SCSK Corporation
Consolidated Financial Results for the Fiscal Year Ended March 2024
Q&A Session Summary

Date: April 26, 2024 3:30-4:30 PM

Speaker: Takaaki Touma, Representative director, and President

Yasuhiko Oka, Managing Executive Officer

Q. Why was SCSK unable to achieve growth in profit in the fourth quarter of the fiscal year ended March 31, 2024?

A. Performance in the fourth quarter of the fiscal year ended March 31, 2024, benefited from the absence of the ¥1.2 billion in losses from loss-making projects recorded in the previous equivalent period. Nevertheless, overall profit was down due to the higher personnel expenses that stemmed from the increase instituted to base salaries, impairment losses on software assets, and the absence of previously recorded business process outsourcing (BPO) orders from the public sector that were received in response to the COVID-19 pandemic.

Q. Can you provide a specific percent figure for the increase to base salaries scheduled to be implemented in the fiscal year ending March 31, 2025?

A. When including regular pay raises and pay raises associated with promotions, an increase to base salaries of approximately 5% was instituted in the fiscal year ended March 31, 2024.
The increase scheduled for the fiscal year ending March 31, 2025, is 6.1%.

Q. How were sales of enterprise resource planning (ERP) services in the fiscal year ended March 31, 2024?

A. In the fiscal year ended March 31, 2024, sales of ERP services came to ¥36.9 billion, an increase of ¥5.4 billion from the level of ¥31.5 billion seen in the fiscal year ended March 31, 2023.

Q. What are the underlying assumptions behind the forecast for net sales growth in the fiscal year ending March 31, 2025?

A. We are projecting a year-on-year increase of 6% in net sales in the fiscal year ending March 31, 2025.
Our basic approach toward achieving this growth will be to drive performance using systems development and operation and maintenance services.
Looking at the focus areas of core strategy 2 of SCSK's Medium-Term Management Plan, we have received a number of orders from manufacturers and have multiple pipelines for manufacturing-related projects in SAP and other digital supply chain businesses.

We will thus be looking to convert these orders to sales.
In mobility businesses, we expect to see the continuation of strong performance with regard to verification services.
Accordingly, our approach in this area will be to grow profit by increasing sales and heightening selling prices. Meanwhile, a new subsidiary tasked with supplying security services was established in the fiscal year ended March 31, 2024, and we therefore anticipate growth in this area going forward.
As for BPO services, performance will be affected by the absence of the public-sector projects that concluded in the fiscal year ended March 31, 2024. Nevertheless, we aim to achieve growth in this area by taking a strategic approach toward business process management.

Q. Particularly strong performance is being seen in regard to the modernization services described under core strategy 2 of the Medium-Term Management Plan. Which is the greater contributing factor to the improvements in performance in digital supply chain and ERP businesses, increases to selling prices or staff reallocations?
Also, is it possible that we will see further growth in performance as staff allocations progress?

A. In the fiscal year ended March 31, 2023, prior to the start of the current Medium-Term Management Plan, we integrated our ERP organizations with our industrial service organizations, which resulted in a shift of approximately 250 people, on an aggregate basis.
This move also helped us secure large-scale orders. The relocated employees are being trained as they go about their day-to-day work. We anticipate that the cultivation of staff capable of accommodating upstream processes will contribute to improvements in the gross profit margin.
We are also involved in multiple large-scale ERP projects.
This situation is creating the need for us to further augment our systems and shift staff to this area.
Options for addressing this need are being investigated including capital alliances with other companies as well as mergers and acquisitions.
SCSK has always had a large staff of engineers with specialties pertaining to the manufacturing industry, and our staff of made-to-order development engineers is also quite significant.
We thus have a large talent pool to pull from when it comes to cultivating SAP engineers.
This is one factor behind SCSK’s strong performance.

Q. What is the reason behind the growth in systems development orders seen in the fourth quarter of the fiscal year ending March 31, 2024?

A. Major factors behind the growth in fourth-quarter systems development orders included platform upgrade orders from banks, core systems development orders for distribution and communications industry customers, and SAP-related orders that contribute to digital supply chain businesses.

Q. Could you please offer some details regarding SCSK’s order pipeline?

A. On March 31, 2024, our pipeline contained orders amounting to nearly ¥70.0 billion. This included multiple large-scale SAP projects, and this pipeline is anticipated to contribute to orders and sales in the fiscal year ending March 31, 2025.

Q. What progress has been seen with regard to the loss-making projects that were recorded in the second and third quarters of the fiscal year ended March 31, 2024?

A. The situation with regard to loss-making projects requires vigilance, but projects are progressing on schedule and we have not seen any additional increases in risks.

Q. What types of performance contributions are expected from the mobility field in the fiscal year ending March 31, 2025?
Also, how is SCSK's engineer staff in this field?

A. We cannot offer specific figures, but we can say that we aim to achieve year-on-year growth of around 20% in the fiscal year ending March 31, 2025. Software-defined mobility businesses are handled by engineers specializing in upstream processes, which tend to entail higher rates. Accordingly, these businesses are expected to contribute to higher profit margins. As for our mobility engineer staff, we bolstered this staff by about 200 people in the fiscal year ended March 31, 2024, through staff relocations and recruitment of mid-career individuals.
We also recognize the need to up productivity through means such as use of generative AI in order to accommodate the incredibly strong demand for investment being seen among customers.

Q. Could you offer a breakdown of the year-on-year increases in selling, general and administrative (SG&A) expenses and personnel expenses forecast for the fiscal year ending March 31, 2025?

A. SG&A expenses are forecast to increase by around ¥5.5 billion.
This increase will be a result of three main factors. The first of these three factors will be the ¥1.5 billion rise in personnel expenses that will stem from higher base salaries and staff augmentations.
As the second factor, we anticipate a rise of between ¥1.5 billion and ¥2.0 billion in expenses for addressing the aging of our internal information systems.
The third factor will be an increase of between ¥1.0 billion and ¥1.5 billion in expenses related to office renovations, the establishment of branding bases, and business investments.
As for personnel expenses, an increase of around ¥8.0 billion was recorded in the fiscal year ended March 31, 2024, in part due to new acquisitions.
In the fiscal year ending March 31, 2025, we project an increase in personnel expenses of more than ¥7.0 billion.

Q. What is your outlook for the gross profit margin?
The gross profit margin forecast for the fiscal year ending March 31, 2025, does not represent a significant change from the previous fiscal year, although this may be due in part to SCSK being in the process of shifting toward high-value-added areas.
How should we interpret this situation?

A. AI-driven development is being utilized to improve productivity by combining our intellectual property, such as S-Cred and FastApp, with generative AI.
This development approach was applied to multiple projects in the fiscal year ended March 31, 2024, and we intend to expand the application of this approach to 30 projects in the fiscal year

ending March 31, 2025, and then double this number in the fiscal year ending March 31, 2026.
At the moment, we anticipate productivity improvements of 20% to 30% in the implementation and individual project-basis test phases, but we will target an improvement in productivity of 50% in the fiscal year ending March 31, 2026.
As a result of these factors, the gross profit margin forecast for the fiscal year ending March 31, 2025, might seem a little low. In the fiscal year ending March 31, 2026, however, we will target a massive improvement in the gross profit margin.

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