

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

# **Financial Results Briefing for Fiscal Year Ended March 2018**

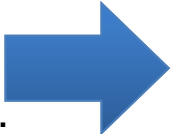


**April 27, 2018**

**transcosmos inc.**

# FY2018/3 Achievements and Challenges



<b>Achievements</b>	<ul style="list-style-type: none"><li>● Achieved 10% sales growth on consolidated basis and hit a new record.</li><li>● Overseas affiliates business technically achieved a turnaround (eliminating the devaluation of inventory as a result of a business withdrawal).</li><li>● Laid the foundation for future growth.<ul style="list-style-type: none"><li>— Enhanced and expanded DEC services that provide end-to-end services that include marketing, sales and customer communication services.<ul style="list-style-type: none"><li>✓ Enhanced and expanded Gotcha!mall, Quick Ticket services and “DEC” service series that are based on our proprietary, integrated omni-channel marketing platform.</li><li>✓ Promoted collaboration with LINE and won the “Diamond” award, the highest award for the LINE Sales Partner program.</li></ul></li><li>— Enhanced and expanded Digital BPO services that blend Digital and Operations.</li></ul></li></ul>
<b>Challenges</b>	<ul style="list-style-type: none"><li>● Increase in SG&amp;A expenses.</li><li>● Impairment of existing portfolio.</li></ul>  <ul style="list-style-type: none"><li>● Generate profit from new initiatives at early phase.</li><li>● Rigorously monitor investments and review existing portfolio with potential exit option.</li></ul>
<b>Next Step</b>	<ul style="list-style-type: none"><li>● Aim to sustain double digit sales growth and improve operating income margin.</li></ul>

1	Financial Results for the year ended in March, 2018 ① Income Statement
2	Financial Results for the year ended in March, 2018 ② Balance Sheet • Cash Flow Statement • Dividend Policy
3	Mid-Term Key Initiatives

# Consolidated Results



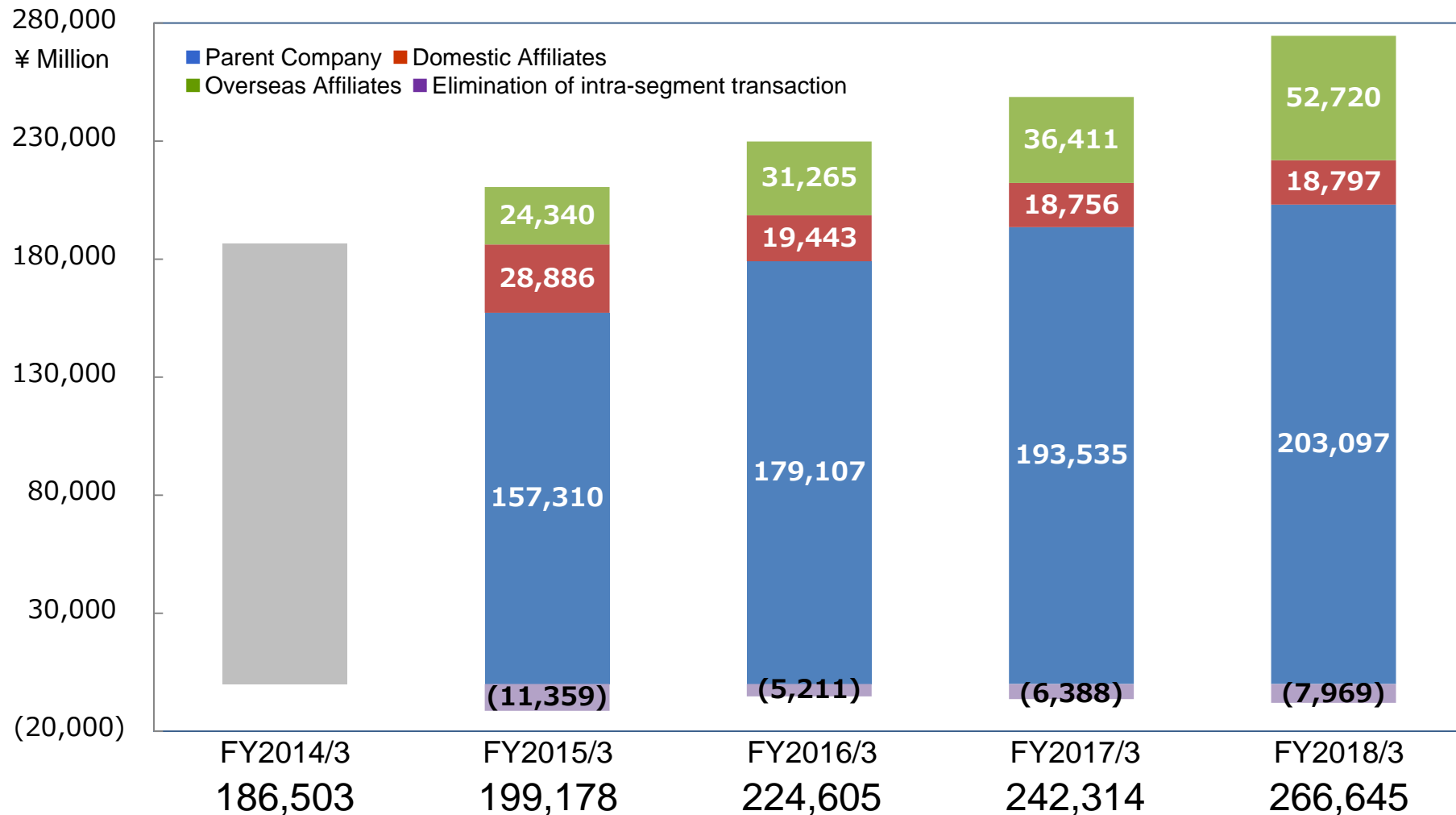
- Sales: Achieved double digit growth thanks to order increase for parent company and overseas affiliates, and hit a new record.
- Operating Income: Although overseas affiliates saw signs of making profits, operating income decreased mainly due to upfront investments in parent company.
- Ordinary Income: Decreased mainly due to drop in operating income and one-time amortization of goodwill of some affiliates.
- Net Income: Decreased due to drop in operating income, ordinary income and capital gain, and increase in loss on valuation of stocks.

In ¥Million	FY2017/3		FY2018/3		Difference	
		(Mix)		(Mix)		(Ratio)
Sales	242,314	100.0%	266,645	100.0%	24,330	10.0%
Cost of Sales	199,411	82.3%	219,377	82.3%	19,966	10.0%
Gross Profit	42,902	17.7%	47,267	17.7%	4,364	10.2%
SG&A	34,822	14.4%	41,175	15.4%	6,352	18.2%
Operating Income	8,080	3.3%	6,092	2.3%	(1,988)	(24.6)%
Non-operating Profit and loss	(1,337)	(0.6)%	(4,289)	(1.6)%	(2,951)	220.6%
Ordinary Income	6,742	2.8%	1,802	0.7%	(4,939)	(73.3)%
Extraordinary Profit and loss	3,853	1.6%	(758)	(0.3)%	(4,611)	-
Net Income attributable to owners of parent company	7,156	3.0%	(2,176)	(0.8)%	(9,332)	-

# Consolidated Sales Trend



- Sustained sales growth thanks to order increase for parent company and overseas affiliates.
- Achieved sales growth for 8th straight year and achieved all-time high.



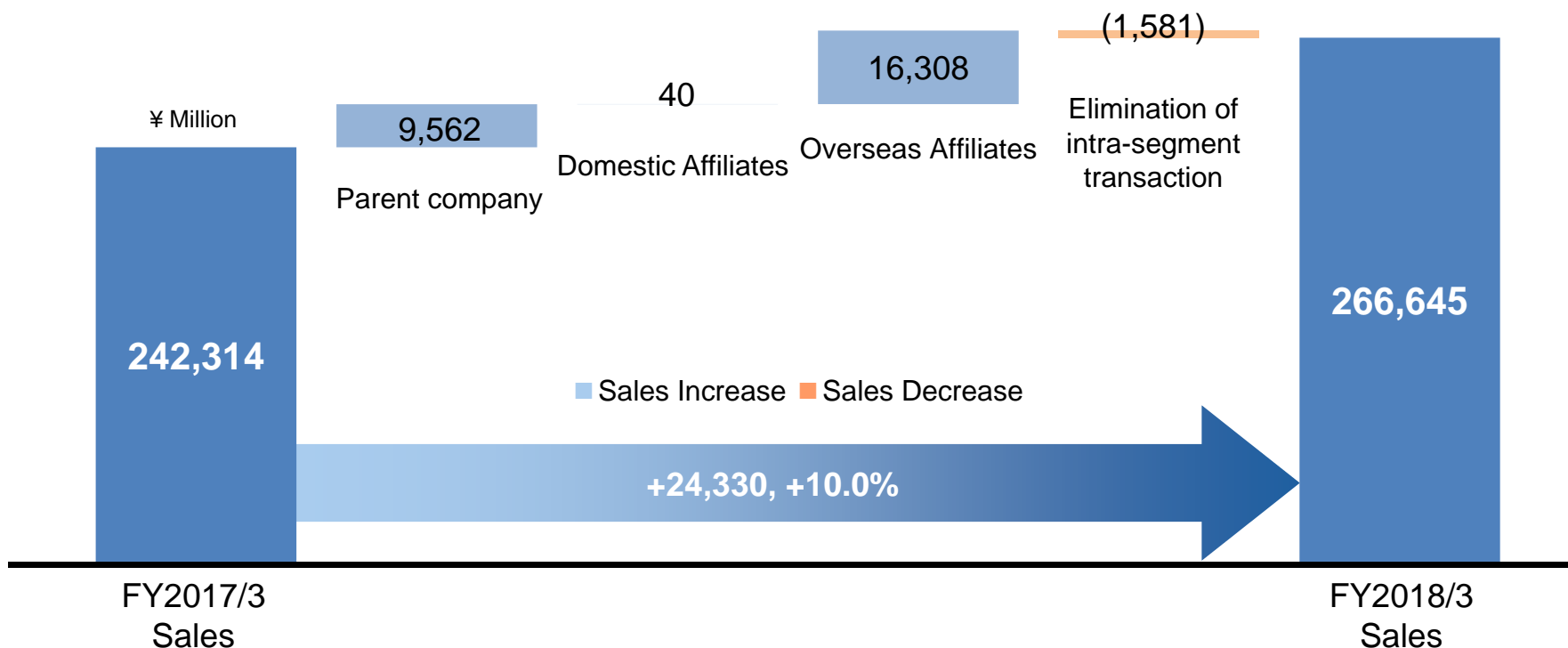
\*Segment category has been changed from FY2015/3.

# Consolidated Sales Analysis

- Sales increased: + 24,330M yen, +10.0%

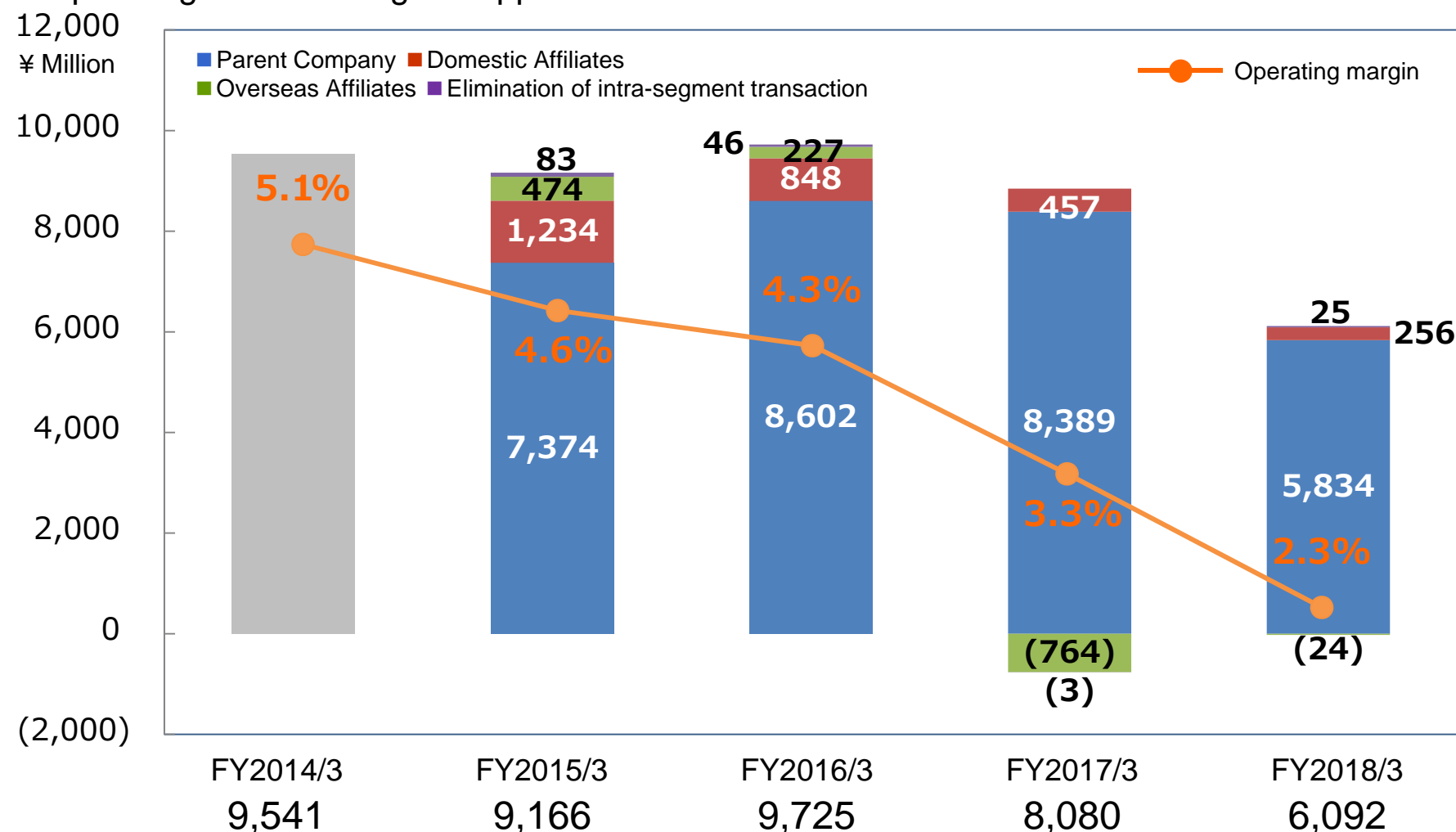
Parent company	Sales increased thanks to order increase in core services (DEC/BPO). In DEC services, although sales of internet advertisement services were almost flat from the previous year, sales of CC (contact center) services and DECS services increased.
Domestic Affiliates	Sales increased thanks to order increase for some subsidiaries.
Overseas Affiliates	Sales increased thanks to order expansion in Chinese and South Korean subsidiaries and positive impact from newly consolidated affiliates.

\*1 Contact Center \*2 DEC Solutions (Develop & Operate Websites)



# Consolidated Operating Income Trend

- Consolidated operating income decreased mainly due to upfront investments in parent company, goodwill amortization and consolidation of subsidiaries/affiliates.
- Operating income margin dropped to 2% level.

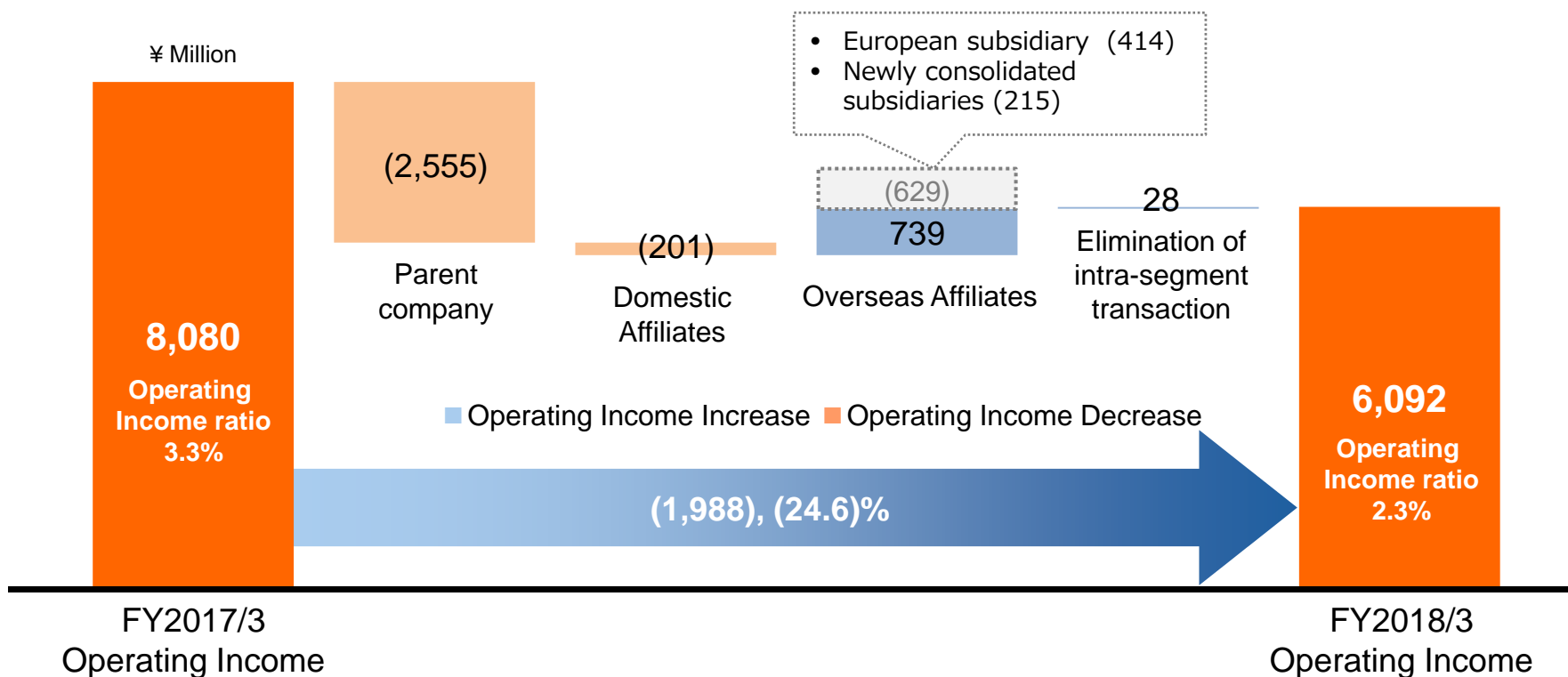


\*Segment category has been changed from FY2015/3.

# Consolidated Operating Income Analysis

- Operating Income decreased: (1,988)M yen, (24.6)%

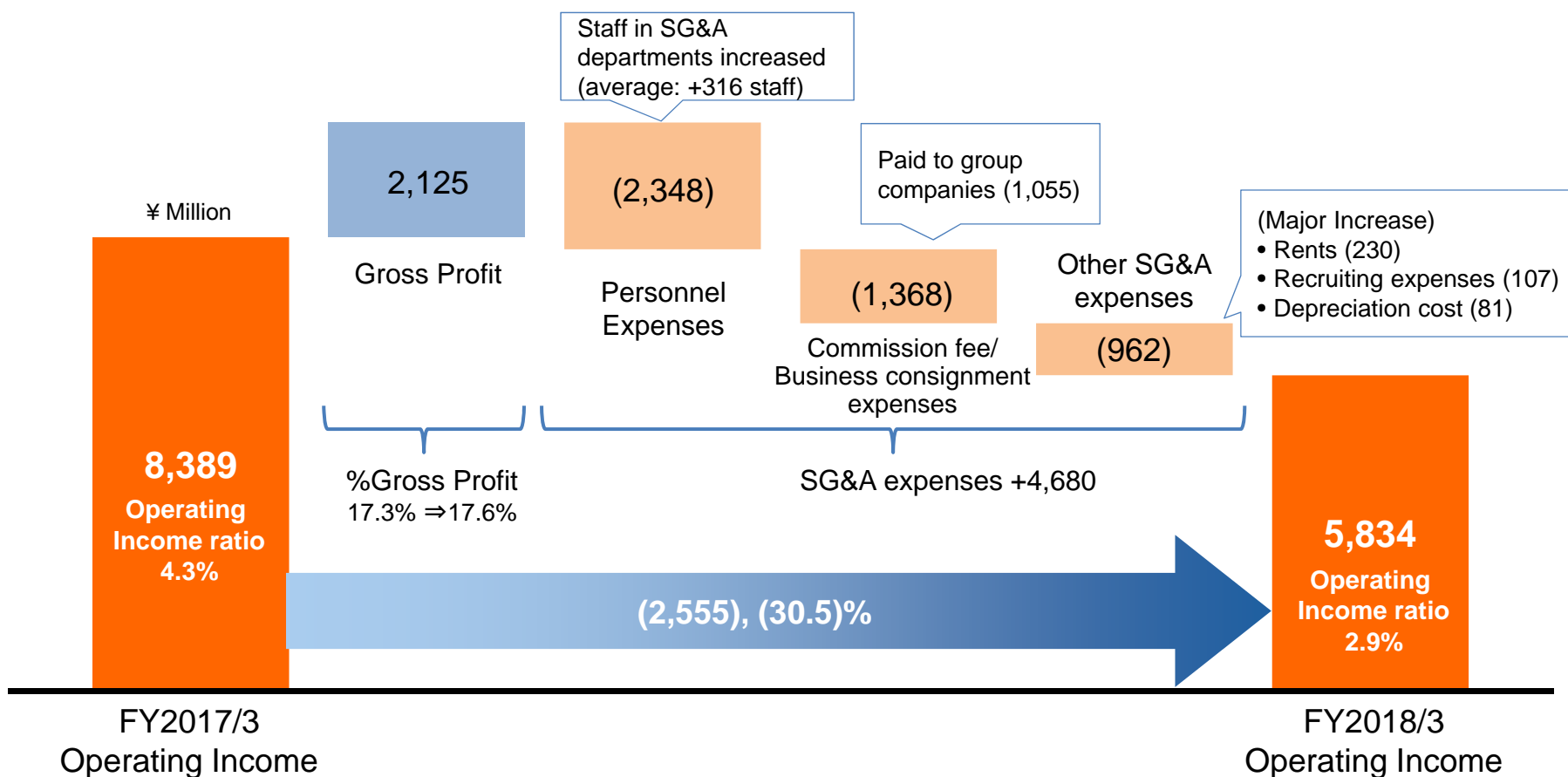
Parent company	Although gross profit improved, profit decreased due to increase in SG&A expenses as a result of upfront investments for future growth. *Refer to the next slide.
Domestic Affiliates	Profit decreased mainly due to business launch costs that occurred in some subsidiaries.
Overseas Affiliates	Profit increased thanks to profit improvement in Chinese and South Korean subsidiaries, despite some negative factors that include weak performance and business restructuring of the European subsidiary and consolidation of subsidiaries that are in launch phase.





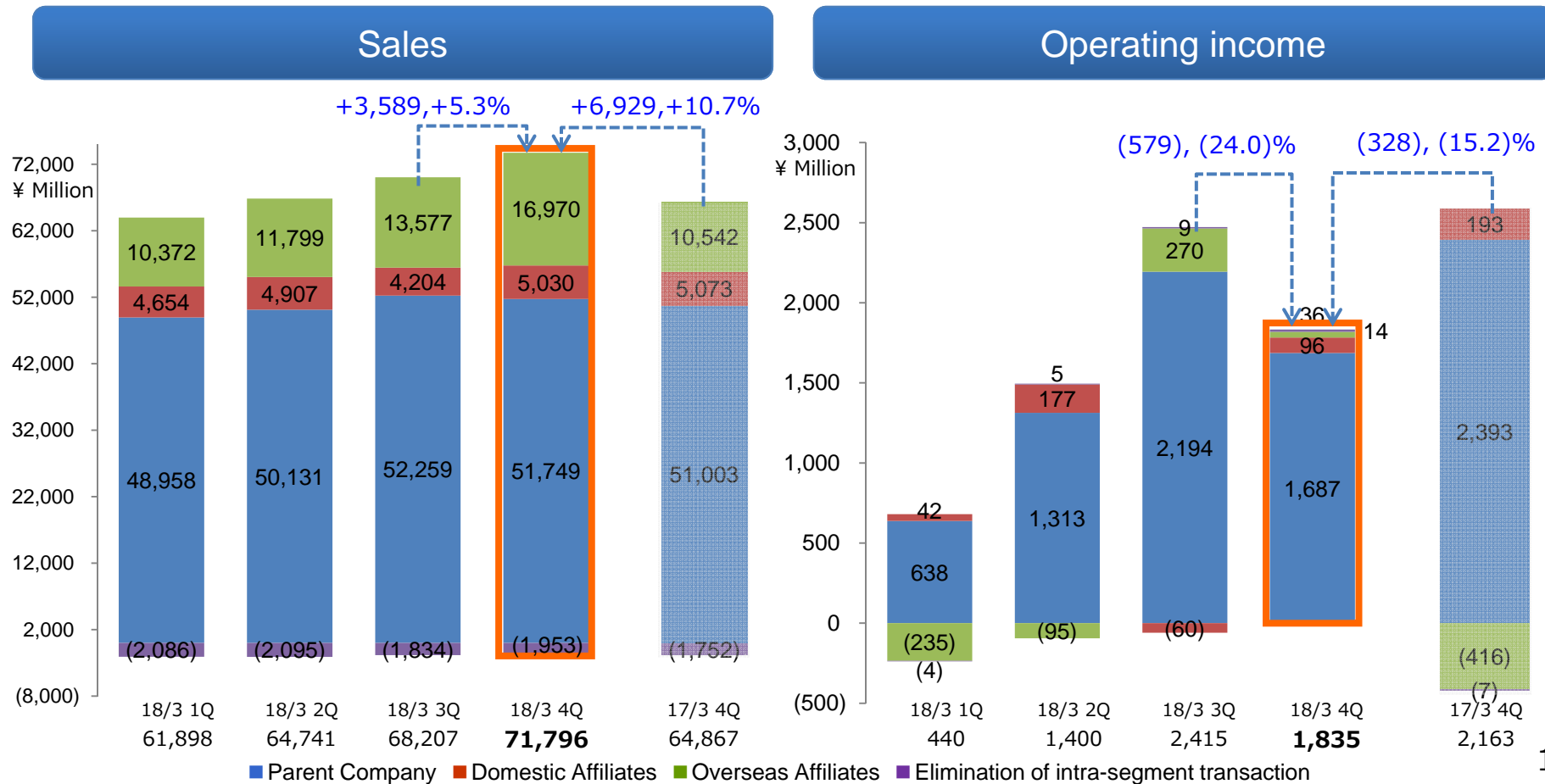
# Parent Company Operating Income Analysis

- Operating Income decreased: (2,555)M yen, (30.5)%
- Gross Profit increased thanks to increased sales and large-scale spot project. Gross profit margin improved by 0.3pt.
- SG&A Expenses increased by 4,680M mainly in personnel expenses due to business and organizational expansion for future growth.



# Consolidated Quarterly Performance (Jan-Mar, 2018)

- Sales increased by 10.7%, up 6,929M, compared to the same period last year thanks to order increase for parent company and overseas subsidiaries, mainly China and South Korea. Compared to Q3 this year, increased by 5.3%, up 3,589M.
- Although overseas affiliates achieved profit turnaround, Operating Income decreased by 15.2%, down 328M, compared to the same period last year, mainly due to increase in parent company's SG&A expenses and business launch costs in domestic affiliates. Compared to Q3 this year, decreased by 24.0%, down 579M, due some part to the closure of large-scale spot deal in the parent company.



# Segment Based Results

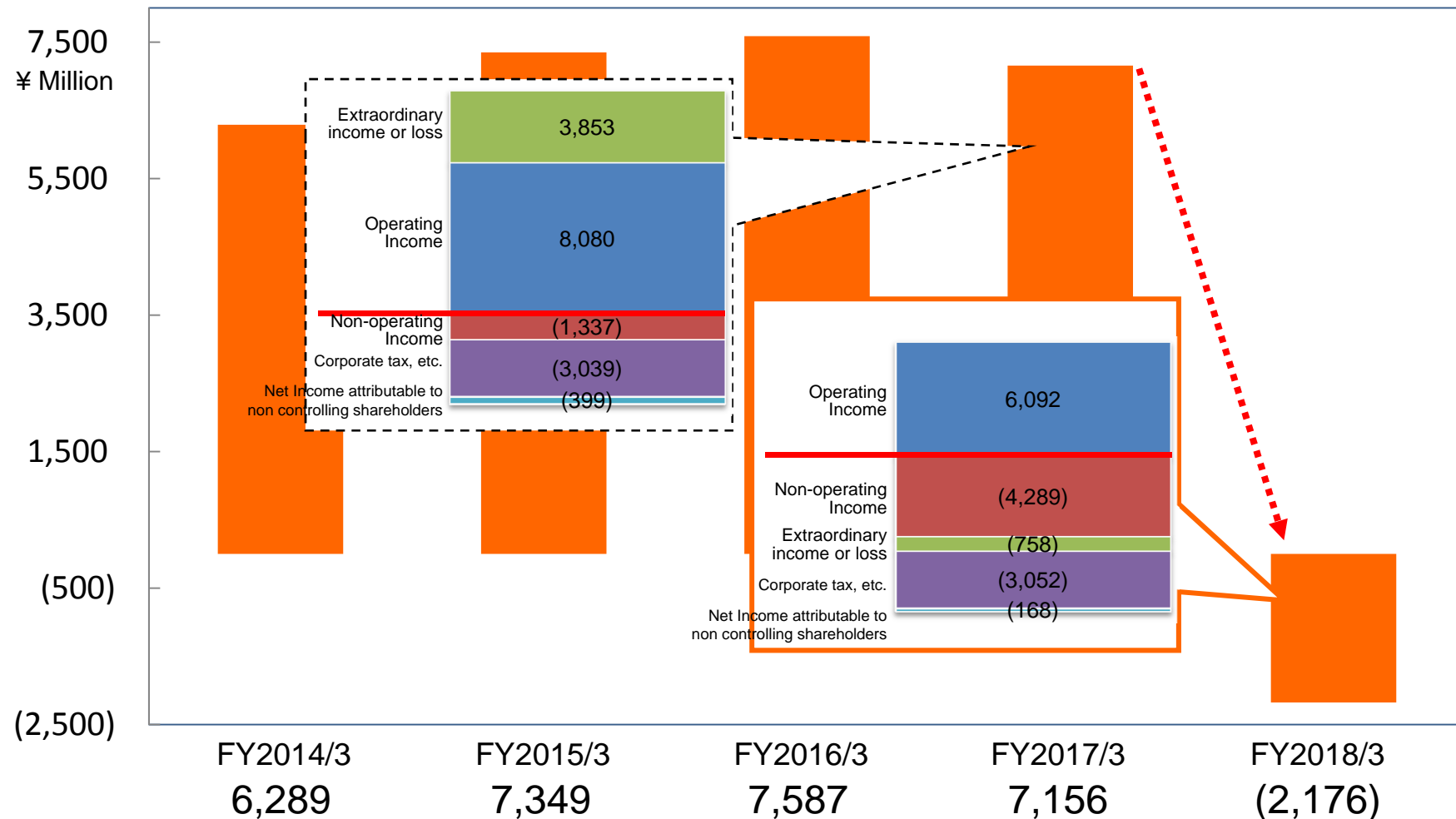


- |                            |   |
|----------------------------|---|
| <b>Parent company</b>      | <ul style="list-style-type: none"> <li>● Sales increased thanks to order increase in core services (DEC/BPO). In DEC services, although sales of internet advertisement services were almost flat from the previous year, sales of CC (contact center) services and DECS services increased.</li> <li>● Although gross profit improved, profit decreased due to increase in SG&amp;A expenses as a result of upfront investments for future growth.</li> </ul>                  |
| <b>Domestic Affiliates</b> | <ul style="list-style-type: none"> <li>● Sales increased thanks to order increase for some subsidiaries.</li> <li>● Profit decreased mainly due to business launch costs that occurred in some subsidiaries.</li> </ul>   |
| <b>Overseas Affiliates</b> | <ul style="list-style-type: none"> <li>● Sales increased thanks to order expansion in Chinese and South Korean subsidiaries and positive impact from newly consolidated affiliates.</li> <li>● Profit increased thanks to profit improvement in Chinese and South Korean subsidiaries, despite some negative factors that include weak performance and business restructuring of the European subsidiary and consolidation of subsidiaries that are in launch phase.</li> </ul> |

In ¥Million	FY2017/3		FY2018/3		Difference		
		(Mix)		(Mix)		(Ratio)	
Sales	Parent company	193,535	79.9%	203,097	76.2%	9,562	4.9%
	Domestic Affiliates	18,756	7.7%	18,797	7.0%	40	0.2%
	Overseas Affiliates	36,411	15.0%	52,720	19.8%	16,308	44.8%
	Elimination of intra-segment transaction	(6,388)	(2.6)%	(7,969)	(3.0)%	(1,581)	-
Segment Income (Loss)	Parent company	8,389	103.8%	5,834	95.8%	(2,555)	(30.5)%
	Domestic Affiliates	457	5.7%	256	4.2%	(201)	(43.9)%
	Overseas Affiliates	(764)	(9.5)%	(24)	(0.4)%	739	96.7%
	Elimination of intra-segment transaction	(3)	(0.0)%	25	0.4%	28	-

# Net Income attributable to owners of parent company

- Net income attributable to owners of parent company decreased mainly due to 1) drop in operating income, 2) one-time amortization of goodwill of some affiliates (non-operating expenses) after reviewing investment portfolio, 3) decrease in capital gain (extraordinary income) and 4) increase in loss on valuation of stocks.



# Consolidated Tax Expenses Analysis

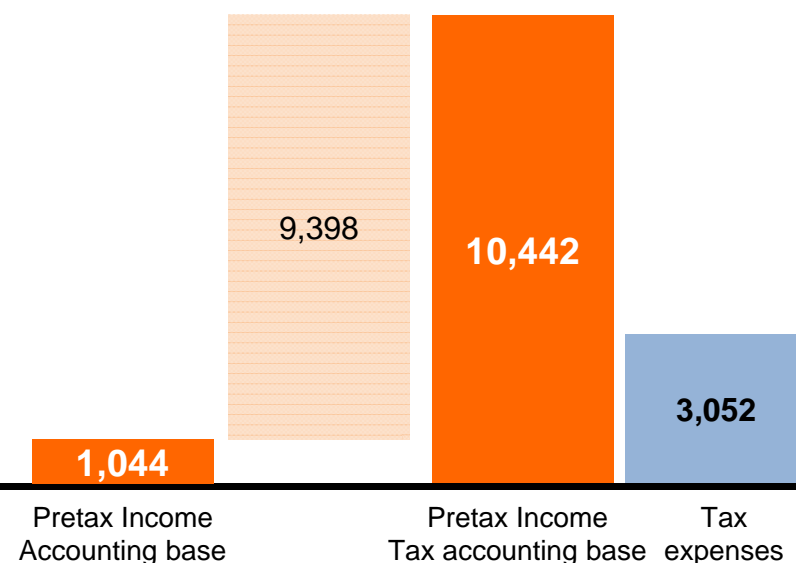
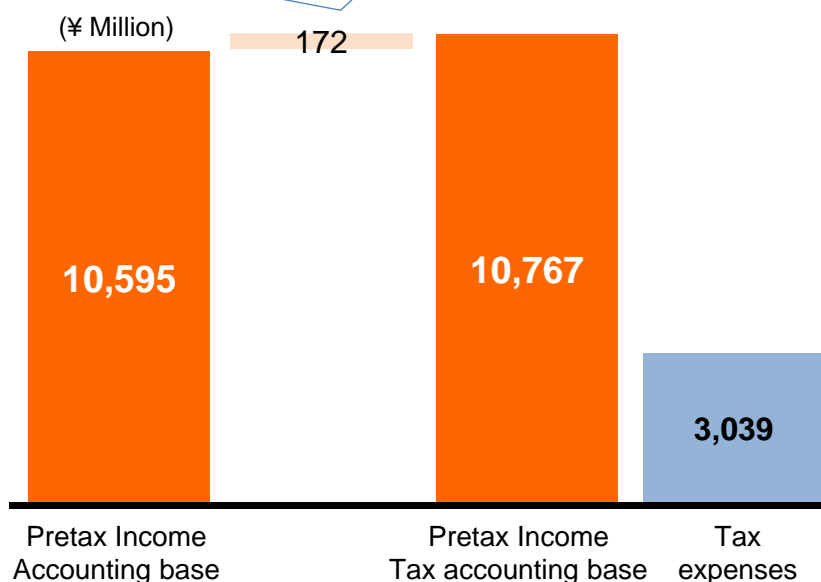
- Increase in tax contribution rate (tax expenses/pretax income): +263.7%
- Tax contribution rate went up due to deemed dividends for the previous year, increase in equity losses that are not related to income calculation, and increase in subsidiaries that generate loss before tax.

%Tax contribution 28.7% → Adjusted %tax contribution 28.2%

%Tax contribution 292.3% → Adjusted %tax contribution 29.2%

- Deemed dividends ▲2,206 (stock sales)
- Income and loss not included in income calculation +1,327
- Loss on valuation of stocks +398
- Increase in subsidiaries that generated loss before tax +653

- Income and loss not included in income calculation +4,536 (equity in gains, change in equity gains)
- Loss on valuation of stocks +1,840
- Increase in subsidiaries that generate loss before tax +3,022



FY2017/3

FY2018/3

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# Consolidated Balance Sheet



- Assets, Liabilities and Net Assets drastically decreased as a result of making reversal entries along with the default of “TensynPRC (an equity-method affiliate of transcosmos) partial share transfer agreement”.
  - Fixed Assets: Decreased due to making reverse entry of “Investment securities” at fair value (to be transferred to Affiliates Stocks after making reversal entry) and disposal of “Derivatives” related to the agreement.
  - Fixed Liabilities: Decrease in “Deferred tax liabilities”.
  - Net Assets: Decreased due to drop in “Valuation difference on available-for-sale securities” and reversal of “Deferred gains or losses on hedges”.

In ¥Million	End of Mar.2017	End of Mar.2018	Difference	
Current Assets	82,283	84,733	2,449	• Notes and accounts receivable +2,270
Fixed Assets	61,518	44,772	(16,745)	• Investment securities (9,631)* • Derivatives (6,925)*
Total Assets	143,802	129,506	(14,295)	
Current Liabilities	40,812	45,203	4,390	• Accrued expenses+4,475
Fixed Liabilities	17,800	13,103	(4,697)	• Long-term loans payable (1,611) • Deferred tax liabilities (3,323)*
Total Liabilities	58,613	58,307	(306)	
Net Assets	85,188	71,199	(13,989)	• Valuation difference on other available-for-sale securities (5,243)* • Deferred gains or losses on hedges (5,193)*
Liabilities/Net Assets Total	143,802	129,506	(14,295)	
Cash Equivalent	33,866	31,937	(1,929)	
Interest-bearing debt	15,661	14,887	(773)	
Net Cash*	18,205	17,050	(1,155)	

\*Mainly due to the default of TensynPRC partial share transfer agreement.

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

# Consolidated Cash Flow Statement



- Cash flows from operating activities: Net income before income taxes decreased.
- Cash flows from investing activities: “Proceeds from sales of stocks of affiliates” and “Proceeds from sales of investment securities” decreased.
- Cash flows from financing activities: “Repayment of long-term loans payable” increased.

In ¥Million	FY2017/3	FY2018/3	Difference
Cash flows from operating activities	8,487	7,814	(672)
Cash flows from investing activities	(6,199)	(6,658)	(459)
Cash flows from financing activities	(3,300)	(4,049)	(748)
Cash and cash equivalents	33,422	31,772	(1,650)
Free cash flow*	2,287	1,155	(1,132)

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



# Dividend Policy



- The Company's dividend policy focuses on dividend payout ratio in order to pay dividends that are linked to the Company's business performance.
- The Company pays year-end dividends based on a consolidated dividend payout ratio of around 30%.
- For the year that ended in March, 2018, the Company plans to pay dividends excluding extraordinary losses.

	FY2014/3	FY2015/3	FY2016/3	FY2017/3	FY2018/3 (Plan)
Dividends per share (yen)	46	54	56	52	<b>23</b>
Consolidated dividends payout ratio (%)	30.1	30.2	30.4	30.1	-

# (Reference) Listed Holdings Held by the Company



- The Company will continue to enhance investment portfolio review through regular monitoring.

List of listed holdings held by the Company (as of the end of March, 2018)

¥ Million

Type	Stock name	Market	Security code	Fair Value
Stock of affiliated company	J-Stream Inc.	TSE Mothers	4308	3,666
Stock of affiliated company	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	1,631
Stock of affiliated company	eMnet Inc.	KOSDAQ	123570	1,652
Stock of affiliated company	PFSweb Inc.	NASDAQ	PFSW	3,773
Stock of affiliated company	TensynPRC	ChiNext	300392	18,544
Investment securities	Geniee, Inc.	TSE Mothers	6562	852
Investment securities	Menicon Co., Ltd.	First Section of TSE	7780	566
Investment securities	Daito Trust Construction Co., Ltd.	First Section of TSE	1878	206
Investment securities	Japan Airlines Co., Ltd.	First Section of TSE	9201	195
Investment securities	MIZUNO Corporation	First Section of TSE	8022	34
Investment securities	JACCS CO., LTD.	First Section of TSE	8584	10
Investment securities	Twilio	NYSE	TWLO	48
Total				31,182

\* Fair values are calculated based on the closing price of April 26, 2018. Note that fair values of PFSWeb and Twilio are calculated based on closing price of April 25, 2018.

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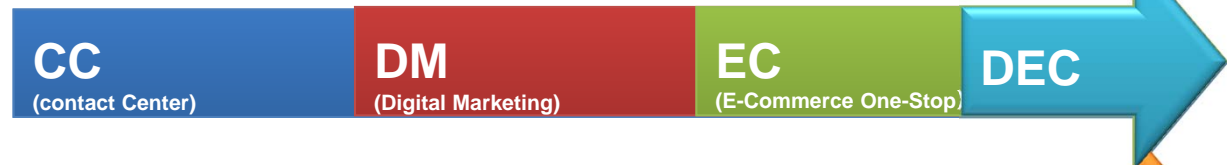
# Service Domain Expansion

- Launched business in 1966 as a BPO vendor specializing in data entry. Since then, we continued to expand service domains.
- Integrated Digital Marketing, E-Commerce and Contact Center businesses in order to offer end-to-end services that include marketing, sales and customer communication support.
- Expanded Digital BPO services to help clients digitalize their operations via AI/RPA-based automation and the use of digital platforms.



## Global Digital Transformation Partner

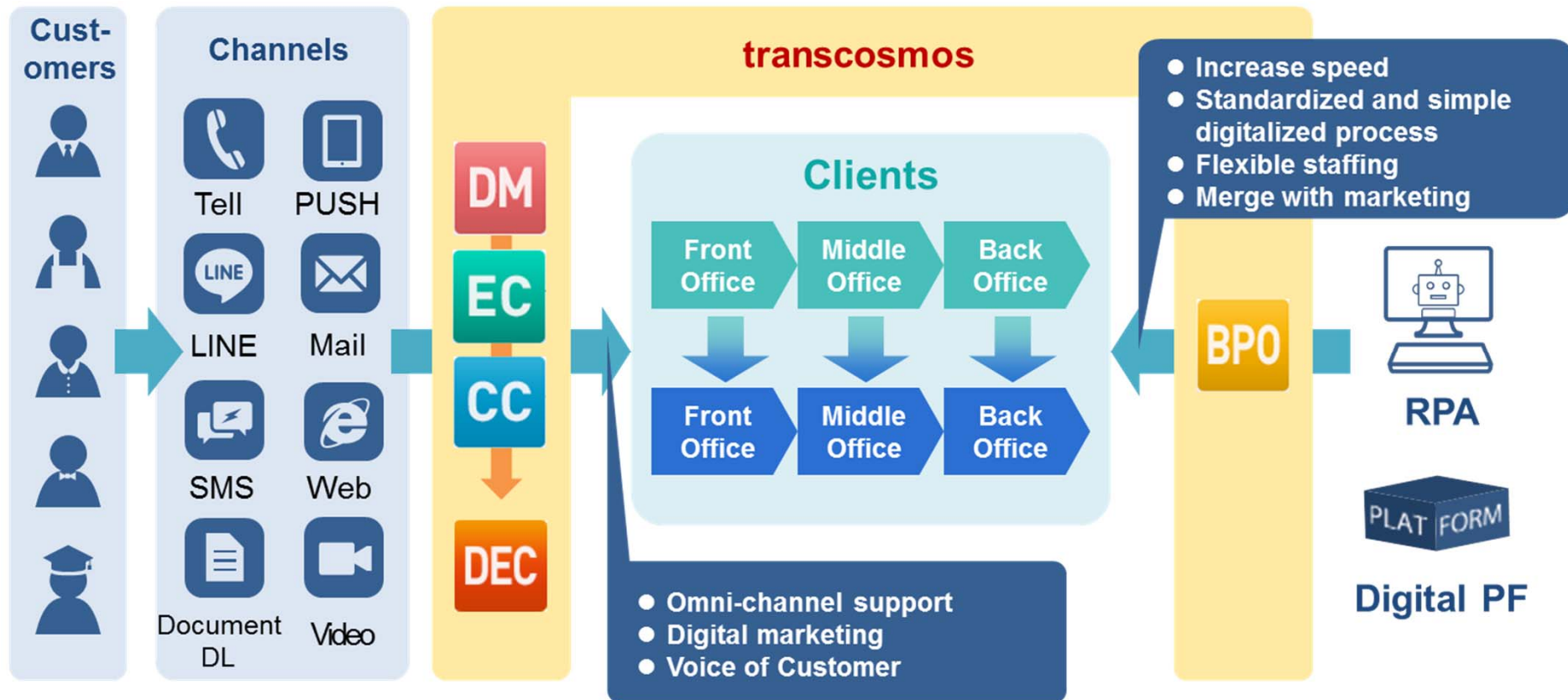
Offer innovative digital-driven services that help clients achieve transformation.



Provide services with the power of people and technology.

# Vision

- Offer customer-driven global support in order to make clients achieve digitalization by connecting DEC and BPO services seamlessly.



# Initiatives in DEC services domain

Platform which connects consumers with stores/brands

## Gotcha! mall®



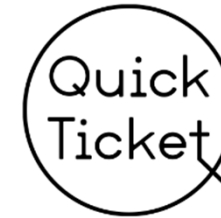
Examples of "Gotcha! mall" Clients



Received "DMA International Echo Awards", the world's top marketing award.



Interactive E-ticketing system



- The technology which owns international patent enables "E-Stamp" to be put directly on the smartphone.
- The system has been implemented in diverse industries that include sports, amusement park and concert.
- Utilize various data based on the e-ticket.
- Initiative to offer next-gen entertainment experience with the use of collected visitor data. Its services include fraud prevention and marketing campaigns.



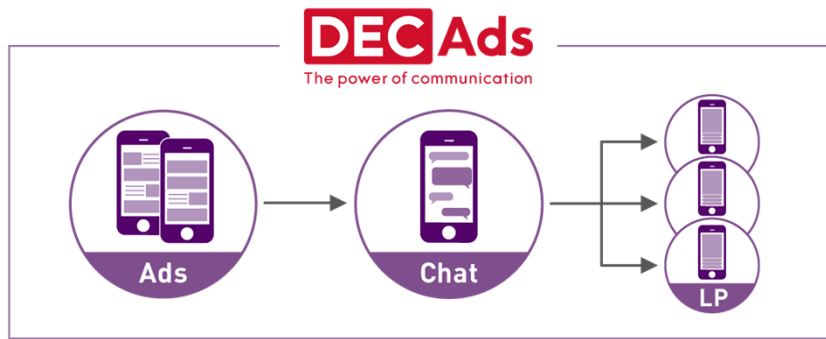
Case Studies



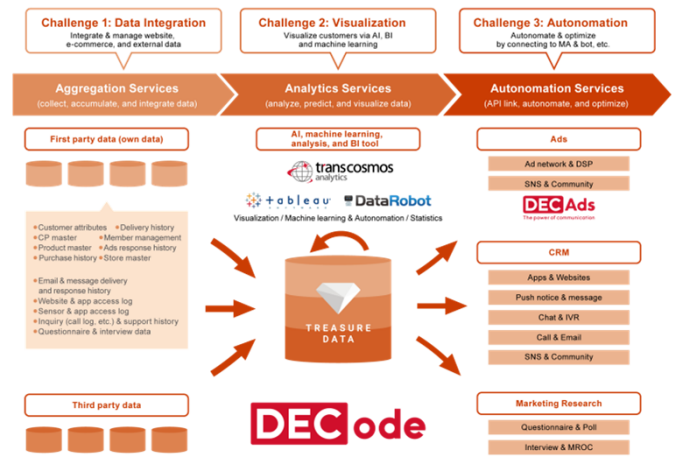
# Initiatives in DEC services domain

- Rolled out “DEC” service series that are based on our proprietary integrated marketing platform.

## DEC Ads Chat Ad



## DECode DMP services



## DEC Connect Platform which links to APIs



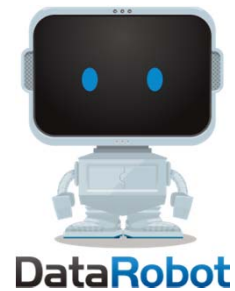
## DEC Support Chat platform



# Initiatives in DEC services domain

- Promoting the use of AI-related solutions in order to boost competitive edge.

Released automation/AI platform, “DataRobot”, the world’s latest machine learning tool.



Released “AI Total Solution Services” that support implementation and operations of interactive AI.



Established “Communication Science Lab”, the AI laboratory which specializes in communication.



Formed capital/business partnership with Reply, Inc., a US- based company which offers a platform to build and operate bot.

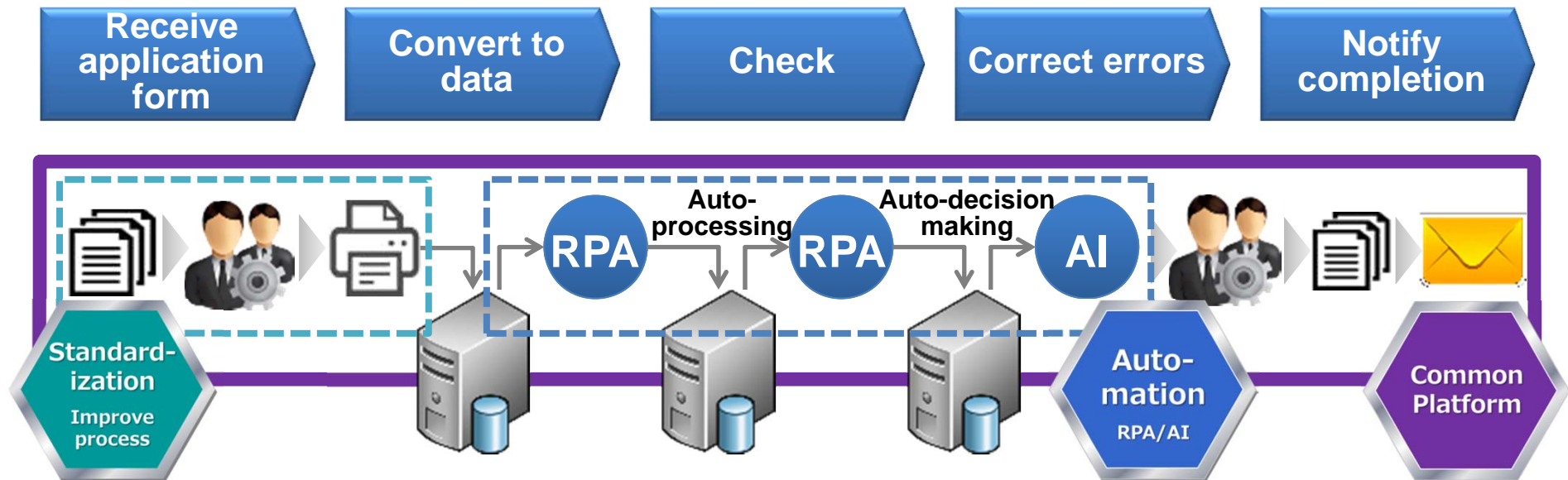




# Initiatives in BPO services domain

- Automate and simplify clients' business processes with the use of digital technology and digital platform, whilst offering operations support.

## Digital BPO



# Initiatives in BPO services domain

- Automate and simplify clients' business processes with the use of digital technology and digital platform, whilst offering operations support.

Expand Digital BPO services that blend Digital and Operations.



Released "to BIM", a comprehensive BIM service  
Achieved digital transformation in the construction industry.



Formed partnership with TRADESHIFT,  
a global e-commerce platform provider.  
Drive digitalization of indirect operations.

# TRADESHIFT

Received Customer Case Study Contribution  
Award. Proven implementation record.

Formed partnership with SECOM Trust Systems.  
Strengthen document storage operations along  
with the deregulation of e-storage.

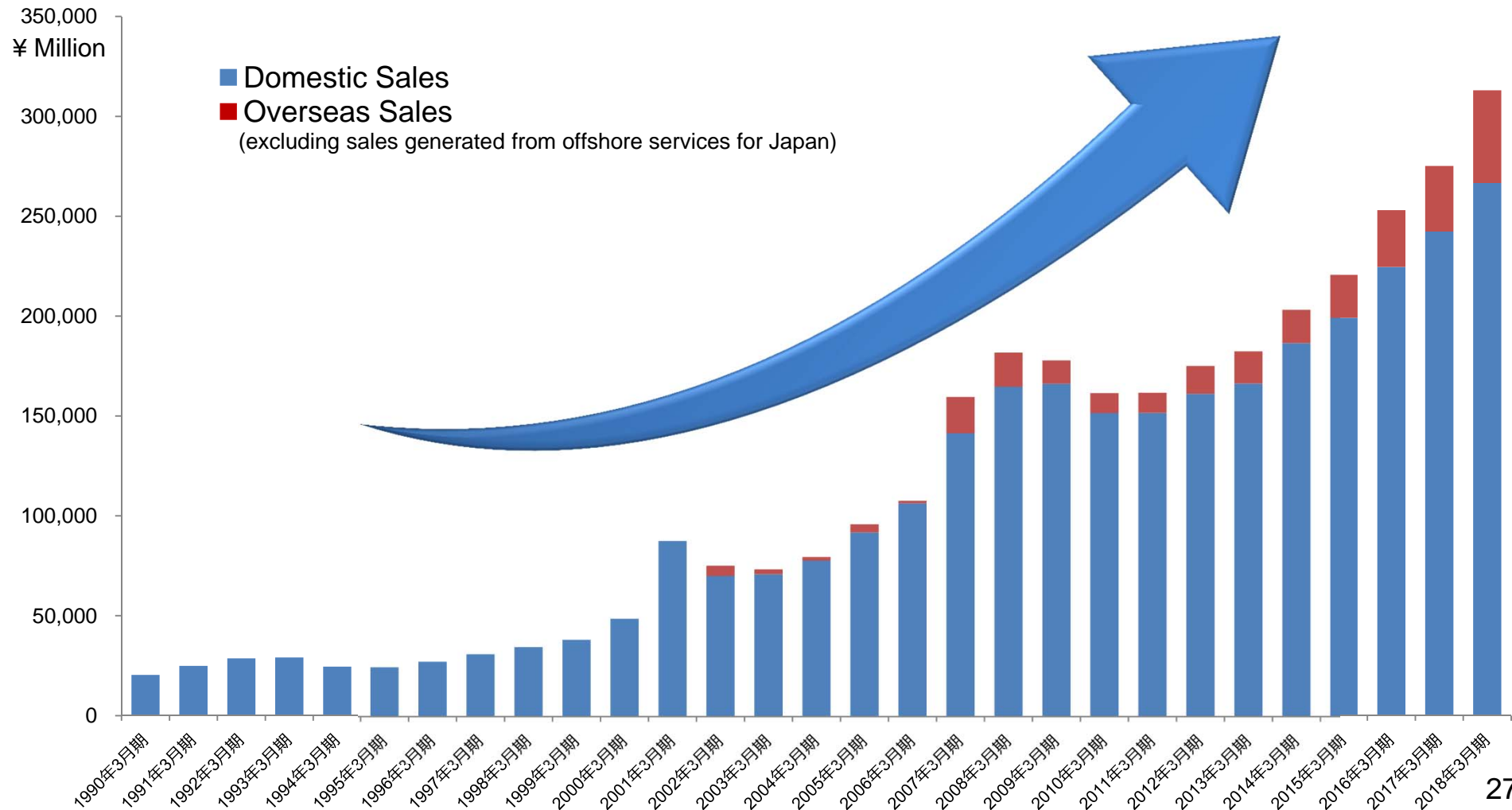
信頼される安心を、社会へ。

# SECOM

## LINE WORKS × BPO Services

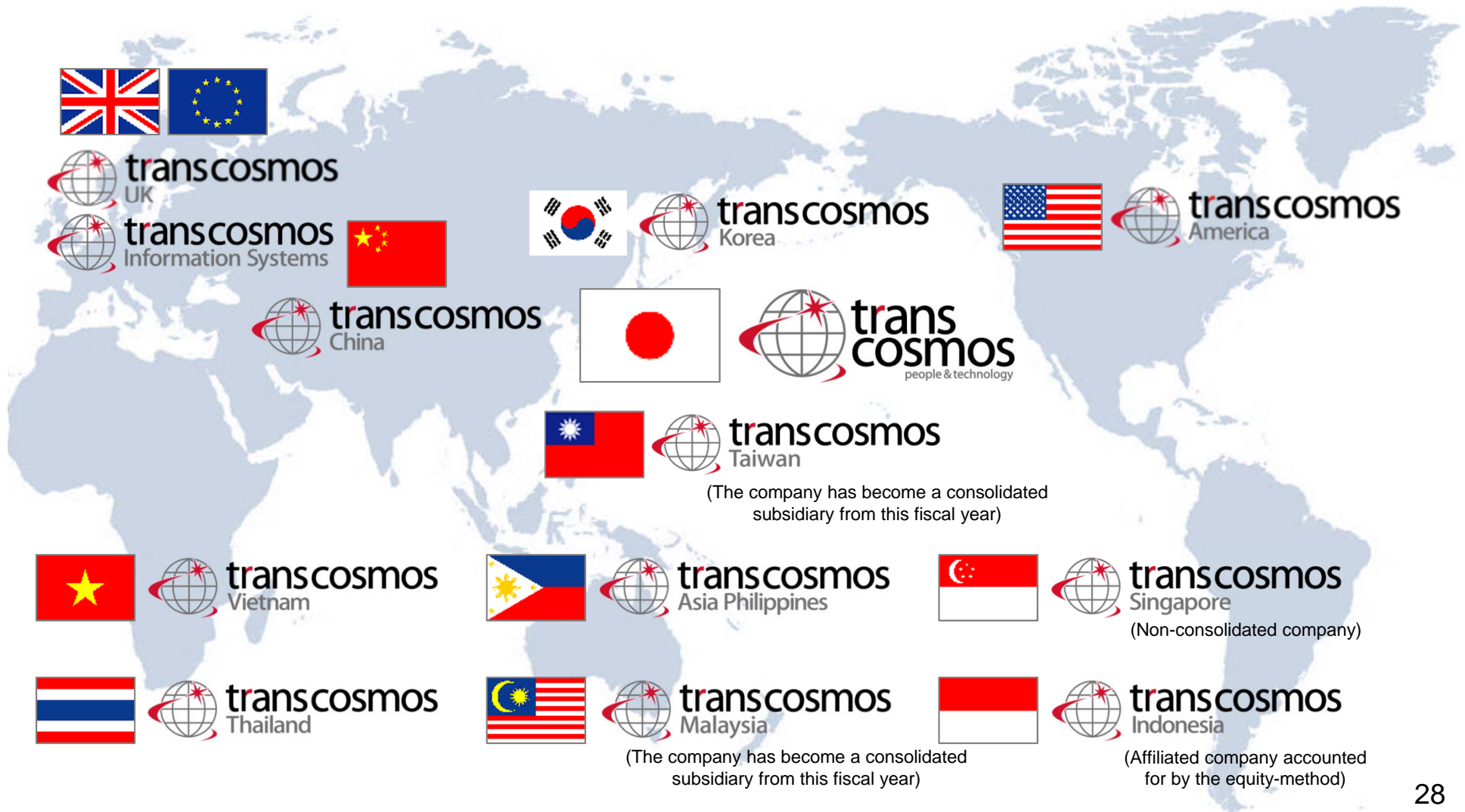
# Overseas Sales Expansion

- Recorded 10% CAGR growth for the first time after going public in 1989. Achieved double digit growth in this fiscal year.
- Overseas sales continue to expand from the year ended in March, 2002. Overseas sales ratio surpassed 17%.



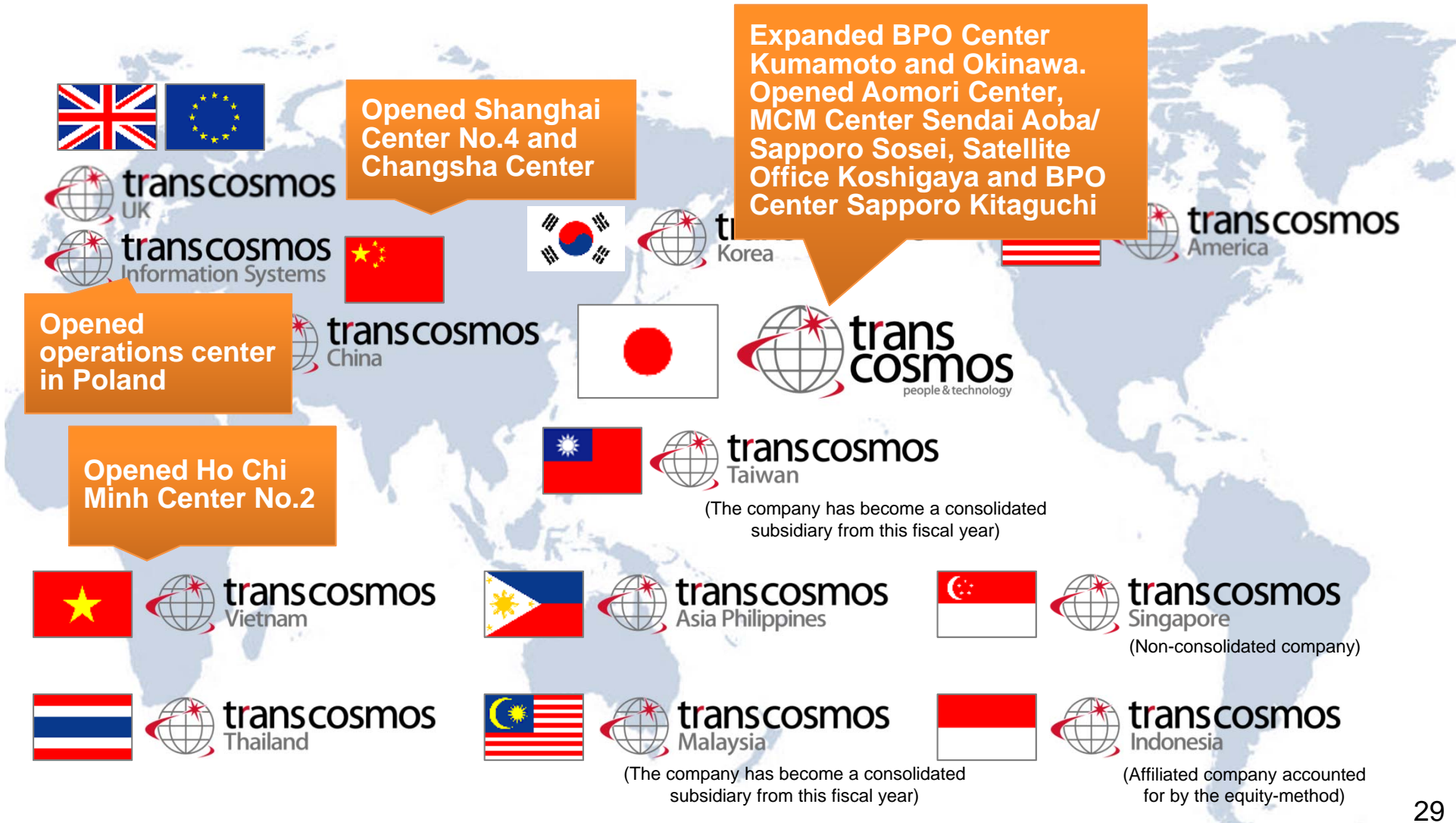
# Initiatives in Global Business domain

- Offer services to Japanese, foreign-capital and local businesses across the globe in their local languages.

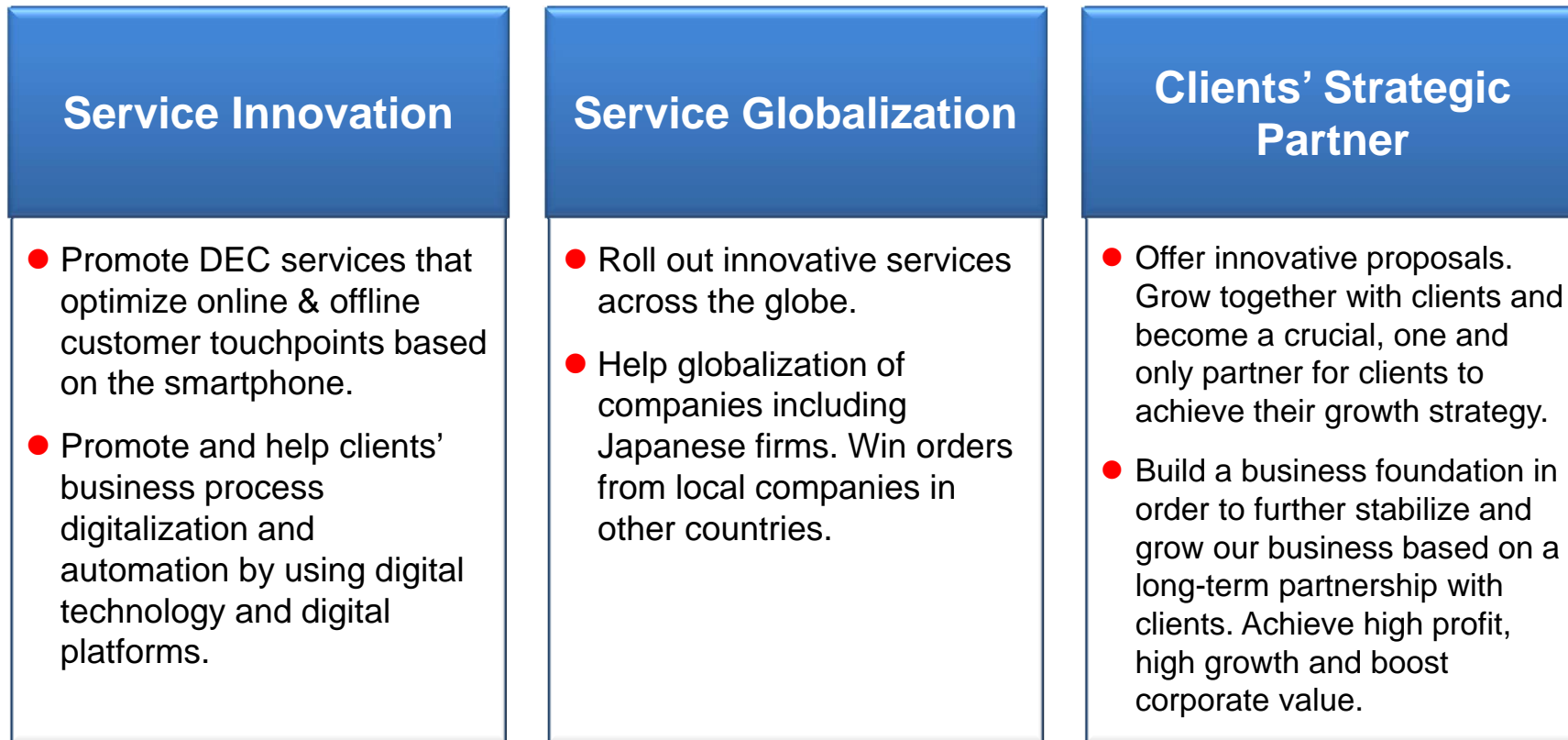


# Initiatives in Global Business domain

- Opened/expanded operation centers in Japan, China, Vietnam and Poland.



# Mid-Term Key Initiatives



**Achieve double digit sales growth and improve operating income margin.**



## **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.