

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2022
(Three Months Ended June 30, 2021)

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange (JASDAQ)
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 Scheduled date of filing of Quarterly Report: August 6, 2021
 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 First Quarter Ended June 30, 2021 (April 1, 2021 – June 30, 2021)

(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, 2021	583	10.5	(10)	-	(9)	-	(19)	-
Three months ended Jun. 30, 2020	527	2.7	31	3.2	32	6.5	10	(11.1)

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2021: (22) (-%)
 Three months ended Jun. 30, 2020: 8 (up 46.0%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended Jun. 30, 2021	(3.62)	-
Three months ended Jun. 30, 2020	1.96	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2021	2,153	1,336	60.4
As of Mar. 31, 2021	2,241	1,402	60.9

Reference: Shareholders' equity (million yen) As of Jun. 30, 2021: 1,301 As of Mar. 31, 2021: 1,364

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2021	-	0.00	-	8.00	8.00
Fiscal year ending Mar. 31, 2022	-	-	-	-	-
Fiscal year ending Mar. 31, 2022 (forecast)	-	0.00	-	8.00	8.00

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

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(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	1,286	14.0	(12)	-	(12)	-	(24)	-	(4.54)
Full year	2,892	18.6	220	0.2	219	0.2	138	0.2	25.47

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

*** 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: Yes

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, 2021:	5,428,000 shares	As of Mar. 31, 2021:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2021:	506 shares	As of Mar. 31, 2021:	506 shares
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3) Average number of shares during the period

Three months ended Jun. 30, 2021:	5,427,494 shares	Three months ended Jun. 30, 2020:	5,427,526 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 quarter of the fiscal year ending March 31, 2022 (hereinafter “the period under review”), the Japanese economy continues to be in a difficult situation, with the COVID-19 impacts still playing out and the state of emergency being re-declared. The outlook remains uncertain in a situation where the infection trends on the domestic and foreign economies are still unpredictable although countermeasures against the spread of the infection and the promotion of vaccination are expected to bring about a pick up in the 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, 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 are being cautious about investing and postponing new investment considering the impact of COVID-19 situation, which repeatedly worsens and improves, on corporate performance.

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.

During the previous fiscal year, the Company relocated its Tokyo office. The new office site has not only the Company’s Tokyo office but also the offices of our consolidated subsidiary, partner companies and other affiliated organizations, which relocated at the same time, in order to work more closely and streamline the operations.

As a result, for the period under review, the Group reported net sales of 583 million yen (up 10.5% year on year), cost of sales of 308 million yen (up 9.6%), the ratio of cost of sales to net sales of 52.8% (down 0.4 percentage points), gross profit of 274 million yen (up 11.5%), operating loss of 10 million yen (compared with operating profit of 31 million yen for the same quarter of the previous fiscal year), the ratio of operating profit to net sales of -1.7% (down 7.8 percentage points), ordinary loss of 9 million yen (compared with ordinary profit of 32 million yen for the same quarter of the previous fiscal year), and loss attributable to owners of parent of 19 million yen (compared with profit attributable to owners of parent of 10 million yen for the same quarter of the previous fiscal year). In addition, the return on equity (ROE), one of the KPIs for the Group, was -1.5% (compared with 0.8 percentage points for the same quarter of the previous fiscal year) on a consolidated basis and 0.8% (compared with 2.4 percentage points for the same quarter of the previous fiscal year) on a non-consolidated basis.

Results by business segment were as follows.

The Shalom Business

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.

Under these circumstances, in the Shalom Business, we have newly established the Product Planning Department to reflect administrative trends and customer requests in system development, covering all series of our products comprehensively. This new department has been working to improve the quality and expand the functions of mainstay products such as “Shalom,” “DirectHR,” and “eNEN,” and to respond to revisions to various laws and regulations. We have also established the new Marketing Strategy Department with the aim of strengthening the companywide sales support system and encouraged web-based promotions, public relations activities such as seminars, and business alliance activities with other companies.

The number of Shalom House Plan contracts increased by a transition campaign to Shalom V5.0. As for the Company Edition, we exhibited it at HR EXPO, an exhibition specializing in business negotiations of personnel operation support systems, and at the hybrid EXPO (Online and Digitalization EXPO, Work from Home/Telework EXPO & New Normal Office EXPO), which was held for the first time this year, and strived to increase the number of inquiries from the second quarter onward.

As a result, sales of the cloud services, which consist of ASP services and system construction services, were 469 million yen (up 11.6% year on year). This was attributable to sales of ASP services amounted to 440 million yen (up 11.3%) due to accumulated monthly usage fees in line with an increase in the number of customers who use our main services of Shalom brand products and sales of system construction services amounted to 28 million yen (up 16.7%) due to the number of Shalom House Plan contracts increased by the campaign. In addition, sales of system products increased to 25 million yen (up 12.5%).

On the other hand, personnel and labor costs increased due to the active recruitment in conjunction with strengthening of sales and development systems. In addition, promotion expenses increased due to the strengthening of digital marketing aimed at increasing customer acquisition.

Consequently, the segment recorded net sales of 505 million yen (up 11.8% year on year), gross profit of 256 million yen (up 11.0%) and operating profit of 19 million yen (down 65.5%). The ratio of operating profit to net sales, one of the KPIs for the Group, was 3.8% (down 8.7 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 that bring 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 contract development of front-end systems, customers of large companies and local governments have been actively investing in system renewal for the purpose of work-style reform, teleworking promotion, and personnel system reform. Responding to such a situation, we strengthened our sales system and stimulated our clients into ordering, which brought about a significant increase in orders. In the cloud service business, on the other hand, we have developed new sales channels for and enhanced the service functions of “GooooN.”

On the cost front, efforts to improve development efficiency and reduce the cost of sales ratio on a project-by-project basis have resulted in improved profit margin compared to that for the previous fiscal year.

As a result, the segment recorded net sales of 85 million yen (down 1.7% year on year), gross profit of 17 million yen (up 19.8%) and operating loss of 31 million yen (compared with ordinary loss of 25 million yen for the same quarter 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 was 1,097 million yen (down 6.4% from the end of the previous fiscal year), consisting primarily of 637 million yen in cash and deposits and 378 million yen in accounts receivable-trade.

The balance of non-current assets was 1,056 million yen (down 1.2% from the end of the previous fiscal year), consisting primarily of 387 million yen in software, 204 million yen in goodwill, and 162 million yen in guarantee deposits.

As a result, the balance of total assets was 2,153 million yen (down 3.9% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 622 million yen (up 6.2% from the end of the previous fiscal year), consisting primarily of 233 million yen in current portion of long-term borrowings, 122 million yen in accounts payable-other, 90 million yen in accrued expenses, and 74 million yen in advances received.

The balance of non-current liabilities was 194 million yen (down 23.1% from the end of the previous fiscal year), consisting solely of 194 million yen in long-term borrowings.

As a result, the balance of total liabilities was 817 million yen (down 2.6% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 1,301 million yen (down 4.6% from the end of the previous fiscal year), consisting primarily of 219 million yen in share capital, 197 million yen in capital surplus, and 885 million yen in retained earnings.

As a result, the balance of net assets was 1,336 million yen (down 4.7% from the end of the previous fiscal year).

(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, 2022, which was announced in the "Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (Japanese GAAP)" on May 10, 2021.

The estimates are based mainly on the information currently available to the Group and subject to significant uncertainty. In case the impact changes according to how long the COVID-19 pandemic lingers and how the situation develops, there may be effects on the estimates, which may affect the results of operations.

We will disclose promptly if, in light of future business performance, we decide that we should revise the consolidated earnings forecasts for the first half and full year of the fiscal year ending March 31, 2022.

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

(Thousands of yen)

	FY3/21 (As of Mar. 31, 2021)	First quarter of FY3/22 (As of Jun. 30, 2021)
Assets		
Current assets		
Cash and deposits	644,492	637,932
Accounts receivable-trade	467,416	378,610
Merchandise	7,054	9,920
Work in process	3,261	15,997
Supplies	77	130
Prepaid expenses	37,741	50,115
Other	12,879	4,699
Total current assets	1,172,924	1,097,406
Non-current assets		
Property, plant and equipment		
Buildings, net	135,248	132,317
Vehicles, net	1,737	1,519
Tools, furniture and fixtures, net	85,789	91,255
Total property, plant and equipment	222,775	225,091
Intangible assets		
Software	397,537	387,630
Software in progress	40,416	56,923
Trademark right	1,316	1,259
Telephone subscription right	1,218	1,218
Goodwill	213,740	204,025
Total intangible assets	654,229	651,056
Investments and other assets		
Investments in capital	60	60
Guarantee deposits	161,362	162,582
Deferred tax assets	30,495	17,589
Other	98	98
Total investments and other assets	192,016	180,331
Total non-current assets	1,069,021	1,056,479
Total assets	2,241,946	2,153,886

(Thousands of yen)

	FY3/21 (As of Mar. 31, 2021)	First quarter of FY3/22 (As of Jun. 30, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	45,006	24,177
Current portion of long-term borrowings	233,304	233,304
Accounts payable-other	98,889	122,654
Accrued expenses	37,730	90,904
Income taxes payable	45,235	3,321
Accrued consumption taxes	11,841	23,479
Advances received	42,880	74,301
Provision for bonuses	64,113	35,003
Other	7,684	15,795
Total current liabilities	586,685	622,942
Non-current liabilities		
Long-term borrowings	252,851	194,525
Total non-current liabilities	252,851	194,525
Total liabilities	839,536	817,467
Net assets		
Shareholders' equity		
Share capital	219,110	219,110
Capital surplus	197,457	197,457
Retained earnings	948,784	885,739
Treasury shares	(499)	(499)
Total shareholders' equity	1,364,852	1,301,807
Non-controlling interests	37,557	34,611
Total net assets	1,402,410	1,336,419
Total liabilities and net assets	2,241,946	2,153,886

(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 FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)	First three months of FY3/22 (Apr. 1, 2021 – Jun. 30, 2021)
Net sales	527,696	583,017
Cost of sales	281,080	308,037
Gross profit	246,616	274,980
Selling, general and administrative expenses	214,758	284,984
Operating profit (loss)	31,858	(10,004)
Non-operating income		
Dividend income	1	1
Rental income	-	10,701
Royalty income	150	-
Subsidy income	1,056	-
Surrender value of insurance policies	11	-
Other	156	308
Total non-operating income	1,374	11,010
Non-operating expenses		
Interest expenses	587	545
Rental costs	-	9,507
Total non-operating expenses	587	10,052
Ordinary profit (loss)	32,645	(9,046)
Profit before income taxes	32,645	(9,046)
Income taxes-current	12,764	618
Income taxes-deferred	11,134	12,905
Total income taxes	23,899	13,524
Profit (loss)	8,746	(22,570)
Loss attributable to non-controlling interests	(1,901)	(2,945)
Profit (loss) attributable to owners of parent	10,648	(19,624)

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

	(Thousands of yen)	
	First three months of FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)	First three months of FY3/22 (Apr. 1, 2021 – Jun. 30, 2021)
Profit (loss)	8,746	(22,570)
Comprehensive income	8,746	(22,570)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,648	(19,624)
Comprehensive income attributable to non-controlling interests	(1,901)	(2,945)

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

MKSystem started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) at the beginning of the first quarter of the fiscal year ending in March 2022. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

In addition, MKSystem applies the alternative treatment prescribed in Paragraph 98 of the Guidance on Accounting Standard for Revenue Recognition, and recognizes revenue at the time of shipment when the period between the time of shipment and the time when control of the relevant goods is transferred to the customer is a normal period for domestic sales of goods.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the first quarter of the current fiscal year, is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year. The new standard is then applied beginning with this amount of retained earnings. However, MKSystem has applied the method prescribed in Paragraph 86 of this standard and has not retrospectively applied the new accounting policy to contracts in which almost all revenue were recognized in accordance with the previous treatment prior to the beginning of the first quarter of the current fiscal year. In addition, MKSystem has applied the method prescribed in Paragraph 86, Article 1 of the Accounting Standard for Revenue Recognition, and accounted for contract changes made prior to the beginning of the first quarter of the current fiscal year based on the contract terms after reflecting all contract changes, and added or subtracted the cumulative effect of such changes to retained earnings at the beginning of the first quarter of the current fiscal year.

This change has no impact on profit and loss for the first quarter of the current fiscal year or the beginning balance of retained earnings for the first quarter of the current fiscal year.

Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), MKSystem has not presented information on revenue from contracts with customers broken down for the first quarter of the previous fiscal year.

Segment Information

First three months of FY3/21 (Apr. 1, 2020 – Jun. 30, 2020)

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	443,088	84,607	527,696	-	527,696
Inter-segment sales and transfers	8,733	2,587	11,320	(11,320)	-
Total	451,821	87,195	539,016	(11,320)	527,696
Segment profit (loss)	56,447	(25,698)	30,749	1,108	31,858

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 three months of FY3/22 (Apr. 1, 2021 – Jun. 30, 2021)

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	498,192	84,824	583,017	-	583,017
Inter-segment sales and transfers	7,083	900	7,983	(7,983)	-
Total	505,275	85,724	591,000	(7,983)	583,017
Segment profit (loss)	19,452	(31,762)	(12,310)	2,305	(10,004)

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.

3. Information related to revisions for reportable segments

As described in Changes in Accounting Policies, MKSystem has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter of FY3/22 and changed the accounting method for revenue recognition. Accordingly, the method for calculating segment profit or loss has been changed as well. This change has no impact on the first quarter of the current fiscal year.

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.