On January 20, 2019, FUJIFILM Holdings celebrated its 85th anniversary. Then in May, Japan ushered in a new imperial era, switching to Reiwa following the roughly 30-year-long Heisei period. The Fujifilm Group has also renewed its strong enthusiasm for growth at the beginning of this new era.

For the Fujifilm Group, the first half of the Heisei era (1989-2003) was a time during which we made significant progress in developing our technologies and expanding overseas. Then in the second half (2004-2019), we largely transformed the nature of our business operations. Even though the demand for our then-mainstay product of photographic film declined sharply due to the rise of digitalization, we overhauled our business structure to survive that crisis and posted record-high profit in FY2008/3. But in 2008, just as we were gearing up for the next phase of growth, we were hit hard by the impact of the global financial crisis, while the business environment enveloping the Group again changed dramatically. Nevertheless, we grew stronger every time we overcame a crisis by exhaustively reinforcing our business platform and driving growth in key businesses. As a result, we posted record-high profit again in FY2019/3. In this final year of our medium-term management plan, VISION2019, we will strive to achieve our stated targets and realize new growth.

Realizing sustained growth by addressing both long-term and near-term challenges

I believe that companies must constantly provide society with new value. The key challenge for corporate management is to maximize profits in operations so that better products and services can be developed by reinvesting profits from business activities. At the same time, companies are expected to fulfill an important role in helping the international community address climate change, poverty, hunger, and other issues highlighted in the SDGs*, for example. In playing an important part in an ecosystem that enables society as a whole to further thrive, companies themselves must lay the groundwork for the future based on a long-term perspective.

A company’s management must always concurrently address near-term issues and draw up long-term business plans to prepare themselves for the future. The former might mean responding appropriately to changes in the economic environment and competition with rivals to properly execute sales and profit plans on an annual basis, or incorporating rapid developments in technology into its business activities. The latter would include such issues as investing in human resources and the creation of new technologies and businesses. The very essence of corporate management is to constantly create value by striking the right balance between solutions for both near-term and long-term issues at a high level.

Aiming to be a company that drives change

In my opinion, there are three stages in a company’s evolution. Firstly, a corporation that can swiftly and appropriately respond to changes in its operating environment would generally be thought of as a good company. However, a better company would be one that does more than just respond—it anticipates changes and takes action accordingly. But the ideal company is the one that drives change itself.

When the Fujifilm Group came face to face with a crisis at the start of the 21st century, we took appropriate action to boldly transform our business structure by beefing up growth businesses and creating new ones. And we have achieved further growth with a robust portfolio of multiple businesses by anticipating future changes in respective markets and making strategic moves.

We currently aim to be a company that has a positive impact on industry and society with the new value we create. To some extent I think we have achieved this in the fields of medical IT system and regenerative medicine in which we are leveraging the use of AI, but going forward we are committed to creating positive changes for society in various business fields by further developing the broad-ranging proprietary technologies we have accumulated thus far and actively incorporating new technology and knowledge, such as AI and IoT.

We hope to fulfill our corporate social responsibilities and continue to achieve prosperous growth together with society. We will make every effort to remain indispensable to people’s livelihoods and I look forward to the continued support from all our shareholders.

*The Sustainable Development Goals (SDGs) were adopted by the United Nations General Assembly in September 2015. Based on the motto “leave no one behind,” the agenda comprises 17 global goals and 169 targets that the international community needs to address by the year 2030.
Constantly creating value by balancing solutions for both near-term and long-term issues at a high level

Chairman and Chief Executive Officer
Shigetaka Komori
Looking back at FY2019/3, please tell us how the medium-term management plan, VISION2019, is progressing.

A In FY2019/3, the midway point of VISION2019, sales declined in the document business mainly because we downsized the low-margin, low-end printer business, but sales increased in such businesses as the medical systems and bio CDMO businesses. Overall, sales remained flat year on year at JPY 2,431.5 billion. Operating income totaled a record-high JPY 209.8 billion owing to ongoing profitability improvements in each business, as well as the impact of structural reforms in the document business. Net income attributable to FUJIFILM Holdings came to JPY 138.1 billion.

We are steadily executing strategies for each business based on VISION2019 and in the photo imaging business sales of the instax instant camera series were brisk with more than 10 million units sold. In the electronic imaging business, sales of the X Series and GFX Series mirrorless digital cameras were solid. In the focus healthcare field, results were firm in the medical systems and bio CDMO businesses, while profitability improved in the pharmaceuticals and regenerative medicine businesses. Profit grew sharply in the document business due to our efforts to steadily implement operational reforms, including the lowering of CoGS.

FY2020/3 will be the final year of VISION2019. Given that profitability has significantly improved in each business in the healthcare field and we continue to steadily execute structural reforms in the document business, we are now targeting record-high operating income of JPY 240.0 billion (+JPY 10.0 billion versus our initial forecast) for the second straight year, net profit attributable to FUJIFILM Holdings of JPY 155.0 billion (+JPY 5.0 billion), and ROE of 7.5% (+0.2%). We aim to pay a year-end dividend of JPY 95 per share and buy back JPY 50.0 billion worth of shares in order to deliver a total of JPY 300.0 billion in shareholder returns over the three-year duration of VISION2019, as we initially planned.
The healthcare field is a future earnings pillar for the Company, which is why we have positioned it as a key focus area. We see each business in this field as either requiring further growth acceleration or investments aimed at generating future growth. We therefore execute our growth strategy in accordance with these growth stages.

Within the healthcare field, the medical systems and bio CDMO businesses are the drivers of growth. In addition to providing products and services of competitive superiority powered by Fujifilm’s proprietary technology, we aim to outpace market growth mainly by leveraging aggressive capex and M&As.

We possess a strong competitive advantage and steadily executing our growth strategy in a broad range of fields in the medical systems business; namely, X-ray diagnostic imaging, medical IT, endoscopes, ultra-sound, and in-vitro diagnostics (IVD). In particular, our picture archiving and communication system—a platform for managing and storing image data taken with various medical diagnostic imaging equipment—has maintained the top global share since FY2018/3 and we continue to propose medical IT-focused comprehensive solutions to our customers. Up ahead, by combining our image processing and image analysis technologies that we have honed over many years, we hope to further develop AI-driven technology to provide diagnostic support to physicians and generate further growth by providing products and services that improve workflow.

The bio CDMO business is expanding at a healthy clip having benefitted mainly from the expansion of production capacity we have carried out since FY2018/3. By harnessing the engineering technology we have accumulated in the research, development, and production of photographic film, along with the biotechnology know-how of our Group companies, we are constantly expanding production capacity and pushing ahead with the development of technologies for further enhancing productivity. Some examples include Apollo™ X, which employs next-generation high-productivity technology to achieve industry-leading antibody production, as well as fully integrated continuous production systems from culturing to purification. In August 2019 we turned the manufacturing subsidiary of US-based biopharmaceutical giant Biogen into a consolidated subsidiary. This acquisition provided us with the facilities to carry out mass production and means we can meet broad-ranging contract needs for either small or large volumes. Moreover, we aim to further accelerate the pace of business growth by drawing on the strengths in the area of process development and manufacturing of various types of biopharmaceuticals, including antibodies and gene therapy drugs.

Meanwhile, we think investments for generating future growth are needed in the pharmaceuticals and regenerative medicine businesses. Not only are we engaging in more efficient development and working to reduce SG&A costs, for example by identifying and focusing on the fields in which we can leverage Fujifilm’s proprietary technology, we are also making proactive investments and deploying sensible strategies.

We strengthened the structure of the pharmaceuticals business with the integration of two Group companies in FY2019/3: Toyama Chemical and FUJIFILM RI Pharma. This new structure will serve to speed up our decision-making process. In the development of new drugs, we are steadily stepping up our R&D mainly in fields in which we can demonstrate our Company’s strengths. In June 2019, the new candidate compound T-817MA for stimulating the rehabilitation effects following a stroke started phase 2 clinical trials in Japan. This potential drug is slated for phase 2 clinical trials in Europe for patients with early-onset Alzheimer’s disease in FY2020/3. Furthermore, drug delivery systems that primarily use liposome-based drug formulations to efficiently deliver active ingredients to affected areas of the body and boost drug efficacy is also an area that we intend to focus on going forward because we can apply the proprietary technology we cultivated in the development of photographic film.

In the regenerative medicine business, we are pushing ahead with R&D with a view to commercialization mainly in the field of cell therapy where there are many unmet medical needs. Together with leading US-based venture capital firm Versant Venture Management, we established a new company called Century Therapeutics. Furthermore, backed by financing commitments from pharmaceutical giant Bayer, this company will further accelerate its development of immunotherapeutic drugs for cancer using CAR-T cells derived from allogeneic IPS cells while minimizing risks through partner collaborations. We will look to expand our contracted development and manufacturing business mainly in the establishment of allogeneic IPS cell line, process development of cell production and manufacturing of investigational and therapeutic drugs. And by investing in a venture capital firms that possess promising technology and know-how, we can gain constant access to the latest technical information related to regenerative medicine, which should help advance our own technological development.

Q Please tell us about your growth strategy for the key healthcare field and how it is progressing.

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Management Message

Interview with the COO

Sales of culture media needed for cell culture remain brisk and in anticipation of greater demand going forward, we made the decision in July 2019 to begin construction of a culture media production plant in Europe.

As a leading company, we intend to expand our business operations and contribute to the industrialization of regenerative medicine by fully maximizing synergies mainly between the following Group companies: Japan Tissue Engineering, the first company in Japan to develop and bring to market regenerative medicine products; FUJIFILM Cellular Dynamics, a leading company in the development and production of iPS cells; FUJIFILM Wako Pure Chemical Corporation and FUJIFILM Irvine Scientific, both experts in the field of culture media.

In aiming to further improve profitability in FY2020/3, the final year of VISION2019, we intend to expand our existing businesses and keep on accelerating research and development.

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Q

Please tell us about the progress and future initiatives for drastically strengthening the document business.

A

With the aim of building a robust platform for the document business so that it can withstand tough business conditions, instead of simply establishing a structure that calls for efficiency or reducing headcount, we are implementing company-wide operational reforms and striving to improve profitability. More specifically, we are undertaking various on-site initiatives such as reducing CoGS by speeding up development, streamlining operations with the use of RPA and so on.

As a result, the benefits of our initiatives in monetary terms in FY2019/3 came to JPY 31 billion, JPY 4 billion more than our forecast. Also, after partially revising our schedule, we have pushed back the expected completion of structural reforms from FY2020/3 to FY2021/3 but we still expect to curtail overall costs by JPY 2.9 billion and realize benefits of JPY 55 billion (vs. FY2017/3) in line with our initial forecast.

Going forward, based on a resilient earnings structure established as a result of our operational reforms, we will endeavor to boost sales in the growth fields of solutions & services and production services. Firstly, in the growth field of solutions & services, we aim to develop solutions that leverage our proprietary AI, IoT, and IoH technologies and consolidate the strategic partnerships we have with other firms that possess highly competitive cloud services. We hope to make our customers’ operations more efficient and contribute to work-style reforms by providing a wide array of solutions and services for different sectors, including manufacturing, finance, healthcare, logistics, public services, and education, as well as for different types of operations, such as information security or document management. Secondly, in the production services field, we will make every effort to expand sales by rolling out products and services that meet customer needs, but also deliver more services that aim to support overall printing workflow. We are looking to achieve business growth by strengthening collaboration between Fujifilm’s Graphic Systems Business Division and Inkjet Business Division and maximizing Group synergies.

Based on the measures outlined above, we aim to achieve the FY2021/3 operating profit margin target of 10% in the document business one year ahead of schedule. The cash we steadily generate will be invested back into the aforementioned growth fields with the goal of driving up sales and establishing a business platform capable of delivering sustained growth.

Please tell us about your ESG initiatives.

A

Since its foundation, the Fujifilm Group has continued to place CSR at the very core of business management to find solutions to social issues through its business activities. The essence of our corporate philosophy and vision is to contribute to the advancement of society and environmental protection by providing top-quality products and services and help further enhance the quality of life of people worldwide as well as to do business openly, fairly, and clearly.

In 2017, the Group formulated and fully committed itself to putting into action two plans: the Sustainable Value
Plan 2030 (SVP2030), a CSR plan targeted at helping to achieve the SDGs and other goals related to issues faced by society; and the medium-term management plan, VISION2019, which runs through FY2020/3, as a concrete action plan for realizing this ambition.

In September 2019, we have adopted “Fujifilm Group Employee Wellness Declaration,” which stipulates our intention to actively maintain and enhance the wellness of our employees given their role in supporting these business activities. We also actively take part in global initiatives for the purpose of accelerating measures intended to resolve climate change-related issues; for example, we have endorsed the TCFD*2 and joined the RE100*3. We are committed to ensuring that Fujifilm Group initiatives contribute to society and will vigorously promote these activities on a Group-wide basis.

In June 2019, we exhaustively reorganized our CSR Group to establish a new ESG Division. This division now reports directly to the president and will work harder to support for many more years to come.

We hope to meet your expectations for future growth while keeping a stern eye on the impacts of such investments.

Furthermore, in seeking to improve capital efficiency, we intend to better manage cash flow by utilizing CCC*6 as a metric for assessing business divisions. Each business will incorporate ESG perspectives into management and business strategies.

Discussions are currently in progress ahead of the formulation of our next medium-term management plan, but at the same time, we will take steps to also review the SVP2030 in response to changes in society and our business environment.

Based on these plans, while we recognize that social issues could pose longer-term risks for the Company as we aim to realize a sustainable society, we also think that the solving of society’s challenges presents an opportunity to create new businesses. For this reason, we will continue to put in place a strong system through which we can take the initiative to develop new technologies and products and to propose solutions.

The Fujifilm Group aims to achieve sustained growth by continuing to meet the expectations and earn the trust of shareholders and all other stakeholders.

Q Please tell us about your capital policy.

A We use ROE*4 as an indicator of capital efficiency. We introduced an ROE target in VISION2016, our previous medium-term management plan, and clarified our policy on emphasizing profits. We also demonstrated our stance on prioritizing capital efficiency by extending shareholder returns mainly through continuous and steady dividend hikes and proactive share buybacks. Owing to improved profitability in respective businesses, ROE had increased to 6.7% in FY2019/3 from 5.3% in FY2015/3, the first year of VISION2016. We are making good progress toward our FY2021/3 ROE target of 8.0% as called for in VISION2019, the current medium-term management plan, as we work harder to further improve profitability.

In order to further boost ROE under our next medium-term management plan, we will utilize ROIC*5 as a metric for assessing business divisions. Each business will be assigned a ROIC target to enhance capital efficiency according to its stage of growth (improving profitability; accelerating growth; or investing for the future) and managed so that we can achieve our overall ROE target. At the same time as pursuing cost reductions in each business, we will actively engage in M&As and spend capital for future growth while keeping a stern eye on the impacts of such investments.

To our shareholders

We intend to steadily achieve the targets we set out in VISION2019, which comes to an end this fiscal year. And in order to generate sustained growth and enhance corporate value up ahead, we will make a point of engaging in dialogue with shareholders and stepping up efforts to continuously create products and services of value to meet the expectations of society and earn its trust.

We hope to meet your expectations for future growth of the Fujifilm Group and I look forward to your continued support for many more years to come.

*2 The Task Force on Climate-related Financial Disclosures (TCFD) was set up by the Financial Stability Board, a global body comprising major central banks and financial regulators. In June 2017 the TCFD announced recommendations for private business corporations to disclose the financial implications of risks and opportunities stemming from climate change in order to gauge what impacts climate change issues have on the stability of financial markets. The TCFD recommends that climate-related financial information be incorporated as an evaluation factor by financial institutions, much like existing financial information disclosures.

*3 The RE100 is an initiative operated as a partnership between two global NPOs: The Climate Group, which promotes climate change measures; and CDP, which helps companies disclose and manage information on their environmental impacts. The companies that join the RE100 are committed to achieving 100% renewable electricity used in their business activities.

*4 Return on equity

*5 Return on invested capital

*6 Cash conversion cycle