SCSK Corporation

Consolidated Financial Results for the Fiscal Year Ended March 2024

Transcript of results briefing

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

Speaker: Yasuhiko Oka, Managing Executive Officer

■ Contents (slide 1)

Greetings, my name is Yasuhiko Oka, and I am a managing executive officer of SCSK Corporation.

■ Summary of Financial Results（PL/Incoming Orders/Backlog) (slide 2)

As shown on this slide, in the fiscal year ended March 31, 2024, we posted net sales of ¥480.3 billion, up 7.7% year on year; operating profit of ¥57.0 billion, up 11.0%; and profit attributable to owners of parent of ¥40.4 billion, up 8.5%.

These figures represent historic highs. We were able to achieve this impressive performance thanks to the IT investment demand exhibited by customers amid the strong conditions for the domestic IT services industry.

Incoming orders were up 7.7% year on year, to ¥484.7 billion, and order backlog rose 3.6%, to ¥187.5 billion. I will offer more details on order trends a little later. For now, let me state that these figures were a result of solid IT investment demand.

■ Summary of Financial Results from Jan. to Mar. 2024（PL/Incoming Orders/Backlog） (slide 3)

Let us now look at slide 3.

In the fourth quarter of the fiscal year ended March 31, 2024, net sales amounted to ¥128.9 billion, up 4.9% year on year; operating profit was ¥16.0 billion, down 1.0%; and profit attributable to owners of parent came to ¥12.1 billion, up 2.7%.

When considering the fact that the fourth quarter of the fiscal year ended March 31, 2023, showed a year-on-year increase in net sales of more than 10%, I believe I can say that net sales in fourth quarter of the fiscal year ended March 31, 2024, were strong and a continuation of the trends seen throughout the first three quarters of the year. As for the slight decline in operating profit, I will get into that a bit later on.

The figure for profit attributable to owners of parent reflects tax exemptions incurred as a result of the Company raising wages.

Meanwhile, incoming orders rose 6.7% year on year in the fourth quarter, to ¥154.4 billion.

■ Net Sales Analysis (slide 4)
Please turn to slide 4.
This slide shows year-on-year changes in sales by sales segment.

In the fourth quarter, the Systems Development segment posted growth of 8.9% in net sales, sustaining the growth trend that continued throughout the fiscal year ended March 31, 2024. This growth was a result of sales of anti-money laundering systems to the financial industry and of systems development projects to the manufacturing and distribution industries.

The System Maintenance and Operation / Services segment was impacted by changes to accounting standards in the data center business, which continued to depress sales. Nevertheless, this segment saw fourth-quarter net sales surpass the levels witnessed in all other quarters as a result of the strong performance of management services and verification services.

In the fourth quarter, net sales in the Packaged Software / Hardware Sales segment declined 2.0% year on year, despite robust demand for network security products. This outcome was in part a result of the absence of license sales to the financial industry recorded in the previous equivalent period as well as decreases in sales of network equipment to certain communications industry customers.

■ Operating Profit Analysis (slide 5)
Next, slide 5 shows factors affecting operating profit.

A As you can see on this slide, higher net sales buoyed operating profit by ¥9.0 billion.

In terms of factors affecting the gross profit margin, we achieved success in improving productivity as well as in transferring costs to customers by proposing appropriate prices for our services. In addition, the negative impacts of loss-making projects were lower than seen previously. The resulting increase in profitability boosted profit by around ¥2.6 billion. This compensated for the higher costs associated with the increase instituted to base salaries and pushed overall operating profit up by ¥1.2 billion.

Selling, general and administrative (SG&A) expenses were up as a result higher personnel and recruitment expenses following the increases to base salaries and performance-based bonuses as well as the hiring of new employees. Other factors driving up SG&A expenses included rises in expenses for sales activities and the addition of expenses attributable to new consolidated subsidiaries. In addition, costs were incurred in the fourth quarter for office renovations and measures for addressing aging systems.

As a result, operating profit in the fiscal year ended March 31, 2024, grew 11.0% year on year, to ¥57.0 billion, and the operating profit margin rose 0.3 percentage point, to 11.9%

■ Operating Profit Analysis from Jan. to Mar. 2024 (slide 6)
Next, I would like to talk about the factors affecting, and ultimately resulting in a decrease in, operating profit in the fourth quarter of the fiscal year ended March 31, 2024.

First of all, the higher fourth-quarter net sales pushed operating profit up by ¥1.6 billion.

The gross profit margin benefited from the absence of loss-making projects in the fourth quarter.

However, it also felt the impacts of the higher personnel expenses resulted from increases to base salaries and performance-based bonuses as well as the amortization expenses incurred following the reassessment of software assets. The net effect of these factors was an increase of ¥0.1 billion to profit.

As for SG&A expenses, the general increase seen throughout the fiscal year was further compounded by factors unique to the fourth quarter, such as the increase to performance-based bonuses.

As a result of these factors, operating profit declined 1.0% year on year in the fourth quarter, coming to ¥16.0 billion, and the operating margin was 12.4%.

■ Incoming Orders/Backlog Analysis (slide 7)

Let us know turn to slide 7, which shows a breakdown of factors affecting incoming orders and backlog by sales segment.

The Systems Development segment saw increases in incoming orders and order backlog of 11.3% and 9.9%, respectively. These increases were a result of growth in orders for core systems development services, orders for systems development projects from financial industry customers, and orders from manufacturing industry customers. We are currently witnessing consistently brisk investment demand, and we therefore anticipate that sales in the fiscal year ending March 31, 2025, will be buoyed by orders from manufacturing, distribution, financial, and other industries.

Incoming orders in the System Maintenance and Operation / Services segment were up 9.9% and order backlog grew 5.3% following increases in orders for management services as well as strong performance for verification services. We expect that these orders will contribute to steady sales going forward.

In the Packaged Software / Hardware Sales segment, meanwhile, incoming orders decreased 4.1% and order backlog was down 14.7%. These decreases were a result of lower orders for network equipment from certain communications industry customers as well as the absence of large-scale hardware orders recorded in the previous fiscal year. Although the order backlog declined because of the upfront orders received from certain customers recorded in the previous fiscal year, we project that demand for network and security products will remain strong going forward.

■ Business Performance by Reportable Segment (Net Sales/Operating Profit /Operating Profit Margin) (slide 8)

I would next like to talk about performance by segment, with slide 8.

We will begin by looking at the Industrial IT Business segment, which posted increases in net sales and segment profit amid rising demand from a wide range of industries. This demand manifested in growth in core systems redevelopment orders from distribution industry customers and higher sales of development services to the communications industry as well as to automobile, electric machinery, and other manufacturing industries.

In the Financial IT Business segment, net sales were up following rises in anti-money laundering service sales to the banking, credit, and leasing industries as well as increases in development orders from securities companies. Segment profit similarly rose due to the benefits of the higher sales coupled with the absence of the loss-making projects recorded in the previous fiscal year.

The IT Business Solutions segment posted higher net sales. This outcome was a result of the segment's ability to accumulate large amounts of enterprise resource planning and ProActive orders along with the benefits of newly acquired business process outsourcing (BPO) companies. Segment profit, meanwhile, declined due to the impacts of upfront costs for engineer reskilling measures, which are being implemented as we shift resources toward digital supply chain businesses, as well as the absence of previously recorded BPO orders from the public sector.

Moving on, the IT Platform Solutions segment achieved levels of net sales and segment profit that were relatively unchanged year on year on a full-year basis.
Although there was a reduction in network equipment sales to certain communications industry customers, the segment benefited from strong sales of network security products as well as sales of hardware to manufacturing industry customers and to academic research institutions.

Next, the IT Management Service segment achieved an increase in net sales that was largely driven by sales of management services to financial industry customers amid ongoing demand associated with transitioning to cloud systems and redeveloping existing systems to use cloud infrastructure. In addition, an increase was seen in segment profit due to higher inter-segment sales following rises in platform development projects for customers of the Industrial IT Business and Financial IT Business segments. Another factor behind the increase in segment profit was the absence of the impacts of higher electricity bills, which had not been fully transferred to customers in the six-month period ended September 30, 2022.

■ Business Performance by Reportable Segment (Incoming Orders/Backlog) (slide 9)
Moving on to slide 9, we will look next at trends in incoming orders and backlog by segment.

Beginning with the Industrial IT Business segment, this segment posted a year-on-year increases of 11.1% in incoming orders and 6.2% in order backlog. These increases were a result of verification service demand and development demand from manufacturers of items such as automobiles as well as systems development demand from the distribution and communications industries.

In the Financial IT Business segment, incoming orders were up 7.9% year on year while order backlog rose 9.0%. These increases can be attributed to orders for anti-money laundering services from the banks as well as system replacement orders from securities firms.

Incoming orders in the IT Business Solutions segment were up 8.8% year on year while order backlog rose 3.9% following increases for enterprise resource planning orders involving SAP and ProActive products and for e-commerce-related projects. The benefits of new acquisitions of BPO companies also contributed to increases in orders.

The IT Platform Solutions segment saw decreases of 3.5% in incoming orders and 10.2% in order backlog, despite strong demand for network and security products. This outcome was a result of the declines in network equipment orders from certain communications industry customers and the absence of previously recorded large-scale hardware sales orders.

In the IT Management Service segment, incoming orders and order backlog were up year on year due to the solid trends in orders in relation to management services seen amid demand associated with transitioning to cloud systems and redeveloping existing systems to use cloud infrastructure.

■ Business Performance by Reportable Segment Analysis (slide 10 to 11)
Slides 10 and 11 offer a summary of the factors affecting segment performance that I just explained. I will not be offering any additional comments on these slides.

■ Key Points of Financial Results (slide 12)
This slide is summary of the key points of the full year financial results that were explained today, so I will omit the explanation.

■ Full-year Consolidated Financial Forecasts/Dividends Forecasts (slide 13)
In the fiscal year ending March 31, 2025, we project net sales of ¥510.0 billion, an increase of 6.2% year on year; 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%.

Factors anticipated to contribute to the increase in net sales include higher sales in digital supply chain businesses centered on SAP offerings for the manufacturing industry, mobility businesses developed in light of the trend toward software defined mobility, and security businesses that contribute to the resolution of social issues. These businesses will be grown as we develop operations in growth markets, based on the strategy defined in the Medium-Term Management plan.
In this undertaking, we will capitalize on the large-scale orders and substantial pipeline that have been secured thanks to the consistently brisk IT investment demand seen in the domestic market. We also expect to witness growth in sales for core systems development services, verification services, and BPO services from various industries.

Costs are projected to rise in terms of personnel and outsourcing expenses, respectively the result of increases to base salaries and outsourcing prices; recruitment expenses for securing human resources; internal information system upgrade costs; office environment renovation costs, and investment costs for developing and enhancing our operations.
Nevertheless, we forecast a year-on-year increase of 8.8% in operating profit due to the benefits of higher net sales, improved profitability achieved through the selection and concentration of businesses, the transference of costs to customers, and productivity gains from the use of technologies like generative AI.

Profit attributable to owners of parent is projected to rise 10.0% year on year, to ¥44.5 billion, due in part to the tax exemptions to be incurred in conjunction with the increase to base salaries planned in the fiscal year ending March 31, 2025.

We also aim to tie our efforts to improvements in the gross profit margin and the operating margin in order to propel us toward the accomplishment of the targets of the Medium-Term Management plan.

Dividend payments for the fiscal year ending March 31, 2025, are as explained by President Takaaki Touma. To reiterate, we plan to increase dividend payments by ¥8 per share, which will make for annual dividend payments of ¥68 per share and is forecast to equate to a dividend payout ratio of 47.7%.

This concludes my portion of today's presentation. SCSK looks forward to your ongoing support and encouragement.

We greatly appreciate you taking the time to join us today.

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