

**Summary of Consolidated Financial Results**  
**for the Second Quarter of the Fiscal Year Ending March 31, 2023**  
**(Six Months Ended September 30, 2022)**

**[Japanese GAAP]**

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Listing: Tokyo Stock Exchange  
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Scheduled date of filing of Quarterly Report: November 8, 2022  
 Scheduled date of payment of dividend: –  
 Preparation of supplementary materials for quarterly financial results: Yes  
 Holding of quarterly financial results meeting: None

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

**1. Consolidated Financial Results for the Second Quarter Ended September 30, 2022**

**(April 1, 2022 – September 30, 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	%
Six months ended Sep. 30, 2022	1,335	7.6	40	32.8	44	359.1	16	–
Six months ended Sep. 30, 2021	1,241	10.0	30	(60.3)	9	(88.4)	(4)	–

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2022: 16(–%)

Six months ended Sep. 30, 2021: (5)(–%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Sep. 30, 2022	3.11	–
Six months ended Sep. 30, 2021	(0.88)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2022	2,408	1,397	57.8
As of Mar. 31, 2022	2,231	1,424	63.5

Reference: Shareholders' equity (million yen) As of Sep. 30, 2022: 1,390 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 Sep. 30, 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 Sep. 30, 2022:	506 shares	As of Mar. 31, 2022:	506 shares
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3) Average number of shares during the period

Six months ended Sep. 30, 2022:	5,427,494 shares	Six months ended Sep. 30, 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 half of the fiscal year ending March 31, 2023 (hereinafter “the period under review”), the Japanese economy resumed full-scale economic activities 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 1,335 million yen (up 7.6% year on year), gross profit of 634 million yen (up 5.2% year on year), operating profit of 40 million yen (up 32.8 % year on year), ordinary profit of 44 million yen (up 359.1 % year on year), and profit attributable to owners of parent of 16 million yen (compared with loss attributable to owners of parent of 4 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 1.2% (compared with -0.4% for the same period of the previous fiscal year) on a consolidated basis and 3.7% (up 2.5 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.

Thanks to a steady increase in the aggregate monthly subscription fees for Shalom and other cloud services and the adoption of the subsidies under the Project to Support Introduction of IT for Improvement of Service Productivity, which lead to increased inquiries from potential customers every year, we successfully increased the number of the House Plan contracts. In this connection, price revisions on the monthly subscription fees were made across several products and are effective from July 2022. In addition, we also 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 1,059 million yen (up 9.5% year on year), of which the ASP services under the subscription model amounted to 985 million yen (up 11.2%) and the system construction services amounted to 74 million yen (down 8.6%); and those from the system products of 44 million yen (down 7.1%).

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 1,114 million yen (up 7.8% year on year), gross profit of 582 million yen (up 9.8%), and operating profit of 73 million yen (up 56.0%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 6.6% (up 2.1 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. Meanwhile, we have delivered new development projects that respond to demand for investment in updating systems at the same pace as in the past years. 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 226 million yen (up 1.5% year on year), gross profit of 52 million yen (down 30.4%), and operating loss of 41 million yen (compared with operating loss of 20 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 137 million yen from the end of the previous fiscal year to 598 million yen. The details of cash flows during 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 245 million yen (compared with net cash provided of 210 million yen for the same period of the previous fiscal year). Major positive factors include depreciation of 165 million yen and a 36 million yen decrease in trade receivables. Major negative factors include a 20 million yen increase in inventories and a 14 million yen decrease in trade payables.

#### Cash flows from investing activities

Net cash used in investing activities was 284 million yen (compared with net cash used of 227 million yen for the same period of the previous fiscal year). Major negative factors include purchase of property, plant and equipment of 65 million yen and purchase of intangible assets of 219 million yen.

#### Cash flows from financing activities

Net cash provided by financing activities was 176 million yen (compared with net cash used of 126 million yen for the same period of the previous fiscal year). Major positive factors include proceeds from long-term borrowings of 300 million yen, and a net increase in short-term borrowings of 46 million yen, while major negative factors

include repayments of long-term borrowings of 126 million yen and dividends paid of 43 million yen.

The Group's capital resources and liquidity of funds are as follows:

Funds that the Group uses mainly to finance capital expenditures and repay loans are primarily covered by internally generated funds derived from operating cash flows, thereby enabling us to ensure liquidity with our own funds. In addition, we intend to finance major capital investments by borrowings from financial institutions as needed.

### **Assets, Liabilities and Net Assets**

#### **Assets**

The balance of current assets at the end of the period under review was 1,154 million yen (up 9.2% from the end of the previous fiscal year), consisting primarily of 605 million yen in cash and deposits and 438 million yen in accounts receivable-trade.

The balance of non-current assets was 1,253 million yen (up 6.7% from the end of the previous fiscal year), consisting primarily of 462 million yen in software, 155 million yen in goodwill, and 162 million yen in guarantee deposits.

As a result, the balance of total assets was 2,408 million yen (up 7.9 % from the end of the previous fiscal year).

#### **Liabilities**

The balance of current liabilities at the end of the period under review was 782 million yen (up 4.1% from the end of the previous fiscal year), consisting primarily of 201 million yen in current portion of long-term borrowings, 137 million yen in accounts payable-other, and 72 million yen in advances received.

The balance of non-current liabilities was 228 million yen (up 310.2% from the end of the previous fiscal year), consisting primarily of 225 million yen in long-term borrowings.

As a result, the balance of total liabilities was 1,010 million yen (up 25.2% from the end of the previous fiscal year).

#### **Net assets**

The balance of shareholders' equity at the end of the period under review was 1,390 million yen (down 1.9% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 202 million yen in capital surplus, and 970 million yen in retained earnings.

As a result, the balance of net assets was 1,397 million yen (down 1.9% 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, 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.

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

(Thousands of yen)

	FY3/22 (As of Mar. 31, 2022)	Second quarter of FY3/23 (As of Sep. 30, 2022)
Assets		
Current assets		
Cash and deposits	468,147	605,670
Accounts receivable-trade	475,057	438,553
Merchandise	35,267	33,683
Work in process	7,096	29,471
Supplies	155	72
Prepaid expenses	60,730	43,459
Consumption taxes receivable	5,300	4
Other	5,229	3,536
Total current assets	1,056,984	1,154,451
Non-current assets		
Property, plant and equipment		
Buildings, net	124,164	118,388
Vehicles, net	866	430
Tools, furniture and fixtures, net	118,476	146,462
Total property, plant and equipment	243,507	265,281
Intangible assets		
Software	438,283	462,551
Software in progress	124,583	176,313
Trademark right	1,086	971
Telephone subscription right	1,218	1,218
Goodwill	174,878	155,447
Total intangible assets	740,050	796,501
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	162,956	162,811
Deferred tax assets	28,285	29,189
Other	98	98
Total investments and other assets	191,400	192,160
Total non-current assets	1,174,958	1,253,943
Total assets	2,231,942	2,408,395

(Thousands of yen)

	FY3/22 (As of Mar. 31, 2022)	Second quarter of FY3/23 (As of Sep. 30, 2022)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	61,632	47,383
Short-term borrowings	126,000	172,000
Current portion of long-term borrowings	197,259	201,725
Accounts payable-other	156,920	137,487
Accrued expenses	16,222	21,187
Income taxes payable	8,619	35,245
Accrued consumption taxes	17,139	14,944
Advances received	86,840	72,611
Provision for retirement benefits for directors (and other officers)	5,000	-
Provision for bonuses	67,789	71,509
Other	8,283	8,713
<b>Total current liabilities</b>	<b>751,705</b>	<b>782,807</b>
<b>Non-current liabilities</b>		
Long-term borrowings	55,592	225,000
Retirement benefit liability	-	3,042
<b>Total non-current liabilities</b>	<b>55,592</b>	<b>228,042</b>
<b>Total liabilities</b>	<b>807,297</b>	<b>1,010,849</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	219,110	219,110
Capital surplus	202,122	202,122
Retained earnings	996,759	970,216
Treasury shares	(499)	(499)
<b>Total shareholders' equity</b>	<b>1,417,493</b>	<b>1,390,950</b>
Non-controlling interests	7,152	6,595
<b>Total net assets</b>	<b>1,424,645</b>	<b>1,397,545</b>
<b>Total liabilities and net assets</b>	<b>2,231,942</b>	<b>2,408,395</b>



**(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 FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)	First six months of FY3/23 (Apr. 1, 2022 – Sep. 30, 2022)
Net sales	1,241,209	1,335,613
Cost of sales	638,324	701,275
Gross profit	602,885	634,337
Selling, general and administrative expenses	572,727	594,274
Operating profit	30,158	40,063
Non-operating income		
Interest income	3	2
Dividend income	1	1
Rental income	21,402	21,402
Surrender value of insurance policies	–	1
Purchase discounts	21	45
Interest on tax refund	–	27
Outsourcing service income	–	3,000
Other	1,800	–
Total non-operating income	23,228	24,479
Non-operating expenses		
Interest expenses	1,038	1,300
Rental costs	19,014	19,014
Compensation expenses	23,700	–
Total non-operating expenses	43,752	20,314
Ordinary profit	9,634	44,228
Profit before income taxes	9,634	44,228
Income taxes-current	15,331	28,811
Income taxes-deferred	(690)	(904)
Total income taxes	14,641	27,906
Profit (loss)	(5,006)	16,321
Loss attributable to non-controlling interests	(211)	(556)
Profit (loss) attributable to owners of parent	(4,794)	16,877

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

	(Thousands of yen)	
	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)	First six months of FY3/23 (Apr. 1, 2022 – Sep. 30, 2022)
Profit (loss)	(5,006)	16,321
Comprehensive income	(5,006)	16,321
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(4,794)	16,877
Comprehensive income attributable to non-controlling interests	(211)	(556)

**(3) Quarterly Consolidated Statement of Cash Flows**

(Thousands of yen)

	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)	First six months of FY3/23 (Apr. 1, 2022 – Sep. 30, 2022)
Cash flows from operating activities		
Profit before income taxes	9,634	44,228
Depreciation	177,730	165,269
Amortization of goodwill	19,430	19,430
Increase (decrease) in provision for retirement benefits for directors (and other officers)	–	(5,000)
Increase (decrease) in retirement benefit liability	–	3,042
Increase (decrease) in provision for bonuses	4,947	3,720
Interest and dividend income	(4)	(3)
Interest expenses	1,038	1,300
Decrease (increase) in trade receivables	38,129	36,503
Decrease (increase) in inventories	(67,474)	(20,708)
Increase (decrease) in trade payables	38,736	(14,249)
Increase (decrease) in accrued consumption taxes	678	(2,194)
Increase (decrease) in accounts payable-other	5,850	2,206
Other, net	22,846	11,242
Subtotal	251,546	244,789
Interest and dividends received	3	3
Interest paid	(1,038)	(1,300)
Income taxes refund (paid)	(39,774)	1,801
Net cash provided by (used in) operating activities	210,737	245,293
Cash flows from investing activities		
Purchase of property, plant and equipment	(27,616)	(65,193)
Purchase of intangible assets	(197,910)	(219,372)
Payments of leasehold and guarantee deposits	(1,801)	–
Proceeds from refund of leasehold and guarantee deposits	226	145
Net cash provided by (used in) investing activities	(227,101)	(284,420)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	33,000	46,000
Proceeds from long-term borrowings	–	300,000
Repayments of long-term borrowings	(116,652)	(126,126)
Dividends paid	(43,217)	(43,223)
Net cash provided by (used in) financing activities	(126,869)	176,650
Net increase (decrease) in cash and cash equivalents	(143,233)	137,523
Cash and cash equivalents at beginning of period	617,349	461,052
Cash and cash equivalents at end of period	474,115	598,575

**(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 FY3/22 (Apr. 1, 2021 – Sep. 30, 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	1,020,876	220,333	1,241,209	–	1,241,209
Inter-segment sales and transfers	12,966	3,084	16,050	(16,050)	–
Total	1,033,842	223,418	1,257,260	(16,050)	1,241,209
Segment profit (loss)	47,377	(20,930)	26,446	3,711	30,158

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 FY3/23 (Apr. 1, 2022 – Sep. 30, 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	1,110,856	224,756	1,335,613	–	1,335,613
Inter-segment sales and transfers	3,303	2,003	5,306	(5,306)	–
Total	1,114,159	226,760	1,340,919	(5,306)	1,335,613
Segment profit (loss)	73,911	(41,873)	32,038	8,024	40,063

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.*