

# **Financial Results for Fiscal Year Ended December 31, 2019**

February 5, 2020

SIOS Corporation

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

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**Summary of Business Results  
for the Fiscal Year Ended  
December 31, 2019 (FY 2019)**

# Consolidated Financial Results for FY 2019



(In millions of yen)

	FY 2018 Results	FY 2019 Results	Change	% Change
Net sales	12,799	<b>13,686</b>	+ 887	+ 6.9%
Gross profit	4,210	<b>4,345</b>	+ 135	+ 3.2%
Operating profit	290	<b>54</b>	△ 235	△ 81.1%
Ordinary profit	310	<b>96</b>	△ 214	△ 69.0%
Profit (loss) attributable to owners of parent	225	<b>32</b>	△ 193	△ 85.7%
EBITDA	375	<b>145</b>	△ 230	△ 61.4%
ROIC	8.7%	<b>1.7%</b>	—	—

\*EBITDA: Operating profit + Depreciation + Amortization of goodwill

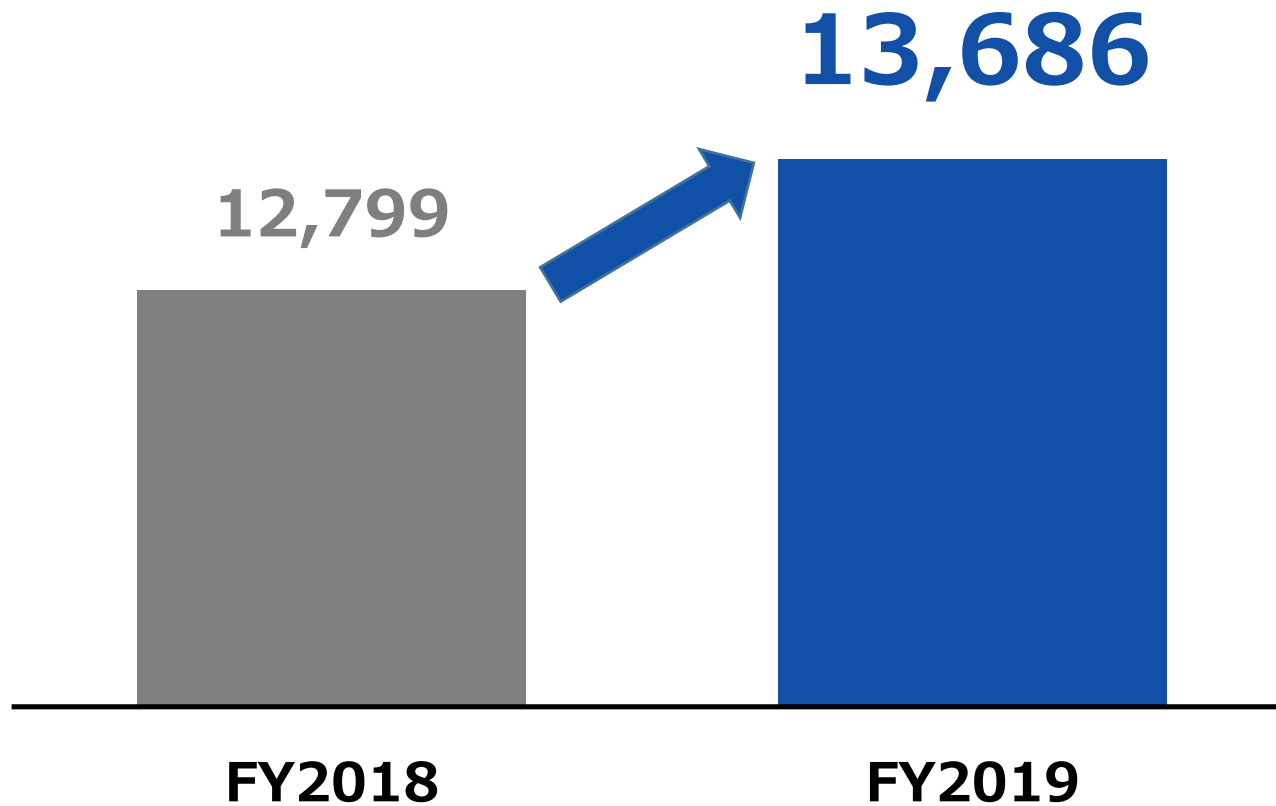
\*ROIC: Operating profit after tax / (Shareholders' equity + Interest-bearing debts)

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# Consolidated Net Sales



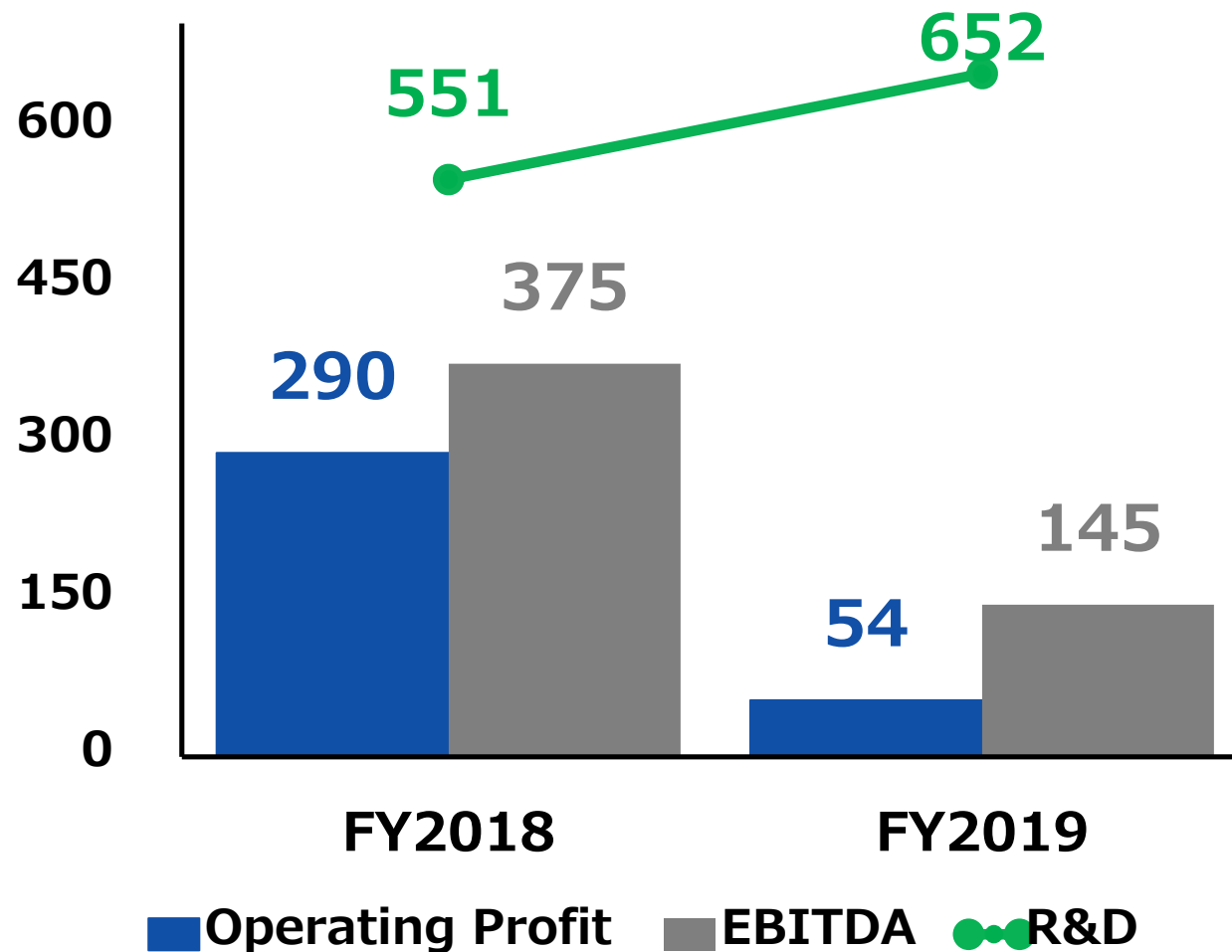
(In millions of yen)



**Record-high net sales achieved in FY 2019**  
(Up 6.9% YoY)

# Consolidated Operating Profit, EBITDA, and R&D Spending

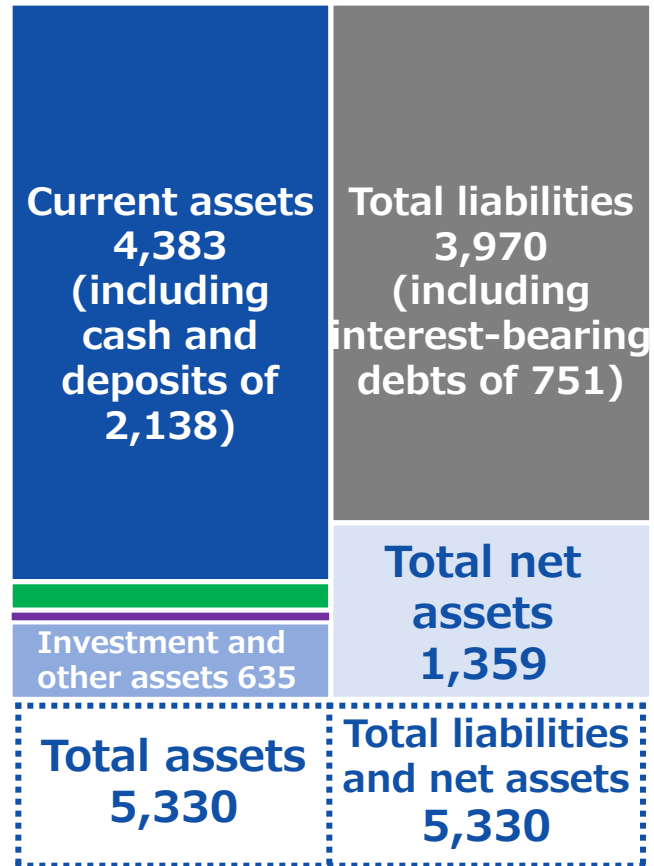
(In millions of yen)



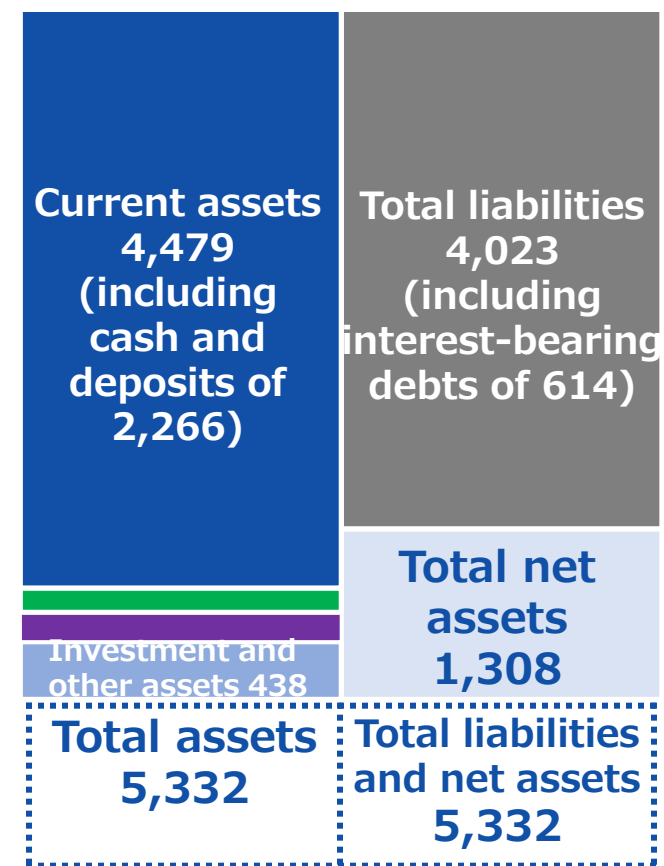
- Operating profit **declined** by ¥235 million from the previous year.
- R&D spending **remained robust**.

# Consolidated Balance Sheets

As of December 31, 2018



As of December 31, 2019 (In millions of yen)

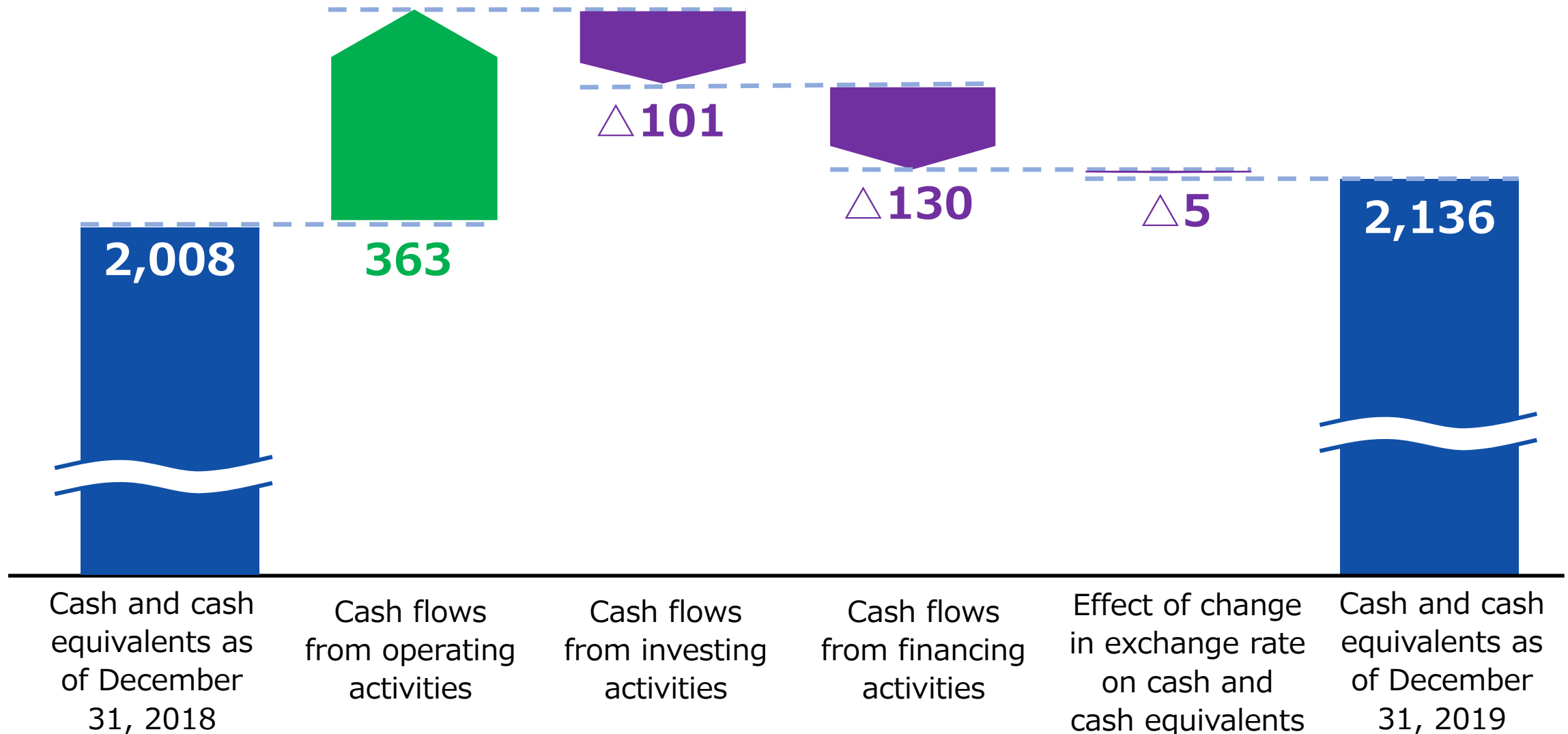


- **Intangible assets: an increase of ¥134 million in software in progress**
- **Net assets: a decrease of ¥94 million in valuation difference on available-for-sale securities**

# Analysis of Consolidated Cash Flows



(In millions of yen)





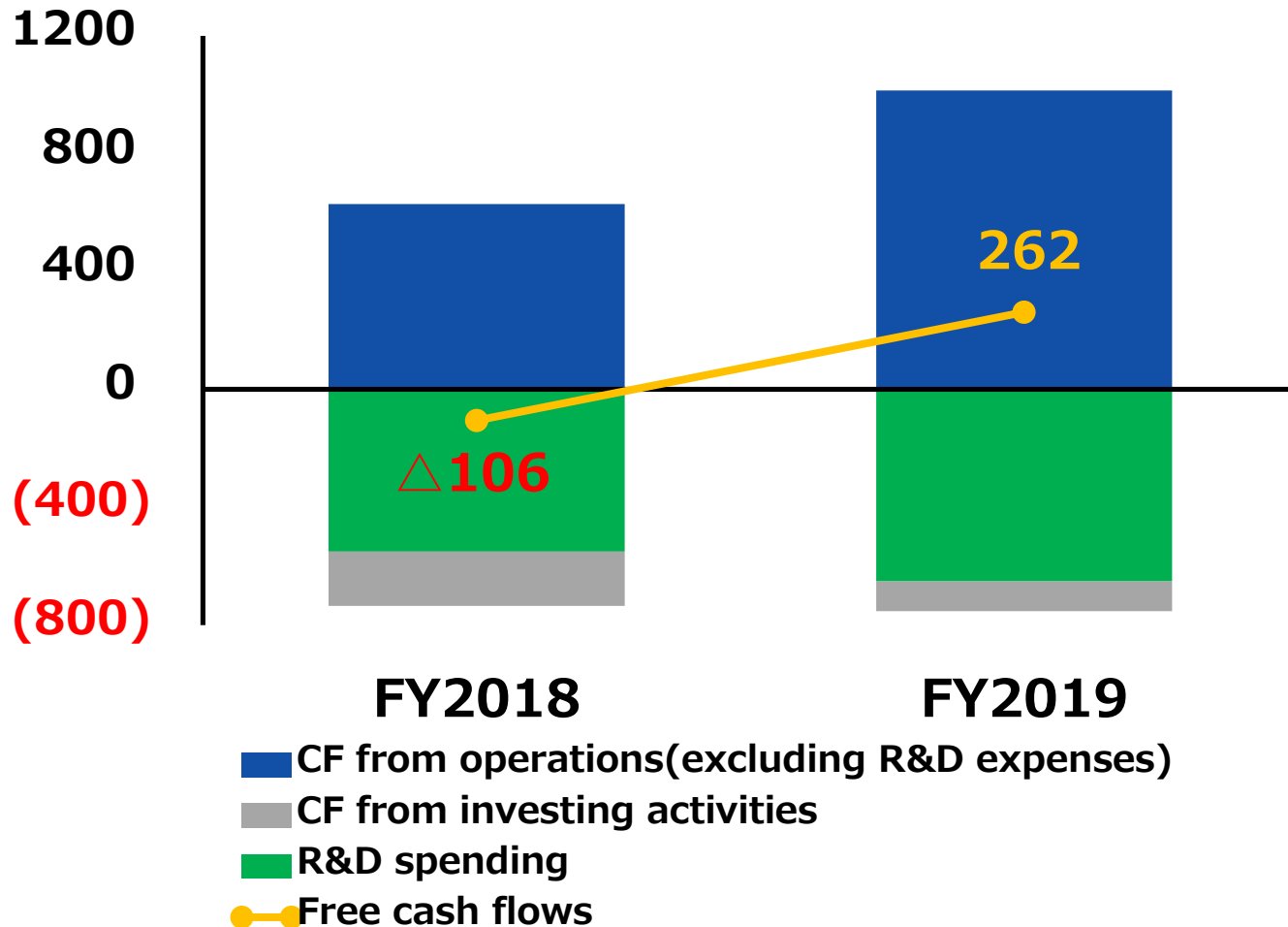
# YoY Changes in Cash Flows

(Millions of yen)

		Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
<b>Amount of YoY changes</b>		Increase of ¥363	Decrease of ¥101	Decrease of ¥130
<b>Breakdown</b>	<b>Increases</b>	<ul style="list-style-type: none"> <li>•¥135 resulting from profit before income taxes</li> <li>•¥280 resulting from an increase in notes and accounts payable trade</li> <li>•¥117 resulting from an increase in advances received</li> </ul>		
	<b>Decreases</b>	<ul style="list-style-type: none"> <li>•¥142 resulting from an increase in notes and accounts receivable trade</li> <li>•¥109 resulting from a decrease in accrued consumption taxes</li> </ul>	<ul style="list-style-type: none"> <li>•¥159 resulting from purchase of intangible assets</li> </ul>	<ul style="list-style-type: none"> <li>•¥133 resulting from repayments of long-term loans payable</li> </ul>

# Cash Flows and Investments

(In millions of yen)



R&D projects and investments funded by an **increasing** level of cash flows

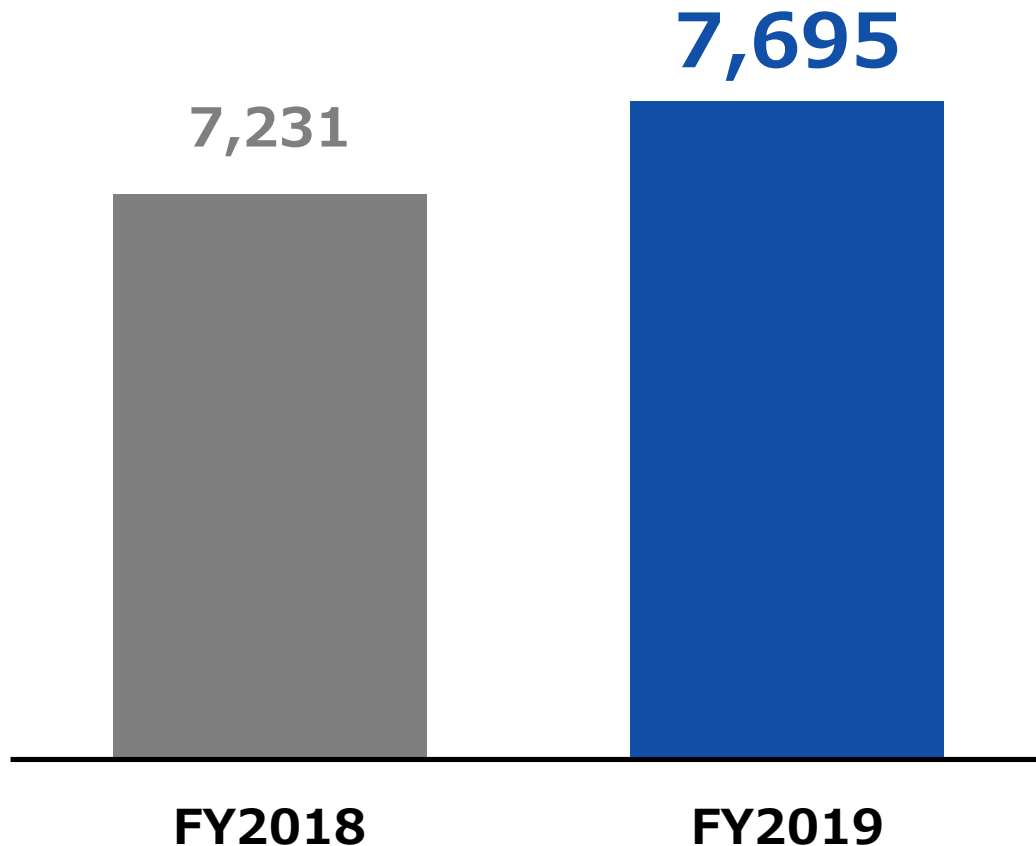
# Open System Infrastructure Business



**Net sales**

**7,695 million yen, up 6.4% YoY**

(In millions of yen)



- Sales of business-continuity solutions showed **a solid increase**, fueled by strong demand for our core LifeKeeper\* in Japan.
- Sales of software products sourced from Red Hat, Inc.\* **increased from the previous year.**

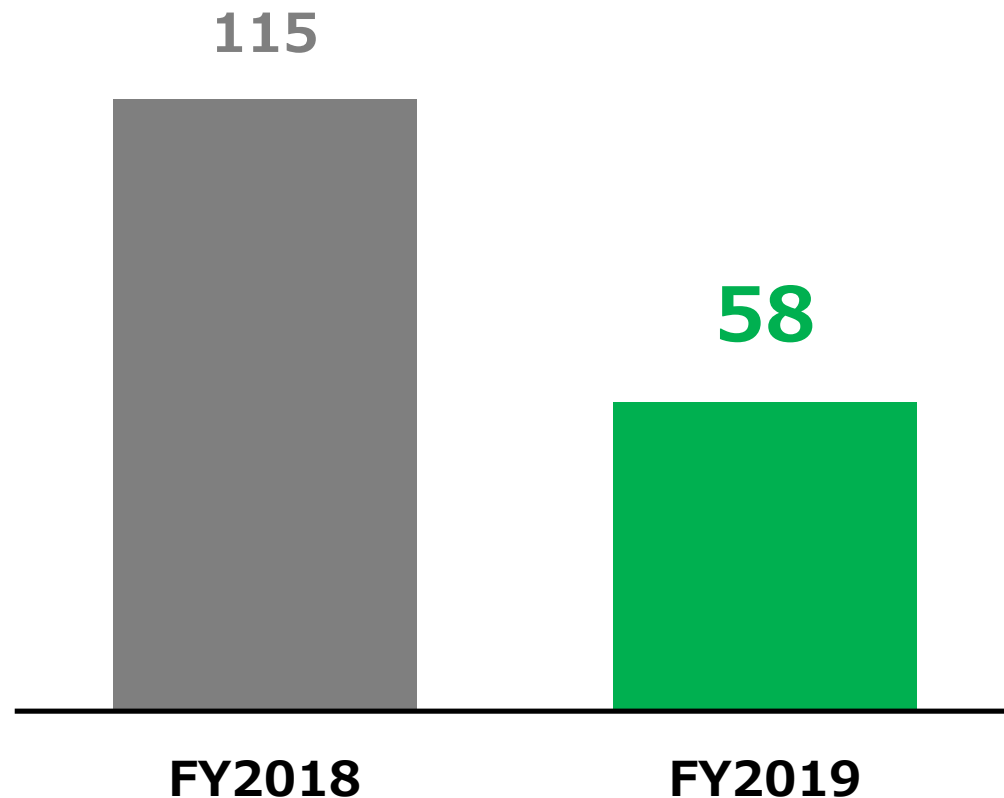
# Open System Infrastructure Business



## Segment income

**58 million yen, down 49.0% YoY**

(In millions of yen)



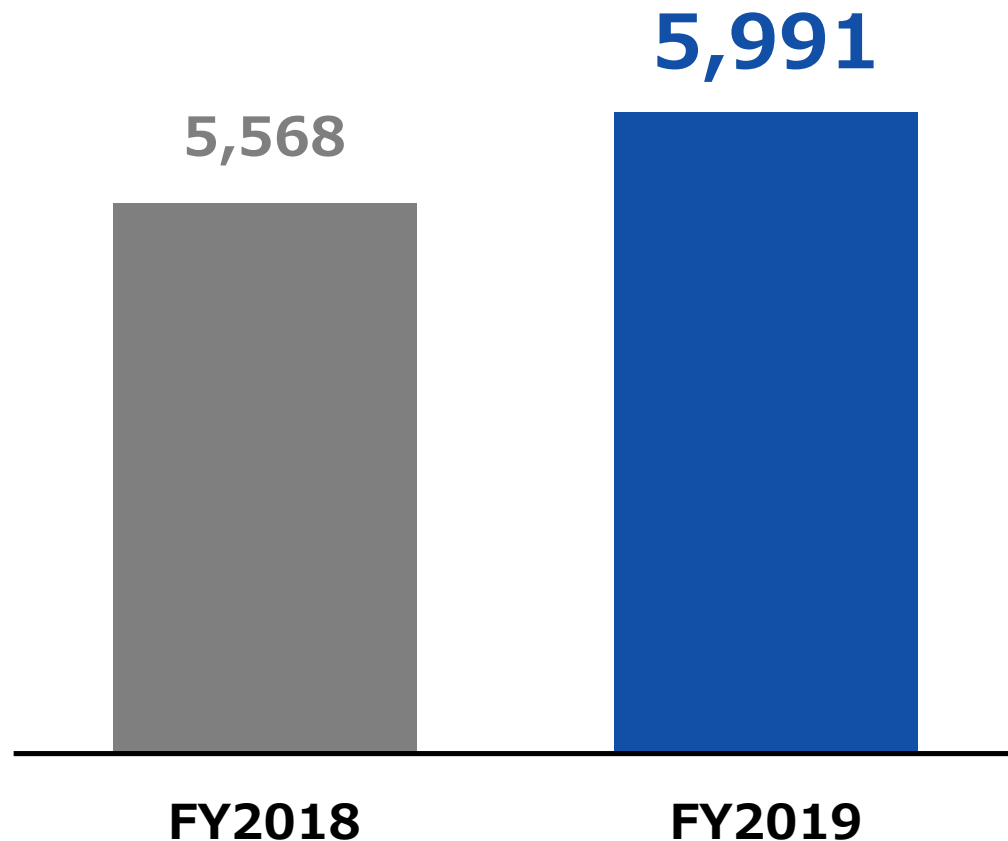
- Segment income **declined** YoY due to increases in labor cost at a U.S. subsidiary as well as in development cost to upgrade LifeKeeper.

# Application Business

**Net sales**

**5,991 million yen, up 7.6% YoY**

(In millions of yen)

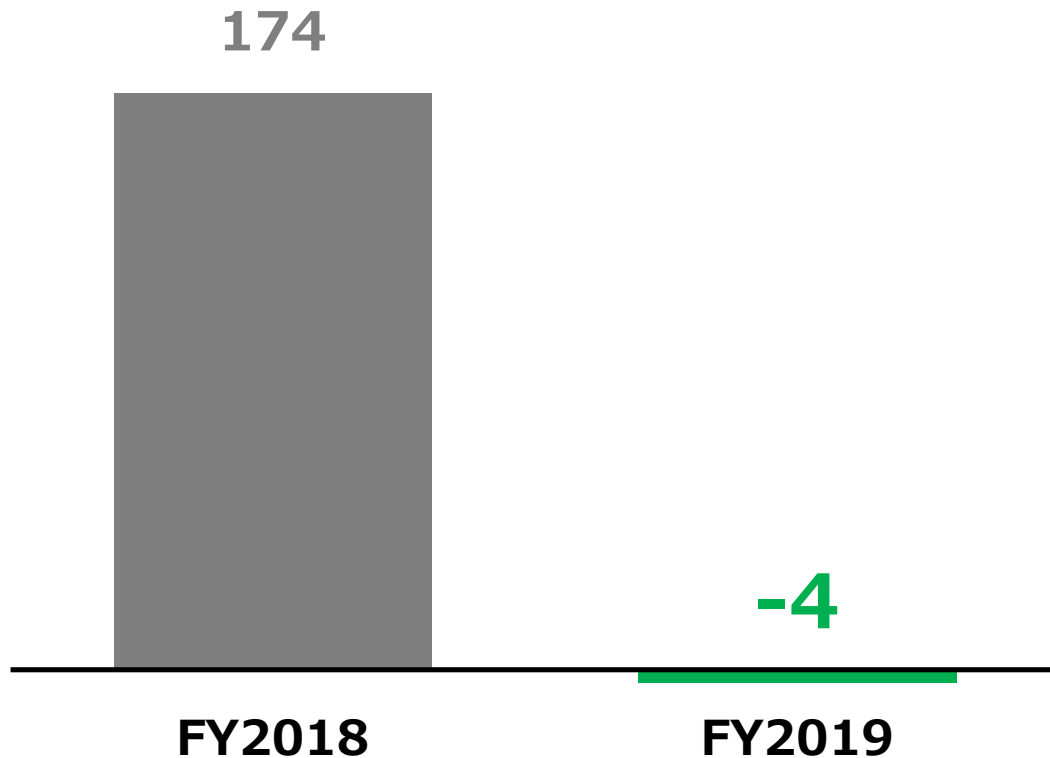


- Revenues from the provision of support for system development and implementation to financial institutions **achieved steady growth.**
- Revenues from the Gluegent series\* **maintained momentum of growth.**
- Sales of our core software applications for MFPs\* **declined**, affected by a new subscription business\* launched in the fourth quarter.

# Application Business

## Segment income

(In millions of yen)



**Loss of 4 million yen**, compared with an income of 174 million yen the year before

- Segment income **declined** YoY partly because the loss from unprofitable projects undertaken in the first half of the year to provide support for system development and implementation to financial institutions was not fully offset in the second half,
- and partly because sales of the following high-margin products developed in-house were weak.
  - Software applications for MFPs
  - Management support system for financial institutions



# Review of FY 2019

# Business Challenge ①: Software Applications for MFPs

## Challenge

A larger-than-expected number of corporate customers switched from a perpetual licensing model for our high-margin software applications for MFPs to a subscription model launched in the fourth quarter of FY 2019, and the recognition of some of the subscription revenues was deferred to FY 2020, bringing the FY 2019 revenues from these applications down.

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## Action

It is inevitable that revenue or profit of a software product declines temporarily while we make a transition from a perpetual licensing model to a subscription model. We intend to bolster sales to new and existing customers by offering products and services that meet their needs and releasing regular functional updates.



# Business Challenge ②: Business with Financial Institutions

## (1) Provision of support for system development and implementation

### Challenge

Profit in this business declined due to unprofitable projects undertaken and delayed in the first half of FY 2019. We conducted more stringent preliminary assessments to screen out unprofitable projects.

### Action

Continue to perform a stringent assessment of a proposed project before closing a deal

## (2) Sale of management support system

### Challenge

The recognition of revenues from orders received in the fourth quarter of FY 2019 was deferred to FY 2020, which made it impossible to make up in the second half of the year for the shortfall in sales and profit posted in the first half.

### Action

Offer clients subscription options as part of our efforts to change the nature of this business fundamentally



# **Medium-Term Business Plan for FY 2020-2022 and Business Forecasts for FY 2020**

# Primary Objective and Management Metrics Established in Medium-Term Business Plan for FY 2020-2022



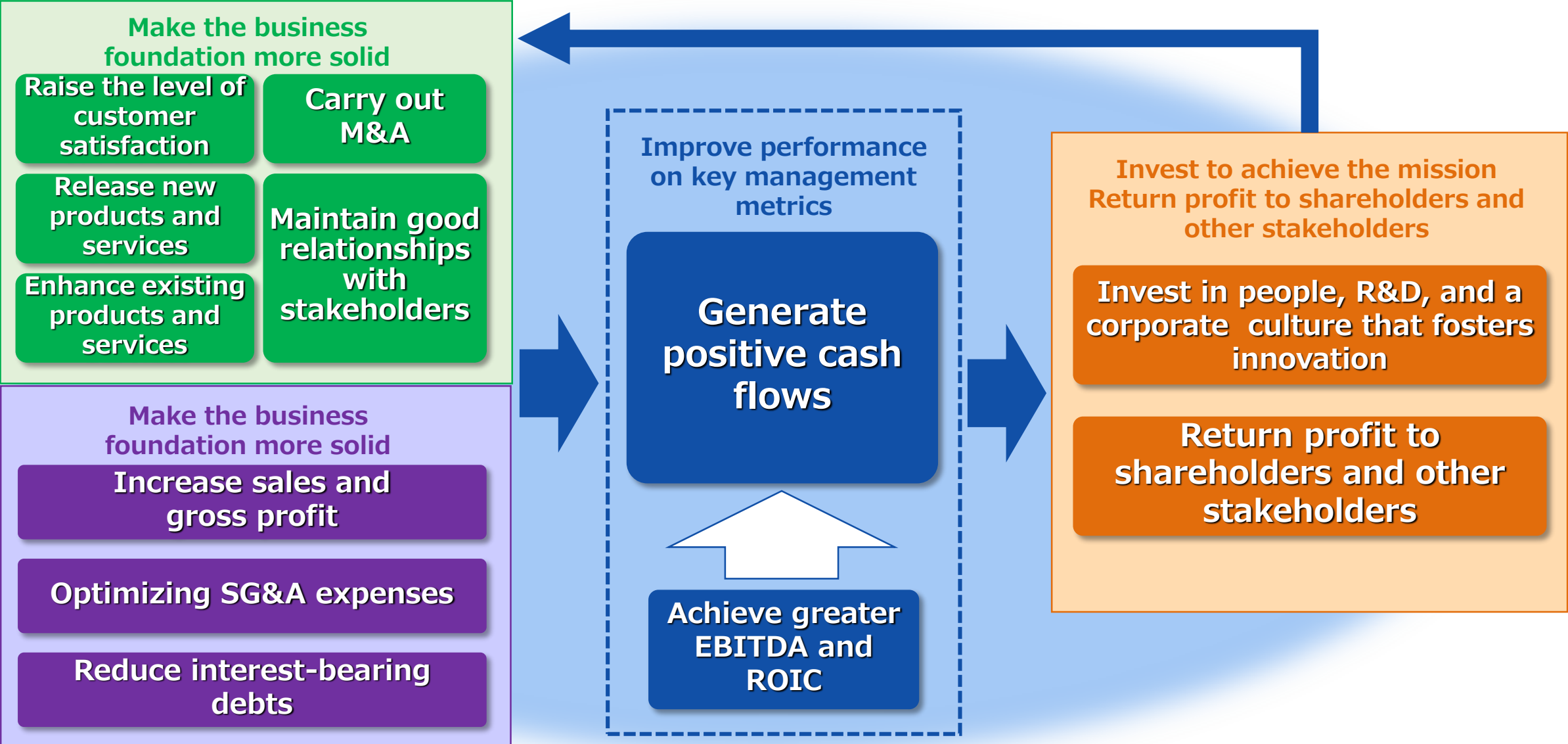
## Primary Management Objective

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



# Review of FY 2019 ①

**Release new products and services**

Released SIOS bilink, a platform that supports companies operating under subscription business models

**Enhance existing products and services**

Released an AI-enabled service solution for MFPs that recognizes confidentiality designations on documents for greater information security

**Reduce interest-bearing debts**

**Repaid ¥130 million of loans payable**

# Review of FY 2019 ②

**Invest in people, R&D,  
and a corporate culture  
that fosters innovation**

- Rolled out a new container\* platform business to meet the growing needs among corporate clients to pursue digital transformation (DX)\*
- Introduced new talent management programs, such as OKR\* and 1 on 1\*

**Return profit to  
shareholders and other  
stakeholders**

- Resumed dividend payment of ¥5.0 per share for the first time in five years

# Medium-Term Business Plan for FY 2020-2022

We will use the transition to a subscription business model to lay the groundwork for sustained growth under the three-year plan and will work toward achieving EBITDA of ¥560 million and ROIC of 14.7% in FY 2022.

(In millions of yen)

	2019	2020	2021	2022
EBITDA	145	180	310	560
ROIC	1.7%	2.7%	7.1%	14.7%

## Background and Benefits of Making a Transition to a Subscription Model

### Background

As companies have been investing aggressively in implementing DX, more and more of them have been switching from perpetual licensing of software to subscription.

- **User benefits of switching to a subscription model**

- ① Lower initial cost
- ② Ease of cancellation
- ③ Ability to continue to use up-to-date products and services

- **Software vendor's benefits of switching to a subscription model**

- ① Ability to create a steady and recurring stream of revenue and profit
- ② Ability to collect information about customers' usage of products and services to continually improve their quality



## Why We are Making a Transition to a Subscription Model

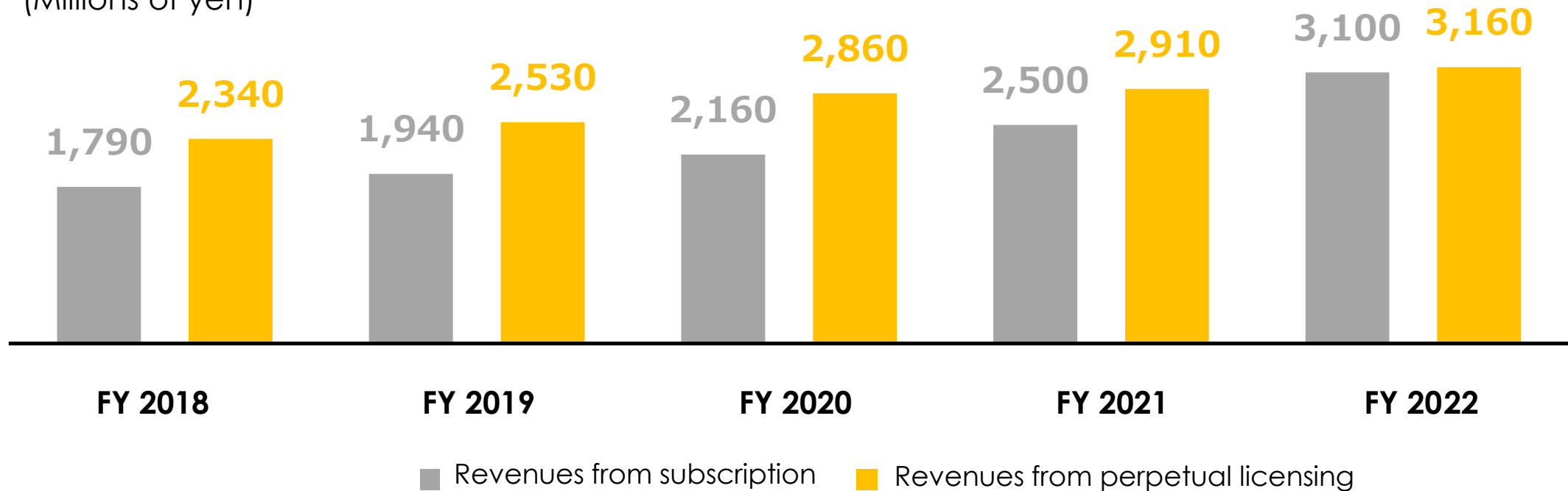
**Offer corporate customers  
subscription options for our products  
and services developed in-house**

We can better assist our corporate customers in their efforts to implement DX by offering them subscription options for our products and services, which is a critical business model for our long-term growth.

# Key Initiative: Transition to a Subscription Business Model ③ SIOS

## Projected Revenues from Subscription Business for Products and Services Developed In-House

(Millions of yen)



- We intend to make a transition to subscription business not only for software applications for MFPs but also for our other software products.
- Revenues from subscription are projected to reach the level of those from perpetual licensing business in FY 2022.

# Consolidated Business Forecasts for FY 2020



We intend to maintain our **momentum of growth for 10 consecutive fiscal years** and achieve net sales of ¥14.3 billion in FY 2020.

	FY 2019 Results	FY 2020 Forecasts	Change	(In millions of yen) % Change
Net sales	13,686	<b>14,300</b>	+613	+4.5%
Operating profit	54	<b>80</b>	+25	+45.6%
Ordinary profit	96	<b>100</b>	+3	+3.9%
Profit (loss) attributable to owners of parent	32	<b>40</b>	+7	+23.6%
EBITDA	145	<b>180</b>	+34	+24.0%
ROIC	1.7%	<b>2.8%</b>	—	—

# Key Strategies for FY 2020 ①

**Raise the level of customer satisfaction**

**Conduct stakeholder surveys to better serve our customers and improve the quality of our products and services**

**Enhance existing products and services**

**Update existing products and add more value to them to better serve customers in their greater use of subscription and cloud**

**Optimizing SG&A expenses**

**Optimize resource allocation within the Group to achieve greater efficiency and better manage subcontractors**

# Key Strategies for FY 2020 ②

**Invest in people, R&D,  
and a corporate culture  
that fosters innovation**

**Implement programs intended to assist every employee in achieving their full professional potential**

- **Ensure employees embrace new talent management programs, such as OKR and 1 on 1**
- **Offer employees more flexible working arrangements**
- **Expand the scope of CSR activities**

**Return profit to  
shareholders and other  
stakeholders**

**Continue dividend payment of  
¥5.0 per share**

# Cash Dividends for FY 2019 and 2020

	<b>23rd term</b> Fiscal year ended December 31, 2019	<b>24th term</b> Fiscal year ending December 31, 2020 (Projected)
<b>Annual cash dividend per share</b>	<b>¥5.0</b>	<b>¥5.0</b>

Fiscal year ended  
December 31, 2019

**Dividend payment of ¥5.0 per share resumed**

Fiscal year ending  
December 31, 2020  
(Projected)

**Dividend payment of ¥5.0 per share planned**

# 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	432 on a consolidated basis (as of December 31, 2019)	
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	<b>LifeKeeper</b>	A failover software product that automatically switches a failed primary server to a backup server.
11	<b>Software products sourced from Red Hat, Inc.</b>	Open-source software products developed by Red Hat, Inc., a provider of open-source solutions.
13	<b>Gluegent series</b>	"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.
13	<b>Software applications for multifunction printers (MFPs)</b>	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	<b>Subscription model</b>	A business model that charges customers a recurring monthly or annual fee to access a software product or service.
22	<b>Digital transformation (DX)</b>	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.
22	<b>Container</b>	A standard unit of software into which the host OS is divided logically and that packages everything needed to run an application, such as codes and system libraries, to make it work like an independent server.
22	<b>OKR</b>	Objectives and Key Results. A goal management framework for establishing ambitious objectives with measurable results and tracking progress.
22	<b>1 on 1</b>	A one-on-one meeting that a manager conducts with an employee to assist her or him in achieving professional growth and improving their job performance.



# 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 **03-6401-5125**  
**(+81-3-6401-5125 from outside Japan)**

or fill in and send an online inquiry form available at:

[https://mk.sios.com/SIOS\\_Inquiry.html](https://mk.sios.com/SIOS_Inquiry.html)



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