Trias Corporation

Trias Company Memo 2009-03-27

Out-Sourcing! (2427 JASDAQ) OUTSOURCING Inc.

Summary of Business Results Meeting for the Fiscal Year ended December 31, 2008

On March 2, 2009, OUTSOURCING Inc. (hereinafter "OUTSOURCING") held a results meeting for the fiscal year ended December 31, 2008 at the Securities Analysts Association of Japan (SAAJ).

Attendees of the results meeting: Mr. Haruhiko Doi, Chairman of OUTSOURCING Inc.
Mr. Yohta Maruoka, CEO of OUTSOURCING Inc.
Mr. Kazuhiko Suzuki, Managing Director of OUTSOURCING Inc.
Mr. Takahide Miyoshi, CEO of ORJ INC.

The following is the summary of the presentation by Chairman Doi:

【Business Results Summary for FY12/08】
The impact of the global economic crisis on the domestic manufacturing industry became significantly apparent in the 2nd half. In the first half of CY2008, the majority of manufacturers announced plans to increase production, but our 2nd half sales fell below that of the 1st half due to the sharp economic downturn. The sales decline was the most severe experienced over the past several decades. While the manufacturing sector reduced production by an average of 35%, several of the worst-hit carmakers slashed production by 70%.

We introduced the Japanese version of a PEO Manufacturing Outsourcing Model※ since it was established in 1997. Based on the business model, we have created the business infrastructure to respond flexibly to any fluctuation in production and hedged business volatilities by diversifying into various industries. In FY12/08, for example, we were able to shift our workers from the hardest-hit industries to industries such as food and pharmaceuticals that were performing well, thereby moderating to some extent the negative impact on our business results.

※ The Japanese version PEO Manufacturing Outsourcing Model is a business model, which we adopted from the Professional Employer Organization model developed in the United States for the manufacturing outsourcing business, enabling the flexible allocation of workers to fluctuations in production.

【Changes in Manufacturers' Needs and Our Initiatives】
Undergoing what is described as a once-in-a-century recession, manufacturers are likely to cut their temporary workforce further from March 2009. We estimate that of the manufacturing outsourcing

industry's 1.4 million contracted workers, 400,000 will be terminated. Manufacturers have traditionally sought to expand their temporary workforce during times of economic upswings or to ramp up production capacity. As a result, the expertise and knowledge base of most outsourcing agencies in the manufacturing outsourcing industry are limited to meeting increases in temporary workforces. Yet, we believe manufacturers' demand for solutions to cope with an economic depression and/or drastic cutbacks in production are likely to rise. Draconian reforms, including the reduction of permanent employees, are inevitable, with mass producers in particular moving toward that inevitability. Manufacturers are also beginning to seek ways to improve productivity beyond that which can be expected by shifting production to such developing countries as China and Vietnam. It is therefore projected that order inflows will be directed to those outsourcing agencies that can provide such productivity enhancing solutions. We further believe such solutions will be far larger in terms of scale than previous orders, made on a factory bloc basis or for an entire product. This trend is already taking place as we, for example, have concluded an agreement in principle to manage an entire factory bloc, manned by 1,200 workers, for the manufacture of LCD-related products.

Risks related to the traditional manufacturing outsourcing model were limited for both manufacturers and outsourcing agencies. In contrast, under the new model which responds to the emerging needs of manufacturers, the manufacturer incurs a higher degree of risk in terms of choosing the right outsourcing agency, for the wrong choice can lead to lower productivity and significantly impact profitability in an adverse manner. Outsourcing agencies must undertake equally greater risk in that failure to deliver promised improvements in productivity may hold them liable for ensuing damages and require monetary compensation. Under this business model, then, both client-manufacturer and outsourcing agency must assume greater risk, but in adopting such initiatives for draconian reforms, gross profit margins can be improved regardless of the economic climate. We believe only those outsourcing agencies that are able to meet the drastic rationalization needs of manufacturers─which are now staking their very survival on the success of such reforms─will see dramatic growth in the future.

【Business Infrastructure to Respond to Manufacturers' Needs】

The following initiatives are being instituted in order for us to respond to a changing business environment and the shift in client-manufacturers' needs:

① Business and capital tie-up with TECHNOSMILE, INC. (hereinafter "TECHNOSMILE")

On February 23, 2009, we concluded the basic agreement for a business and capital tie-up with TECHNOSMILE. The company, a *keiretsu* affiliate of Toyota Motors Corporation, was established by TOYOTA MOTOR KYUSHU, INC. and THE NISHI-NIPPON CITY BANK, LTD., which employs a large expert staff skilled in the Toyota Production System and provides advanced consulting services and develops training/education programs. TECHNOSMILE operates their own factory at a superior level equivalent to Toyota Motors, as well as operates an entire factory bloc for a client under an outsourced contracting contract. It possesses the consulting skills to train foreigners, including programs for Vietnamese and Chinese engineers. By integrating the expertise of

TECHNOSMILE and our expertise in employment, both companies are co-developing solutions for client-manufacturers to propose solutions superior in terms of productivity and cost to a production scheme based on permanent employees or overseas transplant, and win orders. In the process, by committing to specific numerical targets to improve productivity in our outsourcing contracting contracts, evolving from contracts limited to simple production processes (“retail”) to entire factory blocs (“wholesale”), we aim to improve the overall business efficiency of our Group.

② Promotion of outsourced contracting through business development by ORJ INC. (hereinafter “ORJ”)

In October 2008, we co-established ORJ INC. with Relocation Japan Ltd. ORJ’s business model is to provide a comprehensive, one-stop array of services in the outsourced administration of labor affairs, company housing and related tasks when a manufacturer shifts from temporary workers to permanent employees to operate its factories. The legally mandated deadline dates in which the three-year worker dispatching contracts expire will be most prevalent during the period of April to September 2009. ORJ sees this period as an opportunity to expand its business and expects approx. 15,000 workers from 81 client-companies (with some 100-500 workers each) to come under its administration by September. We will offer follow-on proposals to client-manufacturers of ORJ’s administrative contracting services that have temporarily shifted to permanent employees to convert to outsourced contracting services reinforced through the integrated expertise of TECHNOSMILE and OUTSOURCING, thereby expanding our Group businesses.

③ Preparing the Outsourced Contracting Environment through Partnerships with Government

A key determinant in facilitating the conversion to outsourced contracting is to secure government approval. Those outsourcing agencies that lack the necessary business resources to provide outsourced contracting services will not be approved by regulators and will therefore be unable to convert their business to outsourced contracting. We have developed and adopted our proprietary “interpretative guidelines for Notification No. 37,” which emphasizes employment stability for contracted workers. In 2008, we submitted the guidelines to Labor Department offices in 40 prefectural governments nationwide, and every office endorsed them. In addition to our business model─an outsourced contracting model integrating improved business results with enhanced personal values and better compensation for our workers, which serves to increase wages and provide stable employment conditions through training and human resources development─we also invited experts working for the manufacturers themselves. They were part of our overall effort to prepare the proper infrastructure for human resources development, which led the government to recognize and approve that we possess the necessary business resources to provide outsourced contracting services.

【Q&A】

Q1. The forecast for 2nd half of FY12/09 projects revenues to double year-on-year. What is the basis for the assumption?

A1. The forecast neither reflects ORJ's operating income of ¥450 million nor reflects increased net sales of OUTSOURCING from March 2009 onward (revenues are expected to bottom out in February 2009). Also, for the forecast for only OUTSOURCING, revenues from the auto industry for which we've already received orders are only partially included, while the startup of solar batteries and medical related contracts are discounted.

Q2. Why is the holding ratio of TECHNOSMILE's shares, at 19.7%, so low?

A2. We negotiated with TECHNOSMILE under the condition of 100% ownership. However, due to the fact that our corporate cultures were significantly different, we realized that the integration of the two companies would take some time. We thus decided to proceed with the integration process gradually, including the incremental increase in holding ratio.

Q3. Elaborate on ORJ's business model.

A3. ORJ offers integrated services for administrative operations when a manufacturer hires an ex-temporary worker as a permanent employee. More specifically, this means, among others: 1) the administration of corporate housing, including the conversion of general quarters, and related personnel services; 2) transportation services, including the providing of vehicle operators; and 3) workday ("in-and-out") administration. What distinguishes ORJ from its competitors is superior level of regulatory compliance standards established by Relocation Japan Ltd. and the general quality of services provided. Another competitive edge is ORJ's ability to develop and propose solutions to clients for the eventual conversion to outsourced contracting. Per capita revenue from administrative services is estimated at ¥15,000 per month. Revenues from corporate housing administration are generated on a per-facility and per-block basis. Revenues from transportation services are calculated on a per-route or per-vehicle basis. When combined, we estimate that per capita revenue will reach between ¥25,000-35,000 per month.

Q4. What are the government's evaluation points to determine whether a company possesses the business resources to offer productivity enhancing outsourced contracting services?

A4. While there are no specific numerical targets set by regulators when evaluating if the outsourcing agency can deliver the outsourced contracting services to improve productivity, they do check into the framework through which they are provided. The government makes sure that our contracting model is not dependent on low labor costs that the worker dispatching model relies on. OUTSOURCING, for example, institutes a system to appraise worker skill and knowhow development, which is an important checking point for regulators.

Q5. Tell us more about TECHNOSMILE's business.

A5. Offering workers long-term employment is a core framework for TECHNOSMILE, with 85% of its staff being permanent employees. Its services consist primarily of: 1) consultation services for client-manufacturers on solutions to improve production technology; 2) training and education programs for 30-40 foreign trainees that last between one to two weeks; and 3) consultation services conducted at TECHNOSMILE's factory.

Q6. What is the forecast for FY12/09 on a Group affiliate basis? It's difficult to see how ORJ, with a projected per capita revenue of ¥25,000-35,000 per month, will be able to meet its earnings forecast of ¥1.8 billion. Based on that calculation, ORJ will have to service 60,000 or so workers. Is this feasible?

A6. The estimated per capita sales revenue for ORJ's labor affairs administration service is ¥15,000 per month. That figure rises when revenues from corporate housing and other services are added. While most of the three-year worker dispatching contracts will expire from April onwards, we expect agreements to be concluded and contracts commencing during the months of July to September. Under this timetable, preparations to institute solutions will start up and revenues from consulting services will be generated for ORJ. An estimated 15,000 workers are expected to be serviced in September alone. Moreover, the net sales forecast of ¥17.8 billion for OUTSOURCING only includes sales of ¥2.2 billion to ¥2.4 billion from the affiliate formerly known as Free Work Co., Ltd.

OUTSOURCING Inc. (Securities Code: 2427)

Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)		
No. of Shares Issued	Dec. 08	128,220
No. of Treasury Stock	Dec. 08	15,740
Market Value (¥million)	Mar.26, 2009	1,918
BPS (¥)	Dec. 08	22,524.6
ROE (%) ※1	Dec. 08	27.6
ROA (%) ※2	Dec. 08	10.9
PER (times)	FY12/09 est.	3.5
PBR (times)	Dec. 08	0.7
Share Price (¥)	Mar.26, 2009	14,960

Key Financial Data (Consolidated)		
Total Assets (¥million)	Dec. 08	6,051
Shareholders' Equity (¥million)	Dec. 08	2,542
Interest-Bearing Debt (¥million)	Dec. 08	1,015
Equity Ratio (%)	Dec. 08	41.9
Ratio of Interest-Bearing Debt (%) ※3	Dec. 08	39.9

※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end

※2 ROA=Cureent Net Income÷Averaged Total Assets of beginning of term and term end

※3 Ratio=Interest-Bearing Debts÷Shareholders' Equity

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY12/05	17,881	95	103	34	273.5	300.00
FY12/06	21,197	119	118	97	783.3	300.00
FY12/07	24,321	1,013	1,004	583	4,917.3	492.00
FY12/08	24,148	1,113	1,134	641	5,412.3	644.00
FY12/09 est.	24,300	1,150	1,200	670	4,326.2	433.00

Note: FY12/09 est. is the Company's forecast announced on Feb. 16, 2009.