

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2023

[Japanese GAAP]

Company name: MKSystem Corporation
 Stock code: 3910
 Representative: Noboru Miyake, Representative Director and President
 Contact: Masaki Yoshida, Director, General Manager of Business Administration Division
 Tel: +81-6-7222-3394

Listing: Tokyo Stock Exchange
 URL: <https://www.mks.jp>

Scheduled date of Annual General Meeting of Shareholders: June 22, 2023
 Scheduled date of payment of dividend: June 23, 2023
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 Preparation of supplementary materials for financial results: Yes
 Holding of financial results meeting: None

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

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2023 (April 1, 2022 – March 31, 2023)

(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	%
Fiscal year ended Mar. 31, 2023	2,867	4.5	219	51.1	227	75.7	145	59.3
Fiscal year ended Mar. 31, 2022	2,742	12.5	145	(33.8)	129	(40.8)	91	(33.8)

Note: Comprehensive income (million yen) Fiscal year ended Mar. 31, 2023: 145 (up 57.5%)
 Fiscal year ended Mar. 31, 2022: 92 (down 34.4%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit on total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Mar. 31, 2023	26.82	—	9.9	9.5	7.7
Fiscal year ended Mar. 31, 2022	16.84	—	6.6	5.8	5.3

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Mar. 31, 2023: — Fiscal year ended Mar. 31, 2022: —

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Mar. 31, 2023	2,559	1,527	59.4	279.99
As of Mar. 31, 2022	2,231	1,424	63.5	261.17

Reference: Shareholders' equity (million yen) As of Mar. 31, 2023: 1,519 As of Mar. 31, 2022: 1,417

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Mar. 31, 2023	617	(557)	88	609
Fiscal year ended Mar. 31, 2022	493	(472)	(177)	461

2. Dividends

	Dividend per share					Total dividends	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Mar. 31, 2022	—	0.00	—	8.00	8.00	43	47.5	3.1
Fiscal year ended Mar. 31, 2023	—	0.00	—	8.00	8.00	43	29.8	3.0
Fiscal year ending Mar. 31, 2024 (forecast)	—	0.00	—	8.00	8.00		—	

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2024 (April 1, 2023 – March 31, 2024)

(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
First half	1,506	12.8	36	(9.3)	40	(8.1)	19	17.6	3.66
Full year	3,218	12.2	262	19.3	270	18.6	164	12.9	30.27

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

(2) 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

(3) Number of issued shares (common stock)

1) Number of shares issued at the end of period (including treasury shares)

As of Mar. 31, 2023: 5,428,000 shares As of Mar. 31, 2022: 5,428,000 shares

2) Number of treasury shares at the end of period

As of Mar. 31, 2023: 506 shares As of Mar. 31, 2022: 506 shares

3) Average number of shares during the period

Fiscal year ended Mar. 31, 2023: 5,427,494 shares Fiscal year ended Mar. 31, 2022: 5,427,494 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2023 (April 1, 2022 – March 31, 2023)

(1) Non-consolidated operating results

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Mar. 31, 2023	2,324	7.8	221	77.0	247	105.6	171	100.2
Fiscal year ended Mar. 31, 2022	2,156	11.7	124	(43.6)	120	(46.6)	85	(43.5)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Fiscal year ended Mar. 31, 2023	31.58		—	
Fiscal year ended Mar. 31, 2022	15.78		—	

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	%
As of Mar. 31, 2023	2,624	1,692	64.5	311.89
As of Mar. 31, 2022	2,279	1,564	68.7	288.31

Reference: Shareholders' equity (million yen)

As of Mar. 31, 2023: 1,692

As of Mar. 31, 2022: 1,564

* The current financial report is not subject to audit 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

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1. Overview of Results of Operations, etc.

(1) Results of Operations

During the fiscal year ended March 31, 2023 (hereinafter “the current fiscal year”), the Japanese economy saw movement towards recovery due to some restrictions being eased while there are rising COVID-19 cases; however, considering surges in resource prices 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 current fiscal year, the Group reported consolidated net sales of 2,867 million yen (up 4.5% year on year), gross profit of 1,349 million yen (up 5.9%), operating profit of 219 million yen (up 51.1%), ordinary profit of 227 million yen (up 75.7%), and profit attributable to owners of parent of 145 million yen (up 59.3%). In addition, the return on equity (ROE), one of the KPIs for the Group, was 9.9% (up 3.3 percentage points year on year) on a consolidated basis and 10.5% (up 5.0 percentage points year on 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.

We also successfully increased the aggregate monthly subscription fees for Shalom and other cloud services. This is thanks to an increase in new orders of “eNEN,” a web-based year-end tax adjustment system, and a resulting increase of the number of employees using the system; price revisions to the monthly subscription fees, which were made across certain products effective from July 2022; and an increase in the number of the House Plan contracts with subsidies under the Project to Support Introduction of IT for Improvement of Service Productivity, which lead to increased inquiries from potential customers every year. In addition, we ran a booth at the 10th HR EXPO (Personnel/Labor/Education/Recruitment), which is Japan’s largest exhibition hosted by JETRO for administrative departments, and hosted an event for labor and social security attorneys to attract new user companies, and upsell existing users.

Net sales of the segment consist of those from the cloud services of 2,206 million yen (up 8.9% year on year), of which the ASP services under the subscription model amounted to 2,026 million yen (up 11.4%) and the system

construction services amounted to 180 million yen (down 13.1%); and those from the system products of 91 million yen (down 7.9%).

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 2,324 million yen (up 7.8% year on year), gross profit of 1,184 million yen (up 9.3%), and operating profit of 221 million yen (up 77.0%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 9.5% (up 3.7 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. On the other hand, compared with previous years, we ended up with fewer new development projects that are affected by the timing of revision to in-house regulatory systems and IT investment of client companies. 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 561 million yen (down 8.8% year on year), gross profit of 166 million yen (down 14.2%), and operating loss of 19 million yen (compared with operating profit of 9 million yen for the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 38 million yen.

• Sales and composition by segment

	Amount (Millions of yen)	Composition (%)
Shalom Business	2,314	80.7
Cloud service	2,206	77.0
System product sale	91	3.2
Other services	16	0.6
CuBe Business	552	19.3
Total	2,867	100.0

(2) Financial Position

Assets

The balance of current assets at the end of the current fiscal year was 1,232 million yen (up 16.6% from the end of the previous fiscal year), consisting primarily of 609 million yen in cash and deposits and 507 million yen in accounts receivable-trade.

The balance of non-current assets was 1,327 million yen (up 13.0% from the end of the previous fiscal year), consisting primarily of 485 million yen in software, 249 million yen in software in progress, and 163 million yen in guarantee deposits.

As a result, the balance of total assets was 2,559 million yen (up 14.7% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the current fiscal year was 831 million yen (up 10.6% from the end of the previous fiscal year), consisting primarily of 200 million yen in short-term borrowings, 125 million yen in accounts payable-other, and 115 million yen in current portion of long-term borrowings.

The balance of non-current liabilities was 201 million yen (up 261.6% from the end of the previous fiscal year), consisting primarily of 195 million yen in long-term borrowings.

As a result, the balance of total liabilities was 1,032 million yen (up 27.9% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the current fiscal year was 1,519 million yen (up 7.2% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 202 million yen in capital surplus, and 1,098 million yen in retained earnings.

As a result, the balance of net assets was 1,527 million yen (up 7.2% from the end of the previous fiscal year).

(3) Cash Flows

The balance of cash and cash equivalents (hereinafter "net cash") at the end of the current fiscal year increased 148 million yen from the end of the previous fiscal year to 609 million yen. The details of cash flows during the current fiscal year from each activity and the major components of changes are as follows.

Cash flows from operating activities

Net cash provided by operating activities was 617 million yen. Major positive factors include profit before income taxes of 227 million yen, depreciation of 352 million yen, and amortization of goodwill of 38 million yen. Major negative factors include a 32 million yen increase in trade receivables, a 17 million yen increase in inventories, and income taxes paid of 15 million yen.

Cash flows from investing activities

Net cash used in investing activities was 557 million yen. Major positive factors include proceeds from withdrawal of time deposits of 7 million yen. Major negative factors include purchase of intangible assets of 443 million yen and purchase of property, plant and equipment of 119 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 88 million yen. Major positive factors include proceeds from long-term borrowings of 300 million yen, while major negative factors include repayments of long-term borrowings of 242 million yen and dividends paid of 43 million yen.

(4) Outlook

Although the impact of COVID-19 has gradually diminished, the future situation for the global and Japanese economies remains unclear due to surging prices of raw materials and energy resources such as crude oil caused by the prolonged Ukraine situation, concerns about global financial instability, and other factors.

In the personnel and labor market, in which the Group provides services, against the backdrop of environmental changes and initiatives to reform work styles with an eye for co-existence with the coronavirus, companies are becoming increasingly interested in IT investment to solve these problems. The adoption of cloud computing is expanding not only among large companies but also among small and medium-sized companies, and the migration from on-premise to cloud is expected to continue to grow in the future due to its benefits for companies in terms of security, cost, and operational efficiency.

Under these circumstances, the Group's medium- to long-term vision is to build a stable growth model, and it aims to expand its business scale and improve profitability by providing various products and services offered through each of its businesses to more people over a longer period of time.

In the Shalom Business, we will strive to increase sales and earnings by steadily increasing revenue from accumulated monthly usage fees as well as by acquiring more users of Shalom products including Shalom House Plan and increasing the number of IDs issued. We will also further strengthen corporate sales and service development departments to accelerate our inroads into general corporate markets.

In the CuBe Business, we will be actively approaching potential customers through various channels, such as social security attorneys and partners, with the aim of expanding the market for “GooooN” (Jinzai CuBe Cloud). As for contracted developments for CuBe products for large companies, we will be endeavoring to get them to make a stable contribution to revenue not only by developing and delivering large-scale products, but also by steadily carrying out improvement and maintenance work.

As a result, for the outlook for the fiscal year ending March 31, 2024, we forecast net sales of 3,218 million yen (up 12.2% year on year), gross profit of 1,545 million yen (up 14.5%), operating profit of 262 million yen (up 19.3%), the ratio of operating profit to net sales of 8.1% (up 0.5 percentage points), ordinary profit of 270 million yen (up 18.6%), and profit attributable to owners of parent of 164 million yen (up 12.9%).

Details of net sales, cost of sales and selling, general and administrative (SG&A) expenses for each business segment, year-on-year changes, and major factors of the changes are presented as follows. .

Shalom Business

	Amount (Millions of yen)	YoY change (%)	Major factors of change
Net sales	2,600	+11.9	—
Cloud service	2,483	+12.6	An increase in sales is expected due to higher monthly subscription revenue, the acquisition of new customers, and the introduction of new services.
System product sales	90	(1.7)	Sales are expected to be at the previous fiscal year’s level.
Others	26	(1.2)	Contract development sales and temporary/contract placement sales at Matsuyama Development Center are expected to be recorded.
Cost of sales	1,268	+11.2	An increase in cost of sales is expected due mainly to an increase in software amortization expenses and an increase in personnel-related expenses is expected due to an increase in the number of personnel.
SG&A expenses	1,082	+12.3	Despite an increase in personnel-related expenses, we intend to implement cost reductions as well.
Operating profit	250	+13.1	—

CuBe Business

	Amount (Millions of yen)	YoY change (%)	Major factors of change
Net sales	631	+12.5	—
Contracted development	565	+8.2	Sales are expected to be at the previous fiscal year’s level by strengthening our development and sales system and ensuring the implementation of collection and maintenance contracts.
Cloud service	66	+69.6	An increase in sales is expected as we acquire new customers.
Cost of sales	416	+5.7	Despite an increase in outsourcing expenses, an overall cost of sales is expected to be at the previous fiscal year’s level.
SG&A expenses	213	+14.6	An increase in personnel-related expenses is expected due to an increase in the number of personnel.
Operating profit	1	—	—

Note: The difference between the sum of the forecasts of net sales, cost of sales, and SG&A expenses of each business segment and the amounts of net sales, cost of sales, and SG&A expenses of the consolidated earnings forecast is attributable to inter-segment transactions.

2. Basic Approach to the Selection of Accounting Standards

The Group prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan. This decision was made in consideration primarily of burdens for developing a system to prepare the consolidated financial statements in accordance with International Financial Reporting Standards.

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

	(Thousands of yen)	
	FY3/22	FY3/23
	(As of Mar. 31, 2022)	(As of Mar. 31, 2023)
Assets		
Current assets		
Cash and deposits	468,147	609,336
Accounts receivable-trade	475,057	507,988
Merchandise	35,267	29,154
Work in process	7,096	29,966
Supplies	155	440
Prepaid expenses	60,730	47,293
Income taxes refund receivable	5,300	–
Other	5,229	8,350
Total current assets	1,056,984	1,232,530
Non-current assets		
Property, plant and equipment		
Buildings, net	124,164	112,613
Vehicles, net	866	1
Tools, furniture and fixtures, net	118,476	144,907
Total property, plant and equipment	243,507	257,520
Intangible assets		
Software	438,283	485,234
Software in progress	124,583	249,092
Trademark right	1,086	855
Telephone subscription right	1,218	1,218
Goodwill	174,878	136,016
Total intangible assets	740,050	872,417
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	162,956	163,022
Deferred tax assets	28,285	33,216
Other	98	1,176
Total investments and other assets	191,400	197,475
Total non-current assets	1,174,958	1,327,414
Total assets	2,231,942	2,559,945

	(Thousands of yen)	
	FY3/22	FY3/23
	(As of Mar. 31, 2022)	(As of Mar. 31, 2023)
Liabilities		
Current liabilities		
Accounts payable-trade	61,632	78,633
Short-term borrowings	126,000	200,000
Current portion of long-term borrowings	197,259	115,592
Accounts payable-other	156,920	125,321
Accrued expenses	16,222	17,838
Income taxes payable	8,619	77,519
Accrued consumption taxes	17,139	25,688
Advances received	86,840	111,909
Provision for retirement benefits for directors (and other officers)	5,000	—
Provision for bonuses	67,789	71,228
Other	8,283	8,001
Total current liabilities	751,705	831,733
Non-current liabilities		
Long-term borrowings	55,592	195,000
Retirement benefit liability	—	6,010
Total non-current liabilities	55,592	201,010
Total liabilities	807,297	1,032,743
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	202,122	202,122
Retained earnings	996,759	1,098,920
Treasury shares	(499)	(499)
Total shareholders' equity	1,417,493	1,519,653
Non-controlling interests	7,152	7,548
Total net assets	1,424,645	1,527,201
Total liabilities and net assets	2,231,942	2,559,945

(2) Consolidated Statements of Income and Comprehensive Income**Consolidated Statement of Income**

	(Thousands of yen)	
	FY3/22	FY3/23
	(Apr. 1, 2021 – Mar. 31, 2022)	(Apr. 1, 2022 – Mar. 31, 2023)
Net sales	2,742,835	2,867,469
Cost of sales	1,468,017	1,518,004
Gross profit	1,274,818	1,349,465
Selling, general and administrative expenses	1,129,406	1,129,789
Operating profit	145,411	219,675
Non-operating income		
Interest income	5	5
Dividend income	1	1
Rental income	42,804	42,804
Purchase discounts	155	158
Outsourcing service income	4,800	6,000
Other	55	400
Total non-operating income	47,821	49,368
Non-operating expenses		
Interest expenses	1,960	2,734
Rental costs	38,028	38,028
Compensation expenses	23,700	–
Miscellaneous losses	–	632
Total non-operating expenses	63,688	41,394
Ordinary profit	129,544	227,650
Profit before income taxes	129,544	227,650
Income taxes-current	34,680	86,604
Income taxes-deferred	2,209	(4,930)
Total income taxes	36,889	81,673
Profit	92,654	145,976
Profit attributable to non-controlling interests	1,259	396
Profit attributable to owners of parent	91,394	145,580

Consolidated Statement of Comprehensive Income

	(Thousands of yen)	
	FY3/22	FY3/23
	(Apr. 1, 2021 – Mar. 31, 2022)	(Apr. 1, 2022 – Mar. 31, 2023)
Profit	92,654	145,976
Comprehensive income	92,654	145,976
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	91,394	145,580
Comprehensive income attributable to non-controlling interests	1,259	396

(3) Consolidated Statement of Changes in Equity

FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)

(Thousands of yen)

	Shareholders' equity					Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	219,110	197,457	948,784	(499)	1,364,852	37,557	1,402,410
Changes during period							
Dividends of surplus			(43,419)		(43,419)		(43,419)
Profit attributable to owners of parent			91,394		91,394		91,394
Change in ownership interest of parent due to transactions with non-controlling interests		4,665			4,665		4,665
Purchase of treasury shares					—		—
Net changes in items other than shareholders' equity						(30,405)	(30,405)
Total changes during period	—	4,665	47,974	—	52,640	(30,405)	22,234
Balance at end of period	219,110	202,122	996,759	(499)	1,417,493	7,152	1,424,645

FY3/23 (Apr. 1, 2022 – Mar. 31, 2023)

(Thousands of yen)

	Shareholders' equity					Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	219,110	202,122	996,759	(499)	1,417,493	7,152	1,424,645
Changes during period							
Dividends of surplus			(43,419)		(43,419)		(43,419)
Profit attributable to owners of parent			145,580		145,580		145,580
Change in ownership interest of parent due to transactions with non-controlling interests		—			—		—
Purchase of treasury shares					—		—
Net changes in items other than shareholders' equity						396	396
Total changes during period	—	—	102,160	—	102,160	396	102,556
Balance at end of period	219,110	202,122	1,098,920	(499)	1,519,653	7,548	1,527,201

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)	FY3/23 (Apr. 1, 2022 – Mar. 31, 2023)
Cash flows from operating activities		
Profit before income taxes	129,544	227,650
Depreciation	376,903	352,724
Amortization of goodwill	38,861	38,861
Increase (decrease) in provision for retirement benefits for directors (and other officers)	5,000	(5,000)
Increase (decrease) in retirement benefit liability	–	6,010
Increase (decrease) in provision for bonuses	3,676	3,439
Interest and dividend income	(6)	(6)
Interest expenses	1,960	2,734
Decrease (increase) in trade receivables	(7,640)	(32,931)
Decrease (increase) in inventories	(32,124)	(17,043)
Increase (decrease) in trade payables	16,626	17,000
Increase (decrease) in accrued consumption taxes	5,298	6,817
Increase (decrease) in accounts payable-other	26,643	(6,198)
Other, net	7,206	41,443
Subtotal	571,949	635,503
Interest and dividends received	5	5
Interest paid	(1,960)	(2,734)
Income taxes paid	(76,269)	(15,524)
Net cash provided by (used in) operating activities	493,725	617,250
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	20,049	7,094
Purchase of property, plant and equipment	(48,981)	(119,622)
Purchase of intangible assets	(441,948)	(443,745)
Payments of leasehold and guarantee deposits	(1,988)	(284)
Proceeds from refund of leasehold and guarantee deposits	394	218
Purchase of golf club membership	–	(1,077)
Net cash provided by (used in) investing activities	(472,474)	(557,416)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	126,000	74,000
Proceeds from long-term borrowings	–	300,000
Repayments of long-term borrowings	(233,304)	(242,259)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(27,000)	–
Dividends paid	(43,243)	(43,290)
Net cash provided by (used in) financing activities	(177,547)	88,450
Net increase (decrease) in cash and cash equivalents	(156,296)	148,283
Cash and cash equivalents at beginning of period	617,349	461,052
Cash and cash equivalents at end of period	461,052	609,336

(5) Notes to Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Segment and Other Information

Segment information

1. Overview of reportable segment

(1) Method of determining the reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group consists of business segments sorted by merchandise, products, and services based on MKSystem and its consolidated subsidiaries. The Group has two reportable segments: Shalom Business and CuBe Business.

(2) Products and services by each reportable segment

The Shalom Business segment provides software to support the business processes associated primarily with social insurance and labor insurance as an application service provider (ASP).

The CuBe Business segment provides consultation services focused on the business processes to the human resources and general affairs divisions of companies to customize, develop, and provide front-end systems that help enhance efficiency of operations for each customer.

2. Method of calculating net sales, profit/loss, assets, liabilities, and other items by reportable segment

The accounting treatment methods for reportable business segments are generally the same as those listed in “Significant Accounting Policies in the Preparation of Consolidated Financial Statements,” except for the valuation of inventories.

Inventories are evaluated by the amount before written down to reflect the effect of lower profit margins. Profits for reportable segments are generally operating profit figures. Profits on and transfer amounts of inter-segment transactions within the Group are based on current market prices.

3. Information related to net sales, profit/loss, assets, liabilities and other items for each reportable segment

FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	2,136,196	606,638	2,742,835	–	2,742,835
Inter-segment sales and transfers	20,055	8,643	28,699	(28,699)	–
Total	2,156,252	615,282	2,771,534	(28,699)	2,742,835
Segment profit	124,891	9,538	134,429	10,982	145,411
Segment assets	1,625,639	613,387	2,239,027	(7,084)	2,231,942
Other items					
Depreciation	346,989	29,913	376,903	–	376,903
Amortization of goodwill	–	38,861	38,861	–	38,861
Increase in property, plant and equipment and intangible assets	399,194	40,611	439,806	–	439,806

Notes: 1. The adjustment to segment profit is the elimination of inter-segment transactions.
2. The adjustment of segment assets is the elimination of inter-segment receivables and payables.
3. Segment profit is adjusted to be consistent with operating profit presented on the consolidated statement of income.

FY3/23 (Apr. 1, 2022 – Mar. 31, 2023)

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in consolidated financial statements
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	2,314,941	552,527	2,867,469	–	2,867,469
Inter-segment sales and transfers	9,291	8,789	18,080	(18,080)	–
Total	2,324,232	561,317	2,885,550	(18,080)	2,867,469
Segment profit	221,105	(19,588)	201,517	18,158	219,675
Segment assets	1,970,863	596,140	2,567,003	(7,059)	2,559,944
Other items					
Depreciation	324,822	27,902	352,724	–	352,724
Amortization of goodwill	–	38,861	38,861	–	38,861
Increase in property, plant and equipment and intangible assets	372,796	40,662	413,459	–	413,459

Notes: 1. The adjustment to segment profit is the elimination of inter-segment transactions.
2. The adjustment of segment assets is the elimination of inter-segment receivables and payables.
3. Segment profit is adjusted to be consistent with operating profit presented on the consolidated statement of income.

Per Share Information

(Yen)

	FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)	FY3/23 (Apr. 1, 2022 – Mar. 31, 2023)
Net assets per share	261.17	279.99
Basic earnings per share	16.84	26.82

Notes: 1. Diluted earnings per share is not presented since MKSystem had no dilutive potential shares.
2. The basis of calculating basic earnings per share is as follows:

(Thousands of yen unless otherwise stated)

	FY3/22 (Apr. 1, 2021 – Mar. 31, 2022)	FY3/23 (Apr. 1, 2022 – Mar. 31, 2023)
Profit attributable to owners of parent	91,394	145,580
Amounts not available to common shareholders	–	–
Profit attributable to owners of parent available to common stock	91,394	145,580
Average number of shares of common stock during the period (Shares)	5,427,494	5,427,494

3. The basis of calculating net assets per share is as follows:

(Thousands of yen unless otherwise stated)

	FY3/22 (As of Mar. 31, 2022)	FY3/23 (As of Mar. 31, 2023)
Total net assets	1,424,645	1,527,201
Deduction on total net assets	7,152	7,548
[of which non-controlling interests]	[7,152]	[7,548]
Net assets applicable to common stock	1,417,493	1,519,653
Number of shares of common stock at the fiscal year end used in calculation of net assets per share (Shares)	5,427,494	5,427,494

Subsequent Events

Not applicable.

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.