

Bringing Together Our Many Talents to Create Truly Innovative Services—in the Field of IT and Beyond

We spoke with President and CEO Yoshito Fukuyama, who has been leading CSK Group's efforts to transform itself into a service provider, about his analysis of CSK HOLDINGS' fiscal 2008 operating results. We also discussed the thinking behind the Group's continuing moves to expand its business portfolio, the current status of the business model transformation, and his future aspirations for CSK Group.



Question 1

Let's start with recent operating results.

What were the key factors that caused the drop in both top and bottom line figures in fiscal 2008?

Answer 1

I would like to begin by saying that as the leader of CSK Group I take both the downward revision of operating results and drop in performance very seriously. I am committed to generating a recovery in fiscal 2009 and to regaining the confidence of our shareholders and investors.

Although the IT services business, which accounts for over 80% of Group sales, performed well, the primary reason for the downward revision to operating results was the significant downturn in performance at Cosmo Securities Co., Ltd. The company was impacted by the market turmoil stemming from the subprime mortgage loan issue, and performance suffered as both revenue from stock trade commissions and trading gains declined. Also, efforts during recent years to rapidly expand the scope of business have led to an increase in investment and high cost structure, which resulted in a significant operating loss for the period.

Another reason for the drop in performance was the financial services business. Some of the large sales that we had planned for fiscal 2008 were postponed, thereby impacting performance. These delays were the result of a sudden change in banks' lending stances, which made it difficult for the planned buyers to finance the transactions.

Question 2

What is the situation with ESTREX, the new securities system, which CSK launched just as the market turmoil was impacting the securities industry? There was a write-down in fiscal 2008, but will there be any changes in your strategies?

Answer 2

We are taking a medium-term view on this business, so we are not considering any changes to strategy. We completed ESTREX development on schedule, and we have already commenced services for our first customer.

However, the environment surrounding IT systems for the securities business is changing in line with a number of factors, including the dematerialization of stock certificates and the introduction of a next-generation system at the Tokyo Stock Exchange. With this, customers are taking a cautious stance and have indicated that they want to evaluate conditions carefully before introducing new systems. As such, we revised our plans for recovering our investment in ESTREX, resulting in a write-down.

Going forward, we will respond to all changes in the financial system, add new functions, and integrate ESTREX with MarketViewer, our existing financial information feed service, all with a view to enhance our competitiveness and gradually build up our overall operating performance.

Question 3

For fiscal 2009, CSK HOLDINGS has forecast a 6.4% increase in operating revenue to ¥255.0 billion, and a 19.4% increase in operating income to ¥23.0 billion. Given the wide belief that the market turmoil and tight lending stances by banks will persist for some time, what is your strategy for CSK's securities business and financial services business segments?

Answer 3

In the securities business segment we will overhaul the strategy for Cosmo Securities and at the same time improve coordination within the Group to facilitate new business development. In order to make this happen quickly, we made the decision to make Cosmo Securities a wholly owned subsidiary, effective August 1, 2008.

A number of other initiatives are also underway. In terms of strategy, we have made it clear that we will cease our efforts to enhance and expand the wholesale business, and focus instead on the retail business, an area where we have been strong for some time. In addition to appointing a leader with a wealth of experience in a retail-focused securities firm, we will downsize the underwriting and wholesale divisions. With respect to the organization, while thoroughly trimming the cost structure, we will allocate our people and other management resources in such a way as to enhance our retail sales platform. Lastly, we will position the securities-related business as one of CSK Group's three core businesses, alongside the IT services business and the financial services business, with Cosmo Securities as one of the key companies in this business. In addition to the securities business, the securities-related business will also include the securities systems Application Service Provider (ASP) services, the securities business Business

Question 4

The IT services business performed well in fiscal 2008, with operating revenue increasing 2.2% compared to the previous year, and operating income up by 4.3%. What was behind this strong performance?



Process Outsourcing (BPO) services, the investment trust management, the investment advisory services, the venture capital business, and the buyout fund management. All CSK Group companies will proactively work together, both in terms of personnel as well as management resources, to develop the securities-related business.

With respect to the real estate securitization business, difficult market conditions are expected to continue for the foreseeable future as banks continue their tight lending stance. In the fiscal year ending March 2009 we plan to significantly downsize our investment portfolio, with a focus on balance sheet liquidity.

Answer 4

The primary reason for our strong performance was the solid growth in technology services, which deliver systems integration services and systems management services. In particular, systems integration projects in conjunction with bank mergers and large projects involving life and non-life insurers were big drivers in the business. We are currently working on a number of large projects in the finance industry, so we expect the business to perform well in the upcoming few years. In technology services, operating income ratio rose significantly from 5.9% to 8.8% as a result of strategies aimed at stabilizing earnings. These included improving productivity through strategic efforts to expand the service provider business, as well as exhaustive project management.

Meanwhile, we saw a significant decline in the profitability of business services which offer IT-enabled BPO services. This was due to the upfront investment to launch comprehensive securities services and other new businesses, as well as the fact that intensifying competition has put downward pressure on prices in the area of technical support for hardware vendors and packaged software vendors. In the current fiscal year we are planning to invest to establish a BPO center and bolster sales capability, which may mean that profitability does not improve immediately. However, we expect the business services market to continue to grow, and we will continue to make proactive investment now to ensure future growth.

Question 5

CSK Group has been pointing to the maturation of the IT services industry for some time. It now appears that this view is gaining traction among other industry players. Given this situation, how will CSK Group grow the IT services business?



Question 6

Other IT service companies are also working to develop these types of platforms. What is different about CSK's service provider business model?

Answer 5

We are in the process of transforming our business model, as we do not expect to achieve substantial growth by simply continuing with a business-as-usual approach. We are aiming to shift to a service provider business model. This plan has been underway since 2005, and I firmly believe that this strategy was the correct course to pursue. I am even more confident of that now.

Traditional systems development involved a process similar to that of tailor-made clothing. Each system was designed individually to match the client's particular workflow and business practices. Just as tailor-made clothing is expensive, fully custom-developed systems are extremely time-consuming and costly. And naturally, the customer covers the cost of each system provided.

The first step towards creating a service provider business model is to shift from fully custom-developed systems to customizable systems. This involves creating standardized systems, which we refer to as service platforms. We will then make adjustments to the platforms to meet customers' individual needs in terms of functions, layout, interface, and other criteria. From our standpoint, it is more efficient than developing systems from scratch, and we can receive smaller recurring payments from multiple customers. Our customers will also benefit, as costs will be significantly lower than fully custom-developed systems and development time will be shorter. The fact is that there are major benefits for both sides.

Answer 6

Our services will have a much bigger impact on our customers' strategies than those offered by other companies. Specifically, our service provider business model involves bringing together highly-specialized business services based on an IT platform, and specializing in specific industries and business processes to create standards that can be used in and across industries. What other companies are working on is simply creating an IT system platform that can be shared.

Rather than simply offering IT systems, our aim of fusing IT with our broad-ranging business expertise will enable us to respond flexibly to the management issues of customers who need to develop new businesses, products and business models. It will also lead to the creation of new services for which the need has existed, but there was no solution until now.

In order to do this, we need a good understanding of our customers' industries, businesses, and work processes. We have built a strong customer base and through these relationships and services provided we have cultivated experience and knowledge in each industry and type of business. This is the advantage we have over our competitors. I believe that by offering services that integrate technology services and business services we will be able to achieve further growth in the IT services business.

For example, take CSK PRESCENDO CORPORATION, which you could consider a pilot project for CSK as a service provider. CSK PRESCENDO is a joint venture with Xavel, Inc.* which offers e-commerce fulfillment services through the Internet. Fulfillment refers to the full-range of back-office operations, including product receipt, order-taking, shipping, and distribution. CSK PRESCENDO offers these BPO services in a comprehensive manner in combination with an IT platform featuring IT systems, customer support and data analysis, and so on. Service has started off by targeting the fashion/apparel industry, but marketing activities targeting a variety of other industries are underway.

Within the Group, I speak of us becoming a corporate group that provides truly innovative services that no one else has offered. CSK Group includes a variety of companies, so we should be able to combine the strengths and features of each company to answer our customers' needs and offer entirely new services.

* Operates "girlswalker.com," one of Japan's largest mobile portal sites for female readers, with approximately 7.2 million members. A leader in the area of fashion and beauty, utilizing a cross media technique that combines mobile devices, computers, and actual events. Company name changed from Xavel, Inc. to BRANDING, Inc. as of October 1, 2008.



Question 7

You have positioned the securities-related business as your third core business along with the IT services business and the financial services business. With this change some people are wondering whether CSK Group is an IT services corporate group any more. How do you respond to this?

Answer 7

It is true that we became a large corporate group based on our IT services business. However, I have clearly said that CSK Group's business scope is not confined to the IT services area. When new business opportunities arise, I intend to take swift action in planting the seeds for future growth.

Over the past several years, I have said repeatedly that the IT services industry is maturing. I am very concerned that if we continue with business as usual in a maturing industry we will not be able to achieve significant earnings growth. That is why we are accelerating the shift to the service provider business model, which is very different from our traditional business model, and nurturing the buds that will grow into



Question 8

Wouldn't shareholders and investors rather see you post profits quickly than plant seeds that may never develop into strong businesses, or may take a long time to bear fruit?

tomorrow's big businesses in other areas, even if they do not yield profits immediately. I believe those who share my concern will understand our actions.

If you look at materials manufacturers, you will find some companies that today make very different things from what they made 50 or 100 years ago when they were founded. These companies evolved along with changes in society, market environments, and procurement conditions by repeatedly reforming their businesses and expanding into new business areas. I think that the IT services industry should learn from the examples of such companies. CSK Group has researched and put into practice an agriculture business through CSK-IS, which was founded in 2006, and is partnering with researchers in the field of genetic medicine. Both of these are examples of seeds being planted for the future.

In order to reform the company in this way, the most important thing is for all CSK Group employees to be aware of what is going on. This is especially true when it comes to middle management. If middle managers truly feel that things are going to change, the entire organization will change. I have begun to sense that people in the company are starting to understand this. While it might be small at first, it should really build momentum and speed once it gets rolling.

Answer 8

It is natural for our shareholders and investors to demand strong financial performance, and I have no intention of asking them to take a long-term view and just wait for what may materialize eventually. I believe it is my responsibility as president and CEO to simultaneously pursue short-term results and build the foundations for a strong future. We have to meet our shareholders' performance expectations while also putting CSK Group in a position to succeed over the long-term. This will make us an attractive option for those considering an investment in CSK HOLDINGS.

Our first goal is to achieve year-on-year top and bottom line growth in the fiscal year ending March 2009. At the same time, we will continue our efforts at becoming a service provider in order to boost our growth potential. I hope that our shareholders and investors will continue to have high expectations for CSK Group.