

Global Digital Transformation **Partner**

Supplementary Materials for Q3 FY2020/3 Financial Results



January 31, 2020

transcosmos inc.

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1. Executive Summary

Achievements

- All business segments achieved both sales and profit growth.
- Sales increased by **10.3%** year over year with an accelerated growth rate.
- Gross profit margin improved by **1.1 points** due to higher profitability in existing projects.
- **Controlling SG&A expenses** based on sales and profits.
- Operating income increased by **¥4.9 billion** year over year, a significant increase of **169.5%**.

Challenge

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

2. Consolidated Income Statement Summary

- Sales increased in all segments, primarily in Parent Company.
- Operating income increased due to improved profitability in all segments, primarily in Parent Company.
- Ordinary income increased due to operating income growth.
- Quarterly net income attributable to owners of transcosmos inc. increased due to the increase in operating income and other positive factors, despite the negative impact of a decrease in extraordinary profit.

In ¥Million	Q3 FY2019/3 (cumulative)		Q3 FY2020/3 (cumulative)		Difference	
		(Mix)		(Mix)	(Amount)	(Ratio)
Sales	208,646	100.0%	230,092	100.0%	21,445	10.3%
Cost of Sales	174,477	83.6%	189,793	82.5%	15,315	8.8%
Gross Profit	34,169	16.4%	40,299	17.5%	6,130	17.9%
SG&A	31,277	15.0%	32,504	14.1%	1,227	3.9%
Operating Income	2,892	1.4%	7,794	3.4%	4,902	169.5%
Non-operating Profit and Loss	284	0.1%	-94	-0.0%	-378	-
Ordinary Income	3,176	1.5%	7,700	3.3%	4,524	142.4%
Extraordinary Profit and Loss	6,977	3.3%	1,693	0.7%	-5,283	-75.7%
Net Income attributable to owners of transcosmos inc.	5,994	2.9%	6,116	2.7%	122	2.0%

3. Performance Summary per Segment

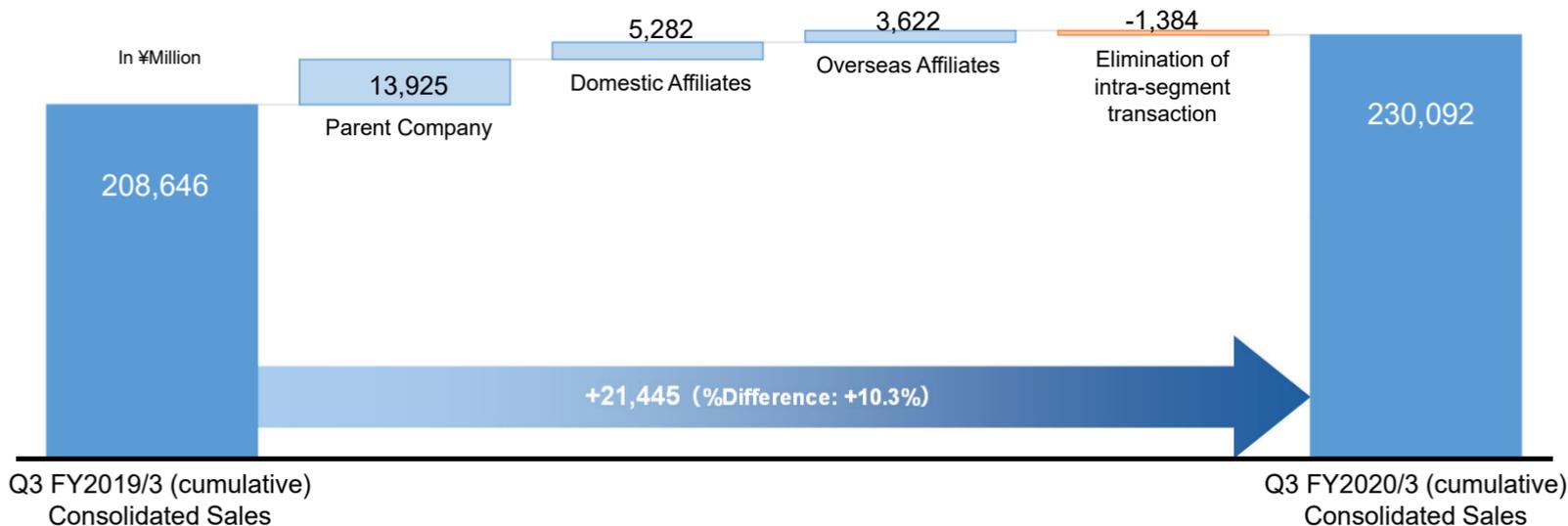
- Parent Company: Both sales and profit increased. Profitability improved mainly due to strong orders in core services, higher profitability in existing projects, and a lower SG&A ratio, in addition to sales growth.
- Domestic Affiliates: Both sales and profit increased. Both sales and profit grew mainly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

In ¥Million		Q3 FY2019/3 (cumulative) (Mix)		Q3 FY2020/3 (cumulative) (Mix)		Difference (Amount) (Ratio)	
Sales	Parent Company	155,652	74.6%	169,577	73.7%	13,925	8.9%
	Domestic Affiliates	15,047	7.2%	20,330	8.8%	5,282	35.1%
	Overseas Affiliates	43,928	21.1%	47,551	20.7%	3,622	8.2%
	Elimination of intra segment transaction	-5,982	-2.9%	-7,366	-3.2%	-1,384	-23.1%
	(Total)	208,646	100.0%	230,092	100.0%	21,445	10.3%
Segment Income (Loss)	Parent Company	2,489	86.1%	5,916	75.9%	3,427	137.7%
	(%profit)	1.6%		3.5%			
	Domestic Affiliates	388	13.4%	1,134	14.6%	745	192.0%
	(%profit)	2.6%		5.6%			
	Overseas Affiliates	13	0.5%	757	9.7%	744	-
(%profit)	0.0%		1.6%				
Elimination of intra segment transaction	1	0.0%	-13	-0.2%	-14	-	
(Total)	2,892	100.0%	7,794	100.0%	4,902	169.5%	

4. Consolidated Sales Analysis

- Sales increased by ¥21,445 m (+10.3%)

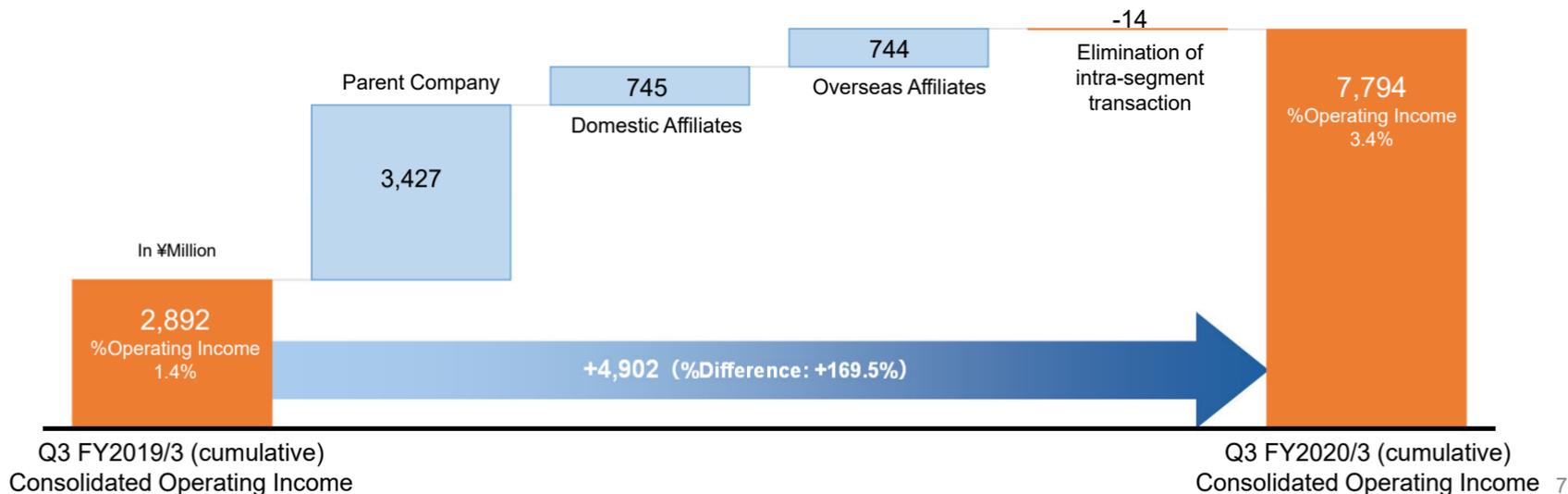
Parent Company	Sales increased due to an order increase in core services (DEC / BPO).
Domestic Affiliates	Sales increased mainly due to sales growth in a listed subsidiary and a positive impact from newly consolidated subsidiaries.
Overseas Affiliates	Sales increased in subsidiaries in China, South Korea and Southeast Asia.



5. Consolidated Operating Income Analysis

- Operating Income increased by ¥4,902 m (+169.5%)

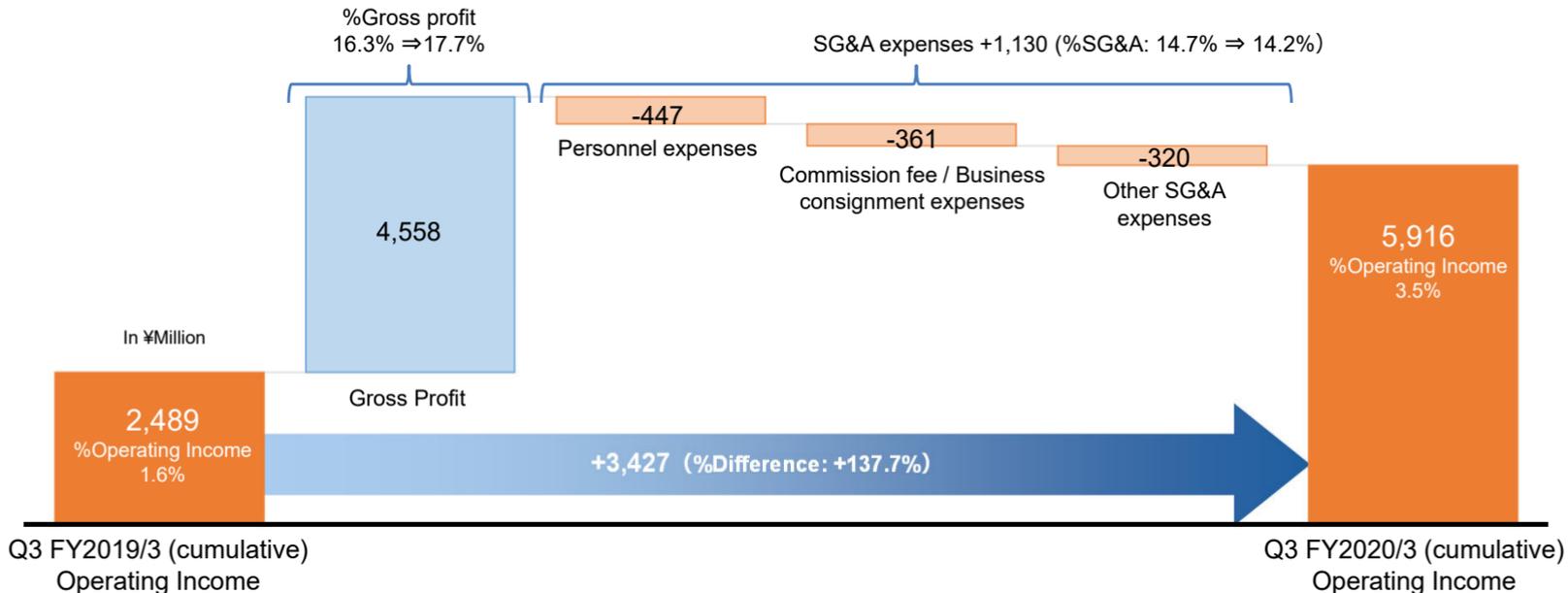
Parent Company	Operating income increased mainly due to improved gross profit as a result of improved profitability in existing projects and a lower SG&A ratio achieved by cost control measures, in addition to sales growth.
Domestic Affiliates	Operating income increased mainly due to profit growth in a listed subsidiary and a positive impact from newly consolidated subsidiaries.
Overseas Affiliates	Operating income increased mainly due to higher profitability in subsidiaries in China, South Korea and Southeast Asia.



6. Parent Company Operating Income Analysis

- Operating Income increased by ¥3,427 m (+137.7%)

Gross Profit	Gross profit ratio increased by 1.4 points mainly due to higher profitability achieved by increasing productivity in existing projects and receiving new high-profit orders, in addition to sales growth.
SG&A expenses	Although SG&A expenses rose by ¥1,130 m along with sales growth, SG&A ratio decreased by 0.5 points due to good cost control practices.



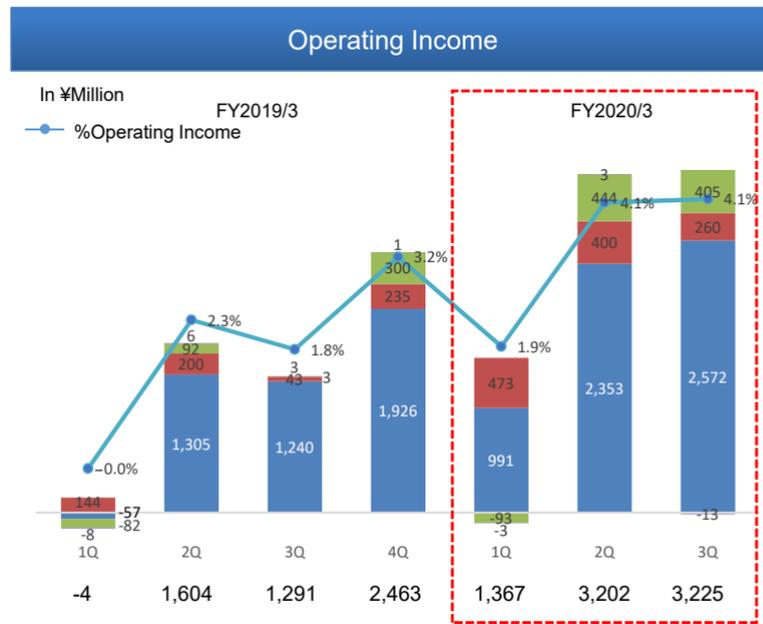
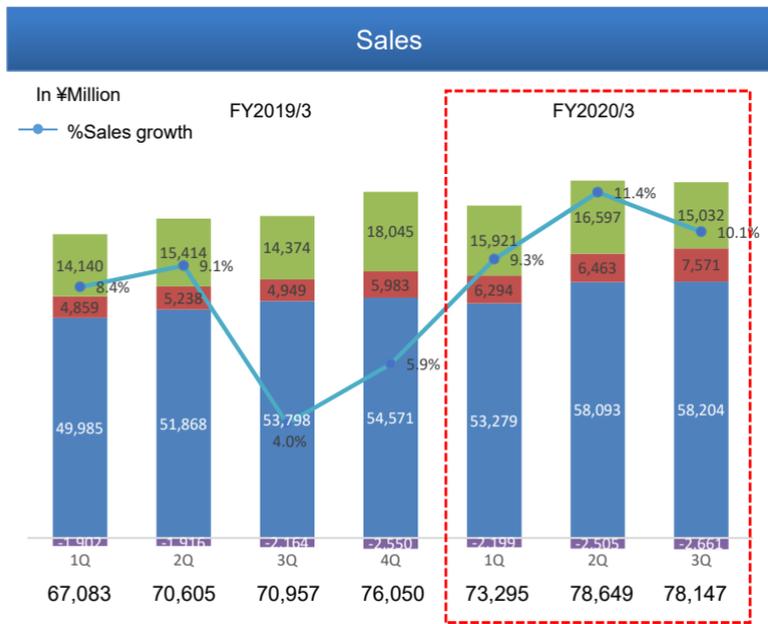
7. Quarterly Performance per Segment (Oct-Dec, 2019)

- Sales increased by ¥7,190 m, +10.1%, due to sales growth in all segments, primarily in Parent Company.
- Operating income increased by ¥1,933 m, +149.6%, due to higher profitability in all segments, primarily in Parent Company.

In ¥Million		Q3 FY2019/3		Q3 FY2020/3		Difference	
			(Mix)		(Mix)	(Amount)	(Ratio)
Sales	Parent Company	53,798	75.8%	58,204	74.5%	4,406	8.2%
	Domestic Affiliates	4,949	7.0%	7,571	9.7%	2,622	53.0%
	Overseas Affiliates	14,374	20.3%	15,032	19.2%	658	4.6%
	Elimination of intra segment transaction	-2,164	-3.1%	-2,661	-3.4%	-497	-23.0%
	(Total)	70,957	100.0%	78,147	100.0%	7,190	10.1%
Segment Income (Loss)	Parent Company	1,240	96.0%	2,572	79.8%	1,332	107.4%
	(%profit)	2.3%		4.4%			
	Domestic Affiliates	43	3.4%	260	8.1%	216	494.7%
	(%profit)	0.9%		3.4%			
	Overseas Affiliates	3	0.3%	405	12.6%	401	-
	(%profit)	0.0%		2.7%			
Elimination of intra segment transaction	3	0.3%	-13	-0.5%	-17	-	
(Total)	1,291	100.0%	3,225	100.0%	1,933	149.6%	

8. Consolidated Quarterly Performance Trend

- Sales maintained an upward trend and a high growth rate, the growth rate accelerated compared to the previous fiscal year.
- Operating income continued to improve in both profit level and margin compared to the previous fiscal year. Margin in the second and third quarter of this fiscal year bounced back to a level of 4%.



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

9. transcosmos inc. Quarterly Net Income Analysis

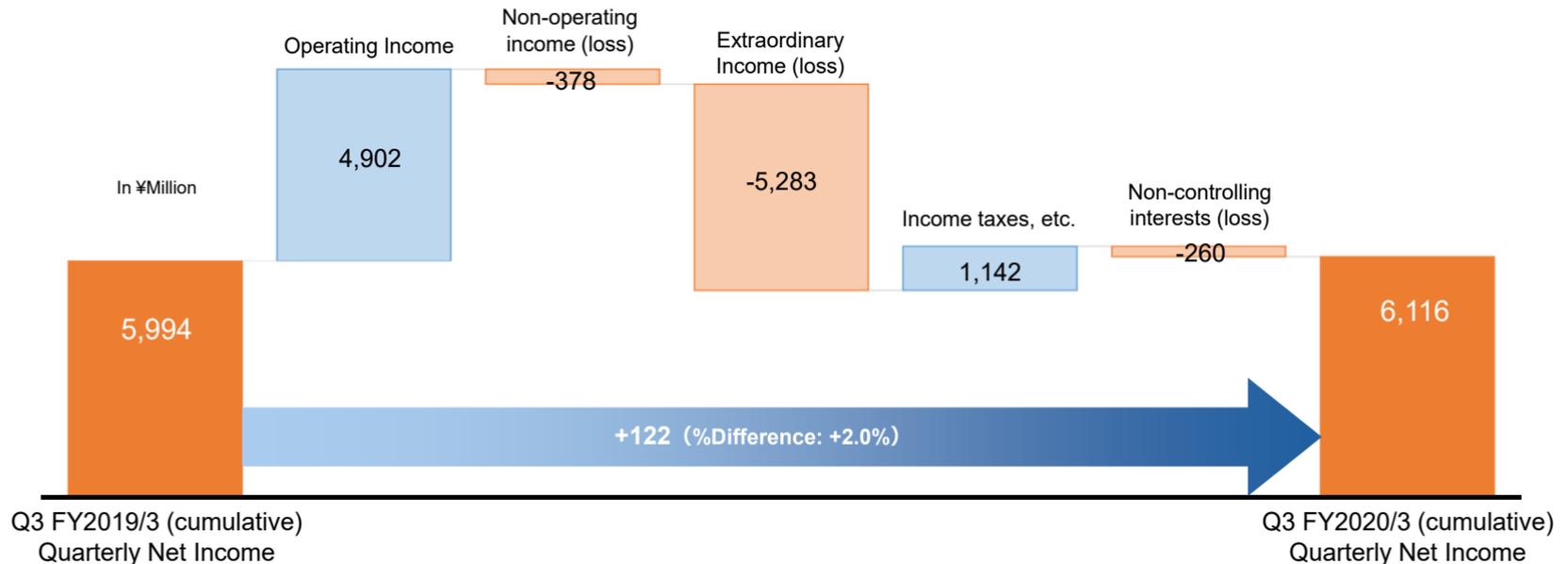
- Quarterly net income attributable to owners of transcosmos inc. increased by ¥122 m (+2.0%)

Non-operating income (loss)

Although equity in income (loss) improved, non-operating income decreased by ¥378 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 ¥5,283 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” and short-term loans receivable under “Others” increased.
- Liabilities: “Current portion of long-term debt” decreased. “Accrued expenses” and “Accounts payable – trade” increased.
- Net Assets: “Retained earnings” increased.

In ¥Million	End of Mar. 2019	End of Dec. 2019	Difference
Current Assets	89,835	90,858	1,022
Fixed Assets	45,433	47,832	2,398
Total Assets	135,268	138,690	3,421
Current Liabilities	48,121	57,210	9,088
Fixed Liabilities	12,232	3,748	-8,483
Total Liabilities	60,353	60,959	605
Net Assets	74,915	77,731	2,816
Liabilities/Net Assets Total	135,268	138,690	3,421
Cash and deposits	36,032	30,893	-5,139
Interest-bearing debt	13,668	12,416	-1,251
Net Cash*	22,364	18,477	-3,887

- Cash and deposits: -5,139
- Notes and accounts receivables – trade: +1,523
- Other: +3,614

- Goodwill: +679
- Investment securities: -531
- Shares of affiliates: -877
- Investments in capital of affiliates: +903
- Guarantee deposits: +757

- Accounts payable – trade: +1,016
- Current portion of convertible bonds: +10,009
- Current portion of long-term debt: -1,642
- Accrued expenses: +1,269
- Accrued bonuses: -1,061

- Convertible bonds: -10,017
- Long-term debt: +1,223

- Retained earnings: +4,748
- Foreign currency translation adjustments: -1,900

*Net Cash = Cash and deposits – 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 companies	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	6,300
	J-Stream Inc.	TSE Mothers	4308	4,548
	eMnet Inc.	KOSDAQ	123570	2,003
	PFSweb Inc.	NASDAQ	PFSW	1,689
Investment securities	Menicon Co., Ltd.	First Section of TSE	7780	490
	Geniee, Inc.	TSE Mothers	6562	283
	Twilio	NYSE	TWLO	187
	Japan Airlines Co., Ltd.	First Section of TSE	9201	140
	MIZUNO Corporation	First Section of TSE	8022	26
	MTG Co., Ltd.	TSE Mothers	7806	15
	JACCS CO., LTD.	First Section of TSE	8584	13
Total				15,699

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	4,281

* Fair values are calculated based on the closing price of January 30, 2020. Note that fair values of PFSWeb and Twilio are calculated based on the closing price of January 29, 2020.

11. CAPEX, Depreciation/Amortization, Employees, Service Bases



● CAPEX / Depreciation and Amortization

In ¥Million	Q3 FY2019/3 (cumulative)	Q3 FY2020/3 (cumulative)	%Difference
Capital expenditures	3,275	3,905	19.2%
Depreciation and amortization	2,402	2,542	5.8%

● Number of Employees

	End of Mar. 2019	End of Dec. 2019	Difference
Consolidated bases	30,051	31,954	1,903
(Temporary employees)	24,866	25,385	519
Parent Company	14,106	15,104	998
(Temporary employees)	21,407	21,295	-112

● Service bases

	End of Mar. 2019	End of Dec. 2019	Difference
Service bases*	171	168	-3
(Japan)	62	64	2
(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 new hires in Parent Company and Chinese subsidiaries. Number of temporarily employees in Parent Company decreased mainly due to their contracts that were converted to indefinite-term from.

● Service bases

Japan: Opened MCM Center Sapporo Sosei Square and BPO Center Sapporo Tanukikoji.

Overseas: Opened Ho Chi Minh Center No.3 in Vietnam. On the contrary, 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.