

FUJI SOFT INCORPORATED

9749

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<http://www.fisco.co.jp>

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Summary

A major, independent IT solutions vendor established in 1970. Aiming to further improve profitability in the long term, while working to “create new value”

1. Company outline and business description

FUJI SOFT INCORPORATED <9749> (hereafter, also “the Company”) is a major, independent IT solutions vendor established in May 1970. It has its roots in FUJI SOFTWARE LABORATORY, Ltd., which was established in his home by Mr. Hiroshi Nozawa, the Company’s current Chairman and Representative Director, and two other employees. Today, nearly half a century after this establishment, the Group has grown to consist of more than 14,000 employees in 29 consolidated subsidiaries, 2 equity-method non-consolidated subsidiaries, and 2 equity-method affiliates.

The Company has three reporting segments; the SI (systems integration) Business, 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, and Other Businesses includes a BPO services business, a contract center business, and a regenerative medicine business.

2. Its core competencies are “technological capabilities + proposal capabilities”

The Company considers that the reasons why it is chosen by customers are its “high-level technological capabilities and proposal capabilities that continue to evolve every day.” It is highly confident in its core competencies, of “technological capabilities and proposal capabilities,” that it demonstrates in aspects such as its advanced technological expertise acquired through the development of embedded / control software that requires extremely high levels of precision, such as for vehicles and semiconductor manufacturing equipment; systems construction capabilities cultivated through the solutions it has provided to a wide range of industries; and its ability to provide flexible proposals as an independent solutions provider.

3. While strengthening the financial structure, has renewed its record-high sales from their peak before the economic downturn precipitated by the Lehman Brothers bankruptcy for two consecutive periods

Following its establishment, the Company’s sales peaked before the economic downturn precipitated by the Lehman Brothers bankruptcy (FY3/06), but it set a new record high for sales in FY12/17 and then achieved double-digit sales growth in FY12/18 as well. So while it actually took more than 10 years to renew its peak sales, the Company can be highly evaluated on the point that during that time, it not only recovered flow profits, it also worked to strengthen its financial structure and growth potential.

Specifically, the Company achieved major improvements for the representative financial indicators, including that the equity ratio rose from 47.3% at the end of FY3/06 to 54.6% at the end of FY12/18, and the current ratio increased from 96.4% to 161.8%. On the other hand, due to the significant increase in the recruitment of new graduates from FY12/15 onwards, the number of employees increased by 1.6 times in the same period, from 9,415 people to 14,910 people. Looking at the percentage of certified technicians on a stand-alone basis (the percentage of certified specialists and certified product managers, based on the Company system, to the total number of employees), it had risen from 22.8% at the end of FY12/14 to 29.2% at the end of FY12/18. From this, it can be understood that growth potential as seen from the aspect of human resources has been enhanced both in terms of quantity and quality.

Summary

4. Aiming to further improve profitability in the long term, while also focusing on upfront investment and work-style reforms

The FY12/19 results forecasts announced by the Company in February 2019 are for net sales to increase 3.0% year-on-year (YoY) to ¥210,500mn, operating income to rise 2.6% to ¥11,700mn, ordinary income to grow 1.1% to ¥12,200mn, and profit attributable to owners of parent to increase 2.8% to ¥6,700mn. Compared to the results forecasts announced in February 2018 (net sales: ¥193,000mn, operating income: ¥10,300mn), net sales have been upwardly revised by 9.1% and operating income by 13.6%.

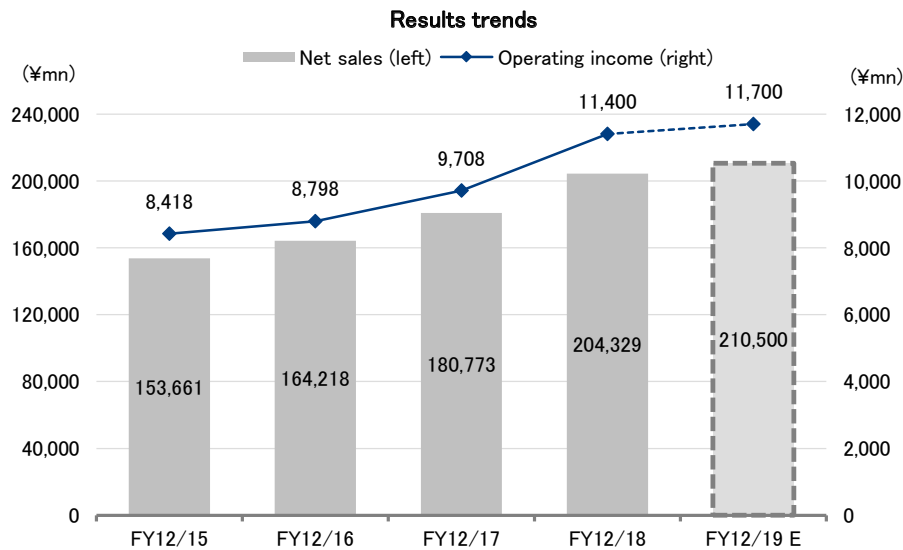
The FY12/20 results forecasts have also been upwardly revised with net sales increasing from ¥199,000mn to ¥217,000mn (up 3.1% YoY) and operating income from ¥10,600mn to ¥12,000mn (up 2.6%). The revised forecast simply added the excess from the FY12/18 results, which posted a double-digit increase in both sales and profits. There is the sense that this might be disappointing considering the operating income margin is expected to remain unchanged (FY12/18 result, 5.6%→FY12/19 forecast, 5.6%→FY12/20 forecast, 5.5%) while being in a phase of a sales increase.

With regards to these points, the Company considers that 1) the announced results forecasts are the targets that must be achieved, and results may exceed them, and 2) it is aware of the issue of profitability, and it is aiming to further improve it in the long term. It can be highly evaluated on the point that it is maintaining the gross profit margin and operating income margin even while focusing on upfront investment and work-style reforms, and it has been improving productivity per employee, so we will look forward to how earnings trend in the future.

Key Points

- A major, independent IT solutions vendor established in 1970. Its active investment in human resources and complementary M&A strategy are proving successful, and it has exceeded the ¥100bn barrier for net sales. At the end of FY12/18, it had almost 15,000 consolidated employees.
- Its core competencies are “technological capabilities and proposal capabilities,” as seen in its abundant track record and corporate philosophy. Results stagnated for a period after the economic downturn precipitated by the Lehman Brothers bankruptcy, but it has strengthened its financial structure and growth potential and is accelerating “Challenges and Creation” while aiming to be an innovative corporate group.
- The results forecasts announced by the Company are slightly disappointing, but it has positioned them as targets that must be achieved. The fact that it is maintaining the gross profit margin and operating income margin even while focusing on upfront investment and work-style reforms can be highly evaluated, while it is also working to improve productivity per employee, so we will look forward to how earnings trend in the future.

Summary



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

Company overview

Based on its corporate motto of “Challenge and Creation,” achieved net sales in excess of ¥100bn through organic growth and a complementary M&A strategy, while remaining independent

The Company is a major, independent IT solutions vendor established in May 1970. It has its roots in FUJI SOFTWARE LABORATORY, Ltd., which was established in his home by Mr. Hiroshi Nozawa, the Company's current Chairman and Representative Director, who at that time was a teacher in a computer vocational school and started a business focusing on the prospects for the computer industry with two other employees who he had previously been his students. Today, nearly half a century after this establishment, the Group has grown to consist of more than 14,000 employees in 29 consolidated subsidiaries (of which, 4 are listed companies), 2 equity-method non-consolidated subsidiaries, and 2 equity-method affiliates.

Even while achieving rapid development in terms of size, the Company, in accordance with its basic philosophy of “Being a corporate group that is more useful for society, makes customers more happy, and that is more considerate to the Earth, and that provides ‘relaxed and worthwhile’ work environments,” has consistently conducted the enlightened management that its founder aimed for to contribute to society through business, and it aims to formalize the knowledge expressed by its corporate philosophy, such as through the Group's corporate charter and the systems to have executives and employees understand it.

Company overview

The Company has three reporting segments; the SI Business (systems construction and products and services), 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, and Other Businesses includes a data entry business, a contract center business, and a regenerative medicine business. Although the entry into the regenerative medicine business appears at first glance to be an entry into an unrelated business area, it can be said to be a typical example of business creation based on its corporate philosophy.

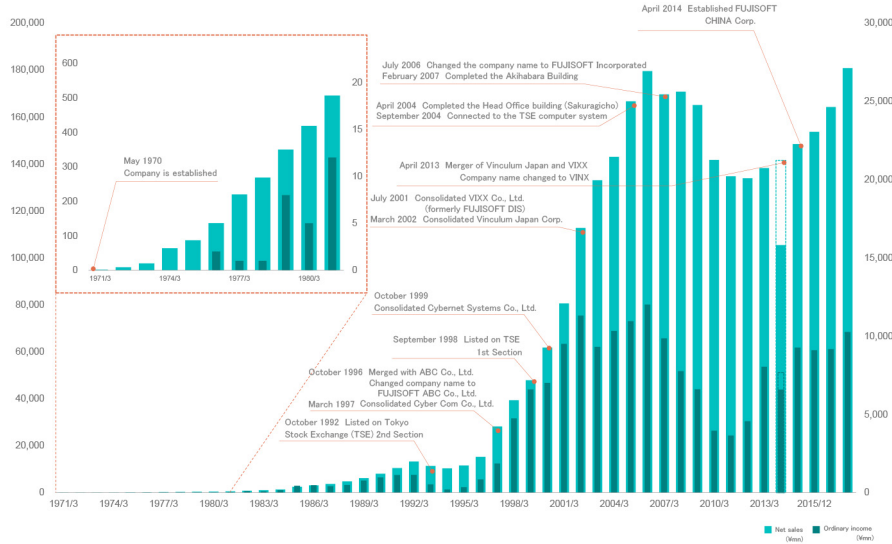
Its complementary M&A strategy is proving successful, making it one of few independent companies in Japan Has become a super group with net sales in excess of ¥100bn

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 rapid development supported by the explosive expansion of the computer industry. But what should not be overlooked as a factor behind this growth is the founder Chairman Nozawa's conviction that the time of the computer society had arrived, and while bearing a considerable risk, the Company actively invested in recruiting and training engineers and pursued a complementary M&A strategy to incorporate into itself the technologies and customer bases it did not have.

Even as the computer society has become a reality and the Japanese IT services market has expanded in scale to be worth more than ¥5 trillion, the major IT services companies with sales of more than ¥100bn are comprised almost entirely of manufacturers (such as Fujitsu Ltd. <6702>), user-related companies (such as NTT DATA Corporation <9613>), trading companies (such as SCSK Corporation <9719>), and overseas-related companies (such as IBM Japan, Ltd.). Including the Company, there are only three so-called independent companies. It has become one of groups with over ¥100bn in net sales in FY3/02, but on looking at the number of employees to achieve this, of 3,426 people on a stand-alone basis and 6,353 on a consolidated basis, we can see that its business expansion has been supported by its active recruitment of human resources and training of engineers since its establishment. Also, in 1996, it merged with ABC Co., Ltd., which has strengths in finance-related operations systems, and subsequently also, it made consolidated subsidiaries of Cybernet Systems Co., Ltd., which has its origins in an overseas company in 1999, and Vinculum Japan Corp. (currently VINX Co., Ltd.), whose main business is distribution-related business systems, in 2002. In such ways, the Company has advanced an M&A strategy to incorporate into itself the technologies and customer bases to supplement its strengths in embedded /control software development. It is considered that it would not have been able to exceed net sales of ¥100bn solely from riding the favorable external wave, but that its bold decision making has also been vital to achieving this.

Company overview

Since its establishment in May 1970, the Company's size has expanded dramatically



Source: From the Company's 2018 FACT BOOK

With “technological capabilities and proposal capabilities” as its core competencies, the Company is aiming to be a CSV-style innovative corporate group

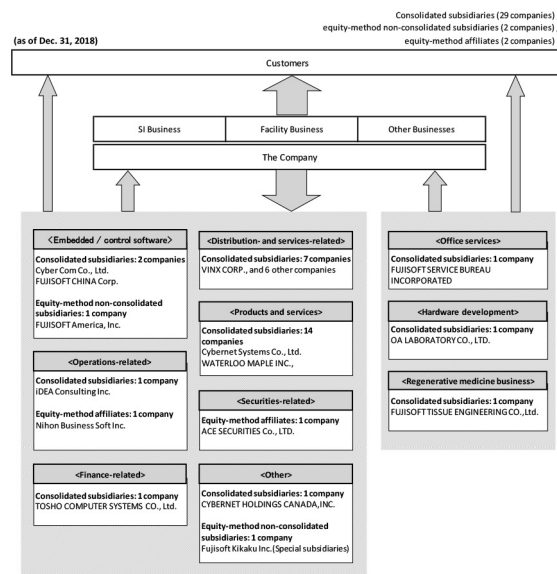
The Company considers that the reasons why it is chosen by customers are its “high-level technological capabilities and proposal capabilities that continue to evolve every day.” It is highly confident in its core competencies, of “technological capabilities and proposal capabilities,” that it demonstrates in aspects such as its advanced technological expertise acquire 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 (40 bases in Japan + a global network). Also, the Company believes that its important mission is for its various business activities to lead to the development of society, alongside sustainable growth and the creation of corporate value in the medium to long term. As its medium-term policy, it is aiming to be “an innovative corporate group that connects the development of ICT to the improvement of value for customers.”

What can be read from the messages disseminated by the Company would seem to be “its conviction in the effectiveness and potential of utilizing ICT and its sense of mission to progress this,” and having a “customer-oriented and CSV-type (a company that increases enterprise value through social contributions via its businesses) management policy.” Of course, corporate activities will have CSV-type aspects to a greater or lesser extent, even if the company itself is unaware of this. But in the Company’s case, the fact that the founder’s strong intentions, based on the corporate motto of “Challenge and Creation,” have been incorporated into its corporate culture, is worthy of note.

Company overview

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 1990 and which has grown to become Japan’s largest robot competition. It started with the aim of providing a place to experience the enjoyment of building things and to improve technologies through building robots. But it is currently recognized to be an excellent example of support for developing human resources through manufacturing; for example, since a section for high school students established in 1993, the National Association of Principals of Technical Senior High Schools has joined the operation, and the organizations including the Ministry of Education, Culture, Sports, Science and Technology, and METI are also known as the sponsors as well.

Business structural diagram



Source: From the Company’s securities report

Business overview

The mainstay SI Business provides a varied solutions menu

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. Also, the Facility Business entails rentals of office building, while Other Businesses includes a data entry business, a contract center business, and a regenerative medicine business.

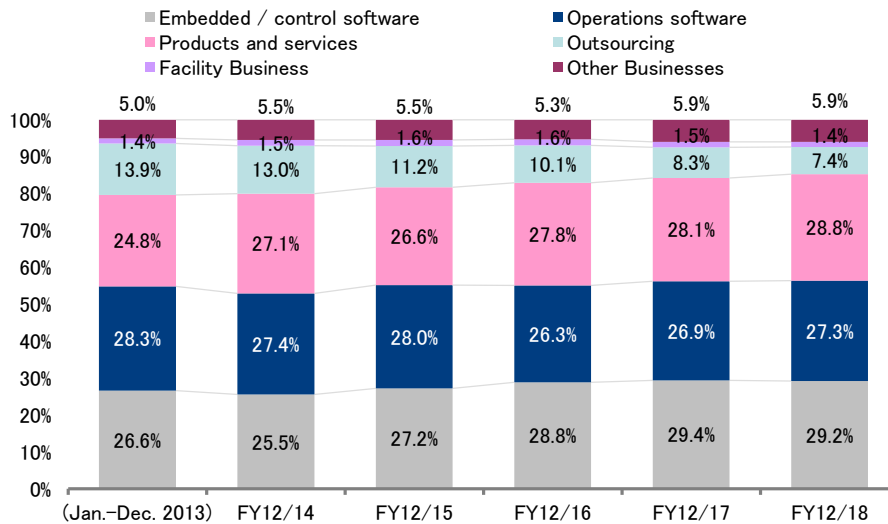
Business overview

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 results briefing material

Trends in percentages of total net sales by segment



Source: Prepared by FISCO from the Company's results briefing material

1. Embedded / control software is the biggest earner

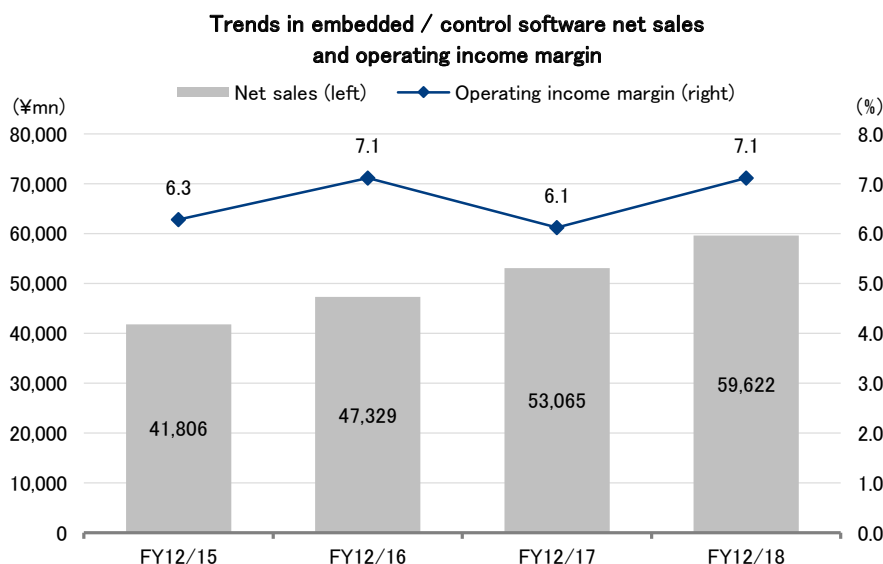
Embedded / control software, which belongs to the systems construction category in the SI Business, accounts for 29.2% of Company-wide sales (FY12/18) and 37.2% of operating income, and its segment profit margin is also the highest within the SI Business.

Business overview

Embedded / control software is software that runs on a microcomputer or other device, embedded into the device to provide specific functions. The Company's technologies are used in a variety of products and devices, including vehicles and mobile phones, home appliances such as TVs and air conditioners, office automation (OA) equipment including printers, robots and semiconductor manufacturing device production equipment, infrastructure equipment such as traffic lights, and medical equipment like CT and MRI.

The Company has accumulated top-class results in Japan in this area, and it has strengths in FA and other machine control systems and automotive-related. If limited to vehicles installations, in practical terms it delivers products to every vehicle manufactured in Japan, and it has the top share of the domestic market.

The developments in the productivity revolution through CASE (Connected, Autonomous, Shared / Service, Electric), AI and robots in the automotive industry is presently proving to be advantageous for the Company, and at the end of FY12/18, its orders backlog had increased 11.6% on the end of the previous fiscal year.



Source: Prepared by FISCO from the Company's results briefing material

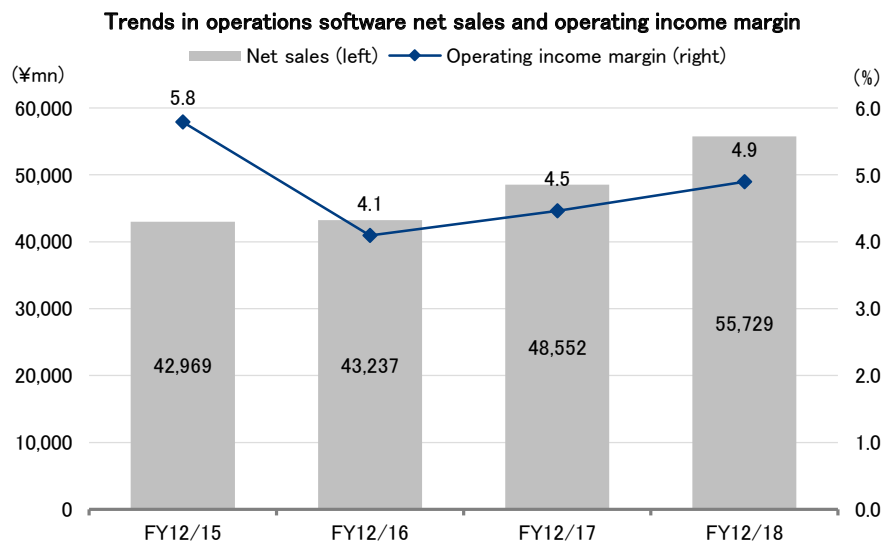
2. The operations software profitability is recovering

Operations software, which is in the systems construction category in the SI Business, is a major pillar of earnings, contributing 27.3% of Company-wide net sales (FY12/18) and 23.9% of operating income. In FY12/16, sales stopped growing, but after that, the growth rate has exceeded that of the overall Company-wide results for two consecutive years, while the segment profit margin is also recovering. Moreover, the order backlog is steadily increasing, and at the end of FY12/18 it had risen 16.0% on the end of the previous fiscal year.

In this area, in addition to organic business growth, the complementary M&A strategy is proving successful, and the Company has established a system that is able to provide a one-stop service, from consulting through to development, systems construction, and support, for various solutions, such as 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, financial, services, manufacturing, online businesses, social infrastructure, education, medicine, and public institutions.

Business overview

In the operations software area, which is positioned as the main battlefield in the domestic IT services market, there have been structural changes in the market that could prove to be disadvantageous to the existing players, including 1) the shift from on-premises (operating IT systems, such as servers, through equipment installed within a company) to the use of cloud services, and 2), the evolution from “defensive IT (mainly to improve work efficiency) to offensive IT (mainly to create businesses).” Within this situation, the Company, based on a spirit of seeing “changes as opportunities,” has clearly set-out and is implementing an approach of strengthening the development of outsourcing through actively investing in human resources. Further, it makes management decisions in accordance with the Company motto, of “Challenge and Creation,” and we will be paying attention to developments in the future.



Source: Prepared by FISCO from the Company's results briefing material

3. Narrowly defined products and services that seem to be addressing unique challenges

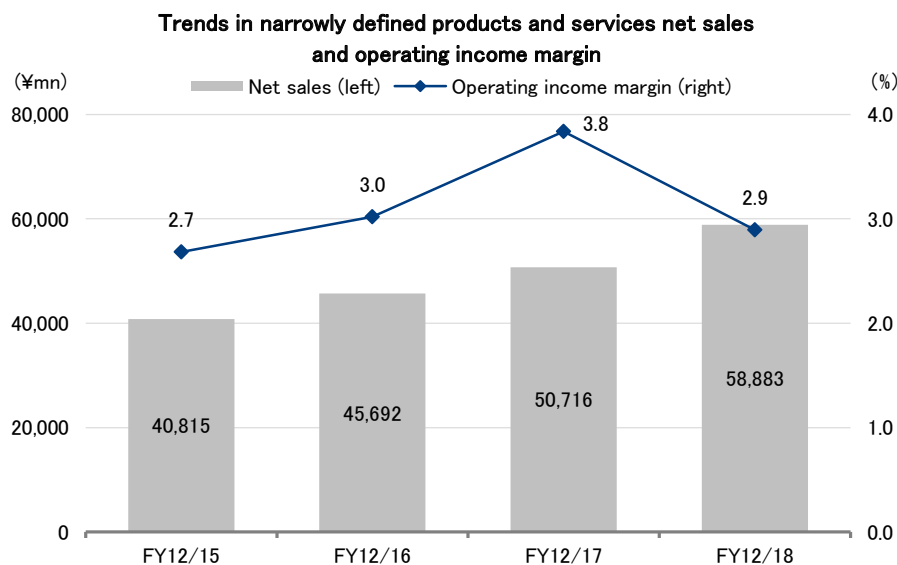
In the SI Business, products and services are subdivided into narrowly defined products and services, and outsourcing. Narrowly defined products and services provide 28.8% of total net sales (FY12/18) and 14.9% of operating income.

While the percentage of total net sales has risen in each of the last three years, the overall segment profit margin was below the Company-wide level. The reason for this is that the majority of the segment's net sales are from product sales and related, whose product margins are low on a Company-wide basis. Practically all of the remainder of sales are equally from Company products and the license business. Sales increased and profits decreased in FY12/18, but the reason for the major fall in the segment profit margin was the significant increase in upfront investment to strengthen product quality, so it would not seem to be a cause for excessive concern. Also, at the end of FY12/18, the orders backlog had risen 11.1% on the end of the previous fiscal year.

Business overview

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; and PALRO, a communication robot), 2) the license business (Microsoft products, AWS, VMware, etc.), 3) product sales, etc. (PCs, servers, etc.) Looking at the YoY increases in sales in FY12/17 and FY12/18, sales of the Company’s own products increased from up 4% to up 7%, license business sales fell from up 29% to up 26%, and product sales, etc., grew from up 8% to up 17%, so the strong performance of the license business stands out. Sales related to support for introducing licensed products is recorded in the Company’s own products, and it seems to be securing a high profit margin.

One of the Company’s strengths is that, as an independent Sler, it is able to construct systems flexibly without being tied to specific hardware, but launching proprietary products, including hardware such as the communication robot PALRO, seems to pose unique challenges. The strategy of working to create new added value through the Company’s own products that are infused with its core competencies, of “technological capabilities and proposal capabilities,” acts in accordance with its corporate moto, of “Challenge and Creation.” But we shall be paying close attention to the high profitability the Company is seeking for after the upfront investment phase.

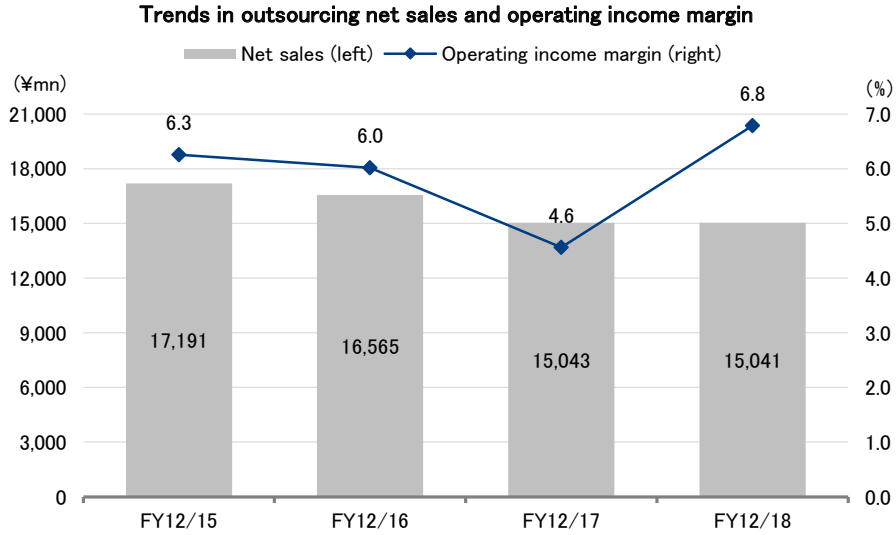


Source: Prepared by FISCO from the Company’s results briefing material

4. Outsourcing faces competition with cloud services

Outsourcing provides various services, such as data centers and systems operations and maintenance, and it provides 7.4% of total net sales (FY12/18) and 9.0% of operating income. The reasons why the segment operating profit margin rose 6.8% in FY12/18 include that data center repair costs, which had increased in FY12/17 decreased in FY12/18. The declining trend in sales in recent years is mainly due to the decrease in continuous projects for distribution and services, and at the end of FY12/18, the orders backlog had also fallen 14.5% YoY. This is considered to be due to the intensification of competition with other companies’ cloud services, and the situation going forward can be said to be difficult to predict.

Business overview

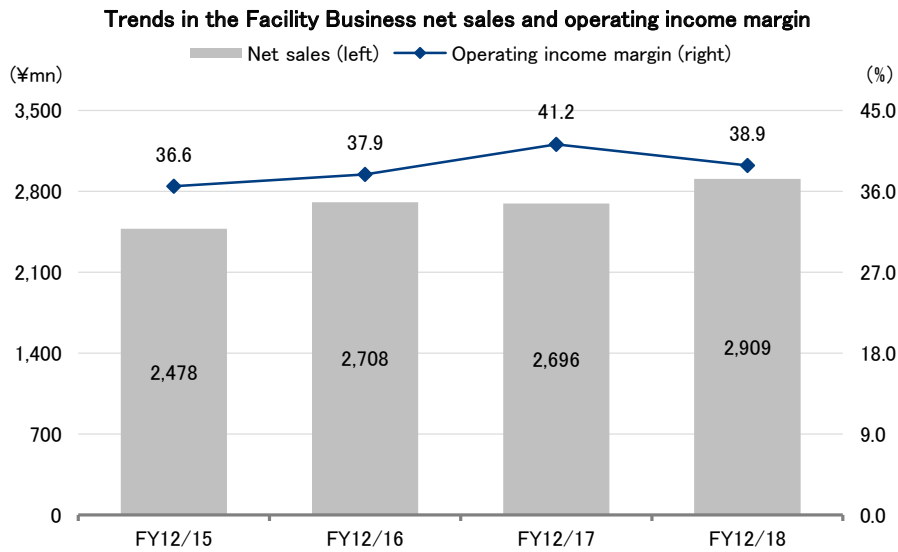


Source: Prepared by FISCO from the Company's results briefing material

5. The Facility Business has high earnings

The Facility Business, which obtains rental income from the office buildings the Company owns, provides 1.4% of total net sales (FY12/18) and 9.9% of operating income. The segment profit margin is high, at 38.9%, and it stably supports the Company's profit level.

According to the Company's securities report, there are four properties; the Yokohama Head Office (land-acquisition year: 2000, land and property book value: ¥11,399mn), the Akihabara Office (2005, ¥32,635mn), the Kinshicho Office (2000, ¥6,065mn) and the Monzen Nakacho Office (2003, ¥1,760mn).



Source: Prepared by FISCO from the Company's results briefing material

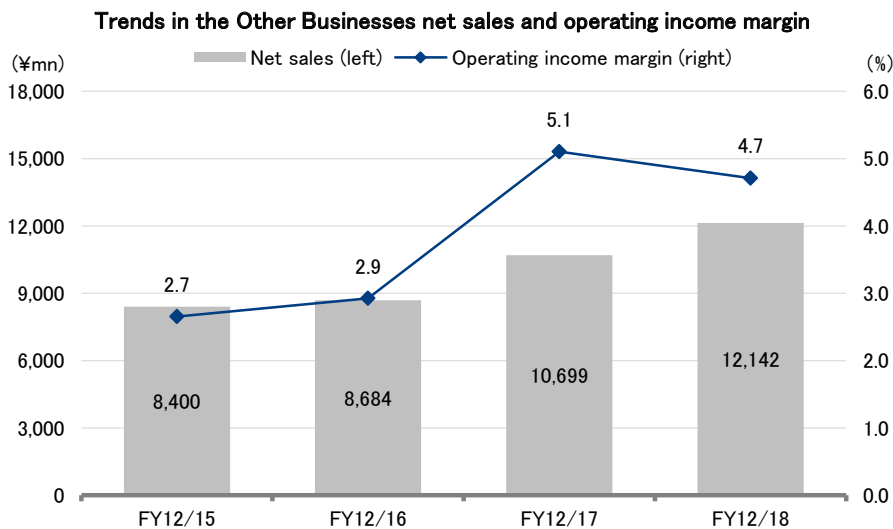
Business overview

6. In the regenerative medicine business, which is included in Other Businesses, has successfully acquired certification for implanted regenerative cartilage

Other Businesses provides 5.9% of total net sales (FY12/18) and 5.0% of operating income. The main reasons for the higher sales and profits are the strong performances of the BPO (business process outsourcing) business and contract center business.

The regenerative medicine business began the "the cartilage and bone regenerative medicine donation course" at the University of Tokyo Hospital in November 2005, and in 2007, it was commissioned by the Japan Science and Technology Agency (since April 2015, it has been commissioned by the Japan Agency for Medical Research and Development). At first glance, the entry into this business would appear to be unconnected to the rest of the businesses, but it is also a "Challenge and Creation" business that focuses on the effectiveness of utilizing ICT in the medical field.

The Company received a technology transfer from the University of Tokyo and succeeded in researching and developing the world's first "implant-type regenerated cartilage" using autologous cells. In 2015, it conducted company trials to evaluate its efficacy and safety for patients with cleft lips and palates toward improving appearance and functions. Then in September 2018, it acquired a certificate of success for implant-type regenerative cartilage and realized a production and sales business in 2019, and it is aiming to achieve sales of ¥4bn in 5 years' time.



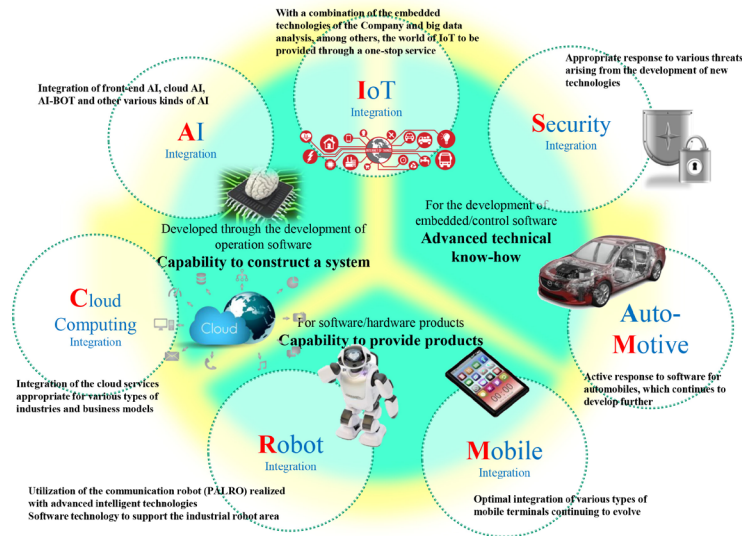
Source: Prepared by FISCO from the Company's results briefing material

7. Taking on the challenge in its business strategy of creating new products and businesses for AIS-CRM

The Company has set AIS-CRM (A: AI / I: IoT / S: Security / C: Cloud / R: Robot / M: Mobile & AutoMotive) to be a key technological area, and it is working to improve added value in this area. At first glance, it seems to be just a list of currently popular words, but the superordinate concept for AIS-CRM includes the Company's core competencies, so we can expect it to produce the seeds of new products and businesses.

Business overview

Summary of AIS-CRM



Source: From the 2018 CSR Report

Results trends

After strengthening the financial structure, the Company has resumed to offensive management

In FY12/17, net sales were ¥180,773mn, which was the first new record high for net sales in 11 years since their peak before the economic downturn precipitated by the Lehman Brothers bankruptcy (FY3/06, ¥179,505mn). Sales and profit increased by double digits in the FY12/18 results, with net sales rising 13.0% YoY to ¥204,329mn and operating income growing 17.4% to ¥11,400mn, and the Company has in its sights the previous record high operating income (FY3/06, ¥12,078mn). So while it took more than 10 years to renew the peak net sales, the Company can be highly evaluated on the point that during this time it not only recovered flow profits, it also worked to strengthen the financial structure and the growth potential.

First, looking at the trends in the representative indicators showing the stability of the financial structure, the equity ratio rose trended from 47.3% at the end of FY3/06, 60.3% at the end of FY12/15, and 54.6% at the end of FY12/18, the current ratio trended from 96.4%, 199.7%, and 161.8%, respectively, and net interest bearing debt (interest bearing debt – cash and cash equivalents) trended from ¥21,285mn, ¥-479mn (excess cash), and ¥4,938mn, respectively, so every indicator has been greatly improving.

Also, due to the large-scale recruitment since FY12/15, the number of employees has increased by 1.6 times, from 9,415 people the end of FY3/06 to 14,910 people the end of FY12/18. On the other hand, looking at the percentage of certified technicians on a stand-alone basis (the percentage of certified specialists and certified product managers, based on the Company system, to the total number of employees), it had risen from 22.8% at the end of FY12/14 to 29.2% the end of FY12/18. So the Company has realized both large-scale recruitment and the early training and development of new and young human resources.

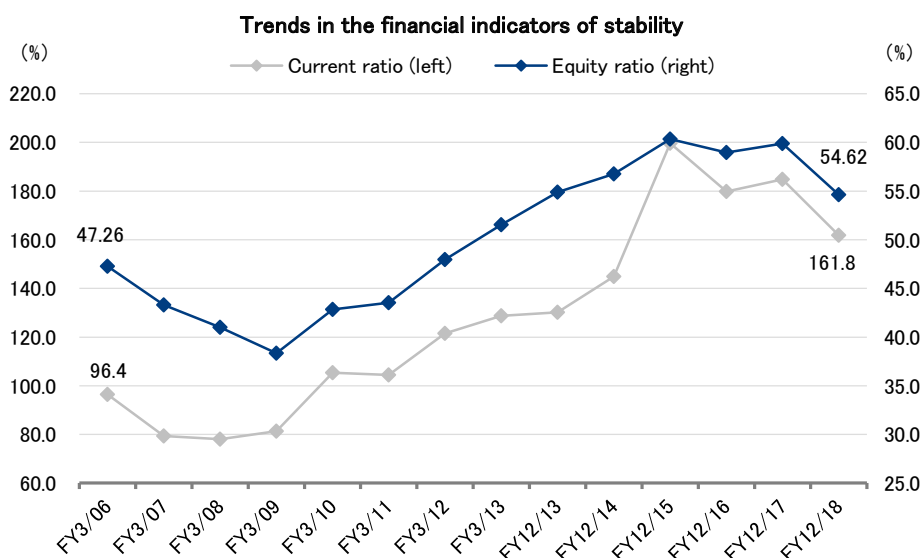
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Results trends

In addition, the capital investment amount increased from ¥3,028mn in F12/14 to ¥22,608mn in FY12/18, while R&D expenses also rose from ¥712mn to ¥945mn. So the Company has been expanding upfront investment, which together with its investment in human resources, indicates its intention to strengthen growth potential toward “Challenge and Creation.”

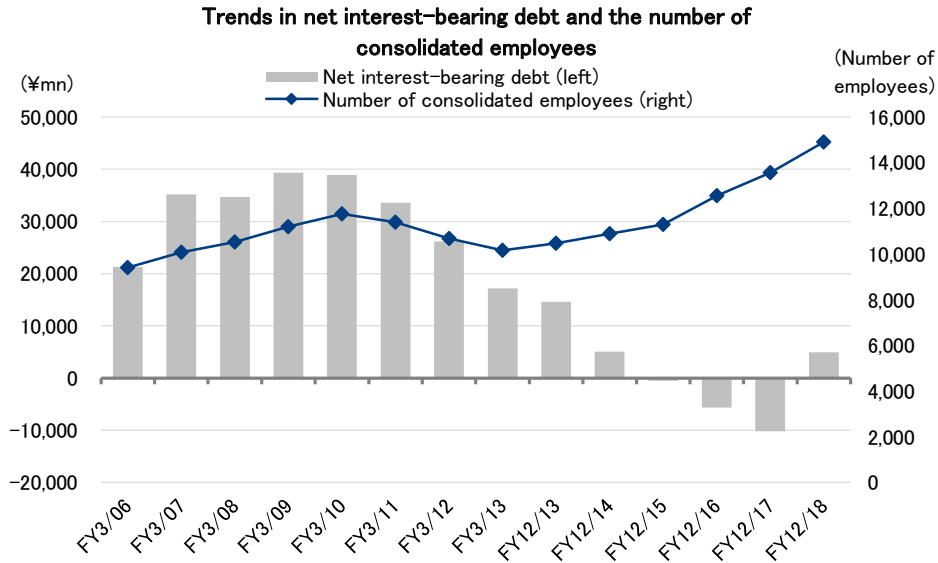
Looking here at the relationship between the financial indicators and the management strategy, in FY12/15, which is when the Company embarked on the large-scale recruitment and increased upfront investment, the equity ratio was around the 60% level, the current ratio had improved to nearly 200%, and net interest bearing debt had been reduced to a level of excess cash. This indicates that FY12/15 was when the Company realized a string financial structure.

It can be said that the Company’s strengths include its ability to make and implement management decisions quickly through strong leadership, including that of its founder. It did not hesitate to change to “offensive management (actively conducting upfront investment)” precisely because it had progressed “defensive management (strengthening the financial structure)” during a phase of slumping results. So the Company can be highly evaluated for taking dispassionate management decisions that accurately reflect the changes to its business environment.

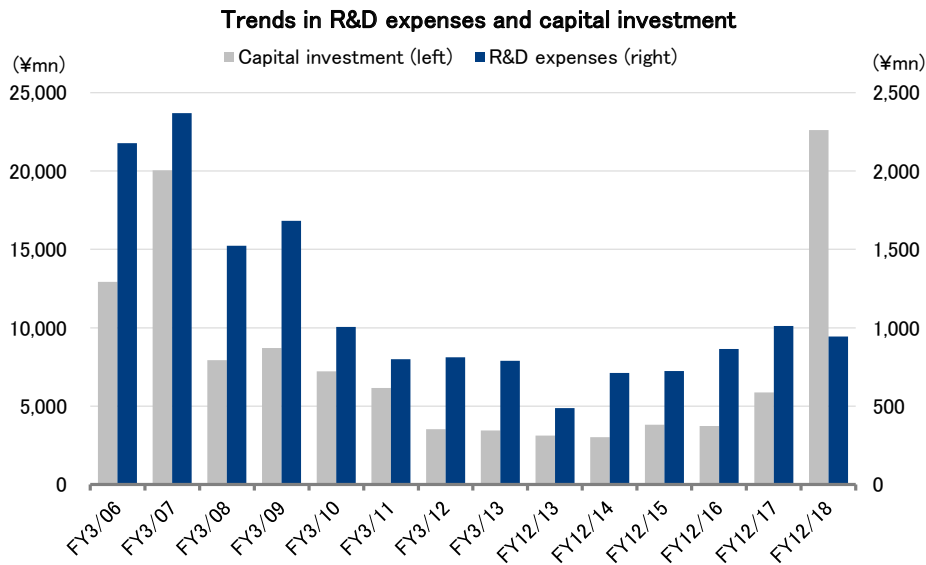


Source: Prepared by FISCO from the Company’s securities report and financial results

Results trends



Source: Prepared by FISCO from the Company's securities report and results briefing material



Source: Prepared by FISCO from the Company's securities report and results briefing material

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Results trends

Simplified income statements

	(¥mn)				
	FY12/15	FY12/16	FY12/17	FY12/18	FY12/9 (E)
Net sales	153,661	164,218	180,773	204,329	210,500
YoY	3.5%	6.9%	10.1%	13.0%	3.0%
Cost of sales	117,552	126,024	138,708	156,808	-
YoY	3.3%	7.2%	10.1%	13.0%	-
Gross profit	36,109	38,193	42,065	47,520	-
YoY	4.2%	5.8%	10.1%	13.0%	-
Gross profit margin	23.5%	23.3%	23.3%	23.3%	-
SG&A expenses	27,691	29,394	32,357	36,119	-
YoY	5.1%	6.2%	10.1%	11.6%	-
SG&A expenses ratio	18.0%	17.9%	17.9%	17.7%	-
Operating income	8,418	8,798	9,708	11,400	11,700
YoY	1.4%	4.5%	10.3%	17.4%	2.6%
Operating margin	5.5%	5.4%	5.4%	5.6%	5.6%
Ordinary income	9,093	9,166	10,260	12,071	12,200
YoY	-1.9%	0.8%	11.9%	17.7%	1.1%
Profit attributable to owners of parent	4,922	5,042	5,797	6,516	6,700
YoY	1.0%	2.4%	15.0%	12.4%	2.8%

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

Simplified balance sheets

	(¥mn)				
	End-FY12/15	End-FY12/16	End-FY12/17	End-FY12/18	Change
Current assets	55,032	67,350	72,457	79,977	7,519
Cash and deposits	12,784	19,134	18,851	22,554	3,702
Notes and accounts receivable - trade	31,485	36,727	40,288	44,456	4,167
Non-current assets	98,800	96,513	102,110	114,302	12,191
Property, plant and equipment	67,013	65,796	65,220	82,356	17,136
Intangible assets	6,273	5,949	6,821	4,738	-2,082
Investments and other assets	25,513	24,766	30,068	27,206	-2,862
Total assets	153,833	163,863	174,568	194,279	19,710
Current liabilities	27,556	37,461	39,197	49,428	10,230
Notes and accounts payable - trade	7,625	9,444	9,977	9,526	-450
Short-term loans payable	3,967	9,410	8,464	16,207	7,742
Non-current liabilities	22,197	17,400	16,959	25,180	8,221
Long-term loans payable	11,242	6,723	4,182	13,319	9,137
Total liabilities	49,754	54,861	56,156	74,608	18,451
Interest-bearing debt	15,210	16,134	12,647	29,527	16,880
Total net assets	104,078	109,001	118,411	119,670	1,259

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

Simplified cash flow statements

	FY12/15	FY12/16	FY12/17	FY12/18
Net cash from operating activities (a)	7,595	9,530	9,244	11,192
Net cash from investing activities (b)	-549	-4,337	-4,524	-23,424
Net cash from financing activities	-7,414	1,076	-4,462	-14,766
Free cashflow (a)+(b)	7,045	5,192	4,720	-12,232
Cash and cash equivalents at end of period	15,688	21,790	22,157	24,587

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

■ Outlook

Can expect the effects of productivity improvements to be materialized, including from the work-style reforms,

1. The announced FY12/19 results forecasts are positioned as targets that must be achieved

The FY12/19 results forecasts announced by the Company in February 2019 are for net sales to increase 3.0% year-on-year (YoY) to ¥210,500mn, operating income to rise 2.6% to ¥11,700mn, ordinary income to grow 1.1% to ¥12,200mn, and profit attributable to owners of parent to increase 2.8% to ¥6,700mn. Compared to the results forecasts announced in February 2018 (net sales: ¥193,000mn, operating income: ¥10,300mn), net sales have been upwardly revised by 9.1% and operating income by 13.6%.

The FY12/20 results forecasts have also been upwardly revised with net sales increasing from ¥199,000mn to ¥217,000mn (up 3.1% YoY) and operating income from ¥10,600mn to ¥12,000mn (up 2.6%). The revised forecast simply added the excess from the FY12/18 results, which posted a double-digit increase in both sales and profits. There is the sense that this might be disappointing considering the operating income margin is expected to remain unchanged (FY12/18 result, 5.6%→FY12/19 forecast, 5.6%→FY12/20 forecast, 5.5%) while being in a phase of a sales increase.

With regards to these points, the Company considers that 1) the announced results forecasts are the targets that must be achieved, and results may exceed them, and 2) it is aware of the issue of profitability, and it is aiming to further improve it in the long term. It can be highly evaluated on the point that it is maintaining the gross profit margin and operating income margin even while focusing on upfront investment and work-style reforms, and it has been improving productivity per employee, so we will look forward to how earnings trend in the future.

Results forecast

	(¥mn, %)								
	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Amount	% change	Amount	% change	Amount	% change	Amount	% change	(¥)
FY12/18	204,329	13.0%	11,400	17.4%	12,071	17.7%	6,516	12.4%	208.22
FY12/19 (E)	210,500	3.0%	11,700	2.6%	12,200	1.1%	6,700	2.8%	214.10
FY12/19 (E)	217,000	3.1%	12,000	2.6%	-	-	-	-	-

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

2. Productivity is improving from the focus on upfront investment and work-style reforms

On the one hand, the Company is focusing on investing in human resources, centered on the large-scale recruitment of new graduates, while on the other hand, it is assiduously implementing work-style reforms that are tailored to a variety of lifestyles, and providing support for these reforms, toward realizing "relaxed and worthwhile" working environments.

Outlook

Specifically, based on the upgraded version of the Super Flex System, introduced in 1990 that had no core working hours, the Company introduced the Ultra Flex system (the Super Flex system + a system enabling acquisition of paid leave on units of 30 minutes without fixing the time period, and ‘refresh time’ of 10 minutes),” and working to establish a working environment for remote locations and also on the fully fledged management of a teleworking system for which all employees are eligible. As a result of these efforts, in 2017 (the totaling period was April to March), it achieved the following results; 1) the paid-leave acquisition rate: 73.2% (private-sector average, 51.1%; government target, 70% by 2020), 2) number of employees using the teleworking system: 3,975 in total, 3) number of employees taking child-care leave: 164, and 4) number of people working more than 80 hours of overtime a month: 0. It has also been positively evaluated and recognized by external organizations, including the Top Hundred Telework Pioneers (Ministry of Internal Affairs and Communications), certified as a company actively supporting work and childcare balance (Ministry of Health, Labour and Welfare), Certified Health & Productivity Management Outstanding Organizations Recognition Program (Ministry of Economy, Trade and Industry), and a Kanagawa business that promotes the support of children and child raising (Kanagawa Prefecture).

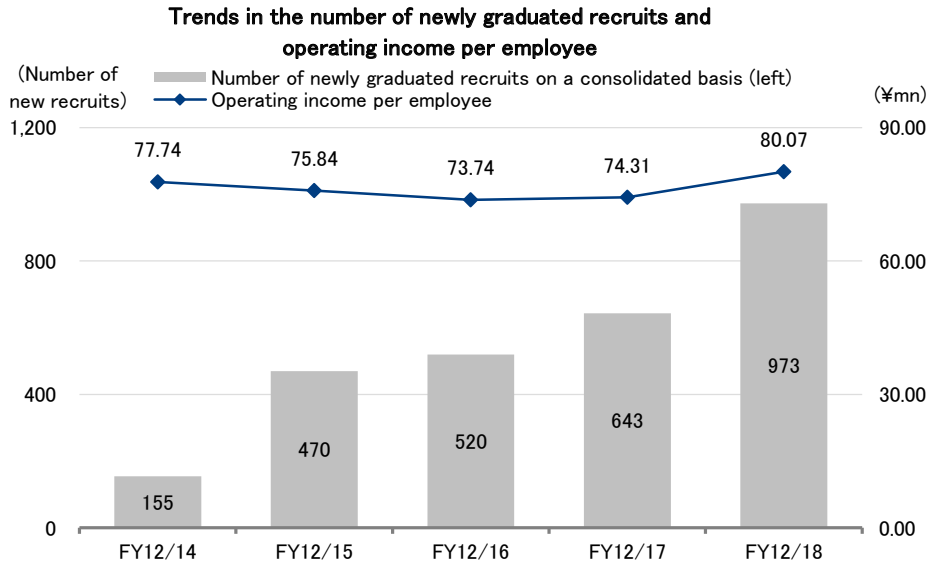
What we should pay attention to here is that the Company is realizing improvements to productivity through work-style reforms even while providing labor-intensive IT services.

In the short term, work-style reforms, which will cause a reduction in the working hours of existing employees, and the large-scale recruitment of new graduates will lead directly to a dilution in the fighting strength of employees and an increase in upfront costs. So in many cases, these are factors keeping down the productivity indicator of operating income per employee (operating income / the average number of employees at the end of the period). In the case of the Company, in the two years after FY12/15, when it began the large-scale recruitment of new graduates while producing positive effects from work-style reforms, operating income per employee decreased but since FY12/17, it changed direction and has been increasing.

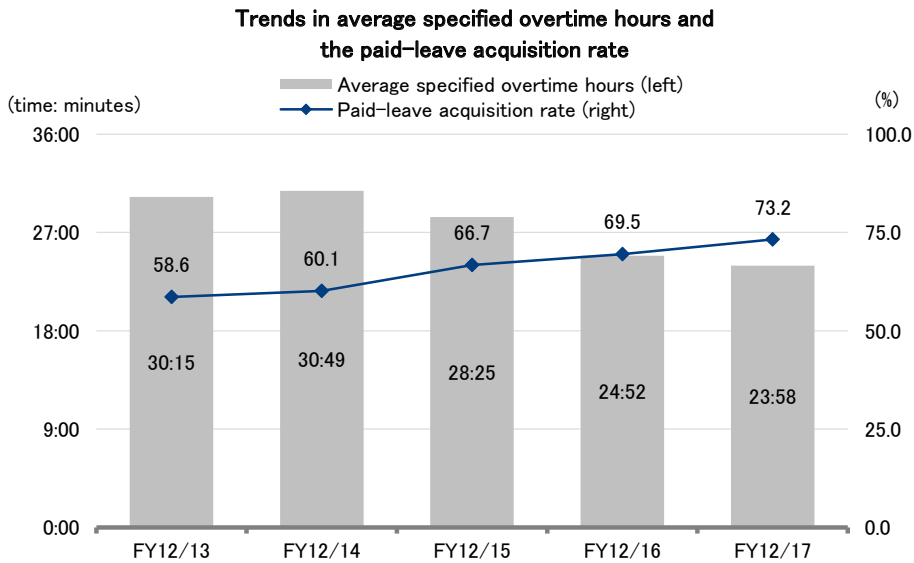
Specifically, when simply calculating the new graduate inclusion rate (the number of recruited new graduates/the number of employees at the end of the previous year) has risen each year, from 1.5% in FY12/14, 4.3% in FY12/15, 4.6% in FY12/16, 5.1% in FY12/17, 7.2% in FY12/18. At the same time, progress was made in reducing overtime hours and increasing the number of employees taking paid leave. On the other hand, in FY12/18 operating income per employee increased 3.0% compared to FY12/14, to more than ¥800,000. The internal management indicator that the Company calls one-hour productivity improved by 1.6 times compared to FY12/16, which is when the record high operating income was achieved and operating income per employee was ¥1.35mn. So it would seem that, through implementing measures to utilize ICT and the continuous reviews of work forms and the work environment, the improvements to the work framework and the creation of workplaces that are “relaxing and worthwhile” is leading to improved productivity.

Going forward, there remains room to further reduce overtime and increase the number of people taking paid leave, while the new graduate inclusion rate is expected to peak-out. Therefore, the positive effects from improving hourly productivity will become easier to realize. We can have high expectations for the future of the Company, which is aiming to further improve profitability in the long term.

Outlook



Source: Prepared by FISCO from the Company's securities report and results briefing material



Note: calculated based on the April-to-March period.
 Source: Prepared by FISCO from the Company's CSR report



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