



FUJI SOFT INCORPORATED

Q2 Financial Results Briefing for the Fiscal Year Ending December 2022

August 5, 2022

Presentation

Moderator: Thank you very much for your patience. FUJI SOFT INCORPORATED will now hold a financial result briefing for Q2 of the fiscal year ending December 31, 2022. Thank you very much for taking time out of your very busy schedules to join us today.

Let me begin by introducing today's attendees.

Satoyasu Sakashita, President & Representative Director

Sakashita: I am Sakashita. Thank you.

Moderator: Tateyuki Oosako, Director & Senior Executive Operating Officer.

Oosako: I am Oosako. Thank you.

Moderator: Mari Morimoto, Director & Operating Officer.

Morimoto: My name is Morimoto. Thank you.

Moderator: Masashi Umetsu, Director & Operating Officer.

Umetsu: My name is Umetsu. Thank you.

Moderator: That is all those present. Thank you very much.

First, Mr. Sakashita will explain the details of the financial results. There will be time for questions and answers after the presentation.

The financial results for Q2 of the fiscal year ending December 31, 2022, will be explained.

President Sakashita, please start.

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1. Consolidated Financial Highlights-1 (1H Results Jan-Jun)

Net sales increased due to strong results in the system construction business.

- ◇ Net sales rose 6.7% year on year, to 141,328 million yen, due primarily to the strong results of system infrastructure construction and other sectors in operation software and the continued strong performance of machine control systems in embedded software.

Operating profit rose due to higher sales.

- ◇ Operating profit rose 3.0% year on year (18.4% compared to forecast), to 8,995 million yen, due to a greater-than-expected increase in sales from embedded software development projects and BPO services although a decrease in operating profit was forecast due to the impact of the expiration of sales agency contracts at some Group companies.
- ◇ Ordinary profit rose 5.2% year on year, to 9,954 million yen, due to higher foreign exchange gains.
- ◇ Profit attributable to owners of parent rose 25.7% year on year, to 5,850 million yen, because income taxes increased temporarily in the previous fiscal year due to the sale of shares (decreased in the current fiscal year because there are no factors causing an increase).

(Million yen)

	FY2021 1H Results	FY2022 1H Results	YoY change (Amount)	YoY change (%)	FY2022 1H Plan	Comparison with the plan
Net sales	132,508	141,328	+8,819	106.7%	132,600	106.6%
Operating profit	8,731	8,995	+263	103.0%	7,600	118.4%
Operating profit margin	6.6%	6.4%			5.7%	
Ordinary profit	9,462	9,954	+491	105.2%	8,300	119.9%
Ordinary profit margin	7.1%	7.0%			6.3%	
Profit attributable to owners of parent	4,653	5,850	+1,197	125.7%	4,400	133.0%
Profit margin attributable to owners of parent	3.5%	4.1%			3.3%	

Sakashita: I will share the screen with you.

I will now explain the financial results for Q2 of the fiscal year ending December 31, 2022.

First, the numerical side.

As shown in the table below, sales were JPY141.3 billion, 106.7% YoY. Operating income was JPY8.9 billion, 103%. Ordinary income was over JPY9.9 billion, 105%. Net income was JPY5.8 billion, 125.7%.

As written, the sales figures for the business systems are based on strong sales in each field, particularly in system infrastructure construction, and those for the embedded systems business are based on strong sales in machine control.

Operating income did not increase as much as sales, but the termination of sales agency contracts at some group companies, which is the effect of Cybernet, was originally disclosed in our disclosure that we expected a decrease in total income. However, the increase in sales of embedded development and BPO services offset the decrease in profit, resulting in a 103% increase. In that sense, we had expected a decrease in profit, so the result is quite positive.

Ordinary income is a little positive because of the still moving exchange rate. Net income attributable to the parent company, this is 125%, which appears to be a significant increase, as there was a one-time increase in income taxes from the sale of stock in the previous year, and there were fewer income taxes this time around.

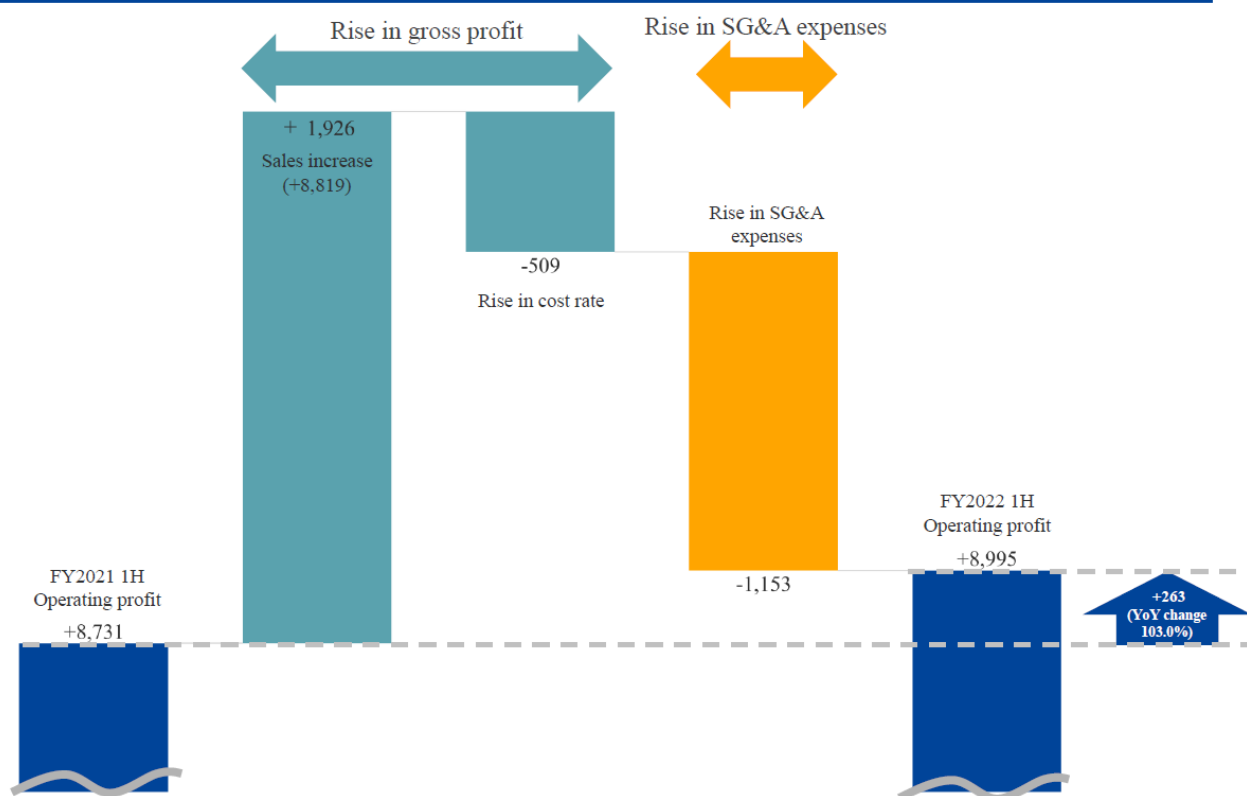
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Trends in Consolidated Operating Profit (1H)



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This is what a graph would look like.

Although the cost of sales ratio worsened slightly, the increase in SG&A expenses was controlled, and operating income was still positive due to the increase in sales.

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1. Consolidated Financial Highlights-2 (2Q Results Apr-Jun)

Net sales rose 8.8% year on year.

The cost of sales margin increased to 79.0%.

- ◇ The cost of sales margin was 79.0%, mainly reflecting unprofitable projects at some Group companies and the change of the revenue recognition standard.

SG&A expenses increased 758 million yen year on year.

- ◇ SG&A expenses increased 758 million yen year on year due to an increase in labor costs and expenses associated with a personnel increase for responding to strong orders.
- ◇ Operating profit decreased 5.5% year on year, to 3,905 million yen.

(Million yen)						
	FY2022 1Q Results	YoY change (Amount)	YoY change (%)	FY2022 2Q Results	YoY change (Amount)	YoY change (%)
Net sales	68,874	+2,946	104.5%	72,453	+5,873	108.8%
Cost of sales	53,725	+2,060	104.0%	57,243	+5,342	110.3%
Cost of sales margin	78.0%			79.0%		
Gross profit	15,148	+886	106.2%	15,209	+530	103.6%
SG&A expenses	10,058	+394	104.1%	11,304	+758	107.2%
Operating profit	5,089	+491	110.7%	3,905	-227	94.5%
Operating profit margin	7.4%			5.4%		

These are the highlights of Q2.

As you can see, sales increased JPY5.8 billion, or 108% YoY, and gross profit also increased, but unfortunately operating income was negative.

This is for the same reason as before. Looking at H1, Q1 was positive, and Q2 was negative, and this negative figure for Q2 is due to the decrease in profit at the Group companies. Looking at Q2 alone, we were not able to achieve a positive result.

The main group, the sales and operating income, especially the operating income, were up 120% YoY, and the sales of business systems increased due to the strong performance of the system infrastructure as mentioned earlier, as well as good performance in each field, and the embedded systems business continued to be particularly strong.

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2. Sales/Operating Profit by Major Companies of the Group

(Million yen)

	FY2022	Net sales	Operating profit	
FUJI SOFT INCORPORATED	1H Results	98,731	5,292	Net sales increased due primarily to the strong results of system infrastructure construction and other sectors in operation software and the continued strong performance of machine control systems in embedded software. Operating profit increased, reflecting an increase in sales, despite the presence of unprofitable projects.
	YoY change (Amount)	+7,254	+913	
	YoY change (%)	107.9%	120.9%	
CYBERNET SYSTEMS Co., Ltd.	1H Results	9,736	1,033	Both sales and profit decreased for the following two reasons. First, the Company began applying the new revenue recognition standard in the fiscal year ending December 2022. As a result, account processing was changed so that revenue from software maintenance services in the agency business that had previously been recognized mostly at the time of the start of the contract is now recognized throughout the contract period. Second, a sales agency contract with Synopsys, Inc. was terminated on October 1, 2021.
	YoY change (Amount)	-2,770	-1,204	
	YoY change (%)	77.8%	46.2%	
VINX CORP.	1H Results	16,188	1,576	Net sales increased chiefly due to growing needs for DX in the retail industry in Japan and the deepening of relationships with existing customers. Operating profit increased due to higher sales.
	YoY change (Amount)	+1,639	+308	
	YoY change (%)	111.3%	124.3%	
CYBER COM Co., Ltd.	1H Results	8,267	639	Net sales increased thanks to the strong results of construction projects, evaluation and validation projects, and other projects in SI services in the service business, in addition to the strong performance of control and operation system development projects in the software development business. Operating profit increased due to higher sales.
	YoY change (Amount)	+844	+102	
	YoY change (%)	111.4%	119.1%	
FUJI SOFT SERVICE BUREAU INCORPORATED	1H Results	5,563	386	Net sales remained strong due to demand for fixed-term outsourcing services related to the COVID-19 measures of local governments in both BPO services and call center services. In addition, pension-related operations in call center services, which were launched in the 2nd quarter, also contributed to the increase in net sales. Operating profit rose due to the growth of sales and highly profitable projects, despite a temporary increase in expenses associated with environmental maintenance.
	YoY change (Amount)	+1,477	+210	
	YoY change (%)	136.2%	219.5%	

* Results from January to June, 2022 are stated in the FY2022 1H results column.

Operating income was favorable in the business sector, but there were some unprofitable projects, so the business sector was a little behind in terms of profit, but other areas were also favorable, resulting in an increase in income.

Although expressed as part of the Group companies, Cybernet saw a decrease in sales and profit of just under JPY3 billion, a JPY2.7 billion decrease in sales and a JPY1.2 billion decrease in profit. This is due to two factors: one, the application of the revenue recognition standard and the change in treatment to recognize revenue over the contract period for maintenance services within the scope of the distributorship, so that what was raised in one lump sum is now recorded separately; and two, the termination of the distributorship agreement with Synopsys, a product or company whose products have been sold since last year.

VINX saw an increase in revenue and profit. It is holding strong due to the increase in retail-related DX or the deepening of existing customers.

CYPER COM also reported an increase in both sales and profit, thanks to strong sales in the control and business-related sectors of its software development business, respectively.

FUJI SOFT SERVICE BUREAU INCORPORATED, this is also a BPO, call center services, which is a bit like a special demand for outsourcing related to the coronavirus control. That's one of the reasons why it performed so well. There were some expenses that involved a bit of environmental improvement, so not all of our profits grew as much as that strong performance, but we still had a very large increase in revenue and profit.

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As you can see, the increase in profit of the main body, the decrease in profit of Cybernet by the increase in profit of VINX is offset by the decrease in profit of Cybernet, and the positive amount of CYBER COM and FUJI SOFT SERVICE BUREAU INCORPORATED became the positive amount of consolidation, such a form if we only add and subtract.

Naturally, there are other group companies, but they are also roughly even. Broadly speaking, that is how the consolidated figures are structured.



3. Consolidated Sales/Operating Profit by Segment

(Million yen)								
	FY2022 Net sales		YoY change (Amount)	YoY change (%)	FY2022 Operating profit		YoY change (Amount)	YoY change (%)
	1H Results	Component ratio			1H Results	Operating profit margin		
Consolidated total	141,328	100.0%	+8,819	106.7%	8,995	6.4%	+263	103.0%
SI Business	133,786	94.7%	+7,173	105.7%	8,227	6.1%	-58	99.3%
System Construction	80,260	56.8%	+9,483	113.4%	5,141	6.4%	+778	117.9%
Embedded/Control Software	36,475	25.8%	+3,309	110.0%	3,014	8.3%	+783	135.1%
Operation Software	43,785	31.0%	+6,174	116.4%	2,127	4.9%	-4	99.8%
Products and Services	53,525	37.9%	-2,309	95.9%	3,086	5.8%	-837	78.7%
Products and Services	46,015	32.6%	-3,011	93.9%	2,549	5.5%	-871	74.5%
Outsourcing	7,510	5.3%	+701	110.3%	536	7.1%	+34	106.8%
Facility Business	1,340	0.9%	+88	107.0%	373	27.9%	-33	91.8%
Other Businesses	6,201	4.4%	+1,557	133.5%	393	6.4%	+355	1016.6%

Highlights of Sales by Segment

● Embedded/Control Software

Net sales increased 10.0% year on year due to the continued strong results of machine control systems and the steady performance in the automotive and other sectors.
Operating profit rose 35.1% year on year due to the trend of limiting unprofitable projects.

● Operation Software

Net sales increased 16.4% year on year, reflecting strong performance in system infrastructure construction and other sectors.
Operating profit decreased 0.2% year on year due to the impact of unprofitable projects.

● Products and Services

Net sales decreased 6.1% year on year owing to large PC sales for the GIGA School Program in the previous year and the impact of the expiration of sales agency contracts at some Group companies in the current fiscal year.
Operating profit declined 25.5% year on year due to lower sales and the fluctuation of the sales mix.

● Outsourcing

Net sales rose 10.3% year on year, reflecting an increase in operation and maintenance projects.
Operating profit rose 6.8% year on year due to higher sales, despite temporary spending associated with the data center transfer.

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This is sales and operating income by segment.

If you look at the embedded/control software area, you will see that sales are 110% and operating income is 135%, which looks very strong.

On the other hand, the business-related area is also doing well, at 116%, but the minus JPY4 million here and the operating income area are at the same level as the previous year, which means that this area was about the same as the previous year due to the trouble.

The decline in the product services section is due to the impact of Cybernet, which I explained earlier, and the JPY1.2 billion figure I showed you earlier. The negative JPY1.2 billion figure earlier was reduced to a negative JPY0.8 billion after considering the other positive factors. That's largely how it works.

As noted here, embedded systems/control systems are doing well, especially machine control. It means that the number of unprofitable projects has also decreased, about the sector here. In the business services business, sales were favorable, but there were unprofitable projects. And in the product services business,

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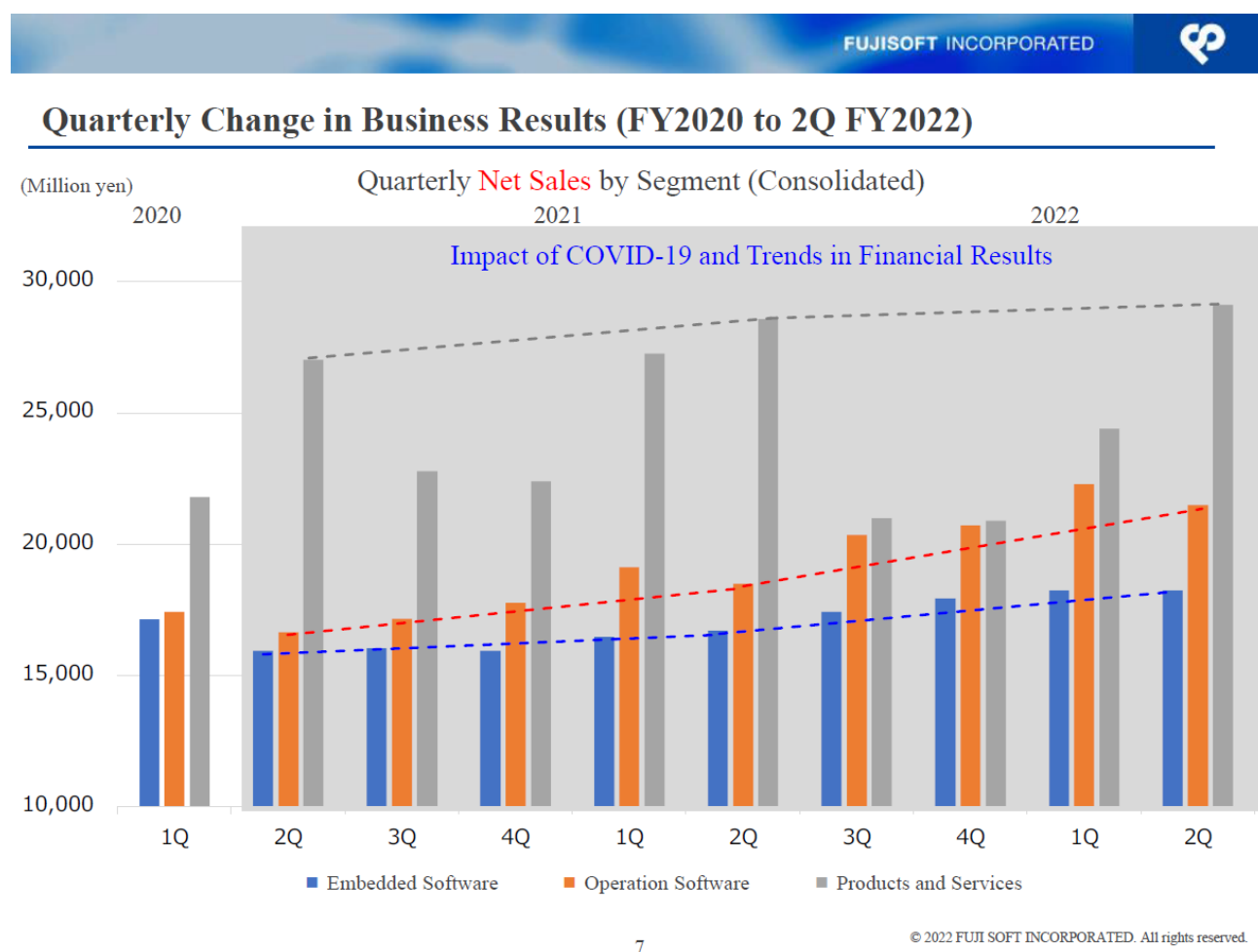
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there was a negative impact from GIGA, which performed very well last year. Also, the Group's distributorship agreement was negative.

Operating income decreased, and the sales composition ratio is seen as quite negative due to a slight decrease in the high-margin revenue items I mentioned earlier.

Outsourcing is as described here.



This is a quarterly comparison of performance and sales.

This may not be necessary to show now, but I have been trying to show what the impact has been on coronavirus for the past two years, and it has been growing steadily for the past three years, and sales have been increasing steadily. We believe that even if you look at the quarter cut, you can see that it has recovered quite well.

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4. Consolidated Income Statement

		(Million yen)				
	FY2021 1H Results	FY2022 1H Results	YoY change (Amount)	YoY change (%)	FY2022 1H Plan	Comparison with the plan
Net sales	132,508	141,328	+8,819	106.7%	132,600	106.6%
Cost of sales	103,566	110,969	+7,402	107.1%	—	—
Cost of sales margin	78.2%	78.5%	(1)			
Gross profit	28,942	30,358	+1,416	104.9%	—	—
Gross profit margin	21.8%	21.5%				
Selling, general and administrative expenses	20,210	21,363	+1,153	(2) 105.7%	—	—
SG&A expense ratio	15.3%	15.1%				
Operating profit	8,731	8,995	+263	103.0%	7,600	118.4%
Operating profit margin	6.6%	6.4%			5.7%	
Non-operating income	646	1,101	+455	170.3%	—	—
Non-operating expenses	66	151	+85	227.8%	—	—
Share of (profit) loss of entities accounted for using equity method	150	9	-141	6.2%	—	—
Ordinary profit	9,462	9,954	+491	105.2%	8,300	119.9%
Ordinary profit margin	7.1%	7.0%			6.3%	
Extraordinary income	2,759	157	-2,602	(3) 5.7%	—	—
Extraordinary losses	2,753	356	-2,396	13.0%	—	—
Profit before income taxes	9,469	9,755	+286	103.0%	—	—
Total income taxes	3,494	2,819	-674	80.7%	—	—
Profit	5,974	6,935	+960	116.1%	—	—
Profit attributable to non-controlling interests	1,321	1,084	-236	82.1%	—	—
Profit attributable to owners of parent	4,653	5,850	+1,197	125.7%	4,400	133.0%
Profit margin attributable to owners of parent	3.5%	4.1%			3.3%	

Points of Income Statement

(1) Cost of sales margin (78.5%)

Increased due in part to unprofitable projects at some Group companies and the change of the revenue recognition standard

(2) SG&A expenses (+1,153 million yen)

Increased associated with a personnel increase in response to strong orders

(3) Extraordinary income (-2,602 million yen) Extraordinary losses (-2,396 million yen)

Extraordinary income decreased due to the presence of gain on sale of investment securities in the previous fiscal year that was a result of the sale of cross shareholdings. Extraordinary losses decreased due to the presence of loss on sale of shares of subsidiaries and associates as well as property, plant and equipment impairment losses in the previous fiscal year.

Topics of consolidated statements of income.

The cost ratio is getting a little worse. The unprofitable projects and the revenue recognition criteria, which used to go up all at once, have now been broken up, which means that the high profit margin items are now included here, which makes it look as if there has been a slight increase.

As for SG&A expenses, they are increasing due to the increase in sales and the increase in personnel to some extent, and as for extraordinary loss, there was a large amount last year due to the sale of shares in the previous year and the sale of ACE securities, etc., so it appears that this year's loss is much lower than last year's.

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5. Consolidated Balance Sheet

	FY2021	FY2022	Change	(Million yen)
	End of FY2021	End of 1H of FY2022	(Amount)	FY2021 End of 1H of FY2021 (Reference)
Current assets	111,128	114,075	+2,947	106,413
Cash and deposits	40,351	39,472	-879	40,809
Notes and accounts receivable - trade	57,352	53,827	(1) -3,525	51,469
Securities	5,000	7,500	+2,500	5,500
Inventories	4,449	4,294	-154	4,809
Other	3,974	8,981	(2) +5,006	3,825
Non-current assets	117,786	123,173	+5,386	119,242
Property, plant and equipment	90,344	96,135	(3) +5,791	90,384
Intangible assets	4,547	4,601	+54	5,030
Investments and other assets	22,894	22,436	-458	23,827
Total assets	228,915	237,249	+8,334	225,656
Current liabilities	68,018	72,956	+4,938	57,689
Notes and accounts payable - trade	12,947	14,900	+1,953	13,993
Short-term borrowings	19,462	20,856	+1,393	11,681
Accrued expenses / provision for bonuses	11,971	11,025	-945	9,813
Income taxes payable	5,247	3,145	-2,101	4,441
Provision for loss on construction contracts	277	197	-79	172
Other	18,111	22,830	(4) +4,718	17,587
Non-current liabilities	17,928	16,215	-1,712	29,062
Long-term borrowings	9,366	9,007	-358	20,163
Other	8,562	7,208	-1,353	8,899
Total liabilities	85,946	89,172	+3,225	86,752
Total net assets	142,968	148,076	+5,108	138,904
Total liabilities and net assets	228,915	237,249	+8,334	225,656

Points of the Balance Sheet

(1) Notes and accounts receivable - trade (-3,525 million yen)

A seasonal decline that resulted from higher sales

(2) Other current assets (+5,006 million yen)

Increases in prepaid expenses for the procurement of finished goods from other companies and in advance payments to suppliers (cost portion) associated with the change of the revenue recognition standard

(3) Property, plant and equipment (+5,791 million yen)

An increase attributed to the payment of expenses related to a real-estate property to be used by the Company that has been under construction

(4) Other current liabilities (+4,708 million yen)

Increases in accounts payable - other related to a real-estate property to be used by the Company that has been under construction and in advances received (sales portion) associated with the change of the revenue recognition standard

Consolidated balance sheet.

Notes and accounts receivable, this means that there is a slight decrease now seasonally due to increased revenues.

Other current liabilities, this area is a little bit related to the revenue recognition standard, and prepaid expenses, which are prepaid expenses for procurement of other companies' products, have increased by chance, but the prepaid expenses have increased due to the transition to the revenue recognition standard. So, they are increasing in the form of advances because they are recognized as revenue in a discrete amount.

I'll tell you first, but on the other hand, other current liabilities, such as advances received and sales, will appear on the balance sheet as having increased.

Other than that, the tangible fixed assets and this is the cost of real estate for own purposes that has been under construction for some time, so tangible fixed assets have been recorded. Also, there are still some accounts payable.

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6. Consolidated Cash Flow Statement

	FY2021 1H Results	FY2022 1H Results	YoY change (Amount)
Cash flows from operating activities	9,589	5,278	-4,311
Cash flows from investing activities	8,269	-7,714	-15,984
Cash flows from financing activities	-13,755	-572	+13,183
Effect of exchange rate change on cash and cash equivalents	348	700	
Net increase (decrease) in cash and cash equivalents	4,452	-2,308	
Cash and cash equivalents at beginning of period	37,450	40,876	
Cash and cash equivalents at end of period	41,902	38,568	

Highlights of Cash Flows

- **Cash flows from operating activities**

Net cash provided by operating activities stood at 5,278 million yen due to an increase in money received, attributable to higher sales and profits.

The amount decreased 4,311 million yen year on year due to an increase in payment of income taxes and prepaid expenses for procurement of finished goods from other companies

- **Cash flows from investing activities**

Net cash used in investing activities came to 7,714 million yen mainly due to construction expenses to secure office space.

The amount decreased 15,984 million yen year on year due to the withdrawal of time deposits and money received in sale of shares in the previous fiscal year.

- **Cash flows from financing activities**

Net cash used in financing activities stood at 572 million yen.

The amount increased 13,183 million yen year on year due to repayment of working capital in the previous period.

Consolidated cash flows.

Cash flow from operating activities was positive JPY5.2 billion, but it appears to be slightly lower than the previous year, but this is due to an increase in income tax payments and other company products. The number appears to be decreasing a little because of the prepayment in this area.

Investment activity is also negative. This is because that the difference between the previous year and the current year is also quite large because of the absence of construction expenses and the refund of time deposits and proceeds from the sale of stocks in the previous year.

Cash flow from financing activities, which refers to expenditures, increased considerably compared to the previous year due to the repayment of working capital used for coronavirus, for which borrowings were slightly increased when the coronavirus project started.

Orders received and order backlog. I'd like to keep this brief in terms of sales trends, but I'm not sure if that's it. But there's a YoY ratio here. For the SI business, the order backlog was 115.6% of the previous year's level, which is 115.6 in relation to orders and sales, but this is a bit positive because the order backlog at the beginning of this period was changed due to the application of the new revenue recognition standard.

Here, this is a plus. This product/service. This appears to be a very positive place to be.

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7. Orders and Order Backlogs for the Consolidated SI Business

* A new revenue recognition standard began to be applied in the current fiscal year. (Values for the previous fiscal year are based on the old standard.)

(Million yen)

	FY2022 1H 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	61,489	102.0%	139,400	112.1%	133,786	105.7%	67,103	115.6%
System Construction	38,273	107.0%	83,227	110.8%	80,260	113.4%	41,239	102.9%
Embedded/Control Software	13,506	96.0%	36,507	110.0%	36,475	110.0%	13,538	95.9%
Operation Software	24,766	114.2%	46,719	111.6%	43,785	116.4%	27,701	106.7%
Products and Services	23,216	94.8%	56,173	113.9%	53,525	95.9%	25,864	144.0%
Products and Services	1 21,363	95.3%	48,626	114.6%	46,015	93.9%	23,974	151.6%
Outsourcing	1,852	88.9%	7,547	109.9%	7,510	110.3%	1,889	88.1%

1: Order backlog at beginning of term was changed reflecting the application of the new revenue recognition standard. (+3,155 million yen)

2, 3: The timing for the posting of a part of orders received was changed due to a revision of internal rules for posting orders received.

The year-end order backlog in the System Integration business based on the conventional posting method was 117.9% of that in the same period of the previous year (a year-on-year increase of 17.9%) and the year-end order backlog in System Construction was 106.2% of that in the same period of the previous year (a year-on-year increase of 6.2%).

Highlights of Orders and Order Backlogs

● Highlights in System Construction

- Embedded/Control Software

Orders received rose 10.0% year on year due in part to an increase in machine control systems.

The order backlog at the end of the term decreased 4.1% year on year.

4: The year-end order backlog based on the conventional posting method is 104.4% of that in the same period of the previous year (a year-on-year increase of 4.4%).

- Operation Software

Orders received increased 11.6% year on year with growth in projects for the financial sector, together with system infrastructure construction.

The order backlog at the end of the term increased 6.7% year on year.

5: The year-end order backlog based on the conventional posting method is 107.1% of that in the same period of the previous year (a year-on-year increase of 7.1%).

● Highlights in Products and Services

- Products and Services

Orders increased 14.6% year on year due to an increase in sales of licenses from other companies.

The order backlog at the end of the term increased 51.6% year on year.

- Outsourcing

Orders increased 9.9% year on year due to an increase in operation and maintenance projects.

The order backlog at the end of the term decreased 11.9% year on year.

Also, regarding the SI business, I believe we have mentioned that the internal operation rules for recording orders were changed last year. If we assume the previous recording method, the balance at the end of the fiscal year for the SI business would be 117.9%. 117.9%, which means a slight increase, SI business.

The system construction part is 106.2%, which also means that there will be a slight increase here, and that this part appears to be slightly negative because it is a change in appropriations.

In the area of system construction, embedded systems/control systems are performing well, but the order backlog for embedded systems/control systems, which is shown in No. 4 here, appears to be decreasing considerably. This is not a decrease from the previous year.

As for business systems, the number of financial and system infrastructure projects has been increasing, but the change in the recording standard for order backlogs, which I mentioned earlier, is a minor one, but in reality, the order backlog is over 100, or about 107%. This means that the Company has a realistic backlog of orders in excess of 100.

Product services, as this increased as other companies' licenses increased, here was 114.6% compared to the same period last year. Orders are 114.6%. The order backlog was also affected by this, at 151%.

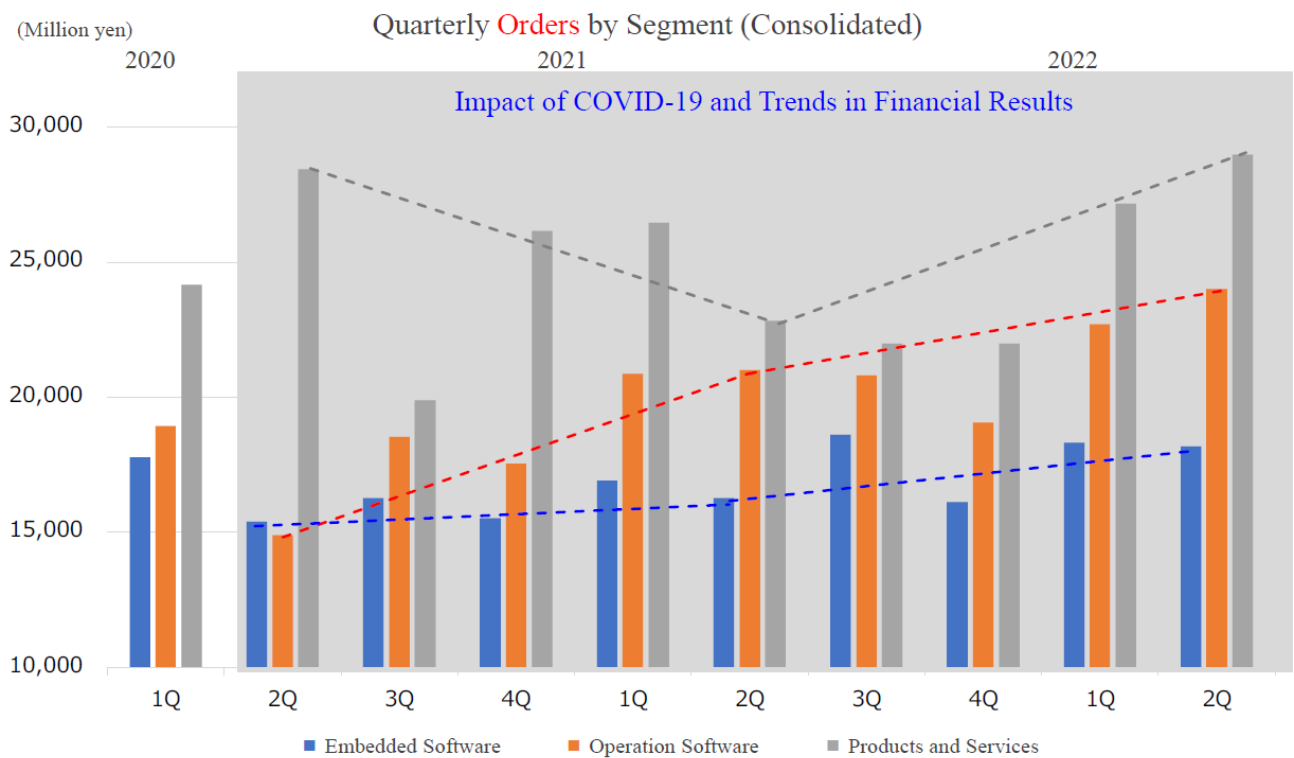
For outsourcing, an operational project is not that big, but it is increasing.

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Quarterly Change in Business Results (FY2020 to 2Q FY2022)



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This is the number of orders received in the quarterly results.

On a quarter basis, we can say that there has been a steady recovery, or perhaps we should say that there has been an increase, even with the coronavirus disaster.

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8. Dividends

Interim dividends will be 54 yen per share as forecast at the beginning of the fiscal year, and year-end dividends will be paid as announced in the medium-term management plan.

- Interim dividends will be 54 yen per share as forecasted at the beginning of the fiscal year.

Interim dividends

	At the end of the second quarter of FY2022	Dividend payout ratio	Most recent dividend forecast
Dividend per share	54.00 yen	29.0%	54.00 yen

- The plan (announced on February 10) was to pay year-end dividends of 55 yen per share. However, the Company **plans a revision so that the full-year dividend payout ratio will be 35% or greater**, as announced in the medium-term management plan (2022 to 2024).

(Reference) Year-end dividend forecast announced on February 10

	At the end of FY2022	
Dividend per share	55.00 yen	The amount of dividend will be revised depending on financial results.

Dividends.

We will pay an interim dividend of JPY54 per share as planned at the beginning of the fiscal year. The dividend payout ratio is lower because of a slight increase in net income in H1 of this fiscal year, but we originally set the dividend payout ratio at 35% in our medium-term plan. This time, we will pay a dividend of JPY54, which is the amount we originally planned to pay, not the dividend payout ratio.

However, we announced that the year-end dividend would be JPY55, and the dividend payout ratio would be 35% or more, so based on the situation in H2, we will leave the dividend at JPY55, including the current earnings forecast. We will review the dividend amount in H2 so that it will reach 35% for the full year, depending on the situation.

Naturally, we are committed to fulfilling our promise of 35%.

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Business Trends in the First Half of FY2022

While the future of the external environment remained uncertain, including the supply chain problems caused by COVID-19 and the fluctuation of exchange rates (weaker yen), their impact on the Company was limited.

Customers' Business	Major Consolidated Segments				
	System Construction		Products and Services		Other
	Operation Software	Embedded/Control Software	FUJISOFT products	Other companies' products	
Machinery Manufacturing FA, medical care, mobile devices, home appliances, electronics and other businesses	↑ Strong	↑ Strong	↓ CAE systems	↓ CAE systems	
Automotive	↑ Strong	↗ Steady	more NOTE		
Social Infrastructure Systems Communication, transportation, energy and other businesses		→ Remain flat	FAM series	↑ Licenses for other companies (MS, VMware, AWS, Salesforce, etc.)	
Financial Sector Life insurance, non-life insurance, credit card, bank, securities and other businesses	↑ Strong		Desktop Full Service	↓ Product sales systems (PCs, servers, tablets, etc.)	
Distribution Sector Retailing, wholesale, e-commerce and other businesses	↑ Strong		↑ Distribution system solutions		
Public Sector Public offices, education, medical care and other businesses			↓ Mirai Series		
Other Telecommunication, other services, general consumer businesses and other businesses	↑ Strong		↓ Wi-Fi router PALRO		↑ BPO, call center

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Let me give you a little summary of the business situation in H1.

I'm trying to devise a way to describe the segments and the Group as a whole, but I would say that business operations, again, are doing well in general, without trouble or anything like that.

The embedded and control systems are also doing very well in machinery manufacturing, etc., and the automobile industry, which was a little weak last year, is starting to show a steady increase in sales. Social infrastructure seems to have leveled off.

In terms of products, our own products, such as moreNOTE and FAM, are small in size, but the new products that have just been launched are doing well. As for our own system of CAE systems, we are progressing in fair to good shape.

Securities and distribution companies among the subsidiaries. As for the Mirai system of in-house products, there was GIGA and others a bit last year. Last year's WiFi router sales were a bit weak, and last year's sales were also a bit negative because of the special demand for WiFi routers. I guess you could say that this area has conversely changed to a stable sale, or that last year was very good.

Other companies' licenses are also doing well, and the same was true for merchandising, PCs, etc. The situation became stable, dragged down by GIGA and other companies.

CAE, this is a negative in the impact of Synopsys, which I mentioned earlier on Cybernet.

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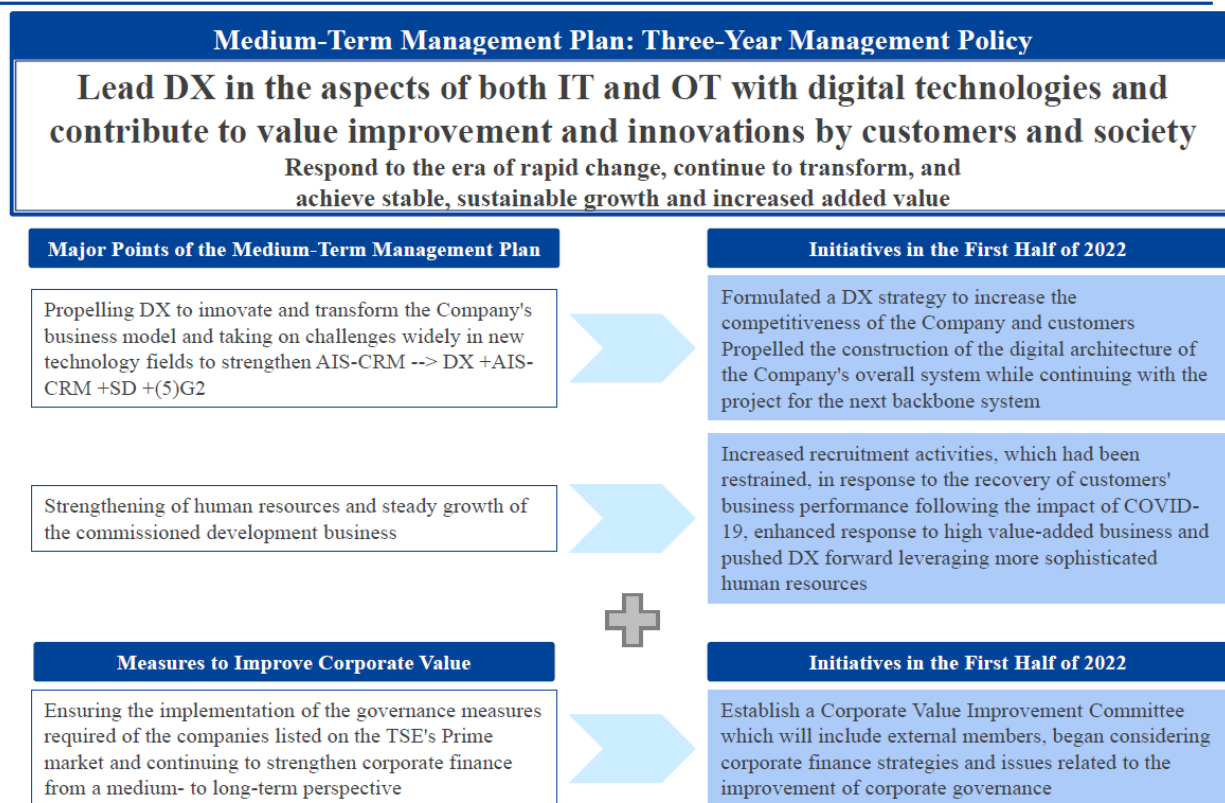
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I think we can express business conditions in this way, saying that BPO and other services were strong this time around.

Medium-Term Management Plan and Initiatives for Increasing Corporate Value



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The progress of the mid-term plan has only been in effect for about six months, so I don't have much to say about it yet. As initiatives for H1, we are talking about AIS-CRM, DX, AIS-CRM, SD, and 5G2.

The DX regional strategy was not created in H1 of this fiscal year, but we have been considering it for some time, and we are now promoting DX within the Company. One is to properly change this core system and our own system in the long term, and in parallel, we are trying to create not only a core system but also a digitalized architecture within the Company.

We are also making steady progress in strengthening our human resources, and we are now moving forward with strong recruitment activities in areas where we have not been moving forward quickly enough with the coronavirus disaster.

Also, we have established the Corporate Value Enhancement Committee, which will come up later, to further enhance our corporate value. This is what we are doing in conjunction with our mid-term plan.

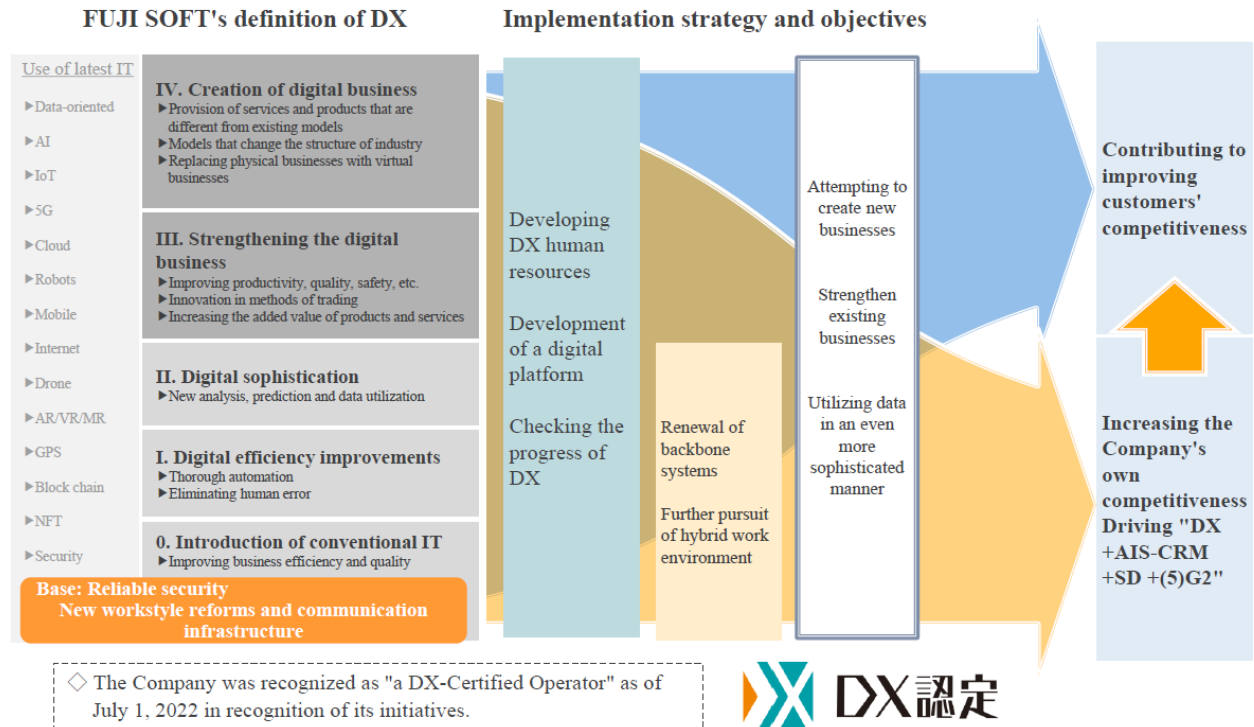
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DX strategy

Formulated a DX strategy in February 2022 to increase the competitiveness of the Company and customers



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I would like to give you a little light introduction to the DX strategy.

There are various ways to define DX, such as defensive DX and offensive DX. We define DX as the creation of security and communication as a base, followed by simple IT, digital efficiency, sophistication, and business enhancement, as well as the creation of new businesses. We define DX as the creation of new businesses in four or five phases.

The other two things I want to talk about are human resource development, building a platform, and keeping track of the progress of that, and, below this, rethinking the core system properly, and the work environment. We are proceeding with the three pillars of creating new businesses, strengthening existing businesses, and utilizing data.

Naturally, we aim to improve the competitiveness of our customers while implementing our own DX. We are a DX-certified company in this frame of mind, and we have also received this certification from the Ministry of Economy, Trade, and Industry.

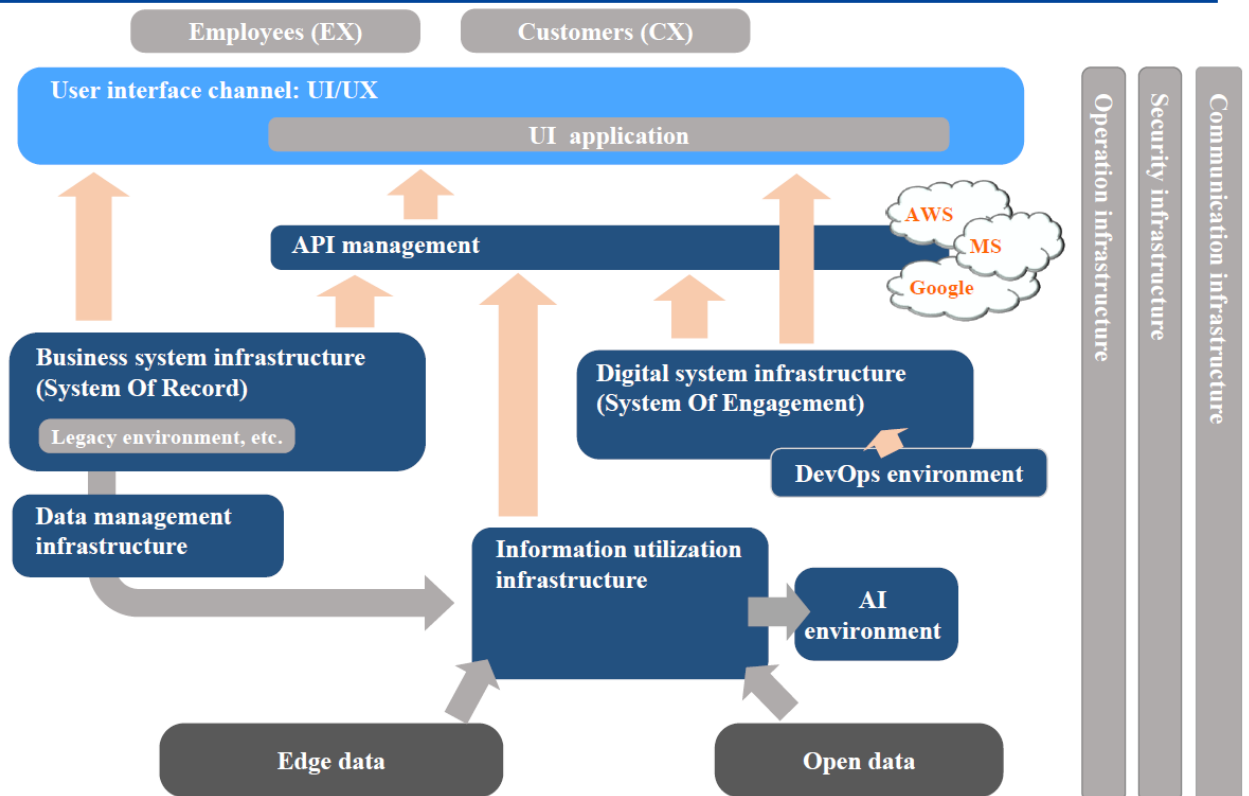
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Digital System Architecture



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I'd like to introduce one example of digital system architecture, or SOR as we often use it these days, and a new system of engagement called SOE. The digital system architecture is a conceptual diagram of the architecture we are advocating, in which the big environment is a data management infrastructure, information utilization infrastructure, AI environment, edge and open data, and usability is improved through API management.

As for the SOR part of the System of Record, which is the business system infrastructure, we have already started the next core system that I mentioned earlier, and we are planning to move forward with it in a range of three to five years. In addition, we are also creating an information utilization infrastructure that will allow us to use data from existing systems.

With cloud technology, it does not take a great deal of time to buy servers and make the necessary arrangements, as it did in the past.

We are also a multi-cloud vendor, so we are using the multiple clouds available in the world to create this kind of information utilization infrastructure, while at the same time, we are using the examples of our success in this area to provide our customers along with its own internal operations with an environment that allows them to use data quickly, while also creating legacy environments and new environments.

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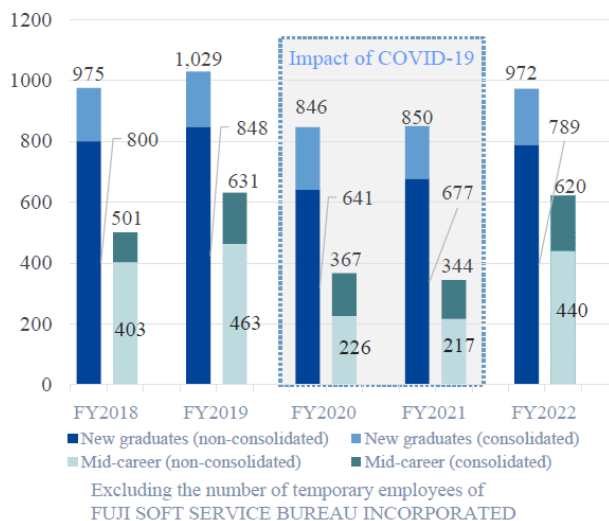
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Reinforcing human resources

Pushed forward with the increase of recruitment activities, which had been restrained, and the development of human resources, in response to the recovery of customers' business performance

- ◇ The Company increased recruitment of new graduates and mid-career employees, which had been restrained temporarily in response to the COVID-19 pandemic, to secure production capacity. The Company will develop specialist human resources who will push the DX of the Company and customers forward, enhancing measures for AIS-CRM, a focus technology field, and high value-added businesses.

Five listed companies (non-consolidated):
New graduate and mid-career hires
(Mid-career hire figures for 2022 are the forecast.)



Developing DX human resources Target: FY2024

Drivers of DX operations

Business architects: **100** persons

People in charge of practical business transformation tasks or pushing forward with practical tasks in new businesses, who are familiar with the businesses and operations of the Company or its customers
Human resources who understand DX and lead DX initiatives

Drivers of DX technologies

Senior technical architects: **100** persons

Technical architects: **1,000** persons

Human resources who are familiar with data utilization and digital technologies (in the field of Company's technology strategy in particular) and capable of designing and operating DX systems differently from short-term and medium- to long-term perspectives and ensuring overall consistency

X

Regarding strengthening human resources, this chart shows the figures for new graduates and mid-career workers in the Group, but at the time of coronavirus, we kept the figures a little low.

As expected, the environment was not so favorable that we were able to keep a lid on the market, but even so, we have been strengthening our response to the new DX trend after the coronavirus disaster, while repeating the increase in revenue and profit.

This is also used in the DX certification mentioned earlier, and it can be used to promote DX within our company and, of course, it can also be used to deploy DX to our customers, but in our definition, business architects and technical architects are important, and engineers are also important. The number of technical architects is to add DX know-how to current engineers, which is our core business. 1,000 may not seem like a large number, but we will increase the number of technical architects, including those in new technologies such as AI.

Technical architects are our core business, so it's an easy environment to foster this kind of thing. We are trying to increase the number of people who can promote DX within our company from the business side, after having developed a fairly large number of very sophisticated technical personnel. This is a three-year initiative, but we are now in a situation where we are making progress.

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当社の経営に関する基本的な考え方

当社は、基本方針のもと、50年超の歴史で培った経営資源をベースに
新たな3カ年計画（中期経営計画）にもとづき更なる企業価値の向上に向けた取り組みを始動

■ 経営方針

基本方針

もっと社会に役立つ
もっとお客様に喜んでいただける
もっと地球にやさしい企業グループ
そして「ゆとりとやりがい」

創業以来の 攻めの経営姿勢

新たなビジネス分野に挑戦し、
創造し、成長し、革新していく

中期方針

ICTの発展を
お客様価値向上へ結びつける
イノベーション企業グループ

■ 中期経営計画

3カ年経営方針

- デジタル技術でIT、OT(※1)の両面からDXをリードし、お客様と社会の価値向上とイノベーションに貢献

事業戦略

- 従来ビジネスの強化と、重点施策である「AIS-CRM」の更なる強化(※2)による、お客様への提供価値向上
 - 業務改革から従来ビジネスの強化、社会・お客様への提供価値向上までの幅広いDXソリューション力の強化
 - 5Gをはじめとした先端技術の開発への応用
 - サービスデザインアプローチやITコンサルティング機能の強化による上流案件の獲得

技術・人財戦略

- 「SI力」「先端ソフト力」「プロダクト提供力」の3つを軸とした人財の積極的な採用と育成

■ 定量目標

	2021年 12月期 実績	2024年 12月期 目標
売上高	2,579億円	3,000億円 以上
営業利益	168億円	200億円 以上
営業利益率	6.5%	6.7%以上
ROIC	7.4%	8.0%以上
ROE	7.5%	9.0%以上
EBITDA マージン	8.6%	9.0%以上
配当性向	17.8%	35.0% 以上

※1 オペレーショナルテクノロジー：製品や設備、システムを最適に動かすための「制御・運用技術」

※2 AIS-CRM：DX + AIS-CRM + SD + (5)G2

This is part of the DX of the mid-term plan, I talked about DXing, and now, I would like to conclude by talking about the Corporate Value Enhancement Committee.

As a prelude to the Corporate Value Enhancement Committee meeting, I would like to explain the three-year medium-term management plan, which is based on our basic policy and the management resources we have accumulated over the past 50 years.

Without making any major changes to the basic policy, the aggressive stance we have taken since our founding, or the medium-term policy, we will continue to focus on the themes of the three-year period and the AIS CRM plus an additional strengthening of the technical human resources strategy to achieve these figures over the next three years.

We have decided to disclose capital efficiency figures in addition to sales and operating income figures, which were previously disclosed mainly, and we will make a presentation on this.

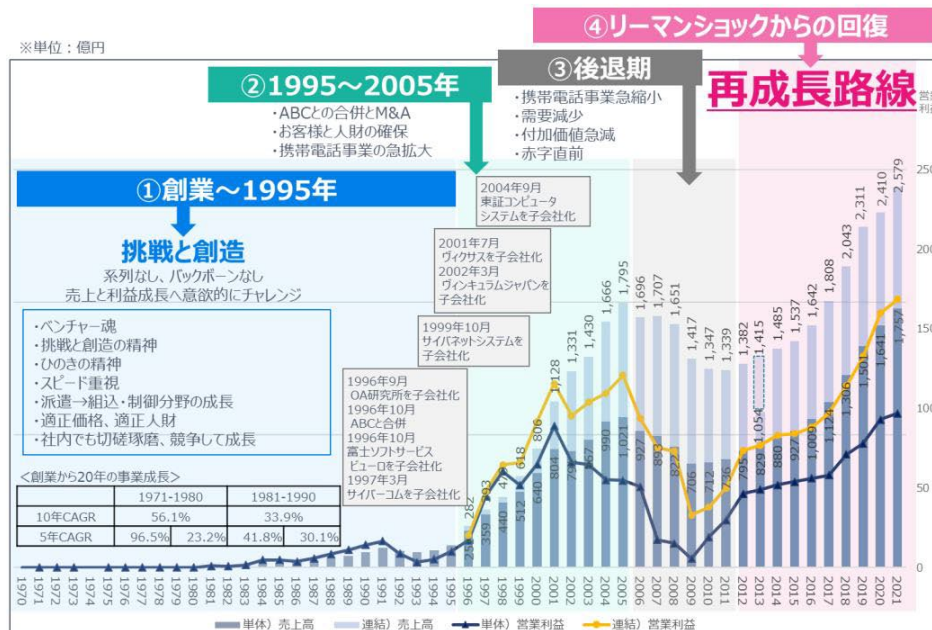
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会社設立以来の売上高・利益推移

系列やバックボーンのない独立系企業として、創業以来攻めの経営により、売上・利益の成長、付加価値向上を推進



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This is the 50 years we used then. Since we are on a path of re-growth, we have put out a medium-term plan to promote aggressive management here.

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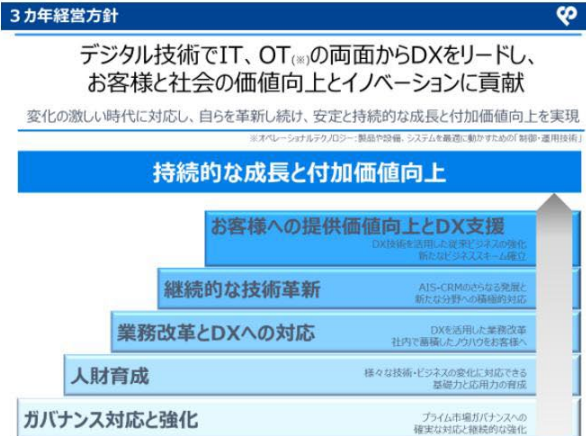
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企業価値向上委員会を新設する目的

中期経営計画を発表して以降、多くの株主の皆様と建設的な対話を実施し、その中でいただいた指摘や提案を取り入れ、ステークホルダーに対する更なる価値向上を推進するため企業価値向上委員会を新設

■ 現行の中期経営計画の推進



■ 企業価値向上委員会を通じた改革の推進

- より客観性と実効性を高めたガバナンス体制の整備
- 保有資産構成とキャピタルアロケーションの見直しを通じた資本効率とお客様への提供価値の向上
- より透明性のある開示とより積極的な対話を通じた株主コミュニケーションの強化

事業方針、社内資源配分、ガバナンス、ステークホルダーとの対話について再検証を行い、企業価値向上を目指す

However, since the announcement of the mid-term plan, we have been in constructive dialogue with many of our shareholders, and have received various suggestions and proposals, including one from the previous year, and have established a Corporate Value Enhancement Committee to promote further value enhancement for our stakeholders.

The first issue is the policy of the three-year mid-term plan, which includes the Corporate Value Enhancement Committee to enhance governance, objectivity, and effectiveness, as well as a review of the asset composition and capital allocation, and capital efficiency, which is a capital indicator. Naturally, we are considering whether there is a better way to do this.

The Corporate Value Enhancement Committee is also considering more transparent disclosure and communication, and is reexamining business policies, resource allocation, governance, and dialogue with stakeholders in order to improve corporate value.

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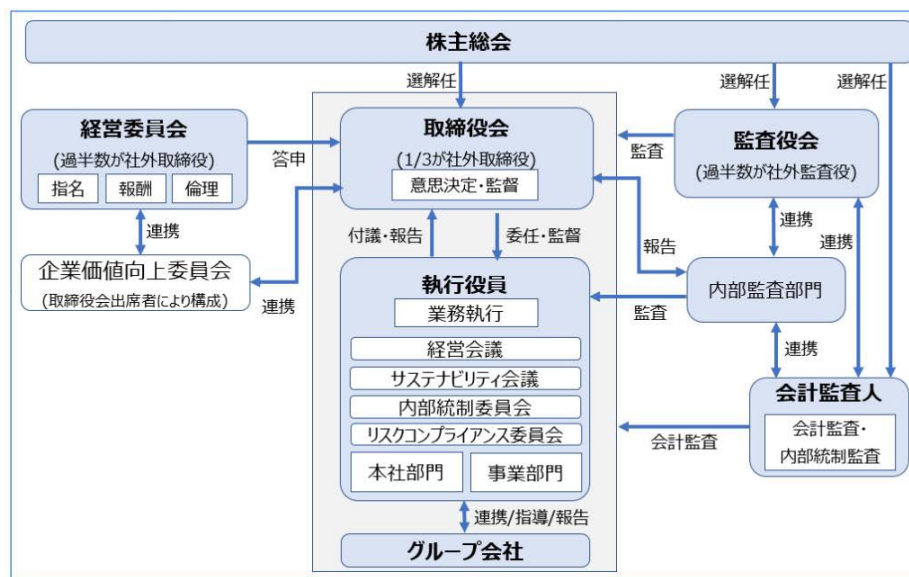
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企業価値向上委員会の位置づけ

経営方針のベクトル合わせと各課題の検討に向けて企業価値向上委員会を設置
取締役会出席者に加えて外部アドバイザーの起用により客観的視点を確保

■ 企業価値向上委員会の位置づけ



As shown in the Annual Securities Report, the Corporate Value Enhancement Committee, consisting of members who attended the Board of Directors meetings, was established to work with the Board of Directors and the Management Committee or, rather, in between the two.

There is also a sustainability conference on the executive line in this area. This will naturally be in cooperation with this area as well.

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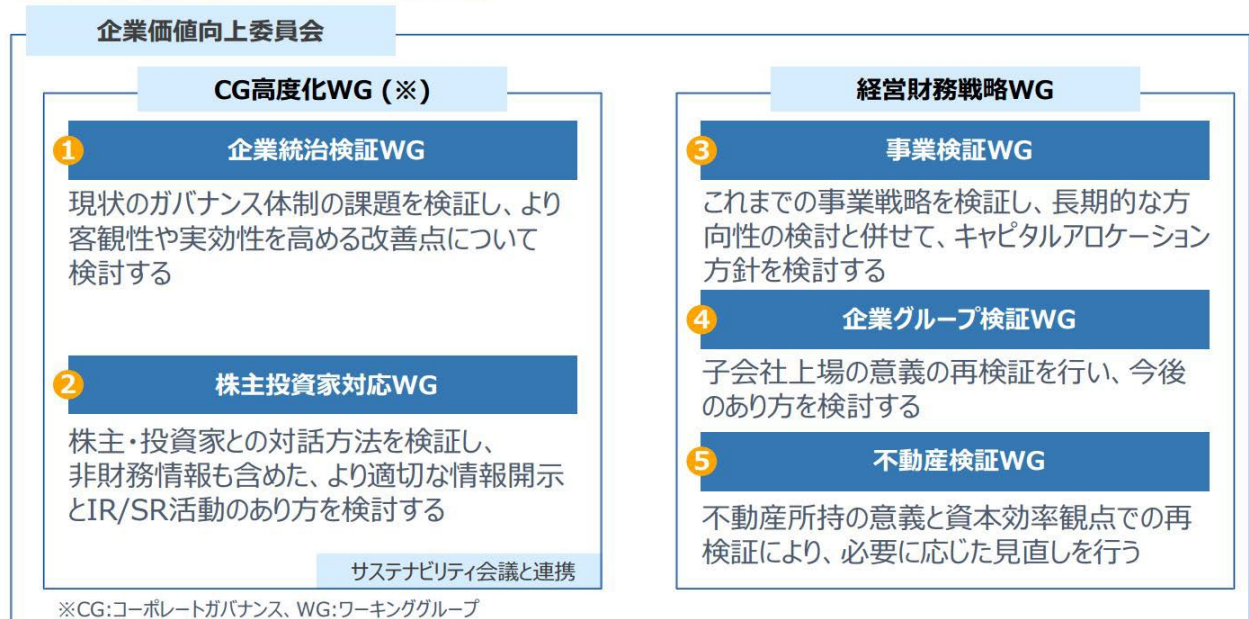
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企業価値向上委員会の体制

企業価値向上委員会の下部にWGを設置
委員会での方針に基づいた個別課題の調査・検証を実施し、その素案を委員会で審議する

■ 企業価値向上委員会の運営体制



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The committee is composed of working groups under the Corporate Value Enhancement Committee, and the committee deliberates on the contents of the discussions held in each working group.

The first is corporate governance and the examination of issues and improvements in the governance system, which is a repeat of what I mentioned earlier. Verification of dialogue methods and non-financial information, this area will be coordinated with the Sustainability Council. Not only we examine the nature of information disclosure and IR and SR activities, but also, we examine our business strategy, including profitability, and long-term direction, which we have just presented in the mid-term plan, but we will also examine our capital allocation policy from a longer-term perspective.

We have also received a variety of opinions about corporate groups, including the listing of subsidiaries, so we will reexamine this issue and determine what the future should look like. Similarly, real estate should be re-examined from the perspective of the significance of ownership, capital efficiency, etc. We are proceeding with the Corporate Value Enhancement Committee from this perspective, which will conduct the necessary review.

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今後の活動スケジュール

企業価値向上委員会の検証過程やその後の実行状況は継続的に報告予定

■活動・報告予定

2022年11月

- ・ 社内での中間報告のとりまとめ

2022年12月期 通期決算説明会（2023年2月）

- ・ 2022年度の最終報告を実施、決算発表と合わせて検証結果等を開示

2023年12月期 第1四半期以降（2023年3月～）

- ・ 最終報告後も企業価値向上に向けた経営課題に対し継続的な活動を推進

This is a plan or a schedule, and of course, when we explain the financial results for the fiscal year ending December 31, 2022, we will give a final report, or rather a report on the activities of the current fiscal year. After that, of course, we will still be active in our activities, and I think there will remain issues, etc., so we will continue to address those issues as well.

We are planning to finalize the interim report internally in November, but we will consider how we can explain this to you in the future.

I have presented the above information, including the financial results briefing plus several other topics. That is all.

Moderator: With that, we will conclude our presentation.

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