**Transcript of results briefing**
**Consolidated Financial Results for Fiscal Year Ended March 2023 and Financial Forecasts for Fiscal Year Ending March 2024**

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**■ Contents (slide 1)**
Greetings, my name is Yasuhiko Oka. Thank you for joining us today.
So now, let me start today's presentation along the agenda on page 1.

**■ Summary of Financial Results (PL/Incoming Orders/Backlog) (slide 2)**
Please look at slide 2, which displays consolidated performance highlights.

In the fiscal year ended March 31, 2023, net sales rose 7.7%, to ¥445.9 billion, and operating profit increased 8.0%, to ¥51.3 billion.

We were unable to reach the revised performance forecasts announced at the financial results briefing for the nine-month period ended December 31, 2022. This unfortunate outcome was a result of us recording earnings associated with loss-making projects of a scale of ¥1.2 billion in the fourth quarter of the fiscal year ended March 31, 2023.
However, this does not detract from the fact that fourth-quarter net sales surpassed the level projected by the revised forecast and fourth-quarter operating profit showed massive growth of more than 20% year on year, we still reached a point more or less in line with our anticipations.

Profit attributable to owners of parent, meanwhile, rose 11.4%, to ¥37.3 billion, as a result of valuation gains recorded in association with holdings of investment securities.

In addition, incoming orders were up 5.1%, to ¥449.9 billion, and order backlog was up 2.3%, to ¥181.1 billion.

**■ Summary of Financial Results from Jan. to Mar. 2023 (PL/Incoming Orders/Backlog) (slide 3)**
Please turn to slide 3.

In the fourth quarter of the fiscal year ended March 31, 2023, SCSK Corporation posted net sales of ¥122.8 billion, an increase of 10.3% year on year, and operating profit of ¥16.1 billion, an increase of 26.6%. Both of these figures represented new record highs.

The 10.3% increase in net sales was a result of higher demand systems development sales, growth in sales of maintenance and operation services, and a rise in demand for network security products seen amid robust IT investment demand.

Operating profit was impacted by the aforementioned loss-making project, which once again had a scale of ¥1.2 billion. This project happened to be attributable to the Financial IT Business segment. Nevertheless, we were able to absorb the increase in selling, general and administrative (SG&A) expenses thanks to growth in relatively high-margin systems development sales and improved margins for maintenance and operation service and systems sales. This resulted in a ¥3.4 billion increases in operating profit coupled with an operating margin of more than 13% in the fourth quarter of the fiscal year ended March 31, 2023.

At the same time, incoming orders were 11.5%, or ¥14.9 billion, year on year.
This growth in orders can be attributable to the continuation of favorable trends in core system and other systems development orders as well as to increased sales of equipment to certain customer in the communications industry.

**■ Net Sales Analysis (slide 4)**
Please turn to slide 4.

The graph on this slide shows year-on-year changes and growth rates for sales by sales segment on a quarterly basis.

The Systems Development segment, this segment posted a growth rate of more than 10% in the fourth quarter, supported by the recovery trend that emerged in the second quarter. The first quarter saw a concentration of multiple large-scale projects in their initial phases. This together with prolonged project lead times led to low sales growth of 1.8% in this quarter. As these projects progressed, however, they eventually culminated in the aforementioned recovery trend.

The System Maintenance and Operation / Services segment posted a growth rate of 10% in the fourth quarter. This growth was a result of the strong increases in sales of verification services and business process outsourcing (BPO) services seen throughout the fiscal year.

The Packaged Software / Hardware Sales segment displayed a growth rate of more than 7% on a full-year basis. Although the sales growth rate for the third quarter was affected by the comparison with the strong-performing third quarter of the fiscal year ended March 31, 2022, full-year sales grew because of sales of equipment to certain customer in the communications industry and robust demand for network security products.

**■ Operating Profit Analysis (slide 5)**
Next, slide 5 shows factors affecting operating profit.

As you can see on this slide, higher net sales buoyed operating profit by ¥8.3 billion. In addition, changes in the gross profit margin boosted operating profit by about ¥1.1 billion. This boost can be attributed to the benefits of improvements to profitability outweighing the impacts of detractors such as higher expenses associated with data centers, increased amortization expenses related to ProActiveC4, the rise in electricity bills seen in the first half of the fiscal year, and loss-making projects.

In regard to SG&A expenses, the prior trends continued, and the major causes of increases in expenses are as shown on this slide.

As a result, operating profit in the fiscal year ended March 31, 2023, grew 8.0%, to ¥51.3 billion, and the operating profit margin came to 11.5%.

■ **Incoming Orders/Backlog Analysis (slide 6)**
Let us now turn to slide 6, which shows a breakdown of factors affecting incoming orders and order backlog by sales segment in the fiscal year ended March 31, 2023.

The Systems Development segment saw large increases in both incoming orders and order backlog, which rose 8.7% and 14.4% respectively. These increases were a result of higher orders for core systems development services and represent the potential for substantial sales growth in the fiscal year ending March 31, 2024.

Incoming orders and order backlog decreased in the System Maintenance and Operation / Services segment as a result of changes in accounting practices associated with the data center business. In addition, there was a slight decrease in order backlog that stemmed from customers reducing or canceling their contact center contracts in the first quarter. Conversely, the System Maintenance and Operation / Services segment is expected to see sales growth in the fiscal year ending March 31, 2024, as a result of the M&A transaction conducted by BPO service company SCSK ServiceWare Corporation in April 2023.

As for the Packaged Software / Hardware Sales segment, incoming orders increased 3.4%, but order backlog was down 3.6% as a result of the rebound from batch orders placed ahead of schedule by certain communications industry customer in the fiscal year ended March 31, 2022. Large-scale investments by certain customer are expected to return to normal levels in the fiscal year ending March 31, 2024. Nevertheless, we project strong demand for network security products, when excluding certain factors.

■ **Business Performance by Reportable Segment (Sales/Operating Profit/Operating Profit Margin) (slide 7)**
I would next like to talk about performance by segment in the fiscal year ended March 31, 2023, with slide 7.

The Industrial IT Business segment posted growth in both net sales and operating profit due to increased strategic investment demand from automotive, electrical machinery, and other manufacturing industries as well as growth in sales of core systems redevelopment services to the distribution industry and higher sales of verification services.

In the Financial IT Business segment, net sales rose ¥2.8 billion following increases in sales of DevOps and fraud detection systems development services to the credit and leasing industries and in sales of large-scale licenses to the life and non-life insurance industries. Meanwhile, operating profit was down ¥0.3 billion year on year as the heavy impacts of the previously mentioned loss-making project, which had a scale of ¥1.4 billion, outweighed the benefits of sales growth.

The IT Business Solutions segment saw growth in net sales primarily as a result of higher sales in BPO businesses and our success in incorporating demand for developing core systems from the manufacturing industry as well as from a wide range of other industries. Operating profit in this segment rose as a result of this growth in net sales, which counterbalanced the increase in amortization expenses associated with ProActiveC4.

Moving on, the IT Platform Solutions segment posted increases in net sales and operating profit. These increases were largely a product of strong trends in equipment sales to the certain communications industry customer as well as in sales of network security products, factors that offset the negative impacts of the absence of previously recorded hardware sales to academic research institutions.

Next, the IT Management Service segment achieved an increase in net sales as the decreases in sales of managed services to communications industry and in platform development orders from the distribution industry were counteracted by the increase in data center business sales. Conversely, operating profit was down on a full-year basis due to increased depreciation and operating expenses associated with a data center completed last year. In the second half of the fiscal year, however, this segment was able to achieve growth in operating profit by transferring the impacts of rising electricity bills to customers and by increasing sales of managed services to distribution and financial industry customers.

Lastly, the Others segment was able to grow net sales through increases in sales centered on systems development projects at SCSK Minori Solutions Corporation. Meanwhile, operating profit in this segment rose as the benefits of sales growth compensated for the impacts of higher recruitment costs at SCSK Nearshore Systems Corporation.

**■ Business Performance by Reportable Segment (Incoming Orders/Backlog) (slide 8)**
Moving on to slide 8, we will look next at trends in incoming orders and order backlog by segment.

Looking first at the Industrial IT Business segment, this segment posted year-on-year increases in both incoming orders and order backlog. These increases in orders were a result of growth in core systems development projects for the distribution industry and rises in systems investment demand from a wide range of industries including the automotive industry, other manufacturing industries, the communications industry, and the transportation industry. Higher verification service orders were another factor behind these increases.

Only a slight increase was seen in incoming orders in the Financial IT Business segment as the acquisition of fraud detection system orders from the credit and leasing industries and large-scale license orders from the life and non-life insurance industries was counterbalanced by the absence of large-scale disaster recovery projects from securities industry customers and large-scale systems development orders from life and non-life insurance companies received in the previous fiscal year. Order backlog, meanwhile, was up as a result of the receipt of fraud detection system orders from the credit and leasing industries.

In the IT Business Solutions segment, incoming orders rose following growth in enterprise resource planning-related orders from the manufacturing industry as well as from a myriad of other industries. This factor offset the impacts of detractors like BPO service business contract cancelations and reductions among certain customers. Meanwhile, order backlog in this segment was up at the end of the fiscal year due to the same factors that affected incoming orders.

The IT Platform Solutions achieved an increase in incoming orders following higher network equipment orders from distribution industry customers, the acquisition of large-scale hardware sales orders from the automotive industry, and the accumulation of sales orders from the electrical machinery and service industries. The benefits of these factors counteracted the impacts of the absence of previously recorded large-scale hardware sales orders from academic research institutions and a decrease in equipment sales orders from certain communications industry customer. Order backlog declined as the backlog of network equipment orders from certain communications industry customer was converted to sales.

Incoming orders and order backlog in the IT Management Service segment decreased year on year due to the absence of previously recorded hardware sales orders from the credit and leasing industry, and revisions to accounting practices in the data center business. However, if the impacts of these factors are excluded, incoming orders and order backlog in this segment were relatively unchanged year on year.

Looking last at the Others segment, incoming orders rose as the contracts had been delayed until the fiscal year ended March 31, 2023. In addition, we saw an increase in systems development projects at SCSK Minori Solutions Corporation. Order backlog were also up year on year. With the exception of the contract delays, order backlog was affected by the same factors as incoming orders.

**■ Business Performance by Reportable Segment Analysis (slide 9 to 10)**

Slides 9 and 10 offer a summary of the factors affecting segment performance that I just explained. I will not be offering any additional comments on these slides.

**■ FY2023 Consolidated Financial Forecasts/ Dividends Forecasts (slide 11)**

Next, we will look at our consolidated performance and dividend forecasts for the fiscal year ending March 31, 2024, on slide 11.

As shown on this slide, in the fiscal year ending March 31, 2024, we project net sales of ¥470.0 billion, an increase of 5.4% year on year; operating profit of ¥54.0 billion, an increase of 5.1%; and profit attributable to owners of parent of ¥38.0 billion, an increase of 1.9%.

In the fiscal year ending March 31, 2024, SCSK witnessed double-digit growth in its systems development order backlog. Meanwhile, the Industrial IT Business segment is seeing brisk strategic investment demand centered on the manufacturing and distribution industries while the IT Business Solutions segment is enjoying consistently robust demand for core systems development projects.
We will therefore be looking to capitalize on these demand trends while practicing selection and concentration in our businesses to shift toward high-potential business areas.

The System Maintenance and Operation / Services segment will feel the impacts of the revisions to accounting practices in the data center business. Regardless, we expect overall performance to be strong thanks to the consistently reliable growth of BPO and verification service businesses.

In the Packaged Software / Hardware Sales segment, large-scale investments by certain customer are expected to return to normal levels in the fiscal year ending March 31, 2024, which will have an impact on performance. At the same time, we project strong demand for network security products, when excluding certain factors.

The forecast for net sales of ¥470.0 billion in the fiscal year ending March 31, 2024, was made based on consideration for such trends in the operating environment and in order backlog.

In regard to gross profit, although there are increasing factors in costs due to higher personnel expenses attributable to rises in base salaries and higher outsourcing costs stemming from price hikes by partner companies, we will look to transfer these costs to customers. At the same time, steps will be taken to limit loss-making projects through the application of the SE+ development standard and through exhaustive project management. We thereby aim to improve profit margins through increases in quality and in productivity.

SG&A expenses will also be affected by the higher personnel expenses attributable to rises in base salaries. When accounting for these expenses, together with investments in restructuring of office and company internal systems and costs attributable to newly acquired subsidiaries, we project an increase in SG&A expenses of approximately ¥4.5 billion.

Based on these factors, we forecast a 5.1% year-on-year increase in operating profit, to ¥54.0 billion, in the fiscal year ending March 31, 2024.

In regard to dividends, we intend to issue dividend payments of ¥52 per share for the fiscal year ended March 31, 2023, in line with our initial forecast.
As for the fiscal year ending March 31, 2024, we plan to raise the amount of dividends by ¥4 per share in reflection of the aforementioned performance forecasts, which will make for annual dividend payments of ¥56 per share and a dividend payout ratio of 46%. Moreover, we are targeting a dividend payout ratio of 50% in the final year of the Medium-Term Management Plan, and we will continue to bolster shareholder returns in conjunction with performance growth in pursuit of this goal.

This concludes my portion of today’s presentation. SCSK looks forward to your ongoing support and encouragement.

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