

SCSK Corporation
Business Results Summary for the 1st Half of Fiscal Year Ending March 2025
and Progress of the Medium-Term Management Plan

Date: October 29, 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 busy schedules to join us today.

Today, we will be talking about the financial results of SCSK Corporation in the six-month period ended September 30, 2024, as well as the progress of our Medium-Term Management Plan in its second year.

Let us turn to slide 3.

■ **Consolidated Financial Results for the 1H of FY2024 (Summary) (slide 3)**

I would like to begin by touching on some key points regarding changes in sales and profit in the six-month period ended September 30, 2024.

The operating environment during this period was characterized by a growing appetite for IT investment among customers.

Strong earnings were seen with regard to our various businesses under core strategy 2 of the Medium-Term Management Plan, a factor I will be discussing a little later. These earnings led net sales to grow 8.8% year on year, to ¥251.5 billion, in the period under review.

We also achieved impressive growth when it came to gross profit, which increased 7.6% year on year, to ¥65.8 billion. Business investments in strengthening our ProActive and business process outsourcing (BPO) operations detracted ¥1.5 billion from gross profit, but we are able to absorb the impacts of this detractor to post overall growth in profit.

Operating profit was impacted by the aforementioned business investments for strengthening ProActive and BPO operations as well as by accounting treatments for the disposal of certain ProActive assets, which resulted in a combined reduction of approximately ¥3.0 billion in profit. Nevertheless, we were able to compensate for this reduction to achieve operating profit of ¥26.9 billion, relatively unchanged year on year, in the six-month period ended September 30, 2024

We will now turn to slide 4.

■ **Consolidated Financial Results for the 1H of FY2024 (Backlog) (slide 4)**

With this slide, we will be looking at the backlog that will shape performance in the second half of the fiscal year.

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On a consolidated basis, the backlog was up 4.6% year on year. Changes in order backlog by sales segment are as displayed on this slide.

In the Systems Development segment, the backlog rose 7.3% primarily due to contributions from the growth of the mobility business.

The backlog for the System Maintenance and Operation / Services segment grew 5.5% on the back of increased orders for verification and management services.

A decrease of 4.2% was seen in the backlog in the Packaged Software / Hardware Sales segment, but this was mainly the result of the absence of large-scale hardware orders recorded in the previous equivalent period.

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

I would now like to move on to slide 5.

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

Now, I would like to begin our discussion of our progress under the Medium-Term Management Plan.

Please look at slide 6.

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

This slide provides an overview of 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 our technical capabilities and human resources as we seek to achieve business growth along with massive improvements in profitability and productivity.

Today, I would like to report on our progress with regard to the key performance indicators set for core strategy 2 of the Medium-Term Management Plan as well as the current conditions and future outlook for four businesses being advanced as part of that strategy.

Let us look at slide 7.

■ Progress of Core Strategy II (slide 7)

Core strategy 2 of the Medium-Term Management Plan is positioned as a central pillar of our pursuit of earnings growth during the plan's period and is aimed at building a business portfolio that will allow SCSK to strengthen its businesses in the era of cloud and digital technologies.

The graph on the righthand side of this slide shows year-on-year changes in sales by service area in the six-month period ended September 30, 2024.

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As you can see, we achieved strong growth in all three service areas, contributing to an 18.3% increase in the combined sales of these three areas. This growth is a result of our ongoing companywide effort to shift human resources to these areas, promote re-skilling, and bolster our technological capabilities.

The first of these three service areas is modernization services. In this area, we have received large-scale SAP orders from multiple manufacturers. The strong demand from these and other customers drove growth in our digital supply chain business, which compensated for the sluggish growth in other businesses.

The other two service areas are innovation services and integration services. We benefited from OEM software development projects in mobility businesses in the former and the continuation of firm demand for security products in the latter, resulting in the performance detailed on this slide.

In regard to the digital supply chain business that drove growth in modernization services, the large-scale SAP orders recorded in the six-month period ended September 30, 2024, are still in the upstream phases. Accordingly, we anticipate accelerated growth rates as these projects enter into the implementation phases in the second half of the fiscal year, in the fiscal year ending March 31, 2026, or beyond.

Please look at slide 8.

■ Core Strategy II Progress and Future of Digital Supply Chain Business (slide 8)

I would now like to go on to discuss the current conditions and future outlook for four businesses being advanced under core strategy 2 of the Medium-Term Management Plan. We will begin with the digital supply chain business.

At the fiscal results briefing for the fiscal year ended March 31, 2024, we talked about how we are ramping up our approach targeting customers with a major business objective being to help large manufacturers carry out the digital transformation of their supply chain. These efforts are being supported by the operational insight we have gained over years of developing systems for large-scale manufacturers, our robust track record of introducing SAP and other enterprise resource management (ERP) systems, and our extensive staff of engineers with skills in this area.

On the lefthand side of this slide, we detail our progress in specific fields. In response to the strong digital transformation demand from major manufacturers, we sought to strengthen the organizations responsible for these operations. This prompted the launch of a companywide campaign to shift human resources to these organizations and proactively recruit mid-career individuals in the fiscal year ended March 31, 2023, prior to the start of the Medium-Term Management Plan. Through these efforts, we have expanded our ERP staff by more than 300 people to date. We have since continued to enhance our team through human resource development and other measures. This dedication has enabled us to receive multiple core system redevelopment orders, including some of our largest ever to be received from major manufacturers. These projects are moving forward at the moment, and a number of the systems developed through these projects are already operational.

Aside from ERP, we have defined the three focus fields of engineering chains, client contact points, and systems of insight, as indicated by the solutions map in the middle of this slide. We have evolved our systems for promoting businesses in these fields by consolidating our expertise

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and solutions so that they can be supplied by customers.

Systems of insight is expected to be an incredibly important field for SCSK going forward. In this field, we are enhancing our Add-Value for Insight platform, which makes it possible track key performance indicators in the manufacturing industry, and partnering with companies boasting strengths in data science. At the same time, we are bolstering our systems across areas ranging from the data-driven management activities of customers that are at the start of all processes to the actual implementation procedures.

Furthermore, SCSK is utilizing cutting-edge AI technologies to improve productivity through AI-driven development in its quest to become a co-creation partner that develops digital supply chains for manufacturers.

We will now move on to slide 9.

■ Core Strategy II Strengthening of Resources for the Mobility Business (slide 9)

Next, I would like to talk about our constantly growing mobility business.

Our ability to grow our mobility business and contribute to the automotive industry, which is increasingly prioritizing software, will hinge on the extent to which we can achieve qualitative and quantitative increases in our staff of mobility engineers and other upstream engineers.

The cultivation and supply of such upstream engineers were principal objectives of the strategic partnership we formed with Honda Motor Co., Ltd., in the fiscal year ended March 31, 2024. To bolster our staff of mobility engineers, who support the development of battery electric and other electrified vehicles and next-generation platforms, we will accelerate efforts to recruit mid-career individuals with specialized skills and to reskill and otherwise training existing staff.

As a result of these efforts, we have seen a number of individuals with experience at automobile manufacturers and other specialists join SCSK. We have also been enhancing our basic training, specialized training, and re-skilling training programs. These programs are matched to the needs of specific types of human resources.

We anticipate that these efforts will result in the amount of resources associated with the Mobility Business Group doubling over the three-year period of the Medium-Term Management Plan, as shown in in the bottom-righthand corner of this slide.

Going forward, we will continue to enhance human resource development programs and provide sophisticated software engineering services in order to address the industry need to foster mobility engineers and thereby make greater contributions to the mobility industry.

We will now turn to slide 10.

■ Core Strategy II Current Status of BPO/BPM and Future Initiatives (slide 10)

As I mentioned when talking about performance at the beginning of this presentation, we are investing in strengthening our operations in two businesses. The first I would like to talk about is our BPO operations.

In the six-month period ended September 30, 2024, both sales and profit were down in BPO operations.

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A major factor behind the decline in sales was the rebound from the special demand trend associated with COVID-19 pandemic seen among public institutions. The effects of this dissipation have been continuing since the fiscal year ended March 31, 2024. In addition, as shown on the righthand side of this slide, there was an increase in expenses for evolving beyond traditional BPO services including human resource expenses for the recruitment and development of consulting personnel and reskilling measures. There was also an increase in expenses for enhancing bases to bolster intra-Group coordination. These factors led to a decrease in operating profit for BPO operations.

In the second half of the fiscal year, we project intensified cost competition in traditional BPO businesses as the increase in new market participants seen during the special demand trend associated with COVID-19 pandemic disrupts the supply-demand balance. This will force such businesses to undertake structural reforms. At the same, we expect that SCSK's BPO operations will suffer declines in sales due to the strategic decision to end certain contracts. Meanwhile, in the fiscal year ending March 31, 2025, we anticipate noteworthy sales growth in the BPO operations we are proposing in conjunction with the transformation of business processes SCSK advocates expanding in light of this trend. This sales growth will be a product of steady rises in transactions for co-creative services offered with online financial institutions that utilize financial service brokers. To achieve further growth in these operations, the investments conducted in the six-month period ended September 30, 2024, will need to be continued during the second half of the fiscal year. As the costs will be incurred in advance of sales growth, performance will not likely start recovering in earnest until the fiscal year ending March 31, 2026, or beyond.

Going forward, the Mobility Business Group will continue to transform itself to allow for the proposal of business process modernization services. These services will create new value by transforming business processes while utilizing IT as well as AI and other advanced digital technologies based on our existing customer contact points and accumulated operating data and knowledge.

Let us turn to slide 11.

■ Core Strategy II ProActive (slide 11)

Next, I would like to report on the progress in our ProActive operations.

At the financial results briefing for the three-month period ended June 30, 2024, we talked about how we had merged ProActive, a proprietary SCSK ERP solution, and our atWill manufacturing industry solution.

Following the merger, we have seen an increase in the number of contacts and inquiries that can be attributed to the benefits of integrating the two solutions.

At the moment, we are in the process of developing certain ProActive and other modernization services and integration services into innovative services that can be deployed as new offerings merging software as a service, platform as a service, and infrastructure as a service elements. With these offerings, we will seek to actively lead the digital transformation of society and respond to the digital needs of a wider range of customers.

More specifically, as indicated in the diagram on the righthand side of this slide, we will embed into our proprietary digital infrastructure the services, AI agents, and other advanced digital technologies of other companies in addition to the intellectual properties of SCSK. In this manner, we are developing services that will allow us to respond to customer issues by proposing best

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practices.

Going forward, we will proceed to revise and redevelop other IT and digital services while incorporating SCSK's sophisticated process and IT consulting capabilities and advanced digital technologies. Completed offerings will be deployed when ready to enable us to address an even wider range of social issues and cater to other customer needs.

We will now turn to slide 12.

■ Core Strategy II ProActive (slide 12)

ProActive is a core offering among our new services. At the moment, we are enhancing the functionality of ProActive in order to develop it into a business platform that will allow for swift management decisions to be made based on foresight.

The basic concept for ProActive has been defined as being an "AI-centric business application." In keeping with this concept, we are introducing additional AI functions while enhancing co-pilot user support functions and AI-agent functions tailored to addressing industry-specific issues and otherwise working to modernize ProActive's architecture.

Proof of concept testing is currently being advanced together with customers in the wholesale and manufacturing industries, and, after verifying the results of said tests, we plan to release the related services during the fiscal year ending March 31, 2026.

At the same time, we recognize that seven years have passed since the planning and development of the most recent version of ProActive. We have thus identified issues pertaining to the productivity and operational efficiency that will emerge if we seek to utilize the latest technologies as part of the modernization process.

This led to the painful decision to dispose of certain software assets pertaining to functions that are unlikely to be reused.

Please take a look at slide 13.

■ TOPIC: Launch of COBOL PARK (slide 13)

Lastly, I would like to talk about COBOL PARK, a subject on which an article was published in the Nikkei on October 29, 2024.

In Japan, a large number of companies are still using legacy systems, creating what is known as the "2025 Digital Cliff," which refers to the issues that will occur when many of the engineers that developed companies' current legacy systems retire. Such companies thus face the need to continue strategically using their legacy systems while modernizing these systems. However, there are two challenges that must be overcome to accomplish these objectives.

The first challenge is securing human resources. COBOL is a programming language that is used in a lot of Japanese legacy systems, and there is thus a need to secure human resources who are proficient in COBOL. However, the pool of such human resources is dwindling.

To address this issue, FPT Japan Holdings Co., Ltd., and agreed on the basic policy of considering and discussing the establishment of COBOL PARK as a joint venture by March 31, 2025. This move is an expression of their shared belief that they have a mission to contribute to society by

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ensuring the business continuity of financial institutions equipped with mainframes.

Another challenge will be modernizing aging mainframes while continuing to use them securely. With this regard, SCSK is currently offering MF+, a service that provides an environment enabling secure mainframe use together with seamless, one-stop support for future IT infrastructure planning, provision, engineering, development, modernization, and operational management. We will continue to augment this service going forward in order to make it even easier for customers to use.

This concludes my portion of today's presentation.

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

END

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