



FUJI SOFT INCORPORATED

Q2 Financial Results Briefing for the Fiscal Year Ending December 2021

August 6, 2021

Event Summary

[Company Name]	FUJI SOFT INCORPORATED	
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[Participants]		
[Number of Speakers]	5	
	Satoyasu Sakashita	President & Representative Director
	Masaki Shibuya	Director & Senior Executive Operating Officer
	Seto Arai	Director & Senior Executive Operating Officer
	Mari Morimoto	Director Operating Officer
	Masashi Umetsu	Operating Officer
[Analyst Names]*	Hideaki Tanaka	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Moderator: Thank you very much for your patience. We will now hold FUJI SOFT INCORPORATED's financial results briefing for the second quarter of the fiscal year ending December 2021. Thank you very much for taking time out of your busy schedule to join us today.

First of all, I would like to introduce the attendees from FUJI SOFT INCORPORATED. I would like the attendees to introduce yourself after your names are read out.

Satoyasu Sakashita, President & Representative Director.

Sakashita: This is Sakashita. Thank you.

Moderator: Masaki Shibuya, Director & Senior Executive Operating Officer.

Shibuya: This is Shibuya. Thank you.

Moderator: Seto Arai, Director & Senior Executive Operating Officer.

Arai: This is Arai. Thank you.

Moderator: Mari Morimoto, Director Operating Officer.

Morimoto: This is Morimoto. Thank you.

Moderator: Masashi Umetsu, Operating Officer.

Umetsu: This is Umetsu. Thank you.

Moderator: That is all for the attendees. Thank you.

Next, I would like to explain the content of today's proceedings. First of all, Mr. Sakashita will explain the details of our financial results. Afterwards, we will hold a question-and-answer session. Please let us know your company name and your name and ask your questions.

We would now like to explain the financial results for the second quarter of the fiscal year ending December 2021. Then, I will hand over to President Sakashita.

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

Net sales rose due to strong performance in Products and Services and System Construction.

- ◇ Net sales rose 8.1% year on year, to 132,508 million yen thanks to the strong performance of Products and Services, especially in sales of licenses and hardware products, as well as strong performance of system infrastructure construction in operation software and products for the financial sector.

Operating income rose due to higher sales.

- ◇ Operating income rose 3.4% year on year, to 8,731 million yen, reflecting the rise in sales.
- ◇ Ordinary income rose 9.0% year on year, to 9,462 million yen, in part due to a rise in sales and higher foreign exchange gains.
- ◇ Profit attributable to owners of parent rose 20.3% year on year, to 4,653 million yen, reflecting higher extraordinary income through the sale of investment securities.

(Million yen)

	FY2020 1H Results	FY2021 1H Results	YoY change (Amount)	YoY change (%)	FY2021 1H Plan	FY2021 Comparison with the plan
Net sales	122,568	132,508	+9,939	108.1%	123,300	107.5%
Operating income	8,446	8,731	+285	103.4%	8,500	102.7%
Operating income margin	6.9%	6.6%			6.9%	
Ordinary income	8,677	9,462	+785	109.0%	8,700	108.8%
Ordinary income margin	7.1%	7.1%			7.1%	
Profit attributable to owners of parent	3,868	4,653	+785	120.3%	4,100	113.5%
Profit margin attributable to owners of parent	3.2%	3.5%			3.3%	

Sakashita: I will now use this document to explain the financial results.

First, let's look at the consolidated financial highlights.

As you can see from the table below, sales were JPY132.5 billion, 108% YoY. Operating income was JPY8.7 billion. Ordinary income was JPY9.4 billion, or 109%. This means that net income was JPY4.6 billion, or 120%.

As mentioned above, sales were strong in license sales and product services centered on hardware products. In the operation software, system infrastructure and financial services performed well.

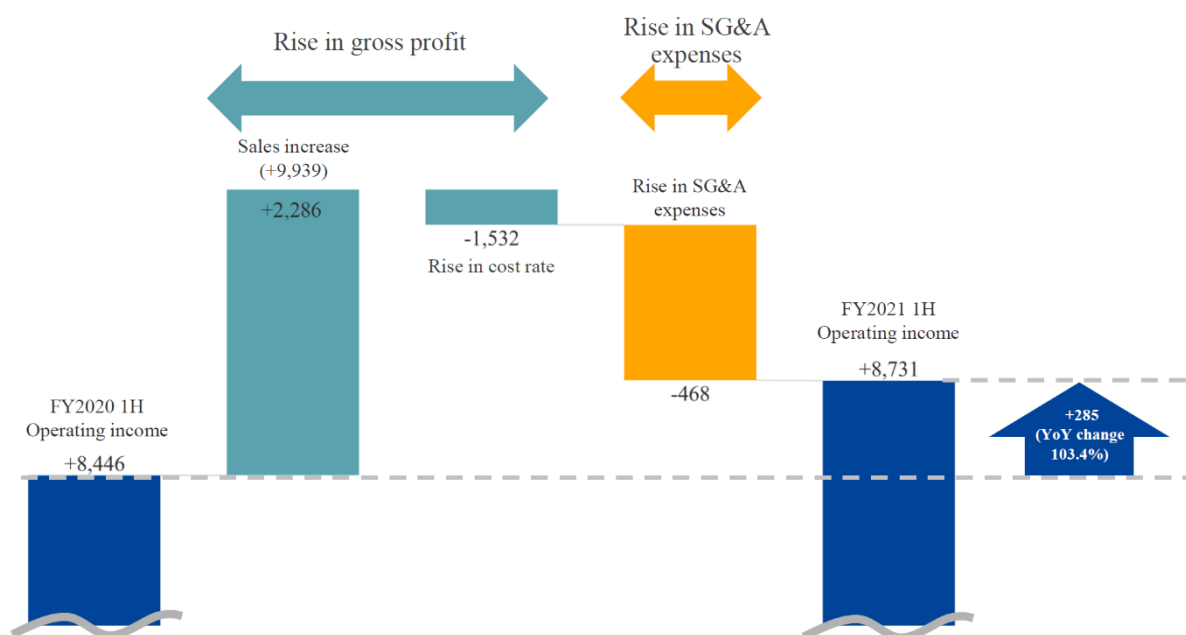
Operating income is 103% due to the increase in sales, but this includes the foreign exchange gain in ordinary income. Net income for the period was 120%, including the gain on sales of investment securities.

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Trends in Consolidated Operating Income (1H)



Operating income.

Basically, the increase in sales is positive, but the cost ratio is slightly positive, which has a negative impact, and SG&A expenses are positive. This is the reason for the increase compared to the previous year.

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

Net sales rose 5.9% year on year.

The cost of sales margin declined to 78.0%.

- ◇ The cost of sales margin fell to 78.0% in the second quarter under review due to major hardware sales projects for the GIGA School Program in the previous period.

SG&A expenses increased 310 million yen year on year.

- ◇ While transportation-related expenses associated with commuting and business travel declined due to the COVID-19 pandemic, SG&A expenses rose 310 million yen year on year, in part due to increased expenses from upfront investments to strengthen the framework for receiving orders due to growth in business inquiries.
- ◇ Operating income rose 3.7% year on year, to 4,133 million yen.

(Million yen)

	FY2021 1Q Results	YoY change (Amount)	YoY change (%)	FY2021 2Q Result	YoY change (Amount)	YoY change (%)
Net sales	65,928	+6,221	110.4%	66,580	+3,718	105.9%
Cost of sales	51,665	+5,923	113.0%	51,900	+3,262	106.7%
Cost of sales margin	78.4%			78.0%		
Gross profit	14,262	+297	102.1%	14,679	+456	103.2%
SG&A expenses	9,664	+157	101.7%	10,546	+310	103.0%
Operating income	4,598	+139	103.1%	4,133	+146	103.7%
Operating income margin	7.0%			6.2%		

The results of the second quarter are as follows.

JPY66.5 billion in sales. Operating income was JPY4.1 billion, both of which are positive figures when compared to the previous fiscal year.

The cost of sales ratio was slightly negative due to the hardware sales of GIGA School in the previous fiscal year, but SG&A expenses were slightly increased. As a result, operating income was JPY4.1 billion.

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

(Million yen)

	FY2021	Net sales	Operating income	
FUJI SOFT INCORPORATED	1H Results	91,476	4,379	Net sales grew, reflecting strong performances of system infrastructure construction and development for the financial sector in operation software development, as well as brisk sales of licenses and hardware products in the Products and Services segment. Operating income declined due to an increase in sales of hardware products from other companies and the generation of temporary unprofitable projects, and because human resources were increased in advance to reinforce the system for receiving orders in response to an increase in inquiries.
	YoY change (Amount)	+8,863	-64	
	YoY change (%)	110.7%	98.5%	
CYBERNET SYSTEMS Co., Ltd.	1H Results	12,507	2,238	Net sales increased due to increased sales from the domestic CAE solution service business and from overseas subsidiaries in Taiwan, China, South Korea, the US and elsewhere. Operating income grew following the sales growth and decrease in expenses.
	YoY change (Amount)	+635	+207	
	YoY change (%)	105.4%	110.2%	
VINX CORP.	1H Results	14,549	1,268	Net sales increased chiefly due to growing needs for DX in the retail industry in Japan and the deepening of relationships with existing customers, offsetting a decline in overseas sales attributable to the impact of COVID-19. Operating income increased, mainly reflecting improvements in productivity.
	YoY change (Amount)	+467	+145	
	YoY change (%)	103.3%	113.0%	
CYBER COM Co., Ltd.	1H Results	7,423	537	Net sales increased thanks to the strong performance of the Company's in-house product-related projects in the service business, in addition to strong performance of communication and operation system development projects in the software development business. Operating income grew following the sales growth and decrease in expenses.
	YoY change (Amount)	+559	+117	
	YoY change (%)	108.2%	128.1%	
FUJI SOFT SERVICE BUREAU INCORPORATED	1H Results	4,086	176	Net sales declined in part due to stalled sales activities aimed at the private sector due to COVID-19 and the partial end of call center services for government offices, despite growth in BPO services and call center services for local governments. Operating income declined due to lower sales and the effects of price competition against the background of market entrants from other industries.
	YoY change (Amount)	-551	-156	
	YoY change (%)	88.1%	53.0%	

* Results from January to June, 2021 are stated in the FY2021 1H results column.

This is the figure for listed companies.

The main unit, FUJISOFT, has double-digit 110% sales. Operating income was lower than the previous year.

As mentioned here, in the operation software, system infrastructure, and financial systems. In products and services, sales of licenses and hardware products were strong. Operating income was slightly negative due to a slight change in the product mix and some one-time unprofitable projects.

In addition, in order to strengthen the order system in response to changes in business conditions, we increased the number of employees in advance, which resulted in a slight increase in the second quarter, but the slight decrease in the first quarter has been dragged down, resulting in a slight decrease in the period from January to June.

As mentioned here, Cybernet was able to increase operating income rather than sales due to increased sales in domestic CAE and overseas.

For VINX, overseas sales, especially in Asia, were affected by the coronavirus, but in Japan, deepening the customer base was a positive factor, and operating income grew considerably more than sales due to positive factors such as productivity.

For Cybercom, in the software development business, communication and operation software development projects were strong. In the service industry, sales increased due to strong projects for in-house products. Operating income is up considerably due to the increase in sales and the decrease in expenses.

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In SERVICE BUREAU, BPO services and call center services for local governments grew, but sales to the private sector declined due to stagnant sales activities caused by the new coronavirus infection and the partial termination of call center services for public offices.

In addition to the decrease in sales, operating income decreased due to the impact of the coronavirus on the outsourcing business, as well as price competition caused by the entry of companies from other industries.

That was the status of each listed company.



3. Consolidated Sales/Operating Income by Segment

(Million yen)								
	FY2021 Net sales		YoY change (Amount)	YoY change (%)	FY2021 Operating income		YoY change (Amount)	YoY change (%)
	1H Results	Component ratio			1H Results	Operating income margin		
Consolidated total	132,508	100.0%	+9,939	108.1%	8,731	6.6%	+285	103.4%
SI Business	126,612	95.6%	+10,675	109.2%	8,286	6.5%	+489	106.3%
System Construction	70,777	53.4%	+3,643	105.4%	4,362	6.2%	+310	107.7%
Embedded/Control Software	33,165	25.0%	+88	100.3%	2,230	6.7%	-156	93.4%
Operation Software	37,611	28.4%	+3,554	110.4%	2,131	5.7%	+467	128.1%
Products and Services	55,835	42.1%	+7,032	114.4%	3,923	7.0%	+179	104.8%
Products and Services	49,026	37.0%	+7,343	117.6%	3,421	7.0%	+167	105.1%
Outsourcing	6,808	5.1%	-310	95.6%	501	7.4%	+12	102.5%
Facility Business	1,252	0.9%	-75	94.3%	406	32.5%	-52	88.6%
Other Businesses	4,644	3.5%	-660	87.6%	38	0.8%	-151	20.3%

Highlights of Sales by Segment

● Embedded/Control Software

Sales increased 0.3% year on year with automotive systems and mobile systems still recovering, despite the strong performance of social infrastructure systems.
Operating income fell 6.6% year on year, due to an upfront increase in human resources aimed at reinforcing the system for receiving orders and temporary unprofitable projects.

● Operation Software

Sales increased 10.4% year on year, reflecting robust performance of system infrastructure construction, projects for government offices, and sales to the financial sector.
Operating income rose 28.1% year on year thanks to sales growth, offsetting declines from temporary unprofitable projects.

● Products and Services

Sales increased 17.6% year on year, due to bullish sales of licenses from other companies and hardware products.
Operating income also rose 5.1% following the sales growth.

● Outsourcing

Sales contracted 4.4% year on year due mainly to the shrinkage of service fees because of the closure of stores of overseas customers.
Operating income rose 2.5% year on year.

Net sales and operating income by consolidated segment.

If you take a look at this page, you will see that the SI business is 109% in sales. Operating profit margin of 6.5%, 106.3% YoY. This is the SI business.

Regarding the system construction field, sales is 105.4% YoY and operating income is 107.7% YoY. Among them, the main embedded and operation software, as you can see here, sales in the embedded/control software field were 100.3%, almost the same as the previous year. On an operating income basis, this means a slight decrease in sales. For the operation software, sales were 110%, and operating income was 128%.

As you can see here, in the embedded/control, the social infrastructure increased, but the automotive and mobile fields are still in the process of recovery. Profits were down slightly from the previous year, as we thought that business conditions could recover a little more, so we tried to respond by increasing the number of employees, and there were also some unprofitable projects.

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Operation software sales were 110%, and infrastructure and public sector sales were strong. Although there were some unprofitable projects here, we were able to absorb them, and operating income increased significantly.

Products and services. This figure is 117% due to the strong sales of licenses and products. As for operating income, the growth was due to these factors, and the effect of the increase in sales contributed to the operating income of 105%, which is a little less than the growth in sales.

Outsourcing. This was due to the impact of the closure of overseas customers' stores at subsidiary VINX, resulting in a decrease in outsourcing sales, so it is slightly decreasing. However, operating income is slightly positive due to the effects of various cost controls and other factors.



4. Consolidated Income Statement

(Million yen)						
	FY2020 1H Results	FY2021 1H Results	YoY change (Amount)	YoY change (%)	FY2021 1H Plan	FY2021 Comparison with the plan
Net sales	122,568	132,508	+9,939	108.1%	123,300	107.5%
Cost of sales	94,380	103,566	+9,186	109.7%	—	—
Cost of sales margin	77.0%	78.2%	(1)			
Gross profit	28,188	28,942	+753	102.7%	—	—
Gross profit margin	23.0%	21.8%				
SG&A expenses	19,742	20,210	+468 (2)	102.4%	—	—
SG&A expense ratio	16.1%	15.3%				
Operating income	8,446	8,731	+285	103.4%	8,500	102.7%
Operating income margin	6.9%	6.6%			6.9%	
Non-operating income	309	646	+337	209.0%	—	—
Non-operating expenses	185	66	-118	36.0%	—	—
Share of (profit) loss of entities accounted for using equity method	107	150	+43	140.6%	—	—
Ordinary income	8,677	9,462	+785	109.0%	8,700	108.8%
Ordinary income margin	7.1%	7.1%			7.1%	
Extraordinary income	224	2,759	+2,535 (3)	—	—	—
Extraordinary losses	1,064	2,753	+1,688	258.6%	—	—
Income before income taxes	7,836	9,469	+1,632	120.8%	—	—
Total income taxes	2,760	3,494	+733	126.6%	—	—
Net income	5,076	5,974	+898	117.7%	—	—
Profit attributable to non-controlling interests	1,208	1321	+113	109.4%	—	—
Profit attributable to owners of parent	3,868	4,653	+785	120.3%	4,100	113.5%
Profit margin attributable to owners of parent	3.2%	3.5%			3.3%	

Points of Income Statement

(1) Cost of sales margin (78.2%)

An increase due in part to growth in sales of hardware products and licenses from other companies and temporary unprofitable projects.

(2) SG&A expenses (+468 million yen)

Increase in expenses due to proactive upfront investment including increased hiring

(3) Extraordinary income (+2,535)

Extraordinary losses (+1,688)

Increase in extraordinary income due to a gain on the sale of investment securities resulting from sale of cross-shareholdings.

Extraordinary losses increased due to a loss on sale of shares of subsidiaries and associates, as well as property, plant and equipment impairment losses.

Consolidated income statement.

We don't really have a key point except for the cost ratio. This is due to a change in the product mix and a slight increase due to unprofitable operations as I mentioned earlier.

For number 2, selling, general, and administrative expenses. We are also actively investing in increased hiring, etc., so there is a slight increase in this area.

Extraordinary gains, extraordinary losses. There is a slight increase in extraordinary income, but the extraordinary income is from the sale of cross-shareholdings, which is a part of our ongoing efforts, and investment securities from the sale of these stocks. As for the extraordinary loss, we have a loss on the sale of affiliated companies and a loss on property, plant, and equipment.

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5. Consolidated Balance Sheet

	End of FY2020	End of 1H of FY2021	Change (Amount)	(Million yen) End of 1H of FY2020 (Reference)
Current assets	105,363	106,413	+1,049	97,746
Cash and deposits	38,330	40,809	+2,479	30,830
Notes and accounts receivable – trade	52,750	51,469	-1,281	49,608
Securities	6,000	5,500	-500	7,500
Inventories	5,526	4,809	-717	6,136
Other	2,756	3,825	+1,068	3,670
Non-current assets	129,173	119,242	-9,930	125,181
Property, plant and equipment	89,928	90,384	+456	89,787
Intangible assets	4,705	5,030	+324	4,485
Investments and other assets	34,539	23,827	-10,711 (1)	30,909
Total assets	234,537	225,656	-8,880	222,928
Current liabilities	68,751	57,689	-11,062	60,516
Notes and accounts payable – trade	12,519	13,993	+1,473	13,094
Short-term loans payable	24,156	11,681	-12,475 (2)	22,295
Accrued expenses / provision for bonus	10,801	9,813	-988	9,665
Income taxes payable	3,155	4,441	+1,285	2,734
Provision for loss on construction contracts	319	172	-146	177
Other	17,799	17,587	-211	12,549
Non-current liabilities	30,623	29,062	-1,560	32,246
Long-term loans payable	20,515	20,163	-352	22,272
Other	10,107	8,899	-1,207	9,973
Total liabilities	99,374	86,752	-12,622	92,762
Total net assets	135,163	138,904	+3,741	130,166
Total liabilities and net assets	234,537	225,656	-8,880	222,928

Points of the Balance Sheet

(1) Investments and other assets (-10,711 million yen)

Decrease in investment securities due to the sale of cross-shareholdings

(2) Short-term loans payable (-12,475 million yen)

Repayment of short-term loans payable aimed at securing working capital during the COVID-19 pandemic

Balance sheet.

We don't have many points to mention except for investments and other assets. This is due to the fact that we are selling our cross-shareholdings as I mentioned earlier.

This short-term borrowing. We secured working capital in March or April or sometime around then last year in order to increase liquidity on hand, and the repayment of that loan has resulted in a negative figure.

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6. Consolidated Cash Flow Statement

(Million yen)

	FY2020 1H Results	FY2021 1H Results	YoY change (Amount)
Cash flows from operating activities	5,235	9,589	+4,354
Cash flows from investing activities	-10,032	8,269	+18,301
Cash flows from financing activities	13,733	-13,755	-27,489
Effect of exchange rate change on cash and cash equivalents	-15	348	
Net increase (decrease) in cash and cash equivalents	8,921	4,452	
Cash and cash equivalents at beginning of period	26,158	37,450	
Cash and cash equivalents at end of period	35,079	41,902	

Highlights of Cash Flows

- [Cash flows from operating activities](#)

Net cash provided by operating activities stood at 9,589 million yen due to an increase in money received, attributable to higher sales and profits.

The amount increased by 4,354 million yen year on year due to license procurement expenditures in the previous year.

- [Cash flows from investing activities](#)

Net cash provided by investing activities was 8,269 million yen due to the sale of investment securities and shares of subsidiaries and associates.

The amount increased 18,301 million yen year on year due to expenditures on construction costs to secure office space in the previous period.

- [Cash flows from financing activities](#)

Net cash used in financing activities was 13,755 million yen due to the repayment of short-term loans payable.

The amount decreased 27,489 million yen year on year due to borrowing for the securing of working capital in the previous period.

Cash flow.

In terms of operating activities, the figure of JPY9.5 billion is a considerable increase, but this is due to the fact that we procured licenses in the previous year, so the YoY difference is JPY4.4 billion.

Cash flows from investing activities. As I explained earlier, there was the YoY increase due to the sale of shares in affiliated companies, as well as construction costs for office investment.

Also, financing activities. This is the repayment of the short-term loans payable I mentioned earlier, which means it is negative.

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7. Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	Order backlog at beginning of term	YoY change (%)	FY2021 1H Results					YoY change (%)
			Orders	YoY change (%)	Net sales	YoY change (%)	Order backlog at end of term	
SI Business total	60,265	110.1%	124,381	104.0%	126,612	109.2%	58,034	99.4%
System Construction	35,768	102.5%	75,083	112.0%	70,777	105.4%	40,075	115.2%
Embedded/Control Software	14,075	99.6%	33,203	100.1%	33,165	100.3%	14,113	99.2%
Operation Software	21,693	104.5%	41,879	123.7%	37,611	110.4%	25,961	126.3%
Products and Services	24,496	123.6%	49,298	93.7%	55,835	114.4%	17,959	76.0%
Products and Services	22,412	130.8%	42,428	92.4%	49,026	117.6%	15,813	74.1%
Outsourcing	2,084	77.7%	6,870	102.4%	6,808	95.6%	2,145	94.6%

Highlights of Orders and Order Backlogs

● Highlights in System Construction

- Embedded/Control Software

Orders increased 0.1% year on year with machine control systems and automotive systems still recovering, despite the strong performance of social infrastructure systems.

The order backlog at the end of the term dropped 0.8% year on year.

- Operation Software

Orders increased 23.7% year on year due to strong performance of projects for distribution and services, the financial sector and government offices.

The order backlog at the end of the term rose 26.3% year on year.

● Highlights in Products and Services

- Products and Services

Orders fell 7.6% year on year due to large sales of licenses from other companies and hardware sales projects in the previous year. The order backlog at the end of the term dropped 25.9% year on year.

- Outsourcing

Orders increased 2.4% year on year due to an increase in services and operation and maintenance projects for the distribution sector. The order backlog at the end of the term dropped 5.4% year on year.

Orders received and order backlog for SI.

As you can see here, the embedded/control software. This is due to an increase in the social infrastructure sector, but the machine control and automotive sectors are still recovering, so it is about 100% YoY. It's getting better than last year. The order backlog is 99.2%, although there is a slight plus/minus in relation to sales.

Operation software. Orders received were 123.7% due to strong orders from distribution, services, finance, and public offices. As a result, the order backlog at the end of the period was 126.3%. This has been a high level.

As for products and services, there was a slight decrease due to the large license and hardware sales in the previous year. At the same time, the order backlog at the end of the period is also decreasing.

Outsourcing. This is also a slight increase, but only a slight increase, due to an increase in operation and maintenance projects in the distribution industry. The order backlog at the end of the period is about 100%, but it has been fluctuating around 94.6%.

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8. Dividends

Interim dividend of 26 yen per share, forecast year-end dividend of 26 yen per share

- While an interim dividend of 25 yen per share was forecast, it will be raised to 26 yen per share based on a comprehensive accounting of business performance.
- In conjunction with this change, the forecast year-end dividend of 25 yen per share will also be revised to 26 yen per share.

■ Interim dividends

	At the end of the second quarter of FY2021	Most recent dividend forecast	Actual dividend in the previous fiscal year*
Dividend per share	26.00 yen	25.00 yen	28.00 yen

(Yen)

- Including 50th anniversary commemorative dividend of 5 yen

■ Year-end dividends (forecast)

	At the end of the second quarter of FY2021	Most recent dividend forecast	Actual dividend in the previous fiscal year
Dividend per share	26.00 yen	25.00 yen	23.00 yen

(Yen)

Next is dividends.

Initially, we had set the target at JPY25, but since the net income for the current fiscal year was quite positive this time. The target for the first half is JPY26, an increase of JPY1.

It will be shifted to the second half and at the end of the fiscal year, so JPY26 each. We would like to pay interim and year-end dividends of additional JPY1.

I would like to talk a little bit more about the business situation.

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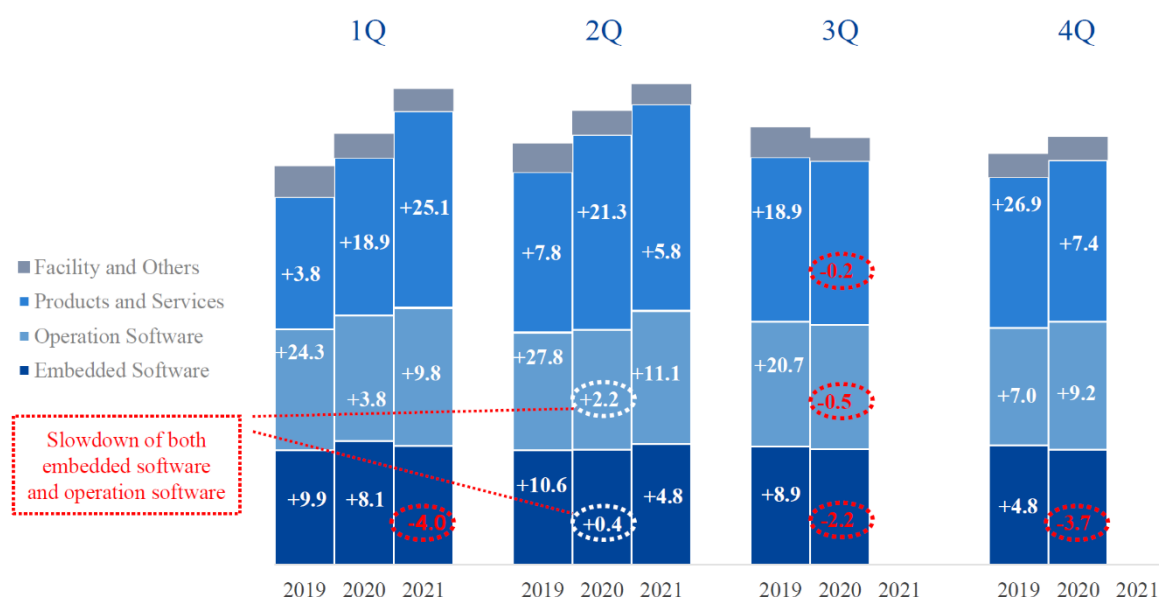
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Quarterly Change in Business Results (FY2019 to 2Q FY2021)

Quarterly **Net Sales** by Segment (Consolidated)

Numbers represent year-on-year percentage change (%)



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This may be a little difficult to understand, but sales by segment realized a quarter cut.

The first quarter of 2019, the second quarter of 2020, the first quarter of 2021, and so on, separated by consolidated sales. Embedded, operation, products, and facility services are displayed in different colors.

It's a bit confusing, but we have been following the trend since 2019.

In 2019, the first quarter before the coronavirus was a 9.9% growth YoY. For the second quarter, plus 10.6%, and it was still growing by double digits. The third quarter, 8.9%, and fourth quarter 4.8%. So this is the trend.

In 2020, the first quarter before the coronavirus, which was the period from January to March last year, sales grew at a rate of 8.1%, which is a little uneven but close to double digits. From here, in the second quarter of last year, which was around April to June, the growth rate of embedded software was the same level as the previous year.

In addition, the period from July to September last year was negative in sales. The period from October to December was also negative. In the period from January to March of this year, sales were also negative, and sales were affected for 3 quarters, or about 4 quarters if we include this 0.4%. However, with the recovery of the manufacturing industry, sales have recovered to 4.8% in this second quarter.

I can't deny that we struggled a bit during the past year. In the manufacturing industry, we have been affected by the economic outlook a little later than expected, and in a sense, the manufacturing industry, the embedded software has been holding on in a bit of a downtrend for the past year. I'm hoping that things will start to improve from here, so I'm expecting that things will go up in a very good way.

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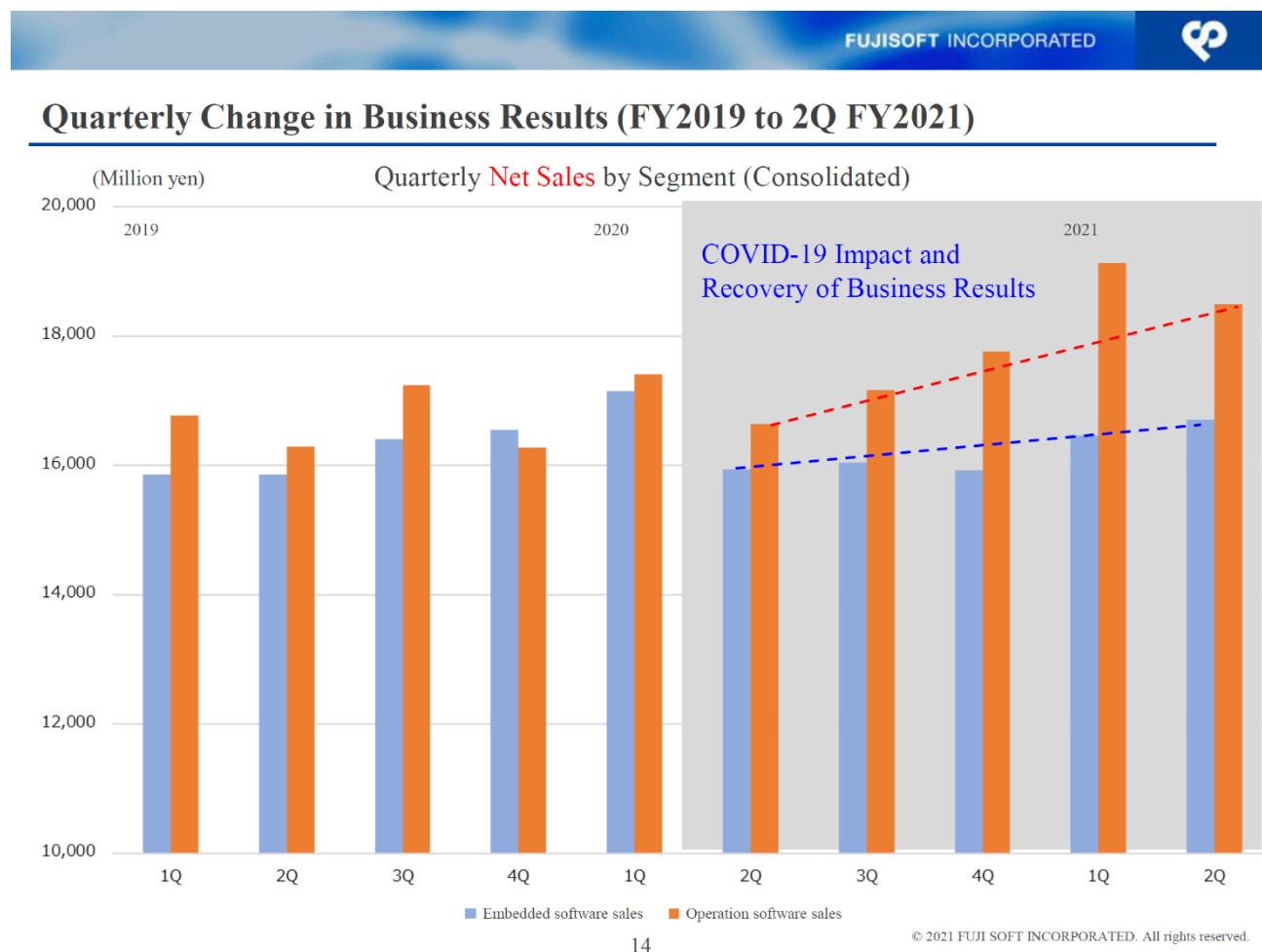
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If we look at the operation software, they are 24.3%, 27.8%, 20.7%, and 7%. 3.8% from there. The operation software started to be affected from the period from April to June last year, and it became quite negative in 3Q. However, in the 4Q stage, it was turning out to be quite positive. Furthermore, the period from January to March was also positive 9.8%. In the second quarter, the rate was 11.1%, and although operation software was affected by this, it recovered in about 6 months. Even though it has recovered, there's still some advantages and disadvantages due to the coronavirus.

The bad parts are bad, and the good parts are good, but we are still making business shifts, market shifts, and shifts to fields where there is demand, and we are winning this advantage.

Therefore, I believe that the trend from here on will not be that much lower but rather will continue to rise.



This is the sales trend by quarter, but this is expressed as a YoY comparison. This was expressed in terms of absolute sales figures. This one is embedded software, and this one is operation software.

Let's start with embedded software. When we look at the first quarter, the second quarter, the third quarter, the fourth quarter, the first quarter, the second quarter, for the trend of 2019, the normal trend is that from the first quarter to the second quarter, the trends are about the same, and then it goes up in the third quarter and the fourth quarter, and then goes up in the first quarter again. The impact of the coronavirus was very evident, and sales declined, both in absolute terms and in comparison to the previous year.

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However, when we look at the first quarter, the YoY comparison shows a decline, but sales have been steadily increasing. It is still slower than this trend, but it is a little more positive in the first quarter compared to the previous quarter.

The second quarter was, well, a lot more positive than the first quarter. In the previous year, there was a drop from the first quarter to the second quarter, but in 2019, the trend has been positive, which is usually about even, so in absolute terms, the embedded software is turning into a positive trend.

I don't think I have to tell you about the operation software, but it is in a very positive tone. It is normal for the operation software to drop from the first quarter to the second quarter, as this is how it usually works. If we look at this, this is the overall trend.

So, I think it is safe to say that both embedded and operation software have been quick to recover, while the operation software has been quicker to recover.

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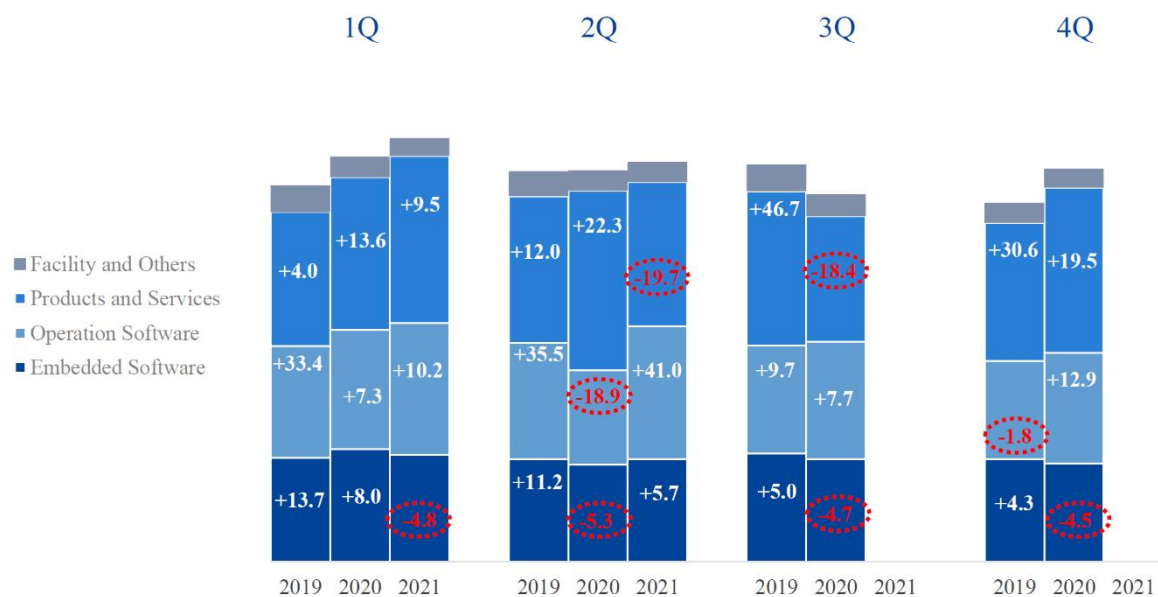
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Quarterly Change in Business Results (FY2019 to 2Q FY2021)

Quarterly **Orders** by Segment (Consolidated)

Numbers represent year-on-year percentage change (%)

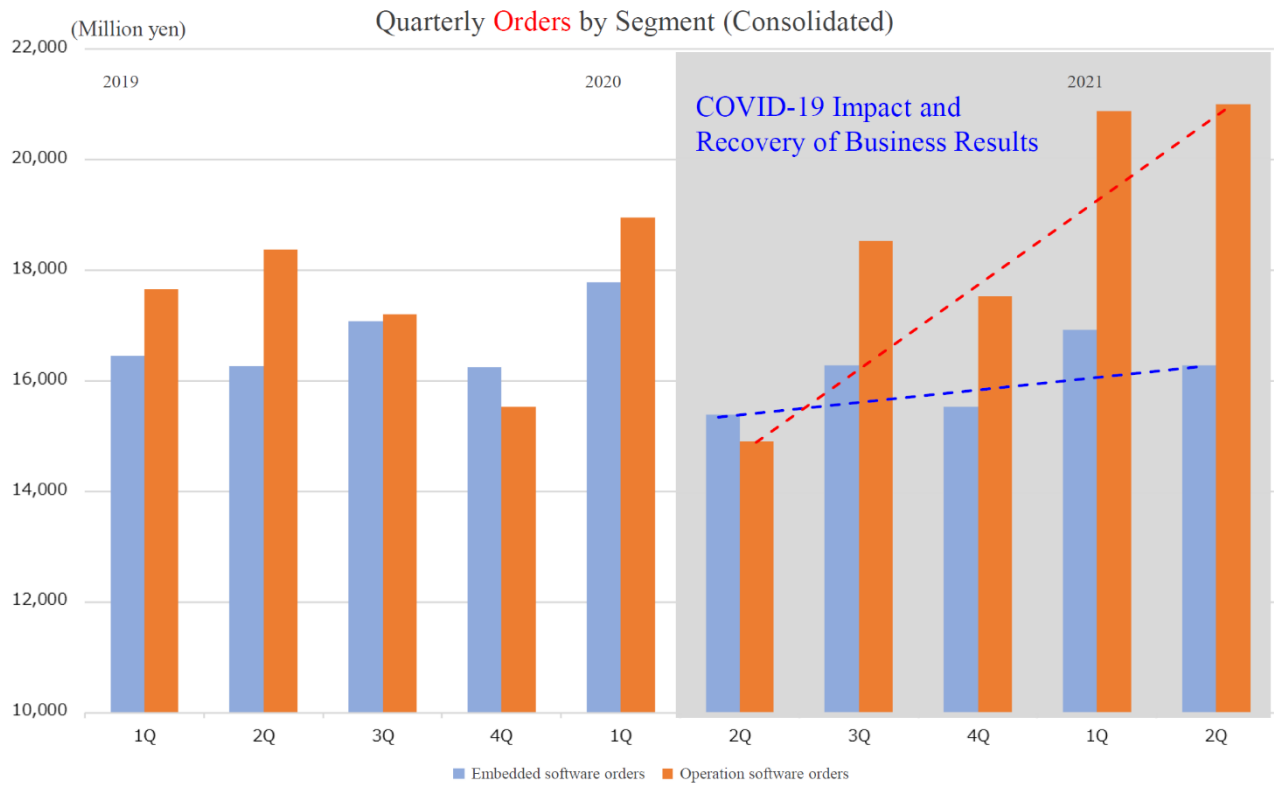


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Quarterly Change in Business Results (FY2019 to 2Q FY2021)



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On pages 15 and 16, we made similar graphs for orders, but the trend is almost the same, so you can see it later.

In this context, I will explain again about the key points of the management we have been doing.

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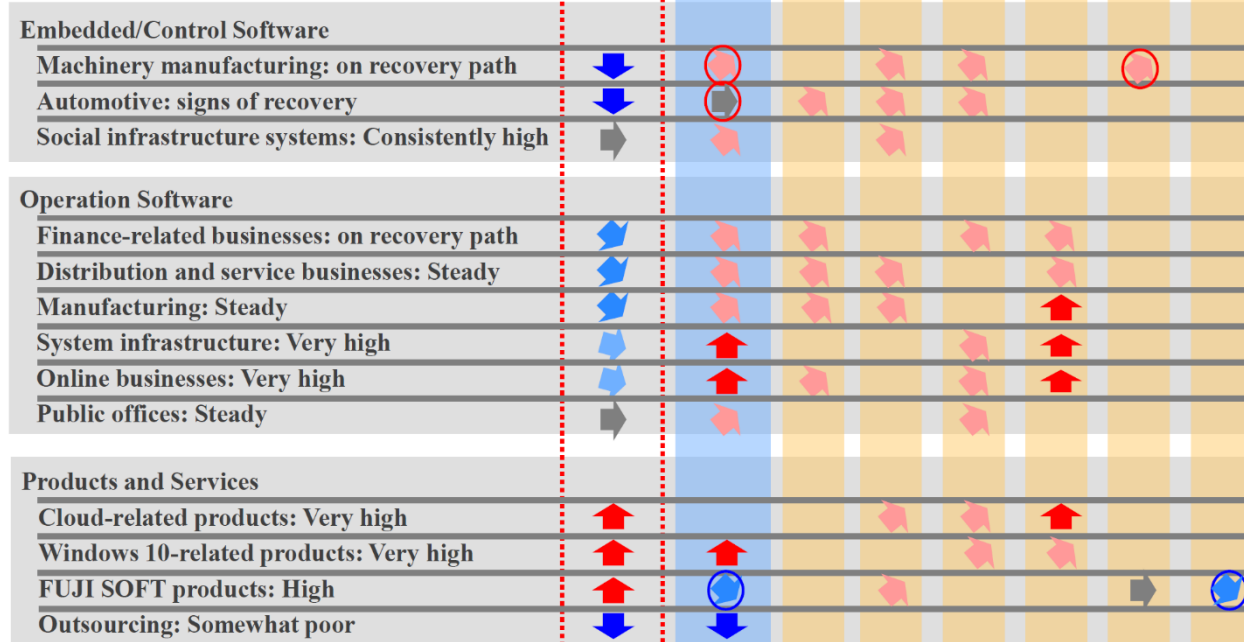
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Business Trends in the First Half of FY2021

Level of relative momentum of the fields served by the Company's businesses in FY2020 and the First Half of FY2021



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The following is a summary of business conditions in the first half.

The embedded/control software field. The impact of the coronavirus crisis on the market, which was used in the announcement of the financial results for FY2020, was quite negative in the machinery manufacturing and automotive sectors for the embedded/control software.

Social infrastructure was so-so, but even the operation software, finance, technical services, manufacturing, infrastructure, and the Internet business were all affected, even if they were doing well. The public offices were not so bad. The products, on the other hand, was a plus because of demand due to the coronavirus.

This shows the impact of the coronavirus crisis on the market.

In contrast, this picture shows what has happened to the conventional field and AIS-CRM, the field in which we are working.

As for the machinery manufacturing industry, the red circles indicate changes from the explanation in the previous financial results. Regarding the machinery manufacturing industry and the automotive field, the machinery manufacturing industry is on a recovery trend. The one that was previously in a downtrend is now in a recovery trend. I think that the robots are starting to show signs of recovery.

As for the automotive field, the figures are not yet that strong, but we are seeing signs of recovery. In these areas of AI, IoT, and security, we are seeing a lot of positive results.

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Social infrastructure is doing well, and traditional fields are doing well. This kind of IoT is also becoming quite positive.

The rest of the market is up overall, almost unchanged from the trend of the last financial results. Investment in system infrastructure and the Internet business had been halted for a while, but this was quite positive. After all it is DX, and it is doing well with digital shift.

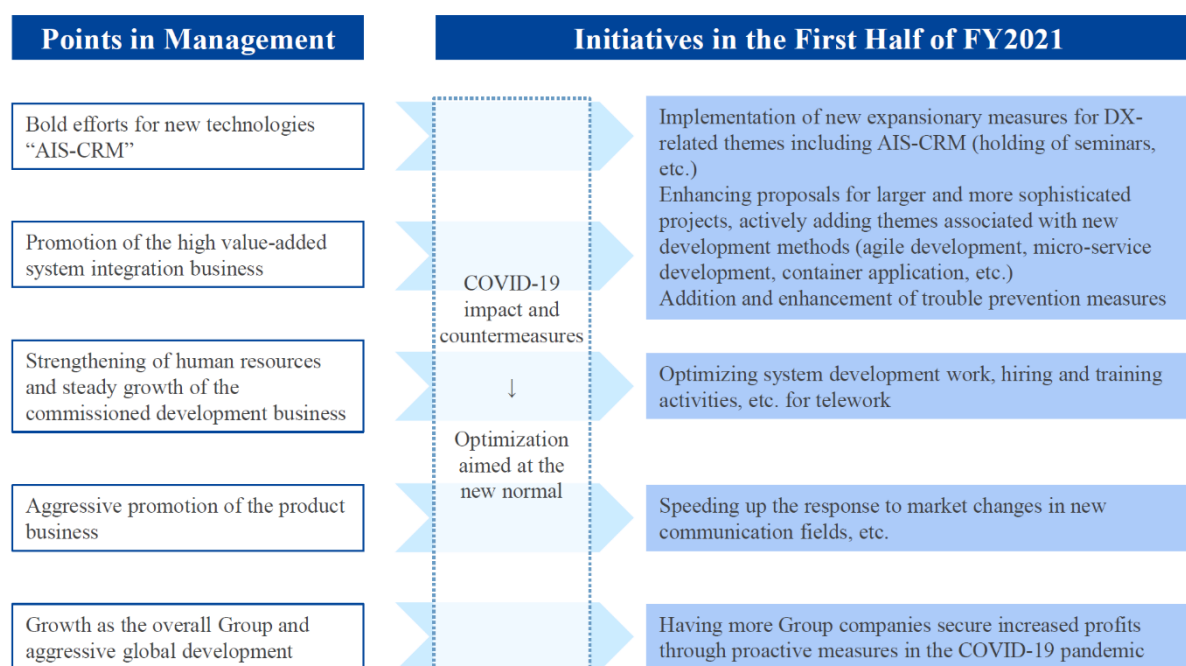
In the area of the products and services, Microsoft is doing well, including in the area of DX. Our own products, which are Wi-Fi router products, sales of routers, etc., which had been quite positive due to work from home and the coronavirus, are now negative compared to the previous year. Although sales are naturally somewhat higher, the trend is slightly negative compared to the previous year. This is the mobile field.

This is what I think is the current business situation.

This is a summary of the current business situation.



Initiatives in the First Half of FY2021



In this context, I'd like to talk about our efforts in the first half of the year.

We have been making bold efforts to develop new technologies and to promote high value-added integration businesses.

In this area, AIS-CRM has become a core technology under the theme of DX, and we will aggressively develop new expansion in DX-related themes in the first half of the year. We will also hold seminars.

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In addition, in recent years, projects have become larger and more sophisticated, and the number of DX themes is increasing as we actively respond to new development methodologies, such as agile, microservices, and containerization, which are called digital technologies. It is a fact that the number of DX themes is increasing considerably.

At the same time, however, there are some elements of trouble that can arise with this kind of theme, so we have added and strengthened measures to control trouble in a slightly different way than in the past. There have been some transient problems, but we are working to control them with new measures.

In terms of strengthening human resources and ensuring the growth of the contract development business, we have been conducting recruitment and training activities via telework for more than a year. Also last year, we provided new employee education under teleworking. I think that telework has been established in a good way.

As for the product business, as you will see later, we are working to create products that respond to market changes in the new communication field.

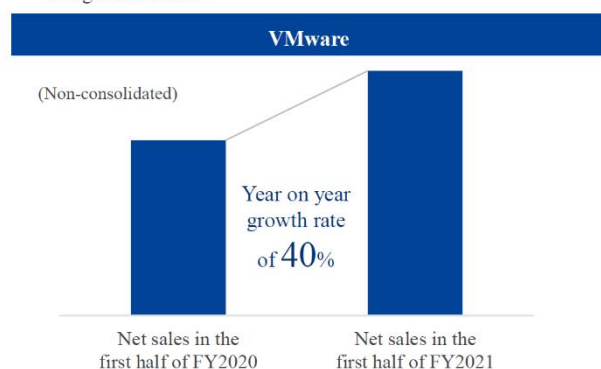
Although the group as a whole has ups and downs in many ways, the overall trend is toward increased sales in a positive manner.



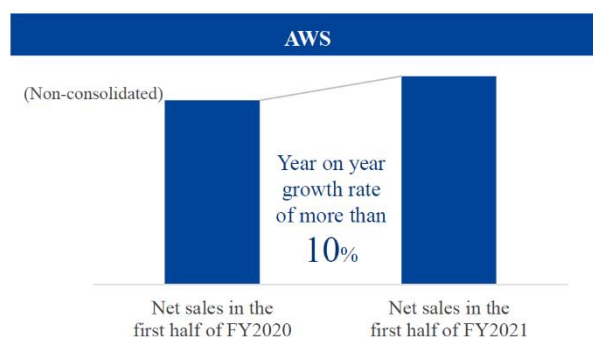
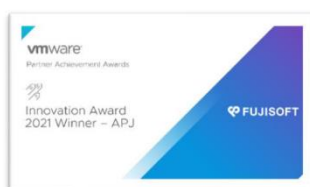
Cloud and Virtualization

High growth is ongoing due to the need to revise system infrastructure in anticipation of DX

- ◇ Double-digit growth for VMware and AWS-related businesses continued due to increasingly diverse reasons for installation, such as business continuation through telework, improved productivity and enhanced security
- ◇ The highest-level awards were received from each vendor in recognition of efforts to accumulate technological capabilities and strengthen alliances



- Won 2021 VMware APJ Partner Innovation Award for achievements developing systems that increase enterprise agility and adaptability during the pandemic and into the future.



- The Company's engineers were selected as APN Ambassadors and APN AWS Top Engineers in recognition of their outstanding technical skills with AWS and ongoing efforts to disseminate information.



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I would like to talk about the cloud/virtualization field I mentioned earlier.

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We have been able to achieve double-digit growth in the first half of the year for VM and AWS, which are our specialties, and we have received awards from various vendors for our technical capabilities and alliance strengthening.

From VM, we received the Partner Innovation Award for Asia Pacific, and for AWS, we received awards in the form of Ambassadors and Top Engineers.

This is a market that we will continue to proactively target for growth.



Automotive Software

Strengthened initiatives aimed at high-growth fields such as mobility services ahead of recovery primarily related to EVs

- The impact due to COVID-19 has been eliminated and curbs on development investments due to the semiconductor shortage are also limited
- There is a shift to expansion related to EVs and mobility services

• Quarterly Orders Year on Year (Consolidated)



[State of Initiatives in the Period Under Review]

Expected Growth Fields

- EV-related: Strengthen order-taking activities in light of expanded business inquiries
- Digitization of development work: Systematically share technologies such as MBD, simulation and AI

Domains where firm investment demand is forecast

- Network development: Enhanced research and ability to develop proposals related to communication and information processing technologies including cloud computing
- Cyber security: Improvements to development process in response to stronger regulation

Shift to Upstream Processes

- Strengthen the ability to handle upstream processes by gaining knowledge related to hardware such as control engineering

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Automotive.

From our point of view, this is a field that accounts for less than 10% of the total, but we have included it as a topic, because everyone is interested in in-vehicle products.

I believe that the effects of the coronavirus crisis have been resolved to a large extent. However, due to the shortage of semiconductor supplies and other factors, the desire to invest in development is a bit restrained, but this is limited, and the trend is toward expansion of EVs and mobility services.

Looking at actual demand, the first quarter, the second quarter, the third quarter, and the fourth quarter of 2020 were all down YoY, but in the second quarter, we finally saw a shift to increased orders.

As I mentioned earlier in my explanation of the machinery manufacturing industry, the automotive industry was also suffering for about a year, and although there was a slight negative trend in orders, it is on a recovery track. In terms of expected fields, EVs are already expanding very rapidly, and we will further strengthen them.

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In addition to this, the automotive field is working on various initiatives to digitize development work, such as MBD, simulation, and AI. We are now strengthening the system by sharing what we have scattered all over the company.

Also, in terms of solid demand is the world of networks and connections. We are receiving an increasing number of inquiries about communication and information processing, including cloud computing. This is slightly different from the development of the automobile itself, but we are also working on the automobile market by consolidating people in the cloud, which is an area where we are very good at.

Similarly for security, not only security research only for automobiles, but also fields that are being shared considerably company-wide and applied to automobiles, including the know-how cultivated in the development of ECUs. Let's do it powerfully.

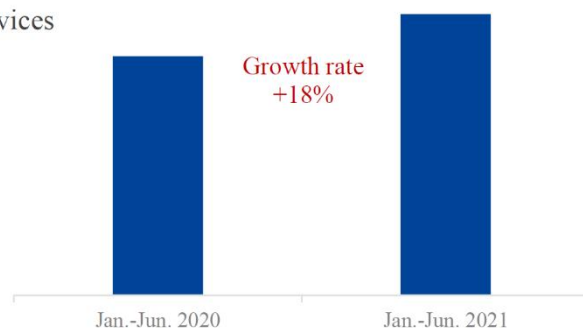
Also, control engineering. Since EVs require knowledge related to various new hardware, we are also conducting research and development in this area.

In the case of the automotive as a whole, demand has temporarily dropped to a low level and will increase in the future, but there are many new fields that will emerge, so we will respond proactively so that we can be ahead of the curve.

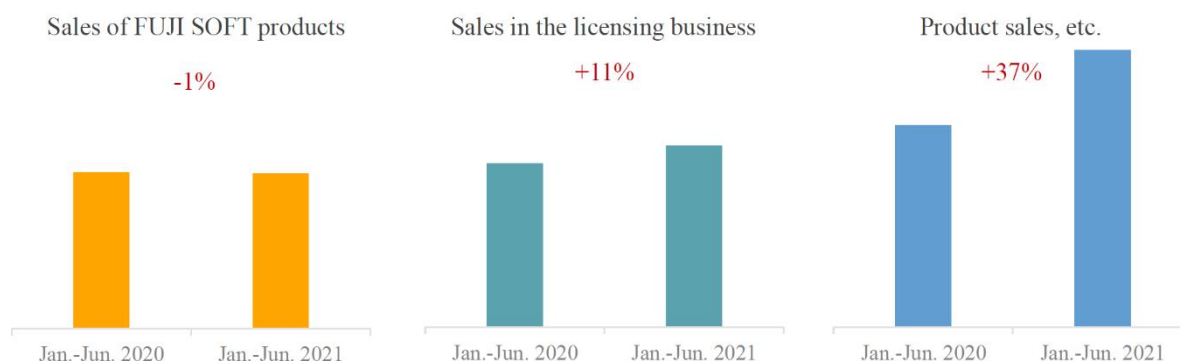


Trends in Products and Services (Sales)

Sales in Products and Services



Breakdown of sales in Products and Services



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Products and services.

Overall, 18%.

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Our own products, such as Wi-Fi routers, are slightly lower, but we are actively purchasing licenses and product sales, as we have various digital investments.



Initiatives in Products and Services

Telework and DX Support Service Through Joint Venture with Microsoft

- In recognition of contributions to the Microsoft Teams business where demand has expanded in line with the popularization of telework, the Company received the Microsoft Teams Award as part of the Microsoft Japan Partner of the Year 2021 awards (July 2021).
- The Company launched the "Desktop Full Service" as a unique outsourcing service to support streamlined PC management work during telework, supporting one-stop support for PC lifecycle management tasks including everything from hardware selection to security, asset management, operation and maintenance, and also supported business streamlining and DX promotion through the utilization of Microsoft365 (August 2021).



External Provision of Know-how and Tools to Revitalize Communication

- As a measure to deal with issues such as employee stress from lowered productivity and feelings of loneliness due to the loss of communication in telework environments, the Company developed a unique tool to help foster a sense of unity.
- Know-how was accumulated through internal use and advance use by select customers. The tool was then commercialized by incorporating service design methods and given an external release as "FAM office."
- By having employees attend work as avatars in an office recreated in virtual space, FAM office provides the environment and mechanisms to give a bird's-eye view of member statuses and facilitate easy communication (June 2021).



Finally, I would like to talk about initiatives in the products and services field.

It's a telework and DX support service in collaboration with Microsoft. Teams has spread considerably. For the awards, M365, from Microsoft, Microsoft has appreciated our cloud services that we aggressively expanded to customers. I think this means that when people think of cloud computing, they think of us.

In addition, we recently released the desktop full service, our own outsourcing service that covers the entire lifecycle of PCs, including hardware selection, security, asset management, operation and maintenance since people currently manage their PC at home due to teleworking etc.

In addition to this, it seems that DX can be strongly promoted by utilizing M365, etc., and although this service has just been released to the market, it has been very well received.

Also, as I have already mentioned several times, we have been using FAMoffice as a communication activation know-how tool to deal with communication loss. Naturally, we are also using this kind of service design method in our company, and we are working on it now.

It's a great way to communicate with the members of the team while having a bird's eye view. We've already received some orders from prior users, and the product has been very well received. We will continue to develop new products and services as we move forward with these efforts.

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I would like to conclude my presentation. Thank you very much for your kind attention.

Moderator: This concludes our presentation on financial results.

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