

Apr-21-2011

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JASDAQ

## OUTSOURCING Inc.

FY12/10 Business Results Meeting and Follow-up Interview

On February 15, 2011, OUTSOURCING Inc. (hereinafter OSI or the Company) held its FY12/10 Business Results Meeting. The following is a summary of the meeting and interview that followed.

### Summary of FY12/10 Consolidated Business Results

As seen in Table 1, both consolidated net sales and income for FY12/10 posted significant gains from the previous year. Net sales was an all-time high (higher than even that recorded before the global financial crisis following the Lehman Bros. collapse) as OSI aggressively expanded operations; in contrast, competitors moved to shutter branches. Operating income rose substantially as the Company absorbed the increased expenses in CoS and SG&A of ¥8,599 million, associated with business expansion initiatives, and frontloaded investment of ¥500 million to bolster future growth by reinforcing its marketing/sales regime to recruit outsourced worksite employees and secure new client accounts. As a result, ordinary income and net income both hit record highs. In particular, the Company's operating profit margin in Q4 reached 6.6% versus 2.9% for the same quarter last year. This was due to last-minute demand observed during the year-end shopping season, which makers scrambled to meet. Even during this period, OSI continued to frontload investment to drive future business growth.

**[Table 1] FY12/10 Consolidated Business Results Summary**

| ( ¥ million)            | FY12/09 (Actual) |                 | FY12/10 (Actual) |                 |                |
|-------------------------|------------------|-----------------|------------------|-----------------|----------------|
|                         |                  | Component Ratio |                  | Component Ratio | YoY Change     |
| <b>Net Sales</b>        | <b>17,964</b>    | <b>100.0%</b>   | <b>28,386</b>    | <b>100.0%</b>   | <b>58.0%</b>   |
| Gross Profit            | 3,386            | 18.8%           | 6,007            | 21.2%           | 77.4%          |
| SG&A Expenses           | 3,536            | 19.7%           | 4,834            | 17.0%           | 36.7%          |
| <b>Operating Income</b> | <b>-150</b>      | <b>-0.8%</b>    | <b>1,173</b>     | <b>4.1%</b>     | <b>n.a.</b>    |
| <b>Ordinary Income</b>  | <b>22</b>        | <b>0.1%</b>     | <b>1,401</b>     | <b>4.9%</b>     | <b>6229.1%</b> |
| <b>Net Income</b>       | <b>-215</b>      | <b>-1.2%</b>    | <b>760</b>       | <b>2.7%</b>     | <b>n.a.</b>    |

Note: All tables prepared by Trias Corp. with the data disclosed by OUTSOURCING Inc.

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【Table 2】 FY12/10 Q4 Consolidated Business Results Summary

| (¥million)              | FY12/09 (Actual)  |                    | FY12/10 (Actual)  |                    |               |
|-------------------------|-------------------|--------------------|-------------------|--------------------|---------------|
|                         | 4Q<br>(Oct.-Dec.) | Component<br>Ratio | 4Q<br>(Oct.-Dec.) | Component<br>Ratio | YoY<br>Change |
| <b>Net Sales</b>        | <b>5,832</b>      | <b>100.0%</b>      | <b>8,137</b>      | <b>100.0%</b>      | <b>39.5%</b>  |
| Gross Profit            | 1,332             | 22.8%              | 1,848             | 22.7%              | 38.7%         |
| SG&A Expenses           | 1,159             | 19.9%              | 1,309             | 16.1%              | 12.9%         |
| <b>Operating Income</b> | <b>172</b>        | <b>2.9%</b>        | <b>539</b>        | <b>6.6%</b>        | <b>213.4%</b> |
| <b>Ordinary Income</b>  | <b>238</b>        | <b>4.1%</b>        | <b>578</b>        | <b>7.1%</b>        | <b>142.9%</b> |
| <b>Net Income</b>       | <b>143</b>        | <b>2.5%</b>        | <b>385</b>        | <b>4.7%</b>        | <b>169.2%</b> |

By segment, net sales in the Company's flagship Production Outsourcing Business unit soared, led chiefly by the electronics and transport equipment related industries. Net sales in the Outsourced Administrative Operations Services unit also performed well.

【Table 3】 Net Sales by Segment and by Industry

| (¥million)  | FY12/09<br>(Actual) | FY12/10<br>(Actual) | YoY Change    |               |
|---|---------------------|---------------------|---------------|---------------|
|   |                     |                     | Amount        | Ratio         |
| <b>Production Outsourcing Business</b>                    | <b>17,200</b>       | <b>27,016</b>       | <b>9,816</b>  | <b>57.1%</b>  |
| Electricals and Electronics                               | 4,742               | 8,527               | 3,785         | 79.8%         |
| Foods   | 3,437               | 2,032               | -1,405        | -40.9%        |
| Transport Equipment                                       | 2,810               | 7,394               | 4,584         | 163.1%        |
| Chemicals and Medicals                                    | 3,669               | 4,107               | 438           | 11.9%         |
| Metals  | 332                 | 270                 | -62           | -18.7%        |
| Other   | 2,208               | 4,684               | 2,476         | 112.1%        |
| <b>Administrative Operations<br/>Outsourcing Business</b> | <b>184</b>          | <b>735</b>          | <b>551</b>    | <b>299.8%</b> |
| <b>Nursing-care Business</b>                              | <b>347</b>          | <b>471</b>          | <b>124</b>    | <b>35.8%</b>  |
| <b>Other Business</b>                                     | <b>232</b>          | <b>162</b>          | <b>-70</b>    | <b>-30.2%</b> |
| <b>Total</b>  | <b>17,964</b>       | <b>28,386</b>       | <b>10,422</b> | <b>58.0%</b>  |

## OSI's Group Strategies

On December 27, 2010, OSI announced that CEO Yohta Maruoka would step down and be succeeded by OSI founder Haruhiko Doi, who will also serve as Chairperson with the right of representation. The personnel change was made at the request of Mr. Maruoka, who led the merger between OSI and FREE WORK CO., LTD. (hereinafter FW), which OSI acquired in March 2008. Mr. Maruoka had assumed the post of chief executive of FW as well, but concluded that the integration process had been completed. With the acquisition and integration of the Kansai-based FW, OSI—which had previously weak in the Kansai area of western Japan—won new clients, including GS Yuasa Corp., Panasonic Corp. and Blue Energy Co., Ltd. It was evident that the merger had paid significant dividends on an immediate basis. Under the new management team,

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Mr. Doi will serve as CEO and spearhead OSI's external relations while working to drive further business growth in a timely manner.

Triggered by the Lehman Bros. collapse, the global financial crisis ushered in drastic changes to the manufacturing outsourcing business in general. Behind this lies a major shift in client needs, namely for manufacturers. Production bases have been transplanted abroad, spurred in part by the emergence of an increasingly number of Asian powerhouses, particularly in China. That has driven Japanese makers to seek out ways to sustain their competitiveness by reinforcing their R&D capabilities while holding down costs, leading to the need for advanced improvements in production regimes.

In the past, there was a major gap between the size of competing players, as well as between established firms and newcomers—which OSI was classed—in the manufacturing outsourcing market. However, the financial crisis essentially leveled the playing field. In the pre-Lehman industry, the established outsourcing providers wrested competitive superiority by keying on market share growth, or a quantitative strategy. That has since changed today, with the edge going to providers that engage in a more qualitative strategy focused on such services as regulatory compliance and ability to deliver manufacturing outsourcing contracting services. As a result, the newcomers have now become more competitive than ever.

Given this environment, OSI is actively investing in two major initiatives that will vault it to the top as the domestic leader in manufacturing outsourcing services. Although the Company's core operations will remain in Japan for the time being, it is set to increase foreign investment over the next several years with the aim of achieving an overseas-to-domestic sales ratio of 50% in FY12/20. The two major initiatives are:

1. Investment for quantitative growth: The goal is to reinforce OSI's marketing/sales regime to secure greater market share in Japan when production picks up domestically, and boost investment to prepare for a major push into foreign markets
2. Investment for qualitative improvement: The second objective is to step up OSI's M&A activity to develop new solutions to improve productivity, as well as to strengthen the Company's branding position in the market; it also seeks to trim and further strengthen its marketing/sales regime

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## FY12/11 Earnings Forecast

OSI's earnings forecast for FY12/11 is shown in Table 4, which incorporates the projected results from segment-based Group strategies the Company is currently driving forward. In FY12/11, the Company expects to reap the reward from initiatives adopted from the previous year, including a Group-wide reorganization led by changes in both the Transport Equipment Group and Electrical and Electronics Group units. Operations of these two units were shored up through a series of M&A deals over the past few years.

**[Table 4] FY12/11 Consolidated Earnings Forecasts**

| (¥million)               | FY12/10 (Actual) |                 | FY12/11 (Forecast) |               |               |                 |               | YoY Change   |  |
|--------------------------|------------------|-----------------|--------------------|---------------|---------------|-----------------|---------------|--------------|--|
|                          | Full Year        | Component Ratio | 1H                 | 2H            | Full Year     | Component Ratio | Amount        | Ratio        |  |
| <b>Net Sales</b>         | <b>28,386</b>    | <b>100.0%</b>   | <b>16,850</b>      | <b>23,150</b> | <b>40,000</b> | <b>100.0%</b>   | <b>11,614</b> | <b>40.9%</b> |  |
| Production OS            | 27,016           | --              | 16,359             | 22,593        | 38,952        | --              | 11,936        | 44.2%        |  |
| Admin. Op. OS            | 735              | --              | 741                | 863           | 1,604         | --              | 869           | 118.2%       |  |
| Other Business           | 634              | --              | 67                 | 86            | 153           | --              | -481          | -75.9%       |  |
| Elimination              | -313             | --              | -317               | -392          | -709          | --              | -396          | 126.5%       |  |
| <b>Gross Profit</b>      | <b>6,007</b>     | <b>21.2%</b>    | --                 | --            | --            | --              | --            | --           |  |
| <b>SG&amp;A Expenses</b> | <b>4,834</b>     | <b>17.0%</b>    | --                 | --            | --            | --              | --            | --           |  |
| <b>Operating Income</b>  | <b>1,173</b>     | <b>4.1%</b>     | <b>600</b>         | <b>1,200</b>  | <b>1,800</b>  | <b>4.5%</b>     | <b>627</b>    | <b>53.5%</b> |  |
| Production OS            | 912              | --              | 457                | 1,106         | 1,563         | --              | 651           | 71.4%        |  |
| Admin. Op. OS            | 273              | --              | 216                | 160           | 376           | --              | 103           | 37.7%        |  |
| Other Business           | 87               | --              | 3                  | 10            | 13            | --              | -74           | -85.1%       |  |
| Elimination              | -100             | --              | -76                | -76           | -152          | --              | -52           | 52.0%        |  |
| <b>Ordinary income</b>   | <b>1,401</b>     | <b>4.9%</b>     | <b>650</b>         | <b>1,250</b>  | <b>1,900</b>  | <b>4.8%</b>     | <b>499</b>    | <b>35.6%</b> |  |
| <b>Net Income</b>        | <b>760</b>       | <b>2.7%</b>     | <b>350</b>         | <b>790</b>    | <b>1,140</b>  | <b>2.9%</b>     | <b>380</b>    | <b>50.0%</b> |  |

Note: The net profit recorded in the Other Businesses segment in FY12/10 includes that generated by WARABEUTA CO., LTD. and MISTRAL SERVICE CO., LTD., both of which have been divested in the same term.

The Transport Equipment Group unit aims to bolster its marketing/sales regime by aggressively opening new branches to secure new client accounts, primarily through two of its subsidiaries, OUTSOURCING CENTRAL Inc. and NISSO SERVICE Inc. And because OSI has nearly completed a framework through which it can carry out testing and evaluation services almost entire in-house, the Company is pushing forward to win integrated service contracts that cover outsourced services for everything from R&D to prototype test production. In addition, subsidiary ORJ INC. will be providing outsourced administrative operations services for clients who are now hiring workers directly to man production sites. In doing so, OSI seeks to secure one-stop, integrated service contracts to existing clients that extend from R&D operations upstream to volume production downstream, thereby maximizing its current client base. On the international front, the Company plans to launch preparations to enter newly emerging markets, including China, Indonesia, India

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and Thailand.

The Electrical and Electronics Group unit has classified four priority areas in the R&D field—semiconductors, energy, digital graphics and communications—and aims to develop and deepen its knowledge base in these areas. Because the unit remains ill-equipped to exploit the energy field, it is looking at strategic M&A deals to acquire the necessary expertise and resources. The unit's operations will revolve primarily around two core subsidiaries—SEISHOW CO., LTD., which is expert in the training and placement of highly skilled engineers—and OS.SEMITEC Inc., which handles high value-added services in such niche markets as the maintenance and repair of semiconductor fabrication equipment. As with the Transport Equipment Group unit, the Electrical and Electronics Group unit will be offering ORJ's outsourced administrative operations services for seasonal workers. However, the unit plans to eventually convert its seasonal workers hired to operate production processes to manufacturing outsourcing contracts over the next few years.

It should be noted that OSI's frontloaded investments for FY12/11 are projected to reach a total of ¥1,314 million, of which ¥784 million will be spent on domestic operations and ¥530 million allocated for its overseas operations. . 

Reference

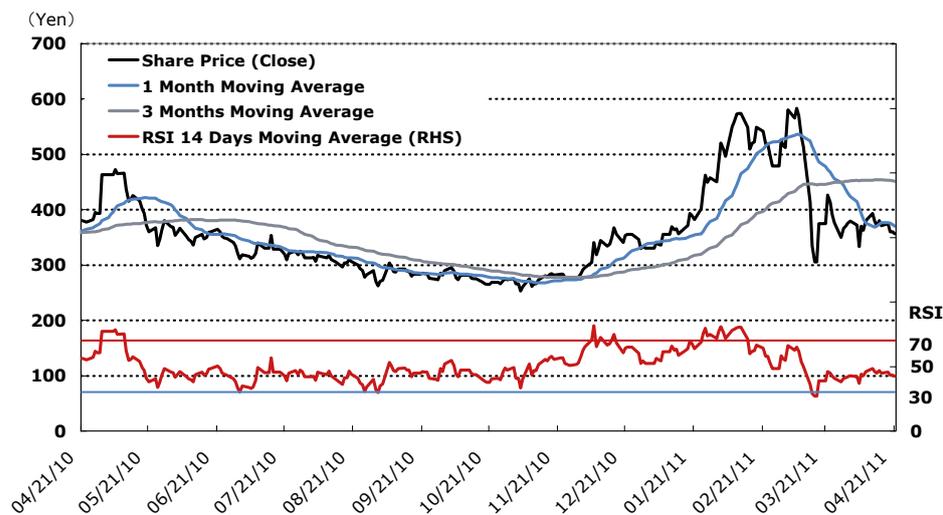
● Key Financial Data and Business Results (Consolidated)

| Key Stock Indicators (Consolidated) |              |            | Key Financial Data (Consolidated)                             |         |        |
|-------------------------------------|--------------|------------|---|---------|--------|
| No. of Shares Issued                | Dec. 10      | 15,547,000 | Total Assets (¥million)                                       | Dec. 10 | 10,707 |
| No. of Treasury Stock               | Dec. 10      | 1,139,500  | Shareholders' Equity (¥million)                               | Dec. 10 | 3,326  |
| Market Value (¥million)             | Apr.21, 11   | 5,535      | Interest-Bearing Debt (¥million)                              | Dec. 10 | 2,670  |
| BPS (¥)                             | Dec. 10      | 230.9      | Equity Ratio (%)  | Dec. 10 | 31.1   |
| ROE (%) ※1                          | Dec. 10      | 22.9       | Ratio of Interest-Bearing Debt (%) ※5                         | Dec. 10 | 80.3   |
| ROA (%) ※2                          | Dec. 10      | 7.1        | Free Cash Flows (¥million) ※6                                 | Dec. 10 | 1,201  |
| PER (times)                         | FY12/11 fcst | 4.5        | ※1 ROE=Current Net Income÷Shareholders' Equity                |         |        |
| PCFR (times) ※3                     | Dec. 10      | 5.4        | ※2 ROA=Current Net Income÷Total Assets                        |         |        |
| PBR (times)                         | Dec. 10      | 1.5        | ※3 PCFR=Market Value÷(Current Net Income+Depreciation)        |         |        |
| Share Price (¥)                     | Apr.21, 11   | 356        | ※4 Ave. Daily Volume=Ave. Daily Volume for the last 12 months |         |        |
| Unit Share (shares)                 | Dec. 10      | 1          | ※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity          |         |        |
| Average Daily Volume (shares) ※4    | Apr.21, 11   | 61,015     | ※6 Free Cash Flows=Operating CF+Investment CF                 |         |        |

| Consolidated (¥million) | Net Sales | Operating Income | Ordinary Income | Net Income | EPS (¥)   | Dividend per Share (¥) |
|-------------------------|-----------|------------------|-----------------|------------|-----------|------------------------|
| FY12/07                 | 24,321    | 1,013            | 1,004           | 583        | 4,917.28  | 492.00                 |
| FY12/08                 | 24,148    | 1,113            | 1,134           | 641        | 5,412.29  | 644.00                 |
| FY12/09                 | 17,964    | -150             | 22              | -215       | -1,511.00 | 644.00                 |
| FY12/10                 | 28,386    | 1,173            | 1,401           | 760        | 52.46     | 7.21                   |
| FY12/11 1H fcst.        | 16,850    | 600              | 650             | 350        | 24.29     | --                     |
| FY12/11 full year fcst. | 40,000    | 1,800            | 1,900           | 1,140      | 79.12     | 8.00                   |

Note: FY12/11 forecasts announced on Feb. 15, 2011

● Stock Price Charts and RSI



Source: Prepared by Trias Corp. with Bloomberg data.

Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices. In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.

$$RSI = \frac{\text{averaged share price appreciation for N days}}{\text{averaged share price appreciation for N days} + \text{averaged share price decline for N days}} \times 100$$

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