

Samsung SDS Q3 2024 Earnings Conference Call

Good afternoon, this is Won Seo, Head of IR at Samsung SDS. We will now commence Samsung SDS's third quarter fiscal year 2024 earnings conference call.

With us today are

Executive Vice President Scott HJ Koo, Division Leader of Cloud Service Business;
Executive Vice President Haegoo Song, Division Leader of Solution Business;
Executive Vice President Kooil O, Division Leader of Logistics Business;
and Executive Vice President Jeongheon Lee, Office Leader of Strategic Marketing.

Today's conference call will begin with a review of our 3Q results, followed by each division presenting its performance and outlook for Q4 and 2025. Following the presentation, there will be a Q&A session where the attending executives will respond to your questions. If you submit your questions during the executives' presentations, we will address them in the order received once all presentations are complete.

Before we begin, please note that this conference call contains forward-looking statements based on current expectations, which may differ significantly from actual future performance.

Let us now review the 3Q results while following along with the announced earnings presentation slides. Please refer to the first page of the earnings presentation slides.

Revenue in the third quarter was KRW 3.57 trillion, up 6% from the previous quarter and 11% year-over-year.

Looking at profitability, gross profit reached KRW 515.9 billion, an increase of 3.3% from the previous quarter and an improvement of 17% year-over-year, resulting in a gross profit margin of 14.5%.

Operating profit in the third quarter was KRW 252.8 billion, reflecting a 14.4% increase from the previous quarter and a 31% increase year-over-year. The operating profit margin was 7.1%, up 0.5 percentage points from the previous quarter's 6.6% and 1.1 percentage points higher year-over-year.

Non-operating profit was KRW 2.3 billion, down from KRW 43.2 billion in the previous quarter and KRW 49.9 billion in the same period last year. The primary reasons for this decrease were foreign exchange valuation losses and losses on foreign currency transactions due to the decline in the KRW/USD exchange rate in the third quarter.

Net income, reflecting non-operating income and corporate tax, stood at KRW 185.8 billion, down 2.5% from the previous quarter but up 5.2% year-over-year.

Next, we will review the divisional performance on page 2.

IT Services revenue in the third quarter was KRW 1.629 trillion, representing a 2.7% increase from the previous quarter and an 8% increase year-over-year.

The Cloud Business led IT service growth, with revenue of KRW 637 billion, up 15% from the previous quarter and 35% year-over-year.

Logistics revenue reached KRW 1.94 trillion, up 9% from the previous quarter and 14% year-over-year, driven by increased maritime transport revenue due to rising ocean freight rates.

The operating profit for IT Services in Q3 2024 was KRW 222.9 billion, up 13% from the previous quarter and 33% year-over-year. The operating profit margin for IT Services was 13.7%, an increase of 1.2 percentage points from the previous quarter and an improvement of 2.6 percentage points year-over-year. The improved operating margin in the third quarter was driven by increased revenue from our high-margin cloud business and revenue recognition from previous generative AI platform projects.

The operating profit for Logistics was KRW 29.9 billion, up 30% from the previous quarter, with the operating profit margin improving from 1.3% to 1.5%.

This concludes our review of 3Q results.

Samsung SDS is actively preparing to execute its value-up program aimed at enhancing corporate value and expanding shareholder returns. The Board of Directors is currently reviewing plans to enhance corporate value and implement shareholder return policies, and we aim to announce our mid- to long-term strategy for corporate value enhancement through legal filing. We will work to finalize and present concrete and practical plans to enhance corporate value and our shareholder return policy in the near future.

I will now turn the call over to each division leaders for a review of divisional performance and future plans.

Executive Vice President Jeongheon Lee, please proceed with the Strategic Marketing presentation.

[Strategic Marketing Office]

Good afternoon, I am Jeongheon Lee, Executive Vice President of the Strategic Marketing Office. I would like to present the third-quarter performance of the IT Services Division, along with insights on the market outlook and SDS business strategy.

In the third quarter, we saw an increase in orders, particularly in the financial sector, along with an expansion of our ERP and generative AI businesses.

First, in the financial sector, we secured contracts for projects such as the integration of Samsung Financial Networks' mobile apps and the implementation of data/marketing platforms, laying the foundation for further external expansion. We also achieved successful contract awards for core banking system builds with major public financial institutions, including Korea Development Bank, and for a generative AI platform with KB Financial Group and other large commercial banks.

Building on our experience and capabilities with Samsung affiliate projects, we also won global SaaS-based HR projects in the insurance sector, actively pursuing and identifying new business opportunities in the financial sector and achieving visible results.

The ERP business, in the third quarter, secured contracts for preliminary consulting and implementation projects across various industries including electronics manufacturing, retail, consumer goods, and energy. Particularly, in the consumer goods sector, we expanded our business by securing a group-wide ERP integration project and operational services for affiliates of existing clients.

Our enterprise-focused generative AI business has made significant strides since launching products like FabriX and Brity Copilot, with multiple business cases supporting the robust pursuit of these initiatives. Contracts were finalized with 26

Samsung affiliates for FabriX and 9 for Brity Copilot, with additional affiliates to follow.

We are also actively engaged in external projects, expanding the generative AI business through use cases already secured in finance and leveraging new technology references in public institutions.

Next, I will discuss the IT business outlook.

The domestic economic outlook for next year is likely to see continued slow growth due to rising production costs and reduced demand. However, some industries with strong export performance may maintain IT and facility investments.

In the finance and public sectors, business conditions are expected to improve due to regulatory easing and cloud activation policies, with an anticipated increase in demand for cloud service providers (CSP) and SaaS adoption. Opportunities are also expected to expand in cloud migration and generative AI projects.

In the finance business, we will focus on large next-generation projects in the insurance sector, while also expanding channel and information system projects in the banking sector. Utilizing the generative AI and tokenized securities business cases secured this year as references, we will further explore new technology fields.

For public sector projects, this year we moved into the Daegu Center of the National Information Resources Service to support the stable delivery of public-private partnership cloud services. We plan to expand our public CSP business by leveraging our cloud resources and to link this expansion with large-scale cloud transition projects for public institutions.

In addition, we plan to expand our business scope into new technology fields such as generative AI-based data analysis and focus on the digital platform government's integrated platform project to expand public projects.

For affiliate projects, we will actively drive next-generation system build projects and key initiatives to strengthen customer business competitiveness, while also expanding our cloud, network, and generative AI service businesses.

For the remainder of the year and into the next, we will make every effort to discover new business opportunities.

Thank you for your attention.

[Cloud Service Business Division]

Good afternoon, I am Scott HJ Koo, Executive Vice President of the Cloud Service Business Division. I will be presenting the third-quarter performance of our cloud business and our outlook for 2025.

In the third quarter, cloud revenue reached KRW 637 billion, marking a 35% increase compared to the same period last year.

Revenue from CSP (Cloud Service Provider) services was KRW 236.8 billion, supported by increased HPC server usage and the expanded GPU as a Services for generative AI, contributing to sustained revenue growth.

MSP(Managed Service Provider) revenue reached KRW 294.2 billion, driven by the ramp-up of the FabriX-based generative AI business and the expansion of cloud

transition projects, especially in the financial sector, representing a 19% increase from the previous quarter.

Cloud accounted for 39% of the total IT services in the third quarter, representing a 4 percentage points increase year-over-year, driving growth in the IT services business.

Only one quarter remains in FY2024.

For the remaining fourth quarter, we plan to concentrate on expanding external business as well as securing technological capabilities for the coming year.

For our ongoing AI platform project in the financial sector, we are developing standardized AI Agents for common services in finance, such as Customer Support and Product Terms and Conditions search. These AI Agents are expected to play a significant role in upcoming AI initiatives within the financial industry.

Additionally, we achieved our first contract by opening the Daegu Center, a public cloud center, in early October ahead of our competitors. As the only CSP in the Daegu Center that offers both GPUaaS services and generative AI business capabilities, we will actively pursue opportunities in the public cloud sector.

Now, I would like to briefly discuss the business outlook and direction for next year.

The addressable market for cloud services in 2025 is projected to grow by approximately 7.8% to KRW 8.2 trillion.

In the public sector, with the easing of restrictions on large enterprise participation and the trend toward expanding Cloud Native, the transition and implementation of public systems to the cloud is expected to be revitalized.

In the financial sector, a roadmap for easing network isolation regulations has been announced in August this year, and in 2025, we expect the adoption of generative AI and SaaS within the regulatory sandbox for the financial sector. We will actively participate in these businesses opportunities.

Our company plans to focus on regulatory markets such as the public and financial sectors, where private cloud solutions are required. We aim to drive generative AI and cloud implementation projects, and expand our CSP offerings driven by GPUaaS and public DaaS (Desktop as a Service) to achieve double-digit growth again next year.

Thank you.

[Solution Business Division]

Good afternoon, I am Haegoo Song, Executive Vice President of the Solution Business Division. Today, I will present the third-quarter performance of Solutions Business and our plans for the coming year.

Please refer to slide 4.

Our ERP business has achieved nearly 30% growth year-over-year, driven by several key factors: the advancement of next-generation ERP systems for Samsung affiliates, follow-up projects identified through preliminary consulting in the consumer goods sector, and the expansion of group-wide projects for existing clients. Notably, revenue from cloud-based ERP projects saw a substantial increase. We expect stable growth in the ERP business for the fourth quarter and next year. Leveraging references from leading companies in the oil & gas and retail industries, we plan to expand the business further.

Our global SaaS business, a significant part of MSP, is showing balanced growth across SCM, CRM, and HCM.

SCM, in particular, achieved over 100% revenue growth year-over-year. We are currently implementing a next-generation SCM project for Samsung Electronics, with phase one scheduled to open sequentially from November 2024 to May 2025.

Following this, we plan to initiate phase two in 2025, which will also see the first application of SCM Copilot in collaboration with o9.

Our CRM business has completed a generative AI-based customer service project for Samsung affiliates, and we aim to expand this initiative to Samsung Electronics and financial affiliates in 2025.

HCM has recently entered the financial and bio sectors while showing ongoing growth in external licensing. In Q4, we plan to commence a Process Innovation (PI) phase for next-generation HCM implementation for affiliates, and next year we will initiate the HCM implementation project.

Our SaaS business has also achieved significant growth from increased subscription and license revenue quarter-over-quarter.

Our SRM SaaS, with “Caidentia” launched this year, is actively pursuing global business in collaboration with Emro. We are focusing on sales targeting the manufacturing and automotive sectors, where we hold a strong market position in North America. We won our first contract this month with a U.S.-based electronics manufacturer, marking a successful start in our global expansion. In 2025, we will focus on successful project delivery and further expand our business in the North American market.

Our enterprise collaboration solution, Brity Works, is generating stable revenue. For Brity Copilot, which supports task automation based on generative AI, we have secured contracts with domestic companies in the game, manufacturing, IT, and telecom equipment industries such as KRAFTON and POSCO DX. We are currently in contract discussions with three clients including Paradise Group and are conducting Proof of Concept (PoC) projects with eleven major companies, including large corporations and financial institutions.

On the product and technology front, we are advancing functionality to improve usability and productivity. Efforts include enhancing meeting voice recognition accuracy with custom glossaries and expanding internal knowledge utilization through features like document summarization in user's storage drive. In 2025, we aim to launch a more advanced Copilot with "Personal Agent" capabilities, offering features such as automatic responses and work briefings. Additionally, we are working on "meeting without language barriers" by strengthening services with real-time interpretation and automatic translation of meeting documents. , setting the stage for widespread enterprise adoption. Through these new features, we will lead the introduction of generative AI services for corporate customers.

Brity Automation, our hyper-automation solution, continues to receive high ratings, marking its fifth consecutive year on Gartner Magic Quadrant. We are maintaining stable licensing and operations for internal and external clients and plan to further expand with Brity Automation v4.0 in Q4, which features enhanced generative AI-based end-to-end automation.

Thank you for your attention.

[Logistics Business Division]

Good afternoon, I am Kooil O, Executive Vice President of the Logistics Division at Samsung SDS. I will explain the performance of the logistics business in Q3, as well as market outlook and business strategy forward.

In Q3, the logistics business achieved sales of KRW 1.94 trillion, a 14% increase year-over-year and a 9% increase from previous quarter.

The ocean and air forwarding segment reached KRW 1.047 trillion, marking a 19% increase from previous quarter. This growth was driven by a rise in international freight rates, as well as increased cargo volumes from new customer.

Cello Square revenue in Q3 was KRW 320 billion, a 112% increase year-over-year and a 12% increase from previous quarter. The platform now has 17,900 registered customers, with an addition of approximately 3,000 companies this quarter.

During this quarter, we secured several new medium and large-sized clients in sectors such as steel, aluminum, and distribution across Southeast Asia, Mexico, and China.

I will discuss the market outlook and our business strategy forward.

I will begin with future market outlook. In ocean transport, while capacity is increasing due to new vessels, global freight demand is not expected to keep pace, leading to a downward stabilization in shipping rates. Specifically, we observe that demand on China-to-U.S. routes has decreased due to recent tariff hikes on certain Chinese products, effective since late September. Furthermore, while the labor dispute at U.S. East Coast ports was resolved after three days on October 1, extending contracts until January. This may still impact freight rates. However, ongoing

geopolitical tensions in the Middle East remain a persistent risk to the global supply chain.

In air transport, seasonal demand is expected to drive up rates in Q4 compared to Q3. However, stabilized ocean freight may reduce the urgency of shipments, potentially lowering air freight rates next year. However, there may be differences depending on the region and route. In particular, in the case of Vietnam, the cargo volumes from global high-tech companies are increasing, and e-commerce shipments from China are passing through Vietnam. This is expected to cause demand to exceed capacity, leading to high freight rates continuing for the time being.

Next, I would like to discuss our future business direction.

With the anticipated downward stabilization in sea freight rates, we plan to expand our contract logistics business, including warehouse operations, targeting medium and large customers. Additionally, we aim to increase the proportion of our air freight business. For medium and large customers, we will standardize the best practices we have acquired across various industries and implement them as basic functions within our platform. We plan to integrate our customers' processes and systems with Cello Square to enhance value based on systems and data.

Our air transport will concentrate on key routes and countries with high-volume operations, such as Vietnam, Miami in the U.S., and India, to further expand our business in these regions.

Our efforts will also focus on customer retention and business scope expansion. We are enhancing sales activities together with regions and hubs to actively promote cross-selling across countries for existing global clients. Notably, we are expanding sales to Chinese global companies operating in Southeast Asia, Mexico, and Eastern

Europe. The Cello Square platform, operating across more than 30 countries, is utilized as a vital tool for both sales and operations.

This concludes my presentation on the logistics business. Thank you.

[Q&A Session]

Q: Junhee Lee from Goldman Sachs

With an anticipated downturn in Samsung Electronics' performance, what are the expected IT investment trends among Samsung affiliates including Samsung Electronics, and how is SDS responding?

A: Jeongheon Lee, EVP and Strategic Marketing Office Leader

Given the growing uncertainty in the business environment, Samsung Electronics and other affiliates are likely to adopt a conservative approach to overall IT investments. However, we foresee that IT investments to strengthen competitiveness would continue.

To reduce costs through productivity improvement, the introduction of generative AI and cloud migration is expected to accelerate further, and investment in IT for key next-generation systems is expected to increase to secure competitiveness for sales growth. Samsung Electronics and its manufacturing affiliates will continue to expand IT investments in essential areas such as smart factories and new plant facilities for product yield and performance improvement. Especially, Samsung Electronics will continue to invest in next-generation systems such as generative AI, SCM, and PLM.

It is expected that financial affiliates will expand their investments to strengthen their operating competitiveness, such as preparing next-generation ERP, integrating apps, and building data/marketing platforms.

We will win new contracts by focusing on expanding new business opportunities to strengthen business competitiveness of affiliates including cloud migration, generative AI adoption, and core system implementation.

Q: Soojin Kim from Mirae Asset Securities

FabriX has shown results with Samsung affiliates and external clients. Could you provide updates on additional contracts and feedback from current customers?

A: Scott HJ Koo, EVP and Cloud Service Business Division Leader

We introduced FabriX, the first generative AI service in Korea, earlier this year. To date, we have implemented FabriX across 26 affiliates and secured several projects externally, including major commercial banks and the National Information Agency (NIA) in the public sector.

As we approach the fourth quarter, we are concentrating on securing additional contracts, especially within the financial sectors where demand for AI projects is increasing.

Regarding customer feedback, our customers have handled actual tasks using FabriX by implementing several use cases using FabriX, such as an assistant for customer consultation in manufacturing, a search for terms and products in finance, and calculation of automobile fault ratios. It is used to improve productivity.

We are measuring user satisfaction on a weekly basis with NPS indicators, and continuously see positive reviews. We continue to improve service quality by immediately responding to the requirements for improvement.

Looking at more than 200 corporate use cases, customers in the financial sector want to use generative AI for insurance screening and product comparison, while customers in the manufacturing sector are interested in improving the productivity of facility management or failure/defect management tasks by using generative AI. In addition, the service industry is asking for ways to increase customer satisfaction by utilizing it for customer consultation, product comparison, and recommendation.

Our company is currently working with customers to develop and refine services such as LLMs, Copilot, and Agent that can meet various requirements of each industry sector. We plan to complete core features such as Multi-Modal Chat and Knowledge Graph by the first half of next year, enabling our customers to utilize the features in their businesses.

Q: Hoyoon Jung from Korea Investment & Securities

Regarding the Copilot service utilizing generative AI, could you please explain the progress and strengths of SDS Copilot business?

A: Haegoo Song, EVP and Solution Business Division Leader

Currently, we are providing services to approximately 120,000 users across 9 Samsung affiliates, including Electronics, Display, and C&T. We are also expanding the service to all affiliates, including SDI, E&A, and their overseas subsidiaries.

As for non-captive business, six domestic game/manufacturing/IT/telecommunication equipment companies such as KRAFTON and POSCO DX have introduced Brity Works and Copilot. We are expanding our business based on the differentiated private SaaS offerings by targeting large enterprises, finance, and public institutions that cannot use public SaaS.

Speaking of the recent market outlook, Computerworld, a technology magazine under IDG, a market research firm, said that the generative AI-based Copilot services received enormous attention initially worldwide. But a research result showed that concerns about usability and security must be addressed to promote Copilot to many users.

To address these concerns, we are working on improving speech recognition accuracy during meetings using company/industry-specific glossaries and offering real-time multilingual interpretation/translation services. In addition, we are identifying use cases where users derive meaningful value from Copilot while using automatic response and briefing features with Personal Agent, the personalized service, and investing in improving the features.

As for security, we already possess a distinctive advantage in offering a private SaaS-based generative AI-powered Copilot. In particular, because the Korean language support function is superior to that of global companies, it is expected that the spread of generative AI in domestic business will be able to expand more rapidly. Leveraging this advantage, we will lead the way in widespread adoption of generative AI.

Q: Hoyoon Jung from Korea Investment & Securities

Could you please comment on the profit margin of the IT service business for Q4 and next year?

A: Won Seo, Head of IR Team

The margins for our IT service business were exceptionally high in Q3, with sales from delayed contracts being reflected. For Q4, considering the situation of our affiliates and our R&D costs, we expect the margin to be somewhat lower than that of Q3. We expect a similar profit margin level next year compared to this year.

Q: Changyoung Lee from Yuanta Securities

Cello Square's continuous revenue growth has been remarkable. With even greater growth expected in the future, could you please share this year's growth factors, next year's revenue projections and business expansion strategies?

A: Kooil O, EVP and Logistics Business Division

This year, we expect Cello Square's annual revenue to reach around KRW 1.2 trillion. The market conditions in the second half of the year have improved, and the additional volume of goods secured through new businesses, such as an increase in shipments from Asia to the Americas, is a major factor in this growth.

Although the logistics market outlook for next year is not entirely favorable due to anticipated stagnation in global trade volume growth and a significant decline in ocean freight rate. However, based on the Cello Square platform, we are promoting our business to provide data-based value to customers, so we believe that customer retention will be higher than other companies. Considering our growth target, Cello Square business aims to grow about 20% next year as well.

To achieve this, we plan to strengthen our focus on medium and large-scale customers.

Our goal is to provide the best practices secured through industry-leading customers as standard features of Cello Square. We will expand the scope of services from export and import to warehousing and local transportation, by promoting contract logistics that ensures integration with customers' SCM process and long-term business feasibility.

So far, ocean transport has taken up a larger proportion than that of air transport. Next year, however, we plan to increase our air transport share. To do this, we will promote

long-term contracts with our partner airlines and actively work on cargo consolidation by bundling shipments from customers in different industries, especially in countries or routes with high air cargo volumes.

Q: Changyoung Lee from Yuanta Securities

Could you please comment on the Q4 and next year's profit margins for the IT services business?

A1: Won Seo, Head of IR Team

The IT services business margin was particularly high in Q3, driven by revenue recognition from previously delayed contracts. In Q4, we anticipate a slightly lower margin than in Q3, considering the circumstances of our affiliates and our own R&D expenses. We expect next year's profit margin to be at a similar level to this year's.

Q: Changyoung Lee from Yuanta Securities

Could you please provide guidance on the operating profit margin for the logistics business next year?

A1: Won Seo, Head of IR Team

We expect the logistics business operating profit margin next year to be at a similar level to this year, potentially around 2% or higher.

A2: Kooil O, EVP and Logistics Business Division

Given the nature of the logistics business, operating profit margins typically do not fluctuate drastically. However, we are currently working to enhance customer value through platform and system-based solutions, and internally, we are focusing on productivity improvements by utilizing advanced technologies like generative AI and integrating our internal platforms. As a result, we anticipate a possible improvement in next year's operating profit margin compared to this year.

Q: Seokjin Jang from Kyobo AXA Asset Management

As far as I know, the value-up plan announcement aligns with the Board's meeting timeline. So will it be disclosed in line with the Board meeting schedule in January?

A: Won Seo, Head of IR Team

The value-up announcement will include the company's long-term growth plan, shareholder returns, ROE, and more. We are preparing thoroughly, with the board leading this initiative. The ESG Committee of the Board reviewed the matter last week, and we will further discuss and finalize plans through additional board workshops. The approval could be complete at the regular meeting in January, but an earlier session will be convened if necessary. We will provide updates via a preliminary announcement if required.

The approval timing may be at the end of January or earlier if necessary, and we will convene a board meeting accordingly. Given the situation, we will provide another update through a preliminary disclosure notice.

Q: Seokjin Jang from Kyobo AXA Asset Management

Concerning the overseas SRM business, SDS signed the first contract in the U.S. through collaboration with O9. Could you provide details on whether the company that signed the contract is an American automotive company and what the contract structure looks like?

A: Haegoo Song, EVP and Solution Business Division Leader

Our sales focus is primarily in the electronics and automotive sectors.

While we are unable to disclose the client's name due to contractual agreements, this first contract is with a company in the EMS (Electronics Manufacturing Services)

sector. We are also in the final stages of securing contracts with other prominent clients, including furniture companies.

We remain focused on clients within the automotive ecosystem and are actively working with electronics and other manufacturing sectors. We aim to secure additional clients and deliver results by year-end.

Q: Jaehyun Kwon from JP Morgan

Regarding cloud services, what proportion of MSP and SaaS revenue comes from captive clients?

A: Won Seo, Head of IR Team

In MSP, the captive client takes up slightly above 80%, while SaaS has a captive proportion of over 80%. Although our cloud business is still in its early stages and largely linked to Samsung affiliates, we plan to expand external business next year to increase non-affiliate contributions.

Q: Jaehyun Kwon from JP Morgan

The IT services segment shows significant profit margin improvement both year-on-year and quarter-on-quarter. Could you explain which revenue mix of cloud business contributed to the improvement? Additionally, given the extensive use of AI in business, which has been more impactful—process innovation or cost reduction? I would like to ask a question to see where AI has a more sustainable impact.

A: Won Seo, Head of IR Team

The effects of process improvement caused by generative AI, such as cost savings, are still uncertain and will be reflected from next year onwards.

Within the cloud segment, CSP (Cloud Service Provider) services have notably high profit margins, which have contributed significantly to IT services profitability improvement.

Q: Jaehyun Kwon from JP Morgan

Following the government's announcement on rising electricity costs, I wonder if these additional costs are passed on to customers who use private clouds.

A: Scott HJ Koo, EVP and Cloud Service Business Division Leader

The IT services provided by SDS include both cloud and non-cloud infrastructure. For non-cloud services, electricity cost variations may be transferred to clients based on contract terms. For SCP (Samsung Cloud Platform) and cloud infrastructure services, electricity costs are already included in service fees. Thus, the service fees may vary depending on market conditions. We do not have any specific rate increase plan at this moment.

Q: Simon Woo from BofA

Could you explain the financial performance of GPUaaS up to Q3, revenue outlook for this year, operating profit margins, and projections for next year? As you plan to invest heavily in high-end AI servers in accordance with rapidly growing GPU business, I wonder if you are confident about a stable supply of GPUs, AI servers, and racks in the supply chain.

A: Scott HJ Koo, EVP and Cloud Service Business Division Leader

SDS has achieved higher performance than expected in GPUaaS in line with the growth of generative AI market. GPUaaS, one of major pillars of SCP, shows higher profitability than other cloud services. We anticipate further growth next year compared to this year.

We conduct demand forecasts every six months and work closely with partners to ensure a stable supply of GPUs, AI servers, and racks.

Q: Simon Woo from BofA

The cloud is expected to grow around 30% this year, and can this trend continue until next year?

A: Scott HJ Koo, EVP and Cloud Service Business Division Leader

As the scale of total cloud sales has increased, it seems difficult to grow more than 30% next year. However, we believe that more than 20% is possible.

Q: Simon Woo from BofA

CAPEX appears to have declined somewhat in Q3. Could you provide guidance on CAPEX for this year and next year?

A: Won Seo, Head of IR Team

Due to delays in our planned investments in servers and network infrastructure, CAPEX is projected to fall slightly below our original plans, estimated at mid-500 billion won annually. With planned investments in cloud infrastructure next year, we anticipate CAPEX to exceed this year's level.