

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

# **Supplementary Materials for H1 FY2021/3 Financial Results**

**(April 1- September 30, 2020)**



**October 30, 2020**

**transcosmos inc.**

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# 1. Executive Summary

## Achievements

- Sales increased by **7.8%** year over year, and maintained a high growth ratio.
- Gross profit margin increased by **2.7 points** due to a healthier profitability in existing projects.
- Despite extraordinary factors including additional expenses incurred to take measures against Covid-19, **continued to control SG&A expenses** in line with sales and profits.
- Operating income increased by **¥ 3.9 billion** year over year, as all segments secured positive profits.

## Challenge

- Maintain and increase growth and profitability in the post COVID-19 era.

## 2. Consolidated Income Statement Summary

- Sales increased due to an order increase in all segments.
- Operating income increased due to a healthier profitability in all segments.
- Ordinary income increased due to growth in operating income.
- Quarterly net income attributable to owners of transcosmos inc. increased due to growth in both operating income and ordinary income.

In ¥Million	H1 FY2020/3		H1 FY2021/3		Difference	
		(Mix)		(Mix)	(Amount)	(Ratio)
Sales	151,945	100.0%	163,734	100.0%	11,789	7.8%
Cost of Sales	126,217	83.1%	131,673	80.4%	5,455	4.3%
Gross Profit	25,727	16.9%	32,061	19.6%	6,333	24.6%
SG&A	21,157	13.9%	23,575	14.4%	2,417	11.4%
Operating Income	4,569	3.0%	8,485	5.2%	3,915	85.7%
Non-operating Profit and Loss	-209	-0.1%	191	0.1%	401	-
Ordinary Income	4,359	2.9%	8,677	5.3%	4,317	99.0%
Extraordinary Profit and Loss	1,467	1.0%	325	0.2%	-1,142	-77.8%
Quarterly Net Income attributable to owners of transcosmos inc.	3,351	2.2%	5,569	3.4%	2,217	66.2%

### 3. Performance Summary per Segment

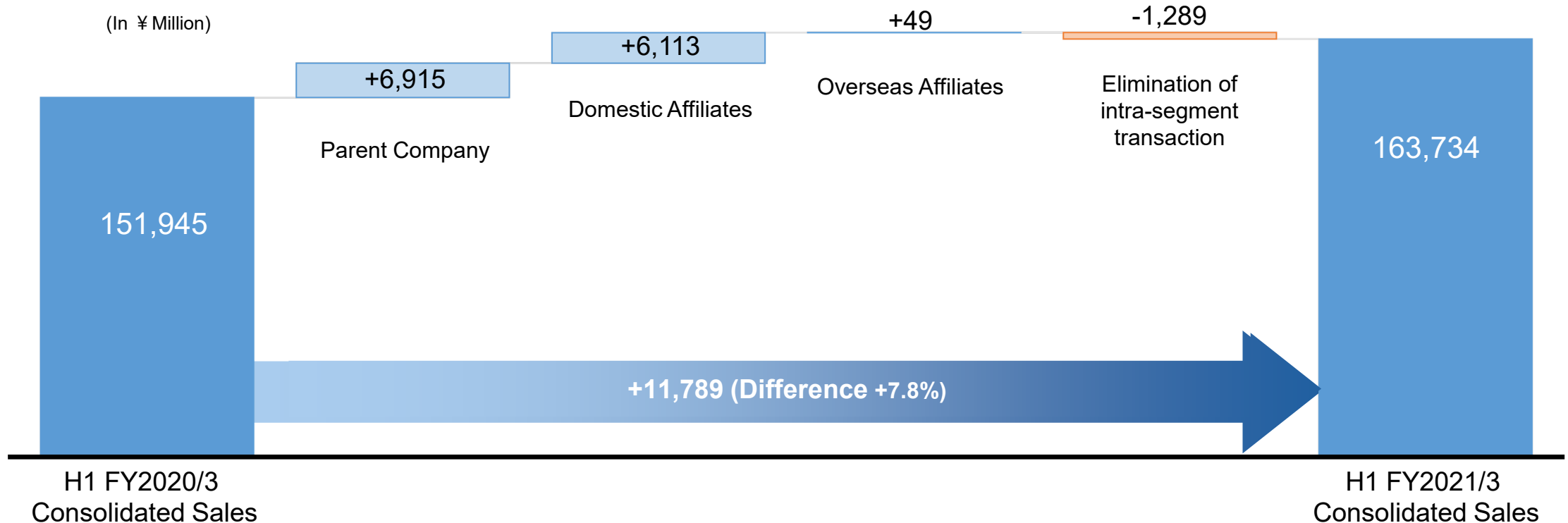
- Parent Company: Both sales and profit increased. Profitability increased as a result of order growth due primarily to the expansion of existing large-scale projects, and new large-scale non-recurring projects.
- Domestic Affiliates: Both sales and profit increased, due primarily to a positive impact of subsidiaries consolidated last year, and a solid performance of listed subsidiaries.
- Overseas Affiliates: Both sales and profit increased. Subsidiaries in China, South Korea and South East Asia maintained a solid performance.

In ¥Million	H1 FY2020/3		H1 FY2021/3		Difference		
		(Mix)		(Mix)	(Amount)	(Ratio)	
Sales	Parent Company	111,372	73.3%	118,287	72.2%	6,915	6.2%
	Domestic Affiliates	12,758	8.4%	18,872	11.5%	6,113	47.9%
	Overseas Affiliates	32,518	21.4%	32,568	19.9%	49	0.2%
	Elimination of intra segment transaction	-4,705	-3.1%	-5,994	-3.6%	-1,289	-27.4%
	<b>(Total)</b>	<b>151,945</b>	<b>100.0%</b>	<b>163,734</b>	<b>100.0%</b>	<b>11,789</b>	<b>7.8%</b>
Segment Income (Loss)	Parent Company	3,344	73.2%	5,699	67.2%	2,355	70.4%
	(%profit)	3.0%		4.8%			
	Domestic Affiliates	873	19.1%	1,700	20.0%	827	94.7%
	(%profit)	6.8%		9.0%			
	Overseas Affiliates	351	7.7%	1,078	12.7%	727	206.9%
(%profit)	1.1%		3.3%				
Elimination of intra segment transaction	0	0.0%	6	0.1%	5	767.9%	
<b>(Total)</b>	<b>4,569</b>	<b>100.0%</b>	<b>8,485</b>	<b>100.0%</b>	<b>3,915</b>	<b>85.7%</b>	

# 4. Consolidated Sales Analysis

- Sales increased by ¥ 11,789 million (+7.8%)

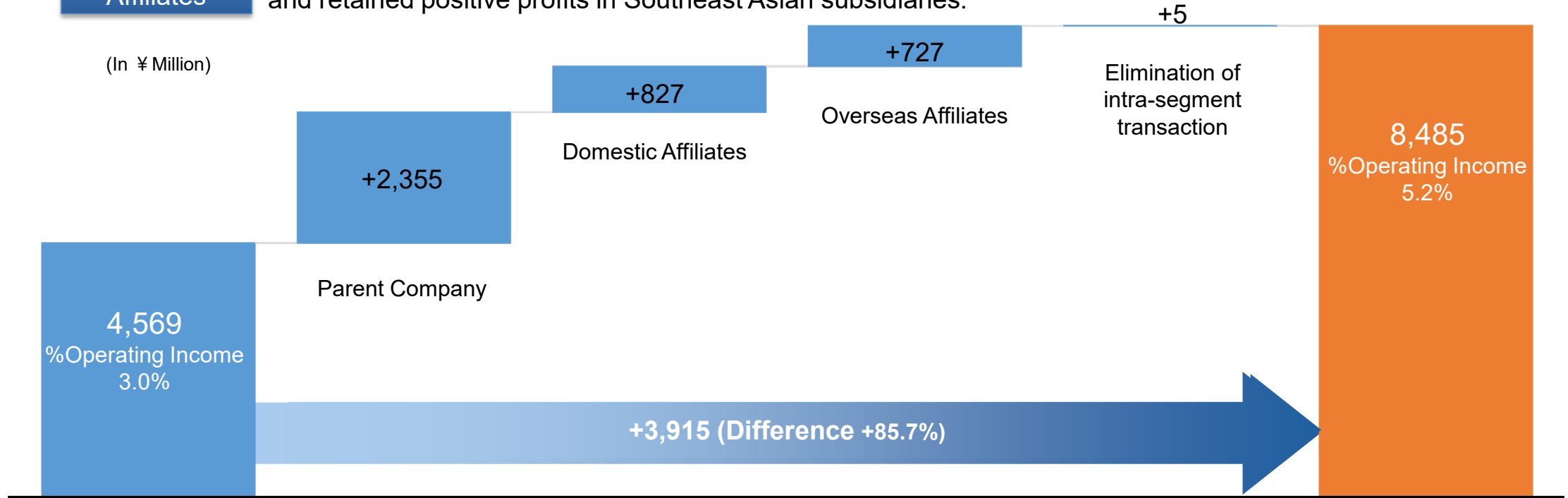
<b>Parent Company</b>	Sales increased as a result of an order growth due primarily to the expansion of existing large-scale projects, and new large-scale non-recurring projects.
<b>Domestic Affiliates</b>	Sales increased due primarily to the positive impact of some subsidiaries consolidated in the third quarter of last year, and a sales growth in listed subsidiaries.
<b>Overseas Affiliates</b>	Despite of a sales decline in Chinese and South Korean subsidiaries due to the fluctuation of foreign exchange rates, sales increased primarily due to a sales growth in subsidiaries in South East Asia.



# 5. Consolidated Operating Income Analysis

- Operating Income increased by ¥ 3,915 million (+85.7%)

<b>Parent Company</b>	Profit increased due primarily to a healthier profitability in existing large-scale projects, and new large-scale non-recurring projects.
<b>Domestic Affiliates</b>	Operating income increased due primarily to a higher profitability in some listed subsidiaries, and the positive impact of some subsidiaries consolidated in the third quarter of last year.
<b>Overseas Affiliates</b>	Operating income increased due primarily to a healthier profitability in Chinese and South Korean subsidiaries, and retained positive profits in Southeast Asian subsidiaries.

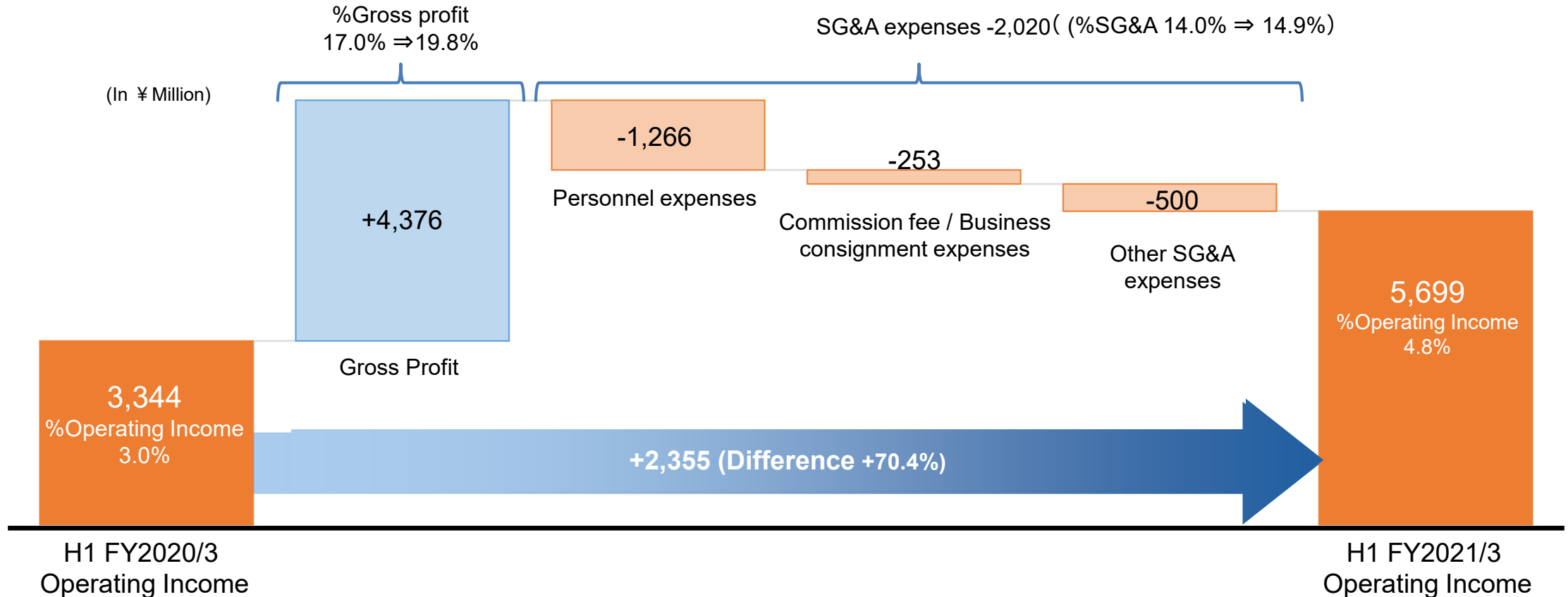


# 6. Parent Company Operating Income Analysis

- Operating Income increased by ¥ 2,355 million (+70.4%)

**Gross Profit** Gross profit ratio increased by 2.8 points primarily due to a higher profitability achieved by enhancement of profitability in existing large-scale projects, new large-scale non-recurring projects, and a lower employee turnover ratio.

**SG&A expenses** SG&A expenses increased by ¥2,020 million due primarily to additional expenses incurred for the opening of Tokyo Main Office 2 to accommodate growing business, and other extraordinary factors that include measures against Covid-19, resulting in a 0.9 point increase in SG&A ratio. Without these extraordinary factors, maintained effective cost management.





# 7. Quarterly Performance per Segment (July - September, 2020)



- Sales increased by ¥ 6,599 million, +8.4%, due to the sales growth in all segments. Although overseas affiliates suffered a decline in sales in the first quarter this year, the sales moved back into a growth territory.
- Operating income increased by ¥ 1,940 million, +60.6%, due to a higher operating income in all segments.

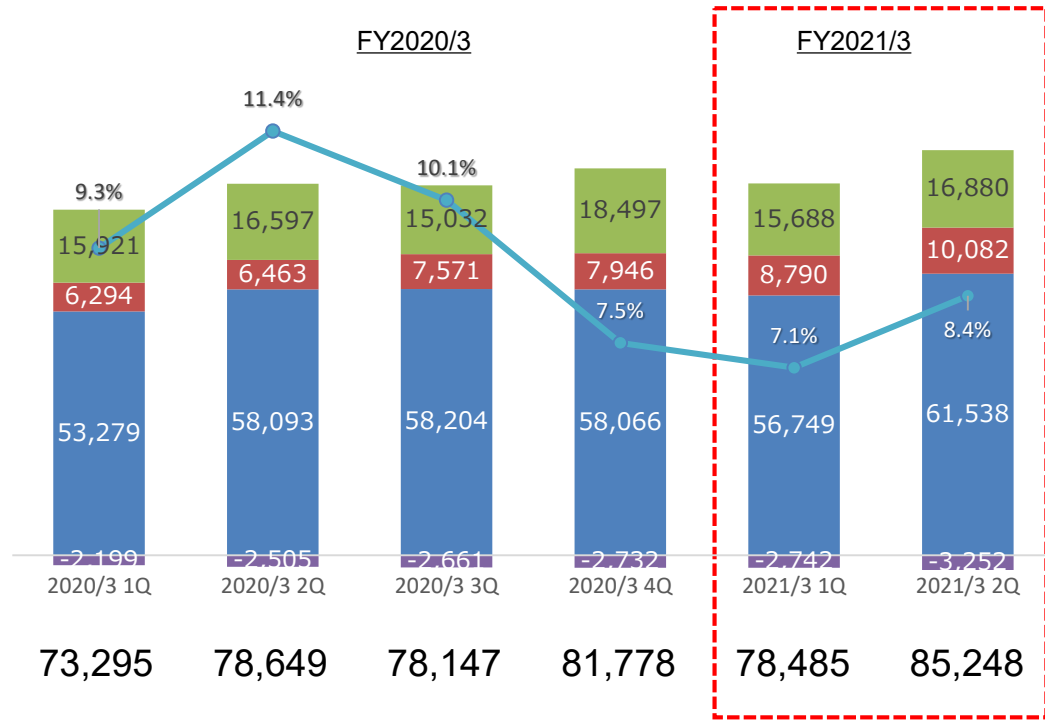
In ¥Million	Q2 FY2020/3		Q2 FY2021/3		Difference		
		(Mix)		(Mix)	(Amount)	(Ratio)	
Sales	Parent Company	58,093	73.9%	61,538	72.2%	3,444	5.9%
	Domestic Affiliates	6,463	8.2%	10,082	11.8%	3,618	56.0%
	Overseas Affiliates	16,597	21.1%	16,880	19.8%	282	1.7%
	Elimination of intra segment transaction	-2,505	-3.2%	-3,252	-3.8%	-746	-29.8%
	<b>(Total)</b>	<b>78,649</b>	<b>100.0%</b>	<b>85,248</b>	<b>100.0%</b>	<b>6,599</b>	<b>8.4%</b>
Segment Income (Loss)	Parent Company	2,353	73.5%	3,342	65.0%	989	42.1%
	(%profit)	4.1%		5.4%			
	Domestic Affiliates	400	12.5%	1,083	21.1%	683	170.7%
	(%profit)	6.2%		10.7%			
	Overseas Affiliates	444	13.9%	716	13.9%	271	61.0%
	(%profit)	2.7%		4.2%			
Elimination of intra segment transaction	3	0.1%	0	0.0%	-3	-92.3%	
<b>(Total)</b>	<b>3,202</b>	<b>100.0%</b>	<b>5,143</b>	<b>100.0%</b>	<b>1,940</b>	<b>60.6%</b>	

# 8. Consolidated Quarterly Performance Trend

- Despite fluctuations in sales due to the impact of non-recurring projects, maintained a high growth rate.
- Operating income ratio achieved a 6% level due to a growing profitability.

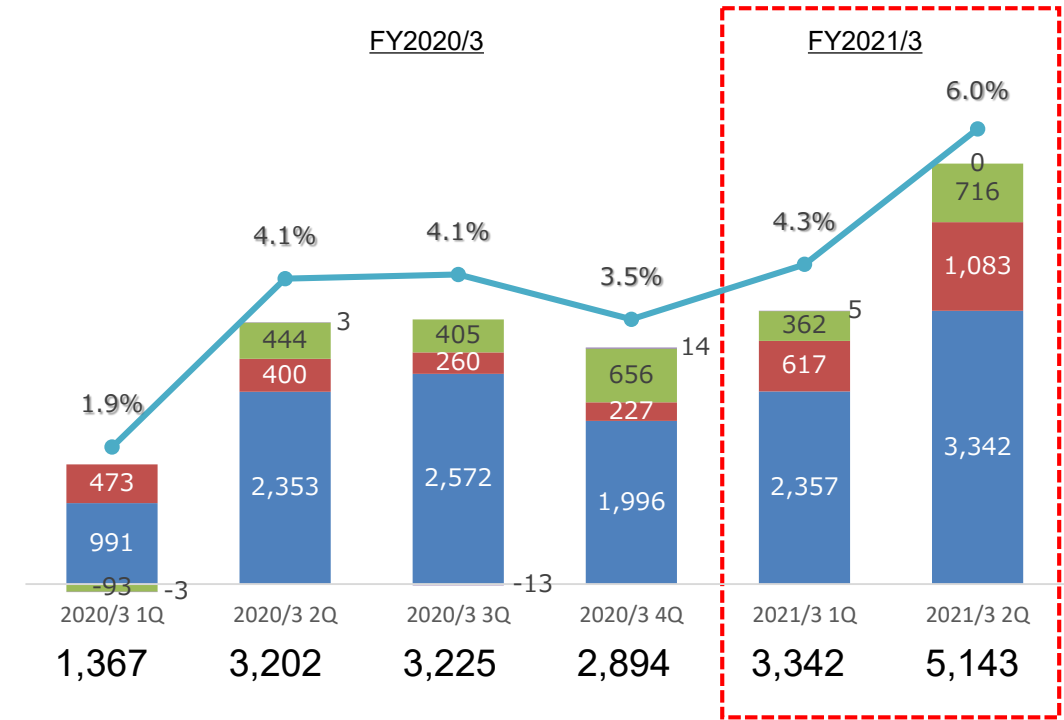
## Sales

(In ¥ Million) —●— %Sales growth



## Operating Income

(In ¥ Million) —●— %Operating Income



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

# 9. transcosmos inc. Quarterly Net Income Analysis



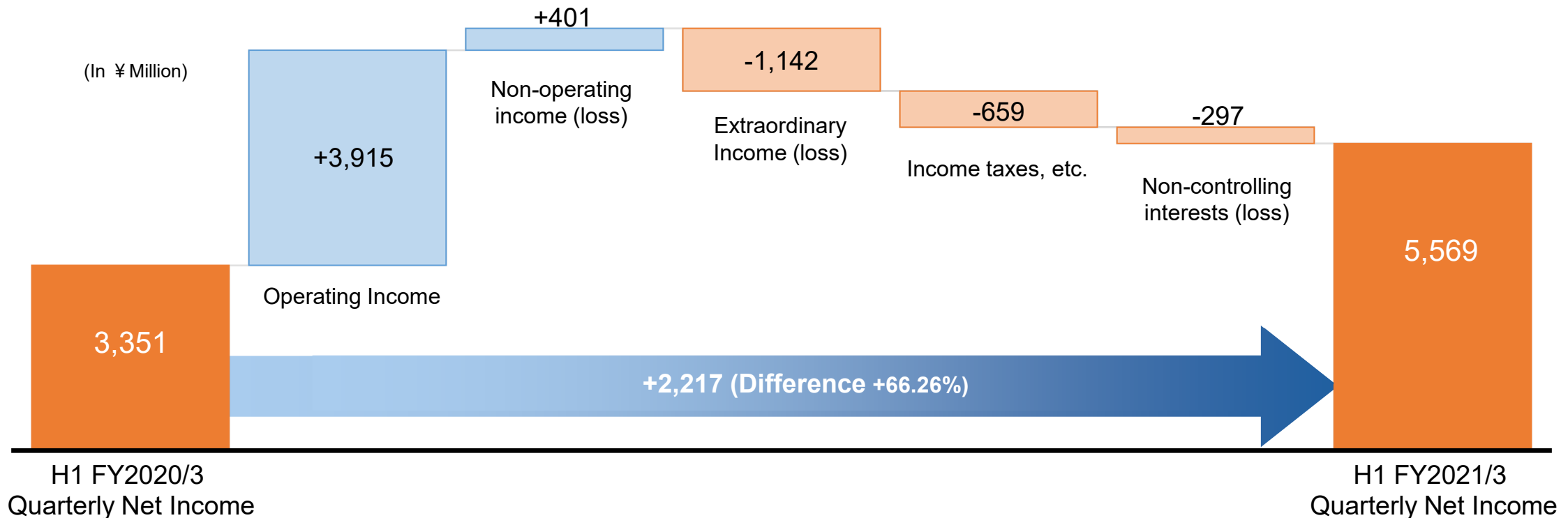
- Quarterly net income attributable to owners of transcosmos inc. increased by ¥2,217 million (+66.2%)

Non-operating income (loss)

Non-operating income increased by ¥401 million primarily due to an increase in a subsidy income and a decrease in equity in losses.

Extraordinary income (loss)

Extraordinary income decreased by 1,142 million primarily due to a lack of gain on sale of investment securities as opposed to the same quarter last year when the gain was recorded.



# 10. Consolidated Balance Sheet Summary

- Assets: “Cash and deposits” increased due to an increase of loans payable in transcosmos inc. “Notes and accounts receivables – trade” increased.
- Liabilities: “Long-term loans payable” increased due to new loans payable in transcosmos inc.
- Net Assets: “Retained earnings” increased.

In ¥Million	End of Mar. 2020	End of Sep. 2020	Difference
Current Assets	96,922	114,774	17,852
Fixed Assets	47,062	52,232	5,170
<b>Total Assets</b>	<b>143,985</b>	<b>167,007</b>	<b>23,022</b>
Current Liabilities	63,432	64,529	1,097
Fixed Liabilities	2,583	19,403	16,819
<b>Total Liabilities</b>	<b>66,015</b>	<b>83,932</b>	<b>17,917</b>
<b>Net Assets</b>	<b>77,969</b>	<b>83,074</b>	<b>5,105</b>
<b>Liabilities/Net Assets Total</b>	<b>143,985</b>	<b>167,007</b>	<b>23,022</b>
Cash and deposits	35,012	46,877	11,865
Interest-bearing debt	13,432	29,062	15,630
<b>Net Cash*</b>	<b>21,579</b>	<b>17,815</b>	<b>-3,764</b>

- Cash and deposits: +11,865
- Notes and accounts receivable – trade: +5,003

- Investment securities: +2,463
- Shares of affiliates: +4,428
- Investments in capital of affiliates: -5,034
- Deferred tax assets: +1,692

- Accounts payable – trade: -922
- Income taxes payable: +1,706

- Long-term loans payable: +16,149

- Retained earnings: +3,646
- Valuation difference on available-for-sale securities: +1,856

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

# 11. Consolidated Cash Flow Statement Summary

- Cash flows from operating activities: “Income before income taxes” increased.
- Cash flows from investing activities: “Gain on sale of investment securities” decreased.
- Cash flows from financial activities: “Proceeds from long-term debt” increased.

In ¥Million	H1 FY2020/3	H1 FY2021/3	Difference
Cash flows from operating activities	1,185	2,530	1,344
Cash flows from investing activities	-2,925	-4,023	-1,097
Cash flows from financing activities	-3,620	13,565	17,185
Balance of cash and cash equivalents	30,322	46,683	16,361
Free cash flow*	-1,739	-1,493	246

\*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	J-Stream Inc.	TSE Mothers	4308	23,398
	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	4,961
	eMnet Inc.	KOSDAQ	123570	2,527
	PFSweb Inc.	NASDAQ	PFSW	2,451
Investment securities	Menicon Co., Ltd.	First Section of TSE	7780	735
	Twilio Inc.	NYSE	TWLO	431
	Geniee, Inc.	TSE Mothers	6562	409
	Japan Airlines Co., Ltd.	First Section of TSE	9201	85
	MTG Co., Ltd.	TSE Mothers	7806	29
	MIZUNO Corporation	First Section of TSE	8022	17
	JACCS CO., LTD.	First Section of TSE	8584	10
	The RealReal, Inc.	NASDAQ	REAL	3
Total				35,061

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	6,638

\* Fair values are calculated based on the closing price of October 29, 2020. Note that fair values of PFSWeb, Twilio and The RealReal are calculated based on the closing price of October 28, 2020.

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



## ● CAPEX / Depreciation and Amortization

In ¥Million	H1 FY2020/3	H1 FY2021/3	%Difference
Capital expenditures	2,500	2,644	5.8%
Depreciation and amortization	1,664	1,945	16.9%

## ● Number of Employees

	End of Mar. 2020	End of Sep. 2020	Difference
Consolidated bases	32,666	34,184	1,518
(Temporary employees)	25,850	27,589	1,739
Parent Company	15,173	15,983	810
(Temporary employees)	21,430	22,778	1,348

## ● Service bases

	End of Mar. 2020	End of Sep. 2020	Difference
Service bases*	171	168	-3
(Japan)	66	67	+1
(Overseas)	105	101	-4

### ● CAPEX

Investment amounts increased mainly due to the opening of Tokyo Main Office 2, and opening/expansion of centers and business offices in parent company.

### ● Depreciation and amortization

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

### ● Employees

Number of employees, including temporary employees increased mainly in parent company due to new hires and a growth in projects.

### ● Service bases

Japan: Opened BPO Center Fukuoka Gofukumachi.

Overseas: Opened Kuala Lumpur Center No.2 in Malaysia. On the contrary, number of bases in South Korea, North America and Europe decreased.

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

# 13. Policies and Measures against Covid-19

- Our basic policies and measures against COVID-19

## Basic Policy

### ● Human life is our top priority

Our top priority is to protect the lives of our employees, their families and their local communities, as well as all members of our clients and related parties.

### ● Prevent the spread of infection

As a socially responsible company, we are committed to preventing the spread of infection throughout the Company as well as to all related parties and clients as a socially responsible company by taking preventive measures and securing protective gear. In addition, if any of our employee tests positive for COVID-19, we will make an effort to prevent further transmission through information disclosure internally and externally, following the government guidance.

### ● Business continuity

We are committed to continuing our business operations by developing a structure that is required for our business continuity in compliance with respective laws and regulations, and government directives. In particular, we will respect our clients' policies and meet their expectations by taking all necessary measures to ensure uninterrupted provision of our products and services.

## Measures in place

### Measures to prevent infection at our centers

- Ensure our employees check their health condition, including taking their temperature before leaving for work
- Ensure our employees stay home if they present symptoms such as coughing, a fever, and a loss of smell and taste
- Ensure our employees take basic preventive measures (wearing masks, handwashing, using hand sanitizers, practicing coughing etiquette, disinfecting shared items and areas)
- Prevent group infections (encourage teleworking, ventilation, and social distancing)



### Response to Covid-19 outbreak among our employees

Putting a top priority on securing our employees' safety, alleviating their anxiety, and preventing the spread of infection internally and externally, we will take necessary steps immediately. Specifically, we will make an infected person self-isolate, identify and give stay-at-home orders to others who might have come into close contact with that person, disinfect the facility, and inform all related parties, and disclose relevant information.

### Work-from-home arrangement for back-office employees

We have, in principle, implemented a work-from-home arrangement for our back-office employees, and prepared the necessary working environment for such an arrangement. The new arrangement does not apply to employees who cannot work from home due to the nature of their tasks and days on which they must be in the office to fulfill their responsibilities.

### Promoting business continuity planning with our clients

To avoid situations that are likely to create so-called three Cs— closed spaces, crowded places, and close-contact settings— we are vigorously encouraging our clients to take steps such as wider use of teleworking options and automated operations through the use of RPA and bots. We will also consider the possibility of scaling back operations, as the situation requires, after discussions with our clients.





## **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.