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OUTSOURCING Inc.

Q3 FY12/15 Financial Results and Follow-up Interview

OUTSOURCING Inc., hereafter “the Company” or “the OS Group,” announced its Q3 FY12/15 (Jul-Sep) financial results on October 30, as well as three overseas M&A acquisitions announced since August, and Trias Corporation interviewed Chairman and CEO Haruhiko Doi, and relevant departments. The following is a summary of those interviews.

Summary of Q3 FY12/15 Consolidated Financial Results

Q3 FY12/15 (Jul-Sep) financial results posted large YoY gains in both net sales and incomes, and the rate of increase for both expanded from 1H results. Engineer dispatching business in Japan was stronger than expected, and Overseas Business turned toward recovery. As can be seen from the Financial Results Summary in Table 1, FY12/15 Q3 alone net sales were ¥20,499 million (+34.6% YoY), gross profit was ¥4,228 million (+37.7% YoY), operating income was ¥870 million (+63.4% YoY), ordinary income was ¥969 million (+64.4% YoY) and net income was ¥498 million (+21.0% YoY).

●【Table 1】Q3 FY12/15 Consolidated Financial Results Summary

(￥million)	FY12/14 Q3 alone	FY12/15 Q3 alone	% YoY Changes	FY12/14 Q3 YTD	FY12/15 Q3 YTD	% YoY Changes
Net sales	15,232	20,499	34.6%	43,303	56,521	30.5%
Cost of sales	12,162	16,270	33.8%	34,711	45,218	30.3%
Gross profit	3,070	4,228	37.7%	8,591	11,303	31.6%
Gross profit margin	*20.2%*	*20.6%*	*0.5pp*	*19.8%*	*20.0%*	*0.2pp*
SG&A expenses	2,537	3,358	32.3%	7,345	9,495	29.3%
SG&A expenses ratio	*16.7%*	*16.4%*	*-0.3pp*	*17.0%*	*16.8%*	*-0.2pp*
Operating income	532	870	63.4%	1,246	1,808	45.1%
Operating income margin	*3.5%*	*4.2%*	*0.7pp*	*2.9%*	*3.2%*	*0.3pp*
Ordinary income	589	969	64.4%	1,349	1,972	46.2%
Ordinary income margin	*3.9%*	*4.7%*	*0.9pp*	*3.1%*	*3.5%*	*0.4pp*
Net income	412	498	21.0%	787	987	25.4%
Net income margin	*2.7%*	*2.4%*	*-0.3pp*	*1.8%*	*1.7%*	*-0.1pp*

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

Relative to the Company Q3 forecasts (for net sales ¥18,834 million and operating income ¥947 million) as of the Q1 financial results announcement, actual Q3 net sales came in ¥1,665 million ahead of forecast, while operating income came in ¥77 million below forecast. While revenues for domestic Outsourcing Business came in ahead of forecasts, since two M&A transactions were realized during Q3, goodwill amortization and M&A-related (advisory fees etc.) expenses increased, weighing on incomes. Both M&A transactions were for firms engaged in IT-related Outsourcing Business: BLUEFIN GROUP in Australia, and NHL GROUP in the UK and Europe, with both deals decided during the month of August, and 1-month worth of net sales booked for the month of September of roughly ¥900 million, and operating income of roughly ¥60 million (both estimates), incorporated into consolidated financial results.

Q3 consolidated gross profit margin of 20.6% rose from 20.2% during the same period last fiscal year. High growth in high-margin Engineering Outsourcing Business contributed positively to the improvement.

SG&A expenses increased +32.3% YoY by ¥821 million. This was due to: personnel expense base pay increase of ¥300 million, goodwill amortization expenses increase of ¥86 million and increase of miscellaneous expenses related to M&A.

Operating income rose sharply by +63.4% YoY, with the operating income margin also rising sharply from 3.5% during the same period in the previous fiscal year to 4.2%. A major factor was the increase in the ratio to net sales of profitable Engineering Outsourcing Business, however, the operating income margins rising for Manufacturing Outsourcing Business and Overseas Business also contributed.

Looking at 9-month cumulative totals, net sales rose +30.5% YoY, and operating income +45.1% YoY, with the rate of growth accelerating from the 1H levels of +28.3% YoY and +31.5% YoY, respectively. The 9-month cumulative operating income margin rose by 0.3pp YoY to 3.2%.

The trend of results by operating segment is shown in Table 2. We discuss trends for key segments in detail later, however, net sales for Engineering Outsourcing Business increasing sharply by +40.9% YoY were a major driver overall. For Overseas Business, while 1H actual results posted a shortfall to the Company forecasts, Q3 sales rose sharply ahead of forecasts, turning toward recovery.

●【Table 2】Trend of Q3 FY12/15 Results by Operating Segment

(¥million)	FY12/14 Q3 alone	FY12/15 Q3 alone	% YoY Changes	FY12/14 Q3 YTD	FY12/15 Q3 YTD	% YoY Changes
Net sales	**15,232**	**20,499**	34.6%	**43,303**	**56,521**	30.5%
Engineering Outsourcing Business	5,696	8,024	40.9%	16,078	22,789	41.7%
Manufacturing Outsourcing Business	6,500	7,751	19.3%	18,549	21,782	17.4%
Administrative Outsourcing Business	151	124	-18.2%	441	394	-10.6%
Recruiting and Placing Business	188	257	36.7%	558	598	7.3%
Overseas Business	2,658	4,302	61.8%	7,538	10,837	43.8%
Other Business	36	39	7.2%	136	117	-14.0%
Operating income	**532**	**870**	63.4%	**1,246**	**1,808**	45.1%
Engineering Outsourcing Business	455	584	28.4%	950	1,534	61.5%
Manufacturing Outsourcing Business	103	228	120.5%	299	417	39.7%
Administrative Outsourcing Business	18	17	-9.5%	60	48	-20.7%
Recruiting and Placing Business	96	136	41.3%	264	279	5.5%
Overseas Business	18	118	549.5%	53	98	85.7%
Other Business	(0)	5	-	4	12	195.4%
Adjustment	(159)	(220)	-	(385)	(583)	-
Operating income margin	3.5%	4.2%	0.7pp	2.9%	3.2%	0.3pp
Engineering Outsourcing Business	8.0%	7.3%	-0.7pp	5.9%	6.7%	0.8pp
Manufacturing Outsourcing Business	1.6%	2.9%	1.4pp	1.6%	1.9%	0.3pp
Administrative Outsourcing Business	12.5%	13.8%	1.3pp	13.7%	12.2%	-1.6pp
Recruiting and Placing Business	51.5%	53.2%	1.7pp	47.4%	46.6%	-0.8pp
Overseas Business	0.7%	2.8%	2.1pp	0.7%	0.9%	0.2pp
Other Business	-1.2%	13.3%	-	3.2%	11.0%	-
No. of Worksite Employees at Year-end						
Engineering Outsourcing Business	2,954	4,450	50.6%	-	-	-
[Utilization Rate for Engineering Outsourcing Business]	*[97.8%]*	*[98.4%]*	0.6pp	-	-	-
Manufacturing Outsourcing Business	6,607	7,982	20.8%	-	-	-

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

As can be seen in Table 3, Total Assets as of the end of Q3 (September-end) increased by roughly ¥8.8 billion versus the end of last fiscal year to ¥32.9 billion, an increase even from the end of the Q2 by roughly ¥5.5 billion from ¥27.4 billion. The increased portion from the two M&A acquisitions is over ¥2.0 billion. On the Assets side, in addition to Notes and Accounts Receivable – Trade increasing by ¥3.3 billion due to acquisition of subsidiaries' shares and business expansion, Intangible Assets increased by ¥3.1 billion in accordance with booking goodwill from M&As. On the Liabilities and Net Assets side, in addition to Short-Term Loans Payable and Accounts Payable – Other increasing temporarily in accordance with business expansion and M&As, Shareholders' Equity increased by ¥4.5 billion from the exercise of subscription rights to shares.

●【Table 3】Consolidated B/S Summary as of the end of Q3 FY12/15

(¥million)	FY12/14-End		Q3-End FY12/15		YoY	Major Factors
	Actual	Composition Ratio	Actual	Composition Ratio	Changes Amount	
Current assets	**17,065**	**70.7%**	**22,806**	**69.3%**	**5,741**	
Cash and deposits	6,671	27.6%	8,324	25.3%	1,652	
Notes and accounts receivable - trade	8,257	34.2%	11,570	35.1%	3,313	← Increased due to acquisitions of subsidiaries' shares and business expansion
Non-current assets	**7,067**	**29.3%**	**10,123**	**30.7%**	**3,055**	
Goodwill	1,791	7.4%	4,868	14.8%	3,076	← Larger goodwill on acquiring subsidiaries' shares
Total assets	**24,132**	**100.0%**	**32,930**	**100.0%**	**8,797**	
Current liabilities	**12,967**	**53.7%**	**16,627**	**50.5%**	**3,659**	
Total short-term loans payable	4,666	19.3%	5,915	18.0%	1,249	← Temporary loans to acquire subsidiaries' shares
Accounts payable - other	3,800	15.7%	5,505	16.7%	1,705	← Increased from the acquisition of subsidiaries' shares and expansion of the scale of business
Non-current liabilities	**3,596**	**14.9%**	**4,703**	**14.3%**	**1,107**	
Long-term loans payable	1,763	7.3%	2,074	6.3%	311	
Shareholders' equity	6,219	25.8%	10,744	32.6%	4,525	← Increased from the exercise of subscription rights to shares
Total net assets	**7,569**	**31.4%**	**11,599**	**35.2%**	**4,029**	
Total liabilities and net assets	**24,132**	**100.0%**	**32,930**	**100.0%**	**8,797**	

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

FY12/15 Consolidated Financial Forecasts Summary

As of 9-month cumulative Q3 results, actual results came in ahead of forecasts, but the Company left full-year forecasts unchanged. However, there is strong potential for an overshoot considering the Company did raise its target outlooks for both domestic Engineering Outsourcing Business and Manufacturing Outsourcing Business number of worksite employees at year-end reflecting current strong performance. While there is also risk of a slight shortfall for Overseas Business, since it has turned toward recovery from Q3, this will unlikely result in a large negative factor.

●【Table 4】FY12/15 Full-Year Company Forecasts

(¥million)	FY12/14			FY12/15			Full-Year
	Q3 YTD Actual	Q4 Actual	Full-Year Actual	Q3 YTD Actual	Q4 Forecasts	Full-Year Forecasts	YoY Ratio
Net sales	43,303	16,118	59,421	56,521	17,478	74,000	24.5%
Cost of sales	34,711	12,746	47,457	45,218	13,681	58,900	24.1%
Gross profit	8,591	3,372	11,963	11,303	3,796	15,100	26.2%
Gross profit margin	*19.8%*	*20.9%*	*20.1%*	*20.0%*	*21.7%*	*20.4%*	*0.3pp*
SG&A expenses	7,345	2,607	9,953	9,495	2,504	12,000	20.6%
SG&A expenses ratio	*17.0%*	*16.2%*	*16.8%*	*16.8%*	*14.3%*	*16.2%*	*-0.5pp*
Operating income	1,246	764	2,010	1,808	1,291	3,100	54.2%
Operating income margin	*2.9%*	*4.7%*	*3.4%*	*3.2%*	*7.4%*	*4.2%*	*0.8pp*
Ordinary income	1,349	847	2,197	1,972	1,027	3,000	36.5%
Ordinary income margin	*3.1%*	*5.3%*	*3.7%*	*3.5%*	*5.9%*	*4.1%*	*0.4pp*
Net income	787	529	1,316	987	632	1,620	23.1%
Net income margin	*1.8%*	*3.3%*	*2.2%*	*1.7%*	*3.6%*	*2.2%*	*0.0pp*

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

As can be seen from Table 4, the full-year Company forecasts for net sales is ¥74,000 million

(+24.5% YoY), operating income ¥3,100 million (+54.2% YoY), ordinary income ¥3,000 million (+36.5% YoY), and net income ¥1,620 million (+23.1% YoY), with the operating income margin estimated to rise sharply from 3.4% last fiscal year to 4.2%.

By operating segments, double-digit growth in sales for Manufacturing Outsourcing Business is continuing, with growth rates for net sales of Engineering Outsourcing Business and Overseas Business accelerating (please refer to Table 5 on page 8). The overall operating income margin is forecast to improve by 0.8pp to 4.2%. All three key segments are forecast to post gains, however, Overseas Business in particular is expected to post a large increase. 1H net sales of Overseas Business came in at a slight shortfall to the Company forecast, however, during Q3, the impact from the coup and demonstrations last fiscal year faded, turning toward recovery. Since business structures have come together in all regions, incomes are expected to resume their expansion trend.

Staff recruiting is running ahead of plan for the income mainstay Engineering Outsourcing Business, and there is high potential for an overshoot. Also, the additional contribution from M&A transactions of the two IT-related firms in Q3 for the full-year is estimated at net sales ¥2.5 billion, and operating income over ¥100 million (after deducting goodwill amortization expenses). For Manufacturing Outsourcing Business, the tailwind for that business, the Revised Worker Dispatching Act, was enacted from the end of September, and since that was not factored into initial segment forecasts, this segment is also likely to overshoot.

Trends by Key Operating Segments

Q3 Engineering Outsourcing Business was a large overshoot, and Overseas Business expanded incomes in the black

Domestic demand remained strong in Q3. Overseas Business which was weak in 1H turned toward recovery. For domestic Outsourcing Business, increased production by exporters who benefit from the weak yen, return to domestic production by autos and electronic components, and increased demand for dispatched employees from some companies with a view toward passage of the Revised Worker Dispatching Act was seen, with brisk demand for staffing.

Table 5 on page 8 shows the trend of Q3 revenues by operating segment. Net sales for high-margin Engineering Outsourcing Business increased sharply by +40.9% YoY, and operating income rose by +28.4% YoY. The number of worksite employees at the end of Q3 growing by +50.6% YoY to 4,450 made a large contribution to the increase in net sales and incomes. The operating income margin rose from 7.0% in the Q2 to 7.3%, however, declined YoY by 0.7pp. This was due to average net sales per employee declining slightly due to the sharp increase of new recruitments, and the negative impact from various expenses related to the aforementioned two M&A transactions.

By industry, IT-related which has the highest weighting in net sales rose by +8.7% YoY, followed by sales to client firms in Transport Equipment increasing by +18.5% YoY, with Electrical & Electronics recovering sharply by +92.1% YoY. Along with IT-related as a focus industry to which the Company is devoting efforts, Civil Engineering and Construction-related saw a large contribution from the M&A at the end of last fiscal year going into the beginning of this fiscal year, growing by almost 8-fold to nearly ¥1.1 billion. The utilization rate for Engineering Outsourcing Business overall rose by 0.6pp from the same period last fiscal year to 98.4%, running at nearly full capacity.

The number of worksite employees for Engineering Outsourcing rose from 4,285 at the end of 1H by 165. Normally, since recruitment for this segment tends to be mainly new graduates in April, there is generally not much increase during Q3 seasonally, for example only increasing by 61 during Q3 last fiscal year. The reason for the large increase this fiscal year was due to success in recruiting policy by the Company aimed at conversion of jobs from Manufacturing Outsourcing to Engineering Outsourcing which went into full swing from this fiscal year.

After assessing the aptitude and capabilities of personnel assigned to traditional manufacturing worksites, this policy recruits the individual as Engineering staff, applying the Company’s proprietary in-house training program to increase skills, with cumulative total recruitment of 288 through the end of Q3.

This type of recruiting through career change is not only helping to grow revenues for the Company, but is also helping to restrain recruiting expenses. In the case of using external recruitment media, average recruiting expenses per engineer is over ¥600,000, which the Company explains is roughly only ¥160,000 for manufacturing personnel.

Net sales of Manufacturing Outsourcing Business rose by +19.3% YoY, and operating income increased by 2.2-fold YoY. In response to strong demand, the number of worksite employees rose sharply from 6,607 at the end of Q3 last fiscal year and 6,935 at the end of 1H to 7,982, and with the help from scale merits, the operating income margin rose from 1.6% during the same period last fiscal year to 2.9%.

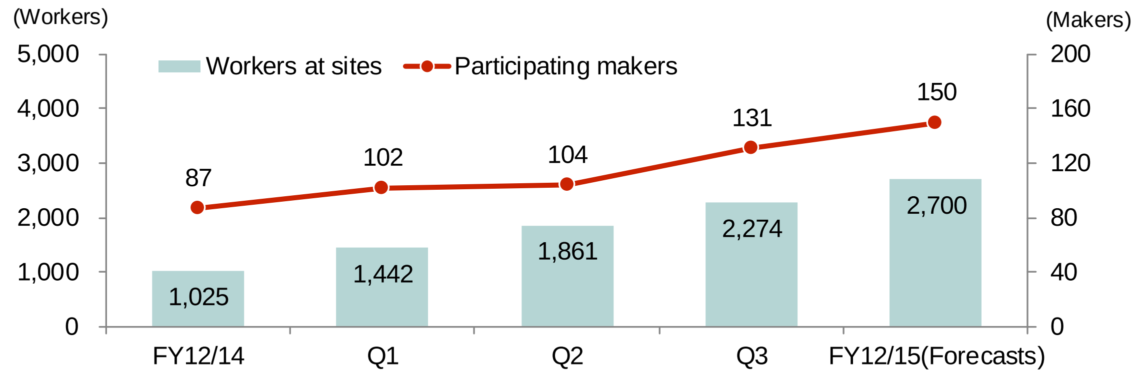
By client industry, the mainstay Electrical & Electronics and Transport Equipment led by mainly autos both saw net sales growth of over +30% YoY, maintaining the brisk trend from 1H.

The unit contract prices for traditional Manufacturing Outsourcing Business dispatching contracts is over 20% lower compared with Engineering Outsourcing Business, and since recruiting expense is expensive in the case of using external recruitment media, the Company is holding back on marketing activities. However, since use of multiple providers of dispatching personnel among client firms makes procedures complicated for contracts and personnel adjustment, there is a growing trend toward concentrating dispatching among a few providers. The Company saw an increase of 10 firms in just Q3, to a cumulative total of over 40 firms. As a result, in many cases dispatched employees transfer enrollment voluntarily to the Company, which is one of the factors contributing to the large increase in the number of worksite employees in Q3.

At the same time, the new PEO Scheme for hiring manufacturing personnel in place of the traditional recruitment format to which the Company is devoting efforts is progressing favorably. PEO Co., Ltd. (hereafter PEO) takes on fixed-term contract workers hired directly by client makers whose contract terms are expiring and dispatched employees from competitors as regular regular employees, then leasing them back to clients, and as can be seen in Graph 1, the number of enrolled employees rose from 1,025 at the end of last fiscal year to 2,274 at the end of Q3 (September-end), and the number of participating firms also increased sharply from 87 to 131 over the same period.

The initial Company forecasts at the beginning of the fiscal year was for 2,700 enrolled employees and 150 participating firms, however, the Revised Worker Dispatching Act going into effect from the end of September has become a tailwind, and potential has risen for the number of enrolled employees to reach roughly 3,000. Of the 131 participating firms as of the end of September, the majority have only just become members of PEO, and transfer of maker fixed-term contract workers and dispatched employees from competitors is set to grow sharply going forward. Since this scheme doesn't require use of external recruitment media, it is also contributing to restraining soaring recruiting expenses.

●【Graph 1】PEO Scheme: Trend of Participating Firms and Number of Enrolled Staff (Quarter-End)



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

At the same time, Overseas Business, which was weak in 1H, turned toward recovery in Q3. The lingering after-effects from the coup and civilian demonstrations last fiscal year in Thailand, Vietnam and Hong Kong are heading toward resolution. Net sales increased +61.8% YoY, accelerating rapidly from +30% growth in 1H, exceeding bullish initial forecast for Q3. Operating income/loss rose from an operating loss of -¥63 million in Q1, to ¥43 million in the black in Q2, to ¥118 million in the black in Q3, improving sharply. Even compared YoY with the ¥18 million in Q3 last fiscal year, the level of operating income in the black expanded, and is gradually moving toward entering a recouping period on leading investments made over the last several years in building out a network of bases across Southeast Asia in succession.

●【Table 5】Trend of Q3 FY12/15 Results by Operating Segment and Full-Year Company Forecasts

(¥million)	FY12/14			FY12/15				Full-Year
	Q3 YTD	Q4	Full-Year	Q3 YTD	Q4	Q4	Full-Year	YoY
	Actual	Actual	Actual	Actual	Forecasts	Initial Forecasts	Forecasts	Ratio
Net sales	**43,303**	**16,118**	**59,421**	**56,521**	**17,478**	**19,466**	**74,000**	**24.5%**
Engineering Outsourcing Business	16,078	5,958	22,036	22,789	5,778	7,361	28,568	29.6%
Manufacturing Outsourcing Business	18,549	6,928	25,478	21,782	6,616	7,248	28,399	11.5%
Administrative Outsourcing Business	441	160	601	394	225	178	620	3.0%
Recruiting and Placing Business	558	221	779	598	184	195	783	0.4%
Overseas Business	7,538	2,808	10,346	10,837	4,418	4,357	15,256	47.4%
Other Business	136	41	178	117	256	127	374	109.7%
Operating income	**1,246**	**764**	**2,010**	**1,808**	**1,291**	**1,323**	**3,100**	**54.2%**
Engineering Outsourcing Business	950	473	1,423	1,534	430	781	1,965	38.1%
Manufacturing Outsourcing Business	299	285	584	417	295	335	713	21.9%
Administrative Outsourcing Business	60	31	92	48	10	24	59	-35.9%
Recruiting and Placing Business	264	89	354	279	(42)	55	237	-33.1%
Overseas Business	53	34	87	98	398	220	497	468.9%
Other Business	4	1	6	12	(3)	(1)	9	48.7%
Adjustment	(385)	(151)	(537)	(583)	203	(91)	(380)	-
Operating income margin	**2.9%**	**4.7%**	**3.4%**	**3.2%**	**7.4%**	**6.8%**	**4.2%**	*0.8pp*
Engineering Outsourcing Business	5.9%	7.9%	6.5%	6.7%	7.4%	10.6%	6.9%	*0.4pp*
Manufacturing Outsourcing Business	1.6%	4.1%	2.3%	1.9%	4.5%	4.6%	2.5%	*0.2pp*
Administrative Outsourcing Business	13.7%	19.6%	15.3%	12.2%	4.8%	13.5%	9.5%	*-5.8pp*
Recruiting and Placing Business	47.4%	40.7%	45.5%	46.6%	-22.9%	28.2%	30.3%	*-15.2pp*
Overseas Business	0.7%	1.2%	0.8%	0.9%	9.0%	5.0%	3.3%	*2.4pp*
Other Business	3.2%	4.0%	3.4%	11.0%	-1.5%	-0.8%	2.4%	*-1.0pp*
No. of Worksite Employees at Year-end								
Engineering Outsourcing Business	-	3,271	3,271	-	4,600+	4,367	4,600+	-
[Utilization Rate for Engineering Outsourcing Business]	-	*[97.8%]*	*[97.3%]*	-	-	-	-	-
Manufacturing Outsourcing Business	-	6,732	6,732	-	9,100+	7,891	9,100+	-

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

The Company left full-year forecasts unchanged; however, since it revised up targets for dispatched employees, an overshoot is likely

Along with leaving full-year forecasts unchanged, the Company also left segment forecasts unchanged, however, considering actual results through Q3, there is a strong likelihood that overall revenues will post an overshoot to forecasts. While potential remains for a slight shortfall for Overseas Business, strength in domestic Outsourcing Business will likely offset that.

For Engineering Outsourcing Business to which the Company is devoting efforts, full-year forecasts are for net sales +29.6% YoY, operating income +38.1% YoY and the operating income margin to increase 0.4pp to 6.9%, however, hiring has been stepped up for mainly career change hires, revising up the FY-end target for the number of worksite employees from 4,367 until now to over 4,600. As a result, the Q4 simple average number of employees increases by over 230, and based on the Q3 actual results, this works out to Q4 net sales and operating income increasing by ¥4.3 billion and over ¥300 million, respectively. Worksite employees for this segment are hired as regular employees, and in the case of the several months after April when hiring of new grads tends to concentrate, expenses temporarily expand due to training for new grads. Even taking into account this factor, full-year revenues are likely to overshoot the Company forecasts.

For Manufacturing Outsourcing Business, while the rate of growth in net sales is slightly lower than last fiscal year, it is still maintaining a high double-digit pace, with operating income increasing by over 20%, and the operating income margin expected to improve by 0.2pp to 2.5%. However, since the outlook for FY-end number of worksite employees has increased from 7,891 until now to over 9,100, there is high potential actual results for this segment will also exceed the Company forecasts. The Revised Worker Dispatching Act going into effect from the end of September is expected to boost the number of PEO employees as of FY-end from 2,700 until now to roughly 3,000.

Overseas Business turned toward recovery in Q3, and although risk of shortfall to full-year targets has softened, achieving the initial Company forecasts appears to be a high hurdle. The Company forecasts are for net sales to increase by +47.4% YoY, and operating income to increase by nearly 5-fold. In order to achieve the full-year Company forecasts, Q4 alone operating income of nearly ¥400 million is required. However, even with the recovery from the Q3, the Company sees this coming in at roughly ¥200 million.

Nevertheless, leading investments deployed through last fiscal year are gradually entering a recouping period, and even if the actual operating income margin comes in at roughly 2%, short of initial forecast for 3.3%, it will still be a major improvement YoY from 0.8% last fiscal year, approaching the level of 2.5% for Manufacturing Outsourcing Business. Also, the ratio in total net sales is expected to rise to roughly 20%, up from 10.8% three years earlier in FY12/12.

Structural reforms for the Company in preparation for a contraction of domestic manufacturing, including M&A of the two IT-related groups in Australia and Europe, as well as the first entry into Central and South America through GRUPO EXPRO, Chile, are making clear and definite progress toward targets for the final year of the Medium-Term Management Plan through FY12/17.

TOPIC: Expanding Business Portfolio Driven by Overseas M&A

From last term, the OS Group stepped up aggressive M&A of overseas companies in mainly the field of IT-related outsourcing business. Following an acquisition of the ALP GROUP (India) and making it a consolidated subsidiary on January 29, 2014, the Company made similar announcements for the BLUEFIN GROUP (Australia) on August 6, 2015, and for the NHL GROUP (UK, Belgium) on August 25, 2015. Then the Company announced making the GRUPO EXPRO (Chile) a consolidated subsidiary on November 30, 2015, entering the Central and South America region.

INDIA: ALP CONSULTING, DATACORE TECHNOLOGIES

Founded in 1999, ALP CONSULTING LIMITED ranks fifth in India as a consulting firm in the fields of staff introductions and dispatching (corporate website: http://www.alpconsulting.in/). The company has 8 bases in India, and in addition to staff introductions and dispatching business, the company is also engaged in Business Process Outsourcing (BPO=outsourcing operations and business processes) for mainly human resources and labor management. Currently, including both dispatching and BPO, the company has enrolled roughly 2,500 staff, and has annual hiring capacity for over 5,000 new graduates. Also, the company has won many awards from client firms as an HR-related firm and as a business partner.

Client sectors are varied across a wide range including IT services, telecommunications, semiconductors, automobiles, pharmaceuticals/bio-technology, energy-related and retail/distribution-related, and the scale of client firms ranges from SMEs to large multinationals. According to the company, over half of the company's clients are ranked as Fortune 500 firms.

ALP subsidiary DATACORE TECHNOLOGIES PRIVATE LIMITED was established in 2008, engaged in IT consulting, product development and dispatching of engineers, ranking tenth in India. The company has 6 branches in India, and 2 bases in the US. Currently, the company has enrolled over 1,100 staff, specialized in mainframes to the Internet, with capability to handle key application software including SAP, PeopleSoft Applications, Microsoft and Oracle Applications, having hired engineers across a wide range of technologies and variety of skill levels.

The scale of ALP GROUP sales at the time of the acquisition announcement in Jan-2014 was a simple sum of roughly ¥1.6 billion (FY3/13 actual results, Dec-2013 foreign exchange rate quoted in the press release of INR 1 = JPY1.69), of which ALP is estimated to have accounted for just over 80%, and DATACORE accounted for just under 20%. The ordinary income margin for the former was 1.5%, and for the latter was just under 5%. Based on our recent interview, FY3/15 actual results were sales US$18 million (calculated as ¥2.16 billion using a foreign exchange rate of USD 1 = JPY 120), with sales growing by +35% over the last two fiscal years. Also, the weight of IT engineer placement in total ALP GROUP sales appears to have risen to roughly 25%.

AUSTRALIA: BLUEFIN GROUP (BLUEFIN RESOURCES)

Established in 2003, BLUEFIN RESOURCES PTY LIMITED is a personnel outsourcing firm specialized in financial services, IT, retail, media, consulting and public/local government sectors, operating mainly in Australia's Southeast Provinces of New South Wales (capital Sydney) and Victoria (capital Melbourne).

IT-related extends across a broad range of technology fields including software, the Internet, mobile communications, applications and database development/design, offering outsourcing services including dispatching, project consignment and staff introductions of industry-expert engineers and operations consultants.

From the firm's inception, it adopted an approach based on accumulation and analysis of market data related to recruitment, specifically promoting a digitally-oriented scientific approach, including the provision of market analysis reports, aiming at differentiation from the industry's traditional approach. With the permeation of social media and appearance of the Recruitment Process Outsourcing model (RPO=agency recruitment, recruitment outsourcing), methods of HR procurement are becoming diversified.

Given this background, the company's recruitment database accumulated over many years, analysis capability, and in addition, construction of IT infrastructure for real-time matching of client firm HR needs with potential for offering opportunities to job seekers to which the company is currently devoting efforts, are expected to strengthen competiveness going forward and accelerate growth for the company. Also, as a lateral development of this type of proprietary IT infrastructure and specialized industry knowledge, there are expectations for collaboration with other OS Group companies in ASEAN and the UK/Europe.

According to the press release dated August 6, 2015, business scale for the company is sales of roughly ¥3.7 billion, pretax income of ¥260 million, and pretax income margin of 5.7% (FY6/14 actual results, foreign exchange rate AUD 1 = JPY 91.54).

UK/BELGIUM: NHL GROUP (NTRINSIC HOLDINGS LIMITED)

The NHL GROUP created in 2006 includes one subsidiary which offers dispatching and introductions business of consultants and system engineers (SEs) in the UK and Europe for mainly the Oracle E-Business Suite (Oracle's core unified operations package covering enterprise resource planning ERP to customer relationship management CRM and supply chain management SCM, supporting global business regardless of firm size) and Fusion Applications which unify the good features of existing products including PeopleSoft Applications, JD Edwards, Siebel etc., as well as two sub-subsidiaries in the UK and Belgium which offer dispatching of freelance Oracle consultants. The GROUP has enrolled over 2,000 consultants specialized in Oracle Products, offering services to multinational firms including Japanese companies.

According to the company, there are several Oracle product specialist outsourcing providers in the UK, and the biggest difference with competitors is having a pan-European strategy base in the Benelux Union (Belgium, the Netherlands and Luxembourg) in Brussels, Belgium. This pools personnel resources which can respond to detailed needs of global clients, in a region which requires multi-lingual capability, and in addition to securing the quality of service, has the management capability to maintain this type of personnel.

According to the press release dated August 25, 2015, business scale for the NHL GROUP is sales of roughly ¥4.0 billion, pretax income of ¥87 million, and pretax income margin of 2.2% (FY12/14 actual results, foreign exchange rate GBP 1 = JPY191.77). This business entails securing and maintaining personnel requiring a high level of specialized knowledge, and having multi-lingual capability required to work in several countries, and going forward, we have expectations this can be a new business development for improving profitability in the OS Group through securing personnel and deploying them efficiently on a global basis.

CHILE: EXPRO GROUP (GRUPO EXPRO)

The EXPRO GROUP was established in 1997 as a firm specialized in BPO and staff dispatching. According to the company, it currently has contracts with over 80 domestic Chilean firms and multi-national firms, and has enrolled roughly 3,800 staff. The company has 3 business offices in Chile, engaged in business in the manufacturing, logistics, insurance and retail sectors. Of the 5 companies made subsidiaries of the Company, three were BPO firms and two dispatching firms.

According to the press release dated November 30, 2015, business scale for the EXPRO GROUP is sales of roughly ¥4.1 billion, ordinary income of ¥100 million, and ordinary income margin of 2.5% (FY12/14 actual results, foreign exchange rate CLP 1 = JPY0.18). The sales breakdown is: BPO 75%, dispatching business 25%.

For some time, the OS Group has considered entering the Central and South American market. The background for this is major clients in the Transport Equipment sector establishing bases in the region, and in addition, from a medium-term perspective, population is expected to grow in this region. At the same time, considering slowdown in the macro environment has become pronounced, the Company decided to take the first step in Chile, which is the only OECD member nation in South America, is politically stable and has a high degree of economic freedom.

For reference, according to the 2015 edition *Index of Economic Freedom* (indexing the degree of economic freedom for countries around the globe) jointly published by the US Heritage Foundation and Wall Street Journal (The Heritage Foundation "*2015 Index of Economic Freedom – Promoting Economic Freedom and Prosperity*"), Chile ranks next after Hong Kong, Singapore, New Zealand, Australia, Switzerland and Canada, 7th globally (US 12th, UK 13th, Japan 20th).

Another point of focus is the new outsourcing business area of BPO for the OS Group, making a full-scale entry. In the global offshore services mecca in India, the OS Group is already involved in BPO business through ALP, however, with the addition of the EXPRO GROUP, management has begun to plant seeds for the BPO field which is expected to see market expansion over the medium-term.

Outlook for the Global Outsourcing Market and the Global Value Chain

In the past, Japanese companies have targeted raising business efficiency through vertical integration of operations, and against a backdrop of intensifying global competition, efficient utilization of outsourcing has become an important management issue. Until now outsourcing has been implemented in manufacturing and IT fields, and in addition, the trend of outsourcing increased for data entry and call center operations, etc.

At the same time, in Europe and the US, a trend toward outsourcing back office operations for general administration, accounting and HR, etc. already began emerging in the 1980s. Initially, this began as outsourcing to onshore providers in one's home country. Currently, however, from the viewpoint of cost competitiveness and demand for advanced functionality and capability, use of "near shore" outsourcing to regions in relatively close proximity to one's home country, and use of offshore outsourcing to regions relatively far away are growing.

Given these trends, according to the medium-term forecast by the Yano Research Institute Ltd., the global outsourcing market from FY2012 through FY2017 will post CAGR of 4.9%, reaching a scale of ¥112,275.9 billion by FY2017 (Source: "*2014 Survey Results for the Global Outsourcing Market*" by the Yano Research Institute Ltd.).

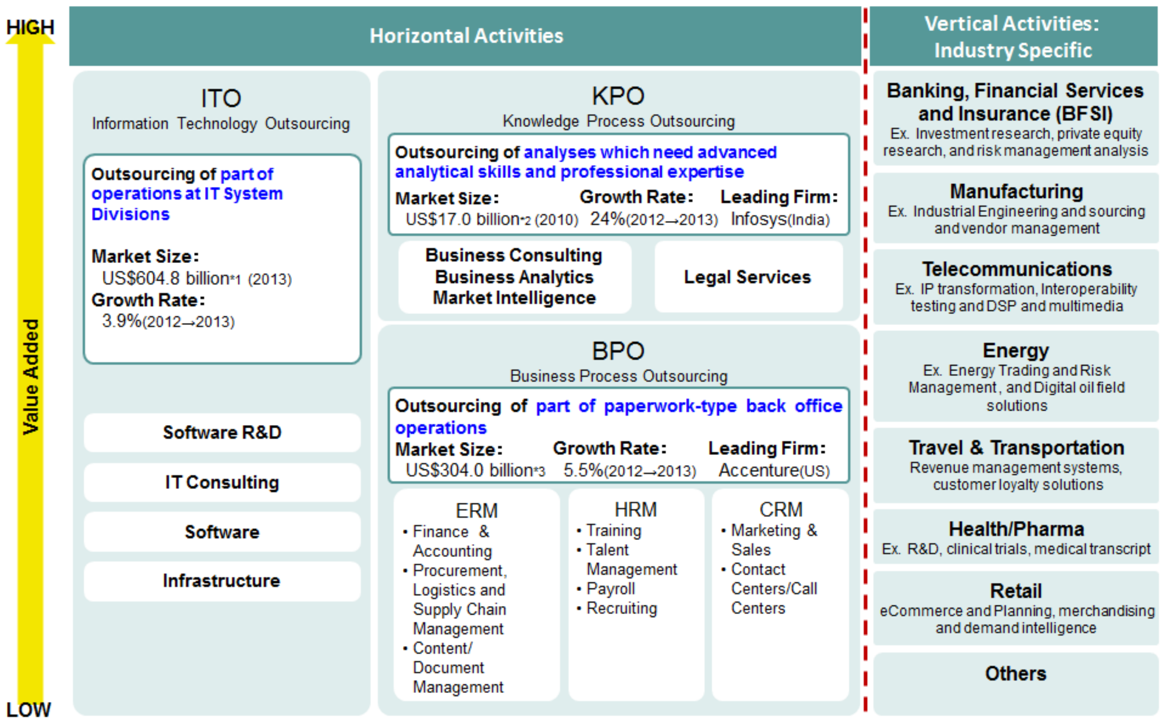
Chart 1 shows the offshore services global value chain (Source: Duke University CENTER on GLOBALIZATION, GOVERNANCE & COMPETITIVENESS *"SKILLS FOR UPGRADING: Workforce Development and Global Value Chains in Developing Countries, November 2011"*), a market map for business support services. According to this analysis, business services to substitute for company operations can broadly be broken down into horizontal activities: 1) Information

Technology Outsourcing ITO, 2) Business Process Outsourcing BPO and 3) Knowledge Process Outsourcing KPO, as well as industry specific vertical activities. Also, it can be seen that the markets for 1) ITO and 2) BPO are large.

According to the forecast by HfS Research, a leading independent authority and knowledge community for global business and IT services, relative to CAGR of +4.7% for the global IT services market, the BPO market is set to post CAGR of +6.0% from 2013 – 2017. Among these, particularly high growth for IT services is forecast for applications development/maintenance CAGR of +5.6%, and for BPO, treasury/accounting CAGR +7.6% and HR CAGR +6.2% stand out (source: HfS Research *“State of the Outsourcing Industry 2013: EXECUTIVE FINDINGS”*).

Applying this analysis to OS Group key domestic businesses, Engineering Outsourcing Business falls into 1) ITO and industry specific Health/Pharma, Manufacturing Outsourcing Business falls under industry specific Manufacturing, and Administrative Outsourcing Business, Recruiting and Placing Business and Manufacturing Outsourcing Business fall under 2) BPO (HRM).

●【Chart 1】Conceptual Diagram for Business Support Services



*1&*3 HfS Research *“State of the Outsourcing Industry 2013”* *2 Evalueserve *“KPO Industry Growth Impacted by the Great Recession”*

Source: Compiled by Trias Corporation based on the original from Duke University CENTER on GLOBALIZATION, GOVERNANCE & COMPETITIVENESS “*SKILLS FOR UPGRADING: Workforce Development and Global Value Chains in Developing Countries, November 2011*”.

Further, classifying the business portfolio of overseas subsidiaries acquired from last term onward using the same analysis as above, Chart 2 shows a summary. As part of overall reinforcement of

Engineering Outsourcing Business to which the company is devoting efforts, while there are many IT services firms in particular, management is also focusing on strengthening BPO business as a growth area in the global outsourcing market.

●【Chart 2】Conceptual Diagram for Business Support Services

Region	Company	Horizontal Activities						Vertical Activities: Industry Specific
		ITO	BPO			KPO		
			ERM	HRM	CRM	Business	Legal	
INDIA	ALP		△	○Payroll ○Recruiting				○
	DATACORE	○Overall				△		
AUSTRALIA	BLUEFIN	○Overall		○Recruiting △Training △Payroll				○
UK/ BELGIUM	NHL	○IT Consulting ○Software	○	○	○			
CHILE	GRUPO EXPRO		○	○	○			○

○ Already entered △ Planning to enter

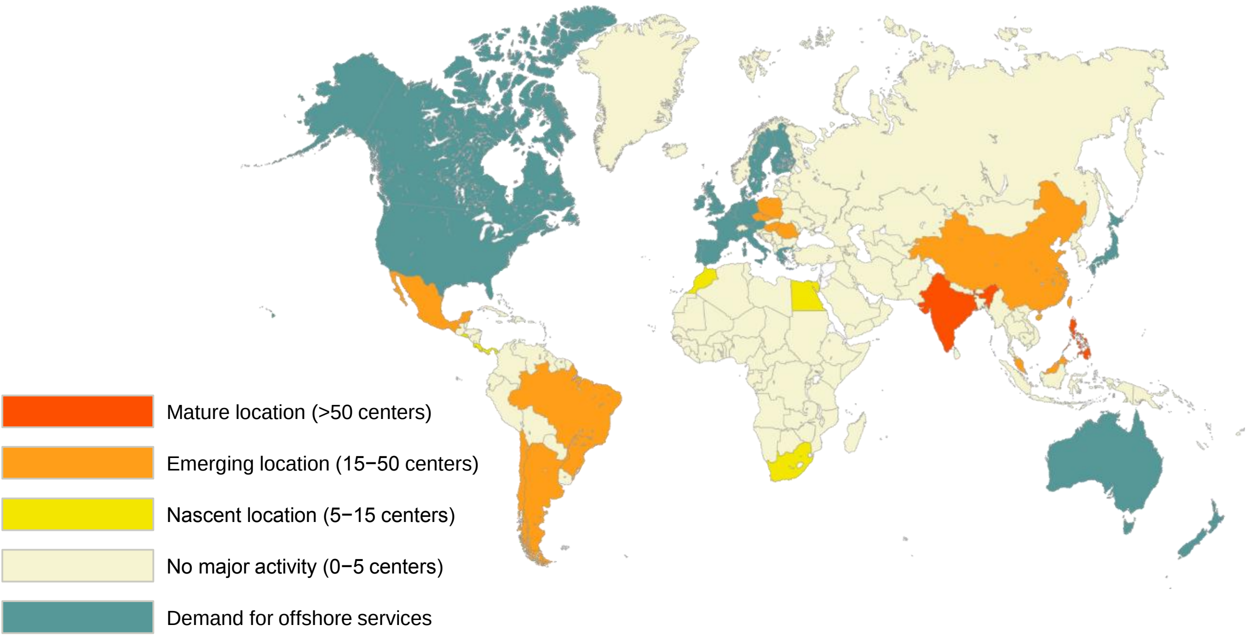
Source: Compiled by Trias Corporation based on company interviews.

Chart 3 shows a bird's-eye view of global supply/demand for offshore services (Source: Duke University CENTER on GLOBALIZATION, GOVERNANCE & COMPETITIVENESS "*SKILLS FOR UPGRADING: Workforce Development and Global Value Chains in Developing Countries, November 2011*"). According to this, vendors (third-party service providers) including IBM, Accenture and EDS (currently Hewlett-Packard), etc. began shifting service bases from developed countries to emerging markets in the 1990s. These leading global vendors began to build new services foundations offshore from early on. This trend began from India, later spreading to Central and Eastern Europe, and then moving to Central and South America.

From the latter half of the 1990s, TCS (Tata Consulting Services), Infosys and Wipro entered the market, expanding as new players in the IT services industry, and supporting rapid growth in the market. During this phase, the major source of demand was from US companies.

During the first half of the 2000s, these new vendor players established at home bases in India systems for offering advanced global services, and at the same time built a network of service bases for providing actual services in proximity to client firms in emerging markets. As a result, over the course of the 2000s, these service bases were extended to Argentina, Brazil, Chile, Columbia, Mexico and Uruguay. Further, Central and South America has become a base for exporting IT services.

● 【Chart 3】Global Supply/Demand for Offshore Services (2008)



Source: Compiled by Trias Corporation based on the original from Duke University CENTER on GLOBALIZATION, GOVERNANCE & COMPETITIVENESS "*SKILLS FOR UPGRADING: Workforce Development and Global Value Chains in Developing Countries, November 2011*".

Therefore, there is great significance to the OS Group making acquisitions of firms operating in these core supply regions for offshore outsourcing services in India and Central and South America. More than anything, the Company can directly pick up important information related to trends in the global outsourcing market and for advancing growth strategy going forward. In addition, regarding existing Group companies operating in the ASEAN supply region, by being able to add functionality to meet the needs of the global outsourcing market and in-line with the value chain for offshore services, the Company can strengthen the Group's business portfolio.

In this way, a global perspective has become more indispensable than ever in developing business for the OS Group. With this point in mind, Chairman Doi has indicated his intention to promote a powerful globalized corporate governance system from next fiscal year. For information disclosure as well, not only details related to earnings results and business activities, but also the Company plans to provide detailed explanation relating to progress on corporate governance strategy and policies going forward.

Reference

Key Financial Data (Consolidated)

No. of Shares Issued	Jun-15	17,394,000
No. of Treasury Shares	Jun-15	-
Market Value (￥mn)	24-Dec-15	51,764
BPS (￥)	Jun-15	619.35
ROE (%)	Dec-14	21.6
ROA (%)	Dec-14	5.9
PER (times)	FY12/15 fcst.	27.3
PCFR (times)	Jun-15	75.4
PBR (times)	Jun-15	3.4
Share Price (￥)	24-Dec-15	2,976
Unit Share (shares)	24-Dec-15	100
Average Daily Volume (shs)	24-Dec-15	254,968

Total Assets (￥mn)	Jun-15	27,418
Shareholders' Equity (￥mn)	Jun-15	10,773
Interest-Bearing Debt (￥mn)	Jun-15	(*) 4,893
Equity Ratio (%)	Jun-15	39.3
Ratio of Interest-Bearing Debt (%)	Jun-15	45.4
Free Cash Flows (￥mn)	Jun-15	(729)

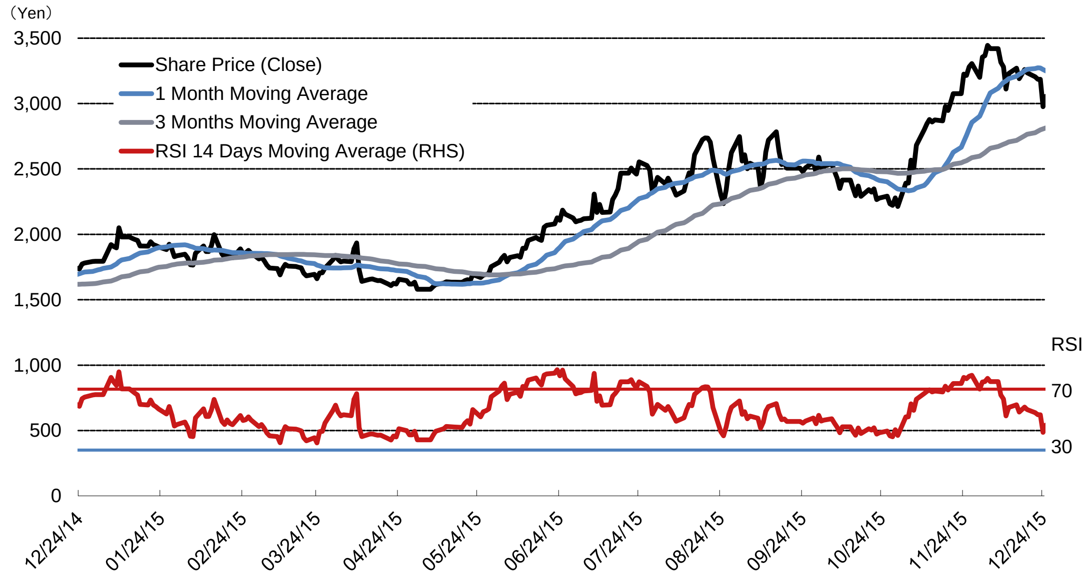
ROE = Net Income ÷ Averaged Shareholders' Equity
ROA = Net Income ÷ Averaged Total Assets
PCFR = Market Value ÷ (Net Income + Depreciation)
Ave. Daily Vol. = Ave. Daily Vol. for the last 12 months
Interest-Bearing Debts* Ratio = I.B.D. ÷ Shareholders' Equity
*Incl. current portion of accounts payable-installment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

Financial Results (Consolidated)

Consolidated (￥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
1H FY12/15	36,022	937	1,003	488	31.64	0.00
FY12/15 full-year fcst.	74,000	3,100	3,000	1,620	109.12	35.00

Note: FY12/15 forecasts announced on Feb. 12, 2015

Stock Price Charts and RSI (December 24, 2014～December 24, 2015)



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