

## **Transcript of results briefing**

### **SCSK Group Medium-Term Management Plan (FY2020–2022)**

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#### **■ Introduction**

Greetings, my name is Tooru Tanihara, and I am the president of SCSK Corporation.

If the circumstances were different, we would have liked to invite you for a conventional financial results briefing meeting together with a teleconference. However, the COVID-19 pandemic has forced us to resort to merely posting a video on SCSK's corporate website.

We ask for your understanding with this regard.

As you are aware, the COVID-19 pandemic has dealt a heavy blow to the global economy and to corporate activities.

Today, I will be discussing the SCSK Group's medium-term management plan. However, I am afraid to say that we are still unable to offer a concrete outlook on the impacts of the COVID-19 pandemic and the changes in values and other areas to ensue. Revisions will be implemented to this plan and discussions will be held as necessary on an ongoing basis as we monitor how this situation unfolds.

At the same time, SCSK has no intention of simply hunkering down and waiting for the end of this pandemic. I would like to talk about how SCSK should respond to the social changes brought about by the COVID-19 pandemic at the end of this presentation.

I would now like to begin my portion of today's presentation.

#### **■ Contents**

The agenda for today's presentation is as shown on this slide.

### **1. Review of Previous Medium-Term Management Plan (FY2015–2019)**

#### **■ Review of Previous Medium-Term Management Plan (FY2015–2019) (Slide2)**

First, we will review the previous medium-term management plan that covered the five-year period spanning from April 1, 2015, to March 31, 2020.

#### **■ Review of Previous Medium-Term Management Plan (Slide3)**

Looking first at performance, our financial results in the fiscal year ended March 31, 2020, the final year of the previous medium-term management plan, were as follows.

Net sales: ¥387.0 billion

Operating profit: ¥42.3 billion

Operating profit margin: 10.9%

Return on equity: 15.6%

Earnings per share: ¥300

The previous medium-term management plan was developed with the aim of shifting gears to put the

Company on the growth track and pursuing corporate and earnings growth. As a result of this approach, we were able to increase net sales by 30.0%, to nearly ¥90.0 billion (¥89.3 billion), and operating profit by 51.1%, to ¥42.3 billion, over the five-year period of the plan.

This plan targeted operating profit of ¥50.0 billion. Between ¥40.0 billion and ¥45.0 billion of this was to come from existing businesses and from the shift to service-oriented businesses while the remaining ¥5.0 billion to ¥10.0 billion was to be generated by strategic businesses and through mergers and acquisitions.

The operating profit figure of ¥42.3 billion posted in the fiscal year ended March 31, 2020, includes support payments of ¥0.6 billion issued to employees in response to the COVID-19 pandemic and the operating loss of ¥1.7 billion recorded in the automotive software systems business. Considering this fact, I believe it could be said that our performance was strong and effectively within range of the target set by the plan.

In the strategic automotive software systems business, however, progress was not in line with our initial plans, due in part to operating environment factors, and this business has yet to achieve a position of profitability in terms of operating profit. We are making steady progress in this business nonetheless, and the foundations for this business are taking shape. We intend to continue promoting service sales and expanding service areas in this business moving forward.

#### ■ Net Sales Trends (Slide4)

Slide 4 details trends in net sales. Since the merger that created SCSK, we have continued to achieve net sales growth, with a compound average growth rate (CAGR) of 4.7% after the merger and a CAGR of 5.4% over the five-year period of the previous medium-term management plan. These rates have been driven up, in particular, by the strong growth seen in the fiscal years ended March 31, 2019 and 2020, as we worked to capitalize on the recently robust IT investment demand.

#### ■ Operating Profit/ Operating Profit Margin Trends (Slide5)

Operating profit has similarly continued to increase with a CAGR of 12.1% after the merger. Over the period of the previous medium-term management plan, the CAGR was 8.6% when accounting for factors such as business investments for the shift to service-oriented businesses and the transformation of business structures.

In addition, we have witnessed steady improvements in the operating profit margin as a result of gains in productivity and profitability stemming from quality increases following the entrenchment of our quality-oriented development standard (SE<sup>+</sup>).

Senior Executive Officer Yasuhiko Oka will offer a more detailed look at the Company's financial results later on. For now, let me say that we achieved record-breaking figures for net sales, operating profit, and the operating profit margin in the fiscal year ended March 31, 2020.

#### ■ Review of Previous Medium-Term Management Plan (Slide6)

Next, I would like to look at the core strategies of the previous medium-term management plan. Service-oriented businesses have grown to represent around 20% of total net sales, and sales from these businesses amounted to ¥80.0 billion in the fiscal year ended March 31, 2020.

Going forward, SCSK will continue to promote the shift to service-oriented businesses, by which I refer to business structure transformations aimed at transition to non-labor-intensive business models.

In the automotive software systems business, we sought to commercialize basic software products compliant with the AUTOSAR automotive software system platform during the period of the previous medium-term management plan, leading to the release of QINeS-BSW. Progress in this business is slow in comparison to our initial expectations, but we are undeniably moving forward. Future initiatives will entail promoting services sales and expanding service areas in preparation for the adoption in next-generation models. In addition, we succeeded in commercializing AUTOSAR-compliant operating systems and middleware for the electronic control units of automotive equipment, enabling us to develop applications using a new development platform. SCSK was thus able to deliver integrated services in service integration, verification service, and other fields while expanding into the field of mobility as a service.

As for the core strategy of enter into the second stage of global business expansion, we targeted what we call the “Greater Japanese Market,” the market in which we provide IT support for the overseas expansion of Japanese companies. Efforts to serve this market included the global deployment of various IT services, such as those for helping Japanese megabanks and other entities bolster their overseas base networks and for supporting the development of IT systems for local overseas companies.

In addition, we established new bases in Indonesia and Myanmar, the first overseas SCSK bases to be established in 12 years. Future initiatives will include advancing new businesses in digital transformation and other fields in Asia.

We also enhanced Group structures with the aim of augmenting the SCSK Group’s collective strength. Measures with regard included reorganizations of Group companies, the acquisition of Minori Solutions Co., Ltd., and the establishment of new bases in Japan and other countries. These measures were designed to bolster the Group’s technological and sales capabilities and service lineups in various business fields. Going forward, we will leverage these reinforced structures to expand our business as we heighten Groupwide competitiveness and pursue ongoing growth.

#### ■ Review of Previous Medium-Term Management Plan (Slide7)

Turning to the next slide, the initiatives described on this slide were implemented as part of our efforts to reinforce managerial foundations. SCSK won a great deal of external recognition through our ongoing implementation of working style reform, health and productivity management, and diversity initiatives as well as other initiatives targeting the people that are the driving force behind our business growth.

#### ■ Review of Previous Medium-Term Management Plan (Slide8)

The next slide is provided for reference purposes.

## 2. Vision for the SCSK Group

#### ■ Vision for the SCSK Group (Slide9)

Moving on, I would like to describe the vision SCSK will work toward going forward.

#### ■ Operating Environment for the SCSK Group (Slide10)

However, before talking about this vision, I need to explain the operating environment facing the SCSK Group.

Without going into too much detail, let me say that we need to recognize the fact that we will hit the limit to the growth of the Group's business at some point if we simply continue to follow the course we have been on thus far. Conversely, we realize that a change of perspective has the potential to give us access to a wide range of possibilities. We believe that realizing future growth will require medium- to long-term strategies that drastically transform the SCSK Group.

### ■ Overview of Management Plan (Slide11)

On this slide, you will see an overview of our management plan.

The SCSK Group intends to practice sustainability management as a growth strategy.

If the Group is to continue growing, it will be crucial for us to adopt a long-term perspective and practice management that contributes to the resolution of social issues in recognition of the values of various stakeholders and the social impacts of companies.

Moreover, we have defined materiality items for the SCSK Group for the purpose of encouraging reflection on and the exercise of our corporate philosophy by illustrating a long-term growth vision. Based on these materiality items, the SCSK Group established Grand Design 2030, a vision for the Group in 2030, and the new medium-term management plan, a roadmap for the accomplishment of this vision.

### ■ Corporate Philosophy (Slide12)

Our corporate philosophy of "Create Our Future of Dreams" is the foundation and the central principle based on which we advance our business, a basic value we continue to treasure.

As laid out on this slide, the SCSK Group has always engaged in management that values employees and that emphasizes contributions to society from a forward-looking perspective. The new materiality items were designated to identify important tasks to be addressed in the exercise of our corporate philosophy.

### ■ Material Issues (Slide13)

SCSK's materiality items were selected by evaluating the important issues needing to be addressed from a management perspective and a social perspective based on the Group's business and strengths and its role in society, and we thus identified social issues with high materiality.

"Innovating for a brighter society," "building trust for a safe and secure society," and "creating an inclusive society" were identified as proactive materiality items pertaining to addressing social issues through our business and pursuing ongoing business growth.

Meanwhile, "global environmental contributions," "diverse team of professionals," "sustainable value chain," and "transparent governance" have been identified as conservative materiality items that will form the foundations for sustainability management.

### ■ Implementation of Corporate Philosophy – Material Issues (Slide14)

We believe that establishing these materiality items and linking them to concrete initiatives will create opportunities for employees to engage with the resolution of social issues through their work and for them to reflect on their own actions. I believe that this undertaking will, in turn, contribute to greater levels of happiness among employees.

### ■ Grand Design 2030 (Slide15)

Positioning the corporate philosophy and materiality items as the SCSK Group's purpose, we will pursue

our vision of becoming a co-creative IT company in 2030, a decade from now, with the goal of achieving sustainable development together with society.

This undertaking will see us expanding the creation of value for customers, and consequently society, through SCSK's core IT services businesses and advancing self-driven social value creation initiatives in our quest to grow together with customers and society.

Through these efforts, we will target net sales of ¥1 trillion in the fiscal year ending March 31, 2031.

### ■ **Medium- to Long-Term Business Policy - Pursuit of Sustainable business Growth (Slide16)**

Our medium- to long-term business policy for achieving net sales of ¥1 trillion will be to continue to enhance and expand core businesses while also taking part in businesses that exist separate from our current growth path to pursue even greater levels of growth. Acting as the driver behind our own business, we will faithfully address customers and society and engage in co-creation with them in the hopes of continuing to create social value.

## **3. Medium-Term Management Plan (FY2020–2022)**

### ■ **Medium-Term Management Plan (FY2020–2022) (Slide17)**

I would now like to move on to discuss the medium-term management plan that will be advanced over the next three years to speed us toward our goal of becoming a co-creative IT company in 2030.

### ■ **Medium-Term Management Plan - Core Strategies (Slide18)**

This slide details our new medium-term management plan. As shown, we have put forth three core strategies—core business innovation, investment in people, and commercialization of digital transformations—and three managerial foundation reinforcement measures—augmentation of comprehensive Group capabilities, promotion of management that fully exercises our employees' potential, and fostering of co-creation-oriented corporate culture. Through these strategies and measures, SCSK will seek to grow its business.

Let us take a look at each of the three core strategies in a little more detail.

### ■ **Core Strategies 1: Core Business Innovation (Slide19)**

The first core strategy is core business innovation, specifically the enhancement and expansion of core businesses. Based on this strategy, we will innovate business processes and customer contact points.

SCSK is committed to becoming a powerful ally in addressing the so-called “2025 Digital Cliff,” which refers to the issues that will occur when many of the engineers that developed companies' current legacy systems retire. We will innovate our core businesses from two perspectives to ensure that we are able to function as such an ally.

These perspectives are *Monozukuri* innovations and subdivision innovations.

### ■ **Core Strategies 1: Core Business Innovation - Monozukuri innovations (Slide20)**

In regard to *Monozukuri* innovations, we will advance initiatives to achieve massive increases in service productivity, quality, and flexibility and thereby heighten responsiveness to business changes, diversify services models, and optimize systems of engagement and systems of record. SCSK's newly developed S-

Cred+ (Smart Co-work on Relationship, Engineering and Design Plus) *Monozukuri* innovation platform will be central to these initiatives.

S-Cred+ enables increases in productivity while eliminating work disparity between individuals by leveraging the SCSK Group's technologies, methodologies, intellectual properties, and expertise. These benefits are achieved through a focus on four concepts: low-code, no-code development, automation of infrastructure building and operation, accumulation and utilization of intellectual properties, and standardization of development, maintenance, and operation.

### ■ Core Strategies 1: Core Business Innovation - Subdivision Innovations (Slide21)

Moving on, let me explain the second perspective: subdivision innovations.

Subdivisions are bases positioned on customer premises on a full-time basis. These bases are used to place staff closer to customers and to facilitate the fostering of long-term, trust-based relationships with customers. When including the employees of our partners, we have more than 10,000 staff members positioned on customer premises on a full-time basis. This is a major characteristic of the SCSK Group, and I am confident that it is these subdivisions that underpin the exceptional strength of the Group with its focus on frontline operations.

Through subdivision innovations, we look to transform subdivisions from full-time support organizations to value-co-creating organizations that support customer business and IT strategies.

To this end, we will enhance customer contact points by positioning service managers, who will be responsible for gaining a deeper understanding of customer strategies and needs, and highly skilled engineers, who will swiftly deliver the ideal services needed to respond to business changes, on customer premises on a full-time basis. Following this change, staff previously positioned on customer premises will step up coordination with customers from remote SCSK bases to further our evolution toward the next stage of co-creation with customers through disbursed operations and other means.

### ■ Core Strategies 2: Commercialization of DX (Slide22)

The second core strategy is the commercialization of digital transformations, which represents a highly ambitious endeavor for the SCSK Group. This slide shows the three digital transformation areas to be targeted by the Group.

The lower two areas represent digital transformations that will be addressed through our core businesses to accelerate our current initiatives and support the growth of customers and industries.

Meanwhile, the “commercialization of digital transformations” area on top refers to businesses in which we will leverage the strengths of our core businesses to become the main proponents behind businesses, an approach that differs from our traditional subcontractor model, in order to develop operations that co-create new social value.

### ■ Core Strategies 2: Commercialization of DX - Three Approaches (Slide23)

In our efforts to commercialize digital transformations, we will adopt an approach based on three types of co-creation.

Specifically, we will focus on co-creation with customers, cross industry co-creation targeting specific

industries, and global co-creation with Sumitomo Corporation.

### ■ Core Strategies 2: Commercialization of DX - Priority Fields (Slide24)

SCSK will also examine the possibility of creating businesses for commercializing digital transformations in the four priority fields of mobility, financial service platforms, healthcare, and customer experiences.

While I cannot offer details, I can say that we are engaged in a cross-divisional, Companywide examination of what strengths we can utilize and with what partners we can engage in co-creation in order to generate new value in response to the social issues seen in each field.

These priority fields will be increased and revised as necessary on an ongoing basis moving forward in order to heighten our ability to create businesses.

### ■ Core Strategies 2: Commercialization of DX - Global (Slide25)

Furthermore, our efforts to commercialize digital transformations will focus addressing the advanced technologies and business models of North America and Europe and on creating businesses in Southeast Asia and other emerging markets. Centered on SCSK's global base network, this approach will be geared toward expanding global operations.

### ■ Core Strategies 3: Investment in People (Slide26)

As for the third core strategy—investment in people—it goes without saying that the SCSK Group's greatest asset and the driver behind its growth are its people.

We will therefore be proactively investing in people, with a particular focus on enhancing, diversifying, and expanding human resources, in order to accelerate business growth.

Investments will be primarily directed toward the reinvention of SCSK's human resource systems, promotion of diversity and inclusion for the purpose of facilitating co-creation with diverse human resources, and expansion of worldwide human resources.

### ■ Core Strategies 3: Investment in People - Expansion of Base Network in Rural Regions (Slide27)

Next, I will touch on the SCSK Group's measures to bolster its domestic network of bases outside of major urban centers.

To this end, we are expanding our network of nearshore development, verification, and BPO service bases in rural locations.

We expect that these efforts will help invigorate rural economies by creating employment opportunities, encouraging employees to relocate to rural regions, and fostering IT staff.

With regard to our nearshore development operations, we look to expand our staff from the current 600 people to 1,000 people. In addition, we will open our Urasoe base in Okinawa in spring 2021, a move that is projected to bring the size of our nearshore development staff to 2,000 people when combining development staff as well as BPO service and other staff members.

### ■ Managerial Foundation Reinforcement (Slide28)

To construct the foundations for supporting the advancement of the three core strategies, SCSK will

implement three managerial foundation reinforcement measures.

The first measure is the augmentation of comprehensive Group capabilities. We have entered into an era in which the SCSK Group can create substantial value by combining the diverse resources and insight that it has amassed over the course of its history. I also believe that the Group boasts comprehensive Group capabilities that other companies cannot mimic.

The second measure is the promotion of management that fully exercises our employees' potential. Through this measure, we aim to contribute to the creation of an inclusive society as defined in our materiality items. At the same time, we will work to increase work motivation and engagement alongside the health and productivity management and workplace comfort improvement initiatives we have been implementing thus far.

The third and final measure is the fostering of a co-creation-oriented corporate culture. The SCSK Group aspires to foster a culture in which we act as the driving force behind efforts to link and merge the strengths of other companies in order to evolve into a conglomerate that can co-create value.

### ■ Investment Targets (Slide29)

Over the three-year period of the medium-term management plan, we intend to invest a total of approximately ¥100.0 billion. This amount will be reached through proactive investments in the advancement of the plan's core strategies with the aim of fueling ongoing growth.

Furthermore, SCSK will maintain its prior stance toward proactive investment in order to further build upon its existing strengths.

### ■ Management Targets (Slide30)

By advancing the aforementioned three core strategies and three managerial foundation reinforcement measures, conducting investments, and working to become a co-creative IT company with net sales of ¥1 trillion in 2030, we look to achieve the following figures for management indicators in the fiscal year ending March 31, 2023, three years from now.

Net sales: ¥500.0 billion or more

Operating profit margin: 10%–12%

Return on equity: 15% or more

In terms of capital efficiency, I believe that we will be able to keep return on invested capital at a level between 10% and 12% as we advance the medium-term management plan.

### ■ Operating Environment Changes Created by COVID-19 Pandemic (Slide31)

As mentioned at the beginning of this presentation, I would now like to talk about the initiatives SCSK will implement in response to the changes to the operating environment brought about by the COVID-19 pandemic.

It is currently next to impossible to predict the extent of the impact of the pandemic on the global economy or on the IT services industry. At the same time, we recognize that this pandemic and people's experience with it will result in substantial changes in values affecting national policy, people's lives and lifestyles, jobs, and working styles, among other areas.

IT services are an important part of social infrastructure. As a provider of these services, the SCSK Group



believes that the advancement of the core strategies described in its medium-term management plan will make contributions to the resolution of social and customer issues and to the provision of value.

Specifically, the SCSK Group will provide remote work, nearshore development, and other disbursed operation IT services and enhance and improve the convenience of services with digital technologies in order to provide value in response to needs for drastic transformations in working styles and for a safe, secure, and sustainable society for governments, companies, and individuals.

#### ■ FY2020 Consolidated Financial Forecasts / Dividend Forecasts (Slide32)

Based on the aforementioned considerations, the SCSK Group has prepared the following performance forecasts for the fiscal year ending March 31, 2021.

In addition, the Company will be employing International Financial Reporting Standards from the fiscal year ending March 31, 2021.

Net sales: ¥380.0 billion

Operating profit: ¥41.0 billion

Operating profit margin: 10.8%

In regard to dividends, SCSK will issue a total annual dividend of ¥130 per share for the fiscal year ended March 31, 2020, comprised of an ordinary dividend of ¥110 per share and a commemorative dividend of ¥20 per share to commemorate the 50th anniversary of SCSK's founding, as initially planned.

As for the fiscal year ending March 31, 2021, although no commemorative dividend will be issued, we still plan to issue an annual dividend of ¥130 per share by increasing the ordinary dividend payment by ¥20 per share.

The IT technologies that support social infrastructure and create new value are indispensable to contemporary lifestyles. Given the circumstances, it is more important than ever for the SCSK Group to reliably deliver IT services with trustworthy quality.

The Group is therefore committed to achieving sustainable growth together with its stakeholders by practicing sustainability management that fully capitalizes on its comprehensive Group capabilities.

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