

# FUJI SOFT INCORPORATED

**9749**

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## Summary

### Sales and profit continued to grow in 2Q FY12/23. On track to attain medium-term management plan targets a year early

FUJI SOFT INCORPORATED <9749> (hereinafter, “the Company”) is a major, independent IT solutions vendor. It has three reporting segments: the SI (systems integration) Business (system construction and product service), the Facility Business, and 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 include a BPO (business process outsourcing) services business and a contact center business. In addition, the Company is promoting as technical strategy implemented across segments in the AIS-CRM\* (pronounced “ice cream”) domain, which offers potential for medium- to long-term growth from FY12/17 onward.

\* A term coined by the company (acronym for AI, IoT, Security, Cloud computing, Robot, Mobile & AutoMotive)

#### 1. Overview of 1H FY12/23 results

For the 1H FY12/23 results, the Company reported net sales of ¥151,480mn, up 7.2% YoY, operating income of ¥9,790mn, up 8.8%, ordinary income of ¥10,166mn, up 2.1%, and profit attributable to owners of parent of ¥6,061mn, up 3.6%. Sales and profit both increased YoY. A strong performance of embedded/control software and operations software contributed to net sales growth. For profit, operating income increased despite the rise in labor costs and recruiting expenses to strengthen the work force due to the sales growth effect and improved productivity.

#### 2. FY12/23 results forecast

The FY12/23 consolidated results forecast calls for net sales of ¥300,000mn, up 7.6% YoY, operating income of ¥20,000mn, up 9.5%, ordinary income of ¥20,300mn, up 5.7%, and profit attributable to owners of parent of ¥12,300mn, up 8.1%, effectively the 10th consecutive increase in both sales and operating profit since FY2013, when the Company transitioned to a fiscal period ending in December. The spread of Customers’ DX initiatives and motivation to invest in IT systems to grow their businesses and hone their competitiveness remains robust, resulting in strong demand for its business services centered on IoT and AIS-CRM. The Company aims to achieve targets of its three-year medium-term management plan ending in FY12/24 a year early.

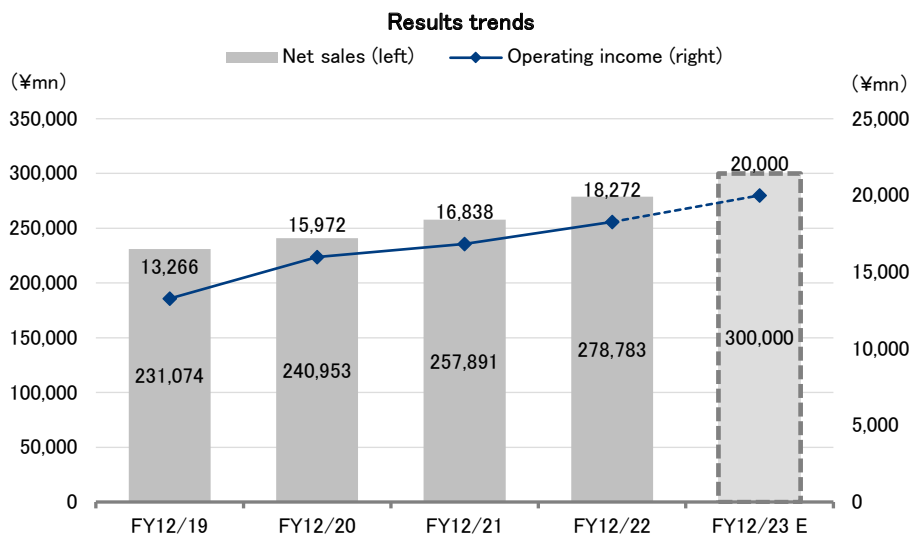
#### 3. New initiatives of Corporate Value Committee

In June 2022, the Company established a new Corporate Value Committee with the goal of contributing more to society and responding to the expectations of shareholders, and has been working on maximizing corporate value. In 2Q FY12/23, the Business Review Working Group (WG) set up under the Committee announced two strategic directions that the Company should take to create a business structure that maintains an offensive management stance while improving profitability. One is to increase operating income per employee (the most important KPI on a stand-alone basis) from the current ¥1.28mn to over ¥3.00mn within five years. The other is a real estate securitization process promoted by the Real Estate Review WG, with plans to implement securitization of some properties within a year.

Summary

**Key Points**

- A major, independent IT solutions vendor established in 1970
- 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
- Sales and profit continued to grow in 2Q FY12/23. Targeting net sales of ¥300.0bn and operating income ¥20.0bn in FY12/24
- Corporate Value Committee targets increase in most important KPI (operating income per employee) from ¥1.28mn to over ¥3.00mn within five years



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

## Company overview

**An innovation company that seeks the cutting edge of ICT, having always pushed the limits of computers**

### 1. Company overview

The Company is a major, independent IT solutions vendor established in May 1970. As of FY12/23, the Company has 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.

The Company has three 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 and a contact center business.

#### Company overview

In addition, as a technological strategy to be implemented across the segments, the Company has been advancing initiatives in the “AIS-CRM” area since FY12/17. 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 ¥112.2bn in FY12/22, gaining more confidence from the positive results of its technology strategy.

## 2. An innovation company aiming for cutting-edge ICT

The Company lists as its core competencies 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 for the development of ICT. 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.

The emergence of services that utilize IT (information technology) transformed the world. ICT (information and communication technology) is an umbrella term for the IT technologies that have further evolved, created by the combination of information processing and communication technologies. Integrating computers and communication devices enables efficient gathering, processing, transmission, and sharing of data. In summary, ICT is a group of technologies for today and tomorrow with the potential to effect another major transformation of our lives and businesses.

The Company’s President and Representative Director has declared: “As a group of ICT professionals, we will continue our company’s motto, ‘Challenge and Creation’ and aim to achieve our medium-term policy: to become an innovative corporate group that links ICT development to improving value for our customers.” From his words, we can see that ICT is a key concept for the FUJISOFT Group.

CSV is an approach that not only seeks to make a profit in the usual way, but also looks for new market opportunities and competitiveness in the process of addressing social and environmental issues. CSV management differs from conventional charitable activities and CSR (corporate social responsibility) in that it positions social issues at the heart of a company’s business, focusing on creating both social/environmental value and economic value through new business models and innovation. 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.

### 3. History

The Company has its roots in FUJI SOFTWARE LABORATORY, Ltd., which was established by Mr. Hiroshi Nozawa in 1970. 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. 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 hired aggressively and train engineers, as well as pursuing a complementary M&A strategy to incorporate the technologies and customer bases it did not have. These initiatives proved successful, creating a major corporate group with net sales of over ¥250.0bn and 17,000 employees on a consolidated basis while being an independent company.

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 ¥100.0bn are comprised almost entirely of manufacturers (such as Fujitsu Limited <6702>), user-related companies (such as NTT DATA Group 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.

### 4. Track record of awards

The Company's series of initiatives 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.

At Microsoft Japan Partner of the Year 2023, the Company won the Converged Communications Award three years in a row and the Modern Workplace for Frontline Workers Award two years running.

The Company has obtained AWS Well-Architected Partner Program and Oracle Competency certifications from Amazon Web Services (AWS) certifications, and has also been selected as one of AWS Ambassadors/Japan AWS Top Engineers.

The Company attained the status of "Principal," which is the highest level of certification 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.

## 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 and a call center business.

In 1H FY12/23, net sales broke down by business as follows. In the SI Business, embedded/control software provided 25.7%, operations software 32.5%, narrowly defined products and services 31.5%, and outsourcing 4.7%. The Facility Business provided 1.0% and Others 4.5%. Embedded/control software is the Company's mainstay, but operations software also provides substantial sales. Net sales of narrowly defined products and services is next largest after operations software. Other than operations software's share of total net sales increasing from 28.8% in FY12/19 and the share of embedded/control software trending down from 28.0% in FY12/19, there has been little change in the breakdown from FY12/19 to 1H FY12/23.

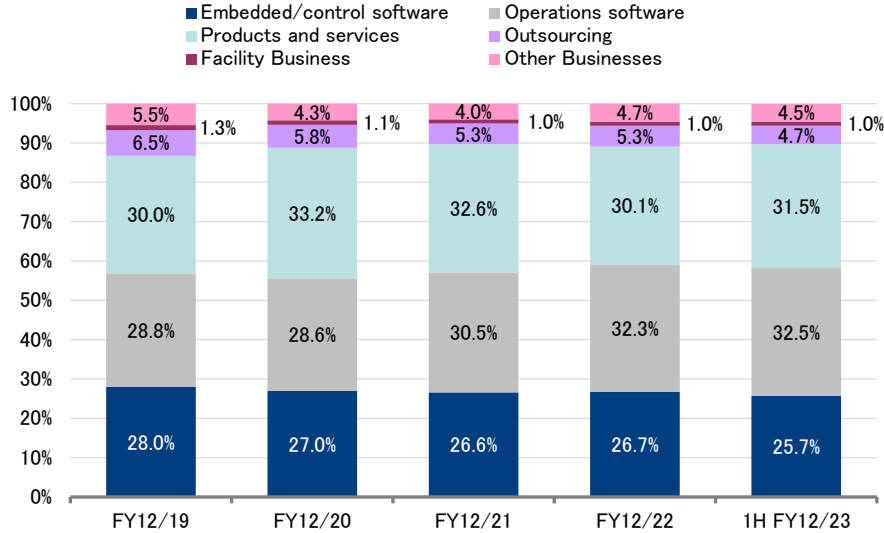
Segment breakdown

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

Business overview

**Trends in percentages of total net sales by segment**



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

**1. SI Business**

**(1) systems construction**

**1) Embedded/control software**

The Company's mainstay SI (system integration) Business entails combining various component parts such as computers and software to build one large system. It is similar to creating a picture from many different pieces of a puzzle. Computers and software are pieces of the puzzle, which are combined to build a new system by the process of system integration.

Embedded/control software is the core SI Business. Its main strengths are cutting-edge embedded products and development capability, with a track record of development in a broad range of sectors from robots and automotive to medical devices and industrial machinery. The Company provides services for a range of embedded systems covering the development of hardware (such as substrate and board design, FPGA and LSI design) as well as software (including operating systems, device drivers, middleware, and applications). It also has a wealth of experience in the development of highly advanced technological fields such as automotive control, including ADAS (advanced driver assistance system), automatic driving, EVs, and connected cars. The Company has developed technologies for existing automotive business areas such as powertrain (including engine), chassis, body, and IVI, as well as offering diverse control technologies for in-car software, and many development technologies for platforms such as AUTOSAR, model-based development, simulation environment, automotive SPICE, and functional safety. It has also actively engaged in R&D related to social infrastructure, such as mobile phone wireless base stations, network communication equipment, IP phone/fax and communication infrastructure control, assessment of base station development, and control software for railways, aerospace, defense, and plants to underpin social infrastructure.



#### Business overview

The Company also runs control-related businesses in factory production, developing controllers such as PLC (programmable logic controller) for FA (factory automation) and HMI (human machine interface) for displays and operation terminals, as well as programming of controller equipment and development of operation and maintenance tools. It also provides embedded control, recognition technology, app development, and external equipment control technologies for OA equipment such as multifunction printer/copiers and printers, and develops digital television products (the core digital living product in home appliances). As well, the Company develops the latest embedded/control technologies for mobile communications such as control systems for data communication devices and smartphones compatible with mobile (smartphone) 4G/LTE, Android app development and protocol development and assessment, and multimedia broadcasting and Felica support.

In particular, the Company has built up an excellent track record in this area within Japan and boasts strengths in FA and other machine control systems and automotive-related fields. Looking strictly at vehicle 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.

#### 2) Operations software

The Company has established a system able to provide a one-stop service from consulting through to development, system construction, and support, for various solutions such as those 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. Details of the business for each solution are discussed below.

The Company offers services as solutions for a diverse range of backbone systems, including those for production, sales, and inventory, various packages, ERP introduction, customized system integration, and consulting integration services as well as data center operation.

In the information system solutions area, the Company provides private cloud-based IaaS and SaaS services mainly using its own data centers. It also partners the four main public cloud services (AWS, Google, Salesforce, and Microsoft) to provide comprehensive cloud services. As well, it provides total support for on-premises services, from integration of diverse information system solutions to operation services (on-premises means the operation of IT systems, such as servers and software, primarily through equipment installed in a specific location or facility, usually on the user's premises).

#### Business overview

Internet service solutions are a package of optimized solutions that the Company offers to customers who provide various online services. Its e-commerce site construction service is particularly well received for excellence of proposals and technical capabilities. As well as financial solutions for accounting systems, information systems, and infrastructure for financial institutions (banks, securities, insurance, and credit card companies), the Company helps educational institutions and the public sector make their operations more efficient and sophisticated by combining cloud services and tablets, and delivers solutions for these sectors harnessing the latest technologies. It also provides distribution solutions in the form of various packages and optimal solutions for store systems, POS, merchandise management, ordering systems, e-commerce, and accounting systems. In manufacturing solutions, the Company provides various manufacturing-related packages and optimized solutions for production, sales management, logistics, and accounting, as well as solutions for gathering chemical substance information (for compliance with REACH Regulation) and visualization of electricity used for energy management (such as HEMS and BEMS). Its service solutions help to streamline operations, such as sales promotion support using mobile devices, a service providing television program log data for PR companies and departments, and a manual production service for manufacturers.

#### (2) Products and services

Products and services of SI Business consist of narrowly defined products and services and outsourcing

##### 1) Products and services

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; FS040W and FS050W, 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 Microsoft 365 (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. We note that the Company also provides support for deployment of licensed products, securing a profit by adding engineering services to the sale of licenses.

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 is on its way to becoming stable.

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

#### Business overview

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-based Health Management and Preventative Care Services Expo 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.

#### 2) Outsourcing

Outsourcing services that the Company provides are data center and system operation/maintenance and other services. The Company has four data centers around the country (2 in Tokyo and 1 each in Yokohama and Kyushu) for service delivery. Despite being a key lifeline, IT systems present a challenge to users, because they are costly to maintain and operate. The Company offers its data center service to reduce users' costs and workload.

#### 2. Facility Business

The Company earns rental revenue from office buildings it owns. Its basic stance is to hold real estate for its own use. The Facility Business can be positioned as making use of vacant space.

#### 3. Others

The Other Businesses mainly consist of the BPO services business and the contact center businesses conducted by the subsidiary FUJISOFT SERVICE BUREAU INCORPORATED <6188>.

## Technology strategy AIS-CRM implemented across business categories positioned as priority technology areas

#### 4. Technology strategy AIS-CRM implemented across business categories

In FY12/17, the Company announced AIS-CRM (pronounced "ice cream") as a technology strategy implemented across business segments in priority technology areas to focus on creating the seeds of new products and businesses and improve added value of existing businesses. The upper concept of the AIS-CRM strategy is set based on the Company's core competency, and this domain's FY12/22 stand-alone net sales were ¥112.2bn (average annual growth rate for the last 3 years: an increase of 15.8%) and constitute around 58% of stand-alone net sales.

Breaking this down, sales of AI mainly related to development were ¥3.0bn (average annual growth rate for the last three years: up 16.6%), of IoT mainly related to development were ¥3.4bn (up 33.6%), of security relating to development and licenses were ¥13.8bn (up 16.9%), of Cloud relating to licenses and SI, infrastructure-related, the online business field, etc., were ¥59.0bn (up 26.6%), of Robot mainly related to development, PALRO, robot SI, etc., were ¥5.0bn (down 8.8%), of Mobile relating to development, products, etc., were ¥8.3bn (up 2.7%), and AutoMotive mainly related to development were ¥19.7bn (up 5.8%). In particular, the strong performance of the cloud field was noticeable, while in the security field as well, initiatives implemented in recent years can also be described as successful.

#### Business overview

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 its priority business areas from AIS-CRM to DX+AIS-CRM+SD+(5)G2, and is aiming for sustainable growth and increased added value by stepping up its efforts in the new technological fields 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).

Another main focus is LLM (large language model), an AI model, an example being ChatGPT. Models and tools that vastly simplify and reduce the cost of communication and information gathering are being sought. LLMs like ChatGPT are a type of generative AI, i.e., programs that understand human language and can generate written language like humans. Although LLMs are generally understood to offer potential for making a substantial impact on the productivity of business system development, the Company plans initially to try out various ways of using it internally and be able to use it in business situations. Internal use entails verifying and reviewing generative AI technology for the purpose of improving internal business operations and utilizing it in business settings, as well as promoting the creation of ideas on how to apply it in diverse system development business settings.

The Company will offer the know-how gained from internal use to customers, and in the future it aims to offer training programs for utilizing generative AI and services that can be applied to various customer industries and sectors, as well as a broad range of services from verification of generative AI to introduction and operation to support DX. As a partner of Microsoft, which has a 49% stake in OpenAI LP, which developed ChatGPT, it uses Microsoft's Microsoft/Azure OpenAI Service for development.

## Results trends

### Sales and profit increased in 1H FY12/23

#### 1. Overview of 1H FY12/23 results

For the 1H FY12/23 results, the Company reported net sales of ¥151,480mn, up 7.2% YoY, operating income of ¥9,790mn, up 8.8%, ordinary income of ¥10,166mn, up 2.1%, and profit attributable to owners of parent of ¥6,061mn, up 3.6%. Sales and profit both increased YoY. Strong performances were seen in projects such as infrastructure construction and backbone system development mainly for the finance and manufacturing industries in operations software, as well as development projects in automobile-related EV, advanced technology areas, and machine control systems for the industrial and home appliance industries in embedded/control software. These strong performances contributed to net sales growth. For profit, operating income increased despite the rise in personnel and hiring expenses to strengthen the work force due to the sales growth effect and improved productivity. Ordinary income rose due to the increase of sales, offsetting a decrease in foreign exchange gains. Profit attributable to owners of parent increased because of net sales growth and sale of property, plant and equipment.

#### Consolidated results for 1H FY12/23

	1H FY12/22	1H FY12/23	YoY	
			Change %	Change amount
Net sales	141,328	151,480	7.2%	10,152
SI Business	133,786	143,152	7.0%	9,366
Systems construction	80,260	88,218	9.9%	7,958
Embedded/policy software	36,475	38,983	6.9%	2,508
Operations software	43,785	49,234	12.4%	5,449
Products and services	53,525	54,933	2.6%	1,408
Products and services	46,015	47,753	3.8%	1,738
Outsourcing	7,510	7,180	-4.4%	-330
Facility Business	1,340	1,461	9.0%	121
Other businesses	6,201	6,867	10.7%	666
Operating income	8,995	9,790	8.8%	795
SI Business	8,227	8,935	8.6%	708
Systems construction	5,141	6,056	17.8%	915
Embedded/policy software	3,014	3,253	7.9%	239
Operations software	2,127	2,803	31.8%	676
Products and services	3,086	2,879	-6.7%	-207
Products and services	2,549	2,569	0.8%	20
Outsourcing	536	309	-42.2%	-227
Facility Business	373	480	28.7%	107
Other businesses	393	374	-4.9%	-19
Ordinary income	9,954	10,166	2.1%	212
Profit attributable to owners of parent	5,850	6,061	3.6%	211

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

## Results trends

**2. Trends by business segment****(1) SI (system integration) Business****1) Embedded/control software**

Net sales increased 6.9% YoY to ¥38,983mn and operating income rose 7.9% to ¥3,253mn. Mobile- and social infrastructure-related sales turned down, but net sales increased overall, because the Company continued to win solid orders particularly in industrial-use machine control systems, whose prices remained strong in the semiconductor production equipment business, and major manufacturers continued to invest in digital home appliances. The main reason for the downturn in mobile- and social infrastructure-related sales is that the mobile phone market is close to saturation, with the number of new products declining, reflected in reduced demand for new mobile apps and devices. Development projects in this area also appear to be decreasing. Another possible reason is that in mobile- and social infrastructure-related businesses, systems and technologies that were introduced have shown stable operation, and thus there is less need to make urgent changes or upgrades.

**2) Operations software**

Net sales increased 12.4% YoY to ¥49,234mn and operating income rose 31.8% to ¥2,803mn. Infrastructure construction and backbone system development projects for various industries (mainly finance and manufacturing) were brisk. The Company has a comprehensive set of security solutions that support security and risk management with sophisticated technologies and safety in making the transition to the cloud based on its substantial experience in building cloud environments. A factor contributing to net sales growth is its efforts to expand the business by harnessing this experience and security solutions it has fostered to make proactive sales approaches to public organizations and financial services companies, which are cautious about moving its services to the cloud.

Companies such as those in the financial and manufacturing sectors are pushing ahead with DX to streamline their work processes and improve customer service by the adoption of digital technologies, which has led to a need to develop new systems and applications. With the additional emphasis on the security of customer information and transaction data mainly in the financial sector, development projects relating to addressing system vulnerabilities and strengthening security increased. Another positive factor for net sales is the impact of the COVID-19 pandemic, which increased demand for remote working and digital services and the need to develop systems to accommodate them.

**(2) Products and services****1) Products and services**

Net sales increased 3.8% YoY to ¥47,753mn and operating income rose 0.8% to ¥2,569mn. Sales of licensed products and POS-related in-house products sold by a subsidiary were strong. Sales of licensed products were upbeat, driven primarily by license businesses in collaboration with global vendors.

**2) Outsourcing**

Net sales fell 4.4% YoY to ¥7,180mn and operating income was down 42.2% to ¥309mn due to a decline in IT services for overseas retailers. Operating income was hurt by lower net sales and the impact of higher electricity prices on data centers.

**(3) Facility Business**

Net sales increased 9% YoY to ¥1,461mn and operating income rose 28.7% to ¥480mn. Sales and profit were up due to an increase in the number of tenants.

Results trends

**(4) Other business**

Net sales rose 10.7% YoY to ¥6,867mn, but operating income fell 4.9% to ¥374mn. Sales of both the call center and BPO services were up due to the large contribution of pension-related business that started in FY12/22, but profit turned down due to one-time cost increases in contracted projects.

## No change to stable financial position

### 3. Financial conditions and management indicators

As of end-1H FY12/23, total assets had increased by ¥1,563mn from the end of the previous period to ¥242,398mn. Current assets had increased by ¥1,306mn from the end of the previous period to ¥114,036mn, and non-current assets had increased by ¥258mn from the end of the previous period to ¥128,362mn.

Total liabilities at end-1H FY12/23 came to ¥83,937mn, decreasing by ¥4,154mn from the end of the previous period, of which, current liabilities had decreased by ¥3,996mn from the end of the previous period to ¥67,949mn, and non-current liabilities had decreased by ¥158mn from the end of the previous period to ¥15,987mn.

Net assets at end-1H FY12/23 had increased by ¥5,717mn from the end of the previous period to ¥158,461mn. The equity ratio went up from 55.7% at the end of the previous period to 57.4% at end-1H FY12/23.

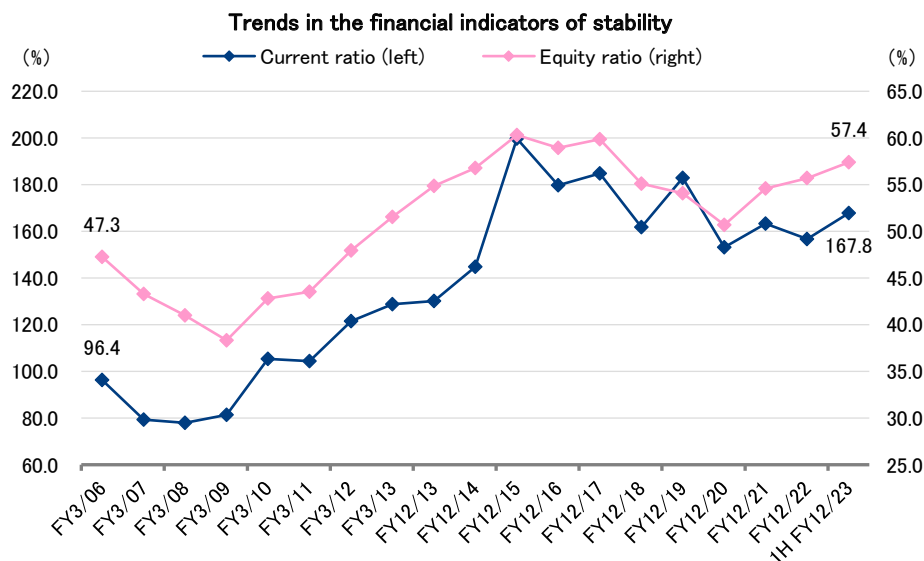
The equity ratio was 47.3% in FY3/06, but had increased to 55.7% in FY12/22. The current ratio went up from 96.4% to 156.7% over the same period. Net interest-bearing debt (interest-bearing debt minus cash and deposits) totaled ¥21,295mn in FY03/06, but the Company had surplus cash totaling ¥6,204mn in FY12/22, showing that its financial position has stabilized further.

#### Simplified balance sheets

	End-FY12/21	End-FY12/22	End-1H FY12/23
	(¥mn)		
<b>Current assets</b>	111,128	112,730	114,036
<b>(Cash and deposits)</b>	40,351	32,736	33,099
<b>Non-current assets</b>	117,786	128,104	128,362
<b>Total assets</b>	228,915	240,835	242,398
<b>Current liabilities</b>	68,018	71,945	67,949
<b>Non-current liabilities</b>	17,928	16,145	15,987
<b>Total liabilities</b>	85,946	88,091	83,937
<b>(Interest-bearing debt)</b>	28,828	26,638	23,408
<b>Total net assets</b>	142,968	152,744	158,461

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

## Results trends



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

#### 4. Cash flow situation

Cash flows at end-1H FY12/23 were as follows. Cash and deposits totaled ¥32,075mn, a decrease of ¥1,011mn from the end of the previous period. Cash provided by operating activities was ¥8,615mn, mainly due to greater inflows from increases in sales and profit. Cash used in investing activities totaled ¥3,934mn, mainly due to inflow from the sale of tangible assets offset against investments in office building construction and securities. Cash used in financing activities totaled ¥5,927mn, mainly for the payment of dividends and repayments of borrowings.

#### Simplified cash flow statements

	(¥mn)		
	FY12/21	FY12/22	1H FY12/23
Net cash from operating activities (a)	15,907	13,519	8,615
Net cash from investing activities (b)	4,894	-15,522	-3,934
Net cash from financing activities	-17,871	-5,911	-5,927
Free cashflow (a) + (b)	20,801	-2,003	4,681
Cash and cash equivalents at end of period	40,876	33,086	32,075

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



## ■ Outlook

### Net sales and operating income to increase YoY for 10 years running in FY12/23, driven by digital shift and industry structure change

For the FY12/23 consolidated results, the Company is forecasting net sales to increase 7.6% YoY to ¥300,000mn, operating income to rise 9.5% to ¥20,000mn, ordinary income to grow 5.7% to ¥20,300mn, and profit attributable to owners of parent to increase 8.1% to ¥12,300mn. Therefore, it is aiming for the tenth consecutive period of higher net sales and operating income since 2013 when it transitioned to a fiscal period ending in December.

Causes for concern remain, such as resource and energy costs staying high for a long period and prolonged price increases, as well as the uncertain outlook for higher interest rates as governments aim to contain inflation by monetary tightening. However, gradual economic recovery continues as economic activity returns to normal. For the Company, demand from customers engaging in DX initiatives and system development for purposes such as business expansion and strengthening competitiveness is robust, especially demand for its services centered on IOT and AIS-CRM. It continues to strengthen production capacity, having resumed the hiring of new graduates and mid-career personnel, as well as working to increase operating income per employee by improving value for customers and controlling costs and SG&A expenses.

FY12/23 consolidated results forecast

	FY12/22 Results	FY12/23 Forecasts	YoY	
			Change %	Change amount
Net sales	278,783	300,000	7.6%	21,217
Operating income	18,272	20,000	9.5%	1,728
Ordinary income	19,205	20,300	5.7%	1,095
Profit attributable to owners of parent	11,379	12,300	8.1%	921

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

## ■ Medium and long-term growth strategy

### On track to attain medium-term management plan targets of ¥300.0bn in net sales and ¥20.0bn in operating income a year early

#### 1. Progress of medium-term management plan

The Company announced its new medium-term management plan in February 2022. Its basic approach is the offensive management approach that it has maintained since its foundation, with secondary approaches of embracing the challenge of new business areas to create, grow, and innovate; prioritizing sales and profit growth, and combining volume expansion with quality improvement. Going forward, it aims to incorporate sales and profit growth, continued operating income margin improvement, ROE, ROIC, and EBITDA margin into its KPIs, revise the dividend payout ratio target, and maintain financial soundness (measured by the equity ratio, etc.).

Medium and long-term growth strategy

Numerical targets for FY12/24 are net sales exceeding ¥300.0bn, operating income exceeding ¥20.0bn, ROIC of over 8.0%, ROE over 9.0%, and EBITDA margin over 9.0%. The Company plans to achieve these targets in FY12/23, driven by favorable changes in the operating environment accompanying the digital shift.

The Company's management policy for the medium-term management plan is "Lead DX in the aspects of both IT and OT\* with digital technologies and contribute to value improvement and innovations by customers and society," and "respond to the era of rapid change, continue to transform, and achieve stable, sustainable growth and increased added value." Specific strategies are to enhance corporate governance to comply with Tokyo Stock Exchange Prime Market listing requirements under "implement and enhance corporate governance measures." For "human resource development," the Company plans to nurture basic and applied skills in its personnel so that they can respond to changes in various technologies and businesses. To "push ahead with operational reforms and digital transformation (DX)," it will provide the know-how acquired internally to customers. For "ongoing technological innovation," the Company will further develop AIS-CRM and aggressively move into new business areas, and to "deliver greater value to customers while assisting them in DX efforts," it plans to strengthen existing businesses that utilize DX and establish new business schemes. Although the Company has not announced numerical targets for these plans, we at FISCO think that it is on track to achieve medium-term plan targets a year early given its high attainment rates.

| \* Operational Technology: Control and operations technology for optimal operation of products, equipment and systems |

Regarding its technology strategy, the Company began initiatives relating to DX, SD, and (5)G2, which are new areas of technology, in addition to growing its priority AIS-CRM measures. It is also strengthening upstream services such as IT consulting and service design as well as progressing research on technology in new areas such as 5G and the Metaverse. In DX, the spread of multi-cloud solutions has made it possible to provide an optimal environment by combining multiple cloud services. Thus, the business has maintained stable growth centered on cloud services. The Company is also working on its own DX to strengthen its business foundation and is promoting its application in areas such as internal reforms based on work reforms and strengthening the competitiveness of its business.

In 5G infrastructure construction, the Company's strength lies in providing a solution to customers' unique needs as a service. It obtained a local 5G wireless license to conduct research on local 5G technology, establishing a "Local 5G Lab." The purpose of this facility is to develop new products and services harnessing 5G technology to accelerate business expansion.

Medium and long-term growth strategy

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

■ Management Policy	■ Medium-term Management Plan	■ Quantitative Targets																								
<p><b>Basic Philosophy</b>                      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</p>	<p><b>Three-year Management Policy</b>                      Use digital technology to lead DX both in IT and OT*1, contributing to improved value and innovation both for customers and society</p> <p><b>Business Strategy</b></p> <ul style="list-style-type: none"> <li>Strengthen existing business and further strengthen key AIS-CRM*2 measures to improve value offered to customers                             <ul style="list-style-type: none"> <li>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</li> <li>Application of 5G and other advanced technologies to development</li> <li>Capture upstream projects by strengthening service design approach and IT consulting functions</li> </ul> </li> </ul> <p><b>Technology and Human Resources Strategy</b></p> <ul style="list-style-type: none"> <li>Engage in proactive hiring and development of human resources centered around SI capabilities, advanced software capabilities and product offering capabilities</li> </ul>	<table border="1"> <thead> <tr> <th></th> <th>FY12/21 results</th> <th>FY12/24 targets</th> </tr> </thead> <tbody> <tr> <td>Net sales</td> <td>¥257.9bn</td> <td>At least ¥300bn</td> </tr> <tr> <td>Operating income</td> <td>¥16.8bn</td> <td>At least ¥20bn</td> </tr> <tr> <td>Operating income margin</td> <td>6.5%</td> <td>At least 6.7%</td> </tr> <tr> <td>ROIC</td> <td>7.4%</td> <td>At least 8.0%</td> </tr> <tr> <td>ROE</td> <td>7.5%</td> <td>At least 9.0%</td> </tr> <tr> <td>EBITDA margin</td> <td>8.6%</td> <td>At least 9.0%</td> </tr> <tr> <td>Dividend payout ratio</td> <td>17.8%</td> <td>At least 35.0%</td> </tr> </tbody> </table>		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%
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<p><b>Maintaining an offensive management stance since our founding</b>                      Take on the challenge of new business fields to create, grow and innovate</p>																										
<p><b>Medium-term Policy</b>                      Become an innovative corporate group that links ICT development to greater value for customers</p>																										

\*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"

## Corporate Value Committee deliberates on corporate governance review and management and financial strategies

### 2. Formed monitoring organization for achievement of medium-term management plan targets

#### (1) Orientation of discussions by Corporate Value 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 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, and working groups (WG) have been established under the Committee to address specific issues.

The orientation of discussions by the Corporate Value Committee is toward concentrating investment of resources and capital in the core ICT businesses to promote the construction of a flexible and efficient business structure capable of incorporating technological innovation and fostering human resources to create added value. In this way, the Company seeks to maximize corporate value to fulfill shareholders' expectations by contributing to the development of customers and society.

#### (2) Progress of business validation WG

The business validation WG is an organization set up under the Committee that monitors the business as a whole to attain medium-term management plan targets. As of August 2023, the WG is promoting the formation of a business structure that can maintain an offensive management approach as well as high profitability. The Committee targets an increase in the most important KPI (stand-alone operating income per employee) from ¥128mn in FY12/22 to over ¥300mn within five years. The Company plans to announce details of its management plan for FY12/24 onward with its results at the end of December 2023.

Medium and long-term growth strategy

Five specific measures have been established toward the “improvement and optimization of KPIs” promoted by the business validation WG. The first is to improve customer value, specifically by cultivating deeper relationships with customers and strengthening its cross-selling structure. The Company will work on further strengthening its relationships with customers and building a structure and culture better equipped to provide a group-wide, high value-added service to customers by cross-selling. To strengthen its technological capabilities, the Company will invest in R&D, etc., mainly in DX + AIS-CRM + SD + (5)G2 areas to enhance its capabilities in new technology fields so that it can increase the value it delivers to customers and develop new IT solutions and services. As well, to provide one-stop services, the Company aims to add value by providing a combination of know-how in embedded/control software development, communication technologies, operations systems, and other areas. It will also establish a system for one-stop service provision that can provide everything from upstream processes to operation/maintenance and infrastructure. In addition, to strengthen the basic part of the business, the Company will review how it splits roles with clients and how it proceeds with projects to improve value for clients in terms of man days and unit price per month for engineers, as well as move toward a results-based business. To expand projects with bulk contracts, the Company also plans to take the initiative in increasing the number of contracted projects to enhance value for customers, raise the utilization rate of partner companies, and facilitate flexible optimization of internal resource allocation.

Second is strengthening its partner policy. The Company seeks to increase the utilization rate of outside partners, secure human resources, and improve productivity through a more sophisticated partner policy as well as revising transactions with customers. Themes under productivity improvement that the Company will promote are forming relationships with customers that help to improve productivity, further strengthening of measures to prevent problems with customers, and technological reforms such as generative AI, test automation, strengthening the development environment and tools, product-based development, and research on new cloud-based development methods.

Third is productivity improvement. Specific measures are forming relationships with customers that help to improve productivity, further strengthening of measures to improve productivity, and technological reforms such as generative AI, test automation, strengthening the development environment and tool, product-based development, and research on new cloud-based development methods.

Fourth is optimization of selling expenses. Specific measures are visualization of sales activities using indicators to review sales processes as well as monitoring each indicator and running PDCA cycles to make the sale process more efficient and sophisticated. There are two themes for optimization of administrative expenses. First, to promote visualization and optimization of work processes through work reforms (i.e., strengthen ongoing activities started in 2019). Second, to improve and optimize work efficiency by means of modern system implementation and promoting DX, such as renewing backbone systems based on work reforms and the use of low-code and no-code development platforms and generative AI.

Fifth is optimization of administrative expenses, with two themes. The first is promoting the visualization of work processes and optimization through work reforms (i.e., strengthen ongoing activities started in 2019). Second is to improve and optimize work efficiency by means of modern system implementation and promoting DX, such as renewing backbone systems based on work reforms and the use of low-code and no-code development platforms and generative AI.

Medium and long-term growth strategy

### (3) Progress of real estate validation WG

The Company is executing the liquidation process in accordance with the points indicated in the February 2023 disclosure. The overall policy is to downsize real estate, as ROIC (market value-based) is below the hurdle rate, except for some smaller properties that have not yet received appraisals. The Company classified the priority of liquidation of real estates from A through D for each property, taking into consideration the office consolidation policy and the constraints of each property. For Rank A, it will liquidate at least one property within this year and execute the remaining properties around the FY12/23 year-end earnings results. It will also start consideration for Rank B properties, aiming to execute within one year (by August 2024).

### (4) Reorganization of Governance Committee

The Corporate Governance Review WG carried out initiatives to make its existing governance structure more objective and effective. After the March 2023 General Shareholders Meeting, the Company split the management committee (a voluntary organization) progressively into three committees with separate functions to ensure greater objectivity and transparency. It also established a new governance committee (by splitting off the corporate governance WG from the Corporate Value Committee) for more specific validation activities.

## Shareholder return policy

### **Paid interim dividend of ¥68.0 per share in FY12/23; plans year-end dividend of ¥34.5 per share, for annual dividend of ¥102.5 per share**

In FY12/23, the Company plans to pay an interim dividend of ¥68.0 per share and ¥34.5 per share at period end. The dividend payout ratio was 35.3% for the interim dividend and forecast to be 35.0% for the period-end dividend. The interim dividend was paid out as planned.

The Company conducted a two-for-one stock split for all common stock held by shareholders of record on the record date of Friday, June 30, 2023. Accordingly, it revised its initial annual dividend forecast from ¥137.0 per share (interim dividend of ¥68.0 per share and ¥69.0 per share at period end) to ¥102.5 per share (interim dividend of ¥68.0 per share and ¥34.5 per share dividend at period end). In the medium-term management strategy announced in February 2022, the Company decided on a dividend payout ratio of over 35% for shareholders. To date, it has maintained its dividend payout ratio target.

Shareholders of record as of December 31 of each year with 100 or more shares are eligible for the Company's shareholder benefit plan. The shareholder benefit plan at end-December 2022 consisted of postcards produced by the Company combined with either the address book compilation software Fude Gourmet or a shiitake mushroom gift pack.



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