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Q1 FY21 Consolidated Financial Results [JGAAP]

January 24, 2022

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: February 14, 2022

Scheduled date to commence dividend payments: —

Availability of supplementary briefing material on quarterly results: Yes

Scheduled date of Quarterly Results Briefing Session: Not scheduled

(Amounts are rounded down to the nearest million yen)

1. Q1 FY21 Consolidated Financial Results (October 1, 2021 – December 31, 2021)

(1) Consolidated Financial Results

(% 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	%
Q1 FY21	2,192	20.8	775	20.0	765	16.1	522	15.5
Q1 FY20	1,814	11.7	646	56.1	659	58.9	452	63.7

(Note) Comprehensive income: Q1 FY21 520 million yen (14.9%) Q1 FY20 453 million yen (63.7%)

	Earnings per share	Fully diluted earnings per share
	yen sen	yen sen
Q1 FY21	12.42	12.41
Q1 FY20	10.81	10.80

(Note) 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" and "Fully diluted earnings per share" are calculated on the assumption that the said stock split was conducted at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	mil yen	mil yen	%
Q1 FY21	6,460	4,368	67.6
FY20 Full-year	6,766	4,500	66.5

(Reference) Shareholders' equity: Q1 FY21 4,368 million yen FY20 4,500 million 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
FY20 Full-year	—	0.00	—	15.50	15.50
FY21 Full-year	—	—	—	—	—
FY21 (forecast)	—	0.00	—	17.00	17.00

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

3. Consolidated Financial Forecast for FY21 (October 1, 2021 – September 30, 2022)

(% 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
Q2 FY21 (Cumulative)	4,190	14.0	1,230	(2.2)	1,230	(3.4)	830	0.8	19.47
FY21 Full-year	8,900	18.6	2,600	8.1	2,600	7.6	1,770	12.7	41.53

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

* Notes

(1) Significant changes in subsidiaries during Q1 FY21

(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 | : Yes |
| (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 stocks)

(i) Total number of issued shares at the end of the period (including treasury stocks)	Q1 FY21	42,621,500 shares	FY20	42,621,500 shares
(ii) Total number of treasury stocks at the end of the period	Q1 FY21	530,311 shares	FY20	529,534 shares
(iii) Average number of shares during the period	Q1 FY21	42,090,063 shares	Q1 FY20	41,859,179 shares

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

* These quarterly consolidated financial results are outside the scope of an audit 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 the 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 details, please refer to "1. Qualitative Information on Quarterly Financial Results" on page 2 of the attached materials.

(How to obtain supplementary explanatory materials for financial results)

Supplementary briefing material on quarterly results is disclosed via TDnet on the same day.

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1. Qualitative Information on Quarterly Financial Results

(1) Description of Business Results

In the first quarter of the current fiscal year (October 1, 2021, to December 31, 2021), although the number of new COVID-19 infections continued to decline, the career training market is still undergoing a structural change in which organizations choose the best education method that suits their environment, such as online training and e-learning/videos, in addition to the traditional face-to-face training.

In response to this situation, the Group strengthened the development of training content that matches the needs of the corporate scale. Also, the Group enhanced non-face-to-face services such as online training, "Leaf"(HR support system, LMS (*1)), and e-learning/videos, as well as face-to-face trainings.

As for the On-Site Training business, the number of online training conducted in the private sector increased and the number of training conducted increased by 12.4% YoY, which reached a record high.

For Open Seminars business, although the impact of COVID-19 remained at beginning of the term, the number of attendees began to recover from November and the total number of attendees increased by 10.5% YoY.

About IT Services, the number of paid organizations for Leaf (HR supporting system, LMS) increased to 432 (+134, + 45% YoY). Total users exceed 1.84 million as of the end of December 2021, and Leaf's monthly subscription fees (MRR(*2)) has increased steadily, with ARR(*3) increasing 53.9% YoY to 586 million yen.

In Other Businesses, the Web marketing business, which was introduced in the previous quarter, contributed to sales. Also, sales of new e-learning products with high unit prices increased.

As a result of the above, for the first quarter of the fiscal year, net sales is 2,192,609 thousand yen (+ 20.8% YoY), operating profit is 775,470 thousand yen (+ 20.0% YoY), ordinary profit is 765,713 thousand yen (+ 16.1%YoY), and profit attributable to owners of parent is 522,734 thousand yen (+ 15.5% YoY), and both net sales and profits reached record highs for the quarter.

*1:LMS (Learning Management System): A system necessary for implementing e-learning.

*2:MRR: Monthly Recurring Revenue

*3:ARR: Annual Recurring Revenue. Calculated by multiplying the MRR of the last month of each term by 12.

■ Net sales by business for the first quarter of FY21 (Unit: thousand yen)

Business	Q1 FY21 (Oct. 1, 2021 - Dec. 31, 2021)	YoY (%)	Q1 FY20 (Oct. 1, 2020 -Dec. 30, 2021)
On-Site Training	1,248,796	117.1	1,066,397
Open Seminars	507,230	113.5	447,008
IT Service	203,533	135.6	150,149
Other Businesses	233,048	154.5	150,860
Total	2,192,609	120.8	1,814,415

(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 the segment.

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

(2) Overview of Financial Position

(Assets)

Total assets at the end of the first quarter of the current fiscal year decreased by 305,955 thousand yen compared to the end of the previous fiscal year to 6,460,749 thousand yen, mainly due to a decrease of 315,987 thousand yen in cash and deposits.

(Liabilities)

Total liabilities decreased by 174,218 thousand yen compared to the end of the previous fiscal year to 2,092,061 thousand yen, mainly due to a decrease of 491,396 thousand yen in income taxes payable.

(Net Assets)

Net assets decreased by 131,736 thousand yen compared to the end of the previous fiscal year to 4,368,688 thousand yen. This was mainly due to a decrease of 129,690 thousand yen in retained earnings.

(3) Consolidated Financial Forecasts

There is no change to the full-year consolidated financial forecast for FY21 from the forecast announced on November 4, 2021. The forecasts are based on information available at the time of preparation 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)

	FY20 (As of Sep. 30, 2021)	Q1 FY21 (As of Dec. 31, 2021)
Assets		
Current assets		
Cash and deposits	2,624,111	2,308,123
Accounts receivable - trade	882,846	911,104
Inventories	51,283	64,843
Other	203,441	200,248
Allowance for doubtful accounts	(1,994)	(1,182)
Total current assets	3,759,687	3,483,137
Non-current assets		
Property, plant, and equipment		
Land	1,179,658	1,179,658
Other, net	700,019	719,805
Total property, plant, and equipment	1,879,678	1,899,464
Intangible assets		
Leasehold interests in land	305,984	305,984
Goodwill	53,120	48,869
Software	92,624	98,264
Other	951	152
Total intangible assets	452,680	453,271
Investments and other assets	674,658	624,876
Total non-current assets	3,007,017	2,977,612
Total assets	6,766,705	6,460,749
Liabilities		
Current liabilities		
Accounts payable - trade	114,029	106,367
Short-term borrowings	2,340	502,340
Accounts payable - other	399,621	168,809
Income taxes payable	758,874	267,478
Advances received	599,026	569,590
Provision for bonuses	—	169,405
Provision for bonuses for directors (and other officers)	—	7,752
Other	328,417	242,401
Total current liabilities	2,202,311	2,034,144
Non-current liabilities		
Asset retirement obligations	59,504	54,037
Other	4,465	3,880
Total non-current liabilities	63,969	57,917
Total liabilities	2,266,280	2,092,061
Net assets		
Shareholders' equity		
Share capital	800,623	800,623
Capital surplus	854,983	848,822
Retained earnings	3,313,927	3,184,237
Treasury stocks	(472,612)	(466,445)
Total shareholders' equity	4,496,921	4,367,237
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,503	1,450
Total accumulated other comprehensive income	3,503	1,450
Total net assets	4,500,424	4,368,688
Total liabilities and net assets	6,766,705	6,460,749

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the three months ended December 31, 2021)

(Unit: thousand yen)

	Q1 FY20 (Oct. 1, 2020- Dec. 31, 2020)	Q1 FY21 (Oct. 1, 2021- Dec. 31, 2021)
Net sales	1,814,415	2,192,609
Cost of sales	423,796	513,674
Gross profit	1,390,619	1,678,934
Selling, general and administrative expenses	744,132	903,463
Operating profit	646,486	775,470
Non-operating income		
Interest income	2	3
Dividend income	68	75
Foreign exchange gains	—	217
Subsidies for employment adjustment	12,100	—
Subsidy income	1,011	—
Income from sales of goods	—	1,444
Other	101	815
Total non-operating income	13,284	2,556
Non-operating expenses		
Interest expenses	124	131
Foreign exchange losses	105	—
Loss on extinguishment of stock-based compensation expenses	—	12,182
Total non-operating expenses	229	12,313
Ordinary profit	659,541	765,713
Extraordinary losses		
Loss on valuation of investment securities	459	—
Total extraordinary losses	459	—
Profit before income taxes	659,082	765,713
Income taxes	206,546	242,978
Profit	452,535	522,734
Profit attributable to owners of parent	452,535	522,734

(Quarterly Consolidated Statements of Comprehensive Income)
(For the three months ended December 31, 2021)

(Unit: thousand yen)

	Q1 FY20 (Oct. 1, 2020- Dec. 31, 2020)	Q1 FY21 (Oct. 1, 2021- Dec. 31, 2021)
Profit	452,535	522,734
Other comprehensive income		
Valuation difference on available-for-sale securities	656	(2,052)
Total other comprehensive income	656	(2,052)
Comprehensive income	453,191	520,682
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	453,191	520,682
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 Change in the Amount of Shareholders' Equity)

Not applicable

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

(Calculating Tax Expense)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to income before income taxes for the fiscal year, including the first quarter under review, and multiplying quarterly income before income taxes by the effective tax rate.

(Changes in Accounting Principles)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) (hereinafter referred to as “Revenue Recognition Accounting Standards”), etc. from the beginning of the first quarter of FY21 and recognizes revenue as the amount expected to be received in exchange for the promised goods or services when the control of the goods or services is transferred to the customer. This has no impact on the quarterly consolidated financial statements.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) (hereinafter, “Fair Value Measurement Accounting Standards”), etc. from the beginning of the first quarter of FY21. In accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standards and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policies set forth in the Fair Value Measurement Accounting Standards, etc. at a future date. This has no impact on the quarterly consolidated financial statements.

(Additional Information)

In assessing the possibility of impairment of non-current assets and the recoverability of deferred tax assets, the Company has assumed that the impact of the COVID-19 pandemic in the Group's training business will continue for a certain period in FY21, but that demand will recover in the second half of FY21. However, 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)

(Disposal of Treasury Stock for Restricted Stock Compensation)

The Company, at a meeting of its Board of Directors held on January 12, 2022, resolved to dispose of its treasury stock (hereinafter the “Disposal of Treasury Stock” or the “Disposal”) for the restricted stock compensation.

1. Overview of the Disposal

(1)	Disposal date	February 1, 2022
(2)	Class and number of stock to be disposed of	Common stock of the Company: 9,100 shares
(3)	Disposal Amount	2,344 yen per share
(4)	Total Disposal Amount	21,330,400 yen
(5)	Allottees and Number thereof, Number of Stocks to be Disposed of	5 Directors (excluding Outside Directors) 5,720 shares 12 Executive Officers (excluding concurrent posts as a director) 2,800 shares 3 Representative directors of its Subsidiaries: 580 shares
(6)	Others	The Disposal of Treasury Stock is conditioned on the Securities Registration Statement taking effect by the Financial Instruments and Exchange Act.

2. Purposes and Reasons for Disposal

The Company decided, at the Board of Directors meeting held on November 25, 2021, to provide a restricted stock compensation plan (hereinafter the “plan”) for its directors (excluding outside directors. Hereinafter the “eligible directors”) to provide them with incentives to continuously improve the value of the Company and to further promote shared value with shareholders.

And at the General Meeting of Shareholders held on December 17, 2021, it was approved that the annual amount of remuneration for directors shall be 200 million yen or less (including 20 million yen or less for outside directors), the total amount of compensation to be paid to the eligible directors shall be within 40 million yen per year within the range of the revised amount of remuneration and that the restricted period on stock transfer shall be 3 years dated from the receipt of the allotted share.

The following presents the overview of the plan.

【Outline of the Plan】

The eligible directors will pay all of the monetary compensation claims paid by the Company under the compensation plan as contribution in kind and receive the issuance or disposal of the Company's common stock.

The total number of shares of the Company's common stock to be issued or disposed of under the plan shall be within 17,500 shares per year. The price to be paid in for restricted stock to be issued or disposed of under the compensation plan shall be determined by the Board of Directors of the Company based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the day of the resolution of the Board of Directors of the Company (or the closing price of the most recent business day if no trading on the day above), to the extent that the amount is not particularly advantageous to the eligible directors.

If the Company issues or disposes of shares of the Company's common stock under this compensation plan, the Company and the eligible directors shall enter into an allotment agreement of restricted stock (hereinafter the "Allotment Agreement"), which shall include the following matters:

- ① The eligible directors may not transfer, grant security interests in, or otherwise dispose of the common stock of the Company allotted to them under the Allotment Agreement for a predetermined period.
- ② If certain events occur, the Company may acquire the relevant common stock without compensation.

Following the resolution of the General Meeting of Shareholders to approve the plan for eligible directors, the Company has decided to introduce the same restricted stock compensation plan for the Company's executive officers and representative directors of the Company's subsidiaries. (hereinafter the “plan”). And the company's directors, executive officers, and representative directors of subsidiaries are referred to as “eligible directors, etc.”

Under the resolution of the Board of Directors meeting held today, the Company has decided to provide the total sum of the monetary compensation claims of 19,970,880 yen for 5 directors (excluding outside directors) and 12 executive officers, and 1,359,520 yen for 3 representative directors of its subsidiaries. (hereinafter the “Total Monetary Compensation Claims”). The eligible directors, etc. will receive 9,100 shares of the Company's common stock as all the monetary compensation claims by contribution in kind under the compensation plan. The amount of the monetary compensation claim is determined by the Board of Directors of the Company and consultation with directors of subsidiaries, after upon the receipt of the report by the Nomination and Compensation Committee response to the consultation, considering various factors such as the business performance of the Company and the responsibilities of each eligible director, etc. and others. In addition, the monetary compensation claims will be paid according to the terms of the below allotment agreement concluded between the eligible directors, etc., and the Company.

3. Overview of the Allotment Agreement

(1) Transfer restriction period: From February 1, 2022, to January 31, 2025

During the above period of transfer restriction (hereinafter the "restriction period"), the eligible directors, etc. shall not be able to assign, pledge, grant a security interest in, give a living will to, bequeath, or otherwise dispose of any allotted shares (hereinafter the "allotted shares"), to any third party. (Hereinafter the "Transfer Restriction")

(2) Conditions for removing transfer restriction

The Company will remove the restriction on transfer of the allotted shares upon expiration of the restriction period, provided that the eligible directors, etc. have continuously served as any of the positions of director, executive officer of the Company, and representative director of the subsidiaries.

However, if the eligible director, etc. retires from the above-mentioned position before the expiration of the restriction period with the justifiable reason that is deemed by the Board of Directors of the Company, the number of the allotted shares and the time to be removed the transfer restriction shall be reasonably adjusted as necessary.

(3) Acquisition of restricted stock without compensation

If the eligible directors, etc. resign from his or her position as director, executive officer of the Company, and representative director of the subsidiaries before the expiration of the restriction period except there is a justifiable reason that is deemed by the Board of Directors of the Company, the Company shall acquire all or part of the allotted shares without compensation.

In addition, the Company will naturally acquire without compensation such the allotted shares of which the transfer restrictions have not been removed regardless of the expiration of the period, with conditions stipulated in the overview of the allotment agreement (2).

(4) Treatment in the event of organizational restructuring, etc.

If a matter concerning the organizational restructuring, etc. of the Company, such as a merger agreement whereby the Company will be the non-surviving party to the merger, or a share exchange agreement or share transfer plan whereby the Company will become a wholly-owned subsidiary of another entity, is approved at the Company's General Meeting of Shareholders (or by the Company's Board of Directors if such organizational restructuring, etc. does not require approval at a Company's General Meeting of Shareholders) during the transfer restriction period, the Company will remove the transfer restriction on the allotted shares on a date before the effective date of such organizational restructuring, etc. In the case stipulated above, the Company will naturally acquire the allotted shares without consideration at the time immediately after the transfer restriction is removed, where the transfer restriction has not yet been removed.

(5) Management of the allotted shares

To prevent the allotted shares from being transferred, collateralized, or otherwise be disposed of during the transfer restriction period, the allotted shares shall be managed by a specified securities firm during the transfer restriction period in a dedicated account opened by each eligible director, etc., at Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

4. Basis for Calculating the Amount to be Paid and its Specific Details

To avoid arbitrary pricing, the disposal price for the disposal of treasury stock shall be set at 2,344 yen, which is the closing price of a share of the Company's common stock in the Tokyo Stock Exchange on January 11, 2022 (the business day immediately preceding the day of the resolution of the Board of Directors of the Company). This is the market share price immediately before the date of the resolution, and the Company believes that it is a reasonable and not particularly advantageous price.