

**Global Digital Transformation Partner**

# **Supplementary Materials for Q2 FY2020/3 Financial Results**



**October 31, 2019**

**transcosmos inc.**

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# 1. Executive Summary

## Achievements

- All business segments achieved both sales and profit growth.
- Sales increased by **10.4%** year over year with an accelerated growth rate.
- Gross profit margin improved by **0.3 points** due to higher profitability in existing projects.
- **Controlling SG&A expenses** based on sales and profits.
- Operating income increased by **¥2.9 billion** year over year, a significant increase of **185.6%**.

## Challenge

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

## 2. Consolidated Income Statement Summary

- Sales increased mainly led by an 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. decreased due to a lack in capital gains from the sale of shares in an affiliate as opposed to the same quarter of the previous fiscal year when the gains were recorded (¥6,664 m).

In ¥Million	Q2 FY2019/3 (cumulative)		Q2 FY2020/3 (cumulative)		Difference	
		(Mix)		(Mix)	(Amount)	(Ratio)
Sales	137,689	100.0%	151,945	100.0%	14,255	10.4%
Cost of Sales	114,894	83.4%	126,217	83.1%	11,323	9.9%
Gross Profit	22,795	16.6%	25,727	16.9%	2,932	12.9%
SG&A	21,195	15.4%	21,157	13.9%	-37	-0.2%
Operating Income	1,600	1.2%	4,569	3.0%	2,969	185.6%
Non-operating Profit and Loss	504	0.4%	-209	-0.1%	-714	-
Ordinary Income	2,104	1.5%	4,359	2.9%	2,255	107.1%
Extraordinary Profit and Loss	6,892	5.0%	1,467	1.0%	-5,425	-78.7%
Net Income attributable to owners of transcosmos inc.	5,232	3.8%	3,351	2.2%	-1,881	-36.0%

### 3. Performance Summary per Segment

- Parent Company: Both sales and profit increased. Profitability improved mainly due to strong orders in core services, higher profitability in existing projects, and a lower SG&A ratio, in addition to sales growth.
- Domestic Affiliates: Both sales and profit increased. Both sales and profit grew mainly due to solid performance achieved by a listed subsidiary and a positive impact from a newly consolidated subsidiary.
- Overseas Affiliates: Both sales and profit increased. Both sales and profit grew mainly due to solid performance achieved by a Chinese subsidiary that specializes in offshore development and a South Korean subsidiary.

In ¥Million		Q2 FY2019/3 (cumulative)		Q2 FY2020/3 (cumulative)		Difference	
			(Mix)		(Mix)	(Amount)	(Ratio)
Sales	Parent Company	101,854	74.0%	111,372	73.3%	9,518	9.3%
	Domestic Affiliates	10,098	7.3%	12,758	8.4%	2,660	26.3%
	Overseas Affiliates	29,554	21.5%	32,518	21.4%	2,963	10.0%
	Elimination of intra segment transaction	-3,818	-2.8%	-4,705	-3.1%	-887	23.2%
	<b>(Total)</b>	<b>137,689</b>	<b>100.0%</b>	<b>151,945</b>	<b>100.0%</b>	<b>14,255</b>	<b>10.4%</b>
Segment Income (Loss)	Parent Company	1,248	78.0%	3,344	73.2%	2,095	167.9%
	(%profit)	1.2%		3.0%			
	Domestic Affiliates	344	21.5%	873	19.1%	528	153.5%
	(%profit)	3.4%		6.8%			
	Overseas Affiliates	9	0.6%	351	7.7%	342	-
(%profit)	0.0%		1.1%				
	Elimination of intra segment transaction	-2	-0.1%	0	0.0%	3	-
	<b>(Total)</b>	<b>1,600</b>	<b>100.0%</b>	<b>4,569</b>	<b>100.0%</b>	<b>2,969</b>	<b>185.6%</b>

# 4. Consolidated Sales Analysis

- Sales increased by ¥14,255 m (+10.4%)

**Parent Company**

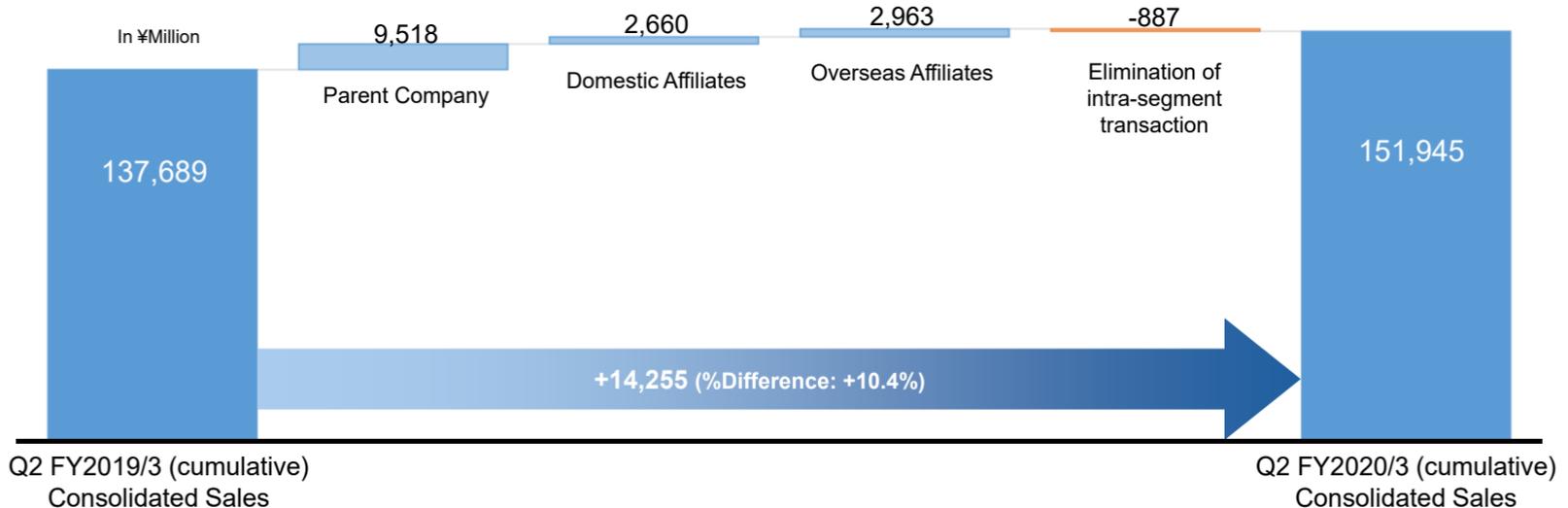
Sales increased due to an order increase in core services (DEC / BPO).

**Domestic Affiliates**

Sales increased mainly due to sales growth in a listed subsidiary and a positive impact from a newly consolidated subsidiary.

**Overseas Affiliates**

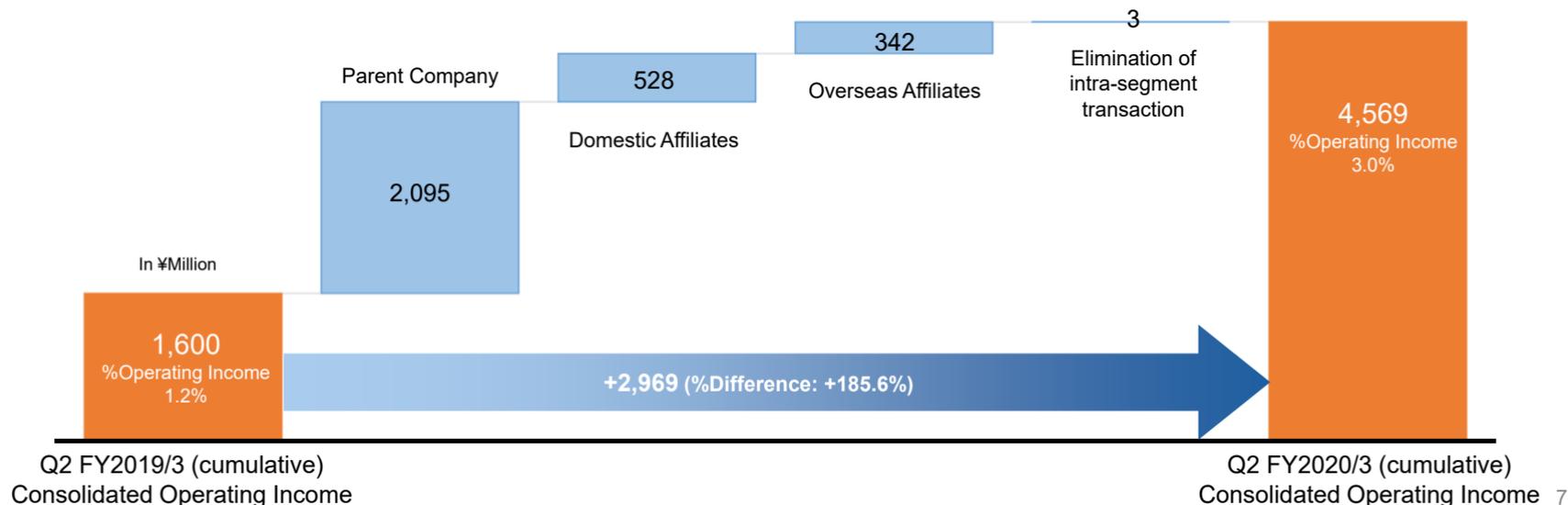
Sales increased due to sales growth in a Chinese subsidiary that specializes in offshore development and a South Korean subsidiary.



# 5. Consolidated Operating Income Analysis

- Operating Income increased by ¥2,969 m (+185.6%)

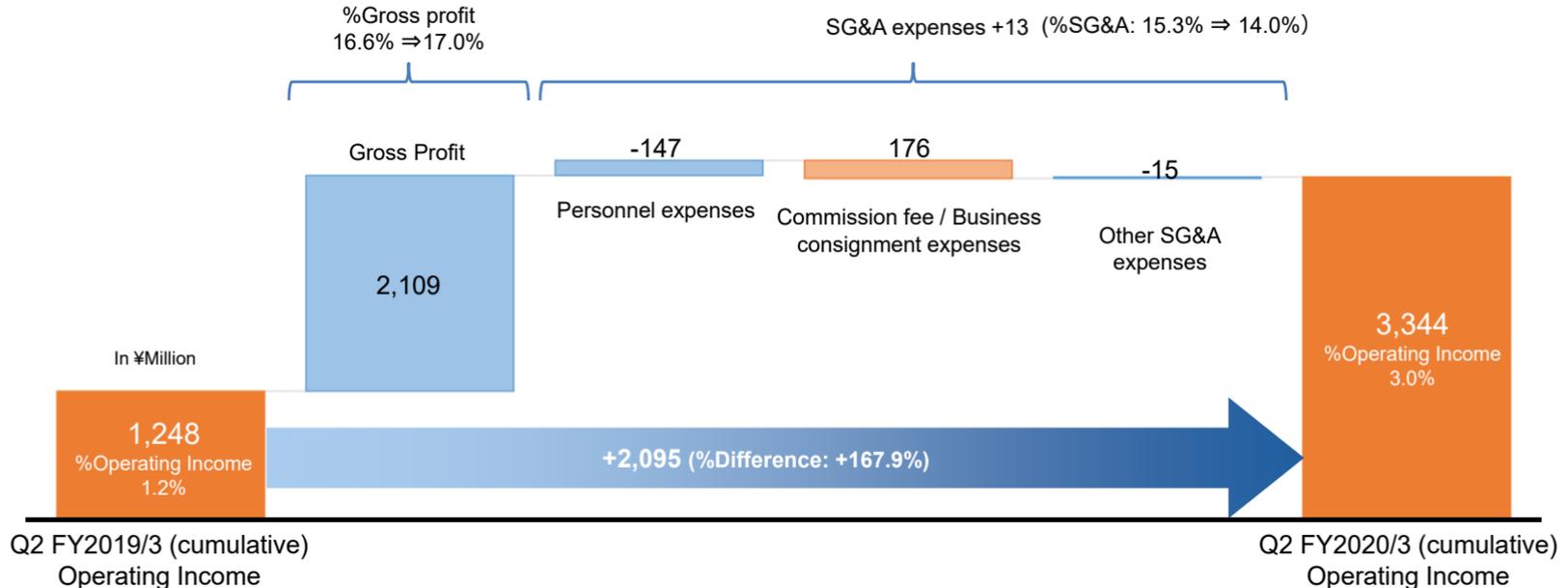
<b>Parent Company</b>	Operating income increased mainly due to improved gross profit as a result of improved profitability in existing projects and a lower SG&A ratio achieved by cost control measures, in addition to sales growth.
<b>Domestic Affiliates</b>	Operating income increased mainly due to profit growth in a listed subsidiary and a positive impact from a newly consolidated subsidiary.
<b>Overseas Affiliates</b>	Operating income increased due to higher profitability in a Chinese subsidiary that specializes in offshore development. Successful business restructuring in one of the European subsidiaries also contributed to income growth.



# 6. Parent Company Operating Income Analysis

- Operating Income increased by ¥2,095 m (+167.9%)

<b>Gross Profit</b>	Gross profit ratio increased by 0.4 points mainly due to higher profitability achieved by increasing productivity in existing projects and receiving new high-profit orders, in addition to sales growth.
<b>SG&amp;A expenses</b>	Although SG&A expenses rose by ¥13 m along with sales growth, SG&A ratio decreased by 1.3 points due to good cost control practices.



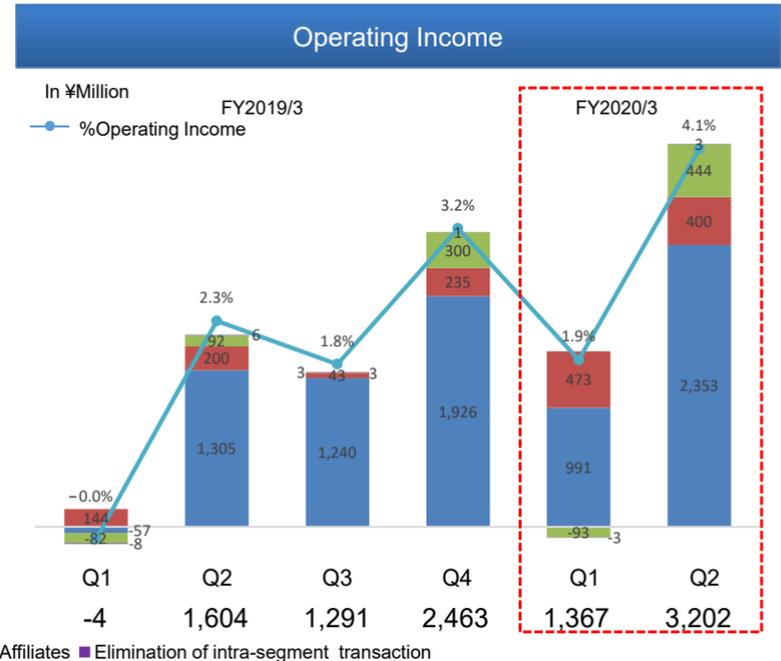
## 7. Quarterly Performance per Segment (Jul-Sep, 2019)

- Sales increased by ¥8,043 m, +11.4%, due to sales growth in all segments. Growth rate accelerated in Parent Company.
- Operating income increased by ¥1,597 m, +99.6%, due to higher profitability in all segments.

In ¥Million		Q2 FY2019/3		Q2 FY2020/3		Difference	
			(Mix)		(Mix)	(Amount)	(Ratio)
Sales	Parent Company	51,868	73.5%	58,093	73.9%	6,224	12.0%
	Domestic Affiliates	5,238	7.4%	6,463	8.2%	1,225	23.4%
	Overseas Affiliates	15,414	21.8%	16,597	21.1%	1,183	7.7%
	Elimination of intra segment transaction	-1,916	-2.7%	-2,505	-3.2%	589	30.8%
	<b>(Total)</b>	<b>70,605</b>	<b>100.0%</b>	<b>78,649</b>	<b>100.0%</b>	<b>8,043</b>	<b>11.4%</b>
Segment Income (Loss)	Parent Company	1,305	81.4%	2,353	73.5%	1,047	80.2%
	(%profit)	2.5%		4.1%			
	Domestic Affiliates	200	12.5%	400	12.5%	199	99.8%
	(%profit)	3.8%		6.2%			
	Overseas Affiliates	92	5.7%	444	13.9%	352	383.6%
	(%profit)	0.6%		2.7%			
Elimination of intra segment transaction	6	0.4%	3	0.1%	-2	-40.2%	
<b>(Total)</b>	<b>1,604</b>	<b>100.0%</b>	<b>3,202</b>	<b>100.0%</b>	<b>1,597</b>	<b>99.6%</b>	

# 8. Consolidated Quarterly Performance Trend

- Sales maintained an upward trend and a high growth rate, the growth rate rose compared to the previous fiscal year.
- Operating income continued to improve in both profit level and margin compared to the previous fiscal year.



# 9. transcosmos inc. Quarterly Net Income Analysis

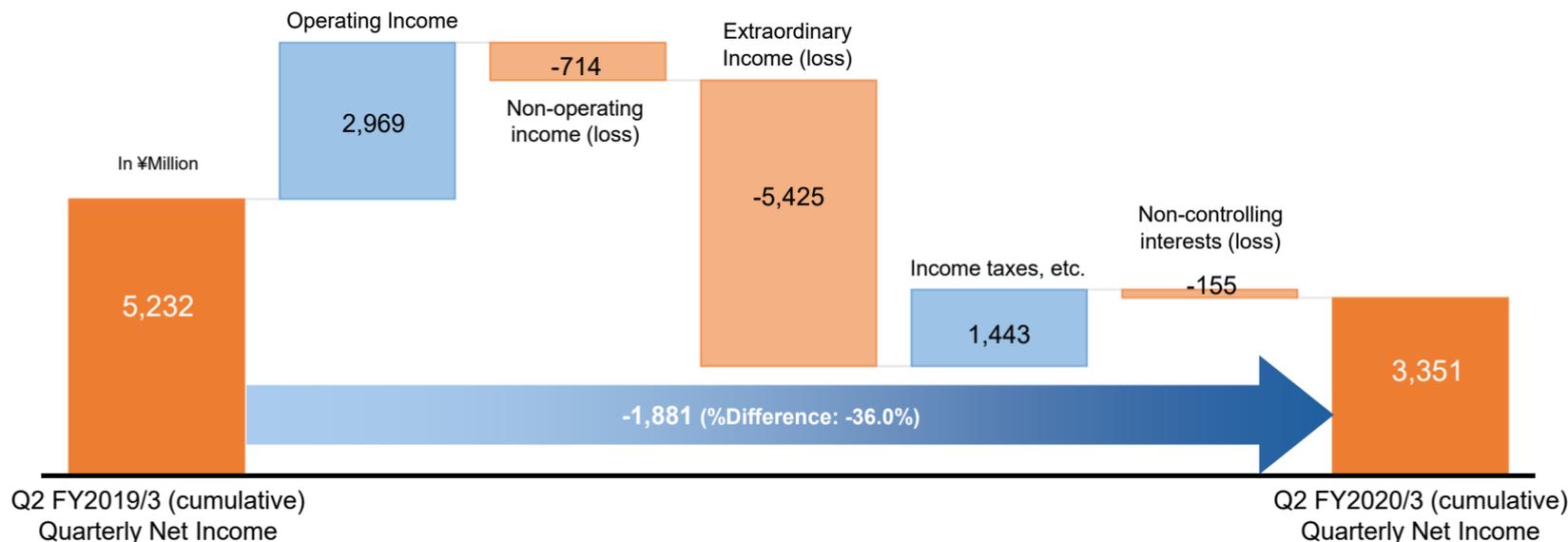
- Quarterly net income attributable to owners of transcosmos inc. decreased by ¥1,881 m (-36.0%)

Non-operating income (loss)

Although equity in income (loss) improved, non-operating income decreased by ¥714 m mainly due to a decrease in returns from fund management activities that were recorded in the same quarter of the previous fiscal year.

Extraordinary income (loss)

Extraordinary income decreased by ¥5,425 m mainly due to a lack in capital gains from the sale of shares in an affiliate as opposed to the same quarter of the previous fiscal year when the gains were recorded.



# 10. Consolidated Balance Sheet Summary

- Assets: “Cash and deposits” decreased as a result of the repayment of loans. “Notes and accounts receivables – trade,” etc. increased.
- Liabilities: “Current portion of long-term debt,” “Accrued consumption taxes,” etc. decreased.
- Net Assets: “Retained earnings” increased.

In ¥Million	End of Mar. 2019	End of Sep. 2019	Difference	
Current Assets	89,835	86,978	-2,856	<ul style="list-style-type: none"> <li>• Cash ad deposits: -5,632</li> <li>• Notes and accounts receivables – trade: +1,658</li> </ul>
Fixed Assets	45,433	46,693	1,260	<ul style="list-style-type: none"> <li>• Goodwill: +546</li> <li>• Investment securities: -933</li> <li>• Shares of affiliates: -1,189</li> <li>• Investments in capital of affiliates: +1,136</li> <li>• Guarantee deposits: +700</li> </ul>
<b>Total Assets</b>	<b>135,268</b>	<b>133,672</b>	<b>-1,596</b>	
Current Liabilities	48,121	46,357	-1,764	<ul style="list-style-type: none"> <li>• Accounts payable – trade: +1,834</li> <li>• Current portion of long-term debt: -1,663</li> <li>• Accrued consumption taxes: -1,252</li> </ul>
Fixed Liabilities	12,232	12,065	-166	
<b>Total Liabilities</b>	<b>60,353</b>	<b>58,422</b>	<b>-1,930</b>	<ul style="list-style-type: none"> <li>• Differed tax liabilities: -267</li> </ul>
<b>Net Assets</b>	<b>74,915</b>	<b>75,249</b>	<b>334</b>	<ul style="list-style-type: none"> <li>• Retained earnings: +1,982</li> <li>• Foreign currency translation adjustments: -1,148</li> </ul>
<b>Liabilities/Net Assets Total</b>	<b>135,268</b>	<b>133,672</b>	<b>-1,596</b>	
Cash Equivalent	36,032	30,400	-5,632	
Interest-bearing debt	13,668	11,608	-2,059	
<b>Net Cash*</b>	<b>22,364</b>	<b>18,791</b>	<b>-3,572</b>	

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

# 11. Consolidated Cash Flow Statement Summary

- Cash flows from operating activities: “Profit (loss) before income taxes” decreased. “Increase (decrease) in notes and accounts payable – trade” decreased due to a decrease in notes and accounts payable – trade. “Increase (decrease) in accrued consumption taxes” decreased due to consumption taxes payment. “Other, net” decreased due to a decrease in accrued expenses payable.
- Cash flows from investing activities: “Proceeds from sale of stocks of affiliates” decreased.
- Cash flows from financial activities: “Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation” decreased. “Cash dividends paid” increased.

In ¥Million	Q2 FY2019/3 (cumulative)	Q2 FY2020/3 (cumulative)	Difference
Cash flows from operating activities	2,270	1,185	-1,084
Cash flows from investing activities	5,490	-2,925	-8,416
Cash flows from financing activities	-3,729	-3,620	109
Balance of cash and cash equivalents	35,130	30,322	-4,807
Free cash flow*	7,761	-1,739	-9,501

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

# (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 companies	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	4,029
	J-Stream Inc.	TSE Mothers	4308	3,453
	eMnet Inc.	KOSDAQ	123570	1,571
	PFSweb Inc.	NASDAQ	PFSW	1,327
Investment securities	Menicon Co., Ltd.	First Section of TSE	7780	757
	Geniee, Inc.	TSE Mothers	6562	296
	Twilio	NYSE	TWLO	160
	Japan Airlines Co., Ltd.	First Section of TSE	9201	153
	MIZUNO Corporation	First Section of TSE	8022	28
	MTG Co., Ltd.	TSE Mothers	7806	19
	JACCS CO., LTD.	First Section of TSE	8584	11
Total				11,808

Major listed holdings held by Group companies

Type	Stock name	Market	Security code	Fair Value*
Investment securities	北京騰信創新網絡營銷技術股份有限公司 (TensynPRC)	ChiNext	300392	4,097

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

## 12. CAPEX, Depreciation/Amortization, Employees, Service Bases

### ● CAPEX / Depreciation and Amortization

In ¥Million	Q2 FY2019/3 (cumulative)	Q2 FY2020/3 (cumulative)	%Difference
Capital expenditures	1,880	2,500	32.9%
Depreciation and amortization	1,560	1,664	6.7%

### ● Number of Employees

	End of Mar. 2019	End of Sep. 2019	Difference
Consolidated bases	30,051	30,881	830
(Temporary employees)	24,866	24,967	101
Parent Company	14,106	14,957	851
(Temporary employees)	21,407	21,114	-293

### ● Service bases

	End of Mar. 2019	End of Sep. 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 increased mainly due to opening/expansion of centers and business offices in Parent Company and overseas' affiliates.

### ● Depreciation and amortization

Depreciation and amortization increased mainly due to opening/expansion of centers and business offices in Parent Company and domestic affiliates in the previous fiscal year.

### ● Employees

Number of employees increased due to an increase of new graduate hires in Parent Company and an 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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- 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.