

Presentation Materials for the Earnings Briefing

for the Fiscal Year Ended March 31, 2020

May 21, 2020

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Overview of Consolidated Financial Results for FY3/20



Summary of consolidated financial results

Shalom Business

Sales: Sales decreased as lower than planned Shalom House orders offset growth of sales from general corporate customers

Profit: Below plan because of more development personnel and cost of moving to the new Tokyo office

CuBe Business

Sales: Below plan as contracted development was as planned but cloud services sales declined

Profit: Cost of sales and other expenses were controlled as planned, but profit was less than planned because of lower cloud services sales

(Thousands of yen, %)

	FY3/20 Actual	FY3/20 Plan	Vs. Plan	Vs. Plan (%)
Net sales	2,380,616	2,496,500	(115,883)	(4.6)%
Shalom Business	1,771,842	1,800,000	(28,158)	(1.6)%
CuBe Business	608,774	696,500	(87,726)	(12.6)%
Operating profit	314,443	359,388	(44,944)	(12.5)%
Shalom Business	364,165	388,284	(24,119)	(6.2)%
CuBe Business	(49,721)	(32,621)	(17,100)	-
Profit attributable to owners of parent	197,123	225,348	(28,224)	(12.5)%
Basic earnings per share (Yen)	36.32	41.52	(5.20)	-

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

Consolidated balance sheet

- Current assets increased due to an increased balance of cash and deposits by improved operating cash flows
- Software decreased due to start of amortization triggered by releases of New Shalom V5.0 and DirectHR

(Thousands of yen, %)

	FY3/20 (Mar. 31, 2020)	FY3/19 (Mar. 31, 2019)	Change	% Change	Notes
Current assets	1,196,267	886,532	+309,734	+34.9%	Cash and deposits +423 million yen Consumption taxes receivable (44) million yen
Non-current assets	1,038,471	1,058,860	(20,389)	(1.9)%	Software (including software in progress) (57) million yen Guarantee deposits +128 million yen
Current liabilities	599,588	447,066	+152,521	+34.1%	Borrowings (3) million yen Accrued consumption taxes +89 million yen Income taxes payable +77 million yen
Non-current liabilities	330,595	333,340	(2,745)	(0.8)%	Long-term borrowings (2) million yen
Total liabilities	930,183	780,406	+149,776	+19.2%	-
Shareholders' equity	1,270,251	1,117,400	+152,851	+13.7%	Retained earnings +153 million yen
Total net assets	1,304,555	1,164,987	+139,568	+12.0%	-
Total assets	2,234,739	1,945,393	+289,345	+14.9%	-
Equity ratio	56.8%	57.4%	(0.6)pt	-	-

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, %)

	FY3/20	FY3/19	YoY Change	Notes
Cash flows from operating activities	814,299	(244,710)	+1,059,010	<ul style="list-style-type: none"> • Depreciation increased by 145 million yen • Accounts payable-other increased by 444 million yen • Income taxes / consumption taxes decreased by 238 million yen
Profit before income taxes	300,119	202,776	+97,343	
Increase (decrease) in accounts payable-other	(5,090)	(449,259)	+444,169	
Others	519,270	1,772	+517,497	
Cash flows from investing activities	(330,425)	(281,916)	(48,509)	<ul style="list-style-type: none"> • Investment in software decreased by 122 million yen • Payments of guarantee deposits of 137 million yen (Tokyo office)
Investments in non-current assets	(201,612)	(347,580)	+145,968	
Others	(128,813)	65,664	(194,477)	
Cash flows from financing activities	(60,811)	173,339	(234,150)	<ul style="list-style-type: none"> • Proceeds of 200 million yen from a new loan • Cash dividends payment of 43 million yen
Proceeds from borrowings	200,000	500,000	(300,000)	
Repayments of borrowings	(206,412)	(249,649)	+43,237	
Others	(54,399)	(77,011)	+22,612	
Net increase (decrease) in cash and cash equivalents	423,062	(353,287)	+776,350	-
Cash and cash equivalents at end of period	722,818	299,755	+423,062	-

Operating results of the Shalom Business

(Thousands of yen, %)

	FY3/20	FY3/19	YoY Change	YoY % Change	Notes
Net sales	1,771,842	1,508,829	+263,013	+17.4%	(ASP service) • Basic Plan (renamed from Net de Shalom) 422 million yen (+6.0%) • House Plan (renamed from Shalom House) 432 million yen (+14.9%) • Shalom CE (including Shalom CE Lite) 112 million yen (+62.8%) • MYNABOX (renamed from MyNum de Shalom) 234 million yen (+9.5%) • DirectHR 56 million yen
Cloud service	1,658,019	1,398,611	+259,408	+18.5%	
ASP service	1,453,979	1,227,923	+226,055	+18.4%	
System construction service	204,040	170,687	+33,352	+19.5%	
System product sale	113,285	106,440	+6,845	+6.4%	(System construction service) • Shalom CE initial implementation service fee 89 million yen (+46.6%)
Other services	537	3,777	(3,239)	(85.8)%	
Gross profit	1,015,800	999,260	+16,540	+1.7%	Cost of sales: +246 million yen (+48.4%) • Increases in amortization and labor cost
<i>Gross margin</i>	57.3%	66.2%	(8.9)pt	-	
Operating profit	364,165	382,164	(17,998)	(4.7)%	SG&A expenses: +34 million yen (+5.6%) • Increases in personnel and promotion expenses
<i>Operating margin</i>	20.6%	25.3%	(4.8)pt	-	

Operating results of the CuBe Business

(Thousands of yen, %)

	FY3/20	FY3/19	YoY Change	YoY % Change	Notes
Net sales	608,774	566,520	+42,253	+7.5%	Breakdown of contracted developments: Develop-and-deliver projects 357 million yen (+9.9%) Maintenance, etc. 206 million yen (-3.0%)
Contracted development	564,149	534,857	+29,292	+5.5%	
Cloud services	44,625	31,663	+12,962	+40.9%	
Gross profit	180,502	173,420	+7,081	+4.1%	Cost of sales: 428 million yen (of which) Contracted development: 314 million yen Cloud services: 114 million yen
Gross margin	29.7%	30.6%	(0.9)pt	-	
Operating profit*	(49,721)	(64,821)	+15,099	-	SG&A expenses: 230 million yen (-3.4pt)
Operating margin	(8.2)%	(11.4)%	+3.3pt	-	
Order backlog	197,234	274,457	(77,223)	(28.1)%	A year-on-year decrease in the number of long-term large-scale projects

*Operating profit includes amortization of goodwill of 38,861 thousand yen.



Business Topics for FY3/20



Sales promotion activities for labor and social security attorney offices

Seminars for Labor and Social Security Attorneys (19 times), and Shalom User Meetings (8 times)



May 2019 in Osaka

– Seminar for Labor and Social Security Attorneys



May 2019 in Fukuoka

– Seminar for Labor and Social Security Attorneys



Oct. 2019 in Tokyo

– Seminar for Labor and Social Security Attorneys



Nov. 2019 in Tokyo

– User Meeting



Feb. 2020 in Osaka

– Seminar for Labor and Social Security Attorneys



Feb. 2020 in Tokyo

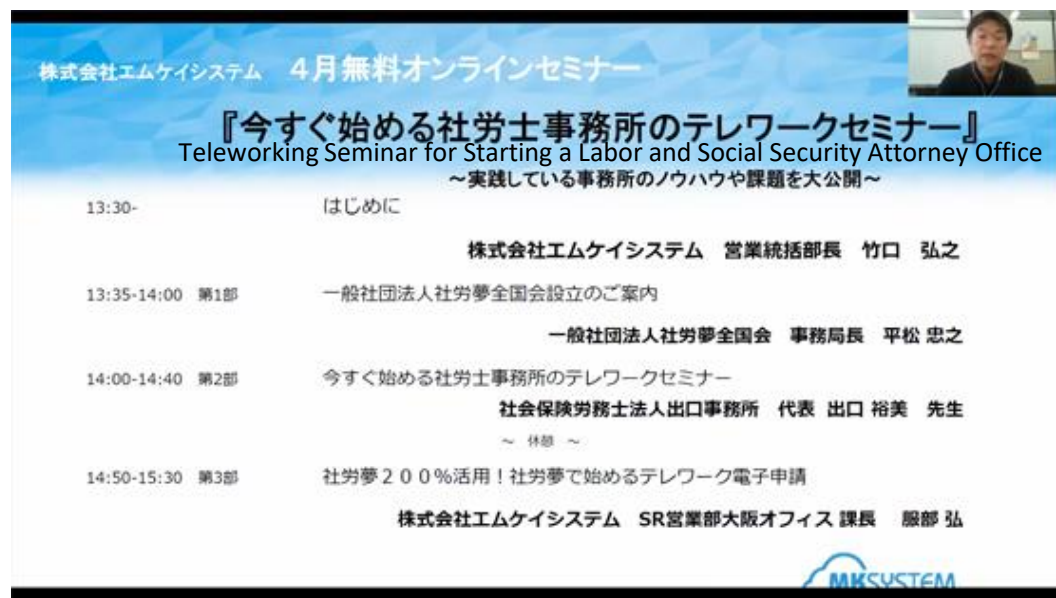
– Seminar for Labor and Social Security Attorneys

Online Seminars (April 2020)

MKSystem started offering nationwide online seminars in April for the first time

The seminars are very popular as a way for people anywhere in Japan to participate in these events with ease.

Many seminars are planned for labor and social security attorneys and for companies.



Time	Topic	Speaker
13:30-	はじめに	株式会社エムケイシステム 営業統括部長 竹口 弘之
13:35-14:00 第1部	一般社団法人社労夢全国会設立のご案内	一般社団法人社労夢全国会 事務局長 平松 忠之
14:00-14:40 第2部	今すぐ始める社労士事務所のテレワークセミナー	社会保険労務士法人出口事務所 代表 出口 裕美 先生
14:50-15:30 第3部	社労夢200%活用！社労夢で始めるテレワーク電子申請	株式会社エムケイシステム SR営業部大阪オフィス 課長 服部 弘



Shalom

ネットde顧問

社労夢200%活用で業務効率改善

200% Shalom Use for Improving Business Process Efficiency

Online seminars for labor and social security attorneys

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



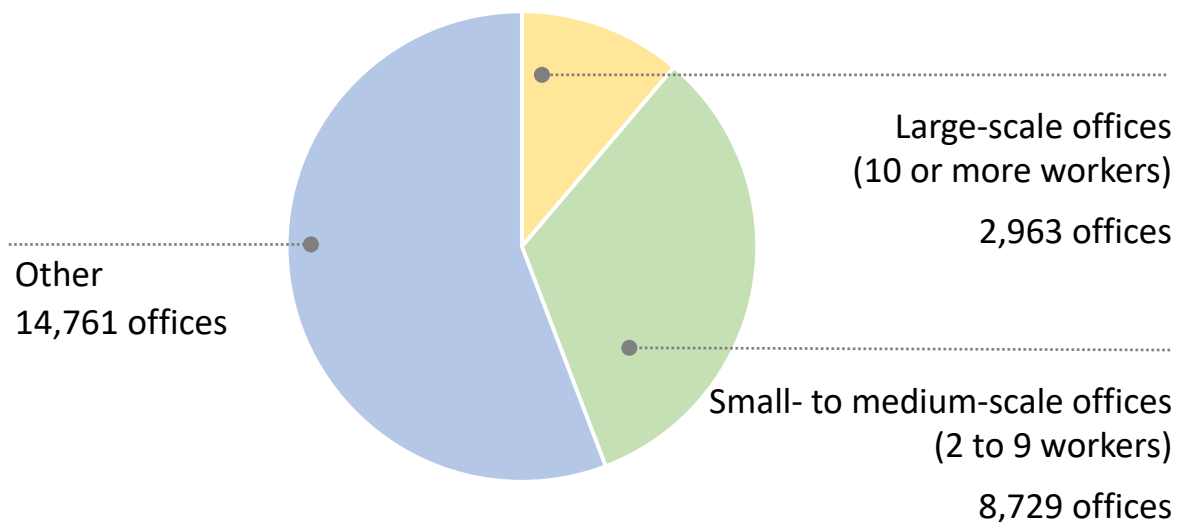
July 2019 – Seminar on “Social Insurance Procedures in the Near Future”

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)

Target markets and market shares (1)

Labor and Social Security Attorney Office Market



Total: 26,453 offices*¹

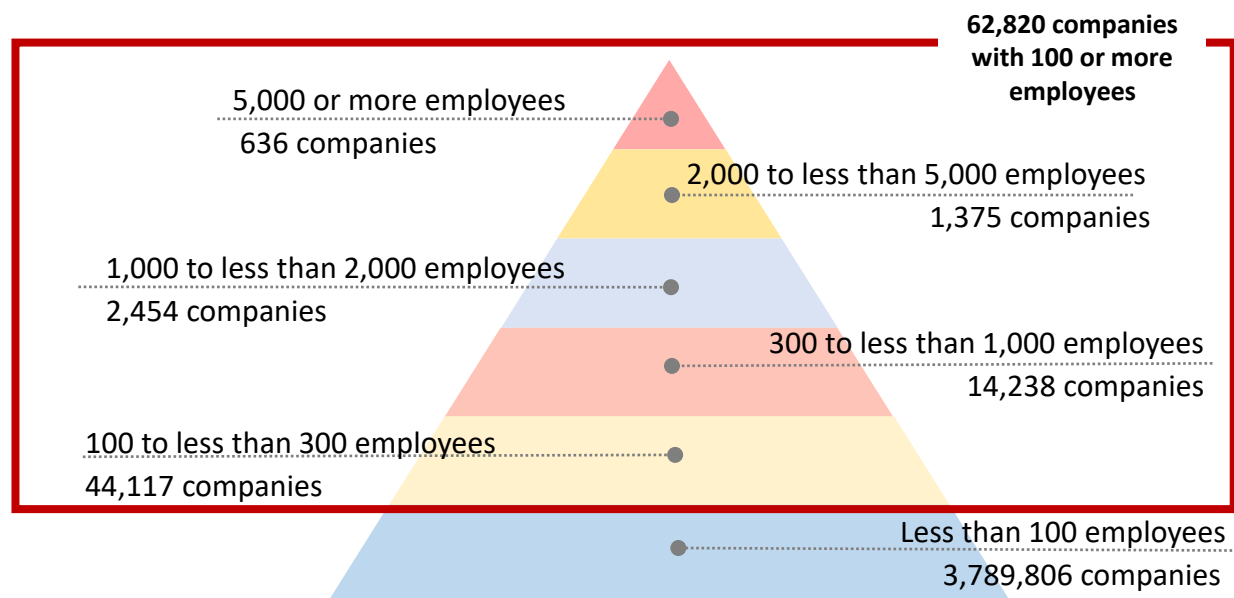
Offices with our systems introduced* ²	2,494 offices
YoY change	Up 86 offices
Our market share	9.4%
Number of clients registered in our systems	630,000 offices

*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 March 31, 2020.
(o/w 1,407 for Basic Plan, 653 for House Plan, 371 for Lite Plan, and 63 for the Chukidan System)

Target markets and market shares (2)

General Corporate Market



Total: 3,852,626 companies*

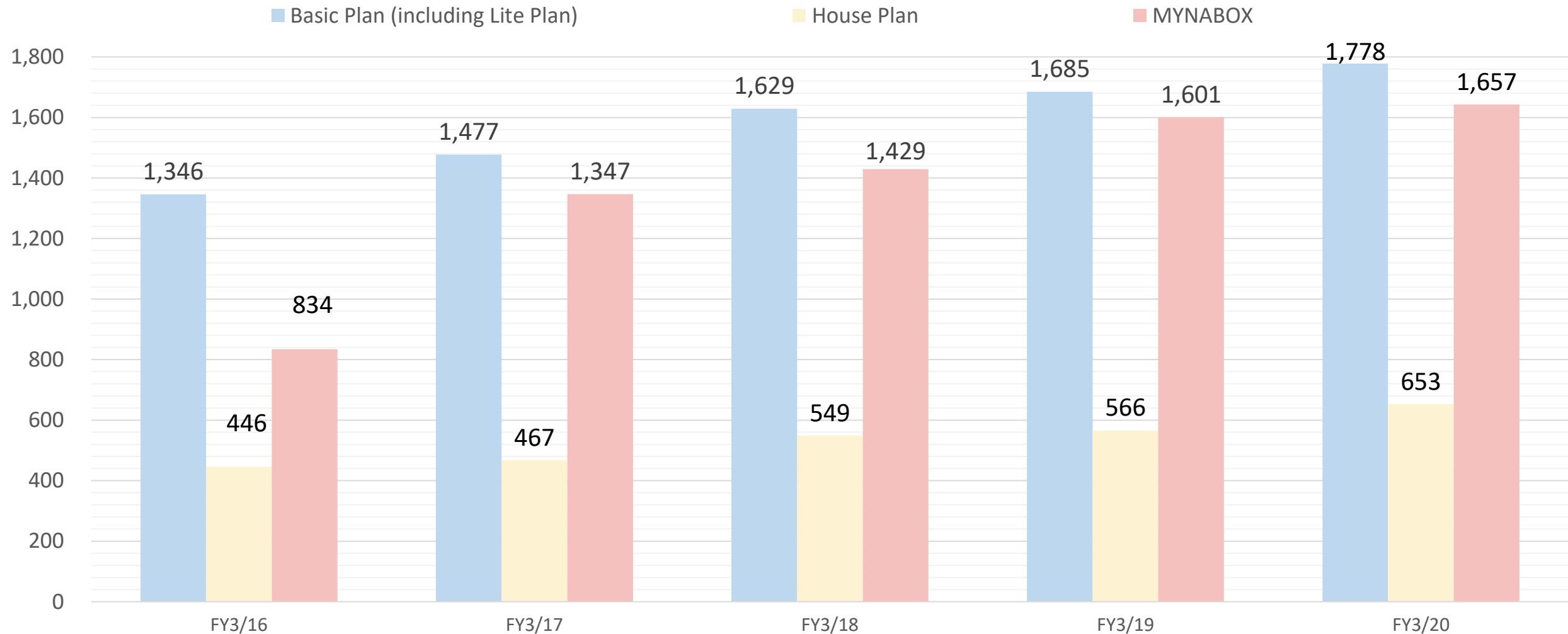
*Aggregated by MKSystem based on the 2016 Economic Census for Business Activity (Tabulation of Enterprises, etc. and Tabulation across industries) conducted by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry.

End-Mar 2020

Introductions in the Shalom Business	137 companies
Introductions in the CuBe Business	64 companies

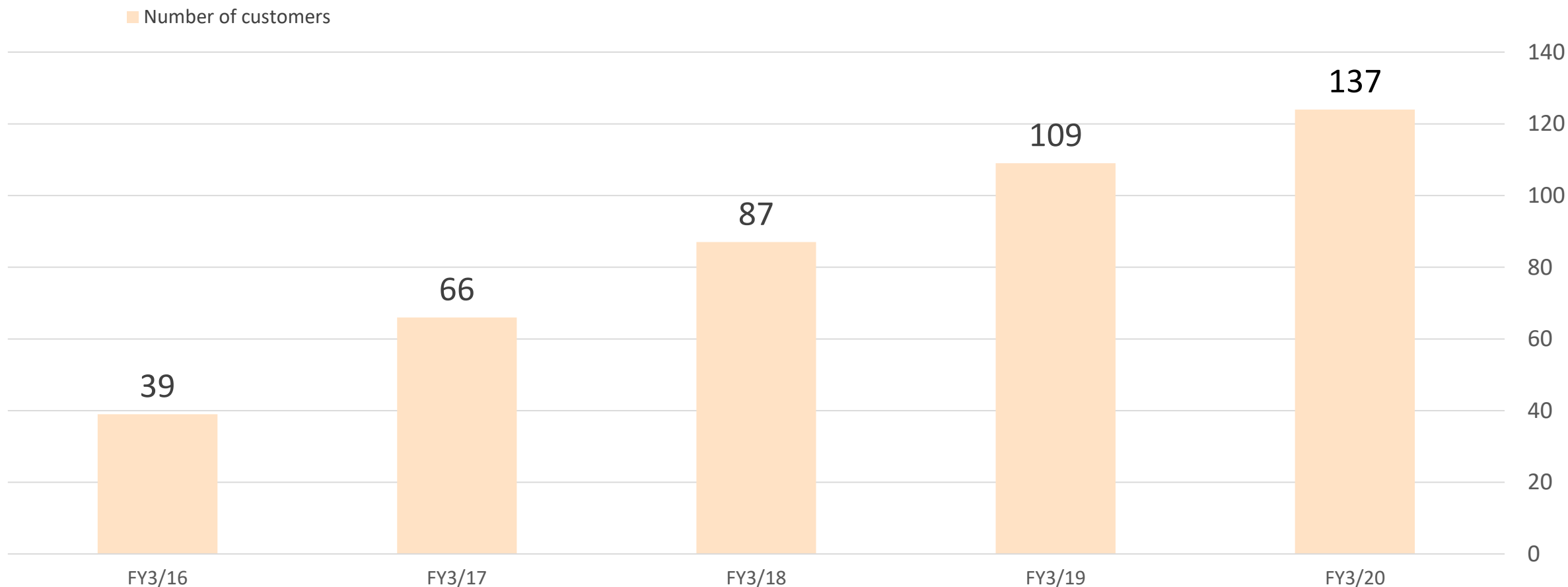
Trends in services for labor and social security attorneys

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 New Shalom V5.0
- Nov. 22, 2019 Notice of Relocation of the Tokyo Office
- Mar. 13, 2020 Membership Payments for the Shalom National Organization
- May 1, 2020 Redesign of the Shalom Company Edition Logo








Growth Strategies:

Review and Future Development






FY3/20 business segment strategy review

Shalom Business: Market-specific strategies

	Demand remains very strong	Labor and social security attorney market
	Expanded the customer base of Shalom CE	Large companies market
	Delayed release of DirectHR	Small- and medium-sized companies market

CuBe Business: Service-specific strategies

	Maintained a stable revenue stream Improved profit margin	Contracted development type semi-customized services
	Sold to MK	Nenmatsu-chosei CuBe Cloud (currently eNEN)
	Failed to effectively narrow down targets	GooooN

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:

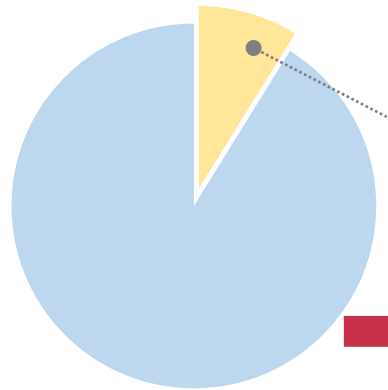
Given that our market share is **9.4%**, there is a large market waiting to be tapped.

The number of clients registered in our systems is **630,000** (54%+ market share).

There is a sufficiently large market still available.

$$\frac{630,000}{3,850,000 \times 30\%}$$

Labor and social security attorney offices



Number of offices with our systems introduced
2,494 offices

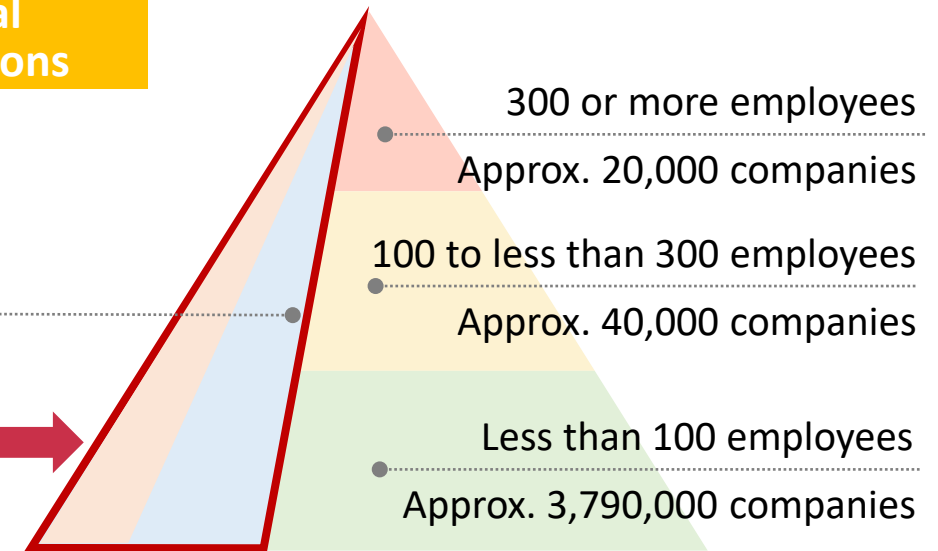
Number of labor and social security attorney offices
26,453 offices

Market share to all offices
Number of clients registered in our systems

9.4%
630,000

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)

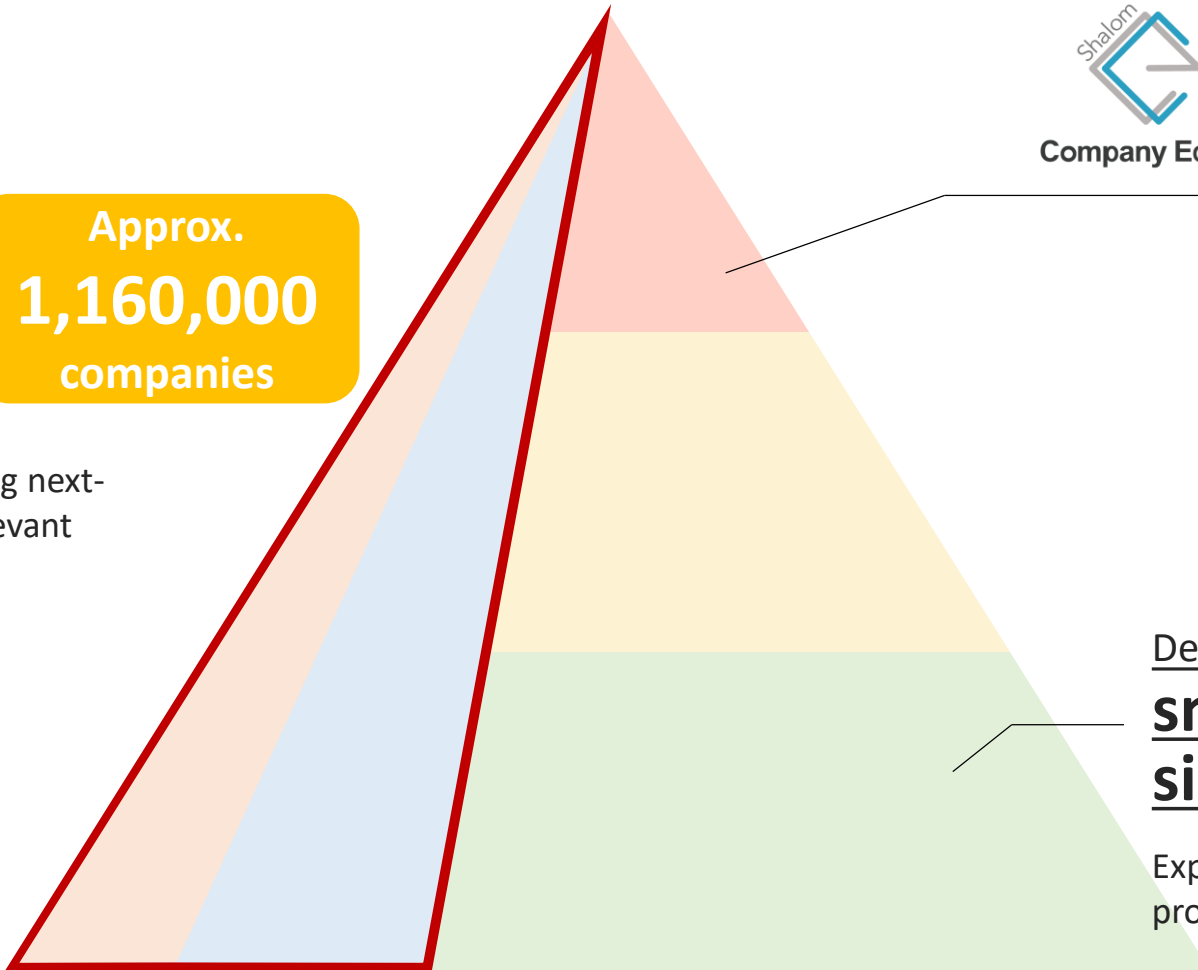


- **Enrich service offerings**
Strengthen sales by launching next-generation products and relevant campaigns



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



Company Edition

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 services with the cost of sales ratio in mind

Cloud services

→ Concentrating resources on GooooN

- Using activities with other companies to enlarge sales channels



Consolidated Earnings Forecast for FY3/21 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: Lower profit margin due to higher expenses caused by increase in labor cost for strengthening development systems and by expenses for relocating the Tokyo office.

CuBe Business

Contracted development: Forecast a higher operating margin by maintaining the same level of sales as in FY3/20 and improving development efficiency.

Cloud services: Expect sales of services to expand by focusing resources on GooooN

(Millions of yen, %)

	FY3/21 Forecast	FY3/20 Actual	YoY Change	YoY % Change
Net sales	2,749	2,380	+368	+15.5%
Shalom Business	2,144	1,771	+372	+21.0%
CuBe Business	605	608	(3)	(0.6)%
Operating profit	324	314	+10	+3.2%
<i>Operating margin</i>	11.8%	13.2%	(1.4)pt	-
Ordinary profit	322	313	+9	+2.9%
Profit attributable to owners of parent	201	197	+4	+2.1%
Basic earnings per share (Yen)	37.08	36.32	+0.76	-

* The figures of FY3/21 forecast above were those announced on May 11, 2020.

Earnings forecast by segment: Shalom Business

(Millions of yen, %)

	FY3/21 Forecast	FY3/20 Actual	YoY Change	YoY % Change	
Net sales	2,144	1,771	+372	+21.0%	Forecast consistent growth in sales of services for labor and social security attorneys as in prior years and sales growth of about 30% for services for companies because e-application procedures have become mandatory.
Cloud services	2,032	1,658	+374	+22.6%	
System product sale, others	112	113	(1)	(0.9)%	
Cost of sales	942	756	+186	+24.7%	Forecast a lower gross margin because of higher labor cost for strengthening development systems and depreciation expenses associated with upgrading the functions of all Shalom Business products.
Gross profit	1,201	1,015	+185	+18.3%	
<i>Gross margin</i>	56.0%	57.3%	(1.3)pt	-	
SG&A expenses	897	651	+245	+37.6%	Lower operating profit because of higher rent and other expenses resulting from the relocation of the Tokyo office (scheduled for August 2020).
Operating profit	304	364	(59)	(16.5)%	
<i>Operating margin</i>	14.2%	20.6%	(6.4)pt	-	

* The figures of FY3/21 forecast above were those announced on May 11, 2020.

Earnings forecast by segment: CuBe Business

(Millions of yen, %)

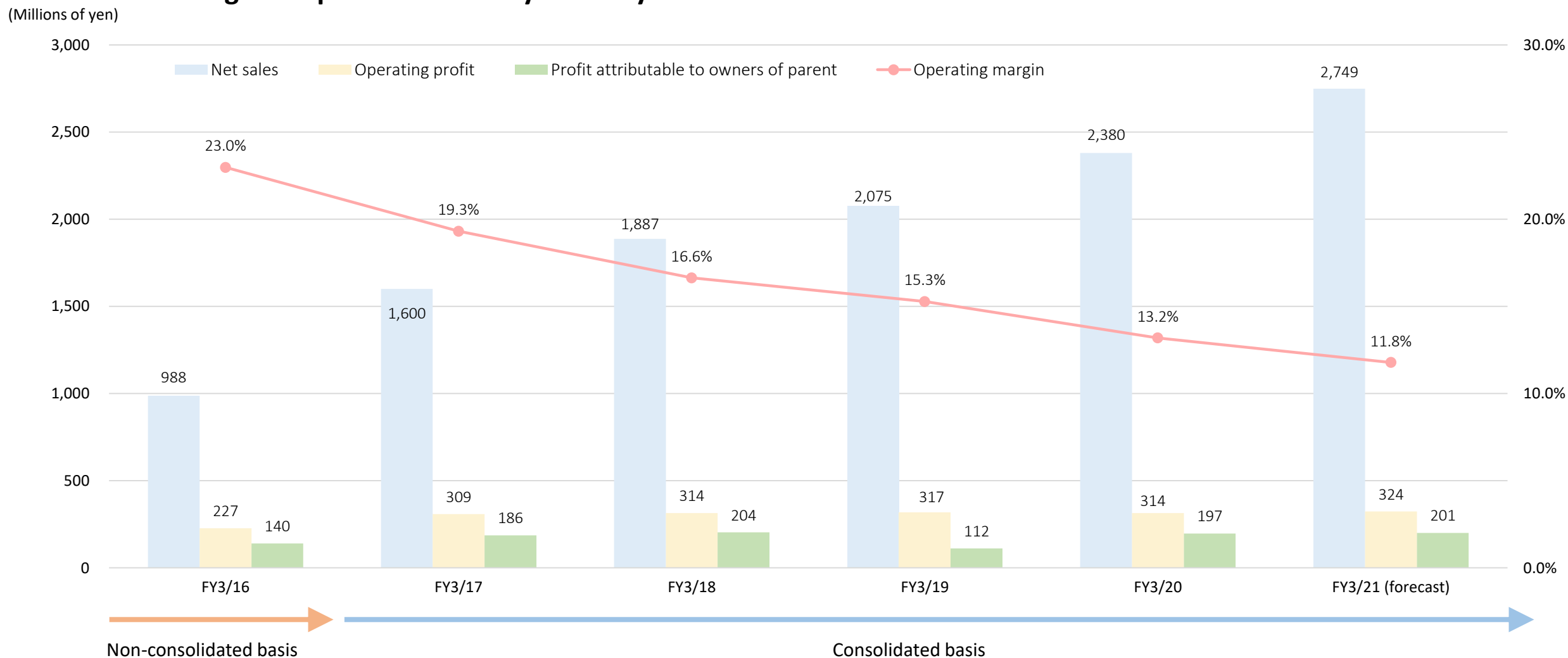
	FY3/21 Forecast	FY3/20 Actual	YoY Change	YoY % Change	
Net sales	605	608	(3)	(0.6)%	Forecast no change in contracted development sales, with many system improvement and maintenance projects, and the cloud services business focuses resources on GooooN, though sales of both businesses tend to be concentrated in the second half of the fiscal year.
Contracted development services	565	564	+0	+0.1%	
Cloud services	40	44	(4)	(10.3)%	
Cost of sales	363	428	(64)	(15.0)%	Forecast a higher gross margin as Matsuyama Development Center labor cost decline and the efficiency of development activities increases.
Gross profit	241	180	+60	+33.5%	
<i>Gross margin</i>	39.8%	29.7%	+10.2pt	-	
SG&A expenses*	224	230	(5)	(2.6)%	Forecast only a small change in SG&A expenses despite higher personnel expenses to strengthen sales systems and higher expenses caused by the Tokyo office relocation.
Operating profit	16	(49)	+66	-	
<i>Operating margin</i>	2.8%	(8.2)%	+10.9pt	-	

* 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 enhancing a new market for general corporations.

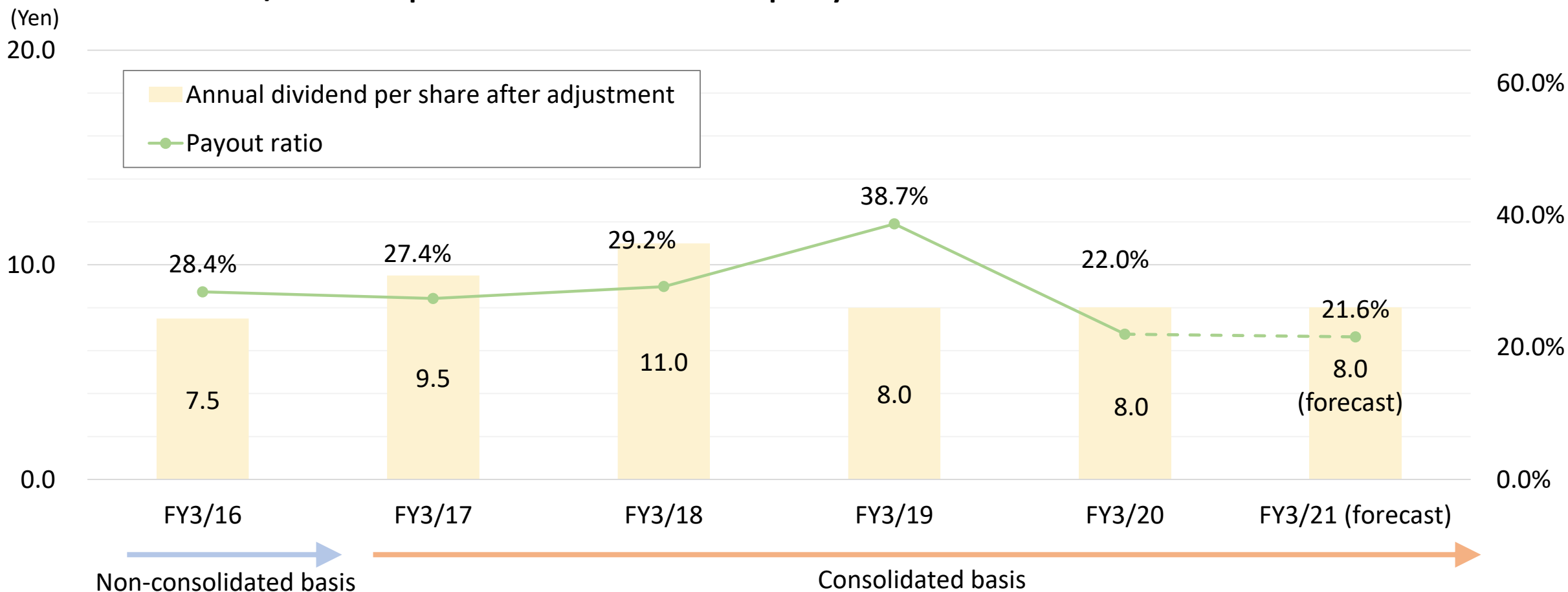
Profit: The operating margin will be lower due to an increase in depreciation attributable to improvement of products and higher expenses caused by the Tokyo office relocation.



Dividend forecast for FY3/21

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 FY3/21 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.



Group Overview and Business Activities



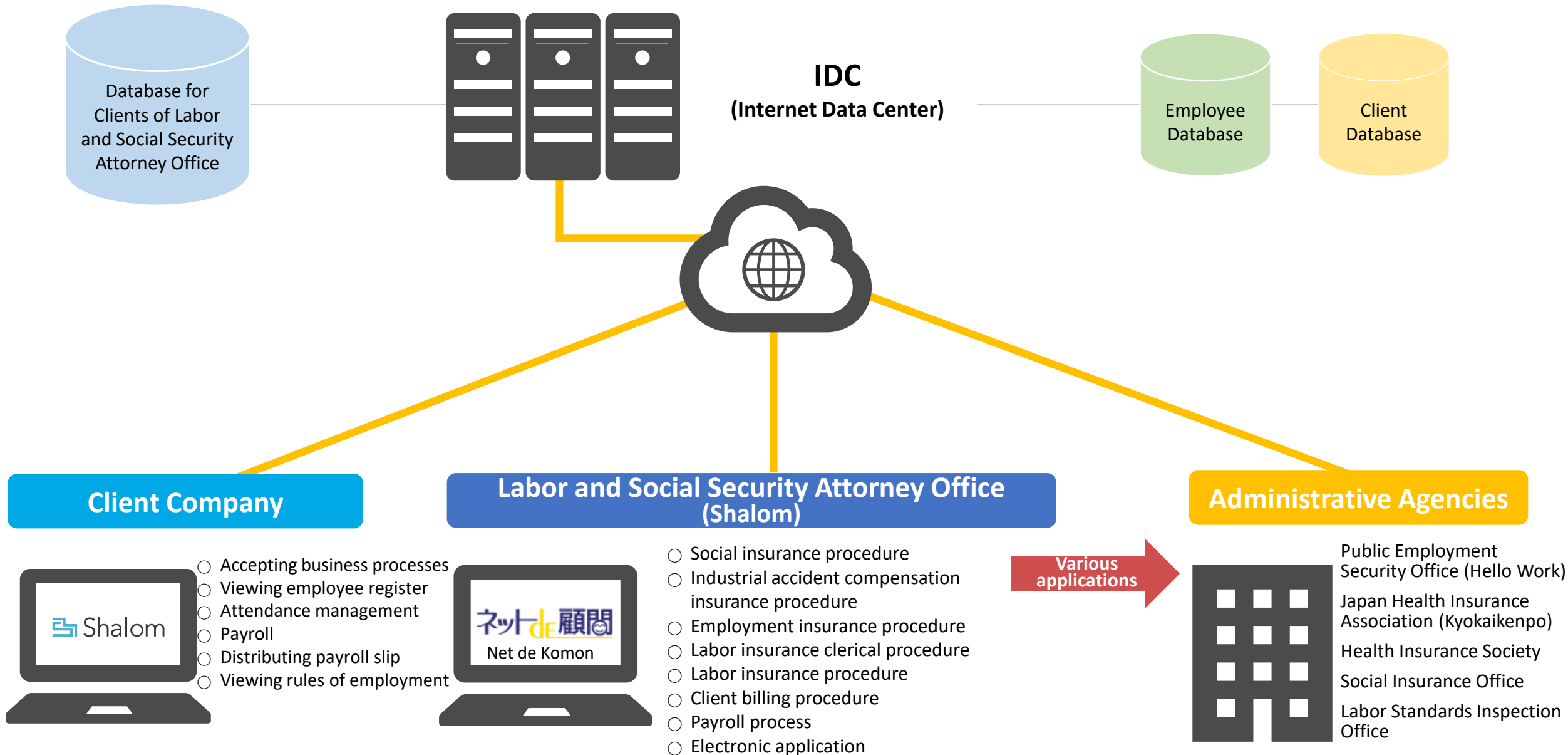
Company profile

◆ 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 a cloud service provider.• 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	118 (consolidated); 88 (non-consolidated) (both excluding temporary employees)

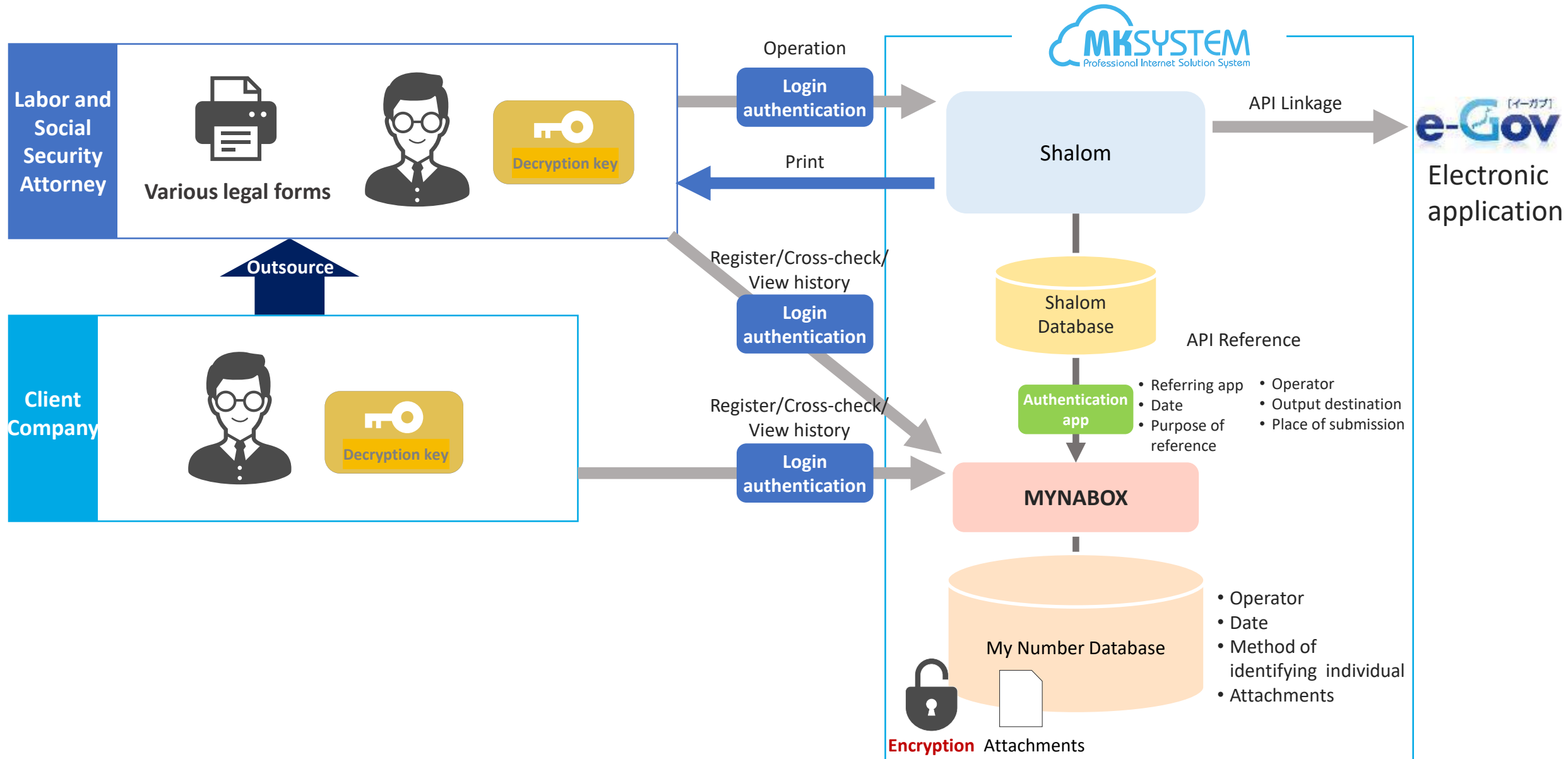
Summary of the Group's lines of business

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 • Provision of cloud services with applications aimed at personnel divisions in general corporations
		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 (GooooN)

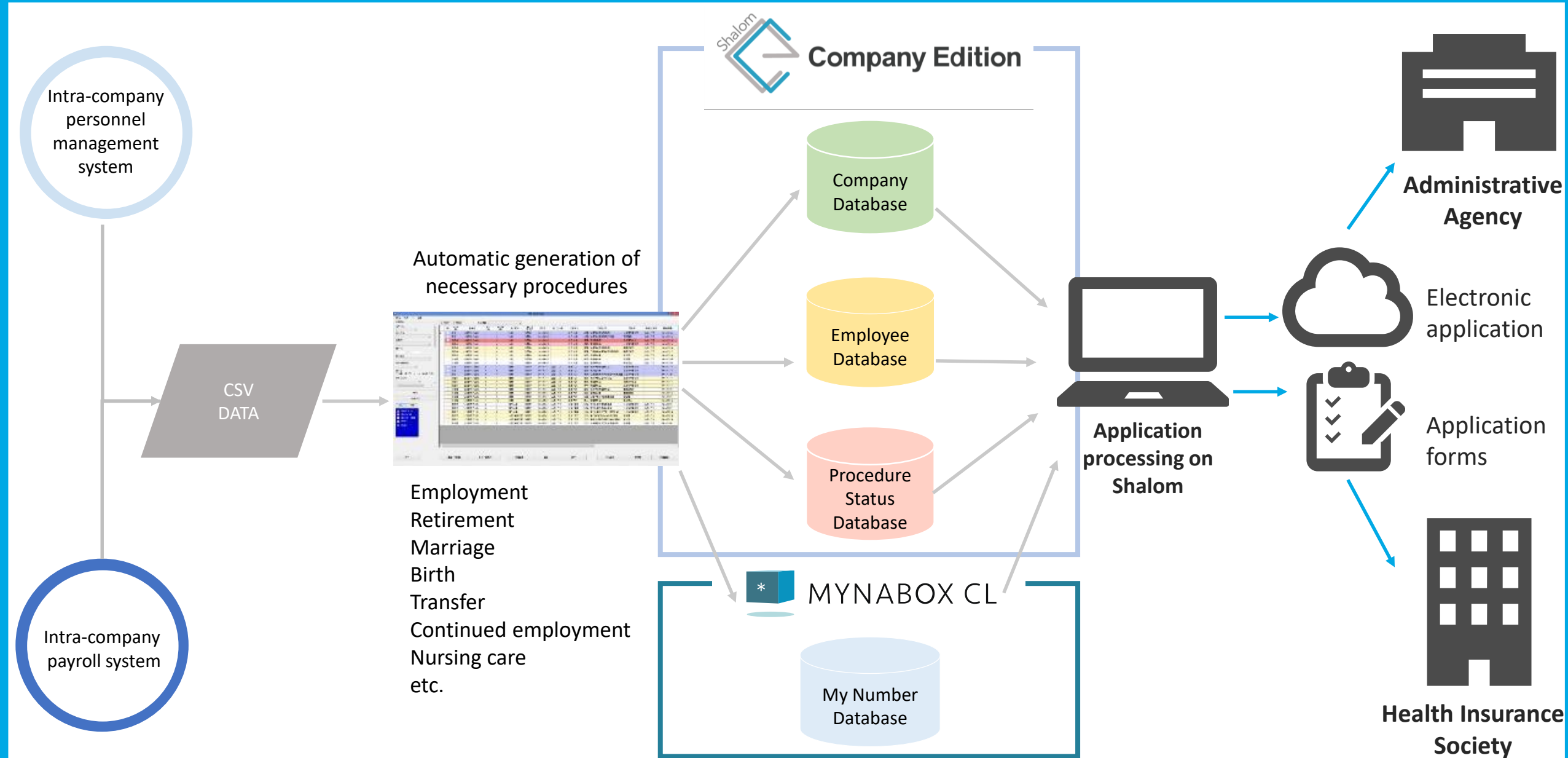
Our mainstay service (Shalom)



Our mainstay service (MYNABOX)



Our mainstay service (Shalom Company Edition)



Our mainstay service (DirectHR)



Linking employees
ツナガル社員、
ひろがる未来。
Kindness of Roumu
A brighter future



DirectHR

2019年4月～
新しい働き方がはじまる。
A new style of working that
started in April 2019

Released
2019年4月
リリースしました!

URL:

<https://directhr.jp/>

**A labor management system for employment contracts
and individual tax adjustments and returns**

Distribution/receipt of forms



Online receipt of job separation form, workplace accident form and other forms to improve efficiency

Application function



Employees use a PC or smartphone for new employee procedures, name changes, childbirth time off requests and other procedures

API for external links



Application programming interface

Compatible with many e-Gov applications and easy to navigate to the completion of procedures

Collection of "My Number"



Highly secure system for efficient e-mail collection and management of employees' My Number information

Smartphone compatibility



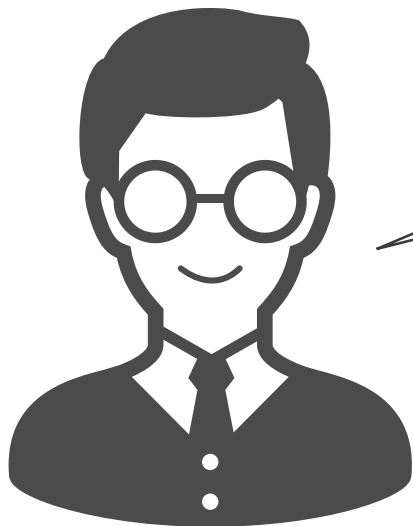
Smartphones can be used for viewing and utilizing almost all employee functions

Our mainstay service (eNEN, renamed from Nenmatsu-chosei CuBe Cloud) (1)



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

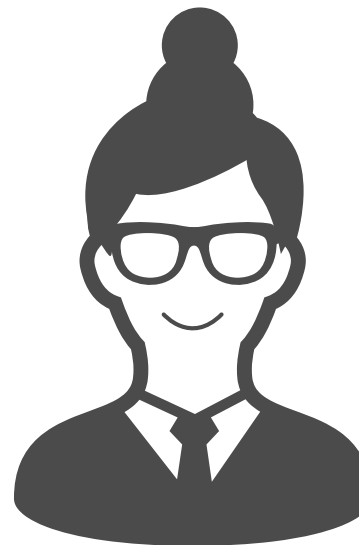
Tax filer



Simple & easy!

Accurate & efficient!

Division in charge of operation



- 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!

- 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 (eNEN, renamed from 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.

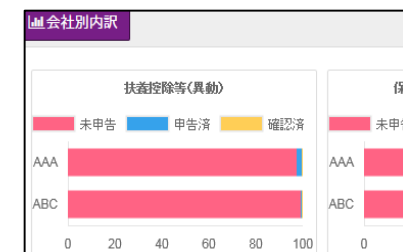
3. It reduces your workload at final submission!

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

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).



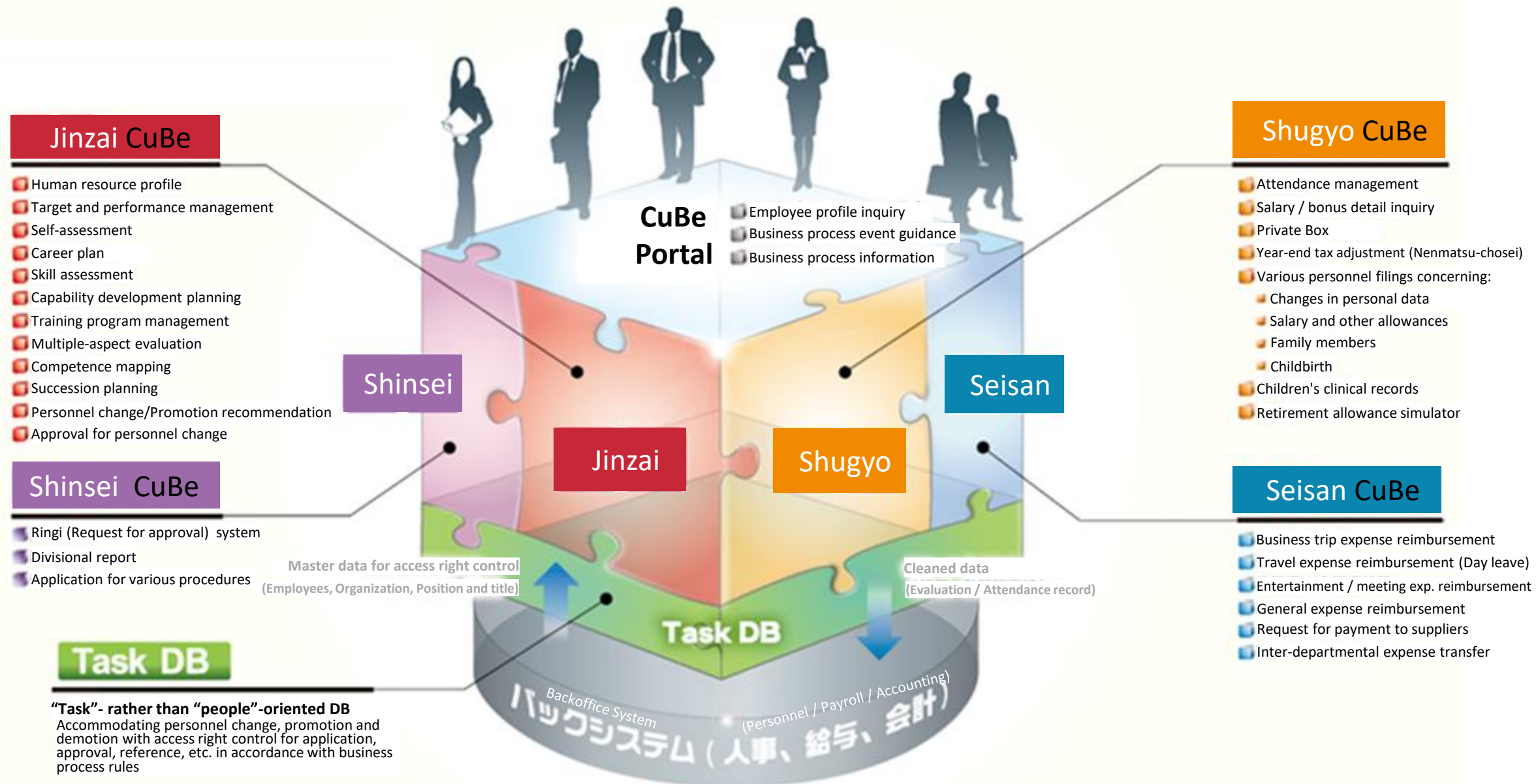
Enhanced efficiency with progress management

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 services (Contracted development type semi-customized services)



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.



“We provide cloud solutions that benefit you”

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