

Summary Translation of Question & Answer Session at FY 2025 First Quarter Financial Results Briefing for Analysts

Date: July 30, 2025
Location: Live-streamed from Boardroom A on the 20th Floor of Fujitsu Technology Park
Presenter: Takeshi Isobe, Representative Director, CFO

Questioner A

Q1: I want to ask about the environment for IT orders in Japan. You mentioned that, for a variety of types of projects, orders were lower because of a pullback from the prior year, but if we just look at the actual order environment excluding the pullback effects, to what extent did it grow in quantitative terms?

A1: If you look at our orders on a quarterly basis, because our business involves many large customers, please understand that timing differences from quarter to quarter can result in large swings up or down of several billions of yen. For example, in the Enterprise segment, orders fell 3% compared to last year's first quarter, but if we exclude the large-scale multi-year project orders we received last fiscal year, our first quarter orders for this fiscal year would be up 9%. In terms of the trend of our business, our sense is that we are close to the point at which we will see an expansion in our potential deal pipeline. Of course, whether we win a deal or not depends on whether we can prevail in the competitive environment, but our view of the trend is that the number of potential deals is significantly expanding. In that sense, the total scale of the potential deal pipeline that we want to win as orders in the second quarter and subsequent quarters is around 15% higher than it was in the same period a year ago, and whether our chances of winning them are high or low is no different from any other year, so we consider this to be close to the actual trend. As for our order backlog, the sales revenues we are anticipating for the remainder of the year are approximately 13% higher than the same period last year, and although there will be some fluctuations from quarter to quarter, we do not anticipate any major change in the trends. On the contrary, we are more concerned about being able to put together an efficient delivery organization to meet the strong demand trends, so our focus is on putting together an organization, also incorporating AI, so that we do not fail at any of these projects.

Q2: It appears that the growth rate for orders in the Vertical areas of Fujitsu Uvance is accelerating, but what is driving that growth, and how sustainable is it?

A2: One of the biggest drivers in the Vertical areas are offerings for retailers. We have been increasing the offerings that use the IP of GK Software, a company we acquired. Another area where orders have been growing relatively fast is our release of Fujitsu Core Banking xBank, a cloud-based financial system that enables each function to be delivered as a service.

Q3: I would like to ask about the improvement in profitability in Service Solutions. The overall gross margin for Service Solutions is improving, as evidenced by the trend to date, and your operating expenses have not risen that significantly, so it seems that you are appropriately

applying leverage. On the other hand, looking at each sub-segment, it appears that the profitability improvement for Regions (Japan) is decelerating, but is this just temporary? Then again, profitability for Regions (International) is strongly improving. For both Regions (Japan) and Regions (International), please tell us the background behind their profitability improvements and how you view their future prospects.

A3: For Regions (Japan), there has not been any particular change in circumstances in terms of profitability improvements, but a few unprofitable projects emerged. As demand increased and projects began to overlap, several unprofitable projects emerged, and that held down profitability. Aside from that, we had been expecting productivity improvements of approximately 1.5%-2%, but with the unprofitable projects, we are looking at improvement for adjusted operating profit in the first quarter of approximately 0.5%. On top of that, we are also increasing our investments in the consulting area, so for Regions (Japan), please understand that the main factors were the emergence of a few unprofitable projects and a slight increase in operating expenses.

For Regions (International), basically profitability is improving. The size of the business is still small, and it still has a long way to go to expand, but we are seeing clear results in profitability improvements from structural reforms and the transformation of its business portfolio. Another factor was that there were several projects with good profitability, but the main factors boosting profitability are the results from structural reforms and the transformation of its business portfolio.

Q4: *By how much did the unprofitable projects increase in Regions (Japan)?*

A4: It is not an amount that would cause alarm, but the impact was on the scale of approximately 2-3 billion yen. Even excluding the impact of the unprofitable projects, the improvement in the adjusted operating profit margin may appear somewhat weak, but we have been working to recruit consultants, so please understand that, compared to before, the operating expenses of Regions (Japan) are now in an investment phase. To further raise revenues and the adjusted operating profit margin of Regions (Japan), we need to expand our ability to handle very effective deal discussions, and that is why we need to improve our consulting capabilities, so we are leaning a bit on the heavy side for investments.

Questioner B

Q1: *Relating to the Trump tariffs, there is also talk that Japan would invest in the US at a scale of 80 trillion yen. My understanding is that Fujitsu, from this period, has indicated an intention to expand investments outside of Japan, including acquisitions. Do you have any thoughts about the role Fujitsu should play in the US market?*

A1: Regarding US-Japan relations, I am not in a position to talk big about the role Fujitsu should play, but we do want to expand our business in North America. Currently, the scale of our business in the Americas region is approximately 50 billion yen per year, so it is still extremely small. Depending on whether we win a few larger-scale projects, our growth rate in orders can either double or fall by half from quarter to quarter. With such a small scale of business, it will be difficult to achieve growth in the North American market, so we need to take on the challenge

of expanding our business in ways we have not tried in the past, including acquisitions and business collaborations. It is not that we are only thinking of acquisitions, but we scaled down our business in the Americas Region to place it on a sounder footing. Now, to grow our business there, if we only think about doing our best to expand our provision of global offerings, we will not be able to keep pace with the speed of market developments, so we do not rule out acquisitions as an option. Whether that would contribute anything near the scale of Japanese investments in the US as reported in the media is difficult for me to say.

Q2: I would like to ask about the public sector field within Service Solutions. I have the impression that other companies are performing well in the public sector field, but your orders in the Public & Healthcare segment appeared rather weak. How does Fujitsu differ from other companies? Please tell us about the current state of Fujitsu's public sector business and its prospects, including the trend in orders if we exclude large-scale projects.

A2: If we just look at orders in the Public & Healthcare segment in the first quarter, they appear weak, but we are expecting large-scale governmental orders in the second and third quarters. Including those orders, our full-year plan for orders is relatively strong, so we are not very concerned about it. In addition, we categorize national security-related business in the Mission Critical segment. For that reason, it is going to depend on what other companies include in their public sector field category, but it might be best to add together their figures and look at the field as a whole.

Questioner C

Q1: In relation to your plan, how was your progress in terms of the contribution Fujitsu Uvance is making to your overall profit?

A1: Both in terms of revenue and profitability, in relation to our plan our progress is on track. Since profitability in the Horizontal areas is still low, however, the overall profitability of Fujitsu Uvance compared to our normal systems integration business. If we expand the Horizontal areas and, on top of that, further develop our highly-profitable Vertical areas, we will be growing in both scale and profits. With further expansion of the Vertical areas, Fujitsu Uvance should surpass the normal systems integration business in terms of profitability. Both revenue and profits are growing, but the growth in revenue is very strong, so the absolute amount is making contribution to our gross profit to some extent.

Q2: Excluding the impact of foreign exchange and structural reforms, what is the trend of business in Regions (International)?

A2: Excluding the impact of foreign exchange and structural reforms, revenue grew slightly. Regions (International) has not yet reached growth mode. This fiscal year we are in the final stages of scaling down its business and building muscle, so expansion is difficult. Regarding the Americas Region, the structural reforms are mostly over, so we are thinking of ways to grow the scale of a scaled down business, but for the overseas business as a whole, our highest priority for our current Medium-Term Management Plan is to put these businesses on a solid footing, so we have not been able to expand its scale.

Questioner D

Q1: First quarter sales of servers appear to have been weak. Could you please explain the progress you have made with them?

A1: First quarter sales in System Products were weak. In Europe, in particular, in addition to the decrease in sales when converted into yen compared to the prior fiscal year from the impact of foreign exchange movements, there was also a negative impact of 17 billion yen from such factors as changing the sales of low value-added licenses from gross revenue to net revenue due to the IFRS revenue reporting standards becoming stricter. In addition, in Europe, sales were also impacted by the narrowing down of handling unprofitable third-party products. Sales in Japan, on the other hand, were comparatively strong. Business efficiency is improving at Fsas Technologies Inc. (FTI), and they are also starting to increase channel sales and expand business with customers in the data center business. In addition, by significantly narrowing down product model numbers, it has made progress on becoming more efficient and reducing inventory. Business in Japan, primarily FTI, is growing steadily in both orders and revenue.

Q2: Please tell us if the first quarter operating profit for Regions (International) in Service Solutions was above or below your plan. Please also tell us if there were any special factors involved in this.

A2: Operating profit in Regions (International) was slightly better than our plan and exceeded it by approximately 1-2 billion yen. While it is true that there were several highly profitable projects, it is my understanding that overall profit margin has been raised. Thinking of the large operating loss Regions (International) had in the past, having an operating profit of 7 billion yen in the first quarter is an improvement. But an operating profit margin of 5% is not sufficient, and we are not satisfied with it being at this level, so we will continue to firmly build it up.

Questioner E

Q1: Will revenue in the public sector IT in Japan gain momentum? Can you also tell us when you picture the orders and pipeline that you anticipate for the second and third quarters will be turned into revenue?

A1: First quarter revenue in the public sector grew by a little under 4% from the prior fiscal year. For the second quarter, in our plan we are anticipating a growth of approximately 3%. We expect that revenue will be quite skewed to the second half of the fiscal year, so looking at the full year, we anticipate a growth rate of approximately 5-6%.

Q2: Please tell us the proportion of overall revenue in Japan that public sector revenue accounts for.

A2: It exceeds 30%.

Q3: I would like to ask a question about modernization. In the first quarter, in Service Solutions, excluding Fujitsu Uvance, revenue was strong, up 25%, but is there a risk of an outflow of customers going with other companies as you make progress with the modernization of Fujitsu's mainframe server customers?

A3: For the modernization from the mainframe and UNIX servers, we are aware that our competitors are aiming to replace us. But we believe that, by meeting the needs of customers, we will not find ourselves in a situation in which we lose market share. On the other hand, in the legacy migration market, both the scale of our revenue and our market share are experiencing strong growth. This is the result of Fujitsu establishing the Modernization Knowledge Center and building an efficient delivery system that is able to handle it, including the modernization of other company's existing customers. Going forward, we will utilize such things as the analysis of existing program assets that uses generative AI to further increase its efficiency and quality.

Questioner F

Q1: I am of the impression that, although there was abundant growth of more than 15% in the business deal pipeline in Japan, there was still insufficient profitability improvements and revenue growth ratio in the first quarter. As you strive to achieve your plan for this fiscal year, is it the case that, although there are many business inquiries, the delivery capabilities for those deliveries is becoming a bottleneck?

A1: We believe that our delivery capabilities are insufficient to meet all of the demand, and are currently working to increase these capabilities. But the reason why the revenue growth rate for the first quarter was low is not because delivery became a bottleneck, but rather an issue of timing, in which we did not have any large-scale projects. To tell you the truth, when the pipeline grows by 15%, it is difficult to complete all orders. Our revenue growth target for business in Japan for the full year is 9%, and we believe that our current delivery system is able to support a growth rate of approximately 10-11%. As we cannot do outsourcing in which we would be unable to guarantee quality, we are taking a conservative approach to our revenue plan that takes into account global trends. We would like to use AI to quickly increase our delivery capabilities, but this has proven to be rather difficult, as this initiative has not made much progress.

Q2: Going forward, rather than focusing on how strong business inquiries are, do you think it may be better to focus on if the deliveries are proceeding smoothly or the emergence of unprofitable projects?

A2: That is exactly right. If we take on an excessive amount of orders because business inquiries are strong, then we will be unable to establish a system, leading to the risk of the emergence of unprofitable projects and a decline in quality. Because of this, we believe that it will be critical to quickly utilize AI for the parts that can be simplified and automated. As for quality, if we do not make sure to ensure it, then we will later suffer a significant amount of harm, so we will proceed steadily with that in mind and ask that you focus on this. In addition, we are proceeding cautiously while the Purchasing Department regularly checks not only how pressed we are with business, but also the status of our partner companies.