



Consolidated Financial Result

(For the 9-month period ended September 30, 2019)



October 31, 2019

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 Stock exchange listings: Tokyo Stock Exchange (TSE)
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Scheduled date for filing of quarterly financial report: November 13, 2019

(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, 2019 through September 30, 2019) (% of change from the previous corresponding term)

(1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
9-month period(2019/9)	10,135	7.1	-74	-	-34	-	-74	-
9-month period(2018/9)	9,462	1.9	107	-41.9	118	-39.1	47	-39.7

(Note) Comprehensive income

9-month period (2019/9): -93 million yen/ -%

9-month period (2018/9): 41 million yen/ -27.3%

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
9-month period(2019/9)	-8.65	-
9-month period(2018/9)	5.52	5.51

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
9-month period(2019/9)	5,137	1,278	24.1
FY2018	5,330	1,359	24.8

(Reference) Equity

As of September 30, 2019: 1,236 million yen

As of December 31, 2018: 1,319 million yen

(Note) “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) has been applied from the start of the first quarter of fiscal 2019, the year ending December 31, 2019. “Total assets” and “Equity ratio” for the previous consolidated fiscal year are presented following retroactive application of this accounting standard.

2. Cash dividends

Record Date	Dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	%
FY2018	-	0.00	-	0.00	0.00
FY2019	-	0.00			
FY2019 (forecast)			-	5.00	5.00

(Note) Revisions to recent dividend forecast: None

3. Forecast of consolidated results for FY2019 (January 1, 2019 through December 31, 2019)

(% 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
FY2019	13,200	3.1	200	-31.2	210	-32.4	140	-38.0	16.16

(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 restatements
 (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) Restatements:None

(4) Number of outstanding shares (common shares)

- (i) Number of outstanding shares
(including treasury stocks)
 (ii) Number of treasury stocks
 (iii) Average number of outstanding shares
(9-month period)

Third quarter of FY2019	8,874,400 shares	FY2018	8,874,400 shares
Third quarter of FY2019	205,768 shares	FY2018	224,268 shares
Third quarter of FY2019	8,663,546 shares	Third quarter of FY2018	8,635,429 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
(Additional information)	10
Segment Information	11

1. Qualitative Information on Quarterly Results

(1) Results of Operations

Overview of consolidated business performance for the nine months ended September 30, 2019

In the IT industry in which the SIOS Group operates, waves of technological innovation have been sweeping across the market in quick succession, and one new business opportunity after another has been presenting itself. Under the medium-term business plan for FY 2019-2021, the Group has been striving to make its business foundation more solid and has been implementing strategic initiatives, including investing in R&D, in order to become an influential player that will be well positioned to lead the IT industry.

As a result of all these efforts, the Group achieved consolidated business results by segment for the nine months ended September 30, 2019, as follows:

(i) Open System Infrastructure Business Segment

The Group achieved a solid increase in sales of business-continuity solutions, bolstered by the strong sales of LifeKeeper¹, which is one of our core products, and the addition of products offered by ThirdWare Inc., which the Company acquired in December 2018. In addition, sales of Red Hat Enterprise Linux² and other software products sourced from Red Hat Inc.³ maintained their momentum of growth. As a result, net sales in this segment jumped 5.9% year on year to 5,722 million yen.

The segment income was up 2.4% year on year to 53 million yen, thanks primarily to the strong sales of business-continuity solutions.

(ii) Application Business Segment

The Group achieved a solid increase in revenues from the provision of support for system development and implementation to financial institutions. Our sales of software applications for multifunction printers (MFPs)⁴ as well as revenues from Gluegent series⁵ also achieved steady growth from the previous year. In contrast, sales of management support systems to financial institutions declined year on year, as most of their sales are projected to materialize in the fourth quarter of FY 2019. As a result, net sales in this segment were up 8.7% year on year to 4,413 million yen.

The Group posted a loss of 128 million yen in this segment for this period, compared with an income of 54 million yen the year before. This was partly because of a declined profit from the provision of support for system development and implementation to financial institutions with the profit gained in the third quarter partially offset by a loss from unprofitable projects undertaken in the first six months of the fiscal year, and partly because of weaker sales of high-margin management support systems to financial institutions as well as an increase in R&D spending on the Gluegent series and software applications for MFPs.

After years of R&D work, we released in June 2019 a beta version of SIOS bilink, which serves as a platform that supports a wide range of subscription business models⁶, and released in September an AI-enabled service solution that recognizes confidentiality designations placed on documents, using image-analysis technology originally developed for our software applications for MFPs. We also released Quick Scan V5 in September and Speedoc V4 for RICOH in October, both of which are software applications for MFPs that provide an upgraded user interface, better usability, and greater cost-saving opportunities than their predecessors.

With these two business segments combined, the Group's consolidated net sales for the nine months ended September 30, 2019, were up 7.1% year on year to a record 10,135 million yen.

The Group posted a consolidated operating loss of 74 million yen for the period, compared with an operating profit of 107 million yen for the year before, due to a loss in the Application Business Segment that more than offset an income gained in the Open System Infrastructure Business Segment. The Group posted an ordinary loss of 34 million yen, compared with an ordinary profit of 118 million yen the previous year, and a loss of 74 million yen attributable to owners of parent, compared with a profit of 47 million yen for the year before.

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 nine months ended September 30, 2019:

EBITDA: -7 million yen, compared with +167 million yen the previous year

ROIC (annualized): -3.2%, compared with 4.6% the previous year

1 LifeKeeper

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

2 Red Hat Enterprise Linux

Linux OS developed by the open solution provider Red Hat, Inc.

3 Red Hat, Inc. Related Items

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

4 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.

5 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.

6 Subscription business 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 4,163 million yen as of September 30, 2019, down 5.0% from the end of the previous fiscal year (hereafter “the previous year-end”), reflecting a decrease of 239 million yen in notes and accounts receivable trade and an increase of 199 million yen in cash and deposits.

Non-current assets amounted to 974 million yen, up 2.9% from the previous year-end, reflecting an increase of 74 million yen in software in progress and a decrease of 24 million yen in property, plant and equipment.

As a result, total assets were 5,137 million yen, down 3.6% from the previous year-end.

(ii) Liabilities

Current liabilities amounted to 3,128 million yen as of September 30, 2019, down 0.8% from the previous year-end, reflecting a decrease of 36 million yen in provision for loss on orders received.

Non-current liabilities amounted to 730 million yen, down 10.6% from the previous year-end, reflecting a decrease of 100 million yen in long-term loans payable.

As a result, total liabilities were 3,859 million yen, down 2.8% from the previous year-end.

(iii) Net assets

Total net assets were 1,278 million yen as of September 30, 2019, down 5.9% from the previous year-end, reflecting a loss of 74 million yen for the quarter attributable to owners of parent.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The consolidated business forecasts for the fiscal year ending December 31, 2019, remain unchanged from as announced on February 5, 2019. The operating loss, ordinary loss, and loss attributable to owners of parent posted for the nine months ended September 30, 2019, are projected to be more than offset by a pickup in sales anticipated in the Application Business for the October-December quarter.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	FY 2018 (as of December 31, 2018)	FY 2019 Q3 (as of September 30, 2019)
Assets		
Current assets		
Cash and deposits	2,138,821	2,338,152
Notes and accounts receivable-trade	1,613,603	1,373,647
Work in progress	132,680	45,167
Advance payment	155,332	203,919
Other	343,735	203,249
Allowance for doubtful accounts	-200	△200
Total current assets	4,383,972	4,163,936
Fixed assets		
Tangible fixed assets		
Buildings (net)	135,774	116,844
Other (net)	85,605	79,646
Total tangible fixed assets	221,380	196,491
Intangible fixed assets		
Goodwill	1,644	1,000
Software	35,791	40,370
Software in progress	49,931	124,668
Other	2,363	2,027
Total intangible fixed assets	89,730	168,067
Investment and other assets		
Investment securities	309,148	308,960
Net defined retirement assets	39,574	42,543
Guarantee deposits	216,956	207,656
Other	74,887	55,400
Allowance for doubtful accounts	-5,071	△5,071
Total investment and other assets	635,495	609,489
Total fixed assets	946,606	974,048
Total assets	5,330,579	5,137,984

(In thousands of yen)

	December 31, 2018	September 30, 2019
Liabilities		
Current liabilities		
Accounts payable-trade	576,123	681,330
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	133,116	133,116
Lease obligations	6,710	7,429
Income taxes payable	44,951	28,515
Advances received	1,730,552	1,864,747
Provision for bonuses	39,141	28,620
Provision for loss on order received	36,864	-
Other	537,125	335,214
Total current liabilities	3,154,585	3,128,973
Non-current liabilities		
Long-term loans payable	545,923	445,253
Net defined benefit liability	214,916	220,835
Lease obligations	15,448	12,914
Long-term deposits received	11,632	11,632
Other	28,467	39,615
Total non-current liabilities	816,388	730,251
Total liabilities	3,970,973	3,859,225
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	472,257	-
Retained earnings	-429,287	△29,788
Treasury shares	-95,038	△87,198
Total shareholders' equity	1,429,451	1,364,532
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	90,497	88,012
Foreign currency translation adjustment	-200,465	△216,164
Total accumulated other comprehensive income	-109,967	△128,151
Subscription rights to shares	40,121	42,378
Total net assets	1,359,605	1,278,759
Total liabilities and net assets	5,330,579	5,137,984

(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, 2018	Nine months ended September 30, 2019
Net sales	9,462,803	10,135,952
Cost of sales	6,445,222	7,028,416
Gross profit	3,017,580	3,107,535
Selling, general and administrative expenses	2,910,535	3,181,770
Operating profit (loss)	107,045	△74,234
Non-operating income		
Interest income	9,167	9,606
Foreign exchange gains	-	25,135
Reversal of allowance for doubtful accounts	4,748	-
Share of profit of entities accounted for using equity method	4,830	1,778
Fiduciary obligation fee	1,800	2,050
Other	7,028	10,969
Total non-operating income	27,574	49,539
Non-operating expenses		
Interest expenses	3,223	2,928
Loss on investments in partnership	4,733	12
Loss on valuation of derivatives	2,731	6,082
Foreign exchange losses	5,204	-
Other	2	435
Total non-operating expenses	15,896	9,459
Ordinary profit (loss)	118,723	△34,154
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	-	50,999
Gain on liquidation of subsidiaries	8,350	-
Gain on reversal of share acquisition rights	-	450
Other	896	-
Total extraordinary income	9,246	51,450
Extraordinary losses		
Loss on retirement of non-current assets	22	-
Loss on valuation of investment securities	13,718	-
Total extraordinary losses	13,740	-
Profit before income taxes	114,229	17,295
Income taxes-current	39,086	61,320
Income taxes-deferred	27,440	30,903
Total income taxes	66,527	92,224
Profit (loss)	47,701	△74,928
Profit (loss) attributable to owners of parent	47,701	△74,928

Quarterly Consolidated Statements of Comprehensive Income
Nine months ended September 30

(Unit: thousand yen)

	Nine months ended September 30, 2018 (From January 1, 2018 through September 30, 2018)	Nine months ended September 30, 2019 (From January 1, 2019 through September 30, 2019)
Profit (loss)	47,701	△74,928
Other comprehensive income		
Valuation difference on available-for-sale securities	254	△2,484
Foreign currency translation adjustment	△6,365	△15,218
Share of other comprehensive income of entities accounted for using equity method	-	△480
Total other comprehensive income	△6,110	△18,183
Quarterly comprehensive income	41,590	△93,111
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	41,590	△93,111

(3) Notes to Quarterly Consolidated Financial Statements

Notes to Going Concern Assumption

Not applicable

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

By resolution of 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.

(Additional information)

The Company adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, dated February 16, 2018) at the beginning of Q1 2019 and reclassified deferred tax assets into investment and other assets and deferred tax liabilities into non-current liabilities.

Segment Information

【Segment Information】

I. For the nine months ended September 30, 2018 (From January 1, 2018 through September 30, 2018)

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	5,402,043	4,060,609	9,462,653	150	9,462,803
Inter-segment sales and transfers	10,663	3,290	13,954	△13,954	—
Total	5,412,706	4,063,900	9,476,607	△13,804	9,462,803
Segment profit (loss)	52,695	54,199	106,895	150	107,045

Note: The total amount of segment profit (loss) is equal to operating income recorded 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, 2018 through September 30, 2018)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
8,882,756	439,000	84,198	56,848	9,462,803

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, 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	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.

For the 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