

ANNEX BULLETIN

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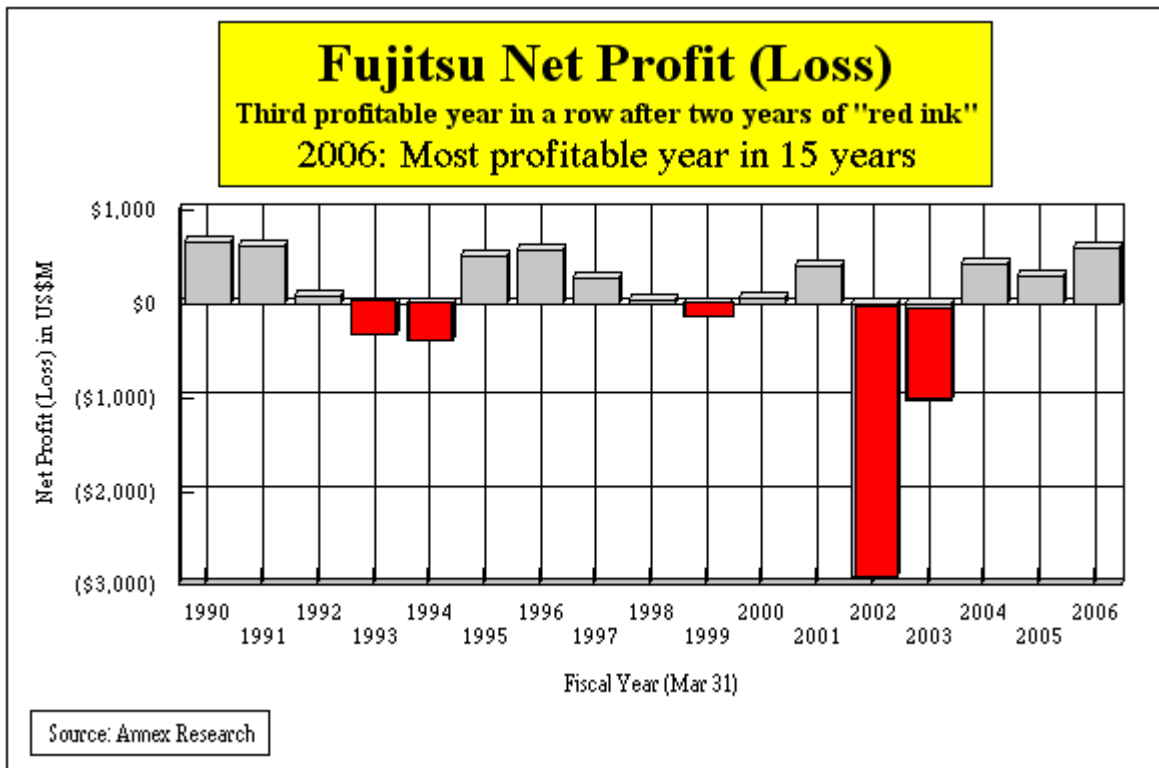
Updated 4/27/06, 11:50PM PDT, adds [supplementary charts](#)

Analysis of Fujitsu's FY2006 Business Results

Best Profit in 15 Years

Third Year in a Row of Profitable Growth, But Strength of U.S. Dollar Diminishes Revenue Gains

SCOTTSDALE, Apr 27 - The largest Japanese computer company has just reported its third year in a row of profitable growth, according to the just-released Fujitsu business results for the fiscal year 2006, ended March 31. More importantly, the bottom line net income jumped 115% in yen (up 105% in U.S. dollars) to \$611 million, the company's best earnings record in 15 years.



Fujitsu shares move up on better-than-expected FY06 results

The Tokyo traders and investors took notice of Fujitsu's improved profitability, boosting the price of its stock yesterday to 981 yen, following the FY06 earnings release. The new price level suggests a reversal of a short-term downward trend, and hints at a possible start of a new upward slope (see above chart).

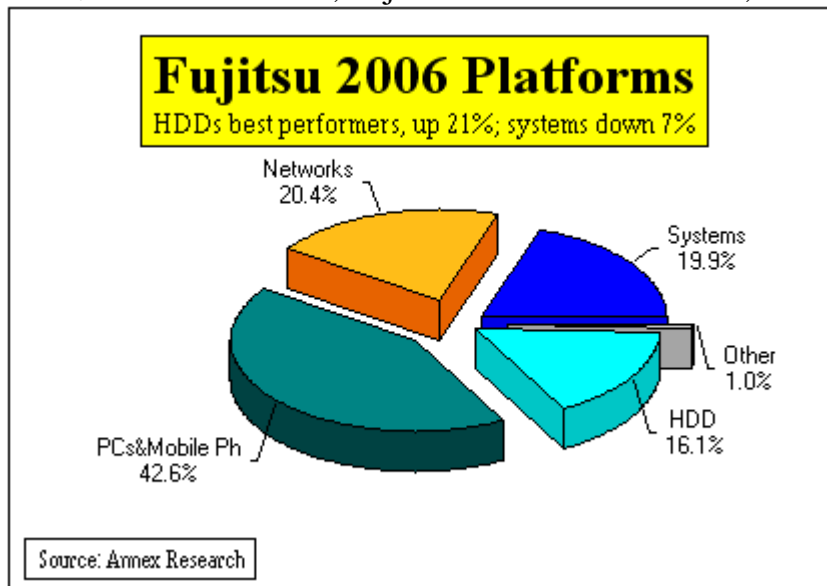
But the strength of the U.S. dollar relative to the yen diminished the company's revenue gains. So a 0.6% revenue increase ended up as a 4.7% decline to \$42.4 billion in FY06 revenues when translated into the U.S.

currency. The same is true, of course, of the results of individual business segments. It's just that the impact of foreign currency translation varied depending on the Japanese versus overseas business shares in each unit.

Business Segment Analysis

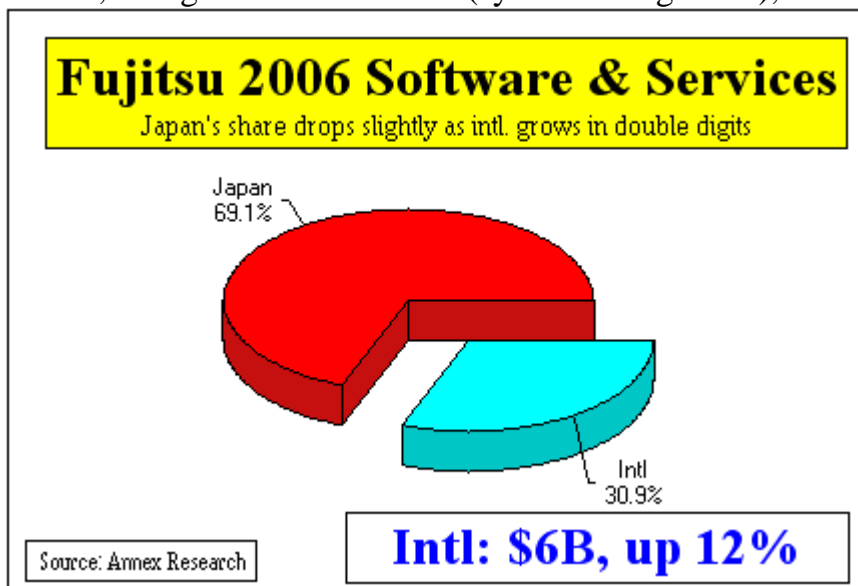
HDD. The best performing unit in terms of revenue growth was Fujitsu's storage (hard disk drive) business, whose revenues went up 21% in yen; up 15% in U.S. dollars to \$2.5 billion. Alas, at just 6% of total revenues, the HDD's impact on the company's overall growth was rather moderate.

Services. Among Fujitsu's biggest units, the Infrastructure Services (outsourcing) grew by 6% in yen, while rising only 0.6% in



U.S. dollars. Other Software and Services operations all declined in U.S. dollars, though the Solutions/SI (systems integration), the company's second

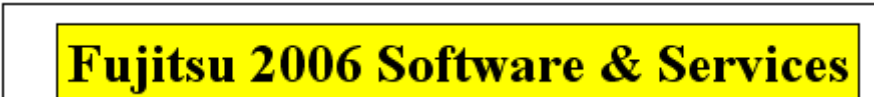
largest unit, actually grew its business in yen by 1.8%.



The overall Services growth was 3% in yen, which translates into a 2.5% decline in U.S. dollars to \$20.1 billion. With that FY06 total, Fujitsu

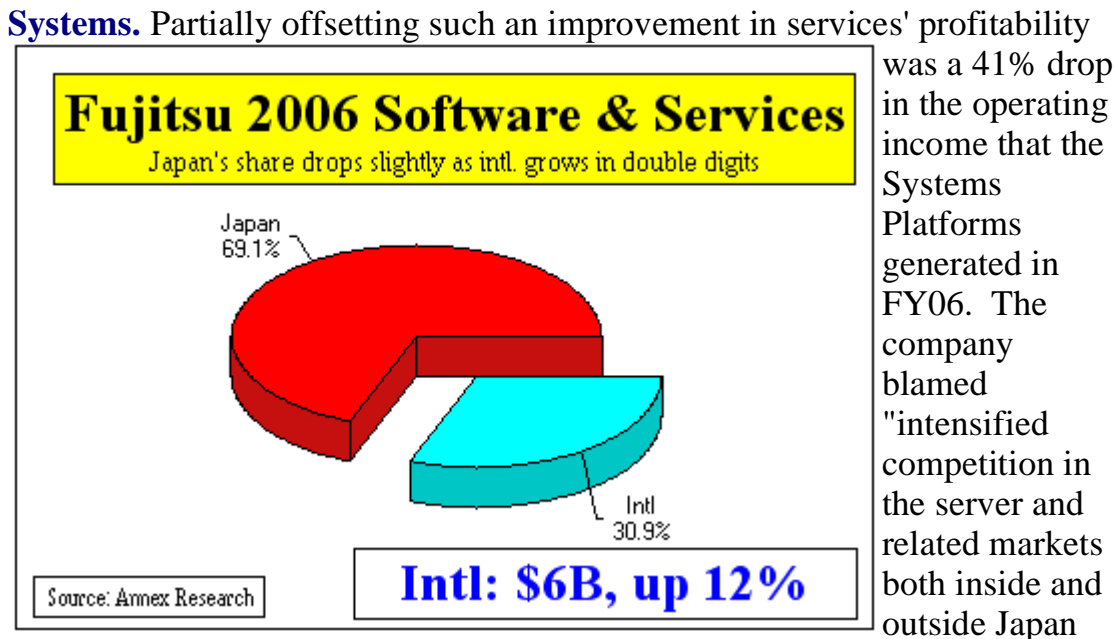
has now "officially" surpassed EDS as the world's second largest services company.

But perhaps

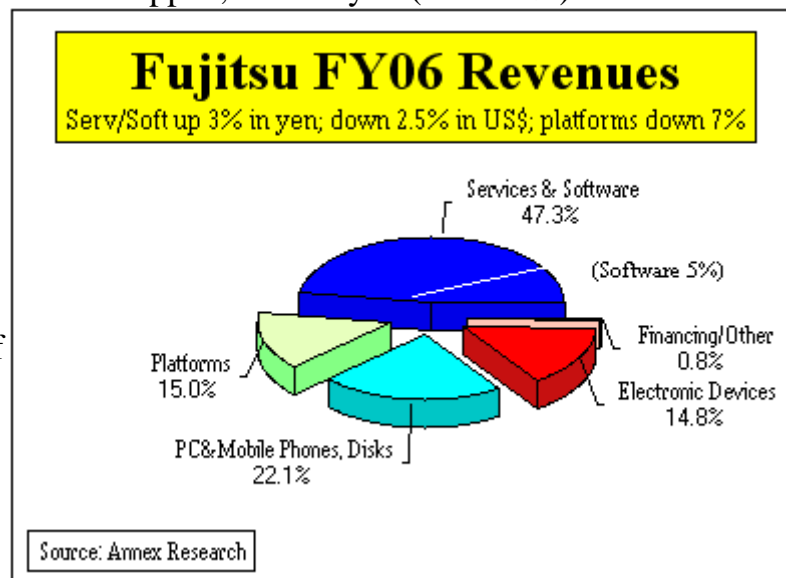


the best news

for the Fujitsu shareholders has been a vastly improved profitability of the services segments. Its operating income surged by 42% in FY06, up 35% in U.S. dollars to \$1.2 billion (see above chart and Table 2).



The systems' revenues also dropped, both in yen (down 7%) and in U.S. dollars (down 12%). The company said the "sluggish sales of servers and related products in Japan" were the main reason for the decline. But sales of Fujitsu's UNIX server business outside Japan was up, as was the revenue of its optical transmission system business in North America.



Other Hardware. Fujitsu's PC and Mobile Phones business was also down - 2.5% in yen and down 7.7% in U.S. dollars to \$6.7 billion. The company's LSI and other electronic components' revenues also dropped in FY06 16%

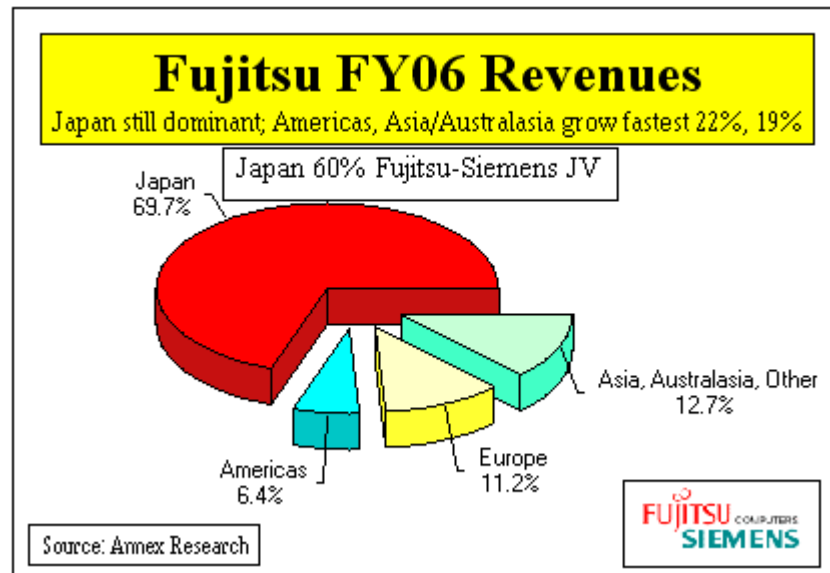
to \$6.3 billion.

Geographies. In terms of geographies, the Americas region, long one of the companies "problem children," experienced a remarkable turnaround and became its best performer of the FY06. Revenues were up 22% in yen, up 15% in U.S. dollars to \$3.2 billion, while operating profits surged by 195% to \$120 million. Only two and three years ago respectively, the Americas region reported significant losses.

The Asia and Australasia area also had a strong FY06, with revenues increasing by 19% in yen, up 13% in U.S. dollars to \$6.4 billion, while operating income jumped by 16% to \$132 million.

Revenues in Europe rose moderately in yen (up 6%), while remaining virtually flat in U.S. dollars at \$5.6 billion. But the profitability of the European operations surged by 96% in yen, up 87% in U.S. dollars to \$203 million.

Finally, Japan, Fujitsu's home and largest market, was the problem child of the company's FY06. Japanese revenues declined 2% in yen, while shrinking 7% in U.S. dollars to \$34.9 billion.



Still, even after such a drop coupled with a strong rise in other overseas revenues, the domestic market still accounts for about 70% of Fujitsu's global revenues. If one were to take into account the company's minority shareholding position in its joint venture with Siemens, something that accounting rules rule out yet common sense suggest otherwise, Fujitsu's Japanese share would shrink to 60% of the worldwide total.

Outlook

Fujitsu said in a release that it hopes to achieve consolidated net sales of 5,200 billion yen in FY07 (\$46 billion at current exchange rates), an 8.5% increase over FY06. The company is projecting consolidated operating income of 190 billion yen (\$1.7 billion), or a 5% increase. Net income

should rise to 80 billion yen (\$708 million), a 17% jump over FY06.

Fujitsu said it plans to do it by "a further expansion of its overseas business, aided in part by new product introductions, as well as aggressive efforts to capitalize on resurgent IT investment in Japan." The company will also further expand its manufacturing innovation activities throughout the Group in a relentless effort to improve efficiency.

So overall, looks like Fujitsu is now out of the woods and poised for consistent growth. Which is the time when top management needs to be particularly vigilant as unwelcome surprises may thwart "the best laid plans of mice and men."

For detailed tables, click on [Fujitsu 2006 P&L](#), and [Business Segment Analysis](#)

Happy bargain hunting

Bob Djurdjevic

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Supplementary Charts

