**Transcript of results briefing**

**Consolidated Results of Operations for 1st Quarter of Fiscal Year Ending March 2020**

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## ■ Introduction

Greetings, 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 during the three-month period ended June 30, 2019.

My name is Yasuhiko Oka, and I will be responsible for investor relations at SCSK from April 1, 2019.

Up to and including the fiscal year ended March 31, 2019, SCSK's investor relations functions were housed in the same organizational group as the Company's finance and risk management functions. From the fiscal year ending March 31, 2020, the investor relations functions will be placed under my jurisdiction together with general affairs, corporate communications, and sustainability promotion functions. I am committed to stepping up coordination with the relevant divisions to promote timely, fair, and impartial information disclosure.

## ■ Contents (slide1)

The agenda for today's presentation can be seen in the contents section on slide 1. In accordance with this agenda, I will begin by providing an overview of our performance in the three-month period ended June 30, 2019, and then move on to discuss specific performance items.

This presentation is scheduled to take around 20 minutes.

## ■ Consolidated Performance Highlight (slide2)

Please look at slide 2, which displays consolidated performance highlights for the three-month period ended June 30, 2019.

As an overview, our performance in the period under review was as follows:
Net sales: ¥90.9 billion
Operating profit: ¥7.8 billion
These figures made for record-breaking first quarter performance.

In addition, the operating margin was 8.6%, a year-on-year increase of 0.7 percentage point, while order backlog totaled ¥134.3 billion, up 10.8%.

In the fiscal year ending March 31, 2020, the previously strong operating environment and market trends are continuing. Particularly noteworthy has been the recent and ongoing trend toward robust growth in IT investment demand among customers in the manufacturing industry and the distribution industry.

In addition to demand for strategic IT investment for securing a competitive edge, we have seen firm demand for operational system upgrade investment for implementing labor-saving measures in response to labor shortfalls and for converting certain legacy systems into open systems.

Furthermore, businesses catering to the financial industry were able to effectively capitalize on the diverse investment demand from customers as part of the efforts of these businesses to augment their operations.

These conditions led to the performance that I will be discussing next.

Please turn to the overview of performance on slide 3.

**■ Summary of Financial Results（PL/Incoming Orders/Backlog）(slide3)**
Net sales increased ¥10.8 billion, or 13.5%, year on year, to ¥90.9 billion. Large contributors to this increase included growth in systems development projects for automobile manufacturers and analytical server and other equipment introduction projects for the manufacturing industry as well as higher network equipment sales to the communications industry.

I will explain the factors that influenced operating profit in more detail later on. As for the gross profit margin, a decrease of 0.1 percentage point was seen year on year primarily due to a sharp rise in relatively low-margin system sales. However, excluding one-time factors, overall business profitability continues to increase.

Meanwhile, selling, general and administrative (SG&A) expenses rose ¥0.9 billion. The majority of these expenses are business investment expenses and other anticipated expenses. Regardless, the ratio of SG&A expenses to net sales was actually down year on year, and the operating profit is improving.

As a result, operating profit was up ¥1.5 billion, or 23.7%, year on year, to ¥7.8 billion, making for an operating profit margin of 8.6%.

In addition, both incoming orders and order backlog were up year on year.

**■ By Sales Segment（Sales/Incoming Orders/Backlog）(slide4)**
Moving on, please look at slide 4, which displays a sales comparison by sales segment.

Year-on-year increases in net sales, incoming orders, and order backlog were seen in all segments. On the following slides, I would like to explain the performance in each sales segment in a little more detail.

**■ Systems Development（Sales/Incoming Orders/Backlog）(slide5)**
Please turn to slide 5.

Systems development sales were up 14.9% year on year, to ¥36.9 billion. Sales in this segment were brisk as a result of strong demand for strategic investments, upgrades to enterprise resource planning and customer relationship management systems, and operational efficiency improvement and streamlining amid the continuation of brisk IT investment demand among customers in the manufacturing and distribution industries. Another factor was a rise in system upgrade demand from the financial industry.

Incoming orders in this segment were up 1.8% year on year, despite being impacted by the rebound from large-scale orders from communications industry customers recorded in the previous equivalent period. Order backlog, meanwhile, showed double-digit growth following the acquisition of orders from customers in communications, power and gas, and various other industries combined with the substantial amount of orders that had been logged as of March 31, 2019.

**■ System Maintenance and Operation/Services（Sales/Incoming Orders/Backlog）(slide6)**
Next, please take a look at slide 6.

Sales in the system maintenance and operation / services segment were up 6.2%, to ¥34.0 billon.

The impacts from the replacement of e-commerce outsourcing-related systems resulted in declines in limited sales in the distribution industry. Overall, growth was seen in systems maintenance businesses in reflection of the favorable systems development trends. Service-oriented businesses are also growing steadily. This growth is apparent in the robust performance of verification services for pre-market products, cloud-based core systems, and business process outsourcing (BPO) services related to products and services.

Year-on-year growth was posted in incoming orders and order backlog as a result of the strong sales seen in the previous fiscal year, the accumulation of orders for BPO projects and in data center-related businesses, and the fact that the order backlog on March 31, 2019, buoyed order backlog on June 30, 2019.

**■ Packaged Software/Hardware Sales（Sales/Incoming Orders/Backlog）(slide7)**
Turning to slide 7, we will see performance in the packaged software/ hardware sales segment.

Inheriting the order backlog accumulated prior to March 31, 2019, packaged software/ hardware sales in the three-month period ended June 30, 2019, were strong in terms of network equipment sales to the communications industry and hardware sales to the manufacturing industry, and overall system sales increased 25.3% year on year, to ¥19.9 billion.

Double-digit growth was seen in both incoming orders and order backlog thanks to the continuation of the brisk trend in orders for network equipment from the communications industry that began in the previous fiscal year as well as to the accumulation of orders for hardware from academic research institutions.

With this, I conclude this explanation of performance by sales segment.

**■ Sales Comparison by Customer Industry (slide8)**
We will next look at sales by customer industry. Sales to all customer industries, as defined by SCSK, were up in the three-month period ended June 30, 2019. I will therefore only be explaining industries for which sales increases were particularly pronounced.

Please turn to slide 8. You also might want to refer to page 2 of the supplementary information data book.

Overall sales to manufacturers rose ¥2.3 billion year on year.

This sales growth was a result of higher sales in the manufacturing industry related to systems development and automotive embedded software development projects from automobile manufacturers as well as to analytical server and other sales. The previously mentioned increased sales of verification services for pre-market products and BPO services related to products and services was also a factor. In addition, contributions came from upgrades to operational systems for the construction industry.

Sales to financial institutions were up ¥2.2 billion year on year. Factors behind this increase included our ability to incorporate demand from certain banks coupled with the large scale of systems development projects for the leasing industry in the three-month period ended June 30, 2019.

Sales to the communications and transportation industries were up ¥3.4 billion year on year. Network equipment sales to communications industry customers grew, and we continued to take part in the core system upgrade projects for the transportation industry that began emerging during the previous fiscal year.

**■ Business Performance by Reportable Segment (slide9)**

On slide 9, you will see this performance reorganized based on the Company's reportable segments.

First of all, let me mention that the Company's reportable segments have been revised effective April 1, 2019. This revision comes in conjunction with establishment of the Mobility Systems Group as part of the structural reforms announced on January 31, 2019.

The Mobility Systems Group was established for the purpose of building a strong business promotion system that integrates the automotive application development field, where we engage in model-based development, and the platform field, where we develop our QINeS business. In addition, this group is meant to enhance coordination with other business groups, such as subsidiary VeriServe Corporation, which is developing verification operations in the automotive field.

In conjunction with the establishment of the Mobility Systems Group, we also created the new Mobility Systems segment effective April 1, 2019, and the automotive software systems business was transferred from the Business Solutions segment to this new segment. Figures for the three-month period ended June 30, 2018, have been restated to reflect this change.

Restated figures for the fiscal year ended March 31, 2019, can be found in the table on page 6 of the supplementary information data book.

Performance by reportable segment in the three-month period ended June 30, 2019, reflected the strong business trends. As a result, higher sales and profit were seen in all of our reportable segments.

Today, I would like to offer additional explanations on performance in the Mobility Systems segment, which recorded segment loss, and in the Manufacturing & Telecommunication Systems segment, in which segment profit growth was relatively small.

As stated, the performance of the Mobility Systems segment includes the performance of the automotive application development field and platform field operations of the automotive software systems business as well as the performance of VeriServe, a company with rapidly growing automotive operations.

We once again anticipate a loss in the platform area operations of the automotive software systems business. Performance in the three-month period ended June 30, 2019, was in line with this forecast causing the Mobility Systems segment to record a segment loss. However, performance improved in comparison to the previous fiscal year.

As for the Manufacturing & Telecommunication Systems, higher profit was achieved thanks to systems development demand from automobile manufacturers, but a low segment profit growth rate of 3% was posted as a result of unprofitable projects.

**■ Operating Profit Analysis (slide10)**

Looking now at slide 10, I would like to offer an explanation of the factors that influenced operating profit.

In the three-month period ended June 30, 2019, losses from unprofitable projects amounted to ¥0.4 billion. There were no such projects in the three-month period ended June 30, 2018, and these losses therefore decreased operating profit by ¥0.4 billion.

In addition, SG&A expenses were up ¥0.9 billion. Reasons behind this rise in expenses included higher payments of performance-linked bonuses in reflection of the impressive performance in the fiscal year ended March 31, 2019; outlays as part of the between ¥2.0 billion and ¥3.0 billion in business investment expenses projected on a full-year basis; R&D expenses; and an increase in expenses associated with events commemorating the 50th anniversary of SCSK’s founding.

These detractors were outweighed by the profit growth stemming from higher sales driven by solid business trends as well as from improved profitability seen in systems development, when excluding the impacts of unprofitable projects, and in system maintenance and operation/ services. As a result, operating profit was up ¥1.5 billion year on year, to ¥7.8 billion.

**■ Consolidated Financial Forecasts (slide11)**

Next, please turn to slide 11.

Despite the impressive performance in the three-month period ended June 30, 2019, supported by strong operating environment and market trends continuing on from the previous fiscal year, we have chosen not to revise the forecasts for performance in the six-month period ending September 30, 2019, and the fiscal year ending March 31, 2020, announced on April 26, 2019.

There has been no change to the opaqueness regarding business sentiment stemming from the trade friction between the United States and China and various other political and economic circumstances arising around the world. It is therefore necessary to carefully discern the IT investment trends to arise from economic conditions, particularly those in the second half of the fiscal year.

For this reason, we are currently unable to formulate an accurate outlook for IT investment trends among customers in industries such as the manufacturing and distribution industries. We therefore chose not to revise forecasts.

**■ Consolidated Balance Sheets (slide12)**

We will now discuss our consolidated balance sheet. Please turn to slide 12.

There have been no significant changes from March 31, 2019, but there is one development I would like to touch on.

As shown on this slide, net assets declined by around ¥1.5 billion from the previous fiscal year-end. Regardless of the accumulation of profit attributable to owners of parent, net assets decreased due to lower retained earnings stemming from the payment of dividends as well as from the fact that a portion of the procedures for acquiring additional shares of stock to convert JIEC Co., Ltd., and VeriServe into wholly owned subsidiaries, which took place in the previous fiscal year, was actually carried out in April 2019, the cash-out request, specifically.

**■ Progress of Core Strategies under the Medium-Term Management Plan (slide13)**
Turning next to slide 13, I would like to discuss our progress in the core strategies of the medium-term management plan.

Looking first at the shift to service-oriented businesses, on a full-year basis, we expect growth of 10% in the sales of service-oriented businesses from the figure of ¥74.0 billion posted in the fiscal year ended March 31, 2019.

Progress in the three-month period ended June 30, 2019, was within the anticipated scope. Particularly brisk growth was seen in subscription services, the development of cloud-based core systems, and BPO services.

In relation to our efforts to promote strategic businesses that capture the changing times, I would like to talk about our progress in the automotive software systems business, one of these strategic businesses.

The development of advanced driver-assistance systems, automated driving, and other highly functional systems is progressing much faster than expected at domestic automobile manufacturers. For this reason, the widespread adoption of basic software in the forms of AUTOSAR-compliant operating systems and middleware will likely be delayed a few years past our initial expectations, as has been explained.

Automotive platform operations are once again anticipated to post a loss in the fiscal year ending March 31, 2020. Nevertheless, we have been making progress in 2019 as seen in the news releases detailing the adoption of SCSK's QINeS-BSW RTOS by ADVICS CO., LTD., for use in the electronic control unit of its next-generation brake system and the commencement of verification tests of AUTOSAR-compliant QINeS BSW by Mazda Motor Corporation. In addition, we have begun supporting Mazda in building a human resource development platform for fostering the software development personnel that will underpin its future automobile development activities. After these releases were issued, we also received inquiries that could lead to the acquisition of new customers. While our progress may be gradual, the benefits are starting to appear.

We are committed to seizing opportunities and to laying the groundwork for the development of scalable businesses in the medium term.

Lastly, in regard to the efforts to enter into the second stage of global business expansion, we are developing businesses targeting the greater Japanese market, the market in which we provide IT support for the overseas expansion of Japanese companies. Since the fiscal year ended March 31, 2019, we have been enhancing strategic overseas partnerships to further expand our overseas operations. As one face of these efforts, we concluded a memorandum of understanding with FPT Corporation, Vietnam's largest ICT company, pertaining to a comprehensive partnership. Through this partnership, we will support the overseas expansion of Japanese companies and offer aid for developing IT platforms at overseas bases and subsidiaries.

In the past, we have developed our overseas operations through a network comprised of seven bases in the four locations of the United States, the United Kingdom, China, and Singapore. However, we are now taking steps toward entering the second stage of global business expansion by establishing bases in Indonesia and Myanmar, countries that we expect to offer solid foundations for our digital transformation operations, in order to incorporate the growth of the IT service and digital markets of Asian emerging countries.

With this, I wrap up this simple explanation of the three core strategies of the current medium-term management plan. The fiscal year ending March 31, 2020, is the final year of the current plan. In this year, we intend to continue moving forward with the enhancement of business operations through DevOps innovations to thoroughly improve productivity by means of automation and labor saving. At the same time, we will pursue business innovations through the selection and concentration of operations and promote the commercialization of digital transformations that utilize the digital technologies born out of co-creation with major customers to generate new businesses.

The two pillars supporting these efforts will be the MONOKAKU Center and DX & Innovation Business Center, which were both established in the fiscal year ending March 31, 2020. With these organizations in place, the fiscal year ending March 31, 2020, will be used as a period for ramping up initiatives in preparation for the next medium-term management plan.

**■ External Recognition (slide14)**

In closing, I would like to announce that SCSK has received the grand prize in the Platinum Career Award program sponsored by Toyo Keizai Inc. and supported by the Cabinet Secretariat and Ministry of Health, Labour and Welfare.

Rather than explaining the details of the award itself, I would like to list to some of the initiatives that led to our receiving this reward. This honor was a reflection of the high evaluation of our SCSK i-University program, which provides employees with a diverse range of learning opportunities, and our support for the ambitions and self-improvement efforts of employees through side job, concurrent position, and internal open application systems. Other recognized initiatives included our IT Skill Level Assessment program for fostering specialized skills as well as the Job Challenge System and Internal Free Agent System designed to supply opportunities for contribution by individuals over the age of 60.

In addition, the Company is currently included in all four of the environmental, social, and governance (ESG) investment indices employed by the Government Pension Investment Fund. Meanwhile, we have also been included in the FTSE4Good Index Series, a series of international ESG indices, for three consecutive years beginning with 2017.

Inspired by our corporate philosophy—"Create Our Future of Dreams"—everyone at SCSK is united in their commitment to contribute to the realization of a sustainable society by responding to the changing times.

This concludes my presentation. SCSK looks forward to your support and encouragement going forward.

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