Transcript of results briefing

Consolidated Financial Results for 3rd Quarter of 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.

I would like to thank you all for taking time out of your busy schedules to join us today, despite us being in the middle of the COVID-19 pandemic, for this teleconference, during which we will be discussing SCSK's financial results.

■ Contents (slide1)

The agenda for today's presentation can be seen in the contents section on slide 1. I will be discussing the SCSK's consolidated financial results in the nine-month period ended December 31, 2020.

■ Summary of Financial Results from Apr. to Dec. 2020（PL/Incoming Orders/Backlog）(slide2)

Please look at slide 2, which displays consolidated performance highlights for the nine-month period ended December 31, 2020.

In the period under review, net sales were ¥290.8 billion, up 3.5% year on year. Operating profit was ¥33.9 billion, up 7.8%. The operating profit margin was 11.7%, up 0.5 percentage points. Profit attributable to owners of parent was ¥23.7 billion, up 7.2%.

Furthermore, in the nine-month period ended December 31, 2020, Minori Solutions Co., Ltd., which was converted to a consolidated subsidiary in December 2019, contributed ¥11.3 billion to net sales, ¥0.7 billion to operating profit, and ¥9.6 billion to incoming orders.

The factors I will be discussing hereon will focus on earnings that are not associated with Minori Solutions.

Net sales rose ¥9.9 billion, or 3.5% year on year. Similar to the six-month period ended September 30, 2020, higher Systems Development and System Maintenance and Operation/ Service compensated for the decline in Packaged Software/ Hardware Sales. Although some companies are struggling, which is true regardless of industry, we were able to achieve this increase by incorporating IT investment demand from certain clients.

Gross profit increased thanks to higher sales, lower unprofitable projects, and the profit-boosting effect of recording a provision for performance bonuses on March 31, 2020, and the gross profit margin was 25.9% accordingly.

Selling, general and administrative (SG&A) expenses rose ¥1.4 billion. Factors behind this increase in expenses included a rise in personnel expenses following the influx of new graduate and mid-career hires and the introduction of new human resource systems. These higher expenses

outweighed the reductions in expenses stemming from the recording of a provision for performance bonuses on March 31, 2020, and the lower incidental expenses that can be attributed to the COVID-19 pandemic.

These factors resulted in a year-on-year increase of 7.8%, or approximately ¥2.5 billion, in operating profit, to ¥33.9 billion.

Incoming orders rose 5.6% year on year, to ¥280.0 billion, and order backlog grew 8.6%, to ¥136.3 billion. Increases in these two items were seen in all sales segments.

Moreover, given that the order backlog on December 31, 2019, included the backlog of Minori Solutions, as it was consolidated in December 2019, the year-on-year increase in order backlog seen on December 31, 2020, has not been artificially inflated by the acquisition.

■ Summary of Financial Results from Oct. to Dec. 2020（PL/Incoming Orders/Backlog）(slide3)

Moving on to slide 3, this slide provides an overview of performance in the third quarter of the fiscal year ending March 31, 2021.

Net sales were ¥101.1 billion, up 8.0% year on year. Operating profit was ¥12.7 billion, up 14.8%. The operating profit margin was 12.6%, an increase of 0.8 percentage points. These large increases in sales and profit mark a notable improvement from the second quarter, when both sales and profit were down.

Net sales were up in three sales segments in the third quarter, specifically the Systems Development segment and the System Maintenance and Operation/ Services segment as well as the Packaged Software/ Hardware Sales segment, which I will be discussing in a little more detail when we look at segment performance.

Third-quarter operating profit showed a massive year-on-year increase of ¥1.6 billion, up 14.8%, primarily as a result of the higher sales, which compensated for the increase in SG&A expenses.

There was also a substantial increase in incoming orders during the third quarter. Factors behind this increase included trends in Systems Development and System Maintenance and Operation/ Services which have been recovering since the second quarter, and the recording of approximately ¥9.0 billion worth batch orders for network equipment from the communications industry in Packaged Software/ Hardware Sales.

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

Systems Development

Moving on, slides 4, 5, and 6 detail performance by sales segment.

Looking first at the Systems Development segment, the graph on this slide shows nine-month and third-quarter performance in net sales and incoming orders, with the numbers on the top of each row representing nine-month performance and the numbers on the bottom showing third-quarter performance.

Nine-month net sales in the Systems Development segment rose 4.3%, to ¥119.8 billion, despite the decline in sales to the banking and securities industries. This increase was achieved thanks to IT

investment demand for next-generation systems development from food product manufacturers and for customer contact point strengthening from communications industry customers as well as demand for strategic business investment by automobile manufacturers.

Incoming orders were up 6.5% year on year, to ¥119.4 billion, in the nine-month period ended December 31, 2020. Although we felt the impacts of the rebound from previously recorded large-scale orders from the life insurance, securities, and utilities industries, an overall increase in orders was achieved by capitalizing on IT investment demand for customer contact point strengthening from communications industry customers and by concluding contracts with regard to next-generation systems development projects for food product manufacturers and to subsequent phases of core systems redevelopment projects that were previously underway for the distribution industry.

Nine-month order backlog rose 3.4% year on year, to ¥35.9 billion. The impacts of the rebound from previously recorded orders from the securities industry also affected order backlog, but the overall backlog grew due to the rise in core systems redevelopment project orders from the distribution industry and next-generation systems development orders from food product manufacturers and from the banking industry.

The strong performance seen in the six-month period ended September 30, 2020, continued on into the third quarter, with net sales rising 7.2% year on year, to ¥41.3 billion, and incoming orders up 11.9%, to ¥39.1 billion, in the third quarter.

■ Comparison by Sales Segment（Sales/Incoming Orders/Backlog）(slide5)
System Maintenance and Operation/ Services

Next, we will look at the System Maintenance and Operation/ Services segment.

Net sales in this segment rose 6.3% year on year, to ¥112.8 billion, as the strong performance in management service businesses catering to the manufacturing industry and the financial industry as well as in business processing outsourcing (BPO) service businesses which led by the demand increase of contact centers seen during the six-month period ended September 30, 2020, continued into the third quarter.

Incoming orders were up 8.1% year on year, to ¥96.3 billion, because of higher orders in management service for the distribution industry and data center businesses as well as increased BPO service orders stemming from rises in demand in contact center businesses, and e-commerce related business which offset a decrease in verification service orders from the manufacturing industry.

Order backlog benefited from the same trends as incoming orders, rising 7.0%, to ¥76.5 billion.

■ Comparison by Sales Segment（Sales/Incoming Orders/Backlog）(slide6)
Packaged Software/ Hardware Sales

We will look next at the Packaged Software/ Hardware Sales segment on slide 6.

In the six-month period ended September 30, 2020, year-on-year decreases were seen in net sales, incoming orders, and order backlog in the Packaged Software/ Hardware Sales segment. These decreases were a result of lost sales opportunities attributable to delays in the development of next-generation models of network equipment for the communications industry as well as reduced demand for hardware products. In the third-quarter, however, increases were seen in these items as shown on

this slide.

Nine-month net sales decreased 2.9%, to ¥58.1 billion. This decrease was smaller than the decrease in the six-month period ended September 30, 2020, because of higher sales of network security products and of third-quarter deliveries of hardware products for academic research institutions for which orders were received in the previous fiscal year.

Order backlog rose by ¥0.4 billion in the nine-month period under review thanks to the demand for network security products that also buoyed net sales as well as to the batch orders for network equipment received from the communications industry in the third quarter.

Nine-month order backlog was up 23.9%, to ¥23.8 billion, due to the factors I just mentioned with regard to net sales and incoming orders.

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

■ Sales Comparison by Customer Industry (slide7)

We will next look at sales by customer industry. Today, I will be discussing all customer industries except for the utilities industry, where sales were unchanged year on year.

Sales to the manufacturing industry rose ¥4.9 billion year on year. This increase can be attributed to the demand for next-generation systems development from food product manufacturers, systems upgrade demand from electrical machinery manufacturers, and IT investment demand from precision equipment manufacturers. In the manufacturing industry, sales to automobile manufacturers were in line with the previous equivalent period as the higher Systems Development sales fueled by consistent strategic IT investment demand were counterbalanced by declines in Packaged Software/ Hardware Sales, particularly for computer-aided engineering servers and storage.

Sales to the distribution industry were up ¥2.4 billion as Packaged Software/ Hardware Sales grew due to higher demand for network security products and orders increased for core system redevelopment projects.

Sales to financial institutions rose ¥2.3 billion as a result of increases in System Maintenance and Operation/ Services sales following demand for managed services as well as higher sales of licenses and other articles accompanying the development of systems for the banking industry.

As for the communications and transportation industries, Systems Development sales to the communications industry increased ¥1.1 billion as a result of demand for IT investment for strengthening customer contact points. However, overall sales to this industry were down ¥4.0 billion due to the aforementioned rebound from network equipment sales to communication industry customers recorded in the previous equivalent period.

Sales to the service industry and other customers were up ¥4.3 billion due to large-scale hardware sales to academic research institutions and increased sales in data center and e-commerce-related businesses.

■ Business Performance by Reportable Segment (slide8)

Next, I would now like to discuss performance by reportable segment.

Today, I will be focusing specifically on the Industrial IT Business segment, the IT Platform Solutions segment, and the IT Management Service segment.

In the Industrial IT Business segment, although verification services for the manufacturing industry decreased, sales increased following a rise in systems development projects for the communications, automotive, and food product industries. In addition, massive contributions were made to profit improvements as we were able to limit the occurrence of unprofitable projects, such as those that impacted performance in the previous equivalent period.

In the IT Platform Solutions segment, gross profit was secured through a more favorable sales mix that stemmed from higher sales of network products to communication industry customers, a factor that counteracted the decline in sales primarily resulted from delays in the development of next-generation models of network equipment for the communications industry. Other factors buoying profit included higher sales of network security equipment and product maintenance revenues.

Meanwhile, sales were up in the IT Management Service segment due to strong performance in managed services for the manufacturing and financial industries. However, profit was down, despite boosts from the higher sales, due to an increase in depreciation costs that accompanied the bolstering of data center facilities.

The Others segment saw massive year-on-year increases in sales and profit because the performance of newly consolidated Minori Solutions is included in this segment.

■ Operating Profit Analysis (slide9)

Looking now at slide 9, I would like to offer an explanation of the factors that influenced operating profit.

The rise in net sales boosted operating profit by ¥2.5 billion while the improved gross profit margin, which incorporated a ¥0.7 billion reduction in losses from unprofitable projects, raised operating profit by ¥1.3 billion.

At the same time, an increase of approximately ¥1.4 billion in SG&A expenses, specifically through the reduction in incidental expenses that occurred in the midst of the COVID-19 pandemic. Personnel expenses, meanwhile, rose ¥0.8 billion, as the influx of new staff members and the introduction of new human resource systems expanded expenses to an extent that outweighed the decrease in performance bonus payments resulted from the recording of provisions on March 31, 2020. In addition, the consolidation of Minori Solutions heightened expenses.

The combined impact of these factors was a year-on-year increase of approximately ¥2.5 billion in operating profit, which came to ¥33.9 billion, and a rise in the operating profit margin from 11.2% to 11.7%.

■ Impacts of COVID-19 Pandemic (slide10)

I would next like to talk about the impacts of the COVID-19 pandemic.

The pandemic is resulting in constantly weak investment demand among certain customers. Regardless, we continue to see demand pertaining to remote working and digitalization stimulated by pandemic as well as demand for digital transformation investments. In this manner, signs of recovery in investment trends were witnessed in the third quarter of the fiscal year. Furthermore, we had more

opportunities to interact with customers in a face-to-face manner during the third quarter, driving steady progress in negotiations, a positive development as a significant amount of time was previously required for clients to move onto the decision-making and budget execution phases of negotiations.

However, this optimistic atmosphere was cut short by a third wave of COVID-19 cases, which prompted certain municipalities in Japan to reinstitute state of emergency declarations. The operating environment thus requires ongoing vigilance, and the outlook for investment trends remains opaque.

SCSK will continue the measures for combatting the COVID-19 pandemic that it has engaged in thus far as it takes a flexible approach to the new normal emerging in the midst of the pandemic while reforming working styles with an emphasis on productivity.

■ Revising Consolidated Financial Forecasts and Interim Dividends (slide11)

The last topic I would like to touch on with regard to performance is the upward revision to our full-year performance forecasts and the hike to dividend payments.

At the start of the fiscal year ending March 31, 2021, it was difficult to predict future IT investment trends given the influences of the COVID-19 pandemic. We thus chose to release a forecast projecting lower sales. This forecast incorporated the projected decline in demand for network equipment and large-scale hardware for the communications industry into the assumption that performance would be in line with the previous fiscal year in all areas.

However, we have since seen signs of improvements in operating conditions, such as IT investment demand oriented toward the entrenchment of remote working and other non-face-to-face, contact-free practices as well as digital transformations.

The operating environment currently remains opaque as a state of emergency declarations have been put in place across Japan in response to rises in COVID-19 case numbers. Regardless, we now project that net sales and all profit items will surpass our initial forecasts, a judgment made based on consolidated performance in the third quarter of the fiscal year and current order trends. The previous performance forecasts, which were announced on April 28, 2020, are displayed on this slide. The revised forecasts project net sales of ¥400.0 billion, ¥20.0 billion higher than previously forecast; operating profit of ¥45.0 billion, ¥4.0 billion higher; and profit attributable to owners of parent of ¥31.5 billion, ¥2.5 billion higher.

In addition, the forecast for year-end dividends was raised by ¥5 per share, which will make for a full-year dividend of ¥135 per share.

■ Core Strategies：Core Business Innovation (slide12)

I would now like to move on to discuss our progress with regard to the core strategies of the medium-term management plan, namely core business innovation and commercialization of DX.

As shown on this slide, the strategy of core business innovation is comprised of two components: *Monozukuri* innovation and subdivision innovation.

Monozukuri innovation includes thorough increases to productivity and quality in the system of record field. We are also practicing the effective utilization of our S-Cred+ (Smart Co-work on Relationship, Engineering and Design Plus) *Monozukuri* innovation platform for the purpose of

contributing to the value creation efforts of customers through a shared platform for the system of engagement field. As for subdivision innovation, we seek to transform bases with full-time staff positioned on customer premises into sites for co-creation with customers.

■ Core Strategies : Core Business Innovation/ Monozukuri Innovation (slide13)

S-Cred+ platform, combines low-code no-code development with packages and services to perform systems development, operation, and maintenance procedures for customers. This platform is thus built on a foundation of IaaS, PaaS, and operation managed services and is able to provide low-code no-code development as well as enterprise resource planning and other package services. Systems developed from scratch can also be run on this platform. Moreover, S-Cred+ can provide these functions in combinations that best match the ideal distribution of human resources and the requirements of specific projects.

SCSK is pursuing overall optimization through the utilization of low-code no-code development, automation, standardization, and intellectual properties.

Today, I would like to talk a little about low-code no-code development, specifically SCSK's approach toward low-code development.

■ Core Strategies : Core Business Innovation/ Monozukuri Innovation (slide14)

Please look at slide 14. This diagram shows a standard development process. The common waterfall development process entails large increases in the required numbers of staff members and processes during the implementation phase. Low-code development, meanwhile, generally uses a framework in which design information is input into platforms during the design phase, and systems are generated automatically from the stored design information. This process allows engineers to skip various implementation and standalone testing steps.

The benefits of SCSK's approach toward low-code no-code development are not limited to the implementation phase; these benefits also extend to prototyping. By utilizing low-code development tools in prototyping, it is possible to take advantage of the characteristics of this development approach, namely that systems can immediately be used after design, to present condition requirement definitions to clients in a clear and understandable form.

SCSK's approach toward low-code no-code development not only shortens implementation phase processes, it also allows for more time to be devoted to the requirement definition process. This makes it possible for customers to more carefully confirm requirements, preventing instances of conditions needing to be reworked while simultaneously improving system quality.

Through this approach, we believe that it will be possible to more swiftly supply clients with higher-quality services, thereby improving development productivity and quality while reducing development risks for SCSK. We are currently proposing project conditions prefaced on the use of the S-Cred+ platform, and several orders have already been received with this regard.

■ Core Strategies : Core Business Innovation – Subdivision Innovations (slide15)

Please turn now to slide 15, where we will look at subdivision innovation initiatives.

For subdivision innovation, we are advancing three strategies:

1. Strengthening of client contact points by positioning service managers and highly skilled

engineers in subdivisions to cater to the strategic and other needs of clients
2. Innovation of work styles through a decentralization and optimization approach that entails promoting remote working and other approaches
3. Introduction of *Monozukuri* innovations into subdivisions to pursue standardization and optimization through the use of SCSK intellectual properties like S-Cred+ and SE+

Through these strategies, we will transition our subdivision business, through which we have forged trusting relationships with clients over the long terms via closely positioned staff, from a full-time IT support organization model that respond to clients' system needs to a value-co-creating organization model underpinning clients' business and IT strategies.

I would now like to report on the progress of the subdivision surveys and key performance indicator definition activities advanced as part of subdivision innovation initiatives.

■ Core Strategies : Core Business Innovation – Subdivision Innovations (slide16)

Please look at the next slide.

Surveys have been conducted of subdivisions, which are incredibly varied in terms of scale, industry, relationship with clients, and contract conditions. Based on the results of these surveys, we set numerical indicators from each of the five perspectives detailed on this slide.

For example, the numbers of new proposals and value co-creation projects undertaken with clients have been defined as indicators from the perspective of the co-creation of client value; improvements in remote working rates, nearshore and offshore utilization rates, and process standardization and automation rates have been defined as indicators from the perspective of improvement of productivity; and the numbers of employees holding internal service manager qualifications and of service managers positioned to subdivisions have been defined as indicators from the perspective of human resources development.

By tracking the progress of initiatives with regard to these items and evaluating improvements, SCSK is taking steps to provide services that address client needs and issues while creating new value and thereby improving the productivity and profitability of its subdivision business.

■ Core Strategies : Commercialization of DX (slide17)

I would now like to talk about our efforts in the four priority fields for the commercialization of DX strategy.

Under the commercialization of DX strategy, we will become the main proponents behind businesses in order to develop operations and provide services that create new social and economic value through various different forms of co-creation. We have defined four priority fields with particularly high social impact to be the targets of these efforts, and we are moving forward with the development of businesses in these fields, which I will now be explaining.

■ Core Strategies : Commercialization of DX - Priority Fields (slide18)

In the mobility field, SCSK provides a telematics non-life insurance system that uses telematics technologies to respond to accidents. In our efforts to entrench telematics into society, we have developed an accident detection algorithm powered by a proprietary SCSK artificial intelligence. We look forward to expanding the scope of telematics data utilization in the future through means such as bolstering our service lineup, converting our expertise into intellectual properties, and extending our

operations into overseas areas.

In the financial service platform field, SCSK has concluded a business alliance with Japan Asset Management Platform Group Co., Ltd., regarding the provision of system solutions for financial instrument brokers. Through this partnership, we plan to launch services for developing system solution platforms for financial instrument and service brokers.

In the healthcare field, issues faced include the need to alleviate disparities in the quality of healthcare and to lower healthcare costs through appropriate dosing. In addressing these issues, SCSK utilizes a wide range of solutions (MR2GO, DR2GO, CHOIS, Pharmacy-Scope, etc.) to supply services that contribute to the enhancement and improved efficiency of healthcare as well as to preventative medicine and health management.

For example, we have been offering Pharmacy-Scope for pharmaceutical manufacturers. This service swiftly supplies information on pharmaceutical distribution and prescriptions. The service thus addresses the issue of pharmaceutical manufacturers failing to maintain an up-to-date understanding of distribution circumstances as medical representatives are unable to fully fulfill their function due to the rapid pace of change in the healthcare field along with the impacts of the COVID-19 pandemic. In this manner, Pharmacy-Scope helps ensure pharmacies are sufficiently stocked while providing up-to-the-minute information, thereby making it possible to test marketing hypotheses with a great deal of accuracy.

As for the customer experience field, the change in the focus of purchasing activities from brick-and-mortar stores to e-commerce is transforming the nature of customer contact points as well as the operating environment and creating a situation in which companies are pressed to undertake digital shifts in response to environmental changes.

The market is currently inhabited by service providers specializing in areas such as digital advertisement, digital customer relations, and e-commerce sales. However, a number of companies are facing challenges stemming from the wide variety of issues needing to be examined, including the need to develop effective and consistent strategies and approaches and to establish frameworks and implementation systems.

Consolidating its services and expertise, the SCSK Group partnered with prominent external companies to respond to these market issues through the launch of altcircle, a new service that integrates various high-value-added solutions.

■ FY2021 Structural Reforms (slide19)

Lastly, looking at slide 19, I will now explain the structural reforms that were announced today.

The advent of the digital society is plunging SCSK’s operating environment into a stage necessitating structural changes that sweep across the IT services industry, and this trend is only going to accelerate in the midst of the COVID-19 pandemic.

Recognizing that responding to this trend requires a medium- to long-term strategy for undertaking the drastic transformation needed to adapt to this environment, the SCSK Group launched a new medium-term management plan in April 2020.

The new structural reforms are designed to accelerate the initiatives of the medium-term management plan established against this backdrop by facilitating the level of management speed

required of the digital society and achieving a business organization that is conducive to more dynamic strategies.

Under the reformed structure, we will inject into new businesses (growth fields) the unrivaled profitability and area-focused strengths built in existing businesses as well as the funds, intellectual properties, and IT personnel fostered for the purpose of pursuing growth through the Group's collective strengths. We also look to play a self-driven roll in addressing social issues through new businesses in order to co-create new business value.

We thus chose to consolidate and integrate the current business groups to reorganize our business group structure. As part of this reorganization, business groups that are responsible for core SCSK Group businesses will be deemed "CORE Business Groups," while business groups developing next-generation core businesses will be defined as "Next-CORE Business Groups."

Furthermore, we established the Global Digital Solution and Innovation Business Group as a Next-CORE Business Group focused on and specializing in the creation of new businesses in order to accelerate the commercialization of DX strategy and to construct a business model that differs from our conventional business model.

With this, I conclude this brief overview of the structural reforms to be instituted in the fiscal year ending March 31, 2022.

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

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