



## **FUJI SOFT INCORPORATED**

Financial Results Briefing for the Fiscal Year Ending December 2018

February 14, 2019

## Event Summary

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<b>[Event Name]</b>	Financial Results Briefing for the Fiscal Year Ending December 2018	
<b>[Fiscal Period]</b>	FY2018 Annual	
<b>[Date]</b>	February 14, 2019	
<b>[Time]</b>	16:30 – 17:24 (Total: 54 minutes, Presentation: 30 minutes, Q&A: 24 minutes)	
<b>[Venue]</b>	Fuji Soft Akihabara Building 5F, 3 Kanda Neribeicho, Chiyoda-ku, Tokyo, 101-0022	
<b>[Participants]</b>	64	
<b>[Number of Speakers]</b>	4	
	Satoyasu Sakashita	President & Representative Director
	Yoshinobu Takebayashi	Director & Senior Executive Operating Officer
	Masaki Shibuya	Director & Senior Executive Operating Officer
	Tatsuya Naito	Operating Officer



## 1. Consolidated Financial Highlights-1 (Full-Year Results)

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

◇ Net sales rose 13.0% year on year, to 204,329 million yen, reflecting a strong performance in a wide range of fields, especially in products and services centered on license sales, machine control systems including automotive and factory automation, and operation system development for the financial sector and internet-related business.

### Operating income rose due to the rise in sales

◇ Operating income rose 17.4% year on year, to 11,400 million yen, reflecting the rise in sales.  
 ◇ Ordinary income increased 17.7% year on year, to 12,071 million yen, mainly due to the rise in operating income and foreign exchange gains.  
 ◇ Profit attributable to owners of parent stood at 6,516 million yen, up 12.4% year on year.

	FY2017 Results	FY2018 Results	YoY change (Amount)	YoY change (%)	FY2018 Plan	(Million yen) Comparison with the plan
<b>Net sales</b>	180,773	204,329	+23,555	113.0%	187,000	109.3%
<b>Operating income</b>	9,708	11,400	+1,692	117.4%	10,000	114.0%
Operating income margin	5.4%	5.6%			5.3%	
<b>Ordinary income</b>	10,260	12,071	+1,811	117.7%	10,300	117.2%
Ordinary income margin	5.7%	5.9%			5.5%	
<b>Profit attributable to owners of parent</b>	5,797	6,516	+718	112.4%	5,900	110.4%
Profit margin attributable to owners of parent	3.2%	3.2%			3.2%	

First of all, the current financial results are as shown here at more than 204.3 billion yen. Operating income was 11.4 billion, ordinary income was 12.0 billion, and net income was 6.5 billion. As noted here, sales grew to 113% for product services centered on licensing sales, and for machinery control, such as automobiles and factory automation, which are our core businesses, as well as for finance and the Internet.

Operating income, ordinary income, and profit attributable to the owners of the parent company are as shown here, 117.4% and 117.7%, respectively, compared to the previous year.



## 1. Consolidated Financial Highlights-2 (Q4 (Oct-Dec) Results)

Net sales increased 12.1% year on year.

The cost of sales margin rose to 77.0%.

◇ The cost of sales margin rose to 77.0%, mainly due to investments to improve quality and a fall in sales of products of certain group companies with which the Company had conducted transactions in the same period of the previous fiscal year in products and services, while the cost of sales margin in contract and development remained at the year-ago level (a year ago: 75.9%).

SG&A expenses increased 962 million yen year on year.

◇ SG&A expenses increased 962 million yen year on year, to 9,111 million yen, due to investments in the workforce for a systematic increase and upfront investments such as the acquisition of mobile devices to improve productivity and promote work style reforms.

◇ Operating income declined 6.3% year on year due to the above.

	FY2018 3Q results	YoY change (Amount)	YoY change (%)	FY2018 Q4 results	YoY change (Amount)	YoY change (%)
<b>Net sales</b>	152,783	+17,973	113.3%	51,545	+5,581	112.1%
<b>Cost of sales</b>	117,114	+13,298	112.8%	39,694	+4,802	113.8%
Cost of sales margin	76.7%			77.0%		
<b>Gross profit</b>	35,669	+4,674	115.1%	11,851	+779	107.0%
<b>SG&amp;A expenses</b>	27,008	+2,799	111.6%	9,111	+962	111.8%
<b>Operating income</b>	8,660	+1,875	127.6%	2,740	-182	93.7%
Operating income margin	5.7%			5.3%		

I would like to talk a little about the third and fourth quarters, and these are the actual results for the fourth quarter. The sales figure is 112, but gross profit is 107 and SG&A expenses are 111. Operating income was slightly negative compared with the previous year. There are people here who probably felt it would be a little higher, but as it's written here, we're generating enough revenue from ordinary consigned development. We've made some investments in some of the products and services that will come out later, and we've improved their quality and will be launching them. But the cost-of-sales ratio of part of that is slightly worsening.

In addition, SG&A expenses and general and administrative expenses are increasing. Not only in this current fiscal year, but also the next fiscal year, we are looking to reform our work styles and promote improvements. In this way, we are making moves to have all of our employees have some kind of mobile device. SG&A expenses increased slightly due to the acquisition of equipment. As a result, operating profit was slightly negative compared to the previous year. All of these are temporary, and we have been making investments with an eye to the future.

## 2. Sales/Operating Income by Major Companies of the Group

(Million yen)

	FY2018	Net sales	Operating income	
FUJI SOFT INCORPORATED	Results	130,646	7,071	Sales rose, reflecting the strong performance of the System Integration business overall, especially products and services, auto-related system construction, machine control systems including factory automation, and sales to internet-related business and the financial sector. Operating income rose significantly, reflecting higher sales and an improvement in the cost rate, despite active upfront investment in the workforce for a systematic increase and the establishment of bases.
	YoY change (amount)	+18,274	+1,268	
	YoY change (%)	116.3%	121.9%	
CYBERNET SYSTEMS Co., Ltd.	Results	19,719	1,502	Strong sales were recorded in the mainstay MCAE field and the optical design field in Japan. Moreover, IT solutions and model-based development engineering services also resulted in strong sales. Overseas sales increased thanks to the solid performance of sales subsidiaries in Taiwan and Korea. Operating income remained flat, mainly due to the rising cost ratio and an increase in expenses. (A loss attributable to owners of parent was recorded due to the impairment loss of goodwill and other extraordinary losses.)
	YoY change (amount)	+1,731	-2	
	YoY change (%)	109.6%	99.8%	
VINX CORP.	Results	25,624	1,327	Sales declined, due mainly to the effects of the prolonged period from orders to the posting of sales associated with the shift to the stock-type business (service business). Operating income increased due to the success of measures to reduce expenses.
	YoY change (amount)	-1,057	+179	
	YoY change (%)	96.0%	115.6%	
CYBER COM Co., Ltd.	Results	12,072	608	Sales increased thanks to the strong performance of control software for in-vehicle systems and semiconductor manufacturing equipment and operation software for life insurance systems in software development. Operating income rose thanks to a decrease in the costs that arose in the previous fiscal year for relocating the headquarters, in addition to increased sales and improved costs due to higher productivity.
	YoY change (amount)	+1,286	+110	
	YoY change (%)	111.9%	122.1%	
FUJI SOFT SERVICE BUREAU INCORPORATED	Results	11,075	588	Net sales increased as sales remained firm in projects for public offices and local governments in the call center services and BPO services fields, while also rising in projects for private corporations. Operating income rose as an increase in SG&A expenses partly due to the expansion of bases and infrastructure construction was absorbed mainly by higher sales and cost reduction.
	YoY change (amount)	+1,344	+234	[Revision of financial results due to incorrect charging] As announced in the "Notice of Receipt of a Research Report from the Internal Investigation Committee," etc., the Company revised financial results in prior years associated with the discovery of incorrect charging. With regard to consolidated financial results, the Company did not make revisions to those in prior years, taking into account the monetary and qualitative significance, and has incorporated it into the financial results for the fiscal year under review.
	YoY change (%)	113.8%	166.1%	

\* Because each company's accounts closing date differs, results from January to December, 2018 are stated in the FY2018 results column.

This is regarding the sales and operating income of each group company. As for the main body, I will repeat the previous explanation, but the automobiles, factory automation, the Internet, and the financial business are performing very well. Because we have been making substantial investments in human resources to strengthen our operating systems, we were able to achieve a significant increase in operating income.

Naturally, even if we included the enhancement of the quality of our products in this section, they would also be quite positive. Cybernet's mainstay MCAE and optical designs businesses performed well in Japan, as described here. The IT solutions business is also performing well. Overseas sales also seem to be somewhat different in terms of position, but strong performance in Taiwan and South Korea resulted in higher sales.

Operating income is unchanged. The next is net income. This is due to the impact of the depreciation in goodwill announced in the previous fiscal year, which is negative.

Vinks. This is the transition to a subscription-based business, which I have been saying right the way through, but as it takes a little time, sales have declined. Operating income increased due to various innovations.

Cybercom is performing very well. Here too, sales of automotive and semiconductors are trending favorably. Operating income also increased, including cost reductions.

Regarding FUJISOFT SERVICE BUREAU, sales of call centers and BPO to government agencies remained strong. Capital investment is increasing in various ways, also incorporating operating income. Recently it has been reported on the news, but we have today announced that we will correct the financial results for the past fiscal year due to an error in billing. Consolidation is not for the previous year, and all of these four quarters include figures for misbilling. In fact, this is one of the causes of the slight decline in operating income, but I

don't think this is one of the causes that can be regarded as a direct cause. Figures for Bureau include corrections to these figures.

This is a major listed subsidiary.

### 3. Consolidated Sales/Operating Income by Segment

	(Million yen)							
	FY2018 Results	Netsales Component ratio	YoY change (Amount)	YoY change (%)	FY2018 Results	Operating income margin	YoY change (Amount)	YoY change (%)
<b>Consolidated total</b>	<b>204,329</b>	100.0%	+23,555	113.0%	<b>11,400</b>	5.6%	+1,692	117.4%
<b>SI Business</b>	<b>189,277</b>	92.6%	+21,900	113.1%	<b>9,696</b>	5.1%	+1,647	120.5%
<b>System Construction</b>	<b>115,351</b>	56.5%	+13,734	113.5%	<b>6,971</b>	6.0%	+1,554	128.7%
Embedded/Control Software	59,622	29.2%	+6,557	112.4%	4,242	7.1%	+992	130.5%
Operation Software	55,729	27.3%	+7,177	114.8%	2,729	4.9%	+562	125.9%
<b>Products and Services</b>	<b>73,925</b>	36.2%	+8,165	112.4%	<b>2,725</b>	3.7%	+93	103.5%
Products and Services	58,883	28.8%	+8,167	116.1%	1,703	2.9%	-242	87.6%
Outsourcing	15,041	7.4%	-1	100.0%	1,021	6.8%	+335	148.8%
<b>Facility Business</b>	<b>2,909</b>	1.4%	+212	107.9%	<b>1,131</b>	38.9%	+19	101.7%
<b>Other Businesses</b>	<b>12,142</b>	5.9%	+1,442	113.5%	<b>572</b>	4.7%	+25	104.7%

#### Highlights of Sales by Segment

##### ● Embedded/Control Software

Sales increased 12.4% year on year, mainly due to the continued strength in the performance of auto-related and machine control system construction. Operating income increased 30.5% year on year due to higher sales and the improved cost of sales.

##### ● Operation Software

Sales increased 14.8% year on year thanks to solid sales overall, mainly to internet-related business and the financial sector. Operating income rose 25.9% year on year due to higher sales

##### ● Products and Services

Sales increased 16.1% year on year due to the strong performance overall, particularly that of license sales. Operating income declined 12.4% year on year due to investments to improve quality and a fall in sales of profitable products of some group subsidiaries.

##### ● Outsourcing

Sales remained the same as a year ago, reflecting a fall in projects for the distribution and service sectors, despite data center projects for public offices and local governments. Operating income rose 48.8% year on year due to a decline in renovation expenses of data centers.

If we look at the segment sales and operating income. As you can see, it's almost double digits. In terms of profits, these products and services have been negatively impacted by the aforementioned factors. What is written here is repeated, but sales and inclusion and control are also control of automobiles and machines. These have been performing very well. The same applies to the business system. The Internet and finance are the main pillars of this growth. Product services are growing very rapidly, but are there investments to strengthen quality, etc., as you mentioned earlier, and some highly profitable group companies, such as Cybernet? Last year, Cybernet was selling profitable merchandise in the fourth quarter, a slight year-on-year difference.

I'm sorry, but I forgot to tell you about quality enhancement. I've prepared a slide for a little later, so I'll give you another explanation there.

Outsourcing services for the government and other public offices are receiving considerable outsourcing orders. However, the distribution services business is not performing any more positively, so it is basically unchanged from the previous fiscal year. Profits have increased significantly from the previous year due to capital investment, so this is the current condition.

## 4. Consolidated Income Statement

(Million yen)

	FY2017 Results	FY2018 Results	YoY change (Amount)	YoY change (%)	FY2018 Plan	Comparison with the plan
<b>Net sales</b>	180,773	204,329	+23,555	113.0%	187,000	109.3%
<b>Cost of sales</b>	138,708	156,808	+18,100	113.0%	—	—
Cost of sales margin	76.7%	76.7%				
<b>Gross profit</b>	42,065	47,520	+5,454	113.0%	—	—
Gross profit margin	23.3%	23.3%				
<b>SG&amp;A expenses</b>	32,357	36,119	+3,762 (1)	111.6%	—	—
SG&A expense ratio	17.9%	17.7%				
<b>Operating income</b>	9,708	11,400	+1,692	117.4%	10,000	114.0%
Operating income margin	5.4%	5.6%			5.3%	
<b>Non-operating income</b>	548	637	+88	116.2%	—	—
<b>Non-operating expenses</b>	243	224	-18	92.3%	—	—
Share of (profit) loss of entities accounted for using equity method	246	258	+11	104.8%	—	—
<b>Ordinary income</b>	10,260	12,071	+1,811	117.7%	10,300	117.2%
Ordinary income margin	5.7%	5.9%			5.5%	
<b>Extraordinary income</b>	685	1,129 (2)	+443	164.7%	—	—
<b>Extraordinary losses</b>	921	2,363 (2)	+1,441	256.4%	—	—
Income before income taxes	10,023	10,837	+813	108.1%	—	—
Total income taxes	3,066	3,732	+666	121.7%	—	—
Net income	6,957	7,104	+146	102.1%	—	—
Profit attributable to non-controlling interests	1,160	588	-571	50.7%	—	—
Profit attributable to owners of parent	5,797	6,516	+718	112.4%	5,900	110.4%
Profit margin attributable to owners of parent	3.2%	3.2%			3.2%	

### Points of Income Statement

#### (1) SG&A expenses (+3,762 million yen)

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

#### (2) Extraordinary income (+1,129 million yen)

#### Extraordinary losses (+2,363 million yen)

Extraordinary income represents the gain on sales of investment securities and the proceeds of business transfer.

Extraordinary losses are the impairment loss of goodwill due to the review of the business and other losses.

The Income Statement. I don't think I need to explain this too much. As for selling, general and administrative expenses, we are still using the necessary funds, and there are various extraordinary gains and extraordinary losses. However, a major factor is the impairment of goodwill as a result of the review of this business at a group company, and we are also selling investment securities, which is positive and negative.

## 5. Consolidated Balance Sheet

	End of FY2017	End of FY2018	Change (Amount)	Points of the Balance Sheet
<b>Current assets</b>	72,437	79,977	+7,519 (1)	
Cash and deposits	18,851	22,554	+3,702	
Notes and accounts receivable	40,288	44,456	+4,167	
- trade				
Securities	5,200	4,000	-1,200	
Inventories	3,248	3,354	+106	
Deferred tax assets	2,435	2,662	+226	
Other	2,434	2,950	+516	
<b>Non-current assets</b>	102,110	114,302	+12,191 (2)	
Property, plant and equipment	65,220	82,356	+17,136	
Intangible assets	6,821	4,738	-2,082	
Investments and other assets	30,068	27,206	-2,862	
<b>Total assets</b>	174,568	194,279	+19,710	
<b>Current liabilities</b>	39,197	49,428	+10,230 (3)	
Accounts and notes payable - trade	9,977	9,526	-450	
Short-term loans payable	6,964	16,207	+9,242	
Commercial papers	1,500	0	-1,500	
Accrued expenses / provision for bonus	7,751	9,155	+1,403	
Income taxes payable	2,102	2,492	+389	
Provision for loss on construction contracts	173	252	+79	
Other	10,728	11,793	+1,064	
<b>Non-current liabilities</b>	16,959	25,180	+8,221	
Long-term loans payable	4,182	13,319	+9,137	
Other	12,776	11,860	-915	
<b>Total liabilities</b>	56,156	74,608	+18,451	
<b>Total net assets</b>	118,411	119,670	+1,259	
<b>Total liabilities and net assets</b>	174,568	194,279	+19,710	

The Balance Sheets. There are not so many things to explain. The current situation with assets is as written. Fixed assets, here the office space, and the organizational structure, will be considerably strengthened in the future, so it will still require considerable work space in the future. We are investing in this area to secure properties, and even if we lease various items, we still incur expenses from that. Will this enter into sales management? The company plans to use fixed assets in the future. In terms of current liabilities and fixed liabilities, we also borrowed funds for the acquisition of properties in this area.



## 6. Consolidated Cash Flow Statement

	FY2017 Results	FY2018 Results	(Million yen) YoY change (Amount)
<b>Cash flows from operating activities</b>	9,244	11,192	+1,947
<b>Cash flows from investing activities</b>	-4,524	-23,424	-18,900
<b>Cash flows from financing activities</b>	-4,462	14,766	+19,229
Effect of exchange rate change on cash and cash equivalents	49	-103	
Net increase (decrease) in cash and cash equivalents	306	2,430	
Increase in cash and cash equivalents resulting from merger	59	-	
Cash and cash equivalents at beginning of period	21,790	22,157	
<b>Cash and cash equivalents at end of period</b>	<b>22,157</b>	<b>24,587</b>	

### Highlights of Cash Flows

#### ● Cash flows from operating activities

Net cash provided by operating activities stood at 11,192 million yen, with a year-on-year increase of 1,947 million yen due to an increase in money received, attributable to higher sales.

#### ● Cash flows from investing activities

Net cash used in investing activities came to 23,424 million yen, mainly due to the purchase of land and buildings to secure office space to strengthen systems and an increase in expenses for software.

#### ● Cash flows from financing activities

Net cash provided by financing activities was 14,766 million yen, reflecting an increase in loans payable.

Consolidated cash flows. As I have said, operating activities are 11.1 billion yen, which is a considerable increase from the previous year. As for investment activities, as I mentioned earlier, we have bought a few things, which is 23.4 billion yen down. As for financing activities, we have borrowed 14.7 billion yen of cash in hand.

## 7. Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	Order backlog at beginning of term	YoY change (%)	FY2018 results				Order backlog at end of term	YoY change (%)
			Orders	YoY change (%)	Net sales	YoY change (%)		
<b>SI Business Total</b>	40,094	114.6%	<b>193,810</b>	112.4%	<b>189,277</b>	113.1%	<b>44,627</b>	111.3%
<b>System Construction</b>	27,450	115.3%	<b>119,231</b>	113.3%	<b>115,351</b>	113.5%	<b>31,330</b>	114.1%
Embedded Control Software	11,436	114.6%	<b>60,945</b>	111.8%	<b>59,622</b>	112.4%	<b>12,759</b>	111.6%
Operation Software	16,014	115.9%	<b>58,285</b>	114.9%	<b>55,729</b>	114.8%	<b>18,570</b>	116.0%
<b>Products and Services</b>	12,644	113.2%	<b>74,578</b>	110.9%	<b>73,925</b>	112.4%	<b>13,297</b>	105.2%
Products and Services	9,718	119.0%	<b>59,960</b>	114.7%	<b>58,883</b>	116.1%	<b>10,795</b>	111.1%
Outsourcing	2,926	97.4%	<b>14,617</b>	97.7%	<b>15,041</b>	100.0%	<b>2,501</b>	85.5%

### Highlights of Orders and Order Backlogs

#### ● Highlights in System Construction

##### - Embedded/Control Software

The order backlog at the end of the term increased 11.6% year on year due to strong orders from the auto-related and FA-related sectors.

##### - Operation Software

The order backlog at the end of the term increased 16.0% year on year thanks to solid orders overall, mainly from the financial sector including non-life insurance, the manufacturing sector and internet-related business.

#### ● Highlights in Products and Services

##### - Products and Services

Orders for license sales, mobile device products and POS products for the distribution sector remained solid, despite upfront investment to improve the quality of certain FUJI SOFT products. As a result, the order backlog at the end of the term increased 11.1% year on year.

##### - Outsourcing

The order backlog at the end of the term declined 14.5% year on year, mainly due to a decrease in orders from the distribution and services sectors and a drop in the number of ongoing projects.

Orders received and backlog in the SI business, both at the start of the period and during the period, exceeded double-digit figures, as can be seen from the figures. Outsourcing fell below the level of the previous year under the aforementioned circumstances, but there is a double-digit growth rate across the board.

Sales are naturally increasing along with this trend, and the order backlog in relation to orders received and sales is now in this condition. I will these contents because they are almost the same as the explanation which I have given.



## 8. Dividend

The year-end dividend for FY2018 will be increased to 19 yen per share, which will result in an increase in the annual dividend to 37 yen per share.

The forecast year-end dividend was 18 yen per share. In comprehensive consideration of the full-year results, the year-end dividend will be increased to 19 yen per share.

### ■ Trends in dividend (consolidated)

	End of interim period	Most recent prospective dividend	Determined amount of year-end dividend	Annual dividend	(Yen)
<b>Dividend per share (FY2018)</b>	18.00	18.00	<b>19.00</b>	<b>37.00</b>	

With regard to dividends, there was an increase of 1 yen in the dividend because of an increase in profit or a greater-than-expected profit for the year.

These are the actual results for fiscal 2018. I will now talk about our management policy in fiscal 19 and beyond, and in fiscal 18 and 19.



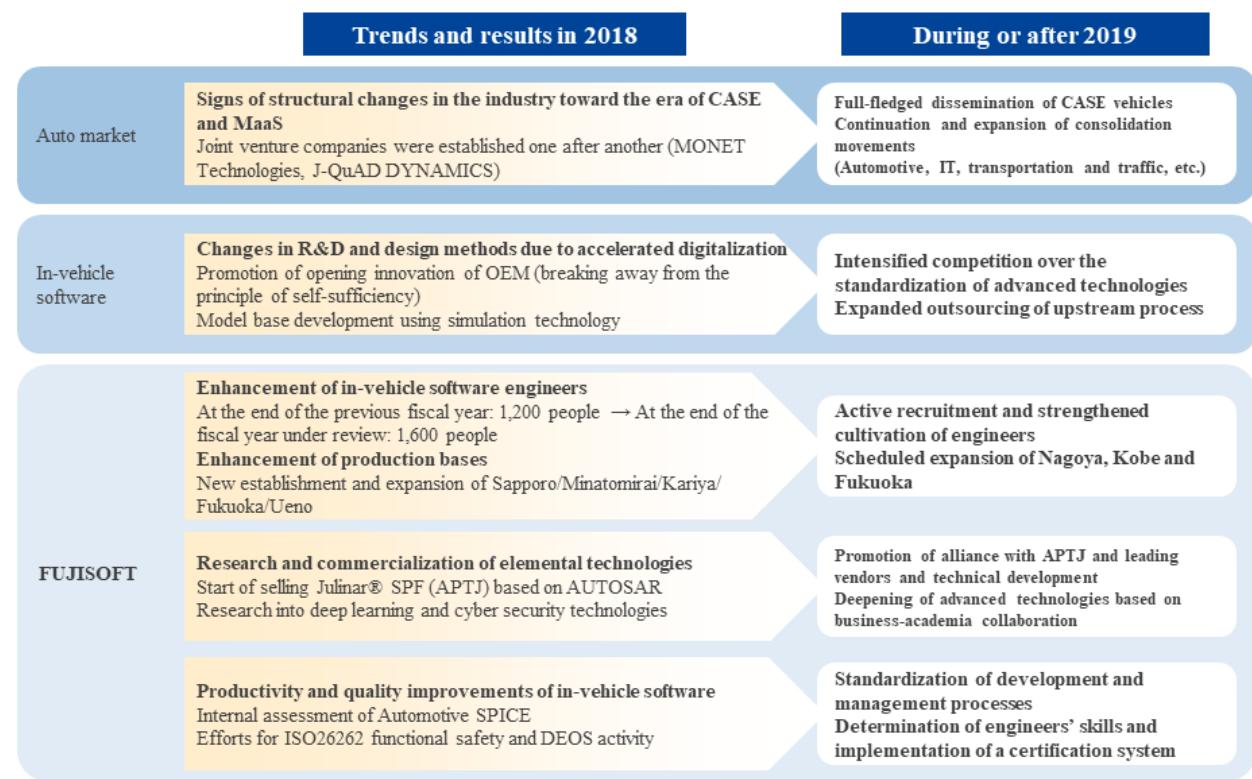
## 1. Accomplishments of Efforts in FY2018

Management points	Results and accomplishments in FY2018	
■ Bold efforts for new technologies: AIS-CRM	Strong growth continued in the automotive field. In addition, because interest in the use of new technologies such as AI and IoT was growing in a wide range of fields including embedded software and operation software, a proof of concept became an actual project.	P.13 to 15
■ Promotion of the high value-added system integration business	The cost rate margin improved due to orders received for high value-added projects and efforts to improve productivity.	P.18
■ Strengthening of human resources and steady growth of the commissioned development business	Production power was enhanced due to active recruitment activities and the expansion of collaboration with partners. The cultivation of young employees and strengthened recruitment activities continued.	P.16 and 17
■ Aggressive promotion of the product business	Sales increased significantly in all of product sales, FUJI SOFT products and licenses of other companies. The quality of FUJI SOFT products expected to see growth in the future was improved.	P.19 to 21
■ Growth as the overall Group and aggressive global development	Most group companies achieved higher sales and profits.	

I have used this slide several times. One of the key things we are doing is addressing the new technological areas we call AIS-CRM. Further, in the entrusted field, the Company is shifting to areas with high added value while strengthening human resources, which is extremely important as a basis. In addition, we are actively promoting this initiative with a focus on the product business, the Group, and the global arena. Let me explain the points in this section.



## 2. Automotive



In the automotive field, which you are very interested in, there was the subject of CASE • MaaS in fiscal 2018. There are companies that are coming together, such as SoftBank's joint venture with Toyota, new joint ventures such as J-QuAD DYNAMICS, and parts manufacturers.

In the case of in-vehicle software and digitization, open innovation and simulation technology are also very important. As this area continues to progress, the number of engineers is now increasing from about 1,200 to 1,600. These are approximate numbers, though. To the increase. As a result, the company was able to attract personnel involved in the development of automobiles from all of its bases in Japan, and it has opened bases in a wide range of locations and expanded them.

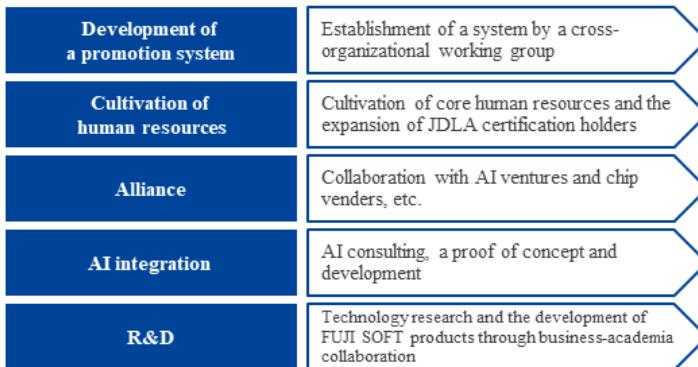
This is a company we have invested in, a company that was jointly created with Mr. Takada from APTI based in Nagoya University, complying with AUTOSAR in terms of the study of elemental technologies. We have started sales of Julinar that complies with AUTOSAR.

In addition, we are also actively addressing fields such as autonomous driving and EVs, as well as areas such as deep learning and cybersecurity technology.

Of course, we want to improve the productivity of software, including changes and improvements in the quality. In addition, we can train in-house assessors for the AutomotiveSPICE procedures and development methods. In addition, ISO26262 is the standard for automotive safety and electric appliances. We are also putting considerable effort into the development of DEOS, a development process.

### 3. AI

#### Creation and expansion of AI business



#### Toward the expansion of AI integration services

- Response to the change and expansion of demand from PoC projects to the practical phase
- Provision of services in phases from consulting to maintenance and operation at one stop
- Provision of the Company's own solutions

#### Examples of AI integration (fault detection & diagnosis system of air-conditioning systems)

Provide AI integration services that cover introduction consulting to maintenance and operation support of a fault detection & diagnosis (FDD) system using the platform and AI (machine learning) of Microsoft Japan Co., Ltd. for the air-conditioning equipment maintenance service of Johnson Controls, K.K.



\*1 BEMS: Building energy management system, BAS: Building automation system  
 \*2 BAS and BAMS products and services provided by Johnson Controls (In a Japan-first, realized BAS and BAMS functions based on general-purpose PC)  
 \* Company HP "Introduction example (Johnson Controls, K.K.)" [https://www.fsi.co.jp/cases/talk\\_johnsoncontrols.html](https://www.fsi.co.jp/cases/talk_johnsoncontrols.html)

I have been mentioning AIS-CRM, so I'll talk about this for a moment. We're putting great effort into AI, and trying to cultivate engineers. There are a lot of AI-related cases in the company, which are now coming from our customers. By ensuring that our technical team is able to properly respond to them, we will be able to produce human resources which can respond to AI while communicating information and coordinating information.

We have formed alliances with venture companies and chip vendors, and we are putting great effort into everything from consulting to upstream and implementation. It's hard to say exactly because we can't give out an example of our customers. However, we have decided to disclose Johnson Controls because the customer admitted us to disclose the deal.

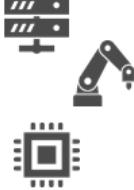
One example of AI integration was that Johnson Controls detected a problem in the air-conditioning system, so they applied machine learning using Microsoft's Azure platform, and made developments in detecting problems in the air-conditioning system.

We have been working hard to discover the roof attic or air conditioning equipment. We have been very pleased with the possibility of a considerable reduction in the number of workers involved in this detection system, and we are now seeing a lot of such projects being created.



## 4. IoT

Business enhancement in the IoT field by utilizing the strengths of the Company

Technology components of the Company		Topics in 2018
<b>[Cloud field]</b> 	<ul style="list-style-type: none"> <li>■ Track record of SI in cooperation with cloud vendors such as Microsoft and Amazon</li> <li>■ Data analysis know-how cultivated in operation software development including the use of AI</li> </ul>	<ul style="list-style-type: none"> <li>■ Acquired “<a href="#">AWS IoT Service Delivery</a>” as a phase 1 partner because the results of IoT-related development of the Company were valued. (Of 12 global companies, three Japanese companies)</li> </ul>
<b>[Telecommunication field]</b> 	<ul style="list-style-type: none"> <li>■ Development capabilities responsive to a wide range of telecommunication methods, from backend to LPWA and 5G etc.</li> </ul>	<ul style="list-style-type: none"> <li>■ Concluded an agency agreement with Litmus Automation, a manufacturing <a href="#">IoT platform provider</a>, as Japan’s first SI partner.</li> </ul>
<b>[Edge/Fog]</b> 	<ul style="list-style-type: none"> <li>■ Advanced technologies for latest chips essential for edge/fog computing (FPGA server, GPU server)</li> <li>■ Ability to propose solutions that will realize sophisticated decentralized data processing by collecting data on edge devices used in the manufacturing and other sectors.</li> <li>■ An extensive development track record in mobile devices such as smartphones and tablets</li> </ul>	<p><b>IoT fog computing gateway</b></p> <p>Realized edge/fog computing with an embedded device using high-performance FPGA.</p> 

IoT is also a very difficult topic to talk about due to the confidentiality for our customers, but we have a considerable number of technical staffs, partly because the AI "Edge/Fog" has a lot of embedded control, and also because we have a lot of support in the development field in the manufacturing industry. This high-performance FPGA server, such as the IoT fog computing gateway, has been introduced as a product of this kind that implements edge/fog computing.

Communication technologies, including LPWA, are truly technologies that have been developed in mobile phones and smartphones since the old days, although 5G will emerge in the future.

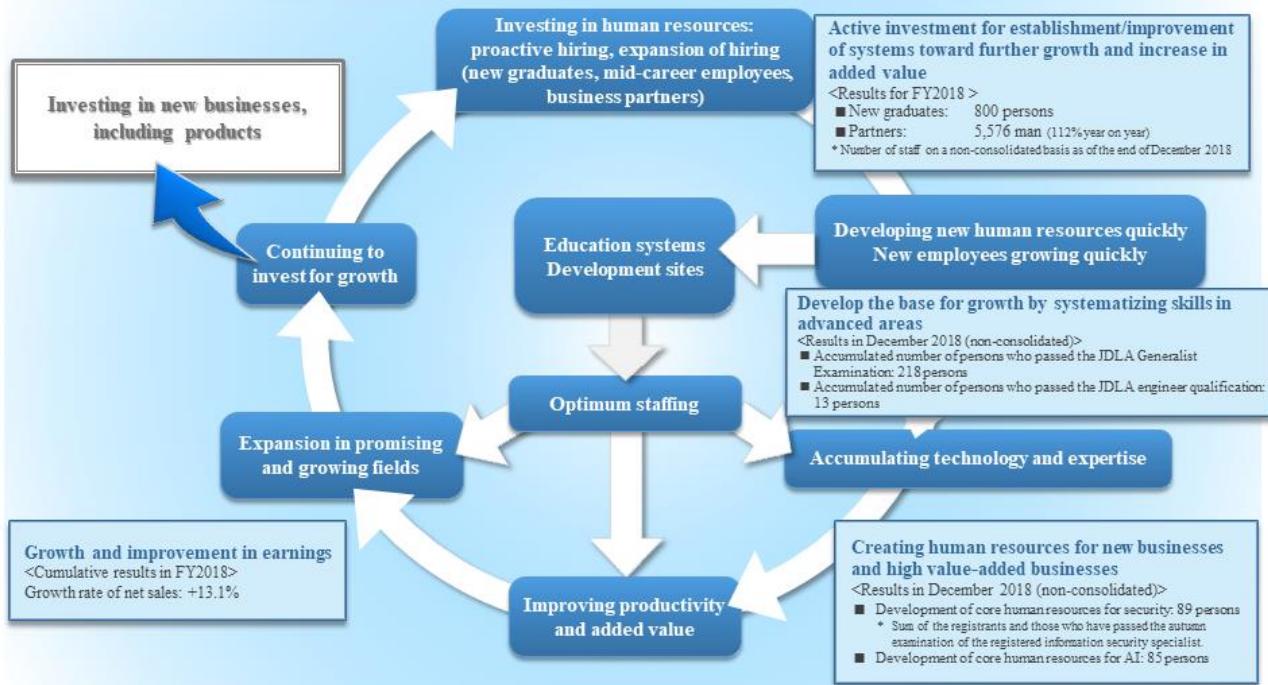
There is the MS, and the cloud AI between Microsoft and Amazon. For example, in cloud AI, the company's performance record in the development of IoT has been highly regarded, and I wonder whether no specific company name has been put out. We have made a number of achievements, and AWS recognized the achievements of our company. We are recognized as one of 12 AWS IoT partners worldwide.

Then Litmus is a U.S. venture, having solutions to obtain or analyze edge side data. It is impossible to work with these companies to successfully capture the information that comes from the edge side of the project. However, the company has been encouraged to work with these companies because the Litmus technology works very well.

I have given you two brief topics.

## 5. Strengthening of Human Resources and Contract and Development Business

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



In this section, we explain the strengthening of human resources and the strengthening of consigned development, which are one of the important themes in our framework, and we will promote and train human resources through this cycle and develop them into a variety of businesses while developing them optimally.

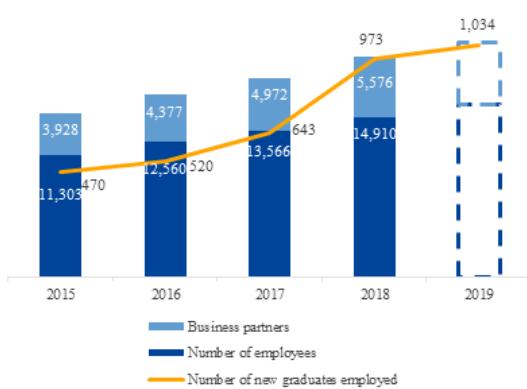
In FY2018, we recruited 800 new employees and more than 5,000 new employees in our partner companies. In terms of early development, for example, there were AI system certification. This is a very difficult exam and early stage exam at the Japan Deep Learning Association, conducted by Professor Matsuo of the University of Tokyo. In addition, we have been able to successfully train our core human resources in security-related fields, as well as educate them in practical practice. This trend has led us to say that, four or five years after hiring, nurturing younger people, and hiring large numbers of people, we have become quite powerful engineers. In this sense, we believe that this cycle is really working, and we are seeing sales growth this time.

## 6. Hiring Human Resources (Hiring and Specialized Human Resources)

### Number of employees and business partners

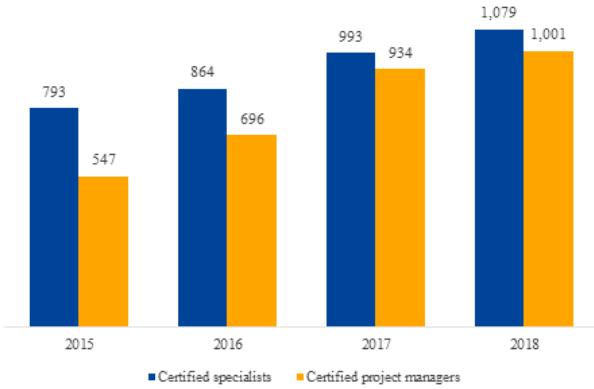
**Strengthen readiness by increasing employees and business partners.**

**Continue active recruitment** in light of the market expansion.



### Number of certified engineers (non-consolidated)

**Accelerate the cultivation of human resources who are able to respond to high value-added businesses** by increasing their motivation to improve skills by clarifying the skill level based on the certification system of the Project Manager (PM) and Specialist (SP).



Number of people employed: Non-consolidated + Listed subsidiaries (people)

Number of employees: Consolidated as of the end of December (people)

Business partners: Number of staff on a non-consolidated basis as of the end of December 2018 (people)

Number of new graduates employed: Number of new graduates employed as of the end of December 2018 (people)

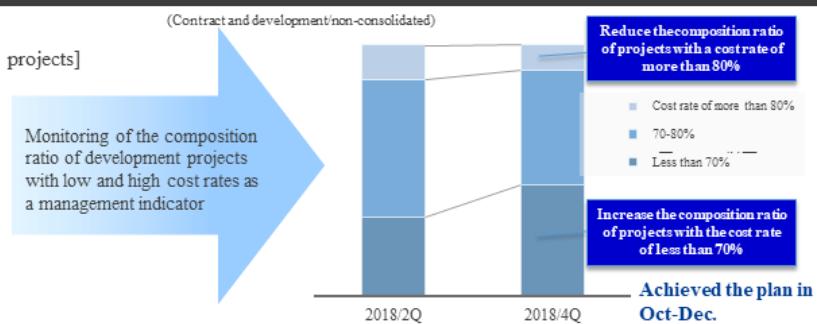
This is the number of employees and the number of business partners. The number is increasing considerably. Certified technicians are also certified as project managers or specialists, and more than 1,000 people have this certification. There are many young people, but I feel that we are developing a system that will adequately respond to the various orders of our customers.

## 7. Efforts to Promote the Higher Value-Added SI Business

### Improved management indicators through efforts to achieve high value-added projects.

[Framework for acquiring high value-added projects]

- Growth in the size of development projects
- Batching (upstream – downstream processes)
- Company-led projects based on development in its own base

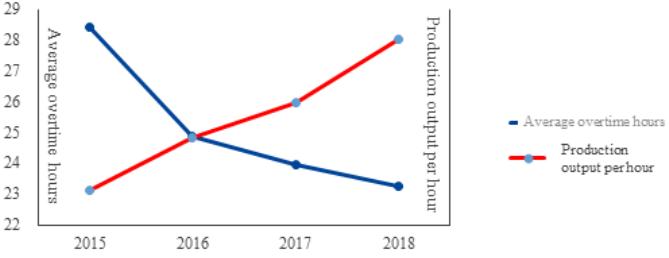


### Building of a scheme to support productivity improvement

[Development of institutions and rules]

- Productivity improvement through flexible labor management and the utilization of IT
  - Ultra-flex system
    - Flextime system without core time
    - Flexible paid leave system (30 minutes)
    - Refreshment time (10 minutes)/going out for non-business reasons
- Streamlining of the development process and the optimization of the skill structure
  - Active use of standard frameworks and tools
  - Development of a skill system and an engineer structure according to the technical field

[Average overtime hours and production output per hour]



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There was also an effort in the past to increase added value, and in Japan, there was a shift to larger sizes, a bundled approach, a take-back approach. We will improve bad projects with high cost-of-sales ratio by implementing such factors as a system to increase productivity. There are various ways to improve productivity and talk with customers, but we are making efforts to improve the cost-to-sales ratio. In the field of development, which is entrusted, the cost-of-sales ratio has improved considerably.

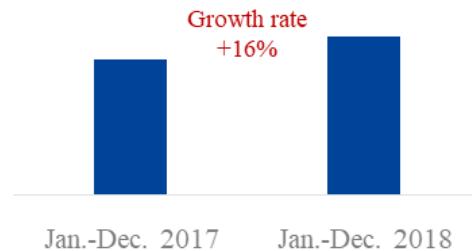
One indicator is the Ultra Flex System. We have an indicator of how much we can produce in one hour. When the average overtime has fallen, the amount of money that can be produced within an hour has risen, as measured by this productivity indicator. Although time is decreasing, I think productivity is increasing in the form of increasing output.

In addition, as we hire younger people and people from outside the company, we naturally increase salaries and bonuses every year. The current situation is that we are digesting that portion and creating even more positive productivity.



## 8. Trends in Products and Services (Sales)

[Sales in Products and Services]



### Breakdown of sales in Products and Services

[Sales of FUJI SOFT products]

+7%



[Sales in the licensing business]

+26%



[Product sales etc.]

+17%



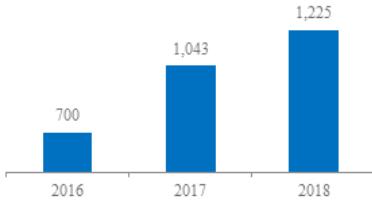
This is product and service. This has been doing very well. As for our own products, which will be introduced later, there is a 7% increase partly due to the enhancement of quality. The increase in license is 26%, and the increase in other product sales is 17%. Overall, the product services in this area are growing in a fairly good way.

## 9. Trends in Priority Products

**palro**



<Change in the number of installations>



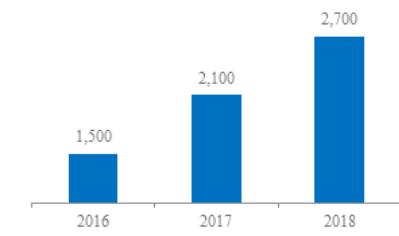
<Current situation>

Number of units introduced in facilities and financial institutions, etc.

**1,225 units** (cumulative total)

(At the time of the announcement of financial statements for the fiscal year ended December 31, 2018: 1,069 units)

**moreNOTE®**



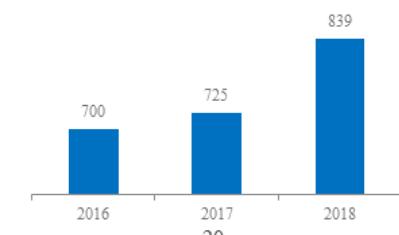
Number of companies that have introduced the file management and sharing service for mobile content

**About 2,700 companies**

(cumulative total)  
\* Total number of companies that introduced moreNOTE and SYNCNEL

(At the time of the announcement of financial statements for the fiscal year ended December 31, 2018: about 2,500 companies)

**みらいスクールステーション®**



Number of schools that have introduced Mirai School Station

**839** (cumulative total)

(At the time of the announcement of financial statements for the fiscal year ended December 31, 2018: about 785 schools)

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We've been putting this out for a little while, but there may be voices saying that you don't need any more numbers about PALRO and moreNOTE and Mirai School. This has been steadily increasing. PALRO is steadily growing in this nursing care facility, and although it may not be very large, we have begun offering PALRO for B to C, and we will steadily commercialize it.

moreNOTE has 2,700 companies in the field of mobile content file management and distribution services, and though it was put out behind, it is the No. 1 and No. 1 product in terms of market share.

The Mirai School is also showing steady but not rapid growth, as the digitization of schools has not yet developed.

## 10. Business Development in Relation to Work Style Reforms

Provision of solutions based on “infrastructure to realize work style reforms”

Consolidate know-how accumulated through efforts in the Company, FUJI SOFT products and partners' products, and provide them as business solutions in the fields of teleworking, business streamlining, consulting and mobile work.



We are also putting great effort into the theme of working-style reform. I am confident that we are improving productivity through considerable working-style reforms. We're talking about distributing these kinds of working-style reforms to various mobile devices and all employees while presenting the contents of our company, but even at this point, a considerable number of employees are still using mobile devices. The company will then use a variety of services and products to reform its working styles from all angles. This topic also includes the M365 and O365, and has achieved a considerable position on a base of billions of dollars. moreNOTE is also written about here, and we have been ranked No. 1 in the paperless meeting category for the third consecutive year.

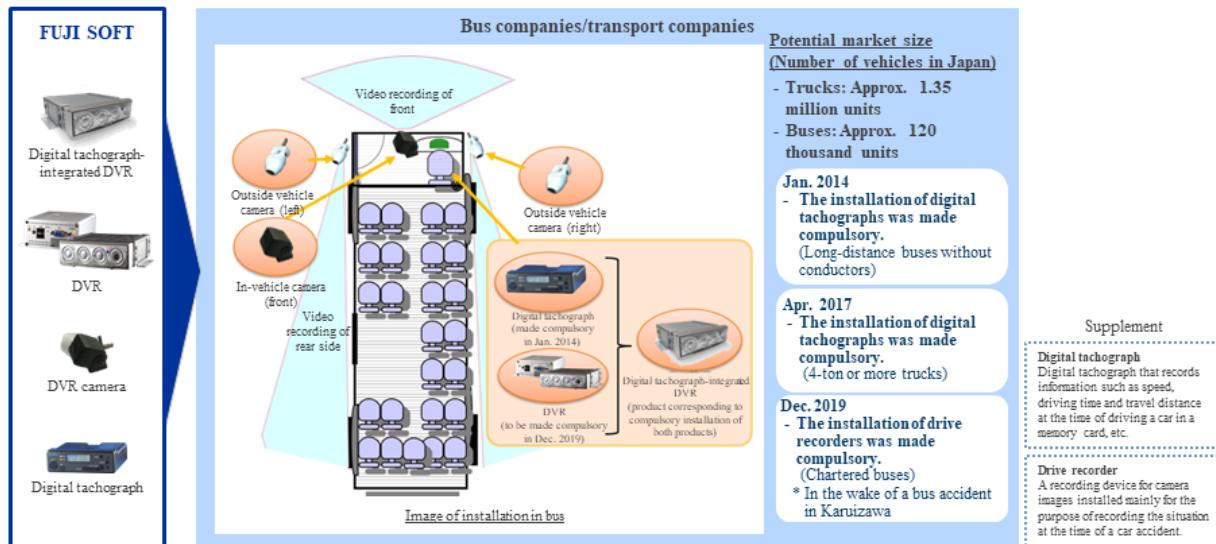
## 11. Quality Improvement of FUJI SOFT Products

### Digital tachograph-integrated DVR

In fiscal 2017, the Company began selling the digital tachograph-integrated DVR (a product approved by the Ministry of Land, Infrastructure and Transport) as a product for the digital tachograph and drive recorder market, which is expected to grow in the wake of compulsory installation in chartered buses. To address the quality issue at the initial manufacturing stage of this product, improvement measures have been taken with an investment of hundreds of millions of yen.

The Company manufactures in-vehicle devices (digital tachographs, drive recorders, etc.), installation of which has been made compulsory by the Ministry of Land, Infrastructure and Transport, and sells them to bus and transport companies.

This business commenced in fiscal 2008, and its cumulative sales are about 3.0 billion yen (cumulative number of units sold: more than 20,000 units).



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This is to strengthen the quality of our own products, which I have mentioned several times since the beginning. It's a bit hard to see, as it is written as a digitacho or a digitacho-integrated DVR, but the supplements are to the right. Digitacho is a digital tachograph. Dorareco refers to a drive recorder.

In the meantime, the duty to install the Karuizawa bus started from the point of view that it caused an accident on the expressway and there were many victims. This mandatory installation on chartered buses is expected to lead to substantial growth in the digitacho and dorareco industries.

As a pioneer, we are an integral part of digital and drive recorders. Digitacho means to store the speed, running time, driving distance, and so on in numerical terms, and connect them to each other. A drive recorder is a function that records images. We sell this integrated system because it can be used for both accidents and operation records.

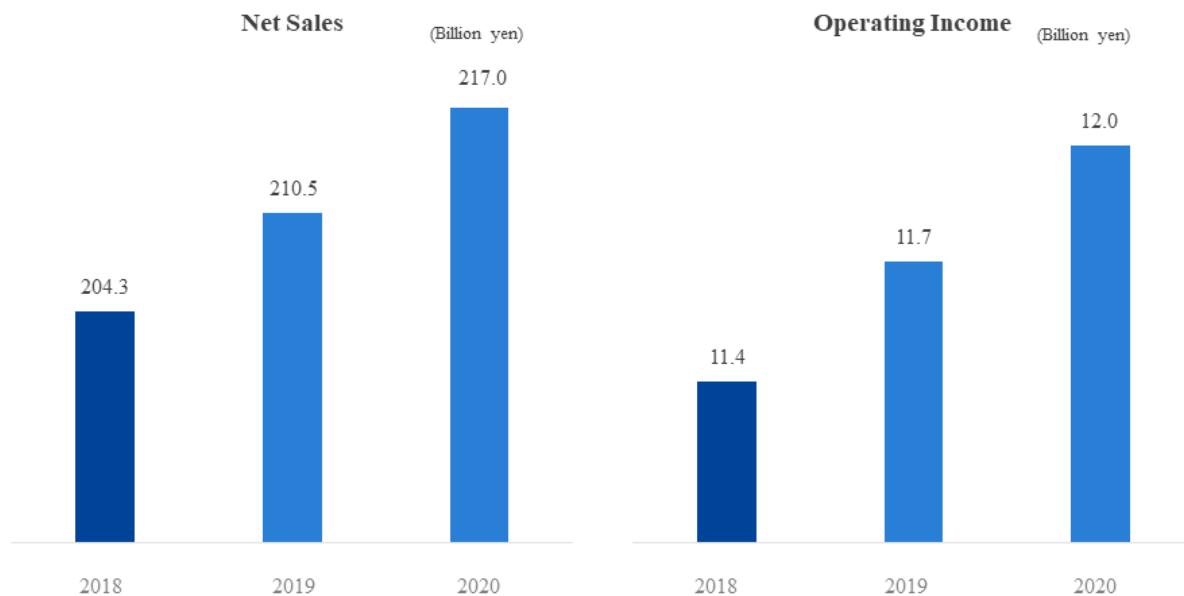
In the early stages, quality issues arose in the third and fourth quarters, and this market is expected to see tremendous demand in the future. We are investing hundreds of millions of yen to improve quality.

We don't advertise very much. It may not be very well known, but we have been providing digitachos, digital video recorders, cameras, and so on, and so far, we have had cumulative sales of around 3 billion yen. More than 20,000 units have been produced. This is a latent market, so we are not in an industry where we are making a lot of capital investment. However, we are working hard to realize that this is a business that has great social significance and is also a business opportunity. We have invested several hundred million yen in these four quarters.

## 12. Changes in Results/Forecasts (FY2019–FY2020)

Consolidated Net Sales

Consolidated Operating Income



The next is the figures for the next three years. This slide misses the figure shown at the beginning, which was 187 billion. The figure for this year is the highest ever sales of more than 200 billion. Our sales growth will be about 3% in the future. Similar growth was seen in operating income. Our basic stance is that the announcement of external earnings forecasts is a figure that must be achieved based on increases in sales and profits. We will work to achieve even higher goals, but in terms of our external announcement, we intend to have them do this. However, it is true that there are various uncertainties about the future, so seeing the announced figures as minimum, we would like to promise to further increase this amount.

## 13. Results Forecasts for FY2019

FY2019

	FY2018 Results	FY2019 Plan	YoY change (Amount)	YoY change (%)
<b>Net sales</b>	204,329	<b>210,500</b>	+6,170	103.0%
<b>Operating income</b>	11,400	<b>11,700</b>	+299	102.6%
Operating income margin	5.6%	5.6%		
<b>Ordinary income</b>	12,071	<b>12,200</b>	+128	101.1%
Ordinary income margin	5.9%	5.8%		
<b>Profit attributable to owners of parent</b>	6,516	<b>6,700</b>	+183	102.8%
Profit margin attributable to owners of parent	3.2%	3.2%		

As a result, sales in FY2019 were 210 billion yen and operating income was 11.7 billion yen. We expect to achieve ordinary income of 12.2 billion and net income of 6.7 billion.



## 14. Trends of Dividends and the Plan

Annual dividend of FY2019 is planned to be 37 yen per share.

Our basic policy is consistently returning profits to shareholders, while securing sufficient internal reserves in preparation for active business development and potential risks.

### ■ Trends in per-share net income, dividend and dividend payout ratio (consolidated)

	FY2015 Results	FY2016 Results	FY2017 Results	FY2018 Results	FY2019 Plan
<b>Per-share net income</b>	158.06	161.63	185.33	208.21	214.09
<b>Dividend per share</b>	28	29	33	37	38
<b>Dividend payout ratio</b>	17.7%	17.9%	17.8%	17.8%	17.7%

We have announced dividends as described above. Based on the figures for the second half of this fiscal year, we intend to aim for a dividend of 19 yen for the next fiscal year of 38 yen. This is the end of my announcements. Thank you very much for your kind attention.