SCSK Corporation

Consolidated Financial Results for the 3rd Quarter of Fiscal Year Ending March 2024

Q&A Session Summary

Date: January 31, 2024 3:30-4:30 PM

Speaker: Yasuhiko Oka, Managing Executive Officer

Q. What are some factors that may contribute to earnings growth in fiscal year ending March 31, 2025?

A. Our project pipeline continues to expand, and we expect to see growth in sales centered on the manufacturing and financial industries in the fiscal year ending March 31, 2025. In addition, SCSK is currently involved in some projects that are underway for the communications and distribution industries, and these projects will contribute to sales in the fiscal year ending March 31, 2025, and beyond.
We also look to grow sales from digital supply chain, mobility, and other businesses in which we can lead growth markets, as described in Core Strategy 2 of SCSK's Medium-Term Management Plan. Even as we pursue top-line growth, we intend to place even greater emphasis on productivity.

Q. It was stated that, in the fiscal year ending March 31, 2024, SCSK has been able to absorb the rises in personnel and outsourcing expenses by negotiating selling price increases with customers.
What will be your policies with this regard in the fiscal year ending March 31, 2025?

A. We have not yet determined the concrete policies, approaches, or figures for the fiscal year ending March 31, 2025, but we do intend to once again raise base salaries for employees.
We also believe that SCSK should accept the price increases proposed by our partners within the scope of reasonability. As for transferring the resulting higher costs to customers, it is important for us to reflect personnel and outsourcing expenses in estimates, and this is a fact that customers have been understanding of.
At the same time, it is important for us to carefully select the projects in which we will become involved.
We will therefore be carefully screening projects based on their profitability and risks and whether they coincide with the strategies of our Medium-Term Management Plan.
This how we will pursue even higher levels of profitability.

Q. How is performance in relation to enterprise resource planning services and what trends are expected with regard to these services going forward?

A. Sales of enterprise resource planning services totaled ¥22.6 billion in the third quarter of fiscal year ended March 31, 2023, and ¥27.8 billion in the third quarter of fiscal year ending March 31, 2024, which made for an increase of ¥5.2 billion year on year.

Our pipeline includes digital supply chain-related enterprise resource planning projects for the manufacturing industry, an area described under Core Strategy 2 of the Medium-Term Management plan, and we expect brisk performance with this regard in the fiscal year ending March 31, 2025, and beyond.

Q. It mentioned that office renovations, internal information system reforms, and other measures scheduled for fourth quarter of the fiscal year ending March 31, 2024, will result in about ¥1.0 billion in expenses.
Do you maintain your stance that the impacts of these costs on fourth-quarter operating profit will be minimal?

A. Based on the order backlog on December 31, 2023, and the trends in order and inquiries that we have been seeing in the fourth quarter of the fiscal year ending March 31, 2024, we expect fourth-quarter net sales that are relatively unchanged from the previous equivalent period.
Similarly, fourth-quarter operating profit is projected to be around the same level as the previous equivalent period as we should be able to absorb the impacts of the expenses associated with the scheduled office renovations and internal information system reforms as well as of the returns made to employees to award their contributions to performance.

Q. Was operating profit in the third quarter of the fiscal year ending March 31, 2024, in line with forecasts?

A. We did see an unexpected detraction from profit of more than ¥1.0 billion as a result of loss-making projects. Nevertheless, the rate of profit growth was at the same level as that seen in the second quarter of the fiscal year ending March 31, 2024, as anticipated, and we therefore feel that performance effectively exceeded our forecasts.

Q. Could you please offer some more details with regard to the loss-making projects that emerged in the third quarter of the fiscal year ending March 31, 2024?

A. The projects affecting third-quarter performance are the same as those that had an impact on second-quarter performance.
In the third quarter, we addressed system issues and revised specifications, which resulted in slight adjustments to estimates.
This led to us agreeing to extend the project period as needed to make the necessary changes.
However, these most recent estimates were made quite conservatively, and we therefore feel that there is no risk of costs increasing any further.

Q. What was the reason behind the flat year-on-year growth in incoming orders in the third quarter of the fiscal year ending March 31, 2024?

A. Incoming orders in the third quarter of the fiscal year ending March 31, 2024, were affected by the absence of core systems development orders from the distribution industry as well as orders from the communications and securities industries that were recorded in the previous equivalent period.

Nevertheless, we have seen a trend toward increases in long-term projects, which entail orders at each phase of a given project. The timing at which these orders are recorded can result in such lackluster growth when viewed on a quarterly basis.
However, this does not change the fact that performance is strong, as indicated by double-digit growth in orders in the nine-month ended December 31, 2023, and a favorable pipeline.

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