

Q3 FY2025/3 Small Meeting for Sell-side Analysts Q&A Summary

Date & Time :16:30-17:10 Friday, January 31, 2025

Presenters :Takeshi Kamiya, Representative Director, Co-president

Kenichi Ooya, Corporate Senior Officer,

Deputy Division Manager of Corporate Strategy Division

[Q]: Please provide us with your views on what went well, as well as what was not satisfactory in terms of progress made up to Q3 against your plans and expectations by service segment.

[A]: We are pleased that BPO services continued to perform well. CX services, on the other hand, have struggled a little against our internal target. That said, our CX services segment is growing, although a little slowly. Given that the call center market itself is said to be in hard times, this deserves recognition to a certain degree. Our CX services' key strength is the ability to integrate a variety of services and provide them as a CX service offering. We will continue to grow the business as a whole by combining and providing multiple services.

[Q]: Parent Company segment has improved its operating margin both on a quarter-over-quarter and year-over-year basis, however, the rate of improvement seems not entirely satisfactory. Please explain the reasons for that, as well as the requirements for you to improve the segment's operating margin in Q4 and into the next fiscal year.

[A]: We run our business on a labor-intensive business model. Therefore, to increase operating profit in a market where labor costs constantly rise by around 3% to 4% quarter-over-quarter, we need to improve more than that. We have been successful in increasing the margin by reflecting surging labor costs in prices. As the labor cost surge is expected to persist, we will continue taking appropriate measures to offset cost pressure and achieve higher results. At the same time, to raise margin even higher, we believe it might be necessary to carry out a drastic measure, such as drive digital transformation in our business, and ultimately change our pricing models.

[Q]: If you break down the factors that pushed up the Parent Company segment's operating margin, was it the better service mix or the unit price that contributed to the higher margin?

[A]: We believe changes in service mix contributed to the results in addition to better unit prices. Our BPO services have relatively higher profit margins compared to our other services. The segment showed higher growth than others recently, and is growing at an accelerated pace moving into the second half. So, better service mix was also a positive factor.

[Q]: What is your view on the probability of future price improvements?

[A]: Negotiations for price revisions are mostly going well, with a slight difference in progress by types of services. As for BPO services, we have already achieved the plan set for this fiscal year. We are now negotiating for the next fiscal year, and already have a good prospect of achieving roughly 30% of the plan at this moment. Negotiations for contact center services are also going well to a certain degree, although at a slower pace, thanks to the recent tailwinds for price revisions.

[Q]: It seems selling, general and administrative costs increased in Q3. Is that because lower-than-expected sales growth makes the expenses seem heavier?

[A]: There are several reasons for the quarter-over-quarter increase in selling, general and administrative expenses. One of the key factors is the costs for holding our own large-scale annual forums in Q3. Also, there was a slight increase related to measures we took as necessary based on the progress.

[Q]: The Nikkei article published on January 31, 2025, said that transcosmos will start selling its AI-powered call center systems. Could you explain more about this as well as future visions and expectations for this initiative?

[A]: We believe this has a potential to work as a catalyst for us to evolve from a labor-based, or operations-based company into a Technology Solutions Company, which we have set as one of our goals in the medium-term business plan. It's not that we expect this service to boost sales immediately. It is a significant step forward toward our vision because we have turned our long-built know-how into systems and products. So, we will continue this initiative moving forward.

[Q]: A Japanese domestic call center services company announced that it aims to fully-automate customer service at its call centers teaming up with a US-based software development company. Could you give your view on this?

[A]: We will have it ready to keep ahead of the company by the time the plan materializes. That said, we believe it would be difficult to make the process fully automated without

any human involvement right away.

[Q]: Some call center services companies are strategically taking over their clients' in-house call center business to increase their volume. Any discussions going on at transcosmos to take this kind of strategy or approach?

[A]: BPO services are more active in capturing clients' in-house services. It can be an option for CX services as well, only if conditions are favorable. However, given the crowded market and other circumstances, we believe it would be harder.

[Q]: Overseas Affiliate segment continued to improve its profits. If you take out this Q3, which geographic areas contributed the most to margin improvement?

[A]: China was the biggest contributor. Its efforts on reducing fixed-costs from last year are now bearing fruit, and increasing profitability. South Korea, and ASEAN markets follow China.

[Q]: What are the levels of sales from COVID-19-related projects now?

[A]: We don't track numbers focusing on COVID-19-related projects internally, but we understand that it would be several hundred million yen in terms of sales.

[Q]: Next fiscal year will be the final year of your current medium-term business plan. Are you considering updating the original targets?

[A]: No, rather, we will set realistic targets when we develop our annual plan for the next year, and then work towards achieving the goals, not revising the medium-term business plan itself. At the moment, we cannot say whether we could disclose the plan, but we will carefully consider it.

[Note]

The information contained in this document is the Company's view based on the question-and-answer sessions at the small meeting. The Company makes no representations, warranties, or guarantees that the information contained in this material is accurate or complete. Forward-looking statements such as forecast and future business performance contained in this document are based on information available on the date of the announcement and estimates based on reasonable assumptions, and the Company does not represent any guarantee of future performance. Actual future results may differ materially from these forecasts due to various factors.