COMPANY RESEARCH AND ANALYSIS REPORT

FUJI SOFT INCORPORATED

9749

Tokyo Stock Exchange Prime Market

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Summary

A major, independent IT solutions vendor established in 1970
Aiming to further improve corporate value while maintaining an offensive management stance

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 31 consolidated subsidiaries, 2 equity-method non-consolidated subsidiaries, and 1 equity-method affiliates, with over 17,000 employees (as of June 30, 2022).

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.

Also, since FY12/17 it has been progressing initiatives in the AIS-CRM domain. This is a word the Company made up from an acronym of AI, IoT, Security, Cloud computing, Robot, and Mobile&AutoMotive, and it covers areas that are expected to grow in the medium to long term.

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. Resuming proactive human resource investments for the post-COVID-19 era

To address a recovery in business sentiment among its customers and their growing DX needs, the Company has resumed expanding the hiring activities it had curtailed in response to the COVID-19 pandemic. The number of consolidated employees, including temporary hires, as of the end of June 2022, was 17,436, an increase of 2,480 in six months, and the company is focusing on securing production capacity and upgrading its human resources.

Looking back, 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 has succeeded at 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.

Even with the COVID-19 pandemic, the Company has improved its equity ratio from 54.1% at end of FY12/19 to 54.8% at the end of FY12/22, and net interest-bearing debt (interest-bearing debt minus cash and deposits) down from ¥7,498mn to ¥9,880mn in excess cash (virtually debt-free management), further strengthening its financial position. The Company has left its offensive management stance unchanged even as it strengthens its defenses.

4. Consolidated results for 1H FY12/22 ended higher than the initial forecast

For 1H FY12/22 consolidated results, the Company reported net sales of ¥141,328mn, up 6.7% YoY, operating income of ¥8,995mn, up 3.0%, ordinary income of ¥9,954mn, up 5.2%, and profit attributable to owners of parent of ¥5,850mn, up 25.7%, leading to the seventh consecutive increase in both sales and profit in 1H.

For the FY12/22 consolidated results, the Company is forecasting net sales to increase 3.0% YoY to ¥265,500mn, operating income to rise 2.7% to ¥17,300mn, ordinary income to grow 2.9% to ¥18,500mn, and profit attributable to owners of parent to increase 6.2% to ¥9,700mn. Therefore, it is actually forecasting the ninth consecutive period of higher net sales and operating income since 2013 when it transitioned to a fiscal period ending in December.

The Company is forecasting a greatly increased dividend compared to the FY12/21 annual dividend of ¥52 per share (¥26 per share at the end of 2Q and ¥26 per share at the period end) to an annual dividend of ¥109 (¥54 per share at the end of 2Q and ¥55 per share at the period end), which will be the eighth consecutive period it has increased the dividend. Note that while the earnings and dividend forecasts remain unchanged from the initial forecasts announced in February of this year, at this point, we believe it is highly likely that those amounts will end up higher given the rate of achievement against the 1H plan and the rate of progress in relation to the full-year plan.

5. Looking forward to more in-depth output from the newly established Corporate Value Improvement Committee

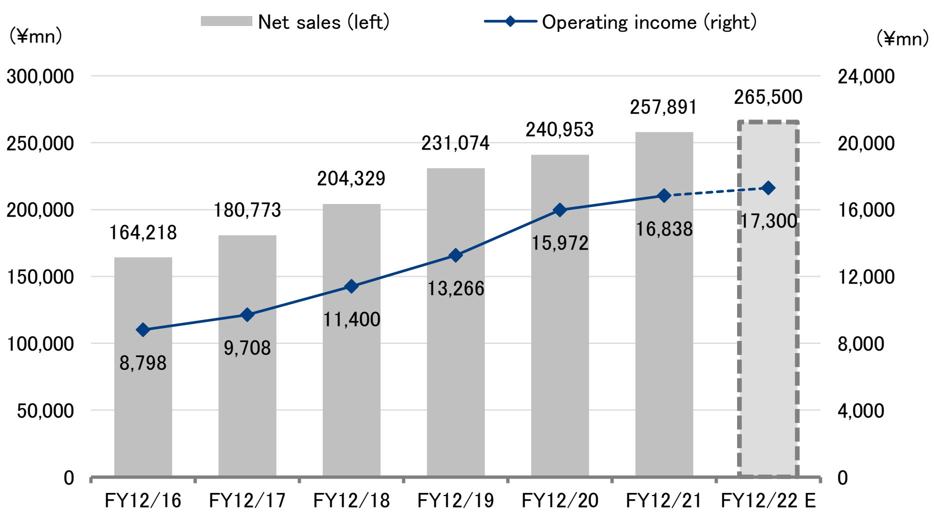
The Company has held constructive dialogue with many investors since announcing its new medium-term management plan in February 2022. In August 2022, it established a new Corporate Value Improvement Committee with the goal of further enhancing corporate value through the multifaceted insights gained from those discussions. The Committee is accelerating its efforts prior to issuing its final report in February 2023. To ensure an objective perspective, the Committee is comprised of an outside advisory in addition to members of the Board of Directors. It has also set up working groups responsible for creating draft proposals for deliberation by the Committee covering five issues: 1) corporate governance validation, 2) dealing with shareholder investors, 3) business validation, 4) corporate group validation, and 5) real estate validation.

The numerical targets indicated in the new medium-term management plan (including, in FY12/24, net sales of more than ¥300bn, operating income of more than ¥20bn, an ROIC of more than 8.0%, ROE of more than 9.0%, an EBITDA margin of more than 9.0% and a dividend payout ratio of more than 35.0%) were commendable both in terms of level and content compared to past medium-term plans, but we look forward to seeing more in-depth output from the Corporate Value Improvement Committee in their final report.

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 2022, it had over 17,000 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.
- 1H FY12/22 results exceeded figures announced at the beginning of the period, marking the Company's seventh consecutive year of sales and profit growth. While the Company's full year forecast for FY12/22 (3.0% sales increase, 2.7% increase in operating profit) was left unchanged from the initial plan, at this point, we think it highly likely that results will end up higher.
- In August 2022, the Company established a new Corporate Value Improvement Committee with the goal of tying multifaceted insights gained through dialogue with investors to an improvement in corporate value. We look forward to the Committee's final report to be announced in February 2023.

Results trends



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

Company overview

Greatly exceeded the barrier of net sales of ¥200bn based on a spirit of “Challenge and Creation”
A consistent management philosophy since its founding of “Aiming to become a corporate group that contributes to society”

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 31 consolidated subsidiaries (of which, 4 are listed companies), 2 equity-method non-consolidated subsidiaries and 1 equity-method affiliate, with over 17,000 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.

Note that under its Group Charter, which states that “each company shall mutually respect the others as independent companies and shall prioritize independence and autonomy,” the Company pursues a strategy of listing both parent and subsidiary companies, and currently has four listed subsidiaries. While this parent-subsidiary listing strategy is not allowed to work against sustainable value creation and the improvement of corporate value, these business companies do not exist solely in the capital markets, and the fact that they are also exposed to stiff competition in the markets for products, services and labor is extremely important. The Company’s strategy of listing both parent and subsidiary companies makes sense at this point if the advantages and disadvantages in each market are judged comprehensively.

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 technological 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, in the AIS-CRM area, stand-alone net sales steadily rose from ¥61.8bn in FY12/18 to ¥95.9bn in FY12/21, and the Company appears to be growing in confidence with respect to its AIS-CRM strategy, drawing on its track record thus far.

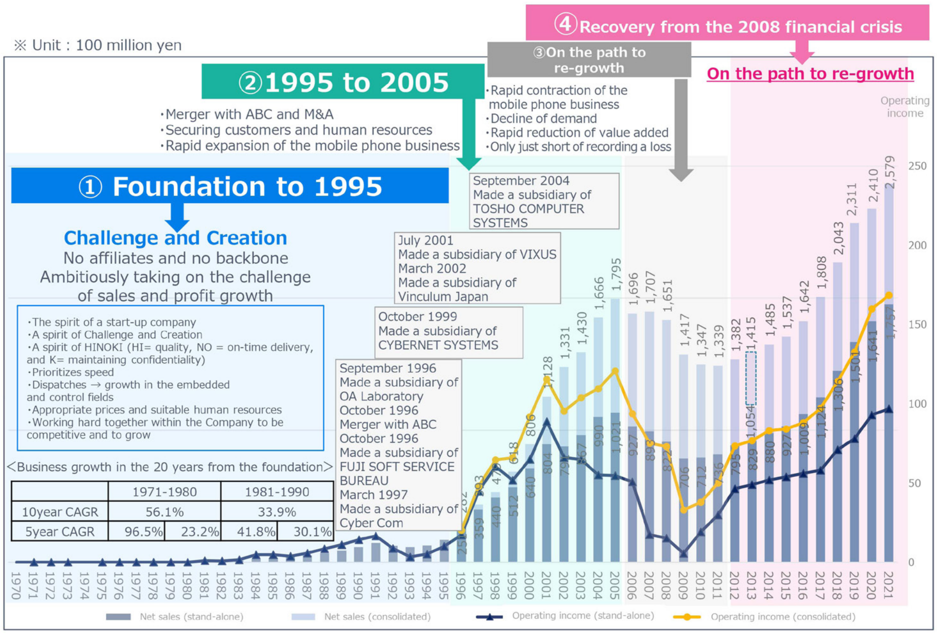
At the time it was established, the Company's business was founded on the dispatch of computer operators. Subsequently, it entered into the software development and systems construction businesses and achieved skyrocketing development supported by the explosive expansion of the computer industry. But what should not be overlooked as a factor behind this growth is that it has maintained an offensive management approach since foundation, aiming to grow and innovate as a company by taking on challenges in new fields and creating new businesses, and the strong belief of the executive management, including the founder, 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. The fact the Company has developed into a corporate Group of a scale where net sales exceed ¥250bn and with 17,000 employees on a consolidated basis while being independent is a significant achievement.

Even though the computer-dominated society has become a reality and the domestic IT services market has expanded in scale to be worth ¥6tn, the major IT services companies with net 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 consistently from the time of their founding.

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.

The Company had to undergo a period of declining sales up to FY3/11 mainly due to the 2008 financial crisis, but in FY12/18 it achieved the major milestone of net sales of ¥200bn, and then in FY12/21 even during the COVID-19 pandemic, it set record high net sales for the fifth consecutive period of ¥257.8bn. In the new medium-term management plan announced in February 2022, based on having both the spirit of a start-up and the dignity of a major IT company, it has first set the targets for FY12/24 of net sales in excess of ¥300bn.

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



Source: From the Company's medium-term management plan

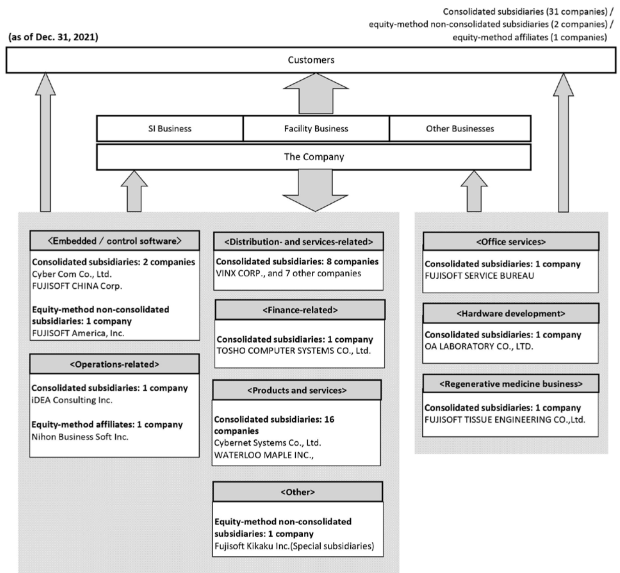
With "superiority in technologies and deep customer insight" as its core competencies, the Company is aiming to be a CSV-style innovative corporate group

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 (42 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.

This corporate culture was also the foundation for the new medium-term management plan announced in February 2022, and 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 All Japan Robot-Sumo Tournaments, which were scheduled for 2020 and 2021, were called off due to the COVID-19 pandemic, the Company has supported education by remotely conducting programming workshops for elementary school pupils and accepting interviews from students, and maintained a stance which positions its commitment to providing a forum for learning about manufacturing as a pillar of its social contribution activities. It has been decided that the All Japan Robot-Sumo Tournament will resume in 2022, and the preliminary round and final round are scheduled to take place at the Ryogoku Sumo Hall in December.

Business structural program



Source: From the Company's securities report

Business overview

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

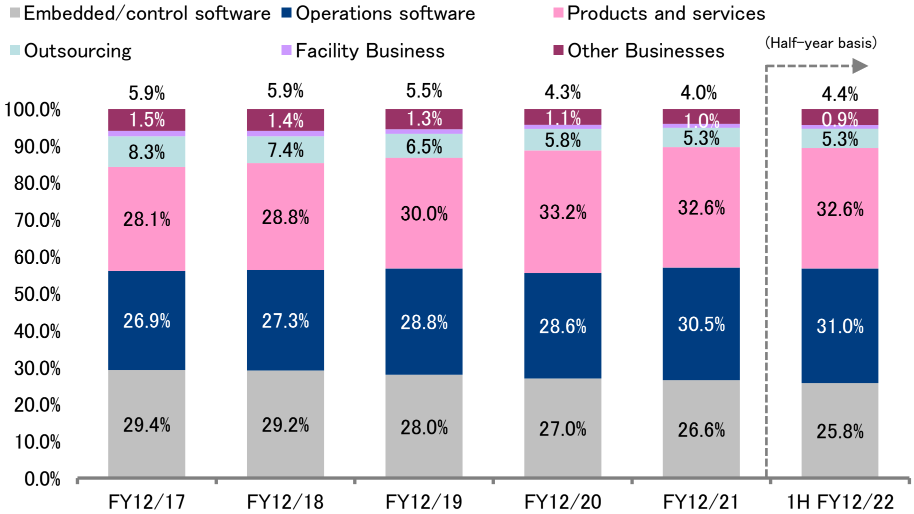
The Company has three reporting segments; the SI Business, the Facility Business, and the Other Businesses. The mainstay SI Business is broadly divided into systems construction, and products and services. Further, systems construction is subdivided into embedded/control software and operations software, 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 supplementary 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

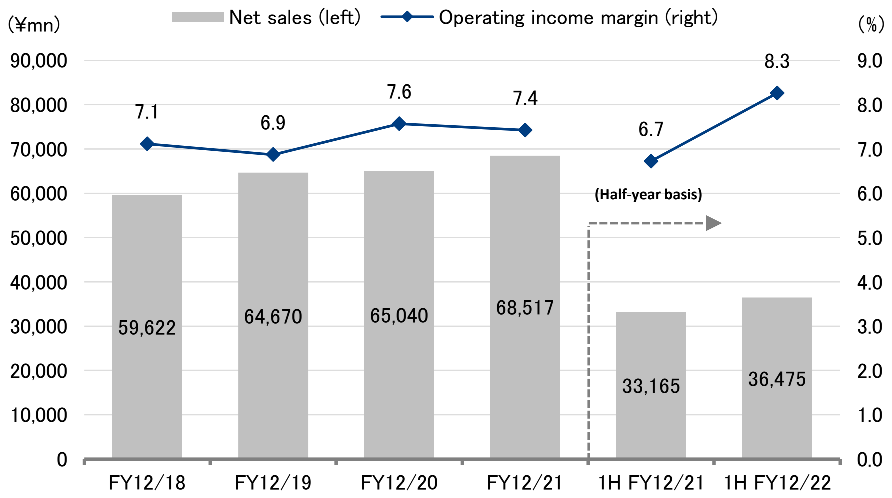
Embedded/control software, which is included in the system construction segment in the SI Business, is a mainstay segment providing 25.8% (FY12/22) of Company-wide net sales and 33.5% (same) of operating income, and its segment profit margin is also higher than on a Company-wide basis. Its 1H FY12/22 results were that net sales increased 10.0% YoY, operating income rose 35.1%, and the segment profit margin was 8.3% (up 1.6pp YoY). The primary factor behind this major increase in income and improvement in profit margin was the Company's ability to curtail unprofitable projects as business conditions continued to recover.

Looking at the pace of order acquisitions on a quarterly basis (year on year), through 2Q FY12/22, orders have increased for five consecutive quarters. Specifically, this pace has been maintained from an increase of 5.7% in 2Q FY12/21, to 14.4% in 3Q and 3.8% in 4Q (including the apparent negative effect of a review of the order calculation method), and from an 8.3% increase in 1Q FY12/22 to an 11.7% increase in 2Q. As a result, the order backlog at the end of 1H FY12/22 had increased by 4.4% versus the end of the same period the previous year, when based on the previous calculation method.

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 tec hnologies 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. Strong performance continues in each area of the operations software segment, primarily around systems infrastructure construction

Operations software, which is part of the systems construction segment of the SI business, is a main business pillar, providing 31.0% of Company-wide net sales (1H FY12/22) and 23.6% of operating income (same). In 1H FY12/22, net sales increased 16.4% YoY while operating income fell 0.2%, and segment profit margin was 4.9%, down 0.8 points YoY. This decline in profit despite a double-digit increase in revenue was due to the impact of unprofitable projects. Note that while these unprofitable projects arose from the Company's attempts to take on work in new fields, the Company acknowledges that strengthening project management is an important issue.

The Company has maintained a strong pace of order acquisition in 1H FY12/22, reaching bottom in 2Q FY12/20 and then increasing orders for seven consecutive quarters, maintaining a strong pace of orders in 1H FY12/22, with an increase of 8.7% in 1Q rising to a 16.6% increase in 2Q. The order backlog at the end of 1H FY12/22 had increased by 7.1% versus the end of the same period the previous year, when based on the previous calculation method.

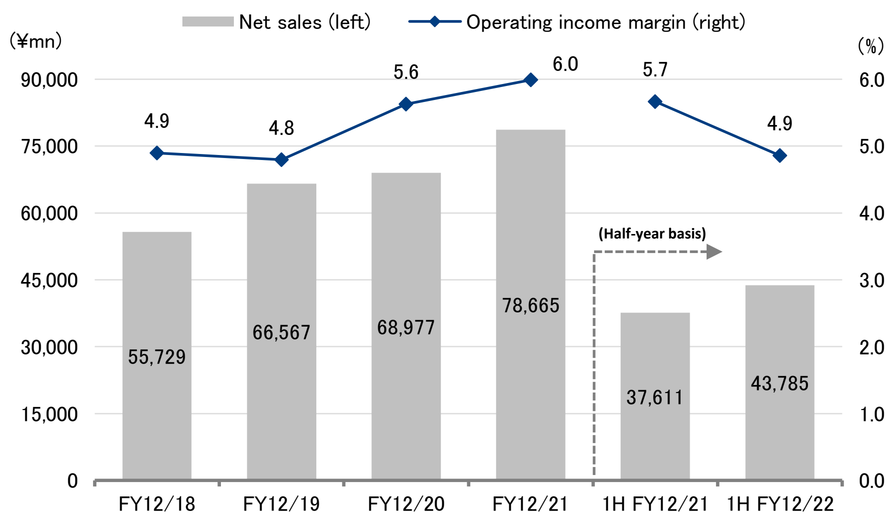
In this area, in addition to organic business growth, the complementary M&A strategy is proving successful, and the Company has established a system that is able to provide a one-stop service from consulting through to development, systems construction, and support, for various solutions, such as for 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.

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 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>). While some modulation was seen in the growth of nesting (stay-at-home) consumption during the COVID-19 pandemic, DX needs in retailing in both the B-to-C and B-to-B sectors are high, and the medium to long-term growth trend is expected to continue.

Trends in operations software net sales and operating income margin



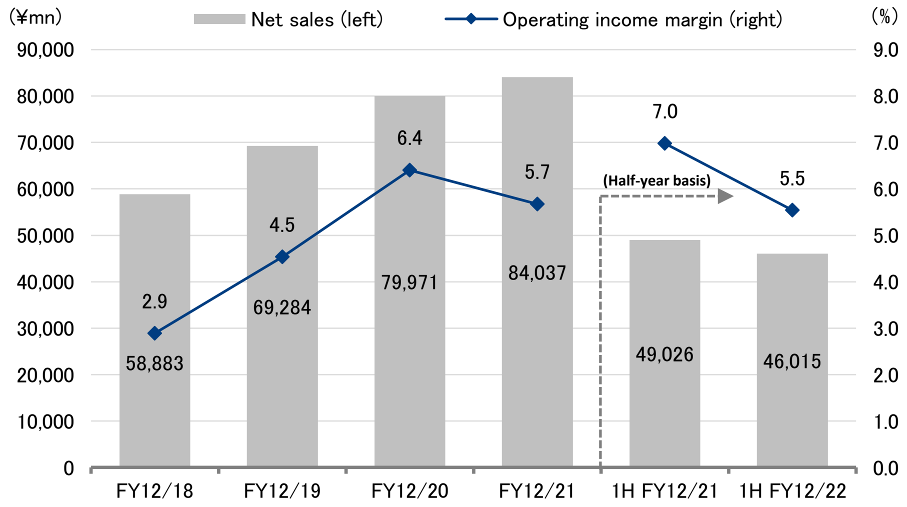
Source: Prepared by FISCO from the Company's results briefing material

3. Despite an impact from a drop in special demand, narrowly defined products and services will continue to demonstrate the Company's unique capabilities

In the SI Business, products and services are categorized into narrowly defined products and services and outsourcing. Narrowly defined products and services comprised 32.6% of Company-wide net sales (1H FY12/22) and 28.3% of operating income (same). For 1H FY12/22, net sales fell 6.1% YoY while operating income fell 25.5% and segment profit margin declined 1.5 points YoY to 5.5%. The primary reasons for this decline were a drop off in GIGA school related large-scale projects, sales from which were recorded the previous year, and the expiration of a distributorship agreement at a Group company. The significant decrease in profit was due to the combined impact of lower sales and a deteriorating product mix.

That said, orders received in 1H FY12/22 rose 14.6% YoY on an increase in other companies' licenses, etc., with the order backlog at the end of the same period increasing rapidly by 51.6%.

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



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

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 virtual office space tool, 2) the license business (Microsoft <MSFT> products, AWS, VMware <VMW>, etc.), and 3) product sales, etc. (PCs, servers, etc.)

While a slowdown was seen in sales of the Company's own products, largely attributable to special demand having run its course, growth continues in the license business even after the peak of special demand with the end of Windows 7 support (on January 14, 2020). On this point, the fact that Microsoft365 (formerly Office)—which has grown to be a main product for the license business—and the various cloud services use a subscription model (a business model in which fees are collected based on the period of use rather than a one-time sale) appears to have led to improved business stability.

As a result, in 1H FY12/22, in-house products are expected to represent about 25% of sales in the segment, with the licensing business at about 40% and product sales, etc. at about 35%. Note that sales of support for deployment of licensed products are recorded under the Company's own products, apparently enabling it to secure high profit margins.

The Company launched its Desktop Full Service in August 2021. The 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) in August 2021 and offering its next operating system, Windows 11, in October 2021, and the Company's Desktop Full Service has gotten off to a smooth start.

One of the Company's strengths is that, as an independent SIer, it is able to construct systems flexibly without being limited 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.

To give an example, it is highly noteworthy that external sales of FAMoffice (started in June 2021), a virtual office space used as an in-house tool for remote working, are not just a typical example of dogfooding (merging EX, or employee experience and CX, or customer experience), but also an example of an initiative for the metaverse market. FAMoffice is an office that can be reproduced in a virtual space, and it is a product that gives a sense of reality, unity, and convenience that is close to that of an actual office. By having an avatar (a character representing yourself in a virtual space) in FAMoffice when starting work, it is not only easy to ascertain the overall situation and the conditions of specific members, it also makes communication (meetings, consultations, and chats) between members simple through its framework, such as for promptly sharing materials and information with other members and holding chats and video calls. Therefore, it makes it possible to increase the advantages of remote working (such as BCP countermeasures, cost reductions, improved work efficiency, and work-style reforms) and to reduce its disadvantages (including security problems and communication-loss problems).

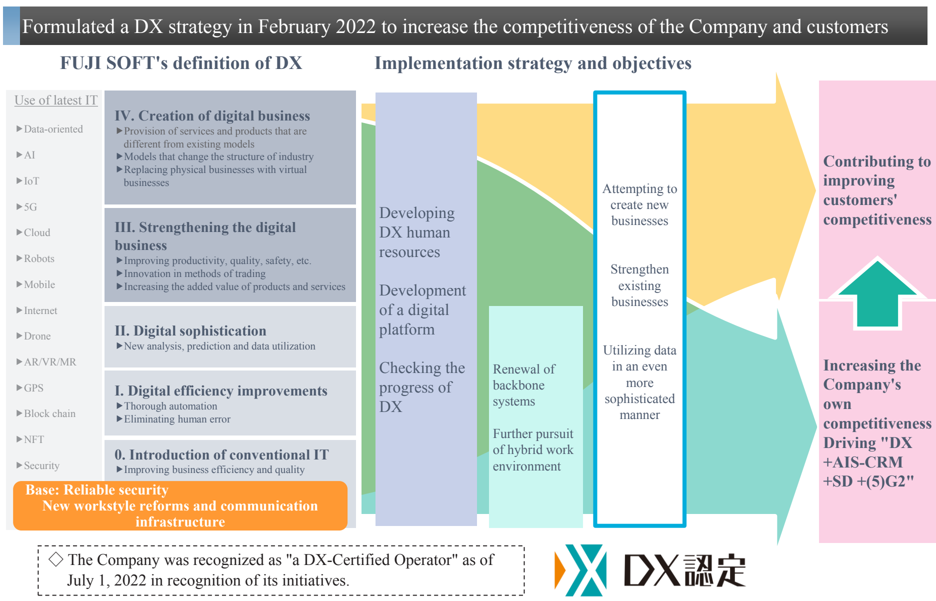
In April 2022, the Company began offering and selling a series of new services, including FAMcampus, a virtual learning space, MEMTOM, an online room for business discussions, and FAMevent, a virtual event space.

As their names imply, FAMcampus and FAMevent are based on technologies and concepts developed with FAMoffice. Prior to being refined as commercial services, the former underwent joint testing with Gakken Juku Holdings Co., Ltd. and Gakken Method Co., Ltd., group companies of Gakken Holdings Co., Ltd. <9470>, while the latter was first deployed as a Disease Prevention and Health Promotion project of the Ministry of Health, Labour and Welfare at the Data Health and Prevention Services Trade Fair 2021, which targeted medical insurers, corporate health promotion staff, local governments and business owners. MEMTOM, meanwhile, allows for the entire series of procedures needed through the conclusion of a contract which were difficult with conventional videoconferencing systems, including two-way sharing and handling of documents, as well as filling out application forms.

All of these products seem to exemplify the Company's uniqueness in the sense of being businesses that use the power of ICT to address social issues, and businesses that use the company's DX to contribute to improving competitiveness for its 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.

With regard to this, the segment profit margin of narrowly defined products and services, which previously trended below the Company-wide level, has shown a significant improvement, having increased by 3.5pp from 2.9% in FY12/18 to 6.4% in FY12/20. Although it declined to 5.5% in 1H FY12/22 due to a worsening of profitability because of a product-mix factor, it can be highly evaluated for being maintained at a level above the FY12/19 result of 4.5%. In the narrowly defined products and services business, short-term fluctuations in the segment profit margin warrant neither hope nor despair given that the segments results depend on the recording of spot sales of products that vary widely in terms of profitability, and it will be worth monitoring developments going forward with a sense of optimism.

A DX strategy that merges EX and CX



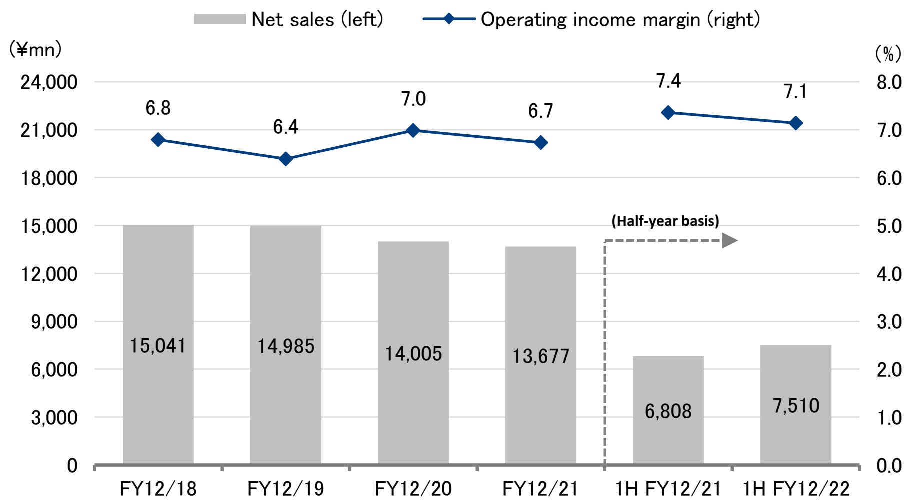
Source: From the Company's results briefing material

4. Outsourcing shows signs of bottoming out

Outsourcing provides services including data centers and systems operations and maintenance, and in 1H FY12/22 it contributed 5.3% of total net sales and 6.0% of operating income, and it had a segment profit margin of 7.1%. In 1H FY12/22, net sales increased 10.3% YoY, operating income increased 7.0%, while the segment profit margin decreased 0.3pp. Orders received increased 9.9% YoY and the order backlog as of the end of FY12/21 was 11.9% lower than at the same time in the prior year.

Thanks to business restructuring and reform efforts, since FY12/18, the segment's profit margins have exceeded the Company average. That said, the segment continued to search for sales due, among other things, to a decline in ongoing projects in the distribution and services sectors, but a recovery in demand for operations and maintenance projects in overseas markets, with a view to post-COVID-19 needs, led to three consecutive quarters of YoY growth in sales through 2Q FY12/22. Despite structural issues such as competition from other companies' cloud services in the data center business, there is a sense that the decline is bottoming out.

Trends in outsourcing net sales and operating income margin



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

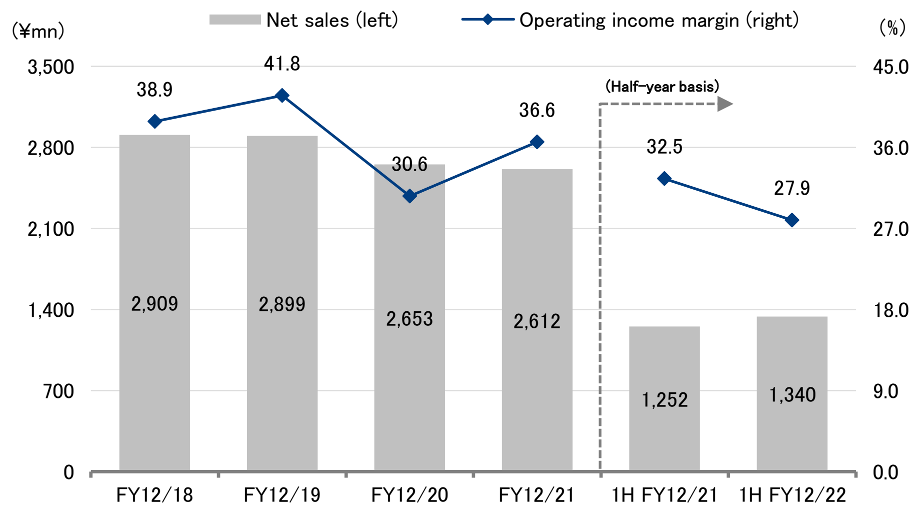
5. While it is a non-core domain, the Facility Business has high earnings

The Facility Business, which obtains rental income from the office buildings owned by the Company, provides 0.9% of total net sales (1H FY12/22) and 4.1% of operating income, with an extremely high segment profit margin of 27.9%. As for financial results of 1H FY12/22, net sales increased 7.0% YoY, profit decreased 8.1%, and segment profit margin declined by 4.6pp.

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 owned in the Facility Business; 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).

Trends in the Facility Business net sales and operating income margin



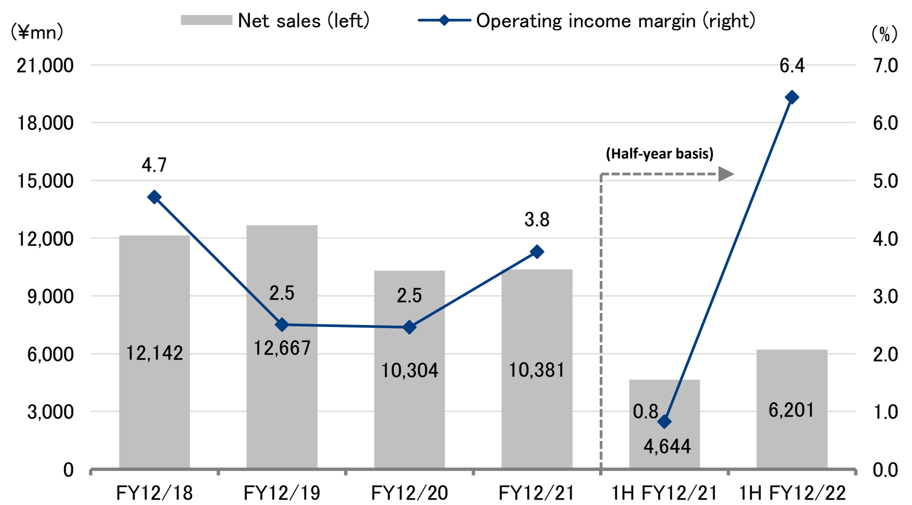
Source: Prepared by FISCO from the Company's results briefing material

6. The Other Businesses is mainly handled by the listed subsidiary FUJI SOFT SERVICE BUREAU

The Other Businesses, which provided 4.4% of net sales (1H FY12/22) and 4.4% of operating income (same), includes the BPO services business and the contact center businesses conducted by FUJI SOFT SERVICE BUREAU <6188>, which mainly handles this segment.

In 1H FY12/22, sales grew 33.5% YoY, operating income rose 916.6% and segment profit margin was up 5.6 points to 6.4%, thanks to efforts to capture outsourcing demand from local governments (for a limited period in association with COVID-19) and the contribution of pension-related operations, as well as improved project profitability.

Trends in the Other Businesses net sales and operating income margin



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

7. Aiming to further strengthen AIS-CRM, a cross-segment technology strategy

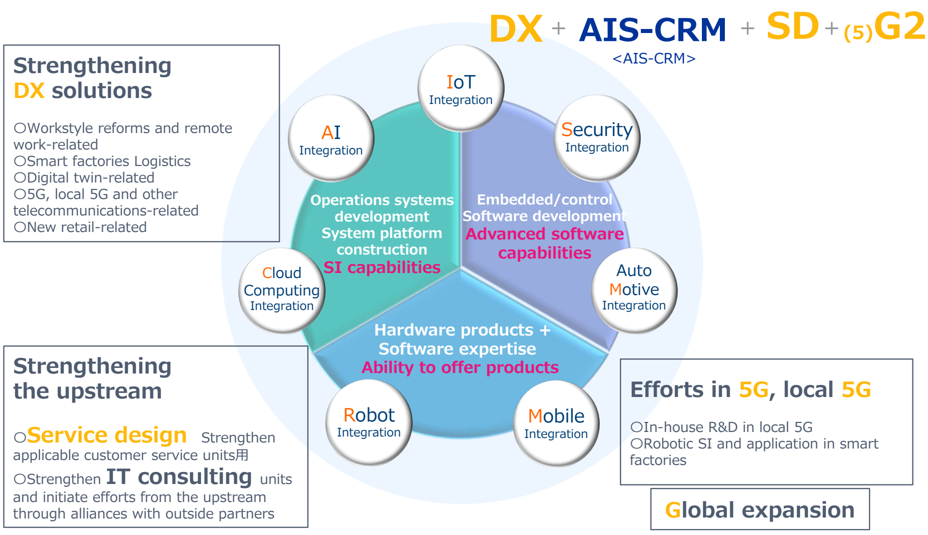
The Company, as a technological strategy it has been implementing across the segments since FY12/17, has set the AIS-CRM domain as a priority technological field, and it is focusing on creating seeds for new products and new businesses and on improving added value in existing businesses. AIS-CRM is the Company's made-up word from an acronym of AI, IoT, Security, Cloud computing, Robot, Mobile&AutoMotive, and it covers areas that are expected to grow in the medium to long term. At first glance, it seems just a sequence of current buzzwords, but the upper concept of the AIS-CRM strategy is set based on the Company's core competency, and this domain's FY12/21 stand-alone net sales were ¥95.9bn (average annual growth rate for the last 3 years: an increase of 15.8%) and constitute around 55% of stand-alone net sales.

Breaking this down, sales of AI mainly related to development were ¥1.9bn (average annual growth rate for the last three years: up 16.6%), of IoT mainly related to development were ¥3.1bn (up 33.6%), of security relating to development and licenses were ¥12.3bn (up 16.9%), of Cloud computing relating to licenses and SI, infrastructure-related, the online business field, etc., were ¥49.5bn (up 26.6%), of Robot mainly related to development, PALRO, robot SI, etc., were ¥4.4bn (down 8.8%), of Mobile relating to development, products, etc., were ¥6.5bn (up 2.7%), and AutoMotive mainly related to development were ¥18.1bn (up 5.8%). In particular, the strong performance of the cloud field was noticeable, while it seems that in the security field as well, the results of the initiatives implemented in recent years are starting to appear.

As part of a series of developments in the security field, following a business partnership with Red Team Technologies Co., Ltd., in November 2020 (concluded a distributorship agreement, which was announced in November 2020), it started providing a new security service (vulnerability diagnoses) 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. Then in October 2021, it was awarded the 2021 1st Half Outstanding Partner Japan from Stellar Cyber, a pioneer company for Open XDR (Endpoint Detection and Response), which is security-measures software that makes visible cyber-attacks. These are a few examples of its achievements.

While this series of technology strategies is beginning to bear fruit, the Company is further expanding it priority business areas from AIS-CRM to DX+AIS-CRM+SD+(5)G2, and is stepping up its efforts in the areas of DX solutions, upstream processes in the IT value chain (SD: Service design and IT consulting) and in (5)G2 (5G technology in telecommunications, and global business expansion).

Fuji Soft's Technology Strategy



Source: From the Company's medium-term management plan

Results trends

In the 1H FY12/22 results, achieved the seventh consecutive increase in sales and profit in 1H
Achieving both maintenance of sound financial structure and proactively engaging in upfront investment

For 1H FY12/22 consolidated results, the Company reported net sales of ¥141,328mn, up 6.7% YoY, operating income of ¥8,995mn, up 3.0%, ordinary income of ¥9,954mn, up 5.2%, and profit attributable to owners of parent of ¥5,850mn, up 25.7%, leading to the seventh consecutive increase in both sales and profit in 1H.

Looking at the rates of progress of these results compared to the initial Company forecasts announced in February 2022 (net sales of ¥132,600mn, operating income of ¥7,600mn, ordinary income of ¥8,300mn, and profit attributable to owners of parent of ¥4,400mn), the Company surpassed the achievement rate of 1H FY12/21 for each item, with net sales of 106.6%, operating income of 118.4%, ordinary income of 119.9%, and profit attributable to owners of parent of 133.0%.

To address a recovery in business sentiment among its customers and their growing DX needs, the Company has resumed expanding the hiring activities it had curtailed in response to the COVID-19 pandemic. The number of consolidated employees, including temporary hires, as of the end of June 2022, was 17,436, an increase of 2,480 in six months, and the Company is focusing on securing production capacity and upgrading its human resources.

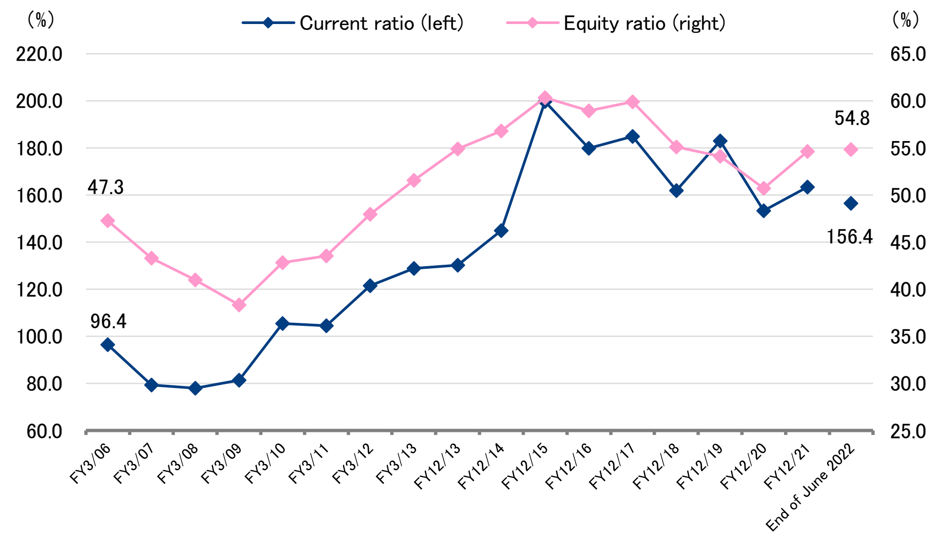
Looking back, the Company's sales peaked before the economic downturn precipitated by the 2008 financial crisis (FY3/06), it set a new record high for sales in FY12/17. Therefore, while it actually took more than 10 years to renew its peak sales, the Company has succeeded at not only recovering non-recurring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

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 minus 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 from 9,415 employees at the end of FY3/06 to 17,436 employees at the end of 1H FY12/22. 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 32.3% at the end of FY12/21. From this, it is clear that growth potential as seen from the aspect of human resources has been enhanced both in terms of quantity and quality.

Looking here at the relationship between financial indicators and management strategy, when the Company took the step of mass hiring in FY12/15, equity ratio reached the 60% level and the current ratio improved to just short of 200%. Even during the recent COVID-19 pandemic, equity ratio improved from 54.1% at the end of FY12/19 to 54.8% at the end of 1H FY12/22, while net interest-bearing debt (interest-bearing debt minus cash and deposits) was down from ¥7,498mn to ¥9,880mn in excess cash (virtually debt-free management), further enabling the Company to strengthen its financial standing. Prior to resuming proactive human resource investments in FY12/22, its excess cash had reached ¥11,523mn as of the end of FY12/21.

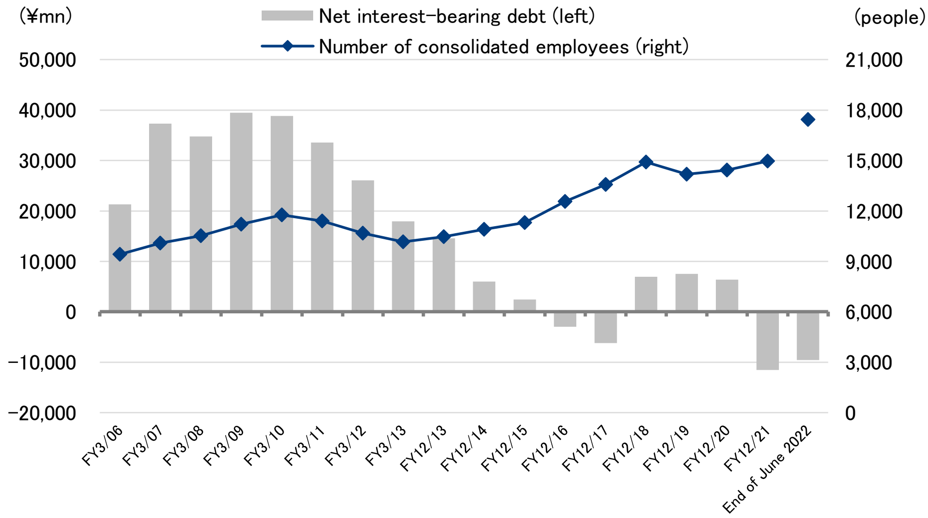
It can be said that the Company's strengths include its ability to make and implement management decisions quickly through strong leadership, including that of its founder. It did not hesitate to change to "offensive management (actively conducting upfront investment)" precisely because it had progressed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

Trends in the financial indicators of stability



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

Trends in net interest-bearing debt and the number of consolidated employees



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

Simplified income statements

(¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	1H FY12/22	FY12/22 (E)
Net sales	180,773	204,329	231,074	240,953	257,891	141,328	265,500
YoY	10.1%	13.0%	13.1%	4.3%	7.0%	6.7%	3.0%
Cost of sales	138,708	156,808	178,337	186,105	201,055	110,969	-
YoY	10.1%	13.0%	13.7%	4.4%	8.0%	7.1%	-
Gross profit	42,065	47,520	52,736	54,847	56,835	30,358	-
YoY	10.1%	13.0%	11.0%	4.0%	3.6%	4.9%	-
Gross profit margin	23.3%	23.3%	22.8%	22.8%	22.0%	21.5%	-
SG&A expenses	32,357	36,119	39,470	38,875	39,997	21,363	-
YoY	10.1%	11.6%	9.3%	-1.5%	2.9%	5.7%	-
SG&A expenses ratio	17.9%	17.7%	17.1%	16.1%	15.5%	15.1%	-
Operating income	9,708	11,400	13,266	15,972	16,838	8,995	17,300
YoY	10.3%	17.4%	16.4%	20.4%	5.4%	3.0%	2.7%
Operating income margin	5.4%	5.6%	5.7%	6.6%	6.5%	6.4%	-
Ordinary income	10,260	12,071	13,749	16,343	17,976	9,954	18,500
YoY	11.9%	17.7%	13.9%	18.9%	10.0%	5.2%	2.9%
Profit attributable to owners of parent	5,797	6,516	7,836	8,573	9,130	5,850	9,700
YoY	15.0%	12.4%	20.3%	9.4%	6.5%	25.7%	6.2%

Note: 1H FY12/22 profit attributable to owners of parent is the quarterly profit attributable to owners of parent
Source: Prepared by FISCO from the Company's financial results

Simplified balance sheets

(¥mn)

	End-FY12/17	End-FY12/18	End-FY12/19	End-FY12/20	End-FY12/21	End-1H FY12/22	Change
Current assets	72,457	77,315	88,009	105,363	111,128	114,075	2,947
Cash and deposits	18,851	22,554	22,278	38,330	40,351	39,472	-879
Notes and accounts receivable – trade (*Note)	40,288	44,456	49,570	52,750	57,352	53,827	-3,525
Non-current assets	102,110	115,310	119,609	129,173	117,786	123,173	5,386
Property, plant and equipment	65,220	82,356	86,334	89,928	90,344	96,135	5,791
Intangible assets	6,821	4,738	4,043	4,705	4,547	4,601	54
Investments and other assets	30,068	28,214	29,231	34,539	22,894	22,436	-458
Total assets	174,568	192,625	207,618	234,537	228,915	237,249	8,334
Current liabilities	39,197	49,428	48,106	68,751	68,018	72,956	4,938
Notes and accounts payable - trade	9,977	9,526	13,361	12,519	12,947	149	1,953
Short-term borrowing and CP	8,464	16,207	7,159	24,156	19,462	20,856	1,393
Non-current liabilities	16,959	23,526	32,691	30,623	17,928	16,215	-1,712
Long-term loans payable	4,182	13,319	22,618	20,515	9,366	9,007	-358
Total liabilities	56,156	72,955	80,797	99,374	85,946	89,172	3,226
(Interest-bearing debt)	12,647	29,527	29,776	44,671	28,828	29,862	1,034
Total net assets	118,411	119,670	126,820	135,163	142,968	148,076	5,108

Note: From FY12/22, notes and accounts receivable – trade, and contract assets
Source: Prepared by FISCO from the Company's financial results

Simplified cash flow statements

(¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	1H FY12/22
Net cash from operating activities (a)	9,244	11,192	12,584	14,787	15,907	5,278
Net cash from investing activities (b)	-4,524	-23,424	-9,442	-16,109	4,894	-7,714
Net cash from financing activities	-4,462	14,766	-1,451	12,703	-17,871	-572
Free cashflow (a) + (b)	4,720	-12,232	3,142	-1,322	20,801	-2,436
Cash and cash equivalents at end of period	22,157	24,587	26,158	37,450	40,876	38,568

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

Outlook

Looking forward to more in-depth output from the Corporate Value Improvement Committee regarding how the Company will evolve its unique business model

1. FY12/22 consolidated results forecasts

For the FY12/22 consolidated results, the Company is forecasting net sales to increase 3.0% YoY to ¥265,500mn, operating income to rise 2.7% to ¥17,300mn, ordinary income to grow 2.9% to ¥18,500mn, and profit attributable to owners of parent to increase 6.2% to ¥9,700mn. Therefore, it is actually forecasting the ninth consecutive period of higher net sales and operating income since 2013 when it transitioned to a fiscal period ending in December.

The Company has greatly increased the dividend forecast from the FY12/21 result of an annual dividend of ¥52 per share (¥26 per share at the end of 2Q and ¥26 per share at the period end) to an annual dividend of ¥109 (¥54 per share at the end of 2Q and ¥55 per share at the period end), and the outlook is that it will increase the dividend for the eighth consecutive year.

Note that while the earnings and dividend forecasts remain unchanged from the initial forecasts announced in February of this year, at this point, we believe it is highly likely that those amounts will end up higher given the rate of achievement against the 1H plan (quarterly profit attributable to owners of parent of 133.0%) and the rate of progress in relation to the full-year plan (60.3%). Note that the Company will adjust the year-end dividend of ¥55 per share so that, depending on performance, the payout ratio for the full year will come to 35% or more. Given that the interim dividend was ¥54 yen per share, as initially planned, for a payout ratio of 29.0%, it is highly likely this will be a relatively large adjustment.

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	
FY12/20	240,953	4.3	15,972	20.4	16,343	18.9	8,573	9.4	273.96
FY12/21	257,891	7.0	16,838	5.4	17,976	10.0	9,130	6.5	291.47
FY12/22 (E)	265,500	3.0	17,300	2.7	18,500	2.9	9,700	6.2	309.38

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

2. Targeting net sales of more than ¥300bn and operating income of more than ¥20bn in FY12/24 in its new medium-term management plan

In February 2022, the Company announced a new medium-term management plan centered on "the management policy," "various strategies," "the financial policy," and "numerical targets." The contents of "the management policy" and the "various strategies" set out in the plan are on a continuous, uninterrupted line without deviations from previously. Conversely, the contents of the "the financial policy" and "the numerical targets" (net sales of at least ¥300bn, operating income of at least ¥20bn, ROIC of at least 8.0%, ROE of at least 9.0%, an EBITDA margin of at least 9.0%, and a dividend payout ratio of at least 35.0% in FY12/24) are a step up in level when compared to the contents of previous medium-term management plans.

That said, it is true that there are some market participants who feel unsatisfied with the "numerical targets." However, what should be focused on here as the first step in formulating the new medium-term management plan is the Company's firm clarification of its own position in the market as the foundation of its business strategy and financial strategy, taking into account factors such as philosophy and culture, skills and resources, and results and directionality. To survive in the era of VUCA (Volatility, Uncertainty, Complexity, and Ambiguity), where it can be difficult to predict the future, the Company can be honestly commended for setting the current numerical targets based on its management approach of "firstly, know yourself, and secondly, develop a strategy to avoid losing."

Also, on the one hand the Company is emphasizing continuing an offensive management approach in which it is not acceptable to not aim for growth and to practice reduced, equilibrium-type management prioritizing efficiency and profits, while on the other hand it has declared that it will behave resolutely as a major IT company and respond to the Prime Market, and it has added ROE and ROIC to the KPI and has also decided to raise the dividend payout ratio.

Based on these points, we can get sense of the Company's intention in the new medium-term management plan, of aiming to improve enterprise value in the medium to long term not through binary opposition, such as start-up or major company, growth or efficiency, and investment or distribution, but through a dynamic duality. We can expect it to realize a growth story through having both the spirit of a start-up and the dignity of a major IT company.

The Company's management policy and three-year medium-term management plan

■ **Management Policy**

Basic Philosophy

Become a corporate group that contributes more to society
Provides more satisfaction to customers
Initiates more eco-friendly activities
And believes in a comfortable and rewarding environment

Maintaining an offensive management stance since our founding

Take on the challenge of new business fields to create, grow and innovate

Medium-term Policy

Become an innovative corporate group that links ICT development to greater value for customers

■ **Medium-term Management Plan**

Three-year Management Policy

Use digital technology to lead DX both in IT and OT*1, contributing to improved value and innovation both for customers and society

Business Strategy

- Strengthen existing business and further strengthen key AIS-CRM*2 measures to improve value offered to customers
  - Strengthen ability to develop wide-ranging DX solutions, from work reforms to enhancing existing businesses to improving the value produced to society and to customers
  - Application of 5G and other advanced technologies to development
  - Capture upstream projects by strengthening service design approach and IT consulting functions

Technology and Human Resources Strategy

- Engage in proactive hiring and development of human resources centered around SI capabilities, advanced software capabilities and product offering capabilities

■ **Quantitative Targets**

	FY12/21 results	FY12/24 targets
Net sales	¥257.9bn	At least ¥300bn
Operating income	¥16.8bn	At least ¥20bn
Operating income margin	6.5%	At least 6.7%
ROIC	7.4%	At least 8.0%
ROE	7.5%	At least 9.0%
EBITDA margin	8.6%	At least 9.0%
Dividend payout ratio	17.8%	At least 35.0%

*1 Operational Technology: Control and operations technology for optimal operation of products, equipment and systems
*2 AIS-CRM: DX+AIS-CRM+SD+(5)G2
Source: From "Establishment of New Corporate Value Improvement Committee"

3. Corporate Value Improvement Committee to Discuss Five Management Issues

The Company has held constructive dialogue with many investors since announcing its new medium-term management plan in February 2022. In August 2022, it established a new Corporate Value Improvement Committee with the goal of further enhancing value for stakeholders through the multifaceted insights gained from those discussions.

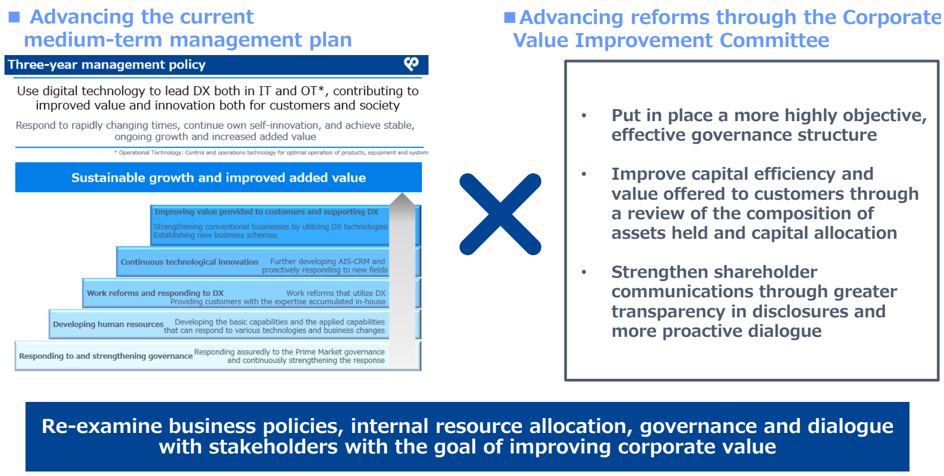
To ensure an objective perspective, the Committee is comprised of an outside advisory in addition to members of the Board of Directors. Five working groups (WGs) have also been set up under the Committee, including 1) corporate governance validation, 2) dealing with shareholder investors, 3) business validation, 4) corporate group validation, and 5) real estate validation.

The first and second WGs are responsible for issues involving enhancing corporate governance. The other three WGs are in charge of issues involving management and financial strategy (including business strategy, long-term vision, capital allocation strategy, the value of listing subsidiaries and owning real estate, etc.). Each WG will conduct research and reviews of their respective issues and the Committee will then deliberate the draft proposals prepared by the WGs.

While members comprising the WGs have not currently been disclosed, it would be highly noteworthy if employees, who play a role as stakeholders, were brought together from across the organization and offered a venue to hold thorough discussions about their understanding of the current status and future vision for profitability and capital efficiency, which are considered relatively low compared to others in the industry, and which other stakeholders see as a problem.

Note that the Company will continue to disclose information regarding its execution of measures based on the Corporate Value Improvement Committee's validation process and final report (February 2023). We look forward to the Committee's output, which should go more in-depth regarding the Company's aims for optimal solutions for all shareholders, including employees, customers and shareholders.

Objective for establishing the new Corporate Value Improvement Committee



Source: From "Establishment of New Corporate Value Improvement Committee"

4. The Company's unique business model as seen through its vision for a human resources strategy

In its new medium-term management plan, the Company has put forward a human resources strategy centered on proactive hiring and expansion and support for growth of diverse human resources. In addition, it has further expanded its key business fields from AIS-CRM to DX+AIS-CRM+SD+(5)G2, and the Company's business strategy seems to be going against the tide of selection and concentration.

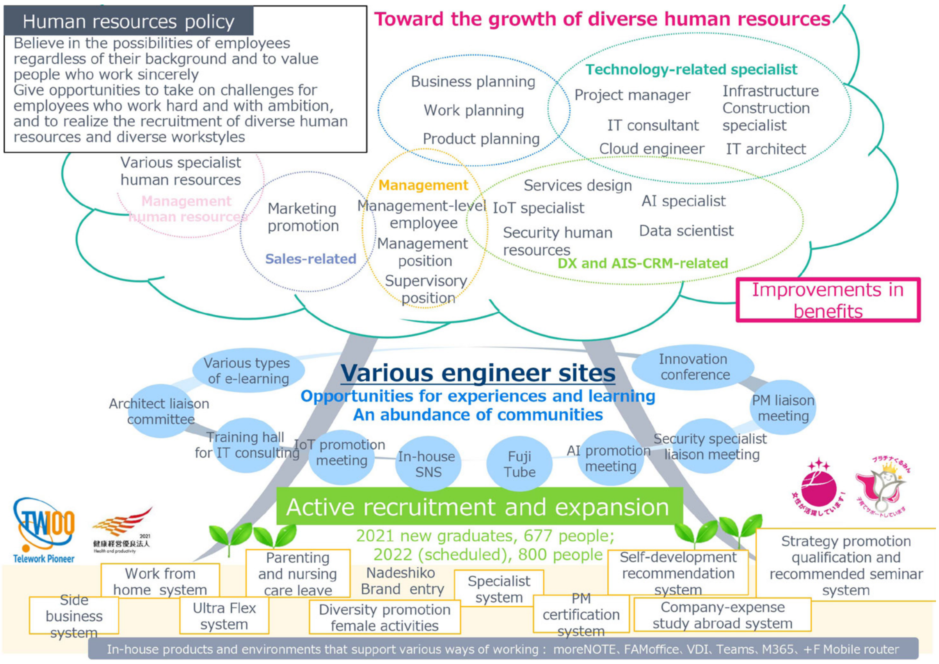
Setting aside the need for selection and concentration, we would like to focus on the human resource strategy the Company is advancing, which emphasizes believing in the potential of people regardless of their background; valuing those who bring integrity to their work, providing opportunities for those who strive with ambition to take on new challenges; and recruiting diverse human resources while achieving diverse ways of working.

This is because, when viewed in conjunction with its more than 50-year history and diverse business domains, the Company's human resource strategy of expanding the space for creating added value by adapting to individual growth and an increase in headcount seems to be the very essence of its business model, and is at the heart of the Company's success in growing to be a major player despite its status as an independent company.

In fact, the Company's personnel policies are being put into practice, as evidenced by, among other things, 1) a relatively low turnover rate even amidst mass hiring and 2) services being provided in close association with customer sites even with business development that ties improvements in CX to improvements in EX, and despite low profitability.

That said, there is no doubt that an emphasis on profitability and efficiency is essential for a company's sustainable growth. In the final report of the Corporate Value Improvement Committee, we hope that the Committee will present a highly convincing policy regarding how best to evolve the unique business model the Company has built to date.

Human resources strategy in the new medium-term management plan



Source: From the Company's medium-term management plan

The Company's series of initiatives, backed by long-term human resource development, have been well regarded by its business partners and others. Specific achievements marked by those business partners since 2019 are noted below. In addition, in July 2022, the Company was selected by the Ministry of Economy, Trade and Industry to receive its Digital Transformation Certification.

In addition to receiving the Modern Device award as part of Microsoft Japan Partner of the Year 2019 and the Microsoft Teams award at Microsoft Japan Partner of the Year 2021, the Company also received two awards at Microsoft Japan Partner of the Year 2022, including the award for Meetings, Calling and Devices for Microsoft Teams and the Modern Workplace for Frontline Workers award.

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 and 2022, 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 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) and received the 2021 VMware APJ Partner Innovation Award and VMware APJ 2022 Partner Lifecycle Services Award.

SS&C Blue Prism, which is a global leader in the corporate intelligent automation field including RPA (robotic process automation), awarded the Company in 2021 with the "Corporate Territory Best Partner Award" in recognition of its track record of supporting customer adoption and its advanced technologies. In 2022, the Company became the first enterprise in Japan to be certified as a Gold Delivery Provider and as a Blue Prism Elite Partner. In addition, it received a "Service Industry Best Partner Award" as a company and a "Blue Prism Japan MVP Award" and "Blue Prism Japan Special Award" as an employee.

In 2021, the Company became 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, and 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.

5. Productivity trending upward due to human resource development and emerging effects of operational 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).

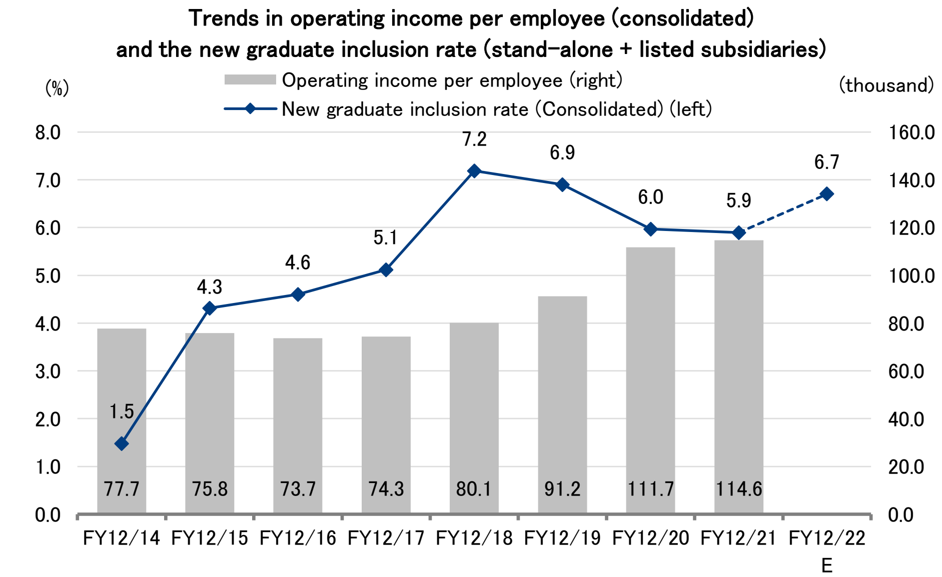
As a result of the above, the Company achieved excellent results for 1) paid-leave acquisition rate: 67.5% (56.3% among private-sector companies with at least 30 employees in 2020 according to the General Survey on Working Conditions, Ministry of Health, Labour and Welfare, from April 2020 to March 2021), 2) permanently or primarily working from home: 44% of employees (from April to December 2021), 3) employees taking childcare leave: 192 employees (from April 2020 to March 2021), and 4) annual average overtime hours: 24 hours 33 minutes (from April to December 2021). 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), certified as a Kanagawa business that promotes the support of children and child-raising (Kanagawa Prefecture), and certified as a Semi-Nadeshiko Brand by the Ministry of Economy, Trade and Industry for being an enterprise that is outstanding in terms of women's success.

Large-scale recruitment of new graduates not only dilutes workforce capabilities, it also has the potential to raise the turnover rate, and the promotion of work-style reforms leads directly to shorter working hours for existing employees and higher 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, in FY12/21, it improved to just under ¥1.15mn (up 55.4% versus FY12/16).

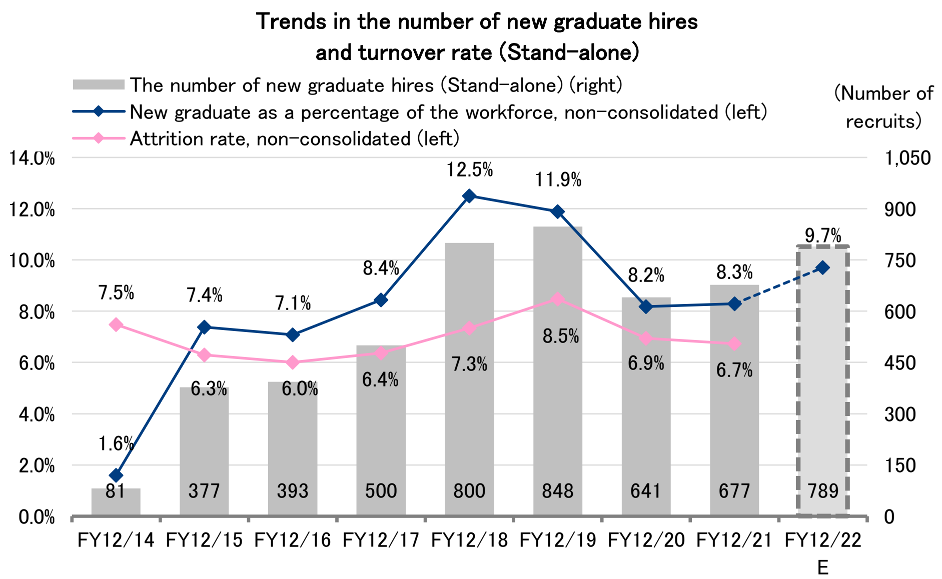
Taking a closer look, the new graduate inclusion rate found using a simple calculation (the number of recruited new graduates in the Company alone + in listed subsidiaries/the number of employees on a consolidated basis at the end of the previous fiscal year) rose each year from 1.5% in FY12/14 to 7.2% in FY12/18, and subsequently peaked at 5.9% in FY12/21. In addition, the average monthly overtime hours have stayed within 25 hours from FY12/16 onward, 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 around 70% 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 ¥1.15mn in FY12/21) and turnover peak (stand-alone basis of 11.6% in FY12/20 to 6.4% in FY12/21) in conjunction with the increase in expenses per employee (from ¥5.98mn in FY12/14 to ¥6.36mn in 12/21) (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 can be said 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. Actually, it is being leveraged from a business aspect in the form of external sales of FAMoffice and for DX collaboration with customers.

The room to reduce overtime and to increase paid leave has already been diminished, and going forward, we can expect efficiency to improve through work reforms and work-style reforms. In FY12/22, the new graduate inclusion rate once again rose by as much as 6.7%, and for the FY12/24 profitability targets indicated in the new medium-term management plan, there is the strong sense that they assume the acceleration of investment in human resources. However, as the Company has currently reached a scale of 17,000 employees, it is not necessarily the case that the new graduate inclusion rate will continue to increase every year. On taking a medium- to long-term perspective, there seems an increasing probability of improving work productivity, and it should be noted that it is possible that profitability will improve even more from 2025 onwards.



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



Source: Prepared by FISCO from Company materials and interviews

6. Investment in human resources and in real estate as a set

The Company, which is founded on a strategy of investing in human resources to improve added value, positions production worksites, such as offices, as spaces to create added value by human resources, and it has progressed its own acquisitions of them. In terms of the advantages to the Company of owning real estate, it seems its awareness is that qualitatively, they enable it to obtain a high degree of freedom, such as to respond to security issues and to projects and to improve creditworthiness, brand power and motivation, and quantitatively, to achieve a high return on investment and the stabilization of the corporate foundation through the effects of stably keeping down costs.

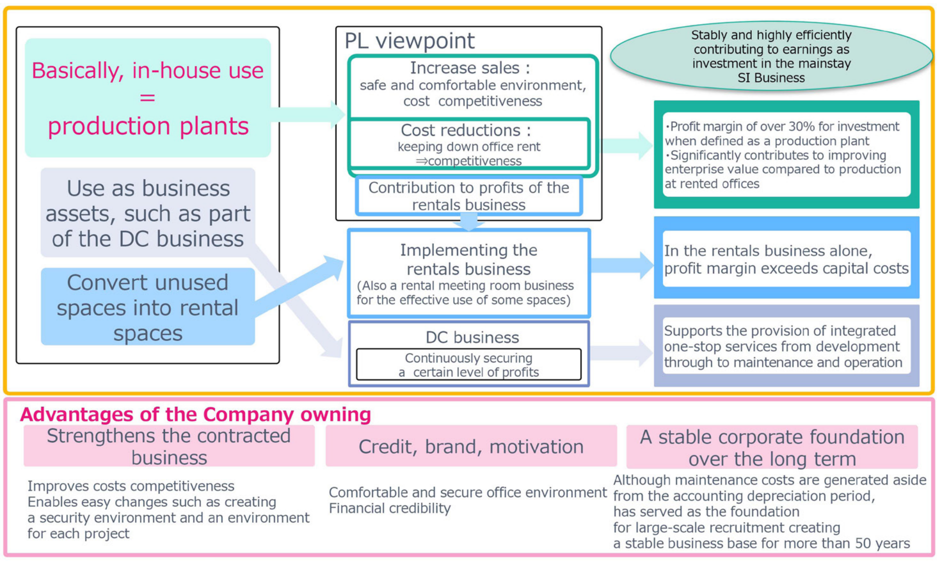
However, there appears to be a varying degree of satisfaction among those involved in the market in contrast to high profitability against investment that is independently defined by the Company. Therefore, with regards to tangible assets per employee, land rent, and the depreciation costs of buildings, we attempted a comparison with five companies in the same industry with net sales on a scale of from ¥200bn to ¥500bn.

When expressing as approximate numbers because the disclosure standards, such as for land rent, are not the same between the companies, 1) the Company's tangible assets per employee are around double the average of the five companies in the same industry, although there are some companies at the same level; 2) the Company's land rent per employee does not reach ¥200,000 annually and is extremely low as an absolute level; 3) for the depreciation costs of buildings per employee, no significant difference was seen between the Company and the other companies in the same industry.

The Company's land rent per employee, even when considering depreciation costs relating to buildings, is estimated to be around a fraction of the other companies in the same industry. When assuming it is around one-fifth of the Company, whose number of consolidated employees trends at around 15,000 people, can be estimated to be stably realizing annual cost savings of around ¥12bn. In other words, at the current point in time, even without adding the contribution of the Facility Business (operating income of just over ¥900mn) and the unrealized capital gains from real estate owned (around ¥15bn), it can be considered that the Company's real estate investment is having a positive effect on its profitability.

Naturally, alongside the improvement to the Company's profitability, the hurdle for an investment decision, including for real estate investment, will become higher. Also, it seems clear that the arrival of the with-COVID 19 era and the development of the metaverse will have major impacts on investment decisions in the future. For the Company as well, it is preferable for it to establish investment discipline to respond to the growth stage and to environmental changes.

Positioning of the real estate investment that the Company is considering



Source: From the Company's medium-term management plan

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