



Consolidated Financial Result

(For the 9-month period ended September 30, 2023)



November 9, 2023

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 Stock exchange listings: Tokyo Stock Exchange (TSE)
 Code number : 3744
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Scheduled date for filing of quarterly financial report: November 13, 2023

(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, 2023 through September 30, 2023) (% of change from previous third quarter)

(1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
9-month period(2023/9)	11,701	9.5	-194	-	-139	-	-186	-
9-month period(2022/9)	10,686	-8.7	-468	-	-419	-	-566	-

(Note) Comprehensive income

As of Sep. 30, 2023: -122 million yen/ -%

As of Sep. 30, 2022: -435 million yen/ -%

	Net income per share	Net income per share
	- Basic	- Diluted
9-month period(2023/9)	Yen -21.49	Yen -
9-month period(2022/9)	-65.31	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
9-month period(2023/9)	6,118	1,049	15.7
FY2022	6,022	1,243	19.4

(Reference) Equity

As of Sep. 30, 2023: 958 million yen

As of Dec. 31, 2022: 1,168 million yen

2. Cash dividends

Record Date	Dividend per share				
	End of Q1	Interim	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2022	-	0.00	-	10.00	10.00
FY2023	-	0.00	-	-	-
FY2023 (expected)	-	-	-	-	-

(Note) 1. The dividend forecast for the fiscal year ending December 31, 2023 is undecided.

2. Revisions to recent dividend forecast: None

3. Forecast of consolidated results for FY2023 (January 1, 2023 through December 31, 2023)

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Net income		Net income
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2023	-	-	-	-	-	-	-	-	-

(Note) 1. Regarding the consolidated earnings forecast for the fiscal year ending December 31, 2023, it is extremely difficult to reasonably calculate at this time. Since then, it is undecided. In the future, we will promptly announce it when it becomes possible to make a reasonable calculation.

2. 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 restatement
 (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) Restatement: None
 (4) Number of outstanding shares (common shares)

(i) Number of outstanding shares (including treasury stock)	Third quarter of FY2023	8,874,400 shares	FY2022	8,874,400 shares
(ii) Number of treasury stock	Third quarter of FY2023	205,838 shares	FY2022	205,838 shares
(iii) Average number of outstanding shares (9-month period)	Third quarter of FY2023	8,668,562 shares	Third quarter of FY2022	8,668,562 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 Standard. To the extent that there are discrepancies between this translation and the original version, the original version shall be definitive.

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1. Qualitative Information on Quarterly Results

(1) Results of Operations

During the nine months ended September 30, 2023, while the COVID-19 pandemic was settling down, the global economy continued to face lingering uncertainty due to soaring materials prices amid rising geopolitical risks, and volatile foreign-exchange markets caused by a global monetary-tightening trend.

In this business environment, the SIOS Group ("the Group") continued to restructure its business operations to make its revenue and profit base more robust, and expanded its offerings of cloud-based products and services, including SaaS¹, to better assist corporate clients in implementing DX² solutions.

The Group achieved consolidated business results by segment for the period under review as follows:

(i) Open System Infrastructure Business Segment

Sales of our products and services for on-premise application picked up, as chip shortages were resolved and the supply of hardware products started to clear a backlog of orders. As a result, sales of Red Hat Enterprise Linux³ and other software products sourced from Red Hat Inc.⁴, increased compared to the same period the previous year. We also enjoyed strong sales of LifeKeeper⁵, which is one of our core products, for both on-premise and cloud application. As a result, net sales in this segment increased 12.0% year on year to 7,165 million yen. The segment income was 62 million yen, compared with a loss of 20 million yen the year before.

(ii) Application Business Segment

Sales of the management support system to financial institutions were slow. In contrast, revenues from the provision of support for system development and implementation were up year on year, especially from the support provided for API6 projects and business management systems of stock brokerage firms. The Gluegent series⁷ also achieved a year-on-year increase in sales. As a result, net sales in this segment increased 5.7% to 4,526 million yen.

The Company posted a segment loss of 266 million yen, compared with a loss of 455 million yen the year before, due to rising personnel expenses and more aggressive investments in developing and marketing new products and services, mainly in the Med Tech⁸ business.

The Group's combined net sales in these two segments for the period under review were up 9.5% year on year, to 11,701 million yen. The Company posted a consolidated operating loss of 194 million yen, compared with a loss of 468 million yen the year before, and an ordinary loss of 139 million yen, which reflected a favorable impact of the share of profit of entities accounted for using the equity method, compared with an ordinary loss of 419 million yen a year earlier. As a result of posting an impairment loss and a loss on sales of businesses, the loss attributable to owners of parent amounted to 186 million yen, compared with a loss of 566 million yen the previous year.

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) for the period under review are as follows:

EBITDA: -147 million yen, compared with -383 million yen for the same period the previous year

ROIC (annualized): -14.0%, compared with -26.1% for the year before

1 SaaS

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.

2 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.

3 Red Hat Enterprise Linux

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

4 Red Hat, Inc. Related Items

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

5 LifeKeeper

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

6 API

A mechanism for software and applications to exchange information with each other.

7 Gluegent series

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.

8 Med Tech

Short for medical technology.

It refers to technology that delivers medical services through software applications.

(2) Financial Position**(i) Assets**

Current assets amounted to 5,215 million yen as of September 30, 2023, up 0.4% from the end of the previous fiscal year, reflecting primarily an increase of 220 million yen in cash and deposits.

Non-current assets amounted to 902 million yen, up 9.2%, reflecting primarily an increase of 35 million yen in investment securities.

As a result, total assets increased 1.6% to 6,118 million yen.

(ii) Liabilities

Current liabilities amounted to 4,672 million yen, up 7.7% from the previous fiscal year-end, reflecting primarily an increase of 223 million yen in contract liabilities.

Non-current liabilities amounted to 395 million yen, down 10.3%, reflecting primarily a decrease of 49 million yen in long-term borrowings.

As a result, total liabilities amounted to 5,068 million yen, up 6.1% from the previous fiscal year-end.

(iii) Net assets

Total net assets amounted to 1,049 million yen, down 15.6% from the previous fiscal year-end, reflecting primarily a decrease of 272 million yen in retained earnings.

(3) Forward-looking Statements Including Consolidated Business Forecasts

As stated in the Consolidated Financial Result for the fiscal year ended December 31, 2022, announced on February 2, 2023, the Group has been restructuring its business operations and bolstering its cloud-based business in order to make its revenue and profit base more robust.

During the nine months ended September 30, 2023, the Group reallocated internal human resources and chose to focus on businesses that offered a greater chance of growth and success. As we are still in the middle of restructuring and are unable to make reasonable assumptions or estimates of forecasts, we are not disclosing at this time the Group's business forecasts for the fiscal year ending December 31, 2023. As soon as we are able to make reasonable assumptions and estimates, we will announce updated forecasts.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	FY 2022 (as of December 31, 2022)	FY 2023 Q3 (as of September 30, 2023)
Assets		
Current assets		
Cash and deposits	2,505,766	2,726,679
Notes and accounts receivable - trade, and contract assets	2,028,395	1,929,861
Merchandise	13,558	2,830
Work in progress	13,267	3,512
Advance payments to suppliers	272,047	362,429
Other	362,291	190,601
Allowance for doubtful accounts	-200	-200
Total current assets	5,195,125	5,215,715
Fixed assets		
Tangible fixed assets		
Buildings (net)	50,131	42,267
Other (net)	62,699	102,347
Total tangible fixed assets	112,830	144,615
Intangible fixed assets		
Software	48,496	38,700
Software in progress	29,879	10,107
Other	1,441	1,441
Total intangible fixed assets	79,817	50,249
Investment and other assets		
Investment securities	380,634	416,160
Retirement benefit asset	50,635	56,072
Guarantee deposits	127,063	122,324
Other	76,225	113,491
Total investment and other assets	634,558	708,049
Total fixed assets	827,206	902,913
Total assets	6,022,332	6,118,629

(In thousands of yen)

	December 31, 2022	September 30, 2023
Liabilities		
Current liabilities		
Accounts payable-trade	1,084,110	937,086
Current portion of long-term borrowings	66,000	66,000
Lease liabilities	29,700	67,526
Income taxes payable	-	11,742
Contract liabilities	2,760,665	2,983,981
Other	396,729	606,594
Total current liabilities	4,337,206	4,672,930
Non-current liabilities		
Long-term borrowings	115,500	66,000
Retirement benefit liability	302,712	309,229
Lease liabilities	11,746	7,888
Long-term deposits received	11,632	11,632
Other	-	1,159
Total non-current liabilities	441,591	395,910
Total liabilities	4,778,798	5,068,840
Net assets		
Shareholders' equity		
Share capital	1,481,520	1,481,520
Legal retained earnings	-130,975	-403,909
Treasury shares	-87,254	-87,254
Total shareholders' equity	1,263,289	990,356
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,147	18,575
Deferred gains or losses on hedges	-100,273	-50,052
Total accumulated other comprehensive income	-95,125	-31,476
Subscription rights to shares	75,369	90,908
Total net assets	1,243,534	1,049,788
Total liabilities and net assets	6,022,332	6,118,629

(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, 2022	Nine months ended September 30, 2023
Net sales	10,686,284	11,701,456
Cost of sales	7,285,377	7,788,206
Gross profit	3,400,907	3,913,250
Selling, general and administrative expenses	3,869,156	4,107,411
Operating profit (loss)	-468,249	-194,161
Non-operating income		
Interest income	4,231	10,301
Gain on valuation of derivatives	135,244	56,898
Share of profit of entities accounted for using equity method	40,415	43,025
Other	9,550	5,915
Total non-operating income	189,441	116,141
Non-operating expenses		
Interest expenses	1,235	747
Loss on investments in investment partnerships	4,450	5,601
Foreign exchange losses	135,444	53,161
Other	-	1,639
Total non-operating expenses	141,130	61,149
Ordinary profit (loss)	-419,939	-139,170
Extraordinary income		
Gain on sale of non-current assets	-	90
Total extraordinary income	-	90
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	-	10,435
Impairment losses	29,909	30,201
Loss on retirement of non-current assets	2,409	123
Loss on transfer of business	-	27,933
Total extraordinary losses	32,319	68,693
Profit (loss) before income taxes	-452,258	-207,773
Income taxes - current	36,381	15,741
Income taxes - deferred	77,489	-37,266
Total income taxes	113,870	-21,525
Profit (loss)	-566,128	-186,247
Profit (loss) attributable to owners of parent	-566,128	-186,247

Quarterly Consolidated Statements of Comprehensive Income
Nine months ended September 30

(Unit: thousand yen)

	Nine months ended September 30, 2022 (From January 1, 2022 through September 30, 2022)	Nine months ended September 30, 2023 (From January 1, 2023 through September 30, 2023)
Profit (loss)	-566,128	-186,247
Other comprehensive income		
Valuation difference on available-for-sale securities	4,564	13,428
Deferred gains or losses on hedges	52	-
Foreign currency translation adjustment	125,147	48,498
Share of other comprehensive income of entities accounted for using equity method	510	1,722
Total other comprehensive income	130,276	63,649
Quarterly comprehensive income	-435,852	-122,598
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	-435,852	-122,598

**(3) Notes to Quarterly Consolidated Financial Statements
(Notes to Going Concern Assumption)**

Not applicable

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

Not applicable

(Segment Information)

【Segment Information】

I. For the nine months ended September 30, 2022 (From January 1, 2022 through September 30, 2022)

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	6,395,070	4,282,653	10,677,723	8,561	10,686,284
Inter-segment sales and transfers	-	5,342	5,342	-5,342	-
Total	6,395,070	4,287,995	10,683,065	3,219	10,686,284
Segment profit (loss)	-20,999	-455,811	-476,810	8,561	-468,249

Note: The total amount of segment losses is the same as the amount of operating loss presented on the Consolidated Statements of Income for the period under review.

(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, 2022

(From January 1, 2022 through September 30, 2022)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
10,112,955	380,692	125,305	67,331	10,686,284

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

(Significant impairment loss on non-current assets)

The Company posted an impairment loss of 29.909 million yen on non-current assets in the Application Business Segment.

II. For the nine months ended September 30, 2023 (From January 1, 2023 through September 30, 2023)

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	7,165,126	4,526,880	11,692,006	9,450	11,701,456
Inter-segment sales and transfers	-	4,359	4,359	-4,359	-
Total	7,165,126	4,531,239	11,696,365	5,090	11,701,456
Segment profit	62,471	-266,082	-203,611	9,450	-194,161

Note: The total amount of segment profit or losses is equal to the operating loss presented in the Consolidated Statements of Income for the period under review.

(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

For the nine months ended September 30, 2023 (From January 1, 2023 through September 30, 2023)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
11,079,313	413,590	133,142	75,410	11,701,456

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

(Significant impairment loss on non-current assets)

The Company posted an impairment loss of 30,201 million yen on non-current assets in the Application Business Segment

(Significant subsequent events)

Not applicable