Results of Operations for the First Three Quarters of FY2017

November 9, 2017
FUJI SOFT INCORPORATED

Contents

Results of Operations for the First Three Quarters of the Fiscal Year Ending December 2017

Consolidated Financial Highlights-1 (Three Quarters Results)

Net sales rose due to the strong performance in System Construction.

◇Consolidated net sales rose 10.1% year on year, to 134,808 million yen, thanks to the strong performance in System Construction, especially machine control system construction and auto-related system construction as well as distribution and services, as in the previous quarter.

Operating income rose due to the rise in sales

◇Sustaining a trend from the previous quarter, operating income rose 5.9% year on year, to 6,784 million yen, due to the rise in sales, despite the continued upfront investment in the development of the production and sales structures and R&D.

◇Ordinary income increased 9.9% year on year, to 7,133 million yen, reflecting the rise in operating income and an increase in the share of profit of entities accounted for using the equity method, including Ace Securities.

◇Profit attributable to owners of parent stood at 3,916 million yen, up 8.7% year on year.

(Million yen)

	FY2016	FY2017	YoY change	YoY change	FY2017	
	3Q results	3Q results	(Amount)	(%)	3Q plan	Comparison with the plan
Net sales	122,456	134,808	+12,352	110.1%	125,500	107.4%
Operating income	6,407	6,784	+376	105.9%	6,370	106.5%
Operating income margin	5.2%	5.0%			5.1%	
Ordinary income	6,489	7,133	+644	109.9%	6,605	108.0%
Ordinary income margin	5.3%	5.3%			5.3%	
Profit attributable to owners of parent	3,604	3,916	+312	108.7%	3,575	109.5%
Profit margin attributable to owners of parent	2.9%	2.9%			2.8%	

Consolidated Financial Highlights-2 (Q3 Results)

Net sales rose 10.1% year on year.

◇Net sales were firm overall and rose 10.1% year on year, to 44,697 million yen.

The cost of sales margin improved to 76.7%.

◇The cost of sales margin improved to 76.7%, chiefly due to the curbing of unprofitable projects and an improvement in the cost rate in contract and development.

SG&A expenses increased 759 million yen year on year.

◇SG&A expenses increased 759 million yen, to 7,802 million yen, due to the establishment/improvement of the production/sales systems associated with sales expansion, an increase in sales promotion costs, and a rise in R&D costs.

Operating income rose 10.1%, or 237 million yen year on year.

(Million yen)

	FY2017 2Q results	YoY change (Amount)	YoY change (%)	FY2017 Q3 results	YoY change (Amount)	YoY change (%)
Net sales	90,111	+8,262	110.1%	44,697	+4,090	110.1%
Cost of sales	69,517	+6,733	110.7%	34,295	+3,093	109.9%
Cost of sales margin	77.1%			76.7%		
Gross profit	20,594	+1,528	108.0%	10,401	+996	110.6%
SG&A expenses	16,408	+1,388	109.2%	7,802	+759	110.8%
Operating income	4,186	+139	103.5%	2,598	+237	110.1%
Operating income margin	4.6%			5.8%		

Sales/Operating Income by Major Companies of the Group

(Million yen)

	FY2017	Net sales	Operating income	
FUJI SOFT INCORPORATED	3Q results	83,704	3,886	Sales rose, reflecting strong performances in the SI Business, primarily strong machine control, distribution and service, and license sales. Operating income decreased slightly, mainly due to an increase in costs for upfront investment in the establishment/improvement of the production/sales systems and research and development and an increase in sales promotion costs for prior response to an increase in demand as well as high business tax due to tax system reform.
	YoY change (amount)	+8,298	-25	
	YoY change (%)	111.0%	99.3%	
CYBERNET SYSTEMS Co., Ltd.	3Q results	13,170	1,007	Sales increased due to solid sales in the mainstay MCAE field and optical design field and strong sales of optical design support tools in Japan and strong overseas sales, especially at development subsidiaries in the United States and Belgium and sales subsidiaries in China and Taiwan, despite the absence of a large project in the previous fiscal year. Operating income rose, reflecting the increase in sales.
	YoY change (amount)	+836	+89	
	YoY change (%)	106.8%	109.7%	
VINX CORP.	3Q results	20,140	1,020	Sales rose due to the cultivation of existing major customers and strong performance in package development and sales. Despite an increase in SG&A expenses mainly due to an increase in investment, operating income climbed, reflecting the rise in sales and a rise in productivity in development.
	YoY change (amount)	+250	+15	
	YoY change (%)	101.3%	101.5%	
CYBER COM Co., Ltd.	3Q results	7,965	336	Sales increased thanks to the expansion of control software development and operation software development and the solid performance of the service business, including the construction of networks. Despite expenses associated with the relocation of the head office, operating income rose due to the increase in sales.
	YoY change (amount)	+879	+20	
	YoY change (%)	112.4%	106.5%	
FUJI SOFT SERVICE BUREAU INCORPORATED	3Q results	7,208	293	Sales rose, reflecting growth in new projects for public offices and local governments in call center services and BPO services. Operating income far exceeded the year-ago level, mainly due to the rise in sales.
	YoY change (amount)	+1,388	+186	
	YoY change (%)	123.9%	274.1%	

* Because each company's accounts closing date differs, results from January to September, 2017 are stated in the FY2017 3Q results column.

Consolidated Sales/Operating Income by Segment

(Million yen)

	FY2017 Net sales 3Q results	Component ratio	YoY change (Amount)	YoY change (%)	FY2017 Operating income 3Q results	Operating income margin	YoY change (Amount)	YoY change (%)
Consolidated total	134,808	100.0%	+12,352	110.1%	6,784	5.0%	+376	105.9%
SI Business	124,900	92.6%	+10,754	109.4%	5,574	4.5%	-11	99.8%
System Construction	75,262	55.8%	+7,824	111.6%	3,540	4.7%	-246	93.5%
Embedded/Control Software	39,084	29.0%	+4,043	111.5%	2,094	5.4%	-253	89.2%
Operation Software	36,178	26.8%	+3,781	111.7%	1,445	4.0%	+6	100.5%
Products and Services	49,637	36.8%	+2,929	106.3%	2,034	4.1%	+235	113.1%
Products and Services	38,382	28.5%	+4,242	112.4%	1,545	4.0%	+482	145.4%
Outsourcing	11,254	8.3%	-1,313	89.5%	488	4.3%	-246	66.4%
Facility Business	2,013	1.5%	-14	99.3%	838	41.6%	+150	121.9%
Other Businesses	7,895	5.9%	+1,613	125.7%	371	4.7%	+237	276.8%

Highlights of Sales by Segment

• Embedded/Control Software

Sales increased 11.5% year on year due to brisk sales of machine control systems and firm sales of auto- and social infrastructure-related systems. Operating income fell, affected by upfront investment for the establishment/improvement of the production/sales systems and the expansion of production bases and by the effect of unprofitable projects in Q1.

• Operation Software

Sales increased 11.7% year on year, far exceeding the year-ago level, driven by sales to the distribution and services sectors. Operating income rose due to the rise in sales, despite upfront investment for the establishment/investment of the production/sales systems and the expansion of production bases.

• Products and Services

Sales increased 12.4% year on year, mainly because license sales, PALRO and robot development business sales substantially exceeded the year-ago level. Operating income rose substantially due to higher sales.

• Outsourcing

Sales fell 10.5% year on year, mainly due to a decline in transactions in the distribution sectors. Operating income fell due to higher expenses related to data center renovation and the decrease in sales.

Consolidated Income Statement

(Million yen)

	FY2016 3Q Results	FY2017 3Q Results	YoY change (Amount)	YoY change (%)	FY2017 3Q Plan	FY2017 Comparison with the plan
Net sales	122,456	134,808	+12,352	110.1%	125,500	107.4%
Cost of sales	93,985	103,813	+9,827	110.5%	–	–
Cost of sales margin	76.8%	77.0%				
Gross profit	28,470	30,995	+2,525	108.9%	–	–
Gross profit margin	23.2%	23.0%				
SG&A expenses	22,062	24,211	+2,148 (1)	109.7%	–	–
SG&A expense ratio	18.0%	18.0%				
Operating income	6,407	6,784	+376	105.9%	6,370	106.5%
Operating income margin	5.2%	5.0%			5.1%	
Non-operating income	317	334	+16	105.3%	–	–
Non-operating expenses	321	176	-144	54.9%	–	–
Share of (profit) loss of entities accounted for using equity method	86	191	+105	222.9%	–	–
Ordinary income	6,489	7,133	+644	109.9%	6,605	108.0%
Ordinary income margin	5.3%	5.3%			5.3%	
Extraordinary income	52	672	+619 (2)	1269.0%	–	–
Extraordinary losses	171	803	+632 (2)	468.5%	–	–
Income before income taxes	6,370	7,001	+631	109.9%	–	–
Total income taxes	2,172	2,223	+50	102.3%	–	–
Net income	4,197	4,778	+580	113.8%	–	–
Profit attributable to non-controlling interests	593	862	+268	145.2%	–	–
Profit attributable to owners of parent	3,604	3,916	+312	108.7%	3,575	109.5%
Profit margin attributable to owners of parent	2.9%	2.9%			2.8%	

Points of Income Statement

(1) SG&A expenses (+2,148 million yen)

Reflected the establishment/improvement of the production/sales systems due to sales expansion, an increase in costs for sales promotion, and research and development expense as well as higher business tax due to tax system reform

(2) Extraordinary income (+619 million yen) Extraordinary losses (+632 million yen)

Increase in gain on sale of investment securities and increase in extraordinary losses, mainly due to the retirement of idle assets

Consolidated Balance Sheet

(Million yen)

	End of FY2016	End of Q3 of FY2017	Change (Amount)	
Current assets	67,350	69,392	2,041	
Cash and deposits	19,134	17,817	-1,316	
Notes and accounts receivable - trade	36,727	38,615	1,887	(1)
Securities	4,500	5,200	700	
Inventories	2,577	2,400	-177	
Deferred tax assets	2,254	2,970	715	
Other	2,156	2,388	232	
Non-current assets	96,513	98,127	1,614	
Property, plant and equipment	65,796	64,702	-1,094	(2)
Intangible assets	5,949	6,872	922	
Investments and other assets	24,766	26,553	1,786	(3)
Total assets	163,863	167,520	3,656	
Current liabilities	37,461	37,671	209	
Accounts and notes payable - trade	9,444	9,438	-6	
Short-term loans payable	9,410	7,547	-1,863	(4)
Accrued expenses / provision for bonus	6,826	9,276	2,450	(5)
Income taxes payable	2,153	2,290	136	
Provision for loss on construction contracts	267	94	-173	
Other	9,358	9,024	-333	
Non-current liabilities	17,400	15,823	-1,576	
Long-term loans payable	6,723	4,163	-2,560	(4)
Other	10,676	11,660	983	
Total liabilities	54,861	53,495	-1,366	
Total net assets	109,001	114,025	5,023	
Total liabilities and net assets	163,863	167,520	3,656	

Points of the Balance Sheet

(1) Notes and accounts receivable - trade (+1,887 million yen)

Increase in notes and accounts receivable - trade due to a rise in sales

(2) Property, plant and equipment (-1,094 million yen)

Decrease in property, plant and equipment due to the retirement of idle assets

(3) Investments and other assets (+1,786 million yen)

Reflected fluctuations in the price of investment securities and upfront investment in the growth field

(4) Short-term loans payable (-1,863 million yen) *Including current portion of long-term loans payable
Long-term loans payable (-2,560 million yen)

Fell due to scheduled repayments.

(5) Accrued expenses/provision for bonuses (+2,450 million yen)

Increases in provision for bonuses and related expenses due to an increase in employees and pay increases

Consolidated Cash Flow Statement

(Million yen)

	FY2016 3Q results	FY2017 3Q results	YoY change (Amount)
Cash flows from operating activities	8,732	7,443	-1,288
Cash flows from investing activities	-2,716	-3,332	-615
Cash flows from financing activities	1,350	-5,282	-6,633
Effect of exchange rate change on cash and cash equivalents	-432	40	
Net increase (decrease) in cash and cash equivalents	6,933	-1,130	
Cash and cash equivalents at beginning of period	15,688	21,790	
Cash and cash equivalents at end of period	22,622	20,660	

Highlights of Cash Flows

- Cash flows from operating activities

  Net cash provided by operating activities stood at 7,443 million yen, with a year-on-year decrease of 1,288 million yen due to an increase in the payment of income tax.
- Cash flows from investing activities

  Net cash used in investing activities came to 3,332 million yen, reflecting investment in the Company' own products (software) and equipment, upfront investment in the growth field, and proceeds from sales of shares.
- Cash flows from financing activities

  Net cash used in financing activities was 5,282 million yen, mainly due to loan repayments. This compares to net cash provided by financing activities of 1,350 million yen the previous fiscal year, chiefly reflecting loans and proceeds from sales of shares of subsidiaries.

Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	FY2017 3Q results							
	Order backlog at beginning of term	YoY change (%)	Orders	YoY change (%)	Net sales	YoY change (%)	Order backlog at end of term	YoY change (%)
SI Business Total	34,976	114.0%	128,760	109.8%	124,900	109.4%	38,837	114.9%
System Construction	23,803	115.1%	77,874	112.6%	75,262	111.6%	26,415	117.8%
Embedded Control Software	9,981	111.1%	40,700	113.0%	39,084	111.5%	11,597	116.5%
Operation Software	13,822	118.2%	37,173	112.1%	36,178	111.7%	14,817	118.9%
Products and Services	11,172	111.7%	50,886	105.8%	49,637	106.3%	12,421	109.1%
Products and Services	8,168	104.1%	39,389	114.3%	38,382	112.4%	9,174	112.2%
Outsourcing	3,004	139.0%	11,496	84.4%	11,254	89.5%	3,246	101.1%

Highlights of Orders and Order Backlogs

•Highlights in System Construction

- Embedded/Control Software
  The order backlog at the end of the term increased 16.5% year on year due to strong orders in the machine control business in areas such as factory automation and social infrastructure.

- Operation Software
  The order backlog at the end of the term increased 18.9% year on year due to strong orders from the distribution and services sectors as well as in the financial sector.

•Highlights in Products and Services

- Products and Services
  The order backlog at the end of the term increased 12.2% year on year, reflecting strong license sales.

- Outsourcing
  The order backlog at the end of the term increased 1.1% year on year, as remaining orders received for large projects for public offices from the previous fiscal year offset a decline in orders for the distribution and services sectors.

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