

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2025
(Three Months Ended June 30, 2024)

[Japanese GAAP]

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Stock code: 3910

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Scheduled date of payment of dividend: -

Preparation of supplementary materials for financial results: None

Holding of financial results meeting: None

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

1. Consolidated Financial Results for the First Quarter Ended June 30, 2024 (April 1, 2024 – June 30, 2024)**(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	%
Three months ended Jun. 30, 2024	679	33.4	(71)	–	(71)	–	(74)	–
Three months ended Jun. 30, 2023	509	(18.5)	(167)	–	(165)	–	(412)	–

Note: Comprehensive income (million yen)

Three months ended Jun. 30, 2024: (75) (–%)

Three months ended Jun. 30, 2023: (413) (–%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended Jun. 30, 2024	(13.77)	–
Three months ended Jun. 30, 2023	(76.01)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2024	2,323	718	30.6
As of Mar. 31, 2024	2,558	816	31.6

Reference: Shareholders' equity (million yen)

As of Jun. 30, 2024:

711

As of Mar. 31, 2024:

807

2. Dividends

	Dividend per share				
	1 Q-end	2 Q-end	3 Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2024	–	0.00	–	4.00	4.00
Fiscal year ending Mar. 31, 2025	–				
Fiscal year ending Mar. 31, 2025 (forecast)		0.00	–	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, 2025 (April 1, 2024–March 31, 2025)

(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	3,240	22.7	107	–	109	–	73	–	13.45

Note: Revisions to the most recently announced earnings forecasts: None

*** Notes**

(1) Significant changes in the scope of consolidation during the period: 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 Jun. 30, 2024:	5,428,000 shares	As of Mar. 31, 2024:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2024:	506 shares	As of Mar. 31, 2024	506 shares
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3) Average number of shares outstanding during the period

Three months ended Jun. 30, 2024:	5,427,494 shares	Three months ended Jun. 30, 2023:	5,427,494 shares
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* Review of the attached quarterly consolidated financial statements by a certified public accountant or auditing firm: None

* 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 quarter of the fiscal year ending March 31, 2025 (hereinafter “the period under review”), the Japanese economy was on a moderate recovery trend mainly in domestic demand. Behind this was improvements in labor and income conditions and the growth of inbound demand despite a standstill in the recovery of private consumption. However, the outlook remained uncertain, with the risks of an economic downturn overseas such as ongoing global geopolitical risks and high interest rates in European countries and the United States, putting downward pressure on the Japanese economy, and concerns that a weaker yen might impact on the domestic economy and lead to higher prices.

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, demand for IT investment among companies showed signs of pickup. This was supported by companies’ efforts to improve business efficiency by using generative AI technology and the furtherance of digital transformation (DX), enhance cost competitiveness, and expand sales. However, there is also a risk of a downturn in the domestic economy due to such as sluggish private consumption and uncertainties in the foreign economies, which could have an impact on future IT investment trends.

Under these circumstances, while further addressing the case of unauthorized access using a ransomware occurred in the previous fiscal year, the Group released some plans of Shalom FOREVER, a new product of Shalom series that is our flagship product. Through these measures, we strived to support customers in improving business efficiency and creating added value, aiming to further increase customer satisfaction. However, given that operating cost for the cloud services built in the previous fiscal year has increased due to a delay in system development and a weaker yen, it is imperative for us to continuously put our energies into developing new products and reducing cost.

As a result, for the period under review, the Group reported net sales of 679 million yen (up 33.4% year on year), gross profit of 284 million yen (up 148.0%), operating loss of 71 million yen (compared with operating loss of 167 million yen for the same period of the previous fiscal year), ordinary loss of 71 million yen (compared with ordinary loss of 165 million yen for the same period of the previous fiscal year), and loss attributable to owners of parent of 74 million yen (compared with loss attributable to owners of parent of 412 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, was at minus 9.8% (compared with minus 31.9% for the same period of the previous fiscal year) on a consolidated basis, and minus 3.9% (compared with minus 25.9% 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, sales increased year on year thanks in part to the release of some plans of Shalom FOREVER, our new product. In spite of this, the segment recorded operating loss reflecting increases in operating cost for the cloud services and expenses of customer support.

Net sales of the segment consist of those from the cloud services of 561 million yen (up 55.3% year on year), of which the ASP services under the subscription model amounted to 551 million yen (up 58.9%) and the system construction services amounted to 9 million yen (down 31.3%); and those from the system products of 18 million

yen (down 12.5%).

As a result, the segment recorded net sales of 581 million yen (up 50.3% year on year), gross profit of 261 million yen (up 193.0%), and operating loss of 39 million yen (compared with operating loss of 144 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 6.9% (compared with minus 37.5% 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, orders for new development projects by large companies and local governments have steadily increased, which is expected to contribute to net sales in earnest in the second quarter and beyond. In the cloud service business GooooN, we focused on functional enhancement and cultivation of sales channels.

As a result, the segment recorded net sales of 100 million yen (down 19.9% year on year), gross profit of 22 million yen (down 11.7%), and operating loss of 35 million yen (compared with operating loss of 27 million yen for the same period of the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 9 million yen.

(2) Explanation of Financial Position

Assets

The balance of current assets at the end of the period under review decreased 236 million yen from the end of the previous fiscal year to 1,200 million yen. This was mainly due to decreases of 155 million yen in cash and deposits and 112 million yen in accounts receivable-trade.

The balance of non-current assets increased 2 million yen from the end of the previous fiscal year to 1,123 million yen. This was mainly due to an increase of 67 million yen in software in progress, and decreases of 51 million yen in software, 9 million yen in goodwill and 3 million yen in deferred tax assets.

As a result, the balance of total assets decreased 234 million yen from the end of the previous fiscal year to 2,323 million yen.

Liabilities

The balance of current liabilities at the end of the period under review decreased 63 million yen from the end of the previous fiscal year to 946 million yen. This was mainly due to decreases of 28 million yen in provision for bonuses, 25 million yen in accounts payable-trade, and 23 million yen in accounts payable-other.

The balance of non-current liabilities decreased 74 million yen from the end of the previous fiscal year to 657 million yen. This was mainly due to a decrease of 76 million yen in long-term borrowings.

As a result, the balance of total liabilities decreased 137 million yen from the end of the previous fiscal year to 1,604 million yen.

Net assets

The balance of shareholders' equity at the end of the period under review decreased 96 million yen from the end of the previous fiscal year to 711 million yen. This was mainly due to a decrease of 96 million yen in retained earnings.

As a result, the balance of net assets decreased 97 million yen from the end of the previous fiscal year to 718 million yen.

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

There are no revisions to the consolidated earnings forecast for the fiscal year ending March 31, 2025, which was announced in the “Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2024 (Japanese GAAP)” on May 7, 2024.

If the future development of business performance causes us to decide to revise the consolidated earnings forecasts for the fiscal year ending March 31, 2025, we will disclose them promptly.

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

	(Thousands of yen)	
	FY3/24 (As of Mar. 31, 2024)	First quarter of FY3/25 (As of Jun. 30, 2024)
Assets		
Current assets		
Cash and deposits	711,780	556,715
Accounts receivable-trade	564,670	452,338
Merchandise	7,912	8,691
Work in process	91,442	143,961
Supplies	430	419
Prepaid expenses	39,879	31,593
Other	20,991	6,805
Total current assets	1,437,107	1,200,525
Non-current assets		
Property, plant and equipment		
Buildings, net	101,089	103,308
Vehicles, net	0	0
Tools, furniture and fixtures, net	25,678	23,435
Total property, plant and equipment	126,767	126,744
Intangible assets		
Software	485,536	433,577
Software in progress	244,876	312,239
Trademark right	625	567
Telephone subscription right	1,218	1,218
Goodwill	97,056	87,350
Total intangible assets	829,312	834,953
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	157,246	157,246
Deferred tax assets	6,390	2,965
Other	1,176	1,176
Total investments and other assets	164,872	161,448
Total non-current assets	1,120,953	1,123,146
Total assets	2,558,060	2,323,672

	(Thousands of yen)	
	FY3/24 (As of Mar. 31, 2024)	First quarter of FY3/25 (As of Jun. 30, 2024)
Liabilities		
Current liabilities		
Accounts payable-trade	62,683	37,068
Short-term borrowings	300,000	300,000
Current portion of long-term borrowings	304,428	304,428
Accounts payable-other	125,355	102,210
Accrued expenses	24,855	23,806
Income taxes payable	16,151	2,758
Accrued consumption taxes	14,142	15,367
Advances received	88,133	97,124
Provision for bonuses	63,169	34,881
Other	11,251	29,352
Total current liabilities	1,010,170	946,997
Non-current liabilities		
Long-term borrowings	722,059	645,952
Retirement benefit liability	9,688	11,745
Total non-current liabilities	731,747	657,697
Total liabilities	1,741,917	1,604,694
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	202,122	202,122
Retained earnings	386,973	290,541
Treasury shares	(499)	(499)
Total shareholders' equity	807,706	711,275
Non-controlling interests	8,436	7,702
Total net assets	816,143	718,977
Total liabilities and net assets	2,558,060	2,323,672

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Three-month Period)**

	(Thousands of yen)	
	First three months of FY3/24 (Apr. 1, 2023 – Jun. 30, 2023)	First three months of FY3/25 (Apr. 1, 2024 – Jun. 30, 2024)
Net sales	509,123	679,301
Cost of sales	394,531	395,125
Gross profit	114,592	284,175
Selling, general and administrative expenses	282,091	356,008
Operating loss	(167,499)	(71,832)
Non-operating income		
Dividend income	1	1
Commission income	–	1,995
Rental income	10,249	10,023
Outsourcing service income	1,500	900
Other	8	99
Total non-operating income	11,758	13,018
Non-operating expenses		
Interest expenses	644	2,209
Rental costs	9,209	9,060
Other	–	1,350
Total non-operating expenses	9,853	12,619
Ordinary loss	(165,593)	(71,433)
Extraordinary losses		
Loss on retirement of non-current assets	125,934	–
System failure response expenses	103,780	–
Total extraordinary losses	229,715	–
Loss before income taxes	(395,308)	(71,433)
Income taxes-current	597	597
Income taxes-deferred	17,178	3,424
Total income taxes	17,775	4,021
Loss	(413,083)	(75,455)
Loss attributable to non-controlling interests	(519)	(733)
Loss attributable to owners of parent	(412,564)	(74,721)

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

	(Thousands of yen)	
	First three months of FY3/24 (Apr. 1, 2023 – Jun. 30, 2023)	First three months of FY3/25 (Apr. 1, 2024 – Jun. 30, 2024)
Loss	(413,083)	(75,455)
Comprehensive income	(413,083)	(75,455)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(412,564)	(74,721)
Comprehensive income attributable to non-controlling interests	(519)	(733)

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information

First three months of FY3/24 (Apr. 1, 2023 – Jun. 30, 2023)

Information related to net sales and profit/loss 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	386,386	122,737	509,123	–	509,123
Inter-segment sales and transfers	690	2,460	3,150	(3,150)	–
Total	387,076	125,197	512,273	(3,150)	509,123
Segment loss	(144,972)	(27,739)	(172,712)	5,213	(167,499)

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.

First three months of FY3/25 (Apr. 1, 2024– Jun. 30, 2024)

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	581,490	97,810	679,301	–	679,301
Inter-segment sales and transfers	129	2,436	2,565	(2,565)	–
Total	581,619	100,246	681,866	(2,565)	679,301
Segment loss	(39,891)	(35,067)	(74,959)	3,126	(71,832)

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.

Consolidated Statement of Cash Flows

A quarterly consolidated statement of cash flows for the first three months of FY3/25 has not been prepared. Depreciation (includes amortization expenses related to intangible assets minus goodwill) and amortization of goodwill for the first three months of each fiscal year is as follows.

(Thousands of yen)

	First three months of FY3/24 (Apr. 1, 2023–Jun. 30, 2023)	First three months of FY3/25 (Apr. 1, 2024–Jun. 30, 2024)
Depreciation	94,589	87,923
Amortization of goodwill	9,715	9,705

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.