

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending March 31, 2023
(Nine Months Ended December 31, 2022)

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange
 Stock code: 3910 URL: <https://www.mks.jp>
 Representative: Noboru Miyake, Representative Director and President
 Contact: Masaki Yoshida, Director, General Manager of Business Administration Division
 Tel: +81-6-7222-3394

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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, 2022****(April 1, 2022 – December 31, 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	%
Nine months ended Dec. 31, 2022	2,081	3.7	118	(0.3)	124	23.2	66	(5.1)
Nine months ended Dec. 31, 2021	2,007	14.9	119	(11.0)	100	(24.6)	69	(3.1)

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2022: 65(down 12.1%)

Nine months ended Dec. 31, 2021: 75(down 6.9%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec. 31, 2022	12.22	–
Nine months ended Dec. 31, 2021	12.88	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2022	2,415	1,447	59.6
As of Mar. 31, 2022	2,231	1,424	63.5

Reference: Shareholders' equity (million yen) As of Dec. 31, 2022: 1,440 As of Mar. 31, 2022: 1,417

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2022	–	0.00	–	8.00	8.00
Fiscal year ending Mar. 31, 2023	–	0.00	–		
Fiscal year ending Mar. 31, 2023 (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, 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
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 issued shares (common stock)

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

As of Dec. 31, 2022:	5,428,000 shares	As of Mar. 31, 2022:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Dec. 31, 2022:	506 shares	As of Mar. 31, 2022:	506 shares
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3) Average number of shares during the period

Nine months ended Dec. 31, 2022:	5,427,494 shares	Nine months ended Dec. 31, 2021:	5,427,494 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, 2023 (hereinafter “the period under review”), the Japanese economy saw a sign of recovery due to some restrictions being eased while there are rising COVID-19 cases; however, considering surges in resource prices stemmed from the prolonged Russian and Ukraine situation alongside the volatile moves in currency markets originated by global financial tightening, 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 2,081 million yen (up 3.7% year on year), gross profit of 980 million yen (up 1.7% year on year), operating profit of 118 million yen (down 0.3 % year on year), ordinary profit of 124 million yen (up 23.2 % year on year), and profit attributable to owners of parent of 66 million yen (down 5.1 % year on year). In addition, the return on equity (ROE), one of the KPIs for the Group, was 4.6% (down 0.4 percentage points compared with the same period of the previous fiscal year) on a consolidated basis and 6.9% (up 2.8 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.

In the Shalom business, we promoted quality improvement and function enhancement of the product lines, including Shalom series, “eNEN,” a web-based year-end adjustment filing system; and “Net de Komon,” an application for clients of labor and social security attorneys. In the meantime, we are advancing the development of “FOREVER,” the next version of Shalom V5.0 system.

We also successfully increased the aggregate monthly subscription fees for Shalom and other cloud services. This is thanks to 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; price revisions to the monthly subscription fees, which were made across certain products effective from July 2022; and an increase in the number of the House Plan contracts with subsidies under the Project to Support Introduction of IT for Improvement of Service Productivity, which lead to increased inquiries from potential customers every year. In addition, we 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 1,625 million yen (up 8.9% year on year), of which the ASP services under the subscription model amounted to 1,503 million yen (up 12.0%) and the system construction services amounted to 122 million yen (down 18.5%); and those from the system products of 67 million yen (down 7.8%).

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 1,713 million yen (up 7.5% year on year), gross profit of 882 million yen (up 8.8%), and operating profit of 147 million yen (up 52.0%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 8.6% (up 2.5 percentage points).

The CuBe Business

We have been engaged in the contracted development of front-end systems, customized to needs of an individual company, for the personnel and general affairs divisions of large companies to improve their business processes. The CuBe Business also provides cloud services, 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. On the other hand, compared with previous years, we ended up with fewer new development projects that are affected by the timing of revision to in-house regulatory systems and IT investment of client companies. In the cloud service business GooooN, we focused on functional enhancement and cultivation of sales channels.

On the cost front, we had to incur costs for strengthening our competitiveness in development activities and for investing in sales promotion to facilitate sales activities before they bear fruit with an increase in sales.

As a result, the segment recorded net sales of 378 million yen (down 13.6% year on year), gross profit of 98 million yen (down 37.3%), and operating loss of 42 million yen (compared with operating profit of 16 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 1,156 million yen (up 9.4% from the end of the previous fiscal year), consisting primarily of 622 million yen in cash and deposits and 434 million yen in accounts receivable-trade.

The balance of non-current assets was 1,259 million yen (up 7.2% from the end of the previous fiscal year), consisting primarily of 471 million yen in software, 145 million yen in goodwill, and 162 million yen in guarantee deposits.

As a result, the balance of total assets was 2,415 million yen (up 8.2% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 754 million yen (up 0.3% from the end of the previous fiscal year), consisting primarily of 200 million yen in short-term borrowings, 157 million yen in current portion of long-term borrowings, and 135 million yen in accounts payable-other.

The balance of non-current liabilities was 214 million yen (up 285.9% from the end of the previous fiscal year), consisting primarily of 210 million yen in long-term borrowings.

As a result, the balance of total liabilities was 968 million yen (up 20.0% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,440 million yen (up 1.6% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 202 million yen in capital surplus, and 1,019 million yen in retained earnings.

As a result, the balance of net assets was 1,447 million yen (up 1.6% from the end of the previous fiscal year).

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

We have decided to maintain 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 reason for this decision is that the CuBe Business expects to deliver large-scale projects by the end of this fiscal year despite the progress rates of the financial results for the nine-month period against the full-year earnings forecast remaining low at this moment with 66.8% for net sales, 43.5% for operating profit, 43.9% for ordinary profit, and 37.7% for profit attributable to owners of parent.

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

(Thousands of yen)

	FY3/22 (As of Mar. 31, 2022)	Third quarter of FY3/23 (As of Dec. 31, 2022)
Assets		
Current assets		
Cash and deposits	468,147	622,936
Accounts receivable-trade	475,057	434,152
Merchandise	35,267	32,777
Work in process	7,096	17,535
Supplies	155	61
Prepaid expenses	60,730	44,340
Income taxes refund receivable	5,300	809
Other	5,229	3,428
Total current assets	1,056,984	1,156,041
Non-current assets		
Property, plant and equipment		
Buildings, net	124,164	115,500
Vehicles, net	866	212
Tools, furniture and fixtures, net	118,476	131,078
Total property, plant and equipment	243,507	246,792
Intangible assets		
Software	438,283	471,305
Software in progress	124,583	212,459
Trademark right	1,086	913
Telephone subscription right	1,218	1,218
Goodwill	174,878	145,732
Total intangible assets	740,050	831,629
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	162,956	162,738
Deferred tax assets	28,285	18,502
Other	98	98
Total investments and other assets	191,400	181,399
Total non-current assets	1,174,958	1,259,821
Total assets	2,231,942	2,415,863

(Thousands of yen)

	FY3/22 (As of Mar. 31, 2022)	Third quarter of FY3/23 (As of Dec. 31, 2022)
Liabilities		
Current liabilities		
Accounts payable-trade	61,632	30,875
Short-term borrowings	126,000	200,000
Current portion of long-term borrowings	197,259	157,256
Accounts payable-other	156,920	135,381
Accrued expenses	16,222	32,473
Income taxes payable	8,619	36,604
Accrued consumption taxes	17,139	21,475
Advances received	86,840	84,770
Provision for retirement benefits for directors (and other officers)	5,000	–
Provision for bonuses	67,789	36,537
Other	8,283	18,816
Total current liabilities	751,705	754,192
Non-current liabilities		
Long-term borrowings	55,592	210,000
Retirement benefit liability	–	4,510
Total non-current liabilities	55,592	214,510
Total liabilities	807,297	968,702
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	202,122	202,122
Retained earnings	996,759	1,019,650
Treasury shares	(499)	(499)
Total shareholders' equity	1,417,493	1,440,384
Non-controlling interests	7,152	6,776
Total net assets	1,424,645	1,447,160
Total liabilities and net assets	2,231,942	2,415,863

(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 FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)	First nine months of FY3/23 (Apr. 1, 2022 – Dec. 31, 2022)
Net sales	2,007,812	2,081,729
Cost of sales	1,044,130	1,101,518
Gross profit	963,681	980,211
Selling, general and administrative expenses	844,646	861,529
Operating profit	119,034	118,681
Non-operating income		
Interest income	3	2
Dividend income	1	1
Rental income	32,103	32,103
Surrender value of insurance policies	–	7
Purchase discounts	52	54
Interest on tax refund	–	27
Outsourcing service income	–	4,500
Other	3,324	–
Total non-operating income	35,484	36,695
Non-operating expenses		
Interest expenses	1,514	2,051
Rental costs	28,521	28,521
Compensation expenses	23,700	–
Other	–	631
Total non-operating expenses	53,735	31,203
Ordinary profit	100,782	124,174
Profit before income taxes	100,782	124,174
Income taxes-current	15,034	48,455
Income taxes-deferred	10,709	9,783
Total income taxes	25,744	58,238
Profit	75,038	65,936
Profit (loss) attributable to non-controlling interests	5,144	(375)
Profit attributable to owners of parent	69,894	66,311

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

	(Thousands of yen)	
	First nine months of FY3/22 (Apr. 1, 2021 – Dec. 31, 2021)	First nine months of FY3/23 (Apr. 1, 2022 – Dec. 31, 2022)
Profit	75,038	65,936
Comprehensive income	75,038	65,936
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	69,894	66,311
Comprehensive income attributable to non-controlling interests	5,144	(375)

(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 FY3/22 (Apr. 1, 2021 – Dec. 31, 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	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.

First nine months of FY3/23 (Apr. 1, 2022 – Dec. 31, 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	1,705,878	375,851	2,081,729	-	2,081,729
Inter-segment sales and transfers	7,365	3,069	10,434	(10,434)	-
Total	1,713,243	378,920	2,092,163	(10,434)	2,081,729
Segment profit (loss)	147,533	(42,243)	105,290	13,391	118,681

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.

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.