

Company name: **SIOS Corporation**
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 Stock exchange listings: Tokyo Stock Exchange (TSE)
 Code number : 3744
 URL: <https://www.sios.com/>
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 Scheduled date for filing of quarterly financial report: May 13, 2021

(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, 2021 through March 31, 2021) (% 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(2021/3)	4,398	10.5	223	57.5	237	74.4	159	116.8
3-month period(2020/3)	3,979	12.8	141	54.2	136	27.5	73	112.4

(Note) Comprehensive income

As of Mar.31, 2021: 196 million yen/ 192.9%

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

	Net income per share	Net income per share
	- Basic	- Diluted
	Yen	Yen
3-month period(2021/3)	18.41	-
3-month period(2020/3)	8.49	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3-month period(2021/3)	6,529	1,662	24.7
FY2020	6,851	1,548	21.9

(Reference) Equity

As of Mar. 31, 2021: 1,610 million yen

As of Dec. 31, 2020: 1,500 million yen

2. Cash dividends

Record Date	Dividend per share				
	End of Q1	Interim	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2020	-	0.00	-	10.00	10.00
FY2021	-				
FY2021 (expected)		0.00	-	10.00	10.00

(Note) Revisions to recent dividend forecast: None

3. Forecast of consolidated results for FY2021 (January 1, 2021 through December 31, 2021)

(% 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
FY2021	15,500	4.4	320	35.5	350	36.5	250	-19.4	28.84

(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 FY2021	8,874,400 shares	FY2020	8,874,400 shares
(ii) Number of treasury stock	First quarter of FY2021	205,838 shares	FY2020	205,838 shares
(iii) Average number of outstanding shares (3-month period)	First quarter of FY2021	8,668,562 shares	First quarter of FY2020	8,668,632 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, 2021 (Q1 2021)

During the three months ended March 31, 2021, the global economy continued to struggle amid the increasingly serious COVID-19 pandemic. The uncertainty over the economic outlook remained high also in Japan, as it was difficult to predict when the public health crisis brought about by the coronavirus would subside.

In the IT solutions arena in which the SIOS Group operates, however, companies continued to invest at an accelerated pace in implementing digital transformation (DX)¹ solutions, including switching to teleworking and transitioning to cloud environments. In this favorable business environment, the Group pursued every growth opportunity by offering value-added products and services to assist corporate clients in moving forward with DX and by stepping up cross-selling efforts, following the realignment of Group companies.

The Company's consolidated business results by segment for the three-month period under review are as follows:

i. Open System Infrastructure Business Segment

As corporate clients continued to invest aggressively in implementing DX amid the COVID-19 crisis, the Group enjoyed strong sales of Red Hat Enterprise Linux² and other software products sourced from Red Hat, Inc.³ The Group also achieved an increase in sales of its core LifeKeeper⁴ in Japan. As a result, net sales in this segment amounted to 2,863 million yen, up 22.2% from the same period the previous year, with a segment income of 159 million yen, up 186.6% year on year.

ii. Application Business Segment

Revenues from software applications for MFPs⁵ jumped year on year, supported by their increased sales in units and helped by the fact that the revenue from subscription-based contracts⁶ for these applications signed with corporate clients during the previous fiscal year began to be recognized during the period under review. The Gluegent series⁷ also achieved a year-on-year increase in sales. In contrast, revenues from the provision of support for system development and implementation were weak, for both financial and educational institutions. In addition, as the web service business for broadcasters as well as the social and public outsourcing service business had been sold to outside the Group in the previous fiscal year, revenues from those two businesses were no longer counted toward segment sales for the period under review. As a result, net sales in this segment were down 6.2% year on year to 1,535 million yen, with a segment income of 64 million yen, down 25.6%.

With these two business segments combined, the Company achieved record-high consolidated quarterly net sales of 4,398 million yen for the period under review, up 10.5% year on year. The Company's consolidated quarterly operating profit jumped 57.5% to 223 million yen. The Company posted a consolidated quarterly ordinary profit of 237 million yen, up 74.4%, and a consolidated quarterly profit of 159 million yen attributable to owners of parent, up 116.8%.

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:

EBITDA: 243 million yen, up 47.5% year on year

ROIC (annualized): 26.2%, compared with 17.7% 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. Red Hat Enterprise Linux

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

3. Red Hat, Inc. Related Items

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

4. LifeKeeper

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

5. 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.

6. Subscription model

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

7. Gluegent series

Services such as "Gluegent Gate" which manages ID in the cloud, "Gluegent Apps group scheduler" which added team calendar schedule management function etc. to Google Calendar, etc. Supporting business efficiency improvement. using enterprise cloud.

(2) Financial Position

i. Assets

Current assets amounted to 5,732 million yen as of March 31, 2021, down 5.4% from the end of the previous fiscal year, reflecting a decrease of 486 million yen in merchandise.

Non-current assets amounted to 797 million yen, up 0.7% from the previous fiscal year-end, reflecting an increase of 17 million yen in investment securities.

As a result, total assets amounted to 6,529 million yen, down 4.7% from the previous fiscal year-end.

ii. Liabilities

Current liabilities amounted to 4,340 million yen, down 8.6% from the previous fiscal year-end, reflecting a decrease of 585 million yen in accounts payable trade.

Non-current liabilities amounted to 526 million yen, down 4.6% 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 4,867 million yen, down 8.2% from the previous fiscal year-end.

iii. Net assets

Total net assets amounted to 1,662 million yen, up 7.4% from the previous fiscal year-end, reflecting the posting of a quarterly profit of 159 million yen attributable to owners of parent.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The consolidated business forecasts for the fiscal year ending December 31, 2021, remain unchanged from as stated in Consolidated Financial Results for the Fiscal Year Ended December 31, 2020, announced on February 3, 2021.

While net sales as well as operating and other profits were on target for the period under review, we will announce promptly any update on consolidated business forecasts for the fiscal year ending December 31, 2021, if any material change should arise.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

	December 31, 2020	March 31, 2021
Assets		
Current assets		
Cash and deposits	2,131,096	2,648,683
Notes and accounts receivable-trade	2,149,810	2,650,364
Merchandise		4,353
Work in process	31,183	18,147
Advance payments- trade	176,653	232,111
Other	194,556	178,549
Allowance for doubtful accounts	-200	-200
Total current assets	4,683,101	5,732,009
Non-current assets		
Property, plant and equipment		
Buildings, net	106,585	76,260
Other, net	68,584	52,499
Total property, plant and equipment	175,170	128,760
Intangible assets		
Software	108,162	103,870
Other	1,882	1,781
Total intangible assets	242,573	105,651
Investments and other assets		
Investment securities	137,680	251,527
Net defined benefit asset	39,322	52,239
Guarantee deposits	205,410	190,185
Other	57,503	73,559
Allowance for doubtful accounts	-5,071	-4,221
Total investments and other assets	434,845	563,290
Total non-current assets	852,589	797,702
Total assets	5,535,691	6,529,712

(In thousands of yen)

	December 31, 2020	March 31, 2021
Liabilities		
Current liabilities		
Accounts payable-trade	945,305	1,259,851
Short-term loans payable	50,000	-
Current portion of long-term loans payable	128,971	123,120
Lease obligations	6,813	6,733
Income taxes payable	44,787	81,098
Advances received	1,961,510	2,350,037
Provision for bonuses	17,995	-
Provision for loss on order received	671	191
Other	404,488	519,598
Total current liabilities	3,560,544	4,340,631
Non-current liabilities		
Long-term loans payable	382,840	259,720
Net defined benefit liability	236,660	247,898
Lease obligations	9,874	7,518
Long-term deposits received	11,632	11,632
Total non-current liabilities	641,761	526,769
Total liabilities	4,202,306	4,867,401
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Retained earnings	113,212	422,654
Treasury shares	-87,198	-87,254
Total shareholders' equity	1,507,534	1,816,919
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-7,274	-4,513
Foreign currency translation adjustment	-211,746	-202,048
Total accumulated other comprehensive income	-219,021	-206,562
Subscription rights to shares	44,872	51,953
Total net assets	1,333,384	1,662,310
Total liabilities and net assets	5,535,691	6,529,712

(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, 2020	Three months ended March 31, 2021
Net sales	3,979,744	4,398,750
Cost of sales	2,784,278	3,138,799
Gross profit	1,195,466	1,259,951
Selling, general and administrative expenses	1,053,612	1,036,531
Operating profit	141,853	223,419
Non-operating income		
Interest income	2,939	1,098
Foreign exchange gains	5,611	-
Loss on valuation of derivatives	-	35,589
Share of profit of entities accounted for using equity method	-	16,216
Other	1,089	5,862
Total non-operating income	9,640	58,766
Non-operating expenses		
Interest expenses	837	630
Foreign exchange losses	-	43,523
Loss on investments in investment partnerships	1,269	-
Loss on valuation of derivatives	646	-
Share of profit of entities accounted for using equity method	12,371	-
Other	-	232
Total non-operating expenses	15,125	44,386
Ordinary profit	136,368	237,799
Extraordinary losses		
Loss on retirement of property, plant and equipment	-	1,172
Loss on valuation of golf club membership	268	-
Total extraordinary losses	268	1,172
Profit before income taxes	136,100	236,627
Income taxes-current	55,812	72,006
Income taxes-deferred	6,695	5,046
Total income taxes	62,508	77,053
Profit	73,592	159,573
Profit attributable to owners of parent	73,592	159,573

Consolidated Statements of Comprehensive Income

For three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021
Profit	73,592	159,573
Other comprehensive income		
Foreign currency translation adjustment	-3,359	34,307
Valuation difference on available-for-sale securities	-3,312	2,334
Share of other comprehensive income of entities accounted for using equity method	11	-147
Total other comprehensive income	-6,661	36,495
Comprehensive income	66,931	196,068
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	66,931	196,068

(3) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

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

Not applicable

(Segment Information)

I 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

II Three months ended March 31, 2021

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	2,863,457	1,535,143	4,398,600	150	4,398,750
Intersegment sales and transfers	829	6,881	7,710	-7,710	-
Total	2,864,286	1,542,024	4,406,310	-7,560	4,398,750
Segment profit	159,062	64,207	223,269	150	223,419

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, 2021

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
4,246,076	84,609	51,015	17,048	4,398,750

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

(Additional Information)

Not applicable

(Significant Subsequent Events)

Not applicable