

# Financial Results for the 6 Months Ended June 30, 2022

July 28, 2022

SIOS ,Corp.

(Stock Code: 3744 on Standard Market of Tokyo Stock Exchange)



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# **1. Summary of Business Results for the Six Months Ended June 30, 2022**

# Consolidated Financial Results for the 6 Months Ended June 30,2022



(In millions of yen)	Results for the 6 months ended June 30,2021	Results for the 6 months ended June 30,2022	Change	%Change
Net Sales	8,079	<b>7,256</b>	-823	-10.2%
Gross profit	2,486	<b>2,298</b>	-188	-7.6%
Operating income	295	<b>-225</b>	-520	—
Ordinary income	316	<b>-207</b>	-524	—
Profit attributable to owners of parent	234	<b>-339</b>	-574	—
EBITDA	334	<b>-157</b>	-492	—
ROIC (annualized)	16.9%	<b>-16.1%</b>	—	—

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

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

# Consolidated Net Sales



(In millions of yen)

8,079



1H FY2021

7,256

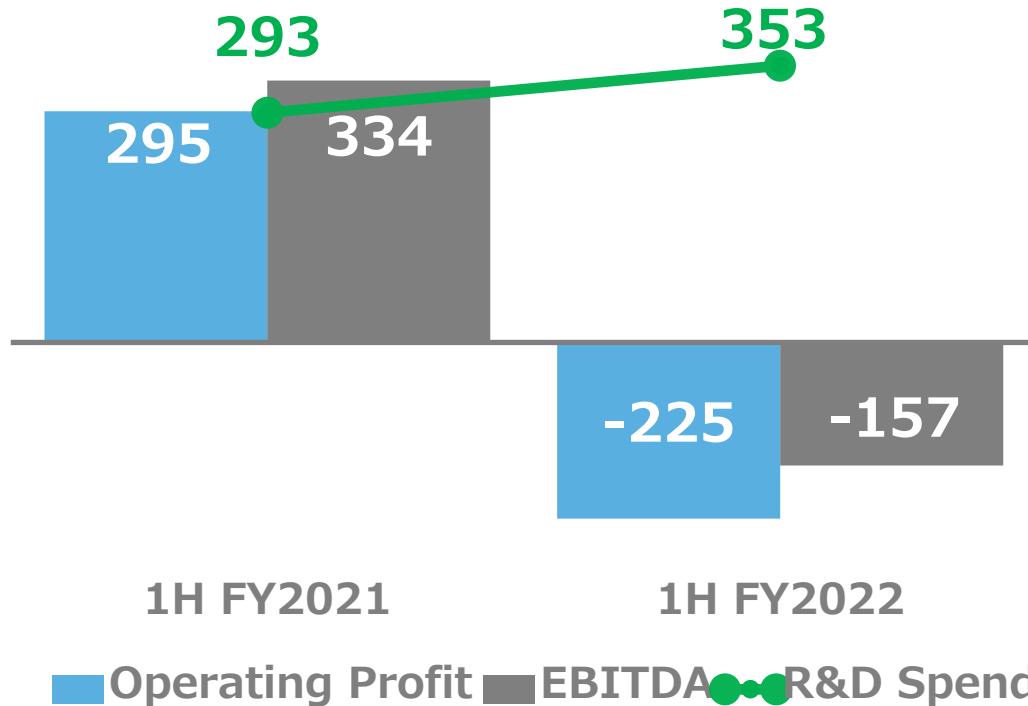


1H FY2022

**Down  
10.2% YoY**

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

(In millions of yen)

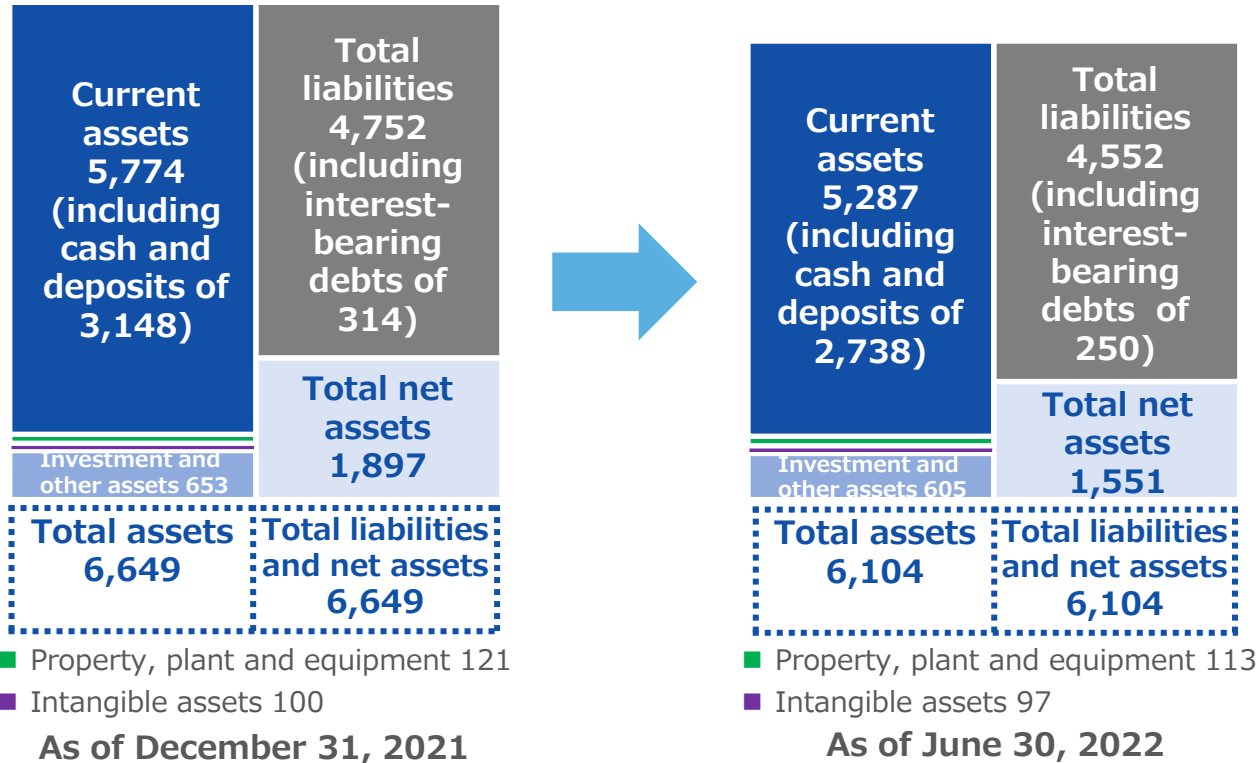


- Operating profit was **down** by ¥520M YoY.

- EBITDA was **down** by ¥492M YoY.

# Consolidated Balance Sheets

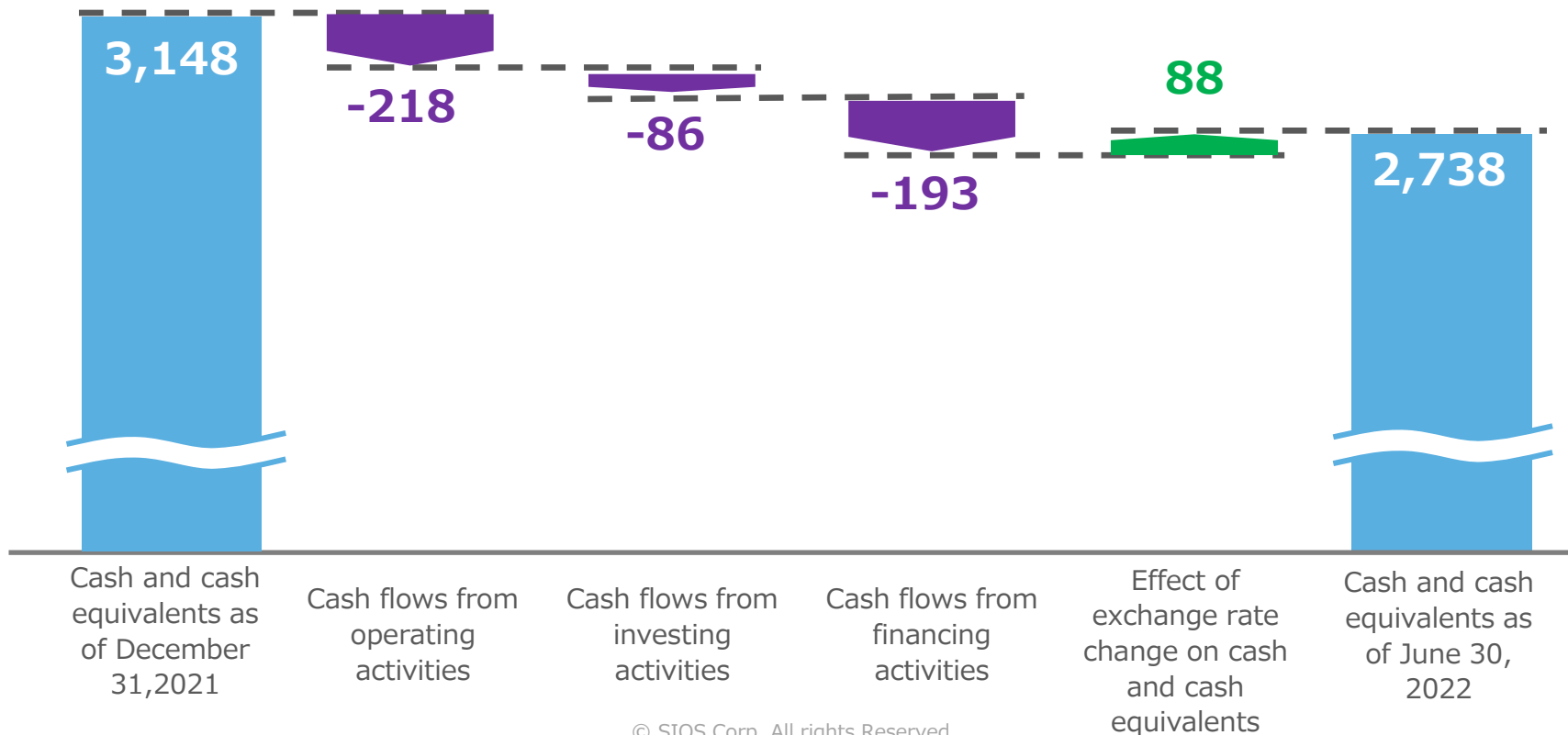
(In millions of yen)



- Current assets : A decrease of 410 million yen in cash and deposits.
- Current liabilities : A decrease of 321 million yen in accounts payable trade.

# Analysis of Consolidated Cash Flows

(In millions of yen)





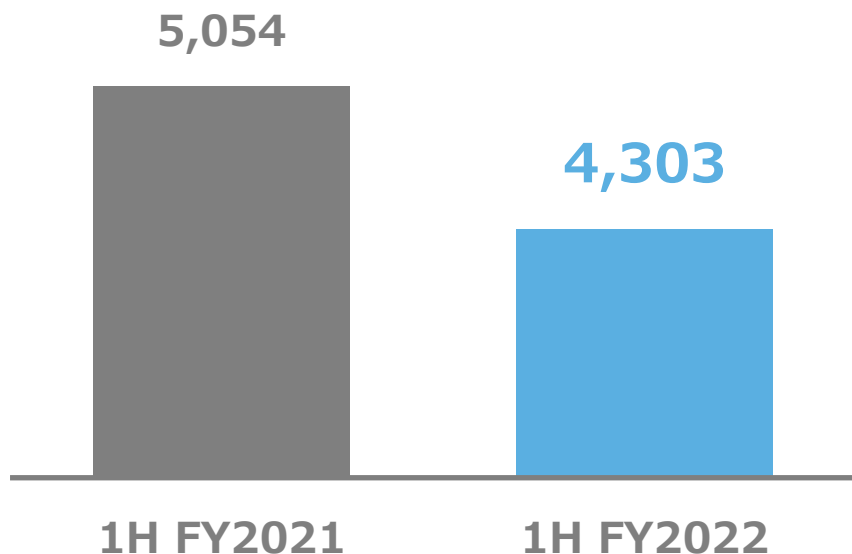
# Year-on-Year Changes in Cash Flows

		Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
Net amount of cash generated or used		¥218M net cash used	¥86M net cash used	¥193M net cash used
Breakdown	Amount of cash generated	<ul style="list-style-type: none"> <li>• Cash generated as a result of a decrease in trade receivables: ¥110M</li> <li>• Cash generated as a result of an increase in contract liabilities: ¥220M</li> </ul>		
	Amount of cash used	<ul style="list-style-type: none"> <li>• Loss before income taxes: ¥237M</li> <li>• Cash used to reduce trade payables: ¥321M</li> <li>• Cash used to pay accrued consumption taxes: ¥143M</li> </ul>	<ul style="list-style-type: none"> <li>• Cash used to purchase property, plant, and equipment: ¥22M</li> <li>• Cash used to purchase intangible assets: ¥18M</li> <li>• Cash used to purchase investment securities: ¥45M</li> </ul>	<ul style="list-style-type: none"> <li>• Cash used to repay long-term borrowings: ¥61M</li> <li>• Cash used to pay dividends: ¥129M</li> </ul>

## Net sales

4,303 million yen, Down 14.9% YoY

(In millions of yen)



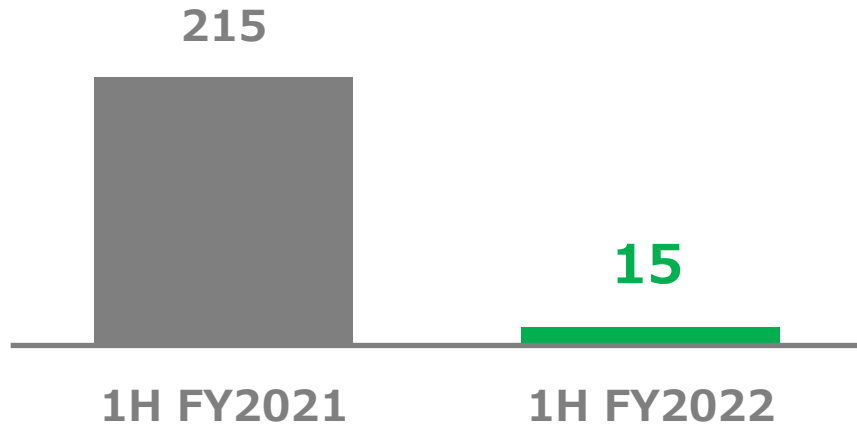
- Revenue from OSS\*-related products and their support services **increased YoY**.
- Sales of software products sourced from Red Hat, Inc.\* were **down YoY**, as high-volume sales to corporate clients were sluggish due to delays in their system development projects at the height of chip shortages.
- Sales of LifeKeeper\* **decreased**, as strong sales in the Americas, Asia, and Oceania were more than offset by weak perpetual license sales in Japan.

Note: See the Glossary on page 35 for descriptions of terms with an asterisk.

## Segment income

15 million yen, Down 92.9% YoY

(In millions of yen)

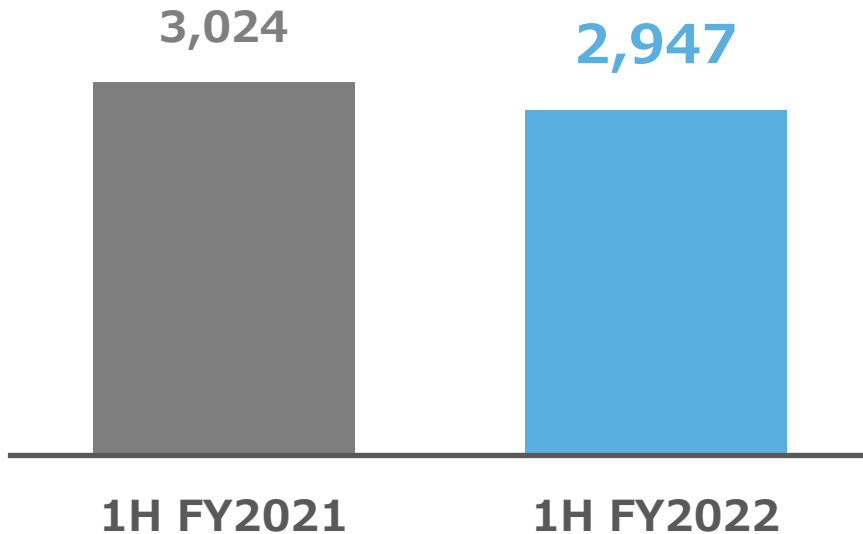


Segment profit was **down YoY**, due to decreased sales and increased personnel expenses.

## Net sales

2,947 million yen, Down 2.6% YoY

(In millions of yen)

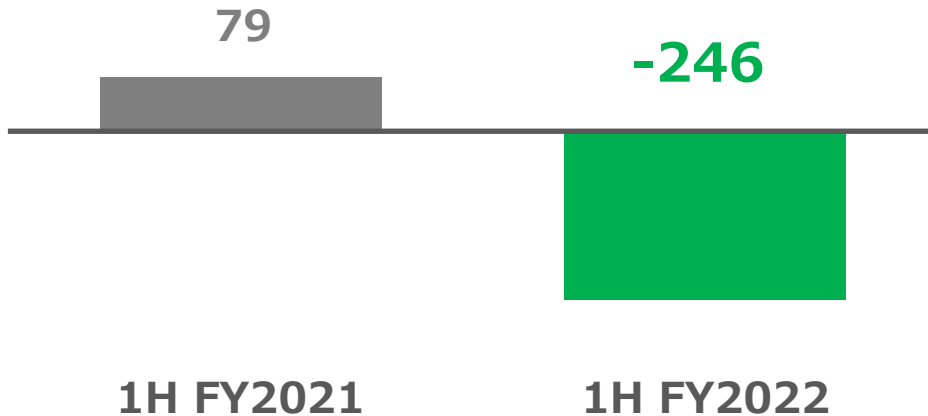


- Revenue from the Gluegent series\* and software applications for MFP\* was **up YoY**.
- Sales of the management support system to financial institutions were **slow**.
- The application of the Accounting Standard for Revenue Recognition resulted in **a decrease in net sales** in this segment.

## Segment income

Loss of 246 million yen, compared with on income of 79 million yen the year before

(In millions of yen)



Posted a **segment loss**, due to decreased sales, increased personnel expenses, and increased investments in new products and services.

## **2. Updated Business Forecasts for FY2022**

# Updated Business Forecasts for FY2022 SIOS

(In millions of yen)

	Earlier Forecasts (announced in February 2022)	Updated Forecasts	Change
Net sales	16,000	<b>15,000</b>	-1,000
Operating profit (loss)	100	<b>-550</b>	-650
Ordinary profit (loss)	120	<b>-500</b>	-620
Profit (loss) attributable to owners of parent	60	<b>-650</b>	-710
EBITDA	220	<b>-420</b>	-640
ROIC (annualized)	3.0%	<b>-24.9%</b>	-

## Reason for change No. 1

Weaker sales of software products sourced from Red Hat, Inc., and the management support system for financial institutions

## Background

Sales of these products have been negatively affected by delays in system development projects by corporate clients, which have been caused by longer delivery lead times for hardware products at the height of chip shortages.

## Reason for change No. 2

Increased upfront investments in new Med Tech\* and HR Tech\* solutions and the Gluegent series in anticipation of robust growth of the SaaS\* market

## Background

- We have been spending more in advertising and product development for new HR Tech solutions and been stepping up product development for Med Tech solutions.
- We have been stepping up product development and marketing for the Gluegent series.



# Dividend Rate for FY2022



	Fiscal Year ended December 31, 2021	Fiscal Year ending December 31, 2022
Annual dividend rate	<b>¥15</b> (Ordinary dividend: ¥10) (Commemorative dividend: ¥5)	<b>¥10</b>

Projected dividend rate for fiscal year ending December 31, 2022	<b>¥10 (unchanged)</b>
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### **3. Review of the Six Months and Growth Strategies Going Forward**

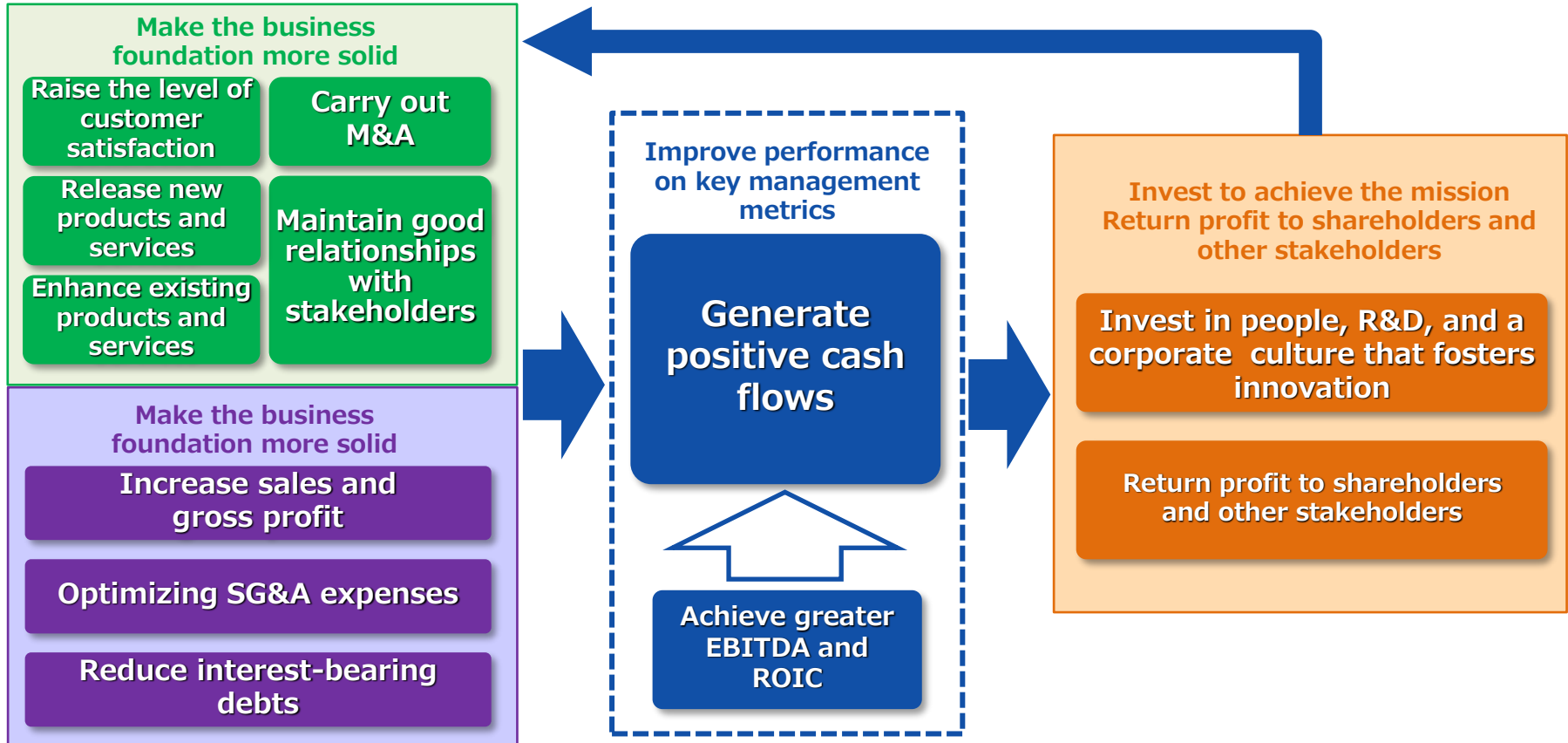
## Primary Management Objective

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



**Enhance  
existing  
products and  
services**

**Release new  
products and  
services**

## Key strategy for FY2022

To continue to invest heavily in expanding the Group's SaaS business in order to better serve corporate clients and accelerate the Group's growth

- To continue to upgrade cloud application for LifeKeepr and other existing products
- To step up sales efforts for the Gluegent series
- To venture into the Med Tech business

## Updates

- We have released a single sign-on (SSO)\* solution based on facial recognition as part of the Gluegent series. (See page 25)
- We have launched a new Med Tech service. (See page 28)
- We have released a new HR Tech solution. (See page 30)

# Updates on Key Strategies for FY2022: Part 2 SIOS

**Enhance existing products and services**

**Release new products and services**

## **Key strategy for FY2022**

To continue to pursue cross-selling opportunities for the Group's products and services in order to achieve greater sales productivity

## **Update**

A dedicated project team has been established to pursue cross-selling opportunities.

**Optimizing SG&A expenses**

## **Update on Key Strategy for FY2022**

The Tennozu Isle Office in Shinagawa-ku, Tokyo, will be closed in September 2022.

**Return profit to shareholders and other stakeholders**

## **Update on Key Strategy for FY2022**

We plan to pay an ordinary dividend of ¥10 per share at year end.

## Market Updates

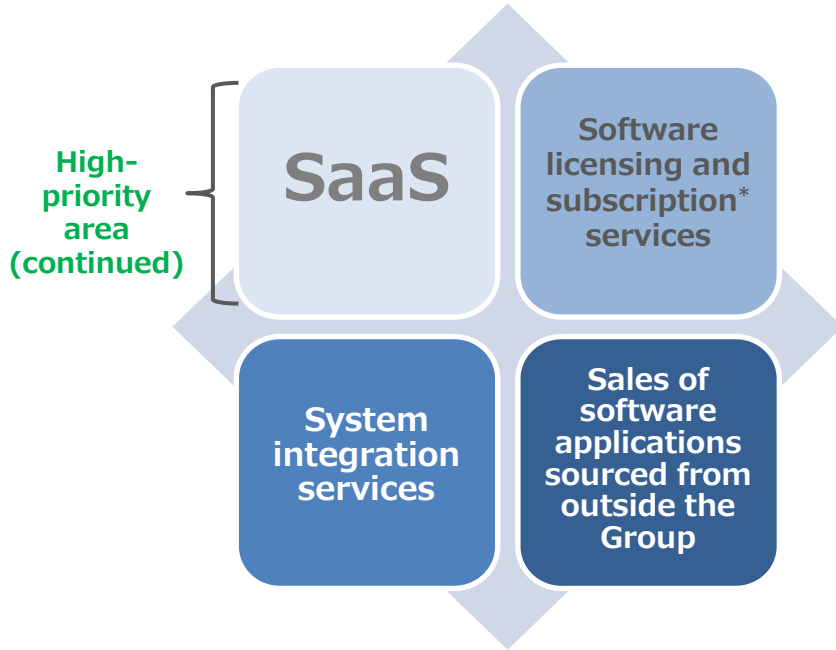
- Largely triggered by the COVID-19 pandemic, momentum remains strong for business use of the public cloud as a basis for implementing DX\* solutions.
- The Japanese SaaS market is projected to grow 14% YoY to 1.3 trillion yen in 2022. (Source: “Cloud Computing Market 2022—Today and Future,” published by Fuji Chimera Research Institute, Inc.)

## The Group’s Growth Strategies Going Forward

- We will continue to invest heavily in the SaaS business in H2 FY2022. (See the following page)
- Focused SaaS products are the Gluegent series, Med Tech solutions, and HR Tech solutions.

# Continue to strengthen investment in SaaS business

【Our B2B Business Domains】



The SaaS market is projected to maintain strong growth momentum, buoyed by an accelerating DX trend in corporate environments.



Continue to invest heavily in the SaaS business, using our existing B2B products and services as a basis

## Focused SaaS products

- (1) Existing Gluegent series
- (2) Med Tech solutions (new)
- (3) HR Tech solutions (new)



Bolster product offerings in the Gluegent series, including the Gluegent Flow cloud-based workflow system and the Gluegent Gate SaaS authentication system, to assist corporate clients in shifting to teleworking and implementing DX solutions

## Single sign-on (SSO) based on facial recognition

We have provided AEON Fantasy Co., Ltd. with a single sign-on system that combines our Gluegent Gate and Japan Computer Vision Corporation's facial recognition solution.



## Actions planned for H2 FY2022 (continued)

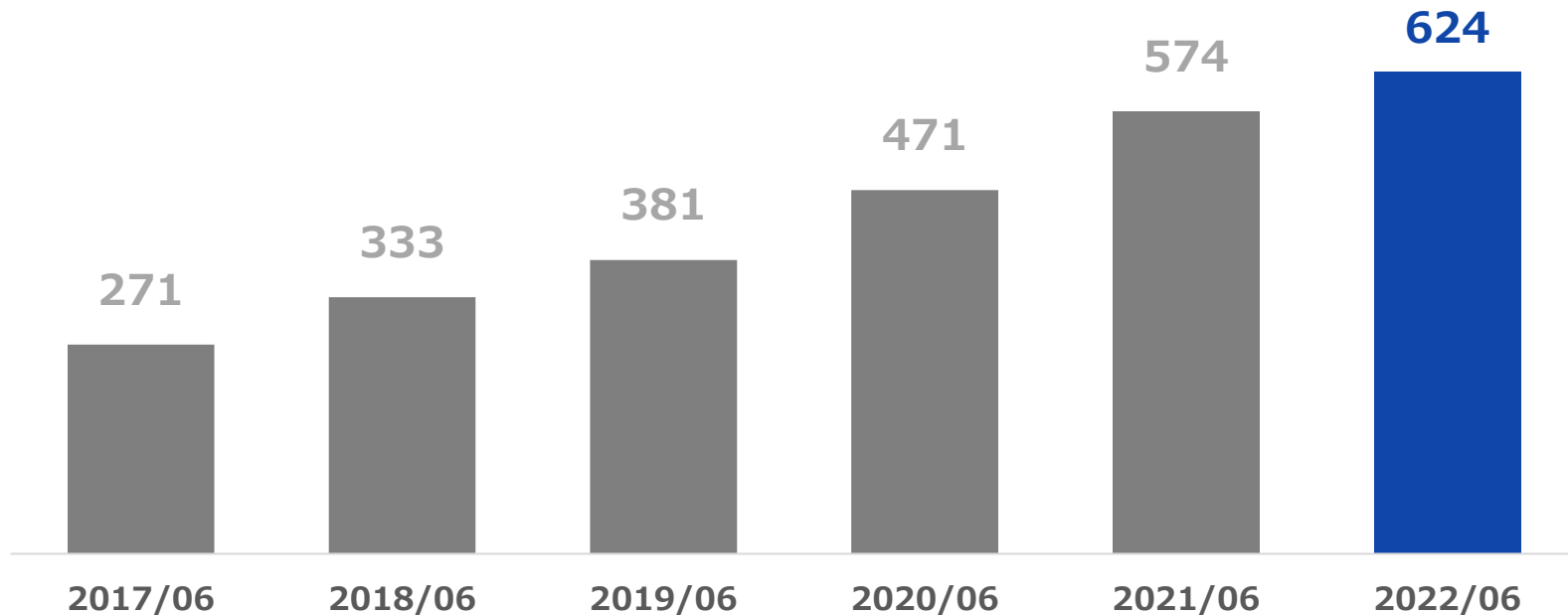
### Step up marketing efforts

Recruit marketing professionals and continue to step up digital marketing efforts in order to raise awareness of the Gluegent series in the market and increase orders

### Step up product development efforts

Add more engineers to the development team to create and deliver products that meet business users' needs and expectations

## 【ARR\* of the Gluegent Series (In millions of yen)】



1. ARR: Annual Recurring Revenue, obtained by multiplying MRR (monthly recurring revenue, which is a predictable revenue that a business counts on receiving every month from subscriptions) by 12

We have started offering the **INDIGO NOTE** electronic medical records service to mental hospitals to assist with their DX efforts.

## INDIGO NOTE

INDIGO NOTE is the first electronic medical records service in Japan compliant with the HL7®FHIR® (Fast Healthcare Interoperability Resource), which is the international standard for exchanging healthcare information between different systems.



## Actions planned for H2 FY2022

### Step up product development efforts

Assign more engineers to product development projects to expand service offerings

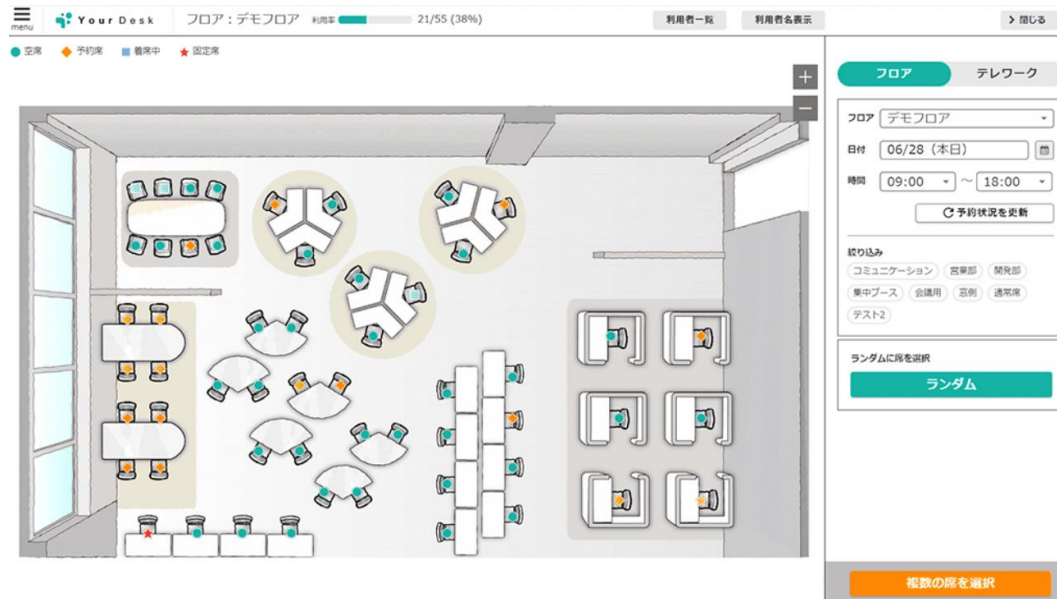
# INDIGO NOTE



We have significantly upgraded our management system for free-address seating arrangements to YourDesk to offer greater usability.

## YourDesk

It offers upgraded centralized management of free-address seating and teleworking arrangements for employees on an intuitive screen.



We have released the new OurEngage employee engagement survey solution.

## OurEngage

OurEngage is an employee engagement survey\* solution designed to assist corporate clients with talent management to increase their enterprise value in the long term. We began taking pre-orders on June 1, 2022, and released it on June 20.



## Actions planned for H2 FY2022

### YourDesk

- Step up digital marketing efforts and upgrade the product website
- Solicit business partners to expand sales channels
- Add functions to enhance UI and UX, and achieve wider compatibility with other systems

### OurEngage

- Step up digital marketing efforts and upgrade the product website
- Solicit distributors to expand sales channels
- Add functions to enhance its usability



# Appendix

## SIOS is Innovative Open Solutions

SIOS Corporation started as a system integrator that provided solutions based on Linux and other varieties of open source software. Today, the company is listed in the Standard Market of the Tokyo Stock Exchange, and serves as a holding company of the SIOS Group, which includes technology firms specializing in software products and SaaS solutions.

Under the mission of making the impossible possible for the people of the world, the SIOS Group is committed to pursuing innovative solutions that resolve issues affecting people and contributing to a better society.

Visit <https://www.sios.com/en> to learn more about us.

<b>Headquarters</b>	<b>SIOS Building, 2-12-3 Minami Azabu Minato-ku, Tokyo, Japan</b>	
<b>Capital</b>	<b>1,481 million yen</b>	
<b>Established</b>	<b>May 23, 1997</b>	
<b>No. of employees</b>	<b>489 on a consolidated basis (as of December 31, 2021)</b>	
<b>Main consolidated subsidiaries</b>	<b>Japan:</b> <b>SIOS Technology, Inc.</b>	<b>U.S.A.:</b> <b>SIOS Technology Corp.</b>

# Glossary

Page	Term	Description
10	<b>OSS</b>	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.
10	<b>Software products sourced from Red Hat, Inc.</b>	Open-source software products developed by Red Hat, Inc., a provider of open-source solutions.
10	<b>LifeKeeper</b>	A failover software product that automatically switches a failed primary server to a backup server.
12	<b>Gluegent series</b>	Service products designed to assist corporate clients in achieving greater operational efficiency using cloud solutions. The series includes the Gluegent Gate cloud-based management of user IDs, the Gluegent Flow cloud-based workflow system, and the Gluegent Apps Group Scheduler, which incorporated a function to manage schedules of team members into Google Calendar.
12	<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.
16	<b>SaaS</b>	Software as a Service. A software licensing and distribution model that allows users to connect to and use cloud-based software applications over the internet.
16	<b>Med Tech</b>	Short for medical technology. It refers to technology that delivers medical services through software applications.
16	<b>HR Tech</b>	Short for human resources technology. It refers to technology that delivers human resources management through software applications.

# Glossary

Page	Term	Description
21	<b>Single sign-on (SSO)</b>	An authentication method that enables a user to authenticate with multiple web and cloud services by using just one set of user IDs and passwords
23	<b>DX (Digital transformation)</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.
24	<b>Subscription business model</b>	A business model that charges customers a recurring monthly or annual fee to access a software product or service.
31	<b>Employee engagement survey</b>	A survey to measure the connection employees have toward their work, teams, departments, and company

# 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

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or fill in and send an online inquiry form available at:  
[https://mk.sios.com/SIOS\\_Inquiry\\_english.html](https://mk.sios.com/SIOS_Inquiry_english.html)

