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May 11, 2021
Insource Co., Ltd.

1H FY20 Financial Results Briefing Q&A Session Summary

Date: May 11, 2021 (Tuesday) 16:00-17:00

Speakers: Takayuki Funahashi (Representative Director, President and CEO),
Shigeo Fujimoto (Director, Executive Officer and CFO), Katsuko Hiroto (Outside Director)

The following is a summary of the main questions and answers from the financial results briefing. Some parts of the content have been added or revised for easier understanding.

All answers were provided by Funahashi (CEO).

Question 1: How do you think the ratio of online training to face-to-face training will change in the future?
Also, please tell us about the impact of these changes on your future profitability.

Answer 1: Even after the Coronavirus crisis is under control, we believe that about 40% of the training programs for On-Site Training and about 60% of Open Seminars will be held online. This is due to the convenience of being online as well as the cost saving benefits.

(Please refer to pg.11 of “1H FY2020 Consolidated Financial Results”)

The gross profit margin is expected to decrease slightly due to a decline in the online ratio, but the number of trainings conducted is expected to grow due to an increase in face-to-face trainings. At the same time, profits are expected to increase due to the expanded sales.

Question 2: Please tell us about your countermeasures against external environmental risks and examples of how you turned risks into opportunities.

Answer 2: Our measures to cope with changes in the external environment are as follows.

- ① The OODA model is the guiding principle for all of our employees, and each one of them is trained to analyze changes in the environment proactively and act quickly on a daily basis.
- ② As we develop contents and systems in-house, we are able to develop our business without being influenced by external resources. As a result, we are able to develop and provide new services that respond to changes in the environment ahead of other companies.

The followings are some examples of turning risk into opportunity.

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- ① During the 2008 financial crisis, the number of training orders from companies dramatically decreased; however, we developed new training programs for universities and hospitals, which led to significant growth.
 - ② During the Coronavirus crisis, we have established a highly profitable business through the speedy development of online training and video sales EC sites, and the concentration of development and sales on non-face-to-face services.

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Few of our competitors are able to respond quickly to changes, and we believe that change is always an opportunity.

Question 3: What is the current status of your recruitment activities and the quality and quantity of mid-career applicants?

Answer 3: In addition to hiring graduates, mid-career hiring has been strong as the mobility of human resources increases. The increase in the number of applicants to our company has made it relatively easier to hire employees with the basic skills we are looking for.

Regardless of gender, age, or educational background, we use our own assessments to hire people with both logical ability and high energy (the ability to take on new challenges).

Question 4: Please tell us about your system for customer success (supporting customer's results).

Answer 4: Since its establishment, we have been building an inside sales system that links the website with the activities of sales representatives. We have established a system that allows the entire company to proactively practice customer success.

The customer service is located in Kyushu region, and there is a separate department from sales that provides post-purchase support.

Question 5: Please tell us if the increase in sales is due to taking market share from competitors or replacing the in-house training system.

Answer 5: There are 3 cases.

- ① We have been growing mainly by taking market share from competitors who do not support online training.
- ② Due to the shortage of personnel with training skills in the human resources department, we are able to provide in-house training on their behalf.
- ③ In some respects, sales have increased by developing and offering new training programs in new fields such as DX and behavioral economics that have never been offered before.

Question 6: Please tell us about your partnership with companies that provide HR systems.

Answer 6: We do not plan to work together on training services. Since training services are difficult to coordinate and prepare for with clients and are costly to sell, the cost of coordinating with partners may exceed the benefit of the partnership.

On the other hand, as for LMS and videos, we believe that there is merit in partnership. We use videos from other companies in our LMS and also provide ours to other companies' LMS.

Question 7: What is your approach to costs for the next fiscal year and beyond?

Answer 7: As for cost, we expect the cost ratio of the training business to increase due to the decrease in the online ratio, assuming that the Corona disaster will converge. However, we assume the fixed cost burden of IT Services to lighten as monthly fees increase due to an increase in the number of users. SG&A expenses are expected to increase in the future due to the need to increase the number of personnel in line with business expansion.

Question8 : What is the progress in increasing the number of outside directors in line with the revision of the Corporate Governance Code?

Answer 8: We are working on additional outside directors, and hope to make an announcement as soon as possible.

Question 9: What is the status of the preparation of the Integrated Report?

Answer 9: Currently, we are collecting the necessary data internally for disclosure. We plan to publish it by the end of this year.

Question 10: We understand Insource is very advanced in terms of the ratio of female employees and diversity, but why have you been able to achieve a high employment rate of people with disabilities?

Answer 10: We are not consciously trying to hire people with disabilities. In our company, we have employees with diverse characteristics, and they perform tasks according to their characteristics; therefore, some employees perform tasks that are generally considered to be advanced. Recruitment is often by referral, and hiring is based on ability without age restrictions, which we believe this is the key to achieving a high employment rate.

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