

4312 **Cybernet Systems**

Kuniaki Tanaka

CEO, Cybernet Systems Co., Ltd.

**Providing value unique to Cybernet through cooperation
between 1D CAE, 3D CAE and test and measurement**

◆ **Aiming to become the “First Contact Company”**

In consolidated financial results for the fiscal year ended December 31, 2014, operating income increased but fell short of the plan. On the net sales front, ANSYS structural analysis software, a core product, maintained solid growth. Development subsidiaries also succeeded in winning large projects, but sales subsidiaries remained a challenge, struggling in South Korea and posting a loss in China.

Ordinary income was 125 million yen less than planned. The fact that the product cost ratio was just under 40%, and net sales were 603 million yen below the planned level had a major impact. The consolidation of the struggling South Korean sales subsidiary following announcement of the initial plan for the fiscal year under review was also a factor behind the profit decline. Additionally, the Company paid advances on certain products on which it holds exclusive agency rights, but recognized an impairment loss during the period after sales did not progress to plan.

The fiscal year under review was the final year of a three-year medium-term business plan. The Company had set itself an ordinary income margin target of 8%, but the actual ordinary income margin was 6.3%. Actual ordinary income was around 260 million yen below the planned level, mainly because net sales were lower than planned, and under the new medium-term business plan starting in the fiscal year ending December 31, 2015, expansion of net sales is a major issue.

The Company supports engineers through CAE (Computer Aided Engineering: virtual experiments and simulations) and other IT solutions, and with “*Energy for your innovation*” as its corporate message, it aims to become the “First Contact Company” for customers.

The new medium-term business plan will run for six years (first phase: FY2015-FY2017, second phase: FY2018-FY2020). The basic strategy is to “provide value unique to Cybernet.” The Company also set out the same strategy under its medium-term business plan that ended in the fiscal year under review, but the scope is now wider. Previously, the Company promoted MDS (multi-domain simulation: technique used to conduct analysis across different domains such as electrical and thermal domains) in 3D CAE (technique used to conduct analysis based on three-dimensional geometry). However, demand for 1D CAE (technique used to assess and analyze the functions of products and systems, etc. through mathematical modelling (formulae)) has grown over the past three years and the Company, therefore, plans to focus on MDS through cooperation between 1D CAE and 3D CAE over the coming six years. As customers are faced with the major challenges of shortening manufacturing periods and reducing costs, the Company also plans to enter the test and measurement solutions business and concentrate on extended MDS. Net sales in this field amounted to 12.7 billion yen in the fiscal year under review, and the Company intends to increase this to 25.9 billion yen by the fiscal year ending December 31, 2020.

The second strategy is to focus on the automotive field. Net sales in this field came to 1.5 billion yen (12% of domestic net sales) in the fiscal year under review, growing 19% year on year, and the Company plans to expand this to around 3.5 billion yen by the fiscal year ending December 31, 2017, and to around 5 billion yen (25% of domestic net sales) by the fiscal year ending December 31, 2020.

The third strategy is to strengthen cooperation with partners. In its global sales, the Company will seek to continue expanding sales in accordance with its partner strategy, not only in China with its high market potential, and the United States, a leading country in CAE, but also in South Korea, where it closed its office at the end of January 2015. In its domestic sales, the Company plans to cooperate with local trading companies and major trading companies to reach regions it is unable to sufficiently reach alone such as Kyushu and Tohoku. It will also promote OEM supply of products of development subsidiaries in Canada, the United States and Belgium. Since there was a major deal worth just over 500 million yen at Canadian subsidiary Maplesoft the previous fiscal year and a major deal for customized solutions worth 300 million yen at U.S. subsidiary Sigmetrix in the fiscal year under review, the Company wants to accelerate this further.

◆ **Entry to the test and measurement business**

The Company's targeted management indicators are a consolidated operating income margin exceeding 8% by the fiscal year ending December 31, 2017, and consolidated net sales exceeding 30 billion yen and operating income exceeding 3 billion yen by the fiscal year ending December 31, 2020. Under the medium-term business plan that ended in the fiscal year under review, the Company set the consolidated ordinary income margin as a management indicator, but this time it set itself a consolidated operating income target to focus on expanding profit in its main business.

The Company currently offers solutions in six categories (CAE, Big Data, Visualization, Test and Measurement, IT and Other) globally. The ratio of visualization net sales to total net sales is expected to decrease sharply by the fiscal year ending December 31, 2020, but this is due to the acquisition of a large project in the fiscal year under review and, excluding this, the ratio is expected to show constant growth of around 10%. In core CAE business, the new manufacturing concept MBD (Model Based Development) is expected to grow considerably, and the Company plans to offer its Canadian development subsidiary's product MapleSim and consulting services worldwide.

As part of its global strategy, the Company will seek expansion in North America, with MBD consulting services as a driving force.

In Asia, the Company will centralize management functions for Taiwan and China, and share knowhow, human resources, etc. In addition, the Company intends to enter the test and measurement consulting business through M&A and seek synergies with CAE. In Japan, CAE will be the driving force.

The Company's strategy in Japan consists in upsizing deals and expanding into corporate contracts. It also plans to launch the test and measurement business to speed up the 1D CAE business.

While optical design is expected to remain flat, EDA (Electronic Design Automation) will grow considerably, and its share of net sales is expected to be almost equal to that of optical design by the fiscal year ending December 31, 2020. In the EDA business, the Company was the distributor for U.S.-based development vendor Cadence for more than 10 years but, in the fiscal year under review, the Company instead began handling the products of U.S.-based development vendor Mentor Graphics. EDA is categorized into IC design and PCB design, and the Company is strong in PCB design, while Cadence is strong in IC design. Meanwhile, Mentor is strong in PCB design, with a share of almost 50% of the global market, but was struggling to grow in Japan. Consequently, Mentor concluded a distributor agreement with the Company, which has PCB design experience and sales capabilities in Japan. The fiscal year under review was, therefore, the distributor transition period, and net sales fell slightly. However, growth is expected in the medium term because the Company plans to strengthen the PCB business and also enter the IC peripherals and wire harness business.

◆ **Focus on Big Data visualization**

CAE stands for Computer Aided Engineering, and it involves virtually reproducing a phenomenon on a computer for experimental purposes (virtual experiments and simulations). Currently, 3D CAE is mainly used. 3D CAE is suited

for detailed design because it enables specific performance, such as strength and behavior of an object to be studied using a detailed model that reproduces the details including the 3D data (geometry) in question. 1D CAE, on the other hand, involves abstract models based on relevant operation principles such as temperature, strength and functions, and is suited to conceptual design.

The Company intends to offer unique value through cooperation and integration between 1D and 3D. Knowhow is needed to extract the functional information required for 1D CAE based on detailed 3D information which includes the geometry of the object, but the Company has 30 years' experience in the CAE business. In Japan, the Company already provides consulting services to automobile manufacturers and, in the future, it aims to business alliances, M&A and other measures to expand globally.

From 2009 through 2010, as a result of a change in its business model, the Company was involved in M&A deals for three companies worth around 4.5 billion yen. Also under its current plan, the Company anticipates M&A deals on a similar scale, including entry to the test and measurement field. In the test and measurement field, the Company does not plan to manufacture measurement equipment but rather to cooperate with measurement equipment manufacturers and provide consulting services.

The Company also plans to set up a new Big Data Solution Division, and to focus on the visualization of Big Data. This will enable simulations through the incorporation of customers' past experiment and measurement data instead of theoretical values and the creation of 1D models based on this and will probably result in more realistic simulations. The Company plans to provide such knowhow to customers in the form of added value.

In cloud business, the Company launched CYBERNET CLOUD as a tool for managing mainly IT assets and Internet security and in the future it plans to put its core CAE business in the cloud. Major IT companies have already started doing this, but are apparently experiencing problems in terms of support and the utilization rate is said to be low. The Company plans to put business it can support in the cloud and provide customers with a user-friendly environment.

◆Focus on automotive field

In the automotive field, CAE that can support totally new applications will be required in the future. Especially in relation to advanced driver assistance systems (ADAS), luxury cars are equipped with around 200 microcomputers (electronic control units (ECU)) and even domestically produced light cars are around 50. Moreover, with the use of such automotive electric and electronic systems, the weight of the wire harness for in-vehicle data transmission will tend to increase.

A luxury car has a wire harness measuring around 5km in total, and the question of how to install it efficiently, reduce the weight of wire harness and improve fuel consumption has become a major theme.

It is generally held that the amount of microcomputers and wire harnesses installed in a vehicle will double over the next 5 to 6 years, and demand for simulation tools and analyze knowhow to determine how to develop and install these is, therefore, expected to grow further in the future.

To promote its OEM offering, the Company plans to pursue OEM contracts with CAD, CAE, EDA and PLM vendors. Additionally, the Company plans to offer customization services for its own products to major users, and supply computing engines to Big Data vendors. Through the initiatives outlined above, the Company aims to become a "Solution Integrator," providing the optimal solutions for its customers.

◆Change to basic dividend policy

The Company raised the payout ratio from 40% to 50%, and raised the dividend on equity ratio from 2.5% to 3.0%, and either of the two indicators, whichever is higher, will be used as a reference at the time of determining the dividend amount. In the fiscal year under review, the Company announced an annual dividend of 13.80 yen, including a commemorative dividend to mark the 30th anniversary of its foundation, and in the fiscal year ending December 31, 2015, the Company plans to pay an annual ordinary dividend of 13.80 yen.

ROE is currently in the 4% range, but the Company will also promote improvement in ROE. The dividend on equity ratio is currently used as a reference at the time of determining the dividend amount, but the payout ratio is expected to be used as a reference by the fiscal year ending December 31, 2017.

◆Q&A◆

Is the shareholder return policy the policy of the FUJISOFT Group as a whole?

The Company is a consolidated subsidiary of FUJISOFT, but its shareholder return policy is not linked to that of the parent company.

What about the Company's future capital requirements?

As a next step, the Company plans to expand test and measurement business and consulting services connected with this on a global basis, and this will require several billions of yen in capital, and the Company will examine whether to apply funds on hand or whether to borrow.

Regarding the plan for the current fiscal year, why is profit growth low compared with net sales?

This fiscal year, the Company plans to hire around 30 employees on a non-consolidated basis because, in an increasing number of cases, it is losing business opportunities due to a shortage of personnel.

When hiring employees, the Company intends to cooperate with the parent company to secure high quality human resources.

(February 27, 2015, Tokyo)

*The presentation materials used on the day can be viewed on the following website.

http://www.cybernet.co.jp/english/documents/pdf/ir/library/20150227_presentation_E.pdf