

Summary Translation of Question & Answer Session at Conference on the Consulting Business to Accelerate the Transformation of its Business Model for Media, Analysts and Investors

Date: February 22, 2024
Location: In person and live-streamed from the 32nd floor of Fujitsu Uvance Rooftop at Fujitsu's headquarters in Tokyo
Presenters: Shunsuke Onishi, Corporate Executive Officer, SEVP, CRO, Head of Global Customer Success, Fujitsu Ltd.
Yoshinami Takahashi Corporate Executive Officer, SEVP, Head of Global Business Solutions, in charge of Fujitsu Uvance, Fujitsu Ltd.
Toshiya Imai, Representative Director, CEO, Ridgelinez
(Moderator: Keiichiro Nishi, Co-Head, CEO Office, Fujitsu Ltd.)

Questioner A

Q1: You have disclosed that you will have 10,000 consultants in fiscal 2025, with 3,000 business consultants and 7,000 technology consultants. Given what you have today, how do you expect to reach 3,000 and 7,000?

A1 (Onishi): You should consider that, globally, we have about 2,000 consultants. Basically, Ridgelinez is the base for our business consultants, and there are about 400 of them, but some of our locations outside of Japan also have business consultants, so, including them, it comes to about 600 people.

Q2: So, you have 600 business consultants and 1,400 technology consultants?

A2 (Onishi): That is correct.

Q3: If you have 3,000 business consultants, you will be competing more with the so-called strategic consulting companies. For business consulting and technology consulting, respectively, who do you imagine your competitors to be?

A3 (Imai): In business consulting, we have already had competitors. There are the foreign-owned strategic consulting companies and also big research houses. We also compete against the consulting arms of the big four accounting firms. Still, we do not just compete with them. Depending on the project, we might collaborate with them.

(Takahashi): In technology consulting, I do not have a clear image of who our competitors are. In terms of computing technology, including quantum, Fujitsu has its own technologies. On top of that, in terms of our deployment speed, we are also internally implementing the IP of third parties. What is unique about Fujitsu's approach to technology consulting is that, while fully employing internally the IP of other companies, we also have our own IP, such as in quantum simulations and graphical analysis. I do not think there are many competitors in technology consulting that have such a broad range of assets.

(Nishi): Could you talk about some competitors in specific areas?

(Takahashi): We compete with several companies. Among the IP of other companies, such as Palantir, we produce a lot of data scientists, even compared to other companies globally, so there are areas in which we have a competitive advantage.

(Onishi): For example, among strategic consulting firms, there is McKinsey and the Boston Consulting Group, and in technology consulting, there is Accenture. While we compete widely with them, there are times when we might collaborate with them. We also must remember that, in the field of sustainability, new players are coming in. For example, in the US and Europe, there are consulting companies, contractors, and line builders focused on sustainability, and they are actually coming into the field of sustainable transformation consulting. In many cases they have specific prescriptions, and when we compete globally, we need to think how to win against them.

Q4: In terms of how you are positioning this announcement, I think you stating how many people you would place in business and technology consulting, you defined 13 key practice areas, and you prepared a scheme showing how these would be organized internally. In your medium-term management plan, you already announced the figure of 10,000 consultants, so please simply explain how you are positioning today's presentation. Is it about your consulting services in 13 practice areas?

A4 (Onishi): We talked about transforming our business portfolio. We think the road ahead for Fujitsu is Uvance. We announced our target of 700 billion yen in Uvance revenue in fiscal 2025 and the consulting will contribute to our business to achieve this target. There is Uvance for delivering greater value, but we also wanted to give you an idea of the business portfolio we are creating in parallel with Uvance. To achieve 700 billion yen, we have high expectations, and we think we need a scale that is commensurate with that figure.

(Nishi): This is the last piece of the business model transformation in our medium-term management plan, and that is how we want to position it.

Questioner B

Q1: The market for consulting talent continues to be high, and you will also be hiring people from the outside, so how are you thinking about compensation?

A1 (Onishi): Fujitsu has already made various personnel reforms. Along with them, we also raised salaries. In strategically entering the consulting business, we have been considering this issue with Hiroki Hiramatsu, our Chief Human Resource Officer (CHRO). We will design a system that enables us to match market compensation levels.

Q2: The compensation system will be for consulting talent?

A2 (Onishi): It will either be completely independent, or it will be a job category in the overall Fujitsu system. It will probably be the latter, but we envision matching market pay levels for economic value.

Q3: *On a related note, I think that training and hiring through reskilling employees is also an investment. From the perspective of investment, how many tens of billions of yen have you prepared for achieving your goal of 10,000 consultants, including for acquisitions.*

A3 (Onishi): Regarding our investment, it is difficult to give a specific amount. But of this amount, we assume that there will be a return on our investment, which includes the high hopes we have. We are not going to reskill all of these 10,000 people, so of course we will also make acquisitions and hire people. If you imagine how much that will cost, it will be a reasonably large amount of money.

Q4: *How many billions of yen would that be?*

A4 (Nishi): Our compensation structure is such that we are able to acquire consultants. Our investment plan is designed for us to be able to achieve our goal of 10,000 consultants.

Questioner C

Q1: *My first question is, since Fujitsu's transformation was touched on earlier, I would like to go one step further and ask where Fujitsu is now in terms of transformation and what is the biggest problem the company is facing. I would like to ask you to answer this objectively, from the standpoint of a consultant, and not a Fujitsu employee. Somewhat related to this, I think that 6,000 employees is a significant number of people to reskill. Until now, Fujitsu has spoken a lot about making proposals to engineers and salespeople on the frontlines. What were the issues or challenges of employees who were unable to be reskilled? Among these employees, what people will you reskill and train? How will you persuade and develop them?*

A1 (Onishi): There are many barriers. I believe how far we have come would vary depending on the person who is judging how far, but, as a whole, I think we are about a quarter of the way there. I do not believe we are halfway there yet. This is because the behavioral change in Fujitsu, which is a large organizational body in Japan, is not yet complete. We are trying to connect employees, including those who have had a certain degree of behavioral change, to this consulting business, but this change is still an issue that remains. This also means that there are still teams that operate with the traditional behavior, and, of course, as you can imagine, there are many things that must be done outside of Japan as well. Now then, one past and current example of how we develop our talent and how we transform our talent is our salespeople and systems engineers. What is great about Fujitsu's salespeople is that, in a sense, they are close to customers. But is difficult to tell customers that they should stop doing something. However, there are customers that must be told this, and this is what is expected of us. We believe that we must create frontline talent who are able to say such things. With regard to systems engineers, I believe that they are extremely proficient at creating large projects, but there is a part of them that says they will never do anything beyond this. I think that there is often a relatively large distance between customers and systems engineers. I believe this is partly an issue with how contracts are made, not just at Fujitsu, but at other companies as well. There is a way of creating distance in them, and in order to shorten the distance between customers and make it so that the frontline employees are able to say no, we have created a new sort of role model for the new frontline office by integrating the organization on top of the structural transformations that we have made up until now. We have implemented several of these kinds of initiatives, such as having Account General Managers (AGM), who deal with customers

that are large companies on the frontlines. The talent that has been trained in this environment, in a sense, say things like you should not do that to customers (are able to say no). The other day, when I sat in on a meeting with a client, I was surprised that our talent was able to speak so skillfully. I think that there has been quite an increase in this sort of talent. But, as to whether or not we have reached the halfway point, I do not think that we have, so I believe we are around a quarter of the way there.

(Nishi): I was involved with training Fujitsu's talent when I was in an outside position. In my opinion, it is not that they lack the ability. My impression was that there were an incredibly large number of people who simply could not picture what they needed to do, but would be able to achieve it as long as they are able to picture it. I think the question now is how many employees we will be able to reskill and how quickly.

(Imai): I actually joined Fujitsu when I was a recent graduate. During my time here, I worked in systems engineering sales for around four years, but worked outside of Fujitsu for a long time after that. When I came back after this long period, I saw from the sidelines that Fujitsu is trying to change. I believe that what CRO Onishi said about us only being about a quarter of the way there might be a fairly harsh assessment. Personally, I think we are about halfway there. Our biggest problem right now is that the behavior of employees up until now has been over-adapted into our business model centering on systems integration business. The aim of consulting is not to supply a predetermined promised product, the product is to get the customer to come to a decision or to convince them in some way to take a different course of action. So, I think that, as CRO Onishi said, the substance of the contracts and wording of the contracts itself is quite different. There are a lot of people who join Ridgelinez mid-career, and we often talk about unlearning and relearning. If you try to change something using the methods that you have used up until this point, it will probably not change, so we use unlearning to make employees' minds a blank slate and then have them relearn a new approach to doing things once more. I believe that we probably must do at least this much. Actually, this is what I intend to consciously design in the reskilling program that CRO Onishi just mentioned.

(Takahashi): I would like to talk a bit about things from the perspective of product development. As CEO of Ridgelinez Imai just mentioned, from both the perspective of changing the business portfolio from systems integration to SaaS and application-based services, and the perspective of expanding from Japan to across the globe, I would say that we are still about a quarter of the way there. Although we are developing products in Japan, we still need to be able to produce more things, such as plans for products and solutions that will sell in Europe in the US. Not only this, I think that we still lack sensitivity (customer insight) as to what customers want. To address this, I think that we need to use Uvance to send more people to the frontlines and outside of Japan, as well as use development capabilities, such as GK Software SE and Enable Professional Services, to acquire more and more knowledge. We believe that Fujitsu can further increase the company's global governance, and, in order to strengthen our products and solutions, we will also need to develop more and more global talent, and to put out greater services in a 1:N relationship. To achieve this, we believe that the real challenge will not only be to gain industry knowledge, but how much faster we will be able to come up with proposals than our customers using our cross-industry knowledge.

(Nishi): I am in charge of Fujitsu's company-wide strategy. From this standpoint, my opinion is that, during the three years of the first half of the Medium-Term Management Plan under CEO Tokita, the majority of employees have accepted that organizational and work culture changes means there will be a change in behavior. Over these past three years, we have been trying to change our business model. In a vertical organization, trying to achieve the goals of the Medium-Term Management Plan means often crossing organizational boundaries to collaborate and get things moving. But is not that we cannot see what we need to do, we have sixteen established key measures, and are promoting them through cross-organizational activities at a reasonable scale. Expanding our consultants is one part of achieving the Medium-Term Management Plan. If we properly discuss and get the ball rolling on these 16 key measures, then, in terms of being able to achieve this, I am of the understanding that we are a quarter to halfway there. I believe that we can, and will, be able to make this happen in the remaining two years.

Questioner D

Q1. Please tell us what size companies you are targeting from the perspective of cross-industry approach, if any.

A1 (Onishi): In Japan, we are considering Fujitsu's portfolio of customers and societal impact, and are thinking of starting primarily with large customers. We believe we should also focus on comparatively large customers outside of Japan, and that we should also target the market for medium-sized businesses. We will work with customers who are highly motivated in regard to transformation and new business as well, such as, for example, a company that provides services for cosmetics and pets in the US.

Q2. From the perspective of transforming your business model, what specifically will change from the model you have had up until this point? Will it be your incentives and approaches?

A2 (Takahashi): For example, a major European mass retailer is interested in GK Software's solutions, and we are integrating Fujitsu's demand forecasting IP with GK Software's solutions. Like in this case, we are acquiring new IP through acquisitions, integrating it with our existing IP, and developing it for customers. The way that we provide cloud-based applications and managed services is also different from conventional systems integration. When working with the mass retailer I mentioned earlier, we will need to develop a comprehensive business model, so I will consult with CRO Onishi on the organizational structure as we move forward.

We are trying to convert a large portion of the target of 700.0 billion in revenue from Uvance to application-based and SaaS-based solutions by fiscal 2025. We will change our business model to ensure quality standards in a 1:N relationship, rather than the 1:1 relationship we have had until this point, and change our business model to increase its scalability.

(Onishi): At the end of January, we announced our management structure for the next fiscal year. Instead of a vertically integrated organizational model, we have chosen a management system in which leaders are designated in sales, services, delivery, and technology. The vertical integrated model that was used up until this point, in which, for example, a team specializing in a certain industry would deliver solutions to customers in that industry, has become difficult to function. We believe that promoting business through a system that manages sections for sales, services, deliveries, and technology is one measure for accelerating cross-industry growth.

Questioner E

Q1: I believe that you are working to increase the number of consultants for Uvance Wayfinders, but could you please tell us again about the aim behind deliberately designating it as a consulting brand? For example, is it to acquire talent, or to break away from the image of so-called traditional systems integration that customers have?

A1 (Onishi): In that sort of sense, there has been talk of it being the final piece of the puzzle. We have positioned it as a team that will link the transformation that we have worked on until this point and bring the world of Uvance to life, and have incorporated this message into the brand.

(Imai): I believe the brand message was on the last page of the presentation materials. Uvance itself was originally designated as a solution to solve societal issues. We believe that if we did not know how to structure and understand the initial issues and how to propose concrete solutions to the issues that we understand how to do this with, then even if we were to propose Uvance solutions, there would likely be a disconnect part way through. I believe that Uvance Wayfinders is for, as the name implies, bridging this gap.

(Onishi): So, I would say that we have been able to do business together very well with Ridgelinez, but it does not have a business model that benefits just one-side, as is often the case in consulting group companies in IT businesses, and is instead autonomous and self-reliant. Ridgelinez, however, is limited in size. One of the points we are working on is to scale it out a bit more, and we will stick to having 10,000 consultants. So, our message is that we will create a brand, unify it globally, and then align it with Uvance.

Questioner F

Q1: I believe during the explanation, it was mentioned that there were categories of Wave 1, Wave 2, and Wave 3 for the practices that you are able to provide. Please tell us what step each of these categories indicates, and how many of your current consultants are able to provide the higher level categories.

A1 (Onishi): We cannot provide specific numbers, but I would like you to view this as a timeline. We are preparing six practices for business consulting and seven for technology consulting. We would have liked to release them all at once, but since last year, we have been prioritizing time. The role models for the three Wave 1 practices are also complete, including for the certification process. Several consultants have been certified and have started working.

Wave 2 is currently in progress, and we will be putting Wave 2 consultants out on the market. The overall size will be on the scale of 2,000 to 10,000 people.

(Imai): Ridgelinez itself is providing services, so we are already providing services for those in Wave 2.

Q2: I believe that the Fujitsu Group as a whole will train 10,000 consultants, but I think that currently, in the Fujitsu Group, Ridgelinez is leading the way in terms of consulting services. I assume that the Fujitsu parent company will also have a substantial amount of senior-level

consultants. In this case, how will you approach differentiating, dividing roles, and allocating talent between the Fujitsu parent company and Ridgelinez? Ridgelinez is an independent subsidiary, so it does not have vendors, and I do not believe the Fujitsu parent company is a consulting company for providing Fujitsu's solutions. So please explain the division of roles within the Group.

A2 (Imai): If Fujitsu is going to implement a full-scale acceleration of the company's consulting business on such a scale, I think it is only natural to ask questions about the Fujitsu parent company's relationship with Ridgelinez. Ridgelinez, for one, focuses on business consulting. The advantage of it being slightly smaller, however, is that it is easier to test new things at the subsidiary. I think that a good relationship between the two would probably be one in which various consulting services are tested at Ridgelinez, and if scaling the services would be beneficial to the world and people, then Ridgelinez would collaborate with the Fujitsu parent company and develop the services through Uvance Wayfinders.

(Onishi): It is a comprehensive brand, so Ridgelinez is also included in Uvance Wayfinders. In this, it is currently divided by independence and coherence to technology. There is a possibility we will think a bit more about what Ridgelinez should be in the medium-term.

(Nishi): The organization is only a means, and our means may change to suit our objectives, so I think we will probably make changes as we implement it.