



FUJI SOFT INCORPORATED

Q2 Financial Results Briefing for the Fiscal Year Ending December 2019

August 8, 2019

Event Summary

[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending December 2019	
[Fiscal Period]	FY2019 Q2	
[Date]	August 8, 2019	
[Time]	16:30 – 17:30 (Total: 60 minutes, Presentation: 25 minutes, Q&A: 35 minutes)	
[Venue]	Fuji Soft Akihabara Building, 5F Akiba Hall 3 Kandaneribei-cho, Chiyoda-ku, Tokyo 101-0022	
[Participants]	58	
[Number of Speakers]	4	
	Satoyasu Sakashita	President and Representative Director
	Masaki Shibuya	Director and Senior Executive Operating Officer
	Seto Arai	Director and Senior Executive Operating Officer
	Tatsuya Naito	Operating Officer



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

Net sales rose due to strong performance in System Construction and sales of products of group companies.

◇ Consolidated net sales rose 12.8% year on year, to 113,556 million yen, thanks to the strong performance in System Construction, particularly sales of automotive embedded/control systems, machine control systems including factory automation, and social infrastructure and operation systems for the distribution and service sectors, the manufacturing sector, internet service providers and non-banks. It is also attributed to the strong performance of license sales, sales of products of group companies and the strong performance of BPO and call center services.

Operating income rose due to higher sales.

◇ Operating income rose 26.7% year on year, to 6,693 million yen, reflecting the rise in sales.
 ◇ Ordinary income increased 19.5% year on year, to 6,825 million yen, despite a fall in the share of profit of entities accounted for using the equity method and foreign exchange losses due to the appreciation of the yen.
 ◇ Profit attributable to owners of parent stood at 3,736 million yen, up 12.6% year on year.

						(Million yen)	
FY2018		FY2019		YoY change	YoY change	FY2019	
1H Results		1H Results		(Amount)	(%)	1H Plan	Comparison with the plan
Net sales	100,688	113,556		+12,868	112.8%	103,650	109.6%
Operating income	5,281	6,693		+1,411	126.7%	5,350	125.1%
Operating income margin	5.2%	5.9%				5.2%	
Ordinary income	5,712	6,825		+1,112	119.5%	5,600	121.9%
Ordinary income margin	5.7%	6.0%				5.4%	
Profit attributable to owners of parent	3,317	3,736		+418	112.6%	3,150	118.6%
Profit margin attributable to owners of parent	3.3%	3.3%				3.0%	

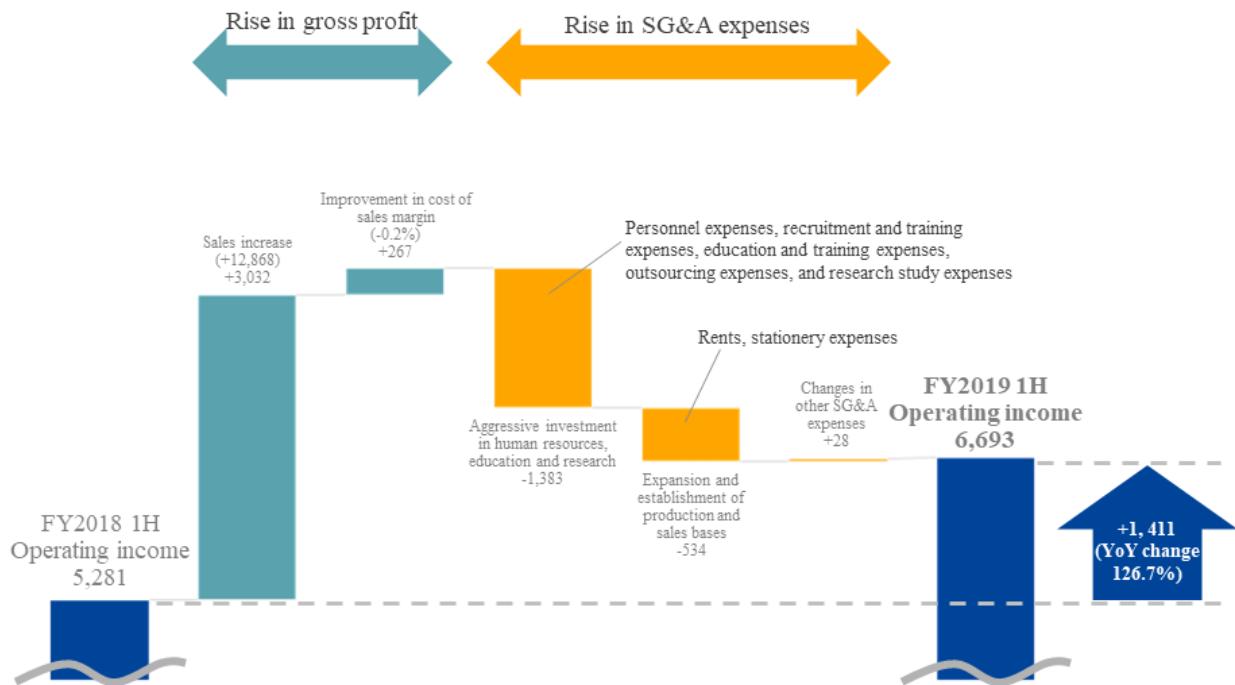
It is the highlights of consolidated performance. As you can see from the figures here, net sales were 113.5 billion yen and operating income was just under 6.7 billion yen. Ordinary income is more than 6.8 billion. The net income was more than 3.7 billion.

As shown here, sales are expected to increase due to the strong performance of system construction and product sales by Group companies. Embedded/controlled systems include automobiles, FA, machine control systems, and social infrastructure.

In the business field, the Company provides services for the distribution and manufacturing industries, internet services, and non-banks. These are in good form. Licensing sales, Group companies' product sales, BPO, and call centers are also good, and the sales increased by slightly less than 113%.

Operating income rose 26.7% to 6.693 billion yen, reflecting an increase in sales and profits. As stated here, ordinary income rose slightly at 19.5% due to factors such as the impact of investment income and the appreciation of the yen. Net income for the year ended at 3.7 billion yen despite a slight discrepancy.

Trends in Consolidated Operating Income (Jan-Jun)



This is a picture of sales and operating profit, and it shows an increase in gross profit, an increase in sales, and an improvement in the cost of sales ratio, as well as an increase in SG&A expenses, which resulted in a net gain of 1.4 billion yen.



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

Net sales rose 13.9% year on year.

The cost of sales margin improved to 76.8%.

◇ The cost of sales margin increased year on year, due in part to the securing of human resources to respond flexibly to changes in demand trends.

SG&A expenses increased 924 million yen year on year.

◇ SG&A expenses increased 924 million yen year on year, to 10,811 million yen, due to investments in human resources for recruitment and education and active upfront investments in the establishment of bases and research and study, etc.

◇ As a result of the above, operating income increased 16.3% year on year.

		FY2019 1Q Results		YoY change (Amount)	YoY change (%)	FY2019 2Q Results		YoY change (Amount)	YoY change (%)
Net sales		55,213		+5,747	111.6%	58,342		+7,120	113.9%
Cost of sales		41,746		+3,756	109.9%	44,782		+5,811	114.9%
Cost of sales margin		75.6%				76.8%			
Gross profit		13,467		+1,990	117.3%	13,559		+1,309	110.7%
SG&A expenses		9,522		+964	111.3%	10,811		+924	109.3%
Operating income		3,944		+1,026	135.2%	2,748		+385	116.3%
Operating income margin		7.1%				4.7%			

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This is the figure from April to June, which covers only Q2. Sales increased 13.9%, and the cost of sales ratio slightly increased to 76.8%. This is in response to changes in demand trends, and we are always actively strengthening our human resources from April to June. In the current fiscal year, this is somewhat more. The cost of sales ratio fell slightly below the previous year's level.

SG&A expenses rose by around 900 million yen to around 10.8 billion yen, but growth in SG&A expenses has not grown as much as sales. The net operating income of 16.3% increase is the result for Q2.

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

				(Million yen)
		FY2019	Net sales	Operating income
FUJI SOFT INCORPORATED	1H Results	72,440	3,114	Consolidated net sales rose thanks to the strong performance in System Construction, especially sales of automotive embedded/control systems, machine control systems including factory automation, social infrastructure systems, and operation systems for the manufacturing sector, online businesses and non-banks. It is also attributed to the strong performance of license sales. Operating income increased, reflecting the rise of sales.
	YoY change (amount)	+8,563	+303	
	YoY change (%)	113.4%	110.8%	
CYBERNET SYSTEMS Co., Ltd.	1H Results	11,798	1,624	Sales increased, given strong sales in both CAE solution services and IT solution services in Japan, as well as the solid performance of development subsidiaries in the United States and sales subsidiaries in Asia. Operating income rose due to higher sales.
	YoY change (amount)	+1,050	+576	
	YoY change (%)	109.8%	155.0%	
VINX CORP.	1H Results	14,264	961	Sales increased thanks to an increase in temporary projects for responding to the consumption tax hike and the expansion of sales from existing customers. Operating income rose due to higher sales and an improvement in the cost rate.
	YoY change (amount)	+1,816	+277	
	YoY change (%)	114.6%	140.5%	
CYBER COM Co., Ltd.	1H Results	6,810	334	Sales increased thanks to the strong performance in software development, including operation software projects for life insurance systems and the public sector, as well as system construction projects in the service business. It is also attributed to the strong performance of in-vehicle systems such as ADAS (advanced driver assistance system) and control software projects for semiconductor manufacturing equipment. Operating income increased due to the rise in sales and the improved cost of sales margin.
	YoY change (amount)	+990	+87	
	YoY change (%)	117.0%	135.6%	
FUJI SOFT SERVICE BUREAU INCORPORATED	1H Results	6,108	402	Net sales increased as BPO services for public offices and local governments remained firm, in addition to the strong performance of ongoing projects for private corporations. Operating income rose because higher sales and cost reductions absorbed an increase in SG&A expenses that is attributed in part to infrastructure construction.
	YoY change (amount)	+834	+125	
	YoY change (%)	115.8%	145.0%	

* Results from January to June, 2019 are stated in the FY2019 1H results column.

As for the consolidation of listed companies, the main body is the same as the previous word, but it is a good performance in each field. This is an increase of 13.4% and a rise of 10.8%.

As for Cybernet Systems Co., Ltd., it announced the financial statements yesterday, and CAE and IT Solutions, as well as overseas, performed well. Both operating income, sales, and operating income were well. In particular, operating income is growing significantly.

As for VINX, due to a temporary increase in the number of projects for the consumption tax, sales increased as a result of deep cultivation of existing customers. As a result, operating income exceeded sales. This was partly attributable to an improvement in the cost of sales ratio, and VINX also posted an increase in sales and a significant increase in profits.

As for Cyber Com, although there are various descriptions such as control systems and public systems, services, and ADAS, overall sales are strong and increasing. As a result, operating income will increase.

SERVICE BUREAU also saw an increase in sales thanks to strong sales of BPO services to government agencies. Operating income is sufficient. SG&A expenses are also rising, but this will be absorbed by an increase in profits.

I believe that the figures for all Group companies were extremely good.

3. Consolidated Sales/Operating Income by Segment

							(Million yen)	
	FY2019 Net sales 1H Results	Component ratio	YoY change (Amount)	YoY change (%)	FY2019 Operating income 1H Results	Operating income margin	YoY change (Amount)	YoY change (%)
Consolidated total	113,556	100.0%	+12,868	112.8%	6,693	5.9%	+1,411	126.7%
SI Business	105,367	92.8%	+12,066	112.9%	5,539	5.3%	+1,157	126.4%
System Construction	64,778	57.0%	+9,771	117.8%	3,037	4.7%	+811	136.4%
Embedded/Control Software	31,723	27.9%	+2,951	110.3%	1,719	5.4%	+266	118.4%
Operation Software	33,055	29.1%	+6,820	126.0%	1,318	4.0%	+544	170.4%
Products and Services	40,589	35.7%	+2,294	106.0%	2,502	6.2%	+346	116.1%
Products and Services	33,335	29.4%	+2,780	109.1%	2,067	6.2%	+410	124.8%
Outsourcing	7,253	6.4%	-485	93.7%	435	6.0%	-64	87.1%
Facility Business	1,459	1.3%	-36	97.6%	632	43.3%	+96	118.0%
Other Businesses	6,728	5.9%	+838	114.2%	520	7.7%	+157	143.3%

Highlights of Sales by Segment

● Embedded/Control Software

Sales increased 10.3% year on year, mainly due to the continued strength in the performance of auto-related system construction, machine control systems including factory automation, and social infrastructure systems. Operating income increased 18.4% year on year due to higher sales and the improved cost rate.

● Operation Software

Sales increased 26.0% year on year thanks to solid sales mainly to the manufacturing sector, online businesses and non-banks, as well as to the distribution and service sectors at group companies. Operating income rose 70.4% year on year, mainly reflecting higher sales.

● Products and Services

Sales increased 9.1% year on year due to the strong performance of license sales. Operating income rose 24.8% year on year thanks to higher sales.

● Outsourcing

Sales declined 6.3% year on year due to a fall in transactions of group companies in the distribution and service sectors. Operating income declined 12.9% year on year due to the fall in sales.

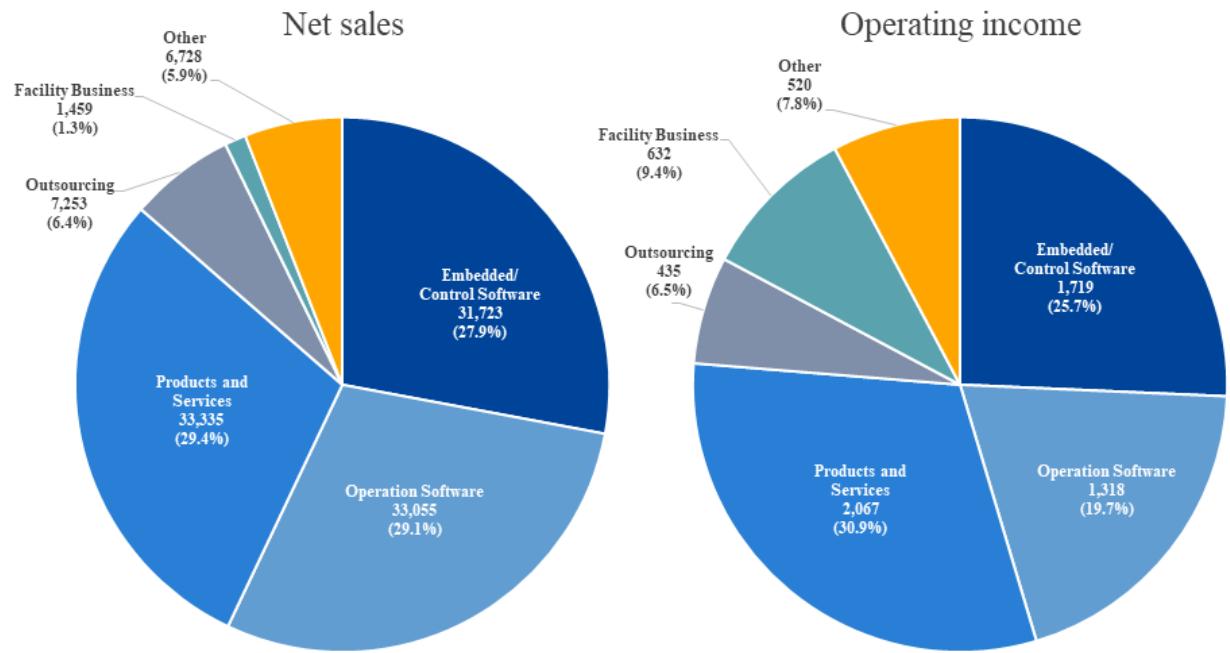
This is the classification by segment, but as for embedded/control systems, as described here, the strong performance of automobiles, FA, machinery control, and social infrastructure is enough to achieve double-digit growth. Profits are also improving, including an improvement in the cost of sales ratio.

I feel that sales of business-related products are growing faster than those of embedded products, but these are extremely favorable in each field. Their sales have increased 26% of the total. Operating income is the increase of 70%, partly due to the increase in the number of subsidiaries.

As for the product service, it is not reaching a little but increased 9%. Operating income increased due to an increase in sales of Cybernet and other subsidiaries, which also included an increase in profits.

In outsourcing, this is much the same situation, but the decline in sales to distribution services has resulted in a corresponding decline in sales compared to the previous year.

Consolidated Sales/Operating Income by Segment (Jan-Jun)



This is simply a picture of current sales and operating income by segment. I would like you to see.

4. Consolidated Income Statement

	FY2018 1H Results	FY2019 1H Results	YoY change (Amount)	YoY change (%)	FY2019 1H Plan	Comparison with the plan	(Million yen)
Net sales	100,688	113,556	+12,868	112.8%	103,650	109.6%	
Cost of sales	76,960	86,529	+9,568	112.4%	—	—	
Cost of sales margin	76.4%	76.2%	(1)				
Gross profit	23,727	27,027	+3,299	113.9%	—	—	
Gross profit margin	23.6%	23.8%					
SG&A expenses	18,445	20,334	+1,888 (2)	110.2%	—	—	
SG&A expense ratio	18.3%	17.9%					
Operating income	5,281	6,693	+1,411	126.7%	5,350	125.1%	
Operating income margin	5.2%	5.9%			5.2%		
Non-operating income	279	268	-10	96.1%	—	—	
Non-operating expenses	52	196	+143	—	—	—	
Share of (profit) loss of entities accounted for using equity method	204	60	-144	29.4%	—	—	
Ordinary income	5,712	6,825	+1,112	119.5%	5,600	121.9%	
Ordinary income margin	5.7%	6.0%			5.4%		
Extraordinary income	494	86	-407	17.6%	—	—	
Extraordinary losses	243	83	-160	34.2%	—	—	
Income before income taxes	5,963	6,829	+865	114.5%	—	—	
Total income taxes	1,722	2,019	+297	117.3%	—	—	
Net income	4,241	4,809	+568	113.4%	—	—	
Profit attributable to non-controlling interests	923	1,072	+149	116.2%	—	—	
Profit attributable to owners of parent	3,317	3,736	+418	112.6%	3,150	118.6%	
Profit margin attributable to owners of parent	3.3%	3.3%			3.0%		

Points of Income Statement

(1) Cost of sales margin (76.2%)

An improvement attributed to the improved cost of sales margin in contract and development, which reflects productivity improvement, as well as a rise in sales of profitable products of group companies.

(2) SG&A expenses (+1,888 million yen)

An increase in expenses due to investments in human resources for recruitment and education and active upfront investments in the establishment of bases and research and study, etc.

In the consolidated statements of income, although there is nothing to speak of, the ratio of the cost of sales to sales is improving, and the increase in sales of highly profitable Group companies and products is improving in terms of productivity and the increase in sales of the Company's products in the first half. As a result, the consolidated statements of income are improving overall.

SG&A expenses are also rising due to upfront investment. This is because we are using the SG&A expenses necessary to increase sales and other items.

5. Consolidated Balance Sheet

			(Million yen)	
	End of FY2018	End of 1H of FY2019	Change (Amount)	End of 1H of FY2018 (Reference)
Current assets	77,315	84,274	+6,959 (1)	72,382
Cash and deposits	22,554	23,274	+720	18,703
Notes and accounts receivable – trade	44,456	45,851	+1,395	41,000
Securities	4,000	7,000	+3,000	5,000
Inventories	3,354	4,637	+1,283	4,086
Other	2,950	3,510	+559	3,591
Non-current assets	115,310	115,216	-94	121,322
Property, plant and equipment	82,356	81,872	-484	82,321
Intangible assets	4,738	4,599	-139	6,734
Investments and other assets	28,214	28,744	+529	32,266
Total assets	192,625	199,491	+6,865	193,704
Current liabilities	49,428	43,750	-5,678	56,677
Accounts and notes payable – trade	9,526	12,668	+3,141	10,761
Short-term loans payable	16,207	6,171	-10,035	16,782
Commercial papers	–	–	–	8,500
Accrued expenses / provision for bonus	9,155	10,019	+864 (2)	8,716
Income taxes payable	2,492	2,857	+365	2,079
Provision for loss on construction contracts	252	188	-64	120
Other	11,793	11,843	+50	9,716
Non-current liabilities	23,526	33,002	+9,476	15,485
Long-term loans payable	13,319	23,097	+9,777	4,054
Other	10,207	9,905	-301	11,431
Total liabilities	72,955	76,753	+3,798	72,163
Total net assets	119,670	122,737	+3,067	121,541
Total liabilities and net assets	192,625	199,491	+6,865	193,704

Points of the Balance Sheet

(1) Current assets (+6,959millionyen)

An increase in notes and accounts receivable - trade and inventories, reflecting the strong environment for orders, and an increase in certificates of deposit for the investment of short-term funds.

(2) Current liabilities (-5,678millionyen)

Non-current liabilities (+9,476millionyen)

Review of the balance between long- and short-term funds based on the purpose of procurement.

The balance sheet is as you saw, so please read it.



6. Consolidated Cash Flow Statement

	FY2018 1H Results	FY2019 1H Results	(Million yen) YoY change (Amount)
Cash flows from operating activities	4,459	7,639	+3,180
Cash flows from investing activities	-22,216	-2,576	+19,640
Cash flows from financing activities	15,854	-1,116	-16,970
Effect of exchange rate change on cash and cash equivalents	-51	-90	
Net increase (decrease) in cash and cash equivalents	-1,954	3,856	
Cash and cash equivalents at beginning of period	22,157	24,587	
Cash and cash equivalents at end of period	20,202	28,444	

Highlights of Cash Flows

● [Cash flows from operating activities](#)

Net cash provided by operating activities stood at 7,639 million yen, with a year-on-year increase of 3,180 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 2,576 million yen due to investments related to FUJI SOFT products and facilities. The figure for the same period of the previous fiscal year was 22,216 million yen, mainly due to the purchase of land and buildings to secure office space.

● [Cash flows from financing activities](#)

Net cash provided by financing activities was 1,116 million yen due to the payment of dividends, etc. The figure for the same period of the previous fiscal year was 15,854 million yen, reflecting loans payable associated with the purchase of land and buildings.

Cash flows from operating activities have increased substantially compared with the previous fiscal year, as sales have increased, although this is not a major factor. Cash flows from investing activities, despite the large expenditures, seem to have improved in light of the fact that there were considerable expenditures in the previous fiscal year. On the other hand, financing activities have been carried out in the previous fiscal year, which means that the difference between the amount of borrowing and the amount of borrowing required for land and buildings appears in the statement of cash flows for the current fiscal year.

7. Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	Order backlog at beginning of term	YoY change (%)	FY2019 1H Results				Order backlog at end of term	YoY change (%)
			Orders	YoY change (%)	Net sales	YoY change (%)		
SI Business total	44,627	111.3%	113,274	116.7%	105,367	112.9%	52,534	119.7%
System Construction	31,330	114.1%	68,743	123.0%	64,778	117.8%	35,295	124.6%
Embedded Control Software	12,759	111.6%	32,716	112.5%	31,723	110.3%	13,753	117.0%
Operation Software	18,570	116.0%	36,027	134.4%	33,055	126.0%	21,542	129.9%
Products and Services	13,297	105.2%	44,530	108.1%	40,589	106.0%	17,238	110.8%
Products and Services	10,795	111.1%	36,737	109.4%	33,335	109.1%	14,197	111.5%
Outsourcing	2,501	85.5%	7,793	102.1%	7,253	93.7%	3,041	107.9%

Highlights of Orders and Order Backlogs

• Highlights in System Construction

- Embedded/Control Software

The order backlog at the end of the term increased 17.0% year on year due to strong orders for machine control systems including factory automation, and social infrastructure systems, and strong orders from the auto-related sectors.

- Operation Software

The order backlog at the end of the term increased 29.9% year on year thanks mainly to solid orders from online businesses, the manufacturing sector, and non-banks, as well as from the distribution and service sectors in group companies.

• Highlights in Products and Services

- Products and Services

The order backlog at the end of the term increased 11.5% year on year thanks to firm orders for license sales.

- Outsourcing

The order backlog at the end of the term increased 7.9% year on year, mainly due to strong orders for operation and maintenance projects, despite a decrease in group companies' transactions in the distribution and service sectors.

The amount of orders received and order backlog are similar, but in the embedded and control software field, the FA-related, automotive, and social infrastructure businesses are performing well. The order backlog is up 17%.

Business-related orders are even better, and the order backlog is up slightly less than 30%, compared with the previous year, due to a considerable increase in orders in the field mentioned earlier.

Product services also performed well and increased 11.5%.

Outsourcing is the same as before. Although it is declining, we have received orders for operation and maintenance projects, and the order backlog has increased slightly.



8. Dividends

In FY2019, both interim dividends and year-end dividends will be increased to 20 yen per share.

- While interim dividends were expected to be 19 yen per share, they will be increased to 20 yen per share, taking the financial results into full consideration.
- In addition, year-end dividends will be revised to 20 yen per share, while they were expected to be 19 yen per share.

■ Interim dividends		(Yen)	
	At the end of the second quarter of FY2019	Most recent dividend forecast	Actual dividend in the previous fiscal year
Dividend per share	20.00 yen	19.00 yen	18.00 yen

■ Year-end dividends (revised forecast)		(Yen)	
	At the end of the second quarter of FY2019	Most recent dividend forecast	Actual dividend in the previous fiscal year
Dividend per share	20.00 yen	19.00 yen	19.00 yen

Regarding dividends, we have disclosed a dividend of 19 yen because of an increase in net income, it is 20 yen because of an increase in dividends rather than disclosure. At the same time, we intend to revise the year-end dividend to 20 yen.



1. Initiatives in the First Half of FY2019

Points in Management	Results and Outcomes in the First Half of FY2019	
■ Bold efforts for new technologies: AIS-CRM	High growth in the automotive area continues. Orders were received for projects using new technologies such as AI and IoT in a wide range of areas including embedded and operation software development.	PP. 15, 16
■ Promotion of the high value-added system integration business	The cost of sales margin improved thanks to orders for high value-added projects and efforts to improve productivity and reduce unprofitable projects.	PP. 17, 18
■ Strengthening of human resources and steady growth of the commissioned development business	The reinforcement of production capacity continued through aggressive recruitment activities, cooperation with partners and the development of young employees.	PP. 19
■ Aggressive promotion of the product business	Growth in Microsoft products and virtualization and cloud services and the enhancement of the Company's own products in areas with promising growth potential.	PP. 20, 21
■ Growth as the overall Group and aggressive global development	Group companies increased income and profits on the whole.	

This is the charts of the classifications we have used so far. I would like to give you a little more time to talk about the following items: the new technologies, the AIS-CRM, and the technological areas, value added, human resources, and product business.

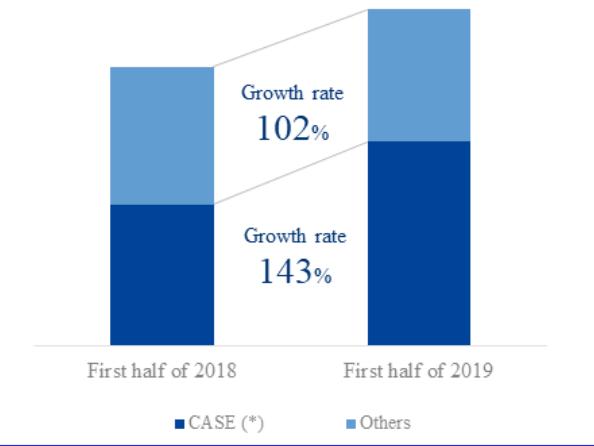
2. Automotive Software

Given that needs for in-vehicle software development continue to expand, the Group continues to strengthen its readiness.

High growth continues mainly in the areas of ADAS and automated driving.

- Growth rate of net sales in the first half (non-consolidated: based on aggregation by area)

Advanced areas such as ADAS drove growth.



Increase in automotive software engineers

- Automotive software engineers: Approx. 1,800 (June) (Increased by 200 persons from December 2018)
- Increase in the floor space of Kobe Office (March 2019)
- Opening of Fukuoka Third Office (July 2019)

Utilization and study of AI

- Development of autonomous running algorithm using GPU/AI platform
- Estimation of own vehicle position and creation of a highly accurate map
- Research and development of drive simulation technologies

AutomotiveSPICE

- Use all projects of AutomotiveSPICE.
- Satisfy both quality and costs and exert its impact in improving productivity.
- Make collective efforts as the Group to strengthen its readiness by figuring out and sharing the skills of engineers.

Initiatives for AUTOSAR

- Mass production of ECU adopting Julinar SPF (APTI) commenced, and the integration service is gathering momentum.
- Boosting of price competitiveness through the improved efficiency of software development by using the international standard platform

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AIS-CRM, this Automotive has continued to grow at an extremely high rate, and the number of projects in such fields as IoT and AI has increased considerably. Overall, the ratio is still small, but it is increasing.

This is the state of automotive-related software that you are paying close attention to. Development needs are continuing to expand dramatically, and the company is building a system to strengthen its ability to respond to these needs.

This is the first publication, but if we divide our businesses into cutting-edge fields, which are said to be CASE, and other existing fields, which we have been doing, the growth rates of these CASE fields will ultimately show a very high rate of growth. While existing needs are naturally growing, the growth rate is clearly greater in new areas.

Since we are also talking about engineers, the figure is more straightforward for us, but there has been an increase of about 1,800 people in automotive software engineers or about 200 people in the last six months or so. The company plans to expand its presence in Kobe and Fukuoka to secure more locations.

In terms of the utilization of AI, the use of GPU and AI platforms, and the development of autonomous driving algorithms, we are doing these very well. Although GPU servers and NVIDIA's GPU servers are so famous, we are preparing them as our platform and developing the development environment. We are also moving ahead with the development of such automobile position estimates and expressway maps, as well as the research and development of drive simulation technologies.

The term "Automotive SPICE" refers to the standardized model of processes in the automotive industry. This refers to the development of this kind of assessor-like model, which is used in all projects, achieving both

quality and cost-effectiveness through the use of this model, and understanding engineer skills throughout the Company.

AUTOSAR is also attracting much attention today, and we have invested in APTJ, a company built around Dr. Takada of Nagoya University, to jointly develop platforms for the Julinar of AUTOSAR response. With the commencement of mass production and development, the Company has begun to respond as a business, even though these platforms will become fully available in the future. The start is complete.

In addition, in the sense of AUTOSAR, there are many software packages that are internationally standardized platforms, and there are some engineers who can respond to these kinds of problems. We believe that increasing efficiency through such measures will also become our strength.



3. AI

AI integration business

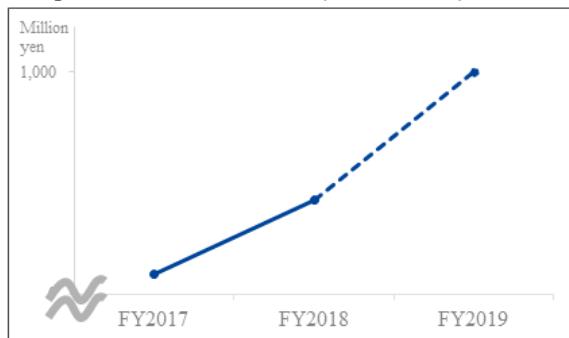
[Actual conditions in the introduction of AI]

- The expansion of AI implementation is limited.
- The expansion of POC themes and the review of their handling
- Need for environmental improvement for AI implementation

[Expansion of AI integration business]

- Strengthening of AI consulting
- Continuous enhancement of human resources for AI integration
- Provision of introduction support service by providing an environment for AI implementation
 - Provision of a high-performance GPU server environment for learning
 - AI model selection support

Change in sales of AI-related business (non-consolidated)



[Topic]

Commended by Japan Deep Learning Association (Business Acceleration Committee, Process Standardization Subcommittee)

- Received the **Contribution Award** for the Group's contribution to the formulation of process standards by compiling opinions from the vendor side and the user side (July 2019).

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As for AI, I would like to tell you a little more about the current situation. Although the AI environment is expanding, I think the use of AI is limited. While the time and effort of POC has increased dramatically, the market has also reviewed the way in which the POC can be treated as if it were actually done alone.

On the other hand, there is also a need to improve the implementation environment for AI learning, and I think there are some areas where the market is changing slightly.

We have significantly strengthened AI consulting, which we have been strengthening over the years, and have launched several more specific projects.

By continuing to strengthen the integration personnel, the integration business itself is expanding, and even in the case of the provision of the implementation environment mentioned earlier, we have set up a GPU server in our own center. We are providing an environment in which customers can use a high-performance GPU server environment for learning. We are also selecting AI models in this environment, and we are moving to contribute to the creation of AI for customers.

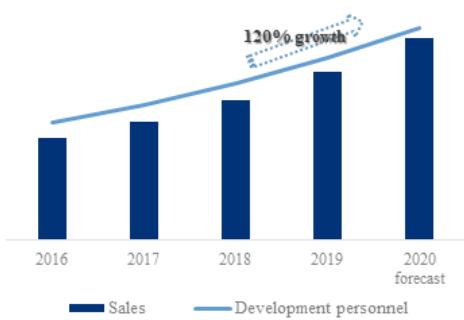
As for the business called AI Integration, this is a very ambiguous chart for this fiscal year's forecast. It's going to go beyond this line of 1 billion yen. Although it is a small amount of money, given that the businesses in which venture companies are doing such business in the world are not so large, I believe that this number is a decent amount of money.

Regarding topics, we have received an award from the Japan Deep Learning Association, a general incorporated association. We are doing our best to develop a process standard that brings together the opinions of vendors and users. In this way, AI's business is steadily advancing.

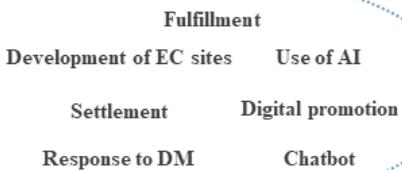
4. High Value-added SI Business

Expansion of projects for online businesses

- Promote the acceleration of the response to projects and the response to major topics and high value-added projects by accurately meeting needs that are becoming more sophisticated and complex associated with the development of the internet market.
 - In 2018, the EC market grew to about 18 trillion yen for BtoC and to about 344 trillion yen for BtoB, and it is still experiencing an expanding trend.
 - The development of EC sites has changed from simple product sales sites to more sophisticated development combining a range of services (recommendations, etc.).
 - Strengthened support for customers' business with an integrated response on a one-stop basis, including all domains from the super-upstream process to development, operation and maintenance as well as related operation services.
 - Commenced consulting services to realize customer needs in 2018 based on a strong track record of development and operation dating back more than 10 years.
→ Expanded the range of customers with a menu of consulting services (NET SHERPA).



Proposing comprehensive EC services including peripheral ones



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I have not provided a very concrete explanation about the high-value-added SI business so far, but let's talk about this kind of internet business at this time. This is very active today.

By responding appropriately to increasingly sophisticated and complex needs accompanying the development of the internet market, we can expedite our response to projects and respond appropriately to large-scale themes. The Company is promoting the handling of high-value-added projects with high difficulties. As you can see here, the BtoC and BtoB markets are expanding dramatically.

Although it has not been simple in the past, it is now changing from a relatively simple product sales site to a sophisticated development that combines various services and functions. We refer to it as a super-upstream process, and we intend to strengthen our customers' business support by offering one-stop integrated solutions that encompass all areas from business planning to development, operation, and maintenance, as well as related operations.

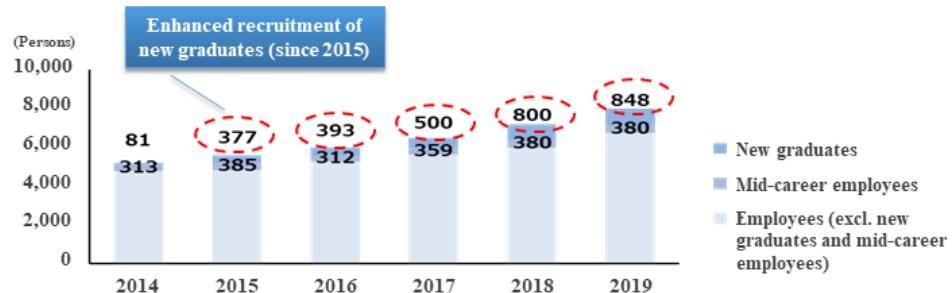
With more than 10 years of experience in developing and operating these services, we use consulting services as one of our tools, which we call NET SHERPA. This is very good for our customers now. This will expand the customer base. As a result, we are currently growing at an average annual rate of 20% or more.

It's a peripheral service, and "Fanreco," FS Recommend, and NET SHERPA are our services or solutions. The internet business-related area is growing significantly by integrating external services that are needed in a variety of societies and providing them. I explained the one example of a single high-value-added SI business.

5. Productivity Improvement

Productivity (value added per hour) is still on an improvement trend even after the active recruitment of new graduates started

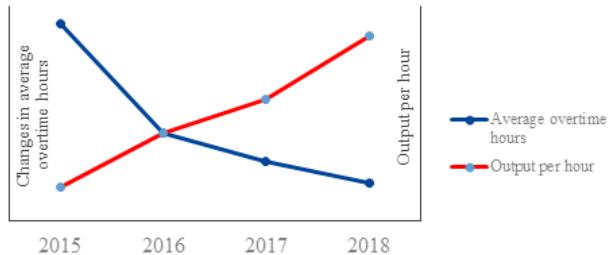
[Recruitment of new graduates (consolidated)]



[Initiatives for productivity improvement]

- Productivity improvement through flexible labor management and the use of IT
 - “Ultra-flex system”
 - Flexible time system without the core time
 - Flexible paid leave system (in 30-minute slots)
 - Refresh time (in 10 minute-slots)/outing for non-business reasons
 - Achieved telework by distributing mobile terminals to all employees
- Streamlining of development process/optimization of skills structure
 - Streamlining by the active utilization of package/OSS/services
 - Building of an engineers' structure according to the technical fields of AIS-CRM
 - Quality improvement through the early detection of bugs using tools
 - Expanded applications of the agile software development method

[Changes in average overtime hours and output per hour]



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The fact that we have a great deal of human resources means that we have personnel and productivity, and the number of new graduates is marked as red circles and the bottom shows the number of mid-career employees. We are actively recruiting and providing education on human resources.

The 370 and 380 people who were hired in 2015 have also become careers in their fifth year, and especially those who joined the Company with new graduates have a sense of reality that they are now becoming quite good engineers. They are very active. I believe that a scheme in which young people grow young people is also very common.

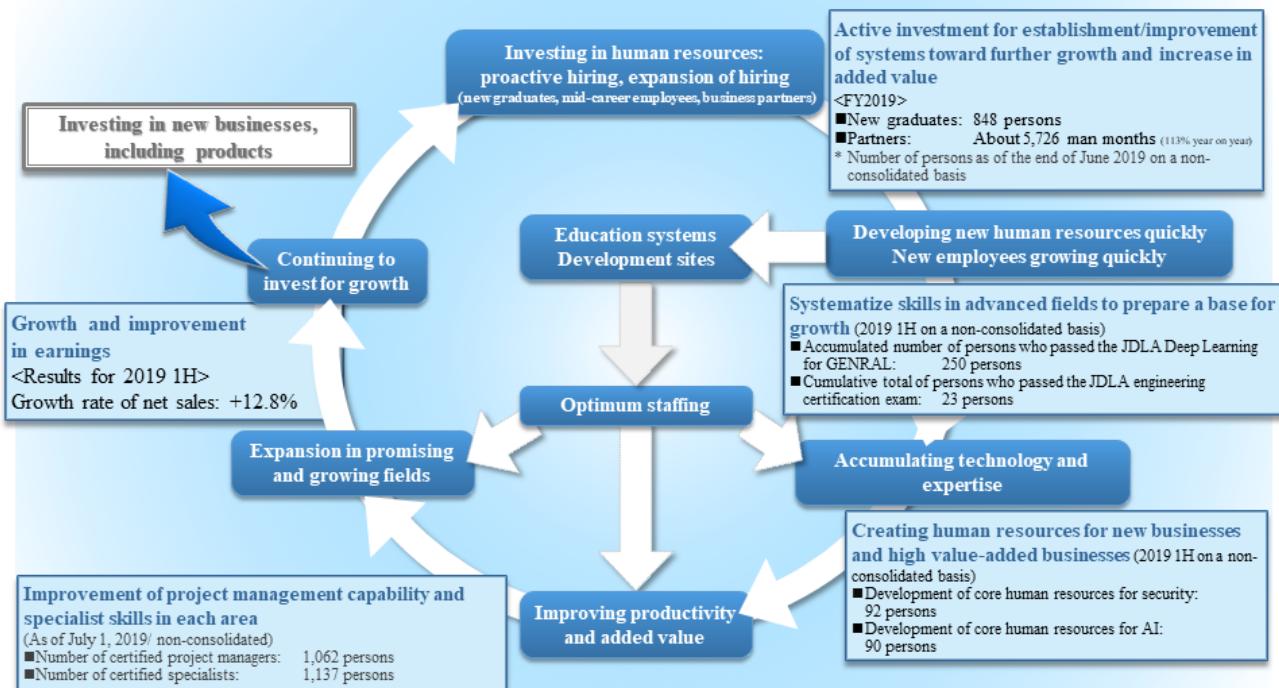
This figure is the last year's figure, but the average overtime working hours are now only 20 hours. It is declining every year. The measure of how much output we are able to produce during the time we are doing is rising each year.

It raises productivity while reducing average overtime. We've written a number of things, and in the sense of working style reform, we are taking a number of steps, including various management rules and fundamentals. Today, the company has created a telework environment in which all employees can communicate, improve productivity, share information, and convey know-how by distributing mobile devices to all employees.

These efforts and our natural main development process include using packages or operating systems, creating a variety of engineer systems, and creating mechanisms to detect bugs as automatically as possible. We are also working in the field of agile, and we are making considerable efforts in productivity development and technological development to make good use of young people. We are also working hard to improve overtime and productivity.

6. Strengthening of Human Resources and Contract and Development Business

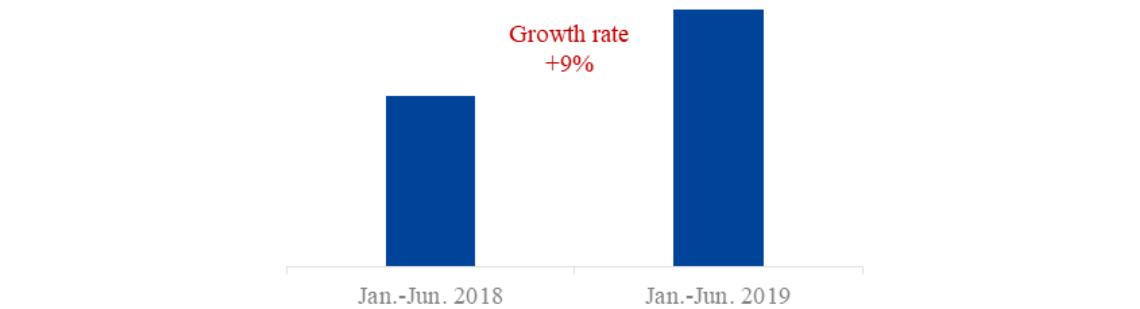
Expanding the cycle for business expansion through the strengthening of human resources



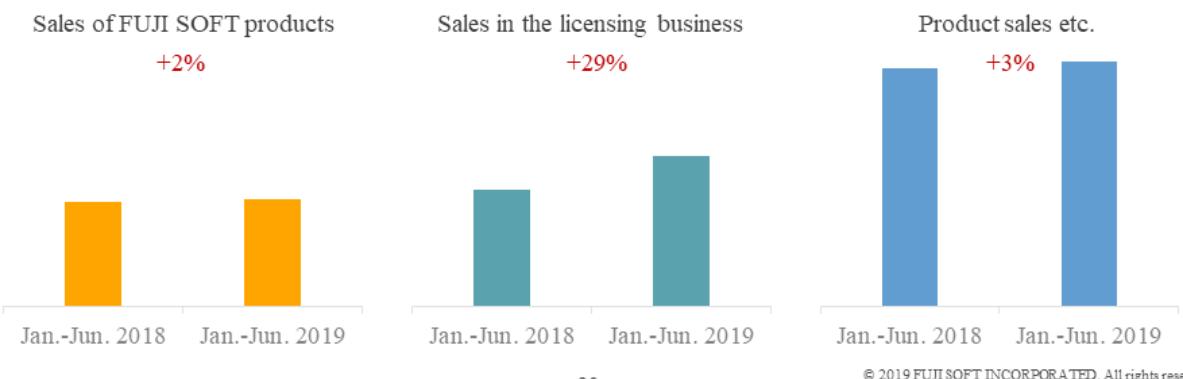
This is a virtuous cycle, and the company has invested in human resources to cultivate young employees, which it has really nurtured through its educational system and development practices. We believe that it is fairly good to move further from productivity improvement to growth areas. It's about AI qualifications, sophisticated personnel qualifications, or internal regulations, and it's about appointing project managers or specialists. We believe that these are very substantial.

7. Trends in Products and Services (Sales)

Sales in Products and Services



Breakdown of sales in Products and Services



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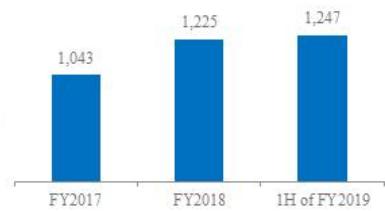
This is the product services sector that is always shown at the end. Growth rate, a rough figure, is about 9% overall. The Company's products are growing at a rate of 2%, and licensing businesses are greatly increasing while sales of products and other products are growing slightly.

8. Trends of Priority Products

palro



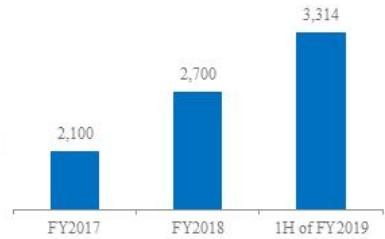
Change in the number of installations



Current situation

Number of units introduced at facilities and financial institutions
1,247 units (cumulative total)

moreNOTE®



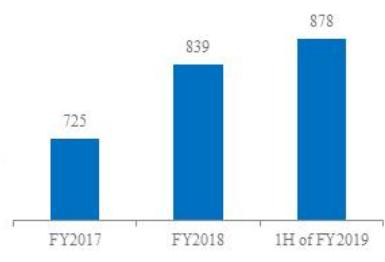
Number of companies that have introduced the file management and sharing service for mobile content

About 3,314 companies

(cumulative total)

* Total number of companies that introduced moreNOTE and SYNCNEL

みらいスクールステーション®



Number of schools that have introduced Mirai School Station
878 (cumulative total)

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This is a key product that we always provide: PALRO, moreNOTE, and Mirai School. It may seem that the growth rate is slightly weaker, but in this half year, it will grow slightly. We think moreNOTE is steadily capturing a fairly large share of the mobile content market.

Mirai School is also in line with the market because if we think that the progress of digitalization of education will accelerate it may be somewhat slower. This is the situation in which I expect the market to grow a little more.

I explained about our financial results for the first half. Thank you for listening.