

Transcript of results briefing
Results of Operations for 2nd Quarter of Fiscal Year Ending March 2021

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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 all for taking time out of your busy schedules to join us today for this teleconference, during which we will be discussing SCSK's financial results.

These has recently been a rise in efforts to invigorate the economy in the midst of the COVID-19 pandemic. Given this trend, it may be time to begin thinking about the possibility of holding conventional briefings at a physical venue. However, we chose once again to hold this briefing in the form of a teleconference out of consideration for the ongoing need to prevent the spread of COVID-19.

I would like to ask for your understanding with this regard.

■ **Financial Result of 2nd Quarter of FY2020 (slide1)**

I first want to begin by explaining our results of operations for the six-month period ended September 30, 2020. As shown on this slide, our performance in the period under review was as follows:

- Net sales: ¥189.7 billion (up 1.3% year on year)
- Operating profit: ¥21.2 billion (up 4.0% year on year)
- Operating profit margin: 11.2%

In the period under review, we were able to overcome the challenges of performing sales activities during the pandemic and absorb the increased costs associated with the new human resource systems launched in July 2020 to achieve increases in both net sales and operating profit.

First, as of the end of the first quarter, order backlog was higher than in the previous equivalent period, and there was a palpable increase in opportunities to interact with customers in June 2020 following the cancellation of Japan's state of emergency declaration in late May 2020. We also witnessed a smooth recovery in market conditions during the second quarter.

After the cancellation of the state of emergency declaration, customers gradually began executing their IT budgets, leading to an upswing in inquiries received by SCSK. Nevertheless, the COVID-19 pandemic is by no means over. As such, the difficulty of overcoming the hurdles of carrying out internal communication through remote avenues was also felt by customers. This resulted in delays in the decision-making process of customers, meaning that more time was required to move to the order placement and contracting phases of negotiations.

The levels of net sales and operating profit in the three-month period ended September 30, 2020, may seem lackluster as a result of these circumstances. If you look at our gross profit margin,

however, you will see that we maintained noteworthy levels of productivity and profitability despite the adversity we faced.

To reiterate, we have judged that our ability to achieve increases in net sales and operating profit in the six-month period ended September 30, 2020, despite the difficult conditions created by the COVID-19 pandemic, exceeded the initial plan.

Senior Executive Officer Yasuhiko Oka will discuss our financial results in more detail later on. In the meantime, I would like to talk about the background for those results and how SCSK was impacted by the COVID-19 pandemic.

Let us move on to the next slide.

■ Impacts of the COVID-19 Pandemic (slide2)

The COVID-19 pandemic caused economic activities to stagnate rapidly. After the cancellation of Japan's state of emergency declaration, however, there has been a call to change course to stimulate economic activity while taking steps to prevent the spread of the virus.

Still, it goes without saying that we will need to continue our business activities based on the assumption that a return to the state of normalcy before the pandemic will not be seen for quite some time. As indicated on this slide, the external environment has been characterized by a sense of disparity between companies as companies proactive in developing new businesses based around digital transformations and companies that are proving resilient to the pandemic maintain their IT investment appetites.

The internal conditions projected in the first quarter are changing as shown on this slide. Overall, we believe that we will see recovery in investment appetites and demand amid the new normal along with the emergence of new demand for shifting toward remote operations and strengthening customer contact points.

Conditions remain opaque, and this situation has made painfully clear the need to become more knowledgeable about our customers and to be more proactive in our efforts to propose solutions based on the value improvements they pursue.

This slide lists three initiatives SCSK will be implementing to address this need. I hope you will take the time to look them over later.

I would now like to move on to the next slide.

■ Consolidated Financial Forecasts for the FY2020 (slide3)

Given this backdrop, we have chosen not to revise our full-year forecasts for the fiscal year ending March 31, 2021, which stand at net sales of ¥380.0 billion and operating profit of ¥41.0 billion. However, let me say that we have been able to accelerate the speed at which we are transforming negotiations into full-fledged projects since September 2020 as there has been an increase in opportunities to interact with customers in a face-to-face manner.

As we seek to gain a better understanding of the new normal that will emerge in the midst of the COVID-19 pandemic, we will continue to march forward toward the accomplishment of the targets of the medium-term management plan throughout the remainder of this, the first year of the plan, committed to accomplishing results that exceed these forecasts.

■ **Medium-Term Management Plan - Core Strategies – (FY2020 to FY2022) (slide4)**
Systems Development

Moving on from our short-term outlook, let us turn to the next slide.

Today, I want to explain the initiatives that will be implemented going forward under SCSK's three-year medium-term management plan. Before that, however, I would like to talk a little about Grand Design 2030, the vision on which this plan was founded.

We have 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.

Grand Design 2030 illustrates our vision of becoming a co-creative IT company in 2030 and achieving net sales of ¥1 trillion. 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.

The core strategies of the medium-term management plan are core business innovation, the commercialization of DX (digital transformations), and investment in people, which will be crucial to advancing the two other strategies.

The core strategy of core business innovation can be broken down into *Monozukuri* innovation initiatives and subdivision innovation initiatives. *Monozukuri* innovation initiatives include internal use of the S-Cred+ (Smart Co-work on Relationship, Engineering and Design Plus) shared *Monozukuri* innovation platform. This initiative was kicked off in April 2020. This platform will be systematically applied to all projects for which it can be used to facilitate advancement. Only around six months have passed since we began employing this platform, but we have already been seeing steady increases in the number of projects using this platform.

This platform is not yet finished, and we intend to continue to evolve it going forward. We therefore anticipate that its scope of applicability will become even wider going forward.

As for subdivision innovation initiatives, we are in the process of conducting surveys for the purpose of gaining an understanding of the conditions at subdivisions and drafting strategies based on the characteristics of individual subdivisions. The staff size of subdivisions, for example, can range from a few people to more than 100 people, and their level of involvement in customer processes can vary. We are therefore breaking down our strategies to advance initiatives matched to each subdivision.

Moving on to the core strategy of commercialization of digital transformations, accomplishing our goals of becoming a co-creative IT company in 2030 and achieving net sales of ¥1 trillion, will require that we grow existing core businesses while also developing new digital transformation businesses. For digital transformation businesses, we have currently defined four priority fields in which SCSK specializes, having amassed significant expertise, and in which there is potential for

new markets to be created by coordinating our solutions with those of companies engaged in co-creation and by combining our services.

During the past six months, business divisions have launched initiatives based on 50 co-creation themes, despite the impacts of the COVID-19 pandemic. Ongoing discussions are being advanced with regard to the potential for expanding projects founded on these themes and commercializing them, through means such as investment, as well as the inherent risks. The management team is taking part in these discussions as we seek to narrow down the scope of our efforts.

In regard to the core strategy of investments in people, SCSK has transitioned to new human resource systems, launching new compensation systems in July 2020. These changes may not immediately transform our operations. Nevertheless, we felt that the change was necessary to facilitate our efforts to draw out employee potential by assigning capable employees to important positions, regardless of their age or number of years of service, and compensating them accordingly. In addition, we aim to cultivate service managers and highly skilled engineers and position them in subdivisions. Service managers will be tasked with developing deeper understandings of customer strategies and needs whereas highly skilled engineers will be responsible for swiftly delivering services that ideally address business changes.

Furthermore, we look to provide a variety of opportunities for our professional human resources to proactively create new value. These efforts will include expanding our prior IT Skill Level Assessment as well as instituting career development programs for junior employees and training programs for managers on how to guide their organizations. We thereby hope to make SCSK into a place where employees can continue to grow and contribute as they utilize their diversity and specialties.

By steadily advancing these initiatives, we will work to accomplish our targets of net sales of ¥500.0 billion, an operating profit margin of between 10% and 12%, and return on equity of 15% or more for the fiscal year ending March 31, 2023, three years from now.

When including the sales increases associated with the consolidation of Minori Solutions Co., Ltd., the SCSK Group has grown into a conglomerate with sales of around ¥400.0 billion. Accomplishing the aforementioned targets will be no easy task, but I am confident that we can succeed if we continue to evolve and expand our core businesses, develop new business through co-creation, and conduct proactive investments over the three-year period of the medium-term management plan.

With this, I conclude my portion of today's presentation. I hope we can look forward to your ongoing support.

Thank you for your attention.