

**Global Digital Transformation Partner**

# Supplemental Material for Q2 FY2022/3 Financial Results



October 29, 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 half-year consolidated sales of the previous year have decreased by 10,337 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 **+9.6%\*** year over year growth, and maintained a high growth ratio.
- Profitability increased in all segments, and gross profit margin increased by **+0.7 points**.
- Despite an increase in SG&A expenses primarily in the Parent Company, SG&A ratio as a percentage of sales decreased by **-0.2 points**.
- Operating income increased in all segments, up **+2.2 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 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 extraordinary income.

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

In ¥Million	H1 FY2021/3		H1 FY2022/3		Difference	
	Amount	Mix	Amount	Mix	Amount	%Difference
Sales	153,396 <sup>※</sup>	100.0%	<b>168,088</b>	<b>100.0%</b>	14,691	9.6%
Cost of Sales	121,335 <sup>※</sup>	79.1%	<b>131,794</b>	<b>78.4%</b>	10,458	8.6%
Gross Profit	32,061	20.9%	<b>36,294</b>	<b>21.6%</b>	4,232	13.2%
SG&A	23,575	15.4%	<b>25,527</b>	<b>15.2%</b>	1,951	8.3%
Operating Income	8,485	5.5%	<b>10,767</b>	<b>6.4%</b>	2,281	26.9%
Non-operating Profit and Loss	191	0.1%	<b>-0</b>	<b>-0.0%</b>	-192	-
Ordinary Income	8,677	5.7%	<b>10,766</b>	<b>6.4%</b>	2,089	24.1%
Extraordinary Profit and Loss	325	0.2%	<b>1,820</b>	<b>1.1%</b>	1,495	459.9%
Quarterly Net Income attributable to owners of transcosmos inc.	5,569	3.6%	<b>8,772</b>	<b>5.2%</b>	3,203	57.5%

### 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, primarily ones in South Korea and South East Asia achieved a solid performance.

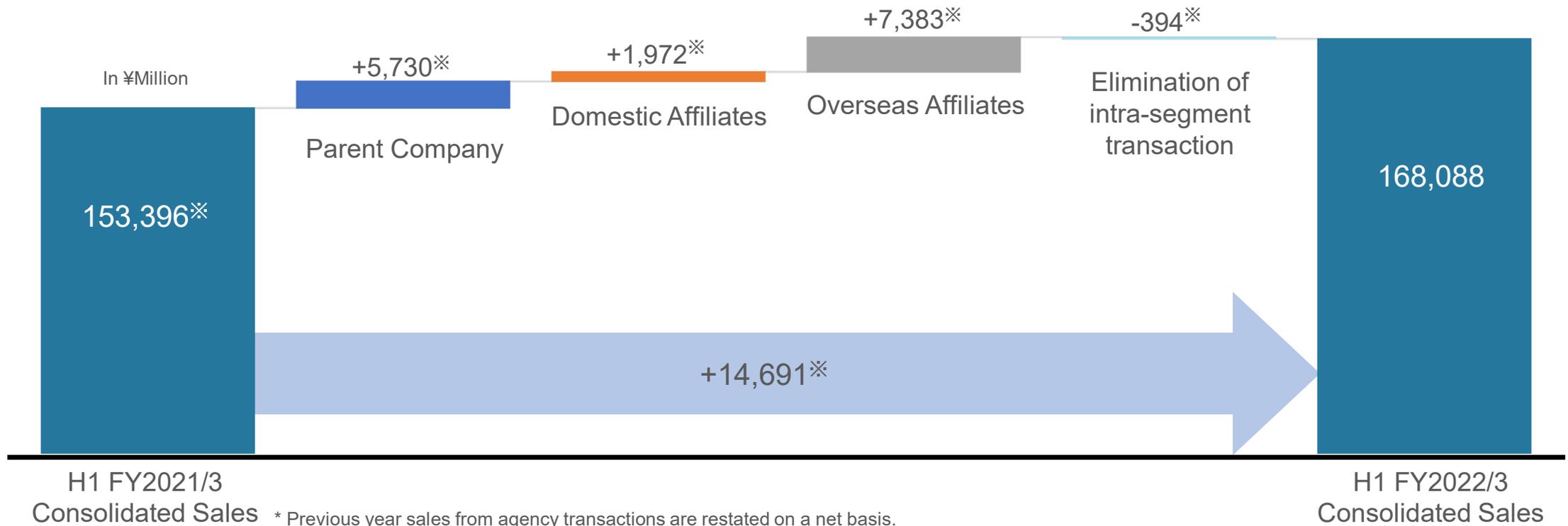
\* Previous year sales from agency transactions are restated on a net basis.

In ¥Million		H1 FY2021/3		H1 FY2022/3		Difference	
		Amount	Mix	Amount	Mix	Amount	%Difference
Sales	Parent Company	108,574*	70.8%	<b>114,305</b>	<b>68.0%</b>	5,730	5.3%
	Domestic Affiliates	17,266*	11.3%	<b>19,239</b>	<b>11.4%</b>	1,972	11.4%
	Overseas Affiliates	32,248*	21.0%	<b>39,632</b>	<b>23.6%</b>	7,383	22.9%
	Elimination of intra segment transaction	-4,692*	-3.1%	<b>-5,087</b>	<b>-3.0%</b>	-394	-8.4%
	<b>(Total)</b>	<b>153,396*</b>	<b>100.0%</b>	<b>168,088</b>	<b>100.0%</b>	14,691	9.6%
Segment Income (Loss)	Parent Company	5,699	67.2%	<b>7,123</b>	<b>66.2%</b>	1,423	25.0%
	(%profit)	5.2%		<b>6.2%</b>			
	Domestic Affiliates	1,700	20.0%	<b>1,791</b>	<b>16.6%</b>	90	5.3%
	(%profit)	9.9%		<b>9.3%</b>			
	Overseas Affiliates	1,078	12.7%	<b>1,832</b>	<b>17.0%</b>	754	69.9%
(%profit)	3.3%		<b>4.6%</b>				
Elimination of intra segment transaction	6	0.1%	<b>20</b>	<b>0.2%</b>	14	228.5%	
<b>(Total)</b>	<b>8,485</b>	<b>100.0%</b>	<b>10,767</b>	<b>100.0%</b>	2,281	26.9%	

# 4. Consolidated Sales Analysis

- Sales increased by ¥ 14,691 million (+9.6 %).

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, South East Asia and China.



# 5. Parent Company Sales Analysis

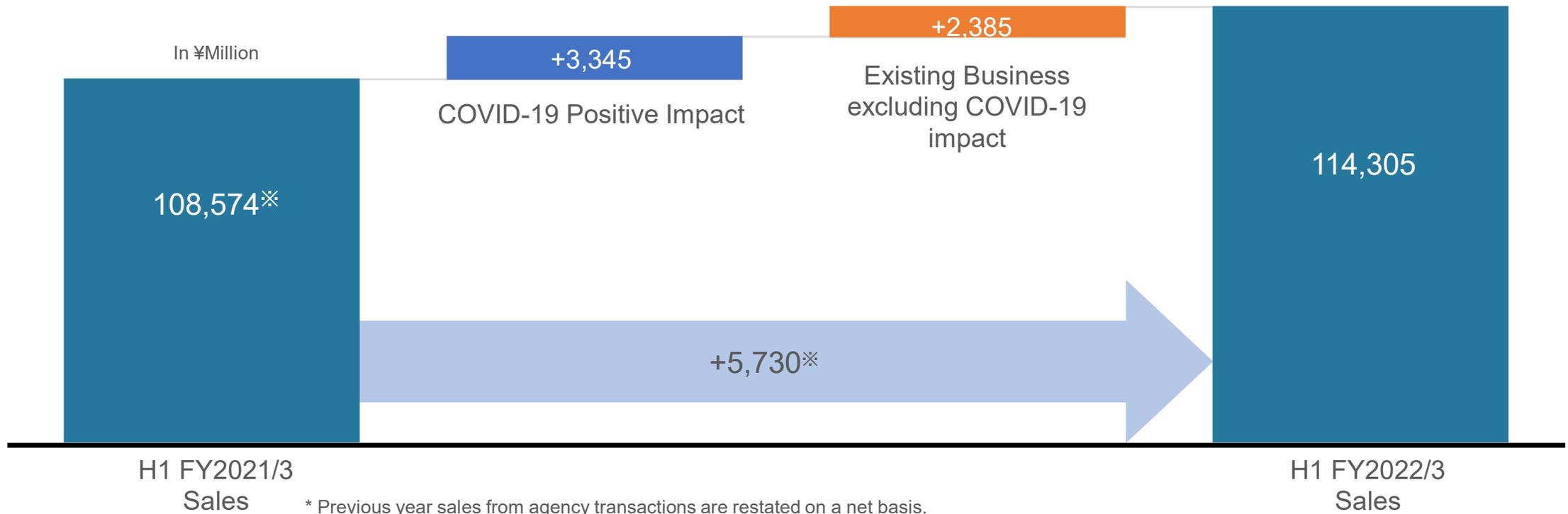
- Sales increased by ¥ 5,730 million yen (+5.3%).

**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**

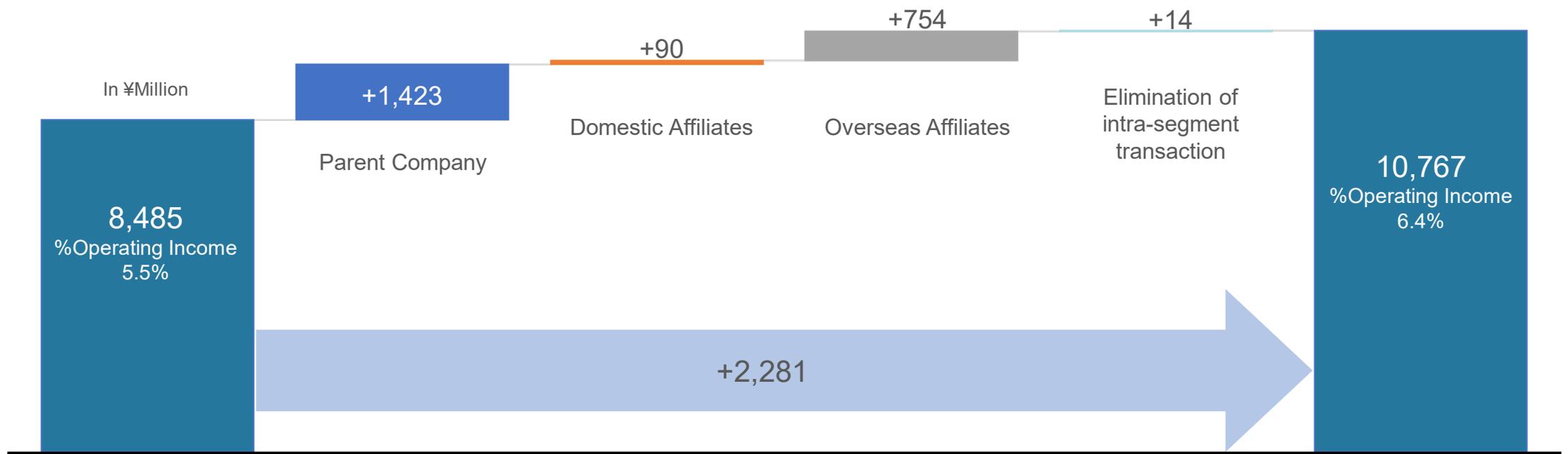
Project scope expanded in some large-scale existing projects, transaction volume with existing large-scale clients expanded, and new orders also increased.



# 6. Consolidated Operating Income Analysis

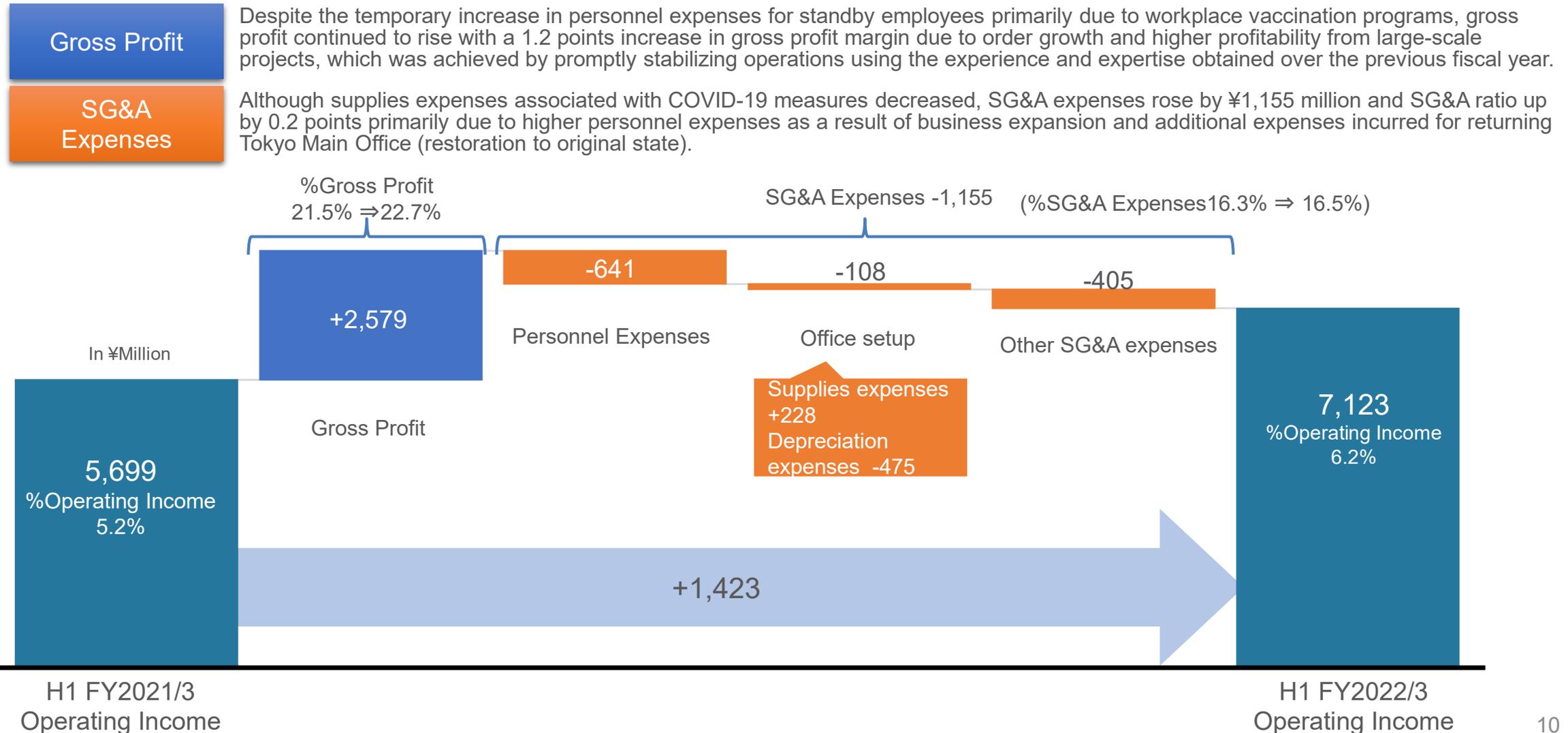
- Operating income increased by ¥ 2,281 million (+26.9%).

<b>Parent Company</b>	Operating income increased due primarily to achieving healthier project profitability in addition to an order increase.
<b>Domestic Affiliates</b>	Operating income increased due primarily to profit growth in listed subsidiaries.
<b>Overseas Affiliates</b>	Operating income increased due primarily to healthier profitability achieved in subsidiaries in South Korea and South East Asia.



# 7. Parent Company Operating Income Analysis

- Operating income increased by ¥ 1,423 million (+ 25.0 %).

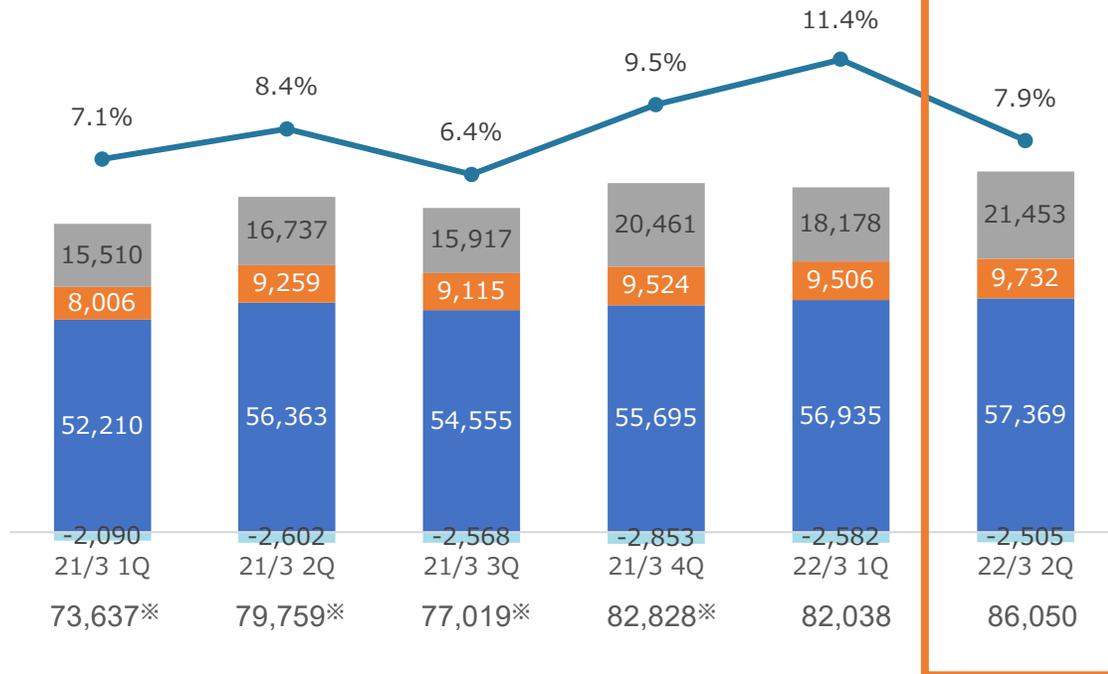


# 8. Consolidated Quarterly Performance Trend

- Sales: Although sales growth ratio slightly declined compared to the first quarter of the current year due to a lack of large-scale public sector COVID-19 projects as opposed to the same quarter last year, sales maintained a strong upward trend.
- Operating Income: Operating income decreased from the first quarter of the current year primarily due to the temporal cost increase in the Parent Company including expenses related to the workplace vaccination programs, and a drop in listed subsidiaries' profits. On the contrary, overseas' operating income increased, primarily driven by subsidiaries in South Korea and China.

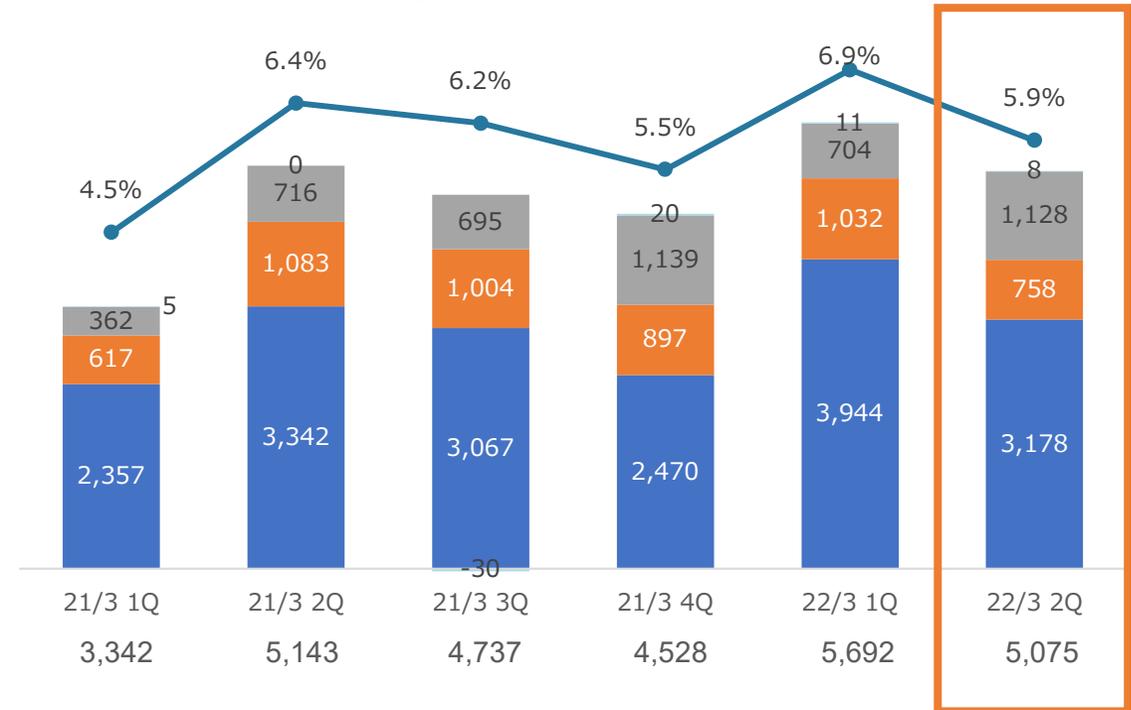
## Sales

In ¥Million    ● %Sales Growth  
 (%Sales growth for last year is calculated based on the old standard.)



## Operating Income

In ¥Million    ● %Operating Income



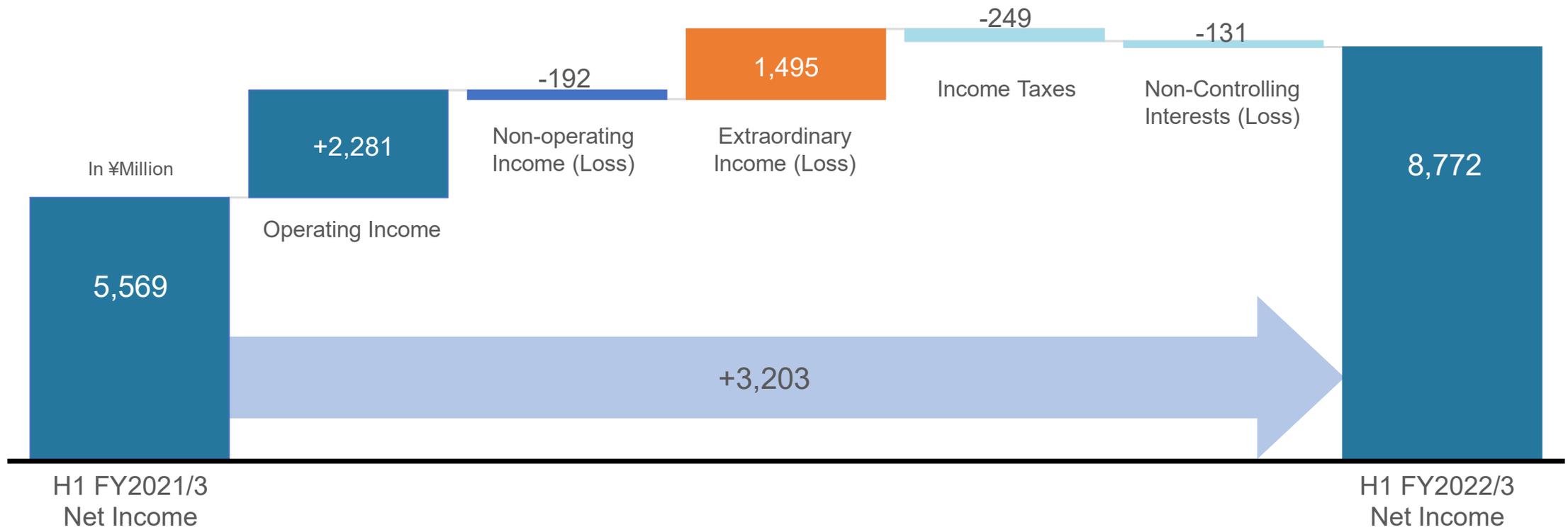
\* Previous year sales from agency transactions are restated on a net basis.

# 9. transcocosmos inc. Half-Year Net Income Analysis

- transcosmos inc. half-year net income increased by ¥ 3,203 million (+57.5%).

**Non-Operating Income (Loss)** Despite a reduction of losses from equity method affiliates, non-operating income decreased by ¥192 million as a result of an increase in foreign exchange losses and the recording of the Parent Company's expenses related to the relocation of its headquarters.

**Extraordinary Income (Loss)** Extraordinary income increased by ¥1,495 million primarily due to the recording of gains from changes in equity interests in UNQ as a result of its initial public offering, penalty income from the breach of an equity transfer agreement, and gains on sale of investment securities.



# 10. Consolidated Balance Sheet Summary

- Current Assets: Although notes, account receivables-trade and contract assets increased, cash and deposits decreased.
- Fixed Assets: Investment securities increased reflecting the fair market valuation of listed shares that transcosmos owns.
- Liabilities: Accrued income taxes and accrued consumption taxes decreased.
- Net Assets: Retained earnings and valuation difference on available-for-sale securities increased.

In ¥Million	End of Mar. 2021	End of Sep. 2021	Difference	
Current Assets	120,530	<b>119,052</b>	-1,478	<ul style="list-style-type: none"> <li>• Cash and deposits -4,563</li> <li>• Notes and accounts receivables – trade+2,650</li> </ul>
Fixed Assets	55,352	<b>64,485</b>	9,133	<ul style="list-style-type: none"> <li>• Investment securities +7,354</li> <li>• Shares of affiliates+1,771</li> </ul>
Total Assets	175,883	<b>183,538</b>	7,654	
Current Liabilities	63,886	<b>68,818</b>	4,932	<ul style="list-style-type: none"> <li>• Current portion of long-term loans payable+11,975</li> <li>• Accrued income taxes -4,413</li> <li>• Accrued consumption taxes -1,878</li> </ul>
Fixed Liabilities	19,480	<b>7,479</b>	-12,001	
Total Liabilities	83,366	<b>76,298</b>	-7,068	<ul style="list-style-type: none"> <li>• Long-term loans payable -12,022</li> </ul>
Net Assets	92,516	<b>107,240</b>	14,723	
Liabilities/Net Assets Total	175,883	<b>183,538</b>	7,654	<ul style="list-style-type: none"> <li>• Retained earnings+5,128</li> <li>• Valuation difference on available-for-sale securities +7,061</li> <li>• Foreign currency translation adjustments+1,919</li> </ul>
Cash and deposits	49,903	<b>45,340</b>	-4,563	
Interest-bearing debt	19,097	<b>18,021</b>	-1,075	
Net Cash*	30,806	<b>27,318</b>	-3,487	

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

# 11. Consolidated Cash Flow Statement

- Cash flows from operating activities: Despite the increase in “income taxes paid,” “quarterly net income before taxes,” “notes and accounts receivable-trade” and others increased.
- Cash flows from investing activities: “Proceeds from withdrawal of time deposits” and “proceeds from sale of investment securities” increased.
- Cash flows from financing activities: “Proceeds from long-term payable” recorded in the same period last year decreased, and “cash dividends paid” increased.

In ¥Million	H1 FY2021/3	H1 FY2022/3	Difference
Cash flows from operating activities	2,530	<b>3,308</b>	778
Cash flows from investing activities	-4,023	<b>-2,923</b>	1,099
Cash flows from financing activities	13,565	<b>-5,510</b>	-19,075
Balance of cash and cash equivalents	46,683	<b>44,513</b>	-2,169
Free cash flow *	-1,493	<b>384</b>	1,877

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

# (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 *
Shares of affiliates	J-Stream Inc.	TSE Mothers	4308	13,988
	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	10,091
	PFSweb Inc.	NASDAQ	PFSW	5,430
	UNQ HOLDINGS LIMITED	HKEX	2177	4,149
	eMnet Inc.	KOSDAQ	123570	3,627
Investment securities	Infracommerce CXAAS S.A	Bovespa	IFCM3	6,801
	Menicon Co., Ltd.	First Section of TSE	7780	842
	Twilio Inc.	NYSE	TWLO	548
	Mobilus Corporation	TSE Mothers	4370	516
	Delivery Consulting Inc.	TSE Mothers	9240	431
	Japan Airlines Co., Ltd.	First Section of TSE	9201	110
	MTG Co., Ltd.	TSE Mothers	7806	28
	MIZUNO Corporation	First Section of TSE	8022	27
	JACCS CO., LTD.	First Section of TSE	8584	19
	The RealReal, Inc.	NASDAQ	REAL	3
Total				46,617

- List of listed shares held by Group companies

Stock name	Market	Securities code	Fair value *	Stock name
Investment securities	北京騰信創新網絡營銷技術股份有限公司 (TensynPRC)	ChiNext	300392	4,172

\*Fair values are calculated based on the closing price of October 28, 2021. Note that fair values of PFSweb, Infracommerce, Twilio and RealReal are calculated based on closing price of October 27, 2021. 15

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



### ● Capital expenditures ・ Depreciation expenses

In ¥Million	H1 FY2021/3	H1 FY2022/3	%Difference
Capital expenditures	2,644	<b>2,713</b>	2.6%
Depreciation expenses	1,945	<b>2,854</b>	46.7%

#### ● CAPEX

Increased mainly due to Tokyo Main Office 2 relocation expenses incurred by the Parent Company and center expansion expenses incurred by the Parent Company and South Korean and South East Asian subsidiaries.

#### ● Depreciation and Amortization

Increased mainly due to last year's opening of Tokyo Main Office 2 by the Parent Company.

### ● Number of Employees

	End of Mar. 2021	End of Sep. 2021	Difference
Consolidated basis	35,760	<b>36,830</b>	1,070
(Temporary employees)	27,915	<b>28,957</b>	1,042
Parent Company	15,949	<b>16,340</b>	391
(Temporary employees)	22,915	<b>22,910</b>	-5

#### ● 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 Sep. 2021	Difference
Service bases	167	<b>170</b>	3
(Japan)	64	<b>66</b>	2
(Overseas)	103	<b>104</b>	1

#### ● Service Bases

Japan: Increased number of bases for BPO and digital marketing services.

Overseas: Opened new contact centers in South Korea and China.

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



## **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.