SCSK Corporation
Consolidated Financial Results for the Nine Months Ended December 31, 2024
Transcript of results briefing

Date: January 31, 2025 4:00-5:00 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 from Apr. to Dec. (PL/Incoming Orders/Backlog) (slide 2)
Looking first at slide 2, I would like to begin by providing an overview of consolidated performance in the nine-month period ended December 31, 2024.

In the period under review, SCSK posted net sales of ¥384.8 billion, up 9.5% year on year; operating profit of ¥42.8 billion, up 4.7%; and profit attributable to owners of parent of ¥29.7 billion, up 5.2%. In this manner, both sales and profit increased in the nine-month period. I will provide more details on this matter a little later on.

Incoming orders were up 12.1% year on year, to ¥370.1 billion, as consistently solid IT investment demand continued throughout the period. In addition, backlog showed a substantial increase of 74.2%, to ¥282.4 billion, although this was largely due to the inclusion of ¥109.4 billion in backlog attributable to Net One Systems Co., Ltd.

Let us now look at slide 3.

■ Summary of Financial Results from Oct. to Dec. (PL/Incoming Orders/Backlog) (slide 3)
In the third quarter of the fiscal year ending March 31, 2025, net sales increased 10.9% year on year, to ¥133.3 billion, and operating profit also showed double-digit growth of 13.3%, to ¥15.9 billion. In addition, profit attributable to owners of parent grew 7.0%, to ¥10.5 billion.

Meanwhile, incoming orders in the third quarter amounted to ¥122.3 billion, a year-on-year increase of 15.0%.

Please turn to slide 4.

■ Net Sales Analysis (slide 4)
The graph on the top half of this slide shows year-on-year changes in net sales by sales segment in the nine-month period ended December 31, 2024.

The Systems Development segment posted growth of 6.1% in net sales, despite the absence of previously recorded orders from the distribution industry, due to increases in sales of development services to the banks and the automotive and in sales of digital supply chain services to the manufacturing industry.

The System Maintenance and Operation / Services segment achieved net sales growth of 7.5% 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 22.4% year on year due to increases in sales of network equipment to certain communications industry customers, in sales of security products to financial industry and other customers, and in large-scale hardware sales to academic research institutions.

The graph on the bottom half of this slide displays changes in sales in the third quarter of the fiscal year ending March 31, 2025. As indicated, large increases in third-quarter sales were seen in all three sales segments. I would now like to discuss some of the major factors behind growth in the third-quarter sales of specific sales segments.

Third-quarter sales in the Systems Development segment grew due to a substantial increase in sales to the communications industry, an area that had seen flat growth in the six-month period ended September 30, 2024. The System Maintenance and Operation / Services segment, meanwhile, has enjoyed strong performance throughout the fiscal year, but growth rates were particularly high in the third quarter due to accelerated growth in sales. As for the Packaged Software / Hardware Sales segment, brisk sales of security products had continued throughout the six-month period ended September 30, 2024, and the recording of sales from multiple large-scale security product orders in the third quarter further drove up grow rates.

Let us look next at slide 5.

■ (Reference) Progress of Core Strategy Ⅱ (slide 5)

As was explained with the prior slide on net sales, growth rates in the third quarter of the fiscal year ending March 31, 2025, surpassed those seen in the six-month period ended September 30, 2024. The graph on this slide looks specifically at sales associated with core strategy 2 of the Medium-Term Management Plan.

As can be seen on the righthand side of this slide, the growth rates in the third-quarter of the fiscal year ending March 31, 2025, shown on the bottom half, were higher than those seen in the nine-month period ended December 31, 2024, which are displayed on the top half. This indicates that performance centered on digital supply chain, mobility, and security offerings are continuing to drive company-wide performance.

Please look at slide 6.

■ Operating Profit Analysis from Apr. to Dec. (slide 6)

Next, slide 6 shows factors affecting operating profit in the nine-month period ended December 31, 2024.

Higher net sales buoyed operating profit by ¥8.8 billion.
In terms of factors affecting the gross profit margin, downward pressure was felt from the impacts of increases in 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. Nevertheless, both gross profit and the gross profit margin

were buoyed by improved profit margins for systems development, which were due in part to lower impacts from unprofitable projects.

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 higher expenses for sales activities and costs incurred in relation to office renovations and measures for addressing aging systems. In addition, ¥1.1 billion was recorded in the third quarter of the fiscal year ending March 31, 2025, as expenses associated with the integration of Net One Systems.

Furthermore, ¥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 were recorded under other expenses in the second quarter. As a result of these factors, operating profit in the nine-month period ended December 31, 2024, rose ¥1.9 billion year on year, to ¥42.8 billion.

Let us look at slide 7.

■ Operating Profit Analysis from Oct. to Dec. (slide 7)

Next, I would like to look at operating profit in the third quarter of the fiscal year ending March 31, 2025.

Higher net sales boosted third-quarter operating profit by ¥3.4 billion.

The third-quarter gross profit margin was affected by the same factors that influenced the nine-month margin. However, the lower impacts of unprofitable projects and other factors improving profit margins for systems development had a greater effect on the third-quarter gross profit margin. These factors, combined with the benefits of recovery in the margins for verification services, resulted in the third-quarter gross profit margin rising by 1.3 percentage points year on year.

As a result, third-quarter operating profit climbed to ¥15.9 billion, setting a new record and absorbing the ¥1.1 billion in expenses incurred in association with the integration of Net One Systems.

Let us now turn to slide 8.

■ Incoming Orders/Backlog Analysis (slide 8)

This slide shows a breakdown of factors affecting incoming orders and backlog by sales segment. Discussions of backlog for the three segments will use figures that exclude the impacts of the consolidation of Net One Systems.

The Systems Development segment saw increases in incoming orders and backlog of 5.7% and 8.4%, respectively. These increases were a result of growth in systems development orders from automotive and communications 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 8.2% and backlog grew 3.2%

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 34.8% as a result of rises in network equipment orders from certain communications industry customers and higher sales of security products and hardware. The strong growth in incoming orders counteracted the downward trend in backlog seen throughout the six-month period ended September 30, 2024, resulting in backlog rising 14.5% primarily as a product of the higher orders for hardware sales recorded in the third quarter.

As shown on this slide, the consolidation of Net One Systems boosted total backlog by ¥109.4 billion. By segment, backlog increased ¥19.8 billion in the Systems Development segment, ¥41.1 billion in the System Maintenance and Operation / Services segment, and ¥48.4 billion in the Packaged Software / Hardware Sales segment.

We will now move on to slide 9.

■ Business Performance by Reportable Segment (slide 9)

I would next like to talk about performance by segment with slide 9.

As mentioned previously, a reorganization of reportable segments has been undertaken that entailed the transference of businesses 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 systems development 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 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 conclusions of projects for shopping credit/leasing companies
and non-life insurance companies, due to the ongoing rise of anti-money laundering projects for the banks and core system projects for the securities firms.

The IT Business Solutions segment recorded a decline in net sales 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. In addition, a segment loss of ¥1.0 billion was posted. Factors behind this loss included the downward trend in net sales, expenses associated with structural reforms in BPO operations, and the losses on disposal of certain ProActive software assets recorded in the second quarter of the fiscal year ending March 31, 2025.
Moving on, the IT Platform Solutions segment achieved growth in net sales and segment profit following contributions from the firm sales of network equipment sales to certain communications industry customers, hardware sales to academic research institutions, and sales of security products to customers in the financial, transportation, and financial industries.

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 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.

We will now turn to slide 10.

■ Business Performance by Reportable Segment (Incoming Orders/Backlog) (slide 10)

Moving on to slide 10, 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 14.4% in incoming orders due in part to a large rise in systems development demand seen centered on the automotive and communications, firm performance for verification services, and higher SAP-related digital supply chain development orders. These factors counterbalanced the conclusion of certain projects for the distribution industry. Backlog similarly rose 16.4% due to the benefits of the factors that buoyed incoming orders.

In the Financial IT Business segment, incoming orders were down 1.8% year on year as the absence of previously recorded orders from shopping credit/leasing companies and insurance companies that impacted performance in the second quarter counteracted the benefits of system replacement orders received from the securities firms and systems development orders received from the banks industry. These factors also affected backlog, resulting in backlog remaining relatively unchanged year on year.

Incoming orders and backlog decreased in the IT Business Solutions segment. This outcome was a result of certain customers canceling or downsizing their BPO contracts, the impacts of which outweighed the increase in orders associated with the new consolidation of e-commerce-related companies.

The IT Platform Solutions segment achieved an increase in incoming orders of 31.5% following growth in orders for network and security equipment from certain communications industry customers and a rise in orders large-scale hardware orders from automotive industry customers. Backlog, meanwhile, was impacted by the absence of large-scale hardware orders recorded in the previous equivalent period while also benefiting from the increase in orders from automotive industry customers that also affected incoming orders. In addition, the backlog for the IT Platform Solutions segment increased by ¥109.4 billion as a result of the consolidation of Net One Systems.

In the IT Management Service segment, incoming orders and backlog were up 15.8% and 10.7%, respectively, due to the acquisition of management service orders from the manufacturing and service industries as well as the strong trends in orders for cloud services from the distribution industry.

■ FY2024 Business Performance by Reportable Segment Analysis (slide 11 to 12)

Slides 11 and 12 offer a summary of the factors affecting segment performance that I just explained. I will not be offering any additional comments on these slides.

Please take a look at slide 13.

■ FY2024 Consolidated Financial/Dividend Forecasts (slide 13)

Next, I would like to explain SCSK'S full-year performance and dividend forecasts. Please look at slide 13.

For the fiscal year ending March 31, 2025, we are projecting net sales of ¥596.0 billion, an increase of ¥86.0 billion in comparison to the prior forecast; operating profit of ¥66.5 billion, an increase of ¥4.5 billion; and profit attributable to owners of parent of ¥46.5 billion, an increase of ¥2.0 billion.

A table breaking down this forecast that looks at both SCSK and Net One Systems can be found on slide 14.

■ FY2024 Consolidated Financial/Dividend Forecasts -Appendix (slide 14)

As shown on the slide, SCSK achieved increases of 9.5% in net sales and 4.7% in operating profit in the nine-month period ended December 31, 2024.

Initially, we had projected an increase of just over 6% in net sales in the fiscal year ending March 31, 2025. This increase was expected to be centered on the Systems Development segment, which had been receiving large-scale orders and featured a significant pipeline. However, as the large-scale orders in the Systems Development segment remained in their initial phases, the actual contributions to sales were limited. Meanwhile, the System Maintenance and Operation / Services segment has been enjoying strong performance for verification systems since the start of the fiscal year and the Packaged Software / Hardware Sales segment has been achieving rapid growth in sales of security, network, and high-performance computing products, for which demand is strong. As these trends are expected to continue throughout the fourth quarter, we have instituted an upward revision to the forecast for full-year net sales, increasing it by ¥15.0 billion.

The forecast for operating profit, however, stands unchanged. Although operating profit is expected to benefit from the rise in gross profit attributable to the increase in net sales, it will also be affected by the higher-than-expected SG&A expenses. Factors behind the higher expenses include rises in personnel expenses as well as expenses related to measures for addressing aging systems and office renovations as well as the increases in personnel and other expenses incurred in relation to business expansion activities and the addition of expenses associated with newly consolidated subsidiaries. Another factor behind the decision not to revise the forecast for operating profit was losses on disposal of certain software assets recorded in the second quarter of the fiscal year ending March 31, 2025.

In addition, forecasts include the anticipated fourth-quarter contributions from the newly consolidated Net One Systems of ¥71.0 billion in net sales and ¥7.5 billion in operating profit as well as ¥3.0 billion in expenses associated with the integration.

Based on these factors, we instituted an upward revision to the full-year forecasts for performance in the fiscal year ending March 31, 2025, announced in April 2024. The revised forecasts project net sales of ¥596.0 billion, an increase of ¥86.0 billion in comparison to the prior forecast; operating profit of ¥66.5 billion, an increase of ¥4.5 billion; and profit attributable to owners of parent of ¥46.5 billion, an increase of ¥2.0 billion. The amount of the upward revision to the forecast for profit attributable to owners of parent is small in comparison to the revisions for other items as a result of the impacts associated with profit attributable to non-controlling interests.

Moreover, the forecast for dividend payments for the fiscal year ending March 31, 2025, was increased by ¥3 per share from the prior forecast. The revised forecast thus calls for full-year dividend payments of ¥71 per share, which, based on the revised forecasts, will make for a dividend payout ratio of 47.7%, the same level projected by the prior forecast.

■ Key Points of Financial Results (slide 15)

Slide 15 compiles the topics we have discussed thus far. I will be offering no further details on these topics.

■ Financing for the acquisition of Net One Systems Co., Ltd. as a consolidated subsidiary (slide 17)

Slide 17 is an appendix that details the fund procurement activities that took place in conjunction with the conversion of Net One Systems into a consolidated subsidiary. I will not be providing any additional comments on this matter today, but do feel free to look at this appendix later should you feel inclined.

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.