

SCSK Corporation
Business Results Summary for the Fiscal Year Ended March 2024
and Progress of Medium-Term Management Plan
Transcript of results briefing

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

Speaker: Takaaki Touma, Representative director, and President

■ **Introduction**

Greetings, my name is Takaaki Touma, and I am representative director and president of SCSK Corporation.

Thank you for taking time out of your business schedules to join us today.

As was stated by the coordinator, today we will be talking about the financial results of SCSK Corporation in the fiscal year ended March 31, 2024, our forecasts for the fiscal year ending March 31, 2025, and the progress of our Medium-Term Management plan.

Let us turn to slide 3.

■ **Consolidated Business Results Summary (slide 3)**

As shown on this slide, SCSK has continued to achieve growth in net sales and profit, not to mention increases in dividend payments, for the twelfth consecutive fiscal year since it was formed out of the merger of its two predecessors in October 2011.

In the fiscal year ended March 31, 2024, SCSK posted net sales of ¥480.3 billion, an increase of 7.7%, and operating profit of ¥57.0 billion, an increase of 11.0%. At the briefing on financial results for the six-month period ended September 30, 2023, we announced an upward revision to the performance forecast guidance figures used by management.

Actual performance ended up surpassing even these revised figures.

This impressive performance can be attributed to higher-than-anticipated IT investment demand among major customers in industries like the manufacturing, distribution, and financial industries as well as particularly favorable trends in systems development orders.

Given that performance surpassed the management guidance figures, we chose to raise dividend annual dividend payments by ¥8 per share, to ¥60 per share.

This increase represents an additional hike of ¥2 per share over the increase of ¥2 announced in January 2024 in light of upward revisions to performance forecasts.

Managing Executive Officer Yasuhiko Oka will be providing a more detailed explanation on our performance a little later on in today's presentation.

For now, let me say that I feel our performance in the fiscal year ended March 31, 2024, was strong, especially given how we were able to secure a high number of large-scale systems development projects amid the trend toward the digital transformation of society and the brisk IT investment demand witnessed throughout the year.

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We will now turn to the next slide.

■ **FY2024 Business and Dividend Forecasts (slide 4)**

I would now like to look at our forecasts for the fiscal year ending March 31, 2025.

We project net sales of ¥510.0 billion, a year-on-year increase of 6.2%; operating profit of ¥62.0 billion, an increase of 8.8%; and profit attributable to owners of parent of ¥44.5 billion, an increase of 10.0%.

We also anticipate an operating margin of 12.2%, an increase of 0.3 percentage point year on year.

As for dividend payments, we currently plan to issue an annual dividend of ¥68 per share, an increase of ¥8 per share, based on the policy of targeting a dividend payout ratio of 50% set for the final year of the Medium-Term Management plan.

Conditions remain firm in SCSK's operating environment as the brisk IT investment demand seen among domestic companies in the previous fiscal year is continuing in the fiscal year ending March 31, 2025.

This demand is associated with the needs of customers seeking to undertake the digital transformation of their operations as they enter the upgrade phase of their system's lifecycle. Accordingly, we have seen the emergence of a number of large-scale projects that are critically important to customers' strategies.

Of course, we cannot ignore the air of uncertainty with regard to domestic economic and political trends. This uncertainty is a product of such factors as international tensions, the impacts of the U.S. economy on other economies, and the fluctuations in foreign exchange rates, interest rates, and other aspects of financial markets that could stem from such impacts.

Nevertheless, the ongoing trend toward the digitalization of society means that digital investment demand is more or less a given.

SCSK is committed to capitalizing on this demand or, even, playing a more aggressive and active role in driving the digital transformation of our customers.

By fully mobilizing our technological prowess, we aim to conduct business in the fiscal year ending March 31, 2025, in a manner that generates substantial levels of social and economic value.

It is my hope that we can once again deliver an impressive performance in the fiscal year ending March 31, 2025, while also transforming SCSK's business in the manner envisioned under our Medium-Term Management plan.

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

■ **Progress of Medium-Term Management Plan (FY2023 - FY2025) (slide 5)**

Next, we will be discussing the policies that will guide our measures in the fiscal year ending March 31, 2025, and other topics pertaining to the progress of the Medium-Term Management plan.

We will now turn to the next slide.

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■ Medium-Term Management Plan SCSK Group's Core Strategies (slide 6)

This slide displays the SCSK Group's core strategies under the Medium-Term Management plan.

We will be moving forward with these three strategies throughout the three-year period of the Medium-Term Management plan.

At the same time, managerial foundation reinforcement measures will be advanced in pursuit of qualitative improvements to the technologies and resources that are SCSK's growth drivers. We thereby aim to achieve massive improvements in profitability and productivity.

Let us look at the next slide.

■ Progress of Core Strategy I (slide 7)

I would now like to go one to look the progress of each of the core strategies on an individual basis.

Core strategy 1 entails undertaking three decisive business shifts in order to reorganize our business areas and redevelop our business models with the aim of qualitatively transforming SCSK's corporate constitution.

The first of these three shifts is a shift toward high-potential business areas, which will entail identifying the low-potential, low-profitability businesses that should be reorganized so that we can reallocate hundreds of staff members. We will continue to march forward with this measure throughout the duration of the Medium-Term Management plan.

The second shift—a shift toward high-value-added areas—is illustrated on the lefthand side of this slide.

By shifting our resources toward upstream phases in our IT services businesses, we aim to develop highly profitable businesses in which individuals with sophisticated digital skills can fully exercise their talents.

There is some overlap between these high-value-added areas and the focus areas of core strategy 2. Specifically, I am referring to our intent to enhance and refine our software as a service (SaaS), platform as a service (PaaS), and other service businesses based on SCSK intellectual properties in order to drive cloud-native systems demand.

In the middle of this slide, you will see our progress in relation to the third shift—a shift toward high-productivity business models.

As part of this shift, the Financial Business Group has created development, maintenance, and operation service centers that have assembled enough digital technology engineers to generate one thousand months' worth of an individual's work in a year.

This group has also begun utilizing generative AI on a trial basis, and we are already feeling some of the benefits of these technologies.

Please look at the next slide.

■ Progress of Core Strategy II (slide 8)

Moving on to core strategy 2, as you can see on the righthand side of this slide, net sales increased by 14.3% year on year in the fiscal year ended March 31, 2024.

The largest source of this sales growth was modernization services.

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In this area, we felt the benefits of digital supply chain business orders as well as higher orders for ProActive products, which have been enhanced through the introduction of a new version based on SaaS business models.

Another source of sales growth was innovation services. Specifically, the mobility business continued to see strong performance, particularly in areas where sophisticated digital technology engineers can exercise their skills. With the following slides, I will talk a little bit about the businesses that have been driving our growth.

Let us move on to the next slide.

■ Core Strategy II

Progress of Digital Supply Chain Business and Initiatives for FY2024 (slide 9)

Looking first at digital supply chain businesses, in these businesses we cater to a customer base comprised of more than 8,000 companies, and our solid ties with manufacturers is a unique trait of our business.

The strong business relationships formed with this customer base are a product of customers' high evaluations of our technological prowess and business expertise in areas such as supply chain management and product lifecycle management.

Under the Medium-Term Management plan, we have been utilizing these strengths to ramp up our approach toward customers with a major business objective being to help large manufacturers carry out the digital transformation of their supply chain.

This process has led us to receive inquiries regarding the redevelopment of large-scale operational systems, sometimes even from customers who have not yet called upon our technological expertise pertaining to enterprise resource management (ERP).

The pipelines formed by these inquiries have enabled us to amass orders.

SCSK has fostered strengths pertaining to solutions that can support a wide spectrum of manufacturing processes as well as to systems integration for connecting various systems. By capitalizing on these strengths, we aim to expand our digital supply chain businesses through integrated digital supply chain solutions that incorporate factors such as ERP. We will also look to bolster productivity by accumulating, in the form of intellectual properties, solutions for connecting ERP systems to the type of systems that are unique to the manufacturing industry based on our digital solutions business track record.

The aim of this undertaking is to allow us to consistently accommodate the robust demand in this field. At the same time, we will endeavor to reinforce and bolster our consulting functions and engineering staff. Mergers, acquisitions, and partnerships will be considered as options for accomplishing this objective.

We will now move on to the next slide.

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■ Core Strategy II

Progress and Initiatives of ProActive Business for FY2024 (slide 10)

Next, we will look at the ProActive business. In the fiscal year ended March 31, 2024, we launched the new C4 version of ProActive.

This new version is completely based on SaaS business models. Moreover, we integrated Proactive with atWill, our production management solution.

This solution has always been highly compatible with ProActive and has sometimes even been packaged together with it.

The diagram on the lefthand side of this slide illustrates how the integration of ProActive, a product that can be used regardless of industry, and atWill, a solution that provides industry-specific functions, will result in the creation of a more sophisticated service that can provide comprehensive support for production management and other aspects of customers' data-driven management.

Looking ahead, we will transform the structure of this business to employ a full-fledged SaaS recurring revenue model while also introducing the ProActiveC4 sales management module scheduled for release in the fiscal year ending March 31, 2025.

The ProActive business is one that requires Companywide attention with regard to marketing and other aspects of operations.

That is why we have chosen to reposition the organization behind this business to be a Companywide-level organization, as shown on the righthand side of this slide.

Moreover, we have recruited outside individuals with sales and marketing expertise to work in this organization and assigned such an outside individual to be the new leader to this business.

Such organizational reforms will be advanced alongside other measures for accelerating the growth of the ProActive business going forward.

Let us turn to the next slide.

■ Core Strategy II

Progress and Initiatives of Mobility Business for FY2024 (slide 11)

Lastly, we will take a look at the mobility business. The mobility industry is undergoing a major transformation characterized by a shift in focus from hardware-centric automobile development to software-centric automobile development and services.

This trend has led to the rise of the concept of software-defined mobility, a concept that has been garnering attention in recent years. SCSK was quick to turn its eye to this trend.

With the goal of becoming a co-creative mobility service that leads the era of software-defined mobility, we are accelerating co-creation strategies with original equipment manufacturers and other suppliers.

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As one facet of these efforts, we concluded a strategic partnership agreement with Honda Motor Co., Ltd., in July 2023.

Under this agreement Honda and SCSK will assemble a team of around 1,000 mobility engineers and jointly develop a development tool chain over the period leading up to 2030.

In addition, we partnered with Renesas Electronics Corporation, a company with a substantial market share, to develop QINeS-Lite, a lightweight, high-functionality platform software created for the 16-bit microcomputers often installed in the edge electronic units of items like sensors and actuators. Sales of this product began in April 2024.

QINeS-Lite is a software product made possible by combining Renesas' insight with SCSK's technological prowess in order to provide the real-time processing and other new functions that have come to be required in edge electronic units due to the evolution of the E/E architecture for automobiles.

Going forward, we will leverage our global marketing capabilities to expand the use of QINeS-Lite in the 16-bit microcomputer market.

We will now turn to the next slide.

■ Managerial Foundation Reinforcement Measures (Promotion of Technology-Driven Approach) (slide 12)

Wrapping up our discussion on the progress of the core strategies of the Medium-Term Management plan, I would now like to move on to talk about the managerial foundation reinforcement measures being advanced under the plan.

In regard to the promotion of a technology-driven approach, we are innovating our business structure and models through the core strategies of the Medium-Term Management plan. To support this innovation from a technological perspective, we intend to accelerate the use of AI in systems development.

For example, we are combining such SCSK intellectual properties as S-Cred+ and FastApp with generative AI in development processes employing a PaaS approach that capitalizes on the insight we have amassed thus far. We are also applying the resulting AI-driven development infrastructure to SCSK's ProActive and atWill offerings and providing this infrastructure to customers that might want to use it to advance their own internal IT processes.

Furthermore, we began employing generative AI in actual systems development processes for certain project phases and sometimes from entire projects in the fiscal year ending March 31, 2025. By quickly and fully incorporating AI into all systems development projects, we aim to

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achieve higher quality along with an increase of around 50% in productivity.

Please take a look at the next slide.

■ **Managerial Foundation Reinforcement Measures Maximization of Human Resource Value (slide 13)**

Next, I would like to talk about the maximization of human resource value, which is among the most central of our managerial foundation reinforcement measures.

Our unique Well-Being management approach is one facet of this measure.

We are employing this approach with the goal of making SCSK an even more comfortable and motivating company to work for.

SCSK has been rated highly in terms of workplace comfort, and we are the only company to become included in the Health & Productivity Stock Selection program organized by the Ministry of Economy, Trade and Industry in each of the 10 years since its inception.

Leveraging the foundation formed by the workstyle reforms and health and productivity management initiatives we have implemented to date, we will advance our new Well-Being management approach in order to evolve SCSK as a company that contributes to society through value creation and at which people can experience job satisfaction.

Our proprietary SCSK Well-Being Score system was introduced as one facet of these efforts.

In this system, we have defined our values in relation to Well-Being as well as the indicators for gauging these values.

By measuring employee Well-Being through these indicators, we aim to track Well-Being levels and establish an improvement cycle so that we can further heighten the Well-Being of employees.

We will now move on to the next slide.

■ **Managerial Foundation Reinforcement Measures Establishment of branding bases (slide 14)**

As we conclude our discussion of SCSK's managerial foundation reinforcement measures, I would like to talk about the new branding base scheduled to open in June 2024.

Located in Tokyo Midtown Yaesu, SCSK LINK SQUARE will function as a base for broadcasting information to improve SCSK's brand power as well as for engaging in co-creation with customers, partners, and other stakeholders.

Moreover, it will offer a venue through which people can experience SCSK's latest solutions and cutting-edge digital technologies and engage in free and open communication with a variety of individuals. SCSK LINK SQUARE is expected to function as a focal point of our efforts to create the new value that society needs.

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Let us move on to the next slide.

■ **Business and Dividend trends during Medium-term Management Plan (slide 15)**

The last portion of my presentation looks at our performance and dividends over the three-year period of the Medium-term Management plan, which can be seen on this slide.

It goes without saying that SCSK's operating environment is undergoing dramatic changes, driven by factors such as the advancement of generative AI and other state-of-the-art digital technologies.

We are committed to practicing timely and appropriate management in a manner that accounts for these changes and moves us forward in accordance with the growth story presented for after the period of the Medium-Term Management plan.

At the moment, our intent is to continue to march forward with the core strategies of the plan in order to reorganize our business areas and redevelop our business models and consequently heighten SCSK's profitability and growth potential.

The fiscal year ending March 31, 2025, will be used as a period for ensuring the achievement of the targets of the Medium-Term Management plan and for paving a new road toward growth for SCSK.

I intend to be diligent in leading management toward the accomplishment of these objectives.

Today, I have spoken about our performance in the fiscal year ended March 31, 2024; our forecasts for the fiscal year ending March 31, 2025; and the progress of the measures of the Medium-Term Management plan.

At the end of the presentation slides, you will find an appendix that contains information on our utilization of generative AI for systems development processes, initiatives being carried out in the green transformation field as part of core strategy 3, and our progress toward our financial and non-financial targets. I invite you to look through this appendix at your convenience.

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

END

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