



# Results of Operations for the First Half of FY2018

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August 8, 2018  
FUJI SOFT INCORPORATED



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## Results of Operations for the First Half of the Fiscal Year Ending December 2018

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# Consolidated Financial Highlights-1 (H1 Results)

Net sales rose due to strong performance in the System Integration business.

- ◇ Net sales rose 11.7% year on year, to 100,688 million yen, thanks to the strong performance of the System Integration business overall, especially auto-related system construction, machine control systems, products, and sales of other companies' products.

Operating income rose due to higher sales and an improvement in the cost rate.

- ◇ Operating income rose 26.1% year on year, to 5,281 million yen, reflecting higher sales and an improvement in the cost rate, despite active upfront investments for a systematic increase in the workforce and the establishment of bases.
- ◇ Ordinary income increased 29.7% year on year, to 5,712 million yen, due to the rise in operating income and foreign exchange profit generated by a drop in the yen, among other factors.
- ◇ Profit attributable to owners of parent rose 29.7% year on year, to 3,317 million yen.

(Million yen)

	FY2017 H1	FY2018 H1	YoY change	YoY change	FY2018	
	Results	Results	(Amount)	(%)	H1 plan	Comparison with the plan
<b>Net sales</b>	90,112	100,688	+10,575	111.7%	92,500	108.9%
<b>Operating income</b>	4,186	5,281	+1,094	126.1%	4,190	126.1%
Operating income margin	4.6%	5.2%			4.5%	
<b>Ordinary income</b>	4,404	5,712	+1,308	129.7%	4,410	129.5%
Ordinary income margin	4.9%	5.7%			4.8%	
<b>Profit attributable to owners of parent</b>	2,557	3,317	+759	129.7%	2,560	129.6%
Profit margin attributable to owners of parent	2.8%	3.3%			2.8%	



# Consolidated Financial Highlights-2 (Q2 Results)

Net sales rose 13.1% year on year.

Cost of sales improved to 76.1%.

◇ Cost of sales improved to 76.1% due in part to the reduction in unprofitable projects and productivity improvement (a year ago: 76.6%).

SG&A expenses increased 1,217 million yen year on year.

◇ SG&A expenses increased by 1,217 million yen year on year, to 9,887 million yen, due to a rise in personnel expenses because of a systematic increase in the workforce, expenses associated with the establishment of new offices, and costs for employment training due to the reinforced recruitment of new graduates, etc.

Operating income increased substantially by 23.8% year on year.

	FY2018 Q1 results	YoY change (Amount)	YoY change (%)	FY2018 Q2 results	YoY change (Amount)	YoY change (%)
(Million yen)						
<b>Net sales</b>	49,466	+4,636	110.3%	51,221	+5,939	113.1%
<b>Cost of sales</b>	37,990	+3,173	109.1%	38,970	+4,267	112.3%
Cost of sales margin	76.8%			76.1%		
<b>Gross profit</b>	11,476	+1,462	114.6%	12,250	+1,671	115.8%
<b>SG&amp;A expenses</b>	8,558	+822	110.6%	9,887	+1,217	114.0%
<b>Operating income</b>	2,917	+640	128.1%	2,363	+454	123.8%
Operating income margin	5.9%			4.6%		



# Sales/Operating Income by Major Companies of the Group

(Million yen)

	FY2018	Net sales	Operating income	
<b>FUJI SOFT INCORPORATED</b>	H1 results	63,877	2,810	Sales rose, reflecting the strong performance of the System Integration business overall, especially auto-related system construction, machine control systems, products, and sales of other companies' products. Operating income rose, reflecting higher sales and an improvement in the cost rate, despite active upfront investments for a systematic increase in the workforce and the establishment of bases.
	YoY change (amount)	+8,600	+620	
	YoY change (%)	115.6%	128.3%	
<b>CYBERNET SYSTEMS Co., Ltd.</b>	H1 results	10,748	1,048	Sales increased, given strong sales in the mainstay MCAE field, the optical design field, IT solutions, and model-based development engineering services in Japan, as well as the solid performance of the sales subsidiaries in Taiwan and Korea. Operating income rose due to higher sales, despite a rise in personnel expenses due to a systematic increase in the workforce.
	YoY change (amount)	+1,326	+166	
	YoY change (%)	114.1%	118.9%	
<b>VINX CORP.</b>	H1 results	12,447	684	Sales declined, due mainly to the effects of the prolonged period from orders to the posting of sales associated with the shift to the stock-type business (service business). Operating income increased due to improved productivity and the reduction of expenses.
	YoY change (amount)	-1,096	+120	
	YoY change (%)	91.9%	121.3%	
<b>CYBER COM Co., Ltd.</b>	H1 results	5,819	246	Sales increased thanks to the strong performances of control and operation software development in the software development business. Operating income rose thanks to an improvement in the cost rate due to increased sales and improved productivity and a decrease in the costs for relocating the headquarters.
	YoY change (amount)	+613	+72	
	YoY change (%)	111.8%	141.3%	
<b>FUJI SOFT SERVICE BUREAU INCORPORATED</b>	H1 results	5,274	277	Net sales increased as sales continued to grow in projects for public offices and local governments in the call center services and BPO services fields, while also rising in projects for private corporations. Operating income was higher as an increase in SG&A expenses was absorbed mainly by the unexpectedly high availability ratio of new spot projects and cost savings from improved productivity as a result of a review of BPO service operations and other initiatives.
	YoY change (amount)	+332	+44	
	YoY change (%)	106.7%	118.9%	

\* Their results from January to June, 2018 are stated in the FY2018 H1 results column.



# Consolidated Sales/Operating Income by Segment

(Million yen)

	FY2018 Net sales H1 results	Component ratio	YoY change (Amount)	YoY change (%)	FY2018 Operating income H1 results	Operating income margin	YoY change (Amount)	YoY change (%)
<b>Consolidated total</b>	100,688	100.0%	+10,575	111.7%	5,281	5.2%	+1,094	126.1%
<b>SI Business</b>	93,301	92.7%	+9,967	112.0%	4,382	4.7%	+1,036	131.0%
<b>System Construction</b>	55,006	54.6%	+5,929	112.1%	2,226	4.0%	+484	127.9%
Embedded/Control Software	28,772	28.6%	+3,157	112.3%	1,452	5.0%	+401	138.2%
Operation Software	26,234	26.1%	+2,771	111.8%	773	2.9%	+83	112.1%
<b>Products and Services</b>	38,294	38.0%	+4,037	111.8%	2,155	5.6%	+551	134.4%
Products and Services	30,555	30.3%	+3,889	114.6%	1,656	5.4%	+269	119.5%
Outsourcing	7,739	7.7%	+147	101.9%	499	6.5%	+281	229.2%
<b>Facility Business</b>	1,496	1.5%	+131	109.6%	536	35.8%	-16	97.1%
<b>Other Businesses</b>	5,890	5.9%	+477	108.8%	363	6.2%	+74	125.8%

## Highlights of Sales and Operating Income by Segment

### • Embedded/Control Software

Sales increased 12.3% year on year mainly due to the continued strength in the performance of auto-related and machine control system construction. Operating income increased 38.2% year on year due to higher sales and the improved cost of sales.

### • Operation Software

Sales increased 11.8% year on year thanks to solid sales to the financial sector, internet businesses, and distribution and service sectors. Operating income rose 12.1% year on year due to higher sales.

### • Products and Services

Sales increased 14.6% year on year as sales of other companies' and our products and related services associated with product sales remained firm. Operating income rose 19.5% due to higher sales.

### • Outsourcing

Sales increased 1.9% thanks to the strong performances of the operation and maintenance projects and outsourcing projects. Operating income rose 129.2% year on year, reflecting the absence of expenses for data center renovation posted in the previous fiscal year.



# Consolidated Income Statement

(Million yen)

	FY2017 H1 Results	FY2018 H1 Results	YoY change (Amount)	YoY change (%)	FY2018 H1 Plan	Comparison with the plan
Net sales	90,112	100,688	+10,575	111.7%	92,500	108.9%
Cost of sales	69,519	76,960	+7,441	110.7%	—	—
Cost of sales margin	77.1%	76.4%	(1)			
Gross profit	20,593	23,727	+3,134	115.2%	—	—
Gross profit margin	22.9%	23.6%				
SG&A expenses	16,406	18,445	+2,039 (2)	112.4%	—	—
SG&A expense ratio	18.2%	18.3%				
Operating income	4,186	5,281	+1,094	126.1%	4,190	126.1%
Operating income margin	4.6%	5.2%			4.5%	
Non-operating income	214	279	+65	130.4%	—	—
Non-operating expenses	154	52	-101	34.1%	—	—
Share of (profit) loss of entities accounted for using equity method	157	204	+46	129.8%	—	—
Ordinary income	4,404	5,712	+1,308	129.7%	4,410	129.5%
Ordinary income margin	4.9%	5.7%			4.8%	
Extraordinary income	313	494	(3) +180	157.5%	—	—
Extraordinary losses	114	243	(3) +128	212.4%	—	—
Income before income taxes	4,603	5,963	+1,360	129.5%	—	—
Total income taxes	1,442	1,722	+280	119.4%	—	—
Net income	3,161	4,241	+1,079	134.2%	—	—
Profit attributable to non- controlling interests	603	923	+320	153.1%	—	—
Profit attributable to owners of parent	2,557	3,317	+759	129.7%	2,560	129.6%
Profit margin attributable to owners of parent	2.8%	3.3%			2.8%	

## Points of Income Statement

### (1) Cost of sales margin (76.4%)

Improved with progress in the reduction of unprofitable projects, productivity improvement, and other initiatives

### (2) SG&A expenses (+2,039 million yen)

Reflected an increase in expenses associated with a systematic increase in the workforce and establishing bases to respond actively to the booming market.

### (3) Extraordinary income (494 million yen) Extraordinary losses (243 million yen)

Extraordinary income is the proceeds of a partial business transfer.

Extraordinary losses are losses caused by the removal of a core system.



# Consolidated Balance Sheet

	End of FY2017	End of H1 of FY2018	(Million yen) Change (Amount)
<b>Current assets</b>	72,457	75,068	2,610 (1)
Cash and deposits	18,851	18,703	-147
Notes and accounts receivable - trade	40,288	41,000	712
Short-term investment securities	5,200	5,000	-200
Inventories	3,248	4,086	838
Deferred tax assets	2,435	2,686	250
Other	2,434	3,591	1,156
<b>Non-current assets</b>	102,110	119,980	17,869 (2)
Property, plant and equipment	65,220	82,321	17,101
Intangible assets	6,821	6,734	-87
Investments and other assets	30,068	30,924	855
<b>Total assets</b>	174,568	195,048	20,480
<b>Current liabilities</b>	39,197	56,677	17,480 (3)
Notes and accounts payable - trade	9,977	10,761	784
Short-term loans payable	6,964	16,782	9,817
Commercial papers	1,500	8,500	7,000
Accrued expenses / provision for bonuses	7,751	8,716	965
Income taxes payable	2,102	2,079	-23
Provision for loss on construction contracts	173	120	-52
Other	10,728	9,716	-1,011
<b>Non-current liabilities</b>	16,959	16,829	-129
Long-term loans payable	4,182	4,054	-128
Other	12,776	12,775	-1
<b>Total liabilities</b>	56,156	73,507	17,350
<b>Total net assets</b>	118,411	121,541	3,129
<b>Total liabilities and net assets</b>	174,568	195,048	20,480

## Points of the Balance Sheet

### (1) Current assets (+2,610 million yen)

Increase in notes and accounts receivable – trade, inventories, and prepaid expenses associated with software for internal use, reflecting the strong order environment.

### (2) Non-current assets (+17,869 million yen)

Purchase of land and buildings to secure office space for establishing bases.

### (3) Current liabilities (+17,480 million yen)

Borrowing as funds to acquire land and buildings, etc.





# Consolidated Cash Flow Statement

(Million yen)

	FY2017 H1 results	FY2018 H1 results	YoY change (Amount)
Cash flows from operating activities	6,200	4,459	-1,741
Cash flows from investing activities	-2,257	-22,216	-19,959
Cash flows from financing activities	-1,356	15,854	+17,210
Effect of exchange rate change on cash and cash equivalents	27	-51	
Net increase (decrease) in cash and cash equivalents	2,614	-1,954	
Cash and cash equivalents at beginning of period	21,790	22,457	
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	24,404	20,502	

## Highlights of Cash Flows

- [Cash flows from operating activities](#)

Net cash provided by operating activities stood at 4,459 million yen, with a year-on-year decrease of 1,741 million yen due mainly to increases in notes and accounts receivable - trade, inventories and notes and accounts payable - trade, reflecting the strong order environment.

- [Cash flows from investing activities](#)

Net cash used in investing activities came to 22,216 million yen, mainly due to the purchase of land and buildings to secure office space to strengthen systems and an increase in expenses for software for internal use.

- [Cash flows from financing activities](#)

Net cash provided by financing activities was 15,854 million yen due to the issuance of commercial paper and an increase in loans payable.



# Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

FY2017 H1 results								
	Order backlog at beginning of term	YoY change (%)	Orders	YoY change (%)	Net sales	YoY change (%)	Order backlog at end of term	YoY change (%)
<b>SI Business Total</b>	40,094	114.6%	97,095	114.3%	93,301	112.0%	43,888	119.9%
<b>System Construction</b>	27,450	115.3%	55,891	111.1%	55,006	112.1%	28,334	113.2%
Embedded/Control Software	11,436	114.6%	29,090	110.8%	28,772	112.3%	11,755	110.6%
Operation Software	16,014	115.9%	26,800	111.5%	26,234	111.8%	16,579	115.1%
<b>Products and Services</b>	12,644	113.2%	41,204	118.9%	38,294	111.8%	15,554	134.3%
Products and Services	9,718	119.0%	33,572	123.2%	30,555	114.6%	12,735	145.6%
Outsourcing	2,926	97.4%	7,631	102.9%	7,739	101.9%	2,818	99.6%

## Highlights of Orders and Order Backlogs

### ●Highlights in System Construction

#### - Embedded/Control Software

The order backlog at the end of the term increased 10.6% year on year due to strong orders, particularly from auto-related sectors.

#### - Operation Software

The order backlog at the end of the term increased 15.1% year on year thanks to solid orders mainly from the manufacturing, public offices and local governments, and telecommunications sectors, in addition to large-scale, long-term projects.

### ●Highlights in Products and Services

#### - Products and Services

The order backlog at the end of the term increased 45.6% year on year due to strong sales of other companies' products.

#### - Outsourcing

The order backlog at the end of the term declined 0.4% year on year due to an drop in the number of ongoing projects, while orders increased.



# Business Trends in the First Half

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# Initiatives in FY2018

## Points in Management

### ■ Bold efforts for new technologies: AIS-CRM



Backed by the utilization of technologies such as AI and IoT, demand for software for automobiles and industrial robots remained positive.

**PP. 12, 13**

### ■ Promotion of the high value-added system integration business



Cost of sales improved due to the reduction of unprofitable projects and the expansion of highly profitable System Integration projects.

**P. 14**

### ■ Strengthening of human resources and steady growth of the commissioned development business



Productivity was improved constantly, and efforts for cultivating young employees such as new graduates were continued.

**PP. 15, 16**

### ■ Aggressive promotion of the product business



Sales in the product business increased 15% year on year.

**PP. 17 to 20**

### ■ Growth as the overall Group and aggressive global development



Group companies increased income and profits on the whole.



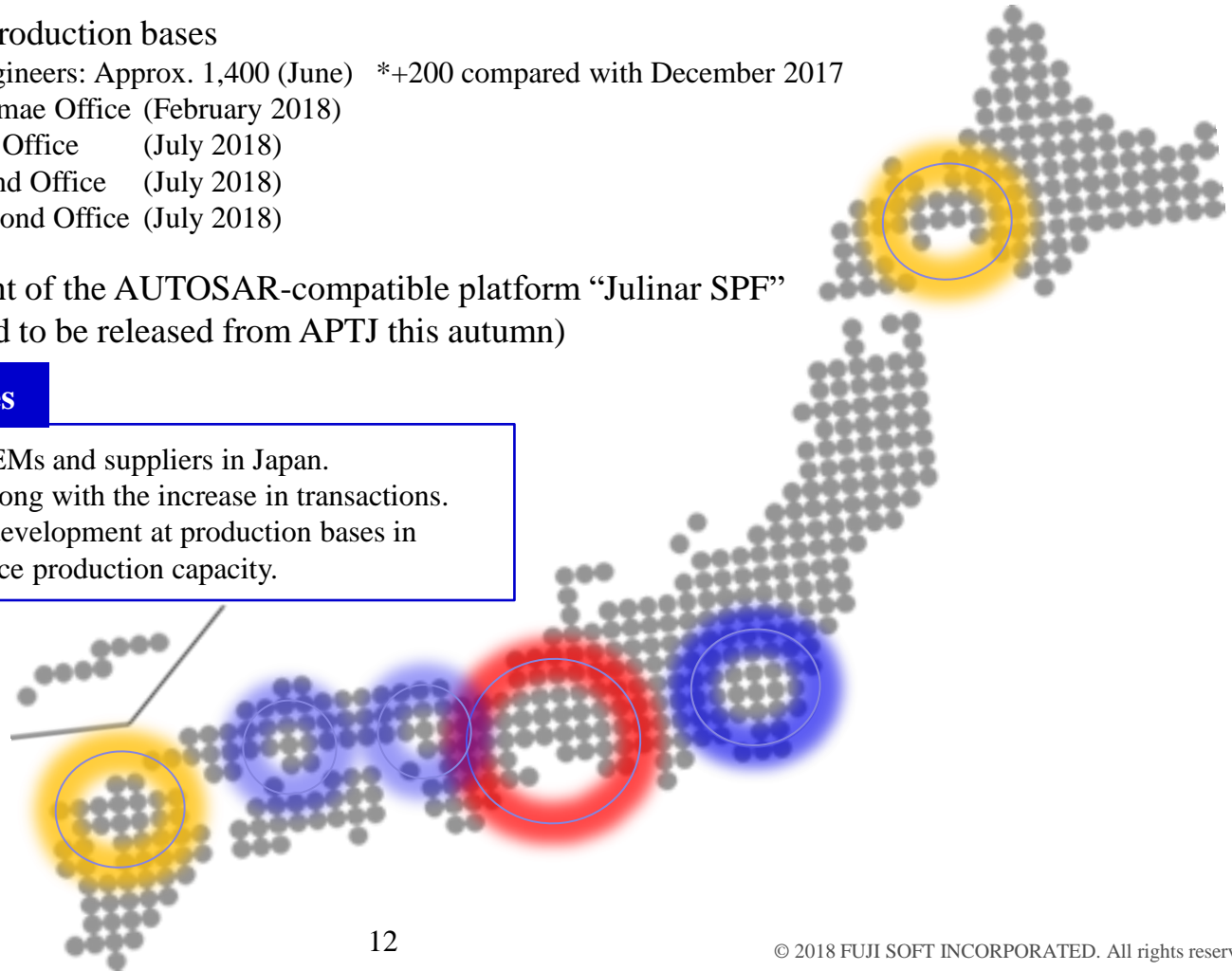
# Automotive Software

## Strengthening of the ability to satisfy expanding needs for automotive software development

- Increase in transactions with major OEMs and suppliers (H1 sales increased 25.5% year on year)
- Increase in engineers and production bases
  - Automotive software engineers: Approx. 1,400 (June) \*+200 compared with December 2017
  - Opening of Sapporo-Ekimae Office (February 2018)
  - Opening of Minatomirai Office (July 2018)
  - Opening of Kariya Second Office (July 2018)
  - Opening of Fukuoka Second Office (July 2018)
- Support for the development of the AUTOSAR-compatible platform “Julinar SPF” was continued (It is planned to be released from APTJ this autumn)

### Increase in production bases

- Located bases near the major OEMs and suppliers in Japan.
- Increased engineers and bases along with the increase in transactions.
- Deployed automotive software development at production bases in Kyushu and Hokkaido to reinforce production capacity.





# Industrial robots

Reinforcement of contract and development of software associated with FA devices, and research and development in advanced fields



## Increase in development projects

### ■ Demand for software development

- Demand for software development for industrial robots, machine tools and semiconductor manufacturing equipment increased.

### ■ Growth of our businesses

- Sales increased on a double-digit basis.



## Enhancement of technologies

### ■ Market trends

- Policies of productivity improvement were planned and promoted. (Future Investment Strategies 2018)
- Industrial robot manufacturers commenced the operation of the platforms for the manufacturing industry, which utilizes AI and IoT technologies.



## Our efforts

### Reinforcement and expansion of current businesses

- ✓ Established a system for improving production capability and added value in the existing contract and development business.  
=> Continued growth on a double-digit basis

### Challenges to new businesses and areas

- ✓ Research and development of new technologies (e.g. making control software open source and collaboration control)
- ✓ Accumulation of know-how regarding platforms and commercialization of the robot SI\* business

\*System integration that supports the construction and setups of peripheral systems when industrial robots are introduced to a factory, etc.



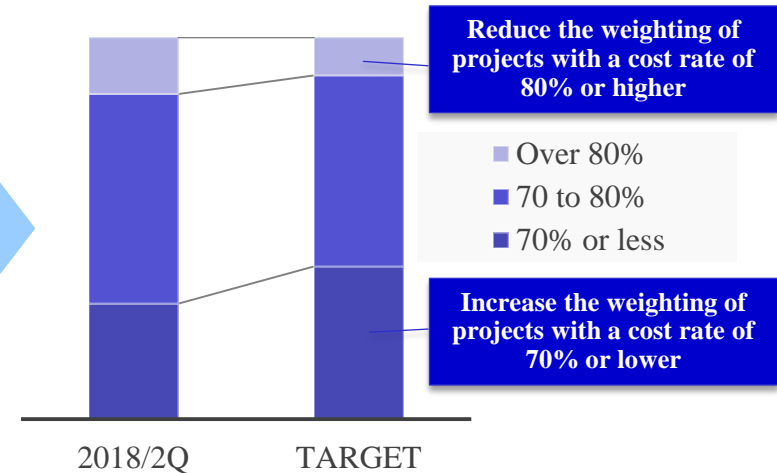
# Efforts to Promote the Higher Value-Added SI Business

## Efforts to acquire high value-added projects and control index (non-consolidated)

[Framework to acquire high value-added projects]

- Increase the size of development projects
- Packaging (of upstream to downstream processes)
- Our company-led projects through development at our own bases

As a control index,  
monitor the composition  
ratio of development  
projects with a low (high)  
cost rate.



As a priority technology field, AI was shifted from the PoC (Proof of Concept) project order receipt phase to the SI business base creation phase

- Received orders regarding PoC, etc. from advanced user companies in the embedded and operation system fields.
- Shifted to the full-swing expansion of the SI business.

[Considerations for commercialization]

- Market survey
- Technology investigation
- Human resource development
- Alliance promotion
- In-house/group-wide cooperation

[Current]

**Received AI-related orders  
(multiple PoC projects) in  
the embedded and  
operation system fields**

[Future]

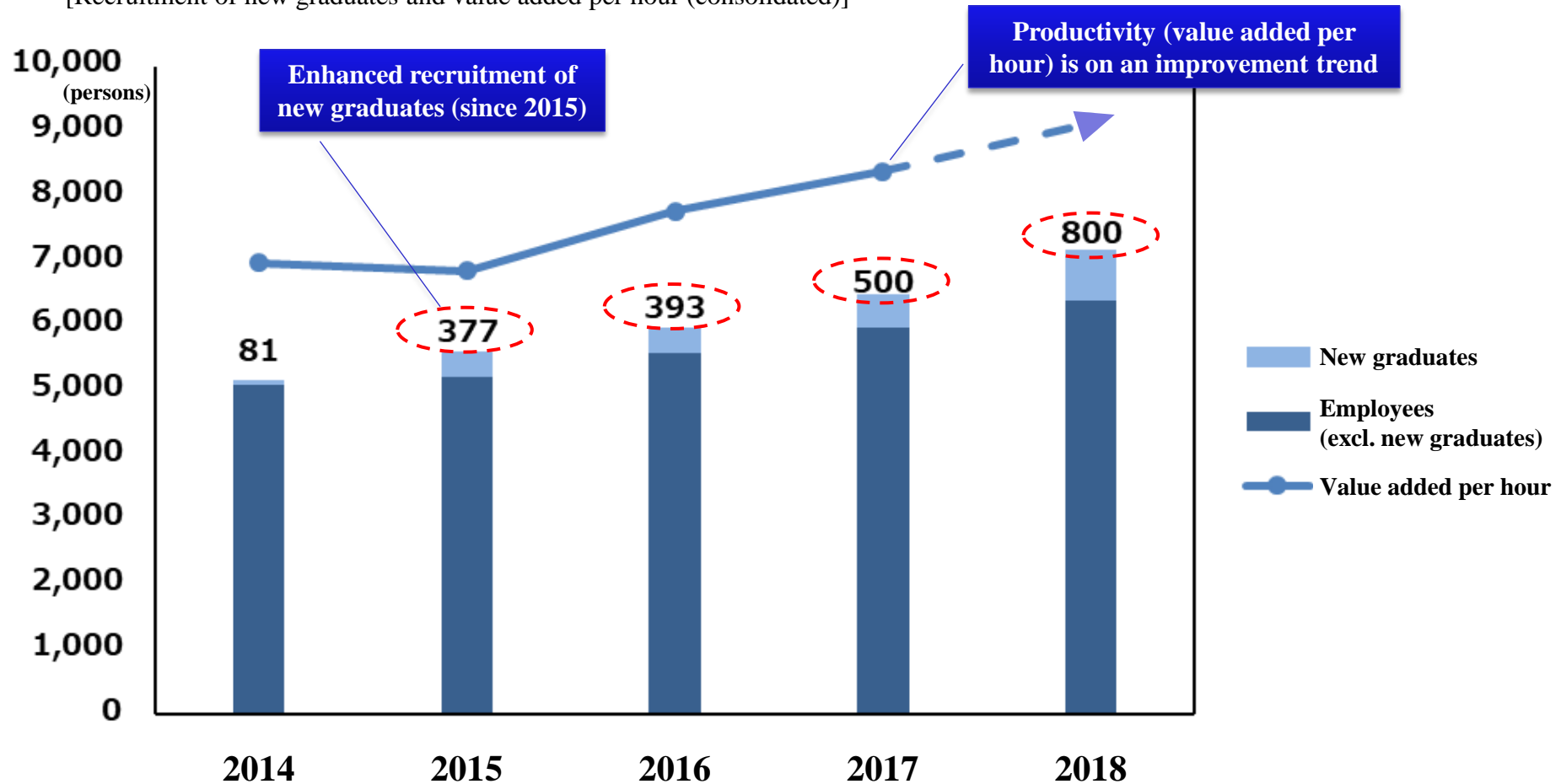
- Check effectiveness of use of AI
- Strengthen proposal capability of high value-added projects including upstream processes (e.g. consulting services)
- Shift to SI business on a full-scale basis



## Active recruitment of new graduates and productivity

Productivity (value added per hour) is still on an improvement trend even after the active recruitment of new graduates started

[Recruitment of new graduates and value added per hour (consolidated)]

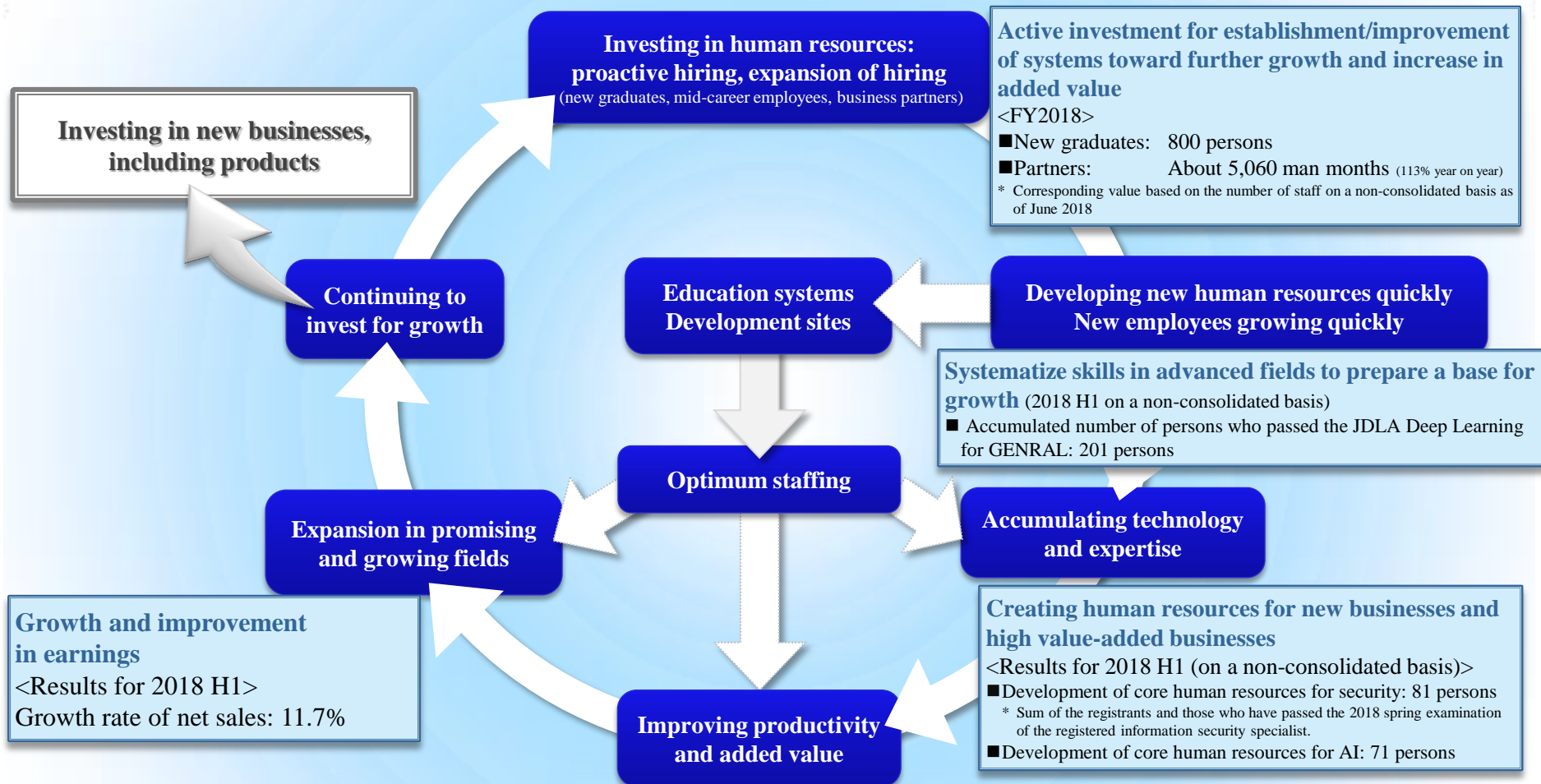






# Strengthening of Human Resources and Contract and Development Business

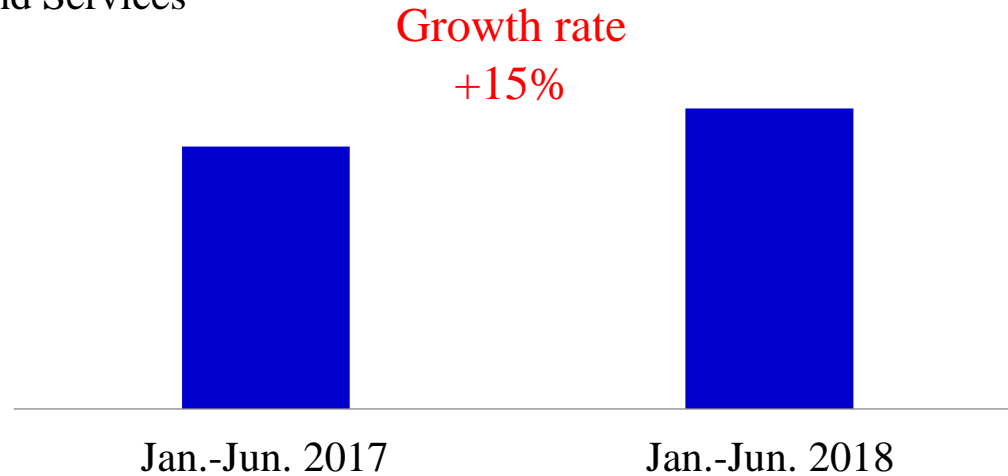
Expanding the cycle for business expansion through the strengthening of human resources





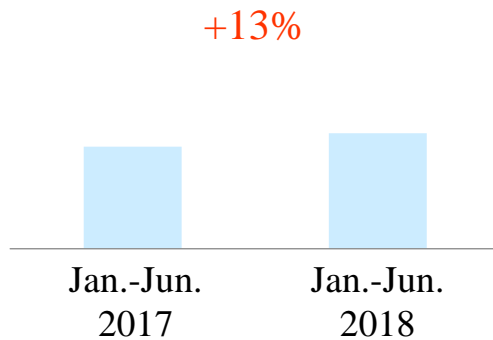
## Trends in Products and Services (Sales)

Sales in Products and Services

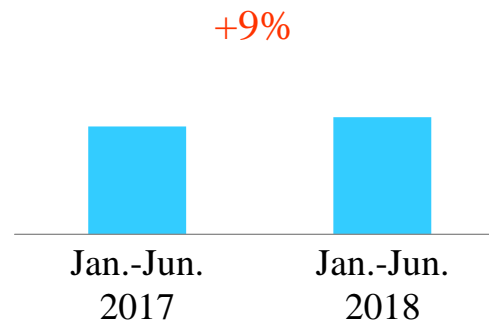


### Breakdown of sales in Products and Services

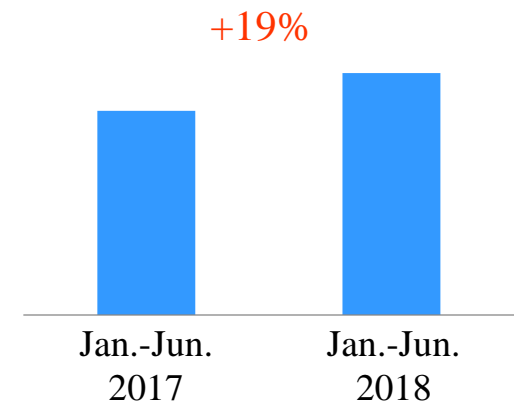
Sales of FUJI SOFT products



Sales in the licensing business



Product sales etc.



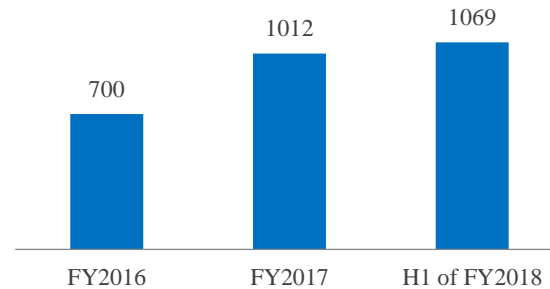


# Trends of Priority Products

palro



Change in the number of installations



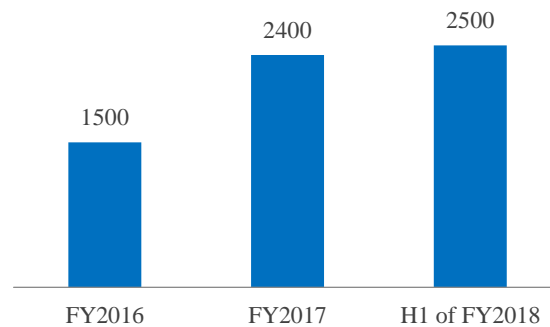
Current situation

Number of units introduced at facilities and financial institutions

**1,069 units** (cumulative total)

(At the time of the announcement of the financial statements for the fiscal year ended December 31, 2017: 1,012 units)

moreNOTE®



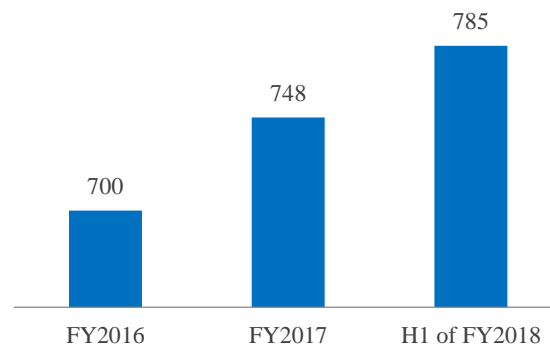
Number of companies that have introduced the file management and sharing service for mobile content

**About 2,500 companies**  
(cumulative total)

\* Total number of companies that introduced moreNOTE and SYNCNEL

(At the time of the announcement of the financial statements for the fiscal year ended December 31, 2017: about 2,400 companies)

みらいスクールステーション®



Number of schools that have introduced Mirai School Station

**785** (cumulative total)

(At the time of the announcement of the financial statements for the fiscal year ended December 31, 2017: 748 schools)



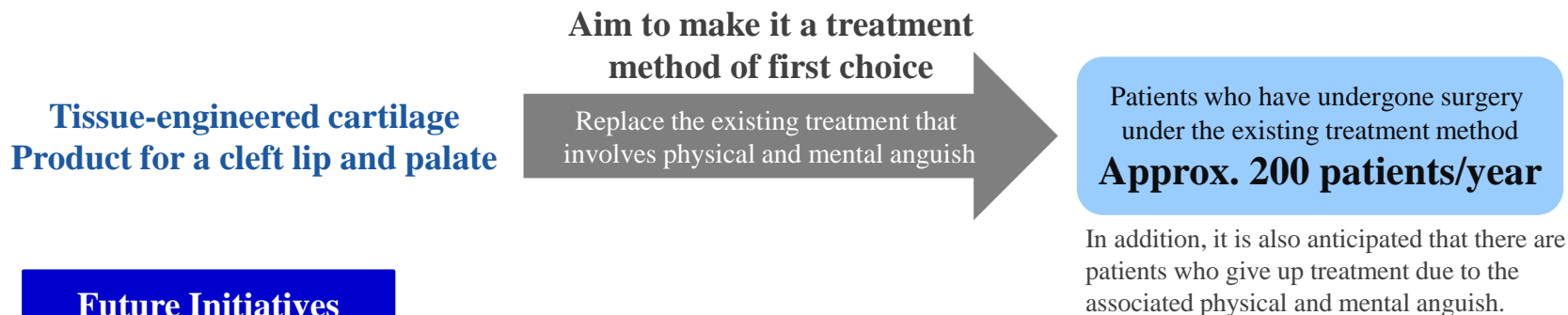
# Trends in Products and Services (1)

Completion of application for approval of production and sales of the product for patients suffering from a cleft lip and palate with tissue-engineered cartilage - aim for early practical application

Regarding the product for patients suffering from a cleft lip and palate with implant-type tissue-engineered cartilage using autologous cells\* (hereinafter, “tissue-engineered cartilage”), whose research and development commenced in November 2005, we **made an application for the approval of their production and sales to the Pharmaceuticals and Medical Devices Agency (PMDA) in June 2018, with the aim of launching in 2019.**

\*1 This research is supported by the Japan Agency for Medical Research and Development (AMED), theme No. JP17im0110905.

\*2 A cleft lip and palate is a congenital disease involving the splitting of the lips, palate (roof of the oral cavity) or both.



## Future Initiatives

### ■ Expand the applicable scope of tissue-engineered cartilage

#### - Product for a cleft lip and palate

June 2018 Application for approval of production and sales of the product  
2019 Aim to launch the product

#### - Product for a pearl tumor

February 2017 Clinical research controlled by doctors

**Improve QOL of patients**

### ■ Support universities with research and development in the tissue engineering business

#### - Tissue engineering academia model services

August 2015 Start to provide services

**Further development of research on tissue engineering**



## Trends in Products and Services (2)

moreNOTE's "GreenAction" contributed to the resolution of environmental issues

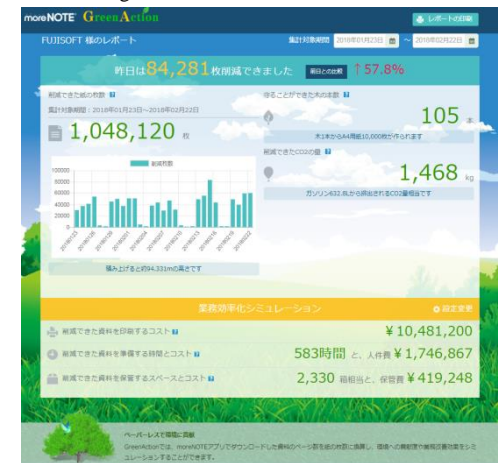
- The "GreenAction" function of moreNOTE allows a quantitative understanding of the effects of the efforts for achieving a paperless environment.
- By using "moreNOTE" in various settings such as during major conferences, training and sale activities, we reduced the amount of paper used equivalent to 1 million sheets in the course of one month\*1.

-> This meant a reduction of 105 trees to be used to produce paper and a printing cost of 10 million yen\*2.

\*1 Basis for calculation: The number of materials used multiplied by the number of pages in each material. The calculation was made by considering that one piece of copy paper is 0.1 mm thick.

\*2 Basis for calculation: The calculation was made by assuming that it takes one tree to produce 10 thousand sheets of paper, and that the printing cost for one sheet of A4 paper is 10 yen.

Screen image of moreNOTE "GreenAction"



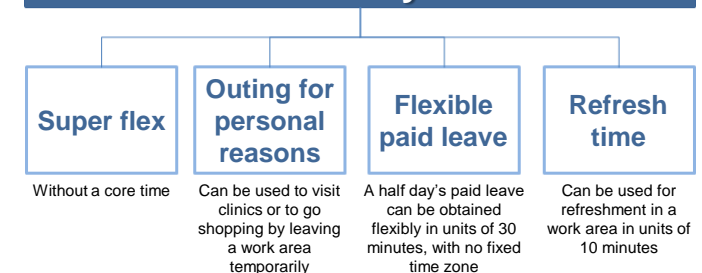
## Practical proposals regarding "work style reform"

Proposal of practical IT products based on our experiences in the efforts regarding "work style reform"

[Our main efforts/systems]

- Ultra flex system (hereinafter, collective names of systems)
  - Super flex (flex time system without a core time)
  - Flexible paid leave system (in units of 30 minutes)
  - Refresh time (in units of 10 minutes)/outing for personal reasons
- Work at home system
- My holiday leave
- No overtime work days/Premium Fridays
- Company-wide monitoring of overtime work status, etc.

### Ultra flex system





## Advanced BYOD company



\* This material contains financial forecasts and other information about the future that are deemed reasonable on the basis of currently available information. Please note that actual financial results may differ materially depending on a number of factors, including market trends and economic conditions. Please also note that distribution of this material is not intended for recommending continued ownership or additional purchase of the Company's shares.