

Summary of Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending March 31, 2025
(Six Months Ended September 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: Yes

Holding of financial results meeting: None

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2024

(April 1, 2024–September 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	%
Six months ended Sep. 30, 2024	1,506	34.8	(125)	–	(133)	–	(134)	–
Six months ended Sep. 30, 2023	1,117	(16.3)	(342)	–	(345)	–	(595)	–

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2024: (135) (–%)

Six months ended Sep. 30, 2023: (595) (–%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Sep. 30, 2024	(24.82)	–
Six months ended Sep. 30, 2023	(109.70)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2024	2,255	658	28.9
As of Mar. 31, 2024	2,558	816	31.6

Reference: Equity (million yen) As of Sep. 30, 2024: 651 As of Mar. 31, 2024: 807

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-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	–	0.00			
Fiscal year ending Mar. 31, 2025 (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, 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 semi-annual 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 Sep. 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 Sep. 30, 2024:	506 shares	As of Mar. 31, 2024	506 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2024:	5,427,494 shares	Six months ended Sep. 30, 2023:	5,427,494 shares
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* This semi-annual financial report is not subject to review by certified public accountants or an auditing firm.

* 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 Semi-Annual 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 Semi-Annual Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first half of the fiscal year ending March 31, 2025 (hereinafter the “period under review”), the Japanese economy showed signs of a moderate recovery with personal consumption showing signs of picking up, although it remained at a standstill in some areas, and an improvement in the employment and income environment, as well as a pickup in capital investment. However, the future is still unclear, given the persistence of high interest rates in the United States and Europe, the stagnation of the Chinese economy, and the escalating tension in the Middle East. There is a risk that a decline in foreign economies will continue to put downward pressure on the Japanese economy.

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) and enhance cost competitiveness. However, there also continues to be a risk of a downturn in the domestic economy due to persistent uncertainties in the foreign economies and other factors, 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 Shalom FOREVER, a new product of Shalom series that is our flagship product. Through these measures, we strove 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 reducing cost.

As a result, for the period under review, the Group reported net sales of 1,506 million yen (up 34.8% year on year), gross profit of 540 million yen (up 131.8%), operating loss of 125 million yen (compared with operating loss of 342 million yen for the same period of the previous fiscal year), ordinary loss of 133 million yen (compared with ordinary loss of 345 million yen for the same period of the previous fiscal year), and loss attributable to owners of parent of 134 million yen (compared with loss attributable to owners of parent of 595 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 18.5% (compared with minus 49.6% for the same period of the previous fiscal year) on a consolidated basis, and minus 7.0% (compared with minus 40.5% 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 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 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 1,138 million yen (up 42.7% year on year), of which the ASP services under the subscription model amounted to 1,104 million yen (up 44.6%) and the system construction services amounted to 33 million yen (down 0.5%); and those from the system products of 37 million

yen (down 6.5%).

As a result, the segment recorded net sales of 1,180 million yen (up 39.6% year on year), gross profit of 491 million yen (up 201.1%), and operating loss of 62 million yen (compared with operating loss of 318 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 5.3% (compared with minus 37.7% 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 the needs of individual companies, 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. 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.

As a result, the segment recorded net sales of 331 million yen (up 17.9% year on year), gross profit of 49 million yen (down 30.4%), and operating loss of 68 million yen (compared with operating loss of 33 million yen for the same period of the previous fiscal year). Operating loss of the CuBe Business reflects amortization of goodwill of 19 million yen.

(2) Explanation of Financial Position

Cash flows

The balance of cash and cash equivalents (hereinafter “net cash”) at the end of the period under review decreased 206 million yen from the end of the previous fiscal year to 505 million yen. The details of cash flows during the period under review from each activity and the major components of changes are as follows.

Cash flows from operating activities

Net cash provided by operating activities was 131 million yen (compared with net cash used of 407 million yen for the same period of the previous fiscal year). Major positive factors include depreciation of 177 million yen and a 61 million yen increase of accounts payable-other. Major negative factors include loss before income tax of 133 million yen and income taxes paid of 15 million yen.

Cash flows from investing activities

Net cash used in investing activities was 164 million yen (compared with cash used of 146 million yen for the same period of the previous fiscal year). Major negative factors include purchase of intangible assets of 155 million yen and purchase of property, plant and equipment of 9 million yen.

Cash flows from financing activities

Net cash used in investing activities was 173 million yen (compared with cash provided of 671 million yen for the same period of the previous fiscal year). Major negative factors include repayments of long-term borrowings of 152 million yen and dividends paid of 21 million yen.

Financial Resources and Liquidity of Funds

The Group’ cash needs, in principle, are met by funds provided by cash flows from operating activities, which are used for capital investment, repayment of borrowings, and other such purposes. The Group’s policy is to secure liquidity through its own funds, but the Group plans to borrow from financial institutions to finance working capital

and large-scale capital investment where necessary.

Assets, Liabilities and Net Assets

Assets

The balance of current assets at the end of the period under review decreased 243 million yen from the end of the previous fiscal year to 1,193 million yen. This was mainly due to decreases of 206 million yen in cash and deposits and 13 million yen in work in process.

The balance of non-current assets decreased 59 million yen from the end of the previous fiscal year to 1,061 million yen. This was mainly due to an increase of 138 million yen in software, and decreases of 174 million yen in software in progress and 19 million yen in goodwill.

As a result, the balance of total assets decreased 302 million yen from the end of the previous fiscal year to 2,255 million yen.

Liabilities

The balance of current assets at the end of the period under review increased 2 million yen from the end of the previous fiscal year to 1,013 million yen. This was mainly due to increases in accounts payable-other of 35 million yen and accrued consumption taxes of 17 million yen, and decreases in advances received of 15 million yen and accrued expenses of 10 million yen.

The balance of non-current liabilities decreased 148 million yen from the end of the previous fiscal year to 583 million yen. This was mainly due to a decrease of 152 million yen in long-term borrowings.

As a result, the balance of total liabilities decreased 145 million yen from the end of the previous fiscal year to 1,596 million yen.

Net assets

The balance of shareholders' equity at the end of the period under review decreased 156 million yen from the end of the previous fiscal year to 651 million yen. This was mainly due to a decrease of 156 million yen in retained earnings.

As a result, the balance of net assets decreased 157 million yen from the end of the previous fiscal year to 658 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. Semi-Annual Consolidated Financial Statements and Notes**(1) Semi-Annual Consolidated Balance Sheet**

	(Thousands of yen)	
	FY3/24 (As of Mar. 31, 2024)	Second quarter of FY3/25 (As of Sep. 30, 2024)
Assets		
Current assets		
Cash and deposits	711,780	505,233
Accounts receivable-trade	564,670	563,111
Merchandise	7,912	8,424
Work in process	91,442	78,054
Supplies	430	443
Prepaid expenses	39,879	36,831
Other	20,991	1,200
Total current assets	1,437,107	1,193,298
Non-current assets		
Property, plant and equipment		
Buildings, net	101,089	101,276
Vehicles, net	0	0
Tools, furniture and fixtures, net	25,678	23,336
Total property, plant and equipment	126,767	124,612
Intangible assets		
Software	485,536	623,640
Software in progress	244,876	70,325
Trademark right	625	510
Telephone subscription right	1,218	1,218
Goodwill	97,056	77,644
Total intangible assets	829,312	773,339
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	157,246	157,246
Deferred tax assets	6,390	5,397
Other	1,176	1,176
Total investments and other assets	164,872	163,880
Total non-current assets	1,120,953	1,061,832
Total assets	2,558,060	2,255,131

	(Thousands of yen)	
	FY3/24 (As of Mar. 31, 2024)	Second quarter of FY3/25 (As of Sep. 30, 2024)
Liabilities		
Current liabilities		
Accounts payable-trade	62,683	55,055
Short-term borrowings	300,000	300,000
Current portion of long-term borrowings	304,428	304,428
Accounts payable-other	125,355	161,084
Accrued expenses	24,855	14,070
Income taxes payable	16,151	5,940
Accrued consumption taxes	14,142	31,632
Advances received	88,133	72,235
Provision for bonuses	63,169	57,857
Other	11,251	10,736
Total current liabilities	1,010,170	1,013,041
Non-current liabilities		
Long-term borrowings	722,059	569,845
Retirement benefit liability	9,688	13,775
Total non-current liabilities	731,747	583,620
Total liabilities	1,741,917	1,596,662
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	202,122	202,122
Retained earnings	386,973	230,577
Treasury shares	(499)	(499)
Total shareholders' equity	807,706	651,310
Non-controlling interests	8,436	7,157
Total net assets	816,143	658,468
Total liabilities and net assets	2,558,060	2,255,131

(2) Semi-Annual Consolidated Statements of Income and Comprehensive Income**Semi-Annual Consolidated Statement of Income
(For the Six-month Period)**

	(Thousands of yen)	
	First six months of FY3/24 (Apr. 1, 2023–Sep. 30, 2023)	First six months of FY3/25 (Apr. 1, 2024–Sep. 30, 2024)
Net sales	1,117,759	1,506,432
Cost of sales	884,675	966,168
Gross profit	233,083	540,264
Selling, general and administrative expenses	575,119	665,293
Operating loss	(342,035)	(125,029)
Non-operating income		
Interest income	2	45
Dividend income	1	1
Rental income	20,272	20,046
Outsourcing service income	3,000	1,800
Other	22	2,095
Total non-operating income	23,297	23,987
Non-operating expenses		
Interest expenses	2,043	4,565
Rental costs	18,269	18,120
Commission expenses	6,000	–
Miscellaneous losses	–	9,429
Other	–	621
Total non-operating expenses	26,312	32,735
Ordinary loss	(345,050)	(133,777)
Extraordinary losses		
Loss on retirement of non-current assets	125,934	–
System failure response expenses	125,275	–
Total extraordinary losses	251,209	–
Loss before income taxes	(596,260)	(133,777)
Income taxes-current	1,194	1,194
Income taxes-deferred	(1,657)	992
Total income taxes	(463)	2,186
Loss	(595,796)	(135,964)
Loss attributable to non-controlling interests	(383)	(1,278)
Loss attributable to owners of parent	(595,413)	(134,686)

Semi-Annual Consolidated Statement of Comprehensive Income
(For the Six-month Period)

	(Thousands of yen)	
	First six months of FY3/24 (Apr. 1, 2023–Sep. 30, 2023)	First six months of FY3/25 (Apr. 1, 2024–Sep. 30, 2024)
Loss	(595,796)	(135,964)
Comprehensive income	(595,796)	(135,964)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(595,413)	(134,686)
Comprehensive income attributable to non-controlling interests	(383)	(1,278)

(3) Semi-Annual Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY3/24 (Apr. 1, 2023–Sep. 30, 2023)	First six months of FY3/25 (Apr. 1, 2024–Sep. 30, 2024)
Cash flows from operating activities		
Loss before income taxes	(596,260)	(133,777)
Depreciation	177,620	177,687
Amortization of goodwill	19,654	19,411
Increase (decrease) in retirement benefit liability	4,182	4,087
Increase (decrease) in provision for bonuses	12,723	(5,311)
Interest and dividend income	(3)	(46)
Interest expenses	2,043	4,565
Loss on retirement of property, plant and equipment	125,934	–
Decrease (increase) in trade receivables	20,064	1,559
Decrease (increase) in inventories	5,062	12,862
Increase (decrease) in trade payables	(40,630)	(7,628)
Increase (decrease) in accrued consumption taxes	(19,266)	37,562
Increase (decrease) in accounts payable-other	59,779	61,454
Other, net	(107,309)	(20,884)
Subtotal	(336,404)	151,542
Interest and dividends received	3	46
Interest paid	(2,043)	(4,565)
Income taxes paid	(69,265)	(15,079)
Net cash provided by (used in) operating activities	(407,710)	131,944
Cash flows from investing activities		
Purchase of property, plant and equipment	(34,015)	(9,626)
Purchase of intangible assets	(119,243)	(155,070)
Proceeds from refund of leasehold and guarantee deposits	7,076	–
Net cash provided by (used in) investing activities	(146,183)	(164,696)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	100,000	–
Proceeds from long-term borrowings	700,000	–
Repayments of long-term borrowings	(85,592)	(152,214)
Dividends paid	(43,241)	(21,580)
Net cash provided by (used in) financing activities	671,166	(173,794)
Net increase (decrease) in cash and cash equivalents	117,272	(206,546)
Cash and cash equivalents at beginning of period	609,336	711,780
Cash and cash equivalents at end of period	726,608	505,233

(4) Notes to Semi-Annual Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information

First six months of FY3/24 (Apr. 1, 2023–Sep. 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 semi-annual consolidated statement of income
Net sales					
External sales	843,424	274,335	1,117,759	–	1,117,759
Inter-segment sales and transfers	1,752	7,062	8,814	(8,814)	–
Total	845,176	281,397	1,126,573	(8,814)	1,117,759
Segment loss	(318,600)	(33,384)	(351,985)	9,949	(342,035)

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

2. Segment loss is adjusted to be consistent with operating profit presented on the semi-annual consolidated statement of income.

First six months of FY3/25 (Apr. 1, 2024–Sep. 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 semi-annual consolidated statement of income
Net sales					
External sales	1,179,381	327,051	1,506,432	–	1,506,432
Inter-segment sales and transfers	729	4,762	5,491	(5,491)	–
Total	1,180,110	331,813	1,511,923	(5,491)	1,506,432
Segment loss	(62,662)	(68,458)	(131,120)	6,091	(125,029)

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 semi-annual 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.