

Transcript of results briefing

Results of Operations for 2nd Quarter of Fiscal Year Ending March 2022

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■ Introduction

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

Thank you for taking time out of your busy schedules to join us to discuss SCSK's consolidated financial results in the six-month period ended September 30, 2021.

On the upper left-hand corner of the slide you are looking at now, you will see a special logo commemorating the 10th anniversary of SCSK's founding, which we celebrated on October 1, 2021.

We have continued to achieve smooth business growth up until today, allowing us to celebrate our 10th anniversary with a stable management foundation. I understand that this is a result of the support of our shareholders and other various other stakeholders, for which I am immensely grateful.

■ Highlights of Consolidated Business Performance (slide 1)

I first want to begin by explaining our results of operations for the six-month period ended September 30, 2021.

As shown on this slide, our performance in the period under review was as follows:

- Net sales: ¥200.0 billion (up 5.4% year on year)
- Operating profit: ¥22.5 billion (up 6.5% year on year)
- Operating profit margin: 11.3% (up 0.1 percentage points year on year)
- Profit attributable to owners of parent: ¥15.7 billion (up 6.2% year on year)
- Incoming Orders: ¥194.9 billion (up 8.3% year on year)
- Backlog: ¥158.1 billion (up 15.2% year on year)

■ Highlights of Consolidated Business Performance —Financial Results Summary (slide 2)

As you can see on this slide, in the six-month period ended September 30, 2021, we achieved net sales of ¥200.0 billion for the first time in a six-month period, setting a new record for this item as well as for operating profit.

An overarching trend toward recovery from the impacts of the COVID-19 pandemic has continued since the second half of the previous fiscal year. We were concerned about customers postponing or forgoing projects as a result of factors such as semiconductor shortages, but overall business performance was strong.

We posted increases in operating profit and in the operating profit margin, despite the investments conducted for the expansion of our base network in line with the medium-term management plan for which we had initially budgeted. These increases were achieved by absorbing the impacts of these investments, and of higher selling, general and administrative (SG&A) expenses, through the increased net sales and improved gross profit margin.

The improvement in the gross profit margin was a result of the benefits of development process standardization and the expanded application of the SE+ development process standard.

SCSK also achieved strong year-on-year growth in orders in all three of its sales segments.

■ Consolidated Financial Forecasts for the FY2021 (slide 3)

This firm performance in the six-month period ended September 30, 2021, was in line with our initial internal projections.

The full-year performance forecasts shown on this slide are unchanged from the previously released forecasts. However, given that the fiscal year ending March 31, 2023, will be the final year of the medium-term management plan, everyone at SCSK will be devoting their efforts in the second half of the fiscal year to achieving performance surpassing these forecasts in order to speed us toward the accomplishment of the quantitative targets for the final year of the plan.

Managing Executive Officer Yasuhiko Oka will offer a more detailed look at the Company's financial results later on. In the meantime, I would like to discuss the progress of the medium-term management plan.

■ Medium-Term Management Plan (FY2020-FY2022) (slide 4)

While we have talked about this in the past, this slide shows an overview of the medium-term management plan. The plan's core strategies are Core Business Innovation, through which we look to transform our core businesses, and the Commercialization of DX (digital transformations), which will be a driver of future business creation and growth. At first, it may appear as though there is some discrepancy between these targets.

However, I believe that these strategies are intimately related. This is because the

opportunities and hints for new businesses can be found in core businesses, specifically at sites of customer operations, whereas the innovation of core businesses is indispensable to the stable operation of the new businesses created through digital transformations. Accordingly, I consider that it is imperative to promote Core Business Innovation alongside the Commercialization of DX.

Advancing both of these strategies, meanwhile, will require us to reform our corporate culture and to transform the mindsets and behaviors of all employees to focus more on creating value and less on simply performing the tasks they have been contracted to handle. To accomplish this reformation, we placed Investment in People at the center of the both strategies. We will promote Investment in People and organically upgrade our human resource capabilities to make them the engines for proceeding both strategies.

■ **Core Strategies: Core Business Innovation (slide 5)**

The first core strategy—Core Business Innovation—is focused on two types of innovations: *Monozukuri* innovations and Subdivision Innovations. Through these innovations, we aim to transform business processes and customer contact points in order to grow and enhance core businesses. We will therefore be advancing Core Business Innovations in customers' existing business, where we will be reinforcing operations, as well as in new business fields, where we will be aggressively expanding operations. We thereby look to provide value as a co-creative IT company.

Focuses in existing business fields will include improving efficiency. To this end, SCSK is utilizing the S-Cred+ *Monozukuri* innovation platform launched in April 2020 to promote low-code, no-code development. We thereby look to achieve unparalleled levels of productivity, indicated by a gross profit margin of more than 50% in most development projects; maximize service quality; and prevent tasks from becoming dependent on specific people through standardization and shared procedures.

In new business fields, where we seek business growth, subdivisions will be positioned as bases for co-creation with customers. Accordingly, we will assign service managers to these bases, and these service managers will play a central role in proposing new forms of value. *Monozukuri* innovations in new business fields will include accelerating business transformation through agile development and DevOps while creating new value as we use in combination various intellectual properties through our platform.

■ **Core Strategies: Commercialization of DX—*Monozukuri* innovations (slide 6)**

By means of *Monozukuri* innovations, we are working to expand application of the S-Cred+ platform throughout the Company. Moreover, we have constructed a Companywide subcommittee system to promote sales with regard to this platform. In the fiscal year ended March 31, 2021, we received 54 orders entailing utilization of the S-Cred+ platform, and the number of such orders in the fiscal year ending March 31, 2022, stood at 38 as of September 30, 2021, indicating a steady uptick in the use of this platform.

One of the SCSK low-code development tools installed in the S-Cred+ platform is atwill template, which provides process proprietarily developed templates. This tool can be used as a production management system in its standard form and is also equipped with high-speed development features allowing for the addition and expansion of functions with no need for programming, thereby assisting customers in swiftly developing their own unique processes. There are several cases in which the incorporation of atwill template into projects has led to higher profitability.

■ **Core Strategies: Core Business Innovation – Subdivision innovation (slide 7)**

Next, I would like to talk about Subdivision Innovation.

I believe that infrastructure for incorporating customer input and uncover issues that may not be readily apparent is imperative to creating new value. SCSK has approximately 10,000 employees stationed at 540 subdivisions across Japan. Subdivisions have previously been positioned as bases for providing maintenance, operation, and development services in a manner that is more closely coordinated with customers. Repositioning these subdivisions as bases for co-creation, we are focused on cultivating service managers who can play a central role in creating value.

Our goal is to foster 150 such individuals in three years, and we expect to have cultivated around 90 of these individuals by the end of the fiscal year ending March 31, 2022, the second year of the plan.

At the same time, SCSK is moving its conventional development and maintenance services to remote bases to promote nearshore development. We are also employing standardized and streamlined development and operation methods through the application of SE+ and S-Cred+ to ensure that we are able to provide the same high level of quality at any base. The expansion of our base network in rural regions is one of the policies put forth by the medium-term management plan. Based on this policy, we have positioned the enhancement of our nearshore development network as an important measure for accelerating business growth. Other focuses include creating employment opportunities, fostering human resources, and making other contributions to the invigoration of economies in rural regions.

On September 30 2021, our nearshore development staff was comprised of 820 individuals, and we are gradually expanding this staff.

■ **Core Strategies: Core Strategies: Commercialization of DX (slide 8)**

I would now like to talk about our initiatives for Commercialization of DX.

Under this strategy, we will move forward with the creation of new businesses in the four priority fields show on this slide.

In the mobility field, we are working to deploy services related to driving support, vehicle maintenance, and other areas of the automobile lifecycle. To this end, we are collecting and utilizing a wide range of driving-related information from devices. A subcommittee has been assembled to examine potential measures for this purpose. This subcommittee is membered by representatives from existing alliance partner MOBILOTS Corporation as well as from multiple other companies.

In the financial service platform field, we began offering services through our Japanese turnkey asset management program (TAMP) platform business in August 2021. I will talk about this business in a little more detail later on.

Our efforts in the healthcare field are centered around Dr2GO, a proprietary SCSK information provision and communication solution for physicians, we are engaged in verification tests with multiple healthcare institutions with the goal of developing services for facilitating communication between patients and others involved in the healthcare system.

As for the customer experience field, SCSK launched “altcircle”, through which we offer one-stop service for consulting, systems, operation support, and outsourcing related to customer contact points, in December 2020. This service is already used by Aeonpet Co., LTD., and a number of other companies are also considering adopting “altcircle”.

Sustainability management is a constant theme in the Companywide dialogue as we seek out fields that should join the ranks of these priority fields.

■ **Core Strategies: Commercialization of DX _Examples (slide 9)**

Let us now look at one of our financial service platform field initiatives for Commercialization of DX.

Japan is a country where the majority of household financial assets are held in the form of savings. At the same time, it is projected that a number of people will find themselves short ¥20

million after retirement. This projection, coupled with the economic impacts of the COVID-19 pandemic and the opaque outlook for the financial market, has placed increasing importance on transitioning from savings to asset building in order to accumulate assets over the medium to long term.

These trends are also directing attention toward the role of independent financial advisors, who support personal asset building from a perspective that is independent of financial institutions.

Meanwhile, there are currently no solutions that can meet the needs for comprehensive management of the various types of personal financial assets an individual might hold. There is also a lack of cross-industry business instructors in the conventional financial product brokerage field, and the operation of businesses in this field tends to be inefficient as a result.

In the aforementioned Japanese TAMP platform business, SCSK began offering service of an independent financial advisor business support platform in August 2021 with the goal of helping address these issues. This platform includes an assortment of solutions that have been highly rated in customer satisfaction surveys in the United States, where personal asset building is popular, and these solutions have been carefully selected to match Japanese business practices. By registering for this platform, users gain access to customer management, asset management, asset analysis, and various other advisory service functions.

The number of independent financial advisors, to whom this service is targeted, has been rising in recent years as individuals working in financial institutions have been increasingly changing to this profession. As of June 30, 2021, the number of independent financial advisors in Japan was around 4,700. Moreover, these advisors currently only represent about 6% of all general securities representatives, meaning that there is still significant room for this number to grow.

In addition, the amount of assets managed through independent financial advisors rose by 50%, from ¥2 trillion to ¥3 trillion, over the past year. Another source of hope for the future growth of this industry can be seen in a regulatory revision planned for November 2021 that would create a new financial service brokerage business category and make it possible for individuals to provide bank, insurance, and securities brokerage services with only a single registration.

With this, I conclude this explanation of Commercialization of DX.

■ **Topics : Established SCSK Minori Solutions Corporation (slide 10)**

Moving on, I would like to talk about some noteworthy developments that took place in the six-month period ended September 30, 2021.

The first is one that we have already issued notifications of: the establishment of SCSK Minori Solutions Corporation. This new company was formed through the merger of Minori Solutions Co., Ltd., CSI SOLUTIONS Corporation, and WinTechnology Corporation, which was conducted with an effective date of October 1, 2021.

The goal of this merger was to strengthen our approach toward mid-tier companies as a new and clearly defined target by merging three companies with expertise and track records in serving companies. We thereby aim to create a foothold in this market as an important customer acquisition channel and invigorate the long tail portion of our customer base, which is comprised of more than 8,000 companies, alongside the industry leaders from which we traditionally acquire large-scale projects.

SCSK Minori Solutions kicked off its business with a sales target of ¥100.0 billion by the fiscal year ending March 31, 2031, to help it play a role in the accomplishment of the SCSK Group's target of achieving ¥1 trillion in net sales by the same year.

Basic policies for pursuing this target will include approaching small and medium-sized enterprises as a new target market and growing revenue through enhancing and streamlining the existing businesses of the three merged companies.

Companywide initiatives will be advanced based on three themes in accordance with these policies. The first theme will be cross-selling, of 12 core products specifically. Just as was done after the merger that created SCSK, we will promote cross-selling targeting the approximately 870 customers of the three merged companies in order to facilitate post-merger integration. These initiatives have been commenced with a focus on short-term results, and there have already been cases in which orders have been received.

The second theme will be identifying the issues in the IT architecture business in which the operations of the three merged companies overlap. By doing this, we look to remove any obstructions toward growth, improve efficiency, and enhance and evolve businesses that could not have grown through the standalone efforts of any of the pre-merger businesses.

The third theme will be expanding the customer base of SCSK Minori Solutions. Specifically, we will formulate a portfolio of services targeting mid-tier companies centered on cloud native services.

■ **Topics : Opened SCSK Group Okinawa Center (slide 11)**

The next development I want to talk about is opening of the SCSK Group’s Okinawa center, in Urasoe City, Okinawa Prefecture. A news release on this development was issued on October 26, 2021. In Okinawa Prefecture, we began providing contact center consulting services on a contract basis in 1999. Our operations in this prefecture have been growing smoothly over the two decades since this start.

At the center, we have begun securing the office space necessary for developing new businesses, and we are installing infrastructure to allow for the provision of new SCSK Group services in Okinawa.

Within the center, we set up a facility to be called Business Design Hub OKINAWA. Here, people will be able to see the digital transformation and solutions initiatives implemented based on the agreement concluded with the Okinawa Prefectural Government in June 2021 to collaborate in promoting the digital transformation of efforts to restore Shuri Castle. We will also set up a demonstration area to help visitors find solutions to their issues as well as workcation, lounge, and other areas while offering opportunities to consult various specialists in order to give form to one’s ideas.

■ **Topics : Cloud ERP “ProActive C4” will be launched in November (slide 12)**

Another previously announced development is the launch of ProActive C4, the latest in our ProActive line of proprietary enterprise resource planning solutions, scheduled for November 2021. ProActive C4 uses the S-Cred+ platform, which is based on the AWS cloud platform, as an IT infrastructure platform. Moreover, it offers bundled services for upgrades and all other system lifecycle needs and can be introduced with a low initial cost by using a subscription model.

This slide shows the concept of 4Cs that is the origin for the name ProActive C4. We aim to have this service used by 500 companies three years from now. Fortunately, we have already acquired multiple orders for ProActive C4 along with more than 50 inquiries from prospective customers.

■ **Topics : Business alliance with D Capital, Inc., DX PE Fund (slide 13)**

Next, I would like to talk about the business alliance formed with private equity fund D Capital, Inc. We participate as a strategic partner and as an anchor LP in a fund formed by D Capital, Inc. for the purpose of promoting and generating corporate value through the DX approach, which is a new value creation process.

We contribute to the digital transformation of investees through the use of IT and digital technologies while accelerating the commercialization of SCSK's digital transformation businesses and allowing for the examination of co-creative businesses through the utilization of investees' business foundations. We will also look to foster sophisticated human resources capable of supporting digital transformations through these efforts.

D Capital mainly aims its investments at the healthcare, business-to-consumer, and manufacturing industries. These target fields are highly compatible with our efforts to create new businesses in the healthcare and customer experience fields, which are priority fields for our Commercialization of DX. We expect to make large contributions to the sustainability of industry and to the improvement of the value of investees through mutual coordination with D Capital.

■ **Market Restructuring at Tokyo Stock Exchange (slide 14)**

Lastly, we made the decision to submit an application for selection of listing on the Prime Market as a new segment of the Tokyo Stock Exchange at a meeting of the Board of Directors held at the end of September 2021, and an application to this effect was submitted on the same day.

Going forward, we will continue to move ahead with initiatives for achieving qualitative and quantitative improvements to disclosure regarding the impacts of climate change on the Company. At the same time, we will work to enhance corporate governance through a constructive dialogue with investors, among other means.

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