

SCSK Corporation
IR Meeting about SCSK's New Medium-Term Management Plan
Q&A Session Summary

Date: June 1, 2023 16:00-17:00
Speakers: Takaaki Touma, Representative Director and President
Yasuhiko Oka, Managing Executive Officer
Shunichiro Fukushima, Managing Executive Officer

Q. In regard to the core strategy 1, decisive business shifts, have the applicable fields and timings of shifts been decided?

A. Decisions regarding selection and concentration in existing businesses are not easy. We are currently in the process of determining the areas from which we will shift resources and the areas to which resources will be shifted. Nevertheless, we are approaching the phase in which we need to formulate concrete plans. It will therefore be important to establish functional decision standards and to enact decisions based on said standards.

Q. It has been stated that SCSK intends to invest between ¥50.0 billion and ¥70.0 billion in M&A transactions. How are these investments anticipated to contribute to sales and profit during the period of the Medium-Term Management Plan?

A. We are currently unable to disclose any concrete details regarding our plans for M&A activities. However, I can say that we have no intention of rushing investments just to meet targets. Rather, we plan to wait for promising opportunities. One type of M&A transaction we are envisioning would be investments for acquiring functions that we lack but are necessary for accelerating growth in the fields where SCSK exhibits strength, specifically those described in relation to the core strategy 2. We are also looking at investments for increasing the value of the services we offer. In addition, we will examine potential M&A candidates that compensate for insufficiencies in our operations in new fields where we aim to develop businesses under the next Medium-Term Management Plan, such as those described with regard to the core strategy 3.

Q. You mentioned that, under the core strategy 2, SCSK plans to increase sales from growth markets by ¥70.0 billion over the period from the fiscal year ended March 31, 2023, to the fiscal year ending March 31, 2026. What business fields will be particularly strong drivers behind these increases in sales?

A. Of the markets mentioned in relation to the core strategy 2, the scale of the market for modernization services for resolving social and customer issues is particularly large. In this market, the strongest drivers of our growth are expected to be SCSK products and solutions such as atWill, AML, and ProActive.

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Q. The core strategy 1 involves increasing SCSK's gross profit margin in the domestic IT services market by 2.5 percentage points or more over the three-year period of the Medium-Term Management Plan. This seems like a pretty rapid increase when compared to past performance. What will be the drivers behind this increase?

A. The prices of services and engineers in the IT services industry have been stagnant for a number of years now, and there are some businesses in which SCSK is not able to conduct transactions at the appropriate prices. However, this situation began to change last year, and we therefore intend to continue presenting customers with what we feel to be the appropriate prices. Meanwhile, in businesses related to core systems, we are transitioning from our traditional approach toward development to utilize packages of offerings from both SCSK and other companies. In addition, we plan to shift to toward development based on enterprise resource planning and to adopt agile development approaches utilizing low-code, no-code development tools for development in advanced peripheral process areas. By boosting our earnings capacity in this manner, we expect that it will be entirely possible to achieve the increase in the gross profit margin prescribed by the target.

Q. How will decisions pertaining to the Companywide reallocation of human resources and capital, which require the authority of President Takaaki Touma, be made in pursuit of future growth?

A. We plan to take a dynamic approach toward reallocations of human resources. One area to which we will shift human resources will be digital supply chain businesses targeting the manufacturing field. Up until now, we have struggled in this area as, despite having transactions with major manufacturers, we were unable to enter into core supply chain areas. The large-scale shift of human resources undertaken in the fiscal year ended March 31, 2023, as well as the consolidation of our enterprise resource planning and manufacturing teams were both facets of this reallocation. At the same time, we intend to develop centralized organizations and remote work frameworks in subdivision businesses in order to improve productivity. The human resources freed up through these efforts will then be shifted toward the growing fields of cloud technologies and business process modernization. In the future, I will continue to take the lead in guiding dynamic reallocations of human resources to fields anticipated to see growth.

Q. Are there currently any business fields in which you are anticipating withdrawal that you can disclose?

A. We do have a general idea of the fields that will be subject to withdrawal on a by-business group basis. However, we cannot offer any specific details with this regard at the moment.

Q. It was explained that, in the area of innovation services for new value creation described in relation to the core strategy 2, SCSK expects to grow sales in the healthcare and mobility fields by a combined total of more ¥10.0 billion. However, this target seems a bit low when considering the target towards 2030, described at the briefing on the mobility business held last year. How should we reconcile this seeming disparity?

A. The mobility field described in relation to the area of innovation services for new value creation represents only a part of the business in which we will aim to become an industry-

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leading software-driven supplier mentioned at the mobility business briefing.

As for healthcare, we have already completed the services we will be providing in this field, and we are thus now in the phase of monetizing said services. There are some challenges toward starting up businesses in the healthcare field, but we expect to be able to achieve a high level of profitability if we are able to develop our business as planned.

Q. What steps will be taken to address employees who are unable to change in line with SCSK's efforts to alleviate the defined three stagnations? Is SCSK considering the possibility of layoffs targeting middle management, such as those being seen at competitors?

A. We do not believe that there is any employee who is unable to change. Our employees are working to change of their own volition, and we are providing frameworks to support them in changing through reskilling and other measures as part of its efforts to achieve qualitative improvements in human capital.

Q. What type of downside risks and upside prospects are there in relation to the financial indicators defined in the Medium-Term Management Plan?

A. Downside risks include the potential impacts of an event such as a major recession. While such causes for uncertainty do exist, there are also strong upside prospects as seen in the fact that SCSK has several large-scale projects currently underway and demand for projects remains firm.

Q. What type of business opportunities are presented by generative AIs like ChatGPT? Also, how will SCSK differentiate itself and how much room is there for strategic investment in this area?

A. We are already conducting development of AI chatbots and offering related services. We also have expertise when it comes to natural language processing technologies. It can be expected that there will be an increase in automation and enhancement needs pertaining to the innovation of customer contact points. We are consolidating its engineers in the Technology Strategy Division to help accelerate the development of services based on its expertise, and we intend to develop technologies for addressing these needs in a concentrated manner. The insight gained through this process will be applied to SCSK Group's various products and services to grow earnings. For example, Group company SCSK ServiceWare Corporation has been using AI chatbots for some time, and we can envision means of incorporating these chatbots into the contact center services and other customer contact point enhancement solutions provided by this company.

END

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