

FUJI SOFT INCORPORATED

9749

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Summary

FY12/23 net sales and profits both rose YoY. FUJI SOFT achieved the targets of its previous mid-term business plan one year early and announced a new plan

FUJI SOFT INCORPORATED <9749> (hereinafter, “the Company”) is a major, independent IT solutions vendor. It has three reporting segments: the SI (systems integration) Business (system construction and product service), the Facility Business, and Other Businesses. In the mainstay SI Business, it provides a diverse solutions menu, centered on the development of embedded/control software and operations software. The Facility Business entails rentals of office buildings, while the Other Businesses include a BPO (business process outsourcing) services business and a contact center business. In addition, the Company is promoting a technical strategy implemented across segments in the AIS-CRM* (pronounced “ice cream”) domain, which offers potential for medium- to long-term growth from FY12/17 onward.

| * A term coined by the Company (acronym for AI, IoT, Security, Cloud computing, Robot, Mobile & AutoMotive) |

1. Overview of FY12/23 results

For the FY12/23 consolidated results, the Company reported net sales of ¥298,855mn, up 7.2% YoY, operating income of ¥20,684mn, up 13.2%, ordinary income of ¥19,675mn, up 2.4%, and profit attributable to owners of parent of ¥11,849mn, up 4.1%. Sales and profit both increased YoY. In the mainstay systems construction field, the Company booked strong orders for operations software development projects, particularly infrastructure construction and backbone system development for clients in the manufacturing and financial sectors. Sales were also firm for embedded/control software for semiconductor production equipment and digital consumer electronics and in EV/advanced fields in the automotive sector. Sales in the outsourcing field declined YoY, but sales from products and services increased, supported by firm demand for licensed products and proprietary products. Ordinary income rose only slightly YoY, reflecting the impact of advisory expenses related to tender offers for four listed subsidiaries. However, the Company reported a double-digit increase in operating income, driven by higher sales and by improved productivity in operations software.

2. FY12/24 results forecast

The FY12/24 consolidated results forecast calls for net sales of ¥315,000mn, up 5.4% YoY, operating income of ¥22,000mn, up 6.4%, ordinary income of ¥21,800mn, up 10.8%, and profit attributable to owners of parent of ¥21,000mn, up 77.2%, effectively the 11th consecutive increase in both sales and operating income since 2013, when the Company transitioned to a fiscal period ending in December. The spread of customers’ DX initiatives and motivation to invest in IT systems to grow their businesses and hone their competitiveness remains robust, resulting in strong demand for its business services centered on IoT and AIS-CRM. The Company expects to continue winning a steady stream of orders in its mainstay systems construction field. The Company’s FY12/24 forecasts include an after-tax gain of ¥5.9bn from the sale of eight A-rank properties for liquidation (A-rank properties are classified as having no obstacles to liquidation and limited financial impact, making it possible to proceed rapidly with sales). However, as of the start of FY12/24, its forecasts do not include plans for other property sales.

Summary

3. New mid-term business plan

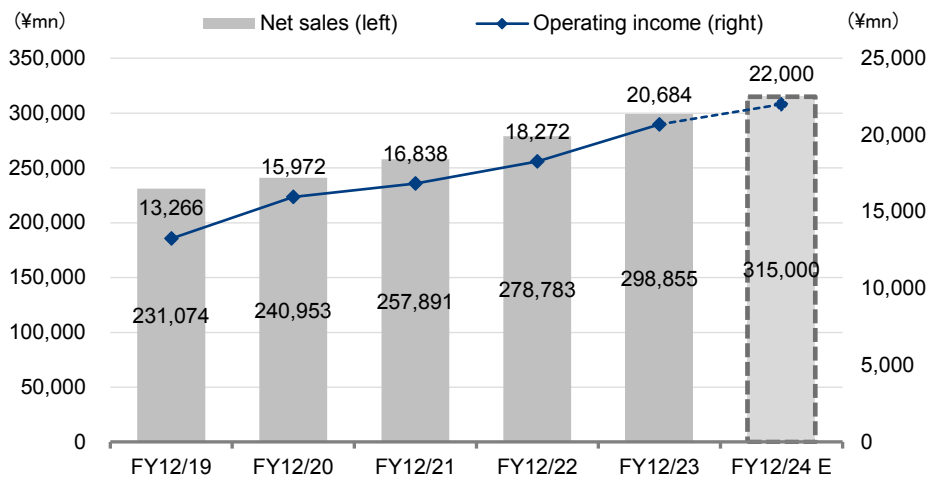
In February 2024, the Company announced its new Mid-term Business Plan 2028 after achieving the targets of its previous plan one year early. Under the plan, the Company has positioned FY12/24-FY12/28 as a period to enhance corporate value through sustained growth and a focus on profitability, aiming to realize its long-standing corporate vision of becoming the leading company in IT/OT system, software and service provision. Concrete measures to enhance corporate value will be developed based on proposals discussed and confirmed by the Corporate Value Committee set up during the previous mid-term business plan.

The plan's FY12/28 targets are net sales of ¥435bn, operating income of ¥45bn, profit attributable to owners of parent of ¥32bn, ROE of 20% or higher, and operating cash flow per share of ¥600 or higher.

Key Points

- Aims to strengthen financial position and boost growth potential following a period of weak earnings after the global financial crisis.
- Sales and profits increased in FY12/23; forecasts net sales of ¥315bn and operating income of ¥22bn in FY12/24.
- Newly released Mid-term Business Plan 2028; targets net sales of ¥435bn and operating income of ¥45bn in FY12/28.

Results trends



Source: Prepared by FISCO from the Company's financial results

■ Company overview

An innovation company that seeks the cutting edge of ICT, having always pushed the limits of computers

1. Company overview

The Company is a major, independent IT solutions vendor established in May 1970. The Company has 32 consolidated subsidiaries, 2 equity-method non-consolidated subsidiaries, and 1 equity-method affiliate, with over 17,000 employees as of December 31, 2023.

The Company has three reporting segments: the SI Business, the Facility Business, and the Other Businesses. In the mainstay SI Business, it provides a diverse solutions menu, centered on the development of embedded/control software and operations software. The Facility Business entails rentals of office buildings, while the Other Businesses includes a BPO (business process outsourcing) services business and a call center business.

In addition, as a technological strategy to be implemented across the segments, the Company has been advancing initiatives in the AIS-CRM area since FY12/17. Whereas it hasn't been easy for it to amass and hone technologies in these growth fields, in the AIS-CRM area, stand-alone net sales steadily rose from ¥61.8bn in FY12/18 to ¥125.9bn in FY12/23, gaining more confidence from the positive results of its technology strategy.

2. An innovation company aiming for cutting-edge ICT

The Company lists as its core competencies its advanced technological expertise acquired through the development of embedded/control software that requires extremely high levels of precision, including for vehicles and semiconductor manufacturing equipment; its systems construction capabilities cultivated through the solutions it has provided to a wide range of industries; its ability to provide flexible proposals as an independent solutions provider, and its construction of a network of bases close to customers. In addition, the Company believes that its key mission is to further societal development through various corporate activities, alongside sustainable growth and the creation of corporate value in the medium to long term. As its medium-term policy, it aims for the development of ICT. From the messages disseminated by the Company, what stands out are the strong belief in the effectiveness and potential of utilizing ICT and its sense of mission to advance this and a customer-oriented and CSV-type (a company that increases enterprise value through social contributions via its businesses) management policy.

The emergence of services that utilize IT transformed the world. ICT is an umbrella term for the IT technologies that have further evolved, created by the combination of information processing and communication technologies. Integrating computers and communication devices enables efficient gathering, processing, transmission, and sharing of data. In summary, ICT is a group of technologies for today and tomorrow with the potential to effect another major transformation of our lives and businesses.

The Company's President and Representative Director has declared: "As a group of ICT professionals, we will continue our Company's motto, 'Challenge and Creation' and aim to achieve our medium-term policy: to become an innovative corporate group that links ICT development to improving value for our customers." From his words, we can see that ICT is a key concept for the FUJISOFT Group.

Company overview

CSV is an approach that not only seeks to make a profit in the usual way, but also looks for new market opportunities and competitiveness in the process of addressing social and environmental issues. CSV management differs from conventional charitable activities and CSR (corporate social responsibility) in that it positions social issues at the heart of a company's business, focusing on creating both social/environmental value and economic value through new business models and innovation. One of the Company's unique initiatives as a CSV-type company is the All Japan Robot-Sumo Tournament, which it has held continuously since 1989 and has grown into one of the largest robot competitions in Japan.

3. History

The Company has its roots in FUJI SOFTWARE LABORATORY, Ltd., which was established by Mr. Hiroshi Nozawa in 1970. At the time it was established, the Company's business was founded on the dispatch of computer operators. Subsequently, it entered into the software development and systems construction businesses and achieved skyrocketing development supported by the explosive expansion of the computer industry. A factor behind this growth is that it has maintained an offensive management approach since foundation, aiming to grow and innovate as a company by taking on challenges in new fields and creating new businesses, and the strong belief of the executive management, including the founder, that the time of the computer-dominated society had arrived. While bearing a considerable risk, the Company hired aggressively and trained engineers, as well as pursued a complementary M&A strategy to incorporate the technologies and customer bases it did not have. These initiatives proved successful, creating a major corporate group with net sales of over ¥298bn and more than 17,000 employees on a consolidated basis while being an independent company.

Even though the computer-dominated society has become a reality and the domestic IT services market has expanded in scale to be worth ¥6tn, the major IT services companies with net sales of more than ¥100.0bn are comprised almost entirely of manufacturers (such as Fujitsu Limited <6702>), user-related companies (such as NTT DATA Group Corporation <9613>), trading companies (such as SCSK Corporation <9719>), and foreign-owned companies (such as IBM Japan, Ltd.). Including the Company, there are only three companies that could be called independent consistently from the time of their founding.

4. Track record of awards

The Company's series of initiatives have been well regarded by its business partners and others. Specific achievements marked by those business partners since 2019 are noted below. In addition, in July 2022, the Company was selected by the Ministry of Economy, Trade and Industry to receive its Digital Transformation Certification.

At Microsoft Japan Partner of the Year 2023, the Company won the Converged Communications Award for the third year in a row and the Modern Workplace for Frontline Workers Award for the second year running.

The Company has obtained AWS Well-Architected Partner Program and Oracle Competency certifications from Amazon Web Services (AWS) certifications, and has also been selected as one of AWS Ambassadors/Japan AWS Top Engineers.

The Company attained the status of "Principal," which is the highest level of certification by VMware, which has the largest market share in the world of the IT virtualization market. The Company also won the VMware 2020 Partner of the Year Award (Cloud Platform Transformation, in Asia-Pacific and Japan) and received the 2021 VMware APJ Partner Innovation Award, VMware APJ 2022 Partner Innovation Award and VMware APJ 2022 Partner Lifecycle Services Award.

Company overview

In addition, the Company's FAMoffice virtual office space for remote working has been highly rated for its effectiveness, winning two awards:

- The Advanced Technology Award in the Core System ASP/SaaS category at the 17th ASPIC Cloud Awards 2023 (supported by the Ministry of Internal Affairs and Communications).
- The IT Encouragement Award (Solving Social Issues category) at the 2023 IT Awards (sponsored by the Japan Institute of Information Technology).

■ Business overview

Offering varied ICT services and products that facilitate value improvement for customers

The Company has three reporting segments; the SI Business, the Facility Business, and the Other Businesses. The mainstay SI Business is broadly divided into systems construction, and products and services. Further, systems construction is subdivided into embedded/control software and operations software, while products and services are subdivided into narrowly defined products and services, and outsourcing. In addition, the Facility Business entails rentals of office buildings, while the Other Businesses includes the BPO service business and a call center business.

In FY12/23, net sales broke down by business as follows. In the SI Business, embedded/control software provided 26.3%, operations software 34.5%, narrowly defined products and services 29.0%, and outsourcing 4.7%. The Facility Business provided 1.0% and Other Businesses 4.5%. Embedded/control software is the Company's mainstay, but operations software has the largest sales. Net sales of narrowly defined products and services is next largest after operations software. Regarding the breakdown for the period from FY12/19-FY12/23, the share of operations software in total net sales increased to 34.5% in FY12/23, driven by the increased demand for core and information system development, against the backdrop of evolving and transforming business processes. Meanwhile, the share of embedded/control software decreased from 28.0% in FY12/19. Apart from these changes, there was no significant change.

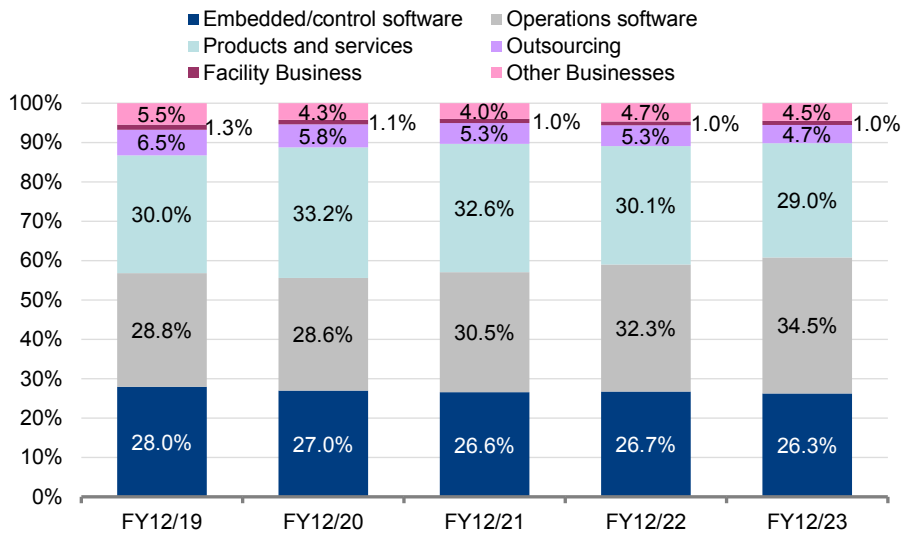
Business overview

Segment breakdown

Segment name	Breakdown
SI Business	
Systems construction	
Embedded / control software	
Machine control systems	Embedded / control software such as FA, OA, digital home appliances
Automotive-related	Automotive-related embedded / control software
Mobile-related	Embedded / control software for mobile devices, etc.
Social infrastructure-related	Embedded / control software for communication control (switches, routers, etc.), base stations, aerospace and defense, etc.
Operations software	
Financial industry	Operations software for financial companies (life insurance, credit cards, securities companies, banks, etc.)
Distribution and services	Operations software for distribution-related companies (retail, wholesale, trading companies, real estate, construction industry, etc.)
Manufacturing industry	Operations software for manufacturing
Other operations-related	Operations software that does not correspond to the above fields
Products and services	
Products and services	Products and services of the FUJISOFT Group and of other companies based on strategic partnerships
Outsourcing	Data center business, systems maintenance operations, etc.
Facility Business	Sales related to the real estate rentals business
Other Businesses	Office services, hardware development, regenerative medicine business

Source: From the Company's supplementary results briefing material

Trends in percentages of total net sales by segment



Source: Prepared by FISCO from the Company's financial results

1. SI Business

(1) Systems construction

a) Embedded/control software

The Company's mainstay SI Business entails combining various component parts such as computers and software to build one large system. It is similar to creating a picture from many different pieces of a puzzle. Computers and software are pieces of the puzzle, which are combined to build a new system by the process of system integration.

Business overview

Embedded/control software is the core SI Business. Its main strengths are cutting-edge embedded products and development capability, with a track record of development in a broad range of sectors from robots and automotive to medical devices and industrial machinery. The Company provides services for a range of embedded systems covering the development of hardware (such as substrate and board design, FPGA and LSI design) as well as software (including operating systems, device drivers, middleware, and applications). It also has a wealth of experience in the development of highly advanced technological fields such as automotive control, including ADAS (advanced driver assistance system), automatic driving, EVs, and connected cars. The Company has developed technologies for existing automotive business areas such as powertrain (including engine), chassis, body, and IVI, as well as offering diverse control technologies for in-car software, and many development technologies for platforms such as AUTOSAR, model-based development, simulation environment, automotive SPICE, and functional safety. It has also actively engaged in R&D related to social infrastructure, such as mobile phone wireless base stations, network communication equipment, IP phone/fax and communication infrastructure control, assessment of base station development, and control software for railways, aerospace, defense, and plants to underpin social infrastructure.

The Company also runs control-related businesses in factory production, developing controllers such as PLC (programmable logic controller) for FA (factory automation) and HMI (human machine interface) for displays and operation terminals, as well as programming of controller equipment and development of operation and maintenance tools. It also provides embedded control, recognition technology, app development, and external equipment control technologies for OA equipment such as multifunction printer/copiers and printers, and develops digital television products (the core digital living product in home appliances). As well, the Company develops the latest embedded/control technologies for mobile communications such as control systems for data communication devices and smartphones compatible with mobile (smartphone) 4G/LTE, Android app development and protocol development and assessment, and multimedia broadcasting and Felica support.

In particular, the Company has built up an excellent track record in this area within Japan and boasts strengths in FA and other machine control systems and automotive-related fields, and has the top share of the domestic market. We at FISCO believe that the Company's AIS-CRM strategy will most likely lead to opportunities for generating profits over the medium to long term, given that the strategy taps into major trends that include the productivity revolution enlisting AI and robotics, promoting CASE (Connected, Autonomous, Shared/Service, Electric) in the automotive industry, and drawing on IoT technologies in the social infrastructure-related business.

b) Operations software

The Company has established a system able to provide a one-stop service from consulting through to development, system construction, and support, for various solutions such as those for backbone systems like store and ordering systems and production, sales, inventory, and accounting systems, and also information systems and online services. It provides these solutions to a wide range of industries, including distribution, finance, service, manufacturing, online businesses, social infrastructure, education, medicine, and public institutions. Details of the business for each solution are discussed below.

The Company offers services as solutions for a diverse range of backbone systems, including those for production, sales, and inventory, various packages, ERP introduction, customized system integration, and consulting integration services as well as data center operation.

Business overview

In the information system solutions area, the Company provides private cloud-based IaaS and SaaS services mainly using its own data centers. It also partners the four main public cloud services (AWS, Google, Salesforce, and Microsoft) to provide comprehensive cloud services. As well, it provides total support for on-premises* services, from integration of diverse information system solutions to operation services.

* On-premises means the operation of IT systems, such as servers and software, primarily through equipment installed in a specific location or facility, usually on the user's premises.

Internet service solutions are a package of optimized solutions that the Company offers to customers who provide various online services. Its e-commerce site construction service is particularly well received for excellence of proposals and technical capabilities. As well as financial solutions for accounting systems, information systems, and infrastructure for financial institutions (banks, securities, insurance, and credit card companies), the Company helps educational institutions and the public sector make their operations more efficient and sophisticated by combining cloud services and tablets, and delivers solutions for these sectors harnessing the latest technologies. It also provides distribution solutions in the form of various packages and optimal solutions for store systems, POS, merchandise management, ordering systems, e-commerce, and accounting systems. In manufacturing solutions, the Company provides various manufacturing-related packages and optimized solutions for production, sales management, logistics, and accounting, as well as solutions for gathering chemical substance information (for compliance with REACH Regulation) and visualization of electricity used for energy management (such as HEMS and BEMS). Its service solutions help to streamline operations, such as sales promotion support using mobile devices, a service providing television program log data for PR companies and departments, and a manual production service for manufacturers.

(2) Products and services

Products and services of the SI Business consist of narrowly defined products and services and outsourcing.

a) Products and services

Narrowly defined products and services are comprised of 1) the Company's own products (including moreNOTE, a paperless system; Mirai School Station, a comprehensive education solution for the information society; smartBYOD, a tool for utilizing employees' personal smartphones and other devices for a company's operations; PALRO, a communication robot; +FS040W and +FS050W, SIM-free mobile routers; FAMoffice, a virtual office space tool, 2) the license business (Microsoft <MSFT> products, AWS, VMware <VMW>, etc.), and 3) product sales, etc. (PCs, servers, etc.)

While a slowdown was seen in sales of the Company's own products, largely attributable to special demand having run its course, growth continues in the license business even after the peak of special demand with the end of Windows 7 support (on January 2020). On this point, the fact that Microsoft 365 (formerly Office 365, corporate virtual desktop = cloud PC)—which has grown to be a main product for the license business—and the various cloud services use a subscription model (a business model in which fees are collected based on the period of use rather than a one-time sale) appears to have led to improved business stability. We note that the Company also provides support for deployment of licensed products, securing a profit by adding engineering services to the sale of licenses. Support for Windows 10 is scheduled to end in October 2025, which is expected to have a positive impact on product sales and the license business.

Business overview

The Company launched its Desktop Full Service in August 2021. The service offers one-stop support for PC lifecycle management tasks encompassing everything from PC selection and rental to kitting, administration and support, application of software updates, and other relevant services. The Company recommends installation of the Microsoft 365 platform for use of this proprietary service, which has the capacity to increase the Company's profitability by generating growth across the narrowly-defined products and services category overall. Microsoft began providing Windows 365 subscription-based services in August 2021 and offering its next operating system, Windows 11, in October 2021, and the Company's Desktop Full Service is on its way to becoming stable.

In April 2022, the Company began offering and selling a series of new services, including FAMcampus, a virtual learning space, MENTOM, an online room for business discussions, and FAMEvent, a virtual event space.

FAMcampus and FAMEvent are based on technologies and concepts developed with FAMoffice. Prior to being refined as commercial services, the former underwent joint testing with Gakken Juku Holdings Co., Ltd. and Gakken Method Co., Ltd., group companies of Gakken Holdings Co., Ltd. <9470>, while the latter was first deployed as a Disease Prevention and Health Promotion project of the Ministry of Health, Labour and Welfare at the Data Health and Prevention Services Trade Fair 2021, which targeted medical insurers, corporate health promotion staff, local governments and business owners. MENTOM, meanwhile, allows for the entire series of procedures needed through the conclusion of a contract which were difficult with conventional videoconferencing systems, including two-way sharing and handling of documents, as well as filling out application forms.

2) Outsourcing

Outsourcing services that the Company provides are data center and system operation/maintenance and other services. The Company has four data centers around the country (two in Tokyo and one each in Yokohama and Kyushu) for service delivery. Despite being a key lifeline, IT systems present a challenge to users, because they are costly to maintain and operate. The Company offers its data center service to reduce users' costs and workload.

2. Facility Business

The Company earns rental revenue from office buildings it owns. Its basic stance is to hold real estate for its own use. The Facility Business can be positioned as making use of vacant space.

3. Other Businesses

The Other Businesses mainly consist of the BPO services business and the contact center businesses conducted by the subsidiary FUJISOFT SERVICE BUREAU INCORPORATED.

Technology strategy AIS-CRM implemented across business categories positioned as priority technology areas

4. Technology strategy AIS-CRM implemented across business categories

In FY12/17, the Company announced AIS-CRM as a technology strategy implemented across business segments in priority technology areas to focus on creating the seeds of new products and businesses and improve added value of existing businesses. The upper concept of the AIS-CRM strategy is set based on the Company's core competency, and this domain's FY12/23 stand-alone net sales were ¥125.9bn (average annual growth rate for the last 3 years: up 14.4%) and constitute around 61% of stand-alone net sales.

Business overview

Breaking this down, sales of AI mainly related to development were ¥4.4bn (average annual growth rate for the last 3 years: up 26.6%), of IoT mainly related to development were ¥3.1bn (up 20.1%), of security relating to development and licenses were ¥16.4bn (up 17.5%), of Cloud relating to licenses and SI, infrastructure-related, the online business field, etc., were ¥67.1bn (up 22.0%), of Robot mainly related to development, PALRO, robot SI, etc., were ¥5.2bn (down 4.9%), of Mobile relating to development, products, etc., were ¥6.9bn (down 4.1%), and AutoMotive mainly related to development were ¥22.9bn (up 9.3%). In particular, the strong performance of the cloud field was noticeable, while in the security field as well, initiatives implemented in recent years can also be described as successful.

As part of a series of developments in the security field, following a business partnership with Red Team Technologies Co., Ltd., in November 2020 (concluded a distributorship agreement), it started providing a new security service (vulnerability diagnoses) that utilizes the Synack cloud penetration testing platform to financial institutions and other entities providing internet-based services in the same year. In June 2021, the Company subsequently entered into an agreement with leading domestic cybersecurity company FFRI Security, Inc. to strengthen collaboration in the cybersecurity field. Then in October 2021, it was awarded the 2021 1st Half Outstanding Partner Japan from Stellar Cyber, a pioneer company for Open XDR (Endpoint Detection and Response), which is security-measures software that makes visible cyber-attacks. In February 2024, the Company announced a business partnership with Cyber Security Cloud, Inc. <4493>, a global provider of security services, including cyberthreat prevention. Under the partnership, the Company and Cyber Security Cloud have agreed to collaborate on the development of CloudFastener, a security service for AWS environments. By strengthening its framework for introducing effective security solutions for AWS – which is expected to see continued growth – the Company aims to further increase earnings in the AWS space. With CloudFastener, the Company aims to provide comprehensive solutions that also draw on its accumulated proprietary expertise to increase value for clients.

While this series of technology strategies is beginning to bear fruit, the Company is further expanding its priority business areas from AIS-CRM to DX+AIS-CRM+SD+(5)G2, and is aiming for sustainable growth and increased added value by stepping up its efforts in the new technological fields of DX solutions, upstream processes in the IT value chain (SD: Service design and IT consulting) and in (5)G2 (5G technology in telecommunications, and global business expansion).

Another main focus is LLM (large language model), an AI model, an example being ChatGPT. Models and tools that vastly simplify and reduce the cost of communication and information gathering are being sought. LLMs like ChatGPT are a type of generative AI, i.e., programs that understand human language and can generate written language like humans. Although LLMs are generally understood to offer potential for making a substantial impact on the productivity of business system development, the Company plans initially to try out various ways of using it internally and be able to use it in business situations. Internal use entails verifying and reviewing generative AI technology for the purpose of improving internal business operations and utilizing it in business settings, as well as promoting the creation of ideas on how to apply it in diverse system development business settings.

The Company will offer the know-how gained from internal use to customers, and in the future it aims to offer training programs for utilizing generative AI and services that can be applied to various customer industries and sectors, as well as a broad range of services from verification of generative AI to introduction and operation to support DX. As a partner of Microsoft, which has a 49% stake in OpenAI LP, which developed ChatGPT, it uses Microsoft's Microsoft/Azure OpenAI Service for development.

■ Results trends

Sales and profit increased in FY12/23

1. Overview of FY12/23 results

For FY12/23 consolidated results, the Company reported net sales of ¥298,855mn, up 7.2% YoY, operating income of ¥20,684mn, up 13.2%, ordinary income of ¥19,675mn, up 2.4%, and profit attributable to owners of parent of ¥11,849mn, up 4.1%, leading to increases in both sales and profit. In the mainstay systems construction field, the Company reported strong sales from operations software development projects, particularly infrastructure construction and backbone system development for clients in the manufacturing and financial sectors. Sales were also firm for embedded/control software for semiconductor production equipment and digital consumer electronics and in EV/advanced fields in the automotive sector. Sales in the outsourcing field declined YoY, but sales from products and services increased, supported by firm demand for licensed products and proprietary products, contributing to growth in consolidated sales.

Operating income increased on the back of higher net sales and improved productivity in operations software. Ordinary income rose only slightly YoY, reflecting the impact of advisory expenses related to tender offers for four listed subsidiaries, but profit attributable to owners of parent increased due to gains on the sale of investment securities and non-current assets. Operating income per employee, which the Company has set as its most important KPI, was ¥1.56mn in FY12/23, up from ¥1.33mn in FY12/22. SG&A expenses increased ¥885mn YoY, reflecting higher personnel costs associated with improved employee compensation and measures to strengthen personnel systems, and an increase in costs related to investigative research into new technologies such as AI. However, higher SG&A expenses were offset by an increase in sales and productivity gains in the systems construction field, leading to an improvement in the cost of sales ratio. The Company says the increase in productivity had a particularly large impact.

Results trends

Consolidated results for FY12/23

	FY12/22	FY12/23	YoY	
			Change amount	Change %
				(¥mn)
Net sales	278,783	298,855	20,071	7.2%
SI Business	263,143	282,418	19,274	7.3%
Systems construction	164,583	181,728	17,144	10.4%
Embedded/control software	74,491	78,553	4,062	5.5%
Operations software	90,091	103,174	13,082	14.5%
Products and services	98,560	100,690	2,129	2.2%
Products and services	83,902	86,546	2,643	3.2%
Outsourcing	14,657	14,144	-513	-3.5%
Facility Business	2,654	2,906	251	9.5%
Other Businesses	12,985	13,530	545	4.2%
Operating income	18,272	20,684	2,411	13.2%
SI Business	16,775	18,904	2,130	12.7%
Systems construction	11,129	13,406	2,276	20.5%
Embedded/control software	5,974	6,695	720	12.1%
Operations software	5,154	6,710	1,555	30.2%
Products and services	5,645	5,498	-146	-2.6%
Products and services	4,617	4,806	189	4.1%
Outsourcing	1,027	691	-336	-32.7%
Facility Business	815	1,010	195	23.9%
Other Businesses	682	768	86	12.6%
Ordinary income	19,205	19,675	469	2.4%
Profit attributable to owners of parent	11,379	11,849	469	4.1%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Trends by business segment

(1) SI Business

a) Systems construction

1) Embedded/control software

Net sales increased 5.5% YoY to ¥78,553mn and operating income rose 12.1% to ¥6,695mn. Although mobile- and social infrastructure-related sales declined, the Company saw strong demand for development projects in the EV and advanced tech fields in the automotive sector and for industrial-use machine control systems. In particular, the Company says expected growth in investment in the software-defined vehicle (SDV)* field led to strong orders in the automotive sector.

* Vehicles with software controlled-systems that can be upgraded and improved with software updates.

Results trends

2) Operations software

Net sales increased 14.5% YoY to ¥103,174mn and operating income rose 30.2% to ¥6,710mn. Infrastructure construction and backbone system development projects for various industries were firm, mainly in the finance and manufacturing sectors. The Company has a comprehensive set of security solutions that support security and risk management with sophisticated technologies and safety for companies transitioning to cloud-based services, backed by its extensive experience in building cloud environments. Harnessing this experience and its security solutions, the Company worked to expand the business by also making proactive sales approaches to public organizations and financial services companies, which tend to be cautious about moving services to a cloud base. This is contributing to growth in net sales. Also, digital transformation (DX) measures by companies in the manufacturing, financial and other sectors is one factor behind the growth in profits in operations software. Appetite for investment is strong at these companies as they aim to improve service levels for their customers by introducing digital technology and driving DX. As a company with strengths in these areas, this is a positive opportunity for the Company to grow earnings. Against this backdrop, the Company is working to improve the cost of sales ratio, particularly through productivity gains. The Company has been working to increase the value it provides to clients and expand the volume of direct business with them. This approach now appears to be bearing fruit.

b) Products and services**1) Products and services**

Net sales increased 3.2% YoY to ¥86,546mn and operating income rose 4.1% to ¥4,806mn. Sales of licensed products and POS-related in-house products sold by a subsidiary were strong. Sales of licensed products were upbeat, driven primarily by license businesses in collaboration with global vendors.

2) Outsourcing

Net sales fell 3.5% YoY to ¥14,144mn due to a decline in IT services for overseas retailers. Operating income was down 32.7% to ¥691mn, affected by lower net sales and the impact of higher electricity prices on data centers.

(3) Facility Business

Net sales increased 9.5% YoY to ¥2,906mn and operating income rose 23.9% to ¥1,010mn. Sales and profit were up due to an increase in the number of tenants.

(4) Other Businesses

Net sales rose 4.2% YoY to ¥13,530mn, and operating income rose 12.6% to ¥768mn. The increase in sales and profit was due to the growth in both call center and BPO services, significantly bolstered by the contribution from pension-related business that commenced in FY12/22.

No change to the stable financial position despite a decline in indicators following TOB

3. Financial conditions and management indicators

As of the end of FY12/23, total assets had increased by ¥16,761mn from the end of the previous period to ¥257,596mn. Current assets had increased by ¥10,422mn to ¥123,153mn, and non-current assets had increased by ¥6,338mn to ¥134,443mn. Total liabilities at the end of FY12/23 came to ¥128,674mn, increasing by ¥40,583mn from the end of the previous period, of which, current liabilities had increased by ¥40,794mn to ¥112,740mn, and non-current liabilities had decreased by ¥210mn to ¥15,934mn.

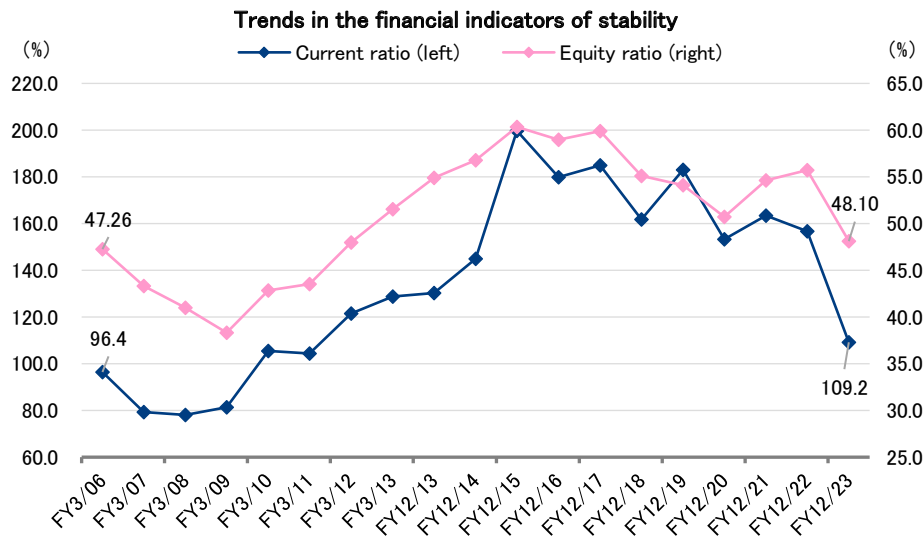
Results trends

Net assets at the end of FY12/23 had decreased by ¥23,822mn from the end of the previous period to ¥128,921mn. The equity ratio went down by 7.6 percentage points from 55.7% to 48.1% at the end of FY12/23. The current ratio declined 47.5 percentage points from 156.7% at the end of the previous period to 109.2%. However, the declines in the equity ratio and the current ratio are not that negative, in our view, as it reflects the Company's tender offers for four of its own listed subsidiaries (leading to an increase in current liabilities due to higher short-term borrowings and a drop in net assets due to declines for noncontrolling interests and capital surplus).

Simplified balance sheets

	(¥mn)		
	End-FY12/21	End-FY12/22	End-FY12/23
Current assets	111,128	112,730	123,153
(Cash and deposits)	40,351	32,736	35,324
Non-current assets	117,786	128,104	134,443
Total assets	228,915	240,835	257,596
Current liabilities	68,018	71,945	112,740
Non-current liabilities	17,928	16,145	15,934
Total liabilities	85,946	88,091	128,674
(Interest-bearing debt)	28,828	26,638	60,028
Total net assets	142,968	152,744	128,921

Source: Prepared by FISCO from the Company's financial results



Source: Prepared by FISCO from the Company's securities report and supplemental results materials

4. Cash flow situation

Cash flows for FY12/23 were as follows. Cash and deposits totaled ¥34,785mn, an increase of ¥1,698mn from the end of the previous period. Cash provided by operating activities was ¥16,151mn, primarily reflecting an increase in income received due to growth in net sales and profits. Cash used in investing activities was ¥9,209mn, mainly due to cash used for the construction of company offices. Cash used in financing activities was ¥5,447mn, mainly for the purchase of shares of subsidiaries and dividends paid.

Results trends

Simplified cash flow statements

	(¥mn)		
	FY12/22	FY12/23	Change amount
Net cash from operating activities (a)	13,519	16,151	2,632
Net cash from investing activities (b)	-15,522	-9,209	6,312
Net cash from financing activities	-5,911	-5,447	463
Free cashflow (a) + (b)	-2,003	6,942	8,945
Cash and cash equivalents at end of period	33,086	34,785	1,698

Source: Prepared by FISCO from the Company's financial results and results briefing materials

■ Outlook

Net sales and operating income to increase YoY for 11 years running in FY12/24, driven by industry structure change

For the FY12/24 consolidated results, the Company is forecasting net sales to increase 5.4% YoY to ¥315,000mn, operating income to rise 6.4% to ¥22,000mn, ordinary income to grow 10.8% to ¥21,800mn, and profit attributable to owners of parent to increase 77.2% to ¥21,000mn. Therefore, it is aiming for the eleventh consecutive period of higher net sales and operating income since 2013 when it transitioned to a fiscal period ending in December.

Causes for concern remain, such as resource and energy costs staying high for a long period and prolonged price increases, as well as the uncertain outlook for higher interest rates as governments aim to contain inflation by monetary tightening. However, gradual economic recovery continues as economic activity returns to normal. However, the Company anticipates continued growth in orders in its mainstay system construction field, backed by strong IT investment demand in the financial, manufacturing, automotive and other sectors. In addition, we believe the Company has strong capabilities in the provision of business services, centered on IoT and AIS-CRM, which should help it to continue winning orders in its mainstay system construction field. The order backlog is also building steadily. These factors mean it is likely to achieve its consolidated net sales target. Looking at individual businesses, in products and services, sales trends for third-party products hold the key, but we do not expect the order backlog to change much from the level at the end of FY12/23. In outsourcing services, the main focus of the business is the provision of system maintenance and operation projects in overseas markets by Group companies, but conditions are likely to remain challenging, partly due to economic uncertainty in local markets.

Despite strong sales, the Company expects the facility business to contract in FY12/24 due to the liquidation of real estate assets. Office relocation expenses are also forecast to rise. Over the medium and long term, it plans to invest in new businesses to drive growth. These factors are likely to put pressure on profits. Excluding the impact of the liquidation of real estate, the Company forecasts operating income to rise 12.2% YoY to ¥23,200mn, which looks challenging. However, the Company is targeting further growth and improvements in profitability and capital efficiency by pursuing Group synergies, providing more value to clients by expanding prime business (= business with high ratio of direct orders), and appropriately allocating capital. Future trends will be watched.

The Company's forecasts include an after-tax gain of ¥5.9bn from the sale of eight A-rank properties for liquidation. It says plans for other property sales will be disclosed once details are finalized.

Outlook

FY12/24 consolidated results forecast

	FY12/23 Results	FY12/24 Forecasts	YoY	
			Change %	Change amount
Net sales	298,855	315,000	5.4%	16,144
Operating income	20,684	22,000	6.4%	1,315
Ordinary income	19,675	21,800	10.8%	2,125
Profit attributable to owners of parent	11,849	21,000	77.2%	9,151

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Medium and long-term growth strategy

Attained previous mid-term business plan's targets of ¥300bn in net sales and ¥20bn in operating income 1 year early and announced a new plan

1. Progress of mid-term business plan

The targets in the previous mid-term business plan, announced February 2022, were nearly reached in FY12/23. We believe the Company deserves recognition for almost attaining the three-year plan's targets one year early. The Company implemented the plan in line with its policies of prioritizing sales and profit growth and combining volume expansion with quality improvement. Despite the unstable international environment characterized by US-China friction and the war in Ukraine, as well as the weak yen and other uncertainties, earnings have increased steadily, supported by measures to drive growth and strengthen profitability. As a result, the plan was achieved ahead of schedule, with operating income in particular seeing strong growth of more than 20% in the last two years. In parallel, the Corporate Value Committee launched activities, exploring measures to solve issues faced by the Group in corporate governance and other areas. Proposals developed by the committee have been carried over into the new mid-term business plan.

Corporate Value Committee deliberates on corporate governance review and management and financial strategies

2. Activities of the Corporate Value Committee

The Company has held constructive dialogue with many investors since announcing its new mid-term business plan in February 2022. In August 2022, it established a new Corporate Value Committee with the goal of further enhancing value for stakeholders through the multifaceted insights gained from those discussions. The Committee is comprised of an outside advisory in addition to members of the Board of Directors, and working groups (WG) have been established under the Committee to address specific issues. Key issues tackled by the Committee were strengthening profitability in systems development, exploring appropriate Group management and liquidating real estate assets, with each issue examined by the respective WG and then proposals verified by the Committee. After a feasibility review by the Special Committee, the proposals were discussed by the Board of Directors and announced as the new mid-term business plan.

Medium and long-term growth strategy

3. Release of Mid-term Business Plan 2028

The Company announced its new Mid-term Business Plan 2028 in February 2024. With the subtitle, “Steady Growth, Innovation, and Bases for the Future,” the plan positions FY12/24-FY12/28 as a period to enhance corporate value through sustained growth and a focus on profitability, with the goal of realizing the Company’s long-standing corporate vision of becoming the leading company in IT/OT system, software and service provision. Specifically, the Company has identified profitability and capital efficiency as two immediate issues to tackle. These issues are to be addressed with measures that ultimately increase corporate value. The plan’s FY12/28 targets are net sales of ¥435bn, operating income of ¥45bn, profit attributable to owners of parent of ¥32bn, ROE of 20% or higher, and operating cash flow per share of ¥600 or higher.

To improve profitability, the Company aims to (1) strengthen the profitability of existing businesses and (2) generate further growth through Groupwide measures and the development of new businesses in fusion fields. With respect to (1), the Company has set operating income per employee as the most important KPI, in addition to continuing with existing measures to drive organic growth (= utilizes internal resources) based on the growth cycle (PDCA). It aims to increase operating income per employee to ¥3mn by improving productivity and enhancing the value it provides to clients while also remaining focused on other metrics such as ROE, EPS and cash flow per share. Specifically, the Company aims to achieve these goals by further refining its ability to address client needs and its proprietary technology and know-how, while also strengthening its ability to respond to clients by actively acquiring new technological capabilities and increasing the scale of projects and the ratio of prime projects. With respect to (2), it aims to leverage the combined strengths of the Group to accelerate organic growth and improve its ability to respond to changing client needs by capturing synergies from the individual strengths of Group companies. It also plans to create new businesses with high added value in DX and other fields by integrating its capabilities in key business fields.

New business creation will target the DX solution field. The Company’s goal is to become a business that draws on its IT x OT experience and invests in R&D and products so that it can better respond to the high-level needs of clients, while also growing with them through collaboration, co-creation and coprosperity. To achieve this, it has launched concrete initiatives across nine themes: smart factories, smart logistics, robotic SI, local 5G, LLM, workplace transformation, operation maintenance, digital education, and nursing.

Strengths of each company and collaboration examples

	Collaboration Examples	Strengths of Each Company
Value-added by collaboration from the very upstream and upstream process of control system development to software implementation	<ul style="list-style-type: none"> Provide consistent solutions such as MBSE, MBD, software implementation, and maintenance Expansion into various industrial fields 	<ul style="list-style-type: none"> 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 complexity of the engineering chain	<ul style="list-style-type: none"> Enhancement of advanced solutions from 3D design documents to PLM implementation and maintenance 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Provide consistent services from system design to system outsourcing and BPO 	<ul style="list-style-type: none"> VINK: 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	<ul style="list-style-type: none"> Add value by sharing various know-how in the fields of automobiles, telecommunications, etc. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Collaboration in the fields of smart logistics and smart factories 	<ul style="list-style-type: none"> CSC: IoT Product Solutions & Know-how VINK: 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, VINK: Vinx, CCC: Cyber Com, SB: FUJISOFT SERVICE BUREAU

Source: Mid-term Business Plan 2028

Medium and long-term growth strategy

Nine themes for new business creation (current)

■ Collaboration, co-creation, and co-prosperity model in IT x OT		■ (In-house) Product Model
Smart Factory Specialized PT(*) already established <ul style="list-style-type: none"> • Collaboration with various vendors involved in factory line construction • Promotion of sophisticated manufacturing through software by utilizing various technologies related to factories 	Smart Logistics Specialized PT(*) already established <ul style="list-style-type: none"> • Collaboration with various vendors involved in the logistics business • Promotes autonomous control of warehouses by utilizing various logistics-related technologies 	Robotic SI <ul style="list-style-type: none"> • Collaboration with robotics-related vendors • Lead the digitalization of the manufacturing line by utilizing technologies such as simulation, IoT, and AI to improve production efficiency
Local 5G Specialized PT(*) already established <ul style="list-style-type: none"> • Collaboration with telecom operators and chip vendors • Promotes accelerated market adoption by providing an inexpensive local 5G environment that leverages open technology 	LLM Specialized organizations already established <ul style="list-style-type: none"> • Collaboration with cloud vendors and AI vendors • Accelerates market adoption based on case studies of three key technologies: general-purpose LLM, dedicated LLM, and RAG 	Workplace Transformation <ul style="list-style-type: none"> • Providing a new service concept to promote business improvement using Labor Data • Providing solutions to visualize labor quality and improve operational efficiency by utilizing data from moreNOTE, FAMoffice, and VSReport contrail.
Operation maintenance Specialized PT(*) already established <ul style="list-style-type: none"> • Envisioning new operation and maintenance services in line with the cloud era • Provide advanced operation and maintenance services for multi-cloud environments based on the existing OpsPower RUKIA 	Digital Education Specialized PT(*) already established <ul style="list-style-type: none"> • Envisioning IT human resource development business and a new service that provides an environment for advanced education. • Providing adaptive education and its environment by utilizing AI and LLM technologies, and leveraging a virtual education platform 	Nursing <ul style="list-style-type: none"> • New service concept for advanced nursing care services • New digitally-enhanced services for advanced care facilities

※PT: Fixed Term Project Team

Source: Mid-term Business Plan 2028

To address capital efficiency issues, the Company plans to liquidate real estate assets and use cash from the sales to invest in growth strategies. It is currently implementing a plan to liquidate real estate assets in stages, based on a four-level priority ranking system for liquidation, as determined by a Corporate Value Committee WG. The aim is to improve capital efficiency by selling non-current assets and allocating cash from asset liquidation to investment in growth strategies. Priority investment areas are R&D, human capital and M&A deals that support the creation of new businesses.

4. Status of measures to enhance corporate value

In January 2024, the Company released a document regarding progress with its analysis of take-private proposals, under the title “Notice on the Progress of Enhancing Corporate Value.” As noted above, the Company has established an expert committee to explore measures to enhance corporate value and it has also received information from several private equity (PE) funds about improving corporate value. In addition, the Company has received a number of take-private proposals from PE funds in response to a request by one of its shareholders, 3D Investment Partners Pte. Ltd. In accordance with the Guidelines for Corporate Takeovers published by the Ministry of Economy, Trade and Industry, the Board of Directors approved a resolution to establish a Special Committee to consider and make recommendations on the take-private proposals.

Based on the premise of maximizing corporate value as a listed company, the Company is now in the process of identifying the best management options for maximizing corporate value by comparing and contrasting the details of the take-private proposals with measures to increase corporate value in the new mid-term business plan and their expected impact, based on discussions at the Special Committee and advice from the Company’s advisors, along with the contents of the new mid-term business plan. The basis for this process is not to consider taking the Company private, but rather to conduct an appropriate assessment of whether each proposal can enhance corporate value.

■ Shareholder return policy

Paid year-end dividend of ¥34.5 per share for FY12/23; plans FY12/24 annual dividend of ¥84.0 per share

For FY12/23 the Company paid an interim dividend of ¥68.0 per share and a year-end dividend of ¥34.5 per share, in line with its forecast. The Company conducted a two-for-one stock split for all common stock held by shareholders of record on the record date of Friday, June 30, 2023. In the medium-term management strategy announced in February 2022, the Company decided on a dividend payout ratio of over 35% for shareholders. To date, it has maintained its dividend payout ratio target.

According to capital allocation plans in Mid-term Business Plan 2028 for the five years through FY12/28, the Company intends to repurchase at least ¥100bn of its shares, in line with the timing of real estate asset liquidation and other factors. The Company is considering returning gains on the sale of real estate to shareholders through share buybacks, rather than using the gains to fund ordinary dividends.

For FY12/24, the Company forecasts an annual dividend of ¥84.0 per share (interim dividend: ¥42.0, year-end dividend: ¥42.0) based on net income of ¥333.8 yen per share, taking into account business growth and stability, capital efficiency and other conditions. This equates to a dividend payout ratio of 25.2%. However, excluding the after-tax gain of ¥5.9bn from the sale of 8 A-rank properties for liquidation from FY12/24 net income, the dividend payout ratio is 35.1%. Also, using the same assumption, the retroactively adjusted annual dividend for FY12/23 is ¥68.5 per share, so the FY12/24 dividend would be an increase in real terms.



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