

# 1. Financial Capital CFO Message



A vision and financial base for business transformation with a view to the medium-term



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## Q.1 This is your second year as CFO. What are your main concerns in this role?

An important mission as the CFO, I believe, is to create a framework that can stand the test of time. Naturally, we need to proceed steadily in line with the current management scenario, in other words, to "stay the course over time." However, more than that, it is vital to put in place a framework that stands the test of time. This means we must constantly keep in mind what management should look like in light of our long-term vision and then forge a path forward to achieve it.

There are two important things for carrying out this mission. One is considering sustainable growth and approaching value creation over a long-term span. By "long term," I mean looking ahead 30 years into the future. To completely change a company's culture requires a full generation change; that takes 30 years. Of course, the medium-term horizon of three to five years is also important, but it is necessary to look beyond that to change the system of value creation.

The other important thing is to avoid, to the extent possible,

leaving any "negative assets" to the next generation that will support Fujitsu in the future. We focus on eliminating current negative factors, such as risk factors and volatility, as much as we can.

## Q.2 Looking back on your first year as CFO, what issues did you feel needed addressing?

Through fiscal 2013 and 2014, we benefitted from favorable market conditions, such as beneficial foreign exchange rates with the depreciation of the yen. I think this enabled us to lift profits beyond our real capabilities. Of course, there were also areas where we achieved good results as planned, such as with the services business, but our profit level continued to be yet again highly susceptible to special factors. So we are not necessarily satisfied, and indeed most people are dissatisfied with this. In fiscal 2015, we will strive to improve our business structure to stabilize our profits, and I hope to completely resolve any discontent on that point.

In terms of capital expenditure, generally we invested in fields where we can envisage future scenarios clearly. In Technology Solutions, we opened new datacenters in and outside of Japan. In Device Solutions, we accelerated our investment in manufacturing facilities for LSI devices and semiconductor packages.

## Q.3 Can you give an overview of the ¥30.0 billion in costs for business model transformation in fiscal 2015?

Our operating income for fiscal 2015 is currently projected at ¥150.0 billion. The consensus in the capital markets at the start of the fiscal year, before the forecast announcement, was ¥210.0 billion. The difference of ¥60.0 billion is the total of our projected costs of ¥10.0 billion for the spin-off of our semiconductor subsidiary, ¥20.0 billion for foreign exchange factors, and ¥30.0 billion in costs related to business model transformation.

Business model transformation costs are for a review of our products based on the concepts of "market-driven" and "customer-focused." Our objective is to transform our business model by rebuilding a new global business model.

Business model transformation costs of ¥30.0 billion include around ¥5.0 billion in expenses related to a domestic network business reorganization we carried out in the first quarter, as well as around ¥20.0 billion expected to be used for costs relating to EMEA business structure reinforcement in the second half. We are anticipating other costs to be incurred in the second half as well, but we plan to offset these with gains from the sale of assets and so forth.

**Q.4**

**Could you explain the background to the decision to carry out this business model transformation?**

If you look at Fujitsu’s recent business results, the Company is making a reasonable profit, but we are not satisfied with that level. We are working with a sense of urgency because we believe that we must take action properly now if we are to ensure prospects for future growth. Rather than being trapped into the pursuit of short-term profits, we have decided to look at the necessity for transformation with a long-term view. By getting onto a growth trajectory as quickly as possible, we aim ultimately to achieve sustainable growth and to increase it even further after that.

Fujitsu’s current business model is one that our past management has been pursuing for over 10 years. Specifically, the model pursues respective synergies (vertical integration) between the three business axes of “services,” “hardware,” and “devices,” and provides these vertically integrated services to customers globally. Fujitsu’s business portfolio covers a wider range than that of any other company operating at a comparable scale. If we can realize synergies between our businesses that will be a strength in itself, but we are not achieving unrivaled excellence in all of our business fields. Moreover, since the portfolio requires a wide range of business investment, it also requires a large amount of funding. To continue global innovation, we first have to focus our scope to a degree and accelerate selection and concentration to realize a strong company.

There will be a continued shift from areas such as servers, storage, and networks to software. Moreover, we will see various services centered on this software proliferating, and an expansion of businesses providing “service + software.” In response to these trends, the hardware field is likely to polarize between trends for the high-end market and trends for the low-end market, such as what we are seeing in PCs and mobile phones. We will continue to maintain our hardware business, but with competition growing fiercer in the low-end field, our business in this field will not be able to continue as it is. Furthermore, in the services business, which includes system integration, we have continued a rather costly reliance on our own resources or those of our domestic partners up until now, but we are planning to make a bold step toward reducing costs in this area by promoting

use of offshore resources and so forth.

For some time now, investors and analysts have been pointing out to us the need for this business model transformation, something I too had been aware of. I think the time has come for us to tackle this transformation seriously. Looking back, I think we might have taken a few detours on our way to reaching this point.

**Q.5**

**What is your future direction on shareholder returns, such as your ROE target, dividends, and so forth?**

If we set out to maintain an ROE at the 15% level, for example, then assuming we retained all profits internally, we would need to achieve 15% profit growth every year—which is quite a high hurdle to set. If that level of profit growth proves difficult, then our only way to maintain ROE is to increase dividends and distributions.

We expect the effects of our business model transformation to emerge in fiscal 2017. By then, we should have all of our financial indicators at satisfactory levels, and will be able to turn our full attention to returning profits to stakeholders, with a focus on ROE.

**Q.6**

**Please tell us your thoughts as CFO on investments in non-financial capital such as research and development, intellectual property, human resources, and the environment.**

I believe that we need to select and concentrate our businesses to continue innovation globally; the same applies to the non-financial capital that supports business. For example, we should be align our patents and other assets with our business portfolio by changing our approach to holding and using them, rather than simply aiming to accumulate large numbers of them. So we will also be starting work on transforming our non-financial capital going forward.

The most important management capital within non-financial capital, I believe, is human resources. Employees are our “human capital” and it is important to develop them ahead of changes in our business.

Looking ahead, we will also focus on developing the capabilities of our researchers and engineers, premised on our business model transformation. We will also focus our efforts on enhancing non-financial capital, including accumulating IT-related expertise.