

Insource Co., Ltd.

3Q FY19 Cumulative Consolidated Financial Results
(October 1, 2019 to June 30, 2020)

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Chap. 01 The impact of coronavirus crisis on Insource Group and our group's response as of July 27, 2020

Chap. 02 3Q FY19 Cumulative Consolidated Financial Highlights and Forecast for FY19 (ending September 30, 2020)

Chap. 03 3Q FY19 Cumulative Consolidated Financial Results

Chap. 04 To improve our performance from 4Q onwards

<Reference> Company Profile & Business Activities

Chap. 01 The impact of coronavirus crisis on Insource Group and our group's response as of July 27, 2020

Performance of 3Q FY19 – Showing Signs of Recovery from June

■ Sales increased by 117 million yen from previous month after hitting the bottom at 50.7% YOY in May and recovering to 64.5% YOY in June.

Unit: million yen

	April	MOM	May	MOM	June	MOM	July(*1)	MOM
Consolidated net sales (YOY)	370 (▲251) (59.6%)	▲2	177 (▲172) (50.7%)	▲192	295 (▲162) (64.5%)	+117	370 (▲153) (70.8%)	+74
Net sales: On-Site Training (YOY)	175 (▲192) (47.7%)	+89	81 (▲139) (36.8%)	▲93	136 (▲138) (49.7%)	+55	209 (▲123) (62.8%)	+73
Net sales: Open Seminars (YOY)	124 (▲80) (60.8%)	+80	43 (▲56) (43.6%)	▲81	88 (▲50) (63.9%)	+45	81 (▲72) (52.9%)	▲7

*1 The numbers shown for July are the forecast figures as of July 22.

Status of Training Businesses

- Both On-Site Training and Open Seminars show signs of recoveries after hitting the lowest in May.
- The number of On-Site Training and the number of attendees at Open Seminars, both conducted online, change at the same level. It is expected that a certain number of trainings will be conducted online for a while.

	April	MOM	May	MOM	June	MOM	July(※1)	MOM
On-Site Training: Number of trainings conducted(times) (YOY)	703 (44.2%)	+401	265 (24.4%)	▲438	544 (42.9%)	+279	951 (61.4%)	+407
Among above, number of online trainings(times) (composition ratio)	172 (24.5%)	+169	192 (72.5%)	+20	187 (34.4%)	▲5	211 (22.2%)	+24
Open Seminars: Number of Attendees(attendees) (YOY)	5,396 (66.0%)	+3,417	1,992 (42.0%)	▲3,404	2,898 (47.4%)	+906	3,286 (44.0%)	+388
Among above, number of people who took online(attendees) (composition ratio)	4,642 (86.0%)	-	1,971 (98.9%)	▲2,671	2,008 (69.3%)	+37	1,386 (42.2%)	▲622

*1 The figures for July are estimated as of July 22. They are subject to additions and cancellations.

■ Enhanced non-face-to-face services with “speed and focus” in the coronavirus crisis

April Offered new employees’ trainings online on a massive scale, Developed an online training management system promptly

- Started from full-fledged online trainings for new employees (conducted 1,197 times, 25,237 people attended during 3Q)
 - Promoted IT adoption to manage Online Trainings (by automating operations specific to online services such as sending Meeting IDs)
 - Developed contents to solve social issues targeting the post-coronavirus crisis
- ⇒ Started online seminars "Insource Energy Forum - Japan Solution" for free

May Offered only Online Trainings mostly, Enhanced non-face-to-face services

- Almost all of the Trainings continued taking place online due to the extension of state of the emergency
- Enforced management services for Online Trainings (started offering services which made attendees possible to print out textbooks at convenience stores “7-Eleven” (**))
- 40 Sales Reps. were transferred to other Departments temporarily, among whom 12 are now officially in IT Service Department which may not likely be affected by the coronavirus crisis, and we enforced non-face-to-face services.

June Resumed normal sales activities, Re-started Open Seminars where attendees are actually present at the seminar classrooms (We also continue online trainings)

- Since the state of the emergency was lifted entirely, businesses related to HR departments have returned to normal gradually and business negotiations have resumed
- In parallel with Online Trainings, Open Seminars where attendees are present physically started again nationwide
- Video trainings developed in-house started fully at Insource in addition to those services already done by Mitemo Co., Ltd

July Started BPO and video services using our own technologies

- Started offering new services by making use of our own technologies, such as supporting face-to-face trainings into online and offering e-Learning rental contents for one-week
- Enforced new services targeting at “After Corona/ With Corona” by expanding a lineup of IT trainings to 48 kinds

Chap. 02 3Q FY19 Cumulative Consolidated Financial Highlights and Forecast for FY19 (ending September 30, 2020)

1Q-3Q(19.10-20.6)

■ Net sales:

Decreased by 6.0% (▲ 237 million yen)YOY to 3,749 million yen.

The breakdown consists of 1,981 million yen (▲ 15.5%) for On-Site Training, 965 million yen (▲ 9.9%) for Open Seminars and 802 million yen (+41.0%) for Other Businesses.

■ Gross profit:

Decreased by 6.3% (▲ 175 million yen) YOY to 2,617 million yen.

Gross profit margin fell by 0.3 points YOY to 69.8%.

■ Operating profit:

Decreased by 54.0% (▲ 510 million yen) YOY to 434 million yen.

Operating profit margin decreased by 12.1 points YOY to 11.6%.

3Q(20.4-20.6)

■ Net sales:

Decreased by 41.0% (▲ 587 million yen) YOY to 843 million yen.

The breakdown consists of 392 million yen (▲ 54.5%) for On-Site Training, 257 million yen (▲ 42.1%) for Open Seminars and 193 million yen (+56.5%) for Other Businesses.

■ Gross profit:

Decreased by 46.2% (▲ 468 million yen) YOY to 544 million yen.

Gross profit margin decreased by 6.3 points YOY to 64.5%.

■ Operating profit:

Decreased YOY to 567 million yen and operating loss was 190 million yen.

Assumptions of forecasts

This forecast is calculated based on the actual situation of sales activities as of July 22, 2020 and current situation of the coronavirus infection.

Earnings Forecasts

- Net sales: 5,160 million yen, 8.0% decrease YOY (▲ 330 million yen from the previous forecast)
- Operating profit: 760 million yen, 41.7% decrease YOY (▲ 125 million yen from the previous forecast)
- Net profit: 465 million yen, 44.3% decrease YOY (▲ 100 million yen from the previous forecast)

Whole Business

The changes in 3Q FY19 are almost in line with our expectations made as of May 14. As for 4Q, the changes are expected to be about 90% YOY.

By Business

4Q sales of training business, especially Open Seminars, will have slower recovery than expected. On the other hand, 4Q sales of Other Businesses will be slightly below the previous forecast, but with the growing needs for home learning due to the coronavirus crisis, sales for e-Learning and term-end customization of LMS (Learning Management System; LMS*¹) will be expected to increase.

	July	August	September	4Q Total
Consolidated net sales	70%	75%	110%	90%
Net Sales: On-Site Training	60%	80%	105%	85%
Net Sales: Open Seminars	50%	65%	80%	65%

*Figures show the approximate number of sales compared to the previous year

*1 LMS (Learning Management System): Management system necessary for conducting e-learning

FY19 Revised Consolidated Earnings Forecast

■ Net sales decreased by 330 million yen to 5,160 million yen from the previous forecast
(▲ 448 million yen YOY)

■ Operating profit decreased by 125 million yen to 760 million yen from the previous forecast
(▲ 543 million yen YOY)

FY19

Unit: million yen

	FY18 (Actual)	Previous forecast	Revised forecast	Changes (Change rate)	YOY
Net sales	5,608	5,490	5,160	▲330 (▲6.0%)	▲448 (▲8.0%)
Gross profit (Gross profit margin)	3,959 (70.6%)	3,860 (70.3%)	3,610 (70.0%)	▲250 (▲6.5%) (▲0.3pt)	▲349 (▲8.8%) (▲0.6pt)
Operating profit (Operating profit margin)	1,303 (23.2%)	885 (16.1%)	760 (14.7%)	▲125 (▲14.1%) (▲1.4pt)	▲543 (▲41.7%) (▲8.5pt)
Ordinary profit (Ordinary profit margin)	1,298 (23.2%)	870 (15.8%)	750 (14.5%)	▲120 (▲13.8%) (▲1.3pt)	▲548 (▲42.2%) (▲8.7pt)
Net profit	835	565	465	▲100 (▲17.7%)	▲370 (▲44.3%)

■ Dividends

We plan to pay dividends in line with our original forecast as business activities are returning to normal.

	FY18 (Actual)	FY19 (Previous forecast)	FY19 (Revised forecast)
Dividend per share (after stock split) *	16 yen 00 sen	18 yen 50 sen	18 yen 50 sen
Stock split	336 million yen	388 million yen	387 million yen
Payout ratio (consolidated)	40.3%	68.8%	83.6%

* As of September 1, 2019, we split stock per share of common stock at 1.25-to-1 ratio.

■ Revision of the mid-term management plan, “Road to Next 2022”

We will disclose the next medium-term management plan (for FY20 to FY22) when the financial results for FY19 are announced.

Chap. 03 3Q FY19 Cumulative Consolidated Financial Results

Consolidated Profit & Loss Statement ① Overview 1Q-3Q(19.10-20.6)

■ Net sales decreased by 6.0% YOY to 3,749 million yen

■ Operating profit decreased by 54.0% YOY to 434 million yen

■ Recorded an extraordinary loss of 38 million yen due to impairment of investment securities Unit: million yen

	FY17 1Q-3Q(Actual)	FY18 1Q-3Q(Actual)	FY19 1Q-3Q(Actual)	FY19 1Q-3Q(YOY)	FY19 3Q(Actual)	FY19 3Q(YOY)	FY19 (Revised target)
Net sales (YOY)	3,294 (+672)	3,986 (+692)	3,749 (▲237)	▲6.0%	843 (▲587)	▲41.0%	Changed ▲330 5,160 (Progression rate:72.7%)
Gross profit (YOY) (Gross profit margin)	2,264 (+514) (68.7%)	2,793 (+529) (70.1%)	2,617 (▲175) (69.8%)	▲6.3% (▲0.3pt)	544 (▲468) (64.5%)	▲46.2% (▲6.3pt)	Changed ▲250 3,610 (Progression rate:72.5%) (70.0%)
Operating profit (YOY) (Operating profit margin)	697 (+278) (21.2%)	944 (+247) (23.7%)	434 (▲510) (11.6%)	▲54.0% (▲12.1pt)	▲190 (▲567) (▲22.6%)	▲48.9pt) (▲48.9pt)	Changed ▲125 760 (Progression rate:57.1%) (14.7%)
Ordinary profit (YOY) (Ordinary profit margin)	689 (+254) (20.9%)	940 (+250) (23.6%)	431 (▲508) (11.5%)	▲54.1% (▲12.1pt)	▲191 (▲566) (▲22.7%)	▲48.9pt) (▲48.9pt)	Changed ▲120 750 (Progression rate:57.6%) (14.5%)
Net profit (YOY)	464 (+179)	621 (+156)	261 (▲359)	▲57.9%	▲159 (▲407)		Changed ▲100 465 (Progression rate:56.2%)

Consolidated Profit & Loss Statement ② (by business) 1Q-3Q(19.10-20.6) **in**source

Unit: million yen

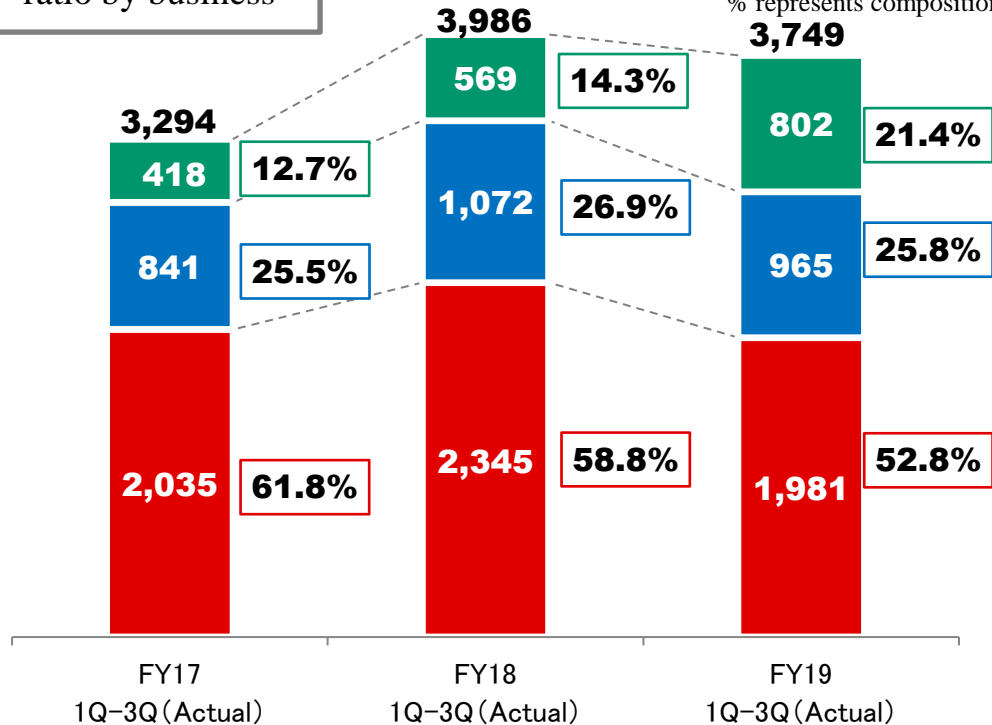
		FY17 1Q-3Q(Actual)	FY18 1Q-3Q(Actual)	FY19 1Q-3Q(Actual)	FY19 1Q-3Q(YOY)	FY19 3Q(Actual)	FY19 3Q(YOY)	FY19 (Revised target)
Whole Business	Net sales (YOY)	3,294 (+672)	3,986 (+692)	3,749 (▲237)	▲6.0%	843 (▲587)	▲41.0%	Changed ▲330 5,160 (Progression rate:72.7%)
	Gross profit (Gross profit margin)	2,264 (68.7%)	2,793 (70.1%)	2,617 (69.8%)	▲6.3% (▲0.3pt)	544 (64.5%)	▲46.2% (▲6.3pt)	Changed ▲250 3,610 (Progression rate:72.5%) (70.0%)
	On-Site Training	Net sales (YOY)	2,035 (+300)	2,345 (+310)	1,981 (▲364)	▲15.5%	392 (▲470)	▲54.5%
	Gross profit (Gross profit margin)	1,473 (72.4%)	1,683 (71.8%)	1,477 (74.6%)	▲12.2% (+2.8pt)	294 (75.0%)	▲52.5% (+3.1pt)	Changed ▲110 2,030 (Progression rate:72.8%) (73.6%)
Open Seminars	Net sales (YOY)	841 (+210)	1,072 (+230)	965 (▲106)	▲9.9%	257 (▲187)	▲42.1%	Changed ▲140 1,260 (Progression rate:76.6%)
	Gross profit (Gross profit margin)	551 (65.5%)	691 (64.5%)	586 (60.7%)	▲15.2% (▲3.8pt)	128 (50.0%)	▲57.5% (▲18.2pt)	Changed ▲120 770 (Progression rate:76.1%) (61.1%)
Other Businesses	Net sales (YOY)	418 (+162)	569 (+150)	802 (+233)	+41.0%	193 (+69)	+56.5%	Changed ▲60 1,140 (Progression rate:70.4%)
	Gross profit (Gross profit margin)	239 (57.3%)	418 (73.6%)	554 (69.1%)	+32.3% (▲4.5pt)	120 (62.5%)	+36.3% (▲9.2pt)	Changed ▲20 810 (Progression rate:68.4%) (71.1%)

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

Composition Ratio・Progress Rate of Sales (by business・by quarter) & Operating Profit 1Q-3Q(19.10-20.6)

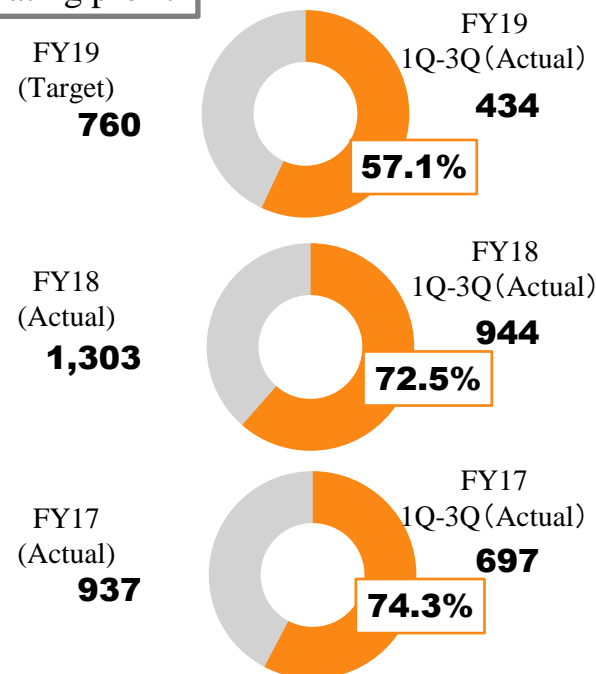
Sales composition ratio by business

■ On-Site Training ■ Open Seminars ■ Other Businesses
Unit: million yen
% represents composition ratio



Progress rate of operating profit

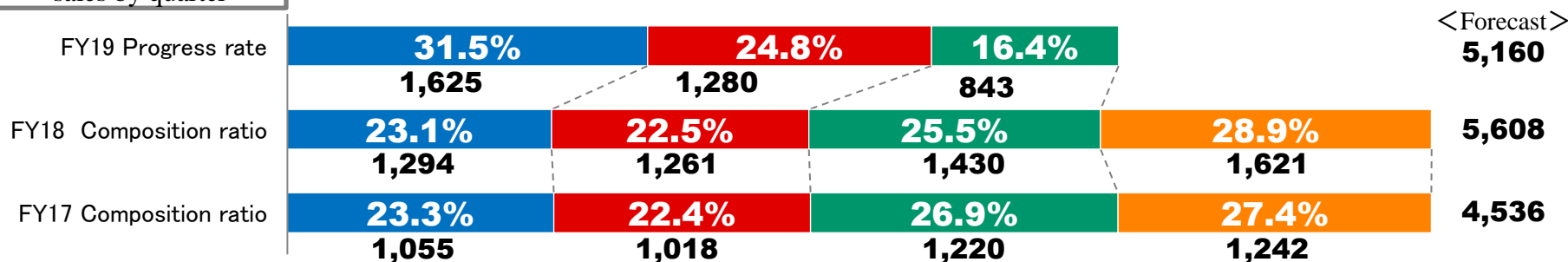
Unit: million yen
% represents progress rate



Composition ratio and progress rate of sales by quarter

■ 1Q ■ 2Q ■ 3Q ■ 4Q

Unit: million yen
% represents composition ratio or progress rate



- SG&A expenses increased by 18.1% YOY to 2,183million yen due to hiring more employees
- SG&A ratio increased significantly to 58.2%, due to a decline in sales. Office & system expenses increased due to cloud usage of Other Businesses

Unit: million yen

Breakdown of SG&A	FY17 1Q-3Q(Actual)	FY18 1Q-3Q(Actual)	FY19 1Q-3Q(Actual)	FY19 1Q-3Q(YOY)	FY19 (Revised target)
Personnel expenses *1 (YOY)	1,222	1,432	1,703 (+270)	+18.9%	Changed ▲40 2,230
Rent expenses (YOY)	87	93	101 (+7)	+8.1%	Changed ▲15 130
Office & system expenses (YOY)	83	117	147 (+30)	+26.2%	Changed ▲10 190
Other expenses (YOY)	173	204	230 (+25)	+12.5%	Changed ▲60 300
Total SG&A expenses (YOY)	1,567	1,849	2,183 (+334)	+18.1%	Changed ▲125 2,850
(SG&A expense ratio)	(47.6%)	(46.4%)	(58.2%)	-	(55.2%)

* 1 Total personnel expenses include wages, recruitment, training, and benefit expenses.

Consolidated Balance Sheet

■ Current assets decreased by 38.9% YOY to 2,535 million yen due to a decline in cash and deposits caused by acquisition of the company's building (547 million yen), payment of corporation tax (435 million yen), dividend payments (336 million yen) and buying back treasury stock (297 million yen)

Unit: million yen

	FY17 (Actual)	FY18 (Actual)	FY19 3Q (Actual)	FY18 vs. FY19 Changes YOY	
Current assets	3,434	4,150	2,535	▲1,615	▲38.9%
Fixed assets	524	806	1,378	+572	+71.0%
Total assets	3,959	4,957	3,913	▲1,043	▲21.1%
Current liabilities	979	1,787	1,131	▲656	▲36.7%
Fixed liabilities	89	86	81	▲5	▲6.4%
Net assets	2,889	3,082	2,700	▲381	▲12.4%
Total liabilities and net assets	3,959	4,957	3,913	▲1,043	▲21.1%

On-Site Training 3Q(20.4-20.6)

- The number of trainings conducted decreased largely and net sales fell by 54.5% YOY due to the declaration of state of the emergency
- The average unit price per training increased by 18.8% YOY to 259.9 thousand yen as online trainings are mainly offered to private companies

Unit: million yen

	FY18 (Actual)	FY19 1Q(Actual)	FY19 2Q(Actual)	FY19 3Q(Actual)	FY19 3Q(YOY)	FY19 1Q-3Q(Actual)	Revised target
Net sales (YOY)	3,279	1,006	581	392 (▲470)	▲54.5%	1,981 (▲364)	2,760 (Progression rate: 71.8%) Changed ▲130
Gross profit * (YOY)	2,341	742	440	294 (▲326)	▲52.5%	1,477 (▲206)	2,030 (Progression rate: 72.8%) Changed ▲110
(Gross profit margin)	(71.4%)	(73.8%)	(75.7%)	(75.0%)	(+3.1pt)	(74.6%)	(73.6%) Changed ▲800
Total number of trainings conducted (unit:times)	14,873	4,471	2,480	1,512	▲61.7%	8,463	11,600 (Progression rate: 73.0%)
Average unit price (unit:Thousand yen)	220.5	225.0	234.3	259.9	+18.8%	234.1	237.9

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

- Gross profit margin decreased by 18.2pt YOY to 50.0% due to an increase in expense rate for the use of external venues, which had been prepared in anticipation of increasing demands for new employee trainings
- The average unit price rose by 7.3% YOY due to the increase of long-term IT Trainings whose average unit prices are high

Unit: million yen

	FY18 (Actual)	FY19 1Q(Actual)	FY19 2Q(Actual)	FY19 3Q (Actual)	FY19 3Q(YOY)	FY19 1Q-3Q(Actual)	FY19 (Revised target)
Net sales (YOY)	1,527	419	289	257 (▲187)	▲42.1%	965 (▲106)	1,260 (Progression rate: 76.6%) <small>Changed ▲140</small>
Gross profit* (YOY)	1,011	284	172	128 (▲174)	▲57.5%	586 (▲105)	770 (Progression rate: 76.1%) <small>Changed ▲120</small>
(Gross profit margin)	(66.2%)	(67.9%)	(59.7%)	(50.0%)	(▲18.2pt)	(60.7%)	(61.1%)
Total number of attendees (unit:attendees)	72,107	21,132	13,717	10,286	▲46.0%	45,135	58,700 (Progression rate: 76.9%) <small>Changed ▲8,900</small>
Average unit price (unit:Thousand yen)	21.1	19.8	21.0	25.0	+7.3%	21.3	21.4

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

Other Businesses – Net Sales/Gross Profit 3Q(20.4-20.6)

■ Net sales steadily increased by 56.5% YOY, as the non-face-to-face service was hardly affected by coronavirus crisis

■ Net sales for e-Learning and video production rose by 90.2% YOY due to the increased use of STUDIO (cloud-based e-learning contents)

■ Gross profit margin decreased by 9.2pt YOY to 62.5% due to the increased communication costs for introducing highly-graded server

Unit: million yen

	FY18 (Actual)	FY19 1Q(Actual)	FY19 2Q(Actual)	FY19 3Q(Actual)	FY19 3Q(YOY)	FY191Q-3Q (Actual)	1Q-3Q (YOY)	Revised target
Net Sales (YOY)	801	199 (+72)	409 (+90)	193 (+69)	+56.5%	802	+41.0%	Changed ▲60 1,140 (Progression rate: 70.4%)
<Breakdown>								
IT Services	431	106	232	94	+53.8%	433	+38.9%	610 (Progression rate: 71.0%)
Monthly subscription	-	57	59	73	-	191	-	-
Customization	-	37	76	18	-	128	-	-
Stress Check Support Service	-	12	97	3	-	114	-	-
e-Learning/ Video Production	218	49	78	72	+90.2%	200	+21.6%	Changed ▲40 360 (Progression rate: 55.8%)
Consulting	85	19	51	18	+1.2%	90	+63.9%	Changed +10 120 (Progression rate: 75.4%)
Gross Profit (Gross profit margin)	605 (75.5%)	134 (67.4%)	298 (73.0%)	120 (62.5%)	+36.3% (▲9.2pt)	554 (69.1%)	+32.3% (▲4.5pt)	Changed ▲20 810 (Progression rate: 68.4%)

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

Other Businesses KPIs

Monthly subscription model		FY17 (Actual)	FY18 (Actual)	FY19 3Q (Actual)	3Q Progression rate against FY19	FY19 (Revised target) (FY18 vs. FY19)
IT Services	Total number of Leaf Paid subscribers (*1) (organizations) (YOY)	92	162	224 (+62)	70.5%	Changed ▲103 250 (+88)
IT Services	Total number of organizations using on-the-web appraisal form service (organizations)(YOY)	26	50	77 (+27)	56.3%	98 (+48)
Direct-selling model		FY17 3Q (Actual)	FY18 3Q (Actual)	FY19 3Q (Actual)	YOY	FY 19 (Revised target)
IT Services	Total number of organizations implementing Stress Check Support Service (*2)	0	12	16 (Total 241)	+33.3%	Changed ▲80 270 (Progression rate : 89.3%)
e-Learning/ Video Production	Total number of Video production Solutions	11	18	14 (Total 71)	▲22.3%	Changed ▲30 90 (Progression rate : 78.9%)
Consulting	Total number of consulting services	20	24	16 (Total 95)	▲33.3%	120 (Progression rate : 79.2%)
Periodical payment model		FY17 3Q (Actual)	FY18 3Q (Actual)	FY19 3Q (Actual)	YOY (1-3Q total YOY)	FY 19 (Revised target)
e-Learning/ Video Production	Total number of e-Learning (STUDIO & STUDIO Powered by Leaf) IDs per year (*3) (end of Sep. FY17 34,566) (end of Sep. FY18 40,548)	20,899	21,874	39,464 (1-3Q total 53,787)	+80.4% (+57.7%)	Changed +15,000 60,000 (Progression rate : 89.6%)

*1 Total number as of the end of the year *2 The number of Stress Check Support implemented since 2Q FY18 is based on the number of orders delivered.

*3 Since 1Q FY19, the annual total number of e-learning subscription IDs has been calculated based on the periodical payment system (the number of IDs used during a certain period), including the monthly subscription system.

1. Reasonable monthly fee (Subscription)

• In order to make implementation easier, basic monthly fee are set reasonable.

2. Variety of customizations

(1) Customized available to meet the needs of our customer`s personnel system

(2) 20 different optional functions have been developed, allowing customers to add more at a lower cost

⇒ Realized a service model that is less likely to be cancelled



3. Sales promotion with low advertising costs

(1) Cross-selling to existing clients by sales reps. in charge of trainings and only cost little additional sales expense

(2) Sales using digital marketing (web and email), no mass advertising.

⇒ Achieving low-cost promotion

⇒ With points 1-3 above, high profit rate is secured

Future Prospects for Leaf ~ Expanding sales targets

1. Expansion of sales targets to medium-sized and growing companies

Currently, our targets are mainly large companies, but with expansion of services for medium-sized and growing companies, we will flexibly respond to different needs.

For large companies	Packaged and sold as an LMS that can withstand the high load of a large organization
For medium-sized and growing companies	Packaged and sold as a one-stop ASP, human resource management, evaluation and LMS

2. Expansion of sales target to universities, colleges and high schools ~ Academic Leaf

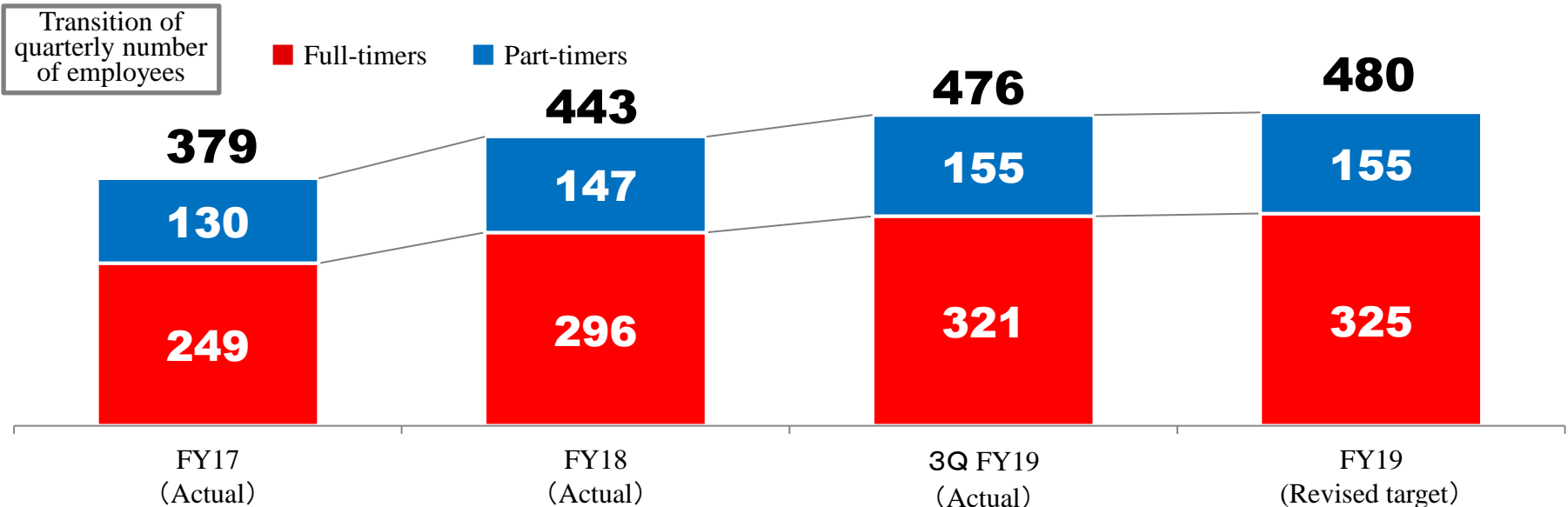
Customized Leaf (Learning Management System) for universities, colleges and high schools to meet the new learning management needs of implementing online education (increasing burdens for teaching sides such as checking homework assignments, sending reminders to students who have not submitted their work, and management of whether students have taken e-learning courses or not, etc.).

Number of Employees

■ We will curb the recruitment of mid-career employees expect engineers for FY19, but are planning to employ 30 newcomers in spring 2021

■ To improve productivity, we will continue to train all employees to be skillful in IT and advance DX

	FY17 (Actual)	FY18 (Actual)	FY19 3Q (Actual) <small>(FY18 vs. FY19)</small>	3Q Progression rate against FY19 target	FY19 (revised target) <small>(FY18 vs. FY19)</small>
<u>Total number of employees</u>	379	443	476 <small>(+33)</small>	89.2%	Changed ▲5 480 <small>(+37)</small>
<u>Number of full-time employees</u>	249	296	321 <small>(+25)</small>	86.2%	325 <small>(+29)</small>
<u>Number of part-time employees</u>	130	147	155 <small>(+8)</small>	100.0%	Changed ▲5 155 <small>(+8)</small>



■ Corresponding to “After Corona/ With Corona”, we have developed multiple new trainings/services.

	FY18 (Actual)	3Q FY19 (Actual) (Changes)	3Q progression rate against FY19 target	FY19 (Revised target) (Changes)
Total number of business sites	22	23 (+1)	100.0%	23 (+1)
Total number of permanent classrooms	41	48 (+7)	100.0%	48 (+7)
Total number of new contracts for WEBinsource (organizations) (Cumulative contracts)	2,771 (11,335)	1,679 (13,014)	77.6%	Changed ▲250 2,165 (13,500)
Number of new programs/content types for On-Site training (Total number)	239 (2,821)	243 (3,064)	76.2%	319 (3,140)
Number of new programs/content types for Open Seminars (Total number)	297 (2,589)	254 (2,843)	84.4%	301 (2,890)
Number of new content types for e-learnings (Total number)	74 (307)	30 (337)	41.1%	73 (380)
Total number of Core solution plans *	-	136	90.7%	150
Number of new webpages (Total number)	2,830 (14,171)	3,123 (17,294)	78.1%	Changed +991 4,000 (18,171)
Total number of sessions (Thousand times)	1,712	1,375	66.7%	2,062

* Core solution plan is a one-stop service that solves organizational challenges by providing a unique mix of multiple trainings and services tailored to clients' specific needs by subject, industry or job function(former name: package plan).

Chap. 04 To improve our performance from 4Q onwards

It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.

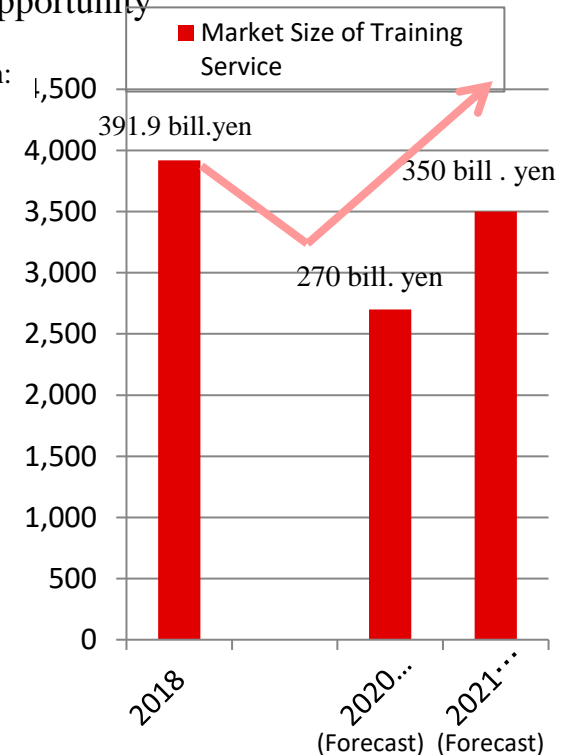
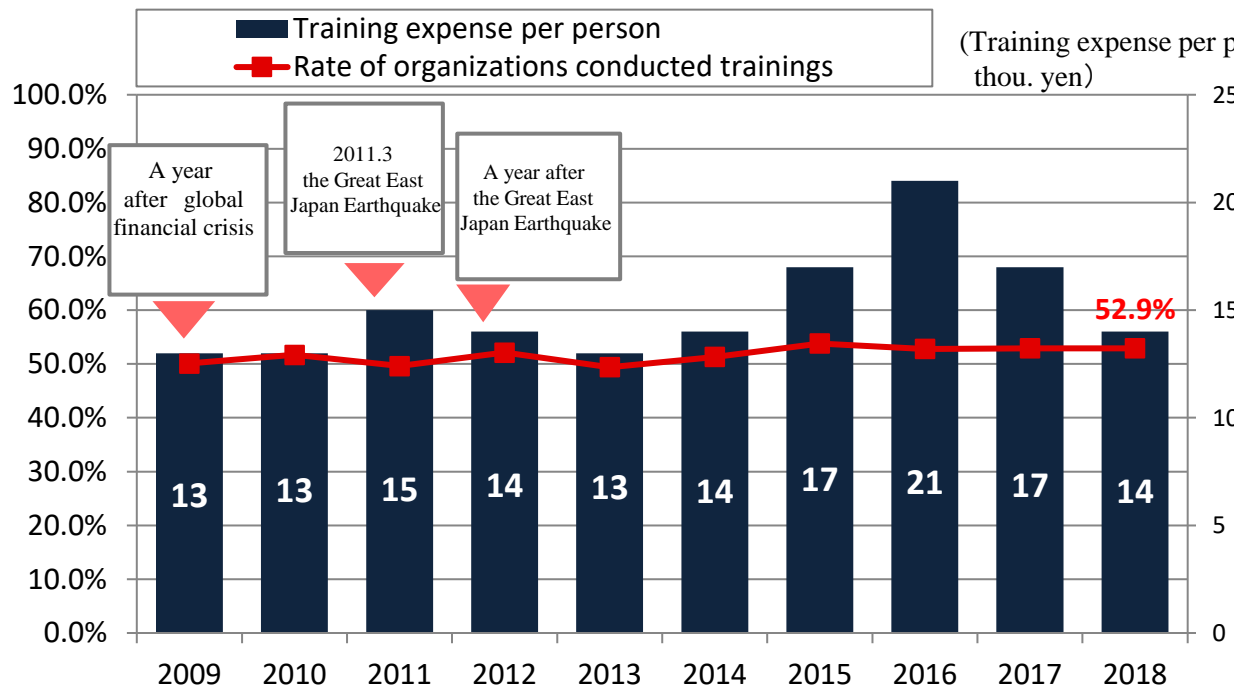
(Charles Darwin)

1. Demands from organizations which outsource trainings are expected to stay almost the same

- The number of organizations who carry out trainings have been changing around 50% in the last 10 years despite economic fluctuations (52.9% in 2018) *1
- Training expense per person has been changing around 13,000-21,000 yen in the last 10 years (14,000 yen in 2018)*1

2. Market sizes for 2020 and 2021 is expected to be 270 and 350 billion yen respectively

- We calculated the market size of 2020, assuming that the impact of the coronavirus crisis will continue for over seven-month from March to September (25% between March and June, 75% between July and September), and then will return to normal level
 - As for the market size for 2021, we calculated that the number of organizations conducting trainings would decrease by 2% and training expense per person would fall by 1,000 yen, referring to the market size 391.9 billion yen in 2018*2
- ⇒ Our Group's sales was 5.6 billion yen (FY18) and we still have huge market opportunity



*1 The survey done by Ministry of Health, Labour and Welfare from 2009 to 2018

*2 This figure is calculated based on the surveys done by Ministry of Health, Labour and Welfare (2018) and Ministry of Internal Affairs and Communications

■ Seeing coronavirus crisis as an opportunity for business expansion, we aim for new growth

1. Strengthening online-related services

~Leveraging the nationwide spread of online education as an opportunity for business expansion

- Online trainings are spreading and expanding from private companies to the rest of the country. We will establish a system that will allow at least 30% of the trainings to be offered online even after the coronavirus crisis is resolved
- Starting online training support (BPO) services by leveraging our online training management know-how and IT infrastructure
- Starting individualized follow-up services for each attendee

2. Enhancement of IT Services which are hardly affected by environmental Changes

- We will expand Leaf's sales target (to medium-sized companies and schools), build a strong sales structure, and develop new IT services and strengthen sales system

3. Enhancement of developing and promoting training programs to meet new needs

~Working from home, DX, web marketing etc.

- We will enhance developing new trainings for managing remote employees, productivity improvements, training DX personnel, new non-face-to-face sales styles such as inside sales and web marketing

4. Expansion of video/e-Learning education ~Diversifying contents and delivery methods

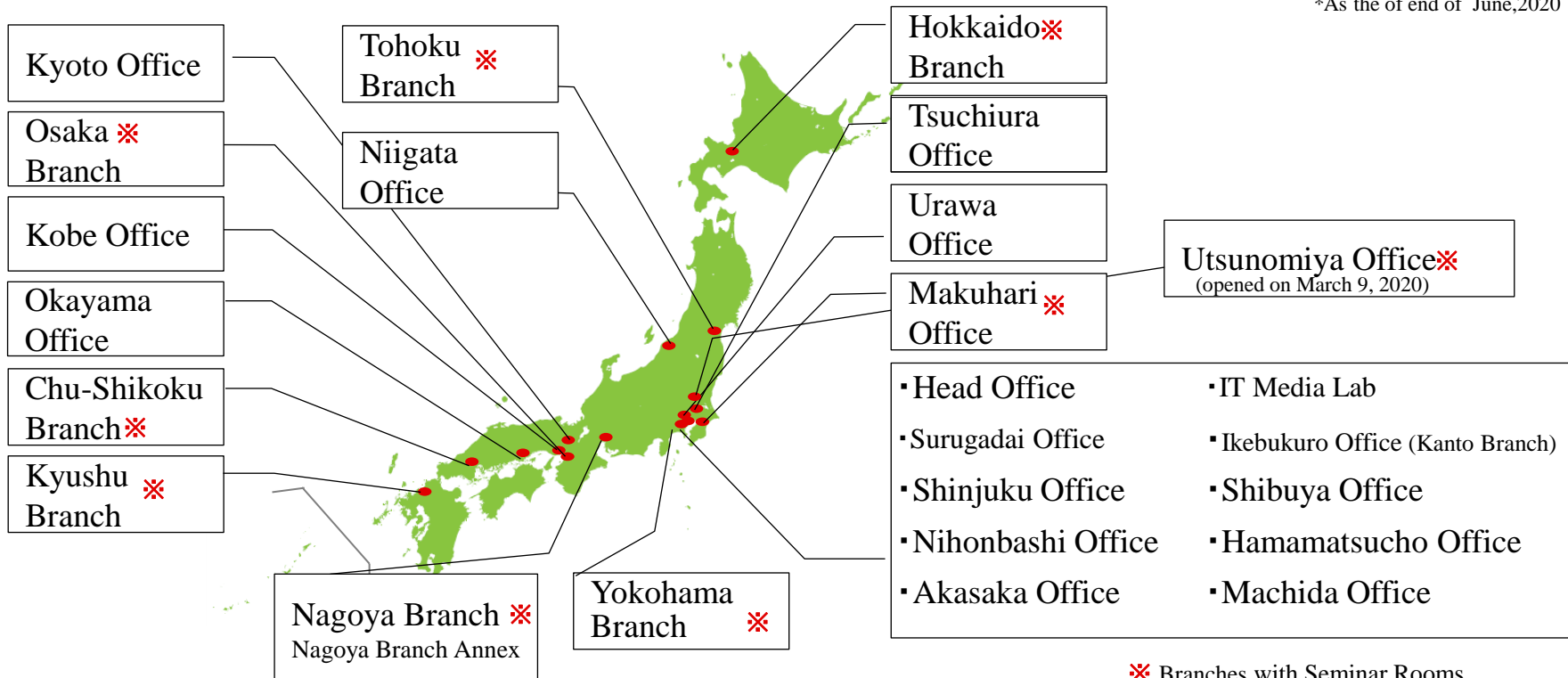
- In addition to the traditional subscription model, we are diversifying our e-Learning delivery methods to include rental and buy-out services, and strongly promoting the use of more than 3,000 types of video contents

<Reference> Company Profile & Business Activities

Company Profile

▪ Company name	Insource Co., Ltd.	▪ Representative director and president	Takayuki Funahashi
▪ Date of foundation	November, 2002	▪ Capital	800,623 thousand yen
▪ Headquarters	Kandabashi Park Bldg. 5F 1-19-1 Kanda Nishiki-cho, Chiyoda-ku. Tokyo		
▪ Affiliated companies	Mitemo Co., Ltd, Rashiku Corporation, MIRAISOUZOU & COMPANY, Inc., Insource Digital Academy Cooperation, Double Work Management Co., Ltd		
▪ Branch Offices & Business Sites	25 places nationwide	▪ Seminar Rooms	48 Classrooms in 10 Cities
		▪ Online training booths	40 booths*

*As the of end of June,2020



✖ Branches with Seminar Rooms.

We will continue to aim for sustainable growth by increasing market share

Strategy① Accelerating growth with speed and focus

- ▶ Accelerate growth by implementing business and organizational restructuring with fast speed while adapting to the external environment
- ▶ Work on major issues, and solve them by making proactive decisions from a company-wide perspective.

Strategy② Practicing diversity -Expediting business expansion and new business development through diversity

- ▶ Achieve higher results through the collaboration of diverse workforce
- ▶ Develop contents and expand business by maintaining and enlarging diverse workforce in the organization

Strategy③ Continuing ESG Management

- ▶ Contribute to society by offering various trainings to help revitalize the Japanese economy in the post-corona era since our business itself is deeply related to solving social problems
- ▶ Proactively disclose non-financial information and ensure highly transparent management

* We reallocate our resources in the organization speedily and concentrate staff on divisions which contribute to sales and growth.

Speed and Focus –Implementing Online Training Business **in**source

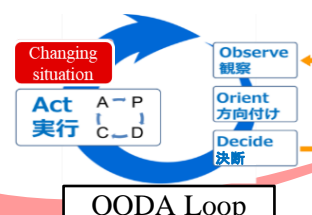
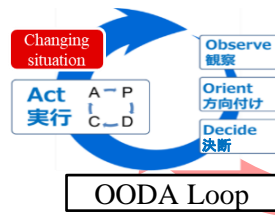
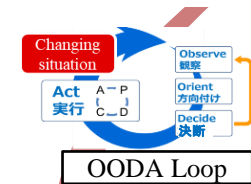
■ Structuring and Systematization of Implementing Online Training business in 10 Days

The issues were identified and developed by the entire company, and System Department worked together to develop the system. Tests were conducted immediately and the system was put into operation.

*What is OODA Loop?

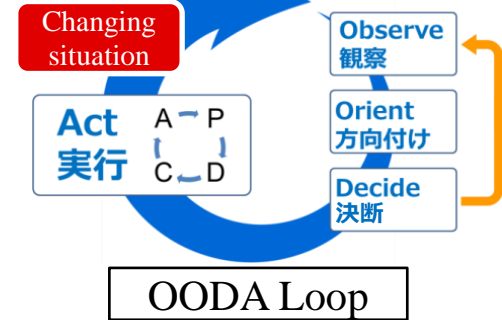
OODA Loop is a simple practical framework inspired by US Marine Corps' decision-making process. By practicing OODA Loop, you can deal flexibly with changing situations at high speed.

Insource is incorporating the essence of OODA Loop into its training programs.



PLAN
: Mid-Term
Management Plan,
“Road to Next 2022”

DO : Practice OODA Loop



By flexibly changing the strategy depending on situations with “speed and focus”, we will be able to grow in response to the external environment.

Ratio of female employees in managerial positions: 28.0%

Employment rate of people with disabilities: 3.11%

	Total	Female employees
Total number of employees *2	476	279 (58.6%)
Total number of managerial positions	125	35 (28.0%)

Ratio of female employees in managerial positions:
14.9% *1
(Source: The Gender Equality Bureau of the Cabinet Office)

(As of the end of June, 2020 (consolidated))

Foreign nationals ※4	4	Seniors (aged over 60)	13	LGBTs	4	People with disabilities	9 Disability employment rate: 3.11% *3
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• Legal employment rate: **2.2%**
• Actual employment rate: **2.11%**
(Source: “2019 Disability Persons’ Employment Status” released by the Ministry of Health, Labour and Welfare)

Workforce by job function: Diverse specialists work at Insource.

Content Creators	138	Sales Representatives	157	IT Engineers	71
Digital marketers	29	AI/RPA Engineers	10	Designers	16

*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 naturalized Japanese.

■ A company's existence is to continue to improve its performance while being conscious of ESG.

Environment/Social



Environment: Company-wide power saving / LED installation

Social: "Japanese Economy Revitalization Campaign"

More than 150 courses

We offer trainings at up to 50% off to help organizations turn around and expand their business in the "After Corona/ With Corona" world.

Practicing diversity at work

The number of employees Female **279** Seniors **13**

(As of the end of June, 2020)

Governance



▪ Active disclosure of non-financial information on a monthly basis

- Newly developed training programs
 No. of Open Seminar attendees
 No. of Leaf monthly paying subscribers (organizations)
- No. of On-Site training conducted
 No. of WEBinsource subscribers
 No. of organizations implementing Stress Check Support Service

▪ Disclose earnings forecasts frequently depending on the situation

We will disclose the situation as soon as it becomes apparent so that the right decision can be made for us in the ever-changing environment.

Performance

We contribute to society by solving social issues through trainings. In addition, we will continue to improve our performance by providing trainings at a low cost through our IT capabilities and systematization.

Concept of Insource's Service

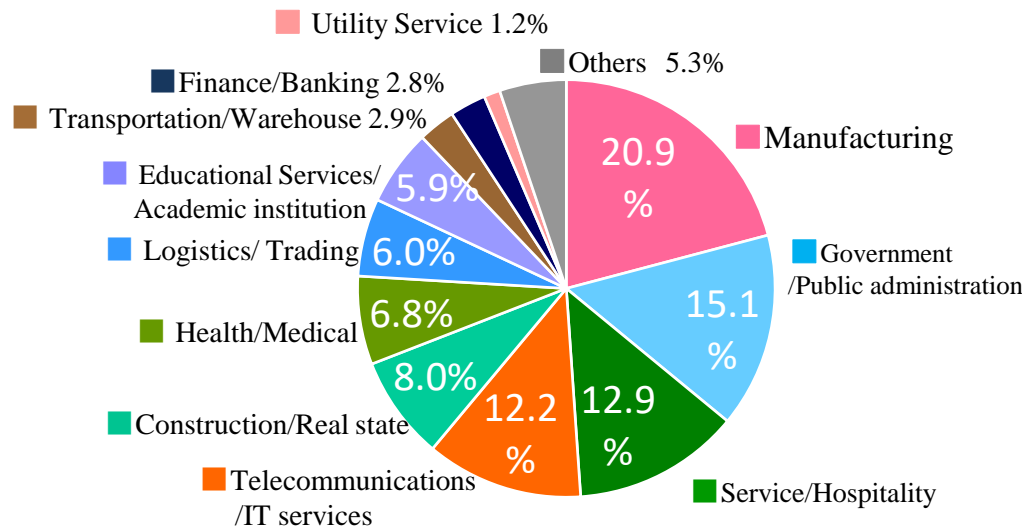
Our core value of product and service provision

<p>Challenging ~Developing training that meets the latest social trends</p>	<p>Perfect fit Speed Something new Full force and energy</p>	<ul style="list-style-type: none"> ● Pursuing what the customer wants ● Immediate response to the environment and customer ● Constantly improving and creating ● No compromises
<p>High quality ~Delivering cost effective trainings and putting empathy to workers</p>	<p>Empathy Contributing to development Cost effective Diversity Professional</p>	<ul style="list-style-type: none"> ● Practical, realistic ● Sincere, helpful ● Solving the challenges for all workers ● Making organization strong ● Cost-effective ● Sustainable ● Valuing diversity ● To all workers ● Sophisticated service production
<p>Everything ~ Comprehensive product lines</p>	<p>Reliable, Completeness Universal</p>	<ul style="list-style-type: none"> ● Provable to every customer's needs ● Anything can be found ● Solving social issues

Composition ratio of clients by industry

The total number of clients who used our services from June 2003 to March 2020

31,883 organizations



Compound annual growth rate by business (Target)

	FY17 (Actual)	FY18 (Actual)	FY19 (Revised forecast)	CAGR FY17-FY19
Whole Business	4,536	5,608	5,160	+12.9%
On-Site Training	2,827	3,279	2,760	+5.2%
Open Seminars	1,166	1,527	1,260	+12.0%
Other Businesses	541	801	1,140	+53.5%

Business Activities ② Trainings

■ Hands-on approach: Attendees can make the most use of what they have learned immediately. Programs mainly consist of exercises (60%)

■ Positive feedback rates from training attendees **95.2%** Positive feedback rate (trainings)
 Positive feedback rate (trainers) **93.8%**

*As of the end of March, 2020

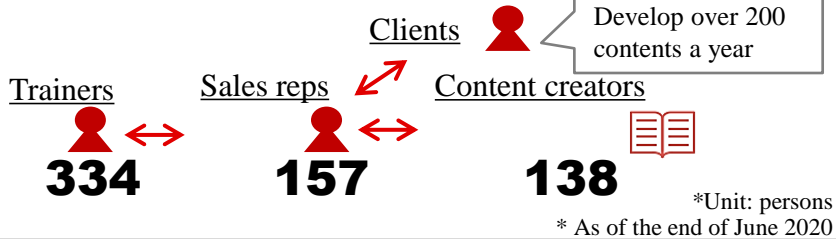
■ By using IT technologies, we can provide high quality trainings frequently and nationwide

On-Site Training (52.8%)

Offer on-site trainings tailored to organizations' needs

- Separate trainers from content development and utilize IT technologies
- Specialized divisions create contents in-house and trainers concentrate on giving trainings
- Utilizing IT technologies and systematic development system enables us to offer uniform services nationwide

Meet our client's needs promptly
 Develop over 200 contents a year



Annual total number of trainings conducted: **14,971**
 *From April 2019 to March 2020

Out of the total number of trainings conducted:
 Total number of online trainings conducted: **502**
 Total number of online attendees: **16,619**

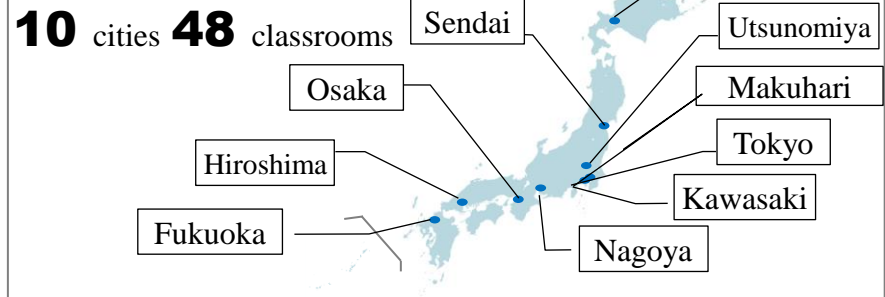
オーダーメイド研修 講師派遣 INSOURCE CUSTOM MADE SEMINAR

* As of the end of June 2020

Open Seminars (25.8%)

Offer open seminars that each person from various organizations can attend

- Hold seminars quite frequently nationwide
- Seminars can be attended at a reasonable fee and anywhere in the country
- Demands for our unique package deal "HRD SmartPack" are high mainly by large companies.



Annual total number of attendees: **75,654**
 *From April 2019 to March 2020

Out of the total number of trainings conducted:
 Total number of online trainings conducted: **695**
 Total number of online attendees: **8,701**

公開講座 INSOURCE OPEN SEMINAR

* As of the end of June 2020

■ We are expanding content lineup since we aim to offer services essential for HR departments.

Other Businesses (Leaf (HR support system), e-Learning, Consulting, Staffing & Recruitment Services) (21.4%)

■ IT Services

▪ Leaf (HR support system)

Integrates every service line on our in-house platform, 'Leaf', including training scheduling, stress checking and personnel appraisal.

Leaf earns revenue from monthly subscription fees (subscription model) and customization fees*2.

Demands for LMS by large companies and use of on-the-web appraisal form service by mid-sized companies increased

Total number of Leaf paid subscribers **224** organizations

Total number of organizations using on-the-web appraisal form service **77** organizations

Total number of organizations implementing Stress Check Support Service **241** organizations



* As of the end of June 2020
Actual no. of Stress Check Support Service applied (Oct 2019 - June2020)

■ e-Learning / Video production (Mitemo Co., Ltd)

- STUDIO (Cloud-based e-Learning system) *3
- Video Production

Earning revenue from monthly subscription fees (subscription model) and direct-selling model

Total number of e-Learning contents **90** subjects **337** contents

Total number of e-learning subscription IDs per year **39,464** IDs



* As of the end of March 2020
Actual no. of active subscription IDs (Jan - Mar 2020)

■ Consulting

- Establishing personnel appraisal service
- Assessment services



■ Staffing & Recruitment Services

- Recruitment promotion
- Staffing services for (potential) returners, short-time workers with regular employment



*1 Figures in parentheses indicate percentage of 1Q~3Q FY19 sales ratio. *2 Direct-selling model *3 STUDIO is powered by Leaf partly.

4 Major Pillars to Achieve Our Goals and Visions

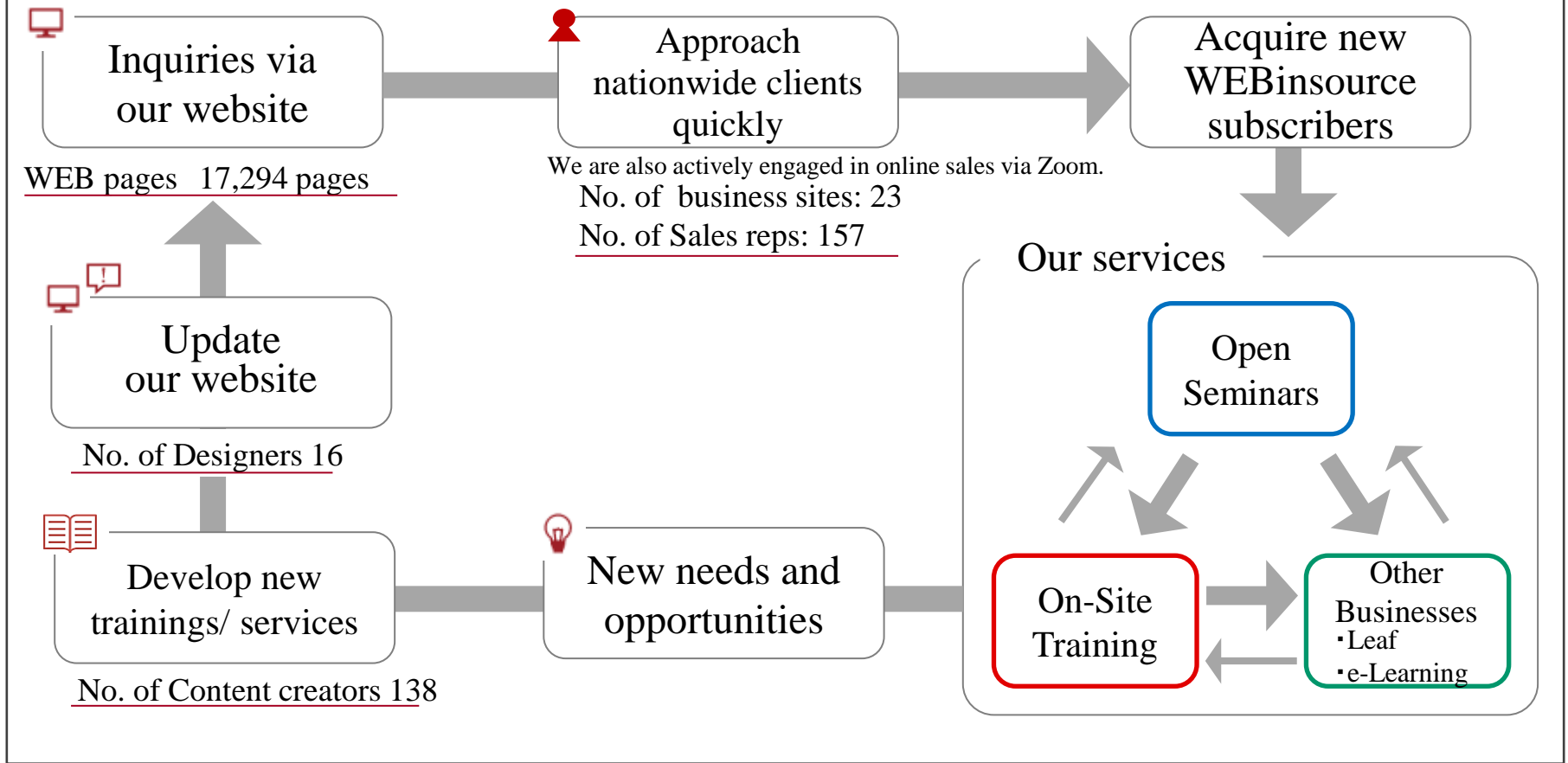
① A wide range of industries
Strong client base

② Robust in-house developed
Contents

③ Linkage of sales force and digital marketing
Strong sales power

④ In-house IT systems and AI-driven tools
Information Technologies

Systematic cross-functional cooperation through IT utilization



* As of the end of June 2020

Insource's 4 Pillars to Achieve High Profitability

“Strong client base” + “Mixed approach”

1

A wide range of industries

Strong client base

Number of Clients: 31,883 organizations *1

Total Number of WEBinsource Subscribers: 13,014 organizations

*1 Total number of clients who used our services from June 2003 to March 2020-.



Mixed approach to keep high profitability by sharing information cross-functionally.

2

Robust in-house developed

Contents

- Separate content creations from trainers.
- 138 Content Creators produce more than 200 new titles a year.

3

Linkage of sales force and digital marketing

Strong sales power

- Provide the best suitable options with 23 business site nationwide and 157 Sales Representatives.
- 29 Digital Marketers will offer proposals effectively by emails and WEB system.

4

In-house IT systems, AI-driven tools & DX

Information Technologies

- 71 IT engineers and 10 AI/RPA engineers provide in-house developed ASP services while maximizing business efficiency and achieve significant cost reductions.

* As of the end of June 2020