

Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending March 31, 2020
(Six Months Ended September 30, 2019)

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange (JASDAQ)
 Stock code: 3910 URL: <https://www.mks.jp>
 Representative: Noboru Miyake, Representative Director and President
 Contact: Masaki Yoshida, Director, General Manager of Management Department
 Tel: +81-6-7222-3394
 Scheduled date of filing of Quarterly Report: November 6, 2019
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: None
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter Ended September 30, 2019

(April 1, 2019 – September 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	%
Six months ended Sep. 30, 2019	1,183	25.0	160	103.5	159	106.2	101	-
Six months ended Sep. 30, 2018	946	2.4	78	(45.6)	77	(46.6)	(11)	-

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2019: 97 (-%)

Six months ended Sep. 30, 2018: (18) (-%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Sep. 30, 2019	18.70	-
Six months ended Sep. 30, 2018	(2.17)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2019	2,034	1,208	57.7
As of Mar. 31, 2019	1,945	1,164	57.4

Reference: Shareholders' equity (million yen) As of Sep. 30, 2019: 1,174 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	-	0.00	-	-	-
Fiscal year ending Mar. 31, 2020 (forecast)	-	-	0.00	8.00	8.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 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
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 Sep. 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 Sep. 30, 2019:	441 shares	As of Mar. 31, 2019:	312 shares
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3) Average number of shares during the period

Six months ended Sep. 30, 2019:	5,427,642 shares	Six months ended Sep. 30, 2018:	5,427,731 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 half of the fiscal year ending March 31, 2020 (hereinafter “the period under review”), the Japanese economy continued its gradual recovery thanks to the effects of various policy measures on the back of improvements in corporate earnings and employment and income environment. Meanwhile, the future of the global economy remained unpredictable, affected by the intensified tension over trade issues 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 1,183 million yen (up 25.0% year on year), cost of sales of 583 million yen (up 38.5%), the ratio of cost of sales to net sales of 49.3% (up 4.8 percentage points), gross profit of 599 million yen (up 14.2%), operating profit of 160 million yen (up 103.5%), the ratio of operating profit to net sales of 13.5% (up 5.2 percentage points), ordinary profit of 159 million yen (up 106.2%), and profit attributable to owners of parent of 101 million yen (compared with loss attributable to owners of parent of 11 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 10.8% (compared with 3.8% for the same period of the previous fiscal year) on a non-consolidated basis and 8.9% (compared with minus 1.1% 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 817 million yen (up 23.7% year on year). Specifically, sales of ASP services amounted to 708 million yen (up 20.8%) 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 109 million yen (up 46.2%) in line with growth in new installation orders from general corporations. In addition, sales of system products were 56 million yen (up 16.7%) and those from the other services were 554 thousand yen (down 75.4%).

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 874 million yen (up 22.9% year on year), gross profit of 517 million yen (up 9.1%) and operating profit of 196 million yen (up 25.2%). In addition, the ratio of operating profit to net sales, one of the KPIs for the Group, was 22.5% (up 0.4 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 that bring 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 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 313 million yen (up 33.0% year on year), gross profit of 84 million yen (up 65.9%), and operating loss of 35 million yen (compared with operating loss of 79 million yen for the same period of the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 19 million yen.

(2) Explanation of Financial Position

Cash Flows

The balance of cash and cash equivalents (hereinafter "net cash") at the end of the period under review increased 199 million yen from the end of the previous fiscal year to 499 million yen. The details of cash flows for the period under review from each activity and the major components of changes are as follows.

Cash flows from operating activities

Net cash provided by operating activities was 345 million yen (compared with net cash used of 490 million yen for the same period of the previous fiscal year). Major positive factors include profit before income taxes of 159 million yen and depreciation of 127 million yen, while major negative factors include a 72 million yen increase in trade receivables and a 20 million yen decrease in accounts payable-other.

Cash flows from investing activities

Net cash used in investing activities was 78 million yen (compared with net cash used of 135 million yen for the same period of the previous fiscal year). Major negative factors include purchase of intangible assets of 85 million yen and purchase of property, plant and equipment of 2 million yen.

Cash flows from financing activities

Net cash used in financing activities was 67 million yen (compared with net cash provided of 348 million yen for the same period of the previous fiscal year). Major positive factors include proceeds from long-term borrowings of 100 million yen, while major negative factors include repayments of long-term borrowings of 102 million yen and dividends paid of 43 million yen.

The Group's working capital includes consideration and funds needed to pay tax obligations that are accounted for as cost of sales and selling, general and administrative expenses whereas its capital expenditures represent major investments in equipment for purposes such as increasing the capacity of servers.

These capital requirements are covered by internally generated funds derived from profits earned from operations.

Assets, Liabilities and Net Assets

Assets

The balance of current assets at the end of the period under review was 1,067 million yen (up 20.4% from the end of the previous fiscal year), consisting primarily of 526 million yen in cash and deposits, and 502 million yen in accounts receivable-trade.

The balance of non-current assets was 966 million yen (down 8.7% from the end of the previous fiscal year), consisting primarily of 501 million yen in software, 272 million yen in goodwill, 42 million yen in guarantee deposits, and 39 million yen in deferred tax assets.

As a result, the balance of total assets was 2,034 million yen (up 4.6% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 481 million yen (up 7.7% from the end of the previous fiscal year), consisting primarily of 136 million yen in current portion of long-term borrowings, 72 million yen in accounts payable-other, 45 million yen in accrued consumption taxes, and 43 million yen in advances received.

The balance of non-current liabilities was 344 million yen (up 3.3% from the end of the previous fiscal year), consisting solely of long-term borrowings.

As a result, the balance of total liabilities was 826 million yen (up 5.9% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,174 million yen (up 5.1% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 758 million yen in retained earnings.

As a result, the balance of net assets was 1,208 million yen (up 3.7% 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" 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)	Second quarter of FY3/20 (As of Sep. 30, 2019)
Assets		
Current assets		
Cash and deposits	326,895	526,735
Accounts receivable-trade	430,221	502,482
Merchandise	3,917	6,032
Work in process	48,433	13,336
Supplies	172	167
Prepaid expenses	29,413	17,465
Consumption taxes receivable	44,301	-
Income taxes receivable	2,457	194
Other	720	1,117
Total current assets	886,532	1,067,533
Non-current assets		
Property, plant and equipment		
Buildings, net	22,968	22,099
Vehicles, net	3,911	3,259
Tools, furniture and fixtures, net	54,021	45,056
Total property, plant and equipment	80,901	70,415
Intangible assets		
Software	408,214	501,618
Software in progress	155,411	37,573
Trademark right	1,536	1,433
Telephone subscription right	1,218	1,218
Goodwill	291,464	272,033
Total intangible assets	857,845	813,877
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	52,077	42,527
Deferred tax assets	67,868	39,884
Other	98	98
Total investments and other assets	120,114	82,580
Total non-current assets	1,058,860	966,874
Total assets	1,945,393	2,034,408

(Thousands of yen)

	FY3/19 (As of Mar. 31, 2019)	Second quarter of FY3/20 (As of Sep. 30, 2019)
Liabilities		
Current liabilities		
Accounts payable-trade	36,251	35,974
Short-term borrowings	30,000	20,000
Current portion of long-term borrowings	150,311	136,281
Accounts payable-other	89,087	72,981
Accrued expenses	31,513	28,819
Income taxes payable	4,633	40,052
Accrued consumption taxes	5,163	45,601
Advances received	30,619	43,003
Provision for loss on order received	10,367	-
Provision for bonuses	47,787	52,065
Other	11,332	6,818
Total current liabilities	447,066	481,598
Non-current liabilities		
Long-term borrowings	333,340	344,464
Total non-current liabilities	333,340	344,464
Total liabilities	780,406	826,062
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	198,169	197,457
Retained earnings	700,449	758,513
Treasury shares	(327)	(437)
Total shareholders' equity	1,117,400	1,174,643
Non-controlling interests	47,586	33,702
Total net assets	1,164,987	1,208,345
Total liabilities and net assets	1,945,393	2,034,408

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Six-month Period)**

(Thousands of yen)

	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Net sales	946,740	1,183,640
Cost of sales	421,762	583,947
Gross profit	524,977	599,692
Selling, general and administrative expenses	446,243	439,433
Operating profit	78,733	160,259
Non-operating income		
Interest income	5	2
Dividend income	1	1
Surrender value of insurance policies	9	21
Purchase discounts	5	5
Interest on tax refund	-	358
Other	61	49
Total non-operating income	82	439
Non-operating expenses		
Interest expenses	1,482	1,267
Other	2	1
Total non-operating expenses	1,485	1,269
Ordinary profit	77,331	159,429
Extraordinary losses		
Penalty	94,121	-
Total extraordinary losses	94,121	-
Profit (loss) before income taxes	(16,790)	159,429
Income taxes-current	1,009	33,716
Income taxes-deferred	370	27,984
Total income taxes	1,380	61,700
Profit (loss)	(18,170)	97,728
Loss attributable to non-controlling interests	(6,377)	(3,756)
Profit (loss) attributable to owners of parent	(11,792)	101,485

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

	(Thousands of yen)	
	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Profit (loss)	(18,170)	97,728
Comprehensive income	(18,170)	97,728
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(11,792)	101,485
Comprehensive income attributable to non-controlling interests	(6,377)	(3,756)

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY3/19 (Apr. 1, 2018 – Sep. 30, 2018)	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)
Cash flows from operating activities		
Profit (loss) before income taxes	(16,790)	159,429
Depreciation	57,371	127,873
Amortization of goodwill	19,430	19,430
Increase (decrease) in provision for loss on order received	-	(10,367)
Increase (decrease) in provision for bonuses	192	4,278
Interest and dividend income	(6)	(3)
Interest expenses	1,482	1,267
Decrease (increase) in trade receivables	44,891	(72,261)
Decrease (increase) in inventories	(18,525)	32,986
Increase (decrease) in trade payables	(15,585)	(277)
Increase (decrease) in accrued consumption taxes	(27,857)	84,739
Increase (decrease) in accounts payable-other	(479,282)	(20,764)
Other, net	17,007	18,930
Subtotal	(417,671)	345,262
Interest and dividends received	6	2
Interest paid	(1,482)	(1,267)
Income taxes (paid) refund	(71,605)	1,762
Net cash provided by (used in) operating activities	(490,753)	345,758
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	40,013	-
Purchase of property, plant and equipment	(9,428)	(2,838)
Purchase of intangible assets	(167,625)	(85,354)
Payments of leasehold and guarantee deposits	-	(1,431)
Proceeds from refund of leasehold and guarantee deposits	1,842	10,981
Net cash provided by (used in) investing activities	(135,197)	(78,643)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	(10,000)
Proceeds from long-term borrowings	500,000	100,000
Repayments of long-term borrowings	(74,002)	(102,906)
Repayments of lease obligations	(1,254)	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(15,990)	(10,839)
Purchase of treasury shares	(62)	(109)
Dividends paid	(59,705)	(43,421)
Net cash provided by (used in) financing activities	348,986	(67,276)
Net increase (decrease) in cash and cash equivalents	(276,964)	199,839
Cash and cash equivalents at beginning of period	653,043	299,755
Cash and cash equivalents at end of period	376,078	499,595

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information

First six months of FY3/19 (Apr. 1, 2018 – Sep. 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	711,438	235,302	946,740	-	946,740
Inter-segment sales and transfers	276	156	432	(432)	-
Total	711,714	235,458	947,173	(432)	946,740
Segment profit (loss)	156,875	(79,401)	77,473	1,260	78,733

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 six months of FY3/20 (Apr. 1, 2019 – Sep. 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	874,318	309,322	1,183,640	-	1,183,640
Inter-segment sales and transfers	276	3,852	4,128	(4,128)	-
Total	874,594	313,174	1,187,768	(4,128)	1,183,640
Segment profit (loss)	196,384	(35,908)	160,476	(216)	160,259

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.