Transcript of results briefing
Consolidated Financial Results for 3rd Quarter of Fiscal Year Ending March 2022

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■ Greeting

Greetings, my name is Yasuhiko Oka.

Thank you for taking time out of your busy schedules to join us to discuss SCSK's consolidated financial results in the nine-month period ended December 31, 2021.

We are still in the middle of the COVID-19 pandemic. Accordingly, we will be conducting this briefing using an online format.

■ Contents (slide 1)

Todays' presentation will touch on the topics displayed on the table of contents on slide 1.

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

Please look at slide 2, which displays consolidated performance highlights for the nine-month period ended December 31, 2021.

As shown on this slide, we once again posted higher sales and profit in the period under review with net sales of ¥302.7 billion, up 4.1% year on year; operating profit of ¥34.7 billion, up 2.3%; and profit attributable to owners of parent of ¥24.2 billion, up 2.0%.

Net sales were up in the Systems Development and System Maintenance and Operation / Services segments, but a slight decline was seen in sales in the Packaged Software / Hardware Sales segment.

Despite business investment expenses incurred based on the core strategies of the medium-term management plan, the gross profit margin rose to 5.1% following the increase in net sales.

Selling, general and administrative (SG&A) expenses were up ¥3.0 billion, or up 7.4% year on year. Factors behind this increase included the previously mentioned rise in business investment expenses associated with the medium-term management plan as well as the increase in expenses related to sales activities, which had been previously been limited amid the COVID-19 pandemic, that occurred after the dissipation of Japan's fifth wave of COVID-19 infections. Another factor was the expenses related to the integration of SCSK Minori Solutions Corporation. This rise in expenses was in line with our initial expectations.

As a result of these factors, operating profit rose 2.3% to ¥34.7 billion, exceeding the planned target.

Incoming orders rose 6.5%, to ¥298.1 billion, and order backlog grew 16.4%, to ¥158.6 billion. Increases in these two items were seen in all sales segments.

■ Summary of Financial Results from Oct. to Dec. 2021 (PL/Incoming Orders/Backlog) (slide 3)

Moving on, slides 3, which displays consolidated performance highlights for the three-month period ended December 31, 2021.

In the third quarter of the fiscal year ending March 31, 2022, SCSK posted net sales of ¥102.7 billion, up 1.6% year on year; operating profit of ¥12.1 billion, down 4.7%; and profit attributable to owners of parent of ¥8.4 billion, down 4.9%.

Net sales were up in the third quarter as the steady increases in the sales of the Systems Development and System Maintenance and Operation / Services segments, which were centered on the manufacturing and financial industries, counteracted the decline in the sales of the Packaged Software / Hardware Sales segment that was a result of the absence of large-scale projects recorded in the previous equivalent period.

Gross profit was up 2.9% year on year in the third quarter. This outcome can be attributed to a 0.3-point increase in the gross profit margin that was a result of a beneficial sales mix in system sales along with improvements in quality and productivity in systems development. These factors offset the detractions from higher business investments and unprofitable projects.

Third-quarter SG&A expenses rose 9.9%. The factors behind this increase included business investment expenses incurred in line with our initial plans, one-time costs for Group reorganizations, and higher activity expenses, which rose as a rebound from the prior reduction seen as a result of the restrictions imposed in response to the COVID-19 pandemic.

As a result of these factors, operating profit showed a slight decline of ¥0.6 billion year on year, coming to ¥12.1 billion. In the third quarter of the previous fiscal year, we were able to achieve strong performance, and we had thus anticipated that the rebound from this strong performance would be felt in the third quarter of the fiscal year ending March 31, 2022.

Meanwhile, incoming orders rose 3.1% year on year, to ¥103.2 billion in the third quarter. There was a decline in orders in the Packaged Software / Hardware Sales segment as a result of the absence of batch network equipment orders to communications industry customers recorded in the previous equivalent period. Conversely, double-digit growth was seen in incoming orders in the Systems Development segment during the third quarter as a result of a higher number of projects while the System Maintenance and Operation / Services segment enjoyed steady performance continuing on from the first half of the fiscal year.

■ 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 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.

Net sales in the Systems Development segment rose 3.8%, to ¥124.4 billion. Overall sales increased, despite the conclusion of systems upgrade projects for the gas industry and platform development and electronic data interchange systems projects for the distribution industry, due to overseas core system projects for the banking industry, IT investment by communication industry for strengthening customer contact points, and core system projects for service and machinery industry.

Nine-month incoming orders were up 6.7% year on year, to ¥127.3 billion, due to a substantial increase in overall orders. Orders were buoyed by orders for strengthening customer contact points from the communications industry as well as core system orders from the banking industry. In addition, we received orders for reinforcing operating foundations along with large-scale DevOps orders and core systems development orders from precision equipment manufacturers and service industry customers. These factors outweighed the decline from the absence of previously recorded orders from the distribution industry for developing platforms and redeveloping core systems.

As for the third quarter, incoming orders jumped up 12.5% year on year, to ¥43.9 billion, because of higher implementation stage orders as part of multiple large-scale core systems development projects as well as large-scale DevOps orders from the credit and leasing industries. These factors also caused third-quarter order backlog to grow 11.8%, to ¥40.1 billion, placing us in a favorable position in the fourth quarter of the fiscal year.

■ 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.

If you look at the rates of changes in the nine-month and third-quarter figures shown on this slide, you will see that that the firm trends in net sales, incoming orders, and order backlog witnessed at the beginning of the fiscal year have been ongoing.

Net sales showed steady growth of 6.8%, to ¥120.5 billion. This growth was in part a product of steady performance in contact center and other business process outsourcing (BPO) operations achieved against a backdrop of rising numbers of projects aimed at addressing demand growth and installing remote infrastructure as well as companies transforming their businesses to operate in a more contact-free, non-face-to-face manner alongside rising demand amid the COVID-19 pandemic. We also posted higher sales in data businesses amid brisk demand for data center and other cloud services while sales of managed and verification services rose.

Incoming orders were up 7.5% year on year, to ¥103.5 billion, while order backlog increased 9.1%, to ¥83.5 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.

Factors affecting performance in the third quarter also influenced nine-month performance. Today, I would like to offer some details regarding the figures on the lower half of each row, which represent third-quarter performance.

Third-quarter net sales were down 7.6% year on year, to ¥19.7 billion. Although we saw strong increases in sales of network equipment to communications industry customers, overall sales suffered from the absence of large-scale hardware sales to academic research institutions and license sales to electric machinery manufacturers recorded in the previous equivalent period. In addition, demand for security products for installing remote infrastructure in companies and schools returned to normal levels, and the performance of certain products was impacted by semiconductor shortages. As a result, nine-month net sales declined 0.6%.

Incoming orders decreased 15% year on year, to ¥25.2 billion, due to the rebound from the batch network equipment orders to communications industry customers recorded in the previous equivalent period. This factor outset the benefits of orders for large-scale hardware received from academic research institutions.

Nevertheless, we are witnessing an impressive increase in both incoming orders and order backlog on a full-year basis as a result of the additional network equipment orders received from communications companies in the second quarter as well as orders we have obtained for servers, storage, CAE, and other large-scale hardware.

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 ¥3.0 billion year on year. This rise in sales can be attributed to core systems development projects from machinery 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 declined ¥0.7 billion due to sluggish demand for network products and the impacts of semiconductor shortages on certain projects seen amid the COVID-19 pandemic.

Sales to financial institutions were up ¥2.6 billion. This rise was a result of an increase in large-scale systems development projects for banks and securities companies as well higher sales of maintenance and operation services driven by growing demand for management services. These factors counteracted the effects of the rebound from sales associated with large-scale projects recorded in the previous equivalent period.

As for the communications and transportation industries, sales increased by approximately ¥5.2 billion. Despite the absence of previously recorded core systems development projects for transportation industry customers, overall sales were up due to Systems Development demand and increased network equipment sales from communications industry.

Sales to the utilities industry were down ¥1.2 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 (slide 8)

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

I would first like to touch upon a reorganization that was undertaken with regard to our reportable segments. Effective October 1, 2021, three companies were merged to form SCSK Minori Solutions Corporation. Accordingly, the operations formerly operated by the three merged companies have been transferred to others and adjustments, which is where we account for SCSK Minori Solutions.

Each of SCSK's five reportable segments, excluding others and adjustments, experienced sales growth while all segments except the IT Business Solutions segment achieved increases in profit.

Today, I will be focusing specifically on the Industrial IT Business segment, which saw a decline in the operating profit margin, and on the IT Business Solutions segment, which posted lower profit.

In the Industrial IT Business segment, performance was affected by the conclusion of gas industry development projects, but we were able to achieve sales growth nonetheless as a result of increases in systems development project primarily for the communications industry. Despite the rise in profit achieved thanks to this sales growth, however, the operating profit margin declined due to the impacts of higher business investment expenses.

The IT Business Solutions segment posted higher sales due to firm performance in core systems projects and BPO operations, but, similar to the Industrial IT Business segment, operating profit decreased because of the impacts of higher business investment expenses, specifically those for expanding our contact center business base network.

In this manner, performance in these segments reflected the favorable business trends.

■ 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 about ¥0.8 billion year on year.
The higher net sales and profitability, the second and third items from the left on the slide, buoyed operating profit by ¥5.3 billion.

The ¥1.6 billion increase in SG&A expenses which excludes business investments, the second item from the right, was primarily a result of an increase in expenses for activities that had previously been restricted due to the COVID-19 pandemic, one-time expenses associated with the merger of subsidiaries, and expenses for enhancing internal technical platforms related to workstyle reforms, besides organic growth factors.

Subtracting this amount from the aforementioned amount leads to an increase of ¥3.7 billion in operating profit. This figure comes to roughly ¥0.8 billion after deducting the ¥2.9 billion increase in business investment expenses incurred in conjunction with the progress of measures under the medium-term management plan, which is shown in red at the center of the slide.

A number of our Commercialization of DX and other new business development projects are currently at the phase in which we must incur expenses for investment purposes, and it will thus take some time for these investments to begin contributing to earnings. Nevertheless, we remain committed to aggressive investment for generating strong growth and ensuring the success of our Grand Design 2030 vision.

■ Consolidated Financial Forecasts / Dividends Forecasts (slide 10)

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

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, as per the slide.

When comprehensively considering the order backlog that had been accumulated on December 31, 2021, as well as factors such as the order trends and topline growth expected in the fourth quarter given our steady pipeline, we feel that we are currently on track to reach the level of our full-year forecasts.

There are a lot of causes for concern with regard to the operating environment going forward, including international trends, such as those associated with the friction between the United States and China, the situation in the Ukraine, and the monetary tightening being implemented in the United States. There is also concern regarding the potential for subsequent surges in COVID-19 infections due to variant viruses, semiconductor shortages, and supply chain disruptions. However, we are also confident in the strength of the upward trend in IT investment demand being seen among the companies that SCSK is committed to serve.

■ Change of Representative Director (slide 11)

Next, please look at slide 11.

On January 14, 2022, we issued a news release detailing the changes in representative directors approved at the meeting of the Board of Directors held on that date.

As one of these changes, Takaaki Touma, currently a Managing Executive Officer, will assume the position of President and Chief Operating Officer effective April 1, 2022. His appointment as Representative Director will then be proposed at the General Meeting of Shareholders scheduled for June 2022, and he will take up this position if this proposal is approved.

The fiscal year ending March 31, 2023, will be the final year of the current medium-term management plan, and we are committed to accomplishing the goals of this plan under this new leadership.

■ Strengthen the Corporate Governance (slide 12)

Lastly, we will look at slide 12.

Given the aforementioned changes in Representative Director as well as SCSK's listing on the Prime Market segment of the Tokyo Stock Exchange, reforms to the Board of Directors were approved at a meeting of the Board held today with the goal of reinforcing the Company's corporate governance systems.

There are three points I would like to talk about with regard to these reforms.

First of all, the number of the outside directors designated as independent directors will be raised from five to six, making such directors represent half of the total number of directors.

Also, we will appoint an additional female director, bringing the total number of women on the Board to two, in order to enhance Board diversity.

Lastly, the Board of Directors will continue to be chaired by an outside director designated as an independent director with the goal of clearly separating the execution and supervision.

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

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