

Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending March 31, 2024
(Nine Months Ended December 31, 2023)

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: February 6, 2024
 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, 2023

(April 1, 2023–December 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	%
Nine months ended Dec. 31, 2023	1,788	(14.1)	(415)	–	(417)	–	(700)	–
Nine months ended Dec. 31, 2022	2,081	3.7	118	(0.3)	124	23.2	66	(5.1)

Note: Comprehensive income (million yen) Nine months ended Dec. 31, 2023: (701) (–%)
 Nine months ended Dec. 31, 2022: 65 (down 12.1%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec. 31, 2023	(129.14)	–
Nine months ended Dec. 31, 2022	12.22	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec. 31, 2023	2,456	782	31.6
As of Mar. 31, 2023	2,559	1,527	59.4

Reference: Shareholders' equity (million yen) As of Dec. 31, 2023: 775 As of Mar. 31, 2023: 1,519

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2023	–	0.00	–	8.00	8.00
Fiscal year ending Mar. 31, 2024	–	0.00	–		
Fiscal year ending Mar. 31, 2024 (forecast)				4.00	4.00

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

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
Full year	2,655	(7.4)	(330)	–	(331)	–	(637)	–	(117.41)

Note: Revisions to the most recently announced earnings forecasts: Yes

*** 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, 2023:	5,428,000 shares	As of Mar. 31, 2023:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Dec. 31, 2023:	506 shares	As of Mar. 31, 2023:	506 shares
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3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2023:	5,427,494 shares	Nine months ended Dec. 31, 2022:	5,427,494 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 4 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first nine month of the fiscal year ending March 31, 2024 (hereinafter “the period under review”), the Japanese economy was expected to improve the business sentiment, after business activities and private consumption behavior gradually returned to normal by easing of movement restrictions due to COVID-19. However, considering the increased downside risk caused by the global monetary tightening, the prolonged Russia and Ukraine situation, and the continuing price hikes due to yen depreciation, the Japanese economy 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 digital transformation (DX) to improve business efficiency. Against these backdrops, corporate demand for investment 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, as announced in “Notice of Ransomware Infection Damages by a Third Party” (available in Japanese only) on June 6, 2023, servers of the data center that provides our services were compromised by a third party using a ransomware, and we had to continue to suspend some of our services for recovery.. As a result, we cancelled billing to the affected users for the subscription in June and part of July.

In recovering the system, we removed the infected servers in the data center, as we have decided to migrate our services to a cloud computing platform. In addition, unexpected expenses were incurred for investigation by an external specialized agency, reconstruction of system infrastructure, and security enhancement. Accordingly, we recognized 125 million yen of loss on retirement of non-current assets and 139 million yen of system failure response expenses both as extraordinary losses.

As a result, for the period under review, the Group reported net sales of 1,788 million yen (down 14.1% year on year), gross profit of 462 million yen (down 52.8%), operating loss of 415 million yen (compared with operating profit of 118 million yen for the same period of the previous fiscal year), ordinary loss of 417 million yen (compared with ordinary profit of 124 million yen for the same period of the previous fiscal year), and loss attributable to owners of parent of 700 million yen (compared with profit attributable to owners of parent of 66 million yen for the same period of the previous fiscal year). In addition, the return on equity (ROE), one of the KPIs for the Group, came in at minus 61.1% (compared with positive 4.6% for the same period of the previous fiscal year) on a consolidated basis, and minus 48.8% (compared with positive 6.9% for the same period of the previous fiscal year) on a non-consolidated basis.

Results by business segment were as follows.

The Shalom Business

We provide 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 this segment, as mentioned earlier, we were unable to provide proper services to most of roughly 3,400 users due to the unauthorized access to the servers in our data center by a third party using a ransomware. As a result of the incident, net sales decreased due to cancellation of billing to the affected users for the subscription in June and part of July.

Net sales of the segment consist of those from the cloud services of 1,336 million yen (down 17.8% year on year), of which the ASP services under the subscription model amounted to 1,272 million yen (down 15.3%) and the system construction services amounted to 63 million yen (down 48.3%); and those from the system products of 59 million yen (down 11.6%).

Gross profit and operating profit significantly decreased year on year due to an increase in cost of sales by higher-than-expected operating cost for the cloud services built as our new system platform, in addition to a decrease in net sales for the above mentioned reason.

As a result, the segment recorded net sales of 1,406 million yen (down 17.9% year on year), gross profit of 352 million yen (down 60.1%), and operating loss of 387 million yen (compared with operating profit of 147 million yen for the same period of the previous fiscal year). The ratio of operating profit (loss) to net sales, one of the KPIs for the Group, came in at minus 27.6% (compared with positive 8.6% for the same period of the previous fiscal year).

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. Meanwhile, the number of new development projects that respond to demand for investment in updating systems has piled up at the same pace as that for the past years. In addition, during the third quarter, we received a large-scale development project that will contribute to sales in the next fiscal year and beyond. In the cloud service business GooooN, we focused on functional enhancement and cultivation of sales channels.

While we are continuing to work on reducing costs, the segment recorded operating loss due to incurrence of upfront costs consisting mainly of outsourcing expenses and promotion expenses.

As a result, the segment recorded net sales of 394 million yen (up 4.2% year on year), gross profit of 111 million yen (up 13.2%), and operating loss of 43 million yen (compared with operating loss of 42 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 1,274 million yen (up 3.4% from the end of the previous fiscal year), consisting primarily of 654 million yen in cash and deposits and 459 million yen in accounts receivable-trade.

The balance of non-current assets was 1,182 million yen (down 10.9% from the end of the previous fiscal year), consisting primarily of 524 million yen in software, 157 million yen in guarantee deposits, and 106 million yen in goodwill.

As a result, the balance of total assets was 2,456 million yen (down 4.0% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 863 million yen (up 3.8% from the end of the previous fiscal year), consisting primarily of 300 million yen in short-term borrowings, 295 million yen in current portion of long-term borrowings, and 88 million yen in accounts payables-other.

The balance of non-current liabilities was 810 million yen (up 303.4% from the end of the previous fiscal year), consisting of 798 million yen in long-term borrowings.

As a result, the balance of total liabilities was 1,674 million yen (up 62.1% from the end of the previous fiscal

year).

Net assets

The balance of shareholders' equity at the end of the period under review was 775 million yen (down 49.0% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 202 million yen in capital surplus, and 354 million yen in retained earnings.

As a result, the balance of net assets was 782 million yen (down 48.8% from the end of the previous fiscal year).

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

Based on performance in the period under review and other factors, we have revised the consolidated earnings forecasts for the fiscal year ending March 31, 2024 that we announced on August 8, 2023.

For more information, please refer to "Revisions to Earnings Forecast" (Japanese version only) that was announced on February 5, 2024.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY3/23 (As of Mar. 31, 2023)	Third quarter of FY3/24 (As of Dec. 31, 2023)
Assets		
Current assets		
Cash and deposits	609,336	654,630
Accounts receivable-trade	507,988	459,430
Merchandise	29,154	24,053
Work in process	29,966	80,702
Supplies	440	437
Prepaid expenses	47,293	35,121
Other	8,350	20,288
Total current assets	1,232,530	1,274,664
Non-current assets		
Property, plant and equipment		
Buildings, net	112,613	103,970
Vehicles, net	0	0
Tools, furniture and fixtures, net	144,907	29,147
Total property, plant and equipment	257,520	133,118
Intangible assets		
Software	485,234	524,838
Software in progress	249,092	240,028
Trademark right	855	683
Telephone subscription right	1,218	1,218
Goodwill	136,016	106,761
Total intangible assets	872,417	873,530
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	163,022	157,298
Deferred tax assets	33,216	17,100
Other	1,176	1,176
Total investments and other assets	197,475	175,635
Total non-current assets	1,327,414	1,182,283
Total assets	2,559,945	2,456,948

(Thousands of yen)

	FY3/23 (As of Mar. 31, 2023)	Third quarter of FY3/24 (As of Dec. 31, 2023)
Liabilities		
Current liabilities		
Accounts payable-trade	78,633	31,681
Short-term borrowings	200,000	300,000
Current portion of long-term borrowings	115,592	295,169
Accounts payable-other	125,321	88,363
Accrued expenses	17,838	32,046
Income taxes payable	77,519	1,222
Accrued consumption taxes	25,688	536
Advances received	111,909	66,115
Provision for system failure response expenses	–	770
Provision for bonuses	71,228	31,688
Other	8,001	15,901
Total current liabilities	831,733	863,495
Non-current liabilities		
Long-term borrowings	195,000	798,166
Retirement benefit liability	6,010	12,782
Total non-current liabilities	201,010	810,948
Total liabilities	1,032,743	1,674,444
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	202,122	202,122
Retained earnings	1,098,920	354,571
Treasury shares	(499)	(499)
Total shareholders' equity	1,519,653	775,305
Non-controlling interests	7,548	7,199
Total net assets	1,527,201	782,504
Total liabilities and net assets	2,559,945	2,456,948

(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 FY3/23 (Apr. 1, 2022 – Dec. 31, 2022)	First nine months of FY3/24 (Apr. 1, 2023 – Dec. 31, 2023)
Net sales	2,081,729	1,788,362
Cost of sales	1,101,518	1,326,102
Gross profit	980,211	462,260
Selling, general and administrative expenses	861,529	877,945
Operating profit (loss)	118,681	(415,684)
Non-operating income		
Interest income	2	2
Dividend income	1	1
Rental income	32,103	30,295
Outsourcing service income	4,500	4,500
Other	89	22
Total non-operating income	36,695	34,820
Non-operating expenses		
Interest expenses	2,051	3,783
Rental costs	28,521	27,329
Commission expenses	–	6,000
Other	631	–
Total non-operating expenses	31,203	37,112
Ordinary profit (loss)	124,174	(417,977)
Extraordinary losses		
Loss on retirement of non-current assets	–	125,934
System failure response expenses	–	139,562
Total extraordinary losses	–	265,496
Profit (loss) before income taxes	124,174	(683,473)
Income taxes-current	48,455	1,791
Income taxes-deferred	9,783	16,116
Total income taxes	58,238	17,908
Profit (loss)	65,936	(701,382)
Loss attributable to non-controlling interests	(375)	(453)
Profit (loss) attributable to owners of parent	66,311	(700,928)

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

(Thousands of yen)

	First nine months of FY3/23 (Apr. 1, 2022–Dec. 31, 2022)	First nine months of FY3/24 (Apr. 1, 2023–Dec. 31, 2023)
Profit (loss)	65,936	(701,382)
Comprehensive income	65,936	(701,382)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	66,311	(700,928)
Comprehensive income attributable to non-controlling interests	(375)	(453)

(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 FY3/23 (Apr. 1, 2022–Dec. 31, 2022)

Information related to net sales and profit for each reportable segment

(Thousands of yen)

	Shalom Business	CuBe Business	Total	Adjustment (Note)	Amounts recorded in quarterly consolidated statement of income
Net sales					
External sales	1,705,878	375,851	2,081,729	–	2,081,729
Inter-segment sales and transfers	7,365	3,069	10,434	(10,434)	–
Total	1,713,243	378,920	2,092,163	(10,434)	2,081,729
Segment profit (loss)	147,533	(42,243)	105,290	13,391	118,681

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

2. Segment profit (loss) is adjusted to be consistent with operating profit presented on the quarterly consolidated statement of income.

First nine months of FY3/24 (Apr. 1, 2023–Dec. 31, 2023)

Information related to net sales and profit for each reportable segment

(Thousands of yen)

	Shalom Business	CuBe Business	Total	Adjustment (Note)	Amounts recorded in quarterly consolidated statement of income
Net sales					
External sales	1,403,102	385,260	1,788,362	–	1,788,362
Inter-segment sales and transfers	3,024	9,559	12,583	(12,583)	–
Total	1,406,126	394,819	1,800,946	(12,583)	1,788,362
Segment loss	(387,449)	(43,320)	(430,770)	15,085	(415,684)

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

2. Segment loss is adjusted to be consistent with operating loss 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.