Transcript of results briefing
Results of Operations for 2nd Quarter of Fiscal Year Ending March 2020

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■ **Introduction**
Greetings, my name is Tooru Tanihara, and I am the president of SCSK Corporation. I would like to thank you for taking time out of your busy schedules to join us today for this financial results briefing meeting.

■ **Financial Result of 2nd Quarter of FY2019 (slide1)**
I first want to begin by explaining our results of operations for the six-month period ended September 30, 2019. As shown on this slide, our performance in the period under review was as follows:
・Net sales: ¥187.3 billion
・Operating profit: ¥19.8 billion
・Ordinary profit: ¥20.3 billion
・Net profit attributable to owners of parent: ¥13.7 billion

Senior Executive Officer Yasuhiko Oka will discuss our financial results in more detail later on. However, I would like to say that we were able to set new six-month records for net sales, operating profit, and the operating profit margin in the six-month period ended September 30, 2019.
IT investment among customers is growing in various fields and customer industries. Targets of this investment include IT investment for addressing labor shortages by reducing labor requirements through workstyle reforms and other means, investments for upgrading legacy systems, and strategic IT investment for facilitating customers' efforts to improve corporate value or achieve future growth.

Even amid this brisk IT investment, we will be unable to identify customers' true needs if we are not proactive in our efforts. There have recently been many customers expressing a desire to incorporate digital transformations. However, even if customers have a desire to undertake such ambitious transformations, they often do not have a direction for this ambition. For this reason, we aspire to work together with customers to help them direct their ambitions and identify what will be needed to advance in that direction so that we can assist them in transforming their business model.

As an IT company, SCSK has been involved in developing systems for various customers. We are therefore poised to assess needs from the standpoint of the customer while also maintaining a cross-industry perspective. SCSK views digital transformations as the process of utilizing digital data to link customers from different industries and transforming business models through IT in order to create new businesses.

The dedicated commitment to improving quality we have maintained throughout our history has formed the basic foundations for these transformations. Up until now, we have been creating development standards, including building frameworks for preventing underperformance and producing components and modules. These efforts will furnish the foundations for future digital transformations, and we therefore believe that these efforts have helped build the frameworks for our initiatives going forward.
Moving on, I would like discuss the progress of the core strategies of our medium-term management plan while looking at some concrete examples of initiatives.

■**Shift to Service-Oriented Business (slide2)**
First of all, total sales from service-oriented businesses amounted to ¥38.0 billion in the six-month period ended September 30, 2019, a year-on-year increase of 6% from ¥36.0 billion in the previous equivalent period. As shown on this slide, this increase was primarily a result of growth in the telecommunications, communications, and IT infrastructure management fields

We began our service-oriented business forays with initiatives advanced targeting specific industries on an individual organization basis, and each organization thus came to have operations tailored to a particular industry. The organizations would then seek out areas suited to their operations and shape their business accordingly. Today, however, we are advancing initiatives based on the ideal of providing offerings that can be utilized on a cross-industry basis. At the same time, we are developing components and modules for fields that are not dependent on industry-specific specialties. This process relates to the DevOps innovations that I will be discussing later on.

An example of our efforts on this front would be the service platform furnished by our next-generation contact centers.

■CASE）Next-Generation Contact Centers (slide3)

Our next-generation contact centers are an example of a platform made possible by combining SCSK solutions and products with the products of other companies in order to address various customer needs. By reinventing PrimeTiaas, our prior proprietary voice service platform, we have realized the seamless integration of support via telephone, e-mail, social media, text chat, and other Internet venues. We also aspire to go a step further. Rather than simply linking these various channels, we aim to achieve seamless integration into the points of contact clients have with their customers.

For example, our services utilize artificial intelligence text chat systems to realize seamless coordination of multichannel customer contact points on SCSK's platform. This framework enables users to start their inquiry via a self-response channel and then move on to e-mail or text chat correspondence with operators and eventually premium response services as necessary when specialized or complicated responses are warranted.

Centered on this service-oriented business, we will provide the peripheral services needed to set up a contact center, which we tailor to meet customer needs. Specifically, we deliver frameworks for heightening the quality of inquiry response procedures by proposing measures for improving customer operating process through monitoring services and analyzing customer input in real time. These frameworks are combined with business process outsourcing services in which SCSK is contracted to perform procedures in order to optimize contact center operating costs and improve customer satisfaction.

■Promote Strategic Business　-Automotive Software Systems Business- (slide4)

In regard to our automotive software systems business, the introduction of a standardized automotive software system development platform based on AUTOSAR will likely be delayed by two to three years past our initial expectations. Progress with this regard is steady nonetheless. In the fiscal year ending March 31, 2020, we issued a news release detailing the commencement of verification tests of AUTOSAR-compliant QINeS basic software by Mazda Motor Corporation in June 2019. Mazda is one of the five previously mentioned companies with which contracts have been concluded. This announcement indicates that our relationship with Mazda has reached the level at which we are able to mention this company by name. Furthermore, several other companies have expressed interest in adopting our basic software for the mass production of their next-generation models, but we are currently unable to offer any details on this matter.

■Global Business Expansion　-Initiatives in ASEAN Region- (slide5)

The next topic I would like to talk about is global expansion. It can only be expected that global expansion by Japanese companies will become even more widespread in the future. For this reason, we plan to continue strengthening our relationships with Sumitomo Corporation and its operating companies, an undertaking that was commenced in the previous fiscal year. In addition, we have augmented our global network, which was previously comprised of six bases in the United States, England, China, and Singapore, with the establishment of new bases in Indonesia and Myanmar during the fiscal year ending March 31, 2020. These bases are expected to help us incorporate the growth of the digital transformation, IT service, and digital technology markets of emerging countries in Southeast Asia.

The stages of development differ between Indonesia and Myanmar as well as among other countries. Myanmar, for example, currently has a penetration rate of more than 100% for mobile phones, despite this rate being below 10% as recent as 2014. We see opportunities for SCSK to contribute to the resolution of social issues through its business in emerging countries where IT and digital shifts are expected to spread rapidly going forward. These opportunities can be seized by collaborating with Sumitomo Corporation, KDDI CORPORATION, and Myanmar Posts and Telecommunications, which have been engaged in telecommunications initiatives since 2014.

Indonesia, meanwhile, is Southeast Asia's largest market, expected to join the top 5 GDP leaders in 2030. A number of Japanese companies have operations in this country. The average age of Indonesia's population is low, and new businesses utilizing IT and the Internet are rapidly emerging in this country.

Looking at Southeast Asia as a whole, we will see a number of industrial parks developed by Sumitomo Corporation. Our plans in this area are still at the conceptual stage, but we intend to begin by providing infrastructure operation monitoring services to such industrial parks and then, in the future, supply the IT platforms that will furnish the foundations for industrial park operation as well as shareable applications. By sharing the same services among both industrial park operators and tenants, we aim to realize service-oriented businesses that enable sophisticated management and usage of industrial parks.

Meanwhile, we are aggressively moving forward with initiatives through our alliance with FPT Corporation, for which we announced a strategic overseas partnership in 2018. Together with this company, we are supporting the overseas expansion of Japanese companies, advancing development projects in the financial and automotive systems fields, developing strategic SCSK products, cultivating global human resources, and implementing digital transformation-related initiatives.

SCSK boasts IT services backed by the peace of mind and reliability associated with Japanese companies. We aim to utilize these services to contribute to the work process reforms and digital management targeting the growth of local and Japanese companies eying global expansion.

■**Initiatives Aimed the Next Stage of Growth (slide6)**
Up until now, I have been explaining the progress of our current medium-term management plan. This plan is slated to conclude with the fiscal year ending March 31, 2020. A primary focus going forward will thus be completing the measures prescribed by the current medium-term management plan and tying these measures to future growth. I would next like to explain the initiatives to be implemented this year as part of the lead-up to the next medium-term management plan and the policies for these initiatives, which will support the future growth of the SCSK Group.

■**Core Business innovation　-Engineering Innovation (MONOKAKU)- (slide7)**
First, let us discuss SCSK's engineering innovations.
Since the merger, SCSK has proceeded to utilize SmartEpisode Plus and other development standards in its existing systems development and system maintenance and operation and service businesses to promote remote and automated maintenance and operation in pursuit of higher quality and productivity. Alongside prior initiatives, SCSK is also advancing initiatives aimed at automating infrastructure development and operation, realizing development that does not entail as much effort, and bolstering coordination between development and operation. To support these efforts and drive the future enhancement of our business, the MONOKAKU Center was established in the fiscal year ending March 31, 2020.

With regard to development that does not entail as much effort, we are creating components and modules and advancing standardization. The output of these efforts is being combined in development projects to shorten test procedures for equipment, both when installed on vehicles and on a standalone basis. This makes it possible to focus on tracking prototypes and communicating with customers during important systems development condition definition procedures, helping boost system quality as a result.

Turning to the automation of infrastructure development and operation, our efforts entail developing

infrastructure based on templates prepared during the process of standardizing specifications and then automating operation of this infrastructure. By increasing the compatibility rates of standardized specifications, we target higher efficiency and quality.

As for bolstering coordination between development and operation, we are standardizing and automating procedures for supplying development results to operation organizations and performing pre-release tests in order to ensure the process leading up to official releases is smooth and efficient.

Through these efforts, we expect to be able to help customers resolve the issues surrounding the projected retirement of much of the staff that developed their legacy systems in 2025. I believe the reason for this anticipation will become clear if we delve a little deeper into this subject.

■**Initiatives for DX　CASE） Total IT Outsourcing Services (slide8)**
Next, I would like to talk about our digital transformation initiatives.

Digital technologies have triggered a rise in cross-industry, inter-company co-creation that goes beyond conventional frameworks to create new businesses and services. However, all customers face a unique set of obstacles in realizing this co-creation.

For example, some customers are unable to utilize data on a companywide basis due to systems that have been optimized on an individual organization basis. Others, meanwhile, possess systems that have become overly complicated and somewhat of black boxes due to years of customization, resulting in skyrocketing maintenance expenses. This situation is creating obstacles to promoting digital transformations in the form of an inability to shift funds and engineers to planning divisions.

We recognize the need to work with customers to create new businesses and services and to resolve the issues they face with the goal of commercializing digital transformations in the future.

One method to be employed in resolving customer issues will be total IT outsourcing services.

SCSK supplies unique outsourcing services based on the insight and expertise accumulated while providing services at customer premises, which constitutes one of the Company's strengths. With these services, we are supporting customers in shifting engineers to core procedures.

Specifically, we seek to realize stable system operation assured to have optimal costs and quality by integrating and managing IT services in a manner that combines development, operation, and systems with what were refer to as the "three Ps." The three Ps are standardized processes, standardized products (tools), and people that manage processes, including remote operators. This undertaking is made possible by the DevOps innovations I described earlier.

By offering such services, we should be able to help customers address the issues surrounding the projected retirement of much of the staff that developed their legacy systems in 2025 and shift resources to core processes. Furthermore, the expertise accumulated through these efforts will be utilized as we seek to optimize the development and operation procedures of multiple customers in order to heighten efficiency while improving productivity through cross-organizational deployment of the resulting output. Furthermore, SCSK will be able to support customers in promoting digital transformations that better match their needs by assuming responsibility for the development, maintenance, and operation of crucial systems. By resolving customer issues, we will help accelerate customers' digital transformation initiatives while at the same time working to commercialize these transformations.

■**Promotion of Open Innovation (slide9)**
The next subject I would like to touch on is open innovation.

Technological progress is accelerating. Accordingly, open innovation will be crucial to creating and commercializing new businesses in the digital transformation field. Through open innovation, we must combine the intellectual properties and resources of SCSK with the ideas, technologies, and services of external entities in order to develop innovative new business models and services. To facilitate open innovation, we established the Presidio SCSK Digital Fund, a corporate venture fund. This fund is tasked

with conducting surveys of and providing support for start-up companies. After screening, we look to work directly with start-up companies while also introducing them to and matching them with customers and facilitating new business development. Other concrete initiatives on this front include the conclusion of a partnership agreement with world-leading start-up company accelerate firm Plug and Play and the launch of the HAX Tokyo accelerate program.

Goals of these initiatives include discovering new core technologies by acquiring technological information via investment in cutting-edge fields. In addition, we will accelerate collaboration with Sumitomo Corporation in the digital transformation field and seek to obtain new commercial rights and find new business partners.

■**Management Measure (slide10)**
Moving on, I would like to offer some details on the tender offer for shares of Minori Solutions Co., Ltd., announced on October 30, 2019.

For details, I urge you to refer to the pertinent news release. What I will say is that we have had a business relationship with Minori Solutions for some 10 years, and this company has thus become a principal partner in SCSK's systems development operations, indispensable to our advancement of operations in this field. Through our business relationship, which spans more than a decade, we have witnessed the formulation of strong bonds of trust between the management of both Minori Solutions and SCSK, observed the high level of compatibility of their management strategies, and confirmed the lack of redundancy between their business operations. We therefore believe that the foundations for strengthening the relationship between these two companies are already in place.

The decision for the tender offer was prefaced on the fact that these two companies have a strong relationship as well as on a shared recognition of management issues, namely the need to join forces to address the structural changes seen in the current era. Specifically, we realized that we must address a number of tasks if we are to win out against the competition as a leading company in the future. These tasks include securing and recruiting talented human resources capable of adapting to the substantial changes being seen in technologies. In addition, we have to respond to the requirement of innovating IT services in response to ever-more sophisticated customer needs, to create high-value-added services based on digital transformations and other new concepts, and to augment our capacity to strategically allocate human resources in line with changes in the times. By fully capitalizing on the management resources and business foundations of both Minori Solutions and SCSK, we aim to become a leading company in the IT services industry that is recognized by society as first-class in everything it does.

■**Consolidated Financial Forecasts (slide11)**
In closing, I would like to talk about our forecasts for full-year performance in the fiscal year ending March 31, 2020. It is clear that we cannot ignore the impacts of short-term changes in the global economy going forward, and it is incredibly difficult to formulate an outlook for IT services businesses catering to the manufacturing industry. In addition, our full-year performance forecasts account for the commencement of a significant number of large-scale and other projects in various industries. However, we cannot guarantee that all of the projects scheduled will actually come to fruition.

Accordingly, we have chosen not to revise our previous forecasts for full-year performance in the fiscal year ending March 31, 2020. As we progress through this fiscal year, we will forge ahead with business investments, as has been stated previously, and continue efforts to ensure the accomplishment of our initial performance forecasts.

With this, I conclude my portion of today's presentation. I would like to ask for your ongoing support and understanding of the Company.

Thank you.