



FUJISOFT

Explanatory Material on the Activity of the Corporate Value Committee and Governance Committee

富士ソフト株式会社

(Code: 9749; Tokyo Stock Exchange Prime Market)

August [10], 2023

Agenda

Executive Summary

Finance and Management WG

— Business Review WG

— Real Estate Review WG

Operational enhancements and Governance Committee



Summary

▶ We are promoting activities to realize the future vision disclosed in the February 2023 and to announce the management plan at the end of this fiscal year

Basic management policy	<ul style="list-style-type: none"> The Company has a basic philosophy of “Aiming to become a corporate group that contributes to society, provides satisfaction to customers, initiates eco friendly activities and believes in a comfortable and rewarding environment” and a medium term policy of “Aiming to become an innovative corporate group that links ICT development to greater value for customers”. With the above, the Company will maintain the aggressive management stance that the Company has had since its inception, which was also presented in the mid term management plan, and will maintain our basic philosophy, which is to view (various) changes as opportunities and to continue to challenge and create On the other hand, adjust to time change, aim to maximize corporate value by strengthening governance and capital efficiency as well as strengthening the business itself, while maintaining a strong dialogue with the capital markets 	
Direction of Consideration by the Corporate Value Committee	<ul style="list-style-type: none"> Invest resources and capital intensively in the ICT field, our core business, and aim to maximize corporate value to meet shareholder’s expectations by building a flexible and efficient business structure capable of creating added value and contributing to the development of our customers and society, while continuing to incorporate technological advances and develop human capital 	
Topics in the material	Business Review WG	<ul style="list-style-type: none"> Currently reviewing ways to realize a business structure with a high profitability while maintaining an aggressive management stance. A detailed business plan will be announced at the end of the current fiscal year Set the non-consolidated base "operating profit per person" as the most important KPI, and is currently studying and implementing various measures with the goal of achieving at least 3 million yen within five years (1.28 million yen in FY2022) Consider profitability improvement for each group companies as well as further synergies with FUJISOFT Established individual sub-WG to discuss new business and new product strategy
	Real Estate Review WG	<ul style="list-style-type: none"> We are executing the liquidation process in accordance with the points indicated in the February 2023 disclosure. The overall policy is to downsize real estates as ROIC (market-value based) is below the hurdle rate, except for some smaller properties that have not yet received appraisals Classified the priority of liquification of real estates from A~D for each property taking into consideration the office consolidation policy and the constraints of each property Liquidate at least 1 property from Rank A within this year and execute the remaining properties around FY2023 earnings result (February 2024). Concurrently, will also start consideration for Rank B properties, aiming to execute within 1 year (August 2024)
Operational enhancements and Governance Committee	<ul style="list-style-type: none"> Establishment of the Governance Committee by splitting the Corporate Governance Review WG from the Corporate Value Committee in March 2023 to conduct more specific review 	

Agenda

Executive Summary

Finance and Management WG

— Business Review WG

— Real Estate Review WG

Operational enhancements and Governance Committee



Overview of current business and direction for improving profitability

▶ Currently reviewing ways to realize a business structure with a high profitability while maintaining an aggressive management stance, which is the foundation of our company. A detailed business plan will be announced with the financial report at the end of the current fiscal year, and this will act as an interim report to explain the direction

- Consolidated financials (FY2022)

(Billions JPY)

	Sales	Operating profit	Net Income	ROE
Non consolidated	192.3	11.5	9.8	8.5%
4 listed subsidiaries	80.1	6.6	4.3	11.7% (Total)
Others	6.4	0.2	0.1	---
Total	278.8	18.3	13.4	8.8%

- Considering profitability improvement in line with each company's strategy regarding the 4 listed subsidiaries (Cybernet Systems, VINX, Cyber Com and FUJI SOFT SERVICE BUREAU)
- In addition, considering to further strengthen synergies within the FUJISOFT GROUP

- Non-consolidated financials and improvement measures

(Billions JPY)

	Sales	SG&A	Operating profit	OPM	Measures for improvement in FY2023
Contracted Development	131.1	22.4	9.0	6.8%	<ul style="list-style-type: none"> • Continued 3 bn JPY of human resource investments • As our core business, improve operating profit per person, which will be the driving force for improving the profitability of the entire company
FUJI SOFT Products	2.7	0.6	0.3	10.4%	<ul style="list-style-type: none"> • Aim an operating profit margin of at least 20%, excluding new investments
Other Company Products	48.9	2.6	1.2	2.4%	<ul style="list-style-type: none"> • Despite low margins, we intend to continue to expand the business at a certain level as a tool for creating contacts to develop new customers • In addition, since the business does not require a large capital investment, the profitability of the business is evaluated based on the profit margin on invested capital
Data Center	6.1	1.0	0.2	3.4%	<ul style="list-style-type: none"> • Operate without pursuing expansion of scale, aiming to improve efficiency of existing projects and contribute to value-added enhancement through collaboration with other businesses.
Facility	3.2	0.6	0.8	26.0%	<ul style="list-style-type: none"> • Operating profit is expected to be zero following the reduction of the real estate business
Total	192.2	27.5	11.5	6.0%	

- Reduction of SG&A ratio through operational reforms and construction of next-generation systems, etc.

**Medium-term
(within 5 years)
quantitative target**

- **(Non-consolidated financial) Operating profit of more than 3mn JPY per person** (FY2022: 1.28 mn JPY of operating profit per person)
- Realization of operating income growth exceeding sales growth

By combining these measures, we will strongly promote the improvement of ROE, ROIC, and CF per share



Reference: Results for the First Half of FY2023

- Consolidated financials breakdown

(Billions JPY)

	Sales	Operating Profit	Net Income
Non consolidated	106.1	6.8	5.4
4 listed subsidiaries	41.6	3.4	2.0
Others	3.8	-0.3	-0.6
Total	151.6	9.9	6.2

- Non-consolidated financials and improvement measures

(Billions JPY)

	Sales	SG&A	Operating profit	OPM	Measures for improvement in FY2023
Contracted Development	708	125	51	7.2%	• Effectiveness of ongoing value-added measures
FUJI SOFT Products	14	3	2	16.4%	• <i>Margin improvements post COVID-19</i>
Other Company Products	288	12	9	3.2%	
Data Center	31	5	0	--	• Reduction in in earnings due to electricity and other cost pressure factors (Improvements to be made)
Facility	17	3	5	28.2%	
Total	1,060	150	67	6.3%	



Improvement of operating profit per person

- ▶ Set “**Operating profit per person**” as the most important KPI to improve ROE, ROIC. Review of issues and various measures to improve “**operating profit per person**” on a non-consolidated basis
- ▶ The **Business Review WG is initiating** the optimization of the KPI and the **Corporate Value Committee will conduct monitorization**

- Pursue of “operating profit per person”

- Announced the future vision in the “Explanatory Material on the Activity FY2022 of the Corporate Value Committee” disclosed on February 14, 2023, and is in the process of formulating a management plan to be disclosed with the year-end financial results
- In this context, the Business Review WG set “**operating profit per person**” as the most important KPI to improve ROE, ROIC, and CF per share
- We chose “operating profit per person” as the KPI because we believe that the source of value is human resources and that an indicator of the value added by our human resources is the most appropriate KPI for improving corporate value

- Understanding of improvement of “operating profit per person”

- Recognize that our “operating profit per person” is low compared to other companies in the industry
- This is due in large part to the fact that our business structure has not been able to convert the improvement in system development capability that accompanies the improvement in the level of human resources into economic value
- Therefore, we recognize the importance of evolving our business model, such as strengthening cross-business and expanding all-in projects, as a direction to improve “operating income per person”
- At the same time, make stronger going efforts to improve the value provided to customers, strengthen partner policies, improve productivity, and optimize SG&A costs, which we have been working on for some time

- Monitoring of “operating profit per person”

- Corporate Value Committee held monthly to monitor as appropriate



Details of measures for margin improvement

▶ Set “**Operating profit per person**” as the most important KPI and **Business Review WG is initiating** the optimization of the KPI and the **Corporate Value Committee will conduct monitorization**

KPI		Examples of measures that Business Review WG will promote	
KPI	Component	Item	Detail
Operating profit per person	Gross profit	Improvement of customer value	<ul style="list-style-type: none"> • Strengthen of cross-business: Further strengthen existing relationships with customers and build a company-wide cross-business structure and culture to provide high-value-added services to customers through All FUJISOFT • Strengthen of technical capabilities: In the fields represented by DX AIS-CRM SD, we are making R&D investments to enhance our capabilities in new technological fields, increase the value we provide to customers, and build new IT solutions and services • Provide one-stop services: Build a system that can provide one-stop services from upstream processes to operation and maintenance and infrastructure, while increasing added value by providing combined expertise in embedded/control system development, communications technology, business systems, and other areas. • Strengthen our basic business: Review the roles with customers and other workflow to improve the value provided in terms of manpower per month, and expand into a success-oriented business • Expansion of all-in projects: Increase the number of projects that we can proactively promote to raise the value to our clients, increase the ratio of partner companies, and flexible optimization of internal resource allocation
		Partner policies	<ul style="list-style-type: none"> • Reviewing customer relationships and upgrading partner policies to increase the ratio of partner companies, secure human resources, improve productivity
		Productivity improvement	<ul style="list-style-type: none"> • Building customer relationships to drive productivity • Further strengthening of trouble prevention measures • Promote technological innovations such as generative AI, test automation, enhanced development environments and tools, product-based development, and new cloud-based development methods
	Selling, general and administrative costs	Optimization of selling cost	<ul style="list-style-type: none"> • Visualize sales activities using indicators, review sales processes, and promote efficiency and sophistication by monitoring each indicator and performing the PDCA cycle
		Optimization of administrative cost	<ul style="list-style-type: none"> • Promote visualization and optimization of business workflow through operational reforms (activities ongoing since 2019) • Promoting improvement and optimization of efficiency through modern system implementation and DX promotion, such as core system renewal based on operational transformation, no-code, low-code, and usage of generative AI

Agenda

Executive Summary

Finance and Management WG

— Business Review WG

— Real Estate Review WG

Operational enhancements and Governance Committee

Updates from announcement in February

▶ Real Estate Review WG is currently conducting review in accordance with the points indicated in the February 2023 disclosure. Progress on each point is as follows

Points from February	Update status
Comparison of hurdle rate and ROIC (market value-based)	<ul style="list-style-type: none">• Except for some small properties, ROIC (market value-based) is basically to be below the hurdle rate
Reduction of real-estate business	<ul style="list-style-type: none">• Classified the priority of liquification of real estates from A~D for each property• (Details on the next page)
Appointment of new external advisors	<ul style="list-style-type: none">• As all Rank A properties are below 3 bn JPY, appointment of external advisor will be determined case-by-case considering the timeline and cost for liquidation• Rank B properties consist of larger properties including Akihabara and are under complex circumstances, and an advisor will be appointed to optimize the scheme, maximize the price, and ensure the fairness of the process
Execute liquidation at an appropriate time, taking into consideration office plans, impact on existing tenants	<ul style="list-style-type: none">• Liquidate at least 1 property from Rank A within this year and execute the remaining properties around FY2023 earnings result (February 2024)• Concurrently, will also start consideration for Rank B properties, aiming to execute within 1 year (August 2024)• Schedule image on pg.12



Evaluation of each property

- ▶ Acknowledge that except for some small properties, **ROIC (market value-based) is basically to be below the hurdle rate**
- ▶ Based on the above recognition, classified the liquidation priority of each property in four ranks from A to D, taking into consideration the office consolidation policy and the constraints of each property

- Comparison of ROIC and hurdle rate

Except for some small properties, ROIC (market value-based) is basically to be below the hurdle rate

- Criteria for each property

- Rank A: No obstacles to liquidation and limited financial impact, making it possible to proceed quickly
- Rank B: Certain amount of time is expected to be required
- Rank C: Careful consideration of liquidation scheme, timing and need for relocation
- Rank D: Not subject to liquidation for the time being as land is under non-transferable period

Priority for liquidation				
Rank	Number of properties	Notable property	Book value (Mn JPY)	Note
A Rank	8	Ryogoku	2,573	
		Fukuoka	1,417	
		Osaka	1,271	
B Rank	9	Akihabara	29,128	One of the largest properties and under special circumstances such as the unique usage of facilities and relationships with tenants, a certain amount of time is expected to be required for the liquidation process
		Kinshicho	4,626	
		Oomiya	1,331	
C Rank	5	Shin-Nagoya	9,935	Careful consideration of liquidation scheme, timing, need for relocation as properties are fully utilized for business purposes, such as offices and data centers
		Sakuragicho	9,060	
D Rank	1	Shiodome	30,811	Non-transferable due to land acquisition clause



Schedule Image

- ▶ A standard schedule image for the sale (liquidation) of large properties is as follows and we are following such schedule
- ▶ Meanwhile, we are prioritizing Rank A properties and liquidated in **four to six months at the earliest** by omitting some steps. For Rank B properties, we aims to liquidate them within a year at the most, including internal reviews

About 1 year for process completion

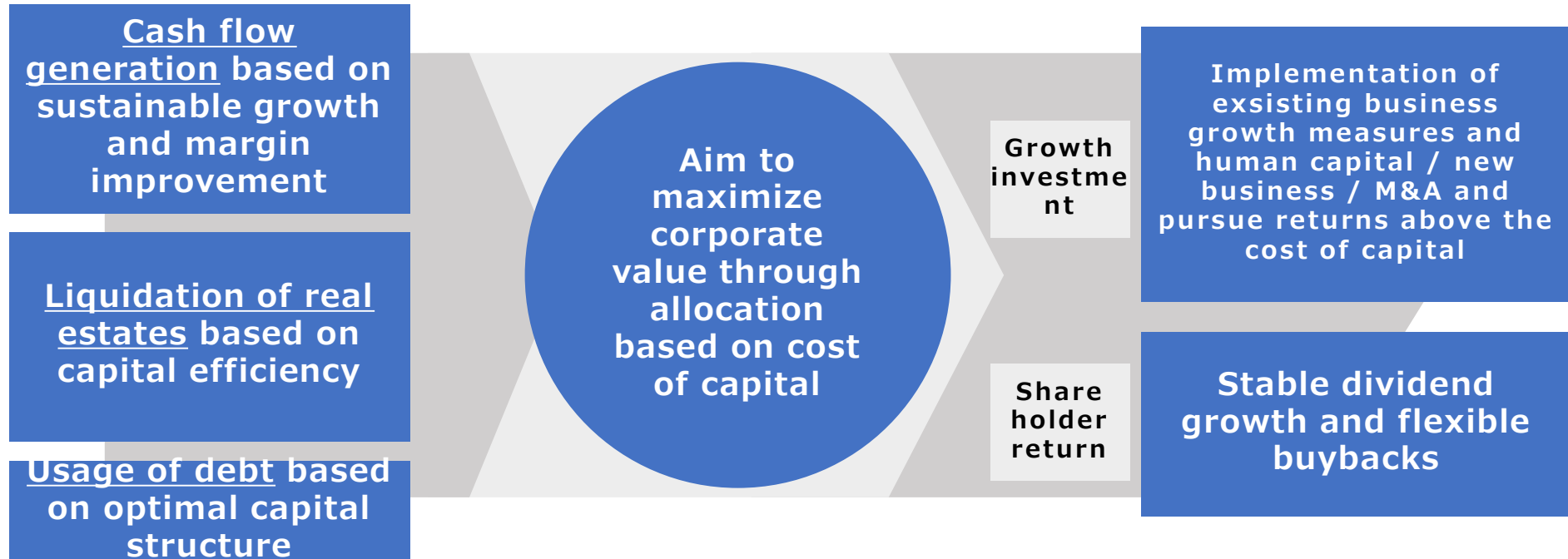
	3 months		3 months		3 months		3 months	
	Preparation	Tapping	Confidential agreement (CA)	Detailed consideration / preview / QA	Preferential negotiating rights / contract negotiation	Execution of sale contract / settlement		
External advisor / brokerage company	<ul style="list-style-type: none"> Initial valuation Consideration of divestiture scheme 	<ul style="list-style-type: none"> Preparation of long-list Research on acquisition intentions 	<ul style="list-style-type: none"> Receival of CA from a buyers with intent to acquisition 	<ul style="list-style-type: none"> Consideration of candidate selection Support of process for seller/buyer 	<ul style="list-style-type: none"> Receipt of Letter of Intent (LOI) from the buyer 	<ul style="list-style-type: none"> Support of minor terms Arrangement of disclosure statement 		
Seller (FUJI SOFT)	<ul style="list-style-type: none"> Consideration of divestiture scheme Preparation of documents 	<ul style="list-style-type: none"> Review of long-list 	<ul style="list-style-type: none"> Agreement of CA 	<ul style="list-style-type: none"> Q&A support from buyer Disclosure of detailed documents 	<ul style="list-style-type: none"> Selection of preferred bidder Additional DD 	<ul style="list-style-type: none"> Disclosure statement Real estate purchase agreement 		
Buyer	—	<ul style="list-style-type: none"> Initial consideration 		<ul style="list-style-type: none"> Detailed review and QA based on disclosure documents Estimation of bidding price 	<ul style="list-style-type: none"> Submission of LOI Additional DD 			



Allocation policy after liquidation

- ▶ Cash generated from liquidation of real estate will be determined in the following capital allocation to pursue the improvement of corporate value
- ▶ Amount image is currently under review and will be disclosed appropriately

Capital allocation policy



Improvement of Economic Value

- Sales growth rate
- Operating profit growth rate
- CF per share
- ROE



Improvement of Social Value

- Pursue the provision of software, systems, and services of greater value to our customers
- Utilization of ICT, accumulation of knowledge, and dissemination in various forms
- Contribution to the improvement of our customers' value and competitiveness through ICT
- Contribution to the development of society and a sustainable social creation through ICT
- Maintain and expand employment of diverse human resources and development of ICT professionals
- Contribution to the promotion of diverse work styles and diversity and the creation of an environmentally sustainable society through ICT and corporate activities

Agenda

Executive Summary

Finance and Management WG

— Business Review WG

— Real Estate Review WG

Operational enhancements and Governance Committee



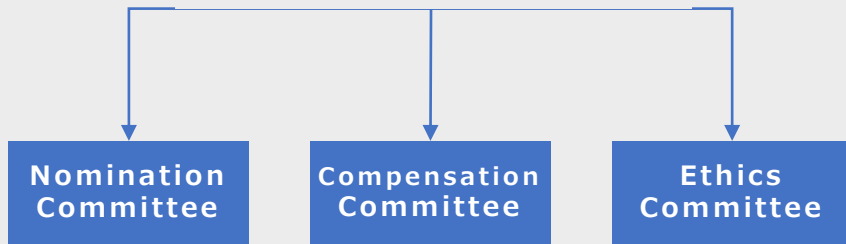
Current operations of the Governance Committee

- ▶ The Corporate Governance Review WG determined the following to enhance objectivity and effectiveness (The direction to strengthen the board, required skillsets and structure are reported in the interim report)
- ▶ After the March 2023 General Shareholders Meeting, split the management committee into 3 committees to ensure objectivity and transparency
- ▶ At the same time, newly set up a Governance Committee for ongoing, in depth study of governance issues

Function split of Management Committee

Management Committee
(includes all nomination, compensation, and ethics functions)
(chairman is an outside director)
The majority is consisted of outside directors

Function Split (March 2023)



- ▶ Shift to a structure that allows more focused discussions on each theme by splitting the functions of the Management Committee into the Nomination, Compensation, and Ethics Committees
- ▶ Nominate an outside director as chairman and ensure objectivity and transparency by having a majority of each committee composed of **outside officers (including corporate auditors)**

Establishment of the Governance Committee

Before March 2023, General Shareholder Meeting

- Governance issues are examined by the Corporate Governance Review WG, a sub organization of the Corporate Value Committee
- Achieved certain conclusions in the direction of strengthening Board of Directors functions, required skill sets, and functional differentiation of the Management Committee



After March 2023, General Shareholder Meeting

- Establishment of a Governance Committee to conduct ongoing, in depth studies of governance issues, including optimal institutional design
- The Governance Committee will name outside director as the chairman and majority will be composed of outside directors. The Committee ensures a medium to long term perspective and objectivity and transparency and will review optimal instantiation design and governance issues in collaboration with nomination, compensation, ethics committee



Structure of each Committee

- ▶ Structure and members of each committee are as the below
- ▶ Continue review within each committee with outside directors / auditors as the majority (Red: outside director / outside auditor)

Nomination Committee	
Chairman	Takao Tsuji
Members	Satoyasu Sakashita
	Tateki Ooishi
	Shintaro Ishimaru

Compensation Committee	
Chairman	Hikari Imai
Members	Satoyasu Sakashita
	Tomoko Aramaki
	Yuya Shimizu

Ethics Committee	
Chairman	Minoru Koyama
Members	Tadashi Tsutsui
	Hiroyuki Kimura
	Hidetaka Nishina
	Yukako Oshimi

Governance Committee	
Chairman	Hidetaka Nishina
Members	Satoyasu Sakashita
	Tateyuki Oosako
	Tadashi Tsutsui
	Takao Tsuji
	Hikari Imai
	Minoru Koyama

Corporate Value Committee (Continued from last fiscal year)			
Chairman	Satoyasu Sakashita		
Members	Tateyuki Oosako	Tadashi Tsutsui	Mari Morimoto
	Masashi Umetsu	Osamu Mita	Satoshi Yagi
	Minoru Koyama	Tateki Ooishi	Tomoko Aramaki
	Hidetaka Nishina	Takao Tsuji	Hikari Imai
	Yuya Shimizu	Shintaro Ishimaru	Hiroyuki Kimura
	Yukako Oshimi	Hiroshi Hirano	