

**Global** Digital Transformation **Partner**

# **Financial Results Briefing for Fiscal Year Ended March 2019**



**April 26, 2019**

**transcosmos inc.**

## **Executive Summary**

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## **Mid-Term Key Initiatives**

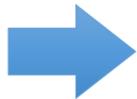
- Key Initiatives
- Our Vision
- DEC Services
- BPO Services
- Global Business Expansion
- Clients' Strategic Partner

## Achievements

- Consolidated sales up by 6.8%, hit new all-time high.
- Overseas affiliates continued to achieve high growth, turned to profit.
- Controlled SG&A expenses based on sales and profit.
- Reduced equity in losses due to positive impact from portfolio review.
- Net Income attributable to owners of parent company increased considerably due to posting of gain on sale of affiliate's shares.

## Challenge

- Lower profitability in Parent Company.



Aim to generate profits from new initiatives executed in previous fiscal year as soon as possible.

1	Income Statement for the Year Ended March 2019
2	Balance Sheet, Cash Flow Statement, Dividend Policy for the Year Ended March 2019
3	Mid-Term Key Initiatives

# Consolidated Income Statement Summary

- Sales: Increased mainly due to order increase for Parent Company and overseas affiliates.
- Operating Income: Decreased due to decreased profitability in Parent Company.
- Ordinary Income: Increased due to improved non-operating item that includes increase in capital gains from funds and decrease in equity in losses.
- Net Income: Increased due to increase in ordinary income and improved extraordinary item that includes posting of gain on sale of affiliate's shares.

In ¥Million	FY2018/3		FY2019/3		Difference	
		(Mix)		(Mix)	(Amount)	(Ratio)
Sales	266,645	100.0%	284,696	100.0%	18,051	6.8%
Cost of Sales	219,377	82.3%	237,494	83.4%	18,116	8.3%
Gross Profit	47,267	17.7%	47,202	16.6%	-65	-0.1%
SG&A	41,175	15.4%	41,846	14.7%	671	1.6%
Operating Income	6,092	2.3%	5,355	1.9%	-736	-12.1%
Non-operating Profit and Loss	-4,289	-1.6%	38	0.0%	4,328	-
Ordinary Income	1,802	0.7%	5,394	1.9%	3,592	199.3%
Extraordinary Profit and Loss	-758	-0.3%	3,875	1.4%	4,633	-
Net Income attributable to owners of parent company	-2,176	-0.8%	4,433	1.6%	6,609	-

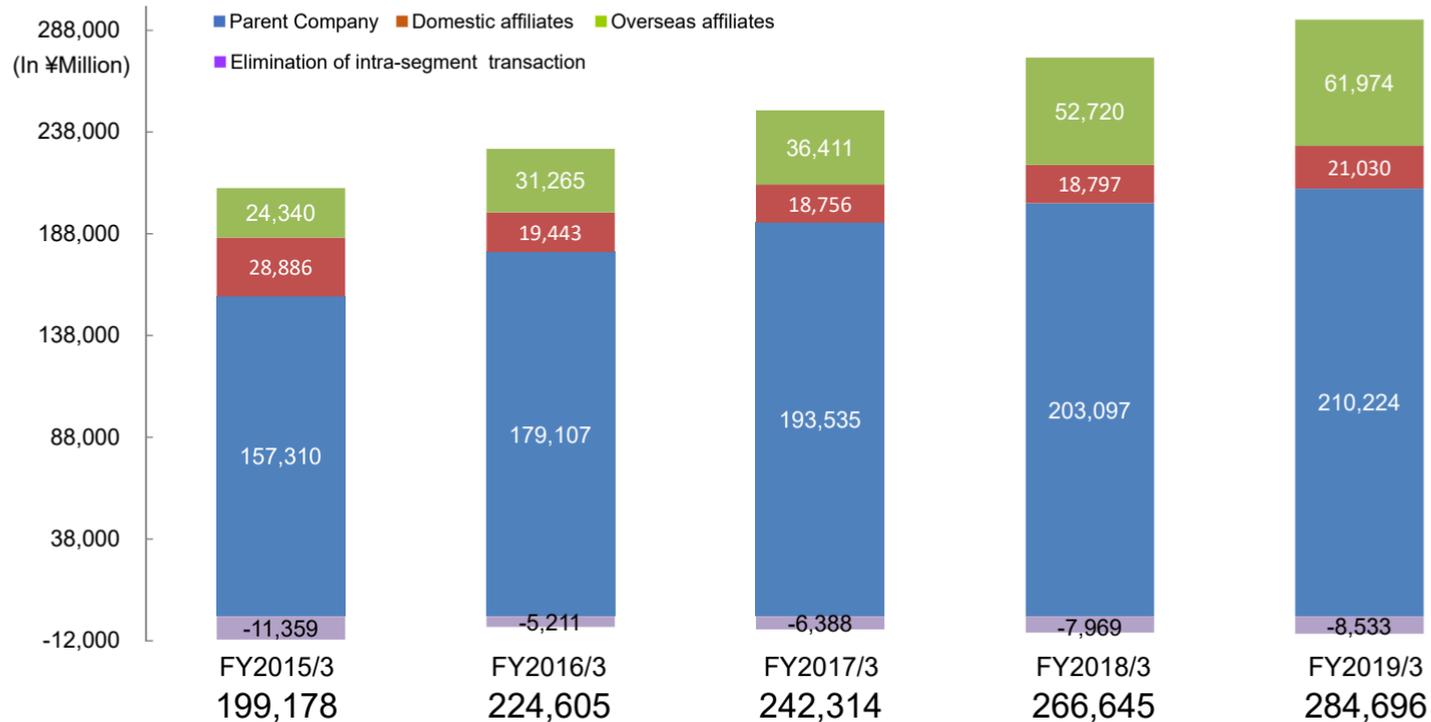
# Segment Based Results Summary

- Parent Company: Sales increased but profit declined. Lower profitability is due to downturn in large spot deals and SG&A increase.
- Domestic Affiliates: Both sales and profits increased. Profitability improved due to solid performance achieved by listed subsidiary, successful business restructuring made in some subsidiaries, and positive impact from newly consolidated subsidiaries.
- Overseas Affiliates: Both sales and profits increased. South Korean subsidiary achieved solid performance and some European subsidiaries improved their profitability.

In ¥Million		FY2018/3		FY2019/3		Difference	
			(Mix)		(Mix)	(Amount)	(Ratio)
Sales	Parent company	203,097	76.2%	210,224	73.8%	7,126	3.5%
	Domestic Affiliates	18,797	7.0%	21,030	7.4%	2,233	11.9%
	Overseas Affiliates	52,720	19.8%	61,974	21.8%	9,254	17.6%
	Elimination of intra segment transaction	-7,969	-3.0%	-8,533	-3.0%	-563	-7.1%
	<b>(Total)</b>	<b>266,645</b>	<b>100.0%</b>	<b>284,696</b>	<b>100.0%</b>	<b>18,051</b>	<b>6.8%</b>
Segment Income (Loss)	Parent company	5,834	95.8%	4,415	82.4%	-1,418	-24.3%
	(%profit)	2.9%		2.1%			
	Domestic Affiliates	256	4.2%	624	11.7%	367	143.0%
	(%profit)	1.4%		3.0%			
	Overseas Affiliates	-24	-0.4%	313	5.8%	338	-
	(%profit)	-0.0%		0.5%			
Elimination of intra segment transaction	25	0.4%	2	0.1%	-22	-88.8%	
<b>(Total)</b>	<b>6,092</b>	<b>100.0%</b>	<b>5,355</b>	<b>100.0%</b>	<b>-736</b>	<b>-12.1%</b>	

# Consolidated Sales Trend

- Achieved sales growth for 9<sup>th</sup> straight year, hit all-time high sales.



# Consolidated Sales Analysis

- Sales increased by ¥18,051mn (+6.8%)

Parent Company

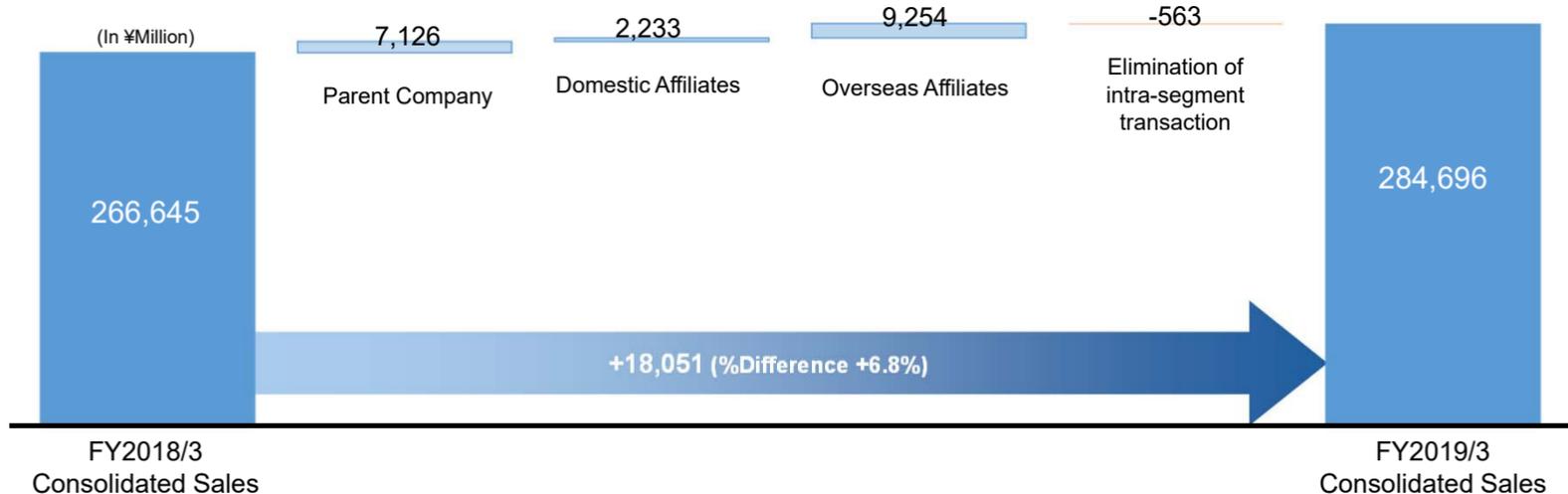
Sales increased due to order increase in core services (DEC/BPO).

Domestic Affiliates

Sales increased due to increased sales in listed subsidiary and positive impact from newly consolidated subsidiaries.

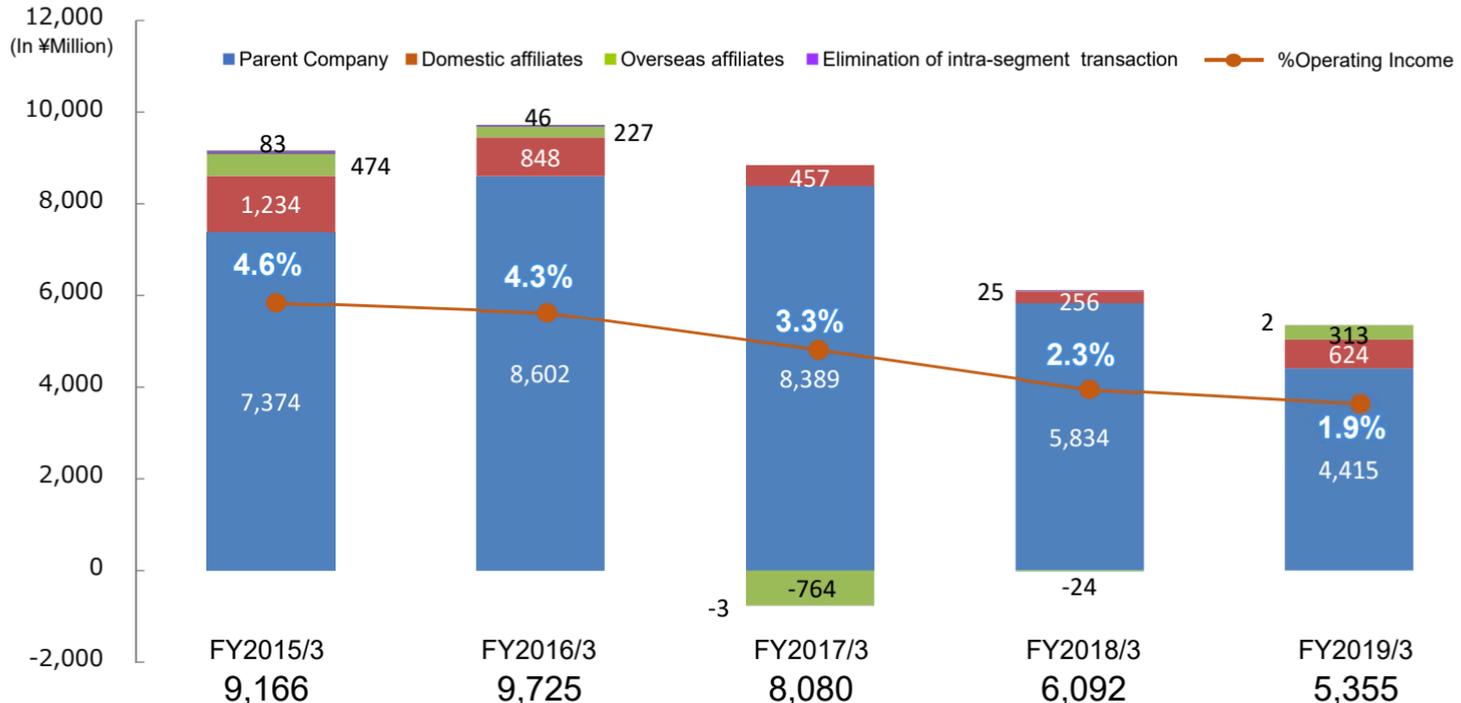
Overseas Affiliates

Sales increased due to increased sales in Chinese and South Korean subsidiaries.



# Consolidated Operating Income Trend

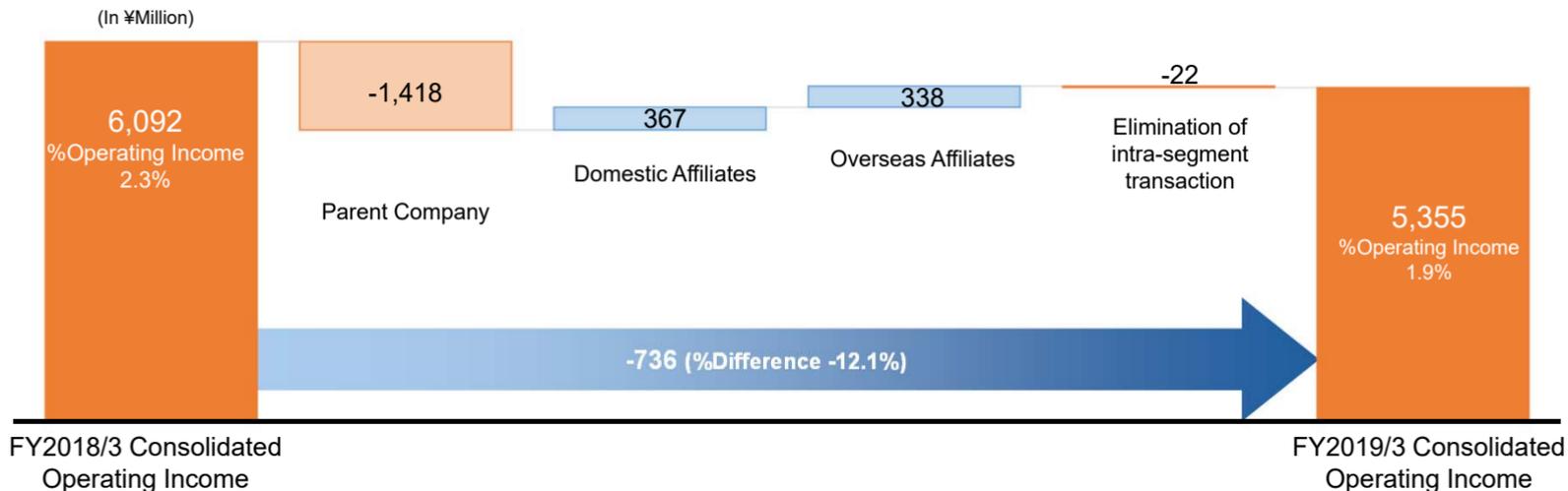
- Although Parent Company's profit continued to decline due to upfront investments, both domestic and overseas affiliates improved profitability.
- Operating profit ratio went down to the level of 2%.



# Consolidated Operating Income Analysis

- Operating Income decreased by ¥736mn (-12.1%)

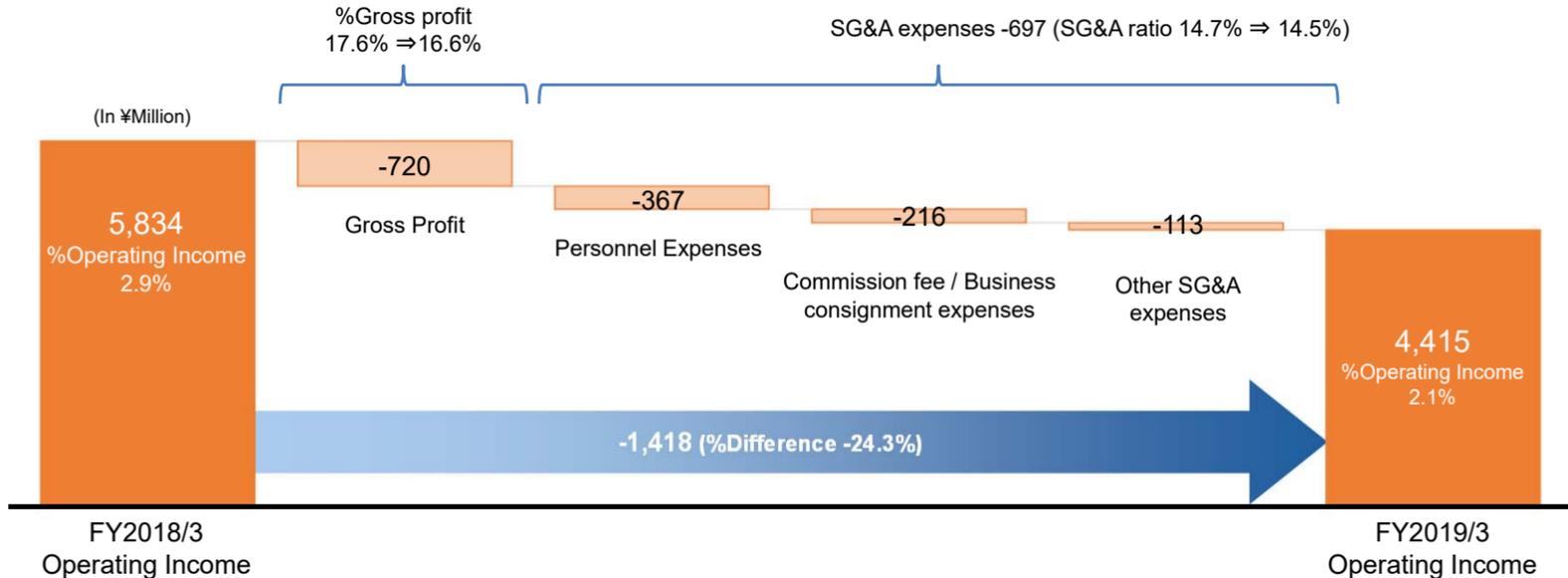
<b>Parent Company</b>	Operating income decreased due to downturn in large spot deals, sluggish growth in large deals, and SG&A expenses that increased due to impact from upfront investments made in previous fiscal year.
<b>Domestic Affiliates</b>	Operating income increased mainly due to improved profitability in listed subsidiary, successful business restructuring made in some subsidiaries, and positive impact from newly consolidated subsidiaries.
<b>Overseas Affiliates</b>	Operating income increased as South Korean subsidiary improved its profitability whilst some European subsidiaries successfully restructured their business.



# Parent Company Operating Income Analysis

- Operating Income decreased by ¥1,418mn (-24.3%)

<b>Gross Profit</b>	Decreased mainly due to downturn in large spot deals and sluggish growth in large deals. Gross profit ratio decreased by 1.0 points.
<b>SG&amp;A expenses</b>	Increased by ¥697mn due to impact from upfront investments made in previous fiscal year. SG&A expense ratio improved by 0.2 points.

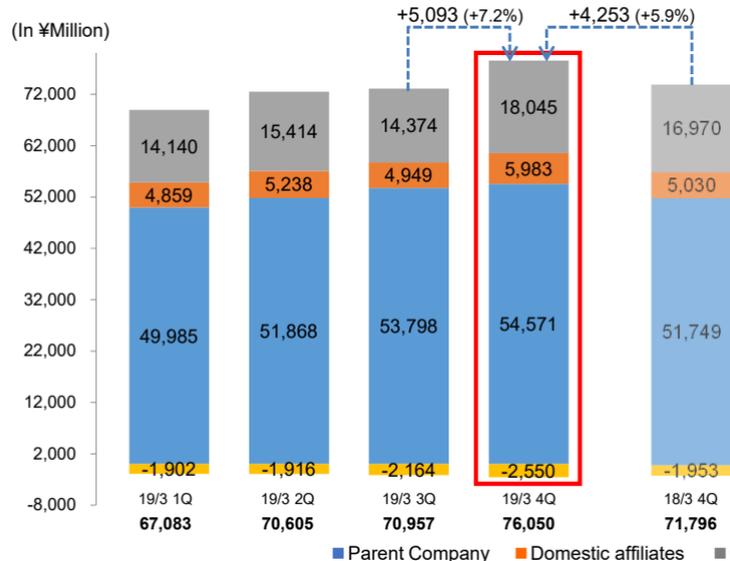


# Consolidated Quarterly Performance (Jan-Mar, 2019)

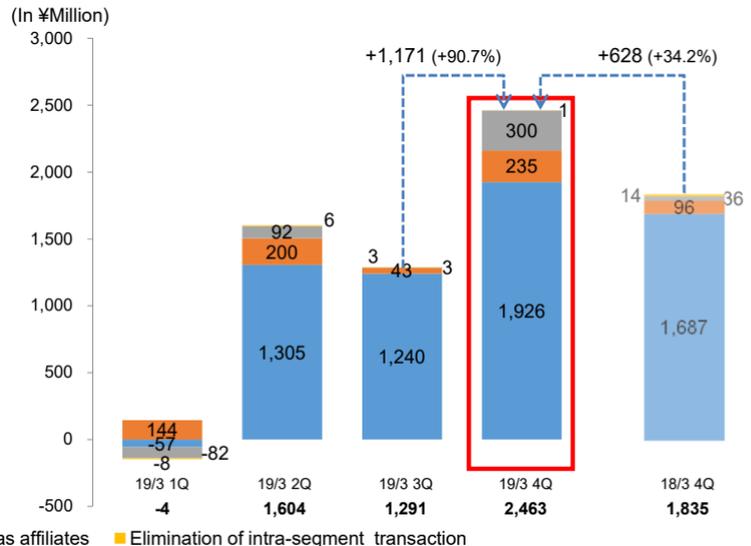


- Sales: Increased by ¥4,253mn, up 5.9% compared to Q4 of previous fiscal year mainly due to increase in Parent Company's DEC services sales, primarily DM business. Compared to Q3 of this fiscal year that ended in March 2019, sales increased by 5,093mn, up 7.2% due to solid performance in global affiliates, especially China.
- Operating Income: Increased by 628mn, up 34.2% compared to Q4 of previous fiscal year mainly due to improved profitability in Parent Company's DEC services, led by DM business, and successful business restructuring made by some European subsidiaries in global affiliates. Compared to Q3 of this year that ended in March 2019, operating income increased by 1,171mn, up 90.7% led by profit growth in Parent Company.

## Sales

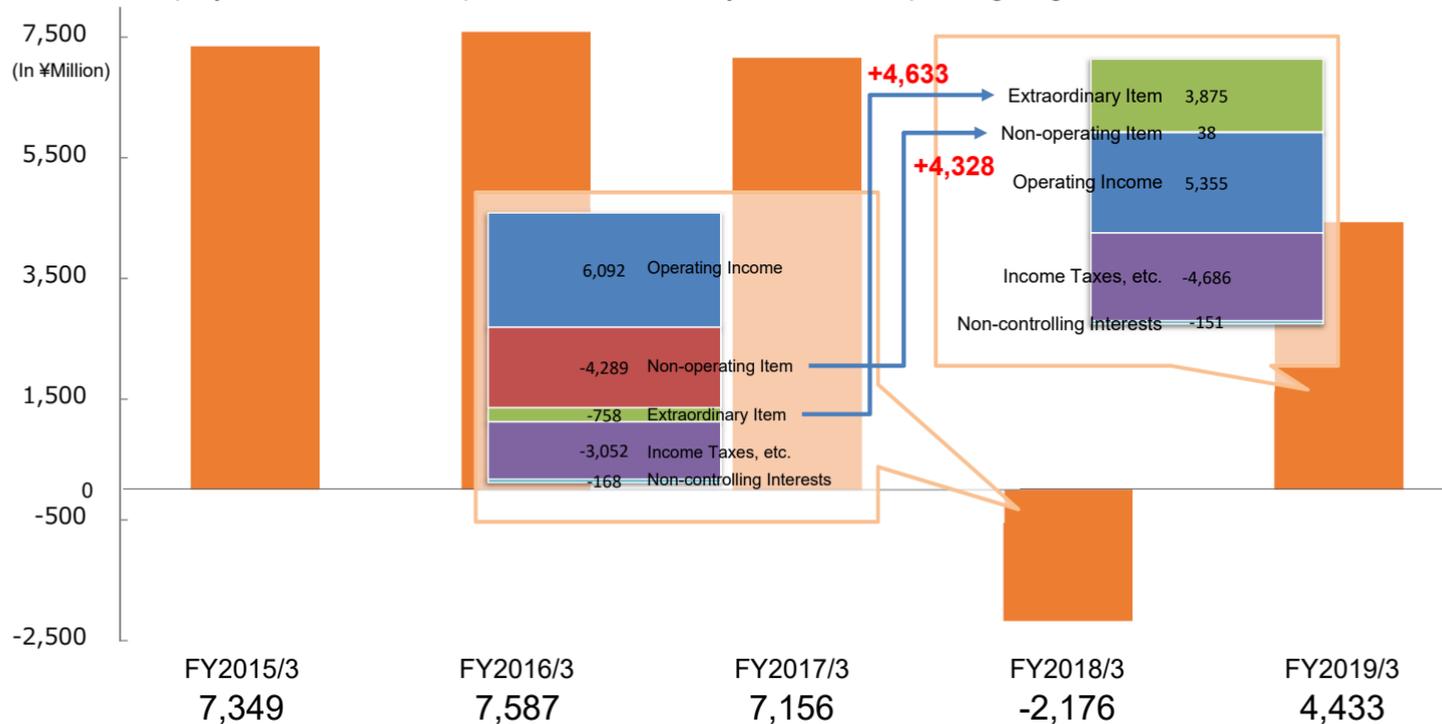


## Operating Income



# Parent Company Net Income Analysis

- In the year that ended in March 2019, net income returned to profit and increased by 6,609mn compared to previous fiscal year due to improved non-operating item as a result of increase in capital gains from funds and decrease in equity in losses, and improved extraordinary item due to posting of gain on sale of affiliate's shares.



# (Reference) Parent Company Sales by Category

## ● Sales by Industry

In ¥Million	FY2018/3		FY2019/3		%Difference
		(Mix)		(Mix)	
Telecommunications	50,577	24.9%	52,490	25.0%	3.8%
Finance / Insurance	33,867	16.7%	36,070	17.2%	6.5%
Manufacturing	31,973	15.7%	35,127	16.7%	9.9%
Services	33,896	16.7%	32,479	15.4%	-4.2%
Wholesale / Retail	26,321	13.0%	27,945	13.3%	6.2%
Other	26,461	13.0%	26,111	12.4%	-1.3%

Telecommunications: Mainly telecom carrier-related businesses increased.  
 Finance/Insurance: Mainly business with insurance companies increased.  
 Manufacturing: Mainly business with auto-manufacturers and general machines manufacturers increased.  
 Services: Mainly advertisement related business declined.  
 Wholesale/Retail: Mainly business with energy related wholesales, chain stores and speciality retailers increased.

## ● Sales by Client (top 5 clients in terms of sales)

In ¥Million	FY2018/3		FY2019/3		%Difference
		(Mix)		(Mix)	
A (PC/AV)	8,703	4.3%	8,003	3.8%	-8.0%
B (Travel)	2,993	1.5%	3,081	1.5%	2.9%
C (Job advertisement)	3,162	1.6%	2,981	1.4%	-5.7%
D (Building material/equipment manufacturer)	2,596	1.3%	2,783	1.3%	7.2%
E (Auto manufacturer)	2,323	1.1%	2,640	1.3%	13.6%

A: Orders for DEC services, mainly CC, decreased.  
 B: Orders for DEC services, mainly DM, increased.  
 C: Orders for DEC services, mainly DM, decreased.  
 D: Orders for BPO services including order processing increased.  
 E: Orders for DEC services, mainly CC, and BPO services including design development increased.

1	Income Statement for the Year Ended March 2019
2	Balance Sheet, Cash Flow Statement, Dividend Policy for the Year Ended March 2019
3	Mid-Term Key Initiatives

# Consolidated Balance Sheet Summary

- Assets: “Cash equivalent” and “Investment securities\*” increased as result of sale of affiliate’s shares.
- Liabilities: “Deferred tax liabilities” and “Accrued expenses” increased.
- Net Assets: “Retained earnings” increased due to increase in net income. “Valuation difference on available-for-sale securities\*” increased as result of sale of affiliate’s shares.

\* The Company has sold some of its shares in TensynPRC, its equity-method affiliate, in September 2018. The remaining shares are recorded at fair value after reclassified to investment securities account.

In ¥Million	End of Mar 2018	End of Mar 2019	Difference	
Current Assets	82,989	89,835	6,845	<ul style="list-style-type: none"> <li>• Cash equivalent +4,094</li> <li>• Notes and accounts receivable +2,508</li> </ul>
Fixed Assets	46,077	45,433	- 644	
Total Assets	129,067	135,268	6,201	<ul style="list-style-type: none"> <li>• Goodwill -3,152</li> <li>• Investment securities +4,082</li> <li>• Affiliates’ stocks - 2,700</li> <li>• Guarantee deposits+1,033</li> </ul>
Current Liabilities	45,201	48,121	2,920	
Fixed Liabilities	12,666	12,232	- 434	<ul style="list-style-type: none"> <li>• Short-term loans payable +476</li> <li>• Accrued expenses+1,041</li> <li>• Advances+575</li> </ul>
Total Liabilities	57,867	60,353	2,485	
Net Assets	71,199	74,915	3,715	<ul style="list-style-type: none"> <li>• Long-term loans payable -1,699</li> <li>• Deferred tax liabilities +1,149</li> </ul>
Liabilities/Net Assets Total	129,067	135,268	6,201	
Cash Equivalent	31,937	36,032	4,094	
Interest-bearing debt	14,887	13,668	- 1,219	
Net Cash*	17,050	22,364	5,313	<ul style="list-style-type: none"> <li>• Retained earnings +2,879</li> <li>• Valuation difference on available-for-sale securities +3,204</li> <li>• Foreign currency translation adjustment -1,640</li> </ul>

\*Net Cash = Cash and Cash Equivalent – Interest-bearing debt

# (Reference) Listed Holdings Held by the Company (as of April 25, 2019)



- The Company continues to enhance investment portfolio review through regular monitoring.

List of listed holdings held by transcosmos inc.

In ¥Million

Type	Stock name	Market	Security code	Fair Value
Stock of affiliated company	J-Stream Inc.	TSE Mothers	4308	3,259
	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	2,248
	PFSweb Inc.	NASDAQ	PFSW	2,009
	eMnet Inc.	KOSDAQ	123570	1,608
Investment securities	Menicon Co., Ltd.	First Section of TSE	7780	631
	Geniee, Inc.	TSE Mothers	6562	315
	Twilio	NYSE	TWLO	202
	Japan Airlines Co., Ltd.	First Section of TSE	9201	169
	MTG Co., Ltd.	TSE Mothers	7806	37
	MIZUNO Corporation	First Section of TSE	8022	25
	JACCS CO., LTD.	First Section of TSE	8584	8
Total				10,515

Major listed holdings held by Group companies.

Type	Stock name	Market	Security code	Fair Value
Investment securities	TensynPRC	ChiNext	300392	5,610

\* Fair values are calculated closing price of January 30, 2019. Note that fair values of PFSWeb, Twilio and SendGrid are calculated closing price of January 29, 2019.

# Consolidated Cash Flow Statement

- Cash flows from operating activities: Although “Income before income taxes and minority interest” increased considerably, “Equity in losses of affiliates” decreased, and “Gain on sale of affiliates’ stocks” and “Cash paid for income and other taxes” increased.
- Cash flows from investing activities: “Proceeds from sale of stocks of affiliates” increased, and “Purchase of stocks of affiliates” decreased.
- Cash flows from financial activities: “Dividends paid” decreased.

In ¥Million	FY2018/3	FY2019/3	Difference
Cash flows from operating activities	7,814	3,889	- 3,925
Cash flows from investing activities	- 6,658	4,344	11,002
Cash flows from financing activities	- 4,049	- 3,165	883
Balance of cash and cash equivalents	31,772	35,979	4,206
Free cash flow*	1,155	8,233	7,077

\*Free cash flow = Cash flows from operating activities + Cash flows from investing activities

# Dividend Policy

- The Company's dividend policy focuses on dividend payout ratio in order to pay dividends that are linked to the Company's business performance.
- The Company pays year-end dividends based on a consolidated dividend payout ratio of around 30%.
- For the year that ended in March 2019, the Company plans to increase dividends along with considerable growth in Parent Company's net income.

	FY2015/3	FY2016/3	FY2017/3	FY2018/3	FY2019/3 (Plan)
Dividends per share (yen)	54	56	52	23	33
Consolidated dividends payout ratio (%)	30.2	30.4	30.1	-	30.9

# (Reference) CAPEX, Amortization/Depreciation, Employees, Service Bases



## ● CAPEX / Depreciation and Amortization

In ¥Million	FY2018/3	FY2019/3	%Difference
Capital expenditures	4,211	4,514	7.2%
Depreciation and amortization	3,078	3,287	6.8%

## ● Number of Employees

	End of Mar 2018	End of Mar 2019	Difference
Consolidated bases	24,875	30,051	5,176
(Temporary employees)	25,420	24,866	-554
Parent company	10,609	14,106	3,497
(Temporary employees)	22,573	21,407	- 1,166

## ● Service bases

	End of Mar 2018	End of Mar 2019	Difference
Service bases	170	171	1
Japan	58	62	4
Overseas	112	109	- 3

## ● CAPEX

Investment amounts increased in domestic subsidiaries and South Korean subsidiary.

## ● Depreciation and amortization

Depreciation and amortization increased due to the opening/expansion of centers and business offices in China and Parent company in the previous fiscal year.

## ● Employees

Increased mainly in parent company after converting fixed-term contracts to indefinite-term contracts.

## ● Service bases

Japan: BPO Center Kameido started full-scale operations. Opened MCM Center Chiba Ichikawa / Hakata, and BPO Center Sasebo, etc.

Overseas: Opened new 2 operation centers in China, 1 in Taiwan, and 2 in Indonesia. However affiliates' and partners' bases decreased.

\* Service bases include the Company's own service bases, head office, branches, sales offices, subsidiaries, associates and partners' bases.

1	Income Statement for the Year Ended March 2019
2	Balance Sheet, Cash Flow Statement, Dividend Policy for the Year Ended March 2019
3	Mid-Term Key Initiatives

## Service Innovation

- Promote DEC services that optimize online & offline customer touchpoints based on the smartphone.
- Promote and help clients' business process digitalization and automation by using digital technology and digital platforms.

## Service Globalization

- Roll out innovative services across the globe.
- Help globalization of companies including Japanese firms. Win orders from local companies in other countries.

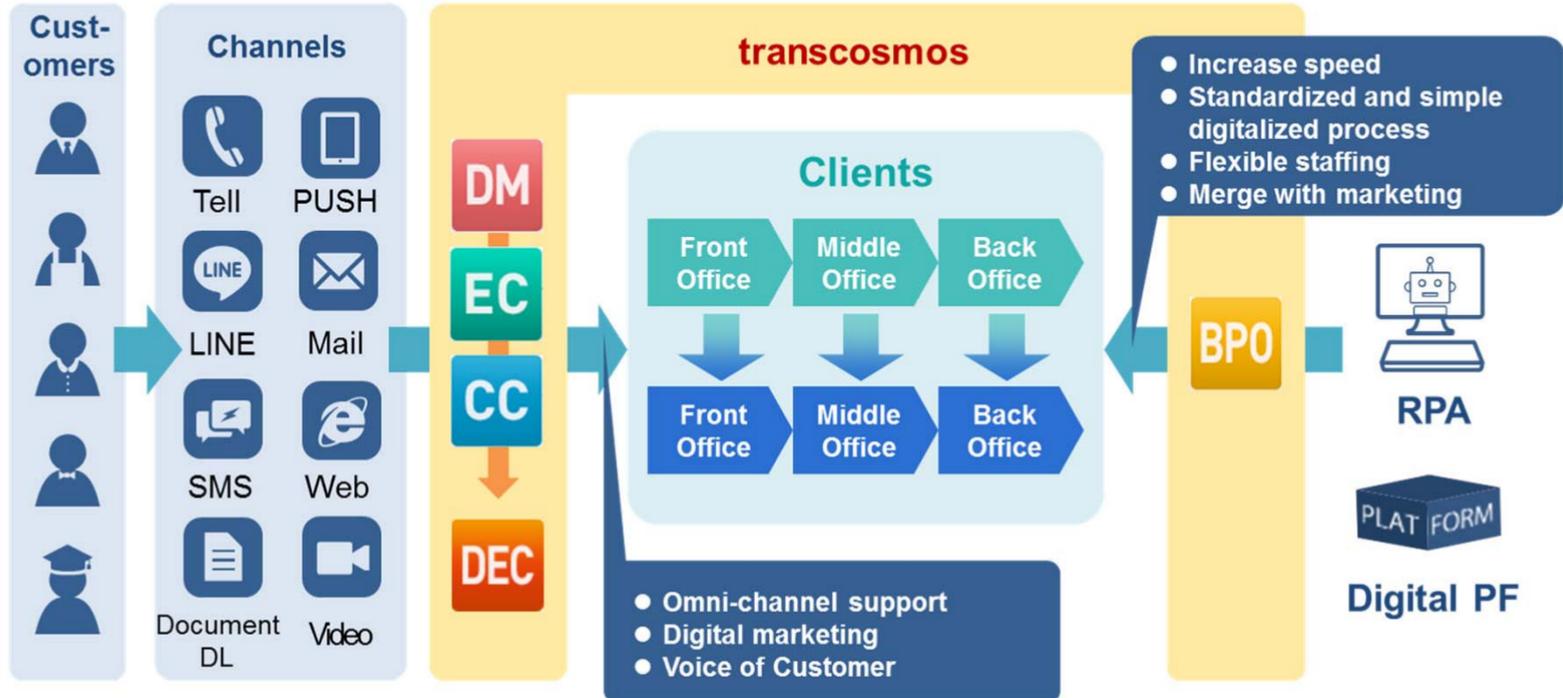
## Clients' Strategic Partner

- Offer innovative proposals. Grow together with clients and become a crucial, one and only partner for clients to achieve their growth strategy.
- Build a business foundation in order to further stabilize and grow our business based on a long-term partnership with clients. Achieve high profit, high growth and boost corporate value.

**Achieve double digit sales growth and improve operating income margin.**

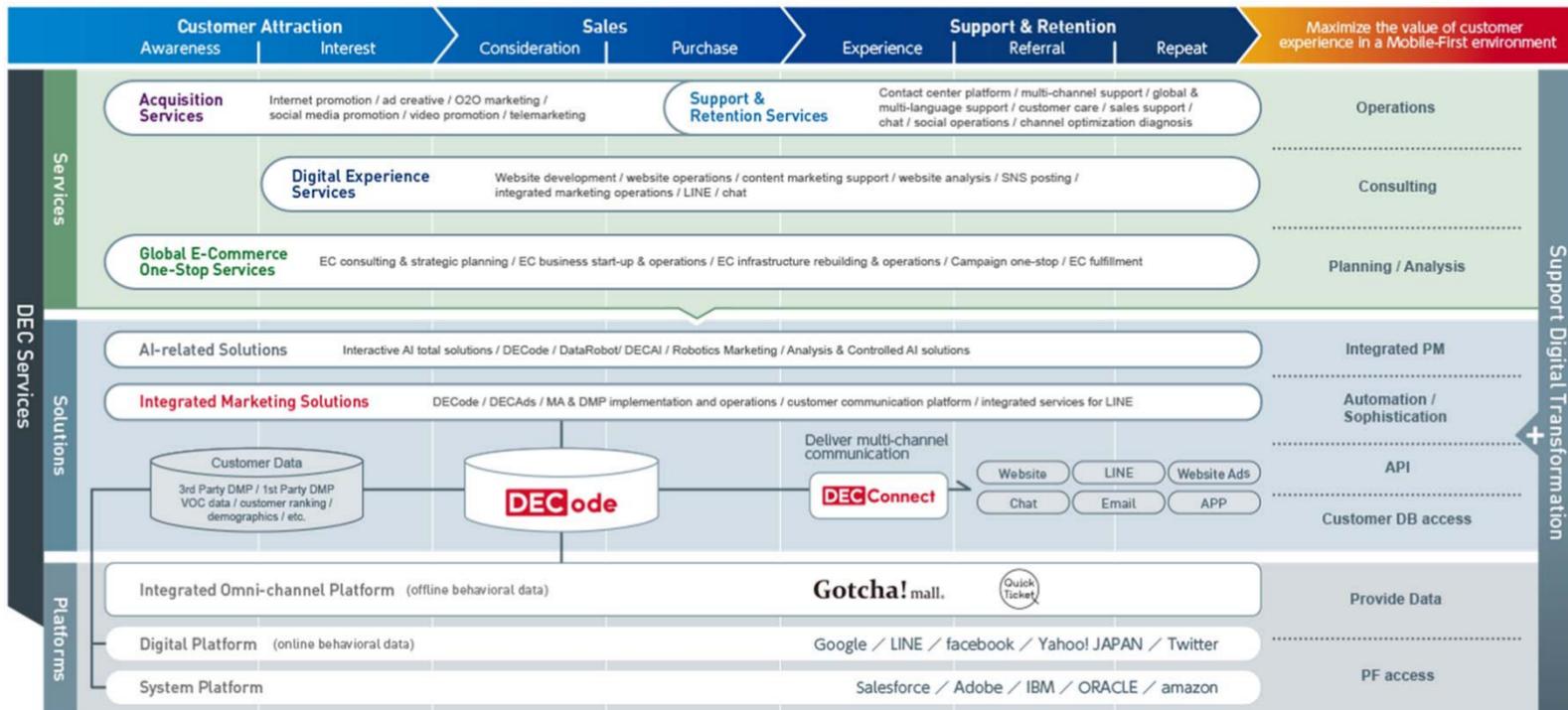
# Our Vision

- Offer customer-driven global support in order to make clients achieve digitalization by connecting DEC and BPO services seamlessly.



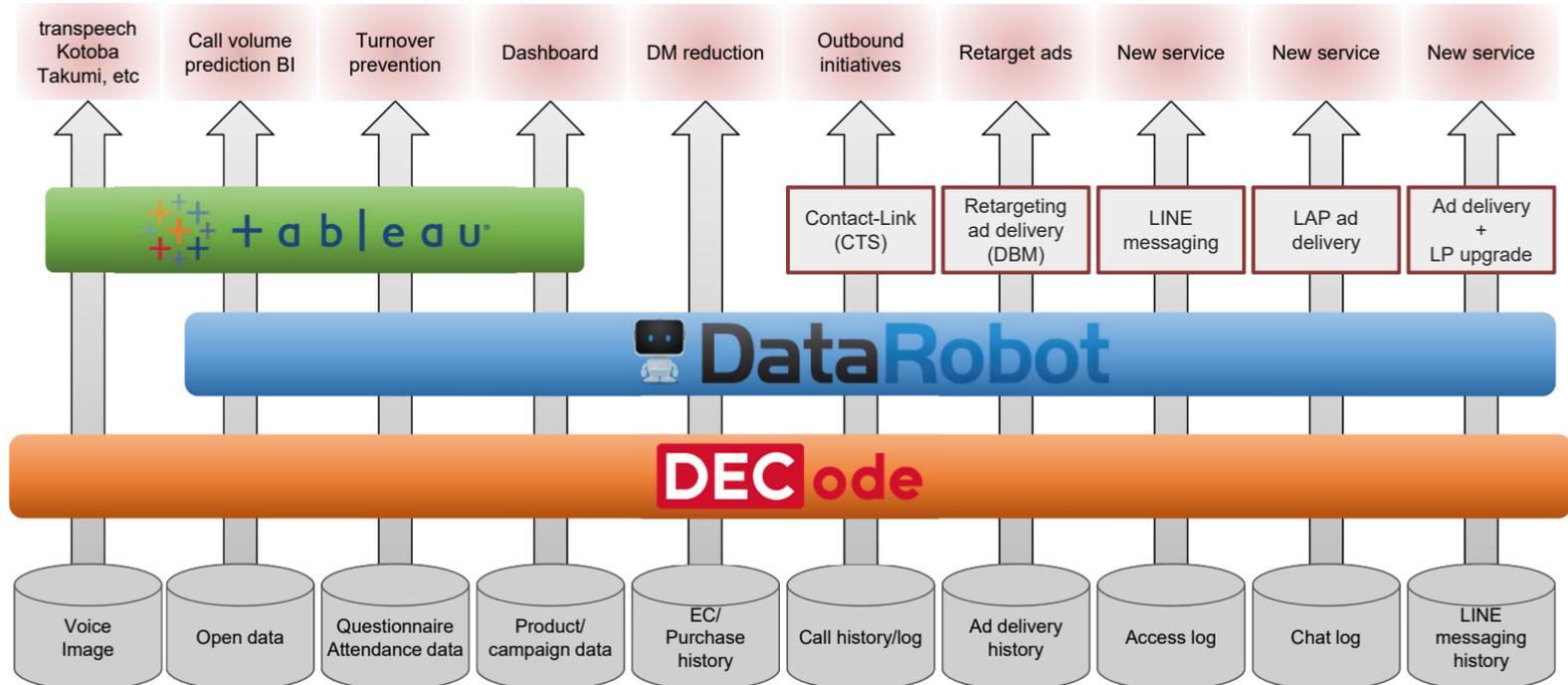
# DEC Services

- Offer end-to-end support ranging from marketing, to sales, to customer communications.
- Develop integrated services that stay ahead of clients' business needs.



# Initiatives in DEC services domain

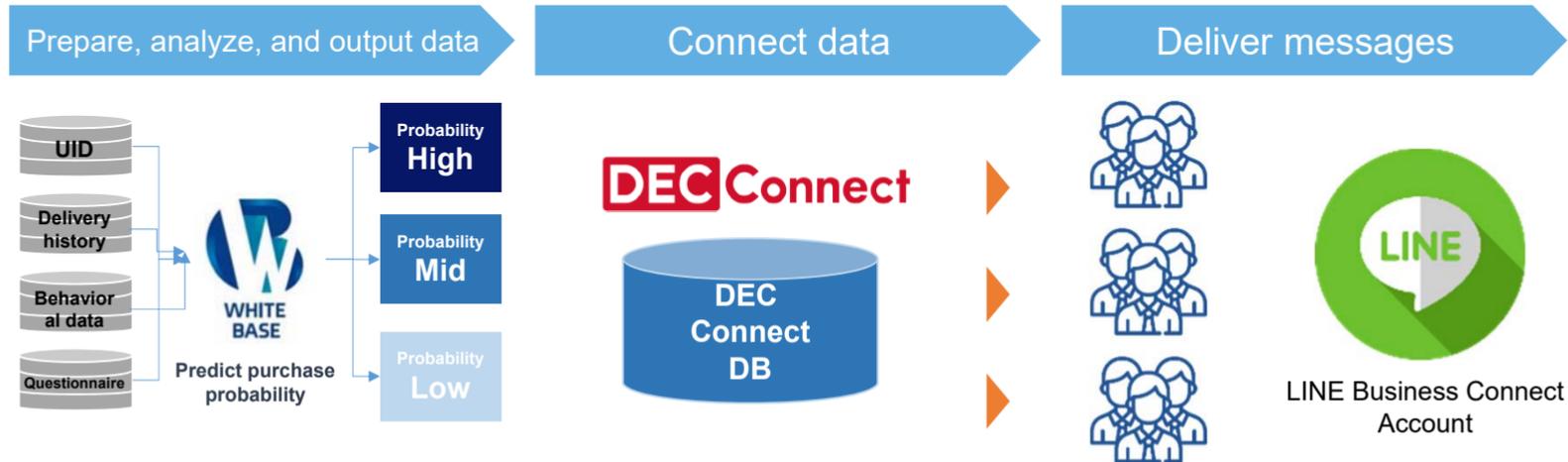
- With the aim of developing data-driven services as DEC proprietary services, executed various PoCs.



# Initiatives in DEC services domain

- Promoted services that proved to be highly effective as a result of PoC.

Model case Delivered LINE messages using prediction data.

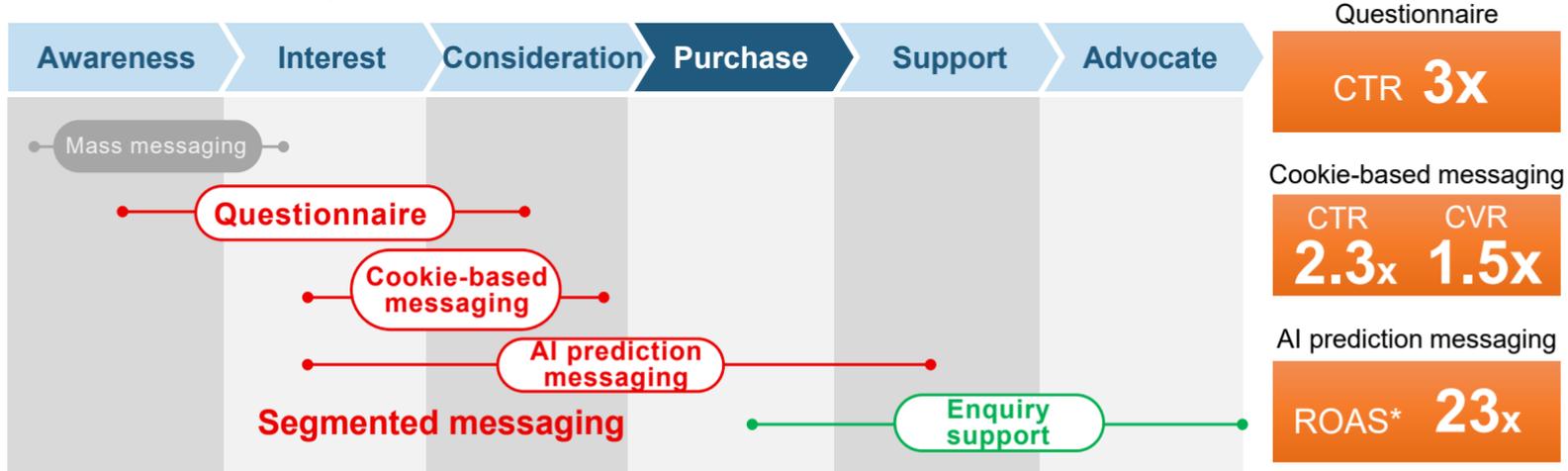


# Initiatives in DEC services domain

- Delivered full funnel marketing support services via LINE.

**Model case** Assisted client's marketing communication using data of over 1 million of their LINE Friends

Delivered data-driven, segmented messages and executed push-based initiatives. Utilized LINE for customer support services.

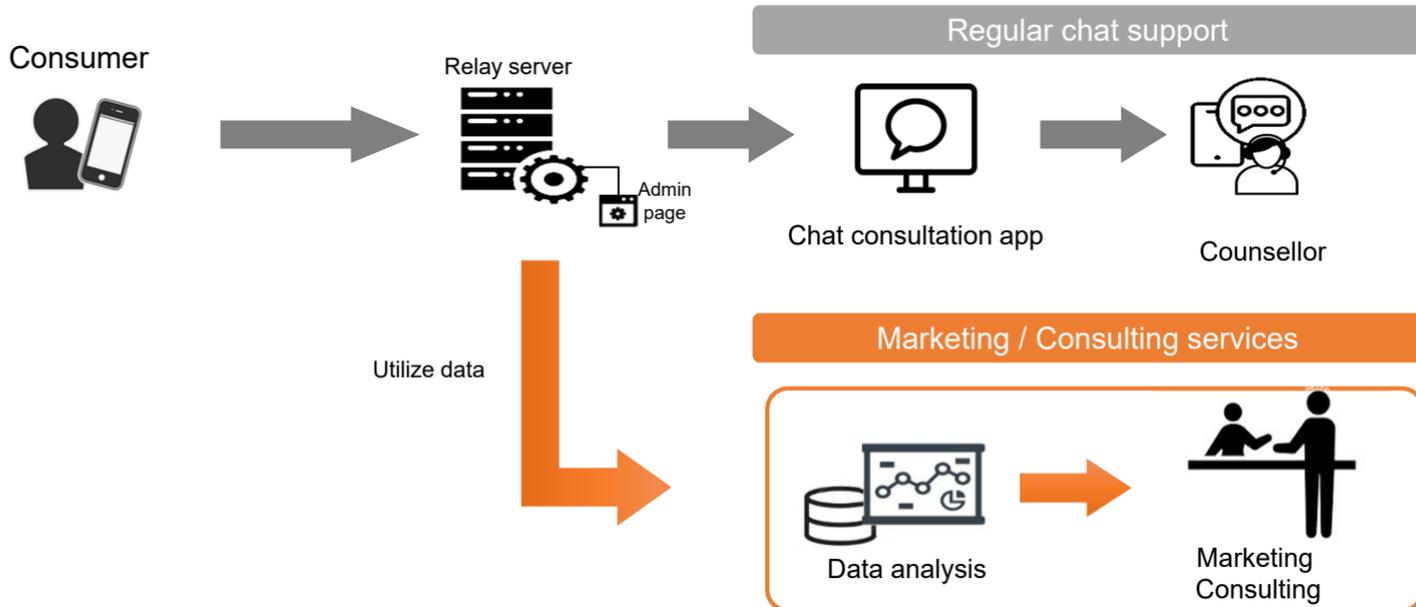


\* ROAS: Return on Ad Spend  
Revenue Earned From Advertising /  
Advertising Expense

# Initiatives in DEC services domain

- Enhanced and promoted non-voice (chat) support services.

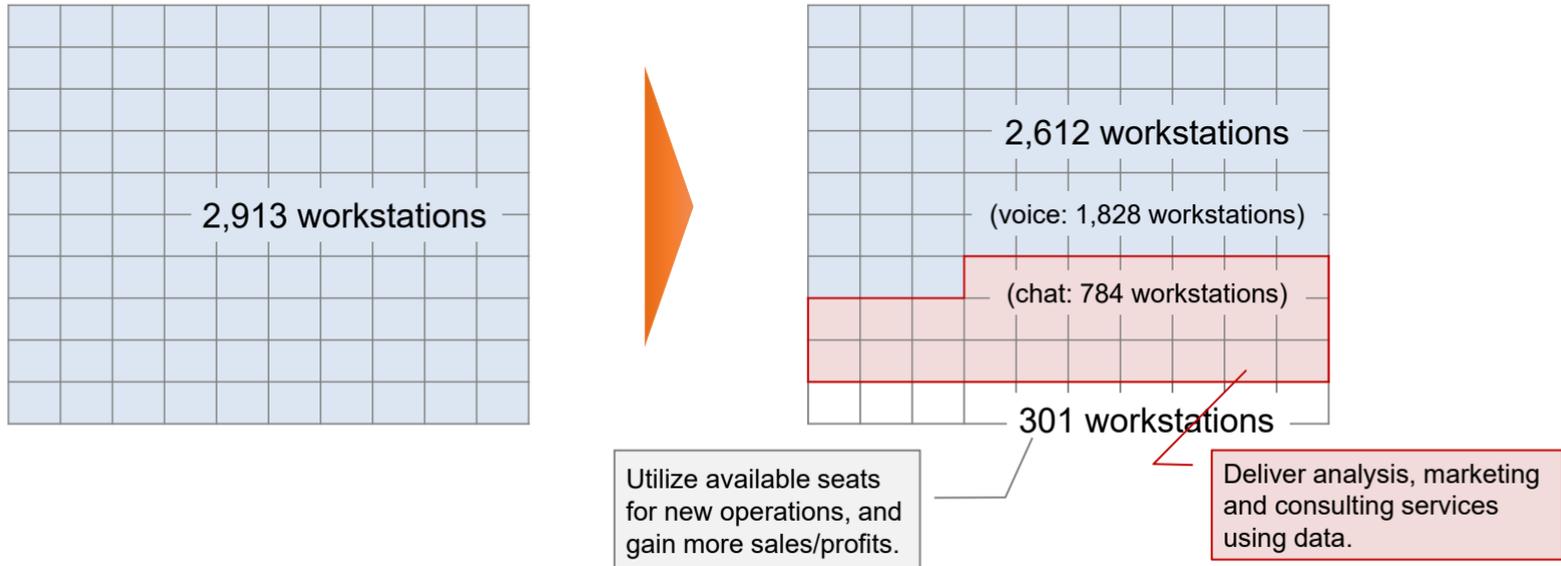
**Model case** Delivered marketing/consulting domain services using chat data.



# Initiatives in DEC services domain

- Improve operation center productivity by shifting call support to non-voice (chat) support services.

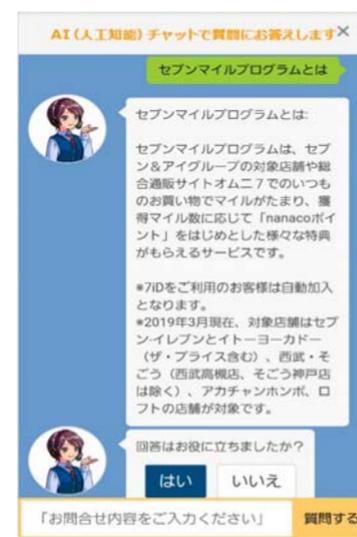
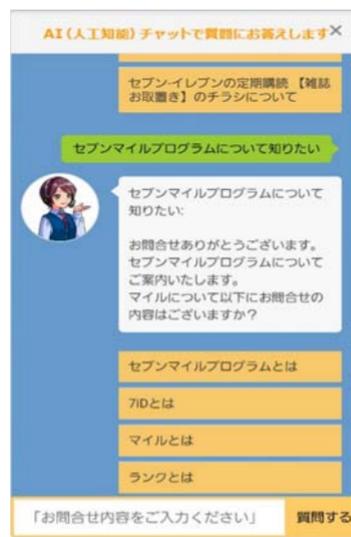
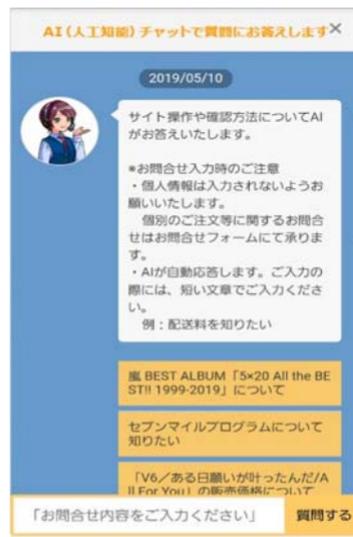
Example: If 30% of voice support operations were to be replaced by chat support



# Initiatives in DEC services domain

- Delivered services powered by chat bot and AI.

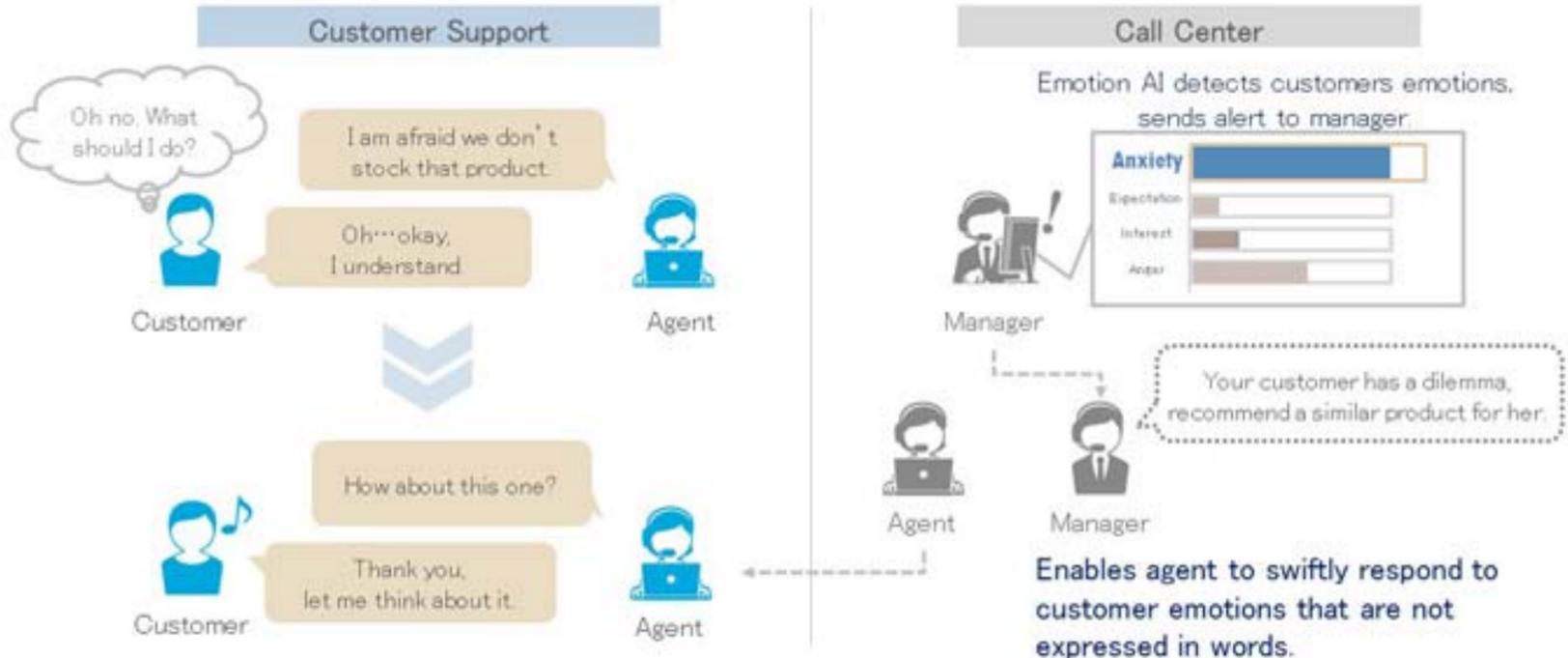
Model case Delivered AI-based customer enquiry services on their online shopping website.



# Initiatives in DEC services domain

- Delivered services powered by chat bot and AI.

**Model case** Utilized emotion AI: Agent/Manager modifies their responses to match customer emotions and deliver optimum customer service.



# Initiatives in DEC services domain

- Developed innovative services to assist businesses in achieving digital transformation.

AI-powered auto-service quality evaluation services for contact centers



Multilingual video interpretation services for tablet devices



One-stop services from implementing speech-recognition environment to operations



Integrated AI services with the power of AmazonConnect



Formed capital and business alliance with Rablock, blockchain system development company



Ad optimization services that combine cutting-edge AI "DataRobot" with transcosmos DECode, our proprietary DMP



- Developed new service domain and businesses.

## Social Media Counselling Association

Co-established with LINE

Executed suicide and bullying prevention measures by opening SNS-based counselling center and sending SNS messages

一般財団法人  
全国SNSカウンセリング協議会

心に重い荷物を抱えている人を、  
支え、励まし、温かく繋がるために。

SNS時代の  
新しいコミュニケーションを追究するために、  
私たちは連携して取り組みます。

## Quick Ticket / Connected Stadium business

Launched new business with the aim of bringing ICT into stadiums based on “Quick Ticket,” an international patented e-ticketing service



## Gotcha!mall

Invite consumers from their smartphones to stores

Delivers a platform which connects consumers with products and stores

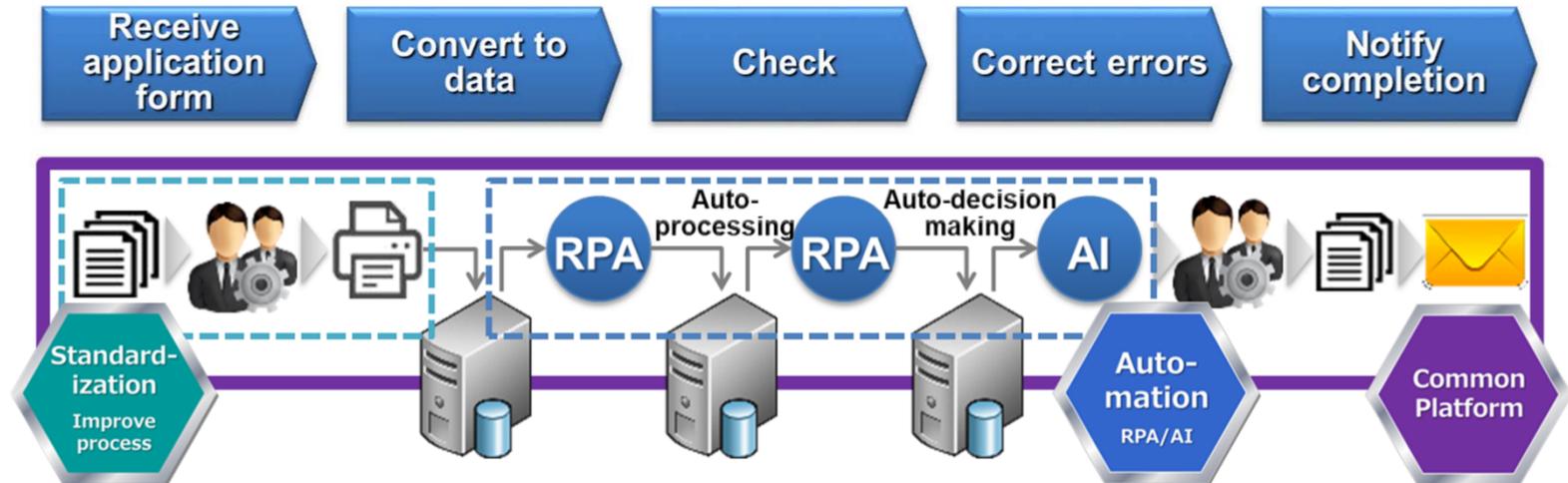
# Gotcha!mall.

Registered stores  
(examples)



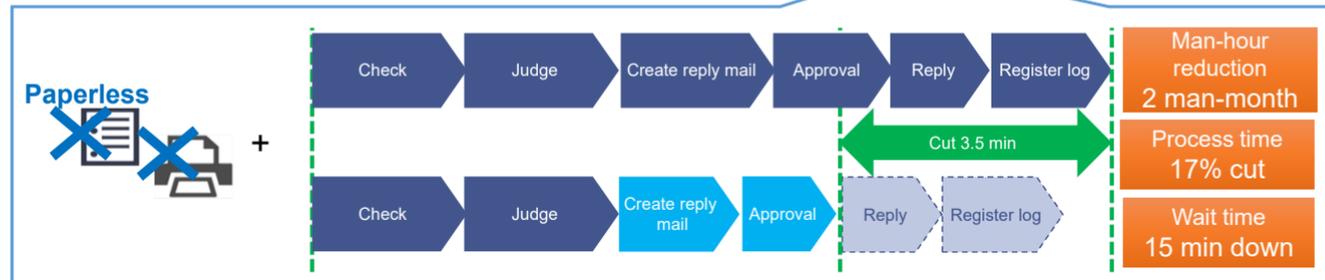
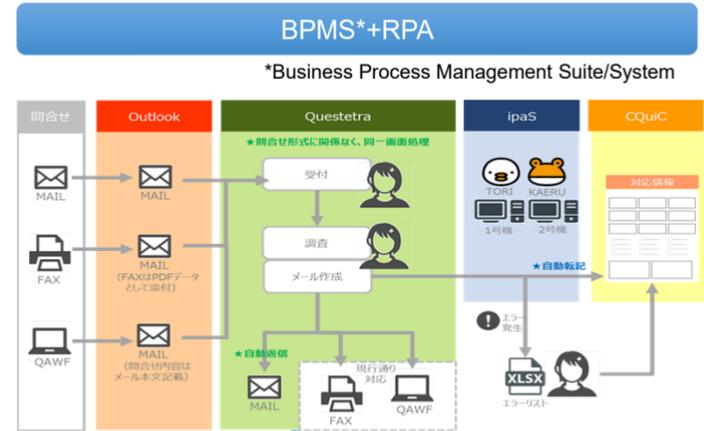
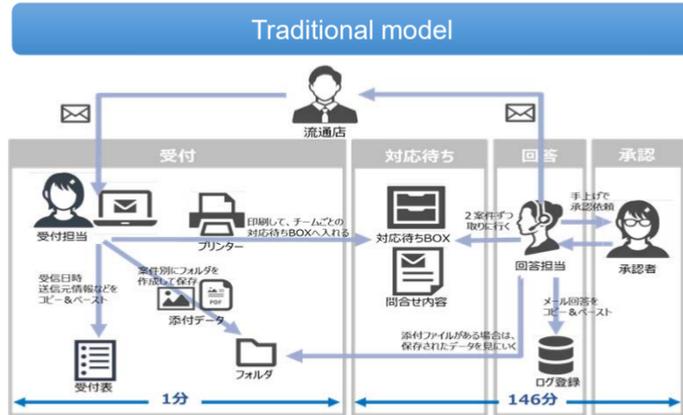
- Automated and simplified clients' business processes with the use of digital technology and digital platform, whilst offering operations support.

## Digital BPO



# Initiatives in BPO services domain

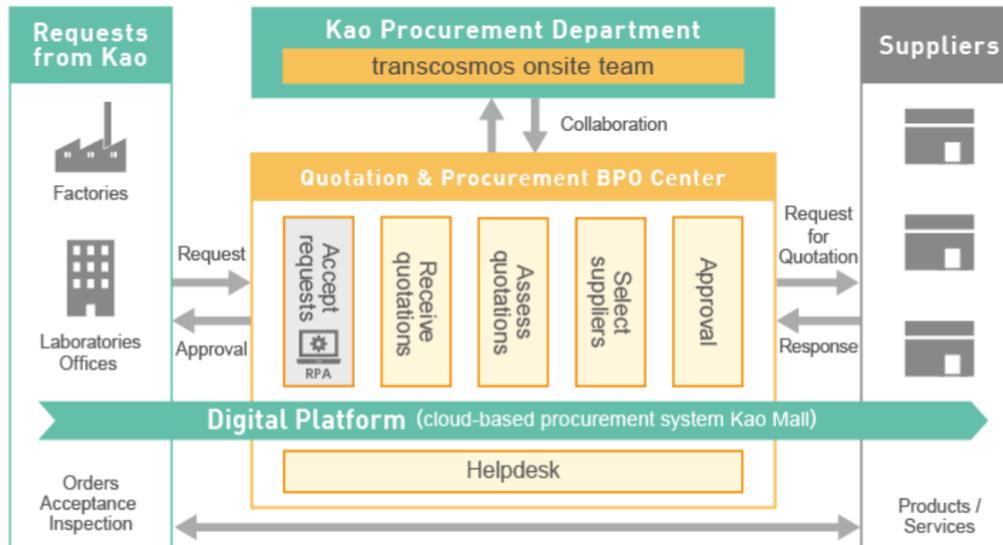
- Delivered a model that doesn't rely on manpower (quantum productivity improvement with pay-per-use charge).



# Initiatives in BPO services domain

- Delivered Digital Platform equipped with RPA.

Model case Digital BPO services for multiple, small lot indirect materials procurement



Integrated quotation & procurement process  
for **110K** items  
from assessment, to approval,  
to acceptance inspection

Cut lead time  
from purchase request to approval  
by **20%**

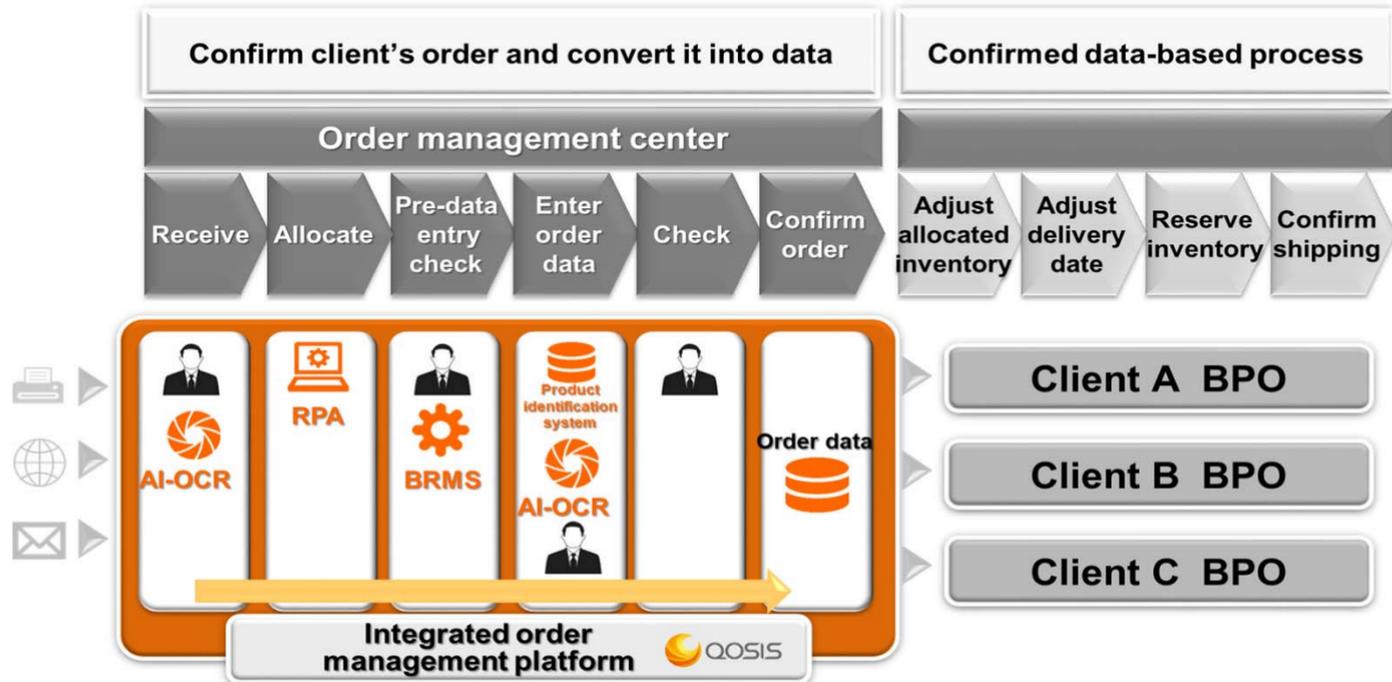
Reduced man-hours  
with the use of RPA

# Initiatives in BPO services domain

- Delivered Digital Platform equipped with RPA.

## Model case

Developed shared model for order management operations that are common across industries, and utilized integrated order management platform (QOSIS).



# Initiatives in BPO services domain

- Developed innovative services to assist businesses in achieving digital transformation.

Facility management one-stop service with the power of ICT



A platform that streamlines operations to receive Technical Regulation Conformity Certification



BPO services that optimize advantages of Concur, an expense reimbursement system

SAP Concur 

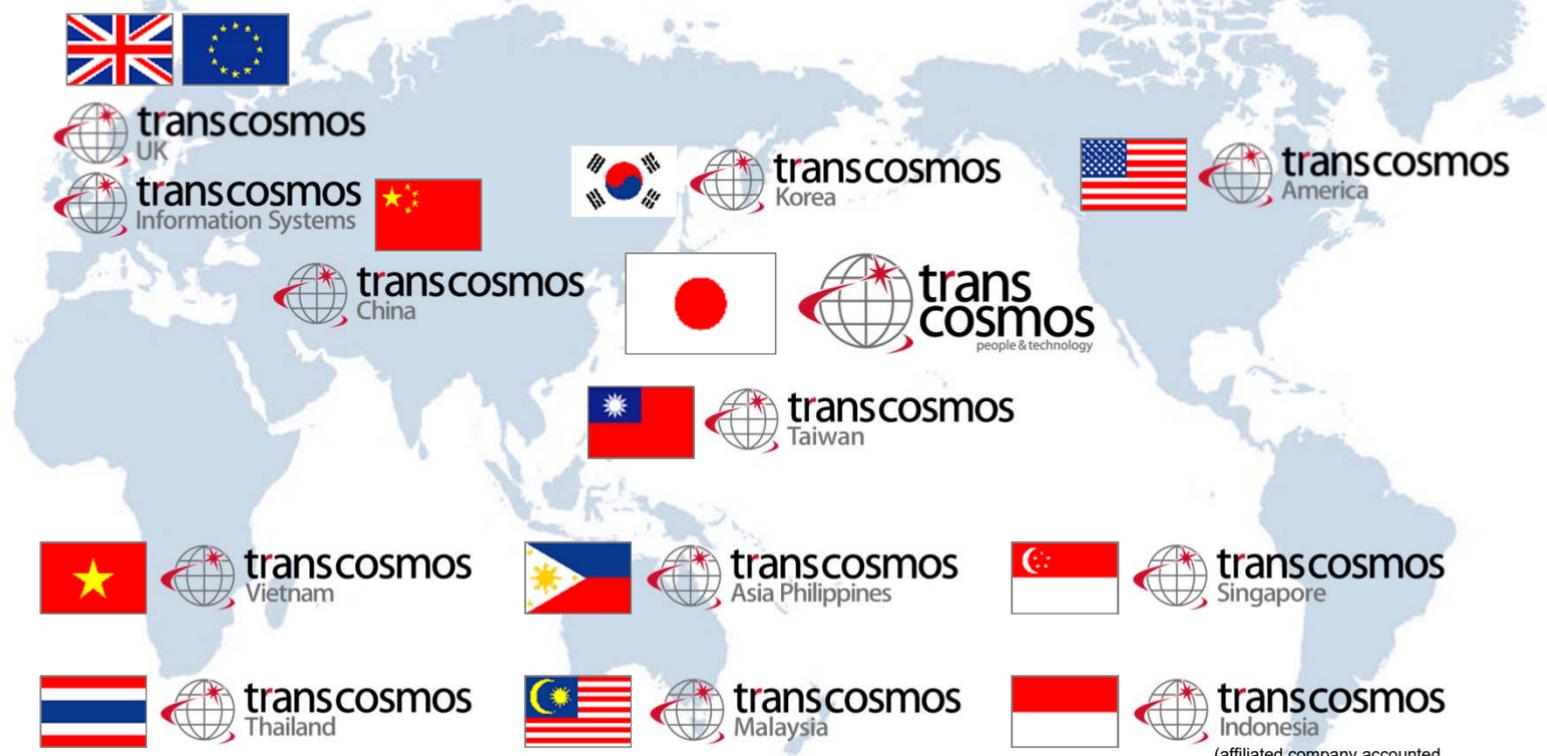
×

BPO Services

The image displays the SAP Concur logo in blue and yellow, followed by a yellow square icon containing a white 'C'. Below this is a multiplication sign '×' and the text 'BPO Services' in yellow.

# Global expansion

- Assisting Japanese, global, and local businesses operate in global markets in each country's local languages.

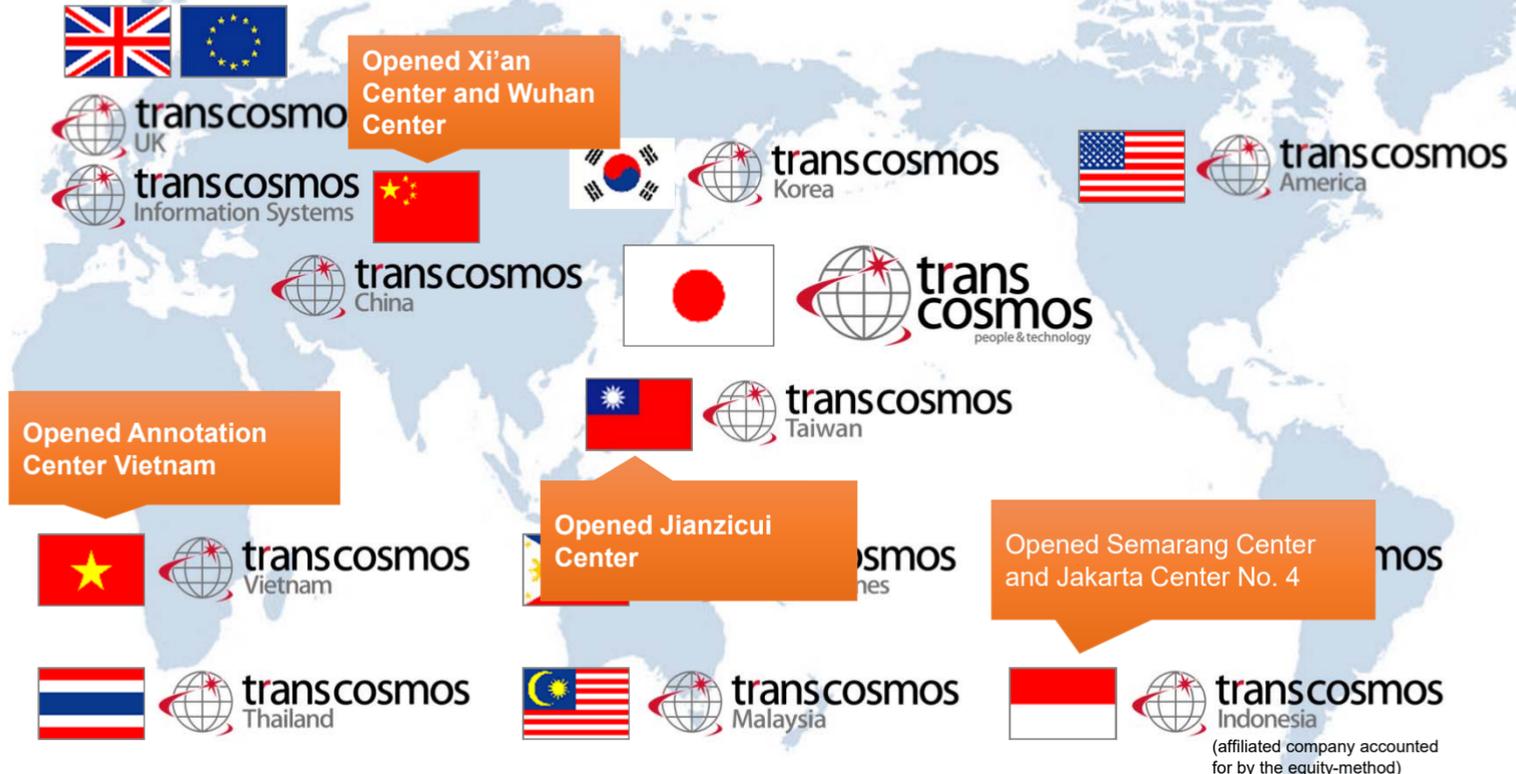


*\*This slide shows examples of our overseas subsidiaries.*

(affiliated company accounted for by the equity-method)

# Initiatives to drive global expansion

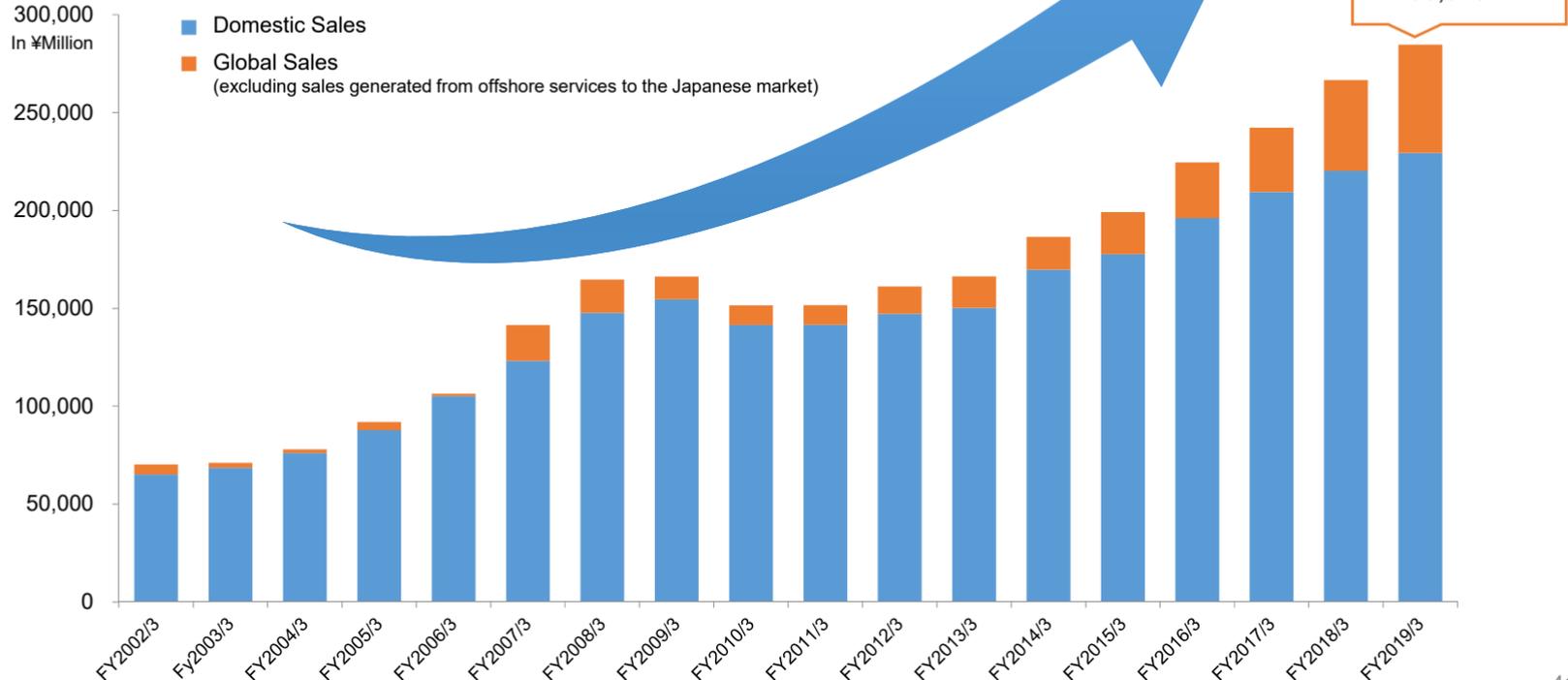
- In this fiscal year that ended in March 2019, opened new operations centers in China, Taiwan, Vietnam and Indonesia.



*\*This slide shows examples of our overseas subsidiaries.*

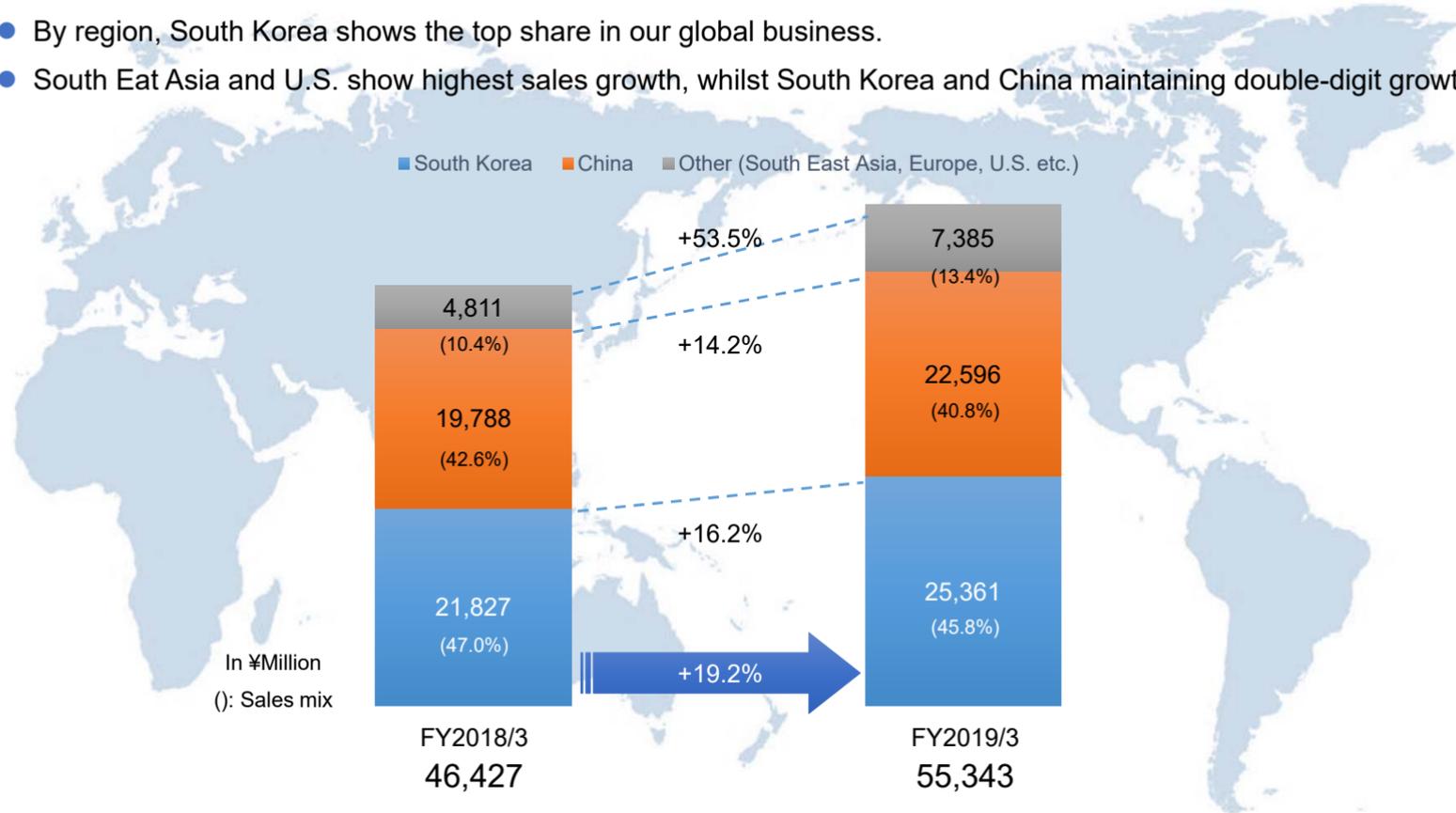
# Initiatives to drive global expansion

- Global sales have continue to expand since FY2002/3, global sales now account for more than 19% of our total sales.



# Initiatives to drive global expansion

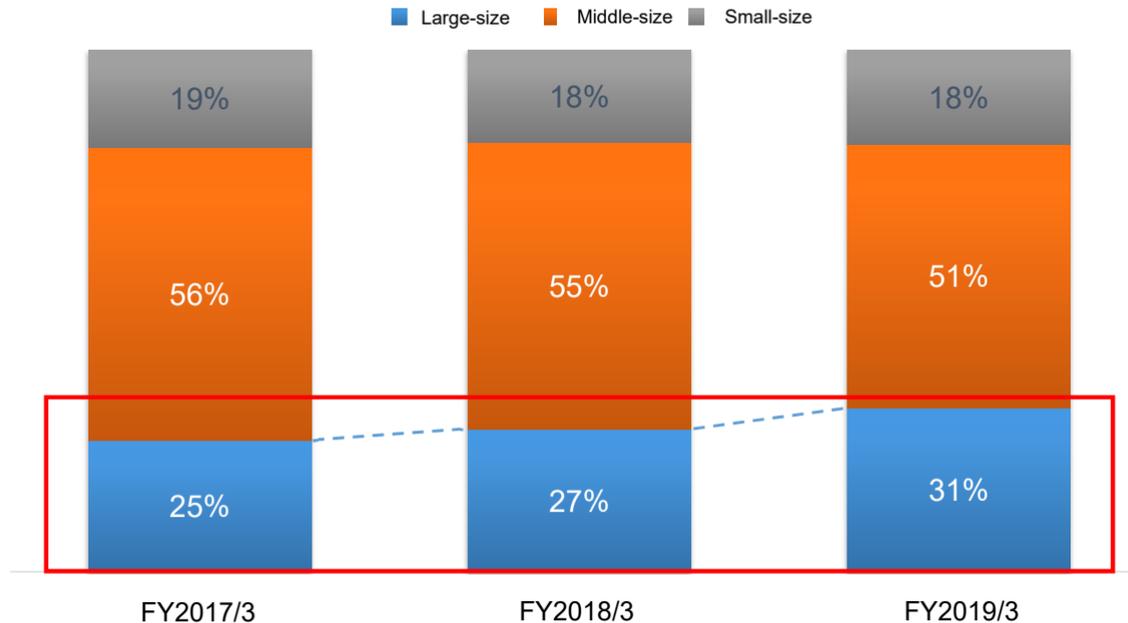
- By region, South Korea shows the top share in our global business.
- South East Asia and U.S. show highest sales growth, whilst South Korea and China maintaining double-digit growth.



# Clients' Strategic Partner

- With the aim of developing a long-term relationship as clients' strategic partner, we will drive combined, large-scale orders.

Sales mix by transaction volume (parent company/average monthly sales)



- Enhance initiatives in order to make competitive service proposals.
- Develop new market opportunities in Japan and abroad whilst making returns from upfront investment as soon as possible.
- Win new business demands with the power of digital technology whilst improving productivity and efficiency.
- Continue SG&A cost control through the optimization of indirect operations.



**With the aim of delivering sales and operating income, that will exceed previous year, drive key initiatives to win new demands and improve profitability.**



## **IR Contact**

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- Forward-looking statements included in this document are based on information available on the date of the announcement and estimates based on reasonable assumptions. Actual future results may differ materially from these forecasts depending on Japanese economic conditions, trends in the stock market and information services industry, evolution of new services or technologies, and other diverse other factors. The company assumes no obligation to update or revise any forward-looking statements.
- In this document, yen is rounded to the nearest hundred million and the percentage is rounded to the first decimal place.