Transcript of results briefing

Results of Operations for Fiscal Year Ended March 31, 2018, Business Strategies for Fiscal Year Ending March 31, 2019

Tooru Tanihara
President, SCSK Corporation

■ Introduction

Greetings, my name is Tooru Tanihara, and I am the president of SCSK Corporation. I would like to thank you for joining us today for this financial results briefing meeting.

■ Business Strategy (slide1)

The fiscal year ended March 31, 2018, was a year that tested the Company. We managed to secure increases in both sales and profits, although this was a bit of struggle, but our performance still fell below our initial forecasts. This was the first time we failed to achieve our initial forecasts since the establishment of the Company. I apologize for the concern this has caused to our shareholders and other investors.

My view on management is that numbers do not lie. From this perspective, it might seem prudent for us to begin this briefing with an explanation of our performance in the fiscal year under review. However, I rather think it would be better for me to start our review of this year by taking this opportunity to once again explain the course we have set for the Company and our management strategies.

As has been stated, the three core strategies of our current medium-term management plan are shift to service-oriented businesses, promote strategic businesses that capture the changing times, and enter into the second stage of global business expansion.

The shift to service-oriented businesses, in particular, furthers our efforts to break away from the prior labor-intensive business models utilized in regard to certain aspects of our business portfolio. The aims of these efforts include higher growth potential and increased profitability.

However, our true goal goes beyond simply enhancing our business portfolio.

The underlying principles of service-oriented businesses are to lend an earnest ear to the voices of customers in order to develop an accurate understanding of their needs. Based on this understanding, we aim to pursue and provide the value customers truly seek by mustering the comprehensive strength of the SCSK Group to supply customers with our diverse range of IT services.

Recently, the term “digital transformation” has been generating a bit of a buzz, a trend that has pressed us with the urgent task of transforming our business model through the use of technological innovations, such as those pertaining to artificial intelligence, or AI; robotic process automation, or RPA; the Internet of Things, or IoT; and FinTech. However, I believe that rapid technological process has caused customers to feel concern regarding the disparities between the benefits promised by new technologies and reality. It is for this reason that we at SCSK seek to make proposals that are more than just a list of the latest technologies and tools, specifically by providing proposals that help improve the value of customers' businesses. Accordingly, it is crucial for us to call upon our insight and deliver IT services that create the kind of value that customers truly desire.

The core strategies of the medium-term management plan function as a roadmap for transforming the Company into an organization that is better able to supply the IT services and value customers truly desire in any era.

SCSK is an IT service company that primarily serves Japanese companies as its clientele. These companies are responsible for driving the Japanese economy and are therefore spurred toward strategic IT investment for the purpose of strengthening their businesses. At the same time, these companies are in need of IT services to improve business efficiency and reduce labor requirements. By responding to these needs, SCSK strives to help such companies build a better future for the Japanese economy and to become itself a leader in developing the Japanese economy.

Our goals include working together with customers to create our future of dreams by providing the power of the IT services that we have developed to date. At the same time, we look to utilize our comprehensive strengths to supply IT technologies and services that offer truly meaningful value to the customers that might find themselves overwhelmed by recent buzzwords, such as AI, RPA, IoT, and FinTech. In the fiscal year ending March 31, 2019, and beyond, we will endeavor to manage the Company while remaining mindful of this point of departure for our operations.

■ Financial Results for FY2017 (slide2)

I would now like to discuss our financial results in the fiscal year ended March 31, 2018.

As shown, net sales were ¥336.6 billion, operating profit were ¥34.6 billion, and profit attributable to owners of parent were ¥32.4 billion.

Although full-year sales and profits were up year on year, prior to this, we had chosen to institute a downward revision to our full-year performance forecasts during the third quarter. This decision was based on the judgment that we would be unable to accomplish our initial earnings forecasts in existing systems development businesses targeting financial industry customers as well as consideration for the increase in upfront expenses recorded during the first half of the fiscal year as part of the shift to service-oriented businesses.

In the fiscal year under review, progress was effectively halted in our business structure reforms, which include the shift to service-oriented businesses. Meanwhile, although we had initially assumed that the strong flow of large-scale deals seen at the outset of the fiscal year would continue in businesses serving the financial industry, we found ourselves unable to accurately evaluate current conditions. As such, the fiscal year under review proved to be a year in which we were reminded of the importance of turning a keen eye to the needs of customers.

During the second half of the fiscal year, however, we saw a gradual recovery in business growth following the commencement of certain large-scale projects for financial industry customers and greater-than-anticipated progress in systems development businesses targeting the manufacturing industry. As a result, fourth-quarter operating profit grew by more than 20% year on year, reaching a new record high. This strong performance coupled with the increase of 7.4% in systems development order backlog leads me to believe that we have established a firm foundation on which to begin the fiscal year ending March 31, 2019.

■ Forecasts for the FY2018 (slide3)

Moving on, I would now like to discuss the current conditions we are seeing in the fiscal year ending March 31, 2019, and our full-year performance forecasts for this year.

Looking at current conditions, business trends suggest conditions that are more favorable than those seen in the fiscal year under review. For example, the strong increase in the deal flow from the manufacturing industry that began in the second half of the fiscal year under review is continuing and we are witnessing positive trends in orders in systems development businesses targeting the financial industry.

In addition, we do not expect upfront expenses for business structure reforms to increase to the degree seen in the fiscal year under review. This outlook is based on the aforementioned trends in existing businesses as well as our anticipation that we will be able to commence certain service-oriented businesses, although others will remain in the preparation phase. CFO Fukunaga will be discussing these matters a little later on.

Based on this outlook, our performance forecasts for the fiscal year ending March 31, 2019, call for us to partially make up last year’s moderate earnings growth which we should have done better, with net sales of ¥345 billion, operating profit of ¥37 billion, and profit attributable to owners of parent of ¥25 billion.

The emerging global trend toward protectionism is making for an opaque outlook for the earnings of SCSK's customers. Nevertheless, we are committed to increasing our earnings by achieving growth in existing business, most notably systems development businesses, as well as in new service-oriented businesses.

■ Mid-Term Management Plan (slide4)

As I stated at the beginning of this presentation, our goal is to create the value desired by customers, and thereby help drive the growth of the Japanese economy, with the power of our IT services.

To accomplish this goal, we will cultivate talented human resources capable of further evolving the ICT that leads social progress through means such as promoting contributions from senior and female employees. These human resources will form the driving force behind the growth of the Japanese economy.

At the same time, we will take steps to prevent our customers and ourselves from being led astray by such ambitious goals or by the buzzword of digital transformation. Accordingly, we will take a well-grounded approach toward developing new IT service businesses, which will include the utilization and application of AI, IoT, and other new technologies.

SCSK's medium-term management plan has set the target for the strategic indicator of operating profit at the lofty level of ¥50.0 billion. Of this figure of ¥50.0 billion, between ¥40.0 billion and ¥45.0 billion will come from the continuation of the efforts to grow our business and reform our portfolio that we implemented to date. In other words, these profits will be generated through the growth of our existing operations and the shift to service-oriented businesses.

The final year of the current medium-term management plan will be the fiscal year ending March 31, 2020, and this year is approaching rapidly. However, the amount of between ¥40.0 billion and ¥45.0 billion is within the scope of the previously mentioned forecasts for performance in the fiscal year ending March 31, 2019.

As for the remaining ¥5.0 billion to ¥10.0 billion of the medium-term management plan's operating profit target, we are diligently working toward this amount by starting up new strategic businesses and conducting M&A activities. In regard to M&A activities, these activities are dependent on the presence of acquisition targets, and I unfortunately have nothing to report on this front today. We will talk about the trends in specific strategic businesses later. Right now, let me say that we have not yet reached a point at which we can look forward to earnings contributions from the automotive software systems business or from other strategic businesses.

As the leader of SCSK, I will continue working in my fullest to develop new strategic businesses and advance M&A activities with the aim of closing the gap between our actual performance and the medium-term management plan's operating profit target of ¥50.0 billion. At the moment, however, management's outlook is that we will be able to generate operating profit of between ¥40.0 billion and ¥45.0 billion in the fiscal year ending March 31, 2020, through the growth of existing businesses and the shift to service-oriented businesses.

■ Shift to Service-Oriented Businesses (slide5)

There are only two more topics I would like to touch on in today's presentation. First, I will discuss the investments being made in service-oriented businesses and the earnings these businesses are generating.

As previously disclosed, sales from service-oriented businesses amounted to ¥40.0 billion in the fiscal year ended March 31, 2015; ¥44.0 billion in the fiscal year ended March 31, 2016; and ¥50.0 billion in the fiscal year ended March 31, 2017.

In the fiscal year under review, we revised the definitions of certain service-oriented businesses to better reflect customers' needs for SCSK's IT services. We thus adopted broader definitions for our service-oriented businesses, which include various non-cloud solutions, and pursued substantive performance improvements accordingly. Under the new definitions, service-oriented businesses generated sales of ¥705 billion in the fiscal year ended March 31, 2018. When calculated using the new standards, sales from service-oriented businesses in the fiscal year ended March 31, 2017, amounted to ¥640 billion, meaning that sales from these businesses effectively showed a year-on-year increase of 10% in the fiscal year under review.

In the fiscal year ending March 31, 2019, we project that sales from service-oriented businesses will increase by more than 10% year on year.

■ Promotion of Strategic Businesses: Automotive Software (slide6)

I would next like to discuss our automotive software systems business.

The QINeS-BSW business, a new extension of our automotive software systems business, attempts to apply the standardization that is a given in the IT service industry to automotive software systems development in a manner that is in step with the software standards being developed in the automotive industry. This drive for standardization is embodied by the AUTOSAR standard, which is becoming more widely used in Europe and other regions, as you are surely aware.

I would like take this opportunity to talk about the trends toward AUTOSAR compatibility in Japan. Our initial business plan assumed that this standard would spread throughout various automotive software systems development fields.

However, the actual situation ended up being different from what we had envisioned. Progress in developing highly functional automotive systems, such as advanced driver-assistance systems and self-driving cars, is moving forward much quicker than we had anticipated. As a result, there is now a need to quickly develop such functions for the fiscal years ending March 31, 2020 and 2021. Accordingly, the creation of functions for automobiles to be released in these model years will need to be conducted using legacy systems development techniques prior to the adoption of AUTOSAR.

At the same time, the development of self-diving cars, electric vehicles, and other highly functional automobiles is a pressing task. The majority of original equipment manufacturers and tier 1 parts manufacturers are currently examining the possibility of adopting the AUTOSAR standard or even preparing for or promoting compatibility as part of the push to rollout highly functional automotive software systems in the 2022 and 2023 model years.

In this manner, the current operating environment for our automotive software systems businesses differs from our projections, which is impacting our business plans.

Certain advanced functions developed for the 2019 and 2020 model years are expected to be reengineered as AUTOSAR compatible functions for use in automobiles released in the 2022 model year or beyond.

Against this backdrop, a large number of automotive companies began working to achieve AUTOSAR compatibility in their development of highly functional automotive software systems during the second half of the fiscal year ended March 31, 2018. These companies were not limited to industry leaders. As a result, the number of potential deals to be made is greatly exceeding our initial forecasts.

This situation is, of course, favorable to SCSK. However, deal project teams are being forced to address the numerous specific development requirements of individual companies, and customer demands are proving to be incredible diverse. For this reason, the Company currently lacks the resources necessary to pursue all potential deals, making it difficult to upscale our business in response to the increased demand.

At the same time, the scope of AUTOSAR application itself is evolving. The technologies associated with this standard are expected to advance steadily in the future, moving past the level of controlling individual automotive parts, to control entire vehicles and eventually transcend the boundaries of vehicles themselves through the advent of connected cars. This evolution will result in AUTOSAR being applied in a wide range of areas. We therefore believe that it will be important for SCSK to continue conducting substantial investments in technologies going forward.

Against this backdrop, we judged that delays in our initial schedule for earnings contributions from our automotive software systems business would be unavoidable. At the moment, we do not see the goal of realizing earnings contributions by the fiscal year ending March 31, 2020, as being feasible.

Looking ahead, SCSK will conduct business development investments in accordance with its initial plans as the Company seeks to protect its firstcomer position as a developer of cutting-edge technologies in this field.

At the same time, we are committed to recovering the upfront investments made in these operations as quickly as possible, although this recovery will be delayed slightly from our initial plans. We will be implementing various business initiatives to accomplish this objective.

As for specific details about our progress on this front, in the fiscal year ended March 31, 2018, we received basic software-related orders with an eye to future development of mass-produced automobiles from three parts manufacturers, one of which was Sanden Automotive Components Corporation, as was disclosed in a news release. These deals will generate sales in the area of a few hundred million yen.

Also, please let me add that our automotive software systems businesses, based on a broad definition including conventional model-based development, are advancing at an increasingly fast clip and are thus contributing to the growth of SCSK's earnings.

Going forward, we will work to swiftly achieve profitability in our automotive software systems businesses. These efforts will be based on SCSK's three pillars of strength, namely its technology development capabilities pertaining to the advanced QINeS-BSW AUTOSAR compliant software product and related technologies, its technological prowess in model-based development, and the system development capacities the Company has honed over its long history of supplying IT services to corporate clients.

■ In Closing

This wraps up my explanation of performance, business trends, and the progress of business strategies.

As you are no doubt aware, we instituted reforms to human resource and other organizations effective April 1, 2018, with the aim of accelerating business growth going forward. There is just one element of these reforms that I would like to talk about right now.

Effective April 1, 2018, we established SCSK's first dedicated, Companywide sales organization. At the beginning of this presentation, I stated that we aim to accurately understand the value sought by customers and to comprehensively utilize Companywide services and resources to supply this value. The new sales organization was created to facilitate this undertaking. Of course, we intend to promote coordination between this sales organization and existing business divisions while also managing our business in a manner that allows for operations to be developed through a united effort encompassing corporate divisions as well as the rest of the Company. The goal of this approach will be to address customers' needs in the truest sense.

With this, I conclude my portion of today's presentation. In closing, I would like to ask for your ongoing support and understanding of the Company.

Thank you.

Transcript of results briefing
Consolidated Results for Fiscal Year Ended March 2018

Tetsuya Fukunaga
CFO, SCSK Corporation

■ Introduction

Greetings, I am Tetsuya Fukunaga, CFO of SCSK Corporation.

Today, we will be discussing our performance in the fiscal year ended March 31, 2018, and our performance forecasts for the fiscal year ending March 31, 2019, based on the framework provided by the materials that have been distributed to you.

■ Highlights for FY2017（Slide2）

First, I would like to talk about our performance in the fiscal year ended March 31, 2018. Please look at the summary of consolidated performance on slide 2. Our performance in the fiscal year under review was as shown on this slide. As stated by President Tanihara, this is the first year since SCSK was born out of the merger in which we have failed to achieve our initial, disclosed forecasts. Nevertheless, we set new records for fourth-quarter net sales and operating] profit and succeeded in achieving higher full-year sales and profit for the sixth consecutive year following the merger.

To elaborate, performance was impacted by increases in expenses, particularly those incurred during the first half of the fiscal year, that exceeded our initial forecasts. Examples of such higher expenses included expenses related to efforts to advance core strategies, such as the shift toward service-oriented businesses and the development of strategic businesses; upfront business investment expenses, depreciation and amortization, and R&D expenses for reinforcing existing operations; and marketing expenses. Also, systems development businesses targeting financial industry customers saw struggling performance due to delays and cancellations of large-scale projects. These factors caused performance in the nine-month period ended December 31, 2017, to fall below our initial forecasts and thus forced us to institute downward revisions to our full-year forecasts in January 2018.

Conversely, IT service businesses targeting the distribution industry performed well during the second half of the fiscal year, and performance in systems development businesses serving the manufacturing industry exceeded our initial forecasts during the fourth quarter. Also, we were able to effectively manage selling, general and administrative, or SG&A, expenses and other expenses to an appropriate degree, despite the delayed starts of large-scale projects for customers in the financial industry. As a result, a massive year-on-year increase was seen in fourth-quarter operating profit, an accomplishment that helped us secure higher sales and profits on a full-year basis. Although performance was lower than initially anticipated, we still managed to set new records for full-year net sales and operating profit.

In addition, overall order backlog increased 0.6% year on year, to ¥117.0 billion.

I will explain order trends by segment a little later on. For now, let me say that, despite the decrease in system sales, we were able to achieve an increase in orders of 7.4% year on year in systems development businesses. Accordingly, as stated by President Tanihara, we believe that the Company was able to establish a firm foundation on which to begin the fiscal year ending March 31, 2019.

The operating margin showed a slight increase from the fiscal year ended March 31, 2017, coming to 10.3% on a full-year basis regardless of the burden of higher upfront business investment-related expenses.

■ Consolidated Statements of Income（Slide3）

Moving on to slide 3, I would like to offer a summary of SCSK's consolidated statements of income for the fiscal year ended March 31, 2018.

As mentioned previously, sales were up while profit was down in the nine-month period ended December 31, 2017. Looking at the fourth quarter on a standalone basis, we achieved a massive increase of 26.0% in operating profit following an improvement in the gross profit margin and a reduction in SG&A expenses, which was partially a reflection of delays in incurring certain expenses. As a result of these factors, performance fell in line with the revised performance forecasts.

As the final component of this summary of SCSK's consolidated statements of income, I would like to discuss profit attributable to owners of parent, which was actually higher than our initial forecasts.

As you are no doubt aware, wholly owned subsidiary QUO CARD Co., Ltd., was sold in the third quarter of the fiscal year under review, leading the Company to record extraordinary income of ¥10.7 billion in the form of gain on sales of investment securities.

Meanwhile, extraordinary losses were recorded following the strategic revision of various business investment assets. For example, impairment losses were incurred as a result of consolidating data centers, some of which are to be used as offices, in an effort to streamline our data center business. In addition, lump-sum amortization treatments were applied to certain software associated with service-oriented businesses in conjunction with a change in strategic targets.

Profit attributable to owners of parent rose by 14.2% year on year after reflecting these unexpected extraordinary factors.

With this, I conclude this overview of our consolidated statements of income.

■ Sales Comparison by Segment（Slide4）

Moving on, I would now like to more closely examine earning figures for the fiscal year under review through our usual presentation materials.

On slide 4, you will see a comparison of sales by segment. In the systems development segment, overall sales showed a slight increase of 1.1% year on year. Continuing throughout the entirety of the fiscal year under review, there was a strong trend in systems development demand from distribution industry customers looking to invest in omni-channel retailing and digital marketing as well as from certain major communications carriers and other communications industry customers. In addition, the second half the fiscal year, particularly the third quarter, brought with it upturns in demand that exceeded our initial anticipations. Specifically, these upturns were seen in demand for strategic IT investment among automobile, machinery, and other manufacturers and in system upgrade demand, which rose on the back of strong earnings among customers. Conversely, we felt the impacts of the initially expected rebound from a large-scale development project for a specific customer recorded in systems development businesses targeting the financial industry during the fiscal year ended March 31, 2017. There were also delays and cancellations of several large-scale projects in these businesses, which weighed heavily on performance.

Looking ahead, we project that conditions in the fiscal year ending March 31, 2019, will be more favorable than in the fiscal year under review. This outlook is based on the solid systems development demand seen among manufacturing industry customers as well as gradual commencement of projects for financial industry customers.

Sales were up 2.6% year on year in the system maintenance and operation and services segment. This segment benefited from firm performance in system operation service businesses catering to the communications and transportation industries as well as in IT service businesses supplying digital marketing enhancement services for the distribution industry. In addition, the performance of cloud and other service oriented-businesses improved in line with our forecasts with sales growth of more than 10.0%. The benefits of these positive developments counteracted the impacts of certain manufacturing industry customers for conventional business process outsourcing, or BPO, services concluding their large-scale contracts or reducing the scale of their contracts, a trend we touched on when discussing the performance for the six-month period ended September 30, 2017.

The system sales segment posted 4.2% increase in sales. Factors contributing to this increase included higher sales of IT products to the communications industry and nearly all other customer industries.

■ Incoming Orders and Backlog（Slide5）

Looking at slide 5, I would like to discuss the order trends seen in each sales segment. In addition to full-year order trends, this slide contains information on fourth-quarter order trends. This information is also available in the supplementary information materials.

Incoming systems development orders were up 3.0% on a consolidated basis. Although performance was heavily impacted by the absence of orders from major financial industry customers recorded in the previous fiscal year, overall orders increased centered on the manufacturing industry.

Order backlog similarly grew 7.4% due to a rise in orders from almost all industries supported by a strong deal flow.

Strategic IT investment demand was strong overall, which contributed to increases in both incoming orders and order backlog. Another contributing factor was the enterprise resource planning system and other system upgrade demand that emerged primarily among manufacturing industry customers during the second half of the fiscal year. As has been stated, orders from financial industry customers are currently on the rise, and I thus feel confident in saying that the fiscal year ending March 31, 2019, began amid strong order trends.

In regard to maintenance and operation services, both incoming orders and order backlog decreased slightly year on year. These decreases were mainly a result of certain manufacturing industry customers for our conventional BPO services reducing the scale of their previously large-scale contracts.

Nonetheless, we anticipate an increase in order backlog to occur near the end of the first half of the fiscal year ending March 31, 2019. This increase will be an extension of the upswing in orders that began during the fourth quarter of the fiscal year under review in conjunction with our expansion of service-oriented businesses.

Incoming orders and order backlog for systems sales decreased 1.6% and 8.3%, respectively, due to the impacts of reduced network product orders from certain communications industry customers, among other factors.

■ Sales Comparison by Customer Industry（Slide6）

Turning to slide 6, I will now explain sales and other trends by customer industry, although I can only touch on the major trends.

Overall sales to manufacturers rose by a slight 1.7%. Impressive growth in conventional automotive embedded software development sales was seen with an increase of over 15.0%. Systems development sales, which include automotive embedded software development sales, were up by more than 5.0% due to strong performance supported by increase in systems development demand from automotive manufacturers and in systems upgrade demand from machinery manufacturers for efficiency improvement purposes. However, the increase in sales to manufacturers was limited due to lower orders for product verification services from certain manufacturing industry customers as well as reductions in the size of large-scale BPO service contracts.

Sales to distributors increased 7.2% year on year. This increase was attributable to the ongoing rise in digital marketing-related development and outsourcing projects.

Sales to financial institutions decreased 1.8% year on year due to the heavy impacts of the rebound from large-scale orders from banks that were recorded in the previous fiscal year, a factor we have spoken of since the beginning for the fiscal year under review and also mentioned previously today, as well as to the cancellations and delays of several large-scale projects initially scheduled to take place during the fiscal year under review.

Sales to the communications and transportation industries were up 7.3% year on year. Strong performance was seen in systems development and system maintenance and operation services for major communications carriers and cable TV providers as well as in system sales operations.

This concludes my explanation of sales by customer industry.

■ External Sales and Segment Profit by Reportable Segment（Slide7）

We will now move on to slide 7, which shows a breakdown of performance by reportable segment.
As has been explained, particularly strong trends were seen in businesses serving the manufacturing, communications, and distribution industries, resulting in higher sales in all segments, with the exception of the Financial Systems Business Group. In addition, higher operating profit was achieved in the Manufacturing Systems Business Group, the Telecommunication Systems Business Group, the Distribution Systems Business Group, the Business Solutions Group, and the IT Platform Solutions Group.

The Financial Systems Business Group was heavily affected by the aforementioned rebound from previously recorded large-scale orders and delays in the commencement of several projects, which resulted in a year-on-year decrease in sales. Segment profit was down due to the lower sales as well as the impacts of unprofitable projects.

In the Business Services Group, sales were up year on year. Conversely, profit declined due in part to an increase in business investment expenses associated with the development of new e-commerce services to reinforce business operations and the opening of a service center for providing BPO services. Another detractor was higher marketing-related expenses.

With this, I would like to wrap up my explanation of performance by reportable segment.

■ Operating Profit Analysis（Slide8）

Up until now, I have focused on net sales in our discussion of full-year performance for the fiscal year ended March 31, 2018.

Looking now at slide 8, I would next like to elaborate on the factors that influenced operating profit. Specifically, I will talk about the expenses incurred during the fiscal year under review.

As explained previously, the combined increase in cost of sales and SG&A expenses in the nine-month period ended December 31, 2017, amounted to more than ¥3.2 billion, which mainly consisted of business investment-related expenses. However, we were able reduce SG&A expenses by nearly ¥0.5 billion during the fourth quarter through effective cost management. These efforts, together with the impact of expenses that were carried over to the next fiscal year, resulted in an increase in expenses of approximately ¥2.0 billion on a full-year basis.

As for the automotive software systems business, an area garnering strong interest, there was an increase in expenses of approximately ¥0.9 billion that was accounted for in our initial forecasts. As a result, the business posted a loss of roughly ¥2.0 billion in the fiscal year ended March 31, 2018.

Total losses from unprofitable projects were relatively unchanged year on year at ¥0.8 billion as such losses in the fourth quarter was only just above ¥10.0 million. Accordingly, these losses were lower than the amount of ¥1.0 billion we budget for each year.

As we have explained in the past, SCSK endeavored to conduct the necessary business investments in line with its budgets while working to manage expenses. Through these efforts, we were able to limit the full-year increase in expenses to approximately ¥2.0 billion, which was more or less in line with our initial forecasts.

With this, I conclude my explanation of how expenses influenced operating profit.

■ Consolidated Balance Sheets（Slide9）

Moving on from the consolidated statements of income, we will now discuss our consolidated balance sheet. Please turn to slide 9.

As explained during the briefing on performance for the nine-month period ended December 31, 2017, all assets and liabilities associated with former subsidiary QUO CARD, which amounted to over ¥100.0 billion, were excluded from the scope of consolidation following the transference of this company’s stock on

December 1, 2017.

Together with performance in the fiscal year under review, the transference of QUO CARD's stock led to a substantial improvement in various indicators. Notably, the equity ratio rose from 42.8% on March 31, 2017, to 62.3% on March 31, 2018.

■ Financial Forecasts for FY2018（Slide10）

This ends my explanation of the consolidated performance in the fiscal year ended March 31, 2018. Looking at slide 10, I will now touch on our forecasts for performance in the fiscal year ending March 31, 2019.

We currently view the fiscal year ending March 31, 2019, as being characterized by a persistent sense of opaqueness in terms of IT investment trends among customers, a characteristic that comes against a backdrop of political and economic uncertainty around the world. Conversely, recent trends in SCSK's business environment include the continuation of the solid trend in IT investment demand seen among manufacturing industry customers during the second half of the fiscal year ended March 31, 2018, as well as the commencement of certain systems development projects for financial industry customers, an area in which the Company struggled last year. Accordingly, as stated by President Tanihara, we have judged that overall business trends in the fiscal year ending March 31, 2019, are proving more favorable than in the fiscal year ended March 31, 2018.

Our focuses in the fiscal year ending March 31, 2019, will include tying the solid order trends to business earnings and promoting service-oriented businesses. We anticipate that these efforts will lead to respectable increases in both sales and profit, despite the fact that we will continue incurring upfront expenses in relation to business investments.

An increase of more than ¥2.0 billion in expenses, primarily upfront business investment expenses, was incorporated into our initial forecasts for the fiscal year ended March 31, 2018. However, we anticipate that the increase in such upfront expenses will amount to just more than ¥1.0 billion in the fiscal year ending March 31, 2019. These expenses will be associated with new strategic businesses, among others.

Moreover, our forecasts call for a year-on-year decrease in profit attributable to owners of parent in the fiscal year ending March 31, 2019. This decrease will be the result of the absence of the extraordinary income recorded in relation to the transference of QUO CARD's stock during the fiscal year ended March 31, 2018.

This concludes my explanation of our full-year forecasts for consolidated performance.

■ Dividend Forecasts for FY2018（Slide11）

The last topic I would like to touch upon is SCSK's policies for shareholder returns, including the year-end dividend for the fiscal year ended March 31, 2018, and our dividend forecast for the fiscal year ended March 31, 2019.

Although profit attributable to owners of parent exceeded our initial forecast in the fiscal year ended March 31, 2018, this outcome was largely due to the one-time recording of extraordinary income following the transference of QUO CARD's stock in the third quarter. Given this fact, we have chosen to adhere to our initial dividend forecast by issuing a year-end dividend of ¥47.5 per share, which will make for a full-year dividend of ¥95, an increase of ¥5 over the previous year's dividend of ¥90 per share.

As for the fiscal year ending March 31, 2019, we will target a dividend payout ratio of 40.0% of our earnings forecast in accordance with the basic policy for this ratio that has been explained as part of the Company's policies for capital measures and dividends. Taking into account this policy as well as our financial position and projected improvements to earnings capacity, we intend to issue a full-year dividend of ¥100 per share, an increase of ¥5 per share, in order to better return profits to shareholders.

We aim to increase shareholder returns while fully utilizing the Company's continually growing cash flows to invest in the service-oriented businesses and strategic businesses that will support future growth. Accordingly, we plan to raise dividends in line with projected performance improvements.
With this, I would like to conclude my portion of today's presentation.

We are committed to making steady progress on the path toward growth, supported in these efforts by our shareholders and investors. SCSK looks forward to your advice and encouragement going forward.

We greatly appreciate you taking the time to join us today.