Transcript of results briefing
Consolidated Results of Operations for Nine-Month Period Ended December 31, 2018

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

I would like to start by thanking you all for taking time out of your busy schedules to join us for this teleconference during which we will discuss the performance of SCSK Corporation in the nine-month period ended December 31, 2018.

Let us begin our look at the Company's consolidated performance.

■ Contents
First, I will be offering an overview of our consolidated performance in the nine-month period ended December 31, 2018.

I would like to provide details on each item of this summary of the consolidated statements of income for the nine-month period based on the framework provided by our usual presentation materials.

In addition, I will be offering an explanation on the news release titled *Notice of Revision to Financial Results Forecasts* issued today.

Two other news releases were also issued today: *Tender Offers to Acquire All of the Common Stock of VeriServe and JIEC*, which pertains to our management strategies, and *Structural Reforms*, which describes the structural reforms scheduled for the fiscal year ending March 31, 2020.

My presentation will take just over 30 minutes.

■ Consolidated Performance Highlights (slide2)
Please turn to slide 2. Here you will see highlights of our consolidated performance in the nine-month period.

I will begin by offering an overview of our performance in the nine-month period ended December 31, 2018. As you can see on this slide, net sales were up 4.5% year on year and operating profit increased 22.9%. In this manner, new nine-month records were set for both of these items.

The main factor behind this impressive performance was strong operating conditions. For example, businesses catering to the manufacturing and distribution industries began to see increasingly favorable performance in the fourth quarter of the previous fiscal year, and this trend only accelerated in the fiscal year ending March 31, 2019, with ongoing sales growth of around 10%, which is higher than initially expected. In addition, businesses serving the financial industry, which had gotten off to a slow start, witnessed the start of certain large-scale projects. Overall, the strong business conditions and trends explained at the financial results briefing for the six-month period ended September 30, 2018, continued in third quarter, underpinning our impressive performance.

The growth in IT investment demand has been particularly pronounced. In addition to the strategic investment demand for boosting competitiveness, which included demand for investments to adopt AI, IoT, or other new technologies, we saw the emergence of demand for investing in upgrades to various operational systems. These investments were aimed at reducing labor requirements as well as at transforming certain legacy systems into open systems, among other applications. These demand trends were apparent in all industries.

The figure of ¥255.9 billion for net sales was achieved by taking advantage of this IT investment demand in service-oriented and other businesses.

If the impact of the transference of QUO CARD Co., Ltd., which was conducted in the third quarter of the previous fiscal year, is excluded, net sales rose by 5.8% in the nine-month period ended December 31, 2018.

Operating profit also showed strong year-on-year growth. Factors behind this growth included the increased sales; the benefits of fewer unprofitable projects and of higher productivity, which arose from efforts to boost operational quality and streamline operations; and the gradual decrease in new business development-related expenses that began in the fiscal year ending March 31, 2019.

Furthermore, the operating margin increased once again, as it also did in the six-month period ended September 30, 2018, this time rising by 1.5 percentage points. This increase can be attributed to ongoing improvements to profitability coupled with the benefits of higher productivity and profitability stemming from enhanced internal development frameworks and more efficient use of subcontractors. Other contributors included high rates of operation supported by robust deal flows and favorable order trends as well as the on-schedule progress in starting up new service-oriented businesses.

Current business trends are strong. As shown on this slide, consolidated order backlog was up 19.7% year on year.

In addition, an upward revision to our full-year forecasts for consolidated financial results in the fiscal year ending March 31, 2019, was announced. I will be talking about this revision a little later on.

■ Consolidated Statements of Income (slide3)

Turning now to slide 3, here is a summary of SCSK’s consolidated statements of income.

Net sales and operating profit were as I just explained. We will therefore be looking primarily at profit attributable to owners of parent.

Profit attributable to owners of parent decreased 30.3% year on year. This decrease was largely a result of the transference of QUO CARD, which operated the prepaid card business, conducted in the previous fiscal year.

Specifically, the decrease can be attributed to a total reduction of ¥11.5 billion from the absence of

QUO CARD’s profit of ¥0.8 billion and of extraordinary income of ¥10.7 billion associated with the transference that were recorded in the fiscal year ended March 31, 2018.

For reference purposes, profit attributable to owners of parent rose by more than 25% if these impacts are excluded.

This concludes my summary 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 period under review through our usual presentation materials. On slide 4, you will see a comparison of sales by segment.

Sales in the systems development segment grew 8.5% year on year. This outcome was a result of the robust demand in systems development businesses serving manufacturing industry and distribution industry customers. The benefits of this demand compensated for the impacts of the rebound from the conclusion of certain large-scale projects for financial institutions in the previous fiscal year.

Sales in the system maintenance and operation / services segment were up 3.1% year on year, regardless of the heavy impact of certain customers for business process outsourcing (BPO) services reducing the scale of their large-scale contracts during the fiscal year ended March 31, 2018. As was the case in the previous fiscal year, demand from distribution industry customers for IT services related to augmenting e-commerce and customer relationship management systems to adopt an omni-channel retailing approach remained relatively strong. These factors contributed to firm sales in the system maintenance and operation and services segment, which includes service-oriented businesses as well as offerings such as cloud services.

Packaged software / hardware sales increased 5.9% year on year because of strong sales of network IT equipment to certain communications industry customers, hardware accompanying large-scale development projects for distribution industry customers, and IT products for automobile and other manufacturers.

As all shares of QUO CARD Co., Ltd., were transferred on December 1, 2017, the performance of the prepaid card business is not included in the performance for the nine-month period ended December 31, 2018, and will not be included in performance going forward.

■ Incoming Orders and Backlog (slide5)

Looking at slide 5, I would like to discuss the order trends seen in each sales segment.

Incoming orders and order backlog increased by 14.7% and 19.7%, respectively, on the back of strong growth in incoming orders and backlog for systems development, for system maintenance and operation and services, and for packaged software / hardware sales.

Although incoming orders in the systems development segment were impacted by the rebound from previously recorded large-scale orders from financial institutions following the conclusion of development projects and delays in the commencement of new projects, double-digit growth was achieved in both income orders and order backlog due to greater-than-anticipated increases in orders from manufacturing and distribution industry customers. The increase in orders from the manufacturing industry was a result of firm overall demand for strategic IT investment along with robust upgrade demand pertaining to operational systems related to enterprise resource planning, production management, and customer relationship management, as has been explained previously.

In regard to maintenance and operation services, both incoming orders and order backlog showed substantial year-on-year increases. Although we felt the impacts of certain manufacturing industry customers for conventional BPO services reducing the scale of their previously large-scale contracts, overall orders were buoyed by a rise in outsourcing-related orders pertaining to e-commerce and customer relationship management systems for adopting an omni-channel retailing approach, a trend that has continued from the first half of the fiscal year, as well as the expansion of service-oriented businesses.

Incoming orders and order backlog for packaged software / hardware sales grew year on year. Contributors to this outcome included increased sales of network products to certain communications industry customers along with growth in demand for IT products among automobile and other manufacturers and in high-performance computing demand from academic sector.

■ Sales Comparison by Customer Industry (slide6)

Turning to slide 6, I will now explain sales and other trends by customer industry.

Sales to manufacturers rose by 8.2%, despite the impacts of certain customers for BPO services reducing the scale of their previously large-scale contracts. The overall increase was a result of growth in conventional automotive embedded software development and other systems development demand and higher product verification service demand from automobile manufacturers as well as increased operational system upgrade demand among electronic components manufacturers and construction industry customers.

Sales to distributors increased 10.9% year on year. This increase was attributable to e-commerce and customer relationship management development and outsourcing projects aimed at enhancing digital marketing measures and adopting an omni-channel retailing approach as well as ongoing growth in the number of orders from our parent company.

Sales to financial institutions were up 2.0% year on year. Sales in this category were heavily impacted by the conclusion of large-scale orders from banks and securities firms that had contributed to sales in the previous fiscal year. However, this factor was outweighed by the benefits of the commencement of certain new projects that we had been planning for since the end of the previous fiscal year and the increased scale of existing development projects for insurance industry customers.

Sales to the communications and transportation industries were up 5.3% year on year. Contributors to this increase included higher network product sales to certain communications industry customers as well as a solid flow of development and system sales orders from transportation industry customers.

Sales to power and gas providers rose 59.2% due to robust systems development demand in relation to facility upgrades, an area where demand has been limited since the Great East Japan Earthquake. This demand was primarily seen among major players in the power and gas sector.

■ External Sales and Segment Profit by Reportable Segment (slide7)
We will now move on to slide 7, which shows a breakdown of the performance I just discussed by reportable segment.

First of all, the Manufacturing & Telecommunications Systems Business Group continued to enjoy robust orders from automobile manufacturers, and the trend in orders from electronic component and machinery manufacturers and construction industry customers was also strong. Orders from power and gas providers, which are included in this segment, grew as well. As a result, both sales and profit were up in this segment.

The Distribution & Media Systems Business Group posted an increase in sales following brisk orders from customers in various industries engaged in consumer businesses and, on a customer industry basis, higher media system sales to communications industry customers. However, profit was down due to a rise in business investment expenses.

Sales were down in the Financial Systems Business Group, which was heavily impacted by the conclusion of large-scale projects that had previously contributed to sales. However, profit was up due to the commencement of certain new projects as well as the rebound from the one-time business investment expenses recorded in the previous equivalent period.

The Global System Solutions & Innovation Business Group posted higher sales and profit thanks to the steady flow of orders from our parent company and the solid performance of overseas consolidated subsidiaries.

In the Business Solutions Group, the brisk demand for enterprise resource planning-related system upgrade investments, which were centered on SAP and our proprietary ProActive enterprise resource planning package, continued from the six-month period ended September 30, 2018. In addition, this group enjoyed a solid level of orders in service-oriented businesses and outsourcing service businesses. These factors led to higher sales and profit.

The IT Platform Solutions Group achieved growth in sales and profit due to increased sales of IT products to the manufacturing industry.

Lastly, the IT Management Group was able to achieve increases in both sales and profit thanks to firm demand for an array of platform system development and cloud IT services, a trend that was also seen in the six-month period ended September 30, 2018.

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 performance in the nine-month period ended December 31, 2018.

Looking now at slide 8, I would like to explain the factors that influenced operating profit.

I mentioned some of the factors contributing to increased profit in the period under review at the beginning of this presentation. To reiterate, we owe our profit growth to higher sales on the back of favorable business trends together with the benefits of profitability improvements realized through increased productivity and other means. I would now like to take this opportunity to elaborate on some of the specific factors that influenced operating profit.

I will start by explaining some of the specific factors increasing profit. First of all, let me talk about unprofitable projects. In the previous equivalent period, losses from unprofitable projects amounted to roughly ¥0.8 billion. The amount of losses from unprofitable projects recorded during nine-month period ended December 31, 2018, was around ¥0.6 billion, making for a year-on-year decrease of ¥0.2 billion.

In addition, certain projects from which profits were expected to be recorded during the fourth quarter produced profits ahead of schedule. This factor had the effect of buoying operating profit by several hundred million yen.

Detractors from operating profit were the same as those discussed at the results briefing for the six-month period ended September 30, 2018. These included the change in the period for calculating bonuses explained when announcing financial results for the fiscal year ended March 31, 2018, which resulted in certain expenses that would have previously been incurred in the fourth quarter of the previous fiscal year being delayed until the period under review. We also recorded higher business investment-related expenses in association with automotive software system and other investments budgeted for the fiscal year ending March 31, 2019, while the earnings of QUO CARD that were included in performance for the previous equivalent period were gone in the period under review. These factors had the combined effect of decreasing profit by nearly ¥1.0 billion year on year.

The net impact of all of the specific factors I just explained [had the effect of decreasing operating profit by a few billion yen / resulted in a slight year-on-year decrease in operating profit].

Adding this amount to the increase of ¥4.9 billion in operating income, we will arrive at the figure of over ¥5.0 billion, which represents the effective increase in operating profit and is more or less equivalent to the increase in gross profit. This increase was a result of the boost to operating profit from higher sales and improvements to overall business profitability.

Of the ¥5.1 billion increase in gross profit, ¥3.3 billion can be attributed to higher sales while ¥1.8 billion was a result of the profitability improvements.

The operating margin was influenced by the specific factors I have explained as well as the higher profitability that was a product of our various efforts. As a result, the operating margin rose 1.5 percentage points from 8.8% in the previous equivalent period to 10.4% in the period under review, as mentioned at the start of this presentation. We will continue to pursue improved productivity and profitability going forward.

This ends my supplementary explanation of the factors that 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.

In September 2018, the Company issued ¥10.0 billion worth of straight bonds with a maturity period of five years, as explained when announcing financial results for the six-month period ended September 30, 2018. Meanwhile, operating cash flows showed a smooth increase, contributing to higher cash and deposits.

The equity ratio was 62.8%, relatively unchanged from the previous fiscal year-end.

Going forward, we will conduct proactive business investments in line with our core strategies while enhancing our balance sheet, financial position, and shareholders' equity. At the same time, funds will be allocated to increasing shareholder returns centered on dividends. All of these activities will be funded by boosting earnings and operating cash flows.

■ Revision of Full-Year Forecasts for Consolidated Financial Results (slide10)

Next, I would like to explain the upward revision instituted to our full-year forecasts for consolidated financial results in the fiscal year ending March 31, 2019. Please turn to slide 10.

As for our outlook for the operating environment in the fourth quarter of the fiscal year, we are currently seeing strong demand for IT investment. Targets of this demand include strategic investment by customers looking to reinforce or expand their businesses, system investment for streamlining operations and reducing labor requirements in light of labor shortfalls and working style reforms for addressing said shortfalls, and operational system upgrade demand stimulated by robust corporate performance. Given this outlook, we have judged that the IT service demand trends seen thus far will continue in all industries during the fourth quarter.

The threats of intensified trade friction and economic recession in the United States, China, and other countries remain. However, we are not witnessing any particularly negative developments at the moment, and a significant increase in order backlog was seen on December 31, 2018. It is therefore expected that profit in IT services businesses catering to certain customer industries, such as the manufacturing and distribution industries, will exceed our initial forecasts. Based on this outlook, the Company revised the full-year forecasts for consolidated financial results in the fiscal year ending March 31, 2019, that were announced on April 27, 2018. In comparison to our initial forecasts, the forecast for net sales was increased by ¥8.0 billion, to ¥353.0 billion; the forecast for operating profit was increased by ¥2.0 billion, to ¥39.0 billion; the forecast for ordinary profit was increased by ¥1.5 billion, to ¥39.0 billion; and the forecast for profit attributable to owners of parent was increased by ¥1.5 billion, to ¥26.5 billion;

This is all I have to say about the revision of forecasts.

■ Tender Offers to Acquire All of the Common Stock of VeriServe and JIEC (slide11)

Next, I would like to talk about the tender offers for shares of VeriServe Corporation and JIEC Co., Ltd., and the consequent conversion of these companies into wholly owned subsidiaries, all occurrences that were disclosed today.

As you have been informed, the current Medium-Term Management Plan, which is slated to concluded with the fiscal year ending March 31, 2020, delineates core strategies, including the shift to service-oriented businesses. Based on these core strategies, this plan guides us in pursuing improvements to corporate value through an approach toward developing operations that incorporates both new businesses and existing ones.

Realizing sustainable earnings growth while responding to the trend toward digital transformations and other changes in the ever evolving operating environment requires us to implement the core strategies of the Medium-Term Management Plan and other measures for boosting business profitability. We will also need to advance initiatives for improving operational quality, heightening productivity, and otherwise increasing profitability. Furthermore, we must enhance our management and revenue foundations to better match the times. In order to accomplish this objective, it will be crucial for SCSK to respond flexibly to operating environment changes through means such as revisions to Group-wide business structures.

The Company will approach this task by optimizing and integrating the SCSK Group's management resource portfolio, which is largely comprised of intellectual properties, IT assets, and human capital. We believe that is crucial to, create frameworks to enable flexible and mutual use of the necessary management resources and to construct business structures that will allow for the swift execution of the management strategies to be put forth in the next Medium-Term Management Plan, which we are currently in the process of formulating.

The acts of engaging in tender offers and converting listed subsidiaries VeriServe and JIEC into wholly owned subsidiaries is one facet of our transformation of business structure. This timing was chosen as it was judged to be ideal given the rapid pace at which today's operating environment is evolving.

Moreover, these acts are expected to be immensely beneficial to the enhancement of the corporate value of the entire SCSK Group. The benefits include averting the possibility of conflict of interest between the parent company and minority shareholders arising from both the parent and the subsidiary being listed companies; allowing for mutual use without any restrictions of resources such as customer base, business base, and financial base; and enabling decisions regarding Group management strategies to be made more flexibly and quickly.

The impact of the tenders offers on performance in the fiscal year ending March 31, 2019, is projected to be minimal. This impact will primarily manifest in the form of expenses associated with the tender offers and the recording of deferred tax assets funded by the income of the companies as they are incorporated into the consolidated tax system. This impact has been accounted for in the revised financial forecasts I explained earlier. As for the fiscal year ending March 31, 2020, consolidated operating profit will not be affected, as the two companies were previously consolidated subsidiaries, but an amount equivalent to the profit attributable to non-controlling interests of the two companies will be added to the profit attributable to owners of parent of the Company.

SCSK remains committed to transforming business structures of the entire Group in reflection of future operating environment changes in order to improve our Group's competitiveness and achieve sustainable growth from a medium- to long-term perspective.

For more information on the tender offers for shares of these listed subsidiaries, please refer to the separately issued news releases titled *Notice Concerning Commencement of Tender Offer for the Shares of VeriServe Corporation (Securities Code: 3724)* and *Notice Concerning Commencement of Tender Offer for the Shares of JIEC Co., Ltd. (Securities Code: 4291).*

■ Structural Reforms (Scheduled for April 2019) (slide12)

Lastly, I would like to provide an overview and an explanation of the goals of the structural reforms that were announced today. Please turn to slide 12.

The primary goal of these reforms is to create organizational structures that will facilitate the "Exercise of the SCSK Group's Overall Capacities" and the "Improvement of Division Profitability". The aim of this type of reorganization is to accelerate the important strategies and measures currently underway. As part of this undertaking, we will look to enhance SCSK's IT services to better address customer issues, bolster the Company's integration capabilities, and strengthen and expand our solutions and services.

Furthermore, with the aim of standing at the forefront of social innovation, we will develop a Companywide organizational structure that will allow for the rapid advancement of initiatives for "Creation and Commercialization of New Businesses in the Digital Transformation Field" and for "Enhancement of Existing Businesses through DevOps Innovations". To this end, a major aspect of this reorganization will be to establish new organizations responsible for the relevant areas and to allow for the necessary coordination between organizations.

Unfortunately, we do not have enough time to explain the structural reforms in their entirety. To offer one example of the reorganizations, however, we will establish the Mobility Systems Business Group to oversee the strategic automotive software systems business. This move will entail creating an organization tasked with building a strong business promotion system that integrates the automotive application development field, a model-based development business, and the platform field, a QINeS business. Another goal of this organization will be to accelerate its business management and promotion efforts, including the formulation of future business strategies, while stepping up coordination with other business divisions. In other words, in light with the expressed intent of the structural reforms, we will create an organizational structure for the mobility field, encompassing not only the development and operation of automotive software systems business but also support for the commercialization of related digital transformations, in order to better exercise the SCSK group's overall capacities.

In conjunction with these structural reforms, the Company's reportable segments will be revised in the fiscal year ending March 31, 2020.

Accordingly, segment information disclosed in the fiscal year ending March 31, 2020, and beyond will be based on the new organizational structure. We apologize for any inconvenience caused by this change.

We also intend to disclose year-on-year comparisons in which figures for the fiscal year under review have been restated to reflect the change in organizational structure.

With this, I conclude my explanation of the structural reforms scheduled for the fiscal year ending March 31, 2020.

SCSK stands committed to becoming a leading company in the IT services industry. To accomplish this goal, we will decisively transition to a business structure promising higher growth potential and profitability. At the same time, we will maintain our focus on implementing wide-ranging improvements to our management and earnings bases, which will include practicing health and productivity management, fostering a pleasant and rewarding workplace, and enhancing corporate governance systems. I hope we can look forward to the ongoing support of investors as we undertake these transformations.

This concludes today's presentation.

In closing, I would like to thank you all for joining us for this results briefing.