

# Fujitsu Aims to Enhance Overseas Footholds

## Expanding Services via Aggressive M&As

Interviewer: Daisuke ONISHI

Electronics giant Fujitsu Ltd. has been improving its business results through the expansion of its information services business, which includes system integration and networking. Hiroaki Kurokawa became Fujitsu president in 2003, when the company faced an uncertain future amid deteriorating earnings performance. Kurokawa has since been working to improve the firm's financial fabric through the reorganization of group companies. Recently, he has been "on the offensive" by completing a number of M&A deals overseas. In an interview, Kurokawa emphasized that he planned to aggressively use M&As in the United States and Europe, where the market for information technology (IT) is large, and also in fast-growing emerging economies to enhance Fujitsu's business foundation and expand its services business.



### Aiming for "Profit & Growth"

**Fujitsu's earnings picture has improved considerably. What are your thoughts looking back on the period since assuming the presidency?**

**Kurokawa:** Since I became president in 2003, I have single-mindedly pursued measures to ensure Fujitsu's survival. Because our systems are used by a large number of clients and we are saying that "our clients are our partners," there would be a grave impact if we failed to survive. So, I have raised the morale of employees and have taken many stringent measures, including liquidation of businesses generating large losses.

**What are your management policies and priorities for the future?**

**Kurokawa:** A review of our business portfolio has revealed that in some areas, such as semiconductors, we are fighting an uphill battle. From here on, I believe it important to aim for "profit and growth." With respect to the "Technology Solutions" segment (information systems and services), which is the core of our business and which we need to grow more than anything else, we need to think globally. Also, if we limit our operations to IT

Photo: Daisuke Onishi



Hiroaki Kurokawa, President, Fujitsu.

services, we may end up with equilibrium on a reduced scale. Therefore, we need to transform our business and aim a notch higher, namely to provide business solutions covering the entire operations of our clients. Meanwhile, we should contemplate "selection and consolidation" of low-profit or loss-making businesses by examining their condition and finding a clear path for them.

### Major Investments Eyed

**You are aggressively expanding overseas business by, for example, acquiring an IT firm in Sweden. What is your strategy?**

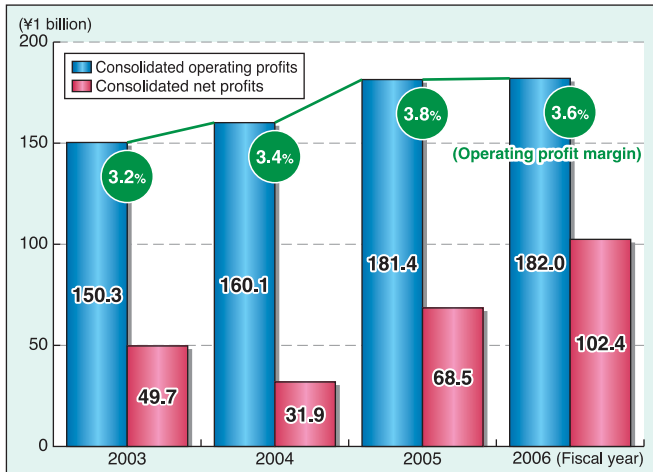
**Kurokawa:** "Technology Solutions," our core business, comprises system platforms, such as servers and other hardware, and services, such as system integration and networking. I believe that the best way for Fujitsu to grow is to develop this part of our business. In order to provide "soft services" on a global scale, it is imperative that we have people who can provide local services in a particular area. However, since having people means costs, it is impossible to start a business unless we can obtain clients at the same time. In this sense, when we start "soft services," M&As are extremely important in areas where we do not have an existing client base. It would be better if we could strike M&A deals on the order of hundreds of billions of yen, but since Fujitsu's financial strength has not recovered to the point where we can pursue large M&As, we are making relatively small acquisitions very carefully.

**What is your target for the size of future investment?**

**Kurokawa:** We haven't set a target. If an M&A is deemed necessary to expand or improve business in a particular area, we will make a decision based on our financial condition and the risk involved. Fujitsu's operating profits have yet to reach ¥200 billion, and there are operations which need to be rehabilitated. Hence, we are not yet able to take large risks. If we can secure operating profits of approximately ¥250

**Chart Fujitsu's fiscal 2004-2006 business results**

Despite some questions about profit growth, sales/earnings uptrend maintained



Source : "Business Policy Briefing" by Hiroaki Kurokawa, president, Fujitsu Ltd.



Headquarters of Fujitsu Services Holdings PLC in London, Fujitsu's control tower overseeing its operations in Britain and other parts of Europe

billion on a steady basis by pursuing our current medium-term goals, we will then be able to think about large investments. Therefore, I would like to establish a stable business foundation as soon as possible.

## Priority Markets: U.S., Europe, Emerging Economies

**What are your priority countries and regions for the future?**

**Kurokawa:** When we talk about IT, the largest market is the United States, followed by Europe and then Japan and others. The markets that will expand from now on are the BRIC economies (Brazil, Russia, India, China). As a business base of Fujitsu, I think our presence in the United States, which accounts for a very large share of the world's IT market, is too small and out of proportion with our scale of operations. Our market share is still very small over there. We want to expand this market greatly, but since competition is fierce, we must be very cautious.

**Do you have M&As in mind for expanding market share in the United States?**

**Kurokawa:** Yes. We will consider M&As and also aim for "organic growth" (autonomous growth). Of course, organic growth is the best path for the growth of the company. But we need to keep M&As as an option to expand business bases or areas of operations or develop the types of business or capability that we don't have.

**Fujitsu appears to be aggressive about M&As in Europe.**

**Kurokawa:** You are right. In Europe, our subsidiary, Fujitsu Services Ltd., is playing the central role in "soft services" and the solutions business. Fujitsu Services is an IT services leader in Britain and, in terms of the type of operations, focuses on infrastructure services, particularly outsourcing. For Fujitsu Services to grow further, it must go beyond Britain. In the autumn of 2007, we acquired a Swedish firm to expand our territory in northern Europe. We plan to develop the acquired company by introducing Fujitsu Services' operations and its method of providing services. We had difficulties in expanding our business in France, so we attempted an M&A in the belief that it would contribute to our operations there. However, our takeover bid was not successful. We have a benchmark for the maximum period for investment recovery, or how much time it will take to recover an investment based on the target's existing business. We don't

intend to extend the period and make a purchase out of the range we've set.

## Tie-ups an Option for Microchip Development

**Concerning the "selection and consolidation" of your group businesses, what do you think of your lackluster semiconductor business?**

**Kurokawa:** As servers depend on microchips, semiconductor performance is an important element of the performance of a server. Related divisions have developed their businesses on this basis. However, we have begun to think that it may not be necessary to develop the semiconductor business within the same business group. Also, there is an investment aspect. I believe it necessary to pursue simple business management, making it easy for shareholders to understand by keeping ourselves conscious of, say, cash flows. We will take cash flows into account to a much greater extent than before in making investments. We are studying the overall business portfolio to see what shape the company should take. We are often asked by the mass media and investment banks how we position the semiconductor division. We are exploring many

ways of developing this business to make it self-supporting. Personally, I am working to clarify the position of semiconductors within the three-year period of our medium-term goals.

### Is there a possibility of selling the semiconductor business?

**Kurokawa:** We are not contemplating its sale or anything like that. We are rather inclined toward cooperating with various other firms. Because the people in our semiconductor division know Fujitsu's servers very well, I think this relationship should be taken advantage of. We are considering every option.

## Emphasis on Stronger Customer Relations

### Do you have in mind business alliances for next-generation microchips?

**Kurokawa:** So far, we have managed to raise funds from steadily performing operations for investment in the areas of cutting-edge technologies to establish them as businesses as quickly as possible. However, when it comes to next-generation microchips and beyond, and when we contemplate whether Fujitsu will really be able to have production lines for them, I feel the risk is too great.

### How about your measures to enhance the semiconductor business?

**Kurokawa:** What is clear is that we must be successful at making increasingly minute microchips and at the same time there is the important element of ensuring that microchips really contribute to improving our clients' products. This requires our marketing people and engineers to work hand in hand. We must also strengthen relationships with our clients with a view to expanding our businesses in the rest of Asia and BRICs, whose economies are expected to continue expanding. We will establish a company jointly with the

government of Taiwan for next-generation, high-speed wireless WiMAX communication, and this will strengthen the relationship between Taiwan and Fujitsu's semiconductor business. We hope that when interest in WiMAX grows in different parts of the world in the future, there will be demand for Fujitsu's semiconductors for numerous applications. By strengthening ties with our customers with the future in sight, we are working to increase the value of Fujitsu's semiconductors by responding to client needs.

## IT Progress Won't Change Services Dramatically

### How do you view changes in the business environment brought on by the advances in IT and communications?

**Kurokawa:** Our job is to support the management and operations of our corporate customers through IT-based solutions and work for the success of their businesses. There may be cases in which our client's business changes dramatically. In principle, however, what is working now will continue to have influence. From this viewpoint, we don't assume that services will change at the speed of light. There is also the question of what to do with existing services. To support our clients, we believe it will be enough if we change service personnel, infrastructure that supports such services, and servers by turns, based on a clear vision of the future. We expect that Fujitsu will be able to do many things in an extremely stable manner. Through M&As and other measures, we hope to expand geographically and also in terms of the scope of our services.

### Advances in communications equipment are dramatic.

**Kurokawa:** When it comes to products that support services, there is global competition in addition to the factor of clients. Next-generation networks

(NGN) and other services are being discussed, but there are numerous services based on the existing Internet protocol (IP). When we think about how things will change while having to maintain consistency with these existing services and infrastructure, I don't believe we can leap from one system to another in one step. On the other hand, computers and other terminals change from year to year and from month to month in response to new microchip technologies. There are different strata: 1) our services to clients, 2) infrastructure supporting our services, and 3) terminals that use such infrastructure. I think the speed of change will vary from stratum to stratum.

## NGN Needs Technological Innovation

**Communications companies have developed NGN infrastructure and are asking the electronics industry to come up with ways of using it.**

**Kurokawa:** Even if there is infrastructure, as we are a service provider, I am afraid it will not work well unless there is time to develop services. My feeling is that the speed of change varies depending on which stratum you are primarily working in: services, infrastructure, or terminals.

**Fujitsu has all the businesses suited for NGN – servers, mobile phones, and microchips.**

**Kurokawa:** It is true that NGN applications are being developed for many areas of business, including services. Video conferencing allows people in distant places to talk as if they are in the same room. Fujitsu must come up with such technological innovations, so I believe we will be part of the NGN. JS

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