

Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 31, 2024 (April 1, 2023 - June 30, 2023) [IFRS]

July 28, 2023

Company Name: SCSK Corporation
Securities Code: 9719
Stock Exchange Listing: Tokyo Stock Exchange
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Scheduled date of filing quarterly securities reports: August 10, 2023
Scheduled date for dividend payment: -
Preparation of supplementary information material on financial results (yes/no): Yes
Financial results conference for institutional investors and analysts (yes/no): Yes

(Amounts of less than ¥1 million are truncated)

1. Consolidated Business Results for the First Quarter ended June 30, 2023 (April 1, 2023 to June 30, 2023)

(1) Consolidated Operating Results

(Millions of yen unless otherwise stated)

(Percentage figures are changes from the previous fiscal year)

(Percentage figures are changes from the previous fiscal year)												
	Net sales		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive profit	
	%		%		%		%		%		%	
Three months ended June. 30, 2023	113,371	8.6	12,950	30.3	12,945	28.2	9,042	29.0	9,007	28.6	9,685	33.2
Three months ended June. 30, 2022	104,417	5.2	9,937	-8.7	10,100	-9.2	7,009	-9.2	7,006	-9.1	7,271	-11.8
			Basic earnings per share		Diluted earnings per share							
			Yen		Yen							
Three months ended June. 30, 2023			28.84		28.84							
Three months ended June. 30, 2022			22.44		22.44							

(2) Consolidated Financial Position

(Millions of yen unless otherwise stated)

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
				%
As of June. 30, 2023	429,609	274,005	273,385	63.6
As of March 31, 2023	435,469	272,403	271,909	62.4

2. Dividends

	Dividends per share (Yen)				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
FY2022	—	26.00	—	26.00	52.00
FY2023	—	—	—	—	—
FY2023 (Forecasts)	—	28.00	—	28.00	56.00

3. Consolidated Financial Forecasts for Fiscal Year 2023 (April 1, 2023 to March 31, 2024)

(Millions of yen unless otherwise stated)

(Percentage figures are changes from the corresponding period of the previous fiscal year)

	Net sales		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	%		%		%		%		Yen
Full Year	470,000	5.4	54,000	5.1	54,700	2.6	38,000	1.9	121.66

Notes: Revisions during this quarter of consolidated earnings forecasts for Fiscal Year 2023: None

※Notes

- (1) Changes in significant subsidiaries during the period : None
- (2) Changes in accounting policies and changes in accounting estimates
- 1) Changes in accounting policies as required by IFRS standards: None
- 2) Changes in accounting policies due to other reasons: None
- 3) Changes in accounting estimates: None

(3) Number of shares issued (Common stock)

- 1) The number of shares issued as of the period-end (including treasury stock)

As of June 30, 2023	312,665,639 shares
As of March 31, 2023	312,665,639 shares

- 2) The number of shares of treasury stock as of the period-end

As of June 30, 2023	327,718 shares
As of March 31, 2023	327,014 shares

- 3) The average number of shares during the period

As of June 30, 2023	312,338,217 shares
As of June 30, 2022	312,219,619 shares

- ※ Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

※ Proper use of earnings forecasts, and other special matters

- The financial forecasts contained in this document are based on the information currently available and certain assumptions deemed reasonable. Actual results may vary from these forecasts for various reasons. With regard to the assumptions on which financial forecasts are based and other explanatory notes in connection with the use of financial forecasts, please refer to “Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2024” on page 3.
- The Company will hold a results briefing for institutional investors and analysts on July 28, 2023. Materials used in the briefing, a transcript of the main questions and answers, and other related information will be published on the Company’s website promptly thereafter.

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1. Qualitative Information Regarding Operating Results for the Three-month Period Ended June 30, 2023

(1) Analysis of Operating Results

In the three-month period ended June 30, 2023, the domestic economy felt the impacts of ongoing increases to commodity prices stemming from rises in energy and resource prices. Meanwhile, economic activity in Japan picked up following the cancelation of the activity restrictions instituted in response to the COVID-19 pandemic, contributing to a gradual recovery in the domestic economy.

The Japanese economy is anticipated see the continuation of a full-fledged recovery trend due in part to the benefits of fiscal and financial measures seen amid job market improvements and wage growth. However, there is a risk that downward pressure might be placed on the Japanese economy as a result of sluggish conditions overseas seen against a backdrop of consistent foreign exchange risks and global concern for inflation. In addition, caution is required with regard to the impacts of rises in raw material prices and fluctuations in financial and capital markets.

In this economic environment, the IT services market continues to enjoy an upward trend in IT investment coupled with a strong appetite for IT investment for growing businesses and bolstering competitiveness seen among a wide range of industries. Meanwhile, ongoing growth in demand for IT investment is expected amid conservative outlooks for business sentiment due to concern for economic downturns overseas and global rises in commodity prices. Specific targets of demand will include transitioning from existing systems to cloud systems to accommodate the increasingly digital society.

Demand for IT investment continues to increase among customers in the manufacturing industry. Outlets for this investment demand include the redevelopment of core systems and strategic investments for strengthening operating foundations. In the financial industry, demand was strong for investment for the purpose of developing money laundering and fraud detection and prevention systems. As for the distribution industry, IT investment demand was up for core system development applications.

In addition, consistent demand is being seen for cloud IT services along with continuous investment demand for redeveloping core systems to address the ends of software service periods. This demand is being driven by a robust appetite for improvements in operational efficiency and productivity. This situation is expected to generate ongoing demand for systems redevelopment and strategic IT investment demand.

In the three-month period ended June 30, 2023, net sales increased 8.6% year on year, to ¥113,371 million. This increase was a result of growth in systems development projects supported by firm IT investment and strong performance in verification and business process outsourcing services. The benefits of these factors outweighed the decrease in sales of network equipment to the communications industry.

Operating profit rose 30.3% year on year, to ¥12,950 million, due to sales growth and improved profit margins in the systems development and system maintenance and operation service fields. These factors offset the increase in labor and recruitment expenses as well as the rise in expenses associated with the addition of new consolidated subsidiaries and the resumption of sales activities. Profit attributable to owners of the parent, meanwhile, increased 28.6%, to ¥9,007 million.

In the pursuit of further growth, the SCSK Group will be promoting sustainability management as a growth strategy. Positioning its corporate philosophy and materiality items as the Group's purpose, the SCSK Group will pursue its vision of becoming a Co-Creative IT Company in 2030 with the goal of achieving sustainable development together with society. To this end, we have defined the policies of "Reorganization of business areas and redevelopment of business models to continue providing new value to customers and society" and

“Maximization of the market value of all employees based on the recognition that the growth of employees drives the growth of the Company” in the medium-term management plan. Dramatic improvements to comprehensive corporate value will be pursued based on these policies.

(2) Summary of Financial Position

Cash and cash equivalents (“cash”) as of June 30, 2023, increased ¥7,305 million compared to March 31, 2023, to ¥128,731 million. The changes in each type of cash flow and the main factors for such changes are as follows.

(Cash flow from operating activities)

Net cash provided by operating activities was ¥23,604 million (increased ¥8,846 million in comparison to the same period of the previous fiscal year).

The main cash inflow factors were profit before tax of ¥12,945 million, depreciation and amortization of ¥5,063 million, a decrease in trade and other receivables of ¥22,003 million, and an increase in contract liabilities of ¥6,890million. The main cash outflow factors were an increase in contract assets of ¥5,136 million, a decrease in trade and other payables of ¥3,685 million, a decrease in employee benefits of ¥4,316 million, and payment for income taxes of ¥8,131 million.

(Cash flow from investing activities)

Net cash used in investing activities was ¥6,365 million (increased ¥581 million in comparison to the same period of the previous fiscal year).

The main cash inflow factors were proceeds from sales and redemptions of other financial assets of ¥1,206 million. The main cash outflow factors were payment for purchase of property, plant and equipment of ¥1,105 million, purchase of intangible assets of ¥948 million, and a decrease due to Purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥4,996 million.

(Cash flow from financing activities)

Net cash used in financing activities was ¥10,257 million (decreased ¥5,987 million in comparison to the same period of the previous fiscal year).

The main cash outflow factors were repayments of lease liabilities of ¥2,135 million, dividend payments of ¥8,119 million (¥26.00 per share) for the year-end dividend of the fiscal year ended March 31, 2023.

(3) Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2024

Performance in the three-month period ended June 30, 2023, was within the scope of the Company’s initial forecast. Accordingly, the Company has chosen not to revise the full-year consolidated financial results forecasts for the fiscal year ending March 31, 2024, announced on April 28, 2023.

2. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Quarterly Consolidated Statements of Financial Position

(Millions of Yen)

	As of Mar. 31, 2023	As of June. 30, 2023
Assets		
Current assets		
Cash and cash equivalents	121,425	128,731
Trade and other receivables	82,909	61,689
Contract assets	14,411	19,562
Inventories	9,748	8,774
Other financial assets	199	210
Income taxes receivable	42	95
Other current assets	15,360	18,330
Total current assets	244,099	237,392
Non-current assets		
Property, plant and equipment	75,212	74,167
Right-of-use assets	45,781	45,624
Goodwill and intangible assets	26,984	31,417
Investments accounted for using equity method	11,252	11,744
Other receivables	8,094	8,492
Other financial assets	10,692	9,361
Deferred tax assets	2,118	—
Other non-current assets	11,232	11,408
Total non-current assets	191,370	192,217
Total assets	435,469	429,609

(Millions of Yen)

	As of Mar. 31, 2023	As of June. 30, 2023
Liabilities		
Current liabilities		
Trade and other payables	34,826	31,670
Contract liabilities	15,388	22,212
Liabilities for employee benefits	10,889	6,842
Bonds and borrowings	21,945	22,041
Lease liabilities	10,773	11,089
Other financial liabilities	63	58
Income taxes payable	8,079	1,116
Provisions	406	339
Other current liabilities	5,994	5,835
Total current liabilities	108,367	101,206
Non-current liabilities		
Bonds and borrowings	9,782	9,689
Lease liabilities	35,415	34,792
Other payables	174	171
Liabilities for employee benefits	1,982	1,972
Provisions	7,334	7,349
Deferred tax liabilities	—	412
Other non-current liabilities	10	9
Total non-current liabilities	54,699	54,398
Total liabilities	163,066	155,604
Equity		
Share capital	21,285	21,285
Capital surplus	122	31
Retained earnings	246,812	247,884
Treasury shares	-286	-288
Other components of equity	3,976	4,472
Total equity attributable to owners of parent	271,909	273,385
Non-controlling interests	493	619
Total equity	272,403	274,005
Total liabilities and equity	435,469	429,609

(2) Condensed Quarterly Consolidated Statements of Income and Comprehensive Income

Condensed Quarterly Consolidated Statements of Income

Three-month period ended June 30, 2022 and 2023

(Millions of Yen)

	From Apr. 1, 2022 to June. 30, 2022	From Apr. 1, 2023 to June. 30, 2023
Net sales	104,417	113,371
Cost of sales	-78,428	-83,551
Gross profit	25,989	29,819
Selling, general and administrative expenses	-16,053	-16,939
Other income	50	108
Other expenses	-49	-38
Operating profit	9,937	12,950
Finance income	75	143
Finance costs	-135	-491
Share of profit (loss) of investments accounted for using equity method	224	342
Profit before tax	10,100	12,945
Income tax expense	-3,091	-3,903
Profit	7,009	9,042
Profit attributable to		
Owners of parent	7,006	9,007
Non-controlling interests	2	35
Earnings per share		
Basic earnings per share (Yen)	22.44	28.84
Diluted earnings per share (Yen)	22.44	28.84

Condensed Quarterly Consolidated Statements of Comprehensive Income
Three-month period ended June 30, 2022 and 2023

(Millions of Yen)

	From Apr. 1, 2022 to June. 30, 2022	From Apr. 1, 2023 to June. 30, 2023
Profit	7,009	9,042
Other comprehensive income, net of tax		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	-501	-95
Share of other comprehensive income of investments accounted for using equity method	132	226
Total of items that will not be reclassified to profit or loss	-368	130
Items that may be reclassified to profit or loss		
Cash flow hedges	-98	-27
Exchange differences on translation of foreign operations	704	518
Share of other comprehensive income of investments accounted for using equity method	24	20
Total of items that may be reclassified to profit or loss	630	511
Total other comprehensive income, net of tax	262	642
Comprehensive income	7,271	9,685
Comprehensive income attributable to		
Owners of parent	7,268	9,649
Non-controlling interests	2	35

(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Three-month period ended June 30, 2022 (April 1, 2022 - June 30, 2022)

(Millions of Yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at April 1, 2022	21,152	—	223,300	-293	2,761	246,921	442	247,363
Profit	—	—	7,006	—	—	7,006	2	7,009
Other comprehensive income	—	—	—	—	262	262	—	262
Comprehensive income	—	—	7,006	—	262	7,268	2	7,271
Dividends of surplus	—	—	-7,286	—	—	-7,286	—	-7,286
Changes in ownership interest in subsidiaries	—	—	—	—	—	—	75	75
Purchase of treasury shares	—	—	—	-0	—	-0	—	-0
Disposal of treasury shares	—	0	—	0	—	0	—	0
Transfer to capital surplus from retained earnings	—	-0	0	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	-0	0	—	—	—	—	—
Transfer to non-financial assets	—	—	—	—	156	156	—	156
Total transactions with owners	—	—	-7,285	-0	156	-7,130	75	-7,055
Balance at June 30, 2022	21,152	—	223,020	-294	3,180	247,059	520	247,579

Three-month period ended June 30, 2023 (April 1, 2023 - June 30, 2023)

(Millions of Yen)

	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at April 1, 2023	21,285	122	246,812	-286	3,976	271,909	493	272,403
Profit	—	—	9,007	—	—	9,007	35	9,042
Other comprehensive income	—	—	—	—	642	642	—	642
Comprehensive income	—	—	9,007	—	642	9,649	35	9,685
Dividends of surplus	—	—	-8,119	—	—	-8,119	—	-8,119
Changes in ownership interest in subsidiaries	—	-91	—	—	—	-91	91	-0
Purchase of treasury shares	—	—	—	-1	—	-1	—	-1
Disposal of treasury shares	—	—	—	—	—	—	—	—
Transfer to capital surplus from retained earnings	—	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	183	—	-183	—	—	—
Transfer to non-financial assets	—	—	—	—	38	38	—	38
Total transactions with owners	—	-91	-7,935	-1	-145	-8,174	91	-8,083
Balance at June 30, 2023	21,285	31	247,884	-288	4,472	273,385	619	274,005

(4) Condensed Quarterly Consolidated Statements of Cash Flows

(Millions of Yen)

	From Apr. 1, 2022 to June. 30, 2022	From Apr. 1, 2023 to June. 30, 2023
Cash flows from operating activities		
Profit before tax	10,100	12,945
Depreciation and amortization	5,142	5,063
Finance income	-75	-143
Finance costs	135	491
Share of loss (profit) of investments accounted for using equity method	-224	-342
Decrease (increase) in trade and other receivables	20,124	22,003
Decrease (increase) in contract assets	-3,696	-5,136
Decrease (increase) in inventories	1,792	974
Increase (decrease) in trade and other payables	-3,623	-3,685
Increase (decrease) in contract liabilities	6,361	6,890
Increase (decrease) in employee benefits	-4,338	-4,316
Increase (decrease) in provisions	-89	-68
Other	-6,136	-3,095
Subtotal	25,473	31,580
Interest and dividends received	210	300
Interest paid	-132	-144
Income taxes refund (paid)	-10,794	-8,131
Net cash provided by (used in) operating activities	14,757	23,604
Cash flows from investing activities		
Purchase of property, plant and equipment	-6,003	-1,105
Proceeds from sale of property, plant and equipment	0	67
Purchase of intangible assets	-1,120	-948
Purchase of other financial assets	-85	-267
Proceeds from sales and redemptions of other financial assets	300	1,206
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	-4,996
Other	-36	-321
Net cash provided by (used in) investing activities	-6,946	-6,365
Cash flows from financing activities		
Proceeds from long-term debt	5,250	—
Repayments of lease liabilities	-2,308	-2,135
Capital contribution from non-controlling interests	75	—
Dividends paid	-7,286	-8,119
Other	-0	-1
Net cash provided by (used in) financing activities	-4,270	-10,257
Effect of exchange rate changes on cash and cash equivalents	483	323
Net increase (decrease) in cash and cash equivalents	4,024	7,305
Cash and cash equivalents at beginning of period	121,251	121,425
Cash and cash equivalents at end of period	125,276	128,731

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes to Going Concern Assumptions)

No applicable items.

(Notes Concerning the Significant Changes in Shareholder's Equity)

No applicable items.

(Segment Information)

1. Summary of reportable segments

The Group's operating segments are the components of the Group for which discrete financial information is available and which are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance. The Company formulates comprehensive domestic and overseas strategies pertaining to the products and services it offers according to the characteristics of client industries and IT service business areas, and develops businesses in accordance with these strategies.

Based on these business activities, the Company has defined the following six reportable segments: Industrial IT Business, Financial IT Business, IT Business Solutions, IT Platform Solutions, IT Management Service, and Others.

The Company determines its reportable segments by aggregating multiple operating segments into a single operating segment in cases in which the applicable operating segments share similarities with regard to each of the following economic characteristics: (a) the nature of the products and services, (b) the nature of the production processes, (c) the type or class of customer for their products and services, (d) the methods used to distribute their products or provide their services; and if applicable, (e) the nature of the regulatory environment. The business activities of the Company's reportable segments are as follows:

(1) Industrial IT Business

This segment provides various IT solutions through systems development and maintenance and operation services for core systems, manufacturing management systems, information management systems, supply chain management (SCM) systems, customer relationship management (CRM) systems and other systems. This segment's services leverage the experience and knowhow that we have cultivated over many years. The clients of this segment are primarily companies in the manufacturing, communications, energy, distribution, service, and media industries.

Moreover, this reportable segment supplies the automotive industry with a wide range of solutions for automobile electronic control units on a global basis. These solutions include the development of embedded software through a model-based development approach, proprietary SCSK middleware (QINeS-BSW), software assessments, and process improvement measures.

(2) Financial IT Business

This segment engages in systems development, maintenance, and operation services for financial institutions. As professionals that understand financial operations and possess a strong track record of creating sophisticated financial systems, members of this segment's staff support secure and efficient management and help clients implement their financial business strategies. The segment provides these services primarily to financial institutions, such as banks and trust banks as well as insurance, securities, lease, and credit companies.

(3) IT Business Solutions

This segment provides introduction and development of ERP such as ProActive, an in-house developed ERP (integrated core operations) packaging, and SAP and Oracle, and AMO (Application Management Outsourcing) to support the entire life cycle from maintenance to operation. We also provide a wide range of IT solutions, including EC service and contact center service. In addition, we provide BPO services that are unique to IT companies, combining manpower support operations with IT.

(4) IT Platform Solutions

This segment draws on solid technical capabilities and knowhow to leverage computer-aided design (CAD), computer aided engineering (CAE), and other advanced technologies in the fields of IT infrastructure and manufacturing. In this way, the IT Platform Solutions provides services and products that accurately address the needs of clients and offers flexible support for a wide range of client businesses.

(5) IT Management Service

This segment develops solutions-oriented netXDC data centers, which boast robust facilities and high-level security, to provide clients with proposal-based outsourcing services that address their management issues pertaining to operating cost reductions, infrastructure integration and optimization, governance enhancement, and business risk mitigation. The segment also supplies cloud infrastructure and offers its on-site SE support management services 24 hours a day, 365 days a year.

(6) Others

This segment performs remote development (nearshore development) and provides other services out of Group companies that leverage the characteristics of its regional bases and the software development, system operation and management, system equipment sales, and consulting services it provides for a wide range of industries and business models.

The Others businesses did not meet the quantitative thresholds for reportable segments both in the fiscal year ended March 31, 2023 and the fiscal year ended March 31, 2024.

2. Reorganization of reportable segments, etc.

In conjunction with the partial revision of the internal organization, the method for classifying reportable segments has been revised.

SCSK AML Countermeasure Business Preparation Corporation, Ltd. was established on June 15, 2023, and has been included in the scope of consolidation and classified into the Financial IT Business segment.

Segment information for the three-month period ended June 30, 2022, has been restated to reflect this change in reportable segments.

3. Profits, Losses, and Other Information Pertaining to Reportable Segments

Three-month period ended June 30, 2022 (April 1, 2022 - June 30, 2022)

(Millions of Yen)

	Reportable Segment							Adjustments (Note2)	Amount recorded in consolidated financial statements
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total		
Net sales									
Sales to external customers	32,285	14,383	15,689	20,938	14,861	6,137	104,297	119	104,417
Inter segment sales (Note1)	3,332	150	1,211	1,527	5,243	2,952	14,418	-14,418	—
Total	35,618	14,534	16,901	22,466	20,104	9,090	118,716	-14,298	104,417
Operating profit (loss)	3,427	1,911	1,413	2,824	1,155	-62	10,670	-733	9,937
							Finance income		75
							Finance costs		-135
							Share of profit (loss) of investments accounted for using equity method		224
							Profit before tax		10,100

Notes: 1. Amounts for inter-segment transactions are decided based on price negotiations made with reference to market prices.

2. The amount of ¥119 million for sales to external customers includes adjustment to reflect net sales to be conformity with IFRS. The ¥733 million reduction to operating profit is comprised of in general corporate expenses that have not been allocated to the reportable segments.

Three-month period ended June 30, 2023 (April 1, 2023 - June 30, 2023)

(Millions of Yen)

	Reportable Segment							Adjustments (Note2)	Amount recorded in consolidated financial statements
	Industrial IT Business	Financial IT Business	IT Business Solutions	IT Platform Solutions	IT Management Service	Others	Total		
Net Sales									
Sales to external customers	39,119	15,115	18,147	19,526	15,120	6,134	113,164	207	113,371
Inter segment sales (Note1)	3,137	179	1,501	1,977	7,026	3,552	17,374	-17,374	—
Total	42,256	15,295	19,649	21,504	22,146	9,686	130,539	-17,167	113,371
Operating profit (loss)	5,380	1,767	1,479	2,281	2,378	148	13,436	-486	12,950
							Finance income		143
							Finance costs		-491
							Share of profit (loss) of investments accounted for using equity method		342
							Profit before tax		12,945

Notes: 1. Amounts for inter-segment transactions are decided based on price negotiations made with reference to market prices.

2. The amount of ¥207 million for sales to external customers includes adjustment to reflect net sales to be conformity with IFRS. The ¥486 million reduction to operating profit is comprised of in general corporate expenses that have not been allocated to the reportable segments.

(Significant Subsequent Events)

No applicable items.