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JAPANESE COMPANIES

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Analysis of Fujitsu's Fiscal Year 2007 Business Results

"Best Ever" Profit Year Comes Up Short Big One-Time Gain on Securities Sale Masks Profit Decline

ST. LOUIS, Apr 28 - At a first glance, it looked like the fiscal year 2007, ended Mar 31, was Fujitsu's "best ever" profit year. The \$856 million-net profit seemed 41% higher than the company's bottom line a year ago. But there is a catch. A big gain from a one-time sale of securities (Fanuc, \$627million pretax; \$346 million after-tax est.) padded an otherwise lower net income (see the green bar on right thumbnail chart). Which is how an apparent 41% net profit surge became a 16% decline, on an apples-to-apples basis.



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Stock up 1% in response to good year-end finish, still down in '07 to-date

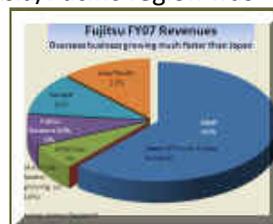
The Tokyo stock traders and investors weren't fooled, either. Even though they nudged up the stock a smidge the day the final year-end results were released (Apr 26), Fujitsu was down about a point the following day, and is down 23% this year since the high set in early January. The outlook for the current fiscal year isn't particularly encouraging. The company is forecasting only a 75 billion yen net (about \$625 million). That's only slightly higher than the profit Fujitsu recorded a year ago, when it didn't have the extra gains.

Fujitsu lamented in its release that in its product businesses global competition intensified, making it difficult to improve profitability. But some of its woes are of its own making.

In UNIX servers, for example, for there has been increasing demand worldwide, there was a delay in releasing the new line of servers jointly developed with Sun Microsystems. The line was eventually launched only a few days ago under the SPARC Enterprise brand name. It remains to be seen if the customers stay loyal to the Sun-Fujitsu line. For, many have been wooed in the meantime by superior IBM and HP Unix servers, as Sun's disappointing first quarter results attest.

Business Segment Analysis

Geographies. Fujitsu's global revenues were up 6% in yen, but edged up only 1% in U.S. dollars to \$42.6 billion. The Americas region reported the best growth rate (up 16% to \$3.7 billion), followed by Europe (up 11% to \$6.2 billion). The Asia/Pacific region was up 7% to \$6.7 billion, while the business in Fujitsu's biggest domestic Japanese market shrank by 2% to \$34.1 billion.



What may be particularly troubling for investors is that operating income in all regions except Europe was down by varying percentages (see [Table 2](#)). And even in Europe, it was merely flat compared to that a year ago.

In the Americas, Fujitsu blamed its optical transmission systems and retail solutions for the declining profitability (down 41%). In China and the rest of Asia, the declining profit malaise (down 25%) was more general in nature.

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Overall, Japan continues to be by far the most dominant part of Fujitsu's business. It accounts for 61% of the total including the company's 50% interest in the Fujitsu Siemens unit, or 67% without it (see the thumbnail chart on the right). And its operating income is down "only" 2%.

Hardware. Japan's dominance is even more pronounced in the systems hardware business. In fact, for Fujitsu's efforts to become a truly global competitor, the overseas vs. Japanese shares of revenues have not changed much in the last 22 years (see the right thumbnail chart).



Fujitsu's platforms revenues were down 7% (down 2% in yen) to \$5.9 billion. But the operating income declined by a whopping 73% for a meager 1.1% operating margin. As you've seen earlier, the company blamed the competition and the delay in its Unix servers for such disappointing results. A decline in sales of mobile phone base stations in Japan was also a factor.

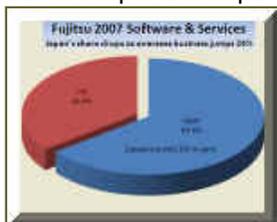
Services. Services, which includes software, was the only relatively bright spot in Fujitsu's spotty FY07 performance. This part of the company now accounts for nearly half of Fujitsu's global business.



Revenues were up 2% (up 8% in yen) to \$20.5 billion, while operating profit jumped even faster (up 7%). It was the only horizontal line of business whose profitability improved last year.

In Japan, where sales rose 1% in yen (down 4% in U.S. dollars), the system integration services to in the financial services field, and to automobile manufacturers were the driving force. Outsourcing contracts were also up in Japan.

Overseas services revenues were up 24% over the previous year in yen (up 17% in U.S. dollars) to \$7.3 billion. An expansion of the services business in North America, partly due to corporate acquisitions, and strong outsourcing services business in the U.K., contributed to the solid sales performance.



In January 2007, Fujitsu Services, the U.K.-based subsidiary, acquired TDS AG, a German IT services company that specializes in IT operations outsourcing and consulting services. The acquisition raises Fujitsu's presence in the German market and will boost its overall services growth in the current fiscal year. As a result, the international share of the services business has now surpassed one-third of the total (it was 35% last year - see the left chart).

Outlook

Fujitsu expect its revenue in the current fiscal year to grow 6% to 5,400 billion yen (about \$45 billion at the current exchange rate). The company said its services business and profits should again grow both in domestic and overseas markets.

As for the Fujitsu hardware, the company is not hopeful that it would be able to grow

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its profits this year.

As a result, the company's operating income should rise only modestly in the current fiscal year as will its net profit (to 75 billion yen, or about \$625, as we noted earlier).

[Click here](#) for detailed Fujitsu's P&L tables (Annex clients only)

Happy bargain hunting!

Bob Djurdjevic

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