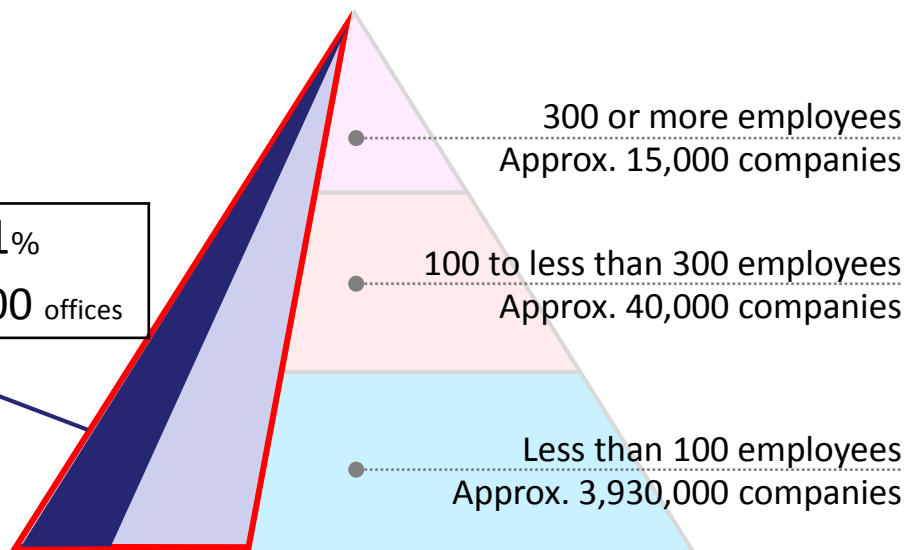
2,330 offices

Number of labor and social security attorney offices

25,528 offices



General corporations



Percentage of companies involved by labor and social security attorneys:
Approx. 30%

Total: Approx. 4,000,000 companies

Shalom Business: Market-specific strategies

Promote market-specific strategies

2.8 million companies

General corporations

Develop companies not yet involved by labor and social security attorneys

1.2 million companies

Develop market for large companies

- ✓ Differentiate products by enhancing the CE function
- ✓ Win new customers by establishing a linkage with general-purpose RPA software

Get started in the second-half of FY3/19

Develop market for small- and medium-sized companies

- ✓ Introduce new products

Direct HR

Complete development in the second-half of FY3/19

Percentage of companies involved by labor and social security attorneys:
Approx. 30%

Total: approx. 4 million companies

Further cultivate companies involved by labor and social security attorneys by doing the same in the labor and social security attorney market

- ✓ Expand the market share by acquiring customers in the low-end market
- ✓ Increase unit selling price by introducing RPA-available products

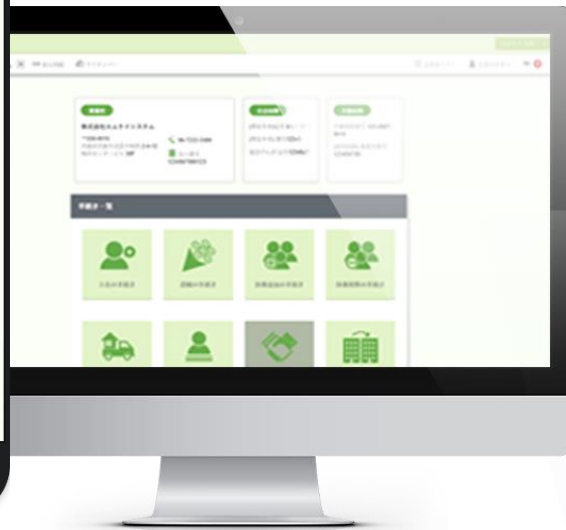
Get the development started in the second-half of FY3/19

Shalom Business: New service for small- and medium-sized companies

Direct HR

Enabling employees to make applications to the company easily through a smartphone

This system alone enables you to handle burdensome labor related procedures for employees! With this system in place, you can centrally manage employees' applications to the company including those to be made at the time of joining the company, giving birth, or leaving the company in the cloud computing platform, with the data linked to social security attorney offices to execute various processes.



- Joining the company
 - Leaving the company
 - Name change
(The insured who has completed a matching with their My Number need not make the application.)
 - Elderly care leave; child care leave; nursing care leave
 - Year-end tax adjustment (Nenmatsu-chosei)
 - My Number
 - Storage and confirmation of official documents
(Employees can directly confirm official documents such as unemployment slips.)
- * Scheduled to be released in a phased manner.
* Details of the system, screen interface design, etc. are subject to change.

CuBe Business: Service-specific strategies

Promote service-specific strategies

Contracted development type semi-customized services

→ Continue stable operation as our key revenue driver

- ✓ by steadily improving and maintaining existing systems for existing customers ○
- ✓ by efficiently developing the services with the cost of sales ratio in mind X

Further improve
the system
toward FY3/20

Improve the
service during
the second-half
of FY3/19

Cloud services

→ Cultivate the business as a second revenue driver

- ✓ Jinzai CuBe Cloud
- ✓ Nenmatsu-chosei CuBe Cloud

Establish service before launching sales X

Deal with amendments to relevant laws
before aiming for full-scale sales expansion △

Consolidated Earnings Forecast for FY3/19 and Other Information

Changes in full year consolidated earnings forecast

(Millions of yen)	Disclosed on Oct. 30, 2018	Disclosed on Jun. 29, 2018	Difference	Ratio	Major factors (The amounts indicate the impact on profits.)
Net sales	2,098	2,318	(219)	(9.5)%	<ul style="list-style-type: none"> • MK/Subsidy: Approx. (30) million yen Utilization of subsidy discouraged by a reduction of its amount. • MK/Price increase: Approx. (40) million yen The scope of services subject to price increase reduced in view of the competitive environment. • MK/License fee: Approx. (15) million yen Deletion of unnecessary licenses not in progress. • MK/Next generation systems: Approx. + 40 million yen The delay in release causing decreased amortization. • MK/Sales of new services: Approx. (30) million yen Development delayed due to a delay in the next generation systems. • BNC/CuBe Cloud: Approx. (60) million yen Sluggish sales. • BNC/Development efficiency: Approx. (90) million yen Reduced development efficiency in contracted development projects.
Cost of sales	983	918	+65	+7.1%	
Gross profit	1,115	1,399	(284)	(20.3)%	
SG&A expenses	898	968	(70)	(7.3)%	
Operating profit	216	431	(214)	(49.7)%	
Ordinary profit	216	431	(214)	(49.8)%	
Profit attributable to owners of parent	75	211	(136)	(64.3)%	
Operating margin (%)	10.3%	18.6%	(8.3)pt	-	

Consolidated earnings forecast

- Revised plan for FY3/19 vs. actual results for FY3/18

We forecast a 10% increase in net sales is more than offset by increases in cost of sales and SG&A expenses, resulting in a 30% decrease in operating profit. Correspondingly, the operating margin is expected to decrease to approx. 10%.

	FY3/19 Revised Plan	FY3/18 Actual	YoY Change	YoY % Change
Net sales (Millions of yen)	2,098	1,887	+210	+11.2%
Cost of sales (Millions of yen)	983	753	+229	+30.5%
SG&A expenses (Millions of yen)	898	819	+78	+9.6%
Operating profit (Millions of yen)	216	314	(97)	(31.0)%
Ordinary profit (Millions of yen)	216	317	(101)	(31.8)%
Profit attributable to owners of parent (Millions of yen)	75	204	(128)	(63.0)%
Operating margin (%)	10.3%	16.6%	(6.3)pt	-
Basic earnings per share* (Yen)	13.95	37.66	(23.71)	(63.0)%

* MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018.

Earnings forecast by segment: Shalom Business

(Millions of yen, %)

	FY3/19 Revised Plan	FY3/18 Actual	YoY Change	YoY % Change	
Net sales	1,523	1,309	+214	+16.3%	By acquiring new customers and revising selling prices, the segment expects sales from cloud services to increase by more than 18% year on year.
Cloud services	1,427	1,203	+224	+18.6%	
System product sale, others	96	105	(9)	(8.6)%	
Cost of sales	537	418	+119	+28.7%	Increases in the number of personnel and amortization will result in a more than 28% increase in cost of sales, leading to a decrease of gross margin by 3.4 percentage points.
Gross profit	985	891	+94	+10.6%	
Gross margin	64.7%	68.1%	(3.4)pt	-	
SG&A expenses	629	576	+53	+9.2%	While increases in the number of personnel and promotion expenses will cause an increase in SG&A expenses, operating profit will increase 13% year on year despite a slight decrease in operating margin.
Operating profit	356	315	+41	+13.1%	
Operating margin	23.4%	24.1%	(0.7)pt	-	

* The FY3/19 revised plan was disclosed on October 30, 2018.

Earnings forecast by segment: CuBe Business

(Millions of yen, %)

	FY3/19 Revised Plan	FY3/18 Actual	YoY Change	YoY % Change	Major factors of change
Net sales	575	578	(3)	(0.7)%	In the contract development, the number of development projects is expected to slightly decline while maintenance will remain flat. In the cloud services, Nenmatsu-chosei CuBe Cloud will be in full-scale operation.
Contracted development type semi-customized services	542	572	(30)	(5.2)%	
Cloud services	33	6	+27	+450.0%	
Cost of sales	445	336	+109	+32.6%	Cost of sales is expected to significantly increase due to declined development efficiency in the contracted development and increases in operating expenses and amortization in the cloud services.
Gross profit	129	242	(113)	(46.7)%	
Gross margin	22.5%	41.9%	(19.4)pt	-	
SG&A expenses*	268	246	+22	+9.3%	Promotion expenses for the cloud services will increase.
Operating profit (loss)	(138)	(3)	(135)	-	
Operating margin	(24.2)%	(0.5)%	(23.7)pt	-	

* SG&A expenses include amortization of goodwill.

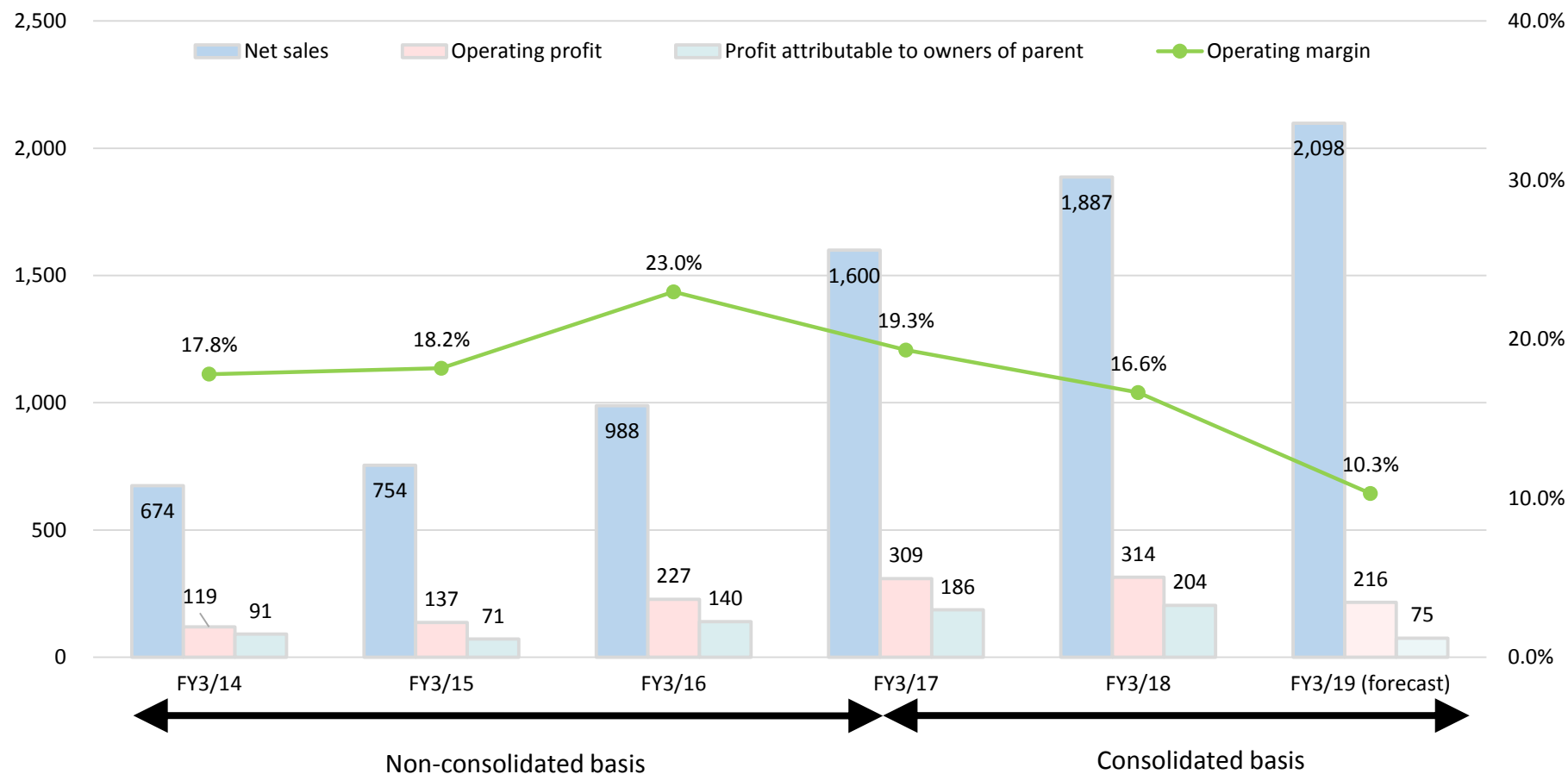
* The FY3/19 revised plan was disclosed on October 30, 2018.

Trends in business performance and forecast

While sales are to be more than doubled in the last three years, operating profit is expected to decline.

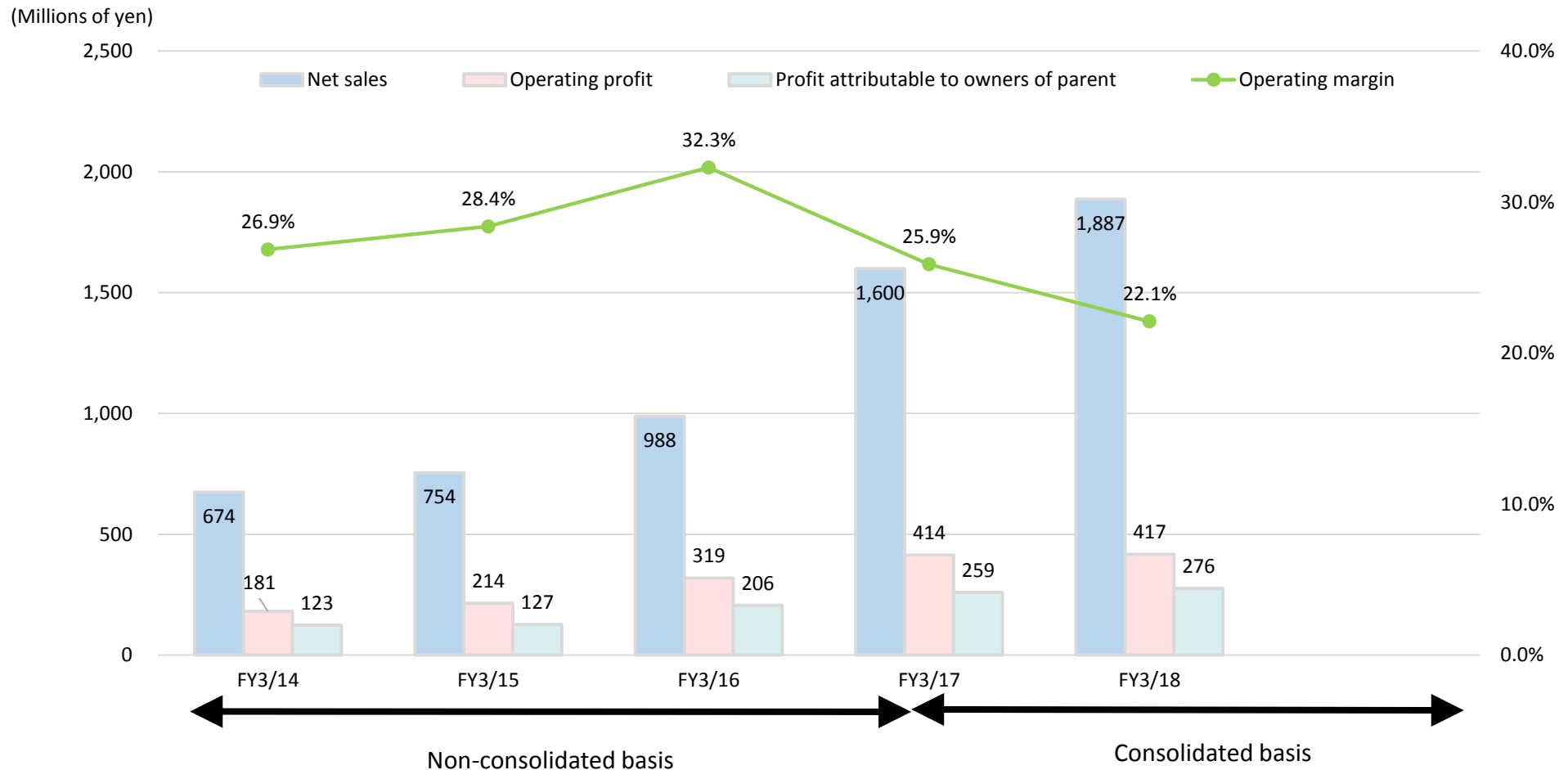
Although the CuBe Business is still in an investment phase, the amount of loss has expanded more than expected.

(Millions of yen)



Reference: Trends in performance before retroactive restatement of license fees incurred in prior periods

As a result of the retrospective restatement, cost of sales increased by approximately 70 million yen to 100 million yen per annum in the Shalom Business.



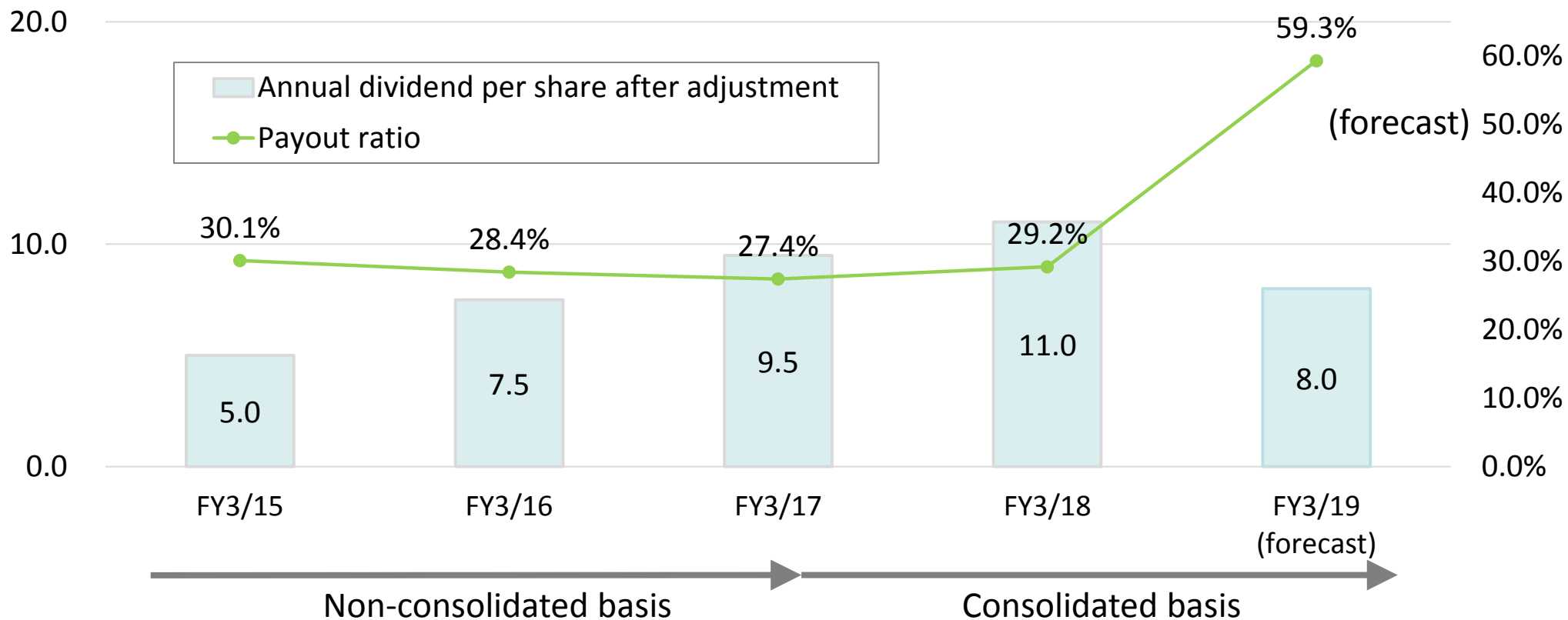
Dividend forecast for FY3/19

Our profit distribution policy is "to implement a stable dividend payment with the baseline payout ratio of 20%."

Up to FY3/18, the payout ratio had been 20 % without an effect of the retrospective restatement.

A stable dividend payment is a priority for FY3/19.

(Yen)



*: MKSystem conducted a 5-for-1 split of its common stock with an effective date of August 1, 2015 and a 2-for-1 split of its common stock with an effective date of April 1, 2018. All the figures above are adjusted accordingly.

Company Overview and Business Activities

Company Profile

◆ Company name	MKSystem Corporation
◆ Business	<ul style="list-style-type: none">• The Shalom Business The business of providing software to support business processes associated with social insurance and labor insurance as an application service provider (ASP).• The CuBe Business The business of developing and providing front-end systems that help enhance efficiency of business processes related to personnel and general affairs.
◆ Representative Director and President	Noboru Miyake
◆ Date of incorporation	February 22, 1989
◆ Date of listing	March 17, 2015
◆ Capital stock	219 million yen (Number of issued shares: 5,428,000 shares)
◆ Head office	30F, Umeda Center Bldg., 2-4-12, Nakazaki-nishi, Kita-ku, Osaka, Japan
◆ Sales and R&D bases	Tokyo; Nagoya; Fukuoka; Ninohe, Iwate Prefecture; and Matsuyama
◆ Subsidiary	Business Net Corporation Co., Ltd. (Bunkyo-ku, Tokyo)
◆ Employees	102 (consolidated); 53 (non-consolidated) (both excluding temporary employees)

As of March 31, 2018

Summary of the Group's lines of business

Shalom Business

Cloud service

ASP service

- Provision of cloud services including software to support business processes associated with social insurance, labor insurance, and payroll
- Provision of cloud services with applications aimed at clients of labor and social security attorney office

System construction service

- Initial set up of cloud services
- Provision of customized services

System product sale

- Sale of various document forms used in labor and social security attorney's business process
- Sale of terminals, servers and PCs

Other services

- My Number acquisition agent service

CuBe Business

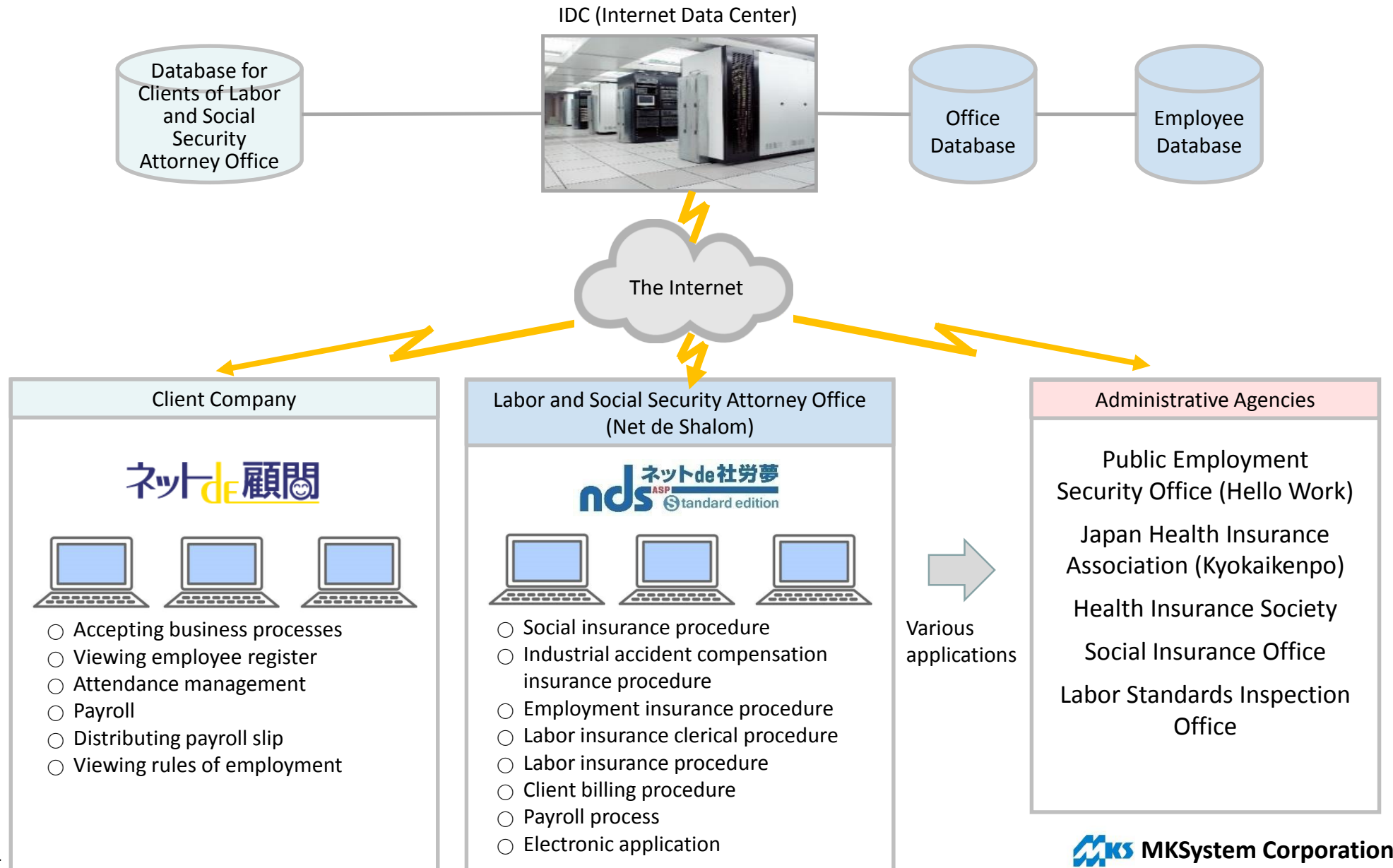
Contracted development type semi-customized services

- Contracted development of front-end systems connecting corporate functions and employees
- Maintenance of contracted development type systems

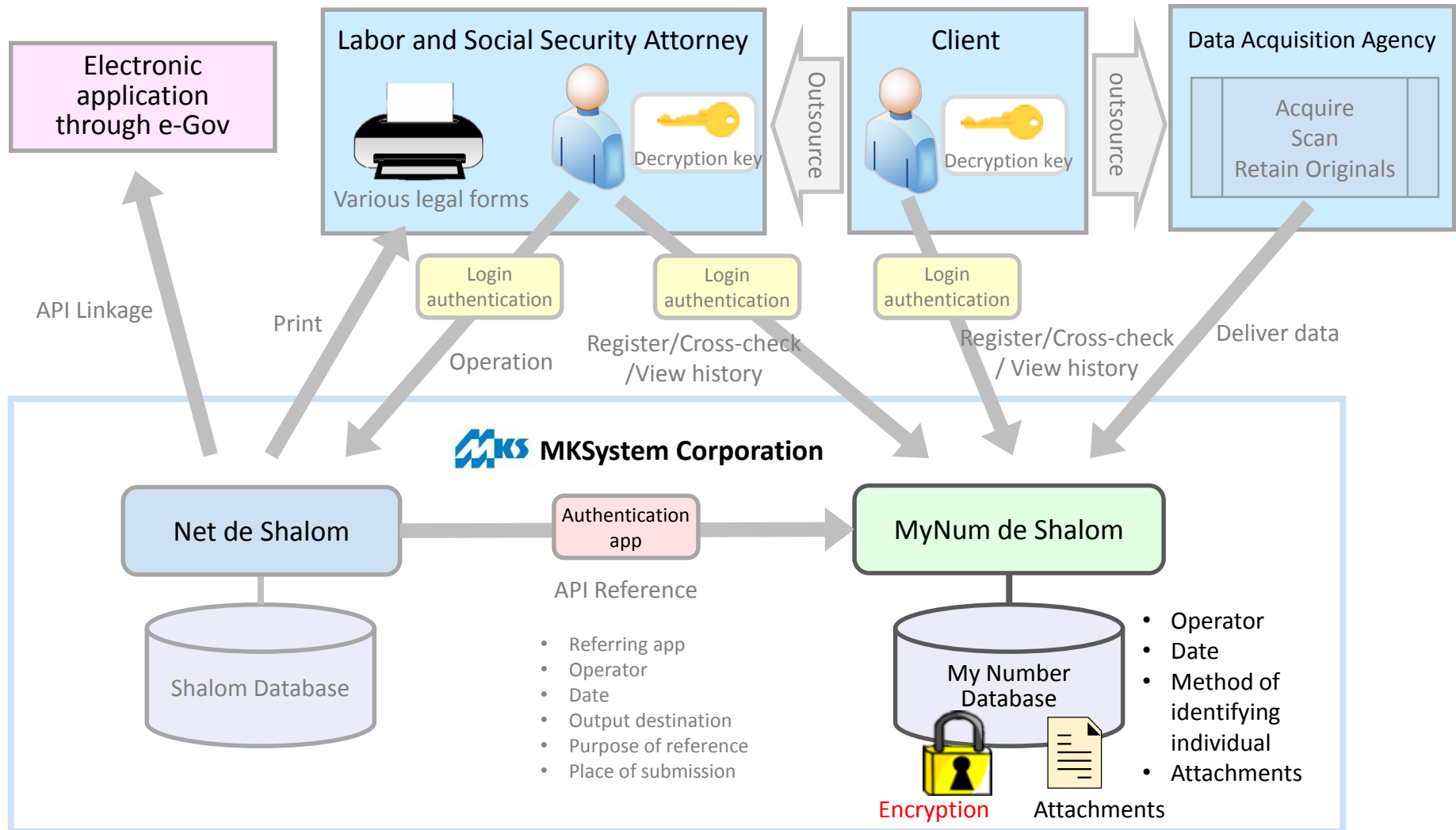
CuBe Cloud

- Provision of cloud services connecting corporate functions and employees (Jinzai CuBe Cloud and Nenmatsu-chosei CuBe Cloud)

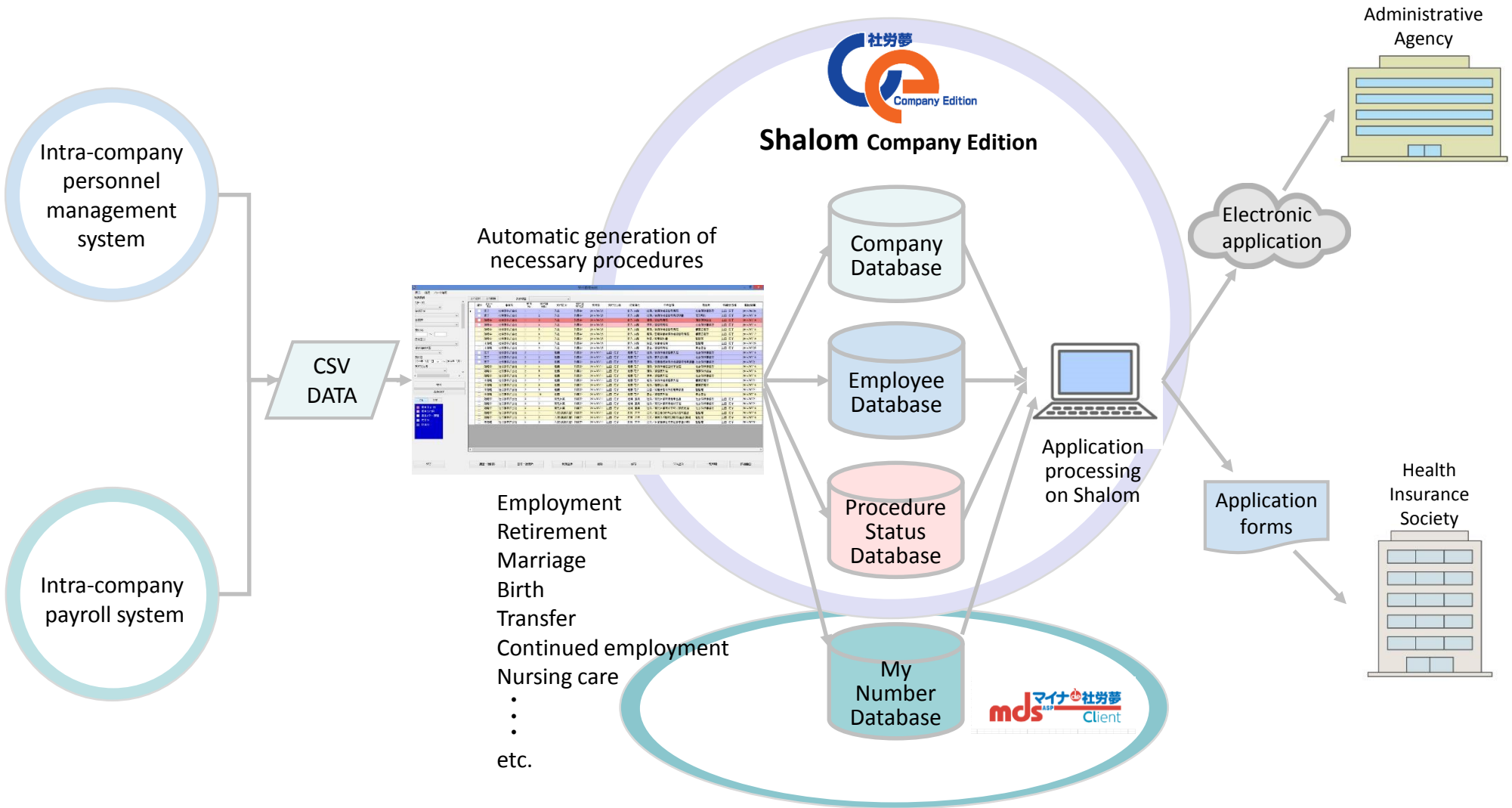
Our mainstay service (Net de Shalom)



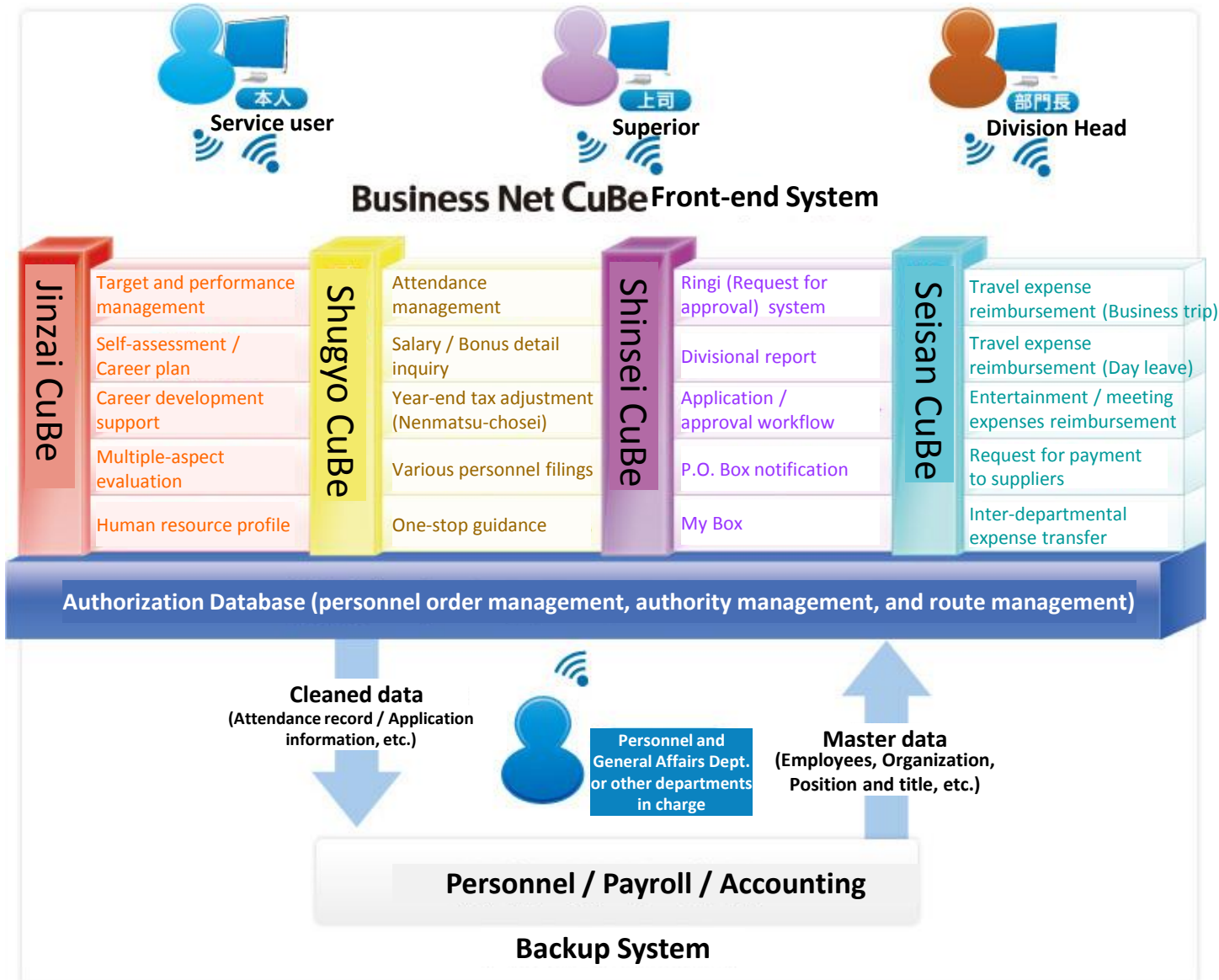
Our mainstay service (MyNum de Shalom)



Our mainstay service (Shalom Company Edition)



Our mainstay service (Contracted development type semi-customized services)



Our mainstay service (Nenmatsu-chosei CuBe Cloud)

Fully supporting year-end tax adjustment operations by reducing tax filling input and implementing progress management function

Nenmatsu-chosei Cube Cloud

- The system tells me what I should do!
- The entries I have to fill in have become less than before!
- I don't have to think about formula!
- They no longer return to me the forms for correction!



Tax filer

Simple & easy!

1 It makes the operation easy to understand!

The screen guides you “what to do,” “when to do,” and “how to do.”

扶	保・配特	住宅借入
扶養控除等（異動）申告書	保険料控除申告書 差配額者特別控除申告書	(特定増改築等)住宅借入金特別控除申告書
 申告する	 済 2017/10/25	 申告する

2 Registered information is displayed from the start!

- ✓ The screen initially displays a form without redundant inputs.
- ✓ The system automatically calculates the deductible amount.
- ✓ The screen initially displays filling data of the previous year.

3 It reduces your workload at final submission!

- ✓ The system checks for your mistake.
- ✓ The system guides you what to submit.

Accurate & efficient!



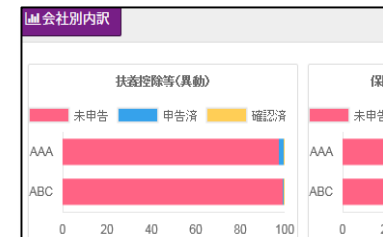
Division in charge of operation

- Following up is easy because we can keep track of the progress from filing to completion!
- We can share work among multiple members!
- We have reduced the volume and number of items we have to check manually!

— Enhanced control with authority settings —

Work environment with multiple personnel are classified into three elements (company, department, and person in charge).

- ✓ Supporting business process of large companies and shared service providers!



— Enhanced efficiency with progress management —

Progress of each process and the entire business process is managed on the system!

- ✓ It lets you know where the bottleneck is, thereby ensuring on-time delivery!



Our mainstay service (Jinzai CuBe Cloud)

The latest **evaluation and training tool** that you can use **on-site** on a **day-to-day basis**, **crystalizing know-how** that has been used by **large companies** for over 20 years.



- Target and performance management
- Self-assessment / Career plan
- Human resource profile inquiry

Jinzai Cube Cloud coordinates the above three business operations, deepens communication with employees, and supports **human resource development led by on-site staff**.

1. Prompting their growth through processes from execution to evaluation of **actual work**.

Target & Performance Management

We wish to let our personnel learn more about the management's intention.

We wish to link target management to improvement in corporate performance.

We wish to set up target & performance management that makes our employees to participate with more enthusiasm.

We wish to know personal profile of our staff in a timely manner.

We wish to manage personnel data in single database and make full use of them.

We wish to make consideration over my current position and the way I want to be in the future.

2. **Sharing** information from different viewpoints **among people concerned** to encourage daily growth.

Human Resource Profile Inquiry

We wish to have a system to support employees' career development

We wish to have a contact point that directly connects personnel and personnel department.

3. Considering about future career, urging the personnel to develop as **he/she wishes**.

Self-assessment / Career Plan



MKSystem Corporation

“We provide cloud solutions that benefit you”

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The plans, estimates and other forward-looking statements contained in this material are forecast based on information available at the time this material was prepared, and these statements include risk and uncertainty. Actual performance may differ from these statements due to changes in business environment and other factors. In addition, as certain information within this material is quoted from publicly available information, its accuracy is not guaranteed.