

# ANNEX BULLETIN

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## JAPANESE COMPANIES

Updated 1/31/07, 10:30AM PDT

### *Analysis of Fujitsu's Third Quarter FY07 Business Results*

# Sales Up, Profit Down

## *Stock Drops on Third Quarter News*

SCOTTSDALE, Jan 31 - Japan's largest computer maker's revenues rose 7% in the third quarter of its fiscal year 2007 (that ends March 31), but net profit plunged 67%, sending its shares down 1.5% for the day (Jan 31) to 905 yen. In the fourth (calendar) quarter, Fujitsu shares lost 4% percent while Tokyo's benchmark Nikkei average rose 7%. They are also down sharply since early January, when they reached a recent peak of just over 1,000 yen (see right chart).



## Fujitsu Ltd.



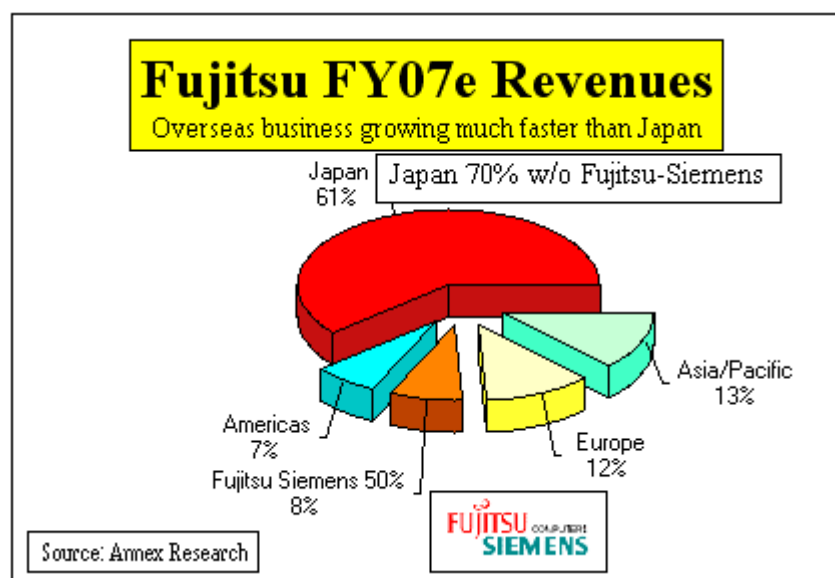
**Fujitsu shares drop on decline in third quarter profit; sales up 7%**

The company attributed the sharp drop in earnings to lower profitability in PCs and logic LSI devices, due to price competition and slower demand, especially in Japan. Fujitsu said the profitability was also adversely affected by higher selling, general and administrative expenses associated with operational expansions in the UK and North America, continuing heavy investment future networking products.

But we could not help but notice that Fujitsu's systems business is actually losing money. In the latest quarter, the "Systems Platforms" lost 9.2 billion yen (about \$77 million) for a 6% negative operating margin, on a sales decline of 1.5% (in yen). But this loss was more than offset by a resurgence of Fujitsu's services, whose operating profit soared by 42% to 23.7 billion yen (about \$200 million) on a 9% revenue surge.



Not all Fujitsu systems hardware were slumping. Sales of optical transmission systems and UNIX servers, for example, were strong in the quarter, the company said.

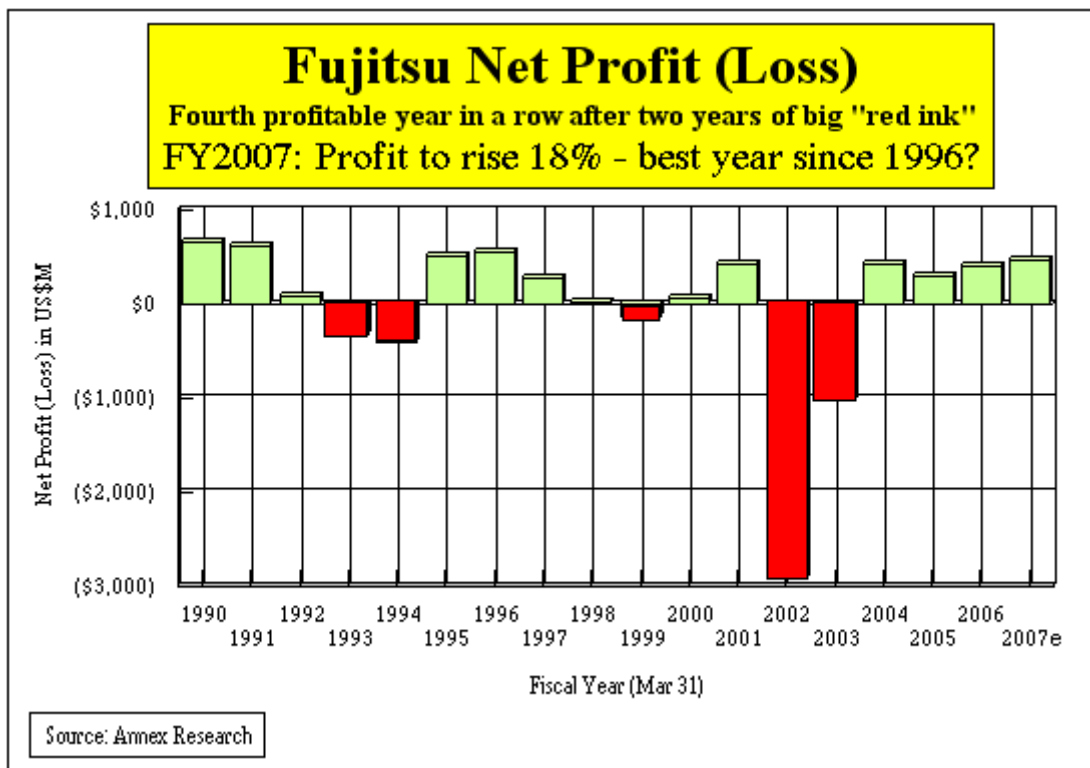


Fujitsu's overseas business outpaced the domestic sales by five-fold in the third quarter (up 14% vs. up 2.6% in Japan). The margin was even wider in the Technology Solutions segment, which includes both systems and services. This is where overseas sales jumped by 21% while Japan's revenues remained flat.

The PC and mobile phone sales were also stronger overseas (up 17%) than in Japan (up 1.5%), fueled by record unit shipments of HDDs for notebook PCs. But the overseas business for the Device Solutions (electronics components) segment declined 11%, while its sales in the (bigger) Japan market grew 14%, for a 2.7% combined revenue increase (in yen).

## Business Outlook

As a result of the "sharp deterioration in market conditions in LSI devices, and lower sales of PCs in the third quarter," Fujitsu has reduced its full-year FY2007 projection for net sales by 2% to 5.1 billion yen (about \$42.9 billion).



But the company left unchanged its profit forecast of 80 billion yen for the year ending March 31, up 18% over the year earlier (in constant currency), but slightly below a consensus estimate for a net profit of 83.1 billion yen by 20 analysts polled by Reuters.

That expectations shortfall, as much as anything else, probably accounted for a slight dip in the stock on Jan 31. For, despite the slowdowns in certain business segments, we expect Fujitsu' FY2007 to be the most profitable year since 1996, though by a smaller margin than in our earlier forecast (see the table below).

[Click here](#) for a detailed FY2007 forecast for Fujitsu (for Annex clients only)

*Happy bargain hunting!*

*Bob Djurdjevic*

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