

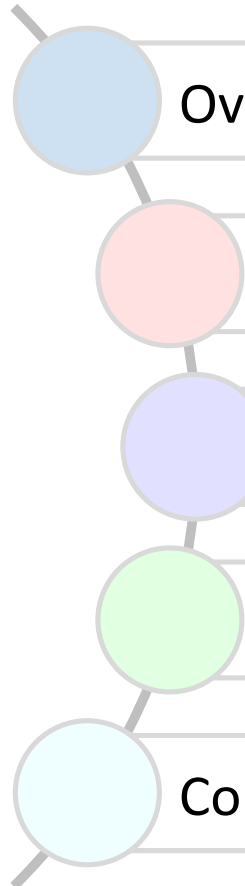
# **Presentation Materials for the Earnings Briefing**

for the Fiscal Year Ended March 31, 2019



May 29, 2019

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# Overview of Consolidated Financial Results for FY3/19

# Summary of consolidated financial results

## Shalom Business

**Sales:** The segment maintained solid sales primarily by effectively implementing the campaign to discount the initial cost despite 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 suffered an increase in the cost of sales ratio due to declined development efficiency of some projects though maintaining the same level of sales as in FY3/18.

**Cloud services:** Development costs have exceeded an initial estimate due to the delayed release of new services.

(Thousands of yen, %)

	Actual	Plan	Vs. Plan	Vs. Plan (%)
Net sales	2,075,349	2,098,183	(22,833)	(1.1)%
Shalom Business	1,508,381	1,523,551	(15,170)	(1.0)%
CuBe Business	567,210	575,064	(7,854)	(1.4)%
Operating profit	317,342	216,677	+100,664	+46.5%
Shalom Business	382,164	356,251	+25,913	+7.3%
CuBe Business	(64,821)	(139,573)	+74,752	+53.6%
Profit attributable to owners of parent	112,056	75,726	+36,230	+47.9%
Basic earnings per share (Yen)	20.65	13.95	-	-

\* The figures of FY3/19 plan above were those announced on October 30, 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.

(Thousands of yen, %)

	FY3/19	FY3/18	Change	% Change	Notes
Current assets	886,532	1,167,074	(280,541)	(24.0)%	Cash and deposits (393) million yen
Non-current assets	1,058,860	1,011,245	+47,614	+4.7%	Software (including software in progress) +207 million yen Goodwill (38) million yen
Current liabilities	447,066	991,776	(544,709)	(54.9)%	Accounts payable-other (453) million yen Income taxes payable (77) million yen
Non-current liabilities	333,340	50,315	+283,025	+562.5%	Long-term loans payable +283 million yen
Total liabilities	780,406	1,042,091	(261,684)	(25.1)%	-
Shareholders' equity	1,117,400	1,065,232	+52,168	+4.9%	Retained earnings +52 million yen
Total net assets	1,164,987	1,136,229	+28,757	+2.5%	-
Total assets	1,945,393	2,178,320	(232,926)	(10.7)%	-
Equity ratio	57.4%	48.9%	+8.5pt	-	-

# 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, %)

	FY3/19	FY3/18	YoY Change	Notes
Cash flows from operating activities	(244,710)	444,767	(689,478)	<ul style="list-style-type: none"> <li>• A decrease in profit before income taxes by 114 million yen</li> <li>• Payment of 605 million yen concerning license fees incurred in prior periods</li> </ul>
Profit before income taxes	202,776	316,895	(114,118)	
Increase (decrease) in accounts payable-other	(449,259)	111,392	(560,652)	
Others	1,772	16,480	(18,253)	
Cash flows from investing activities	(281,916)	(248,601)	(33,314)	<ul style="list-style-type: none"> <li>• Investment in software increased by 78 million yen to 304 million yen</li> <li>• Proceeds of 40 million yen from withdrawal of time deposits</li> </ul>
Investments in non-current assets	(347,580)	(263,103)	(84,477)	
Others	65,664	14,501	+51,163	
Cash flows from financing activities	173,339	(173,519)	+346,858	<ul style="list-style-type: none"> <li>• Proceeds of 500 million yen from a new loan drawn down in July 2018</li> <li>• Cash dividends payment of 59 million yen</li> </ul>
Proceeds from loans payable	500,000	-	+500,000	
Repayments of long-term loans payable	(249,649)	(114,411)	(135,238)	
Others	(77,011)	(59,108)	(17,903)	
Net increase (decrease) in cash and cash equivalents	(353,287)	+22,646	(375,933)	-
Cash and cash equivalents at end of period	299,755	653,043	(353,287)	-

# Operating results of the Shalom Business

(Thousands of yen, %)

	FY3/19	FY3/18	YoY Change	YoY % Change	Notes
Net sales	1,509,381	1,309,470	+199,360	+15.2%	(ASP service) • Net de Shalom 398 million yen (+9.7%) • Shalom House 376 million yen (+17.1%) • Shalom CE 43 million yen (+97.6%) • Shalom CE Lite 25 million yen (+67.2%) • MyNum de Shalom 197 million yen (+18.4%)
Cloud services	1,399,163	1,203,809	+195,353	+16.2%	
ASP service	1,228,475	1,039,933	+188,542	+18.1%	
System construction service	170,687	163,875	+6,811	+4.2%	
System product sale	106,440	102,017	+4,422	+4.3%	
Other services	3,777	3,643	+134	+3.7%	
Gross profit	999,260	891,076	+108,184	+12.1%	Cost of sales: +91 million yen (+22.0%) • Labor cost increased approx. 40% YoY
Gross margin	66.2%	68.0%	(1.8)pt	-	
Operating profit	382,164	314,860	+67,304	+21.4%	SG&A expenses: +40 million yen (+7.1%)
Operating margin	25.3%	24.0%	(1.3)pt	-	

# Operating results of the CuBe Business

(Thousands of yen, %)

	FY3/19	FY3/18	YoY Change	YoY % Change	Notes
Net sales	567,210	578,850	(11,640)	(2.0)%	Breakdown of contracted developments: Develop-and-deliver projects 316 million yen (-11.8%) Maintenance, etc. 217 million yen (+1.9%)
Contracted development	533,957	572,529	(38,572)	(6.2)%	
Cloud services	33,253	6,321	+26,931	+426.1%	
Gross profit	173,420	242,916	(69,495)	(28.6)%	Cost of sales: 393 million yen (of which) Contracted development: 315 million yen Cloud services: 77 million yen
Gross margin	30.5%	41.9%	(11.4)pt	-	
Operating profit (loss)*	(64,821)	(710)	(64,111)	-	SG&A expenses: 238 million yen (-2.2%)
Operating margin	(11.4)%	(0.1)%	(11.3)pt	-	
Order backlog	274,457	285,341	(10,884)	(3.8)%	A year-on-year decrease in the number of long-term large-scale projects

\*Operating profit (loss) includes amortization of goodwill of 38,861 thousand yen.



# Business Topics for FY3/19

# Sales promotion activities for labor and social security attorney offices

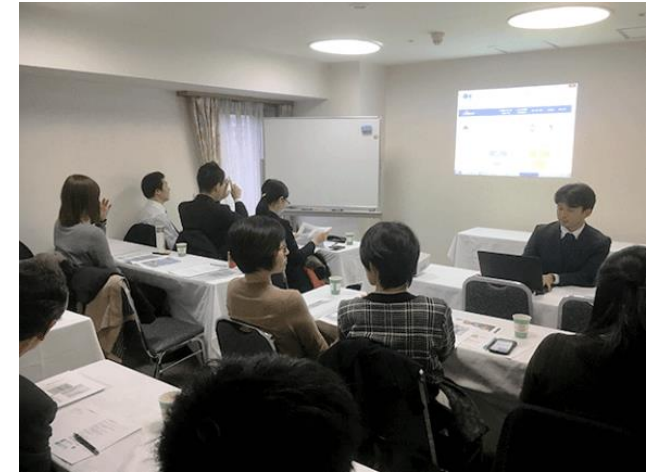
Seminars for Labor and Social Security Attorneys (33 times),  
Workshops for Shalom House Owners (4 times), Shalom User Meetings (13 times)



Nov. 2018 in Osaka  
–Shalom User Meeting



Oct. 2018 in Shizuoka  
–Shalom User Meeting



Nov. 2018 in Hokkaido  
–Following up Meeting



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

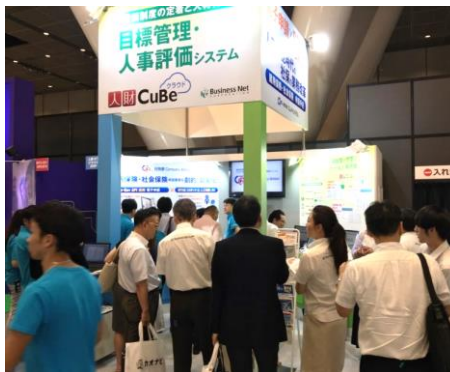
## Participated in the event sponsored by Nikkei and co-hosted seminars

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 (10 times)

Goooon (formerly Jinzai CuBe Cloud) seminars (7 times)



Seminars on the subsidy for introduction of IT systems and on Jinzai CuBe Cloud in May 2018

NIKKI  
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.
- Acquired customers by dealing with amendments to relevant laws.

The number of customers who introduced the system as of end of Mar. 2019: 17 general corporations and 23 labor and social security attorney offices, used by approx. 46,600 employees in total. (\*The labor and social security attorney offices are MKSystem's existing customers.)

Released in Apr. 2018



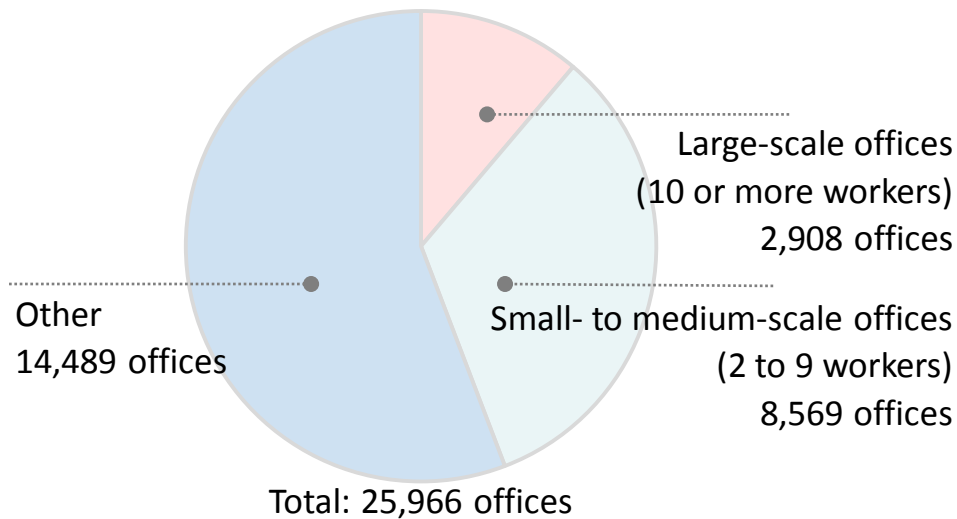
Renamed from Jinzai (human resources) CuBe Cloud

- 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 end of Mar. 2019: 5 companies, used by approx. 1,150 employees

# 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 2017 prepared by Japan Labor and Social Security Attorney's Association.

FY3/19

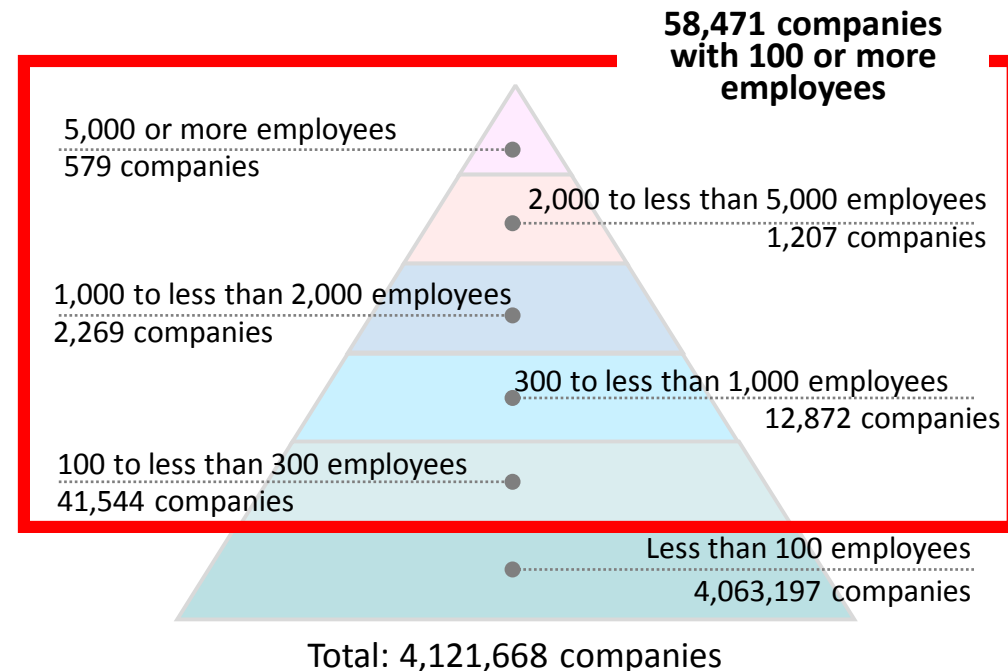
Offices with our systems introduced\* **2,413** offices

YoY change **up 157** offices

Our market share **9.3** %

Number of clients registered in our systems **580,000**

## 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.

FY3/19

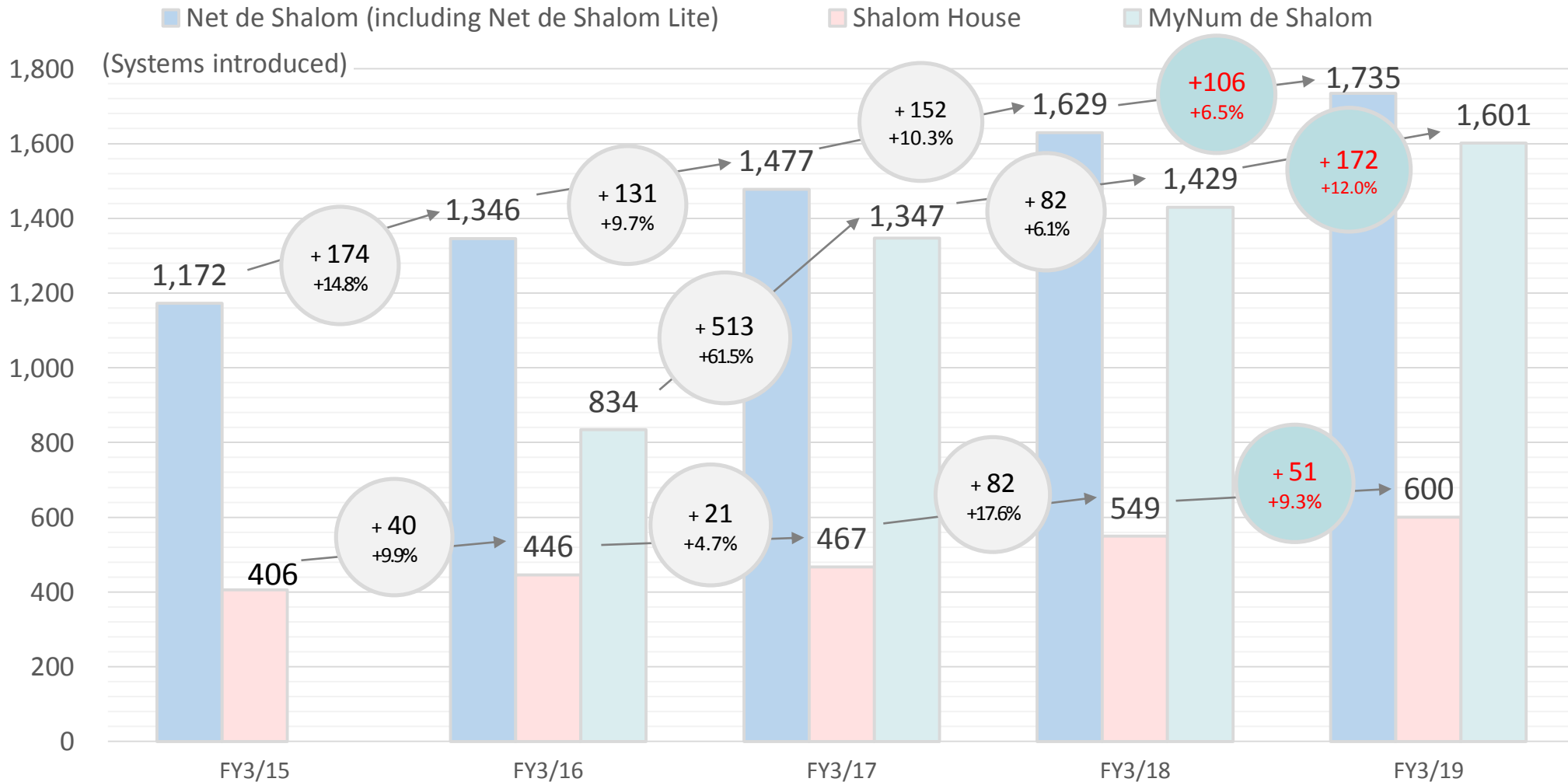
Introductions in the Shalom Business **109** companies

Introductions in the CuBe Business **61** companies

\* The number of offices with our systems introduced reflects the number of those for which we started providing service as of March 31, 2019. (o/w 1,382 for Net de Shalom, 600 for Shalom House, 353 for Net de Shalom Lite & Shalom Lite, and 78 for the Chukidan System)

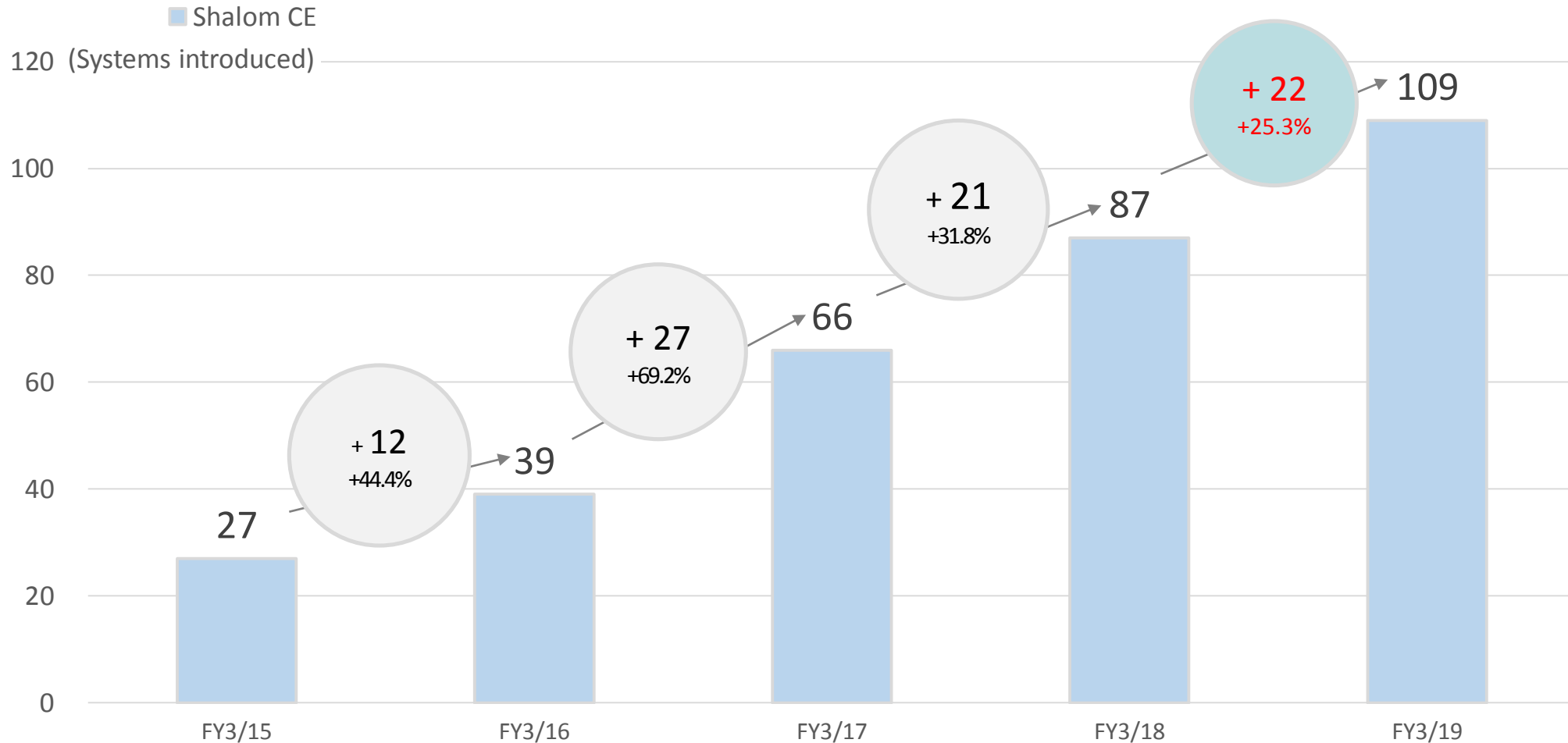
# Trends in services for labor and social security attorneys

Users of the mainstay products are increasing steadily.



# Trends in services for general corporations

The number of systems introduced by general corporations is also showing an increasing trend.

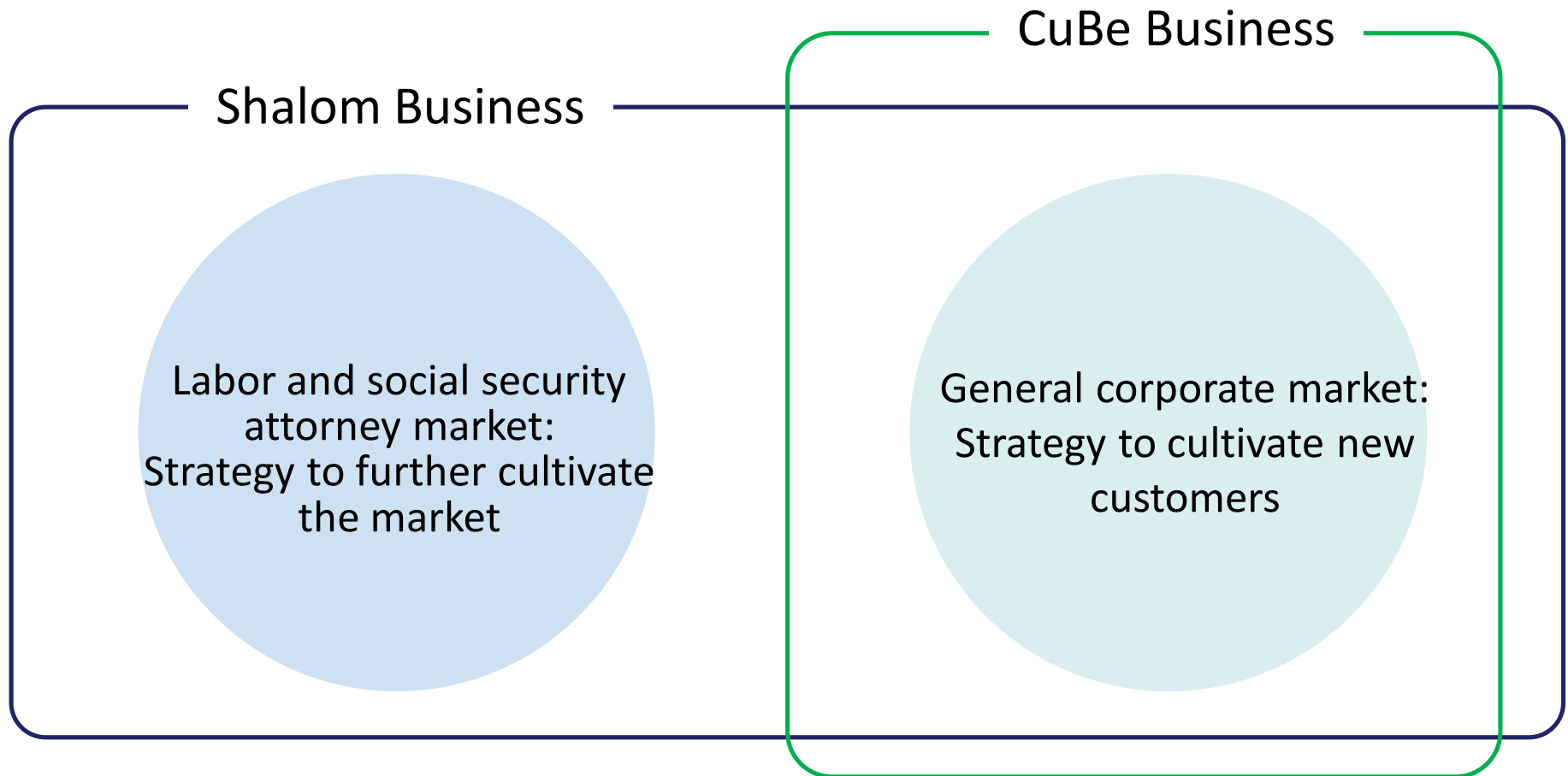


# Growth Strategies: Review and Future Development



# Strategy review

Accelerate growth with two businesses targeting two markets



# Strategy review by segment in FY3/19

## Shalom Business: Market-specific strategies (Strategy to further cultivate the market)

Achieved steady results thanks to the campaign effect

Labor and social security attorney market

Enhanced the CE function

Large companies market

Delayed release of new products

Small- and medium-sized companies market

## CuBe Business: Service-specific strategies (Strategy to cultivate new customers)

Contracted development type semi-customized services

Maintained a stable revenue stream

Nenmatsu-chosei  
CuBe Cloud

Increased the number of customers

GooooN

Delayed development

# Shalom Business: Market overview

## Overview of the current market

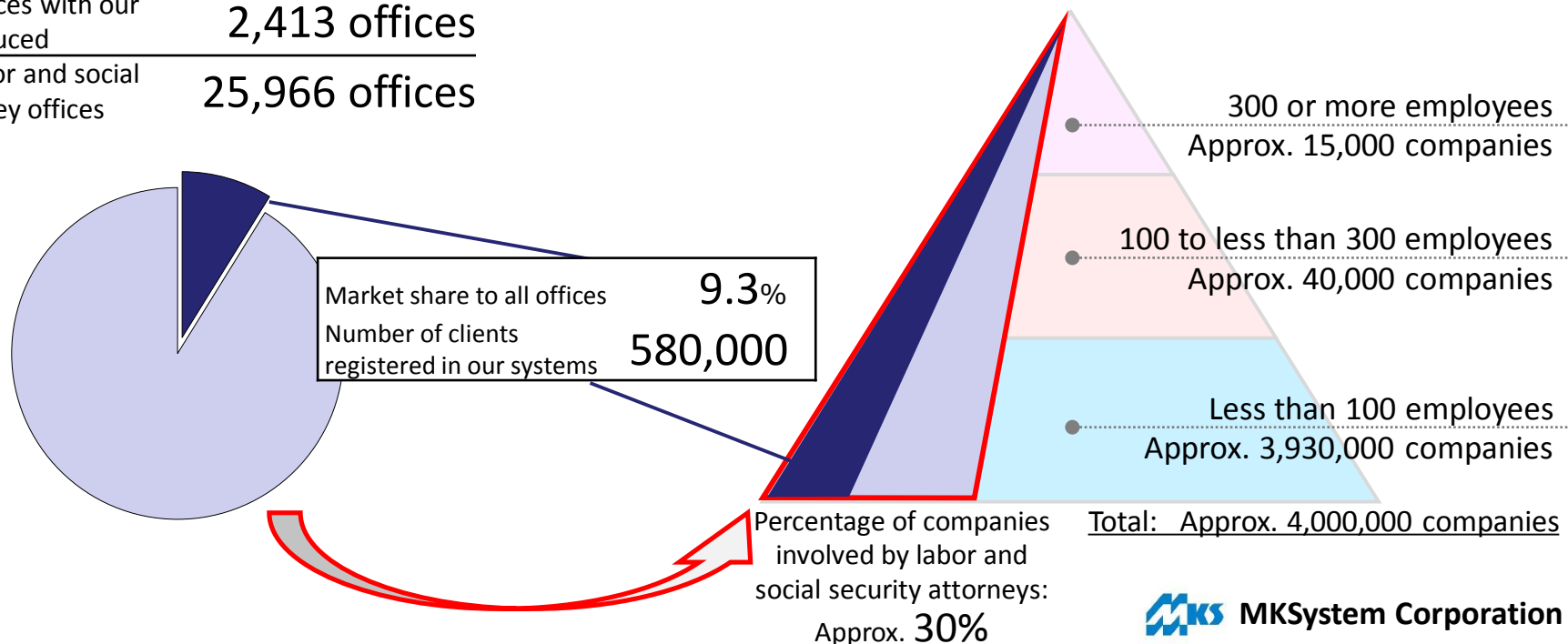
- ✓ In terms of the number of labor and social security attorney offices:  
Given that our market share is 9.3%, there is a large market waiting to be tapped.
- ✓ In terms of the number of companies involved by labor and social security attorneys:  
The number of clients registered in our systems is 580,000 (48%+ 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.

$$\frac{580,000}{4,000,000 \times 30\%}$$

### Labor and social security attorney offices

Number of offices with our systems introduced	2,413 offices
Number of labor and social security attorney offices	25,966 offices

### General corporations



# Strategies going forward

## Shalom Business: Market-specific strategies

### Promote market-specific strategies

2.8 million companies

#### General corporations

Establish the positioning in the labor and social security attorney market

1.2 million companies



Expand the corporate customer base

- ✓ Expand the range of service offerings  
Strengthen the tuning support service  
Strengthen BPO compatibility

- ✓ Win new customers  
Strengthen marketing activities



Develop market for small- and medium-sized companies

- ✓ Expand sales of new products

Direct  HR

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

Total: approx. 4 million companies



# Direct HR

Broaden your future by  
linking employees

K i n d n e s s   o f   R o u m u

## Direct HR

Beginning in April 2019, DirectHR  
will show you a new working style.

*Released*  
Just released  
in April 2019!

### Introducing **Direct HR**

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.

The system allows the employees to easily submit applications through their smartphone and PC at any time, also allows HR staff to easily prepare employment/social insurance documents and apply electronically.

With **Direct  HR** in place, you can:

- 1** Effortlessly collect employee information;
- 2** Automatically generate social/labor insurance documents (and apply online);
- 3** Develop safe and secure information security environment (enabling two-step authentication, encrypted transmission, regular security review and operation history logging);
- 4** Forward electronic copies of required documents that can be retrieved by users from their MyBOX; and
- 5** Easily perform the year-end tax adjustment.

# Strategies going forward

## 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

#### Cloud services

- Cultivate the business as a second revenue driver
  - ✓ Nenmatsu-chosei      Expand sales by dealing with amendments to  
CuBe Cloud              relevant laws and enhancing functions
  - ✓ GooooN                Win more users by strengthening sales

# Consolidated Earnings Forecast for FY3/20 and Other Information

# Consolidated earnings forecast

Amortization is expected to increase as we are going to release new products that cater for the demand of systems to support diverse work styles in line with the “digital government initiatives” and “work style reform.”

(Millions of yen, %)

	FY3/20 Plan	FY3/19 Actual	YoY Change	YoY % Change	FY3/20 1H Plan	FY3/19 1H Actual	YoY Change	YoY % Change
Net sales	2,496	2,075	+421	+20.2%	1,163	946	+216	+22.8%
Cost of sales	1,257	902	+354	+39.3%	617	421	+195	+46.4%
SG&A expenses	879	855	+24	+2.8%	461	446	+15	+3.4%
Operating profit	359	317	+42	+13.2%	84	78	+5	+7.0%
Ordinary profit	356	305	+51	+16.7%	82	77	+5	+6.9%
Profit attributable to owners of parent	225	112	+113	+101.1%	53	(11)	+65	-
Operating margin	14.4%	15.2%	(0.8)pt	-	7.2%	8.3%	(1.1)pt	-
Basic earnings per share (Yen)	41.52	20.65	20.87	+101.1%	9.91	(2.17)	-	-



# Earnings forecast by segment: Shalom Business

(Millions of yen, %)

	FY3/20 Plan	FY3/19 Actual	YoY Change	YoY % Change	FY3/20 1H Plan	FY3/19 1H Actual	YoY Change	YoY % Change	Major factors of change
Net sales	1,800	1,509	+291	+19.2%	860	711	+148	+20.9%	The segment expects an increase in sales by capturing strong corporate demand on top of enjoying stable revenue from the labor and social security attorney market.
Cloud services	1,694	1,399	+295	+21.0%	807	611	+146	+22.2%	
System product sale	105	110	(5)	(4.5)%	52	50	+2	+3.5%	
Cost of sales	761	510	+251	+49.2%	375	237	137	57.9%	The gross margin will be lower due to increases in amortization of software and license fee.
Gross profit	1,038	999	+94	+3.9%	485	474	+11	+2.3%	
Gross margin	57.7%	66.2%	(8.5)pt	-	56.4%	66.6%	(10.2)pt	-	
SG&A expenses	650	617	+33	+5.3%	341	317	+24	+7.8%	Operating profit will be slightly higher due to the lower gross margin despite a 0.5 percentage point improvement in the SG&A expense ratio.
Operating profit	388	382	+6	+1.57%	143	156	(13)	(8.6)%	
Operating margin	21.6%	25.3%	(3.7)pt	-	16.6%	22.0%	(5.4)pt	-	

# Earnings forecast by segment: CuBe Business

(Millions of yen, %)

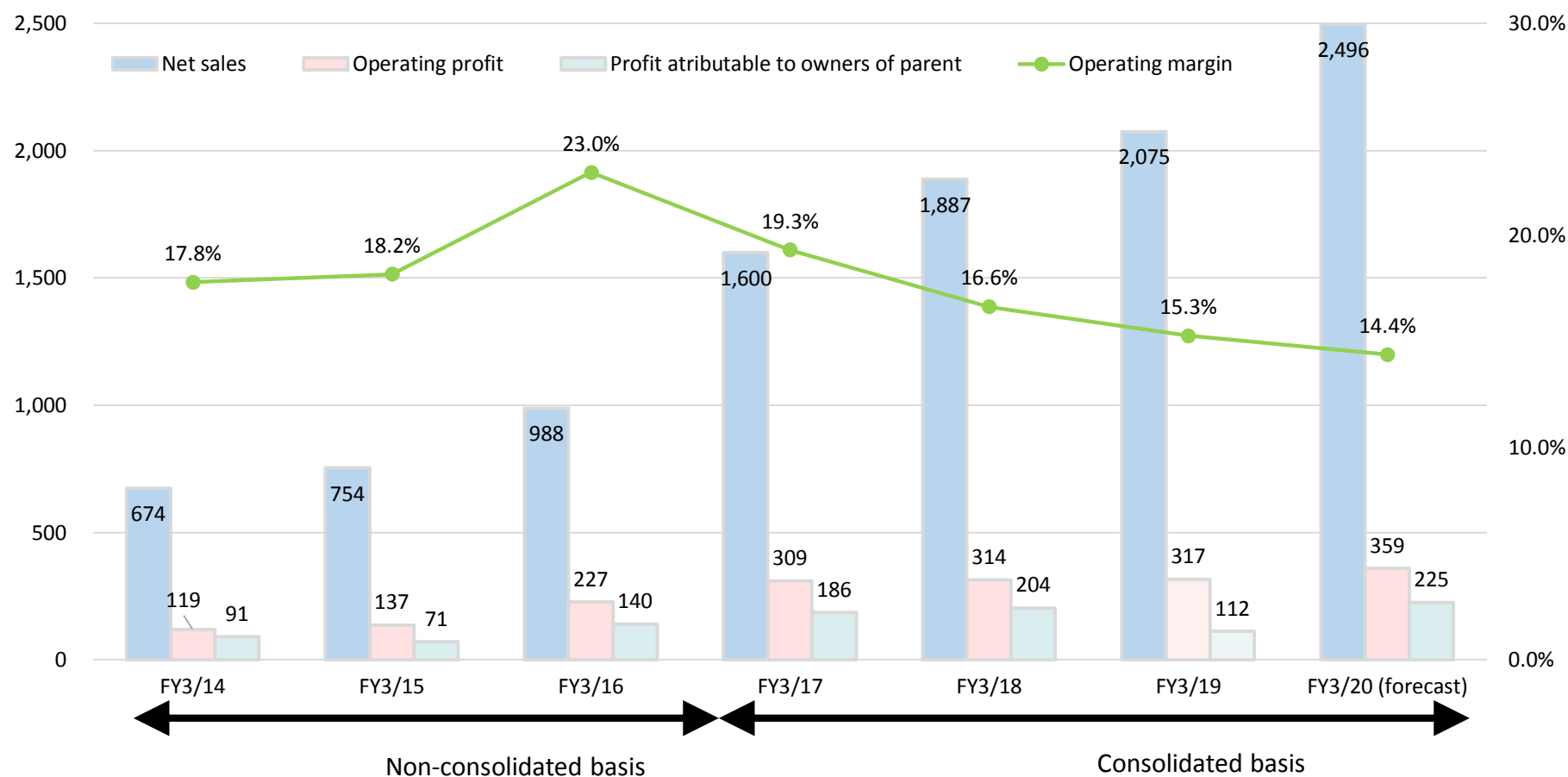
	FY3/20 Plan	FY3/19 Actual	YoY Change	YoY % Change	FY3/20 1H Plan	FY3/19 1H Actual	YoY Change	YoY % Change	Major factors of change
Net sales	696	567	+130	+22.3%	303	235	+67	+28.7%	The contracted development business expects a 47 million yen increase in sales due to delivering more small- to medium-scale projects and the cloud services business also expects a strong increase in sales, though sales of both businesses tend to be concentrated in the second half of the fiscal year.
Contracted development type semi-customized services	581	533	+47	+8.8%	286	229	+56	+24.8%	
Cloud services	115	33	+82	+247.3%	17	6	+10	+70.4%	
Cost of sales	496	336	+103	+26.1%	242	184	+57	+31.3%	The gross margin will be lower due to an increase in amortization attributable to new products despite an effort to improve development efficiency.
Gross profit	200	231	+26	15.3%	60	50	+9	+19.2%	
Gross margin	28.7%	40.7%	(1.9)pt	-	20.0%	21.6%	(1.6)pt	-	
SG&A expenses*	232	238	(6)	(2.5)%	102	113	(11)	(10.2)%	Operating loss is expected just as in FY3/19 due to an increase in expenses caused by the up-front investments to strengthen cloud service promotion.
Operating profit	(32)	(64)	+32	-	(41)	(62)	+21	-	
Operating margin	(4.6)%	(11.4)%	+6.8pt	-	(13.7)%	(26.7)%	+13.0pt	-	

# Trends in business performance and forecast

**Sales:** We will achieve a consecutive year-on-year increase by developing a new market for general corporations.

**Profit:** The operating margin will be lower due to an increase in amortization attributable to a release of new products.

(Millions of yen)



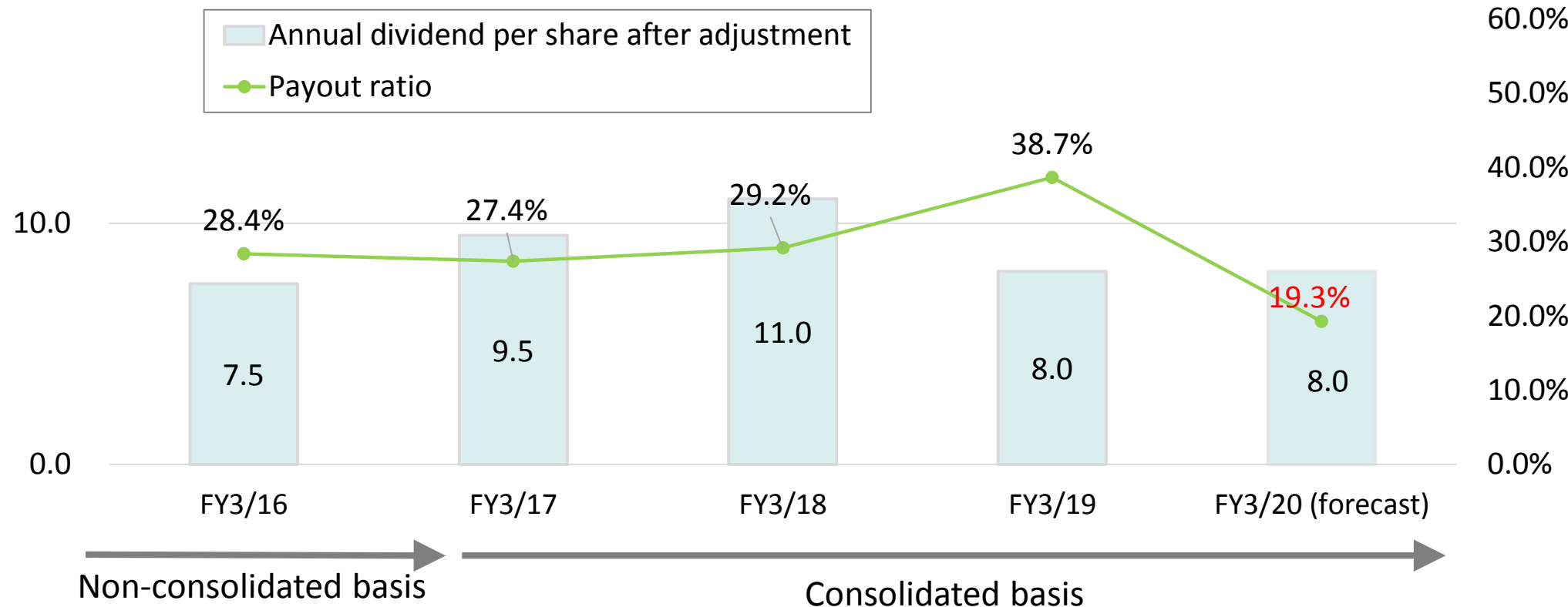
# Dividend forecast for FY3/20

Our profit distribution policy is “to implement a stable dividend payment with the baseline payout ratio of 20%.” For FY3/19, we put a priority on the stable dividend payout as the extraordinary loss recognized during the period was of one-time nature.

Dividends for FY3/20 will be paid out based on the basic policy.

(Yen)

20.0



\* 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"><li>• 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).</li><li>• 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.</li></ul>
◆ 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	104 (consolidated); 60 (non-consolidated) (both excluding temporary employees)

As of March 31, 2019

# 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

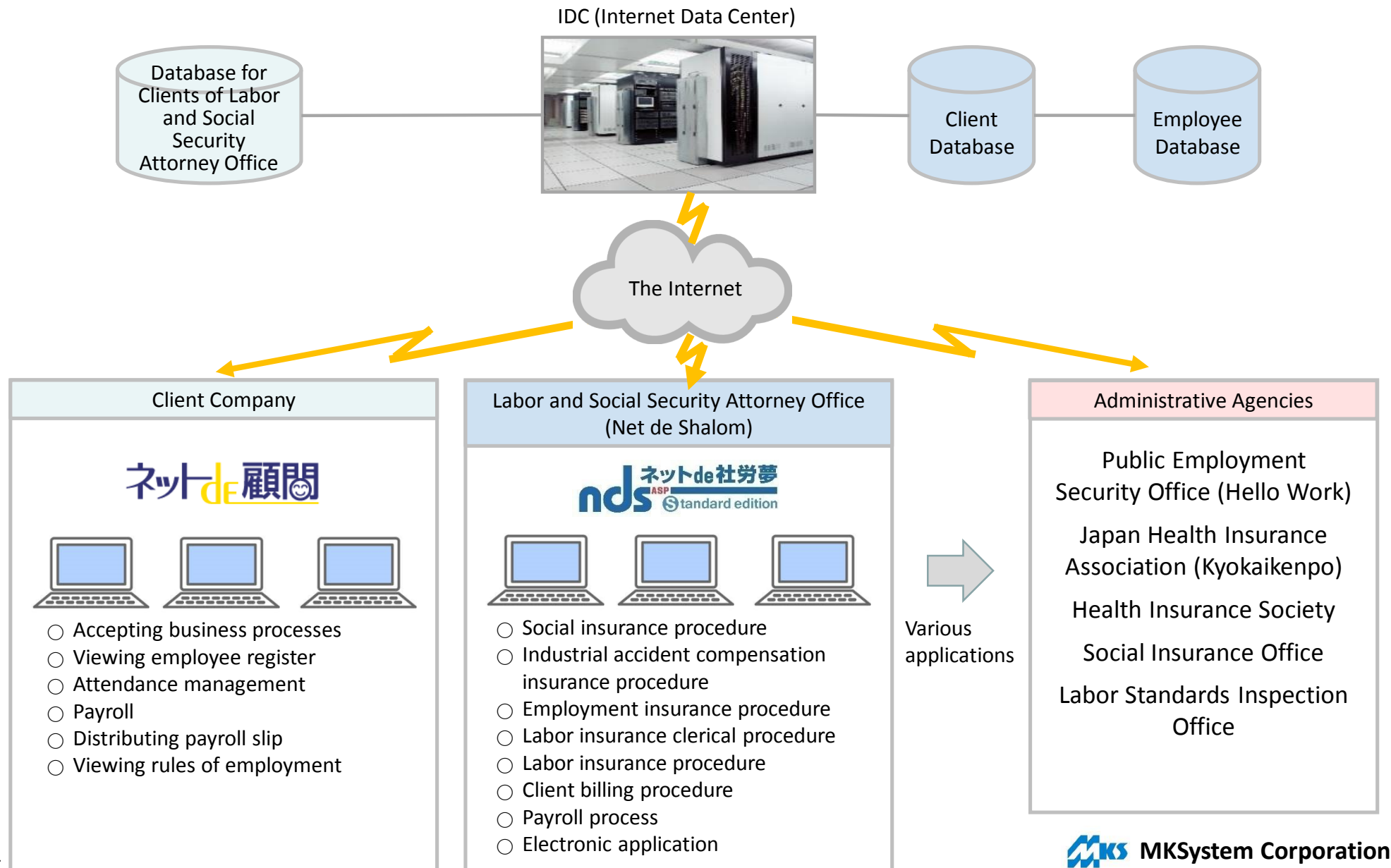
### Contracted development type semi-customized services

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

### CuBe Cloud

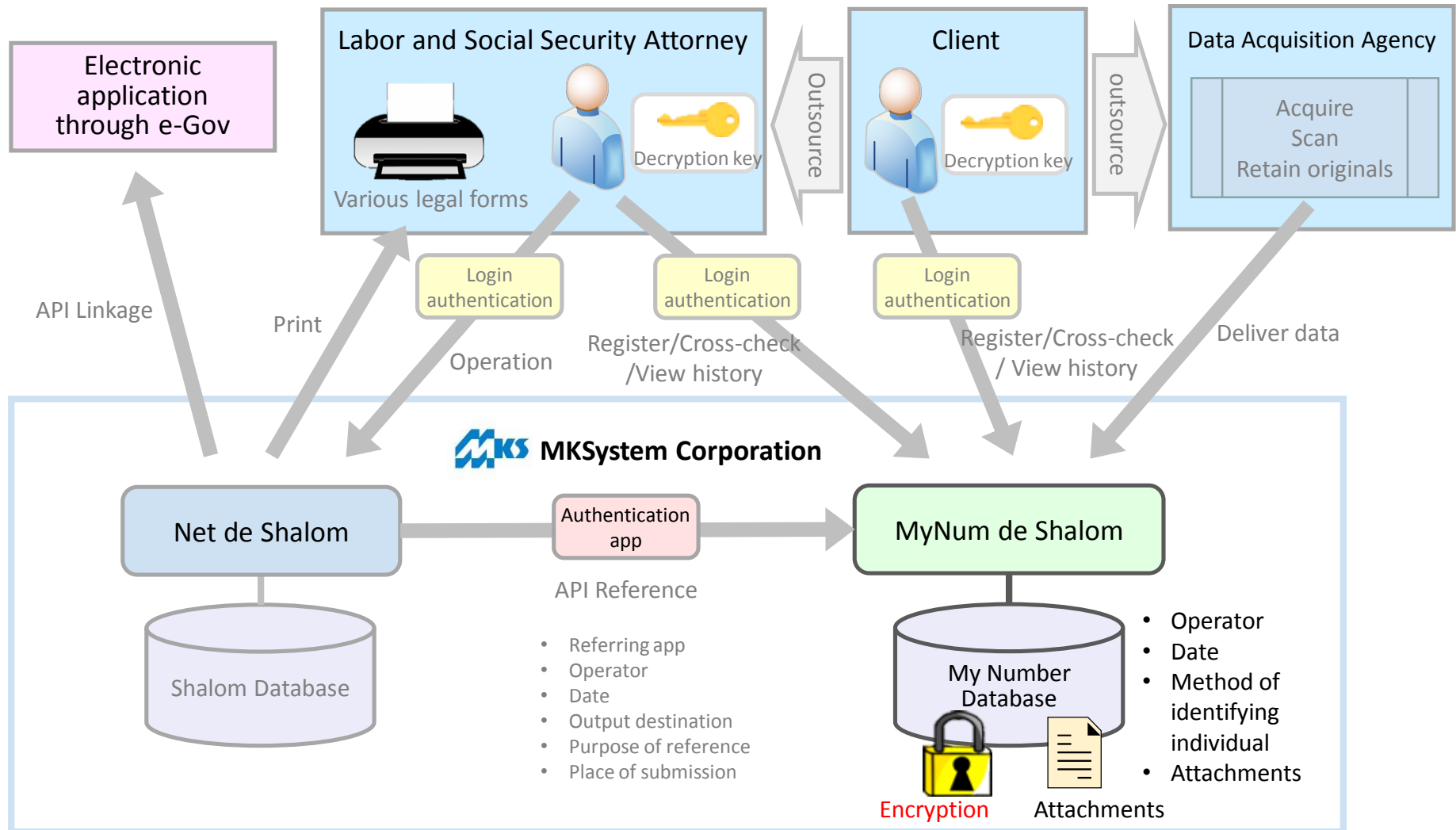
- Provision of cloud services connecting corporate functions and employees (Nenmatsu-chosei CuBe Cloud and GooooN )

# Our mainstay service (Net de Shalom)

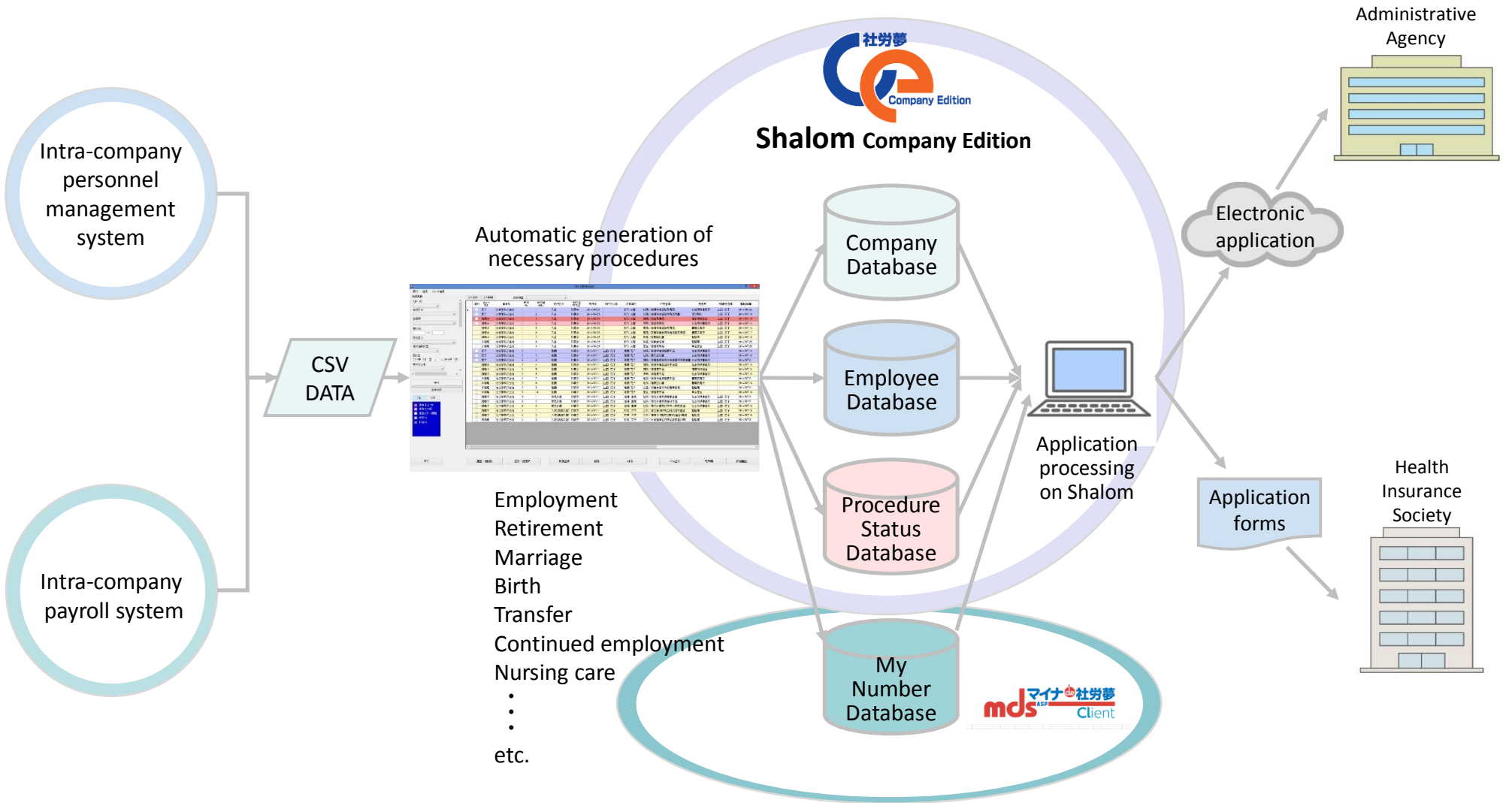




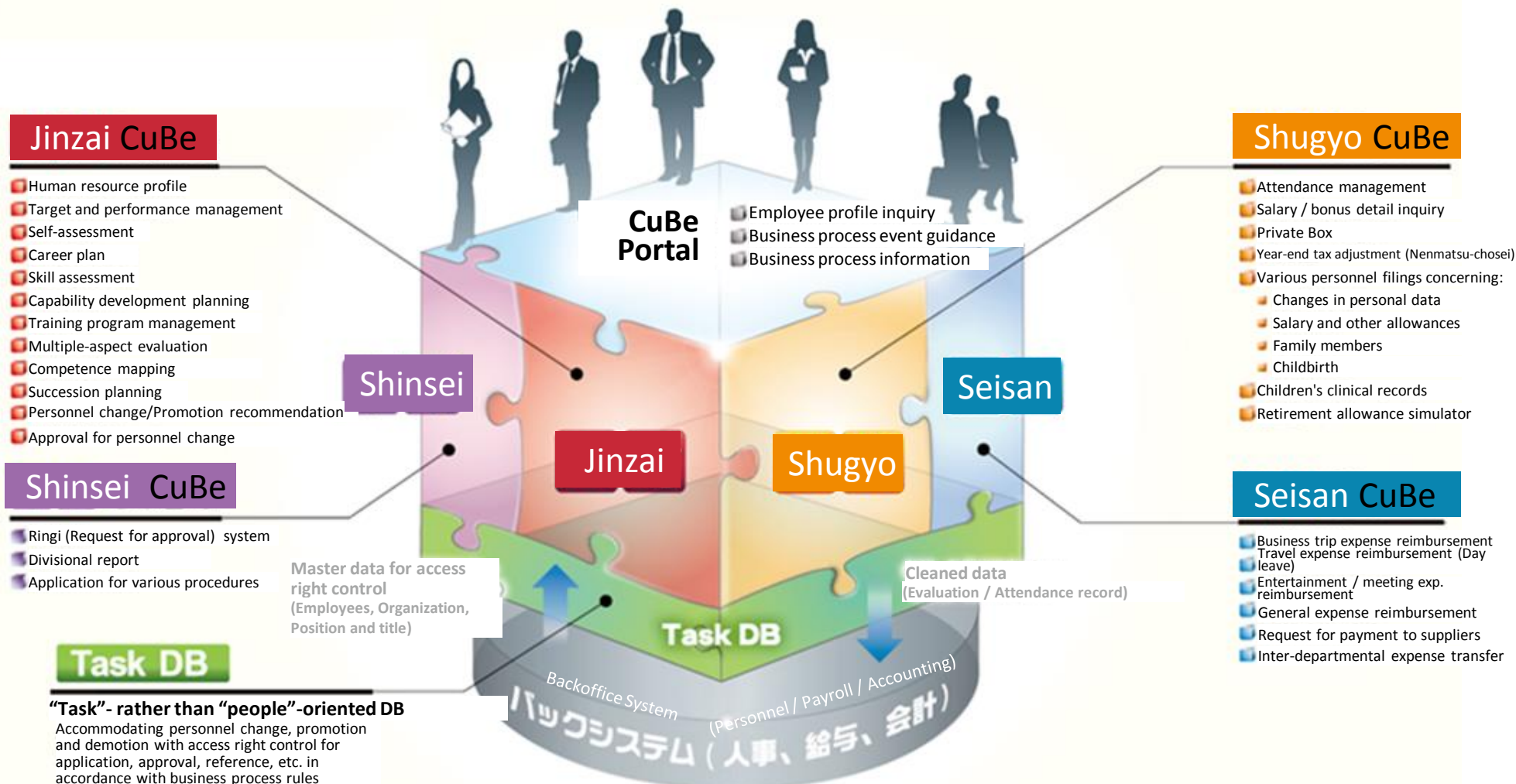
# Our mainstay service (MyNum de Shalom)



# Our mainstay service (Shalom Company Edition)



# Our mainstay services (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!



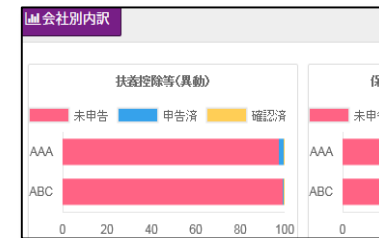
Division in charge of operation

- 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 (GooooN)

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

**GooooN** 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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