

Financial Results for the 6 Months Ended June 30,2020

August 03,2020

SIOS ,Corp.

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

**Summary of Business Results
for the 6 Months Ended
June 30 ,2020**

Consolidated Financial Results

for the 6 Months Ended June 30,2020



(In millions of yen)

	Results for the 6 months ended June 30,2019	Results for the 6 months ended June30,2020	Change	%Change
Net Sales	6,914	7,276	+ 361	+ 5.2%
Gross profit	2,124	2,178	+ 54	+ 2.5%
Operating income	38	54	+ 16	+ 42.0%
Ordinary income	70	57	-12	-17.9%
Profit attributable to owners of parent	-20	19	+ 39	—
EBITDA	82	101	+ 18	+ 22.3%
ROIC (annualized)	2.4%	3.5%	—	—

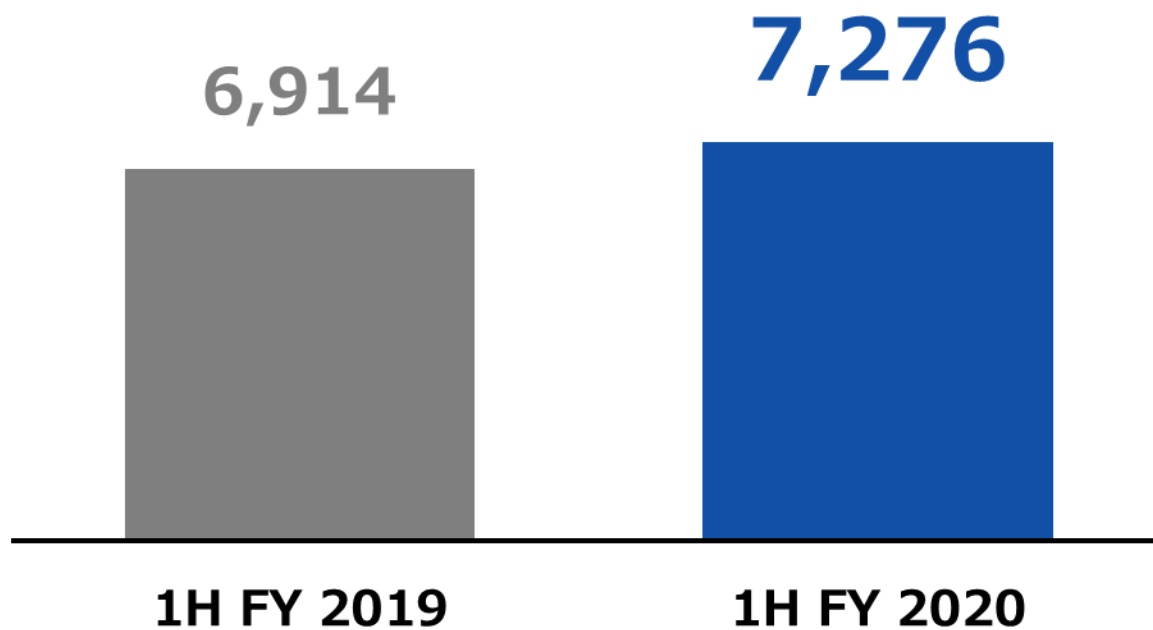
*EBITDA: Operating profit + Depreciation + Amortization of goodwill

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

Consolidated Net Sales



(In millions of yen)

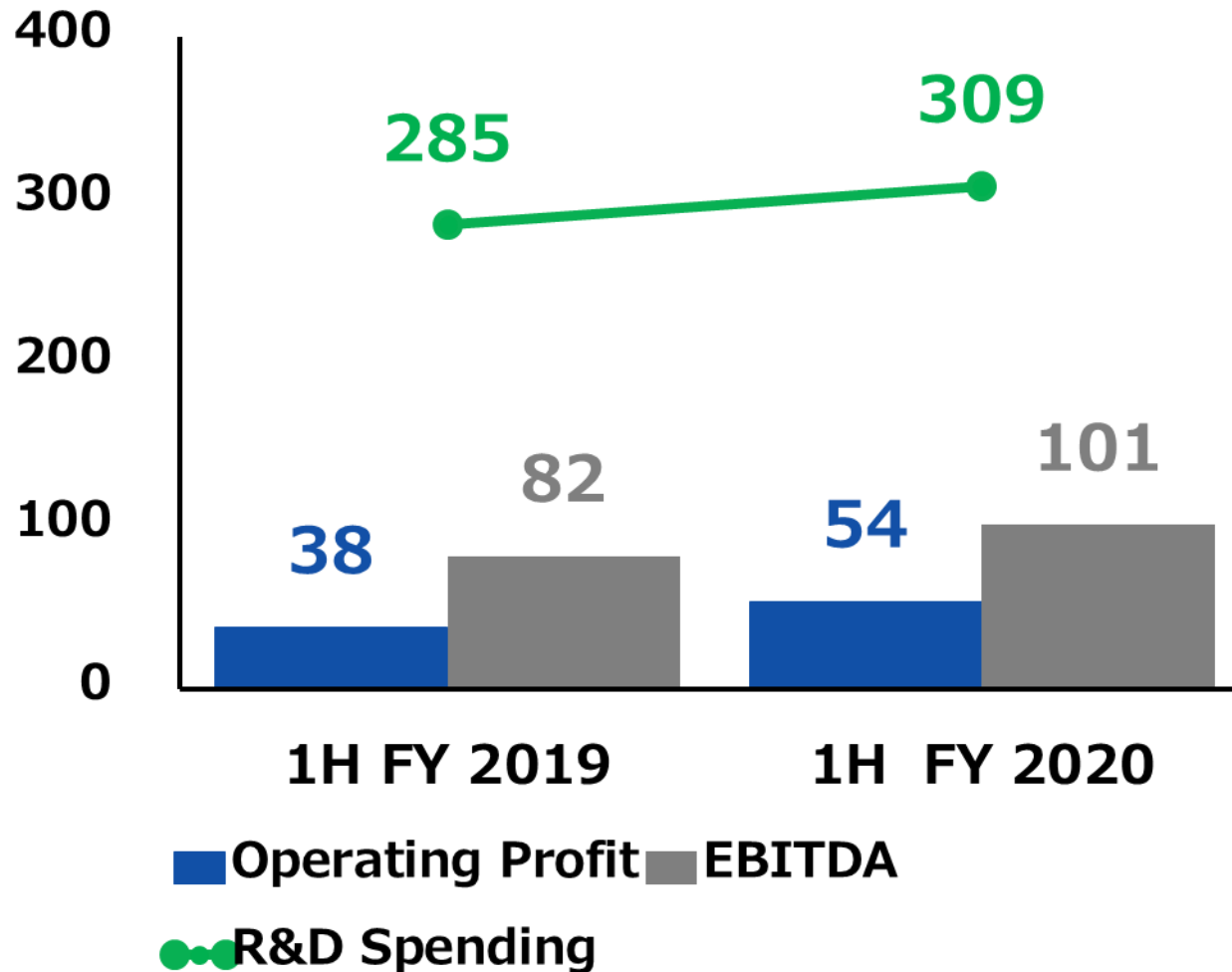


Record-high net sales achieved in FY 2020
(Up 5.2% YoY)

Consolidated Operating Profit, EBITDA, and R&D Spending



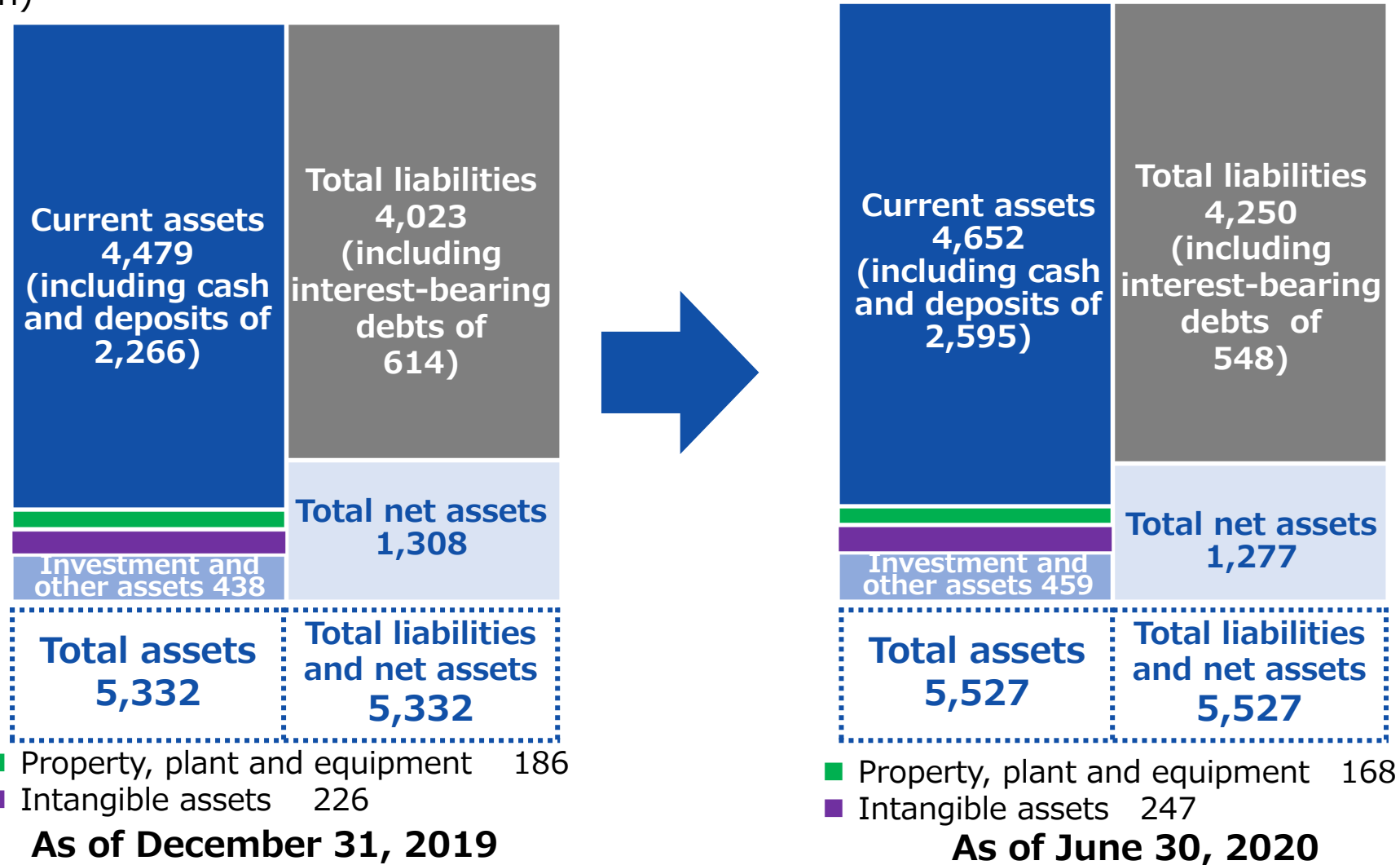
(In millions of yen)



- Operating profit for the first half of FY 2020 **increased** by ¥16 million from the same period the previous fiscal year.
- EBITDA **up** ¥18 million YoY.
- R&D spending **remained robust.**

Consolidated Balance Sheets

(In millions of yen)

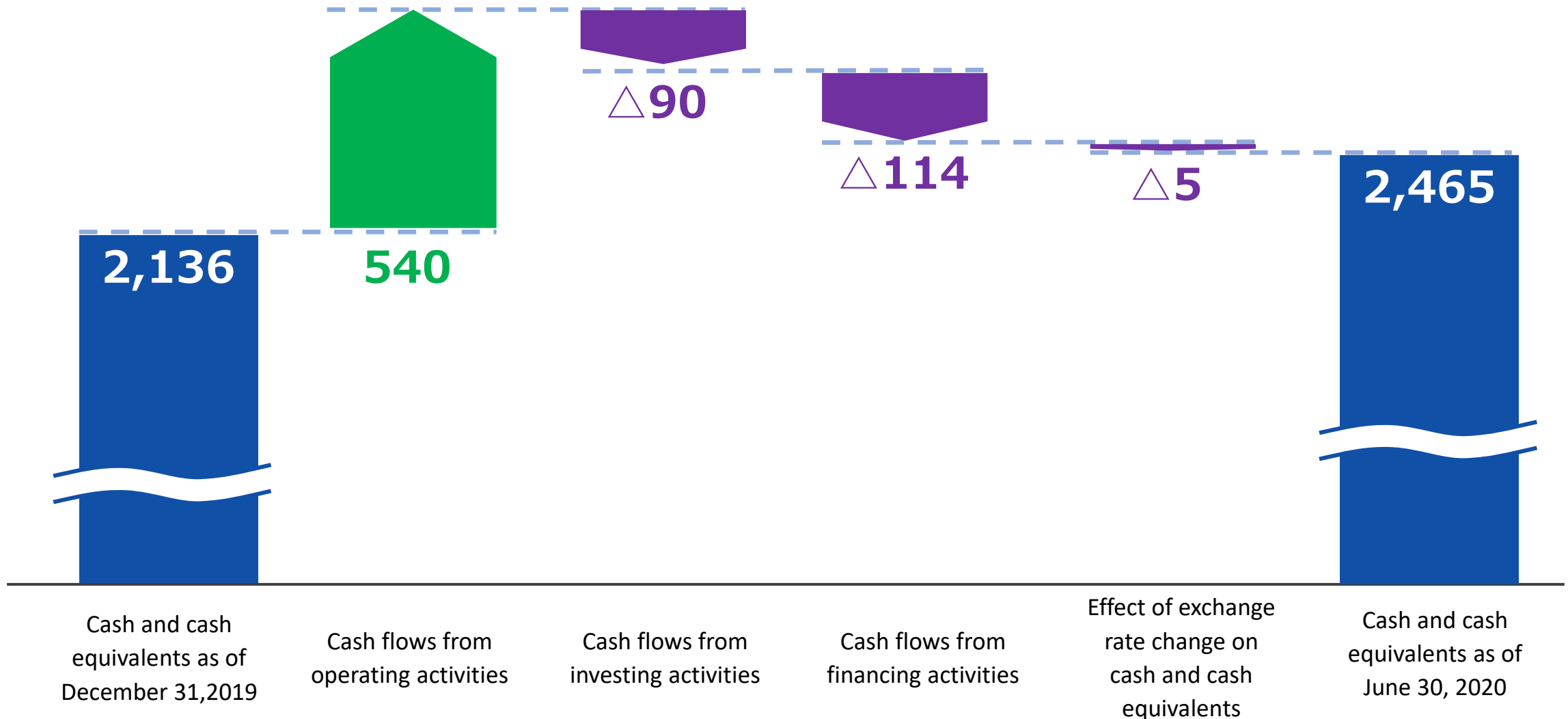


- **Current assets: An increase of ¥329 million in cash and deposits**
- **Current liabilities: An increase of ¥359 million in advances received**

Analysis of Consolidated Cash Flows



(In millions of yen)



Year-on-Year Changes in Cash Flows

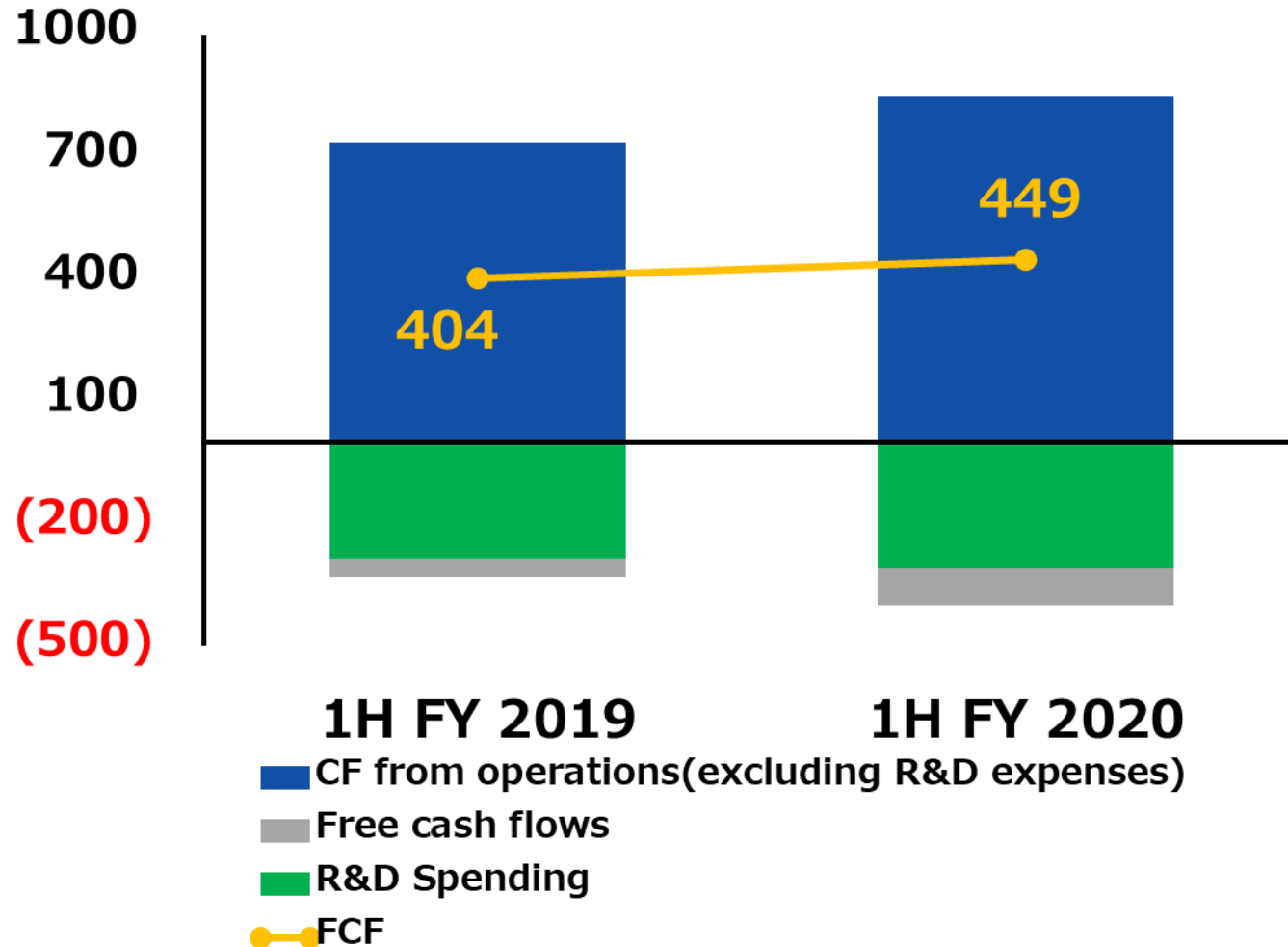


(Millions of yen)

		Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
Amount of YoY changes		Increase of ¥540	Decrease of ¥90	Decrease of ¥114
Breakdown	Increases	<ul style="list-style-type: none"> • ¥57 resulting from profit before income taxes • ¥145 resulting from a decrease in notes and accounts receivable trade • ¥367 resulting from an increase in advances received • ¥91 resulting from an increase in accrued consumption taxes 		
	Decreases	<ul style="list-style-type: none"> • ¥83 resulting from a decrease in notes and accounts payable trade 	<ul style="list-style-type: none"> • ¥44 resulting from purchase of intangible assets • ¥25 resulting from purchase of investment securities • ¥21 resulting from payments of loans receivable to subsidiaries and associates 	<ul style="list-style-type: none"> • ¥67 resulting from repayments of long-term loans payable • ¥42 resulting from cash dividends paid

Cash Flows and Investments

(In millions of yen)



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

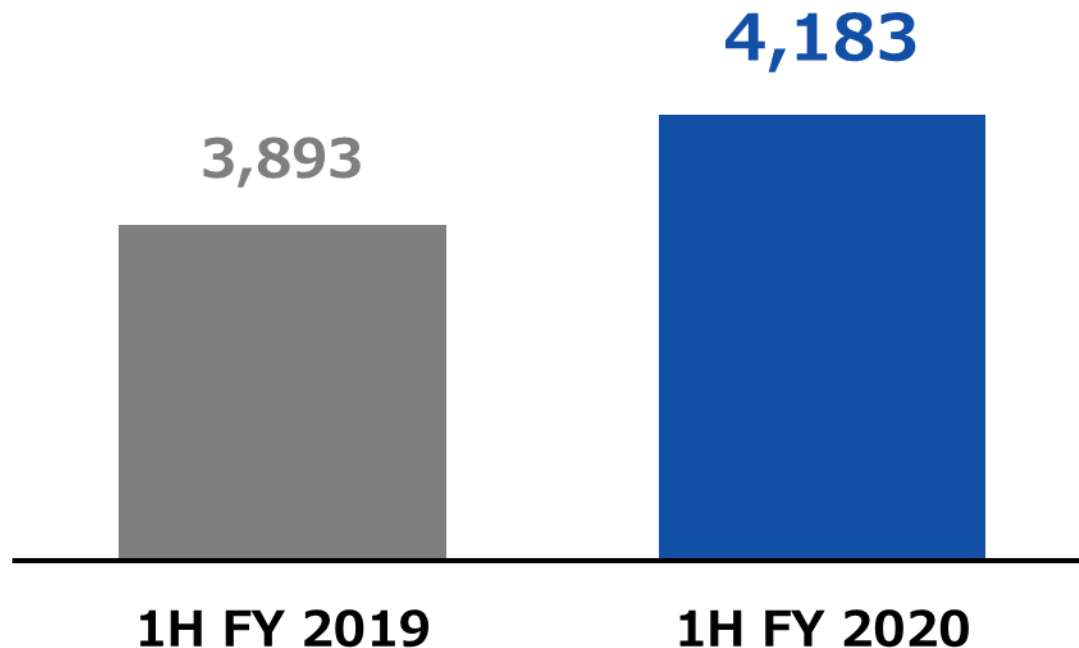
Open System Infrastructure Business



Net sales

4,183 million yen, up 7.5% YoY

(In millions of yen)



- Sales of business-continuity solutions **achieved a solid YoY increase**, buoyed by strong demand for our core LifeKeeper* in Japan.
- Sales of software products sourced from Red Hat, Inc.* as well as OSS*-related products and support services **maintained momentum of growth**.

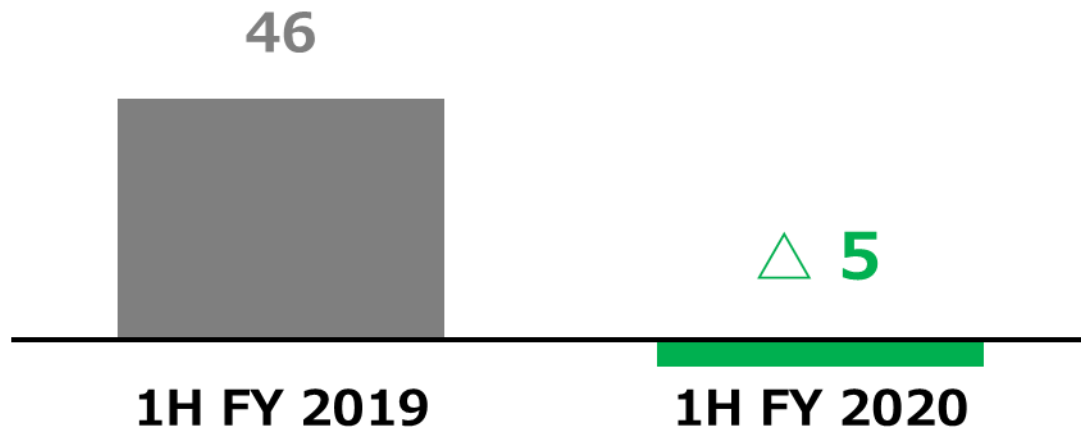
Open System Infrastructure Business



Segment income

Loss of 5 million yen, compared with on income of 46 million yen the year before

(In millions of yen)



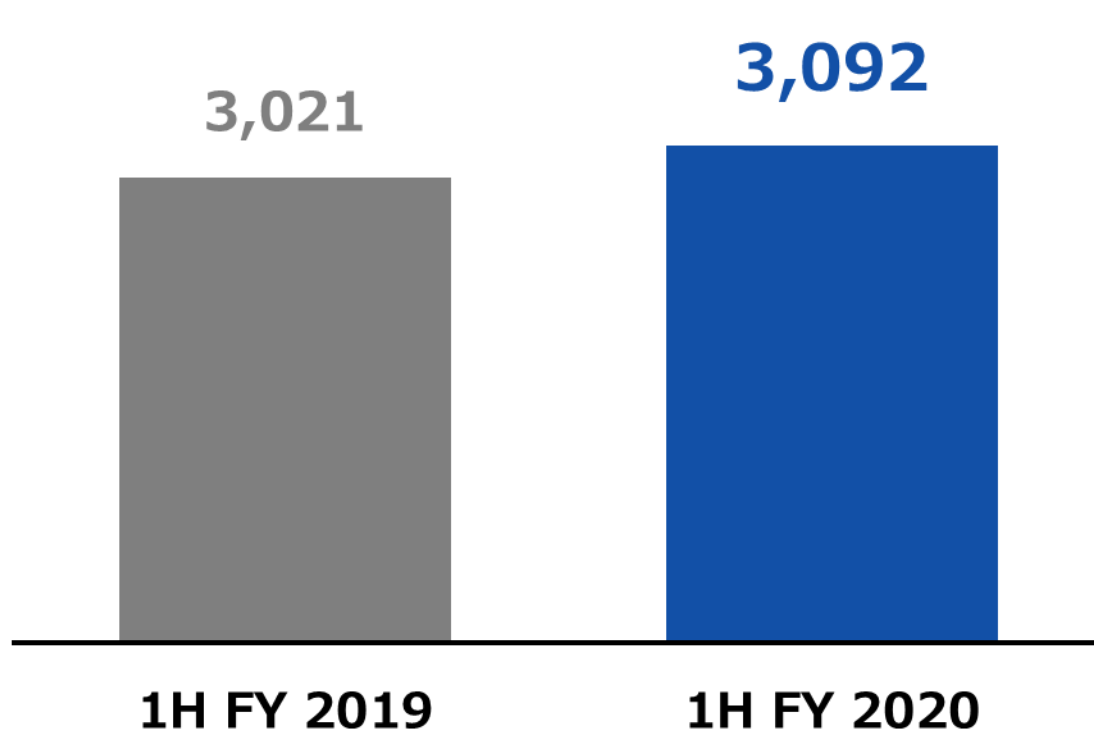
Segment income **declined YoY** due to increases in R&D expenses to upgrade LifeKeeper as well as in expenses associated with establishing new businesses.

Application Business

Net sales

3,092 million yen, up 2.4% YoY

(In millions of yen)



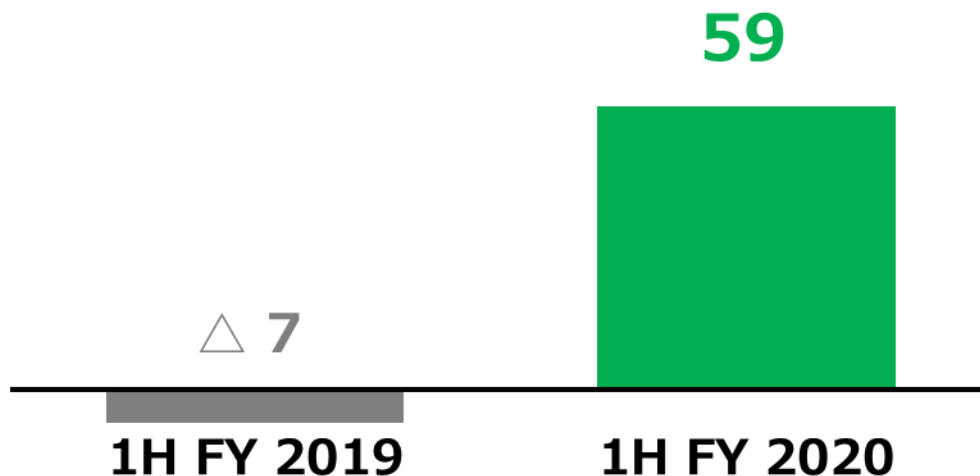
- Revenues from the provision of support for system development and implementation **achieved steady growth**, primarily to educational institutions.
- Sales of our core software applications for MFPs* **declined**, affected by a shift to a subscription* model among corporate users.

Application Business

Segment income

(In millions of yen)

59 million yen, compared with on loss of 7 million yen the year before



- Income from the sales of management support systems to financial institutions as well as the provision of support for system development and implementation to educational institutions **increased YoY**.
- Income from the provision of support for system development and implementation to financial institutions **increased YoY** due in part to a higher gross profit margin resulting primarily from reduced subcontract expenses and in part to the absence of unprofitable projects that had affected negatively the profitability of this segment the previous fiscal year.

Major Achievements in the First Six Months of FY 2020

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.

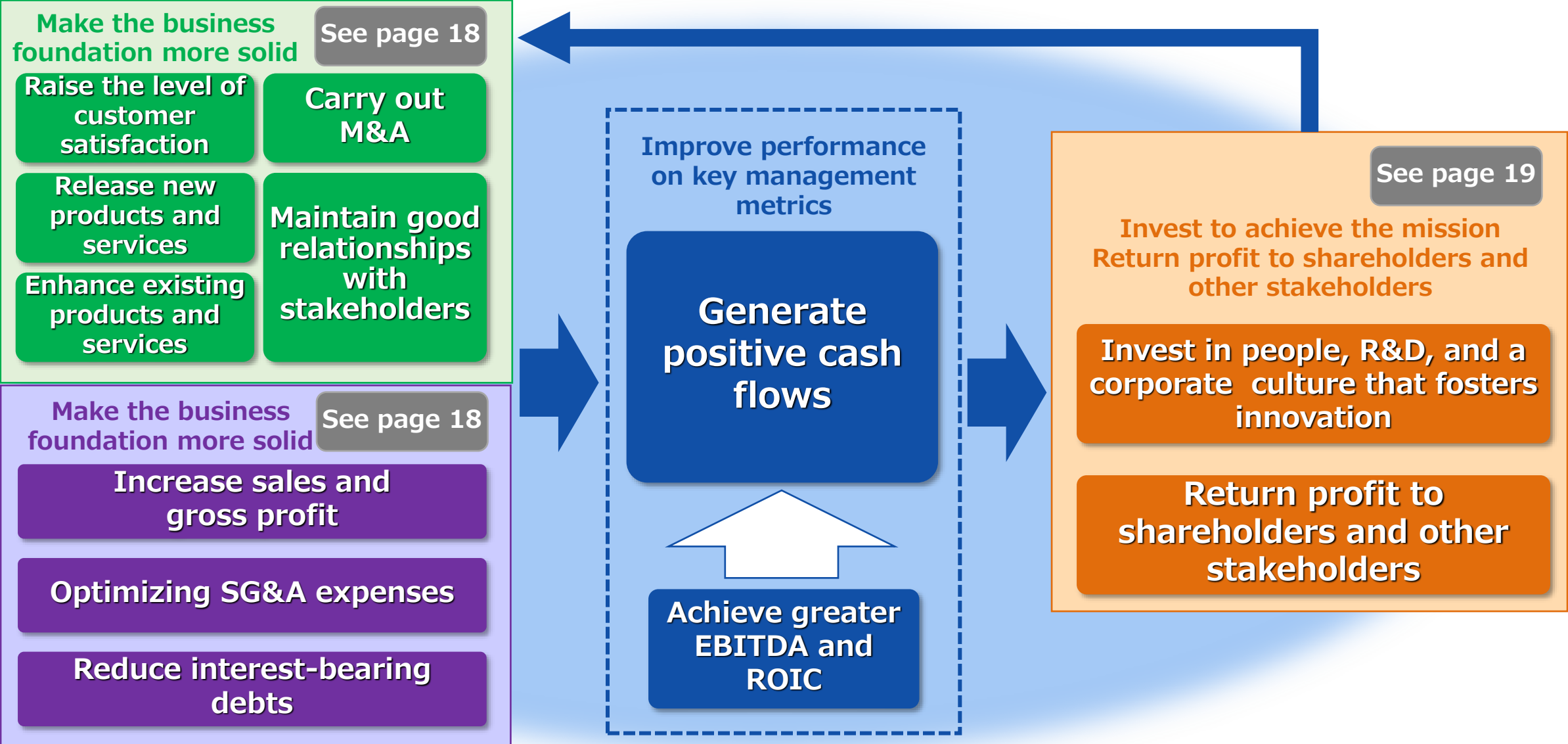
Merger of Three Consolidated Subsidiaries

- On July 6, 2020, we announced an absorption-type merger, under which Keyport Solutions, Inc. and Gluegent, Inc. will be resolved and merged into SIOS Technology, Inc.
- Scheduled date of merger: October 1, 2020

Reason for merger

To consolidate human, intellectual property, and financial assets of these three key subsidiaries in Japan to achieve greater operational efficiency and productivity in a socioeconomic landscape significantly affected by the COVID-19 crisis

Basis for Achieving the SIOS Group Mission



Review of 1H FY 2020①

Release new products and services

Started offering in Japan licensed sales of and implementation and operation support for DataStax Enterprise, a distributed cloud database developed by U.S.-based DataStax.

Enhance existing products and services

Released Gluegent Flow Plus, a cloud-based workflow solution.

Reduce interest-bearing debts

Repaid ¥67 million of loans payable.

Review of 1H FY 2020②



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

**Offered ¥30,000 to every SIOS Group
employee with no strings attached to
assist them in switching to
teleworking amid the COVID-19
crisis.**

**Return profit to
shareholders and
other stakeholders**

**Plan to pay a cash dividend of ¥5.00
per share at fiscal year-end.**

Impact of the COVID-19 Crisis on Our Business and Actions We Have Taken

Impact of the COVID-19 Crisis on Our Business

Positive impact

Accelerated adoption of digital solutions in corporate environments

Negative impact

- Declining motivation to make new investments among corporations
- Suspension or postponement of large projects by corporations

We will step up our efforts to assist corporate clients in moving forward with digital transformation*.

Business

- Bolstered sales of Easy Fax, our paperless fax solution.
- Released the cloud-based workflow solution Gluegent Flow Plus, which enables remote approval of a business document from a PC or smartphone, eliminating the need to physically sign off on one.
- Allocated additional software engineers to a newly contracted project in the container platform business.

Employees

On July 1, 2020, we asked all SIOS Group employees working out of offices in Japan to switch to teleworking and other flexible working arrangements to accommodate their diverse lifestyles and ensure the Group's business continuity.

Business Forecasts for Fiscal Year Ending December 31, 2020

Consolidated Business Forecast for Fiscal Year Ending December 31,



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

(In millions of yen)	Results for the 6 months ended June 30, 2020	Forecast for fiscal year ending December 31, 2020	Percentage of achievement
Net sales	7,276	14,300	50.9%
Operating income	54	80	68.0%
Ordinary income	57	100	57.9%
Profit attributable to owners of parent	19	40	49.5%
EBITDA	101	180	56.1%
ROIC (annualized)	3.5%	2.8%	—

Cash Dividends for FY 2020

	23rd term Fiscal year ended December 31, 2019	24th term Fiscal year ending December 31, 2020 (Forecast)
Annual cash dividend per share	¥5	¥5

**Fiscal year ending
December 31, 2020
(Forecast)**

Plan to pay a cash dividend of ¥5 per share at fiscal year-end.

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
10	LifeKeeper	A failover software product that automatically switches a failed primary server to a backup server.
10	Software products sourced from Red Hat, Inc.	Open-source software products developed by Red Hat, Inc., a provider of open-source solutions.
10	OSS	Abbreviation for open source software, 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 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	Subscription business model	A business model that charges customers a recurring monthly or annual fee to access a software product or service.
21	Digital transformation (DX)	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.

Cautionary Statement



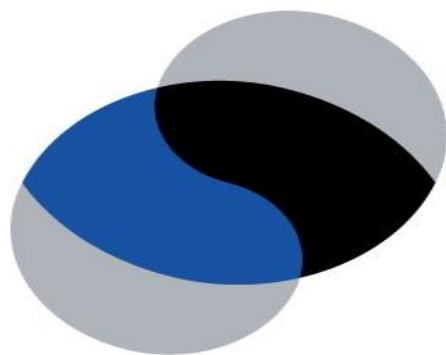
Forward-looking statements about the Company's business outlook contained in this document reflect management's assumptions and judgments made on the basis of available information, and may include risks and uncertainties. We caution that significant risks and uncertainties could cause actual performance 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



SIOS