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## 1Q FY22 Consolidated Financial Results [JGAAP]

January 25, 2023

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, 2023

Scheduled date to commence dividend payments: -

Availability of supplementary briefing material on quarterly results: Yes

Scheduled date of Financial Results Briefing: Not scheduled

(Amounts are rounded down to the nearest million yen)

### 1. 1Q FY22 Consolidated Financial Results (October 1, 2022 – December 31, 2022)

#### (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	%
1Q FY22	2,586	18.0	893	15.2	891	16.4	610	16.8
1Q FY21	2,192	20.8	775	20.0	765	16.1	522	15.5

(Note) Comprehensive income: 1Q FY22 610 million yen (17.2%) 1Q FY21 520 million yen (14.9%)

	Earnings per share	Fully diluted earnings per share
	yen sen	yen sen
1Q FY22	7.25	7.25
1Q FY21	6.21	6.21

(Note) The Company conducted a stock split on January 1, 2023, 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	%
1Q FY22	7,739	5,830	75.3
FY21 Full-year	8,729	6,125	70.2

(Reference) Shareholders' equity: 1Q FY22 5,830 million yen FY21 Full-year 6,125 million yen

### 2. Dividends

	Annual cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	yen sen	yen sen	yen sen	yen sen	yen sen
FY21 Full-year	—	0.00	—	21.50	21.50
FY22 Full-year	—				
FY22 (forecast)		0.00	—	12.50	12.50

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

The Company conducted a stock split on January 1, 2023, whereby each share of common stock was split into two shares, but the amount of the year-end dividend for FY21 is the actual amount of the dividend.

### 3. Consolidated Financial Forecast for FY22 (October 1, 2022 – September 30, 2023)

(% 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
2Q FY22 (Cumulative)	5,370	19.1	1,830	9.3	1,825	10.0	1,245	9.6	14.79
FY22 Full-year	11,050	17.3	3,730	10.8	3,720	11.2	2,540	13.7	30.17

(Note) Revisions of forecast of financial results from recently announced figures: No

The Company conducted a stock split on January 1, 2023, whereby each share of common stock was split into two shares. In the above, "Earnings per share" is calculated on the assumption that the said stock split was conducted at the beginning of the current consolidated fiscal year.

#### \* Notes

(1) Significant changes in subsidiaries during 1Q FY22

(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)	1Q FY22	85,243,000 shares	FY21	85,243,000 shares
(ii) Total number of treasury stocks at the end of the period	1Q FY22	1,054,690 shares	FY21	1,048,690 shares
(iii) Average number of shares during the period (cumulative)	1Q FY22	85,190,317 shares	1Q FY21	84,180,126 shares

(Note) The Company conducted a stock split on January 1, 2023, 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 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 financial results)

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

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Description of Business Results

The needs of career training market are strong because of growing concerns for improving labor productivity and reskilling efforts, as well as for human capital management that leads to higher corporate value. The career training market in the current fiscal year (From October 1, 2022 to December 31, 2022) has been recovering due to an increase in face-to-face training.

Amid this situation, to solve issues in human capital management, the Group strengthened its services such as trainings including DX areas, human capital information management tool based on “Leaf” (LMS, HR support system) (\*1), and development and promotion of services in the field of assessment.

Regarding On-Site Training Business, the number of training conducted was only 6.2% YoY despite an increase in the number of face-to-face and DX trainings conducted in the private sectors, as the public sector’s trainings declined reactionary following the lifting of the emergency declaration in the first quarter of the previous year.

In Open Seminars Business, the total number of attendees increased by 22.6% YoY thanks to an increase in the number of trainings conducted including new ones, and the “Python Academy’s” (\*2) strong performance.

About IT Services, the number of paid subscribers of “Leaf” (LMS, HR support system) increased to 551 (+119, +27.5% YoY) and total users exceed 2.43 million as of the end of December 2022. Leaf’s monthly subscription fees (MRR (\*3)) increased steadily, and ARR (\*4) grew 17.8% YoY to 660 million yen. Customization sales decreased 35.3% YoY due to shift of delivery dates to the 2Q FY22.

In Other Businesses, highly profitable e-Learning sales remained strong, and sales from BAS Corporation, which became part of the Group in June 2022, contributed to the increase.

As a result of the above, consolidated financial results for this first quarter are as follows; net sales were 2,586,820 thousand yen (+18.0% YoY), operating profit was 893,391 thousand yen (+15.2% YoY), ordinary profit was 891,169 thousand yen (+16.4% YoY), profit attributable to owners of parent was 610,708 thousand yen (+16.8% YoY).

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

\*2:Python Academy: Basic courses for programming language "Python"

\*3:MRR: Monthly Recurring Revenue

\*4: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 FY22

(Unit: thousand yen)

Business	1Q FY22 (Oct.1,2022 – Dec.31,2022)	YoY(%)	1Q FY21 (Oct.1,2021 – Dec.31,2021)
On-Site Training	1,397,919	111.9	1,248,796
Open Seminars	631,268	124.5	507,230
IT Services	213,808	105.0	203,533
Other Businesses	343,822	147.5	233,048
Total	2,586,820	118.0	2,192,609

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

### (2) Overview of Financial Position

#### (Assets)

Total assets at the end of the first quarter of the current fiscal year decreased by 990,708 thousand yen compared to the end of the previous fiscal year to 7,739,081 thousand yen, mainly due to a decrease of 1,296,152 thousand yen in cash and deposits.

#### (Liabilities)

Total liabilities decreased by 695,585 thousand yen compared to the end of the previous fiscal year to 1,908,768 thousand yen, mainly due to a decrease of 480,357 thousand yen in income taxes payable.

#### (Net Assets)

Net assets decreased by 295,123 thousand yen compared to the end of the previous fiscal year to 5,830,313 thousand yen. This was mainly due to a decrease of 294,380 thousand yen in retained earnings.

(3) Consolidated Financial Forecasts

There is no change to the full-year consolidated financial forecast for FY22 from the forecast announced on November 4, 2022. 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)

	FY21 (As of Sep.30, 2022)	1Q FY22 (As of Dec.31, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	3,827,499	2,531,347
Notes receivable - trade	678	678
Accounts receivable - trade	1,188,038	1,159,292
Inventories	38,127	58,392
Other	207,727	206,257
Allowance for doubtful accounts	(1,256)	(1,510)
<b>Total current assets</b>	<b>5,260,816</b>	<b>3,954,458</b>
Non-current assets		
Property, plant and equipment		
Buildings, net	1,161,503	1,148,075
Land	1,179,658	1,179,658
Other, net	85,849	91,303
<b>Total property, plant and equipment</b>	<b>2,427,011</b>	<b>2,419,037</b>
Intangible assets		
Leasehold interests in land	305,984	305,984
Goodwill	36,118	31,868
Software	104,207	106,977
Other	346	346
<b>Total intangible assets</b>	<b>446,657</b>	<b>445,176</b>
Investments and other assets	595,304	920,409
<b>Total non-current assets</b>	<b>3,468,974</b>	<b>3,784,623</b>
<b>Total assets</b>	<b>8,729,790</b>	<b>7,739,081</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	161,232	149,182
Short-term borrowings	2,340	2,340
Accounts payable - other	578,232	271,302
Income taxes payable	791,269	310,911
Advances received	730,681	641,904
Provision for bonuses	—	189,739
Provision for bonuses for directors (and other officers)	—	10,140
Other	295,650	288,885
<b>Total current liabilities</b>	<b>2,559,407</b>	<b>1,864,407</b>
Non-current liabilities		
Asset retirement obligations	42,820	42,820
Other	2,125	1,540
<b>Total non-current liabilities</b>	<b>44,945</b>	<b>44,360</b>
<b>Total liabilities</b>	<b>2,604,353</b>	<b>1,908,768</b>
<b>Net assets</b>		
Shareholders' equity		
Share capital	800,623	800,623
Capital surplus	874,680	874,680
Retained earnings	4,895,118	4,600,737
Treasury shares	(449,751)	(450,049)
<b>Total shareholders' equity</b>	<b>6,120,670</b>	<b>5,825,991</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,767	4,322
<b>Total accumulated other comprehensive income</b>	<b>4,767</b>	<b>4,322</b>
<b>Total net assets</b>	<b>6,125,437</b>	<b>5,830,313</b>
<b>Total liabilities and net assets</b>	<b>8,729,790</b>	<b>7,739,081</b>

(2) Quarterly Consolidated Statements of Income and Comprehensive Income  
(Quarterly Consolidated Statements of Income)  
(For the three months ended December 31, 2022)

(Unit: thousand yen)

	1Q FY21 (Oct. 1, 2021- Dec. 31, 2021)	1Q FY22 (Oct. 1, 2022- Dec. 31, 2022)
Net sales	2,192,609	2,586,820
Cost of sales	513,674	629,055
Gross profit	1,678,934	1,957,764
Selling, general and administrative expenses	903,463	1,064,372
Operating profit	775,470	893,391
Non-operating income		
Interest income	3	2
Dividend income	75	119
Foreign exchange gains	217	—
Subsidies for employment adjustment	—	889
Income from sales of goods	1,444	—
Income from base station installation	451	451
Other	363	77
Total non-operating income	2,556	1,540
Non-operating expenses		
Interest expenses	131	4
Foreign exchange losses	—	521
Loss on extinguishment of stock-based compensation expenses	12,182	3,237
Total non-operating expenses	12,313	3,762
Ordinary profit	765,713	891,169
Profit before income taxes	765,713	891,169
Income taxes	242,978	280,461
Profit	522,734	610,708
Profit attributable to owners of parent	522,734	610,708

(Quarterly Consolidated Statements of Comprehensive Income)

(For the three months ended December 31, 2022)

(Unit: thousand yen)

	1Q FY21 (Oct. 1, 2021- Dec. 31, 2021)	1Q FY22 (Oct. 1, 2022- Dec. 31, 2022)
Profit	522,734	610,708
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,052)	(444)
Total other comprehensive income	(2,052)	(444)
Comprehensive income	520,682	610,263
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	520,682	610,263
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.

(Change in Accounting Policy)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Guidance No.31, June 17, 2021, hereinafter referred to as the "Guidance for the Standard for Fair Value Measurement") since the beginning of the first quarter of the current consolidated fiscal year. In accordance with the transitional measures specified in Paragraph 27-2 of the Guidance for the Standard for Fair Value Measurement, the Company has decided to apply the new accounting policy stipulated by the Guidance on the Standard for Fair Value Measurement prospectively. There is no impact of these changes on the Company's consolidated quarterly financial statements.

(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 the needs for the Group's training business will expand in FY22, despite of uncertain COVID situation. 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)

(Disposal of Treasury Stock for Restricted Stock Compensation)

The Company, at a meeting of its Board of Directors held on January 13, 2023, 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, 2023
(2) Class and number of stock to be disposed of	Common stock of the Company: 18,270 shares
(3) Disposal Amount	1,431 yen per share
(4) Total Disposal Amount	26,144,370 yen
(5) Allottees and Number thereof, Number of Stocks to be Disposed of	5 Directors (excluding External Directors): 11,400 shares 12 Executive Officers (excluding concurrent posts as a director): 5,810 shares 3 Representative directors of its Subsidiaries: 1,060 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 external 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 external 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 outline 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 (On January 1, 2023, the Company conducted a 2-for-1 stock split of its common stock, and currently the Company may issue up to 35,000 shares of common stock annually). 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.

In the event that 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) In the event that 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 24,627,510 yen for 5 directors (excluding external directors) and 12 executive officers, and 1,516,860 yen for 3 representative directors of its subsidiaries. (hereinafter the "Total Monetary Compensation Claims"). The eligible directors, etc. will receive 18,270 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, 2023 to January 31, 2026

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 remove the transfer restriction shall be reasonably adjusted as necessary.

#### (3) Acquisition of restricted stock without compensation

In the event that 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 of (1), 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 prior to 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 being 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 1,431 yen, which is the closing price of a share of the Company's common stock in the Tokyo Stock Exchange on January 12, 2023 (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 prior to the date of the resolution, and the Company believes that it is a reasonable and not particularly advantageous price.