Transcript of results briefing
Consolidated Financial Results for the 2nd Quarter of Fiscal Year Ending March 2024

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■ Contents (slide 1)

Greetings, my name is Yasuhiko Oka, and I am a managing executive officer of SCSK Corporation.

■ Summary of Financial Results from Apr. to Sept. （PL/Incoming Orders/Backlog) (slide 2)

Turning first to slide 2, let us look at performance in the six-month period ended September 30, 2023.

As shown on this slide, in the six-month period ended September 30, 2023, we posted net sales of ¥231.1 billion, up 8.5% year on year; operating profit of ¥26.9 billion, up 19.6%; and profit attributable to owners of parent of ¥18.4 billion, up 13.8%.

In this manner, we achieved higher sales and profit in the six-month period ended September 30, 2023, setting new record highs for net sales and operating profit due to consistently strong demand for IT investment among customers.

In addition, incoming orders were up 9.3%, to ¥223.9 billion, and order backlog rose 4.2%, to ¥175.9 billion. I will offer more details on order trends a little later. For now, suffice it to say that trends in IT investment are currently strong.

■ Summary of Financial Results from Jul. to Sept. （PL/Incoming Orders/Backlog） (slide 3)

Let us now look at slide 3.

In the second quarter of the fiscal year ending March 31, 2024, net sales amounted to ¥117.8 billion, up 8.4% year on year; operating profit was ¥13.9 billion, up 11.1%; and profit attributable to owners of parent came to ¥9.4 billion, up 2.6%.
Second-quarter performance was affected by the absence of valuation gains on investment securities recorded in second quarter of the fiscal year ended March 31, 2023, coupled with valuation losses posted in the second quarter of the fiscal year ending March 31, 2024.

Incoming orders rose 15.0% year on year in second quarter, to ¥120.9 billion. One factor behind this increase was the continuation of strong order trends in the Systems Development segment. Another factor was the improvements from the first quarter seen with regard to the decline in orders for network equipment from certain communications industry customers in the Packaged Software / Hardware Sales segment.

■ Net Sales Analysis (slide 4)

Please turn to slide 4.

This slide shows year-on-year changes in sales by sales segment.

In the second quarter, the Systems Development segment once again posted double-digit growth in net sales, as was also done in the first quarter. This growth was a result of increases in sales of core systems to the distribution industry, development services to the automotive industry, and anti-money laundering systems to the financial industry.

The System Maintenance and Operation / Services segment was impacted by changes to accounting method in the data center business, which decreased sales. Nevertheless, this segment saw net sales rise by 7.5% year on year as a result of the higher sales of managed services, the strong performance of verification services, and the benefits of acquisitions related to business process outsourcing (BPO) services.

Six-month net sales were down ¥1.5 billion in the Packaged Software / Hardware Sales segment. Looking purely at the second quarter, however, net sales rose 1.7% as the consistently robust demand for network security products helped limit the decrease in sales of network equipment to certain communications industry customers.

■ 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 ¥4.6 billion. In terms of factors affecting the gross profit margin, the increase instituted to base salaries heightened costs by ¥0.5 billion while loss-making projects detracted ¥0.4 billion from operating profit. However, we sought to counteract such detractors by proposing appropriate prices for our services to transfer costs to customers and by improving productivity. The resulting increase in profitability boosted profit by around ¥1.2 billion.

Selling, general and administrative (SG&A) expenses were up as a result higher personnel and recruitment expenses following the increase to base salaries and hiring of new graduates and mid-career individuals. Other factors included rises in expenses for sales activities and the addition of expenses attributable to new consolidated subsidiaries.

As a result, operating profit in the six-month period ended September 30, 2023, grew 19.6%, to ¥26.9 billion, and the operating profit margin rose 1%, to 11.6%.

■ Incoming Orders/Backlog Analysis (slide 6)

Let us know turn to slide 6, which shows a breakdown of factors affecting incoming orders and order backlog by sales segment in the six-month period ended September 30, 2023.

The Systems Development segment saw increases in incoming orders and order backlog of 15.9% and 17.7%, respectively. These increases were a result of higher orders for core system development services and for development services from banks and other financial industry customers as well as from manufacturing industry customers. We anticipate that these orders will contribute to strong performance throughout the remainder of the fiscal year.

Incoming orders and order backlog in the System Maintenance and Operation / Services segment felt downward pressure as a result of the previously mentioned changes in accounting method associated with the data center business. Nevertheless, incoming orders were up 8.7% and order backlog increased 0.5% as a result of higher orders for managed services and strong trends in orders for verification. In addition, orders in this segment were buoyed by the absence of the BPO service contract cancelations and reductions seen among certain customers in the previous equivalent period as well as the benefits of acquisitions related to BPO services. Accordingly, we anticipate stable net sales in line with those seen in the six-month period ended September 30, 2023, to continue throughout the fiscal year ending March 31, 2024.

In the Packaged Software / Hardware Sales segment, meanwhile, incoming orders decreased 3.6% and order backlog was down 4.6%. However, the degree of decreases in the second quarter was less than that seen in the first quarter as large-scale hardware sales orders were received and as improvement were witnessed with regard to the first-quarter decreases in network equipment orders from certain communications industry customers.

■ Business Performance by Reportable Segment (Net Sales/Operating Profit /Operating Profit Margin) (slide 7)

I would next like to talk about performance by segment in the six-month period ended September 30, 2023, with slide 7.

We will begin by looking at the Industrial IT Business segment, which continued to experience the favorable performance seen in the first quarter, once again posting increases in sales and profit in the second quarter. Factors behind these increases included growth in systems development and verification services for the automotive industry and higher core system redevelopment orders from the distribution industry. In addition, this segment benefited from systems development demand associated with efforts to strengthen customer contact points and accommodate Japan’s newly instituted invoice system from the communications industry. These factors allowed the segment to absorb losses on loss-making projects to achieve growth in profit.

In the Financial IT Business segment, net sales rose due to the segment successfully incorporating demand related to anti-money laundering services and cloud systems development services from the credit and leasing industries and to acquire systems development orders from securities companies. However, operating profit was down 12.0% year on year due to the heavy impacts of the cancelation of projects for redeveloping overseas branches at the behest of banks , the rebound from previously recorded international calculation systems, and the impacts of loss-making projects.

Continuing the trend from the first quarter, the IT Business Solutions segment once again posted higher sales and profit in the second quarter of the fiscal year ending March 31, 2024. The higher sales can be attributed to the segment’s ability to incorporate core systems development demand from manufacturing and distribution industry customers, favorable trends in the acquisition of orders for ProActive, and the benefits of acquisitions related to BPO services. Operating profit also rose due to the higher sales, which helped absorb the increased expenses for reskilling employees to drive the growth of digital supply chain businesses as well as the amortization and sales expenses associated with ProActive.

Moving on, the IT Platform Solutions segment saw decreases of ¥1.8 billion in net sales and ¥0.8 billion in operating profit. Demand for network security products remained strong, and the impacts of the decline in sales of network equipment to certain communications industry customers, which reduced sales in first quarter, were less in the second quarter. As a result, the rates of decline in sales and profit were lower in the second quarter than in the first quarter.

Next, the IT Management Service segment achieved an increase in net sales driven by rising sales of managed services amid demand associated with transitioning to cloud systems and redeveloping existing systems to use cloud infrastructure from financial, communications, and service industry customers, a trend that continued even in the second quarter. In addition, a massive increase was seen in operating profit due to higher inter-segment sales following rises in platform development projects for customers of the Industrial IT Business and Financial IT Business segments. Another factor behind the massive increase in operating profit was the benefits of the transference to customers the impacts of higher electricity bills, which had not been fully completed in the previous equivalent period.

Lastly, the Others segment posted an increase in net sales as the decrease in systems sales was outweighed by the increase in systems development projects for manufacturing, financial, distribution, and a wide range of other industries at SCSK Minori Solutions Corporation that continued from the first quarter. Operating profit, meanwhile, was up ¥0.4 billion because of a more profitable sales mix and a decrease in SG&A expenses due to the absence of the system integration expenses incurred by SCSK Minori Solutions in the previous equivalent period.

■ 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.

Beginning with the Industrial IT Business segment, this segment posted year-on-year increases in incoming orders and order backlog of ¥7.6 billion and ¥2.0 billion, respectively. These increases in orders were a result of the receipt of orders for later phases of core system redevelopment projects for the distribution and communications industries. In addition, the segment was able to capitalize on development demand and verification service demand from manufacturers of items such as automobiles amid consistently strong order trends.

In the Financial IT Business segment, incoming orders were up ¥5.3 billion year on year while order backlog rose ¥4.7 billion. These increases can be attributed to orders related to overseas expansion by banks and with online banking services received in the second quarter as well as a rise in orders associated with accommodating new systems from the securities firms and insurance companies.

Incoming orders in the IT Business Solutions segment were up ¥5.6 billion due to growth in enterprise resource planning development projects, a result of brisk demand for core systems, as well as the absence of the BPO service contract cancelations and reductions seen among certain customers in the previous equivalent period. At the same time, order backlog increased ¥3.9 billion as a result of growth in enterprise resource planning-related orders and the benefits of newly consolidated acquisitions in the BPO business.

Decreases of ¥1.8 billion in incoming orders and ¥1.0 billion in order backlog were posted in the IT Platform Solutions segment. However, the rates of these decreases in the second quarter were less than in the first quarter as the declines in network equipment orders from certain communications industry customers seen in the first quarter were lower in the second quarter and because demand for security and network equipment remained firm.

In the IT Management Service segment, incoming orders were up year on year due to the solid trends in orders in relation to cloud and managed services. Order backlog, however, decreased substantially as a result of the impacts of changes in accounting method associated with the data center business that also affected order backlog in the first quarter.

Looking last at the Others segment, incoming orders and order backlog rose by ¥0.7 billion and ¥0.5 billion, respectively, in reflection of increases in systems development orders received by SCSK Minori Solutions.

■ 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.

■ Full-year Consolidated Financial Forecasts/Dividends Forecasts (slide 11)

Lastly, I would like to explain SCSK'S full-year performance and dividend forecasts. Please look at slide 11.

As I have explained, in the six-month period ended September 30, 2023, SCSK achieved increases of 8.5% in net sales and 19.6% in operating profit, which made for progress of roughly 50% toward the full-year forecast for operating profit of ¥54.0 billion announced in April 2023. In this manner, six-month performance significantly surpassed our initial expectations.

It is true that IT investment demand among customers was strong. However, I feel that our ability to the effectively capture this demand was a result of our reallocation of resources, transference of costs to selling prices, and focus on growth businesses during the course of advancing the measures of the new Medium-Term Management plan.

We continue to enjoy a beneficial operating environment heading into the second half of the fiscal year, and trends related to orders and inquiries remain firm centered on systems development, which was also the case in the first half of the fiscal year. As we have amassed the order backlog that will contribute to sales in the remainder of the fiscal year, I expect that all segments will experience a certain degree of sales growth going forward.

In terms of profit, performance will be affected by various cost factors. These include the increases to base salaries and to outsourcing prices as well as the expenses for renovating offices, upgrading internal information systems, and conducting sales activities that we spoke of at the beginning of the fiscal year. Nevertheless, we expect to achieve an increase in operating profit to complement the increase in net sales in the second half of the fiscal year. The increase in operating profit will be a result of the benefits of higher sales and improvements to productivity and profitability.

Based on this outlook, we have raised the full-year forecast for net sales by ¥5.0 billion, to ¥475.0 billion; the forecast for operating profit by ¥2.5 billion, to ¥56.5 billion; and the forecast for profit attributable to owners of parent by ¥1.5 billion, to ¥39.5 billion.

Moreover, we intend to adhere to our initial plan of issuing annual dividend payments of ¥56 per share.

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.

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