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OUTSOURCING Inc.

Q3 FY12/14 Financial Results and Follow-up Interview

OUTSOURCING Inc, hereafter the Company or the OS Group, announced its Q3 FY12/14 business results, and Trias Corporation conducted an interview with Chairman and CEO Haruhiko Doi. The following is a summary of that interview.

Summary of Q3 FY12/14 Consolidated Financial Results

Regarding the operating environment during the period under review, the Japanese economy suffered from the impact of torrential rains and typhoons in mainly Western Japan in July and August weighing on consumer spending, and extending delays in construction projects already suffering from chronic labor shortages. In the Company's largest demand sector, Transport Equipment, poor domestic sales of particularly mini vehicles resulted in inventory adjustment for a number of automakers. However, demand for production outsourcing is not a function of the level of production, rather the level of uncertainty regarding future trends, which tends to drive maker needs for the Company's Production Outsourcing Business. In addition to sluggish trends in Japan, mixed indicators coming out both the US and China increased levels of uncertainty, requiring makers to become even more flexibly responsive to short-term trends in making production plans. In the environment, the OS Group has realized its business expansion through evolving its Production Outsourcing Business model.

Recruitment expenses continue to rise as demand for personnel outsourcing services, mainly for temporary placement, is robust driven by the Abenomics effects for the short-term, in addition to mid- to long-term structural changes in the domestic production framework. However, as can be seen from Table 1 on the next page, the gross profit margin is improving; 0.2pp up for Q3 alone, and 0.8pp up for 9-months cumulative (Jan-Sep; hereafter Q3 YTD). According to the Company, it has been successful in raising contract unit prices with clients. In addition, it is starting to see the effects of its PEO initiative with a new subsidiary PEO Co., Ltd. in hiring from makers seasonal workers whose contract terms are reaching expiration, acquiring workers without having to go through traditional advertising media.

Operating income for Q3 YTD soared 210.4% YoY thanks largely to a low base of Q1 FY12/13. Net sales and incomes for the period posted record highs, while even in Q3 alone, operating income rose by 33.1% YoY. SG&A expenses ratio dropped due to strong net sales growth; 25.1% up for Q3 alone and 28.8% up YoY for Q3 YTD, respectively.

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●【Table 1】Summary of Q3 Alone and Q3 YTD FY12/14 Consolidated Financial Results

(¥mn)	FY12/13 Q3 alone	FY12/14 Q3 alone	% YoY Changes	FY12/13 Q3 YTD	FY12/14 Q3 YTD	% YoY Changes
Net sales	**12,176**	**15,232**	**25.1%**	**33,609**	**43,303**	**28.8%**
Cost of sales	9,739	12,162	24.9%	27,237	34,711	27.4%
Gross profit	2,436	3,070	26.0%	6,372	8,591	34.8%
Gross profit margin	20.0%	20.2%	-	19.0%	19.8%	-
SG&A expenses	2,036	2,537	24.6%	5,971	7,345	23.0%
SG&A exp. Ratio	16.7%	16.7%	-	17.8%	17.0%	-
Operating income	**400**	**532**	**33.1%**	**401**	**1,246**	**210.4%**
Oprating income margin	3.3%	3.5%	-	1.2%	2.9%	-
Non-operating income	159	132	-16.8%	510	420	-17.5%
Non-operating expenses	123	75	-38.8%	437	317	-27.4%
Ordinary income	**435**	**589**	**35.3%**	**474**	**1,349**	**184.5%**
Ordinary income margin	3.6%	3.9%	-	1.4%	3.1%	-
Extraordinary income	0	54	-	93	113	21.8%
Extraordinary losses	-	5	-	-	11	-
Net income	**303**	**412**	**35.7%**	**333**	**787**	**135.9%**

Source: Compiled by Trias Corporation from the Company IR materials

Table 2 on the next page shows financial results by operating segment. Manufacturing Outsourcing sales for Q3 alone increased by 16.1% YoY, and for Q3 YTD increased by 19.9% YoY. The YoY decline in Q3 alone segment operating income is partly due to start-up expenses of new consolidated subsidiary PEO Co., Ltd.

As are highlighted in the table, a notable achievement was high growth in both net sales and incomes for Engineering Outsourcing. Q3 alone net sales increased by 28.0% YoY, and Q3 operating income rose by 62.3% YoY, with an operating income margin of 8.0%, 1.7pp up.

For Administrative Outsourcing, the structural shift from seasonal workers employed directly by makers to temporary placement driven by deregulation including the Revised Worker Dispatch Law, which is expected to be implemented in Apr-2015, has resulted in lower new demand for services by a group subsidiary ORJ INC., although switching is not immediate, and many makers still enjoy the high efficiencies provided by ORJ. Segment operating income decreased due to increased expenses including canceling dormitories, etc.

For Recruitment and Placement, in addition to the structural shift to temporary placement contracts, there was demand from the Transport Equipment sector for seasonal workers to handle production increases for the large number of new model launches, etc., and both net sales and operating income rose sharply.

The two segments, Administrative Outsourcing and Recruitment and Placement, should really be considered in combination, and combined sales in Q3 alone rose by 11.9% YoY, and combined operating income rose by 46.9% YoY. Relatively higher margins in these two segments are due to

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worker salaries not being included in net sales. Combined operating income margin for these two segments stood at 34.1% in Q3 alone.

In Overseas Business, net sales rose by 50.4% for Q3 alone and 50.3% for Q3 YTD, respectively, although they were somewhat negatively affected by political turmoil in Thailand and Vietnam.

●【Table 2】 Summary of Q3 Alone and Q3 YTD FY12/14 Financial Results by Operating Segment

(¥mn)	FY12/13 Q3 alone	FY12/14 Q3 alone	% YoY Changes	FY12/13 Q3 YTD	FY12/14 Q3 YTD	% YoY Changes
Net Sales	**12,176**	**15,232**	**25.1%**	**33,609**	**43,303**	**28.8%**
Manufacturing Outsourcing	5,598	6,500	16.1%	15,466	18,549	19.9%
Engineering Outsourcing	4,451	5,696	28.0%	12,218	16,078	31.6%
Administrative Outsourcing	146	151	3.4%	465	441	-5.2%
Recruitment and Placement	156	188	19.9%	294	558	89.8%
Overseas Business	1,767	2,658	50.4%	5,016	7,538	50.3%
Others	54	36	-32.6%	148	136	-7.9%
Operating Income (loss)	**400**	**532**	**33.1%**	**401**	**1,246**	**210.4%**
Manufacturing Outsourcing	137	103	-24.8%	(17)	299	-
Engineering Outsourcing	280	455	62.3%	448	950	111.9%
Administrative Outsourcing	41	18	-54.5%	124	60	-51.1%
Recruitment and Placement	37	96	160.2%	64	264	312.0%
Overseas Business	40	18	-55.2%	80	53	-33.8%
Others	(1)	(0)	-	3	4	41.1%
Eliminations	(135)	(159)	-	(301)	(385)	-
Operating Income Margin	**3.3%**	**3.5%**	**-**	**1.2%**	**2.9%**	**-**
Manufacturing Outsourcing	2.5%	1.6%	-	-0.1%	1.6%	-
Engineering Outsourcing	6.3%	8.0%	-	3.7%	5.9%	-
Administrative Outsourcing	28.4%	12.5%	-	26.7%	13.7%	-
Recruitment and Placement	23.7%	51.5%	-	21.8%	47.4%	-
Overseas Business	2.3%	0.7%	-	1.6%	0.7%	-
Others	-3.2%	-1.2%	-	2.1%	3.2%	-

Source: Compiled by Trias Corporation from the Company IR materials

Table 3 on the next page shows a breakdown of Production Outsourcing Business sales by industry. The three sectors with YoY sales growth of over 50% in Q3 alone are highlighted, including the recovery in Manufacturing Outsourcing Electrical & Electronics, the expansion in Engineering Outsourcing IT-related, which has become the largest domestic individual sub-sector, and Overseas Business.

Table 4 also on the next page shows the quarterly trend of industry sector weightings in the total net sales of Production Outsourcing Business, going back to Q1 FY12/12. Since all three segments, Manufacturing Outsourcing, Engineering Outsourcing and Overseas Business, are growing, of which IT-related and Overseas Business with particularly high growth are highlighted.

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●【Table 3】Production Outsourcing Business Sales Breakdown by Industry

(¥mn)	FY12/13 Q3 alone	FY12/14 Q3 alone	% YoY Changes	FY12/13 Q3 YTD	FY12/14 Q3 YTD	% YoY Changes
Manufacturing Outsourcing	**5,598**	**6,500**	**16.1%**	**15,466**	**18,549**	**19.9%**
Transport Equipment	1,730	2,193	26.8%	4,618	6,155	33.3%
Electrical & Electronics	1,056	1,793	69.8%	3,071	4,868	58.5%
Pharm. & Chemicals	934	989	5.8%	2,721	2,936	7.9%
Metal & Building Materials	629	518	-17.7%	1,947	1,601	-17.8%
Foods	405	465	14.9%	1,158	1,259	8.7%
Others	843	541	-35.8%	1,949	1,728	-11.3%
Engineering Outsourcing	**4,451**	**5,696**	**28.0%**	**12,218**	**16,078**	**31.6%**
Transport Equipment	1,332	1,868	40.2%	3,634	5,056	39.1%
Electrical & Electronics	576	776	34.7%	1,660	2,226	34.0%
Pharm. & Chemicals	215	237	10.2%	623	660	5.8%
Metal & Construction Materials	3	32	866.7%	8	78	868.1%
IT-related	1,432	2,199	53.6%	4,072	6,080	49.3%
Construction & Plant-related	129	136	5.1%	295	415	40.6%
After-sales Maintenance	96	37	-61.2%	183	198	8.2%
Others	665	408	-38.5%	1,740	1,362	-21.7%
Overseas Business	**1,767**	**2,658**	**50.4%**	**5,016**	**7,538**	**50.3%**

Source: Compiled by Trias Corporation from the Company IR materials

●【Table 4】 Quarterly Trend of Industry Weightings in Total Sales

	FY12/12				FY12/13				FY12/14		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing Outsourcing	**60.4%**	**60.2%**	**56.3%**	**53.3%**	**46.4%**	**45.7%**	**46.0%**	**46.1%**	**43.3%**	**42.6%**	**42.7%**
Transport Equipment	20.8%	20.9%	17.3%	13.9%	13.0%	13.9%	14.2%	14.1%	14.6%	13.6%	14.4%
Electrical & Electronics	12.1%	12.6%	13.1%	12.8%	10.1%	8.8%	8.7%	7.9%	10.2%	11.7%	11.8%
Pharm. & Chemicals	8.5%	8.4%	8.5%	9.3%	8.6%	8.1%	7.7%	7.1%	6.9%	7.0%	6.5%
Metal & Construction Materials	9.8%	8.9%	8.8%	7.8%	6.5%	5.8%	5.2%	4.5%	3.8%	3.9%	3.4%
Foods	4.3%	4.2%	4.0%	4.1%	3.6%	3.4%	3.3%	3.3%	2.9%	2.8%	3.1%
Others	4.9%	5.2%	4.7%	5.5%	4.6%	5.7%	6.9%	9.2%	4.9%	3.6%	3.6%
Engineering Outsourcing	**26.4%**	**27.3%**	**30.1%**	**32.5%**	**37.0%**	**35.6%**	**36.6%**	**35.3%**	**37.0%**	**37.0%**	**37.4%**
Transport Equipment	10.5%	8.8%	9.2%	10.5%	10.8%	10.7%	10.9%	10.8%	11.2%	11.5%	12.3%
Electrical & Electronics	5.1%	6.3%	5.2%	5.3%	5.1%	5.0%	4.7%	4.6%	5.0%	5.4%	5.1%
Pharm. & Chemicals	1.7%	1.8%	1.7%	1.7%	2.0%	1.8%	1.8%	1.5%	1.5%	1.5%	1.6%
Metal & Construction Materials	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.2%
IT-related	4.2%	4.7%	8.0%	9.2%	12.9%	11.8%	11.8%	11.6%	13.9%	13.8%	14.4%
Construction & Plant-related	-	-	-	-	0.7%	0.8%	1.1%	1.1%	1.0%	1.0%	0.9%
After-sales Service & Repairs	-	-	-	-	0.3%	0.5%	0.8%	0.5%	0.6%	0.5%	0.2%
Others	4.8%	5.5%	6.0%	5.7%	5.0%	5.0%	5.5%	5.1%	3.6%	3.2%	2.7%
Overseas Business	**9.8%**	**9.7%**	**11.2%**	**11.5%**	**14.2%**	**16.0%**	**14.5%**	**16.0%**	**17.1%**	**17.7%**	**17.5%**

Source: Compiled by Trias Corporation from the Company IR materials

The striking change in composition is fairly obvious since Q1 FY12/12, with a 17.7pp decline in Manufacturing Outsourcing, replaced by the 11.0pp increase in Engineering Outsourcing, of which IT-related accounted for an increase of 10.2pp, and 7.7pp increase for Overseas Business.

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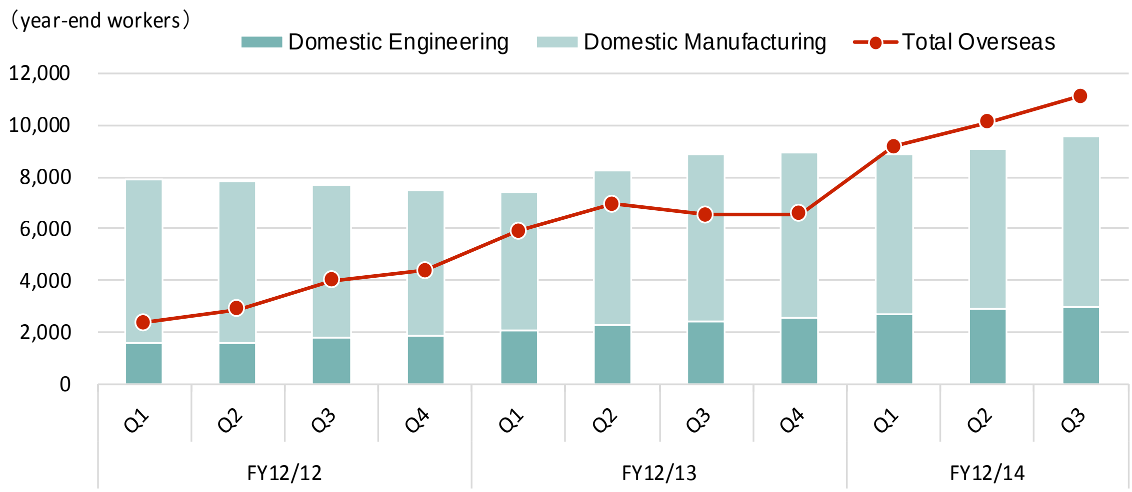
By operating segment, Engineering Outsourcing accounted for 37.4% of total net sales in Q3 alone, while 65.8% of operating income before eliminations (¥692mn), and 85.5% of operating income after eliminations (¥532mn), the largest income contribution. One of the key drivers was 53.6% growth in IT-related, which has become the largest sub-sector within Engineering Outsourcing. In addition, demand for engineers for traditional manufacturers in Transport Equipment and Electrical & Electronics was also extremely brisk, as contract prices for engineering-related are much higher than those for volume production-related.

The key takeaway here is that the revenue structure of OS Group continues to evolve. Although some still think of the Company as mainly a provider of Manufacturing Outsourcing services, the reality is the majority of incomes are actually now generated from Engineering Outsourcing.

【Graph 1】 and 【Graph 2】 below show respectively the number of worksite employees at each quarter-end and recruitment unit prices of these quarters.

【Graph 1】 illustrates the number of worksite employees in Overseas Business has persistently exceeded that of domestic worksite employees in this fiscal year.

●【Graph 1】 Quarterly Trend of Worksite Employees



Source: Compiled by Trias Corporation from the Company IR materials

【Graph 2】 on the next page shows domestic recruitment unit prices by operating segment. As can be seen, recruitment expenses in the Production Outsourcing Business have been declining since the beginning of this year in both manufacturing and engineering fields. Behind this, there are the Group's strategic initiatives, including the new recruitment scheme by the new subsidiary, PEO Co., Ltd. These initiatives are discussed in details in the later section " The Big Picture, General Outlook for FY12/15."

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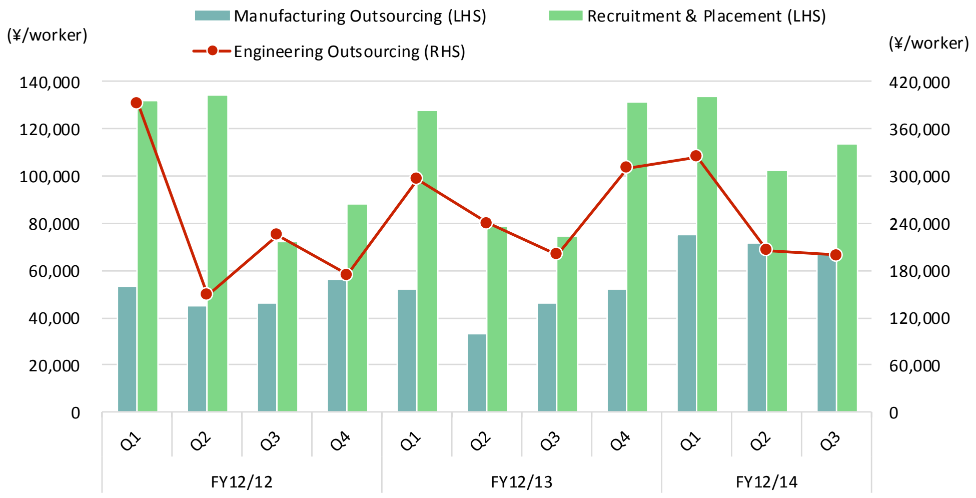
●【Graph 2】Quarterly Trend of Domestic Recruitment Unit Prices by Operating Segment



Source: Compiled by Trias Corporation from the Company IR materials

Notable changes in the balance sheet at the end of Q3 FY12/14 include: 1) ¥1,381mn increase in accounts receivable due to high top-line growth; 2) ¥1,429mn increase in short-term loans payale for working capital and stable funding for future M&A (¥599mn increase when including current portion of long-term loans payable); 3) ¥770mn decrease in non-current liabilities from repaying long-term loans payable, and ¥875mn increase in net assets largely due to an increase in retained earnings.

●【Table 5】Q3-End FY12/14 Consolidated Balance Sheet Summary

(¥ mn)	FY12/13		FY12/14	
	Q4-end	%Total	Q3-end	%Total
Current assets	**14,119**	**69.4%**	**16,279**	**71.0%**
Cash and deposits	6,032	29.7%	6,190	27.0%
Notes and accounts receivable - trade	6,529	32.1%	7,910	34.5%
Non-current assets	**6,223**	**30.6%**	**6,653**	**29.0%**
Tangible fixed assets	1,953	9.6%	2,134	9.3%
Intangible assets	1,827	9.0%	2,210	9.6%
Goodwill	1,330	6.5%	1,712	7.5%
Investment and other assets	2,442	12.0%	2,307	10.1%
Total assets	**20,343**	**100.0%**	**22,932**	**100.0%**
Current liabilities	**10,003**	**49.2%**	**12,488**	**54.5%**
Notes and accounts payable - trade	609	3.0%	612	2.7%
Short-term loans payable	4,380	21.5%	4,979	21.7%
Accounts payable - other	2,905	14.3%	3,417	14.9%
Non-current liabilities	**4,423**	**21.7%**	**3,652**	**15.9%**
Bonds payable	50	0.2%	30	0.1%
Long-term loans payable	2,578	12.7%	1,923	8.4%
Total liabilities	**14,427**	**70.9%**	**16,141**	**70.4%**
Total net assets	**5,915**	**29.1%**	**6,790**	**29.6%**
Total liabilities and net assets	**20,343**	**100.0%**	**22,932**	**100.0%**

Source: Compiled by Trias Corporation from the Company IR materials

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FY12/14 Consolidated Financial Forecasts

Table 6 below shows the initial full-year company guidance for FY12/14, and a comparison of Q3 YTD achievement rates versus FY12/13. In making YoY comparisons, it is important to remember that FY12/13 was characterized by an operating loss in the Q1 largely due to unexpected vertical production ramp-ups mainly for the Transport Equipment sector, so the quarterly trend of operating income in FY12/13 was: Q1 ¥(188)mn, Q2 ¥189mn, Q3 ¥400mn and Q4 ¥801mn, with a low base in Q1 and high base in Q4. Therefore, the achievement rate in operating income for Q3 YTD FY12/13 was depressed to 33.4% due to the Q1 loss. On the contrary, the quarterly trend of operating income in FY12/14 is: Q1 ¥309mn, Q2 ¥404mn and Q3 532mn, and the achievement rate improves to 62.3% against the Company's full-year forecast, with a much higher YoY growth for the Q3 YTD operating income than a full-year comparison.

●【Table 6】FY12/14 Consolidated Financial Forecasts and Q3 YTD Achievement Rates

(¥mn)	FY12/13 Q3 YTD	FY12/13 Full-Year	% Achieved	FY12/14 Q3 YTD	FY12/14 FY fcst	% Achieved	YoY Changes Q3 YTD	YoY Changes Full-Year
Net sales	33,609	47,384	70.9%	43,303	61,300	70.6%	28.8%	29.4%
Operating income	401	1,202	33.4%	1,246	2,000	62.3%	210.4%	66.3%
Ordinary income	474	1,357	34.9%	1,349	2,050	65.8%	184.5%	51.0%
Net income	333	1,122	29.7%	787	1,060	74.3%	135.9%	-5.6%

Source: Compiled by Trias Corporation from the Company IR materials

Table 7 on the next page shows Q4 alone initial company guidance by operating segment, and Q3 YTD achievement rates. Given the high base in Q4 FY12/13, the Company is only guiding for some 6% decline in Q4 FY12/14 operating income, while full-year operating income is expected up 66.3% YoY.

Regarding the full-year guidance for net sales of ¥61.3bn, based on the Q3 YTD actual results, the implied amount required to achieve that target is roughly ¥18.0bn, with a YoY growth of over 30% in Q4 alone. However, the Company notes slight declines in utilization rates in Q4 for Production Outsourcing Business due to the sluggish domestic industrial economy. And 25% YoY growth in Q4 alone would yield net sales of roughly ¥17.2bn, which would be a slight shortfall of ¥800mn (1.3% shortfall), coming in around ¥60.5bn, 27.7% up YoY.

Incomes appear on course for an overshoot of company guidance. Regarding the full-year guidance for operating income of ¥2.0bn, based on the Q3 YTD actual results, the implied amount required to achieve that target is only ¥753mn, implying 6.0% down YoY in Q4 alone. Even discounting increased expenses associated with net sales growth and M&A promotion, however, the income is unlikely to decline so much.

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The Company's two key assumptions for growth are: 1) expanding net sales from a net increase in worksite employees, and 2) securing healthy growth in incomes by holding down recruitment expenses. According to the Company, recouping recruitment expenses within 2 months is an absolute requirement.

●【Table 7】FY12/14 Initial Forecasts and Q3 YTD Achievement Rates by Operating Segment

(¥mn)	FY12/13 Q4 Actual	FY12/14 Q4 Fcst	% YoY Changes	FY12/14 Q3 YTD	FY12/14 Forecast	% Achieved	% YoY Changes
Net Sales	**13,774**	**17,996**	**30.7%**	**43,303**	**61,300**	**70.6%**	**29.4%**
Manufacturing Outsourcing	6,346	8,225	29.6%	18,549	26,775	69.3%	22.8%
Engineering Outsourcing	4,861	6,634	36.5%	16,078	22,713	70.8%	33.0%
Administrative Outsourcing	137	105	-23.5%	441	547	80.7%	-9.4%
Recruitment and Placement	182	(52)	-128.6%	558	506	110.3%	6.1%
Overseas Business	2,204	3,649	65.5%	7,538	11,188	67.4%	54.9%
Others	41	101	144.0%	136	238	57.5%	25.3%
Operating Income (loss)	**801**	**753**	**-6.0%**	**1,246**	**2,000**	**62.3%**	**66.3%**
Manufacturing Outsourcing	555	188	-66.0%	299	488	61.3%	-9.3%
Engineering Outsourcing	294	347	18.3%	950	1,298	73.2%	74.8%
Administrative Outsourcing	15	36	136.3%	60	97	62.6%	-30.5%
Recruitment and Placement	65	(158)	-	264	106	249.6%	-18.3%
Overseas Business	(58)	204	-	53	258	20.6%	-
Others	2	7	244.8%	4	12	36.5%	125.9%
Eliminations	(73)	123	-	(385)	(262)	-	-30.0%
Operating Income Margin	**5.8%**	**4.2%**	**-**	**2.9%**	**3.3%**	**-**	
Manufacturing Outsourcing	8.8%	2.3%	-	1.6%	1.8%	-	
Engineering Outsourcing	6.0%	5.2%	-	5.9%	5.7%	-	
Administrative Outsourcing	11.1%	34.4%	-	13.7%	17.7%	-	
Recruitment and Placement	35.8%	303.3%	-	47.4%	20.9%	-	
Overseas Business	-2.6%	5.6%	-	0.7%	2.3%	-	
Others	5.3%	7.5%	-	3.2%	5.0%	-	

Source: Compiled by Trias Corporation from the Company IR materials

Graph 3 on the next page shows the trend of average recruitment unit prices for the personnel outsourcing of manufacturing industry. The Company's initial expenses of housing and relocation per person are roughly ¥56,700. The Company's 1H FY12/14 average monthly gross profit per employee was ¥66,048, which means 2 months' expenses are ¥132,096. Based on the industry average recruitment unit price in Q2 FY12/14 of ¥85,000 + ¥56,700 (initial expenses) = ¥141,700, recruitment expenses can't be recovered in 2 months under the existing scheme. However, as can be seen from Graph 3, the Company's measures controlling recruitment expenses are already beginning to take effect.

Graph 4 also on the next page shows that overall recruitment expenses are being successfully restrained after Q2, despite higher levels of number of workers recruited in 2014, especially with high growth in engineers which have higher unit prices.

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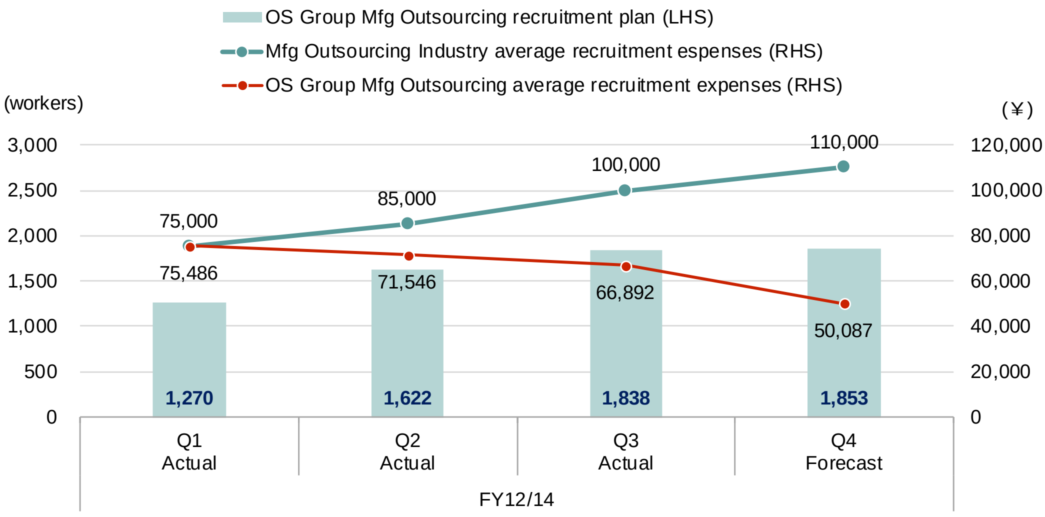
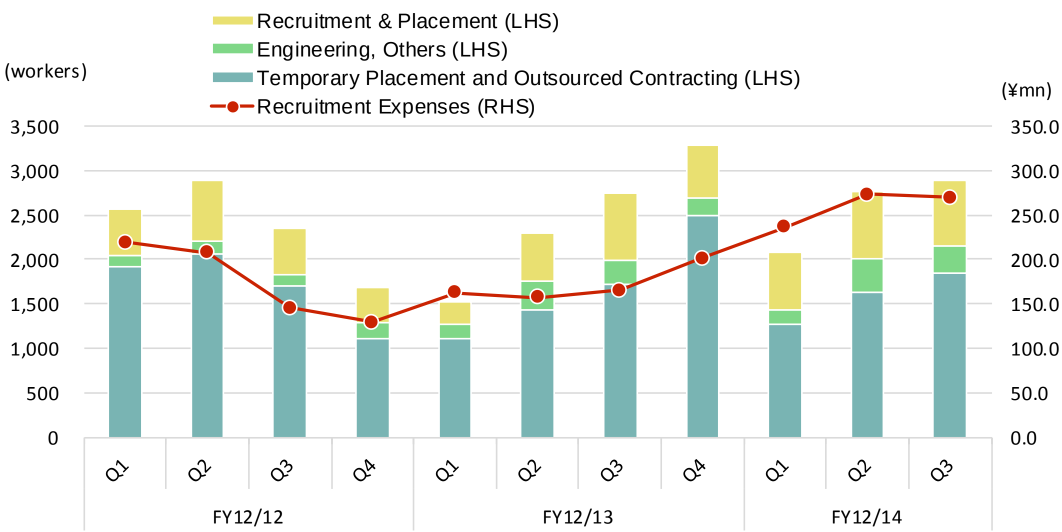
●【Graph 3】Recruitment Expenses Reduction Measures are Starting to Take Effect



Source: Compiled by Trias Corporation from the Company IR materials
Note: Industry averages estimated by the Company

●【Graph 4】Quarterly Trend of No. of Workers Recruited and Recruitment Expenses



Source: Compiled by Trias Corporation from the Company IR materials

The Big Picture, General Outlook for FY12/15

While the budget for FY12/15 is still under preparation, since the newly established subsidiary PEO Co., Ltd. is off to a solid start from September, this time the Company presented a general simulation for the next fiscal year, factoring in general assumptions for sales growth, cost of sales, SG&A

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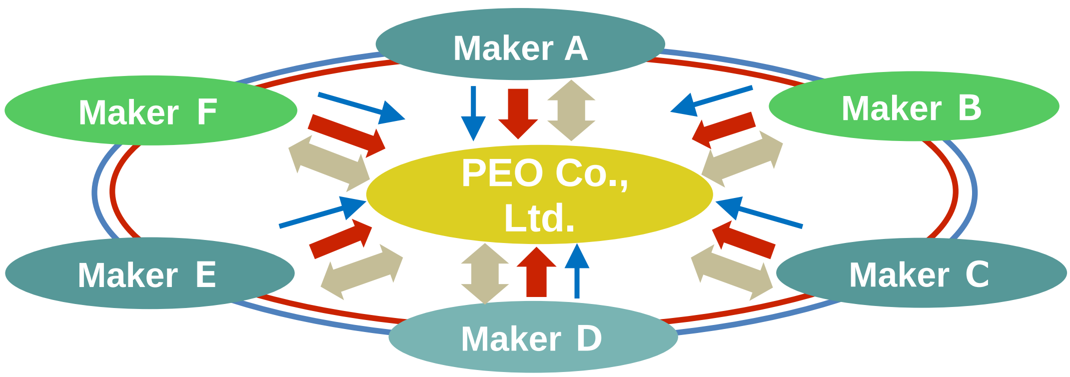
expenses and a number of other variables. There are a number of scenarios of course, but most point toward a potential major transformation in earnings with high growth in the next fiscal year. The bottom line is that the Company has made a deliberate decision to withdraw from excessive competition in the open market to procure increased staffing for Manufacturing Outsourcing demand, instead focusing on structural demand for conversion of the high number of seasonal workers directly employed by makers approaching employment term expiration into temporary placement contracts through its own proprietary solution utilizing its new PEO scheme, which circumvents the need to go through traditional advertising media.

Based on an estimate by the Ministry of Internal Affairs and Communications Workforce Survey, there are approximately 500,000 seasonal workers employed in Japan. The Company estimates there are roughly 200,000 coming up on contracts expiring next year. Although the government announced it is postponing the next consumption tax hike for 18 months, the Company estimates roughly 60,000 seasonal workers will become redundant, still leaving a requirement to deal with 140,000 with contract terms expiring. Therefore, given the structural problem of labor shortages, there is high demand for production outsourcing even with domestic production declining.

Chart 1 below gives an overview of the Company's proprietary PEO scheme to handle manufacturing industries outsourcing demand for outsourcing in times of uncertainty. Relative to initial expectations to have 30 makers participating on launch in September, widespread endorsement by makers of benefits provided has seen the list broaden to roughly 100 makers.

●【Chart 1】Steps and Flow of the PEO Scheme



① The maker becomes a member of the PEO Association established by PEO Co., Ltd.

② PEO takes on seasonal workers recruited by the maker as full-time employees of PEO Co., Ltd.

③ Employees are "leased back" through cross-sectional rotating assignments according to maker production increases/decreases.

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Recruiting through PEO Co., Ltd. does not require recruitment expenses. The Company interviewed 2,230 seasonal employees of the PEO scheme member firms, of which PEO Co. Ltd. decided to hire as full-time employees 1,600, or 71.7% of those interviewed so far. During this quarter, PEO Co. Ltd. will interview 5,580 seasonal employees of member firms coming up on expiration of employment periods. Applying the same acceptance ratio of 71.7%, the Company expects to hire roughly 4,000 workers.

Again, the actual budget for FY12/15 is still under preparation. However, the Company notes that since 2010, Q1 sales have generally exceeded Q4 of the previous year (excluding natural disaster or other special factor), and Q4 sales have exceeded Q1 during any given full-year. Therefore, as a base case scenario, the Company multiplied its estimate for Q4 FY12/14 of ¥16.8 x 4 = ¥67.2bn.

Then, the Company notes that to achieve 30% top-line growth requires a 30% net increase in the number of worksite employees on client firms. In order to achieve a net increase in the worksite employees of 30%, the Company needs to recruit 6,000 workers, or 500 per month, and replace the roughly 400 workers who leave each month on employment period expiration, which requires recruiting (500 + 400) x 12 = 10,800. Then subtracting the previously mentioned 4,000 workers hired through the PEO scheme leaves roughly 6,800 to be recruited through traditional advertising media.

Assuming no increase in the budget for recruitment expenses in FY12/15 of ¥1bn per 6,800 workers would be ¥147,059 budget per person for recruitment expenses. Since the industry average recruitment unit expenses per person are ¥115,000 through traditional advertising media, by utilizing its new PEO scheme, it is possible to secure the required number of workers for 30% sales growth with NO INCREASE in recruitment expenses YoY.

Also, the Company notes that the ratio of automobile-related sales has risen to roughly 45%, largely a function of Transport Equipment being the one sector to basically remain in Japan as a source of demand for volume production divisions for outsourcing business. In FY12/15 the Company is targeting to lower the automobile-related ratio from 45% to roughly 34% through sector diversification, seeing high growth in three key sectors raising their ratios to total sales as follows: ① Overseas Business 17% → 20%, ② IT-related 14% → 18% and ③ on-site building supervisors 1% → 7%, all within the context of FY12/15 net sales growing by 30% YoY.

Regarding the outlook for the gross profit margin in FY12/15, the Company sees no deterioration of GPM which has averaged roughly 20% in the past. This is because operations related to the government's "Foreigner Technical Intern Training Program" to address the issue of declining workforce population are expected to have 60% GPM

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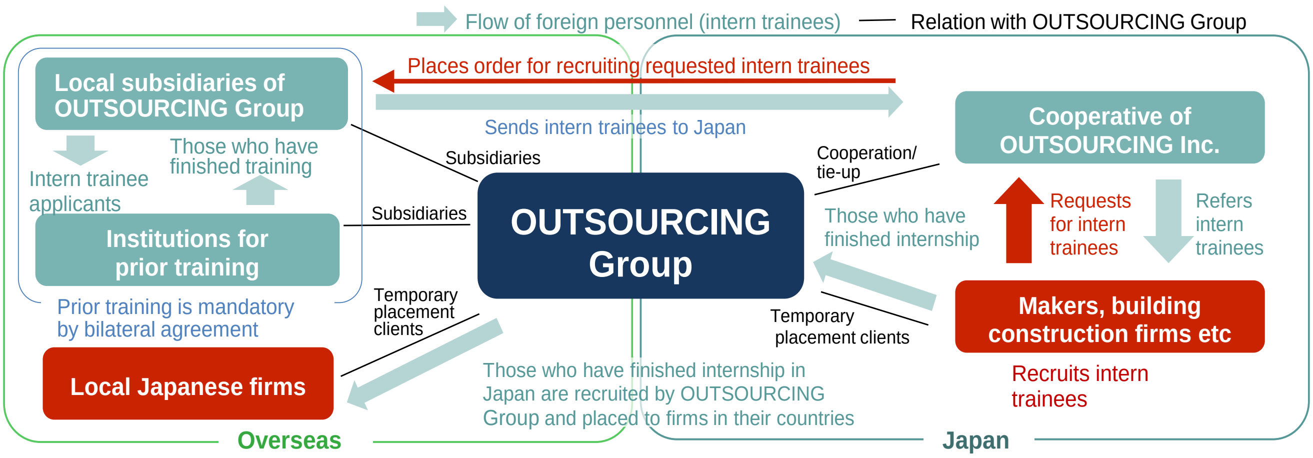
As seen in Chart 2 below, the general concept of “Foreigner Technical Intern Training Program” is inviting qualified candidates to work in Japan for 3 years as interns, and leveraging those acquired skills and know-how in their home countries after completion of the internship. The OS Group’s scheme for efficient utilization of technical intern trainees is to handle local screening and selection of candidates, pre-internship training, procedures and documentation for seconding trainees overseas, and in Japan, on behalf of domestic manufacturing clients who will take on trainees, the Company handles the time-consuming operations related to taking care of the trainees while in Japan. Related offices were set up both in Japan and overseas this September. The OS Group plans to start off with year one of roughly 1,000 interns.

●【Chart 2】Scheme for Efficient Utilization of Technical Intern Trainees



Finally, the Company notes that the SG&A expenses ratio is set to continue declining with 30% sales growth, so the operating income margin is set to rise going forward. Also, the Company sees no increase in SG&A expenses YoY from the roughly ¥10bn estimated for FY12/14, or even a decline YoY. SG&A fixed expenses (mainly head office, sales offices and associated personnel expenses) have grown on the back of M&A, however, the current administrative structure is capable of supporting net sales growing to double the current level to roughly ¥120bn. SG&A variable expenses (mainly advertising media expenses for recruitment) through the impact of recruiting through PEO Co., Ltd. are expected to be flat to down YoY.

While this simulation for FY12/15 points to continued high growth in incomes in the next fiscal year, it is important to recognize this doesn’t count workers recruited through PEO Co., Ltd. If favorable expansion on recruiting through PEO Co., Ltd. continues through four quarters, all of a sudden earnings are poised for a major transformation in the next fiscal year.

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References

Consolidated Key Financial Data

No. of Shares Issued	1H-end FY12/14	15,728,200	Total Assets (￥mn)	1H-end FY12/14	22,091
No. of Treasury Stock	1H-end FY12/14	1,139,500	Shareholders' Equity (￥mn)	1H-end FY12/14	5,512
Market Value (￥mn)	25-Dec-14	27,886	Interest-Bearing Debt (￥mn)	1H-end FY12/14	(*) 7,126
BPS (￥)	1H-end FY12/14	377.84	Equity Ratio (%)	1H-end FY12/14	25.0
ROE (%)	FY12/13-end	23.8	Ratio of Interest-Bearing Debt (%)	1H-end FY12/14	129.3
ROA (%)	FY12/13-end	7.9	Free Cash Flows (￥mn)	1H FY12/14	474
PER (times) FY12/14 Fcst	25-Dec-14	24.3			
PCFR(times)	25-Dec-14	48.8			
PBR (times)	25-Dec-14	4.7			
Share Price (￥)	25-Dec-14	1,773			
Unit Share (shares)	25-Dec-14	100			
Average Daily Volume (shs)	25-Dec-14	205,154			

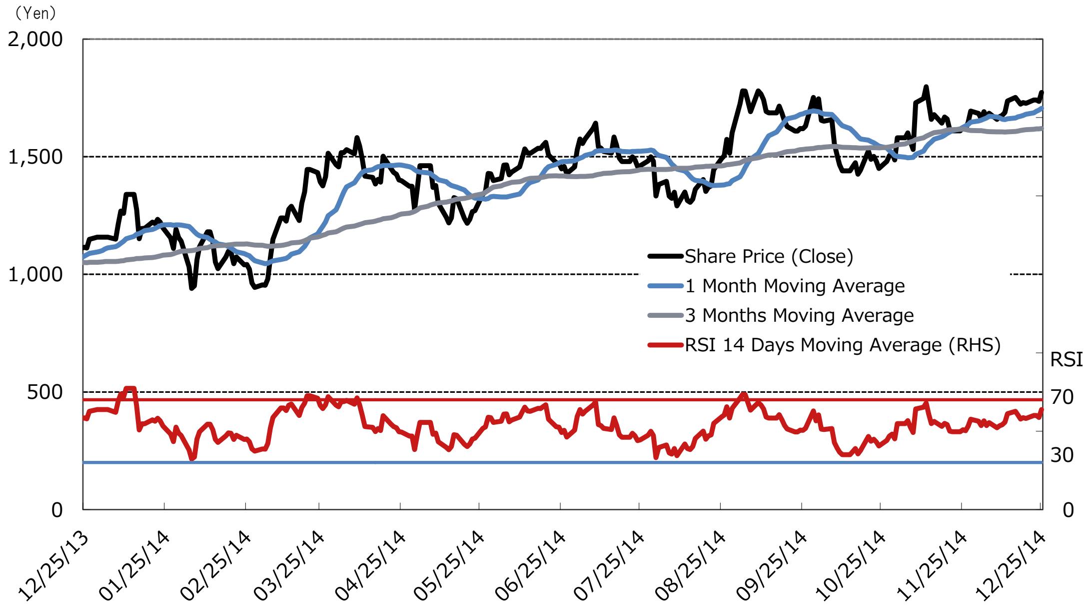
ROE = Net Income ÷ Shareholders' Equity
ROA = Net Income ÷ Total Assets
PCFR = Maket Value ÷ (Net Income+Depreciation)
Ave. Daily Vol. = Ave. Daily Vol. for the last 12 months
Interest-Bearing Debts Ratio = I.B.D. ÷ Shareholders' Equity*
Free Cash Flows = Operating CF + Investment CF
** Incl. current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

Consolidated Financial Results

(￥mn) Consolidated	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (￥)	DPS (￥)
FY12/10	28,386	1,173	1,401	760	52.46	7.21
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 1H	28,070	713	759	375	25.77	8.00
FY12/14 Full-Year Fcst	61,300	2,000	2,050	1,060	72.95	30.00

Notes: FY12/14 forecasts announced on July 30, 2014
Stock splits from 1 to 100 shares implemented in November 2010

Share Prices and RSI (December 25, 2013～December 25, 2014)



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

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