

## **Transcript of results briefing**

### **Consolidated Financial Results for 2nd 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 six-month period ended September 30, 2021.

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

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

In the period under review, net sales were ¥200.0 billion, up 5.4% year on year.

Operating profit was ¥22.5 billion, up 6.5%.

The operating profit margin was 11.3%, up 0.1 percentage points.

Profit attributable to owners of parent was ¥15.7 billion, up 6.2%.

As stated by President Tanihara, SCSK posted record-breaking net sales and operating profit in the six-month period ended September 30, 2021, with six-month net sales surpassing ¥200.0 billion for the first time, allowing us to achieve strong performance.

SCSK achieved a 5.4% 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 increased 6.3%. Profit was impacted by the rise in personnel expenses associated with the introduction of new human resource systems and increased business expenses incurred in conjunction with business growth. However, overall gross profit was up due to the higher net sales as well as to our ability to improve development quality and productivity. This was achieved by tracking project conditions through the use of the SE+ development process standard for product management and system development activities to ensure sufficient project quality.

Selling, general and administrative (SG&A) expenses were up 6.1% year on year due to the rise in personnel expenses associated with the introduction of new human resource systems and hiring of new graduates as well as to increases in equipment-and business investment-related expenses.

As a result of these factors, operating profit showed a year-on-year increase of 6.5%, to ¥22.5 billion.

Incoming orders rose 8.3%, to ¥194.9 billion, and order backlog grew 15.2%, to ¥158.1 billion. Increases in these two items were seen in all sales segments.

■ **Summary of Financial Results from Jul. to Sep. 2021 (PL/Incoming Orders/Backlog) (slide 3)**

Moving on, slides 3, which displays consolidated performance highlights for the three-month period ended September 30, 2021.

In the period under review, net sales were ¥100.8 billion, up 5.7% year on year.

Operating profit was ¥11.7 billion, up 7.0%.

The operating profit margin was 11.6%, up 0.1 percentage points.

Profit attributable to owners of parent was ¥8.0 billion, up 6.2%.

Increases in sales and profit were achieved in the second quarter of the fiscal year ending March 31, 2022, continuing the trend from the first quarter.

Net sales edged up 5.7% year on year, and, just as was the case in the first quarter, sales were up in all sales segment.

Gross profit rose 6.8% year on year due to the higher sales coupled with the benefits of improvements in Systems Development quality and productivity. These factors counteracted the negative impacts of higher costs following a rise in business investment-related expenses.

SG&A expenses increased 6.6% primarily as a result of the rise in business investment-related expenses that followed from the implementation of the core strategies of the medium-term management plan, which are as explained at the beginning of the fiscal year.

Due to these factors, second-quarter operating profit was up 7.0% year on year, to ¥11.7 billion. This steady profit growth was achieved despite the increase in business investment-related expenses.

Incoming orders increased 11.9%, to ¥107.6 billion, in the second quarter while order backlog rose grew 15.2%, to ¥158.1 billion. Increases in these two items were seen in all sales segments.

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

Moving on, slides 4, 5, and 6 detail performance by sales segment. We will begin with the Systems Development segment on slide 4.

The graph on this slide shows six-month and second-quarter performance in net sales and incoming orders, with the numbers on the top of each row representing six-month performance and the numbers on the bottom showing second-quarter performance.

Net sales in the Systems Development segment rose 4.5%, to ¥82.0 billion. Overall sales increased, despite the conclusion of systems upgrade projects for the gas industry and

electronic data interchange systems products for the distribution industry, due to overseas operation projects for banks, IT investment by communication industry for strengthening customer contact points, and core system projects for service and machinery industry.

Incoming orders were up 3.9% year on year, to ¥83.4 billion. Factors behind this increase included IT investment by communication industry for strengthening customer contact points, overseas operation and regulation response projects for banks, operating foundation reinforcement projects for securities companies, strategic investment by automotive companies, and core system projects for precision machinery manufacturers. These factors offset the negative impacts of a rebound from previously recorded platform development and core system redevelopment projects for distribution industry.

Order backlog similarly rose 1.0% year on year, to ¥38.5 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, which had previously peaked.

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

Next, we will look at the System Maintenance and Operation / Services segment with slide 5.

Net sales in this segment showed firm growth, rising 7.3% year on year, to ¥79.9 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. These sales were seen amid efforts to strengthen non-face-to-face customer contact points and to reform business processes through digital transformation. Other factors included higher sales from data center businesses as well as an increase in managed service sales centered on manufacturers and banks and a rise in verification service sales.

Incoming orders were up 7.0% year on year, to ¥69.5 billion, while order backlog increased 7.9%, to ¥90.1 billion, due to the factors that increased sales.

#### ■ Comparison by Sales Segment (Sales/Incoming Orders/Backlog) (slide 6)

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

Net sales in this segment increased 3.6% year on year, to ¥38.0 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 and sales growth for various other network equipment products. These factors compensated for the absence of previously recorded sales of enterprise resource planning system licenses to food industry. In the second quarter, the rate of growth in net sales was even higher following increase in net sales attributable to sales of network equipment to communications industry.

Income orders and order backlog increased 21.2%, to ¥41.9 billion, and 89.5%, to ¥29.4 billion, respectively. Factors behind these increases included those that heightened net sales as

well as customers' moves to order certain network products ahead of schedule in the second quarter, due to concern for semiconductor shortages, and investment demand from the automotive industry.

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

■ **Sales Comparison by Customer Industry (slide 7)**

We will next look at sales by customer industry with slide 7.

Sales to the manufacturing industry rose ¥1.8 billion year on year. This rise in sales can be attributed to core systems development projects from machinery industry, higher development demand from precision equipment manufacturers and construction industry, and increases in sales of verification services to the automotive industry. The benefits of these factors outweighed the impact of the rebound from previously recorded sales of enterprise resource planning system licenses to food industry.

Sales to the distribution industry were up ¥0.3 billion. Although we saw the end of systems development projects, overall sales to the distribution industry benefited from increases in outsourcing services and other maintenance projects as well as growth in Packaged Software/Hardware Sales following the higher demand for network and security products.

Sales to financial institutions grew ¥2.6 billion as a result of rises in System Maintenance and Operation/Services sales following growth in demand for managed services along with increases in large-scale Systems Development projects for the banking industry.

As for the communications and transportation industries, sales increased by approximately ¥3.4 billion. Despite the absence of previously recorded core systems development projects for transportation industry customers, overall sales were up due to Systems Development demand for strengthening customer contact points and increased network equipment sales from communications industry.

Sales to the utilities industry were down ¥0.9 billion primarily due to the conclusion of systems development projects from the gas business operators.

Sales to the service industry and other customers were up ¥2.9 billion following increased sales of core systems development projects and in data center and BPO businesses.

■ **Business Performance by Reportable Segment (slide8)**

Next, I would now like to discuss performance by reportable segment with slide 8.

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

Today, I will be focusing specifically on the declines in profit seen in the Industrial IT Business segment and the IT Business Solutions segment.

Despite the conclusion of systems development projects for the gas business operators in the utilities industry, net sales in the Industrial IT Business segment increased due to growth in systems development projects for communications industry customers. Operating profit in this segment also grew, but this was only true in the second quarter. For the six-month period ended September 30, 2021, operating profit showed a slight decrease. A recovery trend was seen in the performance of overseas subsidiaries in conjunction with the recovery of the operating environment, profit was still down at these subsidiaries. In addition, verification service operations were adversely impacted by upfront costs at newly established subsidiaries, although profit growth was achieved in these operations following the recovery of existing operations.

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

#### ■ Operating Profit Analysis (slide 9)

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

Overall, operating profit was up ¥1.3 billion year on year.

The rise in net sales boosted operating profit by ¥2.6 billion. In addition, the improved gross profit margin raised operating profit by ¥0.3 billion. Factors behind the improvement in the gross profit margin included the fact that unprofitable projects did not occur in the six-month period ended September 30, 2021, which eliminated the ¥0.1 billion decrease in operating profit seen in the previous equivalent period, and the Company's ability to absorb increases in costs through improvements in productivity. These factors counteracted the rise in personnel expenses associated with the introduction of new human resource systems seen in the first quarter as well as the increase in business investment-related expenses that took place in the second quarter.

Conversely, SG&A expenses increased ¥1.6 billion year on year. Major factors contributing to this increase included higher personnel expenses associated with the introduction of new human resource systems in line with the core strategies of the medium-term management plan and a rise in business investment-related expenses attributable to core business innovation initiatives and measures for Commercialization of DX. This outcome was essentially as we had initially expected.

The combined impact of these factors was a year-on-year increase of approximately ¥1.3 billion in operating profit, which came to ¥22.5 billion, and a rise in the operating profit margin from 11.2% to 11.3%.

■ **Consolidated Financial Forecasts / Dividends Forecasts (slide 10)**

We will now look at slide 10, which details SCSK's full-year performance and dividend forecasts.

In the six-month period ended September 30, 2021, we achieved increases in sales and profit, and overall performance was more or less in line with our initial projections.

There has been no change to our full-year forecasts for net sales of ¥420.0 billion, operating profit of ¥48.0 billion, and profit attributable to owners of parent of ¥34.0 billion. When looking at business trends, we cannot ignore the lingering concern regarding the effects of the pandemic on IT investment. However, order trends remain strong, as does our order pipeline, and we expect these orders to contribute to performance in the second half of the fiscal year.

The interim dividend for the fiscal year ending March 31, 2022, was decided to be ¥70, an increase of ¥5 per share from ¥65 per share in the previous fiscal year, as initially planned. There has also been no fundamental change to our forecast for the year-end dividend. However, the year-end dividend is now projected to be ¥23.34 per share as a result of the three-for-one stock split of the Company's common shares of stock that was conducted with an effective date of October 1, 2021.

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

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