

Financial Results for the 6 Months Ended June 30,2019

July31,2019

SIOS ,Corp.

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

**Summary of Business Results
for the 6 Months Ended
June 30 ,2019**

Consolidated Financial Results

for the 6 Months Ended June 30,2019



(In millions of yen)	Results for the 6 months ended June 30,2018	Results for the 6 months ended June30,2019	Change	%Change
Net Sales	6,270	6,914	+643	+10.3%
Gross profit	2,056	2,124	+68	+3.3%
Operating income	127	38	△89	△70.0%
Ordinary income	131	70	△61	△46.5%
Profit attributable to owners of parent	79	△ 20	△99	—
EBITDA	166	82	△83	△50.3%
ROIC (annualized)	8.1%	2.4%	—	—

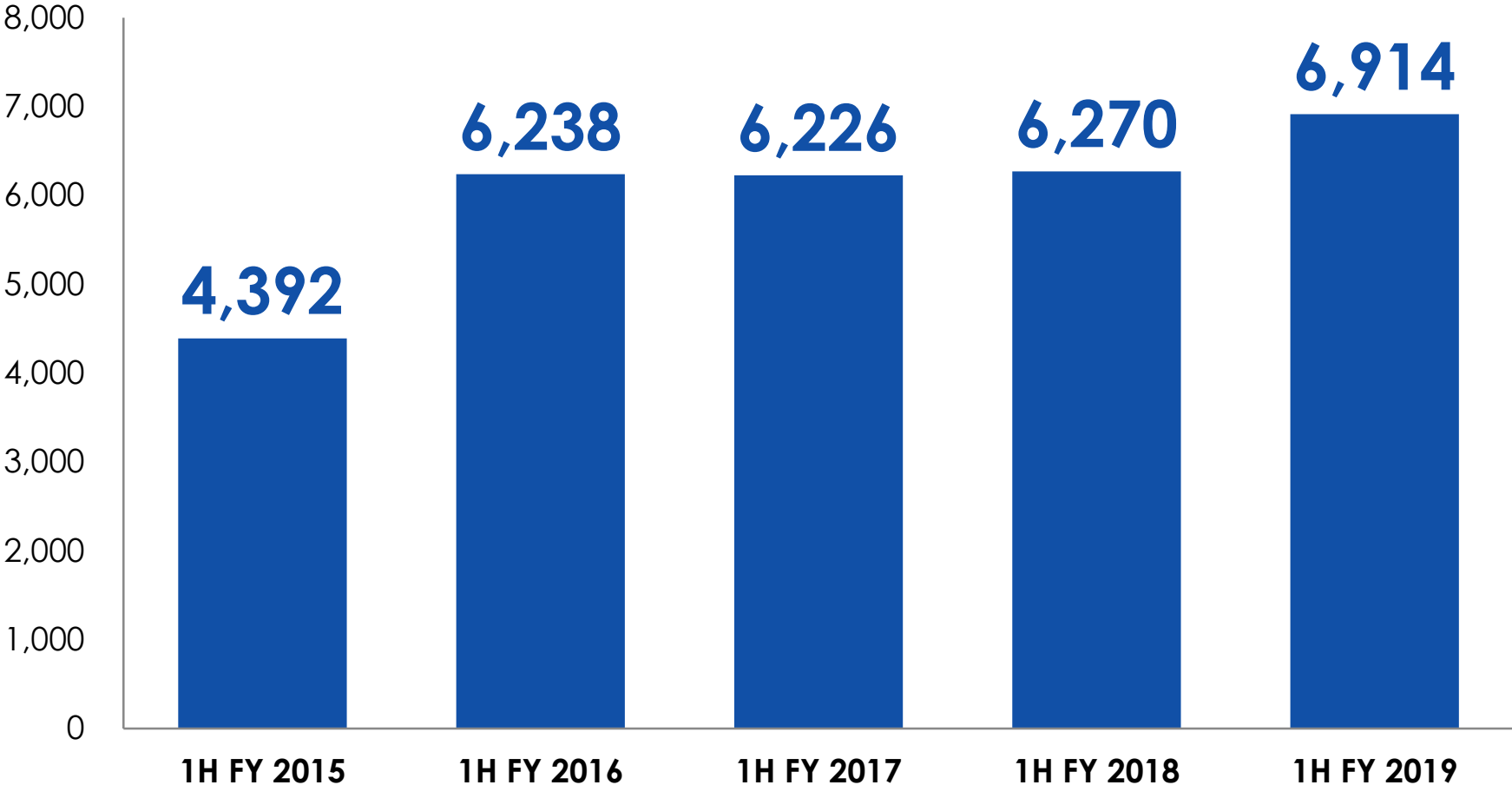
*EBITDA: Operating profit + Depreciation + Amortization of goodwill

*ROIC: Operating profit after tax / (Shareholders' equity + Interest-bearing debts)

Consolidated Net Sales in First Halves of the Past 5 Fiscal Years

Achieved record net sales in H1 2019

(In millions of yen)

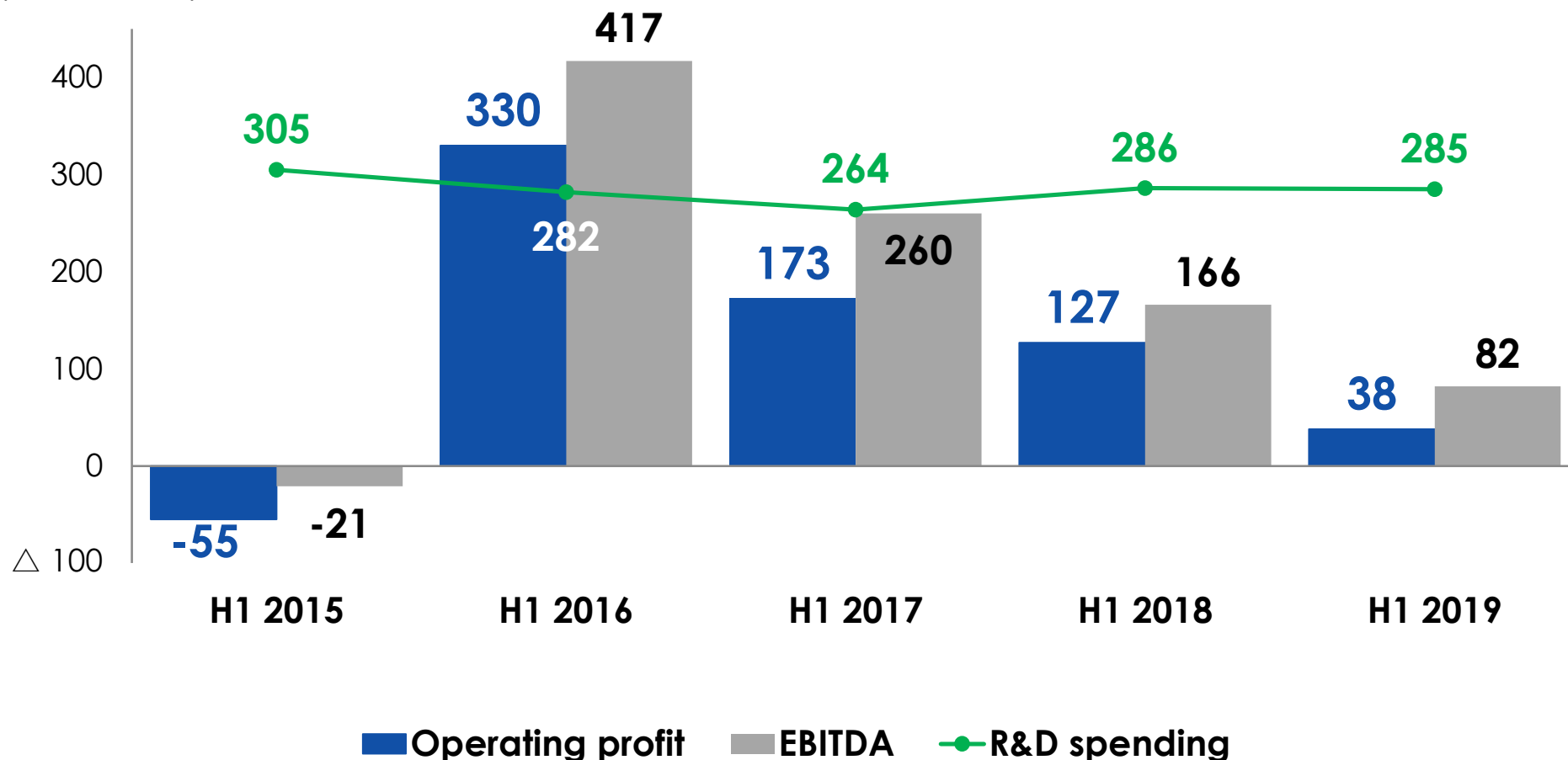


Consolidated Operating Profit, EBITDA, and R&D Spending in First Halves of the Past 5 Fiscal Years



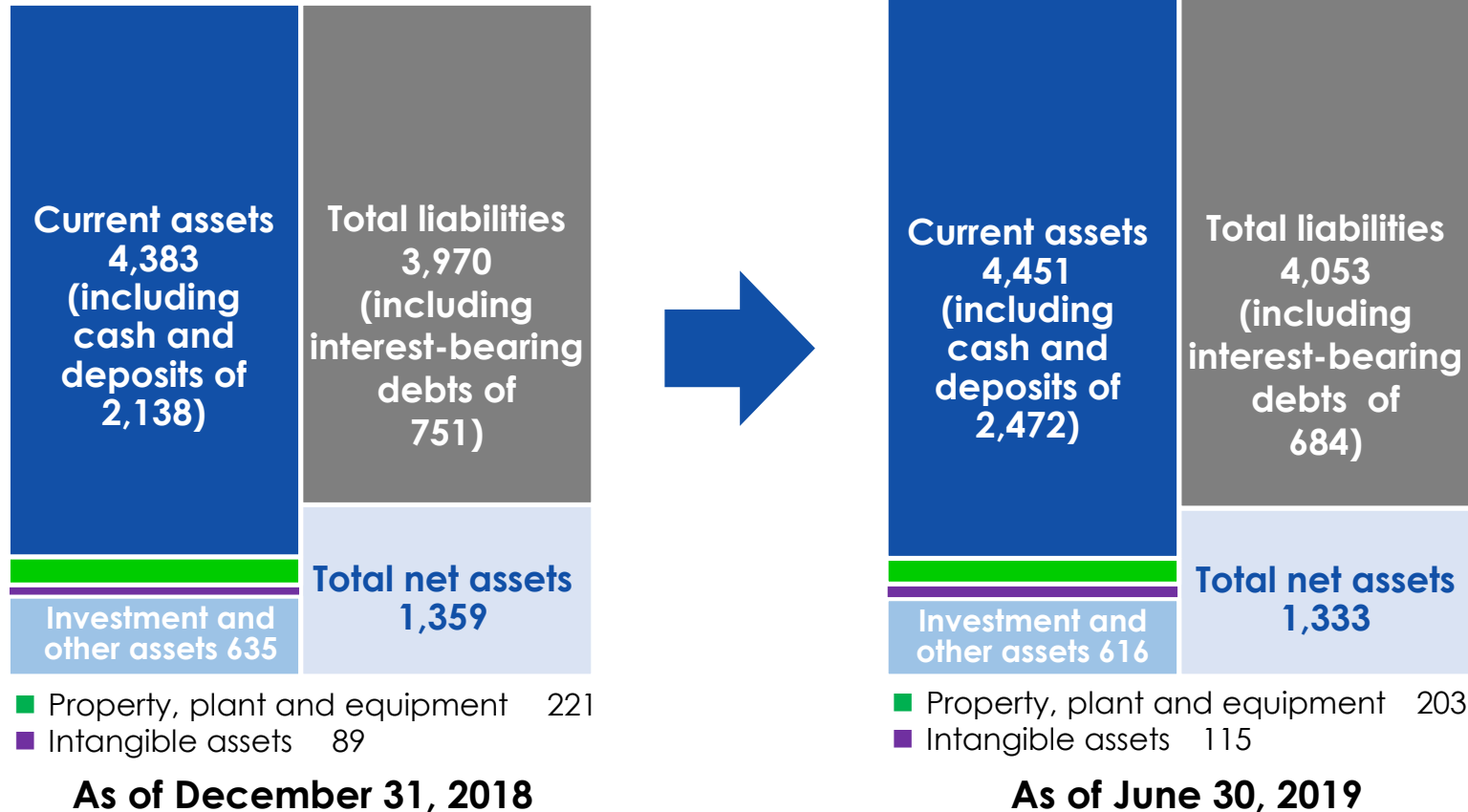
- Operating profit for H1 2019 declined by 89 million yen year-on-year
- R&D spending has remained at a consistent level.

(Millions of yen)



Consolidated Balance Sheets

(In millions of yen)

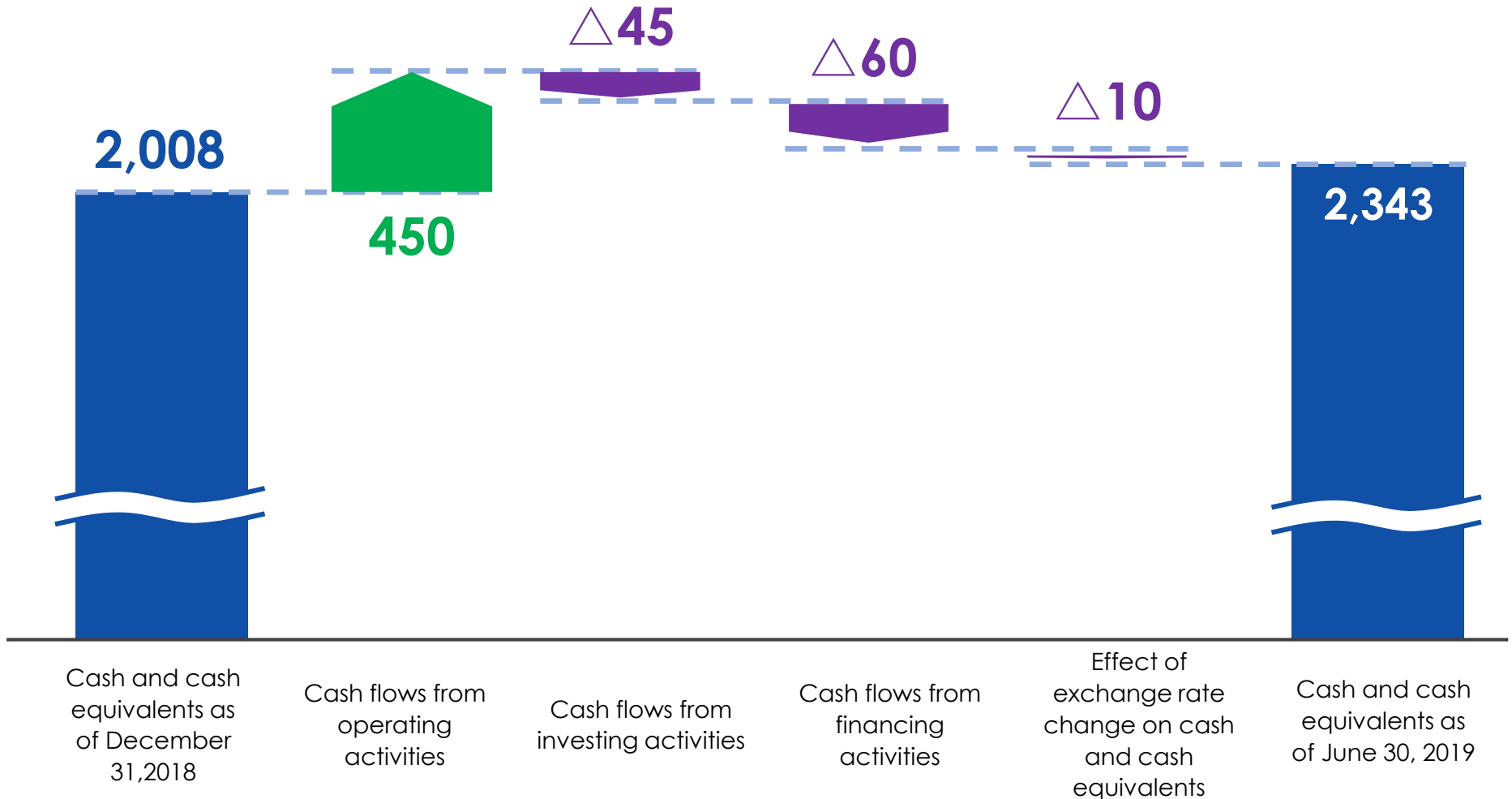


- **Current assets:** An increase of 333 million yen in cash and deposits
- **Current liabilities:** An increase of 202 million yen in advances received
- **Net assets:** A decrease of 26 million yen

Analysis of Consolidated Cash Flows



(In millions of yen)



YoY Changes in Cash Flows

(Millions of yen)

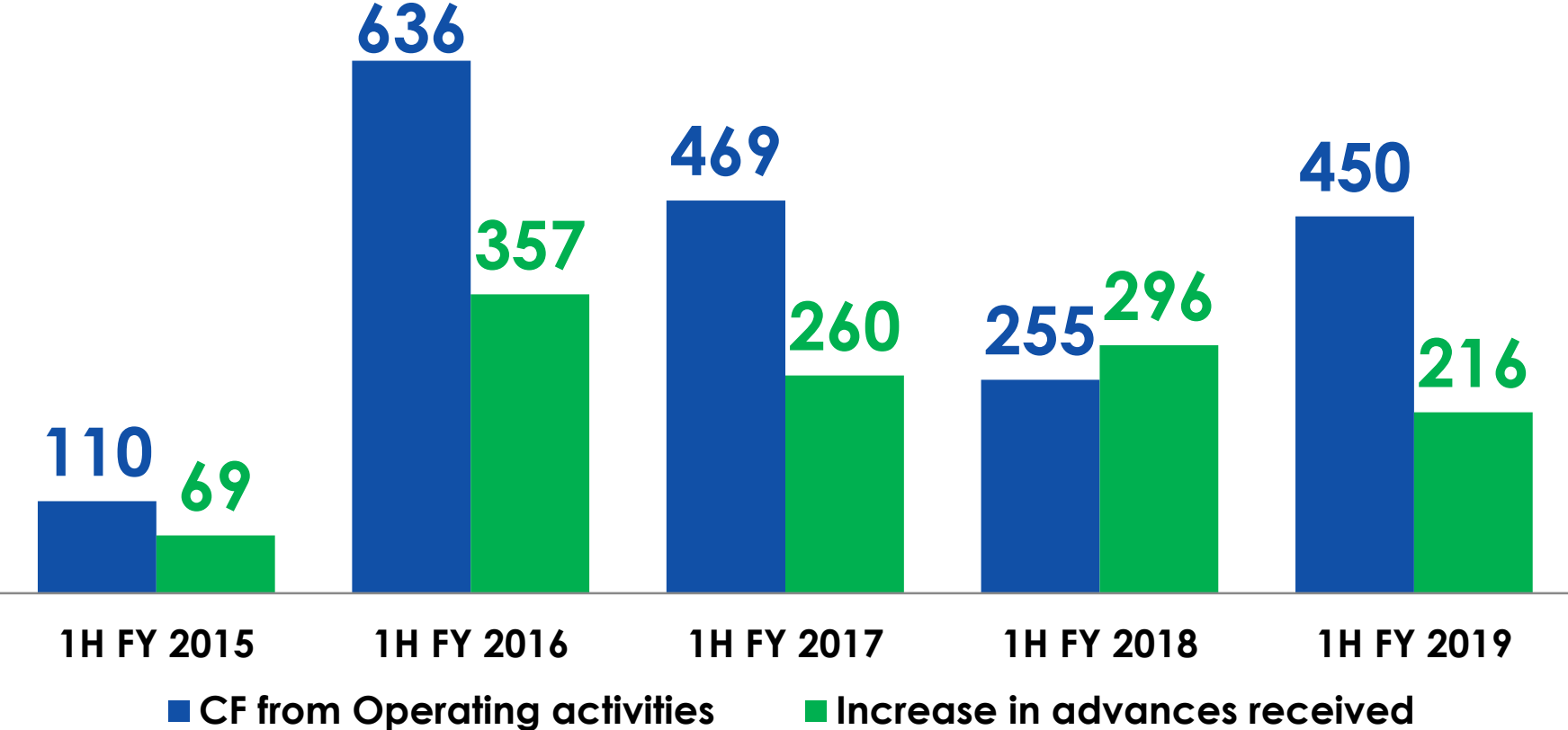


		Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Other
Amount of YoY changes		Increase of 450	Decrease of 45	Decrease of 60	Decrease of 10
Breakdown	Increases	<ul style="list-style-type: none"> • 76 resulting from a decrease in trade receivables • 77 resulting from reduced inventory • 86 resulting from an increase in notes and accounts payable trade • 216 resulting from an increase in advances received • 94 resulting from other factors 		<ul style="list-style-type: none"> • 6 resulting from other factors 	
	Decreases	<ul style="list-style-type: none"> • 99 resulting from accrued consumption taxes 	<ul style="list-style-type: none"> • 40 resulting from purchase of property, plant and equipment • 5 resulting from other factors 	<ul style="list-style-type: none"> • 66 resulting from repayments of long-term loans payable 	<ul style="list-style-type: none"> • 10 resulting from foreign exchange loss

Cash Flows from Operating Activities and Advances Received

Cash flows from operating activities sustained by ample advances received

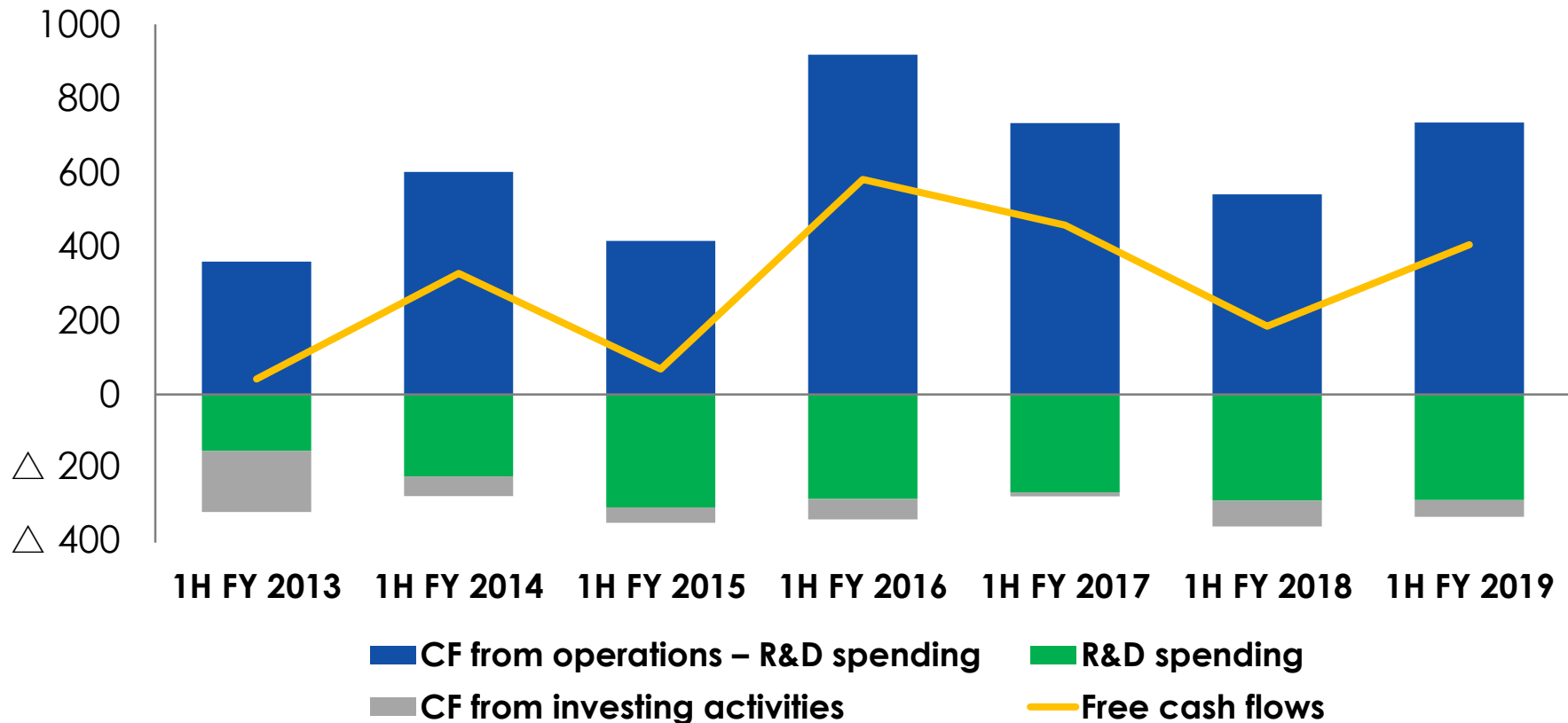
(In millions of yen)



Free Cash Flows

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

(In millions of yen)



Open System Infrastructure Business



Net sales

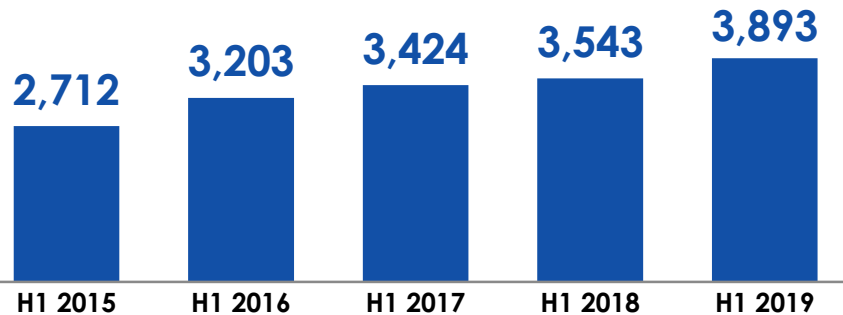
3,893 million yen, up 9.9% YoY

Segment income

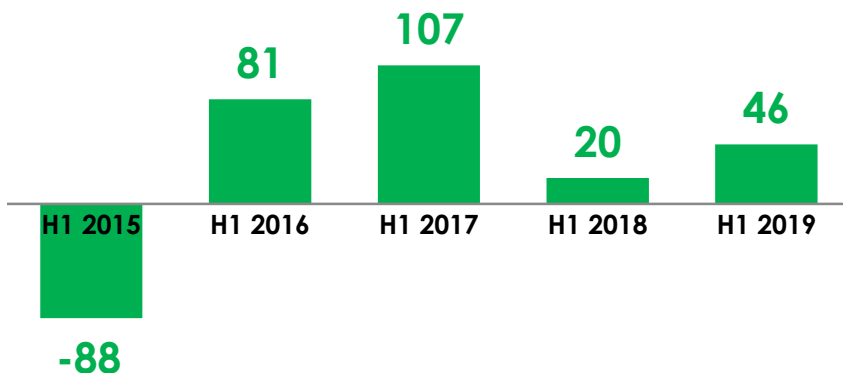
46 million yen, up 128.2% YoY

Net sales

(Millions of yen)



Segment income



Net sales

Japan

- Sales of LifeKeeper*, one of our core products, **achieved a solid increase.**
- Sales of software products sourced from Red Hat, Inc.* **maintained momentum of growth.**

Overseas

- LifeKeeper sales **achieved a solid increase.**

Segment income

- **The segment income for H1 2019 jumped from the previous year,** thanks primarily to the strong sales of business-continuity solutions bolstered by the addition of products offered by ThirdWare Inc., which the Company acquired in December 2018.

Note: See the Glossary on Page 26 for descriptions of terms with an asterisk.

Application Business

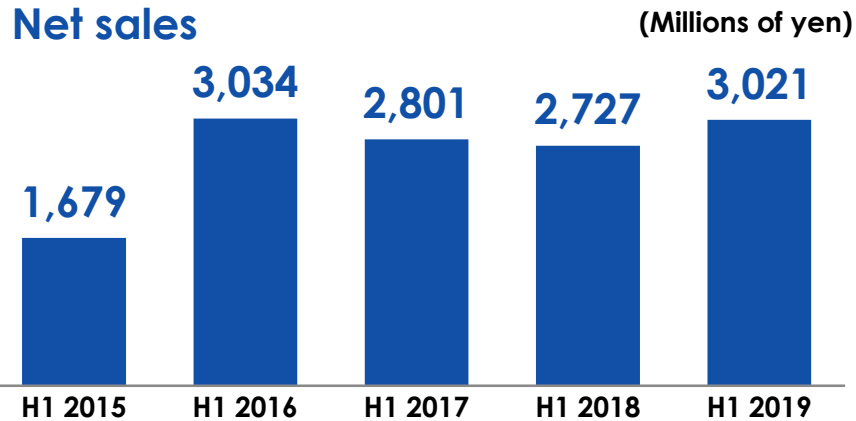


Net sales

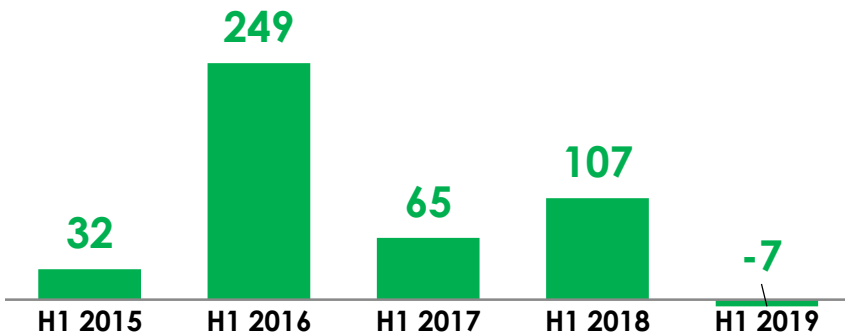
3,021 million yen, up 10.8% YoY

Segment income

Loss of 7 million yen, compared with an income of 107 million yen the year before



Segment income



Net sales

- Revenues from the provision of support for system development and implementation to financial institutions **achieved a solid increase.**
- Sales of software applications for multifunction printers (MFPs)* **achieved steady growth.**
- Revenues from the Gluegent series* **achieved steady growth.**

Segment income

- **Segment income for H1 2019 declined from the previous year** partly because most of the sales of management support systems to financial institutions are projected to materialize in the second half of the year, and partly because several unprofitable projects were undertaken to provide support for system development and implementation to financial institutions.

Improve Performance on Key Management Metrics

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



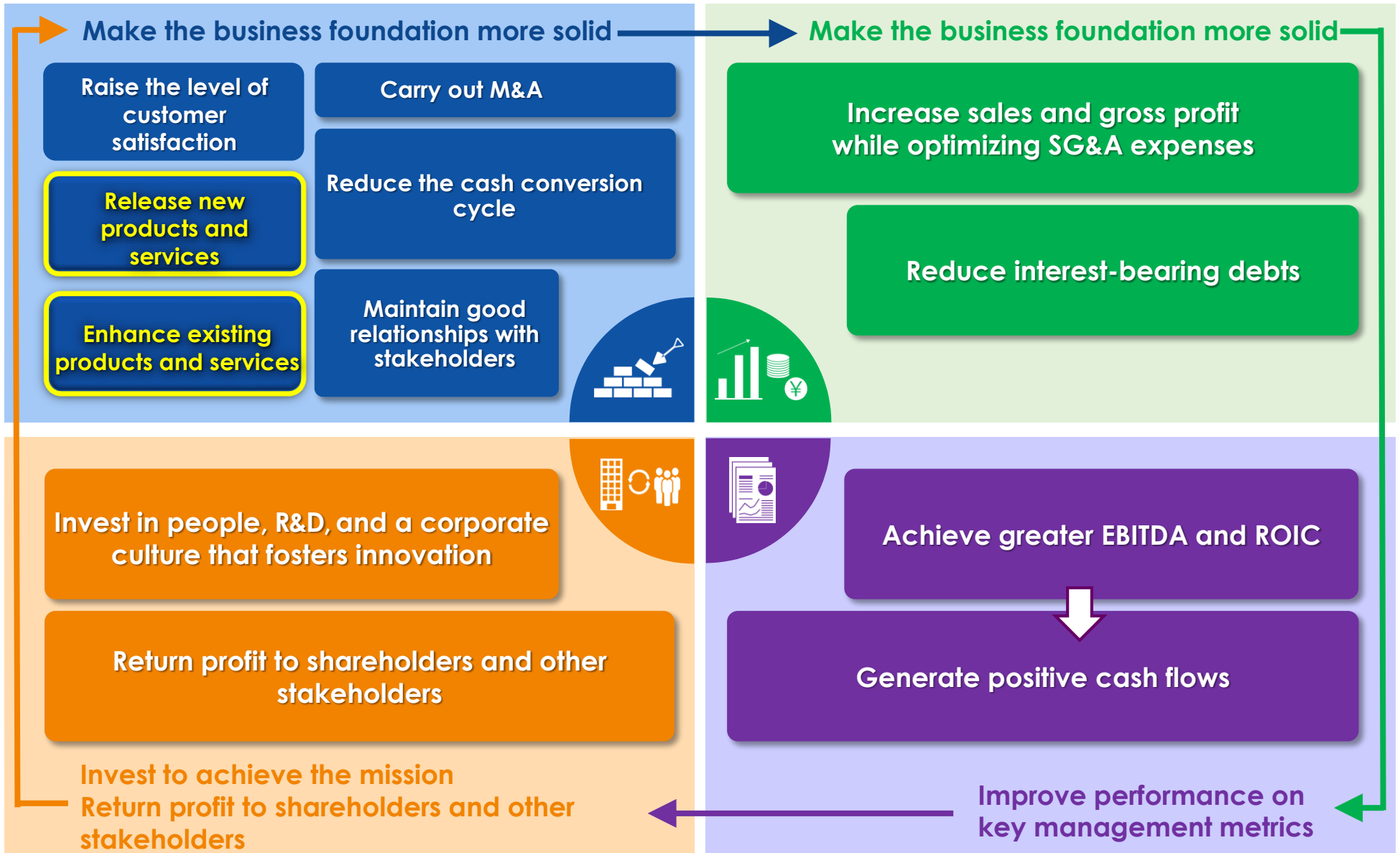
Primary Management Objective

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.

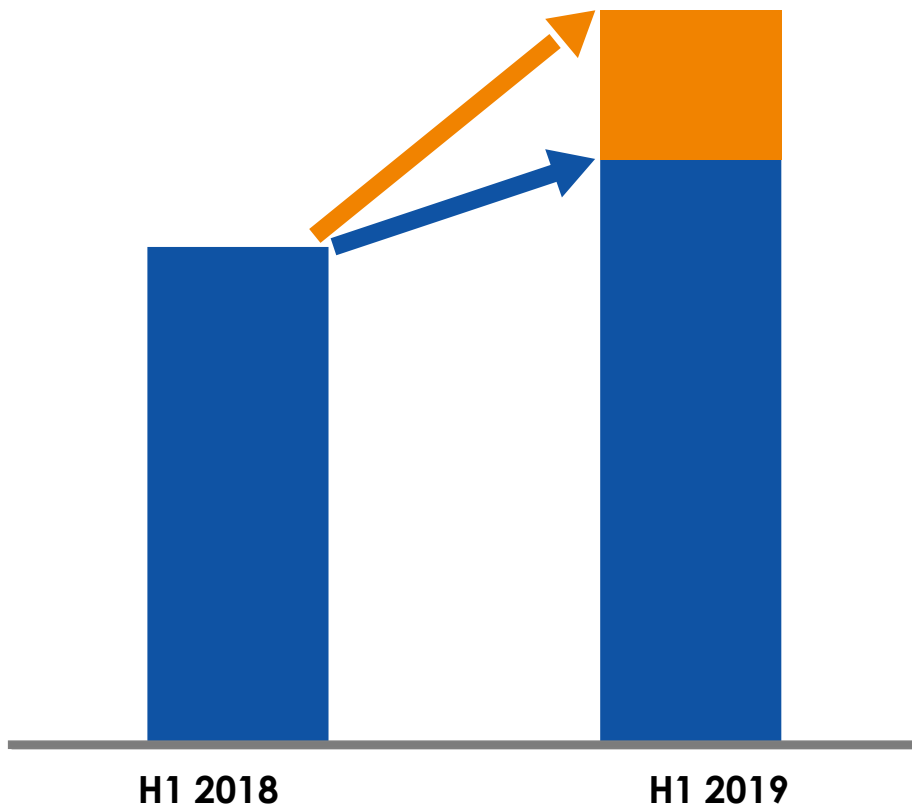
Management Metrics

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.

Basis for Achieving the SIOS Group Mission



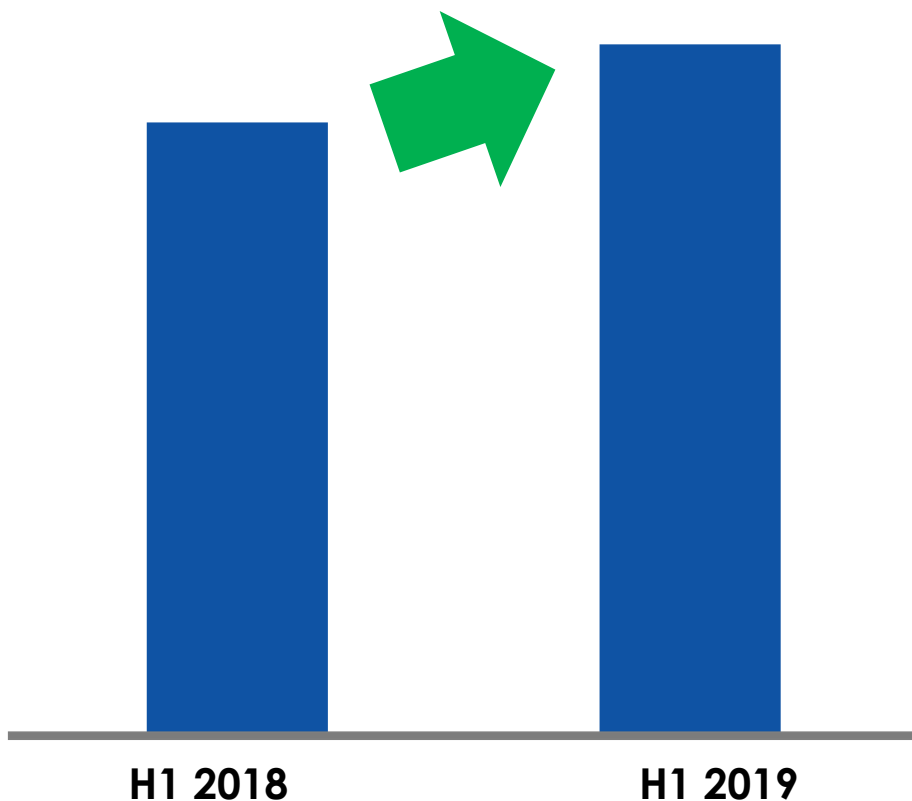
Operating Profit from Sales of Business-Continuity Solutions in Japan



The addition of products offered by ThirdWare Inc., which the Company acquired in December 2018, bolstered the sales and profit in this category.

LifeKeeper and other existing products also achieved strong sales and bolstered the sales and profit in this category.

Sales of Software Applications for MFPs



After having struggled in the previous year, sales of software applications for MFPs picked up in this period, helped by closer collaboration with our distribution partners.

Enhance existing products and services

SIOS to Release on September 30, 2019, AI-enabled Service Solution That Recognizes Confidentiality Designations on Documents



Log キャプチャ NX Plus*
Log Capture

Existing benefit

- Quickly respond to incidents
- Provide psychological deterrent against improper use of documents

New

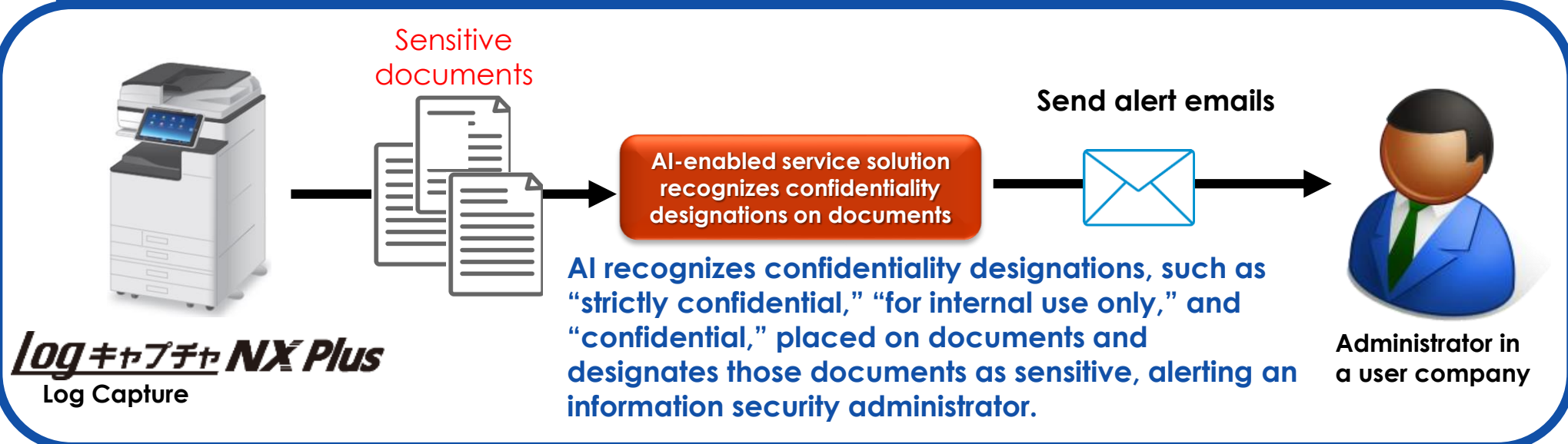
AI-enabled service solution that recognizes confidentiality designations on documents

Additional benefit

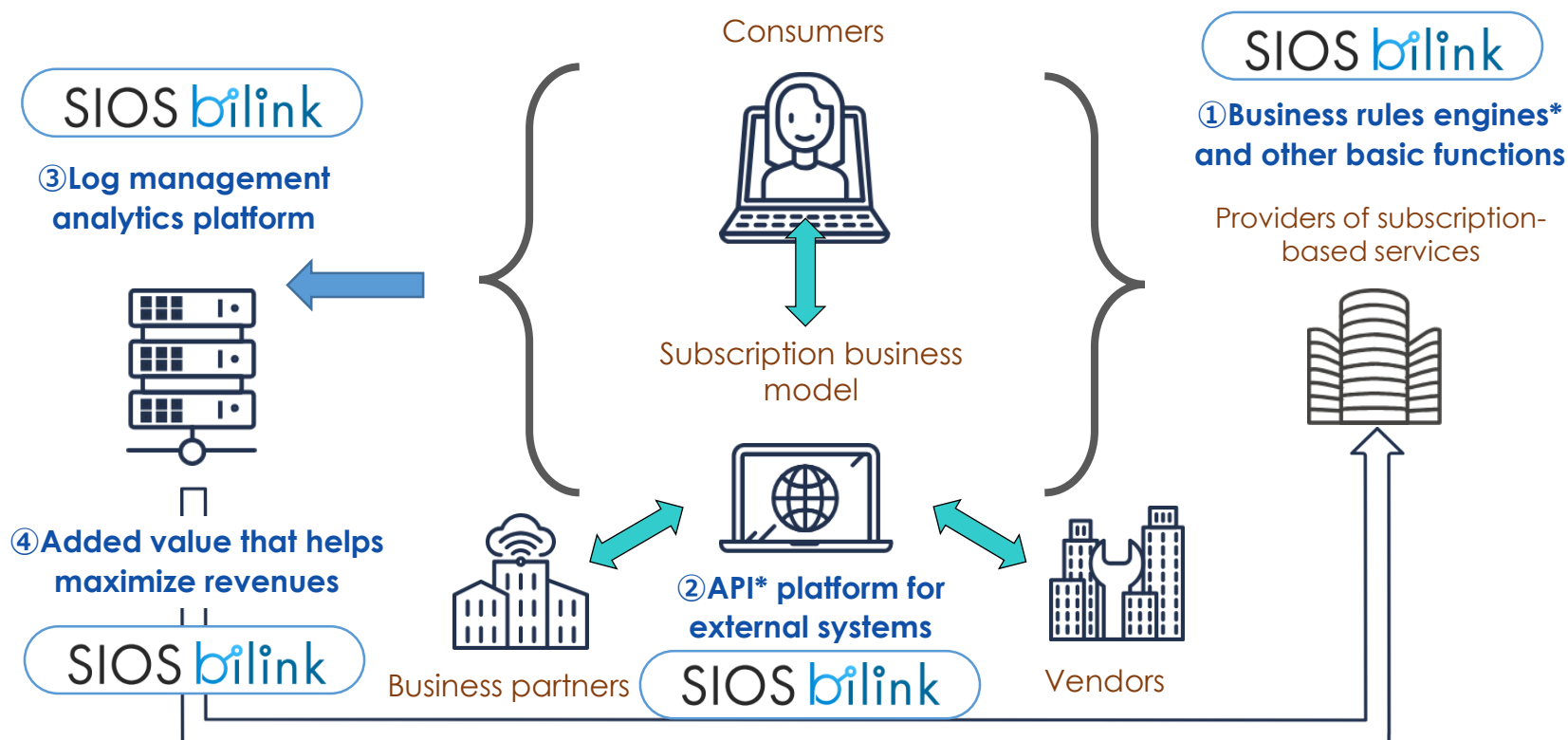
- Detect incidents before they occur

Enhance existing service offerings by adding a new service solution that will increase the level of customer satisfaction and bolster sales of software applications for MFPs.

How the new service works



SIOS bilink provides a platform that supports companies operating under subscription business models.*



SIOS intends to provide a versatile platform that supports a wide range of subscription business models

Cash Dividends for FY 2019

Based on the latest business forecasts 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 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円	5.00円

**Business Forecasts for
Fiscal Year Ending December
31, 2019**

Consolidated Business Forecasts for FY 2019



Remain unchanged as announced on February 5, 2019

Bolster profit in struggling business in the second half of FY 2019

Provision of support for system development and implementation to financial institutions

Reason for reduced profit in H1 2019

Additional costs incurred to catch up on delayed project deliveries

Status

Unprofitable projects completed by the end of June 2019

Actions taken and forecast

Perform more stringent review of specifications and delivery dates prior to deal closure to prevent project delays

This business is projected to improve its profitability in H2 2019.

Sales of management support systems to financial institutions

This business is projected to achieve a year-on-year increase in sales and profit in H2 2019, after having struggled in the first half.

Consolidated Business Forecast for Fiscal Year Ending December 31,



(In millions of yen)	Results for the 6 months ended June 30, 2019	Forecast for fiscal year ending December 31, 2019	Percentage of achievement
Net sales	6,914	13,200	52.4%
Operating income	38	200	19.0%
Ordinary income	70	210	33.3%
Profit attributable to owners of parent	△20	140	—
EBITDA	82	300	27.3%
ROIC (annualized)	2.4%	6.4%	—

Appendix

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
11	LifeKeeper	A failover software product that automatically switches a failed primary server to a backup server.
11	Software products sourced from Red Hat, Inc.	Open-source software products developed by Red Hat, Inc., a provider of open-source solutions.
12	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.
12	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.
18	Log Capture NX Plus	One of the software applications for MFPs offered by SIOS Technology, Inc., a consolidated subsidiary of the Company. Maintains image and operation logs of documents copied, faxed, printed, and scanned by users on MFPs.
19	Subscription business model	A business model that charges customers a recurring monthly or annual fee to access a software product or service.
19	Business rules engine	Application that manages decision-making processes using pre-defined logic to determine outcomes.
19	API	Application Programming Interface. A set of data formats and procedures for enabling an operating system or software application to access data and features of other applications.

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://mk.sios.com/SIOS_Inquiry_english.html



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