

Disclaimer: This document is a translation of the Japanese original for reference purposes only.



Q1 FY20 Consolidated Financial Results [JGAAP]

January 25, 2021

Company Name: Insource Co., Ltd. Stock Exchange Listing: Tokyo
 Code number: 6200 URL: <https://www.insource.co.jp/index.html>
 Representative: Takayuki Funahashi, Representative Director, President and CEO
 Contact: Shigeo Fujimoto, Director, Executive Officer, CFO
 TEL. +81-3-5259-0070

Scheduled date to submit the Quarterly Securities Report: February 12, 2021

Scheduled date to commence dividend payments: —

Availability of supplementary briefing material on quarterly results: Yes

Scheduled date of Quarterly Results Briefing Session: Not scheduled

(Figures are rounded down to the nearest million yen)

1. Q1 FY20 Consolidated Financial Results (October 1, 2020 – December 31, 2020)

(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 | % |
| Q1 FY20 | 1,814 | 11.7 | 646 | 56.1 | 659 | 58.9 | 452 | 63.7 |
| Q1 FY19 | 1,625 | 25.5 | 414 | 31.6 | 415 | 31.9 | 276 | 33.2 |

(Note) Comprehensive income: Q1 FY20 453 million yen (63.7%) Q1 FY19 276 million yen (34.5%)

| | Earnings per share | Fully diluted earnings per share |
|---------|--------------------|----------------------------------|
| | yen sen | yen sen |
| Q1 FY20 | 10.81 | 10.80 |
| Q1 FY19 | 6.58 | 6.57 |

(Note) We conducted a stock split on January 1, 2021, whereby each share of common stock was split into two shares. The above figures for "Earnings per share" and "Fully diluted earnings per share" are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|----------------|--------------|------------|--------------|
| | mil yen | mil yen | % |
| Q1 FY20 | 5,139 | 2,949 | 57.4 |
| FY19 Full-year | 4,344 | 2,883 | 66.4 |

(Reference) Equity: Q1 FY20 2,949 million yen FY19 2,883 million yen

2. Dividends

| | Annual cash dividends per share | | | | |
|-----------------|---------------------------------|-----------|-----------|----------|---------|
| | End of Q1 | End of Q2 | End of Q3 | Year-end | Annual |
| | yen sen | yen sen | yen sen | yen sen | yen sen |
| FY19 Full-year | - | 0.00 | - | 18.50 | 18.50 |
| FY20 Full-year | - | | | | |
| FY20 (forecast) | | 0.00 | - | 10.00 | 10.00 |

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

We conducted a stock split on January 1, 2021, whereby each share of common stock was split into two shares, but the amount of the year-end dividend for FY19 is the actual amount of the dividend.

3. Consolidated Financial Forecast for FY20 (October 1, 2020 – September 30, 2021)

(% indicates changes from the previous year)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Earnings per share |
|----------------------|-----------|------|------------------|------|-----------------|------|---|-------|--------------------|
| | mil yen | % | mil yen | % | mil yen | % | mil yen | % | yen sen |
| Q2 FY20 (cumulative) | 3,300 | 13.6 | 940 | 50.5 | 950 | 52.4 | 660 | 56.8 | 15.76 |
| FY20 Full-year | 6,740 | 31.6 | 1,450 | 84.9 | 1,450 | 82.3 | 940 | 111.0 | 22.46 |

(Note) Revisions of forecast of financial results from recently announced figures: Yes

We conducted a stock split on January 1, 2021, whereby each share of common stock was split into two shares. In the above, "Earnings per share" is calculated on the assumption that the stock split was conducted at the beginning of the current consolidated fiscal year.

* Notes

(1) Significant changes in subsidiaries during Q1 FY20 (three months ended December 31, 2020)

(changes in specific subsidiaries involving changes in the scope of consolidation): None

(2) Specific accounting methods for quarterly consolidated financial statements: Yes

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Notes (3) Notes to Quarterly Consolidated Financial Statements (Application of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements)" on page 6 of the attached materials.

(3) Changes in accounting policies, estimates and restatements

- (i) Changes in accounting policies due to the revision of accounting standards : None
- (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 shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)
- (ii) Total number of treasury shares at the end of the period
- (iii) Average number of shares during the period (cumulative)

| | | | |
|---------|-------------------|----------------|-------------------|
| Q1 FY20 | 42,621,500 shares | FY19 Full-year | 42,621,500 shares |
| Q1 FY20 | 752,436 shares | FY19 Full-year | 767,136 shares |
| Q1 FY20 | 41,859,179 shares | Q1 FY19 | 42,041,672 shares |

(Note) We conducted a stock split on January 1, 2021,

whereby each share of common stock was split into two shares. The above number of shares was calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants and audit corporations

* Explanation for the appropriate use of financial forecasts and other special notes:

(Cautionary note on forward-looking statement)

The statements regarding forecast of financial results in this report are based on the information that is available to the Company, as well as certain assumptions that are deemed to be reasonable by management, and they are not meant to be a commitment by the Company. Therefore, there might be cases in which actual results differ materially from forecast figures due to various factors. For the suppositions that form the assumptions for financial forecasts and cautions concerning the use thereof, please refer to "1. Qualitative Information on Quarterly Financial Results (3) Consolidated Financial Forecasts" on page 2 of this report.

(How to obtain supplementary explanatory materials for quarterly financial results)

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

Table of Contents

| | |
|--|---|
| 1. Qualitative Information on Quarterly Financial Results | 2 |
| (1) Operating Results Analysis..... | 2 |
| (2) Financial Conditions Analysis | 2 |
| (3) Consolidated Financial Forecasts..... | 2 |
| 2. Quarterly Consolidated Financial Statements and Notes..... | 3 |
| (1) Quarterly Consolidated Balance Sheets | 3 |
| (2) Quarterly Consolidated Statements of Income and Comprehensive Income | 4 |
| Quarterly Consolidated Statements of Income | |
| Consolidated Period of Q1..... | 4 |
| Quarterly Consolidated Statements of Comprehensive Income | |
| Consolidated Period of Q1..... | 5 |
| (3) Notes to Quarterly Consolidated Financial Statements..... | 6 |
| (Notes related to the Going Concern Assumption)..... | 6 |
| (Notes to Significant Changes in the Amount of Shareholders' Equity) | 6 |
| (Application of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements) | 6 |
| (Additional Information) | 6 |
| (Segment Information) | 6 |
| (Significant Subsequent Events)..... | 7 |

1. Qualitative Information on Quarterly Financial Results

(1) Operating Results Analysis

During the first quarter of the current fiscal year (October 1, 2020 to December 31, 2020), as the impact of the Coronavirus crisis continues, the trainings have shifted from face-to-face to online across the country, especially in the private sector.

In response to this situation, in addition to the expansion of online training, the Company focused on other services in the midst of the Coronavirus crisis, strengthening services to support the shift of training to online, which was launched in March, 2020, and video sales through the EC site, which was launched in August, 2020.

As a result of these measures, although the number of On-Site Training conducted during the first quarter of the current fiscal year decreased by 5.0% YoY, profitability improved due to an increase in online training courses at private companies with high unit prices, and gross profit increased by 10.7% YoY.

As for the number of attendees in Open Seminars, the composition ratio of the online training increased to 65.1%, and profitability improved due to an increase in the number of attendees per seminar, resulting in a 19.4% increase in gross profit compared to the same quarter of the previous year.

In addition, the total number of “Leaf” (LMS: Learning Management System) paid subscribers increased by 50 organizations from the end of the previous fiscal year. Gross profit in the IT Services increased by 54.5% YoY due to an increase in Leaf with monthly subscription model, which has a high profit margin, mainly from large companies. E-Learning and Video Department Store (EC site) fared well, and sales expanded substantially. Gross profit from Other Businesses increased by 88.5% YoY.

As a result of the above, for the first quarter of the current fiscal year, net sales were 1,814,415 thousand yen (up 11.7% YoY), operating profit was 646,486 thousand yen (up 56.1% YoY), ordinary profit was 659,541 thousand yen (up 58.9% YoY), and profit attributable to owners of parent company was 452,535 thousand yen (up 63.7% YoY), setting a new record for quarterly results amid the Coronavirus crisis.

■ Net sales by business for the first quarter of the 19th fiscal year (Unit: thousand yen)

| Business | Q1 FY20 (Oct.1, 2020- Dec.31, 2020) | YoY(%) | Q1 FY19 (Oct.1, 2019- Dec.31, 2019) |
|------------------|--|--------|--|
| On-Site Training | 1,066,397 | 105.9 | 1,006,587 |
| Open Seminars | 447,008 | 106.6 | 419,347 |
| IT Services | 150,149 | 141.2 | 106,340 |
| Other Businesses | 150,860 | 162.7 | 92,741 |
| Total | 1,814,415 | 111.7 | 1,625,017 |

(Note)1. Since our Group has a single business segment, which is the education service business, the information herein is presented by business category instead of segment.

2. Regarding IT Services, as the importance has grown due to the increase in sales, it is listed separately from other businesses from the first quarter of the current consolidated fiscal year.

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

(2) Financial Conditions Analysis

(Assets)

Total assets at the end of the first quarter of the current fiscal year increased by 795,041 thousand yen compared to the end of the previous fiscal year to 5,139,606 thousand yen. This was mainly due to an increase of 302,906 thousand yen in leasehold interests in land.

(Liabilities)

Total liabilities at the end of the first quarter of the current fiscal year increased by 728,558 thousand yen to 2,189,866 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 700,000 thousand yen in short-term borrowings.

(Net assets)

Net assets at the end of the first quarter of the current fiscal year increased by 66,482 thousand yen to 2,949,740 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 52,826 thousand yen in retained earnings.

(3) Consolidated Financial Forecasts

With regard to the full-year consolidated financial forecasts for the fiscal year ending September 31, 2021, we have revised upward the amounts of net sales, operating profit, ordinary profit, and profit attributable to owners of parent for the second quarter (cumulative). For the full year, there is no change from the forecast announced on November 5, 2020. Please be reminded that the financial forecast has been prepared based on the information currently available, 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)

| | FY19 (As of Sep. 30, 2020) | Q1 FY20 (As of Dec. 31, 2020) |
|--|-------------------------------|----------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,219,868 | 2,290,174 |
| Accounts receivable - trade | 684,631 | 756,383 |
| Inventories | 24,577 | 63,962 |
| Other | 97,642 | 92,005 |
| Allowance for doubtful accounts | (1,484) | (1,433) |
| Total current assets | 3,025,236 | 3,201,093 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Land | 409,978 | 694,271 |
| Other, net | 315,192 | 367,667 |
| Total property, plant and equipment | 725,171 | 1,061,939 |
| Intangible assets | | |
| Leasehold interests in land | — | 302,906 |
| Goodwill | 25,333 | 23,030 |
| Software | 98,813 | 98,116 |
| Other | 12,998 | 12,998 |
| Total intangible assets | 137,145 | 437,052 |
| Investments and other assets | 457,011 | 439,521 |
| Total non-current assets | 1,319,328 | 1,938,513 |
| Total assets | 4,344,564 | 5,139,606 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 88,250 | 88,689 |
| Short-term borrowings | — | 700,000 |
| Accounts payable - other | 467,434 | 263,773 |
| Income taxes payable | 87,095 | 219,743 |
| Advance received | 595,950 | 547,505 |
| Provision for bonuses | — | 104,077 |
| Allowances for bonuses to directors and corporate auditors | — | 5,445 |
| Other | 141,043 | 179,098 |
| Total current liabilities | 1,379,775 | 2,108,334 |
| Non-current liabilities | | |
| Asset retirement obligations | 81,531 | 81,531 |
| Total non-current liabilities | 81,531 | 81,531 |
| Total liabilities | 1,461,307 | 2,189,866 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 800,623 | 800,623 |
| Capital surplus | 641,793 | 641,793 |
| Retained earnings | 2,129,879 | 2,182,706 |
| Treasury shares | (689,856) | (676,857) |
| Total shareholders' equity | 2,882,439 | 2,948,265 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 817 | 1,474 |
| Total accumulated other comprehensive income | 817 | 1,474 |
| Total net assets | 2,883,257 | 2,949,740 |
| Total liabilities and net assets | 4,344,564 | 5,139,606 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the three months ended December 31, 2020)

(Unit: thousand yen)

| | Q1 FY19 (Oct.1, 2019- Dec.31, 2019) | Q1 FY20 (Oct.1, 2020- Dec.31, 2020) |
|---|--|--|
| Net sales | 1,625,017 | 1,814,415 |
| Cost of sales | 463,373 | 423,796 |
| Gross profit | 1,161,644 | 1,390,619 |
| Selling, general and administrative expenses | 747,478 | 744,132 |
| Operating profit | 414,165 | 646,486 |
| Non-operating income | | |
| Interest income | 10 | 2 |
| Dividend income | 171 | 68 |
| Foreign exchange gains | 96 | — |
| Subsidies for employment adjustment | 1,920 | 12,100 |
| Subsidy income | — | 1,011 |
| Other | 19 | 101 |
| Total non-operating income | 2,217 | 13,284 |
| Non-operating expenses | | |
| Interest expenses | — | 124 |
| Share of loss of entities accounted for using equity method | 1,222 | — |
| Foreign exchange losses | — | 105 |
| Total non-operating expenses | 1,222 | 229 |
| Ordinary profit | 415,161 | 659,541 |
| Extraordinary losses | | |
| Loss on valuation of investment securities | — | 459 |
| Total extraordinary losses | — | 459 |
| Profit before income taxes | 415,161 | 659,082 |
| Income taxes | 138,706 | 206,546 |
| Profit | 276,455 | 452,535 |
| Profit attributable to owners of parent | 276,455 | 452,535 |

(Quarterly Consolidated Statements of Comprehensive Income)
(For the three months ended December 31, 2020)

(Unit: thousand yen)

| | Q1 FY19 (Oct.1, 2019- Dec.31, 2019) | Q1 FY20 (Oct. 1, 2020- Dec. 31, 2020) |
|--|--|--|
| Profit | 276,455 | 452,535 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 392 | 656 |
| Total other comprehensive income | 392 | 656 |
| Comprehensive income | 276,847 | 453,191 |
| (Comprehensive income attributable to) | | |
| Profit attributable to owners of parent | 276,847 | 453,191 |
| Comprehensive income attributable to non-controlling interests | — | — |

(3)Notes to Quarterly Consolidated Financial Statements

(Notes related to the Going Concern Assumption)

Not applicable

(Notes to Significant Changes in the Amount of Shareholders' Equity)

Not applicable

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

(Calculating Tax Expense)

With respect to the calculation of tax expenses, reasonable estimations are performed on an effective tax rate established after applying tax accounting to profit before income taxes for the consolidated fiscal year, which includes the first quarter of the consolidated fiscal year review, and such tax expenses are calculated by multiplying this estimated effective tax rate by profit before income taxes.

(Additional Information)

In assessing and evaluating the recoverability of fixed assets and deferred tax assets, we have made accounting estimates based on the assumption that the impact of the spread of the new Coronavirus in the Group's training business will continue for a certain period of time in the fiscal year ending September 30, 2021, but that demand will recover in the second half of the fiscal year ending September 30, 2021. It is possible that results based on actual results in the future may differ from these estimates and assumptions.

(Segment Information)

This information is omitted because the Group operates in a single segment of the education service business.

(Significant subsequent events)

(Disposal of Treasury Shares as Share Compensation with Restricted Share Ownership)

We, the Company, hereby announces that at its Board of Directors meeting, held on January 25, 2021, it resolved to dispose of treasury shares (hereinafter the "Disposal of Treasury Shares" or the "Disposal") with Restricted Share Ownership.

1. Overview of the Disposal

| | |
|---|--|
| (1) Disposal Date | April 1, 2021 |
| (2) Class and Number of Shares to Be Disposed of | Common shares of the Company: 240,900 shares |
| (3) Disposal Amount | 1,892 yen per share |
| (4) Total Disposal Amount | 455,782,800 yen |
| (5) Grantees of Shares and Number thereof, Number of Shares to be Disposed of | Employees of the Company: 218,600 shares to be allotted to 304 persons Directors of its Subsidiaries: 7,300 shares to be allotted to 3 persons Employees of its Subsidiaries: 15,000 shares to be allotted to 30 persons |
| (6) Others | With regard to this disposal of treasury shares, the Company has submitted an extraordinary report under the Financial Instruments and Exchange Act. |

2. Purposes and Reasons for Disposal

At its meeting of the Board of Directors, held on January 25, 2021, the Company resolved to establish a new remuneration plan, the Restricted Share Compensation Plan (the "Plan"), for employees of the Company and Directors and employees of its subsidiaries who meet the prescribed requirements (hereinafter collectively referred to as the "Grantees") in order to continuously improve the corporate value of the Company and for the purpose of providing incentives for sustainable improvement and further sharing of value with shareholders.

【Overview of the Plan】

The Grantees will pay all of the monetary remuneration claims provided by the Company and its subsidiaries under the Plan as contribution in kind, and will receive the issuance or disposal of the Company's common shares.

The amount to be paid in per share shall be determined by the Board of Directors of the Company based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day immediately preceding the day of the resolution of the Board of Directors of the Company (or the closing price of the most recent business day if no trading is conducted on the same day), to the extent that the amount is not particularly favorable to the Grantees who will subscribe to the said shares with restrictions on transfer.

In issuing or disposing of common shares of the Company under the Plan, the Company shall conclude the allotment agreement of shares with restrictions on transfer (hereinafter referred to as the "Allotment Agreement") with the Grantees, which shall include the following provisions.

- (1) The Grantees shall be prohibited from transferring, creating security interest, or otherwise disposing of common shares of the Company to be allotted under the agreement for a certain period of time.
- (2) In the event that certain circumstances arise, the Company shall acquire said common shares without contribution.

Today, in accordance with the resolution of the Board of Directors of the Company and the consensus of the Directors of its subsidiaries, the Company will pay a total monetary remuneration claims of 413,591,200 yen to 304 employees of the Company and a total monetary remuneration claim of 42,191,600 yen to 33 Directors and employees of its subsidiaries (hereinafter referred to as the "Monetary Remuneration Claims"). And the Company has decided to allot 240,900 shares of the Company's common shares with restrictions on transfer by having the Grantees deliver all of the Monetary Remuneration Claims by way of contribution in kind. The amount of the Monetary Remuneration Claims to the Grantees has been determined after comprehensively taking into consideration various circumstances, including the business performance of the Company and the responsibilities of each Grantee. In addition, the Monetary Remuneration Claims will be paid on the condition that the Grantees enter into an allotment agreement for shares with restricted transfer with the Company, which includes the following details.

3. Overview of the Allotment Agreement

(1) Restricted Period: From April 1, 2021 to March 31, 2024

During the period of restricted transfer shown above (hereinafter the "Restricted Transfer Period"), regarding the allotted shares ("hereinafter the "Allotted Shares"), the Grantee shall not be able to assign, pledge, grant a security interest in, give a living will to, bequeath, or otherwise dispose of any of its assets to any third party (the "Transfer Restriction").

(2) Conditions for Lifting of Transfer Restriction

The Company will lift the restriction on transfer of all of the Allotted Shares upon expiration of the Restriction Period, provided that the Grantees who have received the allotment of the Restricted Shares have continuously held any of the positions of Director, Executive Officer or employee of the Company or its subsidiaries during the Restriction Period. However, if a Grantee resigns or retires (including retirement due to expiration of term of office, mandatory retirement age, or death, and at the end of the reemployment period in the case of being reemployed after retirement) from any of the above positions during the Restriction Period, the Company will naturally acquire all of the Allotted Shares held by the Grantee at that time without contribution.

(3) Acquisition of Restricted Share without Contribution

The Company will naturally acquire the Allotted Shares, for which the restrictions on transfer are not lifted, without contribution at the time of the lifting of the restrictions on transfer shown in (2) above.

(4) Treatment during Reorganization, etc.

If, during the Restriction Period, a merger agreement in which the Company becomes a disappearing company, a share exchange agreement or a share transfer plan in which the Company becomes a wholly owned subsidiary, or any other matter relating to organizational restructuring, etc. is approved at the General Meeting of Shareholders of the Company (or at a meeting of its Board of Directors in cases where the approval at the Company's General Meeting of Shareholders is not required for the reorganization, etc.), the Company shall, by a resolution of the Board of Directors of the Company, lift the Restriction on Transfer relating to all of the number of the Allotted Shares held by the Company at that time as of the time immediately preceding the effective date of the organizational restructuring, etc. In addition, at the time immediately after the Restriction on Transfer is lifted, the Company will naturally acquire all the Allotted Shares without contribution on which the Restriction on Transfer has not been lifted.

However, notwithstanding the foregoing, if the point of the business day immediately preceding the effective date of the Reorganization, etc. is no later than January 1, 2022, the Company will naturally acquire all of the Allotted Shares without contribution as of the point in time immediately preceding the business day of immediately preceding the effective date of the Reorganization, etc.

(5) Management of the Allotted Shares

In order to ensure that the Allotted Shares cannot be transferred, secured by transfer rights, or otherwise disposed of during the Transfer Restriction Period, the Grantee will open a dedicated account for the Allotted Shares with financial instruments business operator designated in advance by the Company (Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.) and manage the shares in such account until the transfer restriction is lifted.

4. Basis of Calculation and Specific Details for the Amount to Be Disposed of

The disposal price has been set at 1,892 yen, which is the closing price of the Company's common shares on the Tokyo Stock Exchange on January 22, 2021 (the business day immediately preceding the date of the resolution by the Board of Directors of the Company), in order to eliminate arbitrariness. This is the market price of the Company's common shares immediately prior to the date of the resolution of the Board of Directors meeting, and the Company believes that it is reasonable and does not constitute a particularly favorable price.