

Global Digital Transformation Partner

Supplementary Materials for 1Q FY2019/3 Financial Results



July 31, 2018

transcosmos inc.

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.

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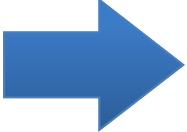
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1. Executive Summary

Achievements

- Consolidated sales increased by 8.4% and retained high growth rate.
- Domestic affiliates' sales and profits returned to positive growth.
- Overseas affiliates continue to achieve high growth whilst improving profitability.
- Ordinary income achieved drastic growth.
 - Positive impact from portfolio review and reduction in equity losses.

Challenge

- Lower profitability in Parent company.
 Aim to generate profits from new initiatives executed in the previous fiscal year as soon as possible.

2. Consolidated Income Statement Summary

- Sales: Increased mainly due to order increase for parent company and overseas affiliates.
- Operating Income: Although overseas affiliates improved profitability, operating income decreased due to declined profitability in parent company.
- Ordinary Income: Increased due to declined non-operating losses as a result of an increase in capital gains from funds and a decrease in equity in losses.
- Quarterly Net Income: Increased due to the increase in ordinary income.

In ¥Million	1Q FY2018/3		1Q FY2019/3		Difference	
		(Mix)		(Mix)	(Value)	(Ratio)
Sales	61,898	100.0%	67,083	100.0%	5,184	8.4%
Cost of Sales	51,949	83.9%	56,497	84.2%	4,548	8.8%
Gross Profit	9,949	16.1%	10,585	15.8%	636	6.4%
SG&A	9,508	15.4%	10,590	15.8%	1,081	11.4%
Operating Income	440	0.7%	(4)	(0.0)%	(445)	-
Non-operating Profit and Loss	(230)	(0.4)%	476	0.7%	707	-
Ordinary Income	210	0.3%	472	0.7%	262	124.8%
Extraordinary Profit and Loss	388	0.6%	147	0.2%	(241)	(62.1)%
Quarterly Net Income attributable to owners of parent company	123	0.2%	258	0.4%	135	109.5%

3. Segment Based Results Summary



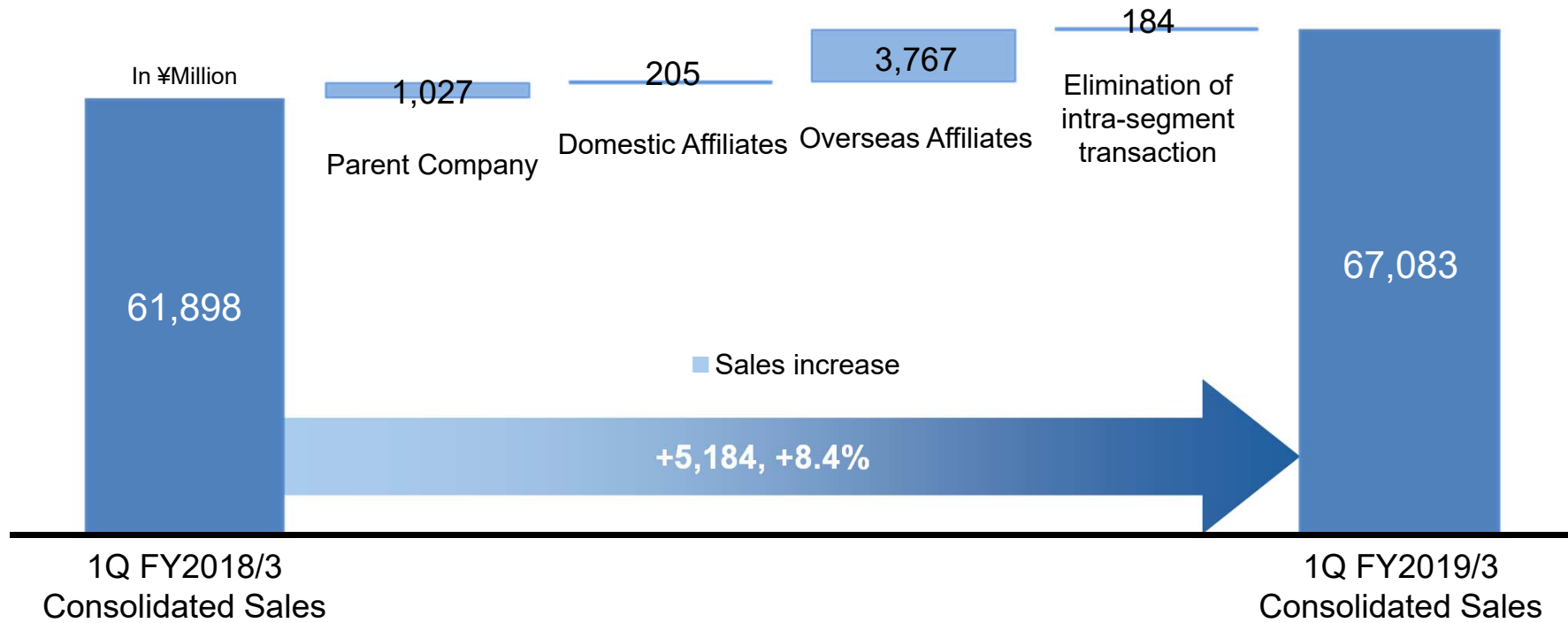
- Parent Company: Sales increased whilst profit declined. Although receiving solid orders, profitability declined due to SG&A expenses that increased in the previous fiscal year.
- Domestic Affiliates: Both sales and profits increased. Profitability improved due to successful business restructuring made in some subsidiaries.
- Overseas Affiliates: Both sales and profits increased. Chinese and South Korean subsidiaries enjoyed solid performances, and ASEAN subsidiaries improved their profitability.

In ¥Million		1Q FY2018/3		1Q FY2019/3		Difference	
			(Mix)		(Mix)	(Value)	(Ratio)
Sales	Parent company	48,958	79.1%	49,985	74.5%	1,027	2.1%
	Domestic Affiliates	4,654	7.5%	4,859	7.2%	205	4.4%
	Overseas Affiliates	10,372	16.8%	14,140	21.1%	3,767	36.3%
	Elimination of intra-segment transaction	(2,086)	(3.4)%	(1,902)	(2.8)%	184	8.9%
	(Total)	61,898	100.0%	67,083	100.0%	5,184	8.4%
Segment Income (Loss)	Parent company	638	144.8%	(57)	-	(695)	-
	Domestic Affiliates	42	9.6%	144	-	101	239.7%
	Overseas Affiliates	(235)	(53.5)%	(82)	-	153	65.0%
	Elimination of intra-segment transaction	(4)	(0.9)%	(8)	-	(4)	(111.9)%
	(Total)	440	100.0%	(4)	100.0%	(445)	-

4. Consolidated Sales Analysis

● Sales increased: +5,184M, +8.4%

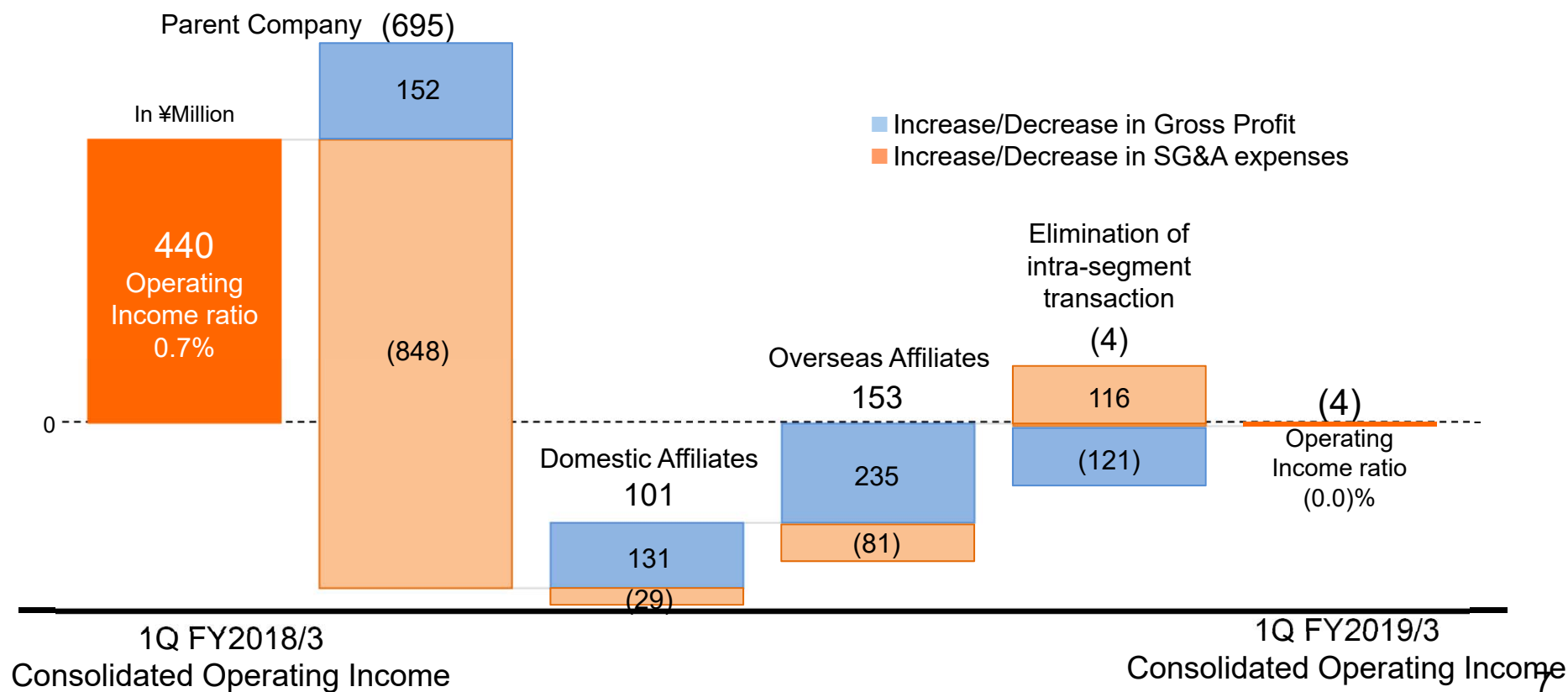
- Parent Company** Sales increased due to order increase in BPO services.
- Domestic Affiliates** Sales increased due to increased sales in some subsidiaries.
- Overseas Affiliates** Sales increased due to increased sales in Chinese/South Korean subsidiaries.



5. Consolidated Operating Income Analysis

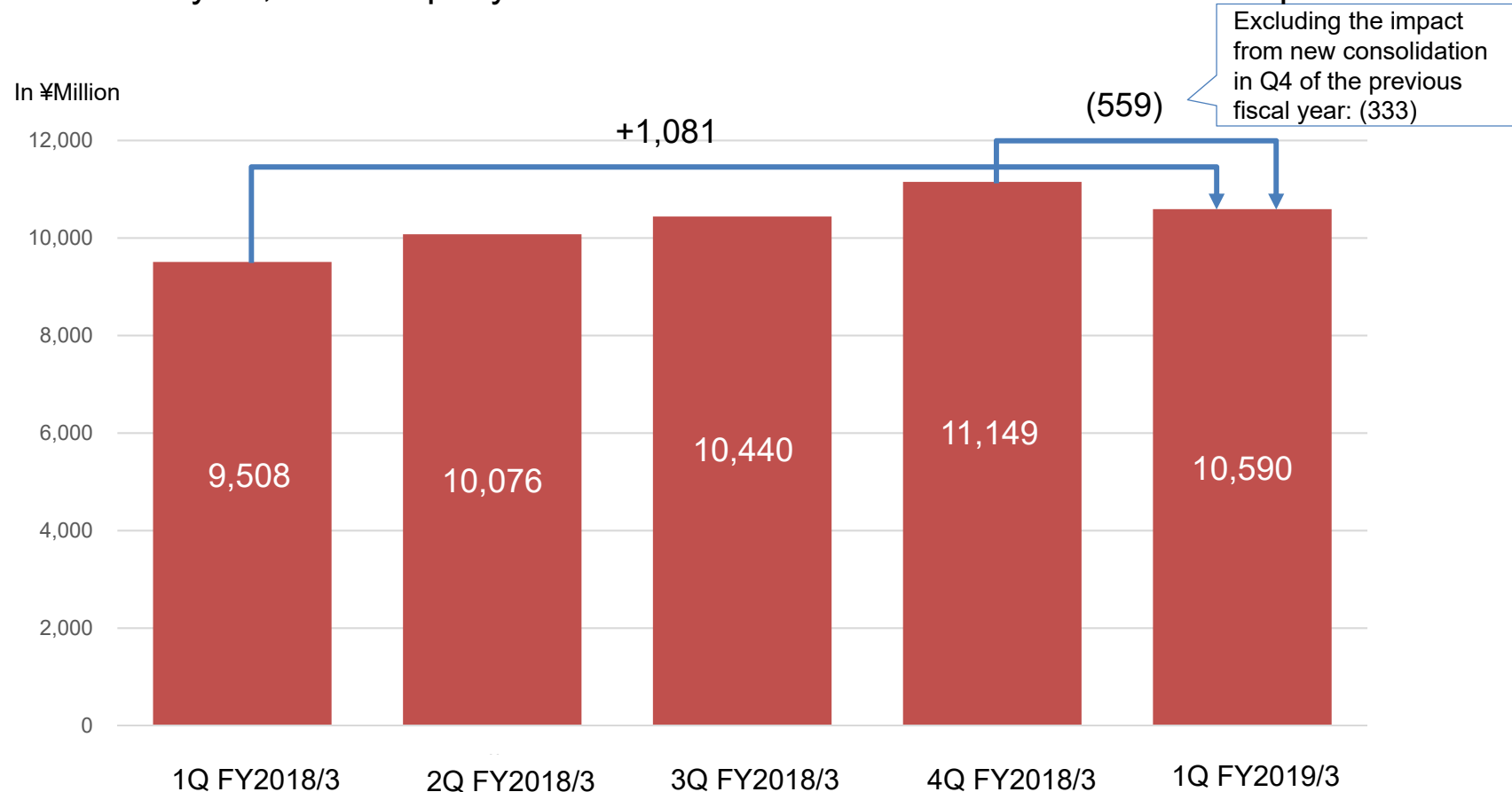
- Operating Income decreased: (445)M, -%

Parent Company	Operating income decreased due to increased SG&A expenses as a result of upfront investment made in the previous fiscal year.
Domestic Affiliates	Operating income increased due to successful business restructuring made in some subsidiaries.
Overseas Affiliates	Operating income increased as South Korean subsidiary improved its profitability whilst China offshore businesses and ASEAN subsidiaries narrowed their deficits.



6. Consolidated SG&A Expense Trend

- SG&A expenses rose in FY2018/3 due to factors that include upfront investments made in parent company and impact from new consolidation.
- Although SG&A expenses increased by 1,081M from 1Q of the previous fiscal year, the expenses decreased from 4Q of the previous year by 559M.
- For this fiscal year, the Company will focus on cost control based on sales and profits.



7. Parent Company Operating Income Analysis

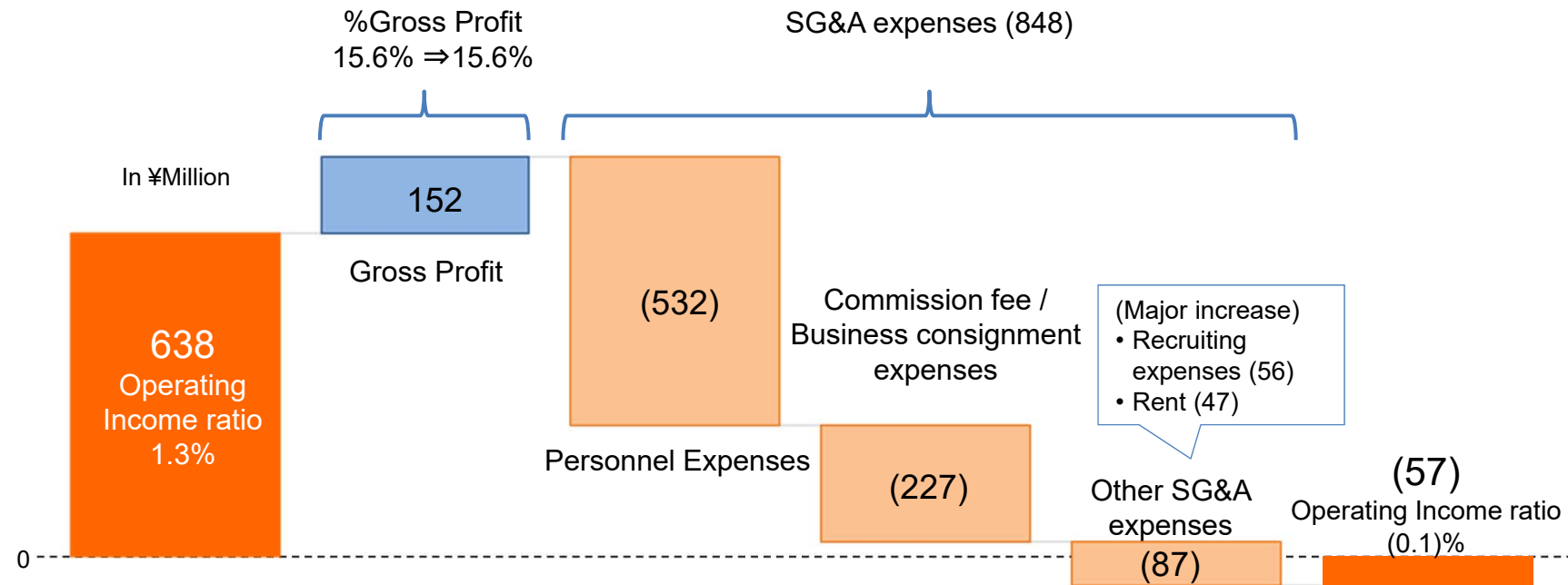
- Operating Profit decreased: (695)M, -%

Gross Profit

Increased along with increased sales. Maintained gross profit ratio of 15.6%, same level as the previous fiscal year.

SG&A expenses

Increased by 848M due to the impact from an SG&A expenses increase as a result of upfront investments made in the previous fiscal year.

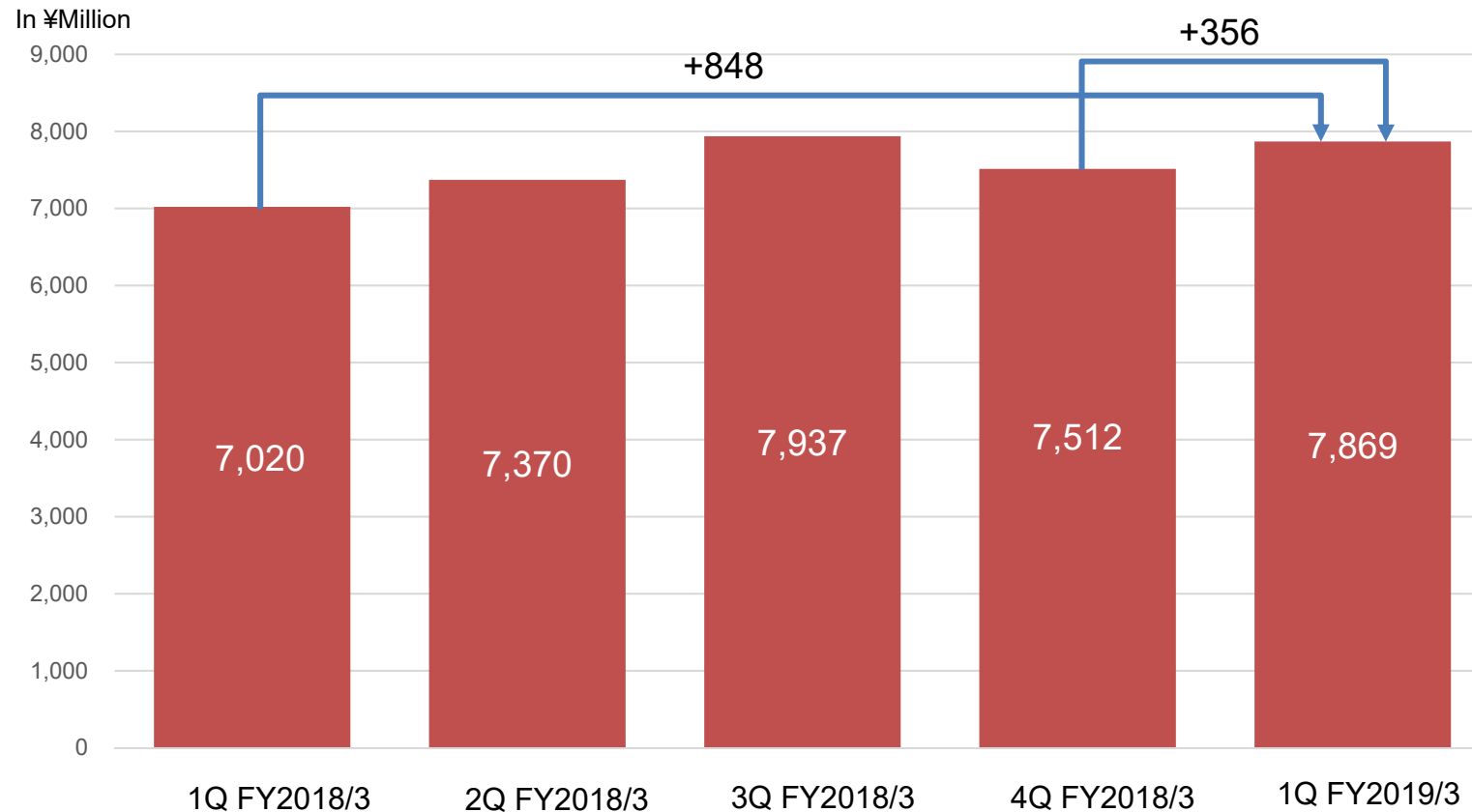


1Q FY2018/3
Operating Income

1Q FY2019/3
Operating Income

8. Parent Company SG&A Expense Trend

- SG&A expenses rose in FY2018/3 due to upfront investment made mainly in personnel expenses.
- SG&A expenses increased by 848M from 1Q of the previous fiscal year, and by 356M from 4Q of the previous year due to the impact from hiring new graduates, etc.
- For this fiscal year, the Company will focus on cost control based on sales and profits.

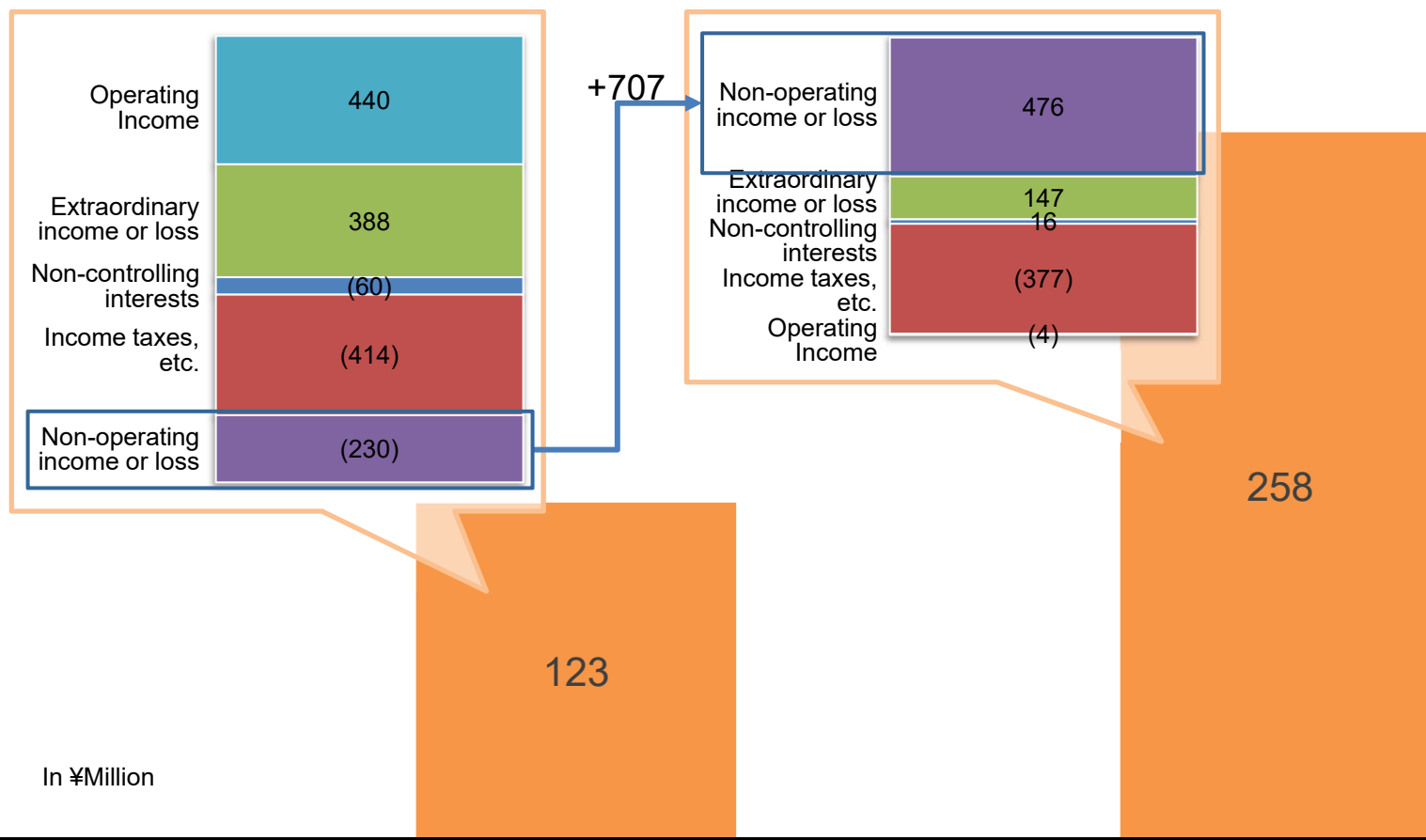


9. Parent Company Quarterly Income Analysis

- Parent Company Quarterly Net Income increased: +135M, +109.5%

Non-operating income or loss

Increased 707M due to increase in capital gains from funds and a decrease in equity in losses.



1Q FY2018/3
Parent Company Quarterly Income

1Q FY2019/3
Parent Company Quarterly Income

10. Consolidated Balance Sheet Summary

- Assets: “Notes and accounts receivables” decreased as a result of collection of accounts receivable, etc.
- Liabilities: “Accounts payable” and “Income taxes payable” decreased.
- Net Assets: Retained earnings decreased due to dividend payments for the previous fiscal year. “Foreign currency translation adjustment” also decreased.

In ¥Million	End of Mar. 2018	End of Jun. 2018	Difference
Current Assets	82,989	79,688	(3,301)
Fixed Assets	46,077	46,125	47
Total Assets	129,067	125,813	(3,253)
Current Liabilities	45,201	43,635	(1,565)
Fixed Liabilities	12,666	12,693	26
Total Liabilities	57,867	56,328	(1,538)
Net Assets	71,199	69,484	(1,714)
Liabilities/Net Assets Total	129,067	125,813	(3,253)
Cash Equivalent	31,937	30,109	(1,827)
Interest-bearing debt	14,887	14,361	(525)
Net Cash*	17,050	15,748	(1,302)

- Cash equivalent (1,827)
- Notes and accounts receivable (2,374)

- Accounts payable (807)
- Income taxes payable (1,136)

- Retained earnings (687)
- Foreign currency translation adjustment (999)

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

(Reference) Listed Holdings Held by the Company



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

List of listed holdings held by the Company

In ¥Million

Type	Stock name	Market	Security code	Fair Value
Stock of affiliated company	J-Stream Inc.	TSE Mothers	4308	3,634
	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	2,114
	eMnet Inc.	KOSDAQ	123570	1,507
	PFSweb Inc.	NASDAQ	PFSW	4,053
	TensynPRC	ChiNext	300392	12,463
Investment securities	MTG Co., Ltd.	TSE Mothers	7806	1,489
	Geniee, Inc.	TSE Mothers	6562	846
	Menicon Co., Ltd.	First Section of TSE	7780	582
	Daito Trust Construction Co., Ltd.	First Section of TSE	1878	211
	Japan Airlines Co., Ltd.	First Section of TSE	9201	193
	MIZUNO Corporation	First Section of TSE	8022	36
	JACCS CO., LTD.	First Section of TSE	8584	10
	Twilio	NYSE	TWLO	72
	SendGrid	NYSE	SEND	18
Total				27,236

* Fair values are calculated based on the closing price of July 30, 2018. Note that fair values of PFSWeb, Twilio and SendGrid are calculated based on closing price of July 27, 2018.

11. Parent Company Sales per Category

● Sales per Industry

In ¥Million	1Q FY2018/3 (Mix)		1Q FY2019/3 (Mix)		%Diff
Telecommunications	13,196	27.0%	12,697	25.4%	(3.8)%
Finance / Insurance	8,171	16.7%	8,745	17.5%	7.0%
Manufacturing	8,096	16.5%	8,384	16.8%	3.6%
Services	8,192	16.7%	7,768	15.5%	(5.2)%
Wholesale / Retail	6,335	12.9%	6,677	13.4%	5.4%
Other	4,964	10.1%	5,712	11.4%	15.1%

Telecommunications: Business with top client's internet-related service affiliate and others declined.
 Finance/Insurance: Business with insurance companies increased.
 Manufacturing: Business with auto-manufacturers increased.
 Services: Advertisement related business declined.
 Wholesale/Retail: Business with food and beverage wholesalers increased.
 Other: Business with transport/electricity/gas-related companies increased.

● Sales per Client (top 5 clients in terms of sales)

In ¥Million	1Q FY2018/3 (Mix)		1Q FY2019/3 (Mix)		%Diff
A (PC/AV)	1,741	3.6%	1,869	3.7%	7.3%
B (Job advertisement)	1,300	2.7%	912	1.8%	(29.8)%
C (Travel)	617	1.3%	761	1.5%	23.5%
D (Building material/equipment manufacturer)	621	1.3%	699	1.4%	12.5%
E (Auto manufacturer)	459	0.9%	646	1.3%	40.6%

A: Orders for DEC services, mainly CC, increased.
 B: Orders for DEC services, mainly DM, declined.
 C: Orders for DEC services, mainly DM, increased.
 D: Orders for BPO services including order processing increased.
 E: Orders for CC and BPO services including design development increased.

12. CAPEX, Depreciation & amortization, Employees, Service Bases



● CAPEX / Depreciation and Amortization

In ¥Million	1Q FY2018/3	1Q FY2019/3	%Diff
Capital expenditures	969	903	(6.8)%
Depreciation and amortization	684	761	11.3%

● Number of Employees

	End of Mar. 2018	End of Jun. 2018	Difference
Consolidated bases	24,875	25,240	365
(Temporary employees)	25,420	25,978	558
Parent company	10,609	11,388	779
(Temporary employees)	22,573	22,664	91

● Service bases

	End of Mar. 2018	End of Jun. 2018	Difference
Service bases	170	172	2
Japan	58	59	1
Overseas	112	113	1

● CAPEX

Capital expenditures decreased mainly due to downsized investments in China.

● Depreciation and amortization

Depreciation and amortization increased due to the opening/expansion of centers and business offices in China and Parent company in the previous fiscal year.

● Employees

Increased mainly in Parent company as a result of new graduate hiring.

● Service bases

Japan: BPO center that opened in the Tokyo metropolitan area launched full-scale operations.
Overseas: Opened a new contact center, the 9th base in China.

* Service bases include the Company's own service bases, head office, branches, sales offices, subsidiaries, associates and partners' bases.

13. 1Q Topics

Developed an AI which auto-judges service quality at contact centers

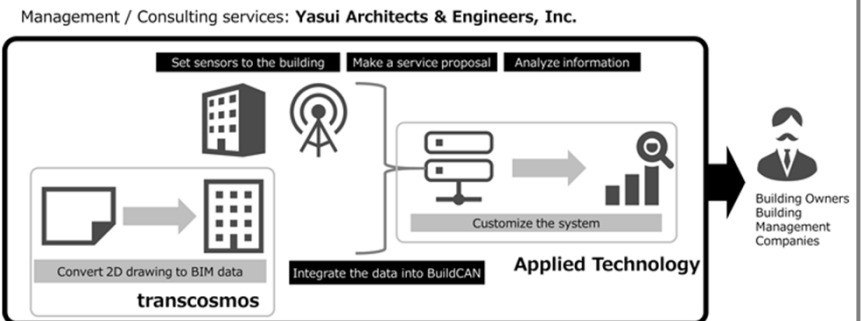
- Co-developed with Communication Science Lab, transcosmos’s own AI laboratory.
- transcosmos successfully developed an AI which auto-judges the quality of “massive customer services data at speed with human accuracy” after conducting proof-of-concept at its centers.
- Driving effort to make the AI an official service by the end of FY2018 in order to offer solutions for contact centers to tackle their real challenges.

1) Customer service manners	Serving customers with the basic manner and polite behavior that include greetings at opening and closing, softening phrases, and always using the right choice of words.
2) Information provided to customers	Communicating with customers with necessary information such as contract clauses and important notices.
3) Plus something extra	Being considerate and thoughtful, and offering appropriate suggestions according to each customer’s situation.

*Succeeded in proof-of-concept of ① customer service manners and etiquette.

Launched ICT-based facility management one-stop service for building owners and building management companies

- Yasui Architects & Engineers, transcosmos and Applied Technology collaborated to deliver the service.
- The service is based on “BuildCAN”, the first building management system in Japan that links IoT environment sensors with 3-D building model.
- The three companies aim to develop “Building Digital Twin Services” in order to forecast the future of the buildings in the virtual world.



13. 1Q Topics

transcosmos released “Nihon Chokuhan AR app” that enables customers to view AR videos by holding their smartphones over Nihon Chokuhan catalogue

- Released the app on April 2, 2018 on its catalogue.
- Showcases the products in a whole new light using AR.
- Offers an innovative shopping experience by utilizing its proven knowledge in the field of TV shopping to the max.

2D becomes 3D!

Nihon Chokuhan official AR app

AR camera makes catalogue shopping more fun



transcosmos begins the operations of “transcosmos research and development”

- Conducts R&D and offers various services that aim to boost operations productivity, reduce costs and maximize profits with the power of technology.
- The company will beef-up its sales scheme in order to drive development and implementation of their proprietary solutions.
- Strengthens the technological capabilities of the whole transcosmos group, whilst developing new technologies on platforms that are open to many users.

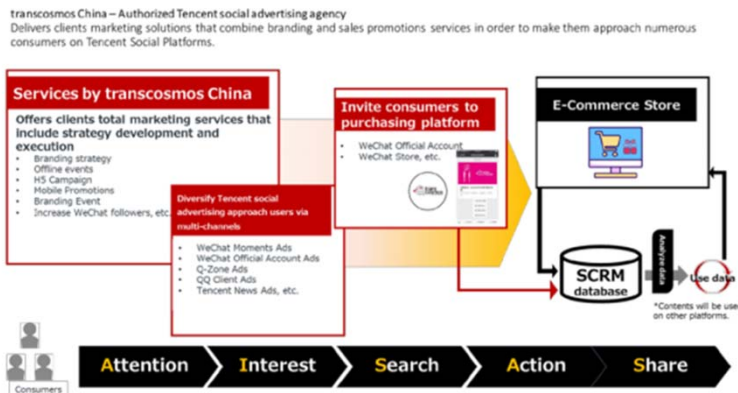


- Create POC for technologies/businesses that will become next-gen pillars of transcosmos
- Build quality management and project management schemes for R&D
- Carry out pre-sales activities for “DECAdS”
- Research, develop and operate new technologies that fit the market

13. 1Q Topics

transcosmos Chinese subsidiary authorized as a social advertising agency of “Tencent”, a leading internet services provider in China

- Offers ad delivery services to Chinese clients on Tencent service platforms that include “WeChat” and “QQ”.
- transcosmos provides highly effective marketing services to clients more than ever before.
- transcosmos offers sophisticated services to clients in order to help them boost sales and their brand value by strengthening the link with services that are offered in the Tencent ecosystem.



DMM, STVV, Candee and transcosmos launch Connected Stadium business in Belgium

- Offer new sport experience with the power of Japanese IT.
- Connected Stadium lets stadium visitors enjoy various game experiences that include buying game tickets, booking parking, and purchasing foods and beverages as well as stadium limited items via their smartphones.
- Starting from the stadium, the companies aim to activate neighboring areas and communities, and ultimately grow together with the communities.



13. 1Q Topics (topic list)



- **New service releases**

- Launched sampling services for seniors by leveraging Nihon Chokuhan network
- Launched support services for “Flex Message”, a new feature of LINE ahead of others
- Rolled out “Addressable Advertising” using an ad link tool offered by Synergy Marketing

- **Subsidiary & Center openings/expansions**

- transcosmos expanded its contact center “MCM Center Tama”
- transcosmos opened a new contact center in Xi’an, Shaanxi province, China
- Machine Learning Solutions established its subsidiary “Edge Intelligence Systems Inc.”
- transcosmos opened its new operations center “BPO Center Kameido” in Tokyo

13. 1Q Topics (topic list)

- **Service records**

- transcosmos offers “Robotics Marketing for RoBoHoN” to Odakyu Electric Railway
- Total number of friends of “Gotcha!mall” LINE official account surpasses 10 million
- Japan Council on SNS Counseling Services offers “LINE”-based free mental health counseling services for the victims of the Osaka Earthquake 2018
- transcosmos will launch LINE-based customer services for Hokkaido Air Water
- transcosmos undertakes “Special Fraud Prevention Call Center Business” operations commissioned by Oita Prefectural Police
- transcosmos builds a system which links its chat platform, LINE to Call and a Avaya’s contact center system
- transcosmos and SOCIAL GEAR assist Saishunkan’s digital marketing in Taiwan
- Pony Cleaning joins “Gotcha!mall” in partnership with transcosmos
- SMS Co., LTD. implements LINE WORKS to improve its Remote Specific Health Guidance service

13. 1Q Topics (topic list)



- **Partners, Awards, etc.**

- transcosmos became one of the initial “Clova Extensions Kit” partners that develop and scale LINE “Clova” skills
- Signed an agreement to transfer shares of TensynPRC, transcosmos’s equity-method affiliate
- transcosmos won multiple awards in China for its design support services for the construction industry
- The chat-bot service on messenger by Sanrio Entertainment Co.Ltd. introduced at the 2018 Facebook Developer Conference (F8)
- transcosmos joined the Safer Internet Association
- me&stars, a company which offers stars’ premium experiences via live streaming videos appointed Kosuke Kitajima, a gold medalist of Athens and Beijing Olympics as its CSO
- Magic Panda, a member of transcosmos group, received multiple awards from Alibaba Group that include The Customer Experience Excellence Award of 2018
- transcosmos co-sponsored the 10th Okinawa International Movie festival, “Big Festival of all the Islands”
- transcosmos announced the results of “Online Shopping Trends Survey in 10 Asian Cities 2018”



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