



Consolidated Financial Result

(For the 9-month period ended September 30, 2020)



October 29, 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: November 13, 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 September 30, 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	%
9-month period(2020/9)	10,529	3.9	-6	-	-2	-	112	-
9-month period(2019/9)	10,135	7.1	-74	-	-34	-	-74	-

(Note) Comprehensive income

As of September.30, 2020: 93 million yen/ -%

As of September. 30, 2019: -93 million yen/ -%

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
9-month period(2020/9)	12.97	-
9-month period(2019/9)	-8.65	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
9-month period(2020/9)	5,763	1,364	22.8
FY2019	5,332	1,308	23.7

(Reference) Equity

As of September. 30, 2020: 1,315 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	-	0.00	-		
FY2020 (expected)				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	14,200	3.7	40	-27.2	45	-53.3	150	363.5	17.30

(Note) Revisions to recent business forecast: Yes

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)	Third quarter of FY2020	8,874,400 shares	FY2019	8,874,400 shares
(ii) Number of treasury stock	Third quarter of FY2020	205,838 shares	FY2019	205,768 shares
(iii) Average number of outstanding shares (9-month period)	Third quarter of FY2020	8,668,607 shares	Third quarter of FY2019	8,663,546 shares

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

- 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.
- Net income per share was calculated by the number of outstanding shares (excluding treasury stocks) at the end of fiscal year.
- 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.
- 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.

○Table of Contents of the Attached Document

1. Qualitative Information on Quarterly Results	4
(1) Results of Operations.....	4
(2) Financial Position.....	5
(3) Forward-looking Statements Including Consolidated Business Forecasts.....	5
2. Quarterly Consolidated Financial Statements	6
(1) Quarterly Consolidated Balance Sheet	6
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	8
Quarterly Consolidated Statements of Income	8
Quarterly Consolidated Statements of Comprehensive Income	9
(3) Notes to Quarterly Consolidated Financial Statements	10
Notes to Going Concern Assumption	10
(Notes on significant changes in the amount of shareholders' equity).....	10
Segment Information.....	11
(Significant subsequent events)	13

1. Qualitative Information on Quarterly Results

(1) Results of Operations

Overview of Consolidated Business Performance for the Nine Months Ended September 30, 2020

Many corporations in Japan and the rest of the world have reported a substantial year-on-year decline in their earnings for the nine months ended September 30, 2020, amid the increasingly serious COVID-19 crisis. Consequently, companies are becoming cautious about making new investments and are suspending or postponing large projects. In the IT arena in which the Group operates, however, companies have been investing at an accelerated pace in implementing digital transformation (DX)¹ solutions, including switching to teleworking and transitioning to cloud environments as well as streamlining and automating business processes. In this business environment, the Group offers value-added products and services to assist corporate clients in moving forward with DX.

To get through the significant changes in the current socioeconomic environment brought about by the COVID-19 crisis, we have asked all our employees to switch to teleworking to protect their health and safety as well as to achieve greater work efficiency. In addition, on October 1, 2020, we merged three of our key subsidiaries operating in Japan to consolidate their human, intellectual-property, and financial resources in an effort to achieve even greater operational efficiency and productivity.

The Group achieved consolidated business results by segment for the period under review as follows:

(i) Open System Infrastructure Business Segment

The Group achieved a solid increase in sales of our core LifeKeeper², thanks to its robust perpetual licensing business in Japan, which more than offset its declining sales in the Americas and Europe, both affected by the pandemic. In addition, sales of Red Hat Enterprise Linux³ and other software products sourced from Red Hat Inc.⁴ as well as revenues from OSS⁵-related products and support services increased over the same period the previous fiscal year. As a result, net sales in this segment increased 6.4% year on year to 6,089 million yen.

The segment income was down 21.8% year on year to 42 million yen, due to additional R&D spending incurred to upgrade LifeKeeper and increased expenses associated with establishing new businesses.

(ii) Application Business Segment

Revenues from software applications for MFPs⁶ declined. This was partly because an increasing number of corporate users switched to a subscription model⁷ for these applications, the revenue from which was not recognized up front during the period under review, but was to be spread evenly over the following quarters, and partly because sales of office MFPs, in which these applications were to be installed, were slow due to the pandemic. In contrast, revenues from the provision of support for system development and implementation were strong, especially for educational institutions. Sales of both Gluegent series⁸ products and the management support system for financial institutions were also strong. As a result, net sales in this segment increased 0.6% year on year to 4,439 million yen.

A year-on-year increase in revenues from the provision of support for system development and implementation to educational institutions had a positive impact on the segment income. In addition, income from the provision of support for system development and implementation to financial institutions was up due to the absence of unprofitable projects that had affected negatively the profitability of this segment the previous fiscal year. These favorable factors were more than offset by the declined revenues from software applications for the MFPs mentioned earlier. As a result, this segment posted a loss of 48 million yen, compared with a loss of 128 million yen for the same period the previous fiscal year.

The Group's combined net sales of these two segments jumped 3.9% year on year to 10,529 million yen for the period under review, which marked record-high nine-month sales for the Group.

The Group posted an operating loss of 6 million yen, compared with an operating loss of 74 million yen the previous year, and an ordinary loss of 2 million yen, compared with an ordinary loss of 34 million yen. The Group posted a profit of 112 million yen attributable to owners of parent, compared with a loss of 74 million yen the previous fiscal year. This was primarily because the sale of the Web service business for broadcasters and the social and public outsourcing service business generated a transfer gain of 192 million yen.

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 period under review:

EBITDA: 62 million yen, compared with -7 million yen for the same period the previous year

ROIC (annualized): -0.3%, compared with -3.2% for the same period the previous year

1 Digital transformation(DX)

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 the open solution provider Red Hat, Inc.

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 application 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 business model

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

8 Gluegent series

A series of cloud-based enterprise services to achieve greater efficiency in business processes, including Gluegent Gate for cloud-based ID management, Gluegent Apps group scheduler, which adds team schedule management to Google Calendar, and Gluegent Flow, a cloud-based workflow.

(2) Financial Position

(i) Assets

Current assets amounted to 5,035 million yen as of September 30, 2020, up 12.4% from the end of the previous fiscal year, reflecting an increase of 522 million yen in cash and deposits.

Non-current assets amounted to 727 million yen, down 14.6% from the previous fiscal year-end, reflecting a decrease of 184 million yen in software in progress and an increase of 77 million yen in software.

As a result, total assets amounted to 5,763 million yen, up 8.1% from the previous fiscal year-end.

(ii) Liabilities

Current liabilities amounted to 3,827 million yen, up 14.1% from the previous fiscal year-end, reflecting an increase of 324 million yen in advances received and an increase of 61 million yen in accounts payable trade.

Non-current liabilities amounted to 571 million yen, down 14.4% from the previous fiscal year-end, reflecting a decrease of 92 million yen in long-term loans payable.

As a result, total liabilities amounted to 4,399 million yen, up 9.3% from the previous fiscal year-end.

(iii) Net assets

Total net assets amounted to 1,364 million yen, up 4.3% from the previous fiscal year-end, reflecting an increase of 69 million yen in retained earnings.

(3) Forward-looking Statements Including Consolidated Business Forecasts

We have updated the consolidated business forecasts for the fiscal year ending December 31, 2020, which were originally announced on February 5, 2020.

For details, refer to "A Revision to Consolidated Business Forecasts," announced on October 29, 2020.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	FY 2019 (as of December 31, 2019)	FY 2020 Q3 (as of September 30, 2020)
Assets		
Current assets		
Cash and deposits	2,266,069	2,789,049
Notes and accounts receivable-trade	1,754,762	1,807,462
Work in progress	47,536	37,808
Advance payment	181,936	264,138
Other	229,853	137,278
Allowance for doubtful accounts	-200	-200
Total current assets	4,479,958	5,035,537
Fixed assets		
Tangible fixed assets		
Buildings (net)	112,312	95,121
Other (net)	74,480	64,863
Total tangible fixed assets	186,792	159,984
Intangible fixed assets		
Goodwill	786	142
Software	39,720	116,784
Software in progress	184,413	-
Other	1,916	1,815
Total intangible fixed assets	226,835	118,742
Investment and other assets		
Investment securities	137,073	133,531
Net defined retirement assets	43,741	42,682
Guarantee deposits	207,904	217,706
Other	55,233	59,312
Allowance for doubtful accounts	-5,071	-4,221
Total investment and other assets	438,881	449,011
Total fixed assets	852,509	727,738
Total assets	5,332,468	5,763,275

(In thousands of yen)

	December 31, 2019	September 30, 2020
Liabilities		
Current liabilities		
Accounts payable-trade	856,680	918,198
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	132,303	123,973
Lease obligations	7,156	7,152
Income taxes payable	19,619	47,974
Advances received	1,842,348	2,166,468
Provision for bonuses	34,262	32,399
Provision for loss on order received	326	520
Other	413,077	480,726
Total current liabilities	3,355,774	3,827,412
Non-current liabilities		
Long-term loans payable	413,620	321,280
Net defined benefit liability	230,539	227,465
Lease obligations	11,362	10,672
Long-term deposits received	11,632	11,632
Other	750	754
Total non-current liabilities	667,905	571,805
Total liabilities	4,023,679	4,399,217
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Retained earnings	82,963	152,030
Treasury shares	-87,198	-87,254
Total shareholders' equity	1,477,284	1,546,296
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-3,961	-6,355
Foreign currency translation adjustment	-208,398	-224,586
Total accumulated other comprehensive income	-212,360	-230,942
Subscription rights to shares	43,863	48,703
Total net assets	1,308,788	1,364,057
Total liabilities and net assets	5,332,468	5,763,275

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive IncomeQuarterly Consolidated Statements of Income
Nine months ended September 30

(In thousands of yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Net sales	10,135,952	10,529,292
Cost of sales	7,028,416	7,384,914
Gross profit	3,107,535	3,144,378
Selling, general and administrative expenses	3,181,770	3,150,827
Operating profit (loss)	-74,234	-6,449
Non-operating income		
Interest income	9,606	5,082
Foreign exchange gains	25,135	19,770
Share of profit of entities accounted for using equity method	1,778	-
Fiduciary obligation fee	2,050	-
Other	10,969	8,339
Total non-operating income	49,539	33,192
Non-operating expenses		
Interest expenses	2,928	2,369
Loss on investments in partnership	12	1,269
Share of loss of entities accounted for using equity method	-	13,797
Loss on valuation of derivatives	6,082	11,936
Other	435	293
Total non-operating expenses	9,459	29,667
Ordinary profit (loss)	-34,154	-2,924
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	50,999	-
Gain on transfer from business divestitures	-	192,881
Gain on reversal of share acquisition rights	450	-
Total extraordinary income	51,450	192,881
Extraordinary losses		
Loss on retirement of non-current assets	-	615
Loss on valuation of investment securities	-	1,133
Other	-	268
Total extraordinary losses	-	2,016
Profit before income taxes	17,295	187,940
Income taxes-current	61,320	75,529
Income taxes-deferred	30,903	-
Total income taxes	92,224	75,52
Profit (loss)	-74,928	112,410
Profit (loss) attributable to owners of parent	-74,928	112,410

Quarterly Consolidated Statements of Comprehensive Income
Nine months ended September 30

(Unit: thousand yen)

	Nine months ended September 30, 2019 (From January 1, 2019 through September 30, 2019)	Nine months ended September 30, 2020 (From January 1, 2020 through September 30, 2020)
Profit (loss)	-74,928	112,410
Other comprehensive income		
Valuation difference on available-for-sale securities	-2,484	-2,393
Foreign currency translation adjustment	-15,218	-16,516
Share of other comprehensive income of entities accounted for using equity method	-480	328
Total other comprehensive income	-18,183	-18,581
Quarterly comprehensive income	-93,111	93,828
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	-93,111	93,828

(3) Notes to Quarterly Consolidated Financial Statements**Notes to Going Concern Assumption**

Not applicable

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

Nine months ended September 30, 2019

1. Dividend payments

Not applicable.

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

Not applicable.

3. Significant changes in shareholders' equity

Nine months ended September 30, 2020

1. Dividend payments

The following resolution was adopted at the Board of Directors' meeting held on 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 during this period with an effective date falling after the last day of this period

Not applicable.

3. Significant changes in shareholders' equity

Not applicable.

(Additional information)

When estimating the amount of impairment loss on non-current assets and the recoverability of deferred tax assets, we assumed at this time that the impact of the COVID-19 pandemic on the Group's business performance would be limited and that the spread of the pandemic would trend down toward the end of the fiscal year under review and beyond.

However, as the extent of the impact of the pandemic on the Group's business performance is difficult to predict with certainty, a change in assumptions mentioned above might affect the Group's financial position, results of operations, and cash flow performance going forward.

Segment Information

【Segment Information】

I. For the nine months ended September 30, 2019 (From January 1, 2019 through September 30, 2019)

1. Information on the amount of sales and income/loss by reportable segment

(Unit: thousand yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	5,722,027	4,413,744	10,135,772	180	10,135,952
Inter-segment sales and transfers	—	1,014	1,014	△1,014	—
Total	5,722,027	4,414,758	10,136,786	-834	10,135,952
Segment profit (loss)	53,938	-128,353	-74,414	180	-74,234

Note: The total amount of segment income (loss) is equal to operating profit (loss) presented in the quarterly consolidated statements of income.

Supplementary Information

Information by region

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

Net sales

Nine months ended September 30, 2019

(From January 1, 2019 through September 30, 2019)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
9,517,751	445,416	123,002	49,781	10,135,952

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

2. Information on impairment loss of fixed assets or goodwill by reportable segment

Not applicable

II. For the nine months ended September 30, 2020 (From January 1, 2020 through September 30, 2020)

1. Information on the amount of sales and income/loss by reportable segment

(Unit: thousand yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	6,089,421	4,439,691	10,529,112	180	10,529,292
Inter-segment sales and transfers	836	1,971	2,807	-2,807	—
Total	6,090,257	4,441,662	10,531,920	-2,627	10,529,292
Segment profit	42,155	-48,784	-6,629	180	-6,449

Note: The total amount of segment income (loss) is equal to operating profit (loss) presented in the quarterly consolidated statements of income.

Supplementary Information

Information by region

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

For the nine months ended September 30, 2020 (From January 1, 2020 through September 30, 2020)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
10,069,683	308,242	102,505	48,861	10,529,292

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

2. Information on impairment loss of fixed assets or goodwill by reportable segment

Not applicable.

(Significant subsequent events)

(Absorption-type merger among consolidated subsidiaries)

The Board of Directors of the Company adopted on July 6, 2020, a resolution to resolve and merge Keyport Solutions, Inc. and Gluegent, Inc., both consolidated subsidiaries of the Company, into SIOS Technology, Inc., another subsidiary of the Company.

1. Outline of transaction**(1) Names and natures of business of the parties involved in business combination****(i) Absorbing company**

Name: SIOS Technology, Inc.

Description of business: Development of, infrastructure implementation for, and operation support for information systems

(ii) Resolving companies

Name: Keyport Solutions, Inc.

Description of business: Consulting services for, and development of information systems

Name: Gluegent, Inc.

Description of business: Development and sales of cloud services; contracted development of information systems

(2) Reason for business combination

To consolidate human, intellectual-property, and financial assets of these three key subsidiaries in Japan to achieve greater operational efficiency and productivity

(3) Effective date of business combination

October 1, 2020

(4) Legal form of business combination

Absorption-type merger in which Keyport Solutions, Inc. and Gluegent, Inc. were resolved and merged into SIOS Technology, Inc., which is the surviving company

(5) Company name after business combination

SIOS Technology, Inc.

(6) Other matters related to the outline of transaction

As this merger was among wholly owned subsidiaries of the Company, no share or other monetary consideration was allotted to the Company.

2. Outline of accounting processing completed

The Company processed this transaction as one under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, published on January 16, 2019) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, published on January 16, 2019).