

Insource Co., Ltd.

3Q FY22 Consolidated Cumulative Financial Results
(October 1, 2022 to June 30, 2023)

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Takayuki Funahashi, President and CEO

Insource Co., Ltd.

(TSE: 6200)



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Chapter 1 3Q FY22 Cumulative Consolidated Financial Results

Chapter 2 3Q FY22 Details by Business

Appendix 1 Impact of ChatGPT Penetration on Our Business

Appendix 2 Company Profile & Advantages of Insource ESG Initiatives

Appendix 3 Expansion of Human Capital

3Q FY22 (Oct. 2022- Jun. 2023) Results

- Net Sales: 7,899 million yen (+14.9% YoY),
Gross profit: 6,005 million yen (+14.1% YoY),
Gross profit margin: 76.0% (-0.6pt YoY)
Operating profit: 2,807 million yen (+15.2% YoY),
Operating profit margin: 35.5% (+0.1pt YoY)
- Progress rate against the revised full-year sales forecasts is 73.5%,
gross profit progress rate is 73.2%, and operating profit progress rate is 72.9%.

Full Year Financial Revised Forecast

- Net sales: increased by 14.1% YoY to 10,750 million yen
(-300 million yen, -2.7% from previous forecast)
- Gross profit: rose by 13.7% YoY to 8,200 million yen
(-380 million yen, -4.4% from previous forecast)
- Operating profit: rose by 14.3% YoY to 3,850 million yen
(-120 million yen, +3.2% from previous forecast)
- Operating profit margin: improved 0.1 pt YoY to 35.8%
(+2.1% from previous forecast)

Chapter 1 3Q FY22 Cumulative Consolidated Financial Results

Consolidated Profit & Loss Statement (1) Overview

Unit: million yen

	1-3Q FY20 (Results)	1-3Q FY21 (Results)	1-3Q FY22 (Results)	YoY	FY22 (Revised forecast)	Progress rate
Net sales (YoY)	5,544 (+1,794)	6,872 (+1,328)	7,899 (+1,026)	+14.9%	Revised -300 10,750 (+1,331)	73.5%
Gross profit (YoY) (Gross profit margin)	4,240 (+1,622) (76.5%)	5,263 (+1,023) (76.6%)	6,005 (+741) (76.0%)	+14.1% (-0.6t)	Revised -380 8,200 (+985) (76.3%)	73.2%
Operating profit (YoY) (Operating profit margin)	1,731 (+1,297) (31.2%)	2,437 (+705) (35.5%)	2,807 (+370) (35.5%)	+15.2% (+0.1pt)	Revised +120 3,850 (+482) (35.8%)	72.9%
Ordinary profit (YoY) (Ordinary profit margin)	1,751 (+1,319) (31.6%)	2,414 (+663) (35.1%)	2,804 (+389) (35.5%)	+16.1% (+0.4pt)	Revised +125 3,845 (+498) (35.8%)	72.9%
Net profit (YoY) (Net profit margin)	1,149 (+887) (20.7%)	1,653 (+504) (24.1%)	1,903 (+249) (24.1%)	+15.1% (+0.0pt)	Revised +60 2,600 (+366) (24.2%)	73.2%

Consolidated Profit & Loss Statement (2) Net sales and gross profit by business **in**source

Unit: million yen

		1-3Q FY20 (Results)	1-3Q FY21 (Results)	1-3Q FY22 (Results)	YoY	FY22 (Revised forecast)	Progress rate
On-Site Training	Net sales (YoY)	2,857 (+875)	3,403 (+546)	3,868 (+465)	+13.7%	Revised -200	5,280 (+614) 73.3%
	Composition ratio: 49.0% (FY21 49.5%)	Gross profit (Gross profit margin)	2,228 (78.0%)	2,695 (79.2%)	3,055 (79.0%)	+13.3% (-0.2pt)	Revised -240
Open Seminars	Net sales (YoY)	1,362 (+397)	1,594 (+232)	1,893 (+298)	+18.7%	Revised -30	2,590 (+371) 73.1%
	Composition ratio: 24.0% (FY21 23.6%)	Gross profit (Gross profit margin)	1,027 (75.4%)	1,222 (76.6%)	1,441 (76.1%)	+17.9% (-0.5pt)	Revised -80
IT Services	Net sales (YoY)	721 (+288)	883 (+161)	976 (+93)	+10.5%	Revised -150	1,350 (+152) 72.3%
	Composition ratio: 12.4% (FY21 12.7%)	Gross profit (Gross profit margin)	543 (75.3%)	689 (78.0%)	763 (78.2%)	+10.8% (+0.2pt)	Revised -160
Other Businesses	Net sales (YoY)	602 (+233)	991 (+388)	1,160 (+169)	+17.1%	Revised +80	1,530 (+193) 75.9%
	Composition ratio: 14.7% (FY21 14.2%)	Gross profit (Gross profit margin)	440 (73.0%)	656 (66.2%)	745 (64.2%)	+13.6% (-2.0pt)	Revised +100

*Our gross profits by business were not audited by Ernst & Young ShinNihon LLC.

Consolidated Profit & Loss Statement (3) Breakdown of SG&A expenses

- Total personnel expenses grew due to an increase in number of employees.
- Office and communication expenses increased due to purchase of office supplies for newly acquired company-owned buildings (Insource Nippori Building and Ochanomizu Studio).
- Other expenses increased, as travel and transportation expenses increased due to strengthened face-to-face sales negotiations,

Unit: million yen

Breakdown of SG&A	1-3Q FY20 (Results)	1-3Q FY21 (Results)	1H FY22 (Results)	Increase/ Decrease	YoY	FY22 (Revised forecast)
Personnel expenses*1	1,991	2,269	2,549	+279	+12.3%	3,460 (+352)
Of which, RS*2	31	90	92	+1	+1.7%	125 (+4)
Office-related expenses *3	159	122	128	+5	+4.9%	180 (+18)
Office & communication expenses	121	114	142	+27	+24.0%	200 (+18)
Other expenses	235	318	377	+58	+18.4%	510 (+115)
Total SG&A	2,508	2,826	3,197	+371	+13.2%	4,350 (+503)
(SG&A ratio)	(45.2%)	(41.1%)	(40.5%)	(-0.6pt)	-	(40.5%)

*1 Personnel expenses include wages, recruitment, training, benefit expenses, and outsourcing expenses.

*2 Restricted stock.

*3 Office-related expenses include ground rent, fixed asset tax of the company's buildings, real estate acquisition tax, and depreciation of property, plant and equipment.

Consolidated Balance Sheets

- Acquired own buildings to reduce office-related expenses ; fixed assets increased.
- Advances received increased due to an increase in acquisitions of HRD SmartPack.
- Current liabilities decreased due to decrease in income taxes payable despite increase in advances received.

	End of FY20 (Results)	End of FY21 (Results)	FY22 As of the end of 3Q (Results)	Increase/ Decrease	Unit: million yen YoY
Current assets	3,759	5,260	3,918	-1,342	-25.5%
Of which, cash and deposits	2,624	3,827	2,584	-1,243	-32.5%
Fixed assets	3,007	3,468	5,323	+1,854	+53.5%
Total assets	6,766	8,729	9,241	+511	+5.9%
Current liabilities	2,202	2,559	2,041	-518	-20.2%
Of which, Advances received *	599	730	883	+153	+20.9%
Fixed liabilities	63	44	43	-1	-2.4%
Net assets	4,500	6,125	7,156	+1,031	+16.8%
Total liabilities And net assets	6,766	8,729	9,241	+511	+5.9%

* Advances received are the unused amount of the “HRD Smart Pack”(our unique point service) that can be used for services such as Open Seminars and e-Learning/Videos

3Q FY22 Development and Launch of New Services

- Expand services tailored to the times, such as “GA4 utilization training” and “Financial and lifestyle literacy assessment.”
- Added supervisor approval function to WEBinsource's "Open Direct*¹" to enhance DTC*² service.

※1 Open Direct: A function that allows attendees to search and apply for training themselves on WEBinsource.

※2 DTC: Abbreviation for Direct To Consumer. A system in which companies sell services directly to users (consumers).

※Large Enterprise: 1,000 or more employees, Medium Market Business :300-999 employees, SMB (Small Medium Business): Less than 299 employees

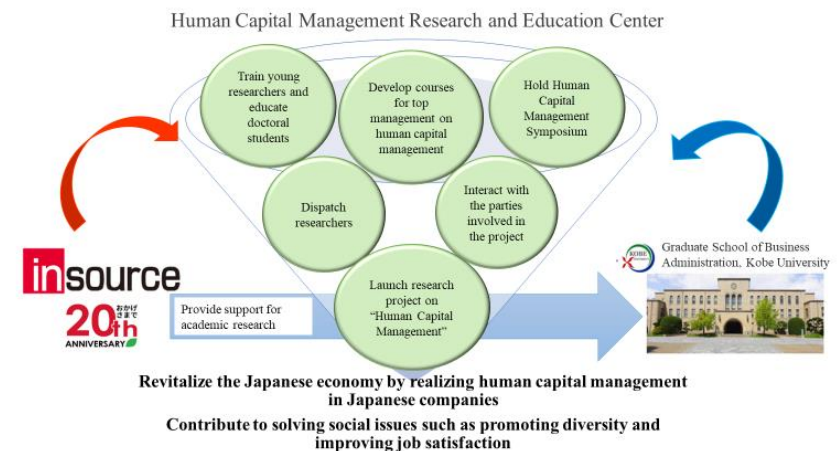
New Service	Type of Service	Target client	Overview
Training Series for "Shy People"	On-Site Training/ Open Seminars	All segments	Developed with the aim of enabling inward-looking people to reaffirm their own strengths and play an active role.
Training to utilize the newest version of Google analytics "GA4"	On-Site Training/ Open Seminars	Medium Market/ Small Medium Business	Developed Google analytics, a website analysis tool, in response to the complete transition to GA4 in July, 2023.
WEBinsource’s “Open Direct” (supervisor approval function added)	Open Seminars	All segments	Developed a new feature of Open Direct, an optional feature of WEBinsource. Aim to increase sales of Open Seminars by reducing the burden on personnel training PIC and enhancing DTC services.
Financial and Lifestyle Literacy Assessment	Consulting Assessment	Midmarket/ Large Enterprise	Developed with the aim of enhancing employees' knowledge of asset formation and the financial economy and avoiding financial problems and scandals.
Entrepreneurial education programs for students	Regional Revitalization	Schools and Educational Support/ Municipalities / Local Government	Developed a regional revitalization project to address the shortage of entrepreneurs. Providing entrepreneurship experience to elementary through high school students.

Promotion of “Human Capital Management” Research

- Comprehensive collaboration agreement concluded with the Graduate School of Business Administration of Kobe University.
- Accelerate cross-sectoral research and education through industry-academia collaboration and contribute to solving social problems.
- In order to realize our management philosophy, “Make a society that all people can enjoy working and feel fulfilled,” we support each organization's approach to promoting human capital management from an academic perspective.

<Details>

- April 2023: Established Human Capital Management Research and Education Center, affiliated to Graduate School of Business Administration, Kobe University (in commemoration of the 20th anniversary of the founding of Insource)
- May 2023: Concluded a comprehensive collaboration agreement with Kobe University of Business Administration for human capital management research



<Current Projects>

1. Current status and characteristics of human capital disclosures of 500 listed companies
2. Human resource management to improve job satisfaction and corporate performance of boomerang employees
3. Intervention research for workplace improvement through organizational development
4. Creation of working value and research and development of the elderly labor market

FY22 KPIs

- The volume of sales activity increased and the acquisition of WEBinsource remained stable. Increased sales activity through email newsletters resulted in high number of clicks.
- DX trainers increased, primarily from IT companies.

	FY20 (Results)	FY21 (Results)	3Q FY22 (Results)	3Q FY22 (Cumulative) (Progress rate)	FY22 (Target)
No. of new contracts of WEBinsource (Cumulative no. of organizations)	2,306 (15,798)	2,871 (18,669)	778 (20,866)	2,197 (91.5%)	2,400 (21,069)
No. of new contents for On-Site Training (Cumulative no.)	321 (3,461)	333 (3,794)	91 (4,065)	271 (77.4%)	350 (4,144)
No. of new contents for Open Seminars (Cumulative no.)	437 (3,296)	334 (3,630)	62 (3,825)	195 (97.5%)	200 (3,830)
No. of new contents for e-Learning/videos *1 (Cumulative no.)	248 (334)	210 (544)	50 (699)	155 (73.8%)	210 (654)
No. of core solution plans *2 (Cumulative no.)	60 (231)	36 (267)	9 (297)	30 (75.0%)	40 (307)
No. of web-sessions (Unit: thou. times)	2,010	1,804	508	133 (67.0%)	2,000
No. of clicks on email newsletters (Unit: click)	56,390	52,811	26,049	64,454 (107.4%)	60,000
No. of trainers *3 (Unit: people)	340	315	364 (+49)	364 (81.7%)	375 (+60)
No. of DX trainers *3 (Unit: people)	52	67	78 (+11)	78 (73.3%)	82 (+15)
No. of organizations using assessment (Unit: organizations)	-	260	174	436 (102.3%)	426
CO2 emissions per employee*4 (Unit: t-CO2)	0.74	0.73	0.14	0.49 (72.2%)	0.69

*1 No. of new contents for e-Learning/videos are those developed by the Company only (excluding partners).

*2 Core solution plan: A plan that combines multiple services to solve the various issues (issues by type, by industry, by job title, etc.) of each organization at the same time.

*3 The number of trainers is as of the end of each fiscal period. *4 Calculated by dividing CO2 emissions from electricity use (Scope2) by the average number of employees during FY.

Chapter 2 3Q FY22 Details by Business

3Q FY22 (Apr.- Jun. 2023) Results

- Net Sales: 2,694 million yen (+14.1% YoY), Gross profit: 2,021 million yen (+14.5% YoY)
Gross profit margin: 75.0% (+0.3pt YoY), Operating profit: 877 million yen (+15.0% YoY)
Operating profit margin: 32.6% (+0.3pt YoY)
- Net sales increased mainly in the On-Site Training and Open Seminars businesses due to increased sales activities and growing training needs, despite slowing demand for video and e-Learning.
- Operating profit margin remained at the same level as the previous year due to improved margins in the Open Seminars and IT Services, despite a decline in the ratio of online training.

3Q FY22 (Apr.- Jun. 2023) Details by Business

- On-Site Training (Net Sales: 1,461million yen, +14.2% YoY, Cumulative 3Q progress rate: 73.3%)
Training needs expanded, and the number of trainings conducted by private sector remained steady.
- Open Seminars (Net Sales: 709 million yen, +16.1% YoY, Cumulative 3Q progress rate : 73.1%)
Training for newcomers and newly developed training increased the number of attendees. The number of attendees per training is also on a recovery trend, improving profit margin.
- IT Services (Net Sales: 240 million yen, +22.4% YoY, Cumulative 3Q progress rate : 72.3%)
Leaf's annual recurring revenue (ARR) grew steadily. Significant improvement in profit margin due to reduction in outsourced processing costs, etc.
- Other Businesses (Net Sales: 283million yen, +2.8% YoY, Cumulative 3Q progress rate : 75.9%)
Sales increased slightly. Highly profitable demand for video and e-Learning associated with the revision of laws slowed, and Web marketing performed strongly.

Consolidated Profit & Loss Statement - Overview

Unit: million yen

	3Q FY21 (Results)	4Q (Results)	1Q FY22 (Results)	2Q (Results)	3Q (Results)	YoY	
Net sales (QoQ)	2,362 (+45)	2,545 (+182)	2,586 (+41)	2,617 (+30)	2,694 (+77)	+332	+14.1%
Gross profit (QoQ)	1,765 (-53)	1,950 (+184)	1,957 (+7)	2,026 (+68)	2,021 (-5)	+255	+14.5%
(Gross profit margin)	(74.7%)	(76.6%)	(75.7%)	(77.4%)	(75.0%)	(+0.3pt)	
Operating profit (QoQ)	762 (-136)	929 (+166)	893 (-36)	1,036 (+143)	877 (-159)	+114	+15.0%
(Operating profit margin)	(32.3%)	(36.5%)	(34.5%)	(39.6%)	(32.6%)	(+0.3pt)	
Ordinary profit (QoQ)	755 (-137)	931 (+176)	891 (-40)	1,034 (+143)	878 (-155)	+122	+16.3%
Net profit (QoQ)	517 (-95)	579 (+62)	610 (+30)	707 (+97)	584 (-122)	+67	+13.0%

On-Site Training Business

- Sales increased by 14.2% YoY, reflecting an increase in training needs and especially the increase in number of trainings in private sector.
- Gross profit increased 13.6% YoY. Despite a significant decline in the online training ratio, gross profit margin decreased only slightly, as the mix of private sector sales increased.

Unit: million yen

	3Q FY21 (Results)	4Q (Results)	1Q FY22 (Results)	2Q (Results)	3Q (Results)	YoY	
Net sales (QoQ)	1,280 (+405)	1,262 (-18)	1,397 (+135)	1,008 (-389)	1,461 (+453)	+181	+14.2%
Gross profit (QoQ) (Gross profit margin)	1,006 (+307) (78.6%)	995 (-11) (78.9%)	1,103 (+108) (79.0%)	808 (-294) (80.2%)	1,142 (+333) (78.2%)	+136 (-0.5pt)	+13.6%
No. of trainings conducted (times) (QoQ)	4,617 (+1,633)	4,528 (-89)	5,103 (+575)	3,496 (-1,607)	5,220 (+1,724)	+603	+13.1%
Of which, no. of online training (composition ratio)	1,390 (30.1%)	1,829 (40.4%)	1,791 (35.1%)	1,173 (33.6%)	921 (17.6%)	-469	-33.7%
Average unit price (unit: thou.yen) (QoQ)	277.2 (-15.8)	278.7 (+1.5)	273.9 (-4.8)	288.5 (+14.5)	280.1 (-8.4)	+2.8	+1.0%

Open Seminars Business

- Sales increased 16.1% YoY, and the number of attendees increased due to training for newcomers and new trainings such as ChatGPT training.
- Gross profit rose 17.3% YoY, and with the improvement in operating method, the number of attendees per training was 11.7 (+2.1 QoQ), a significant improvement in profitability from the previous quarter.

Unit: million yen

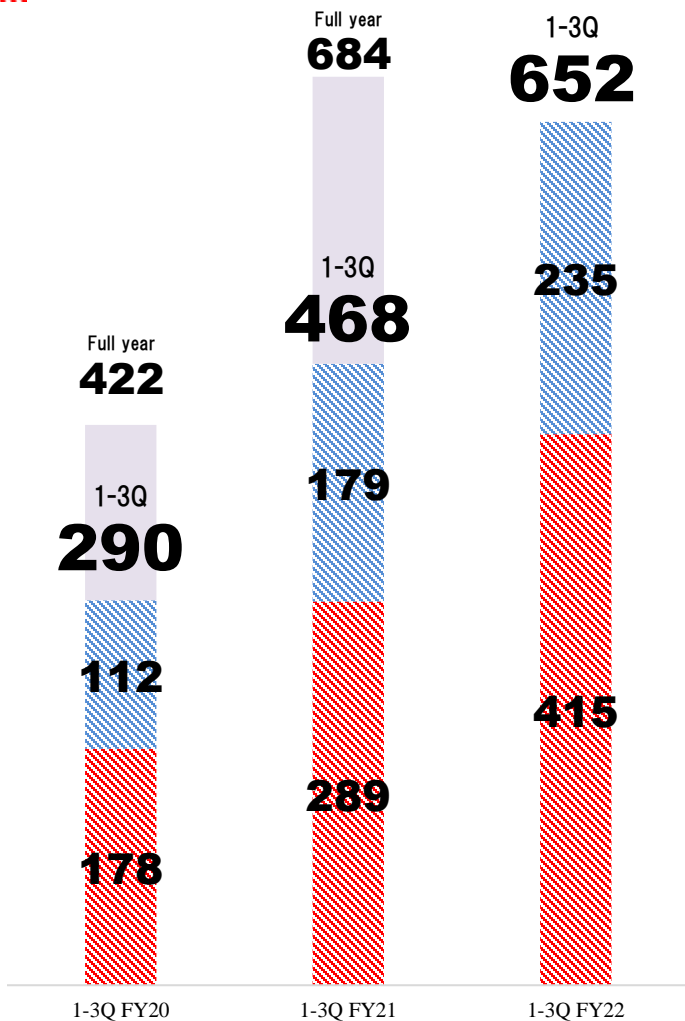
	3Q FY21 (Results)	4Q (Results)	1Q FY22 (Results)	2Q (Results)	3Q (Results)	YoY	
Net sales (QoQ)	610 (+133)	623 (+12)	631 (+7)	553 (-78)	709 (+156)	+98	+16.1%
Gross profit (QoQ) (Gross profit margin)	468 (+105) (76.7%)	486 (+18) (78.1%)	491 (+4) (77.8%)	401 (-89) (72.6%)	548 (+147) (77.4%)	+80 (+0.8pt)	+17.3%
No. of attendees (QoQ)	26,568 (+4,363)	28,713 (+2,145)	29,954 (+1,241)	25,818 (-4,136)	31,008 (+5,190)	+4,440	+16.7%
Among above, no. of online training (composition ratio)	20,006 (75.3%)	23,563 (82.1%)	24,418 (81.5%)	21,496 (83.3%)	19,850 (64.0%)	-156	-0.8%
No. of attendees per training (QoQ)	12.6 (+0.1)	11.6 (-1.0)	11.4 (-0.2)	9.5 (-1.9)	11.7 (+2.1)	-0.9	-6.9%
Average unit price per training (unit: thou.yen) (QoQ)	22.9 (+1.5)	21.7 (-1.3)	21.0 (-0.6)	21.4 (+0.1)	22.8 (+1.4)	-0.1	-0.4%

DX-related Training – Business Performance

DX-related sales

- Open Seminars
- On-Site Training

Unit: million yen



Sales increased by 39.3% YoY in 1-3Q FY22

- On-Site Training- increased significantly over 40% YoY due to an increase in large-scale projects for major private companies.
- Open Seminars- in addition to basic training aimed at improving IT literacy, original series for PM increased by more than 30%, contributing to sales growth.
- In 4Q FY22, we plan to further boost sales by introducing new contents such as DX Skill Assessment and ChatGPT Prompt Engineering in response to the accelerating changes in the environment after the COVID-19 pandemic.

DX-related training

	1-3Q FY20	1-3Q FY21	1-3Q FY22
Sales (mill. yen)	290	468	652
YoY	+54.4%	+61.3%	+39.3%
On-Site Training	178	289	415
YoY	+83.5%	+62.1%	+43.4%
Open Seminars	112	179	235
YoY	+23.2%	+60.0%	+31.7%
On-Site Training No. of training*	448	674	925
Open Seminars No. of attendees	5,239	8,394	9,969

New contents developed in 3Q

- Apr. DX Agile Practical Training
-Create a DX in Agile
- May. Basic Training for Business Data Statistics
-Use Excel to conduct practical exercises
- Jun. ChatGPT Training (Advanced)
-Prompt engineering know-how

IT Services Business

- The number of Leaf paid subscribers is 612. Leaf users increased to 2.72 million users (+33.4% YoY). Annual recurring revenue (ARR*1) increased to 713 million yen (+19.5% YoY).
- Gross profit increased 31.3% YoY. Gross profit margin improved significantly by 5.3pt YoY due to the reduction of outsourced processing costs through in-house production and streamlined server operations.

Unit: million yen

	3Q FY21 (Results)	4Q (Results)	1Q FY22 (Results)	2Q (Results)	3Q (Results)	YoY	
Net sales (QoQ)	196 (-287)	314 (+118)	213 (-100)	522 (+308)	240 (-282)	+43	+22.4%
<Breakdown>							
Leaf monthly subscription (QoQ)	145 (+3)	157 (+12)	162 (+5)	168 (+5)	175 (+7)	+30	+21.1%
Sales per month*4	49	53	55	56	59	+9	+19.5%
Average unit price /Organization (unit: thou. yen)	98.8	102.4	99.6	98.1	97.1	-1.7	-1.7%
Leaf customization	48	133	22	194	61	+13	+28.8%
Stress check	3	23	28	160	2	-0	-12.9%
Gross profit *5 (QoQ)	142 (-256)	258 (+116)	147 (-111)	428 (+280)	187 (-240)	+44	+31.3%
(Gross profit margin)	(72.7%)	(82.4%)	(69.2%)	(82.0%)	(78.1%)	(+5.3pt)	

*1 ARR: Annual Recurring Revenue. Calculated by multiplying the Monthly usage fees of the last month of each term by 12.

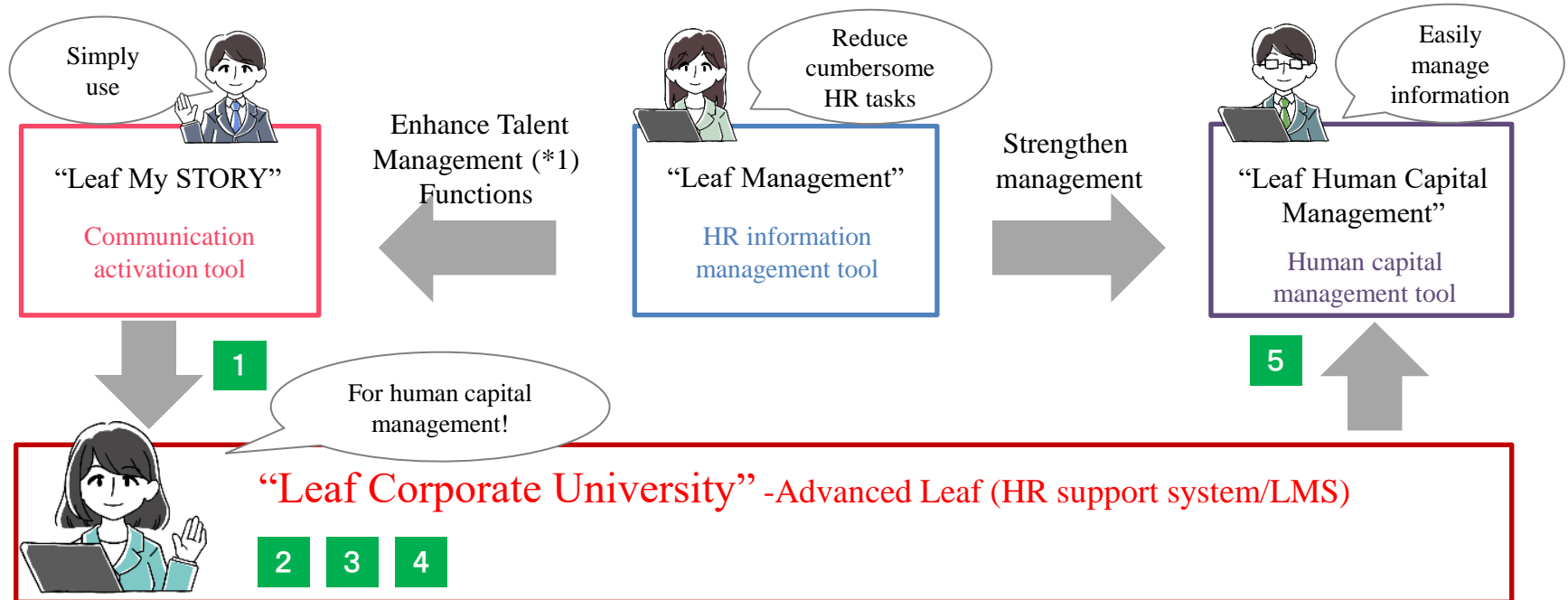
*2 Monthly usage fees (Recurring Revenue) for the last month of each quarter.

*3 Our gross profit margins by business were not audited by Ernst & Young ShinNihon LLC.

Monthly Subscription Model (Unit: organization)	3Q FY21 (Results)	4Q (Results)	1Q FY22 (Results)	2Q (Results)	3Q (Results)	YoY
Leaf paid subscribers	498	522	551	588	612	+114 +22.9%
(QoQ)	(+28)	(+24)	(+29)	(+37)	(+24)	
Leaf users (Unit: thousand people)	2,040	2,112	2,438	2,552	2,722	+681 +33.4%
(QoQ)	(+107)	(+72)	(+326)	(+113)	(+169)	
On-the-web appraisal form services	155	165	168	184	190	+35 +22.6%
(QoQ)	(+4)	(+10)	(+3)	(+16)	(+6)	
Services based on Individual Contract	3Q FY21 (Results)	4Q (Results)	1Q FY22 (Results)	2Q (Results)	3Q (Results)	YoY
Leaf No. of Customization	18	52	11	54	19	+1 +5.6%
(QoQ)	(-57)	(+34)	(-41)	(+43)	(-35)	
No. of Stress Check Support Service Delivered	18	70	91	326	13	-5 -17.8%
(QoQ)	(-259)	(+52)	(+20)	(+235)	(-313)	

Status of “Leaf Corporate University” Proposal

- Two organizations have decided to adopt the service since its release on April 28, 2011.
- Free seminars held since June, with about 50 companies participating (as of the end of July, 2023)



■ How to use “Leaf Corporate University”

- 1 Log in My-Page of “Leaf Corporate University” through “Leaf My STORY”(※2)
- 2 Understand individual current skills and challenges (As is - To be) with the Assessment Function
- 3 Apply for recommended courses (training, e-Learning, etc.) based on the diagnosis results
- 4 Store training records in “Leaf Corporate University”.
- 5 Training history are linked to “Leaf Human Capital Management” and can be disclosed as human capital information.

“Leaf Corporate University“ provides followings as a full package;

- Educational Platform
- Assessment,
- Open Seminars, e-Learning

※1 Make strategic investments by visualizing and analyzing the capabilities of HR. ※2 Leaf Corporate University can be used independently.

Other Businesses (“Rising Next”)

Sales increased 2.8% YoY and gross profit decreased 4.3% YoY. The decline in video and e-Learning sales is a response to the special demand associated with the revision of laws and regulations last April. Web Marketing performed well with a 49.6% increase YoY.

Unit: million yen

	3Q FY21 (Results)	4Q (Results)	1Q FY22 (Results)	2Q (Results)	3Q (Results)	YoY	
Net sales (QoQ)	275 (-206)	345 (+69)	343 (-1)	533 (+189)	283 (-249)	+7	+2.8%
Gross profit* (QoQ) (Gross profit margin)	148 (-210) (53.8%)	209 (+60) (60.5%)	215 (+5) (62.5%)	388 (+172) (72.8%)	142 (-245) (50.1%)	-6 (-3.7pt)	-4.3%

<Breakdown>

Outright Purchase	Net sales	89	83	119	198	69	-20	-22.8%
	No. of Videos	385	364	538	887	327	-58	-15.1%
Rental	Net sales	4	5	12	10	6	+2	+47.6%
	No. of Viewers	3,584	2,894	4,028	3,493	3,066	-518	-14.5%
Monthly Subscription (STUDIO)	Net sales	45	36	39	35	41	-4	-9.5%
	No. of User IDs (Unit : thou. IDs)	66	70	73	79	82	+15	+23.3%
Video Production	Net sales	11	9	4	21	14	+2	+24.0%
	No. of Contents	21	43	18	23	15	-6	-28.6%
Consulting/ Assessment Service	Net sales	20	34	23	35	26	+5	+28.7%
	No. of Organizations	54	59	63	70	54	±0	±0%
Online Seminar Support Service	Net sales	37	35	45	54	45	+7	+21.3%
	No. of Organizations	45	60	94	86	34	-11	-24.4%
Regional Revitalization Service	Net sales	3	51	2	47	2	-1	-16.6%
	No. of Projects	5	5	3	12	6	+1	+20.0%
Web Marketing	Net sales	46	40	39	56	70	+23	+49.6%

* Our gross profit margins by business were not audited by Ernst & Young ShinNihon LLC.

<Appendix 1> Impact of ChatGPT Penetration on Our Business

Feature Comparison of Insource Training Services and Education by ChatGPT **in**source

A : Excellent, B : Good, C : Average, D: Poor

	Insource training		ChatGPT	
Target	Target a wide range of working adults, including those who are less motivated to learn.		Limited to working adults who can use ChatGPT, narrowly targeted and focused on those who are highly motivated to learn.	
1. Accuracy and reasonableness of contents	A	<ul style="list-style-type: none"> ▪ Accurate content because it is developed by experts ▪ Content is always updated in response to changes in society. 	D	<ul style="list-style-type: none"> ▪ Accuracy and reasonableness are the most important requirements in career training, so the use of AI must be limited due to its limited ability to gather information.
2. Fostering motivation to learn	A	<ul style="list-style-type: none"> ▪ Excellent trainers can motivate learners to engage in learning that is tailored to their needs quickly and easily. ▪ Ideas are included to keep learners concentrated 	C	<ul style="list-style-type: none"> ▪ It is possible to develop a system that fosters a strong motivation to learn, but at great cost.
3. Guidance for learners	B	<ul style="list-style-type: none"> ▪ Experienced trainers can provide individualized guidance based on a comprehensive assessment of the attitude, motivation, and skill level of working adult learners. 	C	<ul style="list-style-type: none"> ▪ Although AI can provide a certain degree of flexible individualized guidance, the cost of developing content is enormous when the content of learning is as diverse as career training.
4. Dealing with learners with low self-motivation	B	<ul style="list-style-type: none"> ▪ Trainers with lower self-motivation can convince and guide learners with their own experience on the job and their own personal attractiveness. ▪ Training is limited physically, temporally, and emotionally. 	D	<ul style="list-style-type: none"> ▪ There are limits to what can be done for learners who do not use a PC or ChatGPT in the first place, and there is no strong enforcement.
5. Economy	B	<ul style="list-style-type: none"> ▪ Highly sophisticated content with more than 3,500 existing products, combined with the experience of our trainers, enables us to provide high-quality education at a reasonable price. 	C	<ul style="list-style-type: none"> ▪ AI-generated content requires time and effort to check for accuracy and make corrections. Large costs are required to prepare a lot of educational contents, which is not economically rational.
6. Superiority by content	A	<ul style="list-style-type: none"> ▪ Good at behavior change (level-specific education, awareness change) - Strong impact given by group work 	C	<ul style="list-style-type: none"> ▪ Behavior change is as effective as a book. - Impact is weak and not thorough
	A	<ul style="list-style-type: none"> ▪ Thorough mastery of business skills is possible (knowledge => action => examination) - A trainer can guide learners through the entire process 	C	<ul style="list-style-type: none"> ▪ Only mastering of business knowledge
	A	<ul style="list-style-type: none"> ▪ Knowledge and technical skills can be thoroughly taught - A trainer can even check the level of comprehension 	B	<ul style="list-style-type: none"> ▪ Knowledge and technical skills can be taught at a reasonable cost - Commodity knowledge, such as programming education, can be taught at a very reasonable cost
7. Summary	Insource's training is flexible and economically rational for increasing the capabilities of all members of a company or organization.		Education through ChatGPT is limited to those who are highly motivated to learn and have high IT literacy, and is not economically rational when considering the implementation of individualized education. However, it can be used inexpensively for general education to impart knowledge such as programming.	

※ This view is based on current conditions and is subject to change due to future technological advances, market changes, and other factors.

■ We assume that opportunities will exceed risks after the penetration of ChatGPT*

-Training and new service development to utilize ChatGPT is expected to become a revenue opportunity and contribute to internal cost reduction.

*Assume the same level of utilization as Excel

Impact of ChatGPT	At present	After ChatGPT penetration*
Opportunity	<ul style="list-style-type: none"> ■ Now offering training services to learn how to utilize ChatGPT <ul style="list-style-type: none"> - Training for how to start ChatGPT (from April 2023) ■ Now offering optional services for IT Service Business <ul style="list-style-type: none"> - Leaf With Corporate GPT (from June 2023) ■ Currently using ChatGPT for training content development -Major advantages such as reduction of survey time 	<ul style="list-style-type: none"> ■ Increase in sales of ChatGPT-related training <ul style="list-style-type: none"> - Expected sales equivalent to OA training (Ref.) FY21 OA training sales: 150 million yen ■ Increase in sales of system sales utilizing ChatGPT <ul style="list-style-type: none"> - Intend to apply to improve the efficiency of business operations and automate programming education. We have in-house AI engineers, making it easy to enter the market. ■ Reduce costs of training content development <ul style="list-style-type: none"> - Integrated into internal systems at an early stage
Risk	-	<ul style="list-style-type: none"> ■ Decrease in e-Learning sales from large companies (more than 1,000 employees) <ul style="list-style-type: none"> - Potential decrease in sales from large companies that produce e-Learning in-house, which could affect up to 20% of e-Learning sales, or about 100 million yen

※ This view is based on current conditions and is subject to change due to future technological advances, market changes, and other factors.

■ Topics

Fee-based Option “Leaf powered by Corporate GPT” - Available in Client-Only Environments (Jun. 1, 2023~)

The new option for Learning Management System (LMS) "Leaf": Used by more than 2.72 million users*, "Leaf With Corporate GPT" is not only able to ask questions about how to use Leaf, but also a function that can be used only in educational management and talent management systems.

*as of the end of June, 2023

<Situations>

- Ask about educational curriculum and test issues from educational personnel.
- Ask from attendees about the optimal e-Learning content.
- Gather requests from employees and let them plan business improvement.

■ Offering price

- Trial plan: 22,000 yen/month (incl. tax)
- ※ Administrative users only, up to 0.2 million characters

- All user plans: Monthly 550 yen /ID (incl. tax)
- ※ Up to 5000 characters x the Number of IDs

<Appendix 2> Company Profile & Advantages of Insource ESG Initiatives



Company Profile

- Company name Insource Co., Ltd. (Code number: 6200)
- Tokyo Headquarters Insource Dokanyama Bldg. 4-19-12 Nishi Nippori, Arakawa-ku, Tokyo
- Capital 800,623 thousand yen
- Foundation November 2002
- Representative Director Takayuki Funahashi, Representative Director, President and CEO
 Joined Sanwa Bank (now Mitsubishi UFJ Bank) in 1988. Had been in charge of the systems development department (management accounting, sales, marketing) and the personal finance department (new product development). After working in a distribution industry, established Insource Co., Ltd. and became its representative director.

Affiliated Companies

Mitemo Co., Ltd

- Regional Revitalization Business
- Workshops/ Consulting
- e-Learning
- Production of Training Materials

Rashiku Corporation

- Recruitment Support Business

MIRAI SOUZOU & COMPANY, Inc.

- On-Site Training Business

Insource Digital Academy Corporation

- Training Business of HR with Digital Skills
 (AI/ Support for Machine Learning Applications, Support for Utilizing RPA, Improving OA/IT Skills and Business Skills)

Insource Marketing Design Corporation

- Website Promotion, Web page Creation, System Development

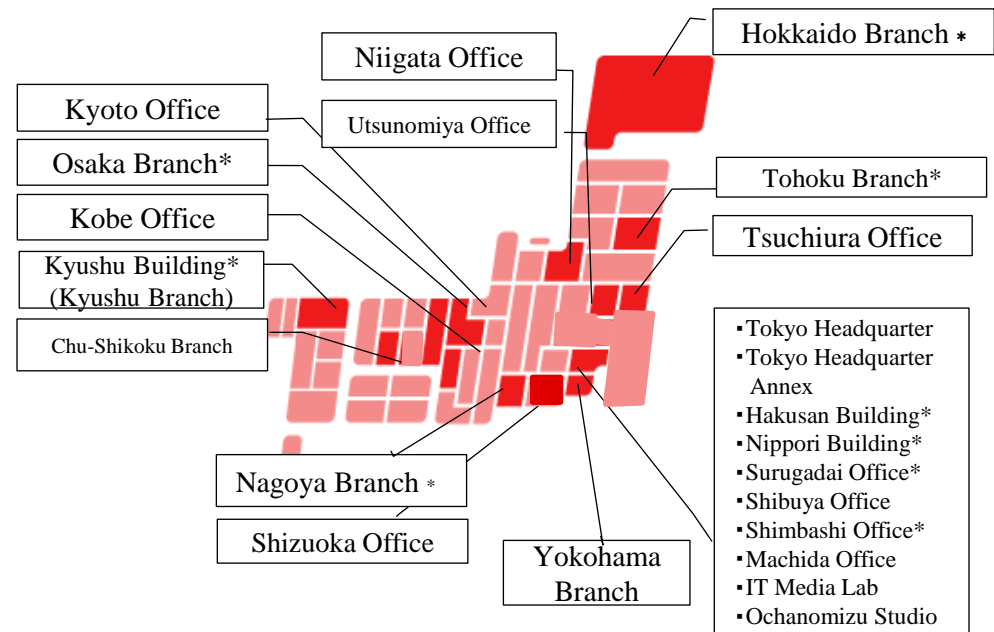
Insource Business Rep Corporation

- Support Service for Training Management

Business Locations: 23

*As of the end of June, 2023

*Branches with Seminar Rooms



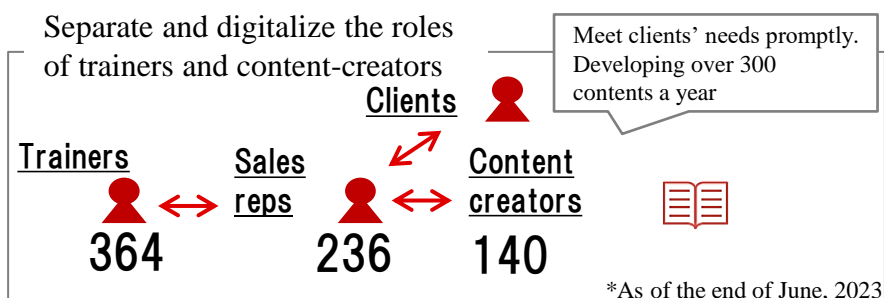
Seminar Rooms: 45 Classrooms in 6 Cities

Online Training Booths: 116 Booths

- High quality services both face-to-face and online training make it possible to practice what you learned the very next day.
- Digitalization of the operation process for training management allows us to provide more training programs with better quality and high frequency.
- High level of client satisfaction with: Contents **95.9%** / Trainers **93.9%** *As of the end of June, 2023

On-Site Training (1-3Q FY22 Sales ratio: 49.0%, FY21: 49.5%)

Offer On-Site Trainings tailored to organizations' needs



Annual total number of trainings conducted/attendees

18,347 times **586** thousand attendees

Out of the total number of trainings conducted online:

5,714 times **244** thousand attendees

*July, 2022 - June, 2023



Open Seminars (1-3Q FY22 Sales ratio: 24.0%, FY21: 23.6%)

Offer Open Seminars starting from one person

- Seminars are held online frequently and nationwide
- More than 3,000 types of courses, including those offered by business partners, have been provided and new courses will be introduced timely
- Up to 50% discount with "HRD Smart Pack"(our unique point service)
- Used by many enterprises including startups and large companies nationwide

Annual total number of trainings conducted / attendees

10,453 times **115** thousand people

Among them, the total number of trainings conducted online:

6,880 times **89** thousand people

*July, 2022 - June, 2023



IT Services (1-3Q FY 22 Sales ratio: 12.4%, FY21 12.7%)

Leaf (HR support system, LMS)

The number of Leaf paid subscribers/ users

612 organizations **272** million people

*As of the end of June, 2023

Stress Check Support Service

Cumulative number of organizations and examinees

1,980 organizations **1.95** million employees

*As of the end of March, 2023



Powered by Leaf

*LMS (Learning Management System): The system required for managing e-Learning

Other Businesses (1-3Q FY22 Sales ratio: 14.7%, FY21: 14.2%)

- e-Learning/Videos sales and production
- Consulting, Assessment Services, Online Seminar Support Service, Regional Revitalization Service
- Web Marketing Service
- Support Service for Training Management

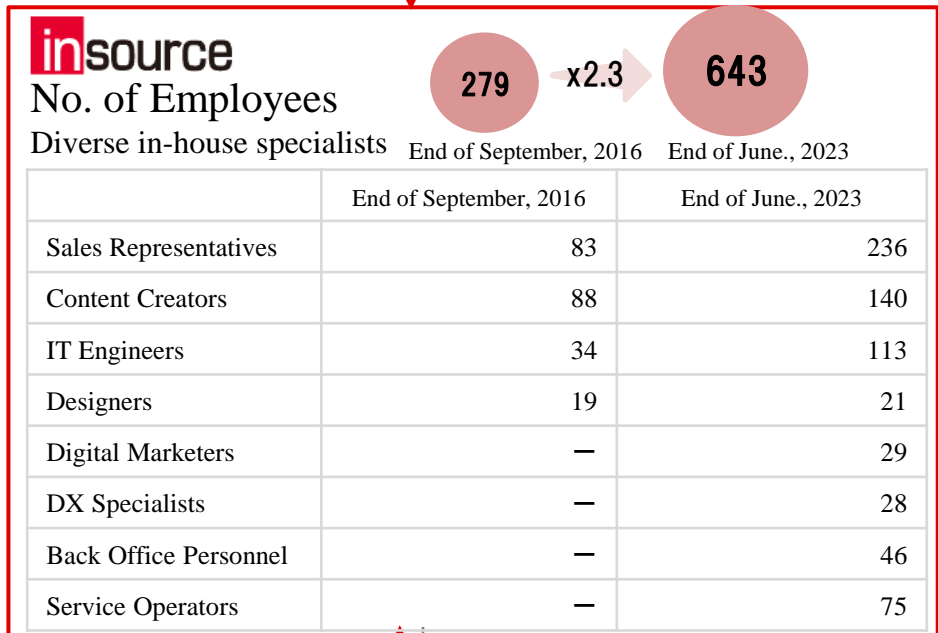


Stakeholders of Insource

Numerical comparison between 2016 (listed on TSE Mothers) and today

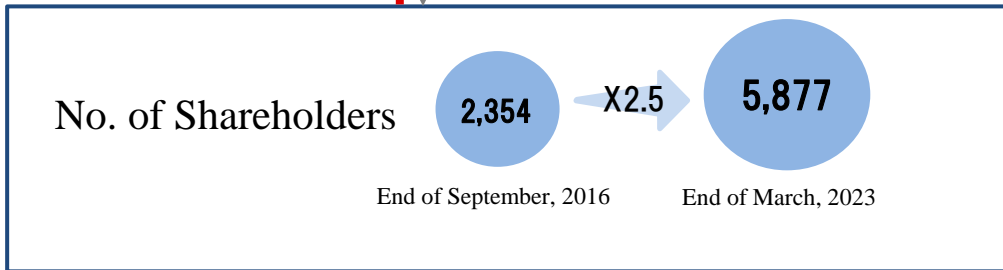
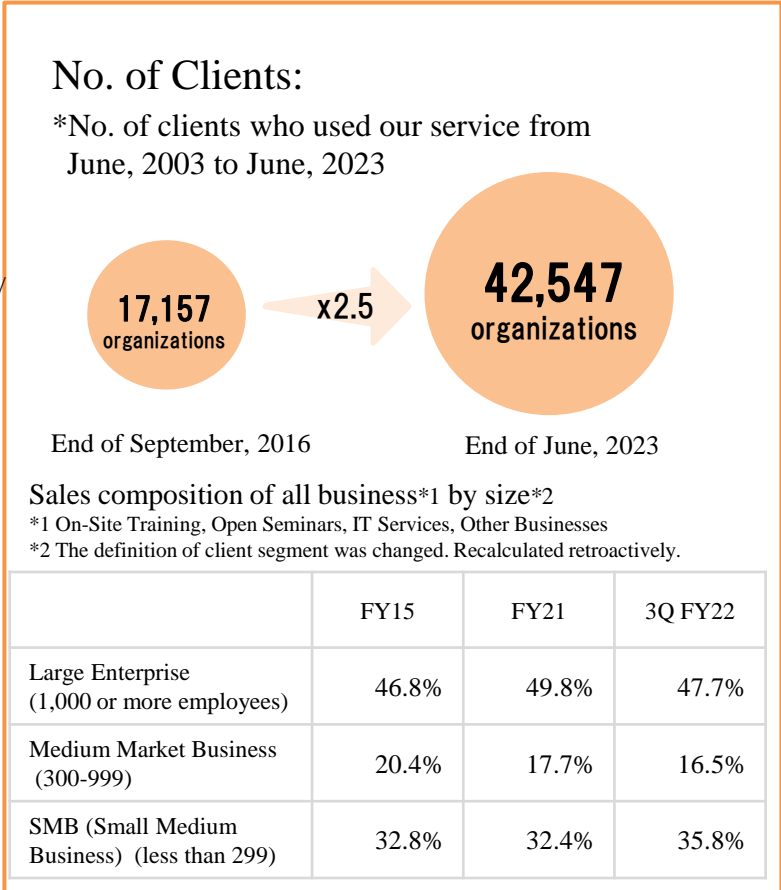


In cooperation



Funds ↑ Returns ↓

Products/
Services



No. of Shares Held	End of September, 2016	End of March, 2023
Overseas Investors	4.7%	22.8%
Domestic Investors	9.4%	25.7%
Domestic Corporations	45.3%	32.8%
Individual/Others	40.6%	18.6%

Clients and Quarterly Sales Composition Ratio

Clients composition ratio by industry

The number of clients who used our services in the past year (July, 2022 to June, 2023)

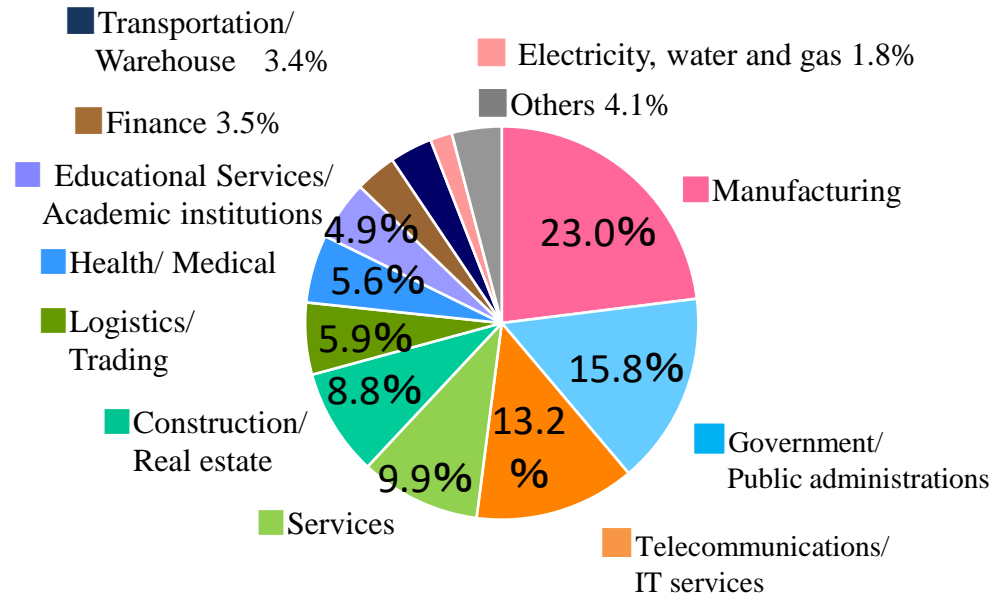
14,007 organizations

[Reference]

The number of clients who have used our services since our foundation

42,547 organizations

The number of clients who used our services in the past year



Sales composition ratio and progress rate by quarter

Unit: million yen

% represents composition ratio & progress rate

1Q 2Q 3Q 4Q

Progress rate
73.5%

10,750
(Forecast)

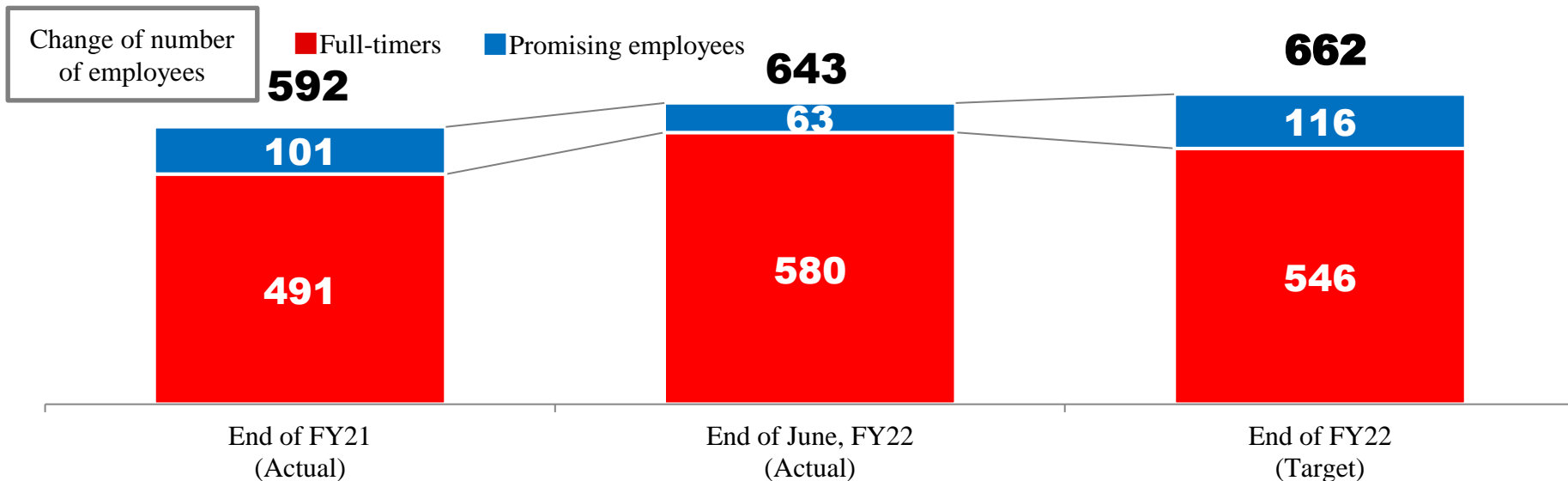
FY22 Progress rate
FY21 Composition ratio
FY20 Composition ratio

	1Q	2Q	3Q	4Q	
FY22 Progress rate	24.1%	24.3%	25.1%		
	2,586	2,617	2,694		
FY21 Composition ratio	23.3%	24.6%	25.1%	27.0%	9,418
	2,192	2,317	2,362	2,545	
FY20 Composition ratio	24.2%	24.8%	24.9%	26.1%	7,501
	1,814	1,859	1,870	1,956	

Number of Employees

- 31 new graduates joined the company in April 2023, and 9 mid-career employees joined between April and June.
- Promising employees (Seed investment in human capital) are personnel who have joined the company within one year after graduation or within six months after mid-career hiring.
Particularly for new graduates, we are training them as new core human resources equipped with both DX and sales skills

Consolidated number of employees	End of FY21 (Actual)	End of 3Q FY22 (Actual) (vs end of 3Q FY21)	Number of employees up to target	End of FY22 (Target) (vs end of FY21)
<u>Total number of employees*</u>	592	643 (+51)	19 (Progress rate: 72.8%)	662 (+70)
<u>Of which, promising employees*</u>	101	63	53	116 (+15)



* Number of employees does not include directors, corporate auditors and executive officers.

* Promising employees (Seed investment in human capital) refers to personnel who have joined the company within one year after graduation or within six months after mid-career hiring.

Diversity Disclosure

- Female employees account for 56.6% of the entire employees and 38.5% of managerial positions, and many seniors are also active.
- Acquired 2 stars in “Eruboshi”, and “Kurumin” certification*. Selected under the “2023 Certified Health & Productivity Management Outstanding Organizations Recognition Program”.

*Eruboshi: A program under which the Minister of Health, Labor and Welfare certifies companies that have made excellent efforts to promote the advancement of women, based on the Law for the Promotion of Women's Activities.

Kurumin: A certification system for companies that meet certain criteria as a "company that supports child-rearing" based on the Law for Measures to Support the Development of the Next Generation.

	Total	Female employees
No. of employees*2	643	364 56.6%
No. of managerial positions	208	80 38.5%



<Private Sectors>
Ratio of female employees in managerial positions:
12.9% *1
(Source: The Gender Equality Bureau of the Cabinet Office (2023))

Foreign nationals*4	4	Seniors (aged over 60)	42	LGBTs	5	People with disabilities	11 Disability employment rate: 2.79% *3
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Workforce by job function

(including those who are holding two or more posts concurrently)

- Diverse specialists work at Insource *5

<Private Sectors>
• Legal employment rate: **2.30%**
• Actual employment rate: **2.25%**
(Source: “2022 Disability Persons' Employment Status” released by the Ministry of Health, Labour and Welfare)

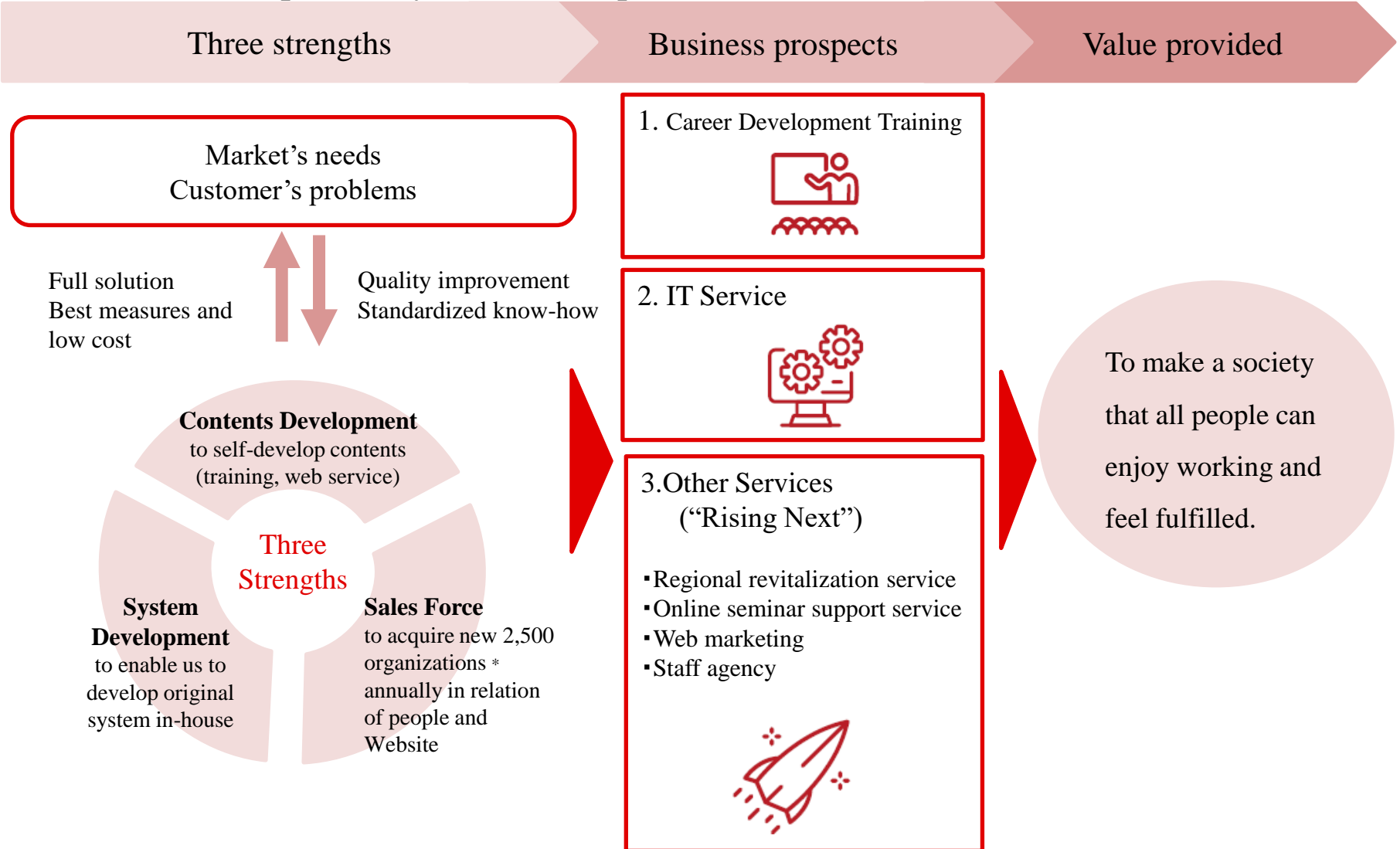
Content Creators	140	Sales Representatives	236	IT Engineers	113	Back Office Personnel	46
Digital Marketers	29	DX Specialists	28	Designers	21	Service Operators	75

*1 Administrative and managerial workers include board members, managers or above, administrative civil servants. *2 Directors, auditors and corporate officers are excluded.

*3 Non-consolidated (Insource only) *4 “Foreign nationals” refers to employees with foreign nationalities. This includes foreign nationals who have acquired Japanese citizenship. *5 Number of employees by job category is calculated by duplicating those who hold concurrent positions.

Advantages of Insource

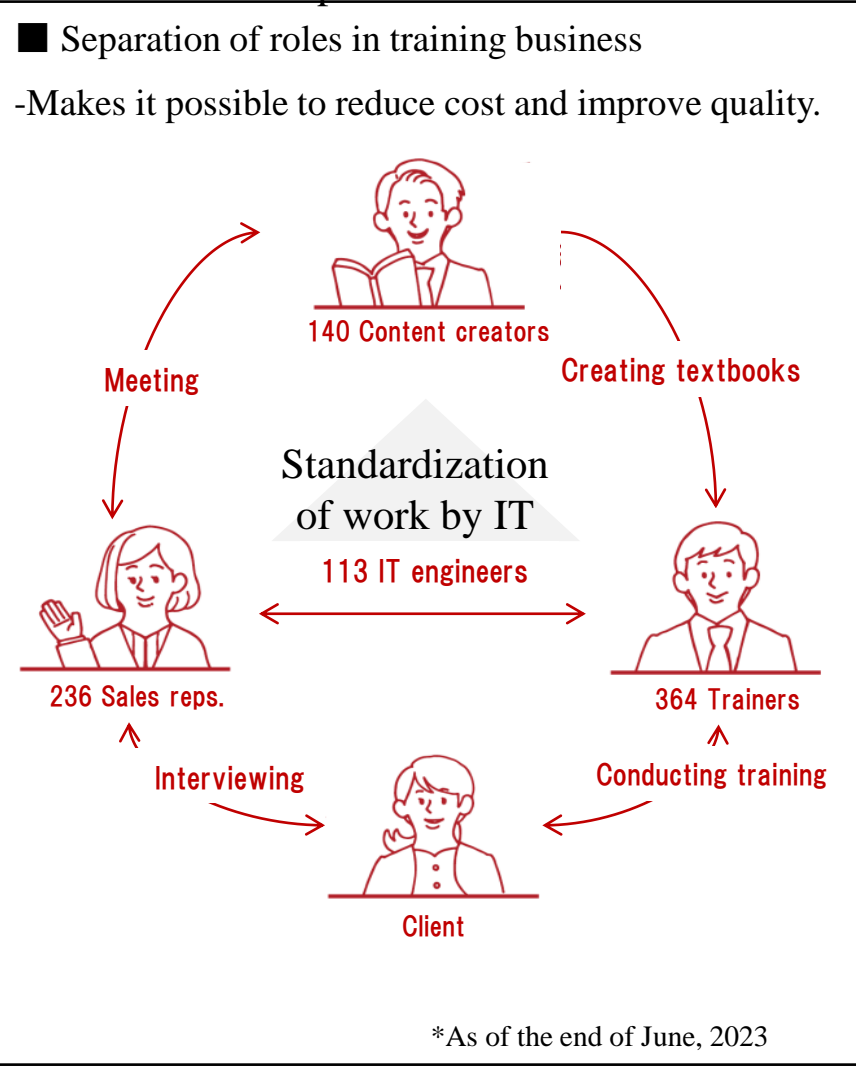
Insource always keep evolving focusing on three strengths
(Contents Development, System Development and Sales Force)



* No. of new contracts of WEBinsource

(1) High Ability to Develop Various Contents and Services

- Separate the roles by digitalization and realize in-house development of content



- Quickly develop a great selection of training contents and web services

An in-house agile team of 140 content creators and 113 IT engineers develop various up-to-date contents in responsive to social changes and client needs.

■ No. of training classified by business types

On-Site trainings Open Seminars Videos / e-Learning

4,065 **3,825** **699**

*As of the end of June, 2023

■ Classified by genre

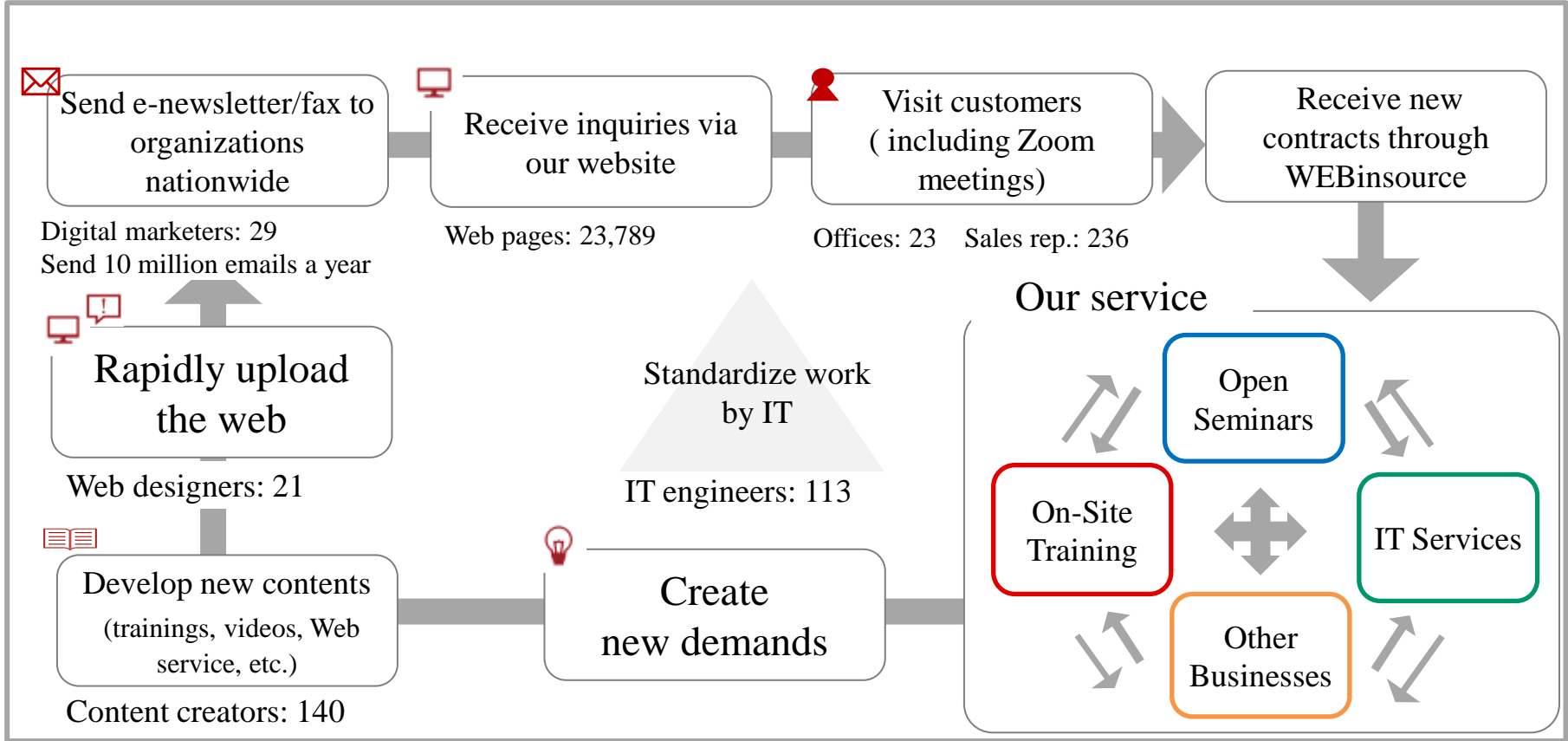
Theme	FY15		FY21		
	No.	Composition ratio	No.	Composition ratio	Sales growth ratio
For managers	1	26.4%	1	22.8%	+166%
Business skills	2	18.1%	2	16.2%	+178%
Communication/ CS	3	17.4%	3	14.7%	+143%
For new and younger employees	4	14.7%	4	12.0%	+205%
DX/OA/IT	6	2.8%	5	10.3%	+874%
Harassment prevention/ Compliance	5	6.0%	6	9.5%	+226%
For mid-career employees	7	2.5%	7	9.3%	+228%
Other		12.0%		5.2%	+205%
Total		100%		100%	+196%

*As of the end of September, 2022

(2) Strong Sales Force to Expand Business

Business Flow of Insource

- Expanding sales DX by using IT to utilize all data generated in the sales process



*As of the end of June 2023

⇒236 sales representatives and approximately 20,000 web pages created by 29 digital marketers are cooperated for efficient sales activities.

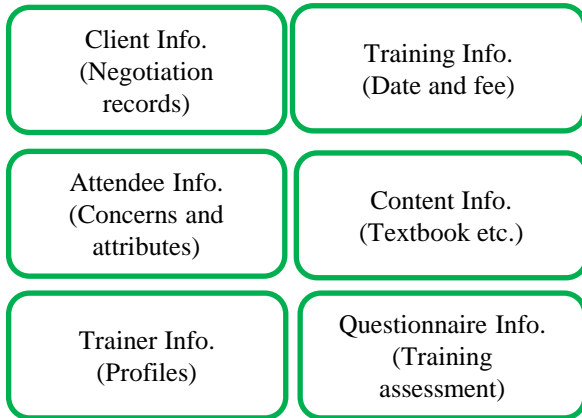
(3) IT Capability - Self-developed System

■ We have promoted systemization for work efficiency since foundation and some service is sold to other companies.

■ We sell our services on EC sites. System/Online service is also available.

■ In-house system development

Create a database of all kinds of information to standardize operations.



The system to manage client information, training operations, and contents etc. was developed.

■ Sold via EC sites “Video Department Store” and WEBinsource (membership site)



■ Leaf (HR support system)

- New version was launched to support human capital management



We can handle human capital management!



※ Large Enterprise: 1,000 or more employees,
Medium Market Business :300-999 employees,
SMB (Small Medium Business): Less than 299 employees

<Lineups of Leaf Series>

Name	Target client
Leaf (education management/LMS)	LE
Leaf Lightning (specialized in e-Learning)	MM/SMB
Leaf inorder (distribution of video content)	MM/SMB
Leaf Eva (personnel evaluation)	MM/SMB
Leaf Human Capital Management	LE
Leaf Management (human resources information management)	MM/SMB
Leaf My STORY (activating internal communication)	MM/SMB
Leaf Corporate University	LE/MM/SMB

- Policy: Aim for ESG and sustainable performance improvement with ESG+P(Performance) management.
- Evaluation: MSCI ESG rating is “AA” and our educational business and internal training are evaluated.

<Major initiatives>

■ May. 2023 Signed the United Nations Global Compact (UNGC)

- Commitment to 10 principles in 4 areas, consisting of human rights, labor, the environment, and anti-corruption

Human rights	Principle 1:Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2:make sure that they are not complicit in human rights abuses.
Labour	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies
Anti-Corruption	Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

■ Jun. 2023 Integrated Report 2022 (Japanese version) issued

- Enhance content on sustainable future growth, such as DX training and ESG initiatives.
- Human capital management is explained from the human capital disclosure index of 4,424 items of 450 companies.
- English version to be published at the end of July, 2023.



In-Source Integrated Report 2022 (Japanese) <https://www.insource.co.jp/resource/pdf/ir/integratedreport2022.pdf>(Link)

<Appendix 3> Expansion of Human Capital

■ Two main issues for companies in human capital management

- 1: “Value enhancement of human capital” 2: “Information disclosure of human capital”

■ Expansion of human capital is linked to the management strategies of each company

- Survey on 4,424 items from 450 companies including JPX Nikkei Topics 400* *as of the end of Jan., 2023
- 5 themes and 7 items are the main issues Japanese companies face in terms of disclosed information (according to our survey)
- Many enterprises are still facing the issue of indexing and disclosure in the future.

<Major themes that Japanese companies are facing>

Category	Item Example
Improvement in business performance	
1. Client value creation and productivity improvement by DX promotion	1. No. of digital human resources, DX training attendees, and related certifications holders
2. Next generation leader development	2. No. of attendees in leadership development programs and young leaders
3. New businesses and challenges	3. No. of people taking on challenges, number of new business plans
D,E&I (Diversity, Equity and Inclusion)	No. and ratio of female managers, Percentage of women in recruitment
Employee engagement	Engagement survey results, Percentage of employees using stock ownership plan
Health, safety & sanitation	Employees' health conditions (Percentage of secondary health checkups taken)
Strengthening governance	System improvement of ratio of external directors, etc, Compliance education

■ We support each company from all perspectives to solve problems

- HR training by category (On-Site Training, Open Seminars , video educational materials, assessments, etc.)
- Human capital management support tools (educational platform, accumulation of training history, management and disclosure of human capital information, etc.)

Human capital disclosure items that Insource focuses on (excerpt)

- Place the highest priority on sales and operating profit per employee, which are directly linked to financial performance expansion, and continue to promote and improve them at the same time.
- Increase employee shareholders to foster a desire to improve business performance and to raise awareness of management participation.
- Continue to promote the creation of an organization where diverse human resources can work comfortably and secure a stable pool of excellent human resources.

Category	Items	FY20	FY21	As of the end of March, FY22	Remarks
Performance	Sales per employee (thousand yen)	22,193 (full-year)	24,181 (full-year)	12,570 (half-year)	Calculated based on the average no. of employees (excluding temporary employees) during the period
Performance	Operating profit per employee (thousand yen)	7,113 (full-year)	8,645 (full-year)	4,662 (half-year)	Calculated based on the average no. of employees (excluding temporary employees) during the period
Performance	Average points of "Energy"	3.24	3.24	-	"Energy" is the ability to have a strong will and to see the value in continuing to work despite difficulties. Maximum 5 points. Calculated using our assessment test tool "giraffe"
Performance	Training hours per employee	15h44m (full-year)	10h43m (full-year)	7h25m (half-year)	Total hours of training and e-learning courses (excluding study sessions)
Performance	Total no. of DX training attendees	201	681	-	Total no. of participants in each fiscal year
Performance	% of employees' experience with the company's services	100%	100%	100%	Calculated based on use of Leaf and attendance at Open Seminars and e-learning
D, E&I	No. of management positions (% of female employees)	156 (34.6%)	185 (37.8%)	193 (37.8%)	
D, E&I	No. of managerial appointments (% of female employees)	43 (44.2%)	38 (52.6%)	-	No. of non-managerial employees promoted to managerial positions
D, E&I	No. and rate of employees taking <u>maternity leave</u> *	6 (100%)	16 (100%)	-	The percentage indicates the ratio calculated by the actual number of acquirers to those eligible for acquisition during the period.
	No. and rate of employees taking <u>paternity leave</u> *	6 (46.2%)	12 (92.3%)		
Employee engagement	% of employees who hold shares of Insource *	66.6%	69.6%	68.6%	Aggregate employee stock ownership plan participants and RS (restricted stock compensation) holders

* Recalculate retroactively by reviewing employee definitions

■ We provide full range of services for enhancement of human capital value and disclosure of information.

We offer packaged versions quickly and reasonably priced, as well as customized options.

Company Implementation Matters	Problems anticipated in the implementation	Insource Services ※ Customized for unique items
STEP 1 Set Indicators	<ul style="list-style-type: none"> ▪ Create unique indicators in line with management strategy → indicators that lead to increased corporate value 	<ul style="list-style-type: none"> ▪ Consulting service Check and analyze human capital linked to business performance, etc.
STEP 2 Collect and organize data	<ul style="list-style-type: none"> ▪ Easy to disclose information ▪ Consolidate data scattered across multiple systems 	<ul style="list-style-type: none"> ▪ Leaf series Leaf Management/Leaf Human Capital Management/Leaf Corporate University <Example>Manage training attendance time data
STEP 3 Determine investment policy for human capital	<ul style="list-style-type: none"> ▪ Show the gap through As is-To be (current situation and desired state) ▪ Choose best talents to invest 	<ul style="list-style-type: none"> ▪ Assessment/Leaf Corporate University Develop and provide original assessments such as giraffe/tiered tests/engagement diagnostics, etc.
STEP 4 Implement education to achieve the goal	<ul style="list-style-type: none"> ▪ Develop and implement unique educational program ▪ Use e-learning to increase the implementation rate of education. 	<ul style="list-style-type: none"> ▪ Training (On-Site Training , Open Seminars, e-Learning, video) Meet diverse training needs by various methods, period, budget, etc. Career Training /DX and Diversity Promotion/ Leader Development ▪ LMS “Leaf” /Leaf Corporate University
STEP 5 Evaluate educational effectiveness and incorporate into disclosure indicators	<ul style="list-style-type: none"> ▪ Need to evaluate the effectiveness of the unique education 	<ul style="list-style-type: none"> ▪ Assessment/Leaf Corporate University Compare with the historical data with the above STEP2-3