

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2019
(Three Months Ended June 30, 2018)

[Japanese GAAP]

Company name: MKSystem Corporation Listing: Tokyo Stock Exchange (JASDAQ)
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Scheduled date of filing of Quarterly Report: August 6, 2018
 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, 2018 (April 1, 2018 – June 30, 2018)

(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, 2018	415	5.1	8	(50.1)	8	(53.1)	(56)	-
Three months ended Jun. 30, 2017	395	-	17	-	17	-	14	-

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2018: (62) (-%)

Three months ended Jun. 30, 2017: 9 (-%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended Jun. 30, 2018	(10.45)	-
Three months ended Jun. 30, 2017	2.66	-

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Basic earnings per share was calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Jun. 30, 2018	1,927	998	49.2
As of Mar. 31, 2018	2,178	1,136	48.9

Reference: Shareholders' equity (million yen) As of Jun. 30, 2018: 948 As of Mar. 31, 2018: 1,065

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2018	-	0.00	-	22.00	22.00
Fiscal year ending Mar. 31, 2019	-	-	-	-	-
Fiscal year ending Mar. 31, 2019 (forecast)	-	0.00	-	8.00	8.00

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

Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Dividends for the fiscal year ended March 31, 2018 were calculated based on the number of shares before the stock split.

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	1,028	11.3	100	(30.6)	100	(30.3)	1	(98.2)	0.30
Full year	2,318	22.8	431	37.2	431	35.8	211	3.7	39.05

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: 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, 2018:	5,428,000 shares	As of Mar. 31, 2018:	5,428,000 shares
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2) Number of treasury shares at the end of period

As of Jun. 30, 2018:	238 shares	As of Mar. 31, 2018:	238 shares
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3) Average number of shares during the period

Three months ended Jun. 30, 2018:	5,427,762 shares	Three months ended Jun. 30, 2017:	5,427,908 shares
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Note: MKSystem conducted a 2-for-1 split of its common stock with an effective date of April 1, 2018. Number of shares issued at the end of period, number of treasury shares at the end of period, and average number of shares during the period were calculated based on the assumption that the stock split had been conducted at the beginning of the previous fiscal year.

* The 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 Forecast 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

In the first quarter of the fiscal year ending March 31, 2019 (hereinafter “the period under review”), the Japanese economy remained on a gradual recovery trend against a backdrop of continued improvements in employment and corporate capital investments driven by improved corporate earnings. Meanwhile, attention should be paid to the outlook of the global economy, given concerns over the U.S. trade policies, uncertain political situations in Europe and a growing geopolitical risk in the Middle East and Asia.

The domestic information service industries have been seeing an accelerated trend of providing services typically through the cloud computing. Amid such a trend, these industries utilize the latest technologies such as AI (Artificial Intelligence) and RPA (Robotic Process Automation). Specifically in the field of the personnel and labor management, which MKSystem Corporation and its group companies (hereinafter collectively “the Group”) involve, companies are increasingly motivated to invest in “HR Tech” to realize efficient and diversified ways of working in line with the government-promoted “work style reform.” In this context, “HR Tech” refers to cloud personnel and labor related systems including business operation systems and talent management systems for human resources management.

Under these circumstances, the Group worked to expand its business by promoting sales of the Shalom System (which literally means a dream system for labor and social security attorneys) in the Shalom Business and by starting to provide a new cloud service called “Jinzai (human resources) CuBe Cloud” in the CuBe Business. On the other hand, the Shalom Business reported extraordinary losses of 94 million yen as a penalty concerning license fees incurred in prior periods.

As a result, for the period under review, the Group reported net sales of 415 million yen (up 5.1% year on year), cost of sales of 173 million yen (up 8.8% year on year), the ratio of cost of sales to net sales of 41.8% (up 1.5 percentage points year on year), gross profit of 242 million yen (up 2.5% year on year), operating profit of 8 million yen (down 50.1% year on year), the ratio of operating profit to net sales of 2.0% (down 2.3 percentage points year on year), ordinary profit of 8 million yen (down 53.1% year on year), and loss attributable to owners of parent of 56 million yen (compared with profit attributable to owners of parent of 14 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 negative 1.7% (compared with 4.8% for the same quarter of the previous fiscal year) on a non-consolidated basis and negative 5.6% (compared with 1.6% for the same quarter of the previous fiscal year) on a consolidated basis as a result of reporting a net loss due to the recognition of extraordinary losses.

Results by business segment were as follows.

The Shalom Business

Amid a movement to simplify overall administrative procedures promoted by the government, a growing number of companies as well as labor and social security attorney offices, our main customers, are motivated to invest in systems available for electronic application. The movement is primarily driven by an official announcement by the Ministry of Health, Labour and Welfare that the Ministry will require large-scale corporations to introduce an electronic application system for their social insurance-related procedures from 2020. At the same time, we expect an intensified competition as we witness an increasing number of new entrants in the market for electronic application services.

Under these circumstances, we have worked to respond to revisions to various laws and regulations and encouraged customers to adopt the Shalom System by offering a campaign to discount the initial cost.

As a result, sales of the cloud service were 322 million yen (up 10.4% year on year). The amount comprises of 282 million yen (up 14.6% year on year) from ASP services thanks to the accumulation of monthly subscription fee along with a steady increase in the number of customers who use our main services, and 39 million yen

(down 12.7% year on year) from system construction services thanks to new installations by the customers used the discount campaign. However, we did not receive as many orders using the subsidies under the Project to Support Introduction of IT for Improvement of Service Productivity as we did in the same quarter of the previous fiscal year. This could be accounted for a reduced amount of the subsidy and administrative burdens for customers to apply for the subsidy.

In addition, sales from system products were 26 million yen (up 9.1% year on year), and those from the other services were 1 million yen (up 145.2% year on year) due to increased My Number acquisition agent services as a result of the government's decision to require My Number information for employment insurance related filings.

Meanwhile, both cost of sales and selling, general and administrative expenses increased year on year as a result of strengthening sales activities for corporate customers and expanding our service providing structure with an increased number of workforce.

Consequently, the segment recorded net sales of 350 million yen (up 10.6% year on year), gross profit of 235 million yen (up 10.4% year on year) and operating profit of 69 million yen (up 7.8% year on year). The rate of operating profit to net sales, one of the KPIs for the Group, was 19.8% (down 0.5 percentage points year on year), which we consider should be improved in the future to exceed 20%.

The CuBe Business

On top of developing customized front-end systems for personnel and general affairs divisions of large companies for each customer to enhance their operational efficiency, the CuBe Business has started to provide cloud services that enable small and medium-sized companies to improve their usability by leveraging our know-how we have obtained through the projects customized for large companies. These front-end systems help improve operational efficiency of not only personnel and general affairs divisions but also the customer's entire organization, and they are relevant to the purpose of the government-promoted "work style reform."

In the period under review, the segment suffered a year-on-year decrease in sales due to a lack of large-scale project deliveries. However, we steadily delivered system revamp projects while engaging in the development of large scale projects for "Jinzai CuBe," which systematizes business processes related to target management and other personnel affairs, and for "Shugyo (work) CuBe," which deals with business processes including attendance management. These large-scale projects will contribute to our sales going forward.

In the cloud service business, we have already offered the "Jinzai CuBe Cloud" since April 2018 with a successful introduction to large group companies of our main customers for customized system development. We are also engaged in enhancement of the service functions and tasks to respond to revisions to laws and regulations for "Nenmatsu-chosei (year-end tax adjustment) CuBe Cloud," which we started offering in the previous fiscal year. However, while we need upfront investments and costs for service design and development activities and sales and marketing activities, sales of cloud service tend to generate and accumulate only gradually. Regarding "Net de Seisan" (which literally means expense reimbursement through the internet), which we started offering in April 2017, we integrated it to the Shalom service as the app dedicated solely for the Shalom Business customers from the period under review.

As a result, the segment recorded net sales of 65 million yen (down 16.8% year on year), gross profit of 6 million yen (down 71.5% year on year), and operating loss of 61 million yen (compared with operating loss of 47 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

The balance of total assets at the end of the period under review decreased 250 million yen from the end of the previous fiscal year to 1,927 million yen.

Assets

The balance of current assets at the end of the period under review was 876 million yen (down 24.9% from the end of the previous fiscal year), consisting primarily of 494 million yen in cash and deposits and 269 million yen in accounts receivable-trade.

The balance of non-current assets was 1,051 million yen (up 3.9% from the end of the previous fiscal year), consisting primarily of 320 million yen in goodwill, 210 million yen in software in progress, 188 million yen in deferred tax assets, and 178 million yen in software.

As a result, the balance of total assets was 1,927 million yen (down 11.5% from the end of the previous fiscal year).

Liabilities

The balance of current liabilities at the end of the period under review was 902 million yen (down 9.0% from the end of the previous fiscal year), consisting primarily of 511 million yen in accounts payable-other, 107 million yen in current portion of long-term loans payable, and 100 million yen in short-term loans payable.

The balance of non-current liabilities was 26 million yen (down 47.0% from the end of the previous fiscal year), consisting solely of long-term loans payable.

As a result, the balance of total liabilities was 929 million yen (down 10.3% from the end of the previous fiscal year).

Net assets

The balance of shareholders' equity at the end of the period under review was 948 million yen (down 10.9% from the end of the previous fiscal year), consisting primarily of 219 million yen in capital stock, 198 million yen in capital surplus, and 531 million yen in retained earnings.

As a result, the balance of net assets was 998 million yen (down 12.1% 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, 2019 that was announced in the "Corrections to Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 (Japanese GAAP)" on June 29, 2018.

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

	(Thousands of yen)	
	FY3/18 (As of Mar. 31, 2018)	First quarter of FY3/19 (As of Jun. 30, 2018)
Assets		
Current assets		
Cash and deposits	720,192	494,728
Accounts receivable-trade	391,808	269,205
Merchandise	5,011	5,796
Work in process	9,718	50,545
Supplies	299	616
Prepaid expenses	26,723	21,885
Other	13,320	33,518
Total current assets	1,167,074	876,295
Non-current assets		
Property, plant and equipment		
Buildings, net	24,540	24,032
Vehicles, net	5,863	5,375
Tools, furniture and fixtures, net	49,221	45,434
Leased assets, net	821	-
Total property, plant and equipment	80,447	74,842
Intangible assets		
Software	139,035	178,028
Software in progress	216,627	210,444
Trademark right	1,384	1,343
Telephone subscription right	1,218	1,218
Goodwill	330,326	320,611
Total intangible assets	688,592	711,645
Investments and other assets		
Investments in capital	70	70
Guarantee deposits	53,846	52,004
Insurance funds	23,881	23,881
Deferred tax assets	164,309	188,563
Other	98	98
Total investments and other assets	242,206	264,618
Total non-current assets	1,011,245	1,051,106
Total assets	2,178,320	1,927,402

(Thousands of yen)

	FY3/18 (As of Mar. 31, 2018)	First quarter of FY3/19 (As of Jun. 30, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	37,527	21,253
Short-term loans payable	100,000	100,000
Current portion of long-term loans payable	112,985	107,984
Lease obligations	1,254	314
Accounts payable-other	542,594	511,066
Accrued expenses	33,039	53,261
Income taxes payable	82,510	996
Accrued consumption taxes	-	2,137
Advances received	24,083	51,773
Provision for bonuses	48,926	25,889
Other	8,855	27,789
Total current liabilities	991,776	902,467
Non-current liabilities		
Long-term loans payable	50,315	26,648
Total non-current liabilities	50,315	26,648
Total liabilities	1,042,091	929,115
Net assets		
Shareholders' equity		
Capital stock	219,110	219,110
Capital surplus	198,290	198,169
Retained earnings	648,098	531,668
Treasury shares	(265)	(265)
Total shareholders' equity	1,065,232	948,683
Non-controlling interests	70,996	49,603
Total net assets	1,136,229	998,287
Total liabilities and net assets	2,178,320	1,927,402

(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 FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)
Net sales	395,562	415,670
Cost of sales	159,562	173,654
Gross profit	236,000	242,015
Selling, general and administrative expenses	218,968	233,518
Operating profit	17,032	8,497
Non-operating income		
Interest income	4	2
Dividend income	1	1
Insurance premiums refunded cancellation	-	9
Purchase discounts	866	5
Other	179	14
Total non-operating income	1,051	32
Non-operating expenses		
Interest expenses	698	402
Other	60	1
Total non-operating expenses	759	404
Ordinary profit	17,324	8,125
Extraordinary losses		
Penalty	-	94,121
Total extraordinary losses	-	94,121
Profit (loss) before income taxes	17,324	(85,996)
Income taxes - current	26,490	504
Income taxes - deferred	(18,396)	(24,254)
Total income taxes	8,094	(23,749)
Profit (loss)	9,230	(62,246)
Loss attributable to non-controlling interests	(5,205)	(5,522)
Profit (loss) attributable to owners of parent	14,436	(56,723)

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

	(Thousands of yen)	
	First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)	First three months of FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)
Profit (loss)	9,230	(62,246)
Comprehensive income	9,230	(62,246)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,436	(56,723)
Comprehensive income attributable to non-controlling interests	(5,205)	(5,522)

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Additional Information

Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.

Effective from the beginning of the period under review, MKSystem applied the Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) and other related pronouncements. Accordingly, deferred tax assets have been presented in the investments and other assets section of the consolidated balance sheet.

Segment and Other Information

Segment information

First three months of FY3/18 (Apr. 1, 2017 – Jun. 30, 2017)

Information related to net sales and profit/loss for each reportable segment

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in quarterly consolidated statement of income
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	316,543	79,018	395,562	-	395,562
Inter-segment sales and transfers	-	-	-	-	-
Total	316,543	79,018	395,562	-	395,562
Segment profit (loss)	64,407	(47,825)	16,582	450	17,032

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 FY3/19 (Apr. 1, 2018 – Jun. 30, 2018)

Information related to net sales and profit/loss for each reportable segment

(Thousands of yen)

	Reportable segment			Adjustment (Note)	Amounts recorded in quarterly consolidated statement of income
	Shalom Business	CuBe Business	Total		
Net sales					
External sales	349,984	65,685	415,670	-	415,670
Inter-segment sales and transfers	138	88	226	(226)	-
Total	350,122	65,773	415,896	(226)	415,670
Segment profit (loss)	69,414	(61,547)	7,867	630	8,497

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.

Subsequent Events

(Borrowing a large amount of funds)

MKSystem made a resolution at the Board of Directors' Meeting held on July 17, 2018 with respect to the borrowing of funds. The transaction is outlined as follows.

1. Reason for the borrowing of funds

MKSystem will borrow funds from a financial institution primarily for the purpose of procuring the funds to make an additional payment of license fees incurred in prior periods.

2. Details of the borrowing

1) Name of lender	Resona Bank, Limited
2) Borrowing amount	500 million yen
3) Borrowing interest rate	Benchmark rate (1-month JPY TIBOR) + 0.4%
4) Date of drawdown	July 30, 2018
5) Date of repayment	July 30, 2023
6) Collateral	None

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.