

**Transcript of results briefing
Business Results Summary for FY2022 and Overview of Medium-Term Management Plan
(FY2023 - FY2025)**

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Representative Director, President

■ Introduction

Greetings, my name is Takaaki Touma, and I am president 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 fiscal year ended March 31, 2023.

One year has passed since I assumed the position of president in April 2022.

As president, I have had the opportunity to meet with various stakeholders, including clients, shareholders, and other investors. My interactions with such stakeholders over the past year have served to reaffirm my understanding of the importance of the social mission of the SCSK Group while also casting light on the high level of anticipation directed toward the IT services we provide.

This experience has reinforced my sense of conviction that the mission of the SCSK Group is to make ongoing contributions to the resolution of the issues faced by customers and society as well as to the development of a digital society through the creation and supply of IT services.

As for today, we will be reviewing the performance of SCSK in the fiscal year ended March 31, 2023. In addition, I would like to offer an overview of the new three-year Medium-Term Management Plan that was kicked off with the fiscal year ending March 31, 2024.

Managing Executive Officer Yasuhiko Oka will be offering more details on our quantitative performance a little later on.

■ Business Results Summary for FY2022 (slide 1)

First, let us take a look at SCSK's performance in the fiscal year ended March 31, 2023.

■ FY2022 Financial Results Summary (1/2) (slide 2)

As shown in the graph on this slide, SCSK posted its 11th consecutive year of higher sales, profit, and dividends in the fiscal year ended March 31, 2023, with net sales of ¥445.9 billion, operating profit of ¥51.3 billion, and annual dividend payments of ¥52 per share.

At the financial results briefing for the nine-month period ended December 31, 2022, we announced a downward revision to full-year performance forecasts. I regret having to inform you that, despite this downward revision, we were still unable to accomplish our forecast for operating profit. This unfortunate outcome was a result of our inability to absorb the impacts of certain loss-making projects for which earnings were recorded in the fourth quarter of the fiscal year. Although earnings were recorded at this timing, the actual project had been moving since 2020.

Nevertheless, I have to praise the dedicated efforts of our employees, through which we were able to deliver our 11th consecutive year of higher sales, profit, and dividends since SCSK was founded through the merger.

■ FY2022 Financial Results Summary (2/2) (slide 3)

This slide offers a breakdown of SCSK's performance in the fiscal year ended March 31, 2023, by quarter.

We got off to a slow start in the first quarter, posting a year-on-year decrease of ¥0.9 billion in operating profit as the concentration of multiple large-scale projects in their early stages translated to sluggish growth of systems development sales.

However, as these projects moved on to the systems development phase beginning in the second quarter, the pace of sales growth accelerated, due in part to the strong rises in order backlog that had continued since the beginning of the fiscal year. As a result, we saw recovery in our profit margins.

In the fourth quarter, we felt the impacts of the aforementioned loss-making projects. Nevertheless, overall business trends were more or less as we had originally anticipated, with earnings being fueled by incoming orders and order backlog amassed centered on systems development businesses. We were thus able to achieve record highs for fourth-quarter net sales and operating profit coupled with a substantial operating profit margin of more than 13%.

However, I once again have to state that this strong performance could not sufficiently compensate for the loss-making projects, which weighed on performance in the fiscal year ended March 31, 2023. I feel ashamed that we allowed such loss-making projects to emerge. At the same time, I am committed to learning from this mistake to pursue extensive improvements in the quality of our services and of our projects.

■ **Medium-Term Management Plan (FY2023 – FY2025) <Overview> (slide 4)**

I would now like to move on to talk about SCSK's new Medium-Term Management Plan.

■ **Review of Previous Medium-Term Management Plan (Progress of Core Strategies)(slide 5)**

I will begin by looking back at the previous Medium-Term Management Plan.

Under the previous plan, we moved forward with initiatives based on the three core strategies of core business innovation, commercialization of digital transformation, and investment in people.

Core business innovation initiatives saw us pursuing modularization to promote low-code, no-code development while also implementing automation and standardization and leverage our intellectual properties. Moreover, our intellectual properties and associated expertise were utilized to develop the S-Cred+ platform *Monozukuri* innovation platform. We then began pushing ahead with efforts to increase the adoption of this platform.

Under the core strategy of commercialization of digital transformation, we advanced initiatives at various levels to propel us toward our vision of becoming a Co-Creative IT Company in 2030. We also sought to connect differing industries via data linkage while undertaking a shift in approach from providing IT support to delivering services that capitalize on SCSK intellectual properties. At the same time, we endeavored to develop businesses as the main proponent, a move that saw SCSK investing directly in business development.

Even faced with the unexpected impacts of the COVID-19 pandemic, we still managed to make progress under each of the core strategies that was in line with our initial plans. However, the earnings contributions associated with the strategies of core business innovation and commercialization of digital transformation were limited.

For this reason, it will be important for us to move initiatives advanced under these strategies to phase in which they can generate the intended earnings during the period of the new Medium-Term Management Plan.

■ Review of Previous Medium-Term Management Plan (Management Targets) (slide 6)

In the fiscal year ended March 31, 2023, the final year of the previous Medium-Term Management Plan, SCSK posted net sales of ¥445.9 billion and operating profit of ¥51.3 billion, which equated to an operating profit margin of 11.5% and return on equity of 14.4%.

The Medium-Term Management Plan had put forth a target of ¥500.0 billion for net sales in the fiscal year ended March 31, 2023. While we failed to reach this target, we did manage to get very close, which is notable given the impacts of the COVID-19 pandemic on organic growth and the fact that the target was set based on anticipations of inorganic growth to be realized through M&A activities.

As I stated a moment ago, the earnings contributions associated with the core strategies of core business innovation and commercialization of digital transformation were limited. Nevertheless, I feel that we succeeded in steadily growing our business by catering to the robust appetite for strategic investment related to cloud systems and digitalization seen among customers in existing business areas.

■ Operating Environment for SCSK Group (slide 7)

Now, I would like to go on to discuss the SCSK Group's operating environment.

In the fiscal year ending March 31, 2024, we continue to face an incredibly uncertain operating environment characterized by an opaque outlook and high volatility. This uncertainty is seen amid rising inflation and large changes in international political and economic conditions. One factor behind the situation is the emergence of geopolitical risks, a trend that continues from the previous fiscal year.

Meanwhile, the operating environment in IT services industry continues to transform due to factors such as chronic shortages of IT human resources and the increasingly rapid trend toward customers turning to in-house options for their IT needs.

Looking inside the SCSK Group, we have identified three Group-wide stagnations that are stifling earnings growth.

These three stagnations refer to stagnation in client relationships, particularly with regard to customers, business fields, and service content; stagnation in business models, sales methods and pricing, for example; and stagnation in organizations and people, such as in the ways in which we assign personnel to specific fields or roles.

If the SCSK Group is to continue growing in today's volatile and opaque environment, it will be imperative for us to actively provide IT services that contribute to the resolution of the issues faced by customers and by society. This process will require that we seek out such issues and transform our business models as required. The three-year period of the new medium-term management plan will thus be positioned as time for even more extensive self-transformation through the reorganization of business areas and the redevelopment of business models.

■ Grand Design 2030 (slide 8)

This slide provides information on Grand Design 2030, the long-term vision SCSK unveiled in 2020.

Grand Design 2030 calls for SCSK to become a Co-Creative IT Company by pursuing dramatic improvements to comprehensive corporate value, which is comprised of economic value and social value as well as human capital value, in order to achieve fundamental increases to business capabilities.

The three management policies shown on this slide have been defined to guide us in our quest to become a Co-Creative IT Company. These policies are directly linked to the strategies of the new Medium-Term Management Plan that I will be explaining in a little bit.

■ Positioning of Medium-Term Management Plan(FY2023 - FY2025) (slide 9)

Next, please allow me to take a moment to discuss the positioning of the previous and new Medium-Term Management Plans.

The previous Medium-Term Management Plan was positioned as our first step toward becoming a Co-Creative IT Company. Under this plan, we moved forward with initiatives based on the core strategies of core business innovation and commercialization of digital transformation.

The new Medium-Term Management Plan represents the second phase our journey toward our vision for 2030. This plan will see us pursuing dramatic improvements in comprehensive corporate value.

To this end, we will reorganize business areas and redevelop business models so that we can more actively take part in fields where the SCSK Group can generate new value. At the same time, we will selectively concentrate our operations on growth markets and business areas in which the SCSK Group can be a leader and shift toward highly profitable, high-productivity business models.

No matter how our operations may change, there will be no change to the fact that the growth of our employees is the driver of the growth of the SCSK Group. We will therefore make ongoing investments in the growth of employees while developing a workplace environment that allows them to fully exercise their skills and selecting business areas and developing business models in which they can excel. We thereby aim to maximize the market value of all employees.

In this manner, we will continue to implement the core strategies of the previous Medium-Term Management Plan while also placing increased emphasis on growth potential and profitability in operating our business.

■ Medium-Term Management Plan SCSK Group's Core Strategies (slide 10)

As shown on this slide, the new Medium-Term Management Plan defines three core strategies and three managerial foundation reinforcement measures to be implemented in the pursuit of dramatic improvements to comprehensive corporate value.

I would now like talk about each of these core strategies.

■ Core Strategy 1 : Decisive Business Shifts –Three Shifts (slide 11)

The first of the three core strategies is decisive business shifts. Specifically, we will promote three shifts in our business with the aim of eliminating the three stagnations I mentioned earlier.

The first of these will be a shift toward high-potential business areas.

As we transition toward a digital society, it will be important to identify business areas in which we can anticipate growth and then to practice decisive selection and concentration. Based on this approach, we will seek to raise the ratio of businesses with high sales growth rates from the current level of 40% to more than 60% over the next three-years.

The second shift will be a shift toward high-value-added areas.

Through this shift, we will look to achieve a gross profit margin of more than 2.5% for non-product sales-related domestic IT services businesses. Accomplishing this target will require us to undertake a shift toward high-value-added areas prefaced on the utilization of our IT consulting functions to propose effective solutions to the issues faced by customers, markets, and society.

Moreover, the insight we have accumulated thus far will be used to organically link SCSK's intellectual properties, after we have acquired the necessary advanced technologies. In this manner, we will seek to develop products and service bundles to further increase the value of our IT services.

Lastly, we will shift toward high-productivity models.

In the past, our business model has been such that we would receive compensation based on the

amount of labor we provide. Looking forward, we aim to shift toward a model in which we receive compensation based on the services and value we provide. Standardizing our processes and consolidating our resources will be one way we go about this. In addition, we will fully capitalize on the success of the core business innovations advanced under the medium-term management plan through means such as the centralization of development, maintenance, and operations and the expansion of low-code, no-code development using S-Cred+ and other sophisticated development platforms. Improvements to productivity will be pursued in this manner. Through these initiatives, we seek to increase operating profit per employee in domestic IT services businesses by 20%.

These three decisive shifts will be undertaken in all of the SCSK Group's existing businesses.

■ Core Strategy 2: Development of Market-Leading Businesses in Growth Markets (slide 12)

The second core strategy of the new Medium-Term Management Plan is development of market-leading business in growth markets.

By fully leveraging and applying the SCSK Group's cloud and digital technologies, we will seek to lead market growth and achieve rapid earnings growth in growing markets and technology areas related to cloud and digital technologies.

I would now like to touch on some examples of the cutting-edge digital businesses in which SCSK leads growth markets. In the manufacturing field, such businesses include those pertaining to systems of record centered on enterprise resource planning areas as well as systems of engagement, product lifecycle management systems, and other areas of integrated manufacturing systems. In these businesses, we will seek to give form to our data-driven-management approach by innovating systems to allow for digital supply chain management and deploying IT services that enable the strategic use of operating data.

In the financial field, we are involved in anti-money laundering and fraud detection IT services, which are expected to experience rapid growth as valuable tools underpinning the safety and security of a digital society. Current offerings in these areas include our proprietary BankSavior and CardSavior solutions. By leveraging these and other offerings, we will look to grow our target markets by providing comprehensive support solutions to financial institutions as well as to consumer businesses and other companies that require financial functions.

Meanwhile, efforts in the business process management field will include introducing digital technologies into customer business processes. We will thereby endeavor to go a step further than conventional business processing outsourcing services in order to promote business process modernization that transforms business processes through deep digitalization.

Other measures to be advanced under this second core strategy will include the aggressive expansion of modernization, innovation, integration, and other cutting-edge cloud and digital services.

Through the implementation of this strategy, SCSK seeks to grow the scale of sales in the applicable businesses from the current ¥130.0 billion to around ¥200.0 billion over the three-year period of the Medium-Term Management Plan.

■ Core Strategy 3: Advancement of Next-Generation Digital Businesses through Co-Creation with Society (slide 13)

The third core strategy is advancement of next-generation digital businesses through co-creation with society.

In accordance with this strategy, we will leverage our core business insight as well as the business design and new business development insight cultivated through efforts to commercialize digital transformation as we constantly explore new business possibilities in areas based on the SCSK

Group's material issues. We will thereby work to create completely new, next-generation digital businesses that can achieve rapid growth.

This slide shows some of the fields in which we will be implementing this strategy.

■ **Management Targets (Non-Finance) (slide 14)**

This slide details the non-financial areas with regard to which we have defined trackable metrics to drive improvements in capabilities. Through this process, we will pursue improvements to comprehensive corporate value as described in the basic policies of the Medium-Term Management Plan.

For example, we aspire to maximize the market value of all employees based on the recognition that they are the drivers behind our growth. We are therefore taking steps to develop a human resource portfolio matched to our business strategies while implementing human resource strategies tailored to said portfolio.

One specific initiative planned is the introduction of digital skill standard training programs for the Group's more than 10,000 IT engineers.

We intend to provide details on areas other than those listed here and on the respective indicators through future disclosures.

■ **Management Targets (Finance) (slide 15)**

As you can see on this slide, the financial management targets for the fiscal year ending March 31, 2026, three years from now, are operating profit of ¥65.0 billion, an operating profit margin of 12.5% or more, and return on equity of 14%.

As for dividend payments, we look to heighten the dividend payout ratio in conjunction with consolidated performance growth. Specifically, we aim to enhance shareholder returns by targeting a dividend payout ratio of 50% based on the earnings forecast for the fiscal year ending March 31, 2026.

Meanwhile, the Company will conduct around ¥100.0 billion in growth investments over the three-year period of the medium-term management plan in pursuit of rapid earnings growth. Through this ongoing stance of aggressive investment, SCSK will further hone its strengths.

■ **FY2023 Business and Dividend Forecasts (slide 16)**

In the fiscal year ending March 31, 2024, the first year of the new Medium-Term Management Plan, we are forecasting net sales of ¥470.0 billion, operating profit of ¥54.0 billion, an operating profit margin of 11.5%, and profit attributable to owners of parent of ¥38.0 billion.

In addition, we intend to issue annual dividend payments of ¥56 per share.

■ **The SCSK Groups (slide 17)**

In closing, please let me emphasize the SCSK Group's commitment to working to Create Our Future of Dreams, as described in our corporate philosophy. This is a goal that we work toward together with all our employees as well as customers, society, the shareholders and investors gathered here today, and all of our other stakeholders.

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