

Global Digital Transformation **Partner**

Supplementary Materials for Q1 FY2021/3 Financial Results



July 31, 2019

transcosmos inc.

Table of Contents

1. Executive Summary
2. Consolidated Income Statement Summary
3. Performance Summary per Segment
4. Consolidated Sales Analysis
5. Consolidated Operating Income Analysis
6. Parent Company Operating Income Analysis
7. Consolidated Quarterly Performance Trend
8. transcosmos inc. Quarterly Net Income Analysis
9. Consolidated Balance Sheet Summary
10. CAPEX, Amortization/Depreciation, Employees, Service Bases
11. Policies and Measures against Covid-19

1. Executive Summary

Achievements

- Sales increased by **7.1%** year over year, and maintained a high growth ratio.
- Gross profit margin increased by **3.1 points** due to a healthier profitability in parent company.
- Despite extraordinary factors including additional expenses incurred to take measures against Covid-19, **continued to control SG&A expenses** based on sales and profits.
- Operating income increased by **¥ 1.9 billion** year over year, as parent company secured profits, and overseas affiliates maintained their positive profits.

Challenge

- Maintain and increase growth and profitability in the post COVID-19 era.

2. Consolidated Income Statement Summary

- Sales increased primarily led by parent company.
- Operating income increased led by a healthier profitability in parent company and overseas affiliates.
- 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 ordinary income.

In ¥Million	Q1 FY2020/3		Q1 FY2021/3		Difference	
		(Mix)		(Mix)	(Amount)	(Ratio)
Sales	73,295	100.0%	78,485	100.0%	5,189	7.1%
Cost of Sales	61,217	83.5%	63,155	80.5%	1,937	3.2%
Gross Profit	12,078	16.5%	15,330	19.5%	3,252	26.9%
SG&A	10,710	14.6%	11,988	15.3%	1,277	11.9%
Operating Income	1,367	1.9%	3,342	4.3%	1,975	144.4%
Non-operating Profit and Loss	-95	-0.1%	78	0.1%	174	-
Ordinary Income	1,271	1.7%	3,421	4.4%	2,149	169.0%
Extraordinary Profit and Loss	41	0.1%	82	0.1%	40	97.5%
Quarterly Net Income attributable to owners of transcosmos inc.	468	0.6%	1,722	2.2%	1,254	268.1%

3. Performance Summary per Segment

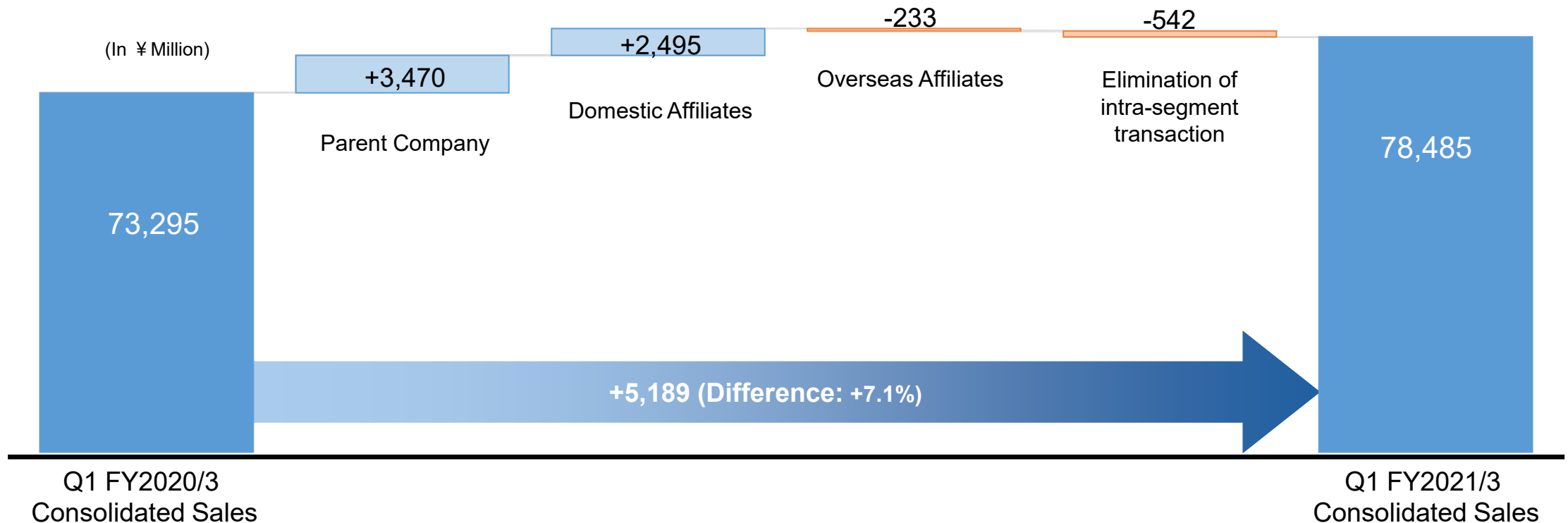
- Parent Company: Both sales and profit increased. Profitability increased as a result of an order growth due primarily to the expansion of existing large-scale projects, and new large non-recurring projects.
- Domestic Affiliates: Both sales and profit increased, due primarily to the positive impact of newly consolidated subsidiaries, and the solid performance of a listed subsidiary.
- Overseas Affiliates: Profit increased despite sales decline. Despite the drop in sales in Chinese and South Korean subsidiaries due to negative currency effects, both achieved a healthier profitability. Subsidiaries in Southeast Asia retained their profits.

In ¥Million	Q1 FY2020/3		Q1 FY2021/3		Difference		
		(Mix)		(Mix)	(Amount)	(Ratio)	
Sales	Parent Company	53,279	72.7%	56,749	72.3%	3,470	6.5%
	Domestic Affiliates	6,294	8.6%	8,790	11.2%	2,495	39.6%
	Overseas Affiliates	15,921	21.7%	15,688	20.0%	-233	-1.5%
	Elimination of intra segment transaction	-2,199	-3.0%	-2,742	-3.5%	-542	-24.7%
	(Total)	73,295	100.0%	78,485	100.0%	5,189	7.1%
Segment Income (Loss)	Parent Company	991	72.5%	2,357	70.5%	1,365	137.8%
	(%profit)	1.9%		4.2%			
	Domestic Affiliates	473	34.6%	617	18.5%	144	30.5%
	(%profit)	7.5%		7.0%			
	Overseas Affiliates	-93	-6.8%	362	10.8%	455	-
(%profit)	-0.6%		2.3%				
Elimination of intra segment transaction	-3	-0.3%	5	0.2%	9	-	
(Total)	1,367	100.0%	3,342	100.0%	1,975	144.4%	

4. Consolidated Sales Analysis

- Sales increased by ¥ 5,189 million (+7.1%)

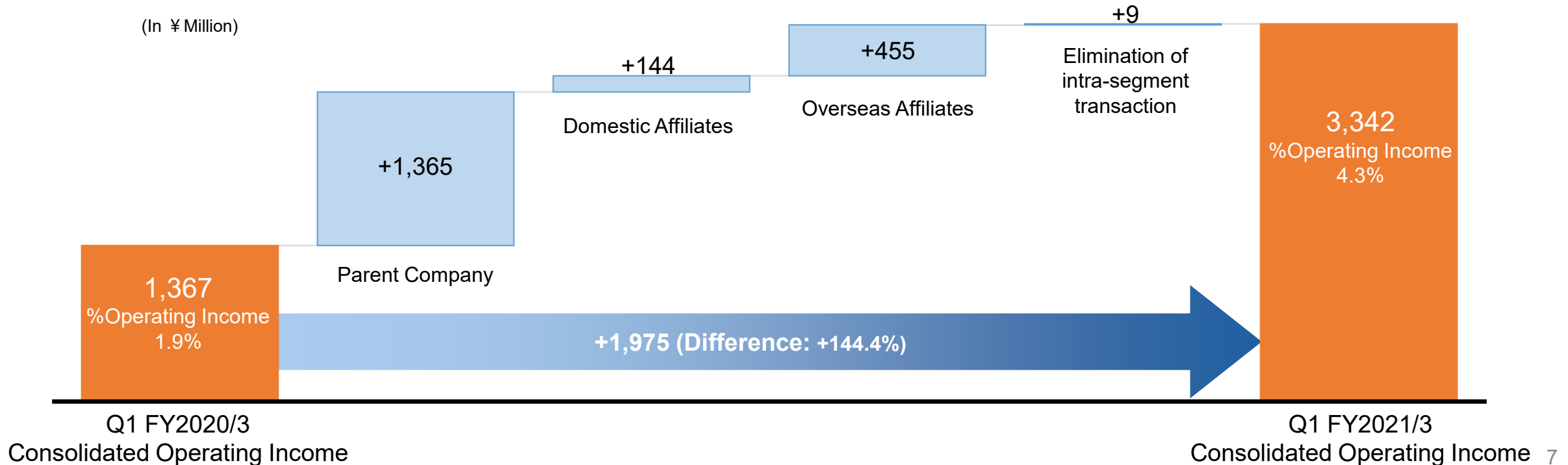
Parent Company	Sales increased as a result of an order growth due primarily to the expansion of existing large-scale projects, and new large non-recurring projects.
Domestic Affiliates	Sales increased due to the positive impact of newly consolidated subsidiaries, and the solid performance achieved by a listed subsidiary.
Overseas Affiliates	Sales decreased due primarily to a drop in sales in Chinese and South Korean subsidiaries due to negative currency effects.



5. Consolidated Operating Income Analysis

- Operating Income increased by ¥ 1,975 million (+144.4%)

Parent Company	Profit increased due primarily to a healthier profitability in existing large projects, and new large-scale non-recurring projects.
Domestic Affiliates	Operating income increased due primarily to the positive impact of newly consolidated subsidiaries, and a healthier profitability in a listed subsidiary.
Overseas Affiliates	Operating income increased due primarily to a healthier profitability in Chinese and South Korean subsidiaries, and retained positive profits in Southeast Asian subsidiaries.



6. Parent Company Operating Income Analysis

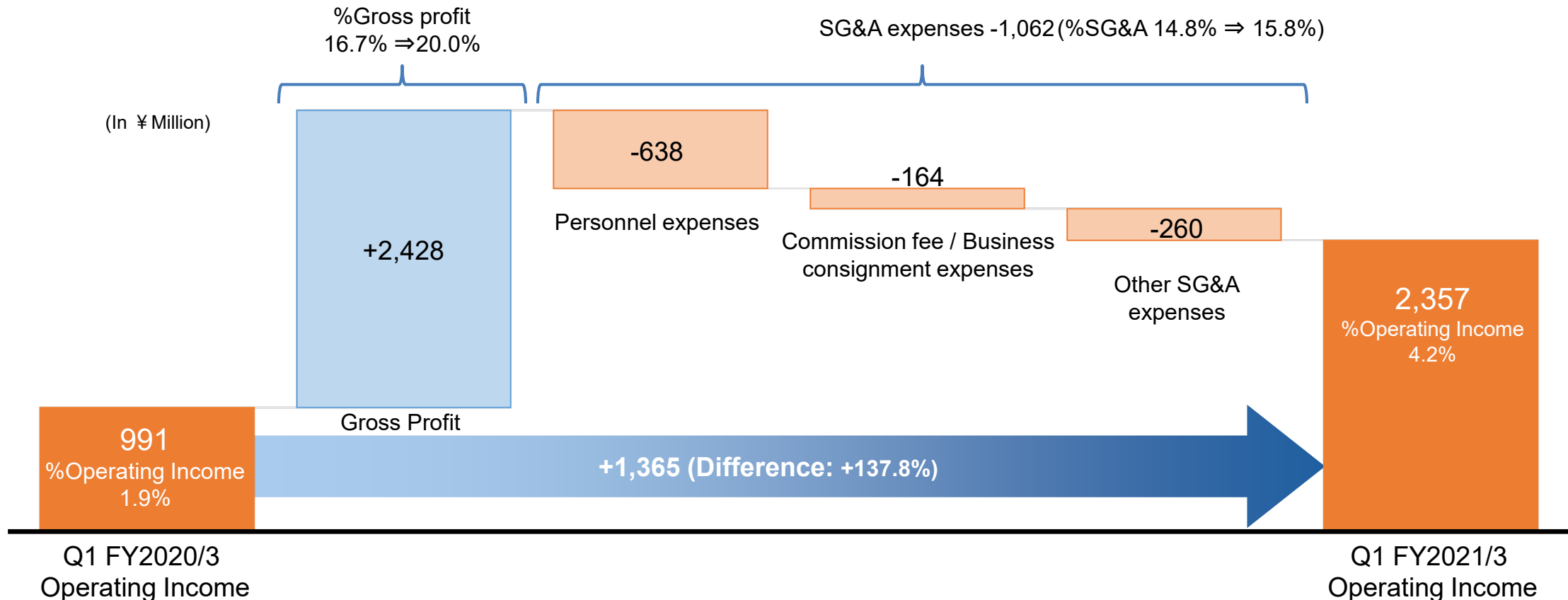
- Operating Income increased by ¥ 1,365 million (+137.8%)

Gross Profit

Gross profit ratio increased by 3.3 points primarily due to a higher profitability achieved by enhancement of profitability in existing large-scale projects, new large-scale non-recurring projects, and a lower employee turnover ratio.

SG&A expenses

SG&A expenses increased by ¥1,062 million due primarily to additional expenses incurred for the opening of Tokyo Main Office 2 to accommodate business expansion, and other extraordinary factors that include measures against Covid-19, resulting in a 1.0 point increase in SG&A ratio. Without these extraordinary factors, the SG&A ratio stood at the same level as the same period last year.

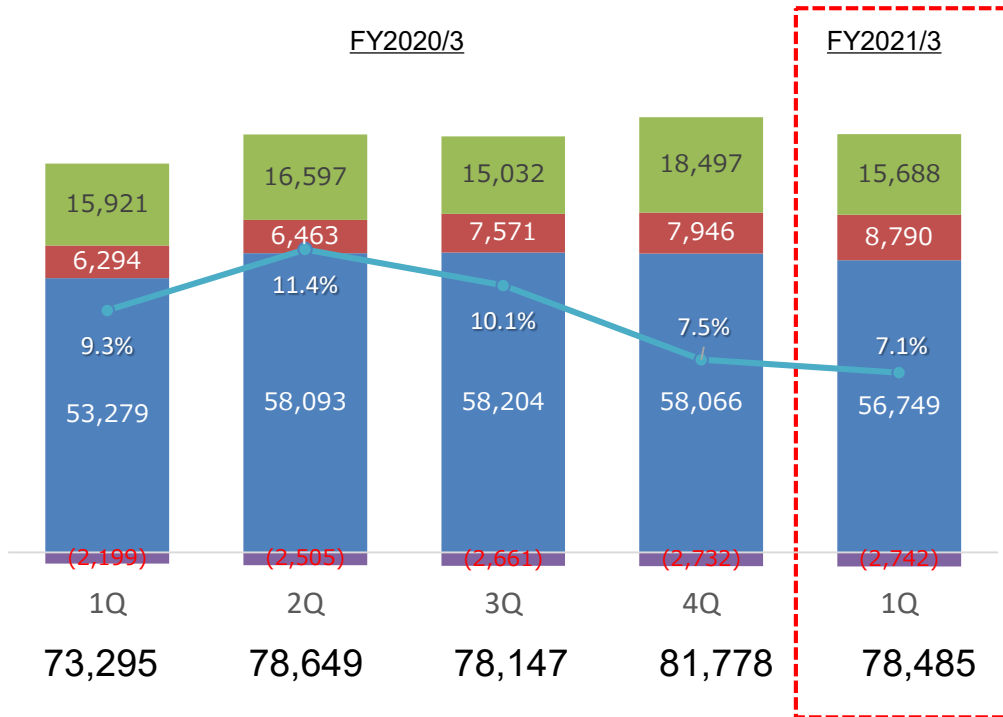


7. Consolidated Quarterly Performance Trend

- Despite a drop in sales volume compared to the fourth quarter last year due to seasonality factors, maintained sales growth rate due to order growth in both existing and new non-recurring projects for parent company.
- Maintained the level of operating income due to a healthier profitability in both parent company and domestic affiliates. Operating income ratio increased to a 4% level.

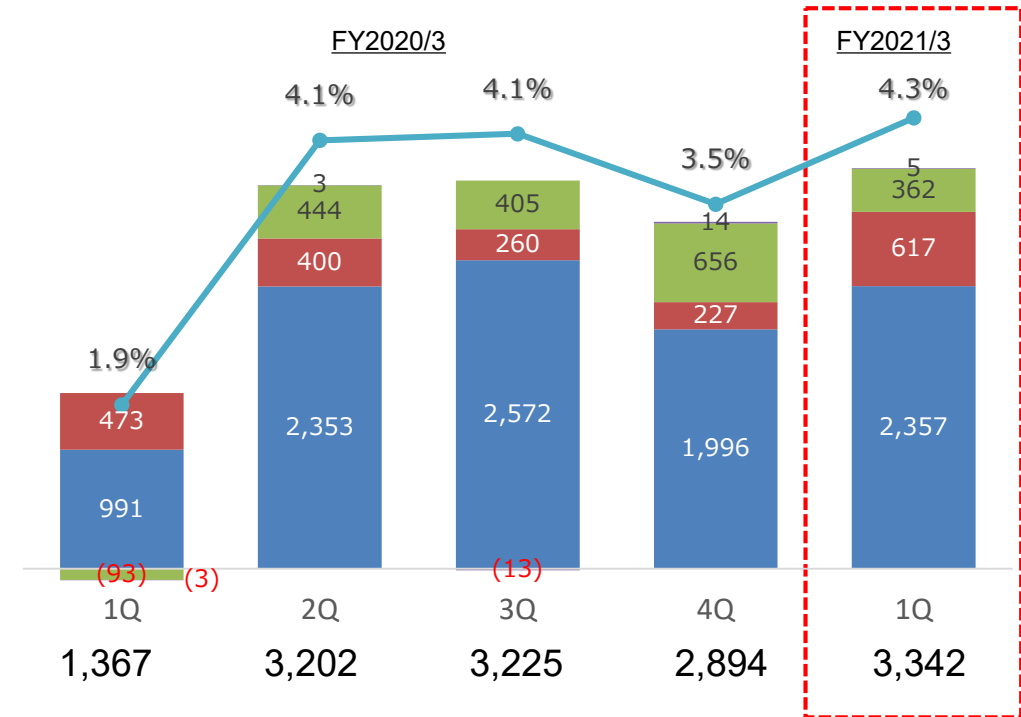
Sales

In ¥ Million — %Sales growth



Operating Income

In ¥ Million — %Operating Income



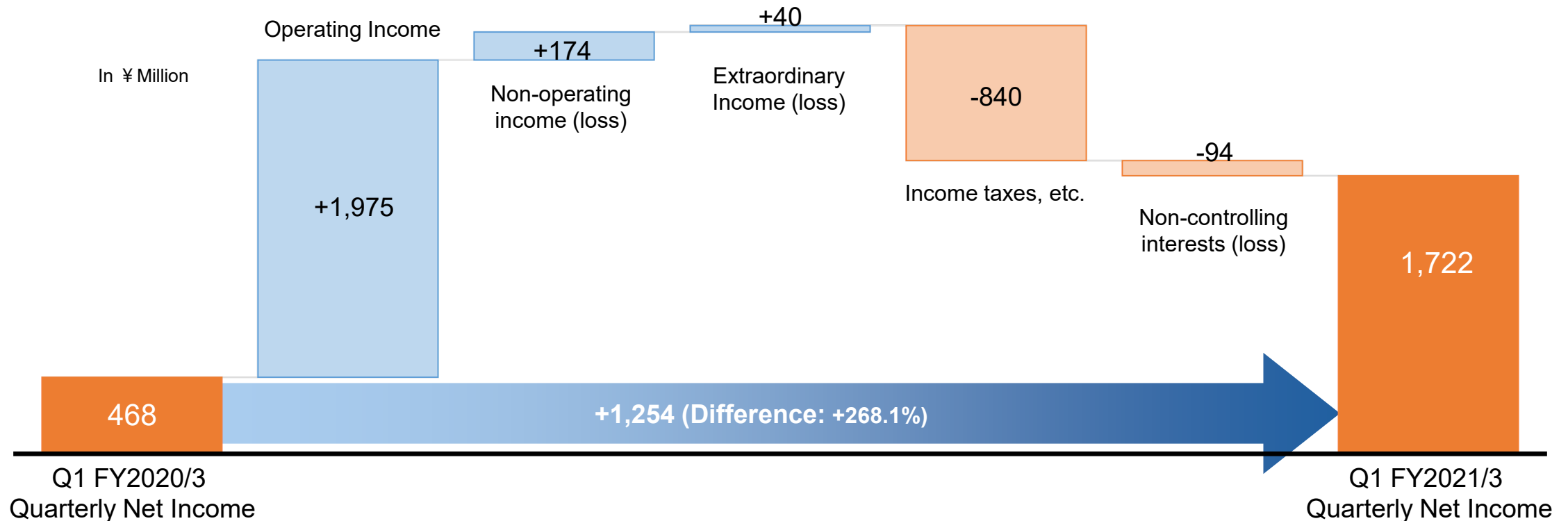
■ Parent Company ■ Domestic Affiliates ■ Overseas Affiliates ■ Elimination of intra-segment transaction

8. transcosmos inc. Quarterly Net Income Analysis



- Quarterly net income attributable to owners of transcosmos inc. increased by ¥1,254 million (+268.1%)

Non-operating income (loss)	Non-operating income increased by ¥174 million primarily due to the posting of foreign currency transaction gain (posted foreign currency transaction loss in the same period last year).
Tax expense	Tax expense increased by ¥840 million primarily due to the impact of company reorganization within the Group.



9. Consolidated Balance Sheet Summary

- Assets: “Cash and deposits” increased due to an increase of loans payable in transcosmos inc.
- Liabilities: “Long-term loans payable” increased due to new loans payable in transcosmos inc. “Provision for bonuses” increased as a result of increasing the provision for the current year bonus period.
- Net Assets: “Foreign currency translation adjustment” decreased.

In ¥Million	End of Mar. 2020	End of Jun. 2020	Difference
Current Assets	96,922	108,128	11,206
Fixed Assets	47,062	50,316	3,254
Total Assets	143,985	158,445	14,460
Current Liabilities	63,432	61,630	-1,801
Fixed Liabilities	2,583	19,023	16,440
Total Liabilities	66,015	80,654	14,638
Net Assets	77,969	77,791	-178
Liabilities/Net Assets Total	143,985	158,445	14,460
Cash and deposits	35,012	47,904	12,891
Interest-bearing debt	13,432	28,574	15,142
Net Cash*	21,579	19,329	-2,250

- Cash and deposits: +12,891
- Notes and accounts receivable – trade: -2,075

- Investment securities: +1,414
- Shares of affiliates: +3,995
- Investments in capital of affiliates: -5,022
- Deferred tax assets: +2,014

- Accounts payable – trade: -3,307
- Provision for bonuses: +1,860

- Long-term loans payable: +16,076

- Valuation difference on available-for-sale securities: +1,066
- Foreign currency translation adjustments: -1,238

*Net Cash = Cash and deposits – 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 transcosmos inc.

In ¥ Million

Type	Stock name	Market	Security code	Fair Value*
Stock of affiliated companies	J-Stream Inc.	TSE Mothers	4308	18,543
	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	4,488
	PFSweb Inc.	NASDAQ	PFSW	3,117
	eMnet Inc.	KOSDAQ	123570	1,903
Investment securities	Menicon Co., Ltd.	First Section of TSE	7780	513
	Twilio Inc.	NYSE	TWLO	387
	Geniee, Inc.	TSE Mothers	6562	305
	Japan Airlines Co., Ltd.	First Section of TSE	9201	78
	MIZUNO Corporation	First Section of TSE	8022	19
	MTG Co., Ltd.	TSE Mothers	7806	13
	JACCS CO., LTD.	First Section of TSE	8584	8
	The RealReal, Inc.	NASDAQ	REAL	3
Total				29,382

Major listed holdings held by Group companies

Type	Stock name	Market	Security code	Fair Value*
Investment securities	北京騰信創新網絡營銷技術股份有限公司 (TensynPRC)	ChiNext	300392	4,791

* Fair values are calculated based on the closing price of July 30, 2020. Note that fair values of PFSWeb, Twilio and The RealReal are calculated based on the closing price of July 29, 2020.

10. CAPEX, Depreciation/Amortization, Employees, Service Bases



● CAPEX / Depreciation and Amortization

In ¥Million	Q1 FY2020/3	Q1 FY2021/3	%Difference
Capital expenditures	865	1,519	75.4%
Depreciation and amortization	800	947	18.4%

● Number of Employees

	End of Mar. 2020	End of Jun. 2020	Difference
Consolidated bases	32,666	33,789	1,123
(Temporary employees)	25,850	26,921	1,071
Parent Company	15,173	15,992	819
(Temporary employees)	21,430	22,391	961

● Service bases

	End of Mar. 2020	End of Jun. 2020	Difference
Service bases*	171	168	-3
(Japan)	66	66	0
(Overseas)	105	102	-3

● CAPEX

Investment amounts increased mainly due to the opening of Tokyo Main Office 2, and opening/expansion of centers and business offices in parent company.

● Depreciation and amortization

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

● Employees

Number of employees increased due to new hires and a growth in projects in parent company.

● Service bases

Overseas: Opened Kuala Lumpur Center No.2 in Malaysia. On the contrary, number of bases in South Korea and North America decreased.

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

11. Policies and Measures against Covid-19

- Our basic policies and measures against COVID-19

Basic Policy

● Human life is our top priority

Our top priority is to protect the lives of our employees, their families and their local communities, as well as all members of our clients and related parties.

● Prevent the spread of infection

As a socially responsible company, we are committed to preventing the spread of infection throughout the Company as well as to all related parties and clients as a socially responsible company by taking preventive measures and securing protective gear. In addition, if any of our employee tests positive for COVID-19, we will make an effort to prevent further transmission through information disclosure internally and externally, following the government guidance.

● Business continuity

We are committed to continuing our business operations by developing a structure that is required for our business continuity in compliance with respective laws and regulations, and government directives. In particular, we will respect our clients' policies and meet their expectations by taking all necessary measures to ensure uninterrupted provision of our products and services.

Measures in place

Measures to prevent infection at our centers

- Ensure our employees check their health condition, including taking their temperature before leaving for work
- Ensure our employees stay home if they present symptoms such as coughing, a fever, and a loss of smell and taste
- Ensure our employees take basic preventive measures (wearing masks, handwashing, using hand sanitizers, practicing coughing etiquette, disinfecting shared items and areas)
- Prevent group infections (encourage teleworking, ventilation, and social distancing)



Response to Covid-19 outbreak among our employees

Putting a top priority on securing our employees' safety, alleviating their anxiety, and preventing the spread of infection internally and externally, we will take necessary steps immediately. Specifically, we will make an infected person self-isolate, identify and give stay-at-home orders to others who might have come into close contact with that person, disinfect the facility, and inform all related parties, and disclose relevant information.

Work-from-home arrangement for back-office employees

We have, in principle, implemented a work-from-home arrangement for our back-office employees, and prepared the necessary working environment for such an arrangement. The new arrangement does not apply to employees who cannot work from home due to the nature of their tasks and days on which they must be in the office to fulfill their responsibilities.

Promoting business continuity planning with our clients

To avoid situations that are likely to create so-called three Cs— closed spaces, crowded places, and close-contact settings— we are vigorously encouraging our clients to take steps such as wider use of teleworking options and automated operations through the use of RPA and bots. We will also consider the possibility of scaling back operations, as the situation requires, after discussions with our clients.



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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.