

Summary of Consolidated Financial Results for the First Quarter of Fiscal Year ending December 31, 2018 (Japanese Accounting Standards)



May 10 2018

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Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): May 11 2018

Scheduled date of dividend payment: –

Supplementary documents for quarterly results: Yes

Quarterly results briefing: Yes (for institutional investors and analysts)

(Figures less than one million yen are omitted)

1. Consolidated Business Results for the Three Months Ended March 31, 2018 (January 1, 2018 – March 31, 2018)

(1) Consolidated operating results (cumulative total) (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended 3/18	49,466	10.3	2,917	28.1	3,024	30.5	1,768	17.8
Three months ended 3/17	44,830	8.6	2,277	0.7	2,318	4.0	1,501	27.3

(Note) Comprehensive income (million yen) Three months ended 3/18: 1,606 (62.4%) Three months ended 3/17: 989 (67.7%)

	Net income per share	Net income per share/diluted
	Yen	Yen
Three months ended 3/18	56.50	56.39
Three months ended 3/17	48.04	48.03

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Three months ended 3/18	195,714	119,240	53.8
Year ended 12/17	174,568	118,411	59.9

Reference: Shareholders' equity (million yen) Three months ended 3/18: 105,312 Year ended 12/17: 104,535

2. Dividends

	Dividend per share				
	End of first quarter	End of interim period	End of third quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended 12/17	–	15.00	–	18.00	33.00
Year ending 12/18	–				
Year ending 12/18 (forecast)		18.00	–	18.00	36.00

(Note) Revisions to dividend forecasts published most recently: No

3. Forecast for Consolidated Business Results for the Fiscal Year Ending December 31, 2018

(Jan. 1, 2018 – Dec. 31, 2018)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Second consolidated quarter (cumulative)	92,500	2.7	4,190	0.1	4,410	0.1	2,560	0.1	81.80
Full year	187,000	3.4	10,000	3.0	10,300	0.4	5,900	1.8	188.53

(Note) Revisions to forecast for consolidated business results published most recently: No

* Notes

- (1) Important changes in subsidiaries during this quarter (changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable
- (2) Application of specific accounting treatment to the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please refer to “2. Consolidated Financial Statements and Key Notes (3) Notes to consolidated financial statements” on page 10 of the accompanying materials.
- (3) Changes in accounting principles and changes or restatement of accounting estimates
- (i) Changes in accounting principles due to amendment of accounting standards, etc.: Not applicable
 - (ii) Changes in accounting principles other than (i): Not applicable
 - (iii) Changes in accounting estimates: Not applicable
 - (iv) Restatement: Not applicable
- (Note) For details, please refer to “2. Consolidated Financial Statements and Key Notes (3) Notes to consolidated financial statements” on page 10 of the accompanying materials.

(4) Number of outstanding shares (common shares)

- 1) Number of shares outstanding at the end of period (including treasury shares):
- 2) Number of treasury shares at the end of period
- 3) Average number of shares during the period (quarterly consolidated cumulative period)

3/18:	33,700,000 shares	Year ended 12/17:	33,700,000 shares
3/18:	2,405,500 shares	Year ended 12/17:	2,405,296 shares
3/18:	31,294,641 shares	3/17:	31,255,100 shares

* Summaries of quarterly consolidated financial results are not subject to a quarterly review by a certified public accountant or an audit corporation.

* Cautionary statement with respect to forward-looking statements

The above forecast has been prepared based on data available on the announcement date. Since the data contains uncertainties, actual results may differ materially from the projections above due to changes in business performance and other factors.

For assumptions concerning financial forecasts, please refer to 1. Qualitative Information on Consolidated Results for the First Quarter Ended March 31, 2018, (3) Information on the future outlook, including forecast for consolidated business results on page 4 of the accompanying materials.

Accompanying Materials – Contents

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1. Qualitative Information on Consolidated Results for the First Quarter Ended March 31, 2018

(1) Details of consolidated results

During the consolidated first quarter under review (from January 1, 2018 to March 31, 2018), the Japanese economy continued to expand, driven by improving corporate earnings and employment and income conditions against the backdrop of recovering overseas economies, mainly in Europe and the United States, despite concerns about the impact of policy trends in major countries on the economy.

In the information services industry, new services and products utilizing advanced technologies such as artificial intelligence (AI), the Internet of Things (IoT) and robotics started to appear one after another in efforts to achieve Society 5.0 (*2) through Connected Industries (*1), a concept advocated by the Japanese government, among other initiatives. Meanwhile, given that the shortage of ICT engineers to respond to the sophistication and diversification of these new technologies and measures to strengthen cyber security to counter increasingly sophisticated and complex cyberattacks have become challenges, demand for ICT services is expected to increase.

In this business environment, the FUJISOFT Group focused on the more active hiring of human resources and training of engineers and developed systems including those for strengthening cooperation with its business partners. In the area of the latest technologies, regarding AIS CRM (*3) as a priority technical field, the Group worked on technical research, product development and the cultivation of professional engineers (Registered Information Security Specialists (RISS) and the Japan Deep Learning Association, JDLA Deep Learning for GENERAL) to create new businesses. The Group also aimed to achieve its medium-term goal of becoming an innovative corporate group that links ICT development to greater value for customers through its efforts to improve productivity and enhance corporate value.

In System Construction, the development of in-vehicle control software continued to perform well in auto-related projects that attract attention with key words such as “automated driving,” “electronic operation” and “connectivity” (*4). In factory automation for machine control systems, development demand continued to be robust, and the development of control software remained strong. The Group also worked actively on the industrial robot SI business, a new growth area. In operation system development, the Group expanded orders on the back of rising needs for system renewal, greater operational efficiency and the promotion of the paperless office in the financial sector against the backdrop of digital transformation and fintech. In addition, system development and in the Internet-related sectors including e-commerce and public offices also remained strong. In the cloud SI business, the Group provided high value-added services utilizing the products of global vendors such as Amazon.com, Inc., Microsoft Corporation and Salesforce.com.

In the Product and Service sector, sales continued to be solid in the license business and CAE solution services (*5) for the MCAE field. The Group also developed activities that would lead to the creation of new value for companies and society by opening new possibilities for the utilization of robots through its efforts to revitalize local communities by using PALRO, a communication robot, jointly with Yokohama City. In addition, as part of its efforts toward advanced technologies, the Group also strived to create new businesses as an AI integrator by exhibiting AI consulting and AI integration services at the AI EXPO – Artificial Intelligence Exhibition & Conference, etc.

The Group also expanded business by establishing Sapporo Office 2 (Sapporo, Hokkaido) and Ryogoku Office (Sumida-ku, Tokyo) and acquiring a planned construction site for a building in Shiodome (Minato-ku, Tokyo) in Japan and establishing a local subsidiary in the distribution and services sectors in Thailand to further expand operations in the rapidly growing ASEAN region.

In the area of corporate social responsibility (CSR) activities, the Group was included in the Health and Productivity Management Organizations announced by the Ministry of Economy, Trade and Industry for the second consecutive year, thanks to the Group's efforts to promote work-life balance for achieving appropriate work styles.

As a result of these initiatives, in the first quarter under review, net sales stood at 49,466 million yen, up 10.3% year on year, thanks to the strong performance of the System Integration business. SG&A expenses came to 8,558 million yen, up 10.6%. Operating income rose 28.1% from a year earlier, to 2,917 million yen. Ordinary income climbed 30.5%, to 3,024 million yen, mainly due to an increase in the share of profit of entities accounted for using the equity method related to a securities-related affiliate. Profit attributable to owners of parent was 1,768 million yen, up 17.8% year on year.

*1: Connected Industries

The industry method for creating new value that will contribute to resolving issues of customers and society by networking various things through IoT, etc.

*2: Society 5.0

A super smart society, the fifth new society using AI and IoT, etc., following “hunting and gathering society, “agrarian society,” “industrial society” and “information society.”

*3: AIS-CRM (A: AI; I: IoT; S: Security; C: Cloud; R: Robot; M: Mobile & AutoMotive)

New technology which the Group positions as a priority technology

*4: Connectivity

Connecting a car with various items via the Internet

*5: CAE (Computer Aided Engineering)

The technology for simulation and analysis of prototypes on computers in research and development processes in manufacturing, which replaces the conventional tests and experiments using actual prototypes.

Results by business segment were as follows:

(i) SI (system integration) business

In the SI business, sales of and income from embedded/control software increased, reflecting brisk sales of auto-related and machine control projects. In operation software, both sales and income increased, thanks to strong sales to the distribution and services sectors and the Internet businesses, etc. In Products and Services, both sales and income increased due to solid sales of other companies' licenses and PCs and related services associated with product sales, etc. In the outsourcing business, while sales declined due to a fall in transactions with the distribution and services sectors, income increased due to the absence of expenses for data center renovations posted in the previous fiscal year.

As a result, net sales stood at 45,568 million yen, up 10.3% year on year. Operating income amounted to 2,502 million yen, up 34.4%.

* The following table shows a breakdown of net sales and operating income in the SI business.

(Million yen)

	Net sales	YoY change (%)	Operating income	YoY change (%)
SI business total	45,568	110.3	2,504	134.6
System construction	27,920	111.9	1,635	131.0
Embedded/control software	14,425	113.9	948	148.7
Operation software	13,495	109.9	686	112.6
Products and services	17,647	107.9	868	141.9
Products and services	13,766	112.9	643	133.3
Outsourcing	3,881	93.3	225	173.9

(Note) Operating income includes the elimination of intersegment transactions of 1,676 thousand yen.

(ii) Facility business

Net sales stood at 749 million yen, up 10.2% year on year, mainly reflecting strong rental income from office buildings owned by the Company and certain consolidated subsidiaries, but operating income declined 2.6% year on year, to 226 million yen.

(iii) Other businesses

Net sales from other businesses amounted to 3,148 million yen, up 10.6% year on year, and operating income grew 1.4%, to 187 million yen, reflecting strong performances in the data entry business and the contact center business.

(2) Details of financial position

(Total assets)

Total assets stood at 195,714 million yen at the end of the consolidated first quarter under review, up 21,146 million yen from the end of the preceding consolidated fiscal year. Current assets were 75,907 million yen (up 3,450 million yen from the end of the previous fiscal year), and non-current assets were 119,806 million yen (up 17,696 million yen).

Important factors in the change of current assets included an increase in notes and accounts receivable-trade by 3,932 million yen from the end of the previous fiscal year, to 44,220 million yen, in association with the increase in net sales.

The main factors for the change in non-current assets included an increase in land by 17,033 million yen from the end of the previous fiscal year, to 47,366 million yen, mainly due to the acquisition of a planned construction site for Shiodome Building associated with business expansion.

(Liabilities)

At the end of the consolidated first quarter under review, total liabilities amounted to 76,474 million yen, up 20,317 million yen from the end of the previous fiscal year. Current liabilities were 59,729 million yen (rising 20,531 million yen from the end of the previous fiscal year), and non-current liabilities were 16,745 million yen (declining 213 million yen).

Primary factors in the change of current liabilities included an increase in notes and accounts payable-trade of 1,961 million yen from the end of the previous fiscal year, to 11,938 million yen, and a rise in short-term loans payable, the current portion of long-term loans payable and commercial papers of 18,177 million yen from the end of the previous fiscal year, to 26,641 million yen.

(Net assets)

Net assets rose 828 million yen from the end of the preceding fiscal year, to 119,240 million yen at the end of the consolidated first quarter under review. As a result, the equity ratio fell to 53.8% from 59.9% at the end of the previous fiscal year.

(3) Information on the future outlook, including forecast for consolidated business results

The first-half and full-year results forecasts remain unchanged from those announced in the financial results for the fiscal year ended December 31, 2017 announced on February 15, 2018.

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheet

	(Thousand yen)	
	FY2017 (As of December 31, 2017)	Q1 FY2018 (As of March 31, 2018)
Assets		
Current assets		
Cash and deposits	18,851,274	18,104,642
Notes and accounts receivable - trade	40,288,285	44,220,286
Short-term investment securities	5,200,000	4,500,000
Merchandise	806,810	1,403,890
Work in process	2,407,425	2,123,560
Raw materials and supplies	33,974	29,914
Other	4,914,386	5,573,729
Allowance for doubtful accounts	-44,242	-48,066
Total current assets	72,457,914	75,907,956
Non-current assets		
Property, plant and equipment		
Buildings and structures	57,774,786	58,278,300
Accumulated depreciation	-26,375,330	-26,656,404
Buildings and structures, net	31,399,455	31,621,895
Land	30,332,356	47,366,232
Construction in progress	344,841	300,982
Other	15,021,663	14,701,915
Accumulated depreciation	-11,878,298	-11,400,864
Other, net	3,143,365	3,301,051
Total property, plant and equipment	65,220,019	82,590,161
Intangible assets		
Goodwill	2,203,635	1,958,132
Software	4,385,862	4,787,053
Other	232,417	226,785
Total intangible assets	6,821,915	6,971,970
Investments and other assets		
Investment securities	20,325,812	20,121,207
Net defined benefit asset	6,279,744	6,431,871
Other	3,472,364	3,700,731
Allowance for doubtful accounts	-9,002	-9,002
Total investments and other assets	30,068,919	30,244,808
Total non-current assets	102,110,854	119,806,940
Total assets	174,568,768	195,714,897

	(Thousand yen)	
	FY2017 (As of December 31, 2017)	Q1 FY2018 (As of March 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,977,104	11,938,299
Short-term loans payable	4,326,574	17,698,271
Commercial paper	1,500,000	8,500,000
Current portion of long-term loans payable	2,638,280	443,600
Accrued expenses	3,836,148	3,673,135
Income taxes payable	2,102,993	1,743,136
Provision for bonuses	3,914,985	6,323,583
Provision for directors' bonuses	188,431	212,637
Provision for loss on construction contracts	173,069	194,800
Other	10,540,209	9,001,864
Total current liabilities	39,197,796	59,729,328
Non-current liabilities		
Long-term loans payable	4,182,408	4,069,632
Deferred tax liabilities	4,332,340	4,284,770
Provision for directors' retirement benefits	453,343	442,275
Net defined benefit liability	5,838,871	5,815,096
Other	2,152,128	2,133,471
Total non-current liabilities	16,959,091	16,745,246
Total liabilities	56,156,888	76,474,575
Net assets		
Shareholders' equity		
Capital stock	26,200,289	26,200,289
Capital surplus	28,941,843	28,940,023
Retained earnings	56,035,115	57,239,841
Treasury shares	-4,863,528	-4,864,315
Total shareholders' equity	106,313,720	107,515,839
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,172,724	5,850,429
Revaluation reserve for land	-8,228,200	-8,228,200
Foreign currency translation adjustment	194,526	69,934
Remeasurements of defined benefit plans	82,613	104,029
Total accumulated other comprehensive income	-1,778,336	-2,203,806
Subscription rights to shares	53,397	64,585

(Thousand yen)

	FY2017 (As of December 31, 2017)	Q1 FY2018 (As of March 31, 2018)
Non-controlling interests	13,823,098	13,863,704
Total net assets	118,411,880	119,240,322
Total liabilities and net assets	174,568,768	195,714,897

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

Consolidated first quarter results

(Thousand yen)

	Q1 FY2017 (From January 1, 2017 to March 31, 2017)	Q1 FY2018 (From January 1, 2018 to March 31, 2018)
Net sales	44,830,461	49,466,648
Cost of sales	34,816,465	37,990,124
Gross profit	10,013,996	11,476,523
Selling, general and administrative expenses	7,736,638	8,558,763
Operating income	2,277,358	2,917,760
Non-operating income		
Interest income	5,916	7,407
Dividends income	7,000	—
Share of profit of entities accounted for using equity method	81,582	142,141
Subsidy income	40,319	45,405
Other	29,029	62,262
Total non-operating income	163,847	257,217
Non-operating expenses		
Interest expenses	29,441	14,178
Foreign exchange losses	50,274	120,465
Loss on retirement of non-current assets	33,328	11,367
Other	10,018	4,835
Total non-operating expenses	123,061	150,846
Ordinary income	2,318,144	3,024,130
Extraordinary income		
Gain on sales of investment securities	296,008	—
Total extraordinary income	296,008	—
Extraordinary loss		
Impairment loss	11,419	18,343
Office transfer expenses	101,395	—
Total extraordinary loss	112,815	18,343
Income before income taxes	2,501,336	3,005,786
Income taxes-current	1,188,247	1,430,011
Income taxes-deferred	-414,743	-553,368
Total income taxes	773,503	876,643
Net income	1,727,832	2,129,142
Profit attributable to non-controlling interests	226,378	361,097
Profit attributable to owners of parent	1,501,454	1,768,045

Consolidated statements of comprehensive income
 Consolidated first quarter results

	(Thousand yen)	
	Q1 FY2017 (From January 1, 2017 to March 31, 2017)	Q1 FY2018 (From January 1, 2018 to March 31, 2018)
Net income	1,727,832	2,129,142
Other comprehensive income		
Valuation difference on available-for-sale securities	-465,138	-280,405
Foreign currency translation adjustment	-22,413	-225,632
Remeasurements of defined benefit plans, net of tax	-294,664	-8,004
Share of other comprehensive income of entities accounted for using equity method	43,694	-8,781
Total other comprehensive income	-738,522	-522,823
Comprehensive income	989,310	1,606,319
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	911,432	1,342,812
Comprehensive income attributable to minority interests	77,877	263,506

(3) Notes to consolidated financial statements

(Note on going concern assumptions)

Not applicable.

(Note when there is a considerable change in the amount of shareholders' equity)

Not applicable.

(Important changes in subsidiaries during this quarter)

Not applicable.

(Application of specific accounting treatment to the preparation of quarterly consolidated financial statements)

(Calculation of tax expense)

Certain consolidated subsidiaries make a reasonable estimate of the effective tax rate after the application of tax effect accounting to income before income taxes for the current fiscal year and multiply quarterly income before income taxes by the estimated effective tax rate.

(Changes in accounting principles and changes or restatement of accounting estimates)

Not applicable.

(Segment information)

[Segment information]

I. Q1 FY2017 (From January 1, 2017 to March 31, 2017)

1. Information on Sales and Profit and Loss by Reported Segment

(Thousand yen)

	Reported segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount on first-quarter consolidated statement of income (Note 3)
	SI business	Facility business	Total				
Net sales							
Sales to outside customers	41,302,505	680,401	41,982,906	2,847,554	44,830,461	—	44,830,461
Inter-segment sales or transfers	28,456	161,819	190,276	209,225	399,501	-399,501	—
Total	41,330,962	842,221	42,173,183	3,056,780	45,229,963	-399,501	44,830,461
Segment profit	1,861,412	232,008	2,093,421	184,870	2,278,291	-933	2,277,358

Notes:

1. "Others" is a business segment that is not included in the reported segments and includes the data entry business, contact center business, and tissue engineering business, etc.
2. An adjustment of segment profit of -933 thousand yen includes an elimination of inter-segment transactions of -933 thousand yen.
3. The segment profit has been adjusted to the operating income stated in the consolidated income statement.

2. Information on Impairment Loss in Non-current Assets and Goodwill by Reported Segment

The presentation of information has been omitted due to its lack of material significance.

II. Q1 FY2018 (From January 1, 2018 to March 31, 2018)

1. Information on Sales and Profit and Loss by Reported Segment

(Thousand yen)

	Reported segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount on first-quarter consolidated statement of income (Note 3)
	SI business	Facility business	Total				
Net sales							
Sales to outside customers	45,568,482	749,775	46,318,258	3,148,390	49,466,648	—	49,466,648
Inter-segment sales or transfers	38,776	170,039	208,815	197,572	406,388	-406,388	—
Total	45,607,258	919,815	46,527,073	3,345,963	49,873,037	-406,388	49,466,648
Segment profit	2,502,484	226,050	2,728,534	187,548	2,916,083	1,676	2,917,760

Notes:

1. “Others” is a business segment that is not included in the reported segments and includes the data entry business, contact center business, and tissue engineering business, etc.
2. An adjustment of segment profit of 1,676 thousand yen includes an elimination of inter-segment transactions of 1,676 thousand yen.
3. The segment profit has been adjusted to the operating income stated in the consolidated income statement.

2. Information on Impairment Loss in Non-current Assets and Goodwill by Reported Segment

The presentation of information has been omitted due to its lack of material significance.