SCSK Corporation

Consolidated Financial Results for 1st Quarter of Fiscal Year Ending March 2023

Q&A Session Summary

Date　　：July 29, 2022 3:30-4:30PM

Speaker ：Yasuhiko Oka, Managing Executive Officer

Q. Are sales and expenses in the first quarter largely in line with internal plans?

A. In terms of management, there were expectations for higher sales and profits in anticipation of the results targets for the current fiscal year. The result is an increase in sales but a decrease in profits, which is within the range of expectations. The costs increased in the first quarter, excluding the increase in electricity costs, was generally expected from the time the budget was formulated. Net sales were not sufficient to cover the increase in expenses, mainly due to the impact of prolonged lead times in system development. Conversely, due to the acquisition of multiple new large-scale projects and other factors, orders for system development in this period increased 10.6% and the order backlog increased 19.0%, so we expect to record a reasonable amount of sales in Q2.

Q. Gross margin is declining. How was the actual situation of the business about that?

A. When looking at gross profit margins in the three sales segments, “Systems Development” and “Packaged Software/ Hardware Sales” are at the same level as in the past, but declined in the “System Maintenance and Operations/ Services”. The decrease in System Maintenance and Operations/ Services gross margin was primarily due to higher depreciation and operating costs for new data centers, upfront costs to expand locations in our contact center business, accelerated amortization of certain software and system modification costs. The contact center business weakened in Q1 due to cancellations and downsizing by some large customers, but it is expected to recover from Q2 onward, so that the gross profit margin for System Maintenance and Operations/ Services as well to its previous level.

Q. Please tell us the details and amount already expected for SG&A expenses in Q2.

A. The full-year guidance for SG&A expenses is ¥65 billion, and the Q1 results are in-line, but we plan to strengthen management against costs in the future. Costs from Q2 onward, including the cost of sales, are expected to decrease due to the shrink of the costs such as renovation of some software and the development of new services. In terms of personnel expenses, there are items such as support payments for senior human resources that occur only in Q1, and considering these items, Q2 is expected to decrease by several hundred million yen compared to Q1.

Q. Are there unprofitable projects?

A. None.

Q. Please tell us the status of SAP breakdowns and ERP business.

A. Sales are, SAP; ¥4.7 billion (up ¥900 million year-on-year), Oracle; ¥900 million (up ¥100 million year-on-year), ProActive; ¥1.6 billion (up ¥300 million year-on-year). SAP business is extremely active. Individual projects, such as group accounting projects for the service industry and overseas group development for the manufacturing industry, are trending firmly amid the trend of cloud shifts in ERP, and inquiries are active.

Q. How are the inquiry trends compared to the end of March?

A. By around a similar amount of 60 billion. About half of these projects have already started.

Q. In development projects, some delays in the timing of recording sales are occurring due to the lengthening and enlargement of projects. Please tell us about the detail of enlargement.

A. Those large-scale development projects are planned across wide ranges from Industrial IT Business, Financial IT Business, and IT Business Solutions in our segments. Mainly due to the trend toward core system upgrades and cloud shifts and lifts, demand continues to shift on-premises core system to cloud ERP, and customers' appetite for investment is also continuing. SAP has a 2027 issue, and demand for migration is robust. The number of projects for such integrated core systems and ERP projects has exceeded double-digit billion yen, and the number of projects with a long development period is increasing.

Q. Looking at the recent supply-demand environment, it takes time to secure human resources, and should we assume that the delay in the timing of recording sales due to the prolongation and enlargement of projects will continue for the time being?

A. There is no shortage of resources because the proposal is made after arranging sufficient personnel for the project. Normally projects will be defined primarily by the Information Systems Division of the customer. However, in the case of large-scale projects in areas directly linked to the customer business, the number of stakeholders on the customer side will expand, and from the perspective of schedule coordination or IT literacy of customer side, it may take time to define requirements. Despite this situation, from Q2 onward, projects ordered at the end of March will proceed to the design and implementation phases, and it is expected that this will lead to the recording of sales as in the past, even though they were mainly accounted for by requirement definitions in this Q1.

Q. About ¥2 billion is planned for the year for the progress of business investment. What is the actual SG&A expenses in this Q1?

A. Incremental SG&A expenses in business investment are just under ¥500 million.

Q. Please tell us about future sales contributions and plans to improve profitability in the finance and automobile industries.

A. Financial IT Business is a segment with many deals, despite the impact of a reactionary decline. In the banking industry, we have already received orders for several AML and international accounting projects for megabanks and regional banks, and there has been an increase in orders and inquiries in the leasing industry. Although we had unprofitable projects in the last fiscal year, the allowance has been completed and is heading toward termination.

In the automobile industry, model-based development continues to grow steadily. Although verification services were challenging in the previous fiscal year, we expect the order backlog to accumulate from the end of the fiscal year and remain robust from the 2Q onward, and we expect mobility to grow in general in this fiscal year.

In the QINeS Business, we concluded a licensing sales contract. The business is becoming profitabile in this fiscal year, and will expand its sales channels by providing OEMs overseas. Situation where growth can be expected more than in the past.

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