

Global Digital Transformation Partner

Supplemental Material for Q3 FY2022/3 Financial Results



January 31, 2022

transcosmos inc.

- transcosmos (the Company) has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and the related guidance since the beginning of the current first quarterly consolidated accounting period.
- Accordingly, all sales generated from the transactions in which the Company has acted as an agent (i.e. agency transactions), such as in the Company’s internet advertising business, are presented on a net basis whereas, previously these were presented on a gross basis (total sales minus cost of sales).
- In this report, the Company has restated the sales generated from the agency transactions in each quarter of the previous fiscal year on a net basis from the gross basis (total sales minus cost of sales). For this reason, the third quarter consolidated sales of the previous year have decreased by 16,481 million yen.
Please note that there is no change in gross profit line and below as a result of the above restatement.

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1. Executive Summary

Achievements

- Sales rose in all segments, resulting in **+12.1%*** year-over-year growth, and maintained a high growth rate.
- Gross margin grew by **+1.1 points** due mainly to higher profitability in the Parent Company.
- Despite higher SG&A expenses mainly in the Parent Company, SG&A ratio as a percentage of sales fell by **-0.6 points**.
- Operating income grew by **+5.9 billion yen** year-over-year.

* Previous year sales from agency transactions are restated on a net basis.

Challenge /Initiatives

- Drive digitalization/high-profit model.
- Accelerate global expansion.
- Boost employee engagement.
- Adjust to the new normal at the workplace.

2. Consolidated Income Statement Summary

- Sales increased due to an order increase in all segments.
- Operating income increased due to healthier profitability in all segments.
- Ordinary income increased due to growth in operating income.
- Quarterly net income attributable to owners of transcosmos inc. increased due to growth in both ordinary and extraordinary income.

* Previous year sales from agency transactions are restated on a net basis.

In ¥Million	9M FY2021/3		9M FY2022/3		Difference	
	Amount	Mix	Amount	Mix	Amount	%Diff
Sales	230,416 [※]	100.0%	258,232	100.0%	27,816	12.1%
Cost of Sales	182,016 [※]	79.0%	201,154	77.9%	19,138	10.5%
Gross Profit	48,399	21.0%	57,077	22.1%	8,678	17.9%
SG&A	35,176	15.3%	37,921	14.7%	2,745	7.8%
Operating Income	13,223	5.7%	19,156	7.4%	5,932	44.9%
Non-operating Profit and Loss	344	0.2%	-250	-0.1%	-595	-
Ordinary Income	13,568	5.9%	18,905	7.3%	5,337	39.3%
Extraordinary Profit and Loss	231	0.1%	1,800	0.7%	1,569	676.8%
Quarterly Net Income attributable to owners of transcosmos inc.	8,625	3.7%	13,978	5.4%	5,352	62.1%

3. Performance Summary per Segment

- Parent Company: Both sales and profit increased. Orders, primarily from the public sector grew and profitability increased.
- Domestic Affiliates: Both sales and profit increased. Listed subsidiaries and subsidiaries in the BPO industry fared well.
- Overseas Affiliates: Both sales and profit increased. Subsidiaries, primarily ones in South Korea, China and Southeast Asia showed solid results.

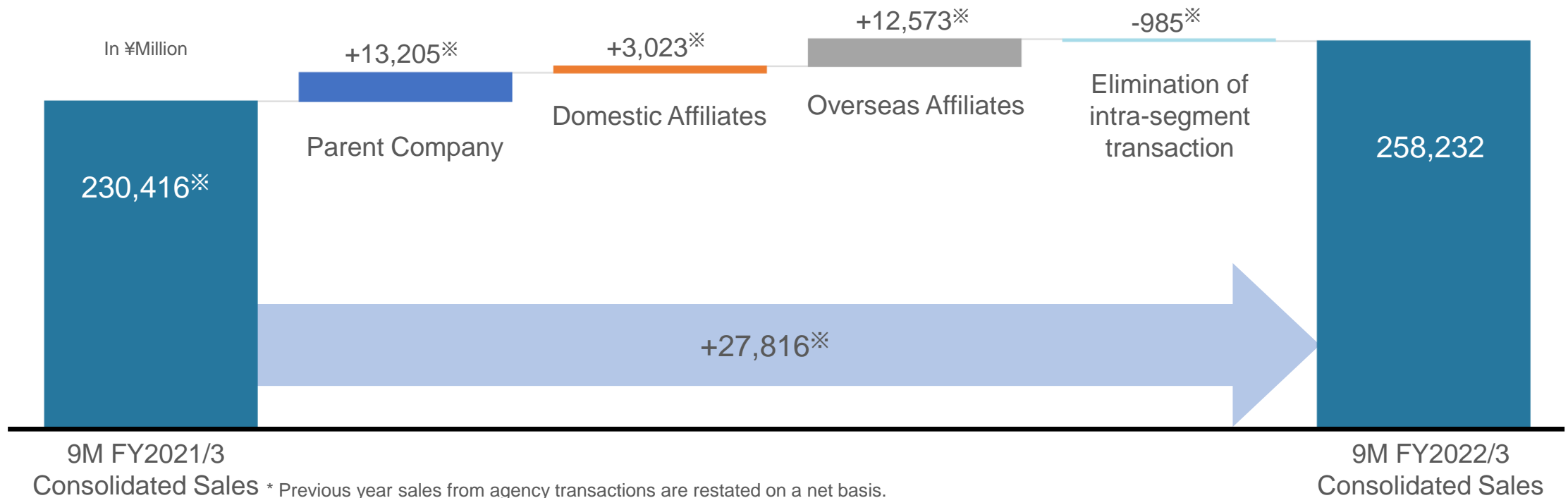
* Previous year sales from agency transactions are restated on a net basis.

In ¥Million		9M FY2021/3		9M FY2022/3		Difference	
		Amount	Mix	Amount	Mix	Amount	%Diff
Sales	Parent Company	163,129*	70.8%	176,335	68.3%	13,205	8.1%
	Domestic Affiliates	26,381*	11.5%	29,404	11.4%	3,023	11.5%
	Overseas Affiliates	48,166*	20.9%	60,739	23.5%	12,573	26.1%
	Elimination of intra segment transaction	-7,261*	-3.2%	-8,247	-3.2%	-985	-13.6%
	(Total)	230,416*	100.0%	258,232	100.0%	27,816	12.1%
Segment Income (Loss)	Parent Company	8,767	66.3%	13,644	71.2%	4,876	55.6%
	(%profit)	5.4%		7.7%			
	Domestic Affiliates	2,705	20.5%	2,811	14.7%	106	3.9%
	(%profit)	10.3%		9.6%			
	Overseas Affiliates	1,774	13.4%	2,677	14.0%	902	50.9%
(%profit)	3.7%		4.4%				
Elimination of intra segment transaction	-23	-0.2%	23	0.1%	47	-	
(Total)	13,223	100.0%	19,156	100.0%	5,932	44.9%	

4. Consolidated Sales Analysis

- Sales increased by ¥ 27,816 million (+12.1 %).

Parent Company	Sales grew primarily due to an order increase from the public sector mainly for Covid-19 related projects that help retain social infrastructure.
Domestic Affiliates	Sales grew primarily due to order growth in listed subsidiaries.
Overseas Affiliates	Sales grew primarily due to sales growth in subsidiaries in South Korea, China and Southeast Asia.



5. Parent Company Sales Analysis

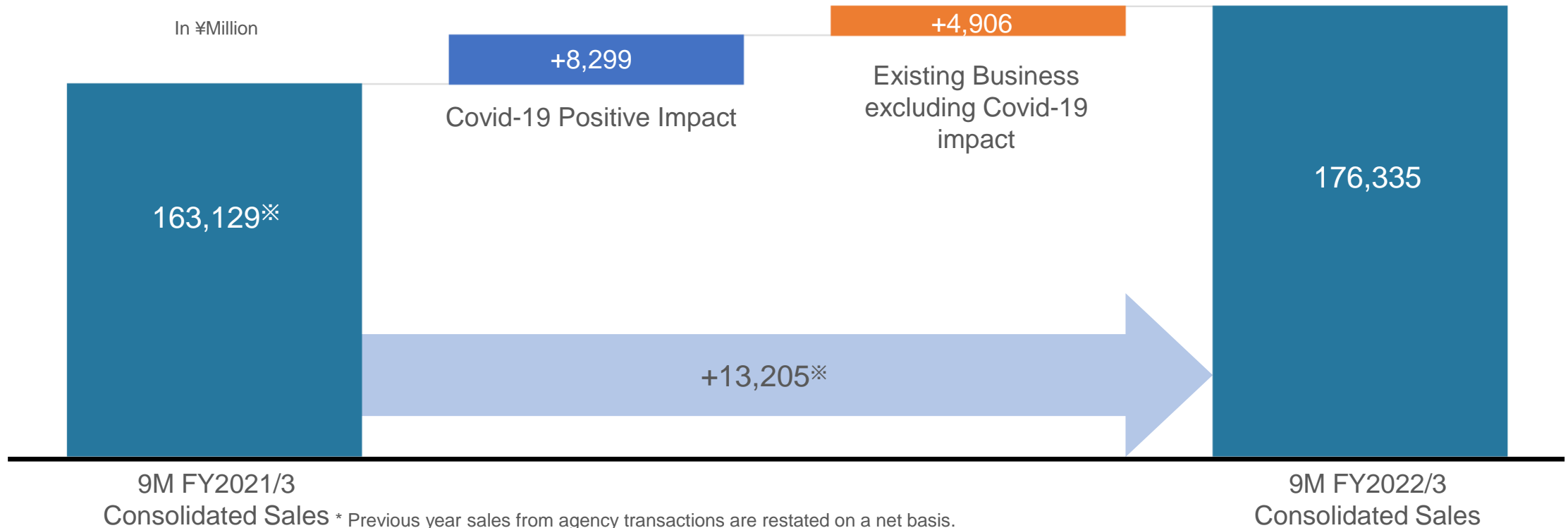
- Sales increased by ¥ 13,205 million yen (+8.1%).

Covid-19 Positive Impact

Orders for Covid-19 related projects carried out by local governments and others increased primarily in BPO and Contact Center services.

Excluding Covid-19 impact Existing Business

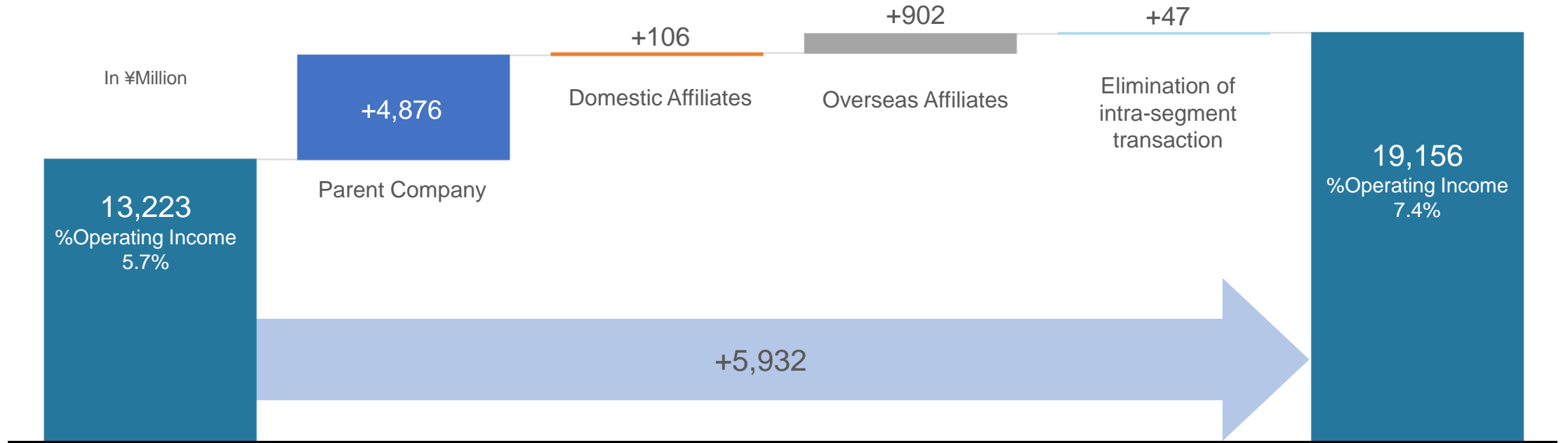
Project scope and transaction volume with existing large-scale clients expanded. New orders also increased.



6. Consolidated Operating Income Analysis

- Operating income increased by ¥ 5,932 million (+44.9%).

Parent Company	Operating income rose mainly due to higher project profitability in addition to order growth.
Domestic Affiliates	Operating income rose mainly due to higher profit in some subsidiaries in the BPO industry and listed subsidiaries.
Overseas Affiliates	Operating income rose mainly due to higher profitability in subsidiaries in South Korea and Southeast Asia.



7. Parent Company Operating Income Analysis

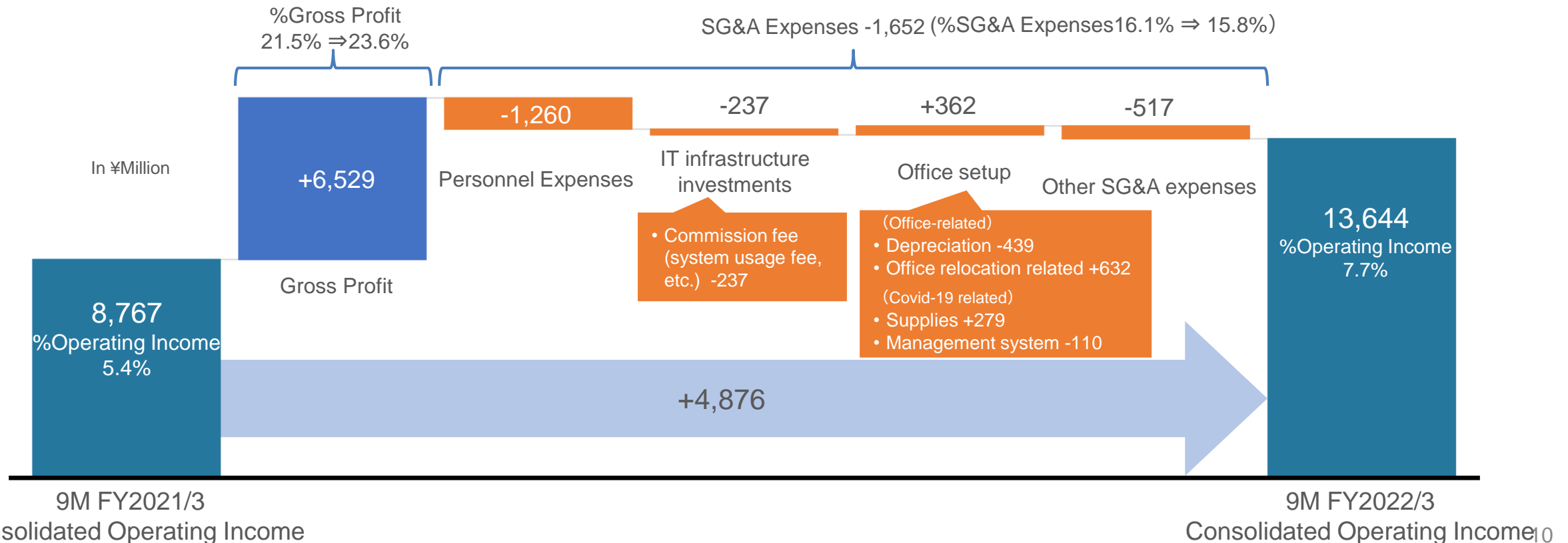
- Operating income increased by ¥ 4,876 million (+ 55.6 %).

Gross Profit

Despite a temporary rise in personnel expenses in Q2 for standby employees mainly due to workplace vaccination programs, gross profit continued to rise with a 2.1 point increase in gross margin due to order growth and higher profitability from large-scale projects, which was achieved by promptly stabilizing operations using the experience and expertise obtained over the previous fiscal year.

SG&A Expenses

Personnel expenses and IT infrastructure investments rose due to business growth and workplace arrangements for new workstyles. Despite restoration costs (depreciation costs, etc.) incurred for the move from the former Tokyo Main Office, office setup expenses fell due to a reclassification of unused rents to non-operating expenses following the move and a drop in COVID-19 related expenses. As a result, SG&A expenses rose by ¥1,652 million while SG&A ratio fell by 0.3 points.



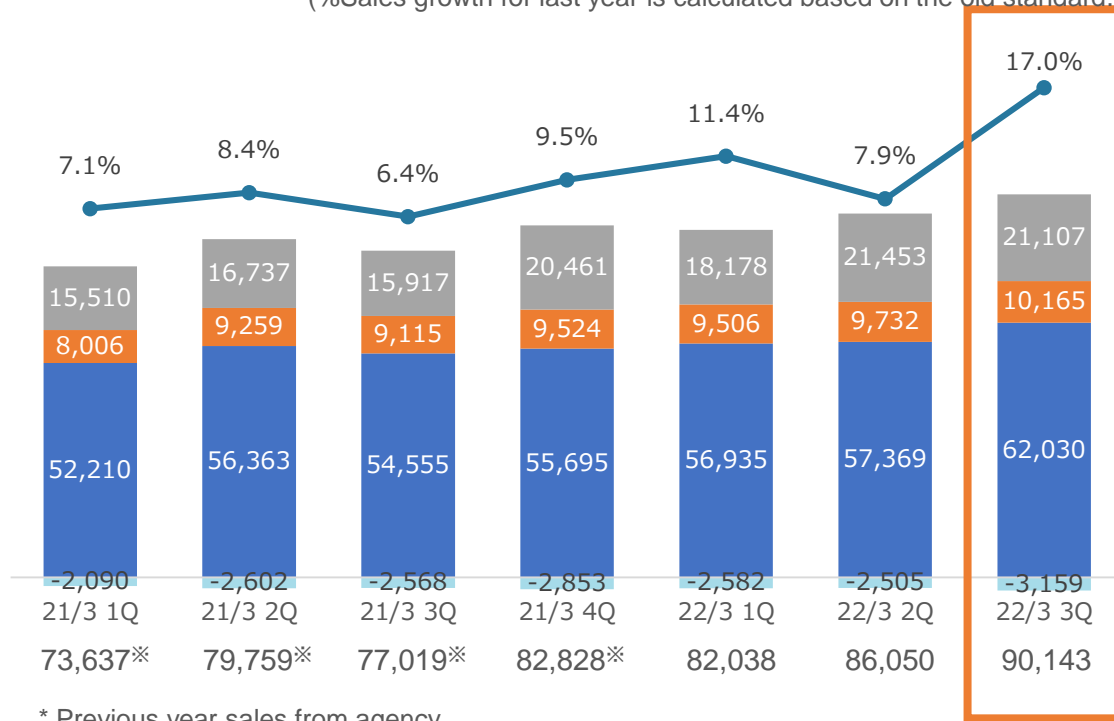
8. Consolidated Quarterly Performance Trend



- Q3 sales grew from Q2 of the current year due to additional orders from the public sector for Covid-19 related projects, and the growth rate accelerated.
- Q3 operating income rose from Q2 of the current year primarily due to order growth for Covid-19 related projects from the public sector and a reduced impact of a temporal cost increase related to the workplace vaccination programs.

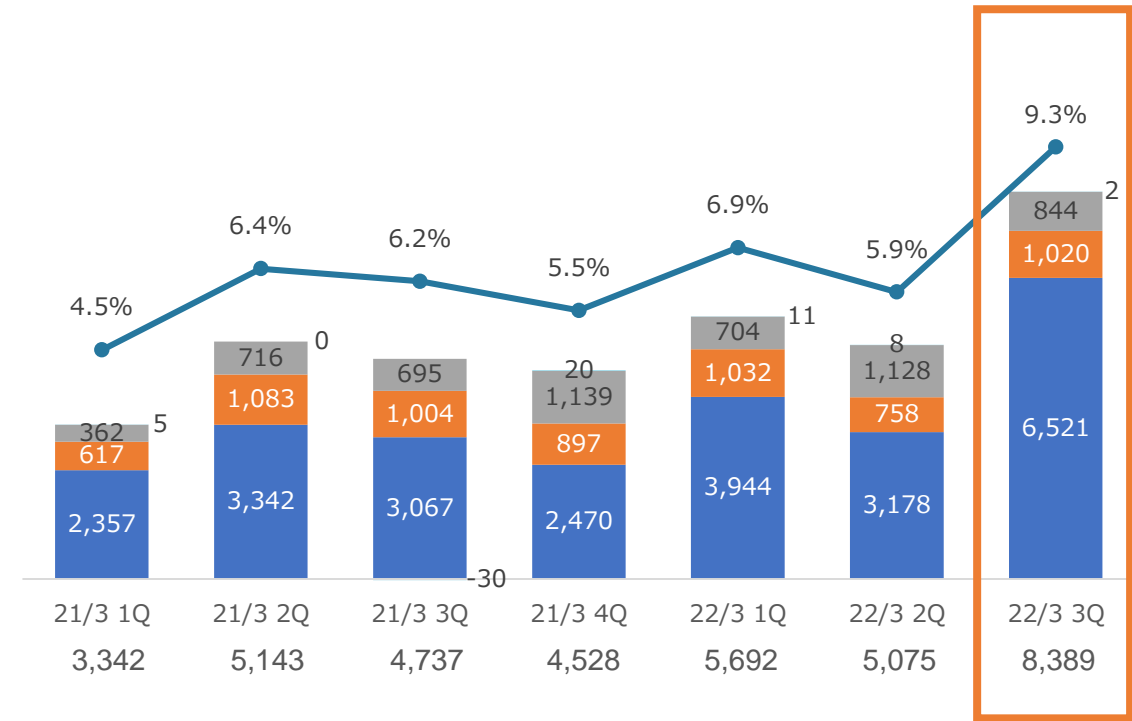
Sales

In ¥Million — %Sales Growth
 (%Sales growth for last year is calculated based on the old standard.)



Operating Income

In ¥Million — %Operating Income



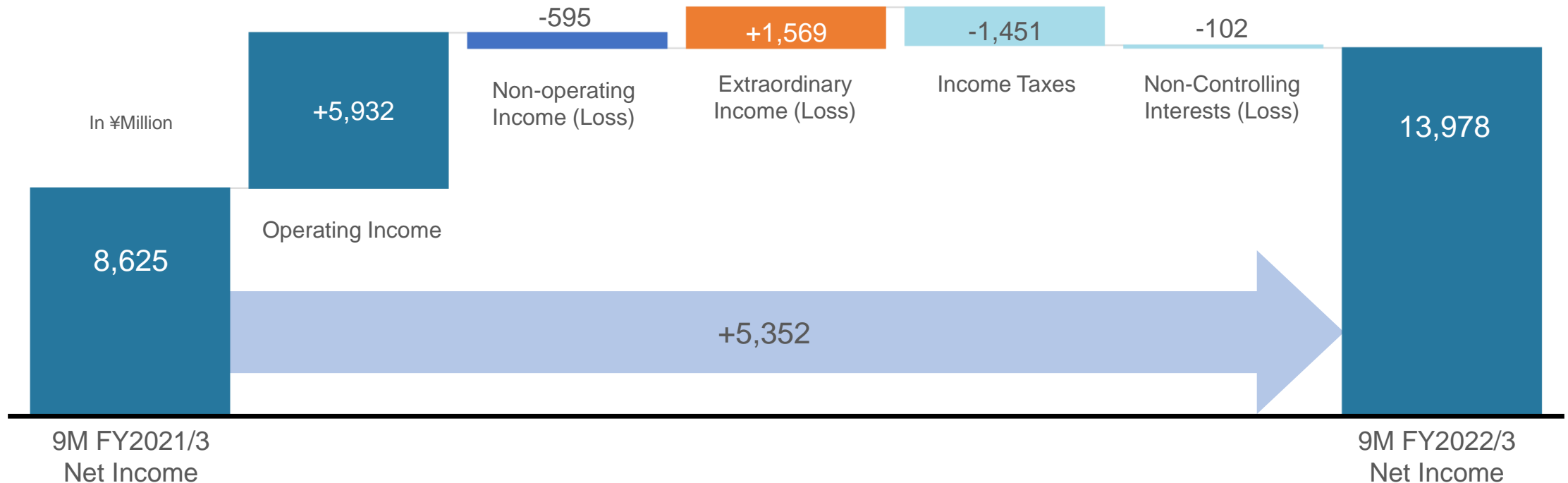
* Previous year sales from agency transactions are restated on a net basis.

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

9. transcocosmos inc. Quarterly Net Income Analysis

- transcosmos inc. quarterly net income increased by ¥5,352 million (+62.1%).

- Non-Operating Income (Loss)** Despite a reduction of losses from equity method affiliates, non-operating income fell by ¥595 million as a result of the recording of the Parent Company’s expenses related to the relocation of its headquarters.
- Extraordinary Income (Loss)** Extraordinary income grew by ¥1,569 million due to the recording of gains from changes in equity interests in UNQ as a result of its initial public offering, penalty income from the breach of an equity transfer agreement, and gains on sales of investment securities.



10. Consolidated Balance Sheet Summary

- Assets: (Current Assets) Notes, accounts receivable-trade and contract assets, and cash and deposits increased.
(Fixed Assets) Investment securities increased reflecting the fair market valuation of listed shares that the Company owns.
- Liabilities: Convertible bonds increased while accrued income taxes decreased.
- Net Assets: Retained earnings and net unrealized gains on other securities increased.

In ¥Million	End of Mar. 2021	End of Dec. 2021	Difference	
Current Assets	120,530	137,817	17,286	<ul style="list-style-type: none"> • Cash and deposits +3,592 • Notes and accounts receivables – trade +13,030
Fixed Assets	55,352	63,941	8,589	<ul style="list-style-type: none"> • Investment securities +8,161 • Shares of affiliates +1,406
Total Assets	175,883	201,758	25,875	
Current Liabilities	63,886	71,267	7,381	<ul style="list-style-type: none"> • Current portion of long-term loans payable +11,982 • Accrued income taxes -5,539
Fixed Liabilities	19,480	17,622	-1,857	
Total Liabilities	83,366	88,890	5,523	<ul style="list-style-type: none"> • Convertible bonds +10,099 • Long-term loans payable -11,997
Net Assets	92,516	112,868	20,351	
Liabilities/Net Assets Total	175,883	201,758	25,875	<ul style="list-style-type: none"> • Retained earnings +10,409 • Net unrealized gains on other securities +7,431
Cash and deposits	49,903	53,496	3,592	
Interest-bearing debt	19,097	28,136	9,038	
Net Cash*	30,806	25,359	-5,446	

* Net Cash = Cash and deposits – interest-bearing debt

(Reference) Listed Shares Held by the Company



- List of listed shares held by transcosmos inc.

In ¥Million

Type	Stock name	Market	Securities code	Fair value *
Shares of affiliates	J-Stream Inc.	TSE Mothers	4308	7,257
	APPLIED TECHNOLOGY CO.,LTD.	TSE JQS	4356	6,676
	PFSweb Inc.	NASDAQ	PFSW	4,809
	UNQ HOLDINGS LIMITED	HKEX	2177	3,278
	eMnet Inc.	KOSDAQ	123570	3,058
Investment securities	Infracommerce CXAAS S.A	Bovespa	IFCM3	7,561
	Menicon Co., Ltd.	First Section of TSE	7780	507
	Twilio Inc.	NYSE	TWLO	281
	Delivery Consulting Inc.	TSE Mothers	9240	251
	Mobilus Corporation	TSE Mothers	4370	245
	Japan Airlines Co., Ltd.	First Section of TSE	9201	96
	MIZUNO Corporation	First Section of TSE	8022	21
	MTG Co., Ltd.	TSE Mothers	7806	21
	JACCS CO., LTD.	First Section of TSE	8584	20
	The RealReal, Inc.	NASDAQ	REAL	2
Total				34,088

- List of listed shares held by Group companies

Type	Stock name	Market	Securities 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	4,396

* Fair values are calculated based on the closing price of January 28, 2022. Note that fair values of PFSweb, Infracommerce, Twilio and RealReal are calculated based on closing price of January 27, 2022.¹⁴

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

- Capital expenditures/Depreciation expenses

In ¥Million	9M FY2021/3	9M FY2022/3	%Difference
Capital expenditures	4,877	3,994	▲ 18.1%
Depreciation expenses	3,029	4,046	33.6%

- CAPEX

Decreased mainly due to the Parent Company's new office openings (current Headquarters/Main Office) in the same period last year.

- Depreciation and Amortization

Increased mainly due to restoration costs incurred for the move from the former Tokyo Main Office.

- Number of Employees

	End of Mar. 2021	End of Dec. 2021	Difference
Consolidated basis	35,760	38,331	2,571
(Temporary employees)	27,915	29,342	1,427
Parent Company	15,949	16,498	549
(Temporary employees)	22,915	22,888	-27

- Consolidated basis

Number of employees, including temporary employees, increased primarily due to order increase in South Korea and Southeast Asia.

- Parent Company

Number of employees increased primarily due to new graduate hires and order growth.

- Service Bases

	End of Mar. 2021	End of Dec. 2021	Difference
Service bases	167	171	4
(Japan)	64	67	3
(Overseas)	103	104	1

- Service Bases

Japan: Bases for BPO and digital marketing services increased.

Overseas: Opened new contact centers and other operations centers in South Korea, China and Vietnam.

*Service bases included the Company's own bases, head offices, branches, sales offices and bases of subsidiaries, associates, and partners.



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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.