



Consolidated Financial Result

(For the 9-month period ended September 30, 2024)



November 7, 2024

Company name: **SIOS Corporation**
 Address: 2-12-3 Minami Azabu, Minato-ku, Tokyo 106-0047 Japan
 Stock exchange listings: Tokyo Stock Exchange (TSE)
 Code number : 3744
 URL: <https://www.sios.com/>
 Representative: Nobuo Kita, Representative Director
 Contact: Tokutaro Kobayashi, S.V.P. of Finance & Accounting
 Phone: +81-3-6401-5111

(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 September 30, 2024) (% 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(2024/9)	15,717	34.3	-86	-	41	-	-12	-
9-month period(2023/9)	11,701	9.5	-194	-	-139	-	-186	-

(Note) Comprehensive income

As of Sep. 30, 2024: -19 million yen/ -%

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

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
9-month period(2024/9)	-1.46	-
9-month period(2023/9)	-21.49	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
9-month period(2024/9)	6,622	1,130	15.7
FY2023	6,706	1,187	16.4

(Reference) Equity

As of Sep. 30, 2024: 1,036 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	-	0.00	-	-	-
FY2024 (expected)	-	-	-	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	20,000	25.9	-70	-	45	-	280	-	32.30

(Note) Revisions to recent business forecast: Yes

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 FY2024	8,874,400 shares	FY2023	8,874,400 shares
(ii) Number of treasury stock	Third quarter of FY2024	205,838 shares	FY2023	205,838 shares
(iii) Average number of outstanding shares (9-month period)	Third quarter of FY2024	8,668,562 shares	Third quarter of FY2023	8,668,562 shares

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

- Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None
- 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, 2024, some positive developments were observed in the Japanese economy, such as a booming inbound economy, fueled by swarms of tourists from abroad, and workers' rising income resulting from wage increases. These favorable developments partially offset the negative impact on the economy of the Bank of Japan's decision to end its long-running negative-interest-rate policy, the weakening yen, and soaring materials costs. However, the risk of a sluggish economy remained persistent, stemming from rising prices of goods and services, the continued depreciation of the yen, and geopolitical upheavals in some regions around the globe. The Japanese economy continued to face lingering uncertainty.

In the information service industry, in which the SIOS Group ("the Group") does business, interest in investing in implementing DX solutions remained high among businesses seeking to achieve greater productivity and competitive advantage. We anticipate that businesses will remain aggressive at investing in upgrading their IT systems and switching to cloud environments as part of transforming their business operations.

In this business environment, the Group continued to restructure its business operations, expanded its SaaS¹ and subscription²-based businesses, and stepped up its efforts to launch new business ventures.

The Group achieved consolidated business results by segment for the 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, jumped substantially to fulfill major project orders in the first and second quarters, but they had little favorable impact on the Group's profitability due to their low-margin nature. Sales of LifeKeeper⁵, which is one of the Group's core software products, were up year on year, due to stronger perpetual license sales in Japan. As a result, net sales in this segment amounted to 11,244 million yen, up 56.9% from the same period the previous year, with a segment income of 108 million yen, up 73.0%.

(ii) Application Business Segment

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 also up year on year. By contrast, revenue from the provision of support for system development and implementation to financial institutions and universities was below the year-earlier level, and so were sales of the management support system to financial institutions. As a result, net sales in this segment fell 1.2% year on year to 4,471 million yen.

As a result of the reassessment and reallocation of research and development expenses, the segment loss reduced to 196 million yen, compared with a loss of 266 million yen posted for the same period the year before.

The Group's consolidated net sales for the period under review jumped 34.3% year on year to 15,717 million yen, primarily due to a substantial sales increase in software products sourced from Red Hat, Inc., as reported earlier. The Group posted a consolidated operating loss of 86 million yen, down from a loss of 194 million yen the year before, and an ordinary profit of 41 million yen, which reflected the gain on valuation of derivatives and the share of profit of entities accounted for using the equity method, compared with an ordinary loss of 139 million yen the previous year. The loss attributable to owners of parent amounted to 12 million yen, compared with a loss of 186 million yen the year before.

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: -47 million yen, compared with -147 million yen for the same period the previous year

ROIC (annualized): -6.1%, compared with -14.0% 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 Subscription business model

A business model that charges customers a recurring monthly or annual fee to access a software product or service.

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 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 5,622 million yen as of September 30, 2024, down 2.1% from the end of the previous fiscal year, reflecting primarily a decrease of 427 million yen in notes and accounts receivable trade, as well as contract assets.

Non-current assets amounted to 999 million yen, up 3.5%, reflecting primarily an increase of 60 million yen in software in progress.

As a result, total assets decreased 1.3% to 6,622 million yen.

(ii) Liabilities

Current liabilities amounted to 5,080 million yen, down 1.0% from the previous fiscal year-end, reflecting primarily a decrease of 189 million yen in accounts payable trade.

Non-current liabilities amounted to 411 million yen, up 5.9%, reflecting primarily an increase of 30 million yen in retirement benefit liability.

As a result, total liabilities decreased 0.5% to 5,492 million yen.

(iii) Net assets

Total net assets amounted to 1,130 million yen, down 4.9% from the previous fiscal year-end, reflecting primarily a decrease of 55 million yen in retained earnings.

(3) Forward-looking Statements Including Consolidated Business Forecasts

We have updated the consolidated financial guidance for the fiscal year ending December 31, 2024, which was previously announced on August 8, 2024.

For details, refer to "An Update on Consolidated Financial Guidance," announced on November 7, 2024.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	FY 2023 (as of December 31, 2023)	FY 2024 Q3 (as of September 30, 2024)
Assets		
Current assets		
Cash and deposits	2,604,002	2,942,516
Notes and accounts receivable - trade, and contract assets	2,433,031	2,006,028
Merchandise	2,267	3,733
Work in progress	532,496	459,238
Advance payments to suppliers	169,429	211,017
Other	-200	-
Allowance for doubtful accounts	5,741,026	5,622,535
Total current assets	2,604,002	2,942,516
Fixed assets		
Tangible fixed assets		
Buildings (net)	42,149	38,020
Other (net)	90,672	81,681
Total tangible fixed assets	132,822	119,701
Intangible fixed assets		
Software	36,780	19,993
Software in progress	34,332	95,218
Other	1,441	1,441
Total intangible fixed assets	72,554	116,654
Investment and other assets		
Investment securities	407,162	411,680
Retirement benefit asset	57,004	59,150
Guarantee deposits	119,273	115,493
Other	176,736	176,985
Total investment and other assets	760,177	763,309
Total fixed assets	965,554	999,665
Total assets	6,706,581	6,622,200

(In thousands of yen)

	December 31, 2023	September 30, 2024
Liabilities		
Current liabilities		
Accounts payable-trade	1,235,031	1,045,431
Current portion of long-term borrowings	66,000	66,000
Lease liabilities	59,039	21,901
Income taxes payable	30,509	54,816
Contract liabilities	3,212,077	3,485,248
Provision for bonuses for directors (and other officers)	—	10,600
Other	527,833	396,817
Total current liabilities	5,130,492	5,080,816
Non-current liabilities		
Long-term borrowings	49,500	—
Retirement benefit liability	320,317	350,492
Lease liabilities	6,676	32,204
Long-term deposits received	11,632	11,632
Provision for share awards for directors (and other officers)	—	16,700
Other	—	178
Total non-current liabilities	388,127	411,208
Total liabilities	5,518,619	5,492,024
Net assets		
Shareholders' equity		
Share capital	1,481,520	1,481,520
Legal retained earnings	-236,541	-292,508
Treasury shares	-87,254	-87,254
Total shareholders' equity	1,157,723	1,101,757
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,796	-1,605
Deferred gains or losses on hedges	187	-1,805
Foreign currency translation adjustment	-68,280	-61,377
Total accumulated other comprehensive income	-58,296	-64,788
Subscription rights to shares	88,534	93,207
Total net assets	1,187,961	1,130,175
Total liabilities and net assets	6,706,581	6,622,200

(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, 2023	Nine months ended September 30, 2024
Net sales	11,701,456	15,717,350
Cost of sales	7,788,206	11,771,573
Gross profit	3,913,250	3,945,777
Selling, general and administrative expenses	4,107,411	4,032,267
Operating profit (loss)	-194,161	-86,490
Non-operating income		
Interest income	10,301	18,627
Foreign exchange gains	—	30,838
Gain on valuation of derivatives	56,898	21,647
Share of profit of entities accounted for using equity method	43,025	46,661
Other	5,915	13,430
Total non-operating income	116,141	131,204
Non-operating expenses		
Interest expenses	747	713
Loss on investments in investment partnerships	5,601	—
Foreign exchange losses	53,161	—
Foreign withholding tax	—	2,127
Other	1,639	190
Total non-operating expenses	61,149	3,031
Ordinary profit (loss)	-139,170	41,682
Extraordinary income		
Gain on sale of investment securities	—	23,623
Gain on sale of non-current assets	90	—
Total extraordinary income	90	23,623
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	10,435	—
Impairment losses	30,201	—
Loss on retirement of non-current assets	123	56
Loss on sale of businesses	27,933	—
Total extraordinary losses	68,693	56
Profit (loss) before income taxes	-207,773	65,249
Income taxes - current	15,741	67,750
Income taxes - deferred	-37,266	10,178
Total income taxes	-21,525	77,929
Profit (loss)	-186,247	-12,679
Profit (loss) attributable to owners of parent	-186,247	-12,679

Quarterly Consolidated Statements of Comprehensive Income
Nine months ended September 30

(Unit: thousand yen)

	Nine months ended September 30, 2023 (From January 1, 2023 through September 30, 2023)	Nine months ended September 30, 2024 (From January 1, 2024 through September 30, 2024)
Profit (loss)	-186,247	-12,679
Other comprehensive income		
Valuation difference on available-for-sale securities	13,428	-11,402
Deferred gains or losses on hedges	—	-1,992
Foreign currency translation adjustment	48,498	-3,086
Share of other comprehensive income of entities accounted for using equity method	1,722	9,989
Total other comprehensive income	63,649	-6,492
Quarterly comprehensive income	-122,598	-19,171
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	-122,598	-19,171

**(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

(Consolidated Statements of Cash Flows)

We have not prepared consolidated statements of cash flows for the period under review. The amount of depreciation, including amortization of intangible assets, recorded for the period under review is as follows:

	(Unit: thousand yen)	
	Nine months ended September 30, 2023 (From January 1, 2023 through September 30, 2023)	Nine months ended September 30, 2024 (From January 1, 2024 through September 30, 2024)
Depreciation	46,811	38,551

(Segment Information)

【Segment Information】

I. 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 (loss)	62,471	-266,082	-203,611	9,450	-194,161

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 “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, 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.

II. For the nine months ended September 30, 2024 (From January 1, 2024 through September 30, 2024)

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	11,244,424	4,471,476	15,715,900	1,450	15,717,350
Inter-segment sales and transfers	—	3,577	3,577	-3,577	—
Total	11,244,424	4,475,053	15,719,477	-2,127	15,717,350
Segment profit	108,068	-196,009	-87,940	1,450	-86,490

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 “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, 2024 (From January 1, 2024 through September 30, 2024)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
15,123,788	345,497	158,772	89,292	15,717,350

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

Not applicable

(Revenue Recognition)

Breakdown of revenue from contracts with customers

For the nine months from January 1, 2023, through September 30, 2023

(In thousands of yen)

	Reportable segment			Adjustments (See Note)	Total
	Open System Infrastructure Business	Application Business	Total		
Timing of revenue recognition					
Performance obligation to provide goods and services satisfied at a point in time	5,352,805	551,679	5,904,485	-	5,904,485
Performance obligation to provide services satisfied over time	1,812,320	3,975,200	5,787,521	9,450	5,796,971
Revenue from contracts with customers	7,165,126	4,526,880	11,692,006	9,450	11,701,456
Other revenue	-	-	-	-	-
Sales to external customers	7,165,126	4,526,880	11,692,006	9,450	11,701,456

Note: Adjustments are for operations not included in reportable segments and include primarily outsourcing service income.

For the nine months from January 1, 2024, through September 30, 2024

(In thousands of yen)

	Reportable segment			Adjustments (See Note)	Total
	Open System Infrastructure Business	Application Business	Total		
Timing of revenue recognition					
Performance obligation to provide goods and services satisfied at a point in time	9,261,027	655,674	9,916,702	-	9,916,702
Performance obligation to provide services satisfied over time	1,983,396	3,815,801	5,799,197	1,450	5,800,647
Revenue from contracts with customers	11,244,424	4,471,476	15,715,900	1,450	15,717,350
Other revenue	-	-	-	-	-
Sales to external customers	11,244,424	4,471,476	15,715,900	1,450	15,717,350

Note: Adjustments are for operations not included in reportable segments and include primarily outsourcing service income.

(Significant Subsequent Events)

(Absorption-type company split of a consolidated subsidiary and transfer of stock of an indirectly owned subsidiary)

The Company's Board of Directors resolved on October 4, 2024, to divest the business of providing management support systems to financial institutions (the PC business), which was previously conducted by SIOS Technology, Inc. (STI), the Company's consolidated subsidiary, to Profit Cube Inc. (PCI), the Company's indirectly owned subsidiary, by means of an absorption-type company split, and to sell all PCI shares to SBI Sumishin Net Bank, Ltd. On the same day, the Company signed a stock transfer agreement with SBI Sumishin Net Bank.

1. Outline of business divestiture through company split and stock transfer

(1) Names of the succeeding entity in the company split and the entity to which shares are to be transferred

i. Name of the succeeding entity in the company split:

Profit Cube Inc.

ii. Name of the entity to which shares are to be transferred:

SBI Sumishin Net Bank, Ltd.

(2) Description of divested business

Development, sale, and maintenance of management support systems for financial institutions

(3) Reasons for business divestiture

Since acquiring Profit Cube Inc., in 2015, which was subsequently absorbed by STI in April 2021, the Group has been conducting the PC business. Significant changes in operating environments observed in the financial services industry in the aftermath of the COVID-19 pandemic, however, have necessitated that we reassess the viability of our PC business strategy and review options. Over the past several years, we have chosen to step up investments in our SaaS and subscription-based businesses and the development of generative AI-enabled solutions.

After exhaustive consideration of all available options, we have determined that it is best to have PCI take over the Group's PC business and sell all PCI shares to SBI Sumishin Net Bank. We believe this transaction will give the PC business a better chance of success and growth.

(4) Effective date of business divestiture

i. Scheduled effective date of company split:

December 2, 2024

ii. Scheduled effective date of stock transfer:

December 2, 2024

(5) Other matters related to the outline of transaction, including the legal form of transaction

i. Company split

This is an absorption-type company split under which STI acts as a divesting entity and PCI as a succeeding entity. Under this arrangement, PCI is to issue 1,980 shares of common stock to STI. On the scheduled date of stock transfer, STI is to sell all its PCI shares to SBI Sumishin Net Bank.

ii. Stock transfer

This is a stock transfer for which the recipient of the shares is to pay only cash or other forms of monetary consideration.

(6) Voting rights ownership ratio before and after stock transfer, number of shares to be transferred, stock transfer price, and gain on stock sale (planned)

Number of PCI shares held by STI before transfer	2,000 (Voting rights ownership ratio: 100%)
Number of PCI shares to be transferred by STI	2,000 (Voting rights ownership ratio: 100%)
Number of PCI shares to be held by STI after transfer	0 (Voting rights ownership ratio: 0%)
Stock transfer price	500 million yen (No transfer advisory fees incurred)
Gain on stock sale	445 million yen

2. Reportable segment in which the divested business was included

Application Business