OUTSOURCING Inc.

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TSE 1

FY12/15 Financial Results and Follow-up Interview

OUTSOURCING Inc. (hereafter the “Company” or the “OS Group”) announced its FY12/15 financial results and held an analyst meeting. Trias Corporation conducted an interview with Chairman and CEO Haruhiko Doi. The following is a summary of the meeting and interview.

FY12/15 Consolidated Financial Results

FY12/15 consolidated financial results posted large YoY gains in both net sales and incomes. Engineer dispatching business in Japan was stronger than expected, and Overseas Business turned toward recovery in 2H after the weak performance in 1H. As can be seen in Table 1, net sales were ¥80,860 million (up 36.1% YoY), gross profit was ¥16,533 million (up 38.2% YoY), operating income was ¥3,125 million (up 55.5% YoY), ordinary income was ¥3,224 million (up 46.8% YoY) and net income was ¥1,810 million (up 37.5% YoY).

● [Table 1] Summary of FY12/15 Consolidated Financial Results

	FY12/14 Actual		FY12/15 Actual		YoY Changes	
(¥ million)	Amount	Composition Ratio	Amount	Composition Ratio	Amount	Ratio
Net sales	59,421	100.0%	80,860	100.0%	21,439	36.1%
Cost of sales	47,457	79.9%	64,327	79.6%	16,869	35.5%
Gross profit	11,963	20.1%	16,533	20.4%	4,570	38.2%
SG&A expenses	9,953	16.8%	13,408	16.6%	3,455	34.7%
Operating income	2,010	3.4%	3,125	3.9%	1,114	55.5%
Ordinary income	2,197	3.7%	3,224	4.0%	1,027	46.8%
Net income	1,316	2.2%	1,810	2.2%	493	37.5%

Source: Compiled by Trias Corporation from company financial results briefing materials.

Compared to the Company’s initial forecasts announced on February 12, 2015—net sales ¥74.0 billion, operating income ¥3.1 billion and ordinary income ¥3.0 billion—actual net sales, operating and ordinary incomes were stronger by ¥6.8 billion, ¥25 million and ¥200 million respectively. In domestic production outsourcing businesses, both Engineering and Manufacturing Outsourcing Businesses far exceeded in net sales and incomes. However, overall incomes were not so robust because (1) the forecasts had not counted M&A-related expenses and resulting amortization of goodwill materialized in the fiscal year; (2) toward the fiscal year-end, the Company spent extra costs likely to foster its future growths as actual incomes were much stronger; (3) 1H Overseas Business was weaker. Consolidation of 3 new subsidiary groups added about ¥3.7 billion to the net sales level and roughly ¥190 million to operating income (before amortizing goodwill).

Consolidated gross profit margin of 20.4% rose from 20.1% in FY12/14. Strong growth in Engineering Outsourcing Business contributed positively, with Manufacturing Outsourcing and Overseas Businesses also enjoying better margins.

SG&A expenses increased sharply by 34.7% YoY. This was due mainly to increased variable expenses in accordance with net sales growth, but fixed-nature expenses also increased, with personnel expenses rising by some ¥400 million due to pay hikes, etc., amortization of goodwill by slightly over ¥400 million and other miscellaneous M&A-related expenses by meaningful amount. Recruiting expenses, on the other hand, increased only about 20% as the Company implemented effective recruiting schemes.

Operating income rose sharply by 55.5% YoY, with the operating income margin also rising from 3.4% in FY12/14 to 3.9%. A major factor was the increase in the ratio to net sales of profitable Engineering Outsourcing Business, and operating income margins rising at Manufacturing Outsourcing Business (*1) and Overseas Business also contributed to the better profitability.

(*1) While there is a meaningful difference in “nominal” income margin between Manufacturing Outsourcing Business and Engineering Outsourcing Business, the Company views profit structures of the two are mostly the same. The nominal difference is caused because large parts of both overall administrative costs and increasing investment-related expenses for growth are charged to Manufacturing Outsourcing Business for the sake of managerial accounting, the Company explains.

As for the financial status at the end of FY12/15, as Table 2 on page 3 indicates, total assets increased by ¥12,909 million, or up 53.5% YoY, to ¥37,042 million. The increase from the major three M&As was ¥3.8 billion.

On the assets side, in addition to notes and accounts receivable – trade increasing by ¥4,721 million compared to the last fiscal year-end due to business expansion and new consolidation, non-current assets rose by ¥5,316 million as a result of increased goodwill from these M&As and so forth.

On the liabilities and net assets side, accounts payable – other and short-term loans payable increased temporarily due to stronger business and M&As, with shareholders’ equity also increasing by ¥5,354 million compared to the last fiscal year-end due to exercise of subscription rights to shares.

● [Table 2] FY12/15-End Consolidated Balance Sheet Summary

(¥ million)	FY12/14-End Actual	FY12/14-End Composition Ratio	FY12/15-End Actual	FY12/15-End Composition Ratio	YoY Changes Amount	Major Factors
Current assets	**17,065**	**70.7%**	**24,657**	**66.6%**	**7,592**	
Cash and deposits	6,671	27.6%	9,215	24.9%	2,543	Increased due to acquisitions of subsidiaries' shares and business expansion
Notes and accounts receivable - trade	8,257	34.2%	12,979	35.0%	4,721	
Non-current assets	**7,067**	**29.3%**	**12,384**	**33.4%**	**5,316**	
Goodwill	1,791	7.4%	6,697	18.1%	4,905	← Larger goodwill on acquiring subsidiaries' shares
Total assets	**24,132**	**100.0%**	**37,042**	**100.0%**	**12,909**	
Current liabilities	**12,967**	**53.7%**	**20,155**	**54.4%**	**7,188**	
Total short-term loans payable	4,666	19.3%	8,703	23.5%	4,037	← Temporary loans to acquire subsidiaries' shares
Accounts payable - other	3,800	15.7%	5,745	15.5%	1,945	← Increased due to business expansion
Non-current liabilities	**3,596**	**14.9%**	**4,515**	**12.2%**	**918**	
Long-term loans payable	1,763	7.3%	2,018	5.4%	255	
Shareholders' equity	6,219	25.8%	11,574	31.2%	5,354	← Increased from the exercise of subscription rights to shares
Total net assets	**7,569**	**31.4%**	**12,372**	**33.4%**	**4,802**	
Total liabilities and net assets	**24,132**	**100.0%**	**37,042**	**100.0%**	**12,909**	

Source: Compiled by Trias Corporation from company financial results briefing materials.

FY12/15 Summary by Operating Segment

The trend of results by operating segment is shown in Table 3 on page 4. Net sales for Engineering Outsourcing Business increased sharply by 43.2% YoY, topping Manufacturing Outsourcing Business for the first time in the Company's history, driving overall performance. In Overseas Business, though 1H results were weaker than the Company had expected, 2H saw sharp recovery, resulting in full-year net sales ahead of the initial forecast. In domestic outsourcing operations, staffing demand was brisk thanks to increased production by exporters who benefit from the weaker yen, return to domestic production of autos and electronic components, and increased demand for dispatched employees from some companies anticipating the passage of the Revised Worker Dispatching Act was seen.

[Table 3] FY12/15 Financial Summary by Operating Segment

	FY12/14 Actual	FY12/15 Actual	YoY Changes	
(¥million)	Amount	Amount	Amount	Ratio
Net sales	**59,421**	**80,860**	**21,439**	**36.1%**
Engineering Outsourcing Business	22,036	31,552	9,515	43.2%
Manufacturing Outsourcing Business	25,478	30,591	5,113	20.1%
Administrative Outsourcing Business	601	497	(104)	-17.4%
Recruiting and Placing Business	779	871	92	11.8%
Overseas Business	10,346	17,181	6,835	66.1%
Other Business	178	165	(12)	-7.1%
Operating income before adjustments	**2,547**	**4,045**	**1,497**	**58.8%**
Engineering Outsourcing Business	1,423	2,398	975	68.5%
Manufacturing Outsourcing Business	584	921	336	57.6%
Administrative Outsourcing Business	92	62	(29)	-32.1%
Recruiting and Placing Business	354	413	58	16.6%
Overseas Business	87	235	148	169.8%
Other Business	6	14	8	132.3%
Operating income margin before adjustments	**4.3%**	**5.0%**	**-**	**+0.7pp**
Engineering Outsourcing Business	6.5%	7.6%	-	+1.1pp
Manufacturing Outsourcing Business	2.3%	3.0%	-	+0.7pp
Administrative Outsourcing Business	15.3%	12.6%	-	-2.7pp
Recruiting and Placing Business	45.5%	47.4%	-	+1.9pp
Overseas Business	0.8%	1.4%	-	+0.5pp
Other Business	3.4%	8.5%	-	+5.1pp
Adjustments	(537)	(920)	(382)	-
Operating income	**2,010**	**3,125**	**1,114**	**55.5%**
Operating income margin	**3.4%**	**3.9%**	**-**	+0.5pp
No. of worksite employees at year-end	No. of Employees	No. of Employees	No. of Employees	Ratio
Engineering Outsourcing Business	3,271	4,742	1,471	45.0%
[Utilization Rate for Engineering Outsourcing Business]	97.3%	98.4%	-	+1.1pp
Manufacturing Outsourcing Business	6,732	9,134	2,402	35.7%
Overseas Business	10,425	15,539	5,114	49.1%

Source: Compiled by Trias Corporation from company financial results briefing materials.

Engineering Outsourcing Business increased sharply by 43.2% YoY and operating income before adjustments even more robustly by 68.5% YoY. Operating income margin before adjustments widened from 6.5% in FY12/14 to 7.6%. Economies of scale more than absorbed increases in salaries at administrative divisions and various expenses incurred from the aforementioned M&A transactions.

By client industry, IT-related, the largest component in net sales, rose by 19.8% YoY, followed by Transport Equipment increasing by 22.0% YoY, both showing rapid growths, and Electrical & Electronics soared by 75.4% YoY. Construction & Plant-related, also the Company's focus along with the IT-related, grew by roughly 7.5 times YoY to over ¥4.3 billion in net sales as it enjoyed large contributions from the M&As realized during the end of FY12/14 and the beginning of FY12/15. The utilization rate for worksite employees at Engineering Outsourcing Business rose by 1.1 points (pp) from FY12/14 to 98.4%, or almost full capacity.

The number of worksite employees at year-end for Engineering Outsourcing Business rose by 45.0% from 3,271 in FY12/14 to 4,742. In addition to increased recruitments through external recruitment media, success in the Company's Career Change Scheme, or a new measure recruiting those who converted jobs from Manufacturing Outsourcing to Engineering Outsourcing, fully contributed in FY12/15, with 370 employees converting jobs under the Scheme.

This type of recruiting through the Scheme is helping not only to add revenues for the Company, but also to restrain recruiting expenses. When using external recruitment media, average recruiting expenses per engineer is over ¥600,000, which is roughly ¥160,000 only for manufacturing personnel, the Company explains. In fact, the year-on-year increase in overall recruiting expenses was about ¥200 million, compared to ¥350 million in FY12/14, shrinking despite recruited employees increasing much more than in FY12/14. The narrowed increase was also contributed by the PEO Scheme employed in Manufacturing Outsourcing Business (*2).

(*2) For more details on the PEO Scheme, please refer to the section of *Summary of Medium-Term Management Plan "Vision2017: Vector to the New Paradigm"* in the Trias IRTV memo dated on March 24, 2015 (FY12/14 Financial Results and Follow-up Interview).

Net sales of **Manufacturing Outsourcing Business** rose by 20.1% YoY and operating income before adjustments by 57.6% YoY. Corresponding to strong demand, the number of worksite employees at year-end rose sharply from 6,732 in FY12/14 to 9,134, and thanks to the economies of scale, operating income margin before adjustments rose from 2.3% in FY12/14 to 3.0%. By client industry, the mainstay Electrical & Electronics and Transport Equipment let by mainly autos, both saw net sales growth by over 30% YoY, maintaining the brisk trend from FY12/14.

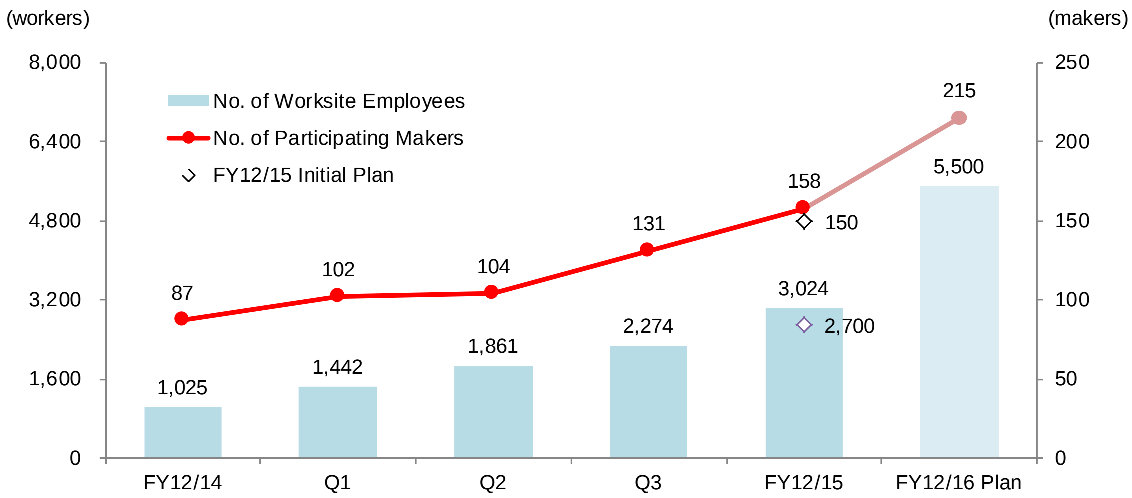
In the field of traditional dispatching business for manufacturing outsourcing, recruiting markets are very tight, and recruiting expenses through external recruitment media are soaring due to strong demand driven by short-term production lump-ups for mobile phones and autos to be newly launched. Against these excessively competitive markets, the Company is intentionally holding back on marketing activities to clients. However, a growing trend at client manufacturers toward reducing the number of such dispatching firms have caused the Company to have a cumulative total of about 40 clients of this kind. In the wake of this move, many dispatched workers also tend to voluntarily transfer their enrollment to the Company, which has been one of the contributing factors to the large increase in the number of worksite employees in the fiscal year, it explains.

At the same time, the PEO business, a recently incorporated scheme the Company is focusing on in order to hire manufacturing personnel instead of the traditional recruitment format, is progressing favorably. This is the PEO Scheme where PEO Co., Ltd. (hereafter "PEO") hires fixed-term contract worker, whose contract terms are due to be expired, directly from client makers as its regular employees (with indefinite-term employment contracts) and then dispatch them back to the member makers participating in the PEO Association. As can be seen in Graph 1, the number of worksite employees rose from 1,025 at the end of FY12/14 to 3,024 at the end of FY12/15, with the number of participating makers also increasing sharply from 87 to 158 over the same period.

These figures are beyond Company's initial forecasts of 2,700 worksite employees and 150 participating makers as the Revised Labor Contract Act 2013 as well as the Revised Worker Dispatching Act 2015 have been working as a tailwind(*3). The Scheme is also contributing to restraining soaring recruiting expenses since it doesn't involve use of external recruitment media.

(*3) For more details on relation between the Revised Labor Contract Act/the Revised Worker Dispatching Act and the PEO Scheme, please refer to the topic in the Trias IRTV memo dated on October 2, 2015 (Consolidated Financial Results for Q2 FY12/15 and Follow-up Interview).

● [Graph 1] PEO Scheme: Number of Participating Makers and Worksite Employees



Source: Compiled by Trias Corporation from company financial results briefing materials.

The effects of the Scheme should be contributing in full swing from 2018 onward when impacts of restrictions on fixed-term employment contracts by the Revised Labor Contract Act are to fully take effect, according to the Company. In that year which is the fifth year since the enforcement of the Revised Labor Contract Act 2013, about 250,000 contracts of fixed-term contract workers out of estimated 700,000 at present are to be expired. The Company expects an increase of about 20,000 employees hired through the PEO Scheme from 2018 onward, assuming some 10% of the total fixed-term contract workers due contract expirations would interview with PEO, and over 70% of them would be joining it based on the past track records of the Scheme.

Overseas Business turned toward recovery in 2H after the weak 1H. The lingering after-effects from the coup and civilian demonstrations taking place in FY12/14 in Thailand, Vietnam and Hong Kong have headed toward resolution but yet recovered entirely, the Company says.

Its net sales increased by an impressive 66.1% YoY, topping Company's forecast. Operating income before adjustments improved sharply from ¥87 million in FY12/14 to ¥235 million. Although the result fell short of Company's forecast of roughly ¥500 million, operating income margin before adjustments rose from 0.8% to 1.4%, proving it gradually entering a recouping period on upfront investments sustained over the last several years in building out bases across Southeast Asia.

FY12/16 Consolidated Financial Forecasts Summary

As are shown in Table 4 on page 8, the Company expects in FY12/16 net sales at ¥110.0 billion (up 36.0% YoY), operating income ¥5.4 billion (up 72.8% YoY), ordinary income ¥5.1 billion (up 58.1% YoY) and net income ¥2.4 billion (up 32.6% YoY). However, impacts from potential M&As, some of which can be currently under talks, are not discounted in these forecasts.

From FY12/16, the Company renews its operating segments to make them more detailed. Service Operations Outsourcing Business, which is expected to grow fast in the coming years, is disclosed as a separate new segment, while previous Overseas Business is divided into engineering and other outsourcing businesses.

For FY12/16, the Company expects the domestic outsourcing business, both for Engineering and Manufacturing Outsourcing Businesses, to sustain its strength, and overseas operations to enjoy a full-year contribution from the new subsidiaries which the Company acquired in the latter half of 2015. For details on the new segment breakdown and business trend by segment will be described later.

Consolidated operating income is expected to increase sharply, with contributions mainly from Overseas Manufacturing and Service Operations Business and Domestic Manufacturing Outsourcing Business, both up by more than ¥600 million, followed by Domestic Engineering Outsourcing Business, up by nearly ¥400 million. In Domestic Manufacturing Outsourcing Business, continued strong demand for workers as well as the Company's unique PEO Scheme should contribute positively. In overseas operations, a contribution from newly consolidated subsidiaries will be significant.

[Table 4] FY12/16 Consolidated Financial Forecasts

(¥ million)	FY12/15 Actual Amount	FY12/15 Actual Composition Ratio	FY12/16 Forecasts Amount	FY12/16 Forecasts Composition Ratio	YoY Changes Amount	YoY Changes Ratio
Net sales	80,860	100.0%	110,000	100.0%	29,139	36.0%
Operating income	3,125	3.9%	5,400	4.9%	2,274	72.8%
Ordinary income	3,224	4.0%	5,100	4.6%	1,875	58.1%
Net income	1,810	2.2%	2,400	2.2%	589	32.6%

Source: Compiled by Trias Corporation from company financial results briefing materials.

Comparison on New and Old Operating Segments

The new and old segment comparative list is shown in Table 5. The reclassification is very straight forward with no complexity as it simply discloses more detailed segments than before. The previous Manufacturing Outsourcing Business was divided largely into manufacturing-related and service operations-related, and the rest was moved into administration-related businesses. The Overseas Business, previously a single segment, is now divided into two: engineering-related and manufacturing and service operations-related.

[Table 5] List of Net Sales and Operating Income for New and Old Segments

Old Segments (to FY12/15)	(¥ million)	New Segments (from FY12/16)	(¥ million)
Net sales	**80,860**	**Net sales**	**80,860**
Engineering Outsourcing Business	31,552	Domestic Engineering Outsourcing Business	31,552
Manufacturing Outsourcing Business	**30,591**	**Domestic Manufacturing Outsourcing Business**	**29,468**
		Domestic Service Operations Outsourcing Business	**1,083**
Administrative Outsourcing Business	**497**	**Domestic Administrative Outsourcing Business**	**537**
Recruiting and Placing Business	871	Domestic Recruiting and Placing Business	871
Overseas Business	**17,181**	**Overseas Engineering Outsourcing Business**	**3,832**
		Overseas Manufacturing and Service Operations Outsourcing Business	**13,349**
Other Business	165	Other Business	165
Operating income beore adjustments	**4,045**	**Operating income beore adjustments**	**4,045**
Engineering Outsourcing Business	2,398	Domestic Engineering Outsourcing Business	2,398
Manufacturing Outsourcing Business	**921**	**Domestic Manufacturing Outsourcing Business**	**1,010**
		Domestic Service Operations Outsourcing Business	**(82)**
Administrative Outsourcing Business	**62**	**Domestic Administrative Outsourcing Business**	**56**
Recruiting and Placing Business	413	Domestic Recruiting and Placing Business	413
Overseas Business	**235**	**Overseas Engineering Outsourcing Business**	**182**
		Overseas Manufacturing and Service Operations Outsourcing Business	**53**
Other Business	14	Other Business	14
Adjustments	(920)	Adjustments	(920)
Operating income	**3,125**	**Operating income**	**3,125**

Source: Compiled by Trias Corporation from company financial results briefing materials.
Note: Segments in black are intact while those in blue accompany reclassifications.

Table 6 shows major operations and subsidiaries in each new segment.

●[Table 6] New Operating Segments: Major Operations and Group Subsidiaries

New Major Segment	Major Operations and Group Subsidiaries
Domestic Manufacturing Outsourcing Business	Covering domestic manufacturing-related only. Service Operations-related Outsourcing is now categorized into below.
Domestic Service Operations Outsourcing Business	New independent segment for service operations-related outsourcing business previously included in Manufacturing Outsourcing Business. Major subsidiaries： IOD, DAIEI KENSETSU,　(both US military base-related), CRS, ISE INTERNATIONAL (both convenience store-related), BROTHERS (sales promotion)
Overseas Engineering Outsourcing Business	Engineering outsourcing businesses, including IT-related Major subsidiaries： ALP Group (India), BLUEFIN Group (Australia), NHL Group (UK/Europe)
Overseas Manufacturing and Service Operations Outsourcing Business	Manufacturing service operations-related businesses Major subsidiaries： Asian local manufacturing outsourcing subsidiaries, ALP Group (India), EXPRO Group (Chile)

Summary of FY12/16 Operating Segment Forecasts

FY12/15 reclassifications and FY12/16 Company forecasts based on new segments are shown in Table 7 on page 10.

Domestic Engineering Outsourcing Business should grow by 24.9% YoY in net sales and by 16.1% YoY in operating income, with operating income margin before adjustments declining by 0.5% point. The number of worksite employees at year-end should increase from 4,742 in FY12/15 to 5,877, with career change hiring planned to grow from 370 to more than 500. The reasons for the lower income margin include cost increase factors such as in head office administration expenses but are more likely attributable to the Company's conservative forecasts.

For **Domestic Engineering Outsourcing Business**, net sales should rise by 13.0% YoY and operating income much more robustly by 63.6% YoY. Major positive factors are price effects as more client manufacturers are allowing higher dispatching unit prices due to shortage in workers as well as restrained recruiting expenses thanks to ever extending PEO operations. As is shown in Graph 1 on page 6, the numbers of participating makers and worksite employees at year-end under the PEO Scheme are expected to increase from 158 and 3,024 in FY12/15, respectively, to 215 and 5,500. Operating income margin, as a result, is to rise sharply from 3.4% in FY12/15 to 5.0%.

[Table 7] FY12/15 Actual Results and FY12/16 Forecasts by New Operating Segment

	FY12/15 Actual	FY12/16 Forecasts	YoY Changes	
(￥million)	Amount	Amount	Amount	Ratio
Net sales	**80,860**	**110,000**	**29,139**	**36.0%**
Domestic Engineering Outsourcing Business	31,552	39,423	7,870	24.9%
Domestic Manufacturing Outsourcing Business	29,468	33,300	3,831	13.0%
Domestic Service Operations Outsourcing Business	1,083	4,869	3,785	349.5%
Domestic Administrative Outsourcing Business	537	858	320	59.7%
Domestic Recruiting and Placing Business	871	1,411	539	61.9%
Overseas Engineering Outsourcing Business	3,832	10,535	6,702	174.9%
Overseas Manufacturing and Service Operations Outsourcing Business	13,349	18,821	5,471	41.0%
Other Business	165	783	617	372.2%
Operating income before adjustments	**4,045**	**6,548**	**2,502**	**61.9%**
Domestic Engineering Outsourcing Business	2,398	2,785	386	16.1%
Domestic Manufacturing Outsourcing Business	1,010	1,653	642	63.6%
Domestic Service Operations Outsourcing Business	(82)	211	293	-
Domestic Administrative Outsourcing Business	56	292	235	421.2%
Domestic Recruiting and Placing Business	413	434	20	5.0%
Overseas Engineering Outsourcing Business	182	456	273	149.5%
Overseas Manufacturing and Service Operations Outsourcing Business	53	698	644	1216.8%
Other Business	14	19	4	35.1%
Operating income margin before adjustments	**5.0%**	**6.0%**	**-**	**+0.9pp**
Domestic Engineering Outsourcing Business	7.6%	7.1%	-	-0.5pp
Domestic Manufacturing Outsourcing Business	3.4%	5.0%	-	+1.5pp
Domestic Service Operations Outsourcing Business	-7.6%	4.3%	-	+11.9pp
Domestic Administrative Outsourcing Business	10.4%	34.0%	-	+23.6pp
Domestic Recruiting and Placing Business	47.4%	30.8%	-	-16.7pp
Overseas Engineering Outsourcing Business	4.8%	4.3%	-	-0.5pp
Overseas Manufacturing and Service Operations Outsourcing Business	0.4%	3.7%	-	+3.3pp
Other Business	8.5%	2.4%	-	-6.1pp
Adjustments	(920)	(1,148)	(228)	-
Operating income	**3,125**	**5,400**	**2,274**	**72.8%**
Operating income margin	**3.9%**	**4.9%**	**-**	+1.0pp
No. of worksite employees at year-end	No. of Employees	No. of Employees	No. of Employees	Ratio
Domestic Engineering Outsourcing Business	4,742	5,877	1,135	23.9%
[Utilization Rate for Engineering Outsourcing Business]	98.4%	-	-	-
Domestic Manufacturing Outsourcing Business	7,463	10,262	2,799	37.5%
Overseas Engineering Outsourcing Business	895	901	6	0.7%
Overseas Manufacturing and Service Operations Outsourcing Business	14,644	23,986	9,342	63.8%

Source: Compiled by Trias Corporation from company financial results briefing materials.

Domestic Service Operations Outsourcing Business (new segment) will contribute to nearly 12% of the overall increase in consolidated operating income although net sales are still small, increasing from ¥1,083 million in FY12/15 to ¥4,869 million. This segment, previously included in Manufacturing Outsourcing Business, mainly consists of worker dispatching operations extended to welfare facilities at US military bases, and the Company expects the operations to expand further.

Overseas Engineering Outsourcing Business (new segment) centers on BLUEFIN Group (Australia) and NHL Group (the U.K./Europe). Net sales should jump from ¥3,832 million to ¥10,535 million in FY12/16 and operating income similarly from ¥182 million to a significant ¥456 million. These subsidiary groups will fully contribute to FY12/16 performance while in FY12/15 only for 4 months from September to December.

As for **Overseas Manufacturing and Service Operations Outsourcing Business** (new segment), net sales are expected to rise by 41.0% YoY and operating income sharply from ¥53 million to ¥698 million in FY12/16. The recovery in manufacturing outsourcing business in the ASEAN region in 2H FY12/15 after the weak 1H should continue into FY12/16. In addition, EXPRO Group (Chile) which newly joined the OS Group in December 2015 will also lift the Company's consolidated financial results.

TOPIC 1: New Business Fields Attracting Attention under the New Segments

Newly announced changes in segments serve not only to enhance information disclosure, but also make it possible to read into the Company's intentions and strategy. From that perspective, we want to focus on the newly announced Domestic Service Operations Outsourcing Business segment as well as overseas businesses. Both of these are accelerating growth through the OS Group's core strategy of M&A.

< Domestic Service Operations Outsourcing Business>

Here we look in detail at US military bases outsourcing business and convenience stores outsourcing business into which the OS Group in devoting efforts.

US Military Bases Outsourcing Business

The Labor Management Organization for USFJ Employees, Incorporated Administrative Agency (LMO/IAA) (hereafter "LMO/IAA") handles administrative matters for USFJ employees such as recruitment, furnishing, labor management, wages, welfare and health, and as part of its labor management work, discloses data on the number of USFJ workers, etc. (http://www.lmo.go.jp/)

According to LMO/IAA data in Table 8 on page 12 showing 2008 USFJ number of workers by prefecture, it can be seen that Okinawa Prefecture and Kanagawa Prefecture are major markets. The column labeled MLC refers to employees based on a Master Labor Contract concluded between the Japanese and US governments, for those employed to work at US bases in Japan operated under US government expenditure including clerical staff, technicians, skilled workers, security guards, firemen, etc., and the column labeled IHA refers to employees based on an Indirect Hire Agreement, for those employed to work at establishments operated on non-budget expenditures separate from US government expenditure such as golf courses, bowling alleys, night clubs, etc.

Data for FY3/15 shows the monthly average number of workers was 25,237, broken down as 19,367 MLC employees, and 5,856 IHA employees (remaining 14 were under sailors contracts), increasing over 25% since 2008.

● [Table 8] 2008 United States Forces Japan Number of Workers (by prefecture)

(Unit: persons)

	MLC	IHA	Total
Aomori	986	290	1,276
Saitama	5	0	5
Tokyo	1,686	959	2,645
Kanagawa	7,528	976	8,504
Shizuoka	96	34	130
Hiroshima	365	8	373
Yamaguchi	855	321	1,176
Nagasaki	1,343	139	1,482
Okinawa	6,020	2,785	8,805
Total/average	**18,884**	**5,512**	**24,396**

Compiled by Trias Corporation from the *Survey on USFJ Employees Salaries etc.*
by the Labor Management Organization for USFJ Employees, Incorporated Administrative Agency (LMO/IAA)

Operations commenced by the OS Group at the Kadena base in Okinawa is a US Air Force base, the largest Air Force base in the Far East, and also one of the largest airfields in Japan.

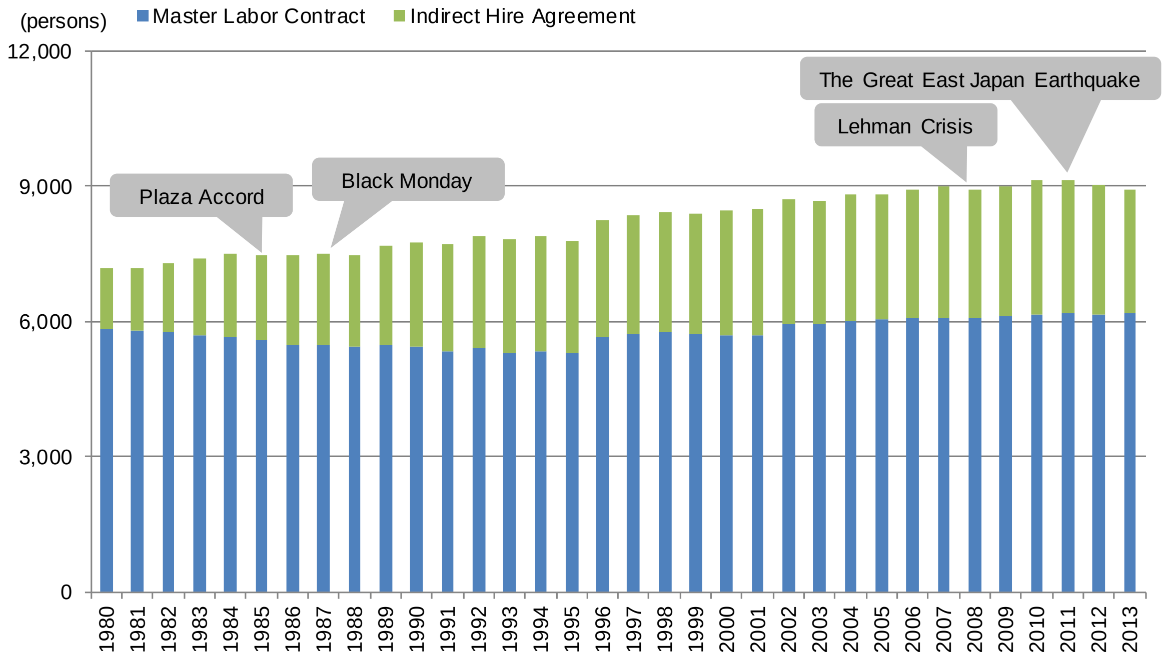
According to *Economic Impact Generated by the US military* (*4) on the official Japanese website of the US Marine Corps, employment at US military facilities in Okinawa Prefecture including Kadena base was 8,600 as of the end of December 2014 (Kadena accounted for over 30% at 2,700), making the US military the second largest employer after the Okinawa Prefectural Government. Nationwide there are 82 USFJ dedicated bases, with 32 USFJ facilities located within Okinawa Prefecture.

(*4) Please refer to the official Japanese website of the US Marine Corps:

http://www.kanji.okinawa.usmc.mil/Economy/Economy.html for details.

Graph 2 on page 13 shows the long-term trend (1980-2013) of the number of USFJ employees in Okinawa Prefecture based on the Statistics Book of USFJ and JSDF bases in Okinawa published by the Okinawa Government, and the point that can be gleaned is that there was little impact from major economic events including the Lehman Crisis.

[Graph 2] Trend of USFJ Number of Employees (Okinawa Prefecture)



Source: USFJ and JSDF Bases in Okinawa (Statistics Book)

Regarding the OS Group's US military bases outsourcing business, for FY12/15 under review it won an order for dispatching on the scale of 300 staff for welfare services facilities within Kadena base, and net sales were just under ¥1.0 billion, and similarly for FY12/16 for dispatching outsourcing workers to welfare services facilities, the OS Group has won orders for 4 bases outside of Okinawa Prefecture, and sales are expected to grow to roughly ¥4.0 billion.

Going forward, in addition to lateral development of dispatching business with a view toward US military bases both in Japan and overseas, potential for major expansion of this business includes entering the field of contracting for maintenance and repairs of military facilities within US military bases. This contracting business includes repairs and maintenance for airfield runways, washing of some military aircrafts, and engineering fields where confidentiality is not very high, and the scale of consignment per project is large.

Incidentally, when comparing the OS Group business fields by contract format of the selected LMO/IAA data, dispatching work for welfare services facilities corresponds with the field of IHA employees, and repairs and maintenance of military facilities is likely estimated to fall within a portion of the area of MLC employees.

Currently, the Company says that it is proceeding with negotiations with financial institutions regarding establishing a commitment line framework for bid bonds and fulfillment bonds, a requirement for participating in bidding related to this business. Bid bonds are submitted as a type of deposit premium for the contract amount of public works projects, a requirement to be screened for eligibility to participate in competitive bidding. At the same time, fulfillment bonds are submitted as insurance in the event that the subcontractor can't complete the project.

IOD Inc., the core subsidiary for this business, was unable to secure a large commitment line for bond insurance due to its small scale and credit strength, however, the parent OUTSOURCING Inc. has stepped in to secure the commitment line directly, giving potential for a major improvement in bidding conditions.

Since this business is a niche field within the outsourcing of public works to private contractors, early achievement of carving out the market is an important strategy. The Company is targeting early establishment of the required business base necessary to develop this business including securing commitment lines for bond insurance, which will likely result in business development accelerating going forward.

Convenience Stores Outsourcing Business

A key point of this business being started up through a consolidated subsidiary ISE INTERNATIONAL Co., Ltd. (hereafter "ISE") is the fee model for one-lot consignment of administrative work for store staff of a major convenience store chain. Traditional dispatching business for store employees is added on top of this.

The total number of domestic stores for the big 3 convenience store chains (Seven-Eleven Japan, Lawson and FamilyMart) in FY2014 exceeded 40,000 stores, accounting for roughly 75% of total stores nationwide. The number of employees for franchise (FC) affiliate stores which account for the majority for the big 3 exceeded 20,000, and securing employees has become the biggest challenge for franchise affiliates given the decline in the workforce population and nationwide labor shortage. Recruitment and hiring have become difficult for franchise affiliate owners, and hiring support from the central head office is being requested.

Also, addressing the start of the "My Number System" for individual social security numbers from January 2016 is an important requirement. FC affiliates acquire the "My Number" upon hiring, which must be managed in a secure format, and in addition must be clearly discarded without exception upon the employee leaving. This represents an administrative burden for FC affiliate owners, and increases security risks.

Anticipating these changes in the market environment, ISE is currently working together with the head office of one of major convenience store chains in building an IT system that is to connect the head office with all stores in the chain, and dispatch business operators responsible for staff procurement. When this system is completed, order information for dispatched workers from the nationwide network of over 10,000 stores can be acquired in one-lot from the head office by ISE, allowing ISE to manage required staff procurement and administration on behalf of all stores.

By having an agency administration center function based on an IT system, raising operational efficiency of dispatch business operators and raising the level of legal compliance can be achieved, for which ISE will receive an agency administration fee from dispatch business operators based on a fixed percentage of the dispatching fee, establishing a fee model.

FY12/16 leading upfront investment will arise including system development, however, from FY12/17, all stores of the chain will be linked by IT system to Dispatch Business Operators, and ISE will contribute to profits through the agency administration center fee (based on a fixed percentage of dispatching fee income from each provider), as well as dispatching fee income for dispatching business by ISE itself.

For this business also, starting up business with each of the main convenience store chains ahead of competitors through center operations will lead to growth, however, it is believed that offering new functionality that doesn't exist in staff outsourcing business until now will be required. From that perspective, potential collaboration with the Company's IT-related outsourcing business into which it is currently devoting efforts likely comes into view.

In addition, volume merchandisers, discount shops and restaurants also have widespread networks similar to convenience store chains, and since success in employee arrangements can be applied laterally to other sectors where there is a direct impact on earnings, latent growth potential of this business in the domestic market is believed to be large.

<Overseas Businesses>

Last year the OS Group announced M&A acquisitions in August of the BLUEFIN Group in Australia and the NHL Group in the U.K. and Europe, as well as the EXPRO Group in Chile in November. Businesses for each are summarized in Table 9 on page 16 (*5).

(*5) For details please refer to the section of *TOPIC: Expanding Business Portfolio Driven by Overseas M&A* of the IRTV memo dated 12/25/15 (Q3 FY12/15 Financial Results and Follow-Up Interview).

[Table 9] Corporate Groups Acquired through Overseas M&As (FY12/15 Actual Results)

	BLUEFIN Group	NHL Group	EXPRO Group
Date of announcement	August 2015	August 2015	December 2015
Major Operation Region	Australia and New Zealand	the U.K./Europe	Chile
Business Scale*	Net Sales: roughly ¥3.7 billion Net Income before Income Taxes: roughly ¥260 million	Net Sales: roughly ¥4.0 billion Net Income before Income Taxes: roughly ¥87 million	Net Sales: roughly ¥4.1 billion Ordinary Income: roughly ¥100 million
Major Businesses	HR outsourcing business specialized in financial services, IT, retailers, media, consulting, public sector, local governments, etc.	Dispatching of consultants and system engineers mainly for Oracle's enterprise resource planning (ERP) package, staff introductions	Specialized in business process outsourcing (BPO) and dispatching; engaged in the sectors of manufacturing, logistics, insurance, retailers, etc.
Consolidated Segment	Overseas Engineering Outsourcing Business	Overseas Engineering Outsourcing Business	Overseas Manufacturing and Service Operations Outsourcing Business

*Note: Business scale is taken from financial results of the most recent FY at the time of M&A announcement

Source: Compiled by Trias Corporation from Outsourcing Inc. results briefing materials

In January 2014, the Company acquired a leading Indian firm ALP Group which is engaged in recruiting and placing, dispatching and business process outsourcing (BPO), accelerating M&A of overseas firms over the last 2 years mainly in the area of IT-related outsourcing. Since the Company's intention is to target becoming the top firm in each local market, growth in Overseas Engineering Outsourcing Business is expected to continue driven by both potential individual M&As, as well as through local subsidiaries.

In addition, the Company is also aggressive in Overseas Manufacturing and Service Operations Outsourcing Business, planning to respond to the trend of public services being outsourced to the private sector. The Company indicated at the results briefing that it plans to enter outsourcing business for government debt collection in the U.K. and operations of prison facilities in Australia.

Overseas Business for the OS Group until now was mainly manufacturing-related, however, from FY12/16 the Company is stepping up entry into other fields with high margins and expected to grow. Reform of the OS Group's business portfolio is the answer to what extent earnings fluctuations of Manufacturing Outsourcing Business can be smoothed, and the Company is making clear progress on its way to achieving final fiscal year (FY12/17) targets of its Medium-Term Management Plan.

Topic 2: Introducing IFRS Accounting from FY12/16; Strengthening Global Governance

From FY12/16 the OS Group is introducing IFRS accounting standards. The Company is scheduled to disclose *TANSHIN* financial statements from full-year FY12/16 consolidated results for both JGAAP and IFRS standards (JGAAP in February, IFRS in March).

The reason for introducing IFRS is that Overseas Business is expected to continue high growth going forward. In 2015, the Company announced its new 3-year Medium-Term Management Plan “Vision 2017: Vector to the New Paradigm,” targeting consolidated net sales of ¥130 billion in 2017. This included raising the ratio of Overseas Business sales to 32% of the total (some ¥41.6 billion) as one of management’s key strategies.

According to the Company, current M&A criteria in principle include an EBITDA margin of at least 10% for the target acquisition firm, with an upper limit acquisition price of EBITDA x7 (EBITDA seven multiple). However, the Company adopts a method of not initially making the acquired firm a wholly-owned subsidiary, initially taking a 51% stake which makes it a consolidated subsidiary, and while retaining present management of the target firm, gradually raises the stake over time.

The Company says, in the several years leading up to making the acquired firm a wholly-owned subsidiary, as an incentive to recognize efforts of the current management team to raise corporate value, in the event business results exceed plan due to efforts by current management , that will be reflected in the acquisition price of the remaining shares. As a result, the Company maintains good relationships with each subsidiary, along with achieving business results ahead of plan.

Based on these M&A criteria, for example, a potential target acquisition firm with net sales of ¥10 billion and 10% EBITDA margin would have an acquisition price guideline of ¥7 billion, however, an initial investment stake of 51% would be just over ¥3.5 billion. At the same time, according to the Company, it believes that it can secure a commitment line of ¥20-30 billion from financial institutions. Provided that is achieved, that works out to potential for M&A of 5-8 firms with net sales of ¥10 billion. From this point as well, overseas development put forth in Vision 2017 is likely progressing at a pace above initial expectations.

Regarding M&A development of the OS Group, progress is being made for both entry into new business areas (point formation) and expansion of business scale of newly entered business areas (area and scale formation). However, since there is high potential that investment cost has not been recouped at the point investment stage, we believe that an important issue, when considering profitability based on the current latent financial strength, is to decide into which business should efforts be devoted, and at what point the scale should be expanded.

On the back of this trend, the number of overseas subsidiaries of the OS Group was 37 as of the end of FY12/15, and the goal of introducing IFRS is to raise transparency of each subsidiaries profits and administration through unification of accounting standards.

The Company's IFRS-based FY12/16 forecasts unveiled at the results briefing are shown in Table 10. At the operating income level, operating income increases by ¥0.9 billion compared with JGAAP-based forecasts, and the breakdown of factors is shown in Table 11. Since booking amortization of goodwill is not required under IFRS, disappearance of booking estimated amortization of goodwill under JGAAP of ¥1.6 billion works as a positive factor.

At the same time, miscellaneous expense items in Table 10 arise, and the additional total of nearly ¥0.7 billion works as a negative factor. However, among these items, the Company is using conservative assumptions for "risks of goodwill impairment," and under IFRS that portion is added back at the net income level, which works out to an increase of ¥1.2 billion in net income.

● [Table 10] Comparison of FY12/16 Consolidated Forecasts under JGAAP and IFRS

(¥ billion)	JGAAP	IFRS	Differences
Net sales	110	110	0
Operating income	5.4	6.3	0.9
Net income	2.4	3.6	1.2

Source: Compiled by Trias Corporation from Outsourcing Inc. business results materials

● [Table 11] Comparison of the Difference in Operating Income under JGAAP and IFRS

(¥ million)

Positive factors	Amortization of goodwill	**1,600**
	Provision for paid holiday	150
	PPA	210
	Risk of goodwill impairment	300
Negative factors total		**660**
Difference		**Roughly 900**

Source: Compiled by Trias Corporation from Outsourcing Inc. business results materials

Along with the introduction of IFRS, the Company is strengthening the OS Group's overall corporate governance. In particular, the Company is aggressively addressing corporate governance for rapidly expanding overseas subsidiaries. Specifically, it is creating overseas compliance regulations, targeting thorough enforcement. Also, it is appointing separate directors responsible for the sales division and administrative division, which until now had been handled jointly by one director, thereby strengthening checks and balances. Also, the Company believes it is extremely important in the strategic development of the aforementioned shift from points to area to strengthen its business management structure as well as overall group supervisory function.

In addition to strengthening strict observance of the Foreign Corrupt Practices Act, trademark registration, etc., the Company is introducing a new system to strengthen risk management. Recent rumors of tighter regulations in the EU on personal information protection, etc., and trend toward tighter regulations overseas will likely impact the OS Group's strategy. From that perspective as well, progress in strengthening global governance currently being implemented is likely another measure aimed at ongoing monitoring.

Reference

Consolidated Key Financial Data

No. of Shares Issued	Dec.2015	17,407,300
No. of Treasury Shares	Dec.2015	51
Market Value (¥mn)	29-Mar-16	65,799
BPS (¥)	Dec.2015	670.06
ROE (%)	Dec.2015	19.5
ROA (%)	Dec.2015	5.9
PER (times)	FY12/16 fcst.	27.4
PCFR (times)	Dec.2015	29.2
PBR (times)	Dec.2015	4.8
Share Price (¥)	29-Mar-16	3,780
Unit Share (shares)	29-Mar-16	100
Average Daily Volume (shs)	29-Mar-16	260,979

Total Assets (¥mn)	Dec.2015	37,042
Shareholders' Equity (¥mn)	Dec.2015	11,664
Interest-Bearing Debt (¥mn)	Dec.2015	(*)10,902
Equity Ratio (%)	Dec.2015	31.5
Ratio of Interest-Bearing Debt (%)	Dec.2015	93.5
Free Cash Flows (¥mn)	Dec.2015	(2,942)

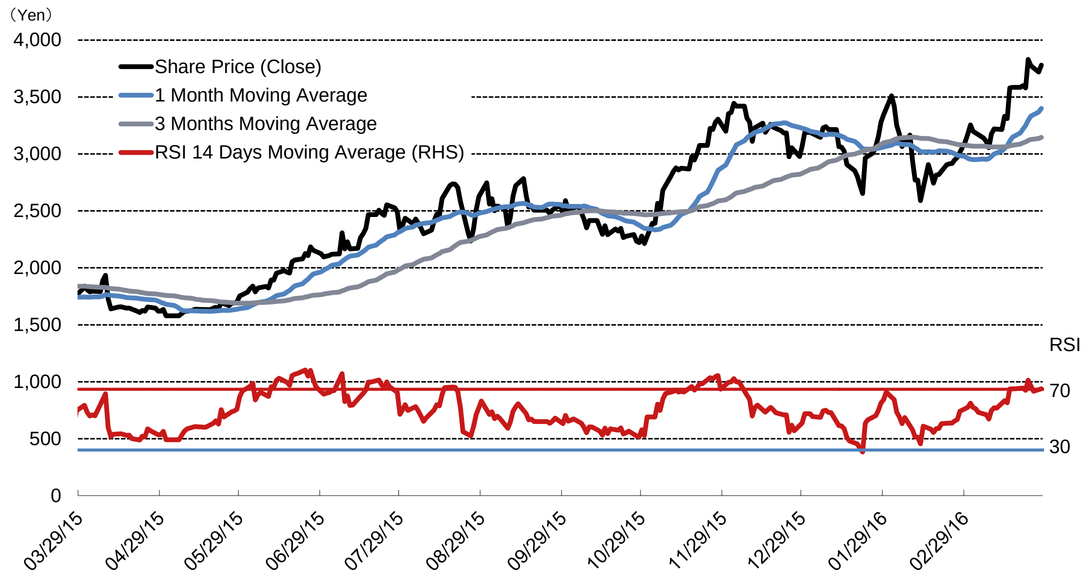
ROE = Net Income ÷ Averaged Shareholders' Equity
ROA = Net Income ÷ Averaged Total Assets
PCFR = Market Value ÷ (Net Income + Depreciation)
Ave. Daily Vol. = Ave. Daily Vol. (from 29-Mar-15 to 29-Mar-16)
Interest-Bearing Debts* Ratio = I.B.D. ÷ Shareholders' Equity
*Incl. current portion of accounts payable-installment purchase
Free Cash Flows = Operating CF + Investment CF

Consolidated Financial Results

(¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
FY12/11	32,397	563	702	194	13.48	8.00
FY12/12	42,090	1,000	1,153	641	44.46	8.00
FY12/13	47,384	1,202	1,357	1,122	77.54	13.00
FY12/14	59,421	2,010	2,197	1,316	89.81	35.00
FY12/15	80,860	3,125	3,224	1,810	110.15	35.00
1H FY12/16 fcst.	51,000	1,150	1,000	400	22.97	0.00
FY12/16 full-year fcst.	110,000	5,400	5,100	2,400	137.87	42.00

Note: FY12/16 forecasts announced on Februay 12, 2016

Stock Price Charts and RSI (March 29, 2015 - March 29, 2016)



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