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JASDAQ

OUTSOURCING Inc.

Summary of Q2 FY12/11 Business Results

With OUTSOURCING Inc. (hereinafter OSI or the Company) recently holding its Q2 FY12/10 Business Results Meeting, Trias Corporation interviewed CEO Haruhiko Doi. The following is a summary of the meeting and follow-up interview.

1H FY12/11 Consolidated Business Results Summary

As seen in Table 1, consolidated net sales for 1H FY12/11 saw lower earnings on higher revenues year-on-year. Although net sales came in somewhat below that projected by the Company's downward revision for 1H on April 27, 2011 as a result of the March 11 calamity, its operating, ordinary and net incomes exceeded expectations. This was due primarily to client manufacturers rapidly ramping up production in June following a production slowdown in the immediate aftermath of March 11. The transport equipment industry in particular staged a remarkable recovery, and because the industry serves as a major contributor to OSI revenues, net income managed to rebound from a deficit to a surplus in 1H.

In addition, OSI has postponed issuing a full-year outlook because the economic future remains uncertain as a result of the ongoing shortage in electric power, as well as the rapidly appreciating yen and other factors. This was done despite the fact that order inflows from the reconstruction effort have been increasing with the onset of autumn.

●【Table 1】FY12/11 Consolidated Business Results Summary

(¥ million)	FY12/10 (Actual) 1H	FY12/10 (Actual) % to Net Sales	FY12/11 (Actual) 1H	FY12/11 (Actual) % to Net Sales	FY12/11 (Actual) YoY Change	Fcst As of Apr. 27
Net Sales	**12,839**	**100.0%**	**14,874**	**100.0%**	**15.9%**	**14,960**
Gross Profit	2,545	19.8%	3,029	20.4%	19.0%	n.a.
SG&A Expenses	2,288	17.8%	2,821	19.0%	23.3%	n.a.
Operating Income	**256**	**2.0%**	**208**	**1.4%**	**-18.8%**	**110**
Ordinary Income	**379**	**3.0%**	**280**	**1.9%**	**-26.1%**	**180**
Net Income	**162**	**1.3%**	**10**	**0.1%**	**-93.8%**	**-45**

1H FY12/11 Results Summary by Business Segment

Production Outsourcing Business

Although production recovered among some transport equipment makers from the second half of June, companies opted to rely on temporary workers or hire workers directly rather than to turn to outsourced contracting as they ramped up production on a vertical basis. Nevertheless, because client-makers are increasingly emphasizing compliance as part of their service contract protocol when hiring outsourcing providers, the Company expects demand for OSI services will rise as a result of its outstanding compliance track record.

Meanwhile, demand for production outsourcing services is growing among construction materials manufacturers due to the post-March 11 reconstruction effort. OSI originally expected demand to increase from around October 2011, but that has been pushed back to next spring due to delays in clearing rubble in the stricken areas. The timetable works for the Company because the automotive industry, which is another major generator of OSI revenues, may be seeing business falter from April 2012. Incidentally, OSI has learned that automakers will keep production levels as planned despite the current yen strength for the rest of the fiscal year ending March 2012, therefore ensuing that demand from the companies will also remain constant for that time. In contrast, food industry makers are enjoying the benefits of a strong yen through the raw materials they import, meaning production outsourcing needs from this industry is emerging in Japan. Because the Company had previously focused its production outsourcing services on the food industry, it will likely secure a sizeable portion of the demand that will be generated.

As to foreign operations, OSI is now moving its strategy forward at a faster pace to handle the overseas transfer of production by client-makers. To date, the Company's Chinese subsidiary based in Shanghai has opened a branch office in Beijing. OSI has also established subsidiaries in Indonesia and Thailand, while acquiring two local HR companies.

Administrative Operations Outsourcing Business

Demand for the Company's recruitment agency services escalated rapidly as manufacturers stepped up their hiring of seasonal workers for reconstruction work. As these services generate processing fees, this business is more profitable than OSI's Production Outsourcing Business, contributing to profit growth in Q2.

As OSI announced on July 20, it will not revise its full-year forecast in Q2. There will also be no change to the business indices of each business segment. While the impact of client-makers recovering production levels earlier than expected will prove favorable, the Company has not made any revisions due to the fluidity of the situation at this time.

●【Table 2】Consolidated Sales by Client Industry

(¥ million)	FY12/10 Actual Q2(Apr-Jun)	FY12/11Actual Q2(Apr-Jun)	Y/Y Chg Amount	Y/Y Chg Ratio
Production Outsourcing Business	**6,245**	**7,133**	**888**	**14.2%**
Electrical and Electronics	2,074	2,257	183	8.8%
Foods	478	490	12	2.5%
Transport Equipment	1,488	2,105	617	41.5%
Chemicals and Medicals	975	1,145	170	17.4%
Metals	59	102	43	72.9%
Other	1,167	1,032	-135	-11.6%
Administrative Operations Outsourcing Business	**161**	**206**	**45**	**28.0%**
Other Business (Incl. Nursing-Care)	**150**	**33**	**-117**	**-78.0%**
Total	**6,557**	**7,372**	**815**	**12.4%**

Summary of Mid-Term Management Plan (FY12/11 – FY12/14)

In addition to announcing its first-half results, OSI introduced its Mid-Term Management Plan, “Vision 2014: Vector to the TOP.” Its gist holds that the Company is committed to becoming an influential agent to upgrade the service provider industry and improve public recognition of its benefits. To achieve this, OSI must become the industry leader in terms of satisfying both clients and contract workers. By fiscal 2013, the final year of the Mid-Term Management Plan, the Company aims to generate net sales of ¥117 billion and, under its mid-term strategic priority, achieve the following four objectives:

1) Expand market share by winning special reconstruction contracts
2) Expand its presence in the tertiary industry, including winning contracts in the R&D field
3) Establish an East Asian HR network based in the ASEAN region
4) Raise the standard of living for contract workers

Expanding market share by winning special reconstruction contracts

Makers in need of vertically ramping up their post-March 11 production are seeking service providers with labor management expertise that ensures regulatory compliance and the capacity to recruit and hire a large volume of workers in a short period of time in order to develop a viable production regime. This is a Company strongpoint. At the same time, OSI is building a worker network based on its subsidiary, ORJ, which provides recruitment agency services to hire seasonal workers and the services to administer their labor needs.

Under this scheme, workers whose contracts have expired at one factory or company can be transferred to other production sites in need for their services, thus improving worker utility and mobility. At present, 23 companies, led by the automotive industry, have agreed to participate in the network. OSI is working to increase that number to 100 firms by fiscal 2014. Through this scheme, the Company is planning to create a regime which can process 2,000 recruits per month by September 2011.

Expanding presence in tertiary industry, including winning R&D contracts

Given the intensifying global competition and transfer of production operations overseas, Japanese makers are concentrating their permanent employees on the research of new technologies and development of new products. As a result, makers need to farm out entire sections of their product cycle—from peripheral R&D to volume production—to service providers under a one-stop service contract. To meet such demand, OSI has been working to increase its presence in such tertiary industry domains as environmental- and energy-related businesses, including R&D activities.

Establishing an East Asian HR network in ASEAN

Under its initiative to become the industry leader by fiscal 2014, the Company, after fully tapping the special reconstruction demand in Japan, plans to place even greater emphasis on a strategy of overseas expansion. OSI is particularly intent on following domestic client-makers who are moving into the ASEAN region, and is working to establish branches in Malaysia and Vietnam this year.

As for numerical targets, OSI hopes to generate net sales of ¥6.4 billion, an operating income of ¥1.0 billion, and create a contract worker corps of 16,000 by fiscal 2014, versus net sales of ¥100 million, zero operating income and 700 contract workers in fiscal 2011. In order to reach these targets, OSI is working on the basis of strategy that will set up branches servicing core industrial areas in the ASEAN region in order to control the costs of transferring contract workers from neighboring countries and raise profitability. In order to carry out this scheme, the Company has begun to aggressively shift its business resources that had previously been focused on domestic operations to foreign operations from this year. Because the outsourced HR market catering to transplanted Japanese makers is virtually devoid of competition at this time, OSI believes it can eventually recruit 100,000 contract workers by beating out competitors to the market.

Raising the standard of living for contract workers

As a recruitment strategy, the company aims to increase in retention rate by paying higher hourly wage to workers with same contractual conditions as that offered by competitors. This is based on a survey which found that high wages is the single most important criterion for contract workers when choosing a service provider. Another goal is to stabilize the worker pool by working together with other providers through a recruitment network known as Anet, in which 80 firms are currently participating. The Company aims to increase this figure to 250 within the fiscal year and create a regime in which 4,000 workers are hired every month in fiscal 2014.

Numerical Targets of Vision 2014

By working to achieve the four core objectives clarified in the Mid-Term Management Plan, OSI believes it can increase net sales by 3.4 times over that forecasted for fiscal 2011. The domestic market for outsourcing services has contracted from the ¥3 trillion reached in 2009 to just some ¥1 trillion after being hit by the debacle over the wholesale firings of temporary workers and the global financial crisis. While the market is expected to recover to ¥1.5 trillion soon, nine out of ten service providers will have failed to survive since its peak. The Company aims to transform this predicament into opportunity, driving it to secure greater market share in Japan and expanding operations abroad.

As for the M&A strategy OSI intends to employ from now, it is now eyeing other service providers that boast high levels of technological expertise in upstream processes, as well as entertainment-related enterprises—an area the Company has yet to move into—and environmental/ energy firms in Japan as acquisition targets in order to spur future growth.

Among the risks involved in pushing forward Vision 2014 is the deteriorating global economy, especially as the economies in the U.S. and Europe slow down and incite further uncertainty in financial markets worldwide.

●【Table 3】Numerical Targets for Fiscal 2011-2014

Consolidated (¥ million)	FY12/11 Forecast	FY12/12 Projection	FY12/13 Projection	FY12/14 Projection
Net Sales	34,580	52,000	78,000	117,000
Operating Income	1,130	2,500	5,100	8,300
Ordinary Income	1,250	2,450	5,000	8,100
Net Income	655	1,450	2,670	4,300

Q&A Session

Q1: Given the fact that the domestic market has contracted, how can OSI expect to achieve growth in the years to come?

A1: While we do not expect to see the market return to its former size of ¥3 trillion, even if it reaches ¥1.5 trillion, that's still 50% larger than it is today. In addition, thanks to the shakeout in the provider industry, we actually see the situation as an opportunity for growth from the scarcity of competitors. Indeed, the shakeout alone will probably prove more beneficial to OSI than its strategy to follow and service Japanese makers setting up factories abroad. There were once 10,000 service providers; that has now been slashed to less than 1,000. If our analysis is correct, we have the potential of generating three times more in net sales.

Q2: You said you intend to offer the highest wages in the industry at a time when the general trend is to slash remuneration. Won't your policy hurt profitability?

A2: Gross margin will decline in general, but the retention rate will increase. And by upgrading our operations, we will be able to improve our recruitment effort, which will lower our SG&A expenses and lead to higher profitability. We believe that by offering higher wages, we will be able to secure a better, more stable workforce, and thus enable us to command greater market share.

Reference

Key Stock Indicators / Financial Data and Business Results (Consolidated)

No. of Shares Issued	Jun 2011	15,566,200
No. of Treasury Stock	Jun 2011	1,139,500
Market Value (¥million)	Aug 30, 11	5,510
BPS (¥)	Jun 2011	225.6
ROE (%)	Jun 2011	0.3
ROA (%)	Jun 2011	0.1
PER (times)	FY12/11 fcst	7.8
PCFR (times)	Jun 2011	43.7
PBR (times)	Jun 2011	1.6
Share Price (¥)	Aug 30, 11	354
Unit Share (shares)	Jun 2011	1
Average Daily Volume (shares)	Aug 30, 11	62,024

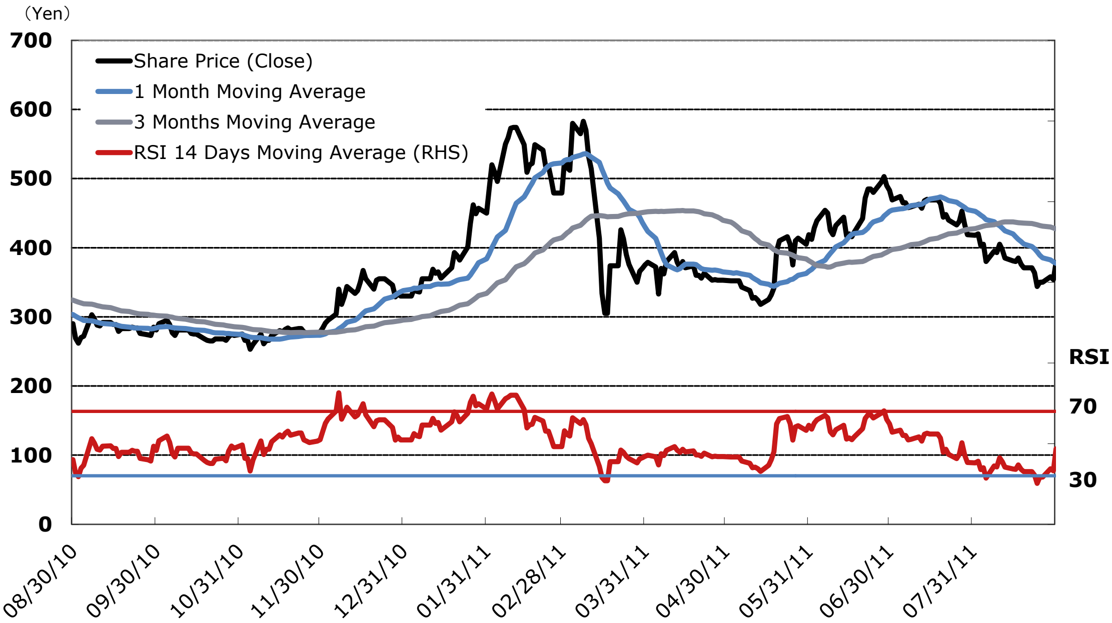
Total Assets (¥million)	Jun 2011	10,707
Shareholders' Equity (¥million)	Jun 2011	3,253
Interest-Bearing Debt (¥million)	Jun 2011	2,414
Equity Ratio (%)	Jun 2011	31.1
Ratio of Interest-Bearing Debt (%)	Jun 2011	74.2
Free Cash Flows (¥million)	Jun 2011	336

ROE=Current Net Income÷Shareholders' Equity
ROA=Current Net Income÷Total Assets
PCFR=Maket Value÷(Current Net Income+Depreciation)
Ave. Daily Vol.=Ave. Daily Vol. for the last 12 months
Interest-Bearing Debts Ratio=I.B.D.÷Shareholders' Equity
Free Cash Flows=Operating CF+Investment CF

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
FY12/07	24,321	1,013	1,004	583	4,917.29	492.00
FY12/08	24,148	1,113	1,134	641	5,412.28	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
1H FY12/11	14,874	208	280	10	0.73	--
FY12/11 fcst	34,580	1,130	1,250	655	45.40	8.00

Note: FY12/11 forecast announced on April 27, 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=averaged share price appreciation for N days÷(averaged share price appreciation for N days +averaged share price decline for N days) x100