Transcript of results briefing
Consolidated Financial Results for Fiscal Year Ended March 2020 and Financial Forecasts for Fiscal Year Ending March 2021

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■ Greeting

Greetings, my name is Yasuhiko Oka, and I am a senior executive officer of SCSK Corporation.

■ Contents (slide1)

The agenda for my portion of today's presentation can be seen in the contents section on slide 1. I will be discussing the Company's consolidated financial results in the fiscal year ended March 31, 2020, and our forecasts for performance in the fiscal year ending March 31, 2021.

This presentation is scheduled to take around 20 minutes.

■ Consolidated Performance Highlight (slide2)

Please look at slide 2, which displays consolidated performance highlights for the fiscal year ended March 31, 2020.

In the fiscal year under review, net sales were up 7.9% year on year, to ¥387.0 billion, and operating profit rose 10.3%, to ¥42.3 billion, making for our eighth consecutive year of higher sales and profit. Moreover, both figures represented record highs.

In addition, the operating profit margin reached the record-breaking figure of 10.9%.

The COVID-19 pandemic that struck the world during the fourth quarter of the fiscal year ended March 31, 2020, is giving rise to an ever-increasing sense of concern regarding economic trends. Nonetheless, the robust IT investment demand trends seen among customers on the back of the favorable operating environment and the market trends that have continued since the beginning of the fiscal year under review held firm, and the Company's performance reflected these trends.

In addition, the consolidated order backlog was up 6.9%, to ¥146.9 billion.

These factors resulted in the following performance figures. Please look at the performance figures on slide 3.

■ Summary of Financial Results（PL/Incoming Orders/Backlog）(slide3)

Net sales in the fiscal year ended March 31, 2020, increased in 7.9% year on year, to ¥387.0 billion. This increase was due to systems development, maintenance, operation, and service orders from the manufacturing industry, particularly automobile manufacturers, and from the financial industry as well as to systems development, system sales, and enterprise resource planning systems redevelopment orders from the communications industry.

Gross profit, was up 10.4% year on year, to ¥97.9 billion, and the gross profit margin rose 0.6 percentage points. This outcome can be attributed to higher sales coupled with ongoing improvements in the profitability of systems development and other projects, which offset the impacts of unprofitable projects.

Meanwhile, selling, general and administrative (SG&A) expenses rose ¥5.2 billion. This increase reflects a rise in business investment expenses and R&D expenses and higher SG&A expenses associated with the inclusion of Minori Solutions Co., Ltd., and other companies in the scope of consolidation. SG&A expenses were also increased by support payments issued to employees to send a message of encouragement to everyone suffering under the impacts of the COVID-19 pandemic and help them overcome this crisis.

As a result, operating profit was up 10.3% year on year, to ¥42.3 billion, making for an operating profit margin of 10.9%.

In addition, both incoming orders and order backlog increased year on year.

Net sales of the newly consolidated Minori Solutions amounted to around ¥4.3 billion and operating profit came to about ¥0.1 billion including amortization of goodwill. Furthermore, incoming orders and order backlog at this company were ¥5.6 billion and ¥5.2 billion, respectively.

■ Comparison by Sales Segment（Sales/Incoming Orders/Backlog）(slide4)

Moving on, please look at slide 4, which displays a sales comparison by sales segment.

Year-on-year increases in net sales, incoming orders, and order backlog were seen in the Systems Development and System Maintenance and Operation / Services segments.

As for the Packaged Software / Hardware Sales, net sales and order backlog were up year on year. However, incoming orders showed a slight decrease as a result of the timing of upgrades to certain next-generation models in sales of network equipment to the communications industry, a factor that outweighed the benefits of hardware demand from automobile manufacturers.

On the following slides, I would like to explain the performance of each sales segment in a little more detail.

■ Systems Development（Sales/Incoming Orders/Backlog）(slide5)

Please turn to slide 5.

Systems development sales were up 11.2% year on year, to ¥155.8 billion. Sales in this segment were brisk as a result of strong demand for IT investments to reinforce strategic businesses or secure a competitive edge, redevelopment of enterprise resource planning systems, and productivity improvement and streamlining amid the continuation of robust IT investment demand among customers in the manufacturing, communications, and distribution industries. Other factors included a rise in system upgrade demand from the financial industry as well as investment demand for enhancing customer services from the gas industry.

Incoming orders were up 4.1% year on year, to ¥155.0 billion, as the benefits of strong trends in IT investment demand for enterprise resource planning systems redevelopment and other projects counteracted the impacts of the rebound from previously recorded large-scale orders from the communications and distribution industries.

Order backlog increased 5.4% year on year, to ¥37.0 billion, following brisk order trends.

■ System Maintenance and Operation/Services（Sales/Incoming Orders/Backlog）(slide6)

Next, please take a look at slide 6.

Sales in the System Maintenance and Operation / Services segment were up 6.9%, to ¥143.4 billon.

Businesses catering to the distribution industry felt certain impacts from decreased sales of fulfillment services during the first half of the fiscal year. Conversely, growth was seen in systems maintenance operations, in reflection of the overall favorable systems development trends, and in verification services for pre-market products. These businesses also witnessed higher sales of outsourcing services for the credit and leasing industries coupled with robust performance for business process outsourcing (BPO) services related to products and services.

Year-on-year growth was posted in incoming orders and order backlog following the accumulation of orders in verification service and data center businesses.

■ Packaged Software/Hardware Sales（Sales/Incoming Orders/Backlog）(slide7)

Turning to slide 7, we will see performance in the Packaged Software / Hardware Sales segment.

Packaged software and hardware sales in the fiscal year ended March 31, 2020, were up 3.9% year on year, to ¥87.7 billion. Although sales were down in the second half of the fiscal year as a result of the timing of upgrades to certain next-generation models in sales of network equipment to the communications industry, full-year sales benefited from higher first-half sales as well as from sales of hardware to the manufacturing industry.

Incoming orders were relatively unchanged year on year as the impacts of the network equipment sales-related factors that also affected sales were counterbalanced by increased hardware orders from automobile manufacturers.

Order backlog rose 14.9%, to ¥16.7 billion, due to higher orders for hardware from academic research institutions.

With this, I conclude this explanation of performance by sales segment.

■ **Sales Comparison by Customer Industry (slide8)**

We will next look at sales by customer industry.

Sales to all customer industries were up in the fiscal year ended March 31, 2020. I will therefore only be explaining industries for which sales increases were particularly pronounced.

You also might want to refer to page 2 of the supplementary information data book.

Sales to manufacturers rose ¥10.9 billion year on year. This sales growth was a result of increases in strategic IT investment demand from automobile manufacturers aimed at systems development and in analytical server and other system sales. The increased sales of verification services for pre-market products and BPO services related to products and services was also a factor. In addition, contributions came from operational system upgrade demand from the construction industry, systems development projects for precision machinery manufacturers, and service centers.

Sales to financial institutions were up ¥4.3 billion year on year. Factors behind this increase included the continuation of systems upgrade projects for the banking industry as well as system integration and development projects and outsourcing services for the credit and leasing industry.

Sales to the communications and transportation industries were up ¥4.9 billion year on year. These was a rise in development projects for the purpose of enhancing customer services in the communications industry. In addition, network equipment sales to communications industry customers grew in the six-month period ended September 30, 2019, and we continued to take part in the core system upgrade projects for the transportation industry that began emerging during the previous fiscal year.

Sales to the service industry increased as a result of core systems development projects.

■ **Business Performance by Reportable Segment (slide9)**

On this slide, you will see performance by reportable segment. I will focus on the three segments.

Net sales in the Manufacturing & Telecommunication Systems Business segment were up as a result of strong performance in systems development projects for the manufacturing industry, most notably automobile manufacturers, and for the communications industry. Segment profit, meanwhile, was down due to the impacts of unprofitable projects.

Net sales in the Global System Solutions & Innovation Business segment increased because of a rise in orders from trading companies. At the same time, segment profit was relatively unchanged year on year due to the higher costs that accompanied the expansion of operations in Southeast Asia.

The Business Solutions segment, meanwhile, saw net sales rise thanks to core system upgrade projects while segment profit was relatively unchanged year on year due to increased R&D expenses.

■ **Operating Profit Analysis (slide10)**

Looking now at slide 10, I would like to offer an explanation of the factors that influenced operating profit.

As mentioned previously, the continuation of the strong business trends seen in the first half of the fiscal year resulted in net sales growth that boosted operating profit by ¥7.0 billion. At the same time, improved profitability buoyed operating profit by ¥3.2 billion.

In the fiscal year ended March 31, 2020, losses from unprofitable projects were roughly ¥1.7 billion. Losses from such projects in the previous fiscal year, were around ¥0.7 billion, and losses in the fiscal year under review therefore decreased operating profit by nearly ¥1.0 billion year on year.

Furthermore, SG&A expenses were up ¥5.2 billion. Factors behind this increase in expenses included a rise in performance-linked bonuses payments and new employee-related expenses. In addition, roughly ¥1.4 billion of the approximately ¥2.5 billion in business investment-related expenses was recorded as SG&A expenses.

Furthermore, SG&A expenses were temporarily heightened by various factors. These factors included the consolidation of Minori Solutions and two other companies, amortization of goodwill associated with the acquisitions of these companies, higher R&D expenses, and the issuance of support payments to employees in response to the COVID-19 pandemic.

The combined impact of these factors was a year-on-year increase of approximately ¥3.9 billion in operating profit, which came to ¥42.3 billion, and a rise in the operating profit margin from 10.7% to 10.9%.

■ **Consolidated Balance Sheets (slide11)**

We will now discuss our consolidated balance sheet. Please turn to slide 11.

The new inclusion of Minori Solutions in the scope of consolidation brought with it assets totaling ¥11.8 billion and liabilities amounting to ¥3.1 billion.

■ **Consolidated Financial Forecasts(IFRS)/Dividend Forecasts (slide12)**

Next, please turn to slide 12.

As the Company has chosen to adopt International Financial Reporting Standards (IFRS), performance forecasts for the fiscal year ending March 31, 2021, have been prepared based on IFRS standards. Accordingly, we have provided references figures that restate figures based on the previously employed Japanese generally accepted accounting principles (J-GAAP) to reflect the IFRS standards for the purpose of comparison.

These restated figures have yet to be audited and are therefore subject to change.

Operating profit as calculated under IFRS standards is approximately ¥2.3 billion lower than operating profit calculated under the prior J-GAAP standards. One major factor behind this disparity was a decrease in the book value and consequently the depreciation costs associated with real estate assets following a mark-to-market valuation of these assets. In addition, the provision for performance-linked bonuses that was originally scheduled to be recorded based on J-GAAP standards, as explained at the financial results briefing for the nine-month period ended December 31, 2019, was recorded based on IFRS standards. Furthermore, extraordinary income will influence operating profit under IFRS standards. For these reasons, IFRS-based operating profit is projected to amount to around ¥40.0 billion in the fiscal year ended March 31, 2020, once calculations have been finalized.

Moving on, I would now like to discuss our performance forecasts for the fiscal year ending March 31, 2021.

As explained by President Tanihara, the global COVID-19 pandemic is projected to continue to have an incredibly adverse impact on corporate performance. At the same time, however, the experience of this pandemic is greatly transforming people's values, a trend that will no doubt increase the perceived value of IT.

Nevertheless, we will certainly feel some impacts from the pandemic during the fiscal year ending March 31, 2021, and it is therefore difficult to formulate an accurate outlook for our performance in this year.

Regardless of this environment, we have chosen to put forth the figures of net sales of ¥380.0 billion and operating profit of ¥41.0 billion as our forecasts for performance in the fiscal year ending March 31, 2021. These figures are based on our performance in the fiscal year ended March 31, 2020.

This concludes my presentation. SCSK looks forward to your support and encouragement going forward.

We greatly appreciate you taking the time to join us today.