FUJI SOFT INCORPORATED

Financial Results Briefing for the Fiscal Year Ended 2023

February 14, 2024

Presentation

Moderator: Thank you very much for waiting. We will start the financial results briefing for the fiscal year ended December 2023 of FUJI SOFT INCORPORATED. Thank you for taking time out of your busy schedule to join us today.

First of all, allow me to introduce today's speakers. Satoyasu Sakashita, President & Representative Director.

Sakashita: I'm Sakashita. Thank you for your attendance.

Moderator: Tateyuki Oosako, Director & Senior Executive Operating Officer.

Oosako: I am Oosako. Thank you for your attendance.

Moderator: Mari Morimoto, Director Operating Officer.

Morimoto: I'm Morimoto. Thank you.

Moderator: Masashi Umetsu, Director Operating Officer.

Umetsu: I'm Umetsu. Thank you for your attendance.

Moderator: With those speakers, let us proceed.

First, Mr. Umetsu will discuss the financial results, followed by Mr. Sakashita's overview of the medium-term management plan. After that, there will be time for a question-and-answer session. Now, Mr. Umetsu, please go ahead.

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

Net sales and profit increased due to strong results in the system construction business.

◇ Net sales rose 7.2% year on year, due primarily to the strong results of infrastructure construction and backbone system development projects in operation software, mainly for the manufacturing and financial services sectors, of development projects on automotive systems in the field of EVs and advanced technologies in embedded software, and of development projects on machine control systems for the industrial field.

◇ Operating profit increased 13.2% year on year, mainly reflecting higher net sales and the improvement of productivity, although there was an increase in labor costs and other expenses to improve the treatment of employees and reinforcement of structure and an increase in research expenses related to AI and other new technologies.

◇ Ordinary profit rose 2.4% year on year as a result of the growth of net sales despite an increase in advisory expenses and other expenses in association with the tender offer for four subsidiaries listed on stock markets.

(Million yen)

	FY2022 4Q Results	FY2023 4Q Results	YoY change (Amount)	YoY change (%)	FY2023 Plan	FY2023 Comparison with the plan
Net sales	278,783	298,855	+20,071	107.2%	300,000	99.6%
Operating profit	18,272	20,684	+2,411	113.2%	20,000	103.4%
Operating profit margin	6.6%	6.9%			6.7%	
Ordinary profit	19,205	19,675	+469	102.4%	20,300	96.9%
Ordinary profit margin	6.9%	6.6%			6.8%	
Profit attributable to owners of parent	11,379	11,849	+469	104.1%	12,300	96.3%
Profit margin attributable to owners of parent	4.1%	4.0%			4.1%	
ROIC	8.1%	8.3%	+0.2pt	−	8.5%	-0.2pt
ROE	8.8%	9.2%	+0.4pt	−	9.0%	+0.2pt
EBITDA margin	8.0%	8.3%	+0.3pt	−	8.5%	-0.2pt

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Umetsu: Now, let me walk you though the presentation materials for the financial results. We will also be presenting our mid-term plan today, so I would like to be brief on my part.

This is the consolidated financial highlights for FY2023 full year. Net sales were JPY298 billion, with operating profit of JPY20.6 billion, ordinary profit of JPY19.6 billion and net profit of JPY11.8 billion. YoY changes are 107%, 113%, 102%, and 104% respectively. We are one year ahead of the current mid-term plan. Compared to the revenue and profit plan of JPY300 billion and JPY20 billion, sales fell slightly short, but we did achieve our operating profit target.

ROIC, ROE, and EBITDA margins are almost in line, but EBITDA margin is slightly negative due to the timing, or situation of depreciation of our products.

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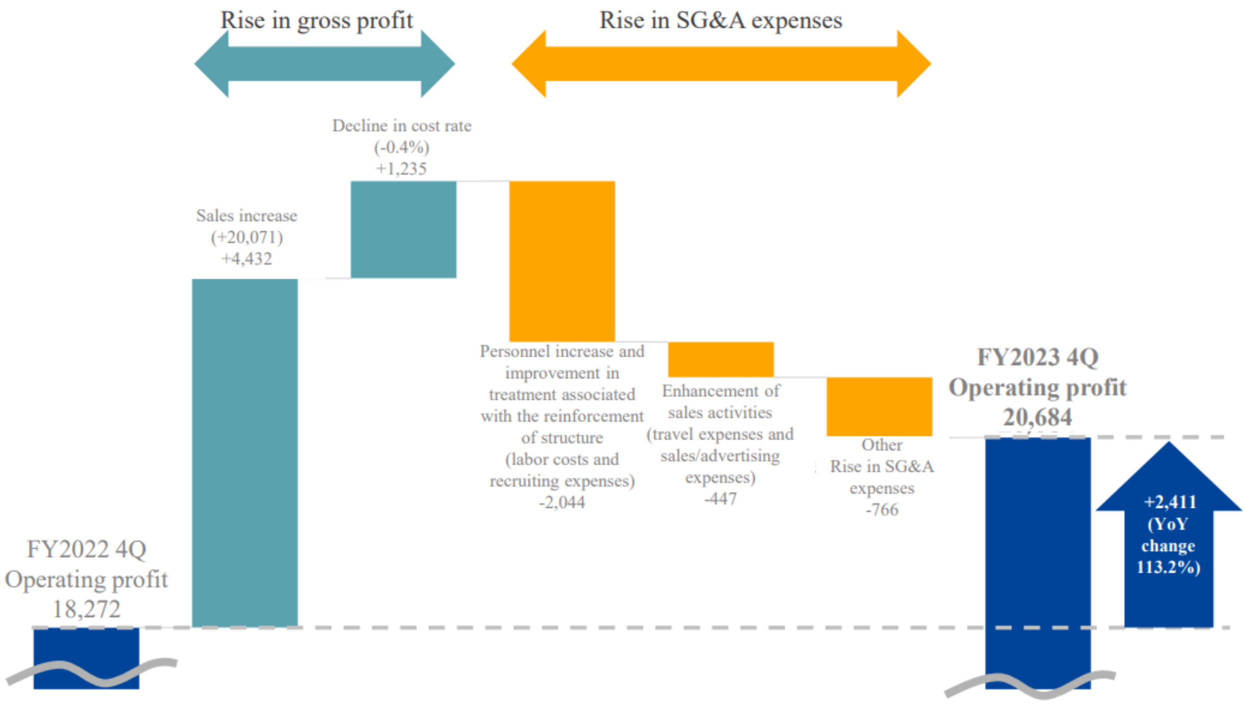
Trends in Consolidated Operating Profit (Jan-Dec)



These are the trends in the operating income for the full year.

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

Net sales rose 8.8% year on year.

The cost of sales margin declined to 76.9% (improved).

◇ The cost of sales margin decreased (improved) 0.5 percentage points from the pervious year, reflecting the expansion of the system construction business and improvement of its productivity. (Year-ago level: 77.4%)

SG&A expenses increased 885 million yen year on year.

◇ SG&A expenses increased 885 million yen year on year due to an increase in personnel expenses resulting from compensation improvements and system reinforcement, as well as an increase in research and studies related to new technologies such as AI.

◇ Operating profit rose 19.2% year on year, to 5,177 million yen.

(Million yen)

	FY2022 3Q Results	YoY change (Amount)	YoY change (%)	FY2023 Q4 Results	YoY change (Amount)	YoY change (%)
Net sales	223,668	+14,008	106.7%	75,186	+6,062	108.8%
Cost of sales	173,809	+10,060	106.1%	57,810	+4,342	108.1%
Cost of sales margin	77.7%			76.9%		
Gross profit	49,859	+3,948	108.6%	17,376	+1,720	111.0%
SG&A expenses	34,353	+2,371	107.4%	12,198	+885	107.8%
Operating profit	15,506	+1,576	111.3%	5,177	+834	119.2%
Operating profit margin	6.9%			6.9%		

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This is the performance highlight for the Q4 alone. YoY changes were 108.8% and 119.2% for net sales and operating profit. With both of them growing, we made steady progress in Q4 as well towards profitability enhancement.

2. Results by Group Company

	FY2023 Net sales				FY2023 Operating profit		
	Full-year results	Component ratio	Cost rate	SG&A rate	Full-year results	Component ratio	Operating profit margin
Consolidated	**298,855**	**100.0%**	**77.5%**	**15.6%**	**20,684**	**100.0%**	**6.9%**
FUJI SOFT INCORPORATED	206,984 (+7.7%)	69.3%	78.5%	14.7%	14,085 (+22.7%)	68.1%	6.8%
Net sales increased due primarily to the strong results of infrastructure construction and backbone system development projects in operation software, mainly for the manufacturing and financial services sectors, of development projects in the fields of EVs and advanced technologies for automotive systems in embedded software, and of development projects for machine control systems in the industrial field. Operating profit increased thanks to higher sales and productivity improvement.							
CYBERNET SYSTEMS Co., Ltd.	21,546 (+8.1%)	7.2%	61.5%	31.3%	1,556 (-11.4%)	7.5%	7.2%
Net sales increased, mainly reflecting the renewal of maintenance contracts in Japan in the solution simulation service business and the strong performance of the IT solution service business. Operating profit decreased due in part to an increase in the cost of goods sold resulting mainly from a change in the sales mix, and an increase in labor costs associated with human capital investment. The decline also reflected an increase in travel expenses linked to the increase in the volume of sales activities.							
VINX CORP.	33,683 (+6.1%)	11.3%	76.5%	13.3%	3,427 (+10.6%)	16.6%	10.2%
Net sales increased chiefly due to growing needs for DX in the retail industry in Japan and the deepening of relationships with existing customers. Operating profit increased due to higher sales.							
CYBER COM Co., Ltd.	17,625 (+6.0%)	5.9%	81.0%	12.2%	1,201 (+13.9%)	5.8%	6.8%
Net sales increased thanks to the strong performance of operation system development projects, mainly including finance systems, and control and system development projects, mainly including automotive systems, in the software development business. Operating profit rose thanks to higher sales and the improved cost of sales margin.							
FUJI SOFT SERVICE BUREAU INCORPORATED	12,196 (+3.4%)	4.1%	81.7%	12.6%	691 (+3.4%)	3.3%	5.7%
Net sales grew due to strong pension-related operations in both call center services and BPO services. Operating profit increased after a decrease in SG&A expenses although unprofitable projects negatively impacted operating profit during the first six months of the fiscal year.							
Other subsidiaries and consolidation adjustments	6,821	2.3%	86.1%	17.9%	-277	-1.3%	-4.1%

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As for the results by group company, FUJI SOFT enjoyed sales and profit growth, with 22.7% increase in operating profit, showing a significant improvement.

CYBERNET SYSTEMS saw increased sales and decreased income, while VINX and CYBER COM achieved topline and profit increase. FUJI SOFT SERVICE BUREAU managed to grow sales and profit, despite some concern in achieving the full-year target at the time of the interim financial results.

Other subsidiaries, which I will explain later, had major problems, which resulted in negative earnings for the group companies, but overall, FUJI SOFT on a stand-alone basis achieved a significant increase in profitability.

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3. Consolidated Sales/Operating Profit by Segment

(Million yen)

	FY2023 Net sales 4Q Results	Component ratio	YoY change (Amount)	YoY change (%)	FY2023 Operating profit 4Q Results	Operating profit margin	YoY change (Amount)	YoY change (%)
Consolidated total	298,855	100.0%	+20,071	107.2%	20,684	6.9%	+2,411	113.2%
SI Business	282,418	94.5%	+19,274	107.3%	18,904	6.7%	+2,130	112.7%
System Construction	181,728	60.8%	+17,144	110.4%	13,406	7.4%	+2,276	120.5%
Embedded/Control Software	78,553	26.3%	+4,062	105.5%	6,695	8.5%	+720	112.1%
Operation Software	103,174	34.5%	+13,082	114.5%	6,710	6.5%	+1,555	130.2%
Products and Services	100,690	33.7%	+2,129	102.2%	5,498	5.5%	-146	97.4%
Products and Services	86,546	29.0%	+2,643	103.2%	4,806	5.6%	+189	104.1%
Outsourcing	14,144	4.7%	-513	96.5%	691	4.9%	-336	67.3%
Facility Business	2,906	1.0%	+251	109.5%	1,010	34.8%	+195	123.9%
Other Businesses	13,530	4.5%	+545	104.2%	768	5.7%	+86	112.6%

Highlights of Sales by Segment

● Embedded/Control Software

Net sales were up 5.5% year on year, following the buoyant performance of development projects in the fields of EV and advanced technologies for automotive systems and in the industrial field for machine control systems despite the decline in mobile systems and social infrastructure systems.
Operating profit also rose 12.1% year on year following sales growth.

● Operation Software

Net sales increased 14.5% year on year thanks to the strong results of infrastructure construction and backbone system development projects in a number of fields, such as manufacturing and financial services.
Operating profit rose 30.2% year on year mainly due to the sales increase and productivity improvement.

● Products and Services

Net sales increased 3.2% year on year thanks mainly to the strong performance of sales of licenses from other companies and FUJI SOFT products.
Operating profit also rose 4.1% year on year following sales growth.

● Outsourcing

Net sales decreased 3.5% year on year, because of a decrease in IT services for overseas retailers.
Operating profit decreased 32.7% year on year due to a sales decrease and the impact of the rising electricity price on data center services.

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This is the net sales and profit by segment. YoY changes in the SI business sales were 110% for system construction, 105% for embedded software, 114% for operation software. Profitability is improving with YoY changes of 112% at segment level and 130% for operation software which is a bit ahead of the segment total.

As for products and services, YoY changes were 103% for the products/services and 96.5% for outsourcing. Outsourcing business suffered soaring electricity price and some issues at overseas subsidiary which we mentioned several times this year.

4. Consolidated Income Statement

(Million yen)

	FY2022 4Q Results	FY2023 4Q Results	YoY change (Amount)	YoY change (%)	FY2023 4Q Plan	FY2023 Comparison with the plan
Net sales	278,783	298,855	+20,071	107.2%	300,000	99.6%
Cost of sales	217,216	231,619	+14,403	106.6%	–	–
Cost of sales margin	77.9%	77.5%	(1)			
Gross profit	61,567	67,236	+5,668	109.2%	–	–
Gross profit margin	22.1%	22.5%				
SG&A expenses	43,294	46,552	+3,257	107.5%	–	–
SG&A expense ratio	15.5%	15.6%				
Operating profit	18,272	20,684	+2,411	113.2%	20,000	103.4%
Operating profit margin	6.6%	6.9%			6.7%	
Non-operating income	1,220	1,025	-194	84.0%	–	–
Non-operating expenses	323	1,908	(2) +1,584	–	–	–
Share of (profit) loss of entities accounted for using equity method	35	-126	-162	–	–	–
Ordinary profit	19,205	19,675	+469	102.4%	20,300	96.9%
Ordinary profit margin	6.9%	6.6%			6.8%	
Extraordinary income	190	973	(3) +782	–	–	–
Extraordinary losses	1,111	209	-901	18.9%	–	–
Profit before income taxes	18,284	20,439	+2,154	111.8%	–	–
Total income taxes	4,896	6,747	+1,850	137.8%	–	–
Profit	13,388	13,691	+303	102.3%	–	–
Profit attributable to non-controlling interests	2,009	1,842	-166	91.7%	–	–
Profit attributable to owners of parent	11,379	11,849	+469	104.1%	12,300	96.3%
Profit margin attributable to owners of parent	4.1%	4.0%			4.1%	

Points of Income Statement

(1) Cost of sales margin (-0.4pt)

The cost of sales margin improved by boosting FUJI SOFT's productivity despite the unprofitability of large group company projects.

(2) Non-operating expenses (+1,584 million yen)

Advisory expenses concerning tender offer for four listed companies and other expenses increased.

(3)Extraordinary income (+782 million yen)

This increase is due to the sale of investment securities and property, plant and equipment.

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This is the consolidated income statement. Although the cost to sales ratio has improved, group company performance was affected by unprofitable large-scale projects, which resulted in a loss of a little over JPY1 billion for the full year, as we briefly warned at last briefing. Even with that, profitability is improving.

For non-operating income, as we announced in November, there were ad hoc non-operating expenses related to the TOB. Extraordinary income was positive due to the sale of marketable securities and fixed assets.

5. Consolidated Balance Sheet

(Million yen)

	End of FY2022	End of FY2023		Change (Amount)
Current assets	112,730	123,153		+10,422
Cash and deposits	32,736	35,324		+2,588
Notes and accounts receivable - trade	56,634	62,696		+6,061
Securities	8,500	8,100		-400
Inventories	5,552	5,919		+367
Other	9,307	11,112		+1,805
Non-current assets	128,104	134,443		+6,338
Property, plant and equipment	99,160	104,163	(1)	+5,003
Intangible assets	5,426	5,544		+118
Investments and other assets	23,518	24,734		+1,216
Total assets	240,835	257,596		+16,761
Current liabilities	71,945	112,740		+40,794
Notes and accounts payable - trade	14,083	13,664		-419
Short-term borrowings	17,855	47,504	(2)	+29,648
Accrued expenses / provision for bonuses	12,974	17,114		+4,140
Income taxes payable	2,828	5,789		+2,960
Provision for loss on construction contracts	421	345		-75
Other	23,782	28,321		+4,539
Non-current liabilities	16,145	15,934		-210
Long-term borrowings	8,783	8,524		-259
Other	7,362	7,410		+48
Total liabilities	88,091	128,674		+40,583
Total net assets	152,744	128,921	(3)	-23,822
Total liabilities and net assets	240,835	257,596		+16,761

Points of the Balance Sheet

(1) Property, plant and equipment (+5,003 million yen)

Real-estate property to be used by the Company that is under construction increased.

(2) Short-term borrowings (+29,648 million yen)

Borrowings increased for the tender offer for four listed companies.

(3) Total net assets (-23,822 million yen)

Non-controlling interests and capital surplus decreased in connection with the tender offer for four listed companies.
* The decrease in capital surplus is the difference between the acquisition value and the non-controlling interests.

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This is the balance sheet. Main factors for change in tangible fixed assets include real estate under construction for the company's own use. There were some fluctuations in loans and net assets due to TOB of listed subsidiaries. Other changes are due to seasonal factors etc., we believe.

6. Consolidated Cash Flow Statement

(Million yen)

	FY2022 4Q Results	FY2023 4Q Results	YoY change (Amount)
Cash flows from operating activities	13,519	16,151	+2,632
Cash flows from investing activities	-15,522	-9,209	+6,312
Cash flows from financing activities	-5,911	-5,447	+463
Effect of exchange rate change on cash and cash equivalents	123	204	
Net increase (decrease) in cash and cash equivalents	-7,789	1,698	
Cash and cash equivalents at beginning of period	40,876	33,086	
Cash and cash equivalents at end of period	33,086	34,785	

Highlights of Cash Flows

- Cash flows from operating activities

  Net cash provided by operating activities stood at 16,151 million yen due to an increase in money received, attributable to higher sales and profits. The amount increased 2,632 million yen year on year due in part to an increase in the payment of income taxes associated with the sales of securities in the previous fiscal year and to a rise in labor costs payable following a change in the performance evaluation period.

- Cash flows from investing activities

  Net cash used in investing activities stood at 9,209 million yen, chiefly reflecting payment of expenses for construction of the Company's office that had been planned earlier.
  The amount increased 6,312 million yen year on year due in part to a rise in gain on sales of investment securities and of property, plant and equipment.

- Cash flows from financing activities

  Net cash used in financing activities stood at 5,447 million yen, mainly reflecting the acquisition of subsidiaries' stock and the payment of dividends. The amount increased 463 million yen year on year.

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Here is the cash flow statement. Operating cash flow was positive at JPY16.1 billion due to topline and profit increase. Cash flow from investing and financing activity was JPY9.2 billion and JPY5.4 billion respectively. Investing cash flow of JPY9.2 billion was due to the payment of construction costs for the company's own office building. Financing cashflow had positive and negative factors such as borrowings for TOB etc., but major factor we believe is dividend payment.

7. Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	FY2023 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	72,963	125.1%	284,230	103.5%	282,418	107.3%	74,775	102.5%
System Construction	46,427	121.3%	183,199	106.1%	181,728	110.4%	47,898	103.2%
Embedded/Control Software	14,884	110.2%	79,821	105.2%	78,553	105.5%	16,152	108.5%
Operation Software	31,542	127.4%	103,378	106.7%	103,174	114.5%	31,746	100.6%
Products and Services	26,536	132.3%	101,030	99.2%	100,690	102.2%	26,876	101.3%
Products and Services	24,717	135.7%	87,170	99.9%	86,546	103.2%	25,341	102.5%
Outsourcing	1,818	98.2%	13,860	94.8%	14,144	96.5%	1,535	84.4%

Highlights of Orders and Order Backlogs

● Highlights in System Construction

- Embedded/Control Software
  Orders received rose 5.2% year on year due in part to an increase in automotive and machine control systems.
  The order backlog at the end of the term increased 8.5% year on year.

- Operation Software
  Orders received, increased 6.7% year on year with growth in development projects for the manufacturing and financial services industries.
  The order backlog at the end of the term increased 0.6% year on year.

● Highlights in Products and Services

- Products and Services
  Orders decreased 0.1% year on year due to a decline in sales of products from other companies despite brisk sales of FUJI SOFT products.
  The order backlog at the end of the term increased 2.5% year on year.

- Outsourcing
  Orders received decreased 5.2% year on year due to a decline in orders received for IT services intended for overseas retailers.
  The order backlog at the end of the term decreased 15.6% year on year.

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Orders and order backlogs for the consolidated SI business. YoY changes in SI business were 103% for orders and 102.5% for backlogs. Orders for embedded software and operation software were 105% and 106% vs last year, and backlogs were 108% and 100% respectively. Operation software had a steady order intake, but fell short in backlogs. Backlog for operation software at the beginning was 127% versus last year, and 106% intake during the term. Although there was a reactionary decline from last year, we believe that the main reason is the decrease of backlog for large project at group companies. Our view is that the current status is not as bad as that.

Product/services and outsourcing are slightly below 100%. We will do our utmost to recover product and services business.

8. Dividend

The year-end dividend for FY2023

The year-end dividend is confirmed to be 34.5 yen per share as forecast.

* On July 1, 2023, the Company conducted a two-for-one split of its common stock. The confirmed amount of the year-end dividend stated is the value adjusted for the stock split.

■ **Dividend per share (Consolidated)**

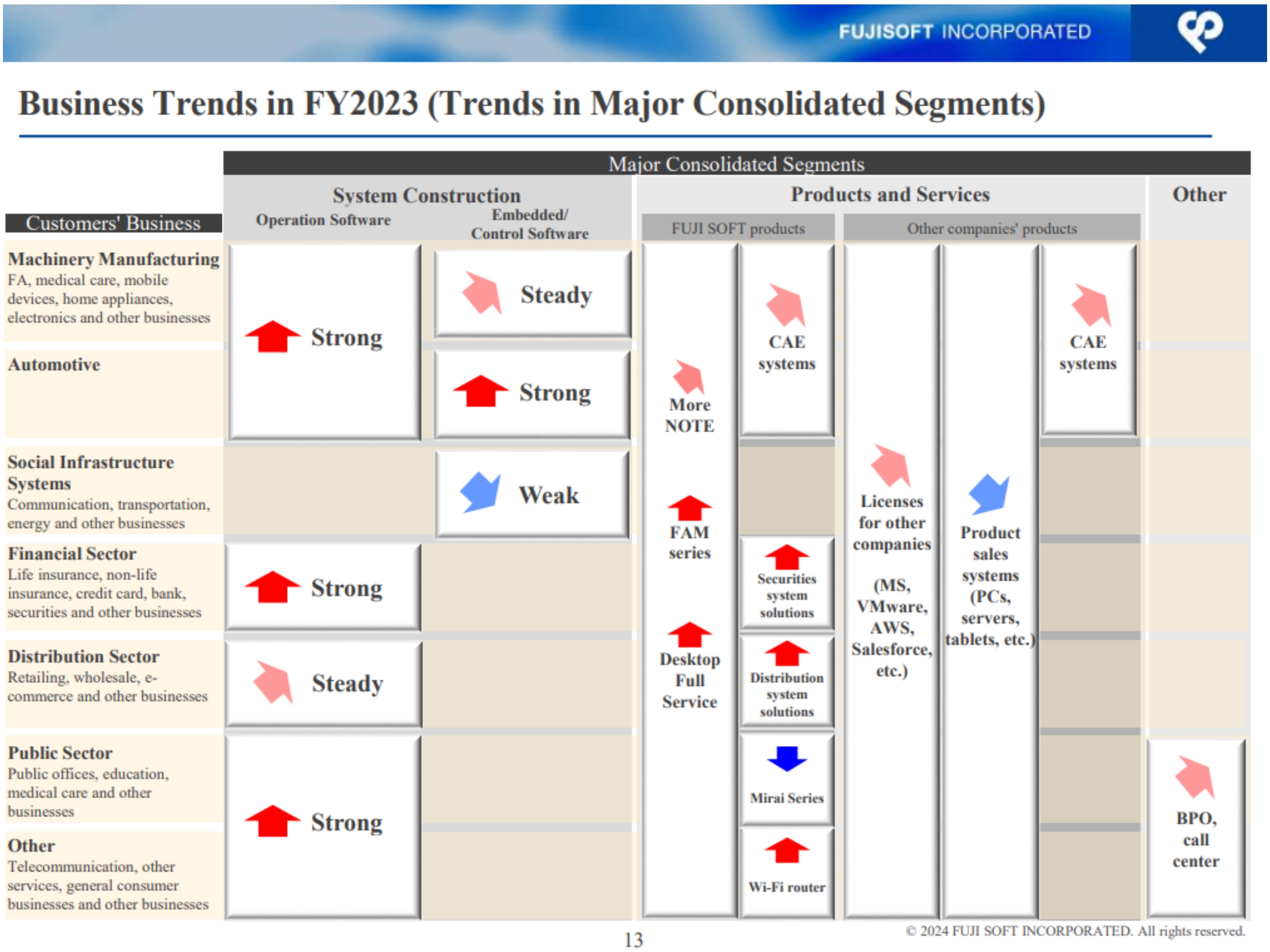
(Yen)

	End of interim period	Most recent year-end dividend forecast	Determined amount of year-end dividend	Annual dividend
Dividend per share (FY2023)	68.00 yen	34.50 yen	**34.50 yen**	–

	FY2023 Year end
Dividend payout ratio	**36.3%**

* The year-end dividend per share for the fiscal year ended December 31, 2023 converted based on the number of shares before the stock split is 69 yen, and the annual dividend is 137 yen.

Here is our dividend status. Although net profit for the year was slightly negative, we will pay a dividend of JPY34.5 as planned.



Here is a business condition review by segment throughout the year. Social infrastructure and product sales system were a bit weaker than previous year. Mirai Series suffered a reactive decrease from previous year which had a large deal for local government. Other segments were assessed as either strong or steady.

FUJI SOFT non-consolidated: Overview of Results by Segment

(Million yen)	FY2023 Net sales 4Q Results	Component ratio	YoY change (%)	Cost rate	SG&A rate	FY2023 Operating profit 4Q Results	Operating profit margin	YoY change (%)	Operating profit margin YoY change (Amount)
Consolidated total	206,984	100.0%	107.7%	78.5%	14.7%	14,085	6.8%	122.7%	+0.8pt
SI Business	203,454	98.3%	107.7%	79.0%	14.6%	13,070	6.4%	122.6%	+0.8pt
System Construction	146,161	70.6%	111.5%	7034.8%	17.4%	11,338	7.8%	126.5%	+0.9pt
Embedded/Control Software	72,418	35.0%	106.9%	74.2%	16.9%	6,444	8.9%	115.1%	+0.6pt
Operation Software	73,742	35.6%	116.4%	75.4%	17.9%	4,893	6.6%	145.7%	+1.3pt
Products and Services	57,293	27.7%	99.1%	89.5%	7.5%	1,731	3.0%	101.8%	+0.1pt
Other companies' products	48,526	23.4%	99.0%	91.5%	5.3%	1,535	3.2%	128.6%	+0.7pt
FUJI SOFT products	2,861	1.4%	104.6%	69.3%	22.9%	224	7.8%	75.1%	-3.1pt
Outsourcing	5,905	2.9%	97.1%	83.0%	17.4%	-28	–	–	–
Facility Business	3,430	1.7%	107.9%	51.5%	18.7%	1,022	29.8%	123.4%	+3.7pt
Other Businesses	99	0.0%	55.0%	48.6%	58.6%	-7	–	–	–

Status in FY2023	
System Construction	- Invested approx. 2.0 billion yen in human resources (recruitment training and education) as a growth investment to strengthen the system construction field.
Embedded/Control Software	- Demand from Customers' related to IT investments in the automotive systems sector and the machine control systems sector continue to grow (It remains on trend toward a recovery from the COVID-19 pandemic.). - Profit grew due to the improvement of productivity mainly in the areas of automotive systems and machine control systems although profit decreased in the areas of mobile systems and social infrastructure systems.
Operation Software	- There is a lot of momentum in the utilization of IT reflecting DX, with growth drivers being backbone system development and infrastructure construction projects mainly for the financial services and manufacturing sectors. - Profit surged following the improvement of productivity in each area. The profit margin jumped a large amount.
Other companies' products	(Overview) Sales of licenses from other companies and hardware-related products (including sales of products from other companies used in commissioned development projects (sales of services incidental to development)) - Although the profit margin is low, the products will continue to be maintained and promoted to a certain degree as tools for creating contact points for obtaining new customers.
FUJI SOFT products	(Overview) Manufacturing and sales of products developed in-house (SW/HW) applying expertise in system construction technologies such as communication, cloud computing and robot technologies - In the area of mainstay products, performance increased, but there was a reactionary decrease due to a large project in the previous year. The Company will respond to new demand in the market, aiming to expand its scale.
Outsourcing	(Overview) This business is promoted as a part of comprehensive services, including operation and maintenance services in system development projects and the data center business operated using the Company's own real-estate properties. - There was a temporary decline in profit attributed to an increase in costs in the data center business, reflecting the rising electricity prices.

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From this year, we started disclosing the by-segment review for parent-only basis as well. OP margin for third-party products was 3.2% for the year, which we are making strategic approach. This is one of our strategies and tactics in expanding the system construction business.

YoY change in non-consolidated operating profit was 122.7%, an improvement. Most of the segments see similar trend, and we will continue our effort to further boost the profitability.

State of the AIS-CRM Key Technology Strategy (non-consolidated)

	2022 112.6 billion	YoY change (%) +11.8%	2023 125.9 billion
AI	A focus on development 3.0 billion yen	+46.6%	A focus on development 4.4 billion yen
IoT	A focus on development 3.4 billion yen	-6.9%	A focus on development 3.1 billion yen
Security	Development and licensing 13.8 billion yen	+18.7%	Development and licensing 16.4 billion yen
Cloud	Licensing, SI, system infrastructure, online businesses, etc. 59.4 billion yen	+13.0%	Licensing, SI, system infrastructure, online businesses, etc. 67.1 billion yen
Robot	A focus on development + PALRO, robot SI, etc. 5.0 billion yen	+2.8%	A focus on development + PALRO, robot SI, etc. 5.2 billion yen
Mobile	Development, products, etc. 8.3 billion yen	-17.8%	Development, products, etc. 6.9 billion yen
Auto Motive	A focus on development 19.7 billion yen	+16.3%	A focus on development 22.9 billion yen

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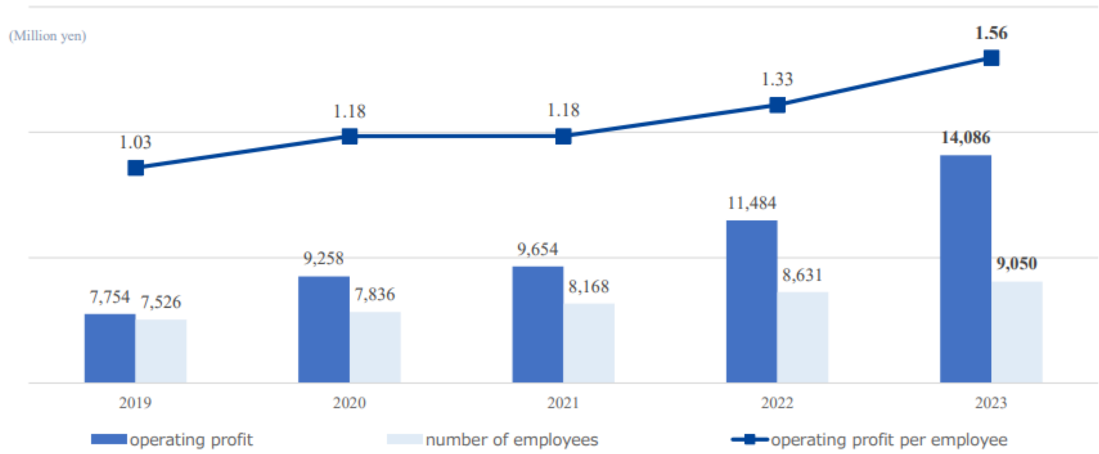
Here is the status of <AIS-CRM>. We are also promoting our technology strategy steadily, with an 11% YoY increase. Due to factors such as projects and 5G, IoT and Mobile has a slight negative trend. However, AutoMotive, Robot, Security, AI enjoyed significant gain, or large growth. We will drive our technical capabilities in these areas.

Production Capacity Expansion and Productivity Improvement (Non-consolidated)

Productivity was improved and production capacity was expanded (recruitment) to increase the operating profit per employee.

◇ Since FY2022, the Company has been re-increasing its recruitment of new graduates and mid-career employees after a temporary reduction during the COVID-19 pandemic to continue to expand production capacity. The Company has also been working vigorously to increase the value offered to customers and reduce costs and SG&A expenses. Operating profit per employee is increasing yearly. As a result of its continued efforts to increase production capacity and productivity that are centered on the increase of corporate value to address the growth of the business and the increase of profitability, operating profit per employee increased.

Operating profit per employee (Non-consolidated)



* The number of employees：excludes contracted, and temporary employees, and employees on leave of absence.

The per capita operating profit for this fiscal year was JPY1.56 million, an increase of JPY230,000 from last year. Please note that the figures are slightly different from the past, as we have reviewed the numbers for employees on leave of absence or on statutory leave, and adjusted the numbers accordingly.

Results Forecasts for FY2024

◇ In the fiscal year under review, the Group responded to strong IT investment demand and improved productivity to increase both net sales and profit. Thus, the Group roughly fulfilled the management targets set in the three-year plan until FY2024 one year earlier than planned.

◇ In FY2024, the Group foresees the shrinkage of the facility business and the expansion of office relocation spending in association with real estate liquidation and it will be investing in new businesses with an eye towards medium- and long-term growth. While these moves will impact the Group, the Group will seek synergy within the Group, offer greater value to customers and properly allocate capital to continue to grow and improve profitability and capital efficiency.

◇ Profit attributable to owners of parent in this results forecast include 5.9 billion yen of after-tax gain on sale of eight A-rated properties*1 in real estate liquidation. The results forecasts at present do not take into account nine B-rated properties*1 that will be liquidated in FY2024 in consideration of the possibility of major fluctuations in property value. Information will be disclosed in a timely manner after the sale value is confirmed.

(Million yen)	FY2023 Results	FY2024 Plan	YoY change (Amount)	YoY change (%)	(Reference) Impact of real estate liquidation for FY2024	(Reference) Plan excluding impact of real estate liquidation for FY2024
Net sales	298,855	**315,000**	+16,144	105.4%	-1,000	316,000
Operating profit	20,684	**22,000**	+1,315	106.4%	-1,200	23,200
Operating profit margin	6.9%	**7.0%**			–	–
Ordinary profit	19,675	**21,800**	+2,125	110.8%	–	–
Ordinary profit margin	6.6%	**6.9%**			–	–
Profit attributable to owners of parent	11,849	**21,000**	+9,151	177.2%	+5,100	15,900
Profit margin attributable to owners of parent	4.0%	**6.7%**				
ROIC	8.3%	**8.8%**	+0.5pt	+0.5pt	–	–
ROE	9.2%	**15.9%**	+6.7pt	+6.7pt	+3.6pt	12.3%
EBITDA margin	8.3%	**8.3%**	+0.0pt	+0.0pt	–	–

*1. Published in *Explanatory Materials on the Activities of the Corporate Value Committee and Governance Committee* on August 10, 2023

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This is the full-year forecast for the fiscal year ending December 2024. We are ahead of the plan by one year, with steady performance. For FY2024, we will downsize the facility business with real estate liquidation, which will be explained later with mid-term plan. We will also make aggressive investments in new business areas to drive group synergies. Forecast for sales is JPY315 billion, operating profit is JPY22 billion, with YoY changes of 105% and 106% respectively. OP margin is expected at 7%.

The figures take into account A-rated properties as described here, but not incorporating B-rated properties as they are a bit large in value and with some uncertainties. Please understand that we did this to avoid confusion.

Trends of Dividends and the Plan for FY2024

Annual dividend of FY2024 is planned to be 84 yen per share.

According to the plan for FY2024, net profit per share will be 333.80 yen, the dividend per share will be 84 yen and the consolidated dividend payout ratio will be 25.2%*1.

■ Trends in net profit per share, dividend and dividend payout ratio (consolidated)

(Yen)

	FY2020 Results	FY2021 Results	FY2022 Results	FY2023 Results	FY2024 Plan
Net profit per share *2	273.96	291.47	362.57	376.96	333.80 (Before the stock split: 667.60)
Dividend per share	46	52	127	137	84 (Before the stock split: 168)
Commemorative dividend	5	–	–	–	–
Dividend payout ratio	18.6%	17.8%	35.0%	36.3%	25.2% *1

*1. If the after-tax gain on sale of owned properties (A-rated properties) is disregarded, the consolidated dividend payout ratio for FY2024 will be **35.1%**.
The Group is considering appropriating the gain on sale of properties to the acquisition of treasury shares in accordance with the capital allocation policy under the medium-term Business plan (2024-2028).

*2. On July 1, 2023, the Company conducted a two-for-one split of its common stock.
From FY2020 to FY2023, net profit per share and dividend per share are the figures before the stock split. The FY2024 Plan figures are after the stock split.

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Here is the dividend plan for the year. Until FY2023, figures were before the split. For FY2024, it will be JPY84 after the stock split, equivalent with JPY168 before the split. Payout ratio is expected to be 25.2%. As shown in footnote one, if we exclude the proceeds from real estate disposal, the ratio would be 35%. We are planning to pay a dividend of JPY84 per share. Details will be presented in the medium-term management plan overview.

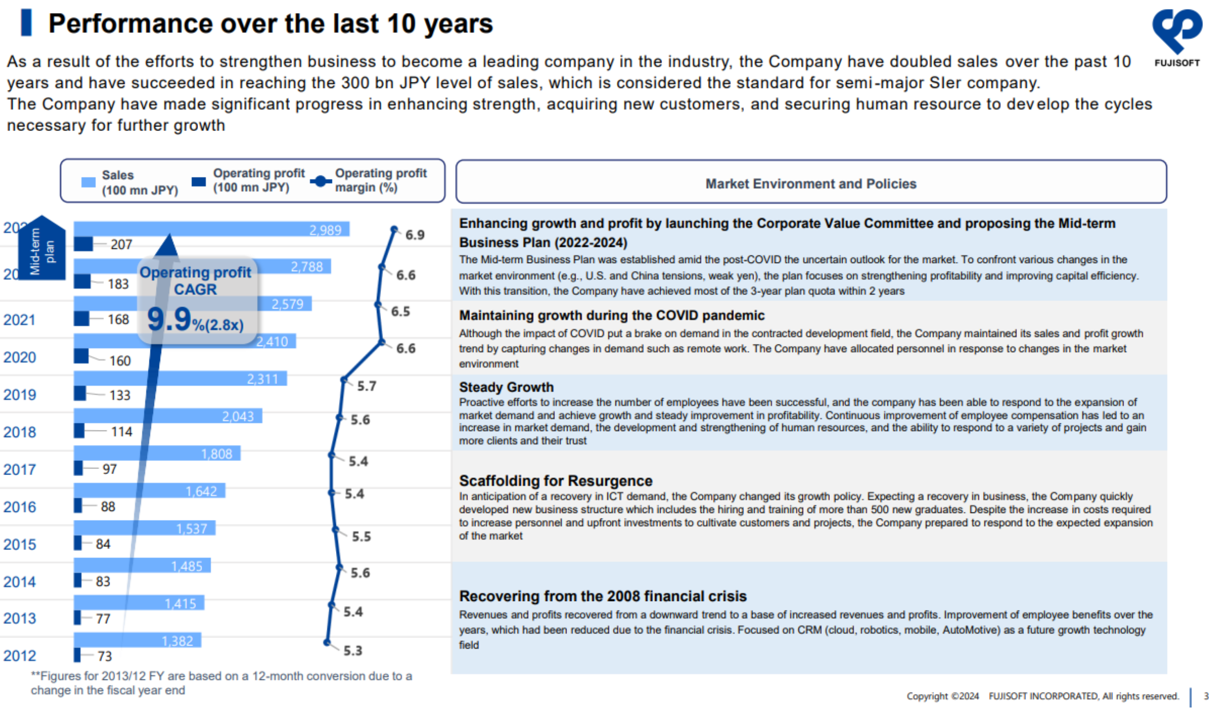
That's all from me.

Let me hand it over to President Sakashita who will be presenting the mid-term management plan.

Sakashita: I will now present our new plan with the title of Mid-term Management Plan 2028. This as a five-year plan.

First of all, as explained earlier, the three-year mid-term plan from 2022 to 2024 is almost achieved in two years. By looking back, the three-year plan was released in 2022 at the time of financial results briefing. After that, we established the corporate value enhancement committee and held an extraordinary general shareholders meeting, as some of you might remember. Under the new management structure, we have developed our vision, followed by the TOB to turn some entities to wholly owned subsidiaries. These are our evolutions to date.

This is our vision at a glance, to become a leading provider of IT x OT system/software and services, contribute for our customers and broader society, while aiming at achieving the net sales of JPY1 trillion. We will leverage this five-year plan as a bridge between the mid-term plan that is completed in FY2023 and the vision, with the aim of laying the foundation for steady growth, innovation, and another leap toward the future.



First, let me reflect the past 10 years, even though some of it is a bit repetitive.

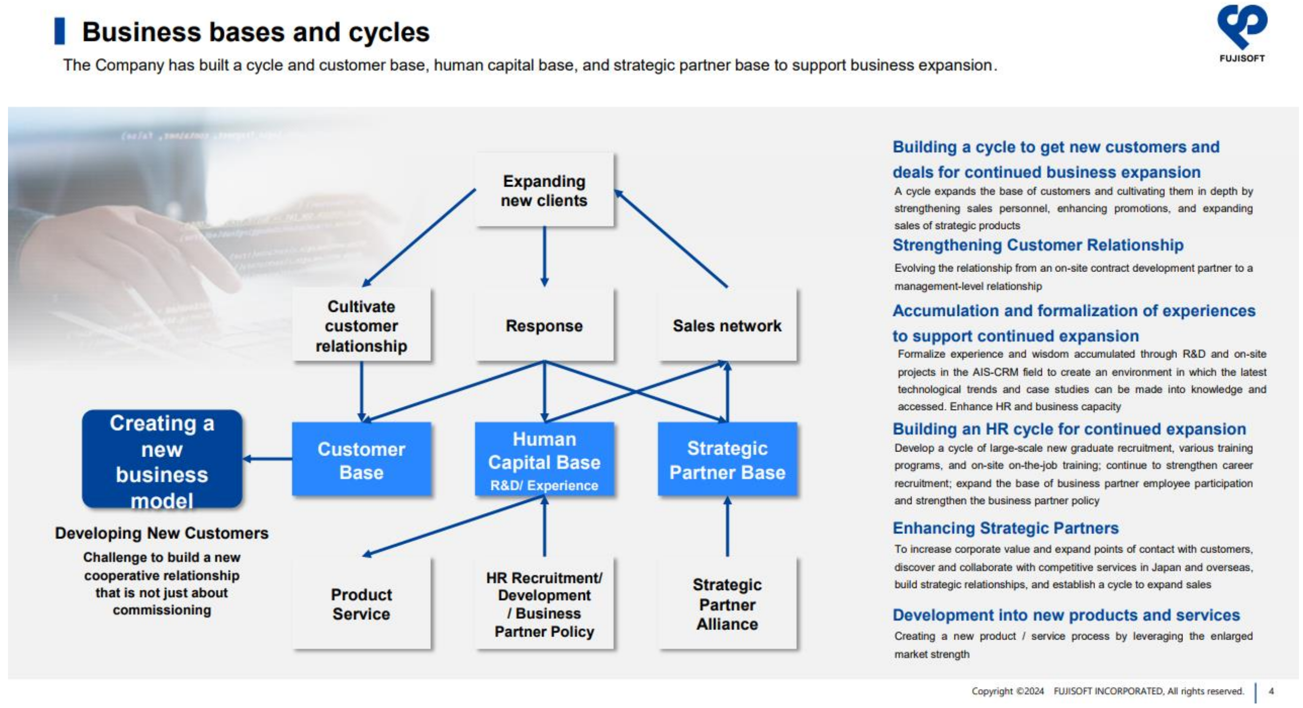
We have been strengthening our business foundation to become a leading company in the industry. In 10 years, sales doubled, and we succeeded in reaching the JPY300 billion level of sales, which is the benchmark for a second-tier SIer, according to some magazine. I believe that we have made progress in enhancing our corporate strength, and have also developed the customer base and human resource development cycle necessary for further growth.

On the other hand, the company has not yet done enough to improve the value it generates and challenge remains in profitability improvement. In the future, we will further evolve management resources we have accumulated and promote business innovations that take advantage of them.

Looking back at our history, around 2013, our performance recovered from the effect of Lehman Shock and turned back to topline/profit growth trajectory. From about 2015, we started strengthening our human resource capabilities to meet the recovery in demand for ICT. Perhaps we were the first in the industry in terms of enhancing the staffing. While it was a difficult three years, we were able to train large new hires. After a couple of years, this resulted in virtuous cycle. We had a solid path in 2017 and 2018 to drive growth. Although OP margin is still low, I believe that we have accumulated our track record of growth and earnings. Upfront investment in people have borne fruit.

AI has become a buzz, but since that time, we have focused on AI and strengthened our AIS-CRM strategy, as mentioned earlier.

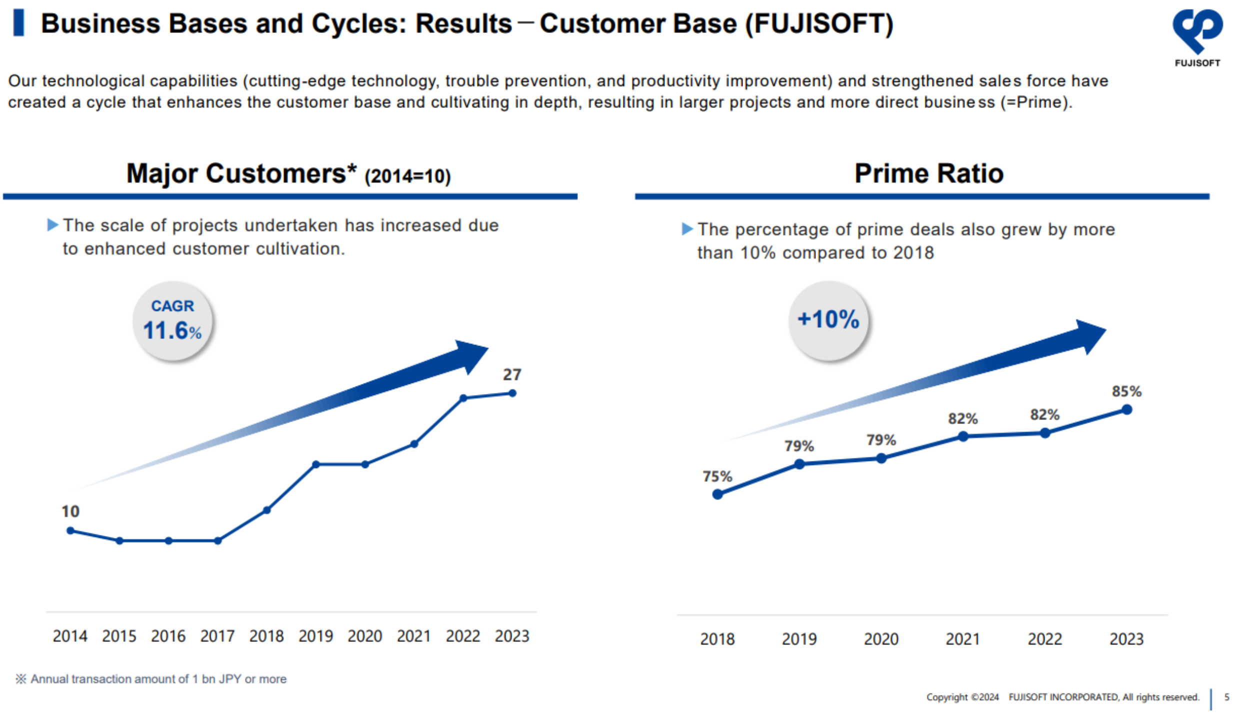
The pandemic dampened the market demand, but we were able to firmly maintain upward trend of topline/profit by capturing new demand such as remote work to make up for the diminished demand. For the past two years, we have established a corporate value enhancement committee and created a medium-term management plan to drive profitability as well as growth. Since it was amid the pandemic, there were issues regarding the environment and how things would turn out, but we were determined to boost profitability. I believe we have spent the past two years implementing measures to drive both growth and profitability.



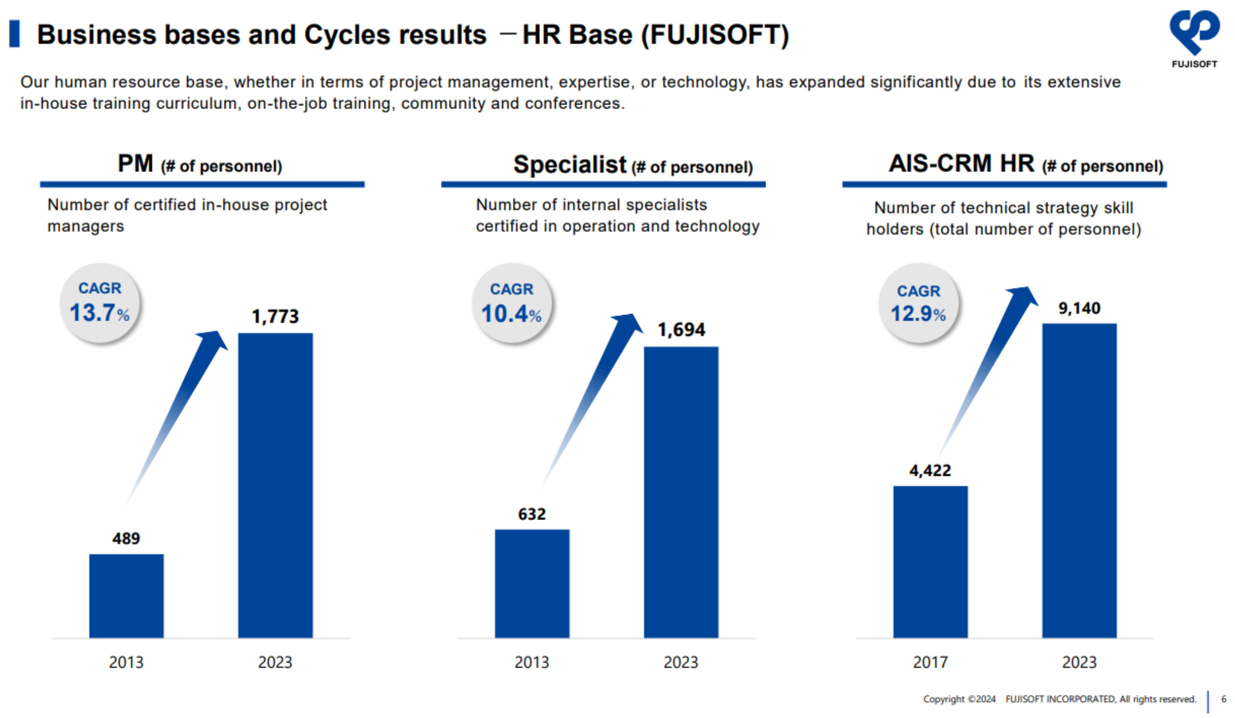
As you can see on the right side of the page, we need to expand our customer base and strengthen our sales capabilities in order to achieve solid growth. To this end, we are not only looking at consignment development, but also working with strategic partners, including Microsoft and Amazon to find new advanced products and develop customers together with strategic partners. We call it an alliance with strategic partners.

We will also continue to work on various projects for the customers we have developed and enhance the relationship, while strengthening our human resource base through those alliances with strategic partners and R&D, in addition to customer engagement. At the same time, we will further strengthen our customer base as we engage in projects. Naturally, we will increase new hires and strengthen our business partners to accumulate the expertise by responding to projects and offering knowledge. We were able to codify their knowledge and develop a mechanism to share them across the organization.

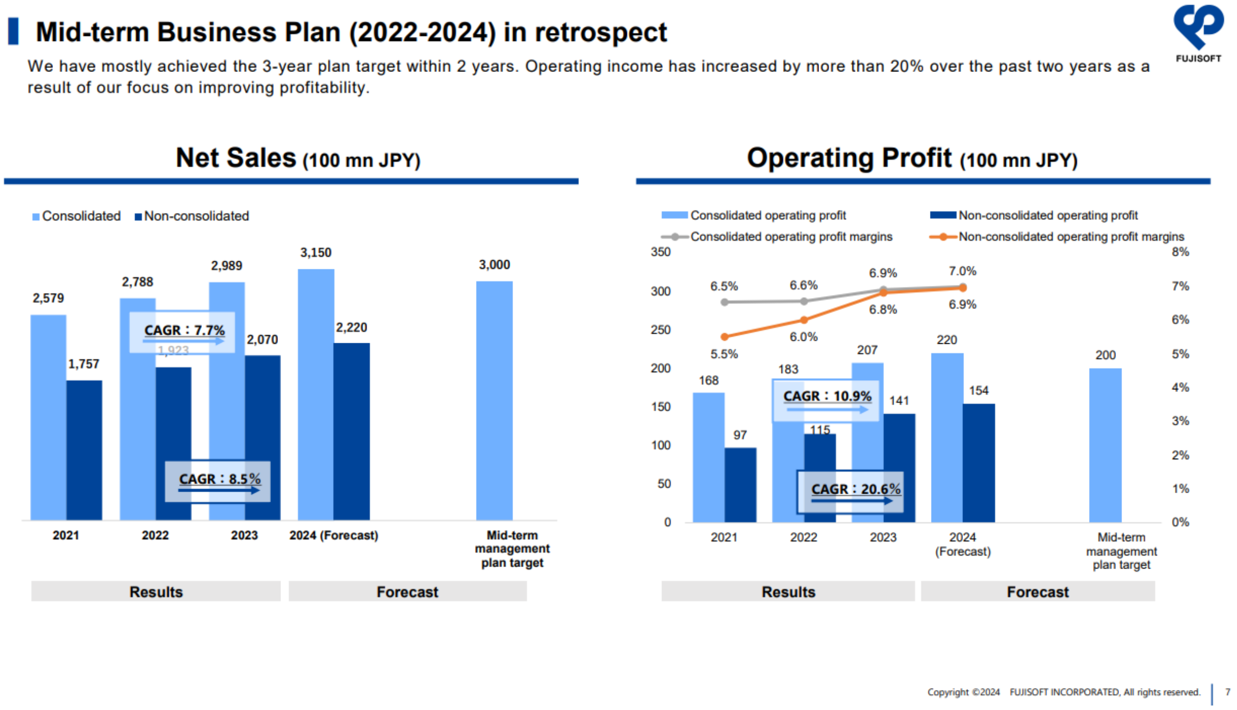
From here, we will build a new business model by strengthening to cloud services and collaborating with customers based on the solid customer base. I believe that the past 10 years have been a period in which we have been able to firmly establish such a foundation.



In this context, the number of large customers is presented as a ratio. Compared to 2014, it is more than three times. As for the prime contractor ratio, we had served mostly as subcontractor 20 years ago, but through the transformation, the ratio has improved drastically in the last 10 years, close to 100%.



In terms of human resources, number of project managers has quadrupled over the past 10 years. The number of specialists has grown so much now that it has tripled. AIS-CRM personnel have doubled in the last six years in areas that require special technology. In this way, we have established a solid talent base.



As mentioned earlier, we were able to achieve most of the figures in the two years of the current medium-term plan, with a CAGR of 7.7% for consolidated sales and 8.5% for parent basis.

CAGR of operating profit is a bit higher than consolidated sales growth. In the last two years, OP grew by more than 10% in average. For non-consolidated basis, we see double-digit growth in two consecutive years thanks to our focus on profit enhancement.

Corporate Value Committee overview

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		Review Point	Activities	Review Results	Execution
Governance Committee		• Solving governance issues in general, including the governance of the Board of Directors and optimizing governance structures	• Review of governance issues such as optimal institutional design, review of board agendas and voluntary committee structures	• Requires transition to a monitored institutional design • Requires functional separation of the Management Committee	• Preparation for transition to a company with an Audit and Supervisory Committee • Functional separation of the Management Committee into Nomination, Compensation, and Ethics Committee • Review of board agenda and effectiveness assessment methods
Corporate Value Committee	Business Review WG	• Failure to convert improvement in system development capability into economic value, resulting in low profitability compared to peers	• Re-evaluation of a business strategy. • Evaluation of the midterm plan and businesses to be enhanced • Evaluation of business profitability	• Requires to create a vision for the future. • Requires to plan a business strategy • Requires to plan a profit enhancing strategy	• Disclosed the Mid-term Business Plan • Set operating profit per capital as the most important KPI
	Group Companies Review WG	• Technology development and change in the ICT field is extensive and accelerating, requiring more efficient technology collaboration, service evolution, and management system building throughout the group	• Making the final decision based on evaluations made by Business Review WG • Optimal implementation of scheme based on established policies	• Requires innovation to adapt changes in the environment • Requires dynamic operations and synergies throughout the group	• Announcement of making the four listed subsidiaries into wholly owned subsidiaries
	Real-estate Review WG	• In the past, real estate holdings were part of a growth strategy, but the significance real estate is questionable	• Evaluate the significance of real estate holdings • Evaluate necessity of each physical office • Optimal implementation of scheme based on established policies	• Requires Hurdle Rate vs. Market Value Rate of Return • Liquidate real estate that are below the hurdle rate	• Classified the liquidation priorities into four categories, and liquidation is implemented in accordance with it

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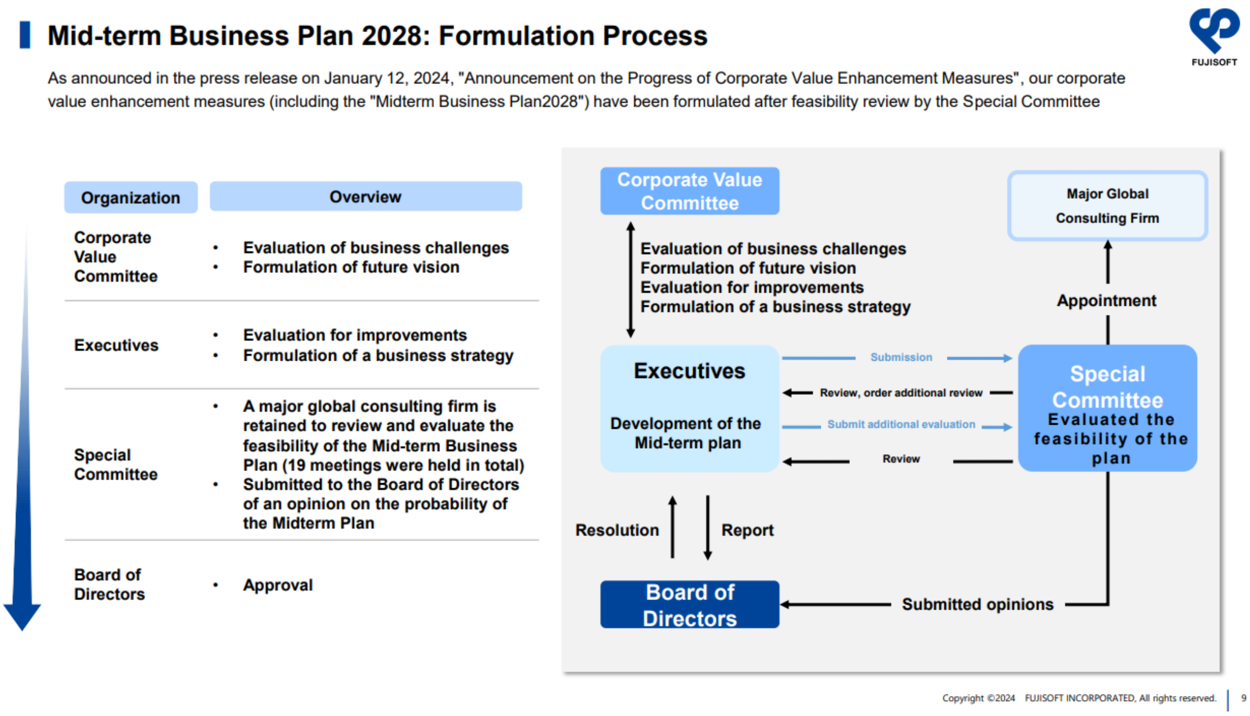
I will briefly summarize a few of the actions implemented by the corporate value enhancement committee. A governance committee has been formed to study various issues. The majority of committee itself consists of outside directors, including the chairperson. Nominating, compensation and ethics committee was newly formed for segregation of function, with majority represented by outside director as well. BoD meeting agenda is also being reviewed.

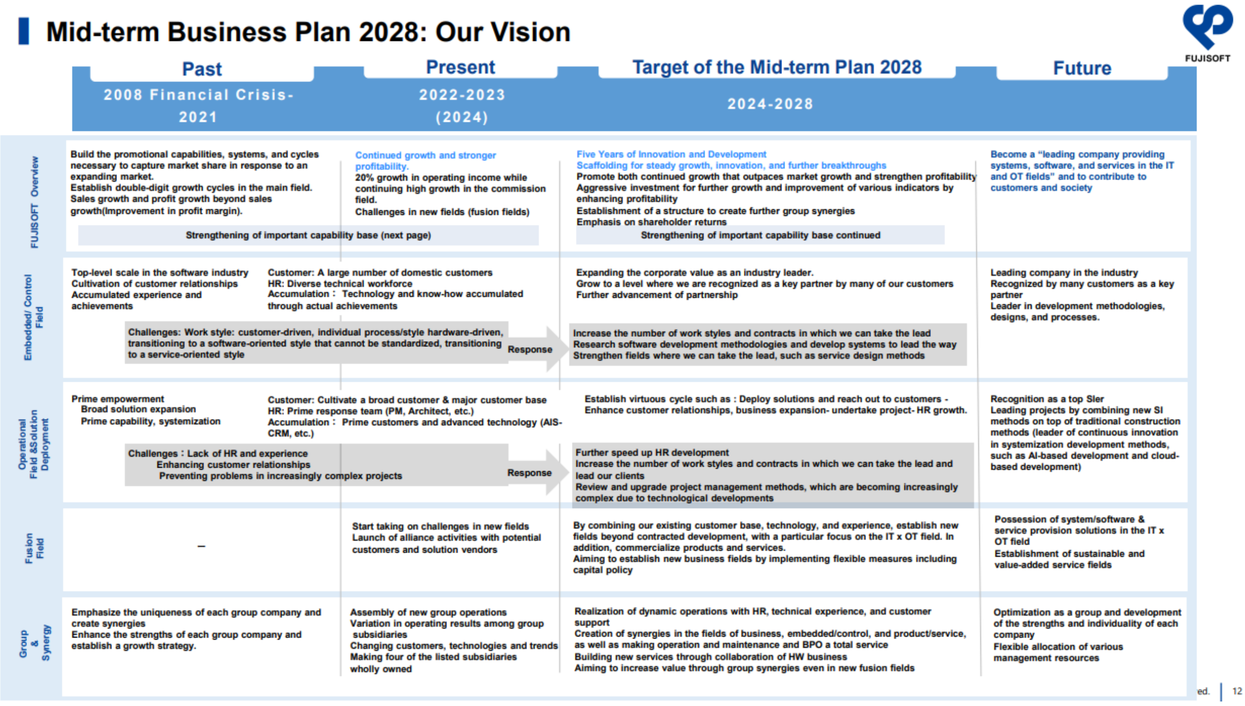
The business review working group has focused particularly on profitability improvement, setting the target for the most important KPI - operating profit per capita - which is the basis for the mid-term plan. The corporate group review WG discusses many issues, but since the end of last year they have been driving the conversion of four listed subsidiaries into wholly owned subsidiaries. Real estate review WG is undergoing a phased liquidation program with four levels of liquidation priorities. The medium-term plan has been developed in conjunction with the activities of these working groups under the corporate value enhancement committee.



As part of these processes, a special committee has been formed within the Company, as announced in January 12, 2024 on the status of the corporate value enhancement. Probability of success was scrutinized by the special committee as well. When we formulated the medium-term management plan, a major global consulting firm was invited by the special committee to lead the review meeting etc., and probability assessment is done by the committee with the support of this consulting firm. In conjunction with the corporate value enhancement committee, we prepared a medium-term plan and reported it to the Board of Directors. The special committee submitted a written opinion indicating their confidence, which was then approved by the Board of Directors.

This major consulting firm has held a total of almost 20 review meetings to facilitate a very granular level consideration.

The new medium-term management plan calls for the next five yeas as the period of innovation and advancement. In order to establish a firm position in the ICT industry, we have developed our business and management plan with an emphasis on topline growth while being conscious of profit growth. Now that we have created a vision, we intend to shift the gear towards strengthening profitability while growing sales.



This is a bit of abusy slide, with some repetition. Until 2021, and for the last two years, we have focused to gain shares in the expanding market, while ensuring necessary capabilities, structures and cycle. These started to work, and profitability has steadily improved. With the continued growth and earnings enhancement in last two years, we achieved a non-consolidated CAGR of 20% in operating profit. We also extended our presence in new domains.

As we seek to become a leading company in the IT x OT fields, we will pursue continued growth that exceeds the market while strengthening profitability over the next five years. These are the two wheels that drives our performance. We will ensure that we continue this momentum. We will improve various management metrics through profitability enhancement. We will also promote group synergies, including subsidiaries that have gone private. Shareholder returns remains to be one of our focus. We will further refine important capabilities including the foundations of customer base, human resources and strategic partners, as well as the ones to develop customers/people and for project handling.

Here is a breakdown of issues and actions. In embedded/control software, we are already at the top of the software industry with rich customer base and expertise accumulated by robust team of engineers. On the other hand, there is an issue of the style of work, which tends to be customer-driven in terms of embedded/control product development, as well as product-specific processes and development method. There is a lack of standardization. Meantime, we are at the tipping point with software-driven approach, and we need to change the style of work and development.

As an industry leader, we have to be recognized from customers as an important partner, and aim to be a front-runner in development methodology etc. We also intend to maximize our value over the next five years and grow to be recognized as a key partner by many of our customers. We will further sophisticate the level of partnership. To this end, we will increase the number of work styles and arrangements in which we can take initiative. There are many development methodologies out there, such as AI-based one, LLM, etc. We will be ahead of the curve by developing a system to lead this effort, including the implementation of new methods such as service design. This is how we plan to spend the next five years as we move into the future.

For the past 10 years, we have been strengthening our capabilities as prime contractor in the operation software and solutions fields. We have acquired a wide range of customers while ensuring our capabilities as prime contractor, with solid track record. Our strength in AIS-CRM is also getting more robust. However, there are still weaknesses in terms of the depth and experience of the human resource base and the strengthening of relationships with customers. Meanwhile, as projects become more sophisticated, such as cloud ERP and new AI development, new forms of trouble are emerging, adding pressure to earnings. We need to deal with these things as well.

We want to be recognized as a leading SIer in the operation software field as well, gaining more trust from our customers. On top of the traditional development methods, there will be new approach such as SI methods, AI-based development, cloud-native development. As a leading SIer, we will take advantage of these emerging areas.

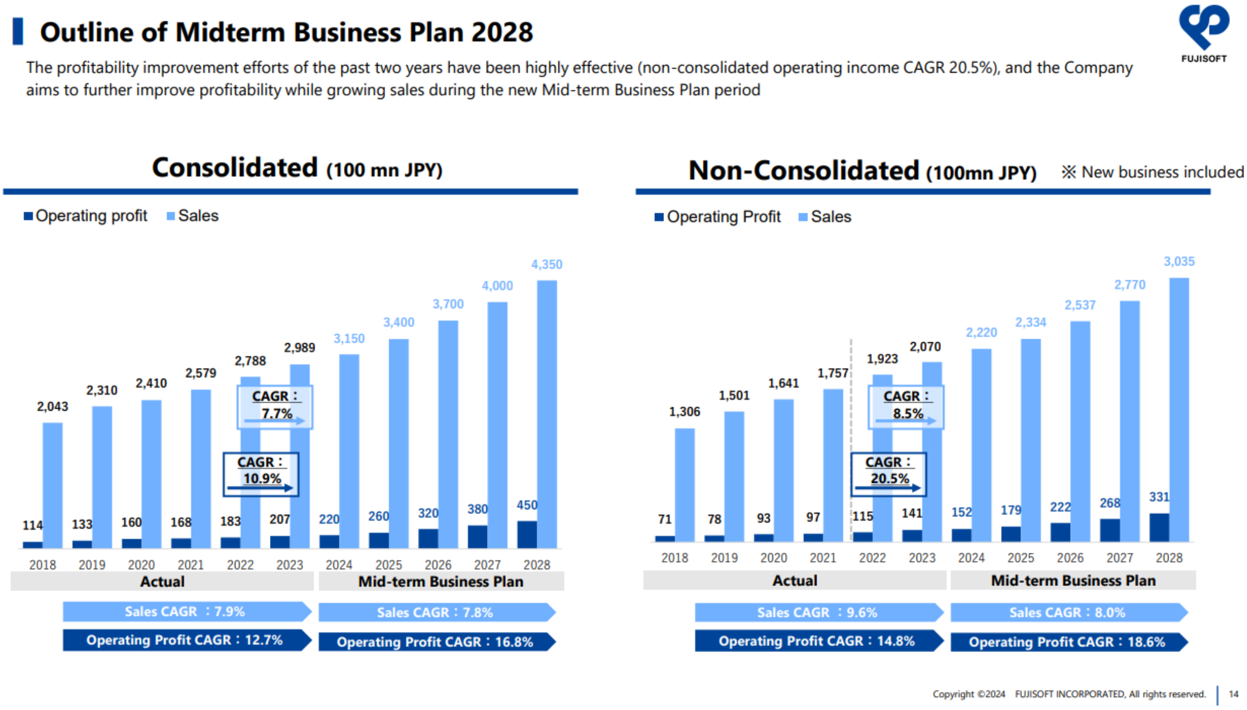
To achieve this in the next five years, we will further accelerate the virtuous cycle by developing and deploying solutions for customers, enhance the relationship, promoting R&D while proceeding with projects and developing talent. We will expedite human resource development and increase the number of work styles and arrangements with customers that allow us to take the lead, as mentioned. We will be focusing on reviewing the project management methods which is becoming complex due to the technological advancement. This will enable us to win the position as leading SIer.

We have also been expanding into new fields, which we call cross-domain areas where we can combine our competitiveness in embedded/control and operation software, which is currently growing as part of digital transformation. Past two years was a preparation phase for this endeavor. During the next five years, we will combine the legacy customer base and technology expertise, with a particular focus on IT x OT field so that we can develop new business in addition to contract development. We also develop cloud services. In the next five years, we want to develop new business areas with speed, through flexible approach including capital policy,

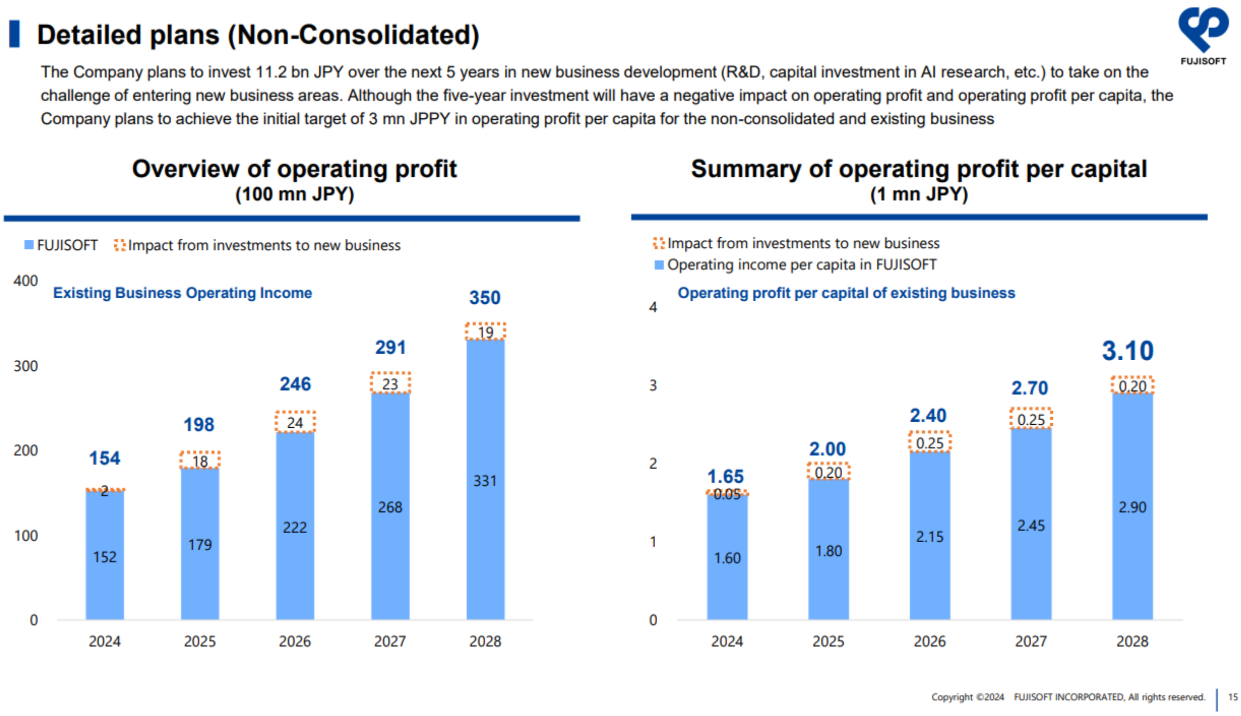
We intend to promote and enhance sustainable and value-added services by adding software/solutions in IT x OT field.

Regarding the group companies, we have been driving synergies as well as leveraging their unique advantage, but due to various challenges, we have been making our listed subsidiaries wholly owned subsidiaries since last year. It includes synergies through dynamic utilization of people, technology, and expertise, and cross-domain synergies. We will ensure we maximize group synergies in the next five years.

We intend to optimize the group as a whole, and to realize the structure to flexibly allocate management resources through the growth of each company and leverage their unique capabilities. Next five years will set the important milestone towards achieving our vision.



Here is a summary of the plan, with consolidated sales and profit outlook. This is the growth trajectory we envision. Our plan for sales and operating profit are JPY435 billion and JPY45 billion, CAGR of 7.8% and 16.8% respectively. Topline growth is in line with historical trend, but we will accelerate OP growth.

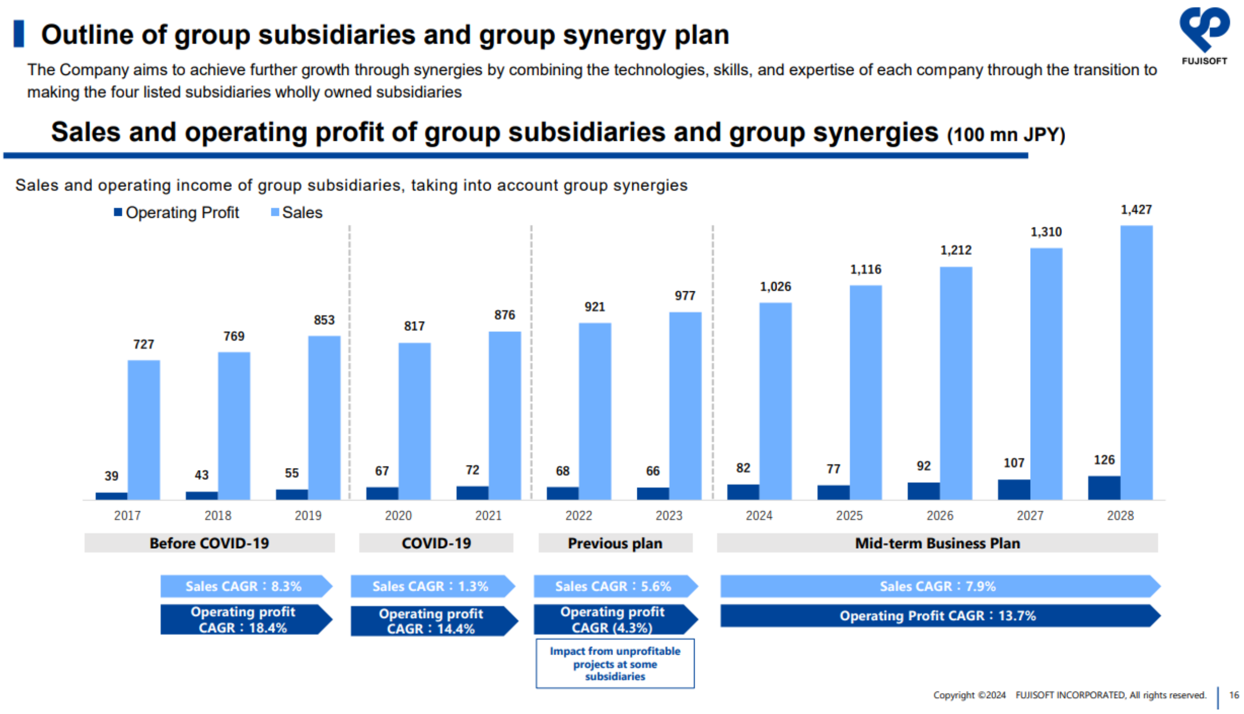


The biggest driver is the non-consolidated performance, with CAGR of net sales expected to be a bit conservative at 8%. However, we aim to be a bit more ambitious for operating profit with CAGR of 18.6%compared to the historical 14.8%. As mentioned earlier, CAGR has been a above 20% for the past two years, so I think the numbers are achievable.

A few additional notes on operating profit. This is the balance of organic growth vs new business investments. We invest a bit above JPY10 billion in five-year period to develop new business fields. These investments will eventually transition to SG&A. Of course, sales will be posted during the period but we incur upfront investment, which negatively affect sales and OP margin. However, considering the five-year period after that, it is necessary to make those investments while pursuing growth. This is what we try to express in this chart.

On non-consolidated basis, we are actually aiming for an operating profit of JPY35 billion in five years, but at FY2028, it will be around JPY33.1 billion if you subtract the invested amount which is close to JPY2 billion for new businesses.

We had explained that we were aiming for JPY3 million in operating profit per capita in last August. Although we expect to achieve that in five years through organic growth, because of the new business investments we make, it will fall short of that. This is our current forecast.



Here is the plan for group companies, Forecasts are based on the combined total of subsidiaries. CAGR of 7.9% and 13.7% for sales and OP. These include group synergies, so contribution from their business with parent company is also posted here.

Net sales CAGR is a bit less than 8%. In the past few years, there were some poorly performing subsidiaries. CYBERNET and IDEA suffered negative growth in the past two years, which looks like abnormal level. Considering the steady trend before that, sales can grow well enough. Operating profit is planned to be more conservative.

We still believe steeper upward curve considering group synergies, but it is uncertain just after the delisting, and we have to discuss lots of matters. Therefore, our forecast is a bit subdued in this plan.

Financial Management Goals

	Results for FY December 2023	YoY	Forecast for FY December 2024	FY December 2024 (liquidation impact)	FY December 2024 (excluded liquidation impact)	Target for FY December 2028
Sales	298.9 (Bn JPY)	5.4%	315.0 (Bn JPY)	(1.0) (Bn JPY) (Rental sales)	316.0 (¥ Bil) (105.8%)	435.0 (Bn JPY)
Operating Profit	20.7 (Bn JPY)	6.4%	22.0 (Bn JPY)	(1.2) (Bn JPY) (Rental income)	23.2 (¥ Bil) (112.1%)	45.0 (Bn JPY)
Net Income	11.8 (Bn JPY)	77.2%	21.0 (Bn JPY)	5.1 (Bn JPY) (Gain on sale of real estate)	15.9 (¥ Bil) (134.7%)	32.0 (Bn JPY)
ROE	9.2 %	6.7pt	15.9%	3.6% (Gain on sale of real estate)	12.3%	20.0 % or more
Operating CF per share	257 JPY	116 JPY	141 JPY	(124) JPY (Gain on sale of real estate)	265 JPY	600 JPY or more

※ Impact of Real Estate Business from liquidation and extraordinary income and corporate taxes

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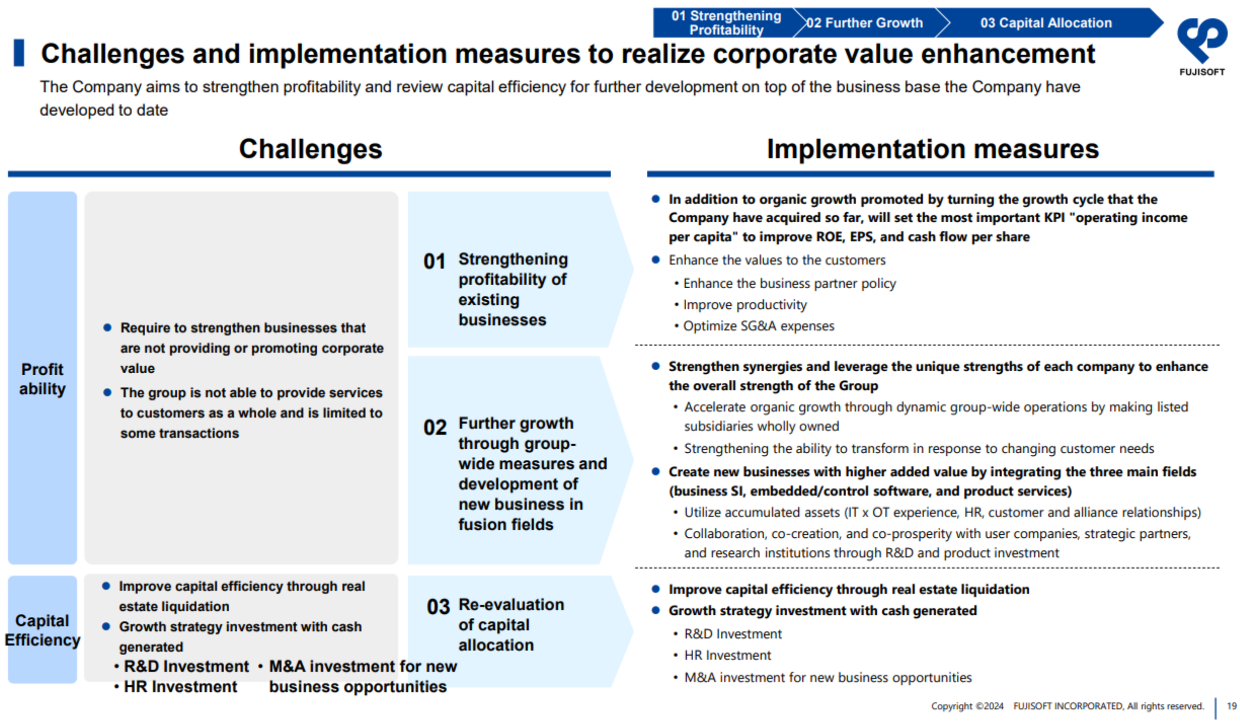
The results for FY2024 were just presented, so please take a look. There is an impact of real estate, which was also explained before. Due to this, it is a bit unclear to measure the underlying performance for 2024 through 2025. Although we indicate ROE of 15.9% in 2024, there is a capital gain from property sale, so realistically it will be around 12.3%.

Cash flow per share is also down significantly, because taxes on the sale of real estate and operating cash flow are negatively affected. Therefore, on a snapshot basis, it appears negative. Our targeted cash flow per share is JPY600 or more, with an ROE of 20%. Above 20% of ROE, is what we intend to achieve.



These are the specific initiatives for profitability growth and capital efficiency. First, we will boost profitability of existing businesses by turning around businesses that fail to drive profitability or added-value, and businesses that fail to contribute to group-wide services or new services. We will continue the growth cycle that we have accumulated, which we call organic growth, and improve ROE, EPS, cash flow per share. I will talk about this later.

We will also take on the challenge of creating new businesses that will contribute to sustainable growth and enhanced profitability through synergies, including the group-wide synergies and enhancement of group companies. This includes the cross-domain field by combing our three key business. In terms of capital efficiency, the issues include real estate liquidation and capital allocation of how to use the cash generated. I will elaborate on them later.

01 Strengthening Profitability | 02 Further Growth | 03 Capital Allocation

Details of measures to improve profitability of existing businesses

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The source of corporate value is HR, and believe that an indicator of the value added by the HR is the most appropriate KPI for increasing corporate value. Monitoring is conducted based on the framework described below (p. 35).

KPI	Components	Item	Detail
Operating income per capita	Gross profit	Improvement of customer value	・**Strengthen of cross-business:** Further strengthen existing relationships with customers and build a company-wide cross-business structure and culture to provide high-value-added services to customers through All FUJISOFT ・**Strengthen of technical capabilities:** In the fields represented by DX AIS-CRM SD, we are making R&D investments to enhance our capabilities in new technological fields, increase the value we provide to customers, and build new IT solutions and services ・**Provide one-stop services:** Build a system that can provide one-stop services from upstream processes to operation and maintenance and infrastructure, while increasing added value by providing combined expertise in embedded/control system development, communications technology, business systems, and other areas. ・**Strengthen our basic business:** Review the roles with customers and other workflow to improve the value provided in terms of manpower per month, and expand into a success-oriented business ・**Expansion of all-in projects:** Increase the number of projects that we can proactively promote to raise the value to our clients, increase the ratio of partner companies, and flexible optimization of internal resource allocation
		Partner policies	・Reviewing customer relationships and upgrading partner policies to increase the ratio of partner companies, secure human resources, improve productivity
		Productivity improvement	・Building customer relationships to drive productivity ・Further strengthening of trouble prevention measures ・Promote technological innovations such as generative AI, test automation, enhanced development environments and tools, product-based development, and new cloud-based development methods
	Selling, general and administrative expenses	Optimization of selling cost	・Visualize sales activities using indicators, review sales processes, and promote efficiency and sophistication by monitoring each indicator and performing the PDCA cycle
		Optimization of administrative cost	・Promote visualization and optimization of business workflow through operational reforms (activities ongoing since 2019) ・Promoting improvement and optimization of efficiency through modern system implementation and DX promotion, such as core system renewal based on operational transformation, no-code, low-code, and usage of generative AI

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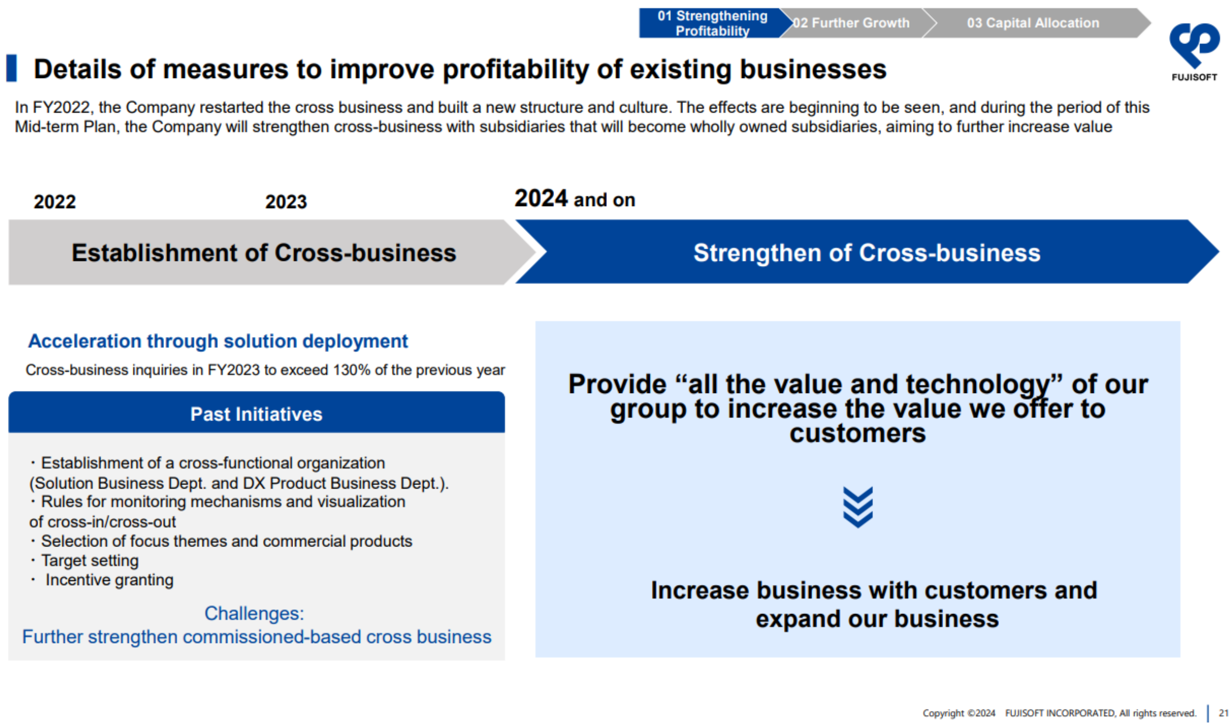
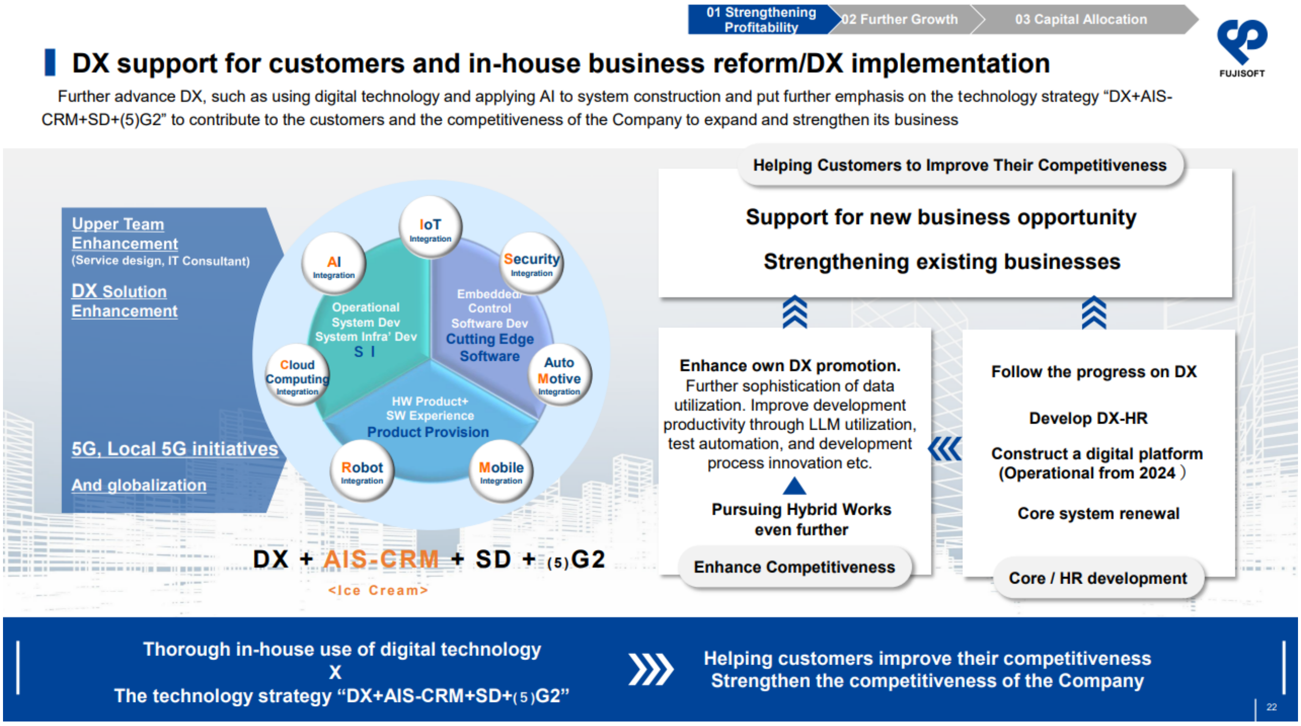
This is the overview of enhancement of existing businesses, which we disclosed last August. We intend to increase gross profit, value proposition to customers and increase the number of business partners, while improving productivity. In order to optimize SG&A expenses, it is important to improve the value we provide, and we will promote cross-business customer engagement, technological enhancement, one-stop services from upstream to downstream, and basic business activities to drive the unit price and accelerate the shift to performance-based fee system, which means expanding the turn-key contracts. We will promote these initiatives simultaneously to boost profitability.

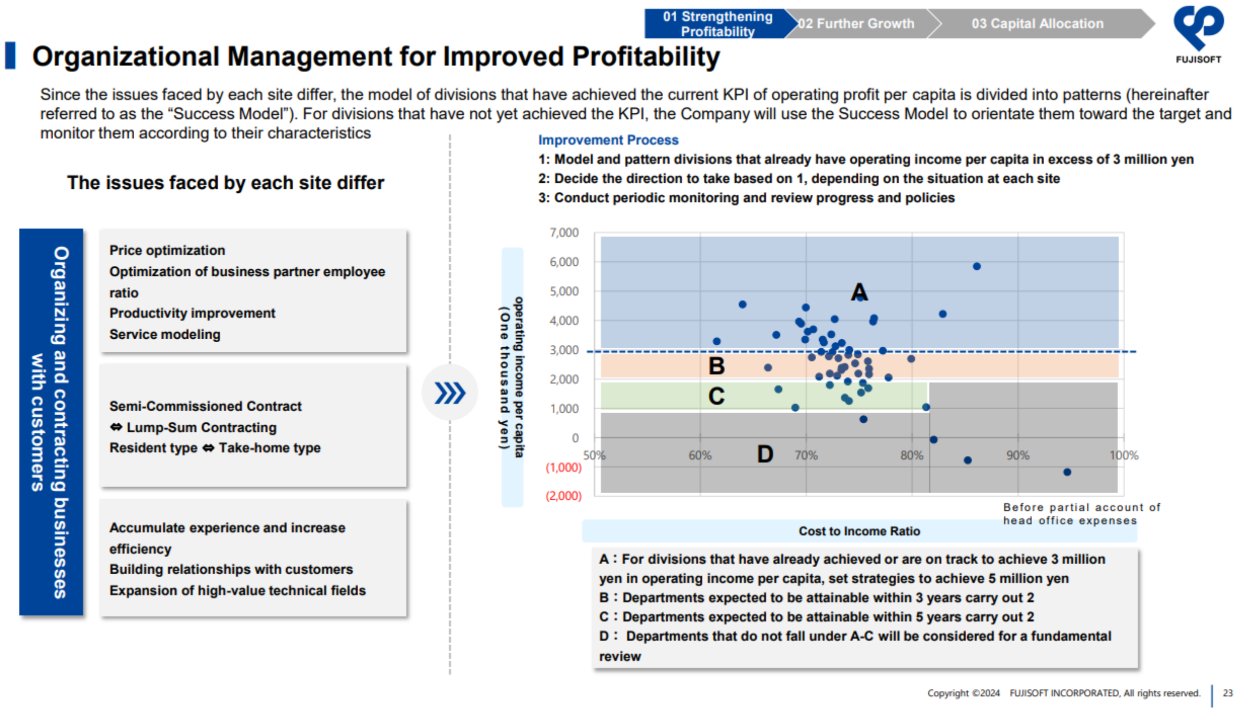


One of them is cross-business customer engagement, which we are also strongly promoting since around 2022. We established cross-functional organization and monitoring mechanism to quantify and review the target and progress. While we have issues in enhancing the cross-business customer engagement in consigned development, we see favorable cycle. We will offer an integrated value as one team under FUJI SOFT. This year, the group companies will also come onboard to promote it more vigorously, under a new framework.



We, as an IT company, must support our customers' digital transformation but we also need to refine ourselves. To this end, we are revamping our core system to build a digital platform. We will keep track of the progress and drive the effort by nurturing the specialists on DX initiatives. We can also better utilize the data to drive our own DX journey, as well as leveraging LLM to sophisticate our development process, which we call an AI-based development. It is definitely necessary to transform the existing process by applying AI. This naturally includes productivity improvement and testing automation.

In this context, we will create new value while supporting the creation of new businesses for our customers. I believe it is very important for our company to combine our own DX while supporting our customers' DX journey.



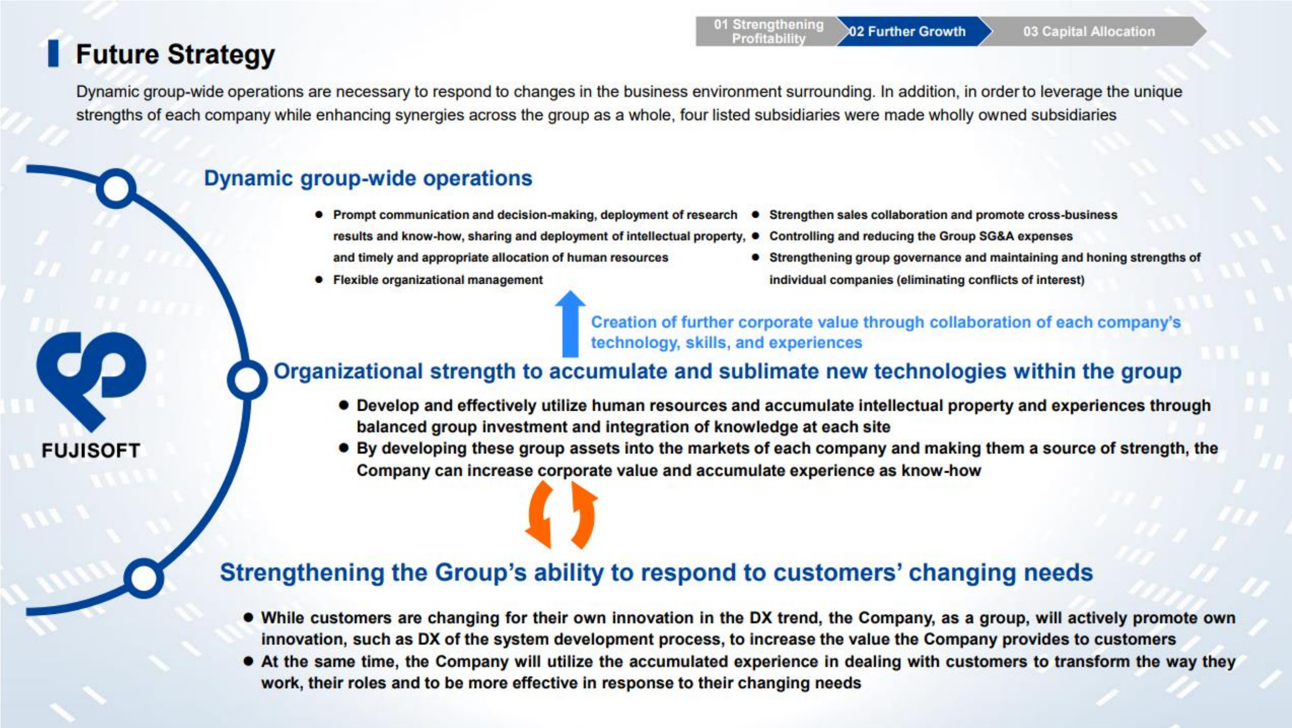
Here is how we manage our organization to improve profitability. Since we have a variety of sites with wide-ranging customers. There is no single model that covers everything. When we get work from customers, we optimize prices, including contract arrangements, utilize our business partners, improve productivity, and shift to a service-oriented model. We need to shift from time & material contract to lumpsum contract, off-site work instead of on-site assignment. We also need to accumulate expertise, develop relationship with customers, and expand our presence in value-added technologies.

Here is a plot chart of per capita operating profit, based on the pattern of business units with above JPY3 million. This does not fully account for some headquarter expenses, so the threshold should be a bit higher. There are about 60 business units that exceed or close to hit the JPY3 million level. This group, group A, represent about 1/3 of total. They have a potential to reach higher level like JPY5 million or even JPY7 million by further sophisticating their business.

Group B is the business units likely to achieve that in three years. We are identifying various measures for them to hit JPY3 million or JPY4 million in earliest possible manner.

Group C is where it takes about five years for them to achieve the threshold. They need to to quickly catch up with B or A group, and this is where we have to examine if the current business is viable or find an alternative way.

D is an outlier group. However, their OP may be dragged due to some troubles, not attributable to underlying performance. In that case they can recover once they fix the trouble through appropriate measures. If their business is not viable, we need a drastic review. By classifying our business units with different colors, we started our transformation, to learn from the well-performing business units which account for about 1/3.



This is the direction as a whole group, which is similar to the statement we disclosed in November. The key is the technological advancement, to transform our technologies. The world is changing dramatically with AI. Our business will change as well. We should dynamically accumulate, advance, and evolve such technologies within the group as a whole, instead of entity-by-entity approach which lacks efficiency.

Customers are also changing. It varies from customer to customer. The purpose of delisting some subsidiaries is to share expertise in customer engagement and collaborations within the group, and to firmly establish dynamic management that enables each company to respond to customers in cooperation with each other.

01 Strengthening Profitability | 02 Further Growth | 03 Capital Allocation

FUJISOFT

Creation of further value through collaboration of technology, skill, and know-how of each group company

The Company aims to achieve dynamic operations in human resources, technical know-how, and customer service in order to increase value through group synergies while leveraging the strengths of each company

	Collaboration Examples	Strengths of Each Company
Value-added by collaboration from the very upstream and upstream process of control system development to software implementation	• Provide consistent solutions such as MBSE, MBD, software implementation, and maintenance • Expansion into various industrial fields	• **CSC:** Model-based upstream experience, MBSE subsidiary • **FUJI SOFT:** Experience in MBD with a focus on the automotive field and research into the MBSE field
Responding to the increasing complexation of the engineering chain	• Enhancement of advanced solutions from 3D design documents to PLM implementation and maintenance	• **CSC:** Know-how in providing packaged services • **FUJI SOFT:** Experience of PLM SI Project
Strengthening of integrated services, including operation and maintenance, in new service fields such as cloud computing and IoT	• Provide consistent services from system design to system outsourcing and BPO	• **VINX:** System outsourcing know-how, structure, and experience cultivated in the logistics field • **SB:** Experience in BPO and support center operations in a variety of fields • **FUJI SOFT:** Proven track record of many IoT system projects and deployment of operational-related business with a wide range of customers
Value-added through collaboration of technical know-how	• Add value by sharing various know-how in the fields of automobiles, telecommunications, etc.	• **CCC:** Know-how and experienced human resources that are based on hands-on work, regional offices • **FUJI SOFT:** Wide range of customers and business fields and know-how in advanced fields such as AIS-CRM
Combination of know-how in the IT x OT field	• Collaboration in the fields of smart logistics and smart factories	• **CSC:** IoT Product Solutions & Know-how • **VINX:** Customer operational know-how in the logistics field • **SB:** Various back office services experience • **FUJI SOFT:** Experience in robotics, material handling equipment, PLC, AMR, and other controls and WMS

Abbreviation: CSC: Cybernet Systems, VINX: Vinx, CCC: Cyber Com, SB: FUJISOFT SERVICE BUREAU

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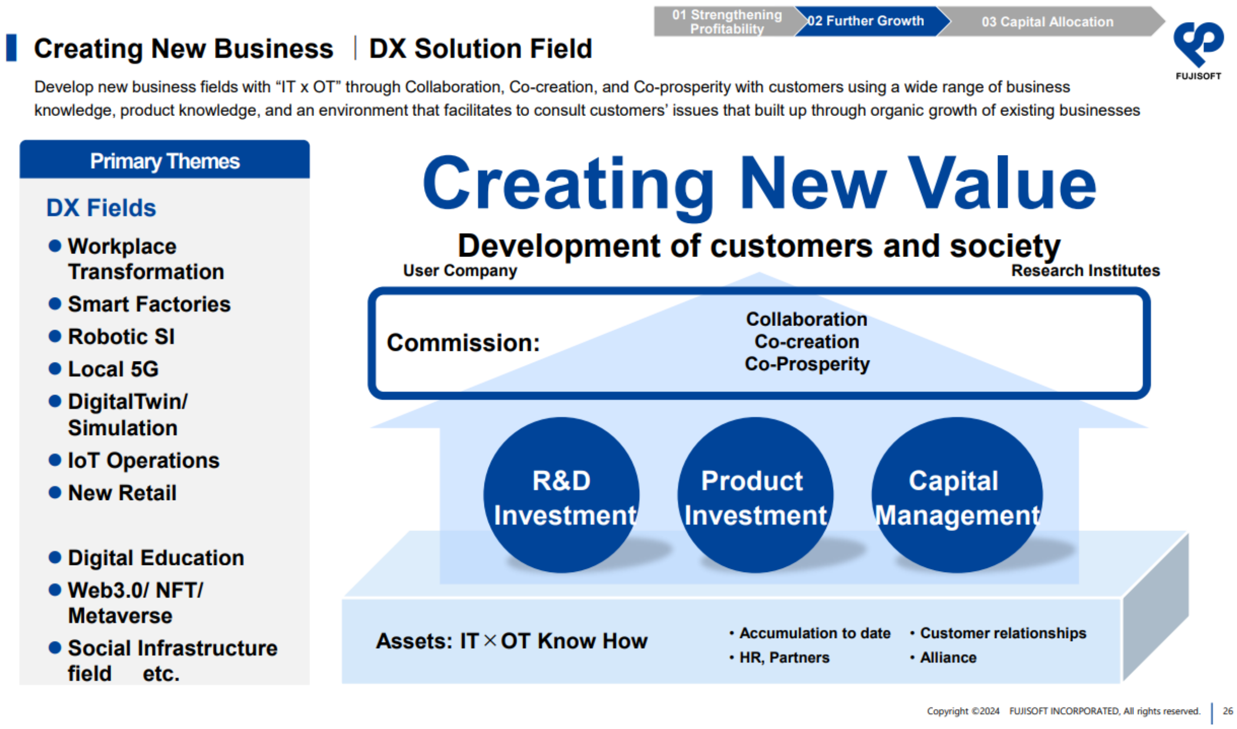
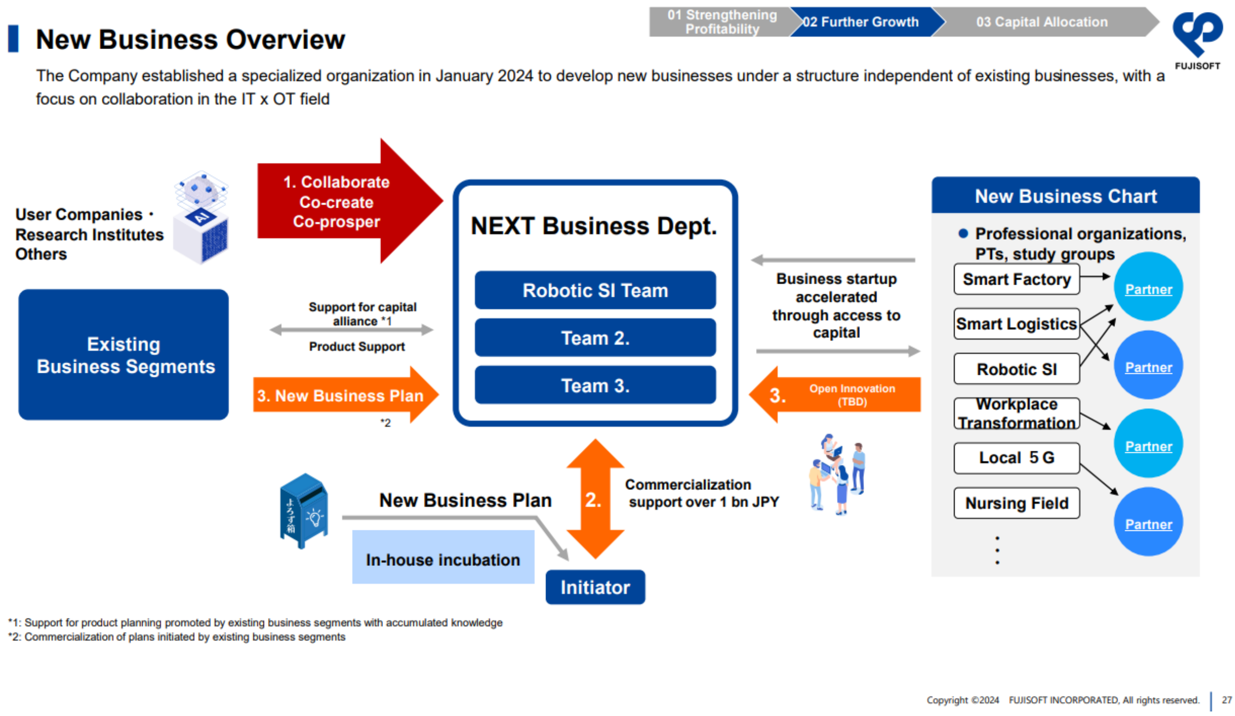
This is also what we presented in November. We believe that the combination of group companies and the parent company can create very powerful and high-value-added services, which we will implement and promote starting this fiscal year.

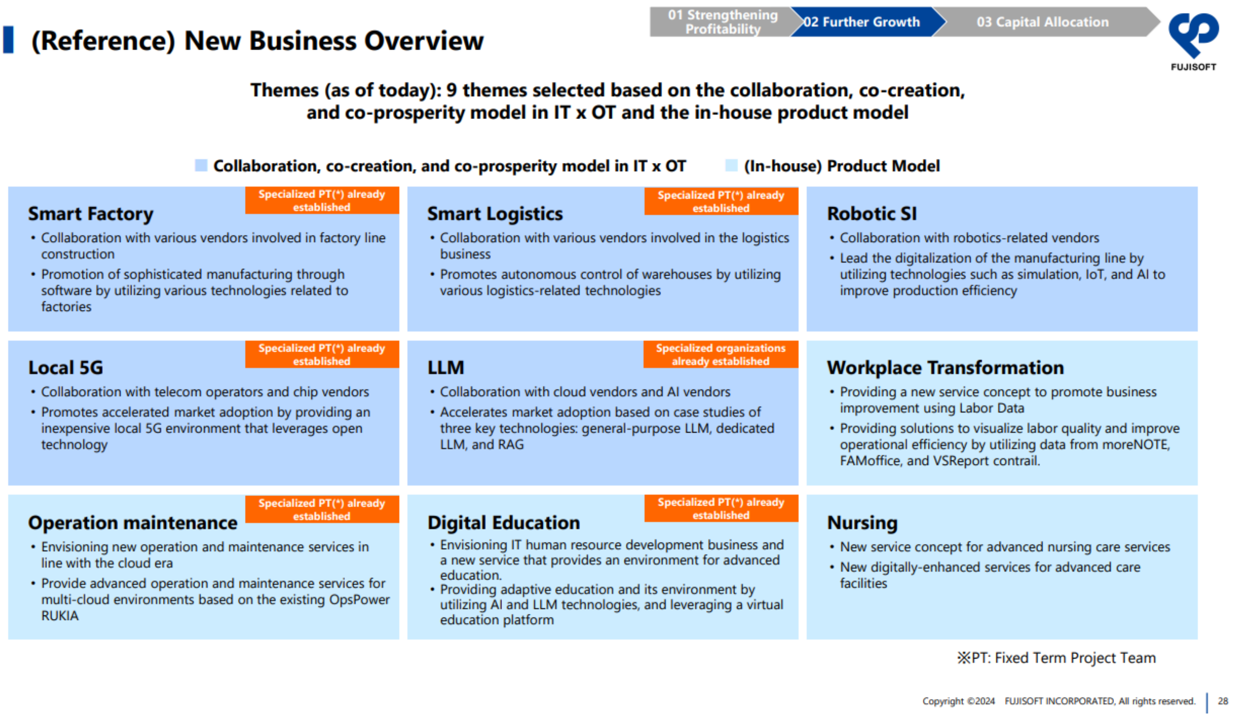


Here is an overview of what we call new business, or digital transformation area. There are many themes where we can leverage our IT x OT expertise mainly accumulated in the technical field, customer relationship, alliance, talent, and partners. We are thinking about R&D investment, cloud investment, or a capital tie-up with some companies in these areas. In addition to consigned projects, we hope to co-work, co-create, and co-prosper with customers and business partners. Through those collaborations, we could add new values in our consignment business, or jointly develop new services with them. This is how we will identify new themes, and drive projects.

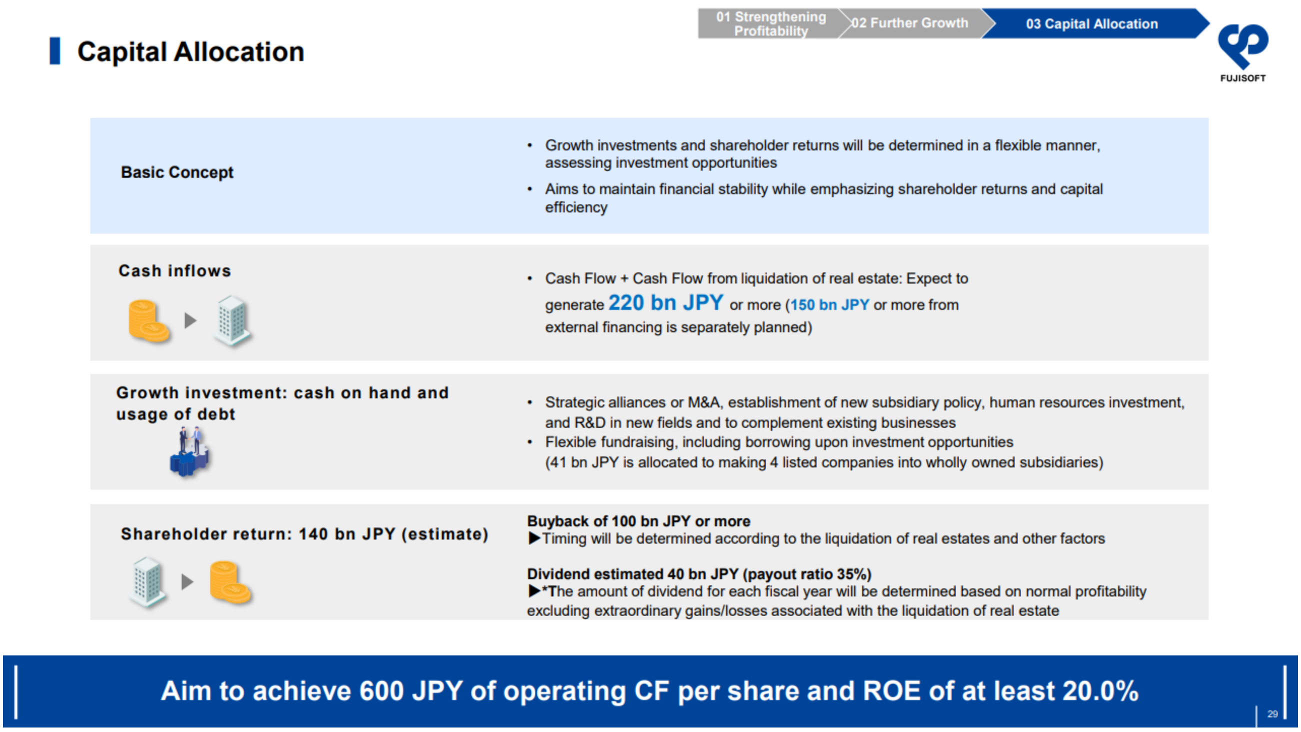


In order to promote this, the new function, NEXT Business Department, was established this year. Each theme is discussed at each LOB, special organization, PT, or study group. The new department will support them while cooperating with existing business units to drive new business planning.

We have also started an in-house incubation system as a catalyst to solicit new business idea from our people, which may be a common practice. Through these, we take strong initiative to develop new businesses.



This is an overview of new businesses that I mentioned, such as smart factories, smart logistics assistance, robot SI, local 5G, LLM, work style reform, operation and maintenance, digital education, nursing care. In the past two years, we launched a special PT and started discussions among existing business units. From this year, we are ready to move to the next phase where we make investment in specific business.



Here is our capital allocation policy. Our basic idea is to allocate investments for growth and shareholder returns in a flexible manner, while judging investment opportunities as they arise. Shareholder return and capital efficiency will remain our important agenda. Naturally, we aim to maintain financial stability. Cash inflows will be more than JPY220 billion in five years, with operating cash flow and cash flow in liquidation of real estate, although I can't promise at this point since property valuation is not finalized. We estimate above JPY220 billion anyway. In addition, considering external facility such as borrowings, it is possible to assume more than JPY150 billion funding.

In this context, we will use cash on hand and borrowings for growth investment, and will be ambitious and open to strategic alliances and M&A's, while considering subsidiary management policy, human resources investment, and R&D, in addition to develop new business areas and manage existing business operations.

We will be flexible in raising funds, including borrowing when investment opportunities arise. We spent about JPY41 billion for delisting some subsidiaries, and continue to allocate fund for this kind of growth investment. At the same time, we will actively return profits to shareholders, buying back JPY100 billion or more of our own shares over the next five years. The timing of share buybacks will be flexibly determined in that they will be implemented as needed in conjunction with the liquidation of real estate.

Dividend payout ratio will be 35%. This would be about JPY40 billion based on the above assumptions for the five-year period. The source of dividends will be based on the normalized earnings capabilities excluding the extraordinary income/loss from real estate liquidation, and dividend amount will be determined for each year accordingly. These are our capital allocation policy.

Real estate liquidation schedule and progress

01 Strengthening Profitability | 02 Further Growth | 03 Capital Allocation

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As disclosed in August 2023, the Company is liquidating the real estate holdings, and progress is as follows:

Rank	Criteria	# of Properties	Notable Properties	Schedule and Progress
Rank A	There are no obstacles to liquidation and no significant monetary impact, making it possible to proceed with liquidation as quickly as possible	8	Ryogoku Fukuoka Osaka	Aim to liquidate at least one property by the end of 2023 and complete the liquidation of the remaining properties around the time the year-end financial results are announced (February 2024). **▶2 properties Fukuoka and Atsugi Dai Ni properties are scheduled to be liquidated at the end of February, and remaining six properties are scheduled to be under contract in March.**
Rank B	Properties that will eventually be liquidated, but require a certain amount of time for adjustment	9	Akihabara Kinshicho Oomiya	Due to the large scale of the properties, and special circumstances such as the unique usage of facilities and relationships with tenants, a certain amount of time is expected to be required for the liquidation process **▶On-going with the aim of executing the plan one year after the August 2023 disclosure (August 2024).**
Rank C	Properties that requires careful consideration for liquidation scheme, timing, need for relocation, etc.	5	Shin-Nagoya Sakuragicho	Properties with full business use in offices, data centers and others. Liquidation scheme, timing, relocation needs must be carefully considered.
Rank D	Not subject to liquidation for the time being, as the land is non-transferable for a certain period of time due to land acquisition conditions	1	Shiodome	Non-transferable for a certain period of time due to land acquisition conditions

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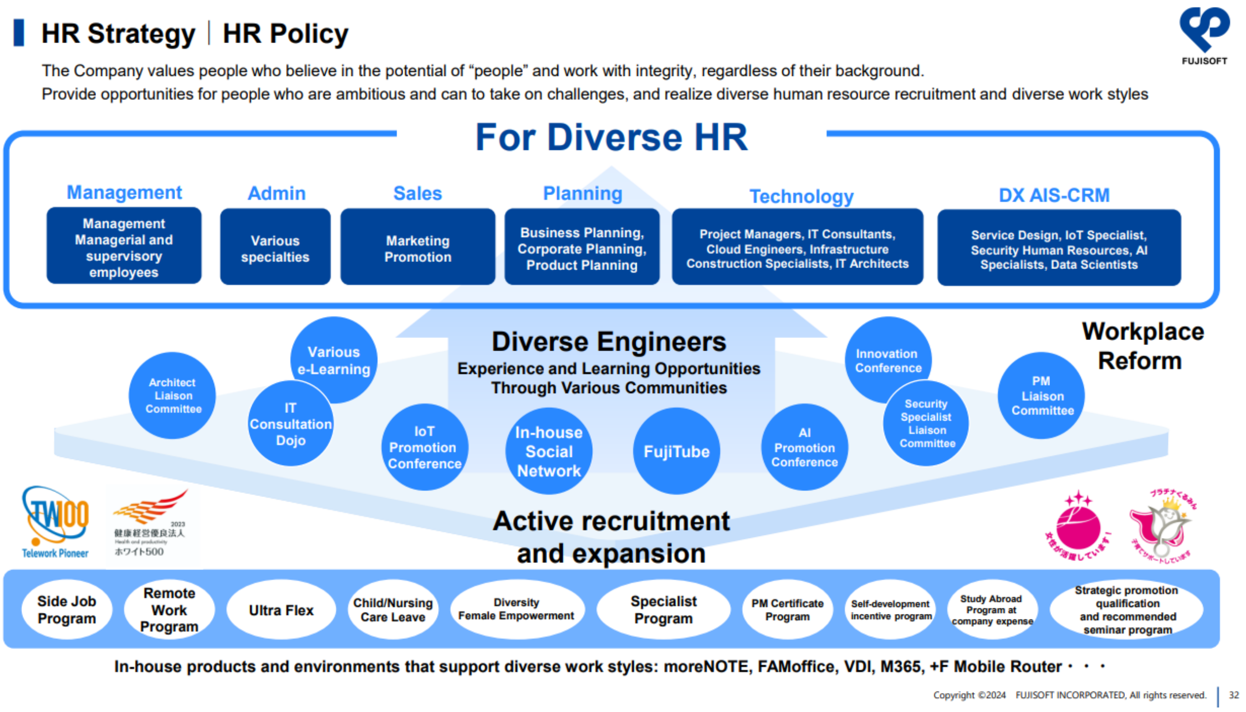
This page shows the status of real estate liquidation. We have classified the progress with A, B, C, and D. We are not that experienced in real estate transactions, so we are now proceeding with A-rated properties while we learn various lessons. Fukuoka and Atsugi 2 will be delivered at the end of February, with some others almost closing. The next step is to start the same process for B-rated properties.



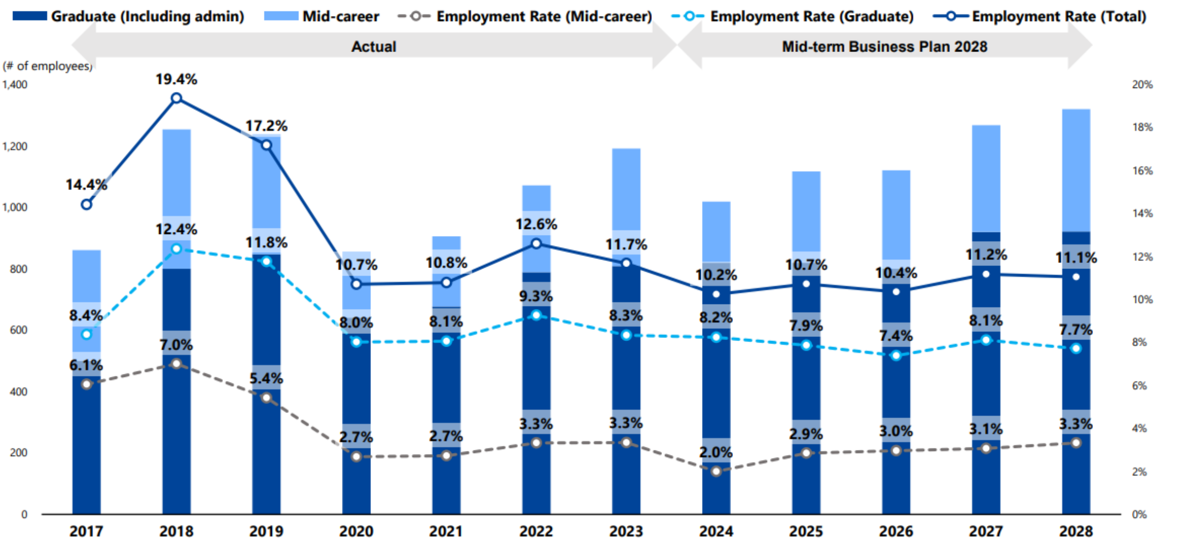
Here is our human capital strategy, which somewhat overlaps with what I have said. I will briefly explain. As our HR policy, we believe in the potential of people regardless of their background. We promote diverse work styles for all employees including mid-career hires, regardless of their educational background, work experience, gender, or country, with the idea of fully utilizing and developing human resources within the company. We have wide ranging programs, environment, learning opportunities and community.

Furthermore, we have an HR system that fits different domains of specialties, which we will actively utilize. We still need to refine HR system to attract new talent, so we are also considering how we can do that.

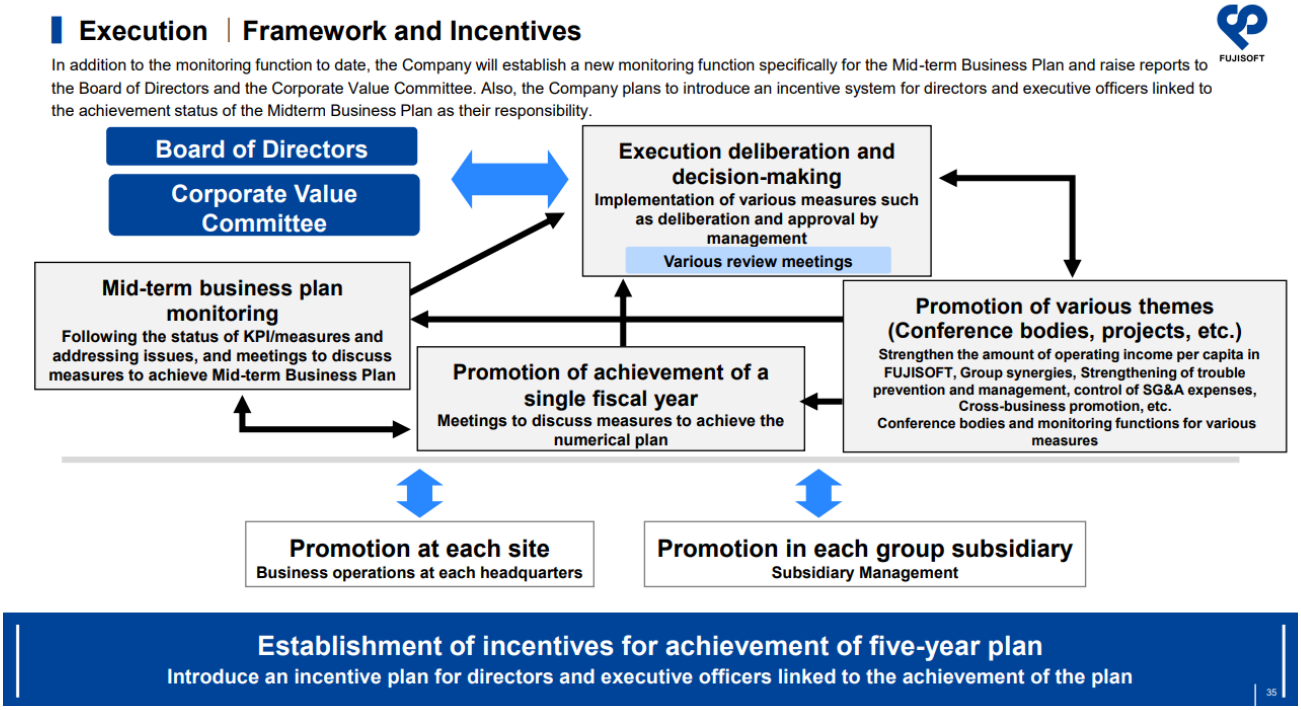
Number of recruits: actual and plan

The Company expects to continue to employ a ratio* of approximately 10% during the planed period. As competition is expected to intensify in the recruitment of experienced workers, the Company will continue to actively recruit new graduates.

*Adoption ratio: Number of employees adopted in the current year ÷ Total number of employees at the beginning of the fiscal year.



Here is a trend of our recruitment, with new graduates and mid-career. We have been very aggressive in hiring. We were a little restrained during the pandemic, but we will continue to replenish about 10% of the total workforce including new graduates every year from 2024, although there may be fluctuations in terms of mid-career recruitment.



This is the framework to ensure mid-term plan execution, with individual themes such as per capita operating profit and synergies. With cross-functional study groups and projects, we will monitor their progress from a big picture perspective. Of course, we already have those forums to follow up on the business progress per each year. We will separately monitor the progress of mid-term management plan to ensure smooth flow of management metrics, while cooperating with the Board of Directors and corporate value enhancement committee. This is how we are committed to execute the mid-term plan.

We also intend to set the incentive system for five-year plan, which is subject for an approval at an upcoming AGM. When we achieve the plan, we hope to pay a reward based on the level of achievement.

I forgot to mention one thing. As part of capital allocation, we aim at JPY600 or more for per capita operating cash flow and double-digit ROE. Just to remind you.

In the appendix is our track record of dialogues with investors at capital market. Please take a look.

This five-year plan is different from our previous ones, with stretching targets. It is true that up to now, we have focused on growth, aiming to accumulate customer base, human resources, expertise to survive in the industry with certain level of position and credibility to exert our capabilities. It is not that we have attained the desired scale after hitting JPY300 billion revenue, but from what market participants expects, we need to focus more on profitability improvement. With deliberations at the Board of Directors and corporate value enhancement committee, we decided to put a big emphasis on earnings improvement.

During the past two years, as we have increased our focus on profitability on a parent basis, we achieved a CAGR of 20%. This will set the tone for the next five years. The delisting of subsidiaries is also as part of this effort. The new plan takes a bit longer timeframe with five years, but it includes transformation aspect in addition to what we have done. We are committed to turn our company to the one with growth and profitability.

We appreciate your continued support and expectation on us. Thank you very much for your attention.

Moderator: This concludes our briefing part of the session.

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