

Financial Results for Fiscal Year Ended December 31, 2018

February 5, 2019

SIOS Corporation

(Stock Code: 3744 on the Second Section of Tokyo Stock Exchange)

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Summary of Business Results for FY 2018

Consolidated Financial Results for FY 2018



(In millions of yen)

	FY 2017 Results	FY 2018 Results	Change	% Change
Net sales	12,470	12,799	+329	+2.6%
Gross profit	4,386	4,210	-176	+4.0%
Operating profit	320	290	-30	-9.4%
Ordinary profit	326	310	-15	-4.8%
Profit (loss) attributable to owners of parent	(587)	225	813	—
EBITDA	497	375	-121	-24.5%
ROIC	10.1%	8.7%	—	—

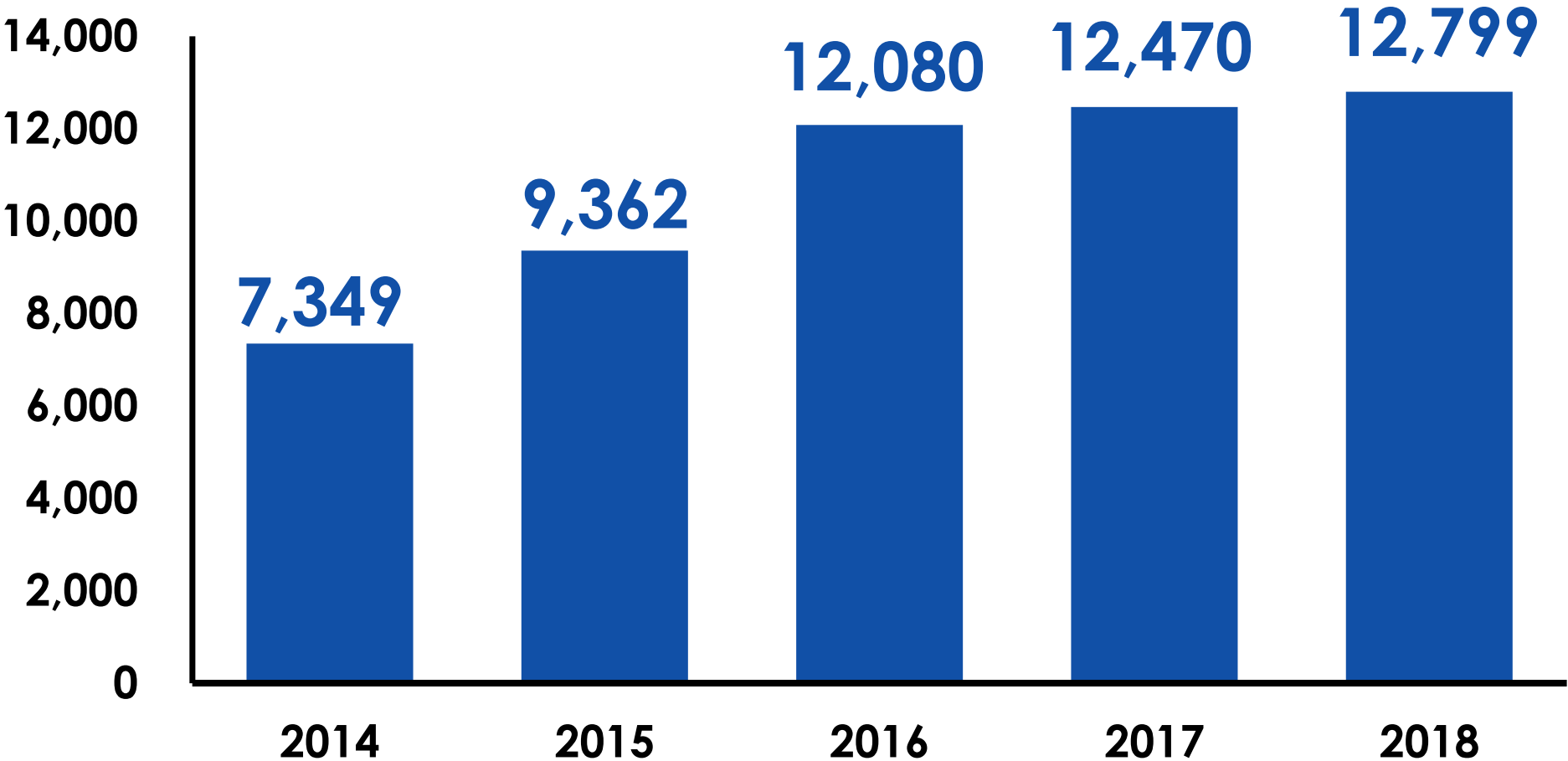
*EBITDA: Operating profit + Depreciation + Amortization of goodwill

Consolidated Net Sales over the Past 5 Fiscal Years



Record sales achieved in FY 2018

(In millions of yen)

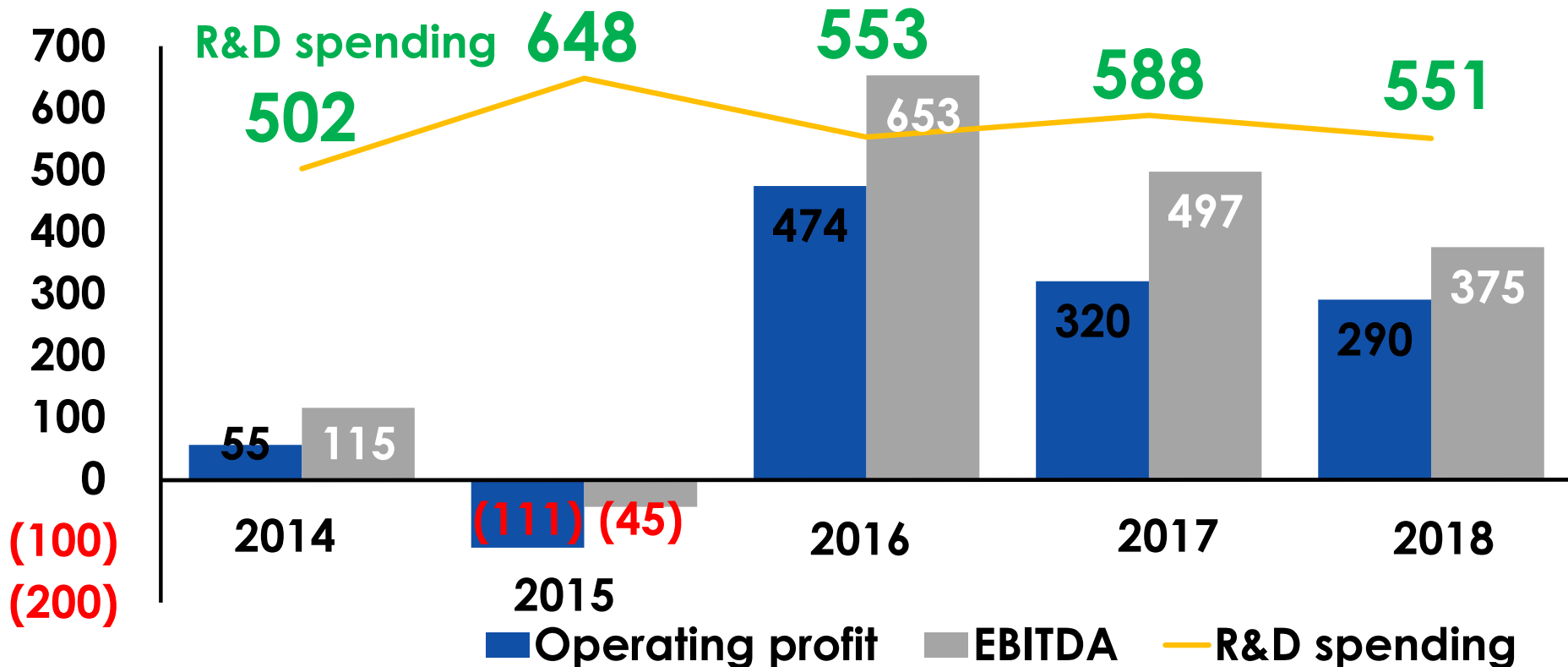


Consolidated Operating Profit, EBITDA, and R&D Spending over the Past 5 Fiscal Years



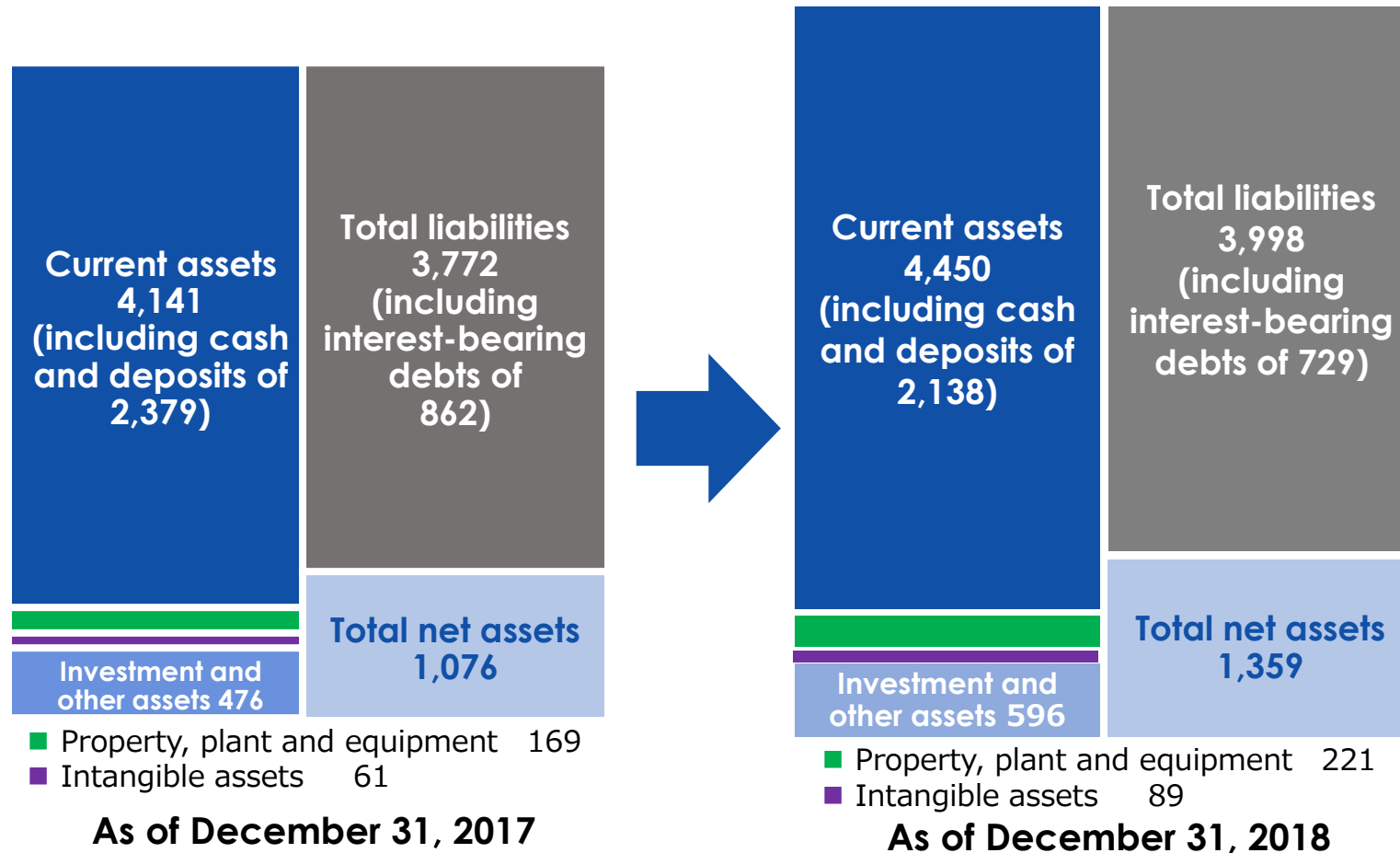
- Operating profit for FY 2018 declined by 29 million yen from the previous year.
- EBITDA was down by 121 million yen YoY.

(Millions of yen)



Consolidated Balance Sheets

(In millions of yen)

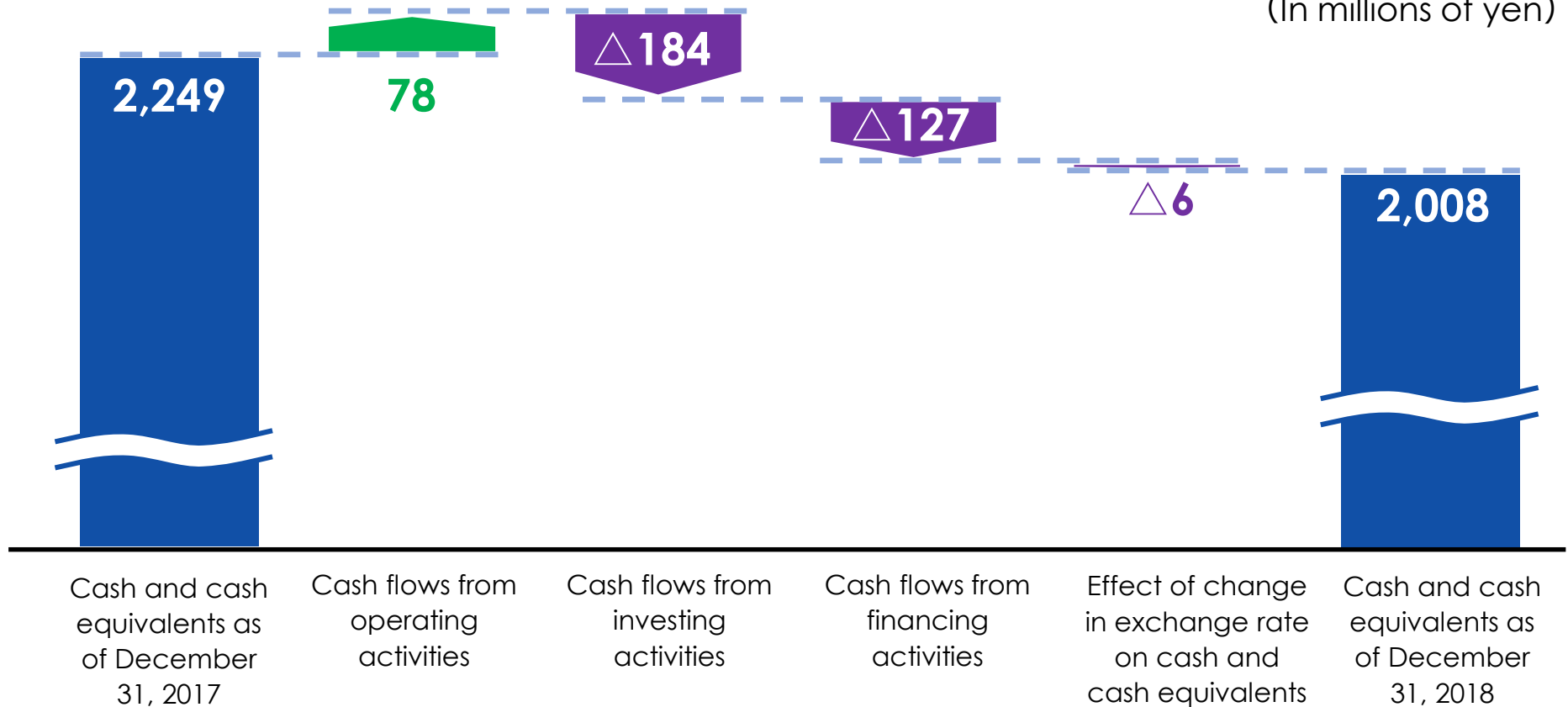


- **Current assets** : Accounts receivable increased by 235 million yen
- **Current liabilities** : An decrease of 133 million yen in long term loan payable
- **Net assets** : Increase by 282 million yen

Analysis of Consolidated Cash Flows



(In millions of yen)



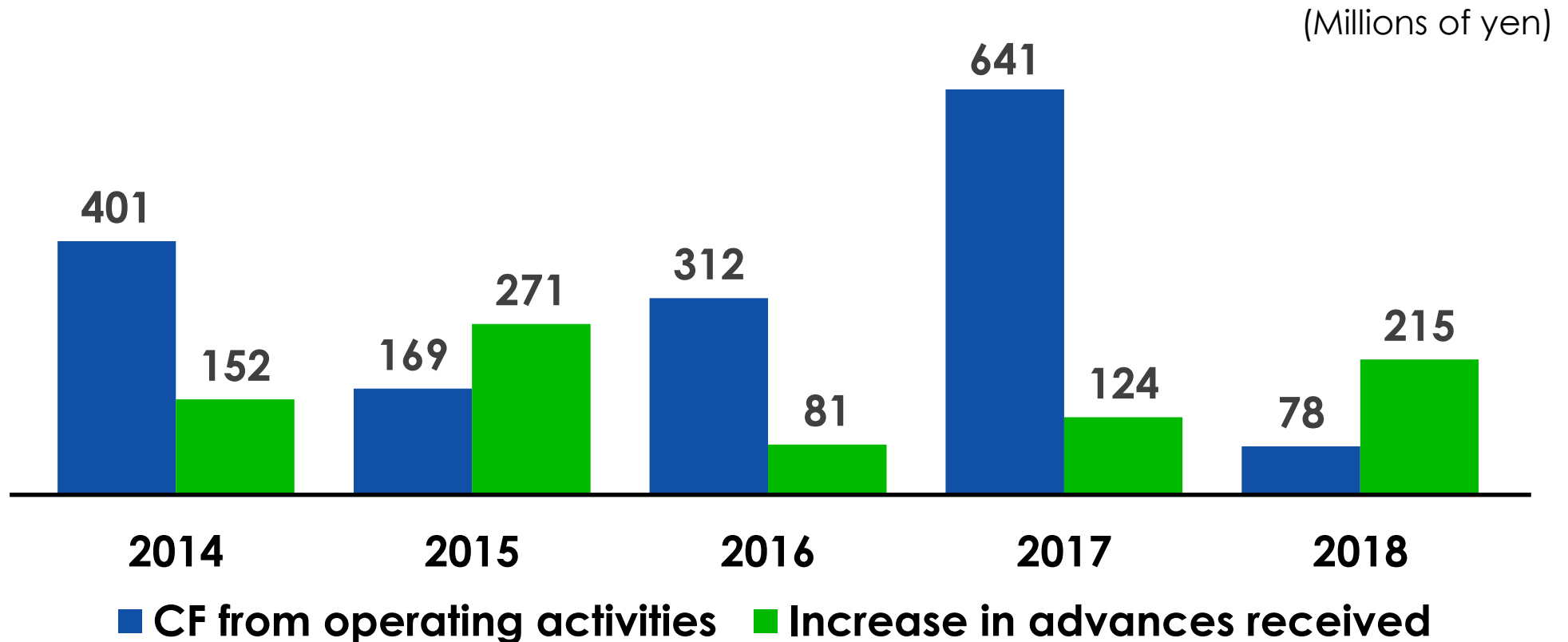
YoY Changes in Cash Flows

(Millions of yen)



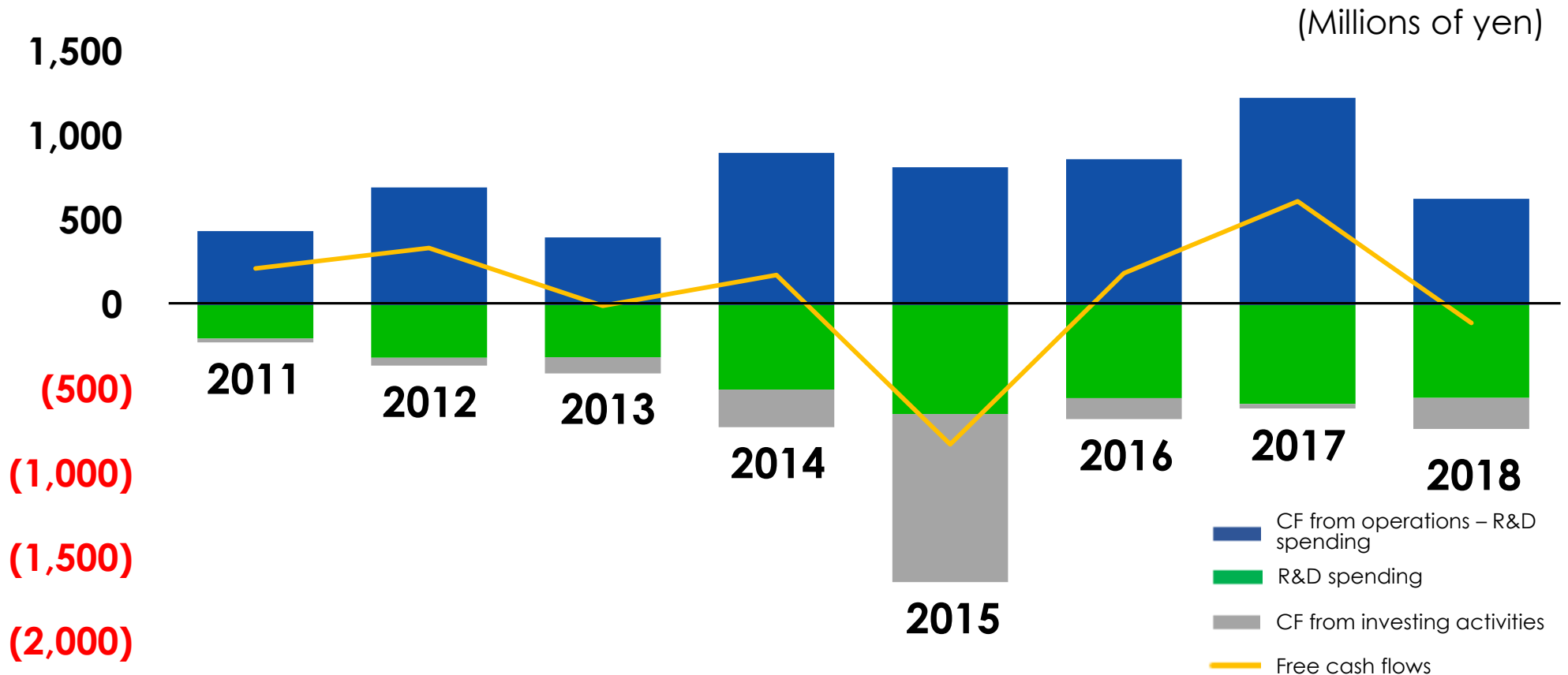
		Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Other
Amount of YoY changes		Increase of 78	Decrease of 184	Decrease of 127	Decrease of 6
Breakdown	Increases	<ul style="list-style-type: none"> • 284 in profit before income taxes • 215 in advance received 	<ul style="list-style-type: none"> • 30 in income resulting from merger 	<ul style="list-style-type: none"> • 6 resulting from other factors 	
	Decreases	<ul style="list-style-type: none"> • 224 resulting from increased trade receivables • 107 resulting from increased inventory (primarily work in progress) • 90 resulting from other factors 	<ul style="list-style-type: none"> • 89 resulting from purchase of property, plant and equipment* • 50 resulting from purchase of intangible assets • 70 resulting from purchase of long-term investment securities • 5 resulting from other factors <p>* Reflecting acquisition of assets to open R&D center at the University of South Carolina in the United States and reclassification of leased assets into property, plant and equipment in accordance with changes in U.S. accounting standards</p>	<ul style="list-style-type: none"> • 133 resulting from repayments of long-term loans payable 	<ul style="list-style-type: none"> • 6 resulting from foreign exchange loss

Cash flows from operating activities sustained by ample advances received



Free Cash Flows

R&D projects and investing activities funded by a stable level of cash flows



Open System Infrastructure Business



Net sales

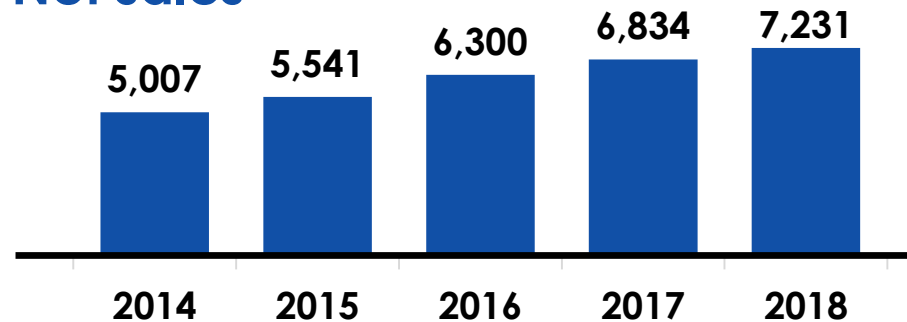
7,231 million yen, up 5.8% YoY

Segment income

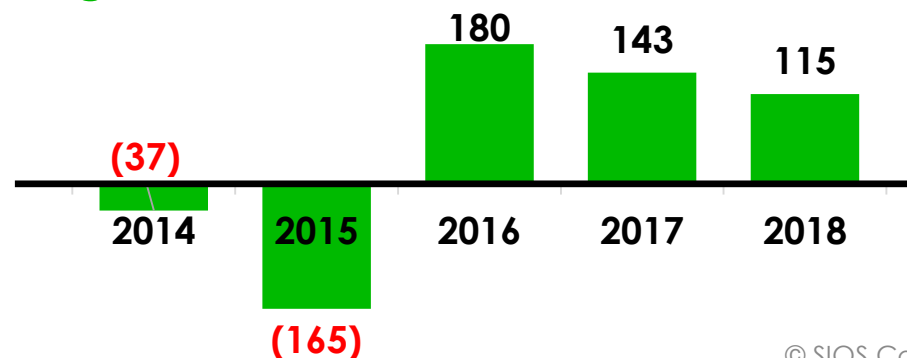
115 million yen, down 19.3% YoY

(Millions of yen)

Net sales



Segment income



Net sales

Japan

- LifeKeeper* sales were **up slightly**.
- Revenue from OSS* support services **maintained momentum of growth**.
- Software products sourced from Red Hat, Inc.* **achieved steady growth of sales**.

Overseas

- LifeKeeper sales **declined**.

Segment income

- A decline in gross profit ratio of products sold and an **increase** in expenses associated with releasing an upgraded version of SIOS Coati* resulted in **a decrease in segment income**.

Note: See the Glossary on Page 29 for descriptions of terms with an asterisk.

Application Business



Net sales

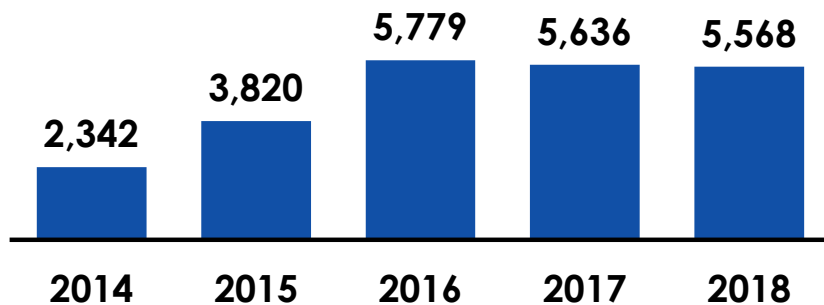
5,568 million yen, down 1.2% YoY

Segment income

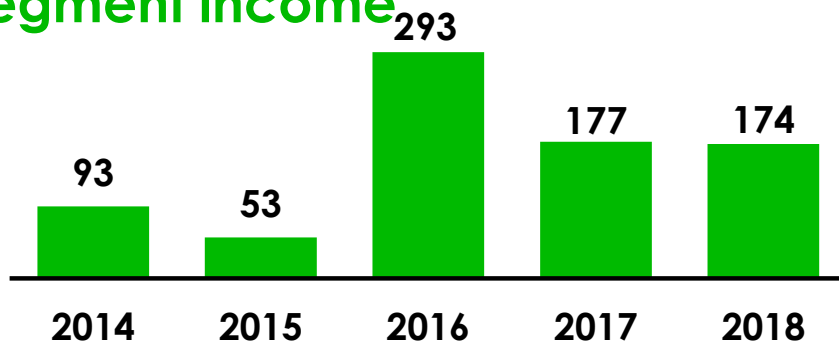
174 million yen, down 1.4% YoY

(Millions of yen)

Net sales



Segment income



Net sales

- Sales of software applications for MFPs* were **down** YoY in the first half of FY 2018 and **up** in the second half.
- Revenue from providing support for system development and implementation **declined**.
- Gluegent series* achieved a **solid sales increase**.

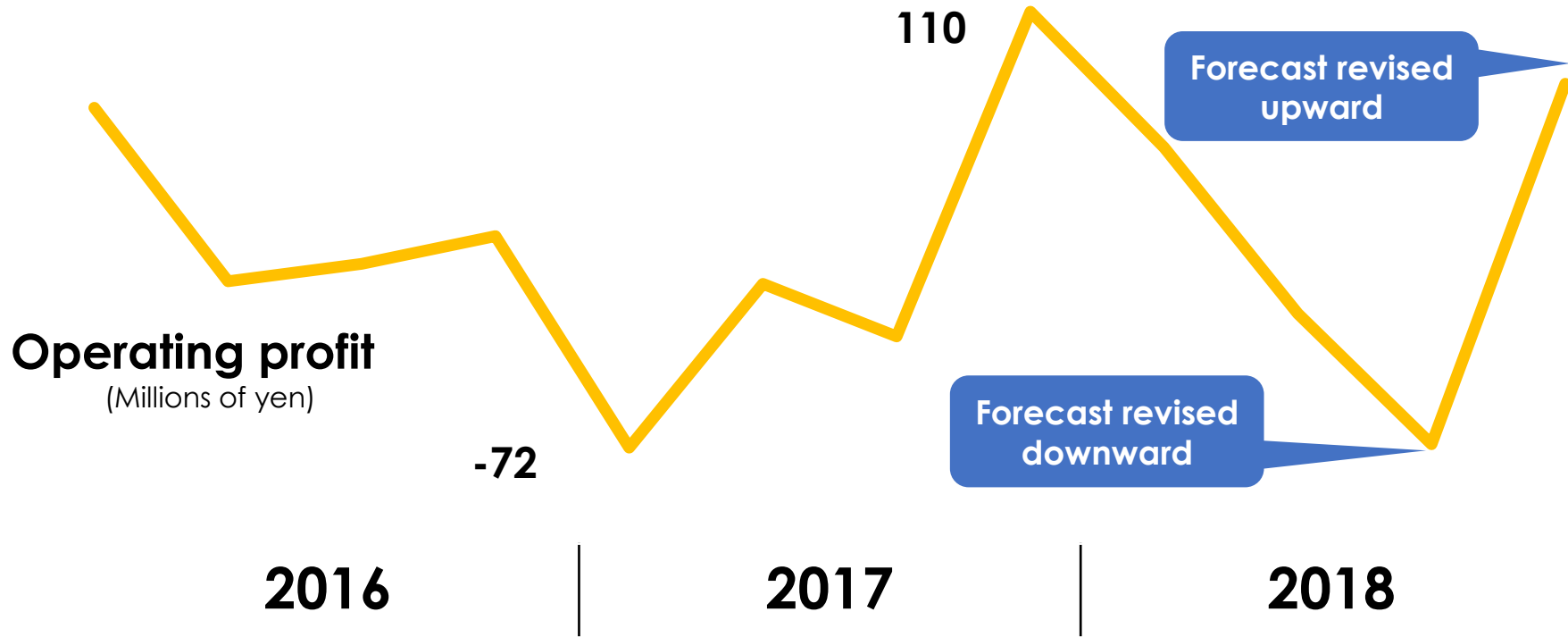
Segment income

- **Segment income declined** partly due to an **increase** in expenses associated with new businesses and partly due to a delay in an on-going project to provide support for system development and implementation to a financial institution, both of which more than offset the absence of an impairment loss of 100 million yen, which had been recognized in the previous fiscal year on goodwill and assets related to customers for Profit Cube Inc., a consolidated subsidiary of the Company.

Background to Frequent Revisions of Business Forecasts

Revenue forecasts went up and down for projects to develop and implement management support systems for financial institutions.

Issue	Volatile nature of business, affected significantly by our ability to close deals on and complete large projects for corporate clients on time
Proposed solution	Change the structure of business by shifting to cloud-based systems and launching a subscription-based business model





Key Medium-Term Strategic Initiatives and Progress Achieved in FY 2018

3 Key Medium-Term Strategic Initiatives

1 Expand into new business segments including Fintech

2 Continue to invest in research and development

3 Become more competitive in core businesses

1. Expand into New Business Segments including Fintech

2. Continue to Invest in Research and Development

We continued to invest to step up R&D and product development efforts.



Released an upgraded version of SIOS Coati based on the latest serverless architecture, which provides automatic disaster recovery in public cloud environments

Started to offer the free-address-allocation system Office Darts to expand the offerings of solutions to facilitate flexible working arrangements in the workplace, in addition to the already-available Willysm, an employee-motivation management system



Opened an R&D center at the University of South Carolina in the United States to jointly research AI technologies

Provided SIOS iQ for joint research projects

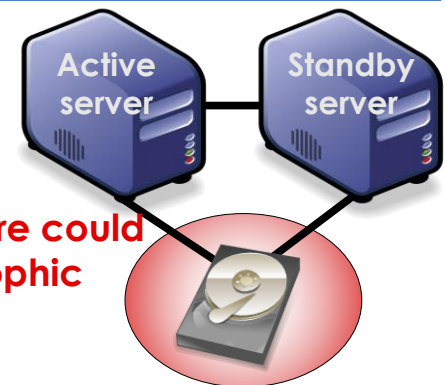


3. Become More Competitive in Core Businesses

We acquired ThirdWare Inc. and added its DRBD software to our lineup of business-continuity solutions

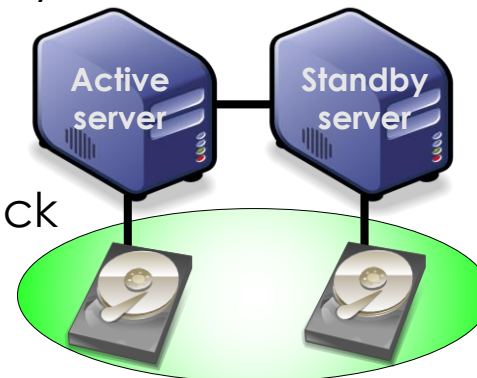
- DRBD (Distributed Replicated Block Device) is an software application for:
 - Achieving system storage redundancy
 - Providing network-based data redundancy
- User benefits
 - Provides highly reliable data redundancy in multiple-disk deployments
 - Enables the use of general-purpose hardware
 - Boasts more than 10 years of a solid track record of use
 - Supports large-capacity disks

Data redundancy via shared disk



A storage failure could cause catastrophic disruption.

Data redundancy via DRBD

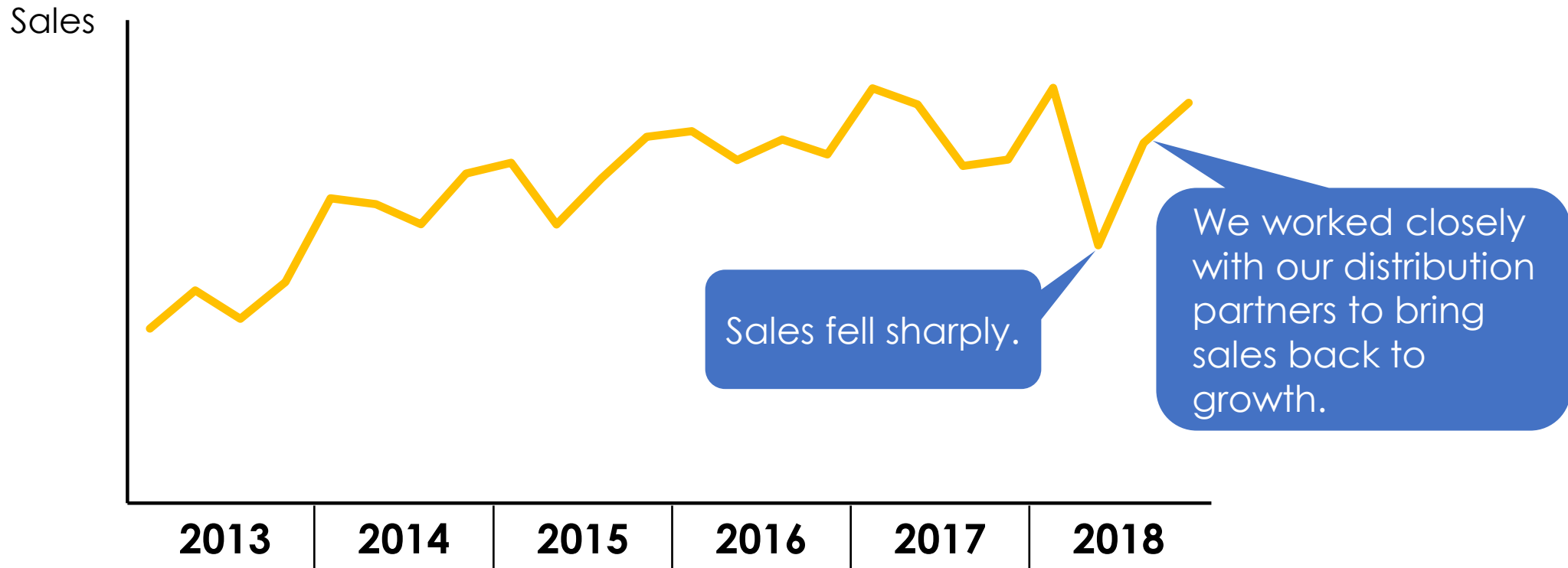


It is extremely unlikely that two storage devices will fail at the same time.

3. Become More Competitive in Core Businesses

After sales of our core products plunged in the second quarter of FY 2018, we drove their sales back to growth in the second half by working closely with our distribution partners.

Sales of Software Applications for MFPs





Medium-Term Business Plan for FY 2019-2021, and Business Forecasts for FY 2019

Primary Objective and Management Metrics Established in Medium-Term Business Plan for FY 2019-2021



(1) Primary Management Objective

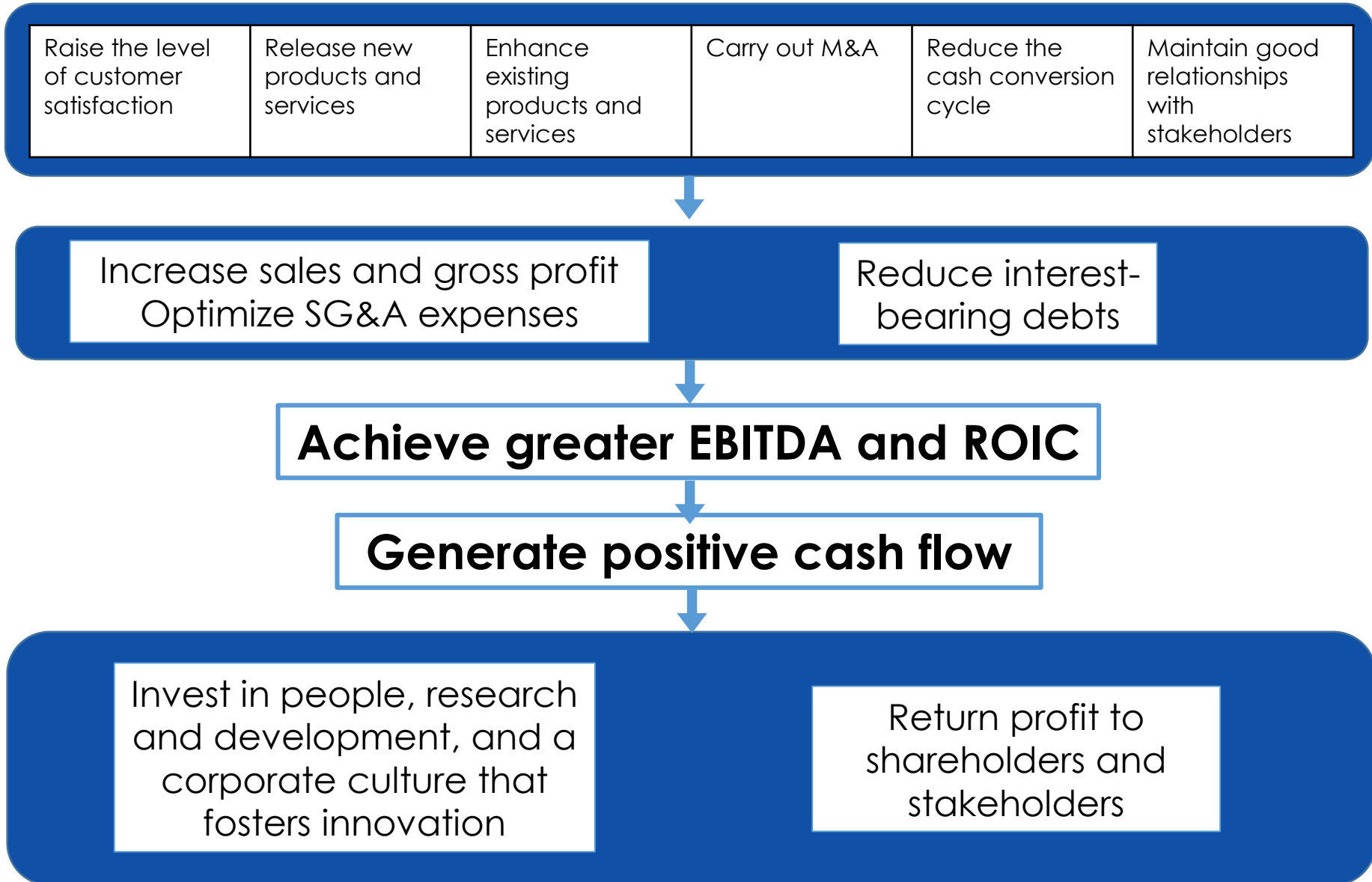
Under the mission of making the impossible possible for the people of the world, the SIOS Group works toward achieving its primary management objective of pursuing innovative solutions to resolve issues affecting people and to contribute to a better society.

(2) Management Metrics

The Group uses EBITDA and ROIC as its key management metrics to continue to generate positive cash flow. Positive cash flow enables the Group to invest in the three driving forces for our growth—people, research and development, and a corporate culture that fosters innovation—and to return profit to our shareholders and stakeholders. Through these efforts, the Group works toward achieving its primary management objective.

Note: The Company has defined the Group's primary management objective and management metrics in line with its mission.

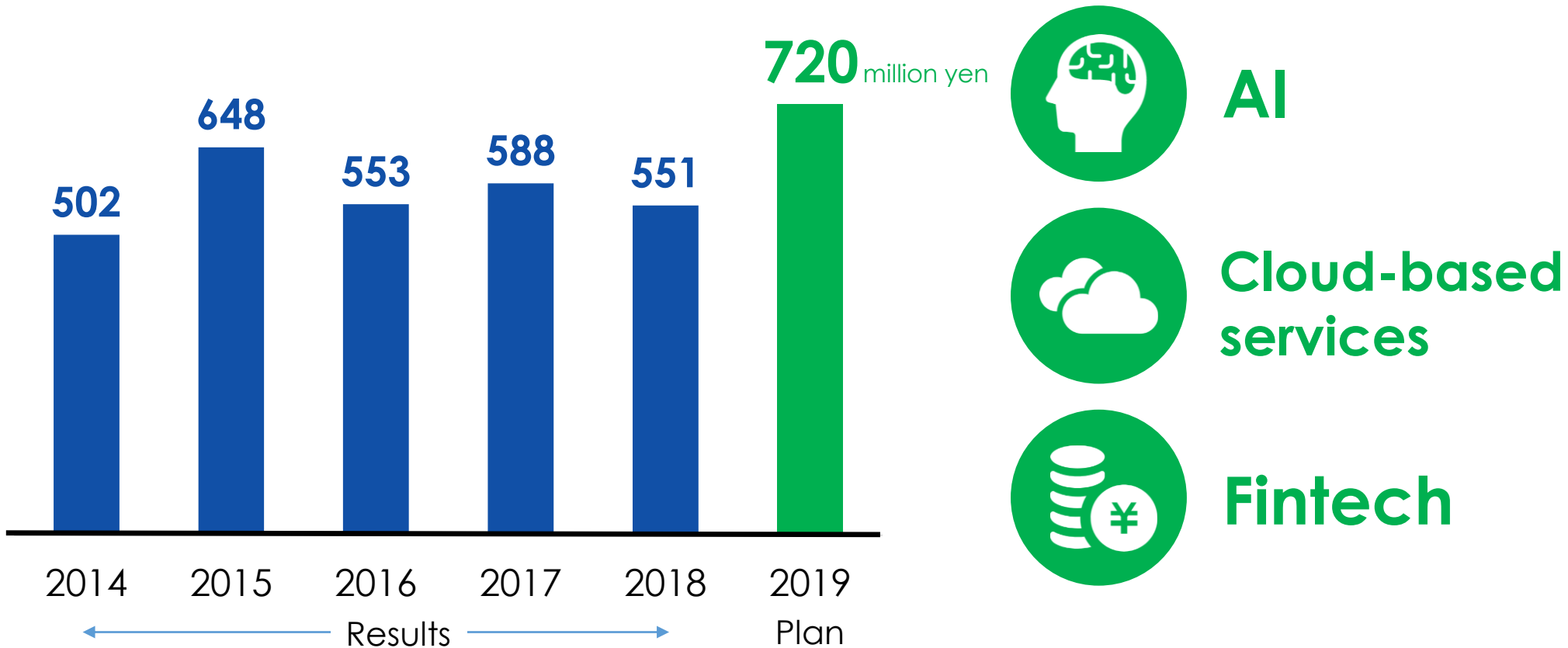
Scenario to Achieve Management Metrics



Consolidated R&D Spending

Consolidated R&D spending

Focused fields



Invest in People



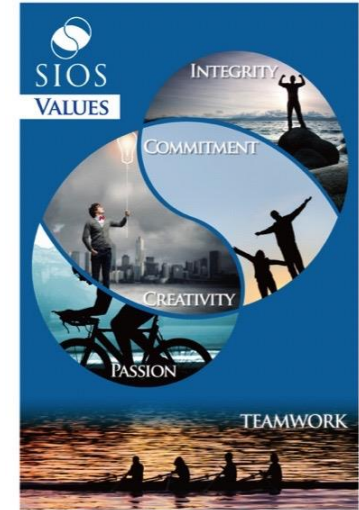
Invest to Establish a Corporate Culture that Fosters Innovation

Expanded use of telework



Cloud-based SIOS products are a big help for teleworkers

SIOS Value Awards recognize high-performing employees



CSR programs

Workshops for repurposing plastic shopping bags and scrap wood



S I O S
Sustainability



Online store of organic products



ORGANIC STORY



Software applications for MFPs that help reduce the amount of office printing and reduce CO₂ emissions

Medium-Term Business Plan for FY 2019-2021

We will make our business foundations more solid over the next three years and work toward achieving EBITDA of 550 million yen and ROIC* of 15%.

(Millions of yen)

	2015	2016	2017	2018	2019	2020	2021
EBITDA	-45	653	497	375	300	450	550
ROIC	-2.5%	11.2%	10.1%	8.7%	6.4%	11.1%	15.0%

* ROIC = Operating income x (1 – Effective tax rate**) / (Interest-bearing debts + Shareholders' equity)

** 35% used for calculation

Consolidated Business Forecasts for FY 2019

- Achieve net sales of 13.2 billion yen to mark **the ninth consecutive year of growth**
- **Increase R&D spending** to aid medium- and long-term business growth

(In millions of yen)

	FY 2018 Results	FY 2019 Forecasts	Change	% Change
Net sales	12,799	13,200	+ 400	3.1%
Operating profit	290	200	△ 90	△ 31.2%
Ordinary profit	310	210	△ 100	△ 32.4%
Profit (loss) attributable to owners of parent	225	140	△ 85	△ 38.0%
EBITDA	375	300	△ 75	△ 20.2%
ROIC	8.7%	6.4%	-	-

Cash Dividends for FY 2018 and FY 2019



Cash dividends
planned for fiscal
year ended
December 31, 2018

As announced on February 5, 2018, the Company will not pay any year-end cash dividends for FY 2018 due to reduced net assets as a result of having posted an extraordinary loss for FY 2017.

Cash dividends
projected for fiscal
year ending
December 31, 2019

Based on the most current business forecast for FY 2019, the Company plans to pay a year-end dividend of 5.00 yen per share for FY 2019, to be funded by projected net profit for the year and dividends received from subsidiaries.

	22nd term Fiscal year ended December 31, 2018 (Planned)	23rd term Fiscal year ending December 31, 2019 (Projected)
Annual cash dividends per share	0.00 yen	5.00 yen

About SIOS Corporation



SIOS is Innovative Open Solutions

Listed on the Second Section of the Tokyo Stock Exchange, SIOS Corporation is a holding company that manages subsidiaries having a wealth of expertise and assets in open source software, including Linux, AI and cloud technologies, and Fintech.

Under the mission of making the impossible possible for the people of the world, the SIOS Group pursues innovative solutions to resolve issues affecting people and to contribute to a better society.

Headquarters	SIOS Building, 2-12-3 Minami Azabu Minato-ku, Tokyo, Japan	
Capital	1,481 million yen	
Established	May 23, 1997	
No. of employees	440 on a consolidated basis (as of December 31, 2018)	
Main consolidated subsidiaries	Japan: SIOS Technology, Inc. Gluegent, Inc. Keyport Solutions, Inc. Profit Cube Inc.	U.S.A.: SIOS Technology Corp.



Glossary



Page	Term	Description
12	LifeKeeper	A failover software product that automatically switches a failed primary server to a backup server.
12	Open-source software (OSS)	Software whose source code, which is the fundamental component of the program, is made available for free and can be used, modified, and redistributed.
12	Software products sourced from Red Hat, Inc.	Open-source software products developed by Red Hat, Inc., a provider of open-source solutions.
12	SIOS Coati	Cloud-based service for automatic system failure detection and recovery.
13	Software applications for multifunction printers (MFPs)	A multifunction printer (MFP) is a piece of office equipment that incorporates print, scan, copy, and fax capabilities into one unit. The Group develops, markets, and updates document management software applications, such as Quick Scan and Speedoc, that run on an MFP.
13	Gluegent series	Service of subsidiary Gluegent. "Gluegent Gate" which manages ID in the cloud, "Gluegent Apps group scheduler" etc. which added team calendar schedule management function etc to Google Calendar etc. We support business efficiency by using enterprise cloud.
14	Subscription business model	In the SaaS service etc. provided in the cloud, Business model that charges according to usage period.
16	Fintech	An emerging technology for facilitating innovations in the financial sector.
18	DRBD	Software that duplicates server's hard disk to another server in real time through the network.

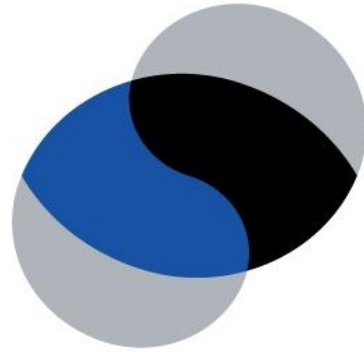
Cautionary Statement

Forward-looking statements about the Company's business outlook contained in this document reflect management's assumptions and judgments made on the basis of available information, and may include risks and uncertainties. We caution that significant risks and uncertainties could cause actual performance to differ materially from what is discussed in the forward-looking statements. Significant risks and uncertainties that might affect our performance include, but are not limited to, the economic environment and market conditions in which we operate.

For inquiries about this document

Call the IR Section of SIOS Corporation on **03-6401-5111 (+81-3-6401-5111 from outside Japan)**

or fill in and send an online inquiry form available at:
https://lp.sios.jp/MRK_Inquiry_SIOS_english.html



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