Global Digital Transformation Partner

# Supplementary Materials for Q1 FY2020/3 Financial Results

July 31, 2019

transcosmos inc.

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# 1. Executive Summary

**Achievements**

- Consolidated sales increased 9.3% year over year, retained high growth rate.
- Operating income increased, returned to positive growth as Parent Company improved its profitability.
- Domestic affiliates marked remarkable growth in both sales and profits.
- Overseas affiliates continued double-digit growth.
- Controlling SG&A expenses based on sales and profit.

**Challenge**

- Accelerate efforts to improve and increase Parent Company and overseas affiliates' profitability.

# 2. Consolidated Income Statement Summary

- Sales increased mainly led by order increase for Parent Company.
- Operating Income increased mainly led by improved profitability in Parent Company.
- Ordinary Income increased due to operating income growth.
- Quarterly Net Income attributable to owners of transcosmos inc. increased due to growth in both operating income and ordinary income.

| In ¥Million | Q1 FY2019/3 | (Mix) | Q1 FY2020/3 | (Mix) | Difference (Amount) | (Ratio) |
|---|---|---|---|---|---|---|
| Sales | 67,083 | 100.0% | 73,295 | 100.0% | 6,212 | 9.3% |
| Cost of Sales | 56,497 | 84.2% | 61,217 | 83.5% | 4,719 | 8.4% |
| Gross Profit | 10,585 | 15.8% | 12,078 | 16.5% | 1,492 | 14.1% |
| SG&A | 10,590 | 15.8% | 10,710 | 14.6% | 120 | 1.1% |
| Operating Income | -4 | -0.0% | 1,367 | 1.9% | 1,371 | - |
| Non-operating Profit and Loss | 476 | 0.7% | -95 | -0.2% | -572 | - |
| Ordinary Income | 472 | 0.7% | 1,271 | 1.7% | 799 | 169.1% |
| Extraordinary Profit and Loss | 147 | 0.2% | 41 | 0.1% | -105 | -71.6% |
| Net Income attributable to owners of transcosmos inc. | 258 | 0.4% | 468 | 0.6% | 209 | 80.8% |

# 3. Segment Based Results Summary

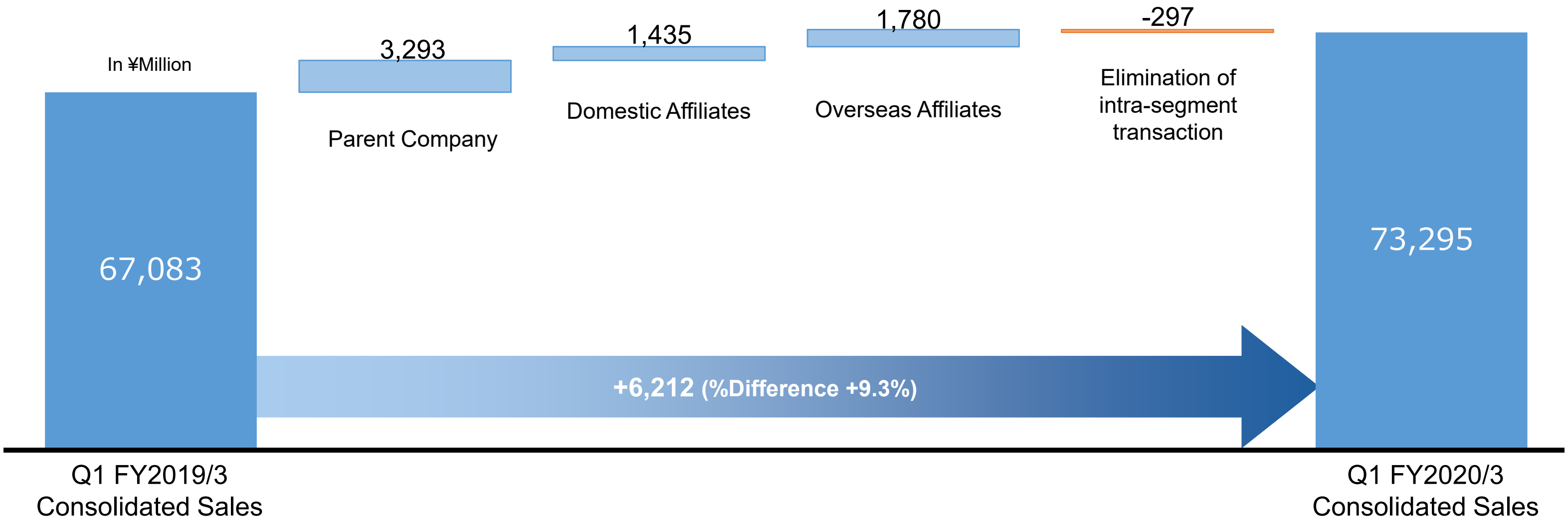
- Parent Company: Both sales and profit increased. Profitability improved mainly due to strong orders in core services, higher profitability in existing projects, and lower SG&A ratio.
- Domestic Affiliates: Both sales and profit increased. Both sales and profit grew mainly due to solid performance achieved by listed subsidiary and positive impact from newly consolidated subsidiary.
- Overseas Affiliates: Sales increased but profit declined. Although Chinese and South Korean subsidiaries achieved solid sales, profitability temporality weakened impacted in part by new project launch.

| In ¥Million | | Q1 FY2019/3 | | Q1 FY2020/3 | | Difference | |
|---|---|---|---|---|---|---|---|
| | | | (Mix) | | (Mix) | (Amount) | (Ratio) |
| Sales | Parent Company | 49,985 | 74.5% | 53,279 | 72.7% | 3,293 | 6.6% |
| | Domestic Affiliates | 4,859 | 7.2% | 6,294 | 8.6% | 1,435 | 29.5% |
| | Overseas Affiliates | 14,140 | 21.1% | 15,921 | 21.7% | 1,780 | 12.6% |
| | Elimination of intra segment transaction | -1,902 | -2.8% | -2,199 | -3.0% | -297 | -15.6% |
| | **(Total)** | 67,083 | 100.0% | 73,295 | 100.0% | 6,212 | 9.3% |
| Segment Income (Loss) | Parent Company | -57 | - | 991 | 72.5% | 1,048 | - |
| | (%profit) | -0.1% | | 1.9% | | | |
| | Domestic Affiliates | 144 | - | 473 | 34.6% | 328 | 228.0% |
| | (%profit) | 3.0% | | 7.5% | | | |
| | Overseas Affiliates | -82 | - | -93 | -6.8% | -10 | -13.2% |
| | (%profit) | -0.6% | | -0.6% | | | |
| | Elimination of intra segment transaction | -8 | - | -3 | -0.3% | 5 | 63.6% |
| | **(Total)** | -4 | 100.0% | 1,367 | 100.0% | 1,371 | - |

# 4. Consolidated Sales Analysis

- Sales increased by ¥6,212 m (+9.3%)

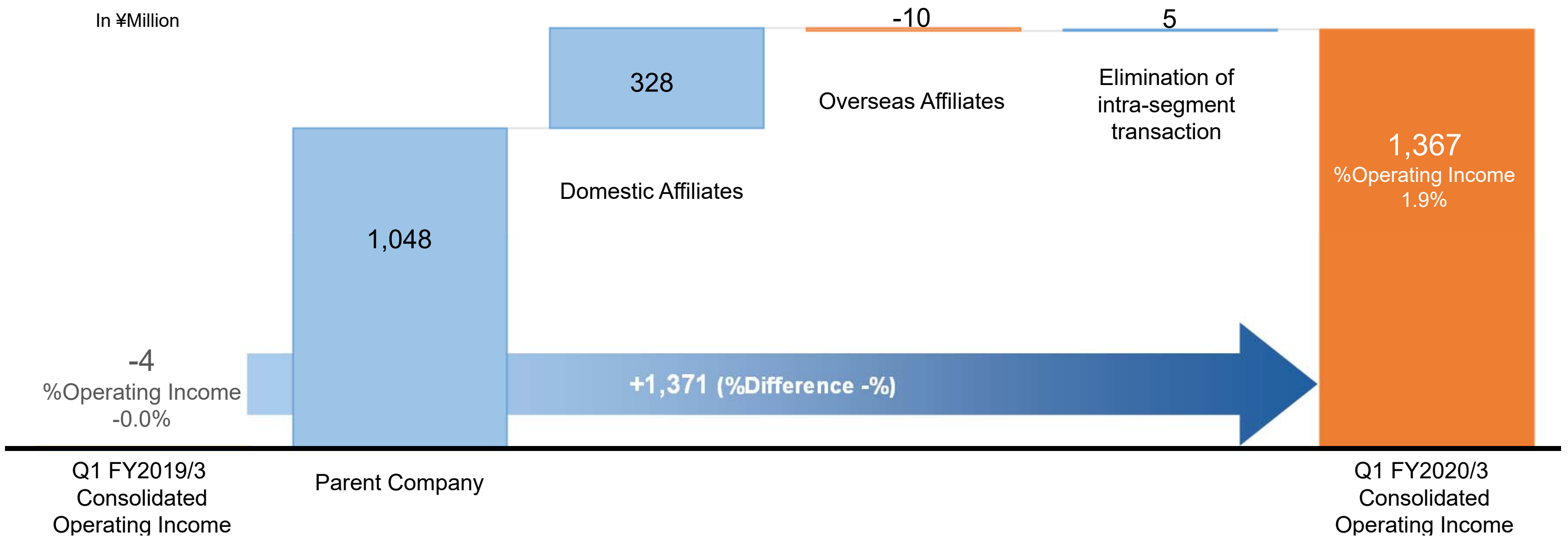
| | |
|---|---|
| Parent Company | Sales increased due to order increase in core services (DEC / BPO). |
| Domestic Affiliates | Sales increased mainly due to sales growth in listed subsidiary and positive impact from newly consolidated subsidiary. |
| Overseas Affiliates | Sales increased due to sales growth in Chinese and South Korean subsidiaries. |



# 5. Consolidated Operating Income Analysis

- Operating Income increased by ¥1,371 m (-%)

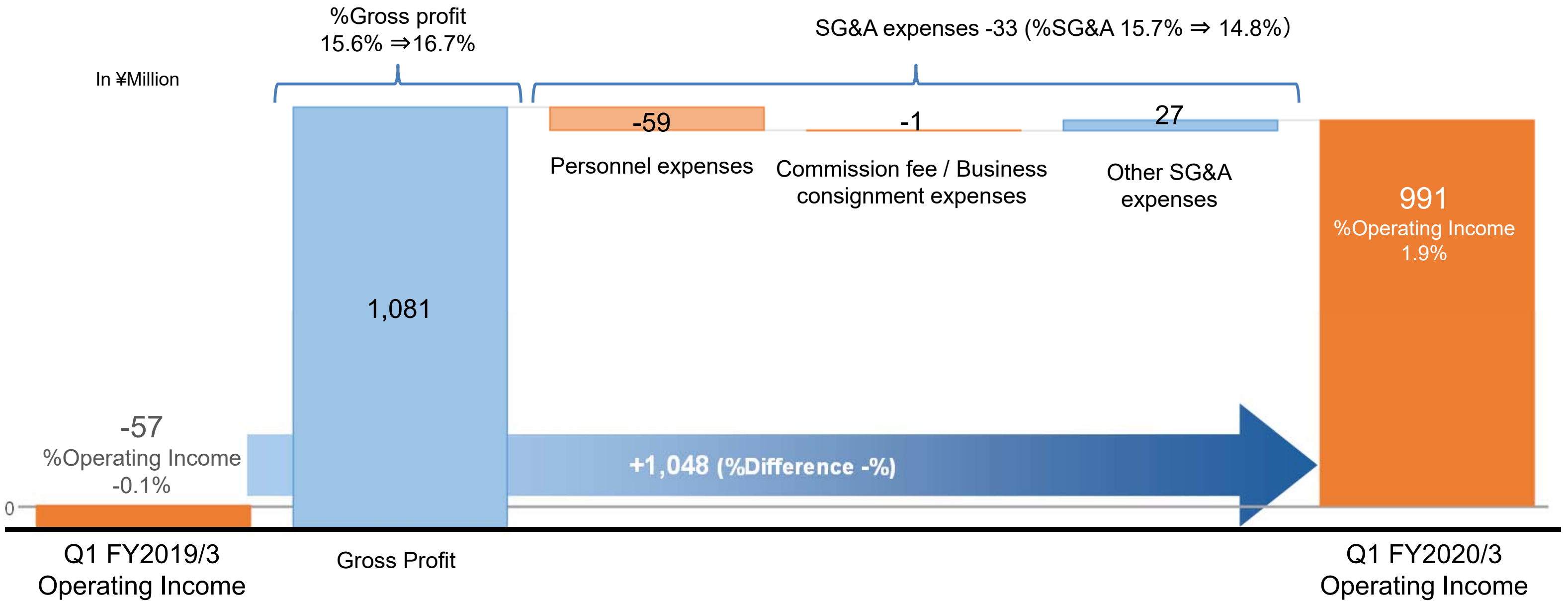
| | |
|---|---|
| Parent Company | Operating income increased mainly due to improved gross profit due to higher profitability in existing projects and lower SG&A ratio achieved by cost control measures. |
| Domestic Affiliates | Operating income increased mainly due to profit growth in listed subsidiary and positive impact from newly consolidated subsidiary. |
| Overseas Affiliates | Although profitability improved in some subsidiaries, operating income slightly weakened due to temporal decline in profitability in South Korean and Chinese subsidiaries due in part to new project launch and upfront investments. |



# 6. Parent Company Operating Income Analysis

- Operating Income increased by ¥1,048 m (-%)

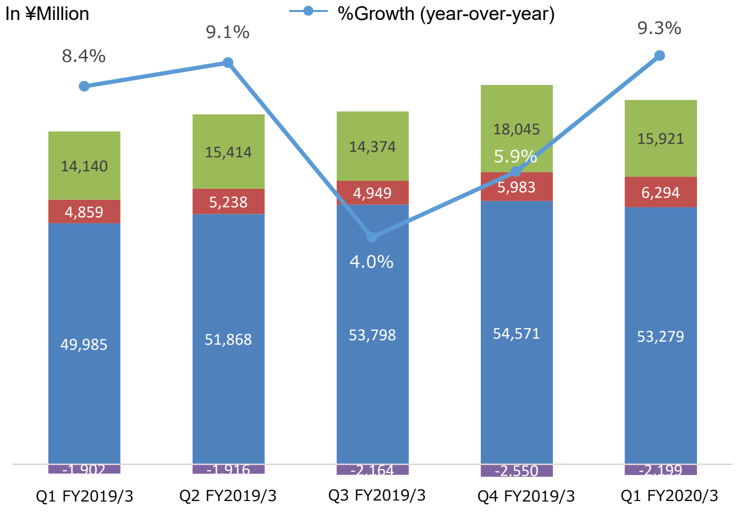
| | |
|---|---|
| Gross Profit | Gross profit ratio improved by 1.1 points mainly due to higher profitability achieved by increasing productivity in existing projects and receiving new high-profit orders. |
| SG&A expenses | Although SG&A expenses rose by ¥33 m along with growth in sales, SG&A ratio improved by 0.9 points due to good cost control practices. |



# 7. Consolidated Quarterly Performance

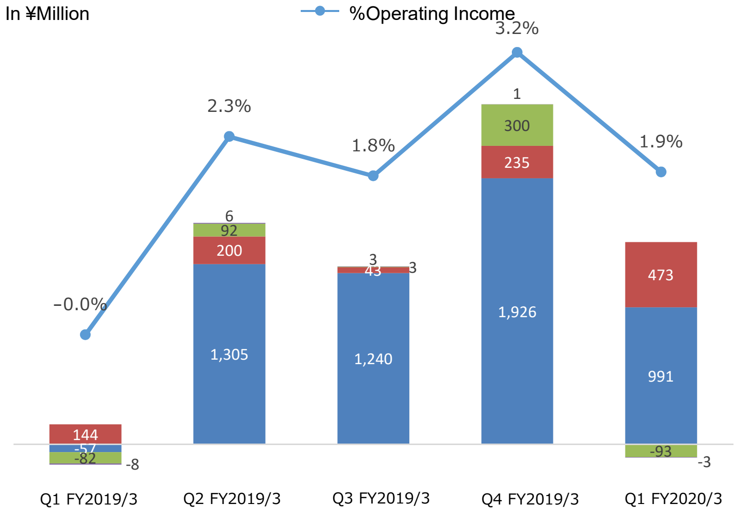
- Sales: Although sales decreased compared to Q4 of previous fiscal year due to seasonality, sales continued to grow with high growth ratio.
- Operating Income: Although operating income decreased compared to Q4 of previous fiscal year due to seasonality, profit levels continued to improve considerably.

## Sales




| Q1 FY2019/3 | Q2 FY2019/3 | Q3 FY2019/3 | Q4 FY2019/3 | Q1 FY2020/3 |
|---|---|---|---|---|
| 67,083 | 70,605 | 70,957 | 76,050 | 73,295 |

## Operating Income



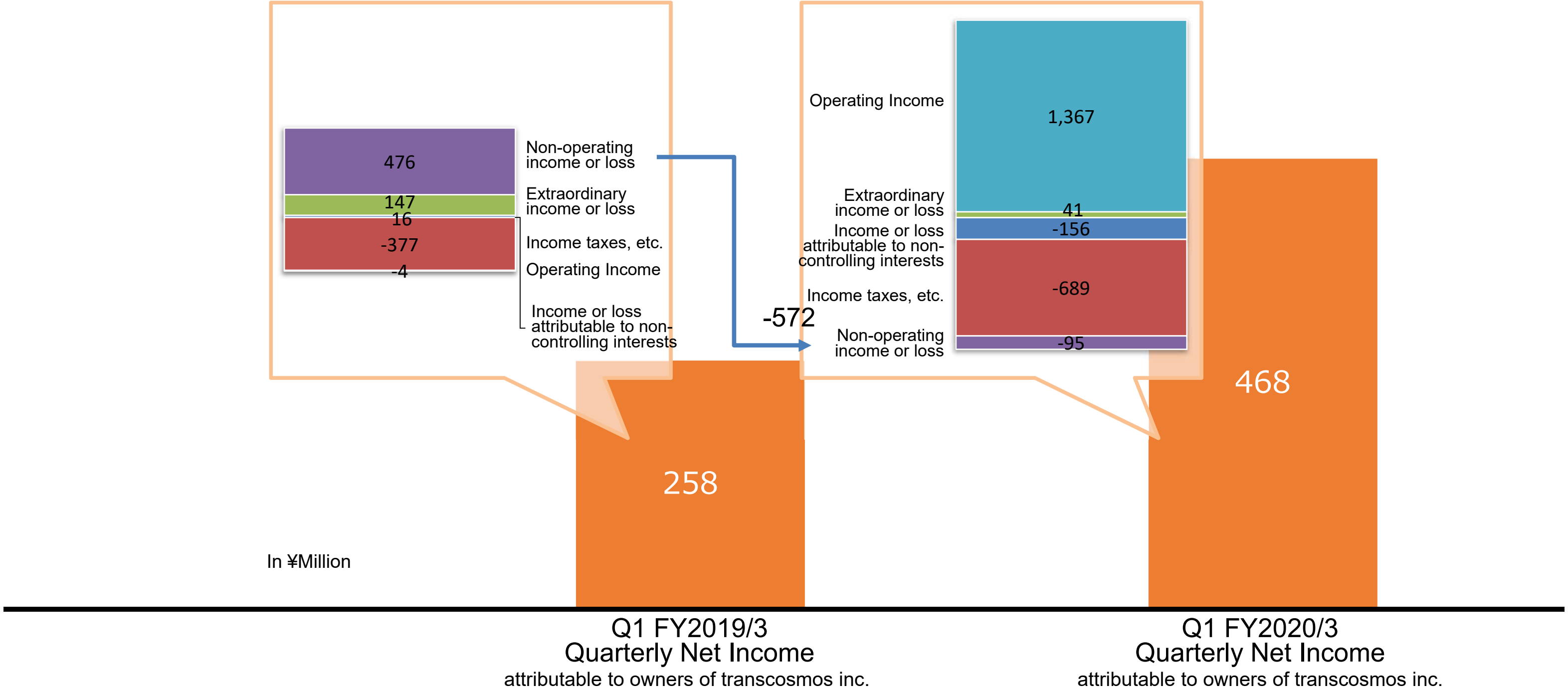

| Q1 FY2019/3 | Q2 FY2019/3 | Q3 FY2019/3 | Q4 FY2019/3 | Q1 FY2020/3 |
|---|---|---|---|---|
| -4 | 1,604 | 1,291 | 2,463 | 1,367 |

■ Parent Company ■ Domestic Affiliates ■ Overseas Affiliates ■ Elimination of intra-segment transaction

# 8. transcosmos inc. Quarterly Net Income Analysis

- Quarterly Net Income attributable to owners of transcosmos inc. increased by ¥209 m (+80.8%)

**Non-operating income or loss** Although equity in income or loss improved, non-operating income decreased by ¥572 m mainly because no returns from fund management activities was recorded in Q1 of current fiscal year as opposed to previous fiscal year when returns were recorded.



# 9. Consolidated Balance Sheet Summary

- Assets: “Notes and accounts receivable” decreased mainly due to collection of accounts receivables at end of previous fiscal year. “Cash and deposits” decreased due to payment of income tax amount, which was calculated based on previous fiscal year’s income, and dividend payment.
- Liabilities: “Provision for bonuses” increased as provision for bonus payments for current fiscal year was recognized. “Accounts payable-other” decreased as accounts payables were settled.
- Net Assets: “Retained earnings” decreased due to year-end dividend paid for previous fiscal year. “Valuation difference on available-for-sale securities” decreased.

| In ¥Million | End of Mar. 2019 | End of Jun. 2019 | Difference |
|---|---|---|---|
| Current Assets | 89,835 | 88,059 | -1,776 |
| Fixed Assets | 45,433 | 46,551 | 1,117 |
| Total Assets | 135,268 | 134,610 | -658 |
| Current Liabilities | 48,121 | 48,742 | 621 |
| Fixed Liabilities | 12,232 | 12,088 | -143 |
| Total Liabilities | 60,353 | 60,831 | 477 |
| Net Assets | 74,915 | 73,778 | -1,136 |
| Liabilities/Net Assets Total | 135,268 | 134,610 | -658 |
| | | | |
| Cash Equivalent | 36,032 | 34,689 | -1,342 |
| Interest-bearing debt | 13,668 | 13,175 | -492 |
| Net Cash* | 22,364 | 21,513 | -850 |

- Cash equivalent -1,342
- Notes and accounts receivable -1,379

- Goodwill +362
- Investment securities -572
- Affiliates’ stocks -554
- Investments in capital of subsidiaries and affiliates+1,304

- Accounts payable-other -937
- Income taxes payable-725
- Provision for bonuses +1,791

- Deferred tax liabilities -176

- Retained earnings -900
- Valuation difference on available-for-sale securities -618

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

# (Reference) Listed Holdings Held by the Company

- 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 | APPLIED TECHNOLOGY CO.,LTD. | TSE JQS | 4356 | 4,088 |
| | J-Stream Inc. | TSE Mothers | 4308 | 3,584 |
| | eMnet Inc. | KOSDAQ | 123570 | 1,519 |
| | PFSweb Inc. | NASDAQ | PFSW | 1,360 |
| Investment securities | Menicon Co., Ltd. | First Section of TSE | 7780 | 797 |
| | Geniee, Inc. | TSE Mothers | 6562 | 292 |
| | Twiliio | NYSE | TWLO | 213 |
| | Japan Airlines Co., Ltd. | First Section of TSE | 9201 | 156 |
| | MIZUNO Corporation | First Section of TSE | 8022 | 25 |
| | MTG Co., Ltd. | TSE Mothers | 7806 | 21 |
| | JACCS CO., LTD. | First Section of TSE | 8584 | 10 |
| Total | | | | 12,069 |

Major listed holdings held by Group companies

| Type | Stock name | Market | Security code | Fair Value |
|---|---|---|---|---|
| Investment securities | TensynPRC | ChiNext | 300392 | 4,128 |

** Fair values are calculated based on the closing price of January 30, 2019. Note that fair values of PFSWeb and Twilio are calculated based on the closing price of July 29, 2019.*

# 10. Parent Company Sales per Category

- Sales per Industry

| In ¥Million | Q1 FY2019/3 | (Mix) | Q1 FY2020/3 | (Mix) | %Difference |
|---|---|---|---|---|---|
| Telecommunications | 12,672 | 25.4% | 13,867 | 26.0% | 9.4% |
| Manufacturing | 8,384 | 16.8% | 9,692 | 18.2% | 15.6% |
| Finance / Insurance | 8,745 | 17.5% | 9,118 | 17.1% | 4.3% |
| Services | 7,793 | 15.6% | 7,660 | 14.4% | -1.7% |
| Wholesale / Retail | 6,677 | 13.4% | 6,871 | 12.9% | 2.9% |
| Other | 5,712 | 11.4% | 6,069 | 11.4% | 6.3% |

Telecommunications: Received large scale one-off project. Business increased mainly with telecom carriers.

Manufacturing: Business increased mainly with auto-manufacturers, general machines manufacturers, and cosmetics companies.

Finance/Insurance: Business increased mainly with insurance companies.

Services: CC business decreased mainly with manufacturing-related companies.

Wholesale/Retail: Business increased mainly with energy related wholesales and overseas wholesales companies.

- Sales per Client (top 5 clients in terms of sales)

| In ¥Million | Q1 FY2019/3 | (Mix) | Q1 FY2020/3 | (Mix) | %Difference |
|---|---|---|---|---|---|
| A (PC/AV manufacturer) | 1,869 | 3.7% | 1,473 | 2.8% | -21.2% |
| B (Job advertisement) | 912 | 1.8% | 838 | 1.6% | -8.1% |
| C (Auto manufacturer) | 646 | 1.3% | 687 | 1.3% | 6.3% |
| D (Building material/equipment manufacturer) | 699 | 1.4% | 681 | 1.3% | -2.6% |
| E (Housing manufacturer) | 603 | 1.2% | 653 | 1.2% | 8.3% |

A: Orders for DEC services, mainly CC, decreased.

B: Orders for DEC services, mainly DM, decreased.

C: Orders for BPO services, mainly design development, increased.

D: Orders for BPO services, mainly design support, decreased.

E: Orders for BPO services, mainly design support, increased.

# 11. CAPEX, Depreciation & amortization, Employees, Service Bases

- CAPEX / Depreciation and Amortization

| In ¥Million | Q1 FY2019/3 | Q1 FY2020/3 | %Difference |
|---|---|---|---|
| Capital expenditures | 903 | 865 | -4.2% |
| Depreciation and amortization | 761 | 800 | 5.1% |

- Number of Employees

| | End of Mar. 2019 | End of Jun. 2019 | Difference |
|---|---|---|---|
| Consolidated bases | 30,051 | 31,132 | 1,081 |
| (Temporary employees) | 24,866 | 24,808 | -58 |
| Parent Company | 14,106 | 14,984 | 878 |
| (Temporary employees) | 21,407 | 20,859 | -548 |

- Service bases

| | End of Mar. 2019 | End of Jun. 2019 | Difference |
|---|---|---|---|
| Service bases* | 171 | 167 | -4 |
| (Japan) | 62 | 63 | 1 |
| (Overseas) | 109 | 104 | -5 |

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

- CAPEX
  Investment amounts decreased in domestic and overseas' subsidiaries.
- Depreciation and amortization
  Depreciation and amortization increased mainly due to opening/expansion of centers and business offices in Parent Company and domestic affiliates in previous fiscal year.
- Employees
  Number of employees increased due to increase of new graduate hires in Parent Company and increase of employees whose contracts were converted to indefinite-term from fixed-term.
- Service bases
  Japan: Opened MCM Center Sapporo Sosei Square.
  Overseas: Opened Ho Chi Minh Center No.3 in Vietnam. At the same time, number of some Chinese and European affiliates' and partners' bases decreased.

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# Notes

- 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.