

Company name: **SIOS Corporation**
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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: May 12, 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 March 31, 2023) (% of change from previous first quarter)

(1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3-month period(2023/3)	4,220	12.0	24	-	57	-	12	-
3-month period(2022/3)	3,767	-14.4	-18	-	1	-99.3	-4	-

(Note) Comprehensive income

As of Mar.31, 2023: 13 million yen/ -57.6%

As of Mar. 31, 2022: 31 million yen/ -83.7%

	Net income per share	Net income per share
	- Basic	- Diluted
	Yen	Yen
3-month period(2023/3)	1.48	-
3-month period(2022/3)	-0.48	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3-month period(2023/3)	6,437	1,172	17.0
FY2022	6,022	1,243	19.4

(Reference) Equity

As of Mar. 31, 2023: 1,094 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	-	-	-	-	-
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 per share
	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)	First quarter of FY2023	8,874,400 shares	FY2022	8,874,400 shares
(ii) Number of treasury stock	First quarter of FY2023	205,838 shares	FY2022	205,838 shares
(iii) Average number of outstanding shares (3-month period)	First quarter of FY2023	8,668,562 shares	First quarter of FY2022	8,668,562 shares

Explanation about proper use of forecasts of consolidated financial results and other special notes

1. 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.
2. Net income per share was calculated by the number of outstanding shares (excluding treasury stocks) at the end of fiscal year.
3. 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.
4. 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 Consolidated Results

(1) Results of Operations

Overview of consolidated business performance for the three months ended March 31, 2022 (Q1 2023)

During the three months ended March 31, 2023, while the COVID-19 pandemic was finally settling down, the global economy continued to face lingering uncertainty due to the prolonged Russia-Ukraine conflict and the rising prices of products and services caused by soaring materials costs.

In this business environment, The SIOS Group ("the Group") continued to restructure its business operations to make its revenue base more robust and upgraded 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 three-month period under review as follows:

(i) Open System Infrastructure Business Segment

Sales of Red Hat Enterprise Linux³ and other software products sourced from Red Hat Inc.⁴, as well as sales of OSS⁵-related products, increased over the same period the previous fiscal year. While perpetual license sales of LifeKeeper⁶, which is one of the Group's core software products, declined in the Americas, sales were strong in Europe, Japan and other parts of Asia, and Oceania. As a result, net sales in this segment jumped 18.7% from the same period a year earlier to 2,661 million yen, with a segment profit of 68 million yen, up 20.0% year on year.

(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 strong, especially from the support provided in API⁷ projects and to financial institutions. The Gluegent series⁸ also achieved a year-on-year increase in sales. As a result, net sales in this segment increased 2.1% to 1,555 million yen.

The Company posted a segment loss of 46 million yen, compared with a loss of 77 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 Tech⁹ business.

The Company's consolidated net sales for the period under review were up 12.0% year on year, to 4,220 million yen. The Company posted a consolidated operating profit of 24 million yen, compared with a loss of 18 million yen the year before, and an ordinary profit of 57 million yen, which reflected the share of profit of entities accounted for using equity method, foreign exchange gains, and gains on valuation of derivatives. The profit attributable to owners of parent amounted to 12 million yen, compared with a loss of 4 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: 40 million yen, up 167.5% year on year

ROIC (annualized): 4.6%, compared with -2.2% 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

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 Red Hat, Inc., a provider of open-source solutions.
4. Red Hat, Inc. Related Items
Linux OS product developed by Red Hat, Inc., a provider of open source solutions.
5. 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.
6. LifeKeeper
A failover software product that automatically switches a failed primary server to a backup server.
7. API
A mechanism for software and applications to exchange information with each other.
8. 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.
9. 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 5,631 million yen as of March 31, 2023, up 8.4% from the end of the previous fiscal year, reflecting primarily an increase of 579 million yen in notes and accounts receivable trade, and contract assets.

Non-current assets decreased 2.5% to 806 million yen, reflecting primarily a decrease of 9 million yen in investment securities. As a result, total assets amounted to 6,437 million yen, up 6.9% from the previous fiscal year-end.

ii. Liabilities

Current liabilities amounted to 4,832 million yen, up 11.4%, reflecting primarily an increase of 424 million yen in accounts payable trade.

Non-current liabilities amounted to 432 million yen, down 2.0%, reflecting primarily a decrease of 16 million yen in long-term borrowings.

As a result, total liabilities amounted to 5,265 million yen, up 10.2% from the previous fiscal year-end

iii. Net assets

Total net assets amounted to 1,172 million yen, down 5.7% from the previous fiscal year-end, reflecting primarily a decrease of 73 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 Company has been restructuring its business operations and bolstering its cloud-based business in order to make its revenue base more robust.

We are not disclosing at this time the Company's consolidated business forecasts for the fiscal year ending December 31, 2023, as we are unable to make reasonable assumptions or estimates of forecasts. As soon as we can make reasonable assumptions and estimates, we will disclose the above-mentioned information.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

	December 31, 2022	March 31, 2023
Assets		
Current assets		
Cash and deposits	2,505,766	2,424,611
Notes and accounts receivable - trade, and contract assets	2,028,395	2,608,249
Merchandise	13,558	12,231
Work in process	13,267	1,300
Advance payments to suppliers	272,047	321,287
Other	362,291	264,206
Allowance for doubtful accounts	-200	-200
Total current assets	5,195,125	5,631,687
Non-current assets		
Property, plant and equipment		
Buildings, net	50,131	45,238
Other, net	62,699	54,754
Total property, plant and equipment	112,830	99,993
Intangible assets		
Software	48,496	48,223
Software in progress	29,879	29,879
Other	1,441	1,441
Total intangible assets	79,817	79,544
Investments and other assets		
Investment securities	380,634	371,092
Retirement benefit asset	50,635	53,798
Guarantee deposits	127,063	125,546
Other	76,225	76,225
Total investments and other assets	634,558	626,663
Total non-current assets	827,206	806,200
Total assets	6,022,332	6,437,887

(In thousands of yen)

	December 31, 2022	March 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	1,084,110	1,508,256
Current portion of long-term borrowings	66,000	66,000
Lease liabilities	29,700	20,967
Other	396,729	402,705
Total current liabilities	4,337,206	4,832,389
Non-current liabilities		
Long-term borrowings	115,500	99,000
Retirement benefit liability	302,712	311,852
Lease liabilities	11,746	10,387
Long-term deposits received	11,632	11,632
Total non-current liabilities	441,591	432,872
Total liabilities	4,778,798	5,265,262
Net assets		
Shareholders' equity		
Share capital	1,481,520	1,481,520
Retained earnings	-130,975	-204,793
Treasury shares	-87,254	-87,254
Total shareholders' equity	1,263,289	1,189,471
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,147	5,257
Deferred gains or losses on hedges	-	-1,658
Foreign currency translation adjustment	-100,273	-98,072
Total accumulated other comprehensive income	-95,125	-94,473
Share acquisition rights	75,369	77,627
Total net assets	1,243,534	1,172,625
Total liabilities and net assets	6,022,332	6,437,887

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

For three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2022	Three months ended March 31, 2023
Net sales	3,767,245	4,220,168
Cost of sales	2,586,554	2,831,388
Gross profit	1,180,690	1,388,779
Selling, general and administrative expenses	1,198,843	1,364,182
Operating profit	-18,152	24,596
Non-operating income		
Interest income	1,241	2,158
Foreign exchange gains	-	10,912
Gain on valuation of derivatives	29,572	9,457
Share of profit of entities accounted for using equity method	20,750	14,296
Other	4,779	2,017
Total non-operating income	56,344	38,842
Non-operating expenses		
Interest expenses	439	273
Foreign exchange losses	31,659	-
Loss on investments in investment partnerships	4,450	5,601
Total non-operating expenses	36,550	5,874
Ordinary profit	1,640	57,565
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	-	10,435
Loss on retirement of property, plant and equipment	5	123
Other	-	7
Total extraordinary losses	5	10,566
Profit before income taxes	1,635	46,998
Income taxes-current	11,106	34,131
Income taxes-deferred	-5,276	-
Total income taxes	5,830	34,131
Profit	-4,195	12,867
Profit attributable to owners of parent	-4,195	12,867

Consolidated Statements of Comprehensive Income

For three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2022	Three months ended March 31, 2023
Profit(loss)	-4,195	12,867
Other comprehensive income		
Valuation difference on available-for-sale securities	1,758	109
Deferred gains or losses on hedges	-	1,658
Foreign currency translation adjustment	34,367	2,338
Share of other comprehensive income of entities accounted for using equity method	-17	-138
Total other comprehensive income	36,108	651
Comprehensive income	31,912	13,519
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	31,912	13,519

(3) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

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

Not applicable

(Segment Information)

I Three months ended March 31, 2022

1. Information regarding the amount of net sales and profit by reportable segment

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	2,241,709	1,523,275	3,764,984	2,261	3,767,245
Intersegment sales and transfers	-	2,090	2,090	-2,090	-
Total	2,241,709	1,525,365	3,767,074	170	3,767,245
Segment profit	56,841	-77,255	-20,414	2,261	-18,152

Note: The total amount of segment profits or 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 the “Accounting Standard for Quarterly Financial Statements,” information (net sales) by region is disclosed in accordance with the “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statements with valuable information.

Net sales

For three months ended March 31, 2022

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
3,568,459	138,628	39,932	20,224	3,767,245

Note: Sales are classified by country or region in which customers are located.

2. Information regarding loss on impairment of non-current assets or goodwill by reportable segment

Not applicable

II Three months ended March 31, 2023

1. Information regarding the amount of net sales and profit by reportable segment

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	2,661,742	1,555,276	4,217,018	3,150	4,220,168
Intersegment sales and transfers	—	1,551	1,551	△1,551	—
Total	2,661,742	1,556,827	4,218,569	1,598	4,220,168
Segment profit	68,231	△46,784	21,446	3,150	24,596

Note: The total amount of segment profits or 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 the “Accounting Standard for Quarterly Financial Statements,” information (net sales) by region is disclosed in accordance with the “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statements with valuable information.

Net sales

For three months ended March 31, 2023

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
4,040,793	109,717	45,278	24,377	4,220,168

Note: Sales are classified by country or region in which customers are located.

2. Information regarding loss on impairment of non-current assets or goodwill by reportable segment

Not applicable

(Additional Information)

There is no significant change to the assumptions we made earlier about the effect that the COVID-19 crisis might have on the Group's business performance going forward, which were provided in the "Additional information" section of the Company's securities filings for the fiscal year ended December 31, 2021.

(Significant Subsequent Events)

Not applicable