

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 14, 2024

(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, 2024 through March 31, 2024) (% 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(2024/3)	6,405	51.8	18	-25.3	57	-0.7	38	200.6
3-month period(2023/3)	4,220	12.0	24	-	57	-	12	-

(Note)Comprehensive income

As of Mar.31, 2024: 50 million yen/ 272.4%

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

	Net income per share	Net income per share
	- Basic	- Diluted
	Yen	Yen
3-month period(2024/3)	4.46	-
3-month period(2023/3)	1.48	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3-month period(2023/4)	9,243	1,203	12.0
FY2023	6,706	1,187	16.4

(Reference) Equity

As of Mar. 31, 2024: 1,106 million yen

As of Dec. 31, 2023: 1,099 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
FY2023	-	0.00	-	5.00	5.00
FY2024	-				
FY2024 (expected)		0.00	-	10.00	10.00

(Note) Revisions to recent dividend forecast: None

3. Forecast of consolidated results for FY2024 (January 1, 2024 through December 31, 2024)

(% 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
FY2024	16,600	4.5	250	-	330	-	220	-	25.38

(Note) 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 FY2024	8,874,400 shares	FY2023	8,874,400 shares
(ii) Number of treasury stock	First quarter of FY2024	205,838 shares	FY2023	205,838 shares
(iii) Average number of outstanding shares (3-month period)	First quarter of FY2024	8,668,562 shares	First quarter of FY2023	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, 2024 (Q1 2024)

During the three months ended March 31, 2024, while the Japanese economy showed signs of picking up, as indicated by the fact that the Nikkei average stock price hit an all-time high in March, 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, expanded its SaaS¹ and subscription²-based businesses, and stepped up its efforts for new business development in order to increase its enterprise value.

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

(i) Open System Infrastructure Business Segment

While sales of LifeKeeper³, which is one of our core products developed in-house, increased from the same period of the previous year, its profit decreased as the weakening yen inflated yen-denominated expenses at our U.S. subsidiary. Sales of Red Hat Enterprise Linux⁴ and other software products sourced from Red Hat, Inc.,⁵ jumped substantially to fulfill major project orders, but their combined profit was down as those projects were barely profitable and the contract with Red Hat, Inc., was renewed with terms unfavorable to us. As a result, net sales in this segment increased 81.2% year on year to 4,822 million yen, and the segment income fell 89.7% to 7 million yen.

(ii) Application Business Segment

Sales of the management support system to financial institutions were slow. Revenue from the provision of support for system development and implementation to financial institutions remained steady but was below the year-earlier level. Revenue in the API⁶ Solutions Business achieved solid growth, as our engineering strengths in the field of API economy met surging business needs. Revenue from the sales of the Gluegent series⁷ and software applications for MFPs⁸ was up year on year. As a result, net sales in this segment increased 1.7% to 1,582 million yen.

As a result of the increased revenue mentioned earlier and the reassessment and reallocation of research and development expenses, the segment income amounted to 10 million yen, compared with a loss of 46 million yen the year before.

The Group's consolidated net sales for the period under review jumped 51.8% year on year to 6,405 million yen, primarily due to a substantial sales increase in software products sourced from Red Hat, Inc., reported earlier. The Group posted a consolidated operating profit of 18 million yen, down 25.3%, and an ordinary profit of 57 million yen, down 0.7%, which reflected the share of profit of entities accounted for using the equity method. The profit attributable to owners of parent amounted to 38 million yen, up 200.6%, which reflected a gain on sale of investment securities.

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 were as follows:

EBITDA: 31 million yen, down 22.9% year on year

ROIC (annualized): 3.6%, compared with 4.6% 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. Subscription business model
A business model that charges customers a recurring monthly or annual fee to access a software product or service.
3. LifeKeeper
A failover software product that automatically switches a failed primary server to a backup server.

4. Red Hat Enterprise Linux
Linux OS developed by Red Hat, Inc., a provider of open-source solutions.
5. Red Hat, Inc. Related Items
Linux OS product developed by Red Hat, Inc., a provider of open source solutions.
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. Software applications for multifunction printers
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.

(2) Financial Position

i. Assets

Current assets amounted to 8,276 million yen as of March 31, 2024, up 44.2% from the end of the previous fiscal year, reflecting primarily an increase of 2,409 million yen in notes and accounts receivable trade, as well as contract assets.

Non-current assets amounted to 967 million yen, up 0.2%, reflecting primarily an increase of 17 million yen in software in progress.

As a result, total assets increased 37.8% to 9,243 million yen.

ii. Liabilities

Current liabilities amounted to 7,613 million yen, up 48.4%, reflecting primarily an increase of 2,337 million yen in accounts payable trade.

Non-current liabilities amounted to 427 million yen, up 10.0%, reflecting primarily an increase of 36 million yen in lease liabilities.

As a result, total liabilities increased 45.7% to 8,040 million yen.

iii. Net assets

Total net assets amounted to 1,203 million yen, up 1.3% from the previous fiscal year-end, reflecting the posting of a quarterly profit of 38 million yen attributable to owners of parent.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The Group's consolidated business forecasts for the fiscal year ending December 31, 2024, remain unchanged from as stated in the Consolidated Financial Results for the Fiscal Year Ended December 31, 2023, announced on February 8, 2024. The Company will announce promptly an update on consolidated business forecasts if any material change should arise.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

	December 31, 2023	March 31, 2024
Assets		
Current assets		
Cash and deposits	2,604,002	2,710,786
Notes and accounts receivable - trade, and contract assets	2,433,031	4,842,374
Work in process	2,267	1,813
Advance payments to suppliers	532,496	477,033
Other	169,429	244,319
Allowance for doubtful accounts	-200	-
Total current assets	5,741,026	8,276,326
Non-current assets		
Property, plant and equipment		
Buildings, net	42,149	41,255
Other, net	90,672	87,718
Total property, plant and equipment	132,822	128,973
Intangible assets		
Software	36,780	30,715
Software in progress	34,332	51,847
Other	1,441	1,441
Total intangible assets	72,554	84,004
Investments and other assets		
Investment securities	407,162	393,407
Retirement benefit asset	57,004	61,457
Guarantee deposits	119,273	118,002
Other	176,736	181,518
Total investments and other assets	760,177	754,385
Total non-current assets	965,554	967,364
Total assets	6,706,581	9,243,691

(In thousands of yen)

	December 31, 2023	March 31, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	1,235,031	3,572,242
Current portion of long-term borrowings	66,000	66,000
Lease liabilities	59,039	20,173
Income taxes payable	30,509	40,966
Contract liabilities	3,212,077	3,350,066
Other	527,833	563,793
Total current liabilities	5,130,492	7,613,242
Non-current liabilities		
Long-term borrowings	49,500	33,000
Retirement benefit liability	320,317	327,297
Lease liabilities	6,676	43,371
Long-term deposits received	11,632	11,632
Provision for share awards for directors (and other officers)	-	11,400
Other	-	389
Total non-current liabilities	388,127	427,090
Total liabilities	5,518,619	8,040,332
Net assets		
Shareholders' equity		
Share capital	1,481,520	1,481,520
Retained earnings	-236,541	-241,143
Treasury shares	-87,254	-87,254
Total shareholders' equity	1,157,723	1,153,122
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,796	-1,408
Deferred gains or losses on hedges	187	735
Foreign currency translation adjustment	-68,280	-45,958
Total accumulated other comprehensive income	-58,296	-46,631
Share acquisition rights	88,534	96,868
Total net assets	1,187,961	1,203,358
Total liabilities and net assets	6,706,581	9,243,691

(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, 2023	Three months ended March 31, 2024
Net sales	4,220,168	6,405,925
Cost of sales	2,831,388	5,076,242
Gross profit	1,388,779	1,329,682
Selling, general and administrative expenses	1,364,182	1,311,307
Operating profit	24,596	18,375
Non-operating income		
Interest income	2,158	5,624
Foreign exchange gains	10,912	—
Gain on valuation of derivatives	9,457	42,392
Share of profit of entities accounted for using equity method	14,296	24,228
Other	2,017	1,700
Total non-operating income	38,842	73,945
Non-operating expenses		
Interest expenses	273	185
Foreign exchange losses	—	34,098
Loss on investments in investment partnerships	5,601	—
Other	—	878
Total non-operating expenses	5,874	35,162
Ordinary profit	57,565	57,157
Extraordinary income		
Gain on sale of investment securities	—	23,623
Total extraordinary income	—	23,623
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	10,435	—
Loss on retirement of property, plant and equipment	123	—
Other	7	—
Total extraordinary losses	10,566	—
Profit before income taxes	46,998	80,781
Income taxes-current	34,131	40,710
Income taxes-deferred	—	1,385
Total income taxes	34,131	42,095
Profit	12,867	38,685
Profit attributable to owners of parent	12,867	38,685

Consolidated Statements of Comprehensive Income

For three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2023	Three months ended March 31, 2024
Profit	12,867	38,685
Other comprehensive income		
Valuation difference on available-for-sale securities	109	-11,205
Deferred gains or losses on hedges	-1,658	547
Foreign currency translation adjustment	2,338	21,445
Share of other comprehensive income of entities accounted for using equity method	-138	876
Total other comprehensive income	651	11,664
Comprehensive income	13,519	50,350
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	13,519	50,350

(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, 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(loss)	68,231	-46,784	21,446	3,150	24,596

Note: The total amount of segment income and losses is the same as the amount of operating profit 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

II Three months ended March 31, 2024

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	4,822,526	1,582,248	6,404,775	1,150	6,405,925
Intersegment sales and transfers	—	1,348	1,348	-1,348	—
Total	4,822,526	1,583,596	6,406,123	-198	6,405,925
Segment profit	7,042	10,183	17,225	1,150	18,375

Note: The total amount of segment income is equal to the operating profit presented in 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, 2024

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
6,225,649	111,501	44,496	24,276	6,405,925

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

(Significant Subsequent Events)

Not applicable