

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2020
(Three Months Ended June 30, 2019)

[Japanese GAAP]

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 Scheduled date of filing of Quarterly Report: August 6, 2019
 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 First Quarter Ended June 30, 2019

(April 1, 2019 – June 30, 2019)

(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, 2019	513	23.6	30	263.2	30	277.3	11	-
Three months ended Jun. 30, 2018	415	5.1	8	(50.1)	8	(53.1)	(56)	-

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2019: 5 (-%)

Three months ended Jun. 30, 2018: (62) (-%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended Jun. 30, 2019	2.21	-
Three months ended Jun. 30, 2018	(10.45)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2019	1,921	1,116	56.5
As of Mar. 31, 2019	1,945	1,164	57.4

Reference: Shareholders' equity (million yen) As of Jun. 30, 2019: 1,085 As of Mar. 31, 2019: 1,117

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2019	-	0.00	-	8.00	8.00
Fiscal year ending Mar. 31, 2020	-	-	-	-	-
Fiscal year ending Mar. 31, 2020 (forecast)	-	0.00	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, 2020 (April 1, 2019 – March 31, 2020)

(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	1,163	22.9	84	7.0	82	6.8	53	-	9.92
Full year	2,496	20.3	359	13.2	356	16.7	225	101.1	41.52

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 Jun. 30, 2019:	5,428,000 shares	As of Mar. 31, 2019:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2019:	358 shares	As of Mar. 31, 2019:	312 shares
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3) Average number of shares during the period

Three months ended Jun. 30, 2019:	5,427,681 shares	Three months ended Jun. 30, 2018:	5,427,762 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 3 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, 2020 (hereinafter “the period under review”), the Japanese economy continued its gradual recovery on the back of improvements in corporate earnings and employment. Meanwhile, the future of the global economy remained unpredictable, affected by trade issues with the U.S. and the uncertainty with respect to China’s economic trends.

The domestic information service industries have been seeing an accelerated trend of providing services typically through the cloud computing. Amid such a trend, these industries have been working on initiatives to increase added value by, for example, utilizing the latest technologies such as AI (Artificial Intelligence) and strengthening linkages between cloud services. In the field of the personnel and labor management, which MKSystem Corporation and its group companies (hereinafter collectively “the Group”) involve, companies are increasingly motivated to leverage cloud services to realize efficient ways of working in line with the government-promoted “work style reform.”

Under these circumstances, the Group worked to expand its business by promoting sales of the Shalom System (which literally means a dream system for labor and social security attorneys) and releasing new products in the Shalom Business as well as by enhancing the service functions of “CuBe Cloud” in the CuBe Business.

As a result, for the period under review, the Group reported net sales of 513 million yen (up 23.6% year on year), cost of sales of 253 million yen (up 45.8%), the ratio of cost of sales to net sales of 49.2% (up 7.4 percentage points), gross profit of 260 million yen (up 7.8%), operating profit of 30 million yen (up 263.2%), the ratio of operating profit to net sales of 6.0% (up 4.0 percentage points), ordinary profit of 30 million yen (up 277.3%), and profit attributable to owners of parent of 11 million yen (compared with loss attributable to owners of parent of 56 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 4.4% (compared with minus 1.7% for the same period of the previous fiscal year) on a non-consolidated basis and 1.1% (compared with minus 5.6% for the same period of the previous fiscal year) on a consolidated basis.

Results by business segment were as follows.

The Shalom Business

As the government is promoting online one-stop social security and tax procedures, 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 “work style reform.” At the same time, we expect an intensified competition as we witness an increasing number of new entrants in the market.

Under these circumstances, we have expanded our sales activities to acquire new general corporation customers. Furthermore, we have worked to release “DirectHR,” a new solution targeted at small- and medium-sized companies, and respond to revisions to various laws and regulations.

As a result, sales of the cloud services, which consist of ASP services and system construction services, were 398 million yen (up 23.6% year on year). Specifically, sales of ASP services amounted to 347 million yen (up 22.9%) due to increased use by general corporations as well as accumulated monthly usage fees in line with a steady increase in the number of customers who use our main services, “Net de Shalom” and “Shalom House.” Sales of system construction services amounted to 50 million yen (up 28.9%) in line with growth in new installation orders from general corporations. In addition, sales of system products were 27 million yen (up 4.2%) and those from the other services were 554 thousand yen (down 66.3%).

Meanwhile, cost of sales increased year on year as a result of factors such as increased depreciation due to the release of new products.

Consequently, the segment recorded net sales of 426 million yen (up 21.7% year on year), gross profit of 245 million yen (up 4.2%) and operating profit of 76 million yen (up 10.4%). In addition, the ratio of operating profit to net sales, one of the KPIs for the Group, was 18.0% (down 1.8 percentage points).

The CuBe Business

We have been engaged in the contracted development of front-end systems, customized according 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 our know-how gained through the contracted development of systems for large companies in the form of cloud services to small and medium-sized companies.

In the contracted development business for front-end systems, the segment steadily increased both the numbers of orders received and deliveries by accurately understanding existing customers' needs for system revamp. In the cloud service business, on the other hand, we strove to acquire new users by strengthening sales of "GooooN" and enhancing the service functions of "Nenmatsu-chosei (year-end tax adjustment) CuBe Cloud" including response to revisions to laws and regulations.

As a result, the segment recorded net sales of 87 million yen (up 33.7% year on year), gross profit of 15 million yen (up 138.4%), and operating loss of 46 million yen (compared with operating loss of 61 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 914 million yen (up 3.1% from the end of the previous fiscal year), consisting primarily of 486 million yen in cash and deposits, and 322 million yen in accounts receivable-trade.

The balance of non-current assets was 1,007 million yen (down 4.9% from the end of the previous fiscal year), consisting primarily of 517 million yen in software, 281 million yen in goodwill, 53 million yen in deferred tax assets, and 33 million yen in software in progress.

As a result, the balance of total assets was 1,921 million yen (down 1.2% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 496 million yen (up 11.1% from the end of the previous fiscal year), consisting primarily of 126 million yen in current portion of long-term borrowings, 100 million yen in accounts payable-other, 57 million yen in accrued expenses, and 58 million yen in advances received.

The balance of non-current liabilities was 308 million yen (down 7.5% from the end of the previous fiscal year), consisting solely of long-term borrowings.

As a result, the balance of total liabilities was 805 million yen (up 3.2% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,085 million yen (down 2.9% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 669 million yen in retained earnings.

As a result, the balance of net assets was 1,116 million yen (down 4.1% 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, 2020, which was announced in the "Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (Japanese GAAP)" on May 10, 2019.

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

	(Thousands of yen)	
	FY3/19 (As of Mar. 31, 2019)	First quarter of FY3/20 (As of Jun. 30, 2019)
Assets		
Current assets		
Cash and deposits	326,895	486,790
Accounts receivable-trade	430,221	322,574
Merchandise	3,917	6,799
Work in process	48,433	72,086
Supplies	172	260
Prepaid expenses	29,413	22,169
Consumption taxes receivable	44,301	-
Income taxes receivable	2,457	2,457
Other	720	1,176
Total current assets	886,532	914,314
Non-current assets		
Property, plant and equipment		
Buildings, net	22,968	22,534
Vehicles, net	3,911	3,585
Tools, furniture and fixtures, net	54,021	49,487
Total property, plant and equipment	80,901	75,607
Intangible assets		
Software	408,214	517,612
Software in progress	155,411	33,605
Trademark right	1,536	1,484
Telephone subscription right	1,218	1,218
Goodwill	291,464	281,749
Total intangible assets	857,845	835,670
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	52,077	42,477
Deferred tax assets	67,868	53,573
Other	98	98
Total investments and other assets	120,114	96,219
Total non-current assets	1,058,860	1,007,497
Total assets	1,945,393	1,921,812

(Thousands of yen)

	FY3/19 (As of Mar. 31, 2019)	First quarter of FY3/20 (As of Jun. 30, 2019)
Liabilities		
Current liabilities		
Accounts payable-trade	36,251	27,012
Short-term borrowings	30,000	30,000
Current portion of long-term borrowings	150,311	126,644
Accounts payable-other	89,087	100,205
Accrued expenses	31,513	57,556
Income taxes payable	4,633	13,322
Accrued consumption taxes	5,163	20,401
Advances received	30,619	58,276
Provision for loss on order received	10,367	10,367
Provision for bonuses	47,787	26,402
Other	11,332	26,596
Total current liabilities	447,066	496,784
Non-current liabilities		
Long-term borrowings	333,340	308,341
Total non-current liabilities	333,340	308,341
Total liabilities	780,406	805,125
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	198,169	197,457
Retained earnings	700,449	669,010
Treasury shares	(327)	(358)
Total shareholders' equity	1,117,400	1,085,219
Non-controlling interests	47,586	31,468
Total net assets	1,164,987	1,116,687
Total liabilities and net assets	1,945,393	1,921,812

(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 FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)	First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)
Net sales	415,670	513,935
Cost of sales	173,654	253,110
Gross profit	242,015	260,825
Selling, general and administrative expenses	233,518	229,966
Operating profit	8,497	30,858
Non-operating income		
Interest income	2	-
Dividend income	1	1
Surrender value of insurance policies	9	-
Purchase discounts	5	5
Interest on tax refund	-	337
Other	14	46
Total non-operating income	32	390
Non-operating expenses		
Interest expenses	402	594
Other	1	0
Total non-operating expenses	404	595
Ordinary profit	8,125	30,654
Extraordinary losses		
Penalty	94,121	-
Total extraordinary losses	94,121	-
Profit (loss) before income taxes	(85,996)	30,654
Income taxes - current	504	10,367
Income taxes - deferred	(24,254)	14,295
Total income taxes	(23,749)	24,662
Profit (loss)	(62,246)	5,991
Loss attributable to non-controlling interests	(5,522)	(5,991)
Profit (loss) attributable to owners of parent	(56,723)	11,983

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

	(Thousands of yen)	
	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)	First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)
Profit (loss)	(62,246)	5,991
Comprehensive income	(62,246)	5,991
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(56,723)	11,983
Comprehensive income attributable to non-controlling interests	(5,522)	(5,991)

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment information

First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)

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	349,984	65,685	415,670	-	415,670
Inter-segment sales and transfers	138	88	226	(226)	-
Total	350,122	65,773	415,896	(226)	415,670
Segment profit (loss)	69,414	(61,547)	7,867	630	8,497

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

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

First three months of FY3/20 (Apr. 1, 2019 – Jun. 30, 2019)

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	426,070	87,865	513,935	-	513,935
Inter-segment sales and transfers	138	51	189	(189)	-
Total	426,208	87,916	514,124	(189)	513,935
Segment profit (loss)	76,623	(46,695)	29,928	930	30,858

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.