Small Meeting on SCSK's New Medium-Term Management Plan

Date: October 1, 2020 (Thursday)
Topics:
1. Overview of New Medium-Term Management Plan
2. Medium-Term Management Plan Core Strategy—Core Business Innovation—
3. Medium-Term Management Plan Core Strategy—Commercialization of DX—

1. Overview of New Medium-Term Management Plan
Toru Tanihara, President and Chief Operating Officer

Today, we would like to discuss SCSK's new medium-term management plan, which was kicked off in April 2020, with you investors to help offer a deeper understanding of the background and goals of the plan.

Ideally, I would have like to have met and spoken with you face-to-face. However, the COVID-19 pandemic has forced us to resort to a teleconference to help prevent the spread of the virus. We ask for your understanding with this regard.

A little later on, initiatives pertaining to two of the core strategies of the medium-term management plan, core business innovation and commercialization of DX (digital transformations) specifically, will be explained by the officers responsible for these initiatives. Before that, I would like to touch on the positioning of the strategies of the new medium-term management plan, including investment in people, and how they are connected.

First, please look at slide 1.

As you know, the domestic IT services market is witnessing progress in the trend toward cloud computing along with accelerated adoption of digitization and digital transformations. These trends are driving qualitative changes in companies' IT strategies and IT investment, causing businesses and IT to become increasingly more interconnected. Also, there can be no doubt that the effective utilization of digital technologies will be an important factor to entrenching a new normal in which we are able to continue economic activities even in the midst of the COVID-19 pandemic.

Against this backdrop, the focus of demand for IT services human resources will likely shift from problem solving-oriented personnel to value creation-oriented personnel, sparking fierce competition for securing IT human resources with both industry peers and clients. Meanwhile, it can be expected that clients will be transitioning toward in-house options for their IT service needs as shared services and integrated services are increasingly supplied in a manner that blurs the line between industries in conjunction with the acceleration of digital transformations at clients. We therefore recognize the crisis we face given that, if we simply continue on our current path without any changes in course, we will, sooner or later, hit the limit of the growth of our business. However, a change of perspective will reveal that this situation also presents a great deal of potential.

Next, we will look at slide 2.

Achieving ongoing growth in this ever more volatile operating environment will require us to accurately identify the fundamental direction in which society is moving from a long-term perspective, rather than becoming preoccupied with short-term changes. To guide us in this pursuit, we identified material issues to shape decisions of priority areas and help us share these priorities as we seek to practice sustainability management. These material issues were defined while reflecting on our corporate philosophy of "Create Our Future of Dreams." Grand Design 2030 is a vision that encapsulates this commitment.

Please look at slide 3.

Grand Design 2030 illustrates our vision of becoming a co-creative IT company in 2030 and achieving net sales of ¥1 trillion. Our efforts to realize this vision will include continuously evolving and growing core businesses while accurately responding to overarching trends. In addition, we will earnestly address the major issues facing clients to help them transform their businesses through a co-creative approach. We also aim to give birth to innovative services through cross-industry co-creation initiatives and to create new value for society through self-driven initiatives.

The new medium-term management plan has been positioned as a three-year roadmap for our first step toward the realization of Grand Design 2030. This plan therefore delineates the strategies that should be implemented in the first three years of the path toward our vision of SCSK in 2030.

Next, we will look at slide 4.

As show on this slide, the goals of the new medium-term management plan include core business innovation, which entails initiatives for innovating business processes and client contact points (subdivisions) in core businesses, and the commercialization of DX to create new businesses. Core business innovation is anticipated to help generate resources that can be used in the commercialization of DX. Accordingly, core business innovation will be imperative to the stable operation of new businesses created through digital transformations.

In other words, it will be important to advance both core business innovation and the commercialization of DX in a balanced manner, without becoming overly preoccupied with either strategy. The ability to advance these strategies in this manner will hinge on our human resources. Investment in people has been positioned as a core strategy of the medium-term management plan based on this recognition. We hope for the SCSK Group to become an organization in which all employees are motivated in their work and able to grow into the type of human resources that can respond agilely to change and pursue innovation boldly and adaptively. To this end, we are actively revising our human resource systems and measures.

To breakdown investment in these three core strategies, we are planning investment of ¥40.0 billion in core business innovation, ¥10.0 billion in investment in people, and ¥50.0 billion in the commercialization of DX. To support the implementation of these strategies, we will carry out managerial foundation reinforcement initiatives, namely the augmentation of comprehensive Group capabilities, the promotion of management that fully exercises our employee's potential, and the fostering of a co-creation-oriented corporate culture.

The medium-term management plan targets net sales of ¥500.0 billion, an operating profit margin of between 10% and 12%, and return on equity of 15% or more in the fiscal year ending March 31, 2023, three years from now. These goals are designed to speed us along the path toward our targets of becoming co-creative IT company in 2030 and achieving net sales of ¥1 trillion. With this, I would like to conclude my portion of today's presentation. I will now hand the mic over to the officers responsible for implementing these strategies.

2. Medium-Term Management Plan Core Strategy—Core Business Innovation—
Masatoshi Endo
Executive Vice President
MONOKAKU Officer, General Manager (SE Plus Center, Development Center, MONOKAKU Center)

My presentation will be divided into three parts.

I would first like to talk about the quality improvements SCSK has been promoting since 2011. I will then move on to discuss our subdivision innovation initiatives and finally conclude with a look at our *Monozukuri* innovation initiatives.

Please look at slide 1.

The graph on the left side of this slide shows the amounts of losses from unprofitable projects incurred in recent fiscal years as has been explained by SCSK's investor relations representatives. SCSK has been successful at limiting losses from such projects to a certain degree. I would now like to delve into our efforts to limit these losses.

To be honest, SCSK has not been focusing on eliminating unprofitable projects as the primary goal of its internal initiatives. Rather, we have consistently turned our attention to avoiding lost profit. SCSK calculates lost profit by subtracting the actual gross profit generated by a project from the forecast gross profit. When this calculation results in a negative value, it means that the project generated more profit than had been anticipated. Conversely, when this calculation produces a positive number, it indicates that profit anticipated to have been recorded has been lost. We have continued to focus our attention on this lost profit, looking for the precursors of profit declines as opposed to only concerning ourselves with losses incurred. Preventing lost profit requires improving the accuracy of forecasts and of management of underway projects and ensuring timeliness in client management and various other risk management measures.

Next, we will look at slide 2.

Some of the projects undertaken by SCSK will show favorable progress and generate forecast-exceeding profit, while others may be impeded by various factors and therefore fail to produce the expected profit. For this reason, SCSK adopts the approach of categorizing projects into favorable and underperforming and then takes Companywide steps to reduce the amount of lost profit associated with underperforming projects.

These efforts have allowed for a certain degree of control of underperforming projects, reducing lost profit, while also spreading a cautious management style throughout the Company, leading to higher profits from favorable projects. In this manner, our approach toward preventing lost profit has driven ongoing improvements in overall profit levels.

Please take a look at slide 3.

In 2017, we published a book entitled *SCSK no Shigoto Kakumei* (SCSK's Work Innovations). The foreword of this book compiles structural issues faced by the industry and SCSK. This foreword is the point of origin of our current initiatives. For details, I hope you will read this foreword later. Suffice it to say that it was this view that prompted us to focus on lost profit and to work toward a comprehensive resolution for these structural issues. This undertaking included improvements to traditional business practices, such as submitting orders to subcontractors, and extended to alleviating disparities between contracts and actual conditions and implementing working style reforms. These initiatives were not limited to in-house efforts; we also pursued improvements together with subcontractors.

Important elements of this undertaking, which are also central to this portion of today's presentation, were the Companywide deployment of the SmartEpisode Plus (SE+) development standard, the systematization of project management infrastructure by means of the implementation of SE+ (Navi), and the installation of the S-Cred+ (Smart Co-work on Relationship, Engineering and Design Plus) shared development platform.

Let us turn to slide 4.

To improve project quality, we continue to reflect on problematic projects on a Companywide basis, constantly sharing the lessons learned through our experience with these projects with line managers and employees.

Looking at the graph on the left side of this slide, you will see that even as the number of development projects, and consequently the number of projects subject to management, rose, we have been successful in limiting the number of projects deemed problematic, based on SCSK's own standard, to a low level. However, we realize that we must remain vigilant in our work innovations as the pace of social change is rapid and projects are constantly growing larger and more complicated.

Next, we will look at slide 5.

I would now like to explain our subdivision innovation initiatives, beginning with the positioning of subdivision innovation and *Monozukuri* innovation initiatives.

The system of record field that is garnering broad attention refers to SCSK's existing business domain. Our subdivision innovation initiatives are aimed at achieving innovation in this field pertaining to our subdivision business. Specifically, we look to transform subdivisions from full-time IT support organizations to bases for engaging with co-creation together with clients.
Monozukuri innovations, in addition to being advanced in relation to our subdivision business, are being pursued in the systems of engagement field, a new field in which we are working to furnish shared platforms. In this manner, we are developing frameworks for use in digital transformation and other new business fields. Through these innovations, we hope to achieve a smooth transition of human resources from existing business domains to new business domains and to develop infrastructure for the comprehensive proposals of solutions to clients.

We will now look at slide 6.

There are three priority measures we will be implementing with regard to subdivision innovations.

The first measure is to strengthen client contact points. This measure will entail increasing the proposal capabilities of service managers focused on human resource development and of other staff so that these individuals can take charge in resolving clients' business issues. The second measure is to innovate work approaches. To this end, we will utilize methods such as providing the work requested by clients as services; in remote, decentralized manners; and through nearshore development. The third measure will be to introduce *Monozukuri* innovations into subdivisions by utilizing SCSK's standards and platforms to transition to even higher quality services.

Moving on to slide 7.

This slide details the basic figures and targets pertaining to the measures of which I speak. We currently have around 540 subdivisions staffed by a total of 9,300 engineers, of which 2,850 are SCSK employees. The scale of sales of our subdivision business is ¥125.0 billion. Through the aforementioned measures, we will expand the number of processes performed via nearshore development, ramp up the cultivation of service managers, and foster employees so that they can perform more sophisticated processes. We thereby aim to raise client satisfaction in our subdivision business and subsequently increase profits.

Next is slide 8.

This slide provides an overview of the *Monozukuri* innovations SCSK intends to implement. On this front, we will (1) automate system platform development and system operation; (2) embrace low-code, no-code development, specifically tracking condition definitions and employing low-code, no-code development methodologies and tools; (3) standardize the coordination of development, maintenance, and operation; and (4) take steps to retain and improve the productivity of human resources that can perform their work while utilizing the same standardized system platforms as SCSK Group and core partner companies.

As one initiative with this regard, SCSK is participating in a low-code development community in a central capacity as a governing company. In this capacity, we are proactively coordinating our offerings with product lineups of others companies likely to see widespread use going forward.

Next, please look at slide 9.

This slide shows how productivity improvements will be realized through infrastructure development via *Monozukuri* innovations. First of all, we will seek to improve quality and productivity in existing business domains by utilizing the standardization, automation, and modular infrastructure and the low-code, no-code development environments established through aforementioned *Monozukuri* innovation initiatives (1) and (2). By employing standardized platforms, we aim to contribute to expanded use of cloud infrastructure by clients. These initiatives are expected to be highly synergic with the data center businesses SCSK has been developing for a number of years. Initiative (3), meanwhile, will help improve our agility in systems development fields that respond to changes in the conditions surrounding client businesses. Lastly, initiative (4) will entail expanding SCSK's business domain to include digital transformations and other areas of the systems of engagement field.

Half of the first year of the new medium-term management plan has passed, and we are beginning to see initiatives being proactively advanced by all divisions under the guidance of the Companywide Core Business Innovation Committee. At the same time, we are moving forward with human resource development, proposal activities, and project development using the various platforms of S-Cred+, which was launched in April 2020. Fortunately, these efforts have garnered media attention, directing a large number of client inquiries our way.

3. Medium-Term Management Plan Core Strategy—Commercialization of DX—
Atsushi Watanabe
Managing Executive Officer
DX Business Promotion Officer, General Manager (DX Strategic Marketing
Center, DX & Innovation Business Center, DX Technology Development
Center, Research & Development Center)

Today, I will be explaining SCSK's digital transformation businesses.

We will begin by looking at slide 1.

The SCSK Group aims to achieve net sales of ¥1 trillion. Expanding new digital transformation businesses while continuing to grow existing core businesses will be key to accomplishing this target. However, the definitions and scopes of digital transformation businesses can vary, and this holds true for competitors as well. Eventually, the new digital transformation businesses currently underway, such as artificial intelligence (AI) and Internet of Things businesses, will come to be included in the core businesses indicated on this slide. We hope that you will understand that these digital transformation businesses are primarily positioned as growth drivers.

Moving on to slide 2, here we see the stages of SCSK's digital transformation businesses.

Functions for creating digital transformation foundations include digitization diagnoses, process tracking and improvement, and other assessment and consulting functions. Accordingly, efforts to this end will cross the boundaries between core businesses. As for digital transformation support, we will deliver SCSK digital solutions based on the digitization requests of clients in a manner that is not entirely different from the systems integration business model we have employed previously.

With the following slides, I will be explaining the commercialization of DX initiatives described at the top of this slide in which we will adopt an SCSK-driven approach to resolve social issues through co-creation. I will employ concrete examples in this explanation.

Next, let us look at slide 3.

In the commercialization of DX, we will adopt an SCSK-driven approach to resolve social issues through co-creation, as has been stated. There are three specific co-creation approaches that will be taken in this pursuit.

The first approach will be co-creation with clients. In this approach, we will focus on clients from among the SCSK's base of roughly 8,000 clients with which we have formed long-lasting and wide-reaching relationships.

The second approach will be cross-industry co-creation. Through this approach, we will seek to resolve industry and social issues by sharing data and intellectual properties with entities from other industries. Several cross-industry exchange forum sessions have already been conducted for this purpose.

The third approach will be to pursue global co-creation by applying the digitization model used in Japan to overseas markets through the utilization of the overseas network of Sumitomo Corporation. With this regard, we plan to actively deploy this model at the local subsidiaries established in Indonesia and Myanmar in the fiscal year ended March 31, 2020.

During the first half of the fiscal year ending March 31, 2021, business divisions launched co-creation initiatives based on 50 themes through these co-creation approaches, despite the impacts of the COVID-19 pandemic.

Looking next at slide 4, I would like to talk about priority fields for the commercialization of DX.

We defined four priority fields at the time of the launch of the new medium-term management plan. We intend to approach these fields in a flexible manner accounting for the progress of commercialization, the timing of monetization, and the projected business scale for each field.

We will be looking at our initiatives in each field together with concrete examples on the following slides. Before that, let me say that our success in each of these fields will hinge on our ability to collect and analyze data. Accordingly, the acquisition of new technologies through open innovation activities and the incorporation of these technologies into our business will be paramount to our success.

Let us move on to slide 5.

A number of companies are participating in the mobility field, and we anticipate that services will be developed from a variety of angles going forward. SCSK stands out among all of these rivals in that it is one of the few to possess in-vehicle equipment insight accumulated through years of engagement in automotive software systems development and verification operations as well as outside-of-vehicle equipment insight gained while providing business applications for various industries. Another factor underpinning our differentiated position in this field is the rarity of our

contact center and other business process outsourcing operations. SCSK was also quick to engage in projects for deploying telematics technologies in society. We will look at this initiative on the next slide.

In this field, we have begun the development of connected platforms through coordination with the automotive division of Sumitomo Corporation. These platforms allow for the collection and storage of vehicle and driving data from the automotive equipment of a Sumitomo Corporation Group automobile finance and leasing company. One example of the applications of these platforms is to provide data that can be used for fleet allocation management or vehicle maintenance purposes.

Going forward, we will collaborate with this automobile finance and leasing company to grow our business based on a shared connected platform linking in-vehicle and outside-of-vehicle offerings. Such offerings include combinations of telematics non-life insurance services as well as the people traffic data of telecommunications companies, the commercial facility advertisement data of real estate companies, and housing and mobility optimization services.

We will now look at slide 6.

This telematics non-life insurance system was launched in the fiscal year ended March 31, 2020. For this system, we developed an accident detection algorithm that uses driving and collision behavior telematics data collected from around the world by Aioi Nissay Dowa Insurance Co., Ltd., together with our proprietary SCSK Neural Network toolkit (SNN) solution. SNN comes standard equipped with the neural network algorithms required for deep learning, meaning that learning models can be swiftly constructed without the need to develop multiple algorithms.

The accident detection learning model applies to vehicle collision data a specialized data processing method, for which SCSK is in the process of filing a joint patent application with Aioi Nissay Dowa Insurance, to detect accidents with a high degree of accuracy. In collision tests, this model was able to detect accidents with more than 94% accuracy, and high levels of accuracy have been demonstrated through various other verification tests. We are therefore confident in this service's ability to help facilitate swift and appropriate processing of accidents and to deliver peace of mind to clients.

Let us move on to slide 7.

This slide details a smartphone application developed for daily use by customers of regional financial institutions. One characteristic of this application is how it can be custom tailored to specific regional financial institutions so that they can offer an application matched to their brand. Furthermore, the home screen of the application, which functions as a service portal, can be customized to express the individuality of each institution to differentiate them from their peers while still being offered as a package service.

This application is also compatible with functions that go beyond standard banking functions, such balance inquiry, account establishment, and loan application, to provide an expanded range of functions for new areas using cutting-edge technologies such as personal wealth management and AI-powered automated inquiry response technologies. An increasingly large number of financial institutions are adopting this application.

Going forward, we will continue to incorporate advanced technologies as we seek to create user experiences that are tied to the daily lives and communities of users, by linking applications to small-sum payments, local currencies, remote finance, and shopping services, for example. We currently plan to conduct verification of a proof of concept through SCSK's nearshore development bases for the purpose of evolving these services into a regional invigoration model centered on regional financial institutions.

Please look now at slide 8.

The COVID-19 pandemic cast light on the importance of swiftly collecting and analyzing data in order to ensure that examinations and treatment are widely available to those who need them.

Meanwhile, the aging population and declining birth rate in Japan are increasing demand for healthcare and nursing care services, creating labor shortfalls in these areas. ICT and data-related and other technologies are being embraced in the healthcare and nursing care fields and utilized in a highly cost-efficient manner with the aim of improving productivity while maintaining quality and implementing work style reforms. SCSK possesses a significant advantage with this regard thanks the track record in providing services to pharmaceutical companies and wholesalers, pharmacies, and healthcare institutions that it has built to date. In these fields, SCSK is enhancing its existing services for processes focusing on aspects of medicine encompassing everything from drug discovery and clinical testing to prescription, administration, and efficacy. Meanwhile, data is increasingly being used through services for digitizing examination data. SCSK thus looks to develop a business model for the healthcare field that contributes to the resolution of various social issues, such as the need to improve public health and reduce healthcare expenses. As a specific initiative, we launched a new pharmaceutical sales data analysis service in October 2020. This service is equipped with a model for estimating the nationwide spread of sales and was created through a joint industry-academia effort.

Lastly, please look at slide 9.

The COVID-19 pandemic is causing rapid change the likes of which have never been seen before in the customer experience field. As a result, demand is constantly rising for services pertaining to customer contact points based on new ideas.

Clients are pressed with the need to adopt marketing strategies and measures that are more oriented toward digital technologies. SCSK is currently preparing to launch customer experience service centers to address these needs. These service centers will integrate the natural language response technologies for call centers and fulfillment services and e-commerce and cash management systems and other services for the apparel industry we have developed thus far. In these service centers, we will also employ new marketing approaches, such as those using enhanced industry-specific AI dictionaries and deficiency analysis methodologies.

A major characteristic of SCSK's customer experience service centers is their ability to provide comprehensive support for the full range of marketing processes. Incorporation of external data into customer experience data platforms is in dispensable to this ability. In the customer experience field, SCSK looks to expand its functionality with an eye to growing its business in various fields and industries.