FUJI SOFT INCORPORATED

Financial Results Briefing for the Fiscal Year Ended December 2019

February 13, 2020

Event Summary

[Company Name]	FUJI SOFT INCORPORATED
[Event Type]	Earnings Announcement
[Event Name]	Financial Results Briefing for the Fiscal Year Ended December 2019
[Fiscal Period]	FY2019 Annual
[Date]	February 13, 2020
[Time]	16:30 – 17:29 (Total: 59 minutes, Presentation: 37 minutes, Q&A: 22 minutes)
[Venue]	FUJISOFT Akihabara Bldg 5F AKIBAPLAZA Akiba Hall 3 Kandaneribei-cho, Chiyoda-ku, Tokyo 101-0022
[Participants]	56
[Number of Speakers]	4

Satoyasu Sakashita	President & Representative Director
Masaki Shibuya	Director & Senior Executive Operating Officer
Seto Arai	Director & Senior Executive Operating Officer
Tatsuya Naito	Operating Officer

1. Consolidated Financial Highlights-1 (4Q Results Jan-Dec)

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

◇ Consolidated net sales rose 13.1% year on year, to 231,074 million yen, following the strong performance of social infrastructure systems and automotive systems in embedded/control software, systems for distributors and service operators in operation software, systems for non-banks and for online services and system infrastructure construction and others in the System Construction. Products and Services also showed brisk performance.

Operating income rose due to higher sales.

◇ Operating income rose 16.4% year on year, to 13,266 million yen, reflecting the rise in sales.

◇ Ordinary income increased 13.9% year on year, to 13,749 million yen. (Details of factors for the changes are explained in "4. Consolidated Income Statement" on page 7.)

◇ Profit attributable to owners of parent stood at 7,836 million yen, up 20.3% year on year.

(Million yen)

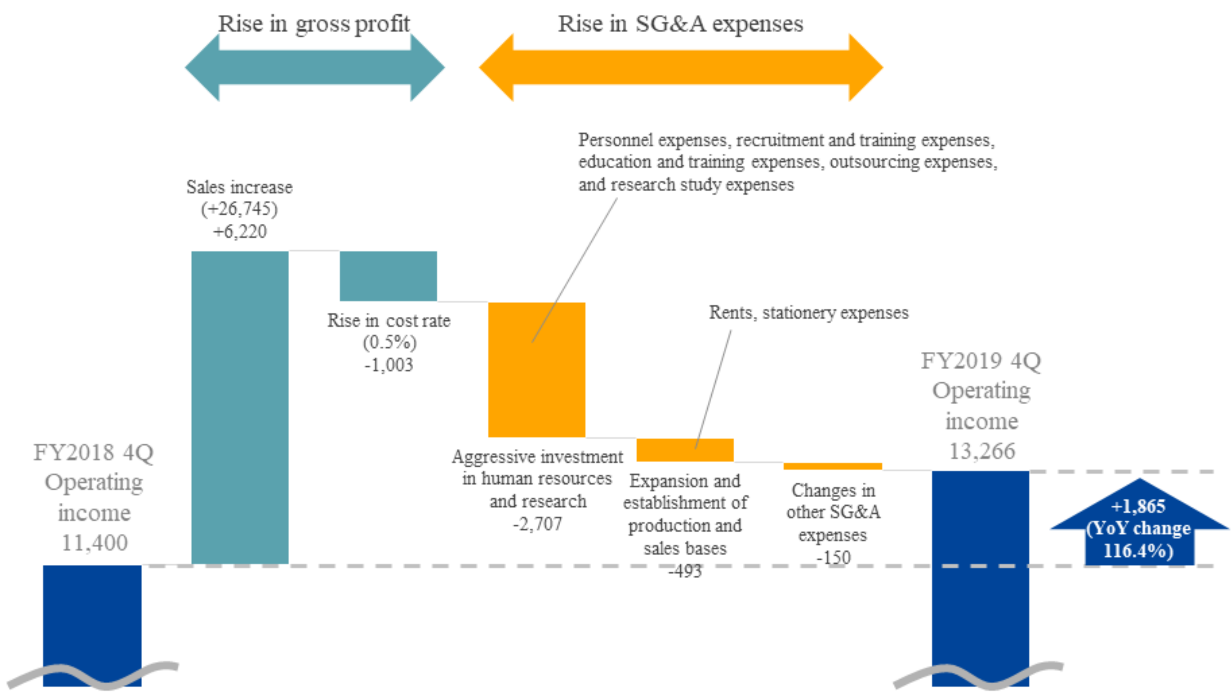
	FY2018 4Q results	FY2019 4Q results	YoY change (Amount)	YoY change (%)	FY2019 4Q plan	FY2019 Comparison with the plan
Net sales	204,329	231,074	+26,745	113.1%	210,500	109.8%
Operating income	11,400	13,266	+1,865	116.4%	11,700	113.4%
Operating income margin	5.6%	5.7%			5.6%	
Ordinary income	12,071	13,749	+1,678	113.9%	12,200	112.7%
Ordinary income margin	5.9%	6.0%			5.8%	
Profit attributable to owners of parent	6,516	7,836	+1,320	120.3%	6,700	117.0%
Profit margin attributable to owners of parent	3.2%	3.4%			3.2%	

First, I would like to explain the highlight of the consolidated results.

As you can see from the figures, the cumulative total of 4Q is JPY231 billion. Operating income was just under JPY13.3 billion. Ordinary income was more than JPY13.7 billion. Net income for the year was JPY7.8 billion. As described here, the content of this is the social infrastructure and automotive for embedded/control software, and for operation software, the manufacturing, distribution and services sectors. Or non-banks and Internet service sectors. And system infrastructure construction. We describe the field of infrastructure for the construction of business systems, such as hardware, networks, and other aspects of the environment as system infrastructure construction, as we explain later, and these fields are performing extremely well. Products and services are also performing well, with a sales figure of 113% compared to the previous year.

As noted here, operating income was 116%. the increase in operating income was a little more positive than the increase in sales. For ordinary income, whose details will be presented later, the figures are more than double digits even on a consolidated basis. Net income was in the 120% range, showing fairly good growth overall.

Trends in Consolidated Operating Income (Jan-Dec)



This is the operating income situation. With gross profit increasing, SG&A expenses is increasing slightly as the business expands. However, the figures in the graph show that even if the amount is compensated for, profits have increased.

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

Net sales rose 10.4% year on year.

The cost of sales margin increased to 78.0%.

◇ The cost of sales margin rose from 77.0% in the same period a year earlier, to 78.0%, after growth in sales of Products and Services centering on sales of other companies' products and involvement in temporary unprofitable projects for part of the operations.

SG&A expenses increased 820 million yen year on year.

◇ SG&A expenses increased by 820 million yen year on year, to 9,931 million yen, due to investments in human resources. However, the SG&A ratio improved year-on-year (from 17.7% to 17.4%), given that intensified workstyle reform and upfront investments in the acquisition of mobile equipment and others for boosting profitability for the same period a year earlier.

◇ As a result, operating income fell 5.2% year on year, to 2,598 million yen.

(Million yen)

	FY2019 3Q results	YoY change (Amount)	YoY change (%)	FY2019 Q4 results	YoY change (Amount)	YoY change (%)
Net sales	174,153	+21,370	114.0%	56,921	+5,375	110.4%
Cost of sales	133,946	+16,832	114.4%	44,391	+4,696	111.8%
Cost of sales margin	76.9%			78.0%		
Gross profit	40,207	+4,537	112.7%	12,529	+678	105.7%
SG&A expenses	29,539	+2,530	109.4%	9,931	+820	109.0%
Operating income	10,667	+2,007	123.2%	2,598	-141	94.8%
Operating income margin	6.1%			4.6%		

This slide focuses only on 4Q.

Net sales is 110%, but as you can see, sales are 110% and 111%, which is a part of cost, compared to the previous year. Here, the operating income is below the previous year. I think this is probably the point.

As a whole, development is increasing, and product services are also increasing. However, some of the temporary unprofitable projects were recorded in this 4Q, and this figure was negative JPY140 million, including the Group's overall performance.

SG&A expenses are, of course, positive because they are also necessary to boost the overall business. This is, as written, an aggressive investment in human resources. However, the SG&A-to-sales ratio, which has increased, has been improving, including upfront investment in work style reforms and productivity improvements. Although it has increased a little, it has been absorbed in some way. Rather, this 4Q, increase in cost-of-sales ratio is a point and it is a little negative for the numbers on these sides.

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

(Million yen)

	FY2019	Net sales	Operating income	
FUJI SOFT INCORPORATED	4Q results	150,082	7,754	Sales rose, reflecting the strong performance of social infrastructure systems and automotive systems in embedded/control software, systems for distributors and service operators in operation software, systems for non-banks and for online services and system infrastructure construction, and SI business centering on license sales in the Products and Services segment, resulting in a rise in operating income.
	YoY change (amount)	+19,436	+682	
	YoY change (%)	114.9%	109.7%	
CYBERNET SYSTEMS Co., Ltd.	4Q results	21,350	2,020	Sales increased, given strong sales in CAE 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)	+1,631	+517	
	YoY change (%)	108.3%	134.5%	
VINX CORP.	4Q results	29,748	1,669	Sales increased, chiefly after growth in projects for cashless settlement and point-of-sales related systems and in projects responding to the consumption tax hike with a reduced tax rate. Operating income rose due to higher sales and an improvement in the cost rate.
	YoY change (amount)	+4,123	+342	
	YoY change (%)	116.1%	125.8%	
CYBER COM Co., Ltd.	4Q results	13,967	746	Sales increased thanks to strong performance in software development, including operation software projects for life insurance systems and ones for the public sector, as well as system construction projects in the service business. Operating income increased due to the rise in sales and the improved cost of sales margin, which is attributed in part to increase of sales and productivity improvement.
	YoY change (amount)	+1,895	+137	
	YoY change (%)	115.7%	122.6%	
FUJI SOFT SERVICE BUREAU INCORPORATED	4Q results	11,472	607	Sales increased, following continued briskness in BPO services for public offices and local governments, and healthy performance in services 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)	+396	+19	
	YoY change (%)	103.6%	103.2%	

* Results from January to December, 2019 are stated in the FY2019 4Q results column.

This is the trend in the figures, including the four listed companies and the parent Company.

The double-digit growth across the board, and a certain increase in profit are secured. In the case of FUJI SOFT itself, I will not read it again, as I mentioned earlier, but in general, the business is performing well.

In Cybernet, domestic CAE solution services were robust, and robust performance by a development subsidiary in the US and a sales subsidiary in Asia contributed to the positive performance of Cybernet.

VINX has a slight one-off response to the consumption tax, but overall it has rebounded from last year's difficulties, or from last year or two, and it's on a positive trend.

Cyber Com's performance has been extremely strong, and the system sector described here has performed very well, with sales reaching 115% compared to a year ago, achieving steady double-digit growth.

BUREAU's business process outsourcing services for government agencies continued to perform strongly, as described here. Sales to the private sector were also strong. Overall, operating income increased substantially due to higher sales and lower costs. This is the highlight of the Group companies, listed companies.

3. Consolidated Sales/Operating Income by Segment

(Million yen)

	FY2019 Net sales 4Q results	Component ratio	YoY change (Amount)	YoY change (%)	FY2019 Operating income 4Q results	Operating income margin	YoY change (Amount)	YoY change (%)
Consolidated total	231,074	100.0%	+26,745	113.1%	13,266	5.7%	+1,865	116.4%
SI Business	215,508	93.3%	+26,231	113.9%	11,737	5.4%	+2,040	121.0%
System Construction	131,237	56.8%	+15,885	113.8%	7,636	5.8%	+664	109.5%
Embedded/Control Software	64,670	28.0%	+5,047	108.5%	4,444	6.9%	+202	104.8%
Operation Software	66,567	28.8%	+10,838	119.4%	3,192	4.8%	+462	117.0%
Products and Services	84,270	36.5%	+10,345	114.0%	4,100	4.9%	+1,375	150.5%
Products and Services	69,284	30.0%	+10,401	117.7%	3,142	4.5%	+1,438	184.4%
Outsourcing	14,985	6.5%	-55	99.6%	958	6.4%	-63	93.8%
Facility Business	2,899	1.3%	-10	99.6%	1,211	41.8%	+79	107.1%
Other Businesses	12,667	5.5%	+524	104.3%	317	2.5%	-254	55.5%

Highlights of Sales by Segment

● Embedded/Control Software

Sales increased 8.5% year on year, reflecting bullish performance of social infrastructure systems and auto-related systems. As a result, operating income rose 4.8% year on year.

● Operation Software

Sales increased 19.4% year on year, due mainly to solid sales to manufacturers, distributors, service operators, non-banks, online businesses and sales from system infrastructure construction. Sales growth pushed operating income up 17.0% year on year.

● Products and Services

Sales increased 17.7% year on year due to the strong performance of sales of other companies' products. Operating income leaped 84.4% year on year because sales grew and an investment was made to boost product quality in the same period a year earlier.

● Outsourcing

Sales dropped 0.4% following a decline in transactions with distribution and service sectors, despite a rise in operation and maintenance projects on a non-consolidated basis, which resulted in a decrease in operating income by 6.2% year on year.

Looking at trends in sales and operating profit by consolidated segment, it is the easiest to understand around this area, from the same period of the previous year. This shows that while the rate of embedded/control software for system construction is only 105%, the rate of growth for operation software is extremely positive in terms of operating income.

Sales is shown here. The results were 108% for embedded/control software, 119% for operation software, 117% for products, and a little negative for outsourcing. They are moving in this way.

Although operating income is slightly lower than embedded/control software, as is similar to sales growth, operating income is also very good for operation software and product services.

As described here, the increase in embedded/control software is slightly slower than that in operation software, but the increase in sales and profits is attributable to the strong performance of automotive.

Although I would like to add a few explanations later on operation software, it is very strong in various fields, and it is possible to report substantial growth.

Revenues from products and services increased due to strong performance not only by in-house products, but also by other companies' products. Operating income was slightly positive in reaction to the fact that we made some investments in product quality last year. However, operating income increased considerably.

With regard to outsourcing, the number of projects for operation on a non-consolidated basis is increasing. I feel that we explain this each time, but for the distribution and service sectors, it has almost bottomed out. It has become slightly negative.

4. Consolidated Income Statement

(Million yen)

	FY2018 4Q Results	FY2019 4Q Results	YoY change (Amount)	YoY change (%)	FY2019 4Q Plan	FY2019 Comparison with the plan
Net sales	204,329	231,074	+26,745	113.1%	210,500	109.8%
Cost of sales	156,808	178,337	+21,528	113.7%	–	–
Cost of sales margin	76.7%	77.2%	(1)			
Gross profit	47,520	52,736	+5,216	111.0%	–	–
Gross profit margin	23.3%	22.8%				
SG&A expenses	36,119	39,470	+3,350 (2)	109.3%	–	–
SG&A expense ratio	17.7%	17.1%				
Operating income	11,400	13,266	+1,865	116.4%	11,700	113.4%
Operating income margin	5.6%	5.7%			5.6%	
Non-operating income	637	667	+30	104.8%	–	–
Non-operating expenses	224	420	+196 (3)	187.4%	–	–
Share of (profit) loss of entities accounted for using equity method	258	236	-21	91.6%	–	–
Ordinary income	12,071	13,749	+1,678	113.9%	12,200	112.7%
Ordinary income margin	5.9%	6.0%			5.8%	
Extraordinary income	1,129	660	-468 (4)	58.5%	–	–
Extraordinary losses	2,363	395	-1,968	16.7%	–	–
Income before income taxes	10,837	14,014	+3,177	129.3%	–	–
Total income taxes	3,732	4,523	+790	121.2%	–	–
Net income	7,104	9,490	+2,386	133.6%	–	–
Profit attributable to non-controlling interests	588	1,655	+1,066	281.2%	–	–
Profit attributable to owners of parent	6,516	7,835	+1,320	120.3%	6,700	117.0%
Profit margin attributable to owners of parent	3.2%	3.4%			3.2%	

Points of Income Statement

(1) Cost of sales margin (77.2%)
An increase follows growth in Products and Sales centered on sales of other companies' products and securing of human resources for a flexible response to temporary unprofitable projects and changes in demand trends.

(2) SG&A expenses (+3,350 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

(3) Non-operating expenses (+196 million yen)
Share of (profit) loss of entities accounted for using equity method (-21 million yen)
Non-operating expenses surged after asset retirement for the streamlining of management and a foreign exchange loss (whereas a foreign exchange gain was posted in the same period a year earlier).
Share of (profit) loss of entities accounted for using equity method decreased due chiefly to a slide in profit of Ace Securities.

(4) Extraordinary income (-468 million yen)
Extraordinary losses (-1,968 million yen)
Extraordinary income includes the gain on sales of investment securities (while it represented the gain on sales of investment securities and the proceeds of a partial transfer of Cybernet Systems' business in the same period of the previous fiscal year).
Extraordinary losses include office transfer expenses and the impairment of investment securities (while it included the impairment loss of goodwill generated in the review of Cybernet Systems' business in the same period of the previous fiscal year).

P&L basis.

Simply put, as this is also described here, it is about the cost ratio. I mentioned products and services and unprofitable projects just before. In order to respond flexibly to demand and these changes, we have focused on training such as securing human resources in a preemptive manner or allocating human resources to areas where demand is high. Including these factors, there are areas where the cost of sales ratio has worsened slightly.

SG&A expenses. Aggressive upfront investment. This trend is continuing every year, but it increased a little.

Non-operating expenses and entities accounted for using equity method are described here. There are asset retirement, foreign exchange losses, a decline in the value of our equity-method affiliate Ace Securities, and other factors in this non-operating expenses section.

As described here, for extraordinary income and losses, there was a gain on the sale of a business by its subsidiary, Cybernet, in the previous fiscal year, and the Company had impaired goodwill on the part of Cybernet, which was the same. With these positive and negative figures on this side, this year's figures for extraordinary income and losses have fluctuated a little.

5. Consolidated Balance Sheet

(Million yen)

	End of FY2018	End of FY2019	Change (Amount)	
Current assets	77,315	88,009	+10,693	(1)
Cash and deposits	22,554	22,278	-275	
Notes and accounts receivable – trade	44,456	49,570	+5,114	
Securities	4,000	7,000	+3,000	
Inventories	3,354	5,930	+2,575	
Other	2,950	3,229	+278	
Non-current assets	115,310	119,609	+4,298	(2)
Property, plant and equipment	82,356	86,334	+3,977	
Intangible assets	4,738	4,043	-695	
Investments and other assets	28,214	29,231	+1,017	
Total assets	192,625	207,618	+14,992	
Current liabilities	49,428	48,106	-1,321	(3)
Accounts and notes payable – trade	9,526	13,361	+3,835	
Short-term loans payable	16,207	4,159	-9,048	
Commercial papers	-	3,000	+3,000	
Accrued expenses / provision for bonus	9,155	10,476	+1,321	
Income taxes payable	2,492	3,534	+1,042	
Provision for loss on construction contracts	252	194	-58	
Other	11,793	13,380	+1,586	
Non-current liabilities	23,526	32,691	+9,164	
Long-term loans payable	13,319	22,618	+9,298	
Other	10,207	10,073	-133	
Total liabilities	72,955	80,797	+7,842	
Total net assets	119,670	126,820	+7,149	
Total liabilities and net assets	192,625	207,618	+14,992	

Points of the Balance Sheet

(1) Current assets (+10,693 million yen)

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) Non-current assets (+4,298 million yen)

An increase resulting chiefly from acquisition of land for office space with a view toward strengthening the organization.

(3) Current liabilities (-1,321 million yen)
Non-current liabilities (+9,164 million yen)

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

Balance sheets.

As we have written here, current assets have increased by increasing inventories and by certificates of deposit for short-term fund management.

For fixed assets, the Company acquired buildings and office space.

The balance of current liabilities and long-term liabilities have changed slightly due to a review of the short- and long-term funding balance.

This is the situation.

6. Consolidated Cash Flow Statement

(Million yen)

	FY2018 4Q results	FY2019 4Q results	YoY change (Amount)
Cash flows from operating activities	11,192	12,584	+1,392
Cash flows from investing activities	-23,424	-9,442	+13,982
Cash flows from financing activities	14,766	-1,451	-16,218
Effect of exchange rate change on cash and cash equivalents	-103	-119	
Net increase (decrease) in cash and cash equivalents	2,430	1,570	
Cash and cash equivalents at beginning of period	22,157	24,587	
Cash and cash equivalents at end of period	24,587	26,158	

Highlights of Cash Flows

- Cash flows from operating activities

  Net cash provided by operating activities stood at 12,584 million yen, with a year-on-year increase of 1,392 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 9,442 million yen due to the purchase of land to secure office space. The figure for the same period of the previous fiscal year was 23,424 million yen, mainly due to the purchase of land and buildings to secure office space.

- Cash flows from financing activities

  Net cash used in financing activities was 1,451 million yen due to the payment of dividends, etc. The figure for the same period of the previous fiscal year was 14,766 million yen, reflecting loans payable associated with the purchase of land and buildings.

Cash flow statement.

I think you can see this as well, but cash flow from operating activities is increasing.

Cash flow from investing activities showed that the Company had invested considerably last year, and that it was not used that much, or it would be better to say that it improved.

As a result, we expect to raise less funds in the form of cash flow from financing activities.

7. Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	FY2019 4Q results							
	Order backlog at beginning of term	YoY change (%)	Orders	YoY change (%)	Net sales	YoY change (%)	Order backlog at end of term	YoY change (%)
SI Business Total	44,627	111.3%	225,592	116.4%	215,508	113.9%	54,712	122.6%
System Construction	31,330	114.1%	134,807	113.1%	131,237	113.8%	34,899	111.4%
Embedded/Control Software	12,759	111.6%	66,049	108.4%	64,670	108.5%	14,138	110.8%
Operation Software	18,570	116.0%	68,757	118.0%	66,567	119.4%	20,761	111.8%
Products and Services	13,297	105.2%	90,785	121.7%	84,270	114.0%	19,812	149.0%
Products and Services	10,795	111.1%	75,619	126.1%	69,284	117.7%	17,130	158.7%
Outsourcing	2,501	85.5%	15,165	103.8%	14,985	99.6%	2,681	107.2%

Highlights of Orders and Order Backlogs

●Highlights in System Construction

- Embedded/Control Software
  The order backlog at the end of the term increased 10.8% year on year due to strong orders for social infrastructure systems.

- Operation Software
  The order backlog at the end of the term increased 11.8% year on year thanks to solid orders, mainly from the manufacturing sector, distribution and service sectors, non-banks, and Internet businesses.

●Highlights in Products and Services

- Products and Services
  The order backlog at the end of the term increased 58.7% year on year, thanks to strong sales of other companies' products and firm orders for license sales.

- Outsourcing
  The order backlog at the end of the term increased 7.2% 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 following is an explanation of orders received and order backlog. This is also broken down into segments.

As seen in the three figures of orders received 113%, 108%, and 118%, the growth rate of the embedded/control software is slightly lower than that of the operation software, but the growth rate is still considerable.

Products and services and outsourcing are as explained earlier. Both sales and the order backlog at the end of the fiscal year are in proportion. We have a backlog of orders in excess of double digits, and we are entering the current fiscal year.

The contents of the segments are described above and mentioned earlier, so we will omit them.

8. Dividend

The year-end dividend for FY2019 will be increased to 22 yen per share.

In view of the full-year results, the year-end dividend will be increased from the prospective level of 20 yen per share to 22 yen per share, making the annual dividend 42 yen per share.

■ Trends in dividend (consolidated)

(Yen)

	End of interim period	Most recent prospective dividend	Determined amount of year-end dividend	Annual dividend
Dividend per share (FY2019)	20.00	20.00	**22.00**	**42.00**

As for the dividends, in the interim period, we increased the amount by JPY1 and JPY1 at the end of June. We increased the amount by JPY1 and JPY1 from JPY19 and JPY19 to JPY20 and JPY20. However, in the second half of the fiscal year, as we increased profit, we are going to increase the amount to JPY22, and the annual dividend will be JPY42.

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Accomplishments of Efforts in FY2019

Management points	Results and accomplishments in FY2019
■ Bold efforts for new technologies: AIS-CRM	Strong performance in the automotive sector was maintained and projects involving the use of the cloud and other technologies increased. As a result, AIS-CRM contributed to a majority of non-consolidated net sales and drove the expansion of financial results.
■ Promotion of the high value-added system integration business	Despite efforts to win more high value-added projects and to increase productivity, profitability fluctuated following sales changes in Products and Services.
■ 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.
■ Aggressive promotion of the product business	A massive income increase was attained chiefly from the termination of extended support for Windows 7 and by solid sales of POS systems associated with the consumption tax rate hike.
■ Growth as the overall Group and aggressive global development	Most group companies achieved higher sales and profits. Average net sales among the consolidated subsidiaries achieved double-digit sales growth for the first time.

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So far, we discussed some of the numerical values, and I would like to explain in areas other than numerical values.

As described here, in the sense of a major policy to date, we refer to new technologies as AIS-CRM in this field. In particular, this is an area where we have been putting considerable effort into CRM for the past decade, including the strong performance of automotive, and this Cloud, robotics, mobile and M in Automotive. This area is now the core of our business.

As explained in the supplementary explanatory materials, the automotive segment has sales of JPY20 billion, and Cloud, as it will appear a little later, though the segment is not well described, but this is quite large. It has become a bigger field than the automotive field. These kinds of automotive, robots, and Cloud. Or Cloud, robotics, and mobile. In these area, for the most recent AIS-CRM, AIS is still in the double-digit to slightly positive figures, but Cloud, robotics, and mobile businesses are growing considerably. Overall, they have grown to about half of the non-consolidated entrusted business, and this Cloud business in particular is performing well. We will explain this later.

As high-value-added integration, the shift to high-value-added products has been quite proceeding. If we put it the reduction in the cost-to-sales ratio, it may be difficult to understand, partly because of the impact of the mix with products and services. However, the Company has been able to steadily grow and improve added value.

Strengthening human resources and development of outsourcing services. We are already investing heavily in our human resources, expanding our human resources education and improving our systems. This is also making steady progress.

In the product business, we will discuss our own products for a while later, but there are stories about Windows 7 and Windows 10, and the POS system for handling the consumption tax at subsidiaries, all of which are growing very rapidly at present. Even for its own products, Wi-Fi routers are growing considerably. There are a variety of factors, but they are going well.

As of the year before last, the Group was still struggling at various growth stages, such as VINX and Cybernet. The management team has strengthened a little, and the Group as a whole is now able to move forward in a fairly favorable manner. We have not done much to look at consolidated subsidiaries on average, but the average growth rate of sales is double digits on the whole. It's other than the parent Company. You can still see double-digit growth. Though this is the first time that we have compiled this data, in FY2019 the Group as a whole has been moving in a favorable manner at this level for the first time.

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Results of Efforts Made in FY2019

Level of relative momentum of the fields served by the Company's businesses in FY2019 to FY2020
○ Very high ● High ▲Somewhat poor

		Legacy	AI	IoT	Security	Cloud & Virtualization	Robot	Mobile	Automotive
Embedded/Control Software									
Machinery manufacturing: Usually poor in growth rate		▲	●	○			▲		
Automotive: Continuously very high		○	○		○	○			
Social infrastructure systems		○	●						
Operation Software									
Finance-related businesses:	Poor	▲	●			○			
Distribution and service businesses:	High	○	●			○		○	
Manufacturing:	High	○	●	○					
System infrastructure:	Very high	○				○			
Online businesses:	Very high	○	●		○	○			
Public offices:	As usual	●							
Products & Services									
Cloud-related products:	Very high					○			
Windows 10-related products and services:	Very high	○							
FUJI SOFT products:	High	○					▲	○	

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We have tried to make the status of our business a little easier to understand.

In this supplementary explanatory material, we have divided our business into embedded/control software, operation software, and products and services field, and incorporated the segment of sales profit into the supplementary explanation. Although we are trying to make it easier to understand, there are some areas where it is difficult to easily switch segments, so we would like to explain a little more qualitative information.

With regard to machine manufacturing industry, this is a little difficult to understand. Conventional or legacy fields are those we have been working on. In particular, if they are entrusted business, you can think that they refer to existing entrusted field. In addition, there are AI-related, IoT-related, security-related, Cloud-related. Robot and mobile refer to just themselves, but robotics-related and mobile-related. Automotive are shown in the next row, so they are shown as dotted lines. Including AIS-CRM and conventional or legacy segment, we have used matrices to express it.

As for the embedded/control software in the materials on hand, the cumulative sales are expressed as 104% of the previous year's growth. However, we do not know how much the effect of the US-China trade friction or this coronavirus may be in the conventional or legacy field, but it is a matter of fact that it has become a little more restrictive.

On the other hand, IoT field, manufacturing industry or operating software field, which is shown below, are very strong, and even if the embedded/control software is somewhat weak, I think it has been fully covered in other fields. This is because the IoT field is quite favorable, and the investment is still expanding in this field in the manufacturing industry as well.

Automotive has remained generally favorable, and in relation to CASE in the automotive area, these segments are not well represented. However, automotive-related AI, security-related, Cloud, and connected worlds have naturally entered into our business, and this side is active.

Social infrastructures, described as the legacy field, are very active here. There are quite a lot of social infrastructures projects using AI. We don't have an open circle on the IoT section, but naturally there are 5G related businesses, for example, responses to the base stations. We use color coding in the legacy field and we don’t have an open circle in the IoT section. I think that the sections with an open circle are active businesses. Active means very good. The filled circles mean normal. The triangles can be viewed as somewhat restrictive.

In the operation software field, financial-related businesses. This is a triangle because the figures are falling when you look at the segments. In the context of digital transformation in finance, this AI or Cloud is something that is very active, but conversely, budget allocations have so far been slightly contained. However, this trend is also changing, and digitization does not always succeed in one-sided investment. We increasingly respond to this trend with existing fields in the future, and the outlook has become brighter. There are a lot of projects working on around this point, so some of which have been restrained, and shown as triangle.

The distribution and service sectors are generally favorable, and naturally there are many themes ranging from conventional development to AI. In particular, Cloud, and I would like to discuss e-commerce later on. Online business has grown greatly in the world of distribution, and we have included them in this world and as segments. The number of smartphone developments has increased greatly, and this area is very favorable.

Even if the embedded/control field is somewhat restrained in the manufacturing industry, this development field is very, oh, this is circled. It's a mistake. Cloud field is also performing very well in terms of segments. Currently, the term "lift-and-shift" has been used for a while. However, as a preliminary step for digitalization, there has been a considerable amount of talk about uploading various system platforms to Cloud. With this Cloud as a keyword, every field is performing very well.

In fact, this is a segment of other business, but this is not a breakdown of other businesses, although it is written as the system infrastructure, net business, government agencies, and so on. This, if anything, will be an industry segment. However, these system infrastructures, or the Internet business, are anything that will be required in any field, like cross-industry. We would like to explain the vertical in a matrix, but we could not explain it well, so we separated the segments and expressed in this way here.

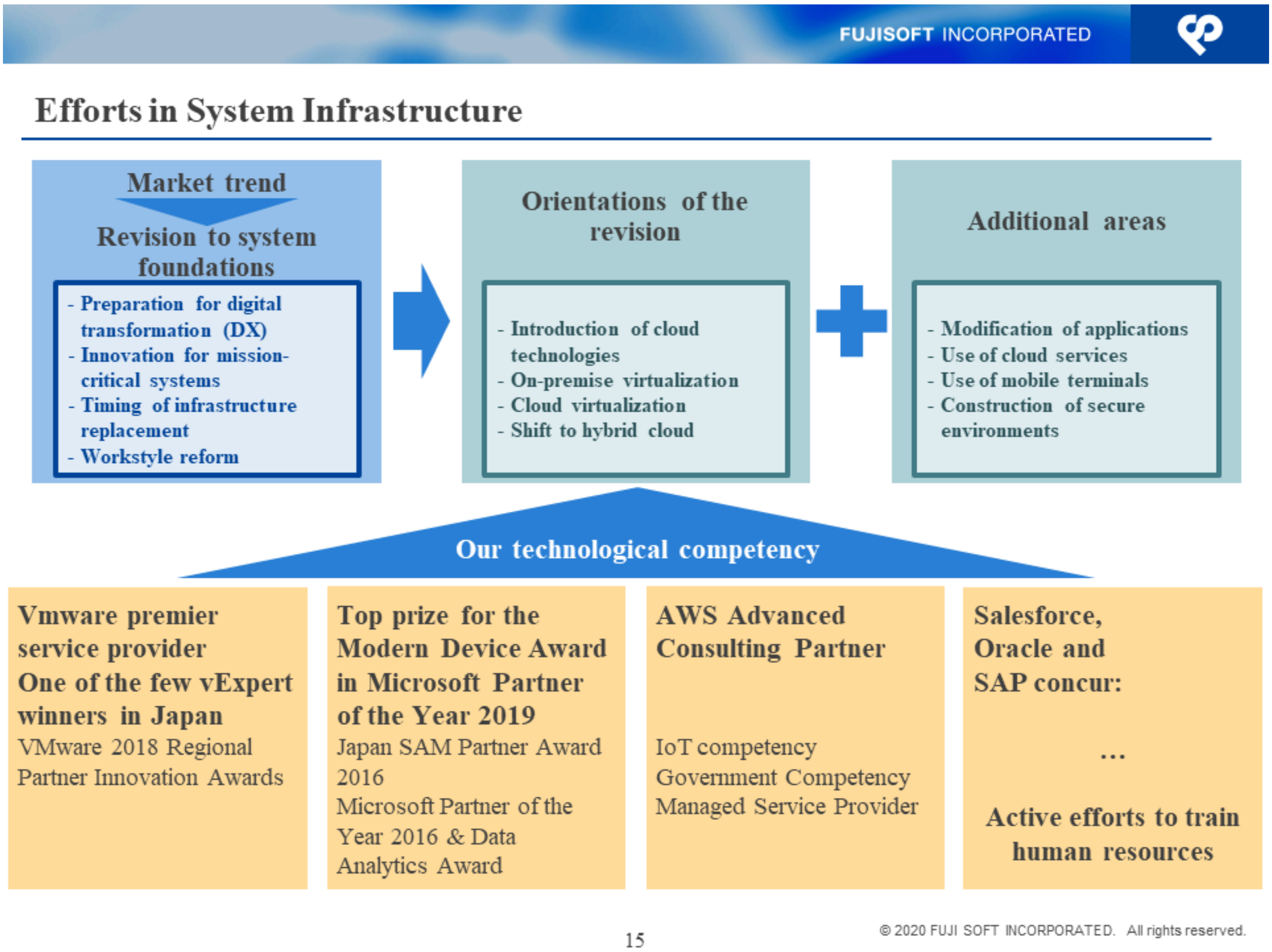
System infrastructures are related to a variety of fields, but when this is taken up, it is quite a great deal to renovate a variety of system infrastructures that have been built up to now, and in particular, to make them Cloud. In the “lift-and-shift” world I mentioned earlier, there are many customers or users who are focusing on Cloud greatly, and there is an enormous market here.

Moreover, though we have not emphasized so far, the Internet business, or the strengthening of the world of e-commerce, which is said to be an Amazon effect, is remarkably brisk, and in addition to the legacy field, the number of themes including security and Cloud is increasing greatly.

The government agencies were expressed as segments, but normally in addition to this, in the products and services field, there is an increase in the number of Cloud products, that is contracts as systems integration-based construction using Cloud. Cloud related products are performing very well because licensing and various other products are sold here.

Windows 10 was a very active product last year, and our own products, as we explain later, the mobile-related products are trending strongly.

Machinery and control, and automotive are the only ones to be addressed in the Company, but the segments are very diverse, and there are many themes that are extremely demanding, even if there are quite a few human resources. We are working hard to shift our human resources to these themes, shifting to high-value-added services.



Let me briefly summarize what I have emphasized in the area of system infrastructure. While the keywords of market trends and digital transformation are flagging, in the world, there are quite a number of moves to respond to these keywords.

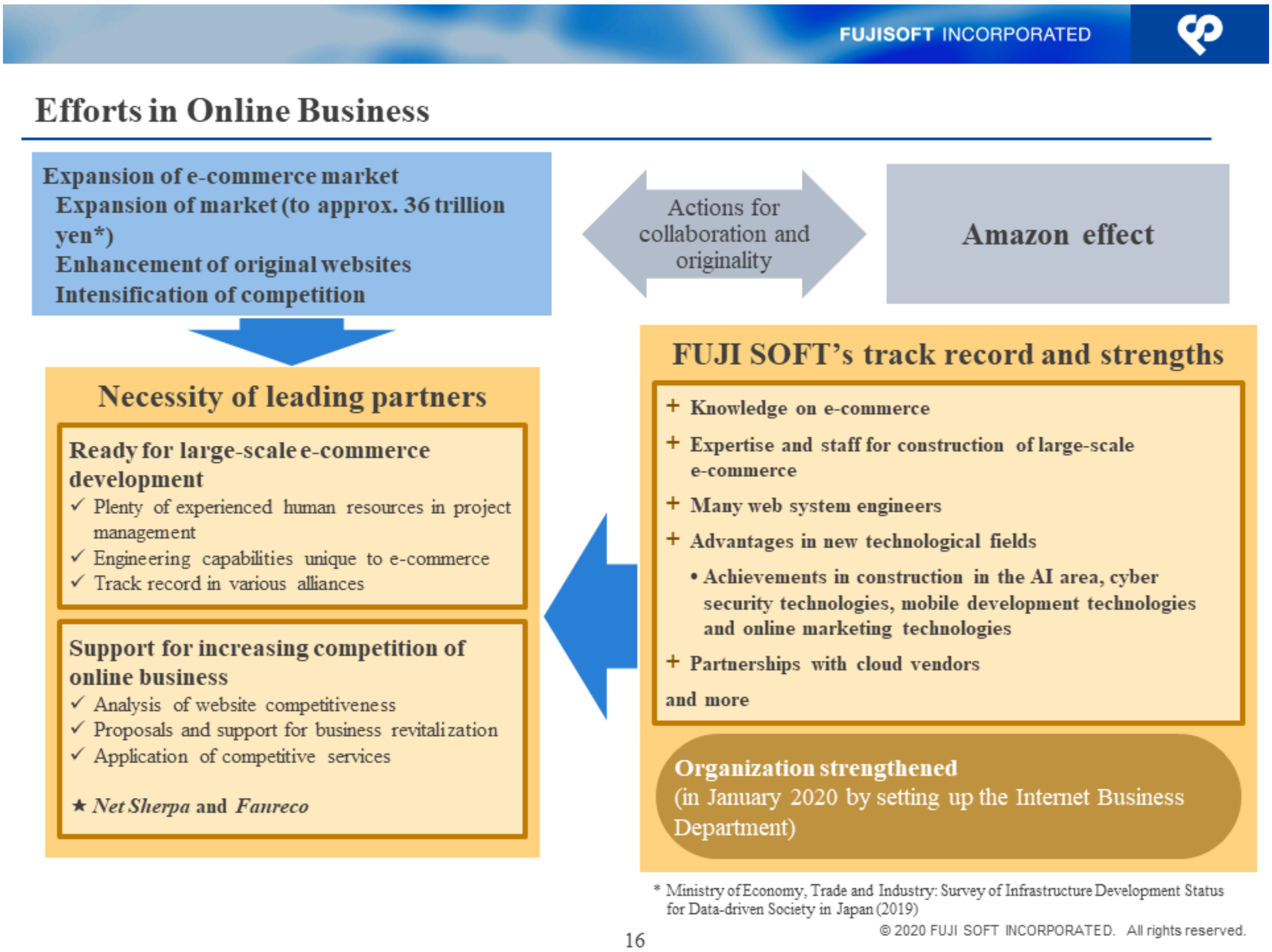
Including the keywords of digital-enabled, in particular, the foundation supporting the mission-critical systems, and working-style reforms, systems infrastructure has led to the steady increase in Cloud, such as hardware owned by so-called on-premises systems, servers, and so on. If Cloud doesn't work alone, on-premises virtualization, virtualization on Cloud, and hybridization technologies are used. There's a tremendous amount of movement happens today.

To do this, of course, even if it is centered on this side, it requires a full array of ancillary functions. A Company that creates applications, provides Cloud services, which is service provider, the use of SaaS, the use of mobile devices, and the creation of secure environments. This sector of systems infrastructure does not identify industries, and all are doing well.

We have a great deal of competency and technology to support this, as we have written here. We have not used it in such IR activities, but we have described it in this report. We are accredited as a VMware premier service provider, and one of Japan's leading vExpert. VM is the Number One company in the world in virtualized business. VMware has the Number One virtualization technique. They have chosen experts in this area, and among the only 80 experts in Japan, eight are our employees. VM wants us as a partner to move when creating an infrastructure that uses these new virtual technologies, so there is a great need. This is very buoyant.

In addition to this, we have been dealt with Microsoft, Amazon, Salesforce, Oracle, SAP Concur, or others. As described here, Microsoft has awarded us for various partners every year. with Amazon, we have the first governmental agency competency in Japan, and Amazon is being used by the government, as mentioned earlier in the Nikkei Shimbun. There will be a boom in the number of solutions in this field. It is still quite active, but considering that it will increase further in the future, it is quite large and it will grow on this front. So we're moving aggressively to virtualization and Cloud technologies, bringing together our people, and moving forward with projects that are quite large.

In this area, depending on how far we factor in, but in total, I think that the automotive business now stands at JPY20 billion, and by Cloud alone we can now do more than 200 businesses. The segments are somewhat complex, and we want to express them successfully in vertical and horizontal segments, though there are some cases where they overlap and cannot be successfully meshed. I would like to explain them in a more qualitative manner now.



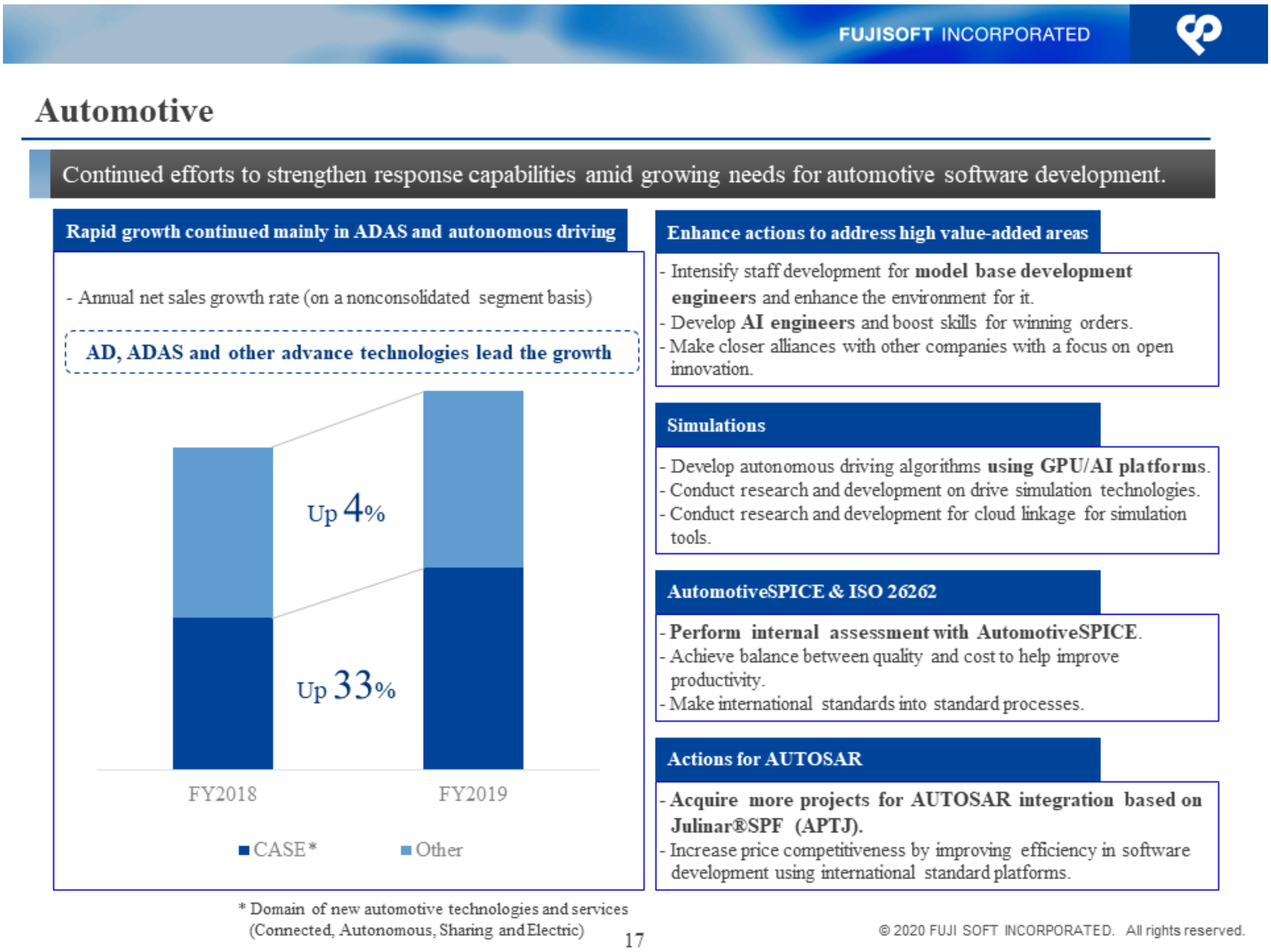
Moreover, Internet business. This has also been explained in the previous IR report. The EC market is expanding greatly. We have written JPY362 trillion for the expansion of the market, and there is also here, but as a statistic, it is going to appear. E-commerce has a strong image of B2C, but the market for any B2B transaction would be about that much larger now that these Internet businesses have been used.

On the other hand, Amazon Effects are popular in the world, but by responding to cooperation and uniqueness, strengthening its own sites and responding to intensifying competition, the necessity of a leading partner is very important now. Moreover, the large scale is a very big theme, and the EC used to be small, and there have been few EC businesses that created and sold JPY10 billion a decade ago. Today, there are a lot of EC sites greater than JPY10 billion, and the system has grown considerably larger.

EC does not create from one to 100, but there is a combination of various things, for example, a wealth of PMs, EC-specific engineering, or any other kind. It will be necessary not only to create systems for Internet businesses, but also to make proposals or support them in order to enhance their competitiveness.

We have expertise in this e-commerce business, considerable experience in e-commerce, and a lot of web-based engineers. In addition, AI, securities and so on are all the more involved in e-commerce, so these specialists are in need. Of course, the need for Cloud, the use of SaaS functions which are Cloud serviced, and the so-called complex technologies demand us, and order for us, which have proven successful in this area.

For this reason, we established a new business division in January to create a business unit that specializes in the Internet business. Although these segments are generally not divided, and if we try to create such a business division, it would be impossible to establish a business category unless there is approximately JPY5 billion in sales. This has not yet been achieved. I hope that you will understand that it is becoming such a business as we made such a business division.



Also, the world of automotive software. Among the segments mentioned above, there are figures of about JPY20 billion in sales, but if we divide this into legacy and so-called CASE fields, we can see that CASE field is growing significantly. As described here, high value-added technologies may be the key word. Many new keywords will be introduced in the development of automobiles. Model-based, I think it is a new model-based approach to the design and development of automobiles. Technology education for the part that is called model-based development, and needless to say, AI, will also be included in automobiles. Open innovation involves a variety of combinations.

Or simulations. Simulations for autonomous driving of automobiles have recently been called digital twins, but they will be strengthened in virtual spaces in conjunction with actual machines. We will take advantage of the GPUs and AI platforms needed to do so.

Alternatively, this might be an AutomotiveSPICE or an ISO26262 approach that ensures that the so-called developmental processes are in place and that quality and costs are balanced.

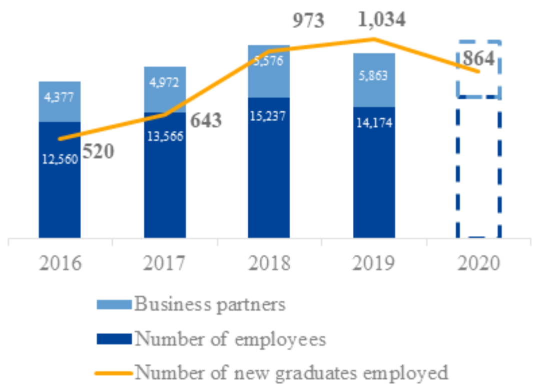
AUTOSAR, I think you know this, but it's a product of a company called APTJ that was created in collaboration with Mr. Takada of Nagoya University, which is Julinar. We are working to increase added value through the use of these products, and we are responding to the needs of CASE in these fields in an extremely precise manner.

FUJISOFT INCORPORATED

Hiring Human Resources (Hiring and Specialized Human Resources)

Number of employees and business partners

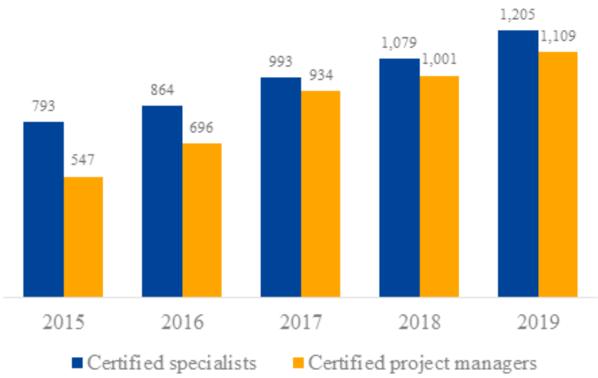
Strengthen readiness by increasing employees and business partners.
The rate of increase is slightly adjusted in consideration of the current demand trend.



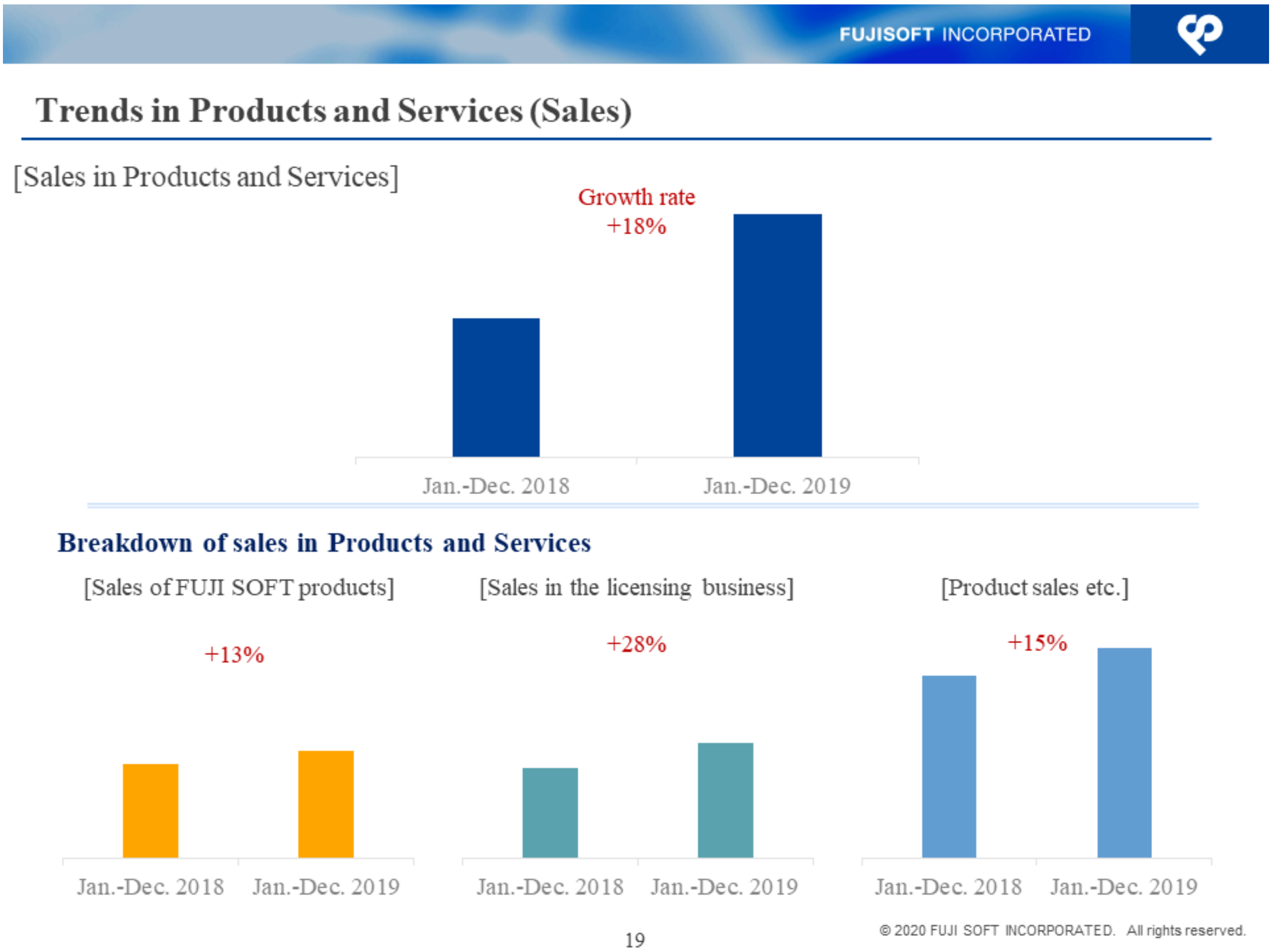
Number of people employed: Non-consolidated + Listed subsidiaries (people)
Number of employees: Consolidated as of the end of December (people)
Business partners: Number of staff on a non-consolidated basis as of the end of December 2018 (people)

Number of 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).



Upgrading the personnel system. As described in this report, there are some unevenness, but we are steadily nurturing people and strengthening the content and the human resources themselves. This is a system within the Company, which includes specialties, the PM, and specialists. We have steadily increased the number of these people.



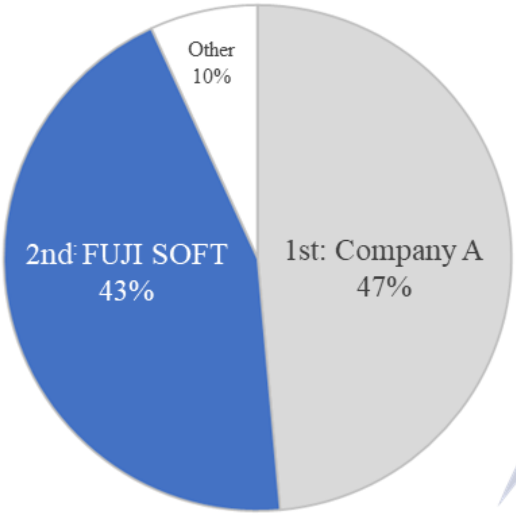
Product services are also expressed in terms of in-house products, licensing business, and product sales of other companies' products. While licensing of products has grown greatly during this season, sales of other products have also grown steadily.

Mobile Routers

Existing models sell strongly in the market for MVNOs.
The product lineup will be enriched to prolong the growth.

- With a high sales quantity in terms of existing models, FUJI SOFT holds the second largest market share in the market for MVNOs.
- Product enhancement in adaptation to changes in users' needs produced a positive effect.
- FUJI SOFT will endeavor to meet new demand, such as models for 5G and IoT devices, with a view toward gaining a higher position in the market.

[Market share in mobile routers for MVNOs (March 2019)
(Source: FUJI SOFT)]



[Trend in sales quantity by FUJI SOFT model]

This is the first sudden impression in IR, and this is a mobile router. It's in our own product, but it's a model for MVNO market. Today, we're leaving a SF30W square mobile router, totaling 325,000 units today. It is a JPY tens of thousands product, and when multiplied by the price, the price is slightly different, but I think you can understand that a considerable volume is selling.

Today, we are the second largest player in the market, and we have been doing this kind of business for a considerable period of time. At last, we have increased our market share and reached a certain level of sales. We are handling such products. I would like to introduce them today.

Results Forecasts for FY2020

FY2020

The plan sets a net sales target that is 3.0% higher and an operating income target that is 2.5% higher than in the previous fiscal year.

(Million yen)

	FY2019 Results	FY2020 Plan	YoY change (Amount)	YoY change (%)
Net sales	231,074	**238,000**	+6,925	103.0%
Operating income	13,266	**13,600**	+333	102.5%
Operating income margin	5.7%	**5.7%**		
Ordinary income	13,749	**13,850**	+100	100.7%
Ordinary income margin	6.0%	**5.8%**		
Profit attributable to owners of parent	7,836	**8,000**	+163	102.1%
Profit margin attributable to owners of parent	3.4%	**3.4%**		

As mentioned above, we have projected the figures of JPY238 billion, JPY13.6 billion, JPY13.8 billion, and JPY8 billion for the next fiscal year. Our numerical targets for the next fiscal year are promises that we will always observe externally. I believe that if this momentum is implemented, it will become even more positive and positive. Of course, we intend to proceed in this way, but this is the absolute number that we will protect externally, and we have published this figure as the figure for the consolidated results forecast this time.

Trends of Dividends and the Plan

Annual dividend of FY2020 is planned to be 51 yen per share.

For FY2020, a commemorative dividend of 5 yen per share will be offered in commemoration of the 50th anniversary.
(Including ordinary dividend of 46 yen per share, annual dividend will be 51 yen per share.)

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

(Yen)

	FY2016 Results	FY2017 Results	FY2018 Results	FY2019 Results	FY2020 Plan
Per-share net income	161.63	185.33	208.22	250.40	255.64
Dividend per share	29	33	37	42	46
Commemorative dividend	-	-	-	-	5
Dividend payout ratio	17.9%	17.8%	17.8%	16.8%	19.9%

Regarding the dividend, the regular dividend will be JPY46 for the next fiscal year. The first half and second half, JPY23 and JPY23. I forgot to say that we commemorate the 50th anniversary this year. On May 15, we celebrate the 50th anniversary of our founding. Although no pun is intended, we pay a commemorative dividend of JPY5. We would like to pay JPY5 and a total of JPY51.

So far, I have talked about 2019 and FY2020 forecasts and dividends. Thank you very much.