

Summary Translation of Question & Answer Session at FY 2020 Third Quarter Financial Results Briefing for Analysts

Date: January 28, 2021
Location: Live-streamed from Fujitsu Headquarters, Tokyo
Presenters: Takeshi Isobe, Corporate Executive Officer and CFO

Questioner A

Q1: *You have revised your forecast upward for the full year, but if we back out the projected fourth-quarter results, it does not appear to be a very strong forecast for the fourth quarter compared to your actual results in the third quarter. In terms of operating profit, you generated higher profits in the prior two years. How are you viewing the operating environment and your anticipated performance in the fourth quarter, and how would you evaluate that performance in relation to your revised forecast?*

A1: Of course our results may be stronger or weaker depending on the market, and we had been anticipating that a modest recovery from the impacts of COVID-19 will start in the third quarter of fiscal 2020, and on the whole, we feel that is exactly how the third quarter turned out to be. Beyond that, however, since the beginning of January we have felt a bit concerned about the outlook for the fourth quarter. It is true that we are still not overly confident, so our intention was to incorporate those perceived risks and concerns into our forecast. Please also understand that, in last year's fourth quarter, we had exceptionally strong demand from customers in Japan's central government, so a reversion from that level was also incorporated into our forecast. First we want to make sure that we achieve the number to which we have committed. Of course we want to fully mitigate the risks ahead and generate results that will build strong momentum going into fiscal 2021. Please interpret the numbers we have projected as numbers that we must achieve.

Q2: *How are you now viewing the growth outlook for IT spending in Japan in fiscal 2021? If possible, please provide a breakdown by area.*

A2: To achieve our intended purpose, Fujitsu is focused on digital transformation, including our own, and we are working to make that business the pillar of our future growth. We think this direction matches the needs of the market, and, in fact, when we ask our business producers—which is what we call our sales groups—they are feeling strong customer demand exists in the area of digital transformation. Even under COVID-19, our understanding is that this trend is becoming even clearer. In that sense, we think there is no question that demand relating to digital transformation will become strong in fiscal 2021, and that by taking leadership in this area we will achieve growth. Still, to be honest, it is difficult to make predictions because it will depend a lot on when and to what extent there is a recovery in the next year, on when COVID-19 can be contained, and when society can make the shift to new circumstances. We will seek to achieve our fiscal 2021 financial targets while taking a flexible approach to such changes in our operating environment, but we anticipate that customer realities will vary fairly considerably by industry sector. As you know, current demand from national government customers and telecom carriers is very strong in Japan. It is an essential

area as they digitize their processes, so our business with those customers will likely be strong. When it comes to medium-sized customers outside of the major metropolitan areas, customers in the healthcare field, or local government customers, however, strong demand exists to digitize their processes, but concerns remain about a recession that could lower tax revenues for local governments, for instance. We still do not have a clear overall idea of the pace of a potential recovery in these areas. Still, what we can say at this point is that, even under those circumstances, our view is that demand, primarily for digital support services, is certain to strengthen, even if it varies by sector, so we think it will launch us on a growth trajectory. In terms of what percentage growth we anticipate, I will need you to wait a bit before we can give you a clearer answer.

Questioner B

***Q1:** Are we correct in understanding that the contribution of network products to your overall results, excluding the impact of restructuring and special items, was big?*

A1: Yes, it is true that the contribution of network products was significant. The increase in revenue from network products was 18.5 billion yen, and the increase in operating profit for System Platforms as a whole was 7.1 billion yen, so please understand that most of it was from network products. In addition, in the materials we have broken down the operating profit of the International Regions excluding Japan, and there was a profit of 5.5 billion yen from special items. Excluding that, however, operating profit increased by 4-5 billion yen, more than offsetting the negative impact of COVID-19. The impact of COVID-19 remains severe, and our view is that a full recovery is still far away, but there have also been reductions in expenses, so please understand that there are some positive signs.

***Q2:** Please tell us how sustainable the strong performance in network products is likely to be. If most of the increase in operating profit in System Products is from 5G-related business, the profitability of that 5G-related business must be high. If there are no demands to lower your pricing, can we assume that this high level of profitability will continue?*

A2: We need to think about how our market share or the competitive environment might change. In addition, we assume that there may be requests for lower pricing. Over the near term, demand will remain at this fiscal year's level, or may even increase, but we anticipate the entry of foreign competitors, and there is a possibility that our market share will change. Right now we are in the period in which we recoup our development costs, so profitability appears good, but we also need to take into consideration the investments we will need to make in product development for the Beyond 5G market.

Questioner C

***Q1:** At the present time, I think it is fair to say that, in terms of the scale of your network products business, it is somewhat at a disadvantage in competing globally, but please talk about whether there is a possibility that you will restructure your network products business.*

A1: Today we announced that we would consolidate our system integration companies, absorb Fujitsu Laboratories into Fujitsu Limited, and strengthen the organization of Fujitsu

Japan. These moves are designed to reinforce our structure in relation to the Japanese market. We are constantly taking fairly drastic measures in terms of rethinking our organization and making changes to it in order to optimize our business. We did not make any announcements relating to our System Platforms business, but, of course, we are thinking of various ways to optimize it, as well. In network products, we are now generating some profits from 5G base stations, but almost all of the profit is from Japan, and we are constantly thinking about what kind of structure—not limited to Fujitsu on its own—would enable us to expand our business globally. It is not the case that we think the current structure is ideal, and we are considering a full range of options.

Q2: *I get the impression that, in your business outside Japan, your Northern and Western Europe (NWE) business, in particular, has improved. Please tell us about the progress of your structural reforms outside Japan in the midst of this pandemic.*

A2: As you point out, many regions outside Japan, particularly Europe, are being hit hard by COVID-19. The Americas region is also being hit hard, but we are still in the midst of structural reforms there, and, in addition, because the volume of our business is rather small there, it is not very noticeable in our results. In NWE, we succeeded in getting a relatively large win in the third quarter, and we were also able to get ongoing projects renewed, underpinning our performance there for the quarter. Another factor is that we are gradually starting to see the results of improvements to our cost structure from our structural reforms. Still, the overall impression is that conditions remain very challenging. Regarding our structural reforms, we basically completed our structural reforms in the EMEA region by last summer. In terms of our exits from unprofitable countries, we are still in the midst of closing two locations, but we are more or less finished. In the Americas region, we are in the midst of exiting the product business, and it looks like we will essentially complete that process within this fiscal year. In that sense, although our structural reforms have been impacted by COVID-19, please understand that they have been progressing without any particular delays. On the other hand, just as we are finally completing these structural reforms, and we must turn to growing our now diminished scale, market conditions are extremely difficult because of COVID-19. Our performance figures were not ideal to begin with, and there are some signs that growth is gradually emerging, but in terms of rebuilding our business and rebuilding our performance figures, we are viewing things as very difficult, as it feels like we were just beginning to move off of the starting line.

Questioner D

Q1: *The number of orders you received in the third quarter in the public and social infrastructure segment, excluding PCs, rose significantly over the previous year, with a 31% increase. How does that break down in terms of structure between national government customers and telecommunications carriers in Japan?*

A1: Most of the increase over the previous year is due to the fact that our business with telecommunications carriers in Japan was strong. Of course, demand from our customers in Japan's central government was by no means weak, but in the sense of which was stronger, I

would like you to understand that our business with telecommunications carriers was stronger.

Q2: *This time you announced that you were increasing expenses in Technology Solutions by 5 billion yen to undertake some sort of transformation. I think this is something that was not planned from the beginning of the year, and I think that by the third quarter you ought to have some sense that you can achieve your targets for the year, so is that why you decided to record this sort of additional expense at this time? Also, please tell us about how it will be used, and what effects it will have.*

A2: At the end of the first half, it became clear that the sale of the mobile phone retail store business would yield 25 billion yen. At the same time, the ultimate impact of COVID-19 was still quite fluid, so we still felt somewhat timid about that. This is why we did not change our guidance despite the anticipated gain on the sale when we announced our results for the second quarter, though we still felt that we ought to make up for the impact of COVID-19, and so we wanted to conduct additional structural reforms or bring forward growth investments. In this process, we identified a few areas where we could bring forward some of our potential growth investments, and where we had some space to rethink our structures a bit, even bearing in mind weak demand due to COVID-19. We felt that we needed to take firm measures in these areas. Most of the additional 5 billion yen will be used in areas outside Japan. While our Regions outside Japan look a little better in the third quarter, they are in an extremely severe state due to COVID-19. In addition to aiming at even more thoroughgoing efficiencies, we are planning to move to another stage in this process. This will not be a transformation on the scale of what we have done before, however, but rather we would like you to understand that we have added these additional funds because we would like to make progress in a number of small projects. At this moment I am unable to give you an answer on how much we expect in terms of benefits, but of course there will be benefits that become apparent from these sorts of structural transformations, and we are assuming that we will see the benefits in the latter half of the next fiscal year and beyond.

Questioner E

Q1: *On page 15 of the materials, which shows "Overall Orders in Japan," could you explain a bit more about the other three areas besides public and social infrastructure? If possible I would like to ask about this qualitatively, including the status of inquiries for potential business projects.*

A1: The Enterprise segment includes manufacturing, distribution, and mobility. In manufacturing, there is still some weakness in demand due to the impact of COVID-19, but in the third quarter some of the demand that had been put off was recovered bit by bit, narrowing the gap. We are also seeing some new demand in the form of DX and companies willing to take on the challenge of local 5G, but not enough to catch up to last year's results. As for distribution, the impact of COVID-19 varies by the specific industry, but we can say that overall it has not been very large. The main reason this segment looks somewhat severe is that last year there were a number of major projects and strong demand relating to a rise in the consumption tax, so this year looks worse by comparison. We see demand beginning to

recover in distribution, focused around the key words of "workstyle transformation" and "unstaffed." Mobility is also quite varied. Demand varies between major automobile manufacturers and suppliers, and even between those major automobile, and, in general, we are continuing to see strong demand in advanced fields such as connected cars. While the degree of deterioration has been smaller than what we first assumed, a full-scale recovery has not yet begun. There is still some damage remaining at the moment in the Enterprise segment, and uncertainty has increased due to the changes in the situation since the beginning of January. Next is the Finance & Retail segment. In the third quarter, this segment was in line with last year. The major factor in this field is not the impact of COVID-19, but rather where we are in the cycle of major business projects. Some industry segments within finance, particularly regional banks and insurance, have faced a somewhat severe business environment, but we have seen demand for keywords such as "non-face to face" and "cashless" growing in popularity. The retail sector is also facing a difficult business market, but our orders received were rather stronger in the third quarter. With the accumulation of financial projects relating to distribution and DX projects, we have been able to exceed the previous year. In the JAPAN segment, our main customers are local governments, healthcare institutions, and educational institutions. In the third quarter, we have begun to recover projects that were delayed, so, excluding PCs, orders are more or less in line with the previous year. In education, demand for the GIGA school technology and for supercomputer business deals showed some strength, but both local governments and healthcare are in a difficult spot. In the third quarter, we have begun to recover a bit of the demand that had been put off, but business with both local governments and the healthcare sector has been significantly impacted by their response to the business on the ground. Even the start of this new calendar year has continued to be difficult, and we are also unclear about the timing in which these sectors will recover going forward.

Q2: *Should we envision then that, while the local government and healthcare sectors are in tough situations, private demand is gradually and gently recovering?*

A2: Yes, that is correct. Rather than say gradually, however, I would say my impression of the third quarter is that the recovery is fairly strong, in its way. We had thought that we had returned to the line of our original assumptions, but after the new year things became more fluid, so we are not taking a positive view of the circumstances.

Q3: *For regions outside Japan where the impact of COVID-19 in the third quarter held steady or shrank slightly, compared to the second quarter, it seems like you have reached a relatively good state of affairs, but please tell us some more about the details of the third quarter and your forecasts for the fourth quarter. Has the negative impact of COVID-19 hit its peak? If there are differences between regions, please let us know. Also, you said earlier that most of the 5 billion yen would be used outside Japan, so if you could, please share some hints about what that consists of and what you are working on.*

A3: If you look only at the third quarter, then it is true that the impact of COVID-19 shrank in regions outside Japan. In Europe, which is a major base for us internationally, and in North America as well, I think the negative impact has shrunk. Looking just at our numbers for the

third quarter, it looks like the impact of COVID-19 has shrunk, and we are on the road to recovery, but from the second half of the third quarter, further lockdowns started, and we understand that circumstances there are completely unpredictable at this point. We are not assuming a significant deterioration in the fourth quarter, but we do have concerns that our envisioned scenarios for recovery are in flux. With regard to the additional expenses, in preparation for lower volumes in the future, we are evaluating things to see if there are any areas where we could generate further efficiencies. We have conducted structural reforms of our major locations in Europe, as well as of our product and retail businesses in North America, but overall volume is falling due to the impact of COVID-19, so we are checking carefully if there are areas where we could carry out further structural reforms focused on these areas, and we included additional expenses for that process in our forecasts for this period. I will refrain from commenting on specifics such as which facilities and how much.

Questioner F

***Q1:** For your base station business, you have stated that you expect its volume to be about the same as this year, or to grow a bit more, over the next 2-3 years, but is that the end of things? I think that your business with Dish Network will also start next fiscal year, so thinking about opportunities to expand your market share, do you not think you can grow your business much more significantly over the next 2-3 years?*

A1: Our remarks about similar results or slight growth were in reference to our business in Japan. We have a fairly significant share of the base station market in Japan, so looking at investment demand and deployment plan from our customer, those were the conclusions we reached. If you also take into account our share in proportion to other vendors, I would like you to understand that we are still looking at things conservatively and coolly, in terms of to what degree we can grow. On the global side, in addition to Dish Network in North America, we would also like to seize and develop some opportunities in Europe, though things have not progressed to specific business negotiations yet. In addition, I would like you to understand that I am saying this while also wondering whether things are at the point where I can make a very strong commitment.

***Q2:** It looks like we are also on the verge of a supplemental budget for the digitalization of government administration, so what impact would that have on your performance for fiscal 2021?*

A2: It is difficult to speculate on any possible impact of the Japanese government's Digital Agency in terms of numbers. We feel that the biggest movement would be the Digital Agency taking the lead and thereby accelerating the digitalization of government administration, and we have extremely high expectations for that event. Of course, we also expect this to be a positive for our business, but we also have extremely high expectations in the sense that this would be a major help in pushing forward the digitalization of such areas as government paperwork, which would help with the digitalization of society as a whole and the resolution of issues in society. We feel, however, that it will take some more time before any concrete demand or specific contracts materialize. In addition, I think the supplementary budget will not just have IT alone but, rather, that it will also contain provisions for a wide range of items.

This means that there will also be competition as to which vendors can secure business, but on the whole, I think it is true to say that digitalization will advance, and that this is an extremely important initiative for resolving issues in society, and that takes precedence over whatever impact it may have on our business. We would like to do everything we can to further accelerate this demand, and we are proceeding with a strong desire to work in collaboration with the Digital Agency. At this moment, we have not yet reached a point where we can say with any specificity what percentage increase we would see.

Q3: *You mentioned competition, so will there be competition between the vendors who formed a consortium for the systems related to the My Number program, competing on a project-by-project basis? Or will projects be evenly distributed within the limited budget?*

A3: Naturally, with regard to questions about who will take responsibility for what sort of volume of work, there are areas where companies excel and areas where they do not, so we have created a proper competitive environment within those constraints.

End