



Presentation Materials for the Earnings Briefing

for the First Half of the Fiscal Year
Ending March 31, 2024

January 19, 2024

MKSystem Corporation (stock code: 3910)

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Company profile

- Company name: MKSystem Corporation
- Representative: Noboru Miyake
- Location: Osaka Head office
30F, Umeda Center Bldg., 2-4-12, Nakazaki-nishi, Kita-ku, Osaka, Japan
- Bases: Tokyo; Nagoya; Fukuoka; Ninohe, Iwate Prefecture; and Matsuyama
- Subsidiary: Business Net Corporation Co., Ltd. (Minato-ku, Tokyo)
- Date of incorporation: February 22, 1989
- Capital stock: 219 million yen



Mission and vision

MISSION

Management Philosophy

We provide cloud solutions that benefit you

Our services are user-friendly for consumers, their families and employers. Moreover, they support social foundations through contribution to the administration of social security services and human resources development.

VISION

Management Policies

**Provide comprehensive services in the field of the personnel and labor management
Streamlines operations and supports the creation of added value**

Our services streamline operations and increase productivity at our customers, and simultaneously adds value by supporting the entire organization as well as individual employees.

VALUES

Action Guidelines



Technology Driven

Leverage the state-of-the-art technologies to continue to innovate services.



Speed

Act with speed while being conscious of the concerns of relevant concerned parties.



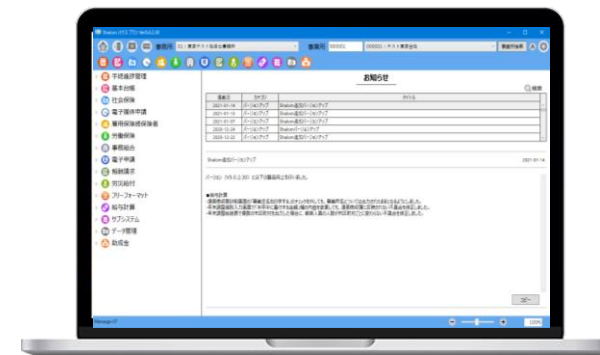
Fairness

Act fairly and equitably to grow and develop together with our stakeholders.

Divided our business into two segments: Shalom Business and CuBe Business

Shalom Business

- ASP service
Monthly system service fee and initial setup fee, etc.
- System construction service
Sales of working time recording systems and payroll ledgers, etc.



CuBe Business

- Contracted development type semi-customized services
System customization and maintenance costs
- Cloud service



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Results highlight (consolidated)

- 2Q sales **down 14.3% YoY** to 608 million yen due to the June 5 ransomware incident
- Gross profit **down 65.2% YoY** to 118 million yen due to lower sales and an increase in IDC expenses
- Operating loss was 174 million yen, **down 221 million yen YoY** from an operating profit one year earlier
- Steady revenue from the Shalom Business **down 17.0% YoY** to 416 million yen partially due to the suspension of some invoicing in June and July
- Order backlog in the CuBe Business **decreased 15.9% from the end of the previous fiscal year** to 237 million yen

Financial summary (consolidated)

2Q sales were down 14.3% YoY to 608 million yen because of the ransomware incident. Ransomware was also responsible for 2Q operating loss of 174 million yen.

	2Q FY3/23	1Q FY3/24	2Q FY3/24	YoY change	Vs. 1Q FY3/24
Net sales	710	509	608	(14.3)%	+19.5%
Gross profit	340	114	118	(65.2)%	+3.4%
<i>Gross margin</i>	48.0%	22.5%	19.5%	(28.5)pt	+3.0pt
Operating profit	46	(167)	(174)	-	-
<i>Operating margin</i>	6.6%	-	-	-	-
Profit attributable to owners of parent	33	(412)	(182)	-	-
Basic earnings per share (Yen)	6.25	(76.01)	(33.69)	-	-

Balance sheet (consolidated)

**Non-current assets down mainly due to a withdrawal of Internet Data Center
Equity ratio decreased to 33.5%**

	FY3/22	2Q FY3/23	FY3/23	2Q FY3/24
Total current assets	1,056	1,154	1,232	1,381
Accounts receivable-trade	475	438	507	487
Total non-current assets	1,174	1,253	1,327	1,249
Total current liabilities	751	782	831	989
Advances received	86	72	111	53
Total non-current liabilities	55	228	201	752
Total net assets	1,424	1,397	1,527	888

Cash flows (consolidated)

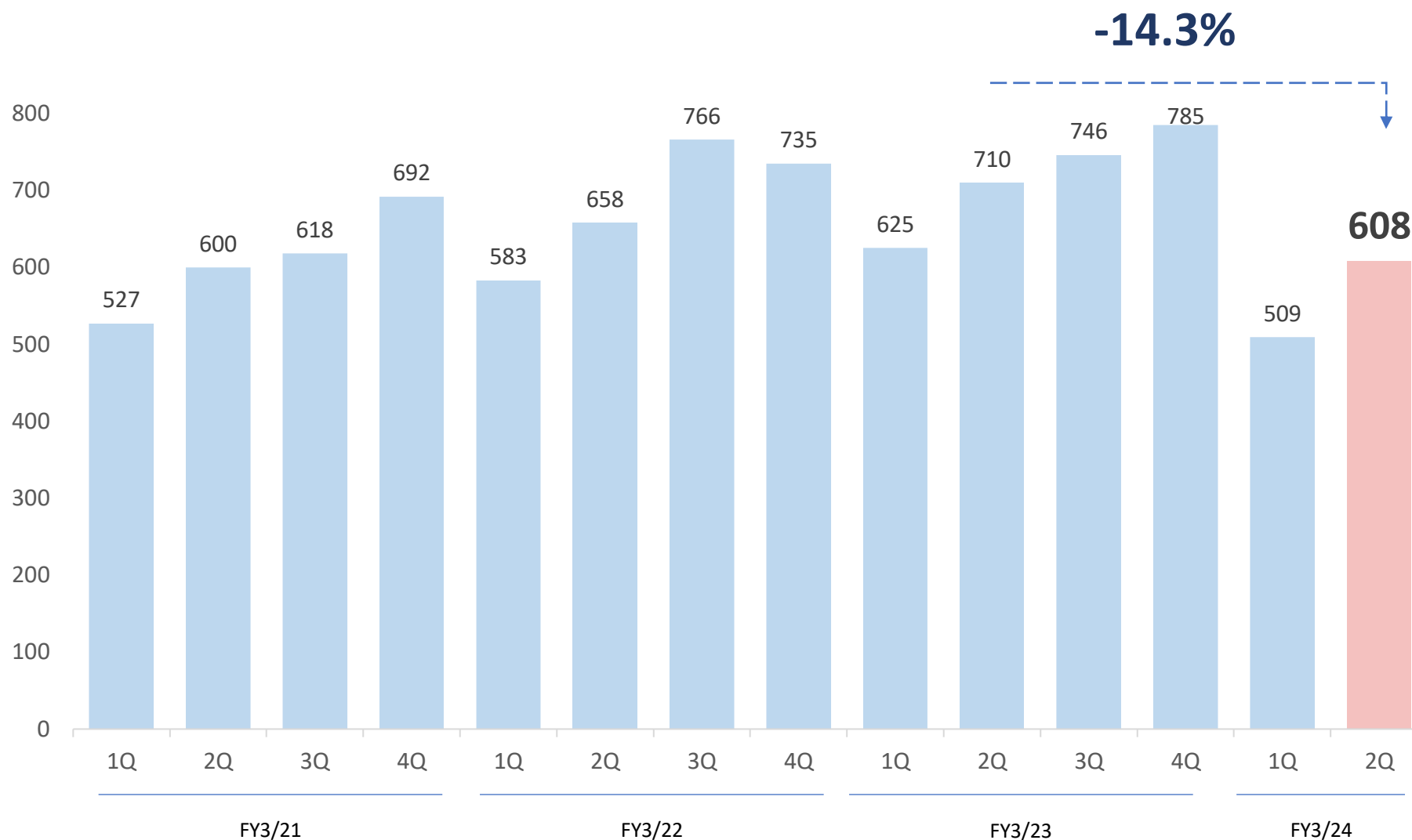
Cash flows from operating activities decreased 652 million yen YoY because of deterioration in business performance.

More bank loans resulted in an increase in cash

	FY3/22	1H FY3/23	FY3/23	1H FY3/24
Cash flows from operating activities	493	245	617	(407)
Cash flows from investing activities	(472)	(284)	(557)	(146)
Cash flows from financing activities	(177)	176	88	671
Net increase (decrease) in cash and cash equivalents	(156)	137	148	117
Cash and cash equivalents at end of period	461	598	609	726

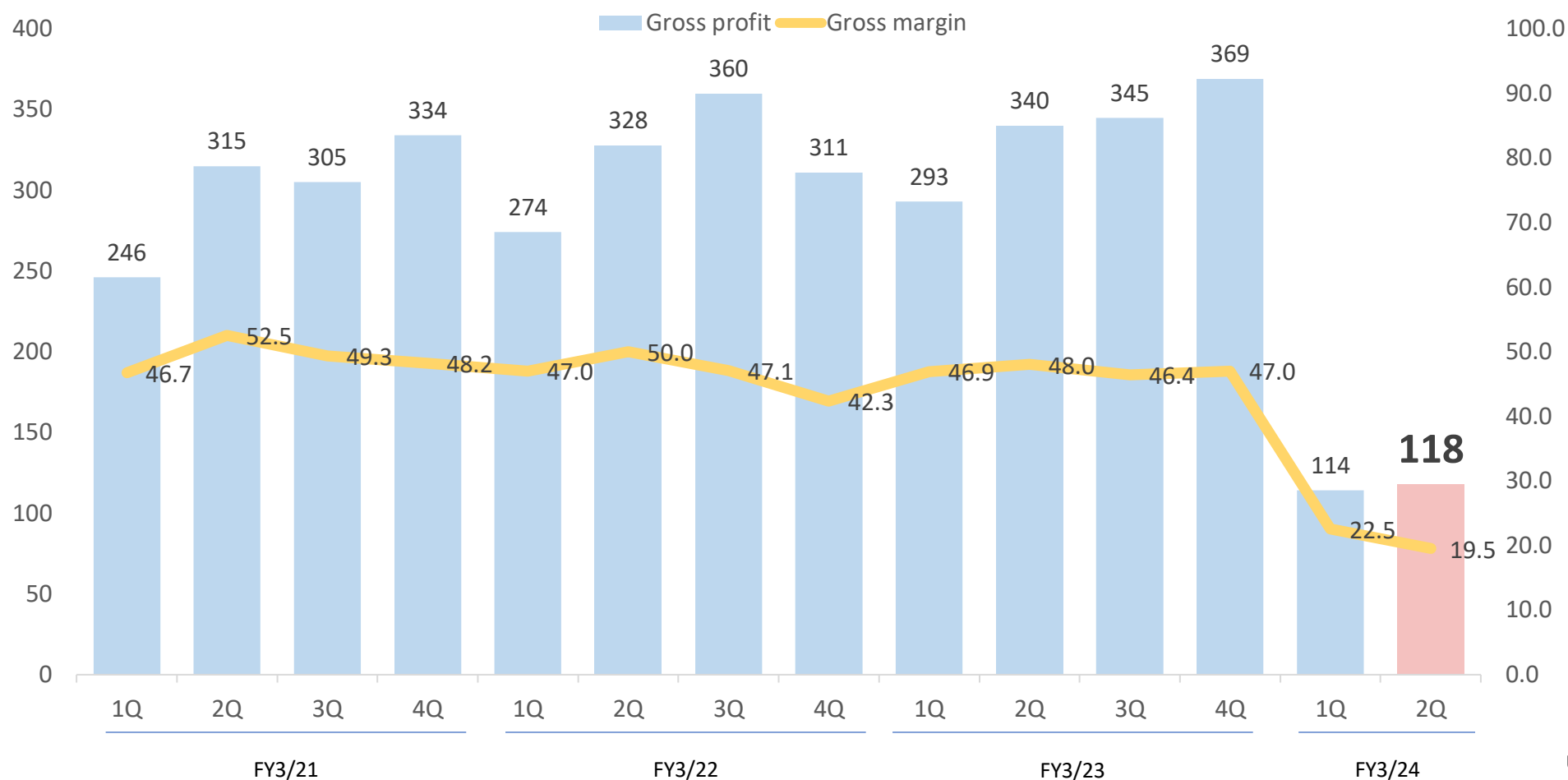
Net sales (consolidated)

2Q consolidated sales decreased 14.3% YoY due to the ransomware incident



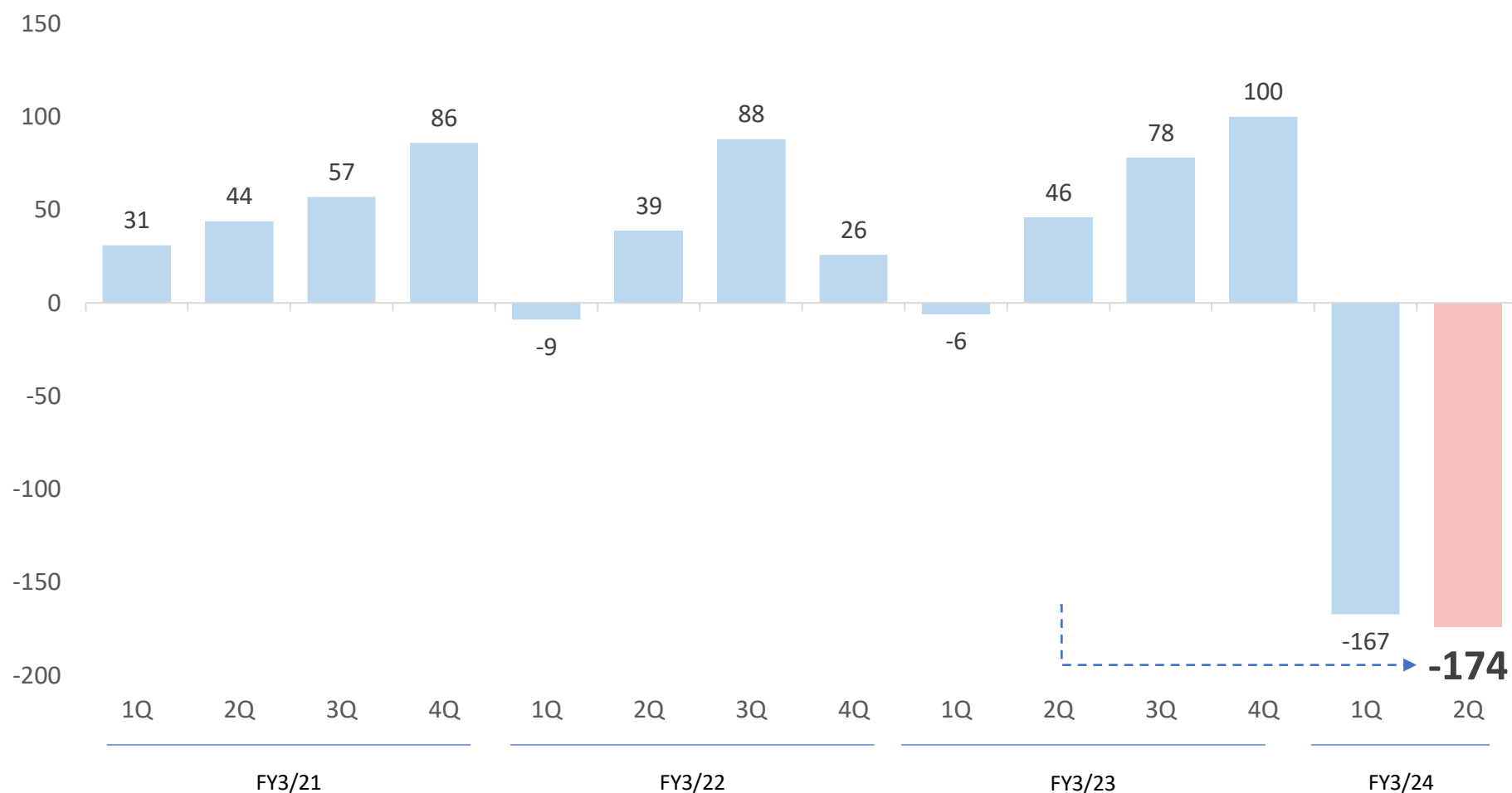
Gross profit (consolidated)

Gross profit down **65.2%** YoY due to a decrease in sales caused by the ransomware incident and higher IDC expenses. Gross margin decreased **28.5pt** compared with the same period a year earlier.



Operating profit (consolidated)

Operating loss was 174 million yen, a decrease of **221 million yen** from an operating profit one year earlier due to decreases in sales and gross profit.

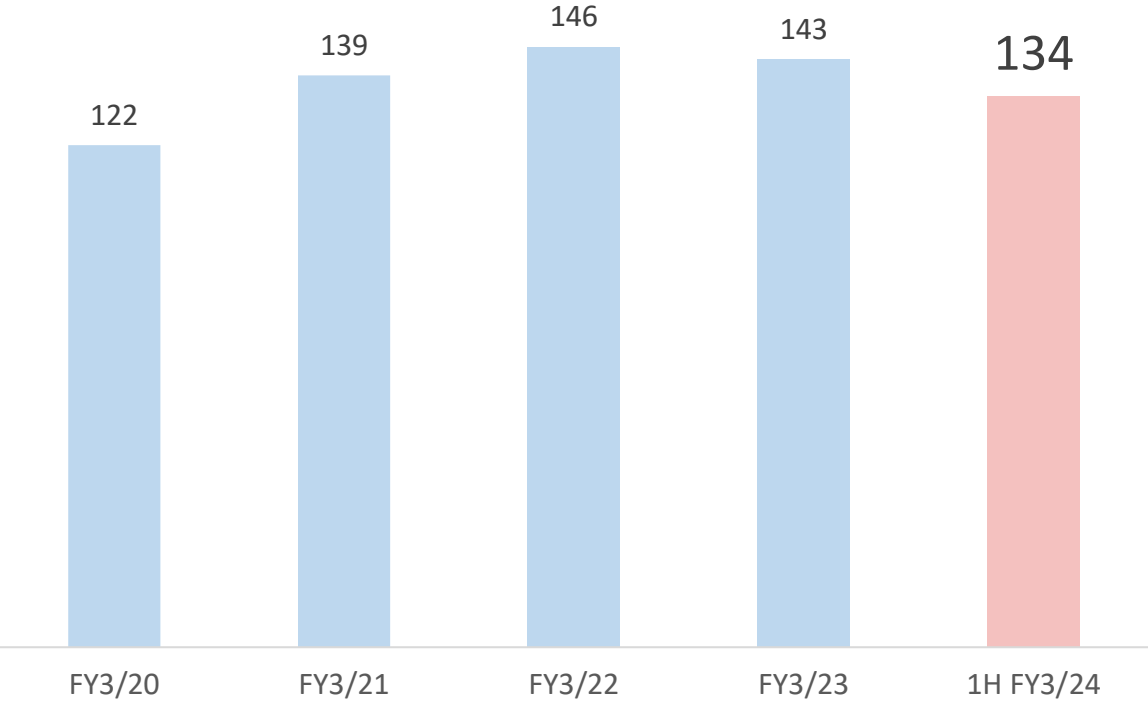


Number of employees (consolidated)



The number of employees decreased due to an increase in retired employees despite a continuation of hiring new college graduates

Number of employees



Composition of employees

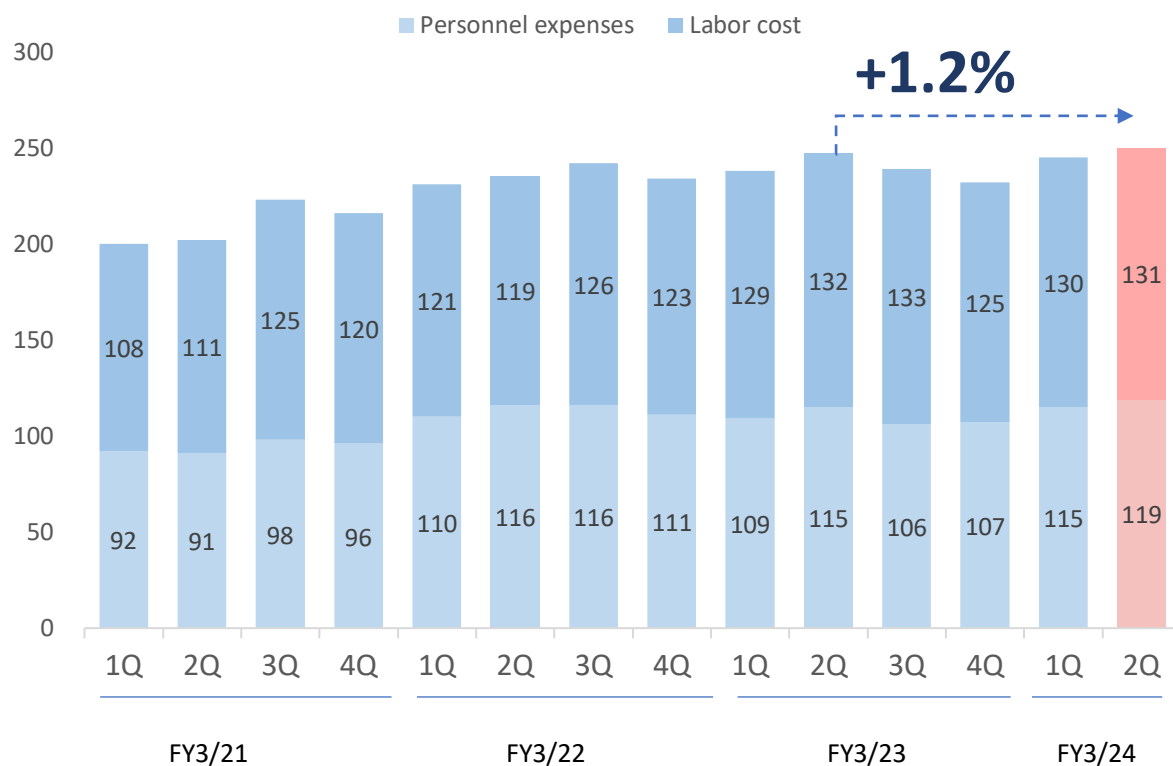


Personnel and promotion expenses (consolidated)

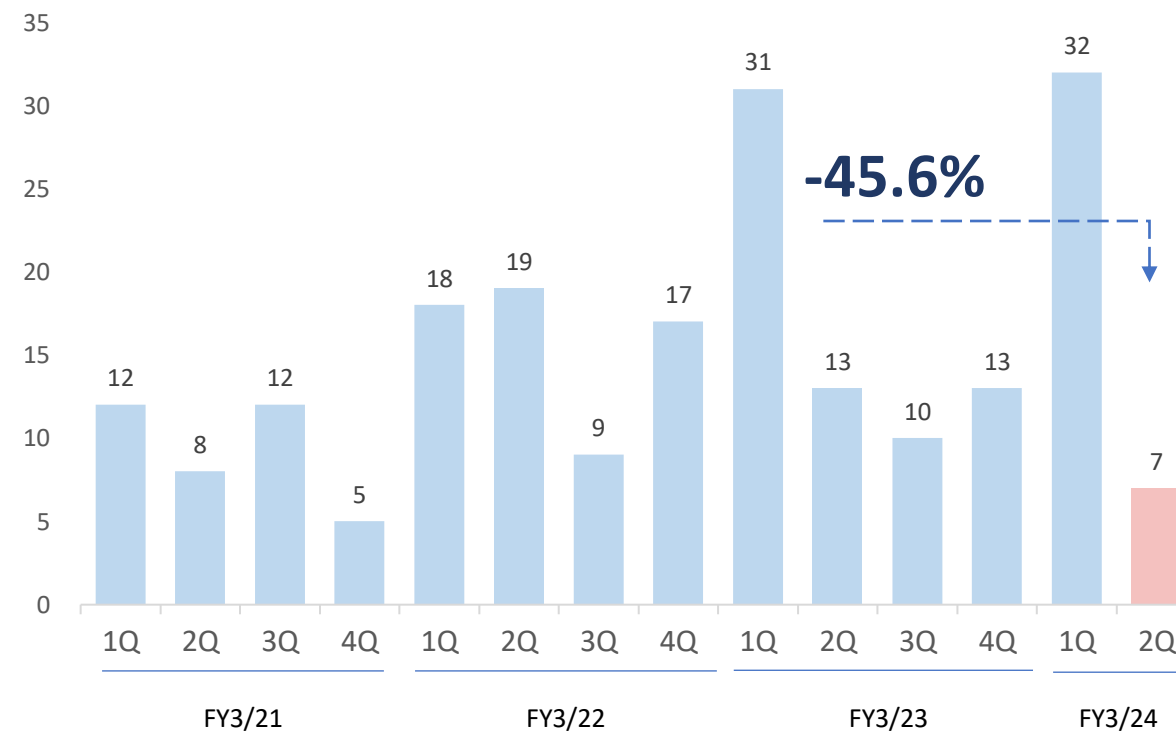
Prioritized recruitment to strengthen sales and development systems.

Continuing marketing expenditures for participation in major exhibitions and increasing promotions and other sales activities.

Personnel expenses / labor cost

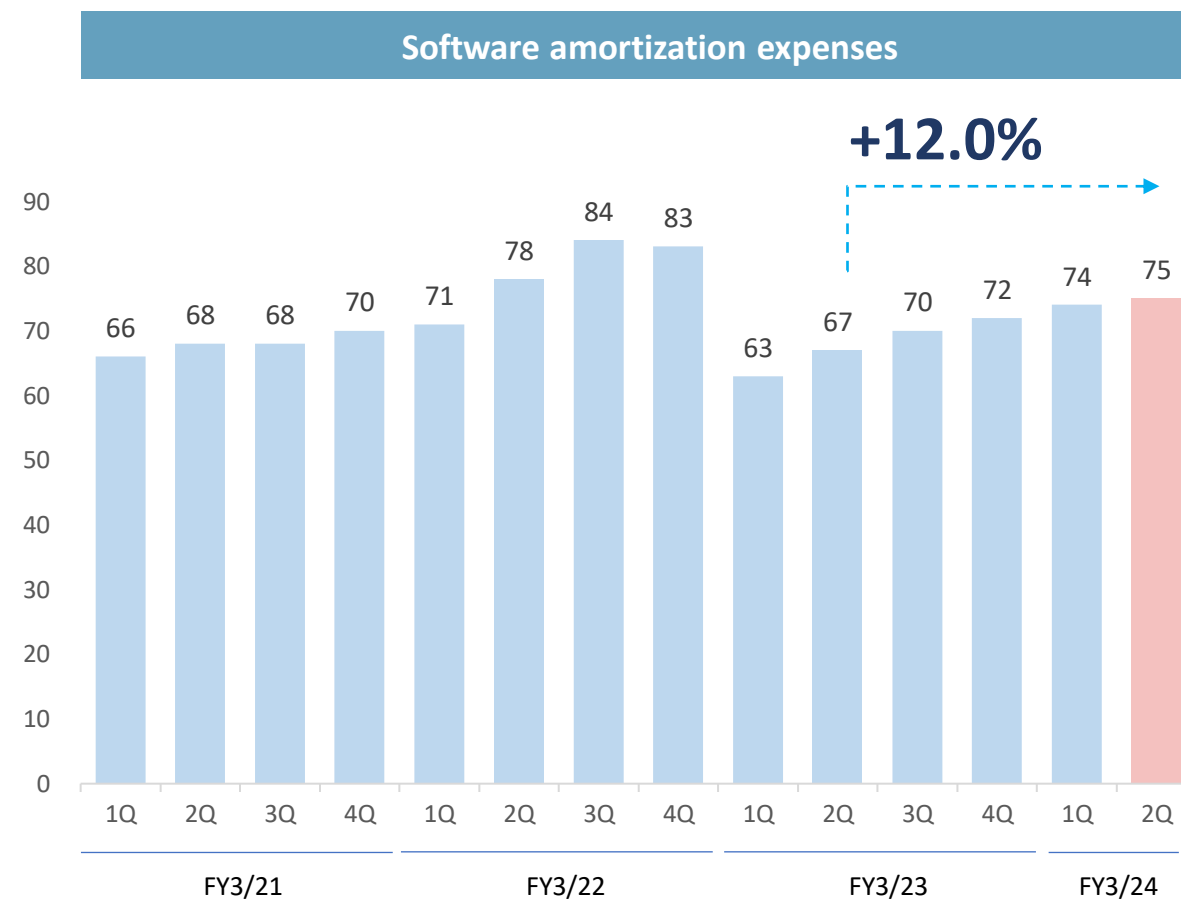
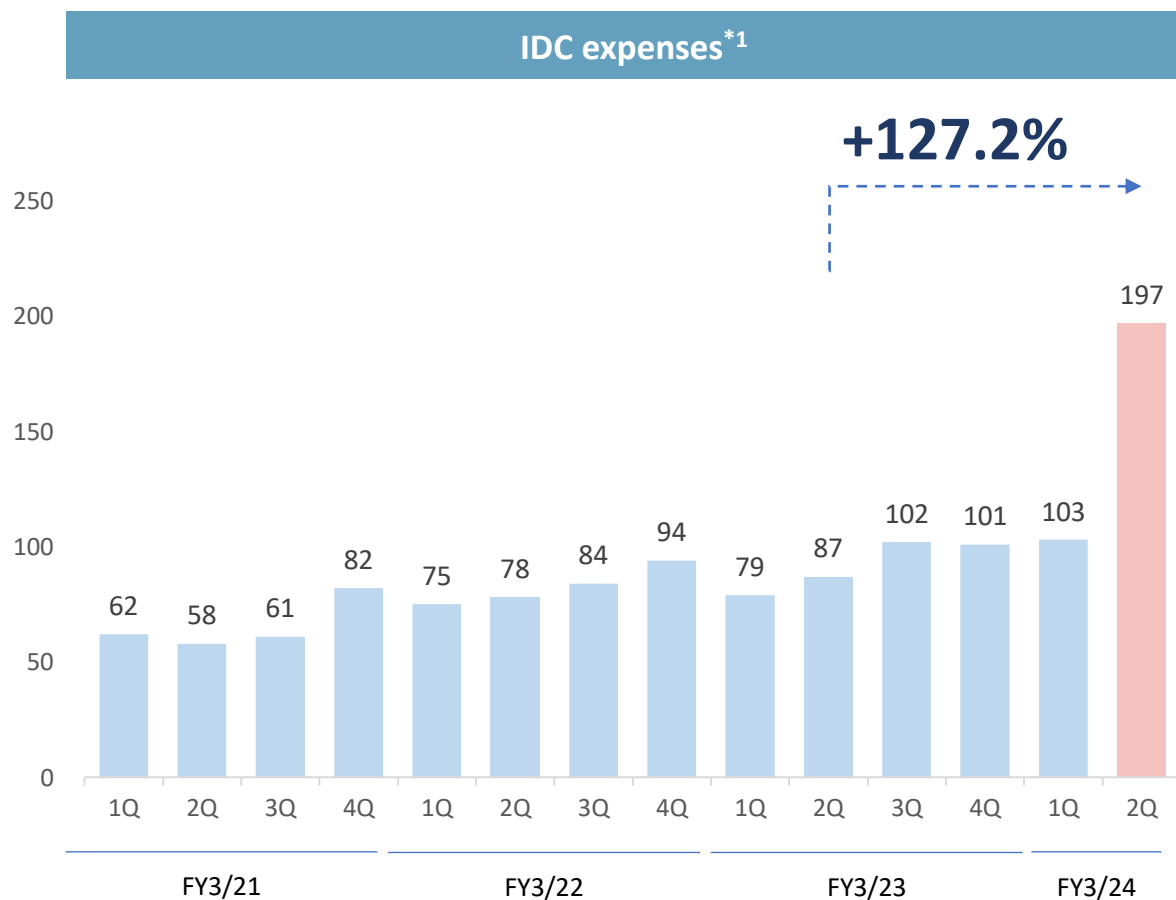


Promotion expenses



IDC and software amortization expenses (consolidated)

IDC expenses increased because of expenses for reinforcing security and starting the use of a cloud server. Software amortization expenses increased as investments continued.



*1: Expensed mainly for license fee and for the maintenance of IDC

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● Introductions^{*1}

3,281

companies

● IDs issued^{*1}

12,603

IDs

● Registered companies^{*1}

991,000

companies

● Registered employees^{*1}

25.74

million

● ARPU^{*2}

44,900

yen

● ARPA^{*3}

11,700

yen

● DAU^{*4}

11,600

IDs

● Cancellation rate^{*5}

0.25

%

*1: Number of introductions, IDs issued, companies registered, and employees registered in the Shalom series as of the end of September 2023

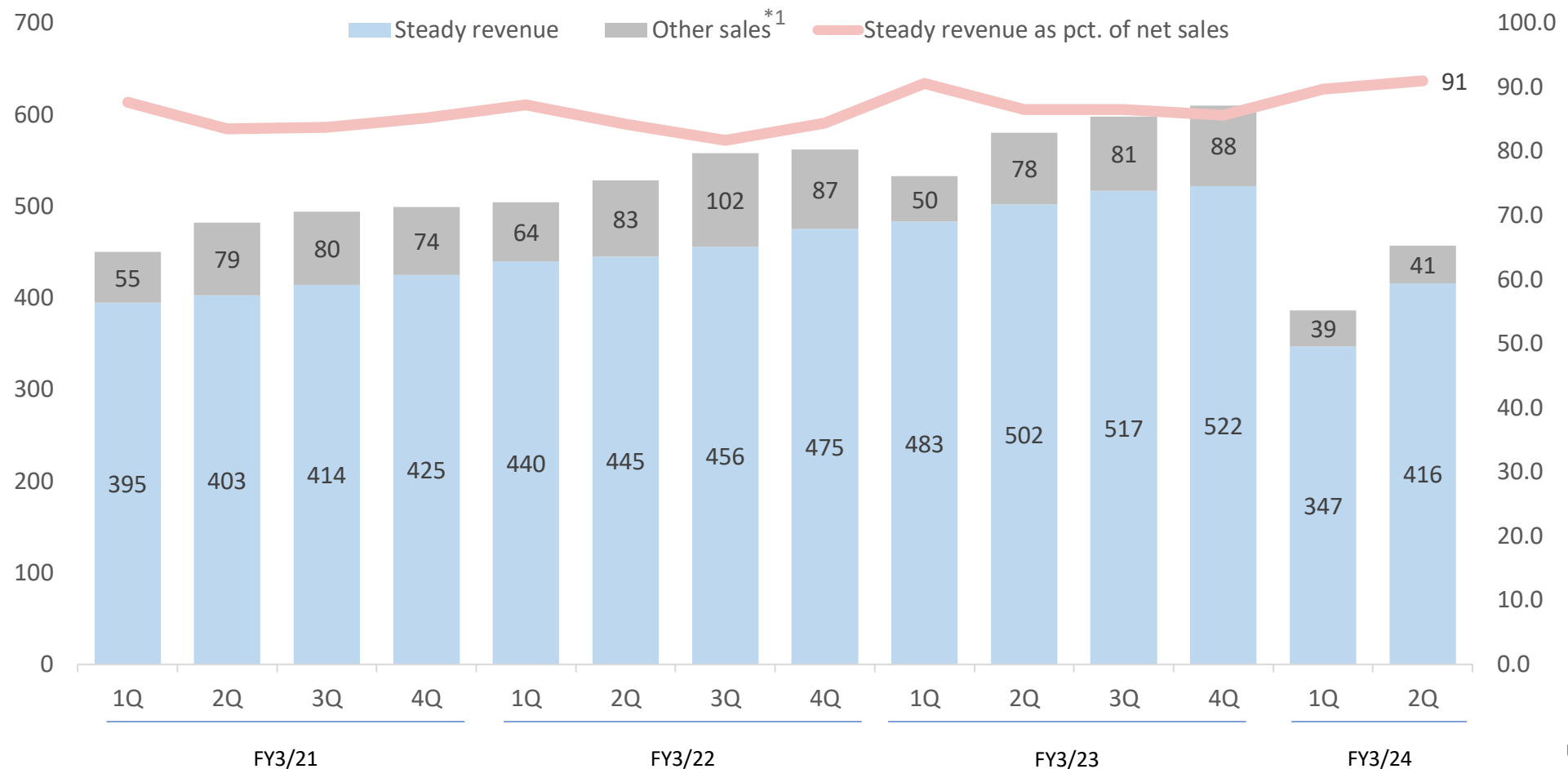
*2: Average Revenue Per User of the Shalom series as of the end of September 2023

*3: Average Revenue Per Account using the Shalom series as of the end of September 2023

*4: Maximum Daily Active Users per day of the Shalom services (Including IDs for Net de Chingin) / 1H FY3/24

*5: Average cancellations as a percentage of introductions of the Shalom series in 1H FY3/24

Both 2Q steady revenue and other sales significantly decreased due to the ransomware incident



*1: Initial cost, etc.

Unit: Millions of yen / %

Both 1Q and 2Q operating profit significantly decreased due to the ransomware incident

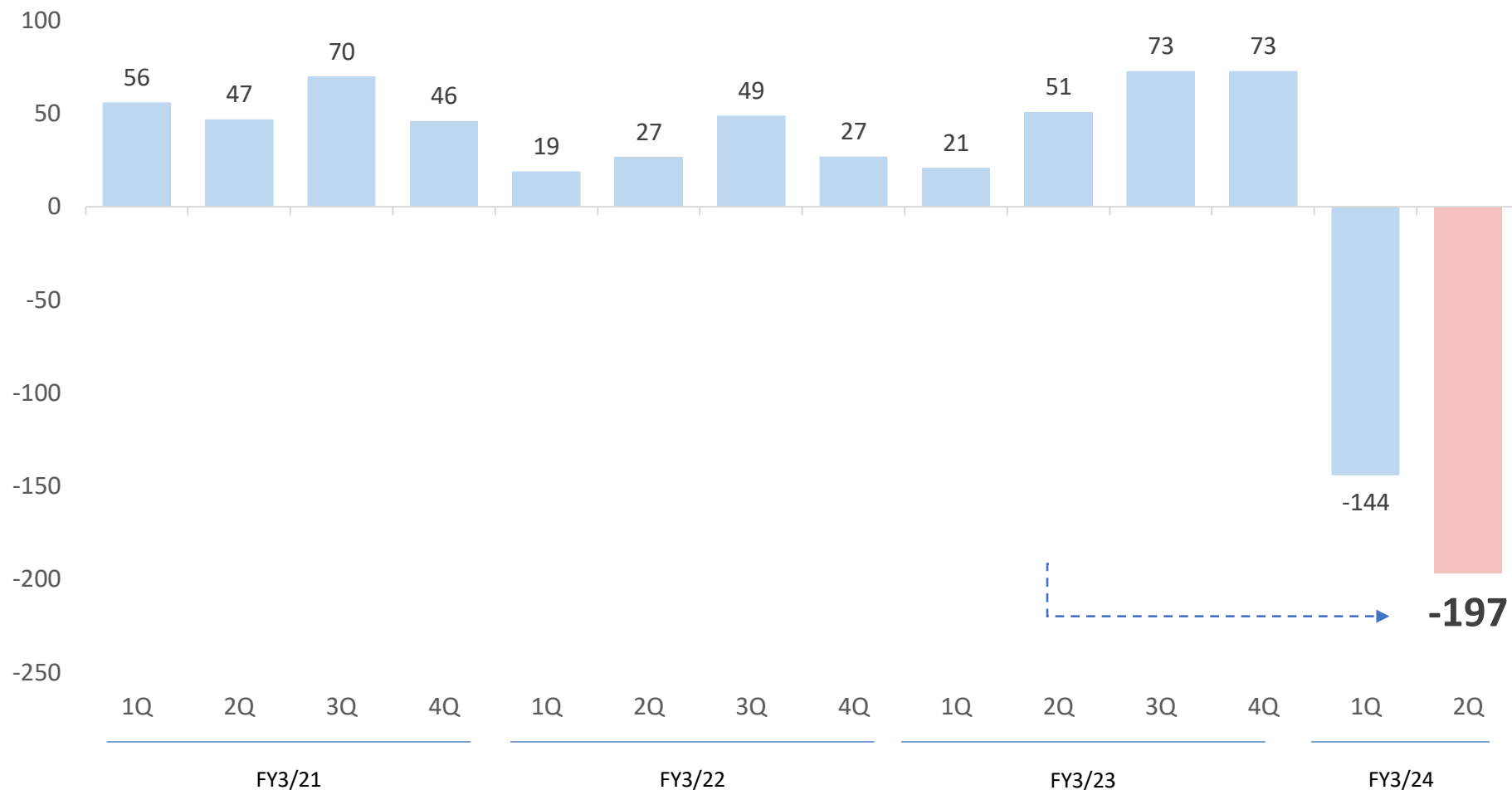


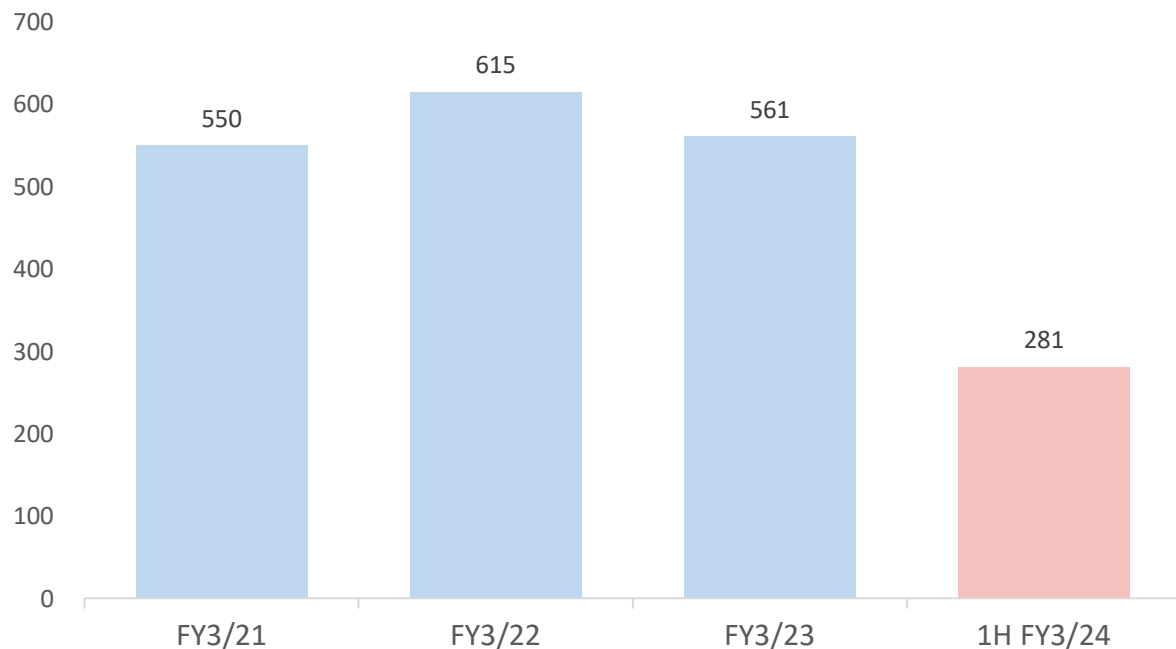
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Net sales and operating profit

Expect higher earnings in FY3/24 due to the large volume of orders in the fiscal year's second half.

Net sales



Operating profit

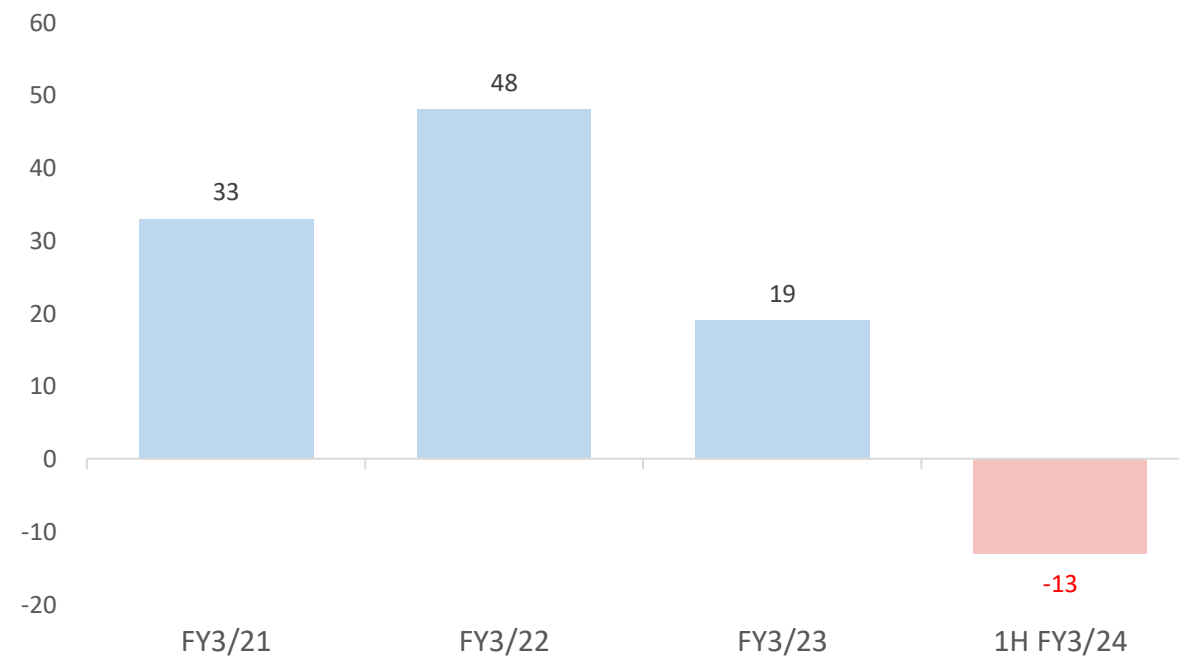


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Development work has started on FOREVER, a system that will follow Shalom V5.0.

Transition of Shalom and FOREVER

Sales of Shalom, a cloud-based application system for social and labor insurance procedures, started in 2007. Subsequent upgrades of the functions of this software led to the 2016 launch of Net de Shalom (V3.4). In 2019, Shalom V5.0 was launched for even better use with the internet and a higher level of security.

FOREVER will be the first Shalom web system. This product will improve the UI/UX and be compatible with many types of devices and browsers. Another feature is even better seamless links with the products of MKSystem and other companies. The goal is to create a system that is extremely user-friendly.

Functions that FOREVER will upgrade

- ✓ Dashboard function
- ✓ Life event function
- ✓ Multi-device/multi-browser compatibility
- ✓ Seamless linkage with MKSystem products



The MKSystem booth at HR EXPO 2023

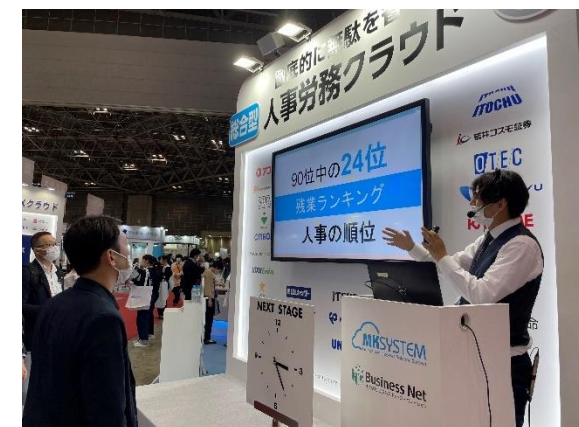
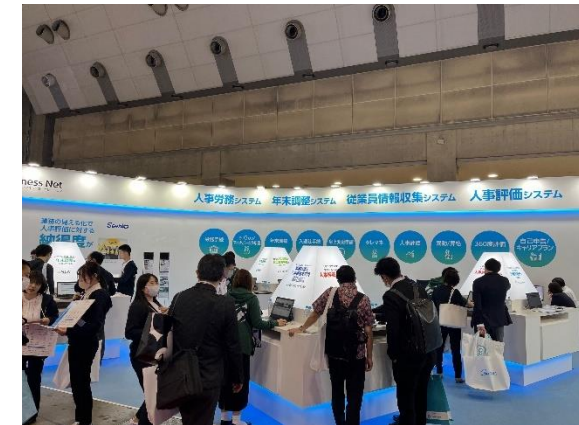
MKSystem again had a booth at the spring HR EXPO along with subsidiary Business Net Corp. Visitors learned about a variety of products, with emphasis on Shalom Company Edition.

The spacious booth prominently displayed key words and phrases about MKSystem products and services. Salespeople held seminars and displays showed examples of products and services in use and customer feedback. Visitors to the booth also appreciated the opportunity to hold thorough discussions with salespeople.

／HR EXPO 2023／



／A key word panel for starting discussions with visitors／



Promotion activities 2 / New products

Information meeting about security

At this meeting, participants heard about the numerous activities at MKSystem for upgrading security systems. There were 1,038 people at the meeting and 481 applications for archive distribution of the meeting. Participants included current MKSystem service users as well as people who are not currently customers.



Sales seminars for numerous products

Online seminars were held on a regular basis to allow people throughout Japan to learn about MKSystem products and services. Seminars that include information from current users of these products and services were very popular.

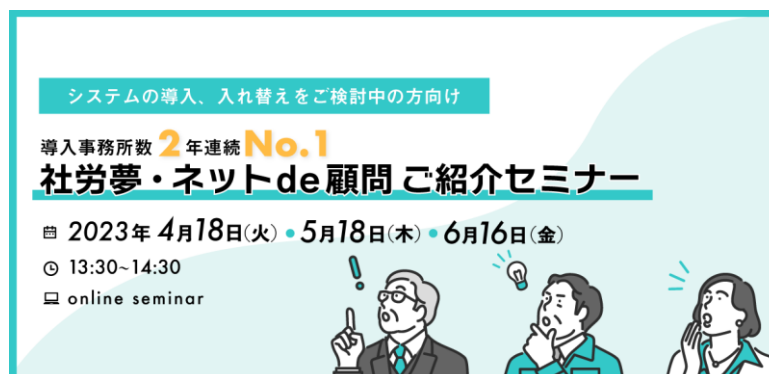
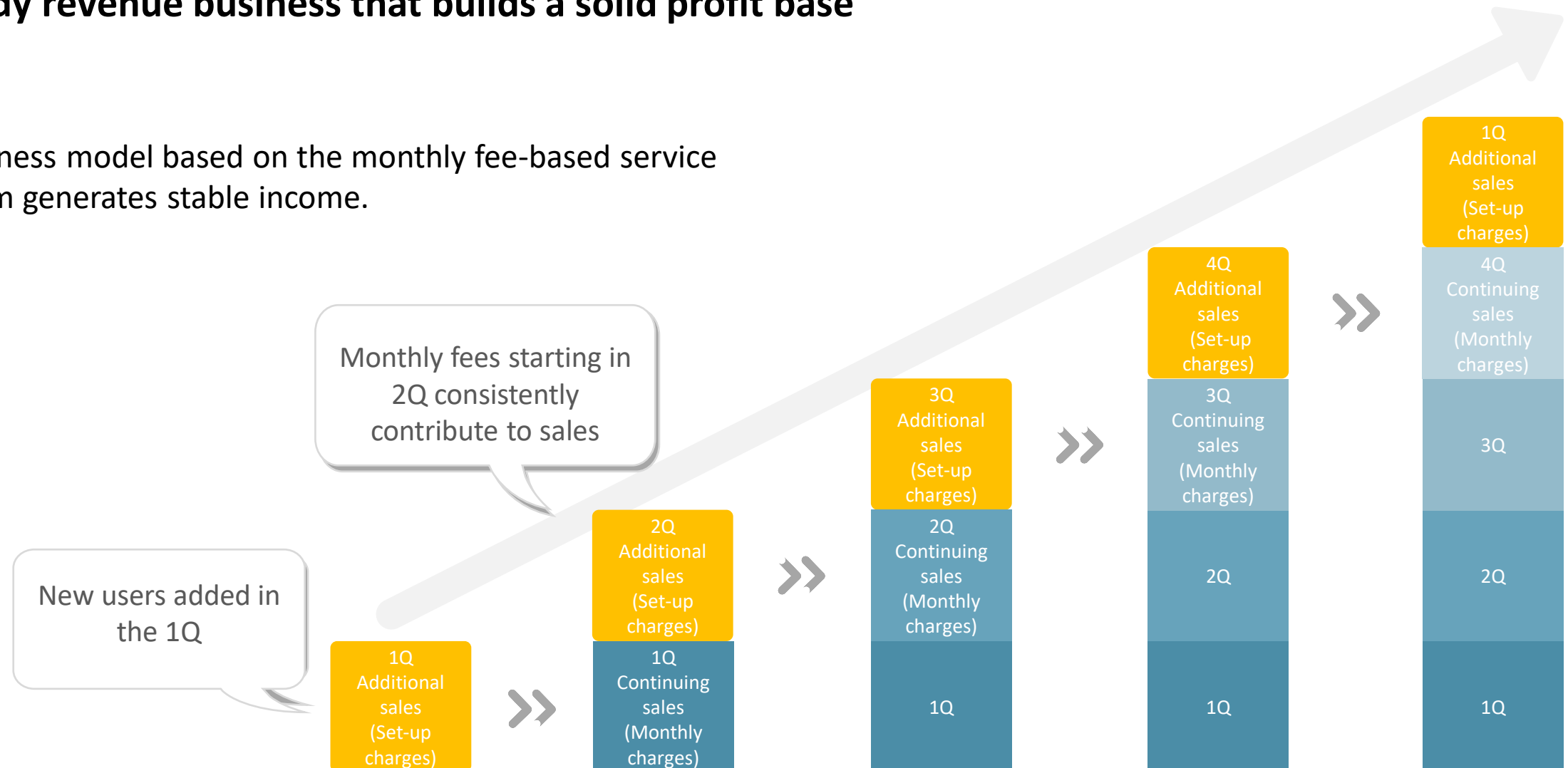


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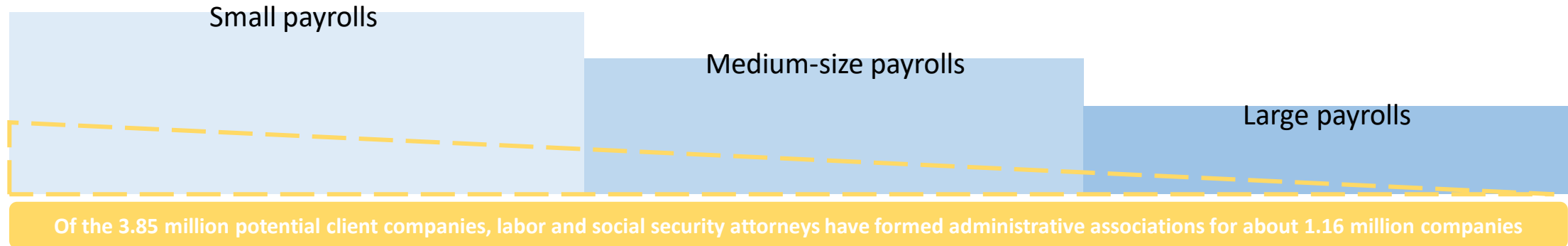
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Steady revenue business that builds a solid profit base

A business model based on the monthly fee-based service
Shalom generates stable income.



Our target extends to all companies that outsource/not outsource to labor and social security attorneys.



Mainly for labor and social security attorney offices and labor insurance administration associations

 Shalom

 MYNABOX

 ネットde顧問
Net de Komon

 ネットde事務組合
Net de Jindustrial

Mainly for general corporations

 Company Edition

 MYNABOX CL

 Business Net CuBe

All users

 Direct HR

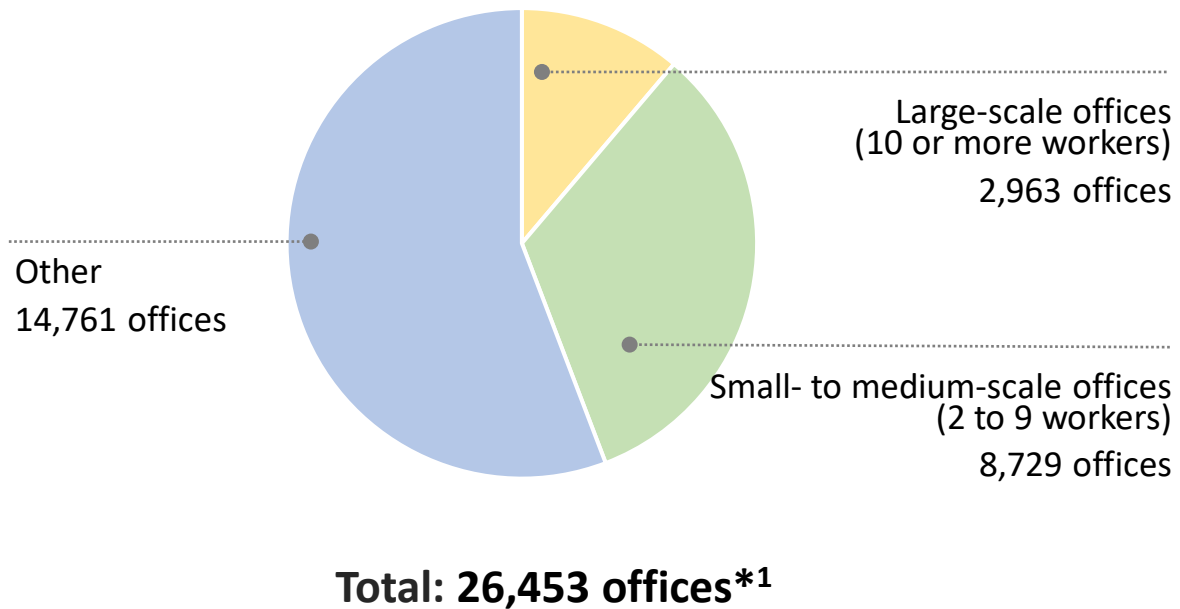
 eNEN

 Cloud Pocket

 ShaRobo

 GooooN

Labor and social security attorney market



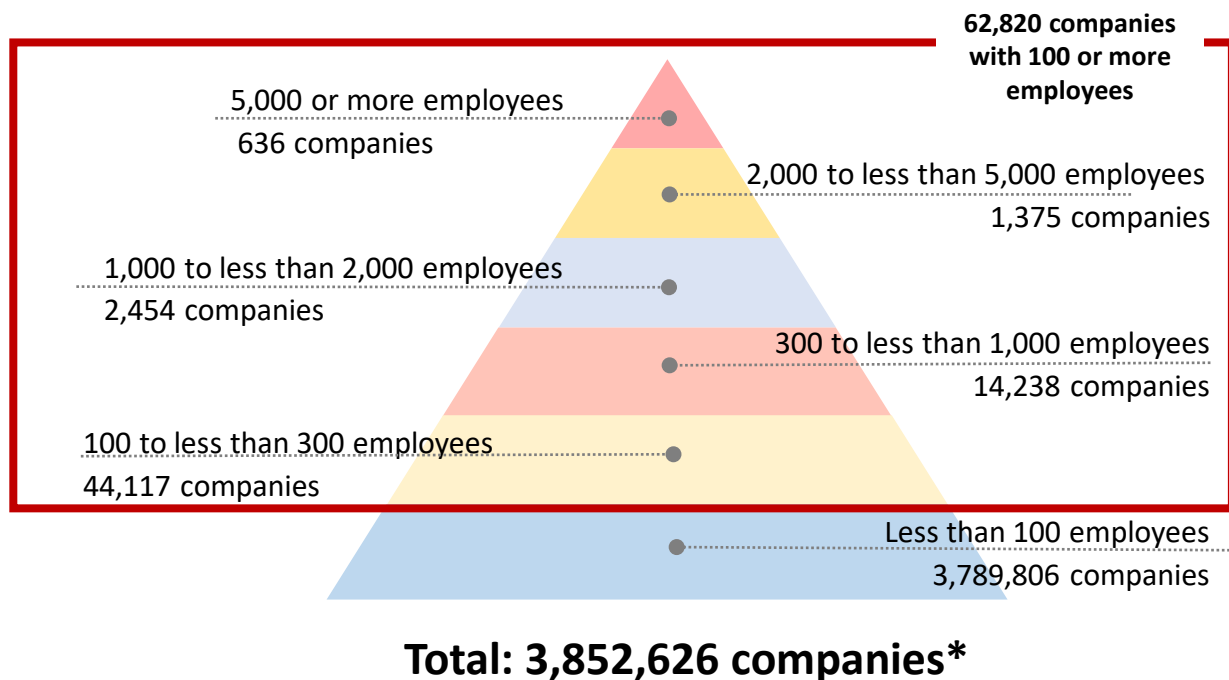
	End-Sep 2023
Offices with our systems introduced* ²	2,617 offices
Vs. End-Mar 2023	-119 offices
Our market share	9.9%
Number of clients registered in our systems	991,000 offices

- Number of companies registered in our systems are 25.7% of all companies and 85.4% based on the number of companies involved by labor and social security attorneys
- Expand the product portfolio and develop more linked services for client companies

*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 Reflects the number of services for the Basic Plan, House Plan and Lite Plan

General corporate market



End-Sep 2023

Introductions in the Shalom Business	148 companies
--------------------------------------	----------------------

Introductions in the CuBe Business	118 companies
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- There is still a large market for major companies. In addition to the Shalom series, the number of companies using the year-end tax adjustment system and other systems is steadily increasing.
- Enhanced tuning support and BPO support


*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

Product strategies


For labor and social security attorney offices / labor insurance administration associations

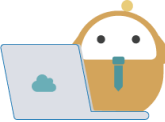
● For new customers

 **Shalom**  **ネットde事務組合**
Use campaigns and other measures to strengthen sales

 **MYNABOX**
Add new customers to maintain the utilization rate

● For current customers


 **eNEN**
Improve functions to strengthen sales

 **ShaRobo**
Launch new products to increase sales


For general corporations

● For new customers

 **Company Edition**
A version for large companies

Direct  **HR**
A version for small- and medium-sized companies

● For current customers

 **Cloud Pocket**
Improve functions to strengthen sales


 **eNEN**
Improve functions to strengthen sales

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Financial summary (consolidated)

The FY3/24 sales and earnings forecasts were revised in August to reflect the effects of the ransomware incident, including cancelations by users and a decline in new orders affected by this incident, and expenses for restoring systems and reinforcing security.

	FY3/24 Forecast	FY3/23 Actual	YoY Change
Net sales	2,624	2,867	(8.5)%
Gross profit	995	1,349	(26.2)%
<i>Gross margin</i>	37.9%	47.0%	(9.1)pt
Operating profit	(180)	219	-
<i>Operating margin</i>	-	7.7%	-
Profit attributable to owners of parent	(441)	145	-
Basic earnings per share (Yen)	(81.36)	26.82	-

Dividend forecast for FY3/24

Our basic policy is to pay dividends while placing emphasis on the consistent distribution of earnings to shareholders

The FY3/23 dividend was based on this earnings distribution policy

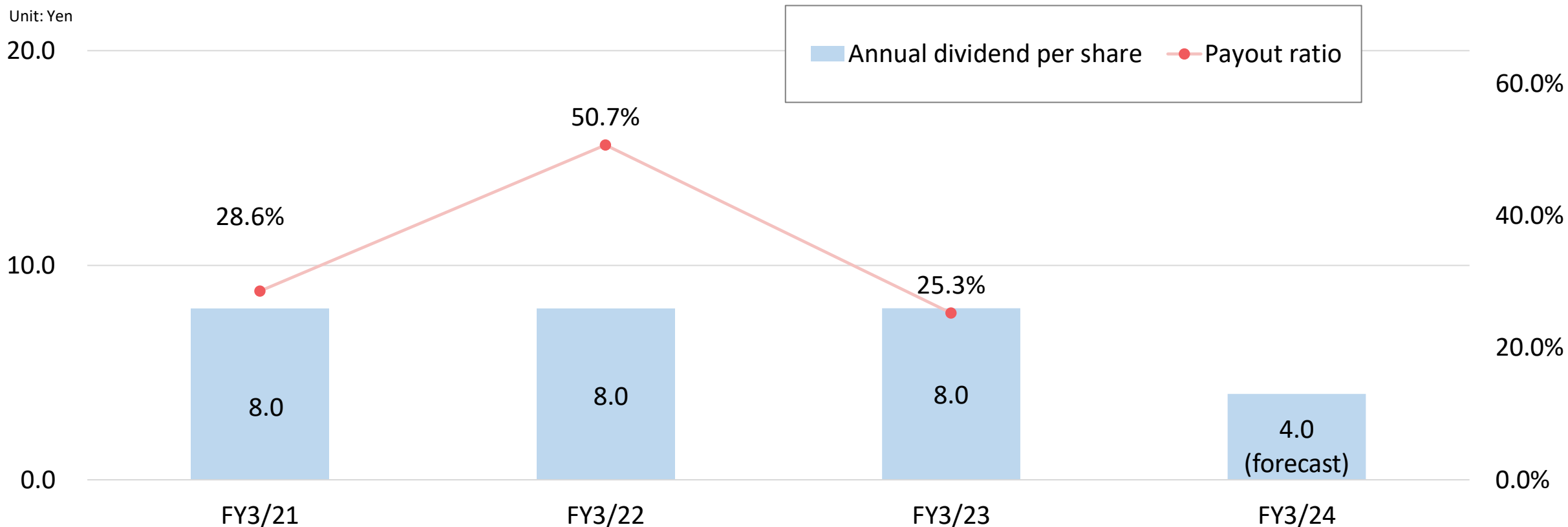


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Our mainstay service (Shalom 1)



A system for labor and social security attorney offices
For number one and two tasks performed solely by social security attorney offices

Tasks performed by labor and social security attorneys

No. 1 tasks

Preparation of reports submitted to
govt. agencies and agency services for
clients

No. 2 tasks

Preparation of accounting ledgers in
accordance with labor and social
security laws and ordinances

No. 3 tasks

Labor management and social security
consultations and guidance (consulting
tasks)



Client company

Company A staff

Company B staff

Company C staff



Labor and social security attorney office



Administrative agencies



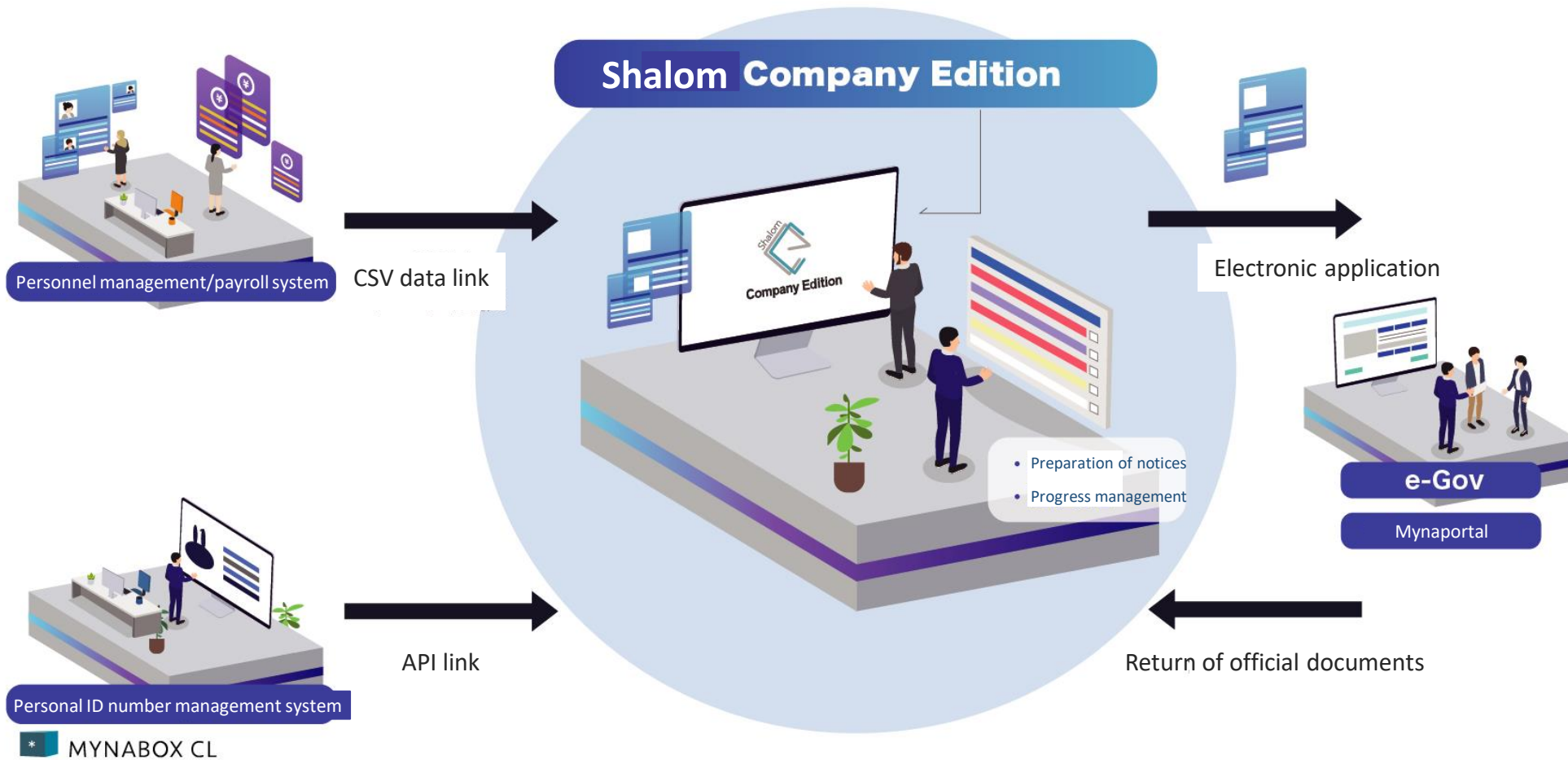
Public Employment Security Office
(Hello Work), Pension office, Japan
Health Insurance Association
(Kyokaikenpo), Labor Standards
Inspection Office, Health Insurance
Society



Our mainstay service (Shalom Company Edition)



A version of Shalom for companies that is fully compatible with making e-applications mandatory at large companies
Allows performing internally all application procedures for unemployment and social security insurance



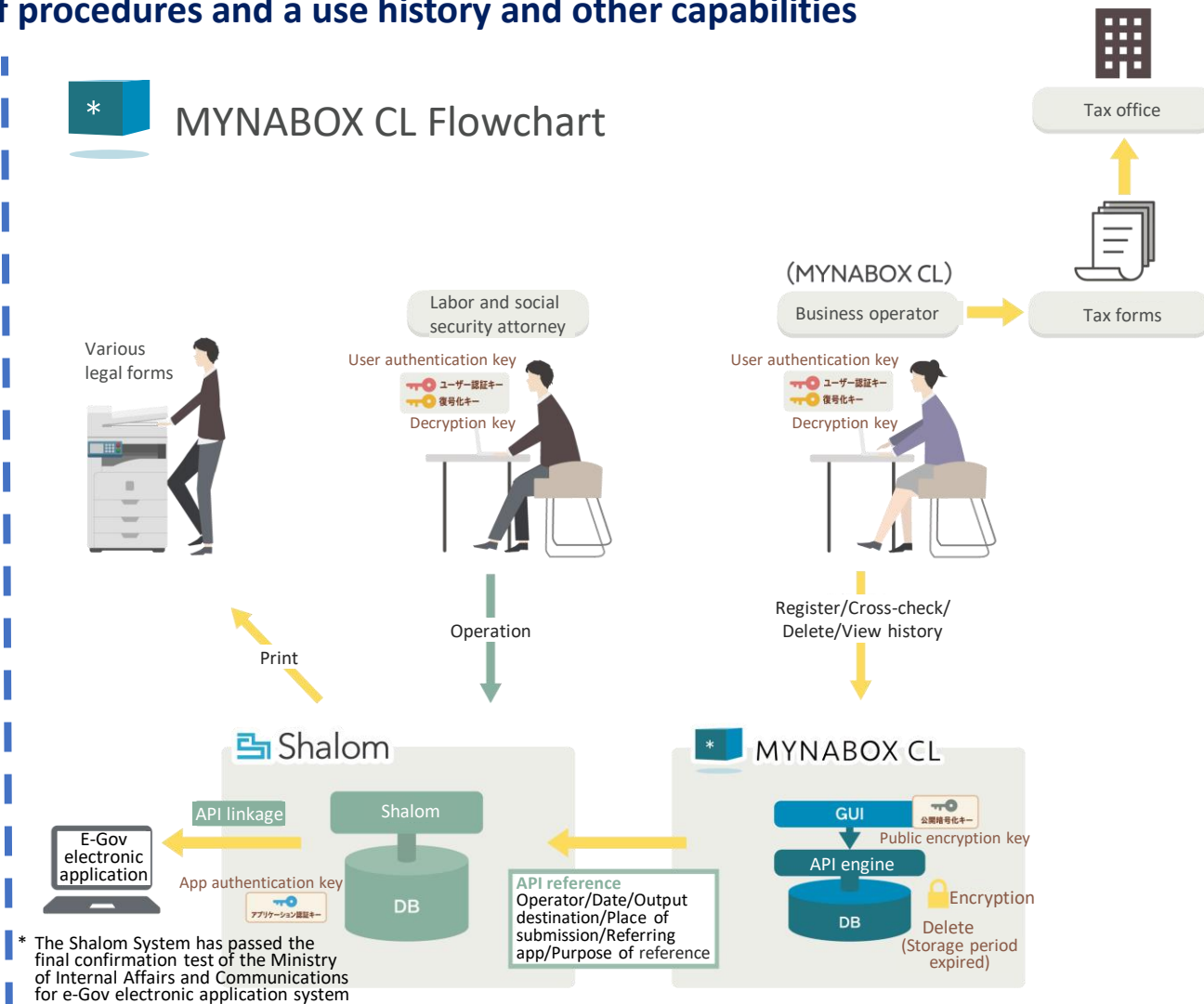
*Shalom series personal ID number management system

*Can be linked with products of other companies (consultation required)

A personal ID number management system that can be used with Shalom Links with a variety of procedures and a use history and other capabilities



MYNABOX CL Flowchart



- * The Shalom System has passed the final confirmation test of the Ministry of Internal Affairs and Communications for e-Gov electronic application system external link API

Our mainstay service (Net de Komon)

ネットde顧問

Net de Komon

Concerned about erroneous transmission?

Can process with correct information.



Client company



Labor and social security attorney



A web application for use with Shalom
Use with master data recorded in Shalom

One step payroll calculation by linking with work attendance data

Can be accessed anywhere and anytime (Smartphone access)

Net de Shugyo

Real time access to employee's work attendance data. (Smartphone access)



Net de Chingin

Uses the same payroll accounting system as that of labor and social security attorney offices. Cuts back payroll accounting steps.



Net de Meisai

Paperless payroll slips. Realizes labor saving in stroke.



Net de Uketsuke

Place orders with labor and social security attorneys on the web.



Data sharing among employees

Net de Daicho

Employee data managed at labor and social security attorney offices can be accessed around the clock throughout the year



Net de Kisoku

Facilitates safety management by disclosing labor/employment regulations on the Web



Net de Schedule

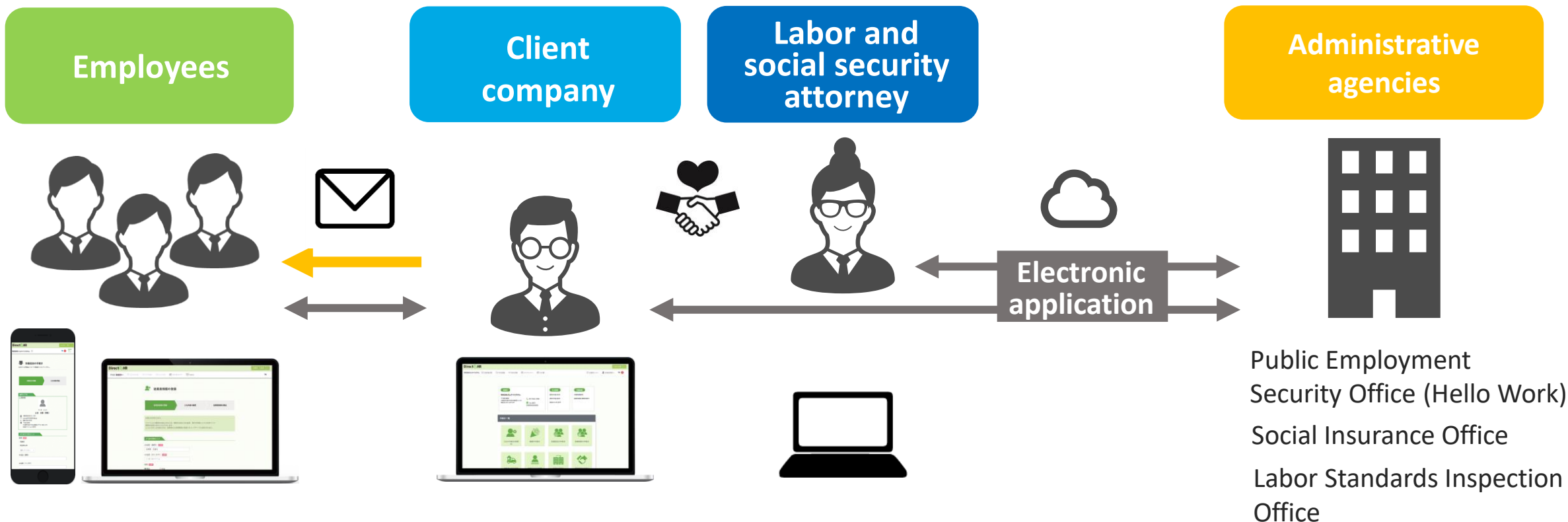
Management of business communication, in-house events, and personal schedules



Our mainstay service (DirectHR)

DirectHR

Centralized management using the cloud for all applications submitted by employees during their entire time at the company, including for events like childbirth. Smartphones and PCs can be used for applications. Handles everything from data input to e-applications.



New employment, retirement, addition/deletion of dependents, change of name and address, transfers, employment contracts, senior employment subsidy, start/end of child birth/care leave, nursing care payment, change in monthly salary, basis for calculating monthly salary, insurance benefit payments, change of category, register/change of personal ID number, year-end tax adjustment, payroll slips

Our mainstay service (eNEN)



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.

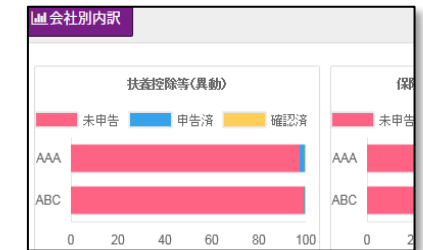
3. It reduces your workload at final submission!

- ✓ 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 service (Cloud Pocket)



Cloud Pocket

For the safe and easy distribution and receipt of official documents. Greatly simplifies the distribution of job separation forms, benefit receipt qualification confirmation notices, workplace accident forms and other official forms as well as important company forms and other documents.

Client company



● Official/company forms and documents



Labor and social security attorney



Employees



Upload required documents to Cloud Pocket.

Employees can **download** the documents at their convenience.

Eliminates the **time** and **expense** needed to send forms and documents by postal mail to individuals at other offices.

✓ Highly secure folders for individuals

✓ Big reduction in the need for postal mail and hand deliveries

✓ Also handles uploads from labor and social security attorney offices



Business Net CuBe

Business process design + semi-customized system development
Accurate and flexible like the one for custom-built houses

Used by **half a million major company employees**. Your IT partner for the **reform of** human resources and general affairs **functions** as well as **for transition to DX**

人財 CuBe Jinzai CuBe

Based on the job performance evaluation system, supports all the functions necessary for human resource development, self-personal performance assessment and human resource profiling

就業 CuBe Shugyo CuBe

Covers all employee-related services, such as attendance management and payrolls and play roll slip checks

精算 CuBe Seisan CuBe

Supports all the functions required for internal fiscal management, including payment to business partners and reimbursement of employee expenses



Our mainstay service (GooooN / CuBe Business)



A cloud service for personal job performance evaluation system that supports job performance management of half million employees at major companies
GooooN coordinates three business operations, deepens communication with employees, and supports human resource development led by on-site staff

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

- 1 Prompting their growth through processes from execution to evaluation of **actual work**.

Target & performance management

- We wish to let our personnel learn more about the management's intention.
- We wish to set up target & performance management that makes our employees to participate with more enthusiasm.
- We wish to link target management to improvement in corporate performance.

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

Human resource profile inquiry

- We wish to know personal profile of our staff in a timely manner.
- We wish to manage personnel data in single database and make full use of them.
- We wish to have a system to support employees' career development.
- We wish to have a contact point that directly connects personnel and personnel department.

- 3 Considering about future career, urging the personnel to develop as **he/she wishes**.

Self-assessment / Career plan

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



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