

ANNEX BULLETIN

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JAPANESE COMPANIES

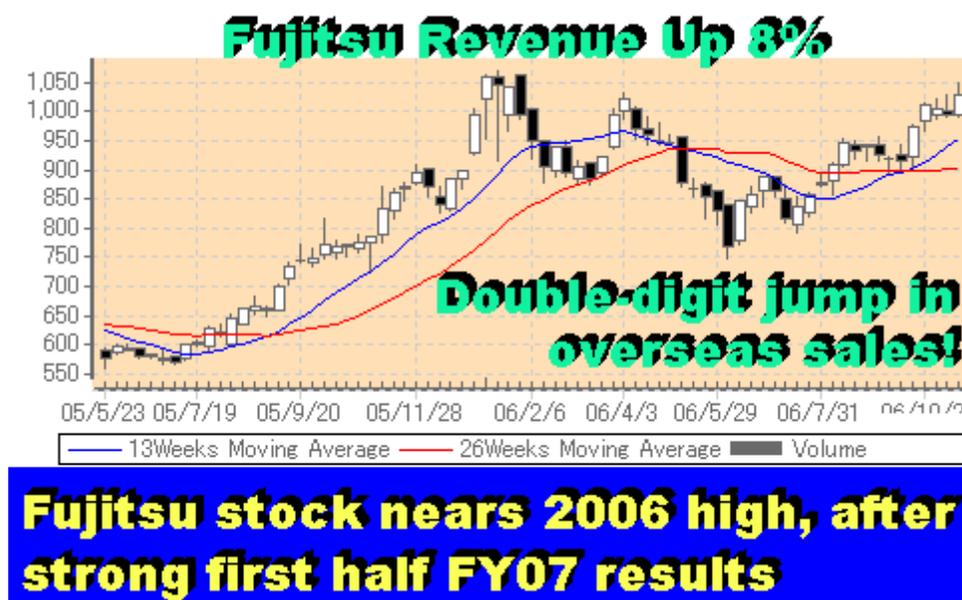
Updated 10/27/06, 11:00AM PDT, adds [Chart](#)

Analysis of Fujitsu's First Half FY07 Business Results

Good Performance Gets Better, More Global

Strong Overseas Sales Offset Flat Japanese Business

LAS VEGAS, Oct 26 - Fujitsu's [good FY2006 performance](#) seems to be getting better in the current fiscal year. The leading Japanese computer company, reported today in Tokyo strong first half fiscal 2007 results that helped lift its stock to close to its 2006 high. Fujitsu is also getting global. Its net income nearly doubled since a year ago to 14.8 billion yen (about \$126 million), while revenues, led by strong overseas sales, increased 8% to 2.36 billion yen (about \$20 billion). Following the earnings announcement, Fujitsu shares rose 0.9% to 1,029 yen.



Fujitsu's operating profit jumped 10% to 36 billion yen in the July-Sept second fiscal quarter, beating a Tokyo analysts' consensus estimate of a profit of 34 billion yen. But Fujitsu kept its operating profit forecast for the year to next March 31 at 190 billion yen (\$1.60 billion), up five percent from last year, but below the 203 billion yen average forecast of the 19 analysts polled by Reuters Estimates. This is the most likely reason for a relatively modest stock market gain despite excellent overseas business results.

Especially remarkable was the 26% jump in revenues from IT services, which included orders from Britain's Post Office. Acquisitions in North America also contributed to the growth. In the hardware sector, improved sales of hard disk drives and electronic devices more than made up for sluggish revenues of servers and storage devices.

"We are struggling against falling prices in the server business," Fujitsu CFO, Masamichi Ogura told reporters in Tokyo after a meeting with analysts. "We think the chip market will weaken a little. There are many unknowns in the second half, including the strength of the U.S. economy and firms' capital expenditure plans."

Fujitsu shares rose about 10% percent in the July-September period, outperforming the electrical machinery index on the Tokyo Stock Exchange, of which the company is a part which rose 3.35 percent.

Business Segment Results

Technology Solutions. Revenues in the Technology Solutions segment, which includes the System Platforms and Services sub-

segments, rose 6%

to 1.4 billion yen (about \$12.1 billion) compared to the same period in fiscal 2006.

Sales in Japan were roughly flat, as higher sales of solutions/systems integration services were offset by lower sales of mobile phone base stations. Overseas sales, however, increased by 23.3%, driven by continuing strong performance in outsourcing and other services businesses, as well as higher sales of optical transmission systems and UNIX servers.

Operating income for the segment was 36 billion yen (\$309 million), roughly the same as last year's. Higher profits in overseas businesses were offset by the effect of lower sales of mobile phone base stations.

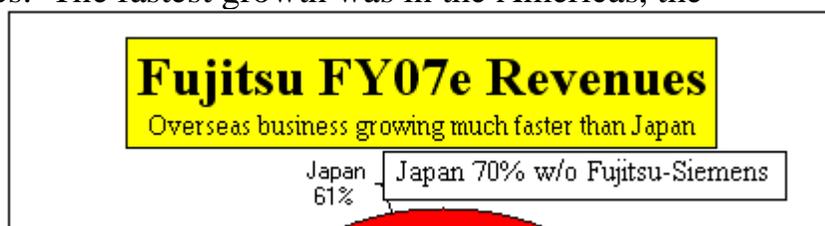
Mass Market (Ubiquitous) Product Solutions. Sales of mass market products (which the company clumsily - from a marketing standpoint - calls "Ubiquitous Product Solutions" - PCs, mobile phones, hard disk drives (HDDs) etc.), were 529 billion yen (\$4.5 billion), an increase of 6% over the same period last year. Despite higher sales of mobile phones, sales in this segment in Japan increased by only 1.9%, primarily as a result of sluggish PC sales in the consumer sector.

Here, too, overseas sales were strong, increasing by 14%, led by strong sales of notebook PCs and HDDs.

Overall, this segment posted operating income of 20 billion yen (\$169 million), an increase of 20% over the comparable period last year.

Device Solutions. Sales in the Device Solutions segment increased 12% over the first half of fiscal 2005, to 377 billion yen (\$3.2 billion), driven by strong demand for the company's logic LSI devices for automotive and digital appliance applications. Operating income for the segment was 16 billion yen (\$136 million), an increase of 28% over the previous year.

Geographies. All three geographies in which Fujitsu operates (Americas, Europe and Asia/Pacific) reported double-digit year-on-year revenue increases. The fastest growth was in the Americas, the company's once troubled region, where revenues surged by 22% to 227 227



billion yen

(\$1.93 billion). For the full year, we expect the Americas' revenues to exceed \$4 billion for the first time.

Europe was close behind with a 21% revenue increase to 362 billion yen (\$3.1 billion), while the Asia/Pacific region reported a 14% growth to 270 billion yen (\$2.3 billion). Overall, the overseas markets grew by 19% in the first half of Fujitsu's fiscal 2007.

Summary

For the full fiscal year 2007 (that ends Mar 31), we expect Fujitsu global revenues to increase by 5% (in U.S. dollars) to \$44 billion (up 8% in yen). Net income, on the other hand, should surge by 23% to \$514 million, if the current trends continue. The company's own forecast is more modest, but still a double-digit jump (up 17%) from the FY2006.

"Although first-half results exceeded previous projections, and in spite of Fujitsu's expectation that market demand in Japan and overseas will be favorable in the third quarter," the company said in a statement, "various uncertainties remain regarding the fourth quarter... Therefore, at the present time, the company's outlook for the full year has not changed."

Whatever the actual increase turns out to be, there is no doubt that this will be the fourth consecutive profitable year for Fujitsu after two years of horrendous losses (FY2003 and FY2003 - see the [chart](#)). The good is getting better, as we said earlier.

Annex Clients [CLICK HERE](#) to view [Fujitsu FY2007 P&L forecast](#) and charts

Happy bargain hunting!

Bob Djurdjevic

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