Transcript of results briefing
Consolidated Financial Results for 1st Quarter of Fiscal Year Ending March 2022

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■ Greeting

Greetings, my name is Yasuhiko Oka, and I am a Managing Executive Officer of SCSK Corporation.

■ Contents (slide 1)

The agenda for 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 three-month period ended June 30, 2021.

■ Summary of Financial Results from Apr. to Jun. 2021 (PL/ Incoming Orders/ Backlog) (slide 2)

Please look at slide 2, which displays consolidated performance highlights for the three-month period ended June 30, 2021.

In the period under review, net sales were ¥99.2 billion, up 5.1% year on year.
Operating profit was ¥10.8 billion, up 5.9%.
The operating profit margin was 11.0%, up 0.1 percentage points.
Profit attributable to owners of parent was ¥7.7 billion, up 6.1%.

The figures for net sales and operating profit represented record highs for a three-month period.

As stated, SCSK achieved a 5.1% year-on-year increase in net sales. In addition, sales were up in all sales segments. I will explain the reasons behind the increases in segment sales a little later.

Gross profit was increased 5.8%. Profit was impacted by the rise in personnel expenses associated with the introduction of new human resource systems. However, overall gross profit was up due to the higher net sales as well as to our ability to avoid the incurring of unprofitable projects and to improve quality and productivity. This was achieved by tracking project conditions and quickly identifying and rectifying issues through the use of the SE+ development process standard being applied on a Companywide level.

Selling, general and administrative (SG&A) expenses were up 5.6% year on year due to the rise in personnel expenses associated with the introduction of new human resource systems and increases in equipment-related expenses.

As a result of these factors, operating profit showed a year-on-year increase of 5.9%, to ¥10.8 billion.

Incoming orders rose 4.3%, to ¥87.3 billion, and order backlog grew 10.9%, to ¥151.3 billion. Increases in these two items were seen in all sales segments.

■ Comparison by Sales Segment (Sales/Incoming Orders/Backlog) (slide 3)

Moving on, slides 3, 4, and 5 detail performance by sales segment.

We will begin with the Systems Development segment on slide 3.

Net sales in the Systems Development segment rose 4.7%, to ¥40.4 billion. Overall sales increased, despite the end of core system projects for the transportation industry and systems upgrade projects for the gas industry, due to IT investment by communication industry customers for strengthening customer contact points, core system projects for machinery and life and non-life insurance industry customers, and overseas operation projects for banks.

Incoming orders were up 3.3% year on year, to ¥39.7 billion. Factors behind this increase included overseas operation projects for banks, operating foundation reinforcement projects for securities companies, production and sales management system projects for machinery industry customers, and IT investment for strengthening customer contact points by communications industry customers. These factors offset the negative impacts of a rebound from previously recorded core system redevelopment projects for distribution industry customers.

Order backlog similarly rose 0.7% year on year, to ¥36.4 billion, due largely to the same factors that buoyed incoming orders, the benefits of which counteracted the decline in the backlog of large-scale orders from life and non-life insurance industry customers, which had previously peaked.

■ Comparison by Sales Segment (Sales/Incoming Orders/Backlog) (slide 4)

Next, we will look at the System Maintenance and Operation/Services segment with slide 4.

Net sales in this segment showed strong growth, rising 7.2% year on year, to ¥39.5 billion. This growth can be attributed to factors including consistently brisk sales of business process outsourcing (BPO) services related to call centers and e-commerce, higher sales from data center businesses as well as an increase in managed service sales to banks. These factors were seen amid efforts to strengthen non-face-to-face customer contact points and to reform business processes through digital transformation.

Incoming orders were up 6.6% year on year, to ¥32.0 billion, due to the factors that increased sales as well as to higher incoming orders for verification services.

Order backlog benefited from the same trends as incoming orders, rising 7.8% year on year, to ¥93.0 billion.

■ Comparison by Sales Segment (Sales/Incoming Orders/Backlog) (slide 5)

We will look next at the Packaged Software/Hardware Sales segment on slide 5.

Net sales in this segment increased 1.9% year on year, to ¥19.2 billion. This increase was a result of higher demand for network and security products as well as the start of sales of next-generation network equipment models for communications industry customers.

Incoming orders increased 2.2% year on year, to ¥15.4 billion. Despite the absence of previously recorded orders for enterprise resource planning system licenses from food product manufacturers, overall orders were up due to the growth in demand for network and security products that also boosted net sales.

Order backlog rose 56.5%, to ¥21.8 billion, due in part to batch orders for network equipment from communications industry customers recorded in the fourth quarter of the previous fiscal year. This factor counteracted the impact of the absence of previously recorded hardware orders from academic research institutions.

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

■ Sales Comparison by Customer Industry (slide 6)

We will next look at sales by customer industry with slide 6.

Sales to the manufacturing industry rose ¥0.9 billion year on year. This rise in sales can be attributed to the ongoing growth in sales for downstream development processes for next-generation electronic data interchange systems and to sales of enterprise resource planning system licenses to food product manufacturers, factors that are continuing on from the previous fiscal year. Other factors included core systems development projects from machinery industry customers and higher development demand and maintenance transactions from precision equipment manufacturers.

Sales to the distribution industry were up ¥0.5 billion as system sales grew primarily due to the higher demand for network and security products.

Sales to financial institutions grew ¥1.5 billion as a result of rises in system maintenance and operation/services sales following growth in demand for managed services from the banking industry along with increases in large-scale systems development projects for the banking industry as well as core systems development projects for the life and non-life insurance industries.

As for the communications and transportation industries, sales increased by approximately ¥1.3 billion. Despite the absence of previously recorded core systems development projects for transportation industry customers, overall sales were up due to IT investment for strengthening customer contact points and increased network equipment sales from communications industry customers.

Sales to the utilities industry were down ¥0.5 billion following the conclusion of systems development projects from the gas business operators.

Sales to the service industry and other customers were up ¥1.0 billion due to increased sales in data center and e-commerce-related businesses.

■ Business Performance by Reportable Segment (slide7)

Next, I would now like to discuss performance by reportable segment with slide 7.

Sales by sales segment and customer industry were as I have explained. Amid these strong business trends, SCSK's five reportable segments, excluding others and adjustments, experienced sales growth while four of these segments achieved increases in profit.

Today, I will be focusing specifically on the Industrial IT Business segment, which saw profit decline, and the IT Business Solutions segment and the IT Platform Solutions segment, which had lower operating profit margins.

Despite the conclusion of systems development projects for the utilities industry, net sales in the Industrial IT Business segment increased due to growth in systems development projects for food product manufacturers and for communications industry customers. However, operating profit decreased due to detractions associated with overseas subsidiaries and verification services.

The IT Business Solutions segment posted higher sales due to strong performance in core systems projects and BPO operations, but the operating profit was flat with the decreased operating profit margin because of the presence of projects with low profitability.

Sales was up in the IT Platform Solutions segment due to higher sales of network equipment for communications industry customers and growth in demand for network and security products. However, the operating profit was flat due to operating profit margin in this segment decreased as a result of the commencement of sales of relatively low-margin next-generation network equipment models for communications industry customers.

■ Operating Profit Analysis (slide 8)

Looking now at slide 8, I would like to offer an explanation of the factors that influenced operating profit.

Overall, operating profit was up ¥0.6 billion year on year.

The rise in net sales boosted operating profit by ¥1.2 billion. In addition, the improved gross profit margin raised operating profit by ¥0.1 billion. Factors behind the improvement in the gross profit margin included the fact that unprofitable projects did not occur in the three-month period ended June 30, 2021, which eliminated the ¥0.1 billion decrease in operating profit seen in the previous equivalent period, and the SCSK's ability to absorb the increase in personnel expenses associated with the introduction of new human resource systems.

Conversely, SG&A expenses increased ¥0.7 billion year on year. As shown on this slide, this increase was primarily a result of the higher personnel expenses associated with the introduction of new human resource systems and a rise in equipment-related expenses.

The combined impact of these factors was a year-on-year increase of approximately ¥0.6 billion in operating profit, which came to ¥10.8 billion, and a rise in the operating profit margin from 10.9% to 11.0%.

■ Measures to COVID-19 (slide 9)

We will now look at slide 9, which details SCSK's measures for responding to the COVID-19 pandemic.

First of all, let me say that, although the impacts of the pandemic have not completely dissipated, we have seen resumed interest in projects, an increase in inquiries regarding new projects, and the general entrenchment of remote work and other business practices matched to climate amid the COVID-19 pandemic. Compared to the three-month period ended June 30, 2020, I would say that IT investment trends have been more beneficial in the period under review.

Meanwhile, we are taking steps to help combat the pandemic. Specifically, following the announcement of the Japanese government's policies for workplace COVID-19 vaccinations, we began providing vaccinations to interested employees of SCSK Group companies and partner companies in July 2021.

The necessary vaccination reservation system was developed in a short period of time using the S-Cred⁺ platform launched in 2020.

However, our response measures were not limited purely to preventing the spread of the virus. We also sought to accommodate the workstyles emerging amid and after the pandemic. In addition to installing remote work and other flexible workstyles as a standard feature of our operations, we are promoting new workstyles that facilitate high profitability and improved motivation. These efforts are being supported not only by measures including the establishment of targets for office commute rates, increases to remote work allowances, but also the provision of online training programs for new employees to provide training, in principle, purely through remote venues as well as other measures for ensuring ongoing access to education opportunities amid the COVID-19 pandemic, for example.

■ Medium-Term Management Plan Core Strategies (FY2020-FY2022) (slide 10)

Let us now move on to slide 10.

The fiscal year ending March 31, 2022, is the second year of the medium-term management plan. As has been mentioned in the past, the core strategies of this plan entail conducting investment in people to facilitate core business innovation and the commercialization of digital transformations while seeking to supply IT services that function as social infrastructure in order to resolve issues and provide value for society and customers.

Over the last year or so, the COVID-19 pandemic has inflicted various social and economic impacts and business activity restrictions that have exceeded all expectations. Faced with this adversity, the Medium-Term Management Plan has been positioned as a tool for seizing success amid the new normal arising in response to the pandemic by balancing economic activities with the need to prevent the spread of the virus.

More details on the progress of these strategies will be offered at the financial results briefing for the six-month period ending September 30, 2021. Today, I would like to touch on some of the recent developments pertaining to DX business.

■ Cooperation Agreement with Okinawa Prefecture (slide 11)

Please look at slide 11.

SCSK has concluded an agreement with the Okinawa Prefectural Government to collaborate in promoting the digital transformation of efforts to restore Shurijo Castle. This story was even picked up by the press in June 2021.

This agreement is aimed at facilitating the smooth progress of the basic restoration plan for Shurijo Castle through the mutual use of the resources of Okinawa Prefecture and SCSK. In addition, the agreement looks to help support a new approach toward urban development through the use of digital technologies in Shurijo Castle Park and the surrounding areas promoted via close coordination between the two parties.

The SCSK Group has a long relationship with Okinawa Prefecture, which faces numerous unique local issues and is actively engaging in various initiatives that utilize IT. This most recent agreement was reached through discussion with Okinawa Prefecture as part of its examination of a business model for addressing the social issues faced in this region.

Under the agreement, we will use artificial intelligence, Internet of Things, and other cutting-edge digital technologies to facilitate the restoration of Shurijo Castle. The goal of these efforts is to contribute to the community by addressing six issues related to matters such as improving visitor satisfaction and reducing traffic congestion.

By engaging in various co-creative initiatives of this nature, we aim to produce service success stories to lay the groundwork for new business models. Looking ahead, SCSK will seek to apply such business models to new fields while continuing to cultivate its businesses.

■ Sustainability Management as a Growth Strategy (slide 12)

Next, please look at slide 12.

The SCSK Group is practicing sustainability management as a medium- to long-term growth strategy. We have defined material issues to be prioritized in this management approach. I would now like to explain some concrete initiatives being advanced related to global environmental contributions, one of these material issues, in the fiscal year ending March 31, 2022.

The Group declared its endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures in April 2021 and received certification from Science Based Targets for its greenhouse gas reduction targets in May of this year. This certification indicates that these targets are founded on scientific evidence and will contribute to the accomplishment of the Paris Agreement's goal of limiting average global warming to 1.5 °C above pre-industrial levels.

These targets call for a reduction of 47% in Scope 1 and Scope 2 emissions in comparison to the level from the fiscal year ended March 31, 2020, by the fiscal year ending March 31, 2031 and a 100% reduction by 2050. For reference, Scope 1 and Scope 2 emissions refer to emission from the Company. We will pursue reductions in these emissions through energy conservation initiatives, such as improving energy efficiency at data centers and cutting down on the number of offices, as well as through the procurement of renewable energy.

In addition, the Company floated its first issue of green bonds through a domestic public offering scheme in June 2021. This issue was based on the green finance framework established in February of this year and aimed at supporting sustainability management from the perspective of fund procurement. The ¥5.0 billion worth of funds procured through these bonds will be directed toward the construction and operation of the netXDC Chiba Center 3, which is to be built as an eco-friendly data center employing energy-saving measures.

The SCSK Group recognizes that environmental initiatives will be imperative to its practice of sustainability management going forward. Accordingly, we will be ramping up these initiatives as we pursue sustainable growth with our stakeholders.

■ Stock Split/Revision of Dividend Forecast (slide 13)

We will look next at the Stock Split/Revision of Dividend Forecast on slide 13.

On July 30, 2021, the Board of Directors resolved to implement a stock split by a ratio of three shares per share with an effective date of October 1, 2021.

Through this stock split, we will increase the liquidity of SCSK's shares, create an environment that makes it easier for investors to invest, and further expand the investor base by lowering the price per investment unit.

An overview of the stock split is shown on the slide.

As a result of the stock split, we revised the year-end dividend forecast announced on April 28, 2021 from ¥70.00 to ¥23.34 for the year ended March 31, 2022.

■ Contract to consolidate the three group companies (Establishing SCSK Minori Solutions Corporation) (slide 14)

Lastly, let us now look at slide 14.

Today, we announced the conclusion of an agreement regarding the merger of Minori Solutions Co., Ltd., CSI SOLUTIONS Corporation, and WinTechnology Corporation. Minori Solutions is a company that develops systems for small to medium-sized companies on a contract basis while WinTechnology boasts product solutions development expertise and CSI SOLUTIONS specializes in product sales, development, and operation. The merger of these three companies will no doubt help grow the operations of the SCSK Group in the market catering small to medium-sized companies, which presents significant potential for such growth.

The merger will be conducted with an effective date of October 1, 2021, and the resulting company will be named SCSK Minori Solutions Corporation.

The scale of SCSK Minori Solutions Corporation is roughly as described on this slide.

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

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