transcosmos inc.

FY2024/3 Earnings Conference Q&A Summary

Date & Time ：16:00-17:00 Tuesday, April 30, 2024

Presenters ：Masaaki Muta, Representative Director, Co-president

Takeshi , Representative Director, Co-president

[Q]: Please update us on the progress and outlook towards achieving the medium-term business plan up to FY2026/3 (the "Medium-term Business Plan").

[A]: Given the FY2024/3 results, we feel that the bar has been raised. However, our annual plan for FY2025/3 is set based on Medium-term Business Plan targets. We believe we could achieve the targets if we deliver results in FY2025/3 as planned. Improving profitability is the utmost priority for us, therefore, we will drive our initiatives for 1) pivoting to platform business models, 2) increasing integrated projects (projects involving both CX and BPO services and solutions) and 3) passing through labor and other costs to prices.

[Q]: Please comment on your stance on disclosures, specifically, the reasons for not disclosing performance and dividends outlook.

[A]: The matter is still under discussion. In our business, there are several factors that are hard to predict, and so, we are currently examining an appropriate approach for disclosures. Although we could not disclose the outlook in today's presentation, we have provided segment information in more detail than before. We will continue to provide more information to better explain our business to market participants.

[Q]: If your initiatives, such as shifting to platform business models and labor cost pass-through to prices, go as planned, will the operating income margin exceed the target set under the Medium-term Business Plan by the end of FY2025/3?

[A]: We believe it difficult. However, we will try to raise the margins to a level where we could achieve the target.

[Q]: What will be the margin level for FY2025/3 compared to pre-COVID-19 levels?

[A]: We expect it to be somewhat similar to pre-COVID-19 levels, but we aim to exceed the levels.

[Q]: At the end of Q3 of FY2024/3, you mentioned that small-sized projects are on the increase. Is there any change to this trend?
[A]: We could see the increase in small-sized projects from two different perspectives. First, during the three years of the pandemic, we prioritized public sector projects to serve society, and so declined some projects that we could have received and expanded by now during normal years. As we do not have such projects, we are now in the process of winning new projects. This is one of the reasons for a temporal drop in profitability. Secondly, we faced surging personnel expenses. As our business is based on an annual contract, personnel expenses hit our profits first. Then, we negotiate prices on an annual basis to offset the cost increase and recover profitability. Before this kicks in, profitability is temporally affected by surging expenses. We will solve these challenges by expanding projects with our competitive platforms to recover profitability.

[Q]: Q4 operating income margin for the Parent Company segment was 2.4%, which is lower than 3.2% in Q3 and 4.4% in Q2. You have explained before that the drop was due to low-profit projects from Q1, and the costs for underutilized personnel, and that it is taking time to solve these issues. Please update us on the progress in solving these issues. Also, your full-year earnings presentation for FY2024/3 says that temporally up-front investments for medium-term growth and an increase in SG&A expenses are the factors for declined profits. Please explain these factors separately.
[A]: Firstly, the impact of startup costs for some large-scale projects that incurred in H1 have mostly been resolved. Another factor for the declined profit in Q4 was weaker sales due to lack of COVID-related projects, particularly in the call center business. As for temporally growth investments, we are making investments based on the Medium-term Business Plan, and therefore it may continue after FY2025/3. However, a drop in call center sales had more impact on Q4 profit.

[Q]: At the end of Q3, you mentioned that you plan to recover the margin to around 6% levels from FY2025/3. Should we assume that remains the same?
[A]: We believe we should be able to improve margin levels at least from FY2024/3. We will continue to make investment to a certain level, however, we believe we can improve profit margins by eliminating the impact from project launch costs, passing through personnel cost increases to prices, and taking other initiatives as I mentioned earlier.

[Q]: Overseas, operating income margin for the three months of Q4 was 4.3%, which is a significant improvement from 2.1% in Q2 and 2.5% in Q3. Please explain growth factors, breaking it down by region for example.
[A]: The major factor was an increase in transactions with global entities in ASEAN that come with high margins. Reduced impact from a temporal cost increase in South Korea also made a positive impact on profit.

[Q]: Chinese businesses, in particular the e-commerce business, is still struggling?
[A]: Yes, that is correct.

[Q]: Should we assume that the overseas trend remains the same in FY2025/3 and beyond?
[A]: It is unlikely that the Chinese e-commerce business to grow at the same level as before. However, we are aiming to secure margins even amid this declining trend. And at least in the January-March quarter, sales turned out to be higher than we expected, so we believe that the Chinese business as a whole is a positive factor for our overseas business.

[Q]: Is there any business risk from China's macroeconomic condition?
[A]: No, we believe it unlikely to see a significant impact from China's macroeconomics directly.

[Note**]**
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