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2Q FY2022 Consolidated Financial Results [JGAAP]

May 8, 2023

Company Name: Insource Co., Ltd.

Stock Exchange Listing: Tokyo

Code number: 6200

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Scheduled date to submit the Quarterly Securities Report: May 12, 2023

Scheduled date to commence dividend payments: —

Availability of supplementary briefing material on quarterly results: Yes

Scheduled date of Quarterly Results Briefing Session: Scheduled (Intended for analysts)

(Amounts are rounded down to the nearest million yen)

1. 2Q FY22 Consolidated Financial Results (October 1, 2022 – March 31, 2023)

(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	%
2Q FY22	5,204	15.4	1,930	15.2	1,925	16.1	1,318	16.0
2Q FY21	4,510	22.8	1,674	33.2	1,658	30.2	1,136	38.0

(Note) Comprehensive income: 2Q FY22 1,314 million yen (15.8%) 2Q FY21 1,135 million yen (37.4%)

	Earnings per share	Fully diluted earnings per share
	yen sen	yen sen
2Q FY22	15.66	15.65
2Q FY21	13.49	13.49

(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	%
2Q FY22	9,623	6,561	68.2
FY21 (Full-year)	8,729	6,125	70.2

(Reference) Shareholders' equity: 2Q FY22 6,561 million yen FY21 6,125 million yen

2. Dividends

	Annual cash dividends per share				
	End of Q1	End of 2Q	End of 3Q	Year-end	Annual
	yen sen	yen sen	yen sen	yen sen	yen sen
FY21 Full-year	—	0.00	—	21.50	21.50
FY22 Full-year	—	0.00	—	—	—
FY22 (forecast)	—	—	—	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
FY22 Full-year	11,050	17.3	3,730	10.8	3,720	11.2	2,540	13.7	30.17

(Note) Revisions of the forecast of financial results 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. 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.

* Note

- (1) Significant changes in subsidiaries during 2Q 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 (4) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements)" on page 9 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)

2Q FY22	85,243,000 shares	FY21	85,243,000 shares
2Q FY22	1,045,289 shares	FY21	1,048,690 shares
2Q FY22	84,191,563 shares	2Q FY21	84,183,089 shares

- (ii) Total number of treasury stocks at the end of the period

- (iii) Average number of shares during the period

(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 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 (3) Consolidated Financial Forecasts" on page 3 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

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 second quarter (cumulative) of the fiscal year (October 1, 2022 to March 31, 2023) 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 the development and promotion of services in the fields of assessment, correspondence education, human capital information management tool based on “Leaf” (LMS, HR support system) (*1), and trainings focused on DX and moral ethical issues.

Regarding On-Site Training Business, sales were strong in the public sector, but the number of trainings conducted in the private sector fell short of targets, resulting in a 10.4% YoY increase in the number of trainings conducted.

In Open Seminars Business, due to an increase in the number of face-to-face trainings and new trainings, the total number of attendees increased 19.6% YoY. On the other hand, the number of attendees per training declined.

About IT Services, the number of paid subscribers of “Leaf” (LMS, HR support system) increased to 558 (+118, +25.1% YoY) and total users exceed 2.55 million as of the end of March 2023. Leaf’s monthly subscription fees (MRR *2) increased steadily, and ARR (*3) grew 17.4% YoY to 672 million yen. Customization sales decreased 29.3% YoY due to a decrease in new projects.

About Other Businesses, Insource Business Rep Corporation, which joined in June 2022, contributed to sales. Also, sales of highly profitable e-Learning, which remained at the same level as in the same period of the previous year when sales were strong, and Online Seminar support services contributed to sales.

In addition, operating profit increased due to in-house production of DX training and reduction of SG&A expenses.

As a result of the above, consolidated financial results for the second quarter (cumulative) are as follows; net sales were 5,204,114 thousand yen (+15.4% YoY), operating profit was 1,930,180 thousand yen (+15.2% YoY), ordinary profit was 1,925,523 thousand yen (+16.1% YoY), profit attributable to owners of parent was 1,318,506 thousand yen (+16.0% YoY).

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

*2: MRR: Monthly Recurring Revenue

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

■ Net sales by business for the second quarter (cumulative) of FY21			(Unit: thousand yen)
Business	2Q FY22 (Oct. 1, 2022 - Mar. 31, 2023)	YoY (%)	2Q FY21 (Oct. 1, 2021 - Mar. 31, 2022)
On-Site Training	2,406,469	113.3	2,123,224
Open Seminars	1,184,296	120.3	984,236
IT Service	736,329	107.2	687,083
Other Businesses	877,018	122.6	715,476
Total	5,204,114	115.4	4,510,021

(2) Overview of Financial Position

(Assets)

Total assets at the end of the second quarter of the current fiscal year increased by 893,341 thousand yen compared to the end of the previous fiscal year to 9,623,131 thousand yen. This was mainly due to an increase of 466,023 thousand yen in the leasehold.

(Liabilities)

Total liabilities increased by 457,714 thousand yen compared to the end of the previous fiscal year to 3,062,067 thousand yen. This was mainly due to a 700,000 thousand yen increase in short-term loans payable.

(Net Assets)

Net assets increased by 435,626 thousand yen compared to the end of the previous fiscal year to 6,561,064 thousand yen. This was mainly due to a increase of 413,620 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 January 25, 2023. 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)	2Q FY22 (As of Mar. 31, 2023)
Assets		
Current assets		
Cash and deposits	3,827,499	3,552,126
Notes receivable - trade	678	—
Accounts receivable - trade	1,188,038	1,214,590
Inventories	38,127	27,021
Other	207,727	214,615
Allowance for doubtful accounts	(1,256)	(1,491)
Total current assets	5,260,816	5,006,861
Non-current assets		
Property, plant and equipment		
Buildings, net	1,161,503	1,532,235
Land	1,179,658	1,179,658
Other, net	85,849	95,424
Total property, plant and equipment	2,427,011	2,807,319
Intangible assets		
Leasehold interests in land	305,984	772,007
Goodwill	36,118	27,618
Software	104,207	123,523
Other	346	346
Total intangible assets	446,657	923,496
Investments and other assets	595,304	885,454
Total non-current assets	3,468,974	4,616,269
Total assets	8,729,790	9,623,131
Liabilities		
Current liabilities		
Accounts payable - trade	161,232	152,399
Short-term borrowings	2,340	702,340
Accounts payable - other	578,232	613,040
Income taxes payable	791,269	666,842
Advances received	730,681	644,066
Provision for bonuses	—	6,000
Other	295,650	233,602
Total current liabilities	2,559,407	3,018,291
Non-current liabilities		
Asset retirement obligations	42,820	42,820
Other	2,125	955
Total non-current liabilities	44,945	43,775
Total liabilities	2,604,353	3,062,067

(Unit: thousand yen)

	FY21 (As of Sep. 30, 2022)	2Q FY22 (As of Mar. 31, 2023)
Net assets		
Shareholders' equity		
Share capital	800,623	800,623
Capital surplus	874,680	893,072
Retained earnings	4,895,118	5,308,738
Treasury shares	(449,751)	(442,399)
Total shareholders' equity	6,120,670	6,560,034
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,767	1,029
Total accumulated other comprehensive income	4,767	1,029
Total net assets	6,125,437	6,561,064
Total liabilities and net assets	8,729,790	9,623,131

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the six months ended March 31, 2023)

(Unit: thousand yen)

	2Q FY21 (Oct. 1,2021- Mar. 31, 2022)	2Q FY22 (Oct. 1,2022- Mar. 31, 2023)
Net sales	4,510,021	5,204,114
Cost of sales	1,012,065	1,219,795
Gross profit	3,497,956	3,984,319
Selling, general and administrative expenses	1,823,107	2,054,138
Operating profit	1,674,849	1,930,180
Non-operating income		
Interest income	17	18
Dividend income	78	173
Foreign exchange gains	455	—
Subsidies for employment adjustment	—	1,017
Income from sales of goods	1,444	—
Income from base station installation	1,105	1,105
Other	574	592
Total non-operating income	3,675	2,907
Non-operating expenses		
Interest expenses	349	234
Foreign exchange losses	—	509
Loss on extinguishment of stock-based compensation expenses	19,393	6,822
Total non-operating expenses	19,742	7,565
Ordinary profit	1,658,782	1,925,523
Profit before income taxes	1,658,782	1,925,523
Income taxes	522,562	607,016
Profit	1,136,219	1,318,506
Profit attributable to owners of parent	1,136,219	1,318,506

(Quarterly Consolidated Statements of Comprehensive Income)

(For the six months ended March 31, 2023)

(Unit: thousand yen)

	2Q FY21 (Oct. 1, 2021- Mar. 31, 2022)	2Q FY22 (Oct. 1, 2022- Mar. 31, 2023)
Profit	1,136,219	1,318,506
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,065)	(3,737)
Total other comprehensive income	(1,065)	(3,737)
Comprehensive income	1,135,154	1,314,769
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,135,154	1,314,769
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: thousand yen)

	2Q FY20 (Oct. 1, 2020- Mar. 31, 2021)	2Q FY21 (Oct. 1, 2021- Mar. 31, 2022)
Cash flows from operating activities		
Profit before income taxes	1,658,782	1,925,523
Depreciation	66,772	76,073
Amortization of goodwill	8,500	8,500
Share-based payment expenses	68,918	70,765
Increase (decrease) in allowance for doubtful accounts	(433)	235
Interest and dividend income	-95	-191
Foreign exchange losses (gains)	(455)	509
Decrease (increase) in trade receivables	-192,621	-25,872
Decrease (increase) in inventories	30,293	11,105
Increase (decrease) in trade payables	-18,821	-8,833
Other, net	(10,087)	(146,262)
Subtotal	1,610,751	1,911,553
Interest and dividends received	95	191
Interest paid	-349	-234
Income taxes paid	(717,967)	(761,815)
Net cash provided by (used in) operating activities	892,530	1,149,695
Cash flows from investing activities		
Purchase of investment securities	-4,553	-61
Purchase of property, plant and equipment	(320,290)	(395,170)
Purchase of intangible assets	—	-466,023
Payments of leasehold and guarantee deposits	(8,407)	(366,434)
Proceeds from refund of leasehold and guarantee deposits	35,341	17,129
Other, net	(21,318)	(7,340)
Net cash provided by (used in) investing activities	-319,228	-1,217,900
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	500,000	700,000
Repayments of long-term borrowings	(1,170)	(1,170)
Purchase of treasury shares	-694	-400
Proceeds from disposal of treasury shares	472	—
Dividends paid	-652,425	-905,088
Net cash provided by (used in) financing activities	(153,817)	(206,659)
Effect of exchange rate change on cash and cash equivalents	455	-509
Net increase (decrease) in cash and cash equivalents	419,940	(275,373)
Cash and cash equivalents at beginning of period	2,624,111	3,827,499
Cash and cash equivalents at end of period	3,044,051	3,552,126

(4) 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 second quarter (cumulative) 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, the Company 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)

Not applicable