FUJI SOFT INCORPORATED

9749

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Summary

A major independent IT solutions vendor established in 1970
Poised for an eighth consecutive period of substantive increases in sales and operating income in FY12/21

1. Company outline and business description

FUJI SOFT INCORPORATED <9749> (hereinafter, "the Company") is a major, independent IT solutions vendor established in May 1970. It has its roots in FUJI SOFTWARE LABORATORY, Ltd., which was established at the home of Mr. Hiroshi Nozawa, the Company's current Director and Executive Adviser, and two other employees. Today, half a century after this establishment, the Company has grown into a group with 30 consolidated subsidiaries, 2 equity-method non-consolidated subsidiaries, and 2 equity-method affiliates, with over 15,000 employees (as of June 30, 2021).

The Company has three reporting segments: the SI (systems integration) Business (system construction and product service), the Facility Business, and the Other Businesses. In the mainstay SI Business, it provides a diverse solutions menu, centered on the development of embedded/control software and operations software. The Facility Business entails rentals of office buildings, while the Other Businesses includes a BPO (business process outsourcing) services business, a contact center business, and a regenerative medicine business.

2. Its core competencies are "superiority in technologies and deep customer insight"

The Company lists its "continually advancing superiority in technologies and deep customer insight" as the reasons why it is chosen by customers. It is highly confident in its core competencies of advanced technological expertise acquired through the development of embedded/control software that requires extremely high levels of precision, such as for vehicles and semiconductor manufacturing equipment; systems construction capabilities cultivated through the solutions it has provided to a wide range of industries; and "superiority in technologies and deep customer insight" which it demonstrates in aspects such as its ability to provide flexible proposals as an independent solutions provider.

3. Efforts to strengthen the Company's financial structure and enhance its growth potential have been well balanced ever since the 2008 financial crisis, underpinned by a flexible management strategy

Although the Company's sales peaked before the economic downturn precipitated by the 2008 financial crisis (FY3/06), it set a new record high for sales in FY12/17. Therefore, while it actually took more than 10 years to renew its peak sales, the Company can be highly evaluated for not only recovering non-recurring revenue, but through a fine balance of both working to strengthen its financial structure based on a flexible management strategy and increasing and augmenting growth potential in that time.

Specifically, the Company realized soundness of major financial indicators, with the equity ratio rising from 47.3% at the end of FY3/06 to 59.9% at the end of FY12/17, the current ratio from 96.4% to 184.9%, and net interest-bearing debt (interest-bearing debt – cash and deposits) amounting to ¥6,204mn in excess cash, down from ¥21,295mn. Meanwhile, from FY12/15 onwards the Company has been engaging in substantial recruitment efforts focused on new graduates, thereby increasing its growth potential. In terms of human resources, the Company has achieved qualitative and quantitative improvements, which has encompassed expanding its workforce by 1.7 times on a consolidated basis, having increased its headcount from 9,415 employees at the end of FY3/06 to 15,756 employees at the end of June 2021. Moreover, the Company has also increased its percentage of certified technicians on a non-consolidated basis (certified specialists and certified project managers under the Company framework as a percentage of the total workforce) from 22.8% at the end of FY12/14 to 31.2% at the end of June 2021.

The Company has also been advancing initiatives in the “AIS-CRM” area since FY12/17. AIS-CRM, which is the Company’s own unique acronym created by taking the first letters from AI, IoT, Security, Cloud computing, Robot, Mobile & AutoMotive, covers areas that are expected to grow in the medium- to long-term.

As a result of the above, the Company continued to achieve sales gains and double-digit increases in operating income up to FY12/20 and has maintained a sound financial structure amid a decrease of ¥1,157mn in net interest-bearing debt relative to the end of the previous fiscal year to ¥6,341mn. This was despite a situation where the Company’s financial indicators at the end of FY12/20 showed signs of deterioration given decreases in its equity ratio and current ratio to 50.7% and 153.3%, respectively (down 3.4pp and 29.6pp compared to the end of the previous fiscal year), which was due to the Company’s financial strategy accounting for effects of COVID-19 (accumulation of cash and deposits through short-term fund raising and repayment of long-term loans payable). In addition, results trended toward improvement with respect to the Company’s primary financial indicators as of the end of 1H FY12/21, having achieved an equity ratio of 53.9% (up 2.5pp YoY), current ratio of 184.5% (up 23.0pp), and net interest-bearing debt amounting to ¥8,965mn in excess cash (a decrease of ¥22,702mn).

4. The FY12/21 consolidated results forecasts are for net sales to increase 3.3% YoY and operating income to rise 2.1%

As for the 1H FY12/21 consolidated results, the Company reported net sales of ¥132,508mn, up 8.1% YoY, operating income of ¥8,731mn, up 3.4%, ordinary income of ¥9,462mn, up 9.0%, and profit attributable to owners of parent of ¥4,653mn, up 20.3%. As such, this marks the sixth consecutive 1H of increased net sales and profits. Looking at the rates of progress of these results compared to the initial Company forecasts announced in February 2021 (net sales of ¥123,300mn, operating income of ¥8,500mn, ordinary income of ¥8,700mn, and profit attributable to owners of parent of ¥4,100mn), net sales were 107.5%, operating income was 102.7%, ordinary income was 108.8%, and profit attributable to owners of parent was 113.5%. Whereas this marked the sixth straight 1H for which the Company achieved results exceeding its initial forecasts, its results achieved relative to forecasts fell below the averages of the past five years with respect to operating income, ordinary income and profit attributable to owners of parent.

For the FY12/21 consolidated results, the Company is forecasting net sales to increase 3.3% YoY to ¥249,000mn, operating income to rise 2.1% to ¥16,300mn, ordinary income to grow 3.4% to ¥16,900mn, and profit attributable to owners of parent to increase 3.8% to ¥8,900mn. Therefore, it is actually forecasting the eighth consecutive period of higher sales and operating income since 2013 when it transitioned to a fiscal period ending in December.

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Although these results forecasts appear unsatisfactory compared to the FY12/20 results when profits increased by double digits, the Company has continued with a pattern of setting initial forecasts assuming that sales will increase by around 3% and an operating income margin on par with the results of the previous fiscal period since FY12/15, suggesting the targets are regarded as essential to achieve. During 2H FY12/21, it is expected that the Company will engage dual engines in terms of achieving persistently strong performance in the AIS-CRM area and mounting recovery in legacy operations adversely affected by the COVID-19 pandemic. That alone suggests a high likelihood that the Company's results will exceed its full-year forecasts again this fiscal year.

As for the dividend forecast, the Company is poised to increase its dividends for a seventh consecutive year in terms of increasing the annual dividend amount to ¥52 per share (¥26 per share at the end of 2Q, ¥26 per share at the end of the fiscal year) from an annual dividend amount of ¥50 per share (¥25 per share at the end of 2Q, ¥25 per share at the end of the fiscal year) as initially forecast in the first half earnings announcement released in August 2021. The Company intends to increase both its interim dividend (excluding the commemorative dividend) and period-end dividend by ¥3 per share relative to FY12/20 (¥28 per share at the end of 2Q including a commemorative dividend of ¥5 to mark the 50th anniversary of the foundation, and ¥23 per share at the end of the fiscal year). This would seem to suggest that for the interim period management is somewhat more on the upside than usual when it comes to making decisions on increasing dividends. Granted we may be reading too much into this, management seems to be taking an approach that involves enlisting a capital strategy encompassing shareholder returns at unprecedented levels, serving as an enterprise that is committed to increasing its corporate value over the medium- to long-term. This seems likely particularly given moves by corporations to increase dividends amid a scenario where authorities have revised Japan's Corporate Governance Code (June 2021) and where the Tokyo Stock Exchange is moving toward restructuring of its market segments (April 4, 2022).

Key Points

- A major, independent IT solutions vendor established in 1970. Its active investment in human resources and a complementary M&A strategy are proving successful, and it has significantly exceeded the ¥200bn barrier for net sales. At the end of June 2021, it had over 15,000 consolidated employees.
- Its core competencies are "superiority in technologies and deep customer insight," as seen in its abundant track record and corporate philosophy. Although results stagnated for a period after the economic downturn precipitated by the 2008 financial crisis, it has strengthened its financial structure and growth potential and is continuing "Challenges and Creation" while aiming to be an innovative corporate group.
- 1H FY12/21 results exceeded the Company's initial forecasts for the sixth consecutive year. For the FY12/21 full year results, the Company is forecasting higher net sales and operating income for the eighth consecutive period in real terms on expectations of the Company engaging dual engines of performance during 2H in terms of the AIS-CRM domain combined with its legacy operations.
- As for the dividend forecast, the Company is poised to increase its dividends for a seventh consecutive year in terms of increasing the annual dividend amount to ¥52 per share (¥26 per share at the end of 2Q, ¥26 per share at the end of the fiscal year) from an annual dividend amount of ¥50 per share (¥25 per share at the end of 2Q, ¥25 per share at the end of the fiscal year) as initially forecast with the first half earnings announcement released in August 2021.

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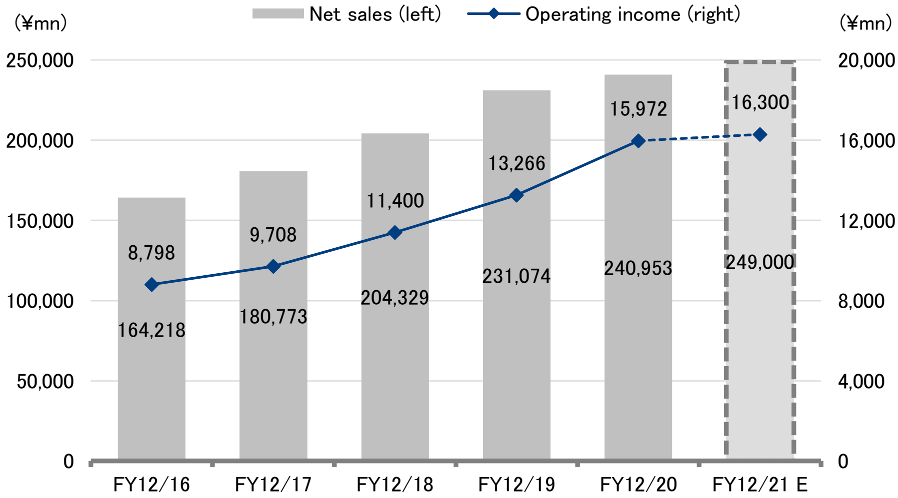
Results trends



Source: Prepared by FISCO from the Company's financial results

Company overview

Broke through the barrier of net sales of ¥200bn, while remaining independent.
Continuing to engage in efforts to create new added value based on its corporate motto of "Challenges and Creation"

The Company is a major, independent IT solutions vendor established in May 1970. It has its roots in FUJI SOFTWARE LABORATORY, Ltd., which was established at the home of Mr. Hiroshi Nozawa, the Company's current Director and Executive Adviser, who at that time was a teacher in a computer vocational school and started a business focusing on the prospects for the computer industry with two other employees who had previously been his students. Today, half a century after this establishment, the Company has grown into a group of 30 consolidated subsidiaries (of which, 4 are listed companies), 2 equity-method non-consolidated subsidiaries and 2 equity-method affiliates, with over 15,000 employees.

Even while achieving rapid development in terms of size, the Company, in accordance with its basic philosophy of "Being a corporate group that is more useful for society, makes customers more happy, and that is more considerate to the Earth, and that provides 'relaxed and worthwhile' work environments," has consistently conducted the enlightened management that its founder aimed for to contribute to society through business, and aims to give shape to the knowledge expressed by its corporate philosophy, such as through the Group's corporate charter and standards of conduct for executives and employees.

The Company has been moving ahead with a strategy of making both the parent company and subsidiaries listed, and currently has four listed subsidiaries. Although the Group Company Charter states that “each company shall mutually respect the others as independent companies and shall prioritize independence and autonomy,” there is a tendency to point to governance issues when listing both the parent and the subsidiaries in capital markets. However, the fact that the business companies do not only have a presence in the capital markets and that they face severe competition in the product and services markets and the labor market is extremely important. When comprehensively weighing the advantages and disadvantages for each market, the degree of satisfaction with the Company’s strategy of listing the parent and subsidiaries is considered to be fairly high at the current time, even when considering moves being taken by the TSE to restructure its market segments.

The Company has three reporting segments: the SI Business, the Facility Business, and the Other Businesses. In the mainstay SI Business, it provides a diverse solutions menu, centered on the development of embedded/control software and operations software. The Facility Business entails rentals of office buildings, and the Other Businesses includes a BPO service business, a contact center business, and a regenerative medicine business.

In addition, as a business strategy to be implemented across the reporting segments, the Company has been advancing initiatives in the “AIS-CRM” area since FY12/17. AIS-CRM, which is the Company’s own unique acronym created by taking the first letters from AI, IoT, Security, Cloud computing, Robot, Mobile & AutoMotive, covers areas that are expected to grow in the medium- to long-term. Whereas it hasn’t been easy for it to amass and hone technologies in these growth fields, the Company appears to be growing in confidence with respect to its AIS-CRM strategy, drawing on its track record thus far.

At the time it was established, the Company’s business was founded on the dispatch of computer operators. Subsequently, it entered into the software development and systems construction businesses and achieved rapid development supported by the explosive expansion of the computer industry. But what should not be overlooked as a factor behind this growth is the strong belief of the executive management, including Hiroshi Nozawa, a Director and Executive Adviser who founded the Company, that the time of the computer-dominated society had arrived. While bearing a considerable risk, the Company actively invested in recruiting and training engineers and pursued a complementary M&A strategy to incorporate the technologies and customer bases it did not have.

Even though the computer-dominated society has become a reality and the domestic IT services market has expanded in scale to be worth slightly below ¥6tn, the major IT services companies with sales of more than ¥100bn are comprised almost entirely of manufacturers (such as Fujitsu Ltd. <6702>), user-related companies (such as NTT DATA Corporation <9613>), trading companies (such as SCSK Corporation <9719>), and foreign-owned companies (such as IBM Japan, Ltd.) Including the Company, there are only three companies that could be called independent. Although it has succeeded at becoming one of the groups with over ¥100bn in net sales in FY3/02, looking at the number of employees to achieve this, which is 4,002 people on a stand-alone basis and 6,353 on a consolidated basis, it can be said that its business expansion has been supported by its active recruitment of human resources and training of engineers since its establishment. Additionally, in 1996, it merged with ABC Co., Ltd., which has strengths in finance-related operations systems, and subsequently also made consolidated subsidiaries of Cybernet Systems Co., Ltd. <4312>, which has its origins in an overseas company in 1999, and MYCAL Systems Corp. (currently VINX Corp. <3784>), whose main business is distribution-related business systems, in 2002. In such ways, the Company has advanced an M&A strategy to incorporate the technologies and customer bases to supplement its strengths in embedded /control software development. It is thought that it would not have been able to exceed net sales of ¥100bn solely from riding the favorable tailwind, but that its bold decision making has also been vital to achieving this. Then, in FY12/18, the Company surpassed the major milestone of net sales of ¥200bn, and achieved net sales of ¥240.9bn in FY12/20. Therefore, despite being in the middle of the coronavirus pandemic, the Company set a record high in net sales for the fourth consecutive fiscal year.

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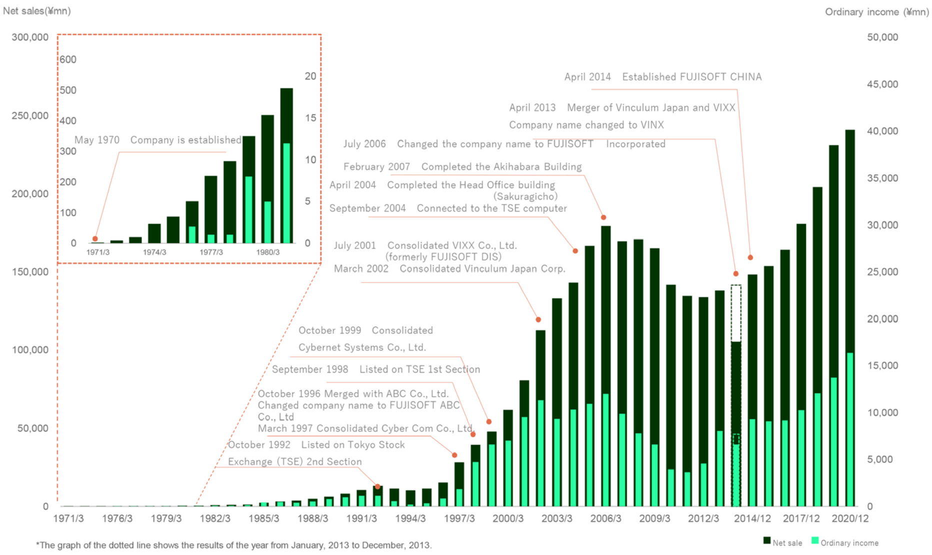
Since its establishment in May 1970, the Company's size has expanded dramatically



Source: From the Company's 2021 FACT BOOK

With "superiority in technologies and deep customer insight" as its core competencies, the Company is aiming to be a CSV-style innovative corporate group

The Company lists its "continuously advancing superiority in technologies and deep customer insight" as the reasons why it is chosen by customers. It is highly confident in its core competencies of "continuously advancing superiority in technologies and deep customer insight" which it demonstrates in aspects such as its advanced technological expertise acquired through the development of embedded/control software that requires extremely high levels of precision, including for vehicles and semiconductor manufacturing equipment; its systems construction capabilities cultivated through the solutions it has provided to a wide range of industries; its ability to provide flexible proposals as an independent solutions provider; and its construction of a network of bases close to customers (39 bases in Japan + a global network). In addition, the Company believes that its key mission is to further societal development through various corporate activities, alongside sustainable growth and the creation of corporate value in the medium to long term. As its medium-term policy, it aims to be "an innovative corporate group that links ICT development to improving value for our customers."

From the messages disseminated by the Company, what stands out are the strong belief in the effectiveness and potential of utilizing ICT and its sense of mission to advance this and a customer-oriented and CSV-type (a company that increases enterprise value through social contributions via its businesses) management policy. Naturally, corporate activities will have CSV-type aspects to a greater or lesser extent, even if the company itself is unaware of this. But in the Company's case, the fact that the founder's strong intentions, based on the corporate motto of "Challenge and Creation," have been incorporated into its corporate culture is worthy of note.

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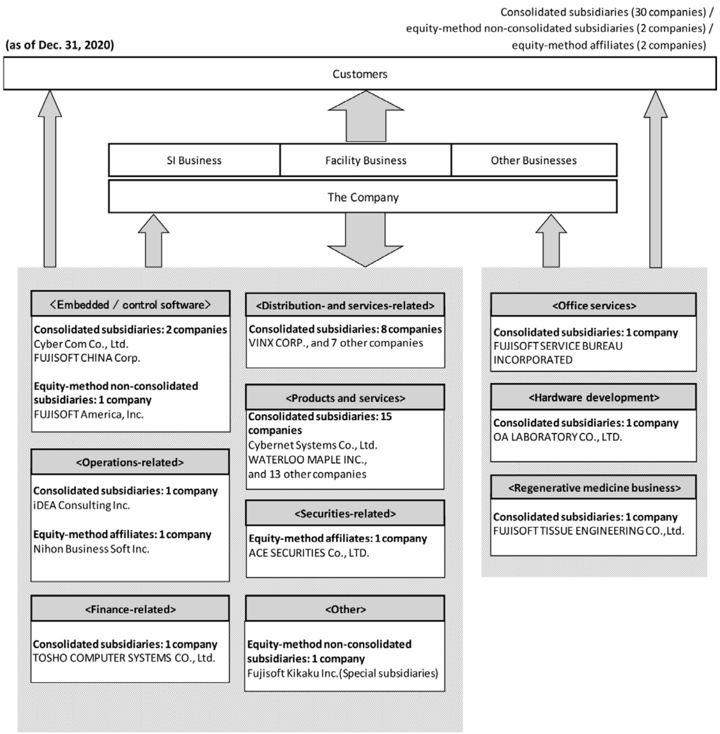
One of the Company's unique initiatives as a CSV-type company is the All Japan Robot-Sumo Tournament, which it has held continuously since 1990 and has grown into Japan's largest robot competition. Although the tournament began with the aim of providing a place to experience the enjoyment of building things and to improve technologies through building robots, it is currently recognized as an excellent example of support for developing human resources through manufacturing. For example, since a division for high school students was established in 1993, the National Association of Principals of Technical Senior High Schools has joined the operation, and organizations including the Ministry of Education, Culture, Sports, Science and Technology (MEXT), and Ministry of Economy, Trade and Industry (METI) are also listed as sponsors. Although the Robot Sumo Tournaments, which were scheduled for 2020 and 2021, were called off due to the coronavirus pandemic, the Company has announced that it will continue its All Japan Robot-Sumo Tournament and related businesses, which serve as a pillar of its social contribution activities, given its commitment to providing a forum for learning about manufacturing.

Business structural diagram



Source: From the Company's securities report

Business overview

Offering varied ICT services and products that facilitate value improvement for customers

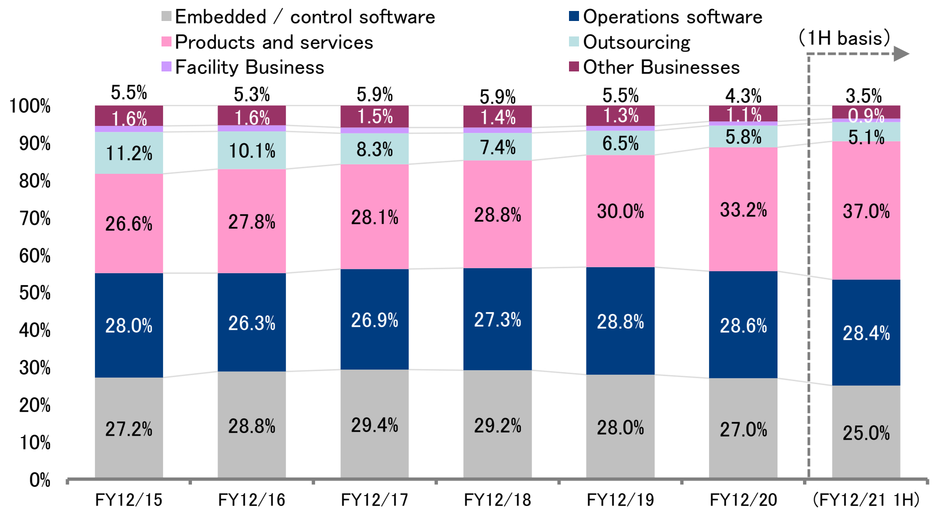
The Company has three reporting segments; the SI Business, the Facility Business, and the Other Businesses. The mainstay SI Business is broadly divided into systems construction, and products and services. Further, systems construction is subdivided into embedded/control software and operations software, while products and services are subdivided into narrowly defined products and services, and outsourcing. In addition, the Facility Business entails rentals of office buildings, while the Other Businesses includes the BPO service business, a contact center business, and a regenerative medicine business.

Segment breakdown

Segment name				Breakdown
SI Business				
	Systems construction			
		Embedded / control software		
			Machine control systems	Embedded / control software such as FA, OA, digital home appliances
			Automotive-related	Automotive-related embedded / control software
			Mobile-related	Embedded / control software for mobile devices, etc.
			Social infrastructure-related	Embedded / control software for communication control (switches, routers, etc.), base stations, aerospace and defense, etc.,
		Operations software		
			Financial industry	Operations software for financial companies (life insurance, credit cards, securities companies, banks, etc.)
			Distribution and services	Operations software for distribution-related companies (retail, wholesale, trading companies, real estate, construction industry, etc.)
			Manufacturing industry	Operations software for manufacturing
			Other operations-related	Operations software that does not correspond to the above fields
	Products and services			
		Products and services		Products and services of the FUJISOFT Group and of other companies based on strategic partnerships
		Outsourcing		Data center business, systems maintenance operations, etc.
Facility Business				Sales related to the real estate rentals business
Other Businesses				Office services, hardware development, regenerative medicine business

Source: From the Company's results briefing material

Trends in percentages of total net sales by segment



Source: Prepared by FISCO from the Company's results briefing material

1. Mainstay embedded/control software

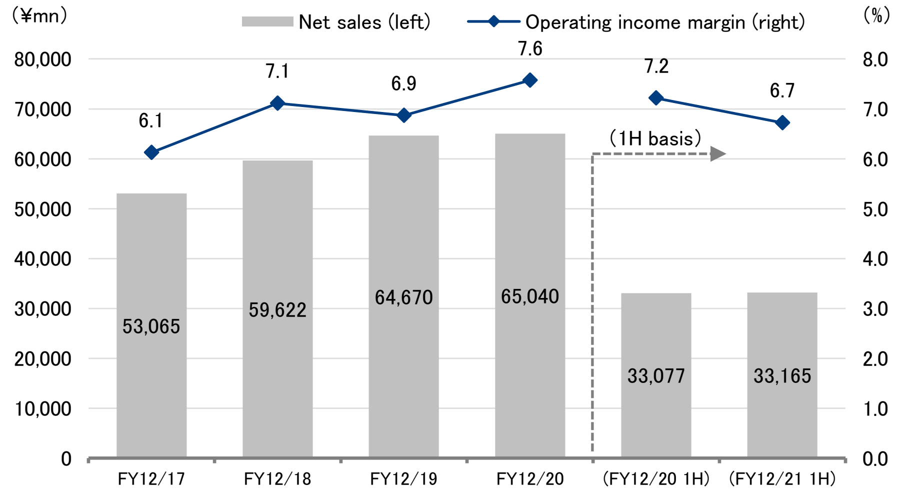
Embedded/control software, which belongs to the systems construction category in the SI Business, accounted for 25.0% of Company-wide net sales (1H FY12/21) and 25.5% of operating income, and the segment profit margin exceeded the Company-wide level. 1H FY12/20 performance was following; net sales increased 0.3% YoY, operating income decreased 6.6%, and the segment profit margin was 6.7% (down 0.5pp). The decrease in the segment's profits as it headed toward recovery in net sales subsequent to 2H FY12/20 (net sales down 3.1% YoY) is attributable to temporarily unprofitable projects coupled with an accumulation of forward-looking costs incurred for the purpose of enhancing sales promotions. As such, this situation of higher net sales but lower profit is seemingly not cause for concern heading into 2H.

Looking at the pace of order acquisition on a quarterly basis, the segment consistently incurred decreases in orders of around 5% YoY from 2Q FY12/20 until 1Q FY12/21. Order receipts then turned positive having increased 5.7% YoY in 2Q FY12/21, while the order backlog has recovered to the point where it is 0.8% lower YoY as of the end of 2Q FY12/21, after having fallen to a level 1.5% lower YoY as of the end of 1Q FY12/21. The Company appears to be growing in confidence as it encounters signs of recovery in fields of business that have been adversely affected by the COVID-19 pandemic, such as the automotive and factory automation (FA) sectors, amid a scenario of consistently strong performance achieved by social infrastructure-related business.

Embedded/control software is software that runs on a microcomputer or other piece of equipment embedded into a device to provide specific functions. The Company's technologies are used in a variety of products and devices, including vehicles and mobile phones, home appliances such as TVs and air conditioners, office automation (OA) equipment including printers, robots and semiconductor manufacturing device production equipment, infrastructure equipment such as traffic lights, and medical equipment such as CT and MRI.

In this area, the Company has built up an excellent track record within Japan and boasts strengths in FA and other machine control systems and automotive-related fields. Looking strictly at vehicles installations, in practical terms it delivers products to all vehicle manufactures in Japan, and has the top share of the domestic market. The Company's AIS-CRM strategy will most likely lead to opportunities for generating profits over the medium- to long-term, given that the strategy taps into major trends that include the productivity revolution enlisting AI and robotics, promoting CASE (Connected, Autonomous, Shared/Service, Electric) in the automotive industry, and drawing on IoT technologies in the social infrastructure-related business.

Trends in embedded / control software net sales and operating income margin



Source: Prepared by FISCO from the Company's results briefing material

2. Promoting development of the digital transformation (DX) market in the realm of operations software

Operations software, part of the system construction category in the SI Business, is a major pillar of earnings, contributing 28.4% of Company-wide net sales (1H FY12/21) and 24.4% of operating income. It achieved an increase in sales and a double-digit increase in profits for four consecutive fiscal years up to FY12/20. In 1H FY12/21, the segment's net sales increased by 10.4% YoY and its operating income increased by 28.1%. Meanwhile, the segment profit margin increased by 0.8pp YoY to 5.7%. In addition, the quarterly order backlog has continued a trend of recovery and positive momentum after having bottomed out in 2Q FY12/20. It accordingly increased substantially by 41.0% YoY in 2Q FY12/21, and the order backlog at the end of FY12/21 1H was up by 26.3% relative to FY12/20 1H.

In this area, in addition to organic business growth, the complementary M&A strategy is proving successful, and the Company has established a system that is able to provide a one-stop service from consulting through to development, systems construction, and support, for various solutions, such as for backbone systems like store and ordering systems and production, sales, inventory, and accounting systems, and also information systems and online services. It provides these solutions to a wide range of industries, including distribution, finance, service, manufacturing, online businesses, social infrastructure, education, medicine, and public institutions.

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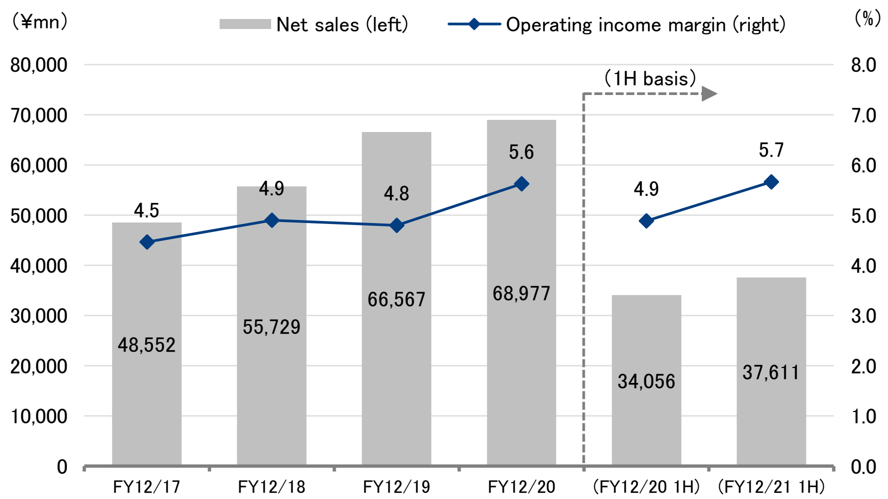
In the operations software area, which is positioned as the main battlefield in the domestic IT services market, there have been structural changes in the market that could prove to be disadvantageous to the existing players, including 1) the shift from on-premises (operating IT systems, such as servers, through equipment installed within a company) to the use of cloud services, and 2) the evolution from "defensive IT (mainly to improve work efficiency)" to "offensive IT (mainly to create businesses)." Within these conditions, the Company, based on a spirit of seeing "change as an opportunity" has clearly set out and is implementing an approach of strengthening the development of outsourcing through actively investing in human resources. It truly makes management decisions in accordance with the Company motto of "Challenge and Creation."

On this point, the strong performance of operations software in recent years, including promotion of the Company's AIS-CRM strategy, can be said to be the result of the Company accurately providing services in response to changing times and the market structure. For instance, the Company has been encountering a shift to e-commerce in the distribution and services field and growing demand in the digital content field, accelerating its response to various forms of digital transformation (DX) in fields centered on systems infrastructure, promoting utilization of ICT on the theme of work-style reforms, and addressing a growing trend of companies adopting virtualization technologies particularly with the aim of enhancing security.

Also, in January 2020, the Company established a new business department and is working to further strengthen initiatives in the online business field. This is part of the Company's business strategy that directly addresses an issue that is facing existing players, which is the "inconvenient truth" of the "Amazon Effect" (the phenomenon that includes the disruption of and reforms to various markets alongside the rapid growth of Amazon.com <AMZN>. In the EC field, which is benefiting from the growth of nesting (staying-at-home) demand during the coronavirus pandemic in addition to the prior achievements, projects for B-to-C, as well as for B-to-B, are strong, and the growth trend is expected to continue in the medium to long term.

Trends in operations software net sales and operating income margin



Source: Prepared by FISCO from the Company's results briefing material

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3. Narrowly-defined products and services with increased presence

Products and services in the Systems Integration (SI) Business are subdivided into narrowly-defined products and services, and outsourcing. Narrowly-defined products and services featured prominently among the Company's operations in 1H FY12/21, with net sales and operating income attributable to such products and services having increased by 17.6% and 5.1% YoY, respectively. Meanwhile, their net sales accounted for 37.0% of the Company's overall net sales for an increase of 3.0pp YoY, and their operating income accounted for 39.2% of the Company's overall operating income for an increase of 0.7pp. However, order backlog as of the end of 1H FY12/21 was 25.9% lower than order backlog as of the end of 1H FY12/20, amid a scenario of slowing momentum with respect to order acquisition on a quarterly basis due to a reversal effect involving major orders and also due to a tapering off of special demand for certain products (4Q FY12/20: up 24.1% YoY → 1Q FY12/21: up 11.0% → 2Q FY12/21: down 22.8%).

Narrowly defined products and services are comprised of 1) the Company's own products (including moreNOTE, a paperless system; Mirai School Station, a comprehensive education solution for the information society; smartBYOD, a tool for utilizing employees' personal smartphones and other devices for a company's operations; PALRO, a communication robot; FS030W and FS040W, SIM-free mobile routers; FAMoffice, a tool to reduce work-from-home disadvantages such as communication loss, etc.), 2) the license business (Microsoft <MSFT> products, AWS, VMware <VMW>, etc.), and 3) product sales, etc. (PCs, servers, etc.)

Looking at the YoY percentage increase in sales in 1H FY12/21, sales of the Company's own products decreased 1% (versus 38% increase in FY12/20 on a full-year basis), while license business sales were up 11% (versus 46%) and product sales, etc. increased 37% (versus 14% decrease).

The slowdown in sales of the Company's own products is largely attributable to a tapering off of special demand for SIM-free mobile routers, which had been fueled by mounting demand related to remote work due to the COVID-19 pandemic. Meanwhile, the license business continues to perform well, prompted by double-digit growth achieved by the AWS- and VMware-related businesses in the field of cloud computing and virtualization. The significant increase in product sales, etc. is attributable to the Company having posted sales associated with orders received for major projects during the previous year.

With respect to the license business, sales have continued to increase even after peaking out of special demand in conjunction with the end of support for Windows 7 (on January 14, 2020). In addition, it is possible that stability in the business has increased thanks to the growing shift to a subscription model for ICT products—a business model in which fees are collected based on length of use, rather than via one-time software sales—including Office 365 (former Office) and various cloud services. Note that sales of support for deployment of licensed products is recorded in the Company's own products, apparently enabling it to secure high profit margins.

Amid these circumstances, the Company launched its Desktop Full Service on August 2, 2021. The new service offers one-stop support for PC lifecycle management tasks encompassing everything from PC selection and rental to kitting, administration and support, application of software updates, and other relevant services. The Company recommends installation of the Microsoft 365 platform for use of this proprietary service, which has the capacity to increase the Company's profitability by generating growth across the narrowly-defined products and services category overall. Microsoft began providing Windows 365 subscription-based services (cloud computing in the form of a virtual desktop for enterprises) on August 2, 2021, and is slated to begin offering its next operating system, Windows 11, on October 5, 2021. At any rate, the Company seems poised to benefit significantly from launch of its new Desktop Full Service, though it may or may not encounter momentum arising in terms of a market fueled by special demand, as has happened in the past.

In addition, the Company's series of initiatives backed by long-term personnel development have been highly evaluated by its business partners. Specific results achieved by the Company since 2019 due to such initiatives are as follows.

From Microsoft, the Company received the Modern Device Award in the Microsoft Japan Partner of the Year 2019, and also received the Microsoft Teams Award in the Microsoft Japan Partner of the Year 2021.

In 2019, the Company received the "Government Agency Competency," "IoT Competency," and "Managed Service Provider" certifications from Amazon Web Services (AWS), the largest provider of IT cloud services in the world, thereby making the Company the first in Japan to gain the first two of the three designations. In 2020, the Company received "APN Premier Consulting Partner" certification, which is only granted to partners with particularly excellent track records. Also in 2020, the Company received the "Migration Competency," "AWS well-Architected Partner Program," and "Oracle Competency" certifications, which require comprehensive skills and a track record to migrate from on-premises environments to AWS. In 2021, the Company's engineers were selected as "APN Ambassadors" and "APN AWS Top Engineers" in recognition of their outstanding technical skills with AWS and ongoing efforts to disseminate information.

The Company attained the status of "Principal," which is the highest level of certification in the three categories (out of a total of five categories) of data center virtualization, network and security, and digital workspace in the new partners system from 2020 implemented by VMware, which has the largest market share in the world of the IT virtualization market. The Company also won the VMware 2020 Partner of the Year Award (Cloud Platform Transformation, in Asia-Pacific and Japan). In 2021, the Company received the 2021 VMware APJ Partner Innovation Award.

From Blue Prism, which is a global leader in the corporate intelligent automation field, the Company acquired the Silver Delivery Provider certification in recognition of its RPA (Robot Process Automation) technological capabilities, and in 2021 the Company received the "Corporate Territory Best Partner Award" in recognition of its track record and advanced technologies supporting customer adoption of such technologies.

With respect to its initiatives extending beyond the scope of products and services, on August 31, 2021, the Company announced that it had become the first enterprise in Japan to serve as a partner in the "NVIDIA DX Acceleration Program," which was newly established by NVIDIA GK, a Japanese subsidiary of NVIDIA Corporation of the U.S., which is a global leader in GPU computing. NVIDIA has given the Company high marks for its track record of AI development and integration, which ranks at the top in Japan. The purpose of the "NVIDIA DX Acceleration Program" is to assist companies encountering challenges involving digital transformation (DX) and AI by providing them with support from planning DX initiatives aligned with growth strategies to development and operation, enlisting the coordination of NVIDIA and program partners that include business consultants, AI experts and system integrators to do so.

One of the Company's strengths is that, as an independent SIer, it is able to construct systems flexibly without being tied to specific hardware. At the same time, launching proprietary brands and products, including remote education-related products and hardware such as the communication robot and mobile routers, seems to pose unique challenges. Moreover, the Company's approach to external sales of tools it uses in-house for remote work may be viewed as a typical example of "dogfooding" (trialing products and services in-house before providing them to customers). The strategy of working to create new added value through the Company's own products that are infused with its core competencies, of "superiority in technologies and deep customer insight," acts in accordance with its corporate motto of "Challenge and Creation." The Company has said that it is seeking high profitability after the investment phase.

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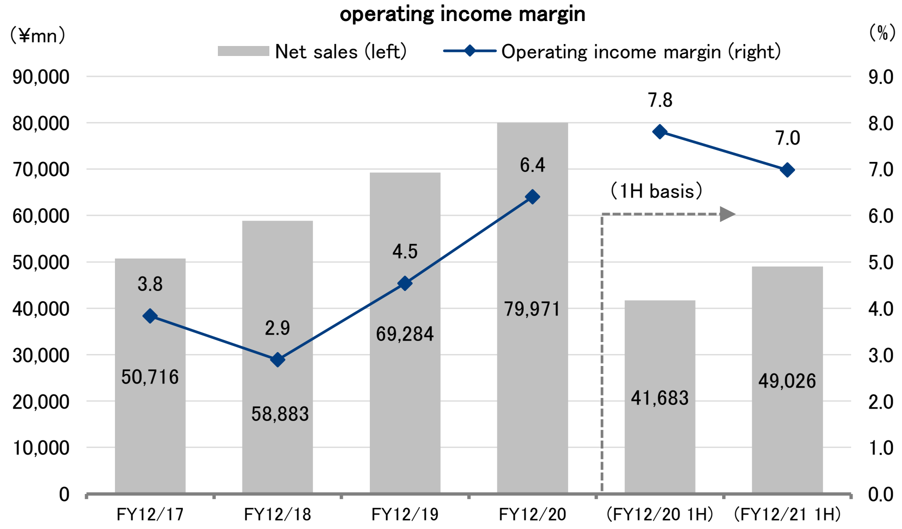
In this regard, it is worth noting that the segment profit margin of narrowly defined products and services, which previously trended below the Company-wide level, has since shown significant improvement having increased by 3.5pp to 6.4% in FY12/20 from 2.9% in FY12/18, and furthermore maintained the high level of 7.0% even in 1H FY12/21, during which an increase in product sales of low-margin products overlapped with a tapering off in special demand for the Company's products with high profit margins.

The segment has also achieved a better sales mix, in addition to attaining improvement in profitability of subsidiary CYBERNET SYSTEMS due to upfront investment targeting quality enhancement. Whereas short-term fluctuations in the segment profit margin warrant neither hope nor despair given that the segments results hinge on recording of spot sales of products that vary widely in terms of profitability, it is worth monitoring developments going forward with a sense of optimism.

Trends in narrowly defined products and services net sales and operating income margin



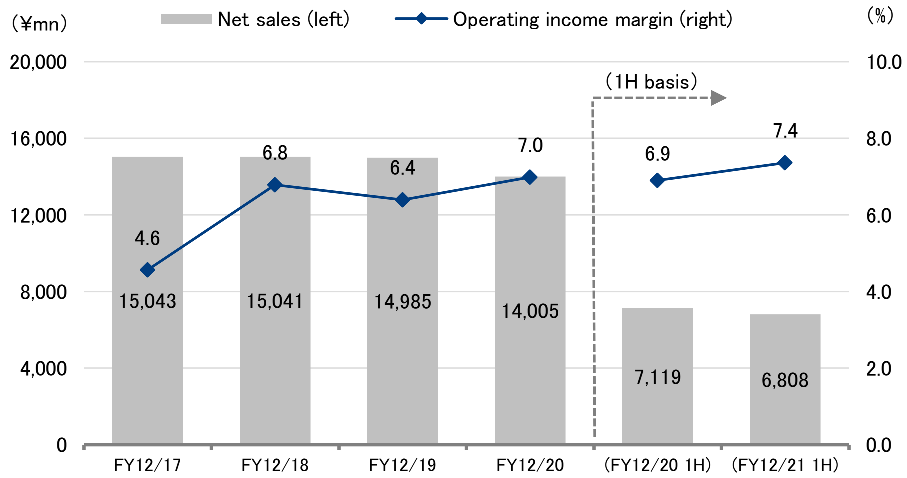
Source: Prepared by FISCO from the Company's results briefing material

4. Outsourcing is searching for the bottom

Outsourcing provides services including data centers and systems operations and maintenance, and in 1H FY12/21 it contributed 5.1% of total net sales and 5.7% of operating income, and it had a segment profit margin of 7.4%. In 1H FY12/21, net sales declined 4.4% YoY, operating income increased 2.5%, while the segment profit margin increased 0.5pp. Orders received increased 2.4% YoY and the order backlog as of the end of FY12/21 was 5.4% lower than at the same time in the prior year.

Due to business structural reforms and other reasons, the profit margin has been above the Company-wide average since FY 12/18. However, the decline in sales in recent years has been brought on mainly by the decrease in ongoing projects for distribution and services. It is thought that the data center business, in which competition with other companies' cloud services is fierce, continues to be in a phase of searching when sales from the data center business bottom out.

Trends in outsourcing net sales and operating income margin



Source: Prepared by FISCO from the Company's results briefing material

5. While it is a non-core domain, the Facility Business has high earnings

The Facility Business, which obtains rental income from the office buildings owned by the Company, provides 0.9% of total net sales (1H FY12/21) and 4.7% of operating income, with an extremely high segment profit margin of 32.5%. As for financial results of 1H FY12/21, net sales decreased 5.7% YoY, profit decreased 11.4%, and segment profit margin fell by 2.1pp.

The Facility Business is positioned to make effective use of the Company's vacancies where the Company owns properties essentially for its own use. As such, the Facility Business consistently serves to bolster profit levels though considered a non-core domain given that its segment profit margin is significantly higher than the Company-wide average, albeit volatility with respect to its financial results are not cause for concern.

According to the Company's securities report, there are four properties; the Yokohama Head Office (land-acquisition year: 2000, land and property book value: ¥11,135mn), the Akihabara Office (2005, ¥30,594mn), the Kinshicho Office (2000, ¥6,065mn), and the Ryogoku Office (2018, ¥1,760mn).

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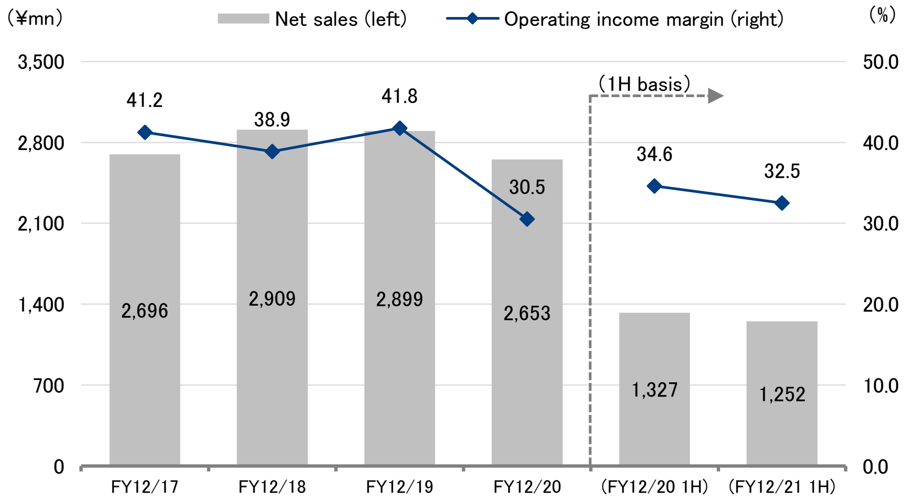
Trends in the Facility Business net sales and operating incomemargin

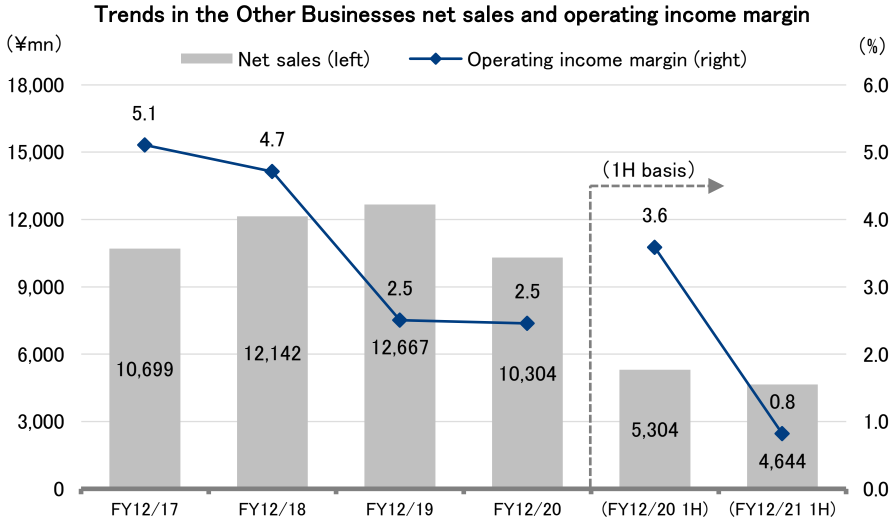


Source: Prepared by FISCO from the Company's results briefing material

6. In the Other Businesses segment, FUJI SOFT SERVICE BUREAU encountering challenges

The Other Businesses provided 3.5% of total net sales (1H FY12/21) and 0.4% of total operating income (same). In 1H FY12/21, net sales declined 12.4% YoY and profits fell 79.7%. Meanwhile, the segment profit margin remained largely unchanged at 0.8%, down by 2.8pp YoY.

The Other Businesses segment's main businesses consist of the BPO service business and the contact center business operated by subsidiary FUJI SOFT SERVICE BUREAU <6188>. During 1H FY12/21, although the segment encountered growth with respect to its services for local governments, it was otherwise subject to challenges given a situation where its sales activities involving services for the private sector were at a standstill due to the COVID-19 pandemic, certain call center services for government offices were discontinued, and the segment encountered price competition against a backdrop of new market entrants from other industries.



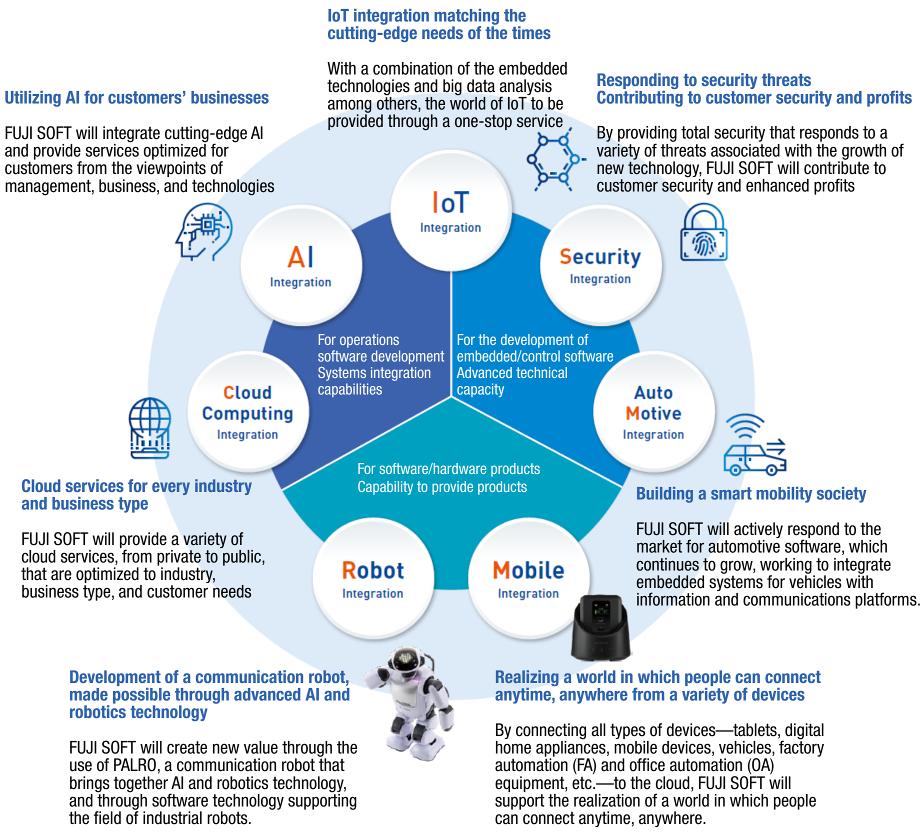
Source: Prepared by FISCO from the Company's results briefing material

7. Taking on the challenge of creating new products and businesses in business strategy for "AIS-CRM" area

As previously stated, the Company has positioned "AIS-CRM" as an important-technology field, and is focusing on creating the seeds of new products and businesses and improving the added value of existing businesses. Although, this might look like a series of buzzwords at first glance, the Company's core competencies are included in the superordinate concept of the "AIS-CRM" strategy, and the results of these initiatives are steadily being realized. Results are especially strong in the cloud field, where SIM-free mobile routers have grown into hit products. Although the details have not been disclosed, the overall "AIS-CRM" field appears to have already reached a level where it accounts for a majority of the Company's stand-alone net sales.

Having formed a partnership with Red Team Technologies Co., Ltd. in November 2020 (conclusion of distributorship agreement announced in November 2020), the two companies began offering a new security service (vulnerability diagnostics) that utilizes the Synack cloud penetration testing platform to financial institutions and other entities providing internet-based services. In June 2021, the Company subsequently entered into an agreement with leading domestic cybersecurity company FFRI Security, Inc. to strengthen collaboration in the cybersecurity field. This array of initiatives is noteworthy in terms of their role in enhancing the field of security in the AIS-CRM domain.

Summary of AIS-CRM



Source: From the 2021 CSR Report

Results trends

Consolidated results continued to be steady in 1H FY12/21. Continuing to balance dual objectives of enhancing financial structure and actively engaging in upfront investment underpinned by a flexible management strategy

In the 1H FY12/21 consolidated results, net sales increased 8.1% YoY to ¥132,508mn, operating income rose 3.4% to ¥8,731mn, ordinary income grew 9.0% to ¥9,462mn, and profit attributable to owners of parent increased 20.3% to ¥4,653mn. As such, this marks the sixth consecutive 1H of increased net sales and profits.

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Looking at the rates of progress of these results compared to the initial Company forecasts announced in February 2021 (net sales of ¥123,300mn, operating income of ¥8,500mn, ordinary income of ¥8,700mn, and profit attributable to owners of parent of ¥4,100mn), net sales were 107.5%, operating income was 102.7%, ordinary income was 108.8%, and profit attributable to owners of parent was 113.5%. Whereas this marked the sixth straight 1H for which the Company achieved results exceeding its initial forecasts, the results achieved relative to forecasts fell below the averages of the past five years with respect to operating income, ordinary income and profit attributable to owners of parent. Nevertheless, the notion that results relative to forecasts were lower than the five-year average should not be perceived in a negative light given that this development is attributable to factors that include temporarily unprofitable projects coupled with an accumulation of forward-looking costs incurred for the purpose of enhancing sales promotions.

In fact, more than 10 years passed since the Company set new record high net sales in FY12/17, higher than the peak net sales prior to the 2008 financial crisis (FY3/06). It can be highly evaluated for not only recovering non-recurring revenue, but strengthening both the financial structure and growth potential. Moreover, it appears that the Company has been implementing flexible controls in terms of striking a balance between financial soundness and aggressive investment even amid the COVID-19 pandemic.

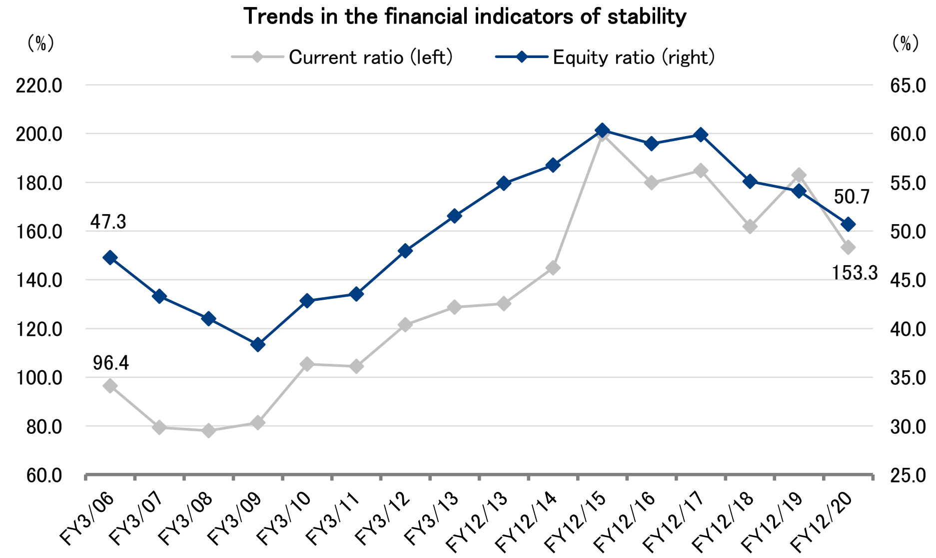
Specifically, the Company realized soundness for the representative financial indicators, with the equity ratio rising from 47.3% at the end of FY3/06 to 59.9% at the end of FY12/17; the current ratio from 96.4% to 184.9%; and net interest-bearing debt (interest-bearing debt – cash and deposits) amounting to ¥6,204mn in excess cash, down from ¥21,295mn. Based on this, from FY12/15 onwards it conducted major recruitment, mainly of new graduates, so the number of consolidated employees increased by 1.7 times, from 9,415 employees at the end of FY3/06 to 15,756 employees at the end of June 2021. The percentage of certified technicians on a stand-alone basis (the percentage of certified specialists and certified project managers, based on the Company system out of the total number of employees) also had risen from 22.8% at the end of FY12/14 to 31.2% at the end of June 2021. From this, it can be understood that growth potential as seen from the aspect of human resources has been enhanced both in terms of quantity and quality.

The Company has also been advancing initiatives in the “AIS-CRM” area since FY12/17. AIS-CRM, which is the Company’s own unique acronym created by taking the first letters from AI, IoT, Security, Cloud computing, Robot, Mobile & AutoMotive, covers areas that are expected to achieve growth over the medium to long term.

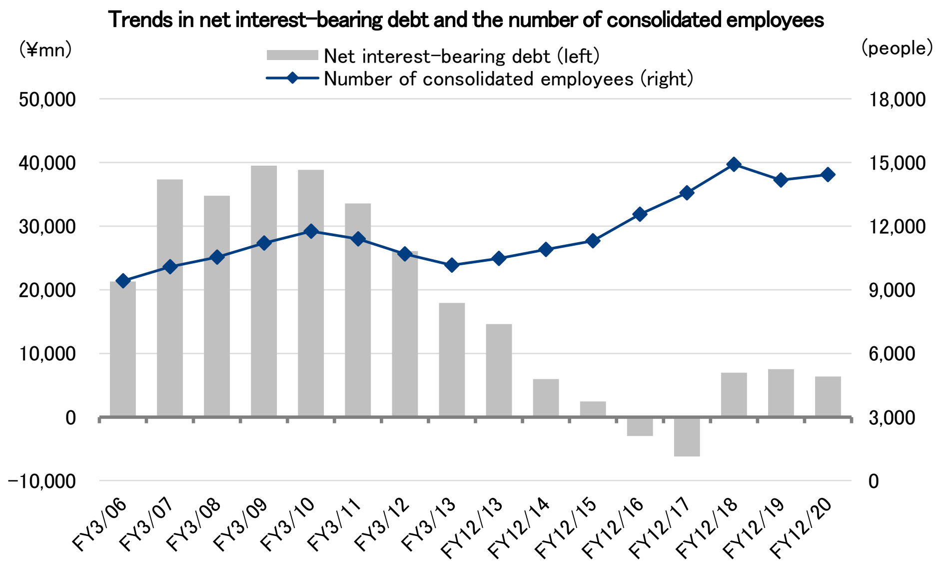
As a result of the above, the Company continued to achieve sales gains and double-digit increases in operating income up to FY12/20 and has otherwise maintained a sound financial structure amid a decrease of ¥1,157mn in net interest-bearing debt relative to the end of the previous fiscal year to ¥6,341mn. This was despite a situation where the Company’s financial indicators at the end of FY12/20 showed signs of deterioration given decreases in its equity ratio and current ratio to 50.7% and 153.3%, respectively (down 3.4pp and 29.6pp compared to the end of the previous fiscal year), which was due to the Company’s financial strategy accounting for effects of COVID-19 (accumulation of cash and deposits through short-term fund raising and repayment of long-term loans payable). In addition, results trended toward improvement with respect to the Company’s primary financial indicators in 1H FY12/21, having achieved an equity ratio of 53.9% (up 2.5pp YoY), current ratio of 184.5% (up 23.0pp), and net interest-bearing debt amounting to ¥8,965mn in excess cash (a decrease of ¥22,702mn).

Looking here at the relationship between the financial indicators and the management strategy, in FY12/15, which is when the Company launched large-scale recruitment and increased upfront investment, the equity ratio was around the 60% level, the current ratio had improved to nearly 200%, and net interest-bearing debt had been reduced to a level of excess cash in FY12/16 and FY12/17. This indicates that FY12/15 was when the Company realized a strong financial structure.

It can be said that the Company's strengths include its ability to make and implement management decisions quickly through strong leadership, including that of its founder. It did not hesitate to change to "offensive management (actively conducting upfront investment)" precisely because it had progressed "defensive management (strengthening the financial structure)" during a phase of slumping results. Therefore, the Company can be highly evaluated for making impartial management decisions that accurately reflect the changes to its business environment.



Source: Prepared by FISCO from the Company's securities report and financial results



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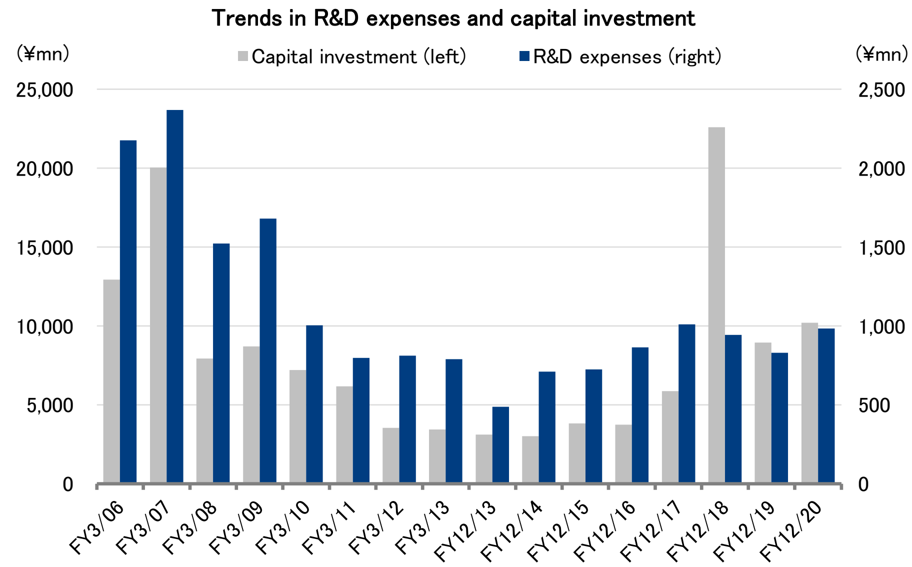

Source: Prepared by FISCO from the Company's securities report and results briefing material

Simplified income statements

(¥mn)

	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21 (1H)	FY12/21 (E)
Net sales	164,218	180,773	204,329	231,074	240,953	132,508	249,000
YoY	6.9%	10.1%	13.0%	13.1%	4.3%	8.1%	3.3%
Cost of sales	126,024	138,708	156,808	178,337	186,105	103,566	-
YoY	7.2%	10.1%	13.0%	13.7%	4.4%	9.7%	-
Gross profit	38,193	42,065	47,520	52,736	54,847	28,942	-
YoY	5.8%	10.1%	13.0%	11.0%	4.0%	2.7%	-
Gross profit margin	23.3%	23.3%	23.3%	22.8%	22.8%	21.8%	-
SG&A expenses	29,394	32,357	36,119	39,470	38,875	20,210	-
YoY	6.2%	10.1%	11.6%	9.3%	-1.5%	2.4%	-
SG&A expenses ratio	17.9%	17.9%	17.7%	17.1%	16.1%	15.3%	-
Operating income	8,798	9,708	11,400	13,266	15,972	8,731	16,300
YoY	4.5%	10.3%	17.4%	16.4%	20.4%	3.4%	2.1%
Operating income margin	5.4%	5.4%	5.6%	5.7%	6.6%	6.6%	-
Ordinary income	9,166	10,260	12,071	13,749	16,343	9,462	16,900
YoY	0.8%	11.9%	17.7%	13.9%	18.9%	9.0%	3.4%
Profit attributable to owners of parent	5,042	5,797	6,516	7,836	8,573	4,653	8,900
YoY	2.4%	15.0%	12.4%	20.3%	9.4%	20.3%	3.8%

Source: Prepared by FISCO from the Company's financial results

Simplified balance sheets

(¥mn)

	End-FY12/16	End-FY12/17	End-FY12/18	End-FY12/19	End-FY12/20	End-1H FY12/21	Change
Current assets	67,350	72,457	77,315	88,009	105,363	106,413	1,049
Cash and deposits	19,134	18,851	22,554	22,278	38,330	40,809	2,479
Notes and accounts receivable - trade	36,727	40,288	44,456	49,570	52,750	51,469	-1,281
Non-current assets	96,513	102,110	115,310	119,609	129,173	119,242	-9,930
Property, plant and equipment	65,796	65,220	82,356	86,334	89,928	90,384	456
Intangible assets	5,949	6,821	4,738	4,043	4,705	5,030	324
Investments and other assets	24,766	30,068	28,214	29,231	34,539	23,827	-10,711
Total assets	163,863	174,568	192,625	207,618	234,537	225,656	-8,880
Current liabilities	37,461	39,197	49,428	48,106	68,751	57,689	-11,062
Notes and accounts payable - trade	9,444	9,977	9,526	13,361	12,519	13,993	1,474
Short-term loans payable and others	9,410	8,464	16,207	7,158	24,156	11,681	-12,475
Non-current liabilities	17,400	16,959	23,526	32,691	30,623	29,062	-1,560
Long-term loans payable	6,723	4,182	13,319	22,618	20,515	20,163	-352
Total liabilities	54,861	56,156	72,955	80,797	99,374	86,752	-12,622
(Interest-bearing debt)	16,134	12,647	29,527	29,776	44,671	31,844	-12,827
Total net assets	109,001	118,411	119,670	126,820	135,163	138,904	3,741

Source: Prepared by FISCO from the Company's securities report and financial results

Simplifies cash flow statements

(¥mn)

	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21 (1H)
Net cash from operating activities (a)	9,530	9,244	11,192	12,584	14,787	9,589
Net cash from investing activities (b)	-4,337	-4,524	-23,424	-9,442	-16,109	8,269
Net cash from financing activities	1,076	-4,462	-14,766	-1,451	12,703	-13,755
Free cashflow (a) + (b)	5,192	4,720	-12,232	3,142	-1,322	17,858
Cash and cash equivalents at end of period	21,790	22,157	24,587	26,158	37,450	41,902

Source: Prepared by FISCO from the Company's financial results

Outlook

With the business environment moving in an overall positive direction, there are expectations for "the next move" targeting medium- to long-term growth

1. FY12/21 consolidated results forecasts

For the FY12/21 consolidated results, the Company is forecasting net sales to increase 3.3% YoY to ¥249,000mn, operating income to rise 2.1% to ¥16,300mn, ordinary income to grow 3.4% to ¥16,900mn, and profit attributable to owners of parent to increase 3.8% to ¥8,900mn. Therefore, it is actually forecasting the eighth consecutive period of higher net sales and operating income since 2013 when it transitioned to a fiscal period ending in December.

Although these results forecasts appear unsatisfactory compared to the FY12/20 results when profits increased by double digits, the Company has continued with a pattern of setting initial forecasts assuming that sales will increase by around 3% and an operating income margin on par with the results of the previous fiscal period since FY12/15. As such, these forecasts seemingly constitute the Company's minimum targets. During 2H FY12/21, we expect that the Company will engage dual engines in terms of achieving persistently strong performance in the AIS-CRM area and mounting recovery in legacy operations adversely affected by the COVID-19 pandemic. That alone suggests a high likelihood that the Company's results will exceed its full-year forecasts again this fiscal year.

As for the dividend forecast, the Company is poised to increase its dividends for a seventh consecutive year, raising the annual dividend to ¥52 per share (interim dividend of ¥26 per share and year-end dividend of ¥26 per share) from an annual dividend of ¥50 per share (interim dividend of ¥25 per share and year-end dividend of ¥25 per share) as initially forecast in the first half earnings announcement released in August 2021. The Company intends to increase both its interim dividend (excluding the commemorative dividend) and period-end dividend by ¥3 per share relative to FY12/20 (¥28 per share at the end of 2Q including a commemorative dividend of ¥5 to mark the 50th anniversary of the foundation, and ¥23 per share at the end of the fiscal year). This would seem to suggest that for the interim period management is somewhat more on the upside than usual when it comes to making decisions on increasing dividends. Granted we may be reading too much into this, management seems to be taking an approach that involves enlisting a capital strategy encompassing shareholder returns at unprecedented levels, serving as an enterprise that is committed to increasing its corporate value over the medium to long term. This seems likely particularly given moves by corporations to increase dividends amid a scenario where authorities have revised Japan's Corporate Governance Code (June 2021) and where the Tokyo Stock Exchange is moving toward restructuring of its market segments (April 4, 2022).

Results forecast

(¥mn, %)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share (¥)
	Amount	YoY	Amount	YoY	Amount	YoY	Amount	YoY	
FY12/19	231,074	13.1	13,266	16.4	13,749	13.9	7,836	20.3	250.40
FY12/20	240,953	4.3	15,972	20.4	16,343	18.9	8,573	9.4	273.96
FY12/21 (E)	249,000	3.3	16,300	2.1	16,900	3.4	8,900	3.8	284.40

Source: Prepared by FISCO from the Company's financial results

2. Recovery is apparent in legacy operations adversely affected by the COVID-19 pandemic, amid a scenario of persistently strong performance in the AIS-CRM domain

The Company's assessment of business conditions across its respective fields of business raises expectations that it will enter a phase of business growth during 2H FY12/21, driven by the dual engines of its AIS-CRM domain and legacy operations.

Firstly, in the field of embedded/control software, the Company has achieved persistently firm results in its AIS-CRM domain (Robot, which had been on a downward trend, also recovered) along with continuing strong performance in its social infrastructure-related business encompassing services related to 5G, one of its legacy operations. We are also seeing positive trends when it comes to fields of business where adverse effects of the COVID-19 pandemic have been market-wide. For instance, companies in the machinery manufacturing industry are shifting toward recovery after having curbed operations previously, while companies in the automotive sector are also growing in confidence toward recovery. Meanwhile, the Company is at the stage where its mainstay embedded/control software business, a legacy operation that serves as a powerful engine of Company performance, is going into gear.

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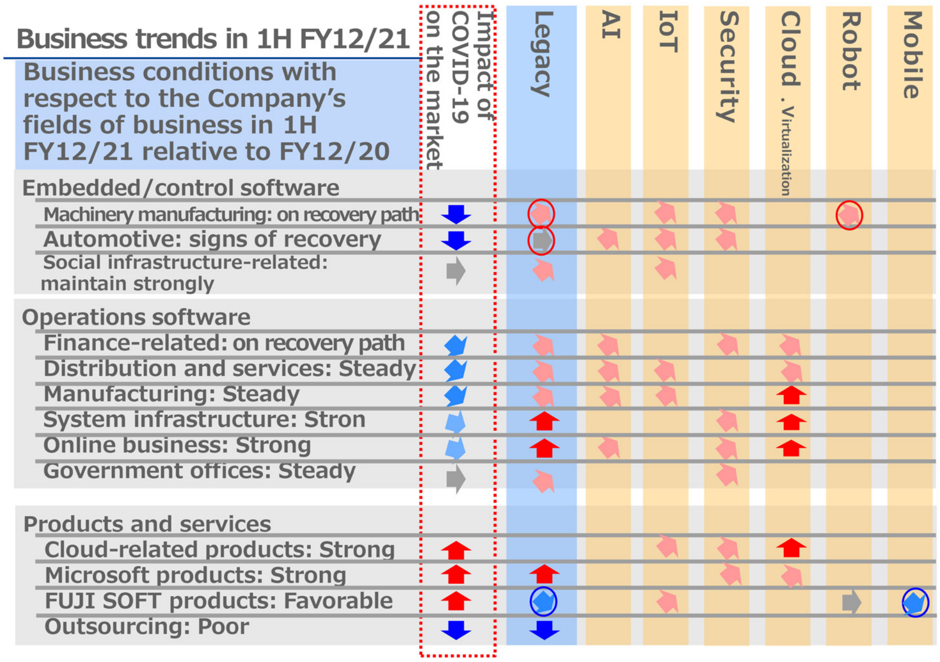
Next, the field of operations software, where the AIS-CRM domain has a high content rate and is capturing the increased demand in the e-commerce field and needs for digital transformation (DX) in other industries, appears to be engaging dual engines in its AIS-CRM domain and legacy operations, which are in phases of recovery, achieving steady performance, and achieving strong performance across respective sectors that include finance-related, distribution and services, manufacturing, system infrastructure, online business, and government offices.

Moreover, the Company continues to generate strong results in the field of products and services when it comes to cloud-related offerings other than outsourcing, as well as brisk business when it comes to solutions enlisting Microsoft products, despite special demand having tapered off with respect to sales of FUJI SOFT products (mobile routers), which had previously achieved significant growth.

The Company's assessment of business conditions in its respective fields of business (1H FY12/21)



Source: Prepared from the Company's results briefing material

3. Productivity is improving from the focus on upfront investment and work-style reforms

The Company is focusing on investing in human resources, centered on the large-scale recruitment of new graduates, while on the other hand, it is assiduously implementing work-style reforms that are tailored to a variety of lifestyles, and providing support for these reforms, toward realizing "relaxed and worthwhile" working environments.

Specifically, based on the upgraded version of the Super Flex system introduced in 1990 that had no core working hours, the Company introduced the Ultra Flex system (the Super Flex system + a system enabling the acquisition of paid leave on units of 30 minutes and refresh time on units of 10 minutes without fixing the time period). Based on this, it has been working on reducing overtime work, promoting acquisitions of paid leave, establishing an environment for remote work, and also working on the fully fledged operations of a work-from-home system geared toward all Company employees. In 2020, it adopted the system two months prior to the Japanese government's declaration of a state of emergency. Beginning in April 2020, it introduced a system for homeworking allowance (temporary allowance payments for initial expenses) and a support fund (monthly allowance payments for electricity and communication expenses).

As a result of the above, the Company achieved excellent results in FY2020 (from April 2020 to March 2021) for 1) paid-leave acquisition rate: 67.5% (56.3% among private-sector companies with at least 30 employees in 2020 according to the General Survey on Working Conditions, Ministry of Health, Labour and Welfare), 2) workforce permanently or primarily working from home: over 40% of employees (since January 2021), 3) employees taking childcare leave: 192 employees, and 4) annual average overtime hours (other than predetermined): 23 hours 15 minutes. These excellent results are highly evaluated and recognized by external organizations. For instance, the Company was awarded the Platinum Kurumin Certification based on the Act on Advancement of Measures to Support Raising Next-Generation Children (Ministry of Health, Labour and Welfare) and the highest rank of the Eruboshi Certification based on the Act on Promotion of Women's Participation and Advancement in the Workplace (Ministry of Health, Labour and Welfare). Moreover, it has been included in the Top Hundred Telework Pioneers (Ministry of Internal Affairs and Communications), the Certified Health & Productivity Management Outstanding Organizations Recognition Program (Ministry of Economy, Trade and Industry), and certified as a Kanagawa business that promotes the support of children and child-raising (Kanagawa Prefecture).

Work-style reforms, which will cause a reduction in the working hours of existing employees, and the large-scale recruitment of new graduates, will lead directly to a dilution in the workforce and an increase in upfront costs. Therefore. in many cases, these are factors keeping down the productivity indicator of operating income per employee (operating income/the average number of employees at the end of the period) in the short term. In the case of the Company, in the two years after FY12/15, when it began the large-scale recruitment of new graduates while producing positive effects from work-style reforms, operating income per employee decreased. However, since FY12/17, it changed direction and has been increasing. In FY12/20, it improved to just under ¥1.12mn (up 51.5% versus FY12/16). In 1H FY12/21, operating income per employee increased YoY.

Taking a closer look, the new graduate inclusion rate found using a simple calculation (the number of recruited new graduates in the Company alone + in listed subsidiaries/the number of employees on a consolidated basis at the end of the previous fiscal year) rose each year from 1.5% in FY12/14 to 7.2% in FY12/18, and subsequently stayed at a high level in the 6% range. In addition, the FY2020 (April 2020–March 2021) average monthly overtime hours were 23 hours and 15 minutes, which was a significant decline from the 30 hours and 49 minutes in FY2014, while the paid-leave acquisition rate has stayed at a high level from the high 60% range to low 70% range consecutively since FY12/15. Amid this, the Company has achieved an increase in work productivity (operating income per employee increased from just under ¥780,000 in FY12/14 to just under ¥1.12 million in FY12/20) in conjunction with the increase in expenses per employee (from ¥5.98 million in FY12/14 to ¥6.17 million in 12/20) (consolidated personnel costs/the number of employees on a consolidated basis at the beginning and end of the fiscal year). This is something that should be evaluated highly, as it appears to be the result of the Company's earnest efforts to improve the work framework and create relaxing and rewarding working environments for employees through the utilization of ICT and by continuously reviewing types of work and work environments.

The work-style reforms advanced by the Company thus far have become a powerful weapon for ensuring business continuity without significant disruptions even amidst the COVID-19 pandemic. Furthermore, the Company's extensive implementation of teleworking and work-from-home arrangements as an IT solutions vendor may be regarded as typical "dogfooding," which seems to have been extremely significant for the experience of exposing the Company to advantages (reducing costs, improving work efficiency, etc.) and disadvantages (security issues, lack of communication, etc.) of such work arrangements.

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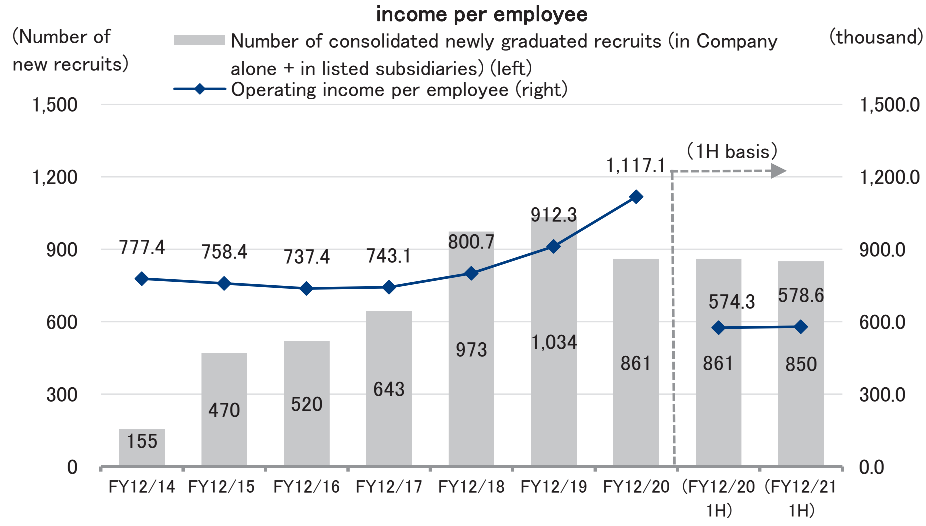
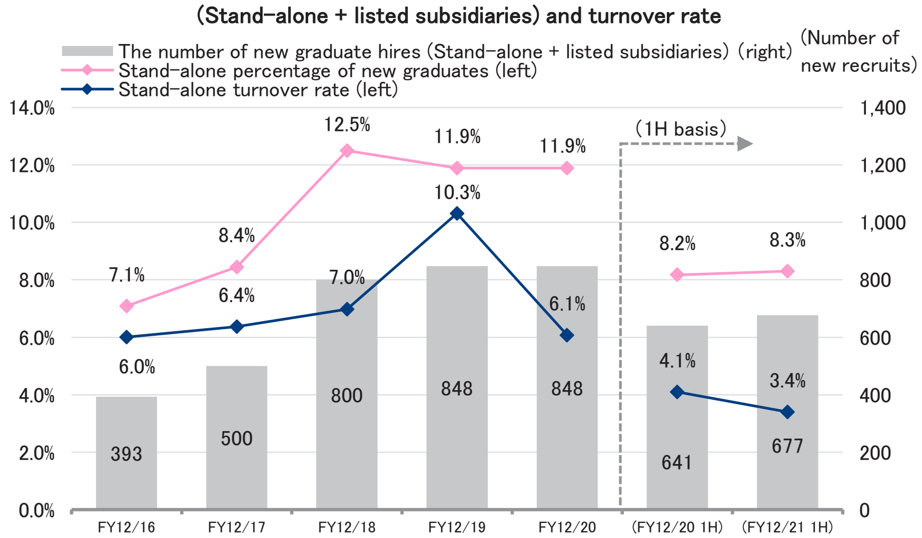
It is expected that, in the future, there will be a smaller amount of leeway to reduce overtime and increase the number of people taking paid leave, that the efficiency of remote work will improve, and that the inclusion rate of new graduates and turnover rate will peak out. Therefore, the positive effects from improving hourly productivity will become more likely to materialize. We have high expectations for the future of the Company, which is aiming to further improve profitability in the long term.

Trends in the number of newly graduated recruits and operating income per employee



Source: Prepared by FISCO from the Company's securities report and results briefing material

Trends in the number of new graduate hires (Stand-alone + listed subsidiaries) and turnover rate



Source: Prepared by FISCO from Company materials and interviews

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