Summary Translation of Question & Answer Session at
Management Direction Performance Summary
and FY 2022 Financial Results Briefing for Analysts

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Location: Live-streamed from Fujitsu Headquarters, Tokyo
Presenters: Takahito Tokita, CEO
Takeshi Isobe, SEVP & CFO

Questioner A

Q1: In your forecast for fiscal 2023, you are projecting 30.0 billion yen in higher operating profit in Technology Solutions from productivity improvements, but please tell us specifically what these productivity improvements will be.

A1 (Isobe): I discussed this issue in my presentation, but these are not new special measures. Up until now we have been pursuing such initiatives as standardizing our delivery work and expanding use of our offshore centers, and we will further broaden these initiatives this fiscal year. In our Solutions & Services business, we are making progress in improving our gross margin, and in fiscal 2022 we improved our gross margin by roughly 2 percentage points compared to the previous year. That resulted in an increase in operating profit of around 25.0 billion yen, and in fiscal 2023 we think we will have no problem in achieving continued improvements to yield a level of around 30.0 billion yen.

Q2: In your Medium-Term Management Plan starting this fiscal year, please tell us what kind of enhancements will be the centerpiece of your efforts to improve your business outside of Japan.

A2 (Tokita): For many years we have been working on shifting our business toward software and services, and not just in our regions outside of Japan, but in Japan, too. In the Americas region, while it was an extremely difficult initiative, we succeeded in achieving that shift in a short period of time. We think that experience will serve as a good reference model for us. In our business in parts of Asia and Europe, there are areas in which the ratio of our software and services business relative to products still remains low, but we want to raise that ratio and shift to a stable and highly profitable business structure.

Questioner B

Q1: In fiscal 2023, you are planning for an increase in operating profit of around 90.0 billion yen from your Solutions & Services business. I think you have also factored in improvements to your gross margin, but it seems to me that a fairly large part of the increase in operating profit that you have factored in is from higher sales. Please tell us how much confidence you have in achieving that. In addition, for System Platforms, in part because of the impact of upfront investments, you are planning for a decline in operating profit of approximately 35.0 billion yen. Here, too, how confident are you?

A1 (Isobe): Regarding our forecast for Solutions & Services for fiscal 2023, roughly 30.0 billion yen in higher operating profit is from productivity improvements, and we think our prospects for achieving that are fairly good. On the other hand, roughly 60.0 billion yen of the higher operating profit that we have factored in is from higher revenue, and the assumption we have made here is that sales will increase by 9%, so it all depends on whether we can achieve that. The growth rate of the digital business market is high, and not just in Japan but globally. We think that our Uvance business will grow further. The volume of our business in the “For Stability” category is still very high, and here we acknowledge that the market growth rate is low, but through a mix of our business there with our business in the fast-growing digital business market, we think we can achieve an increase in sales of 9%. In addition, looking at the status of orders in the fourth quarter, we have already accumulated an order backlog in Japan that is about 10% higher than it was in the previous fiscal year. Therefore, for the full year we aim to somehow achieve sales growth of 9% and achieve our operating profit target. The figures planned for System Platforms are the result of a realistic assessment of demand trends. In network products, we are heavily dependent on certain major telecom carriers, and there are cycles to their investment spending trends. With the expansion of 5G, the initial spurt of demand has peaked. In mobile systems and photonics, as well, even as sales decline, we are entering a cycle in which we will need to make large investments for the switch toward open standards. Therefore, for System Platforms as a whole, we are projecting lower revenue and lower profits. We would certainly like to be making forecasts for each business that show healthy growth, but we try to anticipate what the actual business conditions are, and we have put together a forecast for Technology Solutions as a whole in which there is an expansion in earnings.

Q2: From fiscal 2022 and into fiscal 2023, I think the resolution of the global chip shortage has the effect of increasing your profits, but how has that been factored into your forecast?

A2 (Isobe): Basically, the impact of the global chip shortage has already been resolved. Because of that, our view is that the current situation will continue. In the first half of fiscal 2022, because the global chip shortage had a negative impact, please understand that, to a certain extent, our forecast factors in the positive impact of the recovery from the global chip shortage. I think that products that were impacted by delays in fiscal 2022, such as x86 servers and open storage equipment, in particular, will gradually recover, but even with factoring in that positive impact to a certain extent, we still have the severe outlook you see in our forecast for fiscal 2023.

Q3: I would like to confirm some points about your shareholder returns. Since your shareholders’ equity ratio, or equity attributable to owners of the parent ratio, is nearly 50%, I would think even higher return to shareholders would be feasible. Will that be a point that will be included in your new Medium-Term Management Plan? Or should we assume that, for the foreseeable future, you will continue the current trend of having a level of shareholder returns on the scale of 200.0 billion yen, including share buybacks of 150.0 billion yen?

A3 (Isobe): We have explained that the level of shareholder returns in fiscal 2023 will be at a level that is slightly higher than fiscal 2022. We promoted an expansion of shareholder returns starting in fiscal 2022, but that was based on a plan in which we could anticipate our cash generation capacity over a certain period of time. Because that plan also factored in cash inflows stemming from the sale of non-core assets, our allocation to shareholder returns in fiscal 2022 was larger. Accordingly, unless there is some kind of major change, our thinking is to use the present level as a baseline for shareholder returns, and gradually increase the level over time. In fiscal 2023, in particular, the profits from our business, excluding special items, will not significantly increase, so we are thinking to keep shareholder returns at about the same level. In terms of our total payout ratio, we are already over 90%, and we do not want to have a policy of increasing returns when there is a large inflow of cash from the sale of an asset, and then having to decrease returns when cash inflows decline. Rather, we are seeking to anticipate our position over a certain period of time, such as the next 3-5 years, and implement returns at the earliest possible stage that will still be stable for us. Based on our thinking that highly volatile shareholder returns are not desirable, we would like you to understand why we are basically keeping the present level in place.

Questioner C

Q1: In Solutions & Services, despite the impact from PFU no longer being a consolidated subsidiary, you are planning for a strong increase in revenue of 9%. In what fields and industries do you anticipate revenue to increase?

A1 (Isobe): Increasing revenue in Solutions & Services will be our biggest challenge for this fiscal year. We expect one area of growth will come from an expansion of business from our DX-relating offerings, mainly Uvance. The demand for DX business is exceedingly strong, so one of our challenges will be to shift our focus to DX business and see if we can pivot our business more quickly than before. The current status of orders in Japan is solid, with our backlog of orders up 10% compared to the previous year. Our coverage ratio for annual revenue is currently about half, so we believe that we will need to maintain this momentum. In addition, our plan for 9% growth is also driven by the fact that, in regard to pricing, we will provide high value-added services and offerings compared to conventional contract-based businesses. For fiscal 2022, we regret that we did not achieve our revenue target, especially with hardware products, but, based on the current situation, we believe that this is a target that we are fully capable of achieving.

Q2: Is it your impression that, rather than specific industries, you will achieve growth in all of your major industry segments, especially with modernization projects?

A2 (Isobe): That is correct. In almost all areas, the book-to-bill ratio at the end of the year was above 1. There are some areas that are a bit stronger or weaker, but overall, we anticipate that we will achieve growth.

Q3: In fiscal 2023, System Platforms is expected to have lower operating profit. If you divide Network Products into Mobile Systems and Photonics, what do you anticipate the drop in demand will be for each?

A3 (Isobe): We anticipate that there will be a greater decline in demand in the North American market than in Japan, and that both businesses will peak in North America. In North America, we only offer base stations to specific customers, and the initial demand for them has peaked. In photonics, the initial demand will peak as major telecom carriers shift to open standards, and the next cycle will begin. Please understand that demand is expected to decrease significantly in International Regions Excluding Japan, while demand in Japan will only decrease slightly in total.

Questioner D

Q1: In fiscal 2023, regions outside Japan are expected to have a slight increase in revenue and a substantial increase in operating profit. With the decline in current orders, how much confidence you have in increase revenue? Also, what will contribute to an increase in operating profit?

A1 (Isobe): Our hardware products business, such the x86 servers we sell in the Europe Region, is included in regions outside Japan. One factor for our projected increase in operating profit is our outlook on foreign exchange. For the current fiscal year, we anticipate an exchange rate of 130 yen per US dollar. Compared to fiscal 2022, the effect of foreign exchange on costs is structured in a way that will contribute to an increase in operating profit. In regard to expanding revenue, although there are no extraordinary factors, and current orders are soft, in regions outside Japan, there are multi-year contracts for operations services. Orders in the Europe Region in the second half of fiscal 2022 may seem rather weak, but, as we have won large-scale renewal projects in the first half of fiscal 2022, we do not foresee a significant loss in revenue in fiscal 2023. In addition, in the Americas Region, orders in fiscal 2022 were down by 10% compared to the previous year, but the main cause for this was a large order we received from a multi-year public sector project in Canada we won in fiscal 2021. On the other hand, as that project generated revenue in fiscal 2022 and will generate revenue in fiscal 2023, we do not foresee it having a negative impact, and believe that this will lead to an increasing trend of revenue. Although orders should be stronger than the current level, our revenue forecast for fiscal 2023 was planned based on our current order backlog. Unfortunately, in regions outside of Japan, we do not anticipate an increase in revenue based on a special factor, but we have positioned fiscal 2023 as the year that we will put a framework in order so that regions outside Japan will once again be able to grow, especially in Europe and Asia.

Q2: Please tell us what GK Software's contributions to the consolidated results for the current fiscal year will be.

A1 (Isobe): GK Software is classified under Solutions & Services, not International Regions Excluding Japan. Rather than develop GK Software's by positioning it in International Regions Excluding Japan, we intend to use GK Software as one of the drivers to create globally uniform offerings. I would like to explain the growth of Fujitsu Uvance, including GK software, during the announcement of our next Medium-Term Management Plan, which is scheduled for May.

Questioner E

Q1: Regarding the gap between your forecasts in January and your actual results, you essentially explained that System Platforms did not meet its targets, but in addition, operating profit for Solutions & Services was 233.7 billion yen when the target was 255.0 billion yen. Could you explain in greater details the factors behind these results?

A1 (Isobe): There are two main reasons. The first is that, mainly for Fujitsu Japan, the hardware sales that are included in our services business fell short of our target. Revenue from servers and storage systems, mainly in the medium-sized enterprise market, fell short of our target. Another reason was because there was a challenging project, and the slight losses from an unprofitable project had a negative impact. The biggest negative impact was that we could not close certain deals by end of fiscal year for both System Platform and Solutions & Services because the delivery of hardware products did not increase as we had anticipated.

Q2: Please share with us how much one-off special demand there was for optical transmission equipment in North America in fiscal 2022 and how much of a pullback there will be in fiscal 2023.

A1 (Isobe): We anticipate the pullback in fiscal 2023 will be approximately 25.0 billion yen.