

Transcript of results briefing
Results of Operations for Fiscal Year Ended March 2021

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■ **Introduction**

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

First of all, let me apologize for the trouble and concern caused for our stakeholders by the acts of misconduct carried out by a former SCSK employee. As a company to which clients entrust their systems development, maintenance, and operation procedures, we are fully aware of the severity of this issue.

I have continued to advocate the importance of compliance through employee and officer training and education programs based on the belief that compliance should be a top priority and that basic morale judgement should be placed as a higher priority than technical skills. These acts of misconduct by a former employee have fundamentally undermined the trust we have worked so hard to earn from our clients and other stakeholders. As SCSK's leader, I am greatly saddened by my inability to prevent this internal misconduct.

To ensure that such issues do not occur in the future, we will, of course, continue to enhance our information security measures. At the same time, we will reinforce and entrench our safety management measures from a variety of angles in a concerted effort to recover lost trust. These measures will include effective job rotation programs for the purpose of ensuring sound organizational control and the redevelopment of the compliance and information security training programs implemented for all employees, etc.

■ **Sustainability Management as SCSK Growth Strategy (slide 1)**

Moving on, I would like to talk about SCSK's operating environment.

The world is currently changing at a pace never before seen. Looking at this increasingly rapid change, I am confident that business and digital transformations driven by IT will bring about new value. Accordingly, SCSK will come to be expected to fulfill an even wider range of ever more important roles. This situation reaffirms the importance of creating new value by boldly taking risks and swiftly engaging in co-creation with clients and with society.

Effectively managing a company in this time of great change and uncertainty will require a capacity to generate earnings while paying sufficient consideration to environmental, social, and governance (ESG) factors. In other words, companies will need to undergo sustainable transformations. As an IT services provider, SCSK aims to continue to be a company deemed necessary by society through the process of generating synergies between business earnings, ESG factors, and IT. In other words, we will produce economic value while at the same time using IT to create the new value needed by society. This is what we mean by "sustainability management as a growth strategy."

On this front, we have set medium- to long-term greenhouse gas reduction targets and applied to receive certification for these targets from Science Based Targets. SCSK has also declared its

endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

You can find details on these targets and our endorsement of the TCFD's recommendations in the news release issued today.

Data center operation is another important area for efforts to combat climate change. At SCSK data centers, we are working to cut greenhouse gas emissions by introducing energy-efficient equipment and utilizing natural energy to reduce electricity consumption.

We have also developed a green finance framework to support sustainability initiatives in our business from a financial perspective. A second opinion has been received from a third-party institution verifying the appropriateness of this framework.

We will now take a look at the next slide.

■ **Medium-Term Management Plan Core Strategies (FY2020-FY2022) (slide 2 to 3)**

SCSK continues to embrace the corporate philosophy it has held since its birth through the merger, and we have defined material issues to guide the exercise of this philosophy. Based on this philosophy and these issues, we put forth Grand Design 2030, our vision for SCSK in 2030, which includes the target of achieving ¥1 trillion in net sales for the Group, and launched a new Medium-Term Management Plan in April 2020.

In such an environment, the unprecedented world, with the COVID-19 pandemic, we will run into a limit to our growth if we merely continue to develop operations as we always have.

We recognize the danger that this situation represents. To address this danger and speed us along the path toward achieving net sales of ¥1 trillion in 2030, we have positioned the Commercialization of DX as a future growth driver and defined Core Business Innovation as a strategy for supporting this growth driver. The opportunities and hints for developing new businesses can be found in existing core businesses. Innovations in core businesses are also imperative to the stable operation of new businesses created through digital transformations. This relationship makes it important to advance the Commercialization of DX side-by-side with Core Business Innovations.

This approach will require that we transform our corporate culture in manner that drives employees to change how they act, specifically moving away from merely performing the tasks entrusted to them to actively create new value. Investments in our people will be carried out to promote this change in employee action by encouraging independence and autonomy. At the same time, we will develop workplace environments that allow such employees to deliver superior performance.

Our "S-Cred+ (Smart Co-work on Relationship, Engineering and Design Plus) Platform" will be utilized in the advancement of Core Business Innovations in order to facilitate the transition to microservices, container technologies, agile development, and DevOps; to shift toward cloud-based methodologies for these purposes; and to improve the quality of SCSK's offerings.

One element of this approach will be the preparative side that involves employing low-code no-code development, shared components, automation, and standardization to heighten quality and productivity. Another element will be the reactive side that entails adapting swiftly and flexibly to changes in clients' businesses by embracing advanced technologies and new development

methodologies. We have already made more than 150 proposals based on this approach, and orders have been received in relation to over 50 of these.

SCSK will also promote “Subdivision” innovations targeting the subdivisions through which we have built long-lasting, trust-based relationships with clients. These innovations will evolve our subdivision business to transform subdivisions from full-time IT support organizations to value-co-creating organizations underpinning clients’ businesses and IT strategies. An internal qualification system “IT Skill Level Assessment” has been instituted to foster the human resources needed to expedite these innovations. Having defined employees who are proficient at developing understandings of clients’ strategies and needs as service managers, we have designed this system to improve the specialized capabilities we have cultivated in employees thus far and to track their operation and technical skills.

By positioning these service managers at client bases, we aim to develop new businesses and enhance coordination with clients. At the same time, we look to transition to remote operation in existing systems development, maintenance, and operation services. Accordingly, we will help invigorate rural economies by creating employment opportunities, encouraging employees to relocate to rural regions, and fostering IT staff as we promote nearshore development. SCSK currently has around 730 employees working at nearshore development bases, and we aim to quickly raise this number to 1,000.

We will now look at SCSK’s initiatives for “Commercialization of DX”; please turn to the next slide.

In addition to the four priority fields shown on this slide, business divisions have defined 50 concrete co-creation themes, and initiatives are being advanced based on these themes.

Looking first at the mobility field, we are developing an automotive accident detection service powered by the SCSK Neural Network toolkit, called SNN, one of the Company’s artificial intelligence solutions. This service is primarily being supplied to non-life insurance companies. However, we are also looking to deploy this service in markets pertaining to the entirety of the automobile lifecycle. For example, we believe that the vehicle operation data collected from drive recorders and other automotive devices can be utilized together with this service to supply accident detection, driving support services, fleet maintenance etc based on shared connected platforms to automobile fleet leasers, sales, maintenance, and other businesses that use vehicles as well as to insurance companies.

The second field to which we are turning our attention is the financial service platform field. This field offers viable answers for addressing wealth management advisory service demand. Such demand is growing as people examine individual wealth management services from a variety of angles underscored by concerns regarding the need for post-retirement savings and the uncertainty surrounding the future of the COVID-19 pandemic.

In this field, SCSK is preparing to launch a Japanese turnkey asset management program (TAMP) platform in June 2021. This platform will offer a no-hassle option for helping independent financial advisors, known as IFAs, to provide financial institutions with product information, simulation results, and other information to their individual customers.

SCSK looks to deliver new financial services oriented toward individual customers that are founded on the industry insight we have accumulated through years of experience and that feature efficiency backed by our neutral position of not belonging to any financial group.

The third priority field is the healthcare field. Here, we have retooled our MR2GO mobile cloud-based sales support service for pharmaceutical company medial representatives, an existing SCSK-proprietary service, to create the new DR2GO service for healthcare professionals. In addition, we began supplying the Pharmacy-Scope pharmaceutical distribution and prescription information supply service in September 2020.

This solution will be the backbone to more sophisticated healthcare services while enhancing services for healthcare professionals and subsequently patients and individuals.

Specifically, the solution will be utilized to collect and analyze healthcare service data to help pharmaceutical manufacturers, medical device manufacturers, and pharmaceutical wholesalers increase the efficiency of their marketing activities.

The fourth and final field is the customer experience field. Online use and digitization are advancing in remote work following the the COVID-19 pandemic. Consumers' purchasing behavior is also rapidly spreading from physical stores to the use of e-commerce, and the ways in which customer contact can be strengthened are becoming more diverse.

SCSK will respond this trend by helping customers realize ideal, seamless customer experiences with a complete lineup of services for use in regard to customer attraction, customer service, sales activities, and other customer contact points. In these services, we will combine our expertise with data pertaining to both physical and digital venues to contribute to the enhancement of marketing and communication activities with an eye to global e-commerce. We are currently working toward the full-fledged implementation of these services at multiple companies.

With this, I conclude my explanation of the Core Business Innovation and Commercialization of DX, core strategies of SCSK's Medium-Term Management Plan.

Please turn to the next slide.

■ Highlights of Consolidated Business Performance for the Fiscal Year Ended March 31, 2021 (slide 4)

Financial results in the fiscal year ended March 31, 2021, were as follows:

Net sales: ¥396.8 billion (up 3.0%)

Operating profit: ¥45.8 billion (up 14.6%)

Operating profit margin: 11.6% (up 1.2 percentage points)

Profit attributable to owners of parent: ¥33.4 billion (up 16.2%)

Both sales and profit were up in the fiscal year ended March 31, 2021, despite our business being impacted by the COVID-19 pandemic. In fact, we achieved our ninth consecutive year of net sales and operating profit growth since the merger, setting new records for these items.

As for dividend payments, we will act in accordance with the revised forecast announced in January 2021 by issuing a year-end dividend of ¥70 per share, which will make for an annual dividend payment of ¥135 per share and our ninth consecutive year of higher dividends.

Managing Executive Officer Yasuhiko Oka will offer a more detailed look at the Company's financial results later on. For now, I will be explaining how the COVID-19 pandemic impacted our performance.

Please turn to the next slide.

■ **Impacts of the COVID-19 Pandemic (slide 5)**

The initial state of emergency declaration issued in Japan created a situation that no one could have foreseen, forcing us to conduct our business activities under a variety of restrictions. Only engaging in face-to-face interactions when appropriate and employing online communication venues otherwise, we were able to resume our business and sales activities to a certain degree. As a result, we were relatively unaffected by subsequent state of emergency declaration issued in January 2021.

However, given the current progress in vaccinations and the state of emergency declarations, it is unlikely that we will be able to return to the business environment seen before the pandemic in the foreseeable future.

While there has been an overall increase in demand for IT investment accompanying the acceleration of digitization in anticipation of DX, uncertainty about the future also continues, and we believe that there are also aspects that make progress in the selection of IT investments necessary for transformation for clients, such as moves to in-house production with a view to reducing costs and postponing investments.

Let us turn to the next slide.

■ **Reorganizing the Structure to Accelerate Medium-Term Management Plan (slide 6)**

SCSK undertook an organizational restructuring in April 2021 to facilitate increased management speed and the implementation of more dynamic strategies.

This move was made to enable us to accelerate initiatives under SCSK's Medium-Term Management Plan while catering to client needs in the current environment.

The reorganizing has largely divided the SCSK Group into CORE Business Group and Next-CORE Business Group. CORE Business Groups will be responsible for core SCSK Group businesses. In these business groups, we will advance Core Business Innovations, comprised of *Monozukuri* innovations and Subdivision Innovations, focused on existing businesses in order to heighten competitiveness and subsequently earnings power.

Next-CORE Business Group will be charged with developing and commercializing next-generation core businesses. One of these business groups is "the Global Digital Solution and Innovation Business Group". This new organization is tasked with taking initiatives for Commercialization of DX from the preparation phase to the implementation phase. Businesses and personnel related to this undertaking have thus been assembled within this business group.

"The Global Digital Solution and Innovation Business Group" will also build growth foundations through the development of digital platforms and service centers in strategic business domains where we will pursue the Commercialization of DX, including the healthcare and customer experience fields. In this manner, this business group will seek to establish new businesses in which we can serve as the main proponent, steering businesses based on our own creative ideas.

Group companies have also been reorganized. This reorganization was aimed at enabling us to better exercise the Group's comprehensive strength and at growing customer bases in the relevant areas. Specially, we have identified medium-sized companies as a new target client group.

To Create diverse IT services businesses and step up initiatives targeting medium-sized companies with room to grow through an approach based on digitization and workstyle reforms, we will merge Minori Solutions Co., Ltd., WinTechnology Corporation, and CSI SOLUTIONS Corporation.

Minori Solutions is a company that develops systems on a contract basis while WinTechnology boasts product solutions development expertise and CSI SOLUTIONS specializes in product sales, development, and operation.

Furthermore, Minori Solutions' operations in Kyushu will be transferred to SCSK KYUSHU CORPORATION in a bid to make this company the No. 1 IT service provider in this region.

Under this new organizational structure, the fiscal year ending March 31, 2022, the second year of the Medium-Term Management Plan, will be positioned as a year for developing full-fledged services and businesses out of the initiatives implemented based on the core strategies of Core Business Innovation and Commercialization of DX in the fiscal year ended March 31, 2021. In this undertaking, we will make full use of SCSK's resources while also conducting investments in open innovation, mergers, acquisitions, and other growth opportunities. We will thereby seek to contribute to the growth of clients' businesses while at the same time creating new value. This is what we refer to when we speak of practicing sustainability management as a growth strategy.

We will now move on to the next slide.

■ Consolidated Financial Forecasts and Dividends Forecasts for the Fiscal Year Ending March 31, 2022 (slide 7)

In the fiscal year ending March 31, 2022, we expect that the uncertainty surrounding the COVID-19 pandemic will persist. Meanwhile, we anticipate an overarching trend of whole economic recovery supported by such trends as companies and society increasingly embracing digital technologies.

As this year will be the second year of the medium-term management plan, we will focus on heightening the performance of existing businesses through Core Business Innovations while conducting business investments for Commercialization of DX in order to create next-generation core businesses. We will also actively make the investments in people that will support these efforts. We thereby aim to steadily build growth foundations and to achieve our 10th consecutive year of higher net sales and operating profit.

Based on this outlook, our consolidated financial forecasts for the fiscal year ending March 31, 2022, are as follows:

Net sales: ¥420.0 billion (up 5.8%)

Operating profit: ¥48.0 billion (up 4.6%)

Operating profit margin: 11.4%

Profit attributable to owners of parent: ¥34.0 billion (up 1.7%)

In regard to dividends, SCSK plans to issue a total annual dividend of ¥140 per share in the fiscal year ending March 31, 2022, an increase of ¥5 per share that will make for our 10th consecutive year of higher dividend payments.

The next slide will be the last for my presentation.

■ **Medium-Term Management Plan (FY2020-FY2022) (slide 8)**

This slide offers a reminder of the management indicators employed in the medium-term management plan.

Over the three-year period of the medium-term management plan, we will advance the core strategies of the plan and reinforce our operating foundations to move us closer toward the accomplishment of our Grand Design 2030 vision. We thereby aim to achieve the plan's goals by maximizing organic growth and by ramping up efforts to capitalize on growth opportunities through mergers, acquisitions, and other avenues.

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