

Transcript of results briefing
Results of Operations for 2nd Quarter of Fiscal Year Ending March 2023

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Representative Director, President and Chief Operating Officer

■ **Introduction**

Greetings, my name is Takaaki Touma, and I am president and chief operating officer of SCSK Corporation.

Thank you for taking time out of your business schedules to join us to today for this briefing on the financial results of SCSK Corporation in the six-month period ended September 30, 2022.

Managing Executive Officer Yasuhiko Oka will be offering more details on our quantitative performance a little later on. For now, I would like to talk about how I evaluate our performance in the six-month period as president and about my outlook for the remainder of the fiscal year and how it will affect the accomplishment of full-year performance targets.

After that, we will be looking at some of the initiatives being advanced in line with our business policies before ending with a discussion of the overarching direction of the next medium-term management plan.

Let us move on to the next slide.

■ **1. Q2 of FY2022 Consolidated Financial Results (1). Summary (slide 2)**

The Japanese economy is currently rife with uncertainty, being impacted by factors such as yen depreciation and rising resource prices. Nevertheless, corporate performance is improving and the overall economy continues to show signs of recovery.

In this environment, consistent growth in corporate IT investment was seen throughout the six-month period ended September 30, 2022.

We witnessed an increase in large-scale projects, primarily those for redeveloping core systems to accommodate customers' digital transformation strategies. This trend created a strong deal flow that continued to provide benefits for our business.

As a result, SCSK posted net sales of ¥213.0 billion, an increase of 6.5% year on year, and operating profit of ¥22.5 billion, around the same level as the previous equivalent period, in the six-month period ended September 30, 2022.

This slide shows six-month performance for each of the three years of the medium-term management plan. Although the COVID-19 pandemic struck immediately following the establishment of the plan, we have continued to generate steady result through growth investments based on the plan.

We will now turn to the next slide.

■ 1. Q2 of FY2022 Consolidated Financial Results (2). Net Sales / Operating Profit (slide 3)

In the three-month period ended June 30, 2022, we got off to a slow start with a year-on-year decrease in operating profit of ¥0.9 billion. This decrease can be attributed to higher expenses for strategic business investments conducted in line with the medium-term management plan as well as sluggish growth in systems development sales, due in part to a concentration of multiple large-scale projects in their initial phases.

However, we were able to compensate for this slow start to achieve growth in operating profit in the six-month period ended September 30, 2022. Specifically, profit margins improved as the aforementioned projects transitioned to the systems development phase and the order backlog that had been growing since the beginning of the fiscal year was converted to revenues. I therefore feel confident in lauding our ability to address the IT services demand presented by society during the six-month period.

Let us advance to the next slide.

■ 1. Q2 of FY2022 Consolidated Financial Results (3). Order backlog (slide 4)

This slide shows the order backlog that will support performance in the second half of the fiscal year.

Order backlog was down year on year in the Packaged Software / Hardware Sales segment. However, this was a result of the absence orders from communications industry customers that were recorded ahead of schedule as single batch orders in the second quarter of the previous fiscal year, a factor that we had anticipated.

The Systems Development segment, meanwhile, saw a 16% year-on-year increase in order backlog. Accordingly, we anticipate significant earnings in the second half of the fiscal year as we move forward with multiple large-scale projects.

We will now turn to the next slide.

■ 2. FY2022 Consolidated Financial Forecast (slide 5)

This slide shows the full-year performance targets that we put forth at the beginning of the fiscal year. As I mentioned a moment ago, we saw a concentration of multiple large-scale projects in their initial phases in the six-month period ended September 30, 2022. However, SCSK has always been a company that generates a large portion of its earnings in the second half of the fiscal year, and this situation is thus something that we had expected. Our performance in the six-month period was within the scope we had anticipated.

In the second half of the fiscal year, we anticipate growth in sales and orders due to the strong deal flow projected as a result of the aforementioned robust order backlog and the inquiries we have been seeing as of late. Of course, ensuring that we accomplish our full-year targets will require us to acquire even more orders in the second half of the fiscal year while cutting selling, general and administrative expenses. Everyone at SCSK is committed to achieving our full-year targets and supporting highly profitable growth under the leadership of management going forward.

I would now like to move on to the next slide.

■ **3. FY2022 Business Policy (slide 6)**

At the financial results briefing for the fiscal year ended March 31, 2022, we held in April 2022 I explained the business policies I will be prioritizing as SCSK's new leader.

We are now in the third year of the medium-term management plan. It is therefore important for us to reassess our current situation to exercise our self-transformation capabilities to make everyone at SCSK a game changer if we are to accomplish the three transformations described on this slide. Such transformation will be imperative for achieving ongoing growth.

Overseeing SCSK's business over the past six months has made the need for self-transformation painfully apparent. I would now like to take some time to discuss the initiatives will be accelerating in the second half of the fiscal year based on this newfound recognition.

Let us take a look at the next slide.

■ **3. FY2022 Business Policy (slide 7)**

On the following slides, we will be discussing various concrete projects that we hope will help you get a better idea of our business policies for the fiscal year ending March 31, 2023.

Please take a look at the next slide.

■ **3. FY2022 Business Policy (Projects Examples) (1). Active support of customers' DX initiatives (slide 8)**

With this slide, I would like to talk about our proactive efforts to support the DX (digital transformation) of customers.

Our efforts to Commercialization of DX under the current medium-term management plan have not been limited to the creation of new businesses from scratch; we have also been focused on proposal activities with an eye to future developments in digital transformation in order to support the digital transformation of customers.

To facilitate these efforts, we are cultivating human resources to bolster our technologies capabilities and better focus on our cloud service integration business. This business entails utilizing SCSK's S-Cred+ platform to provide platform as a service (PaaS) services and to supply data center services that combine various proprietary IT services based on the Company's intellectual properties. We also package these services with cloud vendor services.

Over the past year, more than 7,000 individuals have undergone training on AI, agile development, cloud, and other advanced technologies, and we are gradually growing our base of specialized engineers, which currently consists of more than 1,100 individuals with Amazon Web Services certification.

We will now move on to the next slide.

■ **3. FY2022 Business Policy (Projects Examples) (1). Active support of customers' DX initiatives (slide 9)**

These initiatives entail utilizing the resources of the SCSK Group along with external resources acquired through M&A activities, strategic alliances, and other arrangements to grow our businesses by taking a new approach toward customers.

For example, we have launched green transformation concierge initiatives via co-creation with Sumitomo Corporation and ABeam Consulting Ltd.

Combatting climate change is a pressing social issue. Based on this recognition, we are moving forward with this co-creative project to contribute to the realization of a carbon neutral society through initiatives and advisory activities advanced together with business partners and public institutions. If companies are to pursue carbon neutrality, it is important for these efforts to be balanced by business feasibility. There is thus a need for the development of green transformation management cycles that entail the formulation, assessment, and revision of long-term strategies and road maps. By combining our strengths with those of Sumitomo Corporation and ABeam Consulting, we look to co-created businesses that help resolve the issues faced by industries and society.

Please take a look at the next slide.

■ 3. FY2022 Business Policy (Projects Examples) (2). From Client-Oriented to Market-Oriented (slide 10)

Next, I would like to talk about our efforts to transition away from a focus on individual customers to adopt a more market-oriented approach.

We are leveraging the insight we have gained through developing our business together with customers to take part in projects that spread across customer business models and industries and in high-quality projects that allow us to develop and utilize intellectual properties

Please allow me to take a moment to explain some of the initiatives we are advancing targeting specific industries.

For the manufacturing industry, we are working to develop integrated businesses targeting major manufacturers centered on SAP services. SAP services are becoming the de facto standard, and we will thus be looking to expand the scope of these services while developing operations that integrate customer contact points, product lifecycle management, and all other areas of the value chain. At the same time, we will integrate client processes spanning from strategic planning to data visualization and analysis. These two approaches toward integration will be utilized to grow our businesses. Furthermore, we will proactively utilize SAP-BTP to shift internal resources toward this field.

As for the financial industry, we aim to increase the portion of our sales represented by financial platform operations. Previous efforts on this front have included the launches of our Japanese turnkey asset management program and Efukuri businesses. In addition, we have begun offering a next-generation version of our prior BankSavior anti-money laundering and fraudulent transaction detection solution. The new version of BankSavior includes AI and cloud functions. With this new solution, we look to incorporate demand from non-bank financial institutions and enterprises with financial functions.

In these efforts, it will be crucial for us to identify clear targets in each industry and to transition to sales strategies and organizations matched to these targets.

By further narrowing the scope of its targets, SCSK will seek to increase orders and boost profitability by accelerating subscription, data-driven, and other business measures.

We will now move on to the next slide.

■ 3. FY2022 Business Policy (Projects Examples) (3). Strategic enhancement of specific areas (slide 11)

This slide details initiatives for strategically strengthening operations in a specified field.

At the briefing held in April 2022, I spoke of how our ERP businesses and global businesses had been positioned as strategic businesses.

We have since identified the mobility business as a strategic business to be strengthened alongside these businesses.

We are witnessing transformations in how automobiles are made and used and in vehicles themselves, which are becoming more sophisticated. Against this backdrop, SCSK will combine the control technologies it has built as a systems integrator with the cloud technologies in which it specializes as it works to supply these technologies to automobile manufacturers.

For the mobility business, we have formulated a medium-term plan that targets net sales of more than ¥100.0 billion by the 2030. This target will be pursued by acting as a software defined vehicle supplier in areas related to vehicle interiors and as a mobility service provider in areas pertaining to connections with equipment outside of vehicles.

We previously arranged a briefing on the mobility business by a representative of this business. Materials from this briefing have been made available on SCSK's corporate website. I invite you to take a look at those materials should you be interested.

In addition, we established a specialized mobility business development subsidiary named SCSK Automotive H&S Corporation, on November 1, 2022. A news release on this matter has been issued [(in Japanese only)]. This new company will supplement conventional recruitment of new graduates and mid-career hires with proactive hiring of individuals with no industry experience, which will include reskilling when necessary. Through this approach, SCSK Automobility H&S will seek to grow its base of mobility specialists by supporting individuals starting with zero experience.

Let us now look at the next slide.

■ 4. Next Medium-Term Management Plan (slide 12)

The last topic I would like talk about today is the next medium-term management plan scheduled to start with the fiscal year ending March 31, 2024. We are currently in the process of discussing this plan in-house, and I am therefore unable to offer any details. I can, however, explain about the general direction of the plan.

The digitalization of society is an irreversible trend. Accordingly, companies will need to adapt to this trend and to embrace data and digital technologies as they endeavor to create new value.

Amid the changes in society and technologies, we will strive to achieve a massive increase in comprehensive corporate value to become a Co-Creative IT Company and to achieve net sales of ¥1

trillion, as described in Grand Design 2030. In order to accomplish these goals, we will need to continue providing new value to customers and society. This undertaking will require us to reconstruct our business domain and business models and to improve the market value of all of our employees.

Based on this overarching direction, we are examining three shifts as we formulate the next medium-term management plan—a shift from focusing on markets to prioritizing growth markets and areas where we can contribute to the resolution of social issues, a shift from providing value to adding high levels of value, and a shift from emphasizing on business models to developing highly productive models. At the same time, we look to formulate measures for the selection and concentration of businesses and for the promotion of well-being management through the reinforcement of our management platform.

I intend to talk about the key performance indicators and other details of the next medium-term management plan at the financial results briefing for the fiscal year ending March 31, 2023. In the meantime, I am committed to creating results in the remaining six months of the current medium-term management plan that can support our efforts in the fiscal year ending March 31, 2024, and in the rest of the period of the next plan. With this, I conclude my portion of today's presentation.

I hope you will continue to offer your support and understanding to SCSK.