

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



1Q FY23 Consolidated Financial Results [JGAAP]

January 26, 2024

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 and CFO TEL. +81-3-5577-2283
 Scheduled date to submit the Quarterly Securities Report: February 14, 2024
 Scheduled date to commence dividend payments: -
 Availability of supplementary briefing material on quarterly results: Yes
 Scheduled date of Financial Results Briefing: Not scheduled

(Amounts are rounded down to the nearest million yen)

1. 1Q FY23 Consolidated Financial Results (October 1, 2023 – December 31, 2023)

(1) Consolidated Financial Results

(% 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	%
1Q FY23	2,870	11.0	1,061	18.8	1,061	19.2	726	19.0
1Q FY22	2,586	18.0	893	15.2	891	16.4	610	16.8

(Note) Comprehensive income: 1Q FY23 728 million yen (19.3%) 1Q FY22 610 million yen (17.2%)

	Earnings per share	Fully diluted earnings per share
	yen sen	yen sen
1Q FY23	8.64	8.63
1Q FY22	7.25	7.25

(Note) The Company conducted a stock split on January 1, 2023, whereby each share of common stock was split into two shares. In the above, "Earnings per share" and "Fully diluted earnings per share" are calculated on the assumption that the said stock split was conducted at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	mil yen	mil yen	%
1Q FY23	9,557	7,263	76.0
FY22 Full-year	10,795	7,929	73.5

(Reference) Shareholders' equity: 1Q FY23 7,263 million yen FY22 Full-year 7,929 million yen

2. Dividends

	Annual cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	yen sen	yen sen	yen sen	yen sen	yen sen
FY22 Full-year	—	0.00	—	13.00	13.00
FY23 Full-year	—				
FY24 (forecast)		0.00	—	15.00	15.00

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

3. Consolidated Financial Forecast for FY23 (October 1, 2023 – September 30, 2024)

(% 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
2Q FY23 (Cumulative)	5,970	14.7	2,140	10.9	2,145	11.4	1,455	10.4	17.07
FY23 Full-year	12,530	16.2	4,590	16.5	4,585	16.4	3,105	16.0	36.43

(Note) Revisions of forecast of financial results from recently announced figures: No

* Notes

(1) Significant changes in subsidiaries during 1Q FY23

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

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

(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 stocks)

(i) Total number of issued shares at the end of the period (including treasury stocks)	1Q FY23	85,243,000 shares	FY22	85,243,000 shares
(ii) Total number of treasury stocks at the end of the period	1Q FY23	1,388,269 shares	FY22	1,055,089 shares
(iii) Average number of shares during the period (cumulative)	1Q FY23	84,092,909 shares	1Q FY22	84,190,317 shares

(Note) The Company conducted a stock split on January 1, 2023, whereby each share of common stock was split into two shares, and the above calculations are based on the assumption that the stock split was conducted at the beginning of the previous consolidated fiscal year.

* These quarterly consolidated financial results are outside the scope of 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 3 of this report.

(How to obtain supplementary explanatory materials for financial results)

Supplementary materials for quarterly financial results are disclosed on the Company's website along with this financial report.

Table of Contents

1. Qualitative Information on Quarterly Financial Results	2
(1) Overview of Business Results.....	2
(2) Overview of Financial Position.....	3
(3) Consolidated Financial Forecasts.....	3
2. Quarterly Consolidated Financial Statements and Notes.....	4
(1) Consolidated Balance Sheets.....	4
(2) Consolidated Statements of Income and Comprehensive Income.....	6
Consolidated Statements of Income	6
Consolidated Period of 1Q.....	6
Consolidated Statements of Comprehensive Income	7
Consolidated Period of 1Q.....	7
(3) Notes to Quarterly Consolidated Financial Statements.....	8
(Notes related to the Going Concern Assumption).....	8
(Notes to Significant Changes in the Amount of Shareholders' Equity).....	8
(Application of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements).....	8
(Segment Information).....	8
(Significant Subsequent Events).....	8

1. Qualitative Information on Quarterly Financial Results

(1) Description of Business Results

The needs of career training market are strong because of growing concerns for improving labor productivity and reskilling efforts, as well as for human capital management that leads to higher corporate value. The market is growing during the first quarter of the current fiscal year (From October 1, 2023 to December 31, 2023), as face-to-face trainings have been increasing.

Amid this situation, the Group developed new services, strengthened alliances with other companies, and reinforced its sales structure in the areas of training and e-Learning content for DX, reskilling, health and productivity management, and the HR support system and LMS (*1), "Leaf" to help clients solve various management issues.

Regarding On-Site Training Business, the number of face-to-face trainings conducted increased, and the total number of trainings increased by 9.1% YoY.

In Open Seminars Business, although the number of attendees per training increased, the total number of attendees increased by only 9.9% YoY as the number of trainings conducted remained at the same level as the previous year's.

About IT Services, the number of paid subscribers of "Leaf" (LMS, HR support system) increased to 662 organizations (+111, +20.1% YoY) and total active users exceed 3.06 million as of the end of December 2023, Leaf's monthly subscription fees (MRR (*2)) increased steadily, and ARR (*3) grew 33.1% YoY to 878 million yen. Customization sales increased 36.4% YoY.

In Other Businesses, the number of contents sold for highly profitable e-Learning decreased by 16.9% following the end of the COVID-19 pandemic. On the other hand, the need for customization of video production increased.

The SG&A-to-sales ratio was 40.5% (- 0.6 pt YoY), increasing operating profit.

As a result of the above, consolidated financial results for this first quarter are as follows; net sales were 2,870,380 thousand yen (+11.0% YoY), operating profit was 1,061,338 thousand yen (+18.8% YoY), ordinary profit was 1,061,980 thousand yen (+19.2% YoY), profit attributable to owners of parent was 726,753 thousand yen (+19.0% YoY).

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

*2:MRR: Monthly Recurring Revenue

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

■Net sales by business for the first quarter of FY23

(Unit: thousand yen)

Business	1Q FY23 (Oct.1, 2023 – Dec.31, 2023)	YoY(%)	1Q FY22 (Oct.1, 2022 – Dec.31, 2022)
On-Site Training	1,571,737	112.4	1,397,919
Open Seminars	696,212	110.3	631,268
IT Services	286,083	133.8	213,808
Other Businesses	316,347	92.0	343,822
Total	2,870,380	111.0	2,586,820

(2) Overview of Financial Position

(Assets)

Total assets at the end of the first quarter of the current fiscal year decreased by 1,237,296 thousand yen compared to the end of the previous fiscal year to 9,557,939 thousand yen, mainly due to a decrease of 1,215,536 thousand yen in cash and deposits.

(Liabilities)

Total liabilities decreased by 571,036 thousand yen compared to the end of the previous fiscal year to 2,294,698 thousand yen, mainly due to a decrease of 361,388 thousand yen in accounts payable.

(Net Assets)

Net assets decreased by 666,260 thousand yen compared to the end of the previous fiscal year to 7,263,240 thousand yen. This was mainly due to a decrease of 367,689 thousand yen in retained earnings.

(3) Consolidated Financial Forecasts

There is no change to the full-year consolidated financial forecast for FY23 from the forecast announced on November 6, 2023. The forecasts are based on information available at the time of preparation and actual results may differ from these forecasts due to various factors in the future.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: thousand yen)

	FY22 (As of Sep.30, 2023)	1Q FY23 (As of Dec.31, 2023)
Assets		
Current assets		
Cash and deposits	3,515,516	2,299,980
Notes receivable - trade	3,862	—
Accounts receivable - trade	1,385,239	1,322,105
Inventories	74,932	96,747
Other	157,773	124,878
Allowance for doubtful accounts	(1,602)	(1,045)
Total current assets	5,135,722	3,842,666
Non-current assets		
Property, plant and equipment		
Buildings, net	1,640,828	1,620,689
Land	1,734,192	1,735,908
Other, net	34,949	39,590
Total property, plant and equipment	3,409,970	3,396,187
Intangible assets		
Leasehold interests in land	769,778	769,778
Goodwill	21,420	19,473
Software	148,724	147,430
Other	346	346
Total intangible assets	940,270	937,029
Investments and other assets	1,309,271	1,382,056
Total non-current assets	5,659,513	5,715,273
Total assets	10,795,236	9,557,939
Liabilities		
Current liabilities		
Accounts payable - trade	193,432	167,544
Accounts payable - other	645,148	283,759
Income taxes payable	784,461	481,889
Advances received	850,350	793,746
Provision for bonuses	—	178,347
Provision for bonuses for directors (and other officers)	—	12,168
Other	348,944	336,334
Total current liabilities	2,822,337	2,253,789
Non-current liabilities		
Asset retirement obligations	43,397	40,909
Total non-current liabilities	43,397	40,909
Total liabilities	2,865,735	2,294,698
Net assets		
Shareholders' equity		
Share capital	800,623	800,623
Capital surplus	893,072	893,072
Retained earnings	6,666,433	6,298,743
Treasury shares	(442,399)	(742,352)
Total shareholders' equity	7,917,728	7,250,087
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,772	13,153
Total accumulated other comprehensive income	11,772	13,153
Total net assets	7,929,500	7,263,240
Total liabilities and net assets	10,795,236	9,557,939

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

(Unit: thousand yen)

	1Q FY22 (Oct. 1, 2022- Dec. 31, 2022)	1Q FY23 (Oct. 1, 2023- Dec. 31, 2023)
Net sales	2,586,820	2,870,380
Cost of sales	629,055	645,833
Gross profit	1,957,764	2,224,547
Selling, general and administrative expenses	1,064,372	1,163,208
Operating profit	893,391	1,061,338
Non-operating income		
Interest income	2	1
Dividend income	119	173
Subsidies for employment adjustment	889	1,449
Income from base station installation	451	451
Other	77	77
Total non-operating income	1,540	2,153
Non-operating expenses		
Interest expenses	4	—
Foreign exchange losses	521	343
Loss on extinguishment of stock-based compensation expenses	3,237	268
Other	—	899
Total non-operating expenses	3,762	1,511
Ordinary profit	891,169	1,061,980
Profit before income taxes	891,169	1,061,980
Income taxes	280,461	335,226
Profit	610,708	726,753
Profit attributable to owners of parent	610,708	726,753

(Quarterly Consolidated Statements of Comprehensive Income)
(For the three months ended December 31, 2023)

(Unit: thousand yen)

	1Q FY22 (Oct. 1, 2022- Dec. 31, 2022)	1Q FY23 (Oct. 1, 2023- Dec. 31, 2023)
Profit	610,708	726,753
Other comprehensive income		
Valuation difference on available-for-sale securities	(444)	1,381
Total other comprehensive income	(444)	1,381
Comprehensive income	610,263	728,135
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	610,263	728,135
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 Change in the Amount of Shareholders' Equity)

The Company acquired 331,500 shares of treasury stock for 299,952 thousand yen based on a resolution of the Board of Directors meeting held on November 6, 2023. Due to this acquisition, treasury stock totaled 1,388,269 shares and 742,352 thousand yen at the end of the first quarter of the current fiscal year.

(Application of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statement)
(Calculating Tax Expense)

Tax expenses are calculated by reasonably estimating the effective tax rate after applying tax effect accounting to income before income taxes for the fiscal year, including the first quarter under review, and multiplying quarterly income before income taxes by the effective tax rate.

(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 Stock for Restricted Stock Compensation)

The Company, at a meeting of its Board of Directors held on January 26, 2024, resolved to dispose of its treasury stock (hereinafter the "Disposal of Treasury Stock" or the "Disposal") for the restricted stock compensation.

1. Overview of the Disposal

(1) Disposal date	April 1, 2024
(2) Class and number of stock to be disposed of	Common stock of the Company: 61,600 shares
(3) Disposal Amount	838 yen per share
(4) Total Disposal Amount	51,620,800 yen
(5) Allottees and Number thereof, Number of Stocks to be Disposed of	Employees of the Company: 46,400 shares to be allotted to 147 persons Directors of its Subsidiaries: 200 shares to be allotted to 1 person Employees of its Subsidiaries: 15,000 shares to be allotted to 58 persons

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 Stock Compensation Plan (the "Plan"), for employees of the Company and directors and employees of its subsidiaries who meet the prescribed requirements (hereinafter the "eligible employees") to provide them with incentives to continuously improve the value of the Company and to further promote shared value with shareholders. The overview of the Plan is as follows.

【Overview of the Plan】

The eligible employees will pay all of the monetary remuneration claims paid by the Company and its subsidiaries under the Plan as contribution in kind and receive the issuance or disposal of the Company's common stock.

The price to be paid in for restricted stock to be issued or disposed of under the Plan shall be determined by the Board of Directors of the Company based on the closing price of the Company's common stock 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 on the day above), to the extent that the amount is not particularly advantageous to the eligible employees.

In the event that the Company issues or disposes of the Company's common stock under the Plan, the Company and the eligible employees shall enter into an allotment agreement of restricted stock (hereinafter the "Allotment Agreement"), which shall include the following matters:

- a. The eligible employees may not transfer, grant security interests in, or otherwise dispose of the common stock of the Company allotted to them under the Allotment Agreement for a predetermined period.
- b. In the event that certain events occur, the Company may acquire the relevant common stock without compensation.

Under the resolution of the meeting of the Board of Directors and consultation with directors of subsidiaries held today, it decided to provide the total sum of the monetary compensation claims of 38,883,200 yen for 147 employees of the Company and 12,737,600 yen for 59 executive officers and employees of its subsidiaries. The eligible employees will receive 61,600 shares of the Company's common stock as all the monetary compensation claims by contribution in kind. The amount of the monetary compensation claim is determined by the Company considering various factors such as the business performance of the Company and the responsibilities of each eligible employee, etc. In addition, the monetary compensation claims will be paid according to the terms of the below allotment agreement concluded between the eligible employees and the Company.

3. Overview of the Allotment Agreement

a. Restricted Period: From April 1, 2024 to March 31, 2027

During the above period of transfer restriction (hereinafter the "restriction period"), the eligible employees shall not be able to assign, pledge, grant a security interest in, give a living will to, bequeath, or otherwise dispose of any allotted shares (hereinafter the "allotted shares"), to any third party. (Hereinafter the "Transfer Restriction")

b. Conditions for lifting Transfer Restriction

The Company will lift the restriction on transfer of the allotted shares upon expiration of the restriction period, provided that the eligible employees, have continuously served as any of the positions of director, executive officer or employee of the Company or its subsidiaries.

However, if the eligible employee retires or resigns from the above-mentioned position (including retirement due to expiration of term of office, mandatory retirement age, or death; if the eligible employee is rehired after retirement, at the time of expiration of the relevant re-employment period) during the restriction period, the Company will naturally acquire all of the allotted shares at that time without compensation.

c. Acquisition of Restricted Stock without Compensation

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

d. Treatment in the event of organizational restructuring, etc.

If a matter concerning the organizational restructuring etc. of the Company, such as a merger agreement whereby the Company will be the non-surviving party to the merger, or a share exchange agreement or share transfer plan whereby the Company will become a wholly-owned subsidiary of another entity, is approved at the Company's General Meeting of Shareholders (or by the Company's Board of Directors if such organizational restructuring, etc. does not require approval at a Company's General Meeting of Shareholders) during the transfer restriction period, the Company will remove the transfer restriction on the allotted shares on a date prior to the effective date of such organizational restructuring, etc. In the case stipulated above, the Company will naturally acquire the allotted shares without compensation at the time immediately after the transfer restriction is removed, where the Transfer Restriction has not yet been removed.

However, notwithstanding the above provisions, if the time immediately prior to the business day immediately prior to the effective date of the restructuring, etc. is no later than January 1, 2025, the Company will naturally acquire all of the allotted shares without compensation.

e. Management of the allotted shares

To prevent the allotted shares from being transferred, collateralized, or otherwise be disposed of during the transfer restriction period, the allotted shares shall be managed by a specified securities firm during the transfer restriction period in a dedicated account opened by each eligible employee, at Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

4. Basis for Calculating the Amount to be Paid and its Specific Details

To avoid arbitrary pricing, the disposal price for the disposal of treasury stock shall be set at 838 yen, which is the closing price of a share of the Company's common stock in the Tokyo Stock Exchange on January 25, 2024 (The business day immediately preceding the day of the resolution of the Board of Directors of the Company). This is the market share price immediately prior to the date of the resolution, and the Company believes that it is a reasonable and not particularly advantageous price.