SCSK Corporation

Consolidated Financial Results for the Six Months Ended September 30, 2024

Transcript of results briefing

Date: October 29, 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 Apr. to Sept. (PL/Incoming Orders/Backlog) (slide 2)

I would like to begin by providing an overview of consolidated performance in the six-month period ended September 30, 2024.
In the period under review, SCSK posted net sales of ¥251.5 billion, up 8.8% year on year; operating profit of ¥26.9 billion, up 0.1%; and profit attributable to owners of parent of ¥19.2 billion, up 4.2%. In this manner, both sales and profit increased in the six-month period, although operating profit was relatively unchanged year on year.
I will provide more details on this matter a little later on. Profit attributable to owners of parent, meanwhile, showed a substantial increase due to the absence of losses on valuation of marketable securities recorded in the previous equivalent period.
Incoming orders were up 10.7% year on year, to ¥247.8 billion, and backlog rose 4.6%, to ¥183.9 billion, as a result of consistently solid IT investment demand.

■ Summary of Financial Results Jul. to Sept. (PL/Incoming Orders/Backlog) (slide 3)

Let us now look at slide 3.
In the second quarter of the fiscal year ending March 31, 2025, net sales increased 9.5% year on year, to ¥128.9 billion; operating profit rose 0.5%, to ¥14.0 billion; and profit attributable to owners of parent grew 5.9%, to ¥10.0 billion.
The reason that operating income was relatively unchanged year on year in the second quarter, rising only 0.5% despite the strong double-digit growth in net sales, is because of the recording of ¥1.1 billion in losses on disposal of certain ProActive software assets.
Meanwhile, incoming orders in the second quarter amounted to ¥132.1 billion, a year-on-year increase of 9.2%.

■ Net Sales Analysis (slide 4)

Please turn to slide 4.
The graph on the top half of this slide shows year-on-year changes in net sales by sales segment in the six-month period ended September 30, 2024.
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 6.1% 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 21.6% 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 and other customers.

■ Operating Profit Analysis from Apr. to Sept. (slide 5)

Next, slide 5 shows factors affecting operating profit in the six-month period ended September 30, 2024.
Higher net sales buoyed operating profit by ¥5.3 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, both gross profit and the gross profit margin were down overall due to the impacts of low-margin system sales, the conclusion of public-sector BPO projects, higher investment expenses attributable to structural reforms, and a rise in costs associated with strengthening ProActive operations.
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, ¥0.6 billion in gains on sales of real estate was recorded under other income in the first quarter of the fiscal year ending March 31, 2025, while ¥1.1 billion in losses on disposal of certain ProActive software assets was recorded under other expenses in the second quarter. As a result of these factors, operating profit in the six-month period ended September 30, 2024, was relatively unchanged year on year at ¥26.9 billion.

■ Operating Profit Analysis from Jul. to Sept. (slide 6)

Next, I would like to look at operating profit in the second quarter of the fiscal year ending March 31, 2025.
Higher net sales boosted second-quarter operating profit by ¥2.9 billion.
The second-quarter gross profit margin was affected by the same factors that influenced the six-month margin. However, the lower impacts of unprofitable projects and other factors improving profit margins for systems development had a greater effect on the second-quarter gross profit margin, which rose by 0.1 percentage point year on year.
Second-quarter operating profit was thus relatively unchanged year on year, amounting to ¥14.0 billion, due in part to the losses on disposal of certain ProActive software assets that were also mentioned as a factor impacting six-month operating profit.

■ Incoming Orders/ Backlog Analysis (slide 7)

Let us know turn to slide 7.
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 backlogs of 4.9% and 7.3%, respectively. These increases were a result of growth in systems development orders from automotive industry customers and higher SAP-related digital supply chain orders from manufacturing 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 9.2% and backlog grew 5.5% 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 28.3% as a result of rises in network equipment orders from certain communications industry customers. 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 backlog to be smaller than in the first quarter of the fiscal year ending March 31, 2025.

■ Business Performance by Reportable Segment (slide 8)

I would next like to talk about performance by segment, with slide 8.
As mentioned at the financial results briefing for the three-month period ended June 30, 2024, a reorganization of reportable segments has been undertaken that entailed the transference of organizations related to SAP operations, which handle our digital supply chain business catering to the manufacturing industry, from the IT Business Solutions segment to the Industrial IT Business segment.

We will begin by looking at the Industrial IT Business segment, which posted an increase in net sales due to rises in investment demand from the automotive industry and in sales of verification services as well as the benefits of higher orders from manufacturing industry customers in the aforementioned digital supply chain business. The benefits of these factors counteracted the impacts of the conclusion of certain projects for the distribution industry. Segment profit also rose due to the higher sales as well as the lower impacts from unprofitable projects in comparison to the previous equivalent period.

In the Financial IT Business segment, net sales and segment profit were up, despite reductions in projects for the credit, leasing, and non-life insurance industries, due to the continuation of anti-money laundering projects for the banking industry and core system projects for the securities industry.

Following the trend from the three-month period ended June 30, 2024, the IT Business Solutions segment once again recorded declines in net sales and operating profit in the six-month period ended September 30, 2024. Net sales decreased due to the impacts of the conclusion of BPO projects for public agencies as well as the absence of previously recorded ProActive orders related to Japan’s new invoicing system. Meanwhile, a segment loss of ¥1.3 billion was posted, despite the earnings contributions from strong performance in e-commerce-related operations. Factors behind this loss included structural reforms in BPO operations as well as costs for strengthening ProActive operations and the losses on disposal of certain ProActive software assets.

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

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 seen in the second quarter of the fiscal year while the rise in sales of low-margin cloud service licenses to distribution industry customers in the first quarter led the operating margin for this segment to decline.

■1HBusiness 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 increase of 14.5% in incoming orders due in part to a large rise in systems development demand that manifested in the form of higher SAP-related orders from the automotive and communication industries as well as in the digital supply chain business. Another contributing factor was firm demand for verification services. These factors counterbalanced the conclusion of certain projects for the distribution industry. The backlog similarly rose 15.5% due to the benefits of the factors that buoyed incoming orders.

In the Financial IT Business segment, incoming orders were down 2.9% year on year as the absence of previously recorded orders from life and non-life insurance companies counteracted the benefits of system replacement orders received from the securities industry and systems development orders received from the banking industry. These factors also affected backlog, but a year-on-year increase in backlog was seen nonetheless due to the benefits of the backlog amassed during the first quarter of the fiscal year ending March 31, 2025.

Incoming orders and backlogs decreased in the IT Business Solutions segment. This outcome was a result of the impacts of certain customers canceling their BPO contracts, the impacts of which outweighed the increase in ProActive-related orders.

The IT Platform Solutions segment achieved an increase in incoming orders of 25.7% following growth in orders for network equipment from certain communications industry customers as well for security equipment from financial industry and other customers. For backlog, the decline in the six-month period ended September 30, 2024, was not as large as that seen in the first quarter of the fiscal year ending March 31, 2025, as the increase in orders received from certain communications industry customers that contributed to higher incoming orders helped counteract the impacts of the absence of previously recorded large-scale hardware sales orders.

In the IT Management Service segment, incoming orders and backlog were up 24.6% and 13.6%, respectively, due to the acquisition of data center service orders from the manufacturing and service industries as well as the strong trends in orders for management services from the financial industry.

■ Business Performance by Reportable Segment Analysis (slide 10-11)

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.

In regard to forecasts for full-year performance in the fiscal year ending March 31, 2025, there has been no significant changes to SCSK's operating environment, and we therefore anticipate growth in performance in the second half of the fiscal year.
We have chosen not to revise our initially announced forecasts, despite the losses on disposal of software assets recorded in the second quarter, out of consideration for the overall firm operating environment.
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.