

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending March 31, 2020
(Nine Months Ended December 31, 2019)

[Japanese GAAP]

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 Scheduled date of filing of Quarterly Report: February 5, 2020
 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, 2019**(April 1, 2019 – December 31, 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	%
Nine months ended Dec. 31, 2019	1,756	20.2	207	20.7	205	21.5	127	160.9
Nine months ended Dec. 31, 2018	1,461	6.5	171	(16.3)	169	(17.1)	48	(62.2)

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2019: 121 (up 191.4%)

Nine months ended Dec. 31, 2018: 41 (down 67.5%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec. 31, 2019	23.41	-
Nine months ended Dec. 31, 2018	8.97	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2019	2,153	1,232	55.7
As of Mar. 31, 2019	1,945	1,164	57.4

Reference: Shareholders' equity (million yen) As of Dec. 31, 2019: 1,200 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)				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 Dec. 31, 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 Dec. 31, 2019:	441 shares	As of Mar. 31, 2019:	312 shares
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3) Average number of shares during the period

Nine months ended Dec. 31, 2019:	5,427,614 shares	Nine months ended Dec. 31, 2018:	5,427,715 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 nine months 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, given concerns over the uncertainty about consumer sentiment trends after the consumption tax hike as well as overseas economic developments such as the prospect of the Chinese economy hit by trade issues and the Brexit from the EU, and also the impact of fluctuations in the financial and capital markets.

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 1,756 million yen (up 20.2% year on year), cost of sales of 878 million yen (up 37.7%), the ratio of cost of sales to net sales of 50.0% (up 6.4 percentage points), gross profit of 878 million yen (up 6.7%), operating profit of 207 million yen (up 20.7%), the ratio of operating profit to net sales of 11.8% (up 0.1 percentage points), ordinary profit of 205 million yen (up 21.5%), and profit attributable to owners of parent of 127 million yen (up 160.9%). In addition, the return on equity (ROE), one of the KPIs for the Group, was 14.4% (compared with 10.3% for the same period of the previous fiscal year) on a non-consolidated basis and 11.1% (compared with 4.6% 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 general corporations 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 1,226 million yen (up 20.5% year on year). Specifically, sales of ASP services amounted to 1,077 million yen (up 19.3%) 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 of Shalom brand products. Sales of system construction services amounted to 148 million yen (up 30.3%) in line with a growth in new installation orders from general corporations. In addition, sales of system products were 84 million yen (up 12.2%) and those from the other services were 546 thousand yen (down 84.0%).

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 1,311 million yen (up 19.6% year on year), gross profit of 761 million yen (up 4.8%) and operating profit of 266 million yen (up 0.9%). In addition, the ratio of operating profit to net sales, one of the KPIs for the Group, was 20.4% (down 3.8 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 457 million yen (up 25.1% year on year), gross profit of 118 million yen (up 22.1%), and operating loss of 60 million yen (compared with operating loss of 94 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 1,093 million yen (up 23.3% from the end of the previous fiscal year), consisting primarily of 668 million yen in cash and deposits, and 379 million yen in accounts receivable-trade.

The balance of non-current assets was 1,059 million yen (up 0.1% from the end of the previous fiscal year), consisting primarily of 485 million yen in software, 262 million yen in goodwill, 180 million yen in guarantee deposits, and 26 million yen in deferred tax assets.

As a result, the balance of total assets was 2,153 million yen (up 10.7% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 548 million yen (up 22.7% from the end of the previous fiscal year), consisting primarily of 166 million yen in current portion of long-term borrowings, 102 million yen in accounts payable-other, 66 million yen in accrued consumption taxes, and 44 million yen in advances received.

The balance of non-current liabilities was 372 million yen (up 11.7% from the end of the previous fiscal year), consisting solely of 372 million yen in long-term borrowings.

As a result, the balance of total liabilities was 921 million yen (up 18.0% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,200 million yen (up 7.4% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 784 million yen in retained earnings.

As a result, the balance of net assets was 1,232 million yen (up 5.8% 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)	Third quarter of FY3/20 (As of Dec. 31, 2019)
Assets		
Current assets		
Cash and deposits	326,895	668,607
Accounts receivable-trade	430,221	379,335
Merchandise	3,917	5,713
Work in process	48,433	15,043
Supplies	172	287
Prepaid expenses	29,413	21,409
Consumption taxes receivable	44,301	-
Income taxes receivable	2,457	194
Other	720	2,570
Total current assets	886,532	1,093,162
Non-current assets		
Property, plant and equipment		
Buildings, net	22,968	21,665
Vehicles, net	3,911	2,934
Tools, furniture and fixtures, net	54,021	51,862
Total property, plant and equipment	80,901	76,462
Intangible assets		
Software	408,214	485,513
Software in progress	155,411	26,094
Trademark right	1,536	1,382
Telephone subscription right	1,218	1,218
Goodwill	291,464	262,318
Total intangible assets	857,845	776,527
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	52,077	180,379
Deferred tax assets	67,868	26,417
Other	98	98
Total investments and other assets	120,114	206,966
Total non-current assets	1,058,860	1,059,956
Total assets	1,945,393	2,153,119

(Thousands of yen)

	FY3/19 (As of Mar. 31, 2019)	Third quarter of FY3/20 (As of Dec. 31, 2019)
Liabilities		
Current liabilities		
Accounts payable-trade	36,251	21,484
Short-term borrowings	30,000	20,000
Current portion of long-term borrowings	150,311	166,644
Accounts payable-other	89,087	102,373
Accrued expenses	31,513	35,828
Income taxes payable	4,633	49,710
Accrued consumption taxes	5,163	66,306
Advances received	30,619	44,059
Provision for loss on order received	10,367	-
Provision for bonuses	47,787	26,668
Other	11,332	15,675
Total current liabilities	447,066	548,751
Non-current liabilities		
Long-term borrowings	333,340	372,256
Total non-current liabilities	333,340	372,256
Total liabilities	780,406	921,007
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	198,169	197,457
Retained earnings	700,449	784,106
Treasury shares	(327)	(437)
Total shareholders' equity	1,117,400	1,200,236
Non-controlling interests	47,586	31,875
Total net assets	1,164,987	1,232,111
Total liabilities and net assets	1,945,393	2,153,119

(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 FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)
Net sales	1,461,233	1,756,594
Cost of sales	637,463	878,011
Gross profit	823,769	878,582
Selling, general and administrative expenses	652,227	671,459
Operating profit	171,542	207,123
Non-operating income		
Interest income	5	3
Dividend income	1	1
Subsidy income	-	100
Surrender value of insurance policies	9	21
Purchase discounts	14	11
Interest on tax refund	-	358
Other	61	105
Total non-operating income	92	601
Non-operating expenses		
Interest expenses	2,333	1,957
Other	2	1
Total non-operating expenses	2,335	1,959
Ordinary profit	169,298	205,765
Extraordinary losses		
Penalty	94,121	-
Total extraordinary losses	94,121	-
Profit before income taxes	75,177	205,765
Income taxes-current	1,514	42,820
Income taxes-deferred	31,968	41,450
Total income taxes	33,482	84,270
Profit	41,694	121,494
Loss attributable to non-controlling interests	(7,018)	(5,584)
Profit attributable to owners of parent	48,713	127,078

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

	(Thousands of yen)	
	First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)	First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)
Profit	41,694	121,494
Comprehensive income	41,694	121,494
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	48,713	127,078
Comprehensive income attributable to non-controlling interests	(7,018)	(5,584)

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information

First nine months of FY3/19 (Apr. 1, 2018 – Dec. 31, 2018)

Information related to net sales and profit/loss for each reportable segment

	Shalom Business	CuBe Business	Total	Adjustment (Note)	(Thousands of yen) 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 with operating profit presented on the quarterly consolidated statement of income.

First nine months of FY3/20 (Apr. 1, 2019 – Dec. 31, 2019)

Information related to net sales and profit/loss for each reportable segment

	Shalom Business	CuBe Business	Total	Adjustment (Note)	(Thousands of yen) Amounts recorded in quarterly consolidated statement of income
Net sales					
External sales	1,310,240	446,353	1,756,594	-	1,756,594
Inter-segment sales and transfers	1,303	11,383	12,686	(12,686)	-
Total	1,311,543	457,737	1,769,280	(12,686)	1,756,594
Segment profit (loss)	266,943	(60,711)	206,232	891	207,123

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

2. Segment profit (loss) is adjusted 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.