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Q3 FY20 Consolidated Financial Results [JGAAP]

July 26, 2021

Company Name: Insource Co., Ltd.

Stock Exchange Listing: Tokyo

Code number: 6200

URL: <https://www.insource.co.jp/index.html>

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Scheduled date to submit the Quarterly Securities Report: August 12, 2021

Scheduled date to commence dividend payments: —

Availability of supplementary briefing material on quarterly results: Yes

Scheduled date of Quarterly Results Briefing Session: Not scheduled

1. Q3 FY20 Consolidated Financial Results (October 1, 2020 – June 30, 2021)

(1) Consolidated Financial Results (cumulative)

(% indicates changes from the previous year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	mil yen	%	mil yen	%	mil yen	%	mil yen	%
Q3 FY20	5,544	47.9	1,731	298.8	1,751	305.4	1,149	339.6
Q3 FY19	3,749	(6.0)	434	(54.0)	431	(54.1)	261	(57.9)

(Note) Comprehensive income: Q3 FY20 1,151 million yen (347.2%) Q3 FY19 257 million yen (-58.4%)

	Earnings per share	Fully diluted earnings per share
	yen sen	yen sen
Q3 FY20	27.40	27.38
Q3 FY19	6.22	6.21

(Note) We conducted a stock split on January 1, 2021, whereby each share of common stock was split into two shares. The above figures for "Earnings per share" and "Fully diluted earnings per share" are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	mil yen	mil yen	%
Q3 FY20	5,844	4,076	69.8
FY19 Full-year	4,344	2,883	66.4

(Reference) Equity: Q3 FY20 4,076million yen FY19 2,883million yen

2. Dividends

	Annual cash dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Annual
	yen sen	yen sen	yen sen	yen sen	yen sen
FY19 Full-year	—	0.00	—	18.50	18.50
FY20 Full-year	—	0.00	—		
FY20 (forecast)				10.00	10.00

(Note) Revisions of dividend forecast from recently announced figures: None

We conducted a stock split on January 1, 2021, whereby each share of common stock was split into two shares, but the amount of the year-end dividend for FY19 is the actual amount of the dividend.

3. Consolidated Financial Forecast for FY20 (October 1, 2020 – September 30, 2021)

(% indicates changes from the previous year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	mil yen	%	mil yen	%	mil yen	%	mil yen	%	yen sen
FY20 Full-year	7,700	50.4	2,400	206.0	2,410	202.9	1,600	259.2	38.22

(Note) Revisions of forecast of financial results from recently announced figures: None

We conducted a stock split on January 1, 2021, whereby each share of common stock was split into two shares. In the above, "Earnings per share" is calculated on the assumption that the stock split was conducted at the beginning of the current consolidated fiscal year.

* Notes

(1) Significant changes in subsidiaries during Q3 FY20

(changes in specific subsidiaries involving changes in the scope of consolidation): None

(2) Specific accounting methods for quarterly consolidated financial statements: Yes

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Notes (3) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements)" on page 7 of the attached materials.

(3) Changes in accounting policies, estimates and restatements

- (i) Changes in accounting policies due to the revision of accounting standards : None
- (ii) Changes in accounting policies other than (3)-(i) : None
- (iii) Changes in accounting estimates : None
- (iv) Restatements : None

(4) Total number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

Q3 FY20	42,621,500 shares	FY19 full-year	42,621,500 shares
Q3 FY20	525,984 shares	FY19 full-year	767,136 shares
Q3 FY20	41,941,339 shares	Q3 FY19	42,019,262 shares

(ii) Total number of treasury shares at the end of the period

(iii) Average number of shares during the period (cumulative)

(Note) We conducted a stock split on January 1, 2021, whereby each share of common stock was split into two shares. The above number of shares was calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants and audit corporations.

* Explanation for the appropriate use of financial forecasts and other special notes:

(Cautionary note on forward-looking statement)

The statements regarding forecast of financial results in this report are based on the information that is available to the Company, as well as certain assumptions that are deemed to be reasonable by management, and they are not meant to be a commitment by the Company. Therefore, there might be cases in which actual results differ materially from forecast figures due to various factors. For the suppositions that form the assumptions for financial forecasts and cautions concerning the use thereof, please refer to "1. Qualitative Information on Quarterly Financial Results (3) Consolidated Financial Forecasts" on page 3 of this report.

(How to obtain supplementary explanatory materials for quarterly financial results)

Supplementary materials for quarterly financial results are disclosed via TDnet on the same day.

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1. Qualitative Information on Quarterly Financial Results

(1) Operating Results Analysis

In the consolidated cumulative third quarter of the current fiscal year (from October 1, 2020 to June 30, 2021), as the coronavirus crisis continues, the career development education market has continued to undergo a structural change from face-to-face training to three options depending on individual environments: face-to-face, online and e-learning/ videos. Online training has spread to areas outside of Tokyo and has become more common nationwide.

In response to this situation, we strengthened our service delivery with "Speed and Focus" in the third quarter. In April, we provided the record high number of trainings (ex. training for new employees). In June, we provided the service to support for vaccination operations using "Leaf" (HR support system, LMS*) before the workplace vaccination to address the coronavirus crisis.

With these efforts, the number of On-Site Training increased by 152.7% YoY, and the online ratio remained high, although it decreased to 46.2% reflecting the persistent need for face-to-face training for new employees. In addition, profitability improved in online trainings due to higher unit prices, and gross profit in On-Site Training business increased by 170.9% YoY. The number of attendees at Open Seminars increased by 114.3% YoY, and the online ratio reached 76.2%. Gross profit in Open Seminars increased by 199.7% YoY, due to an increase in the number of attendees per seminar as online trainings are easy to attend from all over Japan. Also, the number of paid subscribers of "Leaf" (HR support system, LMS) increased by 42 organizations QoQ, and the number of users exceeded 1.6 million. Due to an increase in Leaf's monthly subscription fees, gross profit in IT Services business increased by 76.4% YoY. Gross profit in Other Businesses increased by 104.2% YoY, although growth in e-Learning/videos slowed down due to seasonal factors.

As a result for the consolidated cumulative third quarter of the current fiscal year, net sales were 5,544,283 thousand yen, operating profit was 1,731,988 thousand yen, ordinary profit was 1,751,285 thousand yen, and profit attributable to owners of parent was 1,149,120 thousand yen.

*LMS (Learning Management System): "Learning management systems" required for e-learning activities.

■ Net sales by business for the third quarter of the 19th fiscal year (Unit: thousand yen)

Business	Q3 FY20 (Oct. 1, 2020 - Jun. 30, 2021)	YoY(%)	Q3 FY19 (Oct. 1, 2019 - Jun. 30, 2020)
On-Site Training	2,857,018	144.2	1,981,382
Open Seminars	1,362,641	141.1	965,601
IT Services	721,623	166.6	433,245
Other Businesses	602,999	163.4	369,092
Total	5,544,283	147.9	3,749,322

(Note) 1. Since our Group has a single business segment, which is the education service business, the information herein is presented by business category instead of segment.

2. Consumption tax is not included in the above amounts.

(2) Financial Conditions Analysis

(Assets)

Total assets at the end of the third quarter of the current fiscal year increased by 1,499,819 thousand yen compared to the end of the previous fiscal year to 5,844,384 thousand yen. This was mainly because of an increase of 577,345 thousand yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the third quarter of the current fiscal year increased by 306,569 thousand yen to 1,767,876 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 336,096 thousand yen in income taxes payable.

(Net assets)

Net assets at the end of the third quarter of the current fiscal year increased by 1,193,250 thousand yen to 4,076,507 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 761,967 thousand yen in retained earnings.

(3) Consolidated Financial Forecasts

There is no change to the consolidated financial forecast for the fiscal year ending September 30, 2021 from the forecast announced on May 6, 2021. Please be reminded that the financial forecast has been prepared based on the information currently available, and actual results may differ from these forecasts due to various factors in the future.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: thousand yen)

	FY19 (As of Sep. 30, 2020)	Q3 FY20 (As of Jun. 30, 2021)
Assets		
Current assets		
Cash and deposits	2,219,868	2,797,214
Accounts receivable - trade	684,631	606,714
Inventories	24,577	30,806
Other	97,642	212,548
Allowance for doubtful accounts	(1,484)	(2,542)
Total current assets	3,025,236	3,644,741
Non-current assets		
Property, plant and equipment		
Land	409,978	694,271
Other, net	315,192	409,453
Total property, plant and equipment	725,171	1,103,724
Intangible assets		
Goodwill	25,333	18,424
Software	98,813	95,161
Leasehold interests in land	—	302,906
Other	12,998	798
Total intangible assets	137,145	417,291
Investments and other assets	457,011	678,626
Total non-current assets	1,319,328	2,199,642
Total assets	4,344,564	5,844,384
Liabilities		
Current liabilities		
Accounts payable - trade	88,250	102,432
Accounts payable - other	467,434	139,231
Income taxes payable	87,095	423,192
Advances received	595,950	620,917
Provision for bonuses for directors (and other officers)	—	11,385
Provision for bonuses	—	169,349
Other	141,043	243,384
Total current liabilities	1,379,775	1,709,893
Non-current liabilities		
Asset retirement obligations	81,531	57,982
Total non-current liabilities	81,531	57,982
Total liabilities	1,461,307	1,767,876
Net assets		
Shareholders' equity		
Share capital	800,623	800,623
Capital surplus	641,793	854,983
Retained earnings	2,129,879	2,891,847
Treasury shares	(689,856)	(474,207)
Total shareholders' equity	2,882,439	4,073,246
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	817	3,261
Total accumulated other comprehensive income	817	3,261
Total net assets	2,883,257	4,076,507
Total liabilities and net assets	4,344,564	5,844,384

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the six months ended June 30, 2021)

(Unit: thousand yen)

	Q3 FY19 (Oct. 1, 2019 - Jun. 30, 2020)	Q3 FY20 (Oct. 1, 2020 - Jun.30, 2021)
Net sales	3,749,322	5,544,283
Cost of sales	1,131,524	1,304,256
Gross profit	2,617,797	4,240,026
Selling, general and administrative expenses	2,183,532	2,508,038
Operating profit	434,265	1,731,988
Non-operating income		
Interest income	268	260
Dividend income	369	272
Foreign exchange gains	27	211
Subsidies for employment adjustment	2,170	12,600
Subsidy income	—	3,216
Other	1,487	3,367
Total non-operating income	4,323	19,928
Non-operating expenses		
Interest expenses	—	631
Share of loss of entities accounted for using equity method	5,768	—
Commission for purchase of treasury shares	853	—
Total non-operating expenses	6,621	631
Ordinary profit	431,966	1,751,285
Extraordinary losses		
Loss on valuation of investment securities	38,200	50,859
Loss on retirement of non-current assets	—	383
Impairment loss	—	12,199
Total extraordinary losses	38,200	63,442
Profit before income taxes	393,766	1,687,843
Income taxes	132,365	538,723
Profit	261,401	1,149,120
Profit attributable to owners of parent	261,401	1,149,120

(Quarterly Consolidated Statements of Comprehensive Income)
(For the six months ended June 30, 2021)

(Unit: thousand yen)

	Q3 FY19 (Oct. 1, 2019 - Jun. 30, 2020)	Q3 FY20 (Oct. 1, 2020 - Jun. 30, 2021)
Profit	261,401	1,149,120
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,902)	2,443
Total other comprehensive income	(3,902)	2,443
Comprehensive income	257,498	1,151,564
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	257,498	1,151,564
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes to Quarterly Consolidated Financial Statements

(Notes related to the Going Concern Assumption)

Not applicable

(Notes to Significant Changes in the Amount of Shareholders' Equity)

Capital surplus increased by 225,745 thousand yen and treasury shares decreased by 204,684 thousand yen in the consolidated cumulative third quarter of the current fiscal year due to the disposal of 227,500 treasury shares as share compensation with restricted share ownership to employees of Insource Co., Ltd. and its subsidiaries as of April 1, 2021 resolved at the meeting of the Board of Directors held on January 25, 2021.

As a result, capital surplus was 854,983 thousand yen and treasury shares was 474,207 thousand yen at the end of the third quarter of the current fiscal year.

(Application of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements)

(Calculating Tax Expense)

With respect to the calculation of tax expenses, reasonable estimations are performed on an effective tax rate established after applying tax accounting to profit before income taxes for the consolidated fiscal year, which includes the third quarter of the consolidated fiscal year review, and such tax expenses are calculated by multiplying this estimated effective tax rate by profit before income taxes.

(Additional Information)

In assessing and evaluating the recoverability of fixed assets and deferred tax assets, we have made accounting estimates based on the assumption that impact of the spread of coronavirus in the Group's training business will continue although the trend is recovering. It is possible that results based on actual results in the future may differ from these estimates and assumptions.

(Segment Information)

This information is omitted because the Group operates in a single segment of the education service business.

(Significant subsequent events)

Not applicable