2427
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OUTSOURCING Inc.

Q2 FY12/16 Financial Results and Follow-up Interview

OUTSOURCING Inc., hereafter the "Company" or "the OS Group," announced its 1H FY12/16 (January-June) financial results, and Trias Corporation conducted an interview with Executive Vice President Kazuhiko Suzuki. The following is a summary of the interview.

1H FY12/16 Consolidated Financial Results

1H FY12/16 consolidated financial results posted large YoY gains in net sales, and operating and ordinary incomes recorded historical highs for the Company's 1H, both exceeding its guidance at Q1 result announcement on April 28. In addition to favorable growth continuing for domestic dispatching businesses, earnings from newly consolidated subsidiaries acquired through M&A deals completed in FY12/15 and 1H FY12/16 made large contributions. The Company's full-term forecasts remained intact after being revised upward in April.

As shown in Table 1, 1H FY12/16 results were: net sales ¥57,484 million (up 59.6% YoY), gross profit ¥11,365 million (up 60.6% YoY), operating income ¥1,231 million (up 31.3% YoY), ordinary income ¥1,294 million (up 29.0% YoY), and profit attributable to owners of parent ¥302 million (down 38.2% YoY).

Compared to the Company's forecasts on April 28, ordinary income exceeded by nearly ¥300 million on net sales falling marginally shy.

● [Table 1] Summary of 1H FY12/16 Consolidated Financial Results

(¥ million)	1H FY12/15		1H FY12/16			YoY Changes	
	Actual	Composition Ratio	Revised Forecasts	Actual	Composition Ratio	Amount	Ratio
Net sales	36,022	100.0%	58,000	57,484	100.0%	21,461	59.6%
Cost of sales	28,948	80.4%	-	46,119	80.2%	17,171	59.3%
Gross profit	7,075	19.6%	-	11,365	19.8%	4,290	60.6%
SG&A expenses	6,137	17.0%	-	10,133	17.6%	3,996	65.1%
Operating income	938	2.6%	1,150	1,231	2.1%	294	31.3%
Ordinary income	1,003	2.8%	1,000	1,294	2.3%	291	29.0%
Profit attributable to owners of parent	489	1.4%	400	302	0.5%	(187)	-38.2%

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

Compared to the same period for the last fiscal year, domestic outsourcing businesses, both Engineering and Manufacturing, experienced continued strength while newly acquired service outsourcing operations for US military bases contributed. Also, overseas businesses saw significant increases in both net sales and incomes thanks mainly to newly consolidated subsidiaries (details of trends by segments are discussed from page 2 and onward).

Out of the year-on-year net sales increment of nearly ¥21.5 billion, newly consolidated sales brought from overseas M&A deals amounted about ¥14.1 billion, with net sales from the already existing operations also posting a robust 20.4% YoY growth.

The consolidated gross profit margin improved to 19.8% from 19.6% for the same period last fiscal year. This was due to growth in high margin Domestic Engineering Outsourcing Business, as well as the contribution from newly consolidated subsidiaries for high value-added Overseas Engineering Outsourcing Business and Overseas Service Operations Outsourcing Business. Improved profitability at Domestic Manufacturing Outsourcing Business also took part.

SG&A expenses increased sharply by ¥3,996 million, or up 65.1% YoY. Large part of the rise was driven by the new consolidation and sales growth from existing businesses. But also, amortized goodwill increased ¥556 million by the new consolidation, and as a result of a change in accounting rule newly adopted from FY12/16 which requires M&A expense to be booked as a one-time expense instead of as part of goodwill assets previously, an additional ¥338 million was incurred.

The SG&A expenses to net sales ratio rose from 17.0% a year ago to 17.6% but, excluding the above-mentioned M&A related one-time expense, it would have improved from 16.0% to 15.4%. This was partly thanks to improved efficiency of staff recruiting expenses for which only increased by 20% YoY.

Operating income rose by 31.3% YoY and the operating income margin decreased from 2.6% in 1H FY12/15 to 2.1%. The ratio, on the pre-consolidation base without M&A related one-time expenses, would have also improved from 3.6% to 4.4%. The rise in the real-term operating income margin should be attributable to high value-added operations at newly consolidated overseas subsidiaries in both engineering and service segments, as well as the improved profitability for Domestic Manufacturing Outsourcing Business operations.

Mostly flattish non-operating balance led ordinary income of ¥1,294 million, a ¥291 million increase from a year ago.

Meanwhile, 1H profit attributable to owners of the parent decreased by ¥187 million to a mere ¥302 million. This was because the aforementioned one-time expense for M&A as well as a ¥556 million increase in amortized goodwill were viewed as non-deductible in terms of tax returns, which the Company says was the single factor for the decline in the profit attributable to owners of parent.

Performances of each segment are summarized in Table 2 on page 4. Operating income before consolidated eliminations, at ¥2,554 million, nearly doubled from ¥1,300 million a year earlier, and the operating income margin before the adjustment rose by 0.8pp to 4.4%. Of the ¥1,253 million YoY increase, the Company explains ¥500 million or more came from newly consolidated overseas subsidiaries, and even without it, existing businesses earned about 55% more operating profit than they did in the same period last year.

The percentage breakdown of the contribution to the operating income increase was: Overseas Engineering Outsourcing Business 28%, Domestic Manufacturing Outsourcing Business 26% and Overseas Manufacturing and Service Operations Outsourcing Business 23% and so forth. The two overseas segments drove overall income growth for the 1H FY12/16, increasing operating income before adjustments by ¥637 million in aggregate, which accounted for 51% of the total increase of ¥1,253 million.

At the same time, the 1H consolidation adjustment, a negative factor, jumped by ¥960 million YoY to ¥1,322 million. The major breakdown of the increase was aforementioned amortization of goodwill and one-time booking of M&A expense.

[Table 2] 1H FY12/16 Financial Summary by Operating Segment

(¥ million)	1H FY12/15 Actual	1H FY12/16 Actual	YoY Changes Amount	YoY Changes Ratio
Net sales	**36,022**	**57,484**	**21,461**	**59.6%**
Domestic Engineering Outsourcing Business	14,766	18,889	4,123	27.9%
Domestic Manufacturing Outsourcing Business	13,724	15,487	1,763	12.8%
Domestic Service Operations Outsourcing Business	298	1,476	1,178	395.7%
Domestic Administrative Outsourcing Business	280	356	76	27.2%
Domestic Recruiting and Placing Business	342	593	251	73.5%
Overseas Engineering Outsourcing Business	176	8,520	8,343	4728.6%
Overseas Manufacturing and Service Operations Outsourcing Business	6,359	11,781	5,422	85.3%
Other Business	78	382	304	389.4%
Operating income before adjustments	**1,300**	**2,554**	**1,253**	**96.4%**
Domestic Engineering Outsourcing Business	950	1,045	95	10.0%
Domestic Manufacturing Outsourcing Business	233	552	319	137.1%
Domestic Service Operations Outsourcing Business	(37)	(50)	(13)	-
Domestic Administrative Outsourcing Business	25	99	74	301.2%
Domestic Recruiting and Placing Business	142	280	138	97.0%
Overseas Engineering Outsourcing Business	21	372	350	1630.7%
Overseas Manufacturing and Service Operations Outsourcing Business	(41)	245	287	-
Other Business	8	11	3	43.2%
Operating income margin before adjustments	**3.6%**	**4.4%**	**-**	**+0.8pp**
Domestic Engineering Outsourcing Business	6.4%	5.5%	-	- 0.9pp
Domestic Manufacturing Outsourcing Business	1.7%	3.6%	-	+1.9pp
Domestic Service Operations Outsourcing Business	-12.5%	-3.4%	-	+9.1pp
Domestic Administrative Outsourcing Business	8.8%	27.8%	-	+19.0pp
Domestic Recruiting and Placing Business	41.6%	47.3%	-	+5.7pp
Overseas Engineering Outsourcing Business	12.2%	4.4%	-	- 7.8pp
Overseas Manufacturing and Service Operations Outsourcing Business	-0.6%	2.1%	-	+2.7pp
Other Business	9.8%	2.9%	-	- 6.9pp
Adjustments	(363)	(1,322)	(960)	-
Operating income	**938**	**1,231**	**294**	**31.3%**
Operating income margin	**2.6%**	**2.1%**	**-**	**- 0.5pp**
No. of worksite employees at term-end	**No. of employees**	**No. of employees**	**No. of employees**	**Ratio**
Domestic Engineering Outsourcing Business	4,285	5,720	1,435	33.5%
[Utilization rate for Domestic Engineering Outsourcing Business]	97.5%	97.6%	-	+0.1pp
Domestic Manufacturing Outsourcing Business	6,554	7,482	928	14.2%
Domestic Service Operations Outsourcing Business	381	1,521	1,140	299.2%
Overseas Engineering Outsourcing Business	472	1,778	1,306	276.7%
Overseas Manufacturing and Service Operations Outsourcing Business	11,028	19,647	8,619	78.2%

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

As can be seen from Table 3 on page 5, total assets at the end of 1H (end of June 2016) were ¥49,857 million, an increase of ¥12,815 million, or up 34.6%, from the end of FY12/15 (end of December 2015). The major factor behind the increase was new consolidations of 3 groups: Beddison Group (Australia, hereinafter Beddison), JBW/CDL Group (the U.K., JBW/CDL), both merged on April 1, and OS HRS

Group (Malaysia, HRS) on April 28, adding an aggregate ¥7.9 billion to the total assets.

The growth in assets includes accounts receivable-other by ¥3,052 million due to new consolidation and organic business expansion, and goodwill balance which increased by ¥6,627 million to ¥13,324 million thanks mainly to aforementioned M&A deals.

For liabilities and net assets, short- and long-term loans payable increased by ¥7,437 million and ¥3,113 million, respectively, both mainly in preparation for M&A deals. Net assets decreased by ¥1,354 million as foreign currency translation adjustments for overseas subsidiaries fell to negative ¥1,981 million, or ¥2,106 million less than that booked at the end of FY12/15, due to sharp appreciation of the yen towards the 1H FY12/16 end. Majority of the negative balance of translation adjustments were caused by British pound and Australian dollar.

[Table 3] 1H-End FY12/16 Consolidated Balance Sheet Summary

(¥ million)	FY12/15-End		1H-End FY12/16		YoY Cahnges	
	Actual	Conposition Ratio	Actual	Conposition Ratio	Amount	Major Factors
Current assets	**24,658**	**66.6%**	**29,655**	**59.5%**	**4,997**	
Cash and deposits	9,215	24.9%	10,324	20.7%	1,109	
Notes and accounts receivable - trade	12,979	35.0%	16,031	32.2%	3,052	Increased due to acquisition of subsidiaries' shares and expansion of business scale
Non-current assets	**12,385**	**33.4%**	**20,203**	**40.5%**	**7,818**	
Property, plant and equipment	2,734	7.4%	2,827	5.7%	92	
Intangible assets	7,261	19.6%	15,135	30.4%	7,874	Increased due to acquisition of subsidiaries' shares
Investments and other assets	2,389	6.5%	2,241	4.5%	(148)	
Total assets	**37,043**	**100.0%**	**49,857**	**100.0%**	**12,815**	
Current liabilities	**20,155**	**54.4%**	**31,049**	**62.3%**	**10,894**	
Short-term loans payable	8,704	23.5%	16,141	32.4%	7,437	Increased due to loans for working capital and M&A
Accounts payable - other	5,745	15.5%	9,040	18.1%	3,295	
Non-current liabilities	**4,515**	**12.2%**	**7,790**	**15.6%**	**3,275**	
Bonds payable	25	0.1%	-	-	(25)	
Long-term loans payable	2,018	5.4%	5,131	10.3%	3,113	Increased due to loans for M&A funding
Total liabilities	**24,670**	**66.6%**	**38,839**	**77.9%**	**14,169**	
Shareholders' equity	11,574	31.2%	11,297	22.7%	(277)	Reflects a change in profit attributable to owners of parent and dividends paid
Net assets	**12,372**	**33.4%**	**11,018**	**22.1%**	**(1,354)**	
Total assets and liabilities	**37,043**	**100.0%**	**49,857**	**100.0%**	**12,815**	

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

FY12/16 Consolidated Financial Forecasts Summary

The Company left its full-year forecasts unchanged at the announcement of 1H FY12/16 results after it revised upward on April 28. In April, it revised up its full-year FY12/16 guidance for net sales by ¥24 billion to ¥134 billion, while it left initial income guidance intact by taking into account potential expenses to be incurred by upcoming M&A activities(*1). Despite acquiring two UK companies through an M&A in August, the Company dared not revise upward this time because the contributions to this fiscal year would not be meaningful possibly offset by amortization of goodwill and M&A related expenses, we assume.

(*1) However, the Company provided reference guidance revised up for incomes using IFRS-based accounting, with full-year IFRS-based guidance for operating income up from previous ¥6.3 billion to ¥6.5 billion, as well as profit attributable to owners of parent up from ¥3.6 billion to ¥4.0 billion. This is mainly due to IFRS-based accounting not requiring goodwill amortization.

The Company's full-year forecasts are shown in Table 4.

● [Table 4] Revised Full-Year FY12/16 Consolidated Financial Forecasts

(¥ million)	FY12/15		FY12/16		Full-Year YoY Changes	
	1H	Full-Year	1H	Full-Year		
	Actual	Actual	Actual	Forecasts (as of Apr. 28)	Amount	Ratio
Net sales	**36,022**	**80,861**	**57,484**	**134,000**	**53,139**	**65.7%**
Cost of sales	28,948	64,327	46,119	-	-	-
Gross profit	7,075	16,534	11,365	-	-	-
Gross profit margin	*19.6%*	*20.4%*	*19.8%*	-	-	-
SG&A expenses	6,137	13,408	10,133	-	-	-
SG&A expenses ratio	*17.0%*	*16.6%*	*17.6%*	-	-	-
Operating income	**938**	**3,125**	**1,231**	**5,400**	**2,275**	**72.8%**
Operating income margin	*2.6%*	*3.9%*	*2.1%*	*4.0%*	-	*+0.1pp*
Ordinary income	**1,003**	**3,225**	**1,294**	**5,100**	**1,875**	**58.1%**
Ordinary income margin	*2.8%*	*4.0%*	*2.3%*	*3.8%*	-	*- 0.2pp*
Profit attributable to owners of parent	**489**	**1,810**	**302**	**2,400**	**590**	**32.6%**
Net income margin	*1.4%*	*2.2%*	*0.5%*	*1.8%*	-	*- 0.4pp*

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

By segment, the Company anticipates favorable growth is continuing for both Domestic Engineering Outsourcing Business and Domestic Manufacturing Outsourcing Business, and overseas businesses are also expected to post strong year-on-year gains in incomes driven by the contributions from M&A deals realized in 2H FY12/15 and FY12/16. Full-year trends of key operating segments are discussed from page 7 onward.

Operating income is forecast to jump sharply by ¥2,275 million, or up 72.8%, from FY12/15. Significant contributions to the roughly ¥3.7 billion increase in pre-adjusted operating income are attributed to: ¥1.0 billion and ¥0.75 billion increases from Overseas Manufacturing and Service Operations Outsourcing Business and Domestic Manufacturing Outsourcing Business, respectively, followed by slightly over ¥0.5 billion from Domestic Engineering Outsourcing Business. For overseas businesses, the new contribution from M&A deals is a major factor, and for Domestic Manufacturing Outsourcing

Business, the OS Group's proprietary PEO Scheme should contribute to income growth on top of ongoing brisk demand for workforce.

Operating income margin is estimated to increase only slightly from 3.9% in FY12/15 to 4.0%. This is basically because of the consolidated adjustment account increasing by over ¥1.4 billion due to one-time booking of M&A expenses and increased amortization of goodwill. Before the adjustment, operating income is forecast to soar by 91.6% YoY, leading the pre-adjusted income margin to rise from 5.0% to 5.8%. Improved profitability for Overseas Manufacturing and Service Operations Outsourcing Business as well as Domestic Manufacturing Outsourcing Business is making a large contribution.

However, this forecast again does not include impacts of sales and income from 2 companies which joined the Group in August, nor potential M&A transactions going forward. Should there be any deals settled in this term, financial performance could go further upward.

Trends of Key Operating Segments

1H FY12/16 domestic outsourcing businesses sustained strong growth and overseas businesses grew rapidly thanks to the contributions of past M&A deals

In 1H FY12/16, in addition to domestic outsourcing businesses enjoying continued strong demand, the contribution from newly consolidated subsidiaries from M&A deals completed in FY12/15 greatly drove earnings at both Overseas Engineering Outsourcing Business, and Overseas Manufacturing and Service Operations Outsourcing Business. Performances of each segment in 1H are summarized in Table 2 on page 4.

At Domestic Engineering Outsourcing Business, which has grown to be the most significant segment for the OS Group, maintained strong growth trends with its net sales increasing by 27.9% YoY and pre-adjusted operating income growing by 10.0%. Meanwhile, that income margin in fact dropped to 5.5% from 6.4% a year ago. This was due to increased SG&A expenses as both Domestic and Overseas Engineering Business units started sharing more holding company functions, cost burdens of which were previously concentrated in Domestic Manufacturing Outsourcing Business(*2).

(*2) Most costs incurred from head office functions as well as investments for company-wide growth had been heavily allocated to Domestic Manufacturing Outsourcing Business as the segment was the Company's mainstay up until recently. However, these costs are now allocated more proportionately to each of Domestic Engineering Outsourcing Business and Overseas Engineering Outsourcing Business as the two segments grew enough to share more reasonable burdens.

By client industry, net sales to both IT- and Transport Equipment-related were robust with the former, which account for more than 30% of the segment, jumping by 33.3% YoY, followed by the latter, with nearly 30% weight, rising by 23.0%, and those to Electrical & Electronics-related, nearly 20% composition, also soared by 39.6%. As for Construction & Plant-related, a key focus sector for the Company alongside IT-related, net sales grew handsomely by 16.8% YoY even after a round of the M&A effects completed.

The number of worksite employees for Domestic Engineering Outsourcing Business reached 5,720 at the end of 1H FY12/16, increasing by 33.5% YoY from 4,285 at the end of 1H last fiscal year. The utilization rate was running at nearly full capacity during 1H FY12/16, rising by 0.1pp YoY to 97.6%. Solid progress has been made in the Career Change Scheme(*3), from the manufacturing to engineering arena, since starting in earnest from FY12/15, with additional 317 individuals changing their career during 1H FY12/16. The target at the beginning of FY12/16 to raise the cumulative total from 370 at the end of FY12/15 to 500 or more in FY12/16 was already raised to “over 700” in April since the career conversion policy has been tracking a stronger trajectory.

(*3) This initiative carefully selects individuals working at manufacturing worksites and converts them, with the consent of each, to engineering works based on suitability and abilities of the person by using the Group’s proprietary training programs for their skill-ups. Internal recruitment through the career change scheme contributes not only to higher sales, but also helps restrain recruiting expenses. When using external recruitment media, recruiting expenses per person for engineers are typically over ¥600,000, while for manufacturing jobs only requiring roughly ¥160,000, according to the Company.

Net sales for Domestic Manufacturing Business increased by 12.8% YoY, and as a result of pre-adjusted operating income surging nearly 2.4 times YoY, that income margin jumped sharply from 1.7% to 3.6% which in fact rose rapidly quarterly-wise from 2.8% in Q1 to 4.4% in Q2. Positive factors behind were, allocating some cost burdens to both Domestic and Overseas Engineering Business units, and also better profitability brought by solidly growing PEO Business(*4), a new HR utilization scheme to which OS Group has been devoting efforts.

(*4) The Company has been refraining from sales activities for traditional manufacturing dispatching business. Reasons for this include: demand is very volatile as clients request rapid response to their production ramps for new models, contract unit prices are over 20% lower than those for engineering work dispatching, and using external media incurs high recruiting expenses. As an alternative, the Company is devoting its efforts to the PEO Scheme, which attempts to hire fixed-term contract employees of client makers, whose contracts will soon be expired, as regular employees of PEO Co., Ltd., and later lease them back to makers participating in the Scheme. Since many of the OS Group’s maker clients must comply with the Labor Contract Act from April 2018 onward which demands these companies to hire fixed-term contract employees with over 5-year consecutive employment as regular employees, many are taking a positive stance to the Scheme.

As of the end of 1H FY12/16, the number of employees enrolled at PEO was 4,063, up sharply from 3,024 at the end of last fiscal year and 3,528 at the end of Q1 this fiscal year, now accounting for over 54% of the whole 7,482 worksite employees for Domestic Manufacturing Outsourcing Business at the 1H end. Recruitment media expenses are not required for this hiring, and favorable dispatching contract unit prices are leading to improved profitability. The number of makers participating in this scheme is also growing, up from 158 at the end of FY12/15 to 189.

Looking at net sales trends by client industry, Electrical & Electronics and Transport Equipment, which in aggregate account for 70% of the segment, both increased by nearly 13%, continuing good growth. Minor impacts were from some domestic production suspensions caused by the fire troubles at a leading automaker's group company in January 2016 and the disastrous earthquakes in Kumamoto regions in April. This should be attributable to the Company's diversification of business fields.

Overseas businesses expanded rapidly thanks mainly to the new contributions from M&A deals implemented in FY12/15. Net sales for Overseas Engineering Outsourcing Business skyrocketed nearly 48 times from ¥176 million a year earlier to ¥8,520 million in 1H FY12/16. BLUEFIN RESOURCES Group (Australia, BLUEFIN) and NTRINSIC Group (the U.K./Europe, NTRINSIC), both merged in August last year, fully contributed to 1H FY12/16, and a part of Beddison Group (Australia, Beddison) operations as well as JBW/CDL Group (the U.K., JBW/CDL) newly joined since April 2016. Pre-adjusted operating income expanded from ¥21 million to ¥372 million.

Meanwhile, Overseas Manufacturing and Service Operations Outsourcing Business saw an also robust 85.3% net sales increase and pre-adjusted operating income turned from a loss of ¥41 million into a profit of ¥245 million, accounting for 23% of an increase in the whole pre-adjusted operating income. Earnings from Expro Group (Chile, Expro) acquired at the end of FY12/15, Beddison's service-oriented operations and HRS, both newly consolidated from April 2016, made new contributions.

Net sales for Domestic Service Operations Outsourcing Business, a segment newly disclosed from this fiscal year, increased from ¥298 million during 1H FY12/15 to ¥1,476 million, and although the absolute level is still low, this segment is expected to achieve high growth going forward. Nevertheless, the pre-adjusted operating loss expanded from ¥37 million to ¥50 million. While dispatching and sub-contracting businesses for welfare facilities within Okinawa US military bases and the outsourcing business dispatching convenience store clerks, both starting from FY12/15, are picking up steadily, they are still in the start-up phase hence incurring upfront expenses although the segment turned into positive in the Q2, starting to track profitable trajectory.

M&A deals in August and beyond adding to full-term forecasts

Full-year forecasts by operating segment are shown in Table 5 on page 11. There are no changes from the Company's April 28 forecasts.

Domestic Engineering Outsourcing Business is forecast to achieve net sales growth of 27.3% YoY and pre-adjusted operating income up 22.0% YoY. Year-over-year growth rate in net sales in 2H FY12/16 should be similar to that of 1H and incomes should accelerate further thanks to economies of scale. Guidance for Domestic Manufacturing Outsourcing Business looks for net sales up 13.9% YoY, and pre-adjusted operating income up 74.3%, with its income margin expected to rise from 3.4% in

FY12/15 to 5.2% due mainly to the PEO result. OS Partners (Japan, OSP)(former Recruit Factory Partners Co.,Ltd. at the time of acquisition in August 2016) will be newly consolidated from September but this also is not included in the full-year forecasts. Its FY03/16 business performance was ¥6,532 million for net sales and ¥426 million for operating income.

For Domestic Service Operations Outsourcing Business, net sales are forecast to rise roughly 4.5 times, from ¥1,083 million in FY12/15 to ¥4,841 million, and pre-adjusted operating income/loss should turn from a loss of ¥82 million in FY12/15 into a profit of ¥203 million, showing a solid income growth in the 2H after the segment turned into positive in the Q2 (April-June, 2016).

Overseas Manufacturing and Service Operations Outsourcing Business is expected to increase its net sales to about ¥31.4 billion, or nearly 2.4 times YoY, almost catching up with about ¥33.6 billion forecast for Domestic Manufacturing Outsourcing Business. Pre-adjusted operating income should jump from ¥53 million in FY12/15 to ¥1,059 million. M&A deals of 3 groups including Expro in FY12/15 and Beddison in FY12/16 will contribute, with the impact from Beddison which has annual net sales of roughly ¥24.5 billion (including its Engineering Outsourcing Business) being a significant driver. Also, Allen Lane Consultancy Limited (ALC) and Liberata UK Limited (Liberata), both UK companies acquired in August 2016, are not included in the forecasts, leaving room for upside potential.

Net sales for Overseas Engineering Outsourcing Business are forecast to increase by roughly 5.5 times YoY, and pre-adjusted operating income by 5.7 times YoY, from ¥183 million to ¥1,051 million. In addition to the contribution period for the 2 groups acquired in FY12/15 including BLUEFIN increasing from only 4 months in FY12/15 to a full 12 months in FY12/16, the engineering-oriented operations at Beddison as well as JBW/CDL, both joining OS Group from April 2016, will newly add to the consolidated performance.

Combined net sales for the above two overseas segments are forecast at roughly ¥52.4 billion and aggregate pre-adjusted operating income at roughly ¥2.1 billion, leading the each ratio of overseas businesses in total consolidated performance to reach 39% and 27%, respectively, up markedly from 21% and 6% in FY12/15.

[Table 5] Revised FY12/16 Forecasts by Operating Segment

(¥ million)	FY12/15		FY12/16			
	1H	Full-Year	1H		Full-Year	
	Actual	Actual	Actual	YoY Changes	Forecasts (as of Apr. 28)	YoY Changes
Net sales	**36,022**	**80,861**	**57,484**	**59.6%**	**134,000**	**65.7%**
Domestic Engineering Outsourcing Business	14,766	31,553	18,889	27.9%	40,156	27.3%
Domestic Manufacturing Outsourcing Business	13,724	29,468	15,487	12.8%	33,572	13.9%
Domestic Service Operations Outsourcing Business	298	1,083	1,476	395.7%	4,841	346.9%
Domestic Administrative Outsourcing Business	280	537	356	27.2%	858	59.7%
Domestic Recruiting and Placing Business	342	872	593	73.5%	1,351	55.0%
Overseas Engineering Outsourcing Business	176	3,832	8,520	4728.6%	20,986	447.6%
Overseas Manufacturing and Service Operations Outsourcing Business	6,359	13,349	11,781	85.3%	31,410	135.3%
Other Business	78	166	382	389.4%	825	397.6%
Operating income before adjustments	**1,300**	**4,046**	**2,554**	**96.4%**	**7,753**	**91.6%**
Domestic Engineering Outsourcing Business	950	2,398	1,045	10.0%	2,927	22.0%
Domestic Manufacturing Outsourcing Business	233	1,010	552	137.1%	1,761	74.3%
Domestic Service Operations Outsourcing Business	(37)	(82)	(50)	-	203	-
Domestic Administrative Outsourcing Business	25	56	99	301.2%	268	378.4%
Domestic Recruiting and Placing Business	142	413	280	97.0%	458	10.8%
Overseas Engineering Outsourcing Business	21	183	372	1630.7%	1,051	475.1%
Overseas Manufacturing and Service Operations Outsourcing Business	(41)	53	245	-	1,059	1897.9%
Other Business	8	14	11	43.2%	26	84.9%
Operating income margin before adjustments	**3.6%**	**5.0%**	**4.4%**	**+0.8pp**	**5.8%**	**+0.8pp**
Domestic Engineering Outsourcing Business	6.4%	7.6%	5.5%	- 0.9pp	7.3%	- 0.3pp
Domestic Manufacturing Outsourcing Business	1.7%	3.4%	3.6%	+1.9pp	5.2%	+1.8pp
Domestic Service Operations Outsourcing Business	-12.5%	-7.6%	-3.4%	+9.1pp	4.2%	+11.8pp
Domestic Administrative Outsourcing Business	8.8%	10.4%	27.8%	+19.0pp	31.2%	+20.8pp
Domestic Recruiting and Placing Business	41.6%	47.4%	47.3%	+5.7pp	33.9%	- 13.5pp
Overseas Engineering Outsourcing Business	12.2%	4.8%	4.4%	- 7.8pp	5.0%	+0.2pp
Overseas Manufacturing and Service Operations Outsourcing Business	-0.6%	0.4%	2.1%	+2.7pp	3.4%	+3.0pp
Other Business	9.8%	8.5%	2.9%	- 6.9pp	3.2%	- 5.3pp
Adjustments	(363)	(920)	(1,322)	-	(2,353)	-
Operating income	**938**	**3,125**	**1,231**	**31.3%**	**5,400**	**72.8%**
Operating income margin	**2.6%**	**3.9%**	**2.1%**	**- 0.5pp**	**4.0%**	**+0.1pp**
No. of worksite employees at term-end	**No. of employees**	**No. of employees**	**No. of employees**	**Ratio**	**No. of employees**	**Ratio**
Domestic Engineering Outsourcing Business	4,285	4,742	5,720	33.5%	6,014	26.8%
[Utilization rate for Domestic Engineering Outsourcing Business]	97.5%	98.4%	97.6%	+0.1pp	-	-
Domestic Manufacturing Outsourcing Business	6,554	7,463	7,482	14.2%	10,262	37.5%
Domestic Service Operations Outsourcing Business	381	1,671	1,521	299.2%	2,952	76.7%
Overseas Engineering Outsourcing Business	472	895	1,778	276.7%	1,851	106.8%
Overseas Manufacturing and Service Operations Outsourcing Business	11,028	14,644	19,647	78.2%	27,766	89.6%

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

TOPIC 1：Summary of 2 UK Companies' M&A Deal Implemented in August 2016

The OS Group is continuing active M&A overseas again in this fiscal year. In the last fiscal year the Company acquired 3 groups in Australia and Europe, and so far in this fiscal year has already announced 5 new deals. The majority of these have been in Service Operations Outsourcing Business providing advanced know-how and technology, substantially different from Manufacturing and Service

Operations Businesses until now which are mainly engaged in providing workforce personnel, in other words high value-added Service Operations Business. With many clients including government-related public institutions, this can be viewed as adding a new business model for the OS Group.

Table 6 shows a summary of the acquisition of 2 UK companies announced at the end of July 2016. For reference, summaries of overseas M&A transactions in the last fiscal year and those completed through Q1 of this fiscal year are shown in Tables 7 and 8 (details of the 6 acquired companies are covered in the IRTV memo Q1 FY12/16 Financial Results and Follow-up Interview dated July 19, 2016; please refer to “TOPIC 1: Summary of Overseas M&A Deals and Expansion of IP (Intellectual Property)”).

● [Table 6] Summary of 2 UK Companies’ M&A Deal (announced on July 29, 2016)

	Allen Lane Consultancy Limited	Liberata UK Limited
Date of Announcement	July 29, 2016	
Major Operation Region	the U.K.	
Business Scale (est.)	Net Sales: ¥2.2 billion (FY05/16)	Net Sales: ¥9.2 billion (FY12/15)
Major Businesses	･Provides accounting, account settlement, business process improvement and project management operations to all branches of the UK government ･Engages in high-end operations by specialized accountant-operated outsourcing services ･Provides advisory service on critical decision-making to the central government including outsourcing operations and selling its department to the private sector	･Develops managed service (BPS:Business Process Services) including BPO (Business Processing Outsourcing) business and operation process optimization services (BPA: Business Process Automation) ･More than 1,400 staff members in 11 offices in the U.K. provide services for over 400 projects, accounts for roughly 70% of the local governments
Consolidated Segment	Overseas Engineering Outsourcing Business	
Investment Stake (%)	65%	100%
Investment (including M&A expenses)	Total ¥12,460 million	
Consolidation Date	August 2016	

Source: Compiled by Trias Corporation from related websites for each company and information from Outsourcing Inc., Conversion rate is GBP 1=JPY 133.

ALC was established in 2004 mainly engaged in providing financial accounting personnel and specialist management for public services, providing management services including accounting, account settlement, business process improvement and others to all branches of the UK government. The quality of its work on consignment is said to be on par with that of the Big 4 public accounting firms. In addition, since it also provides advisory service to the central government on important decisions such as outsourcing work to the private sector, divestiture of government sections etc, the Company explains that it is positioned as an upstream-type provider in the supply chain of central government services.

At the same time, Liberata is a leading provider of managed services and operational process streamlining services to public entities encompassing over 400 projects including not only the central government, but also roughly 70% of local governments. As a result, this company is positioned as a downstream-type provider responsible for handling administrative work in the public services supply chain, and JBW/CDL which is specialized in agency public debt collection services and was acquired in April 2016 is positioned alongside Liberata.

Therefore, ALC is an important source of information for JBW/CDL and Liberata in preparation for bidding on projects as well as playing a support role. In addition, JBW/CDL and Liberata working in cooperation can expand the scope of business and increase opportunities for winning projects on consignment, and the Company estimates synergies from the two companies to be worth at least roughly £1.2 million (= ¥160 million converted at a forex rate of GBP133).

ALC and Liberata have different fiscal year accounting periods, however, according to disclosure materials, a simple sum of recent financial results for the 2 companies gives combined sales of over ¥11.0 billion, and an operating loss of (£53,000) for ALC, and operating income of £4 million for Liberata. However, since the roughly 50% of sales for ALC paid as an expense until now to other group companies disappears after the acquisition, actual adjusted operating income for ALC is £8 million, making combined operating income for the 2 companies £12 million (= roughly ¥1.6 billion).

Since earnings of the two companies will be reflected in consolidated financial results from August 2016, the 5-months contribution to sales works out to just under ¥5 billion, and to operating income works out to roughly ¥660 million (before goodwill amortization). However, since this uses actual results from different accounting periods, it is only a rough estimate.

● [Table 7] Summary of Overseas M&A Deals Implemented in April 2016

	Beddison Group	JBW/CDL Group	OS HRS Group
Date of Announcement	April 1, 2016	April 1, 2016	April 28, 2016
Major Operation Region	Australia	the U.K.	Asia/Europe
Business Scale (est.)	Net Sales: ¥24.5 billion	Net Sales: ¥2.0 billion	Net Sales: ¥0.9 billion Opearting Income: ¥0.2 billion
Major Businesses	・Provides comprehensive HR solution services nationwide in Australia, ranks 6th overall in Australia's dispatching market ・Engaged in dispatching, and recruiting & placing, RPO (recruitment process outsourcing), hotel housekeeping services, ITO (IT outsourcing), in addition to a wide range of HR consulting services ・Strengths in recruiting and placing/dispatching/contracting (consigned projects) for central and state government institutions	・JBW provides agency debt collection services for unpaid claims and legal enforcement services for the U.K. central government and local governments in England and Wales, and it ranks third in the industry, sustaintially ・Developed in-house its proprietary *AR-12* system for optimizing the collection process for each type of claim, establishing CDL as a business entity for technology licensing business	・Based in Malaysia, with offices in Japan, the U.K., India, etc., provides BPO (business process outsourcing) HR services covering employee-related services, payroll processing, tax law compliance, SI (system integration), etc. ・In 19 countries in Asia and Europe, handles agency payroll processing for over 90,000 employees for global enterprises in technology, finance and autos-related
Consolidated Segment	Overseas Engineering Outsourcing Business Overseas Manufacturing and Service Operations Outsourcing Business	Overseas Engineering Outsourcing Business	Overseas Manufacturing and Service Operations Outsourcing Business
Investment Stake (%)	approx. 80%	90.5/51.0%	60%
Investment (including M&A expenses)	¥3,856 million	¥3,581 million	¥1,635 million
Consolidation Date	April 2016	April 2016	May 2016

Source: Compiled by Trias Corporation from related websites for each company and information from Outsourcing Inc.

● [Table 8] Summary of Overseas M&A Deals Implemented in FY12/15

	BLUEFIN RESOURCES Group	NTRINSIC Group	Expro Group
Date of Announcement	August 6, 2015	August 25, 2015	November 30, 2015
Major Operation Region	Australia	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 the sectors of financials, IT, retailers, media, consulting, public, local governments, etc.	Dispatching of consultants and system engineers mainly for Oracle's enterprise resource planning (ERP) packages, and 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
Consolidation Date	September 2015	September 2015	December 2015

*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

TOPIC 2：Summary of the New Medium-Term Management Plan “VISION 2020”

The OS Group prepared its new Medium-Term Management Plan (hereinafter MTP) “VISION 2020: Tackling New Frontiers,” and announced it along with 1H financial results. The period covered is the 4 years from FY12/17–FY12/20. Since the Company is almost certain to achieve the FY12/17 final year sales target of ¥130 billion specified in the 3-year Medium-Term Management Plan “Vision 2017: Vector to the New Paradigm” announced February 12, 2015 one year early, it made a new MTP.

In “VISION 2020: Tackling New Frontiers,” the Company recognizes that major growth cannot be achieved under the business model until now and cannot respond to changes in the environment, and is therefore targeting to become a tenacious group company that can achieve steady growth under any business environment. Consolidated numerical targets for the final year in FY12/20 include net sales of ¥387 billion and IFRS-based EBITDA of ¥31.5 billion.

Table 9 shows guidance estimates for net sales and EBITDA for each fiscal year. According to the Company, it has not included potential large M&A deals after August 2016 in any of the segment sales estimates. These estimates imply CAGR of 30.4% for the 4 years from this fiscal year through FY12/20, estimating particularly high annual growth of roughly 40% for Domestic Service Operations Outsourcing Business and Overseas Engineering Outsourcing Business.

The new MTP positions each fiscal year period as: FY12/16 as a period for leading investment (M&A) for the purpose of building a global structure, FY12/17 as a strategic base-building period ahead of the next big advance forward, specifically a period for establishing a robust business structure and one that can generate cash flows by putting in place corporate governance to include newly acquired subsidiaries as well as thorough review of recouping investments, and then FY12/18–FY12/20 as “a period for re-acceleration to the next big advance forward,” “targeting lateral development of global consolidated subsidiaries generating healthy cash flows across the globe, and establishing the business foundation to become global No.1.”

[Table 9] VISION2020 Forecasts for Net Sales and EBITDA

(¥ billion)	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	Composition Ratio FY12/16	Composition Ratio FY12/20	FY16/12-FY20/12 CAGR
Net Sales	**80.9**	**134.0**	**175.0**	**228.0**	**297.0**	**387.0**	**100.0%**	**100.0%**	**30.4%**
Domestic Engineering Outsourcing Business	31.6	40.2	48.0	62.0	75.0	97.0	30.0%	25.1%	24.6%
Domestic Manufacturing Outsourcing Business	29.5	33.6	47.0	59.0	72.0	88.0	25.1%	22.7%	27.2%
Domestic Service Operations Outsourcing Business	1.1	4.8	5.0	8.0	10.0	18.0	3.6%	4.7%	39.2%
Overseas Engineering Outsourcing Business	3.8	21.0	23.5	34.0	59.0	83.0	15.7%	21.4%	41.0%
Overseas Manufacturing and Service Operations Outsourcing Business	13.3	31.4	48.6	61.5	76.0	95.0	23.4%	24.5%	31.9%
Other Segment Total	1.6	3.0	2.9	3.5	5.0	6.0	2.2%	1.6%	18.9%
EBITDA	**4.5**	**8.5**	**11.3**	**15.3**	**21.1**	**31.5**			**38.7%**
EBITDA Margin	*5.6%*	*6.3%*	*6.5%*	*6.7%*	*7.1%*	*8.1%*			

Source: Compiled by Trias Corporation from Outsourcing Inc. results briefing materials
*Note:FY15/12 applied Japanese GAAP, FY16/12 and onward are IFRS base.

Strategies and outlooks for each major business segment in “VISION 2020” are outlined below.

Domestic Engineering Outsourcing Business: This business is focused on the IT and building construction and civil engineering sectors which are expected to grow over the medium term. The plan is targeting leveraging the Group’s in-house engineer training school and boosting the cumulative number of career change professionals from manufacturing to engineering from 370 at the end of FY12/15, to over 700 at the end of FY12/16, to over 1,200 by the end of FY12/20. The Company expects to grow top-line sales through leveraging training and career changes, as well as increasing the number of new grads.

Domestic Manufacturing Outsourcing Business: By promoting its proprietary PEO Scheme, the Company is targeting to increase the number of enrolled staff from 3,024 at the end of FY12/15 to 5,500 at the end of FY12/16 to 20,000 at the end of FY12/20. In addition to the acquisition of OSP implemented this August which will add roughly ¥7 billion in annual sales, in FY12/17–FY 12/18, hiring by PEO of customer seasonal workers is expected to increase sharply from the impact of revised laws until now, and the company is targeting annual sales increases of a minimum ¥10 billion per year.

Domestic Service Operations Outsourcing Business: For the time being the Company will focus efforts on outsourcing business for convenience stores and US military bases. For convenience stores, in addition to dispatching business for store employees, the Company has won contracts from the head offices of several major CVS chains for unified administrative management of worker dispatching service providers used by franchisees, and expects to see an increase in fee income. For outsourcing business within US military bases, the Company is in the process of rolling out outsourcing business currently engaged at the Kadena Air Base and Marine Corps Air Station Iwakuni for welfare and recreational facilities to other bases, as well as expanding contract work to include repairs and maintenance of military facilities including runways etc, with a view toward increasing the earnings base. Planned acquisition of AMERICAN ENGINEERING CORPORATION (AEC) announced on August 4, 2016 is not included in guidance estimates, however, once the provided deal is closed on schedule next April, AEC will not only give a boost to earnings (FY12/15 net sales ¥10.6 billion and operating income ¥170 million), but since AEC is an American company, will open large avenues of opportunity to expand business to other US military bases in the Pacific Rim outside of Japan.

Overseas Engineering Outsourcing Business: In addition to business with private sector companies, the Company is targeting to expand public work on contract from national and local governments outsourced to the private sector, which leads to steady growth less susceptible to fluctuation in the economic business cycle. From this fiscal year, newly consolidated 2 groups BLUEFIN and NTRINSIC in September 2015 make a full-year contribution, and from next fiscal year, newly consolidated 4 groups Beddison and JBW/CDL in April 2016, and ALC and Liberata in August 2016, will make a full- year contribution. However, ALC and Liberata are not included in new MTP estimates. The Company plans to share technology and know-how strengths of each group, targeting global synergies including mutual geographic inroads into markets where there is already a presence.

Overseas Manufacturing and Service Operations Outsourcing Business: Similar to Overseas Engineering Outsourcing Business, the Company is targeting to expand public work on contract from national and local governments outsourced to the private sector. The main driver of growth is Service Operations Outsourcing Business, however, the Company is also planning to enter Manufacturing Outsourcing Business in Germany. Newly consolidated Expro, Chile from the end of last fiscal year will target business development in Central and South American countries outside of Chile. Newly acquired HRS based in Malaysia (deal completed in April 2016) plans to accelerate business development mainly in Asia. Together with Service Operations Outsourcing Business Beddison also added in April 2016, these companies will make a full-year contribution from next fiscal year.

IFRS-based EBITDA during the 4-year period of the new MTP is estimated to increase at 38.7% CAGR from ¥8.5 billion in FY12/16 to ¥31.5 billion in FY12/20, with the EBITDA margin rising from 6.3% to 8.1% over the same period. The composition ratio of Domestic Manufacturing Outsourcing Business which until recently was the mainstay profit earner is projected to fall from 23.6% in FY12/16 to 8.9% in FY12/20, dropping to single digits, making a clear stance toward strengthening the earnings structure to be less susceptible to the impact of demand fluctuation.

At the same time, a graph in the MTP briefing materials shows the EBITDA composition ratio for high-margin Domestic Engineering Outsourcing Business increasing sharply, however, this is partly due to allocating SG&A expenses and others using the ratios for each segment for this fiscal year. Going forward, as a result of revising expense allocation, there is potential for profit contribution from each segment to change.

As was seen from the points above, public outsourcing work on contract is set to expand sharply, strengthening the earnings structure from the impact of the economic business cycle fluctuations, and growth is expected for high value-added Service Operations Outsourcing Business backed by advanced technology and know-how. The OS Group's image until now of providing workforce personnel for dispatching business is likely to change dramatically going forward.

Reverences

Consolidated Key Financial Data

No. of Shares Issued	Jun-16	17,430,700
No. of Treasury Shares	Jun-16	51
Market Value (¥mn)	28-Sep-16	75,039
BPS (¥)	Jun-16	535.00
ROE (%)	Dec-15	19.5
ROA (%)	Dec-15	5.9
PER (times) FY12/16 fcst.	28-Sep-16	31.2
PCFR (times) Q2 FY12/16 actual	28-Sep-16	118.1
PBR (times) Q2 FY12/16 actual	28-Sep-16	8.0
Share Price (¥)	28-Sep-16	4,305
Unit Share (shares)	28-Sep-16	100
Average Daily Volume (shs)	28-Sep-16	285,500

Total Assets (¥mn)	Jun-16	49,857
Shareholders' Equity (¥mn)	Jun-16	9,325
Interest-Bearing Debt (¥mn)	Jun-16	(*)21,448
Equity Ratio (%)	Jun-16	18.7
Ratio of Interest-Bearing Debt (%)	Jun-16	230.0
Free Cash Flows (¥mn)	Jun-16	(5,872)

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 16-Sep-15 to 16-Sep-16)
Interest-Bearing Debts* Ratio = I.B.D. ÷ Shareholders' Equity
Free Cash Flows = Operating CF + Investment CF
*Incl. current portion of accounts payable-installment purchase

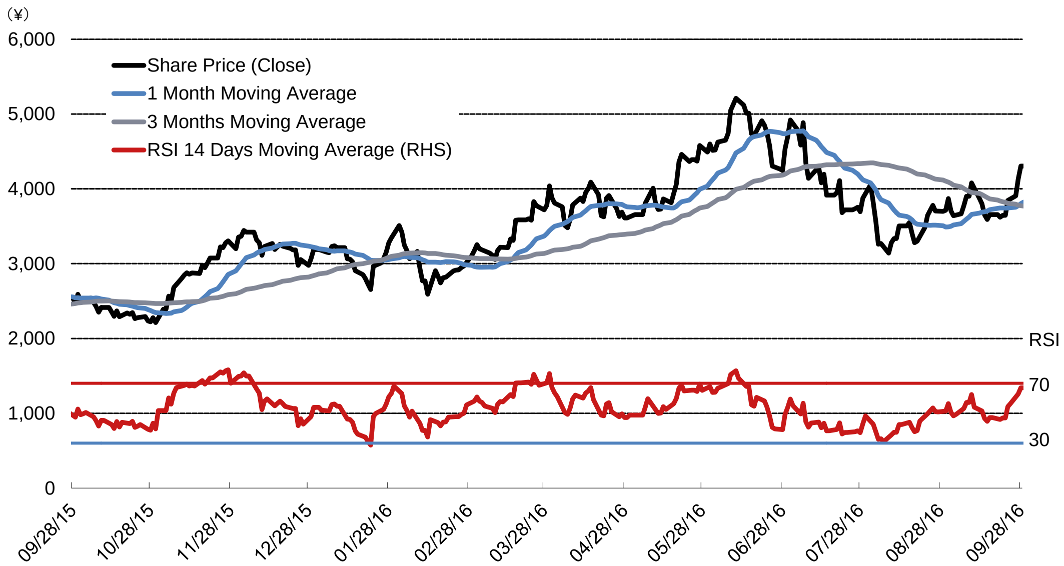
Note: The amounts shown are rounded off to the nearest million yen.

Consolidated Financial Results

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
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	1,317	89.81	35.00
FY12/15	80,860	3,125	3,224	1,810	110.15	35.00
FY12/16 1H	57,484	1,231	1,294	302	17.34	0.00
FY12/16 full year fcst.	134,000	5,400	5,100	2,400	137.87	42.00

Note 1: FY12/16 forecasts announced on Apr. 28, 2016.
Note 2: The amounts shown are rounded off to the nearest million yen.

Stock Price Charts and RSI (September 28, 2015 – September 28, 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