Trias Company Memo
09-12-2010

(Securities Code: 2427/ JASDAQ) OUTSOURCING Inc.
Summary of Follow-Up Interview of Q3 FY12/10 Business Results

Trias Corporation interviewed Yohta Maruoka, Chief Executive Officer of OUTSOURCING, Inc. (hereinafter OSI or the Company), to follow up on its Q3 FY12/10 Business Results Meeting held on October 28, 2010. The following is a summary of the interview.

[Summary of Q3 FY12/10 Consolidated Business Results]

As seen in Table 1, consolidated net sales for Q3 FY12/10 grew by ¥3,013 million on a year-on-year basis, while operating income increased ¥327 million y/y. Compared to OSI's February 10, 2010 forecast, net sales increased by ¥725 million and operating income declined by ¥117 million. As with Q2, while net sales exceeded the Company's forecast, it fell short of its operating income target. The ratio of SG&A expenses rose this quarter versus Q3 FY12/09, 16.9% versus 17.4%, due to higher recruiting costs for OSI's worksite workforce, which had to be expanded as more orders than expected were placed to the Production Outsourcing (PO) Business, a core Company segment, from clients in the transport equipment and electronics industries.

【Table 1】Q3 FY12/10 (Jul.-Sept.) Consolidated Business Results Summary

(¥million)	FY12/09		FY12/10		
	Q3 Actual	Component Ratio	3Q Actual	Component Ratio	Y-o-Y Change
Net Sales	4,397	100.0%	7,410	100.0%	68.5%
Gross Profit	877	19.9%	1,615	21.8%	84.2%
SG&A	826	18.8%	1,237	16.7%	49.8%
Operating Income	51	1.2%	378	5.1%	641.2%
Ordinary Income	90	2.0%	444	6.0%	393.3%
Net Income	43	1.0%	214	2.9%	397.7%

【Table 2】Q1-Q3 FY12/10 (Jan.-Sept.) Consolidated Business Results Summary

(¥million)	FY12/09		FY12/10			FY12/10		
	Q1-Q3 Actual	Component Ratio	Q1-Q3 Actual	Component Ratio	Y-o-Y Change	Forecast	Y-o-Y change Amount	Y-o-Y change Ratio
Net Sales	12,131	100.0%	20,249	100.0%	66.9%	28,500	10,536	58.7%
Gross Profit	2,053	16.9%	4,160	20.5%	102.6%	-	-	-
SG&A	2,376	19.6%	3,525	17.4%	48.4%	-	-	-
Operating Income	△ 323	-2.7%	635	3.1%	n.a.	1,600	1,750	-
Ordinary Income	△ 215	-1.8%	823	4.1%	n.a.	1,800	1,778	-
Net Income	△ 358	-3.0%	376	1.9%	n.a.	1,050	1,265	-

*Note: Prepared by Trias Corp. with data disclosed by OUTSOURCING Inc.

As seen in Table 3, OSI's primary businesses have rebounded from the previous Q3, with its Administrative Operations Outsourcing (AOO) Business posting the largest y/y gain. When compared with the Feb. 10 forecast, the PO Business grew ¥807 million in net sales and ¥59 million in operating income, but the AOO Business fell short of its targets by ¥71 million and ¥167 million, respectively, failing to meet its targeted figures for the second successive quarter.

【Table 3】Q3 FY12/10 (Jul.-Sept.) Consolidated Business Results Summary by Segment

(¥million)	FY12/09		FY12/10		Y-o-Y Change	
	Q3 Actual	Component Ratio	Q3 Actual	Component Ratio	Amount	Ratio
Net Sales	**4,397**	**100.0%**	**7,410**	**100.0%**	**3,013**	**68.5%**
PO	4,174	94.9%	6,984	94.3%	2,810	67.3%
AOO	54	1.2%	276	3.7%	222	411.1%
Nursing	104	2.4%	125	1.7%	21	20.2%
Others	64	1.5%	23	0.3%	△ 41	-64.1%
Operating Income	**51**	**1.2%**	**378**	**5.1%**	**327**	**641.2%**
PO	11	0.3%	293	4.0%	282	2563.6%
AOO	16	0.4%	94	1.3%	78	487.5%
Nursing	19	0.4%	27	0.4%	8	42.1%
Others	8	0.2%	△ 9	-0.1%	△ 17	-
Eliminations	△ 4	-0.1%	△ 28	-0.4%	△ 24	-

【Table 4】Q1-Q3 FY12/10 (Jan.-Sept.) Consolidated Business Results Summary by Segment

(¥million)	FY12/09		FY12/10		Y-o-Y Change	
	Q1-Q3 Actual	Component Ratio	Q1-Q3 Actual	Component Ratio	Amount	Ratio
Net Sales	**12,131**	**100.0%**	**20,249**	**100.0%**	**8,118**	**66.9%**
PO	11,638	95.9%	19,249	95.1%	7,611	65.4%
AOO	98	0.8%	518	2.6%	420	428.6%
Nursing	240	2.0%	352	1.7%	112	46.7%
Others	154	1.3%	128	0.6%	△ 26	-16.9%
Operating Income	**△ 323**	**-2.7%**	**635**	**3.1%**	**958**	**-**
PO	△ 378	-3.1%	501	2.5%	879	-
AOO	31	0.3%	140	0.7%	109	351.6%
Nursing	48	0.4%	78	0.4%	30	62.5%
Others	15	0.1%	△ 3	0.0%	△ 18	-
Eliminations	△ 40	-0.3%	△ 80	-0.4%	△ 40	-

The reason for the improved performance in the PO Business was cited earlier, but further examination reveals that the recovery in the transport equipment industry fell short of projections. More specifically, demand for more contracted workers to be placed at volume production sites and progress at engine bench tests failed to materialize as much as the Company expected. While that was nearly offset by greater-than-projected demand for contract workers from electronic parts companies, OSI fell short of total recruitment projection by 126 workers, as seen in Table 5.

As for the AOO Business, while the recruitment agency service commissioned by motor vehicle chassis makers performed better than expected, it did not generate greater business for outsourced administrative contracting services. This trend became more pronounced in Q3, with the recruitment agency service continuing to excel to the degree that it more than made up for its sluggish start that occurred at the beginning of the fiscal year. However, the outsourced administrative contracting service business also continued to underperform. Although the trend was nearly identical with the PO Business, the number of electronic parts workers placed under the outsourced administrative contracting service surpassed projections. With the growth in recruitment agency contracts, monthly hiring costs are also slowly rising as a result from the beginning of the year. While some client-makers are offering lucrative commissions, the recruitment process poses numerous difficulties and its expenses tend to be high. The upshot: the PO Business has seen a marked increase in its unit recruitment cost.

The number of PO Business worksite employees placed at the end of Q4 was revised upward by 300 from its July 14, 2010 forecast. This includes the 300 engineers from NISSO SERVICE, Inc., which joined the OUTSOURCING Group on October 1. As for the AOO Business, the Company has revised upward to 800 the number of workers hired under its recruitment agency contracting service to accommodate current trends, while revising the number of workers to be placed under the outsourced administrative contracting service downward by 500.

【Table 5】Quarterly Employees Numbers

(person)	Q1		Q2		Q3		**Q4**	
	Latest forecast	**Actual**	Latest forecast	**Actual**	Latest forecast	**Actual**	Forecast on Jul. 14	**Latest Forecast**
PO								
No. of worksite employees at quarter end	6,100	**6,223**	6,150	**6,192**	6,800	**6,674**	7,300	**7,600**
AOO								
Workers hired through recruitment agency	350	**90**	400	**459**	600	**1,079**	1,200	**2,000**
No. of administered workers at quarter end	1,800	**2,049**	2,200	**2,083**	2,830	**2,644**	4,000	**3,500**
(Reference) Recruiting cost at quarter end (yen)		**31,653**		**65,483**		**78,081**	**n.a.**	**n.a.**

There were numerous macroeconomic factors that could not accurately be predicted in Q4. While many client-makers are planning to ramp up production as they move into 2011, production plans for some firms, particularly in the transport equipment industry, remain unclear and uncertain. In addition, even if manufacturers stick to plans, there is a distinct possibility that the Company's PO unit's portfolio weightings of contracted workers and those serviced under outsourced administrative contracting will change, as this is contingent upon the options client-makers adopt—whether they prefer general temp staff help or outsourced production contracting or choose to hire seasonal workers directly. OSI plans to reduce the macroeconomic risks, mainly with transport equipment makers, by focusing on electric and electronics makers, which are planning to boost production with the rollout of new applications, as well as securing a larger share of work at existing production sites. As for the business portfolio's divergence risks between planned and actual targets, the Company believes that if client-makers opt for the direct hiring of seasonal workers first, that will prove beneficial to OSI's income projection. However, if orders are placed for temporary placement or outsourced production contracting services first, then that would frontload costs, which will squeeze its income projection even if its sales projection is attained. In either case, however, sales will be sustained for some time and that will serve as a positive factor in the next fiscal year.

[Group Strategy Progressing Well]

The shakeout in the outsourcing provider industry has accelerated with the market for outsourcing services imploding in the wake of the Lehman Brothers collapse. As a result, the difference in terms of business size between the top unlisted players and second-largest firms, including OSI, has become negligible. At present, the leading providers have 7,000-8,000 workers under contract and generate some ¥30 billion in net sales, and are poised to capture even greater share of production worksite contracts from the weaker competition.

Given this operating environment, outsourcing providers are faced with the need to develop new business models and other solutions to differentiate themselves from the competition. For example, one provider, which has traditionally been strong in the transport equipment industry, has experienced an implosion of business size that exceeded the average market contraction due to the accelerated trend of client-makers hiring seasonal workers directly. To cope with its dire situation, this company has been strengthening its presence in placement and recruitment agency services. The move puts it in competition with OSI's AOO Business. However, the Company runs its recruitment agency services through ORJ, a Group company which operates a business infrastructure based on a business model patent, *Relo Compensation*, developed by Relocation Japan Ltd., a joint venture partner of OSI. The infrastructure enables the Company to offer a full lineup of integrated services that include programs to reduce the administrative operations burden of a client related to facility management for worker dormitories, thus differentiating OSI from competitors that are limited to merely providing labor management services.

Similarly, by creating and refining in-house organizations that specialize in specific industries—which enables the Company to provide one-stop outsourced production contracting services that cover the entire downstream-to-upstream manufacturing process—OSI is also differentiating its PO Business from similar services offered by the competition. For the past two years, the Company has acquired and absorbed a number of subsidiaries, mainly those engaged in engineering services. For this fiscal year, it has focused on restructuring Group subsidiaries, particularly its Transport Equipment and Electric & Electronics groups, to further strengthen the Group's organizations.

On July 1, three subsidiaries with strong business ties to the Toyota and Nissan groups were merged into one subsidiary, OUTSOURCED CENTRAL Inc. Moreover, on September 14, OSI purchased NISSO SERVICE, Inc., which excels in upstream processes such as testing and evaluation and has strong ties to DAIHATSU MOTOR, and absorbed it into the OSI Group. Through such mergers, the Company has successfully expanded its client base to every Japanese automaker. It aims at securing more orders for integrated outsourced contracting service contracts by introducing engineering development projects through NISSO SERVICE and managing additional volume production sites under OUTSOURCING CENTRAL.

In the Electric & Electronics Group, the Company established OS SEMITEC, a new subsidiary launched on October 1 that targets the semiconductor and semiconductor production equipment (SPE) industries. A key member of OS SEMITEC is a veteran expert in the production engineering fields of the two industries. The subsidiary will enable clients to achieve a fundamental improvement in production efficiency through an extensive knowledge base that includes production facility maintenance and management, differentiating itself from competitors as well. Once differentiation has been firmly established, OS SEMITEC will be merged with the Company's Electric & Electronics Group to enhance management efficiency.

Engineers are pivotal in establishing the integrated upstream-to-downstream outsourced contracting service framework. OSI currently has an engineering workforce of 1,500 with the addition of 300 engineers from NISSO SERVICE. In the coming months, the Company will maximize use of its infrastructural asset and aims to increase the workforce to 10,000 worksite employees by the 2nd half of FY12/11 by increasing market share even if production trends on a macro level remain flat. The workforce goal is an extrapolation from the 7,600 worksite employees that OSI expects to reach by the end of the current fiscal year. The Company thus predicts that 1,500 workers will be added from the Transport Equipment and Electric & Electronics groups as a result of increased market share, while another 1,000 workers are expected to be converted to outsourced production service contracts out of the 3,500 seasonal workers who are now consigned under ORJ's outsourced administrative operations service contracts.

【Reference】OUTSOURCING Inc. (Securities Code: 2427)

Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)		
No. of Shares Issued	Sept. 2010	15,544,300
No. of Treasury Stock	Sept. 2010	1,139,500
Market Value (¥million)	Dec. 8, 2010	4,943
BPS (¥)	Sept. 2010	206
ROE (%) ※1	Dec. 2009	-8.0
ROA (%) ※2	Dec. 2009	-2.8
PER (times)	FY12/10 fcst.	4.4
PCFR(times) ※3	Dec. 2009	-1,235.8
PBR (times)	Sept. 2010	1.5
Share Price (¥)	Dec. 8, 2010	318
Unit Share (shares)	Sept. 2010	100
Average Daily Volume (shares) ※4	Dec. 8, 2010	44,283

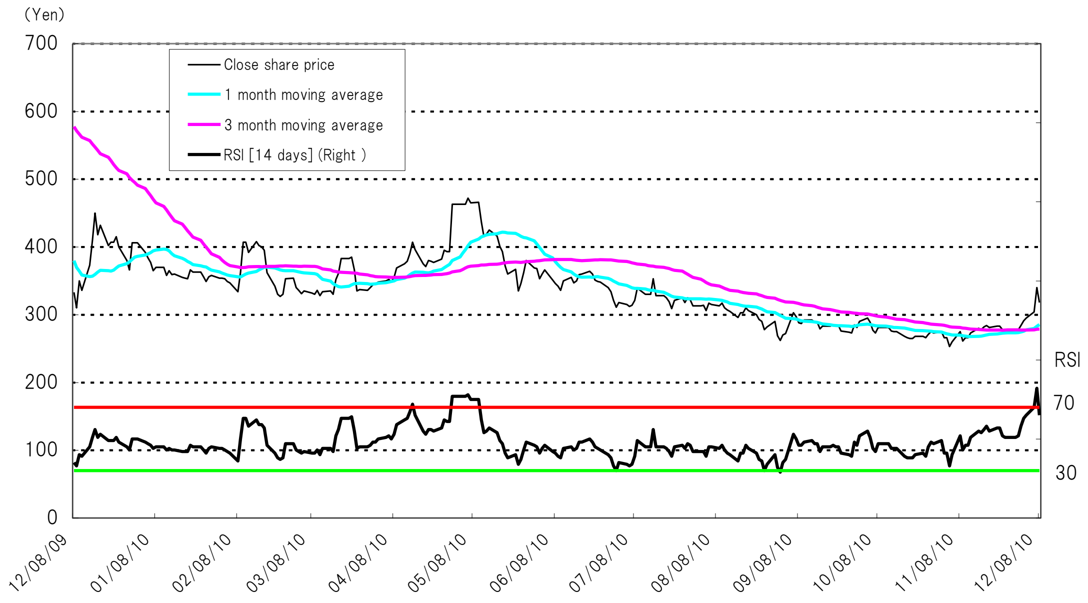
Key Financial Data (Consolidated)		
Total Assets (¥million)	Sept. 2010	11,784
Shareholders' Equity (¥million)	Sept. 2010	2,972
Interest-Bearing Debt (¥million)	Sept. 2010	3,687
Equity Ratio (%)	Sept. 2010	25.2
Ratio of Interest-Bearing Debt (%) ※5	Sept. 2010	124.1
Free Cash Flows (¥million) ※6	Sept. 2010	1,066

※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end
※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end
※3 PCFR=Maket Value÷(Current Net Income+Depreciation)
※4 Average Daily Volume=Average Daily Volume for the last 12 months
※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity
※6 Free Cash Flows=Operating CF+Investment CF

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY12/06	21,197	119	118	97	783.25	300.00
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 3Q	20,249	635	823	376	2,593.08	--
FY12/10 fcst.	28,500	1,600	1,800	1,050	72.05	7.21

Note1: FY12/10 forecasts announced on October 28, 2010
Note2: Stock split (1→ 100) made on Nov. 15, 2010: FY12/10 fcst. EPS adjusted by this split

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=averaged share price appreciation for N days÷(averaged share price appreciation for N days +averaged share price decline for N days) x100