



Consolidated Financial Result

(For the 3-month period ended March 31, 2020)



April 28, 2020

Company name: **SIOS Corporation**
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 Stock exchange listings: Tokyo Stock Exchange (TSE)
 Code number : 3744
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 Scheduled date for filing of quarterly financial report: May 14, 2020

(Note) All figures in the financial statements are rounded down to the nearest millionth.
 ‘-’ indicates a loss or negative figure.

1. Consolidated results (January 1, 2020 through March 31, 2020) (% of change from previous first quarter)

(1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3-month period(2020/3)	3,979	12.8	141	54.2	136	27.5	73	112.4
3-month period(2019/3)	3,529	4.9	91	-58.8	106	-52.5	34	-75.0

(Note) Comprehensive income

As of Mar.31, 2020: 66 million yen/ 99.9%

As of Mar. 31, 2019: 33 million yen/ -66.6%

	Net income per share	Net income per share
	- Basic	- Diluted
	Yen	Yen
3-month period(2020/3)	8.49	-
3-month period(2019/3)	4.00	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3-month period(2020/3)	5,535	1,333	23.3
FY2019	5,332	1,308	23.7

(Reference) Equity

As of Mar. 31, 2020: 1,288 million yen

As of Dec. 31, 2019: 1,264 million yen

2. Cash dividends

Record Date	Dividend per share				
	End of Q1	Interim	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	%
FY2019	-	0.00	-	5.00	5.00
FY2020	-				
FY2020 (expected)		0.00	-	5.00	5.00

(Note) Revisions to recent dividend forecast: None

3. Forecast of consolidated results for FY2020 (January 1, 2020 through December 31, 2020)

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2020	14,300	4.5	80	45.6	100	3.9	40	23.6	4.61

(Note) Revisions to recent business forecast: None

4. Others

- (1) Reclassification of significant subsidiaries during the period (Reclassification due to change in scope of consolidation): None
- (2) Application of special accounting methods for the preparation of the consolidated quarterly financial statements: None
- (3) Change in accounting policies, accounting estimates and restatement
 - (i) Change in accounting policies associated with revision of accounting standards: None
 - (ii) Change arising from other factors: None
 - (iii) Change in accounting estimates:None
 - (iv) Restatement:None
- (4) Number of outstanding shares (common shares)

(i) Number of outstanding shares (including treasury stock)	First quarter of FY2020	8,874,400 shares	FY2019	8,874,400 shares
(ii) Number of treasury stock	First quarter of FY2020	205,768 shares	FY2019	205,768 shares
(iii) Average number of outstanding shares (3-month period)	First quarter of FY2020	8,668,632 shares	First quarter of FY2019	8,653,204 shares

Explanation about proper use of forecasts of consolidated financial results and other special notes

1. Information Regarding the Audit Review Procedure: This report is outside the scope of the procedures for quarterly review of financial statements as required under the financial instruments and Exchange Act of Japan. The aforementioned procedures have not been completed as of the time of disclosure of this document.
2. Net income per share was calculated by the number of outstanding shares (excluding treasury stocks) at the end of fiscal year.
3. Forecasts announced by the company referred to above were prepared based on management's assumption with information available at this time and therefore involve known and unknown risks and uncertainties. Please note such risks and uncertainties may cause the actual results to be materially different from the forecasts.
4. This information to above is an UNOFFICIAL English-language translation of the original Japanese-language version. The format and contents of this document are defined by the requirements of the Tokyo Stock Exchange's 2nd Section. To the extent that there are discrepancies between this translation and the original version, the original version shall be definitive.

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1. Qualitative Information on Consolidated Results

(1) Results of Operations

Overview of consolidated business performance for the three months ended March 31, 2020 (Q1 2020)

The SIOS Group operates in the IT industry in which companies have been investing at an accelerated pace in implementing digital transformation¹, including transitioning to cloud environments as well as streamlining and automating business processing. Under this business environment, the Group offers value-added products and services to assist corporate clients in overcoming their business challenges.

As a result of all these efforts, the Group achieved consolidated business results by segment for the three months ended March 31, 2020, as follows:

i. Open System Infrastructure Business Segment

The Group achieved a solid increase in sales of its core LifeKeeper², thanks to its robust perpetual licensing business in Japan, which more than offset its declining sales in the Americas and Europe. In addition, sales of Red Hat Enterprise Linux³ and other software products sourced from Red Hat Inc.⁴ as well as revenues from the OSS⁵ support business and OSS-related products increased over the same period the previous fiscal year. As a result, net sales in this segment jumped 15.5% year on year to 2,343 million yen.

The segment income was down 11.4% year on year to 55 million yen, due primarily to additional R&D spending incurred to upgrade LifeKeeper.

ii. Application Business Segment

Revenues from software applications for MFPS⁶ declined. This was because an increasing number of corporate clients switched from a perpetual licensing model to a subscription model⁷ for these applications. Sales of the management support system to financial institutions increased, as revenues from projects whose orders had been received in the second half of the previous fiscal year were recognized during the quarter under review. In addition, revenues from the provision of support for system development and implementation were strong, especially to educational institutions. As a result, net sales in this segment were up 9.0% year on year to 1,636 million yen.

Income from the provision of support for system development and implementation as well as from sales of the management support system to financial institutions showed a year-on-year increase. In particular, income from the provision of support for system development and implementation to financial institutions was up from the previous fiscal year due in part to a higher gross profit margin resulting primarily from reduced subcontract expenses and in part to the absence of unprofitable projects that had affected negatively the profitability of this segment the previous fiscal year. As a result, the segment income soared 194.9% year on year to 86 million yen.

The Group's combined net sales of these two segments jumped 12.8% year on year to 3,979 million yen, which marked record quarterly sales for the Group.

The Group's consolidated operating profit surged 54.2% year on year to 141 million yen, due to a strong performance in the Application Business Segment. The Group posted an ordinary profit of 136 million yen, up 27.5% year on year, and a profit of 73 million yen attributable to owners of parent, up 112.4%.

The Group's key management metrics EBITDA (the sum of operating profit, depreciation, and amortization of goodwill) and ROIC (ratio obtained by dividing operating profit after tax by the sum of shareholders' equity and interest-bearing debts) are as follows for the three months ended March 31, 2020:

EBITDA: 164 million yen, up 44.8% year on year

ROIC (annualized): 17.7%, compared with 10.9% for the same period the previous fiscal year

1. Digital transformation

A process in which a company uses data and digital technology to transform its products, services, and business models to more effectively respond to constantly changing business environments and deliver greater value to customers and society as well as to transform its business processes and organizational

structure and culture to gain greater competitive advantage.

2. LifeKeeper

A failover software product that automatically switches a failed primary server to a backup server.

3. Red Hat Enterprise Linux

Linux OS developed by Red Hat, Inc., a provider of open-source solutions.

4. Red Hat, Inc. Related Items

Linux OS product developed by Red Hat, Inc., a provider of open source solutions.

5. OSS

Abbreviation for open source software, Software whose source code, which is the fundamental component of the program, is made available for free and can be used, modified, and redistributed.

6. Software applications for multifunction printers

A multifunction printer (MFP) is a piece of office equipment that incorporates print, scan, copy, and fax capabilities into one unit. SIOS develops, markets, and updates Quick Scan and Speedoc, document management software applications running on an MFP.

7. Subscription model

A business model that charges customers a recurring monthly or annual fee to access a software product or service.

(2) Financial Position

i. Assets

Current assets amounted to 4,683 million yen as of March 31, 2020, up 4.5% from the end of the previous fiscal year, reflecting an increase of 395 million yen in notes and accounts receivable trade.

Non-current assets amounted to 852 million yen, up 0.0% from the previous fiscal year-end, reflecting an increase of 15 million yen in software and other intangible assets, and a decrease of 11 million yen in property, plant and equipment.

As a result, total assets amounted to 5,535 million yen, up 3.8% from the previous fiscal year-end.

ii. Liabilities

Current liabilities amounted to 3,560 million yen, up 6.1% from the previous fiscal year-end, reflecting an increase of 119 million yen in advances received and an increase of 88 million yen in accounts payable trade.

Non-current liabilities amounted to 641 million yen, down 3.9% from the previous fiscal year-end, reflecting a decrease of 30 million yen in long-term loans payable.

As a result, total liabilities amounted to 4,202 million yen, up 4.4% from the previous fiscal year-end.

iii. Net assets

Total net assets amounted to 1,333 million yen as of March 31, 2020, up 1.9% from the previous fiscal year-end, reflecting an income of 73 million yen attributable to owners of parent for the quarter under review.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The consolidated business forecasts for the fiscal year ending December 31, 2020, remain unchanged from as stated in Consolidated Financial Results for the Fiscal Year Ended December 31, 2019, announced on February 5, 2020.

The Group has been progressively implementing flexible work arrangements for employees, including allowing teleworking and flexible work hours, since February 18, 2020, to reduce the risk of contracting COVID-19 inside and outside the Group and protect the safety of employees. Since April 7, 2020, when the Japanese government declared a state of emergency over the COVID-19 outbreak, all our employees have switched to teleworking. The group-wide implementation of teleworking has not had a material impact on the Group's business operations; however, a prolonged duration of the COVID-19 outbreak might adversely affect the Group's business performance going forward.

While net sales as well as operating profit and other income were on target for the quarter under review, we will announce promptly an update on consolidated business forecasts for the fiscal year ending December 31, 2020, if any material change should arise.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

	December 31, 2019	March 31, 2020
Assets		
Current assets		
Cash and deposits	2,266,069	2,131,096
Notes and accounts receivable-trade	1,754,762	2,149,810
Work in process	47,536	31,183
Advance payments- trade	181,936	176,653
Other	229,853	194,556
Allowance for doubtful accounts	-200	-200
Total current assets	4,479,958	4,683,101
Non-current assets		
Property, plant and equipment		
Buildings, net	112,312	106,585
Other, net	74,480	68,584
Total property, plant and equipment	186,792	175,170
Intangible assets		
Goodwill	786	571
Software	39,720	108,162
Software in progress	184,413	131,956
Other	1,916	1,882
Total intangible assets	226,835	242,573
Investments and other assets		
Investment securities	137,073	137,680
Net defined benefit asset	43,741	39,322
Guarantee deposits	207,904	205,410
Other	55,233	57,503
Allowance for doubtful accounts	-5,071	-5,071
Total investments and other assets	438,881	434,845
Total non-current assets	852,509	852,589
Total assets	5,332,468	5,535,691

(In thousands of yen)

	December 31, 2019	March 31, 2020
Liabilities		
Current liabilities		
Accounts payable-trade	856,680	945,305
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	132,303	128,971
Lease obligations	7,156	6,813
Income taxes payable	19,619	44,787
Advances received	1,842,348	1,961,510
Provision for bonuses	34,262	17,995
Provision for loss on order received	326	671
Other	413,077	404,488
Total current liabilities	3,355,774	3,560,544
Non-current liabilities		
Long-term loans payable	413,620	382,840
Net defined benefit liability	230,539	236,660
Lease obligations	11,362	9,874
Long-term deposits received	11,632	11,632
Other	750	754
Total non-current liabilities	667,905	641,761
Total liabilities	4,023,679	4,202,306
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Retained earnings	82,963	113,212
Treasury shares	-87,198	-87,198
Total shareholders' equity	1,477,284	1,507,534
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-3,961	-7,274
Foreign currency translation adjustment	-208,398	-211,746
Total accumulated other comprehensive income	-212,360	-219,021
Subscription rights to shares	43,863	44,872
Total net assets	1,308,788	1,333,384
Total liabilities and net assets	5,332,468	5,535,691

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

For three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020
Net sales	3,529,053	3,979,744
Cost of sales	2,443,768	2,784,278
Gross profit	1,085,285	1,195,466
Selling, general and administrative expenses	993,297	1,053,612
Operating profit	91,987	141,853
Non-operating income		
Interest income	3,218	2,939
Foreign exchange gains	3,524	5,611
Loss on valuation of derivatives	4,099	—
Share of profit of entities accounted for using equity method	3,695	—
Other	1,438	1,089
Total non-operating income	15,975	9,640
Non-operating expenses		
Interest expenses	1,001	837
Loss on valuation of derivatives	—	646
Share of profit of entities accounted for using equity method	—	12,371
Other	0	1,269
Total non-operating expenses	1,001	15,125
Ordinary profit	106,960	136,368
Extraordinary income		
Gain on reversal of subscription rights to shares	450	—
Total extraordinary income	450	—
Extraordinary losses		
Loss on valuation of golf club membership	—	268
Total extraordinary losses	—	268
Profit before income taxes	107,410	136,100
Income taxes-current	56,235	55,812
Income taxes-deferred	16,524	6,695
Total income taxes	72,760	62,508
Profit	34,650	73,592
Profit attributable to owners of parent	34,650	73,592

Consolidated Statements of Comprehensive Income

For three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020
Profit	34,650	73,592
Other comprehensive income		
Foreign currency translation adjustment	-5	-3,359
Valuation difference on available-for-sale securities	-1,012	-3,312
Share of other comprehensive income of entities accounted for using equity method	-146	11
Total other comprehensive income	-1,163	-6,661
Comprehensive income	33,486	66,931
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	33,486	66,931

(3) Notes on Consolidated Financial Statements

Notes on Going Concern Assumption

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

Three months ended March 31, 2019.

1. Dividend payments

Not applicable

2. Dividends for which the record date fell in this period with an effective date falling after the last day of this period

Not applicable

3. Significant changes in shareholders' equity

As per the resolution adopted at the 22nd general meeting of shareholders held on March 28, 2019, and pursuant to Article 452 of the Companies Act of Japan, the Company, on the same date, reduced other capital surplus by 480,279,000 yen and transferred it to retained earnings brought forward to dispose deficit.

There was no significant change in the total amount of shareholders' equity.

Three months ended March 31, 2020

1. Dividend payments

The following resolution was adopted at the Board of Directors' Meeting held February 21, 2020:

Matters concerning dividends on common stocks

i. Total amount of dividends: 43,343,000 yen

ii. Source of dividends: Retained earnings

iii. Dividend per share: 5.00 yen

iv. Record date: December 31, 2019

v. Effective date: March 30, 2020

2. Dividends for which the record date fell in this period with an effective date falling after the last day of this period

Not applicable

3. Significant changes in shareholders' equity

Not applicable

Segment Information**【Segment Information】**

I Three months ended March 31, 2019

1. Information regarding the amount of net sales and profit by reportable segment

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	2,028,054	1,500,938	3,528,993	60	3,529,053
Intersegment sales and transfers	—	226	226	-226	—
Total	2,028,054	1,501,165	3,529,220	-166	3,529,053
Segment profit	62,666	29,261	91,927	60	91,987

Note: The total amount of segment profit is equal to operating profit recorded in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by the “Accounting Standard for Quarterly Financial Statements,” information (net sales) by region is disclosed in accordance with the “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statements with valuable information.

Net sales

For three months ended March 31, 2019

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
3,297,351	152,015	63,913	15,772	3,529,053

Note: Sales are classified by country or region in which customers are located.

2. Information regarding loss on impairment of non-current assets or goodwill by reportable segment

Not applicable

II Three months ended March 31, 2020

1. Information regarding the amount of net sales and profit by reportable segment

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	2,343,196	1,636,487	3,979,684	60	3,979,744
Intersegment sales and transfers	—	1,290	1,290	-1,290	—
Total	2,343,196	1,637,778	3,980,975	-1,230	3,979,744
Segment profit	55,501	86,291	141,793	60	141,853

Note: The total amount of segment profit is equal to operating profit recorded in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by the “Accounting Standard for Quarterly Financial Statements,” information (net sales) by region is disclosed in accordance with the “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statements with valuable information.

Net sales

For three months ended March 31, 2020

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
3,814,897	116,817	31,608	16,421	3,979,744

Note: Sales are classified by country or region in which customers are located.

2. Information regarding loss on impairment of non-current assets or goodwill by reportable segment

Not applicable