

DAIS (Digital & AI Strategy) Briefing: Questions and Answers

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<Questioner 1>

Regarding Pillar 1, the bar chart showing SCSK's growth includes the phrase "doubling profits." However, simply applying the historical operating profit CAGR of 13% would already result in a calculation where FY30 reaches the target of doubled profits. While I understand the offering-based initiatives, given the trend of customers moving toward in-house development—which was mentioned earlier as a risk—I'm still struggling to fully grasp how the plan anticipates increased profit margins and growth rates. I still can't quite wrap my head around what specific image I should have of this inflection point we are about to face. I believe there was a mention earlier regarding the tangible results of specific measures following the TOB, so I would like to hear concrete examples of how the company will transform.

<Tatsumi>

Regarding the plan at the time of the TOB, we conducted the valuation based on organic growth. After the TOB, we formulated three initiatives: AI-driven self-transformation and business expansion, Transformation into an offering-based model, and Thorough utilization of competitive advantages and strengths.

Regarding the first point, AI-driven self-transformation, we have set a goal of achieving 100% AI-driven development within two years. SCSK itself will undergo self-transformation through AI and shift toward AI-driven development.

Regarding the second point, Transformation into an offering-based model, SCSK will transform PROACTIVE—which is currently used by over 7,500 companies—into an AI-ready ERP system. First, Sumitomo Corporation group companies will serve as the pilot case. SCSK and Sumitomo Corporation will jointly develop the AI-ready ERP, and subsequently roll it out across the industry. The project is already underway.

Regarding the third point, the Thorough utilization of competitive advantages and strengths, Sumitomo Corporation and SCSK will each establish new organizations to advance co-creation. Currently, approximately 60 to 70 specific projects have been identified, and we have entered the stage of prioritizing them and working on them together.

These three points are the result of intensive discussions between SCSK and Sumitomo Corporation over the past few months following the tender offer, and we feel a strong sense of momentum as concrete steps are being taken from the perspective of how SCSK itself will grow autonomously.

<Questioner 2>

Please tell us how you view the changes in the business and industry environment brought about by generative AI. For example, there has recently been discussion about how the emergence of Mythos enables the immediate detection of vulnerabilities. In the short term, this will likely lead to an increase in work required to patch detected vulnerabilities; however, once those patches are applied, the vulnerabilities will no longer exist, and it is conceivable that maintenance—which has been a key revenue source for system integrators—will disappear. In that scenario, profitability is expected to be high initially but decline later on.

<Ueno>

I have been holding ongoing discussions with SCSK President Toma, and we agree that for SCSK—which offers a full stack of SI, NI, security, and BPO services—the emergence of generative AI will be entirely positive.

First, regarding the ERP and core systems domain, the series of processes—starting with the design of core systems, through integration with existing systems, the formulation of business workflows aligned with them, and the implementation of data infrastructure—cannot be completed by AI alone. In these areas, SCSK’s ability to handle everything from design to operation is a major strength.

Additionally, addressing governance risks is a critical issue. Beyond access control and business continuity planning (BCP), there is the matter of accountability for top management. Simply saying “AI did it” does not fulfill this accountability; executives themselves bear responsibility for internal systems that utilize generative AI. Top executives at various companies have stated that they would be too afraid to implement such systems without proper design and construction through a company like SCSK, and we believe this further enhances SCSK’s value proposition.

Furthermore, there are significant growth opportunities in the security domain. The proliferation of generative AI has dramatically increased security demands, and SCSK’s security capabilities have been further strengthened through its integration with Net One Systems. Starting with consulting, it is necessary to comprehensively cover cloud security, physical security, and network security. As new threats continue to emerge one after another, security must be continuously strengthened. We believe SCSK can achieve further growth across the entire security domain, including monitoring systems.

<Questioner 3>

I believe that SCSK’s growth hinges on its offering model and its full-stack approach encompassing SI, NI, and BPO. Could you please explain the current revenue composition of the offering model and the full-stack business, the target ratios for 2030, and the current differences in profitability across these models?

<Tatsumi>

I do not have exact data on hand regarding the current ratio of offerings to full-stack services, but the basic concept is as follows.

SCSK’s core strength lies in custom development. We understand our clients’ challenges, build systems tailored to each company’s specific needs, and then station personnel on-site to consistently handle maintenance and operations. By deeply engaging with our clients’ operations, building long-term relationships of trust, and leveraging those relationships to secure subsequent projects, we establish the starting point and foundation of SCSK’s business.

Within these deep customer relationships, new needs—such as network upgrades—naturally arise. While SCSK did not previously offer network services as part of its portfolio, the acquisition of Net One Systems has enabled us to establish a structure capable of providing comprehensive solutions, including network services. From the customer’s perspective, entrusting everything to a single provider allows for overall optimization and reduces both costs and operational burdens; indeed, we have observed a significant number of such requests in the field. As we enter the AI era and customers’ needs continue to expand, there is a growing demand for partners who truly understand their challenges. The fact that SCSK is recognized as a provider capable of handling SI, NI, and BPO as a full-stack solution is a major source of encouragement for us.

Regarding our other key theme—the offering-based model—by embedding the know-how and insights SCSK has accumulated through transactions with numerous customers into our own offerings, we can provide even greater added value to our clients. For customers, leveraging solutions that incorporate insights from other companies’ problem-solving experiences offers the benefit of further driving their own transformation. As these offerings become more sophisticated, SCSK’s own intellectual property and value proposition will increase, leading to improved profitability.

In other words, SCSK's growth strategy is centered on two themes: deepening trust with customers through a full-stack approach so that they entrust the entire business relationship to us and enhancing the value we provide and improving profitability through our offerings.

<Questioner 4>

We, investors, recognize that the most critical point of DAIS is not merely the promotion of DX, but whether it will ultimately lead to an increase in valuation by enhancing brand value and corporate appeal through improved ROE, cash flow generation, and profit growth.

With that in mind, what exactly is the "overwhelming No. 1" position that Sumitomo Corporation aims to achieve through DAIS? I understand that Sumitomo Corporation's strength lies in its business foundations across diverse sectors and its ability to handle not only strategy formulation but also implementation. I would like to ask in which specific sector you are seeking to establish an overwhelming position. While I fully understand SCSK's strengths, as an investor, I would appreciate some guidance on which areas I should prioritize monitoring as the company transforms its revenue structure.

<Ueno>

There are currently specific areas where we are engaged in intensive discussions with SCSK. Rather than being a proposal initiated by Sumitomo Corporation, these are areas where SCSK itself strongly seeks collaboration, believing that partnering with Sumitomo Corporation will lead to a revolutionary transformation of its business model.

One such area is mobility. SCSK designs and exhibits vehicles on its own, and as an extension of that, it intends to collaborate with Sumitomo Corporation—combining the latter's expertise cultivated in the automotive sector—on the entire process from vehicle design to completion, as well as on the mobility system as a whole. We believe this area has the potential to become a major business segment as discussions and co-creation progress.

Another area of focus is urban development. This goes beyond mere real estate development to encompass comprehensive urban development targeting entire cities, and there are already locations where systems can be implemented, such as Hakozaki in Kyushu and northern Hanoi in Vietnam. By leveraging SCSK's technological capabilities in urban development, we believe it will be possible to realize sustainable cities that exceed initial plans, and we anticipate that in the future, we can establish a major business domain of comprehensive urban development that goes beyond real estate development.

In addition to these, there are numerous collaboration pipelines in sectors such as manufacturing and healthcare. However, as we proceed with co-creation in a grounded and methodical manner, I would like you to focus first on the two areas of mobility and urban development.

<Questioner 5>

Regarding the overall growth roadmap for DAIS, nine initiatives are illustrated using an arrowhead diagram for the short-, medium-, and long-term, with the degree of contribution to earnings represented by varying shades of color. Given that doubling SCSK's profits is a goal set forth in the medium-term management plan, the intensity of the shades in the medium-term section of the arrowhead diagram suggests that we can expect a similar scale of cost reductions and ROIC improvements across the entire Sumitomo Corporation Group. Could you please explain this point in a bit more detail?

<Ueno>

The Sumitomo Corporation Group as whole aims to improve ROIC by 1% by FY30. Of this, we expect approximately 0.6% to 0.7%—that is, 60% to 70% of the total—to come from SCSK's organic growth. We plan to achieve the remaining 0.3–0.4% through revenue growth via Pillar 2 and Pillar 3, incorporating not only cost reductions but also improvements in ROIC driven by top-line expansion through DAIS. Of course, these are merely target figures, and our policy is to aim for even higher results.

<Questioner 6>

Regarding the improvement in SCSK's operating profit margin, the plan calls for a significant improvement starting in the fiscal year ending March 2027. While I understand the expectations for improved profitability based on the robust demand in the IT solutions industry and the strategies explained today, I would like to know what factors will change to justify a sudden increase in the operating profit margin, which has remained flat at 11.1% over the past two years. In particular, regarding the shift to the new offering-based model—which is considered the primary driver of improved profitability—please provide specific details on the target operating profit margin for the new model and how it differs from the level of the traditional business model.

<Tatsumi>

In its medium-term management plan (FY26–FY30), SCSK has newly introduced operating profit per employee as a key performance indicator. This move stems from the recognition that, amid the evolution of AI and an increasingly challenging recruitment environment, the company needs to fundamentally transform its overall structure. A key initiative is the planned merger of Net One Systems and SCSK in April 2027. Concrete steps toward streamlining and cost reduction through the integration of corporate functions are already underway. In addition, the company plans to raise its overall operating profit margin by combining improvements in quality and speed through AI-driven development with improvements in profitability resulting from a shift to an offering-based model.

<Questioner 6>

Regarding the policy to increase revenue and operating profit per employee, could you explain, using specific examples, what measures are being taken to handle the increased workload for each individual, and whether these efforts are already beginning to yield results?

<Tatsumi>

One key point is the utilization of AI. Initiatives to improve productivity through AI are already underway within SCSK, not only in the development process but also in the areas of operation and maintenance.

Another key point is the expansion of our full-stack SI and NI offerings. This approach aims to increase the transaction value per client by providing higher-value-added services to existing customers, and we are beginning to see tangible results in both of these areas.

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