

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending March 31, 2019
(Nine Months Ended December 31, 2018)

[Japanese GAAP]

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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, 2018**(April 1, 2018 – December 31, 2018)****(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, 2018	1,461	6.5	171	(16.3)	169	(17.1)	48	(62.2)
Nine months ended Dec. 31, 2017	1,371	37.4	204	34.1	204	33.7	128	35.2

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2018: 41 (down 67.5%)

Nine months ended Dec. 31, 2017: 128 (up 31.3%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec. 31, 2018	8.97	-
Nine months ended Dec. 31, 2017	23.74	-

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Basic earnings per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2018	1,999	1,102	52.7
As of Mar. 31, 2018	2,178	1,136	48.9

Reference: Shareholders' equity (million yen) As of Dec. 31, 2018: 1,054 As of Mar. 31, 2018: 1,065

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2018	-	0.00	-	22.00	22.00
Fiscal year ending Mar. 31, 2019	-	0.00	-		
Fiscal year ending Mar. 31, 2019 (forecast)				8.00	8.00

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

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Dividends for the fiscal year ended March 31, 2018 were based on the number of shares before the stock split.

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(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	2,098	11.2	216	(31.0)	216	(31.8)	75	(63.0)	13.95

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, 2018:	5,428,000 shares	As of Mar. 31, 2018:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Dec. 31, 2018:	312 shares	As of Mar. 31, 2018:	238 shares
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3) Average number of shares during the period

Nine months ended Dec. 31, 2018:	5,427,717 shares	Nine months ended Dec. 31, 2017:	5,427,908 shares
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Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Number of shares issued at the end of period, number of treasury shares at the end of period, and average number of shares during the period were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

* 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, 2019 (hereinafter “the period under review”), the Japanese economy remained on a gradual recovery trend against a backdrop of continued improvement in employment and capital investment driven by improved corporate earnings. Meanwhile, sufficient attention should be paid to impacts of precarious development of the trade negotiations and other factors on the global economy. 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 utilizing the latest technologies such as AI (Artificial Intelligence). Specifically 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) in the Shalom Business and by enhancing the service functions of “Nenmatsu-chosei (year-end tax adjustment) CuBe Cloud” in the CuBe Business. On the other hand, the Shalom Business reported extraordinary loss of 94 million yen as a penalty concerning license fees payable incurred in prior periods.

As a result, for the period under review, the Group reported net sales of 1,461 million yen (up 6.5% year on year), cost of sales of 637 million yen (up 16.3% year on year), the ratio of cost of sales to net sales of 43.6% (up 3.7 percentage points year on year), gross profit of 823 million yen (down 0.0% year on year), operating profit of 171 million yen (down 16.3% year on year), the ratio of operating profit to net sales of 11.7% (down 3.2 percentage points year on year), ordinary profit of 169 million yen (down 17.1% year on year), and profit attributable to owners of parent of 48 million yen (down 62.2% year on year). In addition, the return on equity (ROE), one of the KPIs for the Group, was 10.3% (compared with 16.6% for the same period of the previous fiscal year) on a non-consolidated basis and 4.6% (compared with 13.5% for the same period of the previous fiscal year) on a consolidated basis.

Results by business segment were as follows.

The Shalom Business

Amid a movement to simplify overall administrative procedures promoted by the government, a growing number of companies as well as labor and social security attorney offices, our main customers, are motivated to introduce relevant systems. 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 worked to respond to revisions to various laws and regulations and encouraged customers to adopt the Shalom System by offering a campaign to discount the initial cost.

As a result, sales of the cloud service were 1,017 million yen (up 12.4% year on year). This was owed to 902 million yen (up 17.7% year on year) from ASP services thanks to a steady increase in the number of customers who use our main services. On the other hand, we did not receive as many orders using the subsidies under the Project to Support Introduction of IT for Improvement of Service Productivity as we did in the same period of the previous fiscal year mainly due to a reduced amount of the subsidy, resulting in sales of system construction services of 114 million yen (down 17.1% year on year).

In addition, sales from system products were 75 million yen (down 3.6% year on year), and those from the other services were 3 million yen (up 28.6% year on year) due to an increased demand for My Number acquisition agent services as a result of the government’s decision to require My Number information for employment insurance related filings.

Meanwhile, both cost of sales and selling and administrative expenses increased year on year as a result of strengthening sales activities for corporate customers and expanding our service providing structure with an increased number of workforce.

Consequently, the segment recorded net sales of 1,096 million yen (up 11.2% year on year), gross profit of 726 million yen (up 9.1% year on year) and operating profit of 264 million yen (up 12.6% year on year). The ratio of operating profit to net sales, one of the KPIs for the Group, was 24.1% (up 0.3 percentage points year on year).

The CuBe Business

On top of developing front-end systems for large companies that we have been offering for the past years, the CuBe Business has started to provide cloud services to small and medium-sized companies.

In the period under review, the segment suffered a year-on-year decrease in sales due to a reduction in large-scale project deliveries. Additionally, there were some large-scale projects that turned out to require more development cost than initially estimated, making us difficult to secure sufficient profit.

In the cloud service business, we have significantly increased the number of customers who use “Nenmatsu-chosei (year-end tax adjustment) CuBe Cloud,” which we started offering in the previous fiscal year as we enhanced its service functions and tasks to respond to revisions to laws and regulations. However, we still need upfront investments and costs for service design, development, and sales activities to strengthen the competitiveness of our services.

As a result, the segment recorded net sales of 365 million yen (down 5.4% year on year), gross profit of 97 million yen (down 38.5% year on year), and operating loss of 94 million yen (compared with operating loss of 31 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 891 million yen (down 23.6% from the end of the previous fiscal year), consisting primarily of 444 million yen in cash and deposits and 310 million yen in accounts receivable-trade.

The balance of non-current assets was 1,107 million yen (up 9.5% from the end of the previous fiscal year), consisting primarily of 348 million yen in software in progress, 301 million yen in goodwill, 182 million yen in software, and 132 million yen in deferred tax assets.

As a result, the balance of total assets was 1,999 million yen (down 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 538 million yen (down 45.7% from the end of the previous fiscal year), consisting primarily of 177 million yen in current portion of long-term loans payable, 111 million yen in accounts payable-other, and 100 million yen in short-term loans payable.

The balance of non-current liabilities was 358 million yen (up 612.2% from the end of the previous fiscal year), consisting solely of long-term loans payable.

As a result, the balance of total liabilities was 896 million yen (down 13.9% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,054 million yen (down 1.0% from the end of the previous fiscal year), consisting primarily of 634 million yen in retained earnings, 219 million yen in capital stock, and 198 million yen in capital surplus.

As a result, the balance of net assets was 1,102 million yen (down 3.0% from the end of the previous fiscal year).

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

We have revised the consolidated earnings forecast for the fiscal year ending March 31, 2019 as announced in the “Revisions to Earnings Forecast” (Japanese version only) on October 30, 2018.

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

	(Thousands of yen)	
	FY3/18 (As of Mar. 31, 2018)	Third quarter of FY3/19 (As of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	720,192	444,919
Accounts receivable-trade	391,808	310,916
Merchandise	5,011	3,846
Work in process	9,718	57,385
Supplies	299	121
Prepaid expenses	26,723	24,795
Other	13,320	49,383
Total current assets	1,167,074	891,368
Non-current assets		
Property, plant and equipment		
Buildings, net	24,540	23,259
Vehicles, net	5,863	4,399
Tools, furniture and fixtures, net	49,221	36,379
Leased assets, net	821	-
Total property, plant and equipment	80,447	64,039
Intangible assets		
Software	139,035	182,907
Software in progress	216,627	348,359
Trademark right	1,384	1,586
Telephone subscription right	1,218	1,218
Goodwill	330,326	301,180
Total intangible assets	688,592	835,252
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	53,846	52,004
Insurance funds	23,881	23,881
Deferred tax assets	164,309	132,341
Other	98	98
Total investments and other assets	242,206	208,395
Total non-current assets	1,011,245	1,107,687
Total assets	2,178,320	1,999,055

(Thousands of yen)

	FY3/18 (As of Mar. 31, 2018)	Third quarter of FY3/19 (As of Dec. 31, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	37,527	28,545
Short-term loans payable	100,000	100,000
Current portion of long-term loans payable	112,985	177,292
Lease obligations	1,254	-
Accounts payable-other	542,594	111,756
Accrued expenses	33,039	31,825
Income taxes payable	82,510	2,975
Accrued consumption taxes	-	1,052
Advances received	24,083	48,787
Provision for bonuses	48,926	24,783
Other	8,855	11,531
Total current liabilities	991,776	538,550
Non-current liabilities		
Long-term loans payable	50,315	358,339
Total non-current liabilities	50,315	358,339
Total liabilities	1,042,091	896,889
Net assets		
Shareholders' equity		
Capital stock	219,110	219,110
Capital surplus	198,290	198,169
Retained earnings	648,098	637,105
Treasury shares	(265)	(327)
Total shareholders' equity	1,065,232	1,054,057
Non-controlling interests	70,996	48,108
Total net assets	1,136,229	1,102,165
Total liabilities and net assets	2,178,320	1,999,055

(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 FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)
Net sales	1,371,869	1,461,233
Cost of sales	548,013	637,463
Gross profit	823,856	823,769
Selling, general and administrative expenses	619,010	652,227
Operating profit	204,845	171,542
Non-operating income		
Interest income	16	5
Dividend income	1	1
Trademark fee income	300	-
Insurance premiums refunded cancellation	-	9
Purchase discounts	875	14
Other	70	61
Total non-operating income	1,263	92
Non-operating expenses		
Interest expenses	1,786	2,333
Other	140	2
Total non-operating expenses	1,927	2,335
Ordinary profit	204,180	169,298
Extraordinary losses		
Penalty	-	94,121
Total extraordinary losses	-	94,121
Profit before income taxes	204,180	75,177
Income taxes - current	100,257	1,514
Income taxes - deferred	(24,534)	31,968
Total income taxes	75,723	33,482
Profit	128,457	41,694
Loss attributable to non-controlling interests	(387)	(7,018)
Profit attributable to owners of parent	128,844	48,713

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

	(Thousands of yen)	
	First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)
Profit	128,457	41,694
Comprehensive income	128,457	41,694
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	128,844	48,713
Comprehensive income attributable to non-controlling interests	(387)	(7,018)

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Additional Information

Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.

Effective from the beginning of the first quarter of the current fiscal year, MKSystem applied the Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) and other related pronouncements. Accordingly, deferred tax assets have been presented in the investments and other assets section of the consolidated balance sheet.

Segment and Other Information

Segment information

First nine months of FY3/18 (Apr. 1, 2017 – Dec. 31, 2017)

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	985,506	386,363	1,371,869	-	1,371,869
Inter-segment sales and transfers	494	299	793	(793)	-
Total	986,000	386,662	1,372,662	(793)	1,371,869
Segment profit (loss)	234,984	(31,886)	203,097	1,747	204,845

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 nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 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	1,095,848	365,384	1,461,233	-	1,461,233
Inter-segment sales and transfers	414	579	993	(993)	-
Total	1,096,262	365,964	1,462,226	(993)	1,461,233
Segment profit (loss)	264,505	(94,853)	169,652	1,890	171,542

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.