SCSK Corporation
Consolidated Financial Results for the Nine Months Ended December 31, 2024
Q&A Session Summary

Date: January 31, 2025 4:00-5:00 PM

Speaker: Yasuhiko Oka, Managing Executive Officer

Q. Could you please provide a breakdown of the ¥3.0 billion in merger-related expenses to be recorded in the fiscal year ending March 31, 2025, in association with the tender offer for Net One Systems Co., Ltd.?

A. The merger-related expenses included expenses associated with fees paid to financial advisors and other specialists, the cost of our squeeze-out approach, and procedural expenses as well as branding expenses related to the integration the SCSK and Net One Systems brands.
We project that such expenses will be recorded in amounts of ¥1.1 billion in the third quarter and ¥1.9 billion in the fourth quarter, equating to total merger-related expenses of ¥3.0 billion in the fiscal year ending March 31, 2025.
As the amounts for purchase price allocation have not yet been determined, these amounts are not reflected in our forecasts. Moreover, we are still in the process of estimating the merger-related expences that could possibly be incurred in the fiscal year ending March 31, 2026, and we have thus not been able to formulate a forecast with this regard.

Q. How is progress in the post-merger integration of Net One Systems?

A. As stated in the news release pertaining to the tender offer, we aim to complete the integration of the management of Net One Systems in April 2026.
Discussions are currently moving forward with this goal in mind. Meanwhile, we plan on merging the Solution Business Group and the Product & Service Business Group to establish a new IT Infrastructure Service Business Group.
This reorganization will be undertaken in preparation for the integration of the management of Net One Systems scheduled for 2026.

Q. What are the strategic significance and aims of the Net One Systems acquisition?

A. The domestic IT services market is currently characterized by strong demand and is expected to continue to grow. The rapid transition to a digital society is transforming customers IT service needs, and it is expected that cloud-based architecture will become mainstream going forward.
If SCSK is to respond to these changes in the market and in the greater operating environment, it is crucial that the Company become capable of supplying digital services that integrate network, security, cloud, data utilization, and other applications.
We are confident that our union with Net One Systems, a company that boasts strengths in the network integration field and with which we have a mutually complementary relations, will enable us to develop these capabilities. Moreover, the corporate culture and management philosophy of Net One Systems are highly compatible with those of SCSK.

We are currently moving forward with discussions together with the relevant divisions aimed at integrating the management of Net One Systems in April 2026.
Over the medium term, we plan to deploy digital infrastructure, offering services, data integration, and other business strategies, and we are advancing talks with Net One Systems with this goal in mind.
Only around a month has passed since the conclusion of the tender offer, and we therefore cannot get into the concrete details of our approach yet. After discussing this matter with Net One Systems, we hope to arrange another opportunity to report on any decisions made.

Q. Will SCSK continue to apply financial leverage over the medium to long term? What balance sheet policies will be implemented going forward?

A. We have plans to arrange bridges loan in the amount of ¥273.5 billion. Whether or not more permanent loans will be taken out in the medium term to cover the entirety of this amount is currently being discussed.
Going forward, we will continue to apply a certain degree of leverage while controlling finances to maintain a debt/equity ratio of less than 1.0 times. Under the current Medium-Term Management Plan, we have budgeted between ¥50.0 billion and ¥70.0 billion for M&A activities, but we intend to explore any promising acquisition targets that may emerge without becoming overly preoccupied with the amounts.
It is possible that this approach might lead to us utilizing debt financing, which could result in the debt/equity ratio temporarily rising above 1.0 times. Nevertheless, in principle, we will be looking to gradually reduce leverage if no promising acquisition targets appear. SCSK does not disclose concrete details pertaining to its M&A activities.
However, we can say that the Company will examine the possibility of acquiring projects, companies, or products that are highly compatible with its business, whether they are found in Japan or overseas.

Q. What type of interest rates and amounts will be paid for the bridge loans?

A. We cannot provide exact interest rates. SCSK has maintained a credit rating of A+. Moreover, we plan to replace the bridge loans with more permanent financing options, such as corporate bonds or syndicate loans. In the fourth quarter of the fiscal year ending March 31, 2025, interest payments on bridge loans will amount to around ¥300 million.
As the period of the loans is only one year, the costs will be relatively low. The current interest rates for the bridge loans are low, and we expect that the rates might go up if we switch to more permanent loans.
As interest rates are on the rise, the ideal timing for a switch to more permanent loans will be examined within the Company.

Q. What is the state of the redesigned ProActive services and what has been the response of customers with regard to this redesign?

A. ProActive has been positioned as a central pillar of our lineup of offering business for AI-centric next-generation enterprise resource planning systems. We are currently in the process of developing the new ProActive services, and progress is more or less on schedule.
We plan to launch and begin sales of the redesigned ProActive services early in the fiscal year ending March 31, 2026.

However, as the new ProActive services will use a cloud-based software as a service model, the increase in sales will be modest, and it will thus take time before ProActive starts making clear contributions to earnings.
We have received a positive response from certain customers as well as a large number of inquiries. In this manner, the conditions surrounding ProActive are not bad, and we are moving forward with preparations to commence sales of the new ProActive services in the fiscal year ending March 31, 2026.

Q. What is the outlook for digital supply chain and ProActive services in the fourth quarter of the fiscal year ending March 31, 2025, as well as in the fiscal year ending March 31, 2026?

A. The growth rate for SAP services may be a bit lackluster, but overall sales of digital supply chain services have been strong.
The reason behind the lackluster growth for SAP services was the absence of the large-scale upgrade projects for distribution industry customers recorded in the previous equivalent period.
The increase in sales of digital supply chain was able to counterbalance this factor, leading to an overall rise in sales.
As for ProActive, we have been redeveloping our services during the fiscal year ending March 31, 2025, but the associated decline in sales of these services is thought to have bottomed out.

Q. How were sales of enterprise resource planning services in the third quarter of the fiscal year ending March 31, 2025?

A. In the third quarter of the fiscal year ending March 31, 2025, overall sales of enterprise resource planning services amounted to ¥10.3 billion, an increase of ¥0.6 billion from the ¥9.7 billion recorded in the previous equivalent period.