

Presentation Materials for the Earnings Briefing

for the First Half of the Fiscal Year
Ending March 31, 2020



November 20, 2019

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Overview of Consolidated Financial Results for First-half of FY3/20



Summary of consolidated financial results

Shalom Business

Sales: Despite lower-than-expected orders of Shalom House, growth in sales for general corporation customers helped achieve more-than-expected total segment sales.

Costs: Despite an increased cost of sales as a result of increased depreciation due to the release of new products, the business has reached profitability.

CuBe Business

Contracted development: Both orders and sales have progressed as expected with an increased gross margin thanks to an improved development efficiency.

Cloud services: The business suffered a sluggish growth of sales as it failed to effectively narrow down targets.

(Thousands of yen, %)

	1H FY3/20 Actual	1H FY3/20 Forecast	Vs. Plan	Vs. Plan (%)
Net sales	1,183,640	1,163,656	+20,284	+1.7%
Shalom Business	874,594	860,356	+14,238	+1.7%
CuBe Business	313,174	303,000	+10,174	+3.4%
Operating profit	160,259	84,242	+76,017	+90.2%
Shalom Business	196,384	143,223	+53,161	+37.1%
CuBe Business	(35,908)	(58,981)	+23,073	-
Profit attributable to owners of parent	101,485	53,820	+47,665	+88.6%
Basic earnings per share (Yen)	18.70	9.92	+8.78	-

* The figures of 1H FY3/20 forecast above were those announced on May 10, 2019.

Consolidated balance sheet

- Current assets increased due to an increased balance of cash and deposits.
- Intangible assets decreased due to start of amortization triggered by releases of the next-generation Shalom and new products.

(Thousands of yen, %)

	1H FY3/20 (Sep. 30, 2019)	FY3/19 (Mar. 31, 2019)	Change	% Change	Notes
Current assets	1,067,533	886,532	+181,000	+20.4%	Cash and deposits +199 million yen
Non-current assets	966,874	1,058,860	(91,986)	(8.7)%	Software in progress (117) million yen Software +93 million yen
Current liabilities	481,598	447,066	+34,531	+7.7%	Short-term borrowings (24) million yen Accrued consumption taxes +40 million yen Income taxes payable +35 million yen
Non-current liabilities	344,464	333,340	+ 11,124	+3.3%	Long-term borrowings +11 million yen
Total liabilities	826,062	780,406	+45,655	+5.9%	-
Shareholders' equity	1,174,643	1,117,400	+57,242	+5.1%	Retained earnings +58 million yen
Total net assets	1,208,345	1,164,987	+43,358	+3.7%	-
Total assets	2,034,408	1,945,393	+89,014	+4.6%	-
Equity ratio	57.7%	57.4%	+0.3pt	-	-

Consolidated statement of cash flows

- Income taxes refund on top of cash flows provided by ordinary operating activities has contributed to significantly positive operating cash flow.

(Thousands of yen, %)

	1H FY3/20	1H FY3/19	YoY Change	Notes
Cash flows from operating activities	345,758	(490,753)	+836,512	<ul style="list-style-type: none"> • Profit before income taxes increased by 176 million yen • Depreciation increased by 70 million yen • Accounts payable-other increased by 458 million yen
Profit before income taxes	159,429	(16,790)	+176,219	
Increase (decrease) in accounts payable-other	(20,764)	(479,282)	+458,518	
Others	207,094	5,319	+201,774	
Cash flows from investing activities	(78,643)	(135,197)	+ 56,554	<ul style="list-style-type: none"> • Investment in software decreased by 80 million yen • Proceeds from refund of guarantee deposits of 10 million yen
Investments in non-current assets	(88,192)	(177,053)	+88,860	
Others	+9,549	41,856	(32,306)	
Cash flows from financing activities	(67,276)	348,986	(416,262)	<ul style="list-style-type: none"> • Proceeds of 100 million yen from a new loan drawn down in July 2019 • Repayments of loans increased by 38 million yen • Cash dividends payment of 43 million yen
Proceeds from borrowings	100,000	500,000	(400,000)	
Repayments of long-term borrowings	(112,906)	(74,002)	(38,904)	
Others	(54,370)	(77,011)	+22,641	
Net increase (decrease) in cash and cash equivalents	199,839	(276,964)	+476,804	-
Cash and cash equivalents at end of period	499,595	376,078	+123,516	-

Operating results of the Shalom Business

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(Thousands of yen, %)

	1H FY3/20	1H FY3/19	YoY Change	YoY % Change	Notes
Net sales	874,594	711,714	+162,879	+22.9%	(ASP service) • Net de Shalom 209 million yen (+9.2%) • Shalom House 209 million yen (+16.1%) • Shalom CE 36 million yen (+95.5%) • Shalom CE Lite 13 million yen (+99.5%) • MyNum de Shalom 107 million yen (+16.5%)
Cloud service	817,622	661,104	+156,517	+23.7%	(System construction service) • Initial implementation service fee 98 million yen (+99.0%)
ASP service	708,075	586,182	+121,892	+20.8%	
System construction service	109,547	74,922	+34,625	+46.2%	
System product sale	56,417	48,361	+8,056	+16.7%	
Other services	554	2,248	(1,694)	(75.4)%	
Gross profit	517,253	474,036	+43,216	+9.1%	Cost of sales: +119 million yen (+50.3%) • Increases in amortization and labor cost
Gross margin	59.1%	66.6%	(7.5)pt	-	
Operating profit	196,384	156,875	+39,509	+25.2%	SG&A expenses: +3 million yen (+1.2%)
Operating margin	22.5%	22.0%	+0.4pt	-	

Operating results of the CuBe Business

(Thousands of yen, %)

	1H FY3/20	1H FY3/19	YoY Change	YoY % Change	Notes
Net sales	313,174	235,458	+77,715	+33.0%	Breakdown of contracted developments: Develop-and-deliver projects 195 million yen (+54.3%) Maintenance, etc. 97 million yen (-4.5%)
Contracted development	293,487	229,170	+64,317	+28.1%	
Cloud services	19,686	6,288	+13,398	+213.1%	
Gross profit	84,516	50,941	+33,574	+65.9%	Cost of sales: 228 million yen (of which) Contracted development: 118 million yen Cloud services: 109 million yen
Gross margin	27.0%	21.6%	+5.4pt	-	
Operating profit*	(35,908)	(79,401)	+43,492	-	SG&A expenses: 118 million yen (-8.1pt)
Operating margin	(11.5)%	(33.7)%	+22.3pt	-	
Order backlog	228,162	256,458	(28,296)	(11.0)%	A year-on-year decrease in the number of long-term large-scale projects

*Operating profit includes amortization of goodwill of 19,430 thousand yen.



Business Topics for First-half of FY3/20



Sales promotion activities for labor and social security attorney offices

Seminars for Labor and Social Security Attorneys (12 times), and Shalom User Meetings (4 times)



Apr. 2019 in Tokyo
– Seminar for Labor and Social Security Attorneys



May 2019 in Osaka
– Seminar for Labor and Social Security Attorneys



May 2019 in Fukuoka
– Seminar for Labor and Social Security Attorneys



Jun. 2019 in Tokyo
– Shalom User Meeting



Jul. 2019 in Tokyo
– Seminar for Labor and Social Security Attorneys



Aug. 2019 in Tokyo
– Shalom User Meeting

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.

経営・人事・現場の課題を解決する<人材関連ソリューション>の専門イベント

Human Capital 2019

ヒューマンキャピタル



MKSystem sponsored seminars

- July 23, 2019
Seminar on “Social Insurance Procedures in the Near Future”
- August 23, 2019
Nikkei Business Daily Forum



July 2019 – Seminar on “Social Insurance Procedures in the Near Future”

BNC sponsored seminars

- Seminars on year-end tax adjustment (3 times)
Information session for first-time adopters of *Nenmatsu-chosei* (year-end tax adjustment) CuBe Cloud (9 times)
- GooooN (1 time)

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 Nov. 2019:

26 general corporations and 53 labor and social security attorney offices, used by approx. 77,950 employees in total.

Released in Apr. 2018



Renamed from Jinzai (human resources) CuBe Cloud

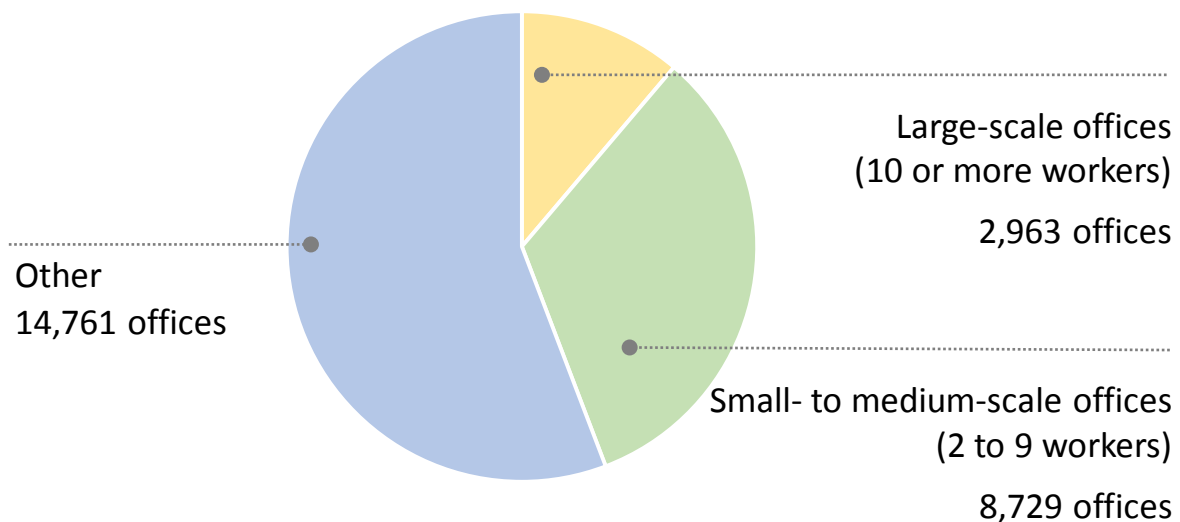
- Crystallized know-how that has been used by large corporations for more than 20 years.
- Cloud service for personnel evaluation and training, consisting of three modules: performance management, self-assessment, and human resource profile.

The number of customers who introduced the system as of end of Sep. 2019:

9 companies, used by approx. 1,550 employees.

Target markets and market shares (1)

Labor and Social Security Attorney Office Market



Total: 26,453 offices*¹

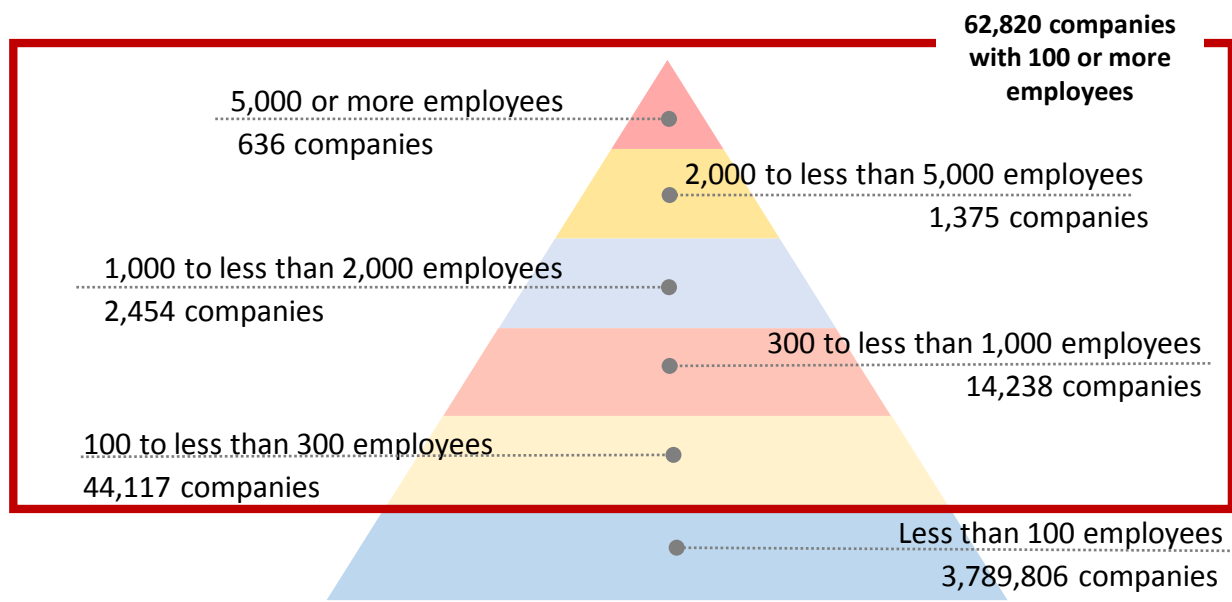
Offices with our systems introduced* ²	2,408 offices
YoY change	Up 22 offices
Our market share	9.1%
Number of clients registered in our systems	610,000 offices

*¹ The number of labor and social security attorney offices was aggregated by MKSystem based on the Business Report for the fiscal year 2019 prepared by Japan Labor and Social Security Attorney's Association.

*² The number of offices with our systems introduced reflects the number of those for which we started providing service as of September 30, 2019.
(o/w 1,367 for Net de Shalom, 615 for Shalom House, 354 for Net de Shalom Lite & Shalom Lite, and 72 for the Chukidan System)

Target markets and market shares (2)

General Corporate Market



Total: 3,852,626 companies

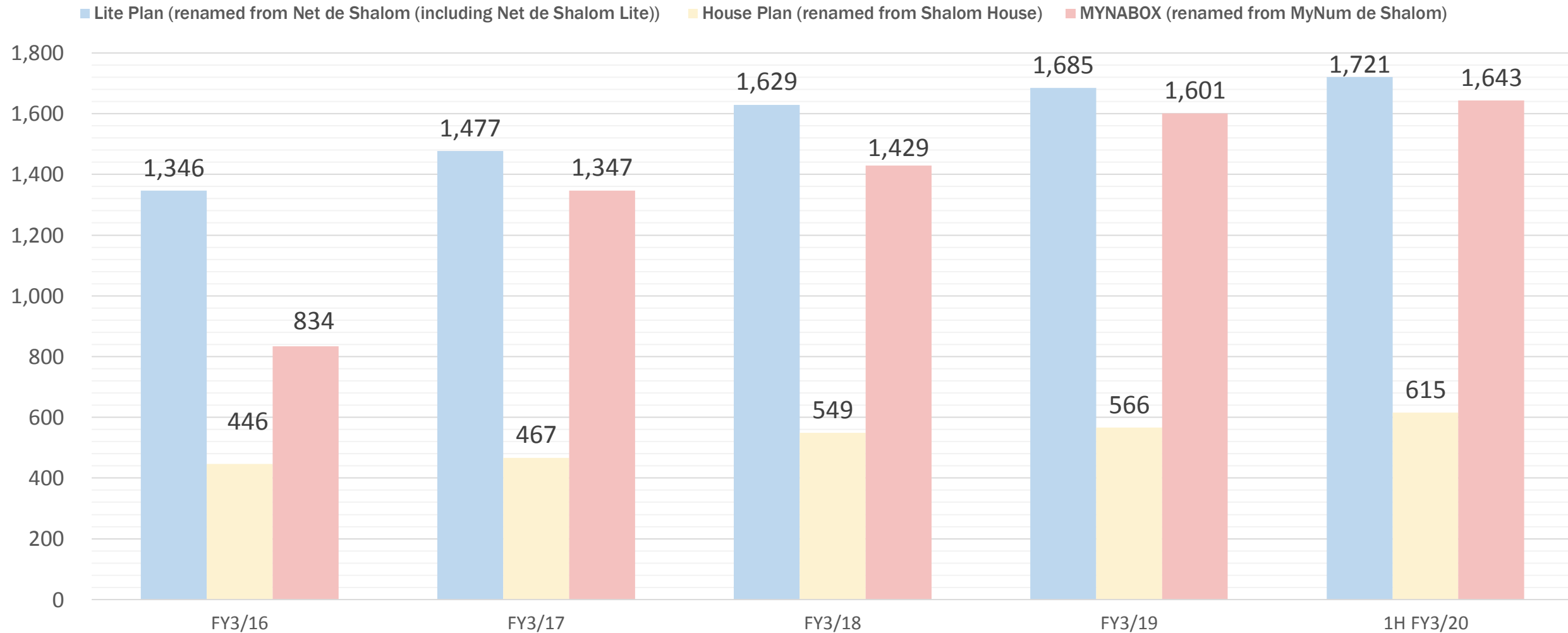
Aggregated by MKSystem based on the 2016 Economic Census for Business Activity (Tabulation of Enterprises, etc. and Tabulation across industries) conducted by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry.

End-Sep 2019

Introductions in the Shalom Business	124 companies
Introductions in the CuBe Business	61 companies

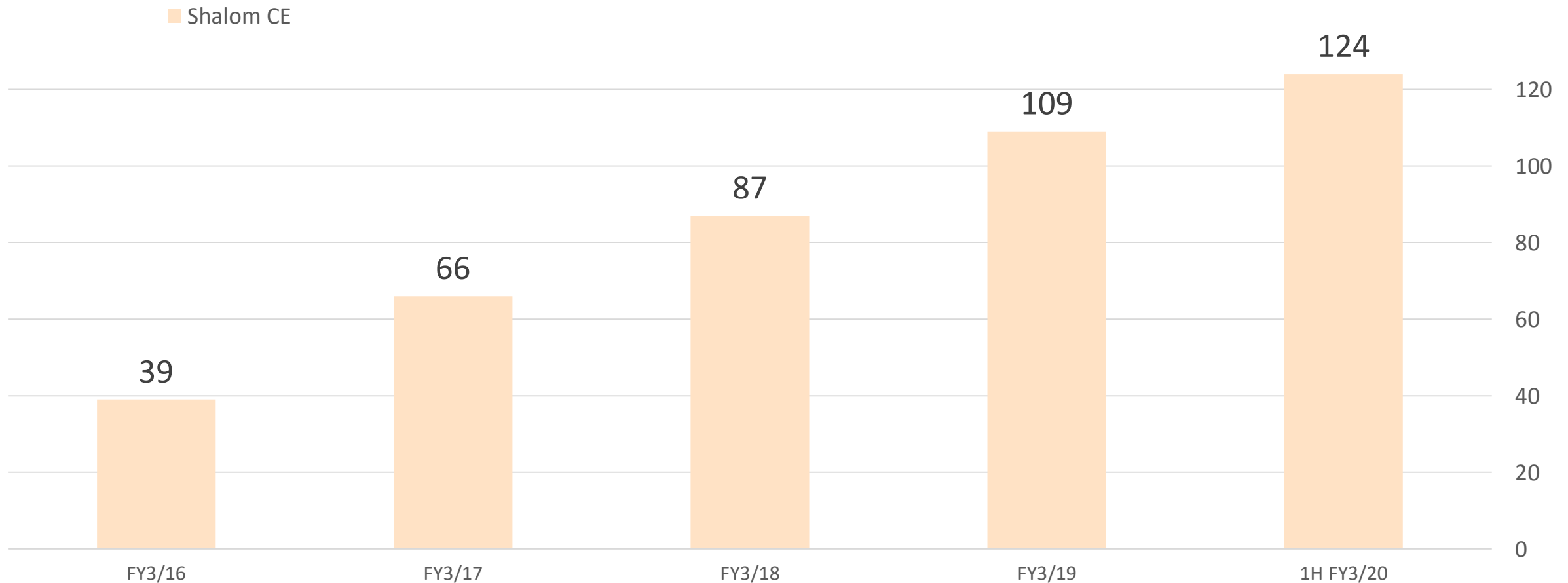
Trends in services for labor and social security attorneys

Users of the mainstay products are increasing steadily.



Trends in services for general corporations

As the government is promoting online one-stop social security and tax procedures, the number of systems introduced by general corporations is showing an increasing trend.



IR news

- Sep. 17, 2019 Notice on Execution of Agreement on Mutual Support of Business with SCS Labor and Social Security Attorney Corporation
- Oct. 7, 2019 Change in Service Names & Logos and Renewal of Website
- Oct. 9, 2019 Notice on Start of Linkage with “Jinji-Romu (HR) freee”
- Nov. 18, 2019 Notice on Release of Fully Renewed Shalom V5.0





Growth Strategies:

First-half Review and Future Development






Strategy review by segment in 1H FY3/20

Shalom Business: Market-specific strategies

	Achieved steady results thanks to the campaign effect	Labor and social security attorney market
	Expanded the customer base of Shalom CE	Large companies market
	Delayed release of new products	Small- and medium-sized companies market

CuBe Business: Service-specific strategies

	Maintained a stable revenue stream	Contracted development type semi-customized services
	Delayed sales promotion	Nenmatsu-chosei CuBe Cloud
	Failed to effectively narrow down targets	GoooooN

Shalom Business: Market overview

Overview of the current market

- In terms of the number of labor and social security attorney offices:
- In terms of the number of companies involved by labor and social security attorneys:
- In terms of the number of companies not yet involved by labor and social security attorneys:

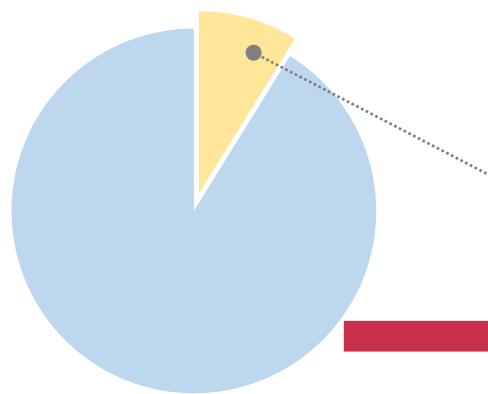
Given that our market share is **9.1%**, there is a large market waiting to be tapped.

The number of clients registered in our systems is **610,000** (52%+ market share).

There is a sufficiently large market still available.

$$\frac{610,000}{3,900,000 \times 30\%}$$

Labor and social security attorney offices



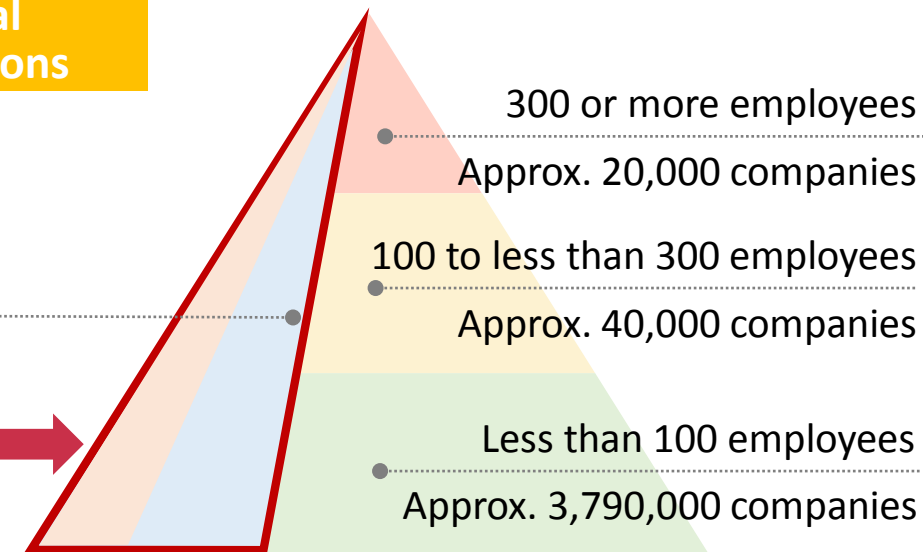
Number of offices with our systems introduced **2,408** offices

Number of labor and social security attorney offices **26,453** offices

Market share to all offices **9.1%**
Number of clients registered in our systems **610,000**

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

General corporations



Total: Approx. 3,850,000 companies

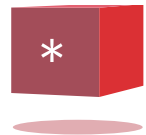
Shalom Business: Market-specific strategies (general corporations)

Promote market-specific strategies (General corporations)

Establish the positioning in the labor and social security attorney market

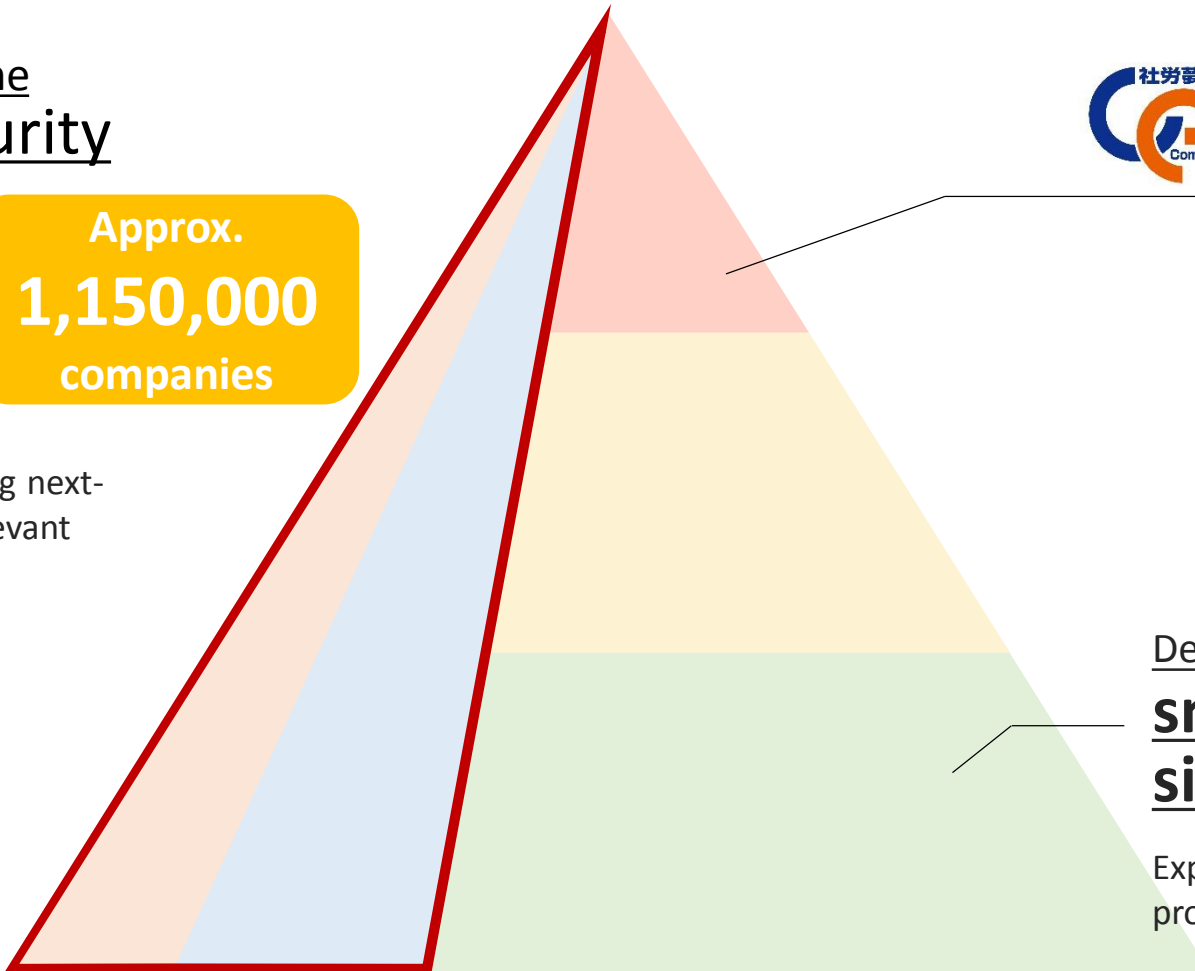
 Shalom

- Enrich service offerings
Strengthen sales by launching next-generation products and relevant campaigns



MYNABOX

- Develop systems in line with amendments to relevant laws and regulations and work style reform
Promote online one-stop social security and tax procedures



Approx.
1,150,000
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**

Total: approx. 3,850,000 companies



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

CuBe Business: Service-specific strategies

Promote service-specific strategies





Contracted development type semi-customized services

→Continue stable operation as a key revenue driver by:

- Steadily improving and maintaining existing systems for existing customers 
- Efficiently developing the services with the cost of sales ratio in mind 

Cloud services

→Cultivate the business as a second revenue driver

- **Nenmatsu-chosei CuBe Cloud**  Highly appreciated for its enhanced functions 
- **GooooN**  Aimed to win more users by effectively narrowing down targets 



Consolidated Earnings Forecast for FY3/20 and Other Information



Consolidated earnings forecast

Shalom Business

Sales: Demand of systems to support diverse work styles is expected to grow in line with the “digital government initiatives” and “work style reform.”

Costs: The operating margin will be lower due to an increase in amortization as we are going to release new products.

CuBe Business

Contracted development: Forecast a higher operating margin by maintaining the same level of sales as in FY3/19 and improving development efficiency.

Cloud services: Expect sales of services to expand by incurring promotion and other up-front investment costs. (Thousands of yen, %)

	FY3/20 Forecast	FY3/19 Actual	YoY Change	YoY % Change
Net sales	2,496	2,075	+421	+20.3%
Shalom Business	1,800	1,509	+290	+19.3%
CuBe Business	696	567	+129	+22.8%
Operating profit	359	317	+42	+13.2%
<i>Operating margin</i>	14.4%	15.3%	(0.9)pt	-
Ordinary profit	356	305	+51	+16.7%
Profit attributable to owners of parent	225	112	+113	+101.1%
Basic earnings per share (Yen)	41.52	20.65	+20.87	-

* The figures of FY3/20 forecast above were those announced on May 10, 2019.

Earnings forecast by segment: Shalom Business

(Millions of yen, %)

	FY3/20 Forecast	FY3/19 Actual	YoY Change	YoY % Change	
Net sales	1,800	1,509	+290	+19.3%	The segment expects sales to increase by more than 19% year on year, through 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	+21.1%	
System product sale, others	105	110	(4)	(4.2)%	
Cost of sales	761	510	+250	+49.2%	The gross margin will be lower resulting from higher depreciation due to the release of new products and an increase in license fee.
Gross profit	1,038	999	+39	+4.0%	
<i>Gross margin</i>	57.7%	66.2%	(8.5)pt	-	
SG&A expenses	650	617	+33	+5.4%	Operating profit will be slightly higher due to the lower gross margin despite a slight improvement in the SG&A expense ratio.
Operating profit	388	382	+6	+1.6%	
<i>Operating margin</i>	21.6%	25.3%	(3.7)pt	-	

* The figures of FY3/20 forecast above were those announced on May 10, 2019.

Earnings forecast by segment: CuBe Business

(Millions of yen, %)

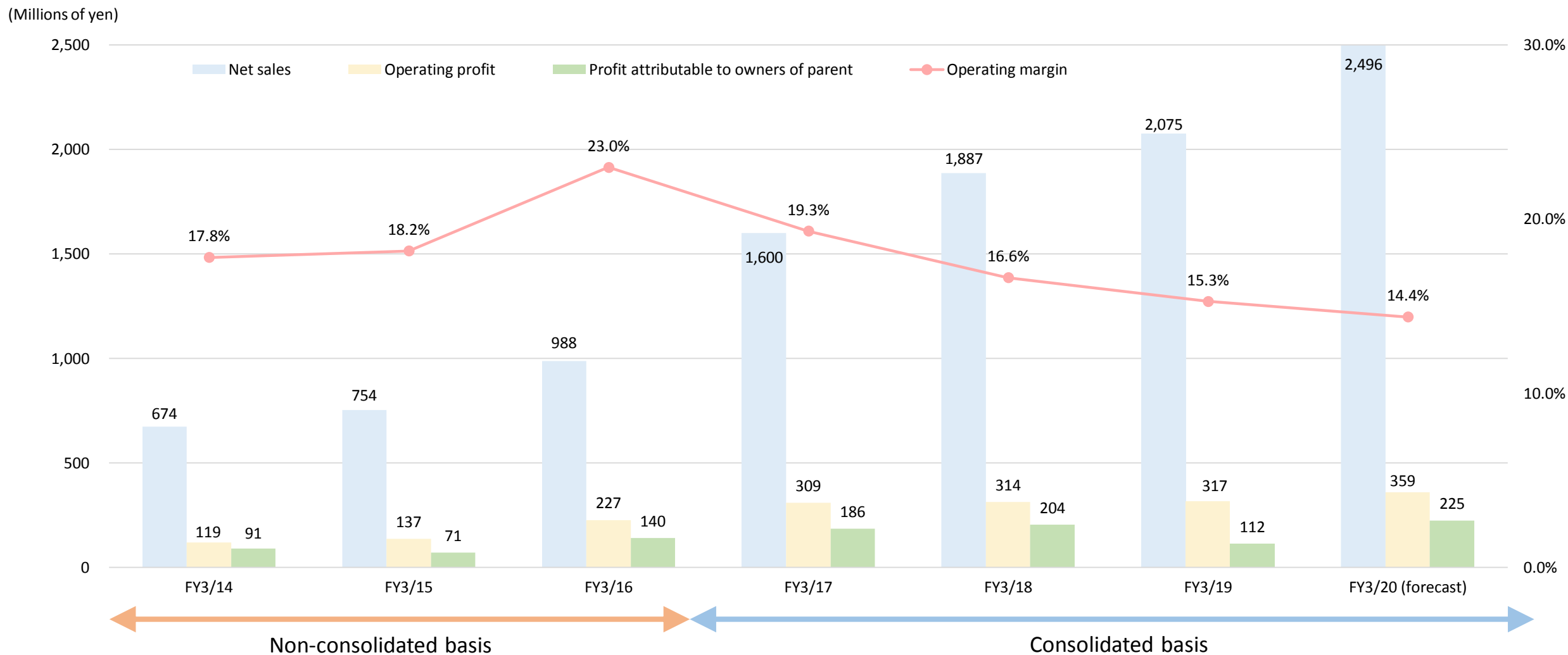
	FY3/20 Forecast	FY3/19 Actual	YoY Change	YoY % Change	
Net sales	696	567	+129	+22.8%	The contracted development business expects a 47 million yen increase in sales due to delivering more small- to medium-scale projects and the cloud services business also expects a strong increase in sales, though sales of both businesses tend to be concentrated in the second half of the fiscal year.
Contracted development services	581	533	+47	+8.8%	
Cloud services	115	33	+82	+247.3%	
Cost of sales	496	393	+102	+26.1%	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	173	+26	15.3%	
<i>Gross margin</i>	28.7%	30.6%	(1.9)pt	-	
SG&A expenses*	228	238	(9)	(3.9)%	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	(28)	(64)	+35	-	
<i>Operating margin</i>	(4.1)%	(11.4)%	+7.3pt	-	

* SG&A expenses include amortization of goodwill (39 million yen).

Trends in business performance and forecast

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

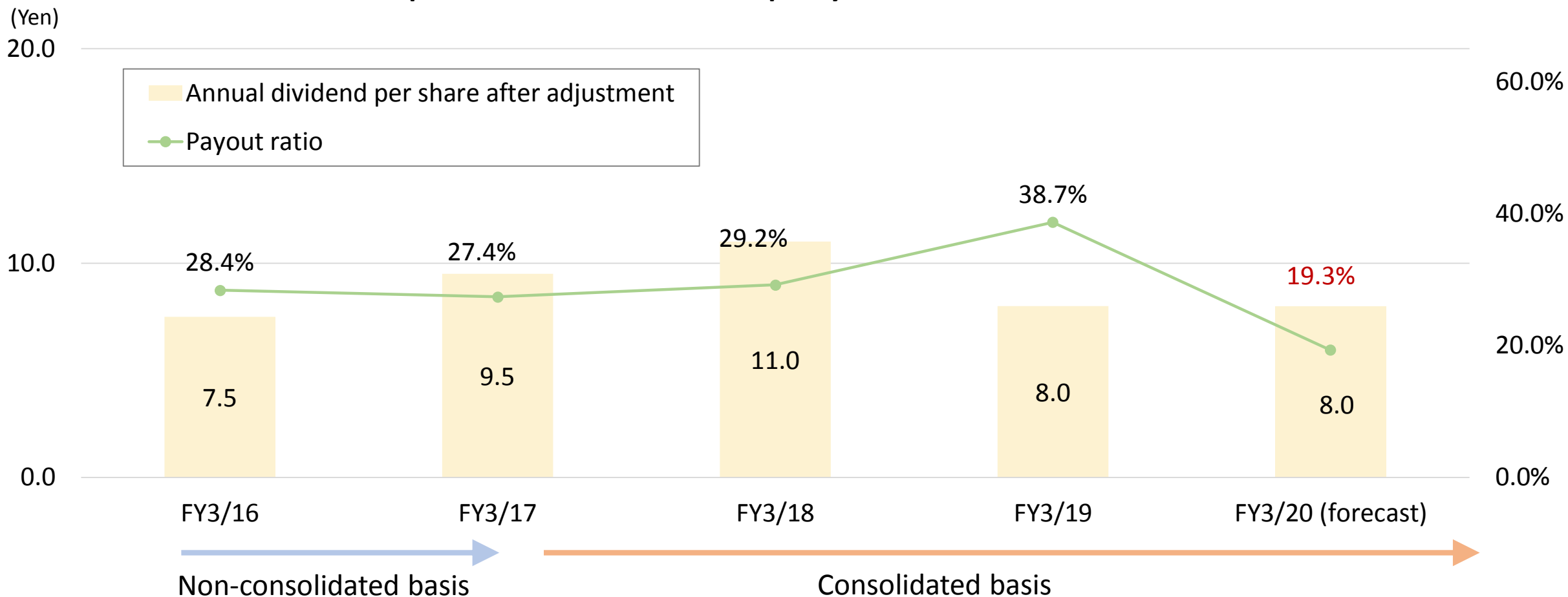
Profit: The operating margin will be lower due to an increase in amortization attributable to a release of new products.



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.



* 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



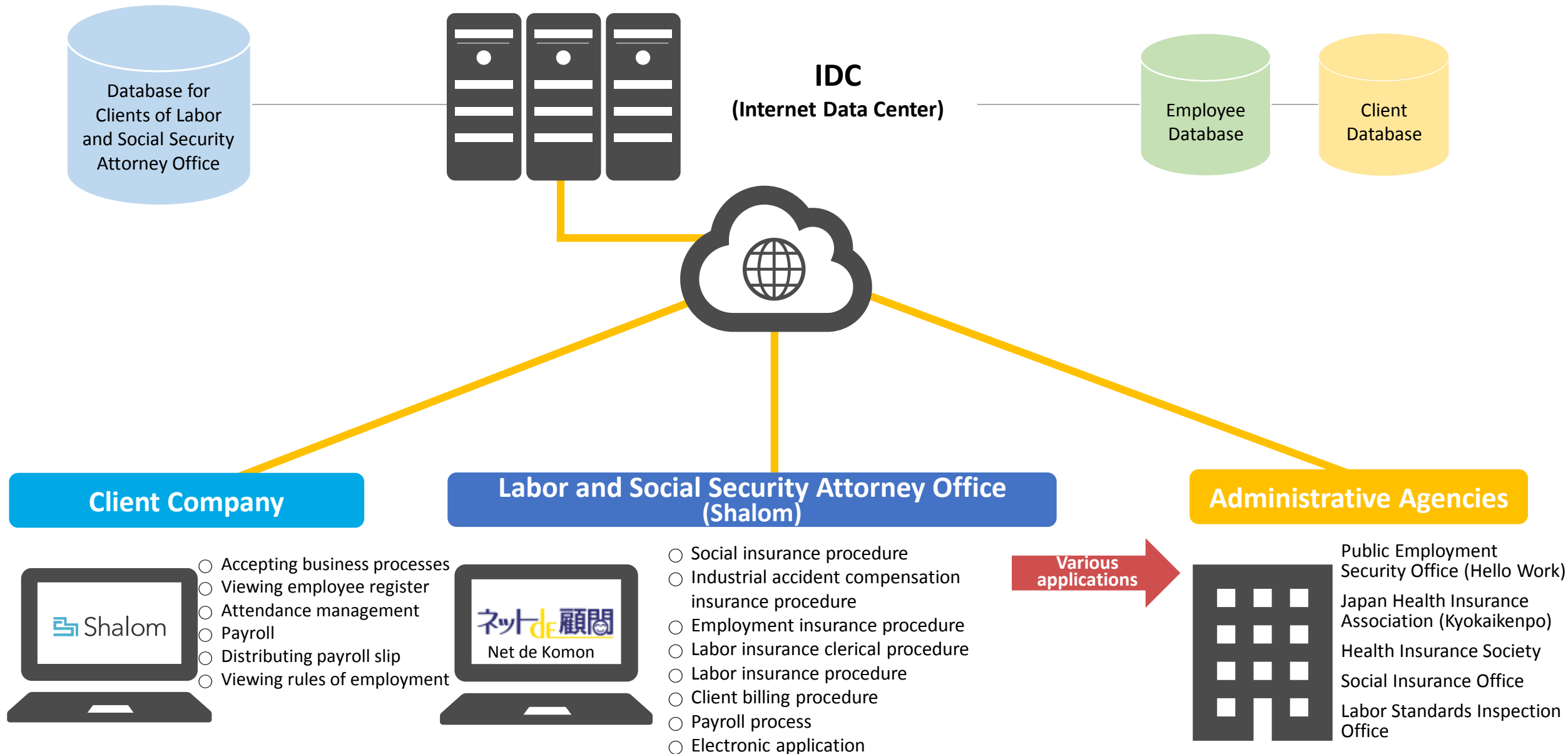
Company profile

◆ Company name	MKSystem Corporation
◆ Business	<ul style="list-style-type: none">• 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).• 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.
◆ 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	114 (consolidated); 73 (non-consolidated) (both excluding temporary employees)

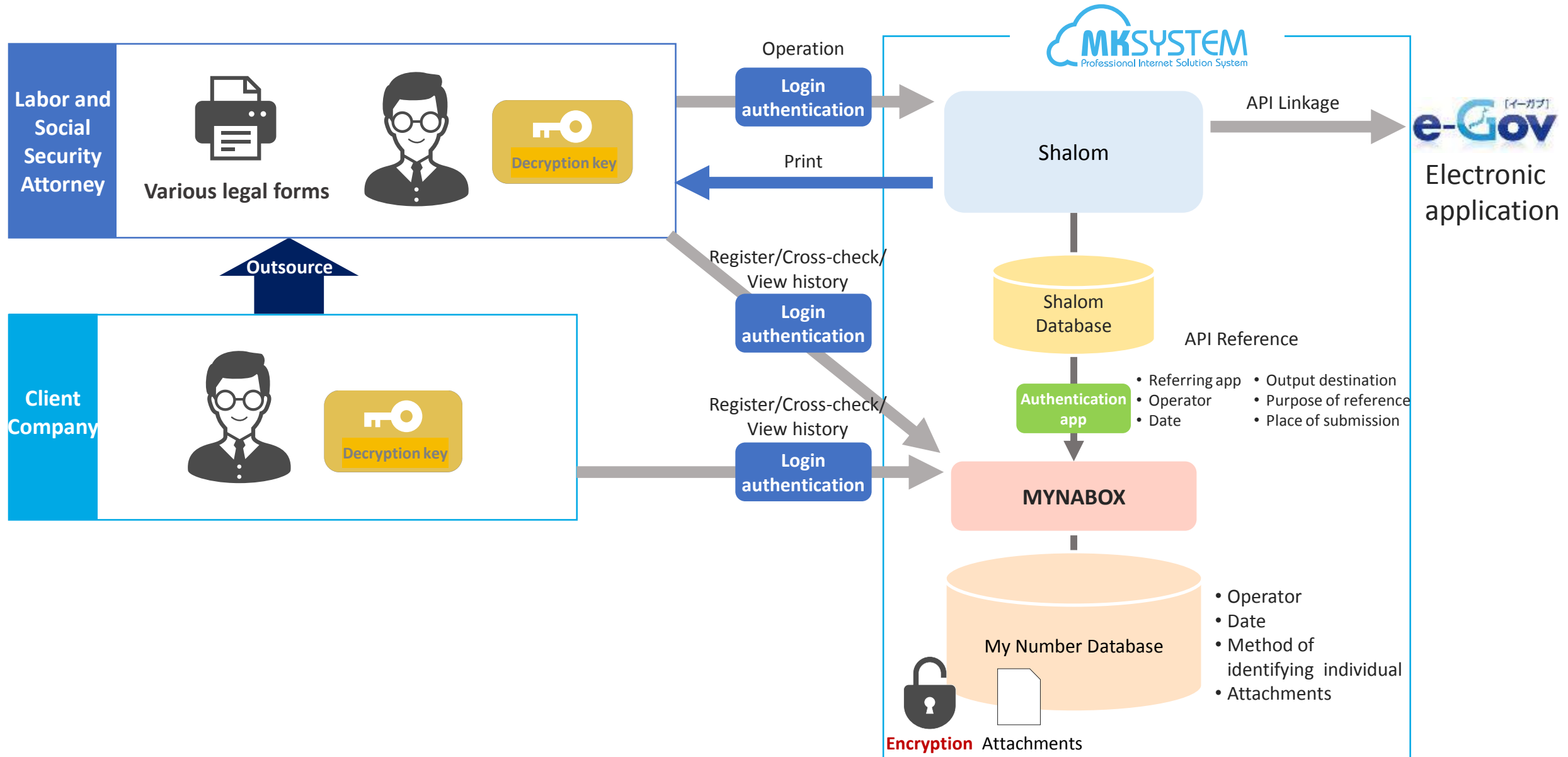
Summary of the Group's lines of business

Shalom Business	Cloud service	ASP service	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Initial set up of cloud services • Provision of customized services
	System product sale		<ul style="list-style-type: none"> • Sale of various document forms used in labor and social security attorney's business process • Sale of terminals, servers and PCs
	Other services		<ul style="list-style-type: none"> • My Number acquisition agent service
CuBe Business	Contracted development type semi-customized services		<ul style="list-style-type: none"> • Contracted development of front-end systems connecting corporate functions and employees • Maintenance of contracted development type systems
	CuBe Cloud		<ul style="list-style-type: none"> • Provision of cloud services connecting corporate functions and employees (Nenmatsu-chosei CuBe Cloud and GooooN)

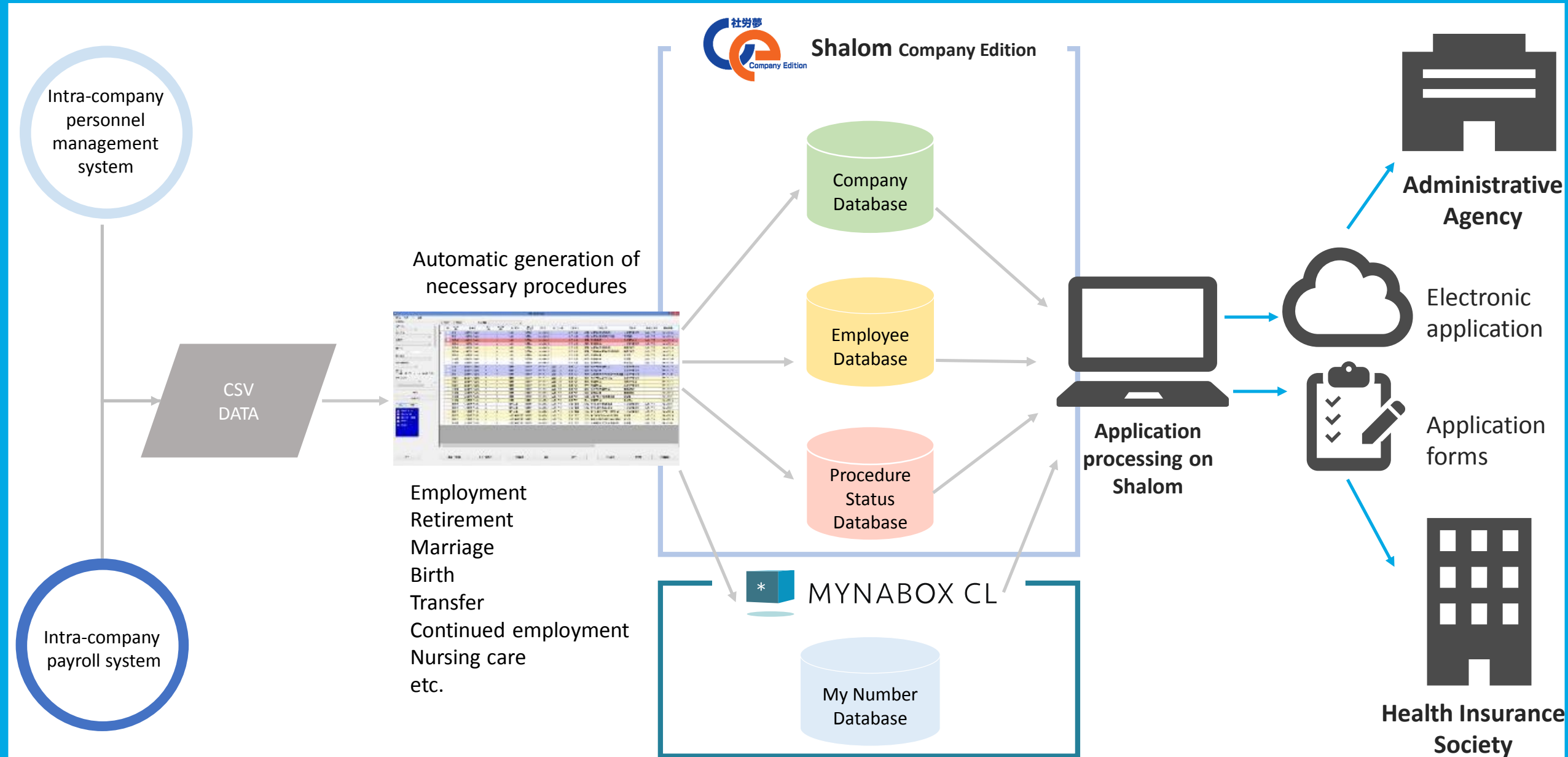
Our mainstay service (Shalom)



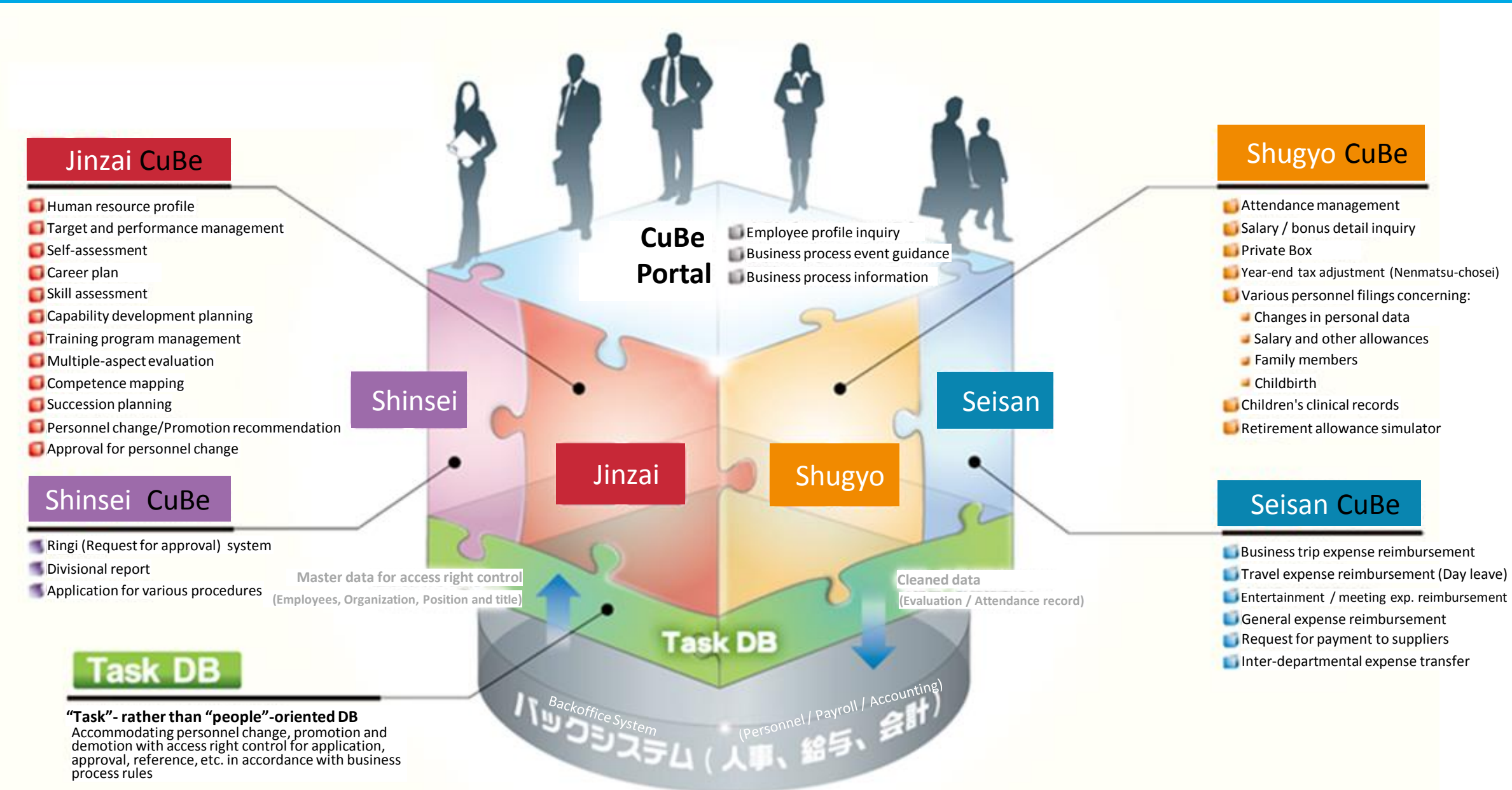
Our mainstay service (MYNABOX)



Our mainstay service (Shalom Company Edition)



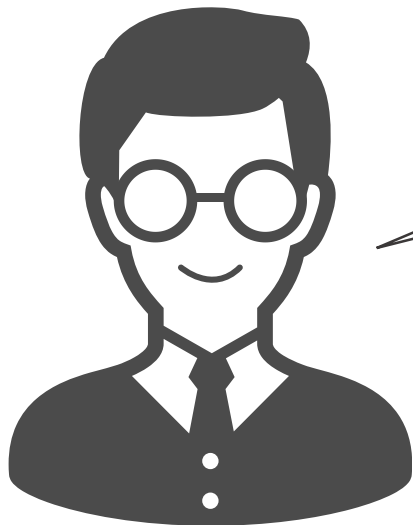
(Contracted development type semi-customized services)



Our mainstay service (Nenmatsu-chosei CuBe Cloud) (1)

Fully supporting year-end tax adjustment operations by reducing tax filling input and implementing progress management function

Tax filer



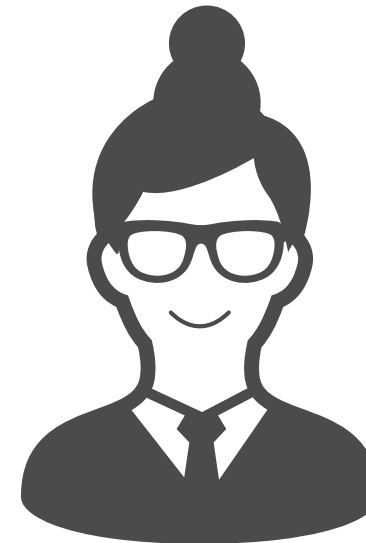
Simple & easy!

Accurate & efficient!

- 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!

Nenmatsu-chosei Cube Cloud

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!

Our mainstay service (Nenmatsu-chosei CuBe Cloud) (2)

Fully supporting year-end tax adjustment operations by reducing tax filling input and implementing progress management function

1. It makes the operation easy to understand!

The screen guides you “what to do,” “when to do,” and “how to do.”



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!

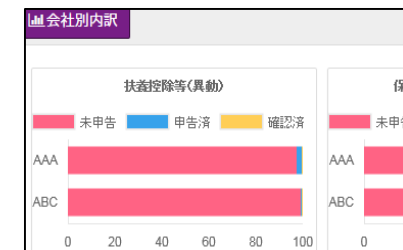
- ✓ The system checks for your mistake.
- ✓ The system guides you what to submit.

Nenmatsu-chosei Cube Cloud

Enhanced control with authority settings

Supporting business process of large companies and shared service providers!

Work environment with multiple personnel are classified into three elements (company, department, and person in charge).



Enhanced efficiency with progress management

It lets you know where the bottleneck is, thereby ensuring on-time delivery!

Progress of each process and the entire business process is managed on the system!



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.



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 set up target & performance management that makes our employees to participate with more enthusiasm.
- We wish to link target management to improvement in corporate performance.

- 2 **Sharing** information from different viewpoints **among people concerned** to encourage daily growth.

Human Resource Profile Inquiry

- 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 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

- We wish to make consideration over my current position and the way I want to be in the future.



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