SCSK Corporation
Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 2025
Transcript of results briefing

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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)
In the three-month period ended June 30, 2024, SCSK posted net sales of ¥122.5 billion, up 8.1% year on year; operating profit of ¥12.9 billion, up 0.3%; and profit attributable to owners of parent of ¥9.2 billion, up 2.4%. In this manner, operating profit showed a slight decline despite the increase in net sales. I will provide more details on this matter a little later on. Profit attributable to owners of parent, meanwhile, was up due to the absence of losses on valuation of marketable securities recorded in the previous equivalent period.

Incoming orders were up 12.4% year on year, to ¥115.7 billion, and order backlog rose 4.6%, to ¥180.7 billion, as a result of solid IT investment demand.

■ Net Sales Analysis (slide 3)
This slide shows year-on-year changes in sales by sales segment.

The Systems Development segment posted growth of 5.9% in net sales, despite the absence of previously recorded orders from the distribution industry, due to increases in sales to the banking industry and in sales of development services to the automotive and other manufacturing industries.

The System Maintenance and Operation / Services segment achieved net sales growth of 6.4% as a result of the strong performance of management services and verification services, which offset the decline from the absence of previously recorded business process outsourcing (BPO) sales.

Net sales in the Packaged Software / Hardware Sales segment rose 17.3% year on year due to increases in sales of network equipment to certain communication industry customers, in large-scale hardware sales to academic research institutions, and in sales of security products to financial industry customers.

■ Operating Profit Analysis (slide 4)

Next, this slide shows factors affecting operating profit.

As you can see on this slide, higher net sales buoyed operating profit by ¥2.4 billion.

In terms of factors affecting the gross profit margin, the impacts of unprofitable projects were lower than seen previously, resulting in improved profit margins for systems development. Regardless, the gross profit margin was down overall due to an increase in low-margin system sales, the conclusion of public-sector BPO projects, costs associated with bolstering the functionality of ProActive, and lower gross profit.

Selling, general and administrative (SG&A) expenses were up as a result of higher personnel expenses following the increases to base salaries and other wage increases as well as promotions and staff expansions. Other factors driving up SG&A expenses included expenses for sales activities and costs incurred in relation to office renovations and measures for addressing aging systems.

In addition, gains on sales of real estate totaling around ¥0.6 billion were recorded under other income. As a result of these factors, operating profit in the three-month period ended June 30, 2024, was relatively unchanged year on year at ¥12.9 billion.

■ Incoming Orders/ Backlog Analysis (slide 5)

This slide 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 10.9% and 14.9%, respectively. These increases were a result of growth in orders for core system development services from manufacturing industry customers, orders for development services from financial industry customers, and general orders from automotive industry customers.

Despite the impacts of the absence of previously recorded BPO orders, incoming orders in the System Maintenance and Operation / Services segment were up 5.8% and order backlog grew 3.0% following increases in orders for management services as well as strong performance for verification services.

In the Packaged Software / Hardware Sales segment, meanwhile, incoming orders increased 30.6% as a result of rises in network equipment orders from certain communications industry customers as well as in hardware sales orders. Order backlog felt the impacts of the absence of previously recorded large-scale hardware orders, but the orders received from certain communication industry customers led the decline in order backlog to be smaller than in the fourth quarter of the fiscal year ended March 31, 2024.

■ Business Performance by Reportable Segment(Net Sales/Operating Profit/Operating Profit Margin) (slide 6)

I would next like to talk about performance by segment with slide 6.

A reorganization in reportable segments was undertaken in the three-month period ended June 30, 2024.

This reorganization entailed the transference of organizations related to SAP operations from the IT Business Solutions segment to the Industrial IT Business segment. This move was undertaken based on the progress of our efforts to build a digital supply chain for the manufacturing industry, which is one of the growth strategies of the Medium-Term Management Plan.

We will begin by looking at the Industrial IT Business segment, which posted increases in net sales and segment profit amid rises in development projects from automotive and other manufacturing industries as well as in demand for verification services. The benefits of these factors counteracted the impacts of the conclusion of multiple projects for the distribution industry.

In the Financial IT Business segment, net sales and segment profit were up, despite the conclusion of projects for the credit and leasing industries, due to the ongoing rise in anti-money laundering and core system projects for the banking industry.

Despite increased e-commerce-related development projects, the IT Business Solutions segment saw net sales decline as a result of the absence of previously recorded ProActive orders related to Japan's new invoicing system as well as the conclusion of BPO projects for public agencies. Segment loss of ¥0.1 billion was recorded due to lower sales as well as costs incurred for strengthening the functionality of ProActive, in light of the integration of related operations.

Moving on, the IT Platform Solutions segment achieved growth in net sales and segment profit following increases in network equipment sales to certain communications industry customers, sales of security products to financial industry customers, and large-scale hardware sales to academic research institutions.

Next, the IT Management Service segment posted higher net sales and segment profit thanks to an increase in sales of management services centered on financial industry customers as well as sales of low-margin cloud service licenses to distribution industry customers. However, the operating margin for this segment declined.

■ **Business Performance by Reportable Segment (Incoming Orders/Backlog) (slide 7)**
Moving on to slide 7, 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 increase of 17.5% in incoming orders due to a large rise in development demand centered on the automotive industry as well as strong demand for verification services and higher SAP-related orders. These factors counterbalanced the conclusion of multiple projects for the distribution industry. Order backlog similarly rose 14.6% due to the benefits of the factors that buoyed incoming orders coupled with a rise in orders from the distribution and communications industries.

In the Financial IT Business segment, incoming orders were up 7.5% year on year, despite the absence of previously recorded orders from life and non-life insurance companies, due to orders from the banking industry related to overseas money transfers. These factors, together with the orders for anti-money laundering services received from the banking industry in the fiscal year ended March 31, 2024, resulted in a year-on-year increase in order backlog of 11.3%.

Incoming orders in the IT Business Solutions segment were down 9.8% year on year while order

backlog decreased 5.2%. This outcome was a result of the impacts of certain customers curtailing or canceling their BPO contracts. The impacts of these factors outweighed the increase in ProActive- and e-commerce-related orders.

The IT Platform Solutions segment achieved an increase in incoming orders of 19.6% following growth in orders for network equipment from certain communications industry customers as well for security equipment from financial industry customers. For order backlog, the decline in the three-month period ended June 30, 2024, was not as large as that seen in the fourth quarter of the fiscal year ended March 31, 2024, as the orders received from certain communications industry customers helped counteract the impacts of the absence of previously recorded large-scale hardware sales orders.

In the IT Management Service segment, incoming orders and order backlog were up 19.6% and 5.5%, respectively, due to the solid accumulation of orders for cloud and management services.

■ Business Performance by Reportable Segment Analysis (slide 8-9)
This slide is summary of the key points of the full year financial results that were explained today, so I will omit the explanation.

■ Topics 1 (slide 10)
We will now discuss some topics of interest.
Please look at slide 10.

With this slide, we will be talking about the performance of our ProActive. We touched on this topic a little when discussing the performance of the IT Business Solutions segment.

At the financial results briefing for the fiscal year ended March 31, 2024, we explained how SCSK's atWill operations had been merged with its ProActive operations. Today, I would like to talk about the progress of this newly merged business with a focus on three elements of the business.

The first element, shown on the upper righthand portion of this slide, is the development of industry-specific services. In the past, we have focused on introducing production management systems with an emphasis on systems integration based on the concept of combining systems in operations. Going forward, we will provide additional offerings through the three industry-specific templates shown on this slide, which are scheduled for release in August 2024. With these templates, we will seek to deliver systems that fit even better into standardized frameworks.

The second element, displayed on the lower lefthand portion of this slide, is the shared atWill Platform. We have transformed our prior low-code development platform into a multi-platform development infrastructure that is compatible with cloud-native applications. In addition, we plan to introduce AI, voice interface, and other functions going forward.

The third element is generative AI, which is shown in the lower righthand portion of this slide. SCSK aims to develop industry-specific generative AI to help it take advantage of the data accumulated by its applications.

Through these initiatives, we seek to grow ProActive into a cornerstone of the best practices related to processes, industries, and technologies.

■ Topics 2 (slide 11)

Let us now look at slide 11.

Next, I would like to discuss SCSK's business process modernization (BPM) initiatives.

Previously, robust demand has been seen for traditional BPO services aimed at responding to workforce decline and cost reduction needs. However, the conclusion of the COVID-19 pandemic and advancements in AI and other technologies have stimulated a rise in demand for more sophisticated BPO services that use digital technologies to drive the transformation of entire business processes and even entire companies.

In response to this trend, SCSK is utilizing its BPO and IT strengths and insight as well as its IT technologies to design and operate ideal business processes that capitalize on the data and knowledge of customers. At the same time, we seek to sculpt best practices based on the knowledge accumulated from actual work processes to create a shared platform that can be provided to various customers.

Moreover, SCSK plans to establish a dedicated organization in August 2024 to consolidate its staff of IT consultants and individuals with robust insight into business process transformation to aid in the enhancement of its operations in this area.

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.