

Creating Corporate Value for Fuji Soft

November 2022



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Executive Summary



Executive Summary

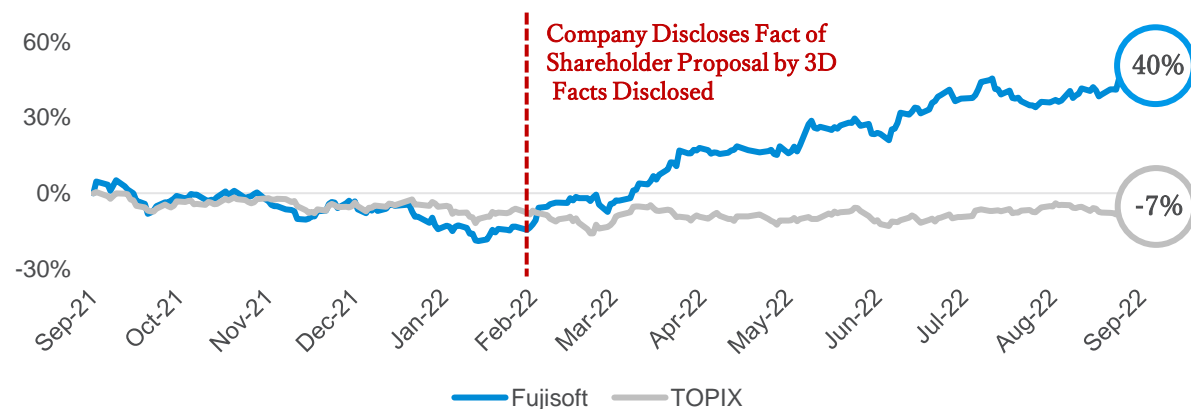
- **Fuji Soft's Board has presided over a long period of inefficient capital allocation and weak performance**
 - Prior to 3D's involvement, Fuji Soft's shareholder returns were inferior to its peers over 1-, 3-, 5- and 10-year periods
 - This TSR underperformance is largely due to an "asset heavy" investment strategy with an emphasis on owning real estate and a "sales over profit" operating strategy
 - These value-destroying investment and operating strategies are ingrained in Fuji Soft's corporate culture
- **The current Board of Directors lacks the expertise, independence and will to critically examine and correct the numerous management issues at Fuji Soft**
 - Based on past performance and the directors' experience and expertise, the current Board is not capable of resolving the inefficiency of the "asset heavy" investment strategy and the low margins created by the "sales over profit" operating strategy
 - Similarly, having interviewed the outside directors and other Board members, we do not think that the Board is capable of addressing the management issues facing Fuji Soft
 - After examining the background of the appointed independent directors, it would appear that they are not very independent
- **The Corporate Value Enhancement Committee ("CVEC") launched in August 2022 does not solve the inherent problems at Fuji Soft**
 - Since the CVEC is composed of the current directors, the lack of experience, expertise and independence that has made the existing Board ineffective will therefore make the CVEC ineffective
- **3D has made numerous proposals to increase corporate value, but the Board has either ignored them or outright rejected them**
 - 3D began investing in Fuji Soft in 2019 and is currently the largest shareholder with over 20% ownership
 - 3D has provided several hundred pages of analysis of the longstanding problems at Fuji Soft and proposed measures to improve corporate value, but Fuji Soft has responded by doing nothing other than creating the CVEC
- **Fuji Soft's inaction is even more remarkable given the results of the March AGM**
 - A large proportion of independent shareholders voted for 3D's candidates, and the stock price has responded favorably since the meeting
- **3D's four nominees for the EGM are exceptionally well qualified to achieve medium- and long-term corporate value growth by thoroughly and objectively examining the issues at Fuji Soft**
 - The four nominees are entirely independent of 3D and Fuji Soft, and they have the right experience and expertise to improve Fuji Soft's investment and operating strategies
 - Time is of the essence, as the CVEC will be making its interim report in November and its final report in February 2023
- **Only one (Mr. Imai) of Fuji Soft's three candidates should be elected to the Board**
 - 3D believes Fuji Soft hastily nominated three candidates to dilute the impact of 3D's campaign and candidates and ensure a majority of the outside directors remain beholden to Fuji Soft
 - Nevertheless, and after serious and objective consideration of Mr. Imai's qualifications, 3D believes that he will contribute to strengthening the functions of the Board of Directors

Fuji Soft Overview

Summary

- Fuji Soft is an embedded system developer and system integrator founded by Hiroshi Nozawa in 1970
- Mr. Nozawa currently serves as Director and Advisor, while his son-in-law Tomoyasu Sakashita serves as President and Representative Director. This gives Mr. Nozawa significant influence
- The company is characterized by a management policy of “investing” in its own offices and a “sales over profit” approach to growth. Both of these management policies were implemented soon after the Company’s founding and continue to be followed today
- 3D has been invested in Fuji Soft for the past three years and continues to engage in constructive dialogue
- Since the Company disclosed the fact that it has received a shareholder proposal from 3D to appoint new directors, Fuji Soft’s shareholder returns have exceeded those of its peers; we believe the market is pricing in further positive changes driven by 3D

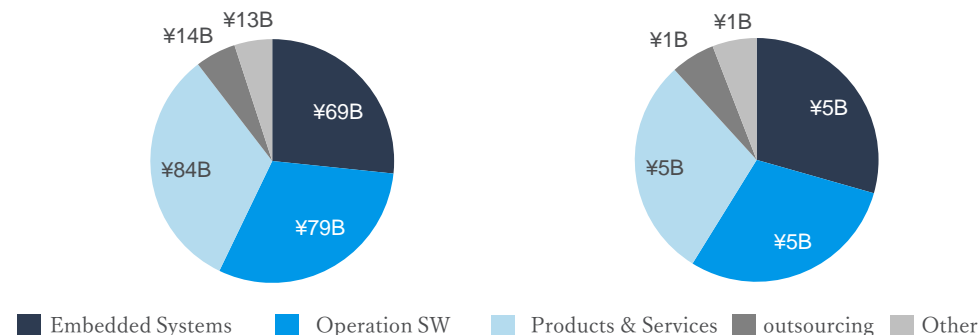
One-Year Total Shareholder Return¹



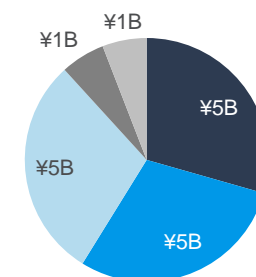
Fuji Soft Business Segments

Embedded Software Development	Providing software development for in-vehicle, communication equipment, FA equipment, etc.
Operations Software	Providing system integration services, including IT system implementation and maintenance
Products & Services	Sells its own products, products of other companies, etc.

Net Sales (FY21)



Operating Income (FY21)



Market capitalization (billions of yen)	¥273.6
Enterprise value (billions of yen)	¥274.0
LTM Net sales (billions of yen)	266.7
LTM Operating Income (billions of yen)	17.1 yen
EV/LTM Sales	1.0x
EV/LTM Operating Income	16.0x
Number of Employees	14,956

3D Believes Corporate Value Can Be Enhanced

Key steps to increasing value:

1. The Board should examine management's strategy on five issues that are important drivers of value

- **(1) Low ROIC real estate investment:** Evaluate and compare the corporate value obtained by selling the real estate against the corporate value obtained by continuing to invest in the real estate
- **(2) Corporate governance / listed subsidiaries that remain undervalued:** Evaluate and compare the corporate value obtained by maintaining the status quo against the corporate value if the listed subsidiaries are wholly owned or sold
- **(3) Capital allocation / low level of shareholder return:** Appropriately calculate cost of equity and evaluate existing and future capital allocation based on cost of equity
- **(4) Low profit margin:** Work with outside professional consultants to implement company-wide measures to improve the profit margin
- **(5) Unfocused growth strategy:** Work with outside professional consultants to conduct a detailed analysis of future business opportunities and consider growth strategies with selection and focus

2. For the review to be objective, the Board needs to be augmented with additional expertise and independence

- The five areas of required expertise to address Fuji Soft's issues are (A) real estate investment, (B) capital allocation, (C) profit margin improvement, (D) growth strategies, and (E) corporate governance
- A high degree of director independence is required to critically examine and evaluate management's strategy
 - *However, based on past performance and our interviews with the outside directors, we believe the current board lacks both expertise in key areas and independence from management*
 - *Therefore, we believe the Board requires new directors with the requisite expertise and independence*

Our Proposed Directors

Supported by Fuji soft



Mr. Shintaro Ishimaru

Former CIO of ITOCHU, Former Audit & Supervisory Board Member of ITOCHU Techno-Solutions

- After serving as General Manager of IT Planning Department at Mizuho Holdings, Inc., he served as General Manager of IT Planning Department, Managing Executive Officer in charge of Finance, Realty, Insurance & Logistics Company, and CIO at ITOCHU Corporation
- He also has experience as an Audit & Supervisory Board Member of ITOCHU Techno-Solutions Corporation
- **Knowledge of business and capital efficiency, as well as outstanding expertise in corporate management of IT service providers and experience backed by practice**



Mr. Yuya Shimizu

Hibiki Path. Advisors CEO/CIO

- After working as a sell-side analyst for Japanese real estate at Goldman Sachs & Co., he managed investment in real estate and real estate-backed loans at Moore Capital's Distressed Investment Arm
- He has served as President of Dalton Investments' Tokyo-based advisory subsidiary and has engaged with numerous companies as a shareholder
- Currently, he is the President and Chief Investment Officer of Hibiki Path Advisors, where he continues to invest in and engage with Japanese listed companies using value investing as his investment approach
- **Exceptional expertise and experience in Japanese real estate investment, cost of capital and corporate governance in the Japanese equity market**



Dalton Investments



Mr. Kotaro Okamura

Former Representative in Japan, JP Morgan Chase Bank

- He has 19 years of experience at JP Morgan in a wide range of positions including senior positions in Asset Management and Investment Banking
- Representative in Japan and Head of Tokyo Branch of J.P. Morgan Chase Bank, Chief Executive Officer of Thomson Reuters Japan and President and Representative Director of Thomson Reuters Markets, Senior Advisor to Societe Generale, and other positions
- He currently is Senior Advisor to IFM Investors, a global asset management firm specialized in investment in infrastructure assets
- **In-depth knowledge of global capital markets and exceptional expertise and experience in capital allocation and corporate governance**

J.P.Morgan



THOMSON REUTERS



Mr. Takashi Tsutsui

Outside Director of Nippon Paint, former President and Representative Director of Jasdac Securities Exchange, Inc.

- After working for Nomura Securities Co., Ltd. he served as President and Representative Director of Jasdac Securities Exchange, Inc
- He was also involved in the management of LIXIL Group Corporation
- Mr. Tsutsui serves as an outside director of Nippon Paint Holdings, Inc., which has achieved dramatic growth through a global M&A strategy. As chairman of the Compensation Committee, he leads oversight of directors and also the design of executive compensation that contributes to maximizes shareholder value
- **Exceptional expertise and experience in capital allocation and corporate governance practices in the equity markets and growth strategies through reinvestment in core businesses**

NOMURA

NIPPON PAINT

LIXIL

JASDAQ

Our Director Nominees Have the Necessary Experience



Mr. Shintaro Ishimaru



Mr. Yuya Shimizu



Mr. Kotaro Okamura



Mr. Takashi Tsutsui

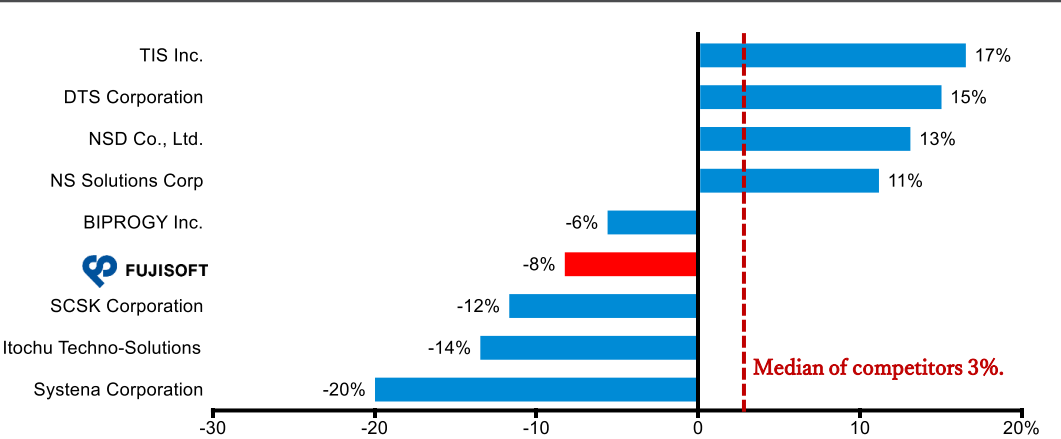
Expertise in Addressing Management Issues				
		A Real Estate Investment	Sell-side analyst in real estate at Goldman Sachs and real estate and real estate-backed loan investments at Moore Capital	
		B Capital Allocation	17 years of experience as an institutional investor in real estate, private equity, and Japanese and Asian equities, with a strong track record of increasing corporate value through capital allocation	Worked in a wide range of positions within JP Morgan's Asset Management and Investment Banking divisions, including senior positions
		C Profitability Improvement	Has experience and knowledge in the IT industry, having served as General Manager of IT Planning Department of Mizuho HD, CIO of ITOCHU Corporation, and Audit & Supervisory Board Member of ITOCHU Techno-Solutions Corporation	Practical experience in the management of global companies with high business efficiency, including as Japan Representative of JP Morgan Chase Bank, Japan Representative of Reuters News Agency, and Senior Advisor to Société Générale
		D Growth Strategy	Has experience and knowledge in the IT industry, having served as General Manager of IT Planning Department of Mizuho HD, CIO of ITOCHU Corporation, an Audit & Supervisory Board Member of ITOCHU Techno-Solutions Corporation	Served on Nippon Paint Holdings' Board of Directors and helped oversee the company's global M&A strategy
		E Corporate Governance	Former President of Dalton Advisory, CEO and CIO of Hibiki Path Advisors, has invested in and interacted with numerous Japanese listed companies in the past	Advising institutional investors and others on dialogue between listed companies and investors
				Representative Director of JASDAQ Securities Exchange, Outside Director and Chairman of the Compensation Committee of Nippon Paint Holdings, Inc.

Fuji Soft's Underperformance

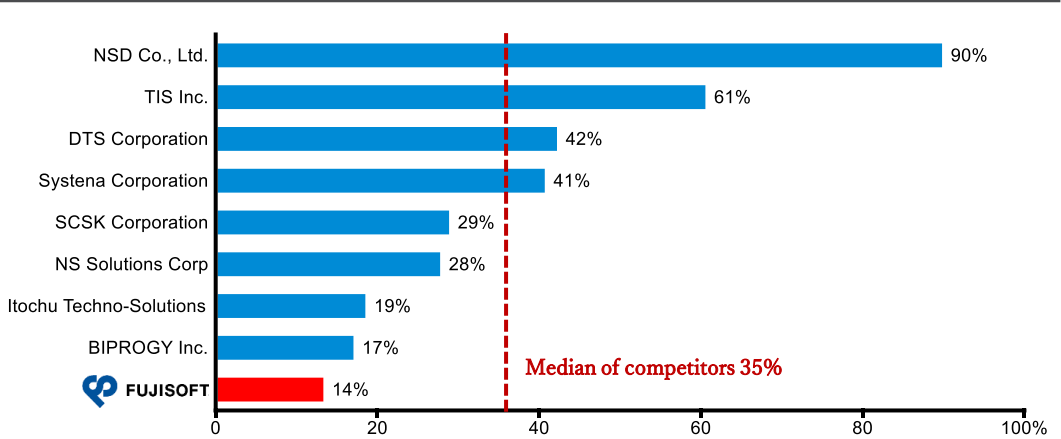
Before 3D Raised the Possibility of Changes, Fuji Soft Underperformed

Total Shareholder Return (TSR) as of February 16, 2022, the day before the Company announced the existence of 3D’s shareholder proposal

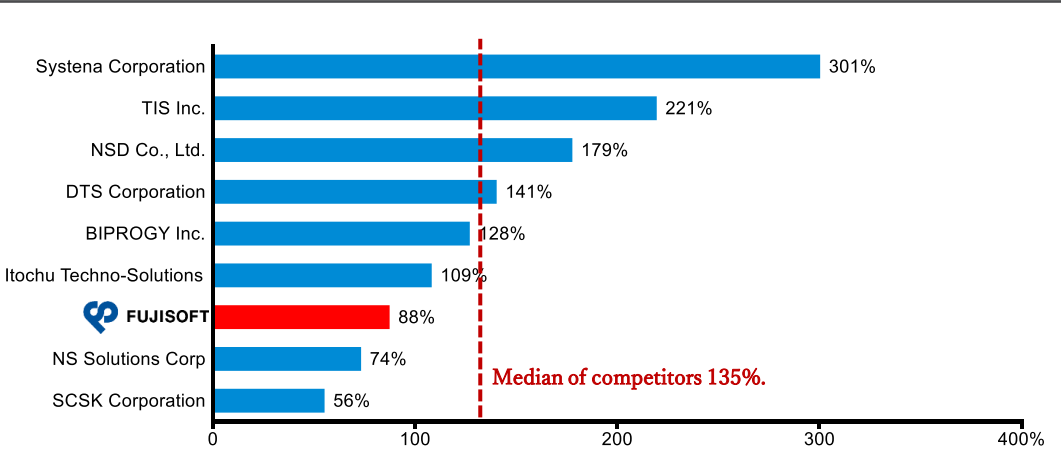
TSR for the past year¹



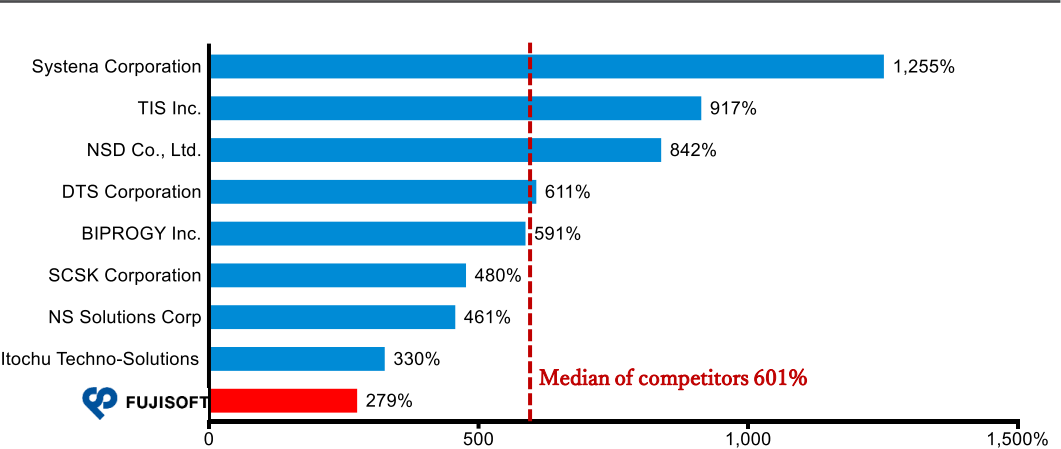
TSR for the past three years¹



TSR for the past 5 years¹



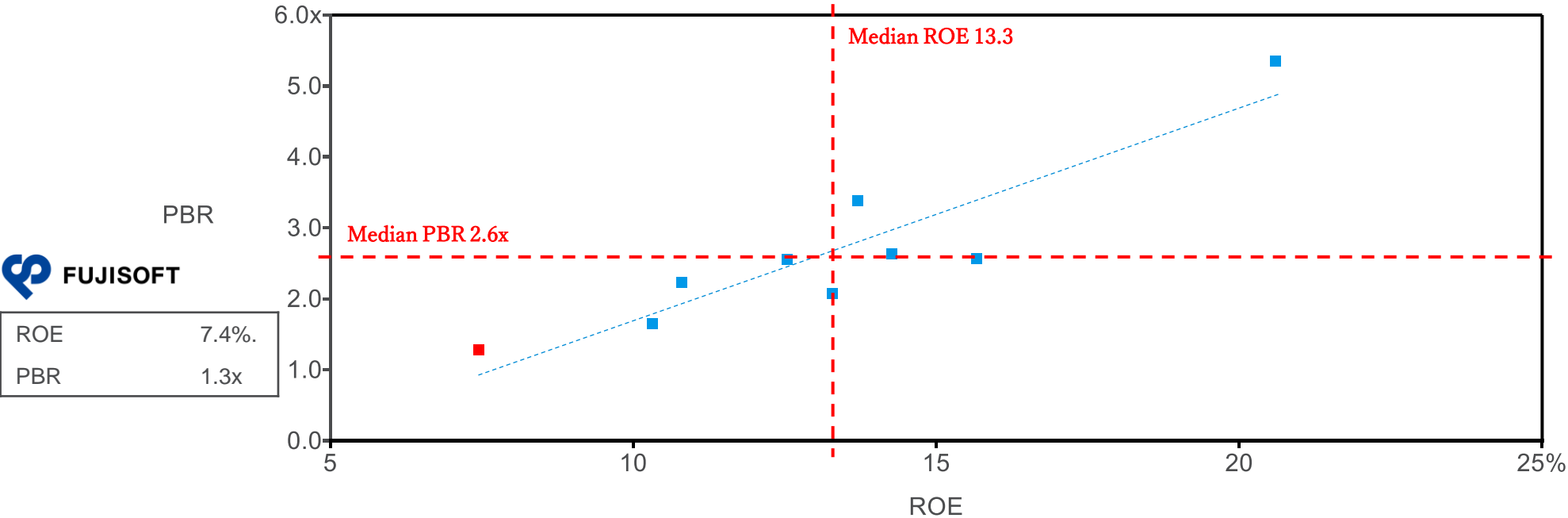
TSR over the past 10 years¹



Fuji Soft's Low ROE Contributes to Its Poor TSR and Poor Valuation

- Fuji Soft's ROE is about half the industry median's and the lowest in the industry
- P/B ratio is well below the industry median

System Integration Industry ROE (X-axis), PBR (Y-axis) (as of February 16, 2022¹)



“...Fuji Soft's operating performance remain at the bottom of its peer group. The poor operational performance has been reflected in the company's depressed valuation compared to peers.”

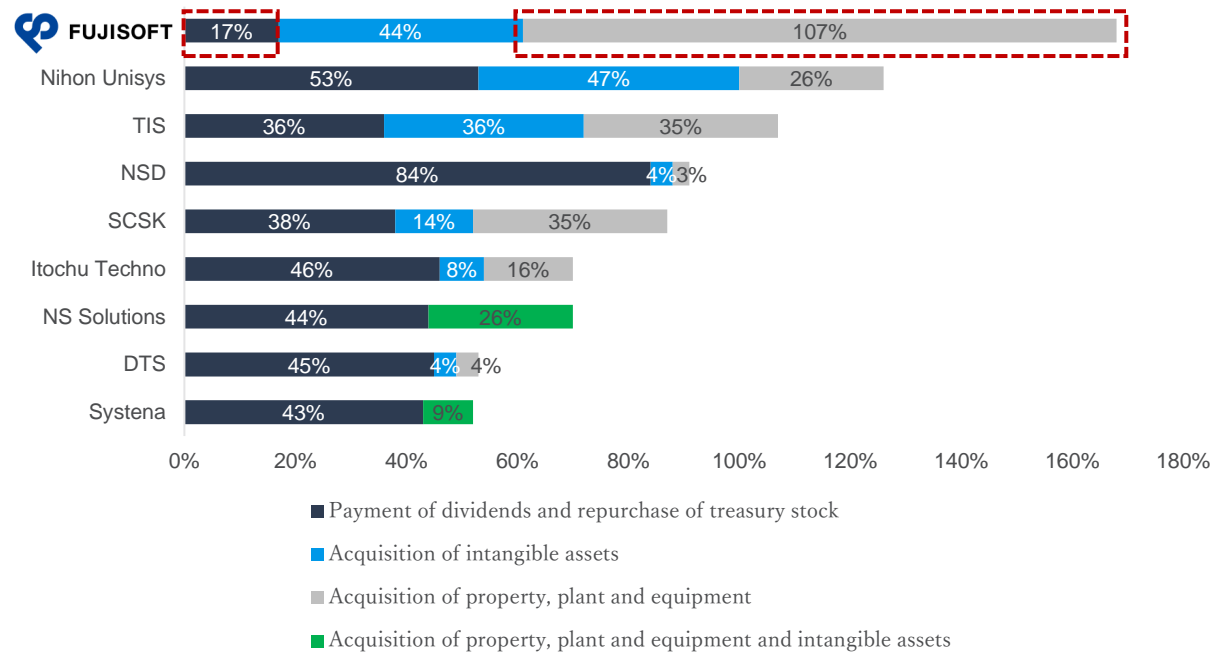
ISS Proxy Research Report, February 25, 2022

Source: Bloomberg.
Note 1: Data as of February 16, 2022, the day before the Company disclosed that it had received a shareholder proposal from 3D; competitors are defined as companies classified as system integrators or system developers in the SPEEDA industry classification as of December 31, 2021, with a market capitalization between 100 billion yen and 1 trillion yen as of December 31, 2021.

Main Causes of Low ROE: (1) Capital Tied Up in Non-Productive Assets

- Fuji Soft has maintained the industry’s lowest dividend payout ratio for the past five years while allocating an amount equal to its total net income to the development of its own office properties
- No competitors have invested in office space to the same extent as Fuji Soft
 - SCSK, TIS, etc. have relatively high tangible fixed asset ratios due to investment in data centers

Use of funds over the past five years (as a percentage of cumulative net income)



Property, plant and equipment as a percentage of net sales and total assets

(単位：10億円)

名前	時価総額 (22/2/10)	2021年12月期時点			有形固定 資産/ 総資産	有形固定 資産/ 売上高
		12ヶ月累 計売上高	総資産	有形固定 資産		
Fuji Soft	171	258	229	90	39%	35%
ITOCHU Techno	730	508	466	30	6%	6%
T I S	693	483	470	66	14%	14%
S C S K	623	409	383	114	30%	28%
Nihon Unisys.	353	314	244	32	13%	10%
NS Solutions	345	268	297	24	8%	9%
N S D	200	69	61	1	2%	2%
Systema	170	64	39	1	2%	1%
D T S	135	93	75	4	5%	4%

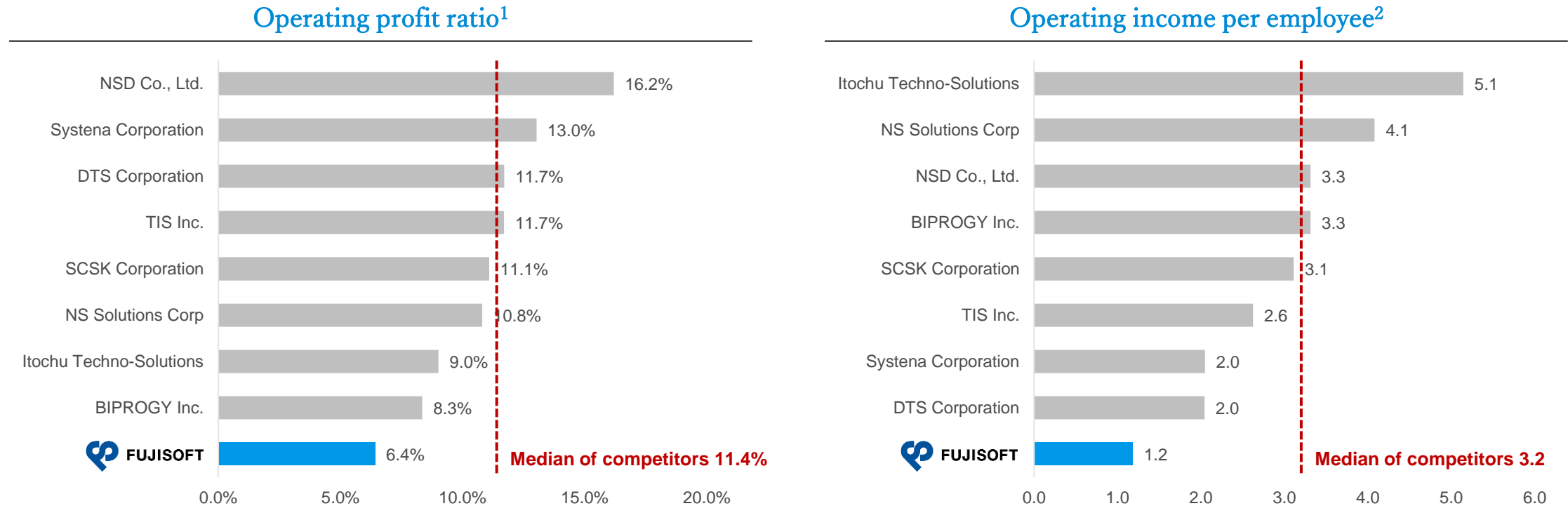
Average of peers 10% 9%

TIS and SCSK have high tangible fixed asset ratios due to investments in data centers

Source: Bloomberg, company disclosure materials.

Main Causes of Low Capital Efficiency: (2) Low Business Efficiency Due to “Sales-Oriented” Management

- Since its founding, Fuji Soft's management has focused on sales growth over profitability
- As a result, the operating profit margin has been left at the lowest level in the industry, and the amount of operating profit per employee has been left at less than half of the industry average



“We see real scope for improving operating efficiency and capital allocation and think RoIC will probably overtake capital costs in the medium term as the firm engages with activist investors.”

Citi Research Report, August 23, 2022

Source: FactSet, Company disclosure materials, Research report.

Note 1: Calculated based on the past 12 months as of September 16, 2022.

Note 2: In millions of yen/employee, based on LTM operating income as of September 16, 2022, and the most recently disclosed number of employees.

Fuji Soft's Longstanding Strategy Has Created These Issues

Asset Heavy Investment Strategy

“Asset heavy” investment, such as Fuji Soft’s ownership of its own office properties, is ingrained in the Company’s corporate culture

- In the early years of the Company, the headquarters was moved frequently to accommodate major customers (the headquarters was relocated five times between 1970 and 1983)¹
- In 1985, a new headquarters office property was built near the Company’s main customer², marking the beginning of a strategy that continues to this day
- For more than 35 years since then, the standard strategy has been to develop/acquire office properties near clients and dispatch engineers from there

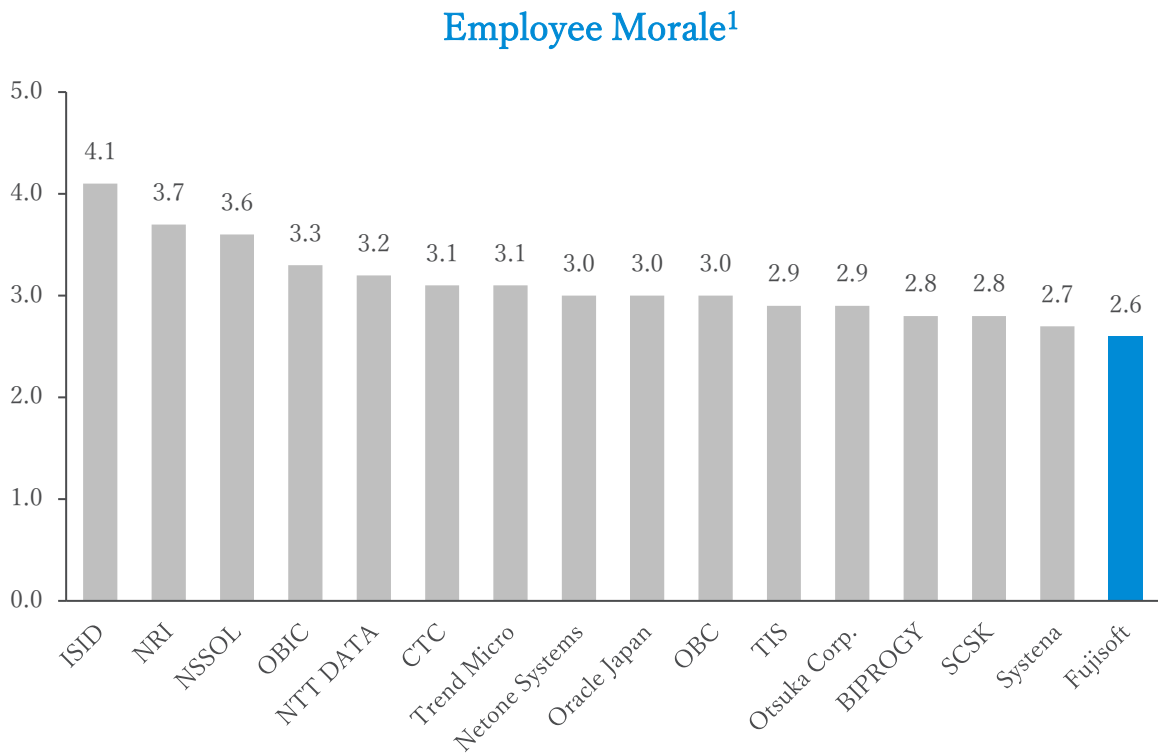
“Sales Over Profit” Operating Strategy

“Sales-oriented” growth is ingrained in the corporate culture

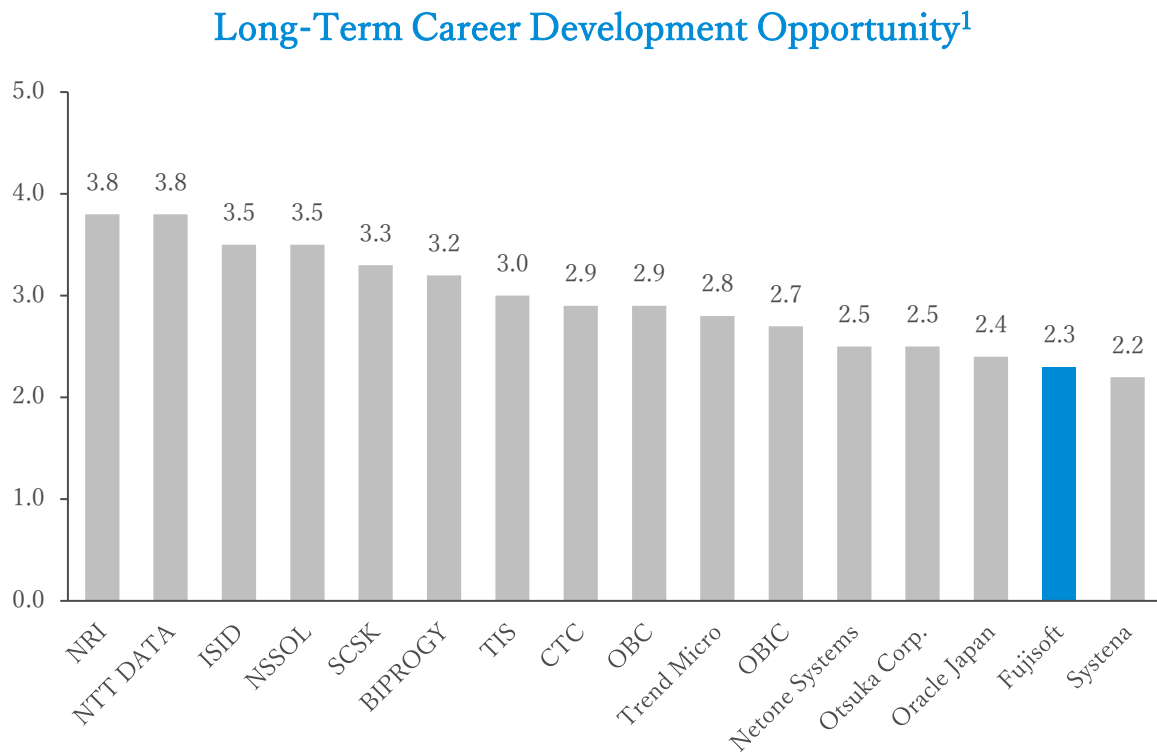
- Fuji Soft’s focus on sales growth at the expense of profitability is shown in various corporate slogans
 - **“2501”**: Aiming to achieve sales of 50 billion yen by 2000 and to be listed on the First Section of the Tokyo Stock Exchange³
 - **“3.1.50”**: Aim for 30% increase in net sales, 10% increase in ordinary income⁴/ordinary income margin of 10% or more⁵ and dividend of ¥50 per share
- In the past, sales declines have led to the demotion of the president
 - “If the company's revenue declines for the third consecutive fiscal year, I will demote the president”³
- Even today, with the divisional system in place, each division is still competing for sales growth⁵
 - “The divisional system has caused antagonism within the company and has made it less open.” Former Fuji Soft employee⁶
 - “The rank and file in a seniority-based company is desperate to increase the department's sales and compete with other departments for sales revenue.” Former employee of Fuji Soft⁶

We Believe Fuji Soft's Poor Corporate Culture Contributes to Underperformance

Fuji Soft's employee morale is the lowest among its peers...



...And employees see little opportunity for career development



Note 1: Citi Research Report, November 1, 2022, with data from Openwork and Citi research. Numbers are based on a 0 to 5 scale.

Other Observers Agree that Fuji Soft Has Underperformed



"Fuji Soft lags behind its peers in improving its operating profit margin (6.5% most recently, industry average 11.8%), and is significantly behind Systema (14.0%), which is particularly similar. We believe there is significant room for profitability improvement over the medium term through appropriate pricing and a review of excessive overhead."

Citi Research Report, August 23, 2022



"Overall, operating performance has been lagging behind peers for an extended period of time. Management's allocation of capital remains questionable."

"Fuji Soft's average operating profit margin over the past five years has been 6.0%, the lowest among its competitors. Furthermore, the company's profit margins are low despite owning the majority of its real estate."

Proxy Research Report, February 25, 2022



"We believe the relatively mediocre management projections regarding the Company's margins and profitability might be more acceptable, to some extent, if the Company was at least expecting to generate outsized revenue growth in the coming years. However, we see that the Company is only targeting a three-year CAGR in revenue of 5%, which would merely be in line with the current average annual revenue growth rate of its peers. Considering the foregoing, we believe there may be evidence to suggest that the board is not doing enough to drive greater improvements in the Company's performance relative to its peers."

Proxy Research Report, February 26, 2022



The Current Board Has Failed to Address Fuji Soft's
Underperformance



The Current Board Lacks Expertise and Independence, and Lacks the Ability to Examine Management's Failings

Based on the past performance of Fuji Soft, the current Board is not capable of resolving the management issue of low capital efficiency

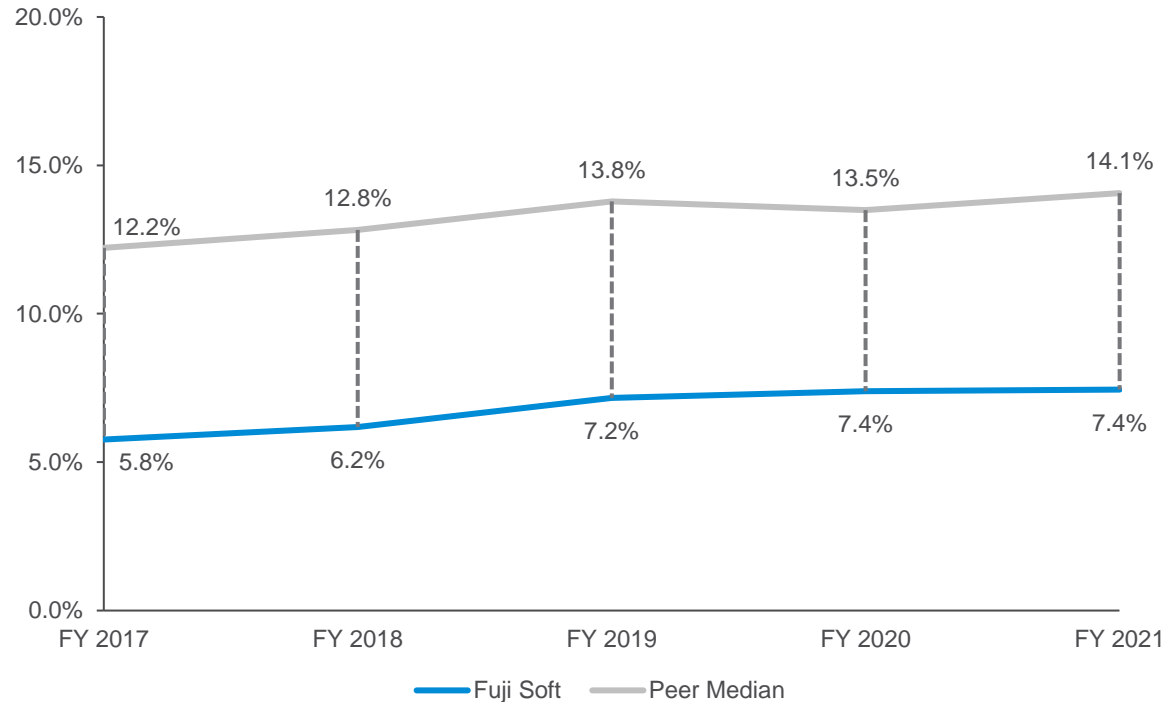
- a **Poor past performance:** The current board has failed to improve Fuji Soft's capital efficiency
- b **Lack of recognition of the issue:** The current Board of Directors does not appear to recognize low capital efficiency as an issue in the mid-term management plan

The current Board of Directors lacks the expertise and independence necessary to address the five major issues facing Fuji Soft

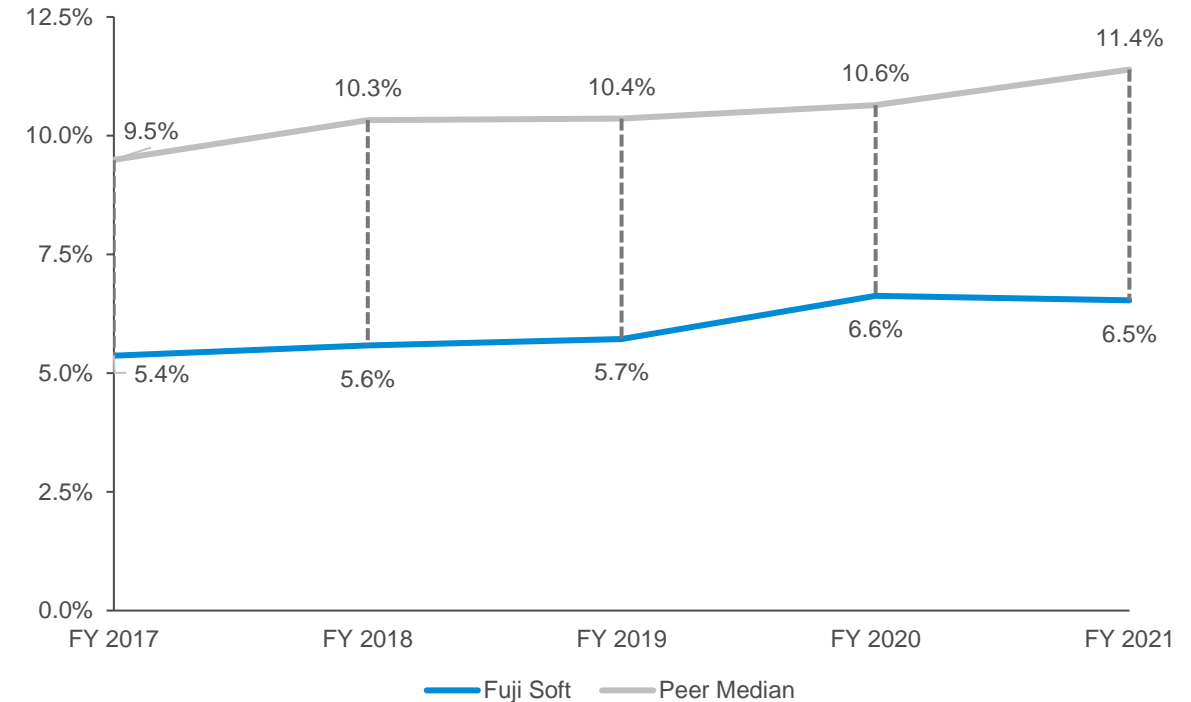
- c **Inadequate expertise:** The Board of Directors does not have the expertise required to review and remedy the five major issues facing Fuji Soft
- d **Lack of independence:** Current outside directors do not have the required independence from management and cannot objectively examine management issues rooted in the corporate culture

a The Current Board of Directors Has Failed to Improve Fuji Soft's Capital Efficiency

ROE shows no improvement vs. competitors



No improvement in operating profit margin vs. competitors



"If Fujisoft disposed of its sizeable holdings in land and buildings, it would be able to operate a high-margin IT service business model capable of generating excess profits."

Citi Research Report, November 1, 2022

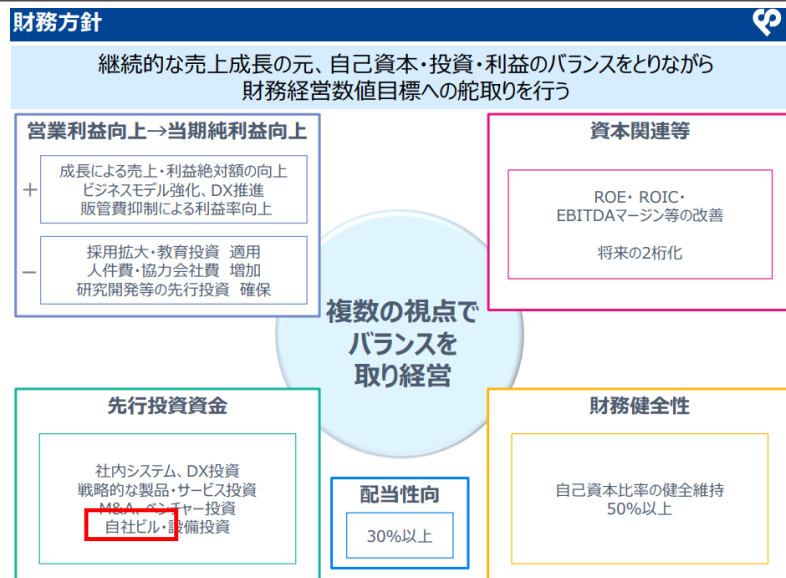
Source: Bloomberg.

Note 1: A group of listed companies with market capitalization between 100 billion yen and 1 trillion yen as of December 31, 2021, that are included in the system integrator industry or the system development industry in the SPEEDA industry classification. Itochu Techno-Solutions, TIS, SCSK, Nihon Unisys, Nittetsu Solutions, NSD, DTS, Systema.

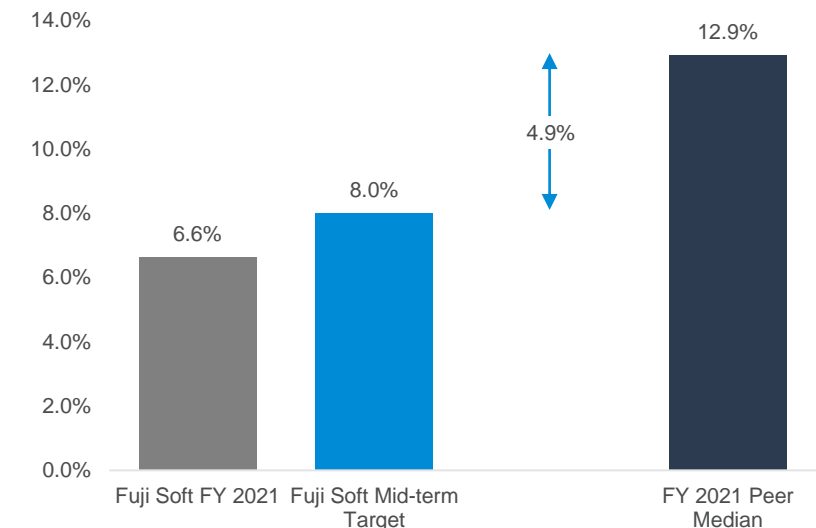
b The Current Board of Directors Does Not Recognize Low Capital Efficiency as an Issue

- Fuji Soft announced its medium-term management plan in February 2022 and continued to clearly state its policy of investing in its own office properties
- Furthermore, the ROIC targets published in August 2022 showed little improvement from the status quo
- Prior to this presentation, 3D had highlighted the importance of improving capital efficiency and specific measures to do so, but there was no indication that these measures were reflected in the presentation

Declaration of continued investment in office properties in the medium-term management plan announced in February 2022



ROIC targets as of December 2024 show little improvement from current levels

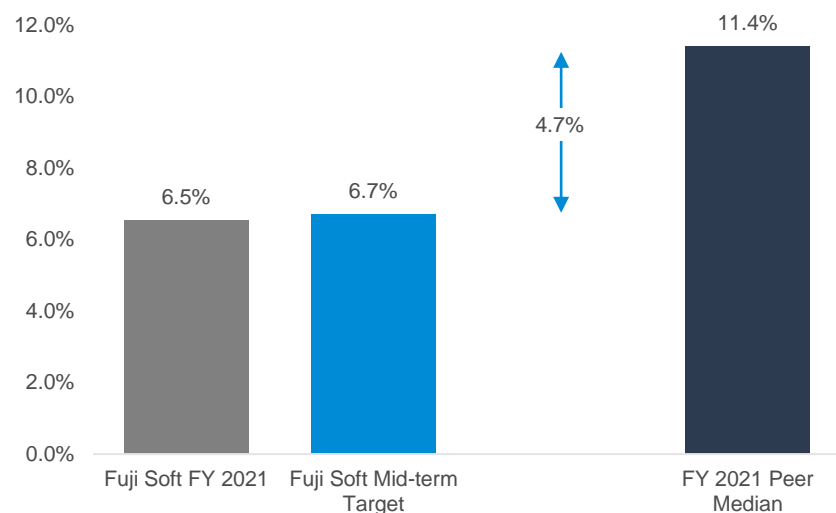


The current Board of Directors does not acknowledge that its “asset heavy” investment strategy is contributing to low ROE and a poor valuation

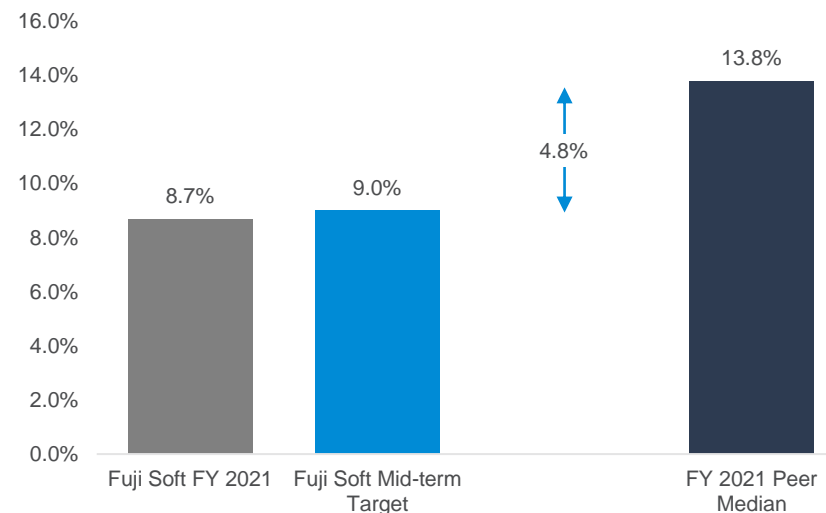
b The Current Board of Directors Does Not Recognize Low Capital Efficiency as an Issue (Continued)

- The targeted operating margin and EBITDA margin in the August 2022 presentation show little improvement from their current levels
 - Even if the target is achieved, Fuji Soft would still lag its peers
- Prior to this presentation, 3D had highlighted the importance of improving profit margins and proposed specific measures to do so, but 3D's suggestions do not appear to have been reflected in management's plan

Operating margin targets as of December 2024 show little improvement from current levels



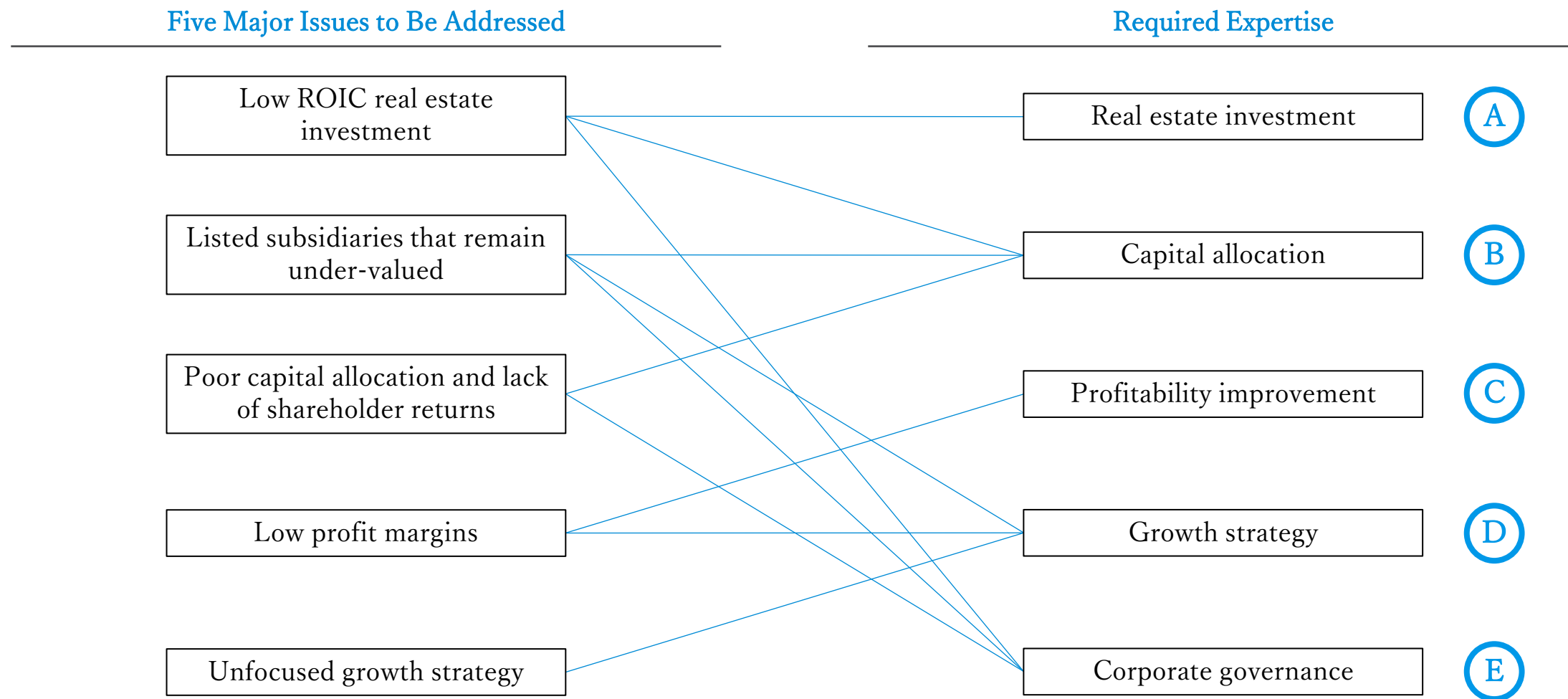
Similarly, EBITDA margin targets show little improvement from current levels



“Fujisoft sets low targets for profit growth... Until recently, there was no medium-term management plan, with management seemingly unwilling to commit to achieving health profit margin growth if there was a risk of failure. Fujisoft finally released a medium-term management plan... But the targets in the plan remain cautious.”

Citi Research Report, November 1, 2022

c Five Key Areas of Expertise Are Needed to Address Fuji Soft's Issues



c The Current Outside Directors Lack Expertise in the Required Areas

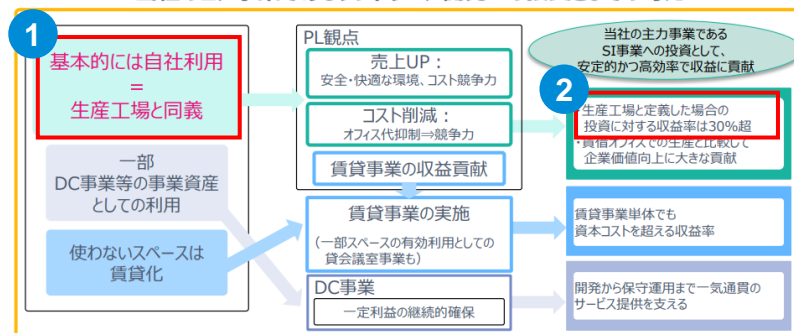
		Ms. Tomoko Aramaki	Mr. Tateki Oishi	Mr. Minoru Koyama
Background		<ul style="list-style-type: none">Recent addition to Board (March 2022)	<ul style="list-style-type: none">Outside Director from March 2019ROE for the period did not materially improve	<ul style="list-style-type: none">Outside Director from March 2019ROE for the period did not materially improve
A	Real Estate Investment	No real estate investment expertise		
B	Capital Allocation	No capital allocation expertise		
C	Profitability Improvement	No expertise in profit margin improvement		
D	Growth Strategy	No expertise in strategy development	While working for the Casio Group, he experience with a focus on product strategy development	No expertise in strategy development
E	Corporate Governance	No expertise in corporate governance		

c Evidence of Lack of Expertise: Misunderstanding Investment Returns

Medium-term Management Plan (February 2022)

不動産所持について

当社のコア事業であるソフトウェア開発への投資としての考え



1 Investment returns are calculated based on the inapposite comparison of office space to a production plant

- Fuji Soft's office properties are not indispensable for its core business and are not critical to generating profits
 - Competitors do not own their own offices
 - Fuji Soft rents some offices
 - Part of the Company's office space is leased, and those offices are not dedicated to Fuji Soft
- Fuji Soft, with the approval of its Board of Directors, made this comparison to convince shareholders of the need for its investment in office properties

2 The Company miscalculated and touted excessively high investment returns

- Fuji Soft claims that its investment in office properties are generating a "return on investment in excess of 30%"
 - Fuji Soft's own calculation method based on unreasonable assumptions is used (see Pg. 24)
- However, with office cap rates well below 10%, a 30% investment return is not plausible

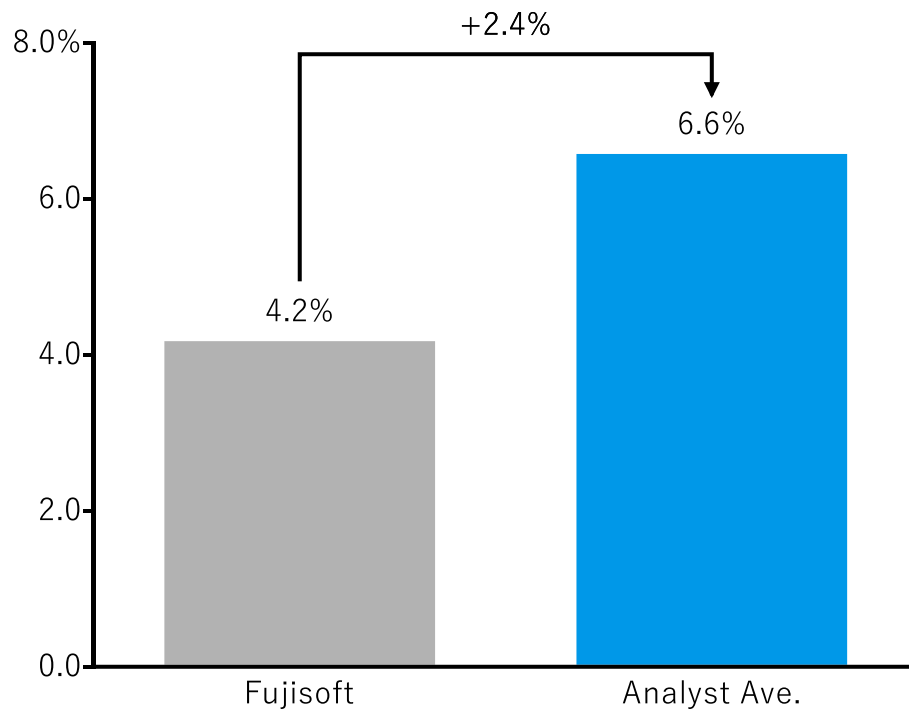
"The Company publicly claims that... the return of the Company's real estate investments could be calculated as being over 30%... [But] the disclosure surrounding this calculation is decidedly vague. As such, we believe the Company's claim in this respect offers little, if any, practical utility to investors."

Glass Lewis Proxy Research Report, February 26, 2022

c Evidence of Lack of Expertise: Allowing the Company to Miscalculate Cost of Capital

Fuji Soft's claimed cost of capital is much lower than its actual cost of capital

Cost of Capital



Fuji Soft Publication

"Our cost of capital [is] 4.2%."

Fuji soft Mid-term Management Plan Supplementary Materials

Analyst assumption

*"ROIC was set at 4.7% in the previous year, 5.7% in our forecast for this year (previously 5.3%), and 8.1% in our forecast for FY12/27 (previously 6.9%), and we considered it possible to exceed the **cost of capital (our estimate of 7.1%)** in the medium term. The medium-term EPS growth rate was previously 7% growth → now 9% growth."*

Citi Research Report, May 2, 2022

*"Our FY19 ROE estimate of 7.8% is higher than the company's **cost of capital of 6.9%** (our estimate), but lower than the ROE spread of IT services companies (our coverage)."*

Mitsubishi UFJ Morgan Stanley Research Report, February 22, 2019

WACC (加重平均資本コスト)	5.8%
期待収益率	6.6%
負債コスト(税引後)	1.5%
FCF永久成長率	0.0%

(出所) いちよし経済研究所

Ichiyoshi Research Institute Research Report, February 18, 2022

Evidence of Lack of Skill: Believing Negligible Margin Over Cost of Capital Will Create Value

Investment deemed reasonable
because ROIC exceeds cost of capital by 0.1%

Supplementary Materials for Medium-Term Management Plan (February 2022)

「賃貸事業単体でも資本コストを超える収益率」について

当社は、その時々々のビジネス環境、中長期の展望や物件のテナントニーズ等を総合的に勘案して、不動産利用の最適化を図っており、一時的に自社利用の必要性が無くなったビルや一部フロアを賃貸事業として活用しております。不動産賃貸事業は当社のコア事業ではないものの、ご参考情報として、仮に全ての不動産を賃貸事業に利用した場合として算出したROIC（※④）は4.3%であり、当社資本コスト（※⑤WACC）4.2%以上の収益率があることを記載しています。なお、各種投資の際の社内審議におきましては、2020年末日時点の数値にて算出した資本コストを期初に設定し、2021年度を通じて用いておりますので、「中期経営計画」におきましても、同資本コストを使用しております。

$$\begin{aligned} \text{※④ ROIC (投下資本利益率)} &= \frac{\text{営業利益 (外部賃貸収入 ※ - 不動産運営コスト)} \times 0.7 \text{ (簡便的に税率30\%を使用)}}{\text{初期投資額 (土地 + 建物 + 構築物)}} \\ \text{※⑤ 当社資本コスト (WACC)} &= \frac{E}{E+D} r_e + \frac{D}{E+D} r_d (1-t) \end{aligned}$$

※ 2021年末日における外部賃貸の単価、または近隣の同等オフィスの賃料単価にて算出

E: 株式時価総額、D: 有利子負債残高
re: 自己資本の資本コスト (= rf + β (rm - rf))
(rf: 10年国債利回り、β: 10年間の当社株式の対TOPIXでの感応度 (証券会社提供)、rm: 日本株約50年の平均収益率)
rd: 有利子負債コスト (税引前) (2018年12月期から2020年12月期の3年平均)
t: 実効税率30.6%

Fuji Soft claims “As ROIC of real estate business 4.3% > Cost of capital 4.2,
the company's investment in its own office properties is reasonable.”

Of course, the 0.1% spread between ROIC and cost of equity is
insufficient to create value

- ROIC and cost of capital (WACC basis) can easily vary depending on market conditions, and a difference of 0.1% is within the margin of error
- Generally, a level of at least cost of capital plus 2% is required to generate corporate value¹
 - Ryohei Yanagi (Visiting Professor at Waseda University) interviewed numerous global investors and found that the level of equity spread over the cost of capital for value creation is at least “generally required to be 2%”
 - Therefore, Mr. Yanagi describes “cost of capital + 2%” or IRR spread of 2% as the minimum level in the investment adoption criteria

d Current Outside Directors Do Not Have the Independence Necessary to Examine Management Issues Rooted in Corporate Culture

Interviews to determine the background of appointment of current outside directors

Ms. Tomoko
Aramaki
Appointed
March 2022

- Introduced to President Sakashita by the head of Fuji Soft's auditing firm, Taiyo LLC
- Appointed as outside director solely on the recommendation of the head of Taiyo LLC, with whom she has a business relationship
- No other candidates were compared to her in her appointment

Mr. Tateki
Oishi
Appointed
March 2019

- Dealt with Fuji Soft as a software configuration subcontractor while serving as President of Casio Hitachi Mobile Communications
- As the volume of business with Fuji Soft increased, Mr. Oishi became closer with Mr. Nozawa, who was the president at the time
- When he left Casio Group, he was approached and became an outside director of Vinx/Cybercom, a subsidiary of Fuji Soft
- Later, he was approached by President Sakashita to become an outside director of Fuji Soft

Mr. Minoru
Koyama
Appointed
March 2019

- Appointed by Mr. Yamaguchi, who was a corporate auditor at the time
- During his tenure at Amano, he had business dealings with Fuji Soft in the area of software development (for five years when he was plant manager, the company was his direct business partner)
- When he was with the Procurement Department, there were nearly 100 million JPY transactions per month with Fuji Soft

Problems with the Corporate Value Enhancement Committee



Fuji Soft's Proposed Solution Is to Form a Committee of the Board to Study Problems of Their Own Making

Fuji Soft Announces Establishment of Corporate Value Enhancement Committee on August 5

FUJISOFT INCORPORATED

企業価値向上委員会を新設する目的

中期経営計画を発表して以降、多くの株主の皆様と建設的な対話を実施し、
その中でいただいた指摘や提案を取り入れ、ステークホルダーに対する更なる価値向上を
推進するため企業価値向上委員会を新設

■ 現行の中期経営計画の推進

■ 企業価値向上委員会を通じた

3カ年経営方針

デジタル技術でIT、OT
お客様と社会の価値
変化の激しい時代に対応し、自らを革新し
持続的な成長
お客様へ
継続的な技術
業務改革とDXへの対応
人材育成
ガバナンス対応と強化
事業方針

企業価値向上委員会の体制

企業価値向上委員会の下部にWGを設置
委員会での方針に基づいた個別課題の調査・検証を実施し、その素案を委員会で審議する

■ 企業価値向上委員会の運営体制

企業価値向上委員会

CG高度化WG (※)

1 企業統治検証WG
現状のガバナンス体制の課題を検証し、より
客観性や実効性を高める改善点について
検討する

2 株主投資家対応WG
株主・投資家との対話方法を検証し、
非財務情報も含めた、より適切な情報開示
とIR/SR活動のあり方を検討する

サステナビリティ会議と連携

経営財務戦略WG

3 事業検証WG
これまでの事業戦略を検証し、長期的な方
向性の検討と併せて、キャピタルアロケーション
方針を検討する

4 企業グループ検証WG
子会社上場の意義の再検証を行い、今後の
あり方を検討する

5 不動産検証WG
不動産所持の意義と資本効率観点での再
検証により、必要に応じた見直しを行う

※CG:コーポレートガバナンス、WG:ワーキンググループ

Final report expected February 2023

FUJISOFT INCORPORATED

今後の活動スケジュール

企業価値向上委員会の検証過程やその後の実行状況は継続的に報告予定

■ 活動・報告予定

2022年11月

・ 社内での中間報告のとりまとめ

2022年12月期 通期決算説明会 (2023年2月)

・ 2022年度の最終報告を実施、決算発表と合わせて検証結果等を開示

2023年12月期 第1四半期以降 (2023年3月～)

・ 最終報告後も企業価値向上に向けた経営課題に対し継続的な活動を推進

The Company's Recently Announced Review Is Unlikely to Solve Its Problems

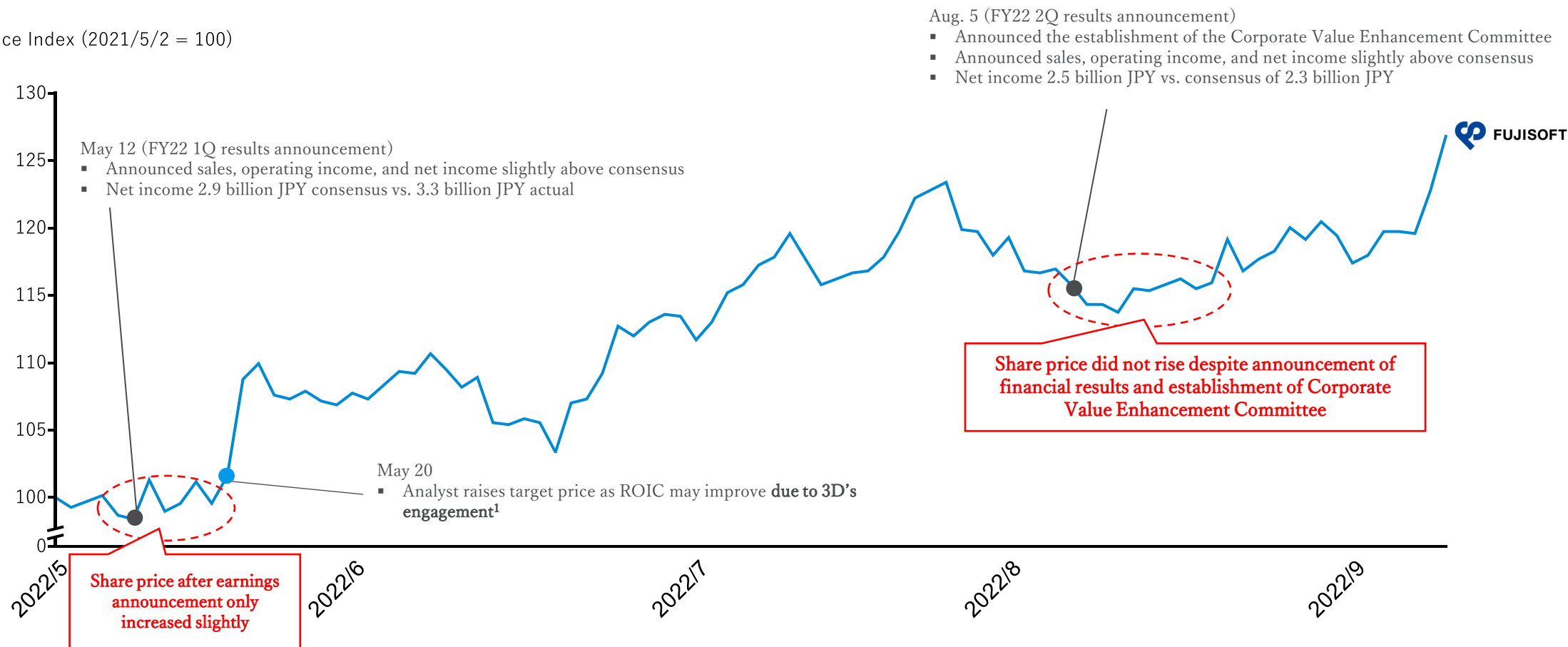
- The Corporate Value Enhancement Committee is comprised of the same members as the Board of Directors
- The current board lacks the expertise and independence necessary to examine deep-seated management issues



Corporate Value Enhancement Committee does not address the Board's underlying problems and cannot achieve the needed corporate value enhancement measures

The Market Does Not Believe Fuji Soft's New Committee Will Create Value

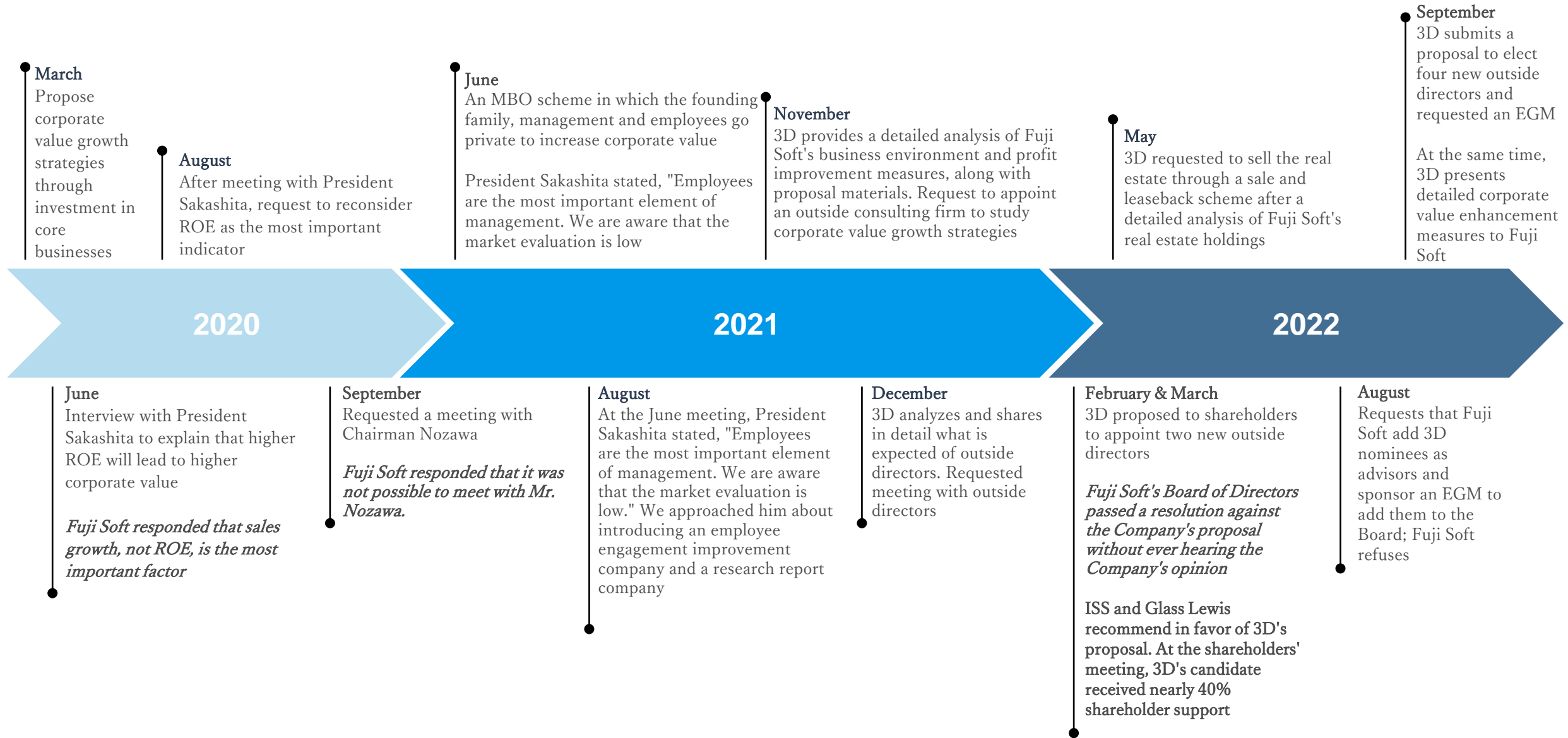
Share price Index (2021/5/2 = 100)



3D Initiatives to Enhance Corporate Value



3D Has Focused on Helping Fuji Soft Create Value



3D Believes These Five Critical Issues Are Damaging Corporate Value

1

Capital Inefficient Real Estate Investments

- Evaluate the corporate value derived from sale of real estate versus continuing to allocate capital to real estate
- Evaluate the corporate value derived from using less real estate through remote work

2

Governance / Listed Subsidiaries Are Undervalued

- Evaluate the corporate value of maintaining the status quo vs. complete acquisition or divestiture of listed subsidiaries
- If maintaining listed subsidiaries, re-evaluate the effectiveness of the governance system of the listed subsidiaries and provide transparency to markets

3

Capital Allocation / Payout Ratio

- Calculate the Company's cost of equity and evaluate existing and future investments based on cost of equity
- If no investments surpasses cost of equity, allocate excess capital back to shareholders

4

Weak Profit Margins

- Work with external expert consultants to improve profit margins
- Evaluate the Company's medium-term management plans vs. proposals by external experts and modify management plans where necessary

5

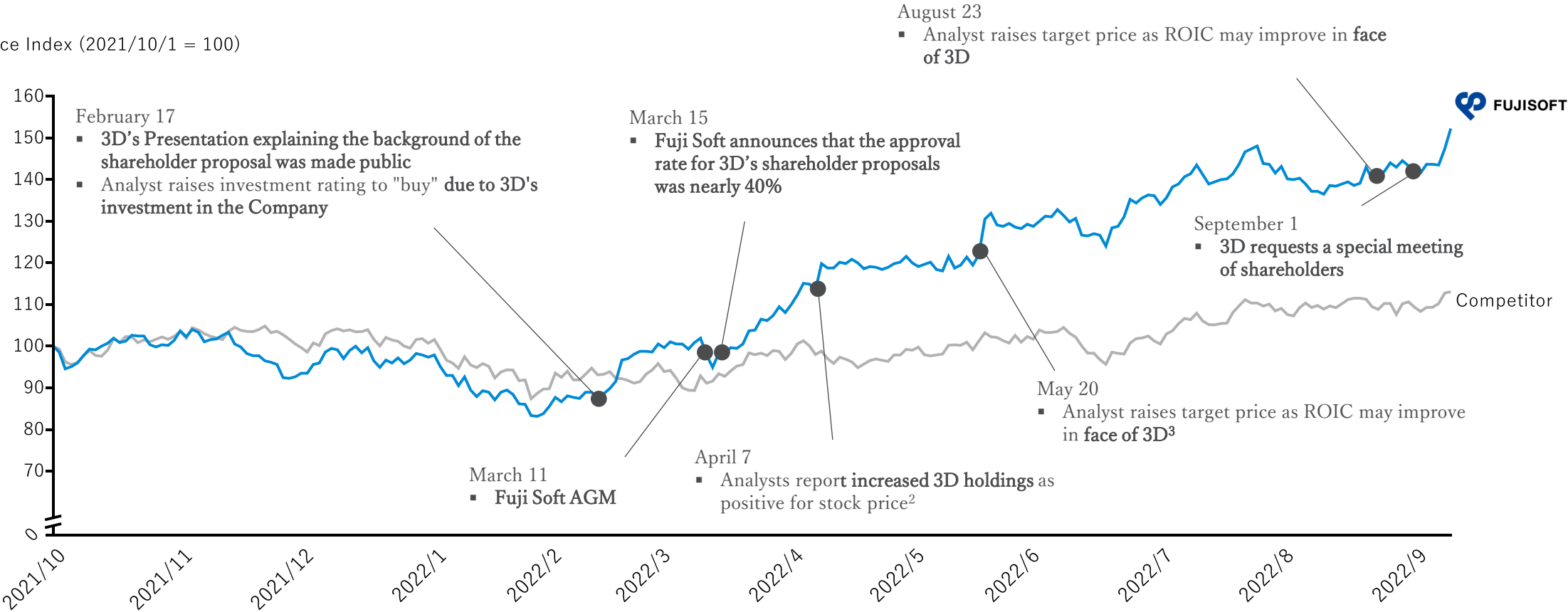
Lack of a Focused Growth Strategy

- Work with external expert consultants to conduct in-depth analysis of future business opportunities
- Identify areas where Company's resources should be intensively invested, formulate strategies, and compare them with existing growth strategies

3D's Involvement Has Been a Catalyst

3D's share price has risen in the wake of the shareholder proposal, and analysts expect 3D-led corporate transformation¹

Share price Index (2021/10/1 = 100)



"We think the market will keep a close eye on the stock because the participation of [3D] has the potential to enhance Fujisoft's corporate value and shareholder returns."

Citi Research Report, November 1, 2022

Source: Bloomberg.
Note 1: Stock price period is from 10/1/2021 - 9/5/2022; competitors are defined as a group of companies classified as system integrators or system developers in the SPEEDA industry classification and with a market capitalization between 100 billion yen and 1 trillion yen as of December 31, 2021. Note 2: Citi Research Report, April 7, 2022. Note 3: Citi Research Report, May 20, 2022.

Market Participants Appreciate 3D's Efforts and Expect a 3D-Led Transformation of Fuji Soft



“Moving forward, we expect 3D to lobby for 1) improvement in the [operating margin] via revisions to the elevated indirect-to-direct division ratio and 2) expansion in FCF and improvement in investment efficiency via revisions to the allocation of capital, which has been used to acquire prime city center land. We thus think [3D's] increased stake is positive for the share price..”

Research Note, April 7, 2022



“[We] also see limited downside for the stock [because of] the possibility of ongoing efforts to boost capital efficiency due to the existence of a major shareholder... who is willing to make important proposals to management.”

Research Note, June 8, 2022



3D Has Proposed Four Exceptional Candidates for the Board



3D Believes Corporate Value Can Be Enhanced

Key steps to increasing value:

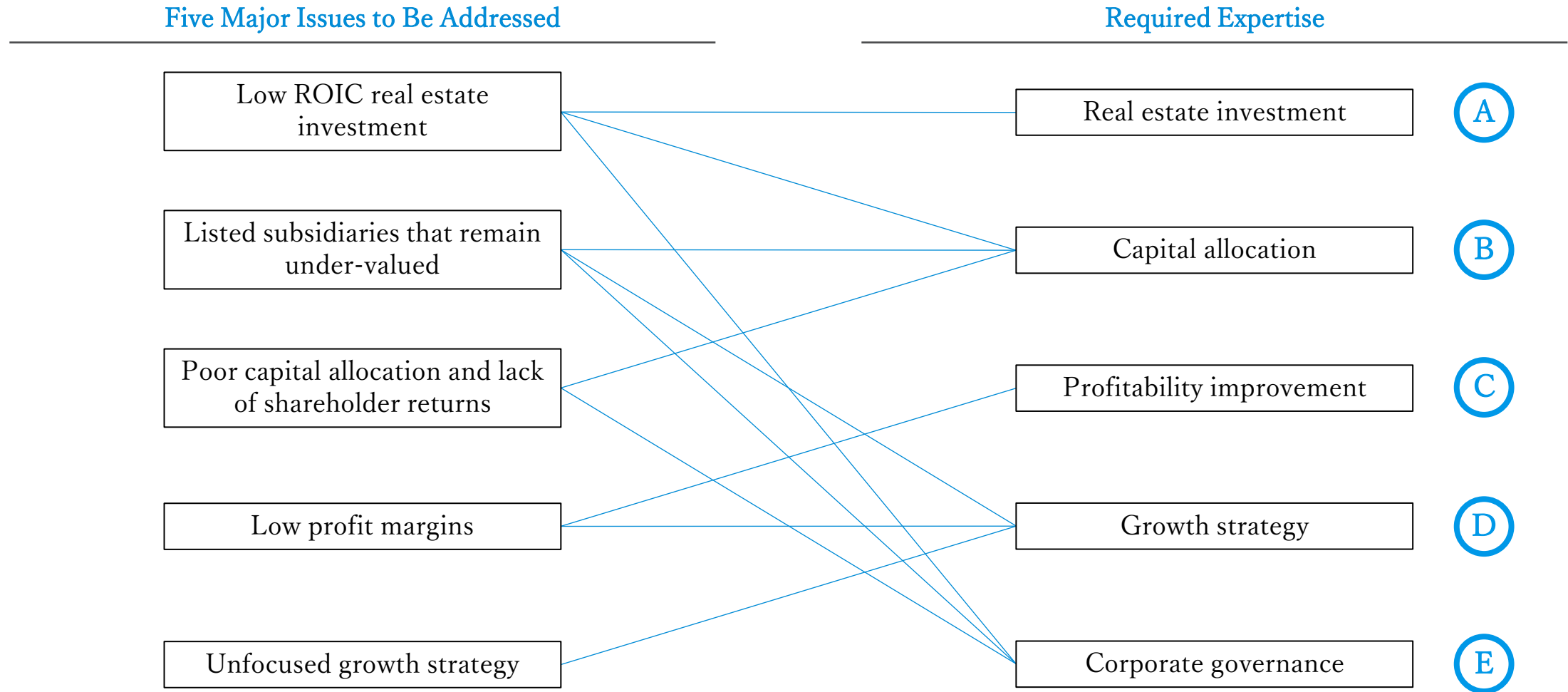
1. The Board should examine management's strategy on five issues that are important drivers of value

- **(1) Low ROIC real estate investment:** Evaluate and compare the corporate value obtained by selling the real estate against the corporate value obtained by continuing to invest in the real estate
- **(2) Corporate governance / listed subsidiaries that remain undervalued:** Evaluate and compare the corporate value obtained by maintaining the status quo against the corporate value if the listed subsidiaries are wholly owned or sold
- **(3) Capital allocation / low level of shareholder return:** Appropriately calculate cost of equity and evaluate existing and future capital allocation based on cost of equity
- **(4) Low profit margin:** Work with outside professional consultants to implement company-wide measures to improve the profit margin
- **(5) Unfocused growth strategy:** Work with outside professional consultants to conduct a detailed analysis of future business opportunities and consider growth strategies with selection and focus

2. For the review to be objective, the Board needs to be augmented with additional expertise and independence

- The five areas of required expertise to address Fuji Soft's issues are (A) real estate investment, (B) capital allocation, (C) profit margin improvement, (D) growth strategies, and (E) corporate governance
- A high degree of director independence is required to critically examine and evaluate management's strategy
 - *However, based on past performance and our interviews with the outside directors, we believe the current board lacks both expertise in key areas and independence from management*
 - *Therefore, we believe the Board requires new directors with the requisite expertise and independence*

Five Key Areas of Expertise Are Needed to Address Fuji Soft's Issues



Our Director Nominees Have the Necessary Experience



Mr. Shintaro Ishimaru



Mr. Yuya Shimizu



Mr. Kotaro Okamura



Mr. Takashi Tsutsui

Expertise in Addressing Management Issues				
		A	Real Estate Investment	Sell-side analyst in real estate at Goldman Sachs and real estate and real estate-backed loan investments at Moore Capital
			Capital Allocation	17 years of experience as an institutional investor in real estate, private equity, and Japanese and Asian equities, with a strong track record of increasing corporate value through capital allocation
		C	Profitability Improvement	Has experience and knowledge in the IT industry, having served as General Manager of IT Planning Department of Mizuho HD, CIO of ITOCHU Corporation, and Audit & Supervisory Board Member of ITOCHU Techno-Solutions Corporation
		D	Growth Strategy	Has experience and knowledge in the IT industry, having served as General Manager of IT Planning Department of Mizuho HD, CIO of ITOCHU Corporation, an Audit & Supervisory Board Member of ITOCHU Techno-Solutions Corporation
	E		Corporate Governance	Former President of Dalton Advisory, CEO and CIO of Hibiki Path Advisors, has invested in and interacted with numerous Japanese listed companies in the past

Worked in a wide range of positions within JP Morgan's Asset Management and Investment Banking divisions, including senior positions

Served 30 years at Nomura Securities Co. as Senior Managing Executive Officer, and as President and Representative Director at JASDAQ Securities Co.

Practical experience in the management of global companies with high business efficiency, including as Japan Representative of JP Morgan Chase Bank, Japan Representative of Reuters News Agency, and Senior Advisor to Société Générale

Served on Nippon Paint Holdings' Board of Directors and helped oversee the company's global M&A strategy

Advising institutional investors and others on dialogue between listed companies and investors

Representative Director of JASDAQ Securities Exchange, Outside Director and Chairman of the Compensation Committee of Nippon Paint Holdings, Inc.

Our Candidates Are Independent From 3D

- **3D has recruited four candidates that are completely independent of 3D and of Fuji Soft**
 - None of the 3D candidates has a prior commercial or business relationship with 3D
- **Without any basis in fact, Fuji Soft was concerned about the independence of our candidates**
 - To calm Fuji Soft's concerns, we developed a written pledge to provide assurances that the candidates were independent of 3D
 - ✓ On October 4, we sent a draft of the pledge to Fuji Soft, assuring that four candidates proposed are independent from 3D
 - ✓ Upon Fuji Soft's request, 3D and Fuji Soft mutually revised the pledge several times
 - ✓ On November 4, 3D was informed by Fuji Soft that the legal review on the pledge was done and 3D has submitted a pledge to the Company in accordance with the Company's request
- **Fuji Soft is now complaining that the 3D candidates may not be independent, and yet Fuji Soft has not mentioned 3D's submitted pledge**
 - Our candidates are, in fact, fully independent and Fuji Soft does not have, and could not have, any basis to claim otherwise

Our Candidates Are Independent and Experienced

Mr. Shintaro Ishimaru

Real estate investment	capital allocation	Profitability improvement	Growth strategy	Corporate Governance
------------------------	--------------------	---------------------------	-----------------	----------------------

- Mr. **Shintaro Ishimaru** served as General Manager of IT Planning Department at Mizuho Holdings, Inc. and then as General Manager of IT Planning Department, Managing Executive Officer in charge of Finance, Realty, Insurance & Logistics Company, and CIO at ITOCHU Corporation.
- ITOCHU Corporation is a company that has achieved high ROE by improving business efficiency and reinvestment, and has achieved value growth through the pursuit of business and capital efficiency, with its stock price increasing approximately five-fold over the past 10 years, making it the number one trading company in Japan in terms of market capitalization.
- Mr. Shintaro Ishimaru's experience as an Audit & Supervisory Board Member of ITOCHU Techno-Solutions Corporation, in addition to **his expertise in improving the Company's business and capital efficiency, gives him outstanding expertise in the corporate management of IT service providers and the direction they should take, as well as valuable practical experience.**
- 3D is confident that Shintaro Ishimaru will **bring tremendous value to the Company's Board of Directors, particularly in the areas of margin improvement and growth strategies.**

Bio	
1976	Joined Dai-Ichi Kangyo Bank, Ltd. (Current Mizuho Bank)
1998	President and CEO of DKB Date Services (NY)
2003	Branch Manager, Taipei Branch, Mizuho Corporate Bank, Ltd. General Manager of Taipei Branch at Mizuho Corporate Bank
2006	Executive Officer, ITOCHU Corporation (ITOCHU)
2006	General Manager, IT Planning Department, ITOCHU
2009	Managing Executive Officer of Finance, Realty, Insurance & Logistics Company, ITOCHU
2011	Assistant to Executive Officer in charge of Specific Operations, ITOCHU
2011	CIO and Deputy Chief Operating Officer, ITOCHU
2012	CIO, ITOCHU, and Executive Vice President, General Products & Realty/ICT & Financial Business Company
2013	Standing Corporate Auditor, ITOCHU Techno-Solutions Corporation
2019	Outsourced External Advisor on IT Strategy, General Products & Realty Company, ITOCHU

Mr. Yuya Shimizu

Real estate investment	capital allocation	Profitability improvement	Growth strategy	Corporate Governance
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- Mr. **Yuya Shimizu** was a real estate sell-side analyst at Goldman Sachs before moving to real estate and real estate-backed debt investments at Moore Capital's Distressed Investment Arm, where he has been involved in a wide range of investments for the past 17 years, including private equity, Japanese and Asian equities.
- From 2009 to 2014, he served as President of Dalton Investments' Tokyo-based advisory subsidiary (Dalton Advisory Co., Ltd.), where he interacted with numerous companies as a shareholder.
- Currently, he is the President and Chief Investment Officer of Hibiki Path Advisors, where he continues to invest in the equities of Japanese listed companies using value investing as his investment approach
- Mr. Shimizu has **outstanding expertise and practical experience in Japanese real estate investment, cost of capital and corporate governance in the Japanese stock market.**
- 3D believes that Yuya Shimizu will **bring tremendous value to the Company's Board of Directors, particularly in the area of real estate investment.**

Bio	
1994	Joined Goldman Sachs Japan Co.
2000	Moore Capital's Distressed Investment Arm
2003	AC Capital Co.
2004	Asuka Asset Management Co.
2005	Jermyn Capital K.K.
2007	Dalton Investments Group
2010	Representative Director, Dalton Advisory K.K.
2011	External Director of Sunitrephone K.K.
2015	Founded OTS Capital Management (Hong Kong) Limited Appointed Co-Founder and Senior Portfolio Manager
2016	Founded Hibiki Path Advisors (Singapore) Representative Director and Chief Investment Officer, Hibiki Path Advisors (Singapore) Pte. (to present)

Our Candidates Are Independent and Experienced (Continued)

Mr. Kotaro Okamura

Real estate investment	capital allocation	Profitability improvement	Growth strategy	Corporate Governance
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- **Mr. Kotaro Okamura** has 19 years of experience at JP Morgan in a wide range of positions including senior positions in Asset Management and Investment Banking.
- Subsequently, he served as Representative in Japan and Head of Tokyo Branch of J.P. Morgan Chase Bank, Representative Director and President of Thomson Reuters Markets Japan K.K. as Head of Thomson Reuters Japan, Senior Advisor to Societe Generale, and other positions.
- At J.P. Morgan, he decided to close the underperforming proprietary trading business in Tokyo and succeeded in growing the foreign exchange; these and other changes resulted in the branch office's net income doubling in just two years
- As an investment banker at JP Morgan, he has advised institutional investors and asset management companies in a variety of areas including advisory on dialogue between listed companies and investors and currently is a senior advisor to a global asset management firm (not a shareholder of Fuji Soft).
- At Thomson Reuters, Mr. Okamura led the company's Japanese business through the post-financial crisis environment and spearheaded the development of a new wealth management product and strategy to restore growth
- He also rationalized Thomson Reuters' real estate footprint, cutting costs and increasing efficiency
- Mr. Kotaro Okamura has **significant expertise and practical experience in areas such as capital allocation, management of global companies with high business efficiency, and corporate governance best practices.**
- 3D is convinced that Mr. Kotaro Okamura will **bring tremendous value to the Company's Board of Directors, particularly in the area of capital allocation (including reviewing real estate and listed subsidiary ownership policies and optimizing capital structure).**

Bio

1979	Joined Sumitomo Bank Limited (Current Sumitomo Mitsui Banking Corporation)
1990	J.P. Morgan Trust Bank Ltd. Client Relationship and Marketing Division
1995	Investment Banking Division, JP Morgan Securities Japan Ltd.
2004	Representative in Japan and Head of Tokyo Branch of J.P. Morgan Chase Bank
2009	President and Representative Director of Thomson Reuters Markets Japan K.K.
2012	Senior Advisor, Societe Generale Securities, Tokyo Branch
2019	Senior Advisor, IFM Investors (to present)

Mr. Takashi Tsutsui

Real estate investment	capital allocation	Profitability improvement	Growth strategy	Corporate Governance
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- **Mr. Takashi Tsutsui** worked for many years at Nomura Securities Co., Ltd. before serving as President and Representative Director of JASDAQ Securities Exchange, Inc. and then as Executive Vice President and Director of LIXIL Group Inc.
- At JASDAQ, he emphasized the reform of corporate governance at Japanese companies as a key theme of the exchange.
- At LIXIL, he oversaw the company's investor relations and M&A and business development activities and helped execute several large transactions that allowed the company to reposition its portfolio and expand into global markets.
- In addition, since 2018, he has served as an outside director at Nippon Paint Holdings, Inc. where he chairs the Compensation Committee and leads the design of executive compensation that contributes to director oversight and ultimately maximizes shareholder value.
- Nippon Paint has been pursuing a global M&A growth strategy and expanding into adjacent end-markets, and has achieved a fourfold increase in sales, a threefold increase in operating income, and a sixfold increase in market capitalization since March 2014.
- Mr. Takashi Tsutsui has **significant expertise and practical experience in the areas of corporate governance best practices, capital allocation, and growth strategies through M&A.**
- 3D believes that Takashi Tsutsui will **bring significant value to the Company's Board of Directors, particularly in the areas of corporate governance (including nomination and compensation).**

Bio

1974	Joined Nomura Securities Co.
2002	Director of Nomura Holdings, Inc.
2003	Senior Managing Executive Officer of Nomura Securities Co.
2005	President and Representative Director of JASDAQ Securities Exchange, Inc.
2011	Director and Executive Vice President of LIXIL Group Corporation
2014	Director, Executive Vice President and Chief External Relations Officer of LIXIL Corporation
2017	Representative of Ryujyu Consulting (current position)
2018	Outside Director, Nippon Paint Holdings Co.
2021	Outside Director, Rosetta Corporation (currently, Metareal Corporation) (to present)

Only One of Fuji Soft's Three Nominees Should Be Elected



Fuji Soft Recruited Three Candidates in Reaction to 3D and To Dilute the Change 3D Sought

- Fuji Soft was content with its Board composition as recently as the AGM¹ and had not acknowledged any need for new Outside Directors
- Only after 3D requested the EGM and nominated four candidates did Fuji Soft start recruiting new Board candidates
 - 3D filed a request for an EGM on September 1, 2022, proposing the election of four Outside Directors
 - According to 3D's interviews with three candidates proposed by the Company, all of them were contacted by the Company after 3D submitted its EGM request
- By recruiting and proposing new Outside Directors, Fuji Soft is :
 - admitting that its current Board is inadequate (3D agrees) and
 - seeking to enlarge and stack the Board to minimize the influence of 3D's candidates, who Fuji Soft knows will be truly independent from Fuji Soft management
- Fuji Soft's three candidates were identified and chosen in haste; two of them are not well suited to serve on the Board
 - **Two** of them (Mr. Tsuji and Mr. Nishina) do not have successful and relevant track records
 - We do not believe these two candidates will help Fuji Soft address its issues

Note 1 : In the Convocation Notice of the 52nd AGM dated February 22, 2022, the Company stated that the current Board of Directors "has an optimal and effective management supervision function to enhance corporate value based on the Company's basic policy and medium-term policy" and that the nine directors currently in office "are an optimal lineup"

Mr. Tsuji and Mr. Nishina Should Not Be Appointed; 3D Will Vote FOR Mr. Imai

Two of Fuji Soft's nominees will not strengthen the Board or bring new relevant expertise to Fuji Soft

a Mr. Takao Tsuji:

- Mr. Tsuji was recruited as a candidate by Fuji Soft's CEO directly; we do not believe Mr. Tsuji is truly independent.
- Mr. Tsuji failed to resolve capital allocation and margin issues when he was CEO and Chairman of JVCKENWOOD, which causes us to doubt whether Mr. Tsuji can add perspective and value to the Fuji Soft Board

b Mr. Hidetaka Nishina :

- Mr. Nishina is a lawyer with experience as an external advisor; he has no operating experience and no Board experience at a listed company of similar size to Fuji Soft
- Mr. Nishina has no experience with the issues facing Fuji Soft and expressed no insights on capital allocation, growth strategies or margin enhancement during our conversations
- Fuji Soft does not need legal expertise on its Board; Fuji Soft can hire outside lawyers like other companies

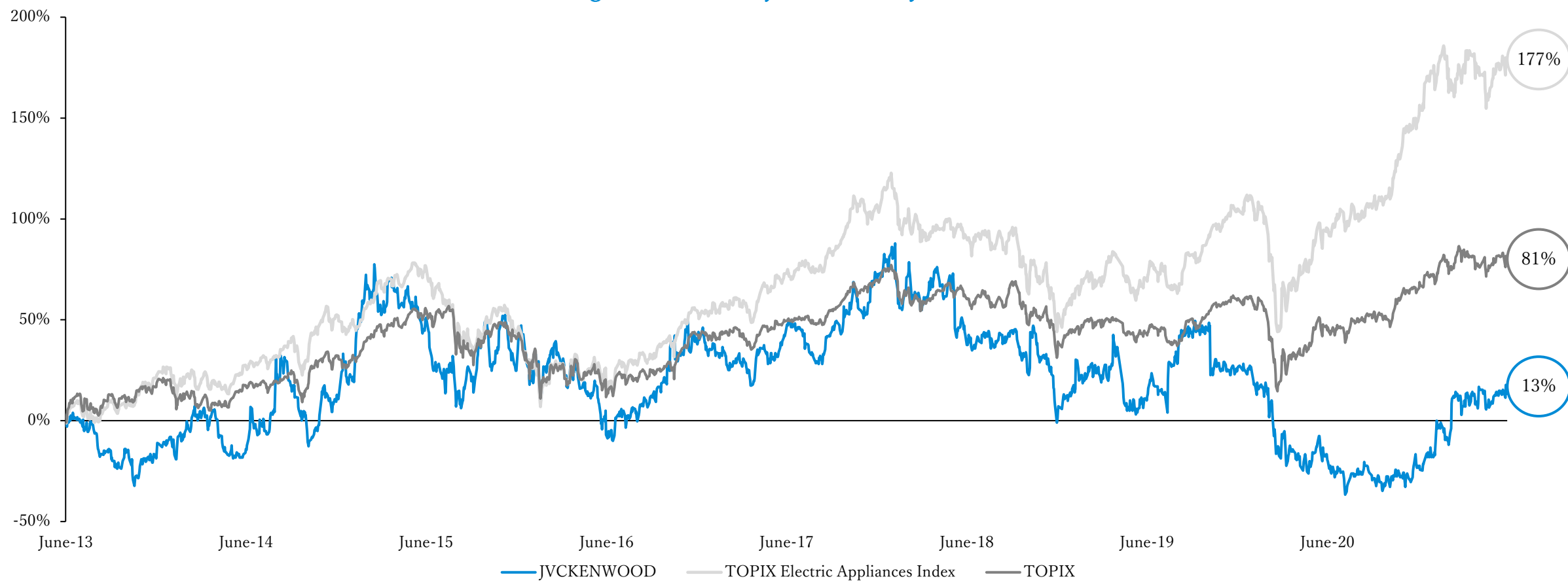
3D is supportive of the appointment of Mr. Imai because he will strengthen the function of the Board

c Mr. Imai Hikari :

- As an Outside Director of listed companies such as Olympus, he has a proven track record of improving performance
- He reinforces the knowledge and experience of 3D's outside director candidates and could contribute to strengthening the function of the Board

a JVCKENWOOD's Performance Was Poor During Mr. Tsuji's Tenure as Director

TSR During Mr. Takao Tsuji's Tenure at JVCKENWOOD¹

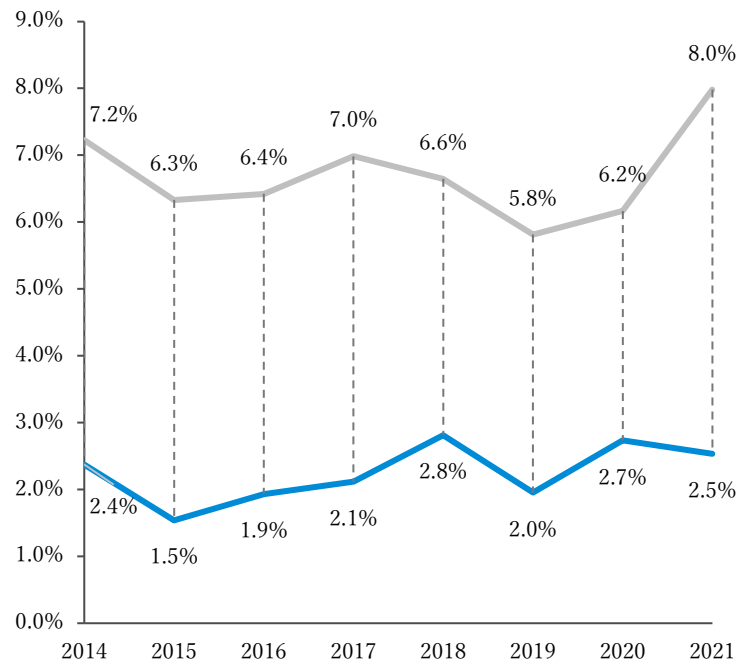


¹ Source: FactSet. Data from June 25, 2013 to June 24, 2021 (During the time he served as Outside Director, CEO, and Chairman)

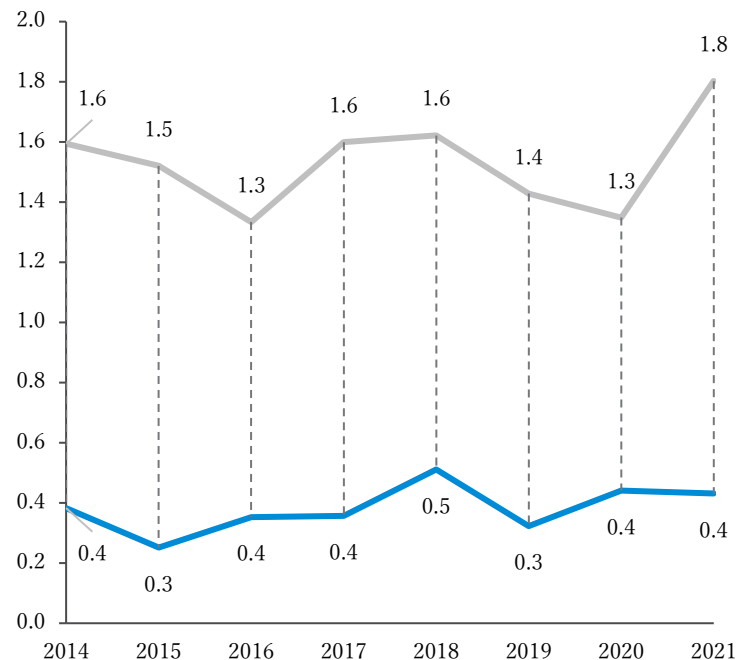
a JVCKENWOOD Suffered From the Same Issues as Fuji Soft During Mr. Tsuji's Tenure

During his tenure, the Company did not improve its operating margin, operating income per capita, or ROIC, all of which were below peers

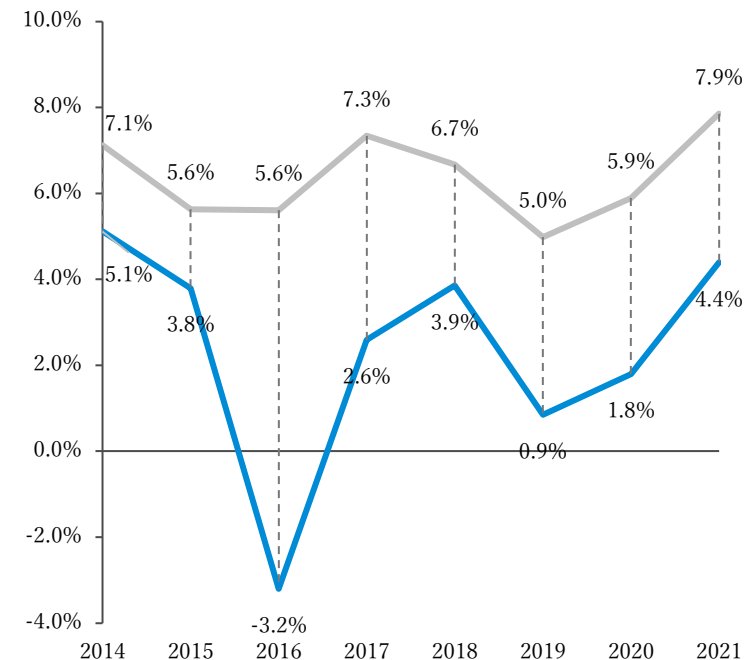
Operating Margin



Operating Income per Employee (¥M)



ROIC



It is unreasonable to expect that Mr. Tsuji will contribute to solving Fuji Soft's issues

¹ Source: FactSet. Data runs from the first full fiscal year of Mr. Tsuji's tenure to the last year of his tenure. Index data refers to median.

b Mr. Nishina Is Unlikely to Contribute Meaningfully and the Board Could Simply Hire Outside Counsel

- **Mr. Nishina is an active lawyer, and there is very little need for him to be a Outside Director**
 - He is a busy 43-year-old active attorney specializing in corporate and securities law related fields
 - No experience as a member of the management team of a listed company or as an outside director of a listed company of similar size to Fuji Soft
 - Therefore, the expected role of him to provide the Board with knowledge of corporate law and corporate governance systems could simply be addressed by appointing outside counsel

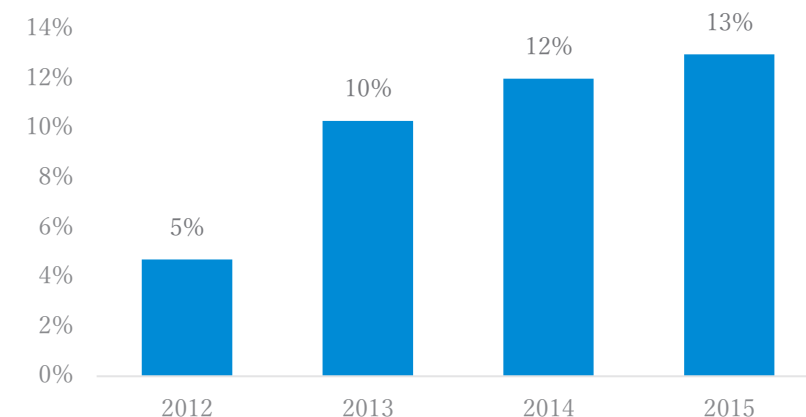
- **Mr. Nishina does not have any relevant industry experience or expertise in critical areas for Fuji Soft:**
 - Real estate investment: No experience or knowledge¹
 - Capital allocation: No experience or knowledge¹
 - Profitability improvement: No experience or knowledge¹
 - Growth strategy: : No experience or knowledge. No knowledge of the IT services industry¹
 - Corporate governance: has theoretical knowledge, but no decision-making or practical experience at a large listed company¹

c Mr. Imai May Contribute to Strengthening of the Board

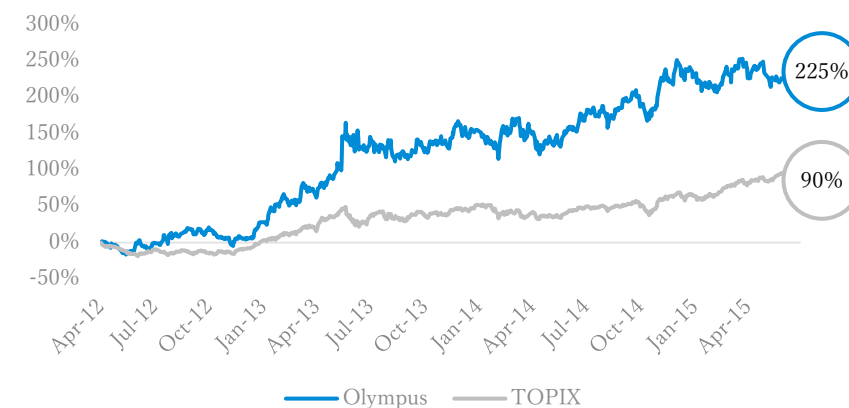
Mr. Imai can reinforce the knowledge and experience of 3D's Outside Director candidates and contribute to strengthening the functions of the Board

- Over 30 years of corporate finance experience
- As an Outside Director of listed companies, he has a proven track record of helping to improve performance
 - At Olympus, Mr. Imai was one of the members of a reconstituted board tasked with turning around the company after a corporate accounting scandal
 - During his tenure at Olympus, he helped restructure the company; the company's stock price more than tripled as margins expanded

Olympus Operating Margin During Tenure¹



Olympus TSR During Tenure¹



¹ Source: FactSet. Data includes each year during which Mr. Imai served as an outside director. TSR data from April 1, 2012 to June 30, 2015.

Only Mr. Imai Would Enhance Fuji Soft's Board in Relevant Areas

		Mr. Takao Tsuji	Mr. Hidetaka Nishina	Mr. Hikari Imai
	Background	<ul style="list-style-type: none"> Hand-picked as a potential candidate by Mr. Sakashita Poor track record as CEO and Chairman at JVCKENWOOD 	<ul style="list-style-type: none"> No experience at a listed company director similar to Fuji Soft size No operating experience of any kind 	<ul style="list-style-type: none"> Corporate finance expert Proven track record as an Outside Director of a listed company
A	Real Estate Investment	No real estate investment expertise	No real estate investment expertise	No real estate investment expertise
B	Capital Allocation	JVCKENWOOD ROE declined from 7.7% to 3.6% during his tenure	No capital allocation expertise	Experience in corporate finance as an advisor
C	Profitability Improvement	JVCKENWOOD operating margins remained well below peers during his tenure	No expertise in profit margin improvement	Olympus' operating margin improved during his tenure.
D	Growth Strategy	Nissho Electronics Successfully Transforms Business Model	No expertise in strategy development	No expertise in growth strategies
E	Corporate Governance	Has served as a director of several public companies	Advisory experience, but no decision-making authority at large listed company	Served as an Outside Director for several listed companies that experienced performance improvement
	3D's Concern	Lack of independence JVCKENWOOD suffered over his tenure	Lack of relevant and differentiated expertise Can be replaced by using outside counsel	

The Two 3D Candidates Fuji Soft Opposes Bring More Valuable Skills Than Mr. Tsuji and Mr. Nishina

Fuji Soft's preferred candidates lack relevant expertise...



Takao Tsuji

- Appears to have been **selected by Fuji Soft's CEO**, with whom he has a close and longstanding relationship
- As CEO and Chairman of JVC KENWOOD, **he has failed to improve low-profit margins and low capital efficiency; TSR is poor**
- Appears to have an **antiquated and antagonistic approach to shareholders**; in interviews with 3D, he stated that shareholder like 3D was "radical" and had a "bad image"



Hidetaka Nishina

- Has spent his entire year as a corporate and securities law attorney, with **no management experience of any kind**
- Never served as an Outside Director of a listed company of a size similar to Fuji Soft
- In his interviews with 3D, he acknowledged that he **has little experience with many of the important issues facing Fuji Soft**, including real estate investment, margin improvement and capital efficiency
- Outside counsel could bring similar expertise, when needed

...3D's candidates have vital experience and distinguished track records



Kotaro Okamura

- + Has **observed and implemented management and corporate governance "best practices"** at some of the world's leading companies, including JPMorgan and Thomson Reuters
- + Responsible for **developing new products and growth strategies** at Thomson Reuters that helped the firm recover after the financial crisis
- + **Rationalized real estate footprint, integrated operations and improved efficiency** at Thomson Reuters
- + Led **transformation and turnaround** of JPMorgan's foreign exchange business in Japan



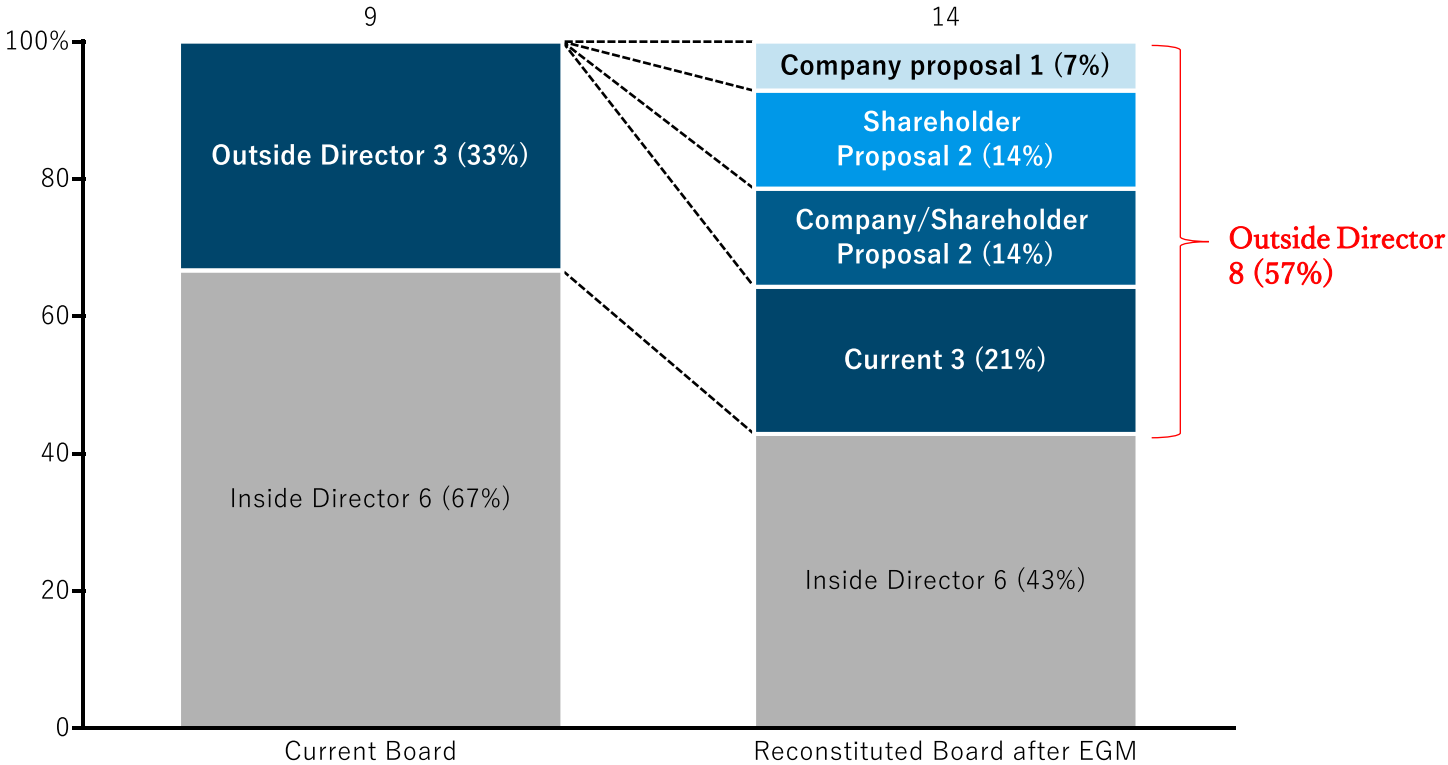
Takashi Tsutsui

- + Strongly **promoted corporate governance reforms at Japanese companies** during his tenure as President and Representative Director of JASDAQ
- + The only one among Fuji Soft's and 3D's candidates who **has served as a committee Chair on a public company board**, experience that would be invaluable as Fuji Soft transitions to a committee-based Board system¹
- + **Led LIXIL's investor relations** and M&A and business development activities
- + Has overseen Nippon Paint's **global growth strategy and expansion into adjacent end-markets**

Election of Our Nominees and One Company Nominee Would Create a More Independent Board

With the appointment of five additional outside directors, the number of outside directors on the Board of Directors would constitute a majority

Fujisoft Board of Directors Composition



All four of 3D’s candidates have a high degree of independence

- None have a business or personal relationship with Fuji Soft
- No business or personal relationship with 3D
- Upon the request from Fuji Soft, 3D has provided a written pledge guaranteeing its candidates’ independence from 3D

Fuji Soft’s Has Made Numerous Incorrect and Misleading Assertions

Fuji Soft’s Misleading Claim	THE TRUTH
Fuji Soft claims it does not know whether 3D’s candidates are independent of 3D	<ul style="list-style-type: none">3D has signed a written, unequivocal representation that its candidates are fully independent of 3DFuji Soft and 3D negotiated the language of this representation and 3D was told that Fuji Soft’s lawyers were satisfied with the languageFuji Soft does not mention this representation or the negotiations that led to these representations in its materials for shareholders, which we believe is misleading
Fuji Soft claims 3D must agree not to purchase additional shares during the tenure of 3D’s candidates in order for Fuji Soft to be assured of the independence of 3D’s candidates	<ul style="list-style-type: none">Restricting 3D’s purchase or sale of Fuji Soft stock has nothing to do with the independence of the 3D candidates3D should not be the only shareholder that cannot buy or sell Fuji Soft stockFuji Soft was not able to justify such conditions to enhance corporate valueThis appears to be a self-serving attempt by the Fuji Soft Board to prevent 3D from buying more stock
Fuji Soft opposes the election of Mr. Okamura and Mr. Tsutsui because Fuji Soft claims “there will be an overlap in the skill sets” ¹	<ul style="list-style-type: none">Mr. Okamura has exception knowledge of capital efficiency, which no other Fuji Soft director hasMr. Tsutsui has experience with governance reforms, the committee-based board structure that Fuji Soft is contemplating and how to best use remuneration structures to incentivize management, all of which would be unique and additive skills for the Board¹

Note 1 : Notice Concerning Determination of the Date and Time of the EGM and Opinion of the Board of Directors on the Shareholders' Proposal for the EGM (FUJISOFT 2022/11/7, Japanese document)

Conclusion

Conclusion

- **Fuji Soft's Board has presided over a long period of inefficient capital allocation and weak performance**
 - Prior to 3D's involvement, Fuji Soft's shareholder returns were inferior to its peers over 1-, 3-, 5- and 10-year periods
 - This TSR underperformance is largely due to an “asset heavy” investment strategy with an emphasis on owning real estate and a “sales over profit” operating strategy
 - These value-destroying investment and operating strategies are ingrained in Fuji Soft's corporate culture
- **The current Board of Directors lacks the expertise, independence and will to critically examine and correct the numerous management issues at Fuji Soft**
 - Based on past performance and the directors' experience and expertise, the current Board is not capable of resolving the inefficiency of the “asset heavy” investment strategy and the low margins created by the “sales over profit” operating strategy
 - Similarly, having interviewed the outside directors and other Board members, we do not think that the Board is capable of addressing the management issues facing Fuji Soft
 - After examining the background of the appointed independent directors, it would appear that they are not very independent
- **The Corporate Value Enhancement Committee (“CVEC”) launched in August 2022 does not solve the inherent problems at Fuji Soft**
 - Since the CVEC is composed of the current directors, the lack of experience, expertise and independence that has made the existing Board ineffective will therefore make the CVEC ineffective
- **3D has made numerous proposals to increase corporate value, but the Board has either ignored them or outright rejected them**
 - 3D began investing in Fuji Soft in 2019 and is currently the largest shareholder with over 20% ownership
 - 3D has provided several hundred pages of analysis of the longstanding problems at Fuji Soft and proposed measures to improve corporate value, but Fuji Soft has responded by doing nothing other than creating the CVEC
- **Fuji Soft's inaction is even more remarkable given the results of the March AGM**
 - A large proportion of independent shareholders voted for 3D's candidates, and the stock price has responded favorably since the meeting
- **3D's four nominees for the EGM are exceptionally well qualified to achieve medium- and long-term corporate value growth by thoroughly and objectively examining the issues at Fuji Soft**
 - The four nominees are entirely independent of 3D and Fuji Soft, and they have the right experience and expertise to improve Fuji Soft's investment and operating strategies
 - Time is of the essence, as the CVEC will be making its interim report in November and its final report in February 2023
- **Only one (Mr. Imai) of Fuji Soft's three candidates should be elected to the Board**
 - 3D believes Fuji Soft hastily nominated three candidates to dilute the impact of 3D's campaign and candidates and ensure a majority of the outside directors remain beholden to Fuji Soft
 - Nevertheless, and after serious and objective consideration of Mr. Imai's qualifications, 3D believes that he will contribute to strengthening the functions of the Board of Directors

Appendix: Our Proposed Initiatives

Focus Is Needed in Five Key Areas

1

Capital Inefficient Real Estate Investments

- Evaluate the corporate value derived from sale of real estate versus continuing to allocate capital to real estate
- Evaluate the corporate value derived from using less real estate through remote work

2

Listed Subsidiaries Are Undervalued

- Evaluate the corporate value of maintaining the status quo vs complete acquisition or divestiture of listed subsidiaries
- If maintaining listed subsidiaries, re-evaluate the effectiveness of the governance system of the listed subsidiaries and provide transparency to markets

3

Poor Payout Ratio

- Calculate the Company's cost of equity and evaluate existing and future investments based on cost of equity
- If no investments surpasses cost of equity, allocate excess capital back to shareholders

4

Weak Profit Margins

- Work with external expert consultants to improve profit margins
- Evaluate the Company's medium-term management plans vs proposals by external experts and modify management plans where necessary

5

Lack of a Focused Growth Strategy

- Work with external expert consultants to conduct in-depth analysis of future business opportunities
- Identify areas where Company's resources should be intensively invested, formulate strategies, and compare them with existing growth strategies

① Capital Inefficient Real Estate Investments

1 Fuji Soft Real Estate Strategy Is Unusual

Fuji Soft's operating profit is disproportionately reallocated to acquiring tangible fixed assets (i.e., its own offices)

Within system integration industry,
industry peers do not hold real estate

(Unit: JPY Billion)

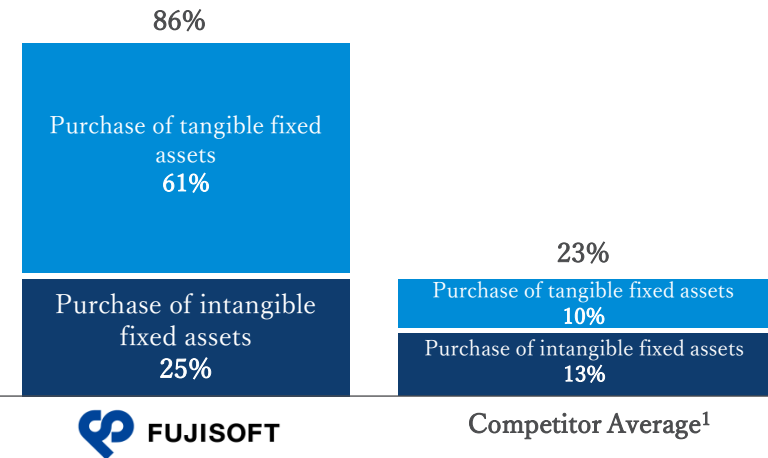
Company Name	Mkt Cap (22/2/10)	As of 2021/12			Tangible Fixed Asset/ Total Asset	Tangible Fixed Asset/ Sales
		T12M Sales	Total Asset	Tangible Fixed Asset		
Fujisoft	171	258	229	90	39%	35%
Itochu Techno-Solutions	730	508	466	30	6%	6%
TIS	693	483	470	66	14%	14%
SCSK	623	409	383	114	30%	28%
Nihon Unisys	353	314	244	32	13%	10%
NS Solutions	345	268	297	24	8%	9%
NSD	200	69	61	1	2%	2%
Systema	170	64	39	1	2%	1%
DTS	135	93	75	4	5%	4%
PeersAverage					10%	9%

Although Fuji Soft's SI business accounts for most of its operating profit, the
bulk is reallocated to acquiring tangible fixed assets (mainly its own offices)

Composition of operating
income over past 5 years
(2016~2020)



5 years cumulative expenditures on tangible and
intangible fixed assets as a percentage of total
operating income over past 5 years
(2016~2020)



Fuji Soft intends to continue to invest capital in offices

Further investment will be made on commercial real estate development

Even in newly announced Mid-term Plan (MTP), Fuji Soft announced it will continue to invest in real estate

Excerpt from 2020 Yuho

Commercial Real Estate Dev A
Commercial Real Estate Dev B

(1) 重要な設備の新設等

Scheduled Investment

Total

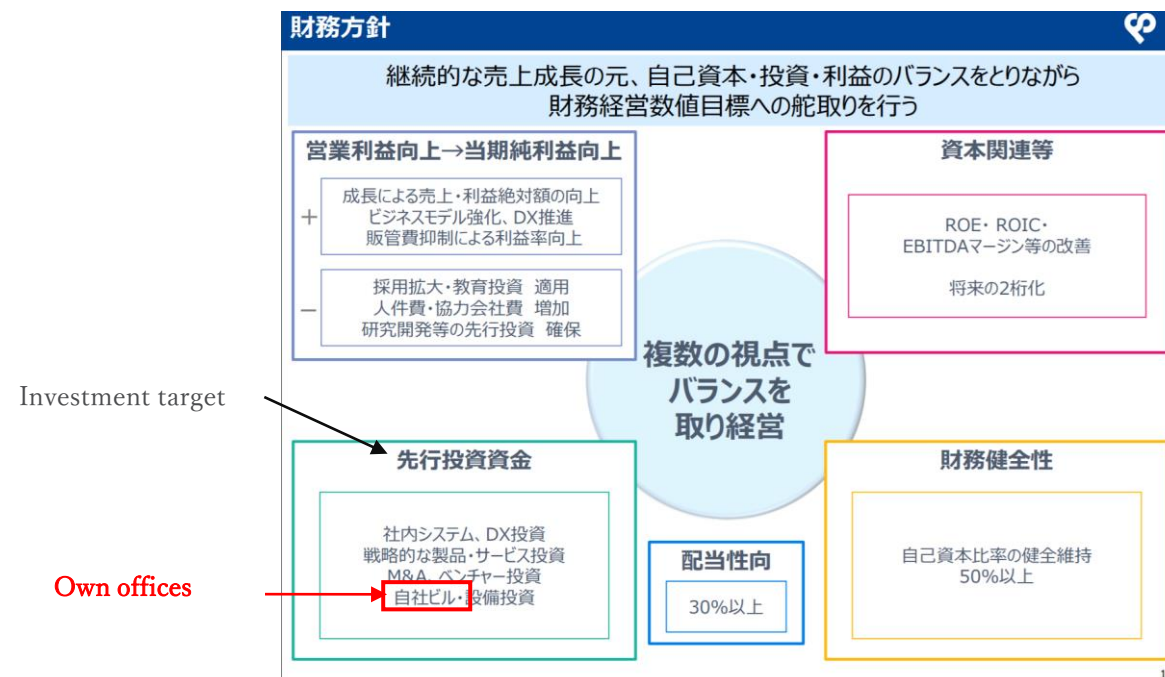
Paid Already

Start Date

Expected Completion Date

事業所名 (所在地)	セグメント 名称	設備の内容	投資予定額		資金調達 方法	着手年月	完了予定 年月	完成後の 増加能力
			総額 (百万円)	既支払額 (百万円)				
汐留ビル建設 A棟 (東京都港区東新橋)	S I 事業	建物	11,000	3,729	借入金	2020年2月	2023年5月	—
汐留ビル建設 B棟 (東京都港区東新橋)	S I 事業	建物	1,841	640	借入金	2020年1月	2021年9月	—
Total (JPY Million)			12,841	4,369				

Excerpt from the MTP on “Capital Policy”(2022/2)




Fuji Soft claims owning offices makes employees happy, but its employees are actually unhappy

“We value our people.
Our own office building
will make our
employees happy.”¹

- Overall satisfaction rating from employees at Fuji Soft is ranked 8 out of 9 in the industry
- Industry peers with higher satisfaction ratings do not own real estate. The Company's claim that its real estate increases employee satisfaction has little support and is questionable at best

Rankings based on data from Openwork, an online platform where employees post reviews about their companies

Ranking (bottom three companies are highlighted)										
	# Samples	Total	Salary	Motivation	Open Culture	Mutual Respect	Growth Opp for 20s	Skill Development	Compliance	Personal Evaluation
NS Solutions	427	1	1	1	4	1	1	2	5	2
Itochu Techno	696	2	2	2	1	6	2	5	5	3
Nihon Unisys	547	3	3	4	3	2	4	1	2	5
TIS	1,004	4	4	3	1	3	3	4	2	1
SCSK	1,061	5	6	4	4	3	5	3	1	6
DTS	408	6	8	7	7	6	6	6	7	8
NSD	259	7	4	8	6	8	6	7	9	6
 FUJISOFT	909	8	6	8	7	9	9	7	8	3
Systema	351	9	9	6	9	3	8	9	2	9

An independent appraiser¹ evaluated the value of Fuji Soft's real estate, which exceeds Fuji Soft's market cap

Akihabara Office



Yokohama Head Office



Name	Address	Adopted Land Area tb	Adopted Bldg. Area tb	Adopted Rentable Ratio /GBA %	Adopted NRA tb	Stab. Rent Yen/tb	Vacancy%	Expense %	NOI CAP %	Value JPYmn	Book value JPYmn	Unrealized gain JPYmn	Valuation method
Akihabara office	Chiyoda Ward, Tokyo	1,511	17,281	62%	10,699	32,000	5%	24%	2.8%	107,000	30,593	76,407	Income
Yokohama HQ	Yokohama-city, Kanagawa	856	8,116	70%	5,681	20,000	5%	25%	3.4%	29,800	11,133	18,667	Income
Kinshicho Office	Sumida-ku, Tokyo	806	5,697	70%	3,988	18,000	5%	24%	3.6%	17,200	5,440	11,760	Income
Shiodome land	Minato Ward, Tokyo								4.6%	15,480	15,175	305	Residual
Nagoya New Office	Nagoya-city, Aichi	299	2,663	75%	1,997	16,000	5%	25%	3.8%	7,580	6,309	1,271	Income
Ryogoku Office	Sumida-ku, Tokyo	461	2,090	70%	1,463	16,000	5%	24%	3.8%	5,370	2,690	2,680	Income
Monzennakacho Office	Koto-ku, Tokyo	468	1,331	70%	932	13,000	5%	24%	5.0%	2,120	1,867	253	Income
Osaka Office	Osaka City, Osaka	144	1,193	75%	895	17,000	5%	25%	5.0%	2,720	1,394	1,326	Income
Nagoya Office	Nagoya-city, Aichi	212	1,294	70%	906	12,000	5%	25%	5.0%	1,990	1,005	985	Income
Omiya Office	Saitama-city, Saitama	215	1,058	63%	662	16,000	5%	25%	5.5%	1,780	1,415	365	Income
Fukuoka Office	Fukuoka City, Fukuoka	384	1,232	75%	924	10,000	5%	25%	7.0%	1,130	1,636	-506	Income
Hachioji Office	Hachioji City, Tokyo	257	549	75%	411	8,000	5%	25%	7.0%	406	305	101	Income
Abiko Office	Abiko City, Chiba	315	778	75%	583	6,000	10%	25%	8.0%	356	868	-512	Income
Atsugi Office	Atsugi City, Kanagawa	297	606	75%	455	6,000	5%	25%	7.0%	333	432	-99	Income
Hitachi Office	Hitachi City, Ibaraki	397	249	70%	174	7,000	15%	25%	9.0%	104	153	-49	Income
Others										2,060	4,122	-2,062	
Total										195,429	84,536	110,893	

Kinshicho Office



Shiodome Land (under development)



With the increasing prevalence of “work from home,” Fuji Soft can bolster its bottom line by cutting back on office space

With remote work, we estimate if the Company reduces its occupied floor space by 30–50% and lease out the reduced space to third parties, the Company will increase real estate income by JPY1.1–1.8 billion

Many IT companies are working to reduce office space

	Comments made by each companies	% floor space reduction
Z HOLDINGS	"Yahoo, a subsidiary of Z Holdings, will downsize its Tokyo office by 40 percent by November 2021 , found on Aug. 26, 2021. In response to the spread of the new coronavirus, Yahoo is limiting its office attendance to about 10%. The company will fundamentally rethink ideal use of offices in order to establish a new way of working centered on telecommuting." - Nikkei xTECH 2021/8/26	40%
DeNA	"On April 30, DeNA announced that it will relocate its headquarters office in Shibuya Hikarie to WeWork Shibuya Scramble Square (Shibuya-ku, Tokyo), an office space of WeWork Japan. In conjunction with this move, the number of desks will be reduced from approximately 2,800 in the previous office to approximately 700 . The measure is based on the fact that the number of employees who come to work has been reduced to less than 6% of the total workforce due to the implementation of remote work." - ITmedia NEWS 2021/4/30	75% (# of Desk)
WingArc 1ST	"Wing Arc 1st Co. has decided to terminate approximately 1,000 tsubo of its office space, which had been the working area for approximately 600 employees. This is about two-thirds of the total area of the company's existing offices." - ITmedia Business Online 2021/3/9	67%
SAKURA internet	"On April 1, Sakura Internet moved its Osaka headquarters from Grand Front Osaka, a complex near JR Osaka Station, to a building in Umeda. The office area has been reduced to one-tenth of its previous size of about 2,800 square meters; the company has been shifting to a working style based on telework since 2020, and the percentage of employees who come to work is only about 10%." - Nikkei 2021/10/7	90%
ぐるなび	"Gurunavi announced on the 29th that it will reduce its office space by about 40% . Of the five floors leased as its headquarters in Tokyo, three will be terminated in December. The number of seats will be reduced to a quarter of the existing number , and free address system will be introduced. The cancellation of the offices is expected to reduce fixed costs by about JPY400 million per year." - Nikkei 2020/7/29 日本経済新聞 2020/7/29	40%

If Fuji Soft reduces its occupied floor space by 50%, the Company's profit will increase by JPY1.8 billion

Number of employees occupying unconsolidated properties	5,870	employees ¹
tsubo/employee	3.00	area per person
Area used in-house	17,610	3.31 square meters
Floor space reduction ratio	50%.	
Newly leased area	8,805	3.31 square meters
w.a. Rental income	17,735	JPY/tsubo (monthly)
New rental income	+1,874	Millions of JPY
New lease income	+1,780	Millions of JPY
Capital expenditure required for leasing	2,642	Millions of JPY
(Unit price per tsubo)	0.30	Millions of JPY

Source: Various media, company disclosures, 3D analysis

Note1: The number of employees occupying properties not owned by the parent company is excluded from the number of non-consolidated employees as of Dec 2020. Except Yokohama Head Quarter, Akihabara, Kinshicho and Nagoya Office, data as of Dec 2016 is used for the number of employees occupying each remaining properties.

- On February 10, 2022, Fuji Soft announced its mid-term plan and stated that its real estate ownership is rational for the following reasons:
 - The Company uses its own office spaces, which are equivalent to manufacturing plants
 - Fuji Soft implied that the rate of return on the Company's office investment is over 30%
- 3D asked about these rationales at the earnings conference on the same day:

3D Question	Fuji Soft Response	3D Takeaways
<p>The book value of the Company's office investment before depreciation is about JPY120 billion, and after depreciation, it's JPY90 billion.</p> <p>Please explain how to calculate the 30%, particularly the denominator and numerator.</p>	<p>The 30% is one of the indicators that we calculate on our own, <u>not</u> ROIC.</p> <p>The denominator and numerator cannot be answered clearly since it is complex concept.</p> <p><u>We assume that our office is a production plant and add all the value generated from it to the numerator.</u></p>	<ul style="list-style-type: none"> ▪ The logic that the Company's own office is a "production plant" is unreasonable <ul style="list-style-type: none"> • Competitors do not invest in office space and Fuji Soft also rents third-party real offices • Fuji Soft office spaces are not specifically designed for self-use • Investing in real estate is not essential for business operation and Fuji Soft's offices should not be claimed as driving value in the business operation itself – it is not a "factory" ▪ Fuji Soft misleads shareholders on real estate investment returns <ul style="list-style-type: none"> • There is no definition of Fuji Soft's proprietary metric for returns; the calculation method is not disclosed • The disclosure of a "return on investment" of more than 30% is a deliberate attempt to mislead the market • Fuji Soft attempts to justify its real estate investment in a manner that could violate the Securities Listing Regulation of TSE
<p>Fuji Soft claims that owning office space increases corporate value more than renting office space. <u>Does that mean that the present value of the profit increase from owning its own office exceeds the cash outflow of real estate acquisition?</u></p>	<p>We believe that corporate value will increase because the profit will improve if we operate in our own offices more than we operate in rented offices.</p>	<ul style="list-style-type: none"> ▪ If the Company uses its own office space, the rent will be lower, so earnings would be higher. However, this PL based logic does not justify allocating capital to real estate. <ul style="list-style-type: none"> • Whether or not there is an increase in corporate value should be judged by whether the present value of the increase in earnings <u>exceeds</u> the cash outflow from the acquisition of real estate – Fuji Soft's comparison is inappropriate ▪ The Company deliberately refrains from disclosing the method of comparing corporate value and tries to create a false impression to the market

Fuji Soft can enhance its corporate value and increase capital efficiency by reducing its real estate holdings and use of office space

Real estate ownership strategy should be re-evaluated to increase corporate value.

Concurrently, improving profitability through floor space reduction should be considered.

1

Evaluate real estate ownership strategy

- If the Company were to sell its real estate holdings, it would create value (JPY195 billion) that exceeds today's market capitalization (JPY150 billion)
- If the Company continues to hold real estate, the Board needs to identify a real estate strategy to create value in excess of JPY195 billion

2

Consider options for improving profitability through floor space reduction

- Calculate the impact on profit by reducing occupied floor spaces by promoting remote work
- If floor space is not reduced, the Board should identify how maintaining the status quo will create corporate value that exceeds the increased profits from floor space reduction

Real estate is an investment like any other use of capital – Fuji Soft must ensure its capital is used to create returns.

Fuji Soft is using too much office space and should reduce occupied floor space through remote work.

② Listed Subsidiaries Are Undervalued

Fuji Soft's Board should actively review the listed subsidiary structure

Excerpts from METI's "Practical Policy on Group Governance Systems" (Group Guidelines)"

6.2 How the parent company should be managed

6.2.1 Group's Business Portfolio Strategy

The parent company should periodically check whether it is optimal to maintain the subsidiary as a listed subsidiary from the perspective of (1) improving the corporate value of the group as a whole and (2) capital efficiency. Also, the board of the parent company should carefully discuss above points at the board meeting and explain rationality of its decision over listed subsidiaries and the effectiveness of the governance system of the listed subsidiary, and fulfill its accountability to investors through disclosure of such discussion result.

If the parent company elects to maintain a subsidiary as a listed subsidiary, the Board should deliberate on the following two points and fulfill sufficient accountability to investors through information disclosure:

(1) Rational reason for keeping the subsidiary as a listed subsidiary

Essentially, the inherent merit of listing subsidiaries is that it allows subsidiaries to achieve sustainable growth and enhance corporate value by having the means to raise funds directly from the capital markets. With this in mind, it is important to consider whether the benefits (i.e., the benefits to the group of maintaining a listed subsidiary) outweigh the constraints and costs (e.g., difficulty in utilizing resources for the overall optimization of the group) associated with having to consider the consistency with the group's overall business portfolio strategy and the interests of the general shareholders of the listed subsidiary. The board of the parent company should **explain in detail** whether **there is a rational reason for maintaining the subsidiary as a listed subsidiary from the perspective of maximizing the corporate value of the group.**

(2) Ensuring the effectiveness of the governance system of listed subsidiaries

The parent company, as the controlling shareholder, is in a position to exercise the authority to select and dismiss the directors of the listed subsidiary. However, the parent company should give sufficient consideration to the interests of minority shareholders and **explain its approach to the appropriate exercise of the authority to select and dismiss directors in order to ensure an effective governance system (such as the appointment of independent outside directors with the necessary qualifications) in the listed subsidiary.** The board of the parent company should explain the policy and rationale regarding the appropriate exercise of the authority to elect and dismiss directors of listed subsidiaries.

グループ・ガバナンス・システムに関する実務指針
(グループガイドライン)

2019年6月28日策定
経済産業省

Fuji Soft should reconsider the status of its listed subsidiaries because their valuations are low

Total equity value of Fuji Soft listed subsidiaries is 18% of market capitalization

	MV	EV	% Fuji Soft Own	MV % Fuji Soft Own	% to Fuji Soft Mkt Cap	PER	EV/ EBITDA	PBR
Cybernet systems	19,823	8,060	54%	10,693	7%	11.0x	2.5x	1.2x
Vinx	17,186	13,125	63%	10,892	7%	11.5x	3.6x	1.6x
Cyber com	8,719	7,823	52%	4,524	3%	12.4x	7.1x	1.5x
Fuji soft bureau	4,023	2,806	56%	2,255	1%	11.6x	3.9x	1.3x
				28,365	18%	11.5x	3.8x	1.4x





With the exception of Cybercom, the subsidiaries have low multiples relative to their respective peers¹

CAD/CAM System	EV/ EBITDA	Software (Business Support)	EV/ EBITDA	Embedded System Development	EV/ EBITDA	Outsourcing Service	EV/ EBITDA
Applied tech	12.3x	Scala	11.8x	TDC soft	7.5x	Shidax	13.7x
Aisan tech	11.2x	ULS group	11.6x	Cyber com	7.1x	Sunnexa group	8.1x
Kozo keikaku	9.9x	Kozo keikaku	9.9x	Poletowin	6.9x	Business brains	7.9x
CDS	8.8x	Pipedo HD	8.9x	SRA holdings	6.3x	Hito communications	4.9x
Genetec	5.5x	Wingarc 1st	7.8x	I-net	6.3x	Will group	4.9x
Cybernet systems	2.5x	Japan system	6.7x	ID holdings	6.3x	CAC holdings	4.2x
C&G systems	2.3x	Cresco	6.3x	JFE systems	5.4x	Fuji soft bureau	3.9x
		Broadleaf	5.5x	CAC holdings	4.2x	CMC	3.4x
Average	7.5x	Cyberlinks	5.4x	Nippon systemware	3.3x	Honyaku center	1.5x
		Unirita	5.3x	Average	5.9x	Average	5.8x
		Vinx	3.6x				
		Aucfan	1.0x				
		Average	7.0x				

Source: Bloomberg, SPEEDA

Note1: Peers are selected from the companies categorized in same industry by SPEEDA. Peers are narrowed down to the companies with top 30 sales and market cap below JPY50 billion. The companies are not selected if the most recent EV/EBITDA data on Bloomberg is not available.

There isn't sufficient independence between the listed subsidiaries and Fuji Soft

	Independence of the Board of Directors (Ratio of employees from Fuji Soft)	Noteworthy Transactions	Scandal
	<ul style="list-style-type: none"> Directors and Executive Officers 3/5 (including President and Representative Director) <ul style="list-style-type: none"> (The Executive Vice President also serves as Director and Managing Executive Officer of Fuji Soft) Outside directors 0/4 Corporate auditors 2/3 (including full-time corporate auditors) 	<ul style="list-style-type: none"> Short-term loans of JPY4.5 billion to the parent company as of Dec 2020 	
	<ul style="list-style-type: none"> Directors and Executive Officers 3/4 (including President and Representative Director) Outside directors 0/2 Auditors 0/3 		
	<ul style="list-style-type: none"> Directors and Executive Officers 1/4 (including President and Representative Director) Outside directors 1/2 Corporate Auditors 1/3 (Full-time Corporate Auditor) 	<ul style="list-style-type: none"> Short-term loans of JPY2.0 billion to the parent company as of Dec 2020 	
	<ul style="list-style-type: none"> Directors and Executive Officers 2/3 (including President and Representative Director) Outside directors 0/2 Audit & Supervisory Board Members 1/3 		<ul style="list-style-type: none"> Recommendation and Order for payment of surcharge for false statements in securities reports, etc. (2021/1)

Maintaining unnecessary listed subsidiaries can be problematic

Fuji Soft Service Bureau received a notice from client on the possibility of false billings

December
2018

Prior years' operating income were revised downwards significantly at -15% to -42%

Fuji Soft Service Bureau downward revision of past financial reporting

	FY17/3	FY18/3	FY19/3 1H
Revenue revision %	0%	-1%	-2%
Operating profit revision %	-15%	-29%	-42%

February
2019

An internal investigation committee was set up

- The committee was chaired not by an outside director, but by Mr. Ogiso, Managing Director and General Manager of the Administration Division and a former employee of Fuji Soft
- Other committee members included outside auditors but no external legal counsel was appointed

January
2019

January
2021

The Securities and Exchange Surveillance Commission recommended the penalty of JPY12 million for the disclosure of "false statements on material matters"

- In response, Fuji Soft Service Bureau paid JPY12 million to the national treasury

March
2021

The president at the time, Mr. Satoshi Sato from Fuji Soft, was not held accountable for this incident

In accordance with the Group Guidelines¹ published by METI, Fuji Soft should reconsider whether to maintain listed subsidiaries

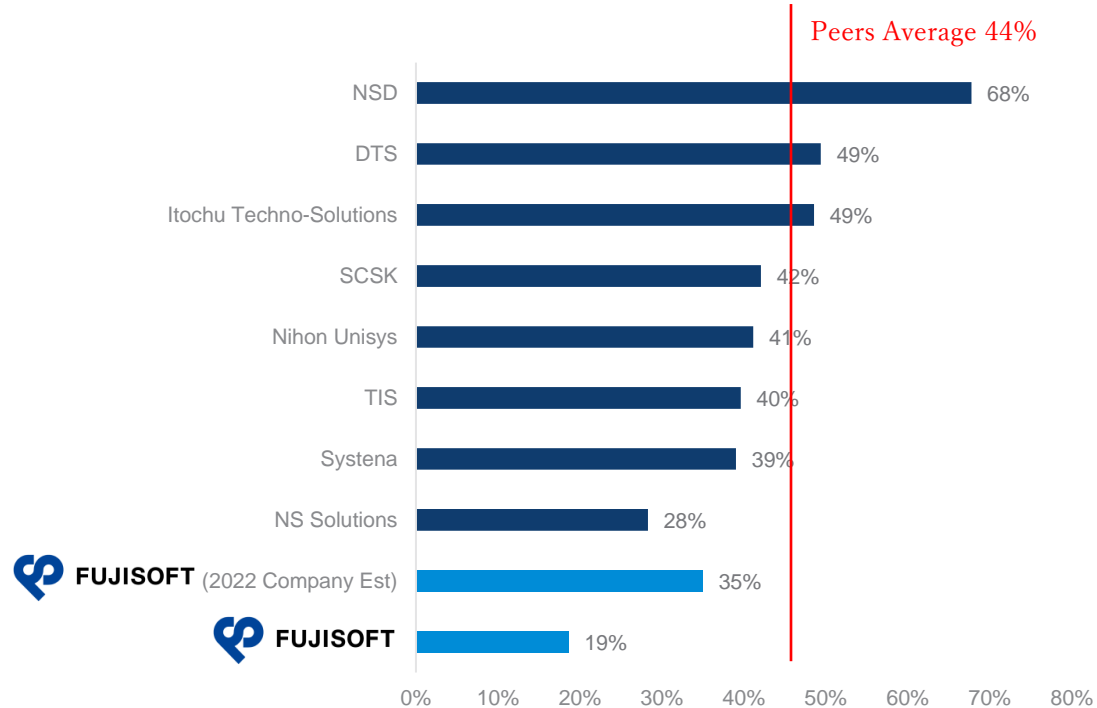
- Low valuation of listed subsidiaries also damages the corporate value of the group
- The current market valuation of listed subsidiaries remains low due to:
 - Loans to the parent company
 - The occurrence of scandals
 - The composition of the Board of Directors with questionable independence
- The Board should determine whether maintaining the status quo or complete acquisition / disposal will create the most corporate value
 - If high synergies are expected, a full acquisition can be a rational strategy but should be examined based on the ROIC from the premium paid
 - A complete sale will generally create more corporate value than the status quo due to a premium paid by potential acquirer
- The Company should also reexamine the effectiveness of its governance system and explain it to the market

3 Poor Payout Ratio

Fuji Soft is under-allocating its total net income to shareholders and over-allocating to real estate

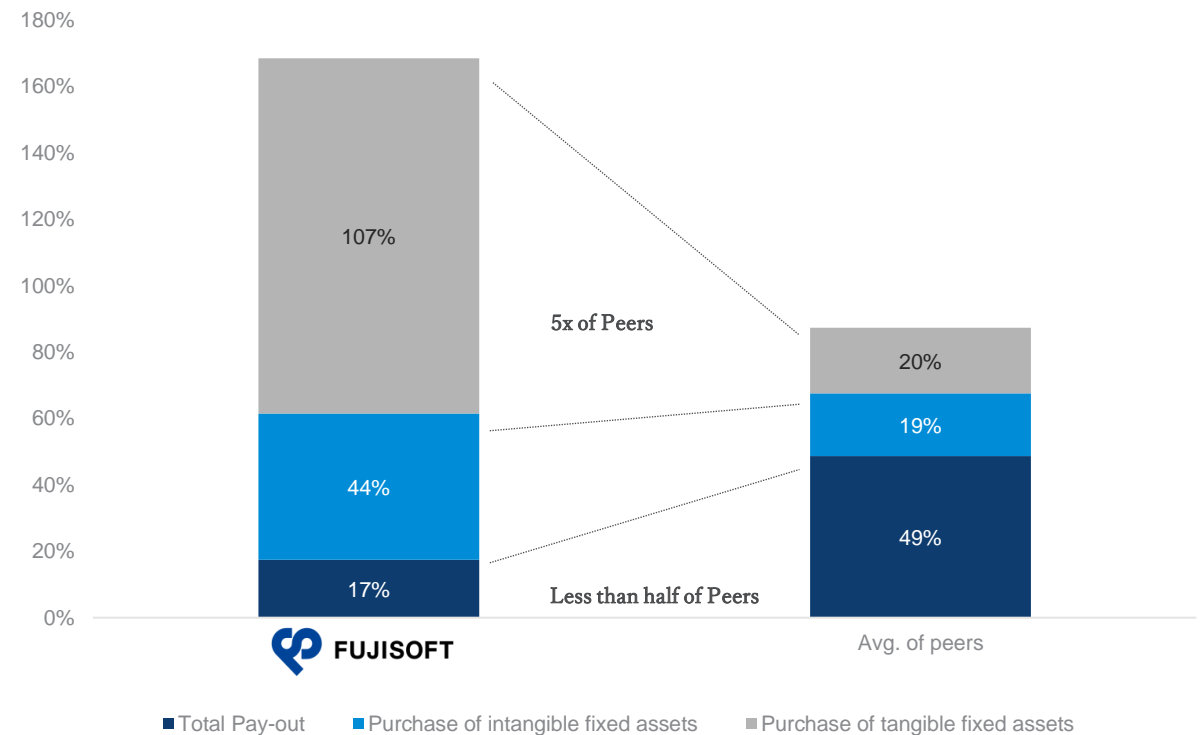
Fuji Soft's total payout ratio is the lowest among peers¹. Even if applied FY22 target, it is still one of the lowest

(As of 2020)



Over the past 5 years, peers² allocated 49% of total net income to shareholder return; Fuji Soft has allocated only 17% to shareholders but 107% to real estate investments²

Distribution of cumulative net income over the past 5 years (2016~2020)



Source: Bloomberg, Company disclosures Notes1: Calculations are based on fiscal year earning result for 2020.

Note2: Peers (Itochu Techno-Solutions, TIS, SCSK, Nihon Unisys, Nittetsu Solutions, NSD, DTS, and Systema) are companies categorized as "System Integrators" or "System Development" by SPEEDA with market cap of JPY100 billion and JPY1 trillion as of 31/12/2021.

Fuji Soft is under-allocating its total net income to shareholders and over-allocating to real estate (cont'd)

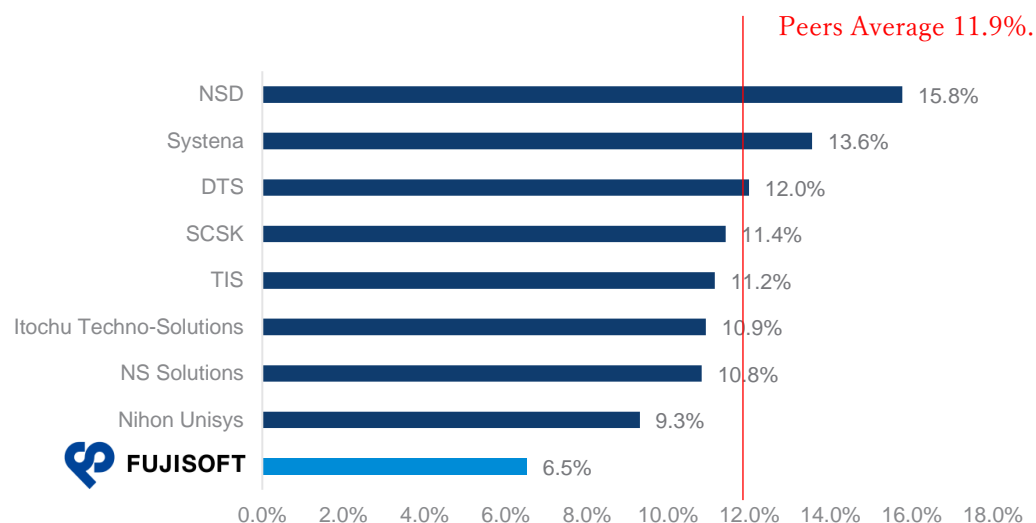
- The Company has allocated more than its net income to low-ROIC real estate investments, while having shareholder returns below the peers
- The Board, including independent directors who should be committed to appropriate allocation of capital, should reexamine Fuji Soft's shareholder return policy to best enhance corporate value
- The Board needs to understand Fuji Soft's cost of capital (not the one estimated too low intentionally) and the returns generated by each investment option
- If existing and future investments cannot generate ROIC above the cost of capital, then such capital should be used for shareholder returns

④ Weak Profit Margins

Operating margin is below the industry average; Fuji Soft's operating income per employee is also lower than peers

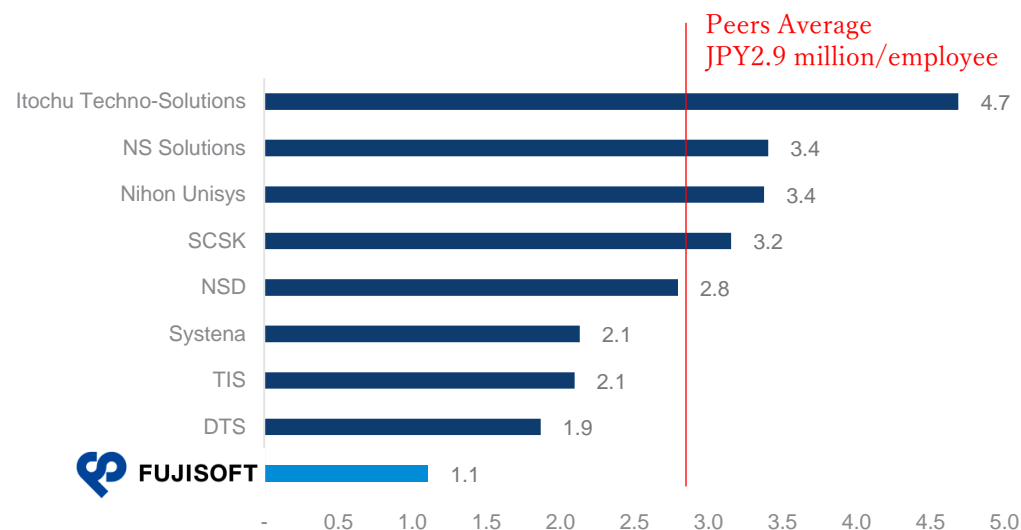
Operating margin¹

Trailing 12M Operating Margin as of Dec 2021



Operating income per employee²

(JPY M/ employee, as of 2020)



Source: Bloomberg, company disclosures

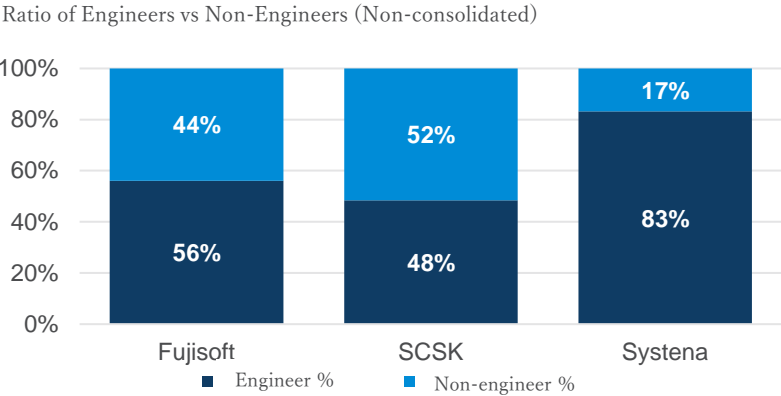
Note1: Calculations are based on trailing twelve month earning result as of Dec 2021.

Note 2: Calculations are based on fiscal year earning result for 2020. 2020 is used as number of employees as of 2021 is not disclosed for each company.

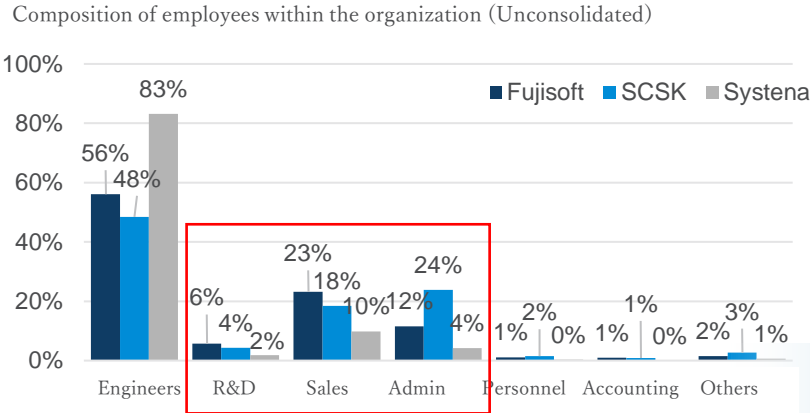
Fuji Soft's Non-Engineers Have Failed to Increase Project Pricing, Resulting in Low Profit Margins Compared to Peers

Fuji Soft should increase the number of high-price projects and restructure the team so it can generate profits regardless

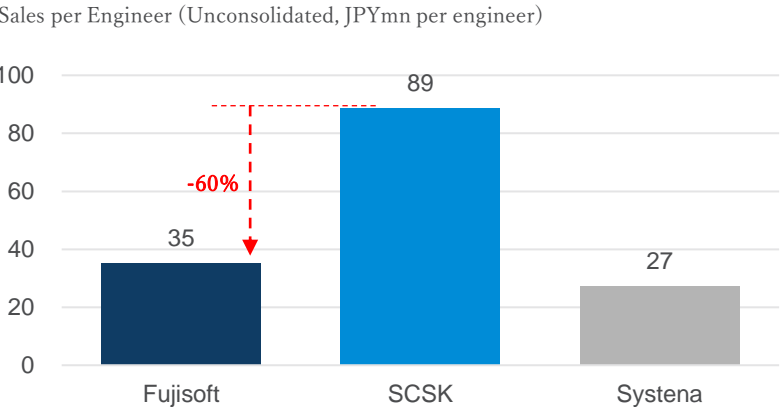
Fuji Soft has similar ratio of non-engineer¹ employees as SCSK



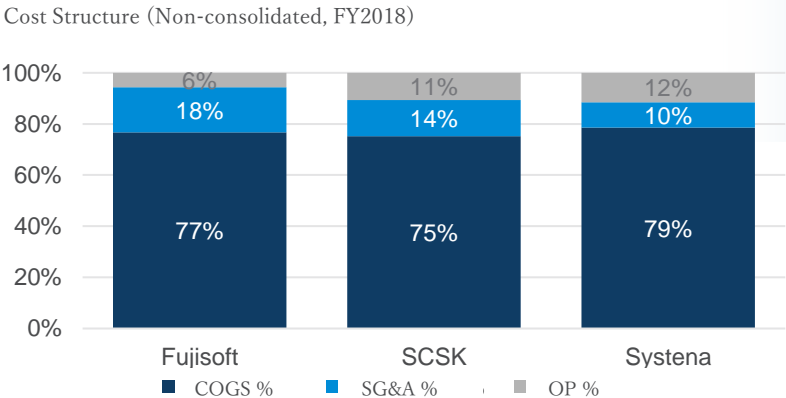
Fuji Soft's non-engineers¹ are responsible for improving project price as the same as SCSK's



Fuji Soft's non-engineers do not contribute to project price. Its sales per engineer is 60% lower than SCSK's



As a result, Fuji soft operating profit margin is the worst due to high SG&A ratio



Strategies to improve profit margins and employee productivity include...

- (1) Acquiring high price projects
- (2) Restructuring staffing to reduce cost and increase profits

Source: External research firm (some are estimates), Company disclosures, SPEEDA
Note1: For each company, calculated based on number of employees in each role of each division.

Margins can be improved if Fuji Soft prioritizes efficient staffing and cost reduction

Major Issues

Low organizational capacity on project management

Insufficient focus on gross profit when quoting projects

The cost of engineers is relatively high

Low utilization rate of engineers

Too many non-engineer employees

COGS is high

Non-personnel cost items within SGA is high

7 Actions for Improvement

1 Retain talented engineers by reviewing evaluation and compensation program

2 Review sales force strategy and project management

3 Expansion into high value-add business areas

4 Optimize number of non-engineer employees
Reduce outsourcing by utilizing employees
Expand use of Low-Cost Countries (offshore)

5 Use of BPO

6 Review organization structure, improve operational efficiency and optimize employee numbers

7 Cost reduction through improved purchasing activity

Potential profit increase of JPY7-17 bn through implementation of suggested measures, amounting to operating income margin of 5-10% on a non-consolidated basis (3-7% on a consolidated basis)

Strategies		Targeted Items	Improvement in OP (JPY Bn)		Difficulty to achieve	
			Base	Max		
1	Retain talented engineers by reviewing evaluation and compensation program	Revenue			Middle	
2	Review sales force strategy and project management		+1.2	+2.1	Middle	
3	Expansion into high value-add business areas		N/A	N/A	High	
4	Expand use of Low-Cost Countries (offshore)		-1.1	-3.4	Middle	
4	Optimize number of non-engineer employees	Labor cost &	+1.6	+3.1	Low	
	Reduce outsourcing by utilizing employees	Outsourcing	+0.0	+0.5	Middle	
	Expand use of Low-Cost Countries (offshore)	cost	+1.4	+4.6	High	
7	Cost reduction through improved purchasing activity	Expenses	+0.2	+0.8	Low	
5	Use of BPO	SG&A	+0.2	+0.8	Middle	
6	Review organization structure, improve operational efficiency and optimize employee numbers		Labor cost	+4.0	+8.4	Middle
7	Cost reduction through improved purchasing activity		Non-labor cost	+0.1	+0.5	Low
Total			+7.7	+17.4		
OP margin		Non-consolidated	+5%	+11%		
		Consolidated	+3%	+7%		

Mid-term Plan: Fuji Soft Has No Plans to Improve Profit Margins

3D provided a detailed roadmap to improving margin in an 80-pages plan, but Fuji Soft adopted none of these suggestions and has announced a management plan with no projected improvement in profit margin

In November 2021, 3D provided Fuji Soft privately with an 80-page presentation that provided a roadmap to a 3-7% margin improvement

Fuji Soft has ignored these suggestions and just announced a management plan with no margin improvement



単位：億円

	2021年12月期 実績	2022年12月期 計画		2024年12月期 目標
売上高	2,579	2,655	3年CAGR 5%	3,000億円以上
営業利益	168	173	3年CAGR 6%	200億円以上
営業利益率(%)	6.5%	6.5%		6.7%以上

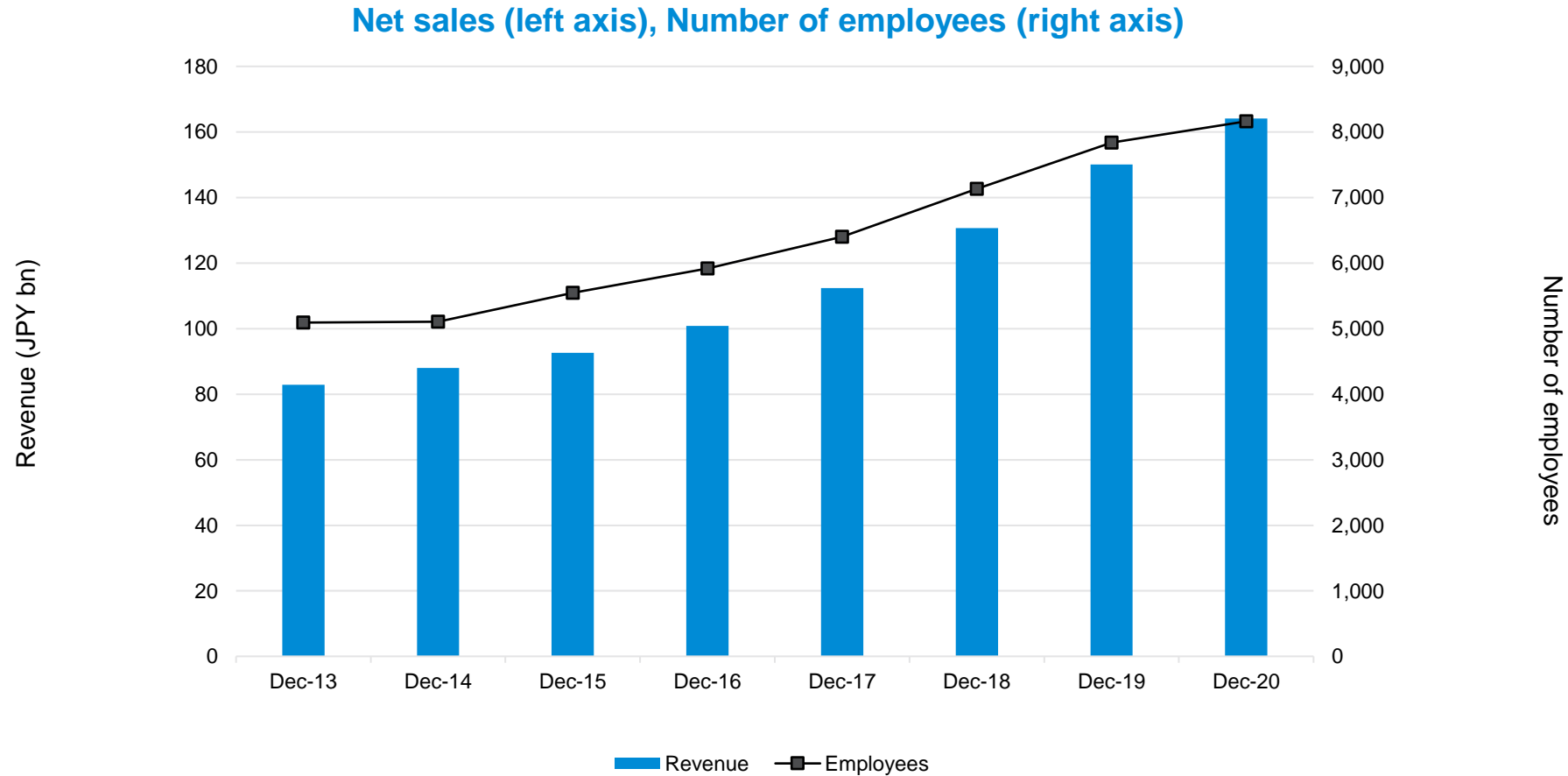
Operating profit margin %

Fuji Soft's organizational structure does not match the level of projects, making it difficult to generate profits

- Fuji Soft has high portion of non-engineer employees, but has not contributed to increase projects pricing
 - This overhead drags down Fuji Soft's margins relative to peers
 - Structural changes to the organization may be required to remedy the margin issue
- External expertise should be introduced to conduct a thorough and objective examination of the causes for the low-profit margins and to propose solutions
- After a thorough examination conducted by external consultants, the Company should compare the results with its current mid-term management plan and update with the necessary changes
 - Engage external consultants with profit improvability expertise to overhaul the organizational structure, if needed
 - Evaluate the Company's mid-term management plan against the proposals made by external experts and modify management plans as needed

5 Lack of a Focused Growth Strategy

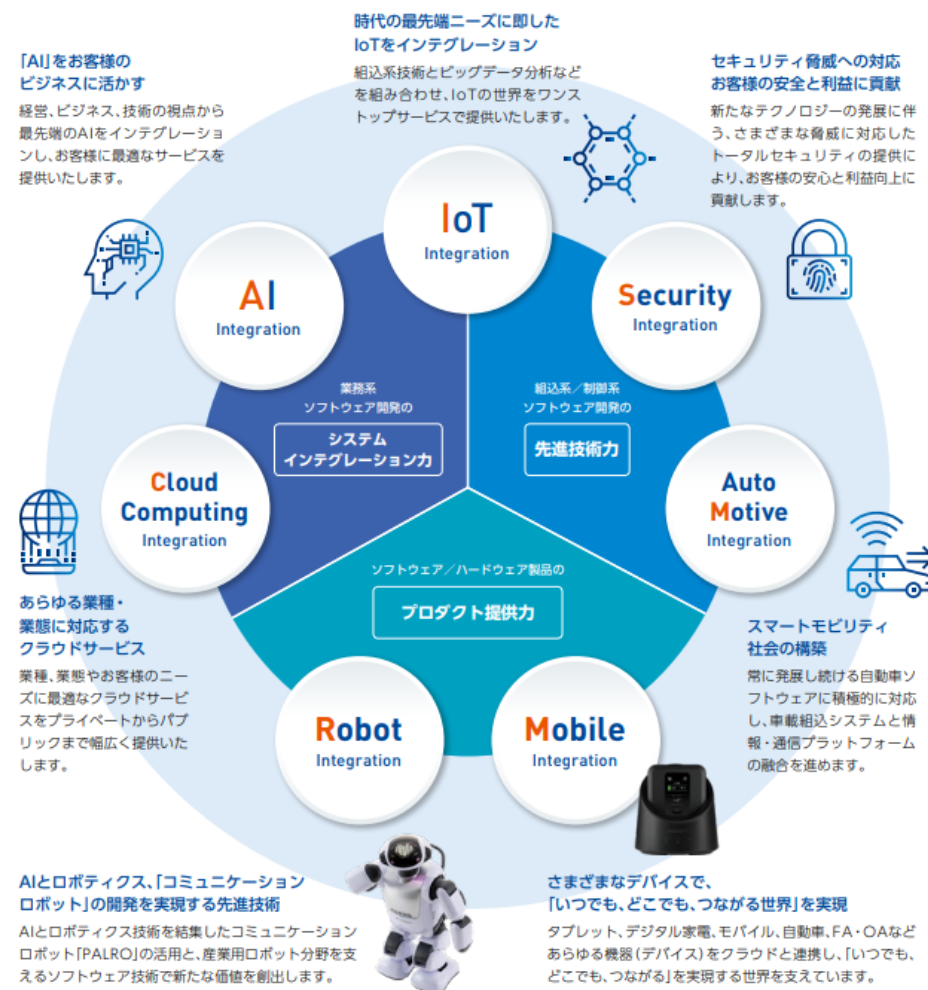
Sales have grown linearly with an increased number of employees (non-consolidated)



However, this implies that Fuji Soft has shown no operational focus

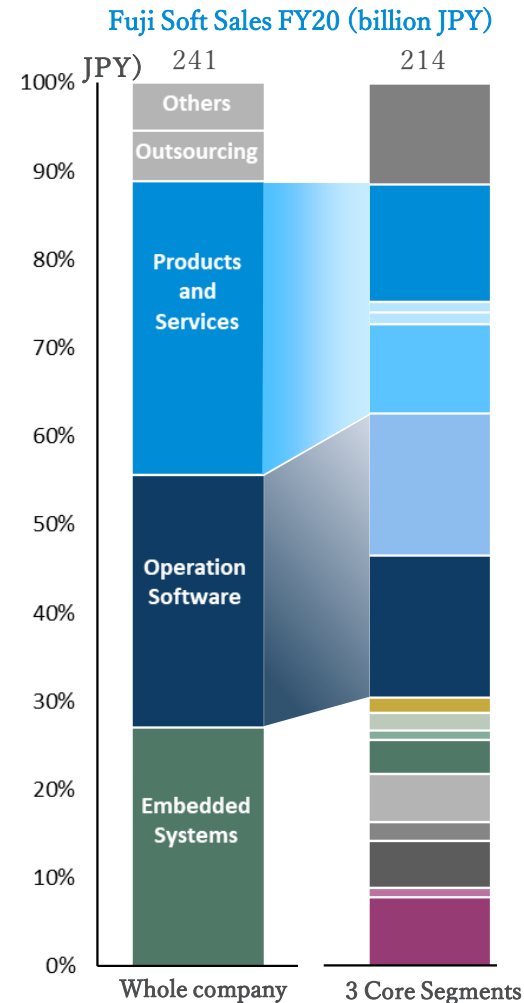
アイスクリーム 「AIS-CRM」

当社は、「AI、IoT、Security、Cloud、Robot、Mobile、AutoMotive」の頭文字を取った「AIS-CRM（アイスクリーム）」を、いまもっとも力を入れる新技術分野と位置づけています。これまで培ってきた技術とソリューションを融合し、いままでにない付加価値と新たなビジネスチャンスを生み出していきます。そして、国内外のお客様への最適なサービス、プロダクトを通じて、新たな価値を社会に提供いたします。



The 5 red segments are the main growth drivers based on sales size (40% of total) and past growth rate (>10%/year)

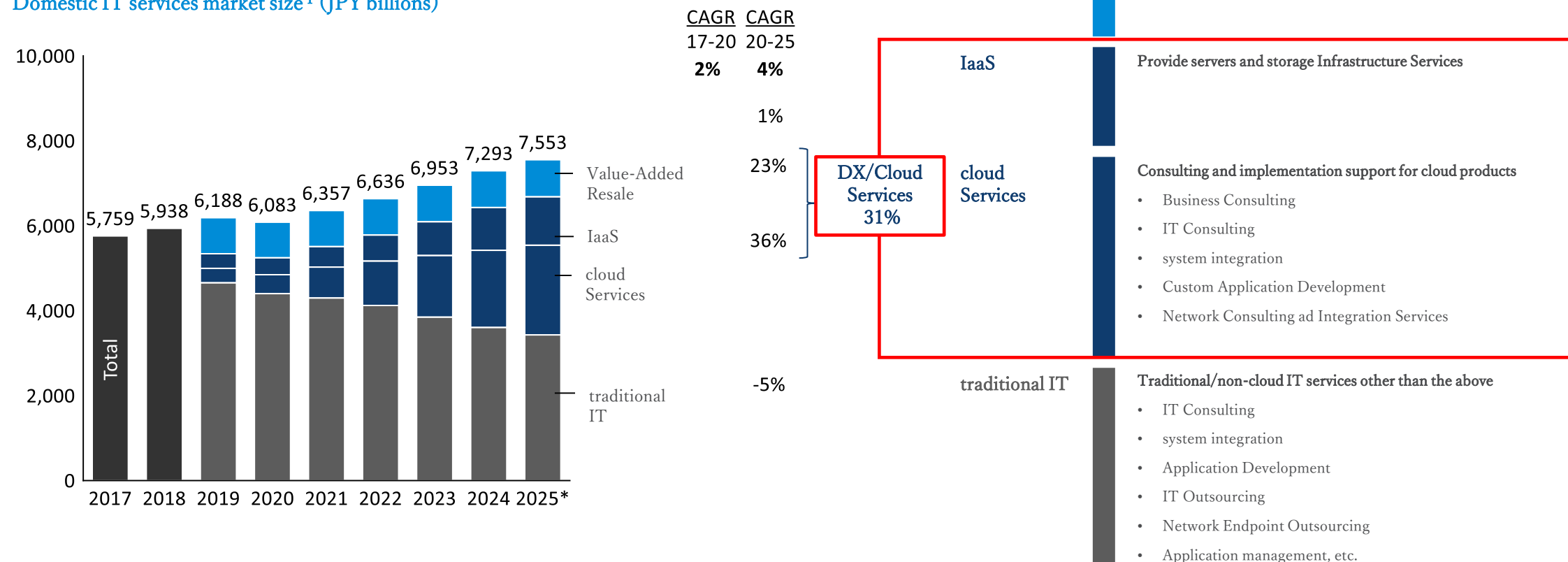
- (1) is where highest growth is expected
- (2)-(5) are subject to individual factors, including changes in automotive control methods, 5G investment cycle and Windows update cycles



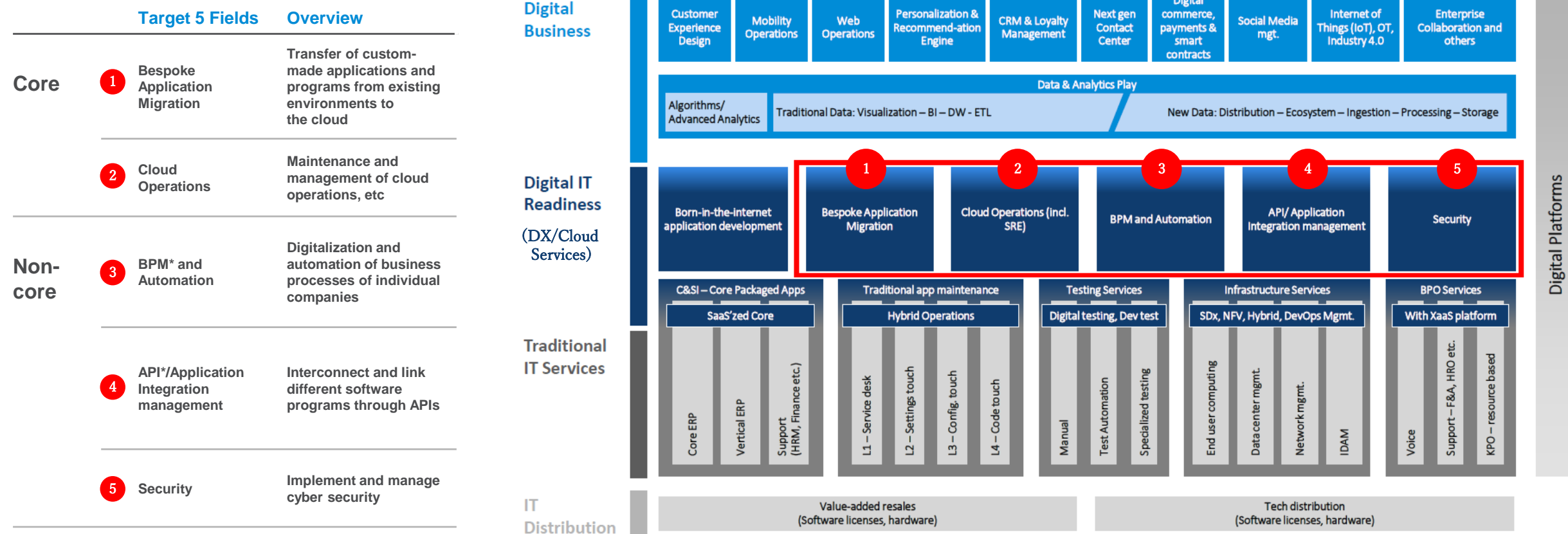
Segment	vs. FY20 Net sales ratio	CAGR ('17-'20)
In-house Products	10%.	1%.
Sales of goods, etc.	12%.	5%.
Licensing Business (Other)	1%.	-Mr.
License business (Azure, AWS)	1%.	-Mr.
3 License Business (Microsoft)	9%.	-Mr.
traditional IT	14%.	-Mr.
1 DX and Cloud Services	14%.	-Mr.
Mobile Systems	2%.	1%.
Social Infrastructure (Other)	2%.	9%.
Social Infrastructure (Network Equipment - Others)	1%.	12%.
5 Social infrastructure (Network Equipment - cell phone base stations)	3%.	12%.
Machine Control system (Other)	5%.	-7%.
Machine Control system (FA - Others)	2%.	13%.
4 Machine Control System (FA - Fanuc)	5%.	13%.
Automotive (Other)	1%.	4%.
2 Automotive (ECU)	7%.	13%.

DX / cloud services market, consisting of IaaS and cloud services, is expected to grow at 31% CAGR until 2025; cloud penetration rate of Japanese companies, currently 10-20%, is expected to double in the next 5 years

Domestic IT services market size¹ (JPY billions)



There are five business areas related to Fuji Soft's DX / cloud services that should be targeted to maximize growth



Specific strategies are required on how to invest Fuji Soft's resources and how to gain market share in this area

- In general, Fuji Soft is assigned to simpler projects as a sub-contractor
 - Typically, Fuji Soft only participates in “downstream” roles such as operations and maintenance support
 - Implementation and customization of commoditized applications and creation of manuals are also carried out
- However, Fuji Soft has the opportunity to win prime contracts with SMEs
 - Fuji Soft already won some prime contracts (e.g., cloud implementation, cloud transfer of tailor-made applications) for SMEs
 - In DX / cloud Services for SMEs, the battle is between Tier 2 companies, since Tier 1 peers are not price competitive
 - Among tier 2 peers, Fuji Soft is highly competitive since the company has abundant engineering capabilities

Prime projects for SMEs mainly outsourced to Tier 2

- Medium-sized companies with sales of JPY50~100 billion may use Fuji Soft as their prime contractor
- Tier 1 companies are not competitive as they target larger clients and charge more



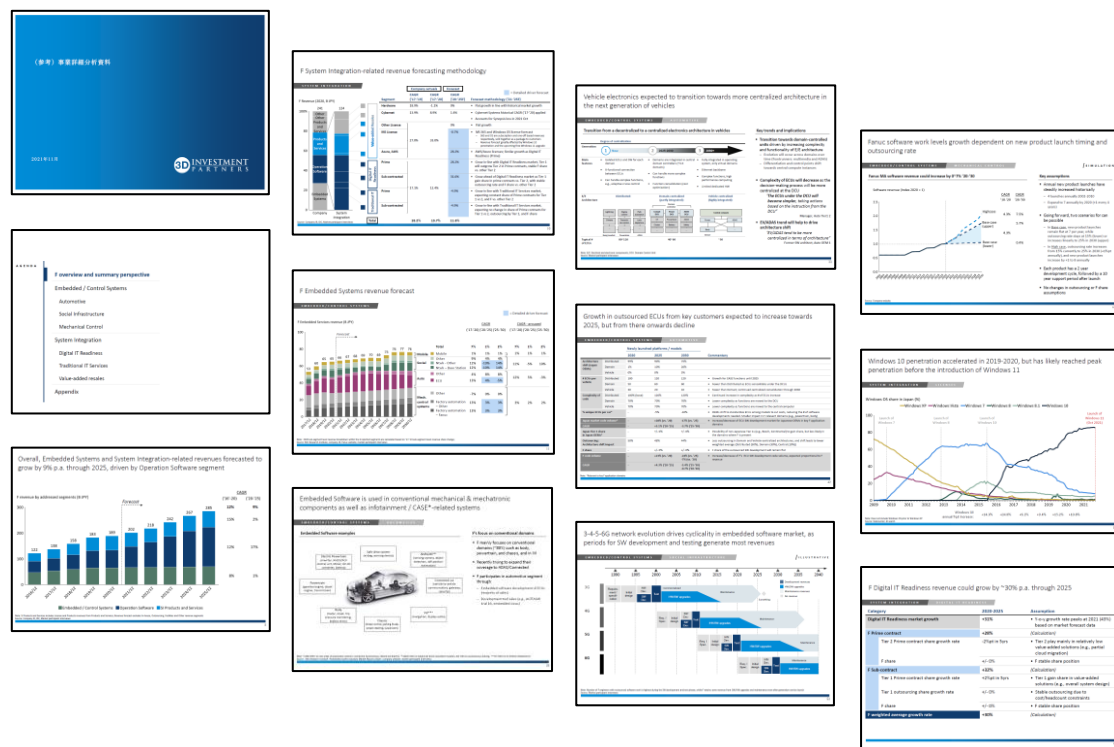
For SMEs, Fuji Soft is a Tier 1 and Tier 2 provider

Fuji Soft's competitiveness

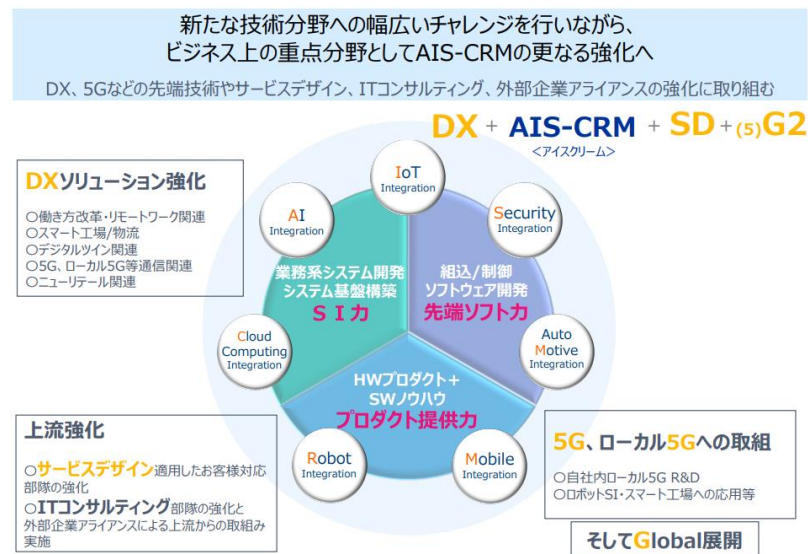
- Affordability: **about 40% cheaper than Tier 1** (and other Tier 2)
- Flexibility: Provides a variety of solutions. **Fuji Soft does not prioritize products from a parent company (since it has none), but prioritizes client work**
- Abundant human resources: **large pool of engineers**, high flexibility and availability of engineers
- Reputation: Customers who have hired Fuji Soft for traditional IT projects tend to choose Fuji Soft for their digitalization project as well

3D provided a plan to achieve 7% annual growth in a 150-page analysis, but Fuji Soft announced instead a mere 5% annual growth plan without reviewing its existing strategy

In Nov-21, 3D submitted a 150-page business opportunity analysis, arguing 7% CAGR until 2025 is possible by focusing resources



Fuji Soft announced 5% growth plan without any change in its decentralized strategy



単位：億円

	2021年12月期 実績	2022年12月期 計画	2024年12月期 目標
売上高	2,579	2,655	3,000億円以上

3年CAGR
5%

Revenue 3yrs CAGR

Corporate value will be enhanced by focusing investment and resources on the highest growth opportunities

- The current all-encompassing growth strategy should be reexamined. Based on our analysis, certain business areas will grow faster than others, resulting in divergence of opportunities
- With the introduction of external knowledge and resources, the growth strategy of Fuji Soft should be reexamined by an independent expert consultant, and the mid-term management plans should be revised where necessary
 - Work with external expertise to conduct in-depth analysis of business opportunities
 - Identify growth areas where the Company's resources should be intensively invested
 - Formulate strategies to win in the relevant market, evaluate against existing growth strategies and revise where necessary

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