

Insource Co., Ltd.

2Q FY19 Cumulative Consolidated Financial Results  
(October 1,2019 to March 31,2020)

- This report contains estimates and targets pertaining to the future plans and business results of the Insource Group (Insource Co., Ltd and our affiliated companies). Such statements are based on information available at the time of the report’s production and based on potential risks and uncertainties. Actual results may differ materially from estimates and targets contained herein.
- Unless otherwise noted, financial statements contained herein are presented in accordance with generally accepted accounting principles in Japan.
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Chap. 01 The impact of coronavirus crisis on Insource Group  
and our response

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Chap. 02 2Q FY19 Cumulative Consolidated Financial  
Highlights and Forecast for FY19 (ending September 30, 2020)

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Chap. 03 2Q FY19 Cumulative Consolidated Financial Results

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Chap. 04 Overcoming Current/Post-Coronavirus Era

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<Reference> Company Profile & Business Activities

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# Chap. 01 The impact of coronavirus crisis on Insource Group and our response

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## Impact on financial results due to the coronavirus crisis

- Due to the coronavirus crisis and the declaration of state of emergency by the Japanese government, many trainings (On-Site Training and Open Seminars) have been affected since March
- At the same time, there is a growing demand for e-Learning and Leaf (LMS\*<sup>1</sup>) for home learning

<Impact on sales due to the coronavirus crisis* <sup>2</sup> >	During 2Q FY19, sales decreased by 246 million yen.		
	February	March	April
On-Site Training	▲22	▲107	▲230
Open Seminars	▲26	▲91	▲169
Total impact	▲48	▲198	▲399
<Reference>			
Consolidated net sales (YOY)	487 (+57)	390 (▲95)	358 (▲262)
*Estimated value in April	(+13.3%)	(▲19.7%)	(▲42.3%)

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

\*2 Projects that are not implemented in the original scheduled month due to postponement or cancellation caused by the coronavirus crisis.

# Our Group's Response to Coronavirus Crisis

## ■ Established system to develop and implement online trainings (Mar.)

- Each company in our group developed online training programs and new services promptly
- Established Online Education Sales Department

## ■ Expanding online trainings and sales promotion (Apr. onwards)

- Trainings for new employees started online with 40 booths prepared \*
- 172 On-Site Trainings were conducted online and 4,642 attendees attended Open Seminars online in April solely
- Developed a management system for online trainings, which resolved complicated online operation
- As our initiative to support Japan's economy, Open Seminars have been partly offered at 50% discount at maximum since May
- More than 1,300 trainings are slated to be offered online from April to June
- Ranked No.1 in Google search for "Online Trainings" as of May 11

### < Total number of On-Site Training conducted >

unit::times

	February	March	April
<b>Number of trainings conducted (YOY)</b>	<b>1,135</b> (+3.9%)	<b>298</b> (▲59.5%)	<b>703</b> (▲55.8%)
<b>Among above, Conducted online (composition ratio)</b>	—	<b>3</b> (0.01%)	<b>172</b> (24.5%)

### < Total number of attendees at Open Seminars >

unit::attendees

	February	March	April
<b>Number of attendees (YOY)</b>	<b>6,096</b> (+13.6%)	<b>1,979</b> (▲64.3%)	<b>5,396</b> (▲34.0%)
<b>Among above, Online trainings (composition ratio)</b>	—	—	<b>4,642</b> (86.0%)

\* As of end of March, 2020

# 【Reference】 Insource's Response to Coronavirus Crisis in chronological order

Date	Our Response	Main Events
Feb. 28	<ul style="list-style-type: none"> <li>•"Venture Pack"(service combined e-Learning and Open Seminars) started</li> </ul>	
Mar. 2	<ul style="list-style-type: none"> <li>•Mitemo Co., Ltd (our group company) started providing online trainings for new employees</li> </ul>	Schools (elementary, middle and high) nationwide were requested to close temporarily
Mar. 6	<ul style="list-style-type: none"> <li>•Online Training Trials started (10 subjects)</li> </ul>	
Mar. 10	<ul style="list-style-type: none"> <li>•Online programs of Open Seminars for new employees were developed (8 subjects)</li> </ul>	
Mar. 16	<ul style="list-style-type: none"> <li>•Online Education Sales Department was established</li> </ul>	
Apr. 3	<ul style="list-style-type: none"> <li>•Online Trainings started fully</li> </ul>	
Apr. 7	<ul style="list-style-type: none"> <li>•Open Seminars in April and May became available online (more than 400 seminars )</li> <li>•Open Seminars to be offered in the areas under the state of emergency were changed to online</li> <li>•40 Online Training Booths were prepared</li> </ul>	Apr. 7 The state of emergency was declared (7 Prefectures) Apr. 10 Aichi prefecture declared its own state of emergency Apr. 16 The state of emergency were extended to the entire country
Apr. 13	<ul style="list-style-type: none"> <li>•Management system for Online Trainings were developed in-house, and released</li> </ul>	
Apr. 20	<ul style="list-style-type: none"> <li>•Online correspondence education opened (10 courses in total)</li> </ul>	
Apr. 21	<ul style="list-style-type: none"> <li>•Open Seminars to be provided in May and June were changed to online (More than 900 seminars)</li> </ul>	
Apr. 27	<ul style="list-style-type: none"> <li>•"Individualized coaching program" service was developed and started</li> </ul>	
May 1	<ul style="list-style-type: none"> <li>•"Japanese Economy Revitalization Campaign" started (More than 100 courses were offered at 50% discount at maximum )</li> <li>•Textbooks became available through photocopiers in 7-Eleven convenience stores *</li> </ul>	
May 4		The state of emergency was extended

**⇒Insource Group offers Online Trainings at the largest scale in Japan as of May 11**

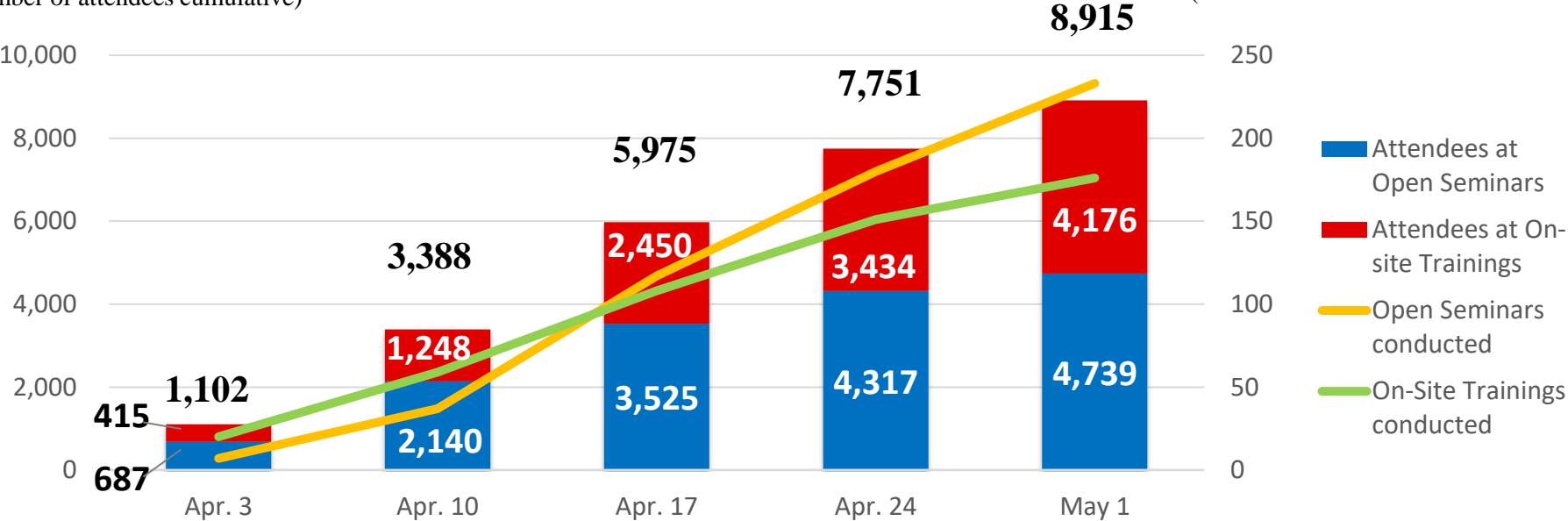
\* 7-Eleven is a registered trademark of 7-Eleven,Inc..

# Growth of Online Trainings

■ We started offering online trainings from March, and both numbers of trainings conducted and attendees have increased since April

(number of attendees cumulative)

(conducted number cumulative : times)



		Apr. 3	Apr. 10	Apr. 17	Apr. 24	May 1
On-Site Training	Total of attendees	415	1,248	2,450	3,434	4,176
	Total number of conducted seminars	20	59	108	151	176
Open Seminars	Total of attendees	687	2,140	3,525	4,317	4,739
	Total number of seminars conducted	7	37	117	180	233



■ Our culture to respond to any crisis swiftly and flexibly – With speed and focus, we work as one  
Facing coronavirus crisis, our organization established new department which enabled us to develop online training-related services and its customer support at once.

■ Advanced IT skills

– With professional skills for online services, the system was prepared within 2 weeks

- Tele-conference has been utilized since 2007  
Moreover, Zoom \* was introduced 3 years ago
- More than 100 operators essential for online trainings were trained in short term
- 61 IT engineers developed special features to online activities in a very short span

\* Operators: They connect and manage Online Trainings, and support trainers during trainings

<Example: Screen of Online Training’s Management System>



■ Contents – Contents for online trainings were developed at high speed

- 141 content creators create training programs in-house, enabling us to develop programs suitable for online trainings at an early stage

■ Sales Power – Prompt sales promotion after development

- 160 sales representatives, 15 designers and 29 digital marketers worked together and started announcements and sales activities through webs, emails, telephone calls and Zoom \*

\*The name and log of “Zoom” are trademarks or registered trademarks of Zoom Video Communications, Inc. in the United States and other countries, including Japan.

## Chap. 02 2Q FY19 Cumulative Consolidated Financial Highlights and Forecast for FY19 (ending September 30, 2020)

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## 【1Q-2Q (Oct.2019 to Mar.2020)】

### ■ Net sales:

Increased by 13.7% (+349 million yen) YOY to 2,905 million yen.

The breakdown consists of 1,588 million yen (+7.1%) for On-Site Training, 708 million yen (+12.8%) for Open Seminars and 608 million yen (+36.7%) for Other Businesses.

### ■ Gross profit:

Increased by 16.4% (+292 million yen) YOY to 2,073 million yen.

Gross profit margin increased by 1.7 points YOY to 71.4%.

### ■ Operating profit:

Increased by 10.0% (+56 million yen) YOY to 624 million yen.

Operating profit margin decreased by 0.7 points YOY to 21.5%.

## 【2Q (Jan.2020 to Mar.2020)】

### ■ Net sales:

Increased by 1.5% (+19 million yen) YOY to 1,280 million yen.

The breakdown consists of 581 million yen (▲ 7.5%) for On-Site Training, 289 million yen (▲ 7.9%) for Open Seminars and 409 million yen (+28.5%) for Other Businesses.

### ■ Gross profit:

Increased by 3.0% (+26 million yen) YOY to 911 million yen.

Gross profit margin increased by 1.0 points YOY to 71.2%.

### ■ Operating profit:

Decreased by 14.9% (▲ 37 million yen) YOY to 215 million yen.

Operating profit margin decreased by 3.3 points YOY to 16.8%.

# Future earnings forecasts in light of the coronavirus crisis

## ■ Assumptions of forecasts

Since it is not possible to reasonably estimate the end of the coronavirus crisis, it is difficult to accurately forecast earnings at this stage. The forecasts are estimated based on the following factors: 1) the actual results in April and 2) the extended voluntary self-restraint period during May and June made by the Japanese government to prevent coronavirus from spreading and 3) the assumption that our business activities will gradually return to normal from July onwards.

Note that depending on the end of the coronavirus crisis, we may change our earnings forecast.

## ■ Earnings Forecasts

- Net sales: 5,490 million yen, 2.1% increase YOY (▲ 1,310 million yen from the previous forecast)
- Operating profit: 885 million yen, 32.1% decrease YOY (▲ 635 million yen from the previous forecast)
- Net profit: 565 million yen, 32.4% decrease YOY (▲ 435 million yen from the previous forecast)

## ■ On-Site Training and Open Seminars

Based on the results of trainings conducted in April, we assume that during 3Q period, both On-Site Training and Open Seminars will be implemented by about 50% of the previous year's level. From July onwards, our training business is expected to gradually return to normal.

Consequently, we expect sales of 2,890 million yen in On-Site Training (▲ 830 million yen from the previous forecast) and 1,400 million yen in Open Seminars (▲ 550 million yen from the previous forecast) .

## ■ Other businesses

With the growing needs for home learning due to the coronavirus crisis, demands for e-Learning and Leaf (learning management system; LMS \*) are expected to grow. Because of this, sales in other businesses are expected to increase to 1,200 million yen (+70 million yen from the previous forecast) .

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

# FY19 Revised Consolidated Earnings Forecast due to the coronavirus crisis

■ Net sales decreased by 1,310 million yen to 5,490 million yen from the previously announced forecast (▲ 118 million yen YOY)

■ Operating profit decreased by 635 million yen to 885 million yen from the previously announced forecast (▲ 418 million yen YOY)

**FY19**

Unit: million yen

	FY18 (Actual)	Previous forecast	Revised forecast	Changes (Change rate)	YOY
Net sales	<b>5,608</b>	<b>6,800</b>	<b>5,490</b>	<b>▲1,310</b> (▲19.3%)	<b>▲118</b> (▲2.1%)
Gross profit (Gross profit margin)	<b>3,959</b> (70.6%)	<b>4,800</b> (70.6%)	<b>3,860</b> (70.3%)	<b>▲940</b> (▲19.6%) <b>(▲0.3pt)</b>	<b>▲99</b> (▲2.5%) <b>(▲0.3pt)</b>
Operating profit (Operating profit margin)	<b>1,303</b> (23.2%)	<b>1,520</b> (22.4%)	<b>885</b> (16.1%)	<b>▲635</b> (▲41.8%) <b>(▲6.3pt)</b>	<b>▲418</b> (▲32.1%) <b>(▲7.1pt)</b>
Ordinary profit (Ordinary profit margin)	<b>1,298</b> (23.2%)	<b>1,515</b> (22.3%)	<b>870</b> (15.8%)	<b>▲645</b> (▲42.6%) <b>(▲6.5pt)</b>	<b>▲428</b> (▲33.0%) <b>(▲7.4pt)</b>
Net profit	<b>835</b>	<b>1,000</b>	<b>565</b>	<b>▲435</b> (▲43.5%)	<b>▲270</b> (▲32.4%)

## ■ Dividends

We plan to pay dividends as initially forecasted on the assumption that our business activities will gradually return to normal from July onwards.

	FY18 (Actual)	FY19 (Previously announced)	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
Payout ratio (consolidated)	40.3%	38.9%	68.8%

\* 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 2Q FY19 Cumulative Consolidated Financial Results

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# Consolidated Profit & Loss Statement ① Overview

■ Net sales increased by 13.7% YOY to 2,905 million yen (▲ 246 million yen from the previously announced forecast due to the coronavirus crisis)

■ Gross profit margin increased by 1.7 points to 71.4% YOY

Unit: million yen

	1H FY17 (Actual)	1H FY18 (Actual)	1H FY19 (Actual)	YOY	FY19 (Revised target)
Net sales (YOY: mil yen)	<b>2,073</b> (+419)	<b>2,555</b> (+481)	<b>2,905</b> (+349)	<b>+13.7%</b>	Changed ▲1,310 <b>5,490</b> (Progression rate: <b>52.9%</b> )
Gross profit (YOY: mil yen) (Gross profit margin)	<b>1,423</b> (+337) <b>(68.6%)</b>	<b>1,781</b> (+357) <b>(69.7%)</b>	<b>2,073</b> (+292) <b>(71.4%)</b>	<b>+16.4%</b>  <b>(+1.7pt)</b>	Changed ▲940 <b>3,860</b> (Progression rate: <b>53.7%</b> )  <b>(70.3%)</b>
Operating profit (YOY: mil yen) (Operating profit margin)	<b>427</b> (+192) <b>(20.6%)</b>	<b>567</b> (+140) <b>(22.2%)</b>	<b>624</b> (+56) <b>(21.5%)</b>	<b>+10.0%</b>  <b>(▲0.7pt)</b>	Changed ▲635 <b>885</b> (Progression rate: <b>70.6%</b> )  <b>(16.1%)</b>
Ordinary profit (YOY: mil yen) (Ordinary profit margin)	<b>419</b> (+168) <b>(20.2%)</b>	<b>565</b> (+146) <b>(22.2%)</b>	<b>623</b> (+57) <b>(21.5%)</b>	<b>+10.2%</b>  <b>(▲0.7pt)</b>	Changed ▲645 <b>870</b> (Progression rate: <b>71.7%</b> )  <b>(15.8%)</b>
Net profit (YOY: mil yen)	<b>283</b> (+118)	<b>372</b> (+89)	<b>420</b> (+48)	<b>+13.0%</b>	Changed ▲435 <b>565</b> (Progression rate: <b>74.5%</b> )



# Consolidated Profit & Loss Statement ② (by business)

Unit: million yen

		1H FY17 (Actual)	1H FY18 (Actual)	1H FY19 (Actual)	YOY	FY19 (Revised target)
Whole Business	Net sales (YOY)	<b>2,073</b> (+419)	<b>2,555</b> (+481)	<b>2,905</b> (+349)	<b>+13.7%</b>	Changed ▲1,310 <b>5,490</b> (Progression rate: <b>52.9%</b> )
	Gross profit (Gross profit margin)	<b>1,423</b> (68.6%)	<b>1,781</b> (69.7%)	<b>2,073</b> (71.4%)	<b>+16.4%</b> (+1.7pt)	Changed ▲940 <b>3,860</b> (Progression rate: <b>53.7%</b> ) <b>(70.3%)</b>
	Net sales (YOY)	<b>1,276</b> (+175)	<b>1,482</b> (+206)	<b>1,588</b> (+105)	<b>+7.1%</b>	Changed ▲830 <b>2,890</b> (Progression rate: <b>55.0%</b> )
On-Site Training	Gross profit (Gross profit margin)	<b>933</b> (73.1%)	<b>1,062</b> (71.7%)	<b>1,182</b> (74.5%)	<b>+11.3%</b> (+2.8pt)	Changed ▲530 <b>2,140</b> (Progression rate: <b>55.3%</b> ) <b>(74.0%)</b>
	Net sales (YOY)	<b>497</b> (+139)	<b>627</b> (+130)	<b>708</b> (+80)	<b>+12.8%</b>	Changed ▲550 <b>1,400</b> (Progression rate: <b>50.6%</b> )
Open Seminars	Gross profit (Gross profit margin)	<b>319</b> (64.1%)	<b>388</b> (61.8%)	<b>457</b> (64.6%)	<b>+17.8%</b> (+2.8pt)	Changed ▲390 <b>890</b> (Progression rate: <b>51.4%</b> ) <b>(63.6%)</b>
	Net sales (YOY)	<b>300</b> (+105)	<b>445</b> (+144)	<b>608</b> (+163)	<b>+36.7%</b>	Changed +70 <b>1,200</b> (Progression rate: <b>50.7%</b> )
Other Businesses	Gross profit (Gross profit margin)	<b>171</b> (57.0%)	<b>329</b> (74.1%)	<b>433</b> (71.2%)	<b>+31.3%</b> (▲2.9pt)	Changed ▲20 <b>830</b> (Progression rate: <b>52.2%</b> ) <b>(69.2%)</b>

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

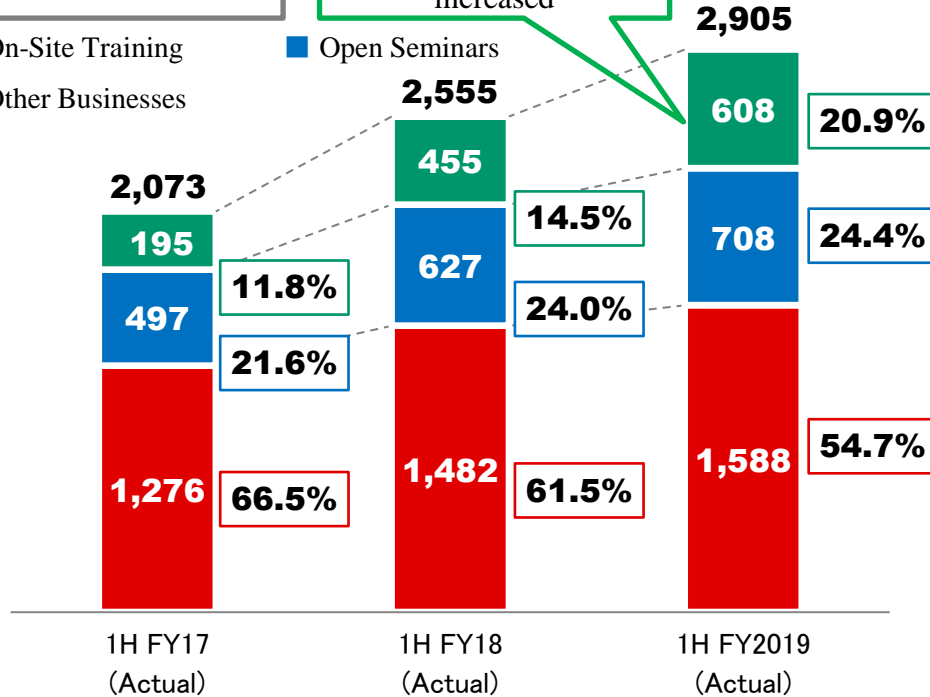
# Composition Ratio · Progress Rate of Sales (by business · by quarter) & Operating Profit **in**source

Sales composition ratio by business

- On-Site Training
- Open Seminars
- Other Businesses

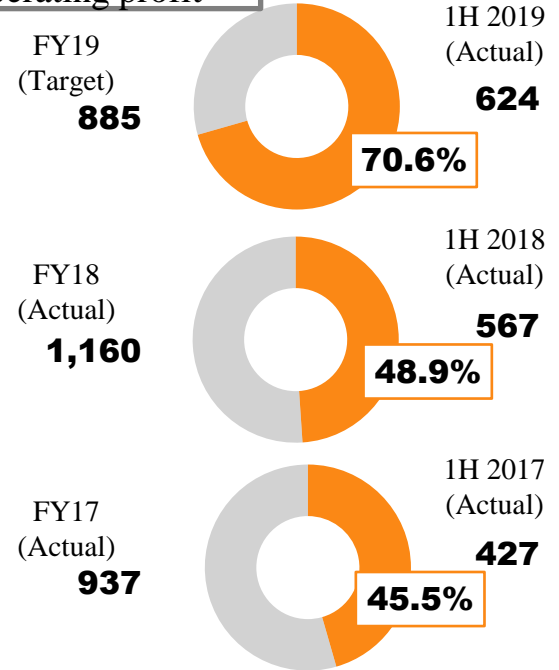
Due to the coronavirus crisis, the percentage of other businesses increased

Unit: million yen  
% represents composition ratio



Composition ratio and progress rate of operating profit

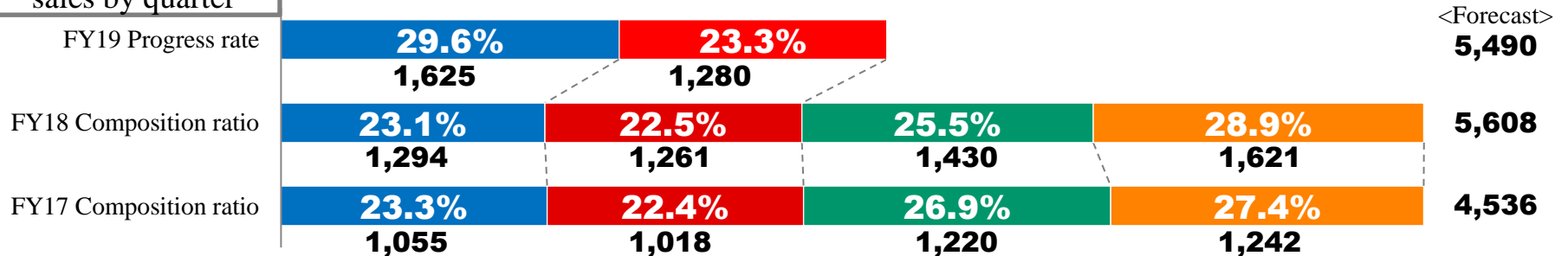
Unit: million yen  
% represents composition ratio or progress rate



Composition ratio and progress rate of sales by quarter

- 1Q
- 2Q
- 3Q
- 4Q

Unit: million yen



# Consolidated Profit & Loss Statement③

Breakdown of SG&A expenses

**in**source

- Total personnel expenses increased mainly due to hiring more employees
- Office & system expenses increased due to cloud usage
- As for the other expenses, temporal expense related to office acquisitions (16 million yen in total) was added

After  
correction

Unit: million yen

Breakdown of SG&A	1H FY17 (Actual)	1H FY18 (Actual)	1H FY19 (Actual)	YOY	FY19 (Revised target)
Personnel expenses * (YOY)	<b>768</b>	<b>926</b>	<b>1,100</b> (+174)	+18.8%	Changed ▲230 <b>2,270</b>
Rent expenses (YOY)	<b>57</b>	<b>62</b>	<b>72</b> (+9)	+15.5%	Changed +15 <b>145</b>
Office & system expenses (YOY)	<b>55</b>	<b>80</b>	<b>106</b> (+26)	+32.4%	Changed ▲20 <b>200</b>
Other expenses (YOY)	<b>114</b>	<b>143</b>	<b>169</b> (+25)	+17.7%	Changed ▲70 <b>360</b>
Total SG&A expenses (YOY)	<b>996</b>	<b>1,213</b>	<b>1,449</b> (+235)	+19.4%	Changed ▲305 <b>2,975</b>
(SG&A expense ratio)	<b>(48.0%)</b>	<b>(47.5%)</b>	<b>(49.9%)</b>	-	<b>(54.2%)</b>

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

# Consolidated Balance Sheet

■ The decrease in current assets was due to office acquisitions (547 million yen) and dividend payments (336 million yen). 2,504 million yen of current assets are cash and deposits

Unit: million yen

	FY17 (Actual)	FY18 (Actual)	1Q FY19 (Actual)	YOY	FY18 vs. FY19 Changes YOY	
Current assets (YOY)	<b>3,434</b>	<b>4,150</b>	<b>3,113</b> (▲81)	▲2.5%	▲1,037	▲25.0%
Fixed assets (YOY)	<b>524</b>	<b>806</b>	<b>1,436</b> (+745)	+107.8%	+630	+78.2%
Total assets (YOY)	<b>3,959</b>	<b>4,957</b>	<b>4,550</b> (+664)	+17.1%	▲406	▲8.2%
Current liabilities (YOY)	<b>979</b>	<b>1,787</b>	<b>1,318</b> (+141)	+12.0%	▲469	▲26.3%
Fixed liabilities (YOY)	<b>89</b>	<b>86</b>	<b>72</b> (▲17)	▲19.1%	▲14	▲17.1%
Net assets (YOY)	<b>2,889</b>	<b>3,082</b>	<b>3,160</b> (+540)	+20.6%	+77	2.5%
Total liabilities and net assets (YOY)	<b>3,959</b>	<b>4,957</b>	<b>4,550</b> (+664)	+17.1%	+406	▲8.2%

## 2Q

- Online trainings which could be attended at home or in the office were developed from the beginning of March

## Services

- Trainings for senior manager (+44.9% ) rose drastically in addition to 1Q FY19
- Trainings for risk management/compliance/harassment prevention (+28.5%) are in high demand again
- Trainings for planning and creation skills (+27.1%) saw a satisfactory transit

On the other hand, the following trainings usually held in March decreased drastically

- Trainings for instruction skills (▲43.2%), trainings for OJT instructors (▲14.8%), trainings for new employees mainly in March (▲24.5%), customer services/business manners(▲36.5%)

\* Figures show each program's YOY

## Clients

- “Telecommunications/ IT services” “Manufacturing” which dominate large composition ratio in sales fell around 20% YOY
- Sales for “Health/Medical”, “ Retails”, “Pharmaceutical Industry”, “Tourism” decreased due to coronavirus crisis
- “Service Industry (BtoC)” saw sales increase mainly in the mobile phone sales agents (+62% YOY)
- Sales for “Government/Public administrations” rose steadily by 13% YOY

## Area

- Postponements and cancellations increased for both On-Site Training and Open Seminars in the Tokyo metropolitan areas, Kinki and Hokkaido due to coronavirus crisis

# On-Site Training

(Sales composition ratio: 54.6%) **in**source

■ The average unit price per training significantly increased by 12.1 thousand yen YOY due to an increase in demand from private companies around the Tokyo metropolitan area (+7.3% YOY). Gross profit margin rose to 74.5% by 2.8pt YOY

Unit: million yen

	1H FY17 (Actual)	1H FY18 (Actual)	1H FY19 (Actual)	YOY	FY19 (Revised target)
Net sales	<b>1,276</b>	<b>1,482</b>	<b>1,588</b> (+105)	<b>+7.1%</b>	<div style="border: 1px solid black; padding: 2px;">                     Changed                      ▲830                 </div> <b>2,890</b> (Progression rate: <b>55.0%</b> )
Gross profit *	<b>933</b>	<b>1,062</b>	<b>1,182</b>	<b>+11.3%</b>	<div style="border: 1px solid black; padding: 2px;">                     Changed                      ▲530                 </div> <b>2,140</b> (Progression rate: <b>55.3%</b> )
(Gross profit margin)	<b>(73.1%)</b>	<b>(71.7%)</b>	<b>(74.5%)</b>	<b>(+2.8pt)</b>	<b>(74.0%)</b>
Total number of trainings conducted (times)	<b>6,083</b>	<b>6,853</b>	<b>6,951</b>	<b>+98</b>	<div style="border: 1px solid black; padding: 2px;">                     Changed                      ▲3,600                 </div> <b>12,400</b> (Progression rate: <b>56.1%</b> )
Average unit price (Thousand yen)	<b>210.0</b>	<b>216.4</b>	<b>228.5</b>	<b>+12.1</b>	<b>232.5</b>

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

# Open Seminars

(Sales composition ratio: 24.4%)

- Attendance increased due to the expansion of classrooms, especially in the Tokyo metropolitan area, but only slightly due to the coronavirus crisis.
- As availability of trainers \*1 who made recent contracts was high, gross profit margin rose to 64.6% (+2.8pt YOY)

Unit: million yen

FY19  
(Revised target)

	1H FY17 (Actual)	1H FY18 (Actual)	1H FY19 (Actual)	YOY	
Net sales	<b>497</b>	<b>627</b>	<b>708</b> (+80)	<b>+12.8%</b>	<div style="border: 1px solid black; padding: 2px;">                     Changed ▲550                 </div> <b>1,400</b> (Progression rate: <b>50.6%</b> )
Gross profit *2	<b>319</b>	<b>388</b>	<b>457</b>	<b>+17.8%</b>	<div style="border: 1px solid black; padding: 2px;">                     Changed ▲390                 </div> <b>890</b> (Progression rate: <b>51.4%</b> )
(Gross profit margin)	<b>(64.1%)</b>	<b>(61.8%)</b>	<b>(64.6%)</b>	<b>(+2.8pt)</b>	<b>(63.6%)</b>
Total number of attendees (attendees)	<b>24,550</b>	<b>31,302</b>	<b>34,849</b>	<b>+11.3%</b>	<div style="border: 1px solid black; padding: 2px;">                     Changed ▲24,400                 </div> <b>67,600</b> (Progression rate: <b>51.6%</b> )
Average unit price (Thousand yen)	<b>20.8</b>	<b>20.1</b>	<b>20.3</b>	<b>+0.2</b>	<b>20.7</b>

\*1 Wages for trainers whom we made contract with are occasionally reviewed based on the actual number of trainings they conducted.

\*2 Our gross profit margins by business were not audited by Ernst & Young ShinNihon LLC.

2Q

- Inquiries for Leaf and e-Learning grew due to coronavirus crisis. Particularly, as for Leaf, 28 clients implemented it newly and large customization cases increased
- Consulting such as correcting documents and assessments, which can be done non-face-to-face, increased

IT Services  
(37.2% increase)  
(\*1)

- Orders for large customization cases kept increasing, which contributed to improving sales and profits
- More and more large companies introduced our service, and the number of users exceeded 900,000

e-Learning  
/Video  
Production  
(0.8% increase)  
(\*1)

- The number of IDs for STUDIO (cloud-based e-learning contents)(subscription model) increased steadily by 16.8% YOY
- Sales for the sell-out e-Learning services is steadily growing

Consulting  
(95.8%  
increase)  
(\*1)

- **Expanding Assessment Services (\*2)**  
The accumulated number of organizations we made assessments: 358 (+ 161 YOY)  
The accumulated number of individuals we assessed: 11,234 people (+3,435 YOY)  
→ Following services increased:  
Assessments by different levels & Attendance for Open Seminars  
Eight Most Required & Basic Skills Training for New Employees
- Sales for “document correction” service for new graduates increased
- Large-scale workshops by Mitemo Co., Ltd increased  
Mainly with Manufacturing and Service Industries, the number of workshops conducted rose in the following 5 themes  
1) Fostering corporate philosophy 2) Planning and managing trainings 3) SDGs Management  
4) Supporting recruitment 5) Workstyle Reform

\* 1 Figures show each service's YOY

\*2 This service has started since November, 2017.



# Other Businesses – Net Sales/Gross Profit (Composition ratio of sales 20.9%) **in**source

Net sales steadily increased by 38.6%, as the business model is hardly affected by coronavirus crisis.

Gross profit margin decreased following 1Q due to the reasons below:

- Increased personnel expenses for engineers to deal with large-scale IT service projects
- Increased communication costs temporarily for introducing highly-graded server

Unit: million yen

	FY 17 1H (Actual)	FY 18 1H (Actual)	FY 19 1H (Actual)	YOY	FY19 (Revised target)
Net Sales	<b>300</b>	<b>445</b>	<b>608</b> (+163)	<b>+36.7%</b>	Changed +70 <b>1,200</b> (Progression rate: 50.7%)
<Breakdown>					
IT Services	<b>142</b>	<b>250</b>	<b>343</b> (+168)	<b>+37.2%</b>	Changed +50 <b>610</b> (Progression rate: 56.4%)
e-Learning/ Video Production	<b>85</b>	<b>126</b>	<b>128</b> (+1)	<b>+0.8%</b>	Changed ▲50 <b>400</b> (Progression rate: 30.9%)
Consulting	<b>72</b>	<b>36</b>	<b>72</b> (+35)	<b>+95.8%</b>	Changed +20 <b>110</b> (Progression rate: 65.1%)
Gross Profit *	<b>171</b>	<b>329</b>	<b>433</b>	<b>+31.3%</b>	Changed ▲20 <b>830</b>
(Gross profit margin)	<b>(57.0%)</b>	<b>(74.1%)</b>	<b>(71.2%)</b>	<b>(▲2.9p)</b>	(Progression rate: 52.2%)

\* 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 2Q (Actual)	2Q progression rate against FY19 target	FY19 (Revised target) (FY18 vs. FY19)
<b>IT Services</b>	Total number of Leaf Paid subscribers (organizations) *1	<b>92</b>	<b>162</b>	<b>190</b> (+28)	<b>+15.6%</b>	Changed +12 <b>353</b> (+191)
<b>IT Services</b>	Total number of organizations using on-the-web appraisal form service (organizations)	<b>26</b>	<b>50</b>	<b>67</b> (+17)	<b>+39.5%</b>	Changed +5 <b>98</b> (+48)
Direct-selling model		FY 17 2Q (Actual)	FY 18 2Q (Actual)	FY 19 2Q (Actual)	YOY	FY 19 (Revised target)
<b>IT Services</b>	Total number of organizations implementing Stress Check *2 Support Service	<b>148</b>	<b>172</b>	<b>225</b>	<b>+30.8%</b>	Changed +17 <b>350</b> (Progression rate: <b>64.3%</b> )
<b>e-Learning/ Video Production</b>	Total number of Video *3 production Solutions	<b>36</b>	<b>41</b>	<b>38</b> (Total: 57)	<b>▲7.3%</b>	Changed ▲240 <b>120</b> (Progression rate: <b>47.5%</b> )
<b>Consulting</b>	Total number of consulting services	<b>19</b>	<b>26</b>	<b>50</b> (Total: 79)	<b>+92.3%</b>	Changed +30 <b>120</b> (Progression rate: <b>65.8%</b> )
Periodical payment model		FY 17 1H (Actual)	FY 18 1H (Actual)	FY 19 1H (Actual)	YOY	FY 19 (Target)
<b>e-Learning/ Video Production</b>	Total number of e-Learning (STUDIO & STUDIO Powered by Leaf) IDs per year *3	<b>21,059</b> (end of Sep. FY17 <b>34,566</b> )	<b>23,346</b> (end of Sep. FY18 <b>40,548</b> )	<b>27,273</b> (+3,927)	<b>+16.8%</b>	<b>45,000</b> (Progression rate: <b>60.6%</b> )

\*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.

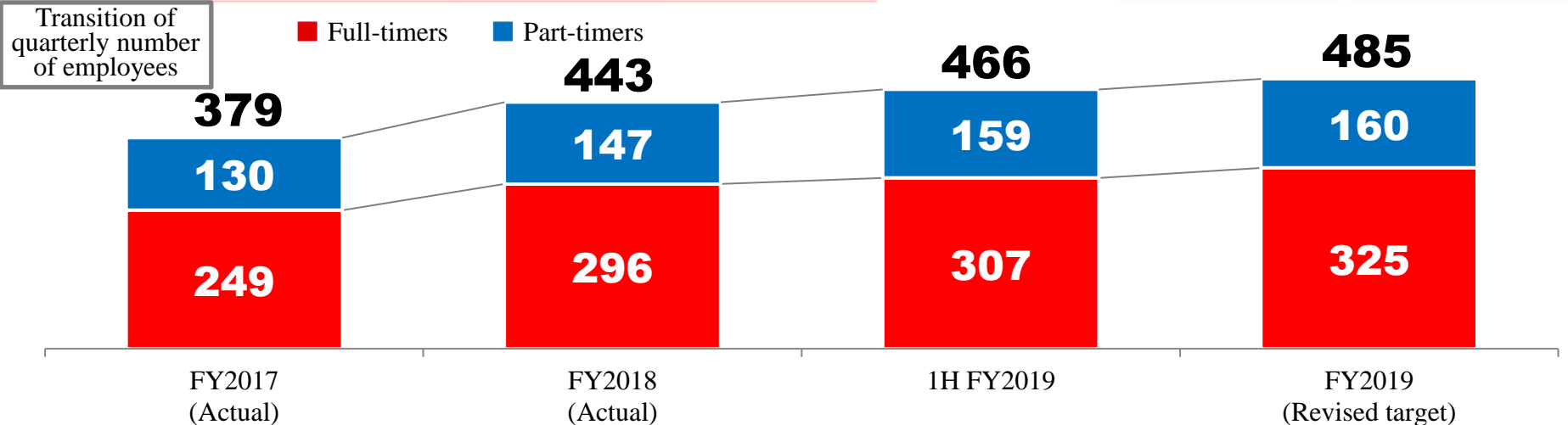
\*3 The number of video production and consulting services is based on video production only from 3Q FY18.

\*4 Since Q1 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.

# Number of Employees

- Due to the coronavirus crisis, we have revised the recruitment plan :curbing labor cost by 80 million yen (Total no. of employees: 520 → 485; Total no. of full-time employees: 350 → 325; Total no. of part-time employees 170 → 160) As for FY19, we will curb mid-career hiring, but plan to hire more new graduates in 2021.
- To improve productivity, we will continue to train all employees to be skillful in IT and advance DX .

	FY17 (Actual)	FY18 (Actual)	2Q FY19 (Actual) (YOY)	2Q progression rate against FY19 target	FY19 (Revised target) (YOY)
<u>Total number of employees</u>	<b>379</b>	<b>443</b>	<b>466</b> (+23)	<b>57.8%</b>	Changed ▲35 <b>485</b> (+42)
<u>Number of full-time employees</u>	<b>249</b>	<b>296</b>	<b>307</b> (+11)	<b>37.9%</b>	Changed ▲25 <b>325</b> (+29)
<u>Number of part-time employees</u>	<b>130</b>	<b>147</b>	<b>159</b> (+12)	<b>92.3%</b>	Changed ▲10 <b>160</b> (+13)



■ To deal with the coronavirus crisis, we have temporarily suspended the expansion of business sites.

	FY18 (Actual)	2Q FY19 (Actual) (Changes)	2Q progression rate against FY19 target	FY19 (Revised target) (Changes)
Total number of business sites	<b>22</b>	<b>23</b> (+1)	<b>100%</b>	Changed ▲2 <b>23</b> (+1)
Total number of permanent classrooms	<b>41</b>	<b>47</b> (+6)	<b>85.7%</b>	<b>48</b> (+7)
Total number of new contracts for WEBinsource (Cumulative contracts)	<b>2,771</b> (11,335)	<b>1,307</b> (12,642)	<b>54.1%</b>	<b>2,415</b> (13,750)
Total number of content types for On-Site training	<b>2,821</b>	<b>2,977</b> (+156)	<b>48.9%</b>	<b>3,140</b> (+319)
Total number of content types for Open Seminars	<b>2,589</b>	<b>2,743</b> (+154)	<b>51.2%</b>	<b>2,890</b> (+301)
Total number of content types for e-learnings	<b>307</b>	<b>330</b> (+21)	<b>28.8%</b>	<b>380</b> (+73)
Total number of package plans *	-	<b>85</b>	<b>56.7%</b>	<b>150</b>
Total number of webpages	<b>14,171</b>	<b>15,725</b> (+1,554)	<b>51.6%</b>	<b>17,180</b> (+3,009)
Total number of sessions	<b>1,712</b>	<b>907</b>	<b>44.0%</b>	<b>2,062</b> (+350)

\* Package plan is a one-stop service that solves organizational challenges by providing a unique mix of multiple training programs tailored to clients' specific needs by subject, industry or job function.

## Chap. 04 Overcoming Current/Post-Coronavirus Era

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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.

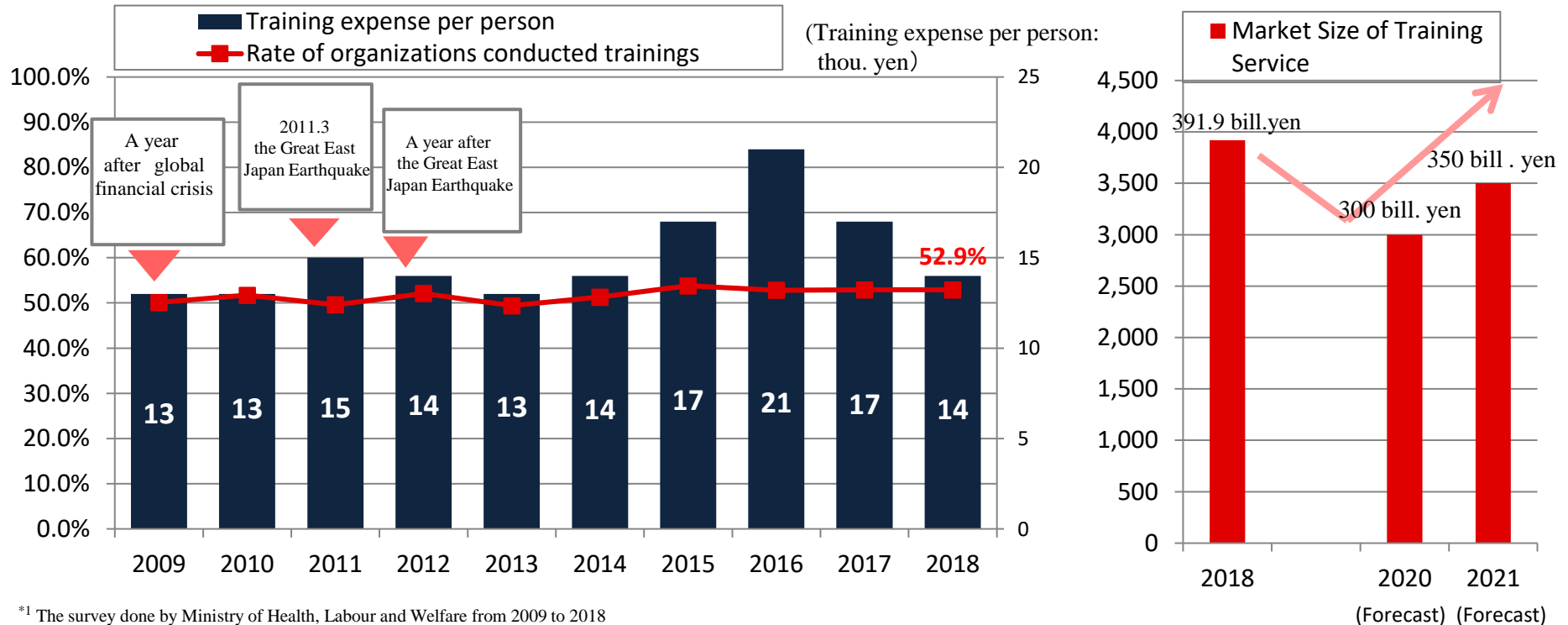
(Charles Darwin)

## 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 300 and 350 billion yen respectively

- We calculated the market size of 2020, assuming that demands for trainings would drastically drop to 25% between March and June caused by the coronavirus outbreak, and will be back 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 sales was 5.6 billion yen (FY 18) 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

### 3. Clients are expected to shift to high-quality and low-cost training service providers

During a recession, instead of reducing training opportunities, many corporate clients are expected to switch to high-quality and low-price training service providers.

⇒ Insource Group provides high-quality and low-price services. Thus, we have a great opportunity to expand market share.

### 4. Training contents related to economic revitalization will be demanded

As in the aftermath of the global financial crisis (2008) and the Great East Japan Earthquake (2011), needs for the following trainings are expected to grow in order to overcome difficulties in the post-corona era:

- Management training to develop strong leaders
- Training to improve business performance (business improvement, sales, DX, etc.)
- Training to solve organizational problems (harassment, etc.)

⇒ Insource Group develops fast and launches training programs that meet clients' needs

### 5. Online education is likely to become more popular

Due to the coronavirus crisis, more online communication tools are expected to be used than ever before.

Therefore, 20% of On-Site Training and 30% of Open Seminars is expected to be held online respectively.

⇒ There is a great possibility that Insource Group strengths in IT and video learning material development can be fully exercised.



We will continue to increase market share by adapting to the needs of the times.

## 1. Strengthening sales promotion in preparation for the resumption of economic activity

- Using free seminars, email and Zoom to maintain customer relationships, we will prepare for the time training needs increase and respond to any situation

## 2. Strengthening sales for online trainings and operation system

- Accelerate the popularization of Open Seminars held online through the "Japanese Economy Revitalization Campaign"
- Reduce operating costs by further promoting systemization and save labor cost in anticipation of the popularization of online trainings

## 3. Strengthening sales and development of other businesses (IT services, e-learning, assessment)

- Raise sales target for other businesses to 1,200 million yen (+70 million yen from the previous forecast), which are less susceptible to the effects of the coronavirus crisis,
- In addition, strengthen our development and sales structure for IT services (Leaf), video contents and assessments

## 4. Strengthening the development and provision of content for the current/post-coronavirus era

- Rapidly develop and launch content that addresses emerging social issues such as leadership development, support for business performance improvement (business improvement, sales, DX, etc.) and BCP

## 5. Curbing recruitment & suspending the expansion of business sites

- Curb hiring mid-career personnel except engineers (25 fewer than the initial target)
- Temporarily suspend the expansion of business sites (2 fewer than the initial target)
- Currently adding more online training booths (currently 40 booths) due to the anticipated demand for further online training



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-coronavirus era since our business itself is deeply related to solving social problems
- ▶ Proactively disclose non-financial information and ensure highly transparent management

# Speed and Focus – Adopting OODA Model

## ■ Promoting business by utilizing OODA Model

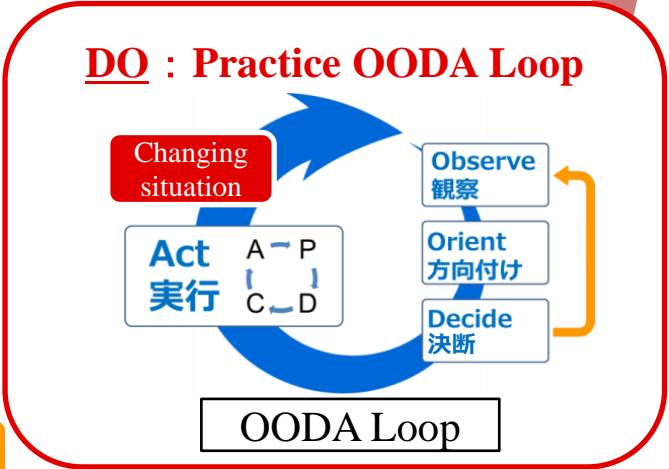
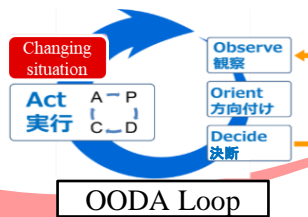
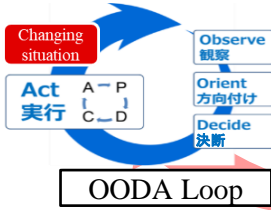
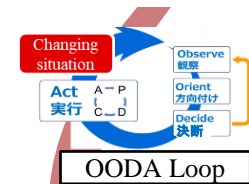
- ① Share the information company-wide with IT system
- ② All employees break down performance targets into actionable levels and set KPIs
- ③ Brush up their own weekly action plans
- ④ Various employees in each section promote business projects for sales

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

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

### \*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.



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: 26.1%

Employment rate of people with disabilities: 3.75%

	Total	Female employees
Total number of employees *2	<b>466</b>	<b>274</b> <b>(58.8%)</b>
Total number of managerial positions	<b>111</b>	<b>29</b> <b>(26.1%)</b>

Ratio of female employees in managerial positions:  
**14.9%** \*1  
(Source: The Gender Equality Bureau of the Cabinet Office (2019))

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

Foreign nationals ※4	<b>4</b>	Seniors (aged over 60)	<b>13</b>	LGBTs	<b>4</b>	People with disabilities	<b>11</b> Disability employment rate: <b>3.75%</b> *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	<b>141</b>	Sales Representatives	<b>160</b>	IT Engineers	<b>61</b>
Digital marketers	<b>29</b>	AI/RPA Engineers	<b>6</b>	Designers	<b>15</b>

\*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.

Our business objectives are to solve social issues, and now is the time to make the necessary changes.

## SUSTAINABLE DEVELOPMENT GOALS



### Social

- Implementing career development education
- "Japanese Economy Revitalization Campaign"  
We offer trainings at up to 50% off to help you turn around and expand your business in the current/post-coronavirus world.
- Sponsoring Japan Blind Football Association
- Practicing diversity at work  
(Promoting female employees to managerial positions / hiring more seniors (aged over 60) and so forth)

Annual total number of trainings conducted:

**31,883** types

\* October 2018 – March 2020

**More than 100** courses

Co-sponsoring World Grand Prix/ participation as volunteers  
\* March 2020

The number of employees Female **274** Seniors **13**  
\*As of the end of March 2020



### Governance

- Developing number of trainings related to governance promotion:  
Risk management: 81, Compliance: 54, Harassment prevention: 52,  
Labor management: 25, Private information protection act: 14, PR/IR: 4,  
Corporate governance: 2

\* As of the end of March 2020

- 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 trainings conducted 
 ■ No. of WEBinsource subscribers 
 ■ No. of organizations implementing Stress Check Support Service



### Environment

- Company-wide power saving / LED installation

## <Reference> Company Profile & Business Activities

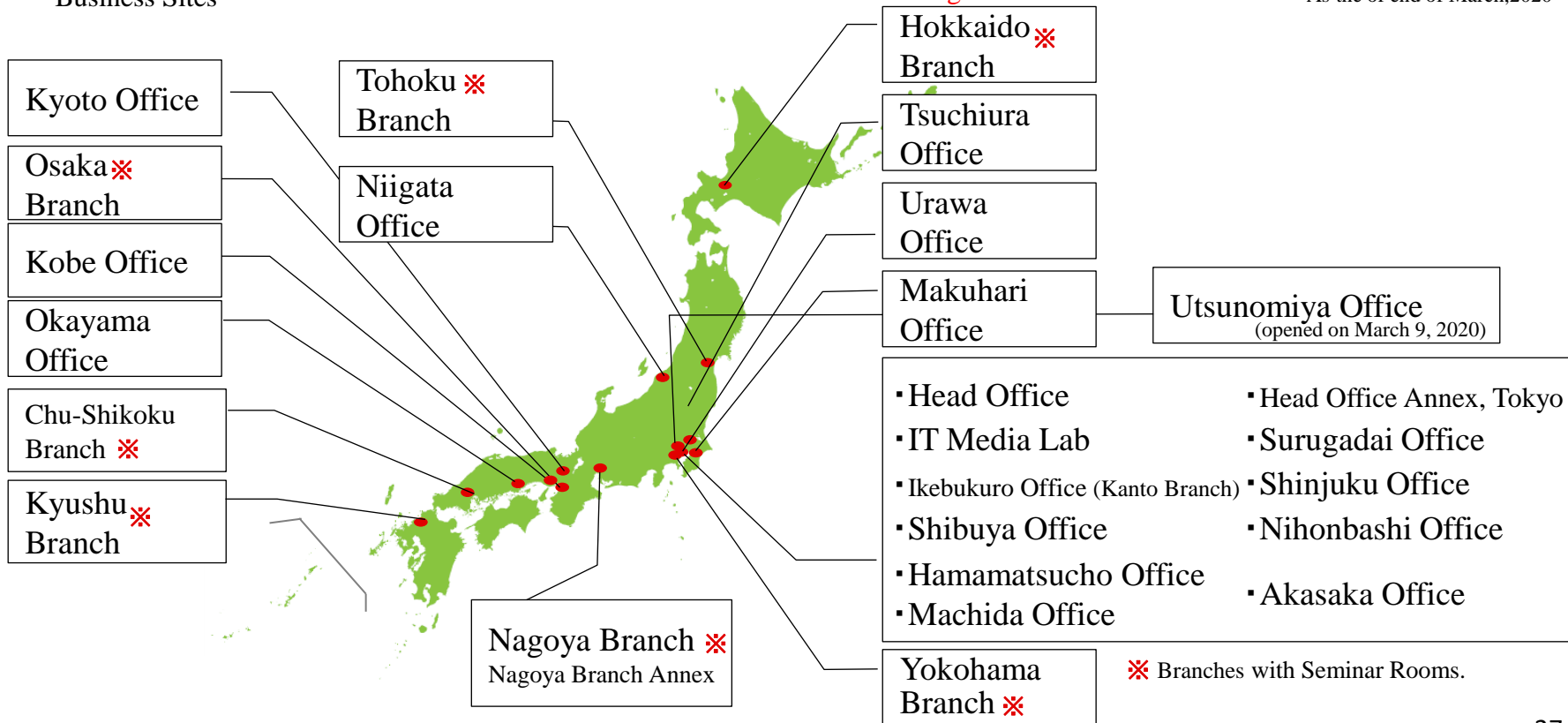
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# Company Profile

• 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, MIRAI SOUZOU & COMPANY, Inc., Insource Digital Academy Cooperation, Double Work Management Co., Ltd		

• Branch Offices & Business Sites 26 places nationwide

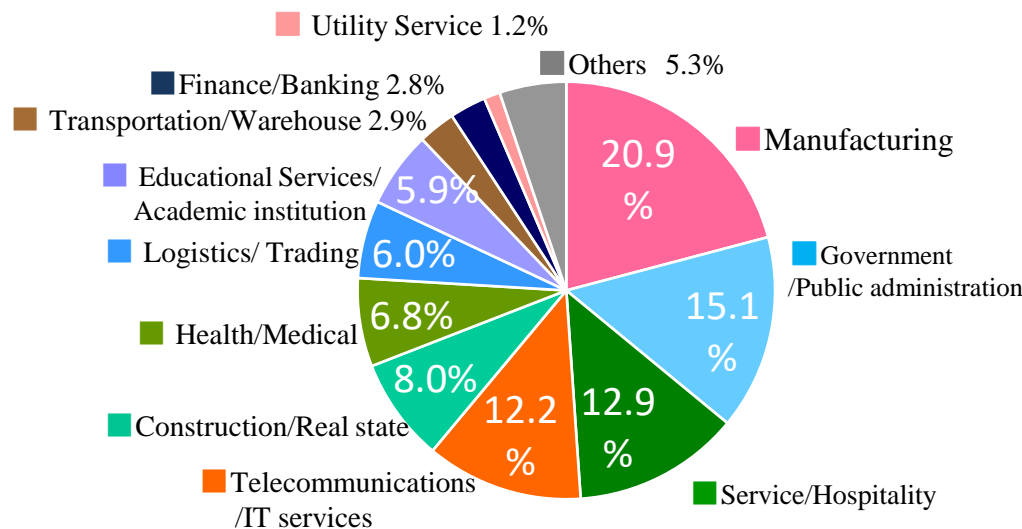
• Seminar Rooms 47 Classrooms in 9 Cities  
 • Online training booths 40 booths\* \*As the of end of March,2020



## 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

	FY17 (Actual)	FY18 (Actual)	FY19 (Target)	CAGR FY17-FY19
Whole Business	<b>4,536</b>	<b>5,608</b>	<b>5,490</b>	<b>+15.3%</b>
On-Site Training	<b>2,827</b>	<b>3,279</b>	<b>2,890</b>	<b>+6.8%</b>
Open Seminars	<b>1,166</b>	<b>1,527</b>	<b>1,400</b>	<b>+16.0%</b>
Other Businesses	<b>542</b>	<b>801</b>	<b>1,200</b>	<b>+56.1%</b>

# 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) / **93.8%** Positive feedback rate (trainers)

\*As of the end of March, 2020

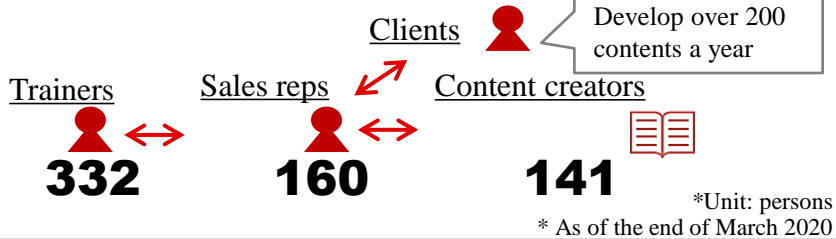
■ By using IT technologies, we can provide high quality trainings frequently and nationwide.

## On-Site Training (54.6%)

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: **176**  
Total number of online attendees: **4,176**

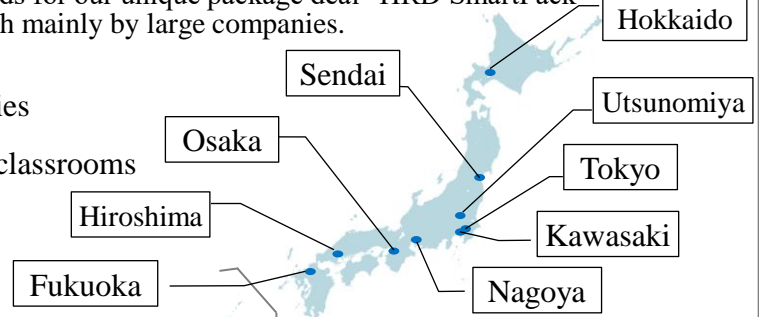


## Open Seminars (24.4%)

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.

**9** cities  
**47** classrooms



\* As of the end of March 2020

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: **233**  
Total number of online attendees: **4,739**



\*The numbers above include trainings and attendees via our online classroom system, "Enkaku Real"

\* Figures in parentheses indicate percentage of 1H FY19 sales ratio



■ 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) (20.9%)

### ■ 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 **190** organizations

Total number of organizations using on-the-web appraisal form service **67** organizations

Total number of organizations implementing Stress Check Support Service **225** organizations



\* As of the end of March 2020  
Actual no. of Stress Check Support Service applied (Oct 2019 - Mar 2020)

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

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

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

Total number of e-Learning contents **90** subjects **330** contents

Total number of e-learning subscription IDs per year **27,273** 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 1H FY19 sales ratio. \*2 Direct-selling model \*3 STUDIO is powered by Leaf partly.

# 4 Major Pillars to Achieve Our Goals and Visions

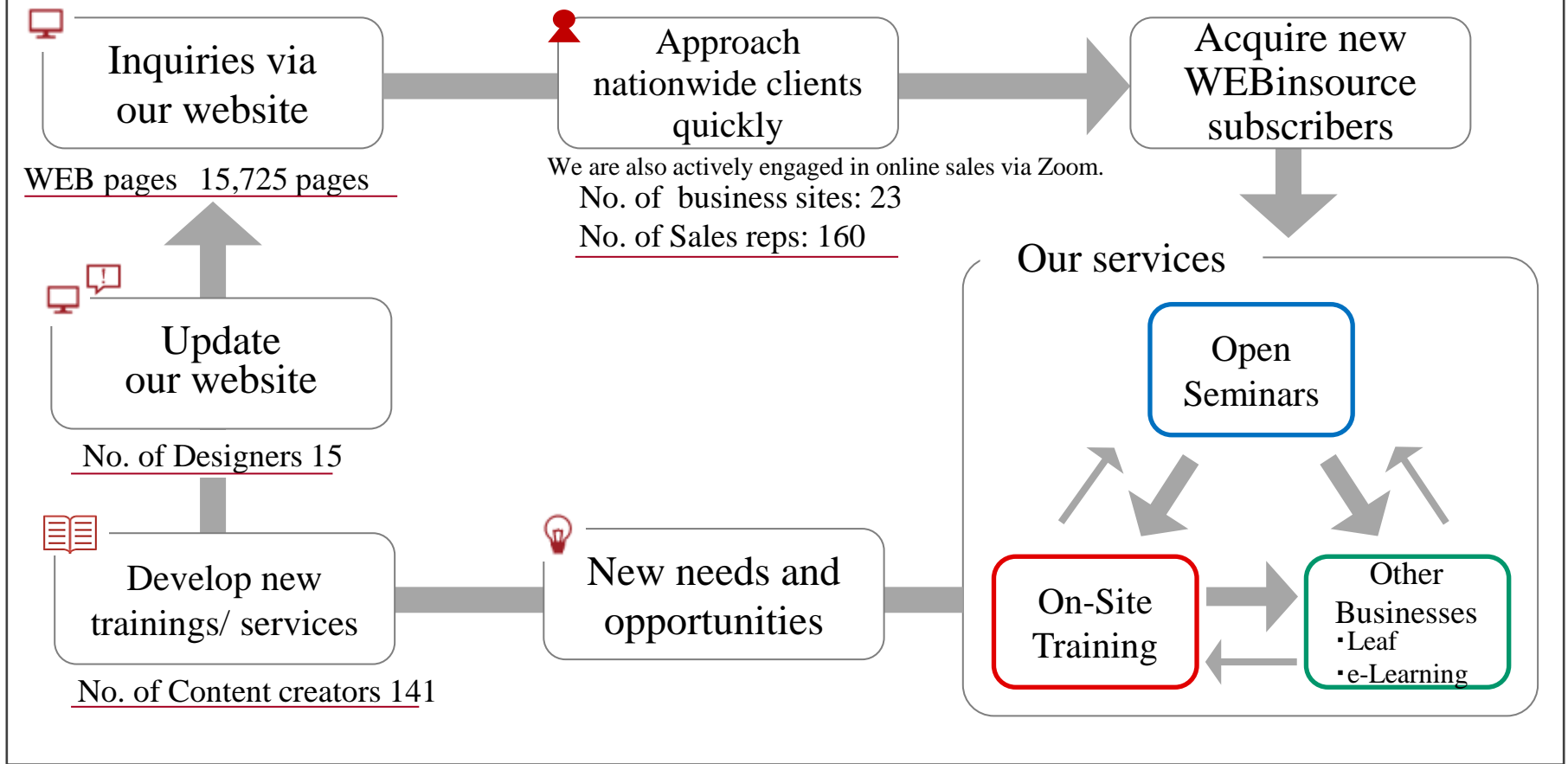
1 A wide range of industries  
**Strong client base**

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 March 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: 12,642 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.
- 141 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 160 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**

- 61 IT engineers and 7 AI/RPA engineers provide in-house developed ASP services while maximizing business efficiency and achieve significant cost reductions.

\*As of the end of March 2020

## Respect for diversity

Insource Group consists of people with different characteristics and backgrounds. By sharing the common vision with the diverse workforce and fully exercising their unique abilities, we are offering new business/service lines in a timely manner.

## Synergy of speed and focus

Speed and focus empower us to create great achievement. Our diverse members reciprocally support each other as partners in a flexible and timely manner.

## Perseverance and resilience

We believe that we can reach breakthrough as long as we never give up and keep moving forward. By achieving our small goals one by one with patience and consistency, we can accumulate positive results.

## Thorough information sharing

Information is an inexhaustible source of ideas. The more information is used, the more its value increases and its benefits are realized. The fresher information is, the higher its value. We share information useful immediately on a companywide basis.

## Support and encouragement for trying new things

It may take great courage to try something new, but this makes us grow professionally. It's not good for us to shy away from trying new things. Failure is not to be blamed, it should be carefully analyzed to understand what went wrong and how to use it to grow ourselves.