

# **Financial Results**

**for Fiscal Year Ended December 31,2015**

**SIOS Technology, Inc.**

(TSE Second Section: 3744)

February 2, 2016



# Table of Contents

- I Summary of Financial Results for FY 2015**
  
- II Strategic Initiatives Implemented in FY 2015**
  
- III Medium-Term Business Plan and Earnings Forecasts for FY 2016**

# I Summary of Financial Results for FY 2015



# Summary of Financial Results for FY 2015

**Net sales 9,362 million yen (up 27.1% yoy)**

- **Robust sales growth** as a result of the acquisition of Keyport Solutions, Inc. (hereinafter "KPS"), in April 2015
- **Steady sales growth** of LifeKeeper,\* one of our major products, **in all regions**
- **Steady sales growth** in software products for MFP\*
- **Steady sales growth** in Red Hat, Inc.-related products and **Solid sales growth** in OSS\*-related products

**Operating loss: 111 million yen (operating income of 65 million yen for FY 2014)**

**EBITDA: -45 million yen (125 million yen for FY 2014)**

\*EBITDA=operating income + depreciation + amortization of goodwill

- **648 million yen increase (up 29.1% yoy) in R&D expenses due to active R&D investment**

\*See page 28 for descriptions of terms with an asterisk(\*).

# Business Results for FY 2015

| Unit: million yen                             | FY 2014 results | FY 2015 results | YoY Changes | Percentage |
|---|-----------------|-----------------|-------------|------------|
| Net sales                                     | 7,367           | 9,362           | +1,994      | +27.1%     |
| Gross margin                                  | 2,878           | 3,351           | +472        | +16.4%     |
| Operating income                              | 65              | (111)           | (177)       | -          |
| Ordinary income                               | 81              | (127)           | (208)       | -          |
| Net income                                    | 39              | (179)           | (218)       | -          |
| EBITDA  | 125             | (45)            | (171)       | -          |
| (Number of employees on a consolidated basis) | 248             | 458             | +210        | +84.7%     |

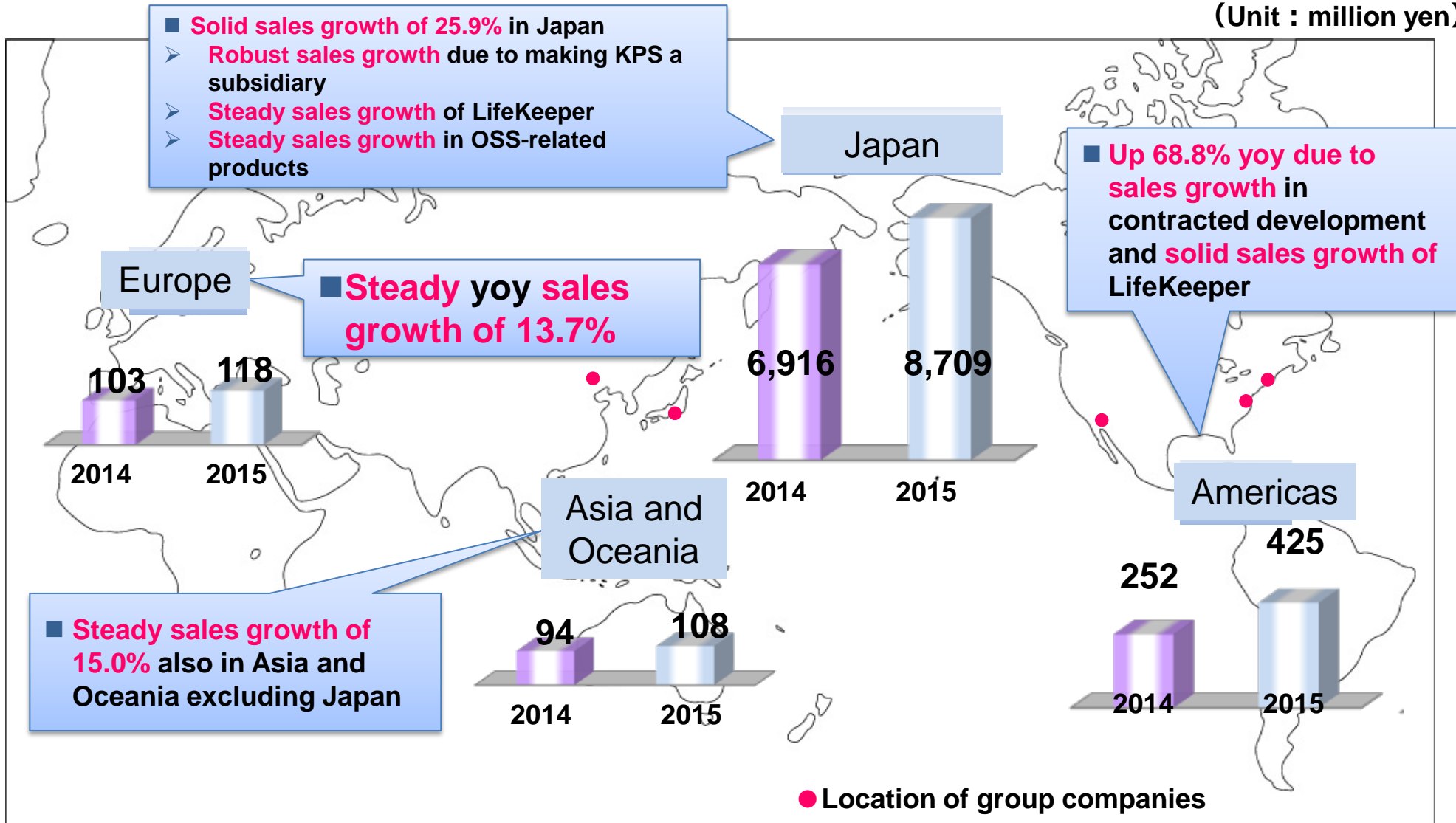
- **The number of employees totaled 450 on a consolidated basis as KPS and Profit Cube Inc. became our subsidiary April and October 2015, respectively.**

\*EBITDA: Operating income + depreciation + amortization of goodwill

\*Number of employees represents total of annual average numbers of full-time employees and temp staff and contract employees as of end of period

# Net sale by Region

(Unit : million yen)



\*Translated at the rate of 105.79 yen and 121.11 yen to the dollar for 2014 and 2015, respectively

# Balance Sheet for FY 2015

## 【Financial Positions】

| Unit: million yen                         | December 31,<br>2014 | At end of<br>December<br>2015 | Increase<br>(decrease) |
|---|----------------------|-------------------------------|------------------------|
| Total current assets                      | 3,251                | 3,901                         | +650                   |
| (Cash and deposits)                       | 1,982                | 2,206                         | +224                   |
| (Accounts receivable-trade and others)    | 1,268                | 1,694                         | +425                   |
| Total fixed assets                        | 400                  | 1,741                         | +1,340                 |
| <b>Total assets</b>                       | <b>3,651</b>         | <b>5,642</b>                  | <b>+1,990</b>          |
| Total current liabilities                 | 1,783                | 2,872                         | +1,088                 |
| Total fixed liabilities                   | 134                  | 1,230                         | +1,096                 |
| Total liabilities                         | 1,918                | 4,102                         | +2,184                 |
| Total net assets                          | 1,733                | 1,539                         | (193)                  |
| (Treasury stock)                          | (119)                | (116)                         | +3                     |
| (Foreign currency translation adjustment) | (144)                | (143)                         | +0                     |
| <b>Total liabilities and net assets</b>   | <b>3,651</b>         | <b>5,642</b>                  | <b>+1,990</b>          |

- **Cash and deposits: Up 224 million yen**
  - **Fund in hand of about 2.2 billion yen (sufficient funds available to accelerate the growth strategy)**
- **Fixed assets: Up 1,340 million yen**
  - **Increase in goodwill and investment securities of 831 million yen and 190 million yen, respectively**
- **Current liabilities: Up 1,088 million yen**
  - **Increase in accounts payable-trade and short-term loans payable of 193 million yen and 392 million yen, respectively**
- **Fixed liabilities: Up 1,096 million yen**
  - **Funds raised from financial institutions to purchase shares of subsidiaries**
- **Net assets: Down 193 million yen**
  - **Net loss of 179 million yen, dividends paid of 42 million yen and others**

# Cash Flow for FY 2015

| Unit: million yen                                     | FY 2014 | FY 2015 | Increase (decrease) |
|---|---------|---------|---------------------|
| Cash flow from operating activities                   | 401     | 168     | (232)               |
| Cash flow from investing activities                   | (223)   | (996)   | (773)               |
| Cash flow from financing activities                   | (145)   | 988     | +1,133              |
| Translation adjustment on cash and cash equivalents   | 116     | 1       | (115)               |
| Increases (decreases) in cash and cash equivalents    | 149     | 162     | +13                 |
| Balance of cash and cash equivalents at end of period | 1,882   | 2,045   | +163                |

- **Cash flow from operating activities: 168 million yen**
  - Net loss before income taxes of 145 million yen, depreciation and amortization of 59 million yen, increase in notes and accounts payable-trade of 99 million yen and others
- **Cash flow from investing activities: (996 million yen)**
  - Purchase of shares of subsidiaries of 951 million yen
- **Cash flow from financing activities: 988 million yen**
  - Proceeds from long-time loans payable of 1,060 million yen, dividends paid of 42 million yen and others

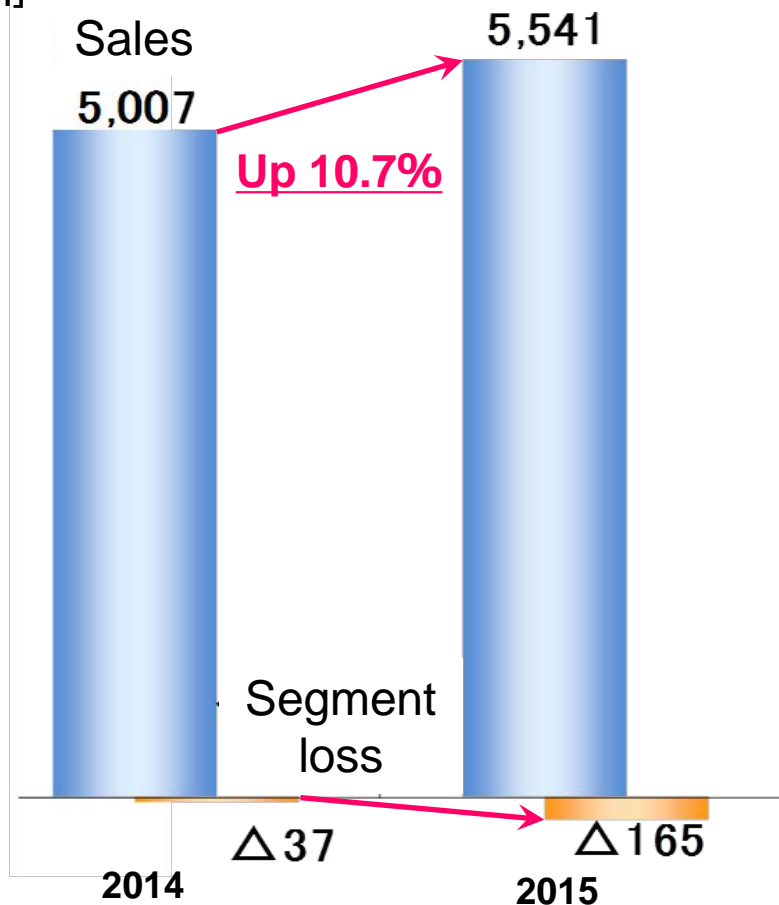


# Open System Infra Business

Sales: 5,541 million yen (up 10.7% yoy)

Segment loss: 165 million yen (37 million yen for FY 2014)

[million yen]



## Sales

### [Japan]

- **Steady sales growth** in our major product LifeKeeper
- **Solid sales growth** in OSS support service and OSS-related products
- **Steady sales growth** in Red Hat, Inc.-related products

### [Overseas]

- **Steady sales growth** in **Americas, Europe and Asia and Oceania region**

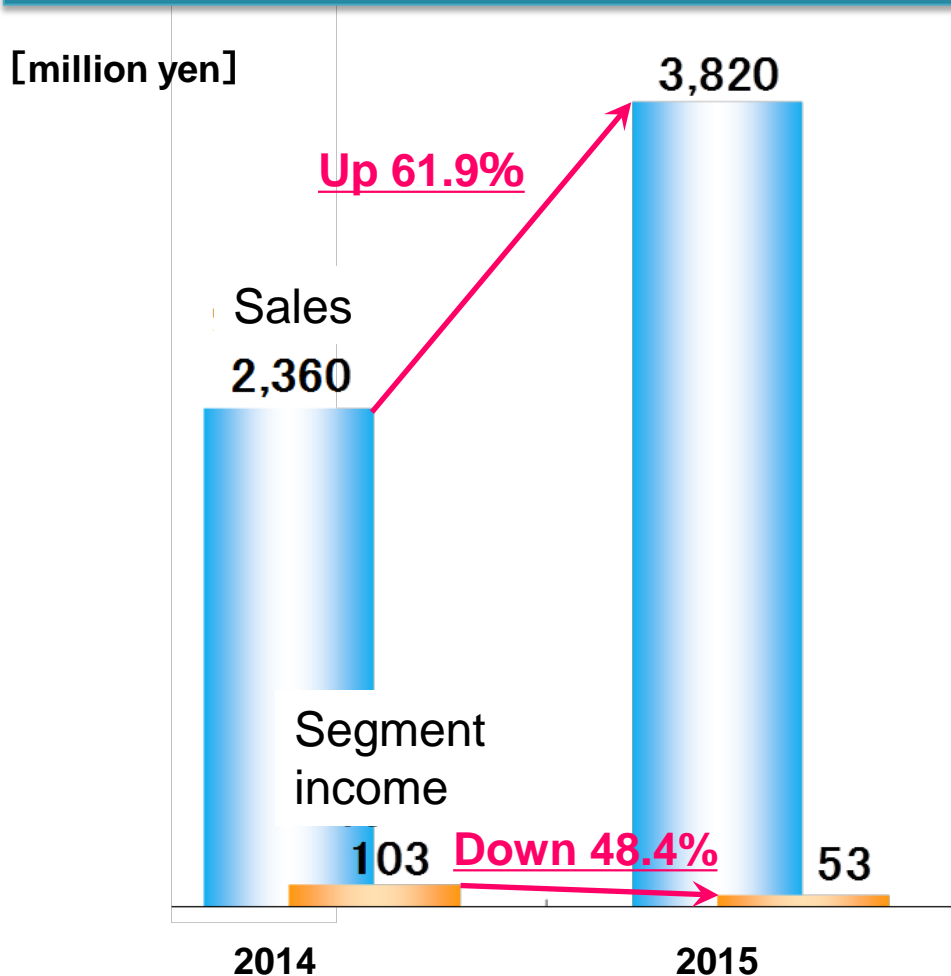
## Segment loss

- R&D Investment in machine learning technology (IT operations analysis\* software SIOS iQ\* was launched as the first fruit of the investment)

# Web Application Business

Sales: 3,820 million yen (up 61.9% yoy)

Segment income: 53 million yen (down 48.4% yoy)



## Sales

- **Robust sales growth** due to making KPS a subsidiary
- **Steady sales growth** in software products for MFP
- **Steady sales growth** in Google Apps-linked SaaS\* Gluegent Series\*

## Segment income

- **Active R&D investment** in strengthening functions of software products for MFP and Gluegent series

## **II Strategic Initiatives Implemented in FY 2015**



**1**

**Continuing R&D Investment**

**2**

**New Business Creation (Including M&A)**

**3**

**Strengthening Competitiveness of Core Businesses**

**1**

**Continuing R&D Investment**

**2**

New Business Creation (Including M&A)

**3**

Strengthening Competitiveness of Core Businesses

# 1. R&D Achievements

Focus R&D investments on developing machine-learning technology\*

First R&D Achievements

## SIOS iQ



- Support companies' operation of virtual system
- Completely automate the analysis of root causes and the scope of effect and propose the solution in the event of occurrence of issues
- User friendly interface

Launched SIOS iQ, the IT operations analysis software using the machine learning technology, in the United States and Japan in July 2015

# 1. R&D Achievements

## SIOS iQ adopted by Trend Micro Inc.

### Before adoption of SIOS iQ

**In the event of a performance issue in system, Trend Micro Inc. had utilized several analysis tools to find the causes and call specialists in technology areas to make an analysis.**

### After adoption of SIOS iQ

**SIOS iQ automates cause analysis of the performance issue and makes it possible to find and improve root causes early. This makes system management more efficient and increases credibility of services.**

1

Continuing R&D Investment

2

**New Business Creation (Including M&A)**

3

Strengthening Competitiveness of Core Businesses



## 2. M&A Achievements (New Business Creation)

**Made Keyport Solutions, Inc. (hereinafter "KPS"), a developer of applications mainly for financial institutions, a subsidiary in April 2015**

**Made Profit Cube Inc. (hereinafter "PCI"), which develops, sells, and maintains the ALM system for financial institutions\*, a subsidiary in October 2015**



**Made preparations for launching new products and services in the potential high growth area Fintech\***



**Aim at offering new products and services in Fintech area through KPS and PCI**

# 2. M&A Achievements (New Business Creation)

Keyport Solutions (hereinafter "KPS") develops applications for financial institutions based on superior technology and sets up investment information websites

## ■ Corporate profile of KPS



|                  |  |
|------------------|--|
| Company name     | Keyport Solutions, Inc.  |
| Location         | 1-28-38 Shinkawa, Chuo-ku, Tokyo, Japan  |
| Representative   | Noboru Morita, Representative Director   |
| Capital stock    | 232 million yen  |
| Established      | June 1999  |
| Ownership        | 96.7% and 3.3% owned by the Company and others, respectively   |
| Business results | Sales 1,303 million yen, ordinary income 136 million yen and net income 144 million yen (for the fiscal year ended March 2014) |

## Products and services of KPS



\* Stress check software



\* IT business process management software



\* Investment learning website



\* Web access analysis software

(The above is an example of offering products and services)

# 2. M&A Achievements (New Business Creation)

Profit cube (hereinafter "PCI") develops and sells the ALM system managing assets and liabilities for financial institutions to provide advanced support and consulting services of operations

## ■ Corporate profile of PCI



|                  |   |
|------------------|---|
| Company name     | Profit Cube Inc.  |
| Location         | 2-2-20 Higashi Shinagwa, Shinagawa-ku, Tokyo, Japan   |
| Representative   | Shinichi Kondo, Representative Director   |
| Capital stock    | 380 million yen   |
| Established      | August 1982   |
| Ownership        | 100.0% owned by the Company   |
| Business results | Sales 1,127 million yen, ordinary income 56 million yen and net income 47 million yen (for the fiscal year ended June 2015) |

## Products and services of PCI

### Vivaldi

\* Business management software for financial institutions



\* Securities management software

### e-Acris

\* Integrated credit management software

(The above is an example of offering products and services)

1

Continuing R&D investment

2

New business creation (including M&A)

3

**Strengthening Competitiveness of Core Businesses**

# 3. Strengthening Competitiveness of Core Businesses

Launched LifeKeeper for Linux v9 September 2015 to satisfy a variety of requests for a cloud\* environment from companies

## Requests under cloud environment

- Request for accelerating the speed of businesses resulting from fierce competition
- Response to globalization of businesses
- Stronger request for credibility of the system and others

## Items realized by upgrade

- Replicating servers with the same composition for a short time
- Increase in convenience and operation efficiency of engineers
- Possible to build infra overseas immediately

## New functions of LifeKeeper for Linux v9

Major upgrade for the first time in 3 years and 4 months



- Addition of functions including the automatic composition management available at the time of building server environment
- Strengthening of the instruction execution function with command line
- Support of the latest version of the virtual platform (VMware vSphere)

# 3. Strengthening Competitiveness of Core Businesses

Expanded functions of the application for MFP (multi function peripheral) Quick Scan V4 and started to offer the application

- Promoted an increase in the efficiency of businesses by converting printed business cards and documents into digital data



Strengthened and improved MFP for higher usability by adopting a large-size full-color touch panel

Support efficient and safe operations by managing printed information in the office on a digital basis

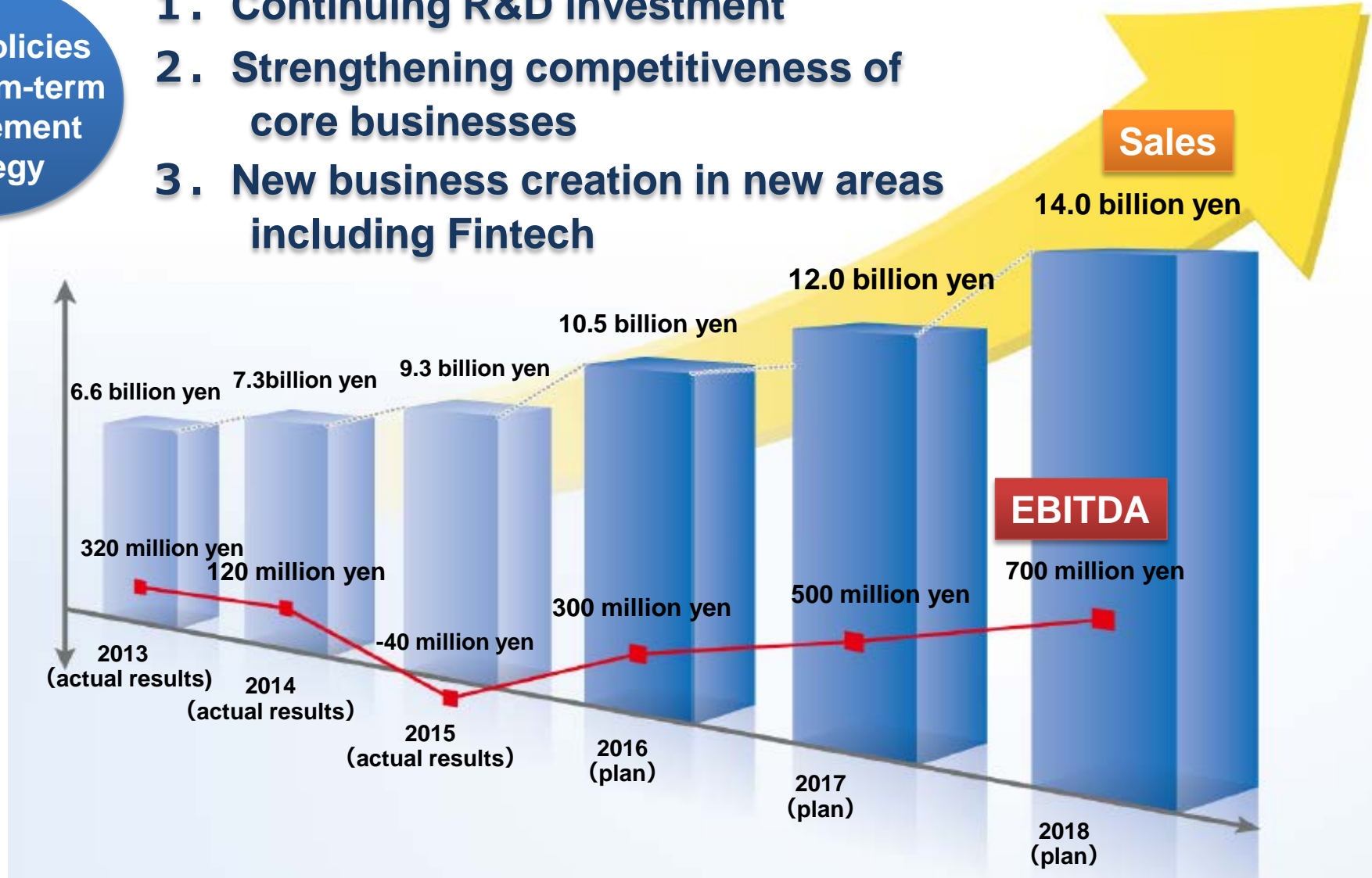
# **III Medium-Term Business Plan and Earnings Forecasts for FY 2016**



# Medium-Term Business Plan

Basic policies of medium-term management strategy

1. Continuing R&D investment
2. Strengthening competitiveness of core businesses
3. New business creation in new areas including Fintech





# Earnings Forecasts for FY 2016

- Expect to achieve sales of **10.5** billion yen, a high growth of **2** digits or more and sales growth for **6th** consecutive period
- Expect to **Turn into the black** by promoting rationalization with tighter cooperation within the group and increasing the composition ratio of higher-margin in-house products
- Keep active R&D investment and aim at **offering new products and services including those in the Fintech area**
- R&D expenses to total **880 million yen (up 35.8% yoy)** for the next period.

| Unit: million yen | Actual results for FY 2015 | Full-year estimates for FY 2016 | Increase (decrease) | Percent change |
|-------------------|----------------------------|---------------------------------|---------------------|----------------|
| Net sales         | 9,362                      | 10,500                          | +1,138              | +12.1%         |
| Operating income  | (111)                      | 140                             | +251                | -              |
| Ordinary income   | (127)                      | 100                             | +227                | -              |
| Net income        | (179)                      | 50                              | +229                | -              |
| EBITDA            | (45)                       | 300                             | +345                | -              |

# Dividends for the Current and Next Periods

- **Dividends planned for the current period (FY 2015)**
  - **As announced on February 2, 2015, for the current period, we made no dividends and prioritized R&D activities to achieve the medium-term management plan.**
  
- **Dividends expected for the next period (FY 2016)**
  - **For the next period, we will record net income attributable to owners of the parent, but we intend to make no dividends to prioritize prior R&D investment toward further growth in future.**

|                    | 17th term<br>FY 2013<br>(Period before the<br>previous period ) | 18th term<br>FY 2014<br>(Previous period) | 19th term<br>FY 2015<br>(Plan for the current<br>period) | 20th term<br>FY 2016<br>(Estimate for the next<br>period) |
|--------------------|---|---|--|---|
| Annual<br>dividend | 5.00 yen  | 5.00 yen                                  | 0.00 yen   | 0.00 yen  |

# Move to TSE Second Section

The Company, which listed on Tokyo Stock Exchange Mothers Market August 2004, moved to **Tokyo Stock Exchange Second Section** on May 1, 2015.



We sincerely request your continuous guidance and support as we will strive to further expand business activities and increase enterprise value so that we can satisfy your expectations.

## SIOS is Innovative Open Solutions

The Company offers software products and services on OS (operating systems), servers, web applications, cloud computing and big data with focus on development and use of open source software, represented by Linux. To support the rapidly evolving virtualization of IT infra, we have also recently developed SIOS iQ, IT operations analysis software equipped with machine learning functions, and started to offer the software.

We will seek innovative software technology and become an influencer, an entity to influence the global IT industry, to create value and contribute to social development



|                                  |  |
|----------------------------------|--|
| <b>Headquarters</b>              | <b>SIOS building, 2-12-3 Minami Azabu Minato-ku, Tokyo, Japan</b>  |
| <b>Capital</b>                   | <b>1,481 million yen</b>   |
| <b>Founded</b>                   | <b>May 23, 1997</b>  |
| <b>Employees</b>                 | <b>458 persons on a consolidated basis (as of December 31, 2015)</b>   |
| <b>Consolidated subsidiaries</b> | <b>SIOS Technology Corp. (USA); SIOS (Beijing) Technology Inc. (China); Gluegent, Inc. (Japan); Kanshin! Inc. (Japan); Glabio, Inc. (USA); Keyport Solutions, Inc. (Japan); and Profit Cube Inc. (Japan)</b> |

# Glossary



| Page | Term                        | Description  |
|------|-----------------------------|--|
| 3    | LifeKeeper                  | The software to play a role of reserving another backup server in the same environment as a server in operation and automatically making the backup server take over services in the event of an unusual failure   |
| 3    | Software products for MFP   | MFP (abbreviation for multi-function peripheral) represents equipment with multiple functions of a printer, scanner, copier, and facsimile. We develop, sell, and maintain Quick Scan, the document management software running on MFP.  |
| 3    | OSS (Open Source Software)  | Software where the source code, design of the software, is freely available and can be used, updated, and redistributed.   |
| 8    | IT operations analysis      | IT operations analysis to analyze the data from IT operations and convert the data into practical and clear information.   |
| 8    | SIOS iQ                     | The product to comprehensively supervise, analyze, and optimize operations of applications in the virtual and cloud environments and seek to improve performance and efficiency to secure credibility for resolving complex issues.  |
| 9    | SaaS                        | The service to provide software online and enable users to call and use what they need as needed.  |
| 9    | Gluegent series             | The service to support companies' optimization of businesses in the cloud, including Gluegent Flow, which enables the companies to execute internal workflows in the cloud, and Gluegent Apps Group Scheduler, a Google Calendar app with the function to manage the schedule of team members. |
| 13   | Machine learning technology | The technology to give the computer the same learning ability as a human being. It explores beneficial information from a variety of data.   |
| 16   | ALM system                  | The system to manage risks of assets and liabilities of financial institutions.  |
| 16   | Fintech                     | The new technology developed by mixing finance with technology.  |
| 20   | Cloud                       | New utilization form of computers to utilize computer processing online as service.  |

## Note

**The earning forecasts are based on our judgment from the most current information but may include uncertainties. Please understand that actual business results may differ from the outlook due to various factors. Significant factors potentially affecting actual business results include, but are not limited to, the economic environment surrounding our business areas and the trend of the market.**

## Inquiry about this matter

### **SIOS Technology (IR)**

**Tel (main) : 03-6401-5111**

**In a case of using the net, please make an inquiry to the following address:**

**→[https://lp.sios.jp/MRK\\_Inquiry\\_IR.html](https://lp.sios.jp/MRK_Inquiry_IR.html)**



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