

Global Digital Transformation Partner

Supplemental Material for Q1 FY2022/3 Financial Results



July 30, 2021

transcosmos inc.

- transcosmos (the Company) has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and the related guidance since the beginning of the current first quarterly consolidated accounting period.
- Accordingly, all sales generated from the transactions in which the Company has acted as an agent (i.e. agency transactions), such as in the Company’s internet advertising business, are presented on a net basis whereas, previously these were presented on a gross basis (total sales minus cost of sales).
- In this report, the Company has restated the sales generated from the agency transactions in each quarter of the previous fiscal year on a net basis from the gross basis (total sales minus cost of sales). For this reason, the first quarter consolidated sales of the previous year has decreased by 4,848 million yen.
Please note that there is no change in gross profit line and below as a result of the above restatement.

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1. Executive Summary

Achievements

- Sales increased in all segments, resulting in **+11.4%*** year over year growth, and maintained a high growth ratio.
- Profitability increased in all segments, and gross profit margin increased by **+1.5 points**.
- Despite an increase in SG&A expenses, SG&A ratio as a percentage of sales decreased by **0.9 points** due to a drop in COVID-19 related expenses.
- Profit increased in all segments, operating income grew **+2.3 billion yen** year over year.

* Previous year sales from agency transactions are restated on a net basis.

Challenge /Initiatives

- Drive digitalization/high-profit model.
- Accelerate global expansion.
- Boost employee engagement.
- Adjust to the new normal at the workplace.

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.

* Previous year sales from agency transactions are restated on a net basis.

In ¥Million	Q1 FY 2021/3		Q1 FY 2022/3		Difference	
	Amount	Mix	Amount	Mix	Amount	%Difference
Sales	73,637*	100.0%	82,038	100.0%	8,400	11.4%
Cost of Sales	58,306*	79.2%	63,718	77.7%	5,412	9.3%
Gross Profit	15,330	20.8%	18,319	22.3%	2,988	19.5%
SG&A	11,988	16.3%	12,627	15.4%	638	5.3%
Operating Income	3,342	4.5%	5,692	6.9%	2,349	70.3%
Non-operating Profit and Loss	78	0.1%	-151	-0.2%	-230	-
Ordinary Income	3,421	4.6%	5,540	6.8%	2,119	62.0%
Extraordinary Profit and Loss	82	0.1%	-138	-0.2%	-221	-
Quarterly Net Income attributable to owners of transcosmos inc.	1,722	2.3%	3,886	4.7%	2,163	125.6%

3. Performance Summary per Segment

- Parent Company: Both sales and profit increased. Orders, primarily from the public sector grew and profitability increased.
- Domestic Affiliates: Both sales and profit increased. Listed subsidiaries achieved favorable results.
- Overseas Affiliates: Both sales and profit increased. Subsidiaries in China and South East Asia achieved a solid performance.

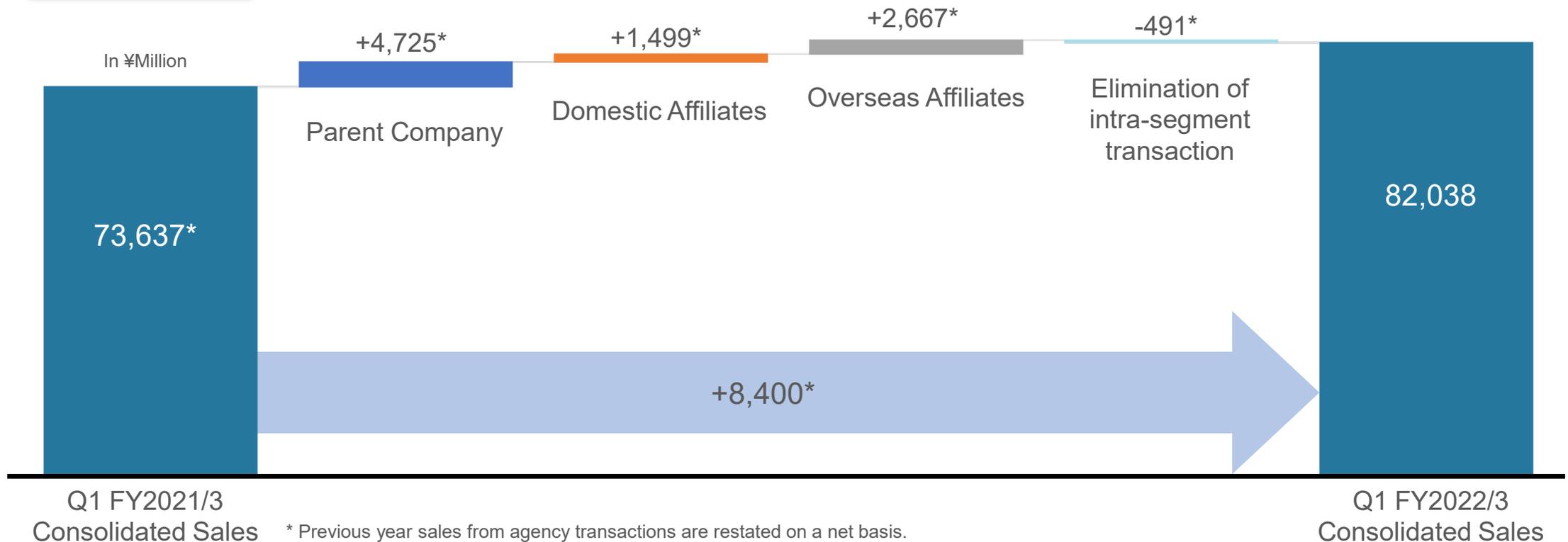
* Previous year sales from agency transactions are restated on a net basis.

In ¥Million		Q1 FY2021/3		Q1 FY2022/3		Difference	
		Amount	Mix	Amount	Mix	Amount	%Difference
Sales	Parent Company	52,210*	70.9%	56,935	69.4%	4,725	9.1%
	Domestic Affiliates	8,006*	10.9%	9,506	11.6%	1,499	18.7%
	Overseas Affiliates	15,510*	21.1%	18,178	22.2%	2,667	17.2%
	Elimination of intra segment transaction	-2,090*	-2.8%	-2,582	-3.1%	-491	-23.5%
	(Total)	73,637*	100.0%	82,038	100.0%	8,400	11.4%
Segment Income (Loss)	Parent Company	2,357	70.5%	3,944	69.3%	1,587	67.4%
	(%profit)	4.5%		6.9%			
	Domestic Affiliates	617	18.5%	1,032	18.1%	414	67.1%
	(%profit)	7.7%		10.9%			
	Overseas Affiliates	362	10.8%	704	12.4%	341	94.4%
	(%profit)	2.3%		3.9%			
Elimination of intra segment transaction	5	0.2%	11	0.2%	5	93.4%	
(Total)	3,342	100.0%	5,692	100.0%	2,349	70.3%	

4. Consolidated Sales Analysis

- Sales increased by ¥ 8,400 million (+11.4%).

Parent Company	Sales increased primarily due to an increase in orders from the public sector mainly for COVID-19 related projects that help retain social infrastructure.
Domestic Affiliates	Sales increased primarily due to sales growth in listed subsidiaries.
Overseas Affiliates	Sales increased primarily due to sales growth in subsidiaries in South Korea and South East Asia.



5. Parent Company Sales Analysis

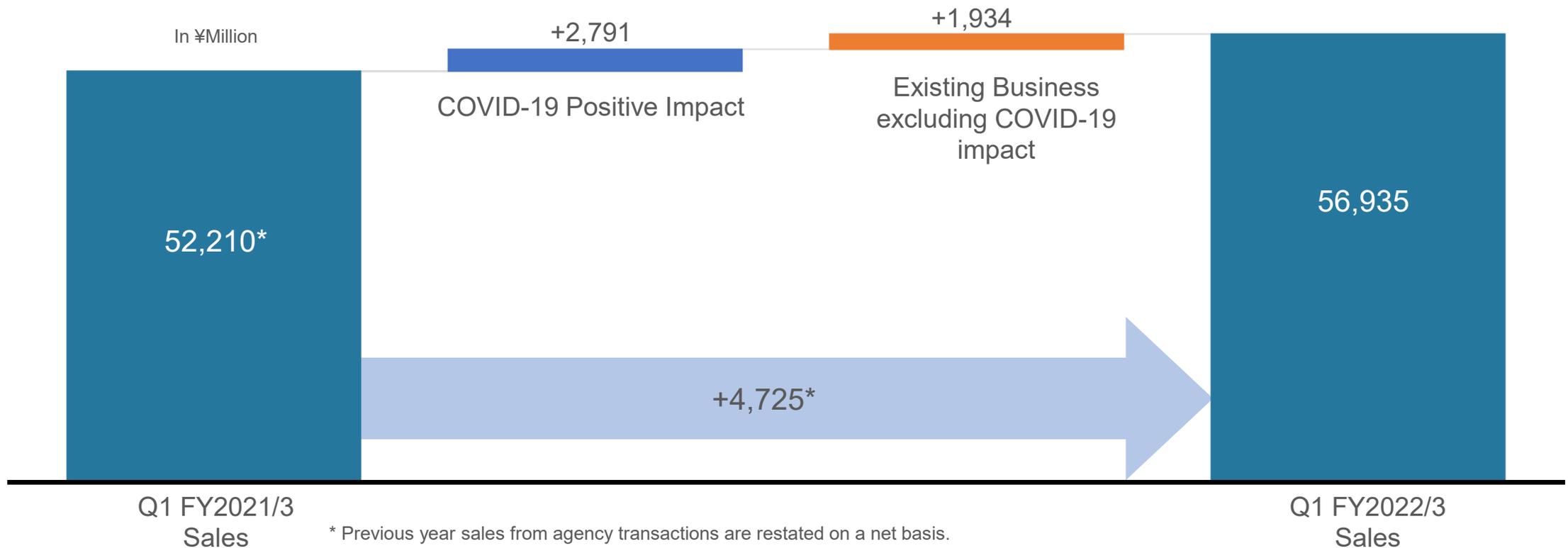
- Sales increased by ¥ 4,725 million yen (+9.1%).

COVID-19 Positive Impact

Orders for COVID-19 related projects carried out by local governments and others increased primarily in BPO and Contact Center services.

Excluding COVID-19 impact Existing Business

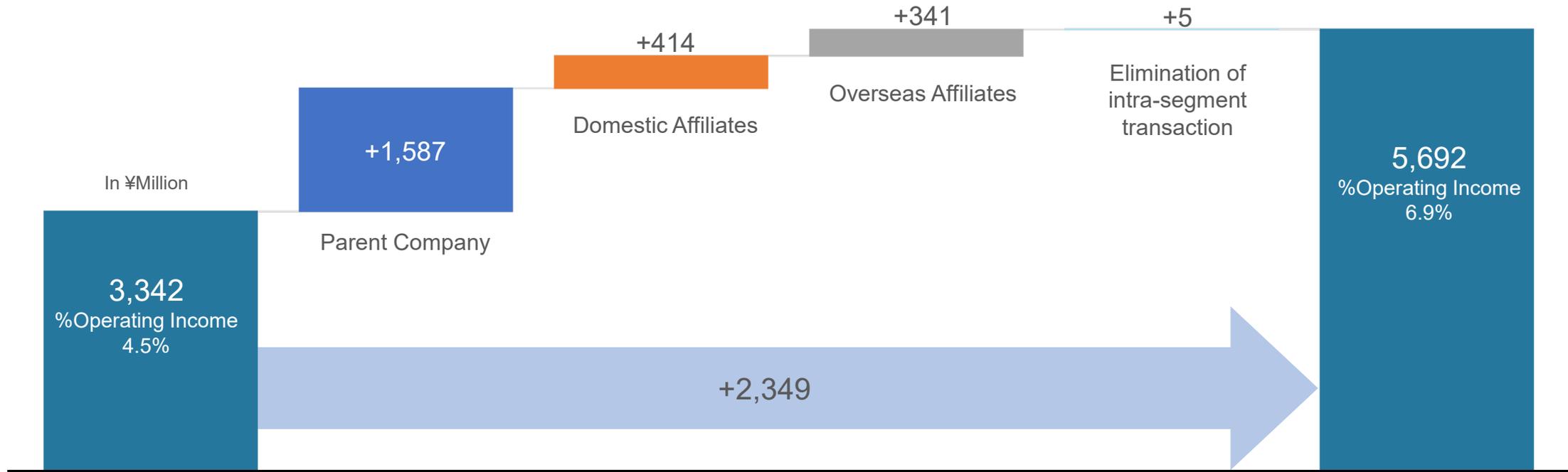
Project scope expanded in some large-scale existing projects and new orders also increased.



6. Consolidated Operating Income Analysis

- Operating income increased by ¥ 2,349 million (+70.3%).

Parent Company	Operating income increased due primarily to achieving a healthier project profitability and a better SG&A ratio in addition to growth in orders.
Domestic Affiliates	Operating income increased due primarily to the profit growth in listed subsidiaries.
Overseas Affiliates	Operating income increased due primarily to a healthier profitability achieved in subsidiaries in South Korea and South East Asia.

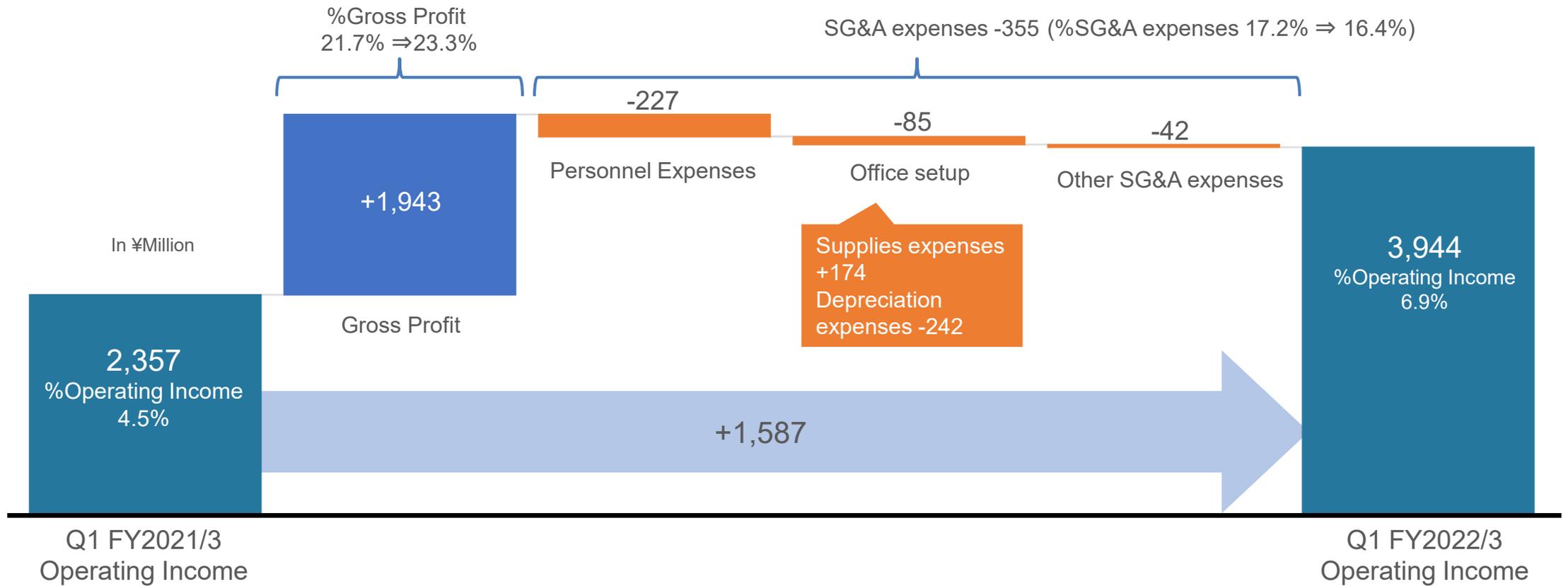


7. Parent Company Operating Income Analysis

- Operating income increased by ¥ 1,587 million (+67.4%).

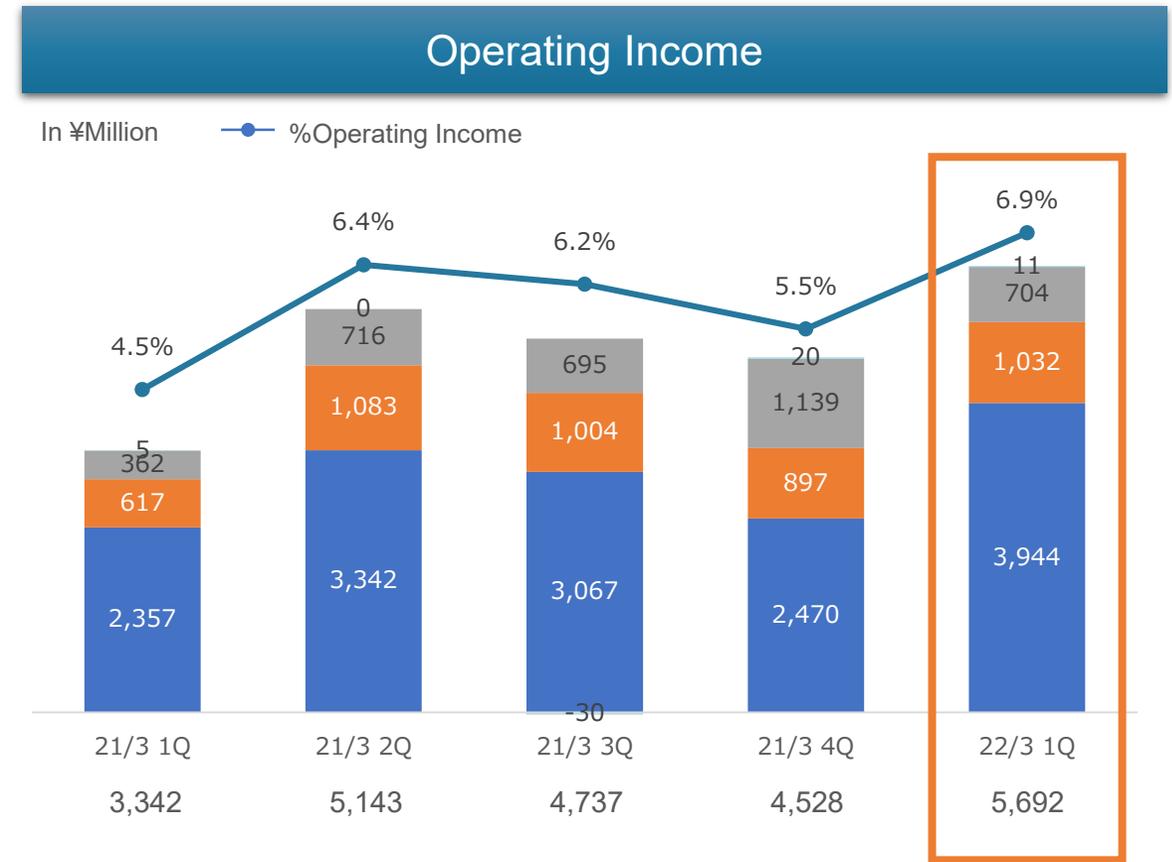
Gross Profit Gross profit increased and gross profit ratio rose by 1.6 points due to achieving order growth and generating higher profitability from large-scale projects by promptly stabilizing operations based on the experience and expertise obtained over the previous fiscal year.

SG&A Expenses Although SG&A expenses rose by ¥ 355 million primarily due to higher personnel expenses as a result of business expansion and additional expenses incurred for returning Tokyo Main Office (restoration to original state), SG&A ratio dropped by 0.8 points due to a decrease in COVID-19 related expenses including supplies.



8. Consolidated Quarterly Performance Trend

- Sales: Maintained the same level of sales compared to the fourth quarter last year, and pace of sales growth accelerated, achieving double-digit growth.
- Operating Income: Compared to the fourth quarter last year, operating income increased due to profit growth in Parent Company and domestic affiliates. Operating income ratio rose almost to 7%.

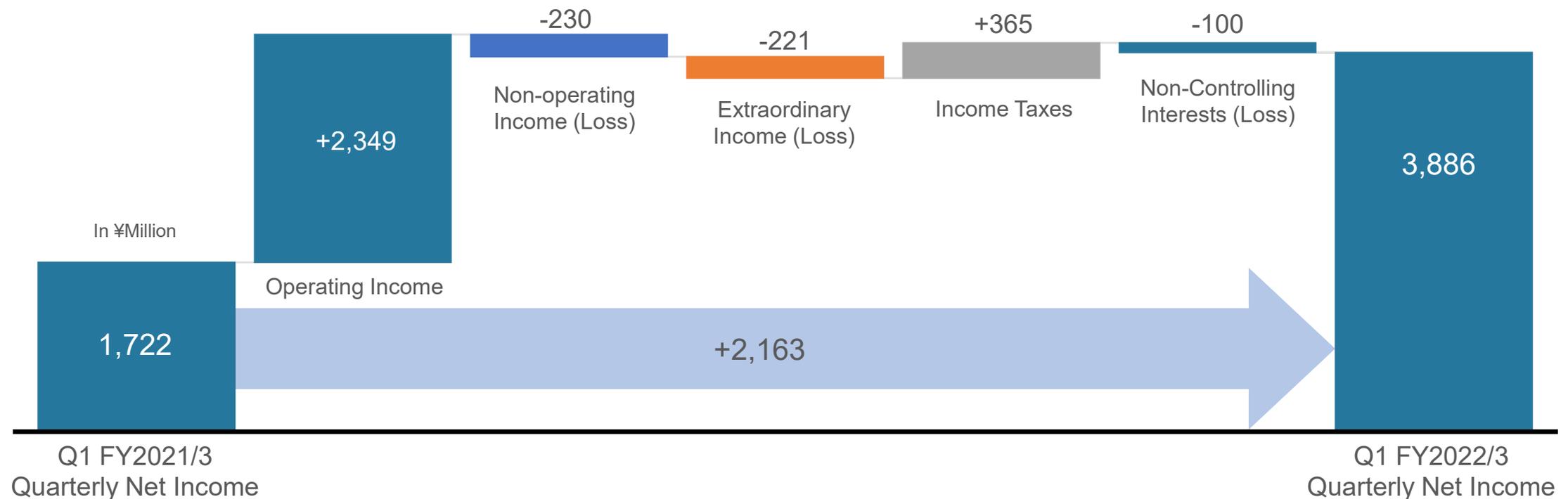


* Previous year sales from agency transactions are restated on a net basis.

9. transcocosmos inc. Quarterly Net Income Analysis

- transcosmos inc. quarterly net income increased by ¥ 2,163 million (+125.6%).

Non-Operating Income (Loss)	Despite a reduction of losses from equity method affiliates, non-operating income decreased by ¥230 million as a result of the recording of foreign exchange losses (recorded exchange gains in the same quarter last year).
Extraordinary Income (Loss)	Extraordinary income decreased by ¥ 221 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.
Income Taxes	Income taxes decreased by ¥365 million primarily due to a lack of temporary tax expenses as opposed to the same quarter last year when the expenses were incurred associated with the Group's reorganization.



10. Consolidated Balance Sheet Summary

- Assets: Cash and deposits decreased due primarily to the payment of income taxes for the previous tax year and dividend payment. Investment securities increased reflecting the fair market valuation of listed shares that transcosmos owns.
- Liabilities: Accrued income taxes decreased.
- Net Assets: Valuation difference on available-for-sale securities increased.

In ¥Million	End of Mar. 2021	End of Jun. 2021	Difference	
Current Assets	120,530	114,975	-5,555	<ul style="list-style-type: none"> • Cash and deposits -3,853 • Work in process -1,029
Fixed Assets	55,352	66,053	10,700	<ul style="list-style-type: none"> • Investment securities +12,241 • Differed tax assets -1,634
Total Assets	175,883	181,028	5,145	
Current Liabilities	63,886	68,314	4,428	<ul style="list-style-type: none"> • Current portion of long-term loans payable+11,984 • Account payable-other -1,669 • Accrued income taxes -6,172
Fixed Liabilities	19,480	7,455	-12,025	
Total Liabilities	83,366	75,769	-7,597	<ul style="list-style-type: none"> • Long-term loans payable -12,010
Net Assets	92,516	105,259	12,742	<ul style="list-style-type: none"> • Valuation difference on available-for-sale securities +10,500 • Foreign currency translation adjustment +1,685
Liabilities/Net Assets Total	175,883	181,028	5,145	
Cash and deposits	49,903	46,050	-3,853	
Interest-bearing debt	19,097	18,060	-1,037	
Net Cash*	30,806	27,989	-2,816	

* Net Cash = Cash and deposits – interest-bearing debt

(Reference) Listed Shares Held by the Company

- List of listed shares held by transcosmos inc.

In ¥Million

Type	Stock name	Market	Securities code	Fair value *
Stock of affiliated companies	J-Stream Inc.	TSE Mothers	4308	20,113
	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	6,627
	UNQ HOLDINGS LIMITED	HKEX	2177	4,953
	PFSweb Inc.	NASDAQ	PFSW	4,817
	eMnet Inc.	KOSDAQ	123570	4,167
Investment securities	Infracommerce CXAAS S.A	Bovespa	IFCM3	10,515
	Menicon Co., Ltd.	First Section of TSE	7780	825
	Twilio Inc.	NYSE	TWLO	602
	Delivery Consulting Inc.	TSE Mothers	9240	480
	Geniee, Inc.	TSE Mothers	6562	294
	Japan Airlines Co., Ltd.	First Section of TSE	9201	104
	MTG Co., Ltd.	TSE Mothers	7806	34
	MIZUNO Corporation	First Section of TSE	8022	25
	JACCS CO., LTD.	First Section of TSE	8584	16
	The RealReal, Inc.	NASDAQ	REAL	4
Total				53,582

- List of listed shares held by Group companies

Type	Stock name	Market	Securities 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	4,669

* Fair values are calculated based on the closing price of July 29, 2021. Note that fair values of PFSweb, Infracommerce, Twilio and RealReal are calculated based on closing price of July 28, 2021.

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



● CAPEX, Depreciation and Amortization

In ¥Million	Q1 FY2021/3	Q1 FY2022/3	%Difference
Capital expenditures	1,519	1,005	▲ 33.8%
Depreciation & amortization	947	1,409	48.8%

● CAPEX

Decreased mainly as the impact from the opening of Tokyo Main Office 2 has subsided in Parent Company.

● Depreciation and Amortization

Increased mainly due to the impact of the opening of Tokyo Main Office 2 in Parent Company.

● Number of Employees

	End of Mar. 2021	End of Jun. 2021	Difference
Consolidated basis	35,760	36,601	841
(Temporary employees)	27,915	28,655	740
Parent Company	15,949	16,303	354
(Temporary employees)	22,915	22,934	19

● Consolidated basis

Number of employees, including temporary employees, increased primarily due to the order increase in South Korea and South East Asia.

● Parent Company

Number of employees increased primarily due to new graduate hires.

● Service Bases

	End of Mar. 2021	End of Jun. 2021	Difference
Service bases	167	167	0
(Japan)	64	64	0
(Overseas)	103	103	0

● Service bases

Overseas: Opened/consolidated bases primarily in Indonesia and Malaysia.

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



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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.